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Growth Amidst Uncertainty

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The Myanmar Economic Monitor (MEM) periodically analyzes economic developments, economic prospects, and policy priorities in Myanmar. The MEM draws on available data reported by the Government of Myanmar and additional information collected as part of the World Bank Group's regular economic monitoring and policy dialogue. The MEM team is very grateful to the Ministry of Planning and Finance (MOPF), the Ministry of Commerce (MOC) and the Central Bank of Myanmar (CBM) for their excellent collaboration.

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Executive Summary

Myanmar's economy performed better in 2017/18 with a modest growth acceleration that partially reversed the deterioration experienced in 2016/17. While the outlook remains positive, risks have intensified. The economy experienced a broad-based increase in real GDP growth to 6.4 percent in 2017/18[1] from 5.9 percent in 2016/17. Inflation moderated from 7 percent in 2016/17 to 5.5 percent in 2017/18. The exchange rate was stable and appreciated slightly towards the end of the year, the current account deficit narrowed slightly on strong export growth, and the fiscal deficit also narrowed in the first three quarters of the fiscal year. While performance remains strong and the macroeconomic outlook is positive, there are concerns that the slow pace of reforms, vulnerabilities in the financial sector, and limited progress in addressing the humanitarian crisis in Rakhine are starting to affect business sentiment and could weaken performance. External risks from uncertainty in global trade policy and in commodity prices intensify the downside risks to the growth outlook.

The Government of Myanmar is in a position to improve Myanmar's economic outlook. For instance, implementing the cogent new Myanmar Sustainable Development Plan (MSDP), collecting more revenue and spending it better, and providing greater policy certainty and a simpler operating environment for businesses can support investment and economic prospects, as evidenced by Special Topic analysis in this report.

Recent developments

Myanmar experienced a broad-based pick-up in economic growth in 2017/18. On the supply side, growth was driven by a recovery in agriculture as farmers stepped up crop production, strong industrial and especially manufacturing performance with garments continuing to excel, and strong services growth despite a slight slowdown likely due to tourism and banking sector uncertainties. Aggregate demand is estimated to have improved due to private consumption supported by disinflation in the first half of 2017/18 and a stable Kyat, private investment especially in manufacturing, and strong export performance. [2]

Myanmar's external balance improved slightly in 2017/18 as the current account balance strengthened due to growing exports offsetting a decline in 'personal transfers and other sectors'. FDI approvals fell compared with 2016/17 but flows slightly increased. Rice exports reached record highs and like garments continued to access new markets. Gas exports were propped up by a significant, but uncertain, increase in global gas prices, offsetting declining production from maturing fields. Imports of capital goods remains robust supporting the prospect for continued industrial growth. The kyat and foreign exchange reserves levels both strengthened slightly. FDI approvals declined by 14 percent in relation to 2016/17, possibly due to perceptions of slowing government reforms and uncertainties arising from the Rakhine crisis, but FDI flows adequately financed the current account deficit. The 'personal transfers and other sectors' category of the current account, which includes remittances, declined significantly in the first two quarters of 2017/18 affecting the balance of payments.

While inflation moderated overall relative to last year, movements during the year reflected broad money growth and increases in food and fuel prices. The nominal exchange rate appreciated slightly during 2017/18 and bilateral real exchange rate performance was mixed. While prices increased only moderately in the first half of 2017/18, they rose more quickly in the second half. Food and fuel prices both

[1] Year ranges with slashes indicate fiscal years. Those with N-dashes indicate calendar years.
[2] Data on GDP by expenditure is lagged and more limited.

contributed especially as global fuel prices increased. For instance, transport costs contributed 35 percent of the non-food increase in prices in January 2018. The inflationary impact of continued Central Bank financing of the fiscal deficit moderated as the fiscal deficit narrowed. The Kyat appreciated slightly in nominal terms through 2017/18 relative to the US dollar. However, the real exchange rate depreciated in relation to individual trading partners such as Thailand, Malaysia and China, squeezing the profits of retailers and other users of imported inputs, but creating opportunities for exporting firms.

Despite a large budgeted fiscal deficit and declining State Economic Enterprise (SEE) and government receipts, the 2017/18 fiscal deficit is likely to have narrowed due to budget execution challenges and uncertainty created around the change in fiscal year. The fiscal deficit was initially budgeted to increase significantly to 5.8 percent of GDP in 2017/18 from a provisional actual deficit of 2.7 percent of GDP in 2016/17. General government receipts were budgeted to decline as a share of GDP from 18.2 percent in 2016/17 to 16.9 percent in 2017/18, driven by assumptions in the budget of declining natural gas prices and by falling SEE receipts owing to declining profitability. General government expenditures are budgeted to increase from 20.9 percent of GDP in 2016/17 to 22.2 percent of GDP in 2017/18, driven by budgeted increases in other recurrent expenditures in priority ministries like health, and increased domestic interest payments because of payment of market interest rates on legacy Central Bank of Myanmar (CBM) debt. However, actual outturns for 2017/18 may have led to a lower fiscal deficit, given long-standing challenges in budget execution and underestimation of revenues in the original and revised budgets, partly due to stronger than expected gas prices. Recurrent expenditure by the union government performed well against the budget, while capital expenditure continues to decline as a share of GDP. The government continued expanding the domestic debt market, but market participation remains below potential.

Economic outlook and risks

Myanmar's baseline economic outlook remains favorable, with growth projected to increase to 6.8 percent in 2018/19. Consumer price inflation moderated to 5.5 percent in 2017/18 and is expected to ease further to 4.9 percent in 2018/19. The current account deficit is forecast to remain stable in 2018/19 at 4.7 percent due to sustained growth in exports and imports. The government budget deficit outturns are expected to be significantly lower than budgeted, lowering the deficit trend in the medium term.

However, risks to the baseline outlook have intensified. Domestic downside risks to the baseline outlook have intensified due to the ongoing uncertainty related to the crisis in Rakhine State layered upon perceptions of a slowdown in the pace of reforms. A significantly lower growth scenario, while unlikely, could lead to growing macroeconomic imbalances, with implications for broader stability. A rapid decline in foreign investment flows and to a lesser extent tourism related spending would put stress on the external balance and currency. The banking sector faces a challenging transition to comply with international standards. Although risks to the global outlook are more balanced than before, important downside risks remain. While growing global trade policy uncertainties may affect the recovery in global trade, impacts on Myanmar are likely to be modest.

Policy Priorities

Implementing the comprehensive new Myanmar Sustainable Development Plan (MSDP) can provide policy certainty. The MSDP, which lays out a comprehensive and prioritized policy reform agenda, offers the much-needed unifying and coherent roadmap for reforms for the country. It seeks to translate the government's 12-point economic plan and sector plans into a clear set of policy priorities, and has been welcomed as a significant step forward.

Implementing a fiscal strategy to break the cycle of low revenue and low public spending can support development outcomes. Myanmar has one of the lowest tax to GDP ratios in the world, restricting the space for essential public spending on infrastructure and human capital in absolute terms and in relation to peers. A fiscal strategy to correct this could (a) reallocate spending from less important to priority areas, and (b) grow the size of the overall fiscal envelope through domestic revenue mobilization and sustainable borrowing. This would in turn require: (a) well selected and implemented projects through project appraisal, tracking project performance, and introducing multiyear commitment budgets; (b) enhancing oversight of SEE fiscal performance; (c) reducing revenue leakages from base erosion and tax expenditures; and (d) developing a medium-term debt strategy that relies less on CBM financing and more on other concessional, and noninflationary, sources of financing.

Carefully reviewing plans for a Tax Amnesty. International experience highlights that it is a popular measure globally, but its impact on revenue collection and tax compliance varies greatly depending on design—with success dependent on whether the amnesty is (a) used as a transition to a tax regime with more stringent enforcement, (b) is part of a long-term tax compliance program, and (c) is constantly monitored by tax compliance measurements.

Sustaining growth through Doing Business[3] policy reforms can boost private investment and support the economy to compete globally. Despite important progress such as the 2016 Investment Law and the 2017 Company Law (see Box 2 and Selected Topic 1), and making it less costly to start a business and register property, perceptions are that bureaucratic inefficiency, centralized decision making, and emerging protectionism are bottlenecks to improving the operating environment for the private sector. The Government plans to bring Myanmar within the top 100 countries in the ease of doing business ranking from 171 out of 190 countries. It may accelerate this by:

- **Strengthening coordination across government departments and public communication to implement recent new economic legislation.** The Private Sector Development (PSD) Committee, chaired by the Vice President, can coordinate and monitor implementation of new legislation, such as the Investment Law and the Company Law, for instance requesting standardizing criteria for ministerial permits for foreign investments, streamlining registration, reporting, and tax filing for small and medium-sized enterprises, reducing multiple applications for trade permits, physical inspections, and the arbitrary approach to customs valuation.
- **Monitoring progress in reforms related to Doing Business.** The new "Improvement of the Doing Business Working Group" chaired by the Ministry of Commerce can make clear and transparent the roles of different departments in improving the business environment and using monitoring systems to check implementation progress, which can be discussed at the PSD Committee.
- **Further liberalizing regulations for foreign investment.** Myanmar could build on the introduction of the Investment Law and Company Law by further liberalizing sectors, such as insurance and banking services, for foreign investment, along with simultaneous implementation of prudential regulations. Currently, Myanmar has one of the highest levels of restriction for FDI on insurance and banking sectors (OECD 2016). Such liberalization can potentially create a new momentum for driving private sector investment

[3] The Doing Business report measures policies (regulations and procedures) along the 10 indicators affecting the life cycle of domestic companies, such as starting a business, getting a location and constructing a facility, getting financing, paying taxes and trading across borders, and dealing with contracts or disputes. The indicator only measures policies that are relevant for formal businesses, and data are collected only in the largest city (with the second-largest city included for countries with a population of more than 100 million).

Selected Topic 1: Drivers of Foreign Investment

The new investment law has been well received, especially by foreign investors who account for up to a fifth of exports and of formal employment, but more needs to be done to raise awareness and build capacity for implementation and coordination. The main changes to the investment regime include lower entry barriers, more streamlined procedures, a dedicated mechanism to mediate investor disputes, and more selective investment incentives. The World Bank Enterprise Survey (WBES) conducted in 2016 with an extension in 2017 suggests that foreign firms account for about 20 percent of all exports and 18 percent of formal employment. They are also more productive and more likely to train workers. Most firms aware of the new law think it will positively impact their sector through better access to input/output markets and technology transfers associated with increased FDI. Foreign firms spent significant management time to deal with regulations under the old investment regime and consider the process as favoring those with government connections. To successfully attract and maximize the impact of FDI, the government needs to raise awareness of the new law and regulations, build staff capacity at the regional level, and clarify the setup of the Investor Assistance Committee. Complementary reforms should also be accelerated to improve investors' access to land, infrastructure, skilled labor, and quality domestic inputs.

Selected Topic 2: Myanmar Productivity Analysis

Ownership, firm size and stable electricity provision affect firm productivity, according to this joint analysis of Myanmar's firm demographics and productivity.[4] The note uses a novel survey of businesses to highlight the speed of the evolution of the private sector in Myanmar, in particular in the manufacturing sector. But productivity has remained low, and is widely dispersed across firms, suggesting that policymakers should pay attention to the opportunity for reallocation of labor across firms, and to the forces that hold back small productive firms. The note also highlights the high correlation between access to electricity and productivity, reinforcing existing findings from Enterprise Surveys.

Selected Topic 3: Making Finance Work for All

A sound, efficient, and inclusive financial system can play a critical role in creating and sustaining a market-based economy and ensuring inclusive growth in Myanmar. Myanmar's financial system is small, shallow, tightly-held, vulnerable and significantly underserves large parts of the private sector and general public. The reform agenda necessary to develop a "fit for purpose" financial system in Myanmar runs both deep and wide, even as recent changes have yielded significant gains. On the one hand, the financial sector needs to move on to a more solid footing, on the other hand it needs to significantly expand outreach and the range of available instruments. A stable solution therefore requires complex and simultaneous reforms. Policymakers have to implement a realistic, minimally disruptive, clearly articulated roadmap that is also sufficiently transformative so as to carry the benefits of more effective financial services to the general public.

[4] Based on a joint paper prepared with the Myanmar Government Central Statistics Organization

Recent economic developments

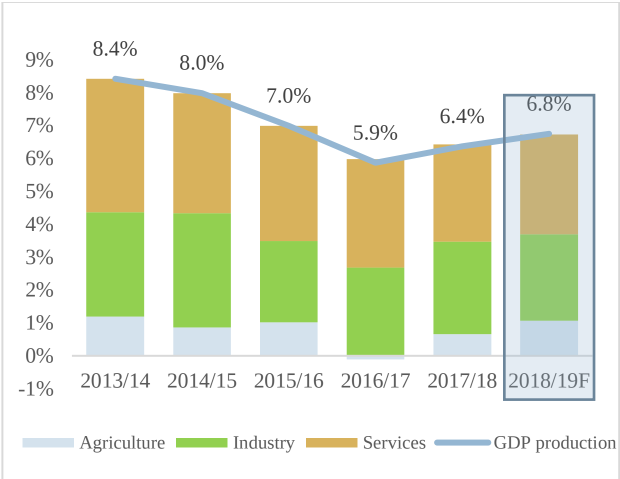
Economic growth

1. **Myanmar's economy performed better in 2017/18 with a modest growth acceleration that partially reversed the deterioration experienced in 2016/17. While the outlook remains positive, risks have intensified.** The economy experienced a broad-based increase in real GDP growth to 6.4 percent in 2017/18 from 5.9 percent in 2016/17 (Figure 1). Inflation moderated from 7 percent in 2016/17 to 5.5 percent in 2017/18. The exchange rate was stable and appreciated slightly towards the end of the year, the current account deficit narrowed slightly on strong export growth, and the fiscal deficit also narrowed in the first three quarters of the fiscal year. While performance remains strong and the macroeconomic outlook is positive, there are concerns that the slow pace of reforms, vulnerabilities in the financial sector, and limited progress in addressing the humanitarian crisis in Rakhine are starting to affect business sentiment and could weaken performance. External risks from uncertainty in global trade policy and in commodity prices intensify the downside risks to the growth outlook

2. **A stronger-than-expected broad-based global economic recovery in 2017 provided a boost to global trade.** Global growth rose to 3.1 percent in 2017, the highest level since 2011, from a post-global financial crisis low of 2.6 percent in 2016. In advanced economies, the recovery in growth was led by strong investment. Emerging market and developing economy (EMDE) growth accelerated in 2017 to 4.4 percent, reflecting a pickup in investment in 2017 and a recovery in commodity exporters amid continued robust activity in commodity importers. Oil prices averaged US$53 per barrel in 2017, up 22 percent from 2016 and remained stable at above US$60 per barrel in the first quarter of 2018. Despite strengthening U.S. long-term bond yields, capital inflows to EMDEs have remained strong so far in 2018, and bond spreads continued to narrow, although they recently widened in the East Asia and Pacific region.

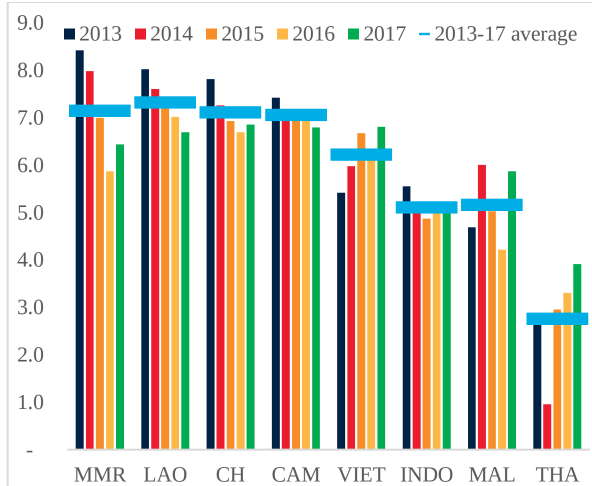
3. **In developing East Asia and Pacific (EAP), economic growth strengthened slightly in 2017.** The region grew at 6.6 percent in 2017 (5.4 percent excluding China), up from 6.3 percent in 2016 and slightly higher than expectations (Figure 2). In China, output expanded at 6.9 percent in 2017—a deviation from the economy's structural slowdown, helped by robust consumption and a recovery in exports, as investment growth continued to slow.

Figure 1 Real GDP growth and sector contribution



Source: MOPF, WB staff estimates

Figure 2 Real GDP growth (EAP Region), percent



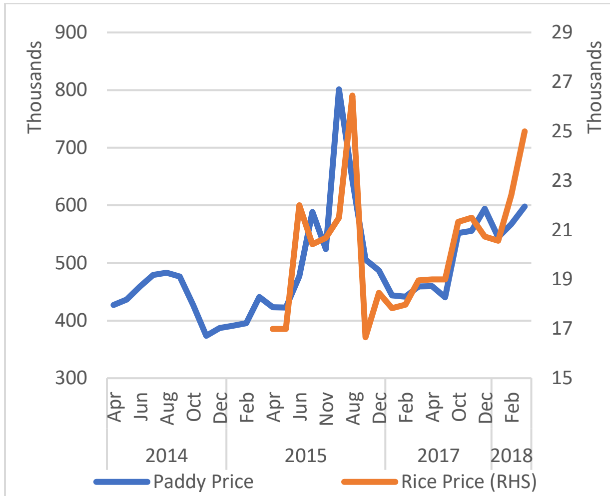
Source: WB Global Economic Prospects

Growth recovered in 2017/18

4. **The economy is estimated to have grown at 6.4 percent in 2017/18, marking a broad-based recovery from a low of 5.9 percent in the previous year.** On the supply side, improved performance in agriculture (26 percent of GDP and 49 percent of employment) and industry (33 percent of GDP and 18 percent of employment), and especially the manufacturing industry, were the main contributors, while growth in services (41 percent of GDP and 33 percent of employment) slowed slightly but remained strong. More specifically, favorable weather conditions and increased external demand caused agricultural output to rise by an estimated 2.5 percent in 2017/18, reversing negative growth of 0.4 percent in 2016/17. Industry grew by 8.9 percent, making the largest contribution of 2.6 percentage points to overall GDP growth, supported by a continued rapid expansion in manufacturing. Construction industry growth remained stable at 7.6 percent, although still only half the growth rate observed in 2015/16. Growth in the services sector is estimated to have moderated to 7 percent in 2017/18 from 8 percent in 2016/17 partly due to a slowdown in tourism-related services, in particular transport and rental and hospitality services, which contributes 37 percent of GDP. On the demand side, data is less reliable and lagged, but there are indications that the increase in growth was supported by external demand, and strong and stable domestic private consumption and private investment.

5. **Increased crop and forest production and a change in composition driven by demand and weather, supported a recovery in agricultural growth in 2017/18.** Crop production (69 percent of agricultural output) grew 3.6 percent supported by paddy and other grains. The composition of crop production also changed. Rice output increased by 3.1 percent from 28.6 million tons in 2016 to 29.5 million tons in 2017, as many farmers switched to growing paddy in 2017/18 responding to rising external demand and higher farm gate prices. In 2017/18, external demand notably from China and the European Union (EU) as well as from new markets in Japan, Bangladesh, and several countries in Africa, led to the highest rice exports in 50 years (see section on Trade and Foreign Investment) and higher farm gate paddy prices (Figure 3). Beans and pulses are grown on 28 percent of the total sown area, but account for close to 64 percent of value added in crops. The anticipated increase in the production of beans and pulses did not materialize due to sustained import restrictions imposed by India in 2017/18 that stifled external demand. Forest output (timber and hardwood) rebounded from a contraction in 2016/17 as the log export ban put in place to tackle rapid deforestation was relaxed, in part to provide inputs to the local wood product manufacturing industry.

Figure 3 Manawthukha (Paddy/Rice) average maximum price



Source: etrade Myanmar

6. **Livestock and fishery activity grew faster than in 2016/17 to meet increasing domestic and external demand.** Livestock and fisheries production, which together account for 9 percent of total value added and 4 percent of merchandize export, grew by 60 percent year-on-year in October 2017.[5] The increase in domestic demand for livestock products was supported by the high income-elasticity of animal products, continued rapid urbanization, and expansion of organized retail markets in Myanmar. The government lifted the ban on livestock export in late 2017 in an effort to meet rising external demand and to restrict illegal livestock exports.

7. **The prospect for continued increases in agricultural growth is limited by constraints to agricultural productivity.** Agriculture's share in GDP shrank to 26 percent in 2017/18 compared to 37 percent in 2010/11, although the sector still employs nearly 50 percent of the total workforce, or 64 percent of the workforce in rural areas. Mechanization rates are improving but remain very low in relation to peers. Myanmar's agricultural productivity is constrained by an insufficient supply of quality seeds and lack of knowledge of soil nutrients, compounded by a lack of proper storage and transport facilities and processing techniques.[6]

Strong industry output driven by manufacturing

8. **Industrial growth remained strong supported by a pickup in manufacturing.** Industry gross value added is estimated to have grown at a robust rate of 8.9 percent in 2017/18, due in large part to accelerated manufacturing activity. Manufacturing activity, which constitutes 75 percent of the industry sector, is estimated to have grown by 11 percent in 2017/18, supported by strong food processing performance and external demand for garments. The observed pick-up in imports of intermediate goods supports this estimate (see trade and investment section below).

9. **The Myanmar Purchasing Managers' Index (PMI) reached its highest level on record in March, indicating strong manufacturing performance.**[7] The PMI composite index breached the 50 percent threshold, signaling expansion in manufacturing output in all but four months of 2017/18, and reached a record high of 56 in March. Performance was driven by increased domestic demand for agricultural products and

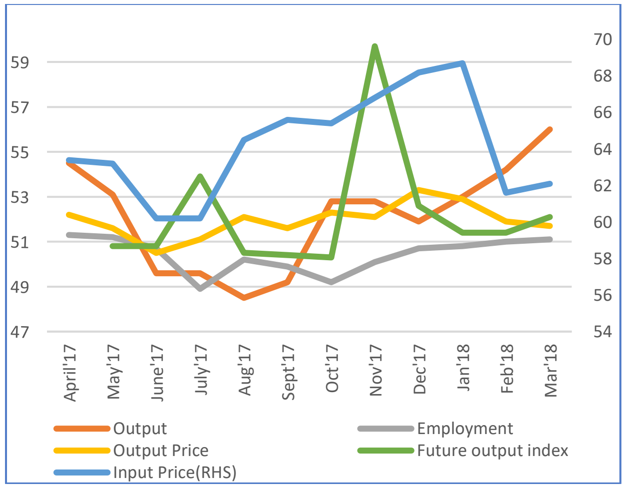
[5] Animal products export only.

[6] Myanmar agriculture guide (2018). EUROCHAM Myanmar

[7] IHS Markit and Nikkei: https://www.markiteconomics.com; http://asia.nikkei.com

construction sector inputs. The PMI employment index rose to 51 in March from an average of 50 in the third quarter of 2017/18, consistent with the strong performance in the PMI production index (Figure 4).

Figure 4 Output, Employment, Price, Future Output PMI



Source: IHS Markit and Nikkei

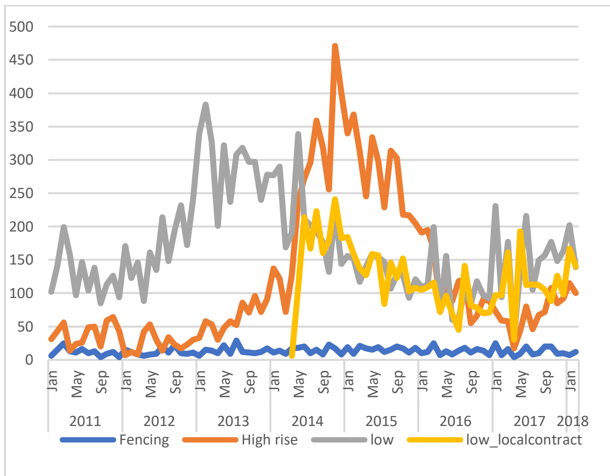
10. **However, business sentiment and profitability are falling, in part driven by rising input costs until January 2018 and slow progress on improving the business climate.** In contrast to the composite and production PMI indexes, the PMI perceptions index indicates declining business confidence and increasing production costs. Prolonged increases in raw material prices and higher transportation costs have eroded manufacturers' profit margins, and many producers are concerned about a slowdown in economic reform momentum. A survey conducted by the World Bank in late November 2017 (see Box 1) complements these findings on production activity, although it finds stronger investor sentiment than the PMI survey.

11. **The recent increase in the minimum wage could add to cost pressures.** In March 2018, the national committee on minimum wage approved a 33 percent increase in the minimum wage to K4,800 (US$3.70) per day, with the intention to attract workers into the formal sector and motivate higher productivity. However, the move could raise input costs to manufacturing and services and result in higher unemployment as employers retrench or delay employment or hire temporary workers to avoid the higher cost. Small businesses may be especially affected as wages represent a larger share of their operating expenses than larger firms. In the absence of complementary structural reforms to raise productivity, the higher minimum wage alone may not be an effective policy instrument to reduce poverty. The poor are often employed in the informal sector where minimum wages are not binding, and they often have limited skills. If the higher minimum wage causes employers to cut back on the number of workers, then the poor with limited skills are likely to be the first to face retrenchment.

12. **Growth in manufacturing was supported by improving access to credit and rising foreign investment, which raises the long-term prospects for the sector** (see also Selected Topics 1 and 3 on Foreign Direct Investment (FDI) and on Financial Inclusion). FDI in manufacturing grew over 65 percent in 2017/18 compared to 2016/17, accounting for about one-third of total FDI commitments compared with just 17 percent in 2015/16. Easing of credit conditions to the manufacturing sector also helped. The World Bank's survey of business conditions (see Box 1) confirms that surveyed manufacturing firms found it easier to access credit in 2017/18 than in 2015/16, although this may be in part be attributable to the growth in the non-banking (e.g. micro-finance) sector.

13. **Construction activity grew at a stable rate, although committed FDI for real estate increased.** Construction accounts for around 5.7 percent of GDP and around 18 percent of industrial output. The number and value of approved real estate projects increased in 2017/18 compared to 2016/17 (Figure 5). Approved FDI in real estate activities reached US$1.1 billion in 2017/18, an increase of 21 percent compared to the growth of 10 percent in the previous year. Demand for existing office and retail space in modern shopping centers in major cities is rising, but new projects face slower growth in demand for pre-sales, and there are concerns about potential excess capacity, particularly for condominiums. There is anecdotal evidence that private investors are holding back investment in high-rise building projects, shifting instead toward small and affordable housing projects.

Figure 5 Construction Permits issued (Number)



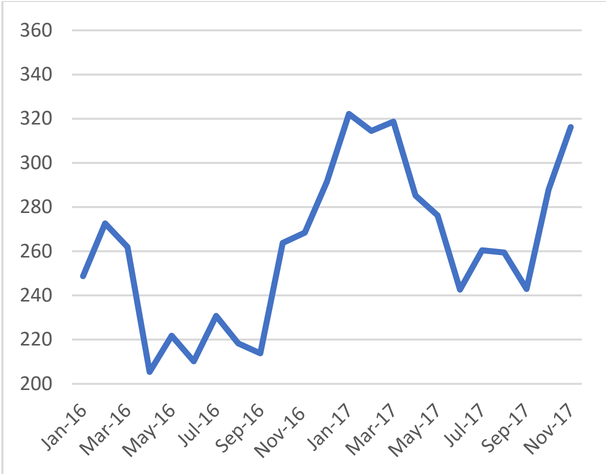
Source: Yangon City Development Committee

14. **The construction sector is an important source of income for urban workers.** As almost 6 percent of total employment (9 percent of the total urban employed population) is generated by construction activity, any moderation in this sector will affect the time worked and income of the poor, affecting the pace of poverty reduction.

15. **Service sector growth moderated slightly.** Service sector activity is expected to grow by 7 percent in 2017/18, representing a slight moderation from 8 percent in 2016/17 and an annual average of 9 percent in the previous two years. Financial and telecommunications services performed well, although growth in wholesale and retail trade services fell.

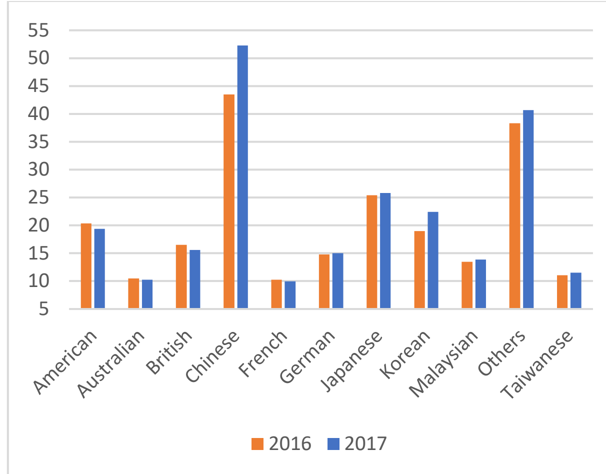
16. **Despite increased tourist arrivals, tourism activity slowed due to uncertainty created by the ongoing crisis in Rakhine, affecting tourism-related services**. Despite international concerns about the Rakhine crisis, official data suggest tourist arrivals rose by 18 percent (year-over-year), reaching 2.2 million visitors by November 2017 (Figure 6). Asia accounted for roughly 70 percent of all tourists in 2017. However, tourism-related earnings in 2017/18 are estimated to be flat in relation to last year as visitors from Western countries deterred by the crisis in Rakhine State cancelled travel, but may have been offset by a growing number of visitors from the region who have tended to have shorter stays and spend less per day (Figure 7). More generally, tourism sector growth remains stunted by lack of promotion, poor infrastructure, and high cost.

