Turkmenistan

Growth remained robust at 11.1%, led by strong gas exports and high public spending on infrastructure, with rising imports limiting the current account surplus to 1.5% of GDP. Even higher oil and gas production and exports are expected in 2013 and 2014, providing continued funding for the large public sector. However, growth is forecast to moderate to 9% in 2013 and 8% in 2014.

Economic performance

The economy grew by a strong 11.1%, a bit less than the 14.7% recorded in 2011 (Figure 3.7.1). With growth averaging 11% since 2007, Turkmenistan was reclassified by the World Bank in July 2012 as an upper-middle-income country.

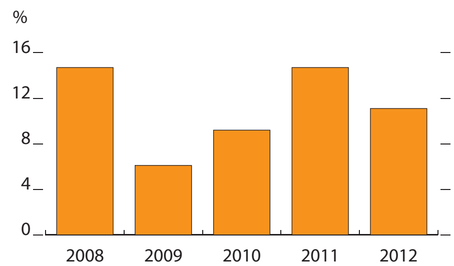
On the demand side, strong gas exports and public investment in infrastructure were the main growth drivers. Gas exports, comprising 70% of total exports, have continued to rise because of long-term contracts with the People's Republic of China (PRC), which has steadily increased its purchases since 2009. Other importers, notably the Russian Federation and Iran, have continued to purchase gas in more moderate volumes. Investment, mainly in hydrocarbons and various public sector projects, surged by 38% over 2011 levels, reflecting programs guided by the National Program of Socioeconomic Development (NPSED), 2011–2030, which aims to diversify and modernize the country's industrial base, develop rural areas, and raise living standards.

On the supply side, the government reported all sectors growing in 2012. Industry contributed more than half of all growth, with the hydrocarbon subsector, which provides 75% of industrial output and 40% of GDP, growing by an estimated 19%. Government investment projects and social programs boosted construction, while growth in services came mainly from wholesale and retail trade, transport, and communications. Agricultural growth came from higher crop and livestock production, reflecting government subsidies and lending programs and improvements to grain and cotton cultivation. Larger harvests of cotton (up by 12.6% over 2011) and wheat (up by 2.7%) helped reduce agricultural imports.

Liberalized prices for certain items put upward pressure on consumer prices. However, officially measured inflation was limited to 5.3% with the help of government subsidies for utilities; low prices for gasoline and public transportation; and price controls on major foodstuffs (Figure 3.7.2).

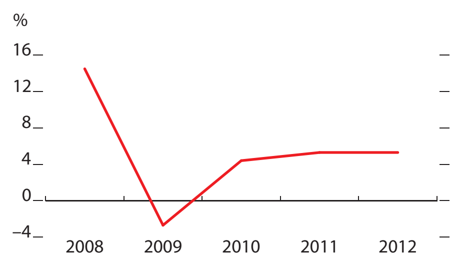
Fiscal policy aimed to support growth through public investment. The state budget, which excludes what are believed to be substantial extrabudgetary expenditures, recorded a large budget surplus equal to

3.7.1 GDP growth



Sources: International Monetary Fund. 2012. *Regional Economic Outlook, Middle East and Central Asia*. November; ADB estimates.
Click here for figure data

3.7.2 Inflation



Sources: International Monetary Fund. 2012. *Regional Economic Outlook, Middle East and Central Asia*. November; ADB estimates.
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This chapter was written by Jennet Hojanazarova of the Turkmenistan Resident Mission, ADB, Ashgabat.

6.0% of GDP, well above the surplus of 3.6% in 2011, as revenue grew much more quickly than expenditure (Figure 3.7.3). Rising hydrocarbon exports contributed to a 40% increase in revenue. Budget expenditure rose by 20.6% from 2011, reflecting greater spending for public investment projects, with socially oriented projects constituting over 70% of state budget allocations. As in previous years, the state budget surplus was transferred to a stabilization fund set up in 2008 to finance the country's development needs. The International Monetary Fund (IMF) estimated total public debt, all of it external, at 14.4% of GDP at the end of 2012.

