

Myanmar

High prices for natural gas exports continued to support modest rates of growth in FY2007. Inflation remained at around 30%, largely the result of money creation to finance fiscal deficits. Recovery and reconstruction after Cyclone Nargis, which inflicted severe human loss and economic damage in May 2008, will take at least 3 years. Economic growth will be diminished this year by weaker performance of Myanmar's major trading partners.

Economic performance

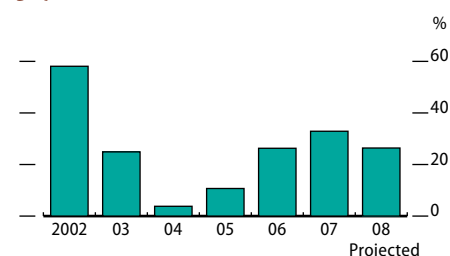
Modest growth and high inflation again characterized the economy in FY2007 (ended 31 March 2008). Official statistics indicate growth in excess of 10% since 2000, but this is not consistent with other variables closely correlated with GDP, such as energy use. Nonofficial estimates put GDP growth at less than half the official estimates. Agriculture remains the dominant sector, contributing about 44% of GDP. Industry, including the natural-gas export segment, accounts for about 20% of GDP, and services the rest. An estimated two thirds of Myanmar's population live in rural areas, often working on small farms or as laborers.

Early on 3 May 2008, Cyclone Nargis hit land at one of the lowest points in Myanmar, setting off a storm surge almost 12 feet high that reached 25 miles inland. The storm laid waste hundreds of villages across large parts of the Ayeyarwaddy River delta, a leading agriculture-producing region, and damaged Yangon, the main city. The cyclone resulted in large-scale casualties, with more than 77,000 people killed, 20,000 injured, and 55,000 still missing. About 2 million people lost their homes and had their livelihoods disrupted. Economic losses were estimated at the equivalent of 2.7% of the officially projected national GDP in 2008.

The Government continued its modest steps to liberalize agriculture. It has ended most production controls and mandatory procurement and, apparently, has eliminated a previous requirement for farmers to grow rice as a dry-season crop in irrigated areas. State enterprises are sourcing more of their agricultural inputs at market prices. Some state enterprises involved in processing and supplying inputs to agriculture have been privatized.

Marketing controls in agriculture have been made less onerous, and farm production has increased in recent years. Although the country used to be a major rice exporter, the Government banned exports of rice and some other farm products in 2004 in an attempt to hold down domestic prices. The rice export ban was relaxed a little in 2006 and eased further in FY2007, when official exports rose to almost 360,000 metric tons (there were also unrecorded exports to neighboring countries). The Government expects another substantial increase in exports in FY2008, despite a 5-month suspension of rice exports following the cyclone.

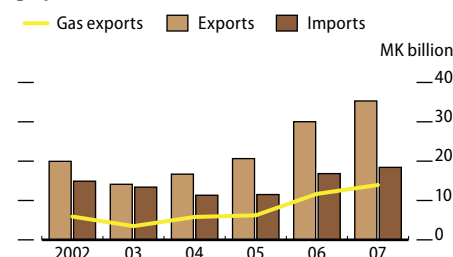
3.27.1 Inflation



Sources: Myanmar Central Statistical Organization, available: www.csostat.gov.mm, downloaded 27 February 2009; staff estimates.

[Click here for figure data](#)

3.27.2 Merchandise trade indicators



Source: Myanmar Central Statistical Organization, available: www.csostat.gov.mm, downloaded 27 February 2009.

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The fiscal deficit narrowed to about 3.5% of GDP in FY2007. Rapid growth in tax revenue is a result of improvements to tax administration since 2004, and state enterprises have been increasingly allowed to raise prices closer to market rates. Even with salary increases for civil servants in FY2007, current expenditure was contained. Spending on health and education remains low. However, greater capital outlays, especially on the remote new capital city of Naypyidaw and on the Yangon–Mandalay highway, continue to put pressure on the fragile fiscal position.

Fiscal deficits are financed by central bank money creation, which pushed up broad money supply by nearly 30% in FY2006 and by about 20% in FY2007, in turn propelling inflation to around 30% in both years (Figure 3.27.1 above). Shortages after the cyclone caused short-lived spikes in the price of rice and construction materials.

Rising export income from gas (Figure 3.27.2 above) continues to support the external accounts. The current account surplus was almost 10% of GDP in FY2007. Gross international reserves rose to an estimated \$3.4 billion, equivalent to more than 1 year of imports.

Myanmar has a multiple exchange-rate system in which the official rate applies only to transactions undertaken by the Government and state enterprises; it is thus used primarily for accounting purposes. For external transactions, the Government issues foreign exchange certificates, exchangeable at market-determined rates. A large parallel market also flourishes, which exchanges United States dollars for kyats at a small premium over the rate for foreign exchange certificates. This parallel rate was fairly steady at around MK1,200–1,300/\$1 in 2008.

Economic prospects

Recovering from the devastation of Cyclone Nargis is the priority. A plan has been prepared under the auspices of the Tripartite Core Group, comprising the Government of Myanmar, the Association of Southeast Asian Nations, and the United Nations. To be funded by donors, the plan proposes a \$690 million recovery program during 2009–2011. By end-2008, commitments to the plan totaled \$466 million. The Government is making its own reconstruction arrangements as well, but has not given details.

This spending on reconstruction will contribute to growth. Against that, weaker economic performance in People's Republic of China, India, and Thailand—Myanmar's major trading partners—is likely to put downward pressure on export prices of gas and agricultural products. It is also likely to reduce remittances from Myanmar workers there. On balance, GDP growth is forecast to slow in FY2008 and FY2009. The current account is expected to remain in surplus, supported by the planned inflows of foreign aid.

Myanmar has faced international economic and diplomatic sanctions for much of the past two decades. Immediately after the cyclone, the Government did not allow personnel and aid supplies from international agencies into the country, but later in the year it offered cooperation with the agencies. This engagement opens the possibility that cooperation on aid might be broadened to include areas not directly affected by the cyclone, but where poverty reduction is urgently needed. The Tripartite Core Group may well continue to play a role in managing such assistance.

3.27.1 Development challenges

The agenda of required reforms is extensive. Further liberalization of agriculture, domestic trade, and state enterprises would promote growth and help strengthen the fiscal position, paving the way for an increase in spending on poverty reduction, health, and education.

Development of banking and a domestic bond market would help mitigate the need to monetize deficits—a process that feeds into high inflation—while a unified exchange rate would reduce pricing distortions and strengthen incentives in the economy.

Improvements in the environment for private-sector development would lift investment, including nonenergy sectors, and so stimulate growth and employment. Higher standards of governance and transparency are among the requirements for a better business climate.

Limited by weaknesses in human and financial capacity and institutions, official data generally lack timeliness, reliability, and comparability. Strengthening such resources would allow the authorities greater economic assessment capabilities to serve as a base for enhanced policy making.