Myanmar

Policy reforms stimulated economic growth last year and are expected to drive further development during the forecast period. Inflation is projected to remain moderate. Improved economic prospects have sparked a surge of interest from foreign investors. Achieving the country's potential depends on maintaining momentum on the government's reform agenda.

Economic performance

GDP growth quickened to an estimated 6.3% in FY2012 (ended 31 March 2013) compared with an average of 5% in the previous 5 years. The pickup reflects business optimism buoyed by the government's steps since 2011 to liberalize the economy and prospects for further reform. A modest slowdown in agricultural growth in FY2012, partly reflecting floods in August 2012, was more than offset by increases in industrial output and services.

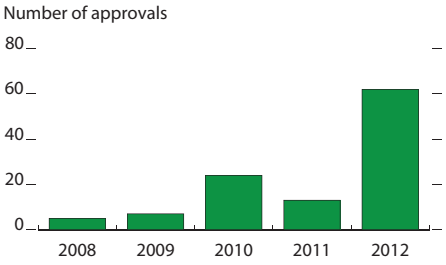
(Official national accounts data are available only on an annual basis with a 2-year lag and they show considerably higher rates of GDP growth, which are inconsistent with correlates of growth such as energy use.)

The number of foreign firms granted investment approval rose to 62 in April–December 2012, well above the total for the 3 previous fiscal years (Figure 3.27.1). A sharp increase in approvals for manufacturing indicated a welcome diversification from the past focus on energy and mining. Investor optimism was also signaled by an almost 14-fold surge from FY2011 in the number of new foreign company registrations in the 10 months to January 2013, albeit from a low base and partly reflecting some domestic companies reclassified as foreign. New domestic company registrations have climbed in the past 2 years (Figure 3.27.2).

Inflation has subsided since 2008, when it exceeded 20%. This follows reduced monetization of the fiscal deficit and a stronger kyat exchange rate on the unofficial market. The consumer price index fell in early FY2012, due to declining food prices. By December 2012, though, food prices were rising and inflation was 6.0% year on year (Figure 3.27.3).

The consolidated fiscal deficit of the central government and state economic enterprises narrowed to an estimated 5.4% of GDP in FY2012 from 6.0% a year earlier. Revenue benefited from the government's realignment in April 2012 of the (fixed) official exchange rate of the kyat, bringing it closer to the unofficial market exchange rate. As state enterprises are net exporters, the exchange rate revaluation boosted budget receipts, including export tax income and customs duties. Higher revenue enabled the government to increase spending on health, education, and capital investment.

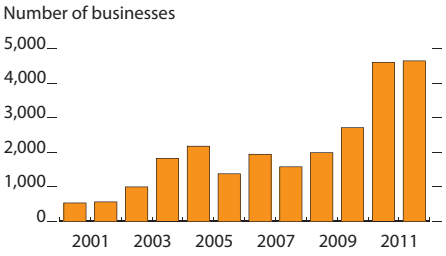
3.27.1 Foreign investment approvals



Note: Data in fiscal year (FY). 2012 data covers April–December 2012 only.

Source: Central Statistical Organization.

3.27.2 Domestic business registration



Note: Data in fiscal year (FY). 2012 data covers April 2012–January 2013 only.

Source: Directorate of Investment and Company Administration.

This chapter was written by Sharad Bhandari of the Southeast Asia Department, ADB, Manila.

In external accounts, the current account deficit widened to an estimated 4% of GDP, with the trade balance in deficit owing mainly to a gradual liberalization of imports and higher investment. Customs data show a 3.6% decline in exports in April–December 2012 from a year earlier, likely caused by subdued demand in Thailand, the People's Republic of China, and India, as well as weaker international commodity prices.

Exports of natural gas, which comprises 38% of total exports, were flat, and agricultural exports mostly declined in April–December. Garment exports rose by 18% year on year, benefiting from greater access to global markets and low domestic wages. The general weakness in total exports underscores the importance of sharpening competitiveness with higher investment, new technologies, and improved access to finance, as well as an appropriate exchange rate. The kyat has appreciated in nominal and real terms over the past few years.

