

Myanmar

Despite severe flooding, the economy continued to perform well in the closing fiscal year. Growth is forecast to accelerate during 2016 on recovery in agriculture and increases in foreign direct investment. Among the near-term challenges facing the incoming government are high inflation and wide fiscal and external deficits. Upgrading the transport system is one of many longer-term challenges.

Economic performance

Economic growth eased to an estimated 7.2% in FY2015 (ending 31 March 2016) owing to severe floods and landslides that damaged agriculture and slower growth in the People's Republic of China (PRC) that hit trade and investment.

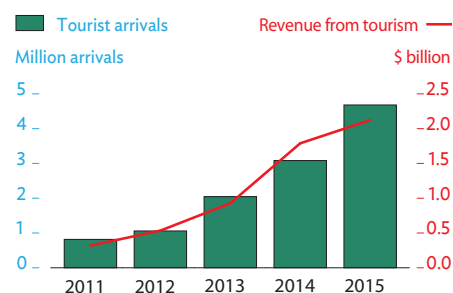
In July–August 2015, a cyclone and intense monsoonal rains caused widespread flooding and landslides that displaced more than 1.6 million people, killed 132, and devastated one-fifth of all cultivated land. The economic cost was estimated at \$1.5 billion, equal to 3% of GDP. It was a disaster for agriculture, which contributes 30% of GDP and more than 60% of employment. International partners joined the reconstruction and rehabilitation efforts.

Construction, manufacturing, and services nevertheless continued to expand, and the government pushed ahead with structural reform to raise investment in social and physical infrastructure and improve the business climate. Growth in services was spurred by further increases in tourist arrivals to 4.7 million in 2015, about 70% entering overland (Figure 3.27.1). Spending by tourists rose by 19% to \$2.1 billion in 2015.

Garment manufacturing maintained solid growth with new foreign-owned garment factories in Patheingyi, Bago, and Thilawa. Exports of garments rose by 28% to an estimated \$2 billion. Exports of natural gas in volume terms increased by an estimated 2.9%, a much slower pace than in the previous year, and the value of gas exports likely fell by about 18% to \$3.5 billion.

In a sign that business confidence remained robust despite the floods and political uncertainty ahead of national elections in November 2015, the number of business registrations in the first 9 months of FY2015 was at 4,825 comparable to that in the same period of FY2014 (Figure 3.27.2). Approvals of foreign direct investment (FDI) totaled \$4.9 billion from April to December 2015, down by 26% from the same period a year earlier. Most of the FDI was channeled into telecommunications, oil and gas, and manufacturing, primarily garments. None went into agriculture. FDI disbursements in FY2015 likely eased as well.

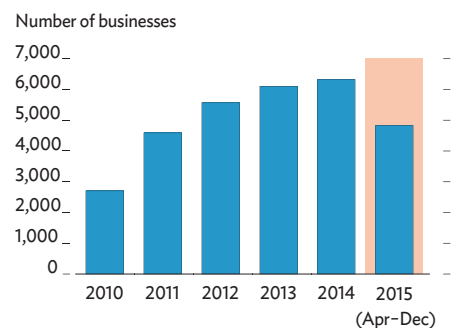
3.27.1 Tourism



Note: Data refer to 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 next year. Data in FY2015 cover the first 9 months from April–December 2015.

Source: Directorate of Investment and Company Administration.

Hikes in food prices after the floods and depreciation of the Myanmar kyat propelled inflation to 16.2% in October 2015 (Figure 3.27.3). For FY2015 the average inflation rate was estimated at 11.0%. A widening current account deficit contributed to the kyat depreciating by 26% against a firming US dollar from April 2014 to January 2016. Rapid growth in credit to the private sector, estimated at 45% year on year, and 17.9% growth in the monetary base added to inflationary pressures.

Higher government spending during the election year widened the consolidated fiscal deficit to an estimated 4.8% of GDP in FY2015 from 2.9% in FY2014. Treasury bill auctions introduced in January 2015 broadened options for funding the deficit, but the auctions have yet to raise the amounts targeted. When fully implemented, the auction system should end the inflationary practice of monetizing the deficit through the sale of government debt to the central bank.

The government is also addressing the fiscal gap through tax reform that aims to raise the ratio of tax to GDP from its current low level of about 8%. A new tax law approved by Parliament is the centerpiece of wider reform that covers income tax, commercial tax, and stamp duty, among other levies.

Merchandise exports increased only marginally in FY2015 owing to softer demand for gems and minerals from the PRC, lower gas prices, and a fall in rice exports after the floods. Imports decelerated from the previous year but still grew at a double-digit rate as vigorous economic growth spurred demand for consumer and capital goods (Figure 3.27.4). Consequently, the trade deficit jumped by almost half, and the current account deficit widened to an estimated 8.9% of GDP. Official reserves are estimated at 2.5 months of imports, down from 2.8 months in FY2014. Declining foreign reserves likely prompted the central bank's move in mid-2015 to intensify measures to curb the use of US dollars.

