Myanmar

Growth slowed in the 6-month transition to a new fiscal year. The current account deficit narrowed, and inflation rose. Growth is projected to pick up in the near term on an expected turnaround in tourism-related businesses and foreign direct investment. Inflation will ease this year and accelerate next year, and the current account will widen in both years. Expediting economic reform promises to sustain robust growth over the medium term.

Economic performance

Despite stronger exports, weaker domestic demand likely caused GDP growth to slow from 6.8% in fiscal year 2017 (FY2017, ended 31 March 2018) to 6.2% year on year in the transitional fiscal year 2018 (TFY2018, from 1 April 2018 to 30 September 2018) (Figure 3.27.1). Helped partly by depreciation of the Myanmar kyat, merchandise exports rose sharply in US dollar terms from 10.5% growth in FY2017 to 19.0% year on year in TFY2018.

Domestic consumption was likely weakened by slowing income growth and higher inflation. International tourist arrivals from January to August 2018 rose by about 1% from the same period a year earlier as a steady increase in Asian tourists offset a drop in visitors from the Americas, Europe, and Oceania. Domestic investment was sluggish, possibly reflecting slower disbursement of government expenditure, weaker investor sentiment, and a decline in foreign direct investment (FDI) approvals. These approvals plunged from $4.1 billion in April–September 2017 to $1.8 billion in TFY2018.

By sector, while agriculture posted higher growth with favorable weather in most of TFY2018, growth in industry and services slowed. Agriculture and allied activities, providing a quarter of GDP, accelerated from 1.3% growth in FY2017 to 2.0% year on year in TFY2018. Sluggish domestic consumption and investment dragged down industry growth to 8.7% year on year and services growth to 6.8% year on year in TFY2018.

Even as growth moderated, higher international oil prices and kyat depreciation against the US dollar fueled inflation at 7.1% year on year in TFY2018, up from 4.0% in FY2017. From April to September 2018, the kyat depreciated from MK1,330 to MK1,552 per dollar (Figure 3.27.2), losing 16.7% of its value. Some of this depreciation is attributed to the removal in August 2018 of a foreign exchange trading band for the currency.

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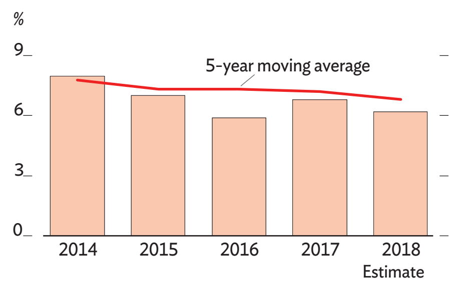
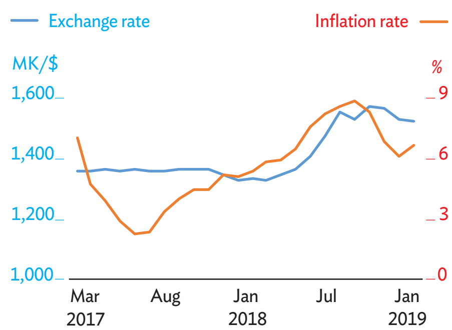
3.27.1 GDP growth



Note: From 2014 to 2017, years are fiscal years ending 31 March of next year; 2018 covers April to September.
Sources: Central Statistical Organization; Central Bank of Myanmar; ADB estimates.

3.27.2 Exchange rate and inflation rate



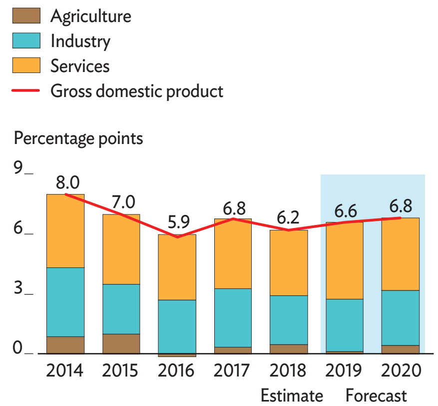
Sources: Central Statistical Organization; Central Bank of Myanmar; CEIC database (accessed 19 March 2019).

Sluggish domestic demand slowed growth in imports in US dollar terms from 9.3% in FY2017 to 5.5% year on year in TFY2018, significantly narrowing the trade deficit. Robust net service receipts and the narrowing trade deficit slashed the current account deficit by more than half, from the equivalent of 4.7% of GDP in FY2017 to 2.0% in TFY2018. In September 2018, international reserves provided cover for slightly more than 3 months of imports.

The government budget for TFY2018 indicated an expansionary fiscal stance through more ambitious public spending targets despite no projected improvement in revenue. The budgeted fiscal deficit was equal to 6.2% of GDP, much higher than in previous years. As TFY2018 was only in the wet season, though, when difficult weather interferes with project implementation, the actual fiscal deficit was likely lower, equal to about 4.5% of GDP.

Monetary policy continued to focus on instituting a more flexible exchange rate regime and improving banks' compliance with prudential regulations and credit risk management. As of June 2018, growth in broad money (M2) was 18.2% year on year and growth in credit to the private sector was 23.7% year on year.

3.27.3 Supply-side contributions to growth



Note: From 2014 to 2017, years are fiscal years ending 31 March of next year; 2018 covers April to September; in 2019 and 2020, fiscal years end 30 September of the year.

Sources: Central Statistical Organization; Central Bank of Myanmar; ADB estimates.

