EXECUTIVE BOARD MEETING

SM/17/119

May 12, 2017

To:	Members of the Executive Board
From:	The Acting Secretary
Subject:	**Turkmenistan—Staff Report for the 2017 Article IV Consultation**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Friday, May 26, 2017**
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Questions:	Mr. Sommer, MCD (ext. 39998) Ms. Nguyen, MCD (ext. 34091)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Development Bank, European Bank for Reconstruction and Development, European Commission, Islamic Development Bank, Organisation for Economic Cooperation and Development

***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.**

INTERNATIONAL MONETARY FUND

TURKMENISTAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

May 11, 2017

KEY ISSUES

Context. Turkmenistan—a major natural gas producer—continues to adjust to a difficult external environment, including persistently low hydrocarbon prices and slower economic activity in trading partners. Growth has been broadly stable recently, but the current account deficit has widened and remains significant. The state continues to play dominant role in the economy through planning and coordination despite gradual progress in developing the private sector.

Policy Priorities. This year's consultation focused on three issues:

1. **The key short-term priority is policy adjustment to the large current account deficit.** The adjustment should entail another step devaluation of the manat, accompanied by continued fiscal tightening (especially through cuts to public investments, which remain exceptionally high), slower credit growth, and elimination of foreign exchange controls. This strategy would complement the authorities' policies to develop new local industries. The pace and composition of investment cuts should be designed to minimize the adverse impact on economic growth and vulnerable segments of the population, but should be front loaded given downside risks and uncertainties.

2. **Structural reforms should be deepened and broadened to help support inclusive growth over the longer term, driven by a more diversified market economy.** The current development model based on large public investments is no longer sustainable and should be adjusted to the new reality of low hydrocarbon prices. This will require improvements in the business and regulatory environment, a decisive push for state-owned enterprise reform and privatization, greater efficiency of public spending (especially investment), and continued focus on improving social protection and human development outcomes.

3. **Improving the quality of macroeconomic and financial data and broadening its dissemination** would help enhance understanding of economic trends, attract foreign direct investment and ease access to the global financial markets.

Approved By
Juha Kähkönen and Zuzana Murgasova

Discussions were held in Ashgabat during March 6–17, 2017. The staff team comprised Martin Sommer (head), Ruchir Agarwal, Vina Nguyen, and Bruno Versailles (all MCD). Miroslaw Panek (Executive Director) joined the mission during March 15–17. Nurgeldi Meredov (OED) attended most meetings. The team was assisted by Jennet Garlyyeva from the IMF's local office in Ashgabat, and James Aylward and Branden Laumann from the headquarters. The mission met Deputy Prime Minister Hojamammedov, Deputy Prime Minister Kakayev, CBT Chairman Annadurdyyev, Minister of Finance Muhammedov, Minister of Economy Bazarov, other senior officials from the government and parliament, and representatives of the academic, business, financial, and diplomatic community.

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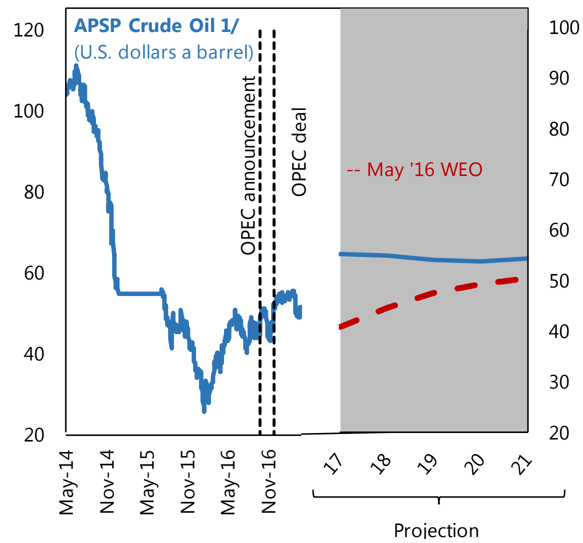
CONTEXT

1. **Like other countries in the Caucasus and Central Asia, Turkmenistan has been impacted by adverse external developments that are expected to be mostly long lasting.** These factors include low natural gas prices—a key development given Turkmenistan's status as a country with the fourth largest global gas reserves[1]—and slower economic activity in trading partners. Against this backdrop, Turkmenistan's economic growth has slowed and external imbalances have emerged. While oil prices are off their lows and the external outlook is improving, oil prices are projected to stay in the mid-50s per barrel over the medium term, and the risks for global growth remain tilted to the downside. Some of these developments were envisaged already during the 2015 Article IV consultation, and the authorities have partially implemented policies suggested by staff (Annex I).



Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Note: Average of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil prices.
OPEC = Organization of the Petroleum Exporting Countries.

2. **This year is dominated by two major events—President's re-election in February and the Asian Indoor and Martial Art Games in September.** President Berdymuhamedov won re-election with about 98 percent of the vote, and has signaled his intention to further develop the Turkmenistan's mining and processing sectors, expand local production through export promotion and import substitution policies, and strengthen regional integration, while supporting private sector development. Meanwhile, the authorities are preparing for the Asian Games, which they hope will help boost the country's international profile.

RECENT DEVELOPMENTS

3. **Turkmenistan continues to adjust to a difficult external environment.** Based on official data, overall growth slowed from over 10 percent at the beginning of the decade to about 6 percent over the past couple of years—still a strong outturn by global and regional standards. Despite the external headwinds, activity has been broadly stable recently due to rising natural gas export volumes to China, expansionary credit policies, and industrial policies to substitute imports and promote exports. Measures have been taken to reduce the state budget deficit, but the current account deficit remains significant.

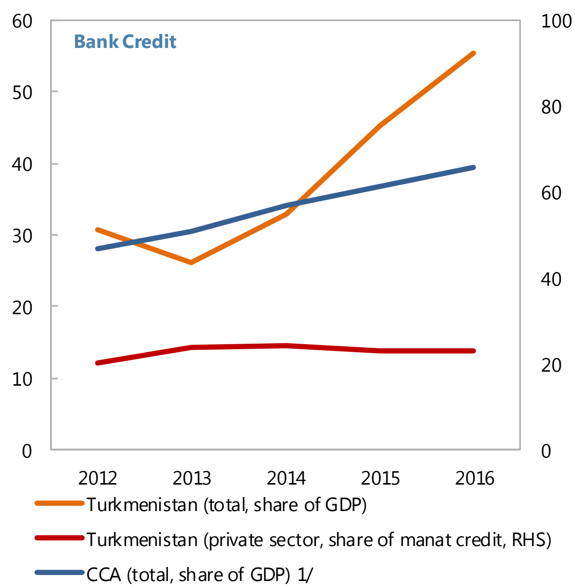
[1] Before the oil price decline, hydrocarbon revenues—mostly from natural gas exports—accounted for 95 percent of exports and 50 percent of budget revenues. Turkmenistan's gas export prices follow global oil prices with a lag.

- **Overall growth was broadly stable at 6.2 percent last year.** While the hydrocarbon sector contracted as gas deliveries to Russia ceased and supplies to Iran declined, the rapidly-expanding non-hydrocarbon economy—especially agriculture, trade, telecommunication, and other services sectors—supported headline growth (Figure 1). Growth stayed at 6.2 percent during Q1/2017.

- **Officially-reported inflation has eased from a post-devaluation peak, but has rebounded to about 6 percent at end-2016.** Inflation fell in early 2016 as the effects of the January 2015 devaluation and utility price hikes dropped off. However, rising import prices have put upward pressure on consumer price inflation in the second half of last year.

- **The state budget deficit was 1¼ percent of GDP in 2016** (Figure 2). The estimated budget shortfall stood at about 3½ percent of GDP when extra-budgetary and financing transactions are also included.[2] While Turkmenistan's budget revenues are relatively well diversified compared to other major hydrocarbon exporters (Figure 3), the authorities were prompted to cut budget expenditures by about 20 percent in response to sharply lower hydrocarbon receipts. Spending cuts have focused on budget-level public investments and non-wage current spending, while spending on public sector wages and pensions has continued to grow by 10 percent. Overall, fiscal policy, as measured by the state budget outturn, was contractionary in 2016, with the non-hydrocarbon deficit shrinking by 3 percentage points of non-hydrocarbon GDP. State-owned enterprises (SOEs) continue to play important role in the economy (Box 1).

- **Credit growth exceeded 20 percent in 2016.** After several years of rapid expansion, loans to the economy have reached 55 percent of GDP. Most credit is still allocated to SOEs at very low rates, especially in the priority import-substitution, export-promotion, and social sectors, and is funded to a significant degree by cheap long-term financing from the central bank. Some private sector activities also benefit from financing at concessional rates. Reported non-performing loans remain very low, although the share of substandard loans (overdue by 30–60 days) has grown from 2 percent in 2014 to 14 percent last year (Figure 4).



Source: Turkmenistan authorities and IMF IFS 2016.
1/ Excludes Turkmenistan and Uzbekistan.

- **The current account deficit is estimated at $7.6 billion (21 percent of GDP) in 2016.[3]** It reflects low hydrocarbon prices, very high public investment by global standards, and the large import content of domestic spending (Figure 5). The authorities maintain two exchange restrictions subject to the Fund approval discussed in the

[2] This estimate is based on the change in government deposits at the central bank.

[3] The estimate is highly uncertain because the CBT does not produce reliable BoP statistics for capacity reasons.

2015 Article IV Staff Report (SM/15/49) and other foreign exchange controls, including preferential access to foreign currencies for priority sectors. Despite the external pressures, the central bank's reported net foreign assets (NFAs) remain sizable—$28 billion, or 75 percent of GDP—covering almost two-years' worth of imports. According to limited data available to IMF staff, external debt is estimated at 24 percent of GDP, owing to SOE external loans for hydrocarbon projects (Figure 2). The reserve adequacy metric (ARA) tailored to hydrocarbon exporters remains at over 400 percent.

- **The external position appears substantially weaker than warranted by fundamentals and desirable policy settings** (Annex II). The REER has appreciated by about 35 percent over the past five years despite the 20 percent step devaluation in January 2015, reflecting the strong U.S. dollar and significant depreciations by key trading partners including Russia and the CCA neighbors. A standard EBA-light model of the current account misalignment also points to a weak external position owing to significant identified policy gaps—these are driven by large public investments and rapidly falling NFAs. On the plus side, the NFAs and the ARA metric remain at comfortable levels. Extensive restrictions on financial flows, together with the available legal tools to restrict current international payments, also reduce risks from the weak external position.

4. The authorities have initiated policy adjustment to lower oil and natural gas prices. The measures adopted so far include public investment cuts, the step devaluation of the currency, and a one-time increase in utility tariffs in 2015. The authorities continue to expand transport routes to reap the benefits of greater domestic trade and regional integration.[4] In parallel, ambitious plans have been put in place to increase natural gas production, build new pipelines, develop petrochemical industries, and expand mining and processing of non-hydrocarbon natural resources, while supporting private sector development, including by granting concessional loans, providing free land leases, and developing industrial zones.[5] The administration has also intensified its efforts to develop a local production base through import substitution and export promotion policies.[6] Overall, Turkmenistan is pursuing about 1,900 major investment projects worth some $48 billion (over 130 percent of last year's GDP). The Ministry of Finance plans to phase in a number of budget reforms starting in 2018 that will be conducive to sound policies—such as a new budget code, a medium-term budget framework, and producing GFSM2001–compliant data. Going forward, the administration plans to keep real public investment broadly stable in manat terms, which would bring it down gradually as a share of GDP.

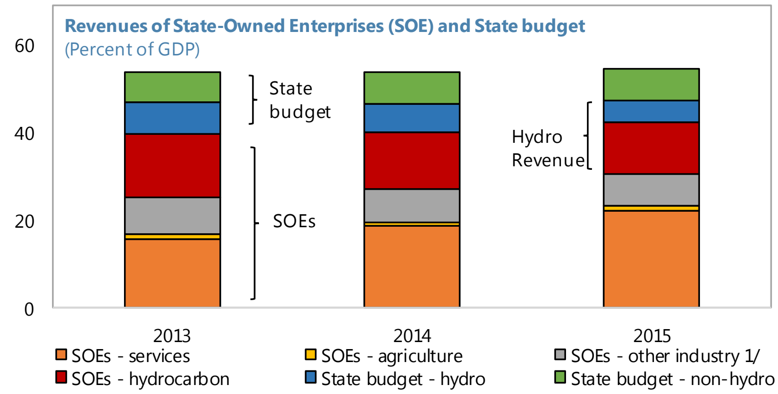
[4] Examples include a planned natural gas pipeline to Afghanistan, Pakistan, and India (TAPI), the new Ashgabat airport, expanded railway connections, and a new Turkmenbashi port at the Caspian Sea.

[5] The largest ongoing projects include the TAPI pipeline ($10 billion), the third phase of the Galkynysh gas field (over $10 billion), a polypropylene/polyethylene factory in Balkan province ($3.5 billion), and gas-to-gasoline and gas-to-liquid plants (a total of $5–6 billion). A Garlyk potash factory ($1 billion) has just been completed, and construction of another potassium fertilizer plant ($1 billion) is currently getting started.

[6] The State Program for export promotion focuses on chemical industry, construction materials, agriculture, and pharmaceutical and other light industries. Similarly, the State Program for import substitution concentrates on agriculture, textile, and chemical industries, utilizing domestically-produced raw materials. Most of these projects will be delivered by local entrepreneurs and construction companies.

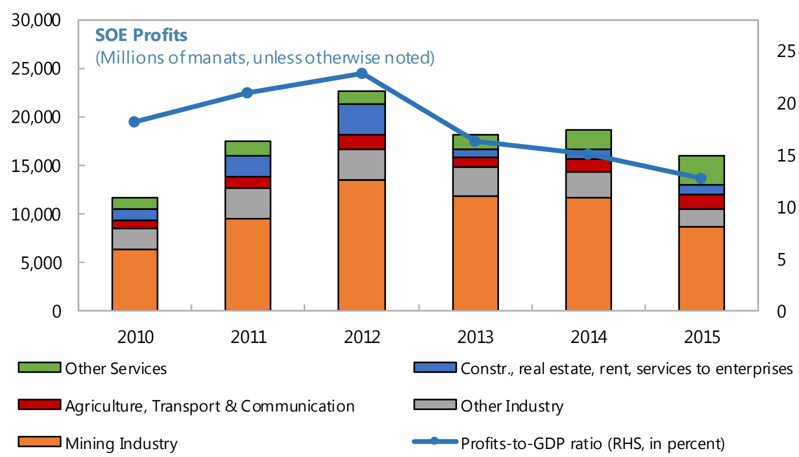
Box 1. Finances of State-Owned Enterprises

In Turkmenistan, SOEs are involved in a wide range of economic activities; therefore, the size of the public sector is large. The SOEs are involved not only in oil and gas industries—as is common in many other countries—but also in non-hydrocarbon sectors that are traditionally in the private domain. Staff estimates based on newly-compiled data suggest that SOE revenues account for 42.5 percent of GDP. Combined with information about the state budget, this leads to an estimate of the size of the public sector at 55 percent of GDP. This is likely an underestimate as some economic activities are formally conducted in the private sector but are guided by a central plan. Within the SOE sector, services generate the largest revenues, followed by hydrocarbon and other industries (mostly manufacturing). Owing to the diversified coverage, total public sector revenues increased in 2015 both in nominal terms and as a share of GDP, despite the fall in oil prices.



Sources: Turkmenistan 2015 Statistical Yearbook; and IMF staff estimates.
1/ Includes manufacturing and utilities.
Note: To avoid double-counting, corporate income taxes were deducted from state budget revenues.

The SOE sector is profitable, although profits have fallen substantially in recent years. The downward trend in SOE profits since 2012 can mostly be attributed to lower hydrocarbon prices and reduced profits in construction and real estate. Nevertheless, the mining industry remains by far the largest contributor to SOE profits. For the industrial sectors, which comprise mining & quarrying, manufacturing, and utilities, production costs as a percentage of non-oil GDP increased since 2014, even though labor costs have remained broadly stable.



Source: Turkmenistan Statistical Yearbooks various editions (from 2013 onwards, data used is from the 2015 Yearbook).

In the short run, continued profitability of the SOE sector contributes positively to the overall assessment of Turkmenistan's fiscal position; however, over the medium term, the large public sector represents a contingent fiscal liability. With profits at over 10 percent of GDP, the consolidated fiscal balance of the entire public sector would likely be positive. However, since the SOEs are pursuing ambitious investment programs, the public-sector dominance implies large fiscal risks that are currently not well understood. These risks call for enhanced data collection, dissemination, and monitoring of SOE enterprises to make a fuller assessment of fiscal implications and risks. Such data collection would also help pave the way for further SOE reform and ultimately privatization.

MACROECONOMIC OUTLOOK AND RISKS

5. Staff expects macroeconomic performance to be uneven under the baseline scenario, with continued growth, moderate inflation, and a balanced budget, but persistent external pressures despite the industrial policies to substitute imports and promote exports.

- **Overall growth is projected to accelerate slightly from last year's 6.2 percent to 6.5 percent in 2017.** Gas export volumes to China will continue growing. According to the authorities, the deliveries to the Iranian state gas company that ceased in early January have been replaced with supply to Iranian private corporations, including for re-export to third countries. Strong credit expansion and import-substitution and export-promotion policies will support non-hydrocarbon growth, while continued foreign exchange controls and the planned slowdown in public investments will provide some offset. Over the medium term, growth is expected to be supported by the newly-developed industries.

- **Inflation is forecast to remain moderate at about 6 percent over the forecast horizon,** on the back of continued rapid growth in public sector wages and expansionary credit policies. Substitution to domestically-produced food and price controls on key goods, services, and utilities will mute price pressures in the official consumer price index.

- **The state budget is expected to remain close to balance.** In the context of low and stable hydrocarbon prices, higher revenues from new gas-processing projects and expanding non-hydrocarbon sectors will help finance continued fast increases in public wages and pensions and essential social expenditures. The medium-term non-hydrocarbon primary balance is estimated as broadly consistent with the intergenerational-equity benchmarks (Annex III).

- **Credit growth is likely to remain strong.** The central bank is expected to continue providing long-term liquidity on concessional terms to support the authorities' development objectives, while the government will continue backing up SOEs receiving a high share of lending volume.

- **The current account deficit is projected to fall to about 11 percent of GDP over the medium term.** The external deficits are expected to remain sizable despite growth in natural gas exports to China and export promotion and import substitution policies. The authorities intend to finance the external deficit through foreign borrowing—including for large investment projects—and foreign direct investment, while limiting the reduction in the central bank's NFAs. Yet, the NFAs are projected by staff to continue drifting down amid large investments and low hydrocarbon prices, while the external debt is forecast to increase substantially to 40 percent of GDP by 2022. The ARA metric is projected to deteriorate to about 114 percent in 2022—still in line with comparators, but sharply falling over time.

