Myanmar (Burma)

Myanmar (Burma) at a glance: 2006-07

OVERVIEW
The State Peace and Development Council (SPDC, the ruling military junta) will push on with its "road map to democracy", but there is little likelihood that this will lead to meaningful political reform. The US continues to push for UN action against Myanmar, but the junta's ties with China are fairly strong, and the Association of South-East Asian Nations (ASEAN) is still committed to engaging with the SPDC. The leader of the opposition National League for Democracy (NLD), Aung San Suu Kyi, remains under house arrest, and her party continues to face restrictions on its activities. Army hardliners have consolidated control, and conflict with armed ethnic groups is likely to escalate. Economic policymaking will continue to be erratic. Although the energy sector will remain fairly buoyant, overall economic growth will be weak in 2006-07. High inflation and poor confidence will exert downward pressure on the kyat's free-market exchange rate. Rising exports of gas will help to keep the current account in surplus.

Key changes from last month

Political outlook

- Myanmar's ties with its fellow members of ASEAN have been subject to some tension in recent months, particularly in the run-up to the ASEAN ministeral meeting in late July in Malaysia. However, it is almost certain that ASEAN will continue to eschew any moves to intervene directly in Myanmar's "domestic affairs".

Economic policy outlook

- The government recently announced plans to sell shares in 11 state-owned enterprises. The privatisation process has been protracted, but this renewed interest in the process probably reflects the junta's need to raise revenue.

Economic forecast

- According to the latest official data, export revenue expanded by 62% year on year in January-November 2005, driven by a surge in gas exports. Despite doubts over the reliability of official data, export revenue is set to remain strong in 2006-07.

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Myanmar (Burma)

August 2006

Summary

Outlook for 2006-07 The State Peace and Development Council (SPDC, the ruling military junta) will push on with its "road map" to democracy, but there is little likelihood that this will lead to meaningful political reform. The US continues to push for UN action against Myanmar, but the junta's ties with China are fairly strong, and the Association of South-East Asian Nations (ASEAN) is still committed to a policy of engagement with the SPDC. The leader of the opposition National League for Democracy (NLD), Aung San Suu Kyi, remains under house arrest, and her party continues to face restrictions on its activities. Army hardliners have consolidated control, and conflict with armed ethnic groups is likely to escalate. Economic policymaking will continue to be erratic. Although the energy sector will remain fairly buoyant, overall economic growth will be weak. High inflation and poor confidence will exert downward pressure on the kyat's free-market exchange rate. Rising exports of gas will help to keep the current account in surplus.

The political scene The SPDC has not made any progress on its reform road map in recent months, but it has moved on two occasions to reshuffle cabinet ministers and military commanders. The detention order for Aung San Suu Kyi has been extended by a year. The US has continued to push for a UN resolution on Myanmar and has renewed its own sanctions. Although ASEAN has grown more critical of the junta, the group has maintained its conciliatory approach to dealing with the generals.

Economic policy The junta has sought to boost its revenue. It has adjusted the exchange rate for customs valuation and has raised electricity prices. It has also made plans to sell off stakes in 11 state-owned factories. Interest rates have remained unchanged since the surprising increase in April. The junta has been put under increasing pressure to improve labour rights.

The domestic economy Industrial output (by state-owned enterprises) continued to rise in late 2005. Official inflation data has shown that inflation picked up steadily in 2005, but this is likely to have understated the real level of inflation. The free-market kyat has regained some ground in recent months.

Foreign trade and payments Export revenue soared in the first 11 months of 2005, as gas exports expanded. However, the import bill contracted. The merchandise trade balance was therefore healthy, contributing to the upward trend in international reserves.

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Political structure

Official name	Union of Myanmar
Form of state	Military council
The executive	Following a military coup in September 1988, the State Law and Order Restoration Council (SLORC) assumed executive power; in November 1997 the SLORC was renamed the State Peace and Development Council (SPDC)
Head of state	Chairman of the SPDC, Senior General Than Shwe
National legislature	The Pyithu Hluttaw (People's Assembly) was abolished after the military coup in 1988; an election was held for a new People's Assembly in May 1990, resulting in an overwhelming victory for the opposition National League for Democracy (NLD), but the junta has refused to allow parliament to meet. In September 1998 the NLD set up a ten-member "people's parliament" committee to represent the deputies elected in 1990. In August 2003 the junta announced a seven-point plan that would lead to the convening of parliament following fresh elections. No timeframe for the plan has been announced, although the National Convention—called to draft a new constitution—has met several times
National elections	May 27th 1990; next election date unknown
National government	The SPDC controls all the organs of state power
Main political organisations	Since the military coup, most political parties have been declared illegal. The handful that are still officially registered face many restrictions on their activities. The NLD is the most significant remaining opposition political party. The junta has tried to develop the Union Solidarity Development Association (USDA), first set up in 1993 as a welfare organisation, into a quasi-political party and support bloc for the military regime. A number of ethnic-based political and armed groups also exist. After decades of conflict, many have now signed ceasefire agreements with the junta, although some groups continue to pursue armed resistance
Main political parties	National League for Democracy (NLD); National Unity Party (NUP); Shan Nationalities League for Democracy (SNLD) and other ethnic-based parties

Main members of the State Peace and Development Council	
Chairman	Senior General Than Shwe
Vice-chairman	Deputy Senior General Maung Aye
Secretary-1	Lieutenant-General Thein Sein
Prime minister	General Soe Win

Key ministers	
Agriculture	Major-General Htay Oo
Commerce	Brigadier-General Tin Naing Thain
Defence	Senior General Than Shwe
Energy	Brigadier-General Lun Thi
Finance & revenue	Major-General Hla Tun
Foreign affairs	Major-General Nyan Win
Home affairs	Major-General Maung Oo
Industry-1	Aung Thaung
Industry-2	Major-General Saw Lwin
Mining	Brigadier-General Ohn Myint
Telecommunications, post & telegraphs	Brigadier-General Thein Zaw

Central bank governor	Kyaw Kyaw Maung

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Economic structure

Annual indicators

	2001[a]	2002[a]	2003[a]	2004[a]	2005[b]
GDP at market prices (Kt bn)[c]	3,548.5	5,625.3	7,716.6	9,078.9	9,744.2
GDP (US$ bn)[c]	5.7	5.8	8.0	10.0	8.9
Real GDP growth (%)[c]	5.3[b]	5.3[b]	-2.6[b]	0.2[b]	5.2
Consumer price inflation (av; %)	21.1	57.1	36.6	4.5	9.3
Population (m)[d]	48.3	48.9	49.5	50.0	50.6
Exports of goods fob (US$ m)	2,521.8	2,421.1	2,709.7	2,926.7	4,722.2
Imports of goods fob (US$ m)	2,443.7	2,022.1	1,911.6	1,998.7	1,877.1
Current-account balance (US$ m)	-153.6	96.6	-19.4	111.6	1,113.1
Foreign-exchange reserves excl gold (US$ m)	400.5	470.0	550.2	672.1	770.7[a]
Total external debt (US$ bn)	5.7	6.6	7.3	7.2	6.2
Debt-service ratio, paid (%)	2.7	3.8	3.9	3.8	2.9
Exchange rate (av) Kt:US$[e]	620.0[b]	970.0[b]	960.0[b]	910.0[b]	1,095.0

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Fiscal year (beginning April 1st of year shown). [d] Mid-fiscal year. [e] At free-market exchange rates.

