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## **Turkmenistan: Recent Economic Developments**

This Recent Economic Developments report on Turkmenistan was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Turkmenistan or the Executive Board of the IMF.

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TURKMENISTAN

**Recent Economic Developments**

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Approved by the European II Department

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Turkmenistan: Basic Data, 1994-97

Social and demographic indicators				
Area		488,000 sq. km		
Population (1996)		4,655,000		
Life expectancy at birth (1994)		63.9 years		
Infant mortality rate (1996)		39.6 per 1,000 live births		
Hospital beds per thousand persons (1995)		10.4		
	1994	1995	1996	1997
Economic indicators				
Nominal GDP (in billions of manat)	141	1,072	7,608	9,647
Real GDP (percent change)	-19	-8	-8	-26
GDP per capita (in U.S. dollars) 1/	1,060	970	870	630
Exchange rate (manat / U.S. dollar)				
Official (non-cash, end-of-period)	75	200	4,070	4,165
Official (non-cash, period average)	19	111	3,258	4,143
Commercial bank (cash, end-of-period)	75	2,484	5,197	5,354
Commercial bank (cash, period average)	63	426	3,924	5,265
Consumer prices (percent change)				
End-of-period	1,328	1,262	446	21
Period average	1,748	1,005	992	84
Average public sector wages (manat per month)				
End-of-period	1,552	12,238	118,857	211,709
Period average	914	6,762	57,956	182,128
Annual average real wage (percent change)	...	-40	-39	84
Annual average wage (in U.S. dollars per month)	9	14	14	35
General government budget (in percent of GDP) 2/				
Revenue and grants	10	13	17	29
Expenditure	12	14	17	29
Overall balance (- deficit)	-1	-2	0	0
Domestic bank financing	1	2	0	1
Money and credit (end-of-period; percent change)				
Domestic credit (manat denominated)	214	861	384	95
Reserve money	1,184	390	367	84
Broad money (M2, excluding foreign currency deposits)	798	561	270	102
Broad money (M3, including foreign currency deposits)	984	448	414	82
Velocity (GDP/average M2; level)	18	20	30	15
Velocity (GDP/average M3; level)	16	19	22	11
External sector (in millions of U.S. dollars)				
Exports 3/	2,176	2,084	1,691	759
Imports	-1,691	-1,644	-1,532	-1,004
Current account (- deficit) 4/	84	23	43	-596
In percent of GDP	2	1	2	-32
Overall balance (- deficit)	135	113	89	157
In percent of GDP	3	6	4	8
Gross official reserves (end-of-period)	927	1,170	1,172	1,285
In months of imports	7	9	9	15
External debt (end-of-period)	418	550	668	1,360
In percent of GDP	9	30	32	74
External debt service	40	281	303	316
In percent of exports	2	13	18	42

Sources: Data provided by the Turkmen authorities.

1/ Calculated by the World Bank, using adjusted Atlas methodology. A simple conversion of manat GDP to U.S. dollars at the average commercial bank exchange rate, would indicate per capita GDP of about US\$400 in 1997.

2/ Care should be taken in interpreting these ratios, since the discrepant impact of domestic inflation and exchange rate changes on GDP and the budget tends to distort movements in budget aggregates in relation to GDP.

3/ Transit charges paid in kind are included in gas exports through 1995; as of 1996, gas is exported f.o.b. Turkmenistan.

4/ The current account captures all exports, regardless of whether payment has been received or not. Arrears on gas payments are recorded in the capital account.

## I. INTRODUCTION

1. Turkmenistan is a landlocked desert country with a rapidly growing population of 4.7 million. It has a highly specialized, trade-dependent economy, based largely on natural gas, oil, and cotton, which together account for about 85 percent of exports. Consumer and investment goods are mostly imported. Following independence in 1991, Turkmenistan has opted for a gradual transformation from a planned to a market economy. Although basic legislation for private sector development has been introduced and most prices liberalized, economic activity continues to be dominated by the public sector, and there has been little effort to diversify away from energy and cotton. Wages and social indicators remain among the lowest in the region.

2. Turkmenistan's per capita gas reserves are among the highest in the world. However, the regional gas pipeline for the export of gas is controlled by the Russian Federation, which has the world's largest gas reserves and considerable production capacity. The only alternative pipeline, which became operational at end-1997, is to the Islamic Republic of Iran (a country with the second largest gas reserves in the world) to meet local demand in the northern part of the country, with no onward connections to other markets. Since 1993, Turkmenistan has been denied access to European markets through the regional pipeline system, and its gas exports have been limited to Ukraine and countries of the Caucasus. Following the adjustment of gas export prices to international levels, given their own economic difficulties, these trading partners incurred large arrears on payments for gas imports. As a result, Turkmenistan reduced gas exports and suffered a decline in real GDP of close to 40 percent during 1993-95, while accumulating sizeable claims for unpaid gas. At the same time, it stepped up foreign borrowing and constrained imports by limiting access to foreign exchange in order to sustain gross international reserves at the equivalent of 6-9 months of imports. The distortions associated with the perpetuation of central controls, coupled with an accommodating monetary policy, led to financial instability, raising annual average inflation rates to close to 1,500 percent during 1993-95.

3. To address the growing economic difficulties, the government announced an economic reform package for 1996, which included measures to decontrol the economy and unify the exchange rate. However, the package was not fully adhered to and had mixed success. Public sector wages were doubled in October 1996, against a background of continued payments difficulties in the gas sector and a further decline in GDP on account of severe crop failures. Hence, large wage arrears were incurred and directed credits were resumed on a substantial scale by the end of the year. Price pressures were intensified by shortages as imports continued to be compressed. Although there was a sharp reduction in inflation to under 450 percent by year-end, reflecting monetary restraint earlier in the year, inflation picked up in the fourth quarter. Exchange rates were unified toward mid-year. However, the official rate was kept virtually fixed thereafter, despite growing pressures in the exchange market, triggering a growing spread between the official and commercial bank rates, which peaked at above 30 percent in the final quarter. Net earnings from foreign trade were reduced by arrears on payments for gas and electricity exports, as well as the exceptionally poor grain and cotton



harvests. The level of gross reserves was maintained at US\$1.2 million through import restraint, while external debt service arrears persisted. The budget was in approximate balance in 1996, although its coverage remained limited. Moreover, the balance was achieved through expenditure cuts and arrears to offset the large revenue shortfalls on account of low collections on gas exports and difficulties in selling the goods received in payment. Mainly linked to the gas payments problems and the crop failures, payments arrears within the state enterprise sector also rose sharply during 1996. Progress with structural reforms was limited and privatization was confined essentially to small enterprises.

4. Economic developments during 1997 were heavily influenced by the discontinuation of gas exports as of the second quarter in response to a weakening in payments performance. This development, combined with a sharp decline in production and exports of cotton fiber following the poor cotton harvest in 1996, resulted in a 26 percent decline in real GDP. Exports more than halved and, despite a partly offsetting decline in imports, an unprecedented current account deficit of 32 percent of GDP was incurred. However, sizable receipts from repayments on rescheduled gas debt, coupled with increased external borrowing, resulted in an overall balance of payments surplus and allowed a further build-up in gross international reserves to US\$1.3 billion, equivalent to 15 months of imports. This was achieved, however, at the cost of increased external vulnerability, reflected in more than a doubling of Turkmenistan's external debt and debt service ratio, with the share of short-term liabilities rising to about 30 percent. To ensure the timely servicing of foreign debt, enterprise earnings in three key foreign-exchange generating sectors (Oil/Gas, Agriculture, and Transportation) were centralized in state funds set up during 1996-97.

5. A major reduction in inflation (to 21 percent by end-1997) was, nonetheless, achieved against the backdrop of a sharp contraction in real GDP and emerging financial imbalances. The reduction in inflation was attributable mainly to stepped-up foreign exchange sales in the market, which absorbed excess liquidity, helped stabilize the exchange rate, and increased the availability of consumer goods obtained through informal trade. The doubling of budgetary wages early in the year, coupled with the resumption of preferential directed credits on a large scale, posed a serious threat to stabilization. These moves, however, were countered by the discontinuation of Central Bank (CBT) credit auctions and sequestration of government nonwage spending. The accumulation of sizeable wage arrears, notably in the nongovernment sector, also temporarily dampened domestic demand and its impact on inflation. Although the budget remained balanced, given its limited coverage, it was not an adequate indicator of emerging fiscal pressures. In structural areas, land was transferred to individual lease-holds in preparation for privatization, as envisaged under the agricultural reform program announced at end-1996. However, privatization continued to be sluggish. By end-1997, less than half of the small state enterprises were privatized and there was virtually no progress with the privatization of medium- and large-scale state enterprises.

## II. REAL SECTOR DEVELOPMENTS AND SYSTEMIC REFORMS

### A. Overview

6. As noted earlier, developments in real GDP during 1993–96 were dominated by the contraction in the output of gas and cotton, Turkmenistan's two most important export items. In 1993, these two products jointly accounted for almost 60 percent of GDP (Table 1).<sup>1</sup> By 1996, reflecting export market constraints and payments problems, gas production approximately halved. Cotton production suffered from inefficiencies in the agricultural sector. Nevertheless, at end-1996, gas and cotton still accounted for about half of GDP. The drop in output, coupled with lack of financial restraint, sharply raised annual inflation rates until 1996, which marked a turnaround in this trend. Real wages declined substantially during 1993–96 to among the lowest in the region.

7. Real GDP declined by 26 percent in 1997 as gas production fell by half and gas exports by 73 percent following the suspension of shipments in March, and cotton fiber production declined by 42 due to the poor harvest in 1996. Notwithstanding these developments and strong wage growth following the doubling of budgetary wages in 1997 (which contributed to a 78 percent public sector wage increase and a soaring of real wages by 84 percent), inflation declined dramatically from 446 percent in December 1996 to 21 percent in December 1997. The inflationary impact of some measures (wage increase, large directed credits, sizeable external borrowing) was offset by other measures (cuts in nonwage budgetary expenditure, wage restraint imposed on public enterprises, increased sales of foreign exchange, slow release of proceeds of foreign borrowing, discontinuation of CBT credit auctions). Turkmenistan's progress with structural reforms remained very limited. Most of the few remaining controlled prices on food products were liberalized, but the prices of utilities remain heavily subsidized. The government made rapid progress with the transfer of agricultural land to private lease-holds, although the key cash crops, cotton and wheat, remained under state orders at procurement prices much below respective world levels. Agricultural services and processing industries continued to be state-owned. In addition, progress with privatization was slow, although the government issued plans to accelerate the process and privatize all eligible enterprises by the year 2000.

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<sup>1</sup>All table references are to tables in the Statistical Appendix, unless otherwise indicated.

## B. Structure of the Economy

8. **Turkmenistan's energy sector** is the cornerstone of its economy. The country's proven and probable **gas** reserves—estimated at around 2.7 trillion cubic meters (tcm) and concentrated mainly in the giant Sovetabad field in the southeast of the country—are among the largest in the world, while indicative reserves are estimated at 14 tcm. After peaking at 90 billion cubic meters (bcm) in 1989, Turkmenistan's annual gas exports declined to an average of 24 bcm during 1994–96. Until January 1, 1996, gas exports were under control of the Ministry of Oil and Gas and all shipments were guaranteed under intergovernmental arrangements. Subsequently, such guarantees were discontinued and gas exports were conducted through direct arrangements between trading enterprises. With a view to ensuring payments and reaccessing European markets, as of January 1996, Turkmenistan entered into a joint-venture (Turkmenrosgaz) with Gazprom (45 percent share) and a U.S.-based Russian trading company, Itera, (4 percent share) to develop and export its gas. Under the agreement, Itera was responsible for marketing the gas at a price of US\$42 per 1,000 cubic meters at the border of Turkmenistan, and collect 53 percent of the payments due in goods and 47 percent in cash. However, following a further deterioration in the payments situation, Turkmenistan stopped all gas shipments as of end-March 1997 and unilaterally terminated Turkmenrosgaz in June. Unresolved differences with the Russian Federation on prices, transit fees, and payments arrangements have, so far, prevented the resumption of gas exports.<sup>2</sup>

9. Turkmenistan has been examining various options for alternative gas pipelines. The only one realized so far (as of end-December, 1997) is the Korpedzhe-Kurdkui gas trunk line to the Islamic Republic of Iran with a capacity of 2 bcm in its first year of operation and a maximum annual capacity, attainable in 3 years, of 8 bcm. Export revenue, however, will remain relatively small in the beginning years as 35 percent of export receipts will be used to repay Turkmenistan's share of the construction costs (around US\$192 million). Several other pipelines are under consideration (Box 1). In February 1998, Royal Dutch Shell started a feasibility study on a pipeline to Turkey, and eventually to Europe via Bulgaria. Turkmenistan has signed an agreement in principle with Turkey for deliveries of 15 bcm per year after the year 2000, once the pipeline is completed.

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<sup>2</sup>Technically, gas exports can resume within two weeks after an agreement has been reached.

Box 1: Alternative Gas Pipelines Under Consideration 1/

Destination	Length (km)	Capacity (bcm/year)	Cost (US\$bn)	Foreign Companies	Status
1. Pakistan via Afghanistan	1,464	20	2.5	Centgas (Unocal, Delta, Itochu, Inpex, and Huyndai)	Feasibility study completed.
2. a) Turkey 2/	2,200	15-30	3.1	Shell	Feasibility study started February 1998.
b) Ext. to Bulgaria	3,800	30	7.8	Shell	
3. Far East via Kazakhstan/China	5,750 (to China) 8,100 (to Japan)	30	10-14	CNPC, Exxon, Mitsubishi	Feasibility study on Turkmen territory completed.

Source: Data provided by the Turkmen authorities.

1/ The data on length, capacity, and cost are estimates.

2/ Via Islamic Republic of Iran or under the Caspian.

All the above projects would require considerable foreign financing. The first option, to Pakistan through Afghanistan, faces significant financing problems, due to the political instability in the country. U.S. legislation imposing sanctions on U.S. companies operating in the energy sector of the Islamic Republic of Iran when investment exceeds US\$20 million rules out significant U.S. financing for pipelines to Turkey through this country. The feasibility study for the route under the Caspian Sea has started only recently. Little progress has been made on the option through China, and the availability of cheap liquefied natural gas (LNG) in the Far East markets could hamper financing.

10. In addition to natural gas, Turkmenistan has considerable oil reserves, concentrated in the Amudarya region in Eastern Turkmenistan and the Caspian basin (both on- and off-shore). Currently, all oil is produced on-shore and one of the major problems facing Turkmenistan's plans for developing its off-shore areas stems from the debate between the littoral states about the legal status of the Caspian Sea. Most of the countries now seem to favor dividing up the seabed into national sectors, but a final agreement on this or on the dividing lines between the sectors, has not yet been concluded.

11. Turkmenistan's oil production dropped from 300,000 barrels per day (bd) in the 1970s to 85,000 bd or about 4.2 million metric tons (mt) in the early 1990s. All crude oil is processed locally at two refineries, Turkmenbashi (former Krasnovodsk) and Chardzhou, whose combined capacity is around 12 million mt per year. In 1996, Turkmenistan started upgrading the Turkmenbashi refinery. A catalytic cracker unit and a lube plant are being built, financed by foreign loans (US\$300 million); other projects (a polypropylene and a polyethylene plant) in the amount of US\$400 million each are under preparation. Until early 1998, Turkmenistan exported only refined products (to increase production of the Turkmenbashi refinery), but the first export of crude oil produced under production sharing

agreements was made in March 1998. Most oil is exported by means of barges across the Caspian Sea and on through the Russian Federation. Also, some products are exported in swap deals with the Islamic Republic of Iran, whereby Turkmen products are delivered to the northern regions of that country in exchange for equivalent products at Gulf ports.

12. To improve the development of the oil sector and attract foreign investment, Turkmenistan adopted a Petroleum Law in 1997 (discussed in greater detail later in the paper). This was an important step in improving the investment climate in the energy sector and facilitated the subsequent conclusion of production sharing agreements with Monument Oil of the United Kingdom and Petronas of Malaysia. In September 1997, the authorities invited tenders for offshore exploration and production of oil and gas in the Caspian Sea, although initial interest appears to have been limited due mainly to the uncertainty surrounding the status of some of the fields and the lack of a national plan for oil and gas development.

13. **Agriculture** is the second most important sector in the economy, accounting for about 10 percent of GDP and 44 percent of employment in 1997. The territory of Turkmenistan is predominantly desert, with irrigated arable land constituting only about 4 percent of the total land area.<sup>3</sup> The most important cash crops are cotton and wheat. Cotton is exported after processing into cotton fiber, while wheat is consumed domestically.<sup>4</sup> In recent years, the government's policy has been to achieve self-sufficiency in grains, and toward this end, the area under cultivation has been increased sharply from 260,000 hectares (ha) in 1993 to 452,000 ha in 1997 (Table 1). Turkmenistan also produces livestock, fruits, and vegetables for domestic consumption.

14. Under a reform program for agriculture announced at end-1996, most agricultural land has been leased to farmers free of charge for a period of 10–15 years, with the understanding that farmers grow specified crops (cotton and wheat) and meet production targets. If performance is satisfactory, as judged by the local peasant association and ultimately approved by a national commission chaired by the President, the farmer would be entitled to the ownership of land and given freedom in crop choice, with no production targets. However, the farmer would not be able to sell the land. Under this program, from a total of 1.7 million ha arable land, 1.3 million ha were transferred into long-term leases during 1997 and 90,900 ha were transformed into private property. By end-1997, the government had also transferred most of the livestock production into private hands, including 82 percent of all cattle and poultry, more than 50 percent of the sheep, and 25 percent of the pig farms.

15. The government continues to exert significant control over the agricultural sector, primarily through state orders. Although those on milk and meat were abolished in January 1997, virtually the entire harvests of the two key crops, cotton and wheat, are still under state

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<sup>3</sup>The major source of irrigation is the Karakum canal, which brings water from the Amudarya river. However, lack of maintenance and proper pricing of the water has strained this system.

<sup>4</sup>Domestic demand for wheat is about 1 mt tons per year.

orders.<sup>5</sup> The procurement price for wheat was raised three times to manat 400,000 per mt in 1997, while the cotton price remained unchanged at manat 1 million per mt. At these levels, both prices are considerably below the comparable world market prices (Table 2). However, agricultural inputs continue to be heavily subsidized. Water is provided free of charge, while fertilizer and seeds are provided at a 50 percent discount. Farmers continue to depend heavily on government organizations for input supplies and marketing of products, as there has been virtually no progress in the privatization of agricultural services.

16. The rest of the economy is closely related to the energy and cotton sectors. It is estimated that about a third of industrial production is oil and/or gas based and another third is cotton based. The textile industry has expanded in recent years. Four more textile factories—joint-ventures with foreign investors, producing both for the domestic and export markets—were built in 1997, in line with the government's policy of increasing value added from cotton and diversifying exports. There is also a flourishing informal private sector, engaged mostly in retail trade, construction, and transportation.<sup>6</sup> In terms of share in GDP, construction was the most important non-export sector of the economy in 1997.

### C. Recent Developments in GDP

17. National account statistics published by Turkmenstatprognos<sup>7</sup> continue to show considerable weaknesses, despite technical assistance to date from the OECD, Japan, and the IMF (Appendix I). There are deficiencies both in the source data and the methodology used (Box 2). The GDP estimates prepared by Turkmenstatprognos and the MEF (on an income-basis) have been adjusted by IMF staff to correct for some of the shortcomings, but the estimates thus derived should still be interpreted with caution.

18. The estimated 26 percent decline in real GDP in 1997 (Text Table 1, Figure 1) reflects sharply divergent developments in the export (gas and cotton fiber)<sup>8</sup> and domestic sectors of the economy. In 1997, Turkmenistan produced only 17.3 bcm of gas, about half of the

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<sup>5</sup>The state order for cotton was 1.2 million mt in 1997 and was set at 1.5 million mt for 1998, to be attained through increases in acreage and yields. For wheat, the target was increased from one million mt in 1997 to 1.2 million mt for 1998. The procurement prices have remained unchanged.

<sup>6</sup>The official estimates of the size of the informal sector range from 12 percent by the National Institute of Statistics and Forecasting (Turkmenstatprognos) to 18 percent of GDP by the Ministry of Economy and Finance.

<sup>7</sup>In the fourth quarter of 1997, Goskomstat, the Institutes of Economy at the Cabinet of Ministers, and the Academy of Sciences were merged under the name Turkmenstatprognos, which is directly responsible to the President and entrusted with the compilation of statistics and the preparation of economic projections.

<sup>8</sup>Data on the oil sector do not provide a breakdown between value added in the export and domestic sectors.

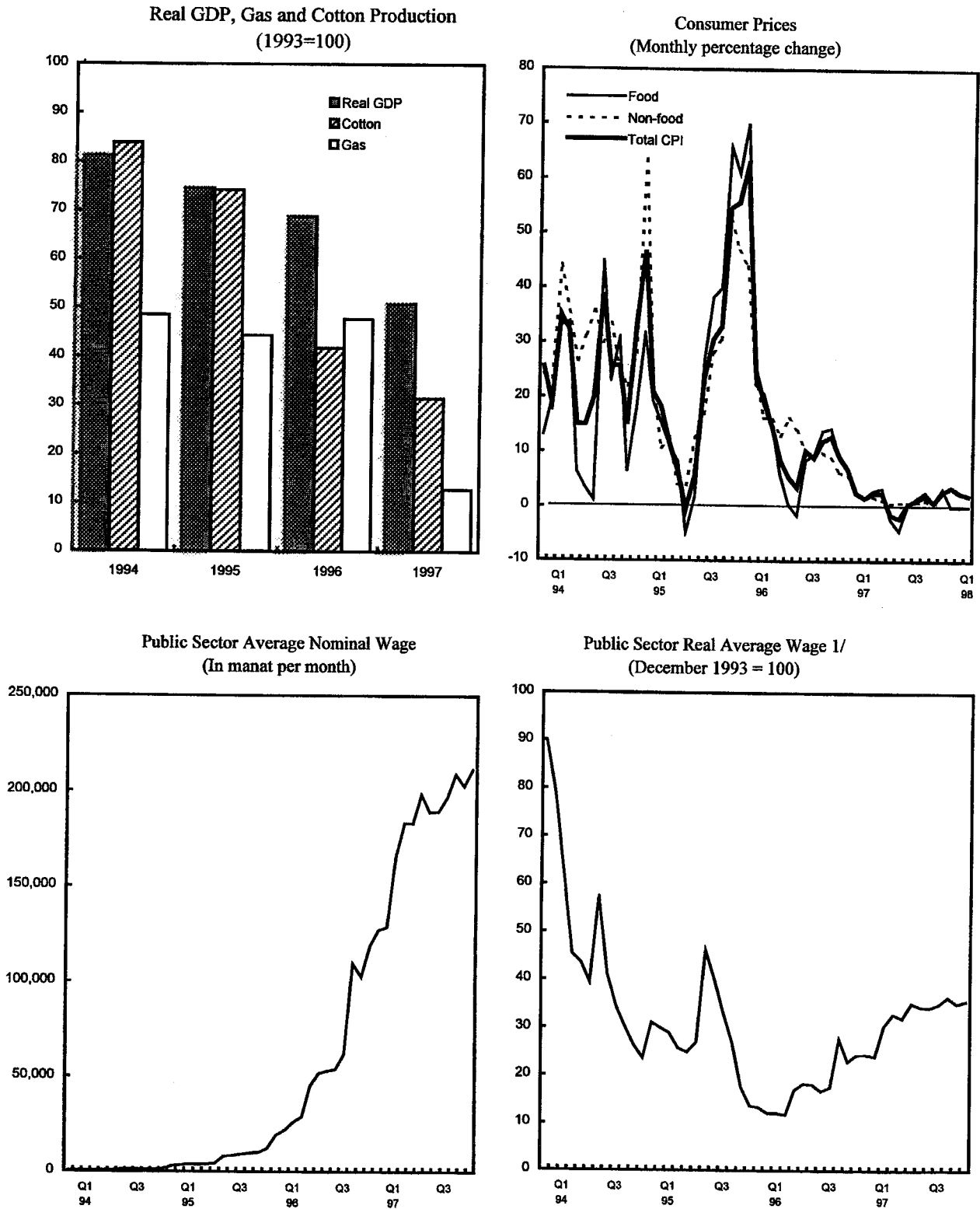
Text Table 1. Turkmenistan: Gross Domestic Product (GDP) by Sector, 1993-97

	1993	1994	1995	1996	1997 Est.
(In millions of manat, at current prices)					
GDP	9,397	141,016	1,071,911	7,607,536	9,646,765
Industry	5,174	103,226	559,761	4,768,948	3,720,912
<i>Of which</i>					
Gas 1/	4,657	92,904	518,932	3,524,415	1,291,399
Cotton fiber 1/	...	...	...	1,002,314	692,286
Agriculture	1,819	23,202	68,505	489,879	915,972
Other	3,115	20,362	206,182	2,348,710	5,009,881
Transport and communications	493	3,530	25,551	359,583	726,731
Construction	1,138	3,035	63,120	861,823	2,311,742
Retail trade and restaurants	358	3,590	19,345	115,755	214,239
Wholesale	150	1,263	17,523	195,768	207,881
Stocks	28	298	1,146	3,994	7,812
Others	949	8,648	79,498	811,788	1,541,476
(In percent of GDP)					
Industry	55.1	73.2	52.2	62.7	38.6
<i>Of which</i>					
Gas	49.6	65.9	48.4	46.3	13.4
Cotton fiber	...	...	...	13.2	7.2
Agriculture	11.5	9.0	6.4	6.4	9.5
Other	33.4	17.8	41.4	30.9	51.9
<i>Of which</i>					
Construction	12.1	2.2	5.9	11.3	24.0
(Percentage change)					
Real GDP	-10.0	-18.8	-8.2	-7.7	-25.9
Nominal GDP	...	1,401	660	610	27
Implicit GDP deflator	...	...	728	669	71

Sources: Data provided by the Turkmen authorities; and Fund staff estimates.

1/ Export prices are adjusted to reflect the market exchange rate.

Figure 1. Turkmenistan: Selected Real Sector Indicators, 1994-98



Sources: Data provided by the Turkmen authorities; and Fund staff estimates.  
 1/ Nominal wages deflated by consumer prices.



production of 1996, due to the termination of exports in March. Gas exports, where most of the value added is generated, declined by 73 percent to 6.5 bcm. Most value added in the cotton sector is derived from the export of fiber (at world market prices), as raw cotton is bought from the farmers at low fixed procurement prices. In 1997, fiber production declined by 42 percent to 141,670 mt, reflecting a very poor cotton harvest in 1996.<sup>9</sup> As a result, exports of cotton fiber declined by 52 percent to 63,000 mt in 1997, which, in turn, reduced value added from the export sector by 42 percent in real terms. Export prices remained about the same as in 1996.

### Box 2. GDP Estimates by Turkmenstatprognos, MEF, and IMF Staff

GDP computations for 1996 and 1997 are available only on a production basis, while income- and expenditure-based estimates are available only for 1993–95. The main deficiencies in the estimates are, first, inadequacies in the source data, as public enterprises do not have an accounting system in line with the requirements of the system of national accounts. Second, much of private sector activity is in the informal sector, and its contribution to value added is included on the basis of an estimate only. Third, a large part of exports is still conducted in barter, complicating valuation as it may not properly reflect actual market prices. Fourth, value added in the export sector (which affects cotton fiber, gas, and oil) is computed at the official exchange rate rather than the more depreciated market rate. Fifth, the domestic price of gas is fixed at very low levels, underestimating the actual contribution to value added. Sixth, Turkmenstatprognos does not compile GDP in constant prices or at quarterly frequencies, and accounts on an expenditure basis are at an early stage of development. The MEF computes GDP only on an income basis in current prices. Starting in 1997, the MEF uses the market exchange rate in computing GDP. Finally, the interpretation of GDP data is complicated by the fact that the estimates includes production (mainly of gas) that is exported but not paid for.

For the calculation of nominal GDP, the IMF staff estimates substitute the market for the official exchange rate to correct value added from the export sector, but cannot correct for the deficiencies in source data. Current year estimates of real GDP are based on the sectoral shares for the preceding year and the real growth rates for the current year, computed from physical volumes for gas, cotton fiber, and selected items for the rest-of-the-economy.

#### Nominal GDP (In billions of manat) 1/

	1994	1995	1996	1997
Turkmenstatprognos	61	430	6,612	8,447
MEF	...	...	6,612	10,600
IMF staff	141	1,072	7,608	9,647

1/ Turkmenstatprognos and IMF staff estimates are those made in February 1998, while the MEF's estimates date back to November 1997.

<sup>9</sup>Cotton is harvested during August-November. Because of the time needed to process the raw cotton into fiber, the bulk of the fiber is exported in the following calendar year, typically during the first quarter.

19. By contrast, the domestic sector grew by 34 percent in real terms in 1997, buoyed by a construction boom and a sharp rebound in raw cotton and wheat production. Construction activity continued to display strong growth, with its share in GDP more than doubling to reach 24 percent and exceeding the combined shares of the cotton and the gas sectors. While the decline in economic activity in the export sector contributed to this outcome, the increase in the share of construction reflected mainly large investment projects, such as the refurbishing of the Turkmenbashi refinery, the construction of several bank and other office buildings, a new mosque, a presidential palace, the pipeline to the Islamic Republic of Iran, as well as the completion of four textile plants, and a sports stadium. Most of the construction was undertaken by foreign contractors and financed partly by foreign loans. Following considerable investment in the sector in recent years, production of crude oil increased by 8 percent in 1997 to reach 4.5 million mt.

20. Strong growth in the production of cotton and wheat in 1997 raised the share of agriculture in GDP from 6.4 percent in 1996 to 9.4 percent in 1997. The favorable performance of these crops reflects, for the most part, improvements in financing and fertilizer supplies as part of the agricultural sector reforms, as well as better weather conditions. Both cotton and wheat production rose by about 45 percent in 1997. Wheat yields, while still low by world standards, increased from 0.9 to 1.4 mt per ha, a significant improvement over the preceding year, although (as with cotton) much lower than historically. Production in the livestock and dairy sectors benefitted from the lifting of state orders on meat and milk. Four new textile plants became operational in 1997, with a combined production capacity of 20,000 mt of cotton yarn, raising domestic use of cotton fiber from 35,000 mt in 1996 to 40,304 mt in 1997. Output of the textile sector grew by 28 percent (Table 3) and textile exports reached US\$14 million in 1997.

21. For 1997, the only available data on income and expenditure is on money incomes of the population, derived from financial transactions through the banking system (Table 4). According to this data, the share of wages in total money incomes increased from 71 percent in 1996 to 80 percent in 1997, while the share of pensions declined from 21 percent to 13 percent during the same period, as pensions were not adjusted in line with the wage adjustment in 1997. Spending on goods provided by the government and co-op stores and on services continued its downward trend. The share of spending on foreign exchange rose to account for 57 percent of all consumer expenditures, reflecting increased availability of foreign exchange in 1997, as well as the continued lack of confidence in the manat.

#### **D. Developments in Consumer Prices**

22. The only consumer goods that remain under direct price control are utilities and communal services, petrol, transportation, and building materials (Table 5). Prices of controlled goods are set by the Cabinet of Ministers as part of the social safety net system. The prices of meat and milk were liberalized following the elimination of the state orders on these products as of January 1, 1997, as was the price of cotton oil. A number of products—meat, vegetable oil, tea, sugar, and flour—remained available in state stores at subsidized prices against coupons financed through the budget until mid-1997. However, although a large part of the population was eligible for coupons under the income ceiling of

manat 120,000 per capita, administrative procedures were cumbersome and relatively few made use of the facility. As of January 1, 1998, all coupons were eliminated except for flour, which remained available at manat 35 per kg in quantities not exceeding 5 kg per person per month in the cities and 6 kg per person in rural areas. Since mid-1997, the cost of this subsidy is borne by the Bread Association and financed through cross-subsidization by other bread products. The noncoupon price of flour is free. The price of standard bread remains controlled, but bakeries are free to charge market prices for other types and sizes.

23. Controlled prices were raised during 1997, although remaining well below international levels. The price of flour was raised by 250 percent, while the price of bread was increased in two steps by 78 percent, although it still amounted to only US\$0.15 per kg by early 1998. An increase in the petrol price was reversed following complaints by consumers, but the prices of building materials were increased 19–26 times, bringing them closer to cost-price levels. The prices of some of the communal services and electricity were also increased—the latter by almost 9 times—but remained highly subsidized. At end-1997, house rent and utilities remained essentially free.

24. Consumer price **inflation** was reduced very sharply from a twelve-month rate of 446 percent in 1996 to 21 percent in 1997, with a fairly even increase in the prices of food and nonfood items, and a slightly stronger increase in the prices of services (Table 6). Reflecting the normal seasonal pattern of the availability of local fruits and vegetables, inflation rates were the lowest in the summer months and highest in the winter season.

25. The rapid decline in inflation reflected not so much a coordinated policy approach to lowering inflation, but a somewhat ad hoc adoption of policies to neutralize the impact of measures that threatened stabilization. Thus, the injection of liquidity through foreign borrowing was contained by limiting release of the loan proceeds; the expansionary impact of a doubling in budgetary wages was countered by the sequestration of government nonwage spending; and the resumption of interest-free directed credits on a large scale was accompanied by the discontinuation of CBT credit auctions (offsetting some of the increase in credit but eliminating the CBT's only market-oriented monetary policy instrument). At the same time, CBT foreign exchange sales were stepped up (to about 14 percent of broad money per month).<sup>10</sup> This allowed a rapid increase in private imports of consumer goods through informal channels, which eased supply constraints and sharply lowered consumer goods prices relative to overpriced barter equivalents obtained in official trade. In addition, the sales contributed to a stabilization of the commercial bank and parallel market exchange rates.<sup>11</sup>

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<sup>10</sup>CBT sales of foreign exchange through the auctions increased from US\$15 million in 1996 to US\$100 million in 1997, and outside the auctions from US\$40 million to US\$150 million. The monthly average sales of US\$21 million in 1997 were about 14 percent of the monthly average money supply (excluding foreign currency deposits) or about one-third of the country's monthly wage bill.

<sup>11</sup>In terms of manat per U.S. dollar, the commercial bank rate depreciated by only about

(continued...)

