

**EXECUTIVE
BOARD
MEETING**

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August 31, 2021

To: Members of the Executive Board

From: The Secretary

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***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities indicating that they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.**



TURKMENISTAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

August 30, 2021

KEY ISSUES

Context. In response to a sharp decline in oil prices in 2014, Turkmenistan has been scaling back its previously high public investment while pursuing import substitution and foreign currency rationing. The pandemic and a drop in hydrocarbon prices and exports kept the economy in recession in 2020, as fiscal and credit policies were tightened, despite ample buffers. The parallel exchange market premium surged. This year, the rollout of vaccinations and a hydrocarbon rebound are expected to boost economic activity. Achieving sustained and inclusive growth over the medium term requires market-oriented reforms and improvements in competitiveness, governance, and transparency.

Policy Priorities. During this year's consultation, staff emphasized that:

- **Fiscal policy should support economic activity until the recovery is firmly underway and then shift to gradual consolidation to ensure long-term fiscal sustainability.** A mild fiscal easing is appropriate this year. Automatic stabilizers should be allowed to operate if downside risks materialize. Once the economy is on a sustained upswing, gradual consolidation will be needed to balance economic development and intergenerational equity goals. Prioritizing and improving the efficiency of spending on healthcare and education would enhance human development and economic inclusiveness and help to achieve Sustainable Development Goals (SDGs).
- **An exchange rate adjustment is needed to improve competitiveness and reduce external misalignment.** Currency overvaluation and deep-rooted economic rigidities continue to weigh on domestic demand and nonhydrocarbon exports. Achieving Turkmenistan's development goals requires improvements in competitiveness; along with steps to increase investment efficiency, scale back directed concessional lending, and facilitate financial sector reforms. Adjustment should be carefully calibrated and sequenced, accompanied by an assessment of its impact on the vulnerable.
- **The fallout from the pandemic has increased the urgency of market-oriented reforms and improvements in policy frameworks.** Phasing out administrative controls, reforming SOEs, easing business regulations and exchange restrictions, winding down directed credit, and strengthening governance and transparency would reduce the cost of doing business and vulnerabilities to corruption, and incentivize private sector development and economic diversification. Complementary reforms of economic policy frameworks and better economic data are essential to support decision-making, economic monitoring, and policy credibility.

Approved By
**Subir Lall (MCD) and
 Chad Steinberg (SPR)**

Discussions with the authorities were held remotely during June 1 – July 7, 2021. The staff team comprised Natalia Tamirisa (head), Ömer Ethem Bayar, Faten Saliba, Amine Yaaqoubi (all MCD), Jean-Francois Wen (FAD), and Kathleen Kao (LEG). Piotr Trabinski and Marcel Peter (OED, IMF) and Nurgeldi Meredov (OED, World Bank), as well as Julianne Ams and Kathleen Kao (LEG), Svetlana Popova (MCM), and Levan Gogoberishvili (CCAMTAC) participated in some meetings. The team was also assisted by Jennet Garlyyeva from the IMF’s local office in Ashgabat, and Branden Laumann (MCD). The mission met former CBT Chairman Annadurdyev, Minister of Finance and Economy Serdarov, other senior officials from the government, and representatives of the business, financial, IFI, and diplomatic community.

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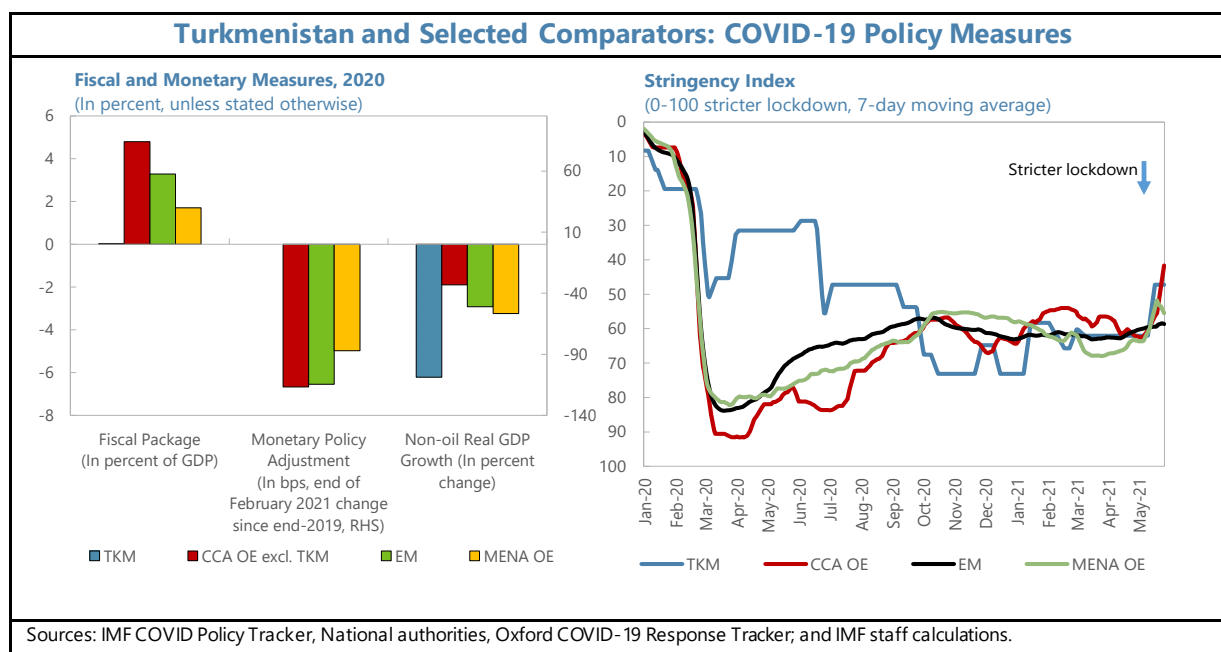
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CONTEXT AND RECENT DEVELOPMENTS

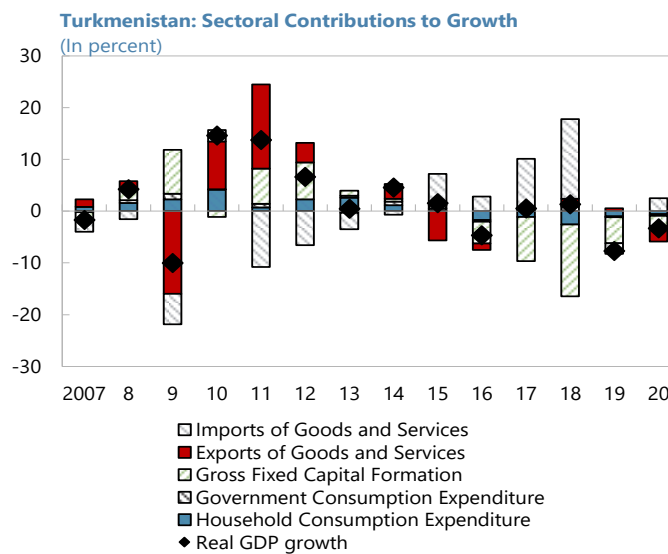
1. The COVID-19 pandemic and collapse in oil prices in 2020 intensified pressure on Turkmenistan's economy, which has been undergoing a difficult adjustment to the post-2014 oil market realities. Over the past several years, massive public investment has been scaled back and import substitution and export diversification policies (IS/EP) have been intensified. Although officially no COVID-19 infections were recorded,¹ the authorities have introduced containment measures and mobility restrictions similar to those used in other countries, and have provided additional resources for public health. While supporting borrowers through a loan moratorium, they have tightened macroeconomic and trade policies. With a vaccine rollout and hydrocarbon recovery, the economic activity is expected to recover. Yet achieving sustainable and inclusive growth requires promoting the private sector and raising economic productivity through market-oriented reforms and improvements in governance and transparency. Moreover, a policy adjustment is needed to improve competitiveness and economic policy frameworks need to be improved to reduce policy procyclicality.



2. Staff estimates that economic activity shrank in 2020 for the second consecutive year (Annex IV). Hydrocarbon output declined by 5.5 percent, reflecting reduced demand from China, Turkmenistan's main export market. Nonhydrocarbon activity also contracted, by 3.1 percent, owing to the pandemic-related weakness in contact-intensive sectors, slowdown in infrastructure projects, and supply disruptions. Household consumption continued to shrink, amid rising inflation and unemployment, and declining remittances. Net export growth declined, driven by the hydrocarbon sector. Reflecting cost-push pressures, official CPI inflation rose to 8.9 percent.

¹ However, Petronas, the Malaysian oil and gas company, closed its office in Ashgabat on July 29, 2020, after 10 of its employees had tested positive for COVID-19.

3. While acknowledging pressures from the pandemic-related shocks, the authorities believed that the economic fallout was modest. The official real GDP growth rate was recorded at 5.9 percent in 2020 – less than ½ percentage point (pp) lower than in the preceding year. The authorities reckoned that nonhydrocarbon activity continued to grow strongly, thanks to the absence of a full lockdown. Retail trade and restaurant activity were supported by a pickup in online and take-out transactions, land and sea transportation benefitted from increased transit, agricultural output expanded, and manufacturing for domestic consumption offset declines in exports. Owing to the long-standing policy of concessional lending, the nonfinancial corporate sector faced the pandemic with strong balance sheets.



4. Although the lack of reliable and timely data hinders surveillance, it is difficult to reconcile the above official narrative with other available information (Annex VII). Importantly, continued economic expansion is not consistent with the deflationary trends documented in official national accounts statistics. Declining official GDP deflators are in turn at odds with rising official CPI. At the sectoral level, a boom in retail trade is difficult to reconcile with much weaker growth estimates for agriculture, industry, and imports. Strong growth in transportation does not appear fully consistent with prolonged border closures, restrictions on domestic travel, suspension of passenger and cargo flights, and declines in construction activity and fuel consumption. At the same time, generalized weakness in tax revenues, especially in consumption-based VAT and excises, and a drop in electricity generation, alongside a broad-based decline in exports and stagnant imports, would point to a weakening of economic activity.

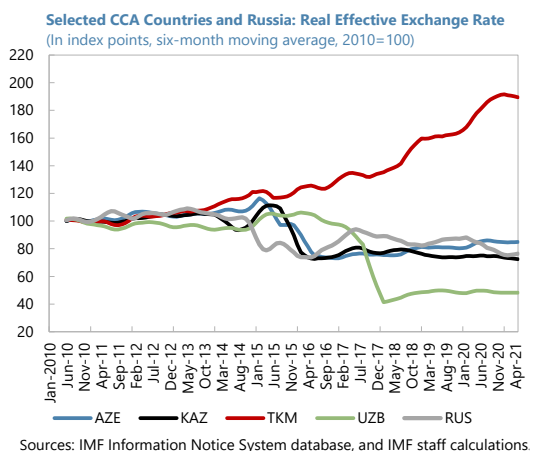
5. Based on official data, fiscal policy turned contractionary in 2020. Additional transfers from the state gas company (Turkmengas) and increases in excises on alcohol and tobacco and customs duties buttressed budget revenues amidst lower hydrocarbon proceeds and weaker domestic demand. Spending was cut across the board, although the authorities increased healthcare spending as well as salaries and benefits for healthcare workers. As in previous years, public sector and minimum wages, and pensions were raised by 10 percent. Social security contributions by private employers were reduced from 20 percent to 10 percent until end-2020 to protect jobs. The overall state budget ended the year in a slight deficit, while the nonhydrocarbon primary balance (NHPB) tightened by 1 pp of nonhydrocarbon GDP.

6. The authorities introduced a loan moratorium to support borrowers hit by the pandemic, while tightening credit policy. The moratorium has covered around 40 percent of banks' credit portfolio. Bank lending has continued to be directed mostly to SOEs and selected

private businesses, in line with the authorities’ IS/EP priorities, and has been funded by concessional long-term financing from the Central Bank of Turkmenistan (CBT). Nominal credit growth slowed to 7.7 percent in 2020 from above 10 percent in 2019.

7. Bank profitability came under strain, reflecting the economic slowdown and likely lower asset quality. Although official non-performing loans (NPLs) remained low, the riskiness of loan portfolios is likely understated. The risk-weighted capital adequacy ratio stood above 20 percent in 2020, as most loans to SOEs are assigned zero-risk weight.

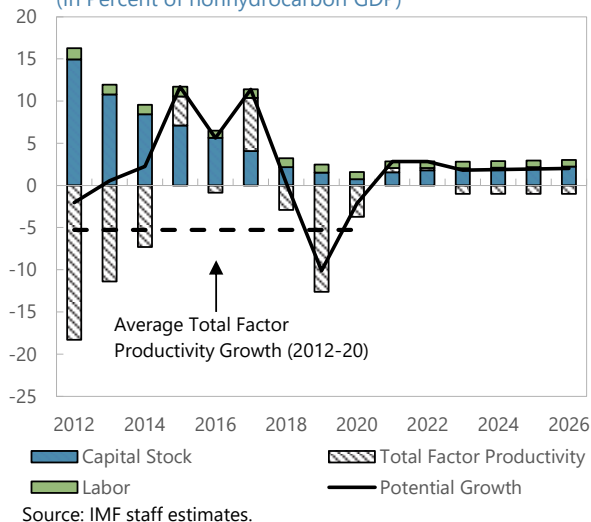
8. The external position weakened in 2020 owing to the decline in hydrocarbon revenues. The current account surplus reversed as (hydrocarbon) exports plummeted and imports edged up due to a spike in procurement of medical equipment and supplies, as well as agricultural machinery. FDI continued to decline. The official real effective exchange rate (REER) appreciated by 14.3 percent in 2020 vis-à-vis the more flexible currencies of Turkmenistan’s trading partners. The parallel market exchange rate rose to nearly 10 times the official rate by June 2021 before easing somewhat in July 2021. Staff assesses the external position to be substantially weaker compared with fundamentals and desirable policy settings (Annex I). Nonetheless, CBT reserves rose and remain more than adequate in comparison to imports, broad money, and short-term debt.



OUTLOOK AND RISKS

9. Staff projects overall real GDP growth to recover to 4.5 percent in 2021 and settle at around 2 percent in the medium term. This year, hydrocarbon exports and production are expected to exceed pre-pandemic levels on account of China’s economic recovery and an additional short-term contract with Gazprom, which will provide a significant, but temporary boost to natural gas exports to Russia. The recovery in the nonhydrocarbon economy hinges on progress in vaccination and the phasing-out of pandemic-related restrictions. According to the official sources, as of end-June 2021, around 1 million citizens have been fully vaccinated against COVID-19, providing full coverage to about 20 percent of the adult population. Over the longer

Turkmenistan: Production Function Estimates of Nonhydrocarbon Potential Growth (In Percent of nonhydrocarbon GDP)



term, hydrocarbon production is expected to grow at a moderate rate (Annex V). Persistently negative economic productivity growth, likely due to inefficiencies in investment, limited access to modern technologies given protectionist trade policies and low FDI outside the hydrocarbon sector, and labor skill mismatches, continue to weigh on nonhydrocarbon growth prospects. Scarring from the pandemic, in part owing to disruptions in learning, is also likely to contribute.

10. The authorities are more optimistic than staff about Turkmenistan's economic prospects. They expected the pace of economic expansion to rise above 6 percent in the near term, amid a broad-based recovery. Over the medium term, with the IS/EP policies and continued investment in the country's infrastructure and industrial capacity (with broadly stable investment-to-GDP ratios), Turkmenistan would be able to retain a steady growth rate of at least 6 percent through the forecast horizon. The authorities also emphasized that their policies to promote the role of the private sector, including through a gradual move toward a more-market based economy, should raise economic productivity.

11. Both staff and the authorities expected inflation to rise to around 16 percent in 2021, reflecting continued cost-push pressures and higher food prices. Persistent disruptions in the supply chains, including longer and costlier transportation routes; pass-through from the rising parallel exchange rate; gradual liberalization of agricultural commodities' prices; and the recovery in the domestic demand contributed to a spike in the consumer prices. The authorities viewed the recent uptick in inflation and inflation expectations as driven mainly by temporary factors and did not see any significant risk of second-round effects and a sustained pick-up in inflation.

12. After a brief improvement in 2021, the external position is likely to weaken, owing to subdued hydrocarbon prices and substantial currency overvaluation. Although imports, especially of consumer goods, are likely to remain constrained by foreign currency (FX) rationing; imports of machinery and raw materials will have to rise in line with infrastructure and industrial investment. Consequently, staff projected the current account deficit to widen to more than 5 percent of GDP over the medium term. FDI is likely to remain subdued, given long-standing concerns about the investment climate and transparency. While external debt stock is projected to grow modestly in line with the investment trends; the external debt-to-GDP ratio, which remained at 28.5 percent of GDP in 2020, according to staff's estimates, is expected to decline over the projection period. This mainly reflects continued real appreciation of the pegged manat in the context of a higher inflation trajectory (Annex II). By contrast, the authorities expected the external position to remain strong, supported by strong growth in hydrocarbon and nonhydrocarbon exports, repayment of past debt, and continued substitution of domestically produced goods for imported ones.

13. All agreed that the outlook was subject to significant uncertainty. Near-term risks mainly relate to the pace of the global recovery. The emergence of more dangerous virus strains and problems in the rollout of vaccines could prolong the pandemic and delay recovery. Over the medium term, risks mainly stem from further delays in market reforms. Additionally, return on past investment could be lower than anticipated, for example because hydrocarbon prices or demand for new products (mostly gas chemicals) turns out to be lower than expected. IS/EP subsidies may also

lower returns while discouraging improvements in efficiency. The weaker-than-expected economic viability of projects could undermine debt repayment capacity. Furthermore, continued rapid growth of subsidized credit to potentially uncompetitive projects may worsen bank asset quality, contributing to financial and currency vulnerabilities. On the upside, faster progress in improving productivity, FDI attractiveness, and access to financial markets could boost growth prospects. The authorities broadly agreed with staff's assessment of risks, emphasizing that risks should be manageable. In addition to the above risks, they are also carefully monitoring and assessing regional geopolitical risks, including those emanating from recent developments in Afghanistan.

POLICY CHALLENGES AND PRIORITIES

Staff recommended: (i) providing fiscal support to the economy until the recovery gets underway; (ii) recalibrating fiscal plans and anchors to ensure long-term sustainability and reducing procyclicality; (iii) addressing external misalignment; and (iv) fostering sustainable, diversified, and inclusive growth.

A. Fiscal Policy

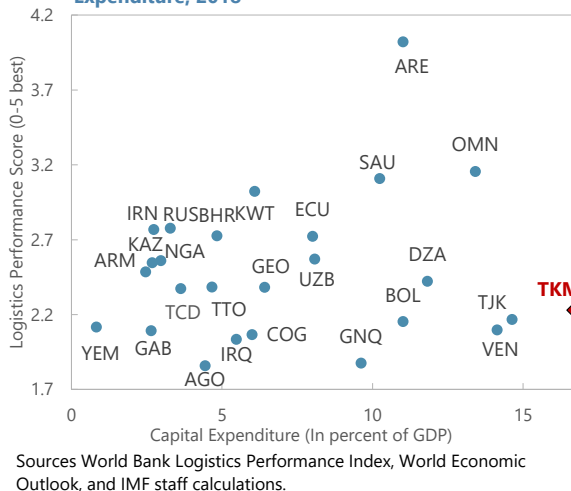
14. Staff advocated providing fiscal support to the economy until the recovery is firmly in train and then shifting to gradual consolidation to support long-term fiscal sustainability. The 2021 budget implies a contractionary stance while credit growth is expected to rise during the recovery, in line with rising inflation. Given ample buffers and a negative output gap, staff recommended a mild easing of ½ pp of nonhydrocarbon GDP in 2021, while calibrating credit growth to protect the peg. Fiscal policy needs to remain nimble, given uncertainties about the recovery. Over the longer term, around 4 pps of nonhydrocarbon GDP improvement in the NHPB is needed to ensure intergenerational equity (Annex II). A steady adjustment of ½ pp of nonhydrocarbon GDP on average during 2022–26 would help to close the small gap vis-à-vis the Permanent Income Hypothesis (PIH) benchmark, while continuing developmental and social investment. A smaller adjustment would imply that the PIH benchmark is reached later, which is also acceptable, given the long horizon for Turkmenistan's natural gas reserves. However, reducing currency misalignment without a nominal exchange rate adjustment, would require a larger fiscal adjustment, combined with tighter credit policy, over the medium term, which is likely to result in significant output losses.

15. Given the official narrative of continued robust economic expansion, the authorities did not see the need for easing fiscal policy in the near term. At the same time, they viewed continued strong growth of concessional directed lending as important for financial deepening. While recognizing the presence of a sizeable parallel market premium, the authorities considered that the peg is sustainable owing to extensive exchange controls on international current and capital transactions and payments. Over the medium term, the authorities expected the ratio of total investment to GDP to remain broadly stable, which, on staff's projections, would imply consolidation at the rate of 0.2 percent of nonhydrocarbon GDP per year during 2022–26.

16. There was consensus regarding the need to improve the efficiency of public spending.

Staff noted that significant scope for improvement exists particularly in infrastructure spending, where quality has been achieved at a high cost. The authorities expressed their intention to explore ways to improve spending efficiency in the future. They also noted that expenditure prioritization efforts are underway to allocate more resources to higher priority areas such as healthcare, education, and other social and developmental spending.

Turkmenistan: Quality of Infrastructure and Capital Expenditure, 2018



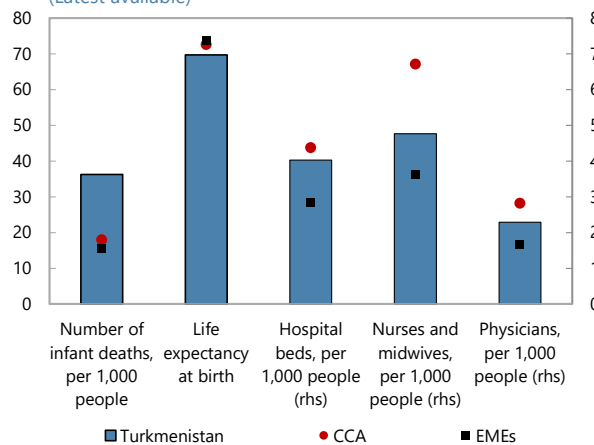
17. Staff also highlighted the importance of continued subsidy reforms and revenue mobilization.

Phasing out of generalized subsidies would improve efficiency and economic inclusiveness and create space for increasing spending on education and health, as well as targeted assistance to the vulnerable. Greater nonhydrocarbon revenue mobilization could also be considered as it would diversify the revenue base and increase space for critical spending, including social programs. For example, while import duties and excise taxes on alcohol and cigarettes are in line with global and regional comparators, excises on domestically produced products are relatively low. Raising them would help address both health and revenue mobilization goals. More generally, creating incentives for greater private sector involvement in key sectors would strengthen the dynamism of Turkmenistan’s economy and alleviate spending pressures on the public sector. In this context, the authorities signaled their intention to accelerate privatization, expecting that its proceeds would amount to 620 million manats (0.4 percent of GDP) already this year.