Main origins of real gross domestic product 2002/03	% of total	Components of nominal gross domestic product 2004/05	% of total
Agriculture	54.6	Total consumption	87.9
Industry	13.0	Total investment	11.7
Manufacturing	9.2	Exports of goods & services	0.2
Services	32.4	Imports of goods & services	-0.1

Principal exports 2004	US$ m	Principal imports 2004	US$ m
Gas	580.1	Machinery & transport equipment	430.5
Teak & other hardwoods	383.4	Refined mineral oil	314.6
Pulses	245.9	Base metals & manufactures	209.7
Textiles & garments	225.9	Fabrics	178.0
Fish, fish products & prawns	174.6	Electrical machinery	172.1

Main destinations of exports 2005	% of total	Main origins of imports 2005	% of total
Thailand	36.6	China	28.4
India	14.5	Thailand	21.5
China	6.2	Singapore	18.1
Japan	5.1	South Korea	5.9
Malaysia	4.0	Malaysia	5.4

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Quarterly indicators

	2004			2005				2006
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Prices								
Consumer prices (2000=100)	265.3	273.5	280.7	283.2	288.9	297.8	n/a	n/a
Consumer prices (% change, year on year)	2.4	2.9	3.7	6.1	8.9	8.9	n/a	n/a
Financial indicators								
Exchange rate Kt:US$ (av)	5.83	5.80	5.63	5.58	5.70	5.82	5.93	5.91
Exchange rate Kt:US$ (end-period)	5.80	5.79	5.48	5.63	5.84	5.87	5.95	5.91
Central Bank rate (end-period; %)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Deposit rate (av; %)	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Lending rate (av; %)	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
M1 (end-period; Kt bn)	1,360.1	1,438.4	1,487.7	1,686.0	1,742.8	1,814.3	1,953.4	2,136.3
M1 (% change, year on year)	20.8	27.5	25.4	29.5	21.2	22.0	31.3	27
M2 (end-period; Kt bn)	1,843.1	1,989.1	2,081.8	2,287.3	2,394.1	2,505.6	2,651.1	2,861.0
M2 (% change, year on year)	23.1	30.5	32.4	33.3	29.9	26.0	27.3	25.1
Sectoral trends, production								
Rice (annual totals; '000 tonnes)[a]	(	22,000	)	(		22,000	)	n/a
Natural gas (bn cu ft)	91.3	91.9	92.6	101.7	105.5	103.2	n/a	n/a
Tin in concentrates (tonnes)[b]	88	153	126	125	88	180	n/a	n/a
Zinc in concentrates (tonnes)	60	135	101	104	55	53	n/a	n/a
Foreign trade (Kt m)								
Exports fob	3,845	3,394	2,786	6,672	5,314	5,609	n/a	n/a
Imports cif	-3,736	-2,831	-2,427	-2,345	-3,453	-2,371	n/a	n/a
Trade balance	109	563	359	4,327	1,862	3,238	n/a	n/a
Foreign payments (US$ m)								
Merchandise trade balance	192.0	247.3	320.4	472.0	n/a	n/a	n/a	n/a
Services balance	-65.6	-47.3	-45.1	-37.8	n/a	n/a	n/a	n/a
Income balance	-174.0	-177.7	-196.5	-170.5	n/a	n/a	n/a	n/a
Net transfer payments	34.1	30.5	27.9	32.9	n/a	n/a	n/a	n/a
Current-account balance	-13.6	52.9	106.8	296.6	n/a	n/a	n/a	n/a
Reserves excl gold (end-period)	622.0	639.3	672.1	774.4	709.4	754.7	770.7	890.0

[a] Estimates for fiscal year, beginning April of year shown. [b] Includes output from joint ventures.

Sources: UN Food and Agricultural Organisation; Myanmar Central Statistical Organisation, *Selected Monthly Economic Indicators*; IMF, *International Financial Statistics*.

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Outlook for 2006-07

Political outlook

Domestic politics

The State Peace and Development Council (SPDC, the ruling military junta) recently initiated some changes to the leadership of the government and the military. However, these personnel shuffles are not expected to make any major difference to the way the SPDC operates or to its policies. Indeed, the junta is set to continue to proceed with its "road map to democracy", a process that lacks credibility because it is not inclusive and will ultimately leave power in the hands of the military.

The junta surprisingly agreed to the visit of the UN under-secretary general for political affairs, Ibrahim Gambari, in May and permitted him to visit Aung San Suu Kyi, the leader of the main opposition party, the National League for Democracy (NLD). However, despite the junta's apparent willingness to re-engage the UN, it is not planning to change tack. Indeed, soon after Mr Gambari's visit, the junta extended Aung San Su Kyi's detention period by a further 12 months (from May). The junta's decision to provide the UN official with access to the detained opposition leader was undoubtedly aimed at diffusing international pressure for political reform, particularly from the US and some UN Security Council members. However, by refusing to release her, the junta has failed to achieve this goal. During his briefing to the UN Security Council soon after his visit to Myanmar, Mr Gambari called for continued resolve to persuade the junta to release Aung San Suu Kyi, particularly as "lines of communication" had opened. Although the council did not take any immediate action, the US proposed a draft resolution on Myanmar, which is thought to include calls for Aung San Suu Kyi's release and the establishment of an inclusive and democratic political process.

Despite this external pressure for an inclusive reform process, the junta will push ahead with its own reform road map. In late July the SPDC's secretary-1 and chairman of the National Convention (NC) Convening Commission, Lieutenant General Thein Sein, claimed that the convention had completed 75% of its work towards drafting principles for a new constitution, one of the first steps on the road map. However, lengthy gaps between NC sessions, which contribute to the drawn-out nature of the reform process, have raised doubts about whether the junta is really intent on completing the process. Indeed, it appears that the junta would be content to plod on with the reform process for a number of years, using such time to consolidate its power, cracking down on opposition groups and bolstering its own political support block, the Union Solidarity Development Association (USDA). (The USDA now boasts some 22m members, although it is likely that many of these members were coerced into joining.) The junta may seek to sideline the NLD still further before moving on to later stages of the road map, such as the holding of a general election. The NLD, which is boycotting the NC, is hoping to set up a dialogue process with the SPDC, but it is unlikely to have any success in this respect.

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International relations

Myanmar's ties with its fellow members of the Association of South-East Asian Nations (ASEAN) have been subject to some tension in recent months, particularly in the run-up to the ASEAN ministeral meeting in late July in Malaysia. However, aside from some relatively strong comments by Malaysia's foreign minister, Syed Hamid Albar, in respect to the junta's failure to heed ASEAN's demands for faster political reform and the release of Aung San Suu Kyi, ASEAN remains committed to engaging with the SPDC. Indeed, in the final joint communiqué, ASEAN's foreign ministers did little more than note their concerns. It is therefore almost certain that ASEAN will continue to eschew any moves to intervene directly in Myanmar's "domestic affairs", instead deferring to the UN in its efforts to promote genuine political reform in the country.

The US and the EU will continue to be vocal critics of the junta in 2006-07, with a range of sanctions and restrictions remaining in place. Indeed, the US Congress recently renewed economic sanctions against Myanmar, which include a ban on all imports from the country. The US administration is set to continue its push for a UN Security Council resolution on Myanmar. However, it is unlikely to succeed in the near future given the view held by China, Russia and Japan that Myanmar does not pose a threat to international security.

Economic policy outlook

Policy trends

The quality of economic policymaking is poor and will remain so in 2006-07. The junta has displayed an inability to implement policies aimed at supporting sustainable growth and reducing poverty. Most recently, in March it decided to raise salaries for public-sector workers and military personnel by between 500% and 1,200%, seemingly to offset any discontent among workers affected by the shifting of the government's administrative base from Yangon to Pyinmana. Although the pay increase has been welcomed by the previously vastly underpaid public-sector workers, the sheer size of it is just one example of the extreme policy measures the junta implements with apparently little consideration for potentially damaging side-effects. In 2006-07 there is little prospect of the junta changing its approach to policymaking, and most of its policy initiatives will continue to contribute to the overall sense of economic uncertainty that has damaged both consumer and business confidence.

