

**EXECUTIVE
BOARD
MEETING**

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To: Members of the Executive Board

From: The Acting Secretary

Subject: **Turkmenistan—Staff Report for the 2017 Article IV Consultation—
Informational Annex**

Board Action: Executive Directors' **consideration** (Formal)

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accordance with
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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.**



TURKMENISTAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

May 11, 2017

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND	2
RELATIONS WITH THE WORLD BANK	5
RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	7
RELATIONS WITH THE ASIAN DEVELOPMENT BANK	9
STATISTICAL ISSUES	12

RELATIONS WITH THE FUND

(As of April 30, 2017)

Membership Status

Date of membership: September 22, 1992

Status: Article XIV

General Resources Account

	SDR Million	Percent Quota
Quota	238.60	100.00
IMF's Holding of Currency	197.75	82.88
Reserve Tranche Position	40.85	17.12

SDR Department

	SDR Million	Percent Allocation
Net Cumulative Allocation	69.82	100.00
Holdings	28.96	41.47

Outstanding Purchases and Loans

None

Latest Financial Arrangements

None

Projected Payments to the Fund

SDR Million	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.13	0.19	0.19	0.19	0.19
Total	0.13	0.19	0.19	0.19	0.19

Implementation of HIPC Initiative

Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI)

Not Applicable

Exchange Rate Arrangements

The currency of Turkmenistan is the manat, which was introduced on November 1, 1993. After the unification of the exchange rates on May 1, 2008 and since the redenomination of the manat on January 1, 2009, the exchange rate was fixed at 2.85 manat per U.S. dollar until December 31, 2014. Effective in January 1, 2015, the authorities devalued the exchange rate to 3.50 manat per dollar. The de facto and de jure exchange rate arrangement is classified as “conventional peg.”

In early 2014, a LEG/MCM TA mission on Article VIII issues identified two exchange control measures that give rise to exchange restrictions inconsistent with Article VIII, Section 2(a) of the IMF’s Articles.

- Limitation on advance payments for goods and services—While prepayment contracts are permitted, Turkmenistan maintains a 25 percent contract value limitation on advance payments by state-owned enterprises (SOEs). In addition, prepayments must be guaranteed by first class-rated banks. This official measure amounts to an exchange restriction as it limits importers’ ability to make legitimate advance payments.
- Restriction on payments for the import of goods before their arrival in Turkmenistan—Current regulations prevent Turkmen banks from processing FX payments for imports until the importer can provide a customs clearance certificate that the imported goods have been cleared by Turkmenistan’s customs service. Similar to the limit on advance payments above, this restriction limits importers’ ability to pay for current international transactions.

Since the 2014 mission, progress was made to ease the second exchange restriction; specifically, allowing resident entrepreneurs conducting business as unincorporated sole-proprietorship to make advance payments for import up to \$1,000,000 based on the invoice for the import without the need to provide the customs clearance certificate. However, further measures would be needed for fully removing both exchange restrictions so that Turkmenistan would be in compliance with its obligations under Article VIII, Sections 2(a) of the IMF’s Articles of Agreement.

Article IV Consultation

Turkmenistan is on a 12-month consultation cycle. The 2015 Article IV consultation was concluded by the Executive Board on March 16, 2015.

Resident Representative

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

IMF Technical and Policy Assistance Missions, 2000–17		
Fund. Dept.	Area of Assistance	Mission Dates
STA	National Accounts	April 2000
STA	National Accounts	March 2005
LEG	AML/CFT	June/November 2007
LEG	AML/CFT	March/December 2008
STA	National Accounts	April/November 2008
MCM	Currency Reform	September 2008
LEG	AML/CFT	April/September 2009
STA	National Accounts	January/July 2010
LEG	AML/CFT	March/May 2010 (throughout FY2011)
STA	Monetary & Financial Statistics	May/June 2011
STA	National Accounts	April 2012
STA	Monetary & Financial Statistics	June 2012
MCM	Exchange Rate	July 2012
MCM	Banking Sector Reforms Needs Assessment	November 2012
STA	Monetary & Financial Statistics	March 2013
MCM	Strengthening Monetary Policy Implementation	March 2014
STA	Monetary and Financial Statistics	March/April 2014
STA	BOP and External Sector Statistics	October 2014
MCM	Strengthening Economic Analysis and Forecasting (SECO project)	8 missions during April 2015 - March 2017

