



## A BRIEF LOOK AT THE FISCAL MANAGEMENT OF THE ECONOMY OF TURKMENISTAN

Among the Central Asian countries, Turkmenistan has grown significantly due to the high amount of natural resources, mainly hydrocarbons. After the breakup of the Soviet Union, having great natural gas deposits, Turkmenistan improved its economy by implementing structural reforms. However, since 2014, like the other Central Asian countries, Turkmenistan has faced three shocks which led to a worsened economic performance: (i) oil and natural gas prices have decreased and they are expected to remain at low levels despite the slight cyclical upward changes, (ii) economic activity with major trading partners such as Russia and China has been slowing down and (iii) pressures on the national currency have been increasing. In these circumstances, Turkmenistan faced a slowdown in GDP growth rate, weaker current account position, deterioration in financial sector and a serious devaluation over the past years.

Actually, facing the negative effects of the global crisis on its economy, the Turkmen Government has been taking fiscal measures since 2008 such as creating the Stabilization Fund (SF), giving functions of fiscal and monetary institutions to the State Development Bank of Turkmenistan (SDBT) and the SF, introducing a simple fiscal rule, giving shared responsibility to both the Ministry of Finance and the SDBT for the implementation of State Programs and setting transparent rules for defining limits of resource utilization from the SF.

The Turkmen Government created the SF in 2008 to implement a fiscal stimulus package in order to support the domestic economy during the post global crisis period. In 2011, the SDBT was established in order to provide credit to public sector entities through domestic banks, to implement projects approved by the President of Turkmenistan and to acquire domestic and external financial assets. Also, the Turkmen Government has given functions of fiscal and monetary institutions to the SDBT and the SF. In this regard, the SDBT has been providing loans to the economy of the country directly and through local commercial banks. The SF and the SDBT along with the Government are responsible for the implementation of both fiscal (public budget policies) and monetary (interest rate policy, and lending facilities) policies.

The annual limit of utilization of the SF resources by the SDBT is approved by the Presidential decree. As mentioned before, both the Ministry of Finance and the SDBT are given shared responsibility for the implementation of State Programs. For instance, while the Ministry of Finance is responsible for the implementation of the Rural Development Plan through the state budget (including the investigation of social projects), the SDBT is responsible for the implementation of other public programs regarding infrastructure, construction and economic development. It should also be mentioned that the State Budget is subject to the approval of the Parliament while the allocations from the SF do not require to be approved. The Turkmen Government introduced a simple fiscal rule in 2008 in order to stipulate accumulation of the surplus of the state budget in the SF at the end of each fiscal year and set transparent rules to define limits of resource utilization from the SF. In this regard, the Government can approve a long term strategy for utilization of resource revenues for programs with higher public benefits. Besides, in order to ensure consistency and harmonization of objectives and practices of the public expenditure policy, the Government implements policies to form an improved coordination between the SDBT and the SF.

Due to the recent economic shocks mentioned above, GDP growth in Turkmenistan reduced from 10.3% in 2014 to 7% in 2015 and is expected to reduce to 6% in 2016. This decline in GDP mostly results from the flattening of the natural gas and oil production and reduction of the budget investments. However, in the period of 2014-2015, the public sector balance was strong. The government continued to implement expansionary fiscal policies under the Program of Socio-Economic Development 2012-2016. In 2014 public expenditures were increased by about 12% and revenues – by 8%. Nearly all public revenues consisted of tax revenues which were dominated by revenues from hydrocarbon exports. The hydrocarbon sector accounts for about 35% of GDP and the hydrocarbon revenues constitute nearly 80% of fiscal revenues.

As a response to the shocks mentioned above, the Turkmen Government implemented policies to improve the efficiency of

budget execution. The SF, in coordination with the SDBT, has been improving budget coverage by consolidating extra-budgetary funds under the state budget and by streamlining the budget process. In the period between 2013 and 2014 the budget surplus reduced from 6.2% in 2013 to 1.5% in 2014 due to the high expenditures on social programs. Due to lower hydrocarbon revenues and reduced investment expenditures, the budget surplus shrunk to about 1% of GDP in 2015. However, the budget balance is expected to recover with the projected increase in natural gas export volumes. Although the Turkmen Government continued to implement an expansionary fiscal policy on the 2015 budget, public expenditures were tightened, which despite causing a slowdown in the growth of public investments, helped to maintain inflation at a stable level (4.2% in 2014 and 3% in 2015). In this regard, the SDBT has been implementing a fiscal management program to improve public investments with better selection and with an opportunity to monitor public investment projects, giving priority to more productive projects. The SDBT has also been implementing a recovery program to streamline energy subsidies to specific energy projects in order to reduce costs in the energy sector.

In conclusion, the Turkmen Government has been trying to implement robust fiscal policies in an institutional perspective. In this framework, the implementation of a new budget code is regarded as an important governance and a fiscal transparency milestone. With this system, the Government can focus on the integration of budget operations, improve the coordination between the SF and the SDBT and strengthen transparency in the implementation of fiscal policies. Besides, further consolidation of public expenditures and improving their quality can also help to enhance the implementation of fiscal policies. Above all, maintaining a relatively high GDP growth requires stability in the public sector balance, mainly implementation of robust fiscal policies with continuous and accelerated strong efforts to achieve a better macroeconomic performance in the economy of Turkmenistan.