Figure 6 Total tourist arrival (in thousands)



Source: CSO

Figure 7 Tourist arrival by country of origin (in thousands)



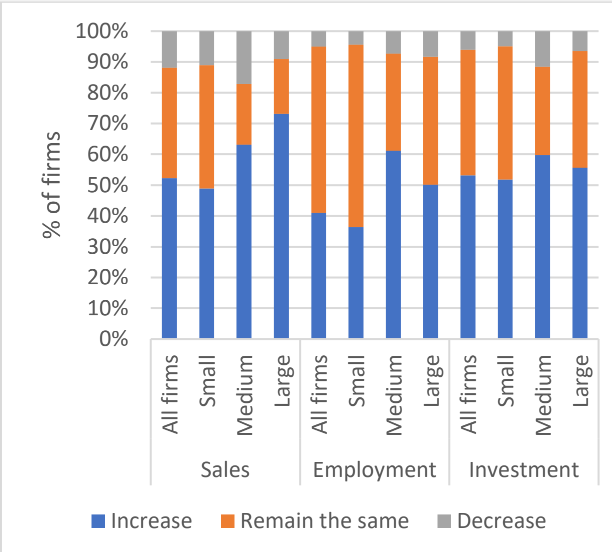
Source: CSO

Box 1 Results of World Bank Repeat Myanmar Survey of Economic Conditions

As part of regular monitoring of the Myanmar economy, the World Bank conducts regular surveys of economic conditions in the manufacturing and services sectors. The short panel survey builds on the most recent Enterprise Survey[a] to monitor: (a) *business performance* in the manufacturing and services sectors, and (b) *business conditions* that might explain that performance. The results of the second survey, conducted in February–March 2018 and covering March 2017–September 2017 (henceforth, "follow-up survey"[b]), indicate that businesses are optimistic about the next year, but experienced a slowdown in production/sales and employment over the last six months. Availability of skilled workers, identified as one of the most pressing problems in the 2016 Enterprise Survey (ES 2016[c]), remains a constraint. However, availability of credit seems to have improved over the last two years. Unless stated otherwise, all results below are based on the follow-up survey, and all references to the situation 'now' or 'currently' refer to the time covered by the follow-up survey.

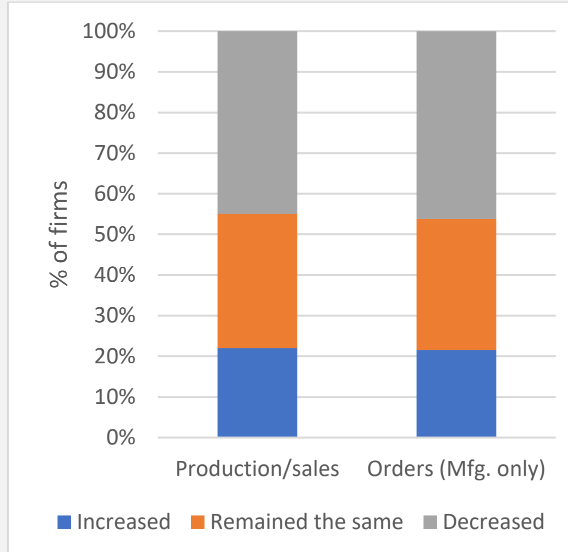
Businesses in Myanmar are generally optimistic about the future. Asked about their expectations over the next 12 months, about 52 percent believe that their sales will increase, while only 12 percent believe that it will decrease. Medium and large firms are particularly optimistic about the future (source: 2018 World Bank follow up survey) (Figure 8). Expectations regarding employment and investments follow a similar pattern. The optimism is particularly encouraging as many businesses have experienced declines in production/sales, employment, and prices over the last six months. For instance, 45 percent of the firms saw their production/sales decrease over the last six months, and the average decrease was 35 percent; in contrast, only 22 percent of the firms saw their production/sales increase, and the average increase was only 22 percent (Figure 9).

Figure 8: Expectations about activity over the next 12 months



Source: Follow up survey 2018

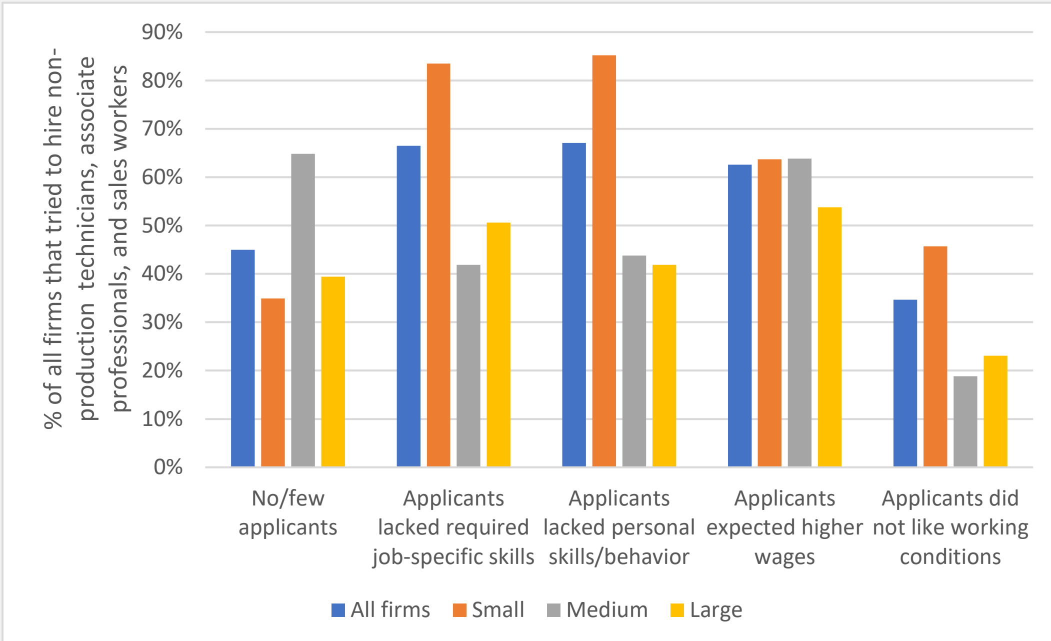
Figure 9: Activity over the last 6 months



Source: Follow up survey 2018

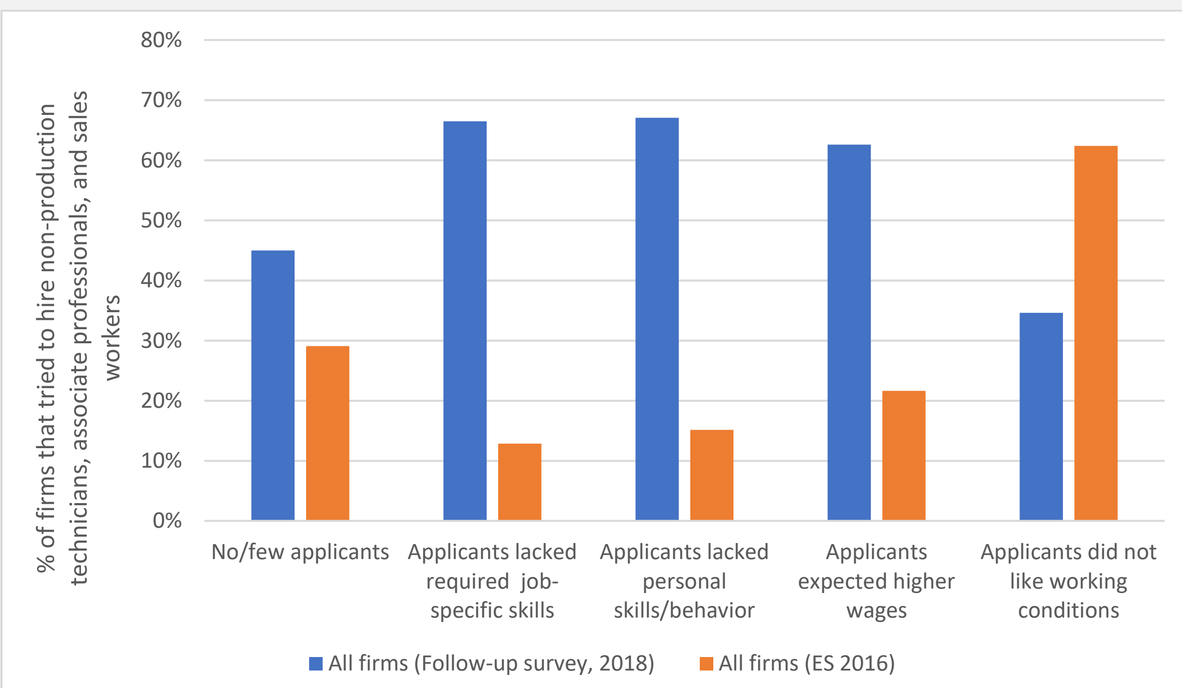
Problems with finding skilled labor persist. In the ES 2016, firms were asked about the top obstacle they faced in conducting their business. From the list of 15 different obstacles, "inadequately educated workforce" was the most commonly chosen top obstacle (by 17 percent of the firms), followed by poor access to finance (15 percent) and poor power supply (14 percent). The data seem to suggest that problems with finding adequately skilled labor remain, and perhaps with greater intensity. That is, the follow-up survey shows that about 12 percent of all firms in Myanmar tried to hire skilled workers, which include non-production technicians, associate professionals, or sales workers. The proportion of such firms is much higher at 29 percent among large firms, followed by 25 percent among medium firms, and 9 percent among small firms. All the firms that did attempt to hire faced at least one of the following problems related to the availability of skilled workers: no or few applicants, lack of required job skills among existing applicants, and lack of required personal skills or behaviors among existing applicants (Figure 10). There is also evidence that problems with finding skilled workers affect proportionately more firms now than in the past (Figure 11). The only exception is the percentage of firms reporting that applicants did not like working conditions, which is much higher in ES 2016 than in the follow-up survey.

Figure 10: Problems in hiring skilled workers



Source: Follow-up survey 2018.
Note: The figure covers only those firms that tried to hire non-production workers, associated professionals, or sales workers in the last six months.

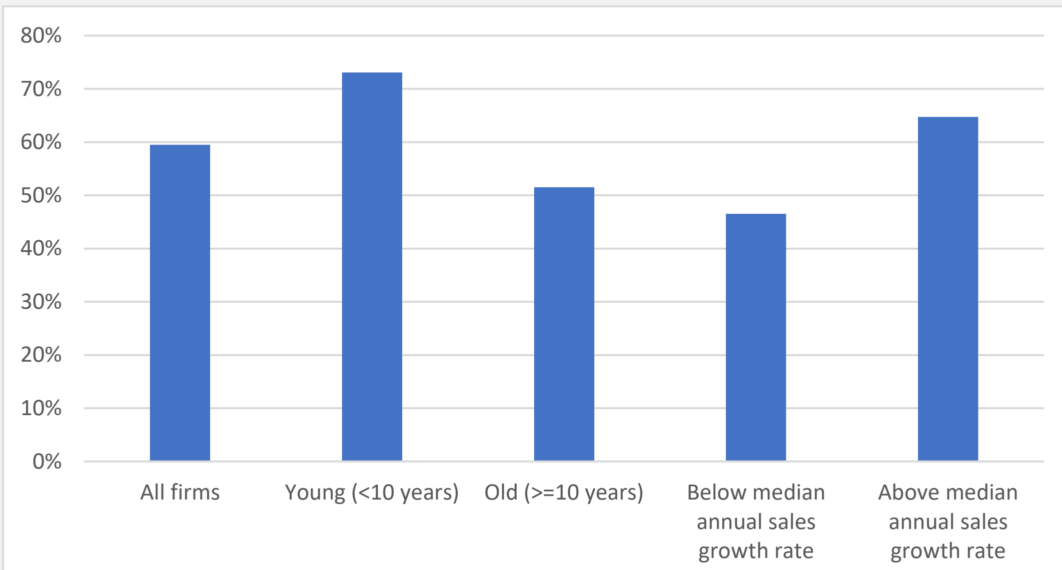
Figure 11: Problems in hiring skilled workers seems to have increased over time



Source: Follow-up survey 2018 and ES 2016.
Note: The figure covers only those firms that tried to hire non-production workers, associated professionals, or sales workers in the last six months.

Most firms report credit is available more easily now than two years ago, although this may not necessarily be bank credit. As mentioned, limited access to finance was the second most commonly reported biggest obstacle (by over 14 percent of firms) to firms' operations in the ES 2016. However, the situation seems to have eased at least to some extent. That is, as figure 5 shows, 60 percent of the firms reported easier availability of credit currently compared with two years ago. Some of this improved access may be from the non-banking (micro-finance) sector, which has experienced significant growth recently. The proportion of such firms is particularly high among relatively young firms and the faster-growing firms (Figure 12). The percentage figures here do not reveal the extent to which finance is more easily available to any given firm. Some indication comes from two pieces of information in the follow-up survey. First, about 47 percent of the firms reported an increase in their investments in 2017 compared with 2016, while only 5 percent reported a decrease. Second, the number of firms that applied for a loan or a line of credit during the previous year is up from 12 percent in ES 2016 to 19 percent in the follow-up survey.

Figure 12: Percent of firms that report credit more easily available now compared to two years ago



Source: Follow-up survey 2018 and ES 2016.
Note: a. Of the 607 firms interviewed in the Myanmar 2016 Enterprise Survey, 559 firms were successfully re-interviewed in a follow-up survey that was conducted during February and March 2018. b. The reference period for the follow-up survey covers the last six months from the date of the interviews conducted in February–March 2018. c. The reference year for the ES 2016 is 2015.
a. The subcategories of young vs. old firms is based on the age of the firm as reported in ES 2016. b. Below and above median growth subcategories are based on the annual growth rate of sales during 2013–15 as reported by firms in ES 2016. The median cut-off level is based only on those firms that answered the question on whether credit availability has become easier or more difficult over the last year.

Growth in aggregate demand supported by stable consumption, rising investment, and a declining trade deficit

17. **Stable private consumption.** While official data on GDP by expenditure is more limited and lagged than production data, private consumption, which constitutes nearly 50 percent of GDP, is likely to have grown at a stable rate in 2017/18. Growth in public consumption spending rose slightly, particularly in the areas of goods and services. Private consumption growth was supported by falling consumer price inflation during the first half of 2017/18, although consumer purchasing power likely was eroded by the pickup in inflation in Q3 and Q4. Private consumption has been buoyed by better access to consumer durables and services, for instance, as behavioral shifts supported more spending toward non-food items like telecommunications services and devices.

18. **Growth in private investment spending is likely to have picked up in 2017/18, although there are signs of deteriorating investor sentiment.** While growth in private investment spending is likely to have risen especially from foreign sources and to manufacturing and agriculture, growth in public investment is likely to have moderated. However, investor sentiment likely softened in 2017/18. Weak investor and consumer confidence reflects protracted political and economic uncertainty, while high expectations of rapid improvement in the business climate are not being met. In particular, investors remain wary of the frequent changes in regulations, lack of basic infrastructure, and limited access to financial services and utilities (Box 1).

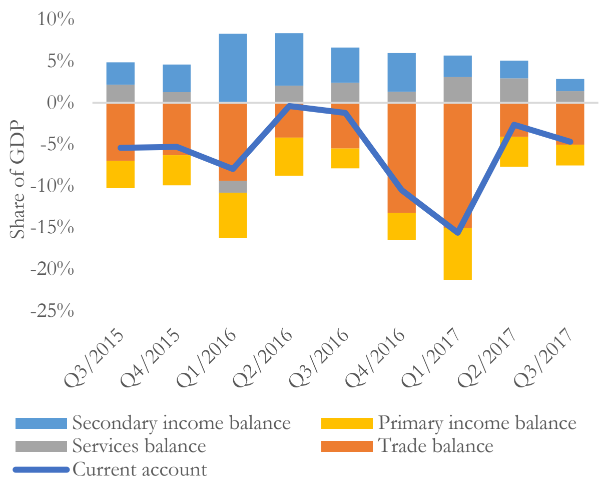
Foreign trade and investment

Estimated improvement in the current account in 2017/18

19. **Despite a fall in 'personal transfers and other sectors' in 2017/18, the current account balance as a share of GDP is expected to improve in relation to 2016/17 on strong export performance.** Over the first two quarters of 2017/18, 'personal transfers and other sectors', which includes remittances, fell by 79 percent in relation the same period in 2016/17, but net exports improved as a share of GDP. The current account remains nearly fully financed by FDI flows (Figure 13 and Figure 14). Gross foreign reserves were estimated at US$5.3 billion at the end of November 2017 which is 1 percent higher compared to the same month in 2016, and represents roughly 3.4 months of imports. While this remains low, reserve levels have steadily improved since falling to 2.5 months of import cover in 2015.[8] Increasing exchange rate flexibility and continuing reserve accumulation will support greater resilience to external shocks.

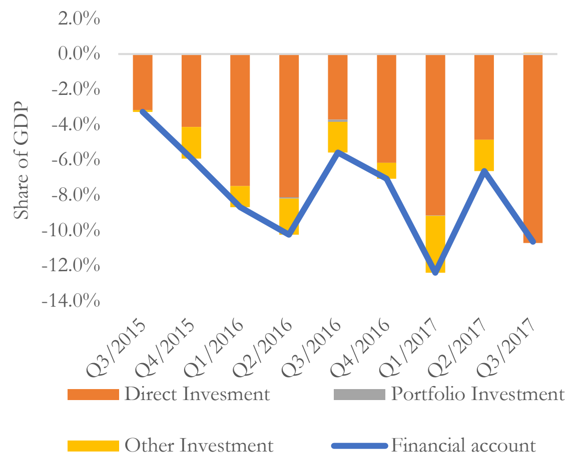
[8] In March 2015, the ratio was equivalent to 2.5 months of imports.

Figure 13: Current account



Sources: CBM; World Bank staff estimates.

Figure 14: Financial Account



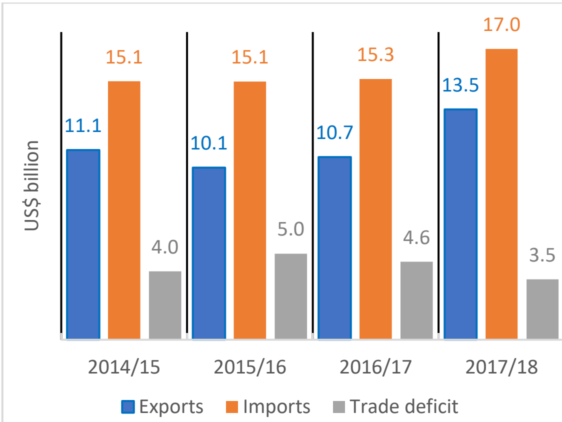
Sources: CBM; World Bank staff estimates.
Note: Negative values are an accounting convention (IMF BPM6) and reflect that FDI inflows represent the rest of the world financing Myanmar.

Declining trade deficit, and increasing trade volumes

20. **The merchandise trade deficit narrowed over the first 11 months of 2017/18 compared with the same period last year.** The cumulative April 2017–February 2018 merchandise trade deficit, which is the biggest driver of the current account, reached US$3.5 billion—a significant improvement compared to the same period in 2016/17 (US$ 4.6 billion deficit). The main driver of this reduction is the sharp rise in exports over that period to US$13.5 billion compared with US$10.7 billion, while imports also rose from to US$17 billion from US$15.3 billion (Figure 15). The monthly dynamics of the trade deficit within the 11 months shows the decline of the deficit over the year. It reached its maximum late last year and fell from an import-driven high of US$1.5 billion in February 2017 to a low of US$270 million in December 2017 as merchandise and gas exports picked up and import growth tapered. Over the year, net exports are thus estimated to have made a slight positive contribution to economic growth in 2017/18.

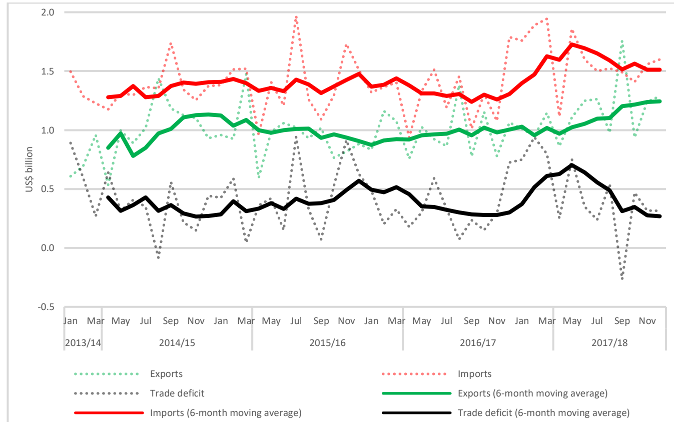
21. **The impressive growth in exports and imports in 2017/18 compared to last year, reflects a strong global economic recovery and Myanmar's trade integration.** Both merchandise exports and imports rose by around 20 percent in the first three quarters of 2017/18 compared to the same period the previous year. Exports reached US$4 billion in Q3 of 2017/18, their highest value since 2013. When the "re-export" category is excluded (goods that are exported without any local value addition), exports grew by an even healthier 25 percent year-on-year, up from just 2 percent growth in 2016/17 (Figure 16). Myanmar's rising trade integration is happening through land and sea channels. On the export side, cross-border trade (especially at the Muse border post with China in Shan state) is rising and accounted for 65 percent of exports in 2017/18 compared to an average of 60 percent in previous years. In contrast, 85 percent of imports come through maritime ports.

Figure 15: Trade values over April-February of each year



Source: Ministry of Commerce

Figure 16: Monthly trade evolution

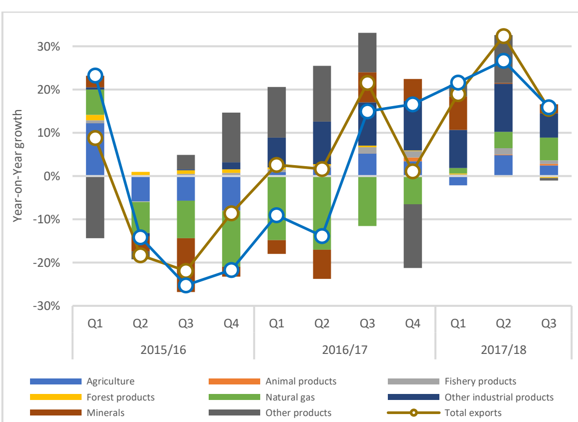


Source: Ministry of Commerce
Note: For trade deficit, a positive number denotes a deficit.

Exports growth led by natural gas, garments, and agriculture

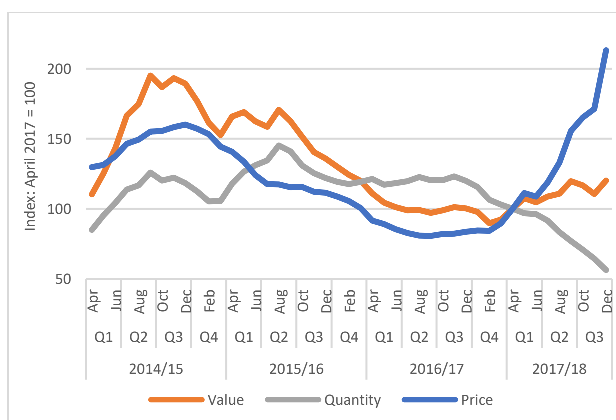
22. **In 2017/18, the two largest contributors to exports growth were natural gas (4 percentage points) and other industrial products (9 percentage points), with agriculture also playing a role (2 percentage points)** (Figure 17). Rising global gas prices offset declining gas production, leading to a pickup in the value of gas exports in H1 2017/18 and reversing a historical decline in the share of gas in exports. The share of gas exports in total exports declined to 25 percent compared with over 40 percent in 2014/15, when gas prices and production were at their peak. However, gas exports increased by 13 percent in value in the first three quarters between 2016/17 and 2017/18. This increase is attributable to rising gas prices, which more than doubled in calendar year 2017, with a sharp increase toward the end of the year (Figure 18). The price increase more than offset the 43 percent decline in gas export volumes in the 10 months to December 2017, as production continued to decline in the Yedagon and Zawtika fields connected to the Thai market.

Figure 17: Export year-on-year growth decomposition, 2015/16–17/18



Source: Ministry of Commerce.

Figure 18: Natural gas exports: Quantities and prices



Source: Ministry of Commerce.
Note: All series are smoothed by a moving average of six months. Index normalized at 100 in April 2017.

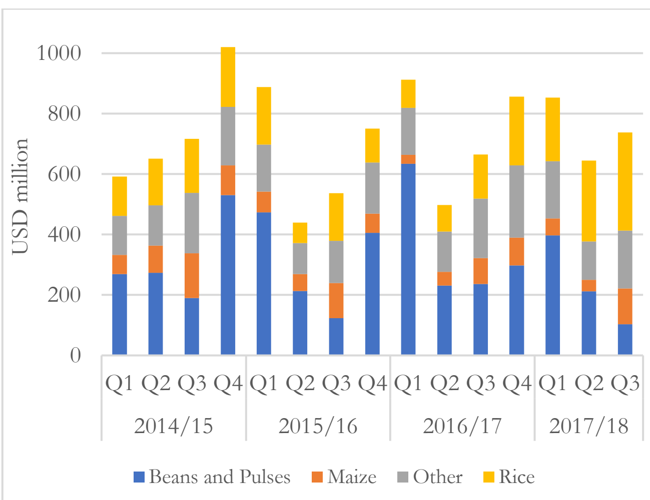
23. **Myanmar garment exports continue to grow rapidly and are now the second-largest export item after gas.** Garments exports continued their strong performance, increasing in value by 40 percent in the

first three quarters of 2017/18 compared to the same period in 2016/17. Garments now represent about 18 percent of total exports, compared to 15 percent in 2016/17. Myanmar garment exports continued to grow at a rate similar to other regional garment exporters during their sector take-off, as was initially illustrated in the December 2017 Myanmar Economic Monitor.

24. **Agricultural exports, and especially rice, continued their rebound from the 2015/16 floods and are expanding into new markets.** Agricultural exports continued recovering from the 2015/16 floods, rising in value by 10 percent in the first three quarters of 2017/18 compared to the same period the previous year. However, some commodities performed better than others. Rice exports rebounded strongly, growing by 23 percent following a dip in 2016/17 that was caused in part by Chinese rice import restrictions. Myanmar also made progress in diversifying its rice exports. For example, rice exports to the EU reached US$78 million over the first half of 2017/18, which is more than the total rice exports to the EU in 2016/17. Exports to Sri Lanka and Bangladesh have also increased.

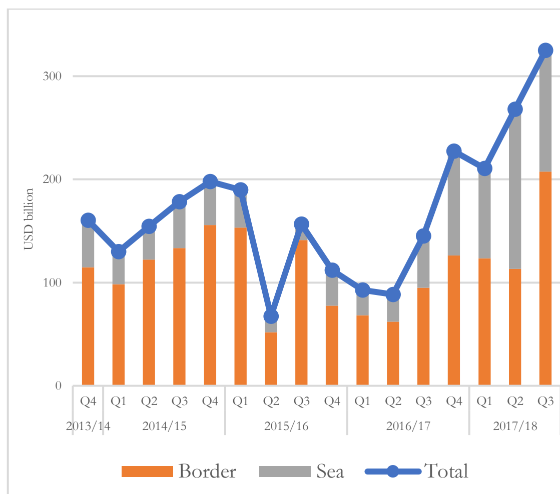
25. **In contrast, beans and pulses exports continue to be affected by the Indian ban, although Myanmar is also finding new markets for this product.** In Q3 2017/18, the value of beans and pulses exports reached the lowest level since 2014 (Figure 19). The overall impact has been felt through the price rather than the volume channel. The export price of beans and pulses fell by 35 percent compared to 2016/17. However, total export volumes to all destinations remained stable, suggesting that exports have been diverted from India to other markets.

Figure 19: Agricultural exports by subcategory



Source: Ministry of Commerce

Figure 20: Rice - Acceleration of exports and diversification of destinations



Source: Ministry of Commerce

26. **Despite progress in diversifying merchandise export destinations, overall trade remains heavily concentrated.** In 2017/18, China remained the largest trading partner by far, accounting for up to 38 percent of exports and 33 percent of imports. Thailand's share has declined in relative terms, especially as an export market, accounting for 20 percent of total exports in 2017/18, compared to 26 percent in 2015/16 and more than 30 percent in previous years (Figure 20 and Figure 23). This trend has been balanced by a broader diversification, especially toward Western countries: the EU now represents about 11 percent of total exports and 7 percent of total trade supported by the expansion in rice and garment exports.

