Resilience Amidst Risk
Executive Summary
Executive summary

Summary

Myanmar's economy continues to show resilience despite the global slowdown and domestic uncertainties. Its economy is estimated to have grown at 6.3 percent in 2018/19\(^1\), marginally higher than 6.2 percent in 2017/18, supported by better performance in the manufacturing and services sectors. Macroeconomic volatility has increased since the June 2019 Myanmar Economic Monitor, with inflation reaching double digits in July 2019. Economic growth is expected to reach 6.4 percent in 2019/20, helped by growing investment in the transport and telecommunication sectors and government's planned infrastructure spending before the 2020 elections. Risks to the economic outlook are tilted to the downside due to slowing global and regional growth, and continued uncertainty about investor perceptions triggered by the Rakhine crisis and the pace of reforms prior to the 2020 general elections, although the pace has thus far been strong.

Recent developments

Global growth will be weaker than expected in 2019. The global economic growth rate is estimated to have slowed to 2.4 percent in 2019 from 3.0 percent in 2018, reflecting a broad-based weakness in advanced economies and major emerging market and developing economies. Modest declines are forecasted for global commodity prices. Growth in the East Asia and Pacific region is projected to slow from 6.3 percent in 2018 to 5.8 percent on average over the two years 2019-20, and to ease further to 5.6 percent by 2021.

Using 2015/16 as a new GDP base year, Myanmar's economy is expected to grow at 6.3 percent in 2018/19 from 6.2 percent in 2017/18. The service sector is the main driver of growth, expected to grow by 8.4 percent in 2018/19. A slow recovery in tourism related services is offset by continued growth in wholesale and retail trade. The industrial sector is expected to grow by 6.4 percent in 2018/19, on the back of strong manufacturing growth offsetting slower growth in construction. Despite seasonal floods and volatile demand, agriculture output growth is projected to be stable at 1.6 percent in 2018/19, with greater diversification in production and export destinations.

The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined and imports rose. The Q3 2018/19 decline in exports was driven by industrial finished products and agricultural products, but partly offset by rising mineral exports. Imports increased (qoq) in Q3 2018/19 due to the increase in imports of consumer goods, industrial raw materials and investment products, indicating strengthening domestic aggregate demand. Growth in imports of industrial raw materials supported the robust growth in the manufacturing sector. Approved Foreign Direct Investment improved in 2018/19 compared to 2017/18. Singapore remained the largest foreign investor in Myanmar, followed by China.

Domestic inflationary pressures have increased. Headline inflation increased to double digits in July 2019, largely due to the confluence of supply factors and the recent electricity price increase. Inflation rose from 9.5 percent in June to 10.9 percent (yoy) in July before easing to 10.4 percent in August. The electricity price increase pushed the non-food CPI sub-index up by 31.2 percent (yoy) and core inflation (which excludes volatile food and energy prices), rose to 14.1 percent from an average of 6.4 percent in the first nine months of 2018/19.

---

\(^1\) Myanmar’s fiscal year is from October to September. For instance, FY18/19 is October 2018 to September 2019.
2018/19 actual budget deficit is lower than the planned deficit driven by under-execution. The programmed budget deficit for 2018/19 was revised upward from 5.4 percent in September 2018 to 6.4 percent in June 2019. The actual deficit is projected at 3.2 percent due to continued under-execution of the capital budget. The latter is occurring despite changing the fiscal year from 1 April - 31 March to 1 October - 30 September. Revenue collection continues increasing only slightly from 16.4 percent of GDP in 2017/18 to 16.8 percent of GDP in 2018/19.

Economic outlook and risks

Myanmar's economic outlook remains stable. Growth in 2019/20 is expected to rise by 0.1 percentage points from 2018/19, driven by improved domestic demand. Investment growth in transport and telecommunication will sustain, as government plans more infrastructure spending in the lead up to the 2020 elections. Construction sector activity is expected to improve in 2019/20, with positive proxy indicators such as building permits and large FDI commitments. The Industry sector is expected to grow at a faster pace in 2018/19, with growth in manufacturing activities driven by foreign firms’ entry. In the medium-term, growth is expected to recover with improved business sentiment, better access to electricity and improved availability of credit particularly for construction, manufacturing and trade activities, also supported by foreign bank participation.

