MYANMAR ECONOMIC MONITOR

October 2017

Capitalizing on Investment Opportunities

WORLD BANK GROUP
Macroeconomics & Fiscal Management

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

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The team thanks Ellen Goldstein (Country Director for Myanmar, Laos and Cambodia), Hans Beck (Lead Economist, MFM GP), Thi Da Myint (Country Economist, MFM GP), Yasuhisa Ojima (IMF Resident Representative), and colleagues from the MOPF, MOC, and CBM for their comments and advice on earlier drafts.

The team discussed recent economic developments with several business associations and private businesses and appreciates very much their time and insights. The team thanks Kyaw Soe Lynn and Nurani Oktavia Robelus from EXT for their support and guidance on publication and outreach; and Sandi Soe Lwin for administrative support.

The preparation of the MEM was generously supported through the Myanmar Partnership Multi-Donor Trust Fund by the UK Department for International Development, the Australian Department of Foreign Affairs and Trade, and the Kingdom of Denmark.

MYANMAR ECONOMIC MONITOR, OCTOBER 2017: CAPITALIZING ON INVESTMENT OPPORTUNITIES

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Myanmar's macroeconomic environment remains stable, though economic growth is estimated to have slowed to 5.9 percent in 2016/17 compared to 7 percent in 2015/16, weighed down by slower investment demand. Growth is projected to recover to 6.4 percent in 2017/18, though risks are tilted to the downside due to the recent escalation of tensions in Rakhine State and the potential stalling of the overall reform agenda. Baseline projections assume that the authorities will move to a medium-term economic reform program to sustain hard earned macroeconomic stability gains and accelerate inclusive growth.

Recent developments

Myanmar's macroeconomic environment over the course of 2016/17 has remained relatively stable following a challenging 2015/2016. Economic growth moderated to 5.9 percent, below expectations and lower than the 7 percent of the previous year. Despite notable reforms and strong foreign investment commitments, investment demand decelerated as private investors bided their time pending greater clarity in the government's economic agenda. Public investments declined from 6.2 percent of GDP in 2015/16 to 5 percent in 2016/17 in response to fiscal constraints. On the production side, 2016/17 was a difficult year for both agriculture and industry. The agriculture sector contracted, contrary to expectations of recovery from the effects of heavy flooding in 2015/16. Industrial output slowed down due to declining manufacturing production in the first three quarters, and falling gas output.

Private consumption, which accounts for close to 50 percent of GDP, has remained strong particularly in urban areas. Rising consumer purchasing power and greater access to markets have contributed to substantial growth in household asset ownership. Using the global extreme international poverty benchmark of US$1.90 2011-PPP, internationally comparable poverty is estimated to be 6.5 percent in 2015; 93 percent of the internationally comparable extreme poor are estimated to live in rural areas. Historical trends in international poverty measures are not available, but trends in national estimates of poverty point to a substantial decline in poverty between 2004/05 and 2015. Poverty is estimated to have declined from 32.1 percent in 2004/05 to 25.6 percent in 2009/10 and to 19.4 percent in 2015. Urban areas have seen faster growth in household welfare and a sharper decline in poverty in percentage terms.

Tighter economic policies and slowing demand have contributed to an improvement in the overall external position of Myanmar in 2016/17. Myanmar is estimated to have had a balance of payments surplus of 1.4 percent by end 2016/17, up from 0.8 percent the previous year. Foreign exchange reserves in Q4 2016/17 started to recover and were estimated at around 3 months of prospective imports at end March 2017, a slight improvement on the 2.3 months of imports in October 2016, though still below prudent levels. Although FDI flows had declined, external debt disbursements began to pick up. This helped to finance a narrowing current account deficit supported by a stable trade deficit, service exports and incoming transfers, including grant aid. There has been a notable shift in the composition of merchandise exports with declining gas exports and sharply rising garments exports.

Inflation pressures abated over the course of 2016/17, avoiding major second round inflation from the food price shock of 2015/16. Inflation averaged 6.8 percent in 2016/17 compared to 10 percent the previous year (Figure 2). Food price inflation moderated throughout the year, except for a short spike in late 2016 coinciding with a sharp depreciation in the kyat making imports more expensive. The Real Effective Exchange Rate depreciated 9 percent between August 2016 and March 2017.

Consistent with falling inflation, annual growth in money stock moderated and was in line with Central Bank targets. Growth in money stock decelerated from 26 percent in 2015/16 to 19 percent in 2016/17. To maintain monetary discipline, the authorities further stepped up deposit auctions and expanded government securities' auctions. Interest rates though have been slow to adjust to market conditions. Real interest rates have on average been only slightly positive over the past two years. Growth in credit to the private sector remained high at 33 percent in 2016/17. Despite this, private banks' profitability declined in 2016/17 whilst liquidity remained robust. Deposit growth has remained strong (loan/deposits at 60 percent), though there is concern about deteriorating credit quality.

The overall fiscal situation stabilized in 2016/17 following a difficult year in 2015/16. The deficit narrowed to 3 percent of GDP (international definition). This helped to contain Central Bank of Myanmar (CBM) financing, which nevertheless remained high. Myanmar's comprehensive tax reform program is gradually improving revenue collections, which have helped to partially offset external factors (e.g. gas prices) that have weighed on overall revenue collections. The 2016/17 budget expenditure outturns indicate continued efforts to protect priority spending on health, education and agriculture despite growing fiscal constraints. At the same time, however, ministries that have received the biggest increases are also facing challenges in budget execution. Moreover, overall spending adjustments have been driven by cuts to public investment that remain well below needs. The 2017/18 Union Budget saw notable improvements in budget transparency.

Economic outlook and policies

Economic growth is projected to recover to 6.4 percent in 2017/18 in the baseline scenario, compared to 6.9 percent in the last MEM. Over the medium-term, growth is projected to average 6.8 percent, compared to 7.1 percent in the earlier forecast. The revision takes account of recent security developments and their broader economic impact. Myanmar has the potential to capitalize on major investment opportunities, particularly as global growth continues to recover and international investment flows start to accelerate. Investor interest remains strong. But the challenge is to convert commitments to actual flows, and tilting the balance in growth drivers from consumption to investment. Consumer price inflation is expected to ease further from 7 percent in 2016/17 to 5.2 percent in 2017/18. There are risks however from rising energy prices, which are projected to increase by 26 percent in 2017 and an additional 8 percent in 2018.

Downside risks to the above outlook have increased, including due to recent security developments in the country. The escalation of tensions in Rakhine State could further heighten investor perceptions of risk and negatively affect investment flows. Whilst the tensions in Rakhine remain geographically contained, they could have wider domestic and international repercussions. An escalation of violence and humanitarian needs have implications on public expenditures, trading opportunities, security, and broader ability to implement an inclusive growth strategy. This would exacerbate existing vulnerabilities including from natural disasters and a lack of clarity over the medium-term reform agenda. In addition, the global economic environment could be less favorable with risk of rising protectionism, tightening of global monetary conditions, and stagnant commodity prices.

Fiscal and monetary policy discipline will be important to sustain hard earned gains from macroeconomic stability. Priorities include: (i) adherence to the authorities' plans for gradually eliminating Central Bank financing of the budget deficit, including Public Financial Management (PFM) reforms to strengthen cash management, which would help to reduce dependence on inefficient short-term borrowing; (ii) allowing interest rates in wholesale financial markets to rise and reflect market conditions, which is important for broader development of domestic financial markets; and (iii) shifting the burden of fiscal adjustment away from expenditure cuts towards revenue mobilization, reprioritization of expenditure and more efficient borrowing. A combination of these should help manage demand pressures, including those on import demand. This is important to contain pressures on the exchange rate and maintain external buffers, which as noted above are relatively low.

Accelerating much needed investments in the economy will also require progress on structural reforms in, among other areas, finance, energy, and business regulations. On access to finance, implementation of the recently adopted prudential regulations under the Financial Institutions Law are expected to support financial sector stability and to manage risks. The banking community however has sought more time to comply with the new regulations because current deadlines might put pressure on the financial system. Progress on reform of State Owned Banks is expected over the coming months starting with international audits. At the same time, steps to develop a Secured Transaction Framework and Credit Bureau licensing should help to improve access to finance and credit quality. On access to electricity, priorities include finalizing the power sector master plan and associated decisions on dealing with gas supply shortages, electricity tariff adjustments with protection for vulnerable groups, and institutional reforms (e.g. establishment of regulatory agency). On business regulations, priorities include implementation of the 2016 Investment Law, adoption of the Companies Act, and aligning customs procedures in valuation of goods with international practices.

Special topic: Regional growth

As is often the case with emerging economies, rapid growth in Myanmar in recent years has been unevenly distributed across States/Regions. This is associated with rising income inequality between rural and urban households. Per capita income differences across States/Regions in Myanmar are large, ranging from Kyat 1.7 million in Yangon to Kyat 400,000 in Chin. Findings on regional inequality in Myanmar seem to be in line with other developing countries. According to Gennaioli et al. (2014), the average dispersion of the (log of) GDP per capita across regions in developing countries is 0.4, which is exactly the case in Myanmar.

Notwithstanding data constraints, analysis of State/Region economic growth rates shows that there has been no convergence in per capita income over the past five years. A variety of reasons could potentially explain why growth acceleration in Myanmar has not been spread out geographically: regions affected by the most active conflicts, such as Rakhine and Kachin, and Shan to a lesser extent, have consistently experienced lower growth. Second, growth has been concentrated in Yangon, and to a lesser extent in the agricultural dry zone. Rapid structural change in recent years could also be a reason behind the lack of convergence. The relatively low growth of agriculture (at 3% on average per year), combined with the higher concentration of industrial and service activities in urban areas.

Concentration of economic activity is an important feature of economic development. The experience of Myanmar is not different: the main stylized fact observed is that there has been no or little convergence, and that labor mobility has been the main force towards some equalization of conditions. International experience leads us to expect that as Myanmar's economic growth continues, convergence should gradually follow. But active policy tools to help broadening the incidence of growth can also contribute and mitigate short-term costs, including sound public investment and redistributive fiscal policies.

Special topic: Jobs

There are more than 24 million people working in Myanmar, some working more than one job. Although modern private jobs increased from nearly none to 1.7 million in a decade, they only absorb a fraction of the overall labor force. The formal modern sector makes up only 11 percent of total jobs in Myanmar, which is close to other transition economies. Labor productivity in agriculture and in manufacturing is among the lowest in the region, undermining income growth. Informality persists, limiting access to inputs for higher firm productivity and restricting social benefits to only 5 percent of the labor force. The special topic highlights four issues and selected policy options.

First, expanding the quality and quantity of jobs in the formal sector: More than 80 percent of formal jobs are in SMEs, which in turn constitute 95 percent of firms. Many are located outside the main cities. On the other hand, new micro firms (up to 4 employees) and new large establishments (those with at least 100 employees) have been the main source of new formal jobs over the past five years (in the garment, trade, hotels and restaurants sectors). Myanmar's large and young labor force and relatively low wages offers comparative advantage in labor-intensive Global Value Chain (GVC) industries such as food processing or assembly.

Second, better jobs in agriculture through diversification and integration into value chains: Myanmar's agricultural labor productivity is low. If the definition of "agricultural jobs" is expanded to include those related to agro-value chains – inputs to cultivation (backward linkages) or those emanating from cultivation (forward linkages), one strategy for Myanmar may be to slowly shed cultivation jobs in favor of rural jobs producing and commercializing higher-value products for internal or external consumption.

Third, enhancing the quality of jobs in the household enterprise sector: The informal household enterprise sector is large and will grow. Despite the size of the sector, micro-enterprises are not integrated with the rest of the economy. While the micro-enterprise owners say that their main constraint to growth is access to finance, those who get finance tend not to use it to invest in productivity-enhancing measures. Modest support to microentrepreneurs may be a means to upgrade the sector before its growth takes off even further.

Fourth, preparing workers for a modern and productive (internal and external) labor market: Nearly all jobs are in low value-added sectors (agriculture, wholesale/retail) and two of every three workers are engaged in low-skilled occupations or subsistence agriculture. Upgrading job-relevant skills – knowledge, technical, and behavioral – could better equip Myanmar's young population for both the domestic and regional job market.

Special topic: State Economic Enterprises

SEEs retain an important role in Myanmar's budget. There are 32 SEEs in Myanmar, down from 44 in 2011/12, as some have been absorbed as administrative units in line ministries. SEEs account for more than a third of Government expenses and receipts. However, SEE sales account for only around 7 percent of GDP. SEE activities are varied, covering public goods and commercial activities, across sectors ranging from natural resources to heavy industry. Ownership is decentralized to line ministries, with sector legislation playing a primary role in SEE governance. This creates the usual challenges in terms of conflict-of-interest across ownership and regulation functions, and in terms of fiscal risks.

Government reforms have focused on greater SEE autonomy to reduce SEE reliance on Union Budget transfers, but this can only provide short-term relief. Reforms have included (i) allowing SEEs to retain more net profits; (ii) classifying SEEs as having sufficient or insufficient working capital to finance recurrent expenditures, to differentiate the level of budget transfers; and (iii) not allowing SEEs to borrow from each other or state banks. However, SEE fiscal management is still impeded by (i) fragmented oversight; (ii) high-volume but low-quality reporting by SEEs to MOPF; and (iii) audited balance sheets that do not meet international standards, leading to insufficient understanding of fiscal risks. SEE fiscal autonomy is now constrained by losses, which increased to 0.7 percent of GDP in 2015/16 due to higher operating costs for infrastructure SEEs and declining sales revenues for natural resource SEEs.

These emerging challenges could be addressed through a comprehensive SEE reform program. Such a program could include: (i) differentiated approach to dealing with four typologies of SEEs (natural resources, commercially viable SEEs without public subsidy, commercially viable with public subsidy, not viable); (ii) strengthen performance monitoring through consistent accounting standards, automated data collection, simplified reporting; (iii) customized dividend policies based on financial conditions, prospects, and investment needs. Over the medium-term, the government could consider a new policy framework for SEE ownership, regulation and management that transitions away from decentralized ownership structure.

Recent economic developments

Economic growth

1. **Myanmar's macroeconomic environment over the course of 2016/17 has remained stable, following a challenging year in 2015/16 marked by natural disaster (Cyclone Komen) and declining commodity prices**. Economic growth at 5.9 percent was below expectation (Figures 1 and 2) though above the 3.5 percent average for emerging market and developing economies (EMDEs) in 2016 (Figure 3). Inflation moderated from 10 percent (annual average) in 2015/16 to 6.8 percent in 2016/17. Following a sharp depreciation in Q2-Q3, the kyat stabilized in Q4 2016/17. The current account and fiscal deficits have narrowed respectively from 7.2 percent of GDP to 5.3 percent, and from 4.4 percent to 3 percent between 2015/16 and 2016/17.

Figure 1: Real GDP growth and sector contribution

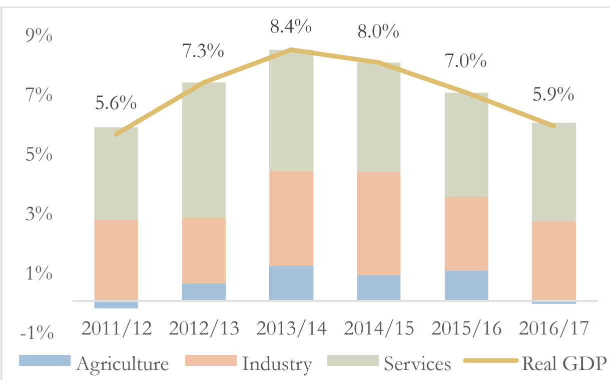
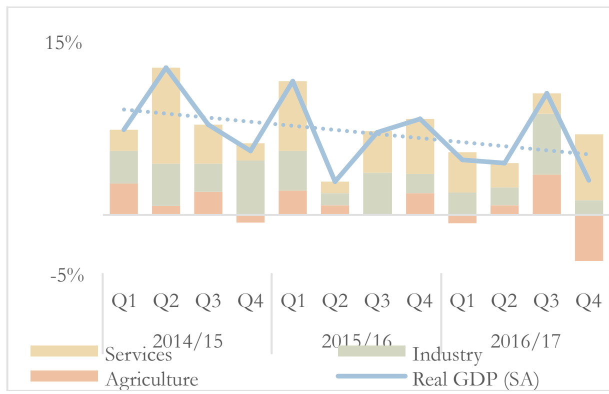


Figure 2: Real GDP growth (yoy, Seasonally Adjusted) and sector contribution



Source: MOPF, WB staff estimates.

Pick up in global growth in 2017[1]

2. **Global economic growth in 2017 is strengthening, following a post-financial crisis low of 2.4 percent in 2016** (Figure 3). Industrial activity in the first half of 2017 has picked up together with global trade. In advanced economies, investment demand and net exports have started to accelerate, while private consumption has moderated. Growth in EMDEs also picked up in early 2017, particularly among commodity exporters with oil prices averaging US$53 per barrel (bbl) during this period, up 24 percent from 2016. Financing conditions for EMDEs have remained favorable with bond spreads narrowing. Despite rising US long-term yields at the end of 2016, overall capital inflows to EMDEs in 2017 have remained strong.

3. **In developing East Asia and Pacific (EAP), economic growth remained robust in the first half of 2017** (Figure 4). The region grew at 6.3 percent in 2016 (4.9 percent excluding China). Regional financial markets stabilized after a period of volatility in late 2016, net capital outflows declined and asset prices firmed. In China, output expanded at 6.9 percent year-on-year rate in the first quarter, helped by robust consumption and a recovery in exports. In commodity importing economies, accommodative policies supported solid demand growth.

[1] WB, "Global Economic Prospects: A Fragile Recovery," (April 2017)

Figure 3: Real GDP growth (EMDE Regions)

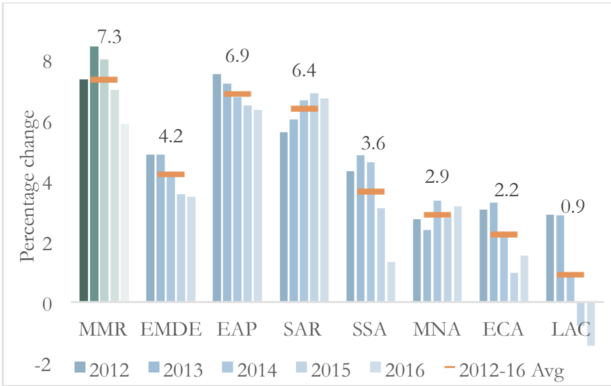
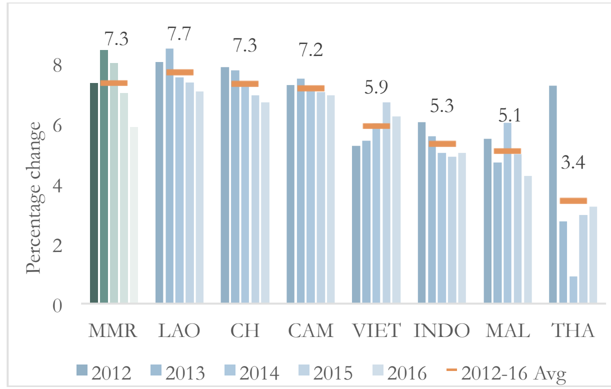


Figure 4: Real GDP growth (EAP Region)



Source: WB Global Economic Prospects. Note: Regions cover emerging market and developing economies only.

Slowing investment and robust consumption in Myanmar

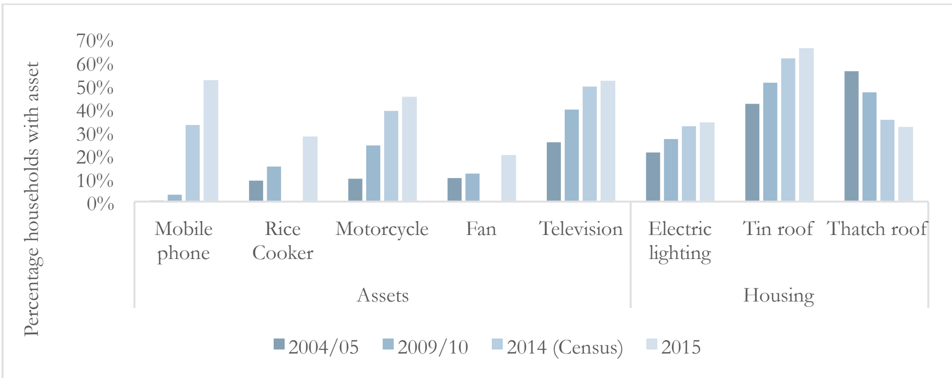
4. **Coinciding with low global growth and investment flows to EMDEs in 2016 was a slowdown in investment demand in Myanmar**. Private investment flows decelerated from an estimated 14 percent annual average real growth in the previous three years to 3 percent real growth in 2016/17. This is partly a base effect given the rapid rise in telecommunications and gas sector investments between 2013 and 2015. Private investors however have also continued to bide their time pending greater clarity in government plans to address structural bottlenecks in, among other areas, energy, finance, and land. Despite good progress in several important areas (see Boxes 2, 4, 5, 6), private investors have sought a comprehensive economic strategy with clear implementation milestones. The challenge is compounded by declining levels of public investments (from 6.2 percent of GDP in 2015/16 to 5 percent in 2016/17) including for basic infrastructure.

5. **Investor interest remains strong, though the lag between investment commitments and implementation has started to grow.** In 2016/17, there have been notable investment commitments and/or disbursements in for example car assembly (Nissan-Tan Chong Motor partnership); the largest fuel storage facility in the country (Puma Energy Sun Asia-MPPE partnership); the largest gas fired power plant (Sembcorp); hospitality and tourism (several major hotel chains investing in new properties across the country); and a fourth telecommunications operator (Viettel joint venture with Myanmar Economic Corporation and 11 local investors). There have also been important investments in agricultural inputs, processing, and distribution and marketing. But there are other industrial and manufacturing investors that have held back due to perceived and actual risks.

6. **In the meantime, strong private consumption growth continued to support trading activities, particularly in urban areas and in durables.** Private consumption accounts for close to 50 percent of GDP in Myanmar. Consumer durables (e.g. televisions, phones, motorcycles) and housing improvements are highly responsive to growth in household incomes. In Myanmar, the elasticity of durables with respect to total expenditures is slightly greater than three. This means that a one percent increase in household expenditures is associated with a 3 percent increase in their durables use value. This is likely a reflection of both better access to markets and rising consumer purchasing power.

7. **Consequently, recent improvements in household well-being in Myanmar (Box 1) has been associated with substantial growth in household asset ownership**. For example, the proportion of households with a tin roof increased from just over 40% in 2004/05 to 66% in 2015, while the fraction of households who reported owning a television increased from approximately 25% of households in 2004/05 to just over half in 2015 (Figure 5). The share of households lighting their homes using the public grid to light their homes increased from 21 percent in 2004/05 to 32 percent in 2015. Electric goods are increasingly being powered by off-grid energy sources, such as solar home systems and community grids. In 2015, 16 percent of households reported a solar home system as their primary source of lighting and 11 percent reported accessing a community or border country grid.

Figure 5: Household asset ownership



Sources: IHLCS (2007, 2010), Census (2014), MPLCS (2015)

8. **Whilst Myanmar's recent consumption boom is associated with improved household welfare, accelerating investments is critical to long-term growth and job creation**. The expansion in asset ownership has been accompanied by a relative rise in welfare in urban areas. Valuable assets are mostly concentrated among richer households in urban areas or in the top expenditure quintile. Slow progress on addressing structural issues that constrain competitiveness will incentivize the private sector to trade rather than to invest in production. The latter is important for domestic value addition and job creation although also raises import demand. As foreign investment flows to EMDEs are starting to pick up, Myanmar has an important opportunity to capitalize on its investment potential.

Box 1: Recent poverty trends in Myanmar

A recent report on trends in living conditions and poverty shows that households in Myanmar have seen substantial growth in their wellbeing over the last decade. Poverty declined over the decade between 2005 and 2015, during a period of substantial reforms. The figures below present estimates of the decline in poverty over time using two methods: the first produced in the Integrated Household Living Conditions Assessment (IHLCA) reports by the Ministry of National Planning and Economic Development and development partners (MNPED, IDEA, UNDP, and UNOPS 2007), and the second produced by the World Bank (World Bank 2014). [2,3]

[2] Both methods are based on a national definition as opposed to international definitions of poverty, and use a cost of basic minimum needs approach to set their poverty lines. Although a handful of technical choices differentiate the two methods, only a few have substantial explanatory power in explaining the differences in the poverty estimates produced. The first important difference reflects the base year for anchoring the standard of living and definition of poverty. The second difference reflects methodological choices, in particular, how household consumption was translated into individual consumption using adult equivalence scales. Due to the number of people in Myanmar living near the poverty line, small changes in assumptions can lead to large changes in poverty estimates.

Regardless of the method used, Myanmar has seen substantial poverty reduction over the last decade. Poverty declined from 32.1 percent in 2004/05 to 25.6 percent in 2009/10 and 19.4 percent in 2015 using the method produced in the IHLCA reports. A decline of a similar magnitude was registered using the World Bank's revised estimate: poverty went down from 44.5 percent in 2004 to 37.5 percent in 2009/10 and 26.1 percent in 2015.

Figure 6: Trends in national poverty estimates

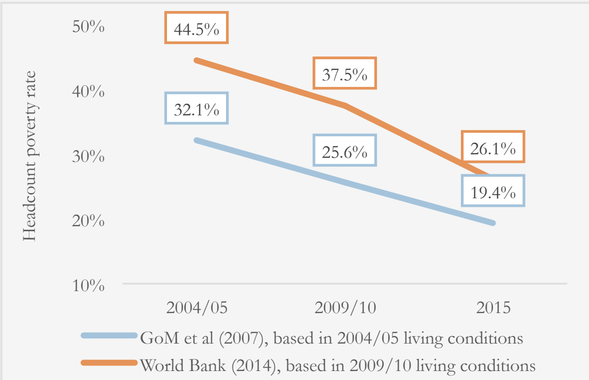
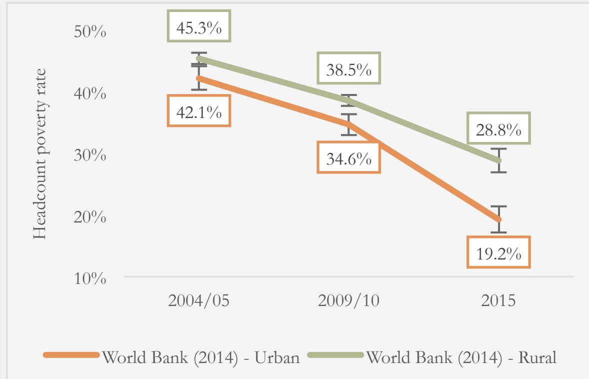


Figure 7: Trends in poverty in urban and rural areas



Source: MOPF and WB 2017

These improvements in well-being are also reflected in multiple measures of welfare. Average household expenditures have increased by 15 percent over the decade, or by 1.4 percent per year, using the Government's welfare aggregate. Other indicators, such as the ownership of motorcycles and televisions, have improved over time. For example, motorcycle ownership increased from just under 10 percent of households to a quarter of households in 2009/10, 39% in 2014 and over 42 percent of households in 2015.

Urban areas have seen faster growth in household welfare, and a sharper decline in poverty in percentage point terms. Both rural and urban poverty have declined; using the World Bank's revised estimate, urban poverty is estimated to have fallen from 34.6 percent in 2009/10 to 19.2 percent in 2015, and rural poverty to have fallen from 38.5 percent to 28.8 percent over the same period. The same patterns are seen using the government's welfare aggregate. The more rapid decline in urban poverty relative to rural is mirrored in sectoral growth figures, which show a more rapid rate of growth in manufacturing and services than in the agricultural sector over the same period (World Bank, 2016).[4]

The faster urban growth has contributed to an increase in inequality in Myanmar. Most measures of inequality have risen over the reform period, albeit from a relatively low base. Households at the top 90th percentile have seen faster consumption growth than those at the bottom 10th percentile and the median household. The share of total expenditures going to the bottom 20 percent and to the bottom 40 percent has declined since 2009/10. The rise in inequality is noteworthy but unsurprising, as individuals with better education and more capital to invest have benefitted more from the early liberalizations and reforms.

