

# Myanmar

Economic growth edged up over the past 2 years, accompanied by relatively modest inflation. The economy is expected to grow moderately over the forecast period, supported by foreign investment in construction and higher levels of credit to agriculture. The government that took office in March 2011 faces an extensive agenda of reforms if the country is to reach its potential.

## Economic performance

Growth recovered to an estimated 5.1% (Figure 3.27.1) in the fiscal year ended 31 March 2010 (FY2009), after slowing in the previous year owing to the impact of Cyclone Nargis and weakness in demand for imports from neighboring economies. The recovery in FY2009 was led by improved results from agriculture, mining, manufacturing, and the transport and communications subsectors. Living standards remain low, however.

Agriculture, including fisheries, forestry, and livestock, accounts for over half of employment and about 40% of GDP. Production from this sector picked up in FY2009 as areas damaged by the cyclone, mainly in the Ayeyarwady and Yangon divisions, were gradually rehabilitated.

More recently, economic growth edged up to an estimated 5.3% in FY2010 (ending 31 March 2011), with a solid contribution from construction, particularly in Naypyidaw, the new capital, and Mandalay (a highway connecting these cities was under construction). Economic recovery in neighboring countries that import goods including food and natural gas from Myanmar supported the lift in growth in FY2010.

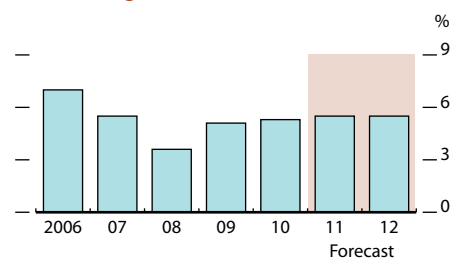
Agriculture in FY2010 was sluggish, however, a result of persistent drought in the central region and residual soil salinity in cyclone-affected areas.

(Official GDP growth figures, which are considerably higher than these unofficial estimates, are inconsistent with variables that are closely correlated with economic growth, such as energy use. Economic data are not timely either, making it difficult to assess economic developments.)

The government has financed part of its fiscal deficit through Treasury bond issues in the past 3 years, rather than relying completely on money creation to finance the fiscal gap. This approach has contributed to lowering inflation from over 20% to single digits in that period. Average inflation was estimated at 8.2% in FY2009 and 7.3% in FY2010.

Export income from natural gas continued to support the external accounts. Export prices for gas fell by about 20% in FY2009, dragging down earnings from this source, but receipts recovered to \$2.7 billion in FY2010 as demand from Thailand picked up. However, higher levels of

3.27.1 GDP growth



Source: Asian Development Outlook database.

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imports of construction materials and equipment widened the current account deficit to the equivalent of 2.2% of GDP in FY2010, from 1.3% in FY2009.

Inflows of foreign direct investment into the hydrocarbon sector helped to lift international reserves to about \$5.3 billion at end-FY2010, equivalent to 7 months of imports (Figure 3.27.2). The market exchange rate of the kyat appreciated from about MK1,000/\$1 to MK830/\$1 in the year to January 2011.

Estimates of the consolidated fiscal deficit, covering the central government and state economic enterprises, indicate it widened to 5.7% of GDP in FY2010 from 5.4% in FY2009 (Figure 3.27.3). Expenditure on the construction of Naypyidaw remained a drain on the budget, while revenue growth was sluggish. The practice of valuing exports of state enterprises at the official exchange rate of MK5.5/\$1 (as opposed to the market rate) undervalues revenue available for spending.

High administered bank interest rates (17% for lending and 12% paid on deposits) discourage banks from buying the lower-yielding Treasury bonds. Consequently, bond issues funded only about one-third of the fiscal deficit in FY2010.

The government privatized several state assets in 2010, including an airline, 243 gasoline stations, public buildings, and rice distribution operations. Further asset sales are expected.

## Economic prospects

Forecasts assume both normal weather patterns and a start to gradual economic reforms by the government that took office in March 2011.

A modest increase in rural incomes, owing to increased exports and prices of cash crops, is expected to underpin private consumption in FY2011.

The Myanmar Agriculture Bank doubled credit to farmers in 2010. Further increases are planned in the next 2 years, going some way to addressing severe shortages of credit to agriculture. These moves, coupled with the gradual easing of controls on agriculture over recent years, are expected to stimulate production.

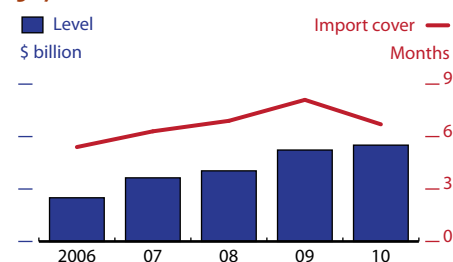
Investment is projected to rise in the forecast period, notably in construction. Projects planned or under way include new hydropower plants, gas fields, and oil and gas pipelines to the People's Republic of China, largely financed by foreign investment. A Thai company agreed last year to build a port, power plant, and industrial estate in Dawei in southern Myanmar starting this year, and a company from the People's Republic of China signed a contract to build an airport at Naypyidaw.

