World Bank - Turkmenistan Partnership

Program Snapshot

September 2012
Growth and External Performance

The Turkmen economy recorded a strong growth performance in 2011, expanding by 14.7 percent. With this impressive growth, Turkmenistan was ranked as the country with the third-highest growth rate in the world after Qatar (18.8 percent) and Mongolia (17.3 percent). Preliminary outcomes of the current year’s economic developments demonstrate that the Turkmen economy remains resilient to the global uncertainties stemming from the Eurozone crisis. The double-digit growth rate has been maintained and GDP grew by 11.1 percent in real terms in the first half of 2012. The high growth rate was largely supported by hydrocarbon-led exports and bolstered further by public investments, while consumption remained relatively subdued.

During the first quarter of 2012, capital investments from all sources of financing grew by 38 percent compared to the same period in the previous year. This growth was supported by domestic public investments in social infrastructure and especially strong investments in physical infrastructure, which facilitated the further expansion of the exportable (natural gas) sectors. The growth contribution by non-hydrocarbon sectors of the economy has been diverse. Overall growth in the first half of 2012 in the agriculture sector was modest at 3 percent, while some subsectors of the manufacturing industry, namely the production of construction materials, fish processing, and textiles, grew by 30, 48, and 10 percent on average, respectively.

High food prices kept inflation at 5.3 percent (period average) in 2011. However, inflationary pressures eased in the first half of 2012. From the beginning of the year to the end of June, the average consumer price index declined by 1.8 percent. These deflationary developments are explained a) by the relatively good agriculture year, which increased the domestic supply of fruits and vegetables, and b) the high degree of self-sufficiency in wheat, which helped Turkmenistan to avoid the possible consequences of the current food price increases on global markets. The exchange rate policy remained unchanged, and the set fixed rate of the Turkmen manat was maintained with high confidence in the background of growing foreign exchange reserves.

The trade surplus widened further in 2011, as exports grew by 73 percent and imports at a relatively slower 38.5 percent compared to the previous year. This strong trade performance continued in the first half of 2012, with exports and imports expanding almost at the same 48 percent growth rate. The hydrocarbon cluster remains the main driver of economic growth and also the core engine of the export performance. The value added generated by the resource sector grew by more than 40 percent in 2011, commensurate with the increased volumes of extractions and export diversification to nontraditional destinations such as China and Iran. The import dynamics continue to be driven by the growth of construction materials.

Fiscal Performance

The overall fiscal balance returned to a substantial surplus in 2011, as a result of the overperformance of the revenues and “savings” generated on the expenditure part of the budget. Budget revenues during the first six month of the current year have increased by about 60 percent compared to last year’s revenue performance in the same period. However tax revenues remain largely dominated by the proceeds generated from the export of the extractive (hydrocarbon) sector. Total public investments funded from the consolidated budget of Turkmenistan have nearly doubled (94.8 percent growth) during the first half of 2012 compared to the same period in the previous year. The growth rate of investments in “productive” sectors (50 percent) substantially outperformed the investment rate in the social sectors (20 percent). The government maintains a large portfolio of social transfers and budget subsidies. Currently, all 17 subsidies have a universal character and are guaranteed until 2030, after which time the government may decide to move to a more targeted public transfer policy.

Social indicators have showed improvements commensurate with the country’s economic performance. According to the State Statistics...
Committee of Turkmenistan, wages and salaries in medium and large companies increased by 11.1 percent during the first semester of the current year compared to the same period in the previous year. Taking into account that the average price level remained almost unchanged (1.8 percent deflation during the first half of 2012), this statistic on nominal salary growth may be interpreted also as a real increase in the incomes of paid workers.

**Medium-Term Outlook and Challenges**

The medium-term outlook is favorable but dependent on external demand for Turkmen oil products and gas. The baseline growth projection of around 8 percent per year over the medium term reflects the uncertainty caused by current global developments and the possible downside risks associated with declining commodity prices in international markets. The diversification of export routes to China diminished the risk of a spillover effect from the Eurozone crisis. However, the projected slowdown of economic growth in China and the unresolved issues with Russia over the volume of gas exports pose challenges to Turkmenistan. With the aim of further diversifying its trade partners, Turkmenistan is looking for new export routes, such as a new pipeline to supply gas to Pakistan and India through Afghanistan (the TAPI project) starting in 2018. There are a number of issues to be addressed, including security concerns, for the successful and sustainable operation of this important infrastructure project in the region. It is expected that in the medium term, inflation will stay at around 5 percent. It will be fueled by a further liberalization of utility and transportation services in Turkmenistan, as well as the inflationary pressures expected from the price transfer of imported foodstuffs.