- **Debt sustainability.** The public and external debt ratios are steadily increasing under the baseline, as the authorities and SOEs accumulate debt to finance large-scale investments and external deficits. This trend implies risks and vulnerabilities (Annexes IV and V). The public sector and external debt analyses also suggest that Turkmenistan is vulnerable to lower hydrocarbon prices. In addition, the debt ratios are sensitive to exchange rate changes since virtually all debt is denominated in foreign currency.

6. The authorities shared staff's views on the short-term outlook, although they were more optimistic about the medium-term prospects. The short-term projections for GDP growth, inflation, and budget balance are similar to the authorities' forecasts, and the staff estimates of the current account balance are broadly consistent with the authorities' approximations. Over the medium term, the authorities expect higher overall growth and smaller external deficits owing to the new hydrocarbon projects and policies to substitute imports. Staff acknowledged uncertainties around the baseline forecasts, but felt there was a limited upside to medium-term growth and external balances given available information about the size of new petrochemical and other plants, assumed import compression, and the track record of delays on some megaprojects.

7. Staff noted that risks to the outlook are on the downside, and are related to the gas market, financing of external deficits, domestic structural policies, and financial sector developments (Annex V).

- **Natural gas exports to China** could be lower than expected as the Chinese economy slows and the country seeks to diversify its gas imports. On the upside, China could increase its purchases of natural gas if a new pipeline is built and China reorients faster than expected from coal toward clean energy sources. Two-sided uncertainties exist over gas supplies to **Iran**. Commercial and security challenges could lead to lower-than-expected exports through **the TAPI pipeline**, although these exports could also turn out higher than expected over the longer term if the customer base is broadened. Growth could also be stronger if gas supplies to **Russia** are resumed in the future.

- Most natural gas and petrochemical projects are planned to be financed by **external borrowing**, while additional funding will be needed to stabilize the central bank's NFAs. Should the authorities face difficulties in raising external financing—for example, due to limited market access or tightening global liquidity—the central bank's NFA would decline further.

- **Investments in new local industries,** especially those facing intensive global competition, could have lower-than-expected returns. Protection provided by the **import-substitution and export-promotion policies** could bring short-term growth benefits, but ultimately stifle, rather than support development, while bringing unanticipated fiscal costs.

- Rapid credit growth increases the **risks to financial stability** and could result in fiscal costs down the road, as the financial system grows large relative to the economy and loans are directed at low rates to projects playing development and social roles.

- **Financial volatility in emerging markets** would have a limited first-round impact given low cross-border financial exposures and a closed capital account, but would complicate government borrowing to finance the planned large-scale projects.

- **Lower oil and natural gas prices** could exacerbate the external vulnerabilities.

8. The authorities were cognizant of these risks and elaborated on some of their risk mitigation strategies. Natural gas exports to China, the primary export market, are handled through take-or-pay agreements. The security challenges linked to the TAPI pipeline—which is expected to lead via Taliban-controlled areas of Afghanistan—are planned to be reduced by using the pipeline to supply gas also to these areas with security challenges; the authorities also noted that Turkmenistan had a long record of electricity exports to Afghanistan with minimal disruptions. The third phase of the giant Galkynysh gas field would be split into two parts to reduce the risk of overcapacity should gas exports not materialize as planned. In the authorities' view, the adverse external environment placed a premium on maintaining a high level of central bank's NFAs, and discussions are ongoing on project financing with foreign partners, especially in the form of external debt. Staff encouraged the authorities to consider further increasing the role of foreign direct equity investment in the overall financing package to boost risk sharing with foreign partners and reduce risks related to large-scale debt accumulation amid tightening global liquidity.

POLICY CHALLENGES AND PRIORITIES

A. Adjusting to Lower Hydrocarbon Prices

9. Staff indicated that the external imbalances require sizable policy adjustment. The large current account deficit accompanied by declining NFAs and rapidly rising external debt, and uncertain timing of returns from megaprojects such as TAPI, imply that policy adjustment should start immediately, without waiting for the realization of potential new exports in the long run.[7] The policy mix should include another step devaluation of the currency, accompanied by cuts in public investments, slower credit growth, and elimination of foreign exchange controls. In combination, these measures would significantly narrow the current account deficit and stabilize reserves (Figure 6, Text Table).

- **Given incomplete balance-of-payment data, the recommended magnitude of devaluation is difficult to assess, but the devaluation should be sufficiently large to help maintain credibility of the new exchange rate level for an extended period.** The staff exchange rate assessment suggests that the equilibrium exchange rate could be around 5–6 manat per USD, compared with 3.5 manat per dollar at present. The two exchange restrictions and other controls on current international transactions should be eliminated right away. This would help increase economic efficiency, and the elimination of the exchange restrictions would also help ensure Turkmenistan's compliance with Article VIII, Section 2(a). In light of limited capacity, maintaining a fixed exchange rate regime after the devaluation would be preferable. However, preparations should start on the institutional infrastructure for more exchange rate flexibility.

- **The government should support external adjustment through fiscal tightening, while protecting vulnerable segments of the population.** Gradually reducing total investments to about 30 percent of GDP—an additional adjustment of 5 percent of GDP relative to the baseline

[7] In particular, the planned launch date for the TAPI pipeline has been repeatedly postponed for many years.

over the medium term—while increasing public investment efficiency would significantly help reduce the external deficit.[8] The investment cuts should focus on off-budget investments by SOEs, because the on-budget investments have already been trimmed significantly. At the same time, the state budget's non-hydrocarbon deficit can stay close to the current 5 percent of non-hydrocarbon GDP (this roughly corresponds to a balanced budget overall). These twin policy objectives should be incorporated into the planned medium-term budget framework, with the medium-term fiscal anchor calibrated toward the objective of maintaining external stability. Other fiscal consolidation options include further streamlining of current expenditures and additional progress on energy price reforms, which are already planned by the authorities. Consideration should be given to modifying the practice of uniformly increasing public wages and pensions by a fixed percentage to reflect more closely overall economic developments and productivity.

- **The fiscal tightening should be front loaded despite sizable buffers.** The additional 5 percent of GDP adjustment should be completed by the end of decade given downside risks, uncertainty about the actual fiscal and external position, low growth cost of cutting investments with high import content, and the need for anchoring expectations after the large devaluation. In particular, the devaluation will increase inflation and the local-currency value of external debt. However, immediate cuts of an extraordinary magnitude should be avoided to reduce the adverse impact on the economy and vulnerable segments of the population. Social investments, including those for rural development, should be protected.

- **Credit can continue to support the nascent private sector, but the pace of credit growth should slow** to avoid fueling macroeconomic imbalances and to reduce the risk of future non-performing loans. Demand for credit will decline once public investments are cut or delayed. Further credit slowdown can be attained by gradually phasing out the exceptionally low interest rates for selected priority sectors, and differentiating lending terms based on the underlying risks of the projects.

10. The authorities agreed that given the sizable external deficit, all policy options will need to be considered. The authorities have been developing local industries to reduce import dependence and boost exports, and these structural policies will continue to play an important role in external adjustment in coming years. At the same time, the authorities are envisioning a reduction in public investments as a share of the economy, partly aided by the recent completion of key infrastructure projects for the Asian Games. Potential benefits and costs of further exchange rate adjustment would also be studied as part of the overall strategy. Concessional loans are seen as an important development and social tool, but will be eventually streamlined as the economy develops. Plans are also being prepared for further consolidation of budget expenditures and an energy price reform. Staff welcomed the authorities' intentions in this area since Turkmenistan's energy prices

[8] In this adjustment scenario, overall investment would gradually fall from 47 percent of GDP to 30 percent of GDP. Investment rates typically range between 20–30 percent of GDP in peer countries. To increase public investment efficiency, the authorities should further strengthen investment project appraisal, seek outside views on the cost-benefit analysis, set up a medium-term expenditure envelope, and develop ex-post evaluation.

remain one of the lowest in the world,[9] and highlighted the need for protecting the vulnerable segments of population from any adverse side effects of reforms. The authorities noted that they are preparing a policy document on providing targeted support to low-income families.

Text Table. Turkmenistan: Medium-Term Scenarios, 2016–22

	2016	2017	2018	2019	2020	2021	2022
	(In percent of GDP, unless indicated otherwise)						
Baseline scenario							
Real GDP growth rates (in percent)	6.2	6.5	6.3	5.1	5.0	5.3	5.4
CPI (end of period) (in percent)	6.2	6.1	6.2	6.2	6.2	6.2	6.2
Gross investment 2/	47.0	42.0	40.0	38.0	37.0	36.0	35.0
Overall state budget balance	-1.3	-0.7	0.2	0.1	-0.1	-0.1	-0.1
Non-hydrocarbon primary state budget balance (in percent of non-hydrocarbon GDP)	-5.3	-5.6	-4.7	-4.4	-4.2	-4.0	-3.8
Current account balance	-21.0	-12.8	-11.6	-12.3	-12.2	-11.4	-10.8
Public external debt	23.9	24.3	27.6	31.4	35.2	38.0	39.6
Gross international reserves (in months of next year's imports)	22.8	20.7	19.3	16.5	14.4	12.3	10.1
Fiscal tightening, exchange rate devaluation, and slower credit growth 1/							
Real GDP growth rates (in percent)	6.2	5.8	5.3	4.1	3.4	3.9	4.8
CPI (end of period) (in percent)	6.2	14.5	9.9	5.6	4.4	4.4	4.4
Gross investment 2/	47.0	42.0	38.0	35.0	32.0	31.0	30.0
Overall state budget balance	-1.3	0.9	2.1	1.9	1.5	1.3	1.1
Non-hydrocarbon primary state budget balance (in percent of non-hydrocarbon GDP)	-5.3	-5.4	-3.9	-3.7	-3.8	-3.9	-3.9
Current account balance	-21.0	-14.0	-9.6	-9.6	-8.9	-7.0	-4.9
Public external debt	23.9	37.7	40.6	46.4	46.8	47.1	46.6
Gross international reserves (in months of next year's imports)	24.7	24.9	25.4	25.0	23.6	23.0	22.7
Adjustments coupled with structural reforms 1/							
Real GDP growth rates (in percent)	6.2	5.8	5.6	5.0	4.8	5.6	6.8
CPI (end of period) (in percent)	6.2	14.5	9.9	5.6	4.4	4.4	4.4
Gross investment 2/	47.0	42.0	38.0	36.5	35.7	34.8	34.0
Overall state budget balance	-1.3	0.9	2.2	2.0	1.7	1.5	1.4
Non-hydrocarbon primary state budget balance (in percent of non-hydrocarbon GDP)	-5.3	-5.4	-3.8	-3.5	-3.5	-3.4	-3.2
Current account balance	-21.0	-14.0	-8.6	-8.3	-6.5	-3.6	-0.7
Public external debt	23.9	37.7	40.4	45.7	44.1	40.0	35.9
Gross international reserves (in months of next year's imports)	24.7	25.2	26.3	26.8	26.6	26.8	27.7

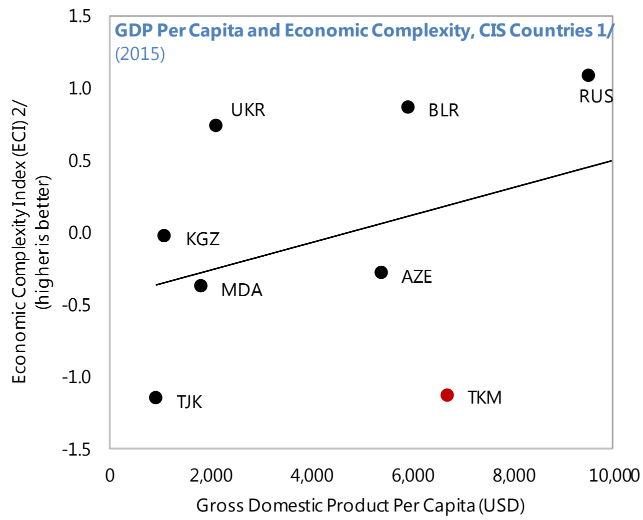
Source: IMF staff calculations.

1/ In the devaluation scenarios, exchange rate remains at 5.5 manat/U.S. dollar throughout the medium term. The impact of policy adjustment is estimated within the staff's macro-forecasting framework and is validated using a growth accounting analysis.
2/ Overall investment rate in the economy, consisting of private investment, government investment, and investment by state-owned enterprises.

[9] If utility prices were gradually raised to international levels, the additional revenue could be up to 10 percent of GDP at the current consumption levels.

B. Securing Strong, Sustainable, and Inclusive Growth

11. In staff's view, the new reality of low natural gas prices highlights the need to accelerate diversification of the economy and private sector development, based on market principles. The authorities should avoid setting unrealistically high growth targets underpinned by large public investments, because this development model is no longer sustainable (Box 2). In addition, the long-term competitiveness of some state-led projects, for now protected by trade barriers and other policies, is unclear. Policymakers should liberalize the economy, reduce the cost of doing business, accelerate SOE reform and privatization, and prioritize accumulation of human—rather than physical—capital.[10] This strategy would also help develop more sophisticated industries.



Source: IMF WEO 2016, The Observatory of Economic Complexity at MIT: Atlas of Economic Complexity, 2015
1/ Excludes Uzbekistan and Armenia due to missing data.
2/ The ECI ranks how diversified and complex a country's export basket is according to how many different products a country produces, and how many countries are able to make these products.

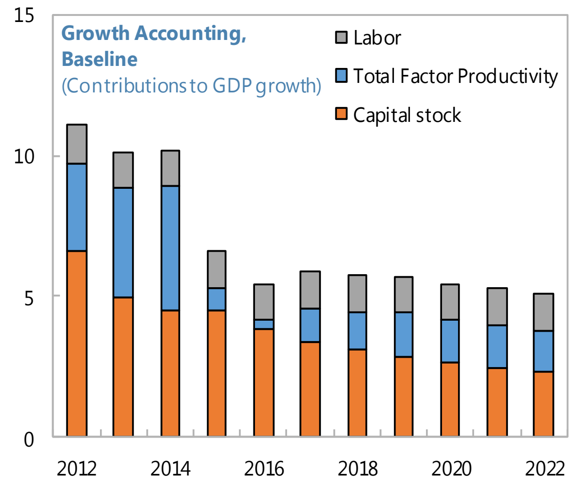
12. Staff elaborated that deep structural reforms would help boost growth over time, offsetting the adverse impact of demand compression needed to close the large external imbalances. Turkmenistan can make significant progress in many reform areas (Figure 7). Since some structural indicators may not capture the most recent developments and reforms, performing a fresh diagnostic test on where Turkmenistan stands in international comparisons—for example, by participating in the World Bank Doing Business survey—would be desirable. Market-oriented reforms would support private investment, foreign direct equity inflows, and non-hydrocarbon exports, while the resulting diversification would reduce susceptibility of the economy to commodity price volatility. A staff scenario calibrated using an EBRD study suggests that Turkmenistan's medium-term growth could be higher by about 1½ percentage points relative to the baseline despite lower overall investment levels and a smaller current account deficit, if the authorities implement a successful package of structural reforms (Text Table).

[10] During January 1994-January 2016, the government privatized some 2,300 mostly small-scale entities, yielding about 190 million manat in budget revenues (about $55 million at the current exchange rate).

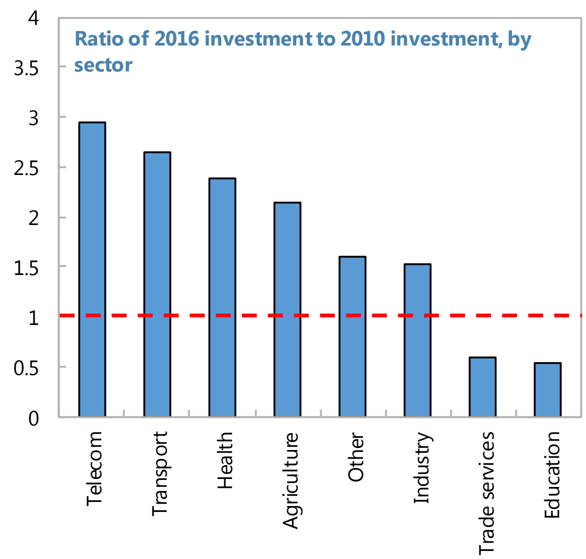
Box 2. Sources of Growth

Turkmenistan's strong growth has traditionally been driven by large capital expenditures. Before the oil price drop, Turkmenistan maintained one of the highest real GDP growth rates in the world—growth averaged 11 percent during 2010–14—driven by exceptionally high investment rates of 45–50 percent of GDP annually.

Growth in Turkmenistan has declined since the global energy price shock. Lower hydrocarbon revenues resulted in slower growth in public investment, reducing the contribution of capital to overall growth. Turkmenistan's total factor productivity (TFP) growth has also decelerated in recent years, owing to the fall in hydrocarbon prices, cessation of gas supplies to Russia, and fiscal consolidation. These factors left Turkmenistan with a lower capacity utilization of installed capital, lowering TFP growth.



With a planned further slowdown in investment, Turkmenistan will need to rely more on structural reforms to boost overall growth. Capital contribution to GDP growth will continue to decline. With a modest projected growth in labor force, total factor productivity will become the key driver of overall growth going forward. A strategy that combines SOE reform, measures to further increase public spending efficiency, and prioritization of investment in human capital over physical capital could spur growth in TFP over the medium term, despite the reduction in the overall level of investment. In this context, it is useful to note that investments in health have growth strongly over the past several years. Educational investments appear to have underperformed other sectors—which partly reflects completion of major construction projects—but current expenditures on education have increased sharply in recent years as well.



13. **Staff also noted that reforms should proceed at a measured pace and be sequenced to reduce the risk of sharply negative growth effects.** Economic transition involves downside risks, as illustrated by the experience from Central and Eastern Europe during the 1990s where a shock therapy—while warranted by circumstances—led to large output losses. In this context, the Turkmen authorities have significant financial buffers, which allow them some flexibility in designing the pace and composition of reforms to reduce any negative side effects.

- ***Business and regulatory environment.*** Reducing bureaucracy and the regulatory burden is an essential pre-requisite for further private sector development and could yield quick growth dividends. Gradually reducing administrative controls on prices and production decisions, and greater flexibility in wage setting, while setting up anti-trust mechanisms and ensuring an adequate social safety net (for which there is fiscal space), are also needed. Over time, the authorities will need to overhaul the legal framework for the corporate sector and tailor it to a market economy, while reducing uncertainty in the legal and regulatory regime, strengthening property rights and anti-corruption efforts, and improving the legal dispute-resolution system. The authorities should gradually eliminate directed credit to level the playing field, promote efficient allocation of capital, and reduce financial stability risks.

- ***SOE reform and privatization.*** A decisive push should be made to complete corporatization of SOEs and implement privatization programs. The international financial institutions have made specific recommendations for revising the privatization law and strengthening the current privatization strategy to ensure full transparency, improve corporate governance, and enhance productivity of SOEs.