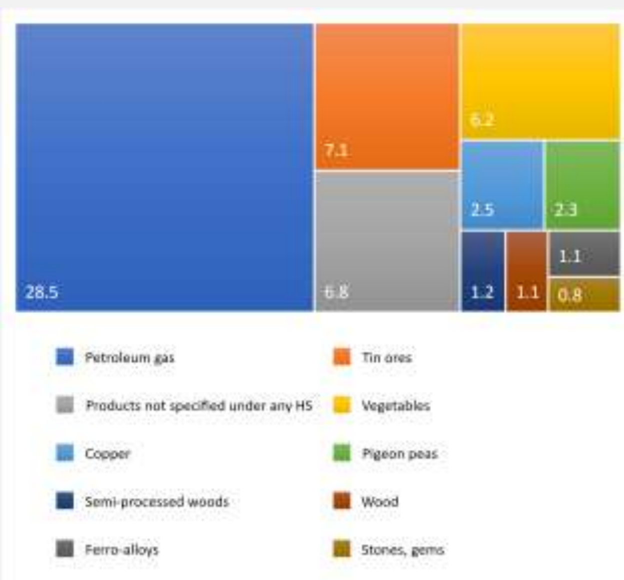
27. **Myanmar introduced a new export "negative list" which releases most products from the export license requirement (Box 2)**. Prior to this list, about 71 percent of export products required a Ministry of Commerce (MOC) license. The new policy is part of a broader reform of trade facilitation in Myanmar. The

policy marks a shift in MOC policy from controlling trade towards facilitating trade and managing its associated risk. As a member of the World Trade Organization (WTO), Myanmar has taken steps to ensure alignment in its policies with WTO commitments. In this regard, the change towards a negative list in export and import licenses is a gradual alignment towards the WTO Agreement, which discourage members to restrict or prohibit exports except on a temporary basis to relieve domestic shortages of food[9]. The policy is also a gradual improvement in the use of non-tariff measures because it focuses the export license requirement on products that can potentially have a negative impact on health, the environment, and social norms.

Box 2 Myanmar softens export licensing requirements to support exports

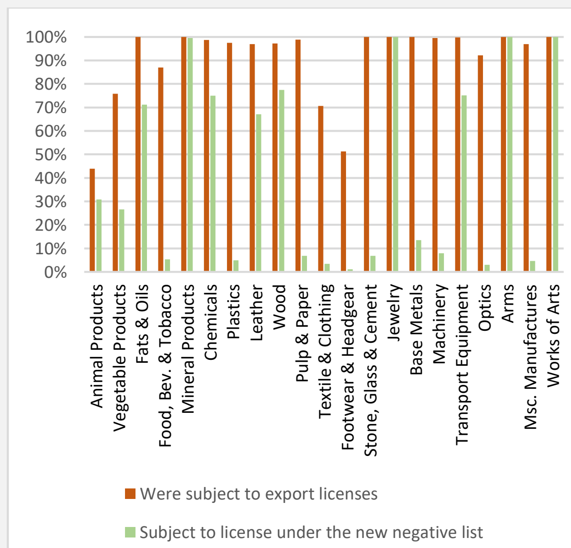
In February 18, 2018 the Union Ministry of Commerce (MOC) announced a "negative list" for products requiring an export license. Under Myanmar's tariff-product schedule of 11,146 items at 9-digit Harmonized System (HS), 3,345 product items will still need a license for export. The policy implies that MOC will not require a license for exporting products outside the list. Instead, exporters need to obtain a simpler clearance from line Ministry (e.g., Ministry of Agriculture Livestock and Irrigation or Ministry of Health). The products covered by the new list now contribute to about 57 percent of Myanmar exports. Under the new regime, the top ten export products from Myanmar that need a license will include peas and vegetables, mining and minerals (including gems), petroleum gas, and raw and semi-processed woods (Figure 21).

Figure 21 Share of ten products subject to new export regime in 2016 exports (%)



Source: analysis based on data from the Ministry of Commerce

Figure 22 Comparison of negative list items in old and new export regimes



Source: analysis based on data from the Ministry of Commerce and UN-Comtrade

The negative list for export licenses should have a positive impact on time and cost for exporting goods from Myanmar. The list presented in (Figure 22)suggests MOC has relaxed licenses requirement for exports of agriculture and processed food products for which Myanmar has a strong comparative advantage and can potentially bring benefits for the rural economy, particularly near border areas. The policy also significantly reduced license requirement for exports in footwear and garments, which have demonstrated strong performance, and machinery which Myanmar seeks to further develop. By cutting export license

[9] GATT Article X1.2.a

requirements, Myanmar exporters can reduce time to process export documents by 1 to 2 days depending on the products.

Nevertheless, compared to other countries Myanmar's performance in trade facilitation is still lagging. The Trading Across Border indicator in the 2018 Doing Business Report, Myanmar scored 47.7 percentage point in the distance to frontier (out of 100 for the best performing country and 69.9 percentage for average score for East Asia and Pacific)[10]. Traders in Myanmar spend a considerable amount of time to process documents (e.g., permits, certificates) from various Departments before goods can be cleared by Customs for export or import. Myanmar may want to consider a coordinated effort to review business processes in key Departments (e.g., Customs, FDA, Quarantine, Ministry of Commerce, Ministry of Industry) to reduce the amount of paperwork, delegate decisions, allow full on-line payment, and introduce registration systems for traders based on their compliance record. This review is a necessary step for Myanmar to introduce a National Single Window (NSW) which is a platform that allow traders to do a single submission of requests for all trade documents and receive final clearance from a single authority (instead going to multiple Departments).

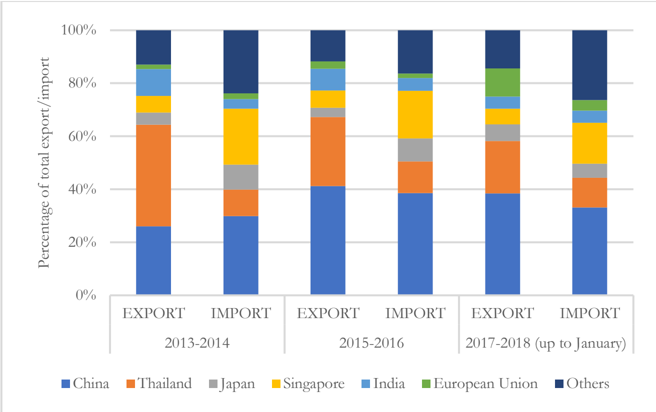
Myanmar can take advantage of the WTO Trade Facilitation Agreement (WTO TFA) to coordinate an action plan and mobilize resources, including from Development Partners, to support reform implementation. The WTO TFA entered into force in February 2017 and will be the primary guide for a multilateral approach to improve trade facilitation. All WTO members are obliged to implement the twenty-four articles of the agreement. As a least developed country member, Myanmar can access various resources to support implementation of the agreement. In this regard, the National Trade Facilitation Committee co-chaired by the Ministry of Commerce and Ministry of Planning and Finance can play a vital role to coordinate an action plan.

Import growth tapered, but demand for intermediate goods remains strong

28. **Import growth tapered in 2017/18 in relation to a peak in 2016/17, although accelerating imports of intermediate goods remain consistent with strong manufacturing growth**. Following two years of negative import growth in 2014/15 and 2015/16, import growth turned positive in 2016/17 and peaked in Q4 of that year as demand for industrial intermediates picked up. While still growing, imports decelerated again in the first three quarters of 2017/18. The main driver of imports in 2017 was the demand for industrial raw materials (intermediate goods). This includes petroleum products, which represent about 45 percent of that category in value terms. Demand for petroleum products was in turn driven by the increasing number of vehicles in Myanmar, industrial activity (the Enterprise Survey 2016 indicates that 20 percent of electricity consumed by firms is produced by generators), and by recent rises in fuel prices. In contrast, the import of investment products contributed negatively to overall import growth (Figure 24). While historically volatile, this small decline in levels may nevertheless signal a decline in producer sentiment and investor expansion plans, also reflected in the PMI sentiment indicator (see real sector section above).

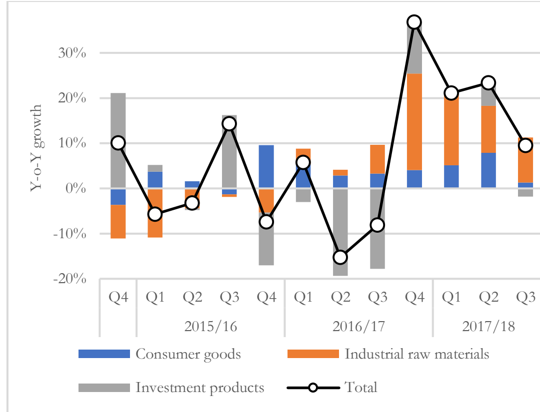
[10] http://www.doingbusiness.org/data/exploreeconomies/myanmar#trading-across-borders

Figure 23: Exports by destination



Source: Ministry of Commerce

Figure 24: Composition of imports by categories

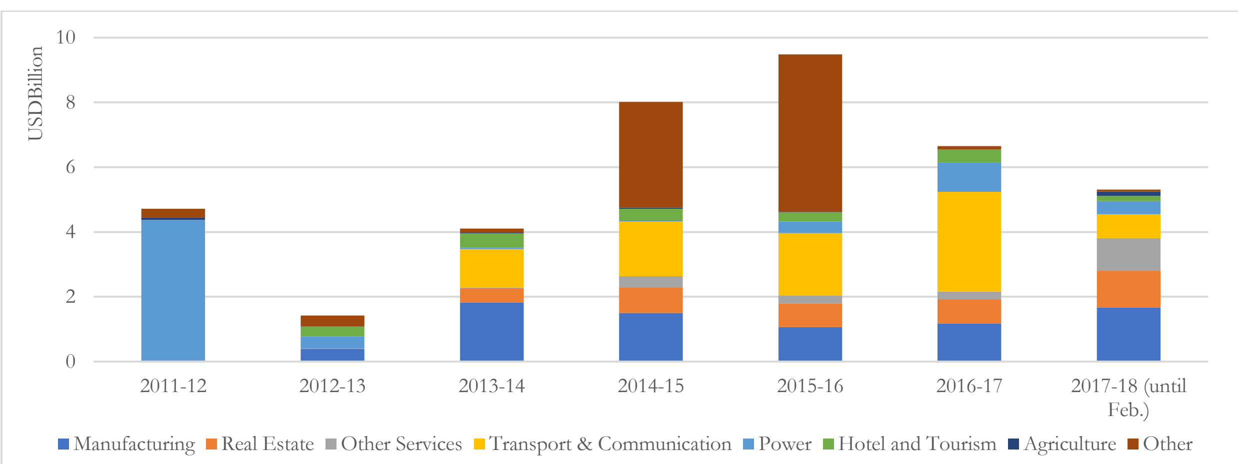


Source: Ministry of Commerce

Foreign direct investment commitments continue to decline, but flows remain comparable with the region

29. **FDI approvals in 2017/18 are likely to decline in relation to last year's already weaker performance, despite FDI flowing to new sectors.** Based on data from the first 11 months of 2017/18, approved FDI declined compared to the previous year, which was already well below 2014/15 and 2016/17 (Figure 25). Most notably, FDI approvals in the transport and communications sector have declined following the entry of a fourth mobile phone service provider (Vietnam-based Viettel) into the market in 2016/17. As investors eyed opportunities across sectors, there were strong inflows to the manufacturing sector, real estate, and other services. There were 126 approved manufacturing FDI projects worth US$1.7 billion, which reinforces the likelihood of continued growth in manufacturing exports. In addition, agriculture FDI, which has traditionally been limited, saw a large pickup in inflows in 2017/18 from a low base with US$133 million, compared to a total across the last five years of US$77 million. With US$5 billion in approved projects by February 2018, Myanmar remains an attractive investment destination. Furthermore, actual flows (UNCTAD) amounted to US$2.2 billion in 2016, or 3.2 percent of GDP, which is similar to the average for Southeast Asia.

Figure 25: FDI by destination sector



Source: *Directorate of Investment and Company Administration*

30. **Sources of FDI also continue to diversify.** While still accounting for the largest share, Singapore's dominance as a source of FDI continued to decline, from over half of FDI flows two years ago to a quarter in 2017/18. This rebalancing is likely due to base effects and the fact that the incentive for Myanmar investors to channel investment back into Myanmar via Singapore has waned in favor of more direct engagement. Other sources have become more important. Between 2016/17 and 2017/18, FDI originating in China rose by US$1 billion, two American projects worth US$130 million were the first major American investments in a decade, while the Netherlands and the UK represented a combined US$750 million in flows.

31. **Following approval of the Myanmar Investment Law in 2016, Parliament in December 2017 passed the much-anticipated Myanmar Companies Law (MCL), which can help attract FDI (Box 3).** The MCL is expected to come into force in August 2018 once bylaws are issued. The new MCL will replace nearly all provisions of the existing Myanmar Companies Act (MCA) (1913) (formerly known as the Burma Companies Act, which came into force in 1914). The MCL is expected to modernize business operations in Myanmar, and provide a more level playing field for potential foreign investors who could bring much-needed capital and technical know-how to local firms (see also Special Topic 1).

Box 3 Highlights of the Myanmar Company Law (MCL)

The MCL contains elements of international best practice and is appropriately adapted to Myanmar's institutional context. The MCL is similar to the Australian corporations law, that is, the Corporations Act (2001), which deals with business entities at the federal and interstate levels in Australia. However, the MCL is distinct with respect to the administration of the law. For example, the new law includes provisions for an electronic company registration system, which will be implemented by the Directorate of Investment and Company Administration (DICA). DICA, as the administrative body, is also given powers similar to subject-matter regulators in the Australian model.

The law contains several provisions that, if implemented effectively, could considerably strengthen the business landscape in Myanmar. These provisions include the following.

Redefinition of local and foreign companies. Under the new MCL, a company is designated as a "foreign company" if foreign investors own or control, directly or indirectly, "an ownership interest of more than thirty-five percent."[a] This suggests that foreign investors can own or control up to 35 percent of company ownership without it becoming a foreign company.

This change is important for several reasons. For instance, foreign investors may now enjoy access to local company asset (including land) as long as they do not own more than 35 percent of the company's shares. In addition, the provision also could allow foreign companies to carry out some investment activities,[b] which are currently barred by Myanmar Investment Commission Notification 15/17, such as freshwater fisheries.

Provision on permit to trade. The new law removes the requirement for foreign companies to have a separate permit to trade.[c]

Relaxation of prior approval requirements for the purchase of shares by foreign partners. Under the MCL, foreign companies will no longer be required to obtain prior approval from the regulator if they wish to purchase shares from or exchange shares with other firms. Instead, these companies will only need to notify the regulator if and when foreign ownership exceeds the 35 percent threshold.

Strengthen corporate governance. For instance, Division 18 in Part IV of the new law requires companies to have a clear set of powers and duties, including limitations on powers and voting rights, established for directors as a legal framework to balance the interest between the company and shareholders.[d]

Protection for minority shareholders. In the new law, a single shareholder may challenge in court the behavior of a third party as being against the interest of shareholders a whole. In other words, under the new law, the rights of minority shareholders will be protected. Compared to the existing MCA, the new law will improve protection for minority shareholders because the MCL requires that the number of decisions affecting the rights of minority and majority shareholders will need approval from the minority shareholders.[e]

Provision on classes of shares. Companies may also find additional financing channels, and explore voting rights and dividend entitlements through the issuance of different classes of shares.[f]

Other changes include:

- Changing a company's name will no longer require approval from the President of the Union. This can provide flexibility for companies to restructure.
- Allowing companies to amend their constitutions as they see fit without any requirement to use standard articles prepared by authorities, making companies nimbler.
- Increasing flexibility for small and family-owned businesses, as small companies are exempt from many aspects of financial reporting and audit requirements.[g]

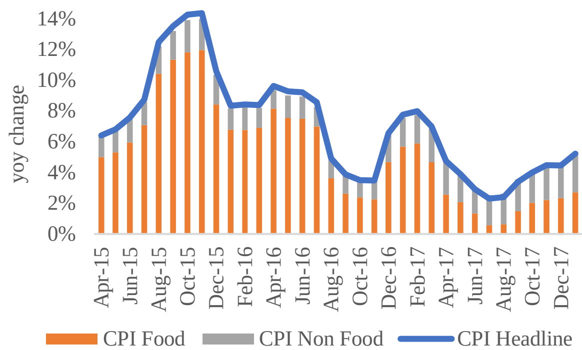
Source: DICA; World Bank staff.
Note: a. The Myanmar Companies Law (2017), s. 1 (c) (xiv). b. The Republic of the Union of Myanmar – Myanmar Investment Commission. (2017, April 10). *Paragraph 1. (b) of the Notification No. 15/2017*. Restricted investment activities include "fresh water fisheries and relevant services, manufacturing of forest products from forest area and government administered natural forest, prospecting, surveying, performing feasibility study and developing mineral for small and medium scale business in accordance with the Mines Law, refinement of minerals by medium scale and small scale, performing shallow oil wells up, prospecting, exploration and production of jade/gem stones, tour-guide services, mini-market, convenience store," and so forth. (https://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/20170410_eng_42.pdf). c. Berwin L. Paisner LLP. *Guide to the Myanmar Company Law: Minority shareholder protections* (https://www.blplaw.com/media/international/myanmar/BLP's_guide_to_Myanmar_Company_Law.pdf). d. The Myanmar Companies Law (2017), § 160 to 172, Division 18. *Directors and their powers and duties.* e. Berwin L. Paisner LLP. *Guide to the Myanmar Company Law: Minority shareholder protections.* (https://www.blplaw.com/media/international/myanmar/BLP's_guide_to_Myanmar_Company_Law.pdf). f. Berwin L. Paisner LLP. *Guide to the Myanmar Company Law: Minority shareholder protections.* (https://www.blplaw.com/media/international/myanmar/BLP's_guide_to_Myanmar_Company_Law.pdf). g. The Myanmar Companies Law (2017), § 1(c)(xxxviii) defines a small company as having no more than 30 employees and an annual revenue of less than 50,000,000 kyats. Under this definition, small companies are exempt from financial and auditing requirements described in § 260 to 268, and 279 (b).

Inflation, monetary and exchange rate

Disinflation reversed, driven by food and fuel prices

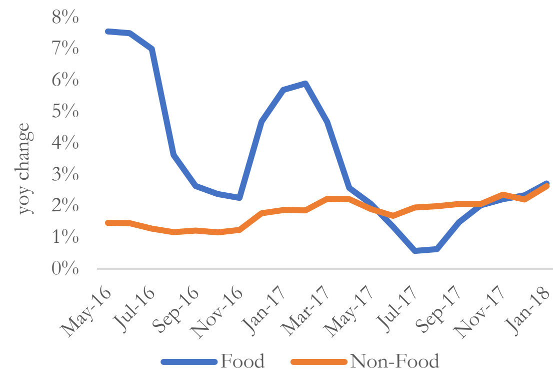
32. **Inflation measured by the Consumer Price Inflation (CPI) picked up at the end of the second quarter of 2017/18, largely driven by food price inflation.** After continuing its decline in the first quarter of 2017/18, the CPI rebounded from 2.3 percent (year-over-year) in July 2017 to 5.2 percent in January 2018 (Figure 26). The deceleration and subsequent acceleration of the cost of living is mostly explained by the rise in the food and beverages component of the CPI, which constitutes almost 60 percent of the official basket of goods and services (Figure 27).

Figure 26: Inflation drivers



Sources: CSO; World Bank staff estimates.
Note: yoy = year-over-year.

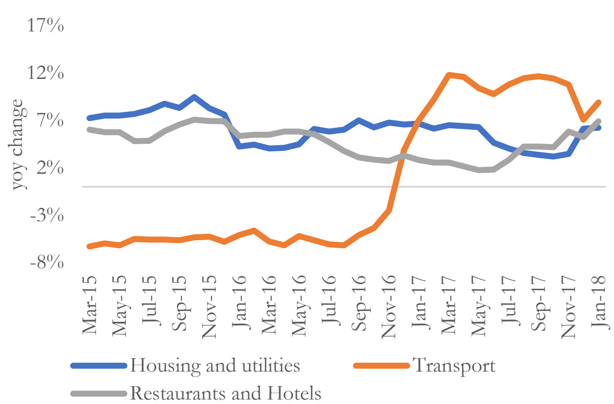
Figure 27: Contribution to CPI inflation



Note: yoy = year-over-year.

33. **Non-food items also contributed to rising inflation from the second quarter of 2017/2018.** While the average monthly rise in inflation for this component was 0.2 percent during the first five months of the fiscal year, it rose to 0.9 percent in the following five months.[11] Overall, the non-food CPI component reached 6.3 percent (year-over-year) in January of 2018 from 5.4 percent at the beginning of the fiscal year. Three subcomponents explain the non-food CPI dynamics: (a) Restaurants and Hotels, (b) Transportation, and (c) Housing and Utilities (Figure 28).[12] Transportation (almost 25 percent of the non-food basket) explained 35 percent of the increase in non-food prices observed in January 2018, due to higher fuel import costs and rising costs of storage in warehouses located close to industrial zones.

Figure 28: Non-food price components



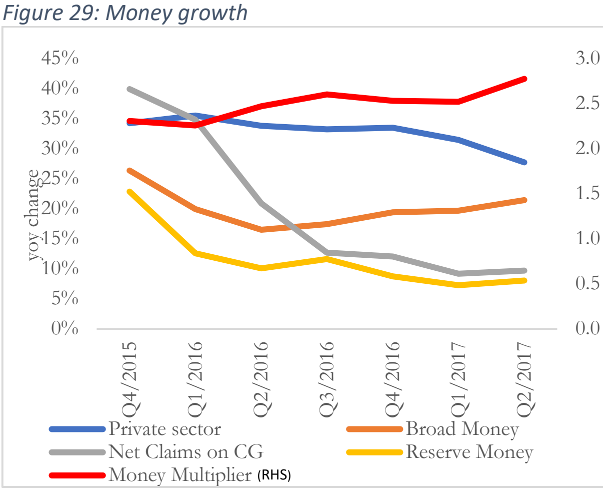
Sources: CSO; World Bank staff estimates.

[11] Annualized inflation for the first five months was 1.8 percent, while the following five months implied a rate of 6.8 percent.
[12] These three components account for 58.2 percent of the Non-Food Index.

Reserve money growth slowed further in 2017/18, while broad money growth increased

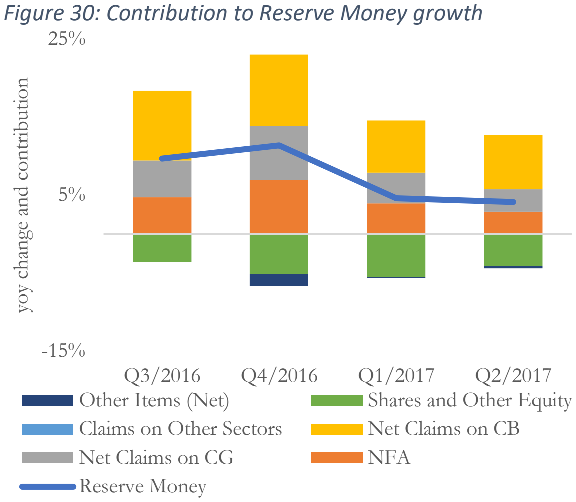
34. **Despite the CBM just breaching the 40 percent ceiling in 2016/17 on the share of fiscal deficit financing from the Central Bank, growth in reserve money moderated in 2017/18 while broad money growth rose.** Annual growth in reserve money creation by the CBM dropped to 8 percent in 2017/18, from 9 percent annual growth in Q4 2016/17 (Figure 29). This was due to a lower growth of lending to commercial banks and to the central government, and to a slower growth in net accumulation of foreign reserves (Figure 30). As the economy returns to its trend growth rate of just over 7 percent, it is expected that reserve money growth will also approach the CBM's 13 percent annual growth target. Broad money growth picked up to 21 percent annual growth in Q2 2017/18 supported by continued commercial bank credit expansion. However, anecdotal evidence suggests that uncertainties and remedial actions in the banking sector led to a sharp but temporary slowdown in lending during December 2017–February 2018. Broad money growth remains below the 24 percent CBM target. Consistent with the developments in reserve and broad money, the money multiplier grew from 2.5 in Q4 2016/2017 to 2.8 in Q2 2017/2018.

Figure 29: Money growth



Sources: CBM; World Bank staff estimates.
Note: yoy = year-over-year.

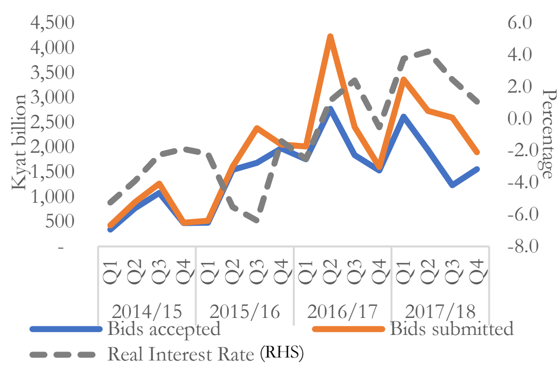
Figure 30: Contribution to Reserve Money growth



Sources: CBM; World Bank staff estimates
Note: yoy = year-over-year

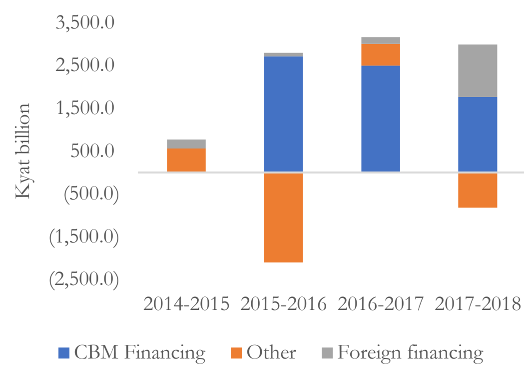
35. **The CBM reduced its intervention through the deposit auction market in support of economic growth and as inflation moderated, after actively pursuing open market operations in 2016/17.** In 2017/18, the CBM accepted bids for a total of 7 trillion kyat, which was 7.0 percent less than the volume of transactions accepted in 2016/17. During this fiscal year, the demand for deposit auctions from the CBM increased by 3.2 percent, implying a large unsatisfied demand for this policy instrument. Fewer deposit auctions translates into less money taken out of active circulation, thereby supporting the economy. During the year, bids submitted rose as real interest rates on deposits increased to 3.8 percent. Bids submitted fell toward the end of the year as real interest rates declined to 1.1 percent due to rising inflation and lower nominal interest rates (Figure 31).[13] Finally, the CBM monetary financing to the government is estimated to be 30 percent smaller in 2017/18 relative to the previous fiscal year as the actual fiscal deficit turns out smaller than the budgeted deficit (see fiscal section below). While direct financing to the government was 2.4 trillion Kyat last year, this year's estimates is closer to 1.7 trillion Kyat, which represents approximately 2 percent of GDP (Figure 32).

Figure 31: Deposit Auctions



Sources: *CBM; World Bank staff estimates.*

Figure 32: Net financing to the government



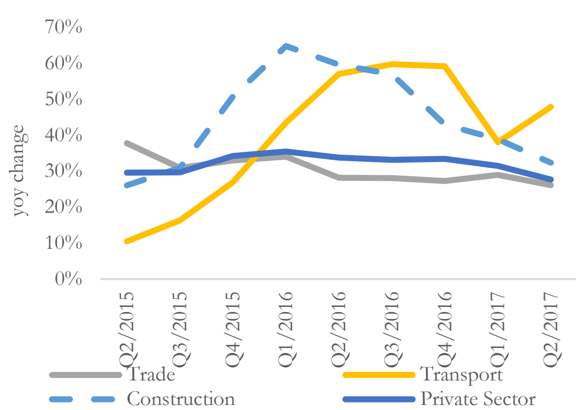
Sources: *CBM; World Bank staff estimates.*

Credit growth tapered but remains high

36. **Credit growth moderated in the first half of 2017/18 as banks sought to understand and comply with prudential regulations.** (Figure 31). Anecdotal evidence suggests that uncertainties in the banking sector led to a further sharp but temporary slowdown in lending during December 2017–February 2018. With average inflation of 5.7 percent during the first three quarters, real credit grew on average at 25 percent. Credit to the transportation sector picked up in the second quarter after growth in lending to the sector slowed by more than 20 percentage points in Q4/2016 (Figure 34). Lending growth remains concentrated, with 62 percent of new loans directed to three sectors: agriculture, construction, and trade. This concentration should continue to be carefully monitored as the profitability of the construction sector is under pressure from excess capacity and the agriculture sector remains sensitive to weather- and trade-related shocks. Finally, lending remains biased toward large enterprises, as micro-, small, and medium-sized enterprises still face limited access to bank finance.

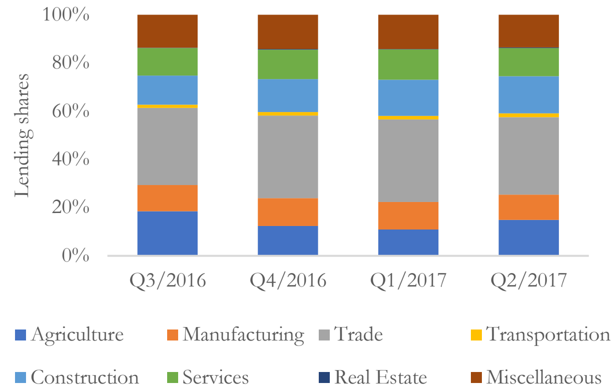
[13] The quarterly ex-post real interest rate is approximately equal to the quarterly nominal interest rate minus the inflation rate in the same period. This is different from the ex-ante interest rate, which considers expected inflation instead of actual inflation.

Figure 33: Credit to the private sector



Sources: CBM; World Bank staff estimates.
Note: yoy = year-over-year.

