MYANMAR ECONOMIC MONITOR

June 2019

Building Reform Momentum

WORLD BANK GROUP
Macroeconomics, Trade & Investment

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Preface

The Myanmar Economic Monitor (MEM), which is published semiannually, analyzes recent economic developments, 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 grateful to the Ministry of Planning and Finance, the Ministry of Commerce, and the Central Bank of Myanmar for their excellent collaboration.

The MEM is a product of the World Bank's Myanmar office and was prepared by a team led by Hans Anand Beck (Lead Country Economist) and includes Sjamsu Rahardja (Senior Trade Economist), Thi Da Myint (Country Economist), Arvind Nair (Economist), Fang Guo (Young Professional and lead author), Thanapat Reungsri (Economist), Aka Kyaw Min Maw (Consultant) and Martin Kessler (Research Economist). It was undertaken under the guidance of Deepak Mishra (Practice Manager, Macroeconomics, Trade and Investment) and Bronwyn Grieve (Program Leader, Equitable Growth, Finance and Institutions).

The team is grateful for inputs from: Claudia Ines Vasquez Suarez (Senior Energy Specialist), Giorgia Demarchi (Social Scientist), Ikuko Uochi (Economist), Smita Wagh (Senior Financial Sector Specialist), Radu Tatucu (Financial Sector Specialist), Ekaterine T. Vashakmadze (Senior Country Economist), and Dr Khin Maung Nyunt (Senior Research Fellow, Myanmar Development Institute). We are also grateful for help with data inputs from the Thitsar Thitsar (International Finance Corporation) and Yangon City Development Corporation. The team thanks Julia M. Fraser (Practice Manager) for her comments and advice on earlier drafts.

The team thanks Ellen Goldstein (Country Director for Myanmar, Laos and Cambodia), Gevorg Sargsyan (Head of Office, Myanmar), Andrew D. Mason (Acting Chief Economist, East Asia and the Pacific), Ergys Islamaj (Senior Economist), Francesca de Nicola (Economist), and colleagues from the IMF; the Ministry of Planning and Finance; Ministry of Commerce; Ministry of Labour, Immigration and Population; and the Central Bank of Myanmar for their comments and advice on earlier drafts.

The team discussed recent economic developments with several business associations and private businesses and deeply appreciates their time and insights. The team thanks Kyaw Soe Lynn and the team from EXT for their support and guidance on publication and outreach, and Sandi Soe Lwin for excellent administrative support and Sai Nay Lynn for data assistance.

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For information about the World Bank and its activities in Myanmar, please visit https://www.worldbank.org/en/country/myanmar

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Abbreviations

BD	Budget Department
CBM	Central Bank of Myanmar
CMEC	China-Myanmar Economic Corridor
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EAP	East Asia and Pacific
EMDEs	Emerging Market and Developing Economies
EPGE	Electric Power Generation Enterprise
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GW	gigawatt
H1	first half
MDI	Multidimensional Welfare Indicator
MOPF	Ministry of Planning and Finance
MT	metric ton
NEER	nominal effective exchange rate
PD	Planning Department
PMI	Purchasing Managers' Index
Q1	first quarter
Q2	second quarter
qoq	quarter-on-quarter
RE	renewable energy
SMEs	small and medium-sized enterprises
SEEs	State Economic Enterprises
yoy	year-on-year

Executive summary

Summary

Myanmar's economy is slowly picking up speed and regaining stability after a volatile 2018. Despite a challenging global environment, Myanmar's economic growth is expected to rise to 6.5 percent in 2018/19 from 6.4 percent in the Transition Period[1] supported by strong performance in the manufacturing and services sectors. Volatility that buffeted the economy in 2018 has started to ease. Inflation moderated, the kyat stabilized, and fuel prices fell in Q1 2018/19, though there have been some reversals in prices in Q2. The economic outlook looks positive, with growth expected to reach 6.7 percent in the medium-term. The recent decisions to ease trade restrictions; open the financial sector to greater foreign competition; and begin mega infrastructure projects signal a decisive and awaited uptick in reform momentum. Downside risks to the economic outlook are driven by external factors, including possible revocation of preferential trade access under the European Union Generalized System of Preferences. Slowing global and regional growth, especially in China, together with renewed escalation of global trade tensions, could also slow exports and the flow of inbound foreign investments. Insecurity in border areas, the Rakhine crisis, with violence and forced displacement of refugees, and the recent flare-up in violence involving the Arakan Army, could affect investors' sentiment. The 2020 general election is also a source of uncertainty.

Recent developments

Global economic growth is slowing. The global economic growth rate is projected to slow to 2.6 percent in 2019 from 3.0 percent in 2018, reflecting a broad-based weakness in the global economy, global trade uncertainty amid re-escalation of US-China trade tension and global financial market volatility. Crude oil prices have become more volatile. Growth in the East Asia and Pacific region is projected to slow from 6.3 percent in 2018/19 to 5.9 percent in 2019/20, and to ease further to 5.8 percent in 2020/21.

Myanmar's economic growth is expected to pick up to 6.5 percent in 2018/19 from 6.4 percent in the Transition Period. The slight pick-up in growth is supported by subsiding price and exchange rate volatility at the same time as an acceleration in the reform agenda has buoyed sentiment. In the industrial sector, manufacturing output growth is expected to recover in 2018/19 after a slowdown in the Transition Period, supported by strong growth in garments exports. Construction sector growth is expected to pick up due to the start of many new infrastructure projects. The service sector is expected to perform well, growing at 8.3 percent in 2018/19 compared with 8.2 percent in 2017/18, supported by increased activity in the retail and wholesale sector. Growth in the agriculture sector is expected to moderate to 1.2 percent in 2018/19 from 1.3 percent in

[1] In 2018, the government changed the underlying months that constitute a fiscal year (FY). The last FY using the old definition was 2017/18, which ran from April 1, 2017 to March 31, 2018. The first FY with the new definition is 2018/19, which runs from October 1, 2018 to September 30, 2019. The middle two quarters in 2018 are neither part of 2017/18 nor 2018/19, and we refer to them in the MEM as the Transition Period 1 (April 1, 2018 to June 30, 2018) and the Transition Period 2 (July 1, 2018 to September 30, 2019) as shown below:

Fiscal Year 2017-18												Transition Period 1			Transition Period 2			Fiscal Year 2018-19											
Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep

2017/18 due to reduced external demand for agricultural products. Domestic demand was supported by employment growth, notably in manufacturing and services.

The current account deficit narrowed in the Transition Period driven by trade, and foreign direct investment (FDI) commitments picked up slightly in H1 2018/19 but remain a third of the 2017/18 level. Myanmar's trade deficit turned to a surplus in Transition Period 2 for the first time since 2014/15 reflecting strong exports and declining imports. The trade balance returned to deficit in Q1 2018/19 due to the steady decline in natural gas exports and the first quarterly decline in garment exports in a year, possibly driven by seasonal factors. Import growth moderated due to declining consumption and investment imports while demand for intermediate goods imports remained robust in line with increased manufacturing activity. FDI commitments began to pick up slightly in the first-half of 2018/19 compared with the same period last year but remain a third of the annual FDI commitments in 2017/18.

Core inflation remained stable. Inflation moderated to 6.1 percent in January 2019 from a peak of 8.8 percent in October 2018 as the exchange rate stabilized and fuel prices fell. But inflation rose again to 7.9 percent by the end of Q2 2018/19 due to high fuel prices and rising food prices. Meanwhile, core inflation, excluding volatile food and energy price, stayed at around 6.5 percent in Q1 and Q2 of 2018/19 suggesting a stable underlying price trend.

Banking sector credit growth continued to cool but financial inclusion is improving. Credit growth continued to slow in 2018/19 as banks sought to comply with important prudential regulations. Growth in credit to the private sector was 20 percent in Q1 2018/19, down from 21 percent in Transition Period 2. While overall credit growth is slowing, there are signs of progress in financial access for small and medium-sized enterprises (SMEs). In Q1 2018/19, SME credit grew by 80 percent (year-on-year [yoy]). Microfinance institutions also have been expanding rapidly albeit from a low base. As of January 2019, 5 million clients have received microfinance loans, with loans reaching approximately 1.3 trillion kyats in Q1 2018/19 from 0.8 trillion kyats in the same period last year.

Persistent underspending and deterioration in the composition of spending continue to affect budget performance in FY 2018/19 to date, though financing sources are becoming more diversified. The budget deficit for 2018/19 is projected to be considerably lower than the target of 5.4 percent of GDP, driven by expenditure under-execution. Indicative data suggests that actual spending was nearly 20 percent less than the half-year spending target, with capital spending just above half (55.2 percent execution) of the half-year target in 2018/19. Despite overall spending execution challenges, electricity subsidy spending continued to increase, placing pressure on the budget. The World Bank estimates additional energy subsidy payments could rise to 6 percent of total government expenditures in 2019/20 and to 11 percent of total government expenditures in 2021/22 (see special topic below). Financing sources for the fiscal deficit are becoming more diversified. The share of Central Bank of Myanmar (CBM) financing has been declining from a high of 61 percent of total domestic financing in 2015/16 to practically zero in the Transition Period and first two months of 2018/19. Conversely, T-bill and T-bond auctions almost fully met the domestic financing needs in the first two months of 2018/19, with issuance higher than initially planned.

Economic outlook and risks

Myanmar's economic outlook remains positive based on renewed reform momentum and implementation of mega investment projects. Growth is projected to recover to 6.5 percent in 2018/19 compared to 6.4 percent in the Transition Period and 6.8 percent in FY17/18, and to further accelerate to 6.7 percent by 2020/21. Growth in the medium term will be supported by a gradual rebound in infrastructure investment and higher productivity in sectors undergoing liberalization, such as wholesale and retail and the insurance and banking sectors. Implementation of mega projects is expected to pick up, which include construction in economic corridors, and energy and transport projects. Momentum in the manufacturing sector is expected to continue.

Downside risks to the economic outlook are driven largely by external sources. Risks to the global and regional East Asian growth outlook are tilted to the downside. Slowing global and regional growth, together with renewed escalation of trade tensions, may be transmitted to Myanmar through the trade channel by slowing external demand. Exports to the European Union (EU) face a downside risk from the possible revocation of access under the Generalized System of Preferences (GSP). This may particularly impact garment exports, which accounted for more than half of the total industrial products exports in Q1 2018/19. Volatile crude oil prices raise further uncertainty around the growth outlook. An unexpected rise in oil prices could trigger inflationary pressures. Domestic risks include the ongoing Rakhine crisis and intensification of conflict, which may further impact the performance of the tourism sector and investor sentiment. Energy sector reforms, if not implemented urgently, could become a significant fiscal liability and dampen Myanmar's attractiveness as an investment destination, although the impact of inflation pressures from a possible increase in tariffs would need to be managed.

Special topic 1: Delivering reliable and affordable power to all Myanmar people

Rolling blackouts and brownouts throughout the country bring to a head the immense challenges facing Myanmar's power sector. Despite substantial progress achieved over the past decade to develop energy infrastructure and deliver electricity access, the power supply gap remains substantial and is constraining economic growth. This section presents insights from a recent analytical report undertaken by the World Bank Group under the Energy Infrastructure Sector Assessment Program. It aims to identify the fundamental constraints and provides a set of short- and medium-term policy recommendations to support the government in its goal to deliver modern, reliable and affordable power for all Myanmar people by 2030.

To address its rapidly growing electricity demand, Myanmar needs to invest twice as much and implement projects three times faster, supported by higher electricity tariffs. Myanmar's track record of strong economic growth and increased electrification has led to a growing demand for electricity. According to recent estimates, consumption will grow at an average annual rate of 11 percent until 2030. Peak demand is expected to reach 8.6 gigawatts (GW) by 2025 and 12.6 GW by 2030, which is a significant increase from the current level of 3.6 GW. To cater to this demand, overall investment requirements are estimated to be around US$2 billion per year, which is double the historic levels. By 2025, 5 GW of new generation capacity need be added, equivalent to roughly three times what was built over the same period in the past. At this critical juncture, the country needs to address fundamental constraints that would enable the country to mobilize investments more efficiently and to improve the quality of electricity services delivered. Tariff increases are critical to put the sector back on a path of financial viability. In parallel to tariff reform, measures to reduce costs and reduce the burden of system inefficiencies on consumers should also be implemented. Given the large financial losses, tariff increases across all consumer categories will be needed.

Special topic 2: Using the multidimensional disadvantage index to better boost welfare in Myanmar

This MEM includes analysis from the first multidimensional welfare analysis for Myanmar, using the "Multidimensional Welfare Indicator" (MDI). This indicator was developed jointly by the Department of Population within the Ministry of Labour, Immigration and Population, and the World Bank. The multidimensional welfare analysis highlights (a) a multidimensional view on how disadvantaged a household in Myanmar is; (b) the intensity and determinants of multidimensional disadvantages, i.e. how much each domain or indicator contribute to total disadvantage; and (c) inform a view of multidimensional welfare at the sub-national level, pointing to the relative disadvantage of each township in Myanmar.

The MDI analysis indicates that most of the population in Myanmar faces overlapping disadvantages, with large disparities in welfare apparent across states and regions, and across townships within them. The granular view of non-monetary welfare in Myanmar presented in this study has large implications for policy-making. The MDI is already starting to contribute to targeting public resources and aid flows toward those who need it the most, with more effective interventions. State and regional differences on the occurrence of disadvantages are apparent, and often unsurprising. For instance, households in Rakhine, Ayeyarwady and Kayin are much more likely than in other states or regions to suffer from severe multiple disadvantages.

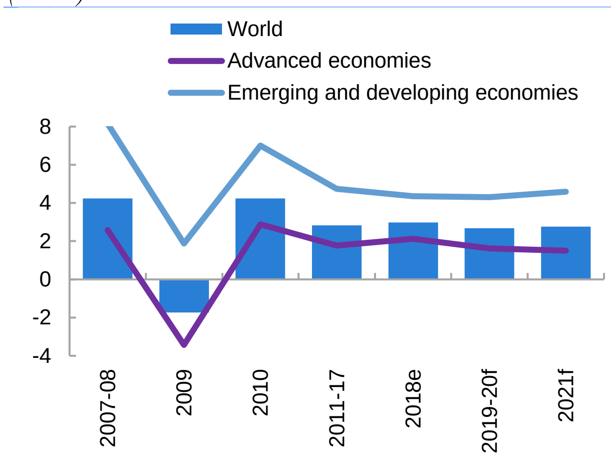
A. Recent Economic developments

1. Economic growth

a. Global economic growth remains unsupportive in 2019

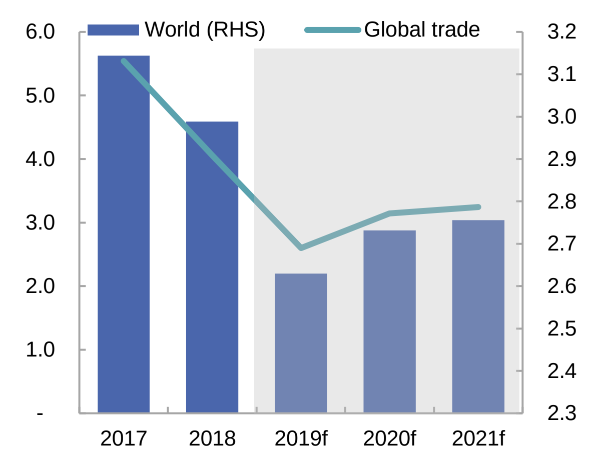
Global growth is expected to dip to 2.6 percent in 2019 after a cyclical recovery in 2018, before edging up to 2.7 percent in 2020 and to 2.8 percent in 2021. Global economic growth is projected to slow to 2.6 percent in 2019 from 3.0 percent in 2018, reflecting a broad-based weakness in advanced economies and major Emerging Market and Developing Economies (EMDEs). As recent softness abates, global growth is projected to gradually edge up to 2.8 percent on average in 2020-21 (Figure 1). Growth in advanced economies is projected to moderate from 2.1 percent in 2018 to 1.6 percent on average in 2019–21 toward its potential rate, as capacity constraints become more apparent and labor markets tighten. Growth in EMDEs is projected to slow to 4.0 percent in 2019 before recovering to 4.6 on average in 2020-21. This forecast is predicated on the waning impact of earlier financial pressures currently weighting on activity in some large EMDEs (for example, Argentina and Turkey).