Nevertheless, there was a large liquidity overhang by the end of the year, which started to unwind during the first months of 1998, mainly to clear wage arrears and pay for the 1997 cotton crop. However, the CBT contained inflation at 2–3 percent per month in the first quarter of the year, mainly by continuing its foreign exchange sales, which amounted to about US\$40 million or 20 percent of end-1997 broad money during this period.

### **E. Wages and Employment**

26. Basic wages in the public sector<sup>12</sup> are set in accordance with wage scales that differ by occupation and length of employment. Off-budget ministries and public enterprises typically supplement the basic wage by food allowances, material assistance, and various premia and bonuses. Private enterprises are free to set their own wages. Until the end of 1995, the government expressed public sector wage scales as multiples of the minimum wage, which was set by the President. In 1996, the government set the average economy-wide wage, to which the minimum wage was linked—which then served essentially as the basis for computing social benefits—and introduced an excess wage tax of 50 percent on wages in excess of 150 percent of the official average wage<sup>13</sup> in an effort to control wage increases. As of March 1, 1998, the floor for the excess wage tax was increased from manat 60,000 (effective since October 1996) to manat 200,000 and a second floor of manat 400,000 was introduced, above which the tax rate was set at 60 percent. As of 1997, the minimum wage no longer plays a role and social benefits are computed on the basis of the average wage.

27. Nominal and real wages increased sharply in 1997, reflecting an almost doubling of economy-wide wages in October 1996, followed by a further doubling of budgetary wages in March 1997, with a partial spillover into the rest of the economy. The March adjustment in budgetary wages was intended to narrow the gap with actual wages in the off-budget public sector. In an effort to limit the effect of the budgetary increase on public enterprise wages, the government issued directives to these enterprises to strictly contain their wage increases within their ability to pay. This policy, however, was only partly successful as average public sector wages increased by 42 percent during March–April, considerably more than can be attributed to budgetary wages alone (Table 7). Thus, during 1997, average real wages increased by 84 percent. Nevertheless, real public sector wages were still about two-thirds

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<sup>11</sup>(...continued)

3 percent between December 1996 and December 1997. In addition, the manat appreciated with the dollar against other major international currencies in 1997.

<sup>12</sup>Turkmenstatprognos reports only public sector wages and wages for the service subsector of agriculture. The public sector comprises budgetary and off-budget public sector organizations and enterprises.

<sup>13</sup>The effective rate differed by sector and was based on output performance. The excess wage tax system is discussed in detail in “Turkmenistan—Recent Economic Developments,” SM/97/112, May 1997, Appendix III.

their 1994 levels. In addition, the average U.S. dollar wage (US\$35 in 1997) was among the lowest in the CIS.<sup>14</sup> The successive large wage increases, moreover, triggered large wage arrears in the enterprise sector, which were partially cleared in early 1998 following an instruction by the President to clear all wage arrears.<sup>15</sup> Notwithstanding these difficulties, in March 1998, the government announced a further doubling of budgetary wages.

28. Official unemployment figures remain very low, since each citizen of Turkmenistan is guaranteed employment.<sup>16</sup> The 1995 Household Survey puts the unemployment rate at about 3 percent of the labor force. Provisional data for 1997 indicate a slight decline in total employment, as increases in industry and agriculture were offset by declines in construction and "other" sectors. After declines in 1995 and 1996, employment in state enterprises increased slightly (Table 9). Reflecting the agricultural sector reforms, employment shifted from farmers associations to the nonstate (agricultural) sector. The latter accounted for 28 percent of total employment at end-1997, of which about two-thirds was in agriculture and one-fourth in small enterprises.

29. In June 1996, the government set up labor exchanges to match workers seeking employment with job vacancies in state enterprises. Workers who register at the exchanges are not counted as unemployed; they have to accept the exchange's offer of employment to avoid being delisted. Of the more than 60,000 people registered during 1996-97, about 20-30 percent were provided with employment.

#### F. Income Distribution and the Social Protection System

30. Available data for recent years indicate that, unlike in most other transition economies, the **distribution of income** in Turkmenistan has not become markedly more uneven (Table 10, Figure 2). Although fluctuating sharply, the ratio of the highest (in construction and geological prospecting) to the lowest sectoral wage (mainly in agriculture) was about 2.5 in both 1994 and 1997. In addition, monthly wage increases across sectors have become more uniform. The subsidies for utilities and housing apply equally to all income levels, further lowering the ratio of high to low incomes. However, the wage data exclude the private sector, while public sector employees may have a second income-generating activity in the informal sector, so that income inequality may be more pronounced than indicated by official wage data.

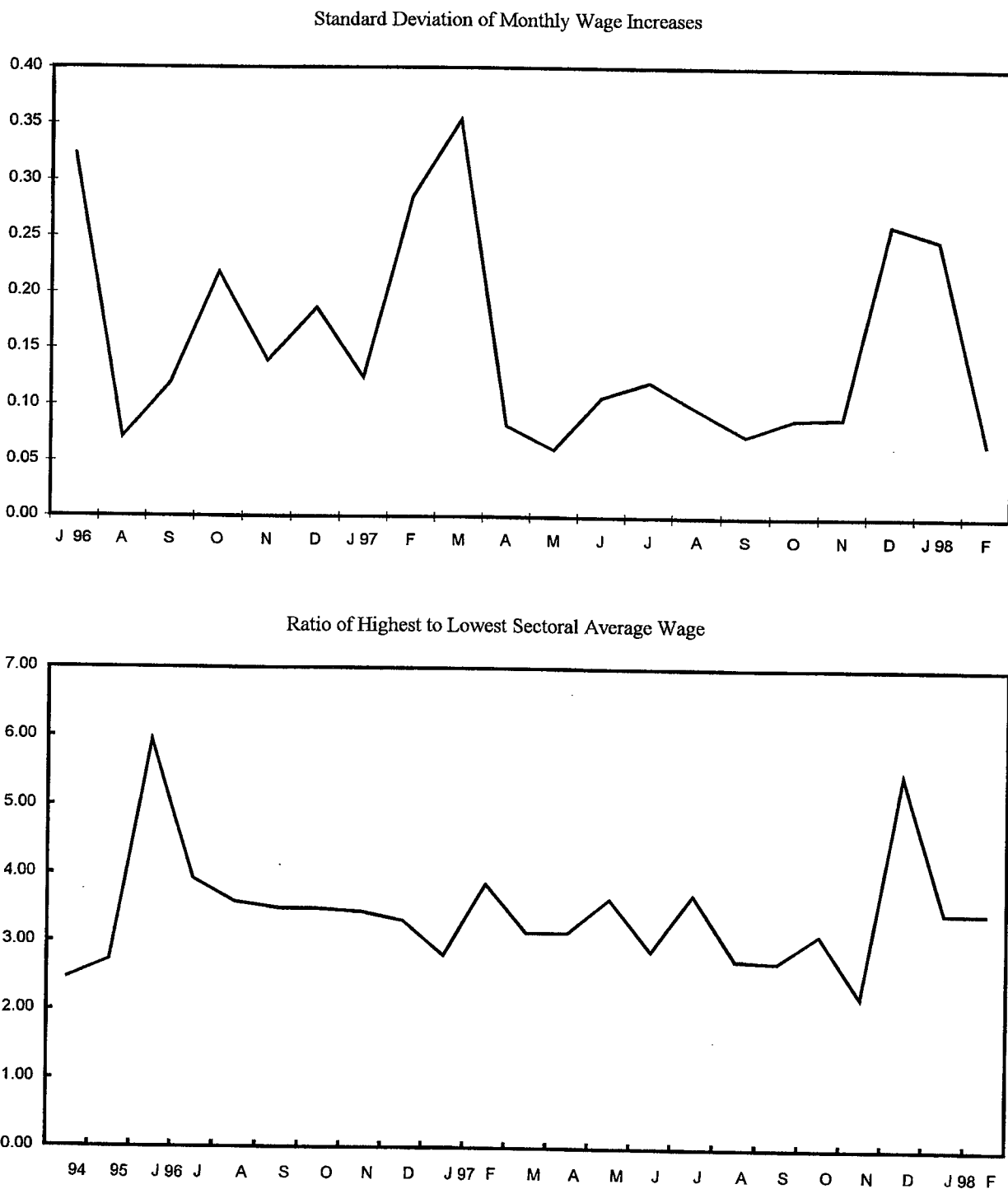
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<sup>14</sup>In Central Asia, the average monthly wage ranged from US\$40 in the Kyrgyz Republic to US\$53 for Uzbekistan and US\$120 in Kazakhstan.

<sup>15</sup>The wage statistics are based on the total wage bill of enterprises, which includes wage payments due but not made.

<sup>16</sup>Those who are actively seeking employment and are registered at the employment agency are excluded from the unemployment data.

Figure 2. Turkmenistan: Nominal Wages by Sector, 1996-97 1/



Source: Data provided by the Turkmen authorities.

- 1/ The upper panel shows the standard deviation of the monthly increases of the nominal wage across the 24 sectors of the economy and the lower panel the ratio of the highest to the lowest sectoral wage. A low standard deviation indicates that the monthly wage increases are similar across all sectors, while a high standard deviation points to proportionately higher increases in some sectors. The administrative increase in March 1997 is associated with a high standard deviation which suggests that not all sectors were equally able to follow the increase in budgetary wages.
- 2/ The data for 1994 and 1995 are annual averages and cover somewhat different categories than in later years.

31. The **social safety net** system in Turkmenistan comprises four elements: price subsidies, state pensions (either old-age or disability), family allowances, and guaranteed employment (Box 3). In 1997, the only changes to the system were the elimination of the remaining price subsidies on food products (except bread and flour) and the introduction of a new subsidy on baby food. In addition, the maximum income level for support through coupons for flour was raised from manat 80,000 per capita to manat 120,000 per capita. The basis for the allowances was set at manat 200,000 in 1996 and kept unchanged in 1997, remaining well below the value of the minimum consumption basket in that year (Table 11). Contrary to previous policy, pensions were not increased in line with budgetary wages in March 1997. However, the minimum pension was increased to manat 100,000 in March 1998. The government is preparing a new self-financing, fully-funded pension system to replace the present pay-as-you-go system. When the new system is introduced, the system of nonpension allowances is to be revamped and reduced in scope.

### Box 3. Summary of the Social Safety Net System

The social safety net system consists of :

- **Price subsidies.** Flour, bread, and baby food are provided at highly subsidized prices and salt is free of charge. Subsidized bread, baby food, and salt is available at unlimited quantities for every citizen; flour can only be bought at the subsidized price with coupons up to a limit, and coupons are only available to families with a monthly income below a specific amount per capita (manat 200,000 for 1998). In addition, electricity, water, and gas are provided free of charge up to a generous limit, and at highly subsidized prices thereafter. Housing and related communal utilities such as hot water, heating, and sanitation are also virtually free of charge.
- **Pensions.** The pension system is regulated by the laws "On Pensions to Citizens" and "On Social Protection of Disabled Persons," providing protection for old age, disability, and for the loss of a bread winner. In 1997, 413,904 people received a pension from the budget's Pension and Social Security Fund, of which 294,714 received an old-age pension. The basic retirement age is 60 years for men (after 25 years of work) and 55 years for women (after 20 years of work). While the amount of pension depends on the length of work experience, type of employment, and salary, it is independent of recipients' additional income. Pensions are financed by a pay-roll tax and provided through the budget on a "pay-as-you-go" basis, and are generally increased in line with general wage increases.
- **Family allowances.** These allowances are also paid from the Pension and Social Security Fund and include payments to low income families and to families with children (irrespective of income), allowances for persons who take care of disabled people, and death, disability and veterans benefits.
- **Guaranteed employment.** Every citizen of Turkmenistan is guaranteed employment. In case workers are laid off, the enterprise pays monthly wages for up to two months as a severance payment.

In addition to free education and health care, informal support by family members is another major aspect of the overall social safety net in Turkmenistan.

32. Nevertheless, the standard of living remains very low in Turkmenistan and the social indicators are among the least favorable in the region. Recent World Bank studies in the agricultural and health sectors<sup>17</sup> have revealed low incomes and poor health, especially in rural areas, where the majority of the population lives, reflecting low yields in the agricultural sector. Indications are that the social development situation has worsened since independence in 1991.<sup>18</sup> The proportion of the population living in poverty increased from 12 percent to 48 percent of the population between 1988 and 1994. Life expectancy is among the lowest, and infant mortality among the highest in the region.

### G. Private Sector Development and Privatization

33. Turkmenistan has passed a number of basic laws for the **development of the private sector**, including a law for the privatization of state owned enterprises, a bankruptcy law, and an investment law. However, the economy is still dominated by the state sector and privatization has remained limited to the small (less than 100 employees) service and retail sector. While 81 percent of the 32,164 enterprises registered in Turkmenistan in 1997 were non-state entities, their contribution to GDP is estimated at only about 25 percent.<sup>19</sup> Foreign investment continues to be heavily concentrated in the oil, gas, and textile industries, exclusively through the establishment of joint-ventures. Registration procedures for new domestic private companies remain cumbersome and inefficient.

34. In 1997, Turkmenistan made a number of changes in its approach to and organization of **privatization**. A major revision of the privatization law<sup>20</sup> in June 1997 allowed, for the first time, domestic and foreign entities to participate in the privatization process on an equal footing and to hold a majority stake in privatized businesses. In addition, several presidential decrees were issued. On April 7, as part of a 1,000-day reform program, the President announced an acceleration of privatization, with the objective of completing the privatization of trade and catering enterprises by August 1998, and the remainder by December 1999.

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<sup>17</sup>"Review of the Agrarian Sector," World Bank, May 1996, and "Rationalizing the Health Sector," World Bank, January 1996.

<sup>18</sup>Memorandum of the President of the International Bank for Reconstruction and Development to the Executive Directors on a Country Assistance Strategy of the World Bank Group for Turkmenistan, World Bank, May 1997, page 3.

<sup>19</sup>European Bank for Reconstruction and Development (EBRD), Transition Report, 1997. Official estimates range from 15–20 percent.

<sup>20</sup>The 1993 Law on Denationalization and Privatization of State Property was complemented in 1994 by the "National Program for Privatization," which listed 4,343 enterprises to be privatized, but excluded enterprises operating in priority sectors, such as oil and gas, electricity generation, and communications.



Auctions, corporatization (formation of joint stock companies), and investment tenders would be used to further the process of privatization.<sup>21</sup> Subsequently, the government:

- Announced its willingness to divest itself of 100 percent of its ownership in enterprises slated for privatization;
- Established (August 1997) a central registry for all commercial and noncommercial enterprises at the State Agency for Foreign Investment (SAFI);
- Issued a decree for the sale of 50 small- and medium-sized enterprises, primarily under the Ministry of Textile Industry; and
- Established in consultation with the World Bank (January 1998) the Center for Preparing State Enterprises for Privatization under SAFI to work in parallel with the State Property and Privatization Department (SPPD) at the MEF, although the latter would remain in charge of privatization of small enterprises.
- Issued a further decree and two regulations (April 14, 1998) to clarify procedures pertaining to the transformation of state-owned enterprises into joint-stock companies and the floatation of state blocks of shares, as well as to set out the institutional responsibilities for carrying out these procedures.

35. Progress with privatization remained limited in 1997. A total of 101 enterprises were privatized, of which 98 were small (the average number of employees in the enterprises sold off in 1997 was only 25), two were medium-sized, and one was a large enterprise. Of the 98 small enterprises, 95 were privatized through auctions and 3 were sold to the employees. The average selling price of the small enterprises was manat 34 million (US\$6,400). In addition, two medium-sized state enterprises were sold at auctions at an average price of manat 179 million (US\$34,000). Turkmenistan sold only one large enterprise, the Nebit Dag hosiery factory, for manat 62.8 billion (US\$12 million), using a tender procedure.<sup>22</sup> As a result, of the 4,343 enterprises identified for privatization, only 1,858 had been privatized by end-1997. These were mainly small enterprises in the services and retail sectors. In five auctions of state enterprises held between end-December 1997 and March 1998, only 13 enterprises were sold from a total of about 70 that were offered. The main reasons for the disappointing performance were the generally poor state of the enterprises and the highly overvalued asking price.

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<sup>21</sup>A voucher based mass privatization scheme was ruled out, on the grounds that it would not contribute to raising the already distressed asset values.

<sup>22</sup>The payment was, however, spread out over a long period.

## H. Environment

36. Turkmenistan suffers from serious environmental problems in both the industrial and agricultural sectors. To address these concerns in the industrial sphere, a pollution tax was introduced, imposing levies in the event that enterprises exceed maximum levels of pollution. Initially, implementation was poor, but the government has recently taken steps to improve compliance, including taking offending enterprises to court and enlisting the assistance of banks to sequester overdue pollution taxes. In the agricultural sector, the main problem has been the application of herbicides and insecticides by air. This has led to the contamination of the water supply and exposed the rural population to dangerous quantities of chemical agents. Hence, this application technique has been phased out and replaced with the distribution of these chemicals directly at ground level, thereby minimizing the impact on the environment.

37. The expansion of cotton and wheat production has placed considerable demands on Turkmenistan's water supply, which primarily draws on the waters of the Amudarya and Syrdarya rivers. These two rivers drain into the Aral Sea and the heavy use of their waters for irrigation by Turkmenistan and other countries in the region has caused the volume of the Aral Sea to shrink by an estimated two-thirds between 1960 and 1990 and contributed to a sharp rise in the sea's salinity level. Turkmenistan is actively working with four other Central Asian states in the Aral Sea Program to find regional solutions to this problem.

38. A further problem, the cause of which is not fully understood, is the rising level (by about 2.5 meters since the early 1980s) of the Caspian Sea. This has resulted in extensive coastal flooding, as well as pollution of fresh water systems in the coastal region. The Caspian Sea has also absorbed pollutants along its flooded perimeter. Turkmenistan is working with regional governments, as well as several international organizations (including the World Bank and the United Nations) to resolve this matter.

## III. PUBLIC FINANCES

### A. Overview<sup>23</sup>

39. The underlying fiscal situation weakened in 1997, although the budget was kept broadly in balance as in previous years (Text Table 2, Figure 3, Table 12). Revenues were negatively affected by the cessation of gas exports as of end-March 1997. Moreover, the budget did not receive its agreed share of revenue from the servicing of rescheduled gas

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<sup>23</sup>The treasury system of the MEF provides data on budget revenues and expenditures on a timely basis, but the data are provided on the basis of a functional rather than an economic classification.

Text Table 2. Turkmenistan: General Government Operations, 1994-98  
(In millions of manat)

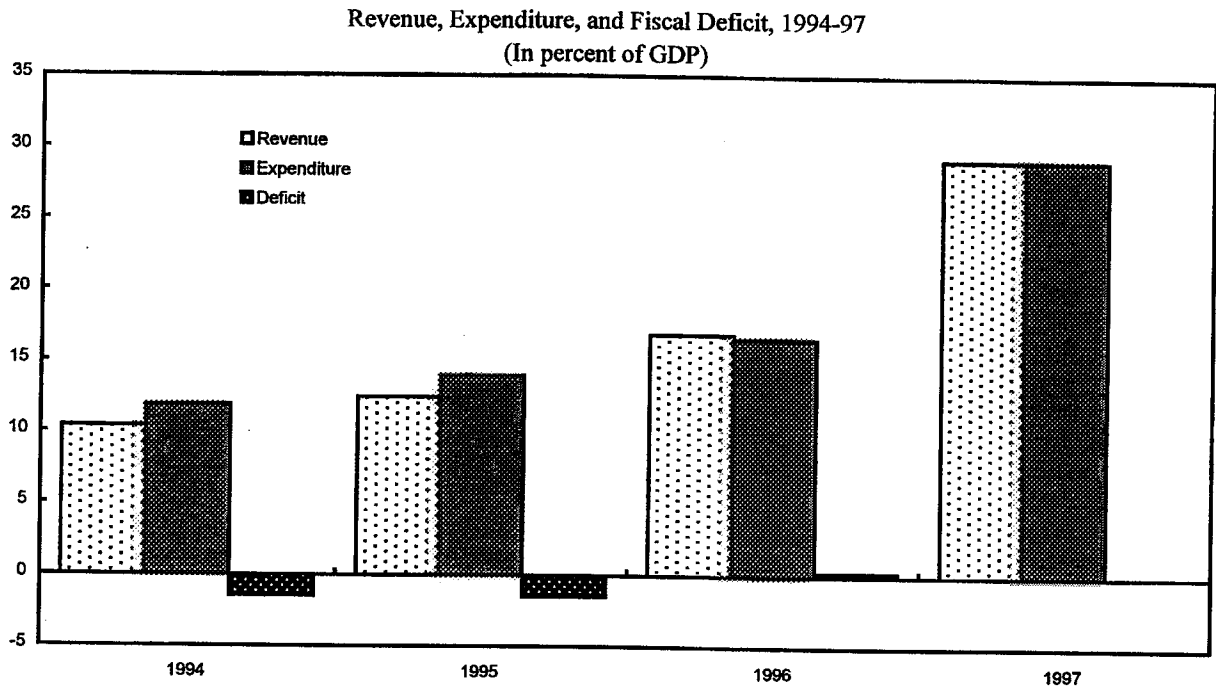
	1994	1995	1996	1997	1998 Approved Budget 1/
Revenue 2/	14,723	133,721	1,284,135	2,817,593	3,655,898
Direct taxes	3,749	35,869	323,356	687,943	651,254
Indirect taxes	5,851	19,887	806,280	1,297,034	1,714,214
Non-tax revenue	5,123	77,965	154,499	832,616	1,290,430
Pension and Social Security Fund	3,445	19,887	168,658	470,965	758,430
Revenue from rescheduled gas debt	...	...	...	246,596	439,000
Other	1,678	58,078	...	115,055	93,000
Expenditure 2/	16,738	150,593	1,261,849	2,813,980	3,816,986
National economy expenditures	6,784	52,896	443,010	915,961	847,990
Social-cultural expenses	5,173	36,794	359,707	975,728	1,516,486
Defense	1,528	15,053	158,271	440,158	612,699
Interest payments	360	6,107	10,168	27,741	38,310
Other	501	21,055	78,897	66,561	25,000
Pension and Social Security Fund	2,392	18,688	211,796	387,831	776,501
Overall balance cash basis (- deficit)	-2,015	-16,872	22,286	3,613	-161,088
Financing	2,015	16,872	-22,286	-3,613	161,088
Domestic (net)	1,933	17,370	-16,558	54,983	230,799
Foreign (net)	82	-498	13,406	-58,596	-69,711
Foreign Exchange Reserve Fund	...	-5,336	261,200	...	...
Arrears to the European Union	...	5,336	-241,200	...	...

Source: Data provided by the Turkmen authorities.

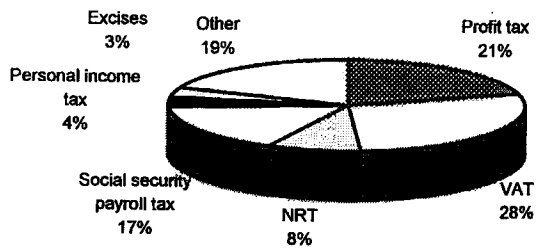
1/ Budget approved by parliament, in constant fourth quarter 1997 prices and December 1997 exchange rate. Principal repayments on foreign debt are reclassified from expenditure to financing.

2/ Excludes revenue and expenditure of the state funds and certain other extra-budgetary expenditures.

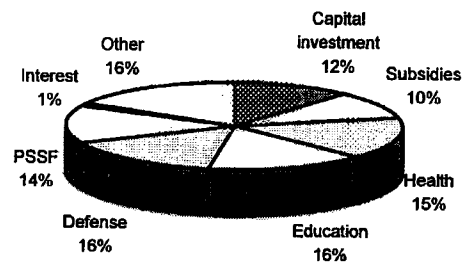
Figure 3. Turkmenistan: General Government Operations, 1994-97



**Revenues, 1997**  
(In percent of total revenues)



**Expenditure, 1997**  
(In percent of total expenditures)



Source: Data provided by the Turkmen authorities.

debt.<sup>24</sup> The wage component of expenditures rose sharply on account of the doubling of budgetary wages in October 1996 and in March 1997. The MEF continued its policy of limiting expenditures to available revenues, and consequently “unprotected” expenditures had to be cut sharply in real terms.<sup>25</sup> Budgetary management was further complicated by a rapid increase in the barter component of the budget.<sup>26</sup> Budget coverage continued to be limited as several ministries and government agencies remained off-budget (Appendix II), although some were brought under the treasury system in mid-1997 (in extrabudgetary accounts). The approved 1998 budget (in constant prices) projected a deficit of 1.2 percent of GDP. However, a doubling of budgetary wages effective March 1, 1998, and the uncertainties related to the resumption of gas exports and the repayment of rescheduled gas debt, reduce the likelihood that the deficit can be contained to the envisaged level in the absence of new revenue/expenditure measures.

## B. Revenues

40. Total budgetary **revenues** rose from 17 percent of GDP in 1996 to 29 percent in 1997, following small increases in the ratio in previous years.<sup>27</sup> This was realized despite a sharp real decline (73 percent) in gas exports, a major source of budgetary revenue. The principal explanatory factors were:

- **The divergent effects of developments in the tradable and nontradable sectors of the economy on budget revenues and GDP.** Budgetary revenues and expenditures were mainly affected by the large increase in value added in the nontradables sector, while nominal GDP was heavily influenced by developments in the export sector (as discussed in paragraph 18). Hence, nominal GDP growth was far lower than the growth in budgetary revenues.
- **The taxable base of the gas sector declined by much less than gas exports.** This was attributable to three factors. First, slightly more than half of the payments due on gas exports in 1996 were received in 1997 (while this carry-over effect was very small in 1996), considerably mitigating the impact of the drop in gas exports in 1997. Second, the 40 percent foreign exchange tax on cash receipts from gas exports

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<sup>24</sup>This debt is owed to Turkmenistan by Ukraine, Georgia, Armenia, and Azerbaijan, and consists of the rescheduled arrears on gas imports during 1993–95. The budget was to receive 50 percent of the service payments on the rescheduled debt, although actual receipts were only 29 percent.

<sup>25</sup>Protected expenditure items are wages, pensions, stipends, and medicines.

<sup>26</sup>Transactions in which liabilities of the budget are settled by reducing tax claims (see paragraph 43).

<sup>27</sup>The discussion about the 1997 budget outcome excludes the state funds (see III.G.)

(introduced in March 1996 and abolished as of April 1997),<sup>28</sup> had a considerable negative effect—estimated at 36 percent—on the tax base in 1996, but not in 1997, as cash payments were received mostly in the second half of the year, by which time the tax was abolished. Third, the depreciation of the average official exchange rate (used in valuing the tax base) by over 20 percent raised the manat value of gas export receipts.

- **To finance the budgetary cost of the wage increase in March 1997, the government allocated half of the proceeds from repayments on restructured gas debt to the budget, with the other half allocated to the FERF, which is controlled by the President. In effect, the budget received considerably less than expected, as the FERF retained a larger share of the second quarter payment, resulting in a manat 73.3 billion loss to the budget, and the fourth quarter payment was received only in 1998.<sup>29</sup> Nevertheless, the budget's share of the rescheduled gas debt contributed the equivalent of 2.6 percent of GDP to overall revenue.**

Reflecting the above, revenue from gas exports (excluding the receipts from rescheduled gas debt) declined marginally from 4.7 percent of GDP in 1996 to 4.2 percent of GDP in 1997, although its share in total revenue declined from 28 percent to 14 percent (Table 13). Nongas revenue rose by 13 percent of nominal GDP, accounting for 86 percent of total revenue. In addition to the revenue from rescheduled gas debt (initiated in 1997 and shown under nongas revenue), this mostly reflected the positive impact of the increase in economy-wide wages on revenue from the personal income tax and the pay-roll contributions to the Pension and Social Security Fund (PSSF—adding 4.9 percent of GDP to revenues). Revenue collections, however, were 12 percent lower than budgeted, with the biggest shortfalls occurring in VAT, Natural Resources Tax (NRT), and profit tax collections, all of which were influenced by the lower than anticipated gas export receipts.<sup>30</sup> In addition, by Presidential decree of January 1997, all capital construction expenditure by the oil and gas sector was exempted from taxation, backdated to July 1996, substantially reducing revenue from payment of tax arrears, compared to the plan.

41. The structure of revenues remained broadly the same in 1997, although the share of the four main taxes—VAT, profits, natural resource, and payroll (social security) taxes—declined to 74 percent of total budgetary revenues from 83 percent in 1996, reflecting new revenue from rescheduled gas debt in 1997 (Tables 14 and 15). Indirect taxes carried the largest share (46 percent of the total), of which the VAT and the NRT were the most important sources, constituting 28 percent and 8 percent, respectively, of total revenue. NRT

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<sup>28</sup>The receipts from this tax accrue to the Foreign Exchange Reserve Fund (FERF) rather than to the budget.

<sup>29</sup>Payments were generally disbursed to the budget only after the end of the quarter.

<sup>30</sup>The shares of these taxes in total revenues from the gas sector were as follows in 1997: profit tax 14 percent, VAT 42 percent, and NRT 42 percent. There are no excise taxes on gas.

revenue rose by 61 percent in nominal terms, reflecting the receipt of payments on 1996 gas exports and higher oil exports. The VAT was primarily affected by developments in the nongas sector, which accounted for almost 70 percent of VAT revenues in 1996. Total VAT collections rose by 86 percent in nominal terms, buoyed by the growth in domestic consumption following wage increases. Revenues from excises increased by 120 percent in nominal terms, which mainly reflected a rise in revenue from oil, a reclassification of taxes from "other" to excises, and, to some extent, a broadening of the range of imported products under excise (see paragraph 44).

42. Direct taxes constituted 24 percent of total revenues in 1997, slightly less than in 1996. Similar to most BRO countries at an early stage of transition, profit taxes were a more important revenue source (21 percent share) than personal income taxes (4 percent share). Profit tax revenues benefitted from the rapid growth in the nontradable sector, while income tax collections rose sharply, reflecting the substantial increase in average real wages during 1997.

43. Revenue arrears continued to be a major budgetary problem in 1997. Official estimates put revenue arrears—which occurred in all major taxes except the income tax—at about manat 600 billion or 21 percent of total revenues by end-1997. The large tax arrears reflect the sharp increase in interenterprise arrears and problems associated with the sale of barter and clearing goods<sup>31</sup> received in payment for gas exports. The government, in turn, incurred expenditure arrears (mostly in nonwage categories) during the year.<sup>32</sup> These developments prompted increased recourse to noncash settlements, the share of which increased from 30 percent of the budget in 1996 to 51 percent in 1997. Noncash settlements picked up during the year, rising from 33 percent of revenues in the first quarter to 64 percent in the final quarter. The main area of noncash settlements was construction, and involved in many instances tripartite agreements between the budget and one or more off-budget ministries and enterprises. This large share of barter or "netting out" transactions not only greatly reduced the MEF's control over the execution of the budget, but also created valuation problems.<sup>33</sup>

44. The following **tax measures** were introduced during 1997:<sup>34</sup>

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<sup>31</sup>In the case of barter goods, the contract specifies the good to be received in detail. In the case of clearing goods there is no prior agreement on type, price, and quality of the goods to be received.

<sup>32</sup>There are no reliable data on such arrears, which were mostly cleared through "netting out" operations by the end of the year.

<sup>33</sup>This may also have contributed to the increase in revenues and expenditures in relation to GDP.

<sup>34</sup>Appendix III provides an overview of the tax system in Turkmenistan.

- Capital expenditures of the Turkmenbashi refinery were exempted from taxes (under the general provision to exempt construction activity in the energy sector from taxes, as noted earlier).
- To simplify taxation of agricultural incomes and improve collections, effective January 14, 1997, the VAT, personal income, and payroll (social insurance) taxes for agricultural producers were replaced by a flat 8 percent tax on the value of output. The rate was set at a level intended to make the change approximately revenue neutral. The revenues generated were apportioned between the PSSF and income taxes at 25 percent and 75 percent, respectively.
- Goods exported by enterprises of the Ministry of Textile Industry were exempted from VAT as of August 1, 1997.
- As of July 1997, the number of products subject to excise taxes was substantially increased, including the import of fresh vegetables, pasta, jams, cotton, and carpets. The main objective of this measure was to protect domestic production, while the revenue effect was minimal. In addition, excise taxes were introduced on a number of export goods, including mineral water, wool, and animal skins, with equally low revenue effects.
- Other new revenue measures included the introduction of a patent fee on businesses that are considered nonlegal entities (effective January 1997), and a land tax on nonagricultural and nonstate organizations (effective October 1997). The revenue impact of both measures was insignificant. As of April 1997, a 0.3–0.5 percent turnover tax for maintenance and repair of rural roads was introduced.
- The foreign exchange tax of 40 percent on cash receipts from oil and gas exports, payable to the FERF, was abolished effective April 1, 1997, but reintroduced for gas exports at a rate of 50 percent as of December 25, 1997.

### C. Expenditures

45. **Budgetary expenditure** rose sharply to 29 percent of GDP in 1997. This was due to large wage increases in October 1996 and March 1997, resulting in an almost tripling of average annual budgetary wages compared to 1996. The strongest growth was registered in wage-sensitive expenditure categories such as education, health, and defense. In order to keep the budget in approximate balance, unprotected expenditures were cut by about 30 percent in real terms.<sup>35</sup> Price subsidies and capital investment expenditures were affected the most. Also, contrary to previous practice, pensions were not increased when wages were adjusted in

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<sup>35</sup>Total expenditures increased by 114 percent in nominal terms, of which wages and wage-related expenditures (accounting for about 40 percent of total expenditure) increased by about 190 percent.



March 1997, so that the higher receipts from payroll taxes could be used to finance the wage increase. By the end of the year, cash expenditures were virtually confined to the protected categories (wages, pensions, stipends, and medicines).