Figure 34: Composition of lending to private sector



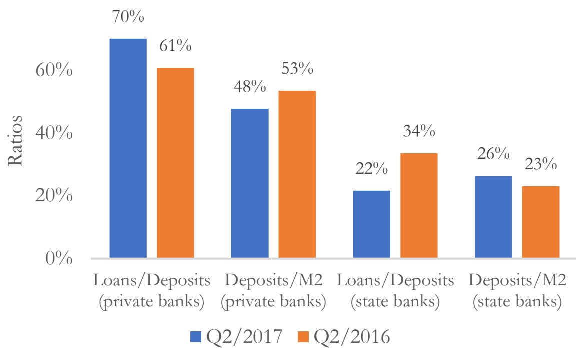
Sources: CBM; World Bank staff estimates.

37. **The introduction of necessary new prudential regulations for the banking sector created some uncertainty.** Estimates suggest a large share of lending is in the form of overdrafts that are backed by real estate collateral. Small businesses are less likely to have assets to collateralize.[14] With the new regulations released last July, overdrafts had to be reclassified by January 2018. However, in November 2017, the CBM and banks agreed on an extended three-year window to restructure overdrafts to standard loans.

Private banks' profitability improved in 2017/18 while liquidity indicators remained robust. Preliminary data show that after-tax profits of private banks doubled in the first two quarters of 2017/18 compared with the same period in 2016/17. This performance is something of an anomaly as banks are still facing a floor of 8 percent on deposit rates, and a ceiling of 13 percent on lending, which limits their ability to grow their interest income if loan growth is moderating.[15] In terms of banks' liabilities, deposit growth has remained robust and liquidity ratios while low by regional standards, remained essentially unchanged. Loans to deposits increased 9 percentage points in Q2 2017 compared to the same quarter last year, and deposits to broad money experienced a modest decline compared to Q2 2016/2017 (Figure 35). Finally, by the end of the second quarter of 2017/18, the overall banking sector capital adequacy ratio fell to 7.8 percent, just below the recommended 8 percent prudential norm. But this industry average masks a significant variation among banks with regards their capital adequacy (Figure 36).[16]

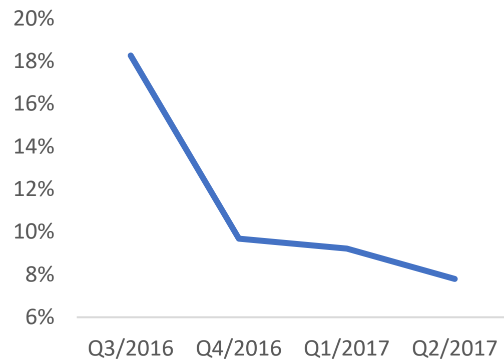
[14] An overdraft is an extension of credit when an account reaches zero balance. In Myanmar, overdrafts have a maturity of one year. However, these overdrafts have been rolled over indefinitely.
[15] There is no market-based interest rate. The CBM caps the lending rate at 13 percent, and the deposit rate has a floor of 8 percent.
[16] Capital Adequacy Ratio (CAR) is also known as the Capital to Risk (Weighted) Assets Ratio (CRAR). It measures banks' capital as a percentage of assets weighted by their risk, and indicates the capacity to absorb losses.

Figure 35: Bank's liquidity indicators



Sources: CBM; World Bank staff estimates.

Figure 36: Capital adequacy ratio

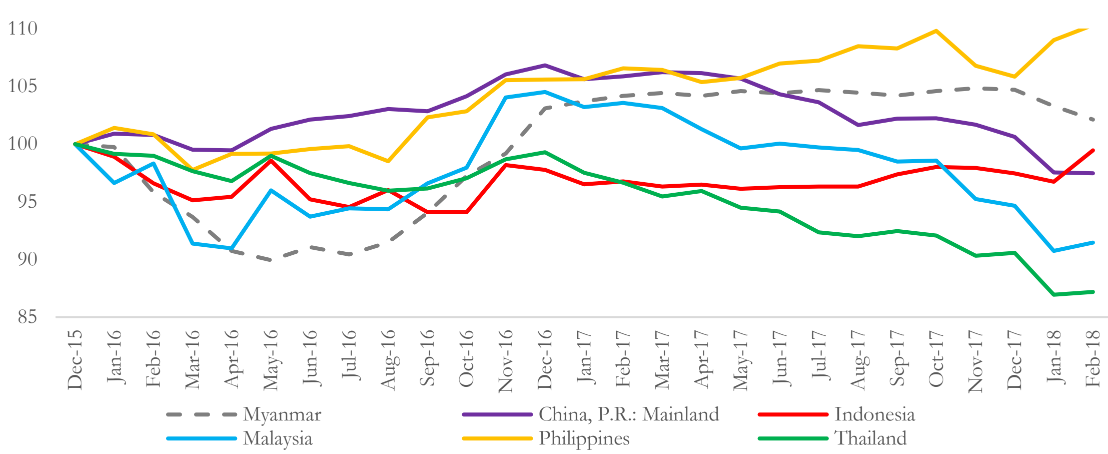


Sources: CBM; World Bank staff estimates.

The exchange rate appreciated slightly in nominal terms, with some variation across bilateral real exchange rates with major trading partners

38. **The nominal exchange rate provided a strong anchor for the first three quarters of 2017/18 and appreciated by 2 percent in Q4 against the U.S. dollar.** The nominal exchange rate started the fiscal year at 1,361 kyats to the U.S. dollar in the reference market and 1,362.5 kyats in the parallel market. In the first three quarters of the year, the average monthly depreciation of the official rate was -0.1 percent, with a monthly change volatility of just 0.6 percent, implying a high stability of the currency that contributed to the disinflation in the first part of the year (Figure 37).[17] The nominal exchange rate and the monthly change in food prices are highly correlated.[18]

Figure 37: Selected Nominal Exchange Rates (National Currency per dollar, Dec-2005=100)



Sources: CBM; BIS; Haver Analytics; and World Bank staff calculations.
Note: An increase corresponds to a nominal depreciation.

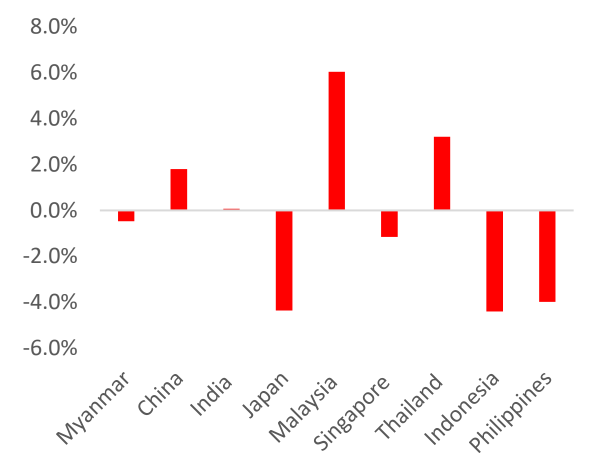
[17] The measure of volatility used in this paragraph is the standard deviation, which measures how much the exchange rate deviates each month relative to the average in the period. A low standard deviation implies that the monthly observations are close to the average of the period.
[18] The correlation between the nominal exchange rate and the monthly change of the food component of the CPI one month ahead is equal to 0.47. As a result, large swings in the exchange rate are translated to food inflation.

39. **Myanmar's slight loss in competitiveness was similar to the loss in regional peers, but was driven by higher inflation than peers.** Myanmar's real effective exchange rate is estimated to have appreciated 0.5 percent between March 2017 and January 2018, similar to the average of 0.3 percent experienced by other countries in the region (Figure 39)[19]. However, the strengthening was driven by different factors. The loss of competitiveness in most countries was due to appreciating nominal exchange rates, while the driver in Myanmar was the rising inflation differential with major trading partners. This reinforces the need for Myanmar to tackle cost drivers through structural reforms to protect its competitiveness in the medium to long term.

40. **While the kyat strengthened slightly in nominal and real effective terms, its performance varied across bilateral real exchange rates with major trading partners in 2017/18** (Figure 38). For example, the kyat appreciated in real terms against the weakening global currencies like the U.S. dollar and the Japanese yen.[20] In contrast, the kyat depreciated 4 percent in real terms against the Thai baht, 8.1 percent against the Malaysian ringgit, and 4 percent against the Chinese renminbi. This depreciation in the real exchange rate squeezed profit margins and created concerns among firms that rely on imports from those countries, such as retailers importing fast-moving consumer goods for resale, and manufacturers of goods with high imported content. However, it also provides a potential boost to exporting firms.

Figure 38: The real effective exchange strengthened slightly in 2017/2018….

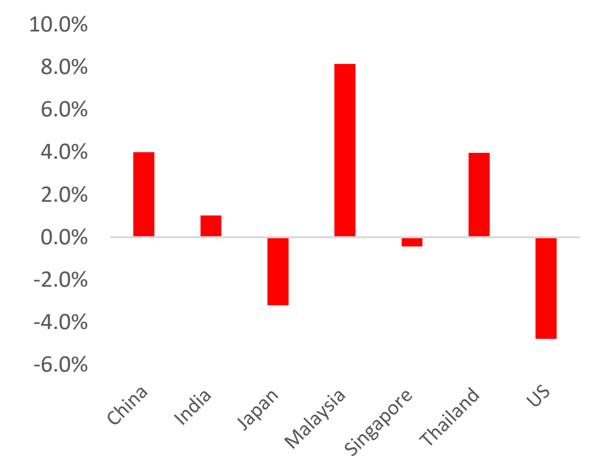
Real effective exchange rate based on CPI a, Dec-2005=100. Change March 2017–Jan 2018



Sources: CBM; BIS; Haver Analytics; and World Bank staff calculations.
Note: An increase corresponds to a real depreciation.

Figure 39: …. but considering the bilateral real exchange rates individually, the effects are heterogeneous

Real exchange rate based on CPI, Dec-2005=100. Change March 2017–Jan 2018



Sources: CBM; BIS; FRED; Haver Analytics; and World Bank staff calculations.
Note: An increase corresponds to a real depreciation.

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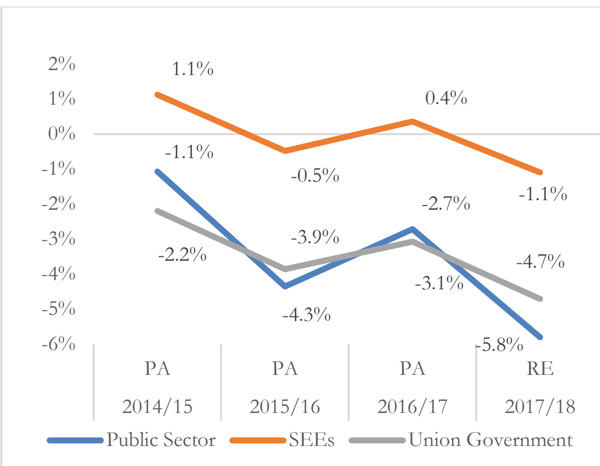
[19] The REER is a weighted average of bilateral real exchange rates of major trading partners, where the weights are given by trade shares. The REER in this report was constructed using five major trading partners constituting 90 percent of total trade and variable weights. The REER calculation remains sensitive to the choice of trading partners and the weights, and may exhibit a slight depreciation if more trading partners are included, or weights kept constant. Overall, however, the differences in results are small.
[20] The bilateral real exchange rate considers nominal exchange rates and relative inflations of the corresponding countries, and it is an input to construct the real effective exchange rate.

Fiscal policy

Narrowing fiscal deficit in 2016/17, budgeted to increase in 2017/18

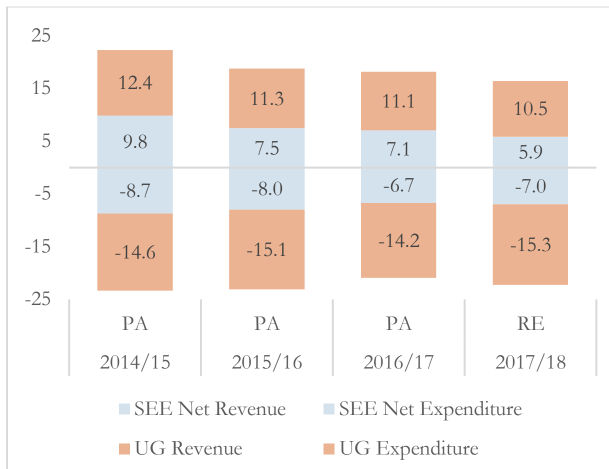
41. **The fiscal deficit is budgeted to increase significantly to 5.8 percent of GDP in 2017/18 from a provisional actual rate of 2.7 percent in 2016/17 (Figure 40).** General government receipts are *budgeted* to decline as a share of GDP from 18.2 percent in 2016/17 to 16.9 percent in 2017/18, driven by falling State Economic Enterprise (SEE) receipts owing to declining profitability, particularly from budget assumptions of declining natural gas prices. General government expenditures are also budgeted to increase from 20.9 percent of GDP in 2016/17 to 22.2 percent of GDP in 2017/18 (Figure 41), driven by budgeted increases in other recurrent expenditures in priority ministries like health, and increased domestic interest payments because of payment of market interest rates on legacy CBM debt.

Figure 40: Fiscal balances, Percent of GDP



Source: MOPF, WB Staff Estimates

Figure 41: Revenue and expenditure aggregates, Percent of GDP (Expenditure is negative, Revenue is positive)

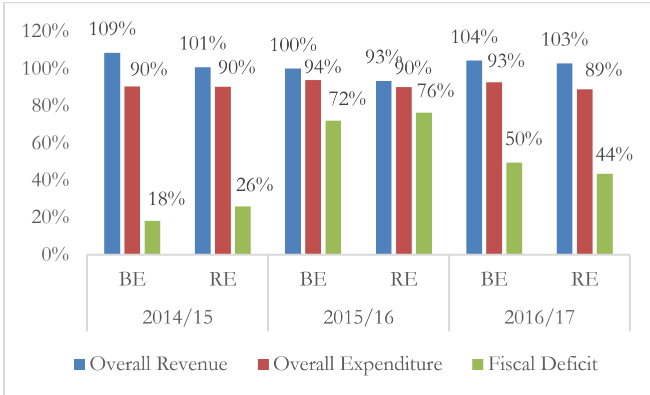


Source: MOPF, WB Staff Estimates

42. **The change in the fiscal year in Myanmar makes it challenging to assess the actual fiscal deficit, which may be considerably lower than the budget (Box 4).** Actual outturns for 2017/18 may reflect a lower fiscal deficit, given long-standing challenges in budget execution and underestimation of revenues in the original and revised budgets (Figure 42), partly due to stronger than expected gas prices. Myanmar announced a change in the fiscal year from April–March to October–September, coming into effect October 1, 2018, with a view to improve implementation of capital and infrastructure projects by aligning the start of the fiscal year with the end of the monsoon season.[21] The government enacted a six-month "bridge" budget for April–October 2018, with plans to limit spending during this period.[22] While the fiscal year has moved by six months, the tax year has been retained as April–March, although not for SEEs. They are now expected to align their tax year with the new fiscal year. As Box 4 highlights, changing the fiscal year and having different tax and fiscal years, may introduce short-term challenges in budget execution and misalignment of spending patterns with revenue collection, thus increasing the uncertainty of short-term fiscal outturns and the medium-term fiscal outlook.

[21] Statement by Mr. Juda Agung, Executive Director for Myanmar, as part of IMF 2017 Article IV Staff Report.
[22] In particular, the six-month budget plan includes a provision that no new capital expenditure projects will be approved during this period, with capital spending limited to implementation of existing projects.

Figure 42: Actual outturns as a ratio of original and revised budgets



Source: MOPF, WB Staff Estimates

Box 4 The Change in the Fiscal Year in Myanmar: Issues and Options

The Government of Myanmar changed the fiscal year from April–March to October–September starting from fiscal year 2018/19 (that is, beginning 1 October 2018), with a view to facilitating more effective implementation of capital and infrastructure projects. Governments around the world have adopted different fiscal years (s). The Gregorian calendar year is used by about 70 percent of the 189 IMF and World Bank member countries. Aside from the tradition of following the calendar year, country decisions on fiscal years have also been driven by climate, alignment with tax years of multinational companies, and religious considerations.

Myanmar has opted to retain the existing tax year, April–March, for almost all filers except for State Economic Enterprises. This is at variance with common international practice: over 75 percent of the 159 countries surveyed by PricewaterhouseCoopers have a personal income tax year aligned with the fiscal year, and only 6 percent have completely different tax and fiscal years for corporate filers, although many countries (nearly 62 percent) offer companies the option of choosing their own tax year.

Maintaining different fiscal and tax years creates challenges for revenue forecasting and budget execution. To ensure a credible budget framework, it is critical that the Ministry of Planning and Finance (MOPF) produces accurate and timely quarterly and half-yearly revenue forecasts to feed into annual and multiyear budget plans. At present, MOPF does not produce half-yearly revenue forecasts, which complicates budget planning. In addition, current patterns of spending by line ministries may be aligned with expectations of in-year availability of resources. For instance, spending may be increasing at the end of the fiscal year in line with in-year increases in revenue collections. When the two years are not aligned, it puts pressure on ministries to adjust spending patterns to spend more in the beginning of the year, when revenues are available. However, as procurement and budget execution processes take time to adjust, this may hinder budget execution in the medium term.

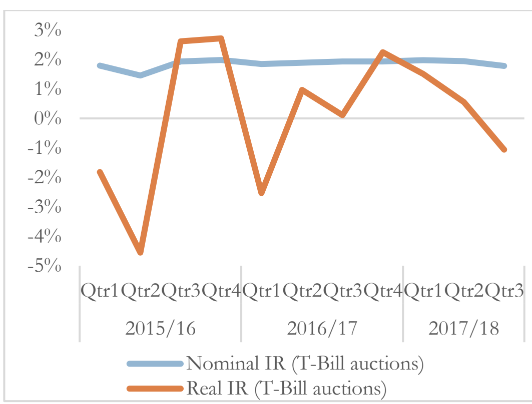
In the short term, increased coordination and greater investment in forecasting capabilities is critical to manage the transition. It is critical that the MOPF improve capabilities to produce timely half-yearly and quarterly forecasts and coordinate with the budgeting and planning departments, to ensure that forecasts are reflected in the Medium Term Fiscal Framework. The case of Thailand is instructive in this regard, as the country recently changed its tax year, allowing flexible filing for companies, and subsequently established a "revenue taskforce" comprising representatives from the revenue, budget, planning, departments, and the central bank, to ensure accurate, timely forecasts and appropriate in-year cash planning.

In the medium term, Myanmar could consider aligning the tax year with the fiscal year. Making such a change could introduce a significant additional burden on the tax administration, with significant changes in business processes as well as changes in the supporting information technology (IT) administration system. But there are also potential benefits, arising particularly from improved links between revenue collection and budget planning and execution. If Myanmar chooses to change the tax year, it is critical that any change is accompanied by extensive taxpayer consultation and education to minimize disruptions to business and economic activity.

43. **On deficit financing, the government continued expanding the domestic debt market, but market participation remains below potential.** The domestic debt market expanded in terms of value of debt, but with mixed trends on treasury bills and treasury bonds. The value of Treasury bills auctioned, including for new longer tenor bills (6- and 12-month bills), increased by 60 percent in 2017/18 compared to 2016/17. In contrast, the take-up of treasury bonds slowed, with a 30 percent decline in value of monthly bond auctions in 2017/18 compared to 2016/17. Despite the expansion, market participation remained below potential, reflected in the widening gap between bid and offer at auctions. Successful bids on a purely competitive basis in Treasury bond auctions are on average 46 percent of auction targets in 2017/18, declining from 60 percent in 2016/17, and for Treasury bill auctions around 28 percent of auction targets, declining from 31 percent in 2016/17.

44. **Allowing interest rates to better reflect market conditions is essential for domestic debt market development.** Interest rates do not fully reflect market conditions because of concerns over rising debt servicing costs. Auction discount rates remain close to (or below) bank deposit rates. Real interest rates on T-bills were marginally positive as of end-2016/17 but have been declining since and returned to negative 1 percent in Q3 2017 (Figure 43). Maintaining interest rates in line with inflation would likely encourage greater participation and support a lower inflation target. The absence of such market participation puts increased pressure on the CBM to finance the fiscal deficit, but, as highlighted in the monetary section, CBM financing may be tapering toward the end of 2017/18, signaling a potential slowdown in expenditure driven by budget execution challenges.

Figure 43: Real interest rates on T-Bill auctions, percentage points



Source: CBM, WB Staff Estimates

45. **Myanmar can afford to finance a fiscal deficit averaging 4 to 4.5 percent in the medium term, absent growth and fiscal slippages.** As highlighted in the recently completed Myanmar Public Expenditure Review and the joint World Bank-IMF Debt Sustainability Analysis (DSA),[23] a fiscal deficit of 4 to 4.5 percent would maintain public debt at a low level of debt distress in a baseline scenario. Any severe slippages in growth or unanticipated fiscal slippages could, however, lead to total public debt becoming unsustainable. Reducing

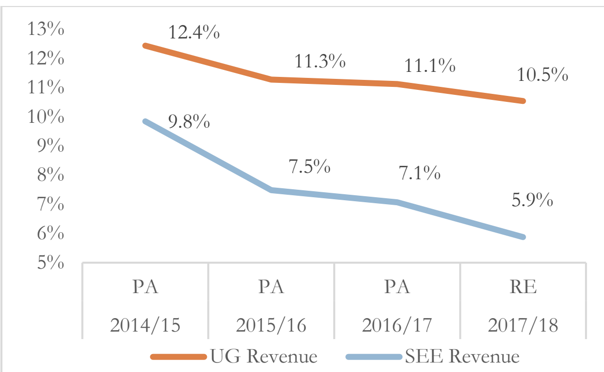
[23] World Bank-IMF Joint Debt Sustainability Analysis, IMF 2017 Article IV Staff Report.

the reliance on central bank financing of the deficit in the medium term will depend on supportive actions on domestic debt market, including allowing interest rates to reflect market conditions, and domestic financial sector reform.

Revenue collection remains below potential, with need to address leakages

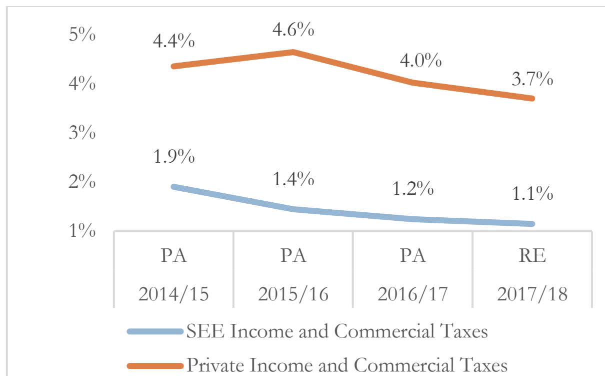
46. **Myanmar's overall revenue collection remains below potential and is budgeted to decline from 18.2 percent of GDP in 2016/17 to 16.9 percent of GDP in 2017/18.** SEE receipts are projected to continue to decline, from 7.1 percent of GDP in 2016/17 to 5.9 percent of GDP in 2017/18, driven by falling gas prices and declining profitability of SEEs, especially in heavy industry sectors (Figure 44). This is also reflected in the declining share of SEEs in income and commercial tax collections (Figure 45). Higher than expected 2017/18 gas prices may boost actual collection. General government receipts are also projected to decline, from 10.7 percent of GDP in 2016/17 to 9.8 percent of GDP in 2017/18, on the back of declining income and commercial taxes, which are only partially offset by continued strengthening in special goods tax collection (Table 1).

Figure 44: Union Government and SEE revenue, Percent of GDP



Source: MOPF, WB Staff Estimates

Figure 45: UG and SEE Income and Commercial Taxes, Percent of GDP



Source: MOPF, WB Staff Estimates

Table 1: General Government Revenue (Share of GDP)

	2014/15	2015/16	2016/17	2017/18
	PA	**PA**	**PA**	**RE**
Total General Government Revenue	**12.1%**	**10.8%**	**10.7%**	**9.8%**
Tax	**7.0%**	**6.7%**	**7.1%**	**6.7%**
Income Tax	3.4%	3.2%	2.9%	2.6%
o/w SEEs	1.2%	0.9%	0.6%	0.6%
Commercial Tax	2.8%	2.9%	2.4%	2.3%
o/w SEEs	0.7%	0.5%	0.6%	0.6%
Customs duties	0.8%	0.6%	0.6%	0.5%
Excise Tax	0.0%	0.0%	0.0%	0.0%
Special Goods Tax	0.0%	0.0%	1.2%	1.3%
Non-Tax	**5.1%**	**4.1%**	**3.6%**	**3.1%**
Receipts on use of national properties	2.3%	1.3%	1.2%	1.1%
o/w oil and gas	0.5%	0.5%	0.6%	0.4%
o/w telecommunications	1.7%	0.7%	0.6%	0.7%
SEE contributions	0.8%	1.1%	0.7%	0.7%
License and fees	0.5%	0.4%	0.4%	0.2%
Other	1.5%	1.3%	1.1%	1.0%

Sources: MOPF; World Bank staff estimates.
Note: SEEs = State Economic Enterprises.

47. **Declining revenue collection underscores the importance of maintaining momentum on implementing tax administration reforms, despite the new administrative burden of managing differing tax and fiscal years.** Myanmar has made significant strides in reforming its tax system since 2012/13, focusing on improving tax administration by moving to a self-assessment system and restructuring tax administration to focus on taxpayer segments by size. As at 2017/18, the Large Taxpayer Office (LTO) and Medium Taxpayer Offices (MTO-1, 2, and 3) are fully functional, and all large taxpayers and medium-sized taxpayers under MTO-1 are filing self-assessed returns, which are subsequently subject to audit. Maintaining the momentum on tax administration reforms will be critical to reaping the benefits in terms of improved compliance. Major priorities in the next two to three years include enacting the Tax Administration and Procedures Law (TAPL); introducing an integrated tax administration system and using the information to strengthen audit and compliance functions; and building the human resources base within the Internal Revenue Department (IRD) for compliance, audit, IT, and other critical functions. As noted in Box 4, IRD is also likely to face additional administrative burdens from managing different tax and fiscal years, and it is critical that broader tax administration reform momentum is maintained in this period to avoid slippages.

48. **Myanmar is gradually introducing tax policy changes at a pace aligned with the administrative capacity constraints.** The 2017/18 Union Tax Law, enacted in March 2018, saw few major tax policy changes,[24] with no new tax instruments introduced, no changes in income tax rates and tax brackets, and only a marginal decrease in special goods tax rates for tobacco and alcohol, and commercial tax exemptions for pure gold, jet fuel, air transport, and publication services. The last major tax legal changes were the amendments to the Income Tax Law (ITL) in 2012 to expand the tax base by allowing coverage of foreign transactions and requiring military-owned companies to pay income tax; and the enactment of the Special Goods Tax (SGT) in

24 https://www.dfdl.com/resources/legal-and-tax-updates/myanmar-tax-alert-myanmar-passes-the-2018-union-tax-law/.

2016. The government plans to overhaul the Income Tax Code in the next two to three years to align with the new self-assessment regime, and to broaden the tax base in line with the changing nature of economic activity in Myanmar since 2012.

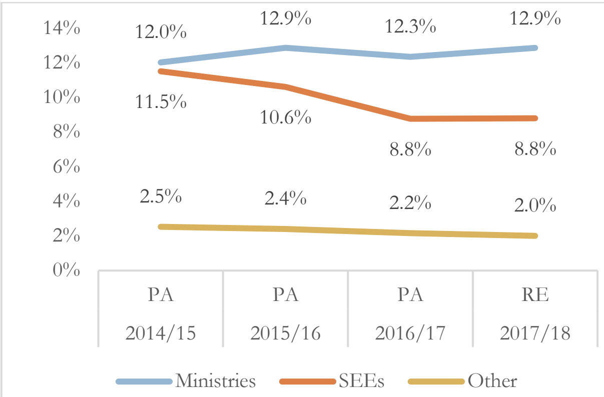
49. **Revenue leakages are a growing concern affecting short-term revenue collection.** As noted in the Myanmar Public Expenditure Review (PER), revenue leakages arising from tax base erosion on domestic and international transactions, and the provision of tax incentives and exemptions, are pressing concerns driving down revenue collection. The PER estimates that revenue foregone from CIT incentives to large taxpayers alone could be as high as 1 percent of GDP—this excludes tax expenditures from MTO filers and foregone commercial taxes. Increased exemptions on commercial taxes for gold and other items in 2017/18 further increase the tax revenues foregone. In addition, Myanmar is currently considering a new tax amnesty law, which is discussed further in the policy developments section.

Challenges to budget execution in priority areas

50. **The 2017/18 revised budget continues to emphasize spending through line ministries ahead of SEEs.** Spending by line ministries is budgeted to marginally increase from 12.3 percent of GDP in 2016/17 to 12.9 percent of GDP in 2017/18, while SEE spending is expected to remain flat in line with declining SEE revenues (Figure 46). Public sector expenditure grew by an annual average of 11 percent from 2014/15 to 2017/18, while revenues have been growing by an annual average of 7 percent, thus leading to a widening fiscal deficit. However, the declining trend in in-year reserve money growth in 2017/18 suggests that budget implementation challenges in 2017/18 may yield a significantly lower deficit outturn than budgeted.

