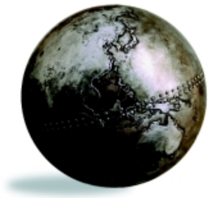


# Myanmar

*Following several years of strong economic performance in the early 1990s, Myanmar's growth rate slowed for the third consecutive year since 1996. Unless necessary structural reforms are undertaken, the economy will continue to depend heavily on ad hoc policies formulated in reaction to random factors such as weather and the changing regional economic environment.*

## RECENT TRENDS AND DEVELOPMENTS

In the early 1990s GDP increased at the rapid rate of around 8 percent. According to official estimates, GDP growth slowed to 5 percent in 1998. Agriculture output growth declined from 5 percent in 1996 to 2.8 percent in 1998 largely because of droughts, floods, and a shortage of fertilizer and pesticides. The structure of the economy has not changed substantially since the introduction of market-oriented reforms in 1988. It remains largely agrarian, with agriculture accounting for 42 percent of GDP in 1999 and more than 60 percent of the labor force in 1998 (see figure 2.10).

Real growth was about 4.5 percent in 1999. While industry and services maintained approximately the same growth rate as the previous year, growth in agriculture decreased because of bad weather, including drought in the upper part of the country and an untimely monsoon in lower Myanmar. External sector performance remained weak, with trade and current account deficits putting more pressure on the kyat exchange rate.

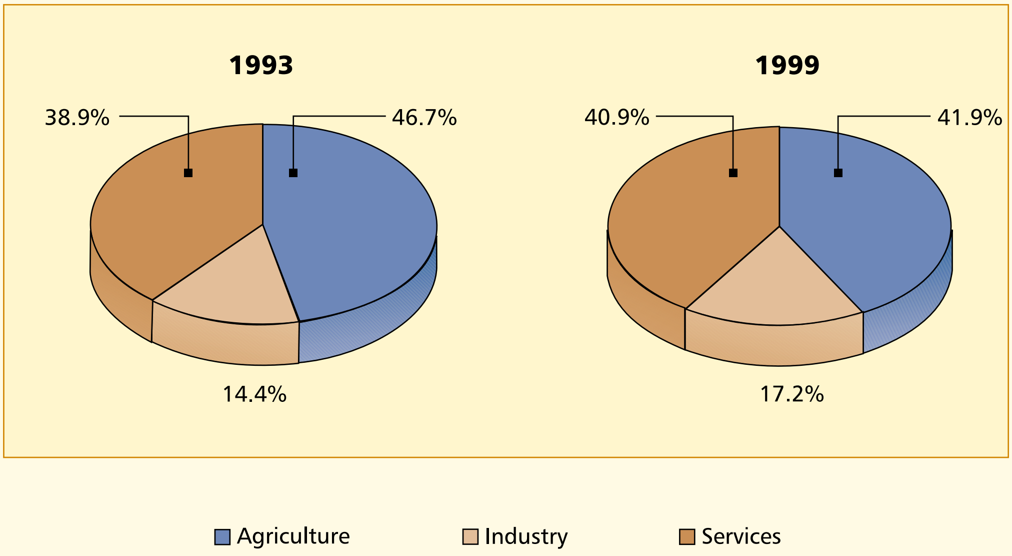
1999 refers to fiscal year 1999/00, ending 31 March.

The consolidated budget deficit for 1998 amounted to 4.5 percent of GDP. Both revenues and expenditures declined, from 11.5 and 8.9 percent of GDP in 1997 to 8.9 and 7.3 percent in 1998, respectively. The deficit of state-owned enterprises (SOEs) increased in recent years, mainly because exports were valued at the official exchange rate and state sector employees received subsidized rice.

Money supply and domestic credit have both been increasing 30-40 percent annually in recent years. Credit to the private sector has been increasing since 1995. However, it has become difficult for businesses to borrow from commercial banks, which are reluctant to lend in the poor business environment. In April 1999 the central bank lowered its discount rate from 15 to 12 percent, a surprising move given high inflation and negative real interest rates.

Meanwhile, the share of foreign currency deposits in total deposits increased to a little more than 20 percent, twice the level of two years ago, weakening the central bank's control of domestic money supply. Inflation has been high in recent years, largely

**Figure 2.10 Sectoral Share of GDP, Myanmar, 1993 and 1999**




*Source:* Staff estimates.

because of increasing food prices and excess liquidity resulting from the central bank financing of around 70 percent of the budget deficit. Inflation in Yangon, the capital city, increased to 49 percent in 1998. No data are available for 1999, but inflation likely remained high for three reasons: a tenfold increase in electricity prices effective March 1999, an increase in transportation costs because of higher taxes, and a decline in commodity production.

