Myanmar

Stronger investment contributed to faster GDP growth last year and is expected to drive further expansion this year and next. The government maintained momentum on policy reform. Sustaining this reform agenda depends on strengthening institutions and capacity development at all levels of government. It also requires concerted efforts to reform and develop electricity supply.

Economic performance

GDP growth accelerated to an estimated 7.5% in FY2013 (ended 31 March 2014) from a revised 7.3% in FY2012. Growth was supported by rising investment propelled by improved business confidence, commodity exports, buoyant tourism, and credit growth, complemented by the government's ambitious structural reform program.

Higher imports of capital goods reflected the stronger investment. Capital goods imports surged by 59.5% to $5.8 billion in 2013 (Figure 3.27.1).

Business confidence has markedly improved in recent years, as reflected in a rapid increase in new business registrations, which exceeded 5,000 in the 10 months to January 2013, more than in the whole of the previous fiscal year. Registrations of new foreign-owned businesses rose to 375. Private sector credit maintained a rapid growth pace of 46% in FY2013.

Agriculture, which employs more than half the workforce, recovered in FY2013 after being hit by flooding in mid-2012. Natural gas output expanded with the Shwe and Zawtika gas fields starting production.

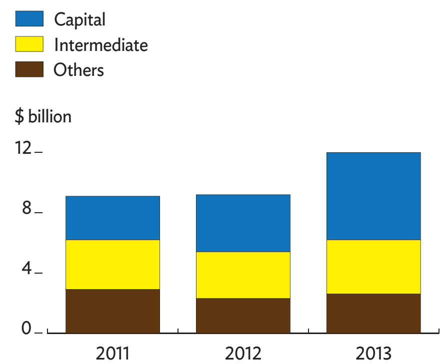
Exports of natural gas increased by 68.8% to 7.7 trillion cubic feet in the 12 months to September 2013. Gas exports were valued at $3.6 billion, accounting for almost 40% of all exports.

Inflation quickened to an estimated 5.8% in FY2013, driven by higher food prices and some pass-through to domestic prices since the depreciation of the Myanmar kyat (Figure 3.27.2). Following the adoption of a managed float in April 2012, the kyat has depreciated against the US dollar, falling by 11% from April 2013 to March 2014.

The current account deficit widened to an estimated 4.8% in FY2013, reflecting the strong imports of capital goods. This deficit was partly financed by foreign direct investment and a surge in remittances from abroad. The balance of payments recorded an estimated surplus equal to 0.6% of GDP, and gross official reserves rose to an estimated $4.9 billion in FY2013, covering 3.3 months of imports.

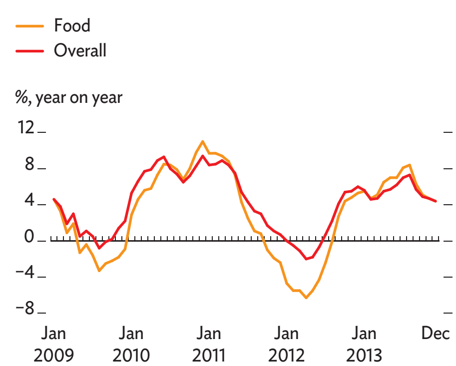
The government budget for FY2013 amounted to $19.5 billion, equal to 32.8% of GDP. Spending on education was boosted by 30% from the

3.27.1 Imports by product



Source: CEIC Data Company (accessed 20 March 2014).
Click here for figure data

3.27.2 Monthly inflation



Source: Central Statistical Organization.
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This chapter was written by Peter Brimble of the Myanmar Resident Mission, ADB, Yangon; and Poullang Doung of the Cambodia Resident Mission, ADB, Phnom Penh.

previous year, and on health care by 78%. The consolidated fiscal deficit widened to an estimated 4.9% of GDP in FY2013 from 3.8% in FY2012. Total external debt declined to $10.7 billion, or 19% of GDP, in FY2013 from $13.5 billion in FY2012, following a restructuring of debt arrears.

Economic prospects

The economy is forecast to post higher growth of 7.8% in both FY2014 and FY2015, benefiting from rising investment and improved business confidence since the government started to rejuvenate and open the economy 3 years ago (Figure 3.27.3).