18. Staff emphasized that the pandemic accentuated the need to scale up social and developmental spending, while focusing on improving the outcomes.

Reforming social support schemes could help better target the most vulnerable. Turkmenistan lags its regional peers in its performance vis-à-vis Sustainable Development Goals (SDGs), especially in the health area (Annex VI). The authorities noted recent increases in healthcare and education spending and explained that social spending is undertaken not only through the state budget but also through extra-budgetary funds. The authorities also considered the long-standing policy of an annual 10 percent increase in public wages and pensions, which tends to be followed by similar increases in private wages, as helping protect real incomes against inflation.

Turkmenistan: Health and Health System Indicators (Latest available)



Sources: IMF FAD Expenditure Assessment Tool, and IMF staff calculations.

19. In staff’s view, reducing fiscal procyclicality is essential to improve Turkmenistan’s resilience to shocks and reduce output volatility. Fiscal tightening in the midst of the pandemic, despite sizeable buffers, likely has exacerbated the output loss. It also likely has resulted in the under-budgeting of social programs, hampering living standards, inclusiveness, and long-term economic prospects. Staff recommended modifying the balanced-budget rule to allow flexibility in response to major external shocks. Consideration could be given to replacing the rule with anchors for the NHPB and debt, calibrated in line with debt sustainability, stabilization, and intergenerational equity objectives and international best practices. The authorities intended to continue with their “zero-balance budget rule”, which in practice, allows for running small deficits in the state budget, to be financed by issuing domestic debt. They saw such issuance as offering a risk-free asset to banks and supporting financial market development.

20. Better risk and debt management, supported by enhancements in fiscal reporting, are needed to improve public financial management (PFM). The 2014 Budget Code requires improving fiscal transparency, operationalizing medium-term budgeting, and establishing a single treasury account. The implementation of the Code would go a long way towards improving public financial management frameworks and practices. However, its implementation has once again been delayed to 2023 because of the pandemic. The authorities agreed with the need to improve the PFM framework in Turkmenistan, particularly through the implementation of the Code, and mentioned their plans to focus on transition toward a multi-year budgeting framework (MTBF), possibly with further IMF technical assistance (TA). Stepping up efforts to develop national debt monitoring and management frameworks is also crucial, and the authorities are currently focusing on preparing the respective legislative amendments. Continued IMF TA in this area may be useful.

21. The authorities and staff agreed that better public investment management is needed to improve the efficiency of investment. The public investment program should be part of the MTBF and debt sustainability. Investment proposals should undergo an appraisal process, including rigorous feasibility analysis and risk assessment. Introducing effective and transparent systems for procurement, project management, and ex-post assessments would reduce costs and improve investment quality. Improving SOE governance (including by undertaking a systematic analysis of their economic performance, debt repayment capacity, and indebtedness) could also raise investment efficiency, control risks, and enhance PFM.

B. Monetary, Exchange Rate, and Financial Sector Policies

22. Reform of the exchange rate system is needed to improve export competitiveness and facilitate adjustment to shocks. In addition to the extensive exchange controls on payments and transfers for international transactions, a sizeable currency misalignment (Annex I) creates misincentives for firms and consumers; discourages private investment, exports, and diversification; promotes informality and corruption; and reduces government revenues. The peg hinders adjustment to shocks and disincentivizes proper currency-risk management. To address these issues, staff recommended aligning the manat with a level consistent with fundamentals. Without an

exchange rate adjustment, large cuts in investment and credit would be needed, with high economic and social costs, to reduce the misalignment.

23. The adjustment and supporting reforms need to be front-loaded and designed carefully given significant uncertainties.

- Pinning down the magnitude and sequence of the needed adjustment is impossible *ex ante* because of insufficient data, uncertainty, and the availability of alternative policy options (see the illustrative scenario below). Since the degree of misalignment is sizeable and communicating a series of step adjustments credibly to the market is challenging, the first step devaluation needs to be significant. Amid the large uncertainties involved, some fine-tuning may be necessary afterwards to bring the exchange rate to a sustainable level, allowing the authorities to learn at each step how the economy is responding to fiscal, monetary, and exchange rate adjustments. Ample international reserves,² capital controls, and price regulations allow the authorities to calibrate the pace of the adjustment and mitigate the adverse impact on the vulnerable, inflation, and balance sheets.
- After the first adjustment, the authorities should stand ready to provide FX to the market to address demand, while keeping macroeconomic policies sufficiently tight to limit new pressures on the manat. A well-designed communication plan will be essential to preserve credibility during the adjustment. The exchange rate adjustment should be accompanied by increased social protection. SOE and bank reforms (including recapitalization if necessary), and steps to ease the business environment to spur economic growth would be also important. The exchange rate can remain a monetary anchor during the adjustment or some degree of exchange rate flexibility can be introduced, for example, by repegging the manat to a basket of currencies rather than the dollar. Over time, as the FX market develops and the CBT's operational independence, capacity, and control over its balance sheet increase, the authorities could consider increasing exchange rate flexibility.

24. Exchange restrictions on the making of payments and transfers for current international transactions should be eliminated, to create a level-playing field, improve efficiency, alleviate FX shortages, and ensure compliance with the Fund's Article VIII obligations. Turkmenistan maintains three exchange restrictions subject to Fund approval under Article VIII, Section 2(a) (see Informational Annex) and staff does not recommend their approval without a timeline for their removal.³

² Staff's projections of Turkmenistan's official reserves and long-term external debt include the country's share in the recently approved SDR allocation (229 million SDRs or \$326 million). Staff is not aware of any plans by the authorities to use the SDRs.

³ A fourth restriction previously identified as arising from the limitation on advance payments for SOE contracts for the import of services has been removed, following the authorities' clarification of the exact nature of this restriction. The authorities confirmed that contracts not conforming to this limitation cannot enter into force. The limitation is therefore on the underlying contract rather than the making of payments.

25. While recognizing the large gap between the official and parallel market rate, the authorities did not see the need for changing exchange arrangements for the time being. They viewed exchange restrictions on the making of payments and transfers for current international transactions as crucial for addressing priority import needs of the country without causing a widening of the current account deficit. The authorities also considered the current pegged regime as appropriate for Turkmenistan for the foreseeable future, given the importance of natural gas exports for its economy and the fact that the respective contracts are denominated in dollars. The authorities agreed with staff, however, that an eventual move to a more flexible exchange rate regime and inflation targeting framework would need to be gradual and underpinned by the development of the appropriate institutional infrastructure and technical capacity. Building capacity in liquidity and economic forecasting is also important, as the foundation for increasing the CBT's operational independence. Clear public communication would build institutional credibility and bolster confidence. Over the longer term, transitioning to greater exchange rate flexibility with the interest rate as the main policy tool would facilitate adjustment to shocks, alongside financial market development. They were open to continuing TA dialogue on issues related to future reforms of exchange arrangements.

26. Staff stressed that phasing out directed credit would support external adjustment while promoting market-oriented financial intermediation. Banks need to be able to assess borrowers' loan repayment capacity and reflect the underlying risks in loan pricing and other conditions. The CBT can further enhance its liquidity management by using bills to mop up excess liquidity. Staff also recommended that the Central Bank Law and related legislation are amended to prohibit the CBT from purchasing government securities in primary auctions. The authorities considered directed concessional lending as a cornerstone of their IS/EP strategy and highlighted it as an important factor that helped Turkmenistan's corporate sector weather the pandemic.

27. The authorities and staff concurred that the exceptional loan moratorium needs to be withdrawn carefully. While extending a temporary respite to nonfinancial corporations, the moratorium shifted risks to the banking sector. Even before the pandemic, the authorities acknowledged problems in the banking sector, necessitating recapitalization. Considering these legacy issues and the impact of (i) the moratorium, (ii) slowdown in credit growth, (iii) continued directed lending practices, and (iv) worsening profitability, the official financial soundness indicators are likely understating risks. Staff encouraged the authorities to closely monitor the risks stemming from the loan moratorium and phase it out as soon as conditions permit.

28. The authorities and staff concurred that the exceptional loan moratorium needs to be withdrawn carefully. While extending a temporary respite to nonfinancial corporations, the moratorium shifted risks to the banking sector. Even before the pandemic, the authorities acknowledged problems in the banking sector, necessitating recapitalization. Considering these legacy issues and the impact of (i) the moratorium, (ii) slowdown in credit growth, (iii) continued directed lending practices, and (iv) worsening profitability, the official financial soundness indicators are likely understating risks. Staff encouraged the authorities to closely monitor the risks stemming from the loan moratorium and phase it out as soon as conditions permit. The authorities viewed the

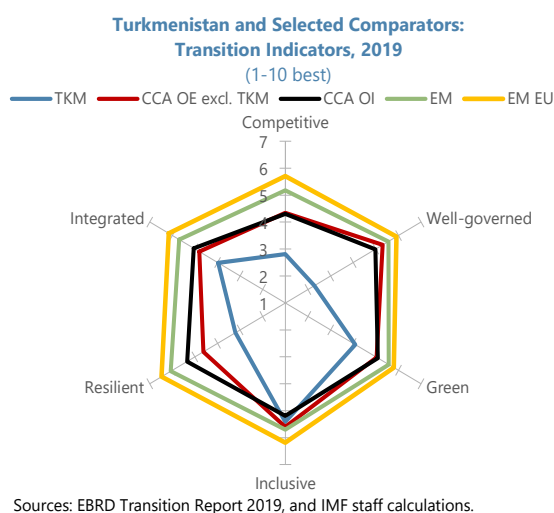
loan moratorium program as a necessary measure, which gave some breathing space to the businesses that suffered from the pandemic-related shocks. The CBT did not see an immediate risk to the soundness of the banking sector from the loan moratorium and explained that the decision to phase it out would be contingent on broad macroeconomic and financial conditions, as well as sectoral developments.

29. Staff encouraged the authorities to step up efforts to strengthen financial regulation and supervision, with a view to maintain financial stability and soundness. The authorities' intention to meet the Basel requirements for capital, liquidity, and loan concentration is welcome. It needs to be complemented by a specific action plan, and an updated assessment of bank recapitalization needs. The authorities are currently focusing on privatizing selected banks and exploring the use of fintech to promote financial inclusion (see below). They appreciated the IMF's TA on the latter and expressed interest in broadening capacity development engagement to financial sector reforms more broadly.

C. Structural Policies, Governance, and Transparency

30. The fallout from the pandemic has increased the urgency of reforms to create a market-based, diversified economy. Priorities include phasing out administrative controls, easing business regulations, reforming and privatizing SOEs, and strengthening governance and transparency. These reforms would reduce the cost of doing business and the risk of corruption, while boosting competition and productivity. Developing financial markets and improving access to finance is important for improving financial intermediation and inclusion. To diversify the economy away from reliance on natural gas exports and foster integration into global value chains (Annex VII), trade barriers need to be reduced. In this context, Turkmenistan's obtaining an observer status in the WTO is a welcome step, as it can lay the ground for a full membership in the WTO. Likewise, obtaining a credit rating may help improve financial market access and attract FDI. Focusing diversification efforts on green investment could reduce Turkmenistan's significant vulnerability to climate change.

31. Although most structural reforms have a medium-term horizon, immediate gains in Turkmenistan's highly regulated economy are possible, for example by creating e-government and one-stop-shops for investors and entrepreneurs, in line with the Program of Social and Economic Development for 2019–25. The authorities' plan to operationalize the special economic zones could also promote the private sector and FDI, provided concerns about the erosion of the tax base are addressed. Establishing credit and collateral registries could help foster financial inclusion.



32. The authorities concurred with staff on the need to accelerate structural reforms with a view to raising nonhydrocarbon growth potential. They continue to invest hydrocarbon proceeds in infrastructure and industrial capacity of the country to help advance the IS/EP agenda and diversify the economy. The government puts a special emphasis on developing the digital economy and adopted a Concept for Development of Digital Economy (2019–25) to chart a course in this direction. The authorities see their recently gained observer status at the WTO as a useful anchor for their future investment and trade policies. The authorities aspire to join the WTO and have developed a ten-year action plan to achieve this goal. Turkmenistan has also been working with Fitch Ratings to obtain a credit rating. Finally, the authorities have devised a special program for rural development aimed to narrow the urban-rural development gap.

33. Given pervasive weaknesses, priorities for improving governance are multifarious, including anti-corruption institutions, fiscal governance, and the rule of law. During this Article IV consultation, discussions on governance focused on an assessment of the legal framework for protection of property and investment, which is critical in the context of the authorities' strategic goals of promoting private investment (Annex VIII). Although all laws are publicly available in Turkmen and Russian, regulations and decrees (which lay out critical components of the investment and property protection framework) are generally available only upon request to the relevant ministry. Further, it is not clear whether adequate legal protections governing expropriation (including fair compensation) are in place. Staff, therefore, encouraged the authorities to ensure that laws, regulations, and decrees are easily accessible and consistent and that their enforcement transparent, equitable, and efficient. Staff also underscored that the reliability and predictability in the substance of the law, the process used to apply the law, and the behavior of officials entrusted with responsibility for applying the law are important to attract FDI. Governance and anti-corruption recommendations outlined in the 2019 Article IV report also remain critical and would augment the impact of structural reforms. Discussions on the rule of law and other aspects of the governance framework are expected to continue in future consultations, in line with the IMF's Enhanced Framework on Governance.

34. Better data are needed to support domestic policymaking and Fund surveillance and to improve credibility and governance. Lack of reliable and timely data required under Article VIII Section 5 hampers surveillance (see Informational Annex). Staff reminded the authorities of their obligation under Article VIII, Section 5 to make available timely and accurate national data and is undertaking due diligence on shortcomings in data provision.⁴ The authorities expressed their willingness to improve data provision during the remainder of 2021, including sharing available data on the balance of payments and external debt, among other things. Data provision is hindered in part by capacity constraints, and staff reiterated its readiness to continue to help the authorities build their statistical capacity, including through the CCAMTAC. An immediate priority in this context is to ensure that domestic methodologies for compiling national accounts are fully consistent with international standards (Annex VI). The authorities and staff are working together to organize a

⁴ Among other things, staff is clarifying with the authorities the reasons for shortfalls in data provision and will address data provision issues further during future surveillance engagements.

follow-up CCAMTAC mission on national accounts later this year. Better data sharing is needed to make CD engagement more effective. Besides supporting domestic decision-making and Fund surveillance, higher quality of macroeconomic and financial data, and broader dissemination of such data, as well as information on laws and regulations (Annex VIII), could encourage private investment and enable access to global financial markets. Building on recent IMF CD, creating a National Summary Data Page under the e-GDDS could help guide the authorities' efforts to improve data dissemination.

STAFF APPRAISAL

35. The pandemic and collapse in oil prices in 2020 significantly affected Turkmenistan's economy – leading to a broad-based contraction of the economic activity, a spike in inflation, and a deterioration in external balances. The authorities' economic policy response centered on supporting borrowers through a loan moratorium. Despite ample buffers, fiscal and credit policies were tightened, and additional exchange and trade controls were introduced. The economy is expected to recover in 2021, but the pace of the recovery is predicated upon a successful vaccine rollout and a sustained recovery in oil prices and external demand. Medium-term prospects remain subdued, mainly owing to low productivity in the nonhydrocarbon sector. The external position appears substantially weaker than warranted by economic fundamentals and desirable policies.

36. Fiscal policy needs to support the economic activity in the near term, until the recovery takes hold. Given ample fiscal space and the negative output gap, staff recommends rebalancing the policy mix to achieve a mild fiscal easing, while calibrating directed credit growth to support the exchange rate peg. Fiscal policy should remain nimble amid continuing uncertainty, and buffers should be used to cushion the impact on the economy and the vulnerable as necessary.

37. Over the longer term, gradual and growth-friendly consolidation is needed to ensure intergenerational equity while promoting economic and social development. Consolidation can rely on improvements in the efficiency of public spending, phasing out of generalized subsidies, as well as revenue mobilization measures. In tandem, to achieve the Sustainable Development Goals and raise productivity, it is important to scale up targeted social and developmental spending, while focusing on improving outcomes in health and education. Reducing fiscal policy procyclicality and improving public finance management would help to reduce economic volatility and make growth more sustainable, diversified, and inclusive. Redesigning the balanced state budget rule, accelerating the implementation of the 2014 Budget Code, introducing medium-term budgeting, and improving debt monitoring and management are critical in this context.

38. An exchange rate adjustment is needed to improve competitiveness and address the underlying external imbalances. To ensure the adjustment is orderly, it has to be front-loaded, sizeable and supported by appropriately tight macroeconomic policies. Afterwards, the exchange rate can remain the monetary anchor or the authorities can consider introducing some degree of flexibility, for example, by repegging the manat to a basket of currencies, to promote financial market development and improve resilience to shocks. Promoting private sector development,

phasing out distortive import substitution policies, and further diversification of the economy would complement exchange rate reforms. Exchange restrictions on the making of payments and transfers for international current transactions should be phased out, to improve economic efficiency and inclusiveness, and compliance with Article VIII, Section 2(a). Staff does not recommend approval of the three exchange restrictions maintained by Turkmenistan without a timeline for their removal.

39. Increasing independence and capacity of the CBT and strengthening financial regulation and supervision are critical to preserve macro-financial stability. Amid continued directed lending and declining bank profitability, the impact of the loan moratorium on bank balance sheets needs to be monitored carefully. The moratorium should be phased out as soon as conditions permit. More generally, prudential regulation needs to be strengthened and aligned with the Basel standards for capital, liquidity, and loan concentration. In tandem, phasing out directed lending would support external adjustment while promoting risk-based financial intermediation.

40. Accelerated market and governance-enhancing reforms and social development are crucial to improve long-term economic prospects and inclusiveness. The fallout from the pandemic has increased the urgency of reforms to develop the private sector, diversify the economy and improve inclusiveness. In this context, phasing out distortionary and export-constraining import substitution policies, reforming and privatizing SOEs, easing administrative business regulations, and strengthening governance and transparency would reduce the cost of doing business, improve competition and productivity, and would go a long way toward the authorities' economic diversification objectives. In this context, it is particularly important to ensure that laws on property and investor rights are easily accessible and consistent and that their enforcement transparent, equitable, and efficient. Better quality and availability of economic data, as well as information on government regulations, are essential for improving the business climate and market access, as well as supporting domestic decision-making, surveillance, and capacity development.

41. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Turkmenistan: Illustrative Adjustment Scenarios, 2020–26



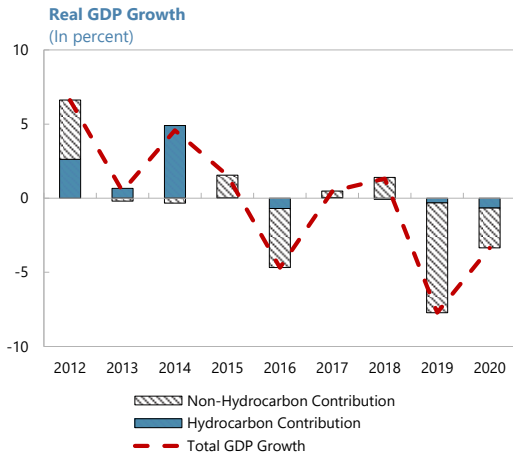
Source: IMF staff estimates and projections.

Scenario 1. Exchange rate devaluation from 3.5 manats/\$ to 6 manats/\$, combined with tighter fiscal (assumes a 2 percent cut in real expenditures) and credit policies (assumes 0 real growth in credit, changes reflect valuation effects).

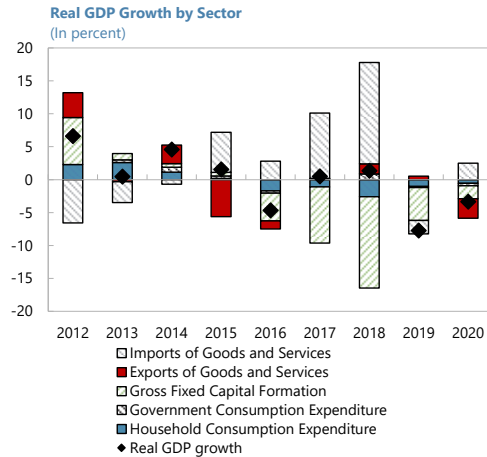
Scenario 2. In addition to policies in Scenario 1, structural reforms are assumed to improve the local business environment and attract FDI. Turkmenistan's EBRD Transition Indicator is assumed to improve by 2 notches, rendering a 2 pps increase in growth, in line with estimates by Falcetti and others (2006).

Figure 2. Turkmenistan: Real Sector Developments

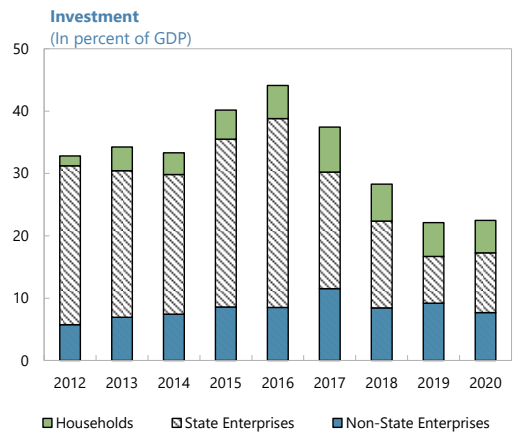
Hit by twin shocks, the economy contracted sharply for a second consecutive year in 2020



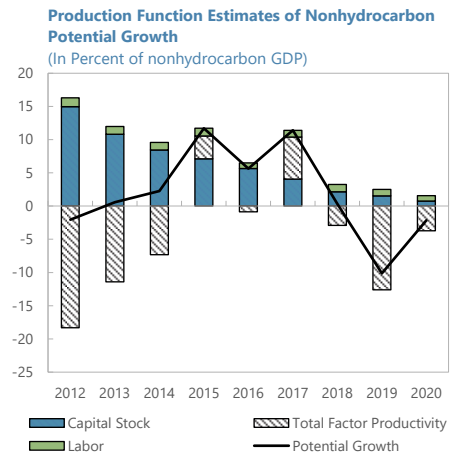
...driven by continued moderation of investments and weak exports.



Investments have declined to its lowest level (in inflation-adjusted terms) in a decade

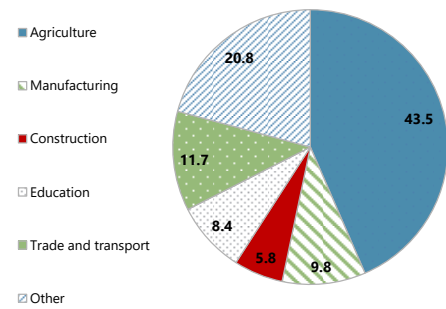


...which hampers potential growth.