Figure 1: Global real GDP growth outlook deteriorated
(Percent)



Source: The World Bank, Global Economic Prospects, June 2019

Figure 2: Global GDP and global trade volume growth
(Percent)

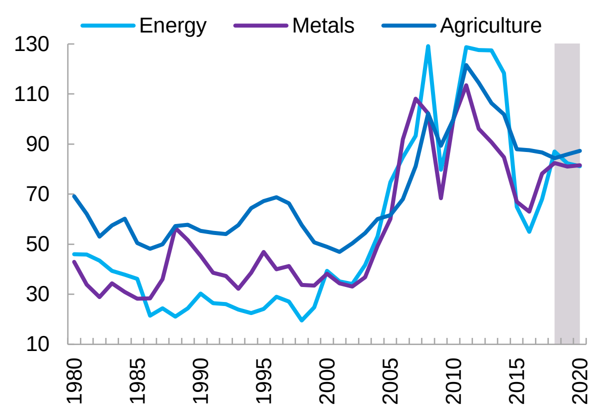


Source: Global Development Finance, 2019

Global economic conditions are expected to remain challenging over the forecast period. The increase in tariffs by China and the United States that were announced in May 2019 are likely to have more severe effects than the tariff hikes implemented in 2018. Beyond economic losses for the affected exporters, the re-escalation of trade tensions is contributing to heightened policy uncertainty, which is expected to dent confidence and investment**.** Barring a renewed escalation of trade tensions, global trade growth is projected to weaken from 4.1 percent in 2018 to 2.6 percent in 2019, and then stabilize to an average of 3.2 percent in 2019-21 (Figure 2). This forecast is predicated on new stimulus measures being implemented in China and, to a lesser degree, the Euro Area, and on firming domestic demand in some EMDEs. This modest rebound notwithstanding, global trade is expected to be weaker than previously envisaged over the forecast horizon reflecting a softer outlook for global investment and evidence of a lower income elasticity of trade.

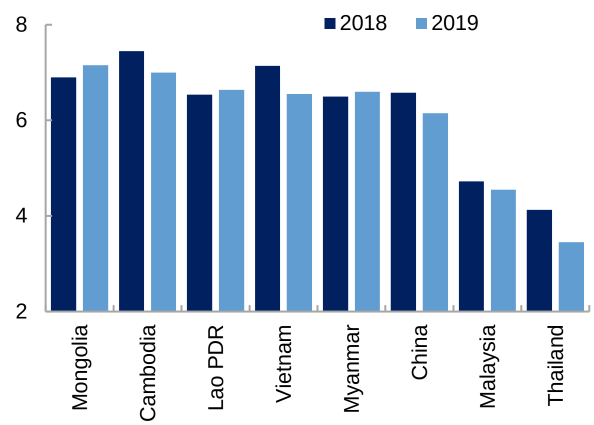
Global financing conditions are expected to remain volatile, even if generally more supportive. This reflects a more accommodative monetary policy stance adopted by the major central banks in the near term due to the deteriorating global growth prospects. Despite the recent recovery of EMDE markets from the 2018 correction episode, there is still a considerable risk of "monetary shocks" associated with the global policy uncertainty. Financial market volatility will continue to have the strongest impact on countries with high vulnerabilities, weak growth prospects, and elevated policy uncertainty. The eventual rise of advanced-economy yields would have a negative effect on capital flows to EMDEs. Policy uncertainty, geopolitical risks, and security concerns could also continue to adversely impact EMDE capital inflows. Oil prices are expected to average US$66 per barrel in 2019 and US$65 per barrel in 2020, with high uncertainty around the outlook. Overall, metals prices are expected to decline slightly in 2019 and 2020, reflecting a weaker outlook for global metal demand. Agricultural prices are expected to decline in 2019 and to stabilize in 2020 (Figure 3).

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



Source: Global Development Finance, 2019

Figure 4: Regional growth
(Percent)



Source: Global Development Finance, 2019

Growth in the East Asia and Pacific (EAP) region is projected to slow from 6.3 percent in 2018 to 5.9 percent in 2019-20, and to ease further to 5.8 percent in 2021. This will mark the first time since the 1997-98 Asian financial crisis that EAP growth has dropped below 6 percent. This outlook is predicated on a deceleration in global trade, no further escalation of trade tensions between China and the United States, slightly lower commodity prices, and supportive global financing conditions in the near term. The baseline also assumes that authorities in China successfully calibrate supportive monetary and fiscal policies to address external challenges and other headwinds. Growth in China is projected to slow to 6.2 percent in 2019 and ease further to 6.1 percent in 2020 and 6.0 percent in 2021 amid continued domestic and external headwinds (Figure 4). Growth in the rest of the region is projected to decline to 5.1 percent in 2019 before inching up to 5.2 percent on average in 2020-21 as global trade stabilizes and resilient domestic demand offsets the negative impact of slowing exports. While growth in the region is projected to remain robust in the near term, underlying potential growth—which has fallen considerably over the past decade, in large part reflecting slowing potential growth in China—is likely to decline further over the long term, largely owing to deteriorating demographic trends, especially in China, Thailand, and Vietnam (see Box 1 on potential growth in Myanmar).

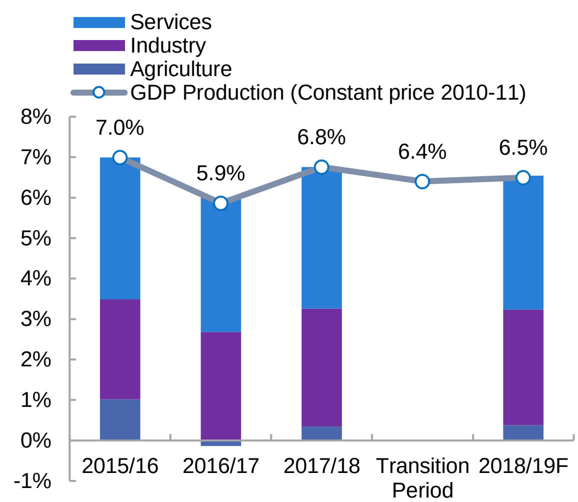
Risks continue to be on the downside. There is considerable uncertainty around the outlook for the global economy. The balance of risks remains firmly on the downside and has recently intensified reflecting the re-escalation of trade tensions amid heightened global uncertainty. Although unlikely in the near term, the simultaneous occurrence of a sharper-than-expected slowdown in China, the Euro Area, and the United States could trigger a significant downturn in global activity. The further escalation of trade tensions could be highly disruptive to global activity amid the presence of complex value chains. The risk of severe and broad-based financial stress adversely affecting the outlook for EMDEs remains high amid elevated debt levels in many countries. Policy uncertainty and geopolitical risks remain high and could negatively impact confidence and investment in both affected countries and globally. Policy uncertainty is particularly elevated in several European countries—including in the United Kingdom as it transitions out of the European Union.

b. An incipient recovery in Myanmar, following a challenging 2018

Myanmar's economic growth is estimated to pick up to 6.5 percent in 2018/19 from 6.4 percent in the Transition Period[2]. The economy is slowly recovering after moderate manufacturing and services growth and investment from the Transition Period related to exchange rate volatility and rising costs that shook sentiment. The slight pick-up in growth is supported by easing of price and exchange rate volatility at the same time as government has accelerated the pace of economic reforms.

On the production side, growth continues to be broad-based, supported by the industrial and service sectors (Figure 5**).** In Industry, manufacturing output is expected to recover in 2018/19 after a slowdown in the Transition Period, supported by production of garments for exports and new higher value-added products. The construction sector is expected to pick up supported by new infrastructure projects. The service sector, which accounted for 42 percent of GDP in 2018, is expected to grow at 8.3 percent in 2018/19 supported by the retail and wholesale sector, after growing at 8.2 percent in 2017/18 and even slower in the Transition Period. The retail and wholesale sector has benefited from liberalization that is drawing foreign investment and enhancing competition, also in the related logistics sector. In contrast, growth in the agriculture sector moderated to 1.2 percent in 2018/19 from 1.3 percent in 2017/18 due to reduced external demand for agricultural products.

Figure 5: Growth continues to be broad-based, supported by the industrial and service sectors
(Percent)



Source: MoPF; WB staff estimate

Box 1: Potential output of Myanmar: Methodology and results

This box summarizes analysis done by the Myanmar Development Institute, which applies the Production Function (PF) methodology to estimate potential growth. The PF methodology applies the Cobb-Douglas production function to calculate output based on a country's factors of production, such as labor, capital and technology.

Analyzing potential output growth can help to assess Myanmar's past and potential economic performance and monitor the current performance of the economy. Potential output indicates the maximum amount the economy can produce at full capacity utilization, in other words, the theoretical maximum supply of goods and services in the economy. It reflects the production of the economy without incurring any inflationary or deflationary pressures.

[2] Due to government's change in the definition of the fiscal year standard, this MEM considers the fiscal year is from April 1 to March 31, up to 2017/18. April 1, 2018 to September 30, 2018 is referred to as the Transition Period (see footnote 1). The Transition Period includes the Transition Period 1 (April-June 2018) and the Transition 2 (July-September 2018). From 2018/19 onwards, the fiscal year is from October 1 to September 30.

The paper estimated that the potential output grew at an average rate of around 7.4 percent over 2010-16. Technological development emerged as a bright spot in boosting growth. Production and use of technological equipment and information technology are likely to boost productivity growth. Improving productivity could be encouraged through applying modern and effective management systems, staff training and use of advanced technology.

These results, while instructive, should be interpreted with caution. Output gap analysis is complicated if there are structural changes in data series – for instance if there is an economic shock such as national conflict or a sudden change in terms of trade. In addition, results can be affected by differences in data source and model specification and methodology. The production function approach is the simplest to apply.

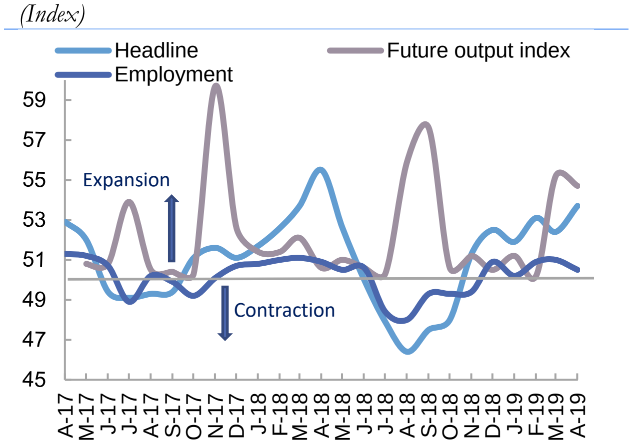
c. Industrial activities revived

Industrial activities are recovering after volatility in the Transition Period, supported by manufacturing and construction. Industrial output growth is expected to recover slightly from 9.4 percent in the Transition Period to 9.6 percent in 2018/19 due to a pick-up in manufacturing and construction activities, although growth remains below the 9.7 percent in 2017/18.

Strong performance in the garments sector and new manufacturing activities are projected to support a pick-up in overall manufacturing output. Growth in manufacturing output is projected to pick up to 10.2 percent in 2018/19 from 10 percent in 2017/18, due to increased external demand and diversified activities. Manufacturing, which constituted 75 percent of the industrial sector in 2017/18, was weak in the Transition Period with slow growth in investment flows and rising cost pressures from kyat depreciation also passing through inflation. Meanwhile, the manufacturing sector continued to diversify, with investment growing in higher value-added manufacturing including agricultural machinery (mainly assembly), building structures and components, and auto parts. Possible partial or complete revocation of Myanmar's trade preferences to the EU market under the GSP remains a source of uncertainty.

Improvement in the growth of the manufacturing sector is also reflected in the Purchasing Managers' Index (PMI) (Figure 6**) and labor force survey.** The Myanmar PMI reached 53.7 in April 2019—a one-year high—indicating strong manufacturing performance. The strong performance was supported by the rebound in operating conditions across the manufacturing sector, such as lower input costs and rising final demand. The PMI employment index remained above 50 since December 2018, signaling manufacturing employment growth. This continued a trend observed in the 2018 labor force data (see section f) that indicated increased employment in manufacturing. The PMI confidence indicator also picked up from subdued levels seen over the previous five months.

Figure 6: The headline PMI indicated improvements in output and sentiment in the manufacturing sector
(Index)

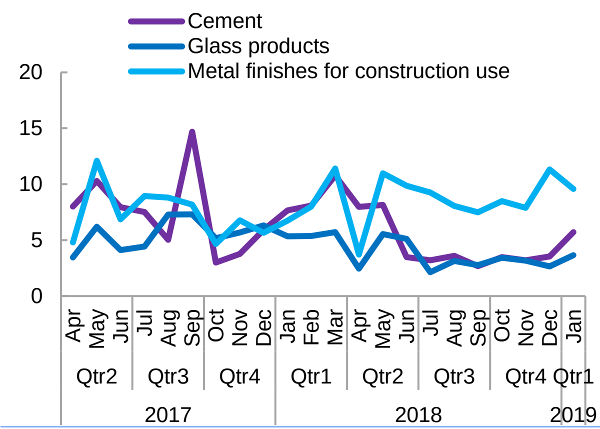


Source: IHS Markit and Nikkei

The construction sector is showing signs of a mild recovery. Construction output (18 percent of total industry output in 2017/18) is estimated to increase from 7.9 percent in 2017/18 to 8.2 percent in 2018/19 supported by transport infrastructure and new real estate and commercial development activities including industrial zones, and affordable housing programs. The improvement is reflected in a rise in domestic production of construction materials and imports of fixtures and furnishings materials, such as cement (Figure 7).

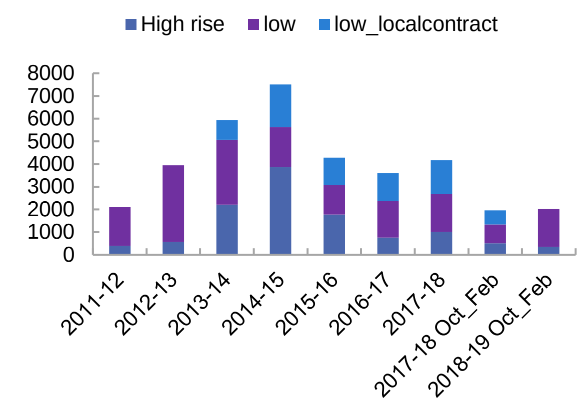
Easing of credit conditions for housing may have also supported the real estate sector (Figure 8**).** Banking sector credit to the real estate sector grew by 200 percent (yoy) in Q1 2018/19 after negative growth in the same period of the previous year, and from a very low base. In January 2019, local banks were permitted to raise the share of home loans to 5 percent of their total loan portfolio and to extend maturities beyond the three years currently permitted[3]. In addition, a new condominium law is hoped to improve the real estate market by granting that foreigners have the right to buy up to 40 percent of condominium apartments in any given block, provided the apartments are on the sixth floor or above[4].

Figure 7: Imports of construction materials rose slightly in Q1 ….
(US$ million)



Source: Ministry of Commerce

Figure 8: … with an increase in construction permits since 2017/18
(Thousand)



Source: Yangon City Development

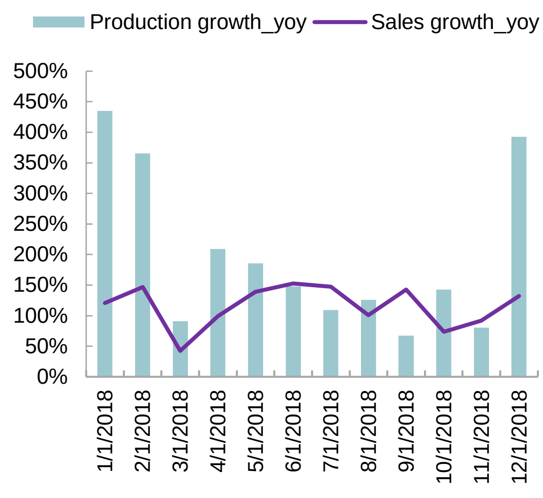
d. Services remain the key driver of growth with mixed performance across sub-sectors

Services growth is estimated to remain stable at 8.3 percent in 2018/19 in relation to 2017/18. Growth is expected to be supported by expansion of the wholesale and retail sector following recent reforms. The information and communication sector continued to perform well, potentially reinforcing development of the retail sector. In contrast, activities such as transport are likely to grow more slowly this year on higher fuel costs, and the rental and hotel sector continued to slow despite a pick-up in tourism arrivals.

