Turkmenistan

Growth remained strong at 10.2% in 2013, reflecting high public investment and strong performance in all production sectors, and the current account surplus widened to about 0.5% of GDP. Growth is projected to accelerate to 11.0% in 2014, as gas exports increase, and register 10.0% in 2015, while the current account surplus should average 2.0% of GDP during 2014–2015.

Economic performance

GDP growth in 2013 remained high at 10.2%, based on government reports, slightly below the 11.1% attained in 2012. Expansion was supported by strong performances in both the hydrocarbon economy and its non-hydrocarbon counterpart (Figure 3.7.1).

On the supply side, the government reported that all sectors expanded, with industry—accounting for about half of GDP—growing by 7.3% in 2013, versus 8.6% in 2012. Services rose by 13.9%, versus 14.7% in 2012, and agriculture expanded by 10%, versus 8%. Growth in industry reflected moderate expansion in hydrocarbons, electrical power, and chemicals, paired with a strong pickup in construction materials, textiles, food, and agro-industrial products. Growth in services reflected government construction projects that fueled the domestic production of construction materials, which expanded by 17.3%; a 7.8% rise in transportation and telecommunications; and growth in wholesale and retail trade, catering, and other services. Rapid agricultural growth reflected the production of wheat, cotton, and rice above targets.

On the demand side, economic growth was boosted by public investment and consumption. Capital investment in industrial and social infrastructure under the state-led Program of Socio-Economic Development, 2012–2016 grew by 7.1%, compared with 38% in 2012, and comprised 46.7% of GDP. Higher public outlays and rising real incomes spurred consumption growth.

Rising domestic demand helped fuel inflation, especially for nonfood items and services. The consumer price index is estimated to have risen by 6.0% on an annual average basis, versus 5.3% in 2012 (Figure 3.7.2). Nevertheless, price controls, extensive subsidies, a fixed exchange rate, and government import-substitution policies helped keep inflation within the implicit target of the Central Bank of Turkmenistan (CBT).

Monetary policy strove to maintain macroeconomic stability and limit inflation. Tighter monetary policy helped slow broad money growth to an estimated 29.5% from 35.6% in 2012, as growth in private sector credit was estimated to have declined to 40% from 47% in 2012. The CBT maintained its exchange rate peg, bolstered by comfortable foreign exchange reserves.

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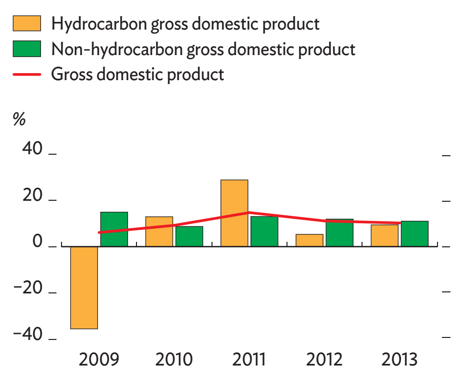
3.7.1 GDP growth



Sources: International Monetary Fund. 2013. *Regional Economic Outlook, Middle East and Central Asia*. November; ADB estimates.

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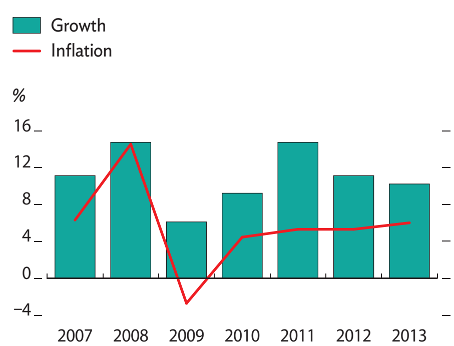
3.7.2 GDP growth and inflation



Sources: International Monetary Fund. 2013. *World Economic Outlook*. October; ADB estimates.

