

## Economy of Turkmenistan: two decades of independence<sup>1)</sup>

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Turkmenistan ranks 53rd and 120th out of all countries in the world respectively in its size and population<sup>2)</sup>. By estimation of British Petroleum, Turkmenistan accounts for a second in a production of natural gas in Europe and Eurasia and for fourth of global total proved natural gas reserves<sup>3)</sup>. In 2014 Turkmenistan's gross domestic product in purchasing power parity was 87th in the world and for the last three years the annual growth rate of the Turkmen GDP has rated among the highest in the world by the World Bank scores<sup>4)</sup>. During the same period the share of the industry in the national GDP has reached 49.3%, agriculture - 13.2% and services - 37.4%<sup>5)</sup>.

The development of the national economy after the Soviet era may be divided into three stages. The first one (1991-1997) is the stage of decline: by the World Bank data<sup>6)</sup> annual average GDP in current prices decreased from US\$2909.9 billion in 1987-1990 to US\$2778.6 billion in 1991-1997. The second period (1998-2008) is the stage of recovery, adaption and growth: during this period the country annual GDP increased to US\$7190.1 billion. And the third one (2009-2013) is the stage of the accelerated growth: Turkmenistan's annual GDP has reached US\$29722.2 billion by the end of this period.

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<sup>2)</sup> The World Fact book: Central Asia: Turkmenistan, available at <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/tx.html>; UNCTAD Statistics, available at <http://unctad.org/en/Pages/Statistics.aspx>; World Bank Group Data, available at <http://data.worldbank.org/indicator#topic-3>

<sup>3)</sup> BP Statistical Review of World Energy June 2015, available at <http://www.bp.com/statisticalreview>

<sup>4)</sup> See World Bank, *supra* note 2

<sup>5)</sup> Ibid

<sup>6)</sup> See World Bank, *supra* note 2; World Bank, available at (<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#> <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#>)

Apparently, the most difficult and complicated for the Turkmen economy was the first stage that coincided with the period of statehood formation. National authorities under condition of the total disruption of traditional economical ties and well-established division of labor must develop the economy from the scratch and surmount enormous production and logistical problems to bring its exportable energy resources to the market. Also, as Turkmen agriculture was specialized on cotton production and ginning, and other Soviet republics provided bread grain, in 1992–1993, after the collapse of the Soviet Union, there was a serious shortage of bread in Turkmenistan which was resulted in the dramatic realignment of the national agriculture to ensure the country's food independence and security.

With the rise of the global prices for the natural gas from US\$57 for 1,000 cubic meters in 1989–1990 to US\$81 in 1991–1993, Turkmenistan's terms of trade was improved and economic slump – eased down: in 1993 the country's GDP decreased by only 0.6% compared with 1992<sup>7)</sup>. Meanwhile, the Turkmen natural gas customers (Armenia, Georgia and Ukraine) suffering from the chronic deficit of the hard currency paid in cash only partially, but mostly in barter and behind the schedule. In 1997 Turkmenistan stopped selling of the natural gas to those countries and as a result Turkmen export in value terms sharply decreased – from annual US\$1.4 billion in 1992–1996 to US\$774 million in 1997<sup>8)</sup>. By the World Bank estimate, on average, in 1991–1997 Turkmen annual GDP declined by 24.2% compared with 1990<sup>9)</sup> which resulted in reduction of tax revenues and emergence of budget deficit of 1.5% of GDP. In 1994–1996 for the first time in the modern history of Turkmenistan there was a current account deficit of US\$580 million<sup>10)</sup>.

In November 1993 Turkmenistan introduced its own currency (manat) and set a system of dual exchange rate. The official rate was used for all export contracts, and commercial rate, which 2–4 times exceeded official rate, was applied to other transactions.

The Central Bank of Turkmenistan pursued inflationary monetary and credit policies: in 1993 the annual rate of CPI exceeded 3,100%; in 1994 – 1,748%; 1995 – 1,005%; in 1996 – 995% and in 1997 – 83.7%. The real wage decreased by 80%, and 48% of population lived within the poverty level<sup>11)</sup>.