The wholesale and retail sector gained momentum supported by reforms. The sector is expected to grow at around 8 percent in 2018/19**.** Retail markets have extended geographically, supported by new wholesale and retail services. Following the May 2018 provision for foreign entry to the large-scale retail/wholesale services sector, investment has picked up, potentially promoting competition and efficiency through the value chain. In the most recent months, motor vehicle sales have been growing fast, partly driven by import restrictions on older and right-hand-drive vehicles (Figure 9). The retail sector is expected to benefit from ecommerce development in the future (see Box 2).

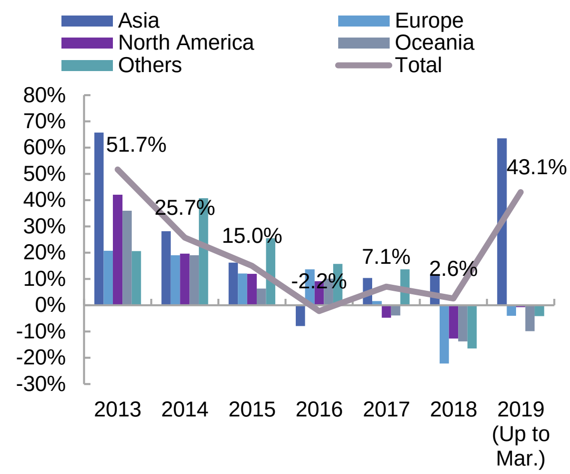
[3] Central Bank of Myanmar notification (2/2019)
[4] https://www.mmtimes.com/business/18636-parliament-passes-condominium-law.html

Figure 9: Domestic production and sales of motor vehicles increased
(Percent, yoy)



Source: ASEAN Automotive Federation

Figure 10: Tourist arrivals picked up, especially from the region
(yoy growth)

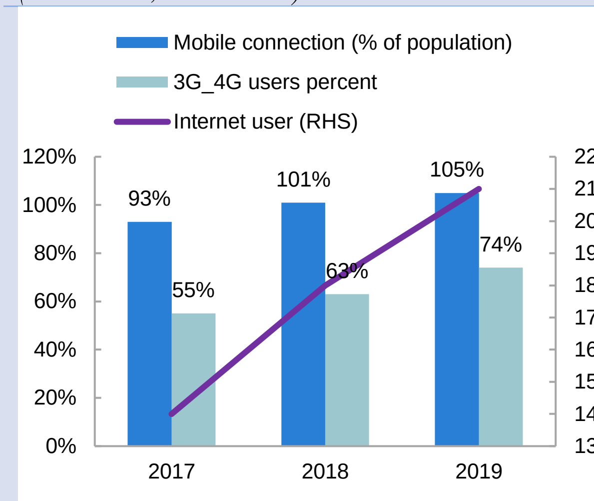


Source: Ministry of Hotels and Tourism; WB staff estimates

Tourist arrivals picked up, especially from the region (Figure 10**), but growth in tourism-related services is estimated to be subdued.** Total tourist arrivals reached 1.39 million in 2018 up from a 1.36 million in 2017, an increase of 2.2 percent before accelerating in the first half of 2018/19. Total arrivals grew by 43.1 percent (yoy) over January to March 2019, driven by Asian tourists. As tourism arrivals from the West slowed in 2018, Myanmar shifted its tourism promotion towards the Southeast Asia market. After a first initiative in October 2018, visa exemptions were granted to more Asian countries. New direct flights between China and Myanmar were also established. Arrivals from China rose to 21 percent of total arrivals in 2018, now greater than the share from Thailand. However, tourism-related earnings in 2018/19 are estimated to be flat compared to earlier years as new arrivals stay shorter and spend less per day on average than Western tourists.

Box 2: A snapshot of ecommerce in Myanmar

Figure 11: Ecommerce environment becomes more favorable
(Percent: LHS; Million: RHS)



Source: Social Hootsuite

The ecommerce environment has become more favorable in retail industries, but significant limitations remain to be addressed. The size of ecommerce market is very small (around 0.01 percent of GDP in 2017). However, it has emerged as a potential retail platform in Myanmar on the back of growing smartphones and internet services penetration. Following liberalization of the telecommunications market in 2011, the mobile penetration rate has jumped to close to 100 percent with smartphone penetration about 80 percent (Figure 11). Cashless solutions are readily available, provided by telecom operators and microfinance institutions. However, further development of the ecommerce market is constrained by a large unbanked population and very limited use of e-payments due to low banking literacy and lack of trust in cashless transactions (only 0.06 percent of the population used credit cards and 0.7 percent of the population used mobile money in 2017). Unleashing this potential requires policy responses to improve the legislative framework, digital literacy and information technology skills, and electronic payment infrastructures.

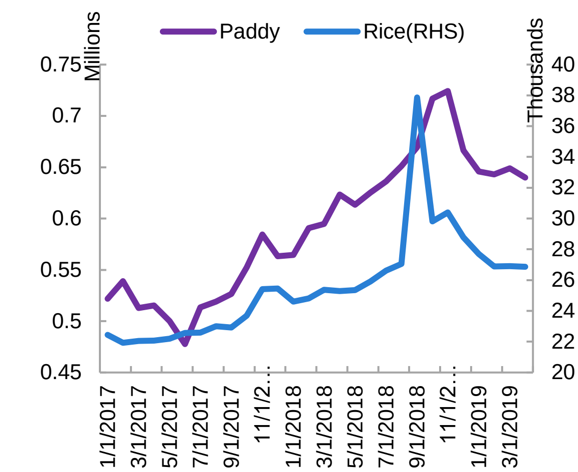
e. Agricultural growth moderated

Agricultural output growth moderated due to weakened external demands. The agriculture sector is estimated to grow at 1.2 percent in 2018/19, compared to 1.3 percent in 2017/18. Crop production is estimated to grow more slowly in 2018/19 due to reduced production and external demand of major crops. Corn output is estimated to rise from 2.25 metric tons (MT) to 2.33 MT[5] in response to increasing domestic demands for animal feed and to external demands, particularly from China. However, paddy production is estimated to decrease by 1.5 percent from 13.3 MT in 2017/18 to 13.1MT in 2018/19 due to reduced external demand from China and the EU, the latter affected by the reinstatement of tariffs by the EU in January 2019 following an anti-dumping investigation[6]. Farmgate prices for paddy have declined since December 2018 because of this falling demand (Figure 12).

After rising in Q1 2018/19, farmgate paddy prices and wholesale rice prices declined in Q2 squeezing farmer profits (Figure 13**) as input costs (particularly fuel) also rose.** This decline in profitability impacts farmers' ability to invest for the next cropping period. The recent drop in rice prices led the government to encourage the Myanmar Rice Federation to guarantee a minimum purchasing price to contain the fall in rice prices.

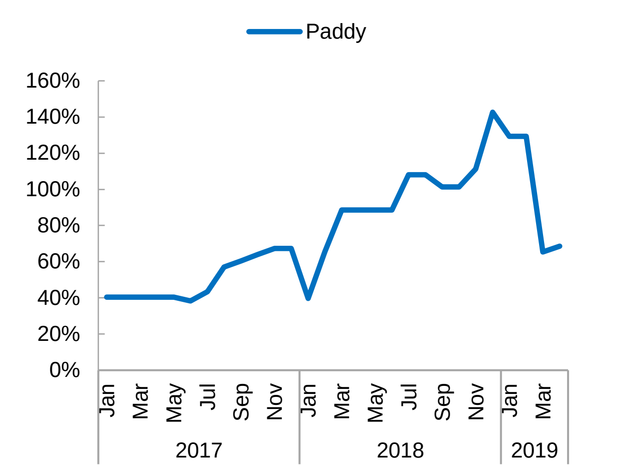
[5] "Burma - Union of Grain and Feed Annual," 2019, United States Department of Agriculture Foreign Agricultural Service, Washington,
[6] file:///C:/Users/wb349364/Downloads/IP-19-427_EN.pdf

Figure 12: Farmgate paddy and wholesale rice prices have declined …
(Kyat/ton)



Source: World Bank Staff Calculations.

Figure 13: …leading to a fall in farmers' rice profit margins
(Percent)



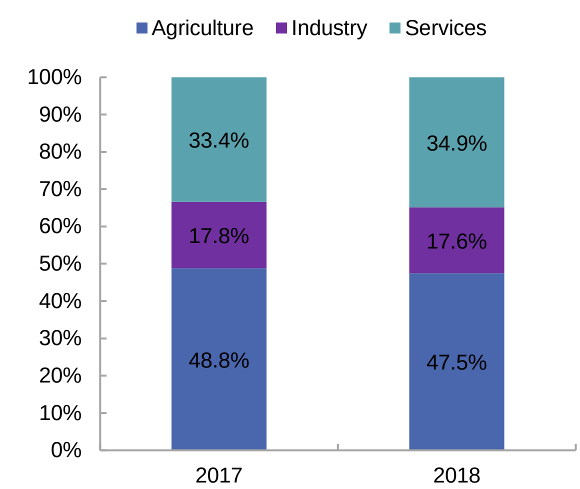
Source: Ministry of Commerce

f. Growth in aggregate demand was supported by stable consumption

On the demand side, private consumption will continue to be the main driver of growth, albeit expanding at a more measured pace. Private consumption, which represents roughly 50 percent of GDP, remained an important determinant of growth in aggregate demand, supported by stable labor market conditions and lower food prices during Q1 2018/19.
A planned public investment increase to support growth is being held back by weak execution, while private investment is estimated to remain stable. Although there are signs of improving investor sentiment through the PMI, private investment is estimated to be stable in 2018/19. While public capital expenditure under execution in first-half of 2018/19 has hampered the growth of public investment, planned spending on energy and transport projects may allow a modest boost through the rest of the fiscal year.

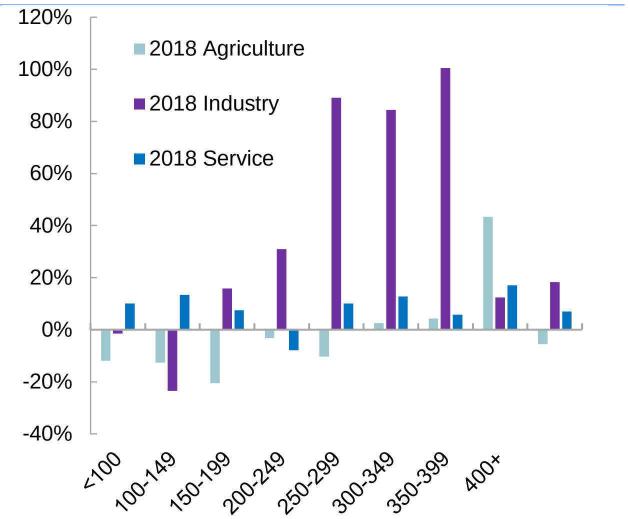
Overall labor market conditions remain stable, with a structural shift towards non-agricultural activities. In addition to the employment expansion reported in the PMI (Figure 6), Myanmar's unemployment rate remained broadly unchanged at 1 percent in 2018 compared with 2017. Labor force participation increased to about 62 percent in 2018 from 61.1 percent in 2017. The employment share in agriculture has gradually declined and shifted towards service sectors, signaling structural change since 2017 (Figure 14). Meanwhile, manufacturing employment, especially in the mid-wage range (250,000-399,000 kyat per month) in 2018, significantly outpaced growth in those employed in the agriculture and service sectors (Figure 15). In a development to watch closely, the share of informal employment is reported to have increased from 81.9 percent in 2017 to 83.8 percent in 2018, the same year as the minimum wage rose sharply.

Figure 14: A gradual structural shift of labour is occurring from agriculture towards service activities …
(Percent)



Source: Ministry of Labour, Immigration and Population

Figure 15: … with manufacturing benefiting by fast employment growth for mid-range wage earners
(Percent)



Source: Ministry of Labour, Immigration and Population

2. Foreign trade, investment, and exchange rate

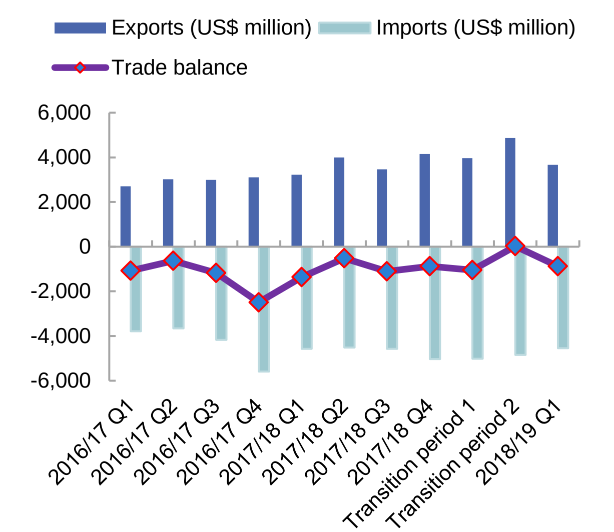
The overall external balance improved in the Transition Period on strong exports, although FDI flows declined further. Myanmar's overall external balance of payments is driven largely by the current account, which in turn is dominated by the trade balance and income flows including remittances. The current account deficit declined from US$761.4 million in Transition Period 1[7] to US$ 571.0 million in Transition Period 2. The improvement in the current account deficit during the Transition Period was driven by accelerating exports and declining imports that resulted in a trade surplus in Transition Period 2—the first since 2014/15—and net inflows of income from remittances. Moreover, the financial account (excludes reserves and related items) improved from a deficit of US$ 1.1 billion in Transition Period 1 to US$ 569.4 million in Transition Period 2 despite a sharp drop in FDI inflows. This can be attributed to large repayments of foreign debt in Transition Period 1. As kyat volatility eased, foreign exchange reserves increased by US$ 89.7 million in Transition Period 2, recovering most of the decline of US$ 115.7 million Transition Period 1 and rising slightly since a year ago to cover around three-and-a-half months of imports.

[7] Transition Period includes Transition Period 1 and Transition 2. Transition Period 1 refers to Apr-Jun 2018; Transition Period 2 refer to Jul-Sep 2018.

g. The trade deficit widened in Q1 of 2018/19

The trade balance improved during the Transition Period but returned to deficit in Q1 2018/19 as exports declined. Myanmar's trade deficit turned from a deficit of US$ 1.1 billion in Transition Period 1 to a surplus of US$ 21.7 million in Transition Period 2, for the first time since 2014/15. This was supported by exports rising from US$4.0 billion in Transition Period 1 to around US$ 4.9 billion in Transition Period 2, while imports declined from US$ 5.0 billion to around US$ 4.9 billion over the same period. But the trade balance returned to a deficit of US$ 881.8 million in Q1 2018/19 as exports fell faster than imports (to US$ 3.7 billion and US$4.5 billion respectively) (Figure 16).

Figure 16: Trade surplus occurred before turning to deficit in recent months
(US$ million)

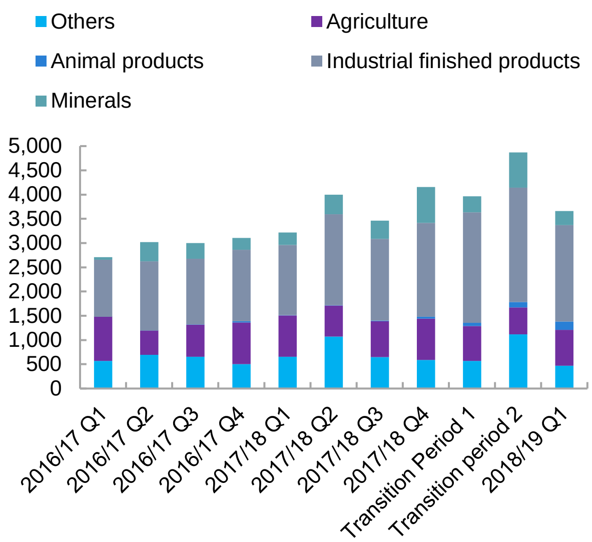


Source: Ministry of Commerce

h. The Q1 2018/19 decline in exports was driven by natural gas and the first decline in garments exports in a year, but partly offset by rising non-traditional agriculture exports.