While living standards in rural areas have seen substantial improvements, the changes have been more limited than those seen in Myanmar's cities and towns. The rise in inequality replicates the experience of reform periods seen in several countries in the region. While the inequality figures in Myanmar are not at levels that stand out from a regional or global perspective, it will be important to monitor reform efforts to ensure that they have the potential to reach the entire population. Supporting stronger growth in Myanmar's farms and villages will be vital, both for reducing poverty and for keeping inequality in check

Despite improvements in living conditions, there are many individuals whose consumption patterns place them just above the poverty line. Individuals are considered near-poor or vulnerable to

[3] MNPED, IDEA, UNDP and UNOPS "Integrated Household Living Conditions Survey in Myanmar: Poverty Profile", June 2007; World Bank 2014, "Myanmar: Ending poverty and boosting shared prosperity in a time of transition: Systematic Country Diagnostic" World Bank Group.
[4] World Bank 2016. Myanmar Economic Monitor, May 2016.

poverty if there is a non-negligible chance that they could fall into poverty. This is captured by looking at the population that lies within 20 percent of the poverty line. Although the fraction of poor and near-poor has declined over time, from 61.2 percent in 2004/05 to 54.7 percent in 2009/10 using the World Bank (2014) definition, in 2015 40.1 percent of the population continued to live under the near poor line. In Myanmar, the bottom 40 percent continue to display substantial vulnerability to poverty and, beyond facing a substantial risk of absolute poverty, have limited access to basic services such as electricity, health care, and improved water and sanitation.

Source: MOPF and WB, "An Analysis of Poverty in Myanmar: Part One – trends between 2004/05 and 2015" (2017)

Difficult year for agriculture and slowdown in industry

9. **Myanmar's agriculture sector contracted slightly in 2016/17, contrary to expectations of recovery from the effects of heavy flooding in 2015.** Official estimates show that agriculture output increased by 3.4 percent in 2015/16, thanks to higher beans and pulses output that helped offset a decline in rice production. In 2016/17, however, the sector is estimated to have contracted by 0.4 percent. Although paddy production increased, it did not recover to pre-Cyclone Komen levels in 2014/15 (Table 1). Slowing rice exports to China led to falling paddy prices (Figure 8), leading some farmers to skip the monsoon paddy crop. Returns to non-paddy crops (Figure 9) have picked up, partly due to increased exports to new markets.

Table 1: Paddy harvest area and production

	2013/14	2014/15	2015/16	2016/17
Harvested area, '000 ha	7,050	7,030	6,900	7,000
Paddy production, '000 tons	18,683	19,688	19,063	19,444

Source: USDA

Figure 8: Wholesale Manawthukha rice price

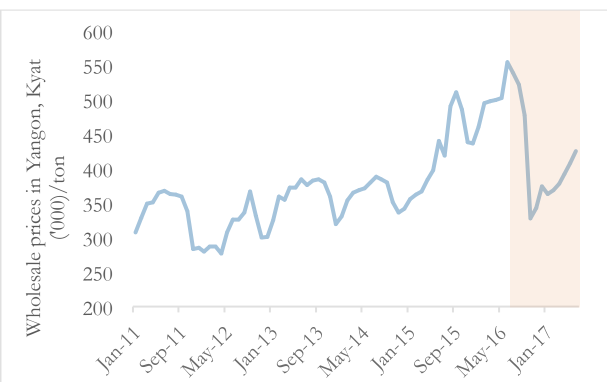
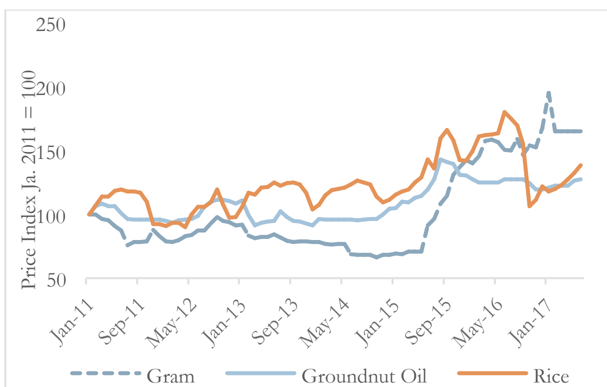


Figure 9: Selected crop prices



Source: FAO GIEWS, WB Staff estimates

10. **Available data suggests that the production of beans and pulses in 2016/17 has contracted, explaining the overall decline in agriculture output**. USDA estimates that beans and pulses output declined by 2.4 percent from 5.2 million tons in 2015/16 to 5 million tons in 2016/17. Beans and pulses are grown on 28 percent of the total sown area, but account for close to 68 percent of value added in crops, compared to around a quarter for paddy. Although many experts had anticipated a major shift to the production of beans and pulses, this did not materialize partly because of slowing demand and eventual import restrictions in 2017/18 imposed by India.

11. **Livestock and fisheries continued to grow in 2016/17, showing early results from increased investments (Box 2), though forestry contracted further**. Stricter enforcement of the log export ban that has been in place since April 2014 as well as annual allowance cuts led to a sustained decline in the production of timber. Official forestry production has never been large as most forests were logged unofficially. With the increased attention to environmental sustainability and forest protection, especially since the merger of the Ministry of Environmental Conservation and Forestry and the Ministry of Mines, official production has declined further.

Box 2: Recent agriculture sector reforms and investments

Myanmar has continued to implement agriculture sector reforms and enhance productive partnerships with the private sector. Reforms include general investment climate improving laws such as the Myanmar Investment Law and sector specific strategies at the national[5] and at the regional level[6]. The government is also supporting, through concessional loans, the initiative proposed by the Myanmar Rice Federation to establish 33 Agribusiness Service Centers (ACS) at strategic locations. These ACS are involved in rice processing, supply of inputs including seeds and fertilizers and providing mechanization services.

This has contributed to increased private sector investments in agriculture value and supply chains in the last year, which is critical to sustainable and inclusive growth in the sector. These include investments in **inputs** such as seeds, fertilizers, machinery/mechanization services, hatcheries and feed; **processing** such as improved quality output, more end-uses and utilization of by-products and wastes; and **distribution, marketing and trading** to local towns, urban centers and more lucrative international markets.

Private sector investments in agriculture inputs such as fertilizers, seeds and feed have seen a significant increase in the past year. Notable developments in the fertilizer manufacturing and imports include joint ventures with firms from Thailand, India and others that began operations and construction in the last year.[7] On seed production, CP, a major Thai conglomerate, has started upscaling hybrid-corn seed production and are in the process of entering into production of other seeds, including rice. Several feed mills are currently in operation, with investments from Korea, Thailand, Indonesia, Vietnam and local investors.

The last year has also seen several positive initiatives to improve distribution, trading and marketing of agricultural products. Fruit and vegetable exports saw a boost in the last year to large markets such as Singapore. In addition, preserved vegetables in brine are being exported to EU, taking advantage of the Everything But Arms arrangement, while dried vegetables are increasingly being exported to Japan and Korea. Myanmar Agro-Exchange Public Limited, owner and operator of a large modern fruits, vegetables, and other agricultural products integrated wholesale market, successfully launched an oversubscribed Initial Public Offering (IPO) in February 2017. The first phase of the 82-acre fresh fruits and vegetables wholesale market, modelled after Talad Thai Wholesale Center near Bangkok, became operational in August 2017.

Source: WB Staff

[5] This includes the Ministry of Agriculture, Livestock and Irrigation (MOALI) Agriculture Development Strategy and Investment Plan.
[6] For example, the Yangon Agriculture Development Master Plan and plans for Ayeyarwady, Mandalay and Mon regions.
[7] These includes the Marubeni and Sein Wut Hmon fertilizer manufacturing JV which started operation in late 2016, the Mitsui-Benn Meyer-MAPCO JV expected (early 2018), an import and repacking plan of Thai Central Company (in late 2017) and a potential JV with Advance Fertilizers India.

12. **Overall industrial output growth has remained strong but below its past five-year average, partly due to a contraction in gas production.** Gas output contracted by an estimated 7 percent and gas export prices have been at a historical low, which have contributed to a sharp decline in overall gas receipts. Whilst the gas sector accounts for less than 10 percent of total value added, it makes up between 30 and 40 percent of merchandise exports and between 15 and 20 percent of general government receipts. Recent developments have therefore contributed to the general slowdown in demand, including the moderation in public investment noted above.

13. **This has impacted the construction sector, which has been slow to recover from last year's sharp deceleration.** The knock-on effects from the gas sector include reduced levels of or postponed spending on public infrastructure, which otherwise was expected to be a major driver of construction activity. Investors in energy and transportation infrastructure for example have indicated that government contracts were adjusted down due to lack of budget allocations. At the same time, important reforms have been initiated, including through the National Building Code (2016), to improve quality, standards compliance in the construction sector. Private investors however have also held back, allowing the dust to settle after the temporary moratorium on 200 high rise building projects in Yangon. Plus, around 90 percent of the construction sector is reportedly made up of Small and Medium Enterprises, which are less flexible in adjusting production capacity to sudden changes in economic policy or conditions.

14. **The Myanmar Purchasing Managers' Index (PMI)[8] indicates that 2016/17 was a difficult year for the manufacturing sector**. The headline PMI – a composite indicator of manufacturing performance – shows that sector performance continuously declined for the first three quarters of 2016/17 (Figure 10). Output contracted throughout much of this period as did employment (Figure 11). As reported in the last Myanmar Economic Monitor, a big part of this is likely due to declining production in the food processing sector linked to Cyclone Komen. Although output and employment accelerated in the last quarter of 2016/17 (and notwithstanding a pick-up in the garments sector, which accounts for a relatively small share of value added), this is likely to be a base effect from the previous period of contraction.

Figure 10: Headline PMI

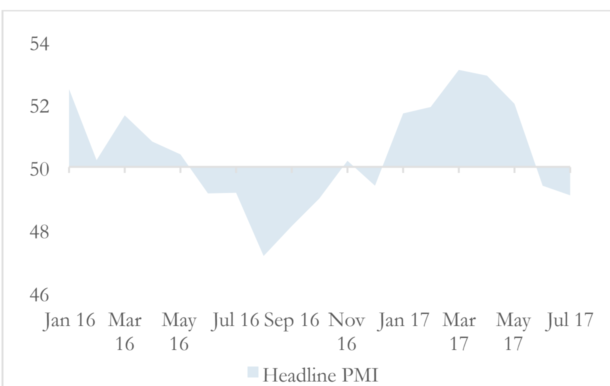
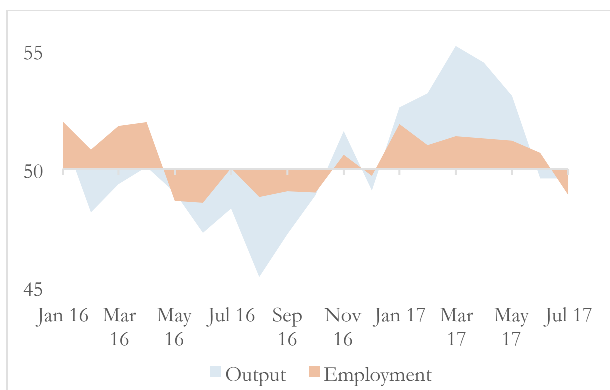


Figure 11: PMI Output and Employment

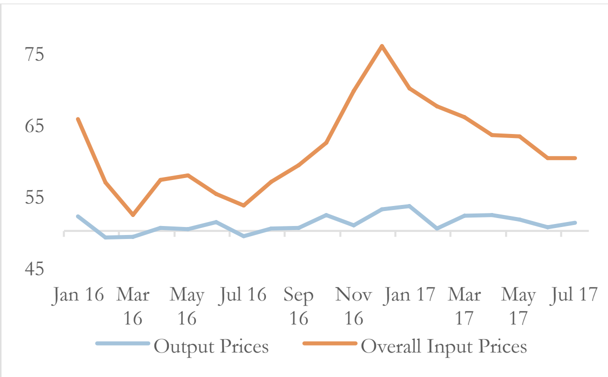


Source: IHS Markit and Nikkei

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

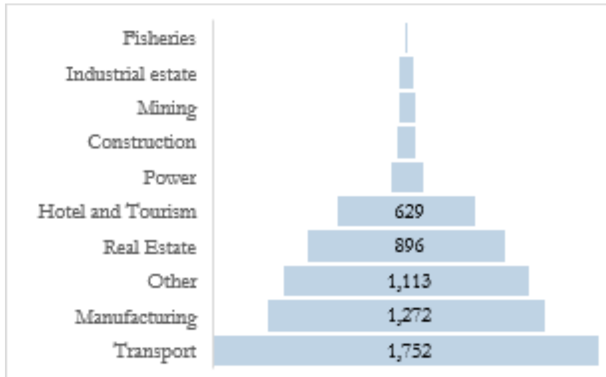
15. **High and rising input costs have exacerbated competitiveness challenges for Myanmar's fragile manufacturing sector.** The PMI Input Prices Index shows sustained increases in production costs (Figure 12). This is linked to constraints in raw material supply and a prolonged depreciation of the kyat, as much of Myanmar's manufacturing sector is dependent on imported inputs. Only part of the increase in production costs were passed on to consumers. Investment commitments for the manufacturing sector, including from domestic investors (Figure 13), have remained relatively strong. These are primarily businesses with relatively low capital costs such as garments and food processing, which continue to gradually expand. Whilst there is interest from more complex operations (e.g. electronics assembly, automotive), these are moving slowly given structural constraints.

Figure 12: PMI Input and output prices



Source: IHS Markit and Nikkei

Figure 13: Domestic investment commitments 2012-2016 (US$ million)



Source: CSO

16. **A recently launched Myanmar Survey of Economic Conditions (MSEC) (Box 3) reaffirms deteriorating manufacturing and service sector performance in the second half of 2016**. Real annual sales growth and capacity utilization were relatively high over the course of 2015. By the second half of 2016 however manufacturing output and overall employment seem to have declined, consistent with PMI results. Important factors that continue to impact on business performance include the reliability of power supply, access to skilled labor, and access to land. Further details are provided in Box 3 below.

Box 3: Survey of economic conditions in Myanmar's manufacturing and services sectors

As part of the Myanmar Economic Monitor, the World Bank is conducting six-monthly surveys of economic conditions in the manufacturing and services sectors. The purpose is to complement existing information sources to monitor the economy at a time of rapid changes. The survey builds on the most recent Enterprise Survey[9] to monitor: (i) *business performance* in the manufacturing and services sectors; and (ii) *business conditions* that might explain that performance. The results of the first survey indicate that business performance in 2015 remained relatively strong, but that in the second half of 2016 the situation deteriorated. Basic infrastructure services, access to finance, and access to skills remain important obstacles to doing business.

A. Business performance[10]

Real annual sales growth between 2013 and 2015 was strong at 4.3 percent. [11] This compares favorably with Cambodia (0.9), Lao PDR (-20.8), Thailand (-1.4), and Vietnam (-0.8).[12] Larger, manufacturing firms based in Yangon displayed higher annualized sales growth. Mandalay and medium-size firms stood out for almost zero growth. Sub-sector level data, which is indicative and not representative, shows particularly strong sales growth in fabricated metal ware, food manufacturing, and wood and furniture making (Figure 14). Aside from large, manufacturing firms (especially garments and furniture), most manufacturers produce for the domestic market (Figure 15).

Figure 14: Real annual sales growth

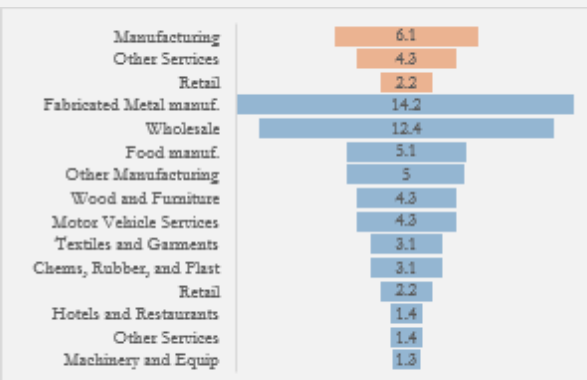
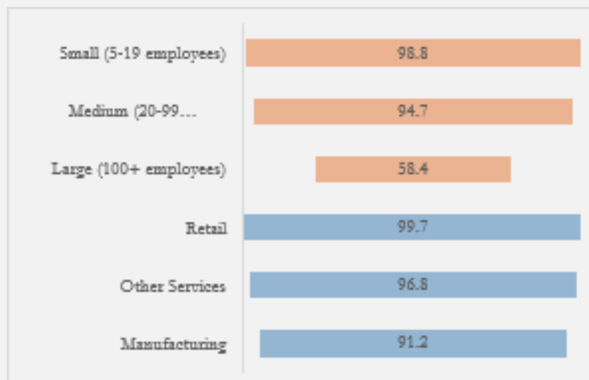


Figure 15: Share of domestic sales



With relatively strong market demand, capacity utilization and business expansion were high in 2015 (Figure 16)**.** Capacity utilization (production relative to firms' maximum potential) was 90% in Myanmar; this exceeds Cambodia (84%), Lao PDR (84%), Vietnam (80%). Firms in Mandalay underperformed compared to other regions by about 10 percentage points. In terms of annual employment growth, large firms stood out with 11.5% growth. Among sub-sectors, other services firms (construction, auto, hospitality, transportation, storage, communications, and IT) exhibited strong annual employment

[9] http://www.enterprisesurveys.org/data/exploreeconomies/2016/myanmar

[10] The Enterprise Survey fieldwork took place over the course of October 2016 thru April 2017. Over two-thirds of firms were interviewed during the last few months of 2016. Hence for the purposes of this analysis, the six-month interval for the business flows questions is generally considered as the second half of calendar year 2016.

[11] The fiscal year for firms in Myanmar is not strictly defined. Most firms use either the calendar year or they follow April thru March. In our sample, for almost 80% of respondents, their last completed fiscal year was calendar year 2015 or April 2015 thru March 2016. For most remaining firms, their last completed fiscal year was calendar year 2016. Hence for purposes of this analysis, we are stating the FYs being compared are calendar years 2013 and 2015. Also, note that Myanmar's WDI deflator for year 2016 is not yet available. Hence we use the 2015 deflator for monetary values in 2016. Therefore, readers should consider this real annual sales growth rate as provisional. Keep in mind this growth rate corresponds to the universe of firms under consideration for the Enterprise Survey: manufacturing and several services industries. For example, extractive industries and farms are excluded in this firm-level survey, along with other sectors

[12] These figures come from Cambodia 2016, Lao PDR 2016, Thailand 2016, and Vietnam 2015 Enterprise Surveys.

growth of 3.9% (Figure 17).

Figure 16: Capacity utilization 2015 (manuf. only)

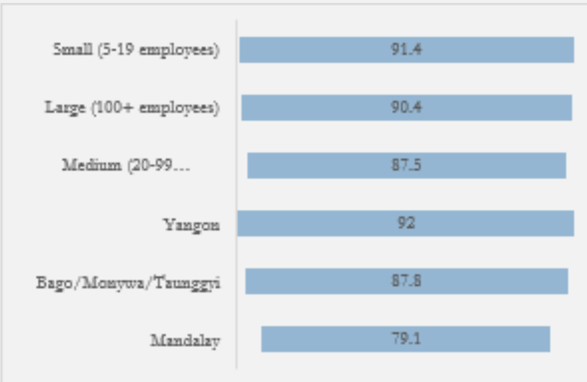
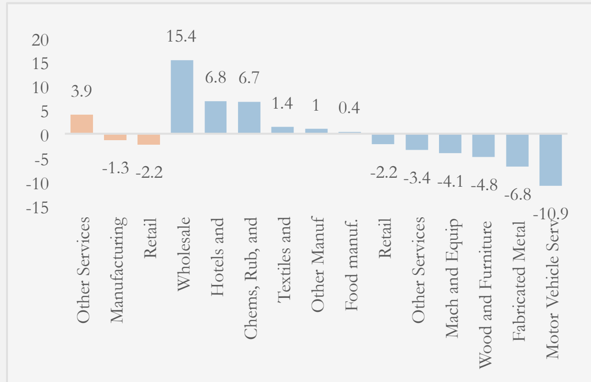


Figure 17: Employment growth (2013-2015)



Almost one out of every two firms invested in new or used fixed assets[13] during 2015, predating the slowdown in investment reported for 2016/17 (see above discussion on GDP). This is higher than Cambodia (45%), Lao PDR (17%), Thailand (17%), and Vietnam (43%). The larger the firm, the more likely they were to invest. Almost 88% of firms in Mandalay made investments, but the median level of investments was lower than other regions, consistent with low sales growth and lower levels of manufacturing capacity. Sub-sectors with fastest sales growth (indicative not representative) as expected also have relatively higher investments as a share of sales (e.g. motor vehicle services, food manufacturing, wood and furniture) (Figures 18-19), the only exception being fabricated metal, which is likely to be mostly imported.[14]

Figure 18: Investment in equipment and machinery (% of sales) (2015)

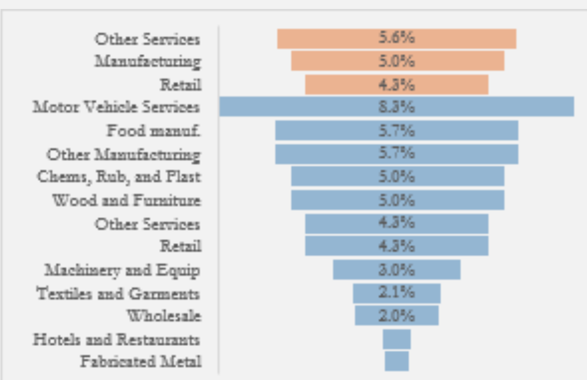
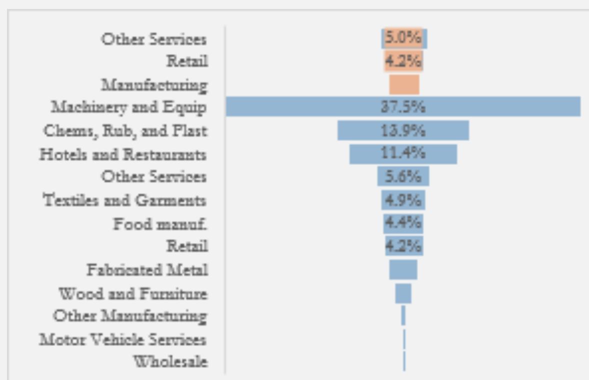


Figure 19: Investment in land and buildings (% of sales) (2015)



In the second half of 2016, MSEC results show that overall production in manufacturing declined by 3.4 percent and overall employment declined by 6.1 percent. This is broadly consistent with GDP and PMI results reported above. Nearly all sub-sectors reported declining production (Figure 20). MSEC shows contraction in production and employment in the garments sector despite rapidly rising exports (Figure 21). In addition to declining output and employment, close to half of enterprises reported declining orders.

[13] New or used fixed assets can be either machinery, vehicles, equipment, land, or buildings (including expansions and renovations of existing structures). Note that among those firms which did make investments in new or used fixed assets, most investments were made in machinery/vehicles/equipment (not land and buildings).

[14] For figures 18 and 19 point estimates apply to those firms which made investments in those particular fixed assets (i.e. numbers do not pertain to all firms in the particular sub-group).

Figure 20: Production during H2 2016 (% change)

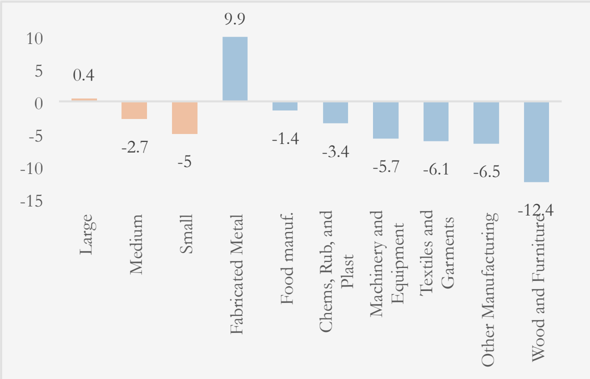
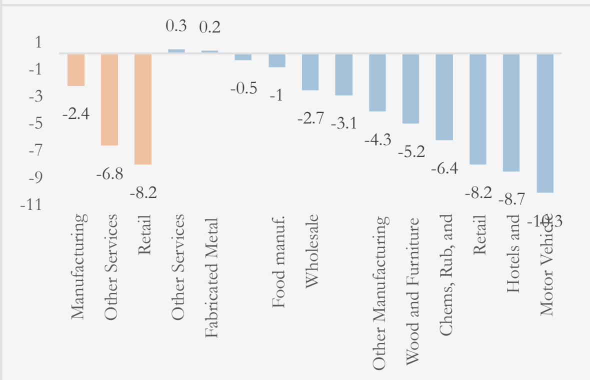


Figure 21: Employment during H2 2016 (% change)



B. Business conditions

The reliability of power supply is cited as a major constraint to business performance (Figure 22). Large firms in the manufacturing sector face higher frequency of power outages (15 per month) and are relatively more reliant on power from a generator (10-15 percent of electricity needs). Outside of power supply, land is cited as a major constraint by a relatively large proportion of firms (27 percent) more than three times as high as the shares of firms citing transportation (8 percent). Large firms however are more likely to cite transportation as a constraint (Figure 23).

Figure 22: Reliability of power supply index in 2015 (100 = reliable)

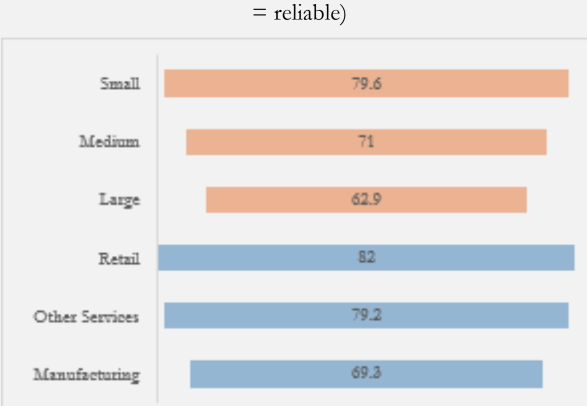
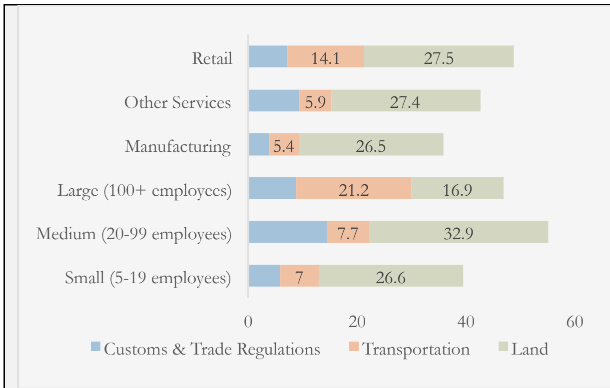


Figure 23: Structural constraints to doing business (% of firms reporting as constraint)



Large, manufacturing firms are also highly dependent on imported inputs. More than half report sourcing their inputs from foreign markets (Figure 24). This has contributed to escalating production costs (and loss of competitiveness), as also highlighted by PMI results above, due to sustained weakening of the kyat. The textiles and garments sector stands out in terms of the number of competitors (Figure 25). But there is no noticeable link between the degree of competition on the one hand and sales or production growth on the other.