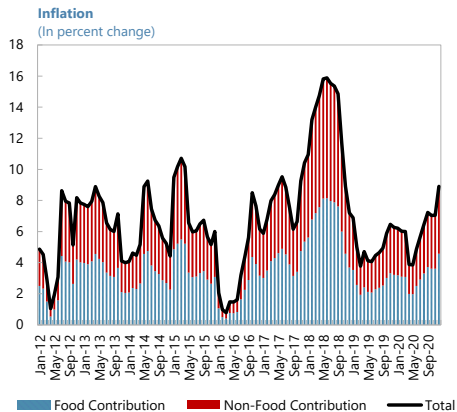


Agriculture continues to represent the largest share in employment

Structure of Employment, 2019 (In percent)



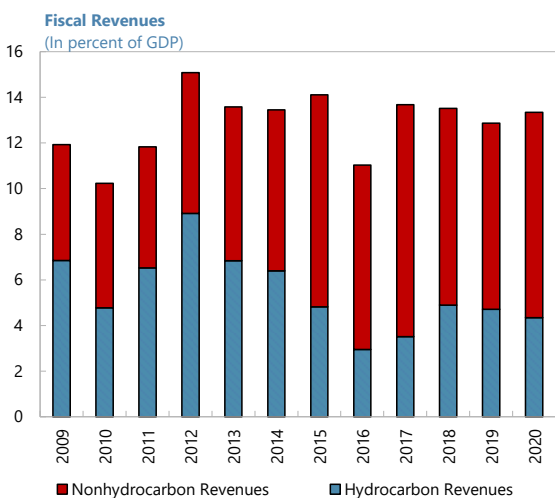
With cost-push pressures rising, official CPI inflation increased to 8.9 percent



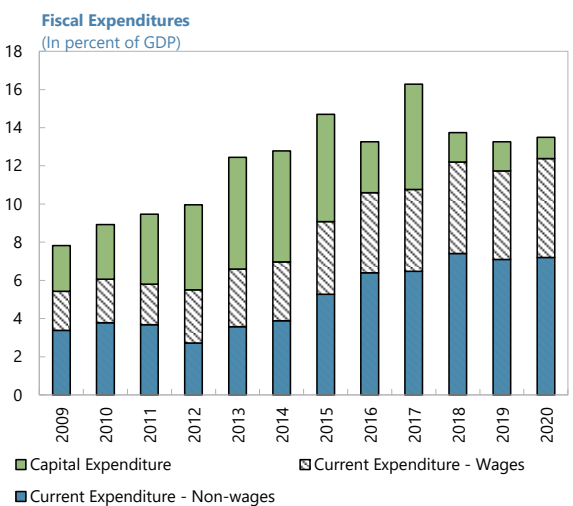
Sources: National authorities, and IMF staff estimates.

Figure 3. Turkmenistan: Fiscal Sector Developments

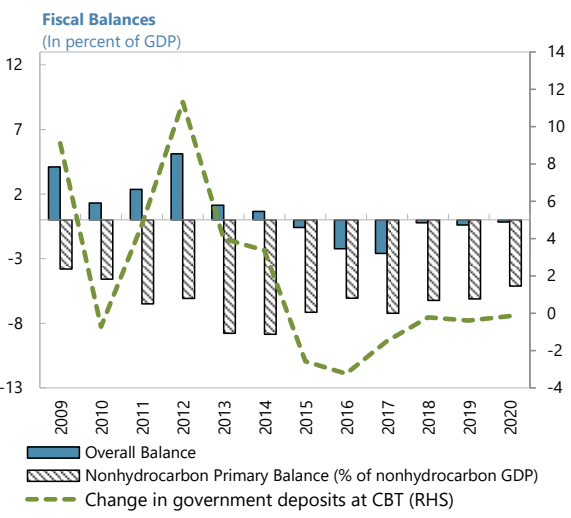
Public revenues remained stable in 2020, aided by one-offs



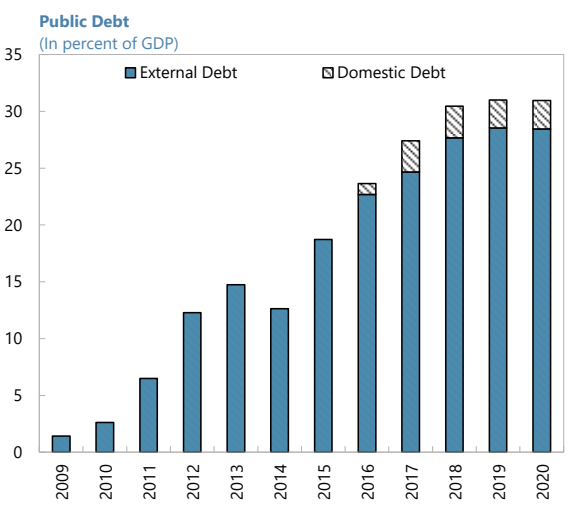
...and the authorities cut public expenditures in other areas amidst an increase in health spending



The state budget is estimated to be in a slight deficit.



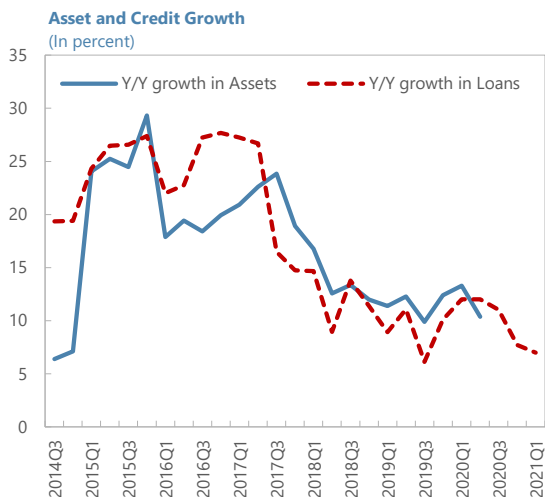
Public debt remained stable in 2020, with new external borrowing focusing on healthcare and infrastructure projects



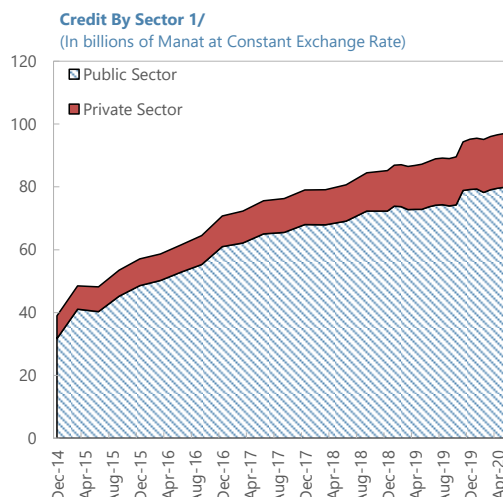
Sources: National authorities, and IMF staff estimates.

Figure 4. Turkmenistan: Financial Sector Developments

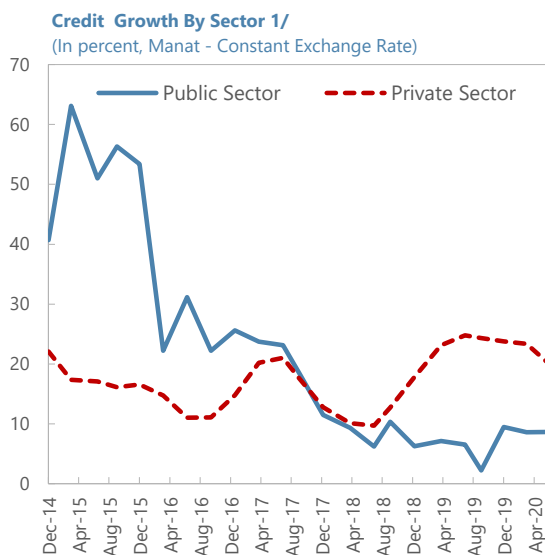
The slowdown in credit growth continued in 2020



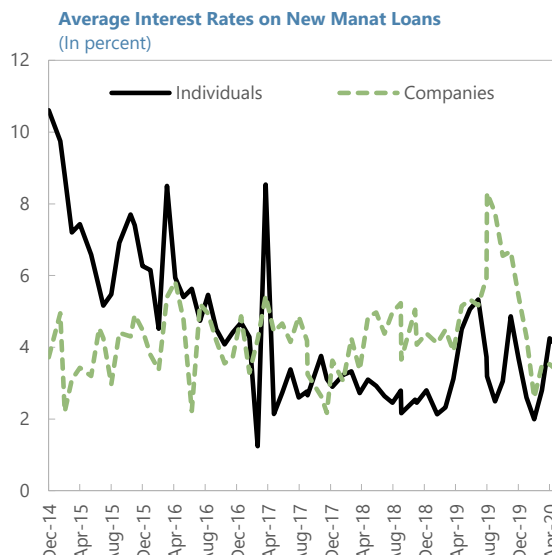
Most loans are provided to the public sector...



... while credit to the private sector continued to lose steam



Average lending rates rose, making it more difficult for households and companies to borrow

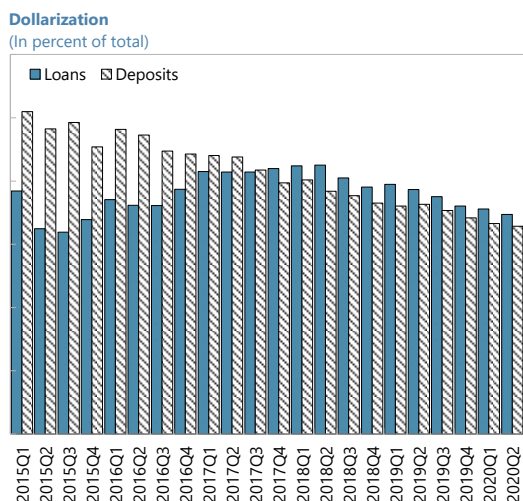


Sources: National authorities, Central Bank of Turkmenistan Banking Bulletin, and IMF staff estimates.

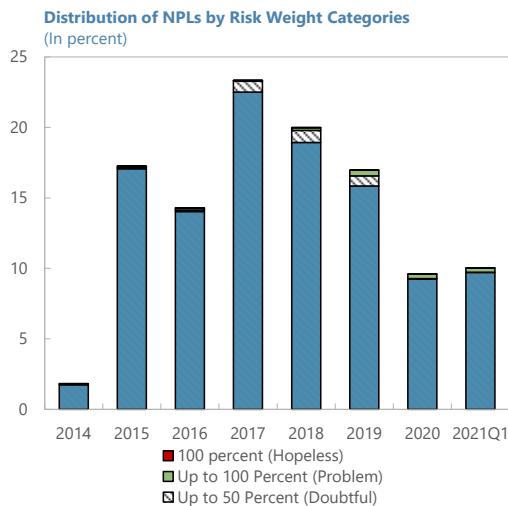
1/ Public sector credit data are constructed by assuming that all FX loans are issued to the public sector.

Figure 4. Turkmenistan: Financial Sector Developments (Concluded)

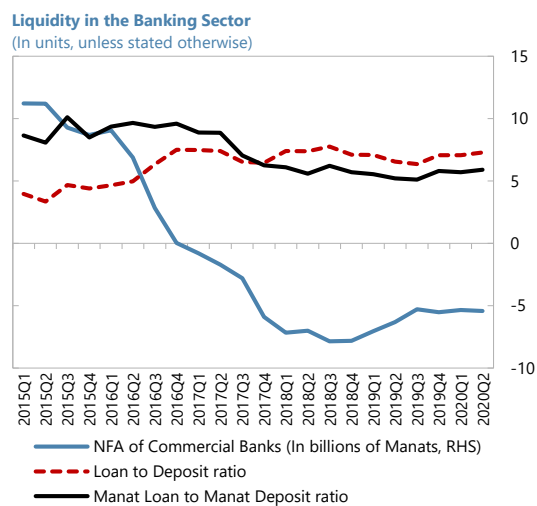
The financial sector remains highly dollarized



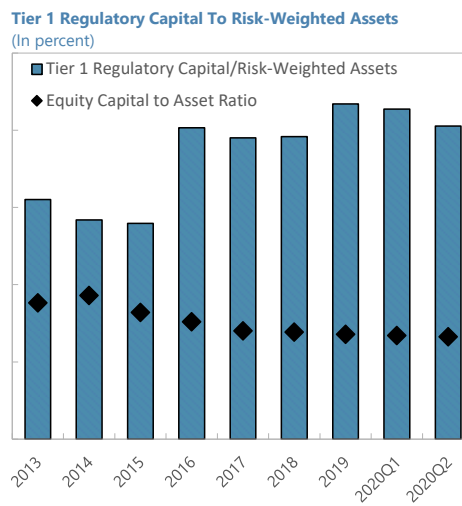
The loan moratorium helped keep the NPLs low



Banks have a sizeable negative net foreign asset position, although their total FX position is positive and small.



Banks appear well capitalized, although public sector loans are assigned zero-risk weight.

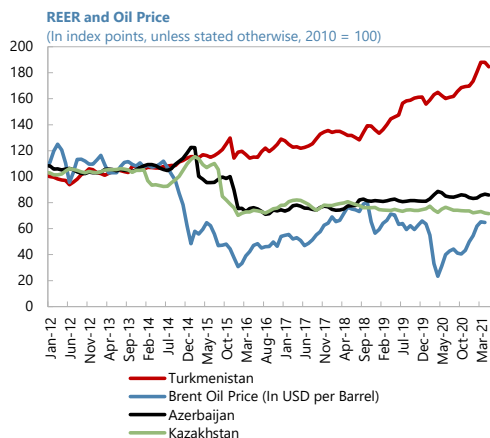
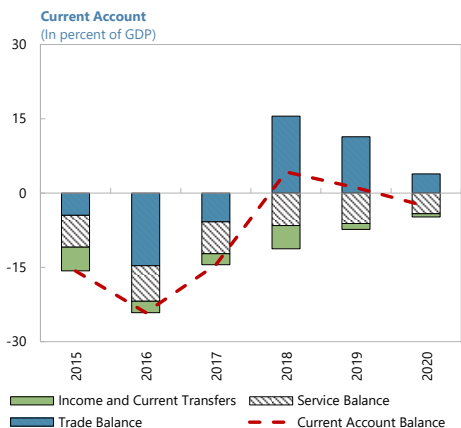


Sources: National authorities, Central Bank of Turkmenistan Banking Bulletin, and IMF staff estimates.

Figure 5. Turkmenistan: External Sector Developments

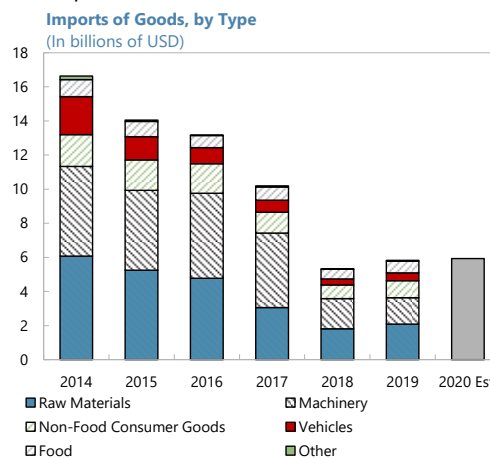
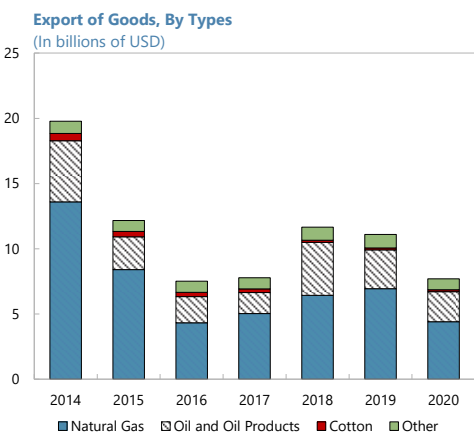
Current account turned into a deficit in 2020 due to a sharp decrease in exports and slight increase in imports...

...also reflecting a continued loss of competitiveness.



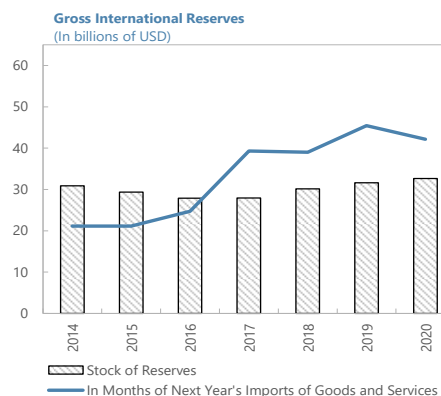
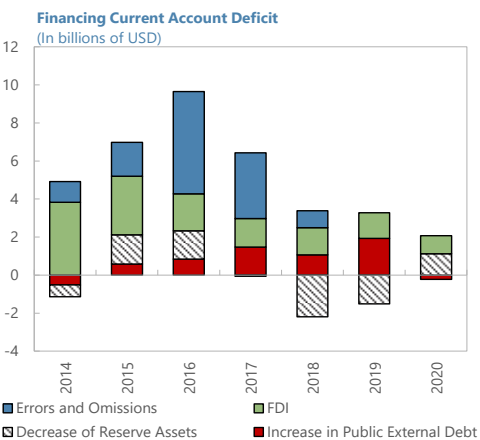
Hydrocarbon exports decreased due to lower external demand as well as a decline in prices.

Investment slowdown, import substitution, exchange controls, and other administrative measures continued to compress imports



FDI inflows continued to decline since 2014

Official reserves remained stable despite the pandemic and are more than adequate with respect to imports.

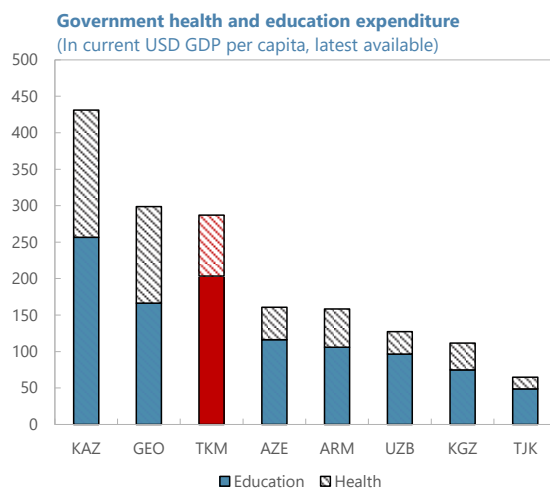
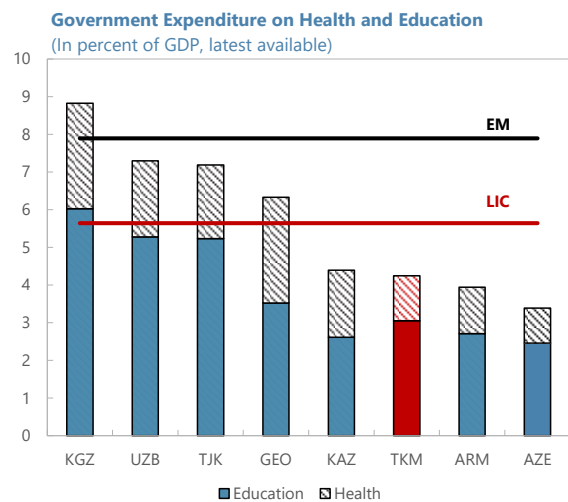


Sources: National authorities, and IMF staff estimates.

Figure 6. Turkmenistan: Social Spending Indicators

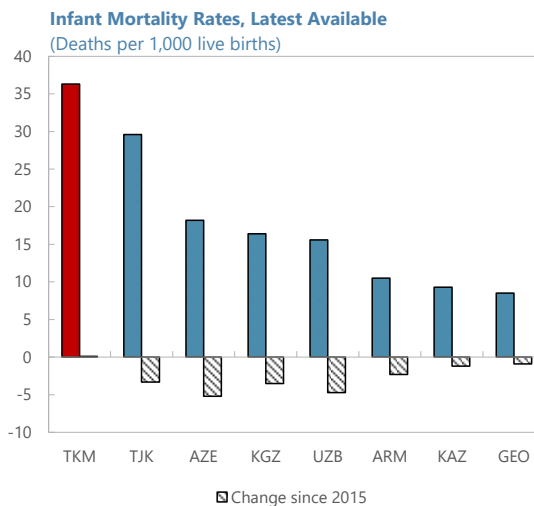
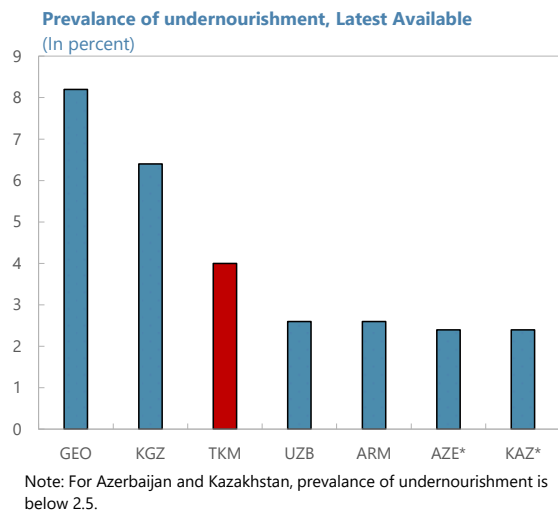
The share of health and education expenditures with respect to GDP remains below that of peers...

...but ahead of other CCA countries when measured in current GDP per capita.



Turkmenistan ranks poorly in undernourishment alongside some regional peers...

...and the worst in terms of infant mortality



Sources: SDG Global Database, World Development Indicators, World Health Organization, and IMF staff calculations.

