Myanmar

Policy reform allowed rapid economic growth in the closing fiscal year and is expected to drive stronger expansion through the forecast period. Inflation will likely accelerate as well, and stresses are seen building in fiscal and external accounts. A key challenge is to develop the country's human resources, in particular by better equipping its young people for roles in a modern economy.

Economic performance

GDP growth is estimated at 7.7% in FY2014 (ending 31 March 2015), reflecting strong expansion in construction, manufacturing, and services. The government's ambitious structural reform program has underpinned the strong growth performance in recent years.

Construction was driven by government investment in infrastructure, and property development in Yangon and Mandalay. Manufacturing benefitted from increasing flows of foreign direct investment, with more than one new garment factory opening per week on average in 2014. Growth in services was bolstered by a surge in tourist arrivals from 2.0 million in 2013 to an estimated 3.1 million in 2014 (Figure 3.27.1).

The natural gas industry continued to expand, as reflected in a $400 million increase in gas exports to $2.1 billion in the first half of FY2014. However, growth in agriculture slowed. Agriculture provides just over 30% of GDP and more than 60% of employment.

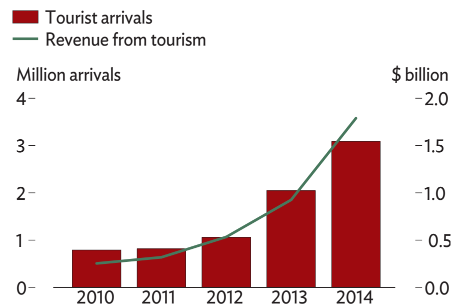
A 10% increase in business registrations in the first 9 months of FY2014 indicated that business confidence remains robust (Figure 3.27.2). The Directorate of Investment and Company Administration streamlined procedures to slash from 72 days to 3 days the time it takes to register a company. Growth in credit to the private sector continued to grow rapidly at 36% year on year in November 2014.

Approvals of foreign direct investment totaled $6.6 billion between April and December 2014, up from $4.0 billion for all of FY2013. Telecommunications attracted almost a third, followed by oil and gas at 24%, real estate at 18%, hotels at 13%, and manufacturing (primarily garments) at 8%. Less than 1% was for agriculture.

Inflation picked up toward the end of FY2014, partly because of rising food prices and higher prices for imports owing to depreciation of the Myanmar kyat. The kyat weakened from MK965 to the US dollar at the start of FY2014 to MK1,042 toward the end, largely the result of a widening current account deficit and a stronger US dollar. Inflation averaged an estimated 5.9%.

Strong demand for capital equipment and liberalized import and foreign exchange restrictions drove a surge in merchandise imports that outpaced exports, widening the current account deficit to an estimated 7.1% of GDP in FY2014. Gross official reserves look set to total

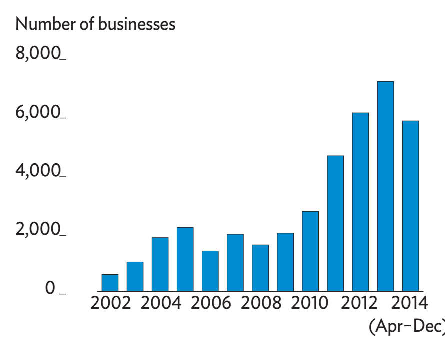
3.27.1 Tourism



Note: Years are fiscal years ending 31 March of the following calendar year. Tourist arrivals include border tourism.

Source: Ministry of Hotels and Tourism.

3.27.2 Domestic business registrations



Note: Years are fiscal years ending 31 March of the following calendar year. Data in FY 2014 covers the first 9 months from April-December 2014.

Source: Directorate of Investment and Company Administration.

This chapter was written by Peter Brimble and Yan P. Oo of the Myanmar Resident Mission, ADB, Yangon.

$4.8 billion at the end of the fiscal year, which is cover for 2.7 months of imports, down from 3.0 months in FY2013.