- ***Accumulation of human capital.*** Turkmenistan still has significant room for catching up to peers in terms of human development outcomes, despite higher spending on education, health, and other social areas over the past decade. This is partly due to both low expenditure efficiency and still-low spending on health and education relative to peers (Figure 8). Further re-prioritization of public expenditures toward health, education, and science would help boost outcomes, while ex-ante and ex-post spending evaluation would improve efficiency. These measures would also make growth more inclusive, including by boosting labor market participation of women (Figure 9). Matching physical investments with training of skilled labor (for instance, doctors, nurses, and teachers) would enhance provision of public services. The school curricula should be further re-oriented toward the needs of a market economy.

- ***Industrial policy.*** Developing the petrochemical industry could help reduce dependence on pipelines, while boosting domestic value added. Given the vulnerable external position and global energy glut, the authorities should increase the risk sharing with foreign partners, including by granting equity stakes. Import substitution policies might help set up a local production base where comparative advantage exists and current import levels are high relative to the size of the economy (for example, raw materials). However, the strategy also carries significant risks. Import substitution can have positive short-term growth benefits, but stifle economic development over the medium term by limiting competition. Support for new firms should be reduced over time to ensure that these policies do not hinder development.

14. The authorities recognize the need for further diversification and structural reforms, and are currently finalizing the seven-year development plan for 2017–23. One of the key features of their strategy would be continued support for private sector development, including by planning and coordinating key projects through the government and the Union of Industrialists and Entrepreneurs. According to the authorities' calculations, non-hydrocarbon sectors currently account for more than 70 percent of output, and the goal of increasing the share of non-public sector to 70 percent of non-hydrocarbon GDP by 2020 has almost been attained. Progress has been made in the privatization of small-scale businesses, and corporatization and privatization of larger-scale enterprises (including banks) is being prepared. The authorities also plan to continue supporting social investments including in health and education, emphasizing that a socially-oriented market economy, inclusive growth, and human development are Turkmenistan's key priorities. They highlighted the significant progress in boosting the education sector since its reform was launched a decade ago. To help identify further areas for improvement, discussions are ongoing with the World Bank for Turkmenistan to undertake the Systematic Country Diagnostic. Staff welcomed these plans, and highlighted the importance of applying market principles and relying on private sector initiative in furthering economic development.

15. Staff and the authorities agreed that real sector reforms should be accompanied by developing a risk management culture in banks, with stronger regulatory and monetary capacity. The mission welcomed the authorities' intention to pursue a financial regulatory overhaul over the next couple of years, including by tailoring Basel standards to Turkmenistan's circumstances. The new regulations would likely include higher minimum capital ratios, stronger guidance on loan classification and provisioning, and stricter concentration limits. Staff considered that such measures would be appropriate given strong credit growth, prevalence of directed credit for large state-led projects, recent increase in the share of substandard loans, and the sectoral focus of key local banks. The authorities should also continue efforts to raise awareness of the exchange rate risk among financial institutions and corporations. Macro stress-testing of the financial system could be introduced into the central bank's toolkit and linked to prudential supervision after capacity is developed for macro-financial forecasting, currently underway through an IMF training program. Staff welcomed the authorities' efforts to boost corporate governance and risk management in the banking system, including through a pilot with the World Bank, and to enhance financial inclusion by promoting participation in the formal banking system and spread of electronic payment systems. Supply of credit to the private sector would also be supported by the planned establishment of the credit bureau and SME lending programs. The authorities have been taking steps to enhance their AML/CFT legal framework, and are currently conducting a national risk assessment.

C. Improving Statistics and Addressing Jurisdictional Issues

16. Staff emphasized that Turkmenistan would benefit from greater disclosure of macroeconomic and financial data, while building capacity to produce high-quality statistics. Non-government entities continue to have very limited access to data, and information sharing remains restricted even within the government. Stepping up communication, including by publishing more fiscal, financial, and external statistics, would improve understanding of trends and policy intentions among all stakeholders, boost foreign investment, and ease access to global financial markets. It would also facilitate the debate on further improvements in data quality. Posting the Statistical Yearbook, National Accounts, and Banking Bulletin on the Internet would be a practical step toward filling the information gaps.

17. The authorities noted the capacity constraints hampering data collection. In particular, the authorities acknowledged the need to improve the balance of payments and external debt statistics which is hampered by capacity constraints, and expressed interest in technical assistance from the IMF. The authorities have also signed a Reimbursable Advisory Service program with the World Bank, which includes a project on upgrading national accounts methodologies. The Ministry of Finance intends to start compiling netted general government data from 2018, building on a new budget code. The Minister of Finance has requested technical assistance on implementing the GFSM2001 data methodology.

18. Staff strongly supported the plans for improving macroeconomic data. Accurate balance of payments data are critical given the significant estimated external deficit. General government data will be important in establishing a comprehensive picture of fiscal operations considering the large share of SOEs in the economy. Similarly, building a comprehensive view on public debt would be desirable given the substantial directed lending by the financial sector and planned external loans. The authorities' intention to operationalize the debt management department at the Ministry of Finance is welcome—this would also help facilitate compilation of the IIP statistics down the road. The IMF stands ready to help disseminate macroeconomic data through the enhanced General Data Dissemination System (e-GDDS) and International Finance Statistics (IFS).

19. Turkmenistan continues to impose restrictions on current international payments that are inconsistent with Article VIII. The two exchange restrictions described in the 2015 Article IV Staff Report remain in place. The authorities are also utilizing provisions of Turkmenistan's foreign exchange law to regulate access to foreign currency for non-priority sectors. As a general matter, due to prioritization, non-priority foreign exchange bids for *bona fide* current international transactions may not be met or there may be a chilling effect on such bids, causing an exchange restriction to arise. While some observers have commented on the impact of prioritization, staff has not made a jurisdictional finding at this time. Staff will continue to monitor developments and notes that the authorities' continued cooperation in this regard will be key.

STAFF APPRAISAL

20. Turkmenistan is a major natural gas exporter impacted by an adverse external environment. Lower hydrocarbon prices and slower partner activity have reduced growth and contributed to a sizable external deficit. The macroeconomic outlook will remain constrained by the current account deficits, with significant downside risks.

21. The Turkmen authorities have taken a number of policy measures to facilitate adjustment to the new reality of low oil and natural gas prices. The initial steps included public investment cuts, the step devaluation of the currency, and a one-time increase in utility tariffs in 2015. The administration has also intensified its efforts to develop a local production base, while increasing regional interconnectedness of the Turkmen economy.

22. The external position of Turkmenistan is substantially weaker than warranted by fundamentals and desirable policy settings, which calls for further policy adjustment. Staff sees merit in another step devaluation of the manat, accompanied by gradual but significant cuts to public investments, slower credit growth, and elimination of foreign exchange controls. This strategy would complement the authorities' policies to develop new industries. The pace and composition of investment cuts should be designed to reduce the adverse impact on economic growth and vulnerable segments of the population, but should be front loaded given downside risks and uncertainties.

23. Meanwhile, the new reality of low hydrocarbon prices calls for a new growth model. Maintaining strong, sustainable, and inclusive growth requires further improvements in the business and regulatory environment, a decisive push for SOE reform and privatization, downsizing and greater efficiency of public spending (especially investment), and continued focus on social protection and human development outcomes. The role of the state in planning and coordinating economic activity should gradually be scaled down. Protection provided by the import-substitution and export-promotion policies could boost growth in the short term, but stifle, rather than support, development over the medium term, and imply currently unanticipated fiscal costs.

24. Real sector reforms should be accompanied by developing a risk management culture in banks, with stronger regulatory and monetary capacity. The authorities' intention to pursue a financial regulatory overhaul over the next couple of years, including by introducing Basel standards, is welcome. Tightening prudential requirements and rationalizing the process of project selection would be appropriate given strong credit growth, directed credit for state-led projects, recent increase in the share of substandard loans, and the sectoral focus of key banks. The authorities should also continue their efforts to raise awareness of the exchange rate risk, while enhancing bank governance and risk management.

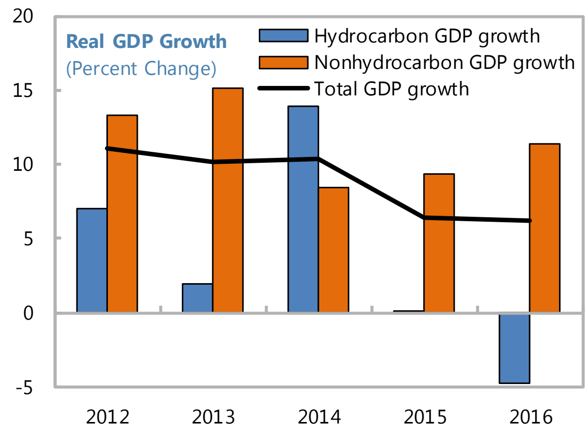
25. Addressing data gaps would improve policymaking and understanding of economic trends by all stakeholders. Stepping up communication, including by publishing more fiscal, financial, and external statistics would improve understanding of trends and policy intentions among all stakeholders, boost foreign investment, and ease access to global financial markets. It would also facilitate the debate on further improvements in data quality.

26. The fixed exchange rate regime remains appropriate for Turkmenistan, but the authorities should phase out controls on current international transactions. Given limited capacity, maintaining a fixed exchange rate regime after the devaluation would be preferable. However, preparations should start on the institutional infrastructure for more exchange rate flexibility. Removing the exchange restrictions and other controls on current international payments would help increase economic efficiency, and eliminating the restrictions would help ensure Turkmenistan's compliance with Article VIII, Section 2(a). As in 2015, staff does not recommend approval of the two exchange restrictions described in the Informational Annex, as they were not imposed for balance of payment reasons and there is no planned timeline for their removal.

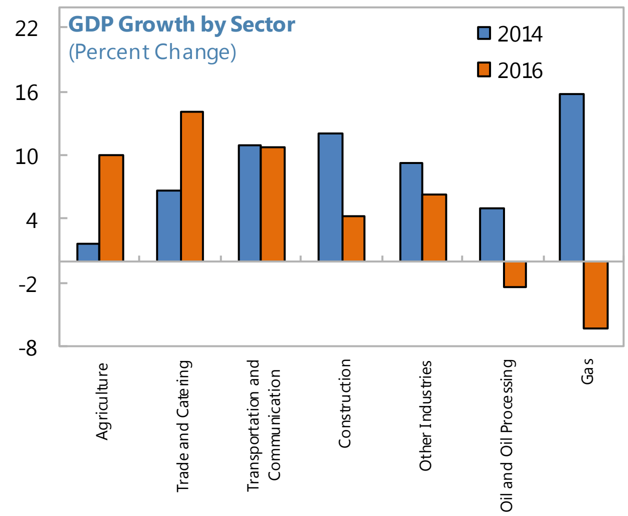
27. Staff recommends that the next Article IV consultation with Turkmenistan be held on the standard 12-month cycle.

Figure 1. Turkmenistan: Real Sector Developments

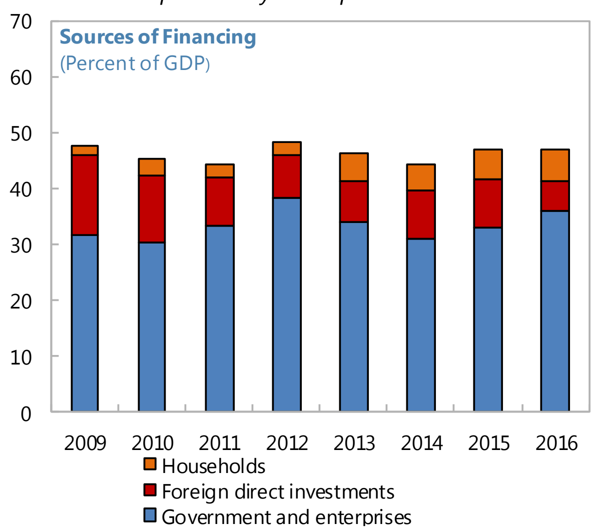
Growth has slowed due to an adverse external environment, especially low hydrocarbon prices.



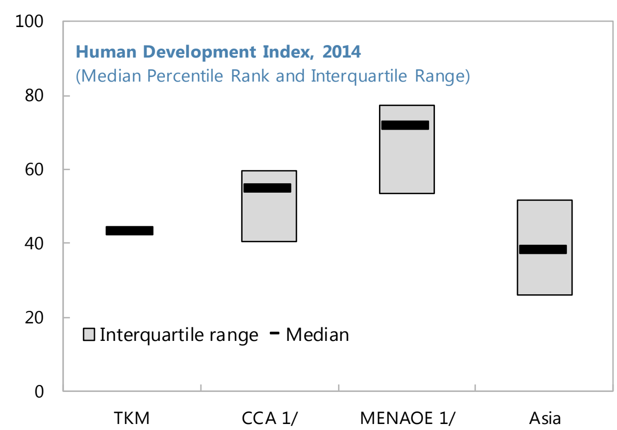
Growth has been supported by strong expansion in agriculture, trade, and services.



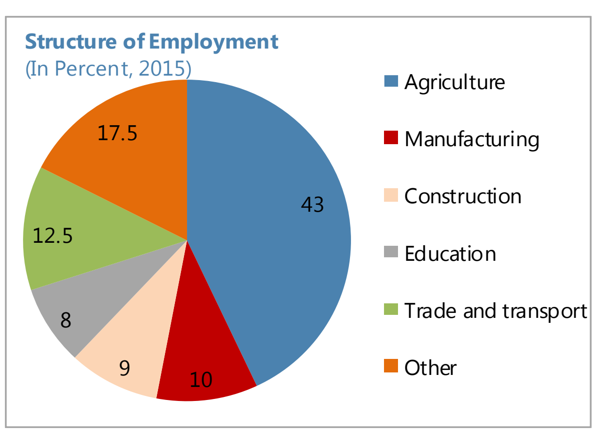
Investment rates have remained very high, particularly in the public sector.



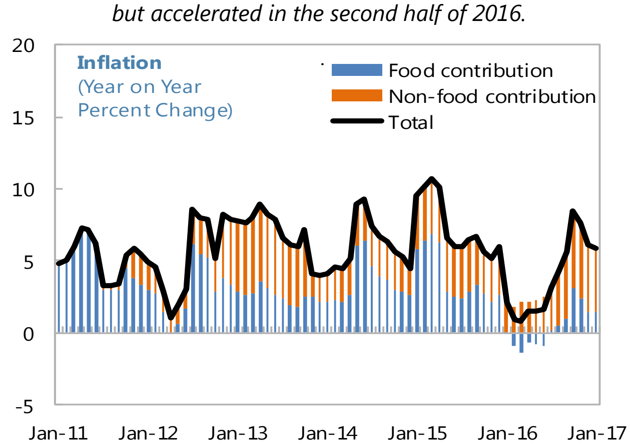
However, Turkmenistan still lags behind in human development.



Most employees still work in agriculture.



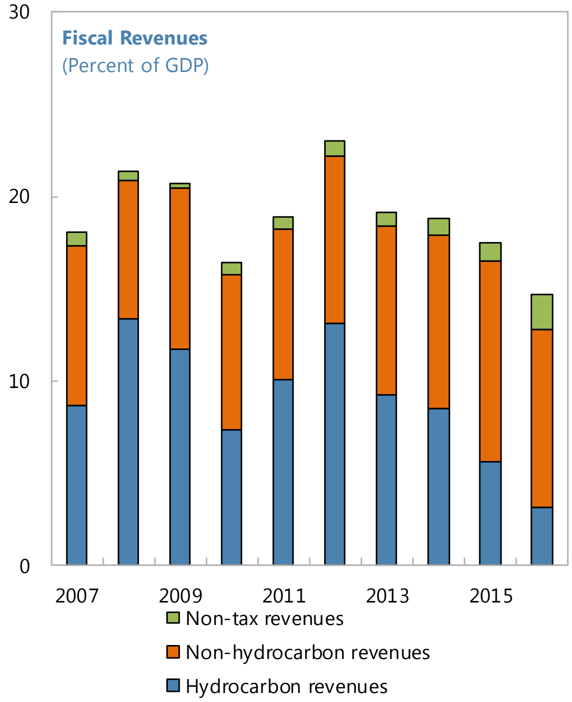
Inflation had eased from a post-devaluation high but accelerated in the second half of 2016.



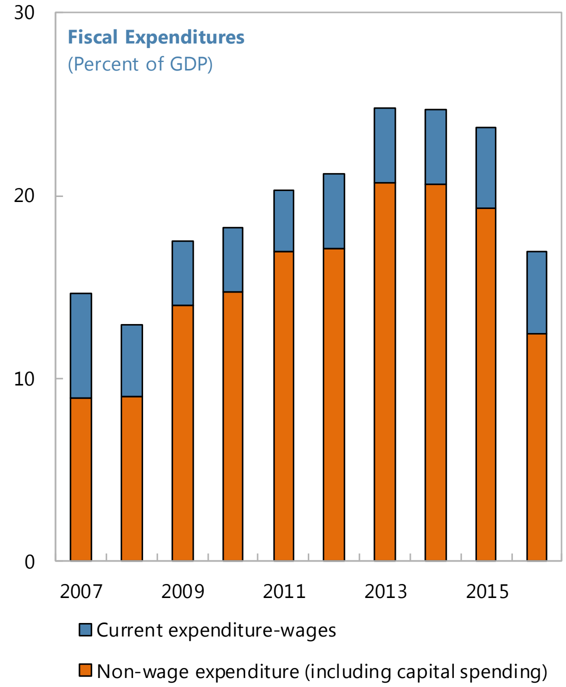
Sources: National Authorities; World Bank; International Labor Organization; BP Statistical Bulletin; and IMF staff estimates.
1/ CCA refers to the Caucasus and Central Asia. MENAOE refers to oil exporting countries in the Middle East and North Africa region.

Figure 2. Turkmenistan: Fiscal Sector Developments

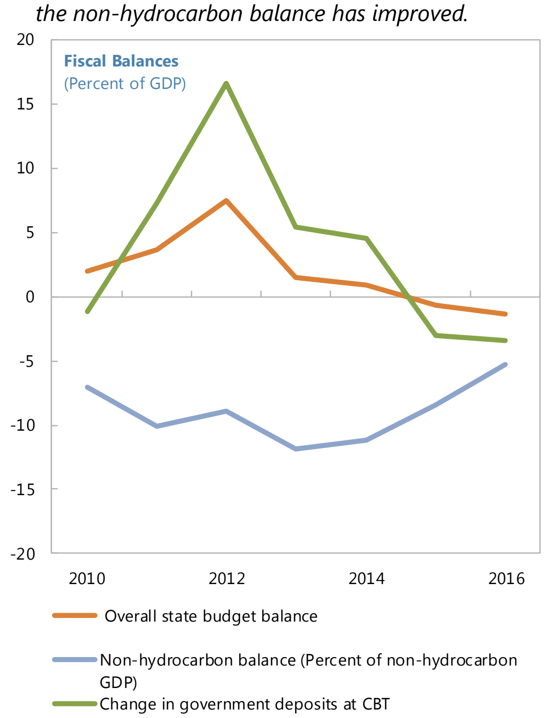
Hydrocarbon revenues have declined substantially over the past couple of years.