Table 1. Turkmenistan: Selected Economic Indicators, 2016–26

Population: 5.7 million (2018 est.)		GDP per capita (2020): \$ 7,674									
Quota: SDR 238.6 million		Main exports: gas, oil and oil products, textiles									
	Est. 2016	Est. 2017	Est. 2018	Est. 2019	Est. 2020	Proj.					
						2021	2022	2023	2024	2025	2026
Output and prices											
	(Annual percentage change)										
Official Real GDP 1/	6.2	6.4	6.2	6.3	5.9	...	...	...	...	...	...
Real GDP (Staff estimates) 2/	-4.7	0.5	1.3	-7.7	-3.4	4.5	1.7	1.7	1.8	1.9	1.9
Real hydrocarbon GDP	-4.8	0.3	-0.4	-1.9	-5.5	12.9	-4.1	1.4	1.4	1.3	1.3
Real nonhydrocarbon GDP	-4.7	0.5	1.7	-8.9	-3.1	2.8	2.8	1.8	1.9	2.0	2.0
Consumer prices (end of period)	6.2	10.4	7.2	6.3	8.9	16.0	10.0	10.0	10.0	10.0	10.0
Consumer prices (period average)	3.6	8.0	13.3	5.1	7.6	12.5	13.0	10.0	10.0	10.0	10.0
Investment and savings											
	(In percent of GDP)										
Gross investment	44.1	37.4	28.2	22.1	22.5	19.8	19.8	19.8	19.8	19.8	19.8
Public sector	30.3	28.3	23.8	9.9	9.6	8.9	8.9	8.9	8.9	8.9	8.9
Of which: State budget	2.7	5.5	1.5	1.5	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Private sector	13.8	9.1	4.4	12.2	12.9	10.9	10.9	10.9	10.9	10.9	10.9
Gross savings	20.0	22.9	32.5	23.2	19.8	20.4	18.6	17.5	16.4	15.5	14.6
Fiscal sector											
	(In percent of GDP)										
Overall fiscal balance 3/	-2.2	-2.6	-0.2	-0.4	-0.2	-0.3	0.0	-0.2	-0.2	-0.2	-0.1
Revenue	11.0	13.7	13.5	12.9	13.3	12.3	12.7	12.4	12.3	12.1	12.0
Expenditure	13.3	16.3	13.7	13.3	13.5	12.6	12.8	12.6	12.4	12.3	12.1
Domestic government debt	1.0	3.3	3.8	3.7	3.8	3.1	2.6	2.6	2.6	2.6	2.7
Total public debt 4/	23.7	28.0	31.5	32.2	32.2	27.0	23.5	22.1	21.3	21.2	21.6
Non-Hydrocarbon primary fiscal balance (in percent of non-hydrocarbon GDP) 4/	-6.1	-7.2	-6.2	-6.1	-5.1	-3.7	-3.4	-3.3	-3.1	-3.0	-2.8
Change in government deposits at CBT	-2.5	0.8	0.2	-0.1	-0.1	-0.5	-0.2	0.0	0.1	0.1	0.2
Monetary sector											
	(12-month percent change, unless otherwise indicated)										
Credit to the economy 5/	27.7	14.7	11.4	10.1	7.7	17.0	14.7	11.7	11.8	11.9	11.9
Credit to GDP ratio	55.9	62.5	64.8	65.7	68.6	69.0	69.7	70.4	71.0	71.5	71.9
Broad money, incl. foreign currency deposits at CBT	9.4	11.4	8.4	12.9	11.8	15.6	16.2	12.0	12.1	12.1	12.2
Manat broad money	25.1	29.1	13.9	17.1	19.3	20.5	20.4	14.5	14.3	14.2	14.0
Reserve money	33.9	45.0	13.6	17.5	13.1	51.1	11.7	10.4	9.1	8.0	7.0
Real effective exchange rate	6.7	6.0	10.7	9.8	14.3	...	...	...	...	...	...
External sector											
	(In percent of GDP, unless otherwise indicated)										
Exports of goods (In millions of US\$)	7,520	7,788	11,651	11,104	7,690	9,766	9,603	9,444	9,299	9,234	9,236
Imports of goods (In millions of US\$)	13,177	10,189	5,323	5,832	5,925	6,071	6,690	7,244	7,869	8,575	9,370
Merchandise trade balance	-14.7	-5.8	15.5	11.4	3.9	7.0	4.8	3.3	1.9	0.8	-0.1
Current account balance	-24.2	-14.5	4.3	1.1	-2.7	0.6	-1.2	-2.3	-3.4	-4.3	-5.2
Foreign direct investment	5.1	3.6	3.5	2.9	2.1	1.7	1.4	1.2	1.0	0.9	0.8
External public debt	22.7	24.7	27.7	28.5	28.5	23.9	20.9	19.5	18.8	18.6	18.9
Gross international reserves (in millions of US\$) 6/	27,867	27,932	30,125	33,019	33,918	34,851	34,927	34,560	33,701	32,310	30,278
In months of next year's imports of gds and svcs	20.0	24.8	42.4	42.8	49.1	49.5	44.6	40.5	36.2	31.6	27.0
Memorandum items:											
Nominal GDP (in millions of manat) 1/	126,593	132,742	142,679	154,771	159,637	185,814	210,930	233,217	258,535	287,264	319,835
Nominal GDP (in millions of US\$) 1/	36,169	37,926	40,765	44,220	45,611	53,090	60,266	66,633	73,867	82,075	91,381
Nominal GDP (in millions of manat) 2/	134,758	144,849	142,667	161,923	159,630	185,806	210,921	233,206	258,523	287,251	319,820
Nominal GDP (in millions of US\$) 2/	38,502	41,385	40,762	46,264	45,609	53,087	60,263	66,630	73,864	82,072	91,377
Population (millions)	5.6	5.7	5.8	5.9	5.9	6.0	6.1	6.1	6.2	6.2	6.3
Oil price (US\$ per barrel)	42.8	52.8	68.3	61.4	41.3	66.2	64.7	61.0	58.3	56.5	55.3
GDP per capita (US\$) 2/	6,824	7,248	7,065	7,900	7,674	8,844	9,939	10,880	11,943	13,139	14,482
Manats per US\$ (official, period average)	3.50	3.50	3.50	3.50	3.50	...	...	...	...	...	...
Sources: National authorities; and IMF staff estimates and projections.											
1/ Official estimates compiled using domestic statistical methodologies.											
2/ Staff estimates, compiled in line with international (System of National Accounts) methodologies, using official estimates and sources, as well as UN and World Bank databases.											
3/ Excluding receipts from government bond issuance and privatization proceeds.											
4/ Includes domestic government debt and external public debt.											
5/ Including credit to the government through purchase of government securities.											
6/ Net foreign assets of the Central Bank of Turkmenistan. Projections include Turkmenistan's share in the recently approved SDR allocation.											

Table 2a. Turkmenistan: Balance of Payments, 2016–26
(In millions of U.S. dollars, unless otherwise indicated)

	Est.	Est.	Est.	Est.	Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account	-9,299	-5,997	1,743	497	-1,214	315	-704	-1,545	-2,489	-3,515	-4,760
Goods	-5,657	-2,401	6,328	5,272	1,765	3,695	2,913	2,200	1,430	659	-134
Exports	7,520	7,788	11,651	11,104	7,690	9,766	9,603	9,444	9,299	9,234	9,236
Imports	-13,177	-10,189	-5,323	-5,832	-5,925	-6,071	-6,690	-7,244	-7,869	-8,575	-9,370
Services	-2,752	-2,659	-2,667	-2,852	-1,899	-1,824	-2,034	-2,300	-2,604	-2,951	-3,347
Exports	754	687	541	580	466	560	671	692	712	734	756
Imports	-3,505	-3,347	-3,208	-3,432	-2,365	-2,383	-2,706	-2,991	-3,316	-3,685	-4,102
Factor income	-1,016	-1,074	-1,995	-1,954	-1,096	-1,564	-1,586	-1,448	-1,316	-1,223	-1,280
Credit	606	712	722	731	597	470	552	720	924	1,168	1,280
Of which : Interest	587	690	695	699	558	424	497	653	844	1,072	1,165
Debit	-1,621	-1,786	-2,718	-2,685	-1,692	-2,035	-2,139	-2,167	-2,240	-2,391	-2,559
Of which : Interest	-354	-457	-619	-703	-349	-286	-433	-504	-617	-793	-973
Current transfers (net)	125	137	77	30	15	8	4	2	1	0	0
Capital and financial account	2,437	2,606	1,233	2,896	323	78	1,675	4,812	4,682	4,026	2,926
Capital account	0	0	0	0	0	0	0	0	0	0	0
Financial account	2,437	2,606	1,233	2,896	323	78	1,675	4,812	4,682	4,026	2,926
Net foreign direct investment	1,949	1,499	1,424	1,353	947	899	854	812	771	733	696
Medium and long-term borrowing	1,987	2,623	1,921	3,085	1,300	1,068	2,950	5,675	5,750	5,850	5,850
Scheduled amortization	-1,149	-1,151	-852	-1,157	-1,524	-1,890	-2,130	-1,675	-1,840	-2,557	-3,620
Other financial flows	-350	-365	-1,259	-385	-400	0	0	0	0	0	0
Errors and omissions	5,373	3,456	0	0	0	0	0	0	0	0	0
Overall balance (deficit -)	-1,489	65	2,193	3,393	-891	933	75	-367	-859	-1,391	-2,032
<i>Memorandum items:</i>											
Turkmenistan's gas export price (US\$ per bcm)	114	132	170	185	130	140	138	134	132	129	128
Current account as percent of GDP	-24.2	-14.5	4.3	1.1	-2.7	0.6	-1.2	-2.3	-3.4	-4.3	-5.2
Gross international reserves 1/	27,867	27,932	30,125	33,019	33,918	34,851	34,927	34,560	33,701	32,310	30,278
In months of next year's imports of goods and services	20.0	24.8	42.4	42.8	49.1	49.5	44.6	40.5	36.2	31.6	27.0
External public debt 2/	8,735	10,207	11,276	13,205	12,981	12,700	12,624	12,991	13,850	15,241	17,273
In percent of GDP at official exchange rate	22.7	24.7	27.7	28.5	28.5	23.9	20.9	19.5	18.8	18.6	18.9
Sources: National authorities; and IMF staff estimates and projections.											
1/ Net foreign assets of the Central Bank of Turkmenistan. Projections include Turkmenistan's share in the recently approved SDR allocation.											
2/ External debt includes debt of public enterprises which are not part of the budgetary framework.											

Table 2b. Turkmenistan: Balance of Payments, 2016–26
(In percent of GDP, unless otherwise indicated)

	Est.	Est.	Est.	Est.	Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account	-24.2	-14.5	4.3	1.1	-2.7	0.6	-1.2	-2.3	-3.4	-4.3	-5.2
Goods	-14.7	-5.8	15.5	11.4	3.9	7.0	4.8	3.3	1.9	0.8	-0.1
Exports	19.5	18.8	28.6	24.0	16.9	18.4	15.9	14.2	12.6	11.3	10.1
Imports	-34.2	-24.6	-13.1	-12.6	-13.0	-11.4	-11.1	-10.9	-10.7	-10.4	-10.3
Services	-7.1	-6.4	-6.5	-6.2	-4.2	-3.4	-3.4	-3.5	-3.5	-3.6	-3.7
Exports	2.0	1.7	1.3	1.3	1.0	1.1	1.1	1.0	1.0	0.9	0.8
Imports	-9.1	-8.1	-7.9	-7.4	-5.2	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5
Factor income	-2.6	-2.6	-4.9	-4.2	-2.4	-2.9	-2.6	-2.2	-1.8	-1.5	-1.4
Credit	1.6	1.7	1.8	1.6	1.3	0.9	0.9	1.1	1.3	1.4	1.4
Of which : Interest	1.5	1.7	1.7	1.5	1.2	0.8	0.8	1.0	1.1	1.3	1.3
Debit	-4.2	-4.3	-6.7	-5.8	-3.7	-3.8	-3.5	-3.3	-3.0	-2.9	-2.8
Of which : Interest	-0.9	-1.1	-1.5	-1.5	-0.8	-0.5	-0.7	-0.8	-0.8	-1.0	-1.1
Current transfers (net)	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital and financial account	6.3	6.3	3.0	6.3	0.7	0.1	2.8	7.2	6.3	4.9	3.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.3	6.3	3.0	6.3	0.7	0.1	2.8	7.2	6.3	4.9	3.2
Net foreign direct investment	5.1	3.6	3.5	2.9	2.1	1.7	1.4	1.2	1.0	0.9	0.8
Medium and long-term borrowing	5.2	6.3	4.7	6.7	2.9	2.0	4.9	8.5	7.8	7.1	6.4
Scheduled amortization	-3.0	-2.8	-2.1	-2.5	-3.3	-3.6	-3.5	-2.5	-2.5	-3.1	-4.0
Other financial flows	-0.9	-0.9	-3.1	-0.8	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	14.0	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -)	-3.9	0.2	5.4	7.3	-2.0	1.8	0.1	-0.6	-1.2	-1.7	-2.2
<i>Memorandum items:</i>											
Turkmenistan's gas export price (US\$ per kcm)	114	132	170	185	130	140	138	134	132	129	128
Gross international reserves (In millions of US\$) 1/	27,867	27,932	30,125	33,019	33,918	34,851	34,927	34,560	33,701	32,310	30,278
External public debt (In millions of US\$) 2/	8,735	10,207	11,276	13,205	12,981	12,700	12,624	12,991	13,850	15,241	17,273
In percent of GDP at official exchange rate	22.7	24.7	27.7	28.5	28.5	23.9	20.9	19.5	18.8	18.6	18.9

Sources: National authorities; and IMF staff estimates and projections.

1/ Net foreign assets of the Central Bank of Turkmenistan. Projections include Turkmenistan's share in the recently approved SDR allocation.

2/ External debt includes debt of public enterprises which are not part of the budgetary framework.

Table 3. Turkmenistan: State Budget Operations, 2016–26

	Est. 2016	Est. 2017	Est. 2018	Est. 2019	Est. 2020	Proj.					
	2021	2022	2023	2024	2025	2026					
(In millions of manat)											
Total revenue	14,862	19,818	19,289	20,838	21,300	22,778	26,828	28,932	31,683	34,763	38,222
Of which: Nonhydrocarbon	10,888	14,738	12,311	13,214	14,372	17,323	20,524	22,349	24,727	27,392	30,380
Hydrocarbon	3,974	5,080	6,978	7,624	6,928	5,455	6,303	6,583	6,956	7,371	7,842
Tax revenue	13,769	16,481	17,574	19,548	19,802	20,458	23,867	25,959	28,360	31,046	34,062
Income tax	1,823	1,974	2,126	2,140	2,362	3,167	3,632	4,058	4,536	5,074	5,678
Profit tax	1,929	2,741	2,986	3,110	2,935	3,539	3,776	4,140	4,545	4,998	5,521
Property tax	1,061	1,011	1,214	1,225	1,278	1,206	941	1,174	1,431	1,715	2,028
Value added tax	3,091	3,519	3,776	4,440	4,344	3,568	4,015	4,407	4,839	5,313	5,832
Natural resource tax	812	1,075	1,475	1,991	1,779	741	1,658	1,609	1,620	1,640	1,670
Excises	1,152	1,194	1,732	1,958	1,697	1,654	1,948	2,000	2,067	2,150	2,248
Payroll tax (pension and security)	2,913	3,237	3,250	3,551	4,061	3,901	4,831	5,146	5,493	5,875	6,293
Other taxes and duties	989	1,730	1,015	1,134	1,346	2,682	3,067	3,426	3,829	4,282	4,791
Nontax revenue	1,093	3,336	1,715	1,290	1,498	2,320	2,960	2,973	3,323	3,717	4,160
Total expenditure	17,877	23,585	19,596	21,470	21,551	23,398	26,912	29,377	32,147	35,240	38,691
Current expenditure	14,278	15,585	17,402	19,011	19,756	21,948	25,266	27,557	30,130	32,998	36,196
Of which: Social services	11,338	12,268	12,943	14,496	15,725	16,543	18,676	20,360	22,242	24,344	26,693
(In percent)	3,932	4,362	4,764	5,246	5,943	6,578	7,527	8,186	8,922	9,742	10,656
Health	1,168	1,416	1,640	1,749	2,198	2,308	2,573	2,868	3,198	3,566	3,975
Culture	391	439	471	455	466	472	529	592	663	743	832
Social security	4,902	5,030	4,823	5,863	6,033	5,718	6,404	6,872	7,397	7,984	8,642
Housing services	945	1,020	1,246	1,184	1,085	1,468	1,644	1,841	2,062	2,310	2,587
General services	2,526	2,771	2,705	3,615	3,266	3,801	4,295	4,724	5,197	5,716	6,288
National economy	282	298	369	369	328	1,560	1,716	1,887	2,076	2,283	2,512
Other expenditure	132	248	1,384	531	438	45	580	585	615	654	703
Capital expenditure (state budget)	3,599	8,000	2,194	2,459	1,795	1,450	1,646	1,820	2,017	2,242	2,496
Overall balance 1/	-3,015	-3,768	-307	-632	-251	-620	-85	-445	-464	-476	-470
Nonhydrocarbon balance	-6,989	-8,848	-7,285	-8,256	-7,179	-6,075	-6,388	-7,028	-7,420	-7,847	-8,312
(In percent of GDP)											
Total revenue	11.0	13.7	13.5	12.9	13.3	12.3	12.7	12.4	12.3	12.1	12.0
Of which: Hydrocarbon	2.9	3.5	4.9	4.7	4.3	2.9	3.0	2.8	2.7	2.6	2.5
Nonhydrocarbon	8.1	10.2	8.6	8.2	9.0	9.3	9.7	9.6	9.6	9.5	9.5
Tax revenue	10.2	11.4	12.3	12.1	12.4	11.0	11.3	11.1	11.0	10.8	10.7
Nontax revenue	0.8	2.3	1.2	0.8	0.9	1.2	1.4	1.3	1.3	1.3	1.3
Total expenditure	13.3	16.3	13.7	13.3	13.5	12.6	12.8	12.6	12.4	12.3	12.1
Current expenditure	10.6	10.8	12.2	11.7	12.4	11.8	12.0	11.8	11.7	11.5	11.3
Of which: Social services	8.4	8.5	9.1	9.0	9.9	8.9	8.9	8.7	8.6	8.5	8.3
General services	1.9	1.9	1.9	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Capital expenditure (state budget)	2.7	5.5	1.5	1.5	1.1	0.8	0.8	0.8	0.8	0.8	0.8
Overall balance 1/	-2.2	-2.6	-0.2	-0.4	-0.2	-0.3	0.0	-0.2	-0.2	-0.2	-0.1
Financing	2.4	2.8	0.2	0.4	0.2	0.3	0.0	0.2	0.2	0.2	0.1
of which CBT	1.0	2.4									
Other items, net	-0.3	3.4	0.4	0.3	0.1	-0.2	-0.1	0.2	0.3	0.3	0.3
Change in government deposits at CBT	-2.5	0.8	0.2	-0.1	-0.1	-0.5	-0.2	0.0	0.1	0.1	0.2
Nonhydrocarbon balance (percent of non-hydrocarbon GDP)	-6.1	-7.2	-6.2	-6.1	-5.1	-3.7	-3.4	-3.3	-3.1	-3.0	-2.8
<i>Memorandum items:</i>											
Finances of state-owned enterprises											
Revenues (percent of GDP)	33.6	31.4	..	..	..	..	..	..	..	..	..
Profits (percent of GDP)	2.5	2.1	..	..	..	..	..	..	..	..	..
Domestic government debt (percent of GDP)	1.0	3.3	3.8	3.7	3.8	3.1	2.6	2.6	2.6	2.6	2.7
Total public debt (percent of GDP) 2/	23.7	28.0	31.5	32.2	32.2475	27.0	23.5	22.1	21.3	21.2	21.6
Sources: National authorities; and IMF staff estimates and projections.											
1/ Excluding receipts from government bond issuance and privatization proceeds.											
2/ Includes domestic government debt and external public debt.											

Table 4. Turkmenistan: Monetary Survey, 2016–26
(In millions of Manat end-of-period stock, unless otherwise indicated)

	2016	2017	Est. 2018	Est. 2019	Est. 2020	Proj.					
						2021	2022	2023	2024	2025	2026
Net foreign assets 1/	97,570	91,870	97,628	110,040	112,000	115,359	115,716	114,527	111,616	106,844	99,830
Net foreign assets of the monetary authorities	97,534	97,761	105,437	115,567	118,714	121,979	122,243	120,960	117,953	113,084	105,972
Net foreign assets of commercial banks	36	-5,891	-7,808	-5,527	-6,714	-6,621	-6,527	-6,432	-6,337	-6,240	-6,143
Net domestic assets	-26,578	-6,852	-2,974	-17,019	-18,373	5,801	23,541	34,454	50,126	66,392	82,880
Net domestic credit	-33,534	-16,435	-15,454	-17,586	-13,484	4,128	21,387	34,882	52,532	72,445	94,763
Net claims on general government	-99,560	-92,191	-99,825	-110,487	-113,540	-112,920	-112,835	-115,088	-115,122	-115,079	-115,097
Central bank	-99,696	-94,615	-100,760	-110,487	-113,540	-112,920	-112,835	-115,088	-115,122	-115,079	-115,097
Of which: Budgetary support	-6,502	-4,069	-6,097	-7,284	-8,066	-7,874	-7,865	-7,821	-7,774	-7,727	-7,680
Commercial banks	136	2,424	935								
Net claims on other sector of the economy	66,026	75,756	84,372	92,900	100,056	117,048	134,222	149,970	167,653	187,523	209,860
Of which: In foreign currency	17,255	22,826	24,889	23,870	23,831	28,643	28,691	28,740	28,789	28,838	28,888
State enterprises	52,976	60,875	67,543	73,905	79,333	94,534	109,860	123,708	139,447	157,331	177,650
Private sector	13,050	14,881	16,829	18,996	20,723	22,514	24,362	26,262	28,207	30,192	32,210
Other items (net)	6,957	9,583	12,479	567	-4,889	1,673	2,154	-428	-2,406	-6,053	-11,884
Broad money, including foreign currency deposits at CBT (M2)	56,943	63,429	68,760	77,621	86,749	100,325	116,586	130,556	146,308	164,083	184,156
Manat broad money	31,535	40,714	46,378	54,332	64,832	78,123	94,094	107,768	123,218	140,686	160,444
Currency outside banks	9,558	11,948	13,397	14,385	21,728	19,121	22,089	24,221	26,462	28,806	31,247
Manat deposits	21,977	28,766	32,982	39,947	43,104	59,002	72,005	83,546	96,756	111,879	129,196
Foreign currency deposits	25,408	22,714	22,382	23,289	21,917	22,202	22,492	22,788	23,090	23,398	23,712
<i>Memorandum items:</i>											
Lending to the economy 2/	70,741	82,969	92,405	101,746	109,583	128,193	147,003	164,249	183,617	205,379	229,843
Official exchange rate (end of period)	3.50	3.50	3.50	3.50	3.50	...	...	...	...	...	...

Sources: National Authorities; and IMF staff estimates and projections.

1/ Projections include Turkmenistan's share in the recently approved SDR allocation.

2/ Bank loans to the economy are based on the Banking Bulletin, including credit to the government through purchase of government securities.