Fiscal policy

The outlook for fiscal policy is dire, with the junta set to continue to borrow from the Central Bank of Myanmar to finance its high budget deficits, particularly now that its salaries outlay has expanded sharply. Although there is a lack of up-to-date statistics on the government's fiscal position, it is unlikely to be healthy. Despite strong growth in tax revenue, the government remains heavily dependent on central bank funding to finance its expenditure. By March 2006 the central bank's claims on the government had risen by 28% year on year, reflecting the fact that tax revenue is inadequate to cover public-sector expenditure. Some cuts have been made to health and education services, but in most areas—and particularly defence—state spending is thought to be high. The government recently announced plans to sell shares in 11 state-owned enterprises (SOEs). The privatisation process has been protracted, but this

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renewed interest in the process probably reflects the junta's efforts to raise revenue. Even if it is successful in boosting its revenue, over the next few years the junta is unlikely to make the necessary cuts to either defence or non-essential spending, and the general government budget deficit is expected to remain high.

Monetary policy

In a surprise move in April the central bank and private commercial banks raised interest rates. The decision by the central bank to tighten monetary policy by raising its leading indicator rate by two percentage points to 12%, the first such move in around five years, coincided with the government's decision to raise public-sector salaries. In this sense, the move was probably aimed at containing inflationary pressures. However, it is a case of too little too late, with inflation already surging ahead (according to anecdotal evidence). The central bank generally appears to be reluctant to tighten monetary policy aggressively because it remains under the full authority of the state and is therefore keen to avoid increasing the government's debt-servicing burden. The central bank has been printing money and providing the government with full access to credit to finance the state budget deficit.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2004	2005	2006	2007
Real GDP growth				
World	5.6	5.0	5.2	4.8
OECD	3.2	2.7	3.0	2.3
China	10.1	9.9	9.6	8.3
EU25	2.4	1.7	2.4	2.1
Exchange rates				
¥:US$	108.1	110.1	114.3	100.3
US$:€	1.244	1.245	1.258	1.385
SDR:US$	0.675	0.677	0.678	0.637
Financial indicators				
€ 3-month interbank rate	2.13	2.15	3.06	3.86
US$ 3-month Libor	1.62	3.56	5.53	5.60
Commodity prices				
Oil (Brent; US$/b)	38.5	54.7	69.7	66.0
Gold (US$/troy oz)	409.5	445.0	639.5	700.0
Food, feedstuffs & beverages (% change in US$ terms)	8.5	-0.5	8.9	-4.5
Industrial raw materials (% change in US$ terms)	21.0	10.3	41.4	-3.4

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The world economy will grow strongly this year (at 5.2% on a purchasing power parity basis), surpassing the pace of growth recorded in 2005, before slipping slightly in 2007. Solid growth in Myanmar's main export markets in Asia—particularly China, Thailand and India—will ensure that the country's exports remain buoyant. The price of crude oil (dated Brent Blend) is forecast to average US$70/barrel in 2006 and US$66/b in 2007. As Myanmar is heavily dependent on imports of refined petroleum products for transport and electricity

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generation, the rise in oil prices in 2006 will continue to add to inflationary pressures. Trends in global prices for other commodities are generally favourable for Myanmar's exporters, with rice and copper prices rising throughout the forecast period.

Economic growth

Economic activity appears to have picked up in 2005, but there is still little evidence to support the junta's claims that the economy is growing at double-digit rates. According to the latest data available, export growth was strong during the first 11 months of 2005, and output by SOEs was buoyant. The oil and gas sector is the main area of growth, and it is the only economic sector that has been attracting any significant foreign investor interest. However, agriculture was boosted by a slight expansion in rice production in 2005, with Myanmar not suffering the same drought-related problems as neighbouring Thailand. There is little prospect of any major improvement in the overall economy in the next few years. There will be continued growth in the oil and gas sector, in terms of both production and exploration activity, but the other parts of the economy will remain weak. Agriculture continues to suffer from poor productivity, with output remaining below potential. Manufacturing remains constrained by the inadequate quantity and quality of inputs, primarily owing to problems in terms of access to imports. Other problems include power shortages, a lack of capacity to keep up with cheap imports from Thailand and China, and limited demand for manufacturing exports, such as garments, partly because of the US ban on imports from Myanmar. Weak GDP growth is also reflected in the poor prospects for consumption and investment. Consumer spending is constrained by low average incomes and a lack of confidence owing to accelerating inflation and the weak free-market exchange rate.

Inflation

Anecdotal evidence suggests that consumer price inflation continues to rise sharply. Prices for important commodities soared in the wake of the government's decision in March to raise public-sector salaries, and rice and fuel prices remain high. However, official data are unlikely to reveal the full extent of inflation. In January-November 2005, year-on-year inflation averaged 8.9%, according to official statistics, despite the fact that retail fuel prices rose eightfold in October. Based on the official data series, the Economist Intelligence Unit forecasts that annual inflation will average around 30% in 2006-07, but the real level of inflation could be closer to 50% this year. It is probable that the junta will attempt to contain inflation by implementing ad hoc, and potentially ill-devised, remedies. In late July local authorities in Yangon reportedly put in place controls on the sale of rice in order to prevent prices from rising further.

Exchange rates

After remaining fairly stable during the first few months of 2006, the free-market kyat plummeted from around Kt1,150:US$1 in March to a record low of around Kt1,450:US$1 in late April in the aftermath of the government's decision to increase salaries for public-sector workers, a move that fuelled fears of accelerating inflation. Although the kyat has regained some ground, rising to around Kt1,350US$1 by late July, there is little prospect of the kyat strengthening markedly in 2006-07. Despite the surplus on the current account, confidence in the kyat is weighed down by the general political and economic uncertainty,

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and the potential for further ill-planned ad hoc policy changes. There is also no prospect of the junta realigning its official exchange rate with the free-market rate. The overvalued official rate, which is linked to the IMF's special drawing rights, will remain stable at around Kt6:US$1 in 2006-07.

External sector

According to the latest available data from the Central Statistical Organisation (CSO), export revenue expanded by 62% year on year in January-November 2005, driven by a surge in gas exports, whereas imports contracted by 15% during the same period. In line with this latest data release, we have revised up our estimate for the current-account surplus in 2005 to the equivalent of 12.5% of GDP. Despite doubts over the reliability of CSO data, export revenue is set to remain strong over the forecast period. Although there are a number of factors limiting export growth, notably the US ban on imports from Myanmar and international consumer boycotts of Burmese goods, Myanmar's exports of natural gas to Thailand continue to increase, and demand from China and India for Myanmar's mining, energy, and agricultural and forestry products will remain strong in 2006-07. The import bill will also expand in 2006-07, after falling in 2005. If planned oil and gas projects develop rapidly, there could be a surge in imported machinery and materials, but growth in imports of other goods, particularly consumer goods, will still be restrained by the shortage of foreign exchange and high import taxes.

The current account is forecast to remain in surplus in 2006-07, with the wide merchandise trade surplus only being partly offset by the large deficit on the combined services and income accounts. The income deficit is expanding in line with the repatriation of profits by foreign investors in the mining and energy sectors, but official transfers (remittances by overseas migrant workers and limited aid inflows) will offset the deficit on the services account.

Forecast summary

(% unless otherwise indicated)

	2004[a]	2005[a]	2006[b]	2007[b]
Real GDP growth[c]	0.2	5.2	1.3	2.5
Gross fixed investment growth[c]	0.5	0.2	4.0	6.0
Gross agricultural production growth[c]	-3.5	3.5	1.2	1.4
Consumer price inflation (av)	4.5[d]	9.3	30.8	29.7
Consumer price inflation (year-end)	3.8[d]	13.9	38.3	29.3
Short-term interbank rate	15.0[d]	15.0[d]	17.0	17.0
Government budget balance (% of GDP)[c]	-1.9	-3.0	-4.8	-4.7
Exports of goods fob (US$ bn)	2.9[d]	4.7	5.2	5.2
Imports of goods fob (US$ bn)	2.0[d]	1.9	2.1	2.4
Current-account balance (US$ bn)	0.1[d]	1.1	1.1	0.8
Current-account balance (% of GDP)[e]	1.1[d]	12.5	10.9	6.7
External debt (year-end; US$ bn)	7.2[d]	6.2	6.6	7.0
Exchange rate Kt:US$ (av)[f]	910.0	1,095.0	1,315.0	1,450.0
Exchange rate Kt:¥100 (av)[f]	841.6	994.8	1,150.2	1,446.4
Exchange rate Kt:€ (av)[f]	1,131.8	1,363.0	1,653.9	2,008.3
Exchange rate Kt:Bt (av)[f]	22.6	27.2	34.2	38.6

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Fiscal year (beginning April 1st of year shown). [d] Actual. [e] Fiscal year (beginning April 1st of year shown); at free-market exchange rate (which understates size of GDP). [f] At free-market exchange rates.

