COUNTRY REVIEW

Turkmenistan

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EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Ashgabat
GDP:	USD 6,949 mn
Population:	6.68 mn (2006e)
GDP per capita:	USD 1,040
Currency:	Turkmen new manat (TMT)
Form of state:	Republic; authoritarian presidential rule
Head of government:	President Gurbanguly BERDYMUKHAMEDOV (since February 2007)
Next elections:	Presidential: 2012 / Legislative: 2013

Former President-for-Life Niyazov turned Turkmenistan into one of the world's most secretive and repressive countries. Following his sudden death in December 2006, his long-time ally, Gurbanguly Berdymukhamedov, emerged as the new president in the country's first multi-candidate election. Berdymukhamedov has introduced some tentative reforms aimed at dismantling the personality cult surrounding his predecessor and making the isolated country more welcoming to foreign investors, whom Turkmenistan needs to improve weak economic perspectives. However, political liberalisation has been kept to a minimum. The president effectively controls the executive, legislative and judicial branches of government. This position is maintained through a comprehensive patronage network. Opposition and media have remained repressed. The government also exercises extensive state regulation of the economy, sharply constraining any restructuring or liberalisation. The public administration is inefficient and widespread corruption and mismanagement is reported. The judicial system is poorly developed and lacks independence, with accordingly weak protection of property rights. All in all this provides for a very poor structural business environment. Turkmenistan does not have serious disputes with its neighbours, but regional stability is poor and the de-limitation of the Caspian seabed remains unresolved (an issue among Russia, Kazakhstan, Azerbaijan, Iran and Turkmenistan). Although there has been movement in foreign affairs under Berdymukhamedov and many countries are interested in Turkmenistan's national resources, most Western nations will continue to be reluctant to engage with the country in the absence of more aggressive political and economic liberalisation.

Generally, Turkmenistan's economic statistics are quite opaque, not up-to-date and often subject to wide margins of error. Almost annually reported two-digit real GDP growth figures appear mostly overstated. After 5-10% growth in 2007-08, we forecast a contraction of 5% or so in 2009 and a return to about 5% growth in 2010. Turkmenistan is a largely desert country with intensive agriculture in irrigated oases and large gas and oil resources. Agriculture accounted for 20% of GDP in 2006. One-half of its irrigated land is planted in cotton, but poor harvests since 2002 have led to a sharp decline in cotton exports. Gas and oil remain the largest sources of export revenue (83% in 2004) and the principal industries of growth. Hydrocarbon revenues have helped to achieve large fiscal and current account surpluses in recent years, to establish a Stabilisation Fund, to reduce total external debt to less than 10% of GDP and to boost FX reserves, according to the IMF (reserves of USD3.6bn at end-2005 covered roughly 14 months of imports and more than three times the external debt).

However, Turkmenistan's gas exports are highly vulnerable to disruptions. First, the domestic pipeline network appears to be in a bad shape, reflected in a gas explosion in April 2009 that shut down most Turkmen gas exports. Second, gas exports are highly dependent on Russia's pipelines which still provide the only high-capacity route to foreign markets and since Russia itself is a major gas exporter it denies Turkmenistan access to non-CIS markets. Moreover, the pipeline explosion in April 2009 was followed by a flow suspension from Gazprom until today, causing huge losses for Turkmenistan. The country is trying to diversify its gas exports, but this will take time (a pipeline to China may become operational in 2010-2011). Third, Turkmenistan's major export market, Ukraine (47%), continues to struggle with sharply rising gas prices. Fourth, there is growing regional competition from Kazakhstan and Uzbekistan. The unification of official and commercial exchange rates in May 2008 and the redenomination of the manat in January 2009 are welcome steps, but are unlikely to have a major impact without further economic and financial liberalisation. Price controls, subsidies on basic goods and free provision of utilities ensure official inflation of 5-10%, but a high level of black market activity causes additional inflationary pressure.

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