To alleviate negative consequences of economic slump and to prevent a widespread

7) Global prices of resources for 30 years, available at: [http://www.aif.ru/dontknows/infographics/mirovye\\_ceny\\_na\\_resursy\\_za\\_30 лет\\_infografika](http://www.aif.ru/dontknows/infographics/mirovye_ceny_na_resursy_za_30 лет_infografika); See World Bank, *supra* note 2

8) See British Petroleum, *supra* note 3; See UNCTAD *supra* note 2

9) See World Bank, *supra* note 2

10) See UNCTAD, *supra* note 2

11) European Bank for Reconstruction and Development, *Transition Report*, 1998, available at <http://www.ebrd.com/downloads/research/transition/TR98.pdf>

deterioration in economic well-being of population, the government introduced the system of food stamp and rationing. Also, such forms of assistance as subsidized or free public utilities and public transportation, subsidized telephone service, free or subsidized drugs and medical services were provided to all population and not tied to family income.

During the second stage of Turkmenistan development (1998-2008) the economy slowly stabilized, recovered and began its dynamic growth spurt. According to the World Bank estimates, Turkmen annual current GDP in 1998-2008 increased by 7 times<sup>12)</sup>. In 2008 per capita GDP grew by 5.8 times compared with annual average of 1991-1997. In the first stage of development per capita GDP in Turkmenistan was US\$679 and in second stage it increased to US\$1,546, or 2.3 times. The inflation has been brought under control, and small-scale privatization in the trade and services sector was essentially complete.

One and evidently only source of recovery, stabilization and dynamic growth of Turkmen economy since 1997 had been a resumption of natural gas export to Ukraine and Russia and rise of the global energy price. For instance, in 1998-2008 annual global price for natural gas was reached US\$188 for 1,000 cubic meters against US\$74 in 1991-1997 (growth by 2.5 times). Meanwhile, in 2008 production of the natural gas in Turkmenistan increased to 66.1 billion cubic meters (in 1998 - 12 billion) and for the same period its export in value terms increased by 17 times - from US\$693.6 million in 1998 to US\$11.8 billion in 2008<sup>13)</sup>. In addition, the substantial amount of public investment which went into modernization of oil-processing plants, textile industry and construction also had played important role in GDP growth.

By the end of 2007 the surplus of the current account had reached US\$4 billion against US\$934.5 million of deficit in 1998. On average, in 1998-2008 the surplus of the current account relatively to the national GDP was near 15%<sup>14)</sup>. As the government limited capital movement and convertibility of the current account, Central Bank of Turkmenistan was able to accumulate the substantial amount of the foreign currency reserves. If on average in 1993-1997 the annual amount of the foreign currency reserves was estimated near \$US1.1 billion, by the end of 2008 they reached \$US16.7 billion<sup>15)</sup>. The black market exchange rate premium exceeded 4,000%. There were no official exchange points in the country, so that the black

<sup>12)</sup> See World Bank, *supra* note 2

<sup>13)</sup> See Global prices, *supra* note 7; See British Petroleum, *supra* note 3; See UNCTAD, *supra* note 2

<sup>14)</sup> See UNCTAD, *supra* note 2

<sup>15)</sup> European Bank for Reconstruction and Development, *Transition Report*, 2000, available at <http://www.ebrd.com/downloads/research/transition/TR00.pdf>; *Regional Economic Outlook Update*. Statistical Appendix. May 2014. IMF. 2014

market flourished.

Since 2008 the economy of Turkmenistan has been at the third stage of its development during which the growth of gas sector had accelerated, the contribution of the textile industry and construction sector into the GDP has dramatically increased and the role of the agriculture has diminished.

It should be noted that in 2007 the new political administration, recognizing the dead end of the previous economic policy aimed at autarchy, protectionism and isolation from the global economy, accepted the new economic model based on the openness, internationalization and integration of the national economy into the global one as well as at diversification of the economy beyond the hydrocarbons, development of the trade and investment relations equally with the West and East, and promotion of the private sector.