RELATIONS WITH THE WORLD BANK

On November 3, 2015, the World Bank Board of Executive Directors discussed the new Country Engagement Note (CEN) for the period covering FY2016–17. The program is focused on deepening collaboration in areas included under the previous interim strategy and broaden it into selected new areas. The new strategy of engagement in Turkmenistan focuses on sharing with the Turkmen authorities the World Bank Group's international knowledge, experiences, and best practices in several areas relevant to Turkmenistan's growth agenda and integration into the global economy. The new strategy includes follow-up activities in the areas of ongoing engagement, as well as additional activities in new areas. The knowledge-based program, which is at the cornerstone of the CEN, is fully consistent with the Government's strategic priorities and is being delivered mostly through the Reimbursable Advisory Services (RAS). The Government of Turkmenistan primarily funds this program, and it will be supplemented by the World Bank Group's other advisory and analytical services.

Reimbursable Advisory Services Program. On October 7, 2016, the World Bank Group and the Ministry of Finance of Turkmenistan signed a Reimbursable Advisory Services (RAS) Agreement, a two-year program that is an integral part of the FY16–17 CEN for Turkmenistan. The activities under the RAS Agreement are focusing on areas of national accounts statistics and financial sector development (corporate governance, business model reform, credit reporting systems, national assessment of Money Laundering / Terrorist Financing risk). The RAS program covers a two-year period.

International Finance Corporation. Turkmenistan became a member of IFC, the private sector arm of the World Bank Group, in 1997. As part of the FY16–17 CEN, IFC is joining the efforts of the World Bank to assist the Government and is exploring potential opportunities for support to small and medium-sized enterprises, either through a financial intermediary or through direct investments in private enterprises. Currently, IFC is looking into few potential projects in the banking and private sector, however it does not have a defined program yet.

Multilateral Investment Guarantee Agency. The Multilateral Investment Guarantee Agency's (MIGA) portfolio in Turkmenistan consists of one project, issued to a Turkish investor in support of the country's manufacturing sector to expand and modernize a soft drink bottling facility in Ashgabat. In 2011, MIGA issued an additional guarantee to the same investor.

IMF/World Bank JMAP Implementation
(As of March, 2017)

Title	Products	Provisional Timing of Missions	Expected Delivery Date (tentative)
A. Mutual Information on Relevant Work Programs			
World Bank work program in next 12 months 1/	Macro-monitoring	Macro-Poverty Outlook (biannually)	April/October (each year)
	Under the ongoing Reimbursable Advisory Services (RAS):	According schedule stipulated in RAS agreement	
	i) Pilot on Business Model Reform and Corporate Governance		December 2017
	ii) Credit Reporting System		
	iii) National Money Laundering / Terrorist Financing Risk Assessment		July 2017 June 2018
	iv) Assistance to the State Statistical Committee of Turkmenistan (SSCT) on strengthening capacity for national accounts statistics		June 2018
	Bank-funded TA programs:		
	i) TA in developing a National Welfare Monitoring system	Twice in 2017	
	ii) Enhancing Turkmenistan's role in the regional water agenda	TBC	June 2018
	Discussions of potential programs in the following areas:		
	Efficient public finance management	April 2017	
B. Requests for Work Program Inputs (as needed)			
Fund request to Bank	Data sharing and technical assistance coordination		Ongoing
Bank request to Fund	Assessment of macroeconomic developments and policies	Semi-annual or more frequent	Ongoing
	Data sharing and technical assistance coordination		Ongoing
	Coordination of TA and RAS activities		Ongoing

1/ There has been a decision to update CPIAs for IBRD countries once in two years and the ECA region decided to do it in 2016.