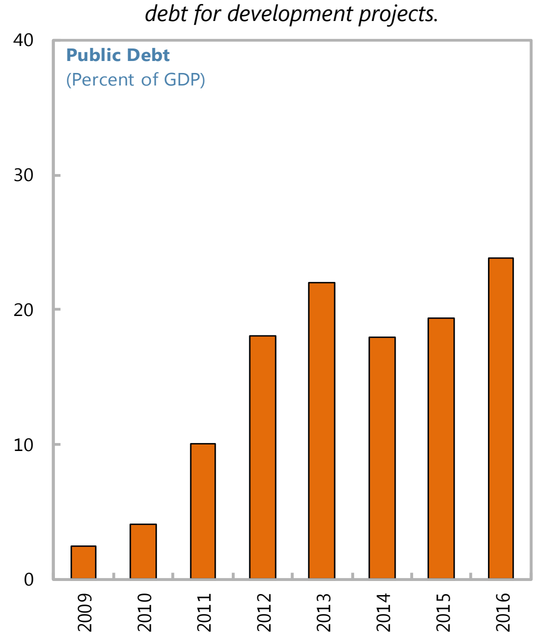
In parallel, policymakers cut capital and non-wage current spending.



The fiscal balance has swung into a modest deficit, while the non-hydrocarbon balance has improved.



State-owned enterprises have continued to accumulate debt for development projects.

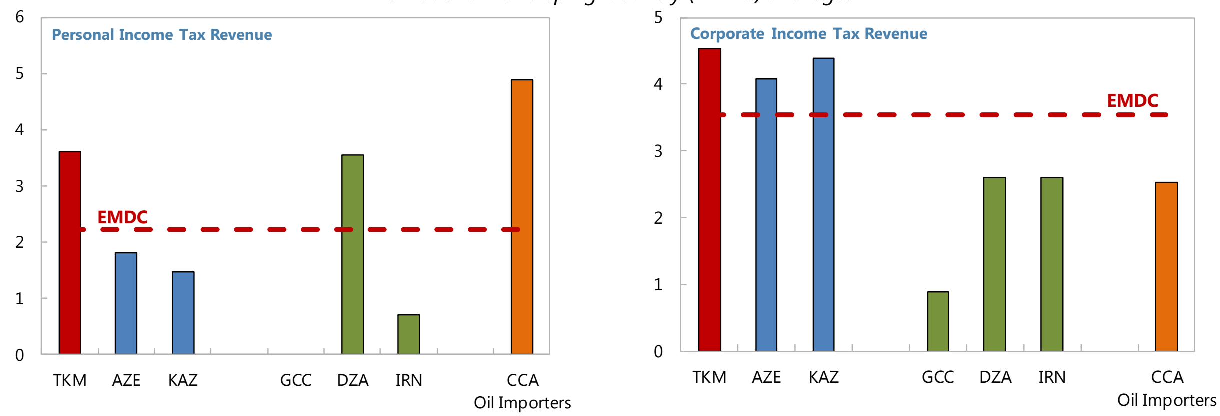


Sources: National Authorities; CBT Banking Bulletin; and IMF staff estimates.

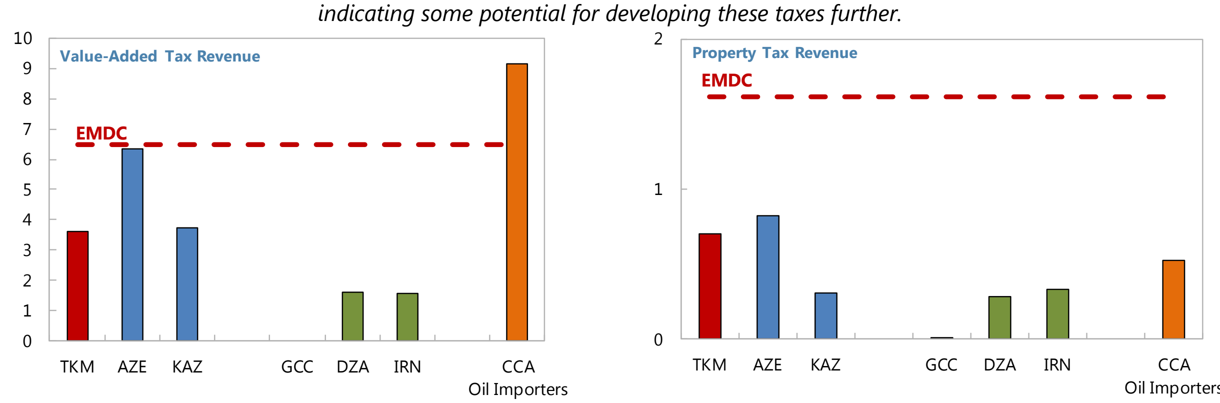
Figure 3. Turkmenistan: Composition of Fiscal Revenue and Spending

(In percent of GDP, 2015 or most recent)

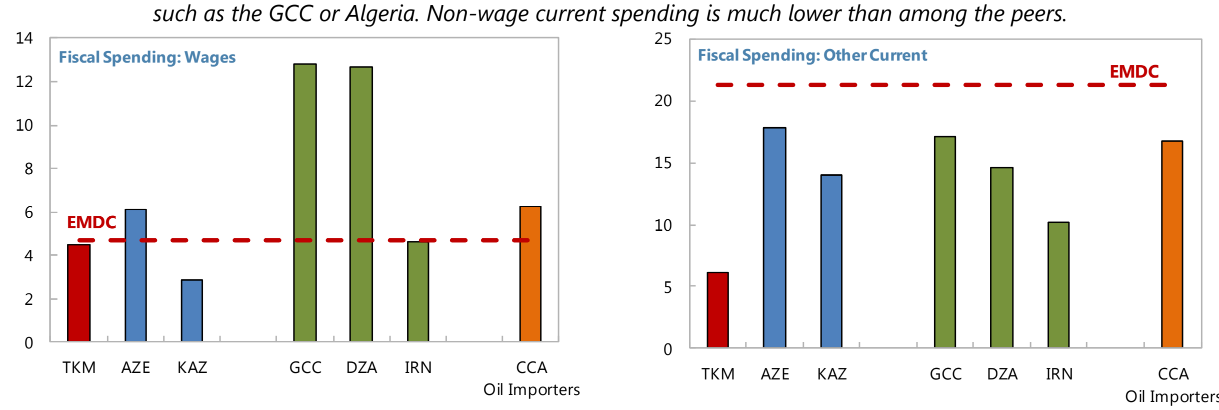
Turkmenistan has a well-developed tax system, with higher personal and corporate income tax revenues than the Emerging Market and Developing Country (EMDC) average.



Revenues from value added and property taxes are higher than in some regional peers, but lower than the EMDC average, indicating some potential for developing these taxes further.

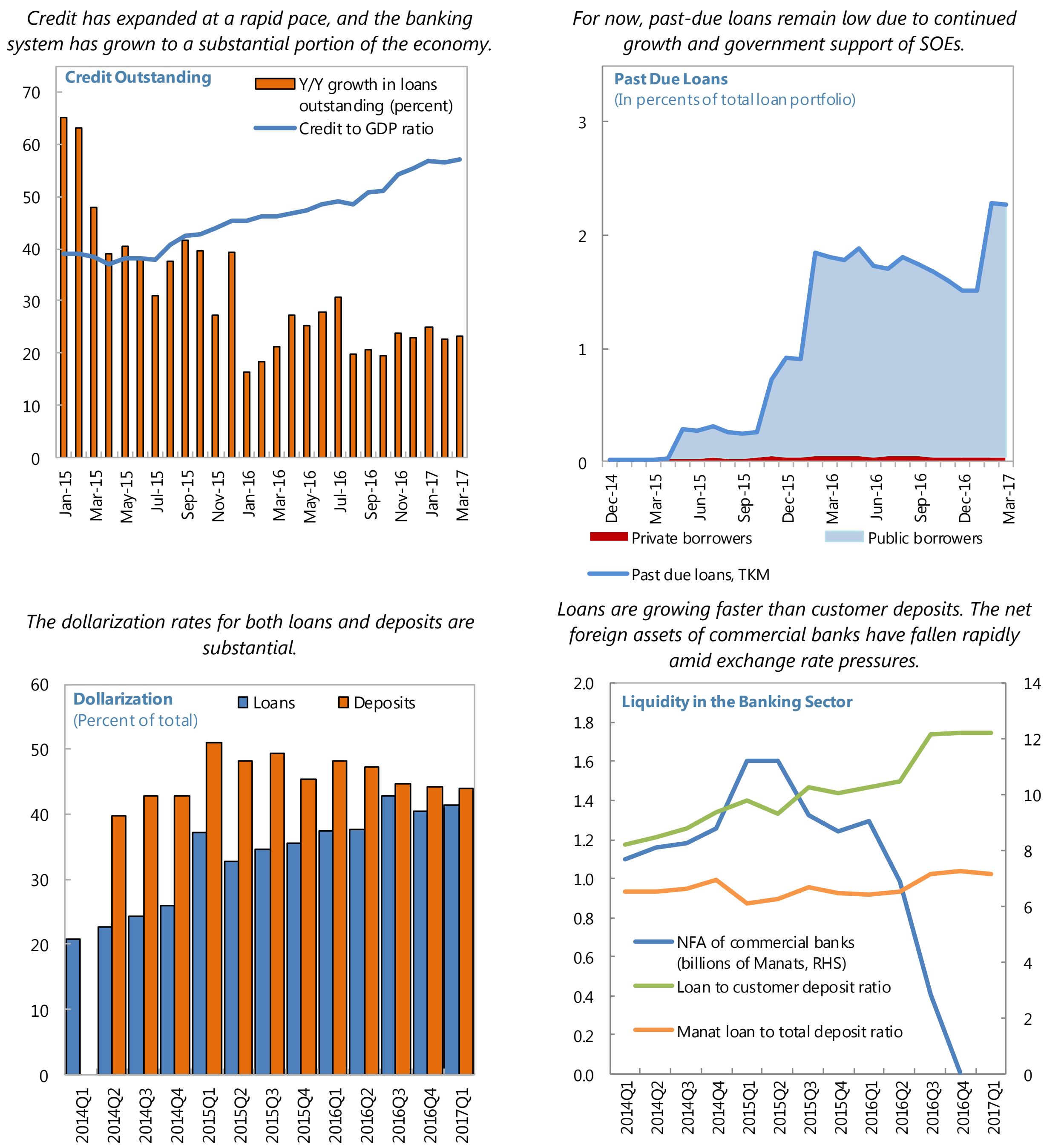


On the spending side, the state budget wage bill is similar to other EMDCs, but much lower compared to other oil exporters such as the GCC or Algeria. Non-wage current spending is much lower than among the peers.



Sources: Turkmenistan authorities and IMF staff estimates.

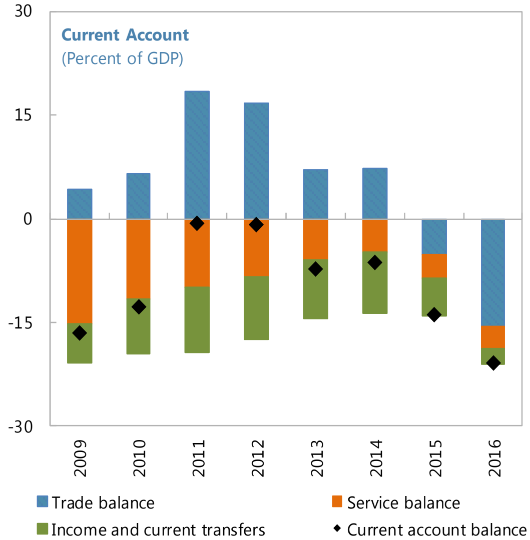
Figure 4. Turkmenistan: Financial Sector Developments



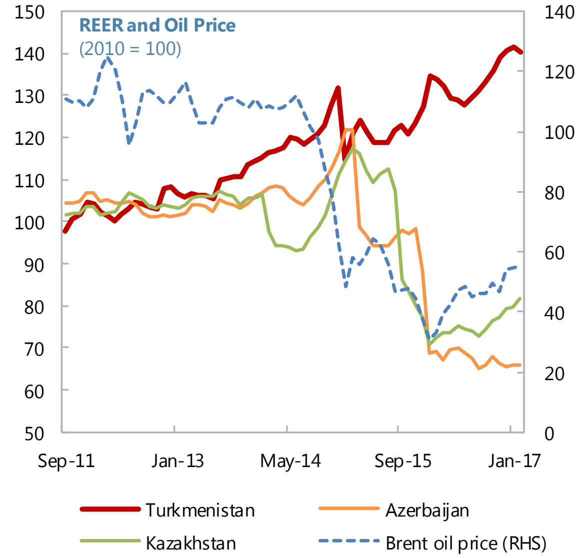
Sources: National Authorities; CBT Banking Bulletin; and IMF staff estimates.

Figure 5. Turkmenistan: External Sector Developments

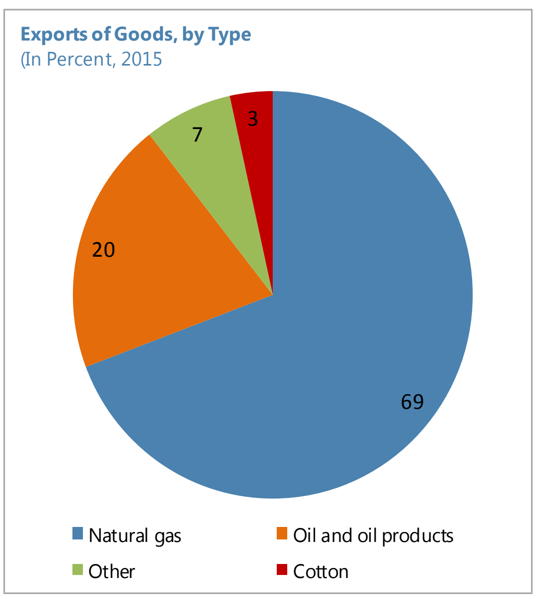
The current account balance has sharply deteriorated amid falling hydrocarbon exports.



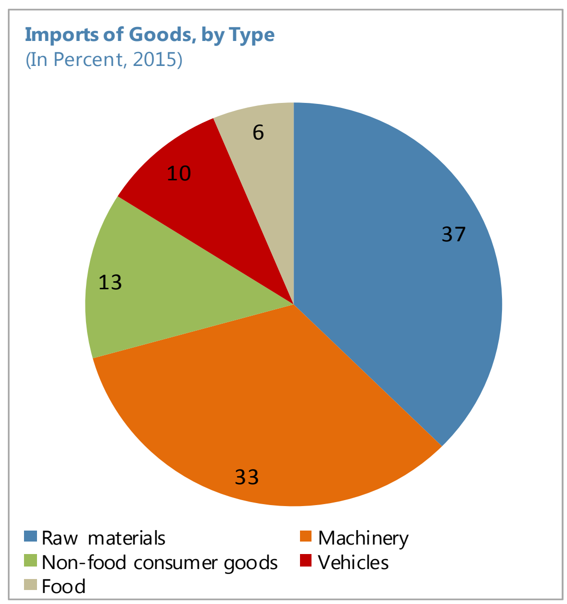
The real exchange rate has significantly appreciated, in contrast with other regional currencies.



Exports remain dominated by commodities, with no or limited processing.



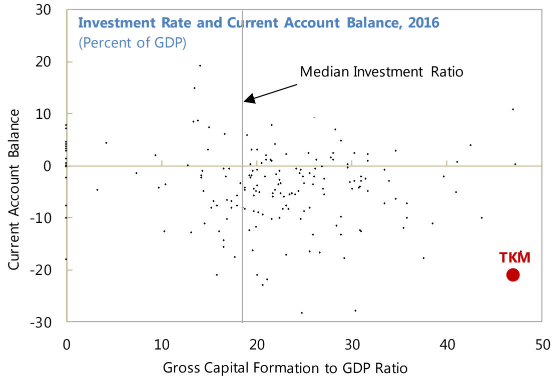
The high share of imported raw materials points to substitution opportunities.



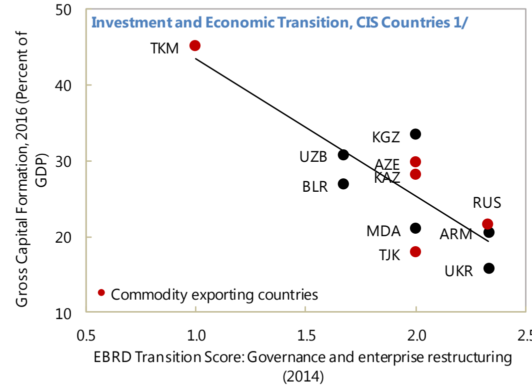
Sources: National Authorities; and IMF staff estimates.

Figure 6. Turkmenistan: Unsustainability of the Current Growth Model

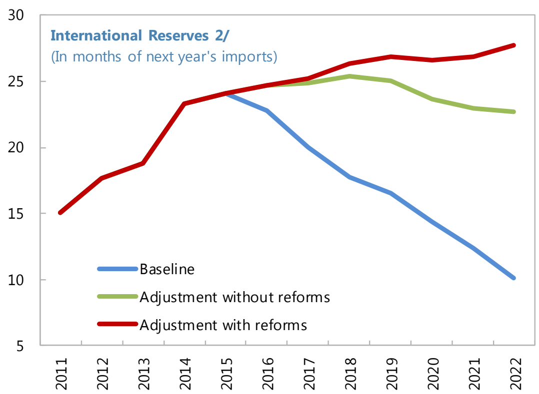
The growth model is based on very high levels of investment, which lead to large current account deficits when oil prices are low.



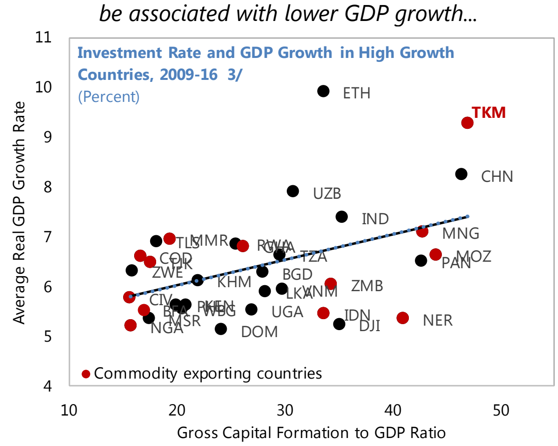
In CIS countries, high investment rates tend to be associated with limited progress on corporate sector reforms.



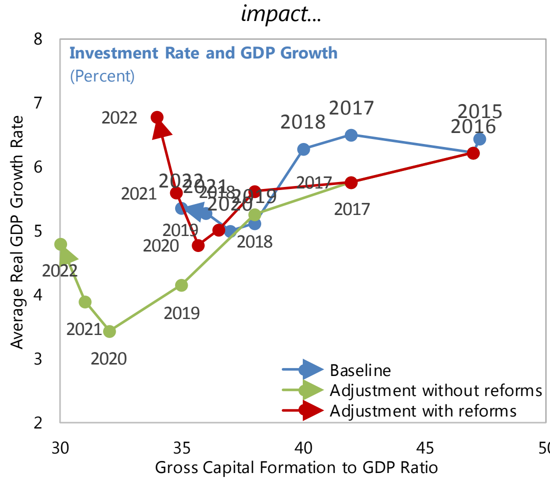
Under the baseline scenario, this implies rapidly declining international reserves.



