Turkmenistan

Relying heavily on gas, the economy slowed in 2009 because its major gas export pipeline was shut for most of the year, though increases in public and foreign direct investment helped underpin a moderate GDP expansion. Inflation sharply decelerated on lower import prices and tight monetary policy. With new gas pipelines now operating, the outlook is for a return to high GDP growth. A challenge for the government is to diversify its production base.

Economic performance

The impact of the global recession was limited because the economy is at the very early stages of integrating itself into world markets. In April 2009, however, a technical accident in the main gas pipeline to the Russian Federation, as well as lower energy demand, suppressed gas exports. Even though the gas pipeline was reportedly restored by September, shipments of gas to the Russian Federation—a mainstay of production and exports—did not resume until January 2010. Reportedly, total forgone gas export revenue amounted to about $7 billion–$10 billion.

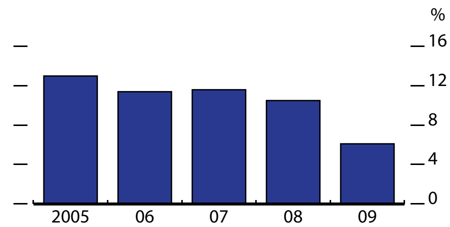
Still, GDP growth in 2009 came in at 6.1% (Figure 3.7.1), on robust growth in construction, services, and agriculture. The main driver of growth was public investment, which amounted to 25 billion Turkmen manat (TMM) (or $8.8 billion), or 1.6 times the 2008 level. A general increase in investment was supported by a state program to support small and medium-sized enterprises. In addition, there was a surge of externally financed infrastructure projects.

Official statistics indicate that consumer price inflation sharply decelerated in 2009 to an average of 0.1%, down from 14.5% in 2008. High inflation in 2008 reflected both the unification of the informal and the (substantially appreciated) formal exchange rates in May, and commodity price pressures, while the drop in 2009 was mainly due to the sharp fall in global non-oil commodity prices (the country imports much machinery and food) (Figure 3.7.2).

The Turkmen manat was redenominated on 1 January 2009 with 5,000 of the old denomination made equivalent to one of the new. The exchange rate, set at TMM2.85/$1, was stable throughout 2009. According to the International Monetary Fund, broad money is estimated to have contracted by 4.4% in 2009, reflecting a tight monetary policy. To maintain low inflation as well as to stabilize the nominal exchange rate, cash circulation was tightly controlled.

The government ran an accommodative fiscal policy in 2009, with the budget surplus estimated to have fallen to 3.0% of GDP in 2009, down from 11.3% in 2008 (Figure 3.7.3). Rapid expenditure growth was

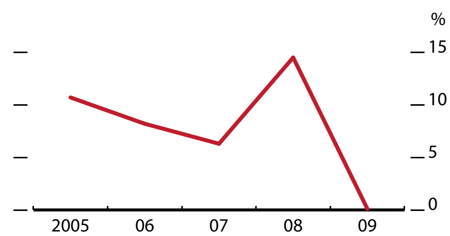
3.7.1 GDP growth



Sources: International Monetary Fund. 2009. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

Click here for figure data

3.7.2 Inflation



Sources: International Monetary Fund. 2009. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

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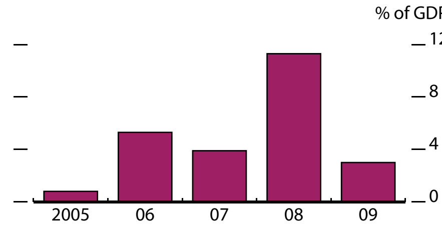
maintained while the nonhydrocarbon tax base was broadened, mainly due to high growth of construction activity. The fall in the surplus was largely a reflection of less buoyant receipts from the oil and gas sector, the source of about 75% of fiscal revenue. State budget surpluses are accumulated in the Stabilization Fund of Turkmenistan, which was created in October 2008.

In December 2009, the government announced a 10% across-the-board increase in salaries for public sector employees. Pensions and other social benefits were also raised. As a result, the average salary for these employees increased to TMM598 ($210) per month.

Despite the gas pipeline shutdown for most of the year, hydrocarbon sector exports, which accounted for more than 80% of total exports, continued to underpin the 2009 outturn. Export revenue managed to increase by 8.0% (in US dollars) in 2009 though performance was well less than the 27% gain a year earlier. At the same time, due to substantial increases in major capital investment projects and construction, imports increased by 19.2%. As a result, trade surplus shrank to 21.0% of GDP in 2009 from 23.4% in 2008 and the current account surplus decreased to 17.8% of GDP, down from 18.7% in 2008 (Figure 3.7.4).

December 2009 saw the opening of a natural gas pipeline connecting the People's Republic of China and Turkmenistan via Uzbekistan and Kazakhstan, thereby helping loosen the stranglehold that the Russian Federation had on Turkmenistan's natural gas exports. The pipeline is capable of delivering 40 billion cubic meters a year of gas at full capacity in 2012. A second pipeline to Iran came into operation in January 2010 with capacity of 12.5 billion cubic meters a year.

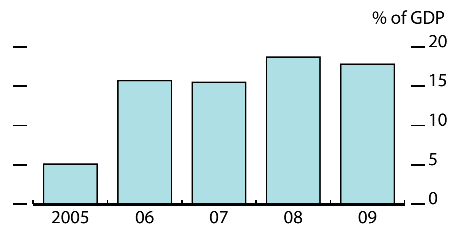
3.7.3 General government fiscal balance



Sources: International Monetary Fund. 2009. *Regional Economic Outlook, Middle East and Central Asia*. October; Ministry of Finance; ADB estimates.

Click here for figure data

3.7.4 Current account balance



Sources: International Monetary Fund. 2009. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

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Economic prospects

Growth of the economy will continue to be robust, supported by buoyant hydrocarbon exports and investment activity. GDP is projected to grow in 2010 and 2011 by 6.5% and 11.0%, respectively. By 2011, hydrocarbon exports will be back to the level of the pre-accident period as the phase-in of newly constructed pipelines will be able to handle gas at about full production capacity.

The government is likely to stick to its accommodative fiscal policy. Due to the expected strengthening of nonhydrocarbon commodity prices, inflation is projected to accelerate to 3.5% in 2010 and to 5.0% in 2011. Since large current-account and overall balance-of-payments surpluses are expected these years, the central bank will need to carry out sizable sterilization operations to keep the large foreign exchange inflows from boosting the money supply and creating sharply higher price pressures.

Despite the expected increases in imports owing to a step-up in investment and increased commodity prices, it is likely that the current account surplus will grow substantially in 2010–2011, mainly due to a surge in gas exports (reflecting the completion of gas pipeline construction). The current account surplus is forecast to reach 30% of GDP.

3.7.1 Selected economic indicators (%)

	2010	2011
GDP growth	6.5	11.0
Inflation	3.5	5.0
Current account balance (share of GDP)	30.0	30.0

Source: ADB estimates.