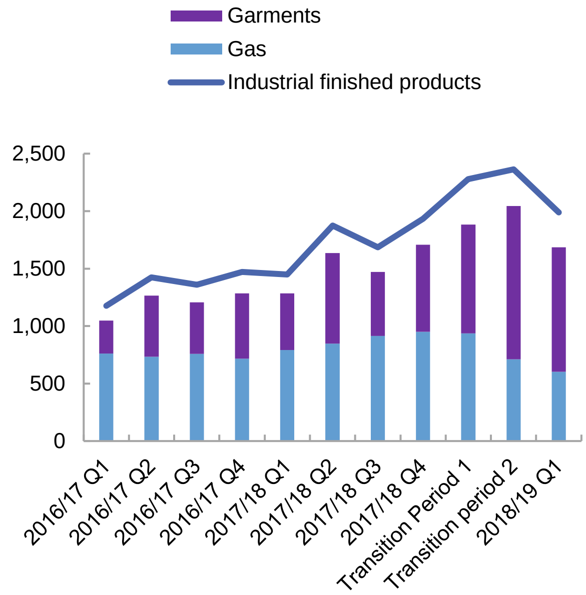
The Q1 2018/19 decline in exports was largely driven by industrial finished products and minerals exports while agriculture exports accelerated and diversified (Figure 17**).** Exports of industrial finished products including gas (54 percent of total exports) and minerals (8 percent) fell by 15.9 percent and 59.4 percent respectively in Q1 2018/19. In contrast, agriculture exports (20 percent) grew by 31.9 percent in Q1 2018/19. In addition, while animal products exports represent only 4.7 percent of total exports in Q1 2018/19, this was the fastest growing export category, rising by 59.3 percent between Transition Period 2 and Q1 2018/19.

Figure 17: The Q1 decline in exports was largely driven by industrial finished products and minerals exports
(US$ million)



Source: Ministry of Commerce

Figure 18: Garment exports declined for the first time in a year after strong growth made it the largest export item in industrial finished products in recent months
(US$ million)



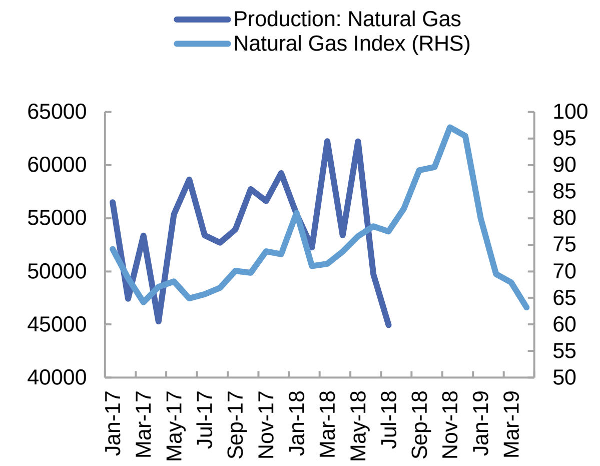
Source: Ministry of Commerce

Garment exports declined for the first time in a year, from a peak in Transition Period 2, but remained the largest export item among industrial finished products (Figure 18**).** Garment exports peaked at US$ 1.3 billion in Transition Period 2, before dropping to US$ 1.1 billion in Q1 2018/19, the first decline in a year, possibly attributed to uncertainty around the EU GSP preference for Myanmar and seasonal decline. Natural gas exports continued their decline from US$ 710.6 million in Transition Period 2 to US$602.2 in Q1 2018/19, as both production levels and in particular prices fell (Figure 19). Together, these developments meant that the share of garments rose 15 percentage points to 55 percent of total industrial products and now represent 29.6 percent of total exports.

Exports of beans and pulses continued to rebound while rice exports eased recently (Figure 20**).** The share of beans and pulses to total agricultural exports rose from 20.5 percent in Q4 2017/18 to 28.3 percent in Q1 2018/19, while the share of rice to total agricultural exports declined from 39.8 percent to 25.9 percent over the same period. Beans and pulses exports are expected to grow due to growing demand for beans from China. Demand is rising in part due to the high tariff on beans and pulses that China imports from the United States in the context of the US-China trade tensions[8].

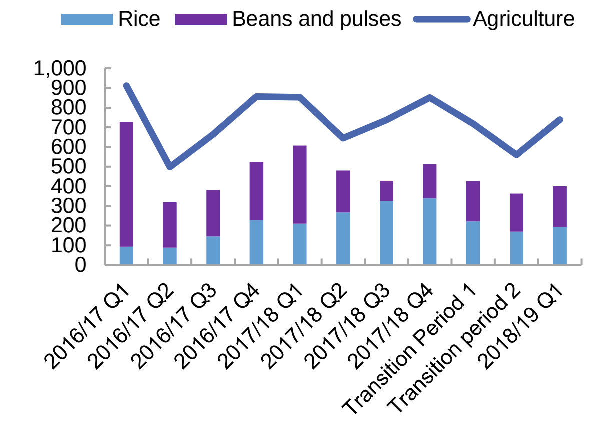
[8] https://moneymaven.io/mishtalk/economics/trump-asks-china-to-shift-soybean-tariffs-to-something-else-t6qQGGfzfEORbEE6LDeEcg/

Figure 19: Natural gas export value fell as production and price fell
(Million cubic feet, RHS: Natural gas index, 2010=100)



Source: CEIC Database

Figure 20: Beans and pulses exports rebounded while rice exports declined
(US$ million)

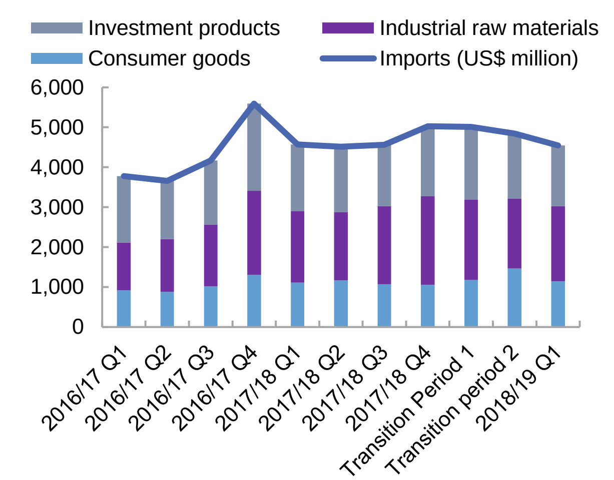


Source: Ministry of Commerce

i. Import growth moderated on declining consumption and investment imports, but demand for intermediate goods remained robust

Imports declined (qoq) in Q1 2018/19 due to the decline in imports of consumer goods and investment products (Figure 21**).** Imports of consumer goods and investment products decreased by 21.7 percent and 6.8 percent respectively between Transition Period 2 and Q1 2018/19, signaling a softening of aggregate demand (see section f) or in the case of consumption a shift of demand from imported to domestically produced goods. In contrast, imports of industrial raw materials (intermediate goods) grew by 7.2 percent in the same period, driven by petroleum products which account for 50.7 percent of the total intermediate goods exports. This supports the observed pickup in industrial activities.

Figure 21: Imports declined (qoq) in Q1 2018/19 driven by consumer goods and investment products
(US$ million)



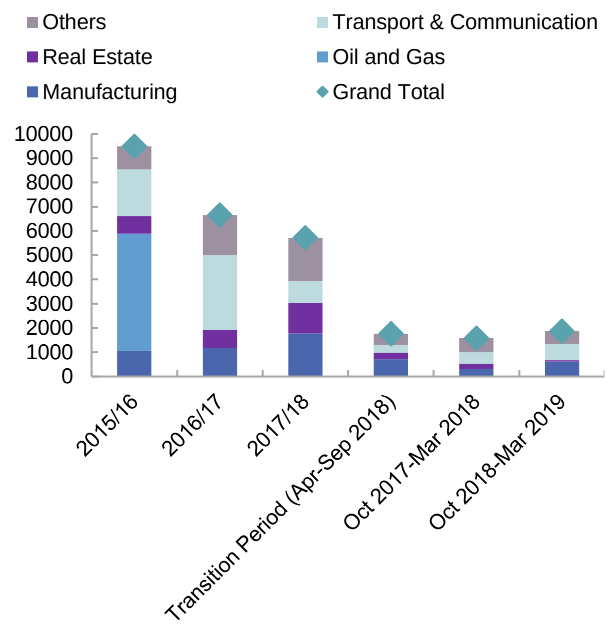
Source: Ministry of Commerce

j. Signs of stronger FDI commitments despite a declining trend

FDI commitments began to pick up slightly in H1 2018/19 compared with the same period last year but remain a third of the annual FDI commitments in 2017/18. The first-half of 2018/19 started strong with commitments reaching US$ 1.9 billion compared with US$ 1.6 billion in the same period last year, and US$ 1.8 billion in the Transition Period (Figure 22). However, momentum needs to pick up in the remaining months of 2018/19 to reach the full 2017/18 FDI commitments of US$ 5.8 billion. The government has taken measures to boost FDI with the opening of the financial sector, the creation of the Project Bank, and formation of a new ministry for investment and foreign economic relations. It is important to distinguish between FDI actuals and FDI commitments. FDI actuals is a function of past commitments. As a result, FDI commitments impact future flows with a time lag (Figure 23).

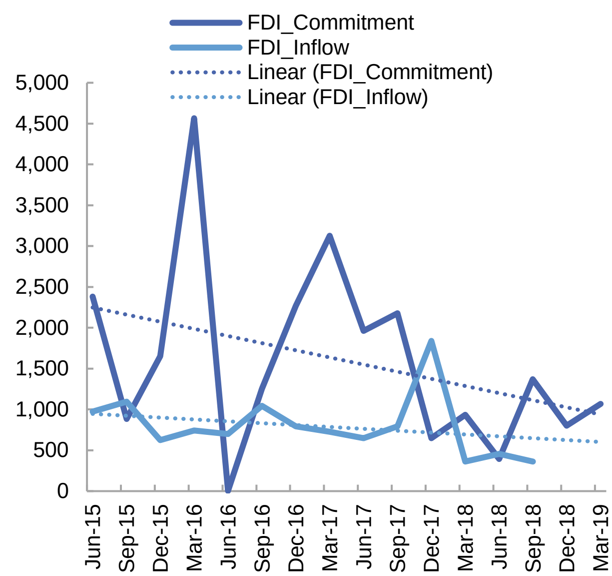
Singapore and China continued to dominate FDI in Myanmar. During April to September 2018, Singapore and China accounted for 41.1 percent and 17.3 percent of the overall FDI commitments, and further rose to 59.4 percent and 13.7 percent, respectively, by March 2019. In addition, Japan surpassed Thailand during the same period, to reach 7.6 percent of total FDI.

Figure 22: New FDI commitments slowly picked up in H1 2018/19, but need to accelerate to reach the 2017/18 level…
(US$ million)



Source: DICA

Figure 23: … and to boost FDI flows, which have been on a declining trend following reduced FDI commitments.
(US$ million)

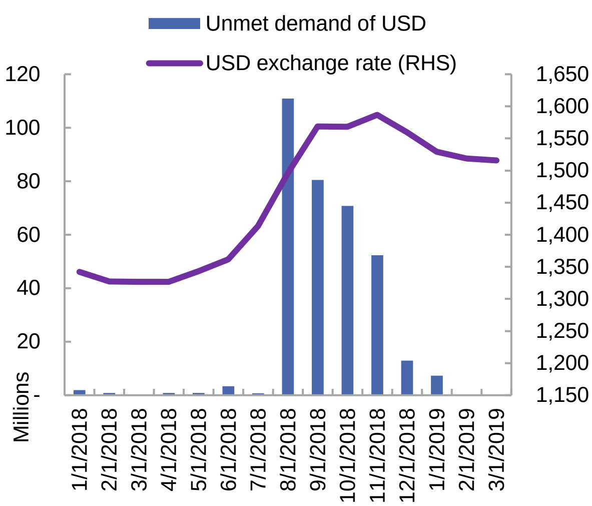


Source: DICA, IMF, World Bank staff estimates

k. The kyat stabilized given slower-than-expected increase in US interest rates

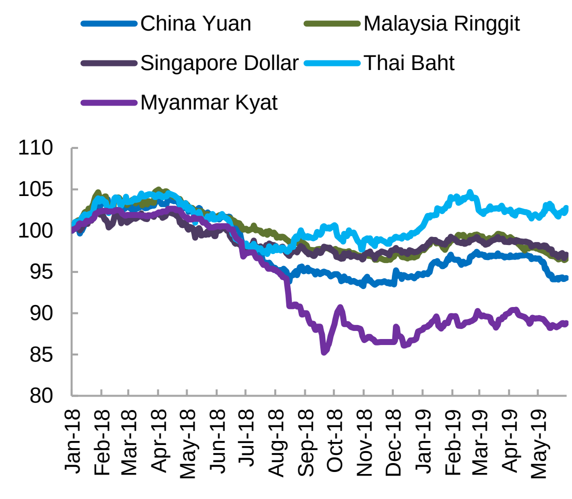
The kyat stabilized against the US dollar in Q2 2018/19 in line with other currencies. The kyat stabilized at an average of 1,541 per U.S. dollar in H1 2019, recovering some of its losses from Q1 2018/19. This is reflected in a declining unmet demand for US dollars (by markets from the CBM) (just US$ 60,000 in February), which has allowed CBM to purchase U.S. dollar to build up reserves by US$ 26 million in February 2019 (Figure 24). The reduced pressure in the foreign exchange market was driven partly by a slower-than-expected increase in US interest rates (although in recent weeks, the discussion has turned to an interest rate cut by Fed), which led to reduced capital outflows from emerging markets. For example, in Q2 2018/19 the Chinese yuan depreciated by 2.2 percent, the Malaysian ringgit by 1.9 percent, Singapore dollar by 1.1 percent and Thai baht by 2.4 percent, against the U.S. dollar (Figure 25).

Figure 24: Unmet demand for foreign exchange (by markets from the CBM) declined with reduced exchange rate depreciation pressure
(US$ million)



Source: Central Bank of Myanmar

Figure 25: The kyat stabilized in line with regional peers
(Exchange rate index, January 2018=100)



Source: Central Bank of Myanmar

The nominal exchange rate was stable in Q2 2018/19 while the real effective exchange rate (REER) continued to depreciate. REER, an index of the domestic currency in relation to currencies of all trading partners, adjusted for trade weights and relative inflation, depreciated by 5 percent in Q2 2018/19 compared to the same period the previous year. This implies a slight improvement in competitiveness relative to the major trading partners. Recent depreciation in the real effective exchange rate raises further hope for Myanmar's exports through improving competitiveness, whereas the higher cost for imported items might raise concern over the profit margins of firms that rely on import items.

The CBM continues to increase liquidity and smooth volatility in the foreign exchange market. The CBM's recent reforms are a positive move to reduce exchange rate volatility. In a bid to facilitate easier trade settlement, the CBM permitted banks with a foreign exchange license to open Chinese yuan and Japanese yen accounts (see Box 3). This move is intended to reduce reliance on the US dollar and ease depreciation pressures. Meanwhile, the spread between the official reference rate and the parallel market narrowed. The outcome is partly linked with the CBM's introduction of a market-based reference exchange rate[9].

Box 3: Officializing use of the Chinese yuan for cross-border trade payment

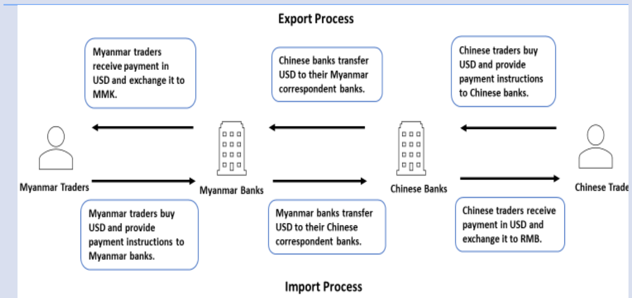
Myanmar had limited settlement currency options before 2019 for trade between Myanmar and China. In 2017/18, China contributed 35 percent of Myanmar two-way trade, followed by Thailand 15 percent, Singapore at 12 percent, and Japan at 6 percent. However until December 2018, the Central Bank of Myanmar (CBM) only allowed the use of the Singapore dollar, U.S. dollar and Euro for trade, a restriction that caused an acute problem for Myanmar's bilateral trade with its other major partners, especially China, due to the need to settle trade payments using these third-country currencies.

