MYANMAR

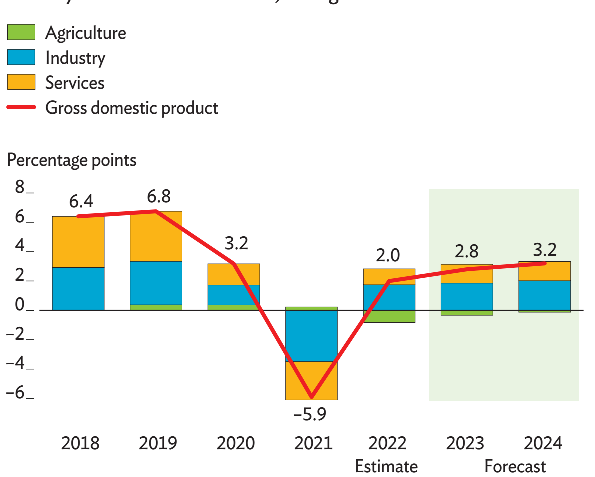
The economy continued to be weighed down in fiscal 2022 by instability and volatility. These factors will likely persist in the near term, along with high inflation and real growth languishing below potential. The economic downturn has stretched household incomes and hampered access to food, such that malnutrition is becoming more prevalent nationwide. The cumulative impact of this situation has taken a heavy toll on the poor, posing major challenges to social protection programs.

Economic Performance

Multiple persistent challenges and risks constrained GDP growth to an estimated 2.0% in fiscal year 2022 (FY2022, ended 30 September 2022). Growth in agriculture contracted further from 1.0% to 3.5% amid soaring input and energy prices, declining access to finance and capital, supply disruption, and persistent armed conflict in rural areas. Industry grew by 5.0%, supported by modest expansion in manufacturing, construction, and light industry (Figure 2.27.1). Services grew by 2.6% as business resumed in transport, finance, health, and travel and tourism. While international tourist arrival increased compared to FY2021, this was well below the pre-pandemic level.

Figure 2.27.1 Supply-Side Contributions to Growth

Industry and services rebounded, but agriculture remained weak.



Note: Years are fiscal years ending on 30 September of that year.

Sources: Central Bank of Myanmar. 2021. *Quarterly Statistics Bulletin. Volume III*; Asian Development Bank estimates.

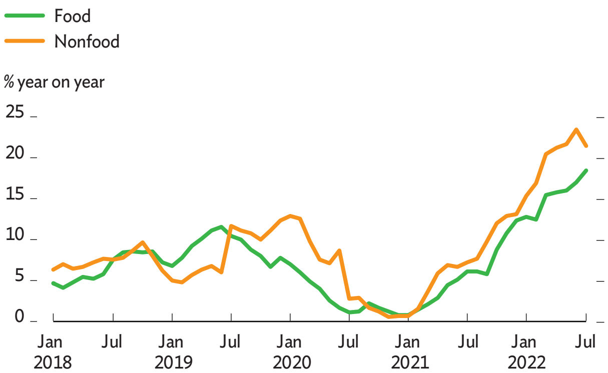
Inflation reached 16.0% in FY2022 (Figure 2.27.2). The causes were steep depreciation of the Myanmar kyat, high international commodity prices, and supply distortions throughout FY2022. Average food prices accelerated by 14.0% in FY2022, while other inflation increased to average 17.5%. The kyat depreciated against the US dollar by more than half in the course of FY2022 and finished the year with an official exchange rate at half of the market rate.

Trade gradually recovered in FY2022. Merchandise exports grew by 8.6% in US dollar terms, driven by robust demand for livestock, forestry, and manufactured goods, exported mainly to Asian countries. Buoyed by strong growth in imports of intermediate goods and raw materials for the garment industry, merchandise imports increased by 12.2% in US dollar terms, widening the FY2022 current account deficit (Figure 2.27.3). Foreign direct investment was halved, from $3.8 billion in FY2021 to $1.9 billion in FY2022, by political worries, a weaker business environment, and macroeconomic instability. Investment, mainly from Asia, went to electric power generation, services, and manufacturing.