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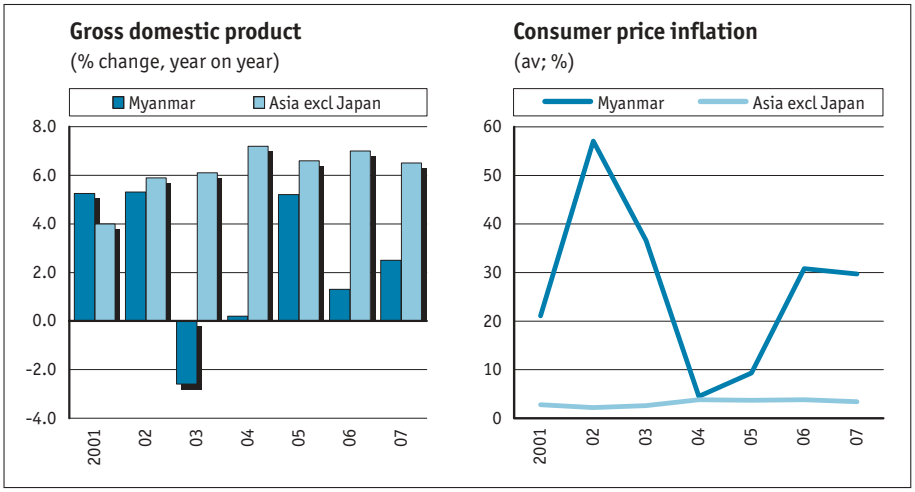

The political scene

Government and military posts are reshuffled

The State Peace and Development Council (SPDC, the ruling military junta) has not made any progress on its reform "road map" in recent months, but it has moved on two occasions to reshuffle cabinet ministers and military commanders. Although the reason for this shake-up in the government and the military is unclear, the moves most likely reflect the efforts by the SPDC's chairman, Senior General Than Shwe, to maintain his grip on power. He remains keen to promote those loyal to him to a wide range of important positions within the government and military, while also handing out promotions to other powerful SPDC members and their allies in order to keep rivalries in check. In May the junta replaced three ministers, appointed four new deputy ministers, and created one new ministerial post by splitting the Ministry of Electric Power into two. The minister of culture, Major-General Kyi Aung, was replaced by Major-General Khin Aung Myint. Major-General Sein Htwa, who held the posts of both minister of social welfare and minister of immigration and population, was replaced by Major-General Maung Maung Swe, previously the armed forces Coastal Region Commander (who also took over both posts). Another military commander, Major-General Soe Naing, was transferred from the South-eastern Command to the post of minister of hotels and tourism. Major-General Khin Maung Myint (previously the Western Region military commander) was appointed to the newly created post of minister of electric power-2. Two ministers swapped posts; the minister of co-operatives, Colonel Zaw Min, was moved into the post of minister of electric power-1, swapping places with the previous minister, Major-General Tin Htut. Four new deputy ministers were also appointed. This change-around was followed by a second reshuffle in mid-June, when a further eight deputy prime ministers were dismissed. One Supreme Court judge, Khin Maung Aye, also stepped down.

None of the recent changes in government and military personnel are expected to result in policy changes by the regime, as the top tier of leaders remains largely unchanged. However, there are persistent rumours of tensions among senior SPDC members. General Than Shwe appears

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increasingly to be favouring the SPDC faction that includes the joint chief-of-staff of the armed forces, General Shwe Mann, and the SPDC's secretary-1, Lieutenant-General Thein Sein. This has reportedly caused tension between General Than Shwe and Deputy Senior General Maung Aye, who is currently deputy head of the armed forces, commander-in-chief of the armed forces and vice-chairman of the SPDC—making him the second most powerful figure within the junta, at least on paper. However, rumours that General Shwe Mann is becoming a growing threat to General Maung Aye appear to have been overstated, at least for now.

Aung San Suu Kyi is detained for a further year

Despite the SPDC's claims that it is intent on pushing ahead with political reforms, its dealings with the leading opposition party, the National League for Democracy (NLD), continue to show that it has no real intention of permitting a civilian political party to take control. On May 27th the junta extended the house arrest of the NLD's secretary-general, Aung San Suu Kyi, and party vice-chairman, Tin Oo, for a further year. Aung San Suu Kyi began her most recent period under house arrest in late May 2003, following an attack on her supporters in the far north of the country. There had been intense speculation that the junta was planning on releasing Aung San Suu Kyi when her detention order was set to expire at the end of May. This speculation followed the surprise trip to Myanmar in mid-May by the UN under-secretary general for political affairs, Ibrahim Gambari, who was permitted to meet with Aung San Suu Kyi—her first visitor aside from her doctor since a visit by the UN special envoy to Myanmar, Razali Ismail, in March 2004. Also in late May the UN secretary-general, Kofi Annan, made a brief public statement calling on General Than Shwe to release Aung San Suu Kyi when her detention order expired at the end of the month. However, the detention order was extended only a week later, causing widespread international condemnation. The foreign minister, Nyan Win, rejected the criticism, and during a meeting of the Non-Aligned Movement in Malaysia in late May he said that Aung San Suu Kyi's detention was a domestic issue. Although the junta has stated on occasions in the recent past that the support for the NLD has seriously dwindled, its decision to keep Aung San Suu Kyi detained indicates that it is still fearful of the mass public support that she generates.

There are signs that the SPDC may be moving towards banning the party altogether—in late April the information minister, Brigadier-General Kyaw Hsan, stated that the junta had been gathering evidence of the NLD's links to banned political groups in exile that have been blamed by the junta for a series of bomb attacks in Yangon. The NLD, which is committed to a policy of non-violence, has strongly denied any involvement in terrorist activities. The junta's threats to declare the NLD to be illegal may come to nothing. However, there has been an increase in harassment of NLD members in recent months, resulting in a rise in resignations from the party, and such pressures are set to intensify. In June the Ministry for Home Affairs issued a new order demanding that a member of local-level Peace and Development Councils must be present at the meetings of political parties. The state-controlled media has continued to make threats against Aung San Suu Kyi; in July the *New Light*

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of Myanmar claimed that the NLD leader was a danger to the nation, stating that both she and the NLD were "heading for a tragic end".

For its part, the NLD continues to push for talks with the junta, rejecting the junta's planned road map for political reform. In June the NLD called for an "international negotiator" to facilitate a process of dialogue between itself and the SPDC. Although Mr Ismail held such a position in the past, the NLD secretary, U Lwin, has said that a UN official would not be suitable. Instead, he indicated a preference for a regional statesman, such as Indonesia's former foreign minister, Ali Alatas.

It is not only the NLD that is suffering intense oppression. In May Brigadier-General Kyaw Hsan acknowledged that the regime had intensified its campaign against the Karen National Union (KNU), one of the largest ethnic military groups still fighting the SPDC. According to relief groups operating from Thailand, up to 18,000 mainly Karen people have been recently displaced from their villages, fleeing fighting between the SPDC and the KNU, as well as harassment of civilians by SPDC troops. The total number of new refugees crossing the border into neighbouring Thailand has also increased. The SPDC and KNU began talks in late 2004, agreeing an informal ceasefire, but this has unravelled, and clashes between the two sides have intensified this year. In May the KNU issued a statement calling on the SPDC to end hostilities and renew talks. However, there is no sign that the junta is preparing to reopen discussion.

