

Turkmenistan

The economy continued to grow rapidly in 2006, but the exact figure for actual growth was likely lower than the official estimate. It is uncertain whether the newly elected president will embrace reform and engage with the international community. The country is heavily dependent on exports of gas and oil, a situation that is likely to continue over the medium term. The key development challenges are to effectively channel oil and gas revenues toward productive investment, implement market-oriented reforms, and rebuild human capital.

Economic performance

The economic situation stayed very healthy in 2006, with GDP growth of over 20% (based on official data). However, official statistics tend to overestimate growth, and actual rate was likely around 9%, according to staff estimates. Either way, growth was sustained by increased gas prices (renegotiated with the Russian Federation) and exports. While the gas and oil industry grew rapidly in 2006, the cotton crop experienced shortfalls for the sixth consecutive year.

Official estimates for inflation are unavailable, but according to figures from the International Monetary Fund, it moderated somewhat from 10.7% in 2005 to 9.0% in 2006 (Figure 2.6.1). This was achieved through wage freezes, cuts in pension payments, price controls, and restrictions on cash withdrawals from banks, resulting in a situation of repressed inflation. A dual exchange rate regime exists: one dollar buys 5,200 manats at the official rate, but 24,000 on the black market.

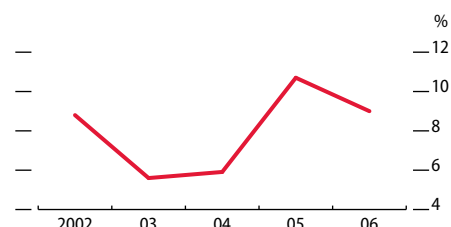
The fiscal surplus edged up from 0.9% of GDP in 2005 to 1.1% (Figure 2.6.2), reportedly due to improved revenue collections, but the non-oil fiscal deficit as a share of non-oil GDP was estimated at 9.5% (2005). There are unofficial reports of a budget contraction, causing the accumulation of public sector wage arrears and education spending cuts. Public sector revenues are largely from oil and gas incomes that are off-budget, and these are managed with other funds directly by the president. These off-budget funds go unreported in the official statistics.

Another large surplus (\$1.5 billion) on the trade balance account was estimated due to booming oil and gas export revenues. Although both exports and imports grew in 2006, exports grew much faster, propelled by surges in both volumes and prices of natural gas. The current account surplus was estimated to have grown to 5.7% of GDP (Figure 2.6.3), while gross official international reserves were estimated at \$6 billion, equivalent to some 15 months of merchandise imports.

Although there are no official labor statistics, unemployment is likely to be high because many school graduates are unable to find jobs, as opportunities are few and they lack the necessary skills.

A central element of the social protection system remains the provision to the entire population of basic consumer goods and

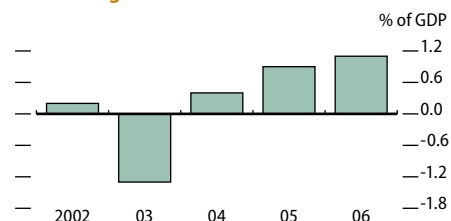
2.6.1 Inflation



Source: International Monetary Fund, *Regional Economic Outlook*, Middle East and Central Asia, September 2006.

[Click here for figure data](#)

2.6.2 Budget balance



Source: International Monetary Fund, *Regional Economic Outlook*, Middle East and Central Asia, September 2006.

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utilities free of charge or at subsidized rates. While this enables people to meet a minimum subsistence level and alleviates income poverty, non-income poverty indicators continue to worsen. Social services, including education and health, have been hit by underfinancing, a shortened compulsory education period, excessive state intervention in school curricula, a reduction in the number of university students, and deteriorating health services. Following the death of President Niyazov in December 2006, the new president has announced some reforms in the social sector.

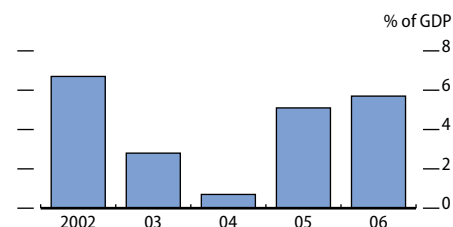
Key areas for reform that the new Government now needs to carry out include a reduction of state intervention of economic activities, liberalization of the domestic market, a shift from setting agricultural and industrial production targets to market-determined production, liberalization and privatization of the banking sector, and unification of the exchange rate. Oil and gas revenues should be managed transparently and incorporated in the national budget.

Economic outlook

While there is currently some uncertainty about the likely direction of the post-Niyazov economy, it will likely maintain its heavy reliance on exports of natural gas and cotton. With potential discovery of new gas fields (though not proven), Turkmenistan would both increase exports of natural gas to the Russian Federation and Ukraine, at the same time as attempting to diversify its gas export destinations, to include, most likely, the People's Republic of China and, possibly, Afghanistan, India, and Pakistan.

Three growth scenarios can be formulated for 2007–2008. With political turmoil, growth could decelerate to 3–4%. Without it, two possibilities emerge. Under a “no reform” scenario, GDP could grow by 8–9% a year on the back of higher exports of natural gas with continued stagnation in agriculture. Under a “with reform” scenario, growth could increase to 10–11%. Reforms in this context would include liberalizing prices, eliminating subsidies, improving the business environment, revamping the education and health sectors, upgrading delivery of other basic services, and developing rural areas.

2.6.3 Current account balance



Sources: International Monetary Fund, *Regional Economic Outlook*, Middle East and Central Asia, September 2006; staff estimates.

[Click here for figure data](#)

2.6.1 Selected economic indicators

	2007	2008
GDP growth	8.5	8.5
Inflation	8.0	8.0
Current account balance (% of GDP)	7.4	6.3

Source: Staff estimates.