This chapter was written by Joel Mangahas and Eve Cherry Lynn of the Myanmar Resident Mission, ADB.

Figure 2.27.2 Inflation

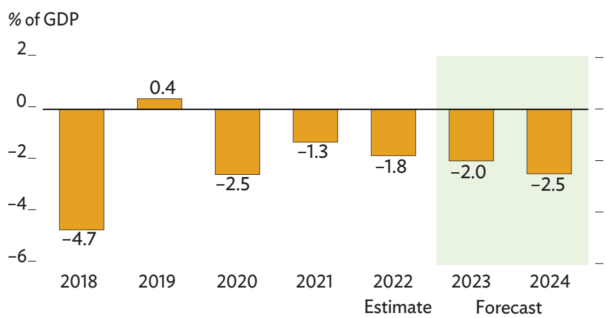
Inflation has surged due to currency depreciation and high commodity prices.



Source: Central Statistical Organization.

Figure 2.27.3 Current Account Balance

The current account deficit is gradually widening.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Central Bank of Myanmar. 2021. *Balance of Payment Statistics*; Asian Development Bank estimates.

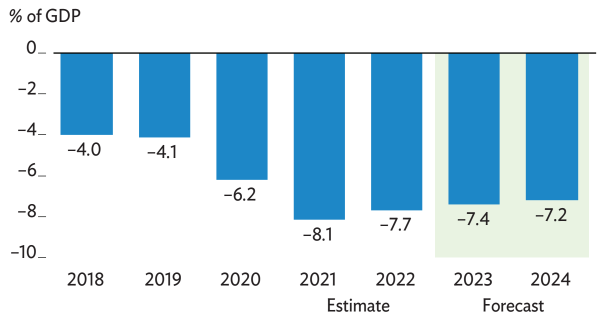
Modestly improved revenue collection narrowed the budget deficit. The gap is estimated to have narrowed from the equivalent of 8.1% of GDP in FY2021 to 7.7% (Figure 2.27.4). The ratio of revenue to GDP improved from an estimated 13.9% in FY2021 to 14.4% in FY2022 mainly as revenue collection rose along with economic activity. Tax revenue soared by 59.7% at the end of the third quarter of FY2022, reversing a significant decline a year earlier.

Economic Prospects

Growth is forecast to remain below the steady expansion at 6%–7% recorded before the pandemic. In light of continued instability, real GDP growth is projected to rise moderately to 2.8% in FY2023 and 3.2% in FY2024 (Table 2.27.1). While agricultural exports improved in the first quarter of FY2023, and lower prices for fertilizer and other inputs should ease production constraints, worsening armed conflict in rural areas is expected to continue to restrain agricultural output. Agriculture is expected to contract by 1.5% in FY2023, which would be less contraction than in FY2022. The reopening of borders, particularly with the People's Republic of China, will encourage input flows and boost agricultural output in the near term.

Figure 2.27.4 Fiscal Balance

The deficit will remain high despite some improvement in revenue collection.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Central Bank of Myanmar. 2021. *Quarterly Statistics Bulletin. Volume III*; Asian Development Bank estimates.

Table 2.27.1 Selected Economic Indicators, %

Economic growth is expected to recover in 2023, while inflation should stay moderate.

	2021	2022	2023	2024
GDP growth	−5.9	2.0	2.8	3.2
Inflation	3.6	16.0	10.5	8.2

GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Central Bank of Myanmar. 2021. *Quarterly Statistics Bulletin. Volume III*; Asian Development Bank estimates.

Industry is expected to pick up only modestly. With an unfavorable business environment, power shortages, weak global demand, and supply constraints, growth in industry is forecast at 5.2% in FY2023 and 5.5% in FY2024. Increased capital imports in the first quarter of FY2023 reflected the resumption of public and private investment in larger projects, construction, and other industries. Services are expected to grow by 3.0% with improvement in banking, travel and tourism, and telecommunications.