The US continues to push for UN action against the junta

With renewed contact between the junta and UN officials failing to show results, the US government continues to push for a UN Security Council resolution calling for political change in Myanmar. The SPDC's decision to allow Mr Gambari to visit in May—and particularly to allow Aung San Suu Kyi to meet Mr Gambari—was a sign of potential positive change in the junta's dealings with the UN. It is possible that the SPDC is now prepared to hold discussions with senior UN envoys, after several years of troubled relations. The UN special rapporteur on human rights in Myanmar, Sergio Pinheiro, had been refused entry to Myanmar since he last made a trip to the country in late 2003, and Mr Ismail stepped down from his post in early 2006 after he had not been permitted to visit the country since early 2004. Following his recent visit, Mr Gambari commented that there did appear to be more willingness on the part of the SPDC to take steps to improve relations with the international community. He also expressed hope that the SPDC would consider improved access by UN humanitarian agencies to displaced people in several border states. However, the decision to extend Aung San Suu Kyi's period of detention quickly deflated the emerging sense of optimism.

Following Mr Gambari's briefing to the UN Security Council following his recent trip, the US has pledged to push ahead with its efforts to have the council put Myanmar on its formal agenda for discussion. The US has some backing among the 15-member council for this effort, with the UK and France in agreement along with most of the non-permanent council members. However, further action by the council is opposed by China, Russia and Japan, all of which disagree with the US assertion that the political and

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economic crisis in Myanmar poses a threat to wider international security. Although both China and Russia are permanent council members and have the power to veto any resolution, it is Japan's opposition that has seemingly most disturbed the US given the two countries' close alliance.

Despite its struggle to get a UN resolution to push the junta into reforming their ways and free Aung San Suu Kyi, the US government has had no problem in pushing through legislation to maintain its sanctions on Myanmar. In July both houses of the US Congress, the House of Representatives and the US Senate, agreed to renew sanctions under the Burmese Freedom and Democracy Act, which was originally approved in 2003. The sanctions include a range of restrictions on trade and investment, most notably a ban on all imports from Myanmar.

ASEAN grows more critical, but takes little real action

There is a growing feeling among some members of the Association of South-East Asian Nations (ASEAN) nations that the SPDC's failure to deliver on its promise of political change is now seriously undermining the group's credibility with Western allies. ASEAN has a policy of non-interference in the domestic politics of its members, and for years has followed a policy of "constructive engagement" with the regime. However, over the past two years there has been a subtle shift, as ASEAN has sought to persuade the SPDC to speed up its reform process and to release key political prisoners. In March the Malaysian foreign minister, Syed Hamid Albar, visited Myanmar as an envoy of ASEAN, tasked with finding out about the regime's progress towards political reforms. However, unable to meet General Than Shwe, or to obtain permission to visit Aung San Suu Kyi, My Syed cut short his visit. Since then, several ASEAN nations have voiced veiled criticism of the SPDC. In June Indonesia's foreign minister, Hassan Wirayuda, stated during a press conference that "gross human rights violations" could not remain as the internal affair of the country concerned. Thailand's foreign minister, Kantathi Suphamongkhon, stated that ASEAN wanted to see the SPDC move ahead with reform "as soon as possible". Also in June Mr Syed stated that if the SPDC did not wish ASEAN to play a role in supporting its political reform process, then the UN should play a greater role.

Despite this relatively strong rhetoric, a consensus has yet to emerge within ASEAN in favour of stronger action against the SPDC. During the ASEAN ministerial meeting in Malaysia in late July, ASEAN's foreign ministers raised their concerns over the slow progress that is being made towards democratic reform and called for the release of all political prisoners. However, the issue did not feature extensively in the final joint communiqué, and while calling for faster progress towards political reform, the ministers added that they recognised that the generals needed more time to deal with "complex challenges".

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Economic policy

The junta aims to boost revenue

Central government revenue growth remained strong through the first eight months of fiscal year 2005/06 (April-March), according to the Central Statistical Organisation (CSO). Total central government tax revenue rose by 53.2% year on year in nominal terms in April-November, to Kt202bn (US$34bn at the inflated official exchange rate, or US$150m at the free-market exchange rate), compared with growth of 76.9% year on year for the whole of 2004/05. Despite this expansion, the government appears to be seeking ways to boost central government tax revenue. In June the junta readjusted the exchange rate used to calculate customs duties, in effect raising import duties. Previously, duties on imports brought in via the country's border trade points were calculated using an exchange rate of Kt450:US$1. This has now been raised to Kt850:US$1, somewhat closer to the current free-market exchange rate, effectively increasing the amount of duty payable by importers. An increase in average import tariffs, imposed in mid-2004, saw a 415% year-on-year rise in customs revenue in 2004/05. However, customs revenue dropped by almost 25% year on year in April-November.

In a further bid to raise revenue, in May the government raised electricity prices and removed subsidies on electricity for civil servants. Electricity prices for all households increased to Kt25 (around 2 US cents at the free-market exchange rate) per unit, replacing the previous sliding scale, which ranged from Kt2.5-Kt25 per unit. Commercial users will pay Kt50 per unit

Central government tax revenue
(Kt m, unless otherwise indicated)

	2004		2005			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	Oct-Nov
Tax revenue	**53,236**	**66,048**	**125,282**	**61,985**	**80,293**	**59,518**
Commodities & services tax	21,367	30,129	51,057	27,596	27,069	30,372
Income tax	13,033	19,037	50,588	13,318	28,617	13,615
Profit tax	9,629	10,966	15,864	13,599	16,241	10,945
Customs tax	6,016	2,863	4,427	4,773	4,754	2,329
Lottery & stamp duty	3,191	3,053	3,346	2,699	3,612	2,257

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

According to reports in the *Myanmar Times*, a semi-official weekly newspaper, the junta is also hoping to raise funds through its privatisation programme. According to a recent press announcement, the junta plans to sell minority stakes (up to 49%) in 11 factories run by the Ministry of Industry-1. Myanmar's state-owned enterprises (SOEs), most of which are inefficient and loss-making, are a huge drain on the government's finances. According to the Asian Development Bank, the total public-sector deficit reached 5.9% of GDP in 2001/02, dipping to a still high 4.1% of GDP in 2002/03, driven by heavy losses by the country's SOEs, which accounted for nearly two-thirds of the overall deficit. The junta began a privatisation programme more than a decade ago, but little progress has been made.

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The junta certainly needs to find ways to boost revenue. In April the junta raised salaries for around 1m civil servants and military officers by between 500% and 1,200%. This year the junta has also faced the cost of moving many government ministries to its remote new capital at Pyinmana, around 320 km north of the capital, Yangon. The massive construction project at Pyinmana is far from complete, and the cost of the project is unknown. The lack of recent data for government expenditure makes it difficult to analyse the government's overall fiscal position. However, the fact that government borrowing from the Central Bank of Myanmar continues to grow rapidly suggests that the junta's revenue remains insufficient to cover its expenditure.

There are no further increases in interest rates

The junta rarely adjusts interest rates, even during periods of high inflation, as higher interest rates increase the junta's domestic debt-servicing burden. The government prefers instead to rely on a mix of controls and subsidies to keep a lid on price increases. In April, however, the central bank and commercial banks did raise interest rates—the first increase in around five years. The central bank rate was raised by two percentage points to 12%, and commercial banks raised interest rates to 17% from 15% for loans to SOEs. The interest rate on savings accounts was raised from 9.5% to 12% per year. The increase was probably intended to dampen inflationary pressures following the huge pay increase for civil servants, effective from April 1st. Interest rates remained unchanged in May, and there have been no announcements regarding interest rate increases since then. Despite the increases in April, interest rates are close to being negative in real terms (based on official inflation data).

Interest rates
(%)

	2005				2006	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	Apr
Central bank rate[a]	10.0	10.0	10.0	10.0	10.0	12.0
Deposit rate (6-month)	9.5	9.5	9.5	9.5	9.5	12.0
Lending rate (working capital, state-owned enterprises)	15.0	15.0	15.0	15.0	15.0	17.0

[a] End-period.