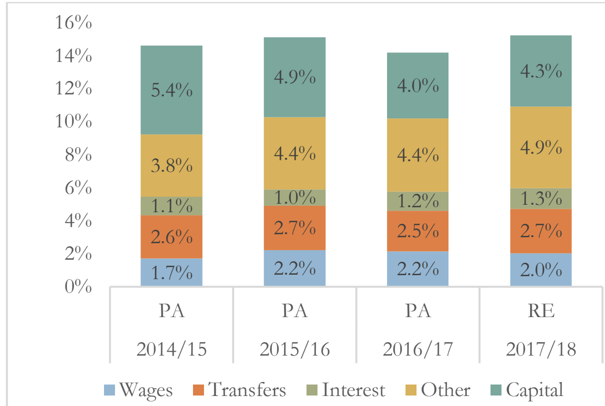
51. **Recurrent expenditure by the union government continues to be emphasized, while capital expenditure continues to decline (Figure 47).** Recurrent expenditures have increased significantly, from 9.3 percent of GDP in 2014/15 to an estimated 10.9 percent of GDP in the 2017/18 revised budget. Within recurrent expenditure, wages, transfers to subnational governments, and interest payments have remained stagnant. The increase in recurrent expenditure has thus been driven by other recurrent spending. In 2017/18, allocations were doubled to the Ministry of Health and Sports and the Ministry of Planning and Finance, driving a 0.5 percent of GDP increase in other recurrent spending over 2016/17. In contrast, capital expenditures declined from 5.4 percent of GDP in 2014/15 to 4.3 percent in the 2017/18 revised budget at a time when Myanmar's infrastructure needs are growing. The 2017/18 revised budget saw a modest improvement in capital expenditure outlay, which increased from 4.0 percent of GDP to 4.3 percent, with sharp increases in the capital budget for the Ministry of Electric Power and Energy (87 percent) and Ministry of Construction (68 percent) from last year as the government pursues its electrification targets.

Figure 46: Breakdown of public sector expenditure, Share of GDP



Source: MOPF, WB Staff Estimates

Figure 47: Breakdown of public sector expenditure, Share of GDP

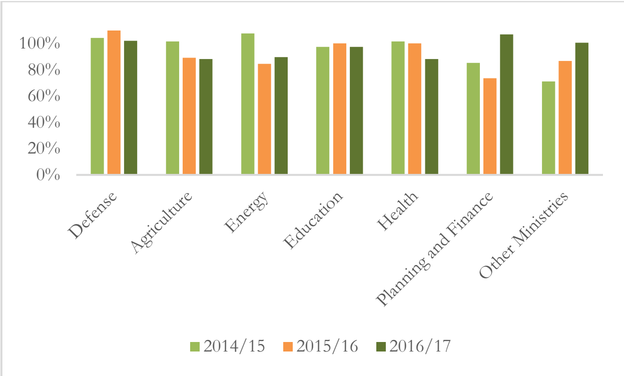


Source: MOPF, WB Staff Estimates

52. **While increased spending allocations are important to support policy priorities, budget execution and implementation capacity remain critical challenges.** The Ministries of Health, Agriculture, and Energy spent at most 90 percent of their original budget allocations in 2016/17—an execution rate lower than in 2014/15 (Figure 48). This implies that these ministries are facing increased bottlenecks in executing larger budgets, which may include (a) lack of clear procurement guidelines and rules; (b) late timing of the supplementary budget, leading to delayed implementation of the revised budget; (c) dated financial rules, which are not fit for purpose, particularly around advances and travel allowances; (d) inflexible budget rules that do not allow for transfer between budget lines during the year to reflect changing needs; and (e) low capacity for financial management at line ministries.

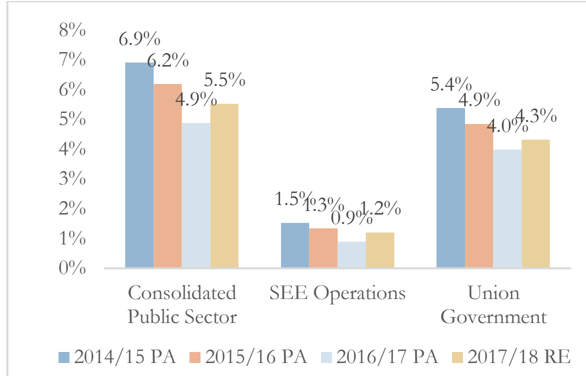
53. **Myanmar needs quality public infrastructure investment and management to sustain long-term growth.** In 2017/18, capital spending is expected to be 5.5 percent of GDP for the public sector and only 4.3 percent for general government (Figure 48). As per the recently completed Myanmar PER, this is about half the level of public investment that fast-growing lower middle-income countries undertook preceding their periods of strong growth. Increased capital spending levels is by itself insufficient to support economic growth, as it is critical that projects are anchored within a strategic and credible Public Investment Program, as highlighted in the Myanmar Strategic Development Plan (MSDP). As highlighted in the Myanmar PER, the building blocks for a Public Investment Program include mechanisms for developing and screening project proposals, improving sectoral project appraisal and central project appraisal review capabilities, selecting appraised projects in the budget through a process of strategic prioritization, and introducing multiyear commitment budgets to facilitate multiyear project execution. The absence of these building blocks could lead to significant time and cost overruns on critical projects.

Figure 48: Ratio of Preliminary Actuals as a share of Budget Estimates



Source: MOPF, WB Staff Estimates

Figure 49: Capital expenditure across the public sector, Percent of GDP



Source: MOPF, WB Staff Estimates

Table 2: Public Sector Expenditures (Share of GDP)

	2014/15	2015/16	2016/17	2017/18
	PA	**PA**	**PA**	**RE**
Total Expenditure	**26.2%**	**26.0%**	**23.4%**	**23.8%**
Ministries	**12.0%**	**12.9%**	**12.3%**	**12.9%**
Defense	3.8%	4.3%	3.7%	3.5%
Agriculture	1.5%	1.5%	1.2%	1.1%
Energy	0.2%	0.2%	0.3%	0.5%
Education	1.9%	2.1%	2.0%	2.0%
Health	1.1%	1.1%	0.9%	1.2%
Planning and Finance	1.3%	1.2%	1.5%	2.3%
Other Ministries	2.4%	2.5%	2.7%	2.4%
SEEs	**11.5%**	**10.6%**	**8.8%**	**8.8%**
SAOs	**0.2%**	**0.1%**	**0.1%**	**0.1%**
Other	**2.5%**	**2.4%**	**2.2%**	**2.0%**

Sources: MOPF; World Bank staff estimates.
Note: PA = Preliminary Actual; RE = Revised Estimates; SAOs = State Administrative Organizations; SEEs = State Economic Enterprises.

Economic outlook and policies

Medium-term economic outlook

Favorable medium-term economic outlook

61. **Myanmar's baseline economic outlook remains favorable, with growth projected to increase to 6.8 percent in 2018/19.** Growth is expected to be supported by continued recovery in agricultural production supported by investment and domestic and external demand; and investment in agriculture value added, for instance in food processing, and broader manufacturing. The services sector will continue to grow to meet the needs in agriculture, industry, logistics, and transport for trade. Over the medium term, growth is projected to increase to 6.9 percent in 2019/20, and 7.1 in 2020/21.

62. **Consumer price inflation is expected to ease further to 4.9 percent in 2018/19 from 5.5 percent in 2017/18.** This is based on a projected slowdown in monetary expansion due to lower fiscal deficits and a planned reduction in monetization of those deficits. It also assumes a slowdown in food price inflation driven by a combination of continued recovery in agricultural output and a moderate increase in global food prices.[25] However, pressures are anticipated from rising energy prices as oil prices are projected to average US$65 per barrel in 2018/19.[26] Inflationary pressure could be exacerbated with exchange rate pass through, particularly through its effects on imported fuel, processed foods, construction materials, and retail products. Finally, inflationary pressures as a result of the increase in minimum wages, increases in raw material prices, and higher transportation costs have to be closely monitored.

63. **The current account deficit is forecast to remain stable in 2018/19 at 4.7 percent on sustained growth in exports and imports.** Export volumes are expected to rise with the pickup in the global economy and trade. Garment exports are likely to continue growing in volume terms and as a value share of exports. The increase in agricultural production and a diversification of export markets will also support exports. Growth in imports is expected to be driven by growth in domestic demand, the need for intermediate inputs for manufacturing output, and capital imports for investment.

64. **The government budget deficit outturns are expected to be significantly lower than budgeted, lowering the deficit trend in the medium term.** Discussions with the Ministry of Finance and the central bank indicate that the deficit outturn in 2017/18 is likely to be considerably lower than budgeted, at about 2.5 percent of GDP compared to 5.8 percent of GDP in the 2017/18 revised estimates. The actual deficit will only be confirmed in May once provisional actuals are available. Regardless, expenditure as a share of GDP will likely grow at a slower pace over the medium term than projected in the last Myanmar Economic Monitor (MEM), driven by budget execution challenges from the change in the fiscal year, and mismatch of tax and fiscal years. Projected budget deficits are thus revised downward from the last MEM, to the 3.5 to 4 percent of GDP range over the medium term.

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[25] World Bank, "Commodity Markets Outlook," October 2017.

[26] World Bank *Global Economic Prospects*, January 2018.

Increased downside risks to economic outlook from domestic and external sources

65. **Domestic downside risks to the baseline outlook have intensified due to the ongoing insecurity and international response to the crisis in Rakhine State.** While the direct impacts of the crisis are geographically limited, there are a number channels for indirect impacts on the economy as a whole. The level of official development assistance may decline, limiting an important source of concessional financing. The level and composition of tourism arrivals may weaken tourism spending and demand for related services such as hospitality and transport. Investors concerned about the reputational risk of operating in Myanmar may defer already committed FDI or new investments. A slowdown in investments would feed into slower growth in manufacturing, financial services, and agriculture. In industry, a slowdown in investment flows to light manufacturing and the power sector would have negative spillover effects on infrastructure construction activity. Anecdotally, many investors are expressing greater concern about the pace of government reforms rather than the insecurity in Rakhine State.

66. **A significantly lower growth scenario, while unlikely, could lead to growing macroeconomic imbalances, with implications for broader stability.** Current and fiscal account deficits would widen. Exports would slow, with moderating investments in the tradable sector and associated infrastructure services, though import demand would also decelerate. With lower foreign investment flows, the exchange rate would come under pressure. An expansion of the fiscal deficit would heighten risks to debt sustainability, which is sensitive to fiscal slippages or slower growth. More generally, the pace of job creation would be negatively affected, which has wider implications for poverty.

67. **The banking sector faces a challenging transition to comply with international standards.** The introduction of these necessary reforms brought to the forefront the vulnerabilities in a banking sector that has typically relied on overdrafts for lending purposes. These vulnerabilities persist even as the central bank has been working with commercial banks to allow for an extension of three years to adapt to the new standards. If banks reduce the supply of credit while adjusting to the new environment, sectors that highly depend on external finance, like the construction sector, could be severely affected. The slowdown in construction will adversely impact poorer households, which are disproportionately employed as unskilled labor.

68. **Although risks to the global outlook are more balanced than before, important downside risks remain.** Disorderly financial market movements, such as an abrupt tightening of global financing conditions or a sudden rise in financial market volatility, could trigger financial turbulence and potentially derail the global growth pickup. In addition, escalating trade protectionism or rising geopolitical risk could negatively affect confidence, trade, and overall economic activity. While the aggregate impact of tariff increases announced by the United States and China so far appears limited, the risk of further escalation exists. Over the longer term, a more pronounced slowdown in potential output growth in both advanced economies and EMDEs would make the global economy more vulnerable to shocks and worsen prospects for continued improvements in living standards.

69. **While growing global trade policy uncertainties may affect the recovery in global trade, direct impacts on Myanmar are likely to be modest.** Developed economies may seek new sources of imports including from Myanmar, and Myanmar's participation in global value chains remains limited. While commodity prices are expected to rise gradually, trade in gas and minerals could be adversely affected if increasing global trade policy uncertainty translates into higher volatility of commodity prices. The agriculture and garments sectors, in particular, remain exposed to fluctuations in demand from major trading partners such as China and supply shocks, which have a propagation through input-output links to other sectors of the economy.

70. **Tighter global financial conditions could generate a slowdown in financial flows to emerging and developing countries.**[27] Global financing conditions, which remained benign throughout 2017, are likely to tighten in 2018, as monetary policy gradually normalizes in major advanced economies. Inflation expectations and prospects of a faster normalization of U.S. monetary policy have increased. As global interest rates continue to increase, EMDE external financing conditions could become increasingly challenging in 2018 and 2019. Myanmar remains at low risk of debt distress and has access to significant sources of concessional financing.

Policy Priorities

Buttressing macroeconomic stability

71. **The government has launched a comprehensive development plan for reform.** The Myanmar Sustainable Development Plan (MSDP), which lays out a comprehensive and prioritized policy reform agenda, holds the promise of offering the much-needed unifying and coherent roadmap for reforms for the country. It seeks to translate the government's 12-point economic plan and sector plans into a clear set of policy priorities, and has been welcomed as a significant step forward.

72. **A key fiscal priority for Myanmar is to break out of the cycle of low revenue and low public spending.** As noted in the last Myanmar Public Expenditure Review (PER) on Fiscal Space for Economic Growth, Myanmar has among the lowest tax collection as a share of GDP in the world. The general government spending, at about 15 percent of GDP, is significantly lower than the average for other lower middle-income countries (20 percent of GDP). In addition to low spending levels, Myanmar spends less as a share of the budget on capital projects and on critical priorities such as education and health, despite improvements since 2012/13, than other lower middle-income countries. In the last three years, budget execution rates have been 92 percent on average and have never risen above 94 percent.

73. **It is critical that Myanmar implements a strategy that breaks this vicious fiscal cycle.** Myanmar could consider a fiscal strategy to increase spending on critical priorities for growth, such as capital investments in energy and transport, and for inclusive development, such as on education and health. Key elements of the strategy could be policies that (a) reallocate spending from less important to priority areas, and (b) grow the size of the overall fiscal envelope through domestic revenue mobilization and sustainable borrowing. The Myanmar PER provides further recommendations in these two broad policy areas, such as (a) improving allocative and productive efficiency of capital spending, by introducing project appraisal, tracking project performance, and introducing multiyear commitment budgets; (b) enhancing oversight of SEE fiscal performance; (c) reducing revenue leakages from base erosion and tax expenditures; and (d) developing a medium-term debt strategy that relies less on CBM financing and more on other concessional, and noninflationary, sources of financing. A number of these ideas are being implemented by the government, though more energetic execution would help.

74. **Myanmar is considering an income tax amnesty, with an option for citizens with undisclosed sources of income to pay tax at reduced rates.** A draft clause in the Union Tax Law, which was subsequently not included in the Law, highlighted a reduced tax rate of 3 percent, if income is disclosed in the first half of 2018/19, and 5 percent, if income is disclosed in the second half of 2018/19. Reports indicate that the issue of tax amnesty may be considered in a separate tax amnesty law. International experience highlights that it is a popular measure globally, but its impact on revenue collection and tax compliance varies greatly depending on design—with success dependent on whether the amnesty is (a) used as a transition to a tax regime with more

[27] World Bank *Global Economic Prospects*, January 2018.

stringent enforcement, (b) is part of a long-term tax compliance program, and (c) is constantly monitored by tax compliance measurements.

75. **While good progress is being made to improve transparency in the extractives sector, more can be done, including under the Extractives Industry Transparency Initiative (EITI).** Statistics from the oil and gas industry are reliable and cover all fiscal contributions from operators. Statistics from the mining industry (jade and gems, in particular) remain incomplete since illegal mining and undeclared exports are not captured. Bureaucratic inefficiencies complicate tax collection and systematic oversight and reporting. Computerized tax collection and customs control could lead to important improvements. Almost one-third of fiscal contributions are retained as internal revenue on the own accounts of State Economic Enterprises (predominantly Myanmar Oil and Gas Enterprise [MOGE] and Myanmar Gems Emporium [MGE]), which are subject to less scrutiny than other revenues. Finally, the mineral license management system is in urgent need of modernization.

Complementing macro-stability with improving the operating environment for the private sector

76. **Sustaining growth in the medium and long term will require further institutional and policy reforms to attract private investments.** The private sector, and particularly foreign investors, have highlighted the lack of focus and progress on economic reforms as a major hindrance to investment.[28] Despite new important legislation such as the 2016 Investment Law and the 2017 Company Law (see Box 2 and selected topic 1), the perception is that bureaucratic inefficiency, centralized decision making, and emerging protectionism are bottlenecks to improving the operating environment for the private sector. Without addressing these problems, it is difficult for Myanmar to attract more and diversified foreign investments to sustain job creation and drive productivity growth and compete with emerging market peers.

Coordinating and monitoring Doing Business and related reforms

77. **The Government of Myanmar has set an ambitious target to improve Myanmar's ranking in the Doing Business report.** In July 2017, the government expressed plans to bring Myanmar within the top 100 countries in the ease of doing business ranking from its then ranking of 171 out of 190 countries. The Doing Business report measures policies (regulations and procedures) along the 10 indicators affecting the life cycle of domestic companies, such as starting a business, getting a location and constructing a facility, getting financing, paying taxes and trading across borders, and dealing with contracts or disputes.[29] Experience from other countries suggests that improvement in the respective Doing Business indicators have been associated with increasing the size of the formal private sector, more job creation, and more inclusive private sector growth.

78. **Myanmar's efforts to improve the business environment have been recognized by the Doing Business report in the last decade.** Since 2013, Myanmar has implemented eight positive reforms as measured by Doing Business. Over the last year, Myanmar made registering property less costly by reducing the stamp duty, and it improved access to credit information by adopting a regulation allowing the establishment of credit bureaus. Through the years, Myanmar has also made starting a business easier by reducing the cost to register a company (from 500,000 kyats to 250,000 kyats starting April 1, 2018), eliminating the minimum capital requirement, and simplifying the process of company registration. In February 2018, the Ministry of Commerce reduced the number of products requiring an export license, which is expected to help ease the document requirements for exports.

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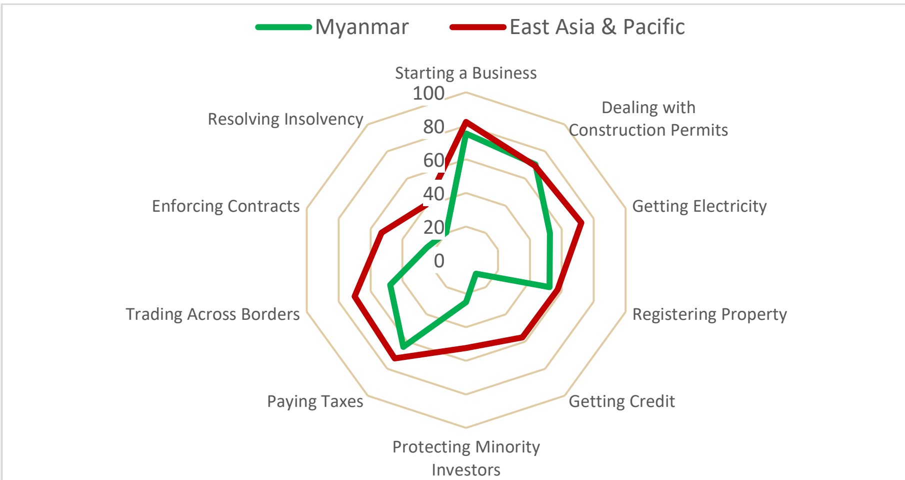
[28] For critical views, see, for instance: https://www.mmtimes.com/news/govt-risks-derailing-economy-despite-legislative-reforms.html; and https://www.mmtimes.com/news/economy-yet-take-despite-govts-promise-growth-fixes-needed.html.

[29] The indicator only measures policies that are relevant for formal businesses, and data are collected only in the largest city (with the second-largest city included for countries with a population of more than 100 million).

79. **Despite some progress, the Doing Business 2018 report shows that Myanmar's overall performance on ease of doing business lags the average for East Asia and Pacific (EAP) economies in most areas.** Myanmar's overall ranking in Doing Business 2018 was 171st out of 190 countries, and 24th out of 25 economies in the EAP region. Myanmar's ranking reflects an overall distance to the frontier of 44.2 percentage points (out of a possible 100). Myanmar's performance is behind its EAP peers in most areas, suggesting room for improvement especially in a range of indicators from their current position to the frontier of 100 points: obtaining credit (from 10 points), protecting minority investors (25 points), resolving insolvency (20.4 points). and enforcing contracts (24.5 points) (Figure 50).

Figure 50: Myanmar's performance on Doing Business indicators compared with East Asia & Pacific



Source: 2018 Doing Business.

80. **Efforts by the government to better coordinate reforms to improve Doing Business performance are welcomed.** Establishment of the "Improving Myanmar's Doing Business Ranking Working Group" is a step in the right direction. The group is chaired by the Deputy Minister of Commerce and has been taking steps to prepare and implement a reform action plan and engage in an effective communication of policy changes to the private sector. The Working Group is also a subset of the Private Sector Development Committee chaired by the Vice President. The government may consider constituting a full-time secretariat to develop a long-term work plan, a mechanism to monitor reform progress, and to facilitate consultations with the private sector.

81. **In addition, strong political support with a long-term vision is important for sustaining Doing Business reform momentum.** Improving Doing Business performance is not about introducing short-term fixes or issuing notifications. Instead, it is about steady implementation of reforms (policy and institutional changes). The scope of reforms is multi-sectoral by nature. It spans investment policies, where Myanmar has already begun to reform, to topics with less direction to date such as land registration, interest rate controls, and quality of the court system. All of those will require improving capacity (human resources, use of ICT), changes in legislation, changes in business processes, and delegation of authority. Hence, strong political support can help ministries lock in commitment to reform and better articulate their reform plan to the public.

82. **To help overcome the situation, the government may want to consider the following actions:**

- **Strengthening coordination across government departments to implement recent new economic legislation.** The Private Sector Development (PSD) Committee, chaired by the Vice President, is a good platform to impose coordination to discuss issues and implementation of new legislation, such as the

Investment Law and the Company Law. The Committee can request standardizing criteria for ministerial permits for foreign investments, as stipulated in the 2016 Investment Law; streamlining registration, reporting, and tax filing for small and medium-sized enterprises, as stipulated by the new Company Law; and reducing multiple applications for trade permits, physical inspections, and arbitrary approach to customs valuation.

- **Monitoring progress in reforms related to Doing Business.** The establishment of the "Improvement of the Doing Business Working Group" chaired by the Ministry of Commerce to coordinate reforms is greatly welcomed. The Working Group can pilot an approach to make clear and transparent the roles of different departments in improving the business environment and using monitoring systems to check implementation progress, which can be discussed at the PSD Committee.
- **Ensuring coherence and clarity in communicating policy reforms to the public.** Relevant ministries could develop and coordinate communication strategies for public outreach and ensure coherence in messages. This effort could potentially increase the depth of public awareness about the government's reform plan and progress.
- **Further liberalize regulations for foreign investment.** Myanmar could build on the introduction of the Investment Law and Company Law by further liberalizing sectors, such as insurance and banking services, for foreign investment, along with simultaneous implementation of prudential regulations. Currently, Myanmar has one of the highest levels of restriction for FDI on insurance and banking sectors (OECD 2016). Such liberalization can potentially create a new momentum for driving private sector investment.

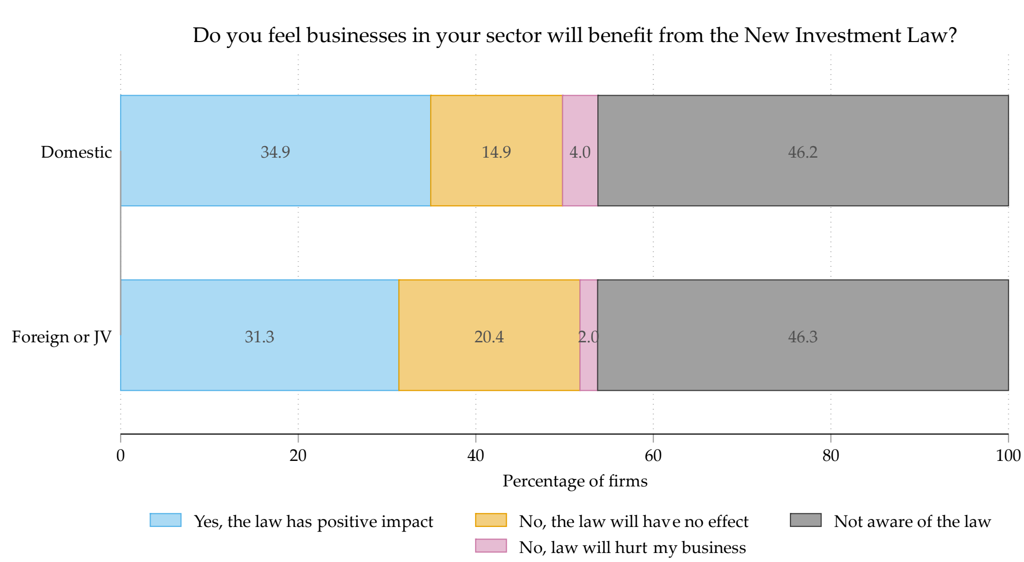
Special topics

Topic 1: Drivers of Myanmar Foreign Direct Investment

83. **Between 2016 and 2017, the Government of Myanmar has put in place the key legal, regulatory, and institutional framework for a new investment regime for both domestic and foreign investment**. The newly enacted Myanmar Investment Law (MIL 2016) and subsequent implementing rules (Notifications 35, 10, 13, 15, 57/ 2017) address shortcomings in the previous investment environment in four broad areas. First, market access has been liberalized through simplified entry procedures and fewer sectoral restrictions. Second, the new regime improves on investor protection by adopting stronger and more equitable guarantees against expropriation, rights to transfer funds and use land. In addition, the MIL instituted new channels to resolve early grievances through an Investor Assistance Committee as well as provisions for dispute settlement through Court/Arbitral tribunal. Third, investment incentives were rationalized - from blanket tax exemptions linked to admission - towards selected incentives for promoted sectors or regions. Fourth, and finally, the new regime is shifting towards a more transparent and predictable approach to regulate investments by reducing complexity and establishing clearer rules to reduce government discretion in the approval process.

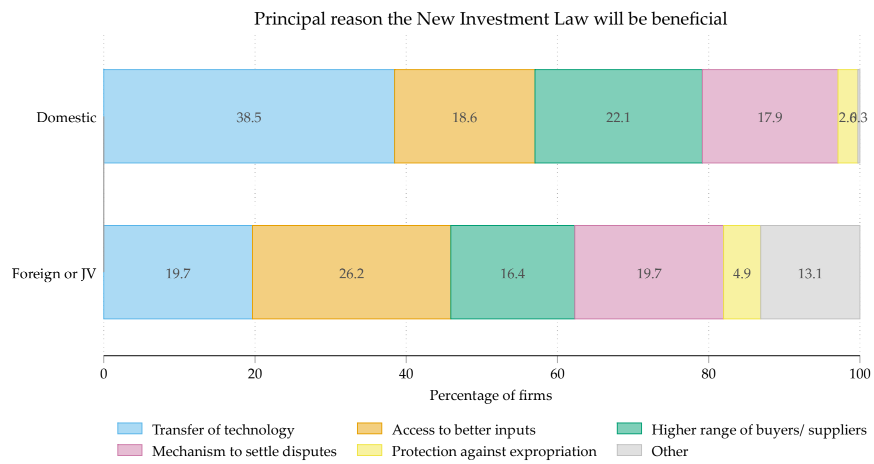
84. **With a sound law in place, an effective communication campaign on its benefits and implementation arrangements will be critical.** The World Bank Enterprise Survey (WBES) conducted in 2016 and 2017 shows that majority of foreign and domestic firms that are aware of the law consider that it will have a positive impact on their sector (Figure 51). However, the low level of awareness at the time of the survey – almost half of the firms were not aware of the new law - suggests that the Government needs to continue communicating about the provisions of this new law.

Figure 51: Business perceptions of the new MIL



85. **Among those who think the law will have a positive impact, the most important expected benefits appear to be linked to increases in market participation.** Domestic firms value mostly the possible transfers of technology from foreign firms and higher range of suppliers/buyers while foreign firms value the possibility of sourcing better inputs from the increasing number of FDI firms in Myanmar (Figure 52). About 20 percent of all firms expect the dispute settlement mechanism associated with the new law to have a positive impact on their activity.

Figure 52: Business perceptions of the benefits of the new Law



86. **Streamlining procedures and mediating investor disputes can have significant impact on firms' productivity**. The WBES shows that virtually all foreign firms in Myanmar dedicate some of their managers' time to dealing with government regulations and 30 percent of them dedicate more than 5 percent of their managers' time (Figure 53).

87. Figure 54 shows that 34 percent of foreign firms had to wait at least 6 months to secure their land lease while 14 percent had to wait for more than a year when entering Myanmar. To clear imports through customs, 54 percent of foreign firms had to wait more than one month for at least one transaction in the past and 25 percent had to wait for more than 2 months. Thus, beyond investment incentives given in the new MIL, it is still critical for the Government of Myanmar to improve the overall business climate. Farole (2011) for example, provides suggestive evidence that trade facilitation contributes significantly to increasing FDI flows, while financial incentives have little measurable impact.

