



OBSERVATIONS ON ECONOMY AND JANUARY 2015 DEVALUATION IN TURKMENISTAN

Turkmenistan economy can be regarded as partly affected by 2008 global financial crisis due to limited degree of integration to international financial markets. An explosion at a pipeline caused a drop in the volumes of gas imported by Russia in 2009 but as Turkmenistan owns considerably high volumes of natural resources, current account balance of the country has faced positive developments afterwards. The most important reason for these positive developments is that hydrocarbon exports have been significantly high. High hydrocarbon exports continued to be the main source of economic growth and improved current account balance in 2014.

For instance, despite reduced natural gas imports in 2009, GDP growth reached above 6% and this rate reached to 14.7% in 2011 and to 11.1% in 2012. Turkmenistan economy grew by 10.2% and showed an impressive growth performance in 2013. According to the country report of the World Bank in 2014, the main sources of middle-term growth are expected to be increases in hydrocarbon exports and increases in domestic public investment expenditures. On the other hand, due to administrative controls on prices, inflation rate in Turkmenistan has remained at low levels until 2013. While inflation rate was 7.8% in 2012, it reduced to 6% in 2013. However, as a result of expansionary fiscal policies and removing administrative controls on prices of specific goods and services, inflationary pressures have occurred in the economy since the second half of 2013.

Turkmenistan economy has negatively affected by problems occurred in current account balances of neighboring countries after the sharp reductions in international oil prices. Reducing oil prices to the lowest levels since May 2009 and serious reductions in natural gas prices in four-month period in Europe have been the most important reasons for devaluation in Turkmenistan. Facing all these problems,

the Central Asian energy producer countries' earning prospects have been restricted. In 2014 following the conflict between Russia and Ukraine due to the economic sanctions with Brent crude's 48 percent drop have risen speculation that most of the Central Asian countries including Turkmenistan will need to devalue their currencies in order to keep their exports competitive and at high levels. When the Ruble weakened 41 percent versus the US dollar in 2014, the expectations on devaluation in most Asian countries have appeared.

Actually, in theoretical perspective, depreciation of a country's currency makes export goods cheaper and import goods expensive. In this sense, when developed countries having larger shares in the world trade devalue their currencies and reduce their imports, developing countries will reduce their exports. This is not a desirable position for developing countries because their current account balance can be negatively affected by this situation. In these circumstances, developing countries also have to devalue their currencies in order not to bear these negative effects. Facing resultant joint and several devaluations, terms of foreign trade can return to initial levels. In this sense, following the depreciation of currency of Russia who is one of the most important trade partners of Turkmenistan, a high risk occurred for current account balances of both Turkmenistan and other trade partners.

Shortly, while world energy prices have been reducing, Ruble has been getting weaker and these problems have putting pressure on both Turkmenistan and other Central Asian countries, Turkmenistan devaluated its local currency, Manat by 18.6% in 1 January 2015. This has been the first change in fixed exchange rate since May 2008 in Turkmenistan economy. With this devaluation, Manat weakened to 3.5 from

2.85 versus US dollar. The Central Bank of Turkmenistan made no further explanation. Positive or negative effects of devaluation can take place in economies. After joint and several devaluations in Kazakhstan, Belarus and Turkmenistan, the terms of foreign trade are expected to return to initial levels in time. However, during this process it should be kept in mind that not only current account balances but also other macroeconomic indicators may suffer from devaluation. Devaluation influences domestic prices, costs, production, public budget, and foreign debt in economies.

Devaluation has positive effects with 'revenue increasing effect' and negative effects with 'foreign debt increasing effect' on public budget. With devaluation, imports increase in terms of local currency leading revenues from customs duty to increase. This causes 'revenue increasing effect'. But after devaluation, foreign debts increase in terms of local currency and the amount of foreign debts in public budget increase. This causes 'foreign debt increasing effect' and causes public expenditures to increase. As a result, budget deficit may increase and public budget balance may deteriorate.