46. Developments in the largest expenditure categories mirrored wage developments, given the large share of wages in these items. Expenditures on healthcare, defense, and education, each of which accounted for around 16 percent of total expenditures in 1997, increased sharply in nominal terms (in the order of 155–175 percent).<sup>36</sup> In the case of defense, the effect of higher wages was compounded by higher outlays on food due to the elimination of the procurement prices on milk and meat. However, expenditures on pensions and social security (PSSF), accounting for 14 percent of total expenditure, grew more slowly, because of the delinking of wage and pension adjustments in 1997. Old age pensions constituted 90 percent of PSSF expenditures (Section II, Box 3). On a net basis, the PSSF moved from a deficit of 0.4 percent of GDP in 1996 to a surplus of 0.9 percent of GDP in 1997.

47. Operational expenditures (mainly goods and services—13 percent of total expenditures), subsidies (10 percent of total) and capital investments<sup>37</sup> (12 percent of total) were sharply reduced in real terms to finance the March 1997 wage increase. Subsidies on a number of goods under price control were eliminated when the prices of these goods were liberalized in early 1997 (Section II, paragraph 22). During May–August 1997, budgetary subsidies for flour and public transportation were shifted off-budget to the state enterprises concerned. However, a new budgetary subsidy on baby food was introduced in October, raising expenditures on subsidies in the fourth quarter. In addition to price subsidies recorded under expenditure on the national economy, the budget also reimburses public enterprises for the costs of the subsidies on utilities, which are included under operational expenditures (8.5 percent of total expenditures).

48. The budget incurred a small amount of wage arrears by the end of the year, which were, however, cleared on December 31, 1997 by means of CBT credit. The lack of a centralized register of commitments at the treasury precludes a definitive judgement of the amount of nonwage arrears at end-1997 after the netting of revenue and expenditure arrears in the budget.

#### **D. Financing**

49. Similar to previous years, the budget remained approximately balanced as the MEF continued to limit expenditures to available revenues in 1997. The budget recorded a very

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<sup>36</sup>Spending on health, education, and social protection together constituted 45 percent of total government expenditure.

<sup>37</sup>Approximately half of capital investments was allocated to local budgets; the other half was mainly spent on construction in the agricultural sector and investments by the Ministry of Land and Water Management.

small surplus of manat 3.6 billion or less than 0.1 percent of GDP. Government deposits with the banking system increased sharply in the first quarter due to the receipt of the first payment from the rescheduled gas debt at end-March. However, during the following quarters, the government gradually drew down its deposits and by end-December it resorted to an overdraft of manat 27 billion from the CBT to clear wage arrears. For the year, total domestic financing amounted to manat 53 billion, 0.6 percent of GDP. The budget did not receive foreign financing, and repaid foreign loans for a total amount equivalent to manat 58 billion.

### **E. Local Budgets**

50. The budget of the general government includes the central government and local budgets of five provinces—Akhali, Balkan, Dashkovuz, Lebap, and Mary—and the city of Ashgabat. Local governments are financed by transfers from the central government or assignment of tax revenue. The central government collects most taxes (90 percent of the total in 1997), while local governments collect the bulk of the personal income tax, the property tax, local taxes and fees, and receive a small share of profit taxes. In 1997, local governments accounted for about 33 percent of total expenditures, mainly on education (14 percent of total expenditure), health care (9 percent), investment, operational spending, and subsidies (7 percent).

### **F. Budget Coverage**

51. The coverage of the budget remains limited as a large number of ministries and government agencies remain off-budget (Appendix II). The latter include “self-financing” ministries which generate their own resources (mainly through commercial activities) to finance their activities. There are also four recently created state funds for the oil and gas, transport and communications, agricultural, and health sectors (Box 4), in addition to the government investment fund which captures investment spending financed from the FERF. Moreover, a number of government subsidies are provided off-budget by state-enterprises, including subsidies on flour, transportation, and agricultural inputs, as well as by the CBT in the form of low-cost credits. Also, many on-budget ministries have revenues that are not included on budget. Many of the off-budget institutions have both functions that would normally be included on budget and others that would not, greatly complicating estimates of the size of the gap in coverage. Nevertheless, some indication is provided by the 1998 budget for the state funds noted above, which amounts to 75 percent of the regular budget.

52. In 1997, the government took the first steps toward expanding the coverage of the budget. The 1997 budget plan included expenditure of the OGDF and the GIF. Revenues of these funds were assumed to match their expenditures, and their inclusion on budget was thus deficit-neutral. Although this measure helped improve transparency of the public sector operations, the MEF did not have control over these revenues and expenditures, as the operations of the funds did not pass through the treasury system, nor did the funds report actual revenues and expenditure to the MEF. In June 1997, the expenditures of 31 self-

financing ministries and organizations were incorporated in the treasury system, but this was for reporting purposes only as their transactions were recorded in extrabudgetary accounts outside control of the MEF.

#### Box 4. The State Funds<sup>1</sup>

During the past two years, the government has established (by Presidential decree) a number of state funds to manage the resources of state enterprises in the main economic sectors, and to service their foreign debt and other debt assigned to them by decree. The Funds receive their revenue directly from the sale of the products of the sector, and make transfers to the sectoral ministry and enterprises for the payment of taxes, operational expenses, and investments. The funds are managed by a Board of Directors, chaired by the President, and include a Deputy Head of the Cabinet, senior officials and heads of enterprises in the sector, and the chairman of the Vneshekonombank.<sup>38</sup>

The **Oil and Gas Development Fund (OGDF)** was established in April 1996. It receives all revenue from exports and domestic sales of oil and gas by the state-enterprises in the sector.

The **Agricultural Development Fund (ADF)** was set up in October 1996. The revenues of the ADF are obtained from the export of cotton and a 3 percent tax on profits of all public enterprises.

The **Transport and Communications Development Fund (TCDF)** was founded in January 1997. The fund receives its revenues from the various ministries and agencies involved in transportation (air, river, sea, and road transport) and from the sale of telecommunications services. Revenues are predominantly received in U.S. dollars. Resources of the fund are channeled to certain priority projects such as airport development, satellite TV, and the installation of a digital telephone network.

The **Health Development Fund (HDF)** was established in March 1998, and does not yet appear on budget. This fund receives its revenues from fees of the state voluntary medical insurance fund—which are presently on budget—a part of the surpluses of enterprises and medical institutions, profits from paid medical services, and fees from licensing medical and pharmaceutical activities. Expenditures are allocated to purchases of medical equipment and medicines, financing of investments in the pharmaceutical industry, and debt-service payments of the Ministry of Health and the medical industry.

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<sup>1</sup>In addition to the four funds listed in the box, the budget includes a number of other “funds.” The Government Investment Fund, which is included on budget in the same way as the OGDF, ADF, and TCDF, is not a legally established entity, but merely a name for all projects financed by contributions from the FERF. The PSSF is an integral part of the budget, as are the Emergency and Road funds.

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<sup>38</sup>The description does not apply to the Government Investment Fund, which is funded by revenues from the FERF and directly controlled by the President. The revenues of this fund are mainly allocated to investments in construction projects.

### G. The 1998 Budget

53. The budget for 1998—approved by parliament in December 1997—envisages a deficit of manat 161 billion or 1.2 percent of GDP.<sup>39</sup> The total financing need, including repayments on foreign debt, is manat 231 billion, of which manat 212 billion is to be financed by CBT credit and manat 19 billion through sales of treasury bills to the nonbank sector. As in previous years, the budget is expressed in prices and the official exchange rate prevailing at the end of 1997. The budget is more extensively documented than before, although it is not yet made publicly available. As of this year, the budget is expressed in a functional as well as an economic classification (Box 5). Coverage is further extended by incorporating, in addition to the OGDF and the GIF, estimates for the ADF and the TCDF, although all funds are again included in a deficit-neutral manner and remain outside the control of the MEF.

#### Box 5. Budget Classification

In order to improve budget presentation, for the first time in 1998, the MEF presented the budget on the basis of both a functional and an economic classification in line with the Government Finance Statistics of the IMF. Traditionally, budgetary expenditures were recorded using a functional classification. Fiscal management and projections, however, become more transparent if fiscal information is classified in a consistent manner according to economic categories, such as wages, interest, subsidies, and transfer payments, rather than by function, such as education, health care, or defense. The economic classification, however, is not yet widely used in the internal budgeting process of many government agencies. In addition, the 1998 budget execution will continue to be based on a functional classification until the MEF becomes sufficiently acquainted with the new system.

Based on an economic classification, the composition of the 1998 budgetary expenditures is as follows:

	In percent of total
Total expenditure	100
Current expenditure	84
Of which:	
Wages	24
Transfers to the population	19
Acquisition of medical supplies	5
Acquisition of food stuffs	10
Subsidies	14
Capital expenditure	16
Of which:	
Construction projects	12

<sup>39</sup>The ratios to GDP are calculated using the 1998 GDP estimate of Fund staff, which differs from the MEF's GDP used for the budget (Section II, Box 1).

54. The 1998 budget projections assume gas exports of 20 bcm and a collection ratio of 50 percent.<sup>40</sup> It is further assumed that the budget will receive its full 50 percent share of the repayments on rescheduled gas debt (including principal repayments by Georgia). Expenditure growth is driven by large increases in social/cultural spending (education, health, and culture), as well as on defense and pensions. National economy expenditures are projected to decline, reflecting the full-year impact of the elimination of the subsidies on flour and public transportation as of mid-1997, and a reduction in operational expenditures.

55. The government has not yet adjusted the 1998 budget to include the following measures taken after its approval:

- Effective December 25, 1997, a 50 percent foreign exchange tax to the FERF was imposed on cash revenue from gas exports, resulting in a decline in the gas sector's remaining tax base and in an estimated loss of revenue to the budget of manat 114 billion or 0.9 percent of GDP;
- Effective March 1, 1998, budgetary wages were doubled and the minimum pension was raised. These moves are estimated to increase budgetary outlays by manat 895 billion or almost 7 percent of GDP. At the same time, the government announced a number of measures to offset the cost of the wage adjustment, for a total amount of manat 210 billion (1.6 percent of GDP), including: (i) introduction of an income tax system based on differentiated tax scales, replacing the flat income tax rate of 8 percent; (ii) sale of government held strategic reserves of diesel fuel; (iii) abolition of allowances (notably for food) paid to budget personnel; (iv) abolition of tax concessions for small domestic enterprises; and (v) reduction of subsidies and transfers to ministries and agencies, particularly on utilities.

In the absence of additional offsetting measures, the budget deficit can be expected to rise substantially in 1998. The government is reviewing the options for further revenue/expenditure measures with the objective of strictly containing the budget deficit and its bank financing in 1998.

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<sup>40</sup>The budget assumes that Turkmenistan will receive payment for 10 bcm of gas at a price of US\$42 per tcm.

## IV. MONETARY DEVELOPMENTS<sup>41</sup>

### A. Overview

56. The year 1997 was characterized by strong growth in directed credits<sup>42</sup> and external borrowing against the cotton crop, which led to sharp monetary expansion (Text Table 3, Table 16, Figure 4). Directed credits, extended mainly to agriculture, contributed to the doubling of domestic manat denominated credit and forced the CBT to suspend (as of February 1997) credit auctions, its main market-oriented monetary policy instrument. While foreign borrowing further added to liquidity, part of the proceeds were sold by the CBT, which helped absorb excess liquidity and allowed the exchange rate to stabilize. Nevertheless, M2 (broad money excluding foreign currency deposits)<sup>43</sup> doubled during the year, which was mainly reflected in a very sharp increase in deposits, especially in the cotton sector, but also in a 51 percent increase in currency in circulation. The ensuing inflationary pressures were contained by blocking the deposits of the cotton sector pending completion of the 1997 cotton crop cycle. However, final settlements with cotton farmers in early-January 1998 resulted in an unwinding of the sizeable liquidity overhang at the end of 1997. Thus, M2 declined sharply, the CBT sold a net amount of US\$40 million in foreign exchange—the demand for which increased during January–February—and monthly inflation rose to 2–3 percent in early 1998. While nominal interest rates declined during 1997 in line with inflation, the CBT refinance rate, the treasury bill rate, and commercial banks' lending rates on loans financed by their own resources were highly positive in real terms. However, directed credits provided free of interest or at highly preferential rates, weighed heavily in the banks' portfolios.

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<sup>41</sup>The monetary data are of acceptable quality, although, until recently, the financial sector in Turkmenistan used the unified accounting system of the former Soviet Union. In March 1998, the CBT introduced an updated version of this system and expects to introduce a system comparable to those used in market-economies in 1999. The World Bank has financed technical assistance in this area.

<sup>42</sup>A directed credit is preferential financing provided by the CBT on the basis of a presidential decree. In 1997, the CBT provided such credits to banks for on-lending without a margin.

<sup>43</sup>M2 is a more relevant indicator in explaining monetary and macroeconomic developments in Turkmenistan than M3, which includes foreign currency deposits. The latter, which are mostly held by the state funds and public enterprises, consist of export receipts held on deposit with commercial banks to pay for imports and other foreign liabilities. Although the balances in these accounts increased from US\$48 million to US\$65 million during 1997, these accounts are generally not used for domestic transactions.

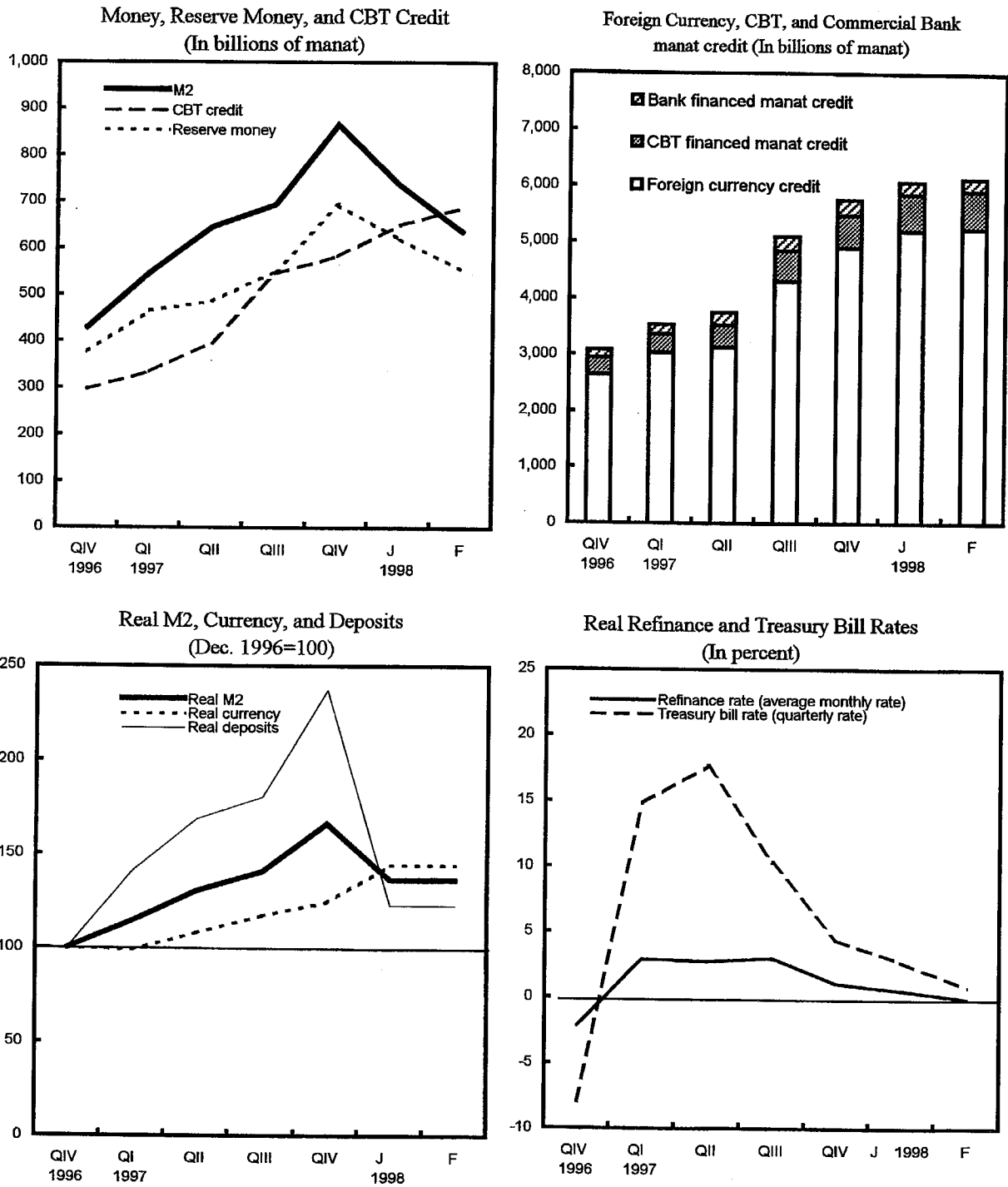
Text Table 3. Turkmenistan: Monetary Survey, 1996-98  
(In billions of manat)

	1996	1997				1998	
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Net foreign assets	3,040	2,980	2,212	1,318	879	533	443
Central Bank of Turkmenistan	4,282	4,627	4,482	3,561	3,275	3,206	3,143
Commercial Banks	-1,242	-1,648	-2,270	-2,244	-2,396	-2,673	-2,700
Net domestic assets	-2,413	-2,256	-1,349	-380	264	502	472
Domestic credit 1/	3,086	3,437	3,699	5,081	5,813	6,105	6,195
Net credit to Government	-4,566	-4,744	-4,682	-4,878	-4,820	-4,895	-4,865
Budgetary support	3	-93	-48	-15	56	26	59
Foreign Exchange Reserve Fund (net)	-4,569	-4,651	-4,634	-4,862	-4,876	-4,921	-4,916
Claims on the economy	3,083	3,530	3,747	5,096	5,757	6,079	6,136
In manat	441	507	628	799	862	881	901
State enterprises	398	460	587	738	704	718	732
Private sector	43	47	41	61	157	163	169
In foreign currency	2,642	3,023	3,119	4,297	4,895	5,198	5,235
Other items (net)	-929	-1,042	-414	-599	-673	-683	-807
Currency in circulation	270	297	337	364	408	490	428
Demand deposits	125	192	263	279	401	180	142
Time and savings deposits	34	57	46	50	58	66	68
Broad money (M2)	429	547	646	693	866	736	638
Foreign currency deposits	198	177	218	244	276	299	278
Broad money M3	627	724	863	938	1,142	1,035	916
Memorandum items:							
Change in percent of M2 at end previous year:							
Credit to the economy in manat	301	15	44	83	98	2	5
CBT	224	9	24	58	67	8	12
Banks	78	7	20	25	31	-6	-7
M2	270	27	50	61	102	-15	-26
Reserve money	255	20	25	40	74	-8	-8
M2/GDP (annual average; in percent)	3.4	...	...	...	6.5	...	...
Velocity M2 (annual average)	29.7	...	...	...	15.3	...	...
Velocity M3 (annual average)	21.6	...	...	...	11.1	...	...

Source: Data provided by the Central Bank of Turkmenistan.

1/ Budgetary support and credit to the economy.

Figure 4. Turkmenistan: Selected Financial Indicators, 1996-98



Source: Data provided by the Turkmen authorities.



## B. Monetary Developments and Policies

### Money and credit

57. As noted above, the government resumed directed credits on a large scale in 1997 after refraining from such credits during most of 1996. Thus, CBT directed credits for onlending by banks increased by manat 287 billion during 1997 (Table 17), equivalent to 67 percent of M2 at end-1996, and accounted for two-thirds of the growth in the banking system's manat credit to the economy. The largest directed credit lines were for the financing of the grain harvest. Directed credits, notably to the textile sector, falling due in 1997, could not be repaid and were rescheduled.

58. In addition, foreign borrowing by the cotton sector boosted banks' deposits, allowing them to almost double manat credit financed from their own resources (Table 18). Foreign borrowing remained by far the largest source of credit for state enterprises, accounting for 86 percent of all banking sector credit at end-1997.<sup>44</sup> The proceeds of such loans, which increased by 34 percent in 1997, are generally used to finance project-related imports, and have little or no effect on domestic liquidity. In 1997, however, a considerable part of the foreign borrowing by the cotton sector<sup>45</sup> was not import related and added to bank liquidity (Box 6), raising lending (notably to agriculture) financed by banks' own resources by 30 percent of end-1996 M2 (Table 19).

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<sup>44</sup>Foreign borrowing of state enterprises and off-budget ministries is mostly channeled through the Vneshekonombank and reflected in the monetary statistics in banks' foreign liabilities and domestic credit to state enterprises in foreign currency.

<sup>45</sup>In previous years, the cotton crop was sold forward. In order to lower the costs of such financing, in 1997 the crop was financed by foreign borrowing guaranteed by the CBT. Such borrowing started in January, but was not included in the CBT's balance sheet until September, when it was recorded under foreign liabilities and foreign currency loans to state enterprises.

### Box 6. Monetary Implications of the Agricultural Reform in 1997

The break-up of the peasant associations into individual leaseholds under agricultural sector reforms in 1997 had important monetary implications. Previously, the agricultural sector was financed by credit to (off-budget) line-ministries or production associations, which would finance the farmers' cooperatives. In 1997, however, the financing was provided to individual farmers. Accordingly, the Daykhan Bank opened around 240,000 individual loan and deposit accounts for farmers. The account holders received a voucher book, with which they could pay the providers of inputs or withdraw money for the payment of wages, and against which the Daykhan Bank would provide standard amounts of credit. This explains the large increase in bank credit to the private sector in 1997 (which would previously have been recorded under credit to state enterprises). Also, while this system reflects a positive adjustment of the bank to the reforms and improved access to crop credit and control over its use, it is partly responsible for the overall increase in bank credit as the number of transactors multiplied and the possibility of netting within line-ministries and product associations declined.

While the grain crop was mainly financed by CBT credit, the cotton crop was financed by foreign borrowing. The proceeds from the latter loans were partly held by the cotton concern Turkmenpahta and its ginneries, and partly deposited in farmers' accounts as advances. However, while farmers could make payments from these accounts by using the vouchers, they could not freely withdraw the money until the final payment for the 1997 cotton crop could be made and the Daykhan Bank had verified that all outstanding liabilities had been settled. As a result, these deposits increased sharply, accounting for 30 percent of the increase in M2 in 1997. Previously, any surpluses from the sale of raw cotton remained under public sector control. However, following the reforms, they were available to farmers. When the accounting for the 1997 crop was completed and the associated deposits were freed in January 1998, they were almost entirely withdrawn in the first two months of the year. This resulted in a sharp deterioration in Daykhan Bank's liquidity, an increase in currency in circulation, and a decline in the CBT's foreign reserves as demand for foreign currency increased.

59. During the first four months of the year, the increase in credit to the economy was offset by a decline in net credit to the budget, but by mid-year, both sectors contributed to monetary expansion. Initially, the budget benefitted from large receipts from rescheduled gas debt, but the combined effect of less-than-expected revenue from this source and higher wage costs led to a decline in the MEF's deposits. In addition, credit to the agricultural sector accelerated by mid-year as work on the new cotton crop intensified. Credit to the economy increased further in the second half of the year, especially in the third quarter. By end-December, the budget had a net overdraft position with the CBT.

60. To help mitigate the monetary impact of directed credits and foreign borrowing, the CBT suspended the credit auctions as of February 1997. It also stepped up the sale of foreign exchange, as the loss of domestic monetary control forced it to switch to the exchange rate as its main indicator for monetary policy. Although the CBT essentially continued to lack access to international reserves during 1997,<sup>46</sup> it received the foreign exchange counterparts of the external borrowing by the cotton sector and the budget's share in the revenue from the

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<sup>46</sup>Most of the country's reserves are held in the FERF under the control of the President. A detailed discussion of the FERF and the policy complications it causes can be found in "Turkmenistan—Recent Economic Developments," SM/97/112, May 7, 1997, Appendix VI.

repayments of rescheduled gas debt. Thus, the CBT was able to sharply increase its sales of foreign exchange to banks to around 15–20 percent of M2 per month, and help stabilize the commercial bank exchange rate following a temporary depreciation in January 1997 in reaction to the strong monetary expansion at end-1996.<sup>47</sup> With the easing of foreign exchange constraint, excess liquidity found an outlet in informal imports of consumer goods. In addition, the CBT also used the large margin between its buying and selling rates for foreign exchange to partially absorb excess liquidity. Furthermore, in April 1997, the remaining foreign exchange surrender requirements to the FERF (for public enterprises) were discontinued, stopping further growth in the related credit to the FERF,<sup>48</sup> while, through moral suasion, the CBT temporized the disbursement of the proceeds from the cotton loans to the banks in order to limit banks' excess liquidity.

61. Despite these measures, M2 increased by 102 percent in 1997. Deposits almost tripled (held mostly by the cotton sector), while currency in circulation rose by 51 percent; in real terms, deposits increased by 37 percent and currency by 24 percent. The annual average M2 velocity halved from 30 in 1996 to 15 in 1997. However, the developments during the first months of 1998 indicate that the sharp decline in velocity resulted from a large liquidity overhang rather than a structural increase in the demand for money as inflation was lowered and the exchange rate stabilized. During January–February 1998, M2 declined by 26 percent, as the final payments for the cotton crop were made. The demand for currency, which rose sharply initially, declined as cash manats were converted into foreign exchange.

### **Interest rates**

62. At end-1995, the government lifted a 15 percent ceiling on interest rates on bank credit to state enterprises. Since then, banks are, in principle, free to set their interest rates. However, due to the government prescribed rates on directed credits, a large share of total domestic manat credit is at controlled and often highly concessional interest rates. In March 1998, the government reintroduced an interest rate ceiling of 8–10 percent on commercial bank credit to the agricultural sector.

63. The CBT refinance rate was highly positive in real terms during most of 1997, despite downward adjustments as inflation declined (Table 20). Initially, the CBT set the refinance rate in the credit auctions. After the suspension of these auctions, the CBT set the refinance rate in line with the downward trend in inflation. The rate was, on average, 2.7 percent per

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<sup>47</sup>The parallel market rate also stabilized, given the increased availability of foreign exchange outside this market.

<sup>48</sup>This credit arose from the CBT's practice of crediting both the FERF and the surrendering entity with the manat counterpart of the surrendered foreign exchange. See "Turkmenistan—Recent Economic Developments," SM/97/112, May 7, 1997, Appendix VI.

month in real terms<sup>49</sup> during the first 9 months of the year. However, the refinance rate was kept unchanged at 35 percent from July onwards, so that by February 1998 it was only slightly positive in real terms.

64. Other interest rates in the financial system generally followed the trend in the refinance rate. The treasury bill rate declined in line with the refinance rate from 120 percent per year at end-1996 to 40 percent by July 1997. The (3-month) interbank rate fluctuated widely from month to month, but closely approximated the refinance and treasury bill rates (Table 21). While deposit rates were, on average, slightly positive in real terms in the second half of the year, real lending rates on credit financed from own resources were sharply positive. However, since the average interest rate on directed credits was only about 3 percent, two-thirds of bank credit was provided at highly negative real interest rates.

### **C. Monetary Policy Instruments**

#### **Summary**

65. The CBT has a number of instruments at its disposal to regulate bank liquidity (Box 7). Following the suspension of credit auctions in February 1997, intervention in the foreign exchange market became the CBT's main monetary policy instrument. Reserve requirements remained unchanged during 1997. Reflecting the high liquidity in the banking system, use of the CBT's overdraft and auxiliary credit facilities was minimal, but increased sharply in early 1998 as liquidity contracted. Treasury bills continued to be issued on tap at rates set by the MEF and issues were stepped up in the final months of 1997.

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<sup>49</sup>Corresponding to an annual (compounded) real rate of 38 percent.

**Box 7. Summary of Central Bank Monetary Policy Instruments**

<b>Instrument</b>	<b>Description</b>
Intervention in foreign exchange market	Mainly implemented by selling cash foreign exchange at CBT initiative to banks at market-related rates.
Reserve requirements	Eleven percent on deposits with banks, including foreign currency deposits and deposits of non-residents and, as of January 1, 1996, accounts payable and receivable. Reserves are held in separate non-interest bearing reserve accounts with the CBT without averaging. In February 1996, the CBT allowed banks to hold reserves against foreign currency deposits in a separate dollar denominated reserve account in order to avoid foreign exchange risk. <sup>1</sup> In October 1996 the CBT relaxed the reserve requirement by allowing banks to count 30 percent of cash holdings as reserve assets and changed the measurement date from twice to four times per month. In case of noncompliance, banks have to pay a penalty rate of 0.3 percent per day on the shortfall.
Credit auctions	Introduced in June 1996 and held on a weekly or bi-weekly basis until mid-December 1996 and suspended in February 1997. Access allowed for all banks that comply with reserve requirements and have no overdraft position with the CBT. Amount requested by a bank may not exceed 200 percent of its capital, 35 percent of its credit portfolio, and 30 percent of the amount offered in an auction.
Overdrafts	Access automatic to all banks with no collateral required. Interest rate is 1.7 times the refinance rate.
Auxiliary credit facility	Short-term, 7-day credit intended to assist banks between credit auctions. Available on demand without collateral, but access limited to no more than twice a month and subject to same criteria as credit auctions, as well as a ceiling of 75 percent of required reserves. Interest rate is 1.2 times the refinance rate.

Source: "Turkmenistan—Strengthening the Financial System," IMF, Monetary and Exchange Affairs Department, December 1997.

<sup>1</sup>At the same time, foreign currency deposits with the Vneshekonombank were exempted to allow the bank to build-up its capital.

**Intervention in the foreign exchange market**

66. As noted earlier, the CBT's main instrument for controlling liquidity during 1997 was the sale of cash foreign exchange outside the auctions to banks. Such sales increased from negligible amounts in 1996 to about US\$15 million per month in 1997, which helped stabilize the exchange rate. The CBT also continued to sell foreign exchange to banks (for purchases on behalf of their customers) in the weekly foreign exchange auctions, although access to the auctions remained confined to specified purposes. Auction sales also increased in 1997.

### **Reserve requirements**

67. Reserve requirements remained unchanged in 1997, despite strong bank liquidity and credit expansion, as the CBT concentrated on reducing excess liquidity through foreign exchange intervention (Table 22). Since banks had automatic access to the CBT's overdraft facility and a two-day period to increase reserves up to the required level, noncompliance was exceptional and for small amounts only.

### **Central Bank refinance and credit facilities**

68. The CBT extends credit in manat to the government and to banks, and in manat and foreign currency to off-budget government ministries and state enterprises. **CBT credit to the government** takes the form of automatic, non-interest bearing current account overdrafts to finance the budget proper, while CBT loans are generally extended for on-lending to off-budget ministries. The government's large deposits at the end of the first quarter of 1997 were gradually drawn down during the year and, by end-1997, the MEF had a manat 27 billion overdraft with the CBT to finance wage payments. The overdraft declined in January 1998, when the budget received its share of the fourth-quarter repayment on rescheduled gas debt, but, reflecting the difficult underlying budgetary position, increased sharply again in February. Long-term loans outstanding declined slightly due to repayments on loans disbursed in 1996.

69. The CBT's own instruments (as opposed to directed credits) for the provision of **credit to banks** are credit auctions, an overdraft facility, and an auxiliary credit facility. Following the suspension of credit auctions in February 1997, CBT credit to banks has been provided on direction by the government or as overdrafts. Gross directed credits amounted to manat 338 billion in 1997 (79 percent of end-1996 M2), of which more than 80 percent was interest-free, short-term credit (less than one year) to the agricultural sector. By end-1997, the CBT opened a new interest free credit line for manat 200 billion to finance the 1998 grain crop, which was partially used to meet repayments on the 1997 loan. In addition, the manat 160 billion loan provided to the Ministry of Textiles at end-1996, which was to be repaid in 1997, was rescheduled by government decree until 1999. Foreign credit lines to finance the cotton sector were fully drawn in 1997. In March 1998, the government announced a manat 308 billion interest-free credit line from the CBT to finance the 1998 cotton crop.

70. As noted earlier, access to the **overdraft facility** was very limited during 1997<sup>50</sup> due both to the high level of liquidity in the banking system and the increase in the interest rate on this facility to 1.7 times the refinance rate as of January 1, 1997. However, by end-February 1998, overdrafts rose to manat 92 billion (14 percent of M2) as the liquidity situation deteriorated. Similarly, banks had no need to resort to the **auxiliary credit facility** in 1997.

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<sup>50</sup>A large overdraft was provided in June free of charge as an advance on a credit line to be approved for the grain sector.

71. The CBT's policy is not to grant manat **credit to state enterprises**, except in special circumstances. As a result, the CBT's manat denominated credit to state enterprises remained at manat 19 billion throughout most of the year, except for a short-term bridging loan to the cotton sector in March 1997. However, the CBT intermediated in the foreign borrowing of the cotton sector, providing an official guarantee to lower the borrowing costs.<sup>51</sup>

72. In addition to these market-related instruments, the CBT continues to impose **restrictions on cash holdings** and, related to this, on cash withdrawals from banks. These restrictions apply to cash holdings of enterprises—which are essentially limited to wage payments—and of bank branches. The objective of the restrictions is to limit tax evasion by controlling cash transactions of enterprises.

### **Treasury bills**

73. The MEF increased treasury bill issues, at the end of 1997 and early 1998. However, as rates and terms continue to be set by the ministry and there is no secondary market, treasury bills do not play a role in monetary policy. Treasury bills are sold monthly, mostly to banks at the initiative of the MEF. Since end-1995, the bills have a maturity of one month, are issued at face value, and are nontradable. Despite an increase in treasury bills held by banks from manat one billion at end-1996 to manat 9 billion at end-1997, these still amounted to only one percent of manat credit to the economy on the latter date. A first treasury bill auction was held in August 1996, but failed due to inadequate coordination. New rules and regulations for auctions are being prepared by the MEF and the CBT.<sup>52</sup>

## **D. The Financial System**

### **Commercial banks**

74. In 1997, there were no significant changes in Turkmenistan's financial system, consisting of the CBT and 15 commercial banks.<sup>53 54</sup> The CBT licenses and supervises the banks. Seven commercial banks are fully or mostly government-controlled; in addition, the government has a 50 percent share in a joint-venture with a foreign bank, and a minority share

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<sup>51</sup>Such borrowing is recorded on the CBT's balance sheet as a foreign currency loan to state enterprises.

<sup>52</sup>A technical assistance mission of the Monetary and Exchange Affairs Department of the IMF provided assistance in setting up a computerized book-entry system (Appendix I).