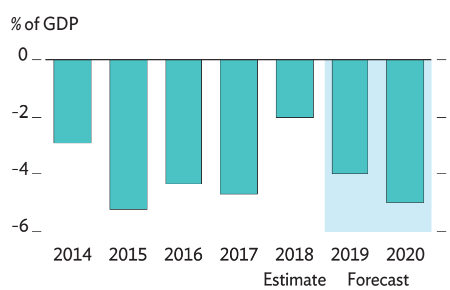
Economic prospects

A weakening external environment, notably a continuing slowdown in the People's Republic of China, dims export prospects for Myanmar. However, domestic and foreign investment should improve in response to the opening up to FDI of retail and wholesale trade and the insurance business, as well as from the continued implementation of the Companies Act, which clarifies procedures for setting up businesses. Growth is forecast higher at 6.6% year on year in FY2019 (a full year ending 30 September 2019) and 6.8% in FY2020.

FDI approvals already show signs of revival. From October 2018 to January 2019, FDI approvals nearly doubled to about $1.5 billion from $823 million in the same period a year earlier as investors from Singapore and elsewhere in Asia took higher stakes in manufacturing and services. A recent policy measure to standardize FDI application and implementation procedures should further strengthen prospects for FDI inflows in the near term.

By sector, growth in services is likely to accelerate to 9.0% if tourism revives at the beginning of the dry season in October, coupled with solid growth in other sectors. Growth in agriculture is projected to slow to 0.5% in FY2019 following floods in mid-2018 that likely affected harvests, especially of rice in November. Weakening export prospects and slowing agriculture will hold back industry growth to 8.2% in FY2019 (Figure 3.27.3).

3.27.4 Current account balance



Note: From 2014 to 2017, years are fiscal years ending 31 March of next year; 2018 covers April to September; in 2019 and 2020, fiscal years end 30 September of the year.

Sources: Central Bank of Myanmar; ADB estimates.

3.27.1 Selected economic indicators (%)

	2019	2020
GDP growth	6.6	6.8
Inflation	6.8	7.5
Current account balance (share of GDP)	–4.0	–5.0

Source: ADB estimates.

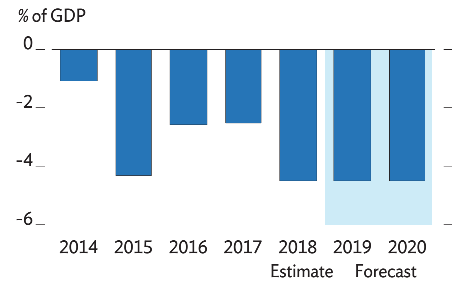
Strengthening growth should sustain inflationary pressures, as will further depreciation of kyat against the US dollar. However, inflation may ease to 6.8% in FY2019 as international oil prices soften but is forecast to revive to 7.5% in FY2020.

The trade deficit is expected to widen this year and next as export earnings weaken and imports strengthen on stronger investment, particularly by the government. Even if net service receipts improve with a pickup in trade and tourism-related business, the current account deficit is forecast to widen to 4.0% in FY2019 and 5.0% in FY2020 (Figure 3.27.4).

Fiscal and monetary policies will likely strive to remain supportive of growth while maintaining macroeconomic stability. The fiscal deficit is forecast unchanged at the equivalent of 4.5% of GDP this year and next, with the Central Bank of Myanmar funding a fifth of it (Figure 3.27.5). The government is planning to end central bank financing of the fiscal deficit by FY2022, freeing the bank up to conduct monetary and exchange rate policies to maintain financial stability.

An external risk to the outlook would be the European Union withdrawing Myanmar's privileges under the Generalized System of Preferences, affecting 10% of exports from Myanmar. A domestic risk would be lackluster progress on economic reform, as would communal tensions flaring in conflict-affected areas.

3.27.5 Fiscal balance



Note: From 2014 to 2017, years are fiscal years ending 31 March of next year; 2018 covers April to September; in 2019 and 2020, fiscal years end 30 September of the year.

Sources: Central Bank of Myanmar; ADB estimates.

Policy challenge—accelerating economic reform

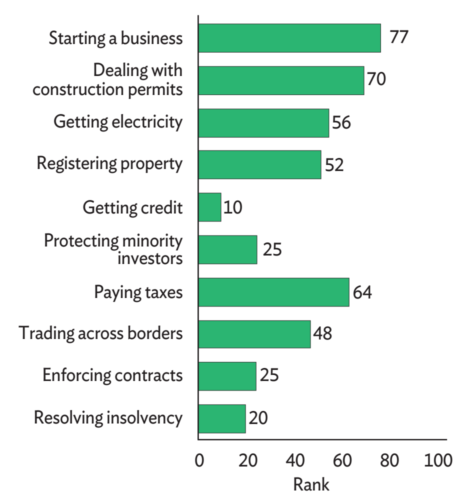
Wide-ranging reform initiated in 2011 has continued under the democratically elected government that took office in April 2016. Elements of the government's development strategy have recently been announced in a number of strategic planning documents such as the Myanmar Sustainable Development Plan, 2018–2030; National Education Strategic Plan, 2016–2021; Myanmar National Health Plan, 2017–2021; and Myanmar National Social Protection Strategic Plan, 2014.

Building on these initiatives, the country needs to accelerate reform, which will contribute to inclusive development.

Reform to public financial management should aim for greater fiscal prudence, transparency, and efficiency. It should include strengthened Treasury functions, more systematic public investment planning and implementation, and the adoption of appropriate accounting and auditing standards to make public spending more productive.

Myanmar could become more competitive by further strengthening its legal and regulatory framework toward improving the business and investment climate, which would also spur integration into regional and global value chains (Figure 3.27.6). Stronger governance and accountability would help optimize the use of scarce financial resources, including official development assistance, and maximize their impact.

3.27.6 Ease of doing business score, 2019



Note: An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 is the lowest performance and 100 is the best.

Sources: World Bank. Doing Business 2019. http://www.doingbusiness.org.