In the medium to long run, Turkmenistan will face several important challenges as its GDP and income level increases:

- The overreliance on hydrocarbons is a potential source of vulnerabilities. The high degree of dependence on hydrocarbons makes the economy vulnerable to a drop in prices for these resources on the global market. The diversification of the economy will be necessary to sustain growth in the long term, generate additional sources of employment, and broaden the sources of fiscal revenues.

- The necessary steps for a successful diversification strategy involve the development of market institutions. The creation of an effective financial and banking sector will be required to create the necessary conditions for the growth of the nonresource sectors of the economy and enhance Turkmenistan’s competitiveness. In addition, investing in human capital and strengthening institutional capacities will be essential to facilitating private sector-led development.

- The improvement of public financial management and governance practices is critical to ensuring the efficient utilization of revenues generated by the natural endowments. In addition to institutional reforms, it will be necessary to develop a strategic framework to guide public investment decisions and ensure the efficiency of capital investments. Staff capacity will also need to be improved to ensure that they are able to carry out the in-house appraisal, screening, and selection of priority public investment projects.

- A more equitable allocation of budget resources may require amendments to the current principles of public spending policy. The cost of the budget subsidies currently provided and the state aid programs may become too high and fiscally unsustainable over time. Thus the current practice of universally providing budget assistance to the entire population should be replaced with targeted social assistance programs only to those in need.

Turkmenistan will need a reliable and comprehensive set of statistics to inform its policy decisions. The introduction of international standards in statistics, and the continuous improvement of the quality and reliability of the statistics it does produce will be required to better inform public policy decisions. In addition, the Turkmen authorities should take the necessary
steps to make the existing statistics on the country’s economic and social development readily available to the public. To facilitate this process, staff capacities will need to be improved and new methodologies introduced in line with international practice.

**Health Sector**

**Over the past three years, the Bank** has been actively engaged with the Government of Turkmenistan on a project focused on avian influenza preparedness and control, and is currently pursuing discussions on the possibility of developing a project to strengthen the public health laboratory network. Under the *Avian Influenza Preparedness Project*, the country’s level of preparedness for a potential outbreak of avian influenza or other infectious disease has been increased.

The project was successful in establishing mechanisms for intersectoral coordination between the ministries and agencies responsible for zoonotic diseases; increasing public awareness of avian influenza risks and mitigation measures; strengthening institutional as well as disease monitoring; and improving the diagnostic/containment capacity of the country’s veterinary and health sectors.

There has been significant progress in the capacity building and training of national staff across sectors. It should be noted that although this project is the Bank's first engagement in Turkmenistan for nearly nine years, the Government of Turkmenistan has effectively helped to promote the project’s development objectives.

**Government efforts** under the project have been successful in ensuring an effective and strong collaboration among a number of ministries, including the Ministry of Health and Medical Industry, the Veterinary Union, and the Ministry of Nature Protection. This coordination has been critical to developing a sustainable systems approach to disease control at the human-animal-environmental interface. For more information, please see the “Projects” section at [www.worldbank.org/tm](http://www.worldbank.org/tm).

**Transport Sector**

The Government’s National Socio-Economic Development Program for 2011–2030 and the National Rural Development Program focus on inclusive economic growth while preserving economic independence, modernizing the country’s infrastructure, and promoting foreign direct investment. The particular development challenges and/or goals in the transport sector outlined in the state development programs include (i) a significant planned increase in the contribution of the transport sector to the GDP; (ii) the provision of access to domestic and world markets through a modern and well-managed transport infrastructure; and (iii) the accession and implementation of international conventions in the field of transport and trade facilitation.

Under the National Socio-Economic Development Program, the construction of 90 bridges and the rehabilitation of roughly 1,676 kilometers of state roads have been completed through force account as well as international contractors. There is a strong need to optimize investments in the road infrastructure to focus on demand and to address the backlog of maintenance and its underlying causes.

The length of Turkmenistan’s railway network is 3,080 kilometers (single track, nonelectrified). The Government’s priorities in the railway sector are reflected in its development plan, which also needs to be supported by a well-formulated sector reform plan to increase the efficiency of the railways, cut costs, and improve the quality of service. The main
rail routes in Turkmenistan are the east-west line from Turkmenbashi to the Uzbekistan border near Turkmenabat (1,141 kilometers) via the capital Ashgabat; a branch line from Mary to Gushgy on the Afghan border; and another connecting this line to the Iranian network at Sarakhs, where there is a gauge change. A 540-kilometer-long north-south line from Dashoguz to Ashgabat was completed in 2006, and there is a long-term project for a new north-south line along the Caspian coast from Kazakhstan to Turkmenbashi, and eventually to Iran.

