MYANMAR ECONOMIC MONITOR

DEC 2019

Resilience Amidst Risk

WORLD BANK GROUP
Macroeconomics, Trade & Investment

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RESILIENCE AMIDST RISK

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Preface

The Myanmar Economic Monitor (MEM) is published semiannually. It analyzes recent economic developments, discusses the medium-term outlook, and suggests policy priorities for Myanmar. The MEM draws on data reported by the government, as well as information collected through the World Bank Group's regular economic monitoring and policy dialogue. The MEM team is grateful to the Ministry of Planning and Finance, the Ministry of Commerce, and the Central Bank of Myanmar for their excellent collaboration.

The MEM is a product of the World Bank's Myanmar office. It was prepared by a team led by Hans Anand Beck (Lead Country Economist) and included Faya Hayati (Senior Trade Economist), Thi Da Myint (Country Economist and lead coauthor), Arvind Nair (Economist), Fang Guo (Economist and lead coauthor), Thanapat Reungsri (Economist), and Aka Kyaw Min Maw (Consultant). This edition of the MEM was developed under the guidance of Deepak Mishra (Practice Manager, Macroeconomics, Trade and Investment) and Bronwyn Grieve (Program Leader, Equitable Growth, Finance and Institutions).

The team is grateful for inputs provided by Sjamsu Rahardja (Senior Economist), David Elmaleh (Economist), and Ekaterine T. Vashakmadze (Senior Country Economist), Smita Wagh (Senior Financial Sector Specialist), Nang Htay Htay (Financial Sector Specialist) and Linde De Nie (Consultant). The team also appreciates the assistance with data inputs provided by Nielson MMRD, Thitsar Thitsar (International Finance Corporation) and the Yangon City Development Corporation.

The team would like to thank Gevorg Sargsyan (Head of Office, Myanmar), Aaditya Mattoo (Chief Economist, East Asia and the Pacific), Ergys Islamaj (Senior Economist), Vera Kehayova (Research Analyst) and colleagues from the IMF; the Ministry of Planning, Finance and Industry; Ministry of Investment and Foreign Economic Relations, the Ministry of Commerce; the Ministry of Labour, Immigration and Population; and the Central Bank of Myanmar for their comments and advice on earlier drafts.

During the preparation of the MEM, the team discussed recent economic developments with several business associations and private businesses and greatly appreciates their time and insights. The team would like to thank Arnold Marseille, Kyaw Soe Lynn and the EXT team for their support and guidance on publication and outreach, as well as Sandi Soe Lwin for excellent administrative support and Sai Nay Lynn for data assistance.

For more World Bank analysis of Myanmar's economy:

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Abbreviations

ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
CBM	Central Bank of Myanmar
CMEC	China-Myanmar Economic Corridor
CPI	Consumer Price Index
EAP	East Asia and Pacific
EMDEs	Emerging Market and Developing Economies
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	Gross Domestic Product
GoM	Government of Myanmar
H1	first half
H2	second half
MOPFI	Ministry of Planning, Finance and Industry
NEER	nominal effective exchange rate
PMI	Purchasing Managers' Index
PSD	Private Sector Development
Q1	first quarter
Q2	second quarter
Q3	third quarter
SME	small and medium-sized enterprise
SEE	State Economic Enterprise
yoy	year-on-year

Executive summary

Summary

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

Recent developments

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

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

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

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

[1] Myanmar's fiscal year is from October to September. For instance, FY18/19 is October 2018 to September 2019.

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

Economic outlook and risks

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

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

Special topic:

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

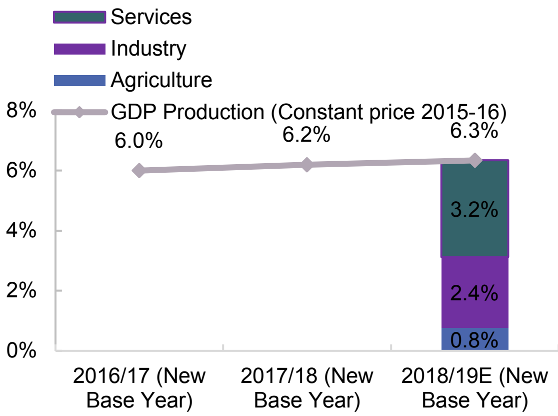
Firms need greater access to factor inputs, better connectivity, and an enabling business environment to support a responsible private sector. Private-sector growth is primarily hampered by supply-side constraints and a restrictive business environment. Many firms face difficulties in accessing finance,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

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

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

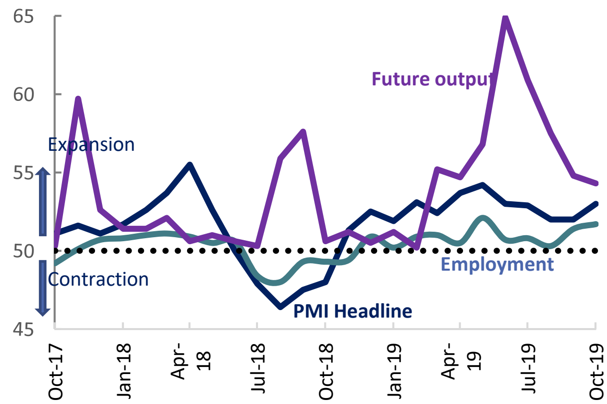
Myanmar: Macroeconomic Developments

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



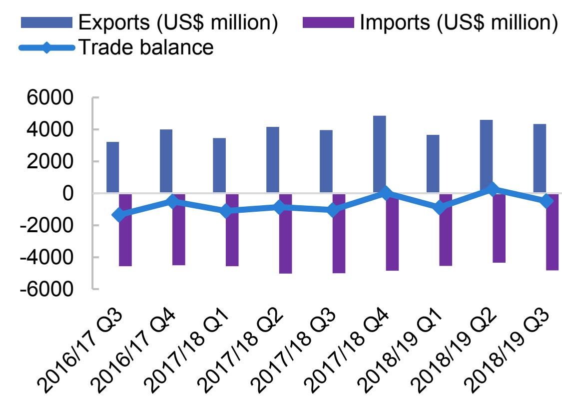
Source: MoPFI, Planning Department.

Both the headline PMI and the employment index remained above 50, signaling increases in manufacturing output and employment. *(Index)*



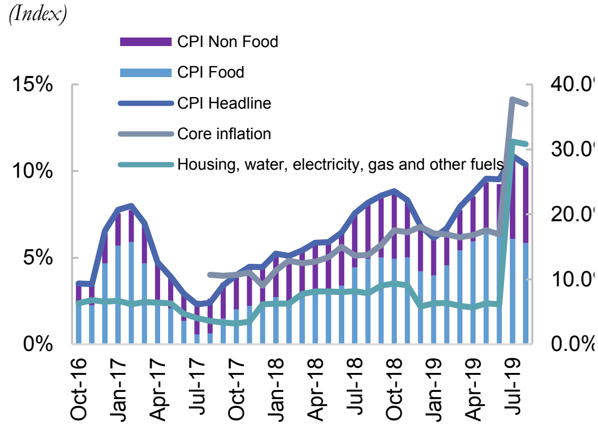
Source: IHS Markit and Nikkei

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



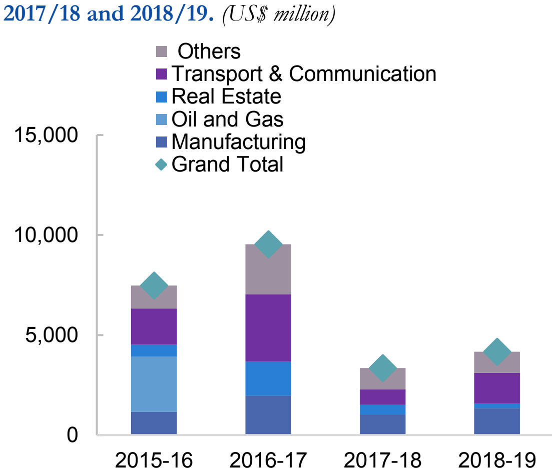
Source: Ministry of Commerce

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



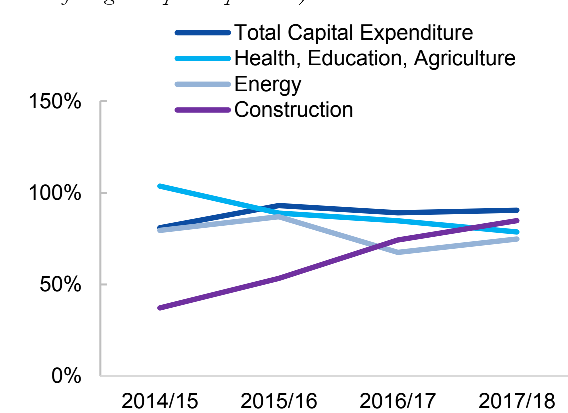
Source: CSO

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



Source: DICA

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



Source: MOPFI; World Bank staff calculations

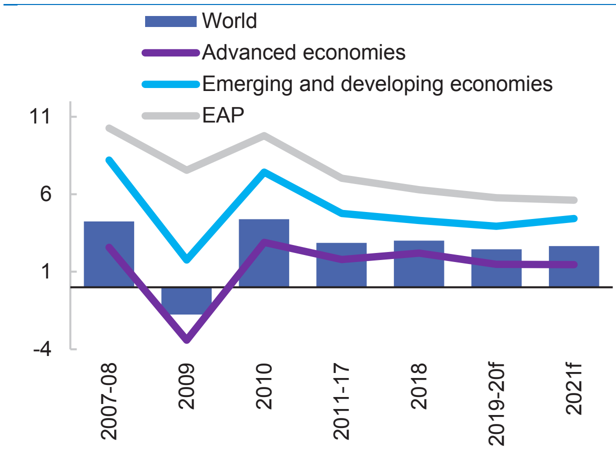
A. Recent Economic Developments

1. Economic growth

a. Global growth is expected to remain subdued over the forecast period

The global economic growth rate is projected to drop from 3.0 percent in 2018 to 2.4 percent in 2019. Slowing global growth reflects broad-based weaknesses among both advanced economies and major emerging markets and developing economies (EMDEs). Global growth is projected to stabilize at 2.5 percent in 2020 before strengthening slightly to 2.7 percent in 2021 (Figure 1). The aggregate growth rate for advanced economies is projected to moderate from 2.2 percent in 2018 to an average of 1.5 percent over 2019–2021, reflecting a sharp deceleration in trade, investment, and manufacturing output. Meanwhile, the aggregate growth rate for EMDEs is projected to slow to 3.5 percent in 2019 before recovering to 4.1 percent in 2020 as headwinds in some large EMDEs ease.

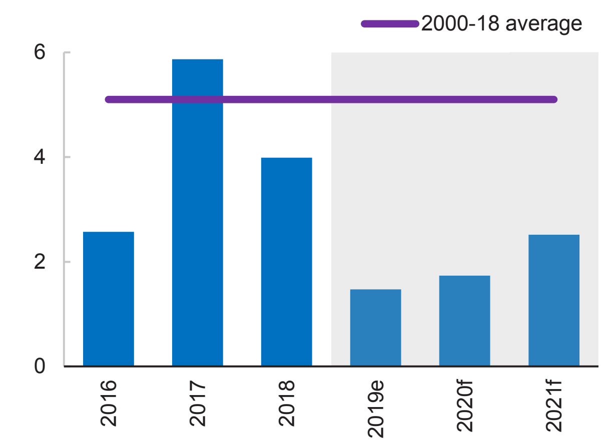
Figure 1: Real GDP growth
(percent)



Source: World Bank.

Notes: Working assumptions. Updated global projections will be published in Global Economic Prospects, January 2020 (forthcoming).

Figure 2: The growth of global GDP and global trade volumes
(percent)



Source: World Bank.

Notes: Working assumptions. Updated global projections will be published in Global Economic Prospects, January 2020 (forthcoming).

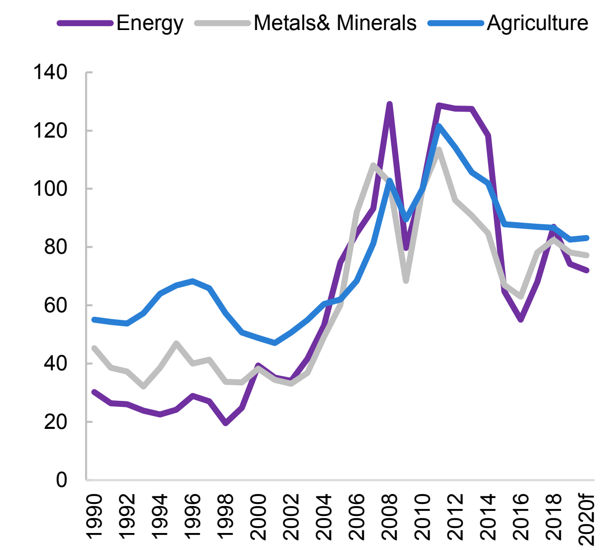
Global economic conditions are expected to remain challenging over the forecast period. Barring a renewed escalation of trade tensions, global trade growth is projected to weaken from 4 percent in 2018 to 1.4 percent in 2019, then recover modestly to 1.9 percent in 2020 (Figure 2). This forecast is predicated on the implementation of supportive policy measures in major economies and the firming of domestic demand among some EMDEs. The modest anticipated rebound notwithstanding, global trade over the period is expected to be weaker than previously forecast, reflecting a softer outlook for global investment, as well as evidence that the income elasticity of trade may be lower than expected.

Global financing conditions are projected to become more supportive over the forecast period, though international financial markets will remain volatile. During 2019, deteriorating global growth prospects

prompted major central banks to adopt more accommodative monetary policy stances. Despite the recent recovery of EMDE markets in the wake of the 2018 co
[[rrection, global policy uncertainty is contributing to a considerable risk of "monetary shocks." Financial-market volatility will continue to have the strongest impact on highly vulnerable countries with weak growth prospects and elevated levels of policy uncertainty. The eventual rise of yields in advanced economies will negatively impact capital flows to EMDEs, and policy uncertainty, geopolitical risks, and/or rising security concerns could compound this effect.

Global commodity prices are expected to decline modestly over the near term. Oil prices are expected to fall to US$59 per barrel (bbl) in 2020 and 2021, but this forecast is subject to considerable uncertainty. Metal prices are expected to decline slightly in 2020 as the global demand outlook for metals weakens. Agricultural prices are expected to remain broadly flat in 2020 (Figure 3).

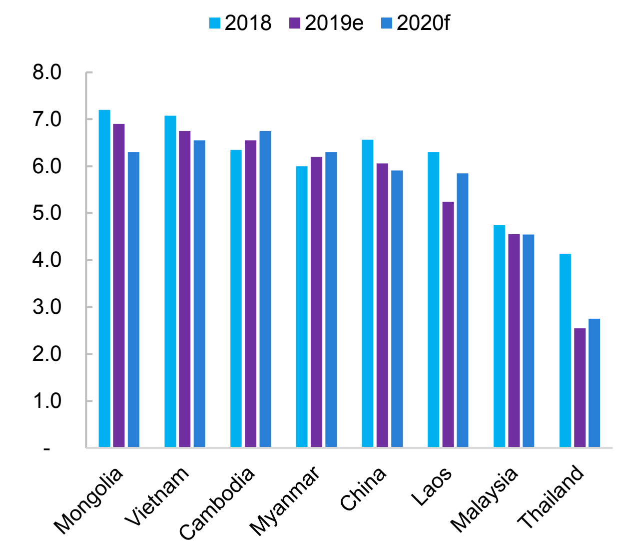
Figure 3: World commodity price forecast
(Index=nominal U.S. dollars, 2010=100)



Source: World Bank.

Notes: Working assumptions. Updated global projections will be published in Global Economic Prospects, January 2020 (forthcoming).

Figure 4: Regional growth rates
(Percent)



Source: World Bank.

Notes: Working assumptions. Updated global projections will be published in Global Economic Prospects, January 2020 (forthcoming).

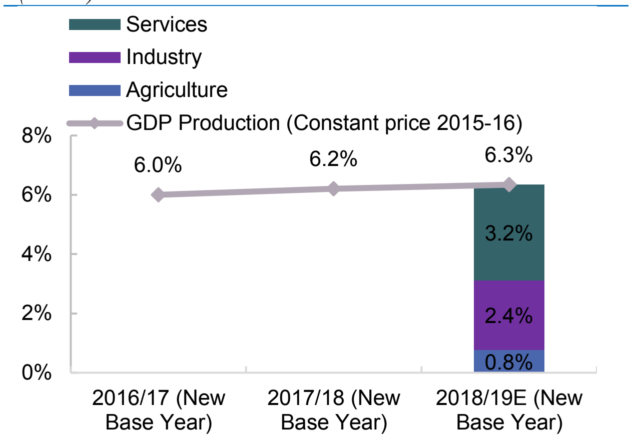
The aggregate growth rate for the East Asia and Pacific region is projected to slow from 6.3 percent in 2018 to an average of 5.8 percent during 2019–2020, then decline further to 5.6 percent by 2021. These projections are subject to significant downside risk, as they assume no further escalation of trade tensions between China and the United States, a slight decline in commodity prices, and supportive global financing conditions, especially in the near term. The baseline scenario also assumes that the fiscal and monetary policy support provided by China and other major regional economies will mitigate the impact of heightened policy uncertainty and weak global demand on regional growth. China's GDP growth rate is projected to slow to 6.1 percent in 2019, 5.9 percent in 2020, and 5.8 percent in 2021 in a context of ongoing domestic and external headwinds (Figure 4). Growth in the rest of the region is projected to decline to 4.8 percent in 2019 and stabilize at an average of 5 percent over 2020-21. While regional growth rates are projected to remain robust over the near term, the region's underlying potential growth rate has fallen considerably during the past decade due largely to slowing potential growth in China. Over the long term, adverse demographic trends are expected to drive a further decline in underlying potential growth rates, especially in China, Thailand, and Vietnam.