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Fiscal policy continued to support growth in 2013. Revenue exceeded the budget forecast by 31%, estimated at 17.9% of GDP. Budget expenditure was slightly below the planned amount, equaling 16.4% of GDP. The budget surplus is estimated to have fallen to 1.5% of GDP from 6.4% in 2012 as spending on social programs rose. Public sector wages, pensions, and students' stipends were raised by 10% in January 2013, and teachers' salaries were raised by another 10% in September 2013. Spending from extra-budgetary funds for large-scale public investment is believed to remain significant. Total government debt, all of it external, is estimated to have risen to 20.6% of GDP in 2013 from 18.1% at the end of 2012, as foreign loans financed substantial hydrocarbon infrastructure investments.

The current account surplus, estimated at 0.5% of GDP in 2013, was smaller than earlier projected because technical delays in completing gas processing facilities at the large Galkynysh gas field kept gas exports below expectations. In addition, heavy imports of industrial and technological goods for investment projects and large service imports for hydrocarbons and construction caused imports to grow more quickly than exports.

Turkmenistan continues to receive sizable foreign direct investment, mainly in oil and gas (Figure 3.7.3). Turkmenistan's foreign exchange reserves are estimated by the International Monetary Fund to total $29.3 billion, equivalent to 19 months of imports.

Economic prospects

Growth is forecast to reach 11.0% in 2014 and register 10.0% in 2015, further buoying GDP per capita (Figure 3.7.4). This reflects continued public investment and growing hydrocarbon exports, particularly exports of gas to the People's Republic of China (PRC), which receives over half of Turkmenistan's gas exports. Recent agreements with the PRC call for doubling Turkmen gas exports by 2020, using an expanded pipeline.

On the supply side, continued double-digit growth in services, along with acceleration in industry growth to 10.0%, is projected to raise GDP growth to 11.0% in 2014, while in 2015 a return to 7%–8% growth in industry will likely limit GDP growth to 10.0%.

Higher earnings from hydrocarbon exports are expected to spur growth in the non-hydrocarbon economy.

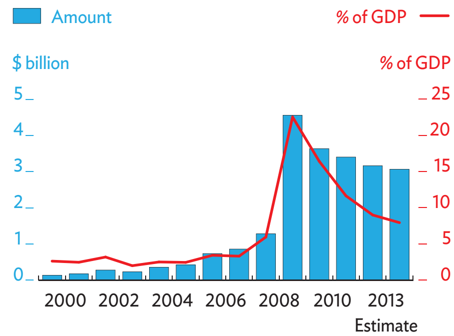
Growing domestic demand is expected to raise inflation to 6.7% in 2014 and 6.2% in 2015. The government will continue to subsidize public utility, food, and fuel prices, though some utility charges will rise in 2014.

The CBT will likely further tighten monetary policy to keep inflation under control. Money growth is expected to slow further to 20.6% in 2014.

Fiscal policy will remain expansionary in 2014 and 2015 to meet government plans under the Program of Socio-Economic Development, 2012–2016. The state budget for 2014 calls for spending to rise by 15%, and revenues by 17%. Government debt is projected to decline to about 15% of GDP at the end of 2014 and below 14% at the end of 2015.

Exports are estimated to rise by 12.6% in 2014 and 7.0% in 2015, taking into account the expected rise in gas exports to the PRC. Import growth is expected to be slower at 7.0% in 2014 and 6.0% in 2015, enabling the current account surplus to widen to 2.0% in 2014 and

3.7.3 Foreign direct investment



Sources: United Nations Conference on Trade and Development. 2013. *World Investment Report*. New York and Geneva: United Nations; ADB estimates.

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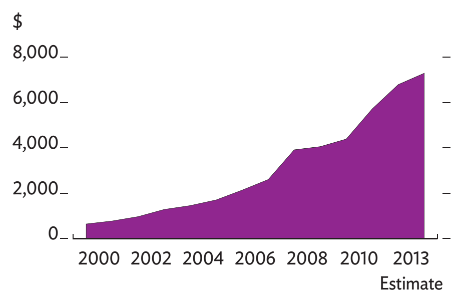
3.7.4 GDP per capita



Sources: World Bank. World Development Indicators online database (accessed 28 February 2014); ADB estimates.

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3.7.1 Selected economic indicators (%)

	2014	2015
GDP growth	11.0	10.0
Inflation	6.7	6.2
Current account balance (share of GDP)	2.0	2.0

Source: ADB estimates.