Figure 24: Manufacturing firms sourcing their inputs from domestic markets (share of firms reporting)

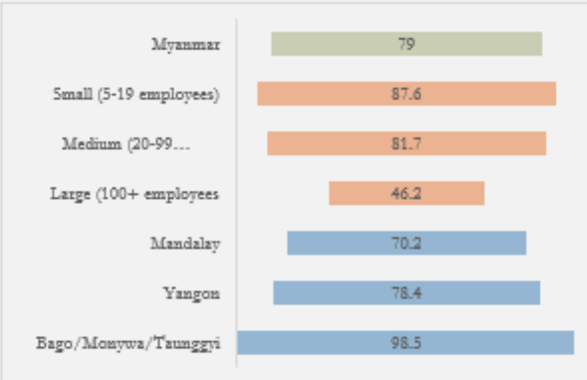
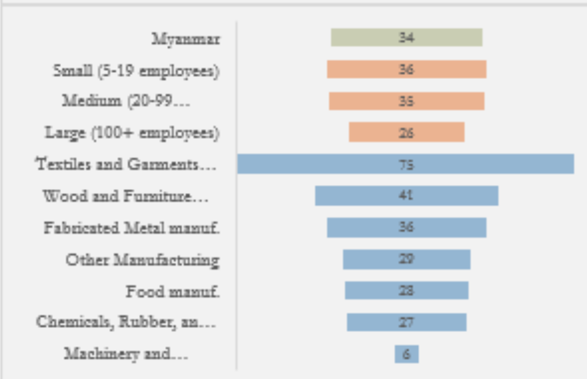


Figure 25: Number of competitors in the establishment's main market



Although access to finance remains low, only 10 percent of firms identify this as a major constraint to doing business (Figure 26). In the majority of cases, investments are financed out of own resources (Figure 27). Myanmar has one of the highest ratios of collateral required relative to the principal loan amount in the EAP region (412%); in comparison, Cambodia's ratio is 165%, Lao PDR's ratio is 276%, Thailand's ratio is 320%, and Vietnam's is 216%. Across sectors, retailers report the highest ratio (614%) compared to manufacturers (356%) and other services sectors (274%). Acceptable collateral is limited to land/buildings under ownership of the establishment and personal assets of the owner (such as a house).

Figure 26: Access to finance as a constraint to doing business (% of firms reporting)

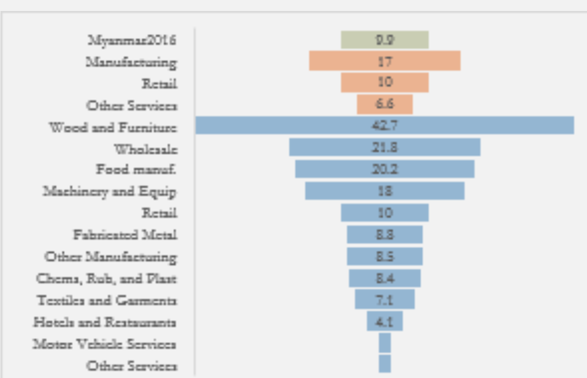
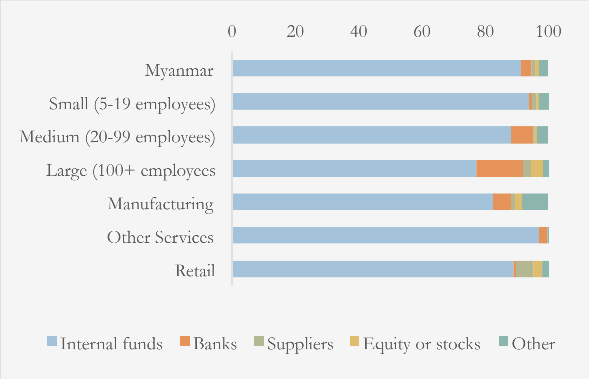


Figure 27: Sources of financing for investment (% of firms reporting)



When it comes to labor, finding skilled workers is more of an issue than say labor regulations (Figure 28). Across Myanmar almost 10% of firms indicate a poorly skilled workforce is a major constraint compared to 1.4% of firms citing labor regulations as a major constraint. Larger firms, services firms, and firms located in Yangon cite this obstacle at higher rates relative to their comparator groups (Figures 29 and 30). As reported in the last MEM, female labor force participation remains below potential, which is reflected in MSEC results (Figure 31).

Figure 28: Labor market constraints (% of firms reporting)

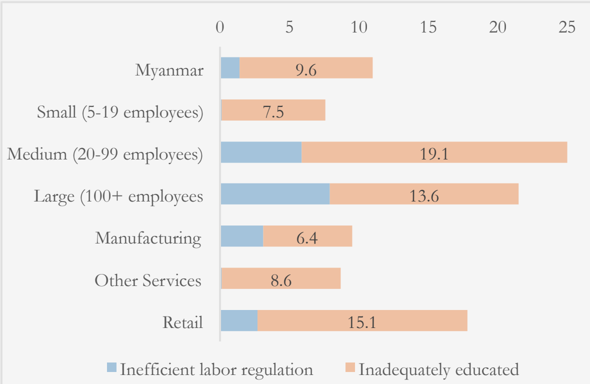


Figure 29: Difficulties in hiring workers for the manufacturing sector (% of firms reporting)

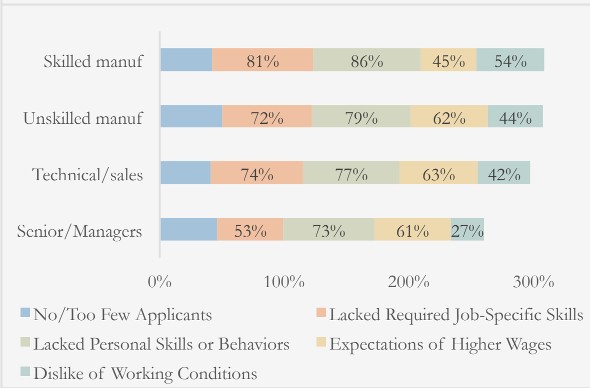


Figure 30: Difficulties in hiring workers for the services sector (% of firms reporting)

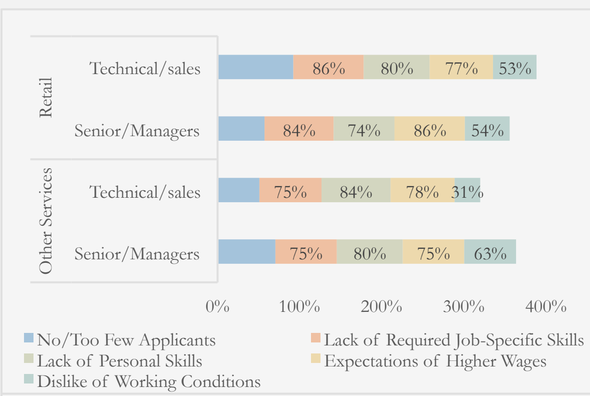
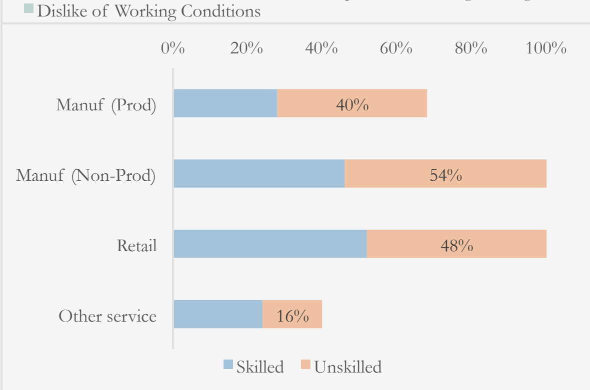


Figure 31: Female workers across manufacturing and services (% of employees)



Average gross wages per month seem to remain relatively competitive (Table 2). The last MEM highlighted concerns over potential wage inflation linked to high expectations of consumer price inflation, which seem to be broadly under control for now. At one extreme, wages of unskilled workers are close to per capita GDP levels of around US$100 per month. At the other end of the spectrum, skilled worker in non-production roles could command up to three times more than this, which at US$275-300 per month still relatively low when compared to regional comparators. It is possible however that unit labor costs (that reflect labor productivity) compare less favorably.

Table 2: Average gross wage per month by major industry type

		Manufacturing	Other Services	Retail
Production	Highly skilled	218	-	-
	Semi-skilled	145	-	-
	Unskilled	96		
Non-production	Highly skilled	274	185	163
	Semi-skilled	173	124	112
	Unskilled	117	81	91

Foreign trade and investment

Improvement in overall external position in 2016/17

17. **Tighter economic policies and slowing demand have contributed to an improvement in the overall external position of Myanmar in 2016/17**. Myanmar is estimated to have had a balance of payments surplus of 1.4 percent by end 2016/17 up from 0.8 percent the previous year (Figure 32). Foreign exchange reserves in Q4 2016/17 started to recover and were estimated at around 3 months of prospective imports at end March 2017, a slight improvement on 2.3 months of imports in October 2016, but still below prudent levels. Although FDI flows had declined, external debt disbursements began to pick up. This helped finance a narrowing current account deficit (Figure 33) supported by a stable trade deficit, service exports and incoming transfers, including grant aid. The slowdown in demand, partly thanks to tightened fiscal and monetary policy, as well as declining investment inflows, helped contain merchandise import growth.

Figure 32: Balance of payments

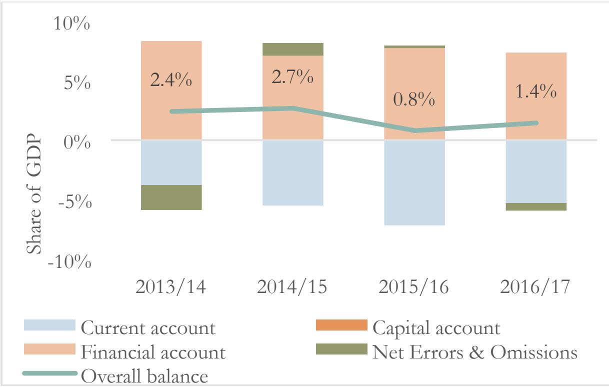
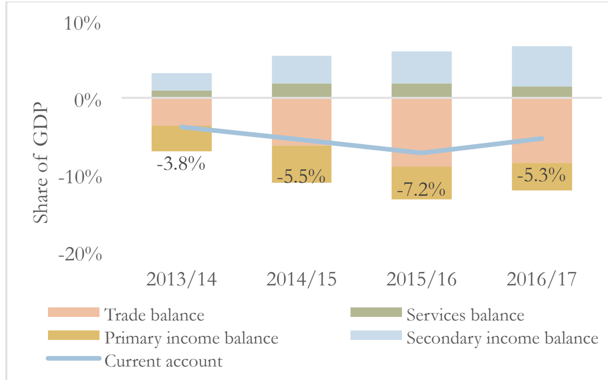


Figure 33: Current account



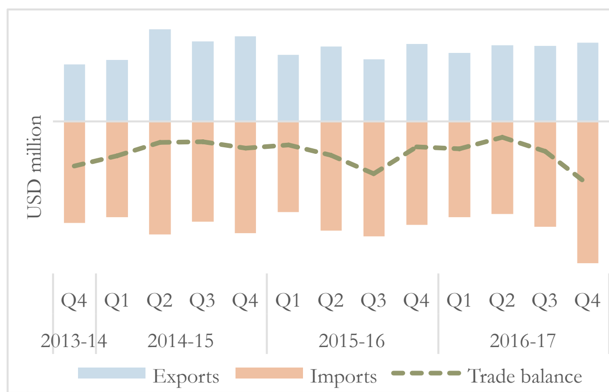
Sources: CBM, IMF BOP Statistics, MOC, WB Staff estimates

18. **The trade deficit, which is the biggest driver of current account developments, has declined slightly from 9 percent of GDP in 2015/16 to 8.5 percent in 2016/17**. Merchandise exports started to recover from a sharp contraction the previous year (Table 3). Import growth contracted in H1 2016/17 but accelerated rapidly in H2, whilst merchandise exports stagnated. This led to a rapid widening of the trade deficit from US$ 640 million in Q2 2016/17 to US$2.5 billion in Q4 2016/17 (Figure 34), which coincided with some recovery in the manufacturing sector (see economic growth section above) and a sharp depreciation in the kyat (see exchange rate developments below).

Table 3: Merchandise trade

FY	2014-15	2015-16	2016-17
Exports	12,581	11,148	11,832
Change		*-11%*	*6%*
Imports	16,633	16,516	17,201
Change		*-1%*	*4%*
Trade balance	(4,052)	(5,368)	(5,369)
TB (% of GDP)	-6.2%	-9.0%	-8.5%

Figure 34: Trade balance



Sources: MOC, WB Staff estimates

Major shifts in the composition of merchandise exports

19. **Merchandise exports are recovering slowly following a sharp contraction in 2015/16, though there are important underlying changes in composition** (Figure 35). Exports grew at 6 percent in nominal terms, and remain below their 2014/15 levels. This is largely due to declining exports of natural resources. This has been partially offset by a surge in manufacturing exports, particularly garments, which are growing from a low base.

Figure 35: Composition of merchandise exports

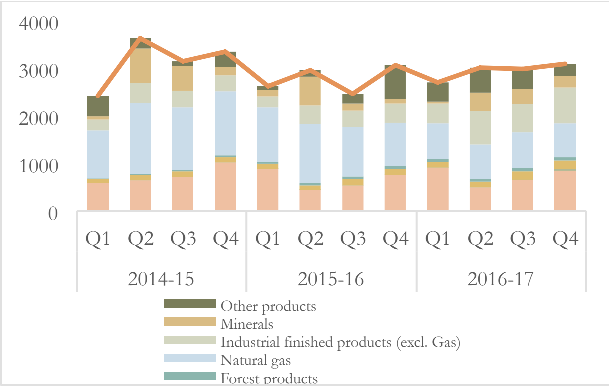
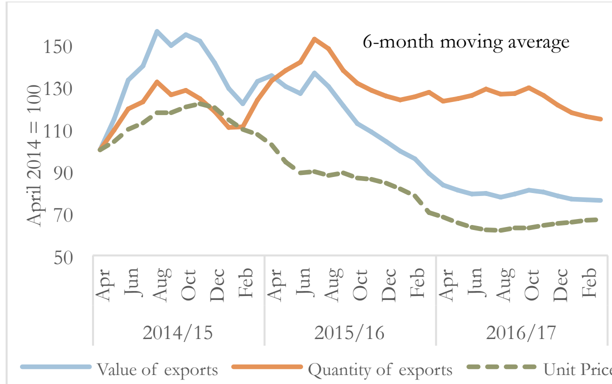


Figure 36: Natural gas exports



Sources: MOC, WB Staff estimates

20. **Natural gas exports, which in recent years have helped to buffer big increases in investment related imports in 2013-2015, continued to decline in 2016/17** (Figure 36). They declined by 30 percent in value in 2016/17 compared to 2015/16, which was already 10 percent below previous year. This is now mainly a quantity effect: unit price has stabilized at about 80 percent of its level in the previous year, and seems to slightly increase over the year, in line with the gradual recovery in oil prices. Despite a sharp decline in the share of total exports from 40 percent in the previous two years to 25 percent in 2016/17, natural gas still represents a very significant share of total exports, so this decline should be closely monitored and managed. In addition, other mineral exports have been stagnating, weighed down by a decline in reported gems sales (jade exports are reported to fall from US$570 million in 2015/16 to US$473 million in 2016/17).

21. **Agriculture exports recovered slowly, despite an overall contraction in domestic production.** Agriculture exports rebounded to US$2.9 billion in 2016/17, a 12 percent increase from the previous year. Major flooding in 2015/16 had negatively impacted monsoon maize and paddy production, leading to a 20-25 percent contraction in exports. Maize exports have continued to contract this year, and rice experienced a slight rebound, still below its levels of 2014/15. But most other sub-categories have experienced faster growth, allowing agriculture exports to rebound to their 2014/15 levels. Beans and pulses, which represent about 45 percent of agriculture exports (Figure 37), contributed the most to this recovery, increasing total value exported by 15 percent, from US$1.2 to US$1.4 billion. Export prices on the other hand declined consistently throughout the year (Figure 38).

Figure 37: Composition of agriculture exports

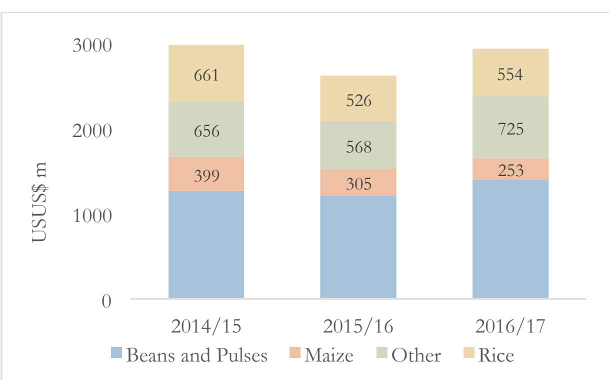
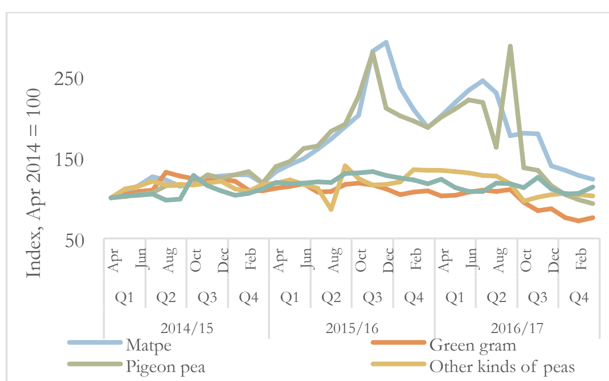


Figure 38: Prices of selected agriculture products



Sources: MOC, WB Staff estimates

Sources: MOC, WB Staff estimates

22. **Industrial finished products (excluding natural gas) have continued their impressive dynamics in 2016/17**. They gained around 80% in value, in very large part buoyed by the increase of garment exports by about US$1 billion over previous year, more than doubling in value. This is a major evolution: garments represent about 18% of total exports up from 5-10% in the past couple of years. The rise in garment exports can be compared with other countries relying on similar strategies, such as Cambodia and Vietnam: the share of textiles in manufacturing exports (using STIC classifications) is about 60%, against 50% for Vietnam in the mid-1990s and 70% for Cambodia currently (from 90%) earlier in the decade (Figure 39). In dollar value, the evolution since the "acceleration" is in the same range as for Vietnam, Cambodia or Bangladesh.[15] Myanmar started from a relatively low base, especially as a share of total exports, since natural gas still represents 25 percent of exports in 2016/17, but if the trend continues, manufacturing could overtake gas as a share in the export basket.

23. **The EU has now overtaken Japan as the main export market for Myanmar's garments** (Figure 40). The EU imported US$900 million in textiles from Myanmar in 2016/17, continuing a clear upward trend. US remains a smaller importer, with about US$120 million in the same year. This seems to show the importance on the one hand of trade preferences[16], as Myanmar is eligible to the duty-free regime of "Everything-But-Arms" (EBA) with the EU, but the US GSP does not include garments; and on the other hand of the reorganization of East Asian supply chains, as it seems that a large share of investment comes from Chinese firms relocating production to Myanmar.

Figure 39: Textile exports during a growth take-off for textile intensive countries

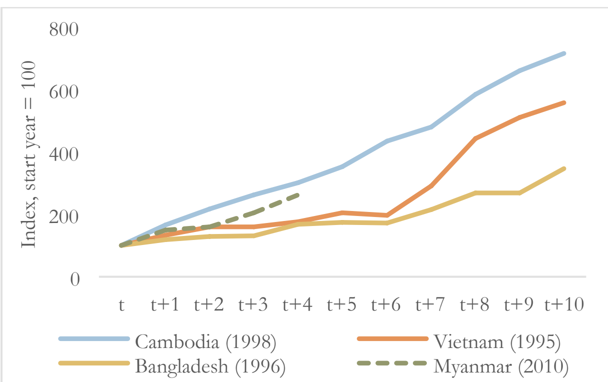
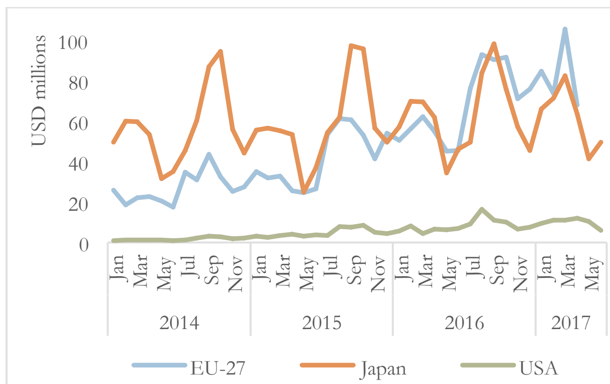


Figure 40: Destination countries for textile exports (STIC categories 60-64)



Sources: UN Comtrade, WB Staff estimates

Merchandise imports rebounded slightly after last year's contraction

24. **Import levels have remained relatively stable between 2016/17 and 2015/16, with two different phases**: until November 2016, they had declined significantly, corresponding mostly to a fall in investment related imports; but since December 2016 and until March 2017, the rebound has been very strong, for all three categories (i.e. consumer goods, raw materials and investment products). Investment has picked up after a sharp slowdown in the earlier part of the year, leading to an acceleration in imports of machines and steel building materials. Over the fiscal year, however, investment imports have declined by about 15%, from US$8.2 billion to US$6.9 billion between 15/16 and 16/17, their level by the last quarter of 2016/17 was almost reaching those of mid-2015/16.

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[15] In such an exercise, the choice of the start year is always somewhat arbitrary. But all credible years yield the same result: the growth of Myanmar garment sector is slightly below that of Cambodia, and close to Bangladesh and Vietnam

[16] See for example: http://www.elevenmyanmar.com/business/10444

25. **The acceleration in imports in H2 2016/17 corresponded with a period of significant depreciation in the kyat and a small rebound of commodity prices, particularly oil**. Therefore, it is likely that increased prices rather than volumes explain the surge in imports. Much of the increase is driven by raw materials and investment goods. Oil imports have increased from US$550 million in Q3 of 2016/17 to US$1.1 billion in Q4, explaining almost entirely the increase in raw material imports.

Decline in FDI commitments and flows

26. **FDI commitments have slowed down in 2016/17 from US$8 billion in 2014/15 and US$9.5 billion in 2015/16 to US$6.6 billion in 2016/17**. There may be several reasons behind the slowdown in commitments. Firstly, it could reflect a natural slowdown following the rapid build-up in commitments in the previous 3 years. Secondly, the 2016 slowdown seems to have mainly stemmed from a reduction of Chinese projects. A recent report by ODI[17] points out that, at least in the manufacturing sector, Chinese companies are often suppliers for large European or American brands who may have reduced orders. Thirdly, as reported above, the pace and communication of reforms may have held back investment plans.[18]

Figure 41: FDI commitments by country of origin

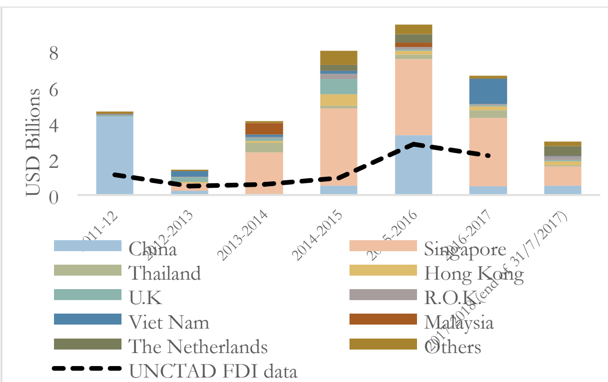
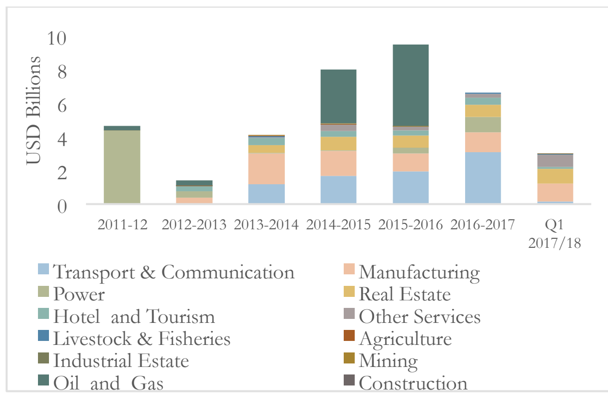


Figure 42: FDI commitments by sector



Sources: DICA, UNCTAD, WB Staff estimates

27. **FDI commitments from Singapore still dominate, whereas there has been a shift in sector composition of those commitments** (Figures 41 and 42)**.** Around two thirds of total commitments come from Singapore, though they are likely to stem from foreign countries benefitting from Singapore's financial center status as well as round-tripping domestic investment. The sector-level data shows a shift in the composition: a slow rise in the role of transport and communication has raised this sector to the largest in terms of permitted FDI in 2016/17, though it might be shrinking somewhat in 2017/18. Second, manufacturing remains a stable source of FDI commitments, at over US$1 billion per year since 2013.

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[17] (2017), "Foreign Direct Investment and Economic Transformation in Myanmar", *Supporting Economic Transformation Working Paper*
[18] See, eg, https://www.wsj.com/articles/suu-kyis-myanmar-problem-wheres-the-economy-1501752602

28. **Data on actual FDI inflows remains a major challenge.** Reporting by FDI enterprises to the Directorate of Investment and Company Administration (DICA) on fulfilment of investment commitments is not complete and therefore tends to underestimate total inflows. Actual flows are estimated to have declined from US$4.2 billion in 2015/16 to US$3.7 billion in 2016/17.[19] UNCTAD data shows actual investments peaking in 2015 at US$ 2.8 billion in 2015 and slowing down to US$2.2 billion in 2016. Whilst there is no sector level breakdown (other than those reported to DICA mentioned above), part of the drop might be linked to an adjustment in the oil and gas sector following a big spike in recent years.

Box 4: Myanmar Investment Law

The 2016 Myanmar Investment Law (MIL) establishes a level playing field for all investors. It brings together two investment laws (Myanmar Citizens Investment Law and the Foreign Investment Law). It adopts best practice standards for the treatment of investor including a strong guarantee of currency (profit/capital) transfer, which normally applies only to foreign or non-resident investors. The new law adopts the criteria on residency and not nationality to define who is a foreign investor, a Myanmar citizen who is a non-resident and invests in Myanmar (i.e., an expatriate) would then benefit from that provision as a foreign citizen investor would.

Under the new law, a Myanmar Investment Commission (MIC) Permit is only necessary for investors that want to operate a business that is: i) in a sector strategic to the government; ii) above a certain capital threshold: iii) potentially destructive to the environment; or iv) uses state-owned land. Among other provisions, the new MIL (i) narrows the scope of projects subject to MIC approval, (ii) partially decentralizes the investment approval process, (iii) classifies sectors and activities as prohibited, restricted and promoted, (iv) limits the provision of tax incentives to investment projects in promoted sectors; and (v) provides for the establishment of a grievance mechanism before they develop into legal claims.

In March of 2017 the government adopted the Notification 35 (Myanmar Investment Law Rules) as the implementing rules for the Myanmar Investment Law. Amongst other things this outlines the detailed provisions for determining whether proposed investments require an MIC permit or can go through the simplified endorsement process, which delegates approvals to the states and regions for smaller investments. The implementing rules also provide details on the handling of investor grievances and disputes, outline the responsibilities of investors and establish and Investor Assistance Committee to be in charge of settling investor grievances

Source: DICA, WB Staff

Inflation, monetary and exchange rate

Moderating inflation thanks to food price adjustment

29. **Consumer price inflation, unlike producer prices, moderated in 2016/17 to 6.7 percent from 10 percent the previous year (annual average)** (Figure 43). The price of food items, which account for 59 percent of the new CPI basket, increased by 8.5 percent (annual average) in 2016/17 compared to 14 percent the previous year. This slowdown was aided by the recovery in paddy production coupled with declining rice exports to China, contributing to an overall decline in the price of staples. Food prices moderated throughout the year barring a spike between December 2016 and February 2017 (Figure 44), coinciding with a rapid depreciation of the kyat. The spike is therefore attributed to the rising price of imported processed food items (e.g. edible oils, milk products).