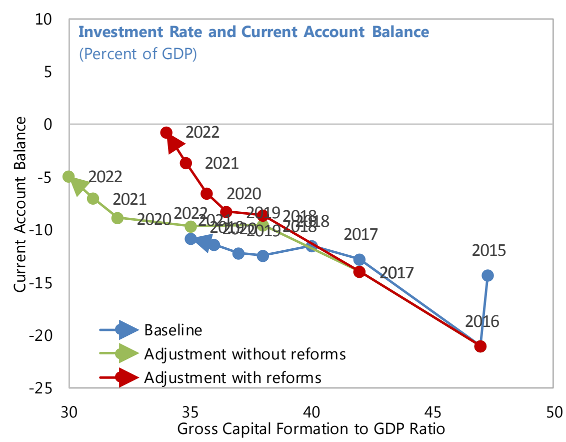
While bringing investment down to a sustainable level will be associated with lower GDP growth...



...implementing reforms can lessen the adverse growth impact...



...while also reducing the external deficits.

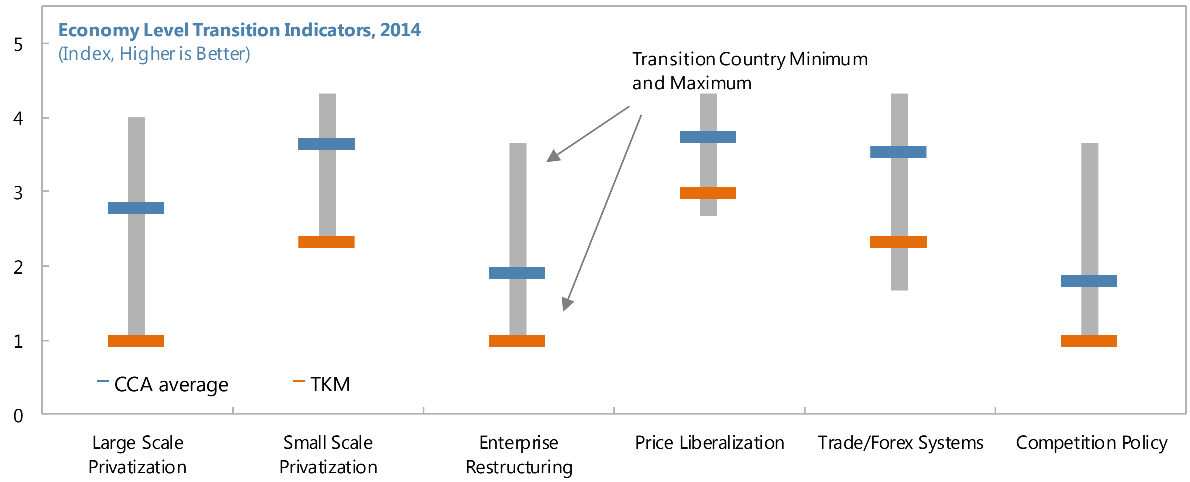


Sources: IMF World Economic Outlook, IMF staff estimates, and EBRD Transition Indicators.

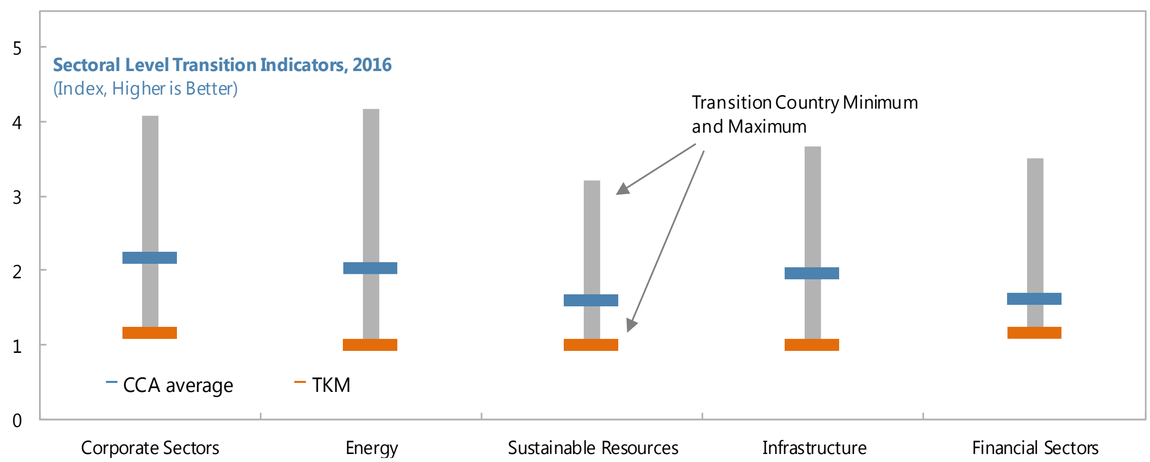
1/ The Commonwealth of Independent States includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan.
2/ Net foreign assets of the Central Bank.
3/ High growth countries are countries that had average real GDP growth of 5 percent or more between 2009 and 2016.

Figure 7. Turkmenistan: Key Structural Indicators

Turkmenistan has large room to catch up with its peers on various indicators of economic transition …



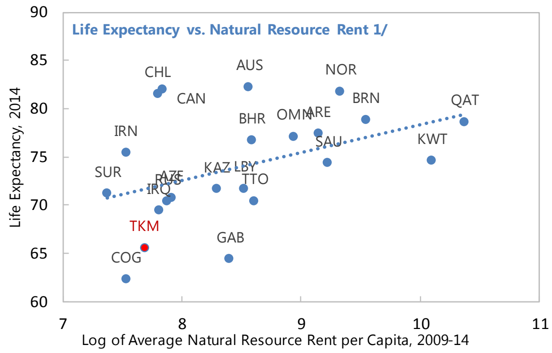
…as well as on indicators of structural reforms at the sectoral level.



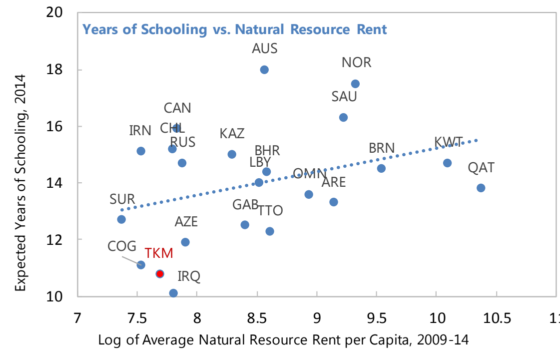
Sources: EBRD Transition Indicators; Human Development Index; Work Bank; and IMF staff estimates.

Figure 8. Turkmenistan: Efficiency of Government Spending

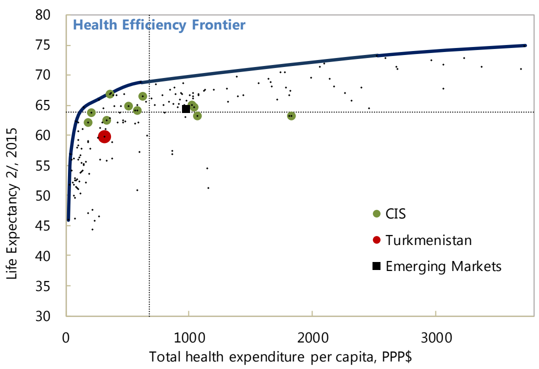
Turkmenistan has room to catch up to other resource rich countries in health outcomes...



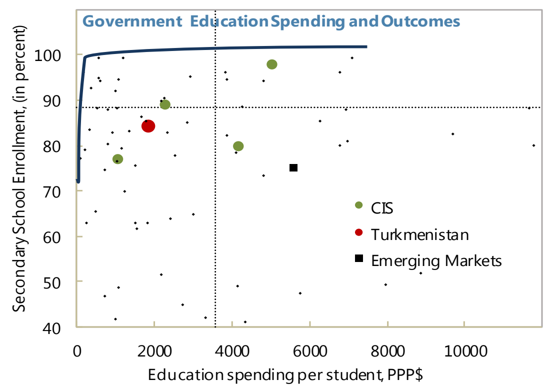
...as well as in educational outcomes.



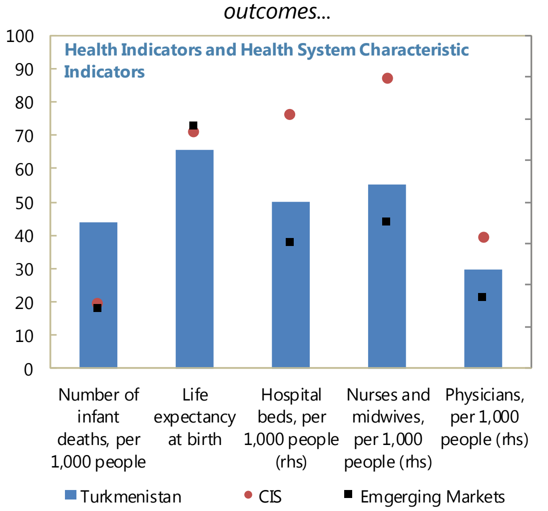
Health spending efficiency per dollar also appears low....



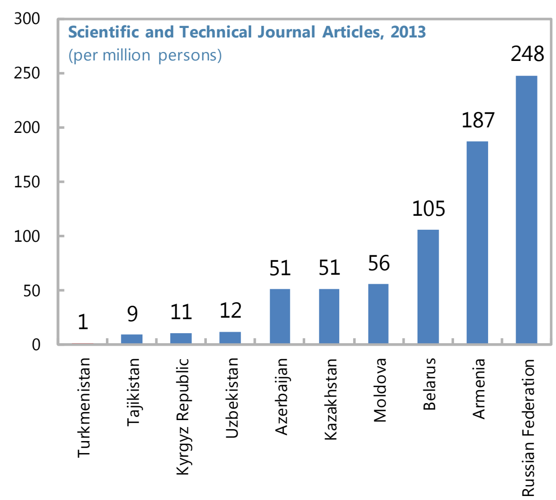
...and there is scope for improvement in educational spending efficiency.



Turkmenistan also lags behind its peers on various health outcomes...



...and scientific productivity.

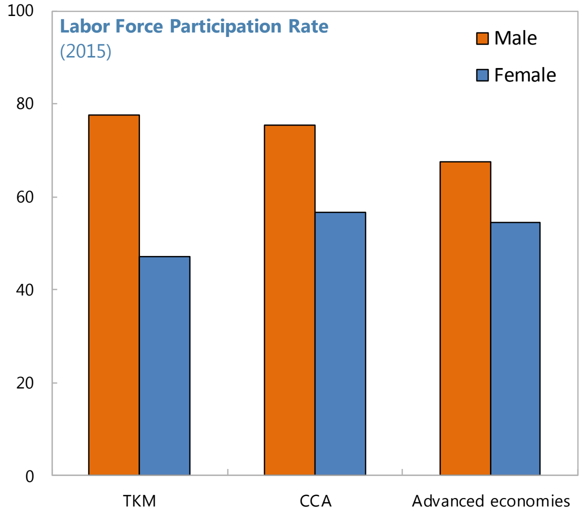


Sources: IMF staff estimates, IMF FAD Expenditure Assessment Tool (EAT), World Bank.

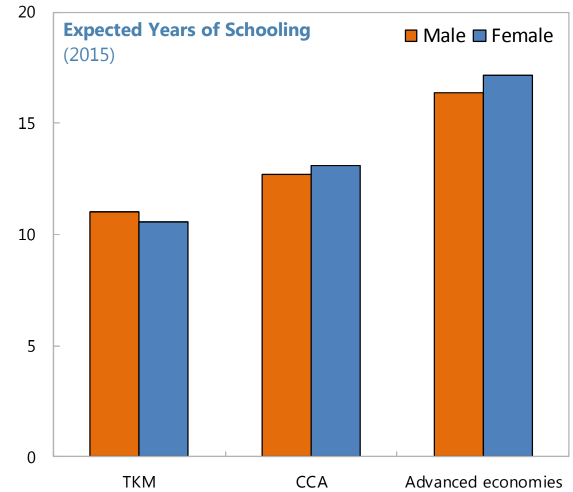
1/ Natural resources include oil, natural gas, coal (hard and soft), minerals, and forests. The estimates of natural resources rents are calculated by the World Bank as the difference between the price of a commodity and the average cost of producing it.
2/ This is the health adjusted life expectancy, which takes into account years lived under a healthy standard.

Figure 9. Turkmenistan: Macroeconomic Aspects of Gender Equity

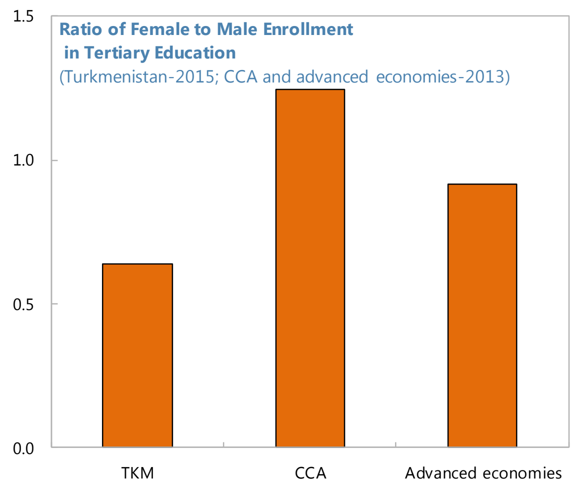
The female labor force participation is lower in Turkmenistan than in other CCA countries and advanced economies.



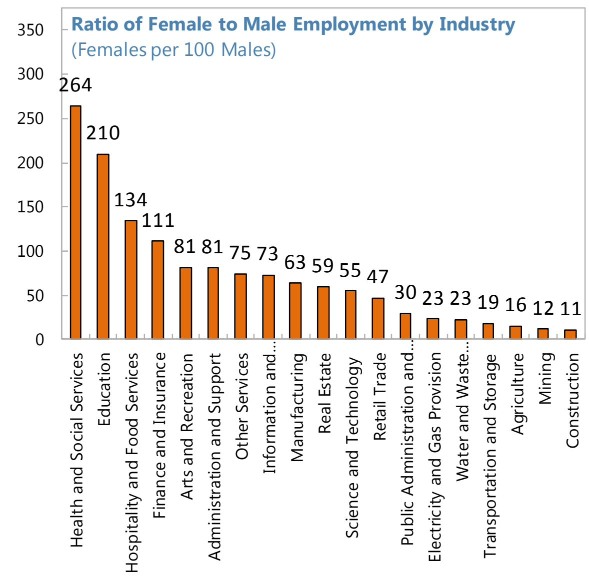
The expected years of schooling remain lower than in peer countries.



The labor force gap could be partly reduced through increased female enrollment in tertiary education.



Existing plans to develop services and social sectors are likely to have a positive impact on female labor force participation and employment.



Sources: United Nations: Gender Inequality and Development Index, Human Development Indicators, and World Population Prospects; Turkmenistan Statistical Yearbook, 2015.

Table 1. Turkmenistan: Selected Economic Indicators, 2013–22

Population: 5.3 million (2013 est.) GDP per capita (2016): $ 6,622

Quota: SDR 238.6 million Main exports: gas, oil and oil products, cotton

	Est. 2013	Est. 2014	Est. 2015	Est. 2016	Proj. 2017	2018	2019	2020	2021	2022
Output and prices					(Annual percentage change)					
Real GDP	10.2	10.3	6.5	6.2	6.5	6.3	5.1	5.0	5.3	5.4
Real hydrocarbon GDP	1.9	13.9	0.1	-4.8	4.3	7.5	4.4	2.9	3.7	3.7
Real nonhydrocarbon GDP	15.1	8.4	9.4	11.4	7.4	5.8	5.4	5.7	5.8	5.8
Consumer prices (end of period)	4.0	4.4	6.0	6.2	6.1	6.2	6.2	6.2	6.2	6.2
Consumer prices (period average)	6.8	6.0	7.4	3.6	6.0	6.2	6.2	6.2	6.2	6.2
Investment and savings					(In percent of GDP)					
Gross investment	46.4	44.3	47.0	47.0	42.0	40.0	38.0	37.0	36.0	35.0
Of which: State budget	7.9	7.7	6.6	2.8	2.4	2.5	2.6	2.7	2.8	2.9
Gross savings	39.1	38.0	32.9	26.0	29.2	28.4	25.7	24.8	24.6	24.2
Fiscal sector					(In percent of GDP)					
State budget balance	1.5	0.9	-0.7	-1.3	-0.7	0.2	0.1	-0.1	-0.1	-0.1
Revenue	18.4	17.9	16.5	12.8	12.4	13.1	12.9	12.6	12.4	12.2
Expenditure	16.9	17.0	17.2	14.1	13.1	12.9	12.8	12.7	12.5	12.3
Nonhydrocarbon primary state budget balance (in percent of non-hydrocarbon GDP)	-11.9	-11.1	-8.4	-5.3	-5.6	-4.7	-4.4	-4.2	-4.0	-3.8
Change in government deposits at CBT	5.4	4.5	-3.0	-3.4	-0.6	1.3	1.1	0.8	0.7	0.6
Monetary sector					(12-month percent change, unless otherwise indicated)					
Credit to the economy	-5.2	40.1	39.4	24.0	19.0	18.0	18.0	16.0	16.0	15.0
Credit to GDP ratio	26.1	33.0	45.2	55.9	56.8	60.1	64.3	67.4	70.3	72.5
Broad money, incl. foreign currency deposits at CBT	31.2	11.4	16.1	9.4	9.3	7.0	6.6	6.9	7.0	7.1
Real effective exchange rate	5.0	10.7	0.5	9.3	…	…	…	…	…	…
External sector					(In percent of GDP, unless otherwise indicated)					
Exports of goods (In millions of US$)	18,854	19,782	12,164	7,519	10,113	11,227	11,680	12,021	12,693	13,504
Imports of goods (In millions of US$)	16,090	16,638	14,051	13,177	13,022	13,642	14,260	14,904	15,609	16,365
Merchandise trade balance	7.1	7.2	-5.2	-15.6	-6.9	-5.1	-5.0	-5.0	-4.5	-4.0
Current account balance	-7.3	-6.4	-14.0	-21.0	-12.8	-11.6	-12.3	-12.2	-11.4	-10.8
Foreign direct investment	7.3	8.8	8.5	6.2	4.5	3.6	3.4	3.2	3.0	2.8
Total public sector external debt	22.1	18.0	19.4	23.9	24.3	27.6	31.4	35.2	38.0	39.6
Gross international reserves (in millions of US$) 1/	30,280	30,897	29,356	27,867	26,634	24,773	22,630	20,510	18,265	15,611
In months of next year's imports of gds and svcs	18.8	23.4	23.8	22.8	20.7	19.3	16.5	14.4	12.3	10.1
Memorandum items:										
Nominal GDP (in millions of manat)	111,713	124,044	126,163	126,630	148,244	165,202	182,300	201,840	224,387	250,019
Nominal GDP (in millions of US$)	39,198	43,524	36,047	36,180	42,355	47,201	52,086	57,669	64,111	71,434
Oil price (US$ per barrel)	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2
GDP per capita (US$)	7,480	8,191	6,690	6,622	7,646	8,403	9,144	9,985	10,947	12,029
Manats per US$ (official, period average)	2.85	2.85	3.50	3.50	…	…	…	…	…	…

Sources: Turkmen authorities; and Fund staff estimates and projections.