Figure 53: Management time and regulations

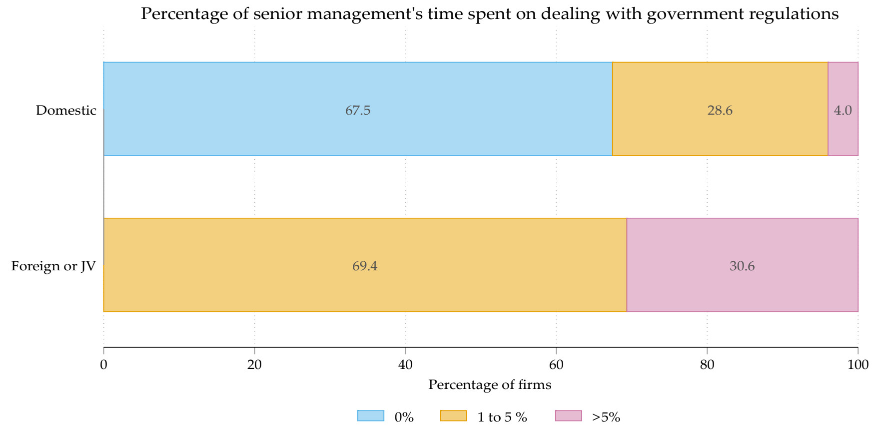
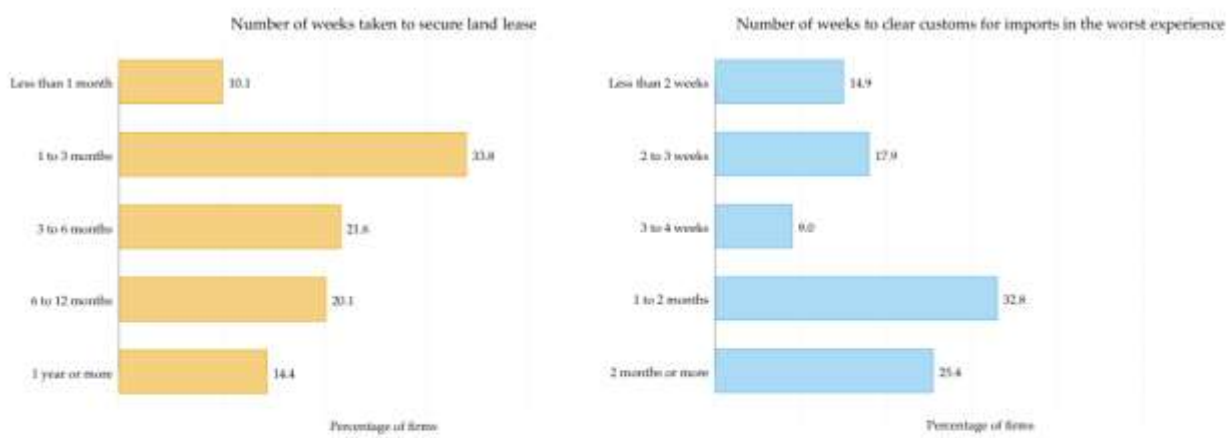


Figure 54: Time to secure land lease and clear customs reported by foreign firms



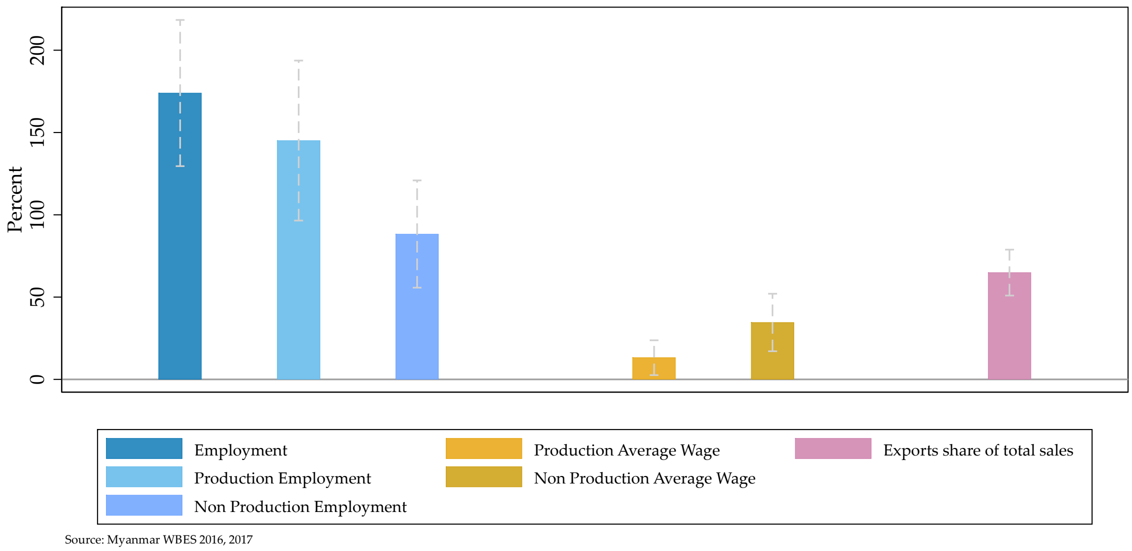
88. **The Investor Assistance Committee set up under the Investment law has the potential to provide fair access to all firms to mediate disputes with government agencies.** As of today, 75 percent and 80 percent of foreign firms report that it is important to know the right people in government to resolve land disputes and issues with customs respectively. These figures suggest that firms which are better connected with government officials or political parties are able to solve disputes faster, creating unfair competition across firms.

89. **Greater inflow of foreign investment can play an important role in generating exports and employment**. (Figure 55 and Figure 56) The WBES results show that foreign firms employ on average 170 percent more labor than domestic firms and pay significantly higher wages for both production and non-production (admin, finance, accounting) workers. Restricting the sample to firms in the manufacturing sector which absorbs a large portion of Myanmar FDI, the numbers are comparable: foreign firms are about 165 percent larger and pay 12 percent and 3 percent higher wages for production and non-production workers respectively. They also export about 60 percent more of their output than domestic firms, even controlling for sector of specialization. While the number of foreign firms remain small, in aggregate, foreign firms account for about 20 percent of all exports and 18 percent of formal employment.[30] Thus, increasing FDI flows into

[30] Estimates of aggregate exports and employment are extrapolated from the WBES. This is likely a lower bound estimate on contribution of foreign firms since we do not include weights for foreign firms.

Myanmar could contribute to reducing Myanmar's $6.7 billion trade deficit and improving direct employment opportunities in high wage activities.

Figure 55: Foreign premium



Note: This figure shows the marginal effect of being a foreign firm on various firm level observable metrics. Specifically, its reports the foreign dummy coefficient of a series of regressions of performance measures at the firm level (employment, wage, export share of sales) on sector fixed effects and a dummy for whether the firm is foreign or a JV. Employment and wages are in logs so the coefficient can be interpreted as the foreign premium in percentage terms. Robust 95% confidence intervals are included

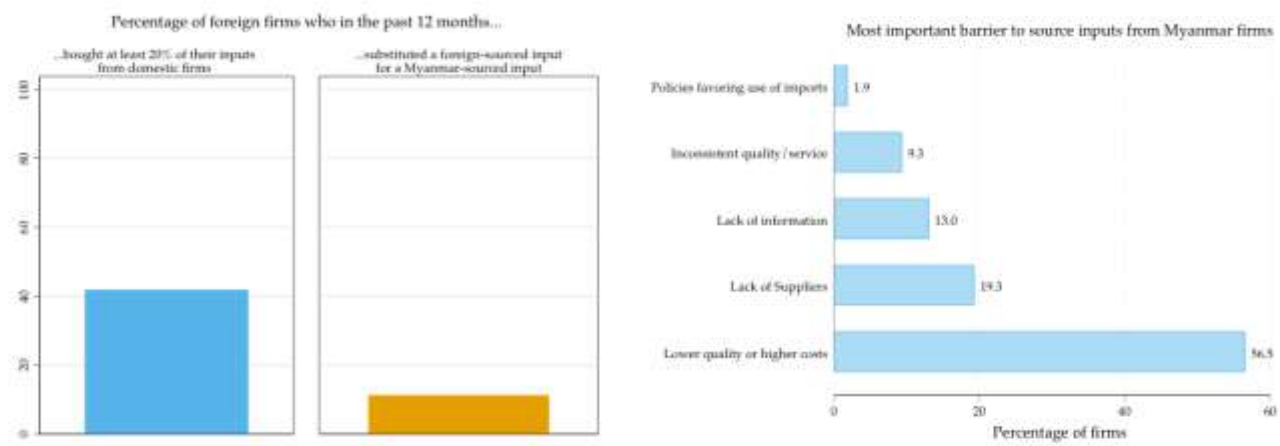
90. **The long-run benefits of increasing FDI will also depend on the positive externalities that foreign firms can generate for the domestic economy**. First, as foreign firms generally use more advanced technology, these spillovers could take the form of ideas and know-how radiating from foreign to domestic firms.[31] Foreign firms in Myanmar are indeed more productive than domestic firms (even though the difference is not statistically significant at the 5 percent level). Foreign firms are also more likely to be more technologically advanced as they are 27 percent more likely to produce more than one output product. Foreign firms can also foster training and skill upgrading of local workers as they are about 25 percent more likely to offer a formal training program to their new hires. Finally, these externalities could take the form of new market opportunities upstream or downstream for domestic firms.[32] However, as shown in (Figure 57), only 40 percent of foreign firms are currently sourcing more than 20 percent of their inputs from domestic firms and less than 10 percent of them have switched an input previously sourced abroad to a domestic supplier in the past 12 months. The top perceived barriers preventing foreign firms from sourcing domestic inputs are low quality of output produced by Myanmar firms and the difficulty of finding the right local suppliers.

[31] Cipollina *et al* (2012) show using cross-country evidence that FDI has a growth-enhancing effect in part through positive technology spillovers. Abebe *et al* (2018) show that exposure to foreign firms enhances Ethiopian firms' production processes, managerial and organizational practices, logistics, and knowledge about exporting.
[32] See Javorcik (2004) for evidence on how FDI firms can create productivity spillovers through contracts between foreign affiliates and their local suppliers in upstream sectors.

Figure 56: Foreign premium and potential for spillovers

Note: This figure shows the marginal effect of being a foreign firm on various firm level observable metrics. Specifically, its reports the foreign dummy coefficient from regressions of firm performance (value added per worker, TFP, whether the firm has formal training program, and whether the firms is multi-product) on sector fixed effects and a dummy for whether the firm is foreign or a JV. The model with "Has formal training program" and "Multi product firm" dummies is estimated through a logit regression. Robust 95% confidence intervals are included.

Figure 57: Domestic sourcing of inputs for foreign firms



91. **The direct and spillover benefits from FDI need to be evaluated against the costs of forgone revenues from tax holidays and revenue exemptions**. While FDI is important for generating employment opportunities and exports, they cannot alone solve Myanmar's underemployment issues and be the only source of economic development. In Myanmar, while incentives are important for attracting FDI (85 percent of foreign firms characterize them as important in their decision to locate in Myanmar), they do not seem to be the pivotal reason for why investors choose Myanmar over other comparable destinations. For firms that also considered another destination for their investment before entering Myanmar, 65 percent reported that incentives in Myanmar were comparable or less favorable than the other country they considered. Thus, financial incentives should not lead to a race to the bottom with other competing FDI destinations. Incentives should be evaluated by type (financial incentives vs. streamlined procedures, see above), targeting (they should focus on sectors where the elasticity of investment to incentives and positive spillovers are the highest),

administration and transparency (their design and implementation should be coordinated with the Internal Revenue Department).

92. **The impact of the new investment regime will depend on its implementation as well as complementary reforms**. Even as the key law, regulations, and procedures have been formally enacted and applied, some new mechanisms under the new MIL remain to be set up, including the Investor Assistance Committee. Some have encountered practical challenges and will need adjustments. For example, the delegation of the Myanmar Investment Commission (MIC)'s authority to states and regions is meant to reduce entry cost but its effectiveness will require improvements in staff capacity at DICA's regional offices and regional investment committees.[33] As the results above have shown, other investor concerns will not be addressed through the investment policy regime alone. Concerns about access to land, clearing customs, availability of skilled labor, and quality of domestic suppliers should be the subject of complementary reforms.

[33] Regional investment committees are formed with regional governments' cabinet members and chaired by regional chief ministers.

Topic 2: Myanmar Productivity Analysis[34]

93. **Raising economic productivity is one of the most pressing challenges that Myanmar faces to sustain high levels of growth and to raise living standards**. In 2015, labor productivity in Myanmar was one of the lowest in East Asia, at about 40 percent of the average in emerging East Asia. Raising it to the level of China or Philippines would immediately double Myanmar's GDP per capita. The objective of this paper is to describe Myanmar's private sector in more details, and draw evidence for policy.

94. **The Myanmar Business Survey 2015 and international evidence provide means to meet these challenges.** Given the limitations of existing data, little detailed analysis of productivity at the firm level has been possible. The Myanmar Business Survey (MBS) is a 2015 survey of firms, which was produced by the Myanmar Central Statistical Organization and the UNDP provides rich information on production for a representative sample of firms outside the agriculture sector with at least one employee. For instance, with a sample of 15,000 firms, the MBS provides novel perspectives on age, sectors, and geographic repartition of firms and employment. An important academic literature documents the main stylized facts concerning firms in developing countries (Syverson, 2011, Li and Rama, 2013), and draws important conclusions for firms-related policies.

95. **This topical note is structured in three parts analyzing Myanmar firm demographics, productivity of firms in general and productivity of firms in industrial zones.** The note illustrates the importance of the changes that have taken place in the past 10-15 years in Myanmar. Until the late 1980s, the formal private sector was considered as almost inexistent in Myanmar (Than, 2006). The note complements the two Enterprise Surveys (2014 and 2016), the more detailed but smaller UNESCAP (2015) survey of firms, and other quantitative analyses of the private sector in Myanmar, and provides some new insights.

96. **While the first market reforms period in the 1990s were piecemeal, the step up in reform momentum since 2000 led to impacts evident in this new data source.** The analysis shows a rapid change in the demography of firms, with many firms[35] born since the year 2000, that are larger on average, and with a significant share of the population employed by foreign firms (See also Special Topic 1). Yet, those large and young firms are not significantly more productive - they have not yet been able to accumulate capital assets. As in many developing countries, labor productivity dispersion is high - there are many low productivity firms, with smaller firms being the least productive, and medium-sized firms the most productive on average. This indicates that a growth policy could aim at correcting the distortions which prevent small productive firms to grow. One of those policies, on which we focus here, is the creation of industrial zones opened in the 1990s which aimed at clustering manufacturing firms together. We show that while they tend to be more productive, this correlation is completely accounted for by a better access to electricity,

Demographics of Myanmar's productive sector

97. **The private sector in Myanmar is dominated by small firms, geographically concentrated and subject to rapid change.**

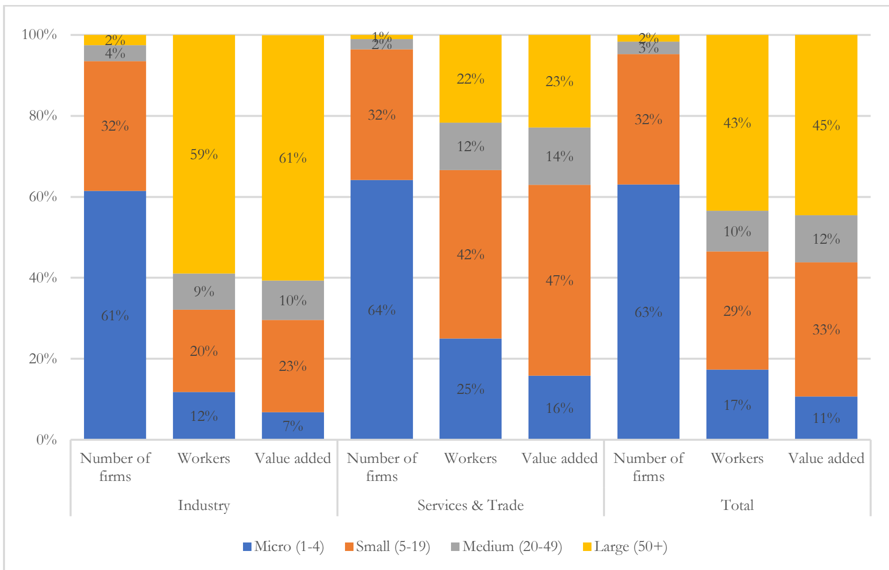
98. **As in many developing countries, most firms in Myanmar are small, but a few large firms, especially in manufacturing, employ a significant number**. Even when excluding firms without hired

[34] This note is the product of a collaboration between the Central Statistical Organization and the World Bank, based on data from the 2015 Myanmar Business Survey.

[35] Myanmar Business Survey's sample is made of establishments. But since about 98% of firms in the MBS are single-establishment, we will use the term firms in the rest of this note.

employees, as is the case in the MBS dataset, 36 percent of firms have 1 or 2 workers and 72 percent have 5 workers are less, the median being at 3 employees (Figure 58). Note that MBS coverage excludes most informal firms, which represent 83% of the 22 million persons in employment according to the most recent release of the Labor Force Survey[36]. In the manufacturing sector, the Labor Force Survey counts a total of about 2.4 million laborers, and MBS records about 500,000 workers[37]. The average firm has 7.4 workers, which shows that large firms (defined here as 50 workers and above), although there are few of them (1638, or 1.3 percent of all firms) represent 32 percent of the total workforce found in MBS and 22 percent of value added. There are variations across sectors - the largest firms tend to be in the manufacturing sector.

Figure 58: Size of firms by industry

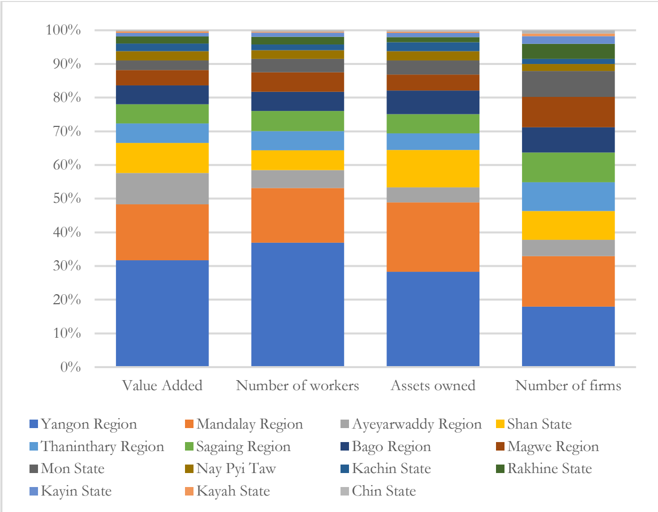


Source: *Myanmar Business Survey 2015, World Bank calculations*

99. **Firms are geographically concentrated especially in Yangon and Mandalay.** These two cities combined representing about a third of all firms, but more than half of the number of workers, and 50 percent of total value added and capital owned (Figure 59). This high concentration is especially prevalent in manufacturing jobs, where Yangon represents 47 percent of all jobs and Mandalay 16 percent. The most striking difference across regions is the shape of the distribution: the median firm is slightly larger in Yangon than in other States & Regions, but more importantly most very large firms are located in Yangon, explaining most of the difference of the distribution of employment (Figure 60).

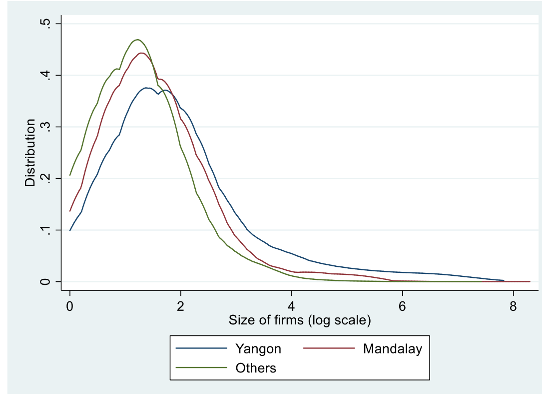
[36] Because definitions of formality vary, a proper comparison is not fully possible. As shown in CSO/UNDP (2016) however, MBS seems to have coverage gaps when comparing to the Census, and possibly also the Labor Force Survey.
[37] Exclusion of some outliers leads to some differences in results in this note in relation to Published MBS survey report.

Figure 59: Firms, workers and output by region



Source: *Myanmar Business Survey 2015*

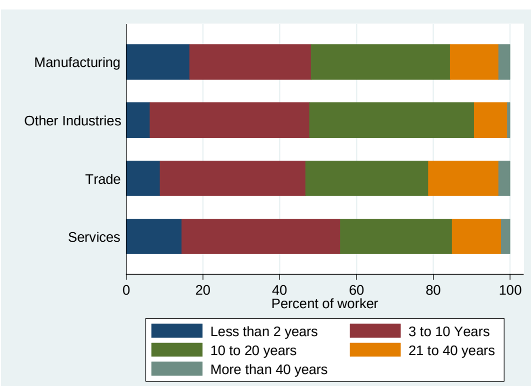
Figure 60: Distribution of firm size by region



Source: *Myanmar Business Survey 2015*

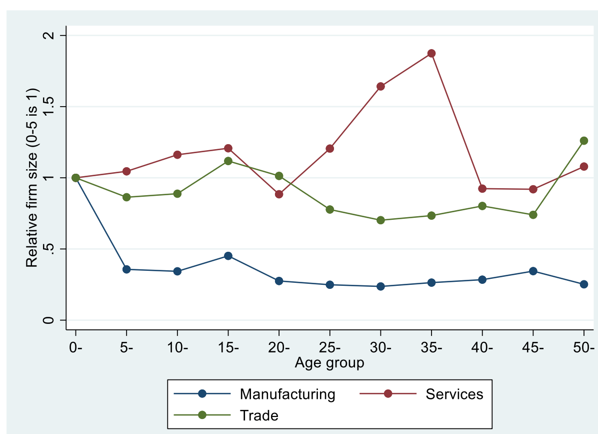
100. **Third, and perhaps most importantly, demographics is rapidly changing with many young firms accounting for most of employment(Figure 61 and Figure 62).** 60 percent of firms are less than 15 years old (and were thus established after 2000), and 37 percent of firms are less than 10 years. More importantly, and in contrast to most other business surveys, young firms tend to have most workers: in each sector, half of the workers are employed in firms 10 years or less. There are about 230 000 workers in firms younger than 5 years. This implies that on average, very young manufacturing firms are larger on average, in contrast to the findings of the literature for most countries[38] and the intuition that firms grow over time if they are productive and close if they are not. (Hsieh and Klenow 2014).

Figure 61: Number of workers by age group



Source: *Myanmar Business Survey 2015*

Figure 62: Average firm size by age group



Source: *Myanmar Business Survey 2015*

[38] Note that the question in the survey specifically asks about the year of establishment, but a possible interpretation is that it might have been mistakenly interpreted as the year of a change in status – for example a privatization.

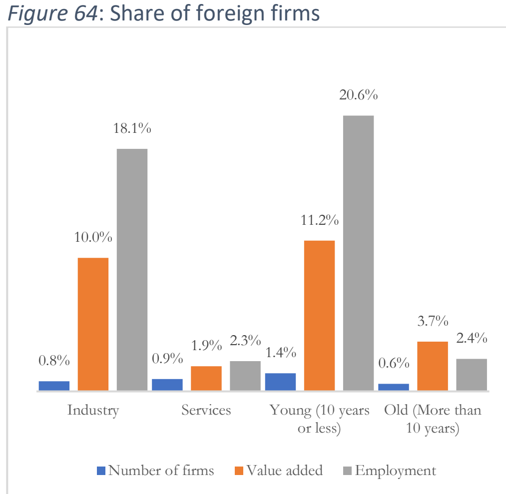
101. **The change in demography of manufacturing firms has several characteristics related to the entry of foreign firms.** First, there has been significant entry of foreign firms, which are still a relatively low number but are much larger in size than the average of domestic firms, and thus represent 25 percent of employment in the manufacturing sector (Figure 63); Second, the sector composition has evolved with firms in the export oriented sector (textiles in particular) more likely to be younger. But even when controlling for the nature of ownership and sector composition, newer firms remain significantly larger, mostly driven by a small set of very large firms. Thus, despite the limitation of the cross-section nature of the data, it is clear that the opening to trade and foreign investment has had large impact on the level and composition of employment and production, at least in the manufacturing sector covered by the survey. This confirms the findings in the December 2017 Myanmar Economic Monitor that a lot more jobs are created by new firms, both very small (1-4 employees) and very large (100+ employees) rather than existing firms expanding.

Figure 63: Size composition by sector (Manufacturing)

Sector (Manufacturing only)	Number of firms		Average size (no of employees)	
	Less than 10 years	More than 10 years	Less than 10 years	More than 10 years
Food products, beverages and tobacco products	7760	17752	6.2	6.4
Textiles, wearing apparel, leather and related products	1052	2665	95.1	22.2
Wood products	168	880	9.2	6.6
Paper products & printing	504	889	8.5	7.3
Rubber and plastics	1807	4528	10.0	6.3
Metals	749	2262	6.7	7.3
Furniture	439	739	6.1	6.5
Other manufacturing, repair	993	2914	8.3	5.8

Source: *Myanmar Business Survey 2015*

Figure 64: Share of foreign firms



Source: *Myanmar Business Survey 2015*

The productivity challenges

102. **The analysis of firm demography guides the areas of analysis of productivity. This note focuses on labor productivity as distinct from Total Factor Productivity.**

103. **Labor productivity varies considerably across regions and sectors in Myanmar.** It is first useful to characterize labor productivity in the aggregate. In this survey, labor productivity on average in Myanmar ranges from about MMK4 million on average for services and manufacturing, and reaches 5 million for trade, and 7 million for non-manufacturing industries (construction, mining, etc.). In PPP dollars[39], this amounts to about US$12,000 per year. In other words, the total amount of output per worker measured in US$ PPP on average for surveyed firms is US$12,000 per year. This is somewhat above the macroeconomic value of US$9000 (obtained from the World Development Indicators), as could be expected since MBS excludes all the agricultural sector and most informal firms which are likely to have lower productivity.

[39] Using PPP exchange rates for 2015 in the World Development Indicators

104. **There is strong variation in labor productivity across regions and by size as well by age and ownership.**

a. Geography

105. For instance, unexpectedly, the most productive states are not necessarily the ones with the highest concentration of manufacturing. In theory, one would expect denser places to have higher productivity. Mandalay and Yangon are in the average while Ayerawaddy, which is mostly an agricultural state and specializes in food production (94 percent), has the highest average labor productivity in the sector (Figure 65 and Figure 66) and in manufacturing in general.

b. Dispersion and size effect

106. **Labor productivity is also highly dispersed across firms providing an opportunity to raise productivity by removing major market distortions that may also be restricting factor reallocation.** Median productivity is about half of mean productivity, and the 90th percentile to 10th percentile ratio is about 37 times, from MMK200,000 of value added per worker (per year) to MMK7.5 million. In manufacturing, the density of very low productivity firms is even more striking, with 10 percent of firms with a productivity of MMK140,000 or less. This is a well-known fact for firms in an emerging economy, and highlights the opportunity to raise productivity by removing distortions, which can either stem from the labor markets, or other causes (access to capital which would prevent productive firms to grow).

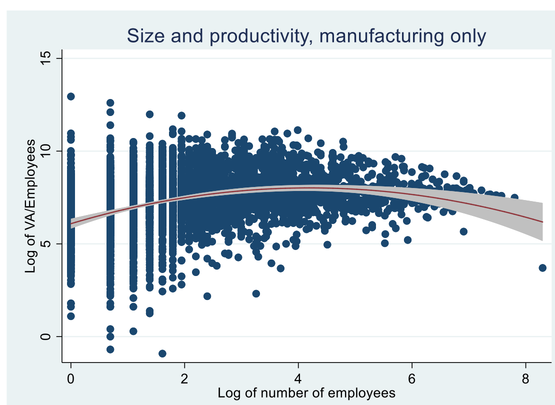
107. **One potential driver of these differences is size with productivity rising up to a plateau of 100 employees, providing an opportunity to raise productivity by moving labor out of very small and very large firms**. As we have seen, there are many very small firms in Myanmar. The relationship between size and value added per worker is positive: an increase in number of workers by 1 percent is associated with a 0.4 percent rise in productivity, with a plateau around 100 workers. There is a wide dispersion of productivity levels among small firms, and especially one-worker firms (which might be accounted for the wide diversity of their location as well as by less rigorous reporting), and the average productivity increases with size, but then plateaus and slightly declines for large firms. This indicates potentially large reallocation gains from moving labor out of both ends of the distribution – very small and very large firms.

Figure 65: Distribution of labor productivity by sector

Sector	Manufacturing	Other Industries	Trade	Services
Pctile10	138	131	278	337
Pctile25	493	844	848	818
Median	1298	2393	1828	1795
Mean	3135	4858	3959	3226
Pctile75	2950	8713	3894	3447
Pctile90	6810	9187	8493	6649

Source: *Myanmar Business Survey 2015*

Figure 66: Firm size and labor productivity



Source: *Myanmar Business Survey 2015*

c. Age, ownership and productivity

108. **We empirically test potential determinants of labor productivity and do not find significant relationship with age or ownership**. We separate regressions for manufacturing and services (Table 3). Given

the rapid changes described earlier, especially the rapid entry of new firms and foreign investors, one hypothesis is that age and ownership could help explain productivity. In other words, we consider the hypothesis that young and foreign firms more productive as they may bring innovation. The analysis does not find any systematic difference in productivity between age categories (Column 1 and 2 of Table 3). Similarly, average labor productivity in the manufacturing sector is smaller for foreign firms than national private business, although this result is sensitive to how the regressions are specified and the low number of foreign firms in the sample (Column 3 table 3). Special topic 1 (See below), which explores the impact of FDI firms in 2016 (one year later than MBS) and in a smaller sample finds a small non-significant productivity premium for foreign firms. The common conclusion seems to be that the performance of foreign firms has been very diverse and close to zero on average.