The use of a third-country currency for settling payment led to higher transaction costs, overreliance on the U.S. dollar, and informal payment channels. The official trade settlement payment mechanisms between Myanmar and China imposed high transition costs (Figure 26). For exports, traders and their banks in Myanmar could only receive payment from buyers in China in U.S. dollar which could be converted to

[9] Previously, the CBM used the last business day's weighted average rate to set the reference rate in the morning, which can create a misalignment from the current market exchange rate. The reference exchange rate is now calculated based on the exchange rate of the spot trades by the banks during the day.

Myanmar kyat. For imports, Myanmar traders had to buy U.S. dollar and give payment instructions to Myanmar banks to transfers payment to suppliers in China via corresponding Chinese banks. The restriction also results in Myanmar's overreliance on the U.S. dollar, causing downward pressure on the value of kyat against the U.S. dollar given that demand for the U.S. dollar will increase along with the increase in bilateral trade. Most importantly, in the case of bilateral trade with China, export proceeds may not come back to Myanmar as traders might choose to keep the proceeds in Chinese yuan accounts in foreign countries or use other informal channels to avoid high transaction costs.

Figure 26: Official payment mechanisms between Myanmar and China traders to settle payment



Source: Interviews with private banks, the World Bank

Myanmar traders used three unofficial practices to settle trade payments to deal with the restriction. The most common practice for Myanmar traders was to open "individual non-resident" bank accounts in China, especially for land-border trade, which accounted for more than half of Myanmar's trade with China. Such practice discouraged the repatriation of export proceeds to Myanmar since funds could be sitting in "Myanmar citizens" accounts in China or Singapore. Moreover, this type of account has a high risk of being frozen or closed by Chinese authorities, because of a lack of proper transaction documentation and concerns over money laundering. The other common practice was repatriating export proceeds to Myanmar through "underground" banks in China. This practice had high risks for Myanmar traders in receiving export proceeds, as the underground banks were not supervised and were possibly associated with money laundering. Besides these practices, transferring cash through agents (or hundis) for payment was also popular among traders, especially for small-scale traders in border areas. In fact, using banking services was either more expensive or inefficient.

In January 2019, the CBM issued Directive No. (4/2019) to allow banks to use Chinese yuan and Japanese yen, facilitating international payment and trade settlement. Private banks and traders have been asking the CBM to officialize using yuan for settlement payments to reduce transaction costs for trade with China. In response, the CBM directive allows banks with an authorized dealer license to offer trade settlement service in yuan and yen for traders. However, individuals and legal entities are not yet allowed to open accounts denominated in these currencies. This is a small but positive step taken by the CBM. Relaxing the use of yuan and yen will further facilitate not only Myanmar's trade with China and Japan, but also investment activities with these countries, as a third currency is no longer needed. In addition, Myanmar's reliance on the U.S. dollar would be lessened, and it would help ease the downward pressure on the value of the Myanmar kyat against the U.S. dollar.

However, the extent of the impact of the directive on bilateral trade remains to be seen. The new policy still does not allow traders to open corporate accounts denominated in yuan and yen, which constrains them from benefiting from the directive. Most exporters are likely to continue using informal channels because a large amount of rice and corn are exported to China illegally through land border due to Chinese import quota. The CBM may have concern over the convertibility of the yuan in the case of a surplus of yuan. If a growing share of transactions in Myanmar are settled through yuan and not kyat, it would make monetary policy less effective as a tool for demand management. It would also hasten the spillover of momentary policy actions in China into Myanmar.

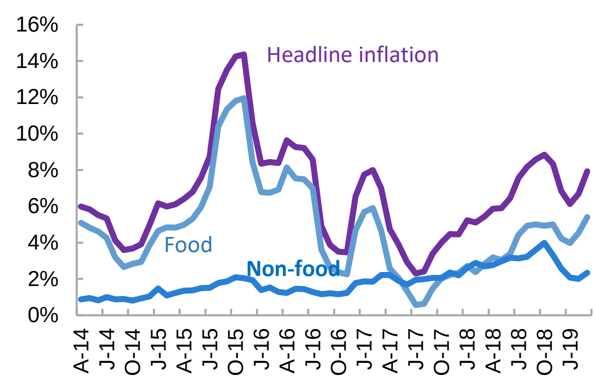
To realize further benefits, the CBM could phase in liberalizing a further set of yuan services. Options include introducing bilateral agreements such as currency swap between two countries for broader use of yuan services, and allowing a certain amount of yuan notes in border areas to facilitate trade for small-scale traders. Moreover, the CBM could also consider allowing corporates to open accounts denominated in yuan/yen to reduce transaction costs when proper measures are in place. Besides liberalizing yuan and yen, the CBM could consider further liberalizing the use of currencies of major trade and investment partners to further facilitate trade and investment.

3. Inflation and the monetary sector

l. Inflation declined before rebounding on the back of rising fuel and food prices

Headline inflation continues to be largely influenced by its volatile components namely fuel and food prices. Headline inflation measured by the Consumer Price Index (CPI) fell from a peak of 8.8 percent (yoy) in October 2018 to 6.1 percent in January 2019 on declining fuel prices and kyat appreciation, before rising to 7.9 percent in March 2019 on the back of high fuel and food prices (Figure 27). The price rise in Q2 2018/19 was driven by the fuel price increase. Meanwhile, core inflation (excluding volatile food and energy prices), stayed at around 6.5 percent over H1 2018/19, suggesting a stable underlying trend.

Figure 27: Inflation rebounded from Q2 2018/19 due to high fuel and food prices
(Percent, yoy)



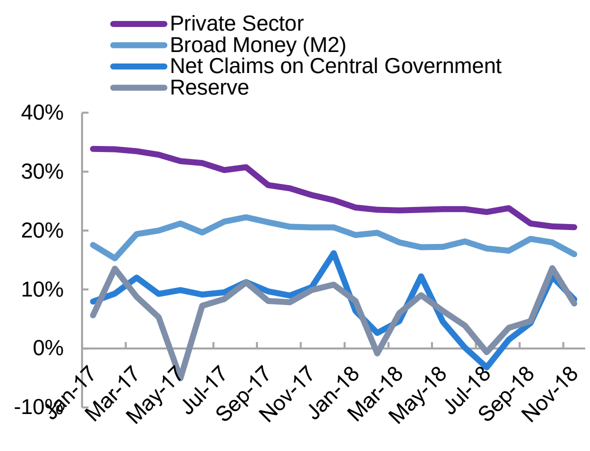
Source: CSO

Given their weight in the CPI basket, food items were the main drivers of inflation, while non-food inflation was relatively low and stable. Food constitutes almost 60 percent of the CPI basket and food inflation remained high averaging 4.5 percent during the first five months of 2018/19. The big drivers of food price inflation since Q1 2018/19 were meat and fish prices and to a lesser extent rice price. The contribution of cooking oil also picked up and fed into food prices. However, non-food price inflation was relatively stable, averaging 2 percent over Q2 2018/19. This slowdown was aided by declining price growth in restaurants and hotels, which comprise 14.3 percent of the non-food basket. Negative price growth in alcohol and beverage items also contributed to an overall decline in the non-food prices.

m. Reserve money growth picked up with rising net claims on government while broad money growth moderated, but deposit auctions declined

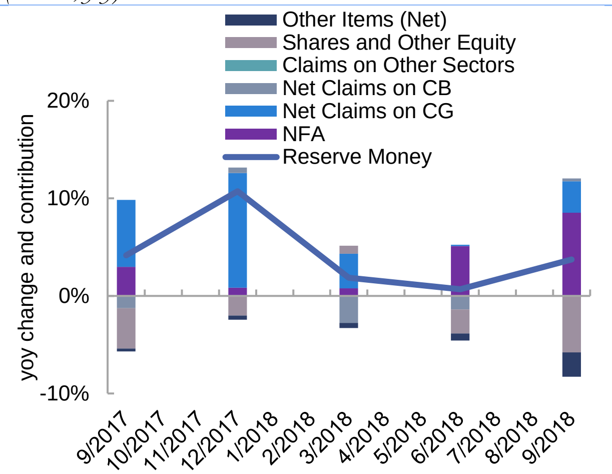
Foreign exchange reserves grew but bank lending continued to slow (Figure 28**).** Growth in reserve money creation by the CBM rose from 5 percent in Transition Period 2 to 8 percent in Q1 2018/19, as the growth in net claims on central government and net accumulation of foreign reserves increased in Q1 2018/19 (Figure 29). However, the growth in overall money stock decelerated from 19 percent in Transition Period 2 to 16 percent in Q1 2018/19. Remedial actions to comply with prudential regulations in the banking sector led to a slowdown in private lending during Q1 2018/19, but also supported the increase in net claims on government (see also section p).

Figure 28: Reserve money growth picked up with broad money growth moderating
(Percent, yoy)



Source: Central Bank of Myanmar

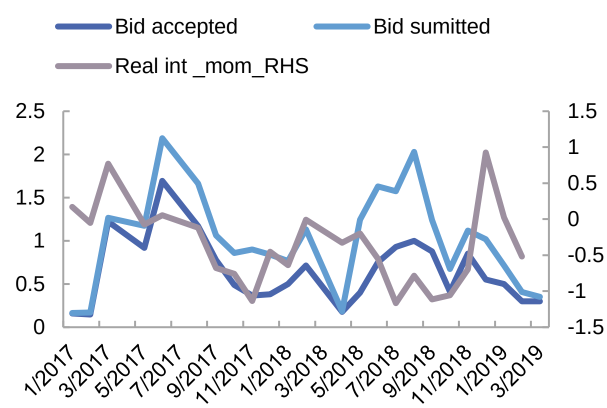
Figure 29: Reserve money grew with the growth in net claims on the central government and net accumulation of foreign reserves
(Percent, yoy)



Source: Central Bank of Myanmar

The CBM reduced its intervention through the deposit auction after actively pursuing open market operations in Q1 2018/19, and demand for deposit auctions fell as real interest rates were negative. Demand was relatively weak over H1 2018/19, with the CBM accepted bids dropped 2.8 trillion kyats, which was 4.5 percent less than transactions accepted in the same period of the previous year (Figure 30). Fewer deposit auctions translates into less money taken out of active circulation. From November 2018, bids submitted began to decline as real interest rates on deposits turned negative due to high inflation and lower nominal interest rates offered at the auctions.

Figure 30: Deposit auction bids submitted began to decline since November 2018
(Kyat trillion: LHS, percent: RHS)

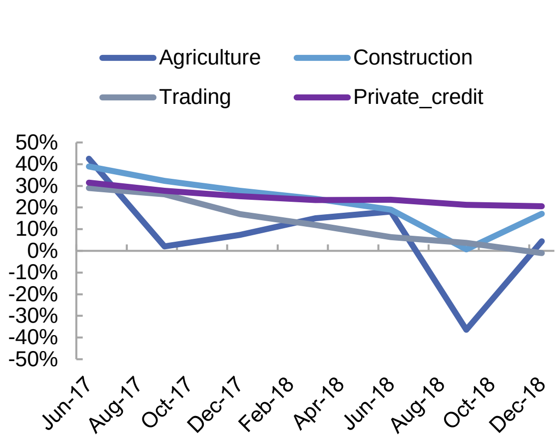


Source: Central Bank of Myanmar

n. Credit growth slowed but financial inclusion improved

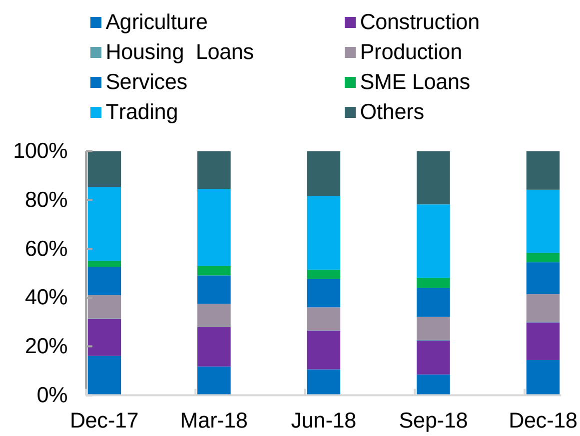
Credit growth continued to cool in 2018/19 as banks sought to comply with important prudential regulations. Growth in credit to the private sector was 20 percent in Q1 2018/19, down from 21 percent in Transition Period 2. Prudential measures and banks' capital constraints may contribute to the continuing moderation of credit growth (Figure 31).

Figure 31: Growth in credit to the private sector slowed…
(Percent, yoy)



Source: Central Bank of Myanmar

Figure 32: …and shifted towards construction and agricultural activities
(Percentage share)



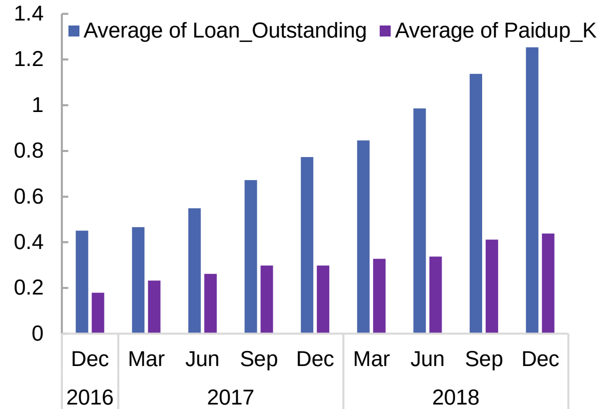
Source: Central Bank of Myanmar

Allocation of credit shifted back towards agriculture and construction and lending remained concentrated in a few sectors (Figure 32**).** Growth in credit to the construction sector increased in Q1 2018/19 after slowing in the last four quarters. While a very small share of total credit, real estate credit grew by 200 percent in nominal terms after declining in Transition Period 2. Construction credit growth recovered after stagnating in the last quarter. This trend may partly reflect that investors and producers may be redirecting investment toward the construction and real estate sectors as the CBM approved an increase in the share of home loans in banks' total portfolios. Lending remained concentrated in a few sectors, as 68.5 percent of loans in Q1 2018/19 were directed to four sectors: trade, construction, services and agriculture. This concentration should continue to be carefully monitored as the profitability of the construction sector is under pressure and the agriculture sector remains sensitive to weather- and trade-related shocks.

Despite sluggish overall credit growth, there were signs of progress in financial access of SME activities. In Q1 2018/19, SME credit grew by 80 percent (yoy). This was driven by increasing lending to SME activities in manufacturing, labor-intensive businesses, retail, wholesale and services. In January 2019 the Central Bank allowed banks to lend at 16 percent without collateral, which should improve SME's access to finance (see Box 4).

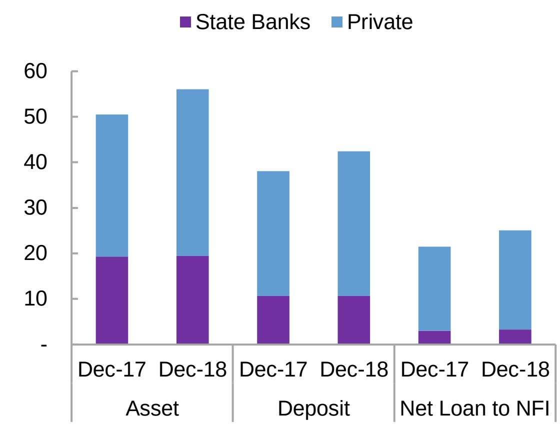
Microfinance institutions also have been expanding rapidly, albeit from a low base. The sector has grown rapidly. As of January 2019, 5 million clients have received microfinance loans. Microfinance institutions total loan portfolio grew 60 percent in the year to Q1 2018/19 to reach approximately 1.3 trillion kyats (approximately US$ 0.8 billion). Their paid-up capital increased by 47 over the same period (Figure 33).