1/ Net foreign assets of the Central Bank of Turkmenistan.

Table 2. Turkmenistan: Balance of Payments, 2013–22

(In millions of U.S. dollars; unless otherwise indicated)

	Est.	Est.	Est.	Est.	Proj.					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account	-2,880	-2,769	-5,054	-7,605	-5,432	-5,492	-6,415	-7,048	-7,324	-7,694
Goods	2,764	3,144	-1,887	-5,658	-2,909	-2,414	-2,580	-2,883	-2,915	-2,861
Exports	18,854	19,782	12,164	7,519	10,113	11,227	11,680	12,021	12,693	13,504
Imports (CIF)	-16,090	-16,638	-14,051	-13,177	-13,022	-13,642	-14,260	-14,904	-15,609	-16,365
Consumer goods and foods	-2,828	-2,863	-2,681	-2,435	-2,313	-2,578	-2,778	-3,001	-3,252	-3,531
Capital and intermediary goods	-13,262	-13,775	-11,371	-10,742	-10,709	-11,064	-11,482	-11,903	-12,356	-12,834
Services	-2,325	-2,097	-1,187	-1,117	-1,085	-1,168	-1,552	-1,604	-1,511	-1,579
Exports	682	579	608	492	576	608	620	630	647	668
Imports	-3,006	-2,676	-1,794	-1,609	-1,662	-1,776	-2,172	-2,234	-2,158	-2,247
Factor income	-3,415	-3,921	-2,094	-954	-1,574	-2,059	-2,447	-2,740	-3,093	-3,469
Credit	294	317	324	606	580	533	501	465	430	394
Of which : Interest	281	303	309	587	557	506	469	426	384	339
Debit	-3,709	-4,237	-2,418	-1,560	-2,154	-2,592	-2,948	-3,205	-3,523	-3,863
Of which : Interest	-295	-261	-243	-178	-273	-491	-758	-952	-1,141	-1,324
Current transfers (net)	96	104	114	125	137	149	163	179	196	214
Capital and financial account	5,029	3,061	1,876	3,534	2,874	3,631	4,272	4,928	5,080	5,040
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	5,029	3,061	1,876	3,534	2,874	3,631	4,272	4,928	5,080	5,040
Net foreign direct investment	2,865	3,828	3,074	2,225	1,892	1,702	1,753	1,824	1,915	2,030
Medium and long-term borrowing	2,388	960	929	3,420	2,850	3,350	4,000	6,000	5,500	5,500
Scheduled amortization	-97	-1,776	-1,776	-1,762	-1,192	-621	-657	-2,045	-1,460	-1,590
Other financial flows	-127	50	-350	-350	-675	-800	-825	-850	-875	-900
Errors and omissions	-88	325	1,635	2,582	0	0	0	0	0	0
Overall balance (deficit -)	2,061	617	-1,543	-1,489	-2,558	-1,861	-2,143	-2,120	-2,244	-2,654
Memorandum items:										
Turkmenistan's gas export price (US$ per bcm)	319	312	209	130	168	167	164	164	165	168
Current account as percent of GDP	-7.3	-6.4	-14.0	-21.0	-12.8	-11.6	-12.3	-12.2	-11.4	-10.8
Gross international reserves 1/	30,280	30,897	29,356	27,867	26,634	24,773	22,630	20,510	18,265	15,611
In months of next year's imports of goods and services	18.8	23.4	23.8	22.8	20.7	19.3	16.5	14.4	12.3	10.1
External public debt 2/	8,644	7,827	6,979	8,638	10,295	13,024	16,368	20,322	24,362	28,273
In percent of GDP at official exchange rate	22.1	18.0	19.4	23.9	24.3	27.6	31.4	35.2	38.0	39.6

Sources: Turkmen authorities; and Fund staff estimates and projections.

1/ Net foreign assets of the Central Bank of Turkmenistan.

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

Table 3. Turkmenistan: Balance of Payments, 2013–22
(In percent of GDP; unless otherwise indicated)

	Est. 2013	Est. 2014	Est. 2015	Est. 2016	Proj. 2017	2018	2019	2020	2021	2022
Current account	-7.3	-6.4	-14.0	-21.0	-12.8	-11.6	-12.3	-12.2	-11.4	-10.8
Goods	7.1	7.2	-5.2	-15.6	-6.9	-5.1	-5.0	-5.0	-4.5	-4.0
Exports	48.1	45.5	33.7	20.8	23.9	23.8	22.4	20.8	19.8	18.9
Imports (CIF)	-41.0	-38.2	-39.0	-36.4	-30.7	-28.9	-27.4	-25.8	-24.3	-22.9
Consumer goods and foods	-7.2	-6.6	-7.4	-6.7	-5.5	-5.5	-5.3	-5.2	-5.1	-4.9
Capital and intermediary goods	-33.8	-31.6	-31.5	-29.7	-25.3	-23.4	-22.0	-20.6	-19.3	-18.0
Services	-5.9	-4.8	-3.3	-3.1	-2.6	-2.5	-3.0	-2.8	-2.4	-2.2
Exports	1.7	1.3	1.7	1.4	1.4	1.3	1.2	1.1	1.0	0.9
Imports	-7.7	-6.1	-5.0	-4.4	-3.9	-3.8	-4.2	-3.9	-3.4	-3.1
Factor income	-8.7	-9.0	-5.8	-2.6	-3.7	-4.4	-4.7	-4.8	-4.8	-4.9
Credit	0.8	0.7	0.9	1.7	1.4	1.1	1.0	0.8	0.7	0.6
Of which : Interest	0.7	0.7	0.9	1.6	1.3	1.1	0.9	0.7	0.6	0.5
Debit	-9.5	-9.7	-6.7	-4.3	-5.1	-5.5	-5.7	-5.6	-5.5	-5.4
Of which : Interest	-0.8	-0.6	-0.7	-0.5	-0.6	-1.0	-1.5	-1.7	-1.8	-1.9
Current transfers (net)	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital and financial account	12.8	7.0	5.2	9.8	6.8	7.7	8.2	8.5	7.9	7.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	12.8	7.0	5.2	9.8	6.8	7.7	8.2	8.5	7.9	7.1
Net foreign direct investment	7.3	8.8	8.5	6.2	4.5	3.6	3.4	3.2	3.0	2.8
Medium and long-term borrowing	6.1	2.2	2.6	9.5	6.7	7.1	7.7	10.4	8.6	7.7
Scheduled amortization	-0.2	-4.1	-4.9	-4.9	-2.8	-1.3	-1.3	-3.5	-2.3	-2.2
Other financial flows	-0.3	0.1	-1.0	-1.0	-1.6	-1.7	-1.6	-1.5	-1.4	-1.3
Errors and omissions	-0.2	0.7	4.5	7.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -)	5.3	1.4	-4.3	-4.1	-6.0	-3.9	-4.1	-3.7	-3.5	-3.7
Memorandum items:										
Turkmenistan's gas export price (US$ per bcm)	319	312	209	130	168	167	164	164	165	168
Gross international reserves (In millions of US$) 1/	30,280	30,897	29,356	27,867	26,634	24,773	22,630	20,510	18,265	15,611
In months of next year's imports of goods and services	18.8	23.4	23.8	22.8	20.7	19.3	16.5	14.4	12.3	10.1
External public debt (In millions of US$) 2/	8,644	7,827	6,979	8,638	10,295	13,024	16,368	20,322	24,362	28,273
In percent of GDP at official exchange rate	22.1	18.0	19.4	23.9	24.3	27.6	31.4	35.2	38.0	39.6

Sources: Turkmen authorities; and Fund staff estimates and projections.

1/ Net foreign assets of the Central Bank of Turkmenistan.

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

Table 4. Turkmenistan: State Budget Operations, 2013–22

	2013	2014	2015	Est. 2016	Proj. 2017	2018	2019	2020	2021	2022
					(In millions of manat)					
Total revenue	**20,562**	**22,202**	**20,819**	**16,162**	**18,313**	**21,700**	**23,571**	**25,517**	**27,863**	**30,508**
Of which: Nonhydrocarbon	10,206	11,654	13,704	12,188	12,644	14,995	16,611	18,389	20,399	22,647
Hydrocarbon	10,355	10,548	7,116	3,974	5,669	6,705	6,960	7,128	7,464	7,861
Tax revenue	19,757	21,057	19,527	13,769	16,502	19,662	21,302	22,993	25,049	27,367
Income tax	1,323	1,577	1,777	1,823	2,051	2,307	2,569	2,857	3,186	3,556
Profit tax	4,806	5,288	5,675	1,929	2,711	4,068	4,412	4,774	5,222	5,733
Property tax	582	743	882	1,061	1,014	1,329	1,438	1,557	1,688	1,834
Value added tax	5,708	5,710	4,519	3,091	3,991	4,589	4,952	5,310	5,772	6,298
Natural resource tax	3,064	3,126	1,906	812	1,614	1,923	1,995	2,029	2,125	2,243
Excises	1,277	1,280	1,246	1,152	731	793	854	924	1,005	1,097
Payroll tax (pension and security)	2,126	2,443	2,738	2,913	3,289	3,405	3,698	4,017	4,362	4,736
Other taxes and duties	870	890	784	989	1,102	1,246	1,383	1,525	1,689	1,871
Nontax revenue	805	1,145	1,293	2,393	1,811	2,038	2,269	2,524	2,815	3,141
Total expenditure	**18,852**	**21,101**	**21,693**	**17,831**	**19,425**	**21,372**	**23,403**	**25,644**	**28,120**	**30,858**
Current expenditure	9,994	11,508	13,405	14,232	15,855	17,267	18,681	20,214	21,876	23,678
Of which: Wage bill	4,575	5,083	5,621	5,645	6,210	6,831	7,514	8,265	9,092	10,001
Social services	7,815	8,841	10,497	11,338	12,486	13,677	14,856	16,138	17,532	19,048
Education	2,706	3,276	3,809	3,932	4,574	5,000	5,465	5,975	6,532	7,142
Health	838	963	1,125	1,168	1,507	1,645	1,796	1,962	2,142	2,339
Culture	296	362	396	391	494	534	576	622	672	726
Social security	3,221	3,341	4,122	4,902	4,702	5,193	5,608	6,057	6,541	7,065
Housing services	755	899	1,046	945	1,209	1,305	1,410	1,523	1,645	1,776
General services	1,928	2,389	2,593	2,526	2,962	3,146	3,342	3,550	3,772	4,006
National economy	226	260	294	282	310	335	362	391	422	456
Other expenditure	25	17	20	86	97	109	121	135	150	168
Capital expenditure (state budget)	8,858	9,594	8,289	3,599	3,570	4,106	4,721	5,430	6,244	7,181
Overall balance	**1,709**	**1,101**	**-874**	**-1,669**	**-1,111**	**327**	**168**	**-126**	**-256**	**-350**
Other items, net 1/	4,328	4,465	-2,924	-2,699	207	1,898	1,889	1,759	1,832	1,972
Change in government deposits at CBT	**6,038**	**5,566**	**-3,798**	**-4,368**	**-904**	**2,225**	**2,057**	**1,633**	**1,575**	**1,622**
Nonhydrocarbon balance	-8,646	-9,447	-7,990	-5,643	-6,781	-6,378	-6,792	-7,255	-7,720	-8,211
					(In percent of GDP)					
Total revenue	18.4	17.9	16.5	12.8	12.4	13.1	12.9	12.6	12.4	12.2
Of which: Hydrocarbon	9.3	8.5	5.6	3.1	3.8	4.1	3.8	3.5	3.3	3.1
Nonhydrocarbon	9.1	9.4	10.9	9.6	8.5	9.1	9.1	9.1	9.1	9.1
Tax revenue	17.7	17.0	15.5	10.9	11.1	11.9	11.7	11.4	11.2	10.9
Nontax revenue	0.7	0.9	1.0	1.9	1.2	1.2	1.2	1.3	1.3	1.3
Total expenditure	16.9	17.0	17.2	14.1	13.1	12.9	12.8	12.7	12.5	12.3
Current expenditure	8.9	9.3	10.6	11.2	10.7	10.5	10.2	10.0	9.7	9.5
Of which: Wage bill	4.1	4.1	4.5	4.5	4.2	4.1	4.1	4.1	4.1	4.0
Social services	7.0	7.1	8.3	9.0	8.4	8.3	8.1	8.0	7.8	7.6
General services	1.7	1.9	2.1	2.0	2.0	1.9	1.8	1.8	1.7	1.6
Capital expenditure (state budget)	7.9	7.7	6.6	2.8	2.4	2.5	2.6	2.7	2.8	2.9
Overall balance	**1.5**	**0.9**	**-0.7**	**-1.3**	**-0.7**	**0.2**	**0.1**	**-0.1**	**-0.1**	**-0.1**
Other items, net 1/	3.9	3.6	-2.3	-2.1	0.1	1.1	1.0	0.9	0.8	0.8
Change in government deposits at CBT	**5.4**	**4.5**	**-3.0**	**-3.4**	**-0.6**	**1.3**	**1.1**	**0.8**	**0.7**	**0.6**
Nonhydrocarbon balance (percent of non-hydrocarbon GDP)	-11.9	-11.1	-8.4	-5.3	-5.6	-4.7	-4.4	-4.2	-4.0	-3.8
Memorandum items:										
Finances of state-owned enterprises										
Revenues (percent of GDP)	39.7	40.0	42.5	..	..	..	..	..	..	..
Profits (percent of GDP)	16.3	15.1	12.7	..	..	..	..	..	..	..

Sources: Turkmen authorities; and Fund staff estimates and projections.

1/ Reflects revenues and expenditures of extrabudgetary units and financing transactions of the state government.

Table 5. Turkmenistan: Monetary Survey, 2013–22

(In millions of manat end-of-period stocks, unless otherwise indicated)

	2013	2014	2015	2016	Proj. 2017	2018	2019	2020	2021	2022
Net foreign assets	92,879	96,843	111,436	97,570	92,824	86,421	79,029	71,720	63,977	54,802
Net foreign assets of the monetary authorities	86,299	88,057	102,747	97,534	93,219	86,706	79,205	71,784	63,928	54,640
Net foreign assets of commercial banks	6,580	8,786	8,689	36	-394	-285	-175	-64	49	162
Net domestic assets	-53,764	-53,196	-65,393	-53,523	-30,105	-19,797	-7,984	4,256	17,310	32,242
Net domestic credit	-52,176	-52,002	-63,360	-51,314	-39,952	-32,206	-21,936	-10,639	2,784	17,473
Net claims on general government	-82,665	-87,612	-106,179	-100,085	-97,989	-100,690	-102,748	-104,380	-105,956	-107,578
Central bank	-82,309	-87,699	-106,266	-99,696	-98,465	-100,690	-102,748	-104,380	-105,956	-107,578
Commercial banks	-356	87	87	-389	476	0	0	0	0	0
Net claims on other sector of the economy	30,489	35,610	42,819	48,771	58,037	68,484	80,811	93,741	108,740	125,051
Other items (net)	-1,588	-1,194	-2,034	-2,208	9,847	12,409	13,952	14,895	14,526	14,769
Broad money, including foreign currency deposits at CBT (M2)	40,230	44,814	52,040	56,943	62,243	66,624	71,045	75,976	81,287	87,043
Manat broad money	18,593	20,950	25,214	31,535	36,835	41,216	45,637	50,568	55,879	61,635
Currency outside banks	3,963	4,649	4,895	9,558	5,525	6,182	6,846	7,585	8,382	9,245
Manat deposits	14,629	16,302	20,319	21,977	31,309	35,033	38,791	42,982	47,497	52,390
Foreign currency deposits	21,637	23,864	26,826	25,408	25,408	25,408	25,408	25,408	25,408	25,408
Memorandum items:										
Lending to the economy 1/	29,207	40,911	57,041	70,741	84,182	99,335	117,215	135,970	157,725	181,384
Velocity of broad money (M2)	6.9	2.9	2.6	2.3	2.5	2.6	2.6	2.7	2.9	3.0
Official exchange rate (end of period)	2.85	2.85	3.50	3.50	…	…	…	…	…	…

Sources: Central Bank of Turkmenistan; and Fund staff estimates and projections.

1/ Bank loans to the economy are based on the Banking Bulletin.

Table 6. Turkmenistan: Financial Soundness Indicators for Banking Sector, 2013–16
(In percent, unless otherwise indicated)

	2013	2014	2015	2016	
				All Banks	All Banks, except Development Bank
Capital adequacy					
Total regulatory capital/risk-weighted assets	17.1	15.6	14.9	20.5	15.9
Tier 1 regulatory capital/risk-weighted assets	15.5	14.2	14.0	20.2	15.9
Total regulatory capital/total assets	8.9	9.3	8.1	7.4	4.4
Asset quality					
Long-term loans (including bank loans and deposits) / total assets	52.9	56.8	58.2	65.3	59.3
Long-term loans (including bank loans and deposits) / total capital	558.7	610.2	709.9	859.6	1282.5
Distribution by risk weight category	100.0	100.0	100.0	100.0	100.0
0 percent (standard)	99.4	98.2	82.7	85.7	82.2
up to 20 percent (substandard)	0.5	1.7	17.1	14.0	17.5
up to 50 percent (doubtful)	0.1	0.1	0.1	0.1	0.1
up to 100 percent (problem)	0.0	0.0	0.1	0.1	0.2
100 percent (hopeless)	0.0	0.0	0.0	0.0	0.0
Profitability					
Return on (weighted) assets (the ratio of profits/assets)	1.0	1.2	1.1	0.9	0.8
Return on (weighted) capital (the ratio of profits/equity capital)	11.2	12.7	13.3	11.3	17.8
Interest margin/gross income	44.6	44.9	43.0	46.5	38.4
Current expenses/revenues (the ratio of current expenditures/income)	32.7	32.5	37.0	36.5	32.8
Noninterest expenses/gross income	40.8	36.9	36.8	42.5	40.0
Personnel expenses/gross income	21.3	19.3	17.7	14.2	18.1
Liquidity					
Loans to deposits 1/	68.6	83.9	89.4	91.7	85.6
Loans to customer deposits 2/	188.6	133.9	143.9	175.0	--
Liquid assets/total assets	36.6	29.7	28.6	25.6	23.9
Liquid assets/short-term liabilities	116.2	98.3	86.3	89.0	71.1
Demand deposits/total liabilities	32.8	29.9	31.7	28.1	33.9
Total (non-bank) deposits/total (non-bank) loans	90.7	84.2	84.3	60.3	60.3

Source: Central Bank of Turkmenistan.