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of March 2017)

The EBRD (Bank) latest country strategy for Turkmenistan was approved on May 7, 2014. The strategy focuses on supporting private sector development—both directly and indirectly via local partner banks—and on promoting international integration facilitating FDI and trade, as well as via regional transport operations. The strategy also supports laying the foundations for future reforms through selective and targeted policy dialogue in energy efficiency, power and municipal services to allow Bank investment in the future.

Banking Sector

The banking sector has grown compared to the size of the country's economy with total banks' assets representing about 57 percent of the GDP as of end-2015. The five largest banks were 100 percent state owned and accounted for over 90 percent of total assets of the banking system.

At end-2015, there were ten local banks and two local branches of foreign banks (National Bank of Pakistan and Bank Saderat Iran¹). Among local banks, six are 100 percent state owned and the remaining four are incorporated as joint stock companies: one privately owned, two banks indirectly owned by the state (through state banks) and one joint venture between the state bank (Daykhanbank) and Turkish Ziraat Bank.

EBRD has established relationships with 5 Partner Banks (PB) in Turkmenistan: Turkmenbashi Bank (SME line), Senagat Bank (SME and Trade Finance Program (TFP) lines), Halkbank (SME line), Garagum Bank (MSME and TFP line) and Rysgal Bank (TFP line).

SME and MSME credit lines are aimed at helping the PBs to achieve market expansion, transfer of skills (with the help of technical consultants) on SME and MSME lending policies, procedures, including screening and monitoring tools; setting standards for corporate governance and business conduct by updating SME and MSME lending policies and procedures, in line with best accepted practices.

The trade finance market in Turkmenistan is very small mainly due to limited, relevant technical skills as well as governmental limitations on hard currency transactions. EBRD Trade Finance Program aims to help PBs to intensify their trade operations and substitute cash cover with the EBRD guarantee, increase tenor, give access to wider range of commercial banks and receive basic and advance trade finance training for the trade finance staff and supporting units. Being part of the TFP network of over 800 Confirming Banks and over 100 Issuing Banks allows PBs to expand their correspondent networks and stimulate working relationships with EBRD countries of operations. The main transition impact potential of the TFP line comes from supporting PBs in forming successful trade finance operations in a challenging credit environment and developing the trade finance market in Turkmenistan as well as

¹ State-owned export bank of Iran, has limited operations in the country.

further transfer know-how to PBs through Technical Co-operations projects which aim to develop the banks' trade finance skills and advance monitoring of operational risks in trade finance like the recognition and prevention of fraud, optimization of correspondent banking procedures and structuring of trade finance deals.

Currently, EBRD remains the only IFI which provides finance to the MSME sector in Turkmenistan through local financial intermediaries. In addition, the EBRD financing is complemented by Technical Cooperation which assists PBs to build internal capacity and become sustainable.

Corporate Sector

The private sector in Turkmenistan remains at an early developmental stage and is substantially weaker compared to its neighboring countries. In 2010, the Government of Turkmenistan adopted a special strategy aimed at increasing the share of the private sector in non-oil and gas to 70 percent of GDP by 2020. Furthermore, series of reforms have been launched to improve business environment, including adoption of new legislation on foreign investment, licensing and introduction of amendments to the tax code.

EBRD's work in corporate sector in Turkmenistan mainly involves the following sectors: (i) Agribusiness; (ii) Manufacturing and Services; (iii) selected Infrastructure and Transport projects; (iv) Property and Tourism. All projects are mainly accompanied by technical assistance provided to EBRD clients to increase their knowledge of best practices in certain fields with the help of leading industry advisors. The EBRD considers financing to privately-owned companies, focusing on food processing and distribution, logistics, transport services, packaging, furniture, and hospitality.

The Bank financed the following projects in the corporate sector: (i) breweries, (ii) PET and soft drinks producers, (iii) paper manufactures, (iv) supermarkets chains; (v) ice-cream and dairy producers; (vi) meat processors; (vii) catering and event management companies, etc.

