Myanmar Economic Forecast 2017

14 March 2017

The elected government of Myanmar has carefully navigated a difficult economic and security environment since taking office in April 2016. The economy was still recovering from a flood-induced supply shock, which, together with low commodity prices, contributed to a widening current account and fiscal deficits. The government has taken steps to maintain fiscal prudence, which have helped ease pressure on monetary growth and import demand.

In parallel, the government continued the peace process that began in 2012. Follow-up talks have aimed to broaden the national ceasefire agreement signed in October 2015 to include those organizations that have not yet signed, and to advance the peace process from ceasefires towards a national dialogue to resolve underlying grievances. However, intensified violence in Kachin, Shan and Rakhine States in late 2016 and in Shan State in early March 2017 highlight the difficulties ahead, including religious tensions.

Recent Economic Developments

- Economic activity in Myanmar has slowed down in the 2016-2017 fiscal year (FY). Growth is expected to moderate from 7.3% in the 2015-2016 FY to 6.5% in 2016-2017 FY (World Bank). The pace of recovery in agriculture from floods during 2016 was hampered by longstanding productivity constraints in the sector. Industrial output, food processing, gas production, and construction activity has also decelerated.
- Tourist arrival in Myanmar was around 2.9 million in 2016, down about 1.5 million compared to 2015. However, authorities only recorded visitors entering with tourist and business visas and the falling number is due to the exclusion of foreigners travelling across the land border (Ministry of Hotels and Tourism).
- Falling exports and slowing foreign investment inflows
  - Until February 2017, the total import volume was slightly above 13 billion USD, falling by almost 450 million USD to that of the same period last year. Export value has reached 9,663 million USD, up from 9,159 million USD in the same period last year. (Ministry of Commerce).
  - The Ministry of Commerce has set a trade target of 31 billion USD for the 2016-2017 fiscal year.
- Rapid growth in credit to the private sector points to an emerging banking sector risk. Though it is difficult to assess the health of the banking sector due to data constraints, emerging signs of risks include a growing sector and borrower concentration in lending (World Bank).

Economic Outlook

- Growth projections
  - The World Bank projects an average economic growth of 7.1% per year over the next three years.
  - The Economist Intelligence Unit (EIU) expects the headline GDP growth to pick up from an estimated 7.9% in the 2016-2017 fiscal year to an average of 9% a year in the 2017-2018 FY to 2021-22 FY.

- Private and public investment in infrastructure services, including power, transportation, and communications are expected to accelerate in the near term. There has also been a significant accumulation of foreign investment commitments in non-commodity sectors including agri-business, light manufacturing, and hospitality. Implementation of these investment projects is expected to pick up subject to continued macroeconomic stability, progress on structural reforms and expansion of critical services.
- Online real estate companies have expressed cautious optimism for 2017 following a bruising year for the sector that saw a continued decline in sales and major disruption following a temporary ban on high rise projects by the Yangon Region Government.
- Despite the relatively favorable outlook, there are several macroeconomic risks. Low gas prices could increase fiscal and external imbalances, and exacerbate financial pressures. Myanmar's relatively narrow production base, relative dependence on primary commodities, and vulnerability to natural disasters pose risks to stable growth.
    - Oil and gas exploration by major international players continues apace despite low global energy prices, underscoring Myanmar's healthy upstream prospects. These activities should pick up further in the 2017-2018 FY to 2018-2019 FY, with a modest recovery in international commodity prices. The exploitation of new offshore gas fields will also help to support export growth.
    - A handful of special economic zones (SEZ) such as Thilawa SEZ will help attract foreign interest and address the poor business environment in those areas of Myanmar
- Fast catch-up growth in telecommunications will also boost investment, as it will induce efficiency gains across many industries.
- Increased private sector growth and competition in Myanmar affect firms' ability to enter, survive, and expand in increasingly dynamic markets. (World Bank)
    - An ongoing update to the World Bank's 2014 Enterprise Survey (ES) points to high rates of firms' exit in Myanmar over the past two years, with around 17% of firms ceasing operations annually. This may not be a bad sign if exit reflects underlying reallocation of resources to more productive and innovative firms. Over 80% of exits are either micro or small enterprises, which tend to be less productive than larger enterprises.
    - Surviving firms tend to be larger, less likely to be credit constrained, and tend to have more experienced managers. The net job creation from firm entry, expansion and exit was around 13%. The high rates of firm exit underline the importance of continued efforts to improve the business environment, particularly access to credit, and to maintain macroeconomic stability.

Rapid growth in imports, owing to strong investment activity, and considerable gaps in local supporting intermediate industries means that net export will continue to subtract slightly from headline GDP growth. The ongoing liberalization of Myanmar's financial sector, which includes the entry of foreign banks and improved access to capital markets, will spur activity in many nascent but fast-growing sectors, especially labour-intensive manufacturing and tourism.

- The nationwide minimum salary of 3,600 Kyat (approximately 3 USD) is competitive compared with low-cost rivals in Asia.
- Myanmar has a labour force of 22.7 million workers aged 15 and above, according to the Census conducted in 2014. Labour force participation rates of working age population (15 and older) was

63% in Myanmar in 2015, close to the average of 64% seen in Southeast Asia (World Bank's World Development Report, 2016). Labour force participation rates vary across the course of the year, reflecting seasonality in demand in agricultural activities and construction.

- Agriculture sector is home to the majority of Myanmar's workers: 56% of labour market participants self-identified themselves in the 2014 Census as primary sector workers in agriculture, forestry, fisheries or mining.
- A further 12% of workers are employed in the secondary sector, of which 7% are found in manufacturing activities and nearly 5% in construction.
- Finally, tertiary employment accounts for 32% of workers.
- The share of the population working in agriculture, industry and services did not change substantially between 2009- 2010 and 2014 – reflecting limited reallocation of labour to higher productivity sectors

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References

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