Risks to the outlook remain firmly on the downside. A renewed increase in trade tensions could inhibit global economic activity and spur the continued restructuring of complex international value chains. The risk of severe and broad-based financial stress, which would adversely affect the outlook for EMDEs, remains high due to elevated debt levels in many countries. High levels of policy uncertainty and geopolitical risk threaten to undermine confidence and slow investment, both in directly affected countries and worldwide. Policy uncertainty is particularly elevated in several European countries, including the United Kingdom as it transitions out of the European Union. Although unlikely in the near term, simultaneous sharper-than-expected slowdowns in China, the euro area, and the United States could significantly hinder global growth. An upside risk to the forecast is the possibility of a de-escalation of trade tensions between the United States and China, which would likely boost regional trade.

b. Myanmar's GDP growth rates are lower than previously estimated

Myanmar's economic growth rate is expected to marginally rise from 6.2 percent in 2017/18 to 6.3 percent in 2018/19. In 2018/19, the authorities changed the GDP base year from 2010/11 to 2015/16,[2] which updated the relative shares of different economic sectors, shifting emphasis away from agriculture and toward industry and services.[3] Consequently, the GDP growth estimate for 2017/18 was lowered by 0.6 percentage points, from 6.8 percent (2010/11 base year) to 6.2 percent (2015/16 base year). Using the new base year, growth in 2018/19 rose by an estimated 0.1 percentage points relative to 2017/18. This increase was smaller than expected due to the global economic slowdown (Figure 5).

Figure 5: Historical growth rates and current forecasts following the change in the GDP base year
(Percent)



Source: MoPFI, Planning Department

Note: 2018/19 sector contributions to growth do not add up to aggregate growth rate due to rounding.

The services sector drove growth in 2018/19. Despite seasonal floods and volatile demand, output growth in the agricultural sector (which accounts for 24 percent of gross value added) is projected to remain stable at 1.6 percent in 2018/19, with increasing diversification in both products and export destinations. The industrial sector (37 percent of gross value added) is expected to grow by 6.4 percent in 2018/19, as a rapid expansion in manufacturing offsets slower growth in construction. The services sector (39 percent of gross value added) is expected to grow by 8.4 percent in 2018/19, with a slow recovery in tourism-related services mitigated by continued robust growth in wholesale and retail trade.

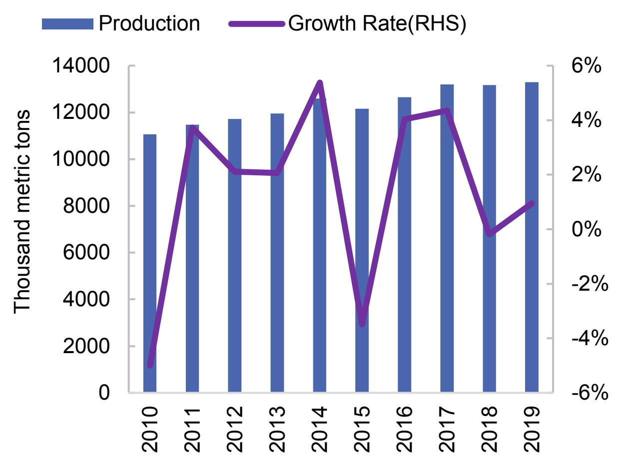
c. Agricultural growth has proven resilient

Demand volatility has slowed the growth of crop production, but Myanmar's agricultural output and export destinations continue to diversify. Agricultural output grew by an estimated 1.6 percent in 2018/19, supported by paddy rice and raw rubber production. Paddy rice output (which accounts for 53.4 percent of Myanmar's total agriculture production by value) is estimated to have increased from 29.5 million tons in

[2] All estimates for 2018/19 presented in this section and the accompanying figures reflect the new base year (2015-16).
[3] Agriculture's share in GDP decreased from 25 percent to 24 percent, while the share of industry rose from 32 percent to 37 percent, and services changed from 43 percent to 39 percent.

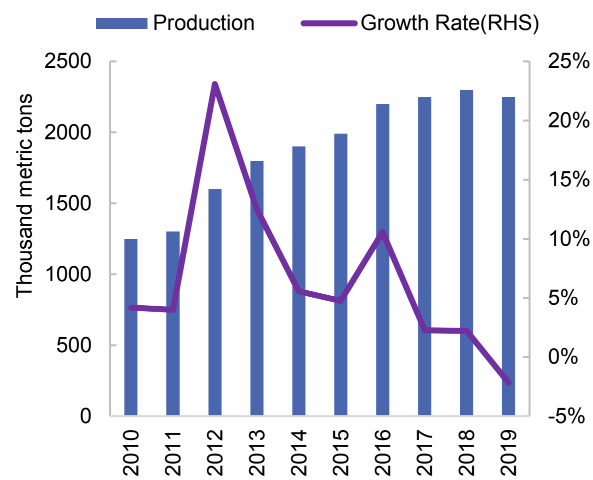
2017/18 to 30.4 million tons in 2018/19[4] (Figure 6), as exports to the Philippines and Africa helped offset softer demand from the European Union and China. Although raw rubber output represents a small share of agricultural production (4 percent of "other crops"), the subsector grew by an estimated 50 percent, year-on-year (yoy), between Q1 and Q3 of 2018/19, driven by a steady increase in demand from China and Vietnam. After several years of slowing growth, maize output contracted for the first time in a decade (Figure 7).

Figure 6: Rice production
(Thousand metric tons; RHS: Percent)



Source: USDA

Figure 7: Maize production
(Thousand metric tons; RHS: Percent)



Source: USDA

Spurred by robust external demand and the opening of new export markets, the growth of fishery production outpaced the growth of crop production. The annualized growth rate of fishery exports accelerated from 10 percent to 44 percent (yoy) in the first eight months of 2018/19. Successful efforts to comply with the quality standards of the European Union and Saudi Arabia drove the dramatic increase in fishery exports.

Weakening external demand has reduced prices for paddy rice, prompting policymakers to reintroduce an administrative floor price. After the average market price declined to 350,000 Myanmar kyat per hundred baskets[5], the government reestablished a minimum price for paddy rice that meets certain quality standards. Meanwhile, the reinstatement of EU tariffs on Myanmar's rice and a crackdown on illegal exports to China effectively reduced external demand. While the floor price could temporarily protect farmers, it may negatively impact consumers and downstream processors (e.g., rice millers) if the administrative price exceeds the international market price. Over the long term, encouraging investment in storage capacity and drying facilities, as well as the adoption of international standards, could support the rice subsector more effectively than an administrative floor price.

Foreign investment in agriculture has increased, while domestic credit growth to agriculture has slowed. Foreign investment in agriculture, livestock, and fisheries rose to 6.4 percent of FDI. Foreign investment has played a key role in the mechanization of agriculture[6] and the extension of agricultural value chains. However, local credit growth in agriculture appears to have declined in 2018/19, from 13 percent to 11

[4] FAO/GIEW

[5] Old imperial measure, where one basket is equivalent to roughly 25 kg

[6] Due to rural-urban migration, agricultural employment dropped from 69 percent of total employment in 2014 to 62 percent in 2018. Mechanization has been instrumental in preventing a rural labor shortage from driving up food prices. See: Population and Housing Census (2014) and Labour Force Survey (2018).

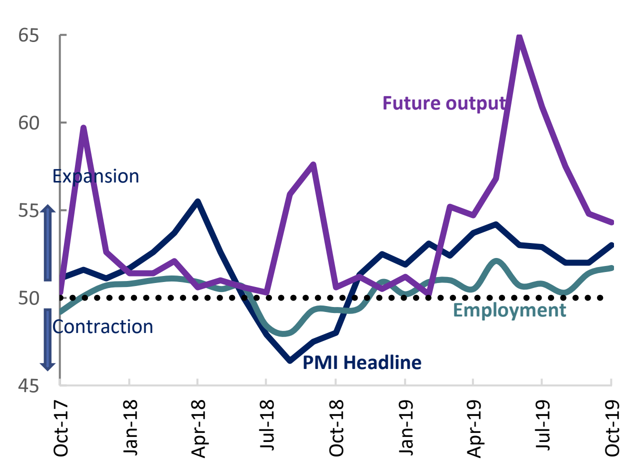
percent (yoy) in the first half (H1) of 2018/19. Increased foreign and domestic investment in higher-quality seeds, mechanization, and improved irrigation could boost agricultural production. The expanded use of digital technologies could increase agricultural productivity and household revenue in the rural sector by providing better information to farmers and broadening market access.

d. Manufacturing is driving the growth of industry, and new foreign firms are entering the market, but domestic small enterprises face challenges

The industrial sector grew by an estimated 6.4 percent in 2018/19, driven by rising investment in manufacturing. Manufacturing growth reached 8 percent in 2018/19, while both the headline Purchasing Manager's Index (PMI) and the employment index remained above 50, signaling increases in manufacturing output and employment, respectively (Figure 8). The export-oriented garment industry, electronics manufacturing, and domestically focused subsectors such as food production represent two-thirds of total value added in the manufacturing sector. During H1 2018/19, garment exports increased at an average rate of 60 percent (yoy), up from 55 percent (yoy) in the previous year. Supply-chain improvements and the expansion of wholesale and retail activities in 2018/19 supported the growth of the food and beverage subsector.

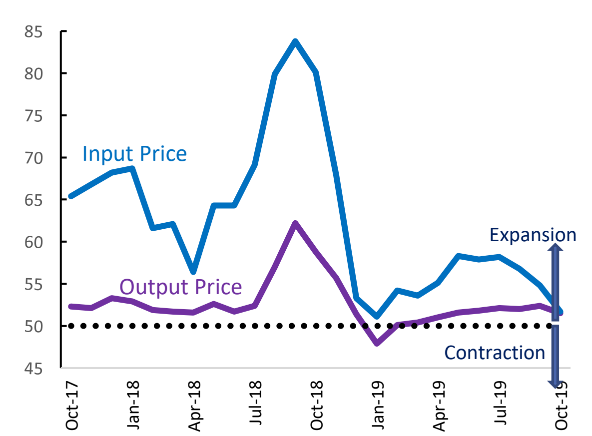
Investment commitments are greatest in the manufacturing sector, reflecting large FDI inflows and improved credit growth. Manufacturing was the second-largest recipient of investment in 2018/19, accounting for 32 percent of total approved FDI (and 36 percent of actual FDI flows) and 95 percent of credit growth (yoy) in the first three quarters of 2018/19. Supported by improvements in the administration of land rights, permit and licensing processes, and transportation and logistics access to special economic zones (SEZs) (Eurocham 2019)[7] and industrial areas, rising investment spurred the growth of the manufacturing sector in 2018/19.

Figure 8: PMIs for the manufacturing sector
(Index)



Source: IHS Markit and Nikkei

Figure 9: PMI output prices and input prices
(Index)



Source: IHS Markit and Nikkei

Meanwhile, rising input costs likely exacerbated competitiveness challenges, particularly for manufacturing-based small and medium enterprises (SMEs). Constraints on the supply of raw materials have gradually increased production costs in the manufacturing sector, and only a portion of the cost increase has been passed on to consumers (Figure **9**). The PMI shows that there is a reduction in the number of firms

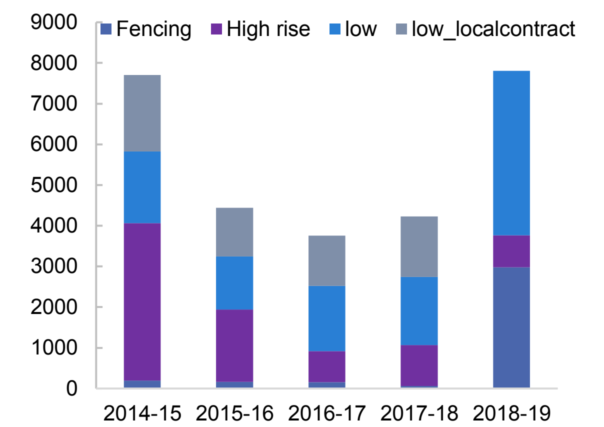
[7] Eurocham, Manufacturing Guide 2019

reporting input price increases, however the majority continue to report an increase in input prices (above 50 reference point). Consequently, profitability has been eroding over time, particularly among SMEs. The prospects for accelerated SME growth are constrained by insufficient private investment, limited access to productive technologies, and low levels of human capital development (see also Section C). Moreover, SME credit provisioning barely improved in 2018/19. Only 3 percent of SMEs report receiving funding from a financial institution, and most rely on their own internal funds to finance investments.

e. The construction sector is recovering slowly despite the huge market potential of residential buildings and transportation infrastructure

Although the business environment is improving, the slow recovery of residential projects continues to hinder the growth of the construction sector. Construction represents 7 percent of GDP, but the sector is estimated to have grown by just 0.1 percent in 2018/19. The risk of time and cost overruns is discouraging people from buying residential buildings, which account for 50 percent of total construction activity. Demand for commercial buildings, which account for 6 percent of total construction activity, cooled over the year.[8] Slowing foreign investment growth and an increase in the supply of office space during H1 2018/19 drove down commercial real estate prices. Approved FDI in the real estate sector has declined by 56 percent in 2018/19 compared with 2017/18, down to US$ 210.9 million. Looking forward, an increase in the number of construction permits issued during 2018/19, especially for low-rise buildings, suggests improvement in construction activities in the coming year (Figure 10). Growth in domestic bank credit to the construction sector rose from an average of 24 percent in the first three quarters of 2017/18 to an average of 59 percent (yoy) during the first three quarters of 2018/19.

Figure 10: Construction permits by type in Yangon
(permit)



Source: YCDC

Strengthening the mortgage market and expanding credit access could unlock the potential of the residential subsector. Demand for affordable housing is constrained by a nascent mortgage market and by relatively low returns for developers. Clarifying regulations, resolving uncertainties regarding immovable property rights and ownership records,[9] and expanding credit access could help realize the potential of residential construction.

Infrastructure investment, especially FDI, has increasingly focused on the transportation subsector. After construction activity contracted in 2017/18, approved FDI for infrastructure reached US$1.5 billion in 2018/19, up 94 percent over the previous year. Actual infrastructure FDI inflows in 2018/19 totaled US$493 million. Rising foreign investment in transportation infrastructure, which accounts for about 30 percent of total construction activity, reflects the development of a deep-water port at Dawei, the construction of Hantharwaddy International Airport, the upgrading of the Yangon-Bago railway, and the construction of the India-Myanmar-Thailand trilateral highway, among other projects.

[8] Collier International quarterly reports
[9] Ibid.

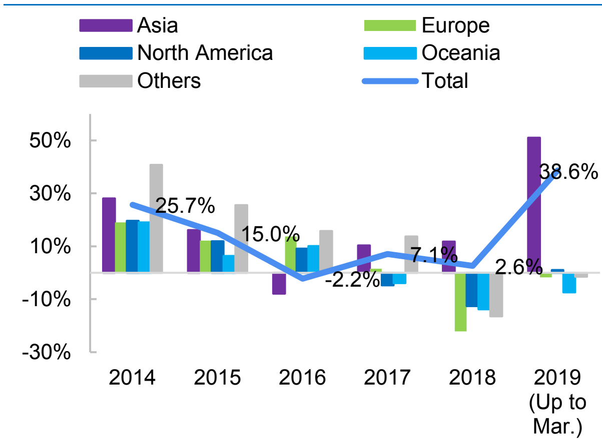
f. The wholesale and retail trade continue to support growth, while financial services and tourism have yielded mixed results

Overall, the services sector grew by an estimated 8.4 percent in 2018/19, though trends diverged across subsectors. Wholesale and retail trade, which together account for 21 percent of GDP, have driven the growth of the services sector, supported by reforms to the business climate and increased foreign investment. Meanwhile, the digital transformation of the financial sector is rapidly expanding access to financial services. However, the rental and transportation activities associated with tourism, which account for about 7 percent of services output, are recovering slowly.

The performance of the financial sector in 2018/19 was marked by two diverging trends. On one hand, rising concerns over debt defaults by firms on overdraft loans have slowed credit growth in the banking sector. On the other hand, improvements in mobile technology, card services, and insurance mechanisms have continued to enable the rapid modernization of financial services, which tends to have positive spillover effects on other economic activities. Driven by technological upgrading, the financial sector grew by an estimated 6.5 percent in 2018/19.

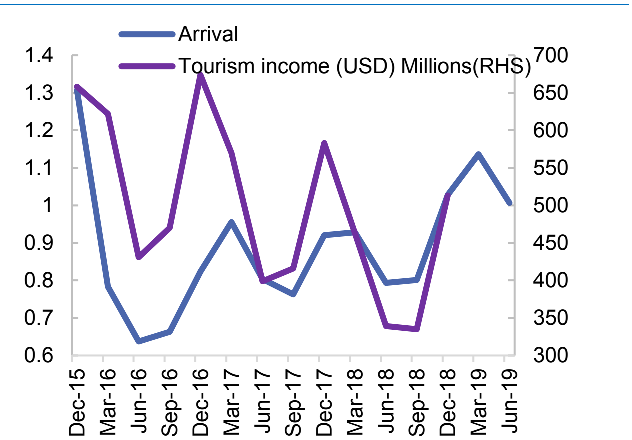
Despite a sharp increase in tourist arrivals, tourism-related services have grown slowly. Total arrivals rose by 38.6 percent (yoy) between January and September 2019, driven by an increase in tourists from Asia (Figure 11). In June 2019, the government eased visa restrictions on travelers from Germany, Italy, Australia, Russia, Switzerland, and Spain, who are granted visas on arrival. Currently, tourists from the European Union, the United States, and other Western countries represent 17 percent of all tourists in Myanmar. Arrivals from China rose from 20 percent of total arrivals in 2018 to 38 percent in 2019. However, tourism-related earnings appear to have remained unchanged in 2018/19, based in part on lower daily spending by tourists from the region, fewer tourists from Europe and Australia, and concerns about "zero-budget tourism[10]" (Figure 12).

