Myanmar

An assessment of economic development is handicapped by incomplete information and by deficiencies in the reliability of data. Official estimates suggest that the economy grew quickly in FY2004, but this is not supported by trends in inputs. Inflation appeared to rise to double-digit rates in 2005. Significant improvements in economic performance are unlikely in view of structural weaknesses in domestic policies, which include the monetization of fiscal deficits and a dual exchange rate.

Economic performance

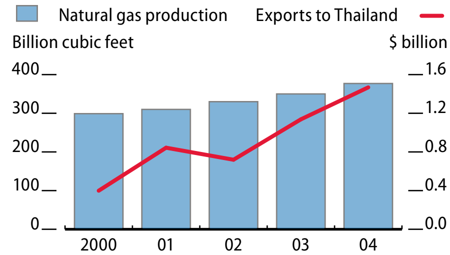
According to official estimates, gross domestic product (GDP) grew by 13.6% in FY2004 (ended 31 March 2005) because of improved performances in agriculture, fisheries, manufacturing, and trade. (About half of total output comes from agriculture, fisheries, and forestry. Industry, dominated by subsidized state enterprises, contributes about 15% of GDP, and services 35%.) However, trends in inputs such as electricity and fertilizer suggest much more modest growth. The dearth of complete and timely data limits an analysis of the economy's performance, as does exclusion of the informal sector in official estimates.

The Government emphasized self-sufficiency in rice and expanding the production of beans and pulses, cotton, sugarcane, and oil-seed crops for export. The area sown to these crops has been increased. But imports of fertilizers have been on a declining trend, keeping yields below potential. In the first 10 months of FY2004, fertilizer imports were just 15% of total fertilizer imports in FY2003. The industry sector has been impaired in recent years by trade and investment sanctions imposed by the European Union, United States, and others. In energy, though, oil and gas production has expanded (Figure 2.25.1), and electricity generation increased 18% in the first 7 months of FY2005.

Fuel prices were raised eightfold in October 2005 and lifted further subsequently to reduce the cost of subsidies. This prompted higher prices for some basic commodities. Inflation likely returned to double digit rates. Monetary policy has not addressed the inflationary pressures and interest rates have been unchanged since 2001. Real rates are likely to be negative. The kyat weakened in the parallel foreign exchange market to 1,330/$1 in September 2005, which also put pressure on prices. There has been a mild appreciation of the kyat since then. The ratio of the parallel rate to the official rate is nearly 200:1.

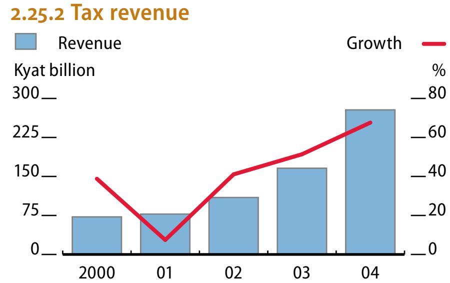
Tax revenue rose by 68% in FY2004, reflecting increases in taxes collected on commodities, services, and profits (Figure 2.25.2). Receipts from customs duties jumped more than fourfold following changes to import tariffs. Expenditure, however, rose even faster and after including subsidies to state enterprises, the fiscal deficit was an estimated 6% of GDP, one of the highest in the subregion. Fiscal deficits are financed largely through central bank credit creation. This has contributed to

2.25.1 Natural gas production and exports to Thailand



Sources: Central Statistical Organization, available: http://www.csostat.gov.mm/excelfile/p08Ma02.xls; Economist Intelligence Unit, available: http://www.eiu.com/index.asp?layout=country&geography_id=1080000308; Bank of Thailand, available: http://www.bot.or.th/BOTHomepage/databank/EconData/EconFinance/tab44-1e.asp, downloaded 8 March 2006.

2.25.2 Tax revenue

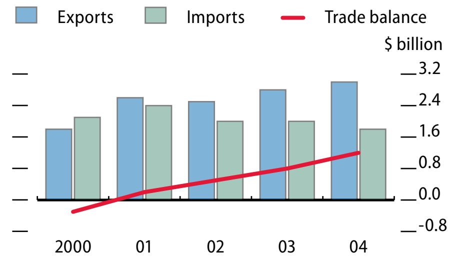


Sources: Central Statistical Organization, available: http://www.csostat.gov.mm/sIndicators.asp, downloaded 8 March 2006; Economist Intelligence Unit, available: http://www.eiu.com/index.asp?layout=country&geography_id=1080000308, downloaded 9 March 2006.

rapid growth of the money supply, which rose 26% in the July–September quarter of 2005 from a year earlier. On the trade front, Myanmar has reported surpluses since FY2001, with a trade surplus of $1.2 billion in FY2004 (Figure 2.25.3). Exports are estimated to have grown by 8%, but imports fell by about 11%. Receipts from exports of natural gas to Thailand now represent over 30% of total exports by value.

Growth prospects are likely to remain modest without significant macroeconomic reforms. Government projections of growth of 12.2% are again unrealistic. Monetization of the fiscal deficit contributes to inflation pressures and puts fiscal and monetary stability at risk. The fiscal constraints limit resources available for poverty reduction and for investment in infrastructure. However, trade links with robust neighboring economies provide a basis for expansion of export industries. The confirmation of the presence of avian flu cases in birds in the Mandalay area is a source of concern.

2.25.3 Trade indicators



Source: International Financial Statistics online database, available: http://www.imfstatistics.org/imf/ifsbrowser.aspx?branch=ROOT, downloaded 8 March 2006.