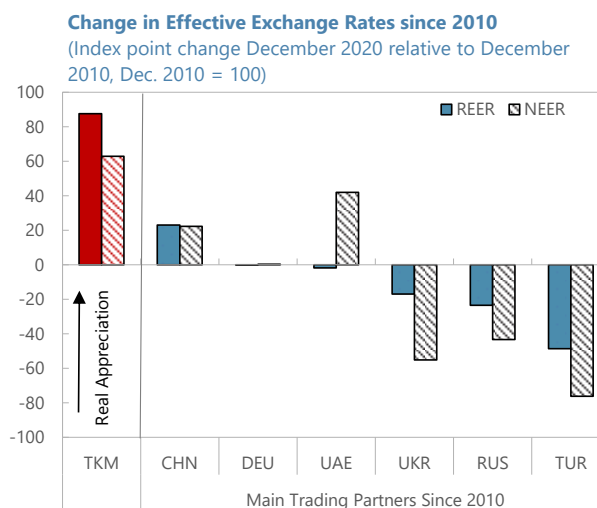
Table 5. Turkmenistan: Selected Financial Soundness Indicators, 2014–21
(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021
								Mar.
Capital adequacy								
Total regulatory capital/risk-weighted assets	15.6	14.9	20.5	19.8	19.3	21.3	23.5	23.1
Tier 1 regulatory capital/risk-weighted assets	14.2	14.0	20.2	19.5	19.6	21.7	24.6	23.5
Total regulatory capital/total assets	9.3	8.1	7.4	6.9	6.5	6.4	6.9	7.2
Asset quality								
Long-term loans (including bank loans and deposits) / total assets	56.8	58.2	65.3	63.0	62.6	61.3	67.0	69.7
Long-term loans (including bank loans and deposits) / total capital	610.2	709.9	870.3	898.0	902.6	902.3	923.9	919.5
Distribution by risk weight category	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
0 percent (standard)	98.2	82.7	85.7	76.7	80.0	83.0	90.4	90.0
up to 20 percent (substandard)	1.7	17.1	14.0	22.5	18.9	15.8	9.3	9.7
up to 50 percent (doubtful)	0.1	0.1	0.1	0.8	0.9	0.7	0.0	0.0
up to 100 percent (problem)	0.03	0.1	0.1	0.04	0.20	0.4	0.3	0.3
100 percent (hopeless)	0.0	0.01	0.02	0.01	0.01	0.0	0.0	0.0
Foreign exchange loans/total loans	12.1	15.5	24.2	28.2	37.4	34.7	31.1	29.1
NPLs/total loans	0.1	0.2	0.3	0.8	0.01	0.0	0.0	0.0
NPLs/total capital	0.01	0.1	0.2	0.04	0.07	0.2	0.1	0.1
Profitability								
Return on (weighted) assets (the ratio of profits/assets)	1.2	1.1	0.9	0.8	0.8	0.8	0.8	0.8
Return on (weighted) capital (the ratio of profits/equity capital)	12.7	13.3	11.3	10.7	10.8	11.1	11.2	11.0
Interest margin/gross income	44.9	43.0	46.5	40.5	36.0	35.2	32.9	31.9
Current expenses/revenues (the ratio of current expenditures/income)	32.5	37.0	36.5	33.2	34.4	34.1	33.7	33.1
Noninterest expenses/gross income	36.9	36.8	42.5	38.6	39.3	39.3	39.1	39.6
Personnel expenses/gross income	19.3	17.7	14.2	14.1	12.6	13.2	13.8	16.5
Liquidity								
Loans to deposits 1/	83.9	89.4	91.7	85.9	82.7	82.3	85.3	86.4
Loans to customer deposits 2/	133.9	143.9	175.0	164.6	158.6	162.6	...	...
Liquid assets/total assets	29.7	28.6	25.6	35.1	44.5	36.0	28.6	26.9
Liquid assets/short-term liabilities	98.3	86.3	89.0	106.2	87.9	85.1	66.7	66.6
Demand deposits/total liabilities	29.9	31.7	28.1	30.2	31.8	33.6	31.1	29.6
Total (non-bank) deposits/total (non-bank) loans	84.2	84.3	60.3	66.2	65.3	66.2	57.1	53.4
Sources: National authorities, and IMF staff calculations.								
1/ Deposits reported by the authorities include funding from the Central Bank of Turkmenistan.								
2/ Staff calculations based on Banking Bulletin from the Central Bank of Turkmenistan.								

Annex I. External Sector Assessment

Turkmenistan's external position appears substantially weaker compared to fundamentals and desirable policy settings. The manat remains significantly overvalued with the parallel market exchange rate rising to about 10 times the official rate by the end of May 2021. The current account deficit, which widened in 2020 on account of weak hydrocarbon exports and a spike in medical imports, is likely to expand further over the medium term. External debt, which decreased to 28.5 percent of GDP in 2020, is projected to continue its decline in 2021–22 with a strong, hydrocarbon export-driven rebound, before settling on a rising path in nominal terms in tandem with worsening current account and lower FDI. However, as a percent of GDP, external debt will continue its downward trend, mostly owing to a rapid growth in nominal GDP driven by rising inflationary pressures and a pegged manat. Addressing external imbalances over the medium term requires an exchange rate adjustment, tight macroeconomic policies, as well as raising productivity, including in the nonhydrocarbon sector. International official reserves remain above the Fund's adequacy ratios. Data gaps continue to hamper analysis.¹

- The **current account** deficit was 2.7 percent of GDP in 2020, marking a 3.8 pps of GDP deterioration relative to 2019. The moderation in payments for foreign services and factor income alleviated the steep worsening in the goods trade balance, which was mainly due to lower prices and demand for natural gas exports, and a rise in the medical and agricultural equipment imports. Turkmenistan continues to compress goods imports through extensive exchange controls on current and capital international transactions and payments. The introduction in 2020 of a 100 percent surrender requirement for SOEs' export proceeds to the CBT² added another layer of administrative restrictions. Over the medium term, the projected rise in exports is unlikely to offset the rise in imports due to the persistent loss of competitiveness and supply disruptions. As a result, the current account deficit is projected to widen to 5.2 percent of GDP by 2026.

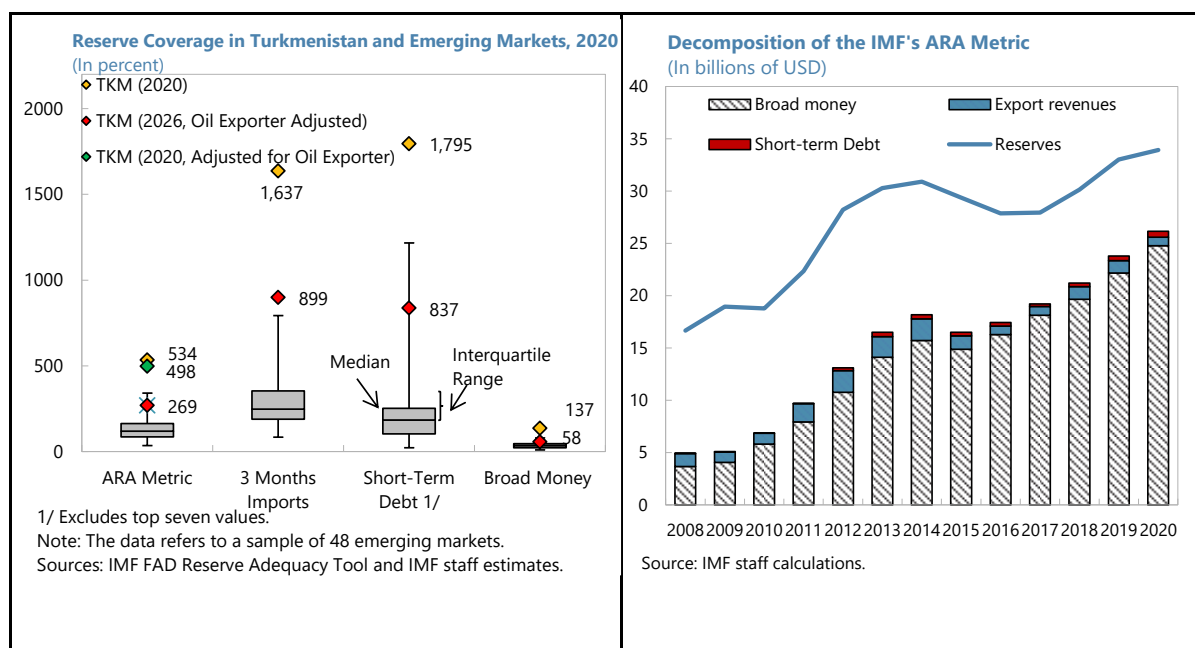


Sources: IMF Information System database, and IMF staff calculations.

¹ Staff's current account balance estimates are subject to large uncertainty because Turkmenistan does not provide data on services trade, factor income, and current transfers. Caveats about data weaknesses apply to FDI and external debt flows, too.

² These proceeds are accumulated under the Reserve Currency Fund, established in May 2020, to be used for essential imports of food and materials/machinery for priority projects. The account of the Reserve Currency Fund is managed by the CBT.

- Despite the 20 percent devaluation in January 2015, the **real effective exchange rate** has appreciated by 87.6 percent since 2010. The appreciation has reflected large exchange rate depreciations by trading partners (mainly Russia and Turkey), whose currencies move with greater flexibility, as well as the strengthening of the U.S. dollar.
- **Foreign direct investment** has declined significantly in recent years. According to staff estimates, net FDI stood at 2.1 percent of GDP in 2020, compared to 7.3 percent in 2015. FDI is expected to continue to decline over the medium term, to about 0.8 percent of GDP by 2026, amid pervasive exchange controls, persistent currency overvaluation, and investors' concerns about the business climate, governance, and transparency.
- Staff estimates that **external debt** stabilized to 28.5 percent of GDP in 2020, reflecting higher debt repayments coupled with a slowdown in borrowing by the public sector for large infrastructure projects. This estimate includes loans provided by the China Development Bank, JBIC, Korean financial institutions, and the Deutsche Bank-led loan syndicate. The estimate does not include corporate external payables and vendor credits.
- Given sizeable **external buffers**, the reserve coverage is adequate. International official reserves are estimated at \$33.9 billion at end-2020 (including SDRs), equal to 49 months of imports and about 500 percent of the IMF's adjusted Assessing Reserve Adequacy (ARA) metric, which compares reserves to exports, broad money, and short-term debt. Turkmenistan scores higher than most emerging markets on ARA (yellow diamonds), even after adjusting for the country's heavy reliance on hydrocarbon exports (green diamond). However, banks' net foreign assets have continued to shrink reflecting the continued rise in banks' FX-denominated liabilities and the broadly stable trajectory of FX-denominated assets.



- Based on the IMF's multilaterally-consistent External Balance Assessment (EBA)-Lite methodology, which estimates an equilibrium level of the current account consistent with a range of structural and policy factors, the (medium-term) **external position appears substantially weaker** compared to fundamentals and desirable policy settings.
- For 2020, the baseline approach suggests that the current account was worse than implied by fundamentals, given the steep weakening in the trade balance; however, this conclusion is biased owing to an artificial compression of imports by exchange controls, which fluctuate each year as the authorities manage domestic access to FX. Based on the analysis of detailed trade data under two scenarios (minimum and maximum),³ staff assesses the underlying cyclically adjusted current account deficit in 2020 between 7.4 and 10.3 percent of GDP. To account for the persistent nature of the artificial compression of imports, using the scenario analysis, staff adjusted the cyclically adjusted current account⁴ surplus of 1.2 percent of GDP to a deficit of 8.8 percent of GDP.
- The medium-term current account gap is estimated at 13.2 percent of GDP with a corresponding REER gap of 80.2 percent. Closing the current account gap over the medium term requires an exchange rate adjustment, further fiscal consolidation, limiting credit growth, raising productivity by improving the business environment and promoting the private sector; boosting export diversification; and relaxing exchange control to make exports competitive in international markets.

Turkmenistan: External Balance Assessment Model Estimates for 2020 (In percent of GDP)		
	Baseline CA model	Adjusted CA model
CA-Actual	-2.6	-2.6
Cyclical contributions (from model) (-)	-1.0	-1.0
COVID-19 adjustor (+) 1/	2.9	2.9
Import compression factor 3/ (+)	0.0	-10.1
Natural disasters and conflicts (-)	0.0	0.0
Cyclically Adjusted Current Account	1.2	-8.8
CA Norm (from model) 2/	4.4	4.4
Adjustments to the norm (+)	0.0	0.0
Cyclically Adjusted Current Account Norm	4.4	4.4
CA Gap	-3.1	-13.2
o/w Relative policy gap	5.0	5.0
Elasticity	-0.16	-0.16
REER Gap (in percent)	19.0	80.2

Sources: IMF staff estimates.

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (2.8 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ An adjustment of 10.1 percent to the cyclically adjusted current account was added to account for artificial compression of imports by exchange controls.

³ Across both scenarios, imports of consumer goods are projected to grow in line with nominal GDP. Under the minimum scenario, imports of capital goods are projected to grow in line with the average of nominal GDP growth and investment growth. Under the maximum scenario, imports of capital goods are projected to grow in line with a weighted average of nominal GDP and investment.

⁴ This adjustment corresponds to the level that would result in a cyclically adjusted current account equal to the midpoint of the resulting cyclically adjusted current accounts of the MIN-MAX scenarios.

Annex II. Debt Sustainability and Intergenerational Equity¹

Public debt is projected to remain sustainable, hovering below 30 percent of GDP through 2026. Recovery from the lows of the pandemic, balanced budget, and projected real strengthening of the manat result in a decreasing public debt trajectory. Exchange rate depreciation remains a key risk. Financing needs are substantial and driven by public investments, anchored in the authorities' medium-term economic and social development program. The longer-term fiscal stance appears more expansionary than the intergenerational equity benchmarks.

Debt Sustainability

Baseline. Public debt is projected to gradually decrease from 32.2 percent of GDP in 2020 to around 21.6 percent of GDP by 2026. Recovery in tax revenues, stronger hydrocarbon receipts, and real appreciation of the manat help stabilize the public debt-to-GDP ratio in the medium term. Most public debt is external, used to finance large public investment in infrastructure and industrial facilities. While the investment-to-GDP ratio is expected to remain at modest levels, external loans will still play a crucial role in financing. External debt is projected to fluctuate between 28.5 percent of GDP in 2020 and 19 percent of GDP in 2026.

Assumptions. Real GDP is expected to grow by 4.5 percent in 2021, supported by a recovery in the hydrocarbon sector and public investments. Growth is expected to moderate toward its potential (around 2 percent) over the medium term, reflecting *inter alia* continued moderation of investment and drag from declining productivity. Inflation is projected to remain at around 10 percent. The zero-balance fiscal rule is expected to remain in place over the projection period. The projections regarding Turkmenistan's long-term debt include the country's share (i.e., USD 326 million) in the recent SDR allocation.

Alternative scenarios and stress tests. The historical scenario implies a slower pace of reduction in the debt-to-GDP ratio compared to the baseline mainly due to a lower real GDP growth path over the medium-term. As a result, the public debt-to-GDP ratio drops to around 22.8 percent at the end of the forecast horizon. The constant primary balance scenario broadly coincides with the historical scenario. Exchange rate depreciation is the main risk for debt sustainability. Data limitations create considerable uncertainties around staff's projections.

¹ Based on staff estimates. According to the official sources, as of end-2020, the stock of external debt intermediated by the State Bank for Foreign Economic Affairs of Turkmenistan is around US\$ 5.5 billion.

Figure All.1. Turkmenistan: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario
(In percent of GDP, unless otherwise indicated)

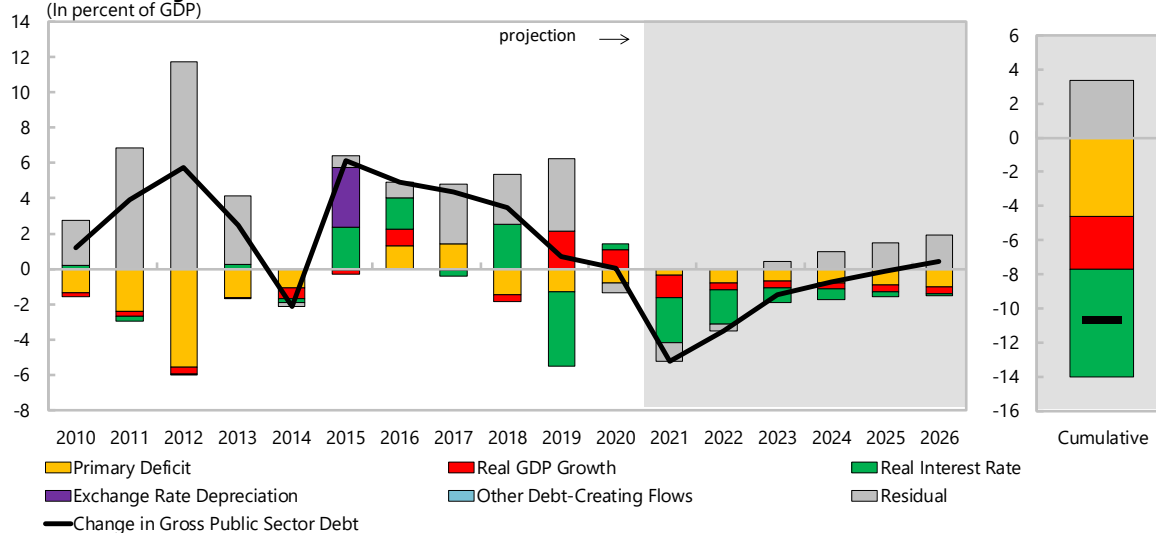
	Actual			Projections						As of August 12, 2021			
	2010-2018 ^{2/}	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads			
Nominal gross public debt	16.7	32.2	32.2	27.0	23.5	22.1	21.3	21.2	21.6	EMBIG (bp) 3/			n.a.
Public gross financing needs	1.2	3.1	3.6	4.1	4.1	3.3	3.3	3.9	4.8	5Y CDS (bp)			n.a.
Real GDP growth (in percent)	4.3	-7.7	-3.4	4.5	1.7	1.7	1.8	1.9	1.9	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	0.4	23.0	2.0	11.4	11.6	8.7	8.9	9.1	9.2	Moody's	n.a.	n.a.	
Nominal GDP growth (in percent)	4.8	13.5	-1.4	16.4	13.5	10.6	10.9	11.1	11.3	S&Ps	n.a.	n.a.	
Effective interest rate (in percent) ^{4/}	4.4	6.1	2.9	2.5	3.8	4.9	6.1	7.6	9.0	Fitch	n.a.	n.a.	

Contribution to Changes in Public Debt

	Actual			Projections						Cumulative	Debt-Stabilizing Primary Balance ^{9/}
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026		
Change in gross public sector debt	3.3	0.7	0.0	-5.2	-3.5	-1.5	-0.7	-0.1	0.4	-10.7	
Identified debt-creating flows	-0.3	-3.4	0.6	-4.2	-3.1	-1.9	-1.7	-1.6	-1.5	-14.0	
Primary deficit	-1.2	-1.3	-0.8	-0.4	-0.8	-0.7	-0.8	-0.9	-1.0	-4.6	
Primary (noninterest) revenue and grants	12.9	12.9	13.3	12.3	12.7	12.4	12.3	12.1	12.0	73.7	
Primary (noninterest) expenditure	11.7	11.6	12.5	11.9	11.9	11.7	11.5	11.2	10.9	69.1	
Automatic debt dynamics ^{5/}	0.9	-2.0	1.4	-3.8	-2.3	-1.2	-0.9	-0.7	-0.5	-9.4	
Interest rate/growth differential ^{6/}	0.6	-2.0	1.4	-3.8	-2.3	-1.2	-0.9	-0.7	-0.5	-9.4	
Of which: real interest rate	0.7	-4.2	0.3	-2.6	-1.9	-0.8	-0.6	-0.3	-0.1	-6.3	
Of which: real GDP growth	-0.1	2.1	1.1	-1.3	-0.4	-0.4	-0.4	-0.4	-0.4	-3.1	
Exchange rate depreciation ^{7/}	0.4	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	3.6	4.1	-0.6	-1.0	-0.4	0.4	1.0	1.5	1.9	3.4	

Debt-Creating Flows

(In percent of GDP)



Source: IMF staff estimates and projections.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

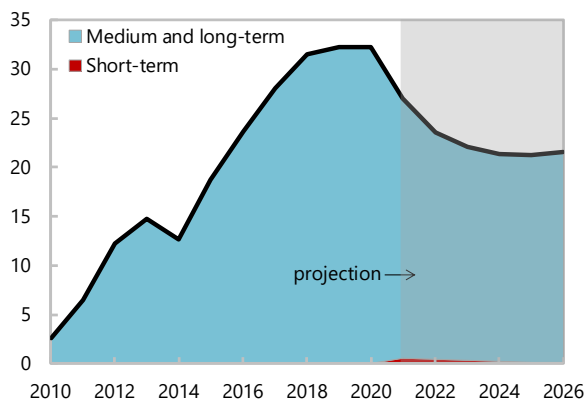
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure All.2. Turkmenistan: Public Sector- Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

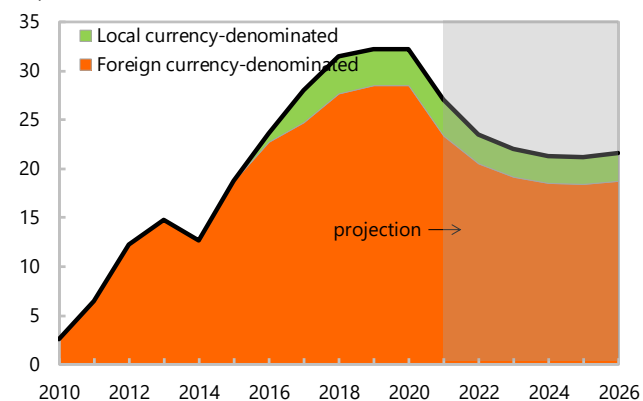
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

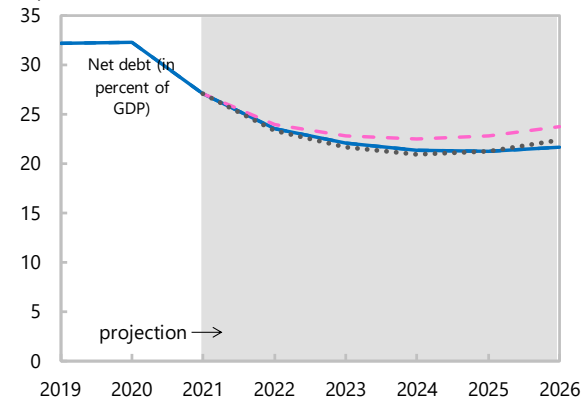


Alternative Scenarios

— Baseline Historical - - - Constant Primary Balance

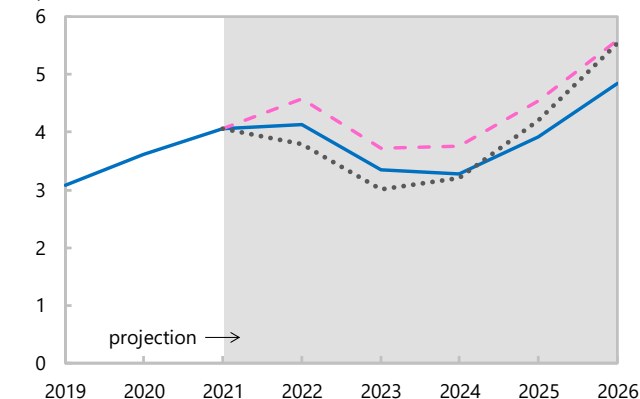
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