Tourist arrivals and earnings from tourism have climbed as the country opened up after decades of isolation (Figure 3.27.4). Net foreign direct investment flows and renewed official development assistance supported an overall balance of payments surplus and increase in foreign exchange reserves to an estimated $5.1 billion in FY2012, equal to about 4 months of imports of goods and services.

Arrears to ADB and the World Bank were cleared in January 2013, allowing their renewed lending to the country. The Paris Club of creditors also reached an agreement to cancel or reschedule arrears.

Economic prospects

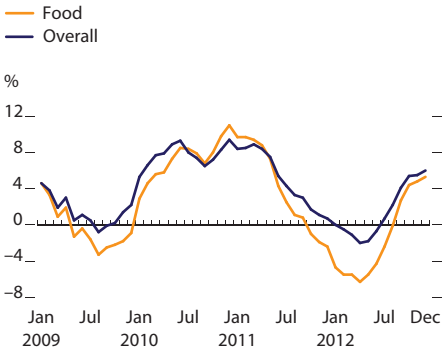
Economic growth is forecast to rise gradually to 6.5% in FY2013 and 6.7% in FY2014 (Figure 3.27.5). Projections assume the government will maintain momentum on policy reform over the medium term.

Growth will get a lift from the European Union's proposed reinstatement of preferential access for Myanmar's exports under the Generalized System of Preferences and the United States' suspension of its ban on imports from Myanmar. Two large gas fields, Shwe and Zawtika, are expected to come online in FY2013, more than doubling gas production and raising exports to the PRC and Thailand. Higher gas exports, greater access to international markets, and faster economic growth in key markets such as the PRC will support growth in exports. Visitor arrivals are likely to post further large gains.

Movement toward unifying multiple exchange rates and a managed float of the currency, along with licensing private banks to engage in international banking and to offer foreign exchange services, should shift more foreign exchange from informal to formal markets, increase liquidity, and facilitate the central bank's management of the exchange rate. The government is establishing a formal interbank market and plans to develop a secondary treasury securities market. A law to modernize and grant operational autonomy to the central bank has been submitted to the parliament.

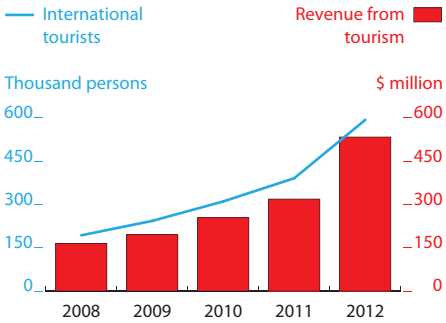
Proposed fiscal reforms include simplifying the tax system, broadening the tax base, and eventually moving to a value-added tax to ease dependence on natural resources, which provide 23% of public revenue.

3.27.3 Monthly inflation



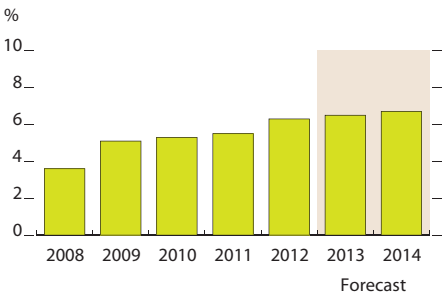
Source: Central Statistical Organization.

3.27.4 Tourism



Note: Excludes border tourism.
Source: Ministry of Hotels and Tourism.

3.27.5 GDP growth



Sources: International Monetary Fund; ADB estimates.

Steps taken last year to give state enterprises more financial autonomy and demand more accountability should facilitate their corporatization and potential privatization. Coupled with higher net export receipts, primarily from gas, these fiscal measures allow the government to increase spending on health, education, and infrastructure while reining in the fiscal deficit to 5.2% of GDP in FY2013.