A number of developments last year contributed to raising Myanmar's international profile as an investment destination, including the award of telecommunications licenses to Norway's Telenor and Qatar's Ooredoo, hosting of the World Economic Forum on East Asia and of the Southeast Asia Games, and selection of investors from the Republic of Korea, Singapore, and Japan as preferred bidders for developing airports.

Inflation is forecast to accelerate to 6.6% in FY2014 and 6.9% in FY2015 (Figure 3.27.4). Factors contributing to inflation include a boost to public sector wages, higher electricity tariffs, and rising property prices in cities. Reduced credit to the government from the central bank should help to contain inflationary pressures over the medium term.

Liberalized import restrictions coupled with relaxed foreign exchange controls are likely to maintain the current account deficit in FY2014 and FY2015 at around 5% of GDP (Figure 3.27.5). Gross official reserves are expected to reach $6 billion in FY2014, covering 3.6 months of imports.

The fiscal deficit is seen narrowing to 4.5% of GDP in FY2014, partly due to one-time revenue from telecommunications licenses and higher gas revenue. The restructuring of debt arrears under agreements with Japan, the World Bank, and the Asian Development Bank has paved the way for the government to receive new lending.

External debt is projected to increase to $11.7 billion, or 19.4% of GDP. Myanmar's risk of debt distress is expected to remain low, reflecting less reliance on commercial financing as more concessional resources become available following the resolution of debt arrears.

The government has initiated a broad array of reforms: unifying the exchange rate, improving monetary policy, increasing tax collection, reorienting public expenditure toward social and physical infrastructure, improving the business and investment climate, developing the financial sector, and liberalizing agriculture and trade. A new central bank law grants the central bank greater operational autonomy. The government has also prepared a strategy for sequenced and comprehensive public financial management reforms.

Efforts have been made to strengthen transparency and accountability with the establishment of a senior anticorruption committee and the government's commitment to join the global Extractive Industries Transparency Initiative. Notably, the award of telecommunications licenses in a strongly contested public tender went to established international companies without domestic partners.

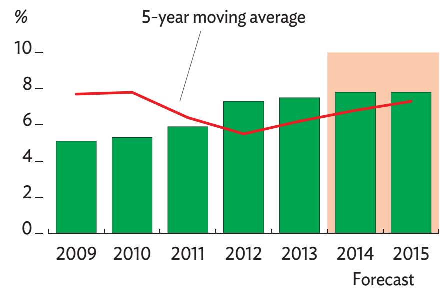
Nevertheless, the World Bank ranked Myanmar 182 of 189 countries for ease in its *Doing Business 2014* report, illustrating the challenges still

3.27.1 Selected economic indicators (%)

	2014	2015
GDP growth	7.8	7.8
Inflation	6.6	6.9
Current account balance (share of GDP)	−5.1	−4.8

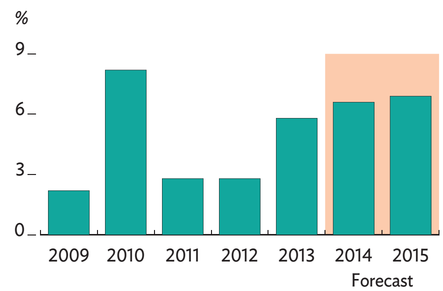
Source: ADB estimates.

3.27.3 GDP growth



Note: Years are fiscal years, ending 31 March of the following calendar year.
Sources: International Monetary Fund; ADB estimates.
Click here for figure data

3.27.4 Inflation



Sources: International Monetary Fund; ADB estimates.
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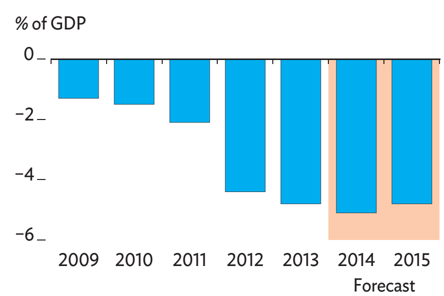
3.27.5 Current account balance



Sources: International Monetary Fund; ADB estimates.
Click here for figure data

to be met to improve the business climate (Figure 3.27.6). Sustaining the reform agenda will depend on strengthening institutions and capacity development at all levels of government. Progress in reform and ensuring access to public services and employment, especially in rural areas and among disadvantaged groups, would help make growth more inclusive.