[19] Data for 2015/16 are based on the latest IMF Article IV estimates and for 2016/17 on officially reported numbers in IMF BOP Statistics

Figure 43: Inflation drivers

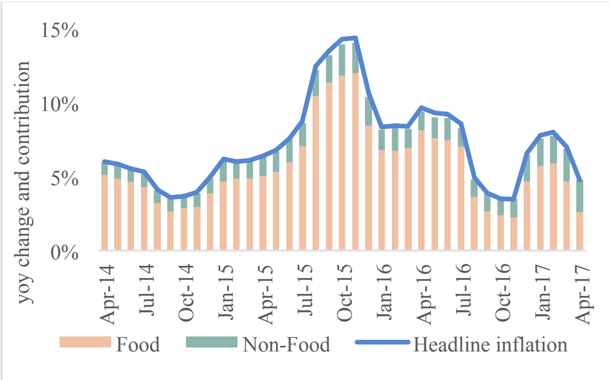
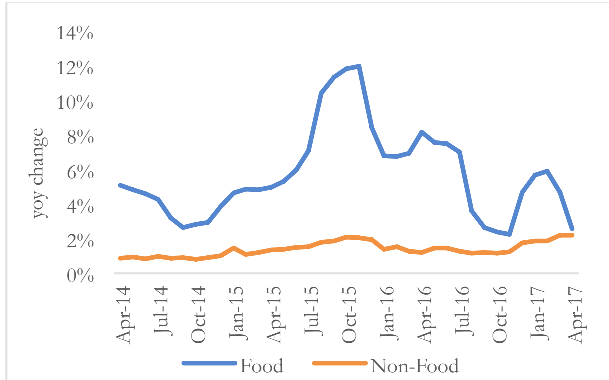


Figure 44: Food and non-food inflation



Source: CSO, WB Staff estimates

30. **Non-food price inflation has remained relatively low and stable, averaging 3.7 percent over the course of 2016/17** (Figure 45)**.** This was largely thanks to a sustained decline in transport costs, the biggest item in the non-food basket (25 percent share), over the first three quarters of 2016/17. Two likely drivers of this are declining demand associated with slowdown in manufacturing and processing; and intensified competition in the transport sector. The spike in transport costs at the turn of the year is associated with higher fuel import costs from kyat depreciation; it is also likely a base effect from deflation in the previous three quarters. Surprisingly, the price of housing and utility has remained relatively elevated throughout the year, despite a reported slowdown in both residential and commercial markets.

31. **Myanmar has avoided major second round inflation from the food price shock of 2015/16.** In 2015/16, a sharp divergence between food and non-food prices underlined how inflation was mostly driven by the effects of the supply shock *relative* to demand pressures. The evolution of the distribution of price increases in the monthly component data in 2016/17 reaffirms that the relative impact of supply pressures has started to abate (Figure 46).[20] After the first quarter, when over 60 percent of price increases were in the range of 8-12 percent due to spillover from the food price shock, over 50 percent of increases in the next two quarters were in the range of 0-4 percent, and over 70 percent in the 4-8 percent range in the last quarter. The relative concentration of price increases is consistent with demand-led inflation suggesting that the impact of the 2015 floods on prices dissipated relatively quickly.

[20] The chart shows the percentage of the components each month, weighted by their share in the consumption basket, for which prices grew between 0 and 4 percent (at an annual rate); between 4 and 8 percent; between 8 and 12 percent; between 12 and 16 percent; and more than 16 percent. Components with negative growth are omitted and hence account for the “missing” expenditure share in the graph.

Figure 45: Non-food price components

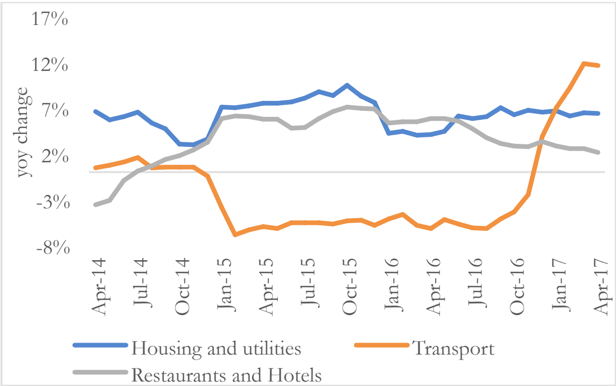
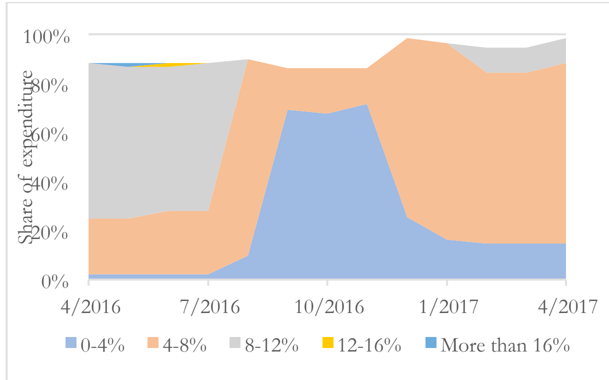


Figure 46: Evolution of the distribution of price component increases



Source: CSO, WB Staff estimates

Deceleration in money growth thanks to slowing demand and tighter monetary policy

32. **Money growth continued to decelerate in 2016/17 in line with the Central Bank's targets.** Reserve money decelerated sharply from 28 percent in 2015/16 to 8 percent in 2016/17, against a medium-term target of 13 percent (Figure 47, Table 4), thanks in big part to slowing net claims on central government (Figure 48). The growth in overall money stock also decelerated from 26 percent in 2015/16 to 19 percent in 2016/17, against an overall target of 24 percent (Figure 53, Table 4). This helped ensure that supply-side price increases last year did not feed into second round inflation in 2016/17, containing price increase within a medium-term average of 7 percent.

Figure 47: Money growth

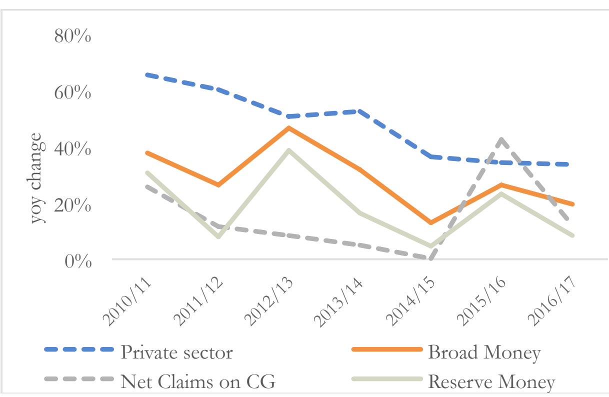
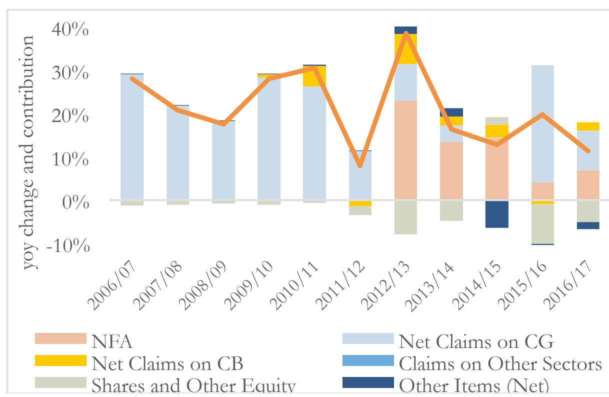


Figure 48: Contribution to Reserve Money growth



Source: CBM, WB Staff estimates

Table 4: Central Bank of Myanmar targets

	Indicator	Target	2016/17 Outturn
Operational target	Reserve Money	13 percent annual growth	8 percent
Intermediary target	Broad Money Supply	24 percent annual growth	19 percent
Objective	CPI Inflation	7 percent average over medium-term	6.7 percent

Source: CBM extensively engaged in monetary stability, The Global New Light of Myanmar, March 25, 2017

33. **To maintain monetary discipline, the authorities further stepped up deposit auctions and expanded government securities' auctions**. In addition to a standard reserve requirement for banks (5 percent of all deposits) which directly affects credit activity and money supply, the CBM also uses deposit and credit auctions to manage liquidity. CBM has so far only conducted deposit auctions given existing liquidity in the market. Starting initially with 7-day deposits, the portfolio now includes 14-, 28- and 42-day deposits that are auctioned, on average, twice a month. Demand has been relatively strong over the last year, with accepted bids totaling a cumulative kyat 7.9 trillion in 2016/17, compared to kyat 5.7 trillion the previous year (Figure 49). The authorities also expanded government securities' auctions. Treasury Bill auctions were stepped up, with gross sales trebling from kyat 1.2 trillion in 2015/16 to kyat 3.6 trillion in 2016/17 (Figure 50). The introduction of Treasury Bond auctions helped mop up a further kyat 1.2 trillion worth of liquidity in 2016/17 (see fiscal section).

Figure 49: Deposit auctions

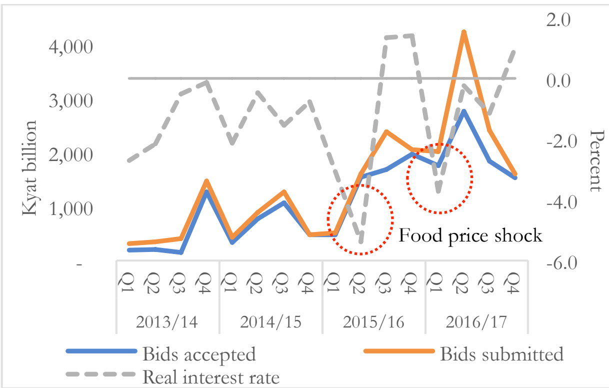
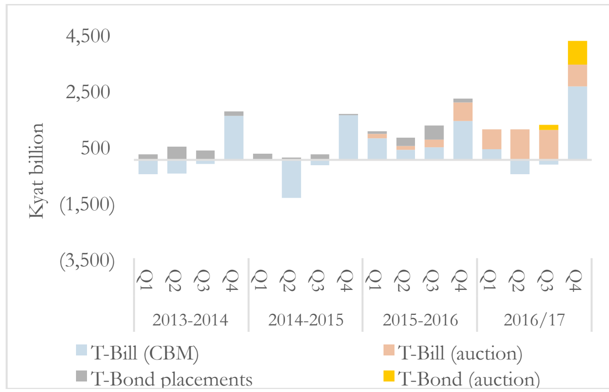


Figure 50: CBM financing and government securities



Source: CBM, WB Staff estimates

34. **Interest rates at deposit and government securities auctions have been slow to adjust to market conditions.** Real interest rates have on average remained negative at deposit auctions (Figure 55) and only slightly positive at government securities auctions (see fiscal section) in the past two years. Part of this was due to the temporary food price shocks. Although negative returns have not significantly deterred monetary policy objectives to date, sustained negative returns could hamper further development of financial markets. Positive real interest rates in wholesale financial markets would likely encourage greater participation and support a lower inflation target. It is also a precursor to broader development of financial markets, including the gradual lifting of controls on interest rates in the retail market, which would enable risk-based lending.

Credit growth remains high despite economic slowdown

35. **Despite the slowdown in economic activity, credit growth to the private sector has remained relatively strong.** Whilst credit is growing from a low base with total outstanding credit at 23 percent of GDP in 2016/17, it has consistently expanded at over 30 percent per year in nominal terms in the past three years (Figure 51). The rapid growth in credit to construction and manufacturing, two sectors that continue to face difficulties, is of concern. As noted in the last MEM, the rapid credit growth does not necessarily reflect a deepening of financial markets. Continued loan ever-greening in sectors facing economic challenges and emerging signs of sector concentration of credit (Figure 52), suggest that the quality of banking sector assets may be lower than highlighted by official indicators.

Figure 51: Credit to the private sector

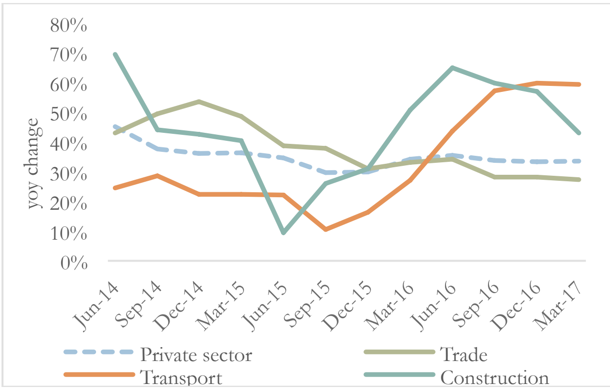
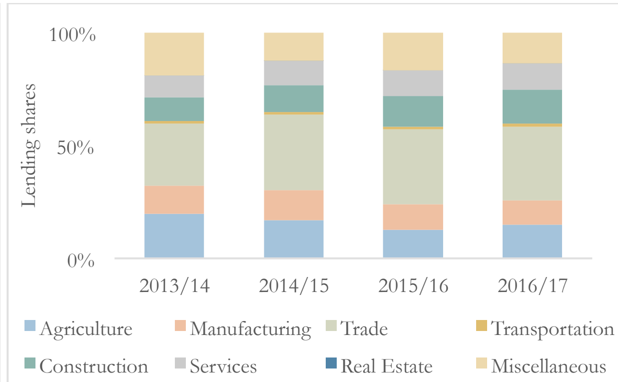


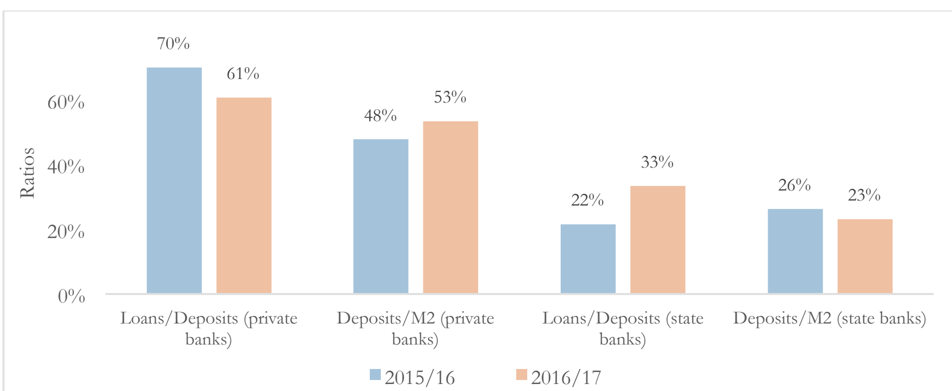
Figure 52: Composition of lending to private sector



Source: CBM, WB Staff estimates

36. **Despite rapid growth in credit, private banks' profitability declined in 2016/17 whilst liquidity indicators remained robust.** Preliminary data shows that net profits of private banks dropped in 2016/17, with Return on Assets falling from 2.4 percent in 2015/16 to 0.7 percent in 2016/17. This could be a further indication of declining quality of the overall lending portfolio spurred by slowdown in specific sectors. Some banks have also complained that the Central Bank policy on administered interest rates prevent them to adjust cost of financing based on risk, which limits their ability to lend and make profits. At the same time, asymmetry of information, collateral requirements and capacity constraints for risk assessment constrains lending particularly to Small and Medium Enterprises. Deposit growth on the other hand has remained robust, as have liquidity ratios with loan to deposits at around 60 percent and deposits to M2 at 54 percent at the end of 2016/17 (Figure 53).

Figure 53: Private banks' liquidity indicators



Source: CBM, WB Staff estimates

Box 5: Financial sector reforms in 2016/17

Pillar 1: Strengthening financial sector legal and regulatory framework

Myanmar adopted regulations and strengthened the supervisor's capacity to implement the Financial Institution Law (2016). This included: (i) Rationalizing the licensing process, with new licenses issued to banks under the FI law; (ii) Registering non-bank financial institutions in accordance with the FI law; (iii) Passing key regulations on capital adequacy, asset classification and provisioning, large exposures, liquidity ratio regulations; (iv) Issuing directives on dividend, banking hours, financial reporting, credit risk management, revaluation of fixed assets and subordinated debts.

Pillar 2: Modernizing financial infrastructure

Myanmar has undertaken two major reforms in this area (i) Enacting the Mobile Financial Services regulation in April 2016, enabling licensing of mobile network operators (MNOs) to provide financial services using mobile platform. Telenor has been licensed and Ooredoo is in the process of being licensed. The use of a mobile network platform is expected to increase the reach of financial services to people who cannot be serviced by brick and mortar banks and also improve efficiency of payment services. (ii) The Central Bank has adopted the regulation on Credit Information Reporting System in early 2017. This enables the building of credit information of borrowers, which in the long run will enable banks to do better credit evaluation and lend without collateral.

Pillar 3: State Owned Bank (SOB) reforms

The first step towards SOB reform in Myanmar was achieved by the leveling of the playing field in terms of subjecting SOBs to similar legal requirements under the new FI Law. Hence, by the FI Law, the Myanmar Economic Bank (MEB), Myanmar Foreign Trade Bank (MFTB) and Myanmar Investment Corporation Bank (MICB) are subject to similar prudential and other regulatory requirements as the private banks though they have a grace period to comply with prudential requirements under the FI Law. They are also subject to mostly the same corporate governance requirements.

The World Bank is supporting Myanmar through a US$100 million IDA credit for Financial Sector Development project (FSDP), which became effective in June 2017. The FSDP includes significant resources to carry out restructuring of SOBs effectively—based on a sound and professional assessment of the institutional, financial and operational position of all four SOBs and based on lessons learned globally. This includes resources for international audits, due diligence, legal, and technical assistance to develop and implement the restructuring process. It also includes resources for selected investments in information and communication technology to increase operational efficiency and risk management of the SOBs

Source: WB Staff

Exchange rate has remained relatively stable

37. **The kyat depreciated sharply in Q2-Q3 2016/17, reaching its highest rate in December 2016 (kyat 1,437/US$) before stabilizing at around kyat 1,350/US$ in Q4 2016/17 and Q1 2017/18.** The monthly reference rate averaged 1,359 kyats per USD during the first half of 2017, 12 percent depreciation compared to the same period the previous year (1216 kyats/USD). The weakening is related to the large trade deficit fueled by falling gas exports. Other commodity exporting countries (e.g. Malaysia) have also experienced Nominal Effective Exchange Rate depreciation. CBM commitment to maintain exchange rate flexibility is important to build and maintain external buffers.

38. **Exchange rate flexibility has helped avoid a premium on parallel markets and gradually restore external competitiveness.** Daily official and parallel rates have remained close the past six months (Figure 54). The gap generally stayed within the Central Bank's allowance of a variation of +/- 0.8 percent from the reference rate for licensed foreign exchange dealers. The first six months of 2017 saw stability in exchange rate movements - changes average monthly kyat-dollar exchange rate stayed under one percent. The general strengthening of USD put downward pressure on other major currencies in 2015 but many have started to regain value in 2016 and 2017. However, Myanmar's reference rate saw a slight depreciation and did not recover as much between January and June 2017 which signaled compounded impacts from decrease in natural gas exports. The Real Effective Exchange Rate depreciated by 8.9 percent between August 2016 and March 2017, following a sharp increase in REER the previous year due to a rapid increase in inflation (Figure 55).

Figure 54: Official and parallel exchange rates

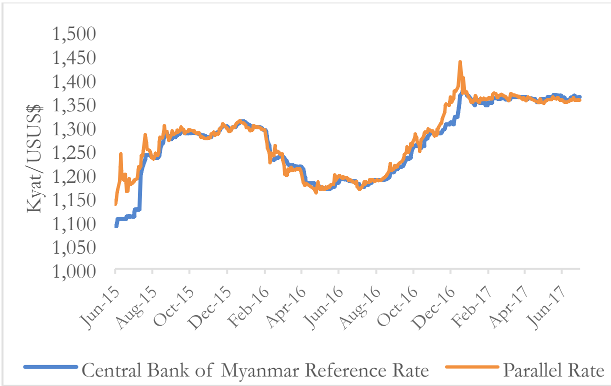
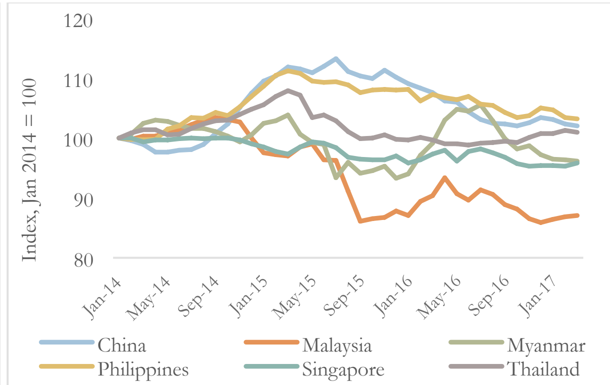


Figure 55: Real Effective Exchange Rate



Source: CBM, WB Staff estimates

Fiscal policy

Narrowing fiscal deficit in 2016/17

39. **The overall fiscal situation stabilized somewhat in 2016/17 following a difficult year in 2015/16.** The fiscal deficit narrowed to 3 percent of GDP in 2016/17 (Figure 56), which is also lower than the 4.5 percent deficit estimate in the original budget. General government receipts remained relatively stable, whilst both SEE and general government spending declined as a share of GDP (Figure 57). Declining SEE expenditures (particularly in energy, natural resources and environment, and telecommunications) helped to offset falling SEE receipts. This reversed last year's deficit in SEE operations into a small surplus. As discussed further in the special topic on SEEs, a comprehensive reform package is needed to address more sustainably the impact of SEEs on the public sector. Additionally, lower spending by selected line ministries reflect budget execution challenges that impact negatively on public infrastructure and services.

Figure 56: Fiscal balances

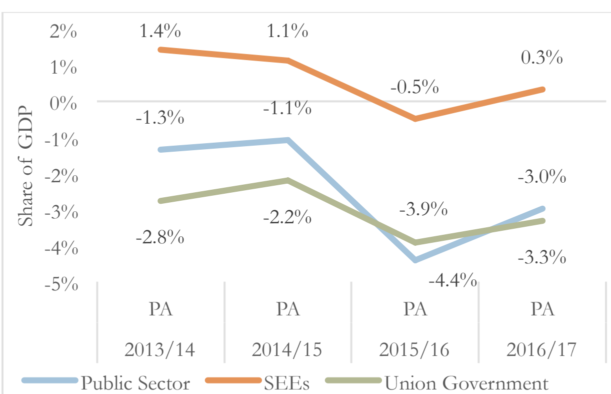
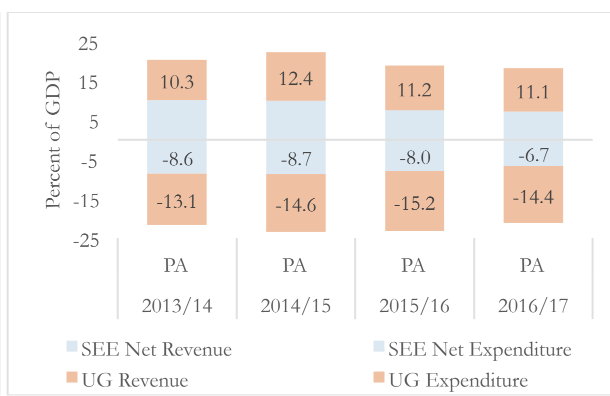


Figure 57: Revenue and expenditure aggregates



Source: MOPF, WB Staff estimates

40. **The narrowing fiscal deficit helped contain CBM financing, which nevertheless remains high.** CBM financing was around 32 percent of gross domestic borrowing in 2016/17 (Figure 58). The continuous rollover of legacy CBM debt, which at end 2016/17 was around 18 percent of GDP, drives much of the interest payments on public debt. These will rise further as interest on new CBM debt from 2016/17 is based on average market auction rates and no longer on a flat, concessional rate of 4 percent.

41. **The government further developed the domestic debt market. Treasury-Bill auctions were expanded in 2016-2017, including through the introduction of longer tenor bills (6 and 12-month bills).** These should over time become instruments for cash and short-term liquidity management. In addition, the Government launched Treasury-Bond auctions in September 2016, which have longer tenor (2, 3, and 5-year maturity) and therefore more appropriate for public investments. MOPF has initiated surveys of investors to better understand market sentiments, but market participation remains below potential. Successful bids on a purely competitive basis in Treasury Bond auctions are on average 44 percent of auction targets, and for Treasury Bill auctions around 63 percent of auction targets.

42. **In this regard, allowing interest rates to better reflect market conditions is essential for market development.** Interest rates do not fully reflect market conditions because of concerns over rising debt servicing costs. In 2015/16, discount rates averaged negative 1 percent in real terms per quarter, and in 2016/17 around 0.2 percent per quarter (Figure 59). Maintaining interest rates in line with inflation would likely encourage greater participation and support a lower inflation target. Moreover, a higher interest rate at this stage is not likely to significantly impact debt servicing costs as market instruments are still a small share of net financing needs. The alternative of Central Bank financing exacerbates inflation, impacting negatively on the poor and private investments.

Figure 58: Gross domestic financing

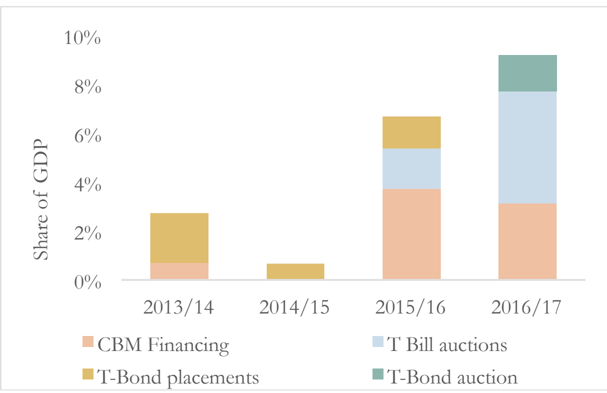
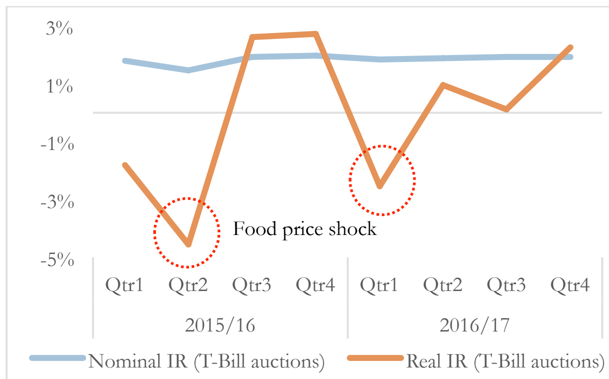


Figure 59: Real interest rates on T-Bill auctions



Source: MOPF, WB Staff estimates
Note: Figure 58 shows gross domestic financing whereas Figure 56 shows fiscal balances in net financing terms, which explains the difference between the two figures.

Reforms help stabilize revenue despite challenging conditions

43. **Myanmar's comprehensive tax reform program is gradually improving revenue collections, which nevertheless remain below potential**. In 2016/17, the tax system continued its transition from an official assessment system to a self-assessment system. In the official assessment system, the taxpayer presents his/her books to the tax authority and, after audit and tax payer feedback, the taxpayer and the authority agree upon a tax liability. Self-assessment shifts the initial burden of compliance and reporting to the taxpayer[21], and, since 2012, the Internal Revenue Department (IRD) has been implementing a plan to sequentially move tax administration to self-assessment over time.

[21] The tax payer is required to build a case that supports the level of economic activity (profit, revenue, and cost) which underpins the final tax liability. Thus a level of "trust" must be accorded to the tax payer, which over time with a compliance track record is confirmed or not. The tax payer is required to be the basic source of data for the LTO, but in order to corroborate data, the LTO must collect other information from the third party sources. Finally the burden is on the tax payer to prove any challenges to the data.

44. **The transition to self-assessment has been accompanied by a move to restructure tax administration to focus on taxpayer segments by size**. After establishing a Large Taxpayer Office (LTO) in 2013 to handle more than 500 large and complex businesses, three Medium Taxpayer Offices were established (MTO-1, 2 and 3), with self-assessment rolled out to the first one starting in 2016/17. The LTO has achieved some notable gains, including a filing rate of 95 percent in its first year and in conducting tax audits. The LTO has also successfully issued unique Tax Identification Numbers (TIN) to all large taxpayers.

45. **Tax policy reforms have been incremental in line with administrative capacity, with no major new tax instruments introduced.** The Income Tax Law (ITL) amended in 2011 expanded the tax base by allowing foreign transactions to be covered, for example. The ITL rationalized rates by lowering them on Corporate Income Tax, Personal Income Tax, and other withholding taxes. On the indirect tax side, the enactment of the Special Goods Tax (SGT) in 2016, which already started to show some results in 2016/17 (Table 5). The SGT, which is similar to an excise tax, covers tobacco and alcohol products, teak and hardwood logs, precious stones, jewelry, luxury cars, fuel and natural gas.

