Turkmenistan

Growth continued at nearly double-digit levels in 2011, reflecting a sharp rise in gas exports and sizable public investment. A similar rate is expected in 2012, through planned expansion of gas pipelines, but growth may moderate in 2013. Diversifying the economy in order to reduce the country's dependence on energy exports and deepening the reform process remain key policy challenges.

Economic performance

Turkmenistan recorded strong growth in 2011, driven largely by hydrocarbon exports and an ambitious public investment program. The International Monetary Fund (IMF) put growth at 9.9% (Figure 3.7.1).

On the demand side, the government reported that gas exports—the mainstay of the economy—shot up by 75.2%, reflecting a 42.5% rise in production and the expansion of pipeline capacity to the People's Republic of China (PRC) and the Islamic Republic of Iran. Total investment under the National Program of Socio-Economic Development 2011–30, a long-term program to modernize the country's economy, rose by 23.2%, according to government estimates. The IMF estimated that gross investment reached 60% of GDP (Figure 3.7.2).

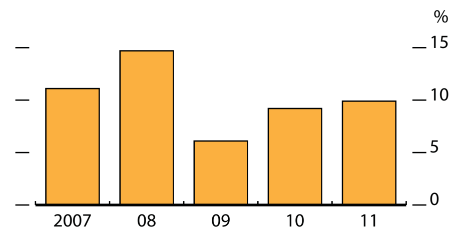
On the supply side, the government reported all sectors showing growth. Industry grew fastest (24.2%), followed by construction (12.5%), trade (8.9%), services (8.1%), and transport and communications (8.0%). Agriculture also expanded.

Expansionary fiscal policies and higher global commodity prices augmented inflationary pressures, although price controls and subsidies for basic goods and utilities, along with a stable exchange rate, kept inflation to an estimated 6.1%.

An accurate assessment of the fiscal situation is difficult because of sizable extrabudgetary operations, including funding for public investment. Nevertheless, the state budget was reported to have recorded a surplus (Figure 3.7.3). The government reported a 48% rise in revenue, reflecting the growth in gas exports, while spending was reported to have climbed by 37%, with three-fourths of budget expenditure devoted to the social sector. Control by the government over monetary policy and commercial bank activity remains significant. Banks and the government receive central bank credit at concessional interest rates, and directed lending is extensive.

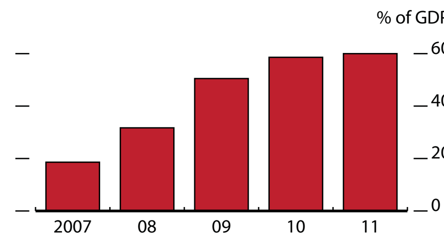
The IMF estimates that the surge in gas exports narrowed the external current account deficit to about 2.9% of GDP from an estimated 11.7% in 2010, despite a large rise in imports, particularly for public investment. Although the country accumulates substantial foreign exchange reserves, external debt is believed to have risen sharply, from 2.6% of GDP at end-2009 to 20.5% at end-2011.

3.7.1 GDP growth



Sources: International Monetary Fund. 2011. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

3.7.2 Gross investment



Source: International Monetary Fund. 2011. *Public Information Notice (PIN) No. 11/161*. December. http://www.imf.org

This chapter was written by Jennet Hojanarazova of the Turkmenistan Resident Mission, ADB, Ashgabat.

Economic prospects

Hydrocarbon exports will remain the chief source of growth and development project financing. GDP growth of 10.0% is forecast in 2012, reflecting further expansion of pipeline capacity to the PRC and large public investment. Somewhat slower growth (about 9%) is anticipated in 2013.

The government intends to widen its export destinations, and a private firm's audit of gas deposits, released in October 2011, confirmed reserves of up to 26.2 trillion cubic meters, among the world's largest. Besides existing pipelines to the PRC, the Islamic Republic of Iran, and the Russian Federation, a new pipeline under construction since 2010 is intended to connect the country's eastern fields with the Caspian Sea and facilitate exports to Europe. Plans are also under way for a pipeline project from Turkmenistan to Afghanistan, Pakistan, and India agreed in December 2010, although security remains an issue.

Over time Turkmenistan will benefit from enhanced cooperation and trade with neighboring countries. The North–South railway line, scheduled for completion by 2014, will improve its access to Kazakhstan, the Gulf, the Russian Federation, and South Asia. This line could become the region's main route for transporting goods such as petroleum, minerals, agricultural products, and textiles.

The state budget for 2012 projects a small deficit—financed by transferring the 2011 surplus—caused by increased spending. Expansionary fiscal policies will likely add to inflation, which is forecast to reach 7.0% by 2013 (Figure 3.7.4). Continued growth in gas exports is expected to move the current account to a surplus of 3.4% of GDP in 2012 and 2013 (Figure 3.7.5).

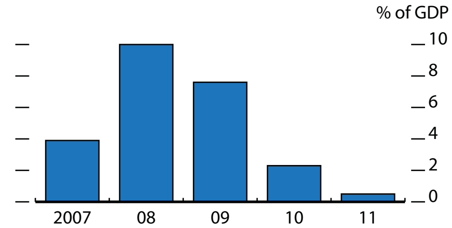
Policy challenge highlights

Hydrocarbon products account for over 90% of exports, and high specialization in energy exports entails risks for sustainable economic development. The government has already taken some steps through the National Program of Socio-Economic Development to diversify the economy, aiming to develop agriculture, food processing and other agro-industry, textiles, chemicals and petrochemicals, electricity generation, tourism, and construction materials.

Substantial diversification will require extensive supply-side reforms. Numerous structural measures will be needed to free private firms from the state planning system's disincentives. An adequate legal and regulatory framework for private businesses must be in place, along with an expanded and restructured banking sector that can provide financial capital and channel profits and savings from hydrocarbons to investment in other sectors.

Efficient resource allocation is also crucial. A long-term investment plan, with careful prioritization and sequencing of investments and cost-benefit analysis, must ensure that resource wealth is allocated to viable projects.

3.7.3 General government fiscal balance



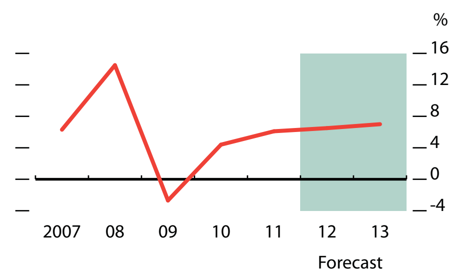
Source: International Monetary Fund. 2011. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org.

3.7.1 Selected economic indicators (%)

	2012	2013
GDP growth	10.0	9.0
Inflation	6.5	7.0
Current account balance (share of GDP)	3.4	3.4

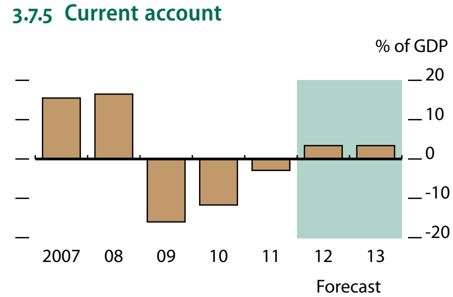
Source: ADB estimates.

3.7.4 Inflation



Sources: International Monetary Fund. 2011. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.

3.7.5 Current account



Sources: International Monetary Fund. 2011. *Regional Economic Outlook, Middle East and Central Asia*. October. http://www.imf.org; ADB estimates.