

Myanmar Economic Forecast for 2018 and Economic Update

Overview: Myanmar's economy is expected to recover in 2017/2018 due to the notable reforms and strong foreign investment flowing into the country. In 2017, the government pursued a prudent fiscal policy, which includes passing a new tax law, granting permission for additional foreign banks to operate in Myanmar, and liberalizing the investment law to attract more foreign direct investment.

However, the recent escalation of tension in Rakhine State and insufficient information on the government's economic agenda may slow down investment, as investors prefer to wait for a clearer economic policy. As such, the business community has called on the government to be more decisive and efficient in implementing reform in 2018, in order to attract investors who want to see a stronger leadership and clearer direction from the government in liberalizing various sectors, accelerating reforms on tax, land, and infrastructure, and implementing the new Companies Law as soon as possible.

Growth Projection: Myanmar's economic growth is projected to recover to 6.4 percent in 2017/18 compared to 5.9 percent in the previous fiscal year (World Bank). The government projects real GDP to grow at 6.8 percent in 2017/18. As the global economy continues to grow, reforms are essential for Myanmar to capitalize on its investment opportunities. Foreign direct investment exceeded 4.5 billion USD at the end of November 2017, creating thousands of jobs for the local people and propelling segments of the population into the middle-class. Consumer price inflation is expected to ease further from 7 percent in 2016/17 to 5.2 percent in 2017/18 due to recovery in agricultural output, decline in grain prices in international markets, and ongoing demand restrictions on main staples (rice, beans, and pulses) from China and India. However, oil prices are projected to average US\$ 60/bbl in 2018, compared to US\$ 55/bbl in 2017.

New Minimum Wage: According to the Notification 1/2018 dated 2 January 2018, the National Committee for Setting the Minimum Wage proposed a new minimum wage of Ks. 600 per hour (Ks 4,800 per day for eight working hours). If the National Committee's proposition is adopted, the minimum wage will increase by 33% compared to the current minimum wage of Ks. 450/hour (Ks. 3,600/day). The Regional and State Committee have 30 days to review the new minimum wage proposal together with representatives from the government, employers and workers. Thereafter, the new minimum wage will be announced.

Banking sector: The Central Bank of Myanmar (CBM) allowed branches of foreign banks to provide wholesale banking services for local companies/business, in collaboration with foreign companies/business, and local or foreign financial organizations. In order to develop the local export business, CBM has also allowed branches of foreign banks to provide export financing and related banking services to support local exports. Branches of foreign banks which are interested in providing export financing and related banking services may submit a report to the CBM to obtain approval.

Regulatory reforms: The Myanmar Investment Commission (MIC) issued Notification No. 10/2017 in February 2017 to define three categories of development zones: the less developed, moderately developed, and developed regions. More tax incentives will be given to the less developed zones to attract foreign investors to the region.

MIC also issued Notification No. 13/2017 on 1 April 2017 after the Myanmar Investment Rules were announced on 31 March 2017. The Notification provides clarifications and further information on the types of promoted investment, investment assessment criteria and procedure, tax investment application and land rights authorization applications.

A draft of the Myanmar Companies Act was submitted to parliament in January 2017. This New Companies Act will replace the existing Companies Act that was issued since 1914. Under the new Companies Acts, foreign owned companies will be able to hold shares in local companies up to 35 percent. The new Companies Act will come into effect on 1 August 2018

The updated Myanmar Union Tax Law took effect on 1 April 2017. The provisions contained in this law regarding special goods tax and commercial tax shall come into force on 1 April 2017 for the 2017-2018 fiscal year.

In October 2017, the government announced a new vehicle import policy. The policy stated that only import of new left-hand drive cars will be permitted from 2018 onwards. The new import policy aims to align with existing road rules, and intends to phase out older right-hand drive vehicles, to improve road safety and traffic congestion on roads.

Major foreign investors: According to the Directorate of Investment and Company Administration (DICA), the main foreign investors in Myanmar continue to come from China (US\$ 19.5 billion) and Singapore (US\$18.6 billion), followed by Thailand (US\$ 11 billion), as of November 2017. The key sectors for foreign investment are currently oil and gas, and infrastructure, while domestic investors have concentrated on real-estate development, transport, and hotels and tourism.

Yangon Stock Exchange (YSX): TMH Telecom Public Company became the fifth company to list on the Yangon Stock Exchange in 2017. The company will put up 544,537 shares priced between K 3,000 and K 3,300 for sale. The shares of TMH Telecom Public Company will begin trading by the end of January 2018.

Recent Economic Developments

Annual FDI flows have declined after peaking in 2015. In March 2017, the government adopted Notification 35 (Myanmar Investment Law Rules) as the rule for implementation of the Myanmar Investment Law. The Notification includes detailed provisions for determining whether proposed investments require a MIC permit or whether they can go through the simplified endorsement process, and which proposals on smaller investments can be delegated to states and regions for approval.

Investors' interest in Myanmar remains strong in development assistance on infrastructure and private capital investment, as Myanmar has the potential to capitalize on major investment opportunities. On 28 June 2017, MIC announced 10 prioritized sectors that foreign businesses should consider for investment in Myanmar. The 3 to 5 years tax exemption and long term lease on property will be offered to investors who invest in these sectors. However, in order to boost the economy, Peter Beynon, Chair of the British Chamber of Commerce, pointed out that the first priority would be for the government to issue a master plan with a clear mandate and defined objectives for each sector.

In order to improve the agriculture sector, small and medium enterprises (SMEs) and the construction sector, the government will extend medium term loans to related companies. Loans to these three sectors will be 3-5 years. The Myanmar Economic Bank (MEB) will extend loans to the Myanmar Agricultural Development Bank (MADB) for agricultural and aquaculture business at an interest rate of 9 percent, and MEB will provide financing through the Construction and Housing Development Bank (CHDB) for the construction business at an interest rate of 11 percent. Therefore, it is clear that the government aims to develop the country's backbone businesses such as agriculture, SMEs, and construction sector in 2018.

On the downside, investors' confidence in doing business in Myanmar has fallen. According to EuroCham Myanmar's second Business Confidence Survey (December 2017), more than three quarters of the 70 European companies active in Myanmar rated the business environment as poor, and about a third believed that the business environment had changed for the worse during the past year. In addition, the survey by Roland Berger and the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) in 2017 stated that more than three quarters of the 600 companies surveyed rated poor policy implementation, or the lack of a clear economic policy, as the main reason for their waning confidence in the economy. Most businessmen believe that it is the main root cause of Myanmar's failure to attract higher FDI. Therefore, they recommend the government to come up with a clear policy in order to generate massive FDI inflows to the country in 2018.

In conclusion, Myanmar's macroeconomic environment has remained stable and investor interest remains strong. However, in order to boost FDI, the government needs to come forward with clear investment policies, better financial services, and improved infrastructure. Thus, in 2018, the government should focus on new regulations that can attract more foreign investors and also ensure that new legislations are implemented as planned.

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