Table 5: General Government Revenue (Share of GDP)

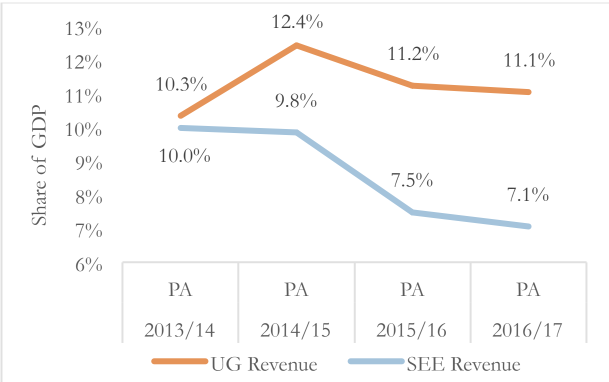
	2013/14	2014/15	2015/16	2016/17
	PA	**PA**	**PA**	**PA**
Total General Government Revenue	**10.1%**	**12.1%**	**10.8%**	**10.7%**
Tax	**6.7%**	**7.0%**	**6.7%**	**7.1%**
Income Tax	3.1%	3.4%	3.2%	2.9%
o/w SEEs	1.0%	1.2%	0.9%	0.6%
Commercial Tax	2.9%	2.8%	2.9%	2.4%
o/w SEEs	0.7%	0.7%	0.5%	0.6%
Customs duties	0.6%	0.8%	0.6%	0.6%
Excise Tax	0.0%	0.0%	0.0%	0.0%
Special Goods Tax	0.0%	0.0%	0.0%	1.2%
Non Tax	**3.4%**	**5.1%**	**4.1%**	**3.6%**
Receipts on use of national properties	0.4%	2.3%	1.3%	1.2%
o/w oil and gas	0.4%	0.5%	0.5%	0.6%
o/w telecommunications	0.0%	1.7%	0.7%	0.6%
SEE contributions	1.3%	0.8%	1.1%	0.7%
License and fees	0.5%	0.5%	0.4%	0.4%
Other	1.2%	1.5%	1.3%	1.1%

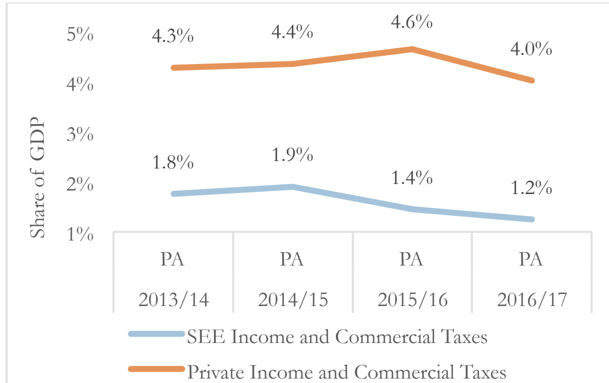
Source: MOPF, WB Staff estimates

46. **These reforms have helped to partially offset external factors that have weighed down on overall revenue collections.** SEE receipts declined from 10 percent of GDP in 2013/14 to 7.1 percent in 2016/17 (Figure 60). This is due to a mix of low international commodity prices, and falling SEE competitiveness and profits. Consequently, SEEs' share of income and commercial tax collections declined from an average of 42 percent in 2013/14 and 2014/15, to 31 percent in 2015/16 and 2016/17. At the same time, income and commercial tax collections from the private sector have remained relatively flat (Figure 61). The introduction of the Special Goods Tax has helped raise overall tax receipts in 2016/17, and thereby maintain general government receipts at around 11 percent of GDP in the past two years (Figure 60).

Figure 60: Union Government and SEE revenue

Figure: 61 UG and SEE Income and Commercial Taxes





Source: MOPF, WB Staff estimates

47. **With the above challenges, revenues have played a relatively small role in supporting recent fiscal adjustment in Myanmar.** At 10-12 percent of GDP, Myanmar has one of the lowest levels of general government receipts in the world. For a country at Myanmar's level of income, general government receipts could be in the range of 15-20 percent of GDP.[22] Tax collections alone (6-7 percent of GDP) is around a third to a half of taxes in countries at similar levels of income (Figure 62). In other fragile states, tax collections have recently ranged between 14-16 percent of GDP (Figure 70), driven by relatively high natural resource rents. Myanmar also has high non-tax potential from natural resource rents (Box 7).

Figure 62: Tax/GDP vs. GDP/capita (2010-2016 avg.)

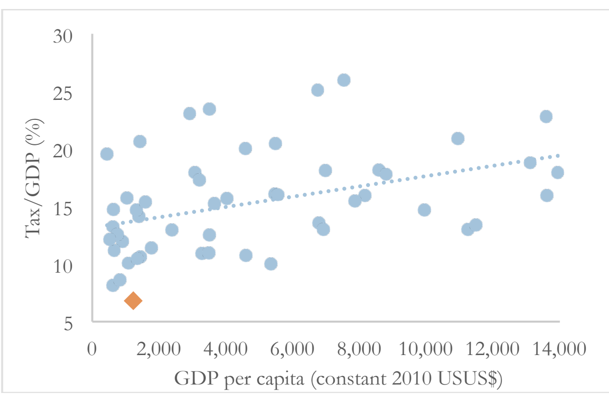
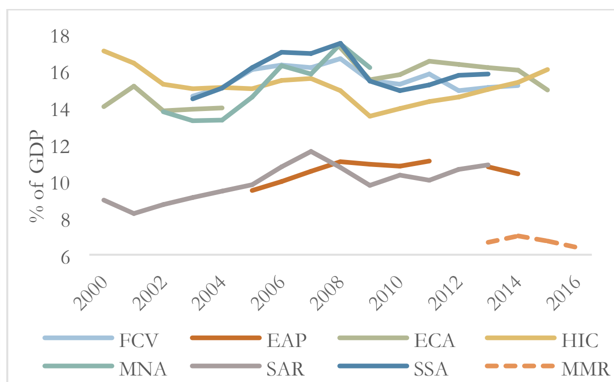


Figure 63: Tax/GDP across Regions (2000-2016)



Sources: WDI, MOPF and WB Staff estimates. Note: Regional averages exclude High Income Countries

48. **An important short-term constraint to accelerating revenue collections are revenue leakages from**: (i) *tax base erosion on domestic and international transactions*, arising from incomplete information on taxable activity, incomplete specification of the income tax law, and lack of provisions to allow tax administration to tax intra-company group activity; and (ii) *provision of tax incentives.* Myanmar offers a range of incentives, including tax holidays, that are insufficiently targeted to high social, low private return sectors. Preliminary analysis by the World Bank shows that revenue foregone from CIT incentives to large tax payers alone could be as high as 1 percent of GDP – this excludes tax expenditures from MTO filers and foregone commercial taxes.

Fiscal adjustments driven by expenditure measures

[22] Excluding tax and non-tax receipts from large mining activities. The potential revenue range is derived from revenue collection in countries at similar levels of income.

49. **The 2016/17 spending outturn indicates continued efforts to protect priority spending within growing fiscal constraints**. Within the public sector, there has been a gradual reprioritization away from SEEs and towards ministries responsible for core public services (Figure 64). As noted in the last MEM, the Health Ministry has seen the most rapid increase in spending between 2009/10 and 2016/17, followed by Education and Agriculture. Since revenues have remained relatively flat, these increases have been financed by a combination of external loans and grants, and reallocations from other areas in the Union Budget such as Defense. These adjustments have continued in the 2017/18 Budget approved by Parliament in March 2017.

50. **In line with objectives to increase resources for frontline service delivery, there has been a gradual rebalancing towards recurrent expenditure** (Figure 65). As a share of general government spending, recurrent expenditures have gone from around 57 percent in 2013/14 to an estimated 70 percent in 2016/17. The wage bill (excluding the military) has on average accounted for 20 percent of total recurrent spending in recent years, which is reasonable compared to other countries. In 2014/15 and 2015/16, the wage bill increased by close to 30 percent in real terms per year. This was in part due to accelerated efforts to recruit new teachers and healthcare workers. The Ministry of Education accounts for close to 60 percent of the general Government wage bill, excluding the military. Other recurrent items that saw big increases include general purpose transfers for States/Regions, which went from 13 percent of recurrent spending share in 2013/14 to around 25 percent in subsequent years.

Figure 64: Breakdown of public sector expenditure

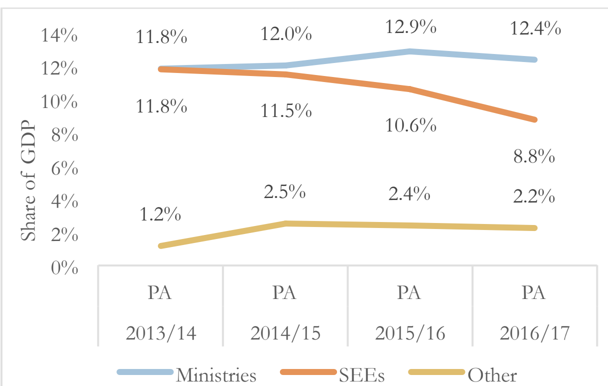
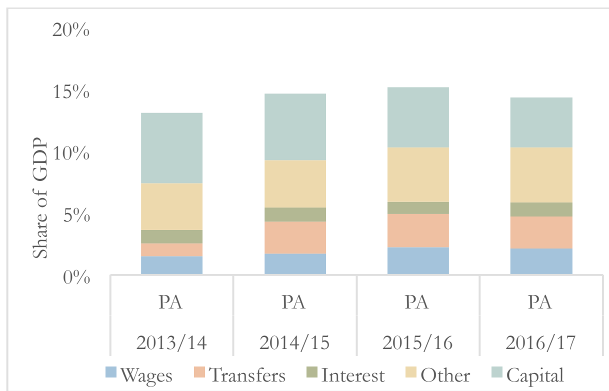


Figure 65: Economic composition of expenditure



Source: MOPF, WB Staff estimates

51. **At the same time, ministries that have received large spending allocations are also facing challenges in budget execution**. The Ministries of Health, Agriculture, and Energy had spent at most 90 percent of their original budget allocations in 2016/17 (Figure 66). Bottlenecks to budget execution include: (i) lack of clear procurement guidelines and rules, which can create inefficient and expensive procurement (e.g. drugs); (ii) poor budget forecasts by line ministries that do not reflect needs; and (iii) low capacity and quantity of financial management staff.

52. **Spending adjustments have been driven by cuts to public investments, which remain well below Myanmar's needs for public infrastructure.** In 2016/17, capital spending outturn was 5.1 percent of GDP for the public sector and only 4.1 percent for general government (Figure 67). This is around half of public investment in other fast growing countries preceding their periods of strong growth. Public investments are critical to help crowd in private investment in productive sectors. Despite these needs, public capital spending in Myanmar has been low and falling. Recent analysis of capital spending highlights both

allocative and productive inefficiencies in public investment, leading to lower than expected returns from a shrinking budget.[23]

Figure 66: Budget execution (Budget Estimate/Prel. Actual)

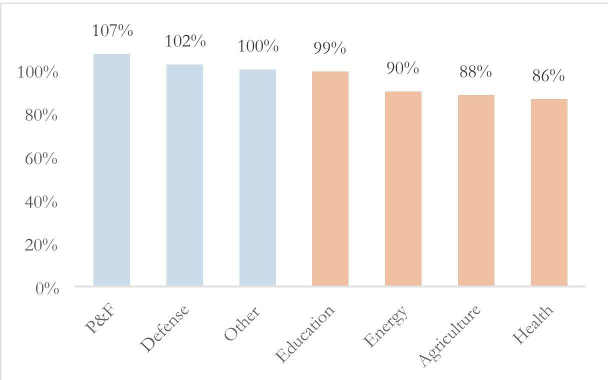
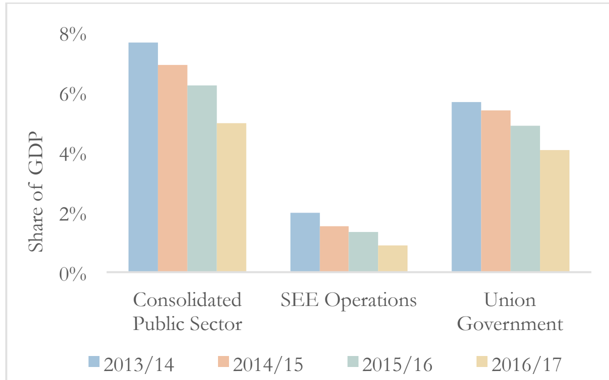


Figure 67: Capital expenditure across the public sector



Source: MOPF, WB Staff estimates

Table 6: Public Sector Expenditures (Share of GDP)

	2013/14	2014/15	2015/16	2016/17
	PA	**PA**	**PA**	**PA**
Total Expenditure	**25.0%**	**26.2%**	**26.0%**	**23.5%**
Ministries	**11.8%**	**12.0%**	**12.9%**	**12.4%**
Defense	3.8%	3.8%	4.3%	3.7%
Agriculture	1.1%	1.5%	1.5%	1.2%
Energy	0.3%	0.2%	0.2%	0.3%
Education	1.7%	1.9%	2.1%	2.0%
Health	1.1%	1.1%	1.1%	0.9%
Planning and Finance	1.3%	1.3%	1.2%	1.5%
Other Ministries	2.4%	2.4%	2.5%	2.7%
SEEs	**11.8%**	**11.5%**	**10.6%**	**8.8%**
SAOs	**0.2%**	**0.2%**	**0.1%**	**0.1%**
Other	**1.2%**	**2.5%**	**2.4%**	**2.2%**

Source: MOPF, WB Staff estimates

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

Box 6: Economic assumptions and policy priorities in the 2017/18 Union Budget

The Union Parliament in March 2017 approved the 2017/18 Union Budget proposal. The 2017/18 Budget process continued the gradual improvements in the policy content and transparency of the Union Budget. For the first time in Myanmar, the detailed budget proposals were published at the same time as they were submitted to the Parliament. Also published were the H1 2016/17 budget execution reports, SEEs' commercial statements, the Financial Commission recommendation on the Union Budget, among other documents. These are not only important for enabling scrutiny of the Union Budget prior to its final approval, but provides a good indication of fiscal policy priorities that may be of interest to investors.

Macroeconomic assumptions: The Government projects real GDP to grow at 6.8 percent in 2017/18 (Planning Law), compared to 6.4 percent projection in the MEM, following deceleration to an estimated 5.9 percent in 2016/17. Agriculture is expected to pick up, driven by an expansion in crop and livestock production. Industrial output is expected to accelerate the most, linked to a resumption of FDI, including in Special Economic Zones. This should contribute to services sector growth, particularly in transportation, trade, financial and tourism.

Policy priorities: (i) exchange rate and price stability; (ii) increased tax collections and revision of tax exemptions policy; (iii) increased allocations for education, health and social welfare, as well as for rural development, electricity and water; (iv) infrastructure services to support investment and the private sector – prioritize implementation of ongoing projects and minimize the number of new projects; (v) strengthen procurement regulations.

Budget aggregates: The Union Budget projects deteriorating fiscal conditions. Aggregate revenue is expected to decline sharply from 18 percent of GDP (2016/17 BE) to 14 percent (the MEM projects public sector receipts at 16 percent of GDP for 2017/18). Despite expenditure adjustments, the deficit is expected to increase to 5.9 percent of GDP based on WB GDP projections, compared to 4.5 percent projected in the MEM.[24] Part of this is driven by widening SEE deficits, estimated at 0.8 percent of GDP.

Revenue: A large part of the drop in revenue is from a 2 percentage point decline in SEE revenue. This is linked to oil and gas revenue and closure of loss making factories, which also contributes to expenditure adjustments. Tax and non-tax receipts of the Union Government are projected to decline from 10.7 percent of GDP to 8.3 percent, with a particularly sharp drop in commercial tax collections, though the MEM forecasts tax and non-tax receipts to remain at around 10.3 percent of GDP.

Expenditure: Deteriorating fiscal conditions have prompted recurrent and capital expenditure adjustments. SEEs have borne the brunt of the adjustments, though Union Government spending is growing due to health, education, and energy – with the latter expected to receive the biggest increase in 2017/18.

Conclusion: Whilst the expansion of the deficit poses some concerns, it is also important to note that: (i) part of the increase is likely due to a pick-up in external financing for development projects, particularly in the energy sector; (ii) there is a recurring tendency to significantly underestimate non-commodity revenue, which are expected to pick up with ongoing reforms, as forecast in the MEM; (iii) reforms to SEEs in the short-term are expected to be costly, particularly if some are shutting down whilst still requiring operational support.

[24] Based on analytical method of estimation not the Government's accounting method. According to the accounting method, the deficit in the budget estimate would be 4.5 percent of GDP (compared to 3.1 percent in the MEM forecast).

Figure 68: Budget aggregates – Public Sector

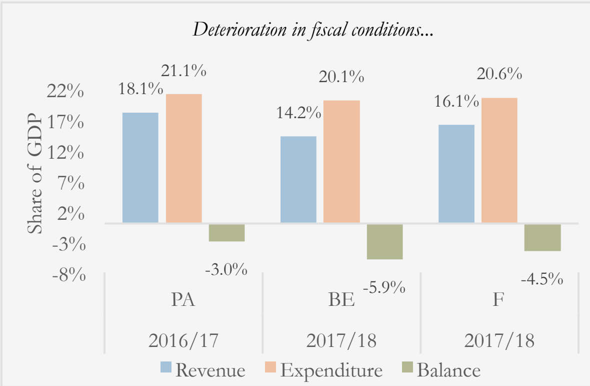


Figure 69: Budget balance (% of GDP)

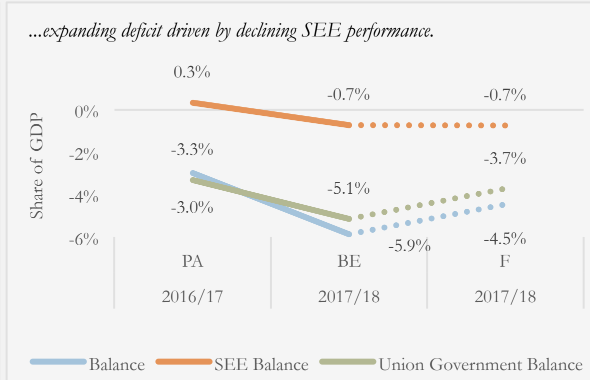


Figure 70: Public sector revenue

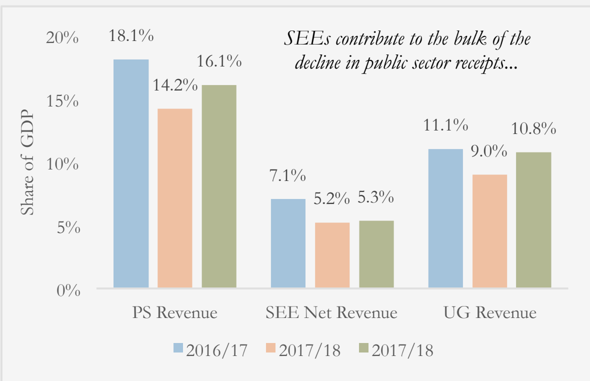


Figure 71: Tax and non-tax revenue

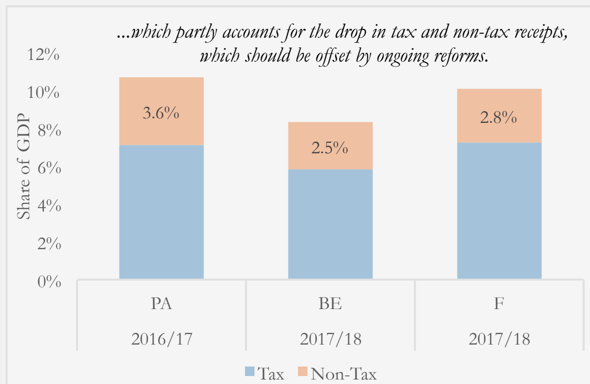


Figure 72: Recurrent and capital expenditure

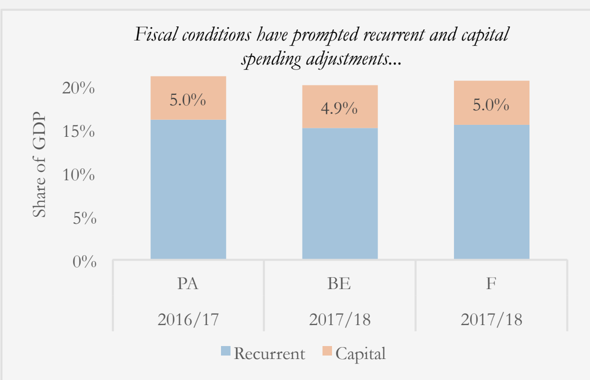


Figure 73: Spending growth (public sector)

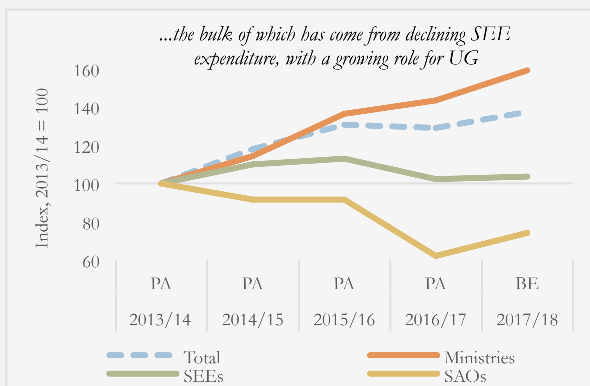


Figure 74: Spending growth (ministries)

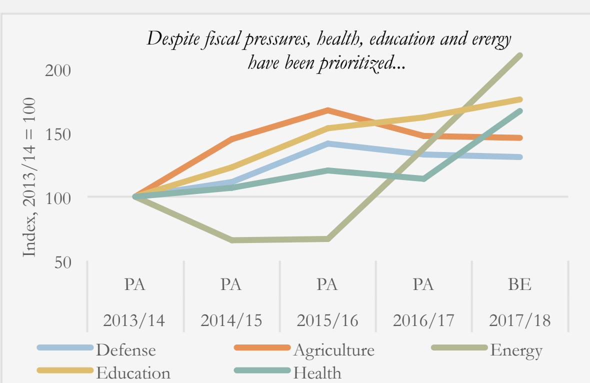
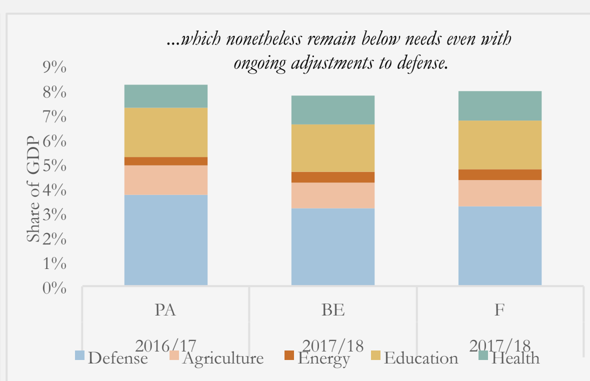


Figure 75: Expenditure shares (selected ministries)



Source: Union Budget documents drawn from MOPF website, WB Staff estimates

Economic outlook and policies

Medium-term economic outlook

Favorable outlook with slight downward revision since last MEM

53. **Myanmar's economic outlook remains favorable, with growth projected to recover to 6.4 percent in 2017/18 in the baseline scenario compared to 6.9 percent projected in the last MEM.** Over the medium-term, growth is projected to average 6.8 percent, compared to 7.1 percent in the earlier forecast. The revision takes account of recent security developments and their potential impact on the implementation of an inclusive economic growth strategy. At the same time, the baseline scenario assumes sustained macroeconomic stability, progress on structural reforms, and improvements in the security situation.

54. **Reforms are essential for Myanmar to capitalize on its investment opportunities as global growth continues to recover and international investment flows to developing countries begin to pick up**. Public and private investments in priority infrastructure services (e.g. power, transportation, communications, logistics) are projected to pick up. They are central to implementing growing private investment commitments in productive sectors, particularly labor intensive manufacturing (see special topic). Investor interest remains strong. Preliminary data covering the first four months of 2017/18 indicates a rebound in foreign investment commitments, amounting to close to US$3 billion over this period. But the challenge is to convert commitments to actual flows, and tilting the balance in growth drivers from consumption to investment.

55. **Consumer price inflation is expected to ease further from 7 percent in 2016/17 to 5.2 percent in 2017/18.** This is based on a projected slowdown in monetary expansion, as discussed further below. It also assumes low and stable food price inflation driven by a combination of: continued recovery in agriculture output; a projected decline in grain prices in international markets;[25] and ongoing demand restrictions for main staples (rice, beans, pulses) from China and India. There are risks however from rising energy prices, which are projected to increase 26 percent in 2017 and an additional 8 percent in 2018. Oil prices are projected to average US$55/bbl in 2017, and US$60/bbl in 2018.[26] Inflationary pressure could be exacerbated with exchange rate pass through, particularly through its effects on imported fuel, processed foods, and construction materials.

56. **The current account deficit is projected to decline slightly, though remain high at 4.7 percent of GDP due to slowing commodity exports and rising investment related imports**. On commodity exports, gas prices are expected to recover (with a slight lag on the projected increase in energy prices, particularly for heavy fuel) though this is unlikely to offset the projected decline in gas production over the medium-term. On agriculture exports, there is a risk that declining prices discussed above are not offset by higher quantity of exports of the main staples due to the import restrictions mentioned above.[27] Increased imports of investment goods and raw materials are expected to be financed by FDI and long-term external credits.

[25] World Bank, "Commodity Markets Outlook," (April 2017)
[26] Ibid
[27] http://www.financialexpress.com/economy/myanmar-blames-india-for-restricting-pulses-import-quota/822402/

57. **The overall public sector deficit is projected to expand from 3 percent of GDP in 2016/17 to 4.5 percent in 2017/18, which could pose challenges for debt sustainability**. Although overall revenue performance is expected to remain relatively flat, this hides a gradual increase in non-SEE tax and non-tax receipts, which would gradually help to offset declining SEE receipts. On the expenditure side, fiscal constraints and implementation capacity challenges are expected to keep posing challenges to increasing the level of much needed public investments. There are nevertheless opportunities to better priorities investments within the existing envelope as discussed below. The most recent Myanmar Public Expenditure Review estimated that Myanmar could afford to finance a fiscal deficit averaging around 4 percent of GDP over the medium-term. With the deficit projected to average 4.5 percent of GDP over the medium-term, there is heightened risk that public debt goes above indicative thresholds for debt sustainability.

Increased downside risks to economic outlook

58. **Downside risks to the above outlook have increased due to recent security developments in the country, which could exacerbate ongoing risks to the medium-term growth scenario.** The recent escalation of tensions in Rakhine State could further heighten investor perceptions of risk and negatively affect investment flows. In the most recent Enterprise Survey for Myanmar, the private sector highlighted political instability among the top 5 obstacles to doing business in Myanmar.[28] This would exacerbate existing risks around vulnerability to shocks including natural disasters and the lack of clarity over the medium-term reform agenda. In addition, the global economic environment could be less favorable with risk of rising protectionism, tightening of global monetary conditions, and stagnant commodity prices.

59. **Whilst the current conflicts have remained geographically contained, there may be wider domestic and international economic repercussions**. An escalation of violence and humanitarian needs may have direct implications on, among other things: the prioritization of government expenditure and Official Development Assistance; security concerns across the country, including major production centers; migrant flows to increasingly crowded urban areas; and international relations and public opinion, which may impact future trading opportunities (affecting tourism, transport and hospitality sectors) and access to global markets.[29] A slowdown in investments would feed into slower growth in financial services. In industry, a slowdown in investment flows to light manufacturing and the power sector would have negative spillover effects on infrastructure construction activity. These factors could adversely impact the administration's ability to focus limited capacity on implementing a strong and inclusive growth strategy.

60. **A lower growth scenario would lead to growing macroeconomic imbalances with implications for broader stability.** Current and fiscal account deficits would widen. Exports would slow down with moderating investments in the tradable sector and associated infrastructure services, though import demand would also decelerate. With lower foreign investment flows, this also points to growing external pressures. The expansion of the fiscal deficit would heighten risks to debt sustainability, which as noted above is sensitive to fiscal slippages or slower growth. More generally the pace of job creation would be negatively affected (see special topic), which has wider implications for social stability.