Monetary policy remained broadly neutral in 2012, with the central bank's main instruments largely unchanged. Directed lending by the central bank slowed somewhat, as more liquidity from the stabilization fund became available through commercial banks and the recently established state development bank. Bank lending to state-owned enterprises—comprising 80% of total lending—rose by 32.6%, while lending to entities and individuals outside the public sector increased by 41.8%. The IMF estimates that broad money grew by 16.6% during 2012. Since the 2009 currency reform, the Turkman manat exchange rate has remained stable at TMM2.85 to $1. Rapid growth in reserves since 2011 has enabled the authorities to maintain this rate.

The current account surplus is believed to have slid from 2.0% of GDP in 2011 to 1.5% in 2012. Exports grew by 19.3%, according to government reports, reflecting higher exports of gas, crude oil, and oil products. However, export growth was offset by rising imports, reflecting growing demand for machinery and other equipment, and for foreign services in the hydrocarbon sector and construction. Turkmenistan received $12.6 billion in foreign direct investment during 2008–2011, including $3.2 billion in 2011, according to the United Nations Conference on Trade and Development, which listed Turkmenistan among the world's top 10 recipients of foreign direct investment (Figure 3.7.4). The Economist Intelligence Unit estimated that international reserves rose by 7% to $20.2 billion at the end of 2012.

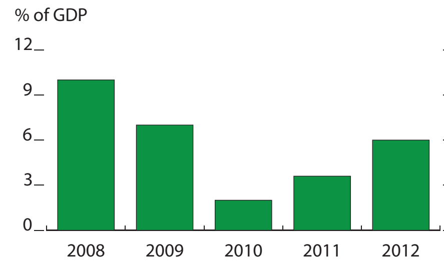
Economic prospects

Growth is expected to slow somewhat, to 9% in 2013 and 8% in 2014. The drivers of growth will continue to be expansion in extractive industry and higher exports of gas and oil products. Rising earnings from hydrocarbon exports will support large public investments.

The government intends to expand hydrocarbon production (Box 3.7.1). The expansion is expected to stimulate output in power generation, oil refining, and chemicals, while the government's investment program should promote construction, transportation, and wholesale and retail trade. Government support for agriculture is expected to boost farm output and textile production, while support for private firms should promote agro-industrial processing.

Consumer price inflation is expected to rise to 6.0% in 2013 and 6.5% in 2014, despite price controls. The increases will reflect expanded public investment and rising consumption, both public and private, fueled by higher domestic credit, public sector salary increases of 10% and pension increases of 15% in 2013, and similar increases likely in 2014.

3.7.3 General government fiscal balance



Sources: International Monetary Fund. 2012. *Regional Economic Outlook, Middle East and Central Asia*. November; ADB estimates.

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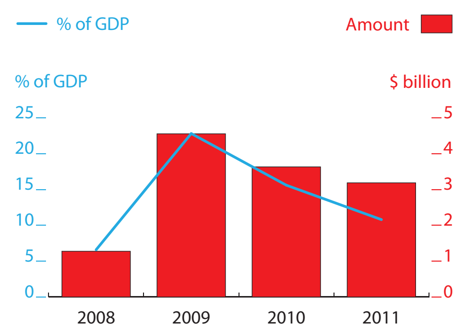
3.7.4 Foreign direct investment



Source: UNCTAD. 2012. *World Investment Report*. Geneva.

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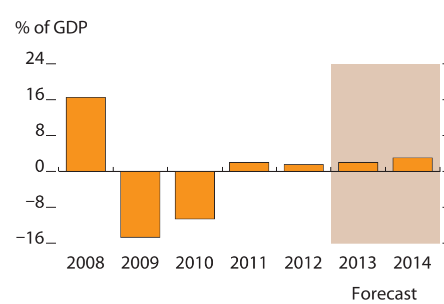
3.7.5 Current account balance



Sources: International Monetary Fund. 2012. *Regional Economic Outlook, Middle East and Central Asia*. November; ADB estimates.