Source: IMF, *International Financial Statistics*.

Forced labour remains under the spotlight

The junta's extremely poor record on labour rights is an area of concern for many potential foreign investors. The armed forces in particular have a long record of using forced labour on infrastructure and other projects. At a meeting in mid-June, the International Labour Organisation (ILO) set out demands for improvements in labour rights in Myanmar. The ILO called for the release by the end of July of those who have been imprisoned by the junta after lodging complaints about labour abuses with the ILO office in Myanmar. The ILO also called for an agreement with the State Peace and Development Council (SPDC, the ruling military junta) by the end of October on a new mechanism to deal with complaints about forced labour in Myanmar—including protection from arrest by the military for those who raise such complaints.

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The ILO will assess the SPDC's progress at the next session of its governing body in November. If the SPDC fails to make sufficient progress, the ILO has made it clear that it will take further measures. In the past, the ILO has called on its member states to consider sanctions against Myanmar. Another step might involve referring Myanmar to the International Court of Justice in The Hague. The SPDC does appear to have taken notice. In June it released Su Su Nwe, who was jailed for 18 months in October 2005 after bringing a forced labour case against the regime. However, other labour activists remain behind bars. SPDC representatives at the ILO have also proposed that the ILO office in Myanmar and Labour Ministry officials form a panel to review forced labour complaints against the regime, but a detailed mechanism has yet to be worked out.

The domestic economy

Output and demand

Industrial output picks up

The SPDC produces little regular data on economic output. The lack of regular published data on agricultural output is particularly problematic, given the sector's dominance. However, a range of proxy indicators can be used to analyse trends in the industrial sector. For example, a pick-up in sales of electricity to the industrial sector suggests that there has been an upturn in industrial output. After contracting in 2004/05, electricity sales to the industrial sector rose by 18.7% year on year in the first eight months of fiscal year 2005/06 (April-March), compared with a fall of 4.2% year on year during the same period in 2004/05.

There was also an increase in output of goods by state-owned enterprises (SOEs) in April-November 2005. Output of paper rose by 34.1% year on year in April-November, after falling by 9.7% year on year in the whole of 2004/05. Cement output rose by 4.2% year on year in April-November, after dropping by 8.5% in 2004/05. Although some of this increase in paper and cement output can be explained by the low base period, output of other items that showed positive growth in 2004/05 also continued to expand in the first eight months of 2005/06. For example, output of natural gas (now Myanmar's largest export) rose by 13.2% year on year in April-November, compared with growth of 7.9% year on year in 2004/05. Crude oil output rose by 12.7% year on year in April-November. Output of cotton yarn and fabrics rose by an annual 1.4% and 4.6% respectively in April-November, as the small export-oriented garment sector began to recover from a US ban on imports from Myanmar imposed in mid-2003 (the US had been a major destination for Myanmar's garment exports).

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Output of state-owned enterprises
(tonnes, unless otherwise stated)

	2004		2005			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	Oct-Nov
Cotton yarn ('000 lb)	2,056	2,291	2,025	1,879	2,084	1,571
Cotton fabrics ('000 yd)	4,009	3,971	3,541	3,591	3,529	3,221
Paper	3,719	4,169	4,811	4,907	5,454	3,152
Cement	109,582	118,962	162,945	140,142	125,820	60,685
Sugar	-	32,185	20,735	-	-	2,869
Natural gas (m cu ft)	91,860	92,644	101,639	105,493	103,180	68,456
Crude oil ('000 barrels)	1,836	1,783	2,024	2,105	2,041	1,347

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

Foreign investment approvals dwindle

Foreign direct investment (FDI) approvals remain weak, totalling a mere US$35.7m for April-November, according to the Central Statistical Organisation (CSO). One project led by Indian investors in the energy sector accounted for 86% of total investment approvals during this period. It is possible that the data do not capture some smaller FDI approvals, particularly those from Thailand and China in projects along their shared borders with Myanmar. Although the general trend in FDI has been downwards, there is likely to be a modest upturn in approvals over the next few years as several major new offshore gasfields go into production. Overall, however, a marked upturn in FDI approvals is unlikely while Myanmar remains beset by a wide range of political and economic problems. Foreign investors continue to be put off by factors such as international sanctions and consumer boycotts, high levels of political risk, ad hoc policymaking by the junta, erratic power supplies, a weak banking system, feeble domestic demand and poor transport links.

Foreign direct investment
(US$ m)

	2004/05	Apr-Nov 2005/06
Main sources		
China	126.6	0.7
Thailand	29	4.4
Japan	2.7	-
India	-	30.6
Main sectors		
Oil & gas	142.6	35
Real-estate development	31.3	0
Mining	6	0.7
Manufacturing	3.5	-
Hotel & tourism	-25.1	-
Total incl others	**158.3**	**35.7**

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

Employment, wages and prices

Inflation picks up steadily

Consumer price inflation averaged 8.9% year on year in January-November 2005, according to the latest data available from the CSO. Housing prices continued to show the strongest increase, rising by an average of 21.9% year on year in January-November. Food prices, which have the heaviest

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weighting in the consumer price index (CPI), increased by an average of 8.7% year on year in January-November. By November 2005 food prices had risen by 13.2% since the beginning of the year.

The official data, however, probably understate the real rate of inflation. Anecdotal evidence suggests that consumer price inflation rose far more rapidly through 2005, and the data for November 2005 seemingly fail to reveal the full extent of the junta's decision to raise domestic fuel prices by reducing its subsidies in October, a move that caused retail fuel prices to rise more than eightfold. According to the CSO, the CPI rose by 1.6% month on month in November last year, with prices in the fuel and light category increasing by only 0.6% month on month.

Inflation is likely to have continued to accelerate in the first half of 2006. In February 2006 rice prices reportedly jumped by around 90% year on year and gasoline prices increased by 35%. A number of measures taken in recent months by the State Peace and Development Council (SPDC, the ruling military junta) will have further stoked inflationary pressures. In April the junta raised salaries for around 1m civil servants and military personnel, resulting in an immediate jump in the price of many staple goods. In May the junta raised electricity prices and removed electricity subsidies for civil servants, and in June it altered the exchange rate used to calculate import duties, which increases costs for importers and adds to import price pressures. However, the real impact of these measures is unlikely to be fully reflected in the official data.

Consumer prices
(period av)

	2004		2005			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	Oct-Nov
General index (1997=100)	415.0	426.0	429.8	438.4	451.9	479.5
% change, year on year	2.9	3.6	6.1	8.9	8.9	12.9
Food index	412.8	424.7	425.8	439.8	453.1	480.3
% change, year on year	-0.4	0.6	4.2	9.8	9.8	13.3

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

Financial indicators

The free-market kyat recovers slightly

The free-market exchange rate for the kyat recovered slightly to around Kt1,300 in mid-July, from around Kt1,450 at the end of April, but it slipped to Kt1,350:US$1 by end-July. The kyat came under pressure in late March, dropping to around Kt1,250:US$1 from Kt1,100:US$1 in January, owing to fears that a pay raise for civil servants (of 500-1,200% effective from April 1st) would sharply push up prices. (The junta does not publish free-market exchange rate data, and these figures are approximate.) The overvalued official exchange rate (which is little used, except by some state entities) is fixed against the IMF's special drawing rights (SDR), and does not reflect these pressures. The official rate held steady at around Kt5.9:US$1 through much of 2005 and during the first four months of 2006.