Gas production is projected to be fairly flat in the forecast period, before new projects come on stream in about 3 years. Gas export prices will likely rise, together with global energy prices and solid demand from Thailand. (This will have a limited impact on GDP because gas income is converted at the official exchange rate rather than the market rate.)

On the balance of these factors, GDP is forecast to grow by about 5.5% in the next 2 years.

Inflation is projected at 8.0% in the forecast period (Figure 3.27.4), reflecting higher domestic demand and increased global prices of food

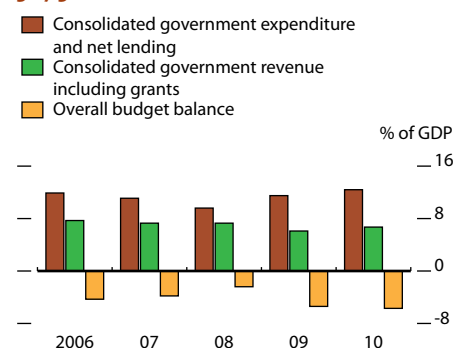
### 3.27.2 International reserves



Sources: Asian Development Outlook database.

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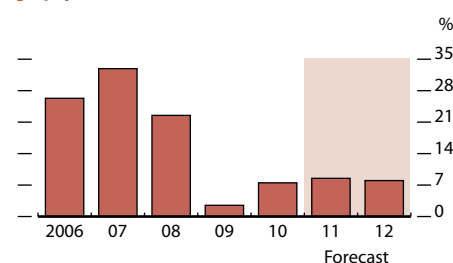
### 3.27.3 Fiscal indicators



Source: Asian Development Outlook database.

[Click here for figure data](#)

### 3.27.4 Inflation



Sources: Asian Development Outlook database.

[Click here for figure data](#)

and fuel. The domestic price of rice surged in early 2011. A government decision to suspend rice exports in March 2011 is expected to moderate price increases, but much rice is still exported illegally.

The current account deficit is seen widening to 4.1%–4.7% of GDP (Figure 3.27.5). Increases in export earnings from gas and food crops will likely be offset by stronger imports of capital equipment and construction materials.

## Development challenges

The country faces an extensive agenda of reforms to realize its potential. It lags its neighbors in living standards and poverty reduction, requiring a steep increase in economic growth, as well as a more equal distribution of income and wealth, to narrow this gap.

A comprehensive process of reforms includes improving the climate for investment, generating fiscal resources to expand social and infrastructure expending, unifying the exchange rate, developing the finance sector, strengthening macroeconomic management, and liberalizing agriculture and trade.

The finance sector is undeveloped but has considerable potential to support economic growth. Four new banks and 49 new bank branches were approved in 2010, helping lift private credit significantly. However, banking assets remain low and only about one-third of all private financing is sourced from the formal sector. Expanding access to formal finance involves allowing state banks to operate on a fully commercial basis, liberalizing interest rates, easing collateral requirements, and relaxing bank deposit-to-capital ratios.

Agricultural credit is inadequate, despite last year's improvement. Farmers are often unable to afford sufficient farm inputs and have reduced the intensity of land cultivation. Eliminating barriers for private banks to expand in rural areas, introducing crop insurance, and issuing land-use certificates to farmers could be useful reforms to expand credit. Such measures could be complemented by public investment in rural infrastructure.

Privatizing state assets has the potential to encourage private sector development if the outcome leads to greater competition and investment. Making the process more transparent would improve investor confidence and asset valuations. Developing the private sector more generally depends on upgrading the regulatory, legal, and policy environment, as well as introducing higher standards of governance.

Gas export income adds to foreign exchange reserves, but has little impact on GDP or the budget owing to conversion at the official exchange rate. Such income would greatly lift government revenue if it was converted at the market exchange rate, enabling increases in expenditure on health, education, and infrastructure (social spending as a ratio to GDP, at about 1%, is well below that of most developing countries).

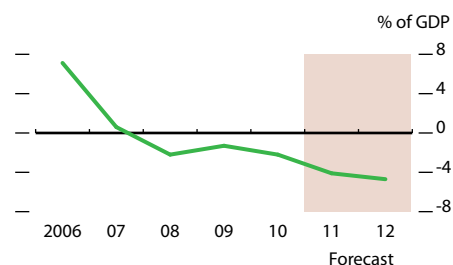
Further in this direction, unifying the multiple exchange rates would create additional fiscal resources, as would broadening the tax base (with fewer tax exemptions), a simplified tax structure, and greater emphasis on direct (rather than indirect) taxes, which are fairer to the poor.

### 3.27.1 Selected economic indicators (%)

|   | 2011 | 2012 |
|---|------|------|
| GDP growth                                | 5.5  | 5.5  |
| Inflation                                 | 8.0  | 8.0  |
| Current account balance<br>(share of GDP) | -4.1 | -4.7 |

Source: ADB estimates.

### 3.27.5 Current account



Source: Asian Development Outlook database.

[Click here for figure data](#)