Figure 11:The growth of tourist arrivals
(yoy growth)



Source: Ministry of Hotels and Tourism

Figure 12: Total arrivals vs tourism income
(Million; RHS: US$ million)



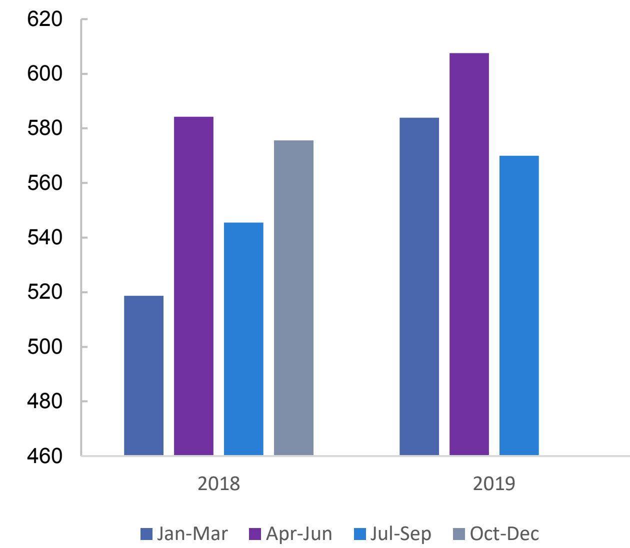
Source: Ministry of Hotels and Tourism

Wholesale and retail markets are becoming more competitive and extending their reach into underserved areas. Supported by foreign investment and improved logistics services, retail and wholesale

[10] https://www.mmtimes.com/news/authorities-crack-down-zero-dollar-tourists.html, and discussions with tour operators highlighted concerns that large profits were being repatriated by foreign tour operators operating in Myanmar.

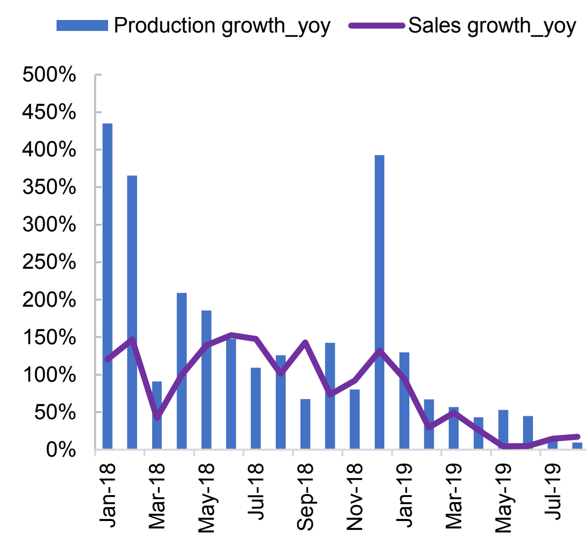
markets have expanded geographically and grew at an estimated rate of 7 percent in 2018/19. Sales of food & beverages and personal care products, which account for over 55 percent of private consumption,[11] improved between 2017/18 and 2018/19 (Figure 13 [12] and Figure 15). Automobile sales declined (yoy) during 2018/19, but motorbike and motorcycle sales grew by an estimated 50 percent[13] (Figure 14 and Figure 16).

Figure 13: Food & beverages and personal care sales index
(Index)



Source: Nielson

Figure 14: Automobile production and sales growth
(Percent)



Source: ASEAN automotive federation

g. As investment growth continues to moderate, private consumption is driving GDP growth

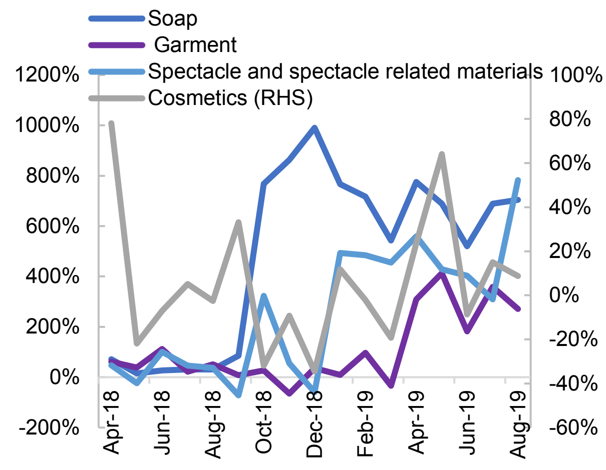
Private consumption has largely supported growth on the demand side, while weaker-than-expected investment and inventory drawdowns continue to slow growth. Private consumption accounts for over 50 percent of GDP and continues to drive domestic demand, particularly in urban areas. Despite higher inflation rates in H2 2018/19, several leading indicators point to strong consumption growth. Spending on food and nonfood items such as imported personal care products (Figure 15), air conditioning units, motorbikes, and bicycles (Figure 16) increased in 2018/19. Meanwhile, rising remittances from overseas workers and an increase in the domestic minimum wage likely supported consumption growth.

[11] MLCS 2017

[12] Nielsen MMRD Retail Audit covering 9 States Urban areas Traditional Trade channels only

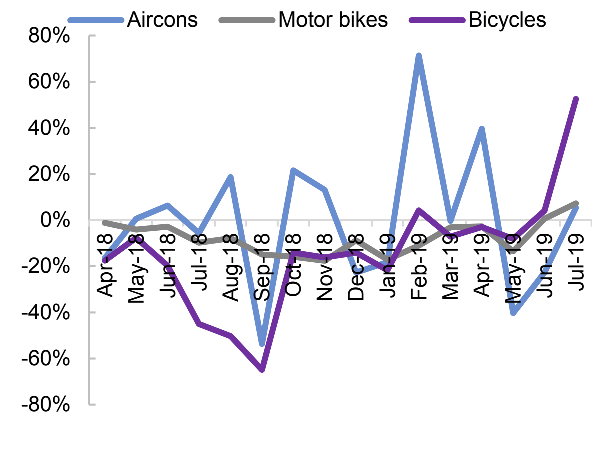
[13] Ministry of Commerce

Figure 15: Imports of selected consumer items
(yoy growth, %)



Source: Ministry of Commerce

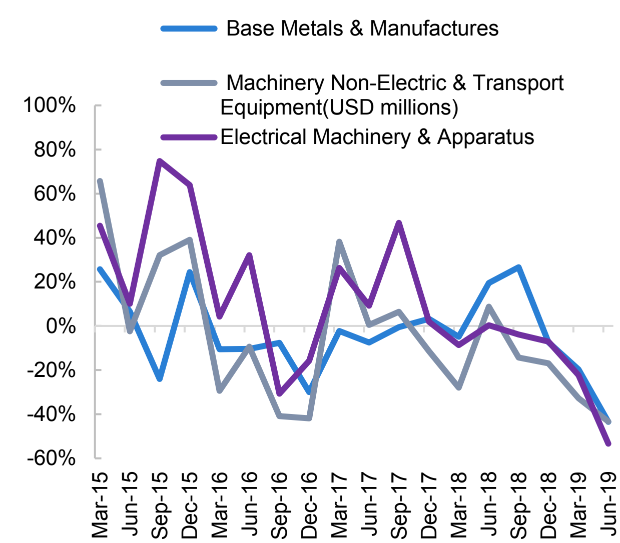
Figure 16: Imports of aircon units, motorbikes, and bicycles
(monthly change, %)



Source: Ministry of Commerce

While FDI flows show signs of a pick-up, capital goods imports growth is declining along with weak public capital budget execution. Actual FDI inflows over the last three quarters have shown signs of improvement (see section k), however, the capital goods imports declined by 11 percent (yoy) in the first three quarters of 2018/19 (Figure 17). Public capital budget execution fell from 90.5 percent in 2017/18 to 75.8 percent in 2018/19, reflecting weak execution of public investment.

Figure 17: Selected capital goods imports
(yoy, growth)



Source: CEIC

2. Foreign trade, investment, and exchange rates

The overall external balance improved in H1 2018/19,[14] though monthly trade data suggest a slight deterioration in Q3. Myanmar's current-account surplus expanded from US$63.3 million in Q1 2018/19 to US$839.6 million in Q2, reflecting an increase in net remittance inflows combined with rising exports and

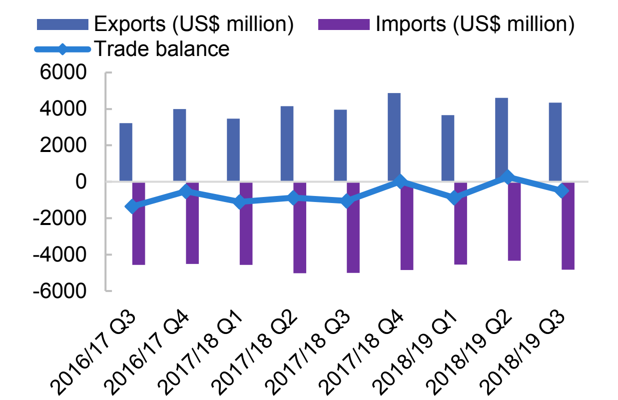
[14] The analysis in this section focuses on quarter-on-quarter data.

declining imports, which created a trade surplus in Q2. Meanwhile, the financial-account deficit, which excludes reserves and related items, widened from US$216.5 million in Q1 2018/19 to US$276.4 million in Q2 due to a decline in FDI inflows. As the kyat appreciated against the US dollar, Myanmar's foreign-exchange reserves increased by US$314.7 million in Q1 2018/19, boosting total reserve coverage to about three-and-a-half months of imports.

h. The trade deficit widened in Q3 2018/19

After improving in Q2 2018/19, the trade balance returned to deficit in Q3 as exports declined. Myanmar's trade balance shifted from a deficit of US$881.8 million in Q1 2018/19 to a surplus of US$259.5 million in Q2, as exports rose from US$3.7 billion to about US$4.6 billion, while imports fell from US$4.5 billion to around US$4.3 billion. However, the trade balance returned to a deficit of US$491.0 million in Q3 2018/19, as exports fell and imports rose (Figure 18).

Figure 18: The trade balance
(US$ million)



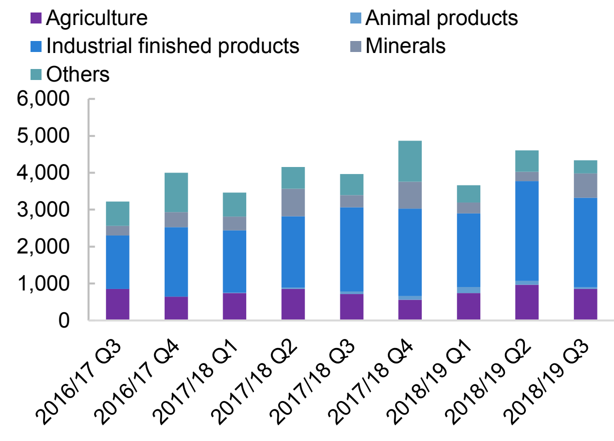
Source: Ministry of Commerce

i. Exports fell as increased mineral exports failed to offset a decline in finished industrial products and agricultural products

Exports of finished industrial products (56 percent of total exports) dropped by 9.9 percent in Q3 2018/19, while agricultural products (20 percent of total exports) fell by 11.4 percent. By contrast, mineral exports (15 percent of total exports) grew by 155.2 percent in Q3 2018/19 (Figure 19).[15] Gas exports increased rapidly and once again became the largest export among finished industrial products (Figure 20).

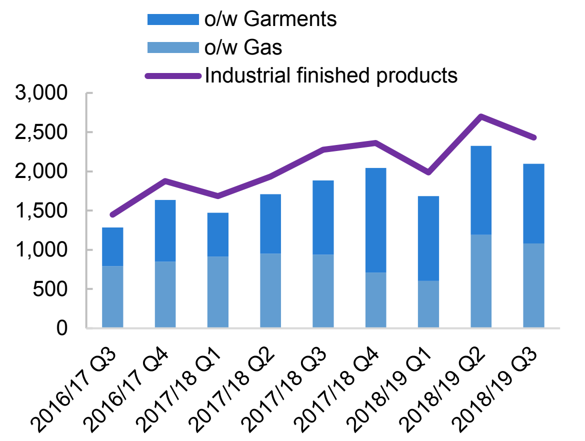
[15] Industrial finished products include gas and garments. Mineral products include jade and jewels.

Figure 19: Quarterly exports of agricultural goods, finished industrial products, and minerals
(US$ million)



Source: Ministry of Commerce

Figure 20: Quarterly exports of garments, gas, and finished industrial products
(US$ million)



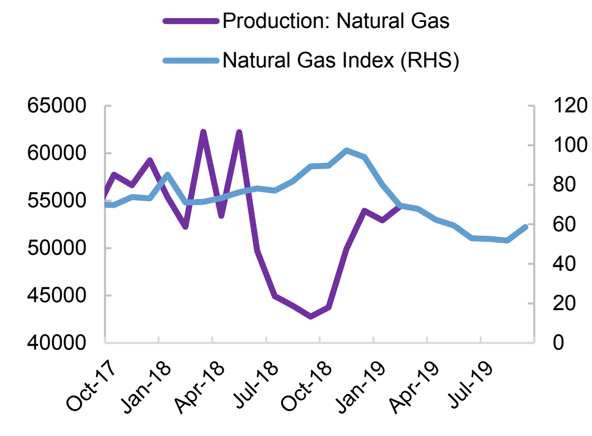
Source: Ministry of Commerce

Gas exports increased from 30 percent of total finished industrial products in Q1 2018/19 to 44 percent in Q3, while the share of garments fell from 54 percent to 42 percent over the same period. Gas exports almost doubled between Q1 and Q2 2018/19, peaking at US$1.2 billion before declining slightly to US$1.1 billion in Q3, as both production levels and prices moderated (Figure 21). Natural gas prices have been on a declining trend since Q2 2018/19. Meanwhile, garment exports declined from US$1.1 billion in Q2 2018/19 to about US$1.0 billion in Q3, which may be due to the seasonality of demand.

Rice exports and exports of beans and pulses both declined in Q3 2018/19. Between Q2 and Q3 2018/19, the value of rice exports declined by 26.0 percent, while exports of beans and pulses declined by 15.8 percent (Figure 22). The falling value of beans and pulses exports may reflect declining demand for imported pulses in India.[16] Myanmar and China have close economic and trade linkages, and frequent border closures and other trade disruptions caused by Chinese anti-smuggling efforts have adversely impacted rice exports.[17]

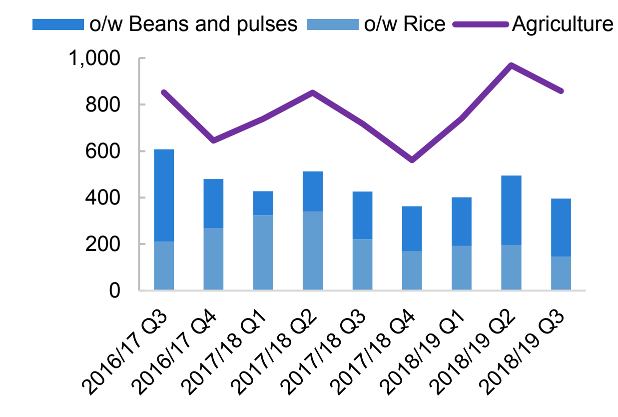
[16] https://www.mmtimes.com/news/pulse-prices-fall-india-buys-less.html
[17] https://www.mmtimes.com/news/myanmar-rice-federation-export-rice-china.html

Figure 21: Natural gas export volume and price index
(Million cubic feet, RHS: Natural gas price index, 2010=100)



Source: CEIC

Figure 22: Exports of rice and beans and pulses
(US$ million)

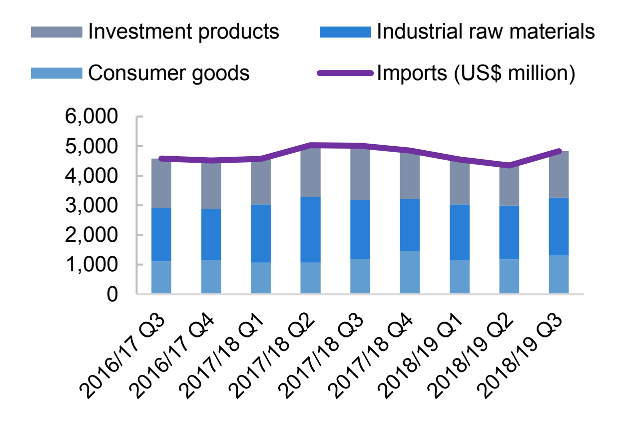


Source: Ministry of Commerce

j. Imports increased for the first time in a year, supported by rising demand for consumer, intermediate and capital goods

Imports increased, quarter-on-quarter, in Q3 2018/19, driven by rising demand for consumer goods, industrial raw materials, and investment products. Imports of consumer goods and investment products surged by 11.3 percent and 15.3 percent, respectively, between Q2 and Q3 2018/19, signaling robust demand growth (Figure 23). However, as noted in section g, the yoy growth in capital-goods imports declined. The overall Q1-Q3 capital-goods imports in 2018/19 is smaller than the overall Q1-Q3 capital-goods imports in 2017/18. Imports of industrial raw materials (i.e., intermediate goods) rose by 7.8 percent in Q3 2018/19 to reach about US$2.0 billion. This increase was driven by petroleum products, which represent 51 percent of all intermediate goods exports. Import of industrial raw materials growth supported the robust expansion of the manufacturing sector during the year.