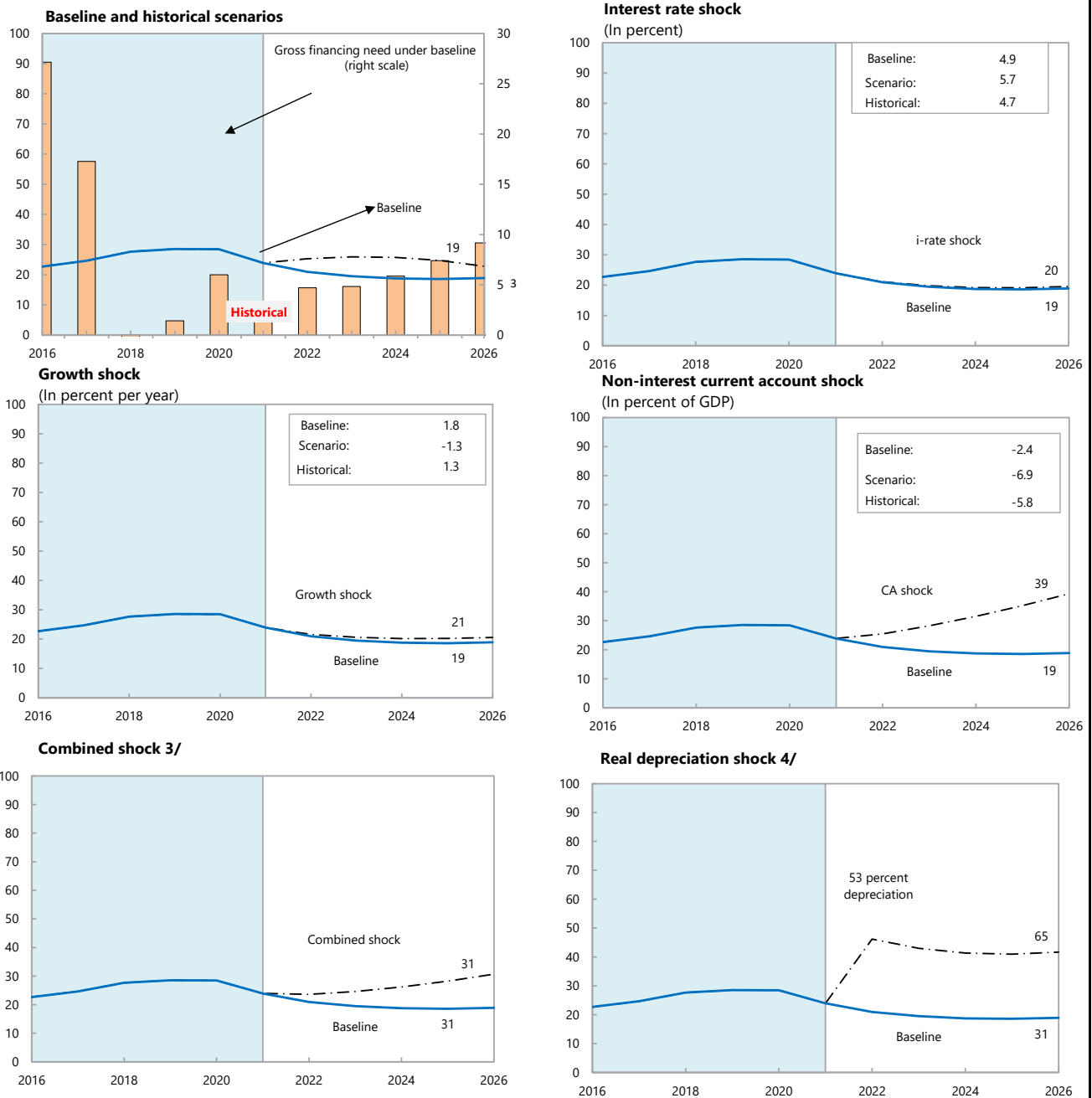
(In percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.5	1.7	1.7	1.8	1.9	1.9
Inflation	11.4	11.6	8.7	8.9	9.1	9.2
Primary Balance	0.4	0.8	0.7	0.8	0.9	1.0
Effective interest rate	2.5	3.8	4.9	6.1	7.6	9.0
Constant Primary Balance Scenario						
Real GDP growth	4.5	1.7	1.7	1.8	1.9	1.9
Inflation	11.4	11.6	8.7	8.9	9.1	9.2
Primary Balance	0.4	0.4	0.4	0.4	0.4	0.4
Effective interest rate	2.5	3.8	4.9	6.0	7.4	8.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.5	1.3	1.3	1.3	1.3	1.3
Inflation	11.4	11.6	8.7	8.9	9.1	9.2
Primary Balance	0.4	1.2	1.2	1.2	1.2	1.2
Effective interest rate	2.5	3.8	5.7	7.7	10.2	12.6

Source: IMF staff estimates and projections.

Figure All.3. Turkmenistan: External Debt Sustainability: Bound Tests 1/ 2/
(In percent of GDP, unless stated otherwise)



Sources: Country desk data, and IMF staff estimates and projections.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 53 percent occurs in 2021.

Table AII.1. Turkmenistan: External Debt Sustainability Framework, 2016–26

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-Stabilizing Non-interest Current Account 6/ -1.7	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026		
Baseline: External debt	22.7	24.7	27.7	28.5	28.5	24.8	21.8	20.4	19.7	19.6	20.0		
Change in external debt	4.0	2.0	3.0	0.9	-0.1	-3.6	-3.0	-1.4	-0.7	-0.1	0.4		
Identified external debt-creating flows (4+8+9)	20.9	9.3	-7.4	-7.3	1.0	-3.4	-0.4	1.0	2.3	3.4	4.4		
Current account deficit, excluding interest payments	23.2	13.4	-5.8	-2.6	1.9	-1.0	0.7	1.9	2.8	3.6	4.5		
Deficit in balance of goods and services	21.8	12.2	-9.0	-5.2	0.3	-3.6	-1.3	0.3	1.8	3.0	4.0		
Exports	21.5	20.5	29.9	25.3	17.9	20.5	17.9	16.0	14.3	12.9	11.6		
Imports	43.3	32.7	20.9	20.0	18.2	16.9	16.5	16.3	16.1	15.9	15.6		
Net non-debt creating capital inflows (negative)	-5.1	-3.6	-3.5	-2.9	-2.1	-1.8	-1.5	-1.3	-1.1	-0.9	-0.8		
Automatic debt dynamics 1/	2.7	-0.5	1.9	-1.8	1.2	-0.6	0.4	0.4	0.5	0.7	0.8		
Contribution from nominal interest rate	0.9	1.1	1.5	1.5	0.8	0.6	0.7	0.8	0.9	1.0	1.1		
Contribution from real GDP growth	1.0	-0.1	-0.3	1.9	1.0	-1.2	-0.4	-0.3	-0.3	-0.3	-0.3		
Contribution from price and exchange rate changes 2/	0.8	-1.5	0.7	-5.2	-0.6	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	-16.9	-7.3	10.4	8.2	-1.1	-0.2	-2.6	-2.4	-3.0	-3.5	-4.1		
External debt-to-exports ratio (in percent)	105.6	120.4	92.5	113.0	159.2	121.3	122.3	127.9	137.9	152.2	171.8		
Gross external financing need (in billions of US dollars) 4/	10.4	7.1	-0.9	0.7	2.7	1.7	3.0	3.3	4.4	6.1	8.4		
in percent of GDP	27.1	17.3	-2.2	1.4	6.0	10-Year 3.3	10-Year 5.2	5.3	6.3	7.9	9.8		
Scenario with key variables at their historical averages 5/						24.8	26.1	26.6	26.2	25.0	22.8	-4.6	
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Nominal GDP (US dollars)	38.5	41.4	40.8	46.3	45.6			50.0	56.8	62.8	69.7	77.4	86.2
Real GDP growth (in percent)	-4.7	0.5	1.3	-7.7	-3.4	1.3	6.1	4.5	1.7	1.7	1.8	1.9	1.9
Exchange rate appreciation (US dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	-1.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	-4.2	7.0	-2.8	23.0	2.0	4.1	9.7	4.9	11.7	8.7	9.0	9.1	9.3
GDP deflator in US dollars (change in percent)	-4.2	7.0	-2.8	23.0	2.0	2.4	13.4	4.9	11.7	8.7	9.0	9.1	9.3
Nominal external interest rate (in percent)	4.5	5.2	6.1	6.2	2.6	4.7	1.7	2.2	3.4	4.0	4.8	5.7	6.4
Growth of exports (US dollar terms, in percent)	-36.0	2.4	43.8	-4.2	-30.2	2.8	34.7	25.4	-0.9	-1.1	-0.7	0.0	0.6
Growth of imports (US dollar terms, in percent)	-4.9	-18.9	-37.0	8.6	-10.5	-0.2	21.8	2.0	11.1	9.0	9.3	9.6	9.9
Current account balance, excluding interest payments	-23.2	-13.4	5.8	2.6	-1.9	-5.8	9.0	1.0	-0.7	-1.9	-2.8	-3.6	-4.5
Net non-debt creating capital inflows	5.1	3.6	3.5	2.9	2.1	4.8	1.7	1.8	1.5	1.3	1.1	0.9	0.8

Sources: Country desk data, and IMF staff estimates and projections.

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Intergenerational Equity

Baseline

The long-term fiscal position is assessed to be weaker than the benchmark consistent with intergenerational equity. Staff's calculations are illustrative and based on the so-called permanent income hypothesis (PIH) to verify whether the medium-term fiscal policies are projected to generate enough savings to finance expenditures after the hydrocarbon resources are exhausted. Both the baseline "perpetuity calculations" and "annuity calculations" suggest a gradual need for fiscal adjustment (i.e. 0.5 pp per annum over the medium term) relative to the PIH benchmark for the primary nonhydrocarbon balance (NHPB) as a share of nonhydrocarbon GDP.

PIH consistent nonhydrocarbon primary balance under different assumptions			
GDP growth assumption	Annuity TKM baseline (2026)	Perpetuity TKM baseline (2026)	TKM 2026 NHPB
Baseline: 1.9%	1.2	0.3	-2.8
Scenario 1: 0%	3.0	2.5	-2.8
Scenario 2: 4%	0.8	0.1	-2.8

Source: IMF staff estimates and projections.

Assumptions

The PIH benchmarks were calculated using the IMF's template for resource-rich economies.

Net wealth at the beginning of the projection period (2021) is calculated as the net foreign assets minus gross debt plus the projected net present value of all future hydrocarbon-related revenues.

Oil and natural gas prices are assumed to increase by 2 percent annually after the end of the standard 5-year forecasting horizon.

About 40 percent of natural gas production is expected to accrue to the state.

Given limited crude oil reserves, projections assume that oil production becomes negligible after 2026.

The NHPB reported in the above table is for year 2026, using various combinations of assumptions on hydrocarbon production growth and the GDP growth-interest differential.

Risk	Description	Likelihood	Possible Impact	Policy Advice
External Risks and Spillovers¹				
Global resurgence of the COVID-19 pandemic	Prolonged pandemic. This causes widespread and prolonged disruptions to economic activity and global spillovers through tourism, supply chains, containment costs, and confidence effects on financial markets and investment.	Medium	New more dangerous virus strains could delay the phase-out of lockdown measures and resumption of economic activity. Continued containment necessitates higher budget spending and lower revenues, weakening fiscal balance. Slower global growth would reduce oil and natural gas exports.	Additional fiscal measures to ensure adequate, temporary, and targeted support to the population most adversely affected and vulnerable to the pandemic.
Uncontrolled COVID-19 local outbreaks and subpar and volatile growth in affected countries	Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects.	High	The new lockdown might trigger capital outflows, depreciations, and debt defaults.	Additional fiscal measures to ensure fast vaccine rollout for the population, and targeted support to the population most adversely affected and vulnerable to the pandemic.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Risk	Description	Likelihood	Possible Impact	Policy Advice
Disorderly transformations	COVID-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks.	Medium	This, coupled with a withdrawal of COVID-19-related policy support, undermines growth prospects and increases unemployment with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	Fiscal measures to improve spending efficiency can create the fiscal space for implementing structural reforms to diversify the economy. This can ensure adequate and targeted support to the population.
Intensified geopolitical tensions and security risks	(Geo)political tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices, and lower confidence.	High	Geopolitical uncertainties in the Middle East and Central Asia region could significantly delay the completion of the regional connectivity projects (TAPI, Trans-Caspian) reducing medium-term export and growth prospects.	Structural reforms to diversify the economy would mitigate risks stemming from geopolitical tensions and security.
Rising commodity prices amid bouts of volatility	Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption.	Medium	Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	This can be addressed by drawing buffers in the short run. Over the long term, deep structural reforms to diversify the economy would reduce vulnerability to risks surrounding hydrocarbon prices and volumes.

Risk	Description	Likelihood	Possible Impact	Policy Advice
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia	An abrupt reassessment of market fundamentals triggers widespread risk-off events that expose financial vulnerabilities that have been building in a period of low interest rates and a search for yield.	Medium	Global financial market volatility would complicate government borrowing to finance the planned large-scale projects.	The authorities should seek greater risk-sharing with foreign partners in the upcoming megaprojects, including by granting equity stakes.
Cyberattacks	Cyberattacks on critical global infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities.	Medium	The lack of information about Internet connectivity and cyber-defenses of key institutions and the fast-evolving nature of the cyberattack vulnerabilities make any assessment of systemic risks and their potential economic costs highly uncertain.	Strengthening international and regional cooperation and developing government and business contingency and continuation plans.
Higher frequency and severity of natural disasters related to climate change	This can cause severe economic damage to smaller economies susceptible to disruption. A sequence of severe events hits key infrastructure and large economies, which disrupts trade, reduces global GDP, and prompts a recalculation of risk and growth prospects.	Medium to low	Higher frequency and severity of natural disasters would cause severe economic damages and disrupt economic activities.	National adaptation and mitigation policies to strengthen the resilience against climate change risks.
Domestic Risks				
Natural gas exports to China and Russia	External current account has weakened significantly in 2020 as a result of lower oil price, declining output and external demand.	Medium	A weaker trajectory for hydrocarbon exports would worsen fiscal and external balances, exacerbating Turkmenistan's external vulnerabilities.	Diversification of the economy will help reduce vulnerabilities vis-à-vis hydrocarbon prices and volumes.

Risk	Description	Likelihood	Possible Impact	Policy Advice
Financial sector risks	Risks could increase after the pandemic. Stress could arise from weak market discipline due to directed lending at preferential terms; large investment projects of unclear economic viability; and sectoral focus of the state banks.	Medium	A rise in NPLs could increase contingent government liabilities.	Reverse gradually the easing of prudential regulation in response to the pandemic, followed by strengthening of financial supervision and regulation.
Investments in new local industries	Past investments could yield lower-than-expected returns, especially in cases where Turkmenistan faces intense global competition and does not benefit from an obvious comparative advantage.	Medium	Protection provided by the IS/EP policies could stifle, rather than support growth, and increase fiscal risks.	Policies that focus on areas with clear comparative advantage, strengthen public investment management system, and keep the state support temporary to avoid stifling rather than stimulating productivity growth and development.

Annex IV. Estimating Real GDP Growth¹

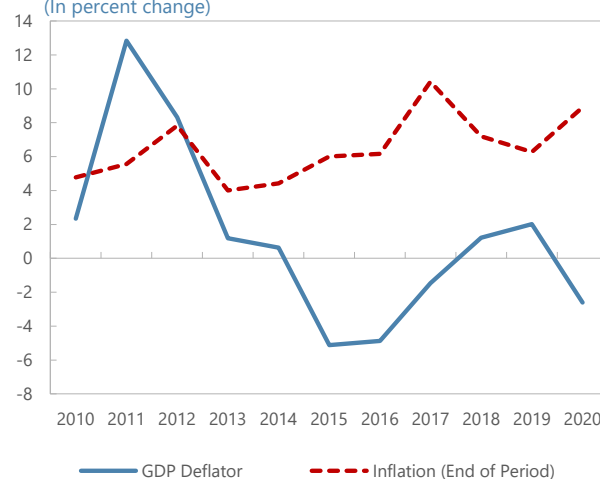
The Pandemic Year

1. Continued strong economic expansion in Turkmenistan in 2020, according to the official data, contrasts with global and regional experience, especially given larger shocks and the smaller policy response in Turkmenistan. As an undiversified gas exporter, Turkmenistan faced a sharp deterioration in its terms-of-trade owing to lower hydrocarbon prices, on top of a sharp drop in import demand for natural gas from China, its main trading partner. Although Turkmenistan did not officially register any COVID-19 infections, the stringency of its containment measures and mobility restrictions was comparable to that in other countries. At the same time, the authorities' macro-financial policy response was much smaller, centered on a loan moratorium. The fiscal stance was contractionary, and policy rates remained unchanged in 2020. Nonetheless, according to the official data, Turkmenistan economy expanded by 5.9 percent in 2020, while most of its global and regional peers plunged into a recession.

2. The narrative underlying the official GDP growth estimates is hard to reconcile with other available data.

Official GDP in current prices expanded by less than 1 percent in 2020, which, together with 5.9 percent real GDP growth, implies a negative GDP deflator. A very large difference (14 pps) between the official GDP deflator (-2.6 percent) and official CPI (8.9 percent) is uncommon. In addition, a sharp double-digit expansion in retail trade (28.9 percent) is at odds with much weaker growth in agriculture and imports. Strong growth in transportation is not consistent with prolonged border closures, restrictions on domestic travel, suspension of passenger and cargo flights, [and a decline in fuel consumption]. Cross-border data imply a broad-based decline in exports (including gas petrochemicals and fertilizers) and stagnant imports. Likewise, broad-based weakness in tax revenues, especially in consumption-based VAT and excises, and a drop in electricity generation (-6.8 percent) point to a weakening of economic activity.

Turkmenistan: Official GDP Deflator and Inflation
(In percent change)



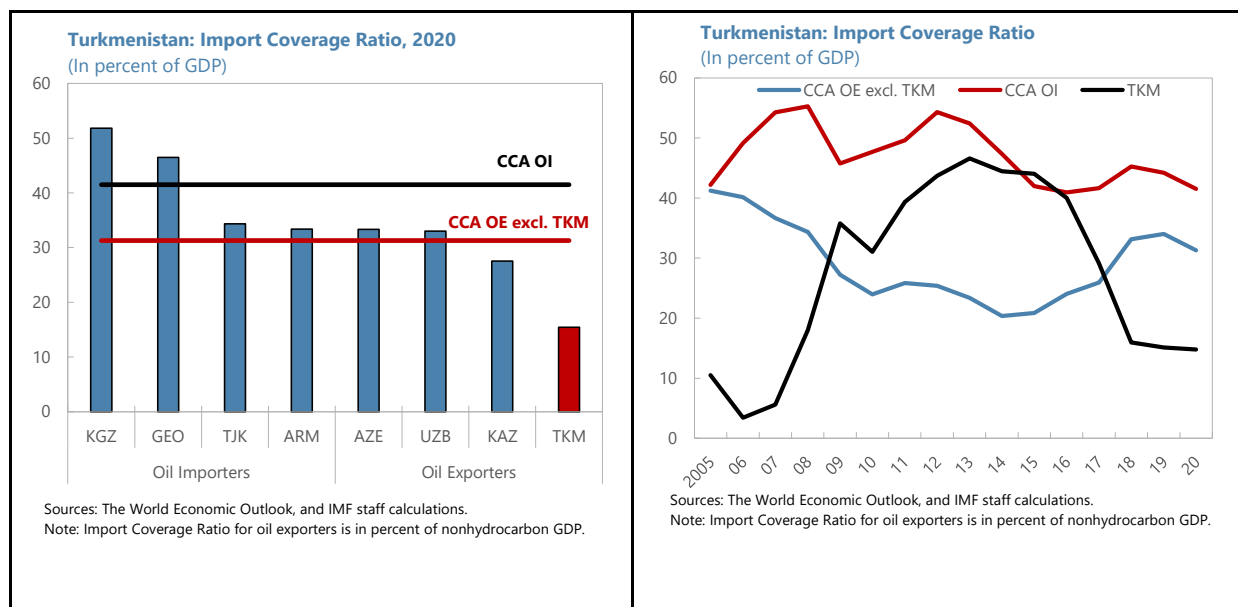
Sources: National authorities, and IMF staff calculations.

Historical Data

3. Statistical anomalies are also evident in historical official GDP series. GDP and trade statistics are inconsistent, at times implying unrealistically strong domestic consumption growth. Also, GDP growth rates are uncorrelated with export growth. GDP deflators are highly volatile and for some sectors are unrealistically high or low (30–90 percent). Prolonged economic expansions are

¹ Prepared by Ömer E. Bayar, Levan Gogoberishvili (STA), and Amine Yaaqoubi, with inputs from Faten Saliba and Jean-Francois Wen (FAD).

