

	2014
Population, million ¹	51.4
GDP, US\$ billion	63.4
GDP per capita, US\$	1,233
Life expectancy (2012)	65
School enrollment rate, primary (2010)	114

Sources: World Bank staff estimates; World Development Indicators, 2014.
 1/Provisional Census Results, 2014, Ministry of Immigration and Population, Myanmar.

Summary

Myanmar's economy grew at a strong pace in 2014/15 but is projected to moderate in 2015/16 due to floods and slowing investment during the elections. The current account deficit has widened on account on investment-related imports. Rapid credit growth has fueled monetary expansion. Inflation reached 10 percent in the year to July. Medium-term growth prospects remain strong assuming continued progress on reforms.

Recent Economic Developments

Myanmar grew at an estimated 8.5 percent in real terms in 2014/15. Economic reforms have supported consumer and investor confidence despite ongoing business environment and sociopolitical challenges. Public consumption and private investment on the demand side, and the services sector on the production side, were the main drivers of growth. Agricultural output picked up in 2014/15 after two years of sluggish growth. Output in manufacturing and industry has been strong thanks to natural gas

in particular. There has been growing investment in light manufacturing, which slowed in early 2015/16 together with construction activity, linked in part to the upcoming period of political transition.

The economic impact of the floods that hit Myanmar in July 2015 is still being assessed, but will likely adversely affect the main rice crop this year. According to preliminary analysis of Census data, the areas most affected by the floods are those where people were relatively worse off. The floods are therefore affecting a population that was already vulnerable to poverty.

Strong demand for investment-related capital imports widened the current account deficit in 2014/15 to over 6 percent of GDP. Export fortunes remain closely linked to gas (around 40 percent of merchandise exports), which helped offset a drop in forestry exports last year. Agriculture trade was strong thanks to a rebound in the output of beans, pulses, and rice. The drop in international commodity prices helped reduce imports of refined oil, though this had not yet fully fed through to gas prices in Q1 of 2015/16.

Inflationary pressures increased during 2014/15, largely due to increasing food prices, with the CPI rising by 7.5 percent to end-March 2015, reaching just over 10 percent to July 2015 due to supply pressures and a weakening kyat. Although the price of rice, beans, and pulses in 2014/15 was stable, in line with international developments, the price of processed foods increased. Rising food prices are anticipated to particularly affect urban poor households and poor rural households that are net purchasers of food.

Reserve money remained relatively stable till the end of 2014 though overall money supply grew rapidly on account of increasing credit to the private sector. Banking sector exposure to vulnerabilities is limited by its low level of development, but strengthening banking supervision remains a priority to avoid a build-up of risks. The exchange rate depreciated by around 20 percent in nominal terms in the year to August 2015 due to a general strengthening of the

US Dollar, a growing current account deficit, and slowing foreign investment inflows in the run up to the elections. Recent efforts by the Central Bank to maintain exchange rate flexibility by allowing further depreciation of the kyat have helped to curtail the parallel market.

Estimates of Union Budget outturn for 2014/15 signal continued efforts at trying to maintain a prudent fiscal stance in the face of growing demands for public services. The general government budget deficit is estimated at 4 percent of GDP for 2014/15. Strong revenue performance was in part due to a windfall from telecom license receipts, though reforms in tax administration—including the introduction of self-assessment and the establishment of a Large Taxpayers' Office—are also beginning to pay off in terms of higher revenue collections. Spending on social sectors and economic services continued to trend up as a share of GDP in the 2015/16 Budget. These budget shifts aim in part to reduce household spending on education and health, and to support human development outcomes among poorer households.

Outlook

Economic growth in 2015/16 is expected to moderate to 6.5 percent in real terms, though this is subject to revision as more details come in on the impact of the floods. Agriculture growth will drop on account of the floods, and investment in manufacturing and industry will likely remain slow over the course of the political transition. Inflation in 2015/16 is projected to increase to 11.3 percent (period average) due to a combination of supply pressures caused by the floods and currency depreciation. Fiscal policy is expected to remain broadly on track, but the current account will come under further pressure due to import demand for post-flood rehabilitation and slowing agricultural exports.

Economic growth is expected to pick up over the medium term, assuming continued progress on economic reforms and a smooth political transition.

The agricultural sector should bounce back rapidly, and services should continue to grow at a strong pace thanks to further expansion of telecommunications and banking services, in particular. Manufacturing and industry are also expected to pick up post-elections, particularly since recent investments in light manufacturing (for example, garments) begin their operations in newly established economic zones.