<sup>53</sup>In January 1996, the government restructured the branches of the Agroprom Bank into 53 legally independent Daykhan (farmers) Banks, the shares of which are held by farmers cooperatives. However, the banks cooperate in the Association of Daykhan Banks, with central headquarters in Ashgabat and, in practice, continue to operate as one entity.

<sup>54</sup>A German bank established a representative office in Ashgabat in 1997.

in another (Appendix II includes a list of the banks with government participation). Four banks are locally privately-owned, and two are branches of foreign banks. Twelve banks have general licenses (two more than in 1996), allowing operations with non-residents and in foreign currencies, while two have a domestic license only. Turkmenistan has no tradable financial instruments and no nonbank financial institutions, although insurance companies are gradually developing.

75. The banking system remains heavily concentrated in the traditional public sector banks. Most banks engage in financing a specific economic sector or selected public enterprises, with competition only starting to emerge. The interbank market is very small, due partly to delays in settlements.<sup>55</sup> Three public sector banks accounted for 97 percent of all commercial bank manat credit to the economy at end-1997, and most foreign currency transactions were channeled through the State Bank for Foreign Economic Affairs (Vneshekonombank).<sup>56</sup> Reflecting the underdevelopment of the formal private sector in Turkmenistan, 96 percent of all credit was outstanding to public sector enterprises at end-1997, although the share of the private sector in manat credit increased from 10 percent at end-1996 to 19 percent at end-1997, reflecting credit extended directly to farmers as part of the agricultural sector reforms.

76. The commercial banks play only a minor role in financial intermediation and continue to function more as administrators of public sector financial transactions. Public enterprises finance investments mainly by foreign borrowing. Manat credit is financed mainly by the CBT and is overwhelmingly (around 90 percent) short-term (less than one year). There continues to be a general lack of confidence in domestic banks,<sup>57</sup> due partly to continuing restrictions on cash withdrawals, and in the currency. Despite its strong growth, M2 still amounted to only 6.5 percent of GDP in 1997 (compared to around 9 percent in Kazakhstan, 12 percent in the Kyrgyz Republic, and 15 percent in Uzbekistan). Bank deposits were only 2 percent of GDP and consisted mainly of current account balances of state enterprises. Savings and other deposits held by the private sector—excluding the blocked accounts of the cotton sector—increased to about 16 percent of total manat deposits by end-1997. However, as noted earlier, this reflected changes brought by the agricultural sector reforms. Previously, most private sector deposits were held at the Savings Bank, but due to increased competition and higher interest rates, almost 90 percent of these were held by other banks by end-1997.

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<sup>55</sup>The authorities are preparing the computerization of the payments system, which is expected to substantially reduce the delays in clearing payments.

<sup>56</sup>In 1997, the government issued a directive to public enterprises, requiring that all foreign currency deposits be held with the Vneshekonombank.

<sup>57</sup>Turkmenistan does not have a deposit insurance scheme; however, deposits with the Savings Bank are statutorily guaranteed by the government, and deposits in the Vneshekonombank, which is fully owned by the government, are considered guaranteed.



## **Bank supervision**

77. Under the Law on Commercial Banks and the Central Bank Law, the CBT is responsible for the supervision of commercial banks. It has implemented a cautious licensing policy, and has also closed a number of smaller banks in recent years. In addition, the CBT has introduced a set of modern banking supervision regulations, consisting of: (i) a minimum capital requirement of manat 500 million for small banks and from manat 500 million to manat 1 billion for large banks. Branches of foreign banks have a minimum (assigned) capital requirement of US\$1 million; (ii) a capital adequacy requirement of 8 percent of risk-weighted assets, defined in line with internationally accepted standards; (iii) a liquidity ratio of 30 percent of liabilities, to be held in cash deposits with the CBT, loans receivable within 30 days, or treasury bills. For liabilities with a remaining maturity of less than one month, banks have to hold assets of less than one month maturity; (iv) a concentration risk ratio, limiting loans to a single borrower to 20 percent of paid-up capital. The penalty for exceeding the limit is equal to the interest earned by the bank on its excess lending; and (v) loan classification and provisioning regulations, operational since April 1996, mandating provisions according to the prescribed classification, based on the duration for which the loan repayment is overdue. Following the introduction of the new accounting system in March 1998, the CBT has turned its attention to further strengthening prudential regulations and bringing them closer to international standards.<sup>58</sup> The CBT conducts off-site and on-site supervision; however, due to staffing constraints, not all banks can be inspected annually.

78. While banks generally comply with the prudential guidelines, their overall financial situation is not as strong as these indicators would suggest. The capital adequacy requirements assign a zero rating to credits extended by government decree (directed credits) and to foreign currency loans, assuming that these loans are fully government-guaranteed, and thus the majority of banks' assets are excluded from the requirement. Also, although overdue loans were only about 4.5 percent of total short-term manat loans of banks at end-1997, the situation differed considerably by bank. Furthermore, directed credits may be rescheduled (and thus no longer classified as overdue) without clear indications on how they will be repaid. Finally, the large overdrafts with the CBT in the first two months of 1998 indicate that banks may have overextended their credit operations in 1997, based on the (temporarily) high deposits of the cotton sector.

## **Interenterprise arrears**

79. The continuing large increase in interenterprise arrears—from manat 1.8 trillion or 24 percent of GDP at end-1996 to manat 4.0 trillion or 41 percent of GDP at end-1997—is a further sign of strain in the financial system.<sup>59</sup> The share of energy enterprises in total arrears

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<sup>58</sup>The CBT received technical assistance in bank supervision from the World Bank and the IMF in 1997 and early 1998.

<sup>59</sup>In Turkmenistan, payment orders are issued by the creditor to the bank of the debtor. When  
(continued...)

increased from 40 percent to 47 percent, while the share of agricultural enterprises remained at around 23 percent. The large growth in arrears may be explained by the difficult economic situation—especially in the gas and cotton sectors—the confiscation of enterprise revenue by state funds, and the lack of formal commercial debt instruments and interenterprise credit.

## V. EXTERNAL SECTOR DEVELOPMENTS

### A. Overview

80. The vulnerability of Turkmenistan's economy to external shocks was made dramatically clear in 1997 when the suspension of gas shipments and a sharp decline in cotton fiber exports reduced total exports by 55 percent to a post-independence low of US\$759 million or 41 percent of GDP (Text Table 4, Figure 5). Imports also declined considerably. There was, moreover, a sharp deterioration in the services account associated with payments to foreign companies for construction services. Thus, the current account reverted from a small surplus in 1996 to a deficit of US\$596 million (32 percent of GDP) in 1997, incurring a deficit for the first time since the country's independence. However, the deficit was more than offset by large capital inflows, repayments on restructured 1993–95 gas debt, and partial clearance of arrears owed to Turkmenistan on 1996–97 gas exports. Thus, the balance of payments registered an overall surplus of US\$157 million, somewhat higher than the average of the previous three years. Gross international reserves rose to US\$1,285 million, or from 9 months of imports in 1996 to approximately 15 months of much lower imports in 1997.

81. Against this background, there was nonetheless some progress in specific areas. During 1997, Turkmenistan normalized relations with foreign creditors by eliminating remaining arrears on the servicing of its foreign debt and refrained from incurring new arrears. Trade ties with members of the Economic Cooperation Organization (ECO)<sup>60</sup>—which promotes regional trade, investment, and economic cooperation—were further developed. Although regional trade remained relatively small, Turkmenistan played an increasing role as a transit country, especially in trade to and from the Persian Gulf. This was in part spurred by the opening of new communication routes, such as a rail link with the Islamic Republic of Iran in late 1996 and the Korpedzhe-Kurdkui gas pipeline in December 1997. Also, a new 715 km fiber optics cable was completed with the Islamic Republic of Iran, which will be part of a 17,000 km network linking China to Germany.

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<sup>59</sup>(...continued)

the debtor's funds are inadequate to meet the payment, the bank reports the transaction to the CBT as an interenterprise arrear. Although the banks and the CBT conduct some netting of interenterprise claims and liabilities, a single non-payment can cascade through the system, so that with full netting the actual size of the arrears might be considerably lower than indicated by the statistics. In principle, interenterprise arrears carry interest of 0.4 percent per day, payable at the time of settlement of the arrear.

<sup>60</sup>Membership, in addition to Turkmenistan and the four other Central Asian States, includes Afghanistan, the Islamic Republic of Iran, Pakistan, and Turkey.

Text Table 4. Turkmenistan: Summary Balance of Payments, 1993-97  
(In millions of U.S. dollars, unless otherwise indicated)

	1993	1994	1995	1996	1997				
					QI	QII	QIII	QIV Prov.	Year Prov.
<b>Current account</b>	776	84	23	43	159	-204	-208	-344	-596
Balance of trade	1,100	485	441	159	197	-140	-136	-167	-245
Exports	2,693	2,176	2,084	1,691	396	107	115	141	759
Gas 1/	1,860	1,430	1,292	1,022	274	...	...	...	274
Cotton	428	363	436	327	49	8	2	32	90
Oil products	186	186	203	208	46	63	87	79	274
Electricity	99	91	67	58	5	11	5	7	28
Other	119	106	87	77	23	26	21	23	93
Imports	-1,593	-1,691	-1,644	-1,532	-199	-247	-251	-307	-1,004
Services	-359	-494	-447	-150	-76	-80	-79	-178	-414
Investment income	23	91	18	30	34	22	15	24	94
Interest income	25	100	147	129	39	34	31	31	135
Interest payments	-3	-9	-35	-58	-10	-9	-14	-14	-47
Current transfers	12	2	11	5	4	-5	-8	-23	-32
<b>Capital and financial account</b>	-551	-208	-51	55	65	118	265	381	828
Capital transfers	...	...	...	-156	8	-23	5	2	-9
Foreign direct investment	79	103	233	129	30	22	22	33	108
Trade and commercial credits (net)	...	...	...	7	0	-400	78	104	-218
Debt owed to Turkmenistan 2/	-927	-546	-156	-58	-171	511	27	49	417
Payments on debt	...	162	250	361	73	512	35	43	663
Rescheduled debt payments 3/	...	...	...	...	38	37	30	38	143
Previous arrears paid 4/	...	162	250	361	35	475	5	5	520
New arrears 5/	-927	-708	-406	-419	-243	0	-8	5	-246
Loans	297	235	-22	185	196	19	189	200	604
Disbursements	299	267	224	429	232	63	222	355	873
Amortization	-2	-32	-246	-245	-36	-45	-33	-155	-269
Currency and deposits (net) and other	...	...	-106	-52	1	-11	-57	-7	-74
Errors and omissions	221	259	141	-10	-110	40	-5	-1	-75
Overall balance (deficit -)	446	135	113	89	113	-45	53	36	157
Financing	-446	-135	-113	-89	-113	45	-53	-36	-157
Net international reserves (increase -)	-446	-135	-239	-7	-75	50	-53	-36	-114
Net accumulation of arrears 6/	...	...	125	-82	-38	-5	0	0	-43
Memorandum items:									
Current account balance (in percent of GDP)	20	2	1	2	...	...	...	...	-32
Overall balance (in percent of GDP)	12	3	6	4	...	...	...	...	9
Gross official reserves	818	927	1,170	1,172	1,246	1,196	1,248	1,285	1,285
In months of imports	6	7	9	9	11	11	13	15	15
Debts and arrears to Turkmenistan	-927	1,473	1,601	1,594	1,765	1,254	1,226	1,291	1,291
In percent of GDP	24	31	86	75	...	...	...	...	70
Debt service	4	40	281	303	46	54	47	169	316
In percent of exports	0	2	13	18	12	50	41	120	42
In percent of cash export receipts	1	8	57	75	73	98	92	248	74
In percent of exports less net payments arrears	3	8	57	75	30	50	44	116	52
External debt	168	418	550	668	826	839	1,028	1,360	1,360
In percent of GDP	4	9	30	32	45	46	56	74	74

Source: Central Bank of Turkmenistan.

1/ Gas exports are presented on an accrual basis. Non payment for gas exports is recorded as arrears in the capital account. Transit charges for gas exports are included in services (transportation) until 1995. As of 1996, gas is exported f.o.b. at the Turkmenistan border.

2/ A negative sign means an increase in debt, a positive sign reflects a repayment.

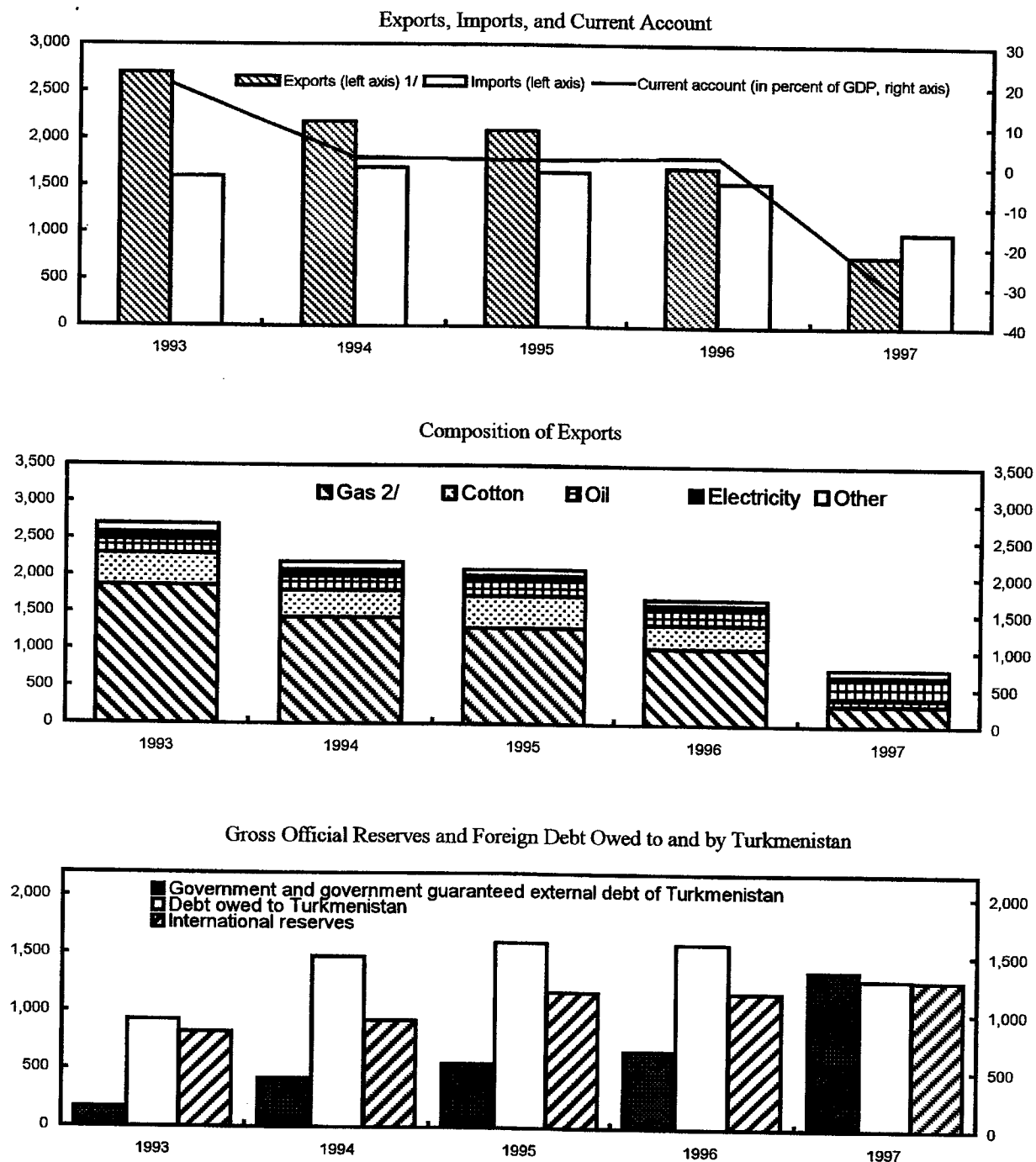
3/ Repayments on rescheduled gas debts.

4/ Payments of previous arrears to Turkmenistan.

5/ New arrears incurred to Turkmenistan.

6/ New arrears incurred and previous arrears paid by Turkmenistan.

Figure 5. Turkmenistan: Selected External Indicators, 1993-97  
(In millions of U.S. dollars, unless otherwise stated)



Source: Data provided by the Turkmen authorities.

1/ Exports are presented on an accrual basis. Arrears due to non-payment of exports are recorded in the capital account.

2/ Gas exports before 1996 include transportation and transit fees.

## B. Exports

82. The composition of Turkmenistan's exports has remained essentially the same since the Soviet period, when it was one of the main providers of energy and cotton to the Union. Gas, oil products, and cotton continue to account for the bulk of exports, although their share in total exports fell from 92 percent in 1996 to 84 percent in 1997, due to the sharp decline in gas and cotton exports. Of these three goods, the share of oil products has tripled from 12 percent of total exports in 1996 to 36 percent in 1997, reflecting the combined effect of lower gas and cotton exports and higher exports of oil products.

### Energy

83. Gas exports averaged about 24 bcm annually during 1994–96, but declined by 73 percent to 6.5 bcm in 1997 (Table 23). Turkmenistan had concluded provisional gas export contracts with the marketing company Itera to export 20 bcm of gas to traditional trading partners (notable Ukraine) and 20 bcm to other countries (in Central Europe) during 1997. All exports were to be at a price of US\$42 per thousand cubic meters (tcm); payments would continue to be 53 percent in goods and 47 percent in cash for traditional partners, and equally split between goods and cash for Eastern and Central European customers. However, in the first quarter of 1997, Turkmenistan received only limited payments on outstanding arrears for 1996 gas exports, and no payments came through on gas exports of that quarter. This prompted the government to suspend all gas-exports as of March 26, 1997. Following an agreement with Itera in June (Box 8), most outstanding arrears for 1996 were paid in the remainder of 1997 (mainly in goods), while only a small amount (US\$62 million or 22.5 percent of the total owed) was received (all in goods) for gas exports in the first quarter of 1997 (Tables 24 and 25).

84. Reflecting the increase in crude-oil production following stepped up foreign investment in this sector, exports of oil products increased by 32 percent to US\$274 million in 1997, equaling the value of gas exports for the first time in the country's history. Although full advance payment in cash is required for oil exports, some bartering still occurred in 1997, particularly against construction services from Turkey. Nevertheless, oil constituted the main source of cash foreign exchange earnings in 1997, by far surpassing gas. Oil revenues, however, were mostly earmarked for the servicing of the foreign debt incurred for the upgrading of the Turkmenbashi oil refinery.

85. Turkmenistan exports electricity to Kazakhstan and Tajikistan. As in the case of gas, however, export receipts have been hampered by nonpayment, to which the authorities have responded by periodically switching off supplies. This has resulted in a steady decline in the value of electricity exports from US\$99 million in 1993, to US\$58 million in 1996, and US\$28 million in 1997. In the latter year, supplies were cut off for several months.

## **Cotton**

86. Traditionally, cotton fiber has been Turkmenistan's second most important export product. Since independence, the main destination for cotton fiber exports has gradually shifted from the Russian Federation and other countries of the former Soviet Union to South-East Asia, although Turkey is also becoming an increasingly important market. Following a Presidential decree of 1996, which banned barter trade in a number of commodities, cotton exports are settled mostly in cash. Cotton exports fell by 72 percent to US\$90 million in 1997, because of the very poor cotton harvest in 1996, which lowered fiber production. The volume of fiber exports declined from 215 thousand mt to 63 thousand mt, while the average export price was approximately stable. Export receipts from cotton fiber were especially low in the third quarter, when only very low grade fiber was sold. While the 1997 cotton harvest would have allowed a strong rebound in exports in the fourth quarter, only 20 thousand mt of fiber were sold as the cotton company withheld exports in anticipation of higher prices.

## **Other exports**

87. Other exports, consisting mainly of textile products, carpets, silk, and minerals, recovered by 20 percent to US\$93 million in 1997. Part of this increase was due to increased textile production and exports, following an increase in the number of textile factories. Textiles were exported mainly to other CIS countries. (Table 26).

## **C. Imports**

88. Turkmenistan is heavily dependent on imports of foodstuff and manufactured goods. At the same time, since much of the energy trade continues to be conducted under barter agreements, a significant part of imports consist of low-quality products, often valued at prices that do not reflect world market prices. There are very few effective mechanisms in place to ensure that such imports match local demand. In 1997, private imports of consumer goods through informal ("shuttle trade") channels increased considerably, reflecting greater access to foreign exchange. This helped increase consumer goods availability in the market and ensured more favorable prices to consumers compared to over-priced barter equivalents obtained in official trade.

89. Imports declined to US\$1 billion (55 percent of GDP) in 1997, from about US\$1.7 billion (70 percent of GDP) during 1994-95, and (excluding imports of aircraft)<sup>61</sup> US\$1.4 billion in 1996. This decline was driven mostly by lower barter imports as gas exports

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<sup>61</sup>In 1996, imports were inflated by the purchase of two Boeing aircraft and two helicopters for a total value of US\$127 million.

declined,<sup>62</sup> while imports of investment goods (mostly foreign-financed) remained relatively high. Half of imports (slightly higher than in 1996) were from Ukraine, the Russian Federation, and other CIS countries, reflecting mainly imports of spare parts to maintain the existing stock of machinery and equipment (Table 28). Turkey was the largest non-CIS import partner, accounting for 13 percent of total imports, followed by the United States and Germany.

#### **D. Services**

90. The deficit on services increased sharply from US\$150 million in 1996 to US\$414 million in 1997, on an account mainly of an almost doubling in payments for construction services to US\$240 million,<sup>63</sup> which reflected an ambitious domestic construction program and the completion of the pipeline to the northern part of the Islamic Republic of Iran.<sup>64</sup> In addition, the country's land locked position and geographic isolation result in high transportation and travel payments, which are only partly offset by receipts from transit fees. In 1997, there was a net outflow of US\$114 million on travel and transportation services.

#### **E. Capital Account**

91. The capital account surplus increased from US\$55 million in 1996 to US\$828 million in 1997 (Table 29). The improvement was in line with the trend observed since 1993, as new arrears incurred on payments for Turkmenistan's gas exports declined and payments of previous arrears increased. The trend was reinforced in 1997 by a sharp acceleration in foreign borrowing, which resulted in a doubling of Turkmenistan's external debt.

#### **Foreign direct investment**

92. In recent years, the government has encouraged foreign direct investment—mostly in the form of joint ventures with state enterprises—to develop the oil and textile sectors. To this end, Turkmenistan has enacted a set of laws: (i) incorporating a number of guarantees and privileges for foreign investors, including tax incentives; (ii) allowing individuals and companies in Turkmenistan to conduct transactions with nonresidents, regardless of

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<sup>62</sup>A small part of the decline reflects a change in the recording of imports from c.i.f. to f.o.b. basis in 1997.

<sup>63</sup>Before 1996, the services account also showed large deficits, which were due to the inclusion under "transport" of the transportation costs and transit fees of gas exports. As of 1996, Turkmenistan sells the gas at its border and these costs are paid by the purchaser. Similarly, part of the deterioration in 1997 reflected a change in methodology, since, as noted above, the CBT shifted to the recording of imports on a f.o.b. basis.

<sup>64</sup>For this pipeline, an amount of US\$88 million was recorded as an outflow under construction services, financed by an equivalent amount under trade credits, in the balance of payments for the fourth quarter of 1997.

ownership; (iii) giving the right to foreign legal entities or physical persons to use land, natural resources, and other assets in Turkmenistan; and (iv) creating a number of free economic zones. The regulations for foreign investments in the energy sector were revised to better reflect international practices and increase transparency. In addition, a Petroleum Law was passed. The Law restricts the type and level of taxes that can be imposed on foreign investors in the sector, and allows the free imports and exports of production equipment. The Law includes a model Production Sharing Agreement, that provides for compensation in case the investor is negatively affected by laws not included in the agreement. As regards participation in Turkmenistan's privatization program, a decree issued in August 1997 recognizes equal rights to foreign and domestic investors.

93. Despite these moves, foreign direct investment has declined steadily from US\$233 million in 1995 to US\$108 million in 1997. Among the reasons for the slackening interest from foreign investors are concerns that the country is still in the early stages of the reform process and that investors' rights are not sufficiently protected. The two production sharing agreements in the oil sector noted earlier were the main foreign investments in 1997. There is some foreign interest, however, in smaller projects, mainly in the textile sector, although, in the absence of measures to address the above-noted concerns of foreign investors, the recent trends in FDI could continue, at least in the short run.

#### **Debt owed to Turkmenistan**

94. Turkmenistan has accumulated large claims on other countries in the region, mainly due to **nonpayment for its gas exports** (Box 8). Such claims, however, declined for the first time in 1997. Although less than a quarter of 1997 gas exports was paid for, by far the lowest collection ratio since independence, there were improvements in other respects, notably: (i) the absolute amount of new arrears was relatively small as gas exports ceased early in the year; (ii) Ukraine started to repay its rescheduled gas debt as the grace period ended; and (iii) payments arrears on 1996 gas exports were mostly cleared during 1997. There was a total net inflow of US\$417 million from repayments of gas debt and arrears, compared to a net outflow of US\$58 million in 1996. However, Turkmenistan provided about US\$200 million in net trade-credits to Itera (Text Table 4). As a result of these developments, the total stock of gas debt owed to Turkmenistan declined to US\$1,284 million, of which US\$1,031 million fell under long-term rescheduling agreements (Table 24).

95. Turkmenistan's claims on Kazakhstan and Tajikistan related to payments arrears for electricity exports declined from US\$52 million in 1996 to about US\$7 million in 1997 as some payments were received and new arrears were largely avoided by stopping exports when delays occurred. Other arrears owed to Turkmenistan consist mainly of unsettled balances on correspondent accounts with Ukraine, Tajikistan, and Azerbaijan, dating from 1992-93 and amounting (according to the Turkmen authorities) to about US\$67 million. There was no progress on these claims in 1997 as the parties continued to differ on the applicable exchange



rates.<sup>65</sup> Excluding debt on correspondent accounts, total debt owed to Turkmenistan declined by US\$303 million to US\$1,291 million (70 percent of GDP by end-1997), slightly exceeding the country's gross official reserves and closely approximating its outstanding stock of government and government-guaranteed external debt. About 45 percent of this debt was owed by Ukraine, 30 percent by Georgia, 16 percent by Itera, and the remainder by other countries (Armenia, Azerbaijan, Kazakhstan, and Tajikistan).

#### Box 8. Gas Debt Owed to Turkmenistan

Turkmenistan has accumulated large claims on other countries totaling US\$1.3 billion by end-1997. Following the increase in energy prices to international levels during 1992-93, Ukraine and Georgia, and to a lesser extent Azerbaijan and Armenia, incurred arrears on payments for gas imports from Turkmenistan. To regularize these arrears and assist the debtor countries, Turkmenistan concluded agreements with Ukraine and Azerbaijan (in 1995) and Georgia and Armenia (in 1996), converting the arrears incurred during 1993-94 into long-term official debt (with a maturity of 6-7 years), and rescheduling arrears incurred in 1995 on a short-term basis. Under the agreements, the total amount of long-term debt was established at US\$1,188 million, mainly payable in cash, and the short-term debt at US\$47 million, mainly payable in goods. Ukraine and Georgia owed about 60 percent and 34 percent of this debt, respectively. Under the reform programs for their countries, the governments of Turkmenistan's trading partners stopped guaranteeing payments for gas imports as of 1996, and thus incurred no further official import payments obligations to Turkmenistan.

The long-term rescheduling agreements have mostly been implemented, although there have been some problems with Azerbaijan's payments. Also, in view of its very difficult foreign exchange situation, Georgia has requested Turkmenistan to lengthen the grace period for principal repayments, which ended in the first quarter of 1998. There are ongoing negotiations with both countries to find a mutually acceptable solution.

Arrears were also accumulated by the company Itera, which marketed Turkmenistan's gas exports in 1996 and 1997. In 1996, these arrears amounted to US\$268 million (including interest penalties) on its own contract, and to US\$91 million on special contracts, mainly concerning barter sales for grain between Turkmenistan and Ukrainian companies. In the first quarter of 1997, Itera incurred further arrears of US\$274 million on payments for Turkmenistan's gas exports in this period. In June 1997, Turkmenistan reached agreement with Itera about the remaining arrears at that time of US\$469 million (including US\$21 million on special contracts), which were to be repaid as soon as possible. By end-1997, US\$41 million (of which US\$20 million was owed by Armgazprom following a debt swap with Itera) remained outstanding on the 1996 exports, and US\$212 million on the first quarter 1997 gas exports.

#### External debt and international reserves

96. Virtually all **foreign debt** of Turkmenistan is owed by the public sector, mostly by off-budget ministries and state enterprises. All medium- and long-term foreign borrowing by these entities is approved and guaranteed by the government. A few medium- and long-term loans

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<sup>65</sup>Turkmenistan and the Russian Federation reached a preliminary agreement in 1997, recognizing Turkmenistan's claims on the former Vneshekonombank of the Soviet-Union for a total amount of US\$107 million.

have been channeled through the CBT in order to obtain more favorable terms by using its official guarantee and collateral, while the bulk of the short-term borrowing in 1997 was also channeled through the CBT. However, most foreign borrowing takes place through the Vneshekonombank, which is responsible for insuring an orderly access to international capital markets and for the timely servicing of public external debt. In the initial years of independence, public enterprises borrowed heavily on relatively short maturities (2–3 years) under government guarantees issued by line ministries. As of mid-1996, the issuance of such guarantees was made subject to clearance by the Foreign Currency Committee (FCC) and registration with the State Agency for Foreign Investment (SAFI). Moreover, a key objective of Vneshekonombank's external debt management strategy<sup>66</sup> has been to lengthen the maturity profile of Turkmenistan's foreign debt. As part of this effort, the average maturity of new loans rose from 5½ years in 1996 to 7½ years in 1997. Turkmenistan has incurred some arrears on its public foreign debt, which amounted to US\$125 million at end-1995, but declined to US\$43 million at end-1996. The arrears remaining at end-1996 stemmed mostly from administrative problems—such as disputes on which public entity should service the debt and difficulties in securing allocations from the FERF—rather than from the scarcity of foreign exchange. All external arrears were cleared by the end of 1997. Turkmenistan also received international credit ratings (on sovereign debt) during 1997, although these indicated rather high credit risk.

97. Turkmenistan's external debt stock more than doubled from US\$0.7 billion to US\$1.4 billion or from 32 percent to 74 percent of GDP in 1997 (Table 30). Almost two-thirds of this increase was accounted for by loans to the agricultural sector, consisting mostly (almost 90 percent) of short-term loans to the cotton sector. Credit to the energy sector accounted for 28 percent of the increase, of which about half related to disbursements under loans to upgrade the Turkmenbashi oil refinery, and most of the remainder to the financing of the new gas pipeline to the Islamic Republic of Iran. Total undisbursed loan commitments (mostly for the Turkmenbashi oil refinery) were approximately US\$480 million (25 percent of GDP) at the end of 1997. Almost half of the outstanding foreign debt contracted was from German financial institutions, and 20 percent from institutions in the United States.

98. Turkmenistan's foreign borrowing has been almost exclusively on nonconcessional terms. In addition to an Institution Building/Technical Assistance loan (US\$25 million) approved in 1994, the World Bank approved an Urban Transport Project (US\$34 million) and a Water Supply and Sanitation Project (US\$30 million) loans in 1997.<sup>67</sup> However, reflecting slow implementation, only US\$8.5 million was disbursed under these loans by end-1997. The EBRD granted a Small and Medium Enterprise Credit (US\$35 million, with a disbursement so far of US\$3 million) in 1994, provided a financing package (equity and credit) for a joint-

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<sup>66</sup>Turkmenistan is receiving technical assistance from the World Bank to improve external debt management.

<sup>67</sup>Turkmenistan became a member of the International Finance Corporation (IFC) of the World Bank Group in May 1997, but the IFC has not yet extended loans or invested.

venture in textiles (US\$31 million) in 1996, and approved Highway (US\$50 million) and Port Projects (US\$30 million) in 1997. However, disbursements have been limited.

99. Although Turkmenistan incurred relatively little **short-term debt** (with a maturity of less than one year) during 1995–96, as noted above, such debt increased very rapidly in 1997, with its share in Turkmenistan's outstanding debt stock rising from about 15–20 percent at end-1996 to about a third at end-1997. Initially, this borrowing was to substitute for more costly cotton future contracts as a way to prefinance the 1997 cotton crop. However, only about a third of the loan proceeds was used for this purpose, while the remainder was channeled to the market through CBT foreign exchange sales.

100. Reflecting the lengthened maturity profile, debt service increased only slightly in nominal terms in 1997, but sharply reduced export earnings raised the debt service ratio to 42 percent from 18 percent in 1996. However, in relation to exports paid in cash plus repayments on rescheduled gas debt, the ratio declined from 75 percent in 1996 to 52 percent in 1997, principally because of the initiation of gas debt repayments. While Turkmenistan's external debt may not be excessive in relation to its foreign exchange holdings and heavy claims on other countries in the region, given the high ratio (despite the recent decline) between debt service obligations and cash receipts from exports and repayments of rescheduled gas debt, the government has had to centralize foreign exchange income from major export sectors in state funds (see Box 4) in order to ensure the timely servicing of foreign debt.

101. In light of the persistent balance of payments surpluses recorded in recent years (US\$157 million in 1997), Turkmenistan's **gross international reserves** have increased steadily to reach US\$1,285 million (15 months of imports) by end-1997. The country's policy has been to maintain a relatively comfortable level of international reserves to guard against external stocks, notably large swings in gas export receipts.