The government increased spending in FY2014, while revenue from sales of telecommunications licenses declined from FY2013, widening the fiscal deficit to an estimated 4.3% of GDP. Treasury bill auctions introduced in January 2015 broadened options for funding the deficit and strengthened the capacity of the Central Bank of Myanmar to follow an independent monetary policy.

Total external debt as a ratio to GDP fell slightly to 17.6%. Debt sustainability analysis by the International Monetary Fund in October 2014 found Myanmar at low risk of external debt distress after clearing arrears with Paris Club creditors in 2013.

3.27.1 Selected economic indicators (%)

	2015	2016
GDP growth	8.3	8.2
Inflation	8.4	6.6
Current account balance (share of GDP)	-6.8	-5.0

Source: ADB estimates.

Economic prospects

After moderating in FY2014, growth is forecast to accelerate to 8.3% in FY2015 and remain close to this pace in FY2016 as it is propelled by investment stimulated by structural reform, an improved business environment, and Myanmar's gradual integration into the subregion (Figure 3.27.3).

Better prospects in neighboring India and Thailand—and further afield in the major industrial economies—support the outlook for Myanmar but are partly offset by a slowdown in the People's Republic of China.

Fiscal policy is expected to provide additional stimulus in FY2015. Increases in government spending and higher civil service salaries could sharply widen the fiscal deficit to 6.3% of GDP. This raises concern because prudent fiscal policy is particularly important to macroeconomic stability when monetary policy tools are limited. It could be a challenge to maintain fiscal discipline ahead of national elections in the fourth quarter of 2015.

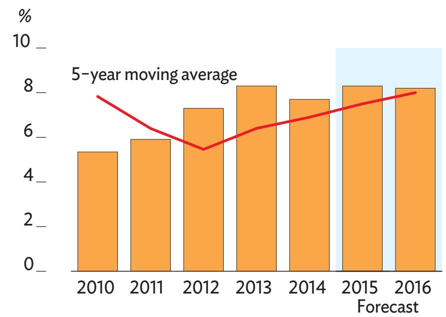
Higher fiscal spending and expected higher wages will add to domestic demand such that inflation is projected to accelerate to 8.4% in FY2015 before easing in FY2016 (Figure 3.27.4).

Strong economic growth will drive up imports, though lower global oil prices will counteract some of the impact on the trade balance. The current account deficit is seen narrowing slightly to 6.8% of GDP in FY2015 (Figure 3.27.5). Eventually, though, low oil prices could drag down natural gas prices, dampening export earnings and government revenue. This vulnerability in fiscal and external accounts intensifies the need to build gross official reserves to more comfortable levels.

External debt is projected to rise to $12.5 billion in FY2015, or 18% of GDP. Myanmar's risk of debt distress is expected to remain low as significant concessional funding becomes available. In addition, a new public debt law and debt management office will strengthen the management of debt, both external and domestic.

After 4 years of significant economic reform, many development challenges remain: improving infrastructure, strengthening governance and public sector capacity, developing human capital, building a dynamic private sector, and revitalizing agriculture. Poverty reduction is imperative. The United Nations Development Programme last year

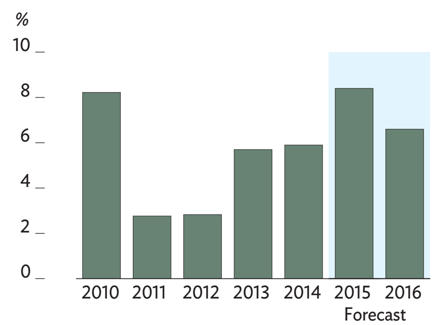
3.27.3 GDP growth



Note: Years are fiscal years ending 31 March of the following calendar year.

Sources: International Monetary Fund; ADB estimates.

3.27.4 Inflation



Note: Years are fiscal years ending 31 March of the following calendar year.