109. **Explanations include regulatory barriers to capital accumulation in on firms, recent corporatization of SEEs and lack of access to technology.** One explanation is that newer firms, and young foreign firms in particular, take more time to accumulate capital, for example for regulatory reasons, stunting productivity. Indeed, assets ownership is smaller for younger firms, despite having on average larger workforces (Columns 5 and 6). For foreign firms, special topic 1 provides some evidence for such a scenario as government regulation is quoted as a reason for lower investment. Another explanation is that former State Economic Enterprises or other large inefficient firms which were recently privatized are recorded as new firms, lowering average productivity. Finally, poor technology choices may affect the productivity of new entrants.

Table 3 Regression results to test determinants of productivity

LHS variable:	Log of labor productivity				Log of assets	
	Manufacturing	Services	Manufacturing	Services	Manufacturing	Services
Log of size	0.40***	0.24***	0.42***	0.24***	0.90***	0.94***
	0.05	0.04	0.05	0.04	0.04	0.07
Age: compared to less than 2 years						
3 to 10 Years	-0.08	-0.11	-0.11	-0.11	0.42	0.17
	0.17	0.11	0.17	0.11	0.25	0.22
10 to 20 years	0.09	-0.05	0.05	-0.04	0.62*	0.32
	0.16	0.11	0.16	0.11	0.25	0.22
21 to 40 years	0.15	-0.15	0.13	-0.14	0.86**	0.87***
	0.18	0.13	0.18	0.12	0.26	0.24
More than 40 years	-0.07	-0.17	-0.09	-0.17	0.75*	1.36***
	0.22	0.19	0.21	0.19	0.33	0.33
Ownership: compared to "private national"						
Private foreign & JV foreign			-1.33***	0.02	-0.37	-0.56
			0.24	0.29	0.63	0.67
Other			-0.65*	0.29*	0.98*	-0.17
			0.31	0.14	0.4	0.43
Constant	6.62***	6.98***	6.62***	6.98***	7.94***	7.77***
	0.21	0.19	0.21	0.19	0.29	0.28
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.2	0.08	0.21	0.08	0.31	0.19
N	5723	7234	5723	7234	5632	7016
* p<0.05, ** p<0.01, *** p<0.001						

Source: Myanmar Business Survey 2015

The role of industrial zones as a policy tool

110. Developed during the 1990s, the objective of Industrial Zones was to pool infrastructure in the zone while fostering synergies and spillovers across firms. During the 1990s and 2000s, the policy mostly aimed at attracting SMEs serving the local market, with little emphasis on exports or FDI.

111. **Firms in industrial zones are more productive than firms outside.** Average firm size in industrial zones tend to be larger by 36 workers, a number that does not change when controlling for sector composition (Table 4 column 1 and column 2). Labor productivity is higher by 46 percent, including when we control for sector and region fixed effects, and the difference is significant (columns 3 and 4).

Table 4: Regression results to test determinants of performance when located in an SEZ

Dependent variable:	Number of workers		Log of productivity		Elec consumption > 0	Log of productivity	
Located in industrial zone	36.56***	37.92***	0.46***	0.33*	0.22***	0.2	0.18
	3.88	4.14	0.12	0.14	0.03	0.12	0.14
Log of size			0.92***	0.80***	0.10***	0.75***	0.67***
			0.12	0.11	0.01	0.11	0.11
Log of size (squared)			-0.12***	-0.11***		-0.10***	-0.09***
			0.02	0.02		0.02	0.02
Dummy: electricity consumption > 0						0.73***	0.61***
						0.1	0.11
Constant	6.14***	4.54***	6.08***	6.40***	0.37***	5.86***	6.22***
	0.25	0.45	0.14	0.18	0.05	0.14	0.19
Industry fixed-effect	No	Yes	No	Yes	Yes	No	Yes
State & Region fixed effect	No	No	No	Yes	Yes	No	Yes
R-squared	0.04	0.08	0.12	0.22	0.34	0.17	0.24
N	5757	5757	5747	5747	5757	5747	5747

* p<0.05, ** p<0.01, *** p<0.001

Source: Myanmar Business Survey 2015

112. **Theory provides some explanation of the benefits of agglomerating firms in zones.** The economic geography literature has proposed several hypotheses for which co-location can improve firms' productivity. One is the selection effect: more productive firms are attracted by Industrial Zones. Another is spillovers: because of the high density of firms, ideas, technologies or management practices are shared and improve productivity.

113. **However, in Myanmar the main reason for the productivity premium in industrial zones appears to be better access to electricity.** Defining the indicator of access to electricity is 'at least some electricity is purchased'. Firms that are in a zone are 22 percentage points more likely to have access to electricity than if they were outside the zone, even when controlling for the fact that larger firms have more access to electricity. When including a control for electricity in the productivity regression, the coefficient for industrial zones falls to 20 percent and is not statistically significant. This implies that there is no statistically significant effect from IZ independent from access to electricity (and perhaps other infrastructure that we are not measuring). Note that this analysis does not claim any causal effect: the same firms might have managed to obtain electricity without locating in the IZ. The claim is simply that the correlation between IZ and productivity is mostly accounted for by the correlation of those two variables with access to electricity.

Conclusion

114. **This note sought to highlight the challenges of a rapidly changing productive sector.** The large dispersion in labor productivity and the apparent large size of young manufacturing firms suggest the existence of significant distortions that may be alleviated by policy. For instance, young firms seem to hold less capital for a given size. Another potential distortion highlighted in the paper, is access to electricity. It appears as an important factor for firm productivity, and the note shows that the policy of industrial zones is correlated with better access to electricity, but that other attributes of being in a zone are not significant. . This evidence thus complements the Enterprise Survey in pointing at the importance of infrastructure and electricity in particular in promoting private sector development.

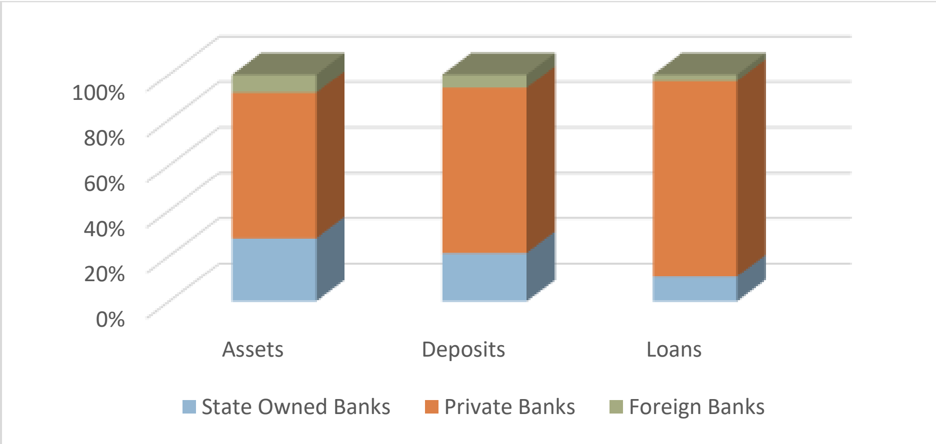
Topic 3: Making Finance Work for All

115. **Now more than ever, Myanmar's successful transition to an open, market-based economy is contingent on the its people experiencing the benefits of this transition.** A top-down reform agenda can only take the process so far. Eventually, it is mandatory that all stakeholders internalize the value of the eventual outcome, and function both as its facilitators and beneficiaries. At the heart of this phenomenon is the availability of dynamic business opportunities and good jobs for all groups, and the roles of a vibrant private sector and strategic public sector are both critical in this context.

116. **A sound, efficient, and inclusive financial system can play a critical role in creating and sustaining a market-based economy and ensuring inclusive growth.** Financial institutions and markets can facilitate the efficient allocation of domestic and foreign resources, price and manage risk, allow people to plan their future, enable the equalization of economic opportunities, and generally fashion a transparent investment, production, and distribution system. To play this role effectively it is necessary that the financial system evolves constantly to meet the needs of the real economy, and that the regulatory and oversight framework keeps pace with the growing complexity. As aspirations and societal structures in Myanmar continue to evolve at a rapid pace, it is critical that its financial sector also evolves to best meet the needs of the people.

117. **The reform agenda necessary to develop a "fit for purpose" financial system in Myanmar runs both deep (more products) and wide (broader ownership), even as recent changes have yielded significant gains.** Through decades of isolation the financial sector developed structures and practices that made it fundamentally unsuited to serve the needs of a modern, market-based economy. Myanmar's financial system is small, shallow, tightly-held, and vulnerable. The system is almost entirely composed of banks in terms of assets, and savings and credit products dominate. State Owned Banks (SOBs) continue to play a significant role in the banking sector, but private banks are increasingly carving out their market share, as illustrated by (Figure 67). While microfinance institutions and licensed insurance companies have proliferated recently, their functioning is severely constrained by market conditions. There is a clear lack of instruments that can help households and businesses manage their financial futures as insurance, pensions and capital markets products remain significantly underdeveloped. Fintech offers a valuable opportunity to leapfrog and several companies are now poised to scale up operations in Myanmar.

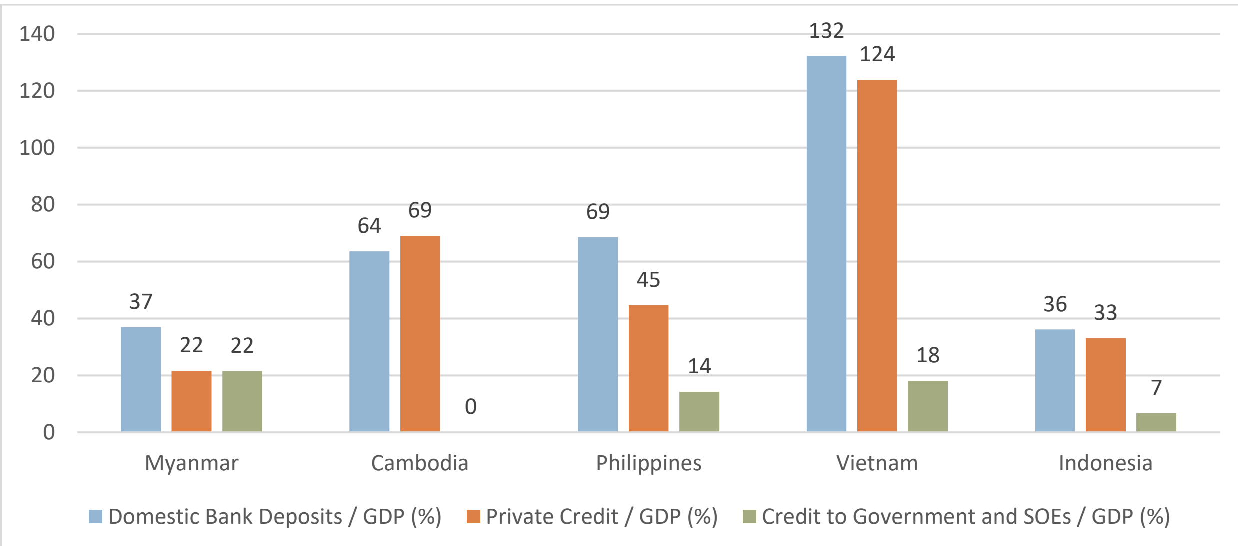
Figure 67: Banking Sector Landscape, June 2017



Source: Central Bank of Myanmar

118. **On key indicators Myanmar's financial sector lags behind its neighbors, some of whom launched their own reform agendas to modernize their financial sectors a few years before.** As illustrated by (Figure 68) there is a vast potential for the Myanmar financial sector to grow. The system currently mobilizes only 37 percent of GDP by way of deposits in the banking system and lends only 22 percent of GDP to the private sector. It is worth noting though, that in 2011 at the point when Myanmar launched its reform agenda, the ratios were 15 percent and 7 percent respectively. The legacy issues of the system are indicated by the continued relatively high level of lending to the Government (GoM) and State-Owned Enterprises (SOEs) which as indicated by Figure 67, equals the private sector in borrowing from banks.[40]

Figure 68: Financial Depth: Myanmar and Comparators, 2016

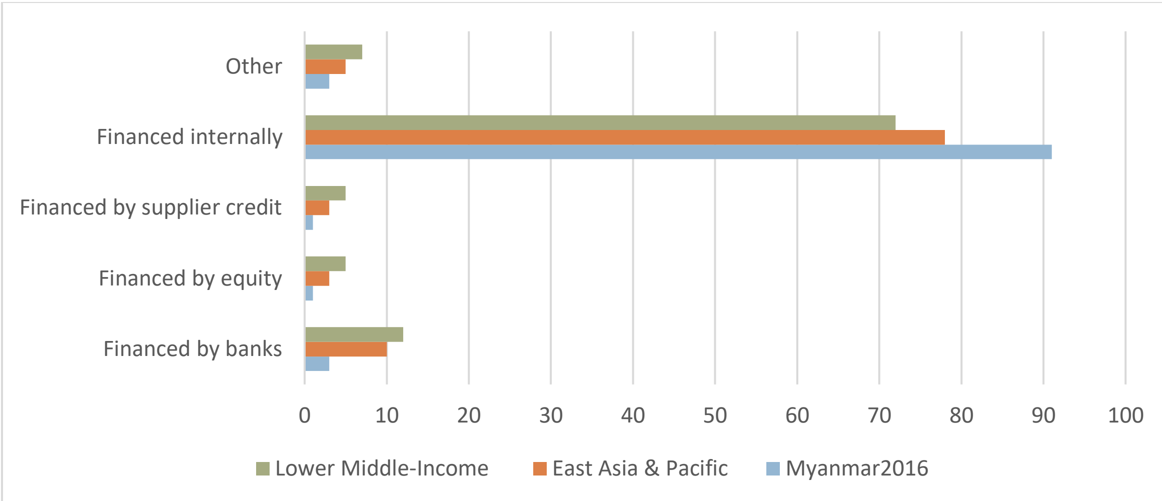


Source: Finstats

119. **As expected, the limited depth of the financial sector in Myanmar has impacted financial inclusion for businesses.** As per the most recent Enterprise Survey, Myanmar businesses are disproportionately reliant on internal sources for investment financing (Figure 69), significantly restricting their growth opportunities. As expected, small firms are especially disadvantaged in their access to bank loans (Figure 70). This differential access constrains their growth and job creation potential and can be traced to a number of factors including: the challenge small firms face in accessing real estate collateral; lenders' lack of information about their credit profile due to gaps in the credit infrastructure; and the inability of lenders to price appropriately loans to such firms.

[40] Since the data do not disaggregate by source of finance it is no possible to discern how much of the lending to the GoM and SOEs originates in SOBs.

Figure 69: Sources of Financing for Purchase of Fixed Assets (% of firms reporting)



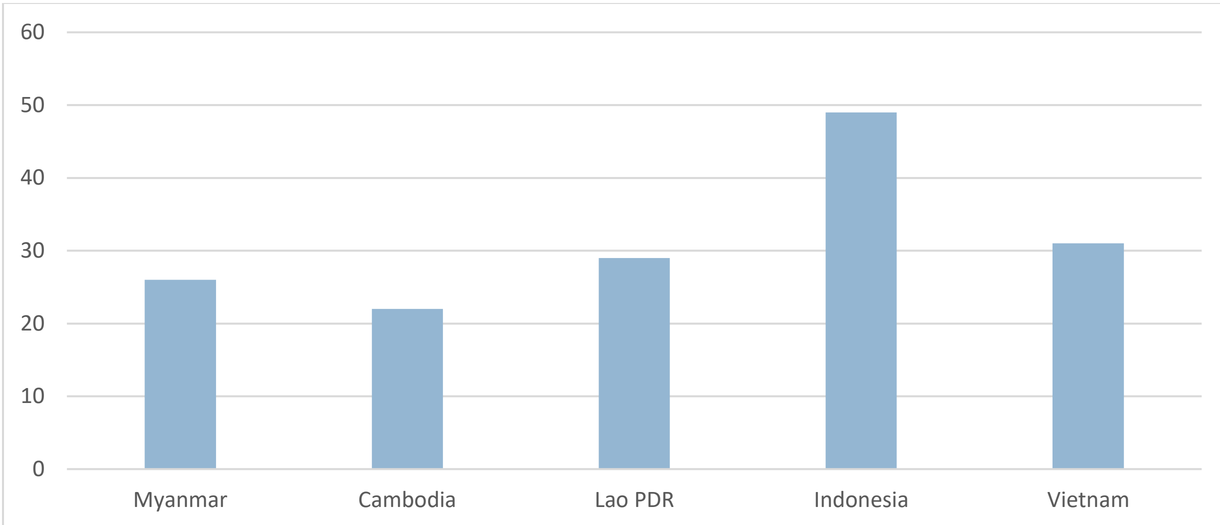
Source: Myanmar Enterprise Survey, 2016

Figure 70: Use of Financial Services by Firm Size

Source: Myanmar Enterprise Survey, 2016

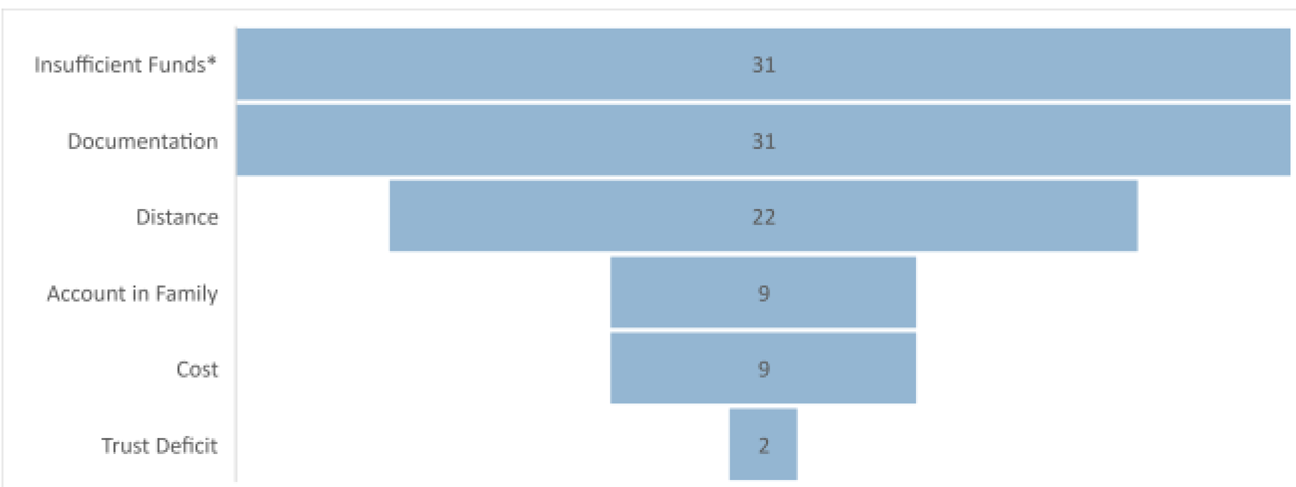
120. **Similarly, individuals have limited access to the formal financial system.** Recently released FINDEX data indicate that financial inclusion has crept up just slightly since the last survey in 2014. More than 70 percent of adults in Myanmar do not have an account with formal financial institutions, including mobile accounts (Figure 71). The latest Findex survey finds that 31 percent of adults in Myanmar cite insufficient funds as the only reason for not having an account. Other important factors include documentation requirements and distance to the nearest financial institution. Contrary to anecdotal evidence, the trust deficit is cited by only 2 percent as cause for staying away from the financial system (Figure 72).

Figure 71: Account Ownership in East Asia, 2017



Source: Findex 2018

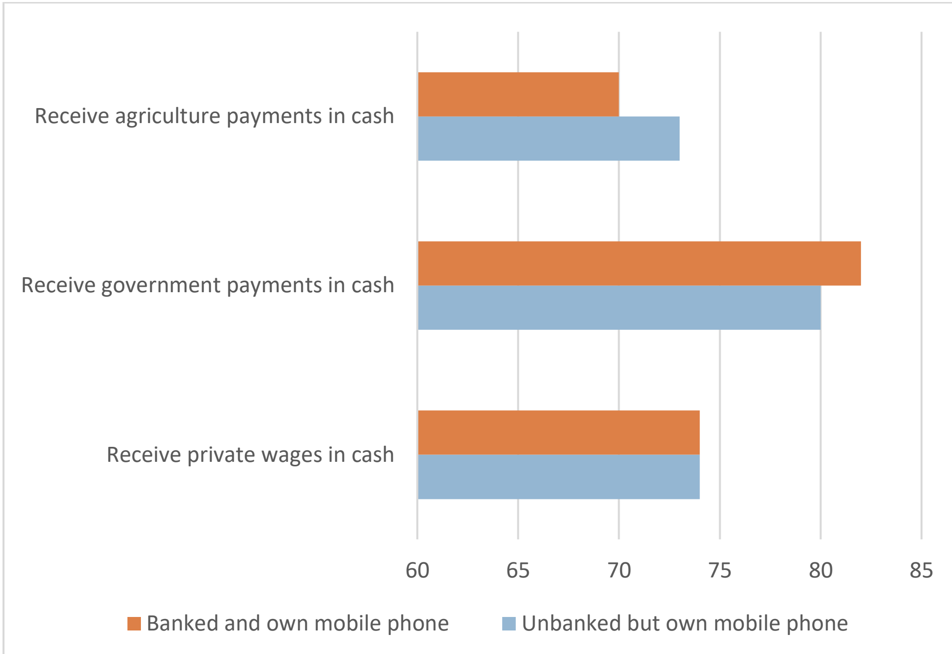
Figure 72: Barriers to Account Ownership in Myanmar



Source: Findex 2018

121. **Given the impressive penetration of smart phones it would be logical to expect that Myanmar is poised on the edge of a massive takeoff on this front.** The number of private sector players that are positioning themselves in the market supports this notion. However currently only about 1 percent of adults have a mobile account. While it might just be a matter of time, it is more likely that it would take specific actions to unlock the full potential of digital finance in Myanmar. Preliminary data from a baseline survey indicates that financial capability among Myanmar adults is at very low levels, with less than one-fifth of those surveyed being able to calculate simple interest rates. Similarly, it is not evident that full functionality of a smart phone is being utilized by its owners. Thus, rather than technology the most significant barrier to uptake of digital financial products may be financial literacy. Nevertheless, the potential to move away from cash-based transaction remains high due to the impressive levels of smart phone ownership, among both banked and unbanked adults, currently receiving some sort of a regular cash payment (Figure 73).

Figure 73:Opportunities for use of mobile financial services (% of cash recipients)



Source: Findex 2018

On a more solid footing

122. **Myanmar is already on the path to modernize its banking sector by undertaking the preliminary steps to upgrade the financial sector legal, regulatory and supervisory framework.** However, moving towards the minimum international prudential standards, is a long-haul agenda. There is a general understanding that if Myanmar banks are to effectively play their role in domestic resource mobilization, financial intermediation and inclusion it is mandatory that these institutions move onto a more solid footing. But given the somewhat "unique" structures and practices that banks in Myanmar have adopted in the latter half of the 20th Century, including an over-reliance on real estate collaterals, overdrafts as a lending instrument, and an intended and unintended opacity in their operations, it is not expected that the actual transition to a more modern, transparent financial system will be painless.

123. **The impact of certain legacy restrictions on the lending behavior of banks, such as interest rate restrictions) needs to be examined through the modernization agenda lens.** Ideally, financial institutions and markets - banks in particular - are on the frontline of risk evaluation and pricing. The credit appraisal function in the bank is tasked with assessing the viability of a business idea or project and pricing credit to reflect their risk assessment. Where banks are not allowed to price risk differentially for clients and/or loans with a different risk profile this function tends to atrophy over time, and banks tend to over-rely on immoveable collateral and generally restrict lending. A number of legacy restrictions, such as interest rate caps and restrictions on loan tenor, distort incentives at the financial institution level. Recent initiatives to ease lending conditions for SMEs are a good start, but more needs to be done in a systematic manner to catalyze lending to the private sector.

124. **Some banks have already made efforts to adopt a professional business model based on sound lending and accounting practices.** But it is critical that book keeping and reporting improve across the industry. As banks increasingly mobilize public deposits they should come under greater scrutiny. There is a

need to monitor non-performing assets and make sufficient provisions for bad loans, keep an eye on related party lending and ensure that banks are managed professionally with sound credit risk management and reliable oversight from their shareholders.

Getting the structure fit for purpose

125. **The financial sector reform agenda is also about bringing about a structural transformation that can best serve the needs of a vibrant real economy.** With the growth of private banks in recent years, the landscape has changed very rapidly, forcing a rethink on the role of the State in the financial sector. Policymakers are considering a more strategic role for SOBs that is based on prudent fiscal management and sound economic rationale. Myanmar's SOBs have considerable non-financial assets, such as brand recognition and brick and mortar outreach, that can be effectively leveraged. But at the same time their usefulness to the Myanmar development agenda and their financial sustainability hinges on them being able to compete profitably with private banks on a level playing field. Towards this end it is critical that these institutions be run professionally, within a sound governance framework.

126. **Further development of the financial market depends on the availability of a much wider array of financial institutions and products.** More than 90 percent of the financial sector assets are with the banking sector, and savings and credit products dominate, leaving several gaps in the markets. There has been a significant organic proliferation of microfinance institutions (MFIs) in recent years and they serve a very important significant segment of the market, that banks do not typically reach out to. But the sector has faced several of challenges, not least of which is the absence of an overarching strategic vision on the part of the policymakers. While the industry also faces many operational challenges, including raising funding, the key challenge is that there is no clear articulation of their development role, and thus no rewards and incentive schemes for delivering on this mandate. With the results that MFIs are currently operating largely in the urban areas.

127. **The biggest gap in the Myanmar financial markets right now is the lack of long term products.** On both the supply and the demand front, capital markets are significantly underdeveloped. Debt markets are hampered by a truncated yield curve in the absence of the issuance of benchmarking government paper, limited secondary market trading, and interest rate caps. On the equity side, the Yangon Stock Exchange has been relatively slow to take off since its establishment in 2015. At present there are five companies listed on the exchange and trading volumes remain very low. While it is expected that the Investment Law, 2016 and new Companies Act will strengthen corporate governance and support foreign investment the number of listings will likely only rise gradually.

128. **Developing the supply of long term savings seems just as challenging.** Institutional investors, such as insurance companies and pension funds, typically are the source for long term savings and both entities are significantly missing in Myanmar. The pending legal overhaul of this sector only serves to underscore the importance of the insurance sector, not just as a supplier of long term savings, but also to manage the risk factors that plague the real economy. Similarly, retirement planning becomes increasingly important as traditional family based support systems weaken. However, the general lack of exposure to long term savings products and the lack of awareness about financial planning is likely to create resistance to the uptake of retirement savings products, even if such products were available.

129. **Fintech offers unprecedented opportunities for Myanmar to leapfrog and avail of the lessons that have been learned in other countries.** Technology has had a transformative impact on the provision of financial services. Myanmar has an impressive rate of smart phone penetration and the excitement over the potential opportunities offered by a vast untapped market have energized several new entrants as well as existing providers of financial services. But technology is the easy part, the uptake of fintech products eventually comes down to whether the products on offer, that typically originate as some sort of solution to remit money, serve as a gateway for greater usage of the formal financial services for people to manage their daily lives.

And it all comes down to…

130. **The major challenge with the financial sector reform agenda is that several pieces of the puzzle need to fall in place simultaneously for a stable solution to materialize**. To illustrate just one part of the puzzle; Banks, that are growing depositories of savings from the public, have an obligation to keep better records of the uses of these funds and should be expected to operate more transparently while being subject to greater oversight. At the same time, there are elements of their operating environment, such as loan pricing and tenor restrictions, that need to be modernized and given a stronger market-orientation for these banks to work profitably and withstand the additional compliance requirements. Thereby, setting up the classic chicken and egg puzzle when it comes to the sequencing of reforms.

131. **Financial sector reform agendas all have the same destination, it is the road to that destination that is tricky.** On that road policymakers have the difficult task of ensuring the reforms are minimally disruptive while also ensuring that the pace and magnitude of the reforms is such that it has a real impact on the functioning of the sector. There are several techniques that can help in managing the transition effectively. Where there is a broad consensus on the direction of the eventual reforms, such as interest rate liberalization, it is advisable to work out a realistic medium-term timeline with clearly communicated milestones that will eventually culminate in the desired policy outcome. On the roll-out of prudential regulations clearly articulate the difference between the date the regulation is issued and the date it is effective and closely monitor that the industry is on the prescribed transition path. This would facilitate well-paced, linear reforms and minimize disruptions.

132. **Just as policymakers are charged with articulating a clear reform agenda, the private sector must commit to allowing more daylight on their functioning.** A more empowered regulatory apparatus is critical to a healthy financial sector. While there are additional burdens associated with improved compliance and risk management practices there are also the potential benefits associated with a wider customer base and a growing business, for a financial system that currently has a significant scale issue.