## F. Exchange Rate Developments

102. Exchange rates<sup>68</sup> remained fairly stable in nominal terms during the twelve months through December 1997, although there were some notable movements early in the year. Following the rapid monetary expansion in December 1996, the parallel market rate depreciated sharply from manat 5,200/US\$ at the outset of 1997 to manat 6,000/US\$ by the third week of January (Table 31). In response, the CBT increased sales to the market, mainly through direct sales to banks outside the auctions. As a result, the depreciation of the commercial bank rate, which closely follows the parallel market rate, was contained at manat 5,500/US\$ and the parallel market rate appreciated to the same level by early February. As of May 1997, following an eight-month period during which the official exchange rate was adjusted on a weekly basis, the CBT fixed the official rate at manat 4,165/US\$ and reduced its

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<sup>68</sup>The exchange rate system, comprising the official rate, the commercial bank rate, and the parallel market rate, are described in the next section.

selling rate to banks outside the auctions from manat 5,300/US\$ to manat 5,250/US\$.<sup>69</sup> Thus, the spread between the official and commercial bank rates, which had peaked at around 30 percent earlier in the year, narrowed to approximately 25 percent in the second half of the year. Due to the nominal stability of the exchange rates and the decline in inflation, the official and commercial bank rates appreciated in real terms by 15 percent and 17 percent, respectively, during 1997. On an annual average basis, the real appreciation of the two rates was 25 percent and 37 percent, respectively (Figure 6). On April 20, 1998, the official exchange rate was devalued by 20 percent to the level of the commercial bank rate of manat 5,200/US\$, effectively unifying the two rates. At the same time, the CBT withdrew its recommended rate for commercial banks, but set a maximum of three percent for banks' sales commissions. The commercial bank selling rate to the public remained at about manat 5,350/US\$ through May 1998.

## VI. EXCHANGE AND TRADE SYSTEM

### A. Exchange Arrangements<sup>70</sup>

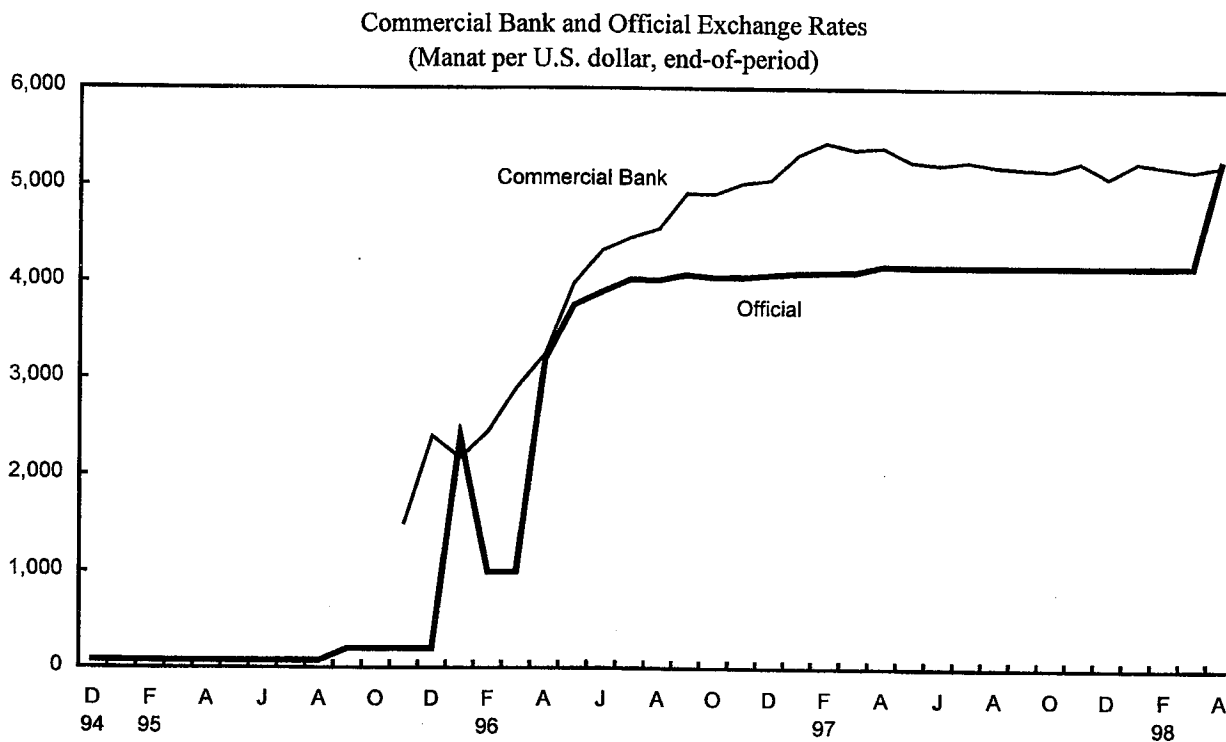
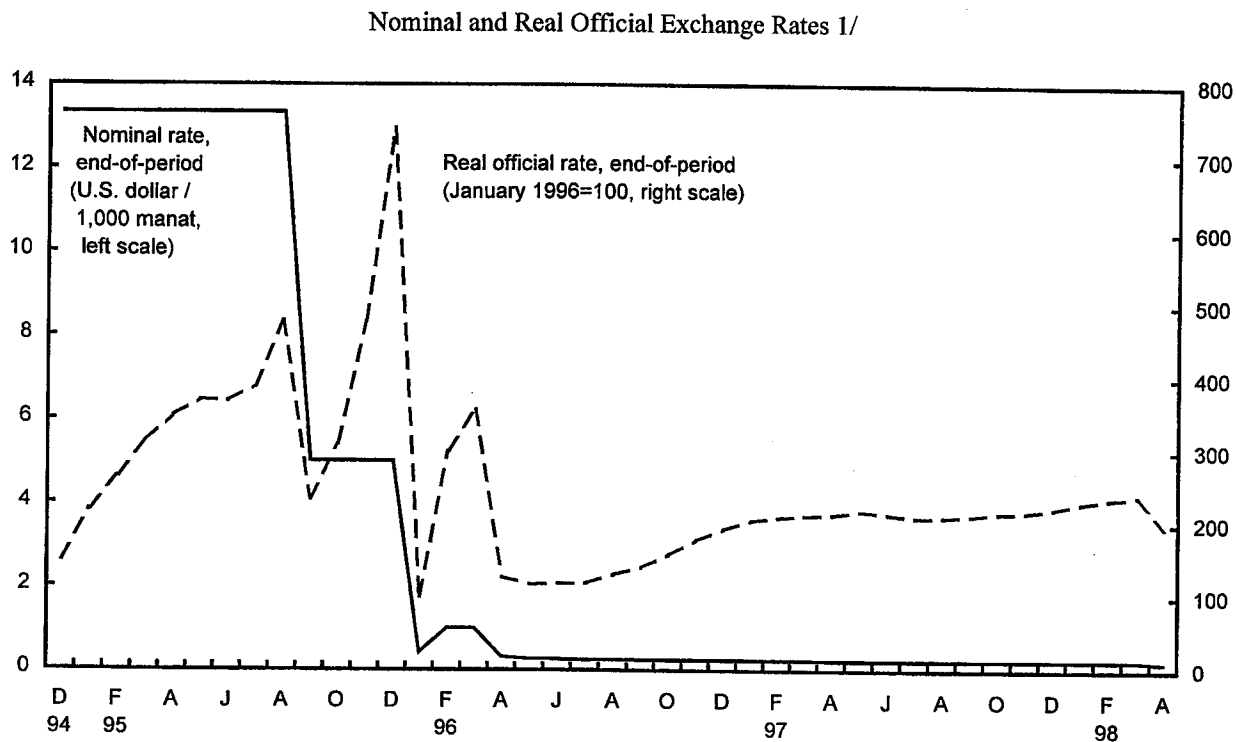
103. Foreign exchange transactions in Turkmenistan are conducted at three different exchange rates: the official rate, the commercial bank rate, and the curb or parallel market rate. The official rate applies to noncash official transactions only and is normally set in weekly sessions, conducted by the CBT—usually on Friday, with the new rate applicable as of the following Monday. Although these sessions are called auctions, the official rate is determined by the CBT, which announces it at the outset of the session and, if demand for foreign exchange exceeds the CBT's target, meets this excess in the next session. Only authorized banks participate in the auctions strictly on behalf of their customers and for transactions approved by the CBT and the Foreign Currency Committee (FCC). The types of approved transactions are specified in a regulation issued by the CBT on September 25, 1996, and consist of: (i) imports of capital goods and other investment related payments; (ii) imports of foodstuffs, medicines, and other essential consumer goods; (iii) imports of raw materials, equipment, spare parts, and other inputs; (iv) servicing of foreign debt and other obligations under international agreements and treaties; and (v) foreign exchange obligations by ministerial departments and government agencies. There is no buy/sell spread on the official rate, but since April 20, 1998, the CBT charges one percent commission on its sales. Official rates for other currencies are set according to U.S. dollar cross rates.

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<sup>69</sup>Although commercial banks are free, in principle, to set their exchange rates, until April 20, 1998 the CBT provided an indicative rate to banks. This rate was reduced in a number of steps from manat 5,500/US\$ in January to manat 5,380/US\$ on December 2, 1997. Banks generally followed these rates.

<sup>70</sup>Turkmenistan's exchange and trade system is described in detail in the Fund's annual reports on exchange arrangements and exchange restrictions. The developments in the exchange rate system since the introduction of the manat in November 1993 were also discussed in detail in "Turkmenistan—Recent Economic Developments," SM/97/112, May 7, 1997, Section VI and Appendix VII.

Figure 6. Turkmenistan: Exchange Rates, 1994-98



Source: Turkmen authorities.  
1/ A decrease indicates a depreciation.

104. Commercial banks are, in principle, free to set their buying and selling rates, although in practice, these are strongly influenced by the CBT. First, until the unification of the exchange rates in April 1998, the CBT issued recommendations for the banks' selling rates, which were closely followed. Second, in addition to auction sales—which are for specific import transactions—the CBT sells cash foreign exchange to banks for general purposes at a rate informally linked to developments in the parallel market rate, with a bank commission that may not exceed 5 percent (3 percent since April 20, 1998). Since banks' purchases from the CBT substantially exceed their purchases from the market, the CBT's selling rate mostly determines banks' exchange rates.

105. Commercial banks are allowed to freely transact in cash foreign exchange with individuals, but sales may not, without prior authorization from the CBT, exceed the equivalent of US\$1,000 per transaction. However, there are no limits on the frequency of such transactions. Entities other than physical persons may not buy cash foreign exchange from banks. Thus, enterprises cannot legally purchase foreign exchange from banks except for transactions for which banks have obtained, on their behalf, foreign exchange through the auctions. However, enterprises can sell foreign exchange to banks from their foreign currency accounts against manat (cash or noncash) at the commercial bank exchange rate.

106. The curb or parallel market, which is generally a good indicator of market demand and supply of foreign exchange, is tolerated. Foreign exchange transactions outside the banking system are not legally allowed, but enforcement varies and penalties are seldom applied. Although there was ample supply of foreign exchange through the banking system in 1997, the curb market continued to exist (possibly for tax evasion purposes)—at a very small premium of 2–3 percent above the commercial bank rate.

## **B. Prescription of Currency**

107. Residents of Turkmenistan are required to use manat for domestic transactions. However, foreign currency is used as a medium of exchange in some sectors, most notably in hotels and restaurants. A presidential decree issued in 1994 to permit the domestic circulation of foreign currency was withdrawn in December 1995. Nevertheless, reflecting low confidence in the manat, the U.S. dollar continues to be widely used.

## **C. External Payments and Receipts**

### **State Commodity Exchange (SCE)**

108. The SCE was created in 1994 with the objective of regulating exports and imports and obtaining world prices for exports. Trade contracts for exports and imports of the public and private sectors, including barter transactions but excluding gas exports, must be registered with the SCE. The SCE may not authorize a transaction if, in its opinion, the terms of the contract are not sufficiently favorable to Turkmenistan. Licenses, required for all exports, are issued by the Ministry of External Affairs. There is a short negative list of prohibited exports,

mainly for reasons of national cultural patrimony. The SCE charges a commission of 0.2 percent on all transactions.

### **Proceeds from exports and invisibles**

109. All exporters are subject to a repatriation requirement and most to a surrender requirement at the official exchange rate. Before April 1, 1997, cash receipts from the export of oil and gas were subject to a 30 percent surrender requirement to the CBT and a 40 percent foreign exchange tax to the FERF. Other public sector exports (apart from cotton) were subject to a surrender requirement of 50 percent, of which 30 percent was submitted to the FERF and 20 percent to the CBT. Proceeds from exports of cotton and from the private sector were not subject to a surrender requirement. On April 1, 1997, the surrender requirements were unified at 50 percent, to be channeled entirely to the CBT, while all surrenders to the FERF, including the 40 percent foreign exchange tax on cash receipts from oil/gas exports, were eliminated. However, on December 25, 1997, the government re-introduced a foreign exchange tax to the FERF on cash receipts from gas exports, at a rate of 50 percent. In addition, such receipts are subject to a surrender requirement (to the CBT) of 25 percent. Enterprises are allowed to keep the non-surrendered part of their foreign exchange receipts in a foreign currency account in Turkmenistan, which can be used without restrictions. Proceeds from the export of oil products produced by the Turkmenbashi refinery are exempt from the surrender requirement in order to meet the foreign debt service burden associated with the refurbishment of this refinery. Only very occasionally do public sector exporters request the CBT to buy part of the foreign exchange that they are allowed to keep. Such transactions take place at the official exchange rate.

110. According to a Presidential decree of 1995, goods cannot be shipped for export by a state company until full payment has been received or guaranteed through an international letter of credit or equivalent means. The decree explicitly prohibits barter transactions for petroleum and petroleum derivatives and electricity. In practice, however, the decree is not strictly enforced and a considerable part of trade continues to be in barter, without pre-payments or letter of credit. All participants in foreign exchange and trade transactions must be registered with the Ministry of Foreign Economic Relations. To open an account with a bank abroad requires an authorization by the CBT.

### **Payments for imports and invisibles**

111. Imports are free of all legal restrictions and import licenses are not required. There are no import tariffs (except a 0.5 percent customs administration fee) and no quota restrictions. However, noncash foreign exchange to pay for imports can, in principle, only be obtained through the auction market, subject to approval by the CBT and the FCC. Letters of credit for imports can be opened only after the relevant contracts have been approved by the SCE and payments for imports can only be made when the goods have arrived in Turkmenistan. There is a negative list of prohibited imports, mainly for reasons of health or national security.

#### **D. Exchange Restrictions**

112. When the manat was introduced in 1993, the government passed the Foreign Exchange Regulation Law. This law guarantees the freedom to make payments and transfers for all international transactions. Despite this legislation, several important restrictions are still in place. First, as noted above, all foreign exchange purchases from the auctions require the approval of the CBT and FCC. Second, access to cash foreign exchange for most current international transactions (such as travel, interest, dividend payments, profits) is limited to US\$1,000 per transaction without, however, a limit on the total number of transactions. Manat profits earned by foreign companies have to be converted into foreign exchange through the auction mechanism. While these transactions, therefore, must go through the pre-screening process, repatriation of profits is considered an acceptable use of foreign exchange and permission is usually granted without delay. In 1997, Turkmenistan maintained multiple currency practices arising from the application of the commercial banks' rate to certain transactions. Although these practices were eliminated with the unification of the exchange rates on April 20, 1998, a new multiple currency practice arose from the introduction of the 50 percent foreign exchange tax on gas exports in December 1997.

113. In order to rule out the circumvention of the auction market and its prescreening process, it is illegal for enterprises to buy cash dollars from banks with manat deposits. However, enterprises are permitted to sell their foreign exchange deposits to banks at the latter's cash exchange rate to meet manat expenditures.

#### **E. Capital Account Restrictions**

114. Both inward and outward capital transfers are subject to CBT approval. There are no exchange restrictions on foreign investors who wish to bring foreign exchange into the country. Inward foreign direct investments are permitted, in principle, in all sectors of the economy but require approval by the Ministry of Economy and Finance, or by the Council of Ministers if the amount exceeds US\$500,000. Foreign investors may reinvest their profits in Turkmenistan, repatriate their profits, or place them in national or foreign currency bank deposits. Both residents and nonresidents may hold foreign currency deposits. Commercial banks in Turkmenistan also offer anonymous deposits to nonresidents.

115. Regarding outward capital movements, the CBT makes a distinction between the commercial banks and all other resident institutions and individuals. It allows commercial banks to hold foreign deposits, financial instruments, and equity. However, this is denied to all other residents, although commercial banks may undertake foreign operations on behalf of resident clients.



### **Turkmenistan—IMF Technical Assistance**

1. The IMF has provided substantial technical assistance and training to Turkmenistan in recent years. This assistance encompassed all major macroeconomic areas, and included technical as well as policy advice. Missions from the Monetary and Exchange Affairs Department (MAE), the Fiscal Affairs Department (FAD), and the Statistics Department (STA) of the IMF have assisted the government in strengthening monetary and fiscal institutions, enhancing the effectiveness of monetary, exchange, and fiscal management, and in building a modern statistical data base. The Fund has stationed a Resident Representative in Ashgabat since October 1993. FAD has provided a resident advisor to the Ministry of Economy and Finance (MEF) during January 1994–February 1997, STA has given technical assistance (through its regional advisor) to the CBT during July 1996–July 1997 on the compilation of the balance of payments, and MAE has provided an advisor to the Central Bank of Turkmenistan (CBT) since February 1994.
2. Fund technical assistance continued in several areas in 1997. Three missions from the European II Department (EU2) assisted the government in the formulation of macroeconomic policies and the preparation of a macroeconomic framework. An FAD mission in August/September provided advice on fiscal management and extension of budget coverage. This contributed to improvements in budget preparation, evidenced by the much greater documentation accompanying the 1998 budget, which was also provided on the basis of an economic classification in addition to the traditional functional classification.
3. In October, an MAE mission advised the CBT on the strengthening of monetary policy instruments and the foreign exchange system, as well as on the introduction of a book-entry system for treasury bills in preparation for the introduction of treasury bill auctions. In December, in a follow-up mission, an MAE consultant provided further technical assistance to the Research Department of the CBT in monetary analysis, financial programming, and on improvements to the CBT's monthly bulletin.
4. In April 1998, an STA consultant provided technical assistance to Turkmenstat-prognos on national accounts.
5. Government officials continue to participate in IMF Institute courses and seminars, held at the Joint Vienna Institute and IMF headquarters. In 1997, 19 officials from Turkmenistan attended courses at the Joint Vienna Institute, covering a wide range of economic, financial, and statistical issues, and one official benefitted from the Japan/IMF Scholarship Program. The IMF Institute conducted a regional seminar in Ashgabat on financial programming in April/May 1998.

**IMF technical assistance and training missions to Turkmenistan**

The following list summarizes technical assistance by the Fund to Turkmenistan.

FAD—Public finance management and reform	March–April 1992
MAE—Modernization of banking operations	June 1992
INS—Seminar on macroeconomic and financial policies	July 1992
FAD—Budgetary procedures	November–December, 1992
MAE—CBT and financial system development	December 1992
MAE—CBT development	May 1993
STA—Money and Banking	May 1993
STA—Multi topic	July 1993
FAD—Budget, treasury, and public expenditure	July 1993
INS—Financial programming seminar	September 1993
MAE—Introduction of currency and CBT development	October 1993
STA—Balance of payments statistics	January 1994
FAD—Establishment of a Treasury	January 1994
STA—Money and banking statistics	January–February 1994
STA—Consumer prices	March 1994
MAE—Modernization of the Central Bank	May–June 1994
STA—Consumer prices	September 1994
STA—Government finance statistics	September 1994
STA—Balance of payments statistics	November 1994
STA—Money and banking statistics	November 1994
FAD—Tax administration	January 1995
STA—National accounts	February 1995
FAD—Social safety net	September 1995
MAE—Monetary and exchange reforms	September 1995
STA—Money and banking statistics	November 1995
FAD—Social safety net	May 1996
MAE—Foreign exchange and credit auctions	May 1996
EU2—Financial programming seminar	November 1996
FAD—Inspection visit Treasury advisor	December 1996
MAE—Visit by research expert	December 1996
FAD—Fiscal management	August–September 1997
MAE—Monetary policy instruments and treasury bills	October 1997
MAE—Visit by research expert	December 1997
STA—National accounts	April 1998

## **Turkmenistan—Government and State Organizations and Institutions<sup>1</sup>**

### **Ministries**

1. Ministry of Motor Vehicle Transport  
(urban passenger transport)\*
2. Ministry for Foreign Economic Relations
3. Ministry of the Interior\*
4. Ministry of Public Health and the Medical Industry\*
5. Ministry of Foreign Affairs\*
6. Ministry of Culture\*
7. Ministry of Irrigation and Water Supplies\*
8. Ministry of the Oil and Gas Industry and Mineral Resources
9. Ministry of Defense\*
10. Ministry of Education\*
11. Ministry for the Use and Protection of the Environment\*
12. Ministry of the Building Materials Industry
13. Ministry of Communications (State Courier Service)\*
14. Ministry of Agriculture
15. Ministry of Social Security\*
16. Ministry of the Textile Industry\*
17. Ministry of Commerce and Resources
18. Ministry of Economy and Finance\*
19. Ministry of Energy and Industry
20. Ministry of Justice\*
21. State Commodities and Raw Materials Exchange

### **State committees**

22. Committee for Land Use and the Conduct of Land Reform\*
23. Committee for National Security\*
24. State Border Service\*
25. Committee for the Fish Industry
26. Turkmenstatprognos\*

### **Administrative organs under the Cabinet of Ministers of Turkmenistan**

27. Monitoring Service of the President of Turkmenistan
28. National Committee for Architectural and Construction Supervision\*
29. The "Turkmenetbugat" state manufacturing association\*
30. State Committee for Geodesy, Cartography, and Cadaster\*

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<sup>1</sup>\* = Financed from the State Budget.

31. Committee for Physical Fitness and Sport\*
32. Committee for the Protection of State Secrets in the Press and Other Mass Information Media\*
33. *Gengeshi* for religious affairs\*
34. Chief Archive Administration\*
35. State Inspectorate for the Quarantine of Plants\*

#### **Administrative organs under the President of Turkmenistan**

36. Scientific Research Institute for the Study of the Turkmen World\*
37. Turkmen National Institute for Democracy and Human Rights\*
38. Administration for the Support of Entrepreneurship\*

#### **Other organizations and institutions of the government of Turkmenistan**

39. State Tax Inspectorate\*
40. State Inspectorate for Standardization, Metrology, the Preservation of Underground Mineral Wealth, and the Safe Conduct of Work in the National Economy\*
41. State Seed Inspectorate\*
42. State Customs Inspectorate\*
43. The National Television and Radio Company\*
44. The Turkmen Press State Information Agency\*
45. State Motion Picture Video Company\*
46. Chamber of Commerce and Industry
47. Office of the Procurator-General\*
48. Supreme Court\*
49. Higher Economic Tribunal\*
50. The "Turkmenkhovaellary" national administration
51. The "Turkmendemirellary" administration
52. Turkmenpotrbsoyuz (Turkmen Consumers' Union)
53. The Academy of Sciences\*
54. The Higher Council for Science and Technology under the President of Turkmenistan\*

#### **Associations**

55. Association for the Fruit and Vegetable Trade
56. Association for the Food Industry
57. Association of Joint-Stock Companies for the Production, Technical, and Agrochemical Servicing of "Turkmenobakhyzmat"
58. The "Turkmenkhleboprodukty" grain products association
59. Association for the Construction of Agricultural Facilities
60. The "Turkmenmallary" association of joint-stock companies engaged in animal husbandry

**Banks with government participation**

61. Central Bank of Turkmenistan (100 percent)
62. State Bank for Foreign Economic Activity of Turkmenistan (100 percent)
63. Central Bank of the Association of Daykhan banks
64. The "Turkmenistan" joint-stock commercial bank
65. The "Investbank" joint-stock commercial investment bank
66. The Savings Bank of Turkmenistan (100 percent)
67. The "Senagat" joint-stock commercial bank
68. The International Joint-Stock Bank for Reconstruction, Development, and the Support of Entrepreneurship
69. "Rossiiskii Kredit" bank

**State corporations, concerns, associations, administrations, and other organizations**

70. The "Turkmengaz" state concern
71. The "Turkmenavtoellary" state concern
72. The "Turkmenpagta" state concern
73. The "Turkmenneftegazstroy" state concern
74. The "Turkmenneft" state concern
75. The "Turkmenneftegaz" state trade corporation
76. The "Turkmengeologiya" state corporation
77. The "Turkmensiyakhat" state tourist corporation of Turkmenistan
78. The "Turkmenavtokhyzmatsovtza" corporation
79. The state republican association "Turkmen Atlary"\*
80. The state "Turkmenkhaly" association (Turkmenkhalybirleshik)
81. The "Sepet" state association for professional training\*
82. The "Turkmenmebel" joint-stock company
83. The State Insurance Organization
84. The "Turkmenlift" specialized state manufacturing association
85. The Turkmen Maritime Steamship Company (city of Turkmenbashi)
86. The Turkmen River Steamship Company (city of Chardzhev)
87. State Agency for Foreign Investment under the President of Turkmenistan
88. State Fund for the Development of the Oil and Gas Industry and Mineral Resources
89. State Fund for the Development of Agriculture
90. State Fund for the Development of Transportation and Communications
91. State Health Development Fund

Turkmenistan: Summary of Major Taxes as of May 1, 1998		
Tax	Tax base	Nature of Tax, Deductions, and Exemptions
<p><b>1. Value-added tax.</b> (Law on the Value-added Tax of October 8, 1993).</p>	<p><b>Taxpayers:</b> (1) legal entities including enterprises with investments, representations of foreign legal entities, (2) foreign joint-ventures and legal entities, and (3) private entrepreneurs without having formed a legal entity whose earnings from sales of goods and/or services exceed ten times the minimum annual wage.</p> <p><b>Objects of taxation:</b> turnover including export operations and involving: (1) sales of all kinds of goods and services produced by the enterprise and/or acquired elsewhere; (2) internal sales within the enterprise; (3) bartering; and (4) free-of-charge transfers of goods and/or sales of collaterals to other legal entities.</p>	<p><b>Exemptions:</b> (1) services associated with transit trade; (2) goods and services intended for official use by foreign diplomatic and equivalent representations, including those to be used by the diplomats' families residing in the country; (3) urban passenger transportation services (except taxis); (4) communal services to the public (including apartment rent); (5) insurance and reinsurance transactions, including services related to them rendered by intermediaries and insurance agents; (6) issuance and reissuance of loans; (7) operations involving monetary deposits, current, settlement, and other accounts, transfers, checks and securities, except brokerage and other intermediary services; (8) operations related to money in circulation, bills and banknotes as legal tenders excluding those used for numismatic purposes; (9) operations related to circulation of securities, such as shares, bonds, certificates, promissory notes and others, save for operations dealing with production and storage of taxable securities; (10) actions that are payable government duties as well as services provided by members of the College of Barristers; (11) mineral resource use payments (royalties, profits from transfer of rights for prospecting and production); (12) care services for children in preschool, the sick and elderly people; (13) ritual services of funeral bureaus and cemeteries; (14) fees for instruction provided to children and adolescents at clubs, and for the use of sports facilities and cultural and educational institutions; (15) profits for religious rites and ceremonies and services of religious associations; (16) patent and licensing operations (except those involving agents) associated with industrial property and copyrights; (17) goods sold by training and production facilities of the association of the blind and deaf; (18) transactions involving sales of confiscated or unowned assets as well as buried or bought-up treasures transferred to the government according to its succession rights save for</p>
		<p><b>Rates</b> <b>Rate:</b> 20 percent of turnover excluding the tax (16.67 percent including the tax).</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
		<p>profits of the selling agents; (19) scientific research and experimental design work financed by the budget, except cases where done for budget institutions and/or self-supporting ones if financed from the budget;</p> <p>(20) transactions involving sales of assets by the Turkmenistan State Depository for Precious Metals;</p> <p>(21) paid medical services provided to citizens of Turkmenistan, medicines sold within Turkmenistan, medical supplies and equipment; (22) food prepared for educational and pre-school institutions, hospitals, and other social and cultural institutions and organizations financed by the Budget; (23) services provided by communications enterprises associated with delivering pensions and benefits to the public; (24) goods and services produced and sold by sheltered workshops operated by psychiatric and neuropsychiatric institutions and social workshops operated by psychiatric and neuropsychiatric institutions and social organizations for the disabled; (25) goods and services produced and sold by enterprises, institutions, and organizations at which disabled persons account for at least 50 percent of the total number of employees; (26) own commodities produced by agricultural enterprises and disposed of as payment in kind for wage setting as well as used in production of food for people attracted to agricultural campaigns; (27) enterprises and organizations of all types of ownership on turnover at all stages of production and sale (except export shipments) of flour, bread, pasta, grouts and cereals, rice, animal feed, dairy products, ice cream, cotton-seed oil, animal fat, meat and meat products of all kinds, eggs, fish products except delicacies, confectioneries, infant food, salt, tea, medicines, as well as land tenure work related to transition into private property, construction materials produced locally and sold to the population (Decree of the President N1554 of</p>	

Turkmenistan: Summary of Major Taxes as of May 1, 1998		
Tax	Tax base	Rates
		<p>Nature of Tax, Deductions, and Exemptions</p> <p>November 10, 1993); (28) small-scale businesses; (29) public-catering enterprises of the government trade and consumer cooperatives remain exempt from VAT under Decree of the President N627 of March 1, 1992; (30) under Decree of the President N18 of March 19, 1992, "Turkmenkhaly" (Turkmen carpets) government association sells carpets VAT-free to the Office Manager of the President of Turkmenistan at the enterprises' selling prices. Under Decree of the President N404 of March 13, 1992, VAT-exempt shall be: (31) communication services related to payments of pensions and benefits to Citizens of Turkmenistan; (32) products sold by Ashkhabat plant of artificial limbs; (33) services provided by training and sports facilities of the Defense Society of Turkmenistan; (34) As provided in the Decree of the President N2035 of January 3, 1995 "On measures to Strengthen the Financial Position of Agricultural Companies", agricultural companies irrespective of the type of property are VAT-exempt for selling grain, vegetable and animal products at contractual prices (according to the Decree of the President of Turkmenistan of January 14, 1997 No.2969 "On raising economic stimulus of producers in the increase of agricultural production" VAT exempt are all agricultural goods produced by peasant unions and other enterprises of all types of ownership, as well goods produced by private entities); (36) According to the Decree of the President of August 1, 1997 No.1482, enterprises of the Ministry of Textile Industry are VAT exempt for goods exported by contracts;</p>



Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>2. Profit Tax.</b> The law "On the Profit Tax" of October 8, 1993.</p>	<p><b>Taxpayers:</b> Legal entities irrespective of the type of property, including (1) business activities of budget-supported institutions; (2) enterprises with foreign participation; and (3) agents of foreign legal entities.</p> <p><b>Objects of Taxation:</b> (1) the gross (book) profit of the enterprise; (2) dividends, interests, royalties, profits from participation in other companies; and (3) other profits.</p>	<p>(37) According to the Resolution of the President of October 13, 1997, No.1514, enterprises and organizations of consumer cooperatives producing and selling foodstuffs (except wine and vodka products, cognac, balsam, liquors, and beer), are VAT exempt at all stages of production and sale of goods from October 1, 1997; (38) According to the Decree of the President of February 16, 1998, No.3594, enterprises and organizations receiving revenues from gambling machines and casinos are VAT exempt with regard to the mentioned revenues.</p> <p><b>Exemptions:</b> (1) newly-established companies dealing with production and/or processing of agricultural output, consumer goods, and construction materials if the mentioned activities cover more than 70 percent of the total amount of earnings, are fully tax exempt during the first year from the date of registration and pay only 50 percent during the second year; (2) enterprises where disabled people make up at least 50 percent of the total number of employees; (3) religious associations; (4) social organizations of invalids and their enterprises and unions, are tax exempt with regard to profit allocated to authorized activity of those organizations or spent according to the authorized activity; (5) enterprises producing prosthetic appliances and orthopaedical units and special transport means for invalids, are tax exempt with regard to profit received from the mentioned activities; (6) enterprises performing rehabilitation of invalids; (7) enterprises where students are employed, whose share makes up not less than 75 percent, during 2 years from the date of registration; (8) youth organizations - at the rate of 50 percent of the fixed rate during 2 years from the date of registration; (9) enterprises with foreign investments (of which at least 30 percent of the authorized capital is in hard currency) for the period of repayment of initial capital investments; (10) enterprises functioning in free economic areas are tax exempt during 3 years; (11) According to the Decree of the</p>	<p><b>Rate:</b> 25 percent of the profit of the enterprise.</p> <p>45 percent for intermediaries.</p> <p>15 percent on profit (dividends and/or interest) from shares, securities, etc.</p> <p>60 percent on profit of casinos, * gambling machines, * from rent of audio and/or video cassettes, and concerts.</p> <p>30 percent on profit of commercial banks.</p> <p>6 percent on profit from freight.</p> <p>*till April 1998.</p> <p>From April 1, 1998, a tax is imposed on incomes of VAT-exempt enterprises and organizations receiving revenues from gambling machines and casinos with the following monthly specific rates: for each gambling machine - US\$300, for each gambling table - US\$3,500.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998		
Tax	Tax base	Rates
	<p>Nature of Tax, Deductions, and Exemptions</p> <p>President of Turkmenistan of January 6, 1992 No. 251, agricultural enterprises and production unions rendering services to agriculture in the area of production and sale of plant-growing and animal-breeding; (12) According to the Decree of the President of Turkmenistan of June 25, 1992 No. 2238, financial assistance, charity amounts, various loans received by enterprises and organizations; (13) According to the Law of Turkmenistan of February 19, 1992, Innovation Funds as legal entities are tax exempt with regard to their authorized activity, and enterprises and organizations are tax exempt with regard to share of profit sent to Innovation Funds; (14) spendings from profit after taxation to finance own facilities of health care, education, culture, sports, pre-school institutions, and scout camps, housing for elderly and disabled, personnel housing, as well as spendings on these purposes together with other companies to support such facilities and to carry out acts of protection of the environment if the amount spent is not below 30 percent of the total; (15) amounts contributed to ecological and sanitation funds transferred to enterprises and institutions of education, health care, social welfare, and institutions for children supported by the budget, if the amount does not exceed 5 per cent of the profit taxable; (16) amounts transferred to educational establishments directly intended for development and upgrading of the process of education in the establishment; (17) spending intended for construction and maintenance of social and cultural facilities for children and youth and for solving other social problems of the youth (effective January 1, 1994); (18) profit allocated to structural subdivisions of youth funds targeted at conducting the statutory activities of the funds (effected January 1, 1994); (19) profit received by youth associations and resulting from investments related to targeted youth programs prepared by the government body on issues of youth with the Cabinet of Ministers of Turkmenistan; (20) dividends of individuals if invested in the industrial and/or social infrastructure of their enterprises; (21) farmer associations and other agricultural producers; and (22) profit from agricultural activities of non-agricultural enterprises</p>	