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Money supply growth remains strong

The junta's demand for credit from the Central Bank of Myanmar, which it uses to fund its budget deficit, continues to drive rapid growth in narrow money (M1), as the bank resorts to printing money. M1 expanded by 26.7% year on year in the first quarter of 2006. Quasi-money, which comprises time, savings and foreign-exchange deposits, is also expanding. People have returned to deposit funds in the banking sector after the banking crisis of 2003 brought rapid withdrawals of deposits, resulting in an unusual dip in money supply growth. The expansion in both M1 and quasi-money contributed to a 25.1% year-on-year expansion in broad money supply (M2) in the first quarter of 2006. Strong money supply growth has fuelled upward pressure on prices, but this trend is not wholly reflected in the official inflation statistics. The junta continues to soak up most domestic credit, accounting for close to 81% of all domestic credit in the first quarter of 2006. Outstanding credit to the private sector dropped sharply following the 2003 banking crisis, and it is only now approaching pre-crisis levels.

Money supply and credit

(Kt m unless otherwise indicated; end-period)

	2004	2005				2006
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Narrow money (M1)	1,487,655	1,686,030	1,742,805	1,814,295	1,953,375	2,136,300
% change, year on year	25.4	29.5	28.1	26.1	31.3	26.7
Quasi-money	594,169	601,271	651,284	691,319	697,736	724,728
Broad money (M2)	2,081,824	2,287,301	2,394,089	2,505,614	2,651,111	2,861,028
% change, year on year	32.4	33.3	29.9	26.0	27.3	25.1
Total credit	2,255,448	2,391,701	2,557,451	2,695,174	2,870,851	2,977,351
Claims on central government	1,775,558	1,920,985	1,999,436	2,106,872	2,265,512	2,403,258
Claims on non-financial public enterprises	50,959	8,063	46,277	40,227	34,415	8,633
Claims on private sector	428,931	462,653	511,738	548,075	570,924	565,460

Source: IMF, *International Financial Statistics*.

Sectoral trends

Rice output rises despite falling yields

The UN Food and Agriculture Organisation (FAO) estimates that production of paddy (unmilled rice) rose by 3.4% year on year in 2005 to 24.5m tonnes. A reasonable harvest was expected. Officials from Myanmar's Department of Agriculture stated in 2005 that Myanmar had escaped the worst of the drought that hit agricultural production in Thailand. According to the FAO data, the increase in rice output was driven by a 4.5% annual rise in the area harvested, to 6,270m ha. Rice yields fell, dropping by 1.1% year on year. The boost in rice output and exports reached in recent years has been driven by the junta's policy of using incentives to bring more agricultural land into production. Little headway has been made in improving crop quality or yields, and much rice farming remains small-scale and low-tech, with many farmers unable to afford investment in irrigation, fertiliser or high-quality seeds.

Timber export volume remains strong

Export volume of teak rose by 13.3% year on year to 437,120 cu metres in January-November 2005, according to data from the CSO, whereas hardwood exports rose by 43.8% to 911,338 cu metres. The real level of timber exports is

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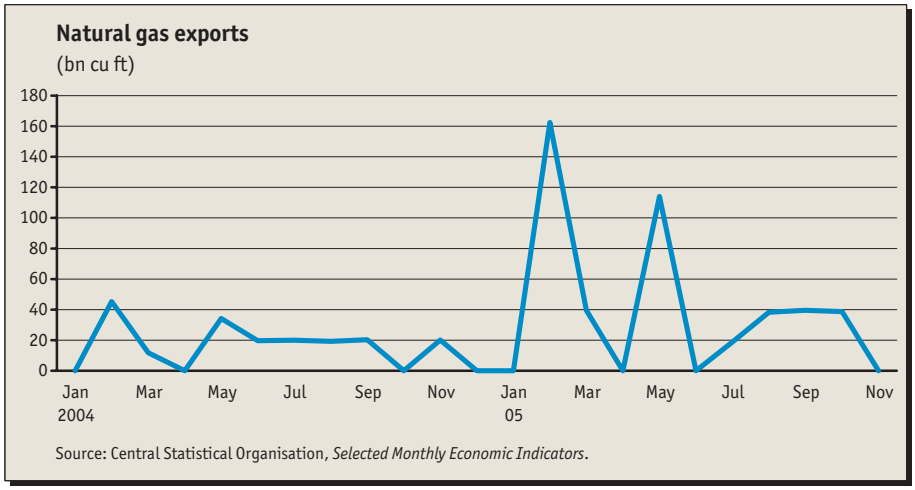
believed to be far higher, although the SPDC has in theory sought to restrict illegal logging, extensive crossborder illegal trade in hardwoods continued through 2005, fuelled by strong demand from both Thailand and China. According to Global Witness, a UK-based non-governmental organisation, in May 2006 China banned timber imports from Myanmar through most border trade points. If these new restrictions remain in place, they could result in a sharp drop in illegal timber exports. However, Global Witness reported that despite the ban, timber was still being transported to the Myanmar side of the border.

New finds will boost gas exports

Natural gas will remain Myanmar's largest single source of export revenue over the medium term, with new finds set to boost production. Gas production and export volumes from the existing Yetagun and Yadana fields in the Andaman Sea expanded sharply in 2005. According to the CSO, total gas production reached 379bn cu feet in January-November 2005, up by around 14% year on year. However, reflecting apparent delays in exports in 2004, export volume soared in 2005, reaching 451bn cu feet in January-November up from around 190bn cu feet in the year-earlier period. Thailand accounts for nearly all of the gas exported from the large offshore Yadana and Yetagun fields.



Huge new offshore finds, known as blocks A1 and A3, are expected to go into production within the next three or four years. The South Korean and Indian consortium developing block A1 (which holds reserves of around 2.9trn-3.6trn cu ft) had initially planned to export the gas to India, via a pipeline running through Bangladesh. However, this plan has run into delays, and other options are being explored. In early 2006 Myanmar's state-owned Myanma Oil and Gas Enterprise (MOGE) reportedly signed a memorandum of understanding with China's state-owned energy firm, PetroChina, apparently promising that at least some of the output from the new fields would go to China. A final decision about how and where the gas from block A1 will be exported is expected in the near future. (The consortium developing the field comprises South Korea's Daewoo and Kogas and India's Gas Authority of India and ONGC Videsh.) Testing at the A3 block has reportedly gone well,

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and in June ONGC Videsh, which has a 20% stake in the block, reported signs of significant gas finds.

Slower growth in tourist arrivals

Tourist arrivals totalled around 274,000 in the first 11 months of 2005, up by only 1.3% year on year, according to the CSO. Although there was fairly strong growth in arrivals in the first quarter of 2005, the pace of year-on-year growth was much weaker in the following two quarters, before the number of arrivals plunged by 13.5% year on year in October-November. Arrivals have generally been weak because of boycott campaigns organised by international pro-democracy campaign groups, and there is little likelihood of such campaigns ending as long as the junta refuses to open dialogue with the opposition. Tourist arrivals are also limited by factors such as the limited number of flights, and by poor domestic infrastructure. Another problem is the lack of open borders with neighbouring countries such as Thailand. Tourists are permitted to cross into Myanmar from two border points in Thailand, but may only stay for short periods (one day in most cases), and cannot travel onwards to the rest of the country. Worries over bird flu may also keep some tourists away; in March there were outbreaks of bird flu in Mandalay, one of Myanmar's main tourism destinations. However, Myanmar's tourism sector received a boost in July, when Thailand's budget airline, Thai Air Asia, announced that it would start direct daily flights between Bangkok and Yangon from mid-August.

Tourist arrivals

	2004		2005			
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	Oct-Nov
Arrivals (no.)	60,144	91,058	102,883	60,451	61,929	48,973
% change, year on year	24.6	0.5	8.4	2.5	3.0	-13.5

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

Doubts remain over bank regulation

In June the international Financial Action Task-Force announced that Nigeria had been removed from the list of countries deemed to be not co-operating sufficiently with the body's efforts to curb money-laundering. Nigeria's removal leaves Myanmar as the sole remaining country on the list. In 2005 the junta closed two of the country's largest private banks, Asia Wealth Bank and Myanmar Mayflower Bank, after an investigation into money-laundering. This year the junta has taken steps to tighten up bank regulation. In July the central bank set minimum ratios for paid-up capital for private and state-owned banks at ten times the level of deposits, increasing the ratio from seven times. Before the 2003 bank crisis, which saw a run on several banks and a severe liquidity crisis, no such ratios had been in place. There has been a slow recovery in the banking sector as depositors have returned and lending to the private sector has resumed (see Financial indicators.) However, despite the recent tightening of banking regulations, concerns remain over the central bank's ability to enforce the new regulations.

