

**FOR
AGENDA**

SM/08/202
Supplement 1

June 30, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Turkmenistan—Staff Report for the 2008 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2008 Article IV consultation with Turkmenistan (SM/08/202, 6/30/08), which is tentatively scheduled for discussion on **Wednesday, July 16, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Turkmenistan indicating whether or not 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.

Questions may be referred to Mr. Winglee (ext. 35693) and Mr. Abdoun (ext. 38394) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

TURKMENISTAN

Staff Report for the 2008 Article IV Consultation

Informational Annex

Prepared by Middle East and Central Asia Department

June 30, 2008

	Contents	Page
I.	Fund Relations	2
II.	IMF-World Bank Relations	4
II.	Statistical Issues	6

APPENDIX I: TURKMENISTAN—FUND RELATIONS

(As of May 31, 2008)

1. **Membership status:**
Date of membership: September 22, 1992
Status: Article XIV
2. **General resources account:**

	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	75.20	100
Fund holding of currency	75.20	100
Reserve position in the Fund	0.00	0.01
3. **SDR department:**

	<u>SDR Million</u>	<u>Percent Allocation</u>
Holdings	0.00	N/A
4. **Outstanding purchases and loans:** None
5. **Latest financial arrangements:** None
6. **Projected payments to the Fund:** None
7. **Implementation of HIPC Initiative:** Not Applicable
8. **Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable
9. **Exchange rate arrangements:**

The currency of Turkmenistan, the manat, was introduced on November 1, 1993 at the official exchange rate of manat 2 per U.S. dollar. Starting April 17, 1998, the official exchange rate was set at manat 5,200 per U.S. dollar and unified with the commercial banks' exchange rate. The official rate remained at this level through end 2007. On December 3, 1998, the commercial bank market was closed, leaving the heavily controlled foreign exchange auctions as the only official market for foreign exchange. In the meantime, a parallel market emerged with a large gap with the pegged official rate. On January 1, 2008, the authorities devalued the official rate to manat 6,250 per US dollar, and introduced a commercial rate of manat 20,000 per US dollar (some 20 percent more appreciated than the parallel rate) at which banks traded freely with the public. On May 1, 2008, the exchange rates were unified at the rate of manat 14,250 per US dollar, and the parallel rate has remained very close to this rate.

Although Turkmenistan avails itself of the transitional arrangements under Article XIV, it was determined in 1995 that Turkmenistan no longer maintains any restrictions under the provisions of Article XIV, Section 2. However, Turkmenistan maintains the following exchange restriction and

multiple currency practices subject to approval by the Fund under Article VIII, Sections 2(a) or 3:¹ (i) the screening and limiting by the CBT and the Foreign Exchange Committee of applications for foreign exchange provided through the CBT auction with respect to certain categories of current international transactions conducted by resident legal entities; and (ii) multiple currency practices, arising from the 50 percent foreign exchange tax on gas exports and the 30 percent tax on oil and petroleum-product exports, the proceeds of which are earmarked for the Foreign Exchange Reserve Fund (FERF).

10. Article IV consultation:

Turkmenistan is on a 12-month consultation cycle.

The 2007 Article IV consultation was concluded by the Executive Board on May 11, 2007 (SM/07/135).

11. IMF technical assistance:

Technical and policy assistance missions since 2000:

STA—National Accounts	April 2000
STA—National Accounts	March 2005
LEG—AML/CFT	June and November 2007, March 2008
STA—National Accounts	April 2008

12. Resident representative:

The last Resident Representative's assignment was completed in September 1999. Currently there is no Resident Representative but the Fund maintains a locally-staffed office in Ashgabat.

13. Resident advisors:

A regional statistical advisor was installed in January 2008. Her first visit to Turkmenistan was in April 2008.

¹ The previous exchange restrictions arising from: the screening by the CBT of applications for foreign exchange by individuals with respect to medical, educational, and travel expenses; restricting the right to purchase foreign exchange for certain current international transactions; and requiring foreign exchange sales to specialized stores of consumer goods and foods be subject to the condition that the commercial mark-ups over the contract price of goods not exceed 30 percent, no longer apply. The multiple currency practice resulting from official action causing an exchange rate spread between the official market rate and parallel market rate was also eliminated.

Annex II: Turkmenistan: IMF-World Bank Relations

(as of June 1, 2008)

1. Since 2006 when it was approached by the Government of Turkmenistan, the Bank has been expanding technical advice and support in a variety of areas. In February 2008, the authorities signed a Trust Fund Agreement with the Bank for Avian Influenza prevention. In response to indications that the Government is interested in re-engaging and strengthening its relationship with the Bank, the Bank is preparing a proposed Interim Strategy Note (ISN) for 2008-2010. This will set out the Bank's strategic approach and modalities of re-engagement with Turkmenistan, and serve as a basis for moving toward a full country strategy. The Bank has fielded a number of technical assistance missions in recent months (in economic, education, health, water, and transportation areas), and the IFC has begun to reengage as well. The ISN is expected to be discussed by the Bank Board in September 2008.

2. There is broad agreement on the division of labor between the IMF and the World Bank in line with their mandates. The World Bank's engagement will largely take the form sectoral support as well as policy notes and seminars focusing on the following areas: medium term growth and fiscal frameworks; structural reforms in pricing, trade, and the business/investment climate; and efficiency in public spending. The IMF will continue to focus on macroeconomic policies, in both the short- and medium term, exchange system reform, central bank related issues of financial sector reform, and macro-financial linkages.

