



■ Русский

IMF Executive Board Concludes 2009 Article IV Consultation with Turkmenistan

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On July 24, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Turkmenistan.¹

Background

Limited exposure to international financial markets, a small external debt, and strong fiscal and external balances have kept Turkmenistan relatively protected from the global crisis. Favorable contractual prices for its gas exports shall boost further the country's fiscal revenues and external reserves. This positive outlook provides a great opportunity to deepen and accelerate the economic reforms, which were initiated in 2008 with the successful unification of the exchange rate.

Economic performance continued to be strong, in spite of the global economic crisis. Real GDP growth of 10½ percent in 2008 was supported by large public investments in construction and infrastructure and high activity in transportation, communication, and retail. Inflation peaked at 18.9 percent in July 2008, due to price adjustments for petroleum products and transportation, high international food prices, and some impact of the May 2008 unification of the exchange rate. However, it moderated to 9 percent by year-end, due to declining international food prices, cuts in tariff rates, and improved access to foreign exchange that facilitated access to competitively priced imports.

The current account surplus continued to expand, reaching 18¾ percent of GDP in 2008 on account of a 20 percent increase in export receipts from higher oil and gas prices, and despite an acceleration in imports of goods and services, boosted by rising domestic demand and easier access to foreign exchange. International reserves have increased significantly.

The 2008 state budget closed with a surplus of 11¼ percent of GDP on account of strong revenue performance and the slow execution of investments. Hydrocarbon revenues were boosted by high oil and gas prices and the impact of the unification of the exchange rate. Improvements in tax and customs administration raised the buoyancy of non-hydrocarbon revenues. Staff estimates that a large positive balance from off-budget operations brought the overall fiscal surplus to about one third of GDP.

There was some progress with public financial management reforms. The authorities have completed the draft budget code with EU assistance and are now working on the preparation of complementary legal and regulatory

on the preparation of complementary legal and regulatory documents. In October 2008, they created the Stabilization Fund of Turkmenistan where state budget surpluses will be accumulated. The fund's priorities and functions are still being elaborated.

In late 2008 money demand contracted while the Central Bank of Turkmenistan (CBT) undertook large policy lending operations. To satisfy a spike in foreign exchange demand and sterilize the large liquidity injection from its lending operations, the CBT intervened heavily in the foreign exchange market. The successful introduction of the new manat in January 2009 and a stable exchange rate have raised confidence in the currency and demand for manat money has been growing during the first quarter of 2009.

Access to foreign exchange to make payments and transfers for current international transactions has remained unrestricted. Since last year's exchange rate unification, the Interbank Currency Exchange (ICE) has operated regularly and the CBT has intervened as needed to maintain the fixed exchange rate to the U.S. dollar. The sufficient provision of foreign exchange to an extensive network of exchange bureaus across the country eliminated the parallel market spread. However, the new foreign exchange regulation still leaves space for official actions that could result in current exchange restrictions and multiple currency practices.

The authorities took initial steps at financial sector reforms. Banks are becoming more active in mobilizing deposits and providing new services, setting the ground for more commercially oriented credit activity. However, the continuation of policy directed lending constraints the overall efficiency of financial intermediation. Financial soundness indicators appear strong, but banks accounting standards underlying their calculation are still weak.

Executive Board Assessment

Executive Directors welcomed Turkmenistan's continued strong macroeconomic performance despite the ongoing global financial crisis, and commended the authorities for their prudent policies and recent reform initiatives. Directors noted that the favorable economic outlook and comfortable financial position offer a good opportunity to accelerate economic reforms toward a more market-oriented system. This will require careful sequencing of reforms, with priority areas being public financial management, the monetary policy framework, and financial sector development. Strengthened implementation capacity, with technical assistance, including from the Fund, will be key to success.

Directors supported the authorities' increased focus on social and development spending. They welcomed the ongoing budget reform, and looked forward to the early adoption and implementation of the budget code. They stressed the importance of consolidating all government's operations in the national budget to improve budget execution and transparency. While welcoming the establishment of the stabilization fund, Directors encouraged the authorities to further clarify the scope of operations, and prioritize its objectives, to enhance accountability in hydrocarbon revenue management and long-term fiscal sustainability.

Directors underscored that the reform of the price system is key to improving resource allocation and economic efficiency. They encouraged the authorities to take advantage of the current low inflation environment to complete the pass-through of the impact of the exchange rate unification to administered prices, although the social consequences should be carefully assessed and the most vulnerable protected with targeted social policies.

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Noting that exchange rate stability would help anchor price expectations and help build up confidence in the new currency, Directors supported the authorities' intention to maintain the existing peg to the U.S. dollar in the near term, while keeping exchange rate policy under review. Greater flexibility could be considered as structural and macroeconomic reforms progress.

Directors welcomed the progress made by the Central Bank of Turkmenistan (CBT) over the past year, notably the redenomination of the currency and the removal of most foreign exchange restrictions following the successful unification of the exchange rates. However, they emphasized the need to further strengthen the monetary policy framework to keep inflation in check and support the new currency. Toward this end, they encouraged the central bank to consider ways to transfer to the budget the responsibility for directed lending operations to enhance the independence of the CBT. While welcoming the planned experiment with negotiable certificates of deposits (NDCs), Directors recommended the CBT to put in place the regulatory and operational framework for the issuance of NDCs by banks in order to improve liquidity management.

Directors welcomed progress in reforming the financial sector and the planned revision of financial legislation, which are crucial for private sector-led growth in the nonhydrocarbon economy. They were pleased that banks are becoming more active in mobilizing deposits and providing new services. They commended the authorities for the recent passage of the AML-CFT law, and looked forward to swift issuance of the implementing regulations and establishment of the oversight agency. Efforts should continue to promote competition in the banking system, including by opening up the sector to domestic investors and reputable foreign banks. Directors also recommended the introduction of IFRS accounting and audit obligations for all banks to strengthen banking supervision.

While welcoming the improvements in macroeconomic statistics, Directors noted that remaining weaknesses in national accounts and in the coverage of fiscal data continue to hamper surveillance. They recommended further improvements in these areas and called for wider public availability of economic and financial data.

Turkmenistan: Selected Economic Indicators

	2004	2005	2006	2007	2008 Prelim.
	(Annual percentage change)				
Production and prices					
Real GDP	14.7	13.0	11.4	11.6	10.5
Consumer price index (e.o.p)	9.0	10.4	7.1	8.6	8.9
	(In percent of GDP)				
Investment and saving					
Gross investment	23.4				

	55.8
General government (State budget)	
Total revenue	20.3
	20.5
	20.2
	17.3
	23.6
Total expenditure and net lending	18.9
	19.7
	14.9
	13.4
	12.3
Overall balance (+ = surplus)	1.4
	0.8
	5.3
	3.9
	11.3
	(Annual changes)
Monetary Indicators	
Reserve money	11.0
	3.3
	16.4
	70.3
	-3.7
Manat broad money	13.6
	5.6
	11.0
	96.4
	-7.6
	(In million of U.S. dollars, unless otherwise specified)
External sector	
Export of goods	3,854
	4,944
	7,155
	9,114
	11,786
Of which: Hydrocarbons	3,154
	4,198
	6,228
	8,093
	11,007
Import of goods	3,148
	2,947
	2,558
	3,780
	5,363
Current account	82
	875
	3,351
	4,037
	3,560
In percent of GDP	0.6
	5.1
	15.7