Figure 33: Loan outstanding and paid-up capital increased
(Kyat, trillion)



Source: Financial Regulations Department

Figure 34: While credit growth has slowed, the banking sector has still expanded rapidly
(Kyat, trillion)

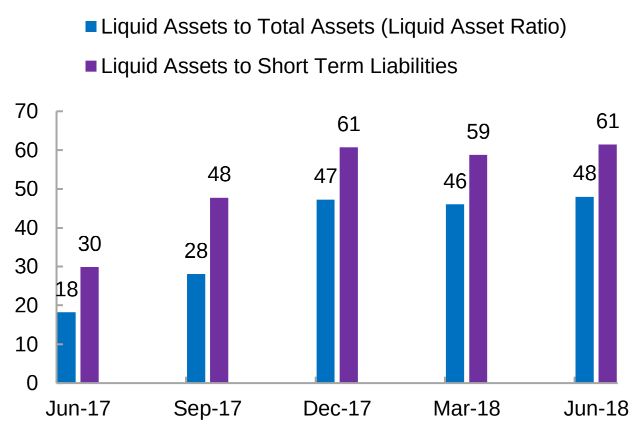


Source: Central Bank of Myanmar

Private banks have expanded quickly leading to a decline in the share of total assets, deposits and lending in State-owned banks' (SOBs). The share of private banks expanded rapidly. Banking sector assets and deposits are now dominated by private banks with decreasing market share of SOBs (Figure 34).

Financial soundness indicators showed that liquidity indicators were robust while banks profitability declined. Banks' liquid asset to total asset ratio improved from 46 percent in March 2018 to 48 percent in June 2018, and liquid asset to short-term liability data improved from 59 percent to 61 percent over the same period (Figure 35). Profits of private banks weakened in Q1 2018/19 compared with the same period last year despite improved interest margin to gross income, as lower profits were driven by lower return on assets and return on equity.

Figure 35: Banks' liquidity indicators improved
(Percent)



Source: Central Bank of Myanmar

Box 4: Recent developments in Myanmar's financial sector

Myanmar's financial system is heavily dominated by the banking sector and has been undergoing multiple reforms in recent years. Myanmar's banking sector consists of four state-owned banks (SOBs), 27 private banks and 13 foreign bank branches. Bank total assets represented approximately 57 percent of GDP as of September 2018, but domestic credit to GDP was only 23.5 percent in 2017, significantly lower than most countries in the region. As the banking system transitions to a regulatory and prudential framework more in line with international standards, vulnerabilities in the system persist.

As the regulatory overhaul of the banking system continues, policymakers have moved ahead with three new policy initiatives in the broader financial sector so far in 2019: (a) opening up the insurance sector to foreign investors; (b) introduction of non-collateralized loans at a 16 percent interest rate ceiling; and (c) opening up to foreign equity investment in the banking sector. These developments are described and evaluated below.

First, Myanmar opened its insurance sector to foreign investors. On January 2, 2019, the Ministry of Planning and Finance (MOPF) released Announcement No. 1 / 2019 on Insurance Market Liberalization for Foreign Entities. The development is part of the Myanmar Insurance Sector Liberalization Roadmap and it grants permission to a company that wishes to operate the business of insurance, underwriting agency and insurance broking with foreign investment.

According to the announcement, life insurance providers would have two options to operate. The first option allows a maximum of three licenses for foreign life insurers to operate as 100 percent wholly owned subsidiaries. The second option allows foreign life insurers with a representative office in Myanmar to form a joint-venture (JV) with a local life insurer. At the same time, non-life insurance providers with representative offices in Myanmar will be allowed to form a JV with local non-life insurers. Last, but not least, local composite insurers are to operate as separate entities, which will pave the way for foreign entities to associate or partner with local insurers.

The Ministry of Planning and Finance (MOPF) invited interested local and foreign insurers to submit Expressions of Interest (EOI) and/or Requests for Proposals (RFPs) to operate insurance businesses in Myanmar. The Financial Regulatory Department facilitated the process and has since invited five foreign life insurance companies to set up business in Myanmar. Since 2013, there have been 11 local insurers who have been granted licenses to operate, while 14 foreign insurers have set up 30 representative offices in the country.

The insurance industry has a key role to play in providing protection against risks or adverse events. This role is only augmented in an economy such as Myanmar's, which is still very much prone to multiple shocks, due to limited macroeconomic management capacity, and thin external and fiscal buffers. The move is expected to benefit local insurers as they will get access to foreign technology and know-how, enabling them to develop further. Moreover, it is a long-awaited development by foreign insurers, who see Myanmar's population of 50 million as a significant business opportunity, especially given that only 2 million people are currently insured, and insurance penetration is barely 0.1 percent of GDP, the lowest in the region. Last, but not least, the move will benefit capital markets development, as insurance providers are important investors in term bonds.

Second, the Central Bank of Myanmar (CBM) introduced non-collateralized loans at a 16 percent interest rate ceiling, higher than the 13 percent currently regulated rate for collateralized lending. The CBM issued a directive on January 14, 2019, allowing commercial banks to extend non-collateralized loans at a maximum interest rate of 16 percent. The directive is effective as of February 1, 2019.

Under the new provision, borrowers can pledge other forms of collateral than currently listed by CBM or if they are unable to provide any collateral, they are still eligible to get a loan with an interest rate of up to 16 percent. The CBM lists under collaterals land and buildings, gold, diamonds and precious stones, savings certificates, government treasury bonds, fixed deposits, credit certification and credit guarantees. The directive stipulates the new 16 percent maximum interest rate must be inclusive of all charges such as management fees and is applicable to both installments and one-off repayments. There will be no change in the maximum lending rate for loans with collateral of 13 percent. Moreover, the minimum deposit rate will remain at 8 percent.

The main benefit of this policy measure is the increased access to finance for small and medium-sized enterprises (SMEs) and other riskier borrowers that are currently unable to meet conventional collateral requirements to qualify for a loan. Moreover, it will enable local banks to take on more risks, while charging higher interest rates.

Third, the CBM issued a notice inviting foreign interest of up to 35 percent equity investment in local private banks. On January 29, 2019, as part of its reforms aimed at boosting capital levels and activity in the financial sector, the CBM issued a notice that will allow foreign banks to take stakes of up to 35 percent in domestic private banks. While this is in keeping with the new Companies Act, the CBM had to approve any such deal. There are 13 foreign banks that opened branches in Myanmar since 2013, when the banking sector opened to foreign participation. More recently, the CBM has indicated an openness to allow 100 percent foreign bank subsidiaries to set up in Myanmar.

The new directive will allow foreign banks to consider investing in the local market, which could provide Myanmar banks with access to funds to address their capital adequacy issues and support growing financing demand from local businesses. There has been a marked slowdown in credit expansion in recent months as banks have been in the process of complying with the new prudential regulations issued in July 2017. Moreover, possible investment by foreign banks may transfer management and business process skills and thus help domestic banks modernize their loan-screening processes and data systems.

4. Fiscal policy

o. Expenditure under-execution is driving low fiscal deficits

The budget deficit for 2018/19 is projected to be considerably lower than the original budget target of 5.4 percent of GDP[10], driven by expenditure under-execution. The programmed budget deficit for 2018/19 in the budget passed in September 2018 (5.4 percent of GDP) represented a substantial increase from the actual deficit for 2017/18 (2.8 percent of GDP). This programmed increase is largely driven by a significant planned increase in capital expenditure, from 4.3 percent of GDP in 2017/18 to 5.4 percent of GDP in 2018/19 together with lower revenue collection, from 16.5 percent of GDP in 2017/18 to 13.7 percent of GDP in 2018/19. However, budget execution remains a challenge, as in previous fiscal years. Indicative data suggests that actual spending was around 20 percent less than the first-half spending target, with capital spending just above half (55.2 percent execution) of the first-half target (Table 1). These spending trends indicate that the actual budget deficit for 2018/19 will be considerably lower than the target of 5.4 percent of GDP, and likely closer to the 3.5 percent of GDP range. This is consistent with the gap between actual and budgeted deficit in previous fiscal years (Table 2). The low capital spending rate also implied unrealistically high target especially in the first quarter where agencies are usually spending time on procurement, hence, low execution. While this under-execution will inadvertently support macroeconomic stability by mitigating inflationary and external balance pressures, it challenges budget credibility and deprives the economy from much needed investment.

[10] World Bank staff calculation based on World Bank's GDP forecast which is lower than the Government of Myanmar's GDP forecast.

Table 1: First Half of 2018/19 Budget Execution

(Kyat, trillion)

	First Half of 2018/19		
	Target	Actual	Actual/Target (%)
Total Expenditure	12.4	9.9	80.3
Current	9.2	8.0	86.8
Capital	2.8	1.5	55.2
Debt Service	0.4	0.4	105.8

Source: MOPF; World Bank staff calculations

Table 2: Budgeted and Actual deficit of 2015/16 – 2017/18

(Percent of GDP)

	Budget Deficit	
	Budgeted	Actual
2015/16	5.0	4.1
2016/17	4.1	2.7
2017/18	5.9	2.7
2018/19	5.4	-

Source: MOPF; World Bank staff calculations

Despite overall spending execution challenges, electricity subsidy spending continues to increase and place pressure on the budget. The World Bank estimates additional energy subsidy payments could rise to 6 percent of total government expenditures in 2019/20 and to 11 percent in 2021/22[11]. Such expenditure could be equivalent to around 19 percent of the deficit in 2019/20 and rise to 40 percent of the deficit in 2020/21. The additional subsidy could be financed through reprioritization of other spending or through deficit financing. However, the more sustainable way would be to adjust the electricity tariff to reflect the true cost of providing electricity services. Analytical work is currently ongoing, as a part of the joint World Bank-IMF Debt Sustainability Analysis (DSA), on the longer-term debt sustainability implications of rising energy subsidy payments and rising energy capital expenditure needs.

Revenue collection continues to be held back in 2018/19. The 2018/19 original budget programs a decline in revenues from 16.5 percent of GDP in 2017/18 and 13.7 percent of GDP in 2018/19. This decrease is driven by expectations of lower union tax collections, which are projected to decline from 6.6 percent of GDP in 2017/18 to 5.5 percent of GDP in 2018/19. Available in-year revenue collection information is consistent with the projected decline in tax revenue collections. First quarter tax collection in 2018/19 was 6.0 percent lower in nominal terms than the same period in the previous year despite higher inflation than at that time, and collections were 15 percent less than the collection target.

p. Financing sources are becoming more diversified

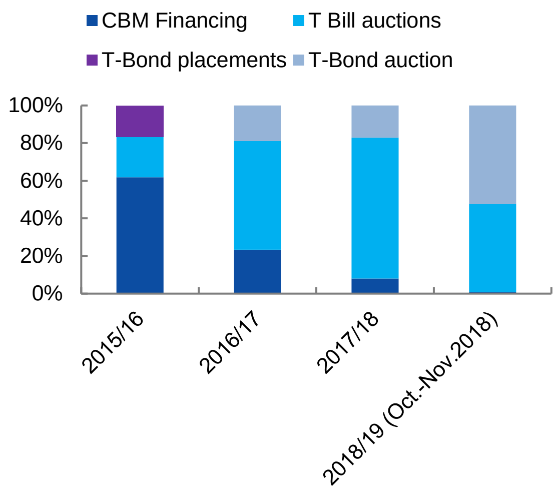
Lower expenditure execution has led to a decline in deficit financing needs. Since the fiscal deficit is expected to decline the deficit financing needs will be declining. The share of CBM financing has been declining from a high of 61 percent of total domestic financing in 2015/16 to practically zero percent of total domestic financing in the first two months of 2018/19 (Figure 36). Conversely, T-bill and T-bond auctions almost fully met the domestic financing needs in the first two months of 2018/19, with issuance higher than what was initially planned (Figure 36).

Despite the increasing use of T-bills and T-bonds, the interest rates need to better reflect market conditions to encourage market participation and development. Despite the increase in gross sales of T-bill and T-bond auctions from 3.6 trillion kyats during October 2017 to February 2018 to 3.8 trillion kyats over the same period in 2018/19, market participation in both T-bill and T-bond auctions remains below potential. Real interest rates on T-bills and T-bond were positive in Transition Period 1 but have been declining

[11] The subsidy payment estimation is elaborated further in a forthcoming World Bank Energy Infrastructure Sector Assessment and in Special Topic 1 in this MEM.

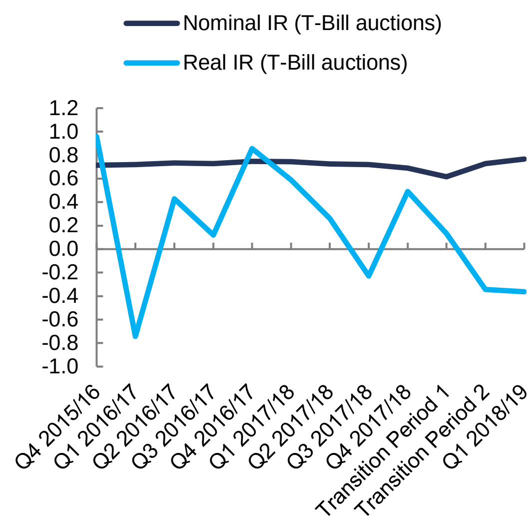
and returned to negative in Transition Period 2 and continued to be negative in Q1 2018/19 (Figure 37). As sustained negative interest rates could hamper further development of the financial market, it is important to consider gradually moving to more competitive real interest rates. This could encourage greater participation and support a lower inflation target. 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.

Figure 36: Deficit financing is shifting from direct central bank financing
(percent share of domestic financing)



Source: CBM; World Bank staff calculations

Figure 37: Real interest rates dipped back into negative territory
(Quarterly interest rate, percent)



Source: CBM; World Bank staff calculations

q. The 2019/20 budget currently under development reflects significant process reforms

The 2019/20 budget process has seen significant process improvements, notably the introduction of the Project Bank. The Project Bank is an interactive, web-based, and publicly accessible database that includes projects that government agencies plan to implement to achieve the Myanmar Sustainable Development Plan (MSDP) goals and strategic action plans. Projects considered strategic and above 2 billion kyats (approximately US$ 1.3 million) in value are considered as eligible for consideration through the Project Bank. Projects included in the Project Bank are subject to a special screening and prioritization processes by a joint committee (National Economic Coordination Committee, Planning Department, Project Appraisal and Progress Reporting Department, and Myanmar Development Institute). After screening and prioritization process, some projects will go to Public-Private Partnership financing. The others will enter the regular scrutiny under the annual budget process. The potential medium- to longer-term benefits of the project bank process are improved quality of project entry, greater transparency, and possibly providing medium-term budgetary commitments to execute priority projects.

Another important process improvement is the introduction of electronic budget submission by implementing agencies. Implementing agencies at line ministries within the government historically submitted their budget requests to the Budget Department (BD) and the Planning Department (PD) at the Ministry of Planning and Finance (MOPF) in manual form. This, in turn, makes budget compilation a cumbersome and time-consuming process and limits the ability of MOPF to scrutinize and analyze the submissions. As of 2019/20, BD and PD have implemented electronic budget submissions, whereby implementing agencies can submit budget request proposals in both hard copy and electronic copy ("e-submission"). By adopting e-submission, BD and PD hope to reduce processing time for budget compilation, standardize budget submissions and reporting across all implementing agencies, and improve the granularity of the data collected.

B. Economic outlook and policy development

1. Medium-term economic outlook and risk

r. Favorable outlook supported by reform implementation

Myanmar's economic outlook is positive with growth projected to recover to 6.5 percent in 2018/19 compared to 6.4 percent in the Transition Period, and to further accelerate to 6.7 percent in the medium-term (Table 3)**.** Growth will be supported by a gradual rebound in infrastructure investment and investment in sectors undergoing liberalization, such as the wholesale and retail, insurance and banking sectors as investor sentiment improves more broadly. Large projects are expected to accelerate, including construction activity in large economic corridors, particularly for transport and power sector projects. Manufacturing activity is expected to grow at a robust pace, with increased production in higher value-added activities. However, FDI inflows may continue to remain weak with a continued challenge of converting sentiment into actual investment. The baseline scenario assumes progress on reform implementation and macroeconomic and political stability in the medium term.

Consumer price inflation is expected to remain high, at 6.5 percent (period average) in the medium term. This is based on high fuel prices driven by volatile global crude oil prices and a structure of the Myanmar fuel import market. Inflation could edge up further if the government takes the important decision to adjust electricity tariffs upwards to align with the cost of electricity production. Rising global food prices may add to inflationary pressure and hence must be closely monitored.