Advice for Small Businesses (ASB) Program in Turkmenistan

The ASB program, which provides business advice to local SMEs and supports the development of the local consulting sector, has been active in Turkmenistan since 2008. To date, the Bank's ASB team in Ashgabat has signed and successfully implemented over 190 projects (163 local advisory and 30 international advisory projects). A network of local consultants provide business advice in the areas of strategy, marketing, accounting and financial reporting, information and communication technology, quality management. The team actively engages international industry experts who share their own unique experiences and international best practices to help local businesses to grow further and become more effective.

Apart from advisory projects that may be linked to specific EBRD investments, the ASB team also develops the local consultancy market through implementation of professional development courses and seminars for local consultants. The team also works to improve business management skills of local SMEs conducting seminars and round tables for local entrepreneurs,

to assist them with a wide range of issues related to their businesses, such as investment planning, HR issues, branding, consulting business start-ups, quality management, etc.

Donor Coordination

EBRD co-chairs the local donor coordination sub-group with focus on private sector development and access to finance.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 2017)

Year of Membership

2000 (share of subscribed capital is 0.25 percent as of December 31, 2016).

Country Classification

Group C (Regular OCR only).

Operational Strategy

- The Interim Operational Strategy (IOS), endorsed by the Board in June 2002, has three strategic objectives: (i) enhancing human and social development; (ii) promoting sustainable economic growth; and (iii) promoting regional economic cooperation.
- The IOS envisioned developing ADB operations in a phased manner, initially focusing on non-lending activities and in-depth economic and sector analyses in sectors where a suitable policy environment and absorptive capacity exists for potential ADB lending operations.
- ADB's Country Partnership Strategy 2017–2021. The Country Partnership Strategy (CPS) to be concurred by the government in 2017 emphasizes infrastructure development that supports regional integration. Investments envisaged in the energy and transport sectors aim at enhancing Turkmenistan's connectivity and enabling energy trade gains from regional cooperation. ADB support for the private sector development through financial intermediation loan would help enhance the value added in the non-hydrocarbon economy and contribute to diversification of the economy.
- The Country Director of ADB's Resident Mission in Turkmenistan assumed office in October 2011. There are currently three national officers and one administrative officer in the mission.

Loan Program (2011–16)**Sovereign**

		Amount (\$ million)				
Year	Project Name	Regular OCR	ADF		Others	Total
			COL	Grants		
2011	North-South Railway Project	125.0				125.0
	Total	125.0				125.0

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: Loans, TA, Grant and Equity Approvals database.

Future Program (2017)

Year	Project Name	Amount (\$ million)			
		Regular OCR	ADF		
			COL	Grants	Others
	Standby				
2017	Scaling-Up Private Businesses Project	200.0			
	Power Sector Development Project	500.0			
	Total	700.0			

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: Central and West Asia Department (CWRD) Management Information System Report as of 31 December 2016.

Technical Assistance (2014–2016)

Year	Project Name	Amount (\$ million)	
		TASF	Others
2014	Financial Sector Reforms (PATA)	0.500	
2016	Modernization of Sanitary and Phytosanitary Measures for Food Safety	0.225	
	Total	0.725	

AFG = Afghanistan, PATA = policy advisory technical assistance, TASF = Technical Assistance Special Fund, TKM = Turkmenistan.

Source: Loans, TA, Grant and Equity Approvals database.

Technical Assistance (2017)

Year	Project Name	Amount (\$'000)		
		TASF	Others	Total
	Standby			
2017	Scaling-Up Private Businesses	750		750
	Piloting Energy Efficiency Schemes		2,000	2,000

Modernization of Railways	750		750
Developing a Macro-Model for Analysis and Forecasting	150		150
Total	1,650	2,000	3,650
TASF = Technical Assistance Special Fund.			
Source: CWRD Management Information System Report as of December 2016.			