Sources: International Monetary Fund; ADB estimates.

ranked Myanmar 150 among 187 countries included in its human development index, with 26% of the population below the poverty line.

Risks to the economic outlook come from thin external and fiscal buffers, ethnic and sectarian tensions, vulnerability to bad weather, and possible slowing of reform momentum ahead of the elections. Progress was achieved in 2014 toward improving economic data, which is badly needed to support policy formulation and planning.

Policy challenge—equipping young people for a modern economy

Many young people entering Myanmar's workforce are poorly educated and skilled. This undercuts efforts to achieve inclusive economic growth and threatens to trap the economy in a model that adds little value and depends heavily on exploiting natural resources.

Employers cite inadequate human resources as a serious barrier to doing business. They complain that the low quality and relevance of education, compounded by low average attainment, leaves young workers ill-equipped for either work or further training because they lack basic knowledge and skills for problem-solving or teamwork.

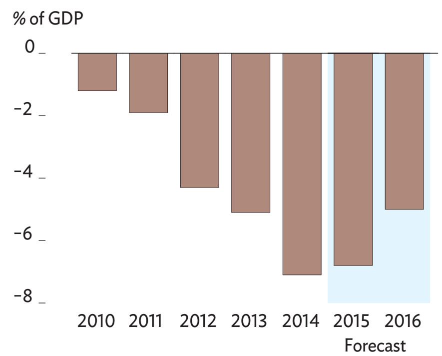
Broadening the ranks of secondary school graduates is a prerequisite to expanding and modernizing industry and services. Enhanced technical and vocational education and training (TVET) needs to play a complementary role by providing specific technical skills. However, in FY2009, 57% of males and 39% of females who were aged 18–27 and held formal jobs had left school during or immediately after secondary school, and fewer than 2% had completed post-secondary TVET.

Analysis of enrollment data suggests that secondary education is the bottleneck: of the estimated 1.1 million new enrollees in first grade in 2002, four-fifths successfully completed primary schooling 5 years later, but only one-tenth completed secondary education by passing the matriculation exam at the end of grade 11 in 2013 (Figure 3.27.6). Low pass-through from secondary school is a principal factor limiting entry into higher education and TVET. Moreover, half of all youths, and two-thirds of the poor, are unable to complete even lower-secondary education, which leaves them with virtually no access to TVET and facing bleak prospects for decent employment.

To address these challenges, the government is preparing its National Education Sector Plan, 2016–2020. The plan is expected to improve the secondary school curriculum and align it with workforce needs, boost secondary education completion rates, establish pathways linking secondary education with TVET, and expand access to new forms of demand-responsive TVET, particularly for disadvantaged youths and unskilled workers.

More broadly, the government is starting to address chronic underinvestment in education. Public investment in education was 0.8% of GDP in 2011, far below the Asian norm. From FY2011 to FY2013, the government more than tripled spending on education in nominal terms, but this brought spending to only an estimated 2.0% of GDP. Critically, the education plan will provide an evidence-based roadmap for further increases in financing.

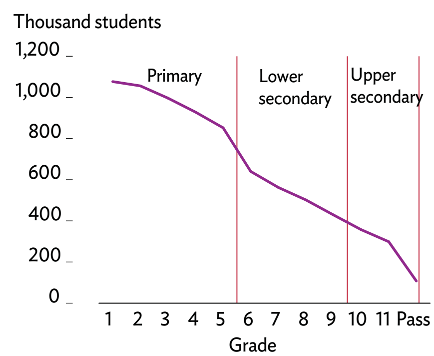
3.27.5 Current account balance



Note: Years are fiscal years ending 31 March of the following calendar year.

Sources: International Monetary Fund; ADB estimates.

3.27.6 Grade progression and exit from schooling



Note: "Pass" refers to grade 11 students who successfully pass the matriculation exam.

Source: ADB staff estimates using Myanmar Education Management Information System data for school years 2002/03 – 2012/13, and adjusting grade 1 enrollment for underreported repetition.