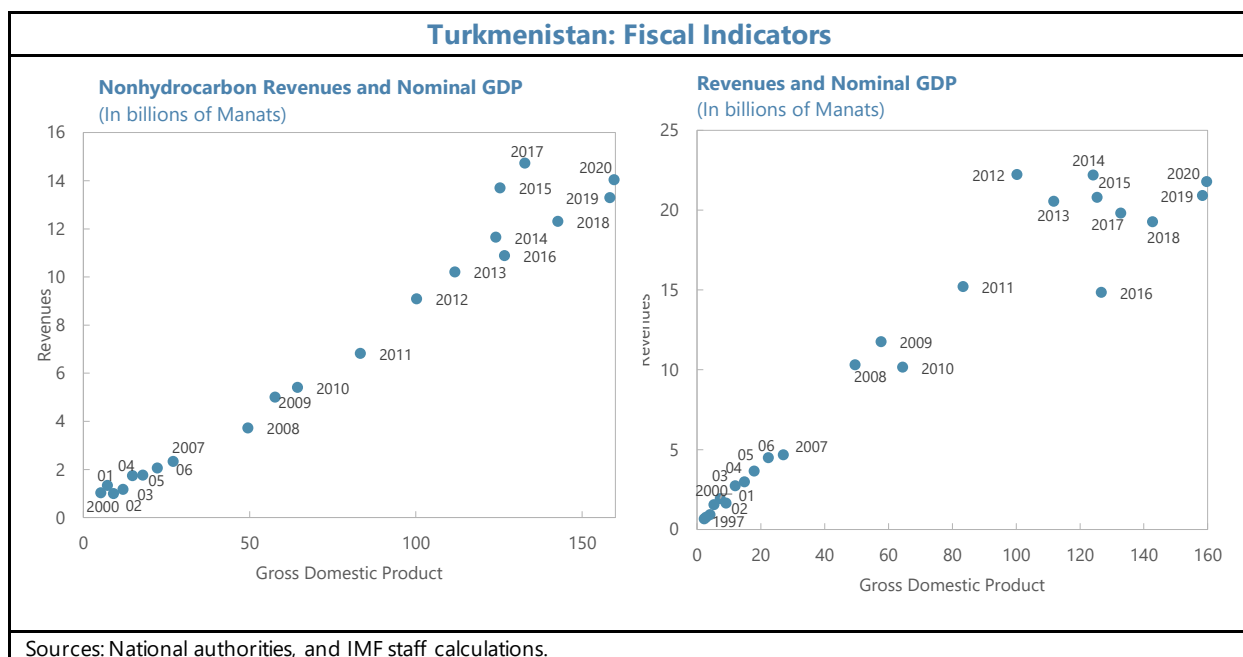
associated with negative deflators. The share of construction in GDP is high and growth in construction is not correlated with that in other sectors (e.g., transportation).



4. Official GDP estimates have counterintuitive economic implications. The implied import coverage ratio is among the lowest in the region (13.6 percent), despite Turkmenistan being one of the least diversified economies. The large magnitude of import compression in 2018 is comparable to that in countries that faced international sanctions or conflicts and experienced sharp output contractions. Budget revenue collections are decoupled from economic activity, especially after 2012. Tax elasticities calculated for both total revenues and nonhydrocarbon revenues (i.e. 0.85 and 0.87, respectively) diverge significantly from the trends in peer economies.

Real Imports and associated real GDP growth rates (In percent, y-o-y change)				
Country	Year	Major Event(s)	Real Imports	Real GDP
Sierra Leone	1997	Coup d'état	-61.4%	-17.6%
Libya	2011	Arab Spring	-59.6%	-66.7%
Argentina	2002	Economic Crisis/Depression	-53.2%	-10.9%
Venezuela	2016	Socioeconomic and political crisis	-50.1%	-17.0%
Turkmenistan	2018	Import substitution	-48.7%	6.2%
Guinea Bissau	1998	Civil War	-47.4%	-22.4%
DRC	1999	Congo War	-45.1%	-3.8%
Mongolia	2009	Economic Crisis	-44.9%	-2.1%
Moldova	1999	Constitutional Referendum	-43.0%	-3.4%
Burundi	1996	Coup d'état	-41.8%	-8.0%
Republic of Congo	2017	Debt distress	-40.9%	-4.4%

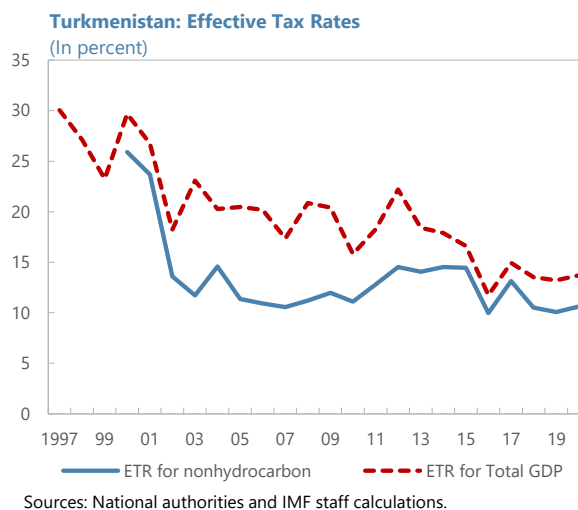
Source: The World Economic Outlook, and IMF Staff Calculations.



Compilation Methodologies

5. IMF TA on statistical matters, which resumed in October 2020 after an eight-year hiatus, revealed that domestic compilation methodologies deviate substantially from international best practices (SNA 2008).

Domestic nonmarket transactions (at low prices controlled by the state) are treated in the same way as market transactions.² Widespread, large subsidies on products are reflected only as (negligible) budgeted amounts. The share of informal activity in retail trade is fixed at a low level (10 percent). These shortcomings significantly distort official measures of GDP and deflators. The authorities are considering how they could bring domestic statistics in line with international methodologies. The Fund stands ready to assist the Turkmen authorities through continued TA engagement.



² As a result, the contribution of domestic consumption of tradable goods is significantly biased upward. This effect is more pronounced for industries using natural gas as an input (gas chemicals and fertilizers) where domestic prices for gas are 4 percent of international prices.

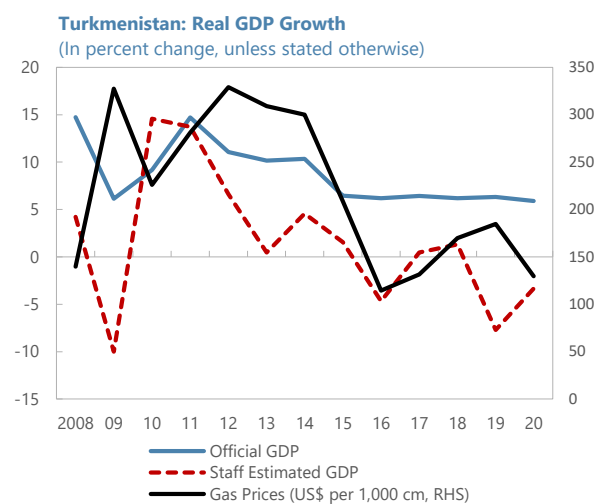
Staff GDP Estimates

6. To assess economic implications of the pandemic, staff developed alternative estimates of GDP growth for Turkmenistan, largely drawing on the underlying official data but applying international best practice methodologies. Unlike official, production-side estimates, staff focused on estimating GDP by expenditure components. Staff's estimates were based on Turkmenistan's official sources such as Statistical Yearbooks, state budget statistics, and monetary surveys. Other, bilateral and IFI, sources (e.g. UN COMTRADE, the IMF's Direction of Trade Statistics, World Bank, BIS, US Department of Agriculture) were used to fill in data gaps and cross-check official data. Breakdowns of external trade data by product allowed staff to estimate the underlying drivers of household consumption. Official data on agricultural output was compared to external estimates and crop developments captured by satellite data. The international reserves data from the official monetary survey was verified using the BIS data. Where necessary data was not available (e.g. imputed rent of owner-occupied dwellings, share of non-market agricultural output, respective weights of different sub-components of services trade), staff used expert judgment, reflecting experiences in similar economies.

7. In the course of the GDP estimation exercise, staff developed a "combined" deflator metric to capture price developments in both the formal and informal parts of the economy. Although the official exchange rate has remained at 3.5 manats per dollar since 2015, the parallel rate has depreciated over time, reaching 38 manats per dollar in April 2021. Official price statistics fall short of fully reflecting the pass-through effect of the rising parallel market premium and thus, underestimate the CPI and GDP deflator. Staff estimated the share of parallel market activity using official data on household consumption surveys and assuming a consumption structure similar to that observed in regional peers. This approach allowed staff to differentiate the deflator for economic activities that are likely to have an informal component (e.g. household consumption, private investment) from other activities in the economy. The resulting upward adjustment of the GDP deflator reduced real GDP growth estimates across the entire historical period.

8. Staff performed multiple consistency checks to confirm the robustness of estimates.

Alternative data sources and assumptions were used to estimate different expenditure components. In addition, an empirical cross-country model of sectoral indicators was developed and used as cross-check on estimates from the Turkmenistan-specific sectoral approach. A narrative approach based on past IMF staff reports and external analyst reports was used to compile a timeline of key events affecting economic activity. Various growth elasticities (based on tax and non-tax revenues, and imports) and metrics (e.g. parallel market exchange rate) were assessed in a time series and/or in comparison to peer economies to identify possible discrepancies and anomalies or as a directional check, that is to signal



Sources: National authorities, and IMF staff calculations and estimates.

growth or contraction in economic activity. These extensive checks rendered estimates that were broadly consistent with the baseline real GDP growth estimates developed by staff.

9. Staff's estimates revealed the trend decline in real GDP as well as its high volatility.

During 2008–20, the economy experienced three downturns. The first one, in 2009, was owing to the Global Financial Crisis, which caused gas exports to collapse and triggered a deep but short-lived recession. Double-digit investment growth continued to boost economic activity. The 2014 oil price shock triggered a devaluation of the official exchange rate in 2015 and the next recession episode, in 2016, accompanied by a broad-based contraction in domestic demand and exports. Investment contraction accelerated to double-digit rates, while household consumption continued to shrink. Import compression, owing to the introduction of extensive exchange controls, helped lift the external sector contribution during 2016–18. Exports, mainly of gas, oil, and oil products, remained volatile. In 2019, a decline in net exports, on the heels of a continued shrinkage in all components of domestic demand, pushed the economy into a recession. The pandemic and terms-of-trade shocks further depressed economic activity in 2020.

	Year-on-Year Growth Rates (% change)												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Household Consumption	2.9	4.2	6.2	1.2	4.3	5.2	2.1	0.3	-2.6	-1.5	-3.5	-1.3	-0.7
Government Consumption	21.9	33.6	2.3	14.9	-0.1	9.8	16.2	7.7	-5.2	2.2	12.0	-1.8	1.3
Gross Fixed Capital Formation	4.4	31.3	-1.5	21.9	23.2	3.0	1.6	1.7	-8.2	-18.4	-34.2	-17.3	-25.5
Exports of Goods	5.2	-41.6	27.9	47.4	8.1	-0.8	6.5	-13.4	-4.2	0.4	8.6	1.8	-9.4
Exports of Services	14.5	28.7	-3.8	19.4	12.5	7.3	2.2	-7.1	-2.5	-10.6	-22.9	5.2	-21.0
Imports of Goods	26.0	54.5	-10.6	35.8	22.0	11.6	1.4	-17.2	-8.1	-24.2	-48.8	7.4	0.0
Imports of Services	17.4	-13.7	8.1	34.9	14.3	0.1	3.7	-16.1	-1.3	-6.4	-6.0	4.9	-31.1
GDP in Constant Prices	3.1	-11.9	15.3	13.3	6.1	0.5	4.6	1.6	-3.8	0.9	2.4	-7.6	-6.1

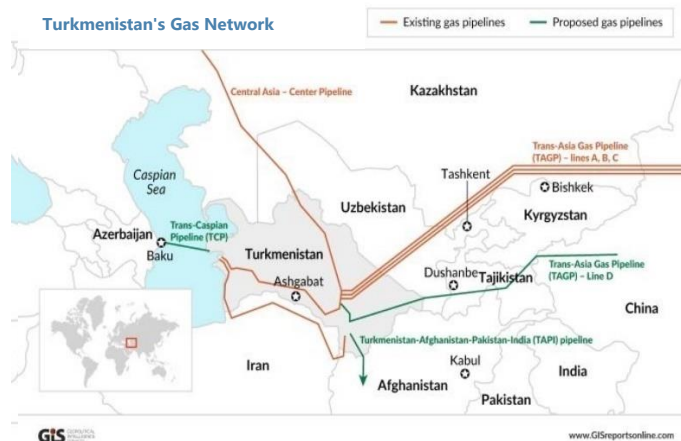
Annex V. Turkmenistan's Gas Network¹

Turkmenistan is an undiversified hydrocarbon exporter with one of the world's largest natural gas reserves. China and Russia are the main buyers of Turkmen gas. Discussions on increasing gas exports are ongoing, although it is unclear when new pipelines will become operational. What are the key prospects for Turkmenistan's gas network?

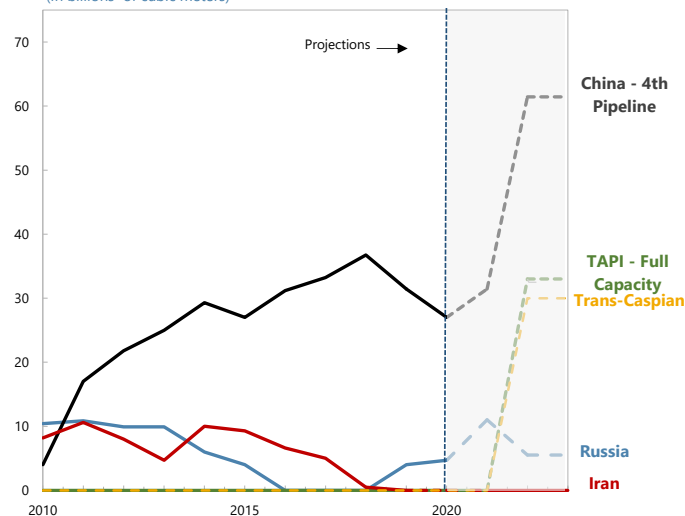
1. China. Turkmen gas flows to China through the Trans-Asia Gas Pipeline. It has a three-line system that runs through Uzbekistan and Kazakhstan delivering close to 35–40bn m³/yr. A fourth strand could add another 25–30 bn m³/yr along a different route through Uzbekistan, Tajikistan, and the Kyrgyz Republic,² but it is unlikely to be completed before 2025. Gazprom (Russia) has built a direct pipeline to China with a capacity of 38 bn m³/yr which challenges Turkmenistan's lead in the Chinese market.³

2. Russia. In mid-2019, Turkmenistan resumed gas exports to Russia for the first time since 2016.⁴ The five-year contract sets exports at 5.5 bn m³/yr through 2024. In 2019, Turkmenistan exported 4 bn m³ to Russia, much lower than over the past decade. The contract is reportedly being renegotiated with a view to raising the export volume. Recently, Turkmenistan signed an addendum to its contract with Russia, entailing the delivery of an 11 bn m³ of gas in 2021. Currently, there are no plans to extend this addendum to the next years.

3. Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. Work on this multibillion-dollar project is ongoing, and the pipeline has started to be built in Afghanistan. Once completed, the 33 bn m³/yr pipeline would carry Turkmen gas to



Turkmenistan: Gas Exports Projections
(In billions of cubic meters)



Sources: IMF staff estimates and projections.

¹ Prepared by Maria Atamanchuk, Amine Yaaqoubi, and Ömer E. Bayar.

² Source: <https://www.azernews.az/region/149909.html>.

³ Source: <https://www.gazprom.com/press/news/reports/2020/power-of-siberia-inside/>.

⁴ Source: <https://www.reuters.com/article/us-russia-gazprom-turkmenistan-deal/gazprom-signs-five-year-natural-gas-contract-with-turkmenistan-idUSKCN1TY1X5>.

Afghanistan (5 bn m³/yr), Pakistan (14 bn m³/yr) and India (14 bn m³/yr).⁵ The project faces multiple challenges, including financing, and unlikely to be completed before 2026. The TAPI is expected to reach full capacity by the fourth year after it becomes operational.

4. Trans-Caspian pipeline. In 2018, Russia, Iran, Azerbaijan, Turkmenistan, and Kazakhstan signed a convention over the Caspian Sea resources, which is supposed to map out the division of its vast hydrocarbon resources. However, not all bilateral treaties over the seabed and borders have been delineated. A recent agreement between Azerbaijan and Turkmenistan, ending the dispute about the Serdar/Kapaz oil and gas field (a.k.a. Dostluk Field), unlocked one of the most significant impediments ahead of the Trans-Caspian pipeline. Nevertheless, due to other unresolved disputes, the high cost of the project, and lack of clarity about financing, the pipeline with an expected capacity of around 30 bn m³ seems unlikely to become operational in the medium term.

5. Iran. Until 2017, Iran had been importing gas from Turkmenistan for two decades. But in early-2017, Turkmenistan suspended exports because of a payment dispute on gas supplied in 2007–08. The dispute has not been resolved yet.

6. In conclusion, while discussions on expanding Turkmenistan’s gas network are ongoing, prospects for the expansion remain uncertain over the medium term. China and Russia are expected to remain the main markets for the Turkmen gas in the next five years. Russia’s penetration into Chinese gas market contests Turkmenistan’s lead.

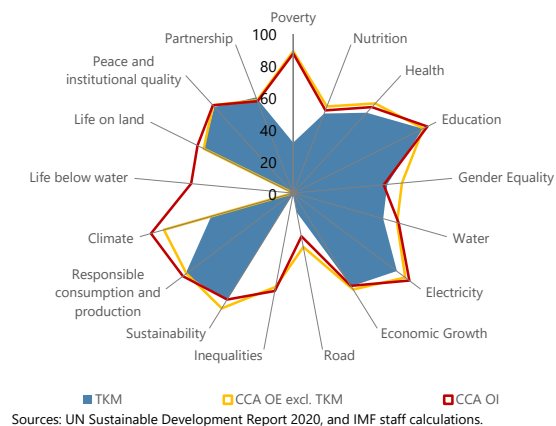
⁵ Source: <https://pemedianetwork.com/petroleum-economist/articles/upstream/2019/turkmenistan-sees-light-at-the-end-of-the-tunnel>.

Annex VI. Social Spending and Sustainable Development Goals¹

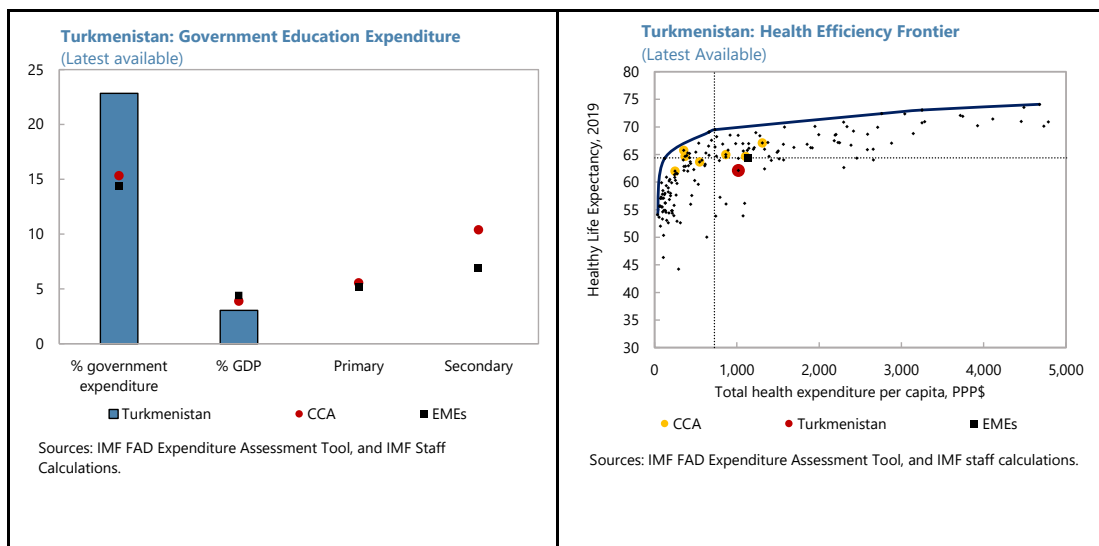
1. Turkmenistan lags its regional peers in SDG performance.² The country's overall SDG score was 63.0 in 2020 compared to the CCA average of 70.9.

Turkmenistan faces major development challenges, including poverty headcount (in SDG1), life expectancy (in SDG3), wastewater treatment (in SDG6), internet and broadband (in SDG9) and government spending on health and education (in SDG17).³ Staff estimates⁴ that achieving SDGs requires additional spending of at least 8.3 percent of GDP per year by 2030.⁵

Turkmenistan: Average Performance by SDG compared to CCA Average, 2020 (0-100 scale, 0=worst 100=best)



2. Turkmenistan's spending on education and health is lower than in its regional peers. Education spending is 3 percent of GDP (compared to the CCA average of 3.9 percent of GDP), while health amounts to 1.5 percent of GDP (2 percent of GDP in the CCA). Public health spending is a small fraction of total spending on health,⁶ and out-of-pocket health spending exceeds that of other CCA countries. Public health spending is inadequate and below the efficiency frontier. Outcome measures in terms of healthy life expectancy at birth in Turkmenistan are the lowest the lowest in the CCA. Data is insufficient to assess



¹ Prepared by Paolo Dudine (FAD), Maria Atamanchuk, and Jean-Francois Wen (FAD), with research assistance from Amine Yaaqoubi.

² As of 2017, the definitions for 16 percent of the 232 indicators did not follow international definitions and thus could not be compared to other countries. For Turkmenistan, information is unavailable for SDG 10: Reduced Inequalities and SDG 14: Life below Water. Turkmenistan's data coverage for SDG 4: Quality education is limited to literacy rate among the youth population.

³ UN, 2020, "Sustainable Development Report 2020," at <https://sdgindex.org/reports/sustainable-development-report-2020/>.

⁴ See the IMF Staff Report for the 2019 Article IV Consultation.

⁵ Turkmenistan also faces major challenges in Climate Action (SDG 13).

⁶ The public component of health expenditure is under-estimated to the extent that SOEs, which represent 60 percent of economic activities, provide social services. No data is available on such activities, however.

the efficiency of education spending. Therefore, introduction of external assessments (OECD/PISA) could help evaluate outcomes and identify areas for improvement.

3. Social protection is limited. Public sector employees benefit from job security. Workers receive paid sick leave. Unemployment benefits reportedly exist but have limited coverage. Food security is provided through the domestic production of agricultural products, sold to households below market prices through public stores, subject to rationing. Financial support to households is channeled through banks as mortgage loans at concessional interest rates. The adequacy and coverage of the above measures are unclear because of data limitations. The authorities' principal social policy response to COVID-19 was increasing health spending (by 26 percent in nominal terms compared to 2019).⁷

4. A comprehensive assessment of social spending would help identify areas for improvement and the fiscal space to accommodate spending increases required to achieve the SDGs. Social assistance programs rely extensively on subsidized provision of essential goods and services and are not fit for purpose in the face of evolving needs and pressures. The authorities need to better target the most vulnerable segments of the population by reforming support schemes. To that end, increasing direct cash support for vulnerable individuals through social assistance can better target those who are unable to work or whose unemployment insurance benefits have expired. Consideration should be given to how to support workers and SMEs in the informal sector. Wage subsidies and employment requirements could help sustain employment linkages, damaged during COVID-19.⁸ Ensuring food security by importing adequate quantities of food and setting administered prices at affordable levels is crucial to help the most vulnerable.

