Myanmar

Economic growth picked up in FY2011, based largely on foreign investment in energy and exports of commodities and natural gas. That trend is forecast to continue, assisted by policy reforms and higher gas exports in 2013. Inflation is expected to quicken, after receding in 2011. The government has taken steps to revitalize the economy, but the agenda of required reforms is long.

Economic performance

GDP growth edged up to an estimated 5.5% in FY2011 (ended 31 March 2012), from an average of 4.9% over the previous 4 years, based mainly on investment in hydropower, natural gas, and oil. Agriculture remained subdued owing to flooding and currency appreciation that hurt exports.

International tourist arrivals rose by an estimated 26% (Figure 3.27.1), in part a response to initial political and economic reforms after national elections in November 2010.

(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.)

The exchange rate of the kyat on the unofficial market appreciated to BCPVU.,ŤŞŤŠŢŝJOŞȘšșňĐJM, in 2009. The appreciation was driven largely by foreign investment. (The PďDJBMFYDIBOHFSBUFXBTNBJOUBJOFEBU.,šŠŦŝJO':ŞŜșș
One outcome of the stronger market exchange rate was to reduce rice exports, which created a surplus in the domestic market and brought down rice prices. That helped slow inflation to 4.2% on average in FY2011, from 7.3% in the previous fiscal year.

Exports of gas increased by nearly 15% to an estimated $3 billion (Figure 3.27.2). Gemstone and jade exports, however, likely declined after doubling in FY2010. Higher levels of imports, particularly construction materials and machinery, widened the current account deficit to an estimated 2.7% of GDP in FY2011, from 0.9% in FY2010.

Increased foreign investment in energy and hydropower, estimated at $2.8 billion in FY2011, helped lift international reserves to about $8 billion by March 2012, equivalent to 9.4 months of imports (Figure 3.27.3).

Foreign investment in other industries is insignificant owing to barriers to entry and a poor business environment. Total external debt is estimated at $11 billion, with about half in arrears.

The consolidated fiscal deficit—covering the central government and state economic enterprises—is estimated at 5.5% of GDP in FY2011 (Figure 3.27.4). Revenue collection remained low because of weak tax administration and a reduction of export taxes implemented to support

This chapter was written by Alfredo Perdiguer of the Thailand Resident Mission, ADB, Bangkok.
agricultural exports. The phasing down of construction of the new capital Naypyidaw helped rein in growth of government spending.

The monetary authorities lowered administered bank interest rates by 4 percentage points from 17% to 13% for lending and from 12% to 8% for deposits in FY2011, though banks were also given some flexibility in setting deposit rates. Yields on Treasury bonds made them attractive investments for banks, which reduced central bank monetization of the fiscal deficit in FY2011.

**Economic prospects**

The government that took office in March 2011 has an opportunity to rejuvenate the economy after more than 50 years of stagnation. In a promising start, the authorities took steps to unify the multiple exchange rates and are preparing other reforms, including a new national development plan.

New currency arrangements from 1 April 2012 involve a managed float of the kyat with a reference exchange rate of MK818/s1. The government plans to establish a formal interbank market and relax exchange restrictions on current international payments and transfers. Fiscal policy in FY2012 targets a modest fiscal deficit equivalent to 4.6% of GDP.

Among planned reforms is a land law giving farmers the right to own, sell, and mortgage their land. Credit to the farm sector remains inadequate, even though the Myanmar Agriculture Development Bank has doubled its funding for farmers in each of the past 2 years. A microfinance law was approved in November 2011 to expand microcredit to farmers.

The government is preparing a new foreign investment law that is expected to offer tax breaks to investors and allow them to lease private land and repatriate investment proceeds using market exchange rates. Special economic zones in Dawei in southern Myanmar, Thilawa near Yangon, and Kyaukphyu on the west coast will be established to attract industry.

While the government last year ordered that work be suspended on the large Myitsone hydropower project owing to environmental concerns, investment is picking up on other hydropower and coal-powered plants, gas fields, and oil and gas pipelines.

Gas production and exports are scheduled to increase sharply in FY2013 when the Shwe and Zawtika gas fields and pipelines to the People’s Republic of China (PRC) and Thailand, now under construction, come online. However, a market-determined exchange rate will threaten the viability of state economic enterprises that long benefited from importing inputs at the official exchange rate, abolished on 1 April this year.

GDP is forecast to grow by about 6.0% in FY2012 and 6.3% in FY2013 (Figure 3.27.5). Inflation is seen quickening to just over 6% (Figure 3.27.6). The authorities raised administered electricity prices in late 2011 and fuel prices in early 2012. A government plan to help farmers by supporting rice prices is likely to lead to higher retail prices of rice.

Relaxing foreign exchange controls is expected to propel imports upward and contribute to a widening of the current account deficit (Figure 3.27.7).
Easing of economic sanctions imposed on Myanmar by industrial countries would lead to higher levels of trade and investment, as well as the resumption of assistance and concessional financing both from these countries and from international financial institutions.

Policy challenge highlights
A key challenge is to maintain macroeconomic stability as the country opens to increased flows of trade and investment.

As for policy reforms, the agenda is extensive, given the low level of economic and social development. Per capita GDP is one of the lowest in Southeast Asia at about $715 (Figure 3.27.8), and 26% of the country’s 60 million people live in poverty. Myanmar’s ranking on the United Nations Human Development Index is near the bottom of the list (149 of 187 countries). The country needs to embark on a comprehensive and well-sequenced program of reforms if it is to realize its potential.

Public institutions, the financial system, and workforce skills are focuses for strengthening. Developing the private sector depends on opening more areas to its participation and upgrading the regulatory, legal, and policy environment.

The government needs to generate adequate fiscal resources to expand infrastructure (75% of the population do not have access to electricity) and improve health, education, and social protection systems. A simpler and broader tax structure and greater emphasis on direct (rather than indirect) taxes would bolster fiscal resources and be fairer to the poor.

Extending transport networks to link Myanmar more closely with neighbors would enable its businesses to participate in East and Southeast Asian, as well as global, production chains.

Unifying the exchange rate will expose the inefficiencies and losses of state enterprises, which dominate parts of the economy. That is likely to require reforms to put state enterprises on a more commercial basis, including privatizing some and possibly closing others. Thus, temporary and transparent subsidies will have to be introduced to minimize the impact on the poor as state enterprises raise prices and lay off employees.

Expanded access to formal finance is another key challenge that will require a phasing out of bank deposit-to-capital ratios and an easing of collateral requirements. Upgrading the central bank would involve granting it operational autonomy and strengthening its capacity to supervise the financial sector. Consolidating the domestic banking sector and developing partnerships with foreign banks would strengthen the banking system.

Agriculture, which employs over half the population, has great potential for improvement. The distribution of land ownership certificates under the new land law is a step forward, but will require careful implementation to ensure that the poor benefit. This measure should be complemented by an expansion of credit to farmers, increased public investment in rural infrastructure, and better seeds, fertilizers, extension services, and post-harvest facilities.