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>3. Tax on income of small-scale enterprises.</b> Decree of the President of June 21, 1995; Decree of the President No. 2313 of July 3, 1995; Decree of the President of Turkmenistan of February 18, 1998, No. 2474 "On considering Decree of the President of Turkmenistan No. 1560 of June 21 1995 as invalid," and Decree of the President of Turkmenistan No. 2313 of August 3, 1995.</p>	<p><b>Taxpayers:</b> legal entities irrespective of the type of property involved in production and sales of the output, services, and other activities on the basis of their articles, existing in any legislative form and belonging to the category of small-scale enterprises.</p> <p><b>Objects of Taxation:</b> the amount of income, being the difference between the proceeds from the sales of the products and/or services and the sum of excises on the output produced and the actual cost without limitations under the standards in force.</p>	<p>of non-agricultural enterprise and irrespective of the type of property (Decree of the President of Turkmenistan No. 2969 of January 14, 1997 "On raising economic stimulus for producers in the increase of agricultural production").</p> <p><b>Exemptions:</b> Same as for the profit tax.</p>	<p><b>Rate:</b> 30 percent, but not below 12 times the minimum annual salary.</p>
<p><b>4. Tax on security transactions.</b> Laws of Turkmenistan of December 28, 1993 "On Taxes on Security Transactions", and "On Securities and Stock Exchanges in Turkmenistan".</p>	<p><b>Taxpayers:</b> local and foreign participants conducting securities operations in Turkmenistan.</p> <p><b>Objects of Taxation:</b> emission cost of securities and the price under contract.</p>	<p><b>Exemptions:</b> (1) legal and physical entities purchasing securities emitted by a joint-stock company for the first time since registration; and (2) legal entities acting as intermediaries.</p>	<p><b>Rate:</b> 0.5 percent of the nominal value of the emission. 0.1 percent of cost of the transaction of the government security. 0.3 percent of total cost of the non-government security.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998																											
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates																								
<p><b>5. Excises</b></p> <p>Decree of the President, N254, "On the Introduction of Excises, January 6, 1992"; Decree of the President, N2236 of June 21, 1995 "On excises"; Presidential Decree No. 3250 of July 18, 1997, and No. 3598 of February 17, 1998 "On excises."</p>	<p><b>Taxpayers:</b> Turkmen legal entities, agents of foreign legal entities involved in the production of excise goods or importing such into Turkmenistan, as well as physical entities importing excise goods.</p> <p><b>Objects of Taxation:</b> Turnover of sales of excise goods of own production at wholesale prices including exports, contractual price of goods imported, or unit of goods at fixed U.S. dollar rates.</p>	<p><b>Exemptions:</b> goods transported by transit through the territory of Turkmenistan; reimported goods, duty-free shops, goods imported under intergovernmental agreements, government approved projects and contracts involving foreign investments and state bonds, and imported and exported raw materials and products.</p>	<p><b>Rate:</b></p> <table border="0"> <tr> <td>Commodity</td> <td>Domestic Production</td> <td>Imports</td> </tr> <tr> <td>Beer</td> <td>10 percent</td> <td>\$0.50/liter</td> </tr> <tr> <td>Liquors</td> <td>65 percent</td> <td>\$1/liter</td> </tr> <tr> <td>Grape wines</td> <td>15 percent</td> <td>\$1/liter</td> </tr> <tr> <td>Vermouths and other</td> <td>15 percent</td> <td>\$1.5/liter</td> </tr> <tr> <td>Cigarettes</td> <td>-</td> <td>20 percent of contract price but not below \$0.10/pack</td> </tr> <tr> <td>Gasoline</td> <td>55 percent</td> <td></td> </tr> <tr> <td>Diesel</td> <td>60 percent</td> <td></td> </tr> </table> <p>Also, excises are levied on the export of mineral water, skin of cattle, and pure woollen yarn, and on certain imported goods. Decree No. 3250 substantially increased the number of imported products subject to excise taxes including products such as jams (30% tax), grapes (100%), fresh vegetables (100%), and jeans (20%).</p>	Commodity	Domestic Production	Imports	Beer	10 percent	\$0.50/liter	Liquors	65 percent	\$1/liter	Grape wines	15 percent	\$1/liter	Vermouths and other	15 percent	\$1.5/liter	Cigarettes	-	20 percent of contract price but not below \$0.10/pack	Gasoline	55 percent		Diesel	60 percent	
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Turkmenistan: Summary of Major Taxes as of May 1, 1998		
Tax	Tax base	Nature of Tax, Deductions, and Exemptions
<p><b>6. Tax from vehicle owners.</b></p> <p>Decree of the President N256 of January 6, 1992, "On Tax from Vehicle Owners", Decrees of the President No. 515 of January 6, 1992 and No. 2682 of June 24, 1996</p>	<p><b>Taxpayers:</b> (1) legal entities including companies with foreign investments and physical entities (including foreigners); (2) agencies of foreign legal entities; (3) foreign associations and foreign legal entities located within Turkmenistan; and (4) under Decrees of the President No. 1559 of June 21, 1995 and No. 1053 of July 18, 1995, from July 1, 1995 a payment to be collected from foreign vehicles entering and transiting Turkmenistan.</p> <p><b>Objects of Taxation:</b> Vehicles of all power and carrying capacity.</p>	<p><b>Exemptions:</b> (1) caterpillar vehicles as well as grain and other harvesters with engines; (2) vehicles transporting people in cities; (3) budget institutions; (4) disabled people; and (5) Heroes of the Soviet Union, bearers of the Slava medal, participants and disabled of the Great Patriotic War or other wars of the same status by social insurance.</p>
		<p><b>Rates</b></p> <p><b>Rate:</b> In multiples of the minimum wage:</p> <p>Motorcycles without side-car 0.25            Motorcycles with side-cars 0.5            Buses with passenger seats:            up to 11 1            11-19 1.5            20-29 2            30 and above 2.5            Trucks of carrying capacities, (in tons):            up to 1 2.5            1-3 3.75            3-6 5            6-8 7.5            8-15 10            15-20 12.5            above 20 25</p> <p>Rates on trailers is 50% of the respective rates of the trucks.</p> <p>Wheeled tractors of engine volumes, horse powers:            31-50 3.75            81-120 7.5            above 160 10</p> <p>Trailers of carrying capacities, tons:            up to 5 1.25            5-10 2.5            10-15 3.75            15-20 5            above 20 6.25</p> <p>Payment rates for trucks and buses:            Trucks:            up to 10 tons \$ 50            10-20 tons \$100            above 20 tons \$150</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>7. Natural Resource Tax.</b> Decree of the President N1095 of December 31, 1992</p>	<p><b>Taxpayers:</b> Enterprises and institutions extracting minerals. <b>Objects of Taxation:</b> Proceeds less VAT from sales of products by companies producing minerals in Turkmenistan</p>	<p><b>Exemptions:</b> none.</p>	<p>Buses: below 12 seats \$ 25 13-30 seats \$ 50 above 30 seats \$100</p> <p>Cars: Motorcycles \$ 30 \$ 15</p>
			<p><b>Rate:</b> 5 percent to 22 percent. Set individually.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>8. Personal Income Tax.</b> Decree of the President of January 6, 1992; Decrees of the President NI 596 of January 6, 1992 "On the Income Tax from Individuals"; and Decree No. 2473 of February 18, 1998.</p>	<p><b>Taxpayers:</b> Citizens of Turkmenistan, foreign citizens both residents and nonresidents of Turkmenistan.  <b>Objects of Taxation:</b> Incomes in cash and in kind.</p>	<p><b>Exemptions:</b> (1) Disability from childhood, 1 and 2 grade eyesight disability; (2) mother-heroes; (3) military; and (4) school, college, and university students engaged in agricultural campaigns.</p>	<p><b>Rate:</b> 8 percent of the amount exceeding two monthly salaries (before March 1, 1998). From March 1, 1998 differential rates are introduced depending on monthly income: below 200,000 manats - not taxable, from 200,001 through 400,000 manats - 8% of the amount exceeding 200,000 manats, from 400,001 through 650,000 manats - 16,000 manats + 10% of the amount exceeding 400,000 manats, from 650,001 through 900,000 manats - 41,000 manats + 12% of the amount exceeding 650,000 manats, from 900,001 through 1,200,000 manats - 71,000 manats + 14% from the amount exceeding 900,000 manats; from 1,200,000 through 1,500,000 manats - 113,000 + 17% of the amount exceeding 1,200,000 manats; From 1,500,000 through 2,000,000 manats - 164,000 manats + 20% of the amount exceeding 1,500,000 manats; above 2,000,001 manats - 264,000 manats + 25% of the amount exceeding 2,000,000 manats. Income of persons holding more than one office is taxable</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>9. Property Tax.</b> Decree of the President N514 of January 6, 1992 "On Collection of Property Tax from enterprises and Institutions."</p>	<p><b>Taxpayers:</b> - Enterprises and institutions as legal entities including companies with foreign investments; branches, subsidiaries and other separated subdivisions of enterprises and organizations outside Turkmenistan; representative offices of foreign legal entities.</p> <p><b>Objects of Taxation:</b> Fixed and other assets, except monetary resources and unfinished construction.</p>	<p><b>Exemptions:</b> (1) Property of enterprises used in production and storage of agricultural output including refrigerators and sales agents; (2) property maintained by the budget of Turkmenistan and local budgets, and/or used for purposes of health care, sports, physical culture, education, except movie houses and video-studio in cities; (3) unfinished construction carried out from the budget of Turkmenistan; (4) railroads and land along such, including land used for maintaining the railroads, bridges, and other facilities; (5) telecom lines and land along such, post-office and telephone station buildings in rural areas; (6) public highways; (7) property used in nature protection and fire prevention; (8) property of religious organizations and culture societies; (9) resident buildings and other property used in the communal economy including gas-supply lines, and gas pipelines between towns, except for main pipelines; and (10) urban passenger vehicles except taxis.</p>	<p>at a single rate of 20% of the amount of the wage of the secondary job.</p> <p><b>Rate:</b> 1 percent of value.</p>



Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p><b>10. Tax on Transfer of Rights to Prospect and Produce Minerals in Turkmenistan.</b> Decree of the President No. 1433 of July 5, 1993.</p>	<p><b>Taxpayers:</b> Enterprises and institutions of all types of property registered as legal entities including budget-supported institutions, ministries and other state departments; enterprises with foreign investments; representations of foreign legal entities.</p> <p><b>Objects of Taxation:</b> the manat equivalent of the amount of profit received from transfer of rights to prospect and produce minerals.</p>	<p><b>Exemptions:</b> None.</p>	<p><b>Rate:</b> 80 percent.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p>11. <b>Excess Wage Tax.</b> Decrees of the President of December 27, 1995 and No. 2436 of December 27, 1995 "On Improvements to the System of Wages." Decree of the President of April 7, 1997 No. 3084 "On regulation of labor payment of enterprises and organizations".</p>	<p><b>Taxpayers:</b> Enterprises and institutions irrespective of the kind of ownership, including joint ventures with foreign investments and farmer associations; branches, departments and representations of foreign legal entities within Turkmenista000n; international associations and legal entities conducting entrepreneurial and/or other activities within Turkmenistan; budget-supported institutions receiving profits; ministries and other departments; social associations, organizations, funds, and unions.</p> <p><b>Object of Taxation:</b> The amount of wages to employees engaged in the principal activities of the enterprise with account of those employed on contractual basis irrespective of the source of incomes if such exceed the nontaxable limit.</p>	<p><b>Exemptions:</b> (1) Companies operating within the zone for free business activity; (2) companies involved in agriculture.</p>	<p><b>Rate:</b> 50 Percent on wages twice the floor and 60 percent on wages above two times the floor. The non-taxable floor wage from March 1, 1998 is manat 200,000 per month.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p>12. Social security tax. The Law of Turkmenistan "On Pensions to Citizens of Turkmenistan," the Labor Code of Turkmenistan, Decrees of the President No.1645 of January 14, 1994 and No. 2221 of June 6, 1995.</p>	<p><b>Taxpayers:</b> Enterprises and institutions (including budget-supported ones) and other legal entities including enterprises with foreign investments and farmer associations; international associations, branches and agencies of foreign legal entities; citizens involved in entrepreneurial activities; citizens of Turkmenistan (to the pension fund).</p> <p><b>Objects of Taxation:</b> Wage fund except payments exempt from social insurance transfers under the legislation.</p>	<p><b>Exemptions:</b> Social organizations of pensioners and the disabled and their companies, institutions, associations, and educational establishments.</p>	<p><b>Rate:</b> 30 percent - companies and institutions of all types of property; 20 percent - farmer associations; 7 percent - the College of Barristers; 1 percent - citizens of Turkmenistan.</p> <p>Note: Farmers associations, and private and other agricultural producers shall pay the overall amount of 8 percent to the social insurance and pension fund as regulated in "Settlings to the Budget on the Cost of the Agricultural Products" of the MEF and the State Tax Inspectorate Nos. 178/226/1 of February 4, 1997 developed in accordance with the Decree of the President No. 2969 of January 14, 1997 "On Raising Material Incentive of Agricultural Producers."</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p>13. <b>The State Duty.</b>                      Decrees of the President No.1077 of November 29, 1993 and No.1610 of November 29, 1993.</p>	<p><b>Taxpayers:</b> Enterprises; citizens.  <b>Object of Taxation:</b> Cost of action, contract, house, apartment, or vehicle; and amount inherited.</p>	<p><b>Exemptions:</b> Exemptions are listed in the instruction of the State Inspectorate of Turkmenistan "On the State Duty": (1) plaintiffs of actions for recovery of wages and other actions arising from labor-related violations; (2) plaintiffs of copyright, discovery, and invention actions; (3) plaintiffs of actions for allowances due to children on separation; (4) plaintiffs of actions on compensation for health damage and/or death of the breadwinner; (5) plaintiffs of actions on compensation for damage done through criminal offence; (6) legal and physical entities for issuance of documents related to actions of collection of allowances due to children on separation; (7) legal and physical entities filing to courts of law to protect rights and interests of other persons; (8) MEF and State Inspectorate agencies for receiving documents on the succession right of the state; (9) citizens on the amounts under cassation suits related to divorces; (10) citizens for issuance of documents needed to receive government pensions and benefits; (11) participants of the Great Patriotic War and persons disabled therein, participants in programs to eliminate the consequences of the catastrophe in Chernobyl, participants in military campaigns when transferred the right to possess apartments of the government housing fund; (12) citizens in arranging documentary procedures on succession or contracts of such related to granting their property to the state; (13) citizens of Turkmenistan for issue of diplomatic passports; (14) visa payments to citizens of Turkmenistan traveling abroad if the trip is related to death or visits of graves of their relatives, and foreigners invited to Turkmenistan in connection with death or serious illness of close relations; and (15) citizens for arranging formalities upon changes of civil status.</p>	<p><b>Rate:</b> From 0.5 to 20 percent, depending on type of transaction.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
<p>14. <b>Payments Collected from entrepreneurs without being Legal Entities and from Licensing.</b> Decree of the President No.2848 of October 31, 1996 "On Facilitating Tax Collection from entrepreneurs without Legal Entity.</p>	<p><b>Taxpayers:</b> Physical entities (citizens of Turkmenistan, foreigners and persons without citizenship) registered under procedures specified as private entrepreneurs without legal entity and conducting activities for which license payment is fixed.</p>	<p><b>Exemptions:</b> For 50 percent: - pensioners; mothers of 5 and more children below 16 years; and invalids of I and II group.  For 100 percent: Great Patriotic War participants and persons equal to them; invalids from childhood, invalids of I and II group by eyesight; mothers with 5 and more children; citizens suffering after radiation catastrophe.</p>	<p><b>Rate:</b> Monthly license payments ranging from manat 5,000 to manat 140,000.</p>
<p>15. <b>Land tax</b> (from October 15, 1997) Decree of the President of October 15, 1997 No. 3347 "On land issues in non-state sector."</p>	<p><b>Taxpayers:</b> Non-agricultural enterprises of non-state sector (except enterprises of Turkmen consumer union and peasant unions), as well as foreign legal entities acting on the territory of Turkmenistan.  <b>Object of Taxation</b> is land area occupied by taxpayers.</p>	<p><b>Exemptions:</b> Entities of non-state sector and foreign investors in the period of exemption of all taxes as granted by Decree of the President of Turkmenistan, as well as land allocated for capital construction by decision of the Cabinet of Ministers for the period of completion of construction.</p>	<p><b>Rate.</b> Minimal annual rate per square meter of land area is fixed in dollars and payable in manat at the interbank exchange rate at the date of payment for: - Ashgabat - US\$0.2; - velayat centers and Turkmenbashi city - US\$0.15; - cities with population over 30,000 people - US\$0.10; - other areas - US\$0.05.</p>
<p>16. <b>Collection from difference in price of motor fuel for transiting vehicles.</b> (introduced from January 1, 1998). Decree of the President of November 20, 1997 No. 3404 and January 9, 1998 No. 3485.</p>	<p><b>Taxpayers:</b> Legal entities and individuals of foreign states, whose transport means enter and transit the territory of Turkmenistan.</p>	<p><b>Exemptions:</b> Residents of the Islamic Republic of Iran are tax exempt.</p>	<p><b>Rate:</b> 37.5 percent from 95 percent of the difference in fuel prices.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998		
Tax	Tax base	Nature of Tax, Deductions, and Exemptions
		Rates
Section 2. Local Taxes and Collections		
1. Tax for Construction of Industrial Facilities in Resort Areas. Decree of the President of Turkmenistan of December 12, 1993 No. 1620 "On local taxes."	<b>Taxpayers:</b> Enterprises and entrepreneurs without legal entity as employers to the construction in resort areas. <b>Object of Taxation:</b> The overall cost of the facility built.	<b>Rate:</b> Not to exceed 1 percent.
2. Collection on Use of Resorts.	<b>Taxpayers:</b> Physical entities arriving to resort areas.	<b>Rate:</b> Not to exceed 5 percent of the minimum monthly wage.
3. Collection from dog owners.	<b>Taxpayers:</b> Physical entities owning dogs and residing in cities.	<b>Rate:</b> Not to exceed 15 percent of the minimum monthly salary. Collected once a year.
4. Collection on issuance of warrants to occupy government apartments.	<b>Taxpayers:</b> Physical entities obtaining the right to occupy government apartments.	<b>Rate:</b> Not to exceed 75 percent of the minimum monthly wage.
5. Collection on parking area owners. Decree of the President of Turkmenistan N.3349 of October 15, 1997.	<b>Taxpayers:</b> Enterprises and legal entities, owners of parking areas. <b>Object of taxation:</b> Per each square meter of parking area, on a monthly basis, depending on average level of wage in the national economy.	<b>Rate:</b> 0.5 percent

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
6. Tax on Reselling Cars and Computer Equipment.	<p><b>Taxpayers:</b> Enterprises, entrepreneurs without legal entity, physical entities.</p> <p><b>Objects of Taxation:</b> The resale price except first sales of the equipment if produced in Turkmenistan.</p>		Rate: Not to exceed 10 percent of transaction amount.
7. Collection on the right to trade.	<p><b>Taxpayers:</b> Enterprises, entrepreneurs without legal entity and citizens on the sales of property.</p>		<b>Rate:</b> Not to exceed 10 minimum monthly wages if collected from enterprises. Not to exceed 5 minimum monthly wages if collected from individuals.
8. Collection on participation in races at hippodromes.	<p><b>Taxpayers:</b> Enterprises and physical entities.</p> <p><b>Objects of Taxation:</b> The number of horses to participants in races.</p>		<b>Rate:</b> Not to exceed 3 minimum monthly salaries.
9. Collection on gambling at horse races.	<p><b>Taxpayers:</b> Physical entities.</p> <p><b>Objects of Taxation:</b> Amount won.</p>		<b>Rate:</b> Not to exceed 5 percent of the amount won.
10. Tax for maintenance and repair of rural roads and streets. Decree of the President of April 25, 1997 No. 3128 "On planning, construction, and repair of roads in rural areas."	<p><b>Taxpayers:</b> Enterprises and organizations irrespective of types of ownership including enterprises with foreign investments and representative offices of legal entities which are not tax exempt, located in rural areas. Citizens living and working in rural areas, including entrepreneurs without setting up legal entities.</p>	<p><b>Object of Taxation:</b> Earnings from sale of goods (works, services) reduced by amount of VAT and excise.</p>	<p><b>Rate:</b> Tax is fixed at following rates: for all enterprises and organizations (except peasant unions and private producers who are legal entities) - 0.5%; for peasant unions - 0.4%; for private producers who are legal entities - 0.3%. Citizens living and working in rural areas pay tax once a year at a rate fixed by local authorities, which should not exceed 10% of average wage in the national economy.</p>

Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
11. Collection from citizens for policing and organization of public services and amenities.	<b>Taxpayers:</b> enterprises and citizens having resident permits and upon reaching the age 18.		<b>Rate:</b> 1 Percent of 12 minimum monthly salaries for physical entities. 1 Percent of the annual wage fund based on the minimum salary for enterprises.
12. Advertisement Tax.	<b>Taxpayers:</b> Enterprises and entrepreneurs without legal entity. <b>Objects of Taxation:</b> Cost of services paid to advertise the product.		<b>Rate:</b> Not to exceed 5 percent of the cost of the services.
13. Collection for license to conduct auctions and lotteries.	<b>Taxpayers:</b> Enterprises and institutions (including budget supported) and entrepreneurs without legal entity. <b>Objects of Taxation:</b> The total cost of bids or value of the lottery.		<b>Rate:</b> Not to exceed 10 percent of the cost of the bids or value of the lottery.
14. Collection on the right to use the local symbol.	<b>Taxpayers:</b> enterprises and entrepreneurs without legal entity. <b>Object of Taxation:</b> Not to exceed 0.5 percent the cost of the product sold.		
15. Collection on the right to conduct cinema and television filming.	<b>Taxpayers:</b> Commercial cinema and television companies.		<b>Rate:</b> Not to exceed 1 percent of the legal minimum salary of those involved in the film industry.



Turkmenistan: Summary of Major Taxes as of May 1, 1998			
Tax	Tax base	Nature of Tax, Deductions, and Exemptions	Rates
Section 3. Other			
1. Payments to the government voluntary medical insurance fund. Decree of the President No. 1617 of August 14, 1995.	<p><b>Taxpayers:</b> Citizens of Turkmenistan.</p> <p><b>Objects of Taxation:</b> Incomes of employed individuals, pensions and stipends.</p>	<p><b>Exemptions:</b> Foreign citizens and certain categories of local individuals ensured on preferential terms.</p>	<p><b>Rate:</b> 4 percent.</p>
2. Contribution to the Agricultural Development Fund.	<p><b>Taxpayers:</b> Public enterprises.</p> <p><b>Objects of Taxation:</b> Book profit.</p>		<p><b>Rate:</b> 3 percent.</p>

Table 1. Turkmenistan: Production of Selected Commodities, 1993-97

	Unit	1993	1994	1995	1996	1997				Year
						QI	QII	QIII	QIV	
<b>Energy</b>										
Natural gas	Million cubic meter	65,317	35,722	32,264	35,175	10,090	2,061	1,761	3,410	17,322
Exports	Million cubic meter	51,000	24,733	22,560	24,331	6,518	...	...	...	6,518
Imports	Million cubic meter	200	...	...	...	...	...	...	...	...
Domestic consumption 1/	Million cubic meter	14,317	10,989	9,704	10,851	3,573	2,061	1,761	3,410	10,805
Oil	1,000 metric tons	4,301	4,083	4,394	4,147	965	1,077	1,150	1,289	4,481
First refinery fraction oil	1,000 metric tons	4,760	4,800	4,220	4,511	1,063	1,116	1,129	1,433	4,741
Gasoline	1,000 cubic meters	731	739	633	751	150	195	172	249	766
Diesel fuel	1,000 cubic meters	1,562	1,588	1,371	1,458	303	551	157	505	1,516
<b>Agriculture</b>										
<b>Cotton</b>										
Area under cultivation 2/	1,000 hectares	579	557	563	530	...	...	...	...	482
Production raw cotton	1,000 metric tons	1,341	1,283	1,000	437	...	...	...	...	630
Production cotton fiber	1,000 metric tons	426	388	324	244	22	2	26	91	142
Exports cotton fiber	1,000 metric tons	359	301	267	215	32	6	5	20	63
Domestic use of cotton fiber	1,000 metric tons	67	87	57	76	...	...	...	...	79
Textile factories	1,000 metric tons	...	...	15	35	...	...	...	...	40
Other (including stocks)	1,000 metric tons	...	...	42	41	...	...	...	...	39
Yield (raw cotton / area cultivated)	Tons/hectare	2.3	2.3	2.2	0.8	...	...	...	...	1.3
<b>Wheat</b>										
Area under cultivation 2/	1,000 hectares	260	431	547	536	...	...	...	...	452
Production	1,000 metric tons	509	712	896	453	...	...	...	...	655
Yield	Tons/hectare	2.0	1.7	1.6	0.9	...	...	...	...	1.4
<b>Others</b>										
<b>Construction</b>										
Construction glass 2/	1,000 square meters	5,308	1,335	4,403	3,560	295	382	...	200	877
Cement	1,000 metric tons	1,118	690	437	438	123	158	123	197	601
Technical carbon	Metric tons	6,050	6,260	6,260	4,668	976	1,300	1,350	1,110	4,736
<b>Chemicals</b>										
Mineral fertilizers	1,000 metric tons	127	86	68	62	14	10	20	10	54
<b>Textiles/clothing</b>										
Rugs	1,000 square meters	933	442	423	419	101	100	45	76	322
Cotton fabrics	1,000 square meters	30,889	24,799	23,167	32,217	8,337	9,851	8,045	4,845	31,078
<b>Food industries</b>										
Vegetable oil	1,000 metric tons	85	70	47	36	6	2	4	9	21

Source: Data provided by the Turkmen authorities.

1/ Domestic consumption is calculated as production minus net exports.

2/ Data for 1997 are provisional.

Table 2. Turkmenistan: Procurement Prices, 1995-97

	1995	1996	1997			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
<b>1. Beef</b>						
Procurement price (manat/ton)	322,000	1,500,000				
Procurement price (US\$/ton) 1/	1,610	369			abolished	
World market price (US\$/ton)	1,637	1,571				
<b>2. Lamb</b>						
Procurement price (manat/ton)	...	720,000				
Procurement price (US\$/ton) 1/	...	177			abolished	
World market price (US\$/ton)	2,535	2,946				
<b>5. Milk</b>						
Procurement price (manat/ton)	43,000	360,000				
Procurement price (US\$/ton) 1/	215	88			abolished	
World market price (US\$/ton)	2,522	2,522				
<b>6. Cotton</b>						
Procurement price (manat/ton)	100,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Procurement price (US\$/ton) 1/	500	246	244	240	240	240
Export price (US\$/ton) 2/	1,300	1,520	1,525	1,283	360	1,585
<b>7. Wheat</b>						
Procurement price (manat/ton)	38,000	143,000	400,000	400,000	400,000	400,000
Procurement price (US\$/ton) 1/	190	35	97	96	96	96
World market price (US\$/ton)	212	230	175	168	147	149
<b>Memorandum item:</b>						
Official exchange rate (manat/US\$)	200	4,070	4,105	4,165	4,165	4,165

Sources: Data provided by the Turkmen authorities; the world market prices are taken from IMF, International Financial Statistics.

1/ Manat price converted at the official exchange rate.

2/ Average export price for Turkmen cotton is derived from the balance of payments statistics.

Table 3. Turkmenistan: Index of Gross Output, by Sector, 1993-97  
(In percent of the previous year)

	1993	1994	1995	1996	1997
Total industry 1/	104	75	94	119	80
<i>Of which</i>					
Heavy industry	105	64	92	115	61
<i>Of which</i>					
Energy	106	61	91	110	56
Electricity	108	86	97	106	92
Fuels	106	86	91	110	54
Metals	96	68	249	468	126
Machinery and metal processing	105	92	120	256	128
Chemicals and petrochemicals	102	54	124	99	120
Forestry and woodwork	94	61	71	135	117
Construction materials	100	77	78	114	124
Other	80	107	155	111	65
Light industry	112	93	102	164	80
<i>Of which</i>					
Textiles 2/	112	91	100	176	128
Clothing	120	118	102	129	112
Leather goods and shoes	78	85	152	119	137
Food industries	93	105	92	76	103
<i>Of which</i>					
Food processing	83	110	95	83	111
Meat and milk	96	103	76	66	118
Fish	70	99	88	63	96
Flour	106	95	94	65	96
Agriculture	108	89	93	51	114
Transportation and communication	...	...	...	103	71
Trade and catering	...	...	...	92	105
Retail trade	...	...	...	110	105

Source: Data provided by the Turkmen authorities.

1/ Does not include gas and electric power, cotton ginnery, and cooking oil industries.

2/ Does not include cotton processing. Index of the physical volume of cotton processing would be 58.2 percent, 1997 relative to 1996.

Table 4. Turkmenistan: Money Incomes and Expenditures of the Population, 1994-97 1/

	1994	1995	1996	1997				Year
				QI	QII	QIII	QIV	
(In millions of manat; period average)								
Total money incomes	23,920	132,132	1,147,738	586,673	789,932	781,075	926,023	3,083,702
Wages paid to workers and employees	11,336	64,099	636,178	314,014	513,579	470,430	620,152	1,918,175
Wages paid to collective farmers	8,436	32,257	126,590	125,775	101,189	146,370	112,696	486,030
Wages paid to cooperative members	1,268	6,536	76,880	14,345	15,829	19,375	23,054	72,603
Non-wage income of enterprise workers	160	315	3,776	425	4,244	4,445	14,329	23,443
Income from agricultural sales	313	3,068	49,744	16,192	11,683	17,392	8,519	53,786
Pensions, grants, and other	2,408	21,978	199,175	82,163	111,832	92,634	99,311	385,939
Income from sale of foreign exchange	...	3,879	55,396	33,757	31,576	30,429	47,964	143,726
Cash expenditures and savings	15,541	99,990	941,829	547,518	734,254	754,635	873,463	2,909,870
Goods from government and co-ops	9,981	49,934	284,266	140,557	169,887	164,400	162,700	637,544
Goods from farmers associations	233	3,261	21,732	3,612	6,196	6,603	9,935	26,346
Services	1,566	12,572	118,791	52,858	78,647	75,337	86,139	292,981
Taxes and other payments	1,885	7,247	74,670	49,862	70,543	70,684	80,842	271,931
Aquisition of financial assets (including deposits)	664	8,780	12,252	5,581	4,909	4,797	11,454	26,741
Purchases of foreign exchange	1,212	18,197	430,117	295,048	404,073	432,815	522,393	1,654,329
(In percent of total money incomes)								
Total money incomes	100	100	100	100	100	100	100	100
Wages paid to workers and employees	47	49	56	54	65	60	67	62
Wages paid to collective farmers	35	24	11	21	13	19	12	16
Wages paid to cooperative members	5	5	3	2	2	2	2	2
Non-wage income of enterprise workers	1	0	1	0	1	1	2	1
Income from agricultural sales	1	2	2	3	1	2	1	2
Pensions, grants, and other	10	17	21	14	14	12	11	13
Income from sale of foreign exchange	...	3	5	6	4	4	5	5
(In percent of cash expenditure and savings)								
Cash expenditure and savings	100	100	100	100	100	100	100	100
Goods from government and co-ops	64	50	26	26	23	22	19	22
Goods from farmers associations	1	3	1	1	1	1	1	1
Services	10	13	14	10	11	10	10	10
Taxes and other payments	12	7	9	9	10	9	9	9
Aquisition of financial assets (including deposits)	4	9	1	1	1	1	1	1
Purchases of foreign exchange	8	18	50	54	55	57	60	57

Source: Data provided by the Turkmen authorities.

1/ Includes only transactions that are made through the banking system.

Table 5. Turkmenistan: Goods and Services for which Retail Prices are Regulated by the State, 1995-98  
(In manat per units indicated; end-of-period)

	1995			1996			1997			1998		
	Nov.	Jan.	Mar.	Jun.	Sep.	Oct.	Dec.	Jan.	Mar.	Sep.	Dec.	Jan.
<b>Food items 1/</b>												
Flour Grade I (per kilogram)	2.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	25.0	35.0	35.0	35.0
Bread Grade Supreme (per 750 gra	10.0	100.0	100.0	200.0	200.0	300.0	450.0	500.0	500.0	800.0	800.0	800.0
Meat (mutton per kilogram)	25.0	100.0	100.0	100.0	100.0	500.0	500.0	abolished	abolished	abolished	abolished	abolished
Milk (per liter)	1.0	50.0	50.0	50.0	50.0	200.0	200.0	abolished	abolished	abolished	abolished	abolished
Cotton Oil (per kilogram)	30.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Rice (per kilogram)	120.0	180.0	abolished									
Sugar (per kilogram)	25.0	150.0	150.0	150.0	150.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
<b>Oil products</b>												
Petrol AI 93 (per liter)	25.0	50.0	50.0	250.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0	400.0
Petrol AI 72, 76 (per liter)	20.0	40.0	40.0	200.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
<b>Building materials</b>												
Ceramic bricks (per thousand)	2,600.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	78,050.0	78,050.0	78,050.0
Asbestos roofing (per sheet)	100.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	5,780.0	5,780.0	5,780.0
Cement (per ton)	1,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	2,000.0	52,500.0	52,500.0	52,500.0
<b>Main types of communal services</b>												
Heating (per square meter)	1.0	1.0	1.0	1.0	1.0	10.0	10.0	10.0	15.0	15.0	15.0	15.0
House rent (per square meter)	1.0	1.0	1.0	1.0	1.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Hot water (per person)	1.5	1.5	1.5	1.5	1.5	10.0	10.0	10.0	15.0	15.0	15.0	15.0
Sanitation (per 10 cubic meter)	1.0	1.0	1.0	1.0	1.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
<b>Passenger transport</b>												
Buses, trolley-buses	0.5	5.0	5.0	20.0	20.0	20.0	50.0	50.0	50.0	50.0	50.0	50.0
Express buses	1.0	50.0	50.0	200.0	200.0	200.0	500.0	500.0	500.0	500.0	500.0	500.0
Taxi (per kilometer)	8.0	90.0	90.0	300.0	300.0	300.0	500.0	500.0	500.0	500.0	500.0	500.0
<b>Communications</b>												
Monthly payment for telephone use	30.0	200.0	200.0	200.0	200.0	200.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
<b>Charges on use in excess of limits: 2/</b>												
Natural gas (per cubic meter)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Liquidified gas (per kilogram)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Electricity (per kilowatt-hour)	1.0	1.0	1.0	1.5	1.5	5.0	48.0	48.0	48.0	48.0	48.0	48.0
Water (per cubic meter)	1.0	1.0	1.0	1.0	1.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Data provided by the Turkmen authorities.