## Politics, Foreign Affairs and Security

- The President of Turkey, Recep Tayyip Erdogan, accompanied by the Foreign Economic Relations Board of Turkey consisting of 150 businessmen, visited the West African countries including Ivory Coast, Ghana, Nigeria and Guinea with a goal of deepening strategic partnership with Africa and developing relations with members of the Economic Community of the West African State.
- The President of Turkmenistan, Gurbanguly Berdimukhamedov, replaced high-ranked security officials, namely, the Head of the Security Service, Guichgelgy Khodzhaberdiev, and the Head of the State Border Service, Myrat Yslamov, amid continued tension in the neighboring Afghanistan.
- The Parliament of Tajikistan approved amendments to the current Constitution enshrining the right of the incumbent Tajik President, Emomali Rahmon, to be elected unlimited number of times. Moreover, the amendments envisage a decrease in the age limit of presidential candidates from 35 to 30 years old.
- The President of the U.S., Barack Obama, has extended sanctions imposed on Russia over the developments in Ukraine for one more year. The sanctions declared in the Executive Order 13660 are applicable to a number of Russian citizens, companies and businessmen.
- During the official visit to Tajikistan, the Chief of Army Staff of Pakistan, the General Raheel Sharif, discussed the defense cooperation between the two countries with the President of Tajikistan, Emomali Rahmon, highlighting the possibility of Pakistan to support Tajikistan in capacity building of forces to counter terrorism.
- According to the Deputy Chairman of the State Border Service of Kyrgyzstan, Abdikarim Alimbaev, the country started a reform of the security system on its border. The reform provides for consolidation of border control units, improvement of material and technical base and improvement of professionalism of border guards.

## Economy, Finance and Energy

- According to the report of the BP-Azerbaijan, in 2015 operation and capital costs of the Azeri-Chirag-Guneshli (ACG) amounted to ap-

proximately \$760 million and \$1.9 billion respectively. The total production average at the ACG platforms constituted 634,000 barrels and 231 million barrels per day, which is a total of 31.3 million tons.

- The Uzbek National Holding Company, Uzbekneftegaz, started construction of a booster compressor station worth \$293.94 million at the Sharkiy Berdakh oil and gas field located in the Kashkadarya region of the Southern Uzbekistan.
- The Minister of Energy and Water Resources of Tajikistan, Usmonali Usmonzoda, announced that the country had reached an agreement with Russia on supply of 830,000 tons of petroleum products with no export tax to Tajikistan in 2016. Within the framework of the agreement, the Tajik side is planning to import 260,000 tons of petrol, 310,000 tons of diesel fuel and other Russian petroleum products this year.
- The Russian state-owned gas company, Gazprom, announced about reaching an agreement with the Bank of China Limited on extension of a credit line worth €2 billion for a 5-year period.
- During the meeting between the Chairman of the Management Board of the Eurasian Development Bank (EDB), Dmitry Pankin, and the President of the Asian Development Bank (ADB), Takehiko Nakao, the parties signed a co-financing agreement. The document states that the banks would invest in projects in Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan. The EDB and the ADB are to provide \$1 billion and \$2 billion respectively until 2021.
- The Foundation for International Community Assistance (FINCA) Azerbaijan announced about the signing of a technical assistance agreement with the Asian Development Bank (ADB) as part of its private sector operations. According to the agreement, the ADB will provide technical assistance worth \$400,000 to support the FINCA Azerbaijan towards further institutional development and capacity building.
- According to the Chairwoman of the Board of the Russian-Kyrgyz Development Fund, Nursulu Akhmetova, the registered capital of the Fund is \$ 350 million, \$265 million of which are of temporary free funds placed in Russian banks. For the first 7 months of work, the Fund financed projects

worth \$43 million and plans to provide financing at the amount of \$160 million in 2016.

- According to the chairman of the National Bank of the Kyrgyz Republic, Tolkunbek Abdygulov, remittances from labor migrants to Kyrgyzstan decreased by \$500 million down to \$1.344 billion in 2015, which is almost a quarter less than that in 2014. However, in the ruble equivalent the volume of remittances increased by 10.4%.
- During an extraordinary meeting of the Board of Trustees of the Azerbaijan Deposit Insurance Fund, a decision on decreasing the upper limit of the interest rate on insured deposits in foreign currency from 12% to 3% starting from March 1, 2016, was made in an agreement with the Central Bank of Azerbaijan.
- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, the inflation rate measured at consumer price index stood at 2.5% in January-February 2016. During the first two months of 2016, the prices for foodstuff, non-food goods and paid services increased by 2.7%, 1.8% and 2.8% respectively.

## Society and Culture

- The President of Kazakhstan, Nursultan Nazarbayev, congratulated all Kazakhstan citizens with the Day of Gratitude, which was celebrated for the first time in the history of the country.
- According to the Foreign Ministry of Uzbekistan, an Uzbek-Azerbaijani intergovernmental agreement on cooperation in an area of prevention and elimination of natural, technological and environmental emergency situations came into effect.
- According to the Russian environmental regulator, Rosprirodnadzor, 15 tons of oil was spilled at the Ekhabi field in northern Sakhalin during maintenance works conducted on a non-operating oil pipeline. The spill has been localized and there is no threat of further spread of the spillage.
- After 340 days aboard the International Space Station as part of the experiment foreshadowing a potential manned mission to Mars, the Soyuz TMA-18M spacecraft carrying a Russian cosmonaut, Mikhail Kornienko, and an American astronaut, Scott Kelly, landed near the town of Zhezkazgan in Kazakhstan.