The current account deficit is forecast to widen in 2019/20 and expand further in the medium term. In 2019/20, the current account deficit is expected to widen to 2.7 percent of GDP from 2.3 percent currently. Export growth is expected to be affected by slowing global trade growth and moderating economic growth in China. The government's decision to officially allow use of the Chinese yuan for trade settlement, which is especially beneficial in border areas would make it easier to trade with China but could make monetary policy a less effective tool for demand management in the medium-term (see Box 3). Imports are expected to accelerate, driven by the growth in domestic demand, the need for industrial raw materials due to revived industrial activities, and capital imports for investment. The current account deficit is thus forecast to widen to 3.2 percent of GDP in 2020/21.

The budget deficit is forecasted to increase in the medium term, weighed down by challenges of budget execution and weak revenue performance. As noted in the section on "Recent Developments," the fiscal deficit for 2018/19 is projected to be closer to 3.5 percent of GDP in contrast to the target of 5.4 percent of GDP, due to significant underspending. These challenges are projected to continue in the medium term, despite potentially ambitious spending plans, particularly in the energy, education and health sectors, and continued fiscal pressures from energy tariffs. Revenue collections will continue to decline as a share of GDP, adding upward pressure on the fiscal deficit, unless policy and administrative reform measures are accelerated to improve tax revenue collection. The combination of upward pressure on the deficit from declining revenue collection, and downward pressure from continued expenditure execution challenges, will likely lead to a modest increase in the budget deficit to 3.7 percent in 2019/20 and 3.9 percent in 2020/21.

Table 3: Economic outlook
(Percent, % of GDP)

	Outlook		
	2018/19	2019/20	2020/21
Real growth	6.5	6.6	6.7
Consumer price inflation (period average)	6.8	6.5	6.5
Current account deficit (% of GDP)	2.3	2.7	3.2
Budget deficit (% of GDP)	5.4	3.7	3.9

Source: World Bank staff estimates

s. Downside risks to the economic outlook are largely driven by external sources

Risks to the growth outlook are tilted to the downside. There is considerable uncertainty around the outlook for the global economy and the balance of risks remains firmly on the downside. The economic slowdown in China could trigger a significant downturn in global activity. Moreover, the re-escalation of trade tensions could be highly disruptive to trade activity amid the presence of complex value chains. The EAP region is vulnerable to trade shocks due to deep regional and global integration. Slowing global and regional growth, together with renewed escalation of trade tension, may be transmitted to Myanmar through the trade channel by slowing external demand as well as reduced inbound foreign direct investment. The volatile oil prices further put a high uncertainty around the growth outlook. An unexpected rise in oil prices would trigger inflationary pressures in Myanmar, which would be exacerbated by higher electricity prices.

Domestic risks are tilted to the downside as well. The ongoing Rakhine crisis and intensification of conflicts with the Arakan Army may further impact the performance of the tourism sector and investor sentiment. Exports face a formidable risk from the possible revocation of benefits under the GSP by the EU. This may particularly impact garment exports, which accounted for more than half of the total industrial products exports in Q1 2018/19.

2. Policy watch

There have been a number of notable policy reforms and developments in the last six months in the real, financial, external and fiscal sectors. While their impact is not easy to quantify, they may provide a boost to investor sentiment and hence economic activity.

Real sector

Construction began on the China-Myanmar Border Economic Cooperation Zone under the China-Myanmar Economic Corridor (CMEC). As part of the CMEC, construction on the border economic cooperation zone has begun with construction activity on the Muse (Myanmar)-Ruili (China) section. The economic zone aims to promote domestic and foreign investment, create business opportunities and jobs, help SMEs, develop manufacturing and improve bilateral trade.

Two large inland dry ports (container terminals) opened with an investment 78 billion kyats (roughly US$50 million). These ports will speed up cargo flows between vessels and major land transportation networks between Yangon river ports and Thilawa ports. The new development will streamline trade flows and ease logistics costs for consignees and exporters.

External sector

In January 2019 the CBM issued Directive No. (4/2019) to allow banks to provide services in Chinese yuan and Japanese yen, facilitating international payment and trade settlement. As per the directive, banks with an authorized dealer license are now allowed to open Chinese yuan and Japanese yen accounts and settle payment in these currencies. Individuals and legal entities are not yet allowed to open accounts denominated in these currencies.

On April 21, 2019, the Ministry of Commerce signed a memorandum of understanding with Yunnan government to practice a barter system and increase the quota on rice imports. Myanmar will be able export more rice and agricultural products to China given agreements through the Muse border trade zone, and in return Myanmar will import construction materials, farm implements, and fertilizers from China[12]. Besides this improvement in agricultural trade, China has also agreed to increase import quota on Myanmar rice from 100,000 tons to 400,000 tons per year via the sea[13]. Once both arrangements become effective, Myanmar's rice exports to China through formal channel is expected to increase.

Starting May 1, 2019, Myanmar can export farmed fishery products to the European Union (EU)[14]. Farmed fishery imports had been restricted by EU previously. Myanmar can export more diversified fishery products to the EU, and the fishery exports are expected to increase in the future.

Monetary and banking

On January 2nd, 2019, the Ministry of Planning and Finance released Announcement No. 1 / 2019 on Insurance Market Liberalization for Foreign Entities. The development is part of the Myanmar Insurance Sector Liberalization Roadmap and grants permission to a company to operate in the business of insurance, underwriting and insurance broking with foreign investment.

The Central Bank of Myanmar issued a directive on January 14, 2019, allowing commercial banks to extend non-collateralized loans at a maximum interest rate of 16 percent. The directive is effective as of February 1, 2019.

On January 29, 2019, as part of its reforms aimed at boosting capital levels and activity in the financial sector, the CBM issued a notice that will allow foreign banks to take stakes of up to 35 percent in domestic private banks. While this in keeping with the new Companies Act, the CBM had to approve any such deal. There are 13 foreign banks that opened branches in Myanmar since 2013, when the banking sector opened to foreign participation.

On April 24, 2019, the CBM issued Directive No. (14/2019), raising the maximum interest on credit cards from 13 percent to 20 percent[15]. As credit cards fall under unsecured lending, the CBM raised the maximum interest rate to make it more systematic for high-risk financial products.

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[12] https://www.irrawaddy.com/news/burma/myanmar-signs-3-agreements-belt-road-forum.html
[13] https://www.mmtimes.com/news/china-increase-myanmars-rice-export-quota-400000-tonnes-moc.html
[14] https://www.mmtimes.com/news/myanmar-export-farmed-fisheries-eu-may-onwards.html
[15] https://www.mmtimes.com/news/cbm-raises-annual-credit-card-rates-20pc.html

Fiscal sector

The government introduced "Project Bank" and electronic budget submissions to improve the budget process. This is highlighted in the fiscal policy section.

C. Special topics

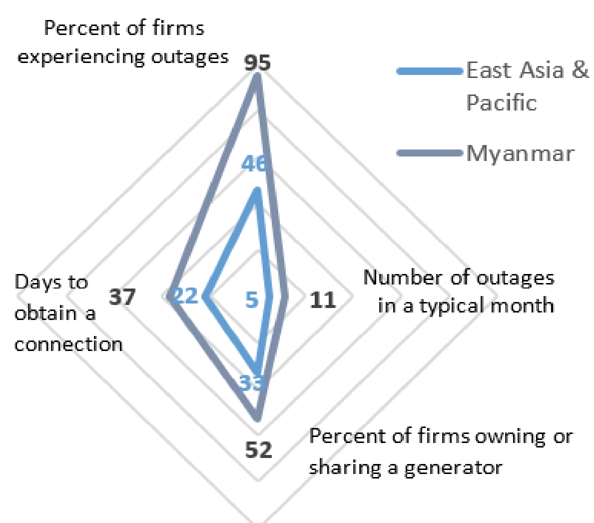
Topic 1: Delivering reliable and affordable power to all Myanmar people

Rolling blackouts and brownouts throughout the country bring to a head the immense challenges facing Myanmar's power sector. Despite substantial progress achieved over the past decade to develop energy infrastructure and deliver electricity access, the power supply gap remains substantial and is constraining economic growth. This section presents insights from a recent analytical report undertaken by the World Bank Group, the Energy Infrastructure Sector Assessment Program. It aims to identify the fundamental constraints and provides a set of short- and medium-term policy recommendations to support the government in its goal to deliver modern, reliable and affordable power for all Myanmar people by 2030.

Substantial progress was achieved in advancing the country's goal to provide universal electricity access by 2030 and improving living conditions. Following the lifting of sanctions in 2011, Myanmar launched an ambitious investment program, with both government and private sector participation, to develop its energy infrastructure and provide universal electricity access by 2030. The program delivered positive results: electrification rates increased from 30% to 42% and installed generation capacity almost doubled from 2,800 MW in 2010/11 to 5,640 MW in 2017/18. In addition, living conditions for millions of people improved as they gained access to modern electricity.

However, the power infrastructure gap remains substantial and there are signs that lack of reliable supply is constraining economic development. Myanmar still lags significantly behind East Asian peers in all dimensions related to electricity infrastructure. For example, 95 percent of firms report experiencing outages and a large share of these resort to the use of back-up diesel generators (Figure 38). Access to reliable electricity supply ranked amongst the top three constraints to doing business for large and medium-size firms according to the 2016 Business Enterprise Survey (latest available). Electrification rates increased substantially in urban areas reaching 85 percent of households in 2017 although quality of supply remains low. Bringing electricity supply to households living in rural areas is the challenge ahead with only 25 percent of households connected to the public grid in rural areas (Figure 39).

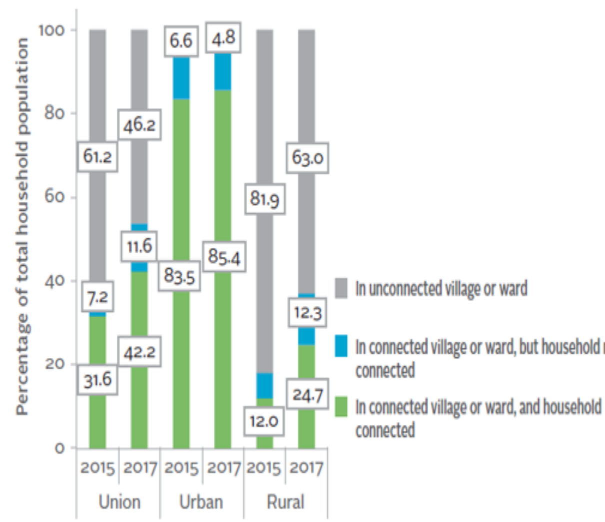
Figure 38: Quality of Power Infrastructure



Source: World Bank Enterprise Survey data for Myanmar 2016

Figure 39: Percentage of households connected to the public grid, 2015 and 2017

(Percentage of total household population)



Source: Myanmar Living Conditions Survey, 2017

To address its rapidly growing electricity demand, Myanmar needs to invest twice as much and implement projects three times faster. Myanmar's track record of strong economic growth and increased electrification has led to a growing demand for electricity. According to recent estimates, consumption will grow at an average annual rate of 11% until 2030. Peak demand is expected to reach 8.6 GW by 2025 and 12.6 GW by 2030, which is a significant increase from the current level of 3.6 GW. To cater to this demand, overall investment requirements are estimated to be around US$2 billion per year which is double the historic levels. By 2025, 5 GW of new generation capacity needs to be added, equivalent to roughly three times what was built over the same period in the past.

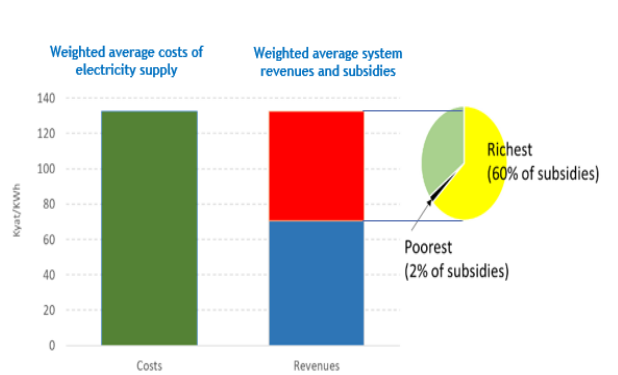
At this critical juncture, the country needs to address fundamental constraints that would enable investment to be mobilized more efficiently and improve the quality of electricity services delivered. Constraints and recommendations are grouped in the following three key areas:

Area 1: Financially viable and fiscally sustainable power sector

The financial position of the power sector has deteriorated significantly over the past few years due to a combination of higher generation costs and unchanged electricity tariffs requiring large subsidies. Electricity tariffs have not been adjusted since 2014 while costs to deliver electricity increased substantially. According to World Bank estimates, the weighted average retail tariffs are 40% below cash cost recovery levels. As a result, losses at the Electric Power Generation Enterprise (EPGE) jumped from around 580 billion Kyat in FY2017/18 to a projected 750 billion Kyat in FY18/19. To cover for the sector deficit, the Union budget has been increasing its allocation for current expenditures to reach 6 trillion Kyat (around US$ 4 billion) FY2019/20. This is equivalent to 30 percent of total Union expenditures, or twice the allocation to the health and education sectors combined.

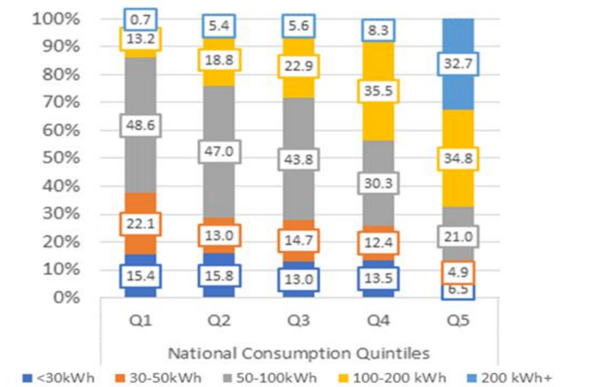
Subsidies to the electricity sector benefit the richest households. It is estimated that only 2 percent of subsidies benefit the 20 percent of poorest Myanmar households while the richest 20 percent of households receive up to 63 percent of the subsidies (Figure 40). The sharp inequality in the distribution of subsidies is explained by lower electrification rates and lower consumption levels by poor households. As it can be seen in Figure 41, households with the highest levels of consumption are in the top quintiles of the income distribution. They are mostly connected to the electric grid and make intensive use of appliances (e.g. air conditioners, refrigerators, etc).

Figure 40: Distribution of subsidies among households by income levels
(Kyat/kWh)



Source: World Bank staff estimates

Figure 41: Households monthly consumption by income levels
(Percent)



Note: Q1 represents the poorest 20% of households, Q5 is the richest 20% of households
Source: World Bank staff estimates

Tariff increases are critical to put the sector back on a path of financial viability. In parallel to tariff reform, measures to reduce costs and reduce the burden of system inefficiencies on consumers should also be implemented. Given the large financial losses, tariff increases across all consumer categories will be needed. Three recommended measures on tariff reform are presented in the table below. In the medium term, it will be important to develop an adequate data collection and tariff setting methodology to improve monitoring of the financial and operational performance of the sector and inform regular tariff adjustments. To reduce the burden of tariff increases for consumers, other measures to reduce costs are necessary. Actions to improve the efficiency of existing thermal generation facilities, improve the coordination of hydro and thermal generation, and reduce system losses have significant potential to reduce the overall system costs. In addition, new generation being added to the system should be part of a least cost development plan.