Regarding all these effects, in order to avoid inflationary pressures and negative effects of devaluation on foreign debts and public budget that may occur in Turkmenistan economy after devaluation, tight monetary and fiscal policies may be needed. Increased foreign debt may cause budget deficit to increase. But here, financing mechanism is important. If the deficit is financed by taxes, inflationary pressures may not occur. But if it is financed by emission, inflationary pressures can be inevitable. Thus, following January 2015 Devaluation, whether the budget deficit will cause inflationary pressures on Turkmenistan economy depends on the economic policy that the Turkmen Government should choose to finance the deficit.

Politics, Foreign Affairs and Security

- Kiev proposed Moscow signing a schedule of implementation of Minsk agreements as of November 13 and provide for the ceasefire in the southeast of Ukraine starting January 19.
- Poroshenko approved Ukraine's development strategy till 2020. The Strategy-2020 program consisted of 62 reforms gives priority to reforms in defense, national security, judicial and law enforcement systems.
- Representatives of the Organization for Security and Cooperation in Europe (OSCE) and the self-proclaimed Donetsk People's Republic (DPR) on Tuesday held talks to discuss the current situation in Donbas.
- Japan and China have agreed to create a special communication mechanism to avoid unintended maritime and air clashes.
- Armenians demanded withdrawing of Russian military base from country. Protest action was held in front of the Russian embassy in Armenia over the murder of an Armenian family in Gyumri city.
- The Japanese cabinet has approved a 2.8% rise in defense spending. Japan's defense budget has reached \$41.7 billion for the fiscal year of 2015.
- Al Qaeda in Yemen has claimed responsibility for the attack on the French satirical newspaper Charlie Hebdo.
- Russian President Vladimir Putin and Venezuelan President Nicolas Maduro held a detailed discussion on the global oil market situation.
- Iran and the P5+1 held the 12th round of talks at the level of deputy foreign ministers in Geneva. Earlier

Iranian diplomats held bilateral meetings with the US delegations at the same location.

Economy, Finance and Energy

- The Board of Exporters of the Republic of Turkey announced that the Turkish economy have continuously increased between 2005-2014 period (except 2009) and gains from exports have reached to 1 trillion 203 billion US dollars in the last decade.
- Iraq raised the selling price for February shipments to Asia of its main Basrah Light crude by 30 cents a barrel, after Saudi Arabia boosted its pricing to the region.
- Gold and exchange reserves in Ukraine have reduced by 63.1% from \$20,416 billion to \$7, 533 billion by 1 January 2015.
- Russia's inflation reached 11.4% in 2014, its highest level since 2008.
- Brent crude price dropped below \$46 per barrel.
- Russia-China trade exceeded \$95 billion in 2014. Raw materials - oil, ore and timber - accounted for 80% of the trade turnover.
- The German economy recovered from the recession. The Gross National Product in the German economy increased by 1.5% in 2014.
- China successfully installed the 9th power-generating unit, which was put into commercial use in Qinshan Nuclear Power Plant in Zhejiang Province.
- The World Bank has downgraded its expectations for Russia's economy in 2015, saying that the country's gross domestic product (GDP) was expected to decline by 2.9%.
- Kazakhstan decreased oil and gas condensate production by 1.2% in

2014. The country produced 80.845 million metric tons of oil, including gas condensate.

- Uzbekistan's GDP increased by 8.1% in 2014 compared with 2013.
- Azerbaijan and Kazakhstan reached an agreement for construction of the underwater segment of the Trans-Eurasian Information Super Highway (TASIM).

Society and Culture

- According to the report of the UN Development Program, for 20 years of activity in Kazakhstan the UNDP has successfully implemented over 180 social projects.
- Chinese President Xi Jinping held a meeting with Sheik Ahmad al-Fahad al-Sabah, president of the Association of National Olympic Committees (ANOC) and chief of the Olympic Council of Asia in Beijing.
- Fundamentalist Islamic movement Salafia has been banned as an extremist organization by the republic of Tajikistan.
- Cuba released all 53 prisoners agreed as part of US deal.
- Pupils returned to Peshawar school after December 16 Taliban attack.
- Ukraine's authorities announced that they would transfer arrested assets of former President Viktor Yanukovich to the country's budget after the trial.
- The leak at the Browns Ferry Nuclear Power Plant near Athens in the USA has resulted in a spill of between 370 to 750 liters of radioactive water into a river.
- More than 90 percent of graduates from China's leading 75 universities overseen by the Ministry of Education got jobs in 2014.