[28] Reuters (September 22, 2017)
[29] Asia Times, "No holiday for Myanmar's conflict-hit tourism" (September 23, 2017)

Selected policy priorities

61. **Baseline growth projections assume that the authorities will move from an incremental reform program to a comprehensive medium-term one with clear targets and implementation milestones**. As discussed above, there are important reforms under way. The authorities could build on these to further strengthen the clarity, communication, and credibility of economic policies as argued in the last MEM. This could be achieved through a mix of an economic vision on expected sources of growth, enabling policies, and implementation plan, and regular reporting on economic policies and conditions. These could play an important role in anchoring economic expectations and sustaining investor confidence.[30]

Sustaining hard earned macroeconomic stability

62. **Fiscal and monetary policy discipline will be important to sustain hard earned macroeconomic stability gains in 2016/17**. Tighter fiscal and monetary policies, together with exchange rate flexibility have helped restore macroeconomic stability, after widening external and fiscal imbalances, rapidly rising inflation, and exchange rate volatility in 2015/16. In this regard, it will be important to adhere to the authorities' plans for gradually eliminating Central Bank financing of the budget deficit.

63. **It may be advisable to complement financing limits with a broader policy on CBM financing.** Such a policy could include blanket prohibitions (e.g. prohibition on primary market purchases by CBM); quantity limits (e.g. as currently applied in Myanmar, or other measures such as a share of revenue or expenditure); by purpose (e.g. in case of natural disasters/emergency requirement); for specified term or maturity of financing requirement (e.g. coverage of seasonal cash deficiencies).[31]

64. **In addition, Public Finance Management reforms could further strengthen cash management for efficient allocation of resources**. This would involve among other things improved cash forecasting; complete and timely information on cash resources across government; efficient payment systems; and timely reconciliation of bank and fiscal data. These could support improved coordination between fiscal and monetary policy. Better management of cash liquidity across government could help reduce inefficient short-term borrowing from the CBM.

65. **To further ease pressures on monetary growth, the authorities could usefully allow interest rates in wholesale financial markets to rise and reflect market conditions**. As discussed above, interest rates at deposit auctions have been mostly negative in real terms, and at government securities' auctions only slightly positive. Enabling interest rates to rise should enable further development of the domestic debt market and better support liquidity management. It is important to note that despite the adherence to prescribed limits, net financing from CBM remained high in 2016/17. Domestic debt market operations have expanded, but uptake has been below target.

66. **This is important for relaxation of controls over deposit and lending rates of commercial banks**. The CBM policy rate has remained fixed at 10 percent since January 2012. Deposit rates can fluctuate between 8 and 10 percent, while lending rates on working capital loans are not allowed to exceed 13 percent. There are further controls on sector specific loans (e.g. 8 percent for agriculture). Administered rates however can lead to misallocation of resources, prevent risk-based lending, fail to transmit CBM's policy stance to the market, and affect bank profitability.

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[30] World Bank, "Myanmar Economic Monitor, December 2016: Anchoring Economic Expectations,"
[31] Bank for International Settlements, "Issues in the Governance of Central Banks," (2009)

67. **Any move to lifting controls over interest rates for the retail market should be managed carefully**. While there is no single model to follow, there are some important guideposts from experience of other countries: i) a stable macroeconomic environment is a necessary pre-condition for successful interest rate reforms; ii) major shocks should be avoided and the process should be gradual allowing economic agents room to adjust; and iii) the reform should be accompanied by efforts to strengthen financial and capital markets, modernize the monetary policy framework and improve financial inclusion.

68. **On fiscal policy, it is important to shift the burden of fiscal adjustment away from expenditure cuts to revenue mobilization**. Whilst expenditure cuts may help with short-term stability, they may negatively affect longer-term growth. Myanmar's revenue reform program is delivering positive results. But spending needs for critical public services and infrastructure are growing proportionately faster. In the near term, there may be scope to stem revenue leakages from (i) *tax base erosion on domestic and international transactions*, arising from incomplete information on taxable activity, incomplete specification of the income tax law, and lack of provisions to allow tax administration to tax intra-company group activity; and (ii) *provision of tax incentives* including tax holidays, that are insufficiently targeted to high social, low private return sectors. There may also be scope for accelerating revenue collections from the gemstone industry (Box 7).

69. **There may also be scope for continued reprioritization of expenditure, particularly for public investment projects**. As discussed in the most recent Myanmar Public Expenditure Review, possible ways to enhance capital spending efficiency include: reallocations across sectors by channeling more to priority areas such as energy and transport, with adjustment in areas such as defense; reallocations towards core public goods, with downward adjustments for commercially oriented SEEs; and strengthened public investment management, including better prioritization and appraisal particularly for large projects, move towards multi-year allocations, and consolidation of small projects into larger ones.

Box 7: Increasing State revenue from Myanmar's gemstone industry

Capturing revenue from gemstone sales could significantly increase fiscal space for Myanmar. An estimated 60 – 80% of gems (both jade and colored gems) produced in Myanmar are exported without entering the formal system, thereby generating no revenue for the state. The increasing availability of official data and appetite for reform demonstrate however that it could be possible to take concrete steps toward increasing revenues. This box suggests some immediate first reform steps.

Officially reported revenues from gemstones appear to represent a fraction of production value. According to Myanmar's 2016 EITI Reconciliation Report, reported sales totaled US US$1.53 Billion, with government revenue from gems sales totaling US US$405 Million for fiscal year 2013/14. In 2015/16, the government reported production of 37.6 million kilograms of jade. Jade prices can range from as low as US$5 to as high as US$600,000 per kilo depending on quality. At the 2014 Gems Emporium, one 233 kilo block of high quality jade was given a reserve price of Euros 60 Million, approximately US US$328,000 per kilo.

Impediments to revenue collection include weak capacity to monitor production, enforce payments, and track license and revenue information. Joint-ventures (JVs), accounting for approximately 40% of acreage, but only 2% of licenses and 17% of companies, are the only mining operations for which the Myanmar Gems Enterprise (MGE – SEE responsible for sector oversight) has inspection and production monitoring capacity. For example, only JV sites produce the required "M14 Production Declaration Form," the daily registration of gems extracted and their estimated value, which initiates the paper trail for each stone.

Even on the JV, MGE inspectors are under-capacity. According to MGE, there should be one inspector and one supervisor from MGE per acre on JV mine sites. As of October 2016, there were approximately 15,016 acres under JV licenses, but only 300 inspectors. Private licenses account for 60% of acreage, 98% of licenses, and 83% of companies. In theory MGE should have one inspector per 10 to 20 blocks, typically one acre in size, but currently has no inspectors for private sites and relies on companies to report production. Further, inspectors, supervisors, and staff often have insufficient skills, experience, technical knowledge, and budgets to carry out their tasks.

In addition, fragmented governance, conflicts of interests, and heavy tax burdens (which exceed international rates) create loopholes and incentives for negotiated contracts and payments. Gems and mineral mining are governed by separate institutions and legislation. MGE is at once policy-maker, regulator, and owner through the JVs. The Myanmar Gems and Jewelry Entrepreneurs Association (MGJEA) sits on national and local valuation committees, providing an incentive for under-valuation. Large taxes and royalties, combined with reliance on self-reporting, and the ease of moving a valuable stone in and out of the formal system lead to informal negotiation of payment requirements or evasion of payments.

Myanmar's gemstone production value is overwhelmingly concentrated in the Mogok gems tract in northeast Mandalay Region and Hpakant in Kachin State, both of which have been under the control of the central government since at least the 1990s. The Kachin Independence Organization (KIO) has the military capacity to stage periodic attacks and temporarily control roads around Hpakant, but not to hold territory. Hpakant in western Kachin State and the KIO's own headquarters is located at Laiza, on the state's eastern border. Additionally, the Myanmar army has made significant inroads against KIO positions in 2015 and 2016. No Ethnic Armed Organizations have exerted serious influence in the Mogok area since the dissolution of the Mong Tai Army in the mid-1990s. Finally, many of the big Hpakant jade operations are joint ventures with Government through the MGE. While JVs account for only 2% of the 21,000 gems licenses and only 17% of the companies, they account for 40% of acreage. JV sites are on average 47 acres, compared to an average of one acre among privately licensed sites.

In other words, major gem mining operations do not lie in areas that are controlled by EAOs. In fact, most of Myanmar's EAOs exercise exclusive control over only small amounts of contiguous territory, although they may exert influence over larger areas.[32] While in the 1950s through 1980s EAOs controlled significant territory, the Myanmar military has successfully reduced EAO territory to pockets, primarily along the country's eastern borders. EAOs derive revenue from both direct taxes on people and natural resource rents, but these are in the main obtained by taxing trade, transport, and mining operations licensed by the central government, rather than direct control of operations. A comparison of maps of mining operations and live conflict shows that there is significant overlap between mining and conflict affected areas, but that major live conflict and areas of exclusive EAO control are concentrated in southeastern Kachin and northern Shan States, which are not major mining areas. While it is possible that some minor gemstone production lies in areas controlled by EAOs, the assertion of EAO control primarily provides an alibi for both mine operators seeking to avoid payments and weak institutional capacity on the part of government.

Enforcement and revenue collection in the gemstone sector is inherently difficult, given the high value and tiny size of colored gems, though this is less true of jade, which is produced as larger rocks. There is significant international experience among other gemstone producing countries that Myanmar could draw on.[33] The Ministry of Natural Resources and Environmental Conservation (MONREC) and MGE have demonstrated interest in reform, including active participation in EITI, sharing of data, seeking reform advice, and creation of a multi-stakeholder Gems Steering Committee to chart out a reform path.

In addition, MGE commissioned the drafting of an environmental management plan for the Hpakant region to address public outrage over environmental devastation and a series of deadly landslides. While only a small step toward addressing the large environmental and social problems caused by two decades of unregulated large-scale mining, the move constitutes the first official acknowledgement of the scale of the problems and need to address them. In early 2016 Government imposed a moratorium on new and renewed jade mining licenses.

Against this background of initial reform steps, there are several measures Government could take immediately to improve revenue collection:

- **M14 Form** - Enforce requirement that all mine sites complete M14 forms for extracted stones to create paper trails. In the absence of sufficient mines inspectors, compliance could be monitored by other local

[32] An exception is the United Wa State Organization (UWSO), but the UWSO's extensive territory in northeast Shan State does not contain significant gems tracts.
[33] https://resourcegovernance.org/sites/default/files/documents/governing-the-gemstone_sector-lessons-from-global-experience.pdf

officials as a temporary arrangement.

- **Mineral Cadastre development** – Systematic mapping and tracking of license holders is an important starting for enhanced monitoring and enforcement.
- **Production monitoring and enforcement** – Begin recruitment of more mines inspectors and supervisors, while increasing training and operational budgets for current inspectors. A review of MGE expenditures can determine whether the costs can be met out of MGE's retained revenue. While increasing inspection capacity incurs costs in a context of fiscal constraint, it is the only way to end the current low enforcement, low revenue cycle. Moreover, it is expected that increased inspection costs will be recovered manifold in terms of higher revenue collection.
- **Publicly encourage and recognize gemstone tax and royalty payments** – The Internal Revenue Department's (IRD) annual publication of the country's largest taxpayers and the Myanmar Center for Responsible Business's (MCRB) annual Pwint Thit Sa report ranking corporate transparency have contributed to making tax payment fashionable among Myanmar companies seeking to build stronger reputations. A similar effort involving IRD, MCRB, and MGE could be undertaken specifically for gemstone taxes and royalties, starting with the large conglomerates, such as Htoo, Max, and Kanbawza, which already pay taxes.
- **EITI** – Bring all gemstone license holders and revenue streams under EITI.
- **Gems Steering Committee** – Advocate that the Steering Committee make revenue compliance a focus of its efforts.
- **Sector-specific Public Expenditure Review** – Undertake a review of state revenue and expenditure in the gemstone sector or mining sector as a whole, linked to the 2017 PER's focus on fiscal space. Such a review would supply the high-quality data and analysis necessary for effective medium-term reform

Source: WB Staff

Accelerating structural reforms

70. **Building on progress to date, there are several areas of structural reform that warrant close attention going forward**. Recent business surveys reiterate areas such as access to finance, labor force skills, access to land, access to electricity and others as major obstacles to doing business. These affect productivity and competitiveness, and therefore Myanmar's attractiveness as an investment destination. As discussed throughout the MEM (see Boxes 2, 4, 5, 6), there is incremental progress on reforms across individual areas. Going forward, there may be merit in bringing these together in a comprehensive medium-term economic program. This would help set clear milestones, but also help prioritize in terms of addressing binding constraints and allocating scarce resources.

71. **In the financial sector, the implementation of recently adopted prudential regulations should help support financial sector stability and manage risks discussed above**. CBM is making efforts to ensure compliance of these regulations through its bank supervisors. While the new regulations have raised the bar of bank regulation closer to ASEAN peers, the banks are being given a grace period in these regulations to prepare for compliance. Some banks however have expressed concerns over the short deadline imposed for compliance. Continuing the consultations that CBM had started with commercial banks prior to the issuance of the regulations will be key to ensure that implementation challenges are addressed early.

72. **Complementary to strengthened financial sector regulation and oversight is progress on reform of State Owned Banks**. In this regard, special diagnostics (or international audit) of Myanmar Economic Bank and Myanmar Agricultural Development Bank are already proceeding with the competitive appointment of an international firm to lead the exercise. For Myanmar Investment and Commercial Bank (MICB) and Myanmar Foreign Trade Bank (MFTB), the authorities are in the process of procuring services of a suitable international firm to do the same. These special diagnostics exercises would provide the necessary technical input to the Government of Myanmar for the individual restructuring of these SOBs

going forward based on a comprehensive and independent assessment of the institutional, operational and financial positions of these SOBs.

73. **At the same time, steps could be taken to further expand access to finance whilst also improving credit quality.** One priority is the development of a Secured Transaction Framework, with associated regulations and collateral registries. This would allow lenders to use moveable assets (e.g. inventory, accounts receivables, crops, equipment) as collateral, rather than just buildings and land. Reforming the framework for movable collateral lending allows businesses—particularly Small and Medium Enterprises—to leverage their assets into capital for investment and growth. It can increase the availability and reduce the cost of credit.[34] To complement this, the authorities could also prioritize issuance of Credit Bureau licenses and operationalization of credit bureaus now that the relevant regulations are adopted. This could play a big role in expanding access to credit whilst improving lending decisions and credit quality. Both the Secured Transaction Framework and the Credit Bureau are important steps towards gradual liberalization of interest rates discussed above.

74. **Improving access to electricity remains a priority of the government, and the third biggest obstacle identified by the private sector in the most recent Myanmar Enterprise Survey.** A comprehensive master plan for the country is being formulated for transmission and distribution of electricity through the grid and providing off-grid based solutions to those living in more remote areas. To accelerate the supply side, low environmental and social impact river basins are being identified for economic and sustainable hydro power development, private sector investment is competitively attracted for highly efficient gas power plants based on the success of Myingyan IPP, which will have lowest delivered cost per kWh among gas based generation IPPs, and also work on other economic options for supplementing power supply.

75. **The financial health of the power sector will affect its ability to attract much needed investment.** This is of the order of about US$20 billion over next decade to achieve the Universal access to electricity. Financial viability of the sector entities has been assessed and a plan is being prepared to be implemented over the next five years. The design of sustainable tariffs with protection of vulnerable groups to meet part of the revenue gap in the power sector is expected to progress in the coming months.

76. **There should also be progress on assessing options for dealing with gas supply shortfalls in the coming years.** The Ministry of Electricity and Energy is reviewing the economic valuation of gas and LNG options to secure domestic gas for power in anticipation of declining/plateauing gas fields. An early decision on the most optimal infrastructure option for supplementing domestic gas shortfalls with LNG supply would help in agreeing the optimal locations for new/ rehabilitation of gas based power plants.

77. **A plan to realize additional generation capacity and associated transmission and distribution needs to be prepared and implemented to invite the private sector to undertake projects in addition to the public sector**. Multi-annual budgeting would enable investments in projects with long gestation cycles and avoid projects stalling due to lack of funding in the outer years. Technical and commercial performance audit of all companies and IPPs should be carried out and published for transparency and accountability. All available options to minimize power shortages including regional power trade, renegotiation of gas supply contracts, improving supply and demand side efficiency should be explored to achieve least cost solutions.

78. **In addition to the above, there is scope for progress on institutional reform in the power sector**. In this regard, there is merit in accelerating the establishment of an independent regulatory commission to encourage efficient sector development and create a level playing field for private sector participation. The management and technical skills of the power sector entities need to be significantly improved. To start with Yangon and followed by Mandalay electricity distribution utilities could be corporatized and management handed over to professional teams with clear accountability.

[34] The World Bank, "Secured Transactions and Collateral Registries" October 5, 2015

79. **The government has established a Task Force for Business and Trade Promotion to coordinate a process of improving Myanmar's rank on Doing Business (DB) Indicators**. A working group for each of the 10 DB indicators has been established under the Task Force to prepare short, medium and long term plans for implementing reforms to improve the DB indicators. Priority and high impact areas to maintain momentum include access to electricity, access to credit registering property, and trading across borders.

80. **There is also potential to move forward on investment, corporate governance and trade facilitation policies**. This includes implementation of the 2016 Investment Law, streamlining procedures of the Myanmar Investment Commission for investments requiring incentives or special permits and ensuring readiness of State Governments to facilitate investments applications. The issuance of the Companies Act and implementing rules defining the threshold for domestic companies can also help encourage foreign investors seeking to establish joint ventures with domestic firms. There is also scope to Improve trade facilitation and logistics for firms to access inputs and markets. Aligning customs procedures in valuation of goods with international practices is urgently needed to give better certainty for firms on the level of import tariff that they would have to pay. Having a set of procedures for firms to operate private bonded warehouses can also help them better manage their logistics.

Special topics

Topic 1: Regional growth convergence

81. **As is often the case with emerging economies, rapid growth in Myanmar in recent years has been unevenly distributed across States/Regions**. This is associated with rising income inequality between rural and urban households (Box 1). Growth rates across States/Regions diverge for many reasons including access to markets, infrastructure services, technological change, geographic location, security and other. Compared to other countries, are income levels and growth rates geographically more or less equal? Are States/Regions converging at all in terms of GDP per capita? What are the potential policy implications?

82. **The theory of convergence is an important guide to these issues.** It tells us that, on average, growth slows down in richer regions and inequality declines. *Unconditional convergence* states that poorer countries will catch-up with richer ones, for example through technological change or factor mobility. *Conditional convergence* refers to growth given a certain potential (which could depend on available technology, social and political institutions, geographic location). It does not imply necessarily that poorer regions will catch up, as structural conditions might prevent them from growing.

83. **Convergence across regions within a country would seem easier than convergence across countries.** Across countries, conditional convergence seems to explains part of growth patterns, but unconditional convergence remains elusive, at least until the 1990s (Roy et al., 2016). Within countries, one would expect that shared institutions to create less inequality compared to across countries, whilst greater factor mobility would gradually lead all regions of a country to similar levels of income (although it depends crucially on the assumption of non-increasing returns to scale).

84. **Empirically, subnational jurisdictions often experience rapid divergence in the initial stages of development, followed by slow convergence** (WDR 2009, pp. 85-91). Conditional convergence for subnational jurisdictions happens faster than countries, but not by much: (Gennaioli et. al, 2014) estimate that the rhythm is of 3% per year for regions within countries against the famous "iron law" of 2% across countries. They find that this rhythm is even slower for low income countries. Myanmar's geographic diversity, insufficient transport infrastructure, fragmented markets for goods (DTIS 2016) as well as people and capital, and the existence of conflicts all might pose challenges to convergence. This box looks at existing evidence to preliminarily assess this potential.

Income distribution in Myanmar

85. **Per capita income differences across States/Regions in Myanmar are large**. Per capita GDP ranges from 1.7 million Kyat per capita in Yangon, by far the richest Region, to 400 000 Kyat in Chin (Figure 76). This is reflective of some important features of the economy including: the concentration of natural resources (with mining in Tanintharyi and Magwe), the lower GDP per capita of states affected by conflicts, and the relative high income of all the central dry area (Magwe, Sagaing, Mandalay, Bago).

86. **There are important caveats to the per capita income data.** Large parts of the economy are informal, and will not be reflected in GDP data. This is especially the case in border regions, including those affected by conflicts, as well as areas dominated by agriculture. Some results are also harder to explain: compared to other data sources, such as 2010/11 poverty levels, Mandalay's GDP per capita seems lower than one would expect, and Tanintharyi is much higher, even after taking account of mineral deposits and remittances.

Figure 76: GDP per capita of States/Regions (2014)

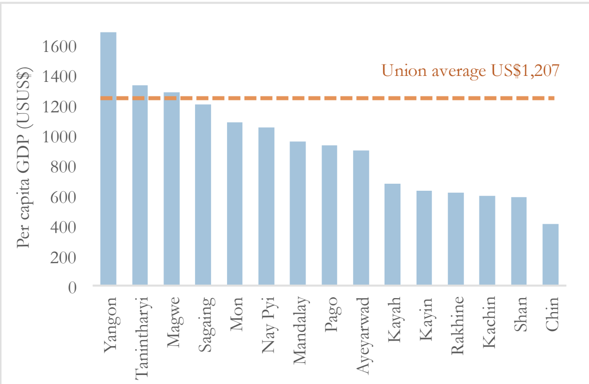
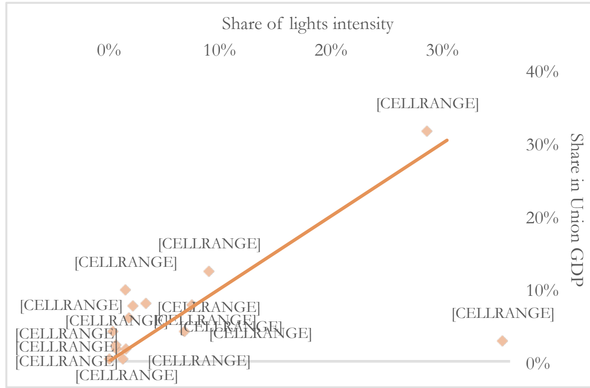


Figure 77: Shares of GDP and nightlights in 2013



Sources: MOPF, Myanmar Census

87. **Another data source for subnational economic activity is night lights obtained from satellite measurements.**[35] Those sources have their own challenges: areas off the electrical grid are not well accounted for, and they tend to be noisy on a year-to-year basis. Nightlights data for Myanmar is only available till 2013. But they could capture informal activity to some extent. Figure 77 shows that the correlation of economic activity (agriculture is excluded, which has much less light emissions) as measured by GDP and nightlights is reasonable: Nay Pyi Taw is largely overestimated by nightlights density, probably because infrastructure and hotels are very visible from outer space, but we obtain a correlation of 0.93 of the shares when excluding it, and 0.6 when excluding Yangon as well.

88. **Despite these data challenges, findings on regional inequality in Myanmar seem to be in line with other developing countries**. According to Gennaioli et al. (2014), the average dispersion of the (log of) GDP per capita across regions in developing countries is 0.4, which is exactly the case in Myanmar.

[35] Nightlights data are available from Aid Data geo(query) website. They use the DMSP-OLS provided by National Oceanic and Atmospheric Administration, and translate them at the state, district and township levels. Following the literature, we use light density as our indicator (Total nightlights / Area in sq. km., in logarithm); and then make it comparable by taking the share of activity.

From income levels to economic growth

89. **Analyzing State/Region economic growth rates and whether incomes are converging is limited by data issues.** First, convergence is better analyzed over long-term horizons. This review however looks at the 2012/13 – 2015/16 period, which makes it difficult to abstract from short-term cycles. This period also includes at least one major natural disaster (Cyclone Komen). Second, population data are only available from the 2014 census, requiring assumptions on population growth for 2012-2015 GDP per capita estimates.[36] With these qualifications, three scenarios are tested with the following regression:[37]

90. **The results of this regression under those sets of assumptions is that there has been no convergence, and even perhaps small divergence in states and regions in Myanmar** (Figures 78, 79, 80). Indeed, the green line shows the regression fit when excluding Chin, a State whose growth estimates for Chin seem possibly overstated, especially given that it suffered a major disaster in 2015 (World Bank, 2016).

91. **A variety of reasons potentially explains that growth acceleration in Myanmar has not been spread out geographically**: regions affected by the most active conflicts, such as Rakhine and Kachin, and Shan to a lesser extent, have had consistent lower growth. Second, growth has been concentrated in Yangon, and to a lesser extent in the agricultural dry zone.

Figure 78: Scenario 1 – Homogenous population growth

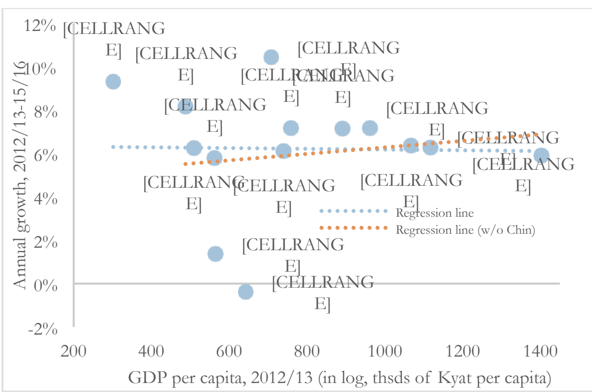
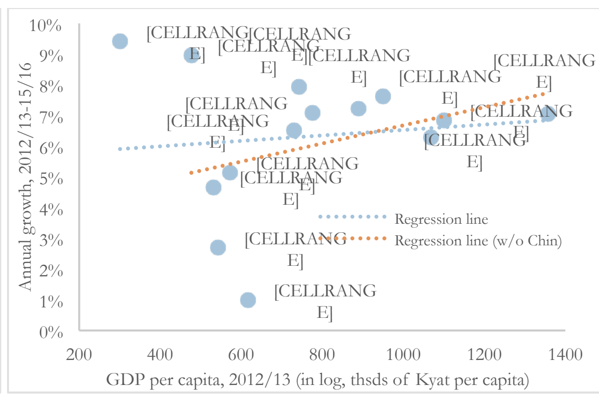


Figure 79: Scenario 2 – Forecast as backcast



[36] Despite the problems of the 2014 census (in particular the non-enumeration of some minority areas), total population estimates cover the whole country. However, there has not been any other trusted census since 1983. It is therefore extremely challenging to assess changes in per capita income, whether in the short or long term. While it is make reasonable hypotheses on demographic growth at the national level, and thus back-cast total Myanmar population, those back-casting exercises become even more challenging at the subnational level, as different regions might have different natural demographic growth rates.

[37] We use three methods to obtain sub-national population estimates: "Homogenous population growth" where all states are assumed to have identical demographic dynamics; "Backcasted growth", where we use the UNFPA/DoP projections for 2015-2020 and assume that the same dynamics applied for 2011-2015; and the "Gridded Population of the World" (GPWv4), a pixel-level projection of population using remote sensing techniques. Of course, none of these procedures is exact, but they provide reasonable approximations. The labor force survey provides a useful complement with medium term (3 year) in-migration survey, which probably indicates that all those techniques underestimate population growth of richer states, and thus *overestimate their per capita growth.* This implies that the regression coefficients should be taken as upper bounds.

Figure 80: Scenario 3 – Geo(query)/AidData projections

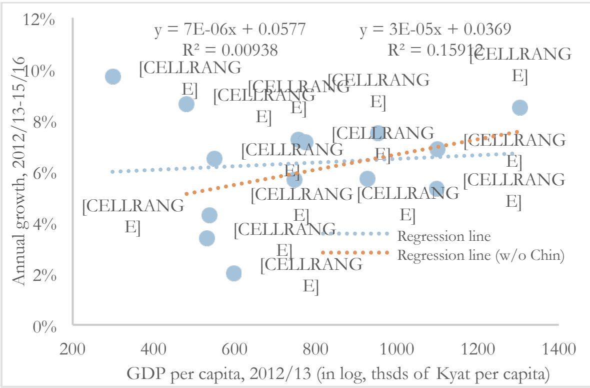
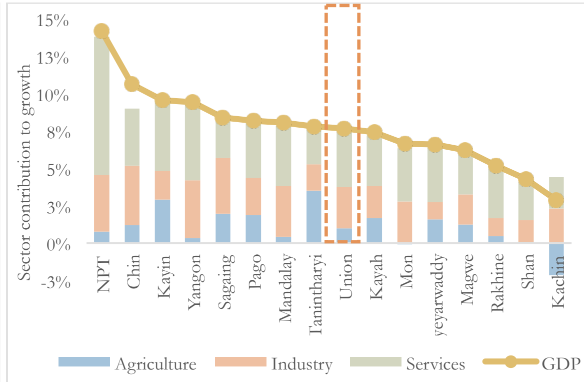


Figure 81: Sector contribution to State/Region growth



Sources: MOPF, WB Staff estimates

92. **There are several qualifications to these results that may mean the analysis understates the degree of convergence**. It is possible that migration – both internal and external – is underestimated in the above scenarios, and that richer States attract more labor than is indicated by existing estimates. And indeed, while it is difficult to use net migration estimates (UNPFA and Department of Population, 2017) to back-project population, they do show a robust correlation with GDP per capita. This would imply an upwards bias in convergence coefficients, as rich states attract labor, more remote regions see labor shortages and wage increases. Labor mobility, more than any other dynamics, might be moderating the inequalities of growth.

