Myanmar

Modest rates of economic growth in recent years reflect policy weaknesses, compounded by some fallout from the global recession in 2009, and cyclone damage to agriculture in May 2008. Growth is forecast to edge higher, supported by a modest increase in private consumption, government spending, and investment in natural gas production. Inflation pulled back in 2009, but is expected to accelerate in the forecast period. While the government has taken some initial steps to liberalize the economy, the list of impediments to development remains long.

Economic performance

Growth slowed to an estimated 3.6% in the fiscal year ended 31 March 2009 (FY2008) from 5.5% in FY2007 (official GDP growth estimates, which are considerably higher than these nonofficial ones, are inconsistent with variables closely correlated with economic growth, such as energy use and fertilizer applications).

Myanmar was not directly hit by the global recession, given its absence of financial and trade links with industrial countries. However, exports and private consumption were reduced by the combined effect of economic slowdowns in neighboring economies, a collapse in commodity prices, and the impact of Cyclone Nargis, which inflicted severe human loss and considerable damage to agriculture in parts of the Ayeyarwady and Yangon divisions in May 2008.

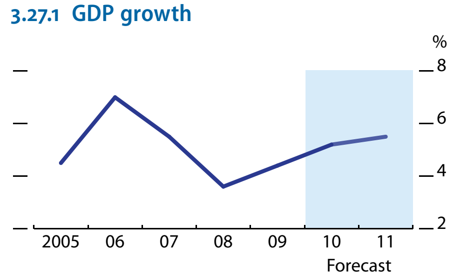
Agriculture (including fisheries, forestry, and livestock) accounted for around two-fifths of GDP, one-fourth of exports, and over one-half of total employment in FY2008. Industry, including export-oriented natural gas production, contributed 23% of GDP, and services the rest. Official data indicate a decline in natural gas production in FY2008, reflecting a slowdown in demand from Thailand.

More recently, economic growth picked up to an estimated 4.4% (Figure 3.27.1) in the fiscal year ended 31 March 2010 (FY2009), in tandem with recovery in demand from neighboring countries and a partial upturn in agricultural production in areas damaged by the cyclone. Gas production probably rose, to meet increased demand from Thailand. Private consumption, however, was subdued because of weakness in remittances from Myanmar workers in recession-hit Malaysia, Singapore, and Thailand, and because of stagnant rural incomes as farmgate prices remained depressed.

Paddy production, the predominant crop, is estimated to have increased by 2.5% in FY2008 and by 2.7% in FY2009. Production in FY2009 was hampered by drought in the central region and by residual soil salinity in cyclone-affected areas.

Inflation pulled back sharply from 29% year on year in March 2008

3.27.1 GDP growth



Source: Asian Development Outlook database.

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to 2.5% in September 2009, largely a result of a sharp drop in food and fuel prices, slower domestic economic activity, and reduced monetization of the fiscal deficit. Higher global commodity prices likely propelled inflation to about 6.5% by March 2010, leaving the FY2009 year-average rate at 7.9% (Figure 3.27.2).

The external current account fell into deficit in FY2008 (estimated at 2.5% of GDP) from a surplus of 0.6% of GDP in FY2007, owing to lower export volumes and declines in export prices of agricultural products. This gap narrowed to about 1.0% in FY2009 (Figure 3.27.3), when a contraction in imports more than offset declines in gas exports (due to lower prices) and in remittances. The fall in imports in part stemmed from the winding down of construction at the new capital city, Naypyidaw. Inflows of foreign direct investment into the energy sector helped lift international reserves to about $5 billion at end-FY2009 (Figure 3.27.4), equivalent to 8 months of imports.

The consolidated fiscal deficit in FY2009 (covering the central government and state economic enterprises) widened to an estimated 3.7% of GDP from 3.4% in FY2008. Current expenditure was driven up by higher interest payments on domestic debt, spending to repair cyclone damage, and a 35% public sector wage increase in January 2010. Revenue growth was sluggish. The revenue-to-GDP ratio at about 7% is low by international standards, while social spending at around 1% of GDP is extremely low.

In FY2008, the authorities moved away from routinely monetizing the fiscal deficit and financed about one-third of it through issues of Treasury securities. The government issued a new 2-year Treasury bond in January 2010 with a view to increasing the use of domestic saving for deficit financing. This move is expected to go some way to containing the inflation impact of future fiscal deficits. However, the practice of valuing exports of state enterprises at the official exchange rate of MK6/$1 (as opposed to the market rate of about MK1,000) leads to significant distortions because domestic revenue available for spending is hugely undervalued.

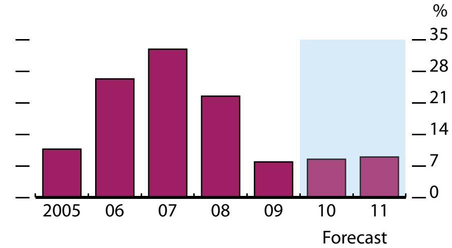
As for monetary policy, administratively determined nominal interest rates remained at their 2006 levels through 2009—17% for lending and 12% for bank deposits—despite the easing of inflation. Consequently, real interest rates in the formal banking sector are among the highest in the world. While this has, to some extent, helped bring back more domestic saving into the formal banking system, it could have significant implications for bank soundness as borrowers' debt-servicing capacity deteriorates.

