31/05/2017

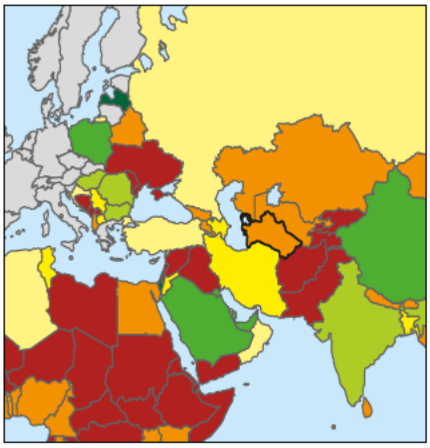
6/7 COUTRY RISK CATEGORY

COUNTRY RISK ANALYSIS

# Turkmenistan

0 1 2 3 4 5 6 7

The country risk category are arranged on a scale från 0 to 7.
The lower the figure, the better the coutry's creditworthiness.



## CONTACT

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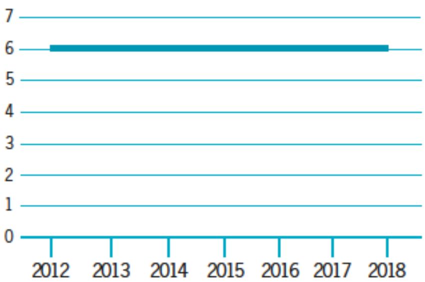
## BASIC FACTS

| | |
|---|---|
| Population | 5.5 million (2017) |
| Nominal GDP | USD 38 billion (2017) |
| GDP/capita | USD 6 900 (2017) |

## COUNTRY CLASSIFICATION HISTORY




Source: EKN

## The strain on an already strained economy is increasing

For a number of years, the Turkmen economy has been strained by reduced export revenues from gas. To manage the government finances, the state is forced to cut welfare subsidies and accept rising government and external debts. The country recently tightened its currency exchange restrictions. This fact is one reason to question the accuracy of the available data regarding the country's international reserves. It will be difficult for the state to increase export revenues from gas at a time when the president's ability and willingness to cut government expenditures is expected to be limited.

The recent negative trend entails increased sovereign risk in Turkmenistan – including in the long run. The presidential regime is likely to prioritise new gas pipelines and gas contracts over radical economic reforms. This means that the vulnerability of the country's current economic model will continue. In light of the current low gas revenues, the government finances are unsustainable in the long term.

## THE COUTRY'S STRENGHTS AND WEAKNESSES

### STRENGTHS

+ Political stability.
+ Large gas deposits provide significant export revenues.
+ Low government and external debt.

### WEAKNESSES

- Heavily reliant on gas exports to China.
- Centrally controlled and inefficient economy.
- Hard currency restrictions and high external vulnerability.

## SWEDISH EXPORT TO TURKMENISTAN, MSEK

| | MSEK |
|---|---|
| 2017 | 16 |
| 2016 | 380 |
| 2015 | 158 |
| 2014 | 60 |
| 2013 | 179 |

Source: SCB

## EKN:S EXPOSURE

| | MSEK |
|---|---|
| **Garantees** | 0 |
| **Offers** | 404 |

## EKN:S POLICY

Since 2008, EKN has placed Turkmenistan in country risk category 6 of 7. This classification is carried out in collaboration with other OECD countries. In the instance of periods of risk lasting less than 12 months, a normal risk assessment is applied for sovereign risks, bank risks and corporate risks. In the instance of periods of risk lasting more than 12 months, normal risk assessment is applied for sovereign risks and bank risks, while increased premiums are applied for corporate risks. In the case of other public purchasers, a letter of credit or bank or sovereign guarantee is required, regardless of the risk period.

## EKN:S EXPOSURE AND EXPERIENCE

EKN's outstanding exposure in Turkmenistan amounts to 404 MSEK, and consists of a tender within the power industry. Among exporters, the greatest interest concerns transactions with links to the oil and gas industry.