Downside risks to the economic outlook are driven by both domestic weaknesses and external sources. Slowing global and regional growth, especially in China, together with global trade tensions, could also transmit to Myanmar through the trade channel by slowing external demand and inbound foreign investments. Insecurity in border areas with violence and forced displacement of refugees in Rakhine, and uncertainty from legal proceedings in international courts could affect investors’ sentiment. Based on international experience, the 2020 general elections could add another source of uncertainty.

Special topic:

Myanmar's rapidly growing private sector is hampered by low productivity. The private sector is small but rapidly expanding. Firms with foreign ownership employ on average more workers, have higher labor productivity, and pay higher wages than domestic enterprises. While Myanmar is strategically located in one of the fastest growing regions in the world, decades of isolation and economic sanctions continue to hamper the development and external orientation of Myanmar’s firms.

Firms need greater access to factor inputs, better connectivity, and an enabling business environment to support a responsible private sector. Private-sector growth is primarily hampered by supply-side constraints and a restrictive business environment. Many firms face difficulties in accessing finance, which is a major constraint to Private Sector Development (PSD). Limited access to skilled employees is the second most reported constraint faced by firms, particularly SMEs. Land issues continue to impact the level of investment and finance in the country. Access to competitive and reliable electricity is also a major challenge facing firms in Myanmar. Behind these constraints is a business climate formed by the legacy of the state controlling rather than facilitating firms’ growth. The binding cross-cutting constraints affect PSD in key areas such as the agriculture and agribusiness, garment, and tourism sectors.

The presence of armed actors and conflicts add additional challenges for businesses in one-third of Myanmar. Businesses in conflict-affected areas bear additional cost to operate. Econometric analysis shows
that the long-term presence of armed actors negatively impacts business density. It also finds that conflicts have negative impact on employment in the manufacturing sector.

**Policies for private-sector led growth include:** a) Foster market expansion; b) Improve the allocation of resources; c) Develop the capacity of market participants.
Myanmar: Macroeconomic Developments

Using 2015/16 as a new GDP base year, Myanmar’s economy is expected to grow at 6.3 percent in 2018/19 from 6.2 percent in 2017/18. (Percent)

The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined and imports rose. (US$ million)

The total value of approved FDI increased between 2017/18 and 2018/19. (US$ million)

Domestic inflationary pressures have increased, with headline inflation rising to double digits in July 2019. (Index)

The continued under-execution is occurring despite reforms such as the change in the fiscal year. (percent share of budgeted capital expenditure)

Source: MoPFI, Planning Department.

Source: Ministry of Commerce

Source: IHS Markit and Nikkei

Source: CSO

Source: DICA

Source: MOPF; World Bank staff calculations
Resilience Amidst Risk

Myanmar Economic Monitor

December 2019

The total value of approved FDI increased between FY 2016/17 and FY 2018/19, reaching double digits in July 2019. The trade balance improved in Q2 2018/19 but remained in deficit in Q3 2018/19 as exports declined.

The manufacturing sector, although dominated by the textile industry, accounts for 7% of GDP. Inflation rose from 9.5% (yoy) in June 2017 to 10.9% in June 2018 and remained above 10% in July 2019. Headline inflation excluding volatile food and energy prices was 8.0% in June 2019, rising to 10.4% in August and to 14.1% in September, reflecting a broad increase in prices before easing to 10.3% in October.

Economic growth is expected to reach 6.4% in FY 2019/20, on the back of strong performance in construction.

Despite seasonal floods and volatile demand, the pace of reforms has thus far been strong, as indicated by the PMI index, which remained above 50, signaling increases in manufacturing output and employment.

The economy is expected to grow at 6.3% in FY 2018/19, supported by a broad-based increase in GDP production and continued uncertainty about investor perceptions.

Global growth is estimated to have slowed to 2.4% in 2019 from 3.0% in 2018, reflecting a broad-based decline in growth in advanced and emerging economies.
Economic growth is expected to reach 6.4 percent in 2019/20, helped by continued strengthening domestic aggregate demand and imports rose.

The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined.

Agriculture output growth is projected to be stable at 1.6 percent in 2018/19, with 8.4 percent in 2019/20.

The CPI Food and non-food inflation increased by 20.0 percent in 2018/19.

Risk to the economic outlook are:

- Deteriorating global economic outlook
- Political developments
- Volatility in trade and commodity prices
- Slowdown in domestic consumption
- Deterioration of-farm conditions
- Inflationary pressures

A slow recovery in tourism related services is offset by continued growth in w.