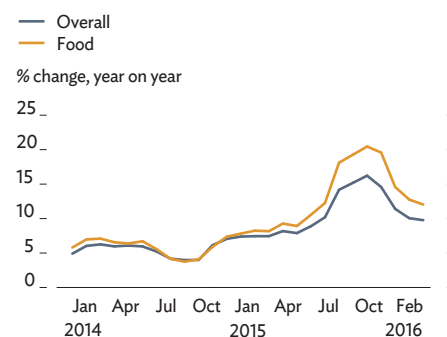
External debt increased to an estimated \$9.7 billion, equal to 14.7% of GDP. The International Monetary Fund and the World Bank have assessed Myanmar as being at low risk of debt distress. Public debt management, both external and domestic, has been strengthened through a new public debt law ratified by Parliament in early 2016 and a recently established debt management office. The government is encouraged to pursue further structural reform to broaden the base of economic growth and expand the fiscal space.

Economic prospects

GDP growth is forecast to recover to 8.4% in FY2016 and record a similar pace in FY2017 (Figure 3.27.5). The impact of the flooding on agriculture will fade during this year. FDI is expected to get a lift from the successful completion of national elections. Additional FDI is seen flowing into newly established special economic zones and the rapidly expanding transport and energy industries.

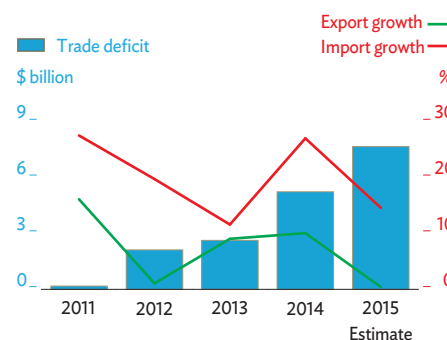
Government policy makers taking office in April 2016 have committed to continuing reform, which is necessary if Myanmar is to achieve its growth potential, estimated at 8.0% annually. The new administration is expected to press for more transparency and deregulation, less red tape, improved education and training, and more

3.27.3 Monthly inflation



Source: Central Statistical Organization.

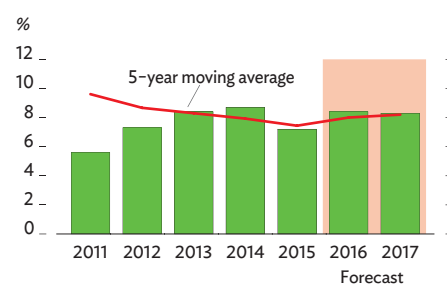
3.27.4 Trade indicators



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

Sources: International Monetary Fund; ADB estimates.

3.27.5 GDP growth



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

Sources: International Monetary Fund; ADB estimates.

3.27.1 Selected economic indicators (%)

	2016	2017
GDP growth	8.4	8.3
Inflation	9.5	8.5
Current account balance (share of GDP)	-8.3	-7.7

Source: ADB estimates.

effective and efficient government services. Its focus is likely to be on creating jobs largely by stimulating economic growth, focusing on the 70% of the population living in rural areas.

Cross-border economic integration will be an important driver of growth. Factors dampening the outlook—moderating growth in the PRC and weak global prices for gas and commodities—are partly offset by improving economic prospects in neighboring India and Thailand.

On the fiscal front, the FY2016 budget passed by Parliament in February 2016 calls for a modest reduction in the fiscal deficit. Revenue and expenditure are expected to fall in FY2016. The government has laid out an ambitious fiscal plan to, among other things, raise tax revenue, make spending more efficient, and restructure state economic enterprises.

Inflation will moderate as agricultural recovery from the floods brings down food prices, but it is still projected to remain high at 9.5% in FY2016 and 8.5% in FY2017 (Figure 3.27.6).

To manage rapid growth in credit, the central bank is preparing to strengthen bank supervision and prudential controls and to improve the functioning of the interbank money market to provide benchmarks for short-term lending rates. More reforms for finance and business are expected in 2016 (Box 3.27.1). Maintaining exchange rate flexibility will be crucial, as measures to resist depreciation have so far been largely counterproductive and led to a reduction of reserves. The incoming government has indicated it will strengthen the autonomy of the central bank and develop stronger monetary policy tools.

The current account deficit is seen narrowing to 8.3% of GDP in FY2016 (Figure 3.27.7). Stronger economic growth will drive up imports, but this will be countered somewhat by lower prices for imported oil. Exports of agricultural products will rebound, and those of manufactured products continue to grow, but gas export prices remain under downward pressure. Vulnerabilities in fiscal and external accounts call for stronger efforts to build up official reserves to more comfortable levels.

External debt is projected to rise to \$11.2 billion in FY2016, equal to 15.7% of GDP. Myanmar's risk of debt distress is expected to remain low, however, as most debt is on concessional terms and the government has been cutting back on commercial borrowing.

