



Myanmar

Myanmar recorded another year of buoyant growth in 1995. However, poor infrastructure, an overvalued exchange rate, and scarcity of capital remain the major bottlenecks for sustaining high growth. The flow of external assistance and foreign private capital is still limited, as foreign investors and donors are waiting to see further progress in economic and political reforms. On a more positive note, further reform measures were introduced in the move toward a market economy and Myanmar now has observer status in ASEAN.

Recent Trends and Prospects

Real GDP is estimated to have risen by over 7.5 percent in 1995 following growth of 6.8 percent in 1994. Agriculture, which is still the single largest sector, grew by 7.3 percent, though this estimate must be treated with caution in view of serious index number and other data problems. Industry grew by 11.4 percent, the fastest growth being recorded in mining, including oil and gas. Mining grew by over 18 percent, largely with the help of foreign investment. Construction activity was also brisk in 1995, driven by the rapid increase of tourism and transportation, the two fastest-growing service sectors.

Gross domestic investment was 13 percent of GDP in 1995 while gross domestic saving was marginally lower at 12.2 percent, leaving a small domestic savings-investment gap. While investment has recovered in recent years compared to the crisis years of the

late 1980s, mainly in response to the recent market-oriented reforms and greater openness of the economy, it is still well below the average level of about 19 percent achieved in the early 1980s. The current investment rate is too low to provide for expansion of infrastructure at the pace necessary to sustain the high rates of growth achieved in recent years. Also, much of the recent increase in investment has come from the private sector with public investment continuing to fall in real terms. Following enactment of the Foreign Investment Law in 1988, which was designed to encourage the inflow of foreign capital, foreign investment projects of over \$3 billion had been approved in the period up to mid-1995. However, the range of approved projects was rather limited; over two thirds were in the oil and gas industry and hotels and tourist facilities. Also, much of the approved investment has yet to be realized.

Of the estimated population of about 25 million persons in the working age group 15–59, only 17 million were employed. The difference is shared between those not in the work force and those who are unemployed or underemployed. Although reliable underemployment and unemployment data are not available, limited surveys suggest that the incidence of unemployment is still high.

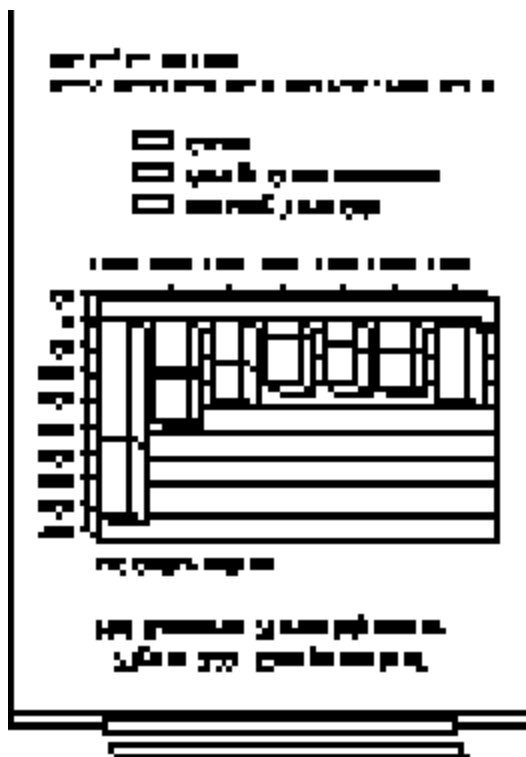
Reducing the fiscal deficit has been an important goal of the ongoing reforms in Myanmar. The deficit was reduced to less than 1.4 percent of GDP by 1993 compared with around 6 percent in the late 1980s. However, this compression was achieved

mainly through cuts in expenditure, particularly capital expenditure, not through an increase in revenues. In fact, the revenue base has continued to shrink and this has been only partially and temporarily offset by the limited sale of public assets under the privatization program. The deficit for 1995 is estimated at 2.6 percent of GDP. This was largely financed by borrowing from the Central Bank and through external borrowing.

Money supply growth has remained high, driven in part by the large-scale monetization of public debt, which has led to high rates of inflation. In 1995, broad money (M2) grew by about 22 percent, while consumer prices rose by almost 25 percent in Yangon, the only city for which price indexes are available. These are official indexes, which do not reflect the increase in black market prices. Excess liquidity was the major factor leading to price increases. However, particularly in the case of rice, black market prices were pushed up by large-scale exports which depleted domestic supplies.

Exports, consisting largely of rice, beans, and teak, grew by about 26 percent in 1995. As yet, there is little diversification of exports to nontraditional items. Merchandise imports are estimated to have grown by about 13 percent, mainly because of imports of equipment and materials for construction, tourism, and transportation. The deficit in the balance of trade decreased to about \$725 million. The principal constraint to improving the trade balance is the continuing policy of maintaining a highly overvalued exchange rate. The official trade estimates do not reflect unreported border trading. There is probably a large deficit on this account because, despite the surplus balance coming from services and net current transfers, there is still a current account deficit of about \$311 million. This is being financed mainly through the accumulation of long-term debt (which is about 10 percent of GDP) and buildup in arrears since the flow of FDI is still limited and portfolio investment flows are also low (Figure 2.13).

Assuming that the pace of pro-market reforms is maintained and that there are no adverse weather shocks, the economy could grow at around 6–7 percent in 1996. The need to meet domestic rice requirements may lead to a slight slowdown in exports while imports could continue to grow at 17.6 percent. There could, therefore, be a further increase in the trade and current account deficits.



Policy and Development Issues

Development of infrastructure, tourism, and agriculture and the establishment of a properly functioning market remain the major policy priorities of the Government. Both public and private investments have been directed to the development of infrastructure, especially tourism-related projects such as hotels. Private investment in the oil and gas sector has occurred in response to government incentives for private foreign investment. Positive steps toward reducing state control include a reduction in subsidies and capital provided to state-owned enterprises; however, progress with privatization has been limited and many sectors or markets are still controlled by the state.

The investment required to sustain the high rate of growth achieved in recent years will have to be financed substantially through external capital flows since the domestic savings rate is quite low. However, external flows, particularly from multilateral agencies, are likely to remain depressed unless the exchange rate is liberalized and there is more progress on economic and political reforms. As a result, private capital flows, which often follow official signals, are also likely to remain restrained.