After 2008 the upturn of Turkmen economy has been based on comprehensive development of the energy sector and diversification of the gas export routes. During the first and second stage of the economy development Turkmenistan had been able to sell its gas only through the pipeline managed by the Russian monopoly “Gazprom” which up to 2009 annually bought near 45 billion cubic meters of Turkmen gas to be re-exported to Europe and to CIS. Being a monopolist, the Russian company dictated the price for the gas transit and the volume of import. As in 1991-1995 Turkmenistan severely confronted with these problems, the government decided to develop new routes for gas export<sup>16)</sup>. In 1997 the country completed construction of the first independent from Russia gas pipeline to Iran and since then the annual supply of Turkmen gas to Iran increased to 10-12 billion cubic meters<sup>17)</sup>.

In December 2009 the gas pipeline of 7,000 kilometers from Turkmenistan to China had been set into operation, and currently annual delivery of the Turkmen gas to China exceeded 25 billion cubic meters<sup>18)</sup>. Late 2015 the construction of the new the new pipeline Turkmenistan-Afghanistan-Pakistan-India (TAPI) with capacity of 33 billion cubic meters and total length of 1735 kilometers had begun on the Turkmen side.

In 2009-2013 the sharp rise of the global energy prices and volume of gas export had caused substantial growth of Turkmen export revenues and GDP. The World Bank estimated that in 2009-2013 Turkmen GDP in absolute terms increased by 2.1 times and per capita – 2 times. In 1991-1997 on average Turkmen GDP per capita

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<sup>16)</sup> See British Petroleum, *supra* note 3

<sup>17)</sup> Ibid.

<sup>18)</sup> Ibid.

was near \$US679 and in 2008–2013 it increased to \$US5,818<sup>19)</sup>. As a result, the World Bank includes Turkmenistan into an upper-middle income group of 53 countries<sup>20)</sup>.

In May 2008 monetary authorities of Turkmenistan successfully unified the system of dual exchange rate. For the first time, beginning from 1992, the unified exchange rate had been set for all legal entities and physical persons of the country. Central Bank of Turkmenistan has pursued more prudent fiscal policies and tighter monetary policies which resulted in restoration of macroeconomic stability and stabilization of the external value of the national currency.

In 2015 the Turkmen economy was significantly impacted by sharp fall of global energy prices and harsh financial conditions. As a result, the country lost export revenues, and to ensure implementation of all construction projects and provision of public services for free or for subsidized prices the government increased prices for gasoline and devalued national currency by 19%. In one year later all exchange points stopped selling foreign currency, and since January 2016 only those physical persons who bought locally issued banking cards and can proof legal sources of his/her income (through employer or tax authorities) have been entitled to buy \$US1,000 per month and cash in abroad. There are no ATMs to get foreign currency in Turkmenistan. Moreover, all savings which population is keeping in the banks are not insured. Large-scale privatization in key sectors (energy, communication and transportation) is not in the agenda of the authorities although the government is already concerned on the restructuring of economy and provision of stimulus to the production of exports and import competing goods.

In general, after more than 20 years after gaining independence and leaving a communist system the economy of Turkmenistan is still remaining centrally planning and state controlled. For the long time the private sector's share of GDP has not exceeded 25%. Overall, while an economic and democratic reforms have been its slow moving forward in Turkmenistan in recent years and even Turkmen authorities begin consideration to attain WTO membership, it should be noted that if current economic situation and policy as well as erratic reform process and weak implementation are maintained and despite of Turkmenistan's strong and impressive energy base, the prospects for successful transition of the country to a market economy is seemed less bright, but more grim, especially when there both a lack of understanding of market economics among government officials and the population's lack of incentive to push for reforms.

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<sup>19)</sup> See World Bank, *supra* note 2

<sup>20)</sup> Country and Lending Groups. Upper-middle-income economies, available at [http://data.worldbank.org/about/country-and-lending-groups#Upper\\_middle\\_income](http://data.worldbank.org/about/country-and-lending-groups#Upper_middle_income)

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