1/ Deposits reported by the authorities include funding from the Central Bank.

2/ Staff calculations based on Banking Bulletin from the Central Bank.

Annex I. Status of Staff Recommendations made in the 2015 Article IV Consultation

Since the 2015 Article IV Consultation, the authorities have implemented some policies recommended by IMF staff. Preparations are ongoing for reforms in additional areas.

- **Fiscal policy:** The authorities have taken significant measures to reduce the adverse impact of lower oil and natural gas prices on the state budget balance. They have also enacted a new budget code with technical assistance from the EU. Key elements of the budget code to be implemented starting from 2018 include a medium-term budget framework, GFSM 2001-based data reporting, and treasury modernization. Preparations are ongoing for additional energy subsidy reforms. However, wages and pensions still tend to be increased uniformly, by a fixed nominal percentage. Public investment management could be improved further.

- **Monetary policy and financial sector:** Little progress has been made in phasing out directed and subsidized lending and modernizing the monetary framework, allowing market-based mechanisms to determine lending rates and funded projects. On the positive side, the authorities are working on a financial regulatory reform which would strengthen oversight and help increase resilience of the financial system.

- **Exchange restrictions and other controls:** The authorities continue to maintain two restrictions on current international payments, as identified in the 2015 Article IV report. They also prioritize allocation of foreign exchange to selected sectors and activities.

- **Structural reforms:** The authorities have made some progress toward diversification and developing the private sector. However, Turkmenistan continues to lag behind peers in terms of the overall quality of the business environment, corporate restructuring, competition policy, availability of skilled workers, and other key areas. The economy should rely more on market-based instruments rather than administrative allocation and control.

- **Data dissemination:** Data sharing with the Fund has become more timely; however, the authorities have not yet subscribed to IMF's e-GDDS and IFS. The authorities have started working toward improving the national accounts and fiscal statistics. The balance of payments statistics continues to have significant gaps, and the authorities have expressed interest in the IMF technical assistance in this area.

Annex II. External Sector Assessment

1. Turkmenistan's external position has significantly deteriorated.

- Due to lower oil and natural gas prices and sustained high investment levels, the ***current account*** deficit has increased from 6.5 percent of GDP in 2014 to an estimated 21 percent of GDP in 2016.[1]

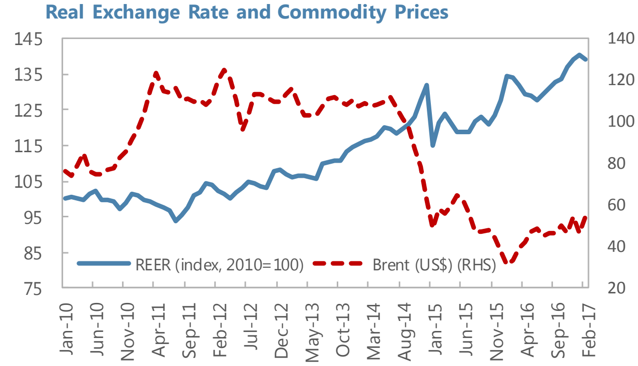
- ***Foreign direct investment***—a traditional source of current account deficit financing in Turkmenistan—decelerated from 8.5 percent of GDP in 2015 to 6.2 percent of GDP last year.

- Meanwhile, the government secured a $700 million ***external loan*** for TAPI construction from the Islamic Development Bank. The total cost of this project is expected to be about $10 billion. The authorities also obtained a syndicated loan coordinated by Deutsche Bank worth $2.5 billion for large petrochemical projects. Total stock of external debt amounts to almost $9 billion at the end of 2016, according to staff estimates based on limited available data.

- Meanwhile, in 2016, ***net foreign assets of the financial system*** (including the state banks) declined by almost $4 billion (equivalent to 11 percent of GDP), amounting to around $28 billion at the end of the year. Most this decline was on the balance sheet of commercial banks which are largely state-owned.

2. The real effective exchange rate has appreciated by about 35 percent over the past five years, despite the 20 percent nominal devaluation of manat in January 2015. Large exchange rate depreciations by regional trading partners (Russia, Kazakhstan, and Azerbaijan), combined with greater exchange flexibility in these countries, have contributed to this development.

Real Exchange Rate and Commodity Prices



Sources: National Authorities; and IMF staff estimates.

3. Based on the EBA-lite methodology, the external position appears substantially weaker compared to fundamentals and desirable policy settings. Staff has considered two alternative scenarios. While the numerical results differ across methodologies, both sets of estimates point to a substantially weaker external position relative to fundamentals and desirable policies:

[1] These estimates of current account balances are subject to large uncertainty because the authorities do not produce reliable data on services and factor income flows.

4. Baseline (unadjusted) EBA-lite assessment. The desired targets for the change in international reserves and fiscal balance were set to zero, in line with the staff's recommended adjustment scenario. Private credit as a percent of GDP and the capital control index were set to 2016 values. The 2016 current account norm is estimated at -8.4 percent of GDP, relative to the actual balance of -21 percent of GDP. Overall, these results point to a current account gap of 12.6 percent of GDP, and an associated real exchange rate gap of about 70 percent.

Turkmenistan - EBA-lite, 2016
(Baseline)

Current Account - actual (a)	**-21.0%**	
Current Account - fitted (b)	-17.4%	
Current Account - residual (a) - (b)	-3.6%	
Policies	Current	Desired
Fiscal Balance	-3.4%	0%
Change in reserves / GDP	-11.3%	0%
Private Credit / GDP	7.2%	7.2%
Capital Control Index	0.84	0.84
Resulting Policy Gap (c)	**-9.0%**	
Current Account Norm (d) = (b) - (c)	-8.4%	
Current Account Gap (e) = (a) - (d)	-12.6%	
Elasticity (e)	-0.18	
Real Exchange Rate Gap (d) / (e)	**71%**	

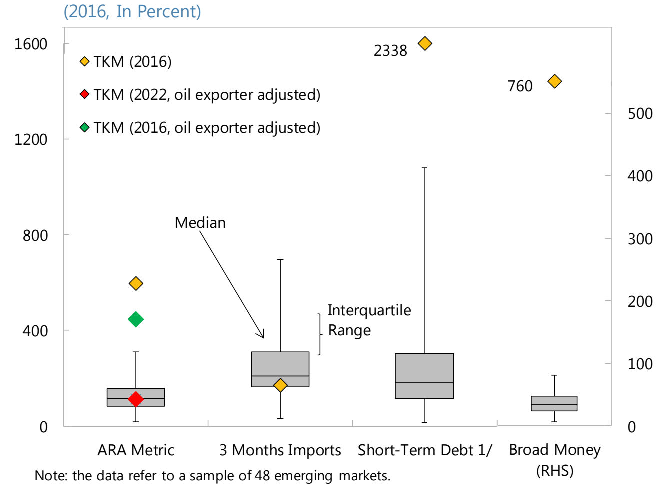
5. Alternative (adjusted) EBA-lite assessment. The baseline estimates should be interpreted with caution given incomplete external sector data, methodological difficulties with assessing the exchange rate in undiversified commodity exporters, and unusually high investments by the state-owned enterprises. An alternative scenario that adjusts the 2016 current account for the planned reductions in investment to more normal levels over the medium term (from 47 percent of GDP to 35 percent of GDP) still points to substantially weaker external position than warranted by fundamentals and desirable policy settings, although the misalignment estimates are smaller—about 4 percent of GDP for the current account gap and some 20 percent for the real exchange rate gap.

Turkmenistan - EBA-lite, 2016
(Adjusted for surge in public investment)

Current Account - adjusted (a)	**-12.1%**	
Current Account - fitted (b)	-17.4%	
Current Account - residual (a) - (b)	5.3%	
Policies	Current	Desired
Fiscal Balance	-3.4%	0%
Change in reserves / GDP	-11.3%	0%
Private Credit / GDP	7.2%	7.2%
Capital Control Index	0.84	0.84
Resulting Policy Gap (c)	**-9.0%**	
Current Account Norm (d) = (b) - (c)	-8.4%	
Current Account Gap (e) = (a) - (d)	-3.7%	
Elasticity (e)	-0.18	
Real Exchange Rate Gap (d) / (e)	**21%**	

6. Despite the recent drop in net foreign assets, the reserve coverage is considered adequate across a range of indicators. According to the IMF's Assessing Reserve Adequacy (ARA) Metric, which combines information on imports, broad money, and short-term debt, Turkmenistan scores much better than the majority of emerging markets in most criteria (yellow diamonds). This remains the case even after adjusting the ARA Metric for the country's heavy reliance on hydrocarbon exports (green diamond). However, Turkmenistan's scores clearly deteriorate when the ARA Metric is projected into 2022, given the persistent current account deficits, accompanied by falling reserves and increasing external debt (red diamond).

Reserve Coverage in Turkmenistan and Emerging Markets
(2016, In Percent)



Note: the data refer to a sample of 48 emerging markets.
1/ Excludes top seven values.

Annex III. Fiscal Policy and Intergenerational Equity

The medium-term fiscal stance appears broadly consistent with the intergenerational equity benchmarks. The staff's calculations use 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. The baseline "perpetuity calculations" point to a modest fiscal shortfall, while the "annuity calculations" suggest a modest surplus relative to the PIH benchmark for the primary non-hydrocarbon balance (NHPB) as a share of non-oil GDP.

The key assumptions are as follows:

- The PIH benchmarks were calculated using the IMF's template for resource-rich economies.
- Net wealth at the beginning of the projection period (which is end of 2016) 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 55 percent of natural gas production is expected to accrue to the state. For oil, the equivalent share is 43 percent. Given limited crude oil reserves, projections assume that oil production drops off sharply from 2023 and is zero after 2033.
- The NHPB reported in the tables are for year 2022 using various combinations of assumptions on hydrocarbon production growth and the GDP growth-interest differential (baseline assumptions, compared with assumptions taken by the IMF's Azerbaijan and Oman country teams).

PIH consistent non-hydrocarbon primary balance under different assumptions

GDP growth & inflation assumptions →	Annuity			Perpetuity			TKM 2022 NHPB
Gas volume (growth p.a.) 1/ ↓	TKM baseline (2022)	Oman	Azerbaijan	TKM baseline	Oman	Azerbaijan	
0.0%	-5.7	-8.0	-7.9	-3.1	-4.1	-6.3	-3.8
1.0%	-6.0	-9.4	-8.4	-3.3	-4.9	-6.7	-3.8
2.1%	-6.5	-11.8	-9.1	-3.6	-6.1	-7.3	-3.8

1/ Growth rate of 2.1 percent exhausts gas reserves by 2100, 1 percent growth leaves about 40 percent in the ground by 2100, and 0 percent growth leaves 60 percent in the ground.

Long-run GDP growth and inflation assumptions under different scenario's

	Turkmenistan	Oman	Azerbaijan
Non-oil growth	5.2	3.0	4.0
Inflation	4.8	2.0	4.2
Real interest rate	6.2	3.9	6.0

Annex IV. Debt Sustainability Analysis

Turkmenistan Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

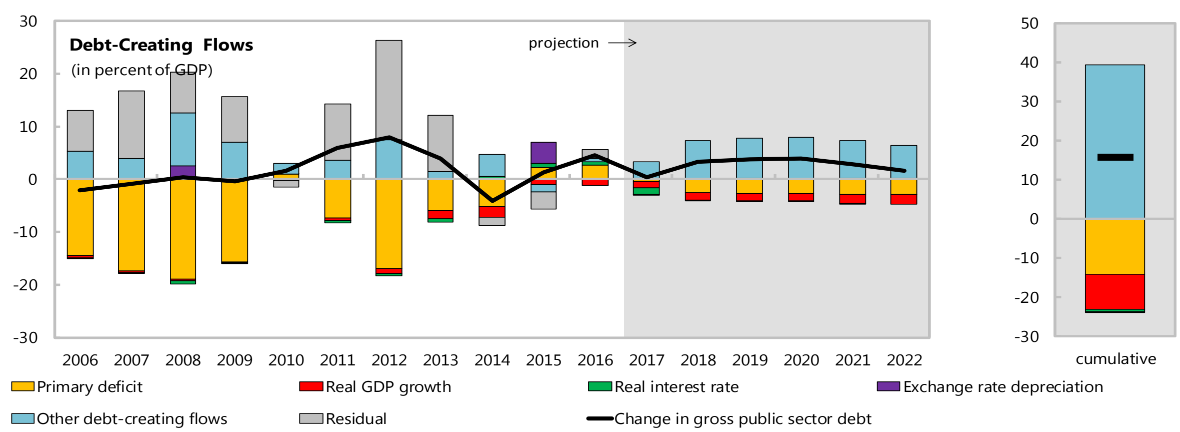
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections								
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022	Sovereign Spreads		
Nominal gross public debt	9.2	19.4	23.9	24.3	27.6	31.4	35.2	38.0	39.6	EMBIG (bp) 3/		n.a.
Public gross financing needs	-9.8	7.9	8.3	3.4	-0.1	0.0	1.2	-0.6	-0.9	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	10.9	6.5	6.2	6.5	6.3	5.1	5.0	5.3	5.4	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	13.5	0.1	0.5	9.9	4.8	5.0	5.4	5.6	5.8	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	25.5	1.7	0.4	17.1	11.4	10.3	10.7	11.2	11.4	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4/]	5.8	4.3	4.0	4.7	5.5	6.0	6.2	6.4	6.5	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.4	1.4	4.5	0.4	3.3	3.8	3.9	2.8	1.6	15.8	
Identified debt-creating flows	-6.8	4.6	2.8	0.4	3.3	3.8	3.9	2.8	1.6	15.8	
Primary deficit	-11.2	2.3	2.7	-0.3	-2.6	-2.8	-2.7	-2.8	-2.9	-14.2	4.5
Primary (noninterest) revenue and grants	19.0	16.5	12.8	12.4	13.1	12.9	12.6	12.4	12.2	75.7	
Primary (noninterest) expenditure	7.8	18.8	15.4	12.0	10.5	10.1	9.9	9.6	9.3	61.5	
Automatic debt dynamics [5/]	-0.6	3.6	-0.5	-2.5	-1.3	-1.1	-1.3	-1.5	-1.7	-9.4	
Interest rate/growth differential [6/]	-0.9	-0.4	-0.5	-2.5	-1.3	-1.1	-1.3	-1.5	-1.7	-9.4	
Of which: real interest rate	-0.2	0.7	0.6	-1.2	0.1	0.2	0.1	0.2	0.2	-0.5	
Of which: real GDP growth	-0.7	-1.1	-1.1	-1.3	-1.4	-1.3	-1.4	-1.7	-1.8	-8.9	
Exchange rate depreciation [7/]	0.3	4.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	5.0	-1.3	0.6	3.3	7.2	7.6	7.9	7.1	6.2	39.4	
Drawdown of Assets	4.6	-0.7	-1.3	-0.7	0.2	0.1	-0.1	-0.1	-0.1	-0.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt issued by SOE's/extra-budgetary units	0.4	-0.6	1.9	4.0	7.0	7.5	7.9	7.2	6.4	40.2	
Residual, including asset changes [8/]	8.2	-3.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

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.

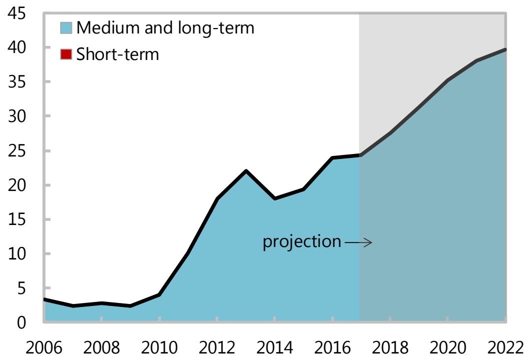
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Turkmenistan Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

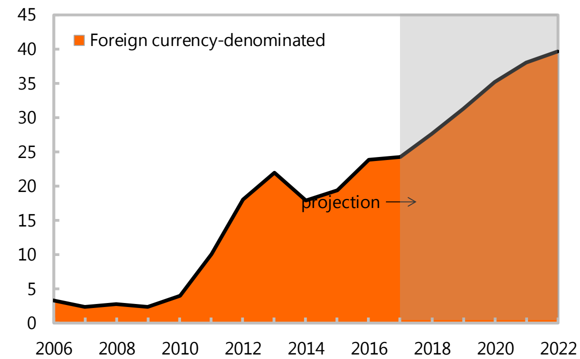
By Maturity 1/

(in percent of GDP)



By Currency 1/

(in percent of GDP)

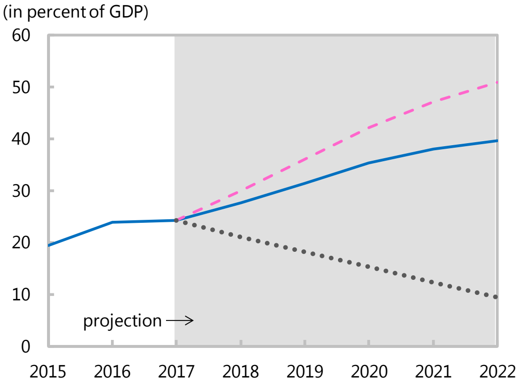


Alternative Scenarios

Baseline Historical Constant Primary Balance

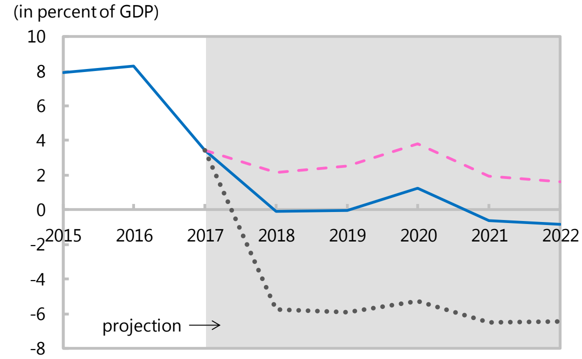
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	6.5	6.3	5.1	5.0	5.3	5.4
Inflation (GDP deflator)	9.9	4.8	5.0	5.4	5.6	5.8
Primary Balance	0.3	2.6	2.8	2.7	2.8	2.9
Effective interest rate	4.7	5.5	6.0	6.2	6.4	6.5
Constant Primary Balance Scenario						
Real GDP growth	6.5	6.3	5.1	5.0	5.3	5.4
Inflation (GDP deflator)	9.9	4.8	5.0	5.4	5.6	5.8
Primary Balance	0.3	0.3	0.3	0.3	0.3	0.3
Effective interest rate	4.7	5.5	6.0	6.2	6.4	6.6