Inflation is forecast lower but trade and current account deficits wider. With slower depreciation of the kyat and lower energy prices, inflation is projected to ease to 10.5% in FY2023 before dropping to 8.2% in FY2024. The trade and current account deficits are expected to widen in the next 2 years as export earnings weaken and imports strengthen on more robust demand for capital goods. A $562.1 million merchandise trade deficit reached in the first quarter of FY2023 reversed a $204.9 million surplus a year earlier as capital imports surged by 69.9%. In the whole fiscal year, imports are expected to expand by 10.5% as exports likely increase by 5.5%. Sustained growth in remittances from migrant workers will cushion the trade deficit.

The fiscal deficit is forecast to narrow slightly from the equivalent of 7.4% of GDP in FY2023 to 7.2% in FY2024. Spending is expected to increase on higher capital expenditure and defense spending and to service public debt, which grew to more than 62% of GDP at the end of FY2022. However, current expenditure is expected to remain low, as is spending on social sectors, budgeted to decline by 26.6% while a rebound in trade and economic activities will boost revenues.

Protracted political tensions pose significant domestic downside risks to the outlook. The major external threats to the outlook are an unexpectedly slow recovery in major trading partners and new sanctions imposed by other countries in early 2023.

Policy Challenge—Enhancing Social Protection

External and internal shocks have buffeted the country since 2020. The results are worsened poverty incidence, food insecurity, and malnutrition in children. These shocks are reversing economic gains and improvements in well-being achieved before the pandemic, with disproportionate impact on the poor and vulnerable, particularly women and children.

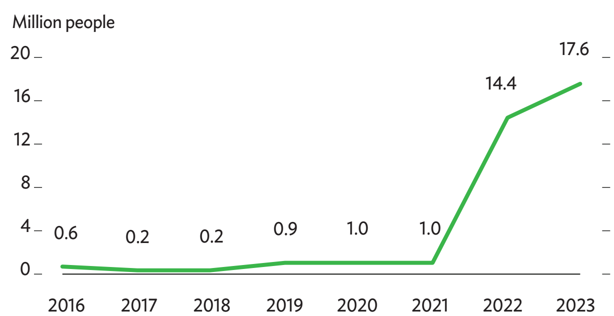
Slow growth disrupted employment and incomes. Employment declined by 6.4% in 2020, 14.7% in 2021, and 11.5% in 2022, as the poverty rate almost doubled from 24.8% in 2017 to 46.3% in 2022, approaching the 2005 level. As more people fall into poverty, they are unable to secure adequate nutrition. Given the country's inadequate social protection system, income losses have significantly reduced access to food, particularly among the poor. The prevalence of undernourishment increased by 0.6% to 3.1% in 2021, raising the number of undernourished people by 300,000 above the 2019 estimate to 1.7 million. The incidence of wasting and stunting among children under 5 has also increased, risking generational effects that leave children with lower cognitive ability, educational attainment, and income as adults.

Vulnerability to natural hazards amplifies risks to people's safety and well-being. In 2023, an estimated 17.6 million people—or one person in three, including 11.9 million women and children—will need humanitarian assistance (Figure 2.27.5). A projected 28% of the population will be food insecure in 2023, up from 25% in 2021. Further, an estimated 1.4 million people will be newly displaced in 2023, doubling the number of internally displaced people to 2.7 million by the end of the year.

Effective and sustainable social programs protect populations from shocks. Risk reduction can come from health and nutrition services, social assistance, child protection, policies to promote economic opportunity, education and training, climate resilience, and good governance—if adequate financing for such programs can be secured.

Figure 2.27.5 People in Need of Humanitarian Assistance

With armed conflict, the population in need of help has surged.



Source: United Nations Office for the Coordination of Humanitarian Affairs Myanmar.