Figure 23: Quarterly imports of investment products, industrial raw materials, consumer goods
(US$ million)



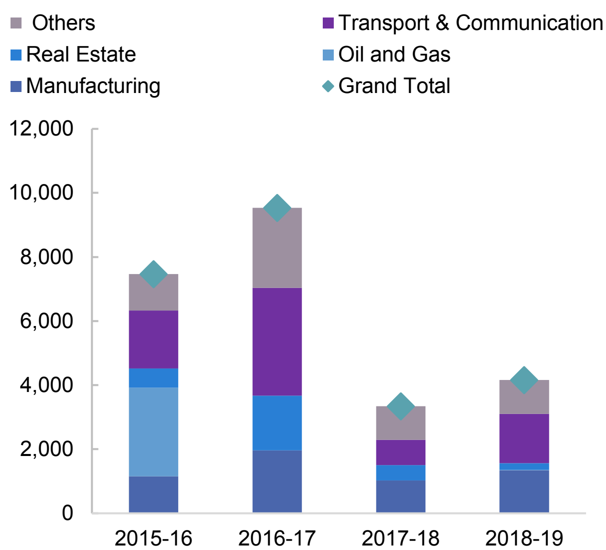
Source: Ministry of Commerce

k. FDI commitments increased along with signs of a recovery in FDI inflows

The total value of approved FDI increased between 2017/18 and 2018/19. Total approved FDI rose from US$3.3 billion to US$4.2 billion, supported by a 94.3 percent increase in the transportation & communications sector and a 31.5 percent increase in the manufacturing sector, following the launch of new manufacturing activities and infrastructure development programs (Figure 24). The share of transportation & communications sector commitments rose from 24 percent in 2017/18 to 37 percent in 2018/19, spurred by increased activity in infrastructure development and telecommunications services.

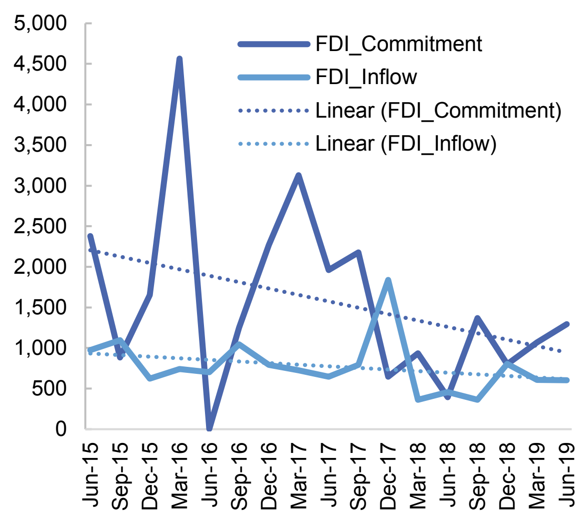
FDI inflows showed signs of recovery in the last three quarters to June 2019, following record low FDI in 2018. Actual FDI inflows rose from an average of US$394 million per quarter in the last three quarters of 2017/18 to a quarterly average of US$671 million in the first three quarters of 2018/19 (Figure 25). Furthermore, the increase in approved FDI indicates the recovery in FDI flows could continue into 2019/20 but sustaining FDI inflows depends on continued efforts to improve the business environment to attract capital flows in a context of diminishing global flows and Myanmar specific country risks. Singapore remains Myanmar's largest foreign investor, followed by China and Hong Kong SAR, China. Singapore's share in total investment more than doubled from less than 30 percent in June 2017/18 to 64 percent in June 2018/19.

Figure 24: Approved FDI
(US$ million)



Source: DICA

Figure 25: FDI commitments and actual FDI inflows
(US$ million)



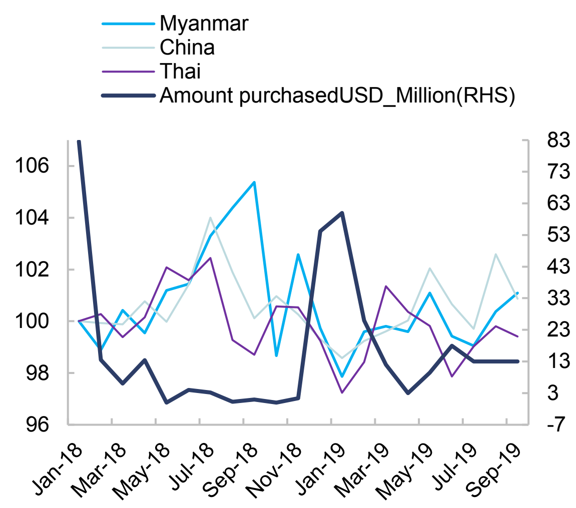
Source: DICA

1. The kyat is growing stronger

Like many regional currencies, the Myanmar kyat has appreciated against the US dollar since January 2019. The strengthening of the kyat largely reflects a weakening US dollar related to US monetary policy, and has been similar in magnitude to the appreciation of other regional currencies (Figure 26). From December 2018 to September 2019, the kyat appreciated by 2.1 percent, ultimately reaching 1,532 kyat/dollar.

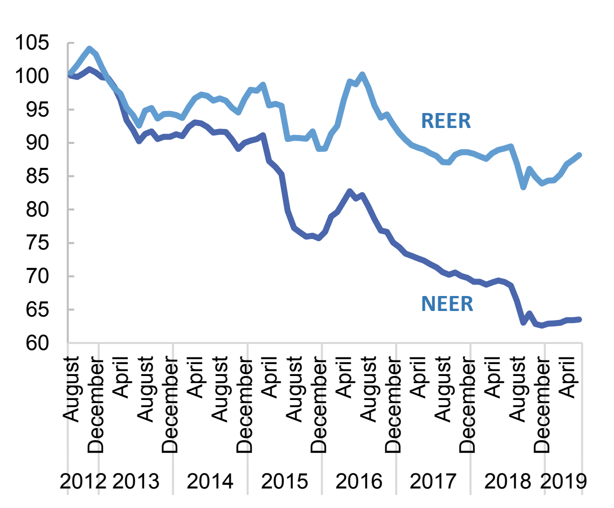
The real effective exchange rate (REER) appreciated in line with trends in the nominal rate and domestic inflation (Figure 27). The REER is an index of the domestic currency against the currencies of major trading partners, adjusted for trade weights and relative inflation. Myanmar's REER appreciated by 4.5 percent between January and June of 2019, driven by nominal exchange-rate appreciation and high inflation, which could undermine Myanmar's exports competitiveness vis-à-vis its major trading partners.

Figure 26: The evolution of the exchange rate index and CBM reserves
(Exchange rate index, January 2018=100)



Source: Central Bank of Myanmar

Figure 27: Changes in the nominal effective exchange rate and the real effective exchange rate
(August 2012=100)



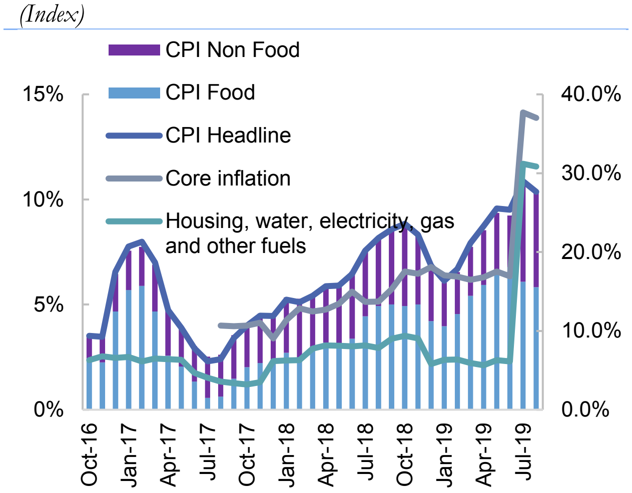
Source: Central Bank of Myanmar

3. Inflation and the monetary sector

m. Domestic inflationary pressures have increased in recent months

The headline inflation rate reached double digits in July 2019 due largely to supply-side factors and the recent electricity price adjustment. Headline inflation accelerated from 9.5 percent (yoy) in June to 10.9 percent in July before easing to 10.4 percent in August (Figure 28). Rising prices for cooking oil, meat, eggs, and fish contributed to an increase in food-price inflation, while the policy decision to raise electricity prices in July 2019 drove up nonfood inflation.

Figure 28: Inflation rates by type
(Index)



Source: CSO

The nonfood CPI sub-index,[18] which covers 19.4 percent of the overall nonfood expenditure weight and 8.1 percent of the total expenditure weight, has risen from 6.1 percent in June to 31.2 percent (yoy). Core inflation, which excludes volatile food and energy prices, accelerated from an average of 6.4 percent (in the first nine months of 2018/19) to 14.1 percent. However, due to the one-off nature of the increase in electricity prices, inflationary

[18] This sub-index includes prices for housing, water, electricity, gas, and other fuels.

expectations are not projected to rise. Nevertheless, price pressures persist, and firms may pass a share of the increased electricity cost through to consumers.

Persistently high inflation rates could adversely affect lower-income households and undermine business competitiveness. Persistently high inflation could hurt savers, workers with fixed wages, and lower-income households, which spend a large share of their income on food. Moreover, Myanmar's external competitiveness could be weakened if its inflation rate were to exceed those of its major trading partners over a substantial period.

n. The expansion of the money supply continued to slow as the growth of lending to both the private and public sectors slowed

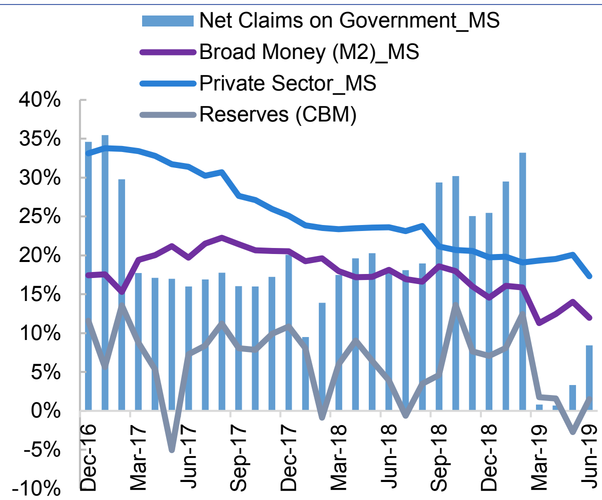
The growth of reserve money moderated as the Central Bank of Myanmar (CBM) financing of the fiscal deficit declined. The annual growth rate of CBM reserve money dropped from an average of 6.8 percent during October – June 2017/18 to an average of 5.7 percent during the same period in 2018/19 (Figure 29). Meanwhile, the growth rate of net claims on the central government fell from an average of 5.7 percent to an average of 3.4 percent. Monetization of the budget deficit is also expected to have declined as the government increases sources of financing towards Treasury bonds and Treasury bill auctions.

The rate of broad-money growth remains below the CBM target.[19] The broad-money growth rate slowed from an average of 19 percent during October – June 2017/18 to an average of 13 percent during October – June 2018/19. The slowing growth of commercial-bank lending (refer to section o), net claims on the government, and CBM foreign assets drove the moderation of broad-money growth. Commercial bank lending contribution to M2 fell by close to 3 percentage points-which represents half of the decline of M2 over the past year. Consistent with developments in reserve and broad money, the money multiplier has fallen from 2.8 percent in 2017/18 to 2.6 percent in 2018/19.

The CBM scaled back deposit auctions as reserve money growth moderated. Due to the low rate of reserve growth, the CBM reduced the number of deposit auctions significantly in 2018/19, and the minimum accepted bid fell by 26 percent to kyat 423 billion. Demand has been weak during the year, with total bid submissions falling by 34 percent, from kyat 577 billion in 2017/18 to kyat 423 billion in 2018/19, as average real interest rates at deposit auctions remained negative (Figure 30). Negative real interest rates at auctions reflect mounting inflation coupled with the slow adjustment of the offer rate at auctions. As sustained negative returns could hamper the continued development of Myanmar's financial markets, the authorities should consider liberalizing interest rates for wholesale-market transactions at government securities and deposit auctions. A gradual shift toward the use of indirect monetary policy instruments could facilitate the liberalization of interest rates while reducing the risk of misallocating resources.

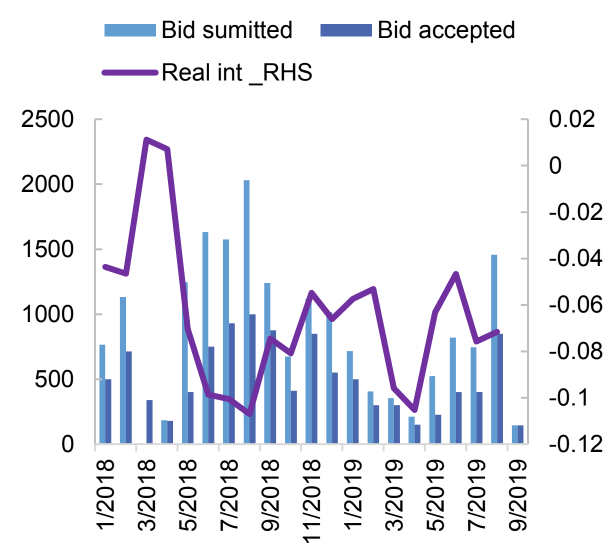
[19] 21 percent is targeted for monetary aggregate.

Figure 29: Reserve-money creation by the CBM
(Percent)



Source: Central Bank of Myanmar

Figure 30: Deposit auctions and average real interest rates
(Kyat, billion; RHS: percentage)

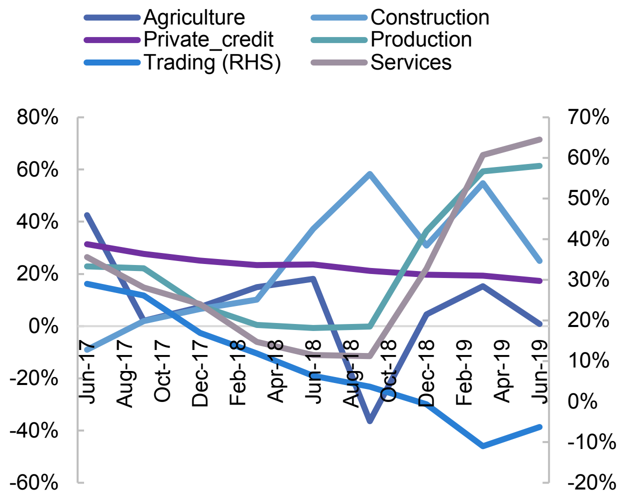


Source: Central Bank of Myanmar

o. Private credit growth slows down and banking profitability falls

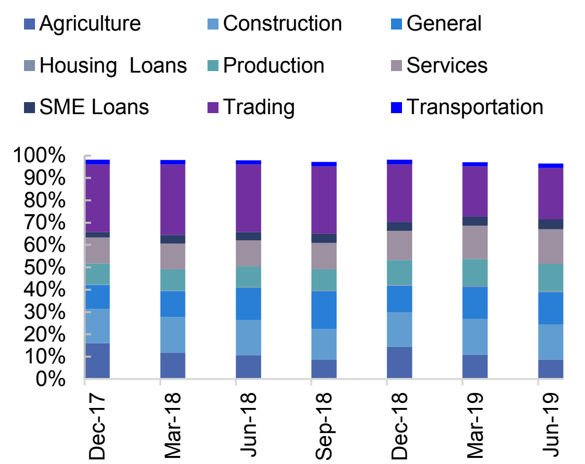
The growth rate of private credit slowed from an average of 24 percent during Q1–Q3 2017/18 to an average of 19 percent during the same period in 2018/19 as the expansion of financing for trading and agriculture moderated. The share of credit to trading and agriculture fell from 41 percent in Q3 2017/18 to 32 percent in Q3 2018/19 (Figure 31). The growth of credit to the services and production sectors, which accounts for 21 percent of total credit, slowed in 2017/18 before accelerating in 2018/19 as both sectors rapidly expanded. Overall, lending remains concentrated in the trading, services, production, and construction sectors (Figure 32). Trading, services, and production offer limited credit default risks, and trading accounts for about 24 percent of total lending, followed by services (14 percent) and production (12 percent). Lending for construction, which tends to entail higher risks, accounts for about 16 percent of total lending. Only 4 percent of SMEs report receiving funding from a financial institution, and most SMEs rely primarily on their own funds to finance investment.

Figure 31: The growth of domestic private credit
(Percent)



Source: Central Bank of Myanmar

Figure 32: Decomposition of credit to the private sector by economic activity
(Percent)

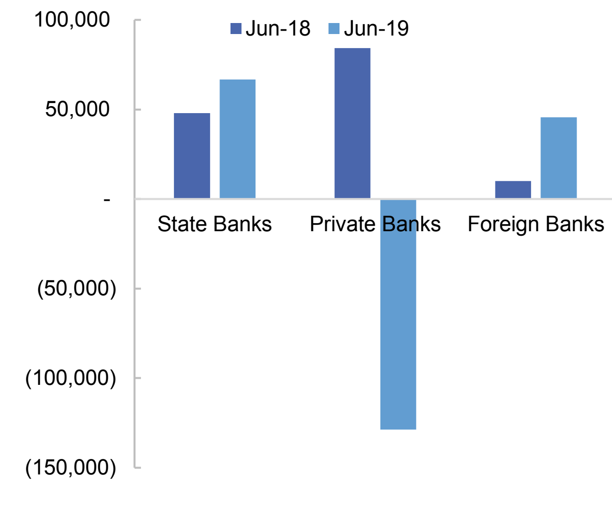


Source: Central Bank of Myanmar

Net profits of private banks turned negative in the first three quarters in 2018/19. (Figure 33). Expenditures rose driven by a range of non interest related factors, that may reflect improved provisioning in compliance with financial reporting and other regulatory standards. Administrative parameters for interest rates—including an 8 percent floor on deposits and a 13 percent ceiling on lending rates—prevent banks from fully adjusting the costs of financing, which limits their ability to lend at a profit. Gradually lifting interest-rate controls in the retail market would enable risk-based lending and support the broader development of Myanmar's financial sector.