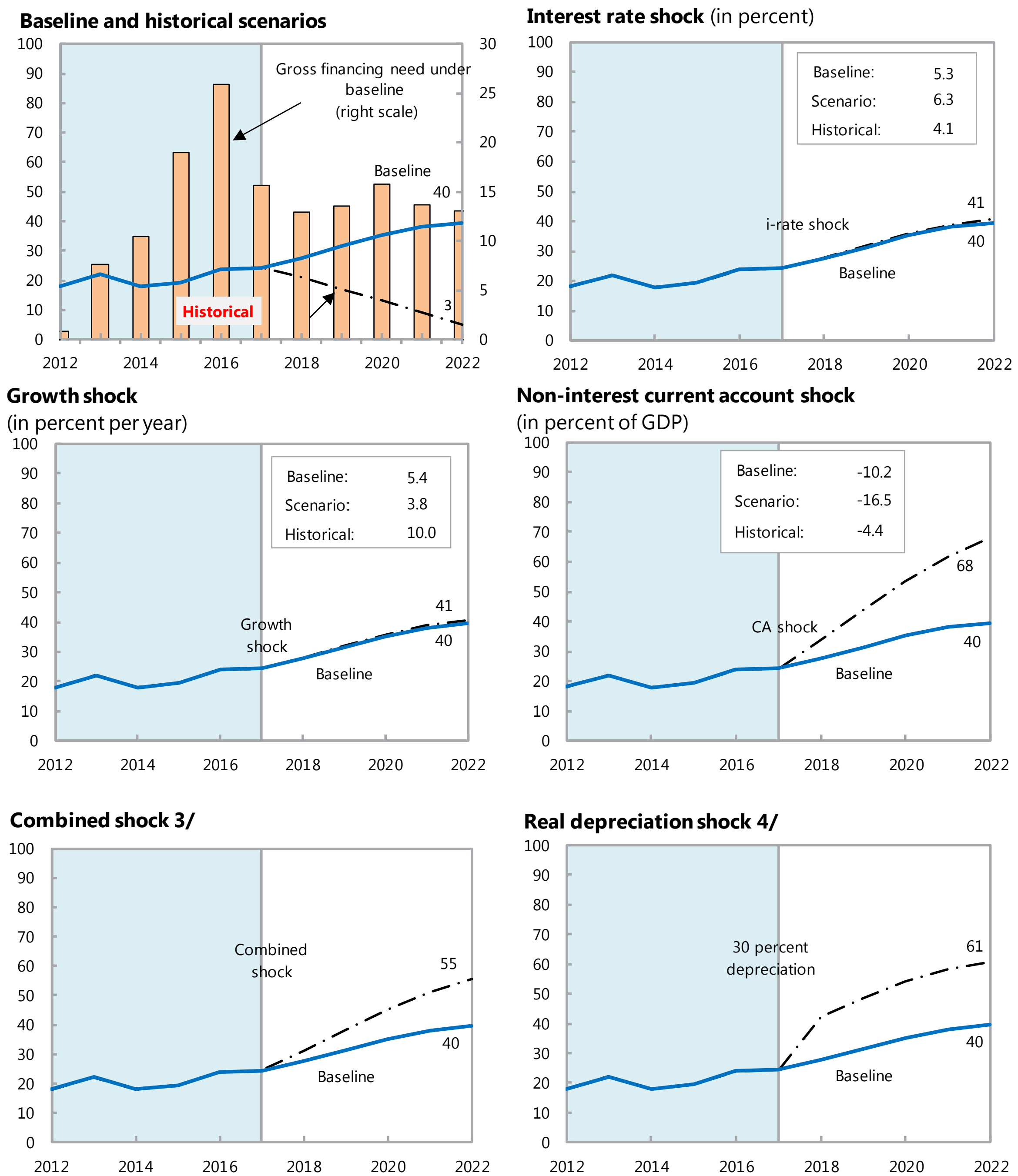
Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	6.5	10.0	10.0	10.0	10.0	10.0
Inflation (GDP deflator)	9.9	4.8	5.0	5.4	5.6	5.8
Primary Balance	0.3	8.2	8.2	8.2	8.2	8.2
Effective interest rate	4.7	5.5	5.8	5.6	5.3	5.1

Source: IMF staff.

1/ Virtually all public debt is long-term and denominated in foreign currency, with the exception of domestic T-bills estimated at about 0.5 percent of GDP.

Turkmenistan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

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 30 percent occurs in 2017.

Turkmenistan: External Debt Sustainability Framework, 2012–22

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
Baseline: External debt	18.1	22.1	18.0	19.4	23.9			**24.3**	**27.6**	**31.4**	**35.2**	**38.0**	**39.6**	**-3.2**
Change in external debt	8.0	4.0	-4.1	1.4	4.5			0.4	3.3	3.8	3.8	2.8	1.6	
Identified external debt-creating flows (4+8+9)	-3.2	2.4	1.7	15.2	18.5			9.1	8.3	9.6	9.6	8.6	7.9	
Current account deficit, excluding interest payments	0.2	6.6	5.8	13.3	20.5			12.2	10.8	10.9	10.6	9.6	8.9	
Deficit in balance of goods and services	-8.3	-1.1	-2.4	8.5	18.7			9.4	7.6	7.9	7.8	6.9	6.2	
Exports	58.8	49.8	46.8	35.4	22.1			25.2	25.1	23.6	21.9	20.8	19.8	
Imports	50.5	48.7	44.4	44.0	40.9			34.7	32.7	31.5	29.7	27.7	26.1	
Net non-debt creating capital inflows (negative)	-2.4	-3.1	-2.5	-2.5	-2.5			-2.4	-2.0	-1.5	-1.2	-1.1	-1.1	
Automatic debt dynamics 1/	-1.0	-1.1	-1.6	4.4	0.4			-0.7	-0.5	0.2	0.2	0.1	0.0	
Contribution from nominal interest rate	0.7	0.8	0.6	0.7	0.5			0.6	0.9	1.5	1.7	1.8	1.9	
Contribution from real GDP growth	-0.9	-1.6	-2.1	-1.4	-1.2			-1.3	-1.4	-1.3	-1.4	-1.7	-1.8	
Contribution from price and exchange rate changes 2/	-0.8	-0.2	-0.1	5.1	1.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	11.2	1.6	-5.8	-13.9	-13.9			-8.7	-5.0	-5.7	-5.8	-5.9	-6.3	
External debt-to-exports ratio (in percent)	30.7	44.2	38.4	54.6	107.8			96.3	110.0	133.1	160.6	182.6	199.5	
Gross external financing need (in billions of US dollars) 4/	0.3	3.0	4.5	6.8	9.4			6.6	6.1	7.1	9.1	8.8	9.3	
in percent of GDP	0.9	7.6	10.4	18.9	25.9	10-Year	10-Year	15.6	13.0	13.6	15.8	13.7	13.0	
Scenario with key variables at their historical averages 5/								**24.3**	**20.9**	**16.9**	**13.1**	**9.3**	**5.1**	**-3.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	11.1	10.2	10.3	6.5	6.2	10.0	3.2	6.5	6.3	5.1	5.0	5.3	5.4	
GDP deflator in US dollars (change in percent)	8.3	1.2	0.6	-22.2	-5.5	-3.2	13.5	9.9	4.8	5.0	5.4	5.6	5.8	
Nominal external interest rate (in percent)	8.0	4.6	3.0	3.1	2.5	4.1	1.8	2.9	4.0	5.8	5.8	5.6	5.4	
Growth of exports (US dollar terms, in percent)	18.3	-5.6	4.2	-37.3	-37.3	5.3	33.0	33.4	10.7	3.9	2.9	5.5	6.2	
Growth of imports (US dollar terms, in percent)	18.5	7.5	1.1	-18.0	-6.7	17.5	24.7	-0.7	5.0	6.6	4.3	3.7	4.7	
Current account balance, excluding interest payments	-0.2	-6.6	-5.8	-13.3	-20.5	-4.4	12.7	-12.2	-10.8	-10.9	-10.6	-9.6	-8.9	
Net non-debt creating capital inflows	2.4	3.1	2.5	2.5	2.5	3.2	1.0	2.4	2.0	1.5	1.2	1.1	1.1	

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.

Annex V. Risk Assessment Matrix[1]

Nature/Source of Main Threats	Overall Level of Concern	
	Relative Likelihood (high, med, low)	**Expected Impact if Threat Materializes** (high, medium, or low)
	GLOBAL RISKS	
• **Weaker-than-expected global growth, including due to slowdown in China and other emerging markets, and structural weaknesses in advanced economies.** Weak global growth would further suppress oil and natural gas prices, while stoking financial market volatility.	**Low to Medium** (China), **Medium** (EMs), **High/Medium** (AEs)	**High for growth/ Low to Medium for volatility** a. *Lower hydrocarbon prices* would further worsen fiscal and external balances, when the external vulnerabilities of Turkmenistan are already substantial with reserves declining and external debt rising sharply. b. *Global financial market volatility* would have a limited first-round impact given low exposures and a closed capital account, but would complicate government borrowing to finance the planned large-scale projects.
• **Lower energy prices** as production cuts by OPEC and other major producers may not materialize as agreed, while shale producers could scale up production.	**Low**	**High** Similar to risk #1a. A $10 decline in oil prices is estimated to worsen the current account balance by 4 percent of GDP in the short run.
• **Retreat from cross-border integration,** and **policy uncertainty and divergence,** reducing growth and stoking financial sector volatility**.**	**High**	**High for growth/ Low to Medium for volatility** Similar to risk #1b.
• **Tightening of global financial conditions, especially owing to a further significant strengthening of the U.S. dollar and/or higher U.S. rates.** As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with	**High**	**Low to Medium** Financing conditions for megaprojects in terms of cost and availability would tighten, especially in an environment of large external financing needs. Stronger U.S. dollar would lead to a further appreciation of the manat. Impacts would be amplified if tighter financial conditions help reduce hydrocarbon prices.

[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 1 year and 3 years, respectively.

un-hedged dollar exposures could come under stress.		
Nature/Source of Main Threats	**Overall Level of Concern**	
	Relative Likelihood	**Expected Impact if Threat Materializes** (high, medium, or low)
COUNTRY SPECIFIC RISKS		
• **Natural gas exports to China** could be lower than expected as the Chinese economy slows and the country seeks to diversify its gas imports. On the upside, China could increase its purchases of natural gas if the country reorients faster than expected from coal toward clean energy sources and the price of Turkmen gas is competitive.	**Medium**	**High** Similar to risks #1a and 2 on the downside. Opposite impact on the upside.
• Two-sided uncertainties exist over **gas supplies to Iran**. Supply to Iranian private corporations—including for re-export to third countries—could boost gas exports. At the same time, increasing regional competition could dampen these exports.	**Medium**	**High** Similar to risks #1a and 2 on the downside. Opposite impact on the upside.
• Most natural gas and petrochemical projects are planned to be financed by external borrowing, and authorities could face **difficulties in raising external finance**—for example due to limited market access or tightening global liquidity.	**High**	**High** Limited capacity to raise debt would exacerbate balance of payments pressures, with the central bank's net foreign assets falling faster than under the baseline.
• Commercial and security challenges could lead to lower-than-expected gas exports through **the TAPI pipeline** even in the long run. Risks include location of the pipeline (it will lead through the Taliban-controlled areas of Afghanistan) and potential competition from Iran who is also building a pipeline to Pakistan.	**High**	**High** The TAPI-related investments (including a feeder gas field) of over $20 billion could have a low return, after the country has built the related infrastructure, drawn down international reserves, and run up external debt.
• **Investments in new local industries** could have lower-than-expected returns, especially in cases where Turkmenistan faces intensive global	**Medium**	**Medium** Protection provided by the import-substitution and export-promotion policies could stifle, rather than support development, and also imply currently unanticipated fiscal costs.

competition and does not benefit from an obvious comparative advantage.		
• Rapid credit growth increases the **risks to financial stability** down the road, as the financial system grows large relative to the economy. Stress could arise from weak market discipline due to directed lending; large investment projects of unclear economic viability; and sectoral focus of the state banks.	**Medium**	**High** The financial sector size is projected to exceed 70 percent of GDP by 2022. High NPLs would translate into a large fiscal impact, in a context of already-declining buffers. A 20 percent NPL rate could translate into a fiscal cost of 10 percent of GDP.
POSSIBLE POLICY RESPONSES		
Downside ***risks from lower hydrocarbon prices, lower gas production, and higher financial market volatility*** would be addressed by drawing buffers in the short run. Over the long term, deep structural reforms to diversify the economy would reduce vulnerability of Turkmenistan's economy to the hydrocarbon price and volume risks. To conserve buffers and reduce the potential cost of downside risks such as ***global financial volatility or difficulties with raising external finance***, the authorities should seek greater risk sharing with foreign partners in the upcoming megaprojects such as TAPI and other hydrocarbon projects, including by granting equity stakes. The prospective ***risks to financial stability*** should be addressed pro-actively by strengthening supervision, phasing out of directed credit, greater scrutiny of public investment projects, and diversification of the lending portfolio by the state banks. ***Risks from industrial policies*** should be managed by focusing on areas with clear comparative advantage, strengthening public investment management system, and keeping the state support temporary to avoid stifling—rather than stimulating—development.		

Annex VI. Press Release

Press Release No. 17/x
FOR IMMEDIATE RELEASE
[Month dd, yyyy]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Turkmenistan

On May 26, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Turkmenistan.

Turkmenistan, a major natural gas producer, continues to adjust to a difficult external environment, including persistently low hydrocarbon prices and slower economic activity in trading partners. Growth has been stable at about 6 percent over the past couple of years, supported by rising natural gas export volumes to China, expansionary credit policies, and industrial policies to substitute imports and promote exports. The state budget deficit was small at 1¼ percent of GDP last year, but the current account deficit has widened to 21 percent of GDP.

The authorities have initiated policy adjustment to lower oil and natural gas prices. The measures adopted over the past couple of years include public investment cuts, step devaluation of the currency, and a one-time increase in utility tariffs. The administration has also intensified its efforts to develop a local production base. Ambitious plans have been put in place to increase natural gas production, build new pipelines, develop petrochemical industries, expand mining and processing of non-hydrocarbon natural resources, and support private sector development.

Macroeconomic performance of the Turkmen economy is expected to remain uneven over the next several years, with continued growth, moderate inflation, and a balanced budget, but persistent external pressures. Growth is projected to accelerate slightly from last year's 6.2 percent to 6.5 percent in 2017. Inflation is forecast to remain moderate at about 6 percent,

[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.

and the state budget is expected to stay close to balance. However, the external deficits are projected to remain sizable, at about 11 percent over the medium term, amid continued low hydrocarbon prices and very high levels of public investment.

Executive Board Assessment[2]

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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: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Turkmenistan: Selected Economic Indicators, 2013–22

Population: 5.3 million (2013 est.) | GDP per capita (2016): $ 6,622
Quota: SDR 238.6 million | Main exports: gas, oil and oil products, cotton

	Est. 2013	Est. 2014	Est. 2015	Est. 2016	Proj. 2017	2018	2019	2020	2021	2022
Output and prices	(Annual percentage change)									
Real GDP	10.2	10.3	6.5	6.2	6.5	6.3	5.1	5.0	5.3	5.4
Real hydrocarbon GDP	1.9	13.9	0.1	-4.8	4.3	7.5	4.4	2.9	3.7	3.7
Real nonhydrocarbon GDP	15.1	8.4	9.4	11.4	7.4	5.8	5.4	5.7	5.8	5.8
Consumer prices (end of period)	4.0	4.4	6.0	6.2	6.1	6.2	6.2	6.2	6.2	6.2
Consumer prices (period average)	6.8	6.0	7.4	3.6	6.0	6.2	6.2	6.2	6.2	6.2
Investment and savings	(In percent of GDP)									
Gross investment	46.4	44.3	47.0	47.0	42.0	40.0	38.0	37.0	36.0	35.0
Of which: State budget	7.9	7.7	6.6	2.8	2.4	2.5	2.6	2.7	2.8	2.9
Gross savings	39.1	38.0	32.9	26.0	29.2	28.4	25.7	24.8	24.6	24.2
Fiscal sector	(In percent of GDP)									
State budget balance	1.5	0.9	-0.7	-1.3	-0.7	0.2	0.1	-0.1	-0.1	-0.1
Revenue	18.4	17.9	16.5	12.8	12.4	13.1	12.9	12.6	12.4	12.2
Expenditure	16.9	17.0	17.2	14.1	13.1	12.9	12.8	12.7	12.5	12.3
Nonhydrocarbon primary state budget balance (in percent of non-hydrocarbon GDP)	-11.9	-11.1	-8.4	-5.3	-5.6	-4.7	-4.4	-4.2	-4.0	-3.8
Change in government deposits at CBT	5.4	4.5	-3.0	-3.4	-0.6	1.3	1.1	0.8	0.7	0.6
Monetary sector	(12-month percent change, unless otherwise indicated)									
Credit to the economy	-5.2	40.1	39.4	24.0	19.0	18.0	18.0	16.0	16.0	15.0
Credit to GDP ratio	26.1	33.0	45.2	55.9	56.8	60.1	64.3	67.4	70.3	72.5
Broad money, incl. foreign currency deposits at CBT	31.2	11.4	16.1	9.4	9.3	7.0	6.6	6.9	7.0	7.1
Real effective exchange rate	5.0	10.7	0.5	9.3	…	…	…	…	…	…
External sector	(In percent of GDP, unless otherwise indicated)									
Exports of goods (In millions of US$)	18,854	19,782	12,164	7,519	10,113	11,227	11,680	12,021	12,693	13,504
Imports of goods (In millions of US$)	16,090	16,638	14,051	13,177	13,022	13,642	14,260	14,904	15,609	16,365
Merchandise trade balance	7.1	7.2	-5.2	-15.6	-6.9	-5.1	-5.0	-5.0	-4.5	-4.0
Current account balance	-7.3	-6.4	-14.0	-21.0	-12.8	-11.6	-12.3	-12.2	-11.4	-10.8
Foreign direct investment	7.3	8.8	8.5	6.2	4.5	3.6	3.4	3.2	3.0	2.8
Total public sector external debt	22.1	18.0	19.4	23.9	24.3	27.6	31.4	35.2	38.0	39.6
Gross international reserves (in millions of US$) 1/	30,280	30,897	29,356	27,867	26,634	24,773	22,630	20,510	18,265	15,611
In months of next year's imports of gds and svcs	18.8	23.4	23.8	22.8	20.7	19.3	16.5	14.4	12.3	10.1
Memorandum items:										
Nominal GDP (in millions of manat)	111,713	124,044	126,163	126,630	148,244	165,202	182,300	201,840	224,387	250,019
Nominal GDP (in millions of US$)	39,198	43,524	36,047	36,180	42,355	47,201	52,086	57,669	64,111	71,434
Oil price (US$ per barrel)	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2
GDP per capita (US$)	7,480	8,191	6,690	6,622	7,646	8,403	9,144	9,985	10,947	12,029
Manats per US$ (official, period average)	2.85	2.85	3.50	3.50	…	…	…	…	…	…

Sources: Turkmen authorities; and Fund staff estimates and projections.
1/ Net foreign assets of the Central Bank of Turkmenistan.