Turkmenistan

Growth recovered to near double-digit levels in 2010 with resumption of gas exports and new gas pipelines, alongside large-scale public investments. The outlook is for continued strong growth and moderate inflation. But moving the economy from its heavy dependence on hydrocarbons requires a diversified base of industries and services, as well as a dynamic private sector.

Economic performance

The economy rebounded in 2010 with government sources estimating GDP growth at over 9%, close to the levels seen prior to the global recession (Figure 3.7.1). Much of the growth derived from the resumption of natural gas exports to the Russian Federation, which were suspended for much of 2009, and the opening of new gas pipelines to the People's Republic of China and the Islamic Republic of Iran. The strong growth also came from large-scale public investments, a surge in foreign direct investment, and rapid gains in construction, transport and communications, textiles, and agriculture.

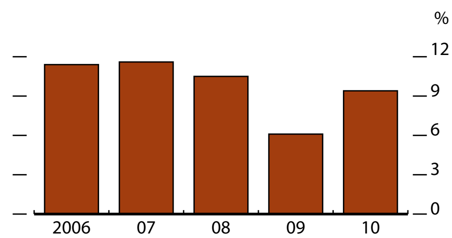
Natural gas remains the mainstay of the economy—hydrocarbon exports accounted for over 90% of exports in 2010. Moreover, hydrocarbon production is the main source of government revenue. Gas exports reportedly grew by 34% in 2010 from the previous year.

Consumer price inflation for the end of period was estimated to have risen from 0.1% in 2009 to 4.6% in 2010, giving a 2010 average of 3.9%, a switch from deflation of 2.7% in 2009 (Figure 3.7.2). The inflation partly reflects rising international food and grain prices, which went up by about 12% in 2010. Government controls over certain prices, wages, and pensions and a stable exchange rate helped to keep consumer prices in check.

The government's expansionary fiscal policy reduced the budget surplus from an estimated 7.8% of GDP in 2009 to 2.8% in 2010 (Figure 3.7.3). Much of the spending is guided by the National Program of Social and Economic Development, which was updated in mid-2010 to cover 2011–2030. The program entails large public investment in economic and social infrastructure.

The recovery in gas exports and increased earnings from higher oil export prices helped to narrow the current account deficit from an estimated 16.1% of GDP in 2009 to 4.7% in 2010 (Figure 3.7.4). The balance of trade in 2010 moved to a small surplus of $100 million, from a deficit of $1.8 billion in 2009. Estimated exports were $10.1 billion for the year, a slight increase from $9.5 billion in 2009. Imports were estimated to be $10.0 billion, down from $11.3 billion the previous year.

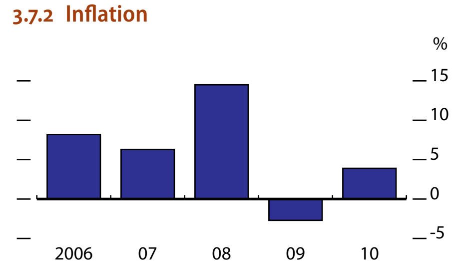
3.7.1 GDP growth



Sources: International Monetary Fund. 2010. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

Click here for figure data

3.7.2 Inflation



Source: International Monetary Fund. 2010. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org

Click here for figure data

This chapter was written by Jennet Hojanazarova of the Turkmenistan Resident Mission, ADB, Ashgabat; and David Oldfield of the Central and West Asia Department, ADB, Manila.

Economic prospects

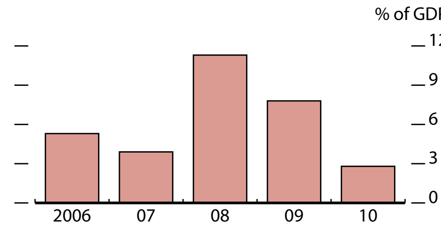
The outlook for 2011 and 2012 appears to be highly favorable, and growth is likely to be robust over the forecast period. The predicted growth rates will result from higher volumes of natural gas exports due to new pipelines with the People's Republic of China and the Islamic Republic of Iran, and continued implementation of the government's development policies. The global gas supply glut will likely peak in 2011 and gas prices will remain low, but demand by Turkmenistan's established buyers should stay strong.

Growing gas exports are necessary to finance the government's heavy spending on infrastructure and the social sector. It is expected to continue its fiscal stimulus, in line with the recently updated National Program. These measures, along with an expected rise in global food and other commodity prices, are likely to add to inflation in 2011, nudging it up to 5.0% in 2011 and 6.0% in 2012.

Trade with neighbors should receive a boost in 2012 if the construction of the new North–South railway linking Turkmenistan with Kazakhstan and the Islamic Republic of Iran is completed on schedule. Total exports are seen rising by nearly 24% in 2011, and imports by 4%. A potential trade surplus of over $2 billion in 2011 could lead to a current account surplus of 3.4% of GDP.

Long-term growth prospects are enhanced by the long-awaited agreement signed in December 2010 for the ambitious Turkmenistan–Afghanistan–Pakistan–India gas pipeline. While security challenges in two of the countries pose risks to construction and operation, the four countries have targeted a gas delivery date by 2015. On completion, the pipeline will deliver 33 billion cubic meters annually and increase Turkmenistan's total gas exports to Asia to over 90 billion cubic meters a year.

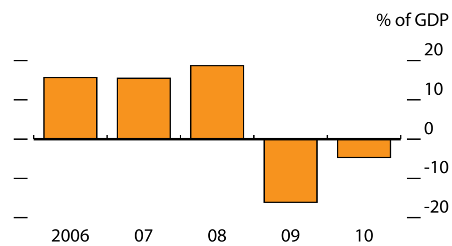
3.7.3 General government fiscal balance



Source: International Monetary Fund. 2010. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org

Click here for figure data

3.7.4 Current account balance



Source: International Monetary Fund. 2010. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org

Click here for figure data

Development challenges

Highly dependent on exports of energy, Turkmenistan faces several challenges in diversifying the economy to high-value-added and technology-based goods and services. This requires numerous structural reforms—administrative, financial, and institutional, for example.

Successful diversification also requires efficient reallocation of resource revenue to productive sectors. The government will therefore have to make a thorough cost-benefit analysis and prioritize value-added investments, and, going beyond gas-related industries, create processing and manufacturing industries capable of generating new sources of income. Ongoing large government investment in mining, textiles, food processing, and tourism are a step in the right direction, but much more investment is required.

Turkmenistan also needs to develop a dynamic private sector. An adequate legal and regulatory framework for private business must be in place, along with an expanded banking sector that can provide financial capital. Additionally, the country needs to develop entrepreneurship and expertise in market principles in the public and private sectors.

3.7.1 Selected economic indicators (%)

	2011	2012
GDP growth	9.0	10.0
Inflation	5.0	6.0
Current account balance (share of GDP)	3.4	7.0

Source: ADB estimates.