Turkmenistan

The economy continued to grow rapidly in 2007. The Government has initiated a series of reforms that, if implemented, should stimulate greater economic openness. The country depends heavily on gas and oil exports, which are underpinning rapid growth, and will continue to do so over the medium term. Activity is dominated by the state sector and, longer term, would benefit from key development reforms, such as unifying foreign exchange rates, liberalizing direct control, and developing the private sector.

Economic performance

In 2007, GDP grew by about 20% according to official statistics. However, these tend to overestimate growth, as discussed in *Asian Development Outlook 2006* (p. 108). Growth for the year is likely to have been around 10%, up from 9.0% in 2006, according to International Monetary Fund (IMF) estimates (Figure 3.7.1). Growth in the gas and oil sector is estimated at 6.8%, while non-hydrocarbon activity is put at 11.0%, unchanged from a year earlier.

Growth in 2007 reflected an expansion in production and export volumes of gas, which benefited from higher export prices. Cotton, the dominant agricultural crop and a major export, as well as wheat, appear to have fallen short of official production targets. Construction activity, however, remained buoyant owing to spending on public sector projects.

According to IMF estimates, inflation moderated somewhat from 8.2% in 2006 to 6.5% in 2007 (Figure 3.7.2). An apparent slower monetary expansion from the previous year appears to have been a factor, but it is difficult to assess trends in inflation because of extensive subsidies, price controls, and restrictions on cash withdrawals from banks, all of which suppress price rises.

The authorities maintained the country's multiple exchange rate system in 2007, with the official rate for the Turkmen manat at TMM5,200/$1 (since April 1998) and a greatly depreciated illegal black market rate at TMM23,500/$1—the latter essentially unchanged from 2006. However, in a step to improve the system in January 2008, the official rate was devalued to TMM6,250/$1 and a commercial exchange rate of TMM19,800/$1 was introduced. The new approach broadens access of the private sector to foreign exchange by allowing businesses and individuals to engage in transactions at the commercial rate at 100 banks throughout the country. The Government has announced that it intends to unify the exchange rates in 2009. This would be a major step in improving the pricing system to allocate resources efficiently.

Fiscal policy is not transparent. The general government budget surplus is estimated to have fallen from 5.1% of GDP in 2006 to about

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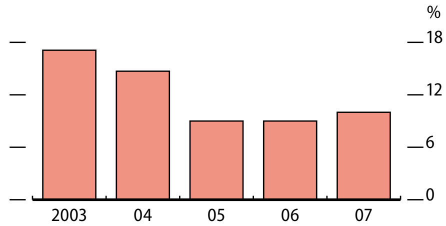
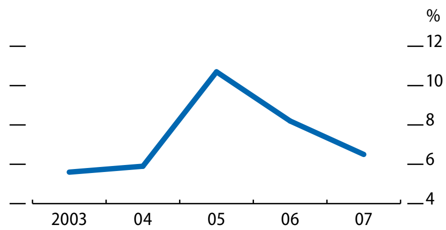
3.7.1 GDP growth



Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2007.

Click here for figure data

3.7.2 Inflation



Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2007.

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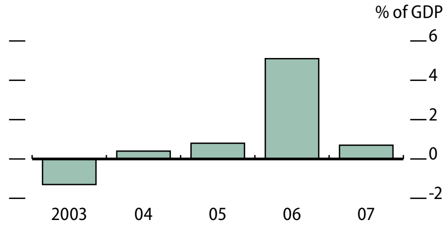
0.7% in 2007 (Figure 3.7.3). In about equal measure, this stemmed from (relative to GDP) a decline in revenues and an expansion in expenditures. Public sector revenues derive largely from gas and oil income, which were buoyant, but since they are partly transferred to the government budget and partly into an off-budget fund, actual budget receipts during any year are largely determined by administrative decision. Spending has increased, reflecting higher public sector wages and capital outlays.

With booming hydrocarbon revenues, a large surplus of $3.9 billion was maintained on the trade and services balance in 2007. Although both exports and imports grew rapidly, because exports are about twice as large as imports a more rapid growth in imports did not reduce the dollar value of the trade balance. The current account surplus is estimated to be $3.4 billion, unchanged from the dollar value in 2006, though in relation to GDP the surplus fell to 13.0% from 15.3% (Figure 3.7.4). Gross official international reserves are estimated to have increased to $8.0 billion, equivalent to 18 months of merchandise imports of goods and services.

Since the election of a new president in February this year, the country appears to have become more open to the outside world and has initiated several reforms in the areas of education, health care, information technology, and social welfare. In education, compulsory (primary and secondary) teaching has been extended from 9 to 10 years and the curriculum is now to be taught in three languages (Turkmen and English, and Russian once more). New curricula for primary and secondary education have been prepared, and new textbooks have been written. Selected teachers are to be sent abroad for further training. Tertiary education also has been extended, from 3 to 5 years.

Public health will concentrate on assigning more doctors to rural areas, and specialized hospitals are being built. However, the country urgently needs to recruit a greater number of qualified doctors and skilled medical technicians. The Internet and mobile phones have been made affordable to the population, and restrictions on Internet use have been eased. Finally, a Social Reform Code was published on 19 March 2007, covering pensions and some areas of social security.

3.7.3 General government fiscal balance



Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2007.
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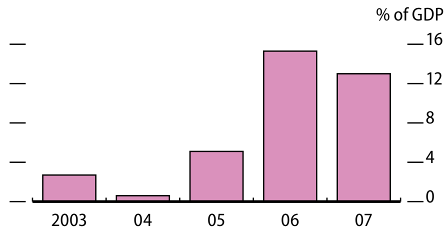
3.7.4 Current account balance



Source: International Monetary Fund, *Regional Economic Outlook: Middle East and Central Asia*, October 2007.
Click here for figure data

Economic prospects

The country will continue to rely heavily on the production and export of natural gas and cotton. It has good long-term potential for development, given its rich resource base, especially the large though uncertified gas and oil reserves. With the scheduled expansion and construction of gas pipelines, it can increase exports of natural gas to the Russian Federation and the Ukraine, and attempt to diversify its export markets.

The growth prospects for 2008–2009 are promising. An agreement with the Russian Federation in December 2007 raised gas prices by an average of 40% for 2008 (to $130 per 1,000 cubic meters in the first half of the year and to $150 in the second). Economic growth is expected to be 10–11%, led by gas and oil exports. Annual inflation will be about 9% over the period, with continued administrative measures and subsidies. The fiscal position will remain in surplus on higher hydrocarbon revenues, which are also expected to keep the current account in surplus at 12% of GDP and to provide substantial increases to the international reserves.

3.7.1 Selected economic indicators

	2008	2009
GDP growth	10.0	10.0
Inflation	9.0	9.0
Current account balance (% of GDP)	12.0	12.0

Source: Staff estimates.