1/ Salt is provided free of charge. Flour is available with coupons in state stores

2/ Free of charge, monthly: natural gas up to 50 cubic meters; electricity up to 35Kwh; water up to 7 cubic meters.

Table 6. Turkmenistan: Consumer Price Index, 1995-98

	Index (Jan. 1993=100)	Monthly increase (in percent)					12-Month point-to-point increase (in percent) 2/	Annual average increase (in percent) 2/ 3/
		Total	Food	Alcoholic beverages	Non-food	Services		
		(100.0)	(57.7)	(4.0)	(32.2)	(5.7)		
1995 Jan.	27,445	46.8	31.7	18.6	63.5	114.9	1,570.3	1,704.4
Feb.	33,236	21.1	19.3	20.4	22.8	26.5	1,602.6	1,684.4
Mar.	39,285	18.2	15.4	23.0	10.8	46.8	1,390.8	1,610.3
Apr.	43,881	11.7	11.2	28.9	12.7	5.9	1,159.6	1,489.8
May	46,821	6.7	8.3	7.3	4.1	4.8	1,068.7	1,386.5
Jun.	46,634	-0.4	-4.7	5.0	3.9	2.3	912.2	1,281.7
Jul.	49,339	5.8	1.8	5.0	12.7	3.8	792.4	1,175.1
Aug.	60,933	23.5	26.8	49.5	17.0	15.6	693.5	1,057.0
Sep.	79,518	30.5	38.3	12.7	28.2	18.5	724.4	971.5
Oct.	105,679	32.9	40.0	28.6	30.6	9.2	770.9	914.5
Nov.	163,486	54.7	65.8	87.9	52.7	9.2	1,066.5	941.6
Dec.	254,548	55.7	61.1	61.2	46.9	43.6	1,261.5	1,005.3
1996 Jan.	413,640	62.5	70.2	54.7	44.0	86.5	1,407.2	1,095.6
Feb.	517,050	25.0	22.4	11.2	24.1	70.1	1,455.7	1,172.3
Mar.	615,806	19.1	20.7	10.9	16.3	12.9	1,467.5	1,233.6
Apr.	706,946	14.8	14.9	21.0	16.1	6.2	1,511.0	1,290.1
May	767,036	8.5	5.7	6.4	13.0	27.2	1,538.2	1,337.6
Jun.	808,456	5.4	0.4	11.6	16.2	16.5	1,633.6	1,389.3
Jul.	837,561	3.6	-1.6	5.6	14.0	12.0	1,597.6	1,428.2
Aug.	923,829	10.3	8.5	6.3	10.1	27.9	1,416.1	1,440.4
Sep.	1,006,974	9.0	9.5	5.5	9.5	4.7	1,166.3	1,408.9
Oct.	1,127,811	12.0	13.9	4.4	10.0	4.7	967.2	1,340.0
Nov.	1,272,171	12.8	14.3	6.4	8.9	16.6	678.2	1,194.0
Dec.	1,389,210	9.2	8.8	1.2	6.4	19.7	445.8	992.4
1997 Jan.	1,485,066	6.9	6.8	3.9	5.6	12.1	259.0	757.0
Feb.	1,523,678	2.6	2.7	0.2	2.6	2.0	194.7	584.6
Mar.	1,548,056	1.6	1.7	1.6	1.7	1.0	151.4	458.8
Apr.	1,586,758	2.5	3.0	2.0	1.9	1.0	124.5	366.5
May	1,628,013	2.6	3.4	1.6	1.3	1.3	112.2	300.4
Jun.	1,603,593	-1.5	-2.3	1.5	0.6	1.7	98.4	250.8
Jul.	1,569,918	-2.1	-4.4	0.2	0.8	3.2	87.4	212.6
Aug.	1,577,767	0.5	0.3	0.4	0.8	0.9	70.8	179.6
Sep.	1,598,278	1.3	1.6	0.0	0.9	0.6	58.7	151.5
Oct.	1,630,244	2.0	2.7	0.0	1.2	0.4	44.5	126.1
Nov.	1,643,286	0.8	0.9	0.0	0.6	0.4	29.2	103.0
Dec.	1,687,655	2.7	3.3	0.3	0.9	0.3	21.5	83.7
1998 Jan.	1,748,410	3.6	...	...	...	...	17.7	68.8
Feb.	1,793,869	2.6	...	...	...	...	17.7	57.4
Mar.	1,831,540	2.1	...	...	...	...	18.3	48.3

Source: Data provided by Turkmenstatprognos.

1/ Due to rounding, components do not add up to 100.

2/ For the overall index.

3/ The increase in the average index for the last twelve months over the average index of the previous twelve months.

Table 7. Turkmenistan: Nominal and Real Wages and Pensions, 1994-98  
(Period average)

	Nominal wages and pensions			Average wage (In U.S. dollar)	Real average wage	
	Average wage 1/ (In manat per month)	Minimum wage 2/ (In manat per month)	Pension		Index (Jan. 1994 = 100)	Percent change over previous period
1994 Jan.	518	150	...	12.9	100.0	-10.3
Feb.	542	150	...	9.8	88.1	-11.9
Mar.	577	150	...	8.2	69.5	-21.1
Apr.	556	150	...	6.5	50.6	-27.1
May	614	150	...	6.8	48.6	-3.9
Jun.	639	250	...	6.7	44.0	-9.6
Jul.	1,116	250	...	11.2	64.1	45.6
Aug.	1,109	250	...	10.1	45.8	-28.4
Sep.	1,167	250	...	8.3	38.4	-16.3
Oct.	1,288	250	...	7.6	33.7	-12.2
Nov.	1,297	250	...	6.2	29.4	-12.9
Dec.	1,552	250	...	7.8	26.3	-10.3
1995 Jan.	3,001	1,000	1,665	15.8	34.7	31.7
Feb.	3,500	1,000	1,665	19.4	33.4	-3.7
Mar.	3,995	1,000	1,665	16.6	32.3	-3.4
Apr.	3,968	1,000	1,665	13.2	28.7	-11.1
May	4,094	1,000	1,665	12.0	27.7	-3.3
Jun.	4,421	1,000	1,665	11.9	30.1	8.4
Jul.	8,024	1,000	3,728	20.1	51.6	71.6
Aug.	8,581	1,000	3,728	17.2	44.7	-13.4
Sep.	9,249	1,000	3,728	15.4	36.9	-17.4
Oct.	9,965	1,000	3,728	10.0	29.9	-18.9
Nov.	10,108	1,000	3,728	6.7	19.6	-34.4
Dec.	12,238	1,000	3,728	5.1	15.3	-22.2
1996 Jan.	19,308	6,000	...	8.9	14.8	-2.9
Feb.	21,992	6,000	...	9.0	13.5	-8.9
Mar.	26,219	6,000	14,187	9.0	13.5	0.1
Apr.	29,162	8,000	...	9.0	13.1	-3.1
May	45,814	8,000	...	11.5	19.0	44.8
Jun.	52,060	8,000	21,209	12.0	20.4	7.8
Jul.	53,368	9,000	...	12.0	20.2	-1.1
Aug.	54,278	9,000	...	11.9	18.6	-7.8
Sep.	62,060	9,000	28,232	12.6	19.6	4.9
Oct.	109,634	28,000	60,000	22.3	30.9	57.7
Nov.	102,721	28,000	60,000	20.5	25.6	-16.9
Dec.	118,857	28,000	60,000	23.5	27.2	6.0
1997 Jan.	127,263	28,000	60,000	23.9	27.2	0.2
Feb.	128,824	28,000	60,000	23.7	26.8	-1.3
Mar.	165,627	28,000	60,000	30.8	34.0	26.5
Apr.	183,422	28,000	60,000	34.0	36.7	8.0
May	183,191	28,000	60,000	34.9	35.7	-2.7
Jun.	198,351	28,000	60,000	38.0	39.3	9.9
Jul.	189,103	28,000	60,000	36.0	38.4	-2.2
Aug.	189,411	28,000	60,000	36.4	38.3	-0.3
Sep.	196,701	28,000	60,000	38.0	39.1	2.1
Oct.	209,030	28,000	60,000	40.5	40.7	4.2
Nov.	202,901	28,000	60,000	38.6	39.2	-3.7
Dec.	211,709	28,000	60,000	41.6	39.8	1.6
1998 Jan.	196,939	28,000	60,000	37.5	36.1	-9.2
Feb.	193,000	28,000	60,000	37.1	34.7	-3.9
Annual average						
1994	914	208	...	8.5	53.2	...
1995	6,762	1,000	2,697	13.6	32.1	-39.7
1996	57,956	12,750	30,907	13.5	19.7	-38.6
1997	182,128	28,000	60,000	34.7	36.3	84.0

Sources: Data provided by Turkmenstatprognos.

1/ Average wage of the public sector (budgetary and off-budget ministries and organizations, and state enterprises).  
2/ From 1997 onwards, the minimum wage denotes the wage set by the government for the lowest skilled workers.



Table 8. Turkmenistan: Employment by Sector, 1993-97  
(End-of-period)

	1993	1994	1995	1996	1997 Prov.
(In thousands of persons)					
Total employment	1,641.5	1,664.8	1,672.8	1,680.0	1,675.9
Industry	170.6	165.9	165.8	165.0	188.1
Agriculture	717.4	727.2	735.8	744.0	780.3
Forestry	2.2	2.5	2.6	2.0	2.9
Transport and communications	82.4	83.7	82.1	83.0	77.9
Construction	169.7	168.9	156.5	155.0	122.8
Wholesale and retail trade and catering	102.0	106.6	106.7	107.0	101.2
Information-computing services	1.7	1.6	1.9	1.0	1.0
Services and housing	40.3	46.1	45.7	46.0	46.8
Health	96.5	96.1	97.2	98.0	100.4
Education	183.8	184.9	193.4	192.0	185.9
Science and research institutes	18.9	10.6	10.5	10.0	6.9
Finance and insurance	6.6	7.1	8.5	8.0	9.6
Government 1/	22.8	21.9	23.6	25.0	25.3
Other	26.6	41.7	42.4	44.0	26.8
(In percent of total employment)					
Total employment	100.0	100.0	100.0	100.0	100.0
Industry	10.4	10.0	9.9	9.8	11.2
Agriculture	43.7	43.7	44.0	44.3	46.6
Forestry	0.1	0.2	0.2	0.1	0.2
Transport and communications	3.4	3.4	3.3	3.3	4.6
Construction	10.3	10.1	9.4	9.2	7.3
Wholesale and retail trade and catering	6.2	6.4	6.4	6.4	6.0
Information-computing services	0.1	0.1	0.1	0.1	0.1
Services and housing	2.5	2.8	2.7	2.7	2.8
Health	5.9	5.8	5.8	5.8	6.0
Education	11.2	11.1	11.6	11.4	11.1
Science and research institutes	1.2	0.6	0.6	0.6	0.4
Finance and insurance	0.4	0.4	0.5	0.5	0.6
Government 1/	1.4	1.3	1.4	1.5	1.5
Other	1.6	2.5	2.5	2.6	1.6

Source: Data provided by Turkmenstatprognos.

5/ Employment in the administration of local and central government agencies; excludes services such as education and health.

Table 9. Turkmenistan: Population and Employment, 1993-97

	1993	1994	1995	1996	1997 Prov.
(In thousands of persons; end-of-period)					
Population	3,947	4,045	4,478	4,655	...
Of working age 1/	1,978	2,027	2,248	2,337	...
Male	1,005	...	1,138	1,182	...
Female	973	...	1,110	1,154	...
Total employed	1,642	1,665	1,673	1,680	1,676
Male	964	981	1,004	963	...
Female	678	674	669	717	...
Of which					
In state enterprises 2/	883	883	798	778	782
Farmers associations	...	...	...	468	432
Non-state sector 3/	...	...	...	422	462
(Percentage change over previous period)					
Working age population	2.9	2.5	10.9	3.9	...
Total employment	4.4	1.4	0.5	0.4	-0.2
Employment in state enterprises	4.5	0.0	-9.6	-2.5	0.5
Employment in farmers associations 4/	...	...	...	...	-7.7
Employment in the non-state sector 4/	...	...	...	...	9.5

Source: Data provided by the Turkmen authorities.

1/ Defined as men between the ages of 16 and 59 and women between the ages of 16 and 54.

2/ Including consumer cooperatives.

3/ Includes self-employed in agriculture and mixed-ownership enterprises.

4/ Reflects effects agricultural sector reform.

Table 10. Turkmenistan: Wages by Sector, 1994-97  
(Period average)

	1994	1995	1996	1997				Year
				QI	QII	QIII	QIV	
(In manats per month)								
Average wage 1/	914	6,762	57,956	140,571	188,321	191,738	207,880	182,128
<i>Of which</i>								
Industry	1,224	9,625	93,270	175,033	205,375	230,549	254,853	218,788
Agriculture 2/	1,510	5,503	41,339	93,234	133,757	155,330	140,974	124,548
Fisheries	765	5,486	45,560	95,657	132,723	136,658	168,060	123,278
Forestry	739	4,607	38,479	317,584	118,079	123,040	141,564	125,948
Transportation	1,253	10,019	90,986	171,563	213,855	234,374	254,749	216,825
Communication	1,385	10,161	83,837	154,829	182,576	199,426	240,227	201,076
Construction	1,346	10,673	103,867	200,232	251,206	266,076	280,691	257,447
Geological prospecting and hydrometeorology	1,212	11,586	114,733	235,658	284,120	321,314	317,779	301,409
Trade and catering	777	5,945	48,336	97,907	121,398	117,317	137,678	120,424
Information-computing services	785	7,268	54,041	118,925	178,161	188,494	188,237	169,171
Real estate operations	...	25,568	..	235,658	...	...	...	...
Distribution	1,482	17,552	113,067	123,064	...	...	...	...
Services and housing	812	7,306	63,990	112,500	...	...	...	...
Health	704	4,788	44,882	151,655	199,129	211,494	172,739	156,667
Education	729	4,927	42,805	101,976	165,792	142,814	157,006	143,612
Culture and arts	612	4,234	39,400	97,704	143,534	154,696	150,216	129,749
Science and research 3/	1,022	9,043	57,639	117,541	181,261	185,490	235,109	189,980
State insurance	1,125	7,576	60,219	115,975	121,343	146,756	208,422	183,491
Administrative government 4/	880	6,601	59,680	136,727	203,671	205,299	213,935	191,746
Others 5/	849	5,888	50,174	...	...	...	...	...
(Ratios to the average wage)								
Industry	1.2	1.4	1.6	1.2	1.1	1.2	1.2	1.2
Agriculture 2/	1.4	0.8	0.7	0.7	0.7	0.8	0.7	0.7
Fisheries	0.8	0.8	0.8	0.7	0.7	0.7	0.8	0.7
Forestry	0.8	0.7	0.7	2.3	0.6	0.6	0.7	0.7
Transportation	1.4	1.5	1.6	1.2	1.1	1.2	1.2	1.2
Communication	1.5	1.5	1.4	1.1	1.0	1.0	1.2	1.1
Construction	1.5	1.6	1.8	1.4	1.3	1.4	1.4	1.4
Geological prospecting and hydrometeorology	1.3	1.7	2.0	1.7	1.5	1.7	1.5	1.7
Trade and catering	0.9	0.9	0.8	0.7	0.6	0.6	0.7	0.7
Information-computing services	0.9	1.1	0.9	0.8	0.9	1.0	0.9	0.9
Real estate operations	...	3.8	...	1.7	...	...	...	...
Distribution	1.6	2.6	2.0	0.9	...	...	...	...
Services and housing	0.9	1.1	1.1	0.8	...	...	...	...
Health	0.8	0.7	0.8	1.1	1.1	1.1	0.8	0.9
Education	0.8	0.7	0.7	0.7	0.9	0.7	0.8	0.8
Culture and arts	0.7	0.6	0.7	0.7	0.8	0.8	0.7	0.7
Science and research 3/	1.1	1.3	1.0	0.8	1.0	1.0	1.1	1.0
State insurance	1.2	1.1	1.0	0.8	0.6	0.8	1.0	1.0
Administrative government 4/	1.0	1.0	1.0	1.0	1.1	1.1	1.0	1.1
Other 5/	0.9	0.9	...	...	...	...	...	...

Source: Data provided by Turkmenstatprognos.

1/ Includes bonuses and premia.

2/ Prior to 1996, excludes collective farmers and those employed full-time on private plots.

3/ Research and development institutes.

4/ Local and central government agencies.

5/ Includes miscellaneous activities such as hunting, trapping, and printing.

Table 11. Turkmenistan: Minimum Consumption Basket, 1994-97 1/  
(In manat; period average)

	1994	1995	1996	1997				Year
				QI	QII	QIII	QIV	
Minimum consumption basket	1,418	19,780	128,182	210,879	228,305	237,803	248,301	233,479
Category								
Food	304	7,268	48,786	88,633	98,908	102,879	107,042	99,786
Clothes and footwear	381	4,957	26,805	38,979	40,308	40,714	40,954	40,285
Medical goods	169	2,254	13,855	20,222	21,965	22,020	22,127	21,627
Furniture	415	3,298	20,649	30,682	32,950	32,964	32,993	32,451
Utilities	3	28	153	251	293	312	312	294
Entertainment	10	96	975	1,694	1,595	1,595	1,954	1,691
Personal services	67	1,057	6,327	10,672	12,391	12,941	13,470	12,433
Transport	7	457	8,133	16,109	16,109	15,879	20,887	18,632
Communications	1	66	1,131	1,666	1,667	6,378	6,378	4,154
State charges	1	...	415	665	665	665	665	665
Tobacco	19	32	3	...	...	...	...	...
Garden tools	14	114	625	864	913	913	913	902
Cattle and poultry	3	80	41	...	...	...	...	...
Other	10	74	283	542	542	542	605	559
Memorandum items:								
Average wage	914	6,762	57,956	140,571	188,321	191,738	207,880	182,128
Minimum wage	208	1,000	12,750	28,000	28,000	28,000	28,000	28,000
Pension	...	2,697	30,907	60,000	60,000	60,000	60,000	60,000

Source: Data provided by the Turkmen authorities.

1/ Minimum per capita income needed for purchases of essential items, as computed by the Turkmen authorities.

Table 12. Turkmenistan: General Government Operations, 1994-98  
(In millions of manat)

	1994	1995	1996	1997				Annual	1998 Approved Budget 1/
				QI	QII	QIII	QIV		
Revenue 2/	14,723	133,721	1,284,135	494,705	651,728	653,390	1,017,770	2,817,593	3,655,898
Profit tax	2,907	31,271	292,829	98,193	83,919	186,755	210,780	579,647	501,994
Value-added tax	4,301	38,604	430,038	144,430	153,318	132,643	367,542	797,933	1,037,798
Natural resources tax	1,100	13,825	143,567	66,839	39,784	32,055	92,548	231,226	233,155
Personal income tax	842	4,598	30,527	16,215	24,923	32,548	34,610	108,296	149,260
Excise tax	450	9,474	42,017	36,957	19,568	27,434	8,414	92,373	380,839
Other taxes and revenues	1,678	16,062	116,719	26,213	82,509	61,827	56,740	227,289	102,422
Pension and Social Security Fund	3,445	19,887	168,658	96,652	128,398	128,999	116,916	470,965	758,430
Medical Insurance Fund	...	...	11,111	5,462	7,066	9,708	10,465	32,701	30,000
Road Fund	...	...	48,669	3,744	4,774	5,704	16,345	30,567	23,000
Repayments on rescheduled gas debt	...	...	...	...	107,469	35,717	103,410	246,596	439,000
Expenditure 2/	16,738	150,593	1,261,849	406,236	673,863	676,776	1,057,105	2,813,980	3,816,986
National economy expenditure	6,784	52,896	443,010	121,639	171,814	180,713	441,795	915,961	847,990
Capital investment	1,596	22,044	180,122	22,796	77,261	54,880	168,063	323,000	393,000
Price subsidies	1,358	11,343	62,471	14,100	9,649	4,492	39,517	67,758	...
Operational costs	999	8,214	146,252	52,896	59,245	76,144	158,225	346,510	290,000
Other	2,831	11,295	54,165	31,847	25,659	45,197	75,990	178,693	164,990
Socio-cultural expenditures	5,173	36,794	359,707	117,655	263,980	267,374	326,719	975,728	1,516,486
Education	3,110	21,147	164,756	61,234	121,443	120,150	132,466	435,293	654,311
Culture	281	1,659	10,840	5,621	15,454	36,779	12,733	70,587	91,389
Health	1,560	11,963	175,300	48,179	118,008	102,700	174,195	443,082	570,561
Social welfare	144	1,192	4,338	1,014	3,113	2,363	2,620	9,110	200,225
Other	78	833	4,478	1,607	5,962	5,382	4,705	17,656	...
Defense	1,528	15,053	158,271	59,799	111,130	105,929	163,300	440,158	612,699
Interest on domestic debt	218	4,414	2,255	347	419	350	727	1,843	...
Interest on foreign debt	142	1,693	7,913	3,496	9,848	7,868	4,686	25,898	38,310
Emergency Fund	...	...	1,544	55	100	...	7,550	7,705	25,000
Road Fund	...	...	40,795	3,921	15,339	13,627	13,310	46,197	...
Other	501	6,055	39,433	2,462	4,332	2,821	3,044	12,659	...
Net lending	...	15,000	...	...	...	...	...	...	...
Pension and Social Security Fund	2,392	18,688	211,796	96,862	96,901	98,094	95,974	387,831	776,501
Budget balance cash basis (- deficit)	-2,015	-16,872	22,286	88,469	-22,135	-23,386	-39,335	3,613	-161,088
Financing	2,015	16,872	-22,286	-88,469	22,135	23,386	39,335	-3,613	161,088
Domestic	1,933	17,370	-16,558	-96,317	45,081	32,723	73,498	54,983	230,799
Banking system	1,933	17,370	-16,558	-96,317	45,081	32,723	71,789	53,274	212,000
Net sales of treasury bills to nonbanks	...	...	...	...	...	...	1,709	1,709	18,799
Foreign (net)	82	-498	-25,728	7,848	-22,946	-9,337	-34,163	-58,596	-69,711
Foreign Exchange Reserve Fund	...	-5,336	261,200	...	...	...	...	...	...
Arrears to the European Union	...	5,336	-241,200	...	...	...	...	...	...
Memorandum items:	...	...	...	...	...	...	...	...	2,727,067
Oil and Gas Development Fund	...	...	...	...	...	...	...	...	1,132,900
Transportation and Communication Development Fund	...	...	...	...	...	...	...	...	229,800
Agricultural Development Fund	...	...	...	...	...	...	...	...	602,000
Government Investment Fund	...	...	...	...	...	...	...	...	371,185
State enterprise resources	...	...	...	...	...	...	...	...	391,182

Source: Data provided by the Turkmen authorities.

1/ Budget approved by parliament in December 1997, in constant fourth quarter 1997 prices and exchange rate. Principal repayments on foreign debt are taken out of expenditures and included in financing.  
2/ Excludes the transactions of the special state funds and capital investments of public enterprises, that were presented in the budget (as of 1997) on a deficit neutral basis.

Table 13. Turkmenistan: Gas and Non-Gas Tax Revenue, 1996-97  
(In millions of manat)

	1996	1997	Percentage change
Total revenue	1,284,135	2,817,593	119
In percent of GDP	17	29	73
Total tax revenue from gas	359,928	402,445	12
In percent of GDP	5	4	-12
Profit taxes	85,581	65,643	-23
VAT	134,957	168,091	25
NRT	139,390	168,711	21
Personal income tax	...	...	...
Excises	...	...	...
Property tax	...	...	...
Other taxes	...	...	...
Non-tax revenue	...	...	...
Non-gas revenue	924,207	2,415,148	161
In percent of GDP	12	25	106
Profit taxes	207,248	514,004	148
VAT	295,081	629,842	113
NRT	4,177	62,515	1,397
Personal income tax	30,527	108,884	257
Excises	42,017	92,373	120
Property tax	11,439	34,637	203
Other taxes	321,401	699,900	118
Proceeds from restructured gas debt	...	246,596	...
Other non-tax revenue	12,317	26,397	114

Source: Data provided by the Turkmen authorities.

Table 14. Turkmenistan: General Government Operations, 1994-97  
(In percent of GDP)

	1994	1995	1996	1997
Revenue 1/	10.4	12.5	16.9	29.2
Profit tax	2.1	2.9	3.8	6.0
Value-added tax	3.1	3.6	5.7	8.3
Natural resources tax	0.8	1.3	1.9	2.4
Personal income tax	0.6	0.4	0.4	1.1
Excise tax	0.3	0.9	0.6	1.0
Other taxes and revenues	1.2	1.5	1.5	2.4
Pension and Social Security Fund	2.4	1.9	2.2	4.9
Medical Insurance Fund	0.0	0.0	0.1	0.3
Road Fund	0.0	0.0	0.6	0.3
Repayments on rescheduled gas debt	0.0	0.0	0.0	2.6
Expenditure 1/	11.9	14.0	16.6	29.2
National economy expenditure	4.8	4.9	5.8	9.5
Capital investment	1.1	2.1	2.4	3.3
Price subsidies	1.0	1.1	0.8	0.7
Operational costs	0.7	0.8	1.9	3.6
Other	2.0	1.1	0.7	1.9
Socio-cultural expenditures	3.7	3.4	4.7	10.1
Education	2.2	2.0	2.2	4.5
Culture	0.2	0.2	0.1	0.7
Health	1.1	1.1	2.3	4.6
Social welfare	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.2
Defense	1.1	1.4	2.1	4.6
Interest on domestic debt	0.2	0.4	0.0	0.0
Interest on foreign debt	0.1	0.2	0.1	0.3
Emergency Fund	...	...	0.0	0.1
Road Fund	...	...	0.5	0.5
Other	0.4	0.6	0.5	0.1
Net lending	0.0	1.4	0.0	0.0
Pension and Social Security Fund	1.7	1.7	2.8	4.0
Budget balance cash basis (- deficit)	-1.4	-1.6	0.3	0.0
Financing	1.4	1.6	-0.3	0.0
Domestic	1.4	1.6	-0.2	0.6
Banking system	1.4	1.6	-0.2	0.6
Net sales of treasury bills to nonbanks	0.0	0.0	0.0	0.0
Foreign (net)	0.1	0.0	-0.3	-0.6
Foreign Exchange Reserve Fund	...	-0.5	3.4	...
Arrears to the European Union	...	0.5	-3.2	...

Source: Data provided by the Turkmen authorities.

1/ Excludes the transactions of special state funds and capital investments of public enterprises, that were presented in the budget (as of 1997) on a deficit neutral basis.

Table 15. Turkmenistan: General Government Operations in Percent of Revenue and Expenditure, 1994-98

	1994	1995	1996	1997				Annual	1998 Approved Budget 1/
				QI	QII	QIII	QIV		
(In percent of total revenue)									
Revenue 2/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Profit tax	19.7	23.4	22.8	19.8	12.9	28.6	20.7	20.6	13.7
Value-added tax	29.2	28.9	33.5	29.2	23.5	20.3	36.1	28.3	28.4
Natural resources tax	7.5	10.3	11.2	13.5	6.1	4.9	9.1	8.2	6.4
Personal income tax	5.7	3.4	2.4	3.3	3.8	5.0	3.4	3.8	4.1
Excise tax	3.1	7.1	3.3	7.5	3.0	4.2	0.8	3.3	10.4
Other taxes and revenues	11.4	12.0	9.1	5.3	12.7	9.5	5.6	8.1	2.8
Pension and Social Security Fund	23.4	14.9	13.1	19.5	19.7	19.7	11.5	16.7	20.7
Medical Insurance Fund	0.0	0.0	0.9	1.1	1.1	1.5	1.0	1.2	0.8
Road Fund	0.0	0.0	3.8	0.8	0.7	0.9	1.6	1.1	0.6
Repayments on rescheduled gas debt 4/	0.0	0.0	0.0	0.0	16.5	5.5	10.2	8.8	12.0
(In percent of total expenditure)									
Expenditure 2/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National economy expenditure	40.5	35.1	35.1	29.9	25.5	26.7	41.8	32.6	22.2
Capital investment	9.5	14.6	14.3	5.6	11.5	8.1	15.9	11.5	10.3
Price subsidies	8.1	7.5	5.0	3.5	1.4	0.7	3.7	2.4	0.0
Operational costs	6.0	5.5	11.6	13.0	8.8	11.3	15.0	12.3	7.6
Other	16.9	7.5	4.3	7.8	3.8	6.7	7.2	6.4	4.3
Socio-cultural expenditures	30.9	24.4	28.5	29.0	39.2	39.5	30.9	34.7	39.7
Education	18.6	14.0	13.1	15.1	18.0	17.8	12.5	15.5	17.1
Culture	1.7	1.1	0.9	1.4	2.3	5.4	1.2	2.5	2.4
Health	9.3	7.9	13.9	11.9	17.5	15.2	16.5	15.7	14.9
Social welfare	0.9	0.8	0.3	0.2	0.5	0.3	0.2	0.3	5.2
Other	0.5	0.6	0.4	0.4	0.9	0.8	0.4	0.6	0.0
Defense	9.1	10.0	12.5	14.7	16.5	15.7	15.4	15.6	16.1
Interest on domestic debt	1.3	2.9	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Interest on foreign debt	0.8	1.1	0.6	0.9	1.5	1.2	0.4	0.9	1.0
Emergency Fund	0.0	0.0	0.1	0.0	0.0	0.0	0.7	0.3	0.7
Road Fund	0.0	0.0	3.2	1.0	2.3	2.0	1.3	1.6	0.0
Other	3.0	4.0	3.1	0.6	0.6	0.4	0.3	0.4	0.0
Net lending	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension and Social Security Fund	14.3	12.4	16.8	23.8	14.4	14.5	9.1	13.8	20.3
(In percent of total revenue)									
Budget balance cash basis (- deficit)	-13.7	-12.6	1.7	17.9	-3.4	-3.6	-3.9	0.1	-4.4
Financing	13.7	12.6	-1.7	-17.9	3.4	3.6	3.9	-0.1	4.4
Domestic	13.1	13.0	-1.3	-19.5	6.9	5.0	7.2	2.0	6.3
Banking system	13.1	13.0	-1.3	-19.5	6.9	5.0	7.1	1.9	5.8
Net sales of treasury bills to nonbanks	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.5
Foreign (net)	0.6	-0.4	-2.0	1.6	-3.5	-1.4	-3.4	-2.1	-1.9
Foreign Exchange Reserve Fund	0.0	-4.0	20.3	...	...	...	...	...	...
Arrears to the European Union	0.0	4.0	-18.8	...	...	...	...	...	...
Memorandum items:									
Total funds	...	...	...	...	...	...	...	...	74.6
Oil and Gas Development Fund	...	...	...	...	...	...	...	...	31.0
Transportation and Communication Development Fund	...	...	...	...	...	...	...	...	6.3
Agricultural Development Fund	...	...	...	...	...	...	...	...	16.5
Government Investment Fund	...	...	...	...	...	...	...	...	10.2
State enterprise resources	...	...	...	...	...	...	...	...	10.7

Source: Data provided by the Turkmen authorities.

1/ Budget approved by parliament, in constant fourth quarter 1997 prices. Principal repayments on foreign debt are taken out as an expenditure item and included in financing.

2/ Excludes the transactions of state funds and capital investments of public enterprises, that were presented in the budget (as of 1997) on a deficit neutral basis.



Table 16. Turkmenistan: Monetary Survey, 1994-98  
(In billions of manat; end-of-period)

	1994	1995	1996	1997				1998	
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Net foreign assets	51	171	3,040	2,980	2,212	1,318	879	533	443
Central Bank of Turkmenistan	69	233	4,282	4,627	4,482	3,561	3,275	3,206	3,143
Commercial Banks	-18	-62	-1,242	-1,648	-2,270	-2,244	-2,396	-2,673	-2,700
Net domestic assets	-29	-49	-2,413	-2,256	-1,349	-380	264	502	472
Domestic credit 1/	41	207	3,086	3,437	3,699	5,081	5,813	6,105	6,195
Net credit to Government	-53	-180	-4,566	-4,744	-4,682	-4,878	-4,820	-4,895	-4,865
Budgetary support	3	20	3	-93	-48	-15	56	26	59
Foreign Exchange Reserve Fund (net)	-56	-200	-4,569	-4,651	-4,634	-4,862	-4,876	-4,921	-4,916
Claims on the economy	39	188	3,083	3,530	3,747	5,096	5,757	6,079	6,136
In manat	9	91	441	507	628	799	862	881	901
State enterprises	6	71	398	460	587	738	704	718	732
Private sector	4	21	43	47	41	61	157	163	169
In foreign currency	29	96	2,642	3,023	3,119	4,297	4,895	5,198	5,235
Other items (net)	-15	-56	-929	-1,042	-414	-599	-673	-683	-807
Currency in circulation	9	57	270	297	337	364	408	490	428
Demand deposits	8	49	125	192	263	279	401	180	142
Time and savings deposits	1	11	34	57	46	50	58	66	68
Broad money (M2)	18	116	429	547	646	693	866	736	638
Foreign currency deposits	5	6	198	177	218	244	276	299	278
Broad money M3	22	122	627	724	863	938	1,142	1,035	916

Source: Data provided by the Central Bank of Turkmenistan.

1/ Budgetary support and credit to the economy.