Risks to the outlook come from ethnic and sectarian tensions, and vulnerability to bad weather.

Policy challenge—powering the economy

Myanmar has abundant energy resources, notably hydropower and natural gas. However, its power sector is one of the least developed in Southeast Asia. Only just over half the total installed capacity of 3,593 megawatts is firm, or highly reliable, because weather-dependent hydropower accounts for 75% of total electricity generation. Consequently, the supply of electricity is limited and unreliable.

With a population estimated at 60 million, Myanmar's per capita electricity consumption was only 160 kilowatt-hours in 2011, the lowest in Southeast Asia (Figure 3.27.7). This is the result of a low electrification rate estimated that year at 28% of the population, weak industrial development, and a lack of investment. Electrification is concentrated in cities.

On the cost side, electricity tariffs are heavily subsidized and among the lowest in Southeast Asia. However, in March 2014 the government announced reforms to electricity pricing that will largely eliminate existing unsustainable subsidies while maintaining lower tariffs for low-income users.

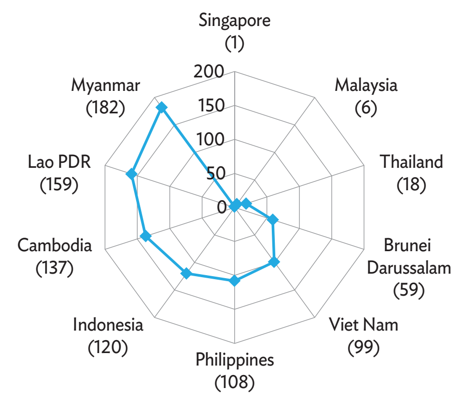
A study by development partners estimated that investment of around $18 billion would be required through 2030 to fuel annual average economic growth of 7.5%. Efforts by the government and development partners to address the needs of the energy sector include the preparation of plans, regulatory tools, and legal instruments to guide investments aimed at improving power distribution and reducing energy losses, supporting renewable power sources, rehabilitating existing energy infrastructure, and stimulating new generation and transmission capacity.

The required investments are far beyond the combined means of the government and its development partners, so steps are being taken to promote public–private partnership, especially in power generation, by developing power purchase agreements that meet international standards, building the capacity of government agencies to handle open and transparent bidding and tendering processes, and catalyzing private sector investments.

Given large gaps between cities and rural areas, attention is being paid to developing off-grid energy sources such as mini hydropower, biomass, wind, and solar energy.

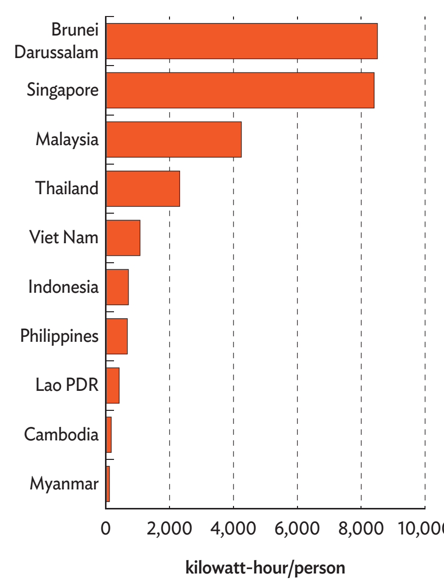
Meeting the energy challenge will play a major role in poverty reduction and stimulating regional development. In addition, improved power supply to all ethnic groups will contribute to the peace dividend.

3.27.6 Ease of doing business



Lao PDR = Lao People's Democratic Republic.
Note: Numbers in parentheses show ranking out of 189 countries worldwide. 1 = best, 189 = worst.
Source: Doing Business database (accessed 20 March 2014).
Click here for figure data

3.27.7 Electricity consumption per capita, 2011



Lao PDR = Lao People's Democratic Republic.
Sources: World Bank. World Development Indicators; ADB estimates.
Click here for figure data