Click here for figure data

Fiscal policy is expected to be more expansionary. The recently adopted budget for 2013 envisages a small deficit, with spending up by 29.8%, and revenues conservatively forecast to rise by only 18.7%. The IMF estimates that government gross debt will decline to 13.3% of GDP in 2013 and 11.9% in 2014.

The current account is expected to show surpluses of 2.0% of GDP in 2013 and 3.0% of GDP in 2014, based on anticipated growth in energy exports (Figure 3.7.5). With gross reserves expected to rise, Turkmenistan's external position should remain comfortable over the medium term.

3.7.1 Selected economic indicators (%)

	2013	2014
GDP growth	9.0	8.0
Inflation	6.0	6.5
Current account balance (share of GDP)	2.0	3.0

Source: ADB estimates.

Policy challenge—promoting diversification

The economy depends heavily on hydrocarbon exports, which provide more than 90% of exports. While the expansion of the energy sector is expected to substantially boost export earnings, energy price swings can create large fluctuations in export revenues, posing a risk to macroeconomic stability and financing for public investment. A stabilization fund created in 2008 has helped mitigate the adverse effects of external shocks. In the coming period of booming exports, the government will need to implement policies designed to contain inflation and avoid real exchange rate appreciation and excessive growth in the money supply, while promoting a more diversified economy.

The experience of the mid-1990s and 2008–2009, when sharp declines in demand for gas caused growth rates to plunge, has prompted efforts to reduce reliance on hydrocarbon exports. The NPSED highlights the need to diversify the economy beyond hydrocarbons and to add more value by shifting to high-technology and processed goods. The program aims to increase to 70% in 2020 the private sector's share of GDP not tied to hydrocarbons. Attaining this objective will require, however, many structural reforms and substantial investments in human capital and institutional capacity as well as clear supporting legislation.

Ensuring the efficient and rational spending of export revenues is also important. Much of the hydrocarbon wealth has accrued to the public sector through taxes and production-sharing mechanisms. Such inflows require highly developed institutional capacity to spend revenue wisely. The government aims to use the additional resources from hydrocarbon exports to spur growth, modernization, and economic diversification. Successful diversification will require that investments be prioritized and that support go to competitive industries that can thrive without continued subsidies in the future.

The authorities would do well to use the current favorable outlook and strong external position to deepen structural reforms and finance productive investment that promote diversification and encourage private sector development. They could support these measures by strengthening public financial management, developing the financial sector, and enhancing macroeconomic surveillance through further improvements in statistics and data collection.

3.7.1 Turkmenistan and global energy security

Turkmenistan is becoming an important energy hub. Its gas reserves are the second largest in the Commonwealth of Independent States and the fourth largest in the world, conservatively estimated by the petroleum transnational BP in 2011 at 24.3 trillion cubic meters (m^3), or 11.7% of the world total.

The Turkmen government has ambitious plans to develop the country's abundant oil and gas resources, and leading oil and gas companies have concluded long-term agreements. Targets set by the NPSED see gas production rising fourfold to 230 billion m^3 per year by 2030, 70% of it exported. Oil production is planned to rise sixfold to 66.6 million tons in the same period. During 2012–2016, annual average gas output is expected to rise to 90 billion m^3, 50% above current output.

The 7,000 kilometer pipeline across Uzbekistan and Kazakhstan to the PRC, built with PRC assistance in 2009, has annual capacity of 30 billion m^3, which will be expanded to 65 billion m^3 by 2020, raising Turkmen gas exports to a record high. According to government plans, the existing pipelines to the PRC, the Russian Federation, and Iran will be augmented with additional pipelines, including the Turkmenistan–Afghanistan–Pakistan–India natural gas pipeline and the Trans-Caspian gas pipeline across the Caspian Sea to Azerbaijan and on to Europe.