Portfolio Performance

ADB approved the North-South Railway Corridor Project (\$125 million loan) in 2011. The contract awards came to \$116.8 million under the ongoing 2737-TKM loan with total disbursements reaching \$116.2 million as of December 31, 2016.

Regional Cooperation

The North-South Railway Corridor Project will improve Turkmenistan's accessibility to neighboring countries and promote an expansion in regional trade. The Afghanistan-Turkmenistan Regional Power Interconnection Project and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Natural Gas Pipeline Project are consistent with the Central Asia Regional Economic Cooperation (CAREC) goal of increasing energy trade and energy security in the region.

Private Sector Operations

ADB has not yet commenced private sector operations in Turkmenistan.

STATISTICAL ISSUES

(As of April 20, 2017)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance.	
<p>National Accounts: The national accounts data of Turkmenistan are principally based on the <i>System of National Accounts, 1993 (1993 SNA)</i>. The compilation procedures basically follow the Commonwealth of Independent States Statistical Committee's recommendations for the implementation of the <i>1993 SNA</i>. Annual GDP is prepared by production approach at current and at constant (previous year) prices. Quarterly estimates are also available.</p> <p>Under the Reimbursable Advisory Services Agreement signed in 2016, the World Bank will assist the authorities in developing the supply and use tables and implementing the <i>2008 SNA</i> methodology. In preparation, the SCS has started calculating the indirect measurement of financial intermediation services (FISIM) and activities of the Central Bank.</p>	
Price Statistics: The Consumer Price Index (CPI) is reportedly monthly. The basket of goods and services is being updated annually.	
Government Finance Statistics: The data on the state budget only cover part of government transactions and exclude considerable off-budget government revenues and spending. The authorities are working toward a transition to the framework, coverage, and classifications of the <i>Government Finance Statistics Manual 2001</i> , and have requested IMF technical assistance.	
Monetary and Financial Statistics: As a result of IMF STA missions in 2012 and 2013, the authorities have started to compile monetary statistics using Standardized Report Forms (SRFs). The data compilation has been further enhanced during a follow-up mission in 2014. Some monetary and financial data are reported for surveillance to MCD but are not reported to STA for publication in the International Financial Statistics (IFS). The authorities have not compiled financial soundness indicators (FSI) for posting on the IMF's FSI website.	
External sector statistics: The CBT compiles the BOP data in accordance with the fifth edition of the Balance of Payments Manual (<i>BPM5</i>). Given methodological shortcomings and limited local capacity, the CBT has expressed interest in IMF technical assistance.	
II. Data Standards and Quality	
The authorities do not participate in the e-GDDS.	No Data Report on Observance of Standards and Codes (ROSC) is publicly available.

Turkmenistan: Table of Common Indicators Required for Surveillance
(As of March 27, 2017)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items: ⁸ Data Quality – Methodological soundness ⁹	Data Quality – Accuracy and reliability ¹⁰
Exchange Rates	03/27/17	03/27/17	D	W	NA		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/16	03/17	Q	H	NA		
Reserve/Base Money	12/16	03/17	Q	H	NA		
Broad Money	12/16	03/17	Q	H	NA		
Central Bank Balance Sheet	12/16	03/17	Q	H	NA		
Consolidated Balance Sheet of the Banking System	12/16	03/17	Q	H	NA		
Interest Rates ²	02/17	03/17	M	M	NA		
Consumer Price Index	01/17	03/17	M	H	NA		
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA		
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	12/16	03/17	Q	H	NA		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/16	03/17	A	H	NA		
External Current Account Balance	12/16	03/17	A	H	NA		
Exports and Imports of Goods and Services	12/16	03/17	A	H	NA		
GDP/GNP	12/16	03/17	Q	H	NA		
Gross External Debt	12/16	03/17	A	H	NA		
International Investment Position ⁶		

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

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

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

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

5/ Including currency and maturity composition.

6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); during missions (H); irregular (I); and not available (NA).

8/ These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

9/ This reflects the assessment provided in the data ROSC or the Substantive Update for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

10/ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.