Table 17. Turkmenistan: Balance Sheet of the Monetary Authorities, 1994-98  
(In billions of manat, end-of-period)

	1994	1995	1996	1997				1998	
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Net foreign assets	69	233	4,282	4,627	4,482	3,561	3,275	3,206	3,143
Foreign assets	70	234	4,765	5,115	4,980	5,199	5,350	5,281	5,218
Foreign liabilities 1/	0	1	483	488	498	1,638	2,076	2,075	2,075
Net domestic assets	-53	-151	-3,904	-4,162	-3,995	-3,011	-2,581	-2,586	-2,588
Net credit to Government	-53	-178	-4,562	-4,732	-4,671	-4,873	-4,824	-4,890	-4,854
Budgetary support	3	22	8	-81	-37	-10	52	31	62
Central Government balances 2/	-1	2	-22	-109	-64	-36	27	6	37
Long-term Government debt	4	21	30	28	27	26	25	25	25
Foreign exchange reserve fund (net)	-56	-200	-4,569	-4,651	-4,634	-4,862	-4,876	-4,921	-4,916
Deposits 3/	-66	-229	-4,653	-4,745	-4,730	-4,958	-4,972	-5,016	-5,011
Credit 4/	11	29	84	94	96	96	96	96	96
Credit to the economy	0	24	567	562	557	1,693	2,118	2,117	2,124
In manat	...	20	19	25	19	19	19	19	26
State enterprises	...	0	0	2	0	0	0	0	0
Private sector	0	0	0	2	0	0	0	0	0
In foreign currency	...	3	549	536	538	1,674	2,099	2,099	2,098
Credit to banks	1	16	278	309	379	527	565	632	662
Refinance	1	16	276	309	321	527	565	573	570
Overdraft	...	...	2	...	58	...	...	59	92
Other items (net)	-2	-13	-187	-301	-260	-358	-439	-446	-520
Reserve money	17	81	378	465	486	551	694	621	555
Currency issued	9	58	281	325	352	377	423	525	449
Outside banks	9	57	270	297	337	364	408	490	428
Cash with banks	0	2	11	28	15	13	15	35	21
Bank deposits	4	23	83	138	54	105	122	64	63
Required reserves	1	9	23	25	28	30	31	34	27
In manat	1	9	13	17	20	23	22	25	18
In foreign exchange	...	...	10	8	8	7	9	9	9
Excess reserves	3	14	59	113	26	74	92	30	36
In manat	3	13	40	92	13	48	74	13	21
In foreign exchange	0	1	19	21	14	26	17	17	15
Other deposits	3	0	14	3	80	69	149	31	42
In manat	0	0	2	2	46	44	131	8	13
In foreign exchange	3	0	12	1	34	25	17	23	29

Source: Data provided by the Central Bank of Turkmenistan.

1/ Foreign borrowing by the cotton sector was included in the CBT balance sheet as of September 1997.

2/ A positive magnitude reflects an overdraft.

3/ Counterpart of foreign exchange reserves controlled by the President.

4/ Resulting from double-crediting of manat counterpart of export surrender requirements to the Foreign Exchange Reserve Fund.

Table 18. Turkmenistan: Balance Sheet of the Commercial Banks, 1994-98  
(In billions of manat, end-of-period)

	1994	1995	1996	1997				1998	
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.
Net foreign assets	-18	-62	-1,242	-1,648	-2,270	-2,244	-2,396	-2,673	2,700
Foreign assets 1/	11	85	850	817	289	405	439	403	415
Foreign liabilities 2/	29	147	2,092	2,464	2,558	2,648	2,835	3,076	3,114
Net domestic assets	28	127	1,585	2,072	2,717	2,748	2,982	3,186	3,145
Budgetary support	0	-3	-5	-12	-11	-5	4	-5	-2
Treasury bills	0	1	1	2	3	6	9	8	10
Other claims	1	4	10	6	11	20	30	2	0
Government deposits (-)	-1	-6	-12	-11	-15	-24	-32	-10	-8
Local government balances (net)	0	-2	-3	-8	-10	-7	-2	-5	-5
Long-term loans	1	0	0	0	0	0	0	0	0
Deposits (-)	-1	-2	-4	-8	-10	-7	-2	-5	-5
Claims on the economy	39	164	2,515	2,968	3,190	3,403	3,639	3,962	4,012
In manat	9	71	423	481	609	780	843	862	875
State enterprises	6	50	379	436	568	720	686	700	706
Private sector	4	21	43	45	41	61	157	163	169
In foreign currency	29	93	2,093	2,487	2,581	2,623	2,796	3,100	3,137
Other items (net)	-10	-35	-926	-884	-463	-650	-662	-771	-865
Assets (net)	-4	1	-395	-373	169	215	346	299	721
Reserves	3	13	32	110	70	65	96	56	27
Cash	0	2	11	28	15	13	15	35	21
Required reserves with the Central Bank	1	10	24	25	28	29	30	34	27
In manat	1	10	14	17	20	23	22	25	18
In foreign currency	0	0	10	8	8	6	8	9	9
Interbank deposits 3/	1	2	-3	57	27	22	52	-12	-22
Other assets (net)	-6	-12	-427	-483	99	151	250	243	695
Liabilities	-6	-35	-531	-512	-632	-865	-1,008	-1,070	-1,586
Credit from the Central Bank	-1	-14	-281	-309	-378	-528	-560	-628	-656
Capital accounts	-4	-21	-250	-203	-254	-337	-448	-441	-563
Total deposits	10	65	343	424	447	505	586	513	445
In manat	9	59	157	248	263	285	327	237	197
Demand deposits	8	48	123	190	217	235	269	171	129
State entities and enterprises	8	48	121	187	212	230	264	166	123
Private sector	0	1	3	3	5	6	5	5	5
Time- and savings deposits	1	11	34	57	46	50	58	66	68
In foreign currency	1	6	186	176	184	220	259	276	249

Source: Data provided by the Central Bank of Turkmenistan.

1/ In June 1997, a claim of approximately manat 540 billion on the banking system of the former Soviet-Union was written off.

2/ Represents mainly foreign loans received for onlending as foreign currency credit to state enterprises.

3/ Including correspondent accounts with the Central Bank of Turkmenistan.

Table 19. Turkmenistan: Banking System Credit to the Economy by Currency, Maturity, and Sector, 1993-97  
(In billions of manat, end-of-period)

	1993	1994	1995	1996	1997			
					Mar.	Jun.	Sep.	Dec.
Total credit	3,309	38,525	187,681	3,082,734	3,530,209	3,747,380	5,096,093	5,757,029
Manat denominated credit	3,027	9,490	91,224	441,149	507,414	628,039	798,830	861,679
Short-term loans	2,815	6,934	74,140	380,422	451,429	564,845	719,076	784,144
Industry	628	585	13,515	222,486	245,568	330,474	275,759	279,284
Agriculture	630	1,167	1,816	25,258	28,041	102,805	243,680	320,741
Transportation and communication	100	70	1,444	1,138	2,888	2,265	1,560	1,693
Construction	171	355	3,096	10,036	16,001	11,212	12,969	10,074
Equipment purchase	255	423	2,998	15,767	11,896	10,368	15,444	23,283
Trade	521	2,282	14,089	64,916	72,251	73,947	91,713	91,425
Others	511	2,052	37,182	40,821	74,784	33,774	77,951	57,644
Long-term loans	106	221	15,337	28,535	27,778	32,650	34,317	33,651
Unspecified	106	2,335	1,748	32,192	28,207	30,544	45,437	43,884
Foreign currency denominated credit	282	29,034	96,456	2,641,585	3,022,795	3,119,341	4,297,263	4,895,350

Source: Data provided by the Central Bank of Turkmenistan.

Table 20. Turkmenistan: Central Bank Refinance and Treasury Bill Rates, 1994-98

	CBT refinance rate			Treasury bill rate		
	Nominal (annual)	Nominal (monthly)	Real 1/ (monthly)	Nominal (annual)	Nominal (monthly)	Real 1/ (monthly)
Dec. 1994	50.0	4.2	-29.2	150.0	...	...
Jan. 1995	50.0	4.2	-42.6	150.0	...	...
Feb.	50.0	4.2	-16.9	150.0	12.5	-8.6
Mar.	50.0	4.2	-14.0	150.0	12.5	-5.7
Apr.	15.0	1.3	-10.5	150.0	12.5	0.8
May.	15.0	1.3	-5.4	150.0	12.5	5.8
Jun.	15.0	1.3	1.6	150.0	12.5	12.9
Jul.	15.0	1.3	-4.6	150.0	12.5	6.7
Aug.	15.0	1.3	-22.3	60.0	5.0	-18.5
Sep.	15.0	1.3	-29.3	60.0	5.0	-25.5
Oct.	15.0	1.3	-31.7	60.0	5.0	-27.9
Nov.	15.0	1.3	-53.5	60.0	5.0	-49.7
Dec.	15.0	1.3	-54.5	60.0	5.0	-50.7
Jan. 1996	50.0	4.2	-58.3	60.0	5.0	-57.5
Feb.	86.0	7.2	-17.8	60.0	5.0	-20.0
Mar.	86.0	7.2	-11.9	90.0	7.5	-11.6
Apr.	86.0	7.2	-7.6	90.0	7.5	-7.3
May.	108.0	9.0	0.5	90.0	7.5	-1.0
Jun.	120.0	10.0	4.6	90.0	7.5	2.1
Jul.	120.0	10.0	6.4	90.0	7.5	3.9
Aug.	120.0	10.0	-0.3	109.7	9.1	-1.2
Sep.	120.0	10.0	1.0	120.0	10.0	1.0
Oct.	120.0	10.0	-2.0	120.0	10.0	-2.0
Nov.	105.0	8.8	-4.1	120.0	10.0	-2.8
Dec.	105.0	8.8	-0.5	120.0	10.0	0.8
Jan. 1997	85.0	7.1	0.2	105.0	8.8	1.9
Feb.	85.0	7.1	4.5	85.0	7.1	4.5
Mar.	68.0	5.7	4.1	85.0	7.1	5.5
Apr.	47.0	3.9	1.4	85.0	7.1	4.6
May.	47.0	3.9	1.3	50.0	4.2	1.6
Jun.	47.0	3.9	5.4	50.0	4.2	5.7
Jul.	35.0	2.9	5.0	40.0	3.3	5.4
Aug.	35.0	2.9	2.4	40.0	3.3	2.8
Sep.	35.0	2.9	1.6	40.0	3.3	2.0
Oct.	35.0	2.9	0.9	40.0	3.3	1.3
Nov.	35.0	2.9	2.1	40.0	3.3	2.5
Dec.	35.0	2.9	0.2	40.0	3.3	0.6
Jan. 1998	35.0	2.9	-0.7	40.0	3.3	-0.3
Feb.	35.0	2.9	0.3	40.0	3.3	0.7
Mar.	35.0	2.9	0.8	40.0	3.3	1.2

Source: Data provided by the Central Bank of Turkmenistan.

1/ Interest on CBT credit has to be paid monthly at the annual rate divided by twelve and after December 1995, treasury bills were issued with a one month maturity. Thus, the real interest rates are calculated as the difference between the monthly interest rates and the monthly inflation rate.

Table 21. Turkmenistan: Commercial Bank Interest Rates, 1994-97 1/  
(In percent per annum, non-compounded, end-of-period)

	1994		1995		1996		1997												
	Sep.	...	Sep.	...	Sep.	Dec.	Jan.	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	
By type:																			
Interbank rate (3 months)	...	...	...	...	122.4	121.4	113.8	67.4	59.3	86.7	73.0	47.0	38.8	50.2	38.1	59.0	43.4	38.6	
Bank deposits:																			
Deposits in commercial banks 2/	3.0-150.0	3.0-70.0	5.0-160.0	5.0-130.0	46.4	37.3	29.6	60.4	54.9	51.1	25.7	17.6	21.0	26.2	30.1	18.6			
Deposits in the Savings Bank	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	13.0	13.6	14.6	14.0			
Demand deposits	150.0	70.0	100.0	100.0	66.6	71.1	64.3	58.8	43.4	40.3	40.6	41.5	41.4	40.9	41.2	41.1			
Time-deposits 3/																			
Bank credit:																			
Credit to the public sector	3.0-300.0	15.0-70.0	40.0-200.0	15.0-200.0	69.6	72.4	74.4	59.0	68.2	45.5	41.6	41.8	48.9	46.2	27.0	48.7			
Credit to public enterprises	3.3-75.0	15.0	5.0	5.0	67.9	75.5	89.1	62.5	76.3	72.4	65.5	47.3	45.8	47.8	52.3	52.6			
Credit to collective and state farms	...	...	...	...	57.6	103.0	90.1	79.0	85.1	50.8	75.9	60.2	59.3	58.3	54.6	44.2			
Credit to the private sector																			
By maturity:																			
On demand																			
State enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Private sector enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
1-3 months																			
State enterprises	57	15-80	10-100	10-115	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Private sector enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
3-6 months																			
State enterprises	120	15-80	50-100	50-90	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Private sector enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
6-12 months																			
State enterprises	80	15-80	20-120	45-120	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Private sector enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
More than 1 year																			
State enterprises	70	15-100	...	120	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Private sector enterprises	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

Source: Central Bank of Turkmenistan.

1/ In January 1997, the CBT implemented a new reporting system for interest rates. Before this date, the rates give the range of rates on all deposits or loans of a category. Starting in January 1997, the rates are a weighted average of new loans or deposits for the category extended or accepted during the month.

2/ Deposits not exceeding three months.

3/ Interest is paid monthly.

Table 22. Turkmenistan: Developments in Reserve Requirements, 1993-97 1/

Date	Reserve requirement	Base
November 1993	20 percent	All bank deposits.
February 1994	5 percent	Deposits with a maturity longer than 1 year.
	10 percent	Household and enterprise deposits with a maturity shorter than 1 year.
	15 percent	All other deposits.
July 1994	No requirement	Household deposits and new deposits.
	10 percent	All enterprise deposits.
January 1995	5 percent	Household deposits.
	10 percent	Enterprise deposits.
	15 percent	On all other deposit liabilities.
January 1996	11 percent	All deposit liabilities.
February 1996	11 percent	All deposit liabilities; reserves against foreign currency deposits allowed to be held in foreign currency account with CBT; foreign currency deposits with Vneshekonombank exempted.
October 1996	11 percent	As in February 1996; 30 percent of banks' cash holdings allowed as reserve assets against reserve requirement.

Source: Data provided by the Central Bank of Turkmenistan.

1/ There were no changes in reserve requirements during 1997.

Table 23. Turkmenistan: Balance of Payments - Current Account, 1993-97 1/  
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997				
					QI	QII	QIII	QIV Prov.	Year Prov.
Current account (deficit -)	775.7	84.2	23.5	43.4	158.9	-203.7	-207.5	-344.0	-596.0
Trade balance	1,100.0	485.1	440.8	158.9	197.3	-139.9	-135.7	-166.6	-244.9
Exports	2,692.7	2,175.8	2,084.4	1,691.3	396.0	107.1	115.2	140.6	758.9
Gas 2/	1,860.0	1,430.0	1,292.3	1,021.9	273.7	...	...	...	273.7
Cotton	427.8	363.3	435.5	326.9	48.8	7.7	1.8	31.7	90.0
Oil products	186.4	186.2	202.8	207.8	46.1	62.5	86.7	78.6	273.9
Electricity	99.2	90.8	67.1	57.5	4.7	11.0	5.3	7.0	28.0
Other	119.3	105.5	86.7	77.2	22.7	25.9	21.4	23.3	93.3
Imports	-1,592.7	-1,690.7	-1,643.6	-1,532.3	-198.7	-247.0	-250.9	-307.2	-1,003.8
Services	-358.5	-494.0	-446.6	-150.0	-76.5	-80.3	-78.7	-178.4	-413.9
Transport	-287.7	-351.5	-324.3	33.8	-5.7	-4.2	3.5	-16.6	-23.0
Travel	...	...	...	...	-10.6	-15.5	-26.4	-38.2	-90.7
Communication	...	...	...	...	-1.3	-0.4	0.1	-6.4	-8.0
Construction services	...	...	-113.7	-124.2	-36.4	-46.3	-29.0	-127.8	-239.5
Insurance services	...	...	...	...	-2.0	-2.9	-3.2	-3.2	-11.3
Government services	...	...	...	...	-0.1	-0.2	-1.5	-1.5	-3.3
Other services	-70.8	-142.5	-8.6	-59.6	-20.4	-10.8	-22.2	15.3	-38.1
Factor income	22.5	91.4	18.4	29.7	34.1	21.8	14.7	25.6	96.2
Compensation of employees	...	...	-8.0	2.3	0.0	-1.5	-1.0	1.0	-1.5
Dividends and profits	...	...	-86.0	-43.2	-1.3	-0.5	-2.9	-3.0	-7.7
Interest (net)	22.5	91.4	112.4	70.6	28.5	25.0	17.4	17.0	87.9
Interest receipts	25.0	100.0	147.0	129.0	38.9	33.9	31.0	31.4	135.2
Interest due and received	...	...	...	129.0	35.4	33.5	30.6	31.0	130.5
Interest due and not received	...	...	...	...	3.5	0.4	0.4	0.4	4.7
Interest payments	-2.5	-8.6	-34.6	-58.4	-10.4	-8.9	-13.6	-14.4	-47.3
Other income	...	...	...	...	6.9	-1.2	1.2	10.6	17.5
Current transfers	11.7	1.7	10.9	4.8	4.0	-5.3	-7.8	-22.6	-31.7
Memorandum items:									
Gas export volumes (in billions of cubic metres)	51.0	25.0	23.0	24.3	6.5	...	...	...	6.5
Gas average price (in U.S. dollars per 1,000 cm) 3/	36.0	60.0	57.0	42.0	42.0	...	...	...	42.0
Cotton export volumes (in thousands of tons)	359.0	301.0	267.0	215.0	32.0	6.0	5.0	20.0	63.0
Cotton average price (in U.S. dollars per ton)	1,192.0	1,206.0	1,300.0	1,520.0	1,525.0	1,283.3	360.0	1,585.0	1,428.6
Export value growth (in percent) 4/	116.0	-19.0	-4.0	-19.0	-23.5	-75.2	-65.9	-74.1	-55.1
Import value growth (in percent) 4/	58.0	6.0	-3.0	-7.0	-37.0	-18.5	-44.6	-33.4	-34.5

Sources: Data provided by the Central Bank of Turkmenistan.

1/ Exports are presented on an accrual basis. Any arrears due to non payment of exports are recorded as arrears in the capital account.

2/ Transit charges are included in gas exports through 1995. As of 1996, all gas is exported f.o.b. at the Turkmenistan border.

3/ Through 1995, the price includes a component for transportation charges.

4/ Compared to same period previous year.



Table 24. Turkmenistan: Gas Debt Owed to Turkmenistan, 1997 1/  
(In millions of U.S. dollars)

	Total outstanding as of December 31, 1996			Payments on principal				Interest payments		Total outstanding as of December 31, 1997				
	Long-term	Short-term	Interest	Total	Due	Paid		Due	Paid	Long-term	Short-term	Arrears		Total
						Long-term	Short-term					Long-term	Short-term	
Debt on pre-1996 exports 3/	704.3	...	...	704.3	140.9	...	...	46.8	46.8	563.4	...	...	...	563.4
Ukraine	31.2	5.8	...	37.0	2.8	5.8	...	0.9	0.9	28.4	...	...	...	29.3
Armenia	37.7	...	3.0	40.7	...	2.6	...	...	...	37.7	...	10.0	-2.6	38.8
Azerbaijan	393.6	9.6	...	403.2	9.7	3.9	...	15.7	15.7	393.6	...	...	5.8	399.4
Georgia	1,166.8	15.4	3.0	1,185.2	153.7	15.5	143.7	63.5	63.4	1,023.1	3.2	4.5	10.0	3.2
Total	...	...	18.2	268.1	...	...	...	...	...	...	...	...	...	1,030.8
Debt on 1996 and 1997 exports	...	249.9	18.2	268.1	268.1	...	...	...	...	...	...	...	...	...
Itara 4/	...	...	...	...	...	268.1	...	...	...	...	...	...	...	...
1996 exports	...	...	...	...	...	273.7	...	...	...	...	212.2	...	...	212.2
1997 exports	...	...	...	...	...	...	61.5	...	...	...	20.0	...	...	20.0
Armazprom 5/	...	91.4	...	91.4	...	70.4	...	...	...	...	21.0	...	...	21.0
Special programs	...	341.3	18.2	359.5	...	633.2	...	...	...	...	253.2	...	...	253.2
Total	1,166.8	356.8	21.2	1,544.7	...	...	...	...	...	1,023.1	256.4	...	10.0	1,284.1
Total pre-1996, 1996, and 1997	...	...	...	79.7	...	...	...	...	...	...	...	...	...	70.0
In percent of GDP	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:														
Recovery ratio (amounts received in 1997 as a percentage of amounts due on 1997 exports)														
Export price for gas (US\$ per 1,000 cubic metres) 6/														

Source: Data provided by the Turkmen authorities.

1/ This presentation is on the basis of information provided by the Turkmen authorities, which may not necessarily fully conform with information provided by debtors.

2/ Interest incurred on payment delays in 1997 (Armenia includes interest charges period 1995-97).

3/ Pre-1996 gas exports were guaranteed by the governments of the importing countries. The outstanding arrears over the period 1993-94 were rescheduled under long-term official debt agreements. The arrears for 1995 rescheduled under short-term agreements.

4/ In 1996 and 1997, all gas exports were made to the trading company Itara, which transported and sold the gas, mainly in Ukraine. After the halt in gas exports as of end-March 1997, Turkmenistan reached agreement with Itara in June 1997 on the payment of the remaining arrears of \$468.6 million, including arrears under the special programs. This amount is to be paid by mid-1998, of which \$40 million in cash.

5/ In 1997, US\$ 20 million of Itara's debt was transferred to Armazprom under a tripartite agreement.

6/ The price of gas delivered at the Turkmen border.

Table 25. Turkmenistan: Trade by Type of Payment, 1995-97 1/  
(In percent of total)

	1995		1996		1997	
	Exports	Imports	Exports	Imports	Exports Prov.	Imports Prov.
Cash	20	8	24	6	56	34
<i>Of which</i>						
Gas	14	...	9	...	...	...
Cotton	40	...	57	...	100	...
Oil products	9	...	35	...	94	...
Electricity	0	...	0	...	...	...
Others	42	8	67	6	81	34
Barter and clearing 2/	56	58	48	53	6	38
<i>Of which</i>						
Gas	60	...	56	...	23	...
Cotton	22	...	26	...	...	...
Oil products	87	...	54	...	...	...
Electricity	100	...	47	...	100	...
Others	55	58	33	53	19	38
Construction	7	16	6	21	2	7
<i>Of which</i>						
Gas	0	...	2	...	...	...
Cotton	33	...	18	...	...	...
Oil products	5	...	11	...	6	...
Electricity	0	...	0	...	...	...
Others	3	16	0	21	...	7
Arrears	16		22	...	36	...
<i>Of which</i>						
Gas	26	...	33	...	78	...
Cotton	0	...	0	...	...	...
Oil products	0	...	0	...	...	...
Electricity	0	...	53	...	...	...
Others	0	...	0	...	...	...
Unspecified	1	18	0	20	...	21

Source: Central Bank of Turkmenistan.

1/ In percent of total exports and total imports of the category concerned.

2/ In the case of barter goods, Turkmenistan agrees before the transactions on the type of goods to be received. In the case of clearing goods, the exporter selects the goods to be sent to Turkmenistan in payment for imports.

Table 26. Turkmenistan: Exports by Product, 1993-97 1/  
(In millions of U.S. dollars)

Product	1993	1994	1995	1996	<u>1997</u> Prov.
Natural gas 2/	1,860	1,430	1,292	1,022	274
Oil products 3/	182	177	200	148	212
Cotton-fiber	428	363	436	327	90
Furnace fuel	4	9	3	55	57
Minerals and mineral products	84	19	17	17	47
Electricity	99	91	67	58	28
Textile products	6	8	17	7	10
Agricultural products (excl. cotton fiber)	5	13	5	0	0
Others (unspecified)	24	67	47	57	41
Total	2,693	2,176	2,084	1,691	759

Source: Data provided by the State Customs of Turkmenistan.

1/ The balance of payments is prepared by the CBT while the data on trade by good is provided separately by the State Customs of Turkmenistan and the two sources may not always be entirely consistent.

2/ Until 1996, includes gas exported in payment for transportation and transit fees.

Table 27. Turkmenistan: Imports by Product, 1993-97 1/  
(In millions of U.S. dollars)

	1993	1994	1995	1996	<u>1997</u> Prov.
<b>Total</b>	1,593	1,691	1,644	1,532	1,004
<b>Consumer goods</b>	623	594	537	534	316
Food products	322	247	358	341	190
Medicines	43	16	21	39	16
Nonfood items	258	331	158	154	110
<b>Industrial goods</b>	583	970	801	896	644
Chemical products	46	67	77	56	117
Building materials	24	41	4	14	27
Other Materials	285	229	293	251	74
Machinery and equipment	227	632	427	574	426
<b>Unspecified</b>	387	127	305	103	44

Sources: Data provided by the Turkmen Authorities.

1/ The balance of payments is prepared by the CBT while the data on trade by good is provided separately by the State Customs of Turkmenistan, and the two sources may not always be entirely consistent.

Table 28. Turkmenistan: Direction of Trade, 1994-97  
(In millions of U.S. dollars)

	Exports				Imports			
	1994	1995	1996	1997 Prov.	1994	1995	1996	1997 Prov.
A. CIS countries								
Armenia	70	131	1	0	67	98	23	23
Azerbaijan	212	55	11	29	90	56	35	22
Belarus	...	...	1	1	14	14	1	8
Georgia	207	53	0	11	137	180	14	9
Kazakhstan	261	254	54	29	59	56	22	87
Kyrgyz Republic	...	...	1	13	22	14	1	2
Moldova	...	...	5	0	3	...	4	1
Russia 1/	136	160	1,056	331	149	154	155	100
Tajikistan	0	0	10	30	31	35	2	9
Ukraine	600	686	0	1	375	388	266	150
Uzbekistan	183	85	4	5	25	28	6	88
Total CIS	1,669	1,422	1,142	450	973	1,023	528	499
B. Non-CIS countries								
Afghanistan	20	4	13	21	25	5	4	3
Austria	7	18	13	9	25	12	4	2
Belgium	...	...	...	0	...	...	...	5
Bulgaria	1	10	8	1	6	1	5	6
China	0	1	2	2	2	2	11	7
Cyprus	35	3	9	...	8	10	59	1
Czech Republic	28	2	2	1	18	1	8	2
Denmark	...	...	...	0	...	...	...	2
Estonia	2	1	4	...	1	1	3	4
Finland	...	...	...	0	...	...	...	12
France	...	...	...	1	...	...	...	16
Germany	48	15	18	3	56	56	51	48
Gibraltar	8	17	3	...	...	...	...	...
Greece	1	...	0	1	21	0	0	0
Hong Kong	12	47	104	16	12	3	29	3
Hungary	0	4	...	...	13	...	2	2
India	...	...	...	1	...	...	...	5
Iran, Islamic Republic of	21	5	17	124	71	70	45	39
Ireland	11	...	14	0	5	1	2	3
Italy	30	25	1	6	39	42	5	5
Japan	...	...	...	0	...	...	...	7
Kuwait	...	...	...	...	...	...	...	6
Latvia	13	...	0	...	15	0	1	2
Lebanon	...	...	...	0	...	...	...	2
Lithuania	5	9	2	1	14	...	16	14
Netherlands	...	...	...	7	...	...	...	12
Pakistan	0	69	13	1	2	0	10	2
Poland	...	...	...	0	...	...	...	3
Sweden	11	18	13	11	11	1	7	18
Singapore	...	...	...	9	...	...	...	0
Switzerland	40	117	110	18	10	12	19	6
Turkey	72	144	79	51	145	168	200	128
United Arab Emirates	0	6	21	1	15	10	11	26
United Kingdom	47	26	41	10	17	2	19	19
United States	17	23	43	1	54	14	395	88
Yugoslavia	1	0	...	...	23	...	...	...
Others	79	98	19	82	108	211	95	8
Total Non-CIS	507	662	549	377	717	621	1,004	505
Total	2,176	2,084	1,691	759	1,690	1,644	1,532	1,004

Source: Data provided by the Central Bank of Turkmenistan.

1/ From 1996, gas exports are recorded against Russia rather than against the final importing countries (Ukraine, Georgia, Armenia and Azerbaijan) as in earlier years.

Table 29. Turkmenistan: Balance of Payments - Capital Account, 1993-97  
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997				
					QI	QII	QIII	QIV Prov.	Year Prov.
Capital and financial account	-550	-208	-51	55	65	118	265	381	828
Capital account	...	...	...	-156	8	-23	5	2	-9
Capital transfers	...	...	...	-156	8	-23	5	2	-9
Financial account	-550	-208	-51	211	57	141	260	379	837
Foreign direct investment	79	103	233	129	30	22	22	33	108
Other investments	-630	-311	-284	82	27	119	238	295	679
Assets	-927	-546	-156	-102	-168	226	73	87	218
Trade and commercial credits	...	...	...	7	...	-400	78	46	-277
Rescheduled debt payments	...	...	...	...	38	37	30	38	143
Currency and deposits	...	...	...	-52	3	116	-33	-8	78
Other assets	-927	-546	-156	-58	-208	475	-3	10	274
Government arrears of principal	-927	-546	-156	-58	-208	475	-3	10	274
New arrears 1/	-927	-708	-406	-419	-243	0	-8	5	-246
Previous arrears paid 2/	...	162	250	361	35	475	5	5	520
Liabilities	297	236	-128	185	195	-108	165	260	512
Trade and commercial credits	...	...	...	...	...	...	...	59	59
Loans	297	236	-22	185	196	19	189	200	604
New loans	299	267	224	429	232	63	222	355	873
Short term loans	...	...	...	...	111	30	222	185	548
Long term loans	299	267	224	429	117	33	...	170	320
Rescheduling of arrears	...	...	...	...	5	...	...	...	5
Amortization	-2	-32	-246	-245	-36	-45	-33	-155	-269
Currency and deposits	...	...	-106	...	-2	-127	2	1	-125
Central Bank	...	...	...	...	0	0	0	...	0
Commercial banks	...	...	-106	...	-1	-127	2	1	-125
Other liabilities	...	...	...	...	...	0	-26	...	-26

Source: Data provided by the Central Bank of Turkmenistan.

1/ New arrears incurred to Turkmenistan.

2/ Payments of previous arrears and debts to Turkmenistan.

Table 30. Turkmenistan: Government and Government Guaranteed External Debt, 1996-97  
(In millions of U.S.dollars)

Sector	Total credit lines/ loans 1/		Balance outstanding	
	1996	1997	1996	1997 Prov.
Agriculture	444	1,079	281	722
Energy	535	797	144	341
Aviation	200	200	161	188
Construction	38	37	34	31
Health	39	47	30	29
Transport and communications	11	63	10	21
Water supply	0	47	0	17
Government	25	29	3	6
Finance	3	35	1	3
Trade	4	3	3	1
<b>Total</b>	<b>1,298</b>	<b>2,337</b>	<b>667</b>	<b>1,360</b>
In percent of GDP	67	127	34	74
Memorandum items:				
Short-term debt (original maturity one year or less) 2/	...	...	100	395
Long-term debt (original maturity exceeding one year) 2	...	...	567	965

Source: Data provided by the Turkmen authorities.

1/ Includes credit lines/loans already fully drawn/disbursed.

2/ The stocks of short- and long-term debt are Fund staff estimates.

Table 31. Turkmenistan: Exchange Rates, 1993-98  
(End-of-period; in manat per U.S. dollar)

	Nominal rates			Real rates (Jan. 1996=100)	
	Official rate	Commercial bank rate	Paralel market rate Est.	Official rate	Commercial bank rate
Nov. 1993	2	...	...	...	...
Dec.	2	...	...	406	24
Jan. 1994	2	...	...	508	23
Feb.	2	...	...	599	20
Mar.	10	...	...	161	21
Apr.	10	...	...	213	32
May	10	...	...	244	37
Jun.	10	...	...	280	42
Jul.	10	...	...	335	51
Aug.	10	...	...	465	56
Sep.	10	...	...	582	70
Oct.	10	...	...	731	88
Nov.	75	...	...	112	102
Dec.	75	...	...	149	135
Jan. 1995	75	...	...	219	74
Feb.	75	...	...	264	92
Mar.	75	...	...	311	109
Apr.	75	...	...	347	121
May	75	...	...	369	129
Jun.	75	...	...	367	128
Jul.	75	...	...	387	135
Aug.	75	...	...	477	166
Sep.	200	...	...	233	85
Oct.	200	...	...	309	112
Nov.	200	1,561	...	477	57
Dec.	200	2,484	...	740	56
Jan. 1996	2,400	2,311	...	100	100
Feb.	1,000	2,520	2,550	299	111
Mar.	1,000	3,000	3,000	356	111
Apr.	3,000	3,300	3,300	136	114
May	3,755	4,088	4,100	117	100
Jun.	3,895	4,427	4,300	119	97
Jul.	4,025	4,529	4,600	119	97
Aug.	4,015	4,600	4,900	131	105
Sep.	4,075	4,999	5,100	141	106
Oct.	4,045	5,095	5,100	158	118
Nov.	4,050	5,200	5,200	178	130
Dec.	4,070	5,197	5,200	193	141
Jan. 1997	4,090	5,494	5,600	205	143
Feb.	4,100	5,500	5,500	209	143
Mar.	4,105	5,503	5,500	211	146
Apr.	4,170	5,500	5,500	213	149
May	4,165	5,450	5,500	218	157
Jun.	4,165	5,448	5,450	214	155
Jul.	4,165	5,448	5,400	209	150
Aug.	4,165	5,450	5,400	210	152
Sep.	4,165	5,436	5,400	212	155
Oct.	4,165	5,400	5,400	216	158
Nov.	4,165	5,380	5,350	217	156
Dec.	4,165	5,354	5,350	222	165
Jan. 1998	4,165	5,350	5,350	230	165
Feb.	4,165	5,361	5,350	235	169
Mar.	4,165	5,362	5,350	239	172
Apr.	5,200	5,367	5,350	197	178

Sources: Data provided by the Turkmen authorities; the paralel market rate is a Fund staff estimate.