Economic prospects

Projections for the economy are based on assumptions of normal weather. They also assume that a national election scheduled for 2010 will, at the very least, bring about a more conducive environment for economic reforms, and that there will be no regression of the limited reforms seen so far.

On this basis, GDP growth is expected to edge up to 5.2% and then to 5.5% in the next 2 fiscal years. In FY2010, private consumption will be supported by the public sector wage hike, while public consumption is

3.27.2 Inflation



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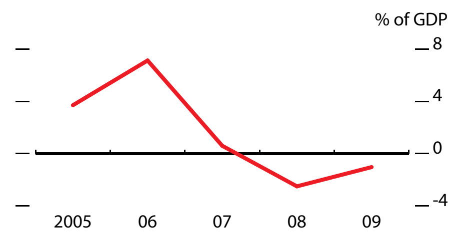
3.27.3 Current account balance



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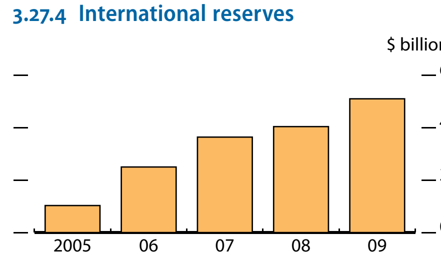
3.27.4 International reserves



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likely to pick up due to expenditure related to the election. In FY2011, a modest increase in rural incomes owing to forecast rises in exports and prices of cash crops will underpin private consumption.

Public investment will rise if the government goes ahead with planned increases in expenditure on infrastructure. The authorities have indicated that they will use part of the SDR202 million ($309 million) allocated in 2009 by the International Monetary Fund for infrastructure. Inflows of foreign private investment are expected for the development of two new gas fields, Shwe and Zawtika, and the construction of an oil and gas pipeline project from Myanmar to the People's Republic of China. Aid disbursements for cyclone victims are scheduled to be stepped up prior to the completion of the humanitarian relief effort in July this year.

From the supply side, agricultural output is expected to gradually pick up. The rebound in neighboring economies is seen increasing demand for gas, which will underpin industrial output.

Inflation is projected to accelerate to 8.5%–9.0% in the forecast period, reflecting somewhat higher domestic demand and increased world prices for oil and foodstuffs. A modest increase in exports of gas and food crops is to be offset by increased imports of capital equipment and construction materials. The current account deficit is projected to widen to about 2%.

3.27.1 Selected economic indicators (%)

	2010	2011
GDP growth	5.2	5.5
Inflation	8.5	9.0
Current account balance (share of GDP)	-1.8	-2.1

Source: ADB estimates.

3.27.1 Development challenges

In the late 1980s, Myanmar began a process of gradually unwinding state ownership and control of the economy. These changes have improved efficiency and growth in some parts of the economy, but reforms have often been piecemeal, without an apparent strategy to overcome the many structural impediments to realizing the economy's potential. The country has lagged behind its neighbors in living standards (Box figure) and poverty reduction, and the agenda of required reforms remains extensive.

A gradual liberalization of agriculture has prompted more farmers to grow cash crops. However, the sector faces acute shortages of credit. Farmers invariably have to turn to informal sources of finance, at interest rates of 5%–12% a month. The shortage of credit, in turn, leads to a glut of paddy for sale at harvest times, resulting in very low farmgate prices. The credit shortage also means that farmers are unable to afford adequate farm inputs and have reduced the intensity of land cultivation, leading to a reduction in farm yields and fewer rural jobs.

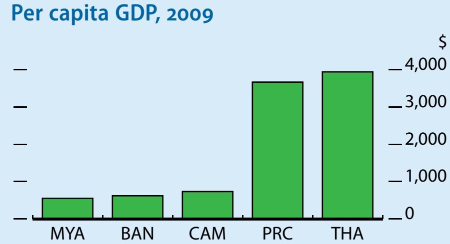
Banking system assets are below levels of a decade ago, and 70% of all private financing requirements are sourced from the informal sector. Broadening access to formal finance requires moving toward market-determined interest rates, relaxing the deposit-to-capital ratio for banks, easing stringent collateral requirements, and lifting administrative controls on the expansion of new bank branches.

Stimulating competition among banks would improve banking services. In this context, the priorities should be to eliminate regulatory forbearance toward state banks, allow state banks to operate on a commercial basis, and move away from a segmented system whereby only certain banks can operate in certain sectors.

The government floated proposals to some business groups in early 2010 to sell various state assets, such as the fuel distribution network, some ports and buildings, and the international airline. This has the potential to facilitate development of the private sector. Enterprises that remain in state ownership need to be modernized and allowed to operate on a commercial basis, which would promote competition and increase their contribution to the budget.

Addressing low levels of government revenue generation requires a broadening of the tax base and fewer tax exemptions. Now that investment spending on the capital city has peaked, there should be room for increased outlays on development and social projects. Unification of the multiple exchange rates would create additional fiscal resources and reduce incentives for informal activity.

Per capita GDP, 2009



BAN = Bangladesh; CAM = Cambodia; PRC = People's Rep. of China; MYA = Myanmar; THA = Thailand.

Note: Fiscal year for Bangladesh and Myanmar. End-year market rate used for Myanmar.

Source: Asian Development Outlook database.

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