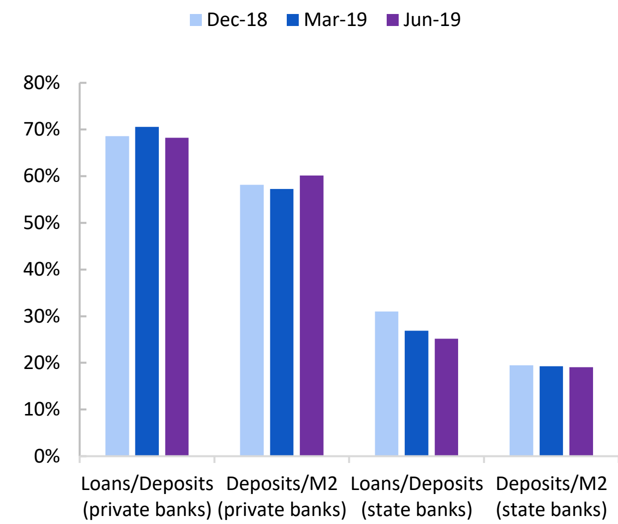
Private banks are actively engaging with creditors to reorganize indefinite overdraft loans that roll over into three-year term loans. This measure is a step toward bringing Myanmar's banking practices into line with international standards. Prices for real estate and immovable assets have slumped over the past five years, and the potential repossession of properties entails a risk of losses. Meanwhile, foreign-bank profits have grown by 160 percent since Q1 2018/19, as permission was granted to foreign banks to conduct retail lending.

Figure 33: Net profits of state banks, private banks, and foreign banks
(Kyat, billion)



Source: Central Bank of Myanmar

Figure 34: Deposit growth and liquidity ratios
(Percent)



Source: Central Bank of Myanmar

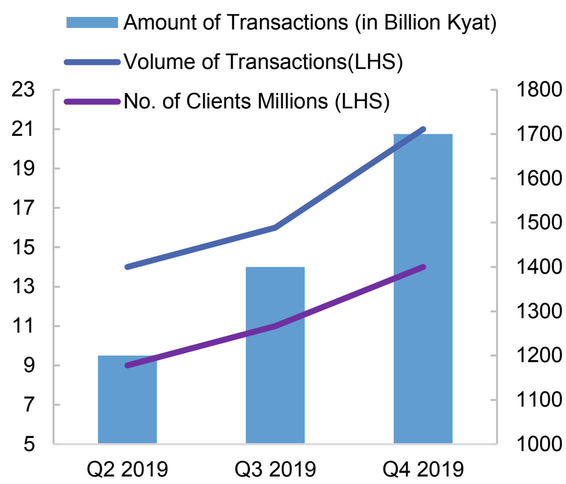
Liability indicators for commercial banks remain broadly unchanged. Deposit growth rates and liquidity ratios have been largely stable, with the loan-to-deposit ratio at 69 percent and the deposit-to-broad-money ratio at 59 percent (Figure 34) during Q1–Q3 2018/19. The loan to deposit ratio remains stable at a low level as banks continue to comply with prudential regulations.

p. Myanmar's financial services sector is rapidly modernizing

Mobile financial services and card services have expanded dramatically in recent years and represent important channels for financial inclusion. Data for the dominant market player show that as of September 2019, 14 million customers utilized mobile financial services, and there were 1.7 trillion kyat in mobile-money payments in the quarter ending September 2019 (Figure 35). Currently, five major bank-led mobile financial service providers and five nonbank providers are licensed to provide mobile-money services, wire transfers, and direct bill payment.

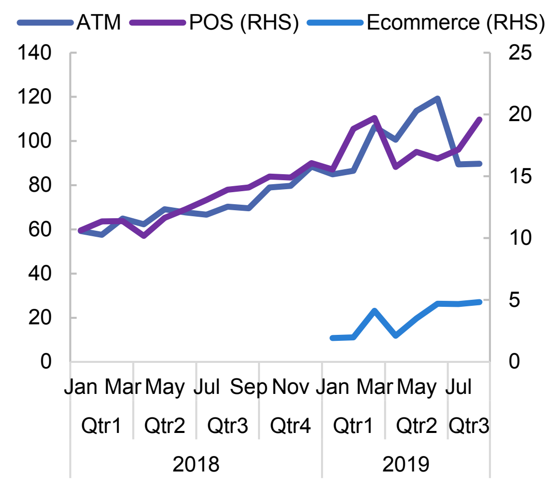
Meanwhile, card payments expanded at an average rate of 57 percent in 2018/19. As of June 2019, kyat 1.25 trillion had been transferred via Myanmar Payment Union cards, of which ATM transactions represented 80 percent, point-of-sale transactions 19 percent, and e-commerce 1.4 percent (Figure 36). This pattern indicates that the financial sector is gradually moving away from the traditional cash-based economic model and the high operating costs it entails.

Figure 35: The growth of mobile financial services
(Million; RHS: kyat, billion)



Source: Dominant market player

Figure 36: The growth of card services
(Kyat, billion)

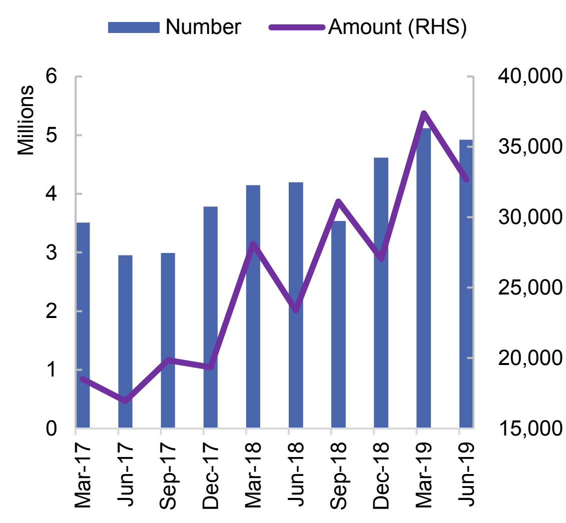


Source: MPU

q. The insurance sector has developed steadily but still has untapped potential

The insurance sector is growing, supported by increased private-sector participation. Following the insurance sector liberalization, five foreign insurers[20] are now authorized to operate as wholly foreign-owned life insurance providers. Foreign and local insurers are also expected to receive approval for nine joint ventures – four for life insurance and five for general insurance[21]. As the private sector entered the insurance market, the total number of insured rose from 4.2 million in June 2018 to 4.9 million in June 2019 (Figure 37). The value of insurance premiums from private sector insurers stands at 0.1 percent of GDP, or kyat 32 billion, which grew by 40 percent (yoy) in Q3 2018/19, albeit from a low base. Life insurance accounts for 31 percent of the market, and property insurance represents 55 percent of the market. The utilization of insurance services remains relatively modest, and has considerable scope for further growth.

Figure 37: The insurance sector growth
(Number of insured, million; RHS: value of insurance premiums, kyat million)



Source: Financial Regulation Department

[20] UK-based Prudential, Dai-Ichi Life Holdings from Japan, Manulife from Canada, AIA from Hong Kong and US-based Chubb
[21] https://frontiermyanmar.net/en/myanmars-new-insurers-face-a-tough-sell

4. Fiscal policy

r. Actual budget deficit in 2018/19 is lower than target, driven by under-execution.

The programmed budget deficit for 2018/19 was revised upwards from 5.4 percent in September 2018 to 6.4 percent in June 2019. The increase was driven firstly by a projected increase in recurrent expenditures (especially in the energy SEEs) from 15.0 to 16.8 percent of GDP, and secondly by expectations of relatively slower growth in revenue collection.

The expected budget deficit increase has not materialized due to expenditure under-execution, with the actual deficit projected at 3.2 percent. Spending data at the end of fiscal year 2018/19 indicated that actual spending was 89.9 percent of revised budget target, with the shortfall driven by capital spending which has been executed at 75.8 percent of the budget (Table 1). These preliminary spending numbers indicate that the actual budget deficit for 2018/19 will be lower than the target, at around 3.2 percent of GDP. This is consistent with the gap between actual and budgeted deficit in previous fiscal years (Table 2). Hence, there is fiscal space available before reaching the deficit ceiling of 5.0 percent of GDP.

Table 1: 2018/19 Budget Execution

(kyat, trillion)

	2018/19		
	Target*	Actual**	Actual/Target (%)
Total Expenditure	27.1	24.4	89.9
Current	19.3	18.4	95.2
Capital	6.6	5.1	75.8
Debt Service	1.1	0.9	82.2

Note: *Target of revised budget, ** Preliminary data
Source: MOPFI; World Bank staff calculations

Table 2: Budgeted and Actual deficit of 2015/16 – 2018/19

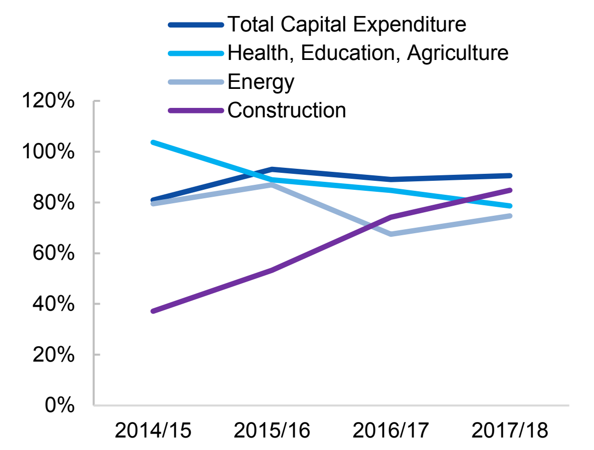
(Percent of GDP)

	Budget Deficit	
	Budgeted	Actual
2015/16	5.0	4.2
2016/17	4.1	2.6
2017/18	5.9	2.8
2018/19	6.4*	3.2**

Note: *Revised budget, **Preliminary data
Source: MOPFI; World Bank staff calculations

The continued under-execution is occurring despite reforms such as the change in the fiscal year. Myanmar changed its fiscal year from April – March to October – September in FY 2018/19, with a key stated objective of aligning the capital project cycle with the weather seasons in Myanmar, in order to improve the capital expenditure execution rate. The continued significant capital budget under-execution highlights that the problem goes beyond weather related factors. The Ministry of Planning and Finance together with line ministries would have to understand the drivers of under-execution and highlight reforms (Figure 38). Some potential reforms highlighted in previous analysis include allowing for multi-year budget appropriations and multi-year contracting for large capital projects, and better aligning the recurrent and capital budgets[22]. Capital budget under-execution is also concentrated in large projects in a few ministries, with the most significant under-execution in the SEEs under Ministry of Transport and Communication (17.4 percent under-execution), Ministry of Health and Sport (10.3 percent), Ministry of Agriculture Livestock and Irrigation (10.1 percent).

Figure 38: Capital Execution Rate by Ministry
(percent share of budgeted capital expenditure)



Source: MOPFI; World Bank staff calculations

Revenue collection continues to disappoint, increasing only slightly from 16.4 percent of GDP in 2017/18 to 16.8 percent of GDP in 2018/19. Revenue collection grew 14.5 percent in nominal terms from 15.4 trillion kyat in 2017/18 to 17.6 trillion kyat in 2018/19 RE but only grew marginally as a percent of GDP from 16.4 percent 2017/18 to 16.8 percent in 2018/19 (Table 3). The increase is driven by SEE operations, mainly from electric power and energy sector but offset by lower union revenue collections. Union tax revenue collection are projected to decline from 6.4 percent of GDP in 2017/18 to 6.1 percent of GDP in 2018/19 revised estimate.

Table 3: Revenue Collection
(% of GDP)

	2017/18	2018/19	
	PA	RE	Changes
Consolidated Public Sector	**16.4**	**16.8**	**0.4**
SEE Operations	**8.0**	**8.6**	**0.6**
Union Government	**9.9**	**9.8**	**-0.1**
Tax	6.4	6.1	-0.3
o/w Income	*2.4*	*2.2*	*-0.2*
o/w Commercial	*2.1*	*2.0*	*-0.1*
Non-Tax	3.2	3.0	-0.2
Grants	0.2	0.7	0.5

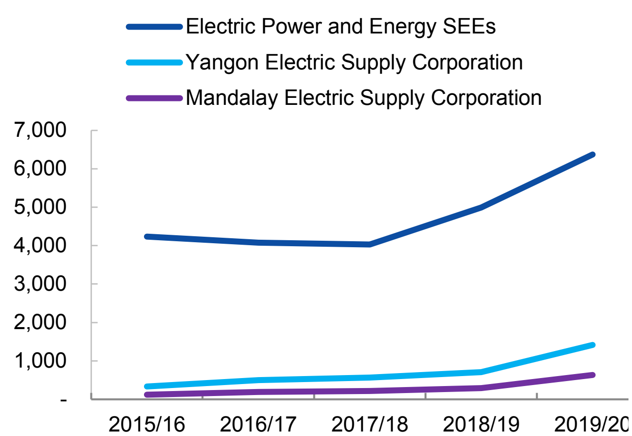
Source: MOPFI; World Bank staff calculations

The government increased the electricity tariff for the first time in five years in July 2019. Myanmar's

[22] "Myanmar Public Expenditure Review: Fiscal Space for Economic Growth", World Bank (2017)

electricity price was financially unsustainable with the lowest rates in ASEAN. The government decided to increase the tariff with the maximum increase of 150 percent in domestic consumption and 20 percent in non-domestic consumption. The increase in electricity tariff was expected to raise revenues in the Electric Power and Energy SEEs to 8.4 trillion kyat in 2019/20 compared to 6.0 trillion kyat in 2018/19 or an increase of 40 percent (Figure 39). While this increase in tariff and hence revenues will significantly narrow the losses and reduce the required electricity fiscal subsidy, it will not completely cover production and distribution costs.

Figure 39: Electric Power and Energy SEEs' Other Current Revenue
(billion kyat)

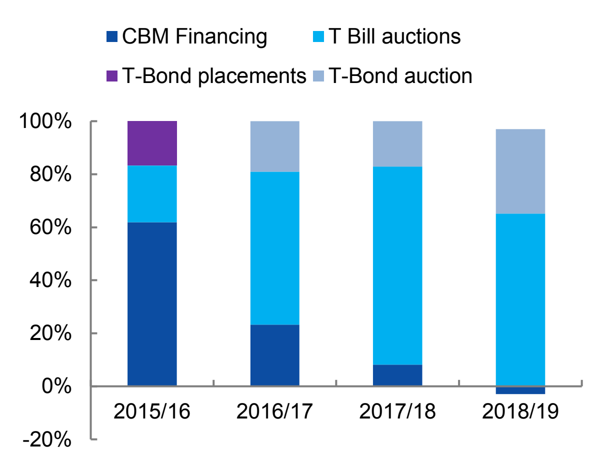


Source: MOPFI, World Bank staff calculations

The government proposed reduced tax rates for citizens with undisclosed sources of income as part of the 2019 Union Tax Law. Under the new option, taxpayers with undisclosed source of income can pay income tax at the rate of 3 to 30 percent as compared to the previous rate of 15 to 30 percent. The expected impact is an increase in income tax revenue collection from taxpayers with undisclosed sources of income. However, in the longer term, the amnesty can hurt tax system credibility and discourage tax compliance as tax payers anticipate future tax amnesties.

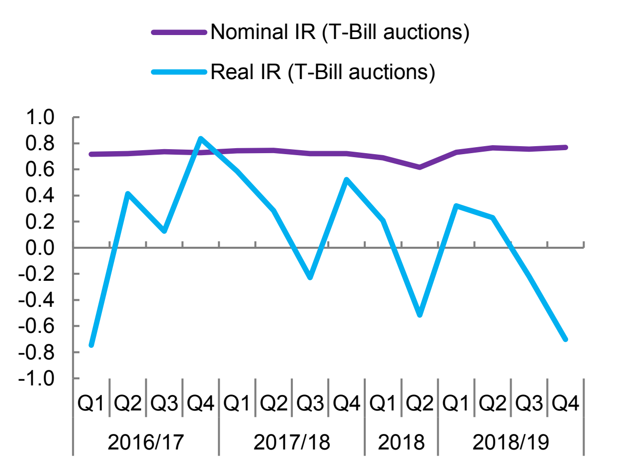
Deficit financing continues to shift away from direct Central Bank financing and towards treasury bills and bonds. Deficit financing needs have declined on account of the declining fiscal deficit (see section n). In addition, the share of CBM financing has been declining from a high of 61 percent of total domestic financing in 2015/16 to a negative value (due to debt repayment being higher than debt issuance) of total domestic financing in 2018/19 (cumulative up to Q3). Instead, T-bill and T-bond auctions have fulfilled the domestic financing demand up to Q3 of 2018/19, with T-bond issuances twice as much as the previous year (Figure 40).