Structural change in States/Regions

93. **The Myanmar economy has gone through rapid structural change in recent years, which could also be a reason behind the lack of convergence**. The relatively low growth of agriculture (at 3% on average per year), combined with the higher concentration of industrial and service activities in urban areas. Both grew at an annual rate of 10%, contributing to total growth at 2.7 points for Industry and 3.7 points for services. As could be expected, Mandalay and Yangon are the Regions where they contribute the most, Nay Pyi Taw and Chin excepted (Figure 81).

94. **Other qualifications relate to trade openness, and the (sometimes overlapping) prevalence if natural resources and conflict):** the opening to international trade should benefit border regions, particularly those with China and Thailand. There is also evidence that remittances have allowed income levels to rise, especially in Tananthayi, the border State with Thailand. There are also reasons to believe that some of this growth is underestimated, especially in Shan and Kachin. Third, regions where large reserves of commodities are available tend to have cycles depending on global prices of those commodities. Finally, existing conflicts would hold back regions. Those forces can work in combination or opposition: there is significant overlap between ethnic conflicts, existence of natural resources, and border areas.

Conclusions and policy considerations

95. **The 2009 World Development Report on economic geography notes that concentration is an important feature of economic development**. The experience of Myanmar is not different: the main stylized fact observed is that there has been no or little convergence, and that labor mobility has been the main force towards some equalization of conditions. International experience leads us to expect that as Myanmar's economic growth continues, convergence should gradually follow.

96. **But active policy tools to help broadening the incidence of growth can also contribute and mitigate short-term costs**. The most recent Myanmar Public Expenditure Review illustrates the importance of more efficient project selection and execution. Investment in transport infrastructure could lead to a better integration of markets for goods and services.

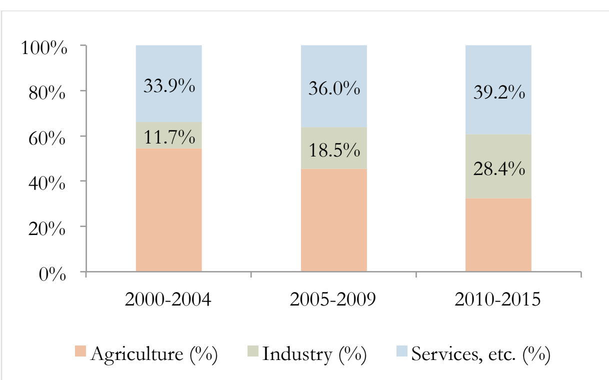
97. **Second, redistribution through fiscal transfers can help equalize socio-economic conditions**. Decentralization of some functions of the government to lower level administration could help, especially if accompanied by matching revenue flows. The diversity of economic conditions across regions means that decentralization and some degree of federalism can help accelerate convergence forces.

Topic 2: More and better jobs

98. **Myanmar is a hard-working country.** There are more than 24 million working in Myanmar, some with more than one job. Jobs, defined as income or in-kind earning activity, is a key policy objective in Myanmar. Jobs are behind Myanmar's enviable recent economic growth rates. They are the main source of higher household income, particularly for poor households. They can also strengthen social cohesion, a particularly valuable outcome in a country as ethnically diverse and conflict-affected as Myanmar.

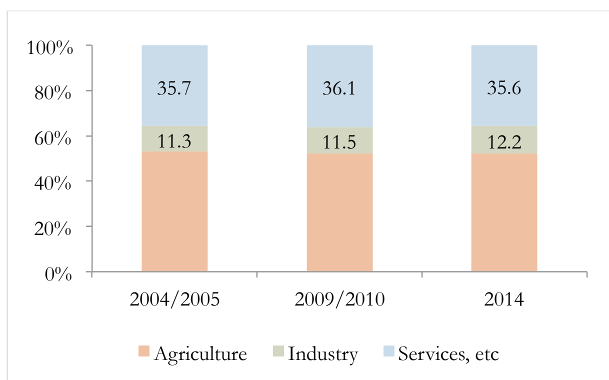
99. **Economic growth rates topping 7 percent annually and structural transformation reflect the expansion of a modern jobs sector.** Modern private sector jobs have increased from almost null to 1.7 million in a decade but their contribution will only make a dent in a labor force of 24 million people. Indeed, the structure of the overall jobs picture has barely moved. Although agriculture's share of GDP has declining from 52 percent to 32 percent between 2000 and 2015, and manufacturing increasing from 11 to 28 percent, the distribution of employment across sectors has remained fairly static. Agriculture's share of jobs has been around 52 percent in agriculture over the past decade, with services at 36 percent, and 12 percent in industry (Figures 82 and 83).

Figure 82: Share of industry and services in GDP



Source: MOPF, WB Staff estimates

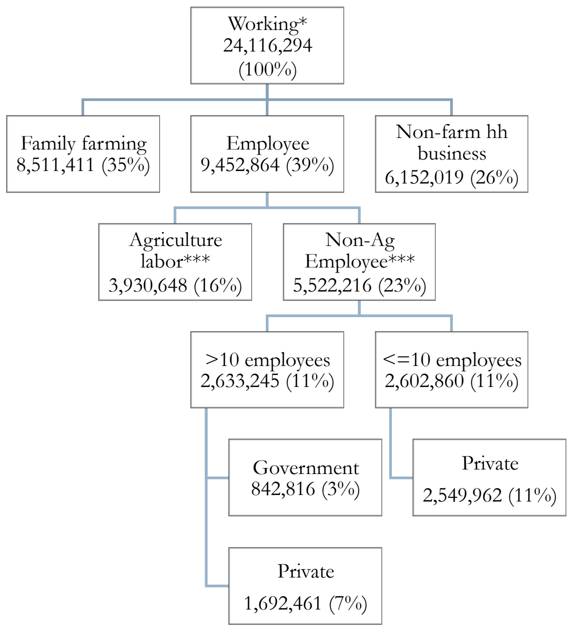
Figure 83: Share of employed workers



Source: IHLCA (2004/05; 2009/10), Census (2014), WB Staff estimates

100. **Most jobs in Myanmar are outside the modern sector.** More than one-third of workers – equivalent to 8.5 million jobs – own a family farm and identify farming as their primary employment activity. Another 16 percent (nearly 4 million people) are primarily agricultural laborers. More than six million – equivalent to one in four people – own their own non-farm household businesses. Among wage earners who do not work in agriculture, half (2.6 million) are in small firms, which are likely to offer few worker protections. The other half work in government jobs (800,000) or in large private sector firms (1.7 million), both domestic and foreign. Thus, the formal modern sector is still only 11 percent of total jobs in Myanmar, which is in line with other economies with longer structural transformation periods, such as Vietnam.

Figure 84: Structure of employment in Myanmar



Source: WB Staff estimates

101. **Job quality has room for improvement across the economy.** Labor productivity in agriculture and in manufacturing is among the lowest in the region, undermining income growth. Informality persists, limiting access to inputs for higher firm productivity and restricting social benefits to only 5 percent of the labor force. Fluctuations in production due to seasonality and fragmented value chains constrain firm investment and expansion. They also force workers to hold multiple jobs at any time (one-third of workers), experience significant under- and over-employment over the year (the size of the labor force differs by nine percentage points across seasons), and heavily rely on migration to manage income fluctuations. The informal work arrangements also create a gap between already excluded workers – rural, conflict-affected, youth – and the jobs market.

102. **The public-policy challenge is two-fold: facilitate job creation in the modern private sector while improving the quality of jobs across the entire economy.** Economic growth led by private sector development will be necessary, but not sufficient, to achieve these goals. Translating recent economic gains into jobs creation and job upgrading requires a deliberate effort to adjust institutions, policies and programs.

Expanding the quality and quantity of jobs in the formal sector

103. **Most jobs are in domestically-oriented small and medium enterprises (SMEs).** More than 80 percent of formal jobs are in the 95 percent of SMEs, many of them located outside main business cities, which only supply to the domestic market. Despite opportunities to expand business and create jobs in the growing Myanmar internal market, domestic oriented firms, are not expanding sufficiently.

104. **Most recent job creation has been driven by micro and large (exporting) new firms**. New micro firms (up to 4 employees) and new large establishments (those with at least 100 employees) have been the primary source of new jobs over the past five years, most notably in the garment, retail and wholesale, and hotels and restaurants sectors. About one third of net job creation in the formal private sector was due to expanding the labor force by exporters. This was remarkable considering that less than 4 percent and 1 percent of private sector firms in Myanmar are engaged in export directly and indirectly. But fewer firms export in Myanmar than in other EAP countries, and exports tend to be concentrated in non-jobs friendly sectors including minerals and mineral products, with limited global value chain (GVC) participation. Many of the better jobs that will be created in the future are in the factories that will be part of the GVC.

105. **Myanmar can expand the domestic sector and diversify the export sector to create new and better job opportunities.** Myanmar's large and young labor force and relatively low wages offers comparative advantage in labor-intensive GVC industries such as food processing or assembly such as garments. It has room to increasing FDI (currently 2 percent) in the booming hotel and tourism sector, or agriculture and fishery sectors. The growing consumer class and urbanization in Myanmar is starting to demand locally-source products that have been traditionally self-produced.

Better Jobs in Agriculture through Diversification and Integration into Value Chains

106. **Myanmar's agricultural labor productivity, and thus earnings, is low as compared to neighboring countries**. A hectare of monsoon paddy cultivation requires 11 days in Thailand and 52 days in Cambodia while it requires 80 - 130 days in Myanmar. Seasonal fluctuations in the agricultural cycle underlie irregular work patterns, ranging from 17 to 157 days, depending on the season.

107. **To cope with low earnings and income fluctuations, household diversify income sources.** Half of rural households hold a "jobs portfolio" with both non-agricultural and agricultural income-earning activities. In fact, the share of rural household income derived from non-agricultural income is higher than its share derived from own- or wage-agricultural activities. Less poor households and female-headed households employ this strategy more effectively, where a large share of income is gained through retail, wholesale, manufacturing, and construction services. In spite of the importance of these off-farm services, they are less lucrative than they could be owing to not being linked into value chains. This diversification is a survival strategy, but it also signals that off-farm jobs are already emerging and playing a significant role.

108. **Scope for agriculture employment remains strong**. As Myanmar continues to develop, agriculture will shed jobs to other sectors. However, if the concept of "agricultural jobs" is expanded to include those related to agro-value chains – inputs to cultivation (backward linkages) or those emanating out from cultivation (forward linkages) - it is possible to think of a strategy of a slowly shedding cultivation jobs in favor of rural jobs producing and commercializing higher-value products for internal or external consumption. Automation can also increase productivity in cultivation, both increasing earnings for farmers while shedding labor to other jobs in the agro-value chain.

Enhancing the quality of Jobs in the household enterprise sector

109. **The informal household enterprise sector is large, likely larger than estimated, and will grow**. Jobs in this sector are primarily owner and unpaid family members (though 14 percent hire wage labor) – two-thirds women – providing services to passers-by. While 20 percent of people identify this as their main job, the count is likely much higher given the high incidence of rural farming households to own micro-enterprises. Although most of these micro-firms are in rural areas, they are disproportionally represented in urban zones, a shift that is likely to accelerate with urbanization.

110. **To increase productivity, and earnings, in the sector, micro-enterprises can further integrate with the rest of the economy and implement strategies to raise their productivity and grow.** Micro firms are not linked to the formal sector or organized traders. Although certain measures show that they are more productive than larger firms and that they are a significant source of income in rural areas, the high number of people in the sector suggest that further productivity improvements are needed. While the micro-enterprise owners say that their main constraint to growth is access to finance, those who get finance tend to not use it to invest in productivity-enhancing measures. Modest supports to microentrepreneurs may be a means to upgrade the sector before it expands even further.

Prepare workers for a modern and productive (internal and external) labor market

111. **Job quality will only increase if skilled workers fill higher productivity jobs**. More than 24 million people work, equal to 65 percent of those age fifteen or older; a higher share than typical for a country as developed as Myanmar. However, Myanmar has lower educational attainment than comparator countries (about 5.7 years) and low education quality: 20 percent of third graders cannot understand what they read. Indeed, more than 80 percent of employers say that the education system does not prepare people for work. The technical vocational and education training (TVET) system is under-utilized and is poorly oriented to the skills employers need. Most job search is via family and friends, providing limited opportunities. Many jobs go unfilled due to unrealistic expectations by job-seekers about salaries and work conditions.

112. **Low job quality reflects the shortage of job opportunities and limited labor supply**. Nearly all jobs are in low value-added sectors (agriculture, wholesale/retail) and two of every three workers are engaged in low-skilled occupations or subsistence agriculture. They work long shifts that vary widely across the year, 90 percent without a labor contract, and earning a bit less than the minimum wage. The situation is more difficult for women who, when accounting for the 25 percent who are dedicated to home and family care, work as much as men while earning one-third less than men with a similar sector of employment and education. Informal migration is quite high relative to other countries in the highly mobile ASEAN, but other than short term remittances, few benefits are observed.

113. **Upgrading job-relevant skills – knowledge, technical, and behavioral – will open both Myanmar's job market and the regional (aging) job market to Myanmar's young population**. Myanmar has the demographic dividend in its favor – it is a young country in a quickly aging region, in search for younger labor to carry out good jobs. To take advantage of these opportunities, there is an urgent need to enhance the skills of the young and the current working age population while strengthening mechanisms to help people identify and secure national and international jobs that reward these higher skills.

Policy options

114. Policies intended to spur economic growth, private sector development, agricultural output, and higher human capital form the basis of the growth of more and better jobs, but additional policies or strategies can further advance the jobs objectives. Eleven overall policy areas emerge from this diagnosis, which can be grouped into three outcomes:

115. **Policy areas for more jobs**

(i) Implement fiscal and monetary policies that reduce macroeconomic uncertainty to facilitate high quality investments and enable job creation
(ii) Facilitate the legal environment for private sector firm creation, growth, and diversification in jobs-intensive sectors
(iii) Invest in jobs-friendly GVCs
(iv) Foster household enterprise development
(v) Develop the agro-value chain to develop the rural micro and small enterprise sector
(vi) Lower the cost of migration, including to jobs outside of Myanmar

116. **Policy areas for better jobs**

(vii) Increase productivity in household enterprises
(viii) Enhance the job-relevant skills of the labor force according to employer skills demands
(ix) Get the right workers into the right jobs

117. **Policy areas for inclusive jobs**

(x) Enhance agricultural productivity
(xi) Rebuild job opportunities in conflict-affected zones

118. Each policy areas includes general policies that are already a part of Myanmar's overall growth and development strategy, as well as additional actions to boost the jobs outcomes. The success of any single policy in creating or improving jobs relies on simultaneous implementation of the other policies. A subset of policy options is summarized below.

#	Policy Area	Priority Policy Options
More Jobs		
1	Implement fiscal and monetary policies that reduce macroeconomic uncertainty to facilitate more quality investments and enable job creation	(i) Limit Central Bank of Myanmar (CBM) financing to help anchor inflation expectations; (ii) Maintain exchange rate flexibility to promote export-oriented sectors; (iii) Phased relaxation of interest caps and improve financial sector stability to encourage expansion of microenterprises
2	Facilitate private sector firm creation and growth in jobs-intensive sectors	(i) Fully implementation of 2016 Investment Law; Issuance of Companies Act and simplify Companies registration; (ii) Allow registered moveable assets as lending collaterals, establish credit bureau, and gradual relaxation in caps on bank lending rate; (iii) Remove remaining barriers for labor intensive clusters (e.g., garment, tourism) to grow;
3	Foster Myanmar's integration into jobs-friendly GVCs	(i) address issues in customs valuation, allow private bonded warehousing, and introduce National Single Window for cargo clearance; (ii) Clarify threshold for foreign shareholding to facilitate joint ventures; (iii) Identify and formulate domestic linkages; (iv) large-scale training to address management skills and other technical skills required by exporting sector
4	Foster household enterprise development	(i) develop forward- and backward-linkages between micro sector and large firms GP, (ii) Build social attitudes more conducive to women's economic work (iii) Set up small claims/fast-track procedures
5	Developing the agro-	(i) Establish policy and implement a communications campaign to set and meet

#	Policy Area	Priority Policy Options
	value chain to develop the rural micro and small enterprise sector	international food quality standards, (ii) technical support to improve farming processes and techniques to meet international standards, (iii) provision of skills training and access to finance for micro and small entrepreneurs in the agro-food system value chains;
6	Lower the cost of migration, including to jobs outside of Myanmar	(i) Provide information about jobs, recruitment practices, and migration procedures; (ii) Formalize mobility partnerships with countries and firms, with a focus on critical occupations, (iii) Financial support to facilitate labor mobility by poor households
Better Jobs		
7	Increase productivity in household enterprises	(i) Provide technical, business & management and financial literacy skills through training sessions and on the job training (ii) provide information on markets and market opportunities; (iii) identify gazelles (very fast growing firms) for government support in terms of access to finance, markets and skills development
8	Enhance the job-relevant skills of the labor force according to employer skills demands	(i) Improve the quality of education at primary, secondary, and tertiary levels; (ii) Develop an employer-driven skills strategy to supplement the NESP; (iii) vouchers to students and enterprises to purchase privately provided short TVET courses (iv) enhance managerial skills through in-house coaching
9	Get the right workers into the right jobs	(i) Budget and annually field the Labor Force Survey; (ii) Task MOLIP or MDI with creating and populating labor market information templates for students & parents, education/training institution administrators, employers, and policymakers; (iii) Incentivize the private sector to create job vacancy apps for low-skilled jobs
Inclusive Jobs		
10	Enhance agricultural productivity	(i) Promote agricultural diversification into high-value agriculture; (ii) Skills training for building, operating and maintaining irrigation systems, (iii) Enhance agricultural extension services, especially to the most vulnerable and women
11	Rebuild job opportunities in conflict-affected zones	(i) Advance the peace agenda, (ii) Social assistance (cash transfers) to rebuild assets in the short-run; (iii) Community Driven Development programs to build skills and assets & transition support; (iv) Integrate post-conflict zones into regional trade networks

Topic 3: Fiscal impact of SEEs

SEEs an important part of the Union Budget

119. **State Economic Enterprises (SEEs) continue to have an important role in Myanmar, though they are a smaller part of the economy compared to other transition countries.** Myanmar's 32 SEEs are involved in a range of activities: from natural resource extraction; to the provision of services such as transport, telecommunications and electricity; and to industrial activities including heavy industry and downstream activities in the oil and gas sector. SEE sales account for around 7 percent of GDP, a lower share than in many transition and emerging market economies (Table 7). Myanmar's SEEs have more than 145,000 employees, which represents around 15 percent of total public sector employment and less than 1 percent of the 22.7 million labor force. In contrast, China has some 155,000 State-Owned firms with several million employees and Vietnam's 2,970 State-owned (or state majority owned) enterprises employ approximately 1.3 million people.

Table 7: Cross-country comparison of SOEs

	SOEs (number)	Employment (persons)	Revenue (% of GDP)	Net profit (% of GDP)
China	160,000	several million	12	2
India	290		16	4
Indonesia	141		3	0
Myanmar	*32*	*145,000*	*7*	*0*
Russia	4,100		16	3
Vietnam	2,970	1,300,000	32	

WB Staff estimates

120. **SEEs are an important part of Myanmar's Union Budget though they are increasingly becoming a fiscal burden.** SEEs have accounted for between 35 and 45 percent of public sector expenses and receipts in the past 4 years. However, SEEs are increasingly becoming a drain on the union budget. SEE gross profits have declined from 4 percent of GDP in 2011/12 to 0.7 percent of GDP in 2014/15, with net profits declining for all sectors (Figure 85). This is driven by increased operating costs for infrastructure SEEs and declining sales revenues for natural resource SEEs due to declining international commodity prices. Declining profits have led to falling transfers to the Union Budget, with SEEs becoming net recipients of union transfers since 2014/15. SEE losses have increased to 0.7 percent of GDP in 2015/16, which is implicitly absorbed by the Union Budget (Figure 86).

Figure 85: Net SEE Profits by Sector

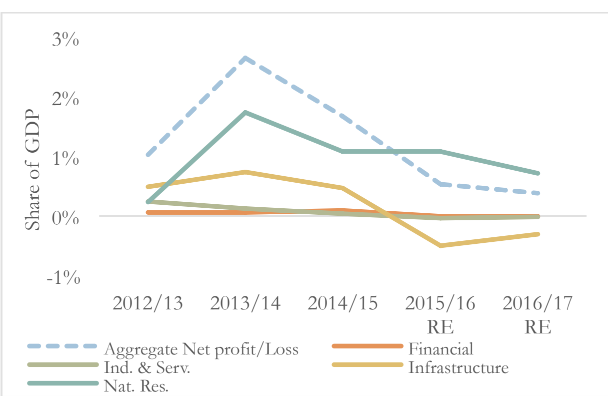
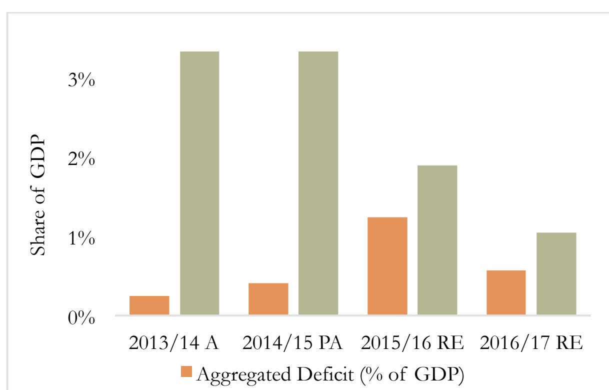


Figure 86: SEE Losses and Union Budget Support

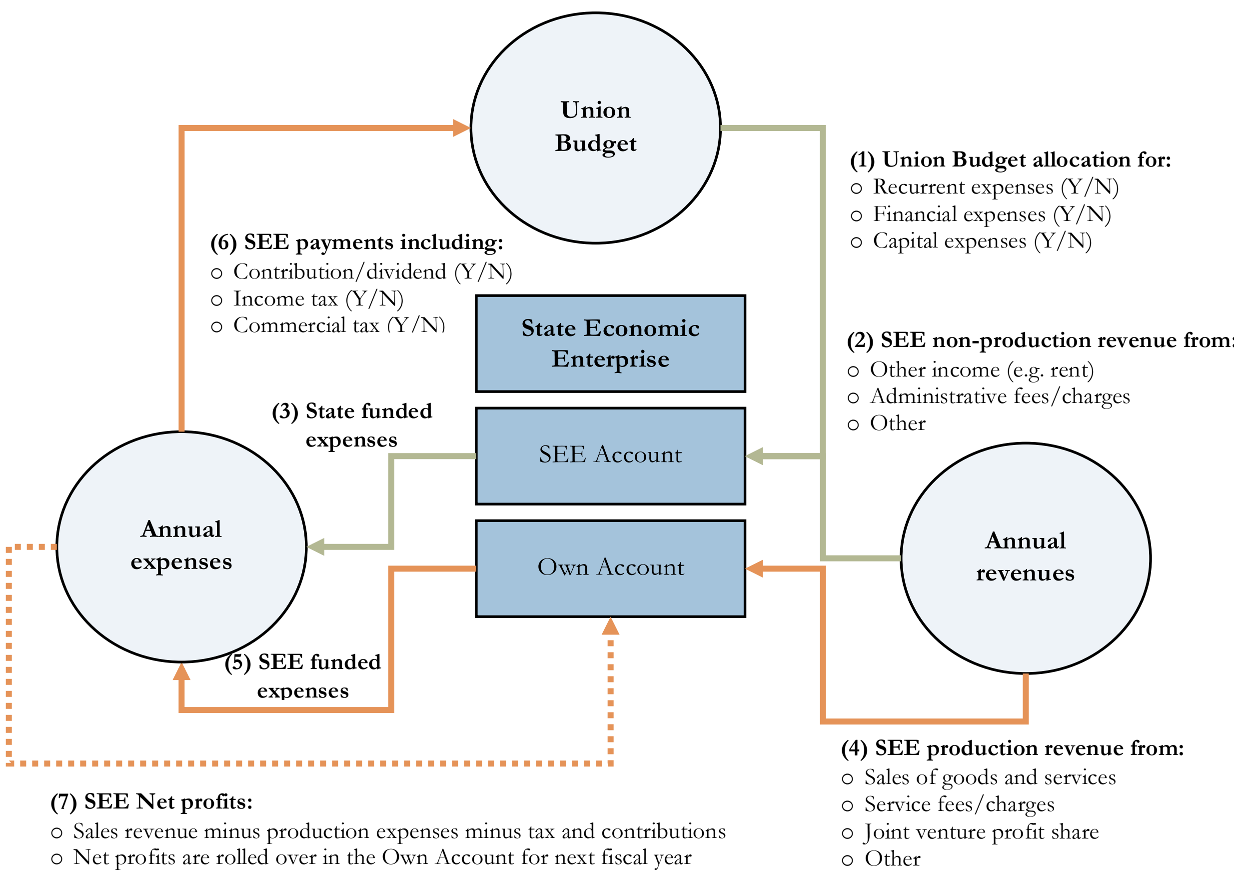


Sources: MOPF, WB Staff estimates

121. **MOPF has tried to respond to these fiscal pressures through reforms to encourage SEE autonomy and reduce reliance on Union Budget transfers.** Reforms have included (i) allowing SEEs to retain more net profits; (ii) classifying SEEs as having sufficient or insufficient working capital to finance recurrent expenditures, in order to differentiate the level of budget transfers; and (iii) not allowing SEEs to borrow from each other or State Banks. These reforms have led to SEEs financing a larger share of their expenses from other accounts since 2013/14.

122. **These reforms have been built on well-defined fiscal flows between the SEEs and Union Budget (Figure 87).** This framework is a critical first step in separating SEE and Union Budget accounts to layer future reforms. SEEs use two accounts that are audited and reflected in the public sector balance sheet: (i) the SEE account held at the Myanmar Economic Bank (MEB), which is used as the conduit for Union Budget receipts and expenditures; and (ii) an Own Account, also in MEB, which holds the SEEs' retained earnings that are used to finance a growing share of SEE expenses. SEE flows are highly concentrated -- the Myanmar Oil and Gas Enterprise, which is the largest SEE, accounted for 15 to 20 percent of union revenues between 2013/14 and 2015/16.

Figure 87: Flow of Funds between Union Budget and SEEs



Challenging reform agenda

123. **Despite these reforms, managing the fiscal pressures arising from SEEs is complicated by several factors starting with rising operational losses.** The financial performance of SEEs is expected to remain under pressure in the coming years. Firstly, gas prices are likely to remain weak and coupled with

declining production from existing fields, this will impact gas sector receipts that dominate SEE payments to the Union Budget. Secondly, commercial SEEs will continue to find it increasingly difficult to compete against cheaper and better quality products from the private sector, bolstered by foreign investment and trade. Thirdly, the rapid expansion of public sector utility provision without cost recovery, particularly in the power sector, has resulted in increasing Operating Losses in the Infrastructure sub-sector.

124. **Declining profits and performance highlights the challenge of increasing the financial autonomy of SEEs in the absence of a broader SEE reform program.** Faced with declining sales due to lack of productivity and competitiveness, some SEEs under the Ministry of Industries have sensibly scaled back production. This helps bring down Direct Production Expenses, but Operating Expenses still need to be covered until a decision is made on the future of these SEEs. In other cases, a rapid expansion in services, for example in the electricity sector, has required increased operating (and capital) expenses. Whilst sales have also increased, a lack of pricing adjustments have contributed to widening Gross and Operating Losses. This impacts negatively on the commercial viability of the power sector and its ability to attract investments. At the same time, any adjustment in prices has to be in line with protecting poor and vulnerable consumers.

