



TURKMENISTAN

Highlights

- **Economic growth is decelerating.** Growth in 2015 is expected to decline to 8.5 per cent in 2015, from 10.3 per cent in 2014, as a result of lower commodity prices and the economic slowdown in the region, which have led to lower natural gas export revenues.
- **The manat was devalued by 19 per cent on 1 January 2015.** This move, which changed the peg to the US dollar that had been in place since 2009, is designed to compensate for the lower revenues from gas exports and to support external competitiveness.
- **Turkmenistan is progressing with efforts to diversify gas export routes and export markets.** Construction of the Turkmen part of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is expected to start in December 2015, and negotiations on the construction of the Trans-Caspian Gas Pipeline to re-export Turkmen gas to Europe have accelerated.

Key priorities for 2016

- **Business environment challenges need to be addressed.** Structural reforms need to be implemented, with a focus on liberalising the economy, and corporatising and privatising state-owned companies.
- **Financial sector reforms need to be accelerated to support private sector development.** The financial and supervisory framework needs to be strengthened with a gradual reduction in state-directed lending and state lending programmes, moving to a more market-based credit intermediation.
- **Improving public financial management and governance practices is important** so that hydrocarbon revenues are used more effectively and public investment programmes are more efficient. There needs to be more transparency and accountability surrounding the budget process, and information on state investment rules and governing principles should be more readily available.

Main macroeconomic indicators %

| | 2011 | 2012 | 2013 | 2014 | 2015 proj. |
|-----------------------------------|-------|------|------|------|------------|
| GDP growth | 14.7 | 11.1 | 10.2 | 10.3 | 8.5 |
| Inflation (average) | 5.3 | 5.3 | 6.8 | 6.0 | 6.9 |
| Government balance/GDP | 3.6 | 6.3 | 1.3 | 0.8 | -0.9 |
| Current account balance/GDP | 2.0 | 0.0 | -7.3 | -5.8 | -13.6 |
| Net FDI/GDP [neg. sign = inflows] | -11.6 | -8.9 | -9.1 | -8.7 | -9.6 |
| External debt/GDP | 10.0 | 18.1 | 21.1 | 16.8 | n.a. |
| Gross reserves/GDP | n.a. | n.a. | n.a. | n.a. | n.a. |
| Credit to private sector/GDP | 2.5 | 6.0 | n.a. | n.a. | n.a. |

Macroeconomic performance

In 2014 growth remained strong at 10.3 per cent. This was driven mainly by increasing gas exports, large investment projects and the use of alternative gas export routes to China. There was significant growth in non-extractive sectors, which expanded by 13 per cent in 2014. Capital investments increased by 6 per cent, while foreign direct investment (FDI) was up by 3 per cent in 2014. Growth moderated to 8.7 per cent in the first half of 2015 year-on-year. Trade performance deteriorated, with exports down by 31.1 per cent, reflecting weaker hydrocarbon prices, and imports were down by 13.6 per cent in the first half of 2015 year-on-year.

The manat was devalued by 19 per cent in January 2015. This was the first devaluation in seven years, and came in response to the sharp depreciation of the rouble, the weakening of currencies of other neighbours and plunging oil prices. International reserves remain significant, estimated at 22 months of imports, assuring the country's capacity to mitigate external shocks. Inflation averaged 6 per cent in 2014. A gradual move towards greater exchange rate flexibility over time could be beneficial, particularly considering the recent volatility in energy prices and currency depreciations in the region.

The fiscal stance remained neutral in 2014. The fiscal balance remained in surplus at around 0.8 per cent of GDP, supported by strong revenue performance (up by 8 per cent), coming mainly from hydrocarbon exports. Government spending grew by 12 per cent in 2014. External trade turnover expanded by 4.2 per cent in 2014, with exports up by 4.9 per cent and imports up by 3.4 per cent. Turkmenistan has raised the price of natural gas in the domestic market in 2014 by charging US\$ 7 per cubic metre above threshold consumption, set at 50 cubic metres of gas per person per month. With this step, the government is trying to phase out some of its energy subsidies, which are among the highest in the world.

Turkmenistan has increased gas exports to China. The increase mitigates the negative effect of Russia's Gazprom decision announced at the beginning of 2015 to cut gas imports from Turkmenistan from 10-11 billion cubic metres in 2014 to 4 billion cubic metres in 2015, or by 60 per cent.

Economic growth is expected to decline to 8.5 per cent in 2015, primarily reflecting the lower commodity prices. The economy could also be vulnerable to the deceleration and rebalancing of growth in China, its main trading partner, and to the risk of further negative developments in Russia and the wider region. In 2016 growth can be expected to remain at 8.5 per cent, supported by FDI both in the extractive and non-extractive sectors, as well as continued domestic investment into such sectors as real estate. Expected low oil and gas prices will continue to put pressure on Turkmenistan's fiscal balance and growth.

Major structural reform developments

Turkmenistan's progress with structural reforms towards a market-oriented direction remains somewhat limited. The country is in the early stages of transition, with significant state presence in all sectors of the economy. Competitiveness of the private sector is low due to the challenging business environment and poor standards of transparency and corporate governance. The financial sector is underdeveloped with significant state-directed lending through the banking system. Over-reliance on hydrocarbon exports makes the country vulnerable to external shocks.

Turkmenistan is putting more effort into diversifying gas export routes, as well as export markets. Turkmenistan has also intensified efforts to diversify its export routes to the south-east Asian and EU markets. The plans related to the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline are being finalised. The consortium for the US\$ 7.6 billion TAPI project is expected to be led by Turkmenistan's state-owned company Turkmengaz. Work on the Turkmen part of the pipeline is expected to start in December 2015. At the same time, negotiations on the project for the construction of the 300 km long Trans-Caspian Gas Pipeline to the Azerbaijani coast to re-export Turkmen gas to Europe through Turkey have been accelerated. However, concrete agreements have not yet been reached.

The law on currency regulation was amended in March 2015 so that foreign exchange transactions between residents and non-residents related to the transfer of property and work services on the territory of Turkmenistan are only permitted in the national currency. Such transactions in foreign currency can only be done electronically. Financial transactions linked to the hydrocarbons sector are exempt from this legislative change.

A law on auditing came into force in January 2015. The law defines the legal, economic and organisational framework for the implementation of audit activity in Turkmenistan and regulates relations arising in the process of auditing. The government plans to introduce an Audit Chamber, which will regulate audit activities in Turkmenistan.

New programmes on export increases and import substitution have been adopted. Under the first programme around 33 planned projects are designed to increase the volumes of exports of goods produced in Turkmenistan. The aim is to establish industrial processing facilities that will use the country's natural and mineral resources more effectively, improve the export structure and increase the share of private enterprises in the economy. The second programme for the production of import-substituting products in Turkmenistan provides for 81 projects.