Despite significant economic reform since 2011, the new government faces daunting challenges. One is to maintain stability on the macroeconomic front and in regions affected by conflict. Another is to address deficits in infrastructure and in human resources and capacity that constrain social and economic development. A third challenge is to maintain and advance progress on reform to improve governance and strengthen public sector management, private sector development, and regional cooperation and integration. Combatting poverty and child malnutrition remain high priorities, and anecdotal evidence suggests that income inequality is worsening. The economy is narrowly based, with growth depending on natural resource exports, construction, and tourism.

Intensified efforts are needed to improve the business environment through legal and regulatory reforms, better access to finance, and targeted trade and investment promotion and facilitation.

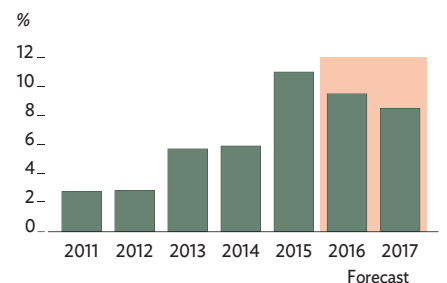
3.27.1 Reforms for finance and business

In January 2016, Parliament passed the amended Banks and Financial Institutions Law, which lays the foundations for more efficient licensing of financial institutions, a modern financial sector, and its enhanced supervision. The law sets guidelines for domestic and foreign banks, including more stringent rules on paid-up capital and reserve requirements. Four foreign banks received licenses in March 2016, adding to the nine that were licensed in 2014.

An important reform for the business environment will be the ratification expected in 2016 of a new company law that incorporates international standards of corporate governance. The law will define a foreign company according to a threshold of investment from overseas, which will allow foreign equity investment in Myanmar companies that are not joint ventures, as well as enable foreign firms to participate in capital markets.

The new Yangon Stock Exchange started trading in March 2016, initially with one company listed. Five more have been approved for listing and others have applied.

3.27.6 Inflation



Note: Years are fiscal years ending 31 March of the next year.
Sources: International Monetary Fund; ADB estimates.

Risks to the economic outlook come from thin external and fiscal buffers, ethnic and sectarian tensions, the capacity of the new government to maintain reform momentum, and vulnerability to bad weather. El Niño is expected to bring drought to the dry zone in central Myanmar and unseasonable rainstorms to lower Myanmar. Incoming policy makers have promised to redouble efforts to improve economic and social data, which is badly needed to inform policy formulation and planning.

Policy challenge—upgrading the transport system

After decades of underinvestment, Myanmar's transport infrastructure provides generally poor access to markets and services, perpetuates poverty and regional inequality, and hampers business development. The country could reduce by one third its transport costs by upgrading infrastructure, according to one estimate.

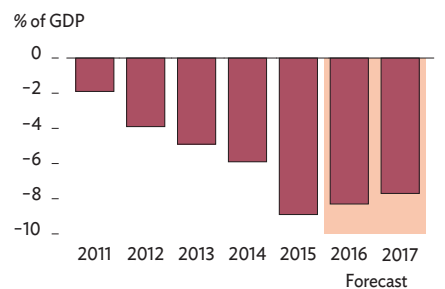
Only 40% of Myanmar's road network is paved. At least 60% of its trunk highways need maintenance or rehabilitation, as do most of its railways (Figure 3.27.8). Some 20 million people lack even basic access by rural road, and river transport infrastructure hardly exists. Demand is growing fast, with the number of vehicles on the roads more than doubling to 5 million from 2012 to 2015, and international air passengers more than doubling to 3.2 million from 2011 to 2014.

Investment estimated at \$60 billion is needed through 2030 to upgrade transport systems to a standard in line with other countries at a similar stage of development. This means increasing transport sector investments to the equivalent of 3%–4% of GDP from little more than 1% in recent years.

The government's newly developed National Transport Master Plan envisages an efficient, modern, safe, and environmentally friendly system that covers all modes of transport. Under the plan, investment is required to upgrade the trunk road and rail networks, improve links with neighboring countries, develop access to rural areas, provide public transport in urban areas, and enhance intermodal transport networks and logistics.

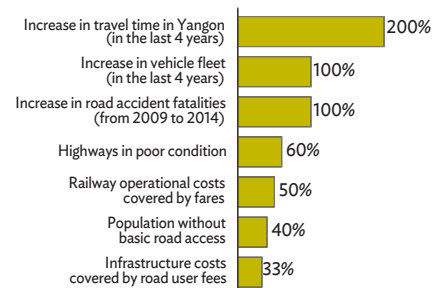
Toward policy reform, a single transport ministry will help to coordinate policy, planning, investment, management, and regulation. Given the immense funding required, private sector resources could be mobilized through the restructuring of concessions to operate toll roads, competitive outsourcing of civil works, and the corporatizing or privatizing of state-owned enterprises and activities that operate in competitive markets.

3.27.7 Current account balance



Note: Years are fiscal years ending 31 March of the next year.
Sources: International Monetary Fund; ADB estimates.

3.27.8 Transport challenges



Source: ADB. Myanmar: Transport Sector Policy Note.