Emerging Challenges

While medium-term growth prospects remain strong, addressing the impact of the floods on poor households will be a challenge. The floods have hit two of the poorest states in Myanmar, namely Rakhine and Chin, which have been declared natural disaster zones.³ Loss of livelihoods has been compounded by loss of assets and access to social services. This will require a strong public sector response.

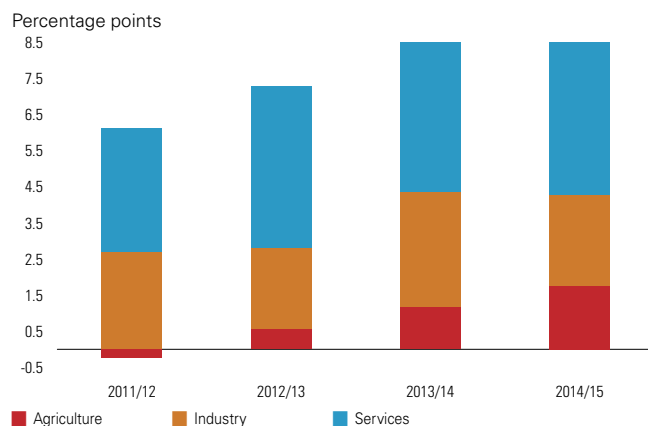
Strong growth prospects assume continued progress on reforms, which will hit a hiatus over the election period. These include adoption of legislation to strengthen the business environment (for example, the Investment Law and the Companies Law), modernization of the banking sector (the Banking and Financial Institutions Law), and strengthening public debt management (the Public Debt Law). It also includes efforts to address access to finance, which remains a big constraint, particularly for poorer households that have more limited sources of collateral and limited access to formal financial institutions.

Myanmar will face challenges from the external environment. Slowing growth in China could adversely affect the demand for Myanmar's merchandize exports. Low commodity prices will affect gas exports, though these could be offset by higher output from Shwe and Zawtika fields that came

3 *Reliefweb*, "Myanmar: Floods and Landslides – July 2015."

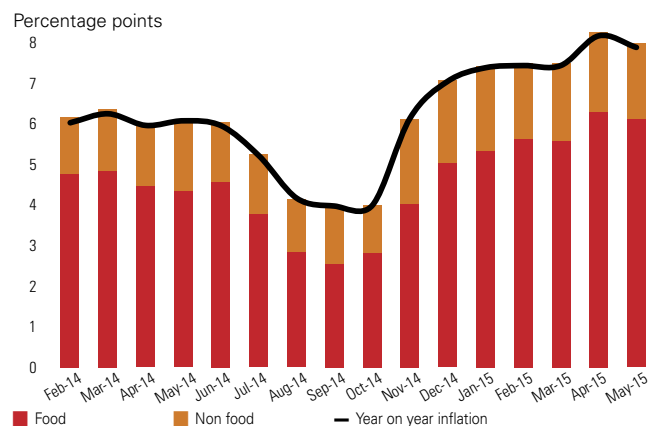
on stream two years ago and higher Kyat earnings from gas as a result of currency depreciation. The US Federal Reserve's eventual decision to raise interest rates could further strengthen the US Dollar and place added pressure on the exchange rate.

Figure 1. Real GDP growth and sector contributions



Sources: Central Statistics Office; WB Staff estimates.

Figure 2. Contribution to yearly inflation



Sources: Central Statistics Office; WB Staff estimates.

Myanmar Selected Indicators

	2013/14	2014/15 e	2015/16 f	2016/17 f	2017/18 f
Real gross domestic product	8.5	8.5	6.5	7.8	8.5
GDP, at market prices	14.4	15.6	18.6	17.0	15.3
Agriculture	9.3	12.6	12.4	13.4	12.2
Industry	17.5	15.9	18.0	17.2	15.9
Services	16.6	17.8	23.6	19.3	17.0
CPI inflation, period average	5.7	5.9	11.3	8.5	6.3
Current account balance, % GDP	-5.3	-6.3	-7.9	-7.0	-5.6
Exports, goods & services	10.4	23.4	26.7	27.2	24.8
Imports, goods & services	15.6	26	31.4	21.4	18.5
Fiscal balance, % of GDP ^{1/}	-3.3	-4.0	-4.9	-4.6	-3.7
Revenue (% of GDP)	10.8	11.9	9.9	10.6	11.5
Expenditure (% of GDP)	14.1	15.8	14.8	15.2	15.2

Sources: National statistics; staff estimates.

^{1/}General government.