Modernization of the air traffic infrastructure and the national fleet has been on the agenda of the Government of Turkmenistan since independence. A new airport with a modern air traffic control system and a new runway was built in Ashgabat in 1994, and the construction of the international airport in Turkmenbashi was completed in May 2010. Turkmenistan needs to improve the operational efficiency of the sector by improving the provision of services and the competitiveness of Turkmenistan Airlines—and the sector in general.

Turkmenbashi is the largest port in Turkmenistan, which handled 8.7 million tons of cargo in 2009. Three main complexes make up the facilities across 10 designated berths within the primary port. The cargo activities in smaller Caspian ports—Aladja (which handled 1.4 million tons in 2008, almost all oil) and Ekerem (which handled 0.8 million tons in 2008, again, largely oil)—are reported under the Port of Turkmenbashi, including general cargo berths, rail ferry, and oil berths. The rail ferry traffic is mainly long distance freight from Europe/North America via Georgia and Azerbaijan to Ashgabat and the transit countries (Uzbekistan and Afghanistan). The State Service of Maritime and River Transportation of Turkmenistan (SSMRTT) under the Cabinet of Ministers has the overall responsibility for the policies, regulation, and management of the maritime sector in Turkmenistan. The International Maritime Port of Turkmenbashi (IMPT) is a port authority under the SSMRTT, which is responsible for port operations.

World Bank Program in Turkmenistan

Past Engagement

At the request of the Government, the Bank prepared a number of studies and extended three loans to Turkmenistan (for details, see box below). The Bank tried to help Turkmenistan to move with reforms in areas such as public resource management, through an Institution Building and Technical Assistance (IBTA) loan that closed on December 31, 2003; financial transparency, through Institutional Development Fund (IDF) grants on Public Procurement, International Accounting Standards, and External Debt Management; the public transport system, through an Urban Transport Project; the energy sector, through a sector review in 1999–2000; and the water and sanitation sector, through the Water Supply and Sanitation Project.

Recent Activities

Recent Bank activities in Turkmenistan included the World Bank trust fund to finance the Statistical Capacity Building Project (US$387,500), which closed on April 15, 2012, and the Civil Society Fund Program, which is now being transformed into a Global Partnership for Social Accountability Program. The Avian Influenza Control and Human Pandemic Preparedness and Response Project (US$1,970,000) was another recent project that closed with a satisfactory rating on December 31, 2010. At the Government’s request, the Bank also provided advice on a number of issues, including but not limited to, national wealth funds, an
Accounting and Auditing Report on the Observance of Standards and Codes (ROSC), the modernization of the Hydromet agency, the anti-money-laundering/combating the financing of terrorism (AML/CFT) legal framework along with the International Monetary Fund (IMF), transport and logistics issues, and international experience in the ports sector.

New Partnership Program

The World Bank Group and the Government of Turkmenistan are currently working on the preparation of an Interim Strategy Note (ISN) that will serve as a platform for expanded cooperation covering up to a two-year period (FY13–14). As part of the ISN preparation, in August 2012 the World Bank Group held a round of consultations on the new partnership strategy with representatives of Turkmen ministries and agencies, the international donor community, the private sector, and civil society.

The partnership Strategy is expected to cover such areas as: private and financial sector development, macroeconomic management and climate change issues to support the Government’s long-term socioeconomic development program for the benefit of the Turkmen people.

Once finalized, the Strategy document is expected to be presented to the World Bank Board of Executive Directors by the end of 2012 for its consideration.

International Finance Corporation

Turkmenistan became a member of the International Finance Corporation (IFC), the private sector arm of the World Bank Group, in 1997. Since then the IFC has worked with the Government of Turkmenistan on a number of activities. Currently, the IFC is joining the efforts of the World Bank to assist the Government in such areas as private sector development and pilot privatization programs as part of the proposed ISN.

Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency’s (MIGA) outstanding 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.
SUMMARY OF PROJECTS IN TURKMENISTAN

Loans to Turkmenistan

- Urban Transport Project Loan (IBRD, US$34.2 million) (2001)

Analytic and Advisory Services

Public Sector Management

- Public Expenditure Review (1998)

Social Sector

- Living Standards Survey (2000)
- Dashoguz: Regional Development Priorities (1998)
- Rationalizing the Health Sector (1997)

Rural Development

- Agricultural Sector Review (1997)
- Farm Survey (2000)

Energy and Infrastructure

- Energy Sector Study (1995)
- Energy Taxation (2000)

Banking and accounting

- Introduction of International Accounting Standards Grant (2004)
- Advice on Modernizing the Payment systems (2008)

For more projects, please visit:

www.worldbank.org/tm