

Turkmenistan

The economy continued its strong double-digit growth in 2008, driven once more by production and exports of hydrocarbon products and public investment. The current account surplus more than doubled. Inflation accelerated due to the unification of the dual exchange rate, liberalization of gasoline and diesel prices, and hikes in prices of imported foodstuffs. The challenge is to diversify the economy by developing the nonhydrocarbon sector through the private sector, while overcoming legacy constraints. Nonetheless, the Government is making efforts in reforming the economy.

Economic performance

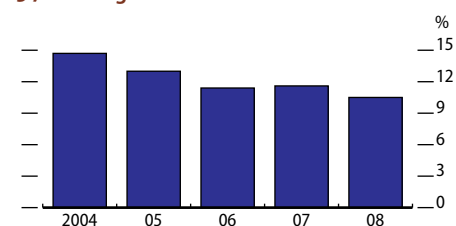
Turkmenistan is at a very early stage of integrating itself into the world economy, and so the global financial crisis has not had a significant direct impact. Indeed, the economy continued its strong growth in 2008, posting 10.5% GDP growth (Figure 3.7.1). The main drivers were the production and exports of hydrocarbon products and public investment. Hydrocarbon products account for about 90% of total exports, while much public investment relates to the construction of public buildings and new industrial facilities, as well as to roads and railways. On the supply side, construction (mainly infrastructure and buildings) showed substantial growth.

Official statistics report an inflation rate of 8.9% in 2008, which was significantly higher than the previous year's figure of 6.3% (Figure 3.7.2). Several factors contributed to this acceleration, including the unification of the official and unofficial exchange rates (of TMM6,250 and TMM20,000 per US dollar), at 14,250 on 1 May 2008; the liberalization of gasoline and diesel prices in February 2008 (the Government introduced fuel allowances to mitigate the impact on consumers); and higher prices of imported foodstuffs (mainly in the first half). At present, the Central Bank of Turkmenistan has limited monetary policy tools to control inflation because of the rudimentary development of the financial system.

The Government is running a tight fiscal policy, according to official statistics. The budget surplus is estimated to have been 4.3% of GDP in 2008, up from 3.9% in 2007 (Figure 3.7.3). Public sector revenue derives largely from incomes of oil and natural gas, which were buoyant. Spending has increased, reflecting higher public sector wages, pensions, and allowances, as well as capital outlays and the rural development program, which aims to improve living conditions and social infrastructure in the countryside.

With booming hydrocarbon revenues, the current account surplus jumped by 43.7% in 2008, to \$5.8 billion or 33.4% of GDP (Figure 3.7.4). Exports increased by 30.6%, totaling \$11.9 billion. Natural gas accounts for

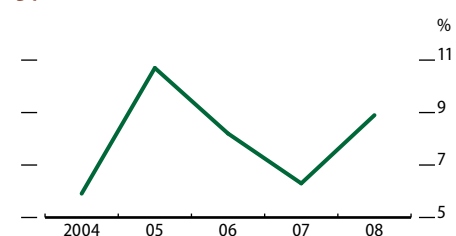
3.7.1 GDP growth



Sources: International Monetary Fund, *Regional Economic Outlook, Middle East and Central Asia*, October 2008, available: <http://www.imf.org>; staff estimates.

[Click here for figure data](#)

3.7.2 Inflation



Source: International Monetary Fund, *Regional Economic Outlook, Middle East and Central Asia*, October 2008, available: <http://www.imf.org>.

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52%, petroleum products 24%, and crude oil 14% of total exports. Imports grew by 50.8%, to reach \$5.7 billion; about 75% of imports were capital goods used for construction. Foreign direct investment surged by 40%, to \$1,199.7 million.

The Government recognizes the need to diversify the economy by promoting private sector development and investment in nonhydrocarbon activity, and launched several structural reform measures in 2008. The exchange rate unification, removal of limits on foreign exchange transactions, and redenomination of the manat (with one new manat equivalent to 5,000 old manat) on 1 January 2009 are positive steps. It is also gradually liberalizing the financial sector. In June 2008, it issued new foreign exchange regulations, which enable the central bank to provide banks with ready access to foreign exchange and allow commercial banks to open correspondent bank accounts to facilitate trade finance.

To, among other things, boost foreign investment, the Government approved a new constitution that highlights the protection of private property rights. It also passed new laws and legal reforms on foreign investment, licensing, and special economic zones; amended the tax code; abolished duty on imports of some foodstuffs; and lowered duty on some other products. In addition, in October 2008, the president signed a decree permitting the Ministry of Finance to establish a stabilization fund as a cushion against the impact of the global slowdown.

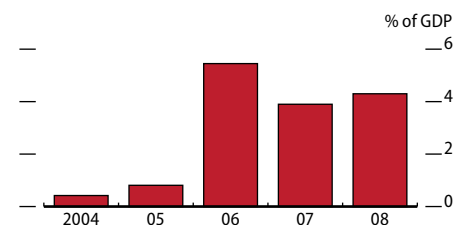
Economic prospects

The outlook for the economy remains positive. The key drivers of growth will continue to be hydrocarbons and public investment. The Government has negotiated favorable offtake natural gas prices and volumes with the Russian Federation for 2009 and beyond. It forecasts growth to continue, at 10.0% in 2009 and 2010. Higher export values will boost the current account surpluses, estimated at around 35.0% of GDP in both 2009 and 2010.

Parliament approved a 40% increase in fiscal expenditure for 2009, at TMM294.5 trillion. Spending on economic and infrastructure development will increase by 43%; and on education, health care, and social welfare by 13%. The Government forecasts inflation of 7–8% this year. However, these increases in fiscal expenditure, and in public sector wages, pensions, and allowances, will put significant pressure on aggregate demand, and consequently *ADO 2009* forecasts inflation staying high, at 12.0% in 2009 and 10.0% in 2010.

The Government aims to diversify the production base and export base, as well as to promote private sector development, by increasing the private sector share of GDP from 40% to 70%. It also aims to develop chemical, engineering, food, and construction materials. Major obstacles to development and diversification include administrative, institutional, and human resources constraints.

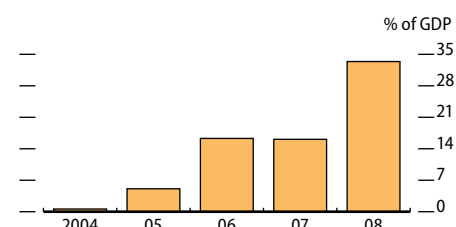
3.7.3 General government fiscal balance



Sources: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2008; Turkmenistan Ministry of Finance; staff estimates.

[Click here for figure data](#)

3.7.4 Current account balance



Sources: International Monetary Fund, *Regional Economic Outlook, Middle East and Central Asia*, October 2008, available: <http://www.imf.org>; staff estimates.

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3.7.1 Selected economic indicators (%)

	2009	2010
GDP growth	10.0	10.0
Inflation	12.0	10.0
Current account balance (share of GDP)	35.0	35.0

Source: Staff estimates.