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Foreign trade and payments

Export revenue soars, as gas exports expand sharply

According to customs data from the Central Statistical Organisation (CSO), exports rose by 62.2% year on year to Kt20.8bn (US$3.5bn at the inflated official exchange rate, or around US$16m at the free-market exchange rate) in January-November 2005. Export growth was driven by strong sales of natural gas, which is by far Myanmar's largest single export accounting for close to 39% of all export revenue in January-November. Gas exports jumped to around Kt8.1bn in the first 11 months of 2005, up from Kt3.3bn in the whole of 2004. Exports of several other key commodities, including hardwoods, metals, rubber and rice, also performed well, benefiting from buoyant world commodity prices and strong crossborder trade. Even garment exports picked up by 6.6% year on year (in value terms) in January-November 2005, despite the ongoing US ban on imports from Myanmar—the US had been a leading market for Myanmar's garment exports.

The State Peace and Development Council (SPDC, the ruling military junta) has derived most benefit from this strong export performance. State agencies control exports of most of the major commodities. Unsurprisingly, therefore, government exports accounted for 60.4% of total export revenue in January-November 2005.

Key exports and imports
(Kt m unless otherwise indicated)

	2004	Jan-Nov 2005	% change[a]
Exports			
Gas	3,334	8,098	142.9
Teak & other hardwoods	2,149	2,594	31.5
Pulses	1,407	1,387	3.9
Garments	1,298	1,267	6.6
Prawns, fish & fish products	1,003	962	6.0
Metals & ores	503	641	47.8
Maize	98	101	16.0
Rubber	81	190	164.7
Rice	112	186	107.5
Total exports incl others	**13,687**	**20,803**	**62.2**
Imports			
Machinery & transport equipment	2,476	1,552	-33.4
Refined mineral oil	1,810	1,457	-19.0
Synthetic & woven fabrics	1,097	955	-3.4
Base metals & manufactures	1,206	1,059	-6.8
Electrical machinery	989	595	-38.3
Plastics	492	438	-3.4
Total imports incl others	**12,637**	**10,096**	**-15.0**
Trade balance	**1,050**	**10,707**	**-**

[a] January-November 2005 compared with year-earlier period.

Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

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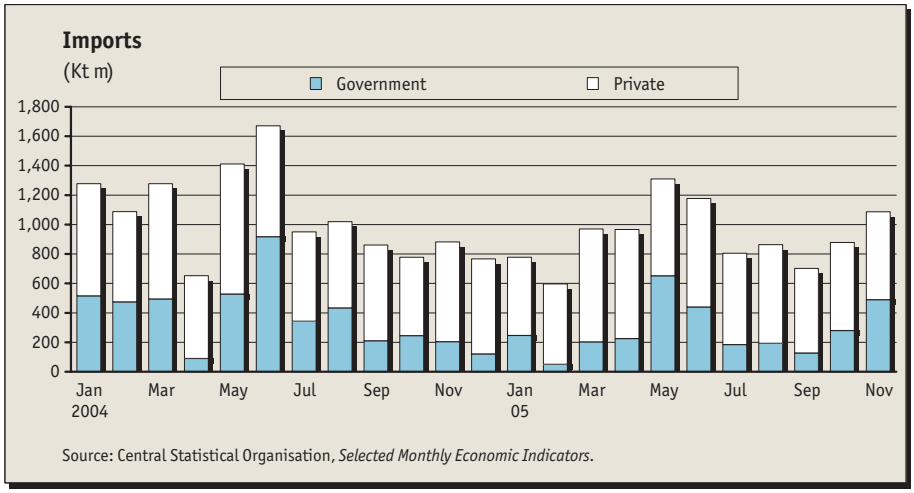
Myanmar's imports have continued to fall, dropping by 15% year on year to K10.7bn in January-November. The top six categories of imports all recorded contractions. For example, imports of machinery and transport equipment (the largest single import category) dropped by 33.4% year on year to Kt1.6bn. Imports of refined mineral oil, fabrics, metals, electrical machinery and plastics all fell, reflecting both weak domestic demand, sluggish foreign investment and the weakening trend of the kyat. The fall in the value of refined mineral oil imports is surprising given that world oil prices remain high and that Myanmar is heavily reliant on imported fuel and oil products having little refining capacity of its own. However, high world prices combined with a weak exchange rate may have forced the junta to cut back on mineral oil imports in volume terms (regular import volume data are not published). The sharp expansion in export revenue combined with the drop in the import bill resulted in a merchandise trade surplus in January-November of Kt10.7bn, up from around Kt1.1bn in the whole of 2004.



Source: Central Statistical Organisation, *Selected Monthly Economic Indicators*.

Gas exports drive trade surplus with Thailand

Thailand remains Myanmar's largest export market, purchasing the bulk of Myanmar's natural gas exports. Since the start of large-scale gas production, Myanmar has consistently posted a healthy trade surplus with Thailand. According to data from the Bank of Thailand (BOT, Thailand's central bank), Myanmar's exports to Thailand rose by 19.5% year on year in January-May 2006, reaching US$824m. However, the BOT's trade data does not closely correlate with the data published by the CSO. According to the BOT, Thailand's imports from Myanmar rose by only 32.7% year on year in 2005, whereas the CSO claims that gas exports, which are mostly bought by Thailand, soared by 143% in the first 11 months of the year.

According to the BOT, Myanmar's imports from Thailand, which are dominated by consumer goods and foodstuffs, rose by a relatively modest 5.1% year on year to US$326m in January-May 2006, leaving a merchandise surplus in Myanmar's favour of US$498m.

Border trade with Thailand has been fairly slow in recent months, according to anecdotal evidence. This partly reflects the recent increase in import taxes (which, for border trade, are now based on a less favourable exchange rate),

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in addition to efforts by the central authorities to crack down on corrupt customs officials.

Trade with Thailand
(US$ m)

	2004				2005	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	Apr-May
Exports to Thailand	400.2	436.4	461.8	488.7	476.0	347.9
Imports from Thailand	189.7	183.4	156.8	182.6	204.6	121.7
Balance	**210.6**	**253.0**	**304.9**	**306.1**	**271.3**	**226.2**

Source: Bank of Thailand.

Improved trade balance bolsters international reserves

International reserves stood at around US$792m at the end of February 2006, down from a record high of US$807m in January, according to data from the IMF. The trend in reserves, however, remains positive, largely because of the improvement in the merchandise trade surplus. However, Myanmar has little resilience to trade shocks. The junta has had almost no access to international capital or aid—most major aid donors froze their aid programmes in 1988 after the junta's violent suppression of pro-democracy protests. The fact that the junta has ceased servicing some of its external debts owned to multilateral agencies has not helped. In 1998 the junta ceased servicing its debt to the International Development Association (IDA, the concessional lending arm of the World Bank), as well as to the Asian Development Bank. Recent years have seen a growing reliance on exporters' credits and other soft loans. In June the Central Bank of Myanmar and China Export Import Bank signed a soft-loan agreement for US$200m to enable several government ministries to import goods from China. Also in June, the Export and Import Bank of India agreed to extend a US$20m loan to contribute to the rehabilitation costs of an oil-refinery project.

International liquidity
(US$ m; end-period)

	2004	2005				2006
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Feb
Foreign exchange	672.1	774.3	709.3	754.6	770.5	780.5
SDRs & IMF reserve position	-	-	0.1	0.1	0.2	-
Gold (national valuation)	12.6	12.2	11.8	11.7	11.6	11.6
Total international reserves	**684.7**	**786.5**	**721.2**	**766.4**	**782.3**	**792.1**

Source: IMF, *International Financial Statistics*.

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