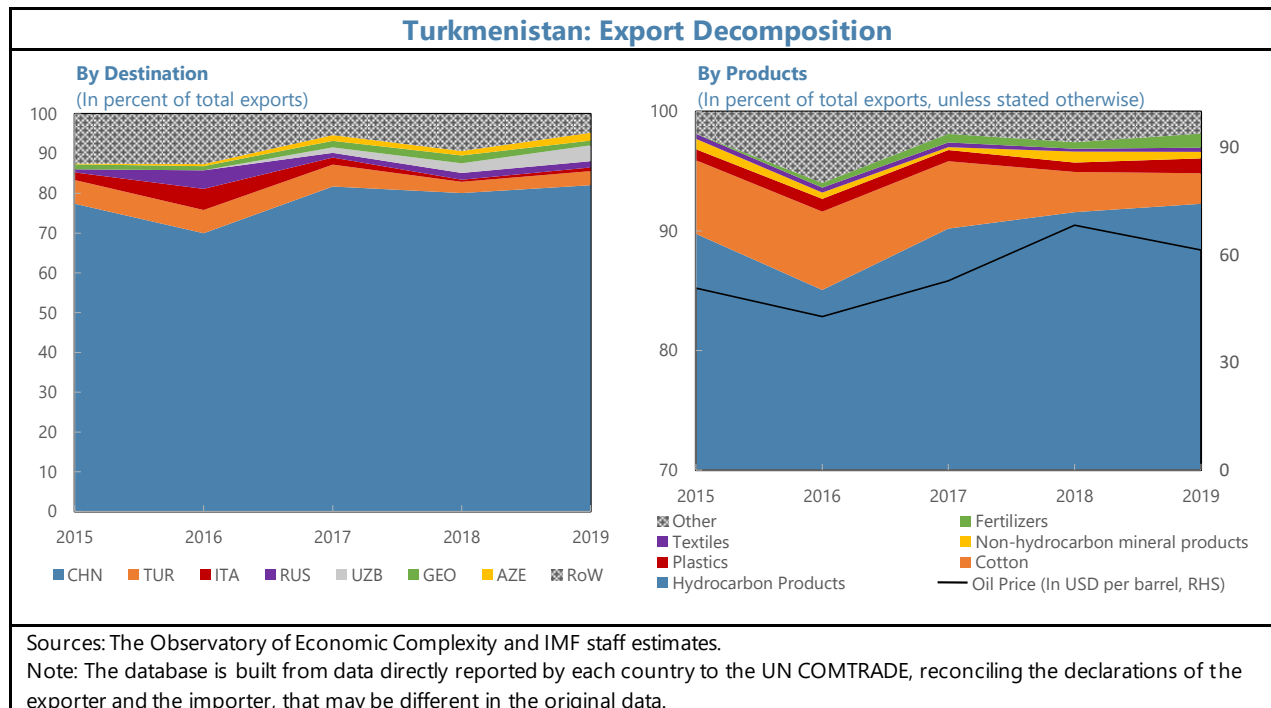
⁷ In addition to unemployment benefits and paid leave, social protection measures in Turkmenistan's regional peers comprised cash and in-kind transfer schemes (used by more than two-thirds of the countries) and wage subsidies. Utility support and tax holidays were also deployed (Bahrain, Egypt, Iran, Morocco, Azerbaijan). Some countries extended new credit lines to SMEs (Djibouti, UAE, Pakistan, Uzbekistan). Turkmenistan also made additional concessional loans available to businesses affected by COVID-19, while deferring payments on the existing loans.

⁸ IMF, 2020, FAD Special Series on COVID-19, "Expenditure Policy in Support of Firms and Households."

Annex VII. Diversifying the Turkmen Economy¹

Turkmenistan's government adopted in May 2010, the National Program of Social and Economic Development for 2011–30 that has recognized the importance of diversifying the economy in fostering sustainable economic growth. Its diversification has relied on public investment, sourced from hydrocarbon sale proceeds, in transportation infrastructure, gas-chemicals industries as well as import substitution and export diversification policies. Over the years, nonhydrocarbon production and exports have expanded but the increase has been small. To boost diversification, Turkmenistan needs to strengthen macroeconomic stability, create a dynamic business environment conducive to enabling momentum for private initiative, improve the quality of human and physical capital investment, and liberalize trade by reducing nontariff barriers and import-substitution measures that discourage investment and exports.²

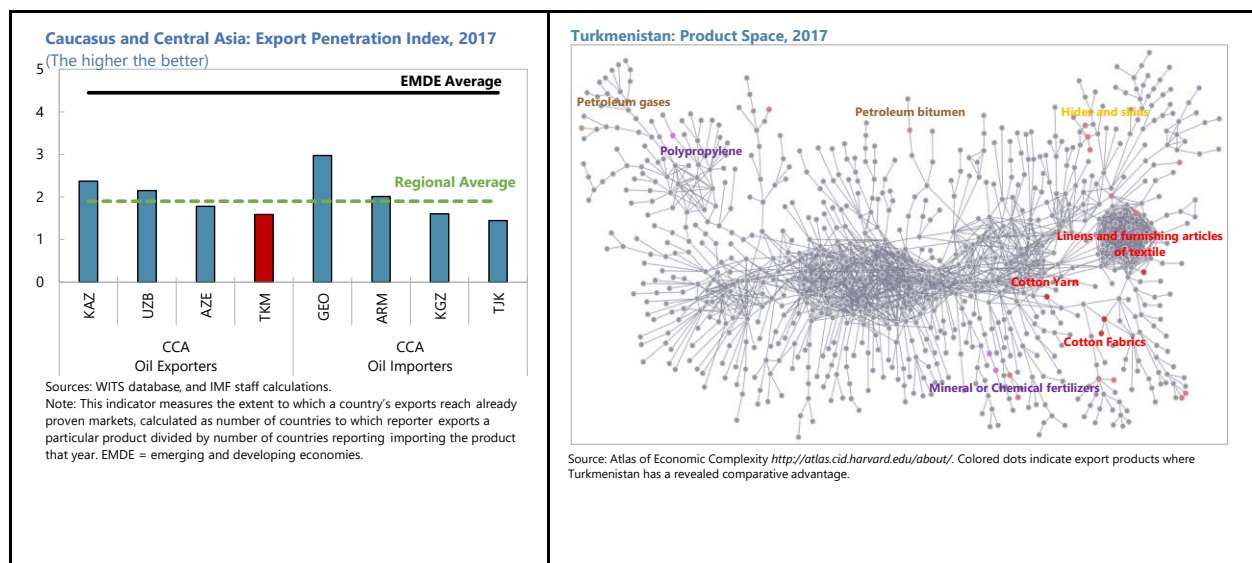
1. Turkmenistan export markets and products remain highly concentrated. Turkmenistan has the world's fourth largest natural gas reserves and the 44th most sizeable proven oil reserves. Consequently, Turkmenistan relies heavily on exports of natural gas and oil products: hydrocarbon products accounted for close to 90 percent of total Turkmen exports in 2019, putting Turkmenistan at the mercy of fluctuations in global hydrocarbon prices. China's growing demand for sources of energy makes it Turkmenistan's main trading partner by far, accounting for close to 90 percent of Turkmenistan's exports of natural gas. Turkey emerged as an export destination for Turkmen cotton and fertilizers. Measures of diversification in the overall economy and public finances are less extreme than in exports.



¹ Prepared by Fang Yang and Amine Yaaqoubi.

² For more details, see Annex VIII of the 2019 Article IV Staff Report.

2. Turkmenistan has significant potential to access the world markets and move up the global value chains (GVCs). The export penetration index shows that CCA countries, including Turkmenistan, export to only 50 percent of potential markets, suggesting considerable scope for expansion. Most of Turkmenistan's export products—natural gas, polypropylene, petroleum bitumen and hides and skin—are positioned at the periphery of the export product space, i.e., are not part of extensive GVCs.



3. The authorities' strategy for diversification has been three-fold:

- *Public investment in infrastructure, to improve connectivity and expand service exports, and public investment in the productive capacity of downstream hydrocarbon industries.* Significant public investment has been made in the last decade.³ Key projects included building polymer, carbamide and potash plants; upgrading and expanding international airport in Ashgabat and international port in Turkmenbashi; and constructing and modernizing roads and railroads, including the North-South railway to Kazakhstan and Iran. In 2019, the government started construction of the Ashgabat-Turkmenabad highway.⁴
- *Public investment in natural gas pipelines and electricity grid connection, to diversify export markets.* In 2019, Russia resumed importing natural gas from Turkmenistan, although the volume remains relatively small. Over the longer term, the authorities expect that the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline will help diversify export markets and will generate employment. The planned power grid connection

³ For more details, see Annex V in the 2019 Article IV Staff Report.

⁴ After the upgrade of the international airport in Ashgabat, domestic airports are being modernized. The launching of Turkmenbashi port in 2018 on the Caspian Sea can facilitate regional trade and trade with Europe. Regional power grid interconnection initiatives TUTAP and TAP are expected to enable exports of surplus electricity from Tajikistan, Turkmenistan, and Uzbekistan to Afghanistan and Pakistan. In 2019, the construction of the Ashgabat-Turkmenabad highway started, which should not only improve connectivity within the country but also facilitate cross-border trade through expanding capacity for cargo traffic from Uzbekistan to the Caspian Sea and to Europe and the Gulf.

Turkmenistan-Afghanistan-Pakistan (TAP) is expected to enable Turkmenistan to export surplus electricity to Afghanistan and Pakistan. These ambitious plans are facing some headwinds related to security and financing.

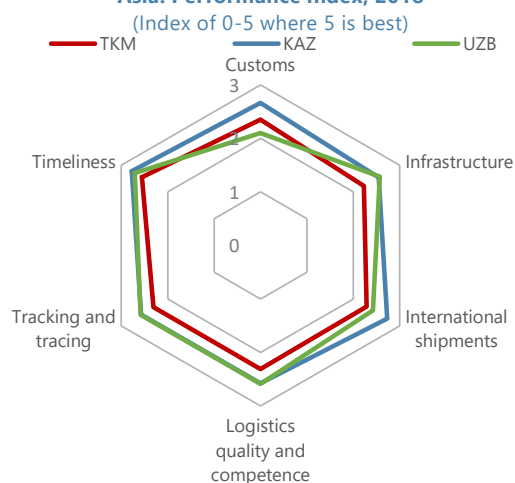
- *Import substitution and export diversification policies (IS/EP) to promote less capital-intensive nonhydrocarbon industries such as agriculture and food processing, carpet and textile production, and leather goods production, allowing Turkmenistan to reduce its imports of consumer goods by 7.2 percent in 2020.* Since 2014, the key instruments of IS/EP policies included exchange controls on payments and transfers for international trade and financial transactions, trade barriers, and directed lending.

4. An analysis of international experiences⁵ points to several directions for policy reforms to diversify the economy.

Multiple studies show that greater macroeconomic stability, larger and better quality investment in infrastructure and human capital, higher institutional quality, and lower trade barriers are associated with higher levels of economic diversification (IMF, 2008; Prati and others, 2013; Giri and others, 2019) and greater export complexity (Ding and Hadzi-Vaskov, 2017). Against this backdrop:

- Improving competitiveness in the nonhydrocarbon sectors, including by correcting the exchange rate misalignment and easing exchange controls on current account international transactions and payments, appears crucial.
- Striving to reinforce the comparative advantage and foster vertical and horizontal diversification by further improving productivity and integrating into the GVCs.⁶ Comprehensive market research and conservative feasibility studies are needed to evaluate the realistic prospects of new industries.
- Continued efforts to improve connectivity, including an efficient and effective management and operation of infrastructure projects.

Turkmenistan and Selected Caucasus and Central Asia: Performance Index, 2018



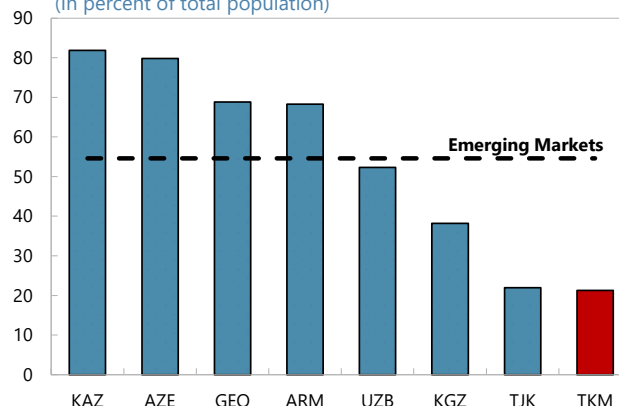
Sources: World Bank, and IMF staff calculations.

⁵ Relevant country examples include Colombia, Malaysia, Mexico, Korea, and Turkey. See Annex V in the 2019 Article IV Staff Report for more details.

⁶ Horizontal diversification strategies would consist of expanding activities across nonhydrocarbon sectors not necessarily related to each other. Vertical diversification would focus on sectors where the country has an immediate comparative advantage.

- Increasing low internet penetration would help Turkmenistan reduce the risk of losing ground in the post-pandemic global economy, which will be more digital. Effective investment plans in information technologies and training should be put in place to ensure the development of the digital economy.
- Efforts to reduce nontariff barriers such as cumbersome customs procedures and licensing need to be accelerated.
- Turkmenistan also needs to continue to promote the development of skills needed in the nonhydrocarbon sectors, including upgrading the skills of the current and future workforce throughout continued training and vocational education.
- Attracting FDI in the nonhydrocarbon sector would facilitate technology and skills transfer and integration in GVCs. Turkmenistan is pursuing “targeted FDI” and allows FDI in specific sectors determined by the authorities. Discussions about establishing Free Economic Zones are on-going. Inward FDI has been modest so far and concentrated in the hydrocarbon sector. It is important to improve the climate for FDI in the nonhydrocarbon sector by lowering entry requirements, increasing transparency, deepening structural reforms, and transition to market economy, and removing regulatory distortions. Greater transparency would help investors plan investment, production, and manage finances, while facilitating timely and well-informed policy actions.

**Turkmenistan and Caucasus and Central Asia:
Individuals Using the Internet**
(In percent of total population)



Sources: International Telecommunication Union, World Telecommunication/ICT Development Report and database, and IMF staff calculations.

Annex VIII. Legal Framework for Protection of Property and Investment in Turkmenistan¹

Rule of law is critical for a well-functioning market economy. The IMF's Enhanced Governance Framework focuses on aspects of rule of law that relate to the protection of property, investment, and the enforcement of contracts. Laws should be accessible and consistent, and their enforcement should be transparent, equitable, and efficient. Reliability and predictability in the substance of the law, the process used to apply the law, and the behavior of officials entrusted with responsibility for applying the law are important to attract FDI and for domestic private sector development.

1. Against this backdrop and based on limited discussions with the relevant stakeholders conducted during this Article IV consultation, this Annex describes the framework in place for the protection of property and investment rights in Turkmenistan. The Annex does not assess implementation or enforcement of the legislative framework.

2. In Turkmenistan, investment activity is highly regulated. Several laws cover both private investments as well as joint ventures between the state and private entities. The *Law on Foreign Economic Activity* (namely foreign trade and investment) lays out general principles for investment and attracting investment and identifies the main responsible public bodies. The *Law on Investment Activities* in Turkmenistan governs all investment activities (both domestic and foreign) with generally applicable principles, while the *Law on Foreign Investment* contains, *inter alia*, more detailed provisions on foreign investment, including the form, permitted activities, process for seeking approval, and tax regulation. Other laws that may be relevant for foreign investors include the *Enterprises Law* and the *Law on Joint Stock Companies*, which govern the formation of legal entities in Turkmenistan.

3. Turkmenistan is a Party to the 1995 Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID) but is not a member of the 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). To provide foreign investors certainty on the enforceability of foreign awards and judgements in Turkmenistan, the authorities could usefully consider expanding the network of bilateral and multilateral investment treaties. The authorities are also encouraged to consider ratification of the New York Convention.

4. Likewise, the legal framework pertaining to property rights is broadly in place, although important protections need to be clarified. A number of laws and regulations govern property and land ownership and registration. The *Law on State Registration of Rights to Real Estate and Transactions*, the *Civil Code*, and the *Law on the State Land Cadastre* lays out rights and responsibilities related to immovable property, the types of property subject to the law, and the relevant public bodies and their respective competences. The *Law on the State Land Cadaster* also governs the maintenance of the *State Register*. To conduct state registration, individuals and legal entities must apply to the territorial authorities (<http://minjust.gov.tm/category-ru/15>) where the real estate is located. A full list of required documents can be found on the Ministry of Justice's website, although the final package of

¹ Prepared by Kathleen Kao (LEG).

documentation varies depending on the specific situation. Eminent domain may be exercised in the event of natural disasters, accidents, epidemics, epizootics and other circumstances of an emergency nature; the manner in and conditions under which expropriation may occur are stated to be “established by the legislation of Turkmenistan, with payment of the cost property object at the time of seizure”, although further details are not contained in the *Property Law*. To provide assurances that expropriation will be exercised fairly and in accordance with law, such information, including on valuation of property, should be clearly laid out in the legislative framework.

5. An equally critical aspect of the law as its substance is its fair and consistent application pursuant to due process. Investor complaints often point towards inconsistent application of laws or lack of adherence to the letter of the law as well as challenges navigating Turkmenistan’s complex legislative framework. Although all laws are publicly available in Turkmen and Russian, regulations and decrees (which lay out critical components of the investment and property protection framework) are generally available only upon request to the relevant Ministry and not always referenced in the prevailing law. It is important to make all parts of the regulatory and legal framework known and publicly available. More generally, the authorities should ensure that implementation of the law is in accord with the main principles enshrined in rule of law (fairness, reliability, and predictability).



Appendix I. Draft Press Release

IMF Executive Board Concludes 2021 Article IV Consultation with Turkmenistan

FOR IMMEDIATE RELEASE

Washington, DC – September [x], 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Turkmenistan.

The COVID-19 pandemic and collapse in oil prices significantly affected Turkmenistan's economy in 2020. According to IMF staff estimates, hydrocarbon output declined by 5.5 percent last year, reflecting reduced demand from China, Turkmenistan's main export market. Nonhydrocarbon activity also contracted by 3.1 percent, owing to the pandemic-related weakness in contact-intensive sectors, slowdown in infrastructure projects, and supply disruptions. Although credit growth slowed, official CPI inflation rose to 8.9 percent amid cost-push pressures. Except for health, public spending was cut, resulting in a fiscal contraction. The external current account balance turned into a deficit, mainly due to the sharp drop in exports.

The economy is expected to recover in 2021. Growth is projected to reach 4.5 percent in 2021 as hydrocarbon exports and production exceed pre-pandemic levels reflecting China's economic recovery as well as an additional short-term agreement with Russia. The recovery in the non-hydrocarbon sector hinges on progress in vaccination and phasing-out of pandemic-related restrictions. Inflation is projected to increase to around 16 percent, reflecting continued cost-push pressures and higher food prices. A temporary improvement in the external current account is projected in 2021. With the global pandemic continuing, this outlook remains subject to an unusually high degree of uncertainty.

Staff's policy recommendations center on (i) supporting economic growth until the recovery is firmly in train while reducing procyclicality of fiscal policy, (ii) improving competitiveness and reducing external imbalances, and (iii) implementing market-oriented reforms to diversify the economy and improve its resilience, in tandem with improvements in governance and transparency.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment²

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² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <https://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Turkmenistan: Selected Economic Indicators, 2016–21

Population: 5.9 million (2019 est.)					GDP per capita (2020): \$ 7,674	
Quota: SDR 238.6 million					Main exports: gas, oil and oil products, textiles	
	Est.				Est.	Proj.
	2016	Est. 2017	Est. 2018	Est. 2019	2020	2021
Output and prices	(Annual percentage change)					
Real GDP (official)	6.2	6.4	6.2	6.3	5.9	...
Real GDP (staff estimates)	-4.7	0.5	1.3	-7.7	-3.4	4.5
Real hydrocarbon GDP	-4.8	0.3	-0.4	-1.9	-5.5	12.9
Real nonhydrocarbon GDP	-4.7	0.5	1.7	-8.9	-3.1	2.8
Consumer prices (end of period)	6.2	10.4	7.2	6.3	8.9	16.0
Consumer prices (period average)	3.6	8.0	13.3	5.1	7.6	12.5
Investment and savings	(In percent of GDP)					
Gross investment	44.1	37.4	28.2	22.1	22.5	19.8
Public sector	30.3	28.3	23.8	9.9	9.6	8.9
<i>Of which:</i> State budget	2.7	5.5	1.5	1.5	1.1	0.8
Gross savings	20.0	22.9	32.5	23.2	19.8	20.4
Fiscal sector	(In percent of GDP)					
Overall fiscal balance 1/	-2.2	-2.6	-0.2	-0.4	-0.2	-0.3
Revenue	11.0	13.7	13.5	12.9	13.3	12.3
Expenditure	13.3	16.3	13.7	13.3	13.5	12.6
Domestic government debt	1.0	3.3	3.8	3.7	3.8	3.1
Total public debt 2/	23.7	28.0	31.5	32.2	32.2	27.0
Monetary sector	(12-month percent change, unless otherwise indicated)					
Credit to the economy 3/	27.7	14.7	11.4	10.1	7.7	17.0
Credit-to-GDP ratio	55.9	62.5	64.8	65.7	68.9	69.0
Broad money, incl. foreign currency deposits at CBT	9.4	11.4	8.4	12.9	11.8	15.6
External sector	(In percent of GDP, unless otherwise indicated)					
Exports of goods (in millions of US\$)	7,520	7,788	11,651	11,104	7,690	9,766
Imports of goods (in millions of US\$)	13,177	10,189	5,323	5,832	5,925	6,071
Current account balance	-24.2	-14.5	4.3	1.1	-2.6	0.6
Foreign direct investment	5.1	3.6	3.5	2.9	2.1	1.7
External public debt 2/	22.7	24.7	27.7	28.5	28.5	23.9
<i>Memorandum items:</i>						
Nominal GDP (official, in millions of manat)	126,593	132,742	142,679	154,771	159,637	...
Nominal GDP (official, in millions of US\$)	36,169	37,926	40,765	44,220	45,611	...
Nominal GDP (staff estimates, in millions of manat)	134,758	144,849	142,667	161,923	159,630	185,806
Nominal GDP (staff estimates, in millions of US\$)	38,502	41,385	40,762	46,264	45,609	53,087

Sources: National authorities; and IMF staff estimates and projections.

1/ Excluding receipts from government bond issuance and privatization proceeds.

2/ Based on staff estimates and includes domestic government debt and external public debt. According to the official sources, the stock of external debt intermediated by the State Bank for Foreign Economic Affairs of Turkmenistan is around US\$ 5.5 billion.

3/ Including credit to the government through purchase of government securities.