## WHAT MIGHT CAUSE A CHANGE IN THE COUTRY POLICY

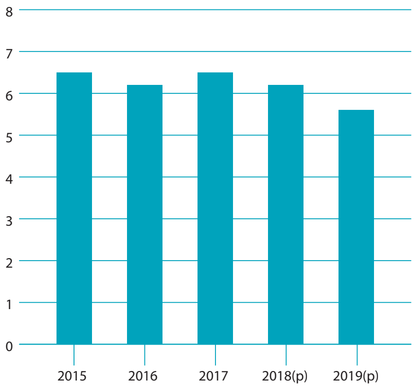
### LESS RESTRICTIVE

- Reduced currency restrictions.
- Long-term sustainable state finances.

### MORE RESTRICTIVE

- Increased government and external debt.
- Political instability.

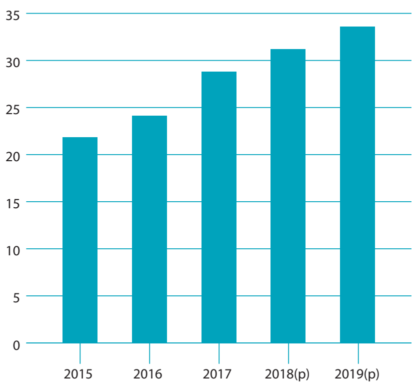
## GDP-GROWTH (% PER ANNUM)




According to the official statistics, growth is high. However, the numbers are not reliable.

Source: IMF WEO 2018

## PUBLIC DEBT (% OF GDP)




Public indebtedness is rising rapidly.

Source: IMF WEO 2018

## COUNTRY ANALYSIS

### BACKGROUND

Turkmenistan has enjoyed favourable economic development since the dissolution of the Soviet Union in 1991. As a result of the extraction of natural gas, the GDP has grown by an average of over seven per cent per annum (according to the available government statistics). The country is estimated to possess the fourth largest gas reserves in the world, and its exports consist almost exclusively of natural gas exported to China. At the same time, since the fall of the Soviet Union, Turkmenistan has experienced the least reform of all the Central Asian nations. This is particularly evidenced by its tightly regulated and state-dominated economy. Despite a certain amount of privatisation in recent years, the public sector accounts for four-fifths of the jobs within the official economy. The economy is driven by the state's high rates of consumption and investment, especially in outsized infrastructure. Up to a certain limit, electricity, natural gas and water are free to all the country's citizens. Car fuel and a range of other products are also heavily subsidised.

Politically, Turkmenistan is an authoritarian and very closed-off country. This means that the existing information about the country is extremely limited. As a rule, the statistics that are published are unreliable. Gurbanguly Berdimuhamedov (born 1957) has been the country's president since 2007. According to its constitution, he can rule for life. The previous president held office for nearly 25 years.

### RECENT DEVELOPMENTS

The Turkmen economy has been strained by reduced export revenues from gas for a number of years. Russia and Iran, which for decades constituted Turkmenistan's most important export markets, no longer import any gas. China is now the country's only customer, and according to the available data, it has forced a 25 per cent reduction in the purchase price. This means that exports are now significantly less profitable than they were in the past. To increase revenues, Turkmenistan would need to increase its export volume to China, but this is not easily accomplished. In particular, the country's planned new pipelines pose considerable diplomatic, technical, and security challenges.

Economic growth has weakened significantly in recent years as a result of the lagging exports. It is true that according to the officially reported statistics, the economy grew approximately six per cent in 2017, but these figures are not reliable. According to information published by the US Embassy in Ashgabat, it is possible that the economy has been in a recession since 2014, and the unemployment rate may be as high as 35-50 per cent. This provides a different picture of the current situation in the country. What is clear is that the government has recently been forced to cut the country's generous subsidies and welfare spending. In February 2018, gasoline prices were increased by 50 per cent overnight, and the government is struggling to keep down the price of wheat, which has been pushed upward by the weakened currency. Certain fees for electricity and water may also be introduced.