Figure 40: Deficit financing
(percent share of domestic financing)



Source: CBM; World Bank staff calculations

Figure 41: Real interest rates
(Quarterly interest rate, percent)



Source: CBM; World Bank staff calculations

To encourage market participation and development, the interest rates offered by government on its debt needs to better reflect market conditions. Despite the increased utilization of T-bill and T-bond auctions, market participation in both T-bill and T-bond auctions remains below potential. Real interest rates on T-bills and T-bond in FY2018/19 were positive in Q1 and Q2 but have been declining and turned to negative in Q3 and Q4 (Figure 41) as inflation rose (see section m). As sustained negative interest rates could hamper further development of the financial market, it is important to consider gradually moving to more competitive real interest rates. This could encourage greater participation and support a lower inflation target.

The Union Parliament approved the budget for the 2019/20 fiscal year ( ). The budget process reflects significant process improvements, with improved transparency through the publication of several detailed budget and spending documents, including the first ever Fiscal Policy Statement and the introduction of the Project Bank and electronic budget submissions (which was highlighted in the previous edition of the Myanmar Economic Monitor). The budget continues to project high budget deficits, at over 6.9 percent of GDP, which is ambitious given continued challenges in expenditure execution.

Box 1: Significant improvement in transparency in the 2019/20 Budget

The Union Parliament approved the 2019/20 Union Budget proposal on 13th September 2019 with significant improvements in budget transparency. Several documents related to the budget performance and preparation were made available to the public for the first time[23]. This includes:

- 2018/19 budget performance reports published as a reference alongside the new 2019/20 budget. The reports show quarterly budget execution by Union and State and Region level up to Q3 of FY2018/19 (April – June 2019).
- Detailed documents related to the 2019/20 budget including: the 2019/20 Budget Summary Book; Budget Speech; Final Budget Brief; State Economic Enterprise (SEE) commercial statements; and the Financial Commission Recommendation on the Union Budget.
- The Government's Fiscal Policy Statement explaining their revenue, expenditure and borrowing plans.

***Policy priorities* in the new budget**: Stated policy priorities for FY 2019/20 are (i) exchange rate and price stability; (ii) increased tax collections and expenditure control; (iii) increased allocations for education, health and social welfare and rural development; (iv) priority for infrastructure spending and promoting PPPs in electricity, transportation and communication sectors.

Macroeconomic assumptions for the budget: The government projections underlying budget formulation are more still optimistic than the World Bank's, but closer than before. Government is projecting real GDP growth at 7.0 percent in 2019/20 (Planning Law), compared to 6.4 percent by the World Bank. Inflationary pressures are expected to remain high with average annual inflation forecast between 7.0 and 8.5 percent in 2019/20 driven by supply side constraints and passthrough effects from increased electricity tariffs (see revenues below).

Key budgetary aggregates: The Union budget projects an increase in the deficit to 6.9 percent of GDP in 2019/20 from the revised budgetary estimate of 6.4 percent in 2018/19, driven by a projected moderate increase in expenditure and stagnation of revenues. However, preliminary 2018/19 outturn data suggested that the actual deficit of 2018/19 could be around only 3.0 percent of GDP due to budget under-execution. Given continued constraints to budget execution such as late tendering, annual contracting and reluctance to use flexibility provided by the financial rules and regulation, it is likely that the actual FY2019/20 deficit will be well within the fiscal deficit to GDP rule of 5 percent.

[23] Documents available at www.mopf.gov.mm

Revenue performance: Revenue is projected to be 20.3 trillion kyat, which represents a marginal increase as a share of GDP from 16.8 percent of GDP in 2018/19 (revised budget) to 16.9 percent in FY2019/20 as negative tax buoyancy is offset by a boost in electricity revenues from the July price increase. The key revenue trends are:

- **Union government revenues are projected to decline by 0.8 percentage points from 9.8 percent of GDP in 2018/19 to 9.0 percent of GDP in 2019/20[24] as tax/GDP declined by more than half the health budget**. Union tax collection is estimated to decline from 6.1 percent of GDP in 2018/19 to 5.5 percent of GDP in 2019/20, driven by declining collections of specific goods tax and customs duties. Tax/GDP has declined by 0.9 percentage points since 2017/18, or nearly the value of the entire 2019/20 health budget (1.0 percent of GDP)
- **SEE revenues are projected to increase from 7.0 percent of GDP in 2018/19 to 8.0 percent of GDP in 2019/20**, due to a projected increase in electricity revenues from State Economic Enterprises under the Ministry of Electric Power and Energy. This follows the welcome increase in electricity tariffs in July 2019.

Expenditure performance: Aggregate planned expenditures are 28.7 trillion kyat (US$19.1bn) which represents a marginal increase as a share of GDP, from 23.2 percent of GDP in 2018/19 RE to 23.9 percent of GDP in 2019/20. This reflects a planned decline in defense spending, offset by an increase in electricity and interest spending, while spending on health and education is at best stagnant and capital expenditure as a share of GDP declining despite significant needs. The key expenditure trends are:

- **Planned recurrent expenditure of SEEs in the energy sector has increased as subsidy savings were channeled into other recurrent uses.** The planned increase includes a 1.2 percent increase in spending from SEEs under Ministry of Electricity and Energy (MOEE) and 0.8 percent from Yangon Electricity Supply Corporation (YESC) and Mandalay Electricity Supply Corporation (MESC). These large increases are offset in part by decreases in other current spending by MOEE of approximately 1.4 billion kyat driven by the reduction of electricity tariff subsidy.
- **Interest payments have increased by 0.7 percent of GDP** due to an increase in domestic interest repayment under the MOPF increases from 1.4 trillion in 2018/19 to 2.3 trillion kyat in 2019/20. The MOPFI expect to pay the interest of the expected high deficit to GDP of 2018/19 and 2019/20.
- **Despite rising needs, capital expenditure is projected to shrink as a share to GDP** from 6.4 percent in 2018/19 to 6.2 percent of GDP in 2019/20. The actual picture for capital expenditure will likely be even weaker by fiscal year-end, given that the capital budget execution remains a challenge.
- **Planned spending in education and health sectors remain stagnant or has declined as a share of GDP**. Spending by the Ministry of Education is set to increase slightly from 2.1 percent in 2018/19 to 2.2 percent in 2019/20 while spending by the Ministry of Health is set to decline from 1.1 percent in 2018/19 to 1.0 percent in 2019/20.

[24] BE (Budget Estimate): The original expected revenue and budget allocation approved by the parliament before the beginning of the fiscal year.
RE (Revised Estimate): Revision of expected revenue and budget allocation typically takes place in the middle of the fiscal year. The Revised Estimate is equal to sum of the Budget Estimate and Supplementary Budget, minus unspent sums surrendered by line ministries.
PA (Provisional Actual): The provisional actual is like the temporary actual, except that the figures have been reconciled with bank statements from the MEB. Typically, changes between the TA and PA are not large.

B. Economic outlook, risks and policy development

1. Medium-term economic outlook and risk

s. Stable outlook amid uncertainties

Growth in 2019/2020 is expected to rise by 0.1 percentage points from 2018/19 driven by domestic demand and notably investment in fixed capital formation (Table 4**).** Growth in investment, in particular transport and telecommunication sector, will sustain as government plans more infrastructure spending in the lead up to the 2020 elections. Construction sector activity is expected to improve in 2019/20, with proxy indicators such as building permits and FDI commitments showing positive signs. The industry sector is expected to grow at a faster pace in 2019/20 than 2018/19, with growth in manufacturing activities driven by foreign firms' entry. However, weakening global growth will likely impact export-oriented industries like agriculture with low productivity. Private consumption growth is expected to decline slightly with higher inflation and reduced consumer confidence, reflected by Nielsen MMRD Consumer Confidence Index [25]. In the medium-term, growth is expected to recover with improved business sentiments, access to electricity and availability of credit particularly for construction, manufacturing and trade activities with foreign bank participation.

The central bank will need to monitor inflationary pressure. Although the impact of the one-off electricity tariff increase on inflation is expected to fade off, the medium-term forecast for inflation remains between 7-7.5 percent on the assumption of slow recovery in agriculture output and productivity, anticipated exchange rate depreciation pressure stemming from global trade tensions, persistent increase in raw materials prices and uncertain global and domestic fuel prices. Inflation could edge up further if a more expansionary fiscal stance is pursued prior to elections in October 2020.

The current account deficit is forecast to widen in 2019/20 and expand further in the medium term. In 2019/20, the current account deficit is expected to widen to 2.5 percent of GDP from 2.0 percent in 2018/19. Export growth is expected to be affected by slowing global trade growth and moderating economic growth in China. Import growth is expected to accelerate, driven by the need for capital goods, industrial raw materials due to robust manufacturing activities. The current account deficit is thus forecast to widen further to 3.5 percent[26] of GDP in 2021/22.

Weak revenue performance and spending improvements will cause the fiscal deficit to increase in the medium term, but stay within the 5 percent of GDP target. The preliminary fiscal deficit for 2018/19 is around 3.2 percent of GDP which is 0.3 percent lower than projected in the previous Myanmar Economic Monitor due to significant underspending. Revenue collections will continue to decline as a share of GDP, despite the increase in electricity tariff, adding upward pressure on the fiscal deficit. The government ambitious spending plans, particularly in the energy, education and health sectors will also increase the fiscal pressures. However, the under-execution challenge will continue to weigh down the deficit level which will likely lead to

[25] Nielsen MMRD Consumer Sentiment study indicated Consumer Confidence Index has dropped in recent quarter following improved confidence in the earlier quarters: Jul-Sep (Q4 2017) – 101; Oct- Dec (Q1 2018) – 105; Jan-Mar (Q2 2019) – 104; Apr-Jun (Q3 2019) – 104; Jul-Sep (Q4 2019) – 98.

a modest increase in the budget deficit to 3.4 percent in 2019/20, 3.4 percent in 2020/21, and 3.6 percent in 2021/22.

Table 4. Economic outlook
(Percent, % of GDP)

	Outlook		
	2018/19	2019/20	2020/21
Real growth	6.3	6.4	6.5
Consumer price inflation (period average)	8.5	7.5	7.0
Current account deficit (% of GDP)	2.0	2.5	3.5
Budget deficit (% of GDP)	3.2	3.4	3.4

Source: World Bank staff estimates

t. Downside risks to the economic outlook are driven by both domestic weaknesses and external factors

Risks to the growth outlook are tilted to the downside. Slowing global and regional growth, especially in China, together with global trade tensions, could also transmit to Myanmar through the trade channel by slowing external demand and inbound foreign investments. Insecurity in border areas with violence and forced displacement of refugees in Rakhine, and uncertainty from legal proceedings in international courts could affect investors' sentiment. Based on international experience, the 2020 general elections could add another source of uncertainty. Additionally, Myanmar's relative dependence on primary agriculture commodities, and its vulnerability to natural disasters also pose risks to stable growth.

2. Policy watch

The government has sustained its reform momentum over the last two quarters, and the economic policy agenda remains focused on attracting greater foreign investment and accelerating growth. Since May 2019, the authorities have taken important steps to attract greater foreign investment; further liberalize the banking, stock market, and insurance subsectors; reform electricity tariffs; increase and diversify tourism exports; and broaden the tax base while encouraging tax compliance. This section spotlights several key elements of the ongoing reform process.

The government has taken a proactive approach to attracting foreign investment. The authorities regard 2019 as a critical period for promoting investment in Myanmar. The continuing decline in FDI that began in 2017 spurred the government to adopt more ambitious investment-promotion measures, both at home and abroad. To facilitate business investment, networks were created between foreign chambers of commerce, domestic trade unions, and state and regional governments within Myanmar. Meanwhile, the authorities stepped up their efforts to showcase the opportunities that Myanmar offers to foreign firms and investors. This strategy has contributed to diversifying both the sources of investment and the range of targeted sectors. FDI increased by 24 percent during 2019, supported by rising investment in transport, communication, and manufacturing. However, the government continues to face serious challenges in improving the business environment, including addressing the infrastructure deficit, alleviating the administrative burden on the private sector, and streamlining bureaucratic processes within public agencies.

The liberalization in the banking, stock market, and insurance subsectors is continuing apace. The CBM is adjusting interest-rate caps to encourage lending to microenterprises while controlling the growth of high-risk consumer credit. In May 2019, the CBM announced that it would raise the annual maximum interest rate on credit cards from 13 percent to 20 percent to manage the rapid expansion of consumer credit. The total number of credit-card users has been growing since the CBM relaxed restrictions on credit cards in 2017, and the interest-rate adjustment reflects a sharp increase in the number of credit-card holders with delayed payments.

Meanwhile, the Ministry of Planning and Finance has lowered the interest-rate cap on microfinance institutions to encourage investment and growth in the non-resource economy. Under the new rules, the lending rate for microfinance has been reduced from 30 percent to 28 percent per year, while the compulsory savings rate has been cut from 15 percent to 14 percent per year. Currently, a total of 181 microfinance institutions are servicing a loan portfolio of about K 1.2 trillion.

In July 2019, the Yangon Stock Exchange (YSX) allowed foreign individuals and locally registered entities to own shares of up to 35 percent in listed firms. This measure is expected to boost investment in equities and provide additional sources of financing for domestic firms while supporting the long-term development of Myanmar's financial sector. Equities trading is currently thin due to the limited number of local investors, and the stock market does not generate adequate liquidity to support private-sector growth.

The authorities have further liberalized the insurance subsector. In January 2019, foreign insurers were permitted to enter the insurance market with five foreign life insurers permitted, and in August six local and foreign insurers were authorized to establish joint ventures. Insurance penetration is estimated at just 1 percent, underscoring the considerable development potential of both the insurance subsector and the market for government bonds.

An increase in electricity tariffs marks an important step toward reforming the energy sector. In July 2019, the government raised electricity tariffs to reduce the fiscal burden of the energy sector and improve service quality. Myanmar's electricity tariffs are the lowest in the ASEAN region, and the unsustainable fiscal cost of electricity subsidies spurred the first tariff adjustment in five years. The government increased tariff rates for both businesses and residential users. However, the adjustment's effects on poverty and inequality have been mitigated by continued subsidies to low-income households and by the design of the new tariff structure, which charges higher rates to high-volume consumers. In addition to its positive impact on the fiscal balances, the tariff increase is expected to help address the electrification gap while creating new opportunities for foreign and domestic private investment.

New visa rules are designed to increase tourism and diversify tourism source markets. In 2018, the Rakhine crisis contributed to a 50 percent decline in tourist arrivals from the United States and Europe. In a bid to address the declining number of Western travelers, the government eased visa requirements for six EU countries in June 2019. Under the new Look West policy, visas are now granted on arrival to citizens of Germany, Italy, Australia, Russia, Switzerland, and Spain. To offset the drop in Western demand, the authorities have begun offering free visa allowances to tourists from Asia, and a rising number of Asian tourists boosted total arrivals by 43 percent in 2019. Tourists from Europe, the United States, and other Western countries now represent 17 percent of total arrivals.

Tax reforms are intended to broaden the revenue base and encourage tax compliance. A 5 percent tax on mobile phones and accessories took effect in June 2019, providing an important new source of fiscal revenue. Following a one-year exemption for medium and large taxpayers, the 2 percent advance income tax on trade has been reinstated for all exporters, helping to level the competitive playing field for small businesses. To encourage tax compliance, the government proposed reduced tax rates for citizens with undisclosed sources of income as part of the 2019 Union Tax Law in September 2019. Whereas undisclosed income was formerly subject to tax rates ranging from 15-30 percent, under the new law, taxpayers with undisclosed source of income can pay income tax at reduced tax rate of 3 to 5 percent. Lower tax rates on undisclosed income are expected to encourage the payment of back taxes, promote the repatriation of financial assets currently held abroad, and strengthen tax compliance going forward. However, the authorities must take steps to counter a potential rise in the illegal possession of property and to ensure the strict enforcement of laws against money laundering. Furthermore, in the longer term, the amnesty can hurt tax system credibility and discourage tax compliance as tax payers anticipate future tax amnesties.

C. Special topic

Boosting the private sector's contribution to growth

A rapidly growing private sector is still hampered by low productivity

Myanmar's private sector is small but rapidly expanding. It is dominated by micro and small firms (most of which were established after 2011) operating in the informal economy and concentrated in urban areas (i.e., Yangon and Mandalay). While most of the country's micro and small enterprises are in traditional sectors such as agriculture, large firms typically operate in natural resource extraction (i.e., gas, mining, and wood processing), agro-processing, chemicals, construction, financial services, and transport services.

Firms with foreign ownership employ on average more workers, have higher labor productivity, and pay higher wages than domestic enterprises. Myanmar has a small but growing number of foreign-owned enterprises (around 1 percent of all businesses) operating mostly in manufacturing, logistics, communication, and information services. While state economic enterprises (SEEs) only account for about 7 percent of the country's GDP and employ less than 1 percent of the labor force, some SEEs operate in strategic sectors, create an uneven playing field for private enterprises, and are a drain on the public budget.

Decades of isolation and economic sanctions continue to hamper the development and external orientation of Myanmar's firms. A mere 5 percent of Myanmar's firms are linked to global value chains, limiting their ability to expand, use imported inputs, acquire updated and better technologies, and learn new management and organizational techniques. Compared with other countries, small and medium-sized enterprises (SMEs) in Myanmar are less likely to innovate and use information and communication technologies to support their operations. Weak basic education, lack of basic management skills, and poor market knowledge impact the capacity of the country's entrepreneurs to innovate and prepare bankable projects.

Firms need greater access to factors inputs, better connectivity, and an enabling business environment

Private-sector growth is primarily hampered by supply-side constraints and a restrictive business environment. The top three impediments to firms' ability to grow in Myanmar are access to factors of production (i.e., finance, land, and skilled workers); poor physical and digital connectivity; and a restrictive business environment. The World Bank's 2020 Doing Business report shows that the country's overall performance on the ease of doing business lags behind the average for economies in East Asia Pacific (EAP), as its overall rank was 165th out of 190 economies, and 24th out of 25 economies in the EAP region.