2015. The improved current account position should further strengthen international reserves, which are estimated to reach the equivalent of 20 months of imports in 2014.

Policy challenge—strengthening public financial management

Since independence Turkmenistan's oil and gas exports have provided a large revenue base to support the country's socioeconomic development (Box 3.7.1).

Rapid growth in the non-hydrocarbon economy is driven by public spending financed by hydrocarbons (Figure 3.7.5). To reduce overreliance on earnings from exhaustible hydrocarbon resources and develop alternative sources of revenue, the government plans to diversify the economy beyond hydrocarbons and increase the private sector's share of the non-hydrocarbon economy to 70% by 2020. Public investment can help develop the human capital and infrastructure needed to support growth in the non-hydrocarbon sector.

As the government is the main beneficiary of hydrocarbon receipts, strengthening public financial management is crucial to ensure efficient fiscal policies. Such strengthening currently faces two major challenges.

A significant amount of government revenue and expenditure remains outside the main state budget, moving through extra-budgetary funds, which leaves the total fiscal position opaque. A strong fiscal framework to ensure spending through the budget rather than through extra-budgetary or quasi-fiscal channels would improve budget transparency, accountability, and effective resource use.

The current magnitude of public investment spending accentuates the need for better control over the efficiency of spending. In addition, the large outlays risk spurring inflation and real appreciation of the Turkmen manat, which may weaken prospects for creating a more broadly competitive and diverse economy. A strong fiscal framework could help rationalize spending decisions in line with the country's absorption capacity. Further, fiscal management would improve with better selection and monitoring of public investment projects, giving priority to more productive projects while allocating sufficient resources to social infrastructure.

The government's recent move to introduce a new budget code is a welcome step toward a stronger fiscal framework. The new budget code, expected to be finalized in 2014 with assistance from the European Union, aims to improve budget coverage by consolidating extra-budgetary funds under the budget and streamlining the budget process. Concurrent with introducing the new budget code, the government plans to modernize its treasury and introduce a new budget classification system.

Introducing a medium-term budgetary framework and measures to improve the quality and transparency of public sector statistics would support government reforms. Moreover, establishing stronger fiscal rules consistent with international best practices would facilitate countercyclical fiscal policy and ensure that government fiscal targets promote intergenerational equity.

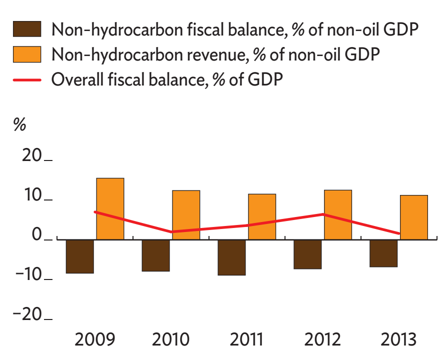
3.7.1 Oil and gas translated into growth

Turkmenistan's resource endowments make it the fourth largest holder of gas reserves in the world. The country also ranks among the top 10 oil producers in Asia and the Pacific.

Oil and gas revenues have boosted prosperity and allowed Turkmenistan to accumulate substantial savings while raising incomes. GDP growth averaged 13.4% annually from 2000 to 2013, while income per capita has increased more than tenfold since independence, to $7,300 in 2013 (Figure 3.7.4). In 2012 Turkmenistan graduated to upper-middle-income status.

The country's financial position has strengthened thanks to favorable oil and gas prices, technological advances and foreign expertise in the oil and gas sector, the development of new transportation routes for energy exports, and improved regional energy cooperation. The country accumulated gross reserves equivalent to 19 months of imports at end 2013. Over the years Turkmenistan has run substantial fiscal surpluses that averaged 5.2% of GDP during 2008–2013 and helped build up large fiscal reserves. Public debt, all of it external, remains close to 20% of GDP, while inflation has remained in single digits since 2009.

3.7.5 Government fiscal balances



Note: Fiscal data refer to general government.

Sources: International Monetary Fund. 2013. *Regional Economic Outlook, Middle East and Central Asia.* November; ADB estimates.

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