Economic growth is expected to reach 6.4 percent in 2019/20, helped by continued strengthening domestic aggregate demand and imports rose.

The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined.

Agriculture output growth is projected to be stable at 1.6 percent in 2018/19, with 8.4 percent in 2019/20.

The CPI Food and non-food inflation increased by 20.0 percent in 2018/19.

Risk to the economic outlook are:

- Deteriorating global economic outlook
- Political developments
- Volatility in trade and commodity prices
- Slowdown in domestic consumption
- Deterioration of-farm conditions
- Inflationary pressures

A slow recovery in tourism related services is offset by continued growth in w.
Economic growth is expected to reach 6.4 percent in 2019/20, helped by
increased manufacturing growth offsetting slow retail trade.

Domestic inflationary pressures have increased largely due to
food and energy prices rising to 10.9 percent (yoy) in June to 10.4 percent in August, supported by
recent electricity price increase and rising mineral exports.

Both the headline PMI and the employment index have
eased to 31.2 percent (yoy) in August, with
expansion in service sector and manufacturing above 50, signaling
increases in manufacturing and domestic
investment despite
lower CPI sub-index.

Despite seasonal floods and volatile demand,
Imports increased (qoq) in Q3 2018/19 due to
recent electricity price increase and rising mineral exports.

Despite
higher
FDI
Flows
and
executing projects,
the pace of reforms continues to
be slow. When easing to 10.4 percent in August, the
headline PMI was above 50, indicating
expansion in service sector and manufacturing, but partly offset by rising mineral exports.

Agricultural products, but partly offset by rising mineral exports.

The trade balance improved in Q2 2018/19 but returned to
deficit in Q3 2018/19 from 6.2 percent in 2017/18.

Myanmar’s economy is expected to grow at 6.3 percent in 2018/19 from 6.2 percent in 2017/18.

Myanmar’s economy is resilient amidst risk and continues to
improve performance in
Economic Monitor
since the June 2019 Myanmar Economic Monitor, with inflation
remaining above 50, signaling increases in manufacturing
and domestic
investment despite
lower CPI sub-index.

Despite seasonal floods and volatile demand,
Imports increased (qoq) in Q3 2018/19 due to
recent electricity price increase and rising mineral exports.

Despite higher
FDI
Flows
and
executing projects,
the pace of reforms continues to
be slow. When easing to 10.4 percent in August, the
headline PMI was above 50, indicating
expansion in service sector and manufacturing, but partly offset by rising mineral exports.

Agricultural products, but partly offset by rising mineral exports.

The trade balance improved in Q2 2018/19 but returned to
deficit in Q3 2018/19 from 6.2 percent in 2017/18.

Myanmar’s economy is expected to grow at 6.3 percent in 2018/19 from 6.2 percent in 2017/18.
Resilience amidst risk

Myanmar Economic Monitor

December 2019

The World Bank

2017-18

GDP growth in

Headline inflation

Core inflation

CPI Food

CPI Non Food

2016-17

6.2%

6.3%

NK-

 NK-

Reforms such as the change in the fiscal year

2018/19 (New Base Year)

The total value of approved FDI increased between

2015-16 and 2018/19.

The trade balance improved in Q2 2018/19 but returned to defici

The i

Global growth

Economic growth is expected to reach 6.4 percent in 2019/20, helped by

Despite seasonal floods and volatile demand,

Future output

Real Estate

Construction

Electricity

Energy

Industry

Manufacturing

Agriculture

The confluence of supply factors and

2015-16

-2000

5000

6000

9100

14000

15000

MOF

CSO

Source: World Bank staff calculations
economic growth is expected to reach 6.4 percent in 2019/20, helped by... 2016-17 in Q3 2018/19 as exports declined. The global economic growth rate is estimated to ease in imports of consumer goods, industrial raw materials and investment products...2015/16 more inflation...industrial output growth is projected to be stable at 1.6 percent in 2018/19, with manufacturing growth offsetting slow...8.4 percent in 2018/19. A slow recovery in tourism related services is offset by continued growth in w...2018/19 from 6.2 percent in 2017/18. Using 2015/16 as a new GDP base year, Myanmar's commodity prices. Economies and major emerging market and developing economies. Modest declines are forecast slow...reaching double digits in July 2019. Macroeconomic volatility has...percent in 2017/18, supported by...uncertainties.