Inflation is forecast to average 5.1% this year and next (Figure 3.27.6). A lower fiscal deficit and reduced credit to the government from the central bank should dampen inflation over the medium term.

In spite of expected higher receipts from exports and tourism, the current account deficit is projected to widen as import growth accelerates, reflecting higher investment and measures to lift foreign exchange restrictions (Figure 3.27.7). Inflows of foreign direct investment, including from the award of new telecommunications licenses in 2013 and higher official development assistance, will likely keep the balance of payments in surplus.

Policy challenges—forward with reform

The government's ambitious reform agenda is commensurate with the catching up necessary to align policies with current international practice after long period of isolation. These reforms are outlined in the Framework for Economic and Social Reform, which sets out policy priorities until 2016 and guiding principles for longer-term development plans. The goal is higher, inclusive, and sustainable growth and reduced poverty, as 26% of the country's 60 million people live in poverty.

The framework identifies 10 priorities: (i) fiscal and tax reform, (ii) monetary and finance sector reform, (iii) trade and investment liberalization, (iv) private sector development, (v) improvements in health and education, (vi) food security and agricultural growth, (vii) governance and transparency, (viii) mobile telephony and internet, (ix) infrastructure investment, and (x) efficient and effective government.

While many of the reforms will take considerable time, several areas could yield results over the next 2–3 years. One is the underdeveloped finance system, in which credit to the private sector amounts to only 8% of GDP. Allowing greater participation by private banks and with prudent regulation, easing both controls on interest rates and restrictions on lending would boost private sector access to credit.

Implementing important new laws on land ownership, labor, and foreign investment, as well as measures to simplify business registration, will improve the business environment. Relatively quick improvements to infrastructure would include rehabilitating roads, upgrading power systems to reduce transmission and distribution losses (Figure 3.27.8), and developing a sound regulatory framework for independent power producers and public–private partnerships.

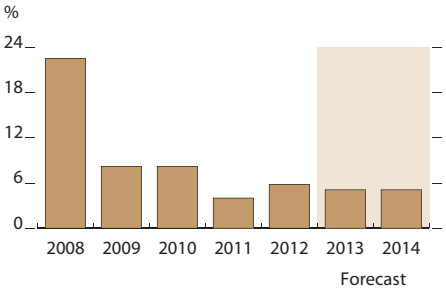
Tourism has substantial potential to spur employment and inclusive growth, especially with simpler visa requirements. In agriculture, which contributes 36% of GDP and the majority of employment, near-term measures to improve access to finance and inputs, implement small irrigation projects, and expand agricultural extension would shore up inclusive growth and food security.

3.27.1 Selected economic indicators (%)

	2013	2014
GDP growth	6.5	6.7
Inflation	5.1	5.1
Current account balance (share of GDP)	–4.2	–4.4

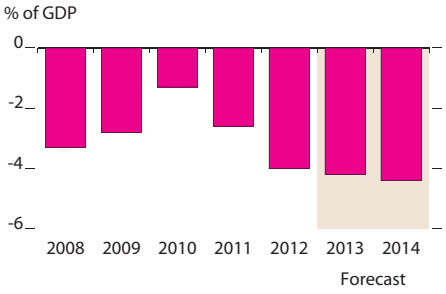
Source: ADB estimates.

3.27.6 Inflation



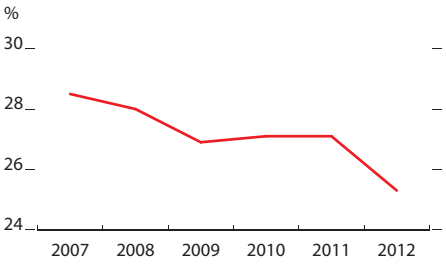
Sources: International Monetary Fund; ADB estimates.

3.27.7 Current account balance



Sources: International Monetary Fund; ADB estimates.

3.27.8 Power transmission and distribution losses



Source: Ministry of Electric Power.