Some progress is being made in alleviating these constraints. In the last year, Myanmar has introduced substantial improvements in five areas measured by Doing Business 2020 —starting a business, dealing with construction permits, registering property, protecting minority investors, and enforcing contracts. In the case of dealing with construction permits, reforms moved Myanmar to its highest ranking (46) in any DB subindicator. Persistent implementation of reforms put Myanmar among the top 20 reformers this year, alongside China, India and Bangladesh and allowed the country to rise out of the bottom 20.

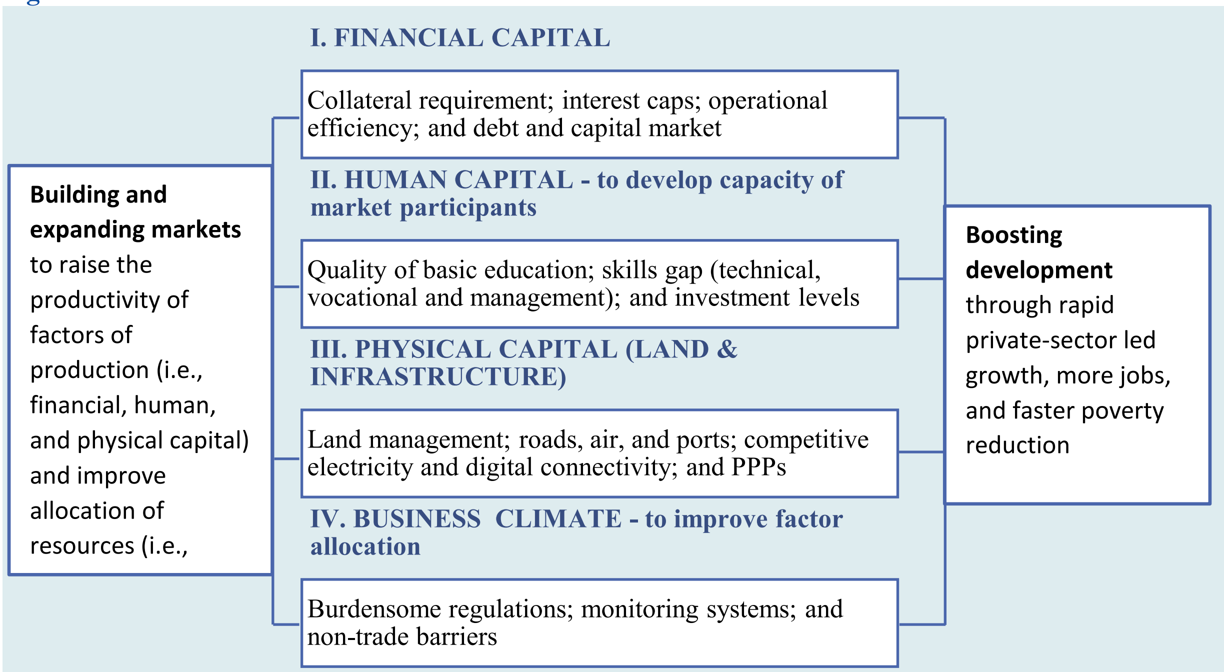
While there has been substantial progress, Myanmar still has a long way to go. Enforcing Contracts (ranked 187), Getting Credit (ranked 181), Protecting Minority Investors (ranked 176) and Resolving Insolvency (ranked 164) are areas where advancements would result in large improvements in the distance to the frontier. The World Bank Group continues to provide technical advice to the Doing Business Report Working Group to support the country's reform efforts.

Table 5: Highlights of Myanmar's Doing Business 2020

Starting a business	Myanmar made starting a business easier by introducing an online platform for company registration and by reducing incorporation fees.
Dealing with Construction Permits	Myanmar strengthened construction quality control by imposing stricter qualification requirements for architects and engineers and making building permitting requirements available online. Myanmar also improved its water and sanitation infrastructure and made the building permitting process more efficient by introducing service quality standards. Myanmar also started publishing performance measurement reports to ease contract enforcement.
Registering property	Myanmar made property registration faster by streamlining deed registration and appraisal. Myanmar also improved the quality of its land administration system by publishing the fee schedule, official service standards and statistics on property transfers for the previous calendar year.
Protecting minority investors	Myanmar strengthened minority investor protections by requiring greater disclosure of transactions with interested parties, increasing director liability and requiring greater corporate transparency.
Enforcing contracts	Myanmar made enforcing contracts easier by publishing performance measurement reports.

Myanmar can achieve higher levels of private-sector-led growth by concentrating reform efforts in four areas: (i) improving access to finance; (ii) expanding human capital endowment; (iii) bridging the infrastructure deficit; and (iv) improving the allocation of resources through a better business environment (Figure 42).

Figure 42: Reform efforts in four areas



Many firms in Myanmar face difficulties in accessing finance, which is a major constraint to Private Sector Development (PSD). Domestic credit to the private sector was 24.2 percent of GDP in 2017—one of the lowest in the EAP region. The low level of domestic credit is largely due to (i) stringent collateral requirements and regulatory restrictions on loan maturities that prevent banks from financing long-term investments; (ii) interest rate caps, as there is a floor on deposit rates at 2 percent below the Central Bank of Myanmar's (CBM) reference rate of 10 percent and a ceiling on lending rates at 3 percent above the reference rate,[27] which have restricted access to credit by micro, small, and medium-sized enterprises and rural households; (iii) an inefficient financial system; and (iv) underdeveloped debt and capital markets; and (vi) weak capacity of businesses to provide standardized financial reporting to facilitate banks' assessment of project credit risk and bankability.

Limited access to skilled employees is the second most reported constraint faced by firms, particularly SMEs. According to the most recent enterprise survey, more than 80 percent of employers expressed that the country's education system does not provide the knowledge or skills needed for today's jobs, and "inadequate education of the workforce" is the primary obstacle to firms' operations. Myanmar's workers are under-performing across a broad set of skills: more than half of employers note skills gaps ranging from management and communications to writing and foreign language. Moreover, the quality of management is found to be among the lowest in the world, with fewer than 4 percent of fifteen-to-nineteen-year-old students studying management.

Land issues continue to impact the level of investment and finance in the country. Access to land is the third-biggest constraint identified by firms in the World Bank 2016 Enterprise Survey. Myanmar is facing complex problems surrounding land governance, with recurrent ownership disputes, management difficulties, conflicting laws, and corruption. As a result, Myanmar's land utilization is low, as it uses almost the same amount of land as Vietnam despite being double the size. While a national land use policy (NLUP) was endorsed in January 2016, implementation progress is slow, and the process around land reforms is unclear for both businesses and households.

[27] Although the CBM recently allowed banks to lend at higher rates without collateral.

While Myanmar is strategically located in one of the fastest growing regions in the world, it is poorly prepared to take advantage of its favorable position. It shares land borders with Bangladesh, China, India, Lao PDR, and Thailand, which together account for about US$15 trillion in GDP, or one-fifth of the world's total GDP. Myanmar is also located in the growing Indian Ocean rim, with proximity to dynamic markets in Bangladesh, India, and East African countries. But the challenge is not only to connect Myanmar to these markets but also to connect remote areas within the country to trade corridors. Myanmar ranked 137th out of 160 economies on the Logistics Performance Index in 2018, the lowest ranking in the Association of Southeast Asian Nations. Poor planning, inadequate investment, and inefficient execution explain the country's large infrastructure deficit.

Access to competitive and reliable electricity is also a major challenge facing firms in Myanmar. Myanmar ranked 144th out of 190 economies on the "getting electricity" indicator in the 2019 Doing Business report. Blackouts and brownouts are common, especially during the dry season. The situation is likely to get worse: peak demand is expected to reach 8.6 GW by 2025 and 12.6 GW by 2030, more than three times the current level of 3.6 GW. This is the result of decades of underinvestment in infrastructure and inadequate policies. To meet the growing demand, investment requirements are estimated to be around US$2 billion per year. By 2025, 5 GW of new generation capacity needs to be added, which is equivalent to about three times of what was built over the last three decades.

Behind these constraints is a business climate formed by the legacy of the state controlling rather than facilitating firms' growth. It takes four times longer for firms in Myanmar (39 days) to obtain operating licenses than firms in Vietnam (10 days). Receiving business registration and post-investment approval, along with obtaining local and municipal licenses, remains a major bottleneck for firms. Myanmar ranked 168th out of 190 countries on the "trading across borders" indicator in the 2020 Doing Business report. The country needs to coordinate its efforts to review business processes in key departments (e.g., Ministry of Planning and Finance, the MoC, and the Ministry of Industry) to reduce the amount of paperwork, delegate decisions, allow full on-line payments, and introduce registration systems for traders based on their compliance record.

The binding cross-cutting constraints on firms in Myanmar affect PSD in key areas such as the agriculture and agribusiness, garment, and tourism sectors. For example, farmers without land titles cannot access credit from formal sources and are instead forced to borrow from informal lenders at exorbitant rates of 5 percent per month. This raises their cost of production and makes their products uncompetitive. In the garment sector, locally-owned firms lack the technical expertise to upgrade their low value-added "cut-make-pack" operations to higher value-added "free-on-board"[28] manufacturing activities. A shortage of skilled labor, from workers on the shop floor to middle and top management, is also a major obstacle for firms that want to upgrade their operations.

The presence of armed actors and conflict adds additional challenges for businesses in one-third of Myanmar

Businesses in conflict-affected areas bear additional cost to operate. Around one-third of townships in Myanmar have the presence of an armed actor and the majority of those experience actual conflict. Businesses that are not owned by armed actors often must develop close relationships or engage in transactional interactions with armed actors in order to operate. Many businesses must engage with multiple authorities to obtain permission to do business in areas controlled by ethnic armed organizations (EAOs). This can be challenging as most EAOs do not have clear and formal procedures to grant permissions. The process is harder

[28] Cut-make-pack (CMP): in the garment industry, an mode of production where a buyer retains creative activities and materials sourcing, and outsources labor intensive jobs (cutting, making - sew, trim, final QC, and packing); Free-on-board (FOB): in the garment industry a mode of production in which the manufacturer purchases its own inputs, rather than assembling inputs provided by a buyer (CMP).

for businesses operating in areas of mixed control areas where government permission is also required. Besides obtaining permission, businesses in conflict-affected areas also have to pay different types of payments. In addition to licenses fees and taxes that they have to pay to government, they must also pay different types of payments to armed actors including toll fees for road usage and taxes/payments to armed actors. Overall, the evidence suggests that the presence of armed actors delays economic development as it affects the business environment– resulting in lower business density and less manufacturing jobs.

The long-term presence of armed actors negatively impacts business density. The conflict intensity index shows that business density is higher in areas with no conflict intensity, compared to areas with higher conflict intensity (Figure 43) [29]. However, counterintuitively, business density is the second highest in areas with very high conflict intensity. This is explained by the involvement of armed actors in businesses along border areas where despite the conflict, businesses capitalize on trading opportunities with China and Thailand. There is a strong negative relationship between the presence of armed actors in a township and the business density[30]. As the number of armed actors increase, the density tends to decrease (Figure 44). This finding supports the additional challenges related to operating in areas of contested governance, which can require engagement with multiple groups on issues including permission to do business and taxation, preferential treatment by the armed actors giving preferences to affiliated or wholly-owned businesses, and the direct operational impact of conflict from when multiple armed actors are present.

[29] To quantity conflict measures and business characteristics, relevant data is obtained from several sources. Armed clashes and fatalities data from the armed conflict and event data (ACLED) is used to create conflict intensity measures. The ACLED data is available from 2010 to 2019. Number of armed actors per township data is obtained from the Asia Foundation (TAF) – which does not include any time specific component, however, number of armed actors per township is quite static overtime. Business characteristics such as business per 1,000 capita and share of population working in manufacturing sector are obtained from the 2014 Myanmar Housing and Population Census. As the Census data accounts only for 2014, cumulative value for conflict intensity value from 2010 to 2013 to use a independent variable in econometric analysis.

[30] Two conflict measures are used in this note – conflict intensity index and number of armed actors in a township. The conflict intensity index is geometric mean from the product of cumulative armed clashes and fatalities. The use of product should amplify incidences of armed clashes with fatalities. To avoid zero resulting from clashes with no fatalities, 1 is added to fatalities:

$$\sum_{t=2010}^{2013} c_{i,t} = (clashes_{i,t} * (1 + fatalities_{i,t}))^{0.5}$$

The conflict intensity index used throughout this note is modified to account for relative intensity of the national average. Hence, relative conflict intensity (RCI) is calculated as:

$$\sum_{t=2010}^{2013} RCI_{i,t} = \frac{\sum_{t=2010}^{2013} c_{i,t} - \overline{\sum_{t=2010}^{2013} c_t}}{\overline{\sum_{t=2010}^{2013} c_t}}$$

Then, the index is normalized with minimum value 0 and maximum value 1. Relative number of armed actors is also calculated as the way as the relative conflict intensity.

Figure 43. Businesses per 1,000 people, by level of conflict intensity

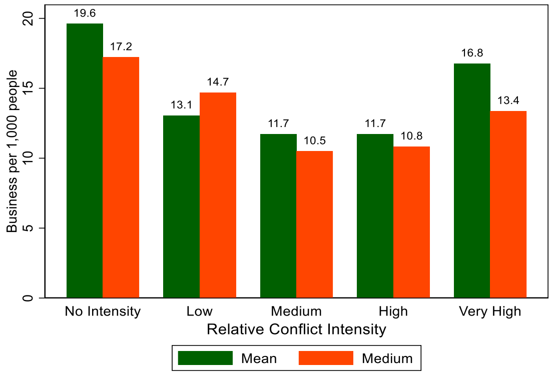
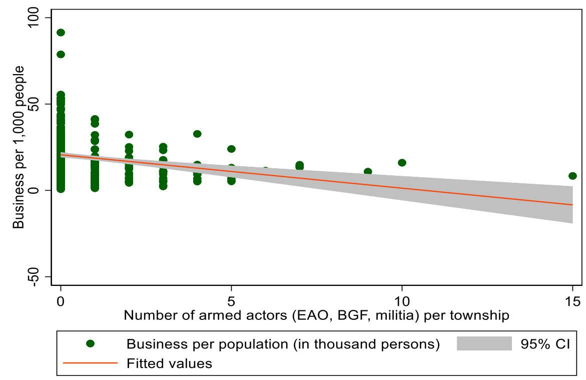


Figure 44 . Businesses per 1,000 people, by number of armed actors present in township



Source: 2014 Census, ACLED, TAF and WB Staff Calculation

Interestingly, econometric analysis reveals that conflict intensity was not statistically correlated with business density, however the long-term presence of Armed Actors was strongly correlated. The number of townships affected by conflict (89 townships) is lower than the number which have Armed Actors (118). However, conflict intensity did not explain changes in business density, but the addition of an Armed Actor (above the nation average for a township) led to a reduction of business density for the average township by 3 percent or 0.55 businesses per 1000 people (Annex Table 6). This means the presence of Armed Actors in townships, even without the presence of conflict, has negative impacts on business intensity. This likely again reflects the poor business environment (rent seeking, multiple authorities engaged in taxation), conflict-associated risks, and higher levels of outmigration among working age adults who may otherwise be employers.

The econometric analysis also finds that conflict has negative impacts on employment in manufacturing sector. Consistent with the findings from business density, the number of armed actors is strongly correlated with the share of population working in the manufacturing sector. The addition of an Armed Actor (above the nation average for a township) led to a reduction in the share of the population working in Manufacturing sector for the average township by 5 percent or 0.29 percentage points. This reflects that most of the population working in conflict affected areas are employed in unskilled/informal activities (e.g., agriculture, retail, repair, transport, food and beverage stalls) – resulting in a delay in the structural economic transformation of these areas.

Policies for private-sector led growth

Myanmar has the advantage of learning from the experience of successful transition economies. There are certain distinctive characteristics of economies that have experienced rapid growth over a sustained period of time. For example, high-growth economies tend to rely on a functioning market system, decentralized decision making, and incentives for supply to meet demand.[31] Therefore, Myanmar, which is currently undergoing its transition to a market economy, should: (i) *foster the expansion of its economy*, including creating new and improving existing markets by streamlining business processes, upgrading systems for collateral, trade facilitation and business registration, and strengthening key laws; (ii) *improve the allocation of resources,* including making markets operate more efficiently by facilitating entry and exit and increasing the transparency and predictability of regulations; and (iii) *develop the capacity of market participants*, including regulators, investors, producers, and consumers.

[31] Growth Commission, 2008.

a. **Foster market expansion**. Because of a long period of economic sanctions and lack of access to technologies, many of Myanmar's systems and procedures are manual, outdated, and slow. These need to be modernize such as creating an electronic registry for collateral, a single-window system for trade facilitation (i.e., customs), and a national single-window electronic platform for businesses; updating laws and regulations, such as the Road and Inland water Transport Law; implementing a progressive and sequenced deregulation of interest rate caps; and clarifying the guidelines and framework for foreign ownership in banks.

b. **Improve the allocation of resources**. Market participants need clear and transparent regulations and minimum bureaucracy. Policies that could incentivize firms and individuals to invest more include: tier-based regulations for microfinance institutions (MFIs); consolidation of land for agricultural use; effective procedures to convert land; open, fair, transparent, and competitive public procurement; outsourcing to private sector; corporatization of key departments involved in commercial activities (e.g., Railways, Inland Water Transport, and Construction); improved coordination among government agencies; standardized documents and forms for government agencies; and reducing the number of products requiring export licenses.

c. **Develop the capacity of market participants.** A critical area of reform involves strengthening the capacity of the government to become a more effective regulator. To achieve this, the GoM should consider unbundling policy, regulatory, and delivery functions of the MOTC; creating an independent regulator in the telecommunications; improving the capacity of financial regulators, adopting regulations on infrastructure sharing, intellectual property rights, privacy, and cybercrime; implementing a NLUP policy; supporting the use of business-development services (e.g., training and mentoring programs on management, accounting, and auditing, as well as designing bankable projects proving access to market information) and SME-specific financial products, and expanding technical and vocational education and training programs that are in great demand.