Summary

The total value of approved FDI increased between 2017/18 and 2018/19 (US$10,000-15,000). The service sector is the main driver of growth...The iPMI hints that the pace of reforms...economic growth is...construction. The electricity price...will be weaker than expected in 2019...Core inflation...to double digits in July 2019. Domestic inflationary pressures have increased, with...remained above 50, signaling increases in manufacturing output and employment. Both the headline PMI and the employment index...prospects for the Rakhine...The service sector is the main driver of growth...the confluence of supply factors and...The iPMI hints that...in the pace of reforms...the pace of reforms...the pace of reforms...
Myanmar's fiscal year 2015/16 GDP production grew by 6.3% to 10.9% (yoy) in June. Singapore remained a major foreign investor in Myanmar, with the robustness of domestic aggregate demand strengthening domestic output and employment.

The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined. Imports increased (qoq) in Q3 2018/19 due to slowing global and regional growth, particularly in advanced economies and major emerging market and developing economies. Modest declines are forecast for 2019.

Global growth remained slow in the second quarter of 2018. Manufacturing growth offsetting slow construction growth in the largest foreign investor in Myanmar, followed by China. Approved foreign direct investment improved in 2018 compared to 2017 and is expected to grow by 7% (yoy) to 2.4% in 2019 from 3.0% in 2018, reflecting a broad-based rise in approved foreign direct investment in a number of countries.

The headline PMI improved in 2018 compared to 2017. The economic growth is expected to reach 6.4 percent in 2019/20, helped by recent developments, although macroeconomic volatility has increased. Domestic inflationary pressures have also increased, with future inflation expected to ease further to 5.6 percent by 2021.
The economy is expected to grow at 6.3 percent in 2017-18. Employment growth in Q3 2018/19 was weaker than expected in 2019 due to slowing growth in construction. The trade balance improved in Q2 2018/19 but returned to deficit in Q3 2018/19 as exports declined.

Recent developments show that headline inflation rose from 9.5 percent in June to 10.9 percent (yoy) in July, reaching double digits in July 2019. Macroeconomic volatility has increased, with domestic aggregate demand continuing to the downside due to slowing growth in construction and retail trade.
Myanmar: Macroeconomic Monitoring

December 2019

The service sector is the main driver of growth. Its contribution to GDP growth is expected to remain strong in 2019/20, with the service sector expected to contribute 3.2 percent to GDP growth. Growth in the East Asia and Pacific region is projected to slow from 6.3 percent in 2018 to 6.2 percent in 2019.

Inflation has increased in recent months. Domestic inflationary pressures have increased, with food and energy prices increasing pushed the consumer price index to double digits in July 2019.

Despite seasonal floods and volatile demand, growth in the industrial sector is expected to remain strong in 2019/20, with the manufacturing sector expected to contribute 2.4 percent to GDP growth. The continued underperformance of agriculture is likely to result in a slight decline in the contribution of the sector to GDP growth in 2019/20.

Domestic inflationary pressures have increased, with food and energy prices increasing pushed the consumer price index to double digits in July 2019. Despite seasonal floods and volatile demand, growth in the industrial sector is expected to remain strong in 2019/20, with the manufacturing sector expected to contribute 2.4 percent to GDP growth. The continued underperformance of agriculture is likely to result in a slight decline in the contribution of the sector to GDP growth in 2019/20.

Domestic inflationary pressures have increased, with food and energy prices increasing pushed the consumer price index to double digits in July 2019. Despite seasonal floods and volatile demand, growth in the industrial sector is expected to remain strong in 2019/20, with the manufacturing sector expected to contribute 2.4 percent to GDP growth. The continued underperformance of agriculture is likely to result in a slight decline in the contribution of the sector to GDP growth in 2019/20.

Domestic inflationary pressures have increased, with food and energy prices increasing pushed the consumer price index to double digits in July 2019. Despite seasonal floods and volatile demand, growth in the industrial sector is expected to remain strong in 2019/20, with the manufacturing sector expected to contribute 2.4 percent to GDP growth. The continued underperformance of agriculture is likely to result in a slight decline in the contribution of the sector to GDP growth in 2019/20.

Domestic inflationary pressures have increased, with food and energy prices increasing pushed the consumer price index to double digits in July 2019. Despite seasonal floods and volatile demand, growth in the industrial sector is expected to remain strong in 2019/20, with the manufacturing sector expected to contribute 2.4 percent to GDP growth. The continued underperformance of agriculture is likely to result in a slight decline in the contribution of the sector to GDP growth in 2019/20.