The foreign exchange market remained highly distorted, with the parallel market rate at around MK350 per dollar, compared with the official rate of about MK6 per dollar. Because of quantitative restrictions and controls on foreign exchange transactions, private traders normally cannot export items such as rice, sugar, rubber, minerals, and gems. Consequently, SOEs are the major players in trading activities. Foreign exchange transactions among nonfinancial firms in the private sector appear to have no restrictions, however. According to official figures, imports amounted to around $2.6 billion in 1998, while exports were around $1.2 billion, mostly primary products. Border trade with neighboring countries accounted for 30 percent of exports, and the current account, exclud-ing official transfers, registered a deficit of $546 million.

Nevertheless, Myanmar posted a net balance-of-payments surplus of about $64 million in 1998. Foreign exchange reserves were reported to be about $400 million (1.8 months of import equivalent). At the end of March 1998, the total outstanding external debt was $5.6 billion, of which about 90 percent was medium- and long-term debt. At that time Myanmar had arrears totaling about $1.6 billion, of which 70 percent were owed to bilateral sources, 28 percent to private creditors (including suppliers' credit), and the rest to multilateral sources. By the end of March 1999, arrears to multilateral sources were believed to have more than tripled.

## ISSUES IN ECONOMIC MANAGEMENT

Given its rich resource base, Myanmar has the economic potential to grow at a high rate. However, the economy remains highly controlled and has yet to adopt sound economic policies to exploit its potential and sustain economic growth. After the initial liberalization of the economy in 1988, which led to a relatively successful period of economic growth, progress stagnated, and persistent structural problems undermined its progress. Unless badly needed reforms are undertaken, the economy will continue to depend heavily on ad hoc policies rather than more carefully considered and far-reaching ones.

Some of the most pressing issues the government needs to address to revive growth are the distortions in the foreign exchange market, the continuing high level of inflation, and the low levels of revenue collection and public expenditure. The central bank needs greater authority and autonomy to control money supply and to determine interest rate policy, so it can help reduce inflation to manageable levels. The current official exchange rate is heavily biased toward import-using SOEs that import at the overvalued exchange rate and sell domestically at market prices. Exchange rate distortions favor a small number of industries at the expense of consumers and most other industries. Unifying the exchange rate would have to go hand in hand with removing price controls and easing restrictions on exports, imports, and foreign exchange transactions. In recent years the economy has begun to integrate with neighboring countries; more open external policies would help improve export performance, given the ongoing economic recovery in the region.

The government continues to strongly support the state sector despite its small contribution to the economy. The private sector transfers many resources to the state sector through taxation and levies, subsidies to SOEs, controlled prices for staples and agricultural and industrial inputs, and the highly overvalued currency. In particular, the large and growing rice subsidy for state employees seems unsustainable. Improving SOEs' performance—and reducing the fiscal deficit—will require restructuring and reforming SOEs. Economic liberalization would significantly enhance efficiency, and help the development of the nascent private sector. This could shift Myanmar to a higher growth path, and help alleviate poverty.

The fiscal deficit has been reduced, but mainly by reducing public spending to unacceptable levels. Tax collection—along with broadening the tax base and reducing the current level of exemptions—must be improved significantly to resume necessary government spending. Simultaneously, about 70 percent of the fiscal deficit is reportedly financed through central bank credit, an underlying factor contributing to persistently high inflation.

## POLICY AND DEVELOPMENT ISSUES

Myanmar does not rank particularly high in its socioeconomic achievements compared with its Southeast Asian neighbors. Although to the extent that social indicators exist, they have improved over the last decades and usually reveal better social conditions than expected, given the low level of per capita income. In 1997, life expectancy stood at 60 years and adult literacy at 84 percent. However, the benefits of economic growth do not seem well distributed. Estimates on poverty are rarely available, and Myanmar does not have an official poverty line. Nevertheless, estimates suggest that at least one in four households could be considered poor, with wide regional and ethnic differences. Infant mortality at 79 per 1,000 births is also slightly higher than the average of 68 per 1,000 births in four other Southeast Asian countries with similar levels of GDP per capita. Child mortality is significantly higher, 113 per 1,000 compared with an average of 77. High levels of malnutrition have been reported among children, reflecting the poverty of many households.

Under these circumstances, it is particularly worrisome that from 1997 to 1998, public expenditure for education fell from 0.93 to 0.64 percent of GDP, and expenditure for health fell from 0.28 to 0.18 percent of GDP. This trend should be reversed to raise the standards of living and to upgrade Myanmar's human resources.