125. **Moreover, Net Profits and therefore SEEs' ability to retain earnings to exercise autonomy are either declining or turning negative**. With the exception of SEEs in the Natural Resource sector, the other three sectors all face Net Losses. This means lower earnings in SEEs' Own Accounts and thereby less own working capital, which will need to be offset by Union Budget allocations. Monitoring these developments systematically is important for effective policy response. An important element of this is the need to update accounting definitions as discussed above to help monitor SEE performance and fiscal impact, report to policy makers, and take timely actions. The proposed adjustments would not require additional data, and could significantly enhance the fiscal oversight of SEEs

126. **Managing varied SEE activities is challenging and is made more so by decentralized ownership of SEEs by line ministries, with sector legislation playing a primary role in SEE governance**. This creates conflict-of-interest concerns, as line ministries act as both owners and regulators, as well as fiscal risks since SEE operational decisions are made purely from a sector perspective with limited input from MOPF. SEE reporting to MoPF is characterized by high-volume but low-quality reporting, which in turn, inhibits performance monitoring. In addition, audited balance sheets of SEEs do not meet international standards leading to insufficient understanding of fiscal risks.

127. **A recent World Bank-MoPF joint Public Expenditure Review[38] highlights options to improve the fiscal management of SEEs.** Experience from other countries suggests that reform of Myanmar's SEEs will take time, and given the inherent risks, should be undertaken via a phased approach. While the number of distinct SEEs and their total employment makes reform of Myanmar's SEEs somewhat more manageable compared to other transitional economies such as Vietnam and China, the fact that SEE-driven revenues and expenditures account for a substantial share of the Union Budget suggests a cautious and incremental approach to reform is warranted. Suggestions are made below on the content and sequencing of reforms to improve the fiscal management of Myanmar's SEEs. Specific options are discussed further below.

Prioritizing reform and fiscal oversight by SEE typologies

128. **Myanmar's SEEs are diverse in terms of sectors, levels of employment, financial performance, asset base, and impact on fiscal outcomes**. This calls for a differentiated approach, particularly as far as reform priorities and fiscal policies are concerned. Therefore, the first policy option is to put in place a new classification framework for Myanmar's SEEs with four broad typologies. The MOPF should then develop a specific policy for each group for the state as a shareholder. The suggested groups and policy direction is below:

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

(i) Natural resource SEEs: where the objective is to maximize the return on publicly owned endowments, within a broader framework to ensure environmental and social sustainability. Natural resource SEEs warrant separate treatment given the uniquely high returns from national assets. Elements of such a treatment could include: (i) a clear separation of operational and regulatory functions; (ii) a sound and transparent fiscal regime for natural resources with adequate administrative and audit capacity to ensure efficient collection of taxes, royalties, and other revenue; (iii) policies for managing revenue from natural resource SEEs including adequate forecasting for medium-term expenditure management, managing revenue volatility, and developing a clear savings policy. Such policies require complex inter-generational trade-offs that are best handled at the government wide level rather than at the sectoral or SEE level.

(ii) Commercially viable SEE, without need for Union Budget subsidy: where activities present a net positive return on investment over the medium-term with potential for full cost recovery. These SEEs could progressively be granted increased fiscal autonomy through greater retention of profits for potential investments, which would need to be appraised and overseen by the MOPF just like any other public investment or a professional board acting in the interest of the MOPF. These SEEs should be corporatized and made to adopt modern corporate governance standards, reporting requirements and disclosure standards. This could form the basis for private sector participation at a following stage.

(iii) Commercially viable SEE, with need for Union Budget subsidy: where a net positive return on investment is possible over the medium-term, but not necessarily under conditions of full cost recovery. Public utilities, which provide positive societal benefits would fall under this category and could justify additional subsidy. Such public service obligations would need to be carefully defined and costed for the purposes of transparency. These could be underpinned by a broader restructuring plan, which would cover aspects such as human resources, corporate finances, and others, which would help attract much needed external investment. This should lead to a consideration of the best way to deliver these public service requirements. Options could include provision through SEEs through public service agreements or under the supervision of an independent regulator but also directly contracting the private sector.

(iv) Non-viable SEEs: where the objective of the state is to cease activities, either by reabsorption of publicly desirable functions into the activities of Government, or the sale/divestiture/closure of SEEs. It is critical that this be conducted in a highly transparent and open manner. The Government could even consider granting the responsibility for managing sale or divestiture processes to an independent agency to ensure a process that is beyond reproach.

Improve practice of performance monitoring

129. **Existing monitoring practices could be significantly strengthened to improve fiscal oversight of SEEs.** One first important step is to adopt consistent accounting standards and definitions in reporting SEE performance information collected in the annual forms 1-18. Some adjustment is warranted to move towards more accepted standards in terms of performance indicators. For little cost, this would significantly improve the interpretation of performance information for more timely policy responses. Secondly, there is scope to automate data collection. The current manual process is very time consuming and leads to challenges in terms of completeness and accuracy of reporting, with considerable variation in quality and coverage across SEEs. This would help free up staff time in MoPF for analysis and reporting rather than data management. Thirdly, there is also scope to simplify reporting requirements and reduce redundancy and duplication, which would in turn also help with the quality, and potentially the frequency, of information submitted by SEEs.[39]

[39] In terms of specific improvements to the forms, these could include the following: i) clearly distinguished forms according to purpose (for example, for the purpose of budget submission, performance monitoring, financial monitoring); ii) streamlined to reduce administrative burden in preparing and compiling the information (eliminate forms which are no longer relevant and for which data is regularly used by MOPF) and instead ensure that critical information

Medium-Term policy framework for SEEs

130. **Recent policy shifts offer an opportunity to reform Myanmar's approach to SEE ownership, regulation and management.** A major challenge with the current system is that too many functions are fulfilled with sector ministries, which causes conflicts of interest, exacerbated by staff moving within the Ministry from function to function. The regulatory function should be separated from the SEE. It should not be fulfilled by sector associations and should it stay in the ministry, there should be appropriate firewalls between the regulatory function and the SEE including rules about staff movement between the two. As SEEs move towards corporatization, professional managers should be recruited, ideally reporting to a professional board acting in the interests of the ultimate shareholder – MOPF on behalf of the Government.

131. **Further, it would be helpful to build over the medium term a policy framework for the overall management of SEEs.** This would set out the overarching objectives and rational for state investment via an SEE, list the range of corporate structures that can be applied to Myanmar's SEEs, based on a revised typology of activities, and establish clear governance arrangements with specific roles and responsibilities for Myanmar's key fiscal institutions. The development of an updated SEEs policy framework could also bring clarity to the current fragmentation of governing legislation in the sector, and establish clear principles of ownership.

132. **Given the relatively limited number of SEEs, a centralized ownership policy could be feasible**. A distinction would need to be made between commercially-oriented activities versus public-service obligations, with the establishment of a clear framework for costing such public service obligations. This policy framework would allow for progressive increases to the operational independence of some SEEs, with stronger corporate governance and oversight mechanisms including the application of private sector norms, accounting standards and board supervision to maintain fiscal oversight. However, for many activities, remaining close to the state budget oversight and control framework would be appropriate to manage fiscal risks.

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is submitted in a timely manner (e.g. Balance Sheet); and iii) review the calculation methodology and how items are classified for profit and loss and balance sheet forms to further align with international accounting standards and standardize among SEEs (redesigned forms accompanied with guidance on how to fill them in), which will be key to accurate interpretation of data and analysis of fiscal risks.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Economic growth and prices							
Real GDP (kyat billion)	52,785	56,476	59,792	63,644	68,143	72,840	78,000
Agriculture	15,769	16,306	16,244	16,812	17,741	18,468	19,207
Industry	15,659	16,963	18,478	19,956	21,880	23,740	25,710
Services	21,357	23,207	25,071	26,876	28,522	30,632	33,083
CPI (% change, yoy)	6.1	8.4	7.0	5.2	4.9	5.3	6.0
Consolidated public sector (kyat billion)							
Revenue	14,550	13,622	14,440	14,355	15,755	17,857	20,353
o/w Tax	4,586	4,901	5,677	6,475	7,480	8,763	10,348
o/w Non-Tax	3,332	2,969	2,841	2,504	2,418	2,620	2,783
Expenditure	15,248	16,821	16,807	18,328	20,392	22,858	26,070
Recurrent	10,733	12,301	12,846	13,840	15,534	17,214	19,111
Capital	4,514	4,520	3,961	4,488	4,857	5,644	6,960
Monetary (kyat billion)							
Broad Money (M2)	28,524	36,040	43,034	47,093	52,892	59,050	67,206
Reserve Money	12,725	15,683	17,013	19,054	21,400	24,079	27,297
Balance of Payments (% of GDP)							
Current account	(3,597)	(4,278)	(3,325)	(3,147)	(3,039)	(2,856)	(2,817)
Trade balance	(4,052)	(5,368)	(5,369)	(5,486)	(5,720)	(5,934)	(6,358)
Exports	12,145	10,221	10,649	11,288	12,067	12,888	13,764
Imports	16,197	15,589	16,018	16,774	17,787	18,822	20,122
Economic growth and prices (% change)							
Real GDP	8.0	7.0	5.9	6.4	6.7	6.9	7.1
Agriculture	2.8	3.4	-0.4	3.5	4.0	4.1	4.0
Industry	12.1	8.3	8.9	8.0	8.3	8.5	8.3
Services	8.7	8.7	8.7	8.7	8.7	8.7	8.7
CPI (% change, yoy)	6.1	8.4	7.0	5.2	4.9	5.3	6.0
Consolidated public sector (% of GDP)							
Revenue	22.3	18.7	18.1	16.1	15.7	15.9	15.9
o/w Tax	7.0	6.7	7.1	7.3	7.5	7.8	8.1
o/w Non-Tax	5.1	4.1	3.6	2.8	2.4	2.3	2.2
Expenditure	23.4	23.1	21.1	20.6	20.4	20.3	20.4
Recurrent	16.4	16.9	16.1	15.5	15.5	15.3	15.0
Capital	6.9	6.2	5.0	5.0	4.8	5.0	5.4
Monetary (% change)							
Broad Money (M2)	12.9	26.3	19.4	9.4	12.1	11.6	13.8
Reserve Money	4.6	23.2	8.5	12.0	9.5	12.5	13.4
Balance of Payments (% of GDP)							
Current account	-5.5	-7.2	-5.3	-4.7	-4.7	-4.1	-3.8
Trade balance	-6.2	-9.0	-8.5	-8.3	-8.9	-8.5	-8.6
Exports	18.6	17.1	16.8	17.0	18.8	18.5	18.6
Imports	24.7	26.1	25.3	25.3	27.8	27.0	27.2

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

Annex 2: Gross Domestic Product

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

Source: MOPF

Annex 3: Consumer Price Index

	2013/14	2014/15	2015/16	2016/17
CPI (All items, yoy % change)	**6.3**	**6.1**	**8.4**	**7.0**
CPI (Food and non-alcohol. bev., yoy % change)	**9.3**	**8.3**	**11.8**	**8.0**
CPI (Non food, yoy % change)	**2.0**	**2.9**	**3.1**	**5.4**
Alcoholic beverages, tobacco	10.3	8.9	11.7	4.0
Clothing and footwear	-0.8	6.0	5.5	2.5
Housing, water, electricity, gas and other fuels	7.3	7.2	4.1	6.5
Furnishings, household equip and routine hh maintenance	-1.1	4.2	7.7	1.0
Health	10.8	8.1	5.7	4.1
Transport	0.4	-6.3	-5.8	11.8
Communication	-2.5	0.8	-0.5	-2.3
Recreation and culture	-1.8	2.2	4.8	0.9
Education	10.1	2.3	2.0	2.8
Restaurants and hotels	-4.1	6.0	5.5	2.6
Miscellaneous goods and services	-3.1	4.9	10.7	5.3
CPI (All items, annual average % change)	8.1	5.1	10.0	6.7
CPI (Food and non-alcohol. bev., annual average, % change)	6.6	6.9	13.9	8.5
CPI (Non food, annual average, % change)	9.4	2.4	3.9	3.7
Alcoholic beverages, tobacco	1.1	10.5	14.8	6.2
Clothing and footwear	0.5	2.5	6.8	4.0
Housing, water, electricity, gas and other fuels	85.4	5.5	7.2	6.1
Furnishings, household equip and routine and hh maintenance	-0.6	1.8	6.5	4.1
Health	8.0	5.5	7.6	5.3
Transport	1.7	-1.0	-5.5	0.2
Communication	-3.3	0.6	-0.3	-1.4
Recreation and culture	-2.7	1.0	3.2	4.0
Education	6.5	3.0	1.9	3.7
Restaurants and hotels	-2.3	1.7	5.9	3.7
Miscellaneous goods and services	-1.6	1.0	10.8	6.6

Source: Central Statistical Organization

Annex 4: Balance of Payments

	2013/14	2014/15	2015/16	2016/17
Balance of Payments (USD million)				
Current account	**(2,277)**	**(3,597)**	**(4,278)**	**(3,325)**
Trade balance	(2,164)	(4,052)	(5,368)	(5,369)
Exports	9,439	12,145	10,221	10,649
Imports	11,603	16,197	15,589	16,018
Services balance	555	1,207	1,134	899
Primary income balance	(2,030)	(3,146)	(2,525)	(2,221)
Secondary income balance	1,362	2,395	2,481	3,366
Capital account	**(1)**	**-**	**-**	**0**
Financial account	**4,993**	**4,635**	**4,593**	**4,648**
Direct Invesment	(2,619)	(4,515)	(4,219)	(3,695)
Portfolio Investment	(0)	(7)	(1)	(37)
Other Investment	(2,374)	(113)	(373)	(916)
Net Errors & Omissions	**(1,267)**	**704**	**149**	**(423)**
Overall balance	**1,450**	**1,742**	**463**	**901**
Reserve Assets	**1,450**	**1,742**	**463**	**901**
Balance of Payments (% of GDP)				
Current account	**-3.8%**	**-5.5%**	**-7.2%**	**-5.3%**
Trade balance	-3.6%	-6.2%	-9.0%	-8.5%
Exports	15.7%	18.6%	17.1%	16.8%
Imports	19.3%	24.7%	26.1%	25.3%
Services balance	0.9%	1.8%	1.9%	1.4%
Primary income balance	-3.4%	-4.8%	-4.2%	-3.5%
Secondary income balance	2.3%	3.7%	4.2%	5.3%
Capital account	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Financial account	**8.3%**	**7.1%**	**7.7%**	**7.4%**
Direct Invesment	-4.3%	-6.9%	-7.1%	-5.8%
Portfolio Investment	0.0%	0.0%	0.0%	-0.1%
Other Investment	-3.9%	-0.2%	-0.6%	-1.4%
Net Errors & Omissions	**-2.1%**	**1.1%**	**0.2%**	**-0.7%**
Overall balance	**2.4%**	**2.7%**	**0.8%**	**1.4%**
Reserve Assets	**2.4%**	**2.7%**	**0.8%**	**1.4%**

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

Annex 4: Monetary Survey

Monetary Survey (Kyat billion)	2014/15	2015/16	2016/17
Assets	**28,524**	**36,040**	**43,034**
Net Foreign Assets	**8,014**	**9,317**	**9,296**
CMB (net)	4,864	5,429	6,564
DMB (net)	3,150	3,888	2,731
Net Domestic Assets	**20,510**	**26,723**	**33,738**
Net Claims on Government	10,188	13,416	15,781
CMB	8,744	12,452	13,954
DMB	1,443	964	1,827
Credit to the economy	10,656	14,188	18,823
Private sector	10,183	13,667	18,244
Other	473	521	579
Other items (net)	**(333)**	**(882)**	**(866)**
Liabilities	**28,524**	**36,040**	**43,034**
Broad money (M2)	**28,524**	**36,040**	**43,034**
Narrow money (M1)	12,574	14,819	15,799
Currency outside depository corporation	8,605	10,157	10,920
Transferable deposits	3,969	4,662	4,880
Quasi money	15,951	21,221	27,235
Central Bank of Myanmar Balance Sheet (Kyat billion)			
CBM Assets (Kyat billion)	**13,723**	**16,424**	**18,289**
Net Foreign Assets	4,864	5,429	6,564
Net Claims on Central Government	8,744	12,452	13,954
Net Claims on Commercial Banks	1,261	1,126	1,450
Claims on Other Sectors	-	-	-
Shares and Other Equity	**(1,216)**	**(2,471)**	**(3,317)**
Other Items (Net)	**69**	**(112)**	**(362)**
CBM Liabilities (Kyat billion)	**12,725**	**15,683**	**17,013**
Monetary Base	**12,725**	**15,683**	**17,013**
Currency in Circulation	10,202	11,771	13,064
Liabilities to Other Depository Corporations	2,523	3,912	3,949

Source: Central Bank of Myanmar

Annex 5 a: Fiscal operations (Kyat billion)

	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18
	PA	**PA**	**PA**	**PE**	**BE**	**F**
Consolidated Public Sector						
Revenue	**11,790**	**14,550**	**13,622**	**14,440**	**12,974**	**14,355**
Expenditure	**12,562**	**15,248**	**16,821**	**16,807**	**18,328**	**18,328**
Recurrent	**8,127**	**10,733**	**12,301**	**12,846**	**13,840**	**13,840**
o/w Interest	769	879	866	1,077	1,154	1,154
Capital	4,435	4,514	4,520	3,961	4,488	4,488
Balance	**(772)**	**(697)**	**(3,199)**	**(2,366)**	**(5,354)**	**(3,973)**
SEE Operations						
Revenue	**7,554**	**8,209**	**7,360**	**7,257**	**6,428**	**6,428**
Net of transfers to UG	5,790	6,428	5,444	5,629	4,757	4,757
Expenditure	**6,729**	**7,474**	**7,713**	**6,991**	**7,089**	**7,089**
Recurrent	5,583	6,476	6,738	6,272	6,142	6,142
Net of transfers to UG	3,819	4,694	4,823	4,644	4,471	4,471
Capital	1,147	998	975	718	947	947
SEE Balance	**824**	**735**	**(353)**	**267**	**(661)**	**(661)**
Union Government						
Revenue	**5,999**	**8,123**	**8,178**	**8,811**	**8,217**	**9,598**
Tax	3,868	4,586	4,901	5,677	5,313	6,475
o/w Income	1,800	2,235	2,326	2,324	2,382	2,762
o/w Commercial	1,704	1,855	2,106	1,878	1,752	2,093
Non-Tax	1,985	3,332	2,969	2,841	2,285	2,504
Grants	146	204	308	292	619	619
Expenditure	**7,595**	**9,556**	**11,024**	**11,444**	**12,910**	**12,910**
Recurrent	4,307	6,039	7,478	8,202	9,369	9,369
Wages	871	1,121	1,622	1,716	1,827	1,827
Transfers	594	1,705	1,949	2,033	2,369	2,369
Interest	647	736	719	925	1,007	1,007
Other	2,196	2,477	3,187	3,528	4,166	4,166
Capital	3,288	3,517	3,546	3,242	3,541	3,541
Union Government Balance	**(1,596)**	**(1,433)**	**(2,846)**	**(2,633)**	**(4,693)**	**(3,312)**

Sources: MOPF, WB Staff estimates
Note: BE = Budget Estimate; RE = Revised Estimate; PE = Preliminary Estimate; PA = Preliminary Actual

Annex 5 b: Fiscal operations (% of GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18	2017/18
	PA	PA	PA	PE	BE	F
Consolidated Public Sector						
Revenue	**20.3**	**22.3**	**18.7**	**18.1**	**14.2**	**16.1**
Expenditure	**21.7**	**23.4**	**23.1**	**21.1**	**20.1**	**20.6**
Recurrent	14.0	16.4	16.9	16.1	15.2	15.5
o/w Interest	1.3	1.3	1.2	1.4	1.3	1.3
Capital	7.6	6.9	6.2	5.0	4.9	5.0
Balance	**-1.3**	**-1.1**	**-4.4**	**-3.0**	**-5.9**	**-4.5**
SEE Operations						
Revenue	**13.0**	**12.6**	**10.1**	**9.1**	**7.0**	**7.2**
Net of transfers to UG	10.0	9.8	7.5	7.1	5.2	5.3
Expenditure	**11.6**	**11.5**	**10.6**	**8.8**	**7.8**	**7.9**
Recurrent	9.6	9.9	9.3	7.9	6.7	6.9
Net of transfers to UG	6.6	7.2	6.6	5.8	4.9	5.0
Capital	2.0	1.5	1.3	0.9	1.0	1.1
SEE Balance	**1.4**	**1.1**	**-0.5**	**0.3**	**-0.7**	**-0.7**
Union Government						
Revenue	**10.3**	**12.4**	**11.2**	**11.1**	**9.0**	**10.8**
Tax	6.7	7.0	6.7	7.1	5.8	7.3
o/w Income	3.1	3.4	3.2	2.9	2.6	3.1
o/w Commercial	2.9	2.8	2.9	2.4	1.9	2.3
Non-Tax	3.4	5.1	4.1	3.6	2.5	2.8
Grants	0.3	0.3	0.4	0.4	0.7	0.7
Expenditure	**13.1**	**14.6**	**15.2**	**14.4**	**14.1**	**14.5**
Recurrent	7.4	9.3	10.3	10.3	10.3	10.5
Wages	1.5	1.7	2.2	2.2	2.0	2.0
Transfers	1.0	2.6	2.7	2.6	2.6	2.7
Interest	1.1	1.1	1.0	1.2	1.1	1.1
Other	3.8	3.8	4.4	4.4	4.6	4.7
Capital	5.7	5.4	4.9	4.1	3.9	4.0
Union Government Balance	**-2.8**	**-2.2**	**-3.9**	**-3.3**	**-5.1**	**-3.7**

Sources: MOPF, WB Staff estimates
Note: BE = Budget Estimate; RE = Revised Estimate; PE = Preliminary Estimate; PA = Preliminary Actual

Annex 6: Financial inclusion

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

Continued

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

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

Annex 7: Enterprise Survey

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

Continued

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

Source: World Bank, Enterprise Survey

* These indicators are computed only for the manufacturing sector

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

Annex 8: Doing Business (2017)

	Myanmar	Cambodia	China	Thailand	Vietnam
Ease of Doing Business Rank	170	131	78	46	82
Starting a Business					
Rank	146	180	127	78	121
Procedure – Men (number)	11	9	9	5	9
Time – Men (days)	13	99	28.9	25.5	24
Cost – Men (% of income per capita)	40.4	57.2	0.7	6.6	4.6
Procedure – Women (number)	11	9	9	5	9
Time – Women (days)	13	99	28.9	25.5	24
Cost – Women (% of income per capita)	40.4	57.2	0.7	6.6	4.6
Paid-in min. capital (% of income per capita)	0	22.5	0	0	0
Dealing with Construction Permits					
Rank	66	183	177	42	24
Procedures (number)	14	20	22	17	10
Time (days)	95	652	244.3	103	166
Cost (% of warehouse value)	3	5.8	7	0.1	0.8
Building quality control index (0-15)	9	6.5	9	11	12
Quality of building regulations index (0-2)	1	0.5	0	2	2
Quality control before construction index (0-1)	1	1	0	1	1
Quality control during construction index (0-3)	2	2	0	2	2
Quality control after construction index (0-3)	3	2	0	3	3
Liability and insurance regimes index (0-2)	0	0	0	1	0
Professional certifications index (0-4)	2	1	0	2	4
Getting Electricity					
Rank	149	136	97	37	96
Procedures (number)	6	4	5.5	5	5
Time (days)	77	179	143.2	37	46
Cost (% of income per capita)	1270.1	2172.3	390.4	42.5	1261.3
Reliability of supply and transp. of tariff index (0-8)	0	3	6	6	3
Duration and freq. of outages/customer/year (0-3)	0	0	2	2	1
Mechanisms for monitoring outages (0-1)	0	0	1	1	0
Mechanisms for restoring service (0-1)	0	1	0	1	0
Regulatory monitoring (0-1)	0	1	0	1	1
Financial deterrents aimed at limiting outages (0-1)	0	0	1	1	0
Communication of tariffs and tariff changes (0-1)	0	1	0	0	1
Price of electricity (US cents per kWh)	9.8	17.8	14.7	15	11.6

Continued

	Myanmar	Cambodia	China	Thailand	Vietnam
Registering Property					
Rank	143	120	42	68	59
Procedures (number)	6	7	4	4	5
Time (days)	85	56	19.5	6	57.5
Cost (% of property value)	5.1	4.3	3.4	7.4	0.6
Quality of the land administration index (0-30)	4	7.5	18.3	15	14
Reliability of infrastructure index (0-8)	0	2		1	6
Transparency of information index (0–6)	2	0.5		4.5	3
Geographic coverage index (0–8)	0	0		4	0
Land dispute resolution index (0–8)	2	5		5.5	5
Equal access to property rights index (-2–0)	0	0	0	0	0
Getting Credit					
Rank	175	7	62	82	32
Strength of legal rights index (0-12)	2	11	4	3	7
Strength of legal rights index (0-10) old methodology					
Depth of credit information index (0-8)	0	6	8	7	7
Credit registry coverage (% of adults)	0	0	91.1	0	41.8
Credit bureau coverage (% of adults)	0	44	21.3	53	14.8
Protecting Minority Investors					
Rank	179	114	123	27	87
Strength of minority investor protec. index (0-10)	2.8	4.8	4.5	6.7	5.3
Extent of conflict of interest reg. index (0-10)	2	6.3	5	8	4.3
Extent of disclosure index (0-10)	3	5	10	10	7
Extent of director liability index (0-10)	0	10	1	7	4
Ease of shareholder suits index (0-10)	3	4	4	7	2
Extent of shareholder governance index (0-10)	3.7	3.3	4	5.3	6.3
Extent of shareholder rights index (0-10)	5	1	1	4	7
Extent of ownership and control index (0-10)	3	4	2	5	5
Extent of corporate transparency index (0-10)	3	5	9	7	7
Paying Taxes					
Rank	119	124	131	109	167
Postfiling index (0-100)	46.1	28.7	48.6	47.3	38.9
Payments (number per year)	31	40	9	21	31
Time (hours per year)	282	173	259	266	540
Total tax rate (% of profit)	31.3	21	68	32.6	39.4
Profit tax (% of profit)	26.2	19.5		21.6	14.4
Labor tax and contributions (% of profit)	0.3	0.5		5.4	24.8
Other taxes (% of profit)	5.9	1		2.6	0.1

Continued

	Myanmar	Cambodia	China	Thailand	Vietnam
Trading across Borders					
Rank	159	102	96	56	93
Time to export: Border compliance (hours)	144	48	26	51	58
Cost to export: Border compliance (USD)	432	375	522	223	309
Time to export: Documentary compliance (hours)	144	132	21	11	50
Cost to export: Documentary compliance (USD)	140	100	85	97	139
Time to import: Border compliance (hours)	232	8	92	50	62
Cost to import: Border compliance (USD)	457	240	777	233	392
Time to import: Documentary compliance (hours)	48	132	66	4	76
Cost to import: Documentary compliance (USD)	210	120	171	43	183
Enforcing Contracts					
Rank	188	178	5	51	69
Time (days)	1160	483	452.8	440	400
Cost (% of claim)	51.5	103.4	16.2	19.5	29
Quality of judicial processes index (0-18)	3	5	14.3	7.5	6.5
Resolving Insolvency					
Rank	164	72	53	23	125
Recovery rate (cents on the dollar)	14.7	13.9	36.9	67.7	21.6
Time (years)	5	6	1.7	1.5	5
Cost (% of estate)	18	18	22	18	14.5
Outcome (0 as piecemeal sale and 1 as going concern)	0	0		1	0
Strength of insolvency framework index (0-16)	4	13	11.5	13	7.5
Commencement of proceedings index (0-3)	2	3		2.5	2.5
Management of debtor's assets index (0-6)	2	4		5	3
Reorganization proceedings index (0-3)	0	3		2.5	2
Creditor participation index (0-4)	0	3		3	0

Source: WB, Doing Business

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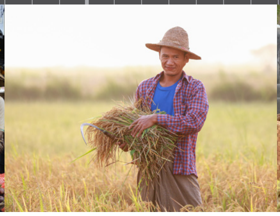



WORLD BANK GROUP
Macroeconomics & Fiscal Management