Annex Table 6: OLS results of conflict measures and business characteristics

	Business per 1,000 people				Share of population working in manufacturing sector			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Relative conflict intensity	-0.256**	0.075			-0.150***	-0.008		
	(0.128)	(0.132)			(0.042)	(0.032)		
Relative armed actors (#)			-1.706***	-0.550**			-0.759***	-0.262***
			(0.310)	(0.275)			(0.133)	(0.095)
Population density (1,000 people per km2)		-0.063		-0.070		0.069*		0.065*
		(0.096)		(0.096)		(0.038)		(0.038)
Elevation (100 meters)		-0.900***		-0.795***		-0.355***		-0.307***
		(0.116)		(0.116)		(0.051)		(0.051)
Distance to Yangon (miles)		-0.016***		-0.015***		-0.006***		-0.006***
		(0.004)		(0.004)		(0.002)		(0.002)
Precipitation (inches)		-0.267		-0.221		-0.329***		-0.312***
		(0.201)		(0.198)		(0.078)		(0.078)
Constant	18.927***	28.332***	18.927***	27.494***	5.252***	10.433***	5.252***	10.143***
	(0.700)	(2.409)	(0.677)	(2.361)	(0.283)	(0.906)	(0.272)	(0.889)
Observations	330	330	330	330	330	330	330	330
R-squared	0.007	0.222	0.072	0.227	0.014	0.259	0.087	0.267
F-statistic	3.966	25.58	30.33	25.14	12.76	24.36	32.69	25.20
DF	328	324	328	324	328	324	328	324

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Annex 1: Medium-Term Outlook (Baseline scenario)

	2015/16	2016/17	2017/18	2018/19e	2019/20f	2020/2021f
Economic growth and prices						
Real GDP (kyat billion)[32]	57,524	61,083	65,252	88,764	94,483	100,634
Agriculture	16,439	16,252	16,462	21,129	21,779	22,470
Industry	17,276	18,961	20,793	32,789	34,907	37,226
Services	23,808	25,870	27,997	34,846	37,797	40,938
CPI (percent change, yoy)	3.9%	3.4%	8.6%	10%	7%	7%
CPI (All items, yoy % change)	**9.2%**	**4.7%**	**5.1%**	**8.5%**	**7.5%**	**7.5%**
Consolidated public sector (kyat billion)						
Revenue	13,662	14,505	15,363	17,594	20,335	22,952
o/w Tax	4,901	5,677	6,004	6,370	6,571	7,732
o/w Non-Tax	2,986	2,842	3,015	3,198	3,513	3,806
Expenditure	16,806	16,671	18,025	24,331	28,673	31,909
Recurrent	12,301	12,776	14,016	17,660	21,207	23,043
Capital	4,505	3,895	4,009	6,671	7,466	8,866
Monetary (kyat billion)						
Broad Money (M2)	37,831	45,937	54,477	62,648	72,359	83,936
Reserve Money	15,329	16,562	17,327	18,315	19,414	20,578
Balance of Payments (US$ million)						
Current account	-2430	-3990	-2531	N/A	N/A	N/A
Trade balance	-3858	-5829	-4379	N/A	N/A	N/A
Exports	9103	9466	11218	N/A	N/A	N/A
Imports	12961	15295	15597	N/A	N/A	N/A
Economic growth and prices (percent change)						
Real GDP (2010/11 base year)	6.6%	6.2%	6.8%	N/A	N/A	N/A
Real GDP (2015/16 base year)	N/A	6.0%	6.2%	6.3%	6.4%	6.5%
Agriculture	3.0%	-1.1%	1.3%	3.1%	3.1%	3.1%
Industry	8.0%	9.8%	9.7%	6.4%	6.5%	6.6%
Services	8.2%	8.7%	8.2%	8.4%	8.5%	8.4%
CPI (percent change, average)	9.2%	4.7%	5.9%	8.5%	7.5%	7%
Consolidated public sector (percent of GDP)						
Revenue	18.4%	17.6%	16.4%	16.8%	16.9%	16.8%
o/w Tax	6.6%	6.9%	6.4%	6.1%	5.5%	5.7%
o/w Non-Tax	4.0%	3.4%	3.2%	3.0%	2.9%	2.8%
Expenditure	22.6%	20.2%	19.2%	23.2%	23.9%	23.3%
Recurrent	16.5%	15.5%	15.0%	16.8%	17.7%	16.9%
Capital	6.1%	4.7%	4.3%	6.4%	6.2%	6.5%
Monetary (percent *change*)						
Broad Money (M2)	16.4%	21.4%	18.6%	15.0%	15.5%	16%
Reserve Money	10%	8.0%	4.6%	5.7%	6%	6%
Balance of Payments (percent of GDP)						

[32] 2018/19 onwards is estimated based on new base year.

Current account	-4.0%	-6.5%	-3.7%	-2.0%	-2.5%	-3.5%
Trade balance	-6.4%	-9.5%	-6.5%	N/A	N/A	N/A
Exports	15.1%	15.4%	16.5%	N/A	N/A	N/A
Imports	21.5%	24.9%	23.0%	N/A	N/A	N/A

Sources: MOPFI, CBM, MOC, IMF BOP Statistics, CSO, WB Staff estimates. Use 2015/16 as the new base year from 2018/19.

Annex 2: Gross Domestic Product[33]

	2015/16	2016/17	2017/18	2018/19
GDP production (Current, kyat billion)	74,364.01	82,541.75	93,709.61	104,988.47
Agriculture	19,838.80	20,509.31	21,397.85	24,991.18
Industry	25,319.01	29,221.83	34,243.73	38,781.64
Services	29,206.20	32,810.61	38,068.02	41,215.65
GDP production (constant, kyat billion)	57,524	61,083	65,252	88,764
Agriculture	16,439	16,252	16,462	21,129
Industry	17,276	18,961	20,793	32,789
Services	23,808	25,870	27,997	34,846
Real GDP growth (percent)	6.6%	6.2%	6.8%	6.3%
Agriculture	3.0%	-1.1%	1.3%	3.1%
Industry	8.0%	9.8%	9.7%	6.4%
Services	8.2%	8.7%	8.2%	8.4%
GDP production (percent share)				
Agriculture	26.7%	24.8%	22.8%	23.8%
Industry	34.0%	35.4%	36.5%	36.9%
Services	39.3%	39.8%	40.6%	39.3%

Source: MOPFI

[33] 2018/19 onwards is estimated based on new base year.

Annex 3: Consumer Price Index

	2015/16	2016/17	2017/18	2018/19
CPI (All items, yoy % change)	3.88%	3.41%	8.58%	10.00%
CPI (Food and non-alcohol. bev., yoy % change)	4.50%	2.52%	8.55%	8.77%
CPI (Non-food, yoy % change)	2.94%	4.97%	8.69%	10.80%
Alcoholic beverages, tobacco	3.89%	3.40%	7.15%	8.45%
Clothing and footwear	3.69%	1.38%	3.55%	4.92%
Housing, water, electricity, gas and other fuels	7.01%	3.36%	9.03%	31.41%
Furnishings, household equip and routine hh maintenance	5.05%	2.59%	4.49%	7.80%
Health	7.89%	4.20%	6.05%	8.12%
Transport	-5.10%	11.68%	15.69%	-0.06%
Communication	-0.86%	8.92%	-0.61%	-0.73%
Recreation and culture	5.70%	0.86%	2.60%	12.06%
Education	4.09%	0.27%	8.69%	4.08%
Restaurants and hotels	3.10%	4.26%	8.57%	4.74%
Miscellaneous goods and services	6.58%	4.32%	6.28%	11.60%
CPI (All items, annual average % change)	9.16%	4.66%	5.10%	8.5%
CPI (Food and non-alcohol. bev., annual average, % change)	12.69%	4.87%	7.03%	9.17%
CPI (Non-food, annual average, % change)	3.62%	4.40%	2.25%	7.66%
Alcoholic beverages, tobacco	13.38%	1.91%	11.53%	0.42%
Clothing and footwear	6.16%	2.50%	1.33%	4.87%
Housing, water, electricity, gas and other fuels	5.98%	5.61%	5.55%	12.86%
Furnishings, household equip and routine and hh maintenance	7.16%	1.89%	0.80%	7.55%
Health	6.60%	4.36%	5.86%	8.16%
Transport	-5.53%	7.57%	0.20%	6.85%
Communication	-0.66%	0.50%	0.01%	-0.80%
Recreation and culture	4.39%	1.98%	0.25%	7.99%
Education	2.70%	2.36%	4.25%	7.09%
Restaurants and hotels	5.51%	2.83%	-0.04%	5.32%
Miscellaneous goods and services	9.75%	5.28%	-0.51%	9.89%

Source: Central Statistical Organization

Annex 4: Balance of Payments

	2015/16	2016/17	2017/18	2018/19
Current account (US$ million)	-2430	-3990	-2531	N/A
Trade balance	-3858	-5829	-4379	N/A
Exports	9103	9466	11218	N/A
Imports	12961	15295	15597	N/A
Services balance	1206	1177	1183	N/A
Primary income balance	-1817	-1618	-1912	N/A
Secondary income balance	2040	2280	2577	N/A
Capital account	0	1	1	N/A
Financial account	3811	4342	4169	N/A
Direct Investment	-3110	-2955	-3021	N/A
Portfolio Investment	-8	4	-1	N/A
Other Investment	-693	-1391	-1147	N/A
Net Errors & Omissions	-1462	-125	-1449	N/A
Overall balance	1381	353	1639	N/A
Reserve Assets	-81	228	189	N/A
	Balance of Payments (% of GDP)			
Current account	-4.0%	-6.5%	-3.7%	N/A
Trade balance	-6.4%	-9.5%	-6.5%	N/A
Exports	15.1%	15.4%	16.5%	N/A
Imports	21.5%	24.9%	23.0%	N/A
Services balance	2.0%	1.9%	1.7%	N/A
Primary income balance	-3.0%	-2.6%	-2.8%	N/A
Secondary income balance	3.4%	3.7%	3.8%	N/A
Capital account	0.0%	0.0%	0.0%	N/A
Financial account	6.3%	7.1%	6.1%	N/A
Direct Investment	-5.2%	-4.8%	-4.5%	N/A
Portfolio Investment	0.0%	0.0%	0.0%	N/A
Other Investment	-1.1%	-2.3%	-1.7%	N/A
Net Errors & Omissions	-2.4%	-0.2%	-2.1%	N/A
Overall balance	2.3%	0.6%	2.4%	N/A
Reserve Assets	-0.1%	0.4%	0.3%	N/A

Sources: IMF Balance of Payments Statistics, CBM, WB Staff estimates

Annex 5: Monetary Survey

Monetary Survey (kyat billion)	2015/16	2016/17	2017/18	2018/19
Assets				
Net Foreign Assets	9,242.90	8,908.24	10,840.88	10,824.08
CMB (net)	6,021.84	6,518.82	8,009.66	7,853.81
DMB (net)	3,221.06	2,389.41	2,831.22	2,970.27
Net Domestic Assets	28,588.14	37,029.61	43,639.50	46,155.95
Net Claims on Government	12,362.55	14,345.60	18,561.68	19,093.83
CMB	11,944.25	13,098.94	13,662.12	14,422.01
DMB	418.30	1,246.66	4,899.56	4,671.82
Credit to the economy	17,349.25	21,978.22	25,519.25	29,787.32
Private sector	16,115.05	20,569.85	24,919.43	27,374.55
Other	1,234.20	1,408.38	599.82	2,412.77
Other items (net)	(1,123.67)	705.79	(441.43)	(2,725.21)
Liabilities				
Broad money (M2)	37,831.04	45,937.84	54,477.29	56,980.02
Central Bank of Myanmar Balance Sheet (kyat billion)				
CBM Assets (kyat billion)				
Net Foreign Assets	6,021.84	6,518.82	8,009.66	7,853.81
Net Claims on Central Government	11,944.25	13,098.94	13,662.12	14,422.01
Net Claims on Commercial Banks	645.27	699.04	801.17	779.07
Claims on Other Sectors	(718.25)	(452.00)	(397.00)	(207.00)
Shares and Other Equity	(2,655.13)	(3,345.09)	(4,354.02)	(4,769.24)
Other Items (Net)	91.32	42.41	(394.90)	(37.86)
CBM Liabilities (kyat billion)				
Monetary Base	15,329.30	16,562.12	17,327.03	18,040.79
Currency in Circulation	11,349.08	12,227.29	13,652.30	14,156.76
Liabilities to Other Depository Corporations	3,980.15	4,334.72	3,674.58	3,883.78

Source: Central Bank of Myanmar

Annex 6 a: Fiscal operations (kyat billion)

	2015/16	2016/17	2017/18	2018/19
	PA	**PA**	**PA**	**RE**
Consolidated Public Sector				
Revenue	13,662	14,505	15,363	17,594
Expenditure	16,806	16,671	18,025	24,331
Balance	(3,145)	(2,166)	(2,662)	(6,737)
SEE Operations				
Revenue	7,360	7,262	7,505	8,987
Net of transfers to UG	5,444	5,634	6,124	7,317
Expenditure	5,797	5,348	5,911	8,436
Recurrent	6,738	6,263	6,543	8,483
Net of transfers to UG	4,823	4,635	5,161	6,813
Capital	975	714	749	1,623
SEE Balance	1,562	1,914	1,595	551
Union Government				
Revenue	8,217	8,871	9,239	10,276
Tax	4,901	5,677	6,004	6,370
o/w Income	2,326	2,324	2,264	2,325
o/w Commercial	2,106	1,878	1,975	2,123
Non-Tax	2,986	2,842	3,015	3,198
Grants	330	351	220	708
Expenditure	11,009	11,322	12,115	15,895
Recurrent	7,478	8,141	8,854	10,847
Wages	1,622	1,716	1,821	2,253
Transfers	1,949	1,964	1,889	2,227
Interest	719	925	1,189	1,543
Other	3,187	3,536	3,956	4,825
Capital	3,531	3,182	3,260	5,048
Union Government Balance	(2,792)	(2,452)	(2,876)	(5,618)

Sources: MOPFI, WB Staff estimates

Note: Due to data availability, the fiscal section annex uses October-September FY standard from 2018/19.

Annex 6 b: Fiscal operations (percent of GDP)

	2015/16	2016/17	2017/18	2018/19
	PA	PA	PA	RE
Consolidated Public Sector				
Revenue	18.4%	17.6%	16.4%	16.8%
Expenditure	22.6%	20.2%	19.2%	23.2%
Recurrent	16.5%	15.5%	15.0%	16.8%
o/w Interest	1.2%	1.3%	1.5%	1.6%
Capital	6.1%	4.7%	4.3%	6.4%
Balance	-4.2%	-2.6%	-2.8%	-6.4%
SEE Operations				
Revenue	9.9%	8.8%	8.0%	8.6%
Net of transfers to UG	7.3%	6.8%	6.5%	7.0%
Expenditure	7.8%	6.5%	6.3%	8.0%
Recurrent	9.1%	7.6%	7.0%	8.1%
Net of transfers to UG	6.5%	5.6%	5.5%	6.5%
Capital	1.3%	0.9%	0.8%	1.5%
SEE Balance	2.1%	2.3%	1.7%	0.5%
Union Government				
Revenue	11.0%	10.7%	9.9%	9.8%
Tax	6.6%	6.9%	6.4%	6.1%
o/w Income	3.1%	2.8%	2.4%	2.2%
o/w Commercial	2.8%	2.3%	2.1%	2.0%
Non-Tax	4.0%	3.4%	3.2%	3.0%
Grants	0.4%	0.4%	0.2%	0.7%
Expenditure	14.8%	13.7%	12.9%	15.1%
Recurrent	10.1%	9.9%	9.4%	10.3%
Wages	2.2%	2.1%	1.9%	2.1%
Transfers	2.6%	2.4%	2.0%	2.1%
Interest	1.0%	1.1%	1.3%	1.5%
Other	4.3%	4.3%	4.2%	4.6%
Capital	4.7%	3.9%	3.5%	4.8%
Union Government Balance	-3.8%	-3.0%	-3.1%	-5.4%

Sources: MOPFI, WB Staff estimates

Annex 6 c: Public Expenditure Composition (Share of GDP)

	2015/16	2016/17	2017/18	2018/19
	PA	**PA**	**PA**	**RE**
Total Expenditure	25.4	22.2	20.7	24.8
Ministries	12.6	11.6	11.1	13.1
Defense	4.2	3.6	3.4	3.4
Agriculture	1.5	1.2	0.8	0.9
Education	2.1	1.9	1.8	2.1
Health	1.0	0.9	0.9	1.1
Planning and Finance	1.1	1.5	1.7	2.0
Other Ministries	2.5	2.2	2.1	3.0
Energy (Including SEE)	6.2	4.9	4.5	5.7
Non Energy SEEs	4.3	3.9	3.6	4.5
SAOs	0.1	0.1	0.1	0.1
Other	2.3	2.1	1.7	1.9

Sources: MOPFI, WB Staff estimate

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