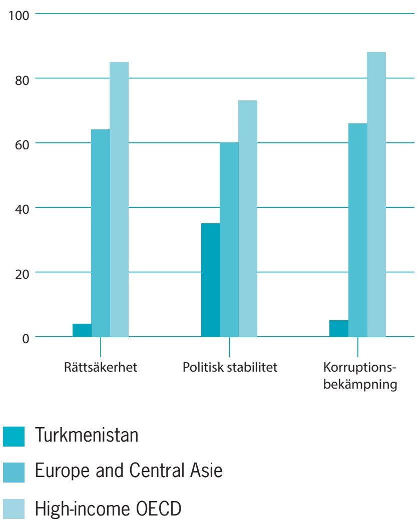
The country's external vulnerability has increased in recent years. As a result of the reduced export revenues, the currency devalued by nearly 25 per cent in 2015. As a result, the current account deficit increased sharply. The figures from the IMF indicate that the current account deficit was just over ten per cent of the GDP in 2017. According to the available statistics, Turkmenistan's international reserves remain large, equivalent to nearly 20 months of import coverage. However, in recent months the country's currency restrictions have been tightened, which signals the contrary – that the international reserves are strained. Hard currency is needed, including to defend the increasingly overvalued currency. On the black market, one manat trades at nearly half of the official fixed exchange rate.

The country's debt level continued to increase in 2017. This is in line with the trend observed over the last decade. The government debt, which ten years ago was virtually nonexistent, is now equivalent to 29 per cent of the country's GDP, while the external debt has climbed to approximately 25 per cent of the GDP. Due to the declining export expenditures, the government has been forced to use the country's stabilisation fund to cover government expenditures.

## LONG-TERM TREND

Turkmenistan can no longer rely as heavily as it has in the past on its large gas reserves, which have historically been the linchpin of the country's economy. An adjustment will be necessary, not least in order to cover the government finances, which are unsustainable given the declining export revenues. However, both the revenue side and the expenditure side will be difficult to adapt. The gas revenues account for nearly 50 per cent of the state's total revenues, and currently there are really no real alternatives. An adaptation on the expenditure side will be hampered by the fact that the essentially unlimited supply of free electricity, gas, and water constitutes a central part of the nation-building of Turkmenistan, wherein most Turkmens have so far been willing to exchange political freedom for free water and energy. Cuts to welfare risk disrupting the unspoken understanding, and contradict the president's claim that the country is experiencing a golden age. The regime will continue to be prioritise grandiose infrastructure projects, with the aim of maintaining its image as a successful country, despite the fact that they are of dubious benefit to the country. This suggests that the state budget will remain strained going forward. There are no official data regarding the assets of Turkmenistan's stabilisation fund. This makes it difficult to assess the state's ability to continue shoring up its shaky economy.

## BUSINESS ENVIRONMENT




Ranking from 0 (worst) to 100 (best)

Source: The World Bank

As a result of the combination of fixed exchange rates, overvalued currency, a large current account deficit and the likely depletion of its international reserves, the country's external vulnerability will remain elevated in the long term. It is likely that the external debt will also continue to increase. To reverse the recent negative trend, the IMF is advising reforms, including the liberalisation of the currency. However, it is probably that the regime try to get the economy back on track by prioritising gas contracts and the work on the new pipelines. It remains to be seen whether this approach will succeed.

## BUSINESS ENVIRONMENT

The business climate in Turkmenistan is very challenging, not least because of the severely limited access to reliable information. The dearth of reliable data means that Turkmenistan is one of the few countries in the world that is not ranked by the World Bank's Doing Business Index. Additional challenges to international exporters and investors include heavy bureaucracy, state dominance, weak legal protection, and extensive corruption. The country occupies place 167 of 180 in Transparency International's Corruption Perceptions Index, which is the worst ranking of all the countries in the region. International companies have reported problems with collecting payment in transactions involving both state and private buyers. There are also reports of the government expropriation of successful international businesses.

The country's banking sector is very limited. Credit cards are only accepted at a few luxury hotels in the capital of Ashgabat, and there are only a small number of ATMs. The sector is dominated by a handful of state-run banks that specialise in various branches of industry. Their main task is providing state enterprises with subsidised credit and other services. The country's largest bank is the State Bank for Foreign Economic Affairs of Turkmenistan, and it is responsible for the state's international borrowing of funds which are then allocated to its priority sectors. A few foreign banks have representative offices in the country.

Restrictions on hard currency further hamper the business environment. The currency is not freely convertible over the current account, and the allocation of currency to businesses is very limited. Companies have experienced difficulties with channelling returns from their investments out of the country. Importing companies are required to convert their export revenues into the local currency. This further limits access to hard currency, especially in the private sector.