133. **Where there are gaps in financial markets, take advantage of the lessons from the experience of others to take informed risks.** The upside to being one of the late comers to a financial sector liberalization agenda is that Myanmar does not have to repeat the mistakes of others. Myanmar can avoid the personal indebtedness pitfall in microfinance by monitoring cross-borrowing data. And to develop an interoperable digital financial system from the outset. It can adapt the secured transactions framework that has been developed in similar contexts. Myanmar is well-placed geographically with neighbors that have implemented some of the more successful economic transformations in recent times. They have worked out a policy mix that allowed them to draw on foreign investment and talent in the financial sector while keeping national interests paramount.

134. **And the most important prescription is take the public along.** The ultimate success of the modernization of the Myanmar financial system will be measured by how directly it benefits the people of Myanmar. Thus, it is critical that as the financial sector grows more sophisticated, consumers have a full understanding of their rights and responsibilities. Financial literacy campaigns and consumer protection frameworks are the key underpinning to the financial sector agenda in Myanmar.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Economic growth and prices							
Real GDP (kyat billion)	52,785	56,476	59,792	63,601	67,895	72,588	77,745
Agriculture	15,769	16,306	16,244	16,650	17,316	18,026	18,747
Industry	15,659	16,963	18,478	20,122	21,793	23,645	25,608
Services	21,357	23,207	25,071	26,828	28,787	30,917	33,390
CPI (% change, yoy)	6.1	8.4	7.0	5.5	4.9	5.3	6.0
Consolidated public sector (kyat billion)							
Revenue	14,550	13,645	14,505	14,998	16,460	18,657	21,264
o/w Tax	4,586	4,901	5,677	6,153	7,242	8,432	9,797
o/w Non-Tax	3,332	2,969	2,841	2,826	3,257	3,609	4,068
Expenditure	15,248	16,806	16,671	20,297	22,582	25,314	28,871
Recurrent	10,733	12,301	12,776	15,243	17,109	18,959	21,048
Capital	4,514	4,505	3,895	5,054	5,470	6,356	7,838
Monetary (kyat billion)							
Broad Money (M2)	28,524	36,040	43,034	47,093	52,892	59,050	67,206
Reserve Money	12,725	15,683	17,013	19,029	21,372	24,043	27,260
Balance of Payments (USD million)							
Current account	(3,597)	(4,278)	(4,039)	(4,068)	(3,148)	(2,933)	(2,910)
Trade balance	(4,052)	(5,368)	(5,369)	(5,486)	(5,720)	(5,934)	(6,358)
Exports	12,145	10,221	10,649	11,288	12,067	12,888	13,764
Imports	16,197	15,589	16,018	16,774	17,787	18,822	20,122
Economic growth and prices (% change)							
Real GDP	8.0%	7.0%	5.9%	6.4%	6.8%	6.9%	7.1%
Agriculture	2.8%	3.4%	-0.4%	2.5%	4.0%	4.1%	4.0%
Industry	12.1%	8.3%	8.9%	8.9%	8.3%	8.5%	8.3%
Services	9.1%	8.7%	8.0%	7.0%	7.3%	7.4%	8.0%
CPI (% change, yoy)	6.1	8.4	7.0	5.5	4.9	5.3	6.0
Consolidated public sector (% of GDP)							
Revenue	22.3	18.8	18.2	16.0	16.5	16.6	16.7
o/w Tax	7.0	6.7	7.1	6.6	7.3	7.5	7.7
o/w Non-Tax	5.1	4.1	3.6	3.0	3.3	3.2	3.2
Expenditure	23.4	23.1	20.9	21.7	22.6	22.6	22.7
Recurrent	16.4	16.9	16.0	16.3	17.1	16.9	16.5
Capital	6.9	6.2	4.9	5.4	5.5	5.7	6.2
Monetary (% change)							
Broad Money (M2)	12.9	26.3	19.4	9.4%	12.3%	11.6%	13.8%
Reserve Money	4.6	23.2	8.5	11.9%	12.3%	12.5%	13.4%
Balance of Payments (% of GDP)							
Current account	-5.5%	-7.2%	-6.4%	-5.9%	-4.7%	-4.1%	-3.8%
Trade balance	-6.2%	-9.0%	-8.5%	-8.3%	-8.9%	-8.5%	-8.6%
Exports	18.6%	17.1%	16.8%	17.0%	18.8%	18.5%	18.6%
Imports	24.7%	26.1%	25.3%	25.3%	27.8%	27.0%	27.2%

Sources: MOPF, CBM, MOC, IMF BOP Statistics, CSO, WB Staff estimates

Annex 2: Gross Domestic Product

	2013/14	2014/15	2015/16	2016/17	2017/18
GDP production (Current, Kyat million)	58,012	65,262	72,714	79,721	93,490
Agriculture	17,133	18,162	19,467	20,300	24,475
Industry	18,774	22,509	25,064	27,918	29,579
Services	22,105	24,591	28,184	31,503	39,436
GDP production (2010/11 prices, Kyat mil)	48,879	52,785	56,476	59,792	63,601
Agriculture	15,346	15,769	16,306	16,244	16,650
Industry	13,963	15,659	16,963	18,478	20,122
Services	19,570	21,357	23,207	25,071	26,828
Real GDP growth (%)	8.4%	8.0%	7.0%	5.9%	6.4%
Agriculture	3.6%	2.8%	3.4%	-0.4%	2.5%
Industry	11.4%	12.1%	8.3%	8.9%	8.9%
Services	10.3%	9.1%	8.7%	8.0%	7.0%
GDP production (2010/11 prices, % share)	100%	100%	100%	100%	100%
Agriculture	31.4%	29.9%	28.9%	27.2%	26.2%
Industry	28.6%	29.7%	30.0%	30.9%	31.6%
Services	40.0%	40.5%	41.1%	41.9%	42.2%

Source: MOPF

Annex 3: Consumer Price Index

	2014/15	2015/16	2016/17	2017/18
CPI (All items, yoy % change)	**6.1**	**8.4**	**7.0**	**5.5**
CPI (Food and non-alcohol. bev., yoy % change)	**8.3**	**11.8**	**8.0**	**4.8**
CPI (Non food, yoy % change)	**2.9**	**3.1**	**5.4**	**6.2**
Alcoholic beverages, tobacco	8.9	11.7	4.0	19.6
Clothing and footwear	6.0	5.5	2.5	1.5
Housing, water, electricity, gas and other fuels	7.2	4.1	6.5	6.2
Furnishings, household equip and routine hh maintenance	4.2	7.7	1.0	2.8
Health	8.1	5.7	4.1	4.6
Transport	-6.3	-5.8	11.8	8.9
Communication	0.8	-0.5	-2.3	9.6
Recreation and culture	2.2	4.8	0.9	0.7
Education	2.3	2.0	2.8	0.4
Restaurants and hotels	6.0	5.5	2.6	6.9
Miscellaneous goods and services	4.9	10.7	5.3	4.3
CPI (All items, annual average % change)	5.1	10.0	6.8	4.4
CPI (Food and non-alcohol. bev., annual average, % change)	6.9	13.9	8.8	4.1
CPI (Non-food, annual average, % change)	2.4	3.9	3.6	5.0
Alcoholic beverages, tobacco	10.5	14.	6.1	5.7
Clothing and footwear	2.5	6.8	4.1	1.8
Housing, water, electricity, gas and other fuels	5.5	7.2	6.0	5.0
Furnishings, household equip and routine and hh maintenance	1.8	6.5	4.4	1.8
Health	5.5	7.6	5.4	4.1
Transport	-1.0	-5.5	-0.8	10.4
Communication	0.6	-0.3	-1.3	4.3
Recreation and culture	1.0	3.2	4.3	0.8
Education	3.0	1.9	3.9	1.1
Restaurants and hotels	1.7	5.9	3.8	3.7
Miscellaneous goods and services	1.0	10.8	6.6	4.7

Source: Central Statistical Organization

Annex 4: Balance of Payments

	2013/14	2014/15	2015/16	2016/17
Balance of Payments (US$ million)				
Current account	**(2,277)**	**(3,597)**	**(4,278)**	**(4039)**
Trade balance	(2,164)	(4,052)	(5,368)	(5,369)
Exports	9,439	12,145	10,221	10,649
Imports	11,603	16,197	15,589	16,018
Services balance	555	1,207	1,134	825
Primary income balance	(2,030)	(3,146)	(2,525)	(2,185)
Secondary income balance	1,362	2,395	2,481	2690
Capital account	**(1)**	**-**	**-**	**5**
Financial account	**4,993**	**4,635**	**4,593**	**4,470**
Direct Investment	(2,619)	(4,515)	(4,219)	(3,367)
Portfolio Investment	(0)	(7)	(1)	(39)
Other Investment	(2,374)	(113)	(373)	(1063)
Net Errors & Omissions	**(1,267)**	**704**	**149**	**(758)**
Overall balance	**1,450**	**1,742**	**463**	**435**
Reserve Assets	**1,450**	**1,742**	**463**	**381**
Balance of Payments (% of GDP)				
Current account	**-3.8%**	**-5.5%**	**-7.2%**	**-6.5%**
Trade balance	-3.6%	-6.2%	-9.0%	-8.6%
Exports	15.7%	18.6%	17.1%	17.1%
Imports	19.3%	24.7%	26.1%	25.7%
Services balance	0.9%	1.8%	1.9%	1.3%
Primary income balance	-3.4%	-4.8%	-4.2%	-3.5%
Secondary income balance	2.3%	3.7%	4.2%	4.3%
Capital account	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Financial account	**8.3%**	**7.1%**	**7.7%**	**7.2%**
Direct Investment	-4.3%	-6.9%	-7.1%	-5.4%
Portfolio Investment	0.0%	0.0%	0.0%	-0.1%
Other Investment	-3.9%	-0.2%	-0.6%	-1.7%
Net Errors & Omissions	**-2.1%**	**1.1%**	**0.2%**	**-1.2%**
Overall balance	**2.4%**	**2.7%**	**0.8%**	**0.7%**
Reserve Assets	**2.4%**	**2.7%**	**0.8%**	**0.6%**

Sources: IMF Balance of Payments Statistics, IMF Article IV (2016), CBM, WB Staff estimates

Annex 4: Monetary Survey

Monetary Survey (Kyat billion)	2015/16	2016/17	2017/18
Assets	**36,039.81**	**43,033.95**	**46,589.74**
Net Foreign Assets	**9,316.9**	**9,295.8**	**9,243.8**
CMB (net)	5,428.6	6,564.4	6,618.4
DMB (net)	3,888.3	2,731.4	2,625.3
Net Domestic Assets	**26,722.9**	**33,738.1**	**37,346.0**
Net Claims on Government	13,416.4	15,780.9	14,328.4
CMB	12,452.4	13,953.5	12,994.6
DMB	964.0	1,827.4	1,333.8
Credit to the economy	14,188.3	18,823.5	22,913.6
Private sector	13,667.2	18,244.3	21,108.1
Other	521.1	579.1	1,805.5
Other items (net)	**(882)**	**(866)**	**104**
Liabilities	**36,040**	**43,034**	**46,590**
Broad money (M2)	**36,040**	**43,034**	**46,590**
Narrow money (M1)	14,819	15,799	15,054
Currency outside depository corporation	10,157	10,920	10,082
Transferable deposits	4,662	4,880	4,972
Quasi money	21,221	27,235	31,535
Central Bank of Myanmar Balance Sheet (Kyat billion)			
CBM Assets (Kyat billion)	**16,424**	**18,289**	**17,162**
Net Foreign Assets	5,429	6,564	6,618
Net Claims on Central Government	12,452	13,954	12,995
Net Claims on Commercial Banks	1,126	1,450	945
Claims on Other Sectors	-	-	-
Shares and Other Equity	(2,471)	(3,317)	(3411.8)
Other Items (Net)	(112)	(362)	16.2
CBM Liabilities (Kyat billion)	**15,683**	**17,013**	**16,752**
Monetary Base	15,683	17,013	16,752
Currency in Circulation	11,771	13,064	12,343
Liabilities to Other Depository Corporations	3,912	3,949	4,409

Source: Central Bank of Myanmar . (FY2017/18 is the latest available data)

Annex 5 a: Fiscal operations (Kyat billion)

	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18
	PA	**PA**	**PA**	**PA**	**BE**	**RE**
Consolidated Public Sector						
Revenue	**11,790**	**14,550**	**13,645**	**14,505**	**12,974**	**14,998**
Expenditure	**12,562**	**15,248**	**16,806**	**16,671**	**18,328**	**20,297**
Recurrent	**8,127**	**10,733**	**12,301**	**12,776**	**13,840**	**15,243**
o/w Interest	769	879	866	1,078	1,154	1,325
Capital	4,435	4,514	4,505	3,895	4,488	5,054
Balance	**(772)**	**(697)**	**(3,162)**	**(2,166)**	**(5,354)**	**(5,299)**
SEE Operations						
Revenue	**7,554**	**8,209**	**7,360**	**7,262**	**6,428**	**7,038**
Net of transfers to UG	5,790	6,428	5,444	5,634	4,757	5,368
Expenditure	**6,729**	**7,474**	**7,713**	**6,976**	**7,089**	**8,037**
Recurrent	5,583	6,476	6,738	6,263	6,142	6,932
Net of transfers to UG	3,819	4,694	4,823	4,635	4,471	5,262
Capital	1,147	998	975	714	947	1,105
SEE Balance	**824**	**735**	**(353)**	**286**	**(661)**	**(999)**
Union Government						
Revenue	**5,999**	**8,123**	**8,200**	**8,871**	**8,217**	**9,631**
Tax	3,868	4,586	4,901	5,677	5,313	6,153
o/w Income	1,800	2,235	2,326	2,324	2,382	2,356
o/w Commercial	1,704	1,855	2,106	1,878	1,752	2,076
Non-Tax	1,985	3,332	2,969	2,842	2,285	2,826
Grants	146	204	330	351	619	651
Expenditure	**7,595**	**9,556**	**11,009**	**11,322**	**12,910**	**13,930**
Recurrent	4,307	6,039	7,478	8,141	9,369	9,981
Wages	871	1,121	1,622	1,716	1,827	1,857
Transfers	594	1,705	1,949	1,964	2,369	2,461
Interest	647	736	719	925	1,007	1,152
Other	2,196	2,477	3,187	3,536	4,166	4,511
Capital	3,288	3,517	3,531	3,182	3,541	3,949
Union Government Balance	**(1,596)**	**(1,433)**	**(2,809)**	**(2,452)**	**(4,693)**	**(4,299)**

Sources: MOPF, WB Staff estimates

Annex 5 b: Fiscal operations (% of GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18
	PA	PA	PA	PA	BE	RE
Consolidated Public Sector						
Revenue	**20.3**	**22.3**	**18.8**	**18.2**	**14.2**	**16.4**
Expenditure	**21.7**	**23.4**	**23.1**	**20.9**	**20.1**	**22.2**
Recurrent	14.0	16.4	16.9	16.0	15.2	16.7
o/w Interest	1.3	1.3	1.2	1.4	1.3	1.5
Capital	7.6	6.9	6.2	4.9	4.9	5.5
Balance	**-1.3**	**-1.1**	**-4.3**	**-2.7**	**-5.9**	**-5.8**
SEE Operations						
Revenue	**13.0**	**12.6**	**10.1**	**9.1**	**7.0**	**7.7**
Net of transfers to UG	10.0	9.8	7.5	7.1	5.2	5.9
Expenditure	**11.6**	**11.5**	**10.6**	**8.8**	**7.8**	**8.8**
Recurrent	9.6	9.9	9.3	7.9	6.7	7.6
Net of transfers to UG	6.6	7.2	6.6	5.8	4.9	5.8
Capital	2.0	1.5	1.3	0.9	1.0	1.2
SEE Balance	**1.4**	**1.1**	**-0.5**	**0.4**	**-0.7**	**-1.1**
Union Government						
Revenue	**10.3**	**12.4**	**11.3**	**11.1**	**9.0**	**10.5**
Tax	6.7	7.0	6.7	7.1	5.8	6.7
o/w Income	3.1	3.4	3.2	2.9	2.6	2.6
o/w Commercial	2.9	2.8	2.9	2.4	1.9	2.3
Non-Tax	3.4	5.1	4.1	3.6	2.5	3.1
Grants	0.3	0.3	0.5	0.4	0.7	0.7
Expenditure	**13.1**	**14.6**	**15.1**	**14.2**	**14.1**	**15.3**
Recurrent	7.4	9.3	10.3	10.2	10.3	10.9
Wages	1.5	1.7	2.2	2.2	2.0	2.0
Transfers	1.0	2.6	2.7	2.5	2.6	2.7
Interest	1.1	1.1	1.0	1.2	1.1	1.3
Other	3.8	3.8	4.4	4.4	4.6	4.9
Capital	5.7	5.4	4.9	4.0	3.9	4.3
Union Government Balance	**-2.8**	**-2.2**	**-3.9**	**-3.1**	**-5.1**	**-4.7**

Sources: MOPF, WB Staff estimates

Annex 6: Financial inclusion

	Myanmar	EAP	LIC	LMIC
Account (% age 15+)				
All adults	22.8	69.0	27.5	42.7
Women	17.4	68.0	23.9	36.3
Adults belonging to the poorest 40%	16.1	60.9	19.4	33.2
Young adults (% ages 15-24)	13.5	60.7	20.2	34.7
Adults living in Rural Areas	21.2	64.5	24.8	40.0
Financial Institution Account (% age 15+)				
All adults	22.6	68.8	22.3	41.8
All adults, 2011	n.a.	55.1	21.1	
Mobile Account (% age 15+)				
All adults	0.2	0.4	10.0	2.5
Access to Financial Institution Account (% age 15+)				
Has debit card	1.7	42.9	6.6	21.2
has debit card, 2011	n.a.	34.7	6.3	10.1
ATM is the main mode of withdrawal (% with an account)	4.8	53.3	20.2	42.4
ATM is the main mode of withdrawal (% with an account), 2011	n.a.	37.0	19.7	28.1
Use of Account in the Past Year (% age 15+)				
Used an account to receive wages	0.4	15.1	3.2	5.6
used an account to receive government transfers	0.4	8.1	1.0	3.3
Used a financial institution account to pay utility bills	0.0	11.8	0.9	3.1
Other Digital Payments in the Past Year (% age 15+)				
Used a debit card to make payments	0.4	14.8	2.1	9.6
Used a credit card to make payments	0.0	10.8	0.6	2.8
Used the internet to pay bills or make purchases	0.2	15.6	1.2	2.6
Domestic Remittances in the Past Year (% age 15+)				
Sent remittances	6.8	16.6	18.3	14.2
Sent remittances via a financial institution (% senders)	n.a.	36.9	15.4	30.9
Sent remittances via a mobile phone (% senders)	n.a.	8.7	42.8	7.7
Sent remittances via a money transfer operation (% senders)	n.a.	18.5	14.1	18.3
Received remittances	11.0	20.6	25.6	17.8
Received remittances via a financial institution (% receipients)	39.0	29.0	13.0	26.0
Received remittances via mobile phone (% receipients)	0.0	4.9	33.8	5.7
Received remittances via a money transfer operation (% receipients)	11.6	15.8	14.8	16.6

Continued

	Myanmar	EAP	LIC	LMIC
Savings in the Past Year (% age 15+)				
Saved at a financial institution	12.8	36.5	9.9	14.8
Saved at a financial institution, 2011	n.a.	28.5	11.5	11.1
Saved using a savings club or person outside the family	6.0	6.0	16.3	12.4
Saved any money	46.7	71.0	46.5	45.6
Saved for old age	15.8	36.5	8.3	12.6
Saved for a farm or business	19.0	21.3	16.7	11.8
Saved for education or school fees	16.5	30.7	16.6	20.0
Credit in the Past Year (% age 15+)				
Borrowed from a finanical instituition	15.5	11.0	8.6	7.5
Borrowed from a finanical instituition, 2011	n.a.	8.6	11.7	7.3
Borrowed from family or friends	21.8	28.3	34.9	33.1
Borrowed from a private informal lender	16.3	2.5	6.5	8.5
Borrowed any money	42.8	41.2	52.5	47.4
Borrowed for a farm or business	22.4	8.3	12.2	9.2
Borrowed for education or school fees	5.7	7.1	10.9	10.1
Outstanding mortgage at a finanical institution	0.7	8.0	4.1	4.7

Source: Demirguc-Kunt et al., 2015, Global Financial Inclusion Database, World Bank

Annex 7: Enterprise Survey

	MMR2014	MMR2016	EAP	LMIC
Firm Characteristics				
Age of the establishment (years)		14.5	15.6	17.1
Gender				
% of firms with female participation in ownership	27.3	35.1	47.4	34.2
% of firms with a female top manager	29.5	41.1	32.7	19.4
% of permanent full-time female workers	33.6	31.2	37.5	29.9
% of permanent full-time non-production female workers	29.9	42.7	35.6	29.1
% of permanent full-time production female workers	29.9	31.0	37.0	25.5
Workforce				
% of firms offering formal training	15.1	5.9	32.2	31.8
% of workers offered formal training*	48.7	57.7	62.7	51.0
Years of the top manager's experience working in the firm	11.6	13.5	15.4	16.7
Number of permanent full-time workers	28.6	25.0	41.2	40.3
Number of temporary workers	0.7	0.5	5.2	5.6
Number of permanent production workers*	73.4	67.6	65.5	53.7
Number of permanent non-production workers*	10.4	11.1	17.2	13.6
Number of permanent skilled production workers*	25.6	14.9	46.9	35.9
Number of permanent unskilled production workers*	43.4	55.3	18.7	14.8
% of unskilled workers (out of all production workers) *	31.3	46.2	22.7	26.8
Performance				
Real annual sales growth (%)	3.5	4.3	-0.5	0.6
Annual employment growth (%)	4.3	1.0	4.6	4.5
Infrastructure				
Number of electrical outages in a typical month	12.5	11.0	4.9	9.3
Losses due to electrical outages (% of annual sales)	n.a.	2.3	1.3	3.7
Days to obtain an electrical connection (upon application)	105.6	36.5	22.2	30.4
Number of water insufficiencies in a typical month*	0.2	0.4	0.4	1.6
Trade				
Days to clear direct exports through customs	4.4	10.2	7.3	8.2
% of firms exporting (at least 1% of sales)	4.8	5.0	14.4	17.0
Days to clear imports from customs*	6.5	14.0	10.0	11.1
% of firms using foreign inputs and/or supplies*	24.5	28.3	41.1	54.5
Finance				
% of firms with a checking or savings account	29.7	43.7	77.0	82.1
% of firms with a bank loan/line of credit	7.2	11.3	28.3	28.7
% of investment financed internally	91.6	91.4	77.8	71.6
% of investment financed by banks	1.4	3.2	10.4	12.1
% of investment financed by supplier credit	n.a.	1.2	3.2	4.6
% of investment financed by equity or stock sales	n.a.	1.1	3.3	5.2

Continued

	MMR2014	MMR2016	EAP	LMIC
Crime				
Security costs (% of annual sales)	n.a.	0.6	1.8	2.3
Losses due to theft and vandalism (% of annual sales)	n.a.	0.1	0.8	1.0
Informality				
% of firms competing against informal firms	31.2	31.5	53.2	54.3
% of firms formally registered when they started	88.4	79.1	86.0	87.2
Regulations and Taxes				
Senior management time dealing with regulation (%)	2.0	0.8	6.0	10.6
Number of visits or required meetings with tax officials	n.a.	0.9	1.4	1.7
Days to obtain an import license	15.5	19.5	20.6	17.6
Days to obtain a construction-related permit	32.9	53.5	30.4	47.0
Days to obtain an operating license	26.6	39.2	19.5	24.7
Corruption				
% of firms experiencing at least one bribe request	42.9	29.3	29.4	24.4
% of firms expected to give gifts for construction permit	46.5	47.6	42.4	30.6
% of firms expected to give gifts for government contract	32.5	9.8	45.6	37.0
% of firms expected to give gifts in meetings with tax officials	37.1	20.4	20.3	17.7
Biggest Obstacle				
Access to finance	24.1	17.8	11.0	13.3
Access to land	22.7	14.3	6.4	3.8
Business licenses and permits	1.8	1.2	4.1	2.6
Corruption	0.7	0.4	8.7	9.2
Courts	1.5	0.7	1.2	0.9
Crime, theft and disorder	0.4	2.7	2.9	4.2
Customs and trade regulations	1.7	2.4	2.7	3.7
Electricity	17.9	13.4	5.9	11.0
Inadequately educated workforce	10.0	15.8	7.3	5.5
Labor regulations	5.2	0.8	3.1	2.3
Political instability	4.7	11.5	10.9	14.2
Practices of the informal sector	1.1	4.6	16.3	13.8
Tax administration	2.5	2.2	3.3	3.7
Tax rates	3.2	8.6	11.3	9.2
Transportation	2.3	3.7	4.8	2.6

Source: World Bank, Enterprise Survey

* These indicators are computed only for the manufacturing sector

1. The sample for each economy is stratified by industry, firm size, and geographic region. The level of detail of the stratification by industry depends on the size of the economy. Stratification by size follows the three levels presented in the text: small, medium, and large. Regional stratification includes the main economic regions in each economy. Through this methodology estimates for the different stratification levels can be calculated on a separate basis while, at the same time, inferences can be made for the non-agricultural private economy as a whole. For more details on the sampling strategy, review the Sampling Note available at www.enterprisesurveys.org

Annex 8: Logistics Performance Index

	Myanmar	LMIC	MIC	Cambodia	China	Laos	Thailand	Vietnam
Logistics performance index: Overall	2.5	2.5	2.6	2.8	3.7	2.1	3.3	3.0
Lead time to export, median case (days)	1.0	5.8	5.0	3.0	3.0	0.0	1.0	3.0
Lead time to import, median case (days)	1.0	7.8	5.8	4.0	5.0	0.0	1.0	3.0
Ability to track and trace consignments	2.6	2.5	2.6	2.7	3.7	1.8	3.2	2.8
Competence and quality of logistics services	2.4	2.4	2.6	2.6	3.6	2.1	3.1	2.9
Ease of arranging competitively priced shipments	2.2	2.5	2.6	3.1	3.7	2.2	3.4	3.1
Efficiency of customs clearance process	2.4	2.3	2.4	2.6	3.3	1.8	3.1	2.8
Frequency with which shipments reach consignee within scheduled or expected time	2.8	2.9	3.0	3.3	3.9	2.7	3.6	3.5
Quality of trade and transport-related infrastructure	2.3	2.3	2.5	2.4	3.8	1.8	3.1	2.7

Source: WB, Logistics Performance Index
Score, 1=low to 5=high

Annex 9: Health

	Mortality rate, infant (per 1,000 live births)			Mortality rate, adult, female (per 1,000 female adults)			Mortality rate, adult, male (per 1,000 male adults)		
	2000	**2010**	**2015**	**2000**	**2010**	**2015**	**2000**	**2010**	**2015**
Myanmar	60.7	45.8	39.5	211.5	182.8	171.1	271.4	239.2	227.6
Income Groups									
Low Income	92.3	63.1	53.2	346.0	268.6	231.6	392.2	313.5	277.8
Lower Middle Income	65.7	47.3	39.8	195.9	166.9	156.7	257.4	234.0	222.3
Middle Income	52.2	36.6	30.4	153.4	130.4	121.8	219.7	193.8	178.0
Regional countries									
Cambodia	80.4	36.7	24.6	226.7	164.5	140.1	292.2	224.7	205.9
China	30.2	13.5	9.2	96.3	77.3	70.7	129.6	105.4	96.6
Indonesia	5.2	3.5	2.9	60.0	38.9	35.3	157.0	101.3	87.2
Korea	41.1	27.4	22.8	167.7	154.9	144.9	213.8	213.2	202.9
Laos	83.2	59.0	50.7	250.5	195.2	171.5	298.4	237.4	212.8
Malaysia	8.7	6.8	6.0	99.3	85.7	77.6	171.0	170.9	164.1
Singapore	3.1	2.2	2.1	56.3	43.2	38.4	98.1	77.3	69.9
Thailand	19.1	12.5	10.5	137.1	111.1	104.0	257.7	215.5	204.6
Vietnam	26.1	19.8	17.3	78.3	69.6	0.0	200.5	192.9	0.0

Source: World Bank, World Development Indicators

Annex 10: Education

	School enrollment, primary (% net)			School enrollment, secondary (% net)		
	2000	**2010**	**2014**	**2000**	**2010**	**2014**
Myanmar	89.9	87.7	94.5	32.4	45.1	48.3
Income Groups						
Low Income	54.2	76.9	80.2	19.2	29.6	31.5
Lower Middle Income	78.6	86.9	87.7	41.9	53.8	58.5
Middle Income	85.6	90.0	90.4	54.1	61.7	66.2
Regional countries						
Cambodia	92.1	93.3	94.7	15.6	0.0	0.0
China	0.0	0.0	0.0	0.0	0.0	0.0
Indonesia	0.0	93.8	89.7	0.0	66.7	75.0
Korea, Rep.	97.2	98.0	0.0	0.0	0.0	0.0
Laos	75.7	94.1	95.1	27.5	39.3	50.8
Malaysia	97.8	96.6	98.4	66.0	66.4	68.0
Singapore	99.6	98.2	96.5	95.0	94.6	96.8
Thailand	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vietnam	n.a.	n.a.	92.4	n.a.	78.2	83.6

Source: World Bank, World Development Indicators

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