3. Both institutions would be involved with financial sector stability and development, based on their respective specialties. The Fund side would focus on the development of foreign exchange operations and their link to domestic banking operations, the development of monetary policy instruments, currency redenomination, and financial sector stability related reforms. Both institutions will also provide technical assistance on statistical capacity building: the Fund will work on the national accounts, while the Bank will provide assistance with the statistical master plan, a living standards measurement survey, and a survey of the informal sector.

World Bank contacts:

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Turkmenistan: JMAP Implementation

Title	Products	Provisional Timing of Missions	Expected Delivery date (tentative)
A. Mutual information on relevant work programs			
Bank work program in next 12 months	ISN	April 2008	September 2008
	Economic monitoring and policy advisory notes	Quarterly	August 2008—June 2010
	Statistical capacity building	June 2008	June 2008—July 2010
IMF work program in next 12 months	2008 Article IV consultation	April-May 2008	July 2008
	2009 Article IV consultation	April 2009	June 2009
	Staff visit	November 2008	
	TA: STA (National income, prices)	Peripatetic visits by regional advisor (2008)	December 2008
	MCM (foreign exchange system)	Missions, May, August 2008	December 2008
	MCM (currency redenomination)	August 2008	
B. Requests for work program inputs (as needed)			
Fund request to Bank	Analysis of need for social protection policies for price and exchange system reform		For the 2009 Turkmen budget
	Data and technical assistance information sharing	Ongoing	Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies.	Semi-annual or more frequent.	June 2008 and December 2008
	Data and technical assistance information sharing	Ongoing	Ongoing

APPENDIX III: TURKMENISTAN—STATISTICAL ISSUES

1. Weaknesses in the economic and financial data provided to the Fund, particularly in national accounts statistics, hamper surveillance. Recognizing the importance of data quality for policy design and implementation, the authorities have stressed their intentions to make progress in this area. The highest priority should be improving the quality of the data and reestablishing publication in the country, before moving ahead with the publication of the page for Turkmenistan in *International Financial Statistics (IFS)*. The authorities do not participate in the General Data Dissemination System (GDDS).

National Accounts and Prices

2. The State Committee for Statistics, which produces GDP and price data, has been working to improve data quality. Uncertainty over the accuracy of real GDP growth estimates had been hindering the assessment of the state of the economy. In March 2005, a STA expert found that, in general, the concepts, coverage, and methods for compiling national accounts are broadly in accordance with international standard practices, but identified some weaknesses. As a result of subsequent improvements in methodology, the authorities have reduced real GDP growth estimates. The SCST does not rule out additional improvements and revisions. A regional statistical advisor started reviewing national accounts and prices in April 2008. The work plan agreed with the authorities includes improvements in the following areas: estimation of GDP at constant prices; expansion of the current producer price indices to include exports; treatment of seasonal products, and quality adjustments in the consumer price index. Other issues include the lack of reconciliation between annual GDP estimates using the production side and the experimental expenditure approach; the calculation of quarterly estimates of GDP only at current prices; and the restricted dissemination of GDP and price data to only a limited number of users.

Government Finance

3. The data on the state budget only cover part of government transactions and exclude considerable off-budget government spending. The state budget continues to show expenditure by administrative unit, while the economic classification of expenditure data is available only annually. Although the authorities submitted a completed government finance statistics questionnaire in 2003, the data were found to be inadequate for processing. A simplified version of the government finance statistics questionnaire has been sent to the authorities to collect data for publication in *IFS*. The authorities should move towards introducing the framework, coverage, and classifications of the *Government Finance Statistics Manual 2001*.

Monetary Accounts and Balance of Payments

4. Although there were discussions in the late 1990s about the submission of data for publication in *IFS*, this has not progressed because of the authorities' general reluctance to publish data. Relevant data are reported to the area department.

Turkmenistan: Table of Common Indicators Required for Surveillance
(As of May 31, 2008)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	5/31/08	5/31/08	D	M	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities 1/	03/08	05/08	Q	H	NA
Reserve/Base Money	03/08	05/08	Q	H	NA
Broad Money	03/08	05/08	Q	H	NA
Central Bank Balance Sheet	12/07	04/08	Q	H	NA
Consolidated Balance Sheet of the Banking System	12/07	04/08	Q	H	NA
Interest Rates 2/	03/08	05/08	M	A	NA
Consumer Price Index	03/08	05/08	M	H	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ – General Government 4/	12/07	04/08	Q	H	NA
Revenue, Expenditure, Balance and Composition of Financing 3/ – Central Government	03/08	05/08	Q	H	NA
Stocks of Central Government and Central Government-Guaranteed Debt 4/	12/07	04/08	A	A	NA
External Current Account Balance	12/07	04/08	Q	H	NA
Exports and Imports of Goods and Services	12/07	04/08	Q	H	NA
GDP/GNP	12/07	04/08	A	A	NA
Gross External Debt 5/	12/07	04/08	A	A	NA
International Investment Position 7/	NA	NA	NA	NA	NA

1/ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

2/ Both market-based and officially-determined rates, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.

3/ Foreign, domestic bank, and domestic nonbank financing.

4/ The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and local governments. Data on extrabudgetary operations are limited, and investment is reported annually.

5/ Including currency and maturity composition.

6/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Half-Annually (H), Annually (A), and Not Available (NA).

7/ Data on external debt and liquid assets are available, but the stock of foreign direct investment according to international standards is not available.