Measure	Recommendation
Increase sector's revenues	1. Increase electricity tariffs considering the following parameters: - Tariffs should cover costs, particularly for the residential consumers with the highest levels of consumption (e.g. above 200 KWh per month) - To protect the poorest households, a lower lifeline tariff could be established by reducing the consumption threshold from 100 to 50 KWh/month - Simplify the numbers of consumption blocks for commercial and industrial consumers and reduce cross-subsidies between categories of consumers 2. In the medium-term, set-up a data collection system and approve a tariff setting methodology and process for regular tariff adjustments
Reduce system costs	1. Improve the efficiency of thermal power generation by replacing gas-fired power plants, particularly in the Yangon area

2. Review system dispatch practices to achieve a better coordination of thermal and hydropower generation to realize important cost savings
3. Put in place a loss reduction program (estimated overall at around 15 percent) which do not compare favorably with levels in developing countries East Asia, estimated between 6 percent to 9 percent.
4. Ensure new generation added to the system is least cost through sound power system planning and use of competitive bidding

Area 2: More efficient and sustainable public support and investments

Public resources and support for the energy sector have been growing steadily and payment commitments by sector entities pose a substantial fiscal risk. The capital budget allocated for energy State Economic Enterprises (SEEs), departments, and corporations reached 1.7 trillion kyat in FY19/20, 24 percent of the overall's Union Budget. Public support to the sector is also provided through government guarantees for loans from international financial institutions and bilateral partners for the implementation of investment projects. It is estimated that that the total amount of debt held by the SEEs and sector entities as of March 2019 is around US$2.8 billion equivalent, or 15.6 percent of total external borrowings. Finally, indirect support in the form of Power Purchase Agreements between the state-owned Electric Power Generation Enterprise (EPGE) and private sector developers includes take or pay commitments for electricity purchases estimated roughly at US$570 million per year, which is equivalent to 30 percent of the current account deficit. These payment obligations, typically in hard currency, create fiscal risks which are not adequately monitored due to a lack of system to track contingent liabilities.

Going forward, the fiscal space is constrained, and urgent measures are needed to improve the efficiency of direct and indirect government support to close the infrastructure gap. Fiscal space is constrained by a low revenue base and limited long-term financing options, typically required for energy infrastructure. As a result, measures to improve the efficiency of direct and indirect public support to meet energy infrastructure development in a timely manner are needed. Three sets of issues and recommendations are presented below.

First, lack of project prioritization based on robust least-cost planning limits the efficiency of project selection. Substantial resources allocated in the past to support energy infrastructure development, but investments decisions have not always been based on robust information and analysis to ensure the cost-effectiveness of capital expenditure. There are over a dozen generation projects under discussion totaling over 10,000 MW of installed capacity at different stages of negotiations and approvals.

Second, there is a need to improve the efficiency of the execution of public-led projects at energy SEEs and sector entities. Many projects lack adequate (or updated) project documentation which coupled with weak budgeting processes, lack of multi-year funding commitments, and ineffective procurement systems, all contribute to cost overruns and delayed implementation. Improving the operational efficiency and oversight of energy SEEs and entities in charge of investments and service delivery is also urgently needed. In the medium-term, revamping the implementation of the SEE corporatization reform agenda will support more sustainable improvements in their operational and financial efficiency.

Third, better identification, management, and monitoring of environmental and social (E&S) risks can accelerate project implementation timeframes. Limited capacity to identify, manage and monitor E&S risks have caused delays in the implementation of energy infrastructure projects, particularly for large hydropower plants. To harness Myanmar's significant hydro potential, the country needs to move from a project planning approach based on engineering and economic factors only, to the implementation of an integrated approach, which considers technical, economic, environmental, and social criteria for the selection of projects. Given the history of armed conflict, politicized questions about hydropower development, and past grievances due to lack of consultation and accountability in hydropower development, it will also be important to broaden stakeholder engagement beyond only those people that are potentially directly affected by projects.

Measure	Recommendation
Improved prioritization of projects	1. Develop a least-cost power development plan and publish a priority list of generation projects that are best suited to fulfill the power system's needs in terms of technologies, unit size, and implementation timelines 2. Put in place and adequate monitoring system of contingent liabilities to better assess fiscal risks from energy projects
Improved efficiency of public-led projects	1 Put in place simple performance monitoring for SEEs based on accurate data and information and continue the stalled corporatization of SEEs/departments 2. Identify E&S risks and integrate these into project development process (particularly hydropower) and clarify policies, processes and plans for land related resettlement

Area 3: Increased and more efficient private sector investments

Myanmar has been very successful at attracting private sector investments in power generation although not necessarily at lowest costs and highest efficiency. Committed foreign direct investment (FDI) since 2010 to the power sector amounted to US$14.6 billion, equivalent to 25 percent of FDI during that period. In the early 2010s, export-dedicated hydropower plants were developed by Chinese consortiums. More recently, the focus shifted to gas-fired power projects, developed mainly through unsolicited proposals. A closer examination of these projects reveals substantial differences. Large export-dedicated hydropower projects did not bear risks related to the domestic power market and many rental power plants were developed, based on medium-term contracts and often involve higher costs and overall lower thermal efficiencies. Only a handful of the projects were developed by independent power producers under long-term contracts to supply the domestic market. Among these, relatively low thermal efficiencies are observed, particularly for CCGT projects (Table 4).

Table 4: Key characteristic of private sector projects

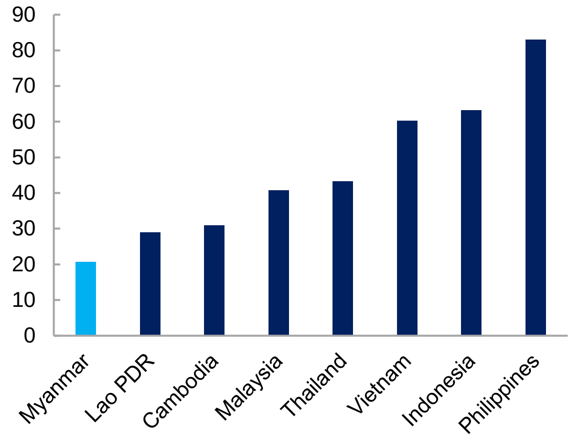
Owner	Plant Name (and expiry year for	Technology	Efficiency	MW available capacity	Capacity factor
EPGE	Hlawga (EPGE)	CCGT	29%	80	77%
	Ahlone	CCGT	27%	117	54%
	Thilawa	GT open cycle	26%	50	35%
	Ywama	GT open cycle	20%	310	32%
	Kyun Chaung	GT open cycle	19%	54	24%
	Thaketa	CCGT	18%	92	16%
	Myanaung	GT open cycle	17%	35	14%
	Shwe Taung	GT open cycle	17%	55	18%
	Thaton	GT open cycle	16%	51	25%
	Thaton New*	CCGT	53%	110	
IPP / BOT	Ahlone Toyo Thai	CCGT	44%	121	77%
	Mawlamyine Myanmar Lighting	CCGT	39%	230	55%
	Hlawga MCP 1+2	Gas engine	36%	54	75%
	Ywama UPP	Gas engine	36%	52	78%
	Thaketa	Gas engine	50%	106	
	Myngyan Sembcorp*	CCGT	53%	225	
	Thaketa Max Power*	CCGT	35%	54	74%
Rental	Kyaukphyu V Power 2	Gas engine	36%	50	70%
	Kyaukphyu V Power 1	Gas engine	36%	50	70%
	Myingyan V Power	Gas engine	35%	150	54%
	Kyaukse APR	Gas engine	34%	111	69%
	Myingyan Aggreko	Gas engine	32%	103	68%

Source: World Bank staff based on data from MOEE and EPGE. Note: Efficiency and capacity factor data are annual averages for 04/2017 to 03/2018. Colors represent average efficiency respective to state of the art efficiency for specific technology. Data for newly-installed Thaton, Myingyan Sembcorp, and Thaketa plants are based on design estimates.

Source: World Bank staff estimates

Figure 42: Procuring Infrastructure PPPs

(Overall scope)



Source: Procuring Infrastructure PPPs, the World Bank, 2018

The private sector will need to play a key role to bridge the financing gap and efforts should now focus on increasing the efficiency and implementation pace of project development and execution. Business confidence is declining, driven by continuing uncertainty over the approval process and timing for reaching financial close on projects, the type and extent of government support that will be provided, and exchange rate volatility. As it can be seen in the graph above, Myanmar does not compare well to regional peers in procuring public private partnerships, including in the power sector (Figure 42). Recent efforts by government to improve project selection through the Project Bank is an important first step in this regard.

The adoption of standard format documentation would go a long way in leveling the playing field for investors and providing, at the outset, the terms and conditions that investors can expect when negotiating PPAs. This lack of transparency and consistency regarding contractual provisions results in sponsors lacking an understanding of the expected commercial terms and conditions. Adding to the lack of clarity is the non-availability of information on which projects in the past have benefitted from a government guarantee undertaking (GGU), the terms of such GGU and the associated treatment of such GGUs in the future.

In addition, it is recommended to use transparent and competitive tendering processes for the procurement of generation projects to ensure lower prices. There is evidence in Myanmar's power sector that unsolicited proposals and direct negotiations do not reduce the timeline for the procurement and negotiation of energy projects to be developed by the private sector. On the other hand, international experience, even in challenging environments, shows substantial benefits from competitive procurement: *"Two decades of experience in power procurement in Sub-Sahara Africa have amply demonstrated that a lack of competition in procuring new generation capacity has extensive drawbacks, ranging from immediate effects on project outcomes (higher prices, unraveling contracts and so on) to more general effects on the overall governance of the electricity sector and its investment climate."*[16]

As opposed to many countries regionally, Myanmar is yet to harness its non-hydropower renewable energy (RE) potential. The country has favorable conditions for renewable energy; it is in the "sun-belt" with the highest solar potential in the dry zone. Yet, only one solar PV project with an initial capacity of 20 MW is expected to be completed in 2019. According to public information, the PPA for the plant is 12.8 US$ cents/kWh, which appears high compared to regional benchmarks, even if considering high costs of land

[16] Independent Power Projects in Sub-Saharan Africa: http://dx.doi.org/10.1596/978-1-4648-0800-5.

in countries such as Bangladesh. MOEE has recently set the goal of achieving 8 percent of total generation capacity from renewable energy by 2021. However, policies needed to incentivize the large-scale development of private sector led-RE are absent. Many countries in the region (and globally) have been able to rapidly mobilize privately funded grid connected RE projects at highly competitive tariffs. A summary of these elements of an adequate framework to support the development of cost-effective RE is provided in the table below.

Measure	Recommendation
Standardization of procurement and approval processes	1. Implement competitive processes and transparent tendering for procuring energy projects 2. Adopt standard format documentation for energy PPPs including, Implementation Agreements, Power Purchase Agreements, and Government Guarantees of Undertaking
Scale-up renewable energy	1. Develop and incentive framework to develop RE grid-connected projects. Some of the key issues to be addressed include: - Provide/facilitate access to unencumbered land. - Clarify connection policies. - Develop incentive schemes and transition to competitive procurement processes (e.g. auctions)

Topic 2: Using the multidimensional disadvantage index to better boost welfare in Myanmar

An additional way to measure welfare in Myanmar

Myanmar has recently developed its first multidimensional measure of welfare, complementing monetary measures of poverty and unleashing new opportunities for evidence-based policy-making, especially at the sub-national level. The Department of Population within the Ministry of Labour, Immigration and Population, and the World Bank jointly produced a report titled *Multidimensional Welfare Analysis in Myanmar*, which introduced the "Multidimensional Disadvantage Index" (MDI). The MDI brings 14 non-monetary indicators from six domains (education, employment, health, water and sanitation, housing, and assets), selected from the 2014 Myanmar Population and Housing Census following extensive consultations with technical experts and stakeholders, into a single indicator of welfare. The literature around measurement of non-monetary welfare and related methodological approaches is vast. While the Multidimensional Poverty Index (MPI), adopted by UNDP in over 100 countries, provides useful global benchmarks, the MDI used variations in methodology to reflect country-specific data, needs and policy concerns. In addition, using data from the census to construct the MDI allows a view of welfare at the lowest administrative level—the township. The study considers a household to have a "disadvantage" if its members are unable to meet their basic minimum needs in a specific indicator. The MDI measures then overlap indicators for a view on multiple disadvantages across indicators. The higher the MDI value is, the greater the extent of multiple disadvantage among households living there.

The MDI analysis provides an opportunity to: (a) Formulate a multidimensional view on how disadvantaged a household in Myanmar is; (b) Understand the intensity and determinants of multidimensional disadvantages, i.e. how much each domain or indicator contribute to total disadvantage; (c) Form a view of multidimensional welfare at the sub-national level, pointing to the relative disadvantage of each township in Myanmar.

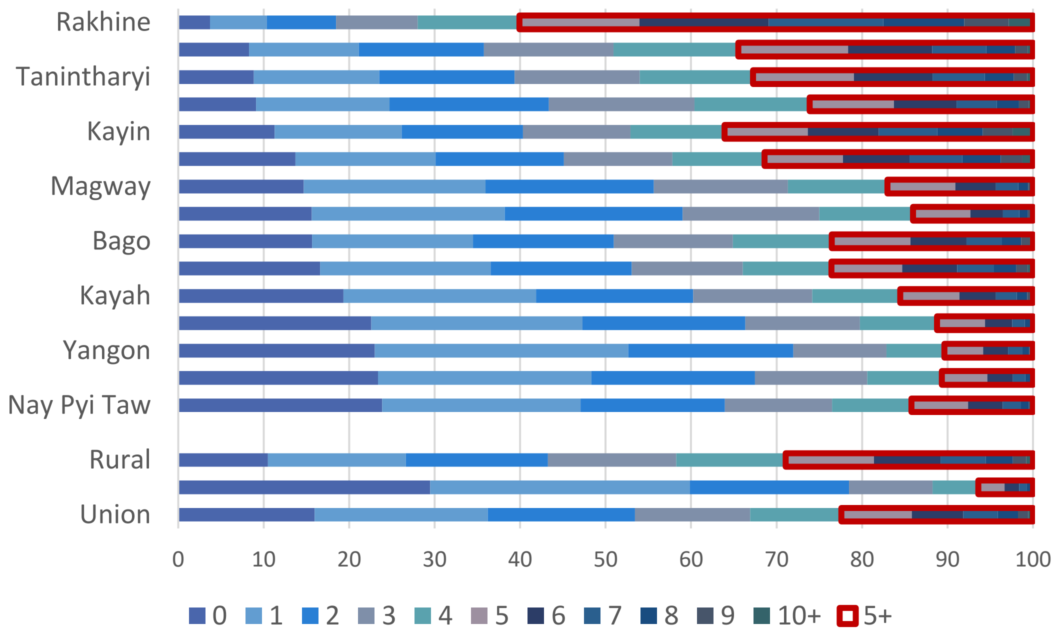
Most of Myanmar's population faces overlapping disadvantages with large geographical disparities

84 percent of the population in Myanmar is disadvantaged in at least one indicator and overlapping disadvantages affect many individuals. Only 16 percent of the population have no disadvantage on any of the 14 selected indicators, and only 20 percent are disadvantaged on a single indicator. More worryingly, nearly half (47 percent) of the population presents a disadvantage in at least three indicators, and more than one-fifth (22 percent) in five or more indicators. The likelihood of disadvantage in 5 or more indicators for the rural population is 5 times higher than for the urban population. Lack of decent housing and/or reliance on non-electric based sources of lighting is the most common disadvantage among households in Myanmar.

State and regional differences on the occurrence of disadvantages are apparent, and often unsurprising (Figure 43**)**. In Yangon and Mandalay, Nay Pyi Taw and Kachin, for example, nearly one-quarter of households live with no deprivation. But this figure is less than one-tenth in more disadvantaged states and regions like Ayeyarwady and Chin. Some states and regions clearly face a greater degree of disadvantage than others. Households in Rakhine, Ayeyarwady and Kayin are much more likely than in other states or regions to suffer from severe multiple disadvantages. Sixty percent of households in Rakhine[17] and 36 percent in Kayin are disadvantaged in at least 5 different areas included in the MDI.

[17] Please note that the 2014 Census did not cover about 1.1 million people in Rakhine, mostly Muslim communities, limiting our ability to determine the extent of disadvantage for people living in Rakhine State, particularly in Northern Rakhine townships. Even without these 1.1 million people, Rakhine is by far the most disadvantaged state or region

Figure 43: Percentage of individuals experiencing multiple disadvantages (number of indicators)



Source: MDI

Myanmar's Multidimensional Disadvantage Index (MDI-1) is estimated at 20.7. This bundles the single disadvantages together and can be interpreted as the average person in Myanmar being disadvantaged in one fifth of the 14 weighted indicators.[18] The rural MDI-1 (at 24.6) is more than twice as high as the urban MDI-1 (at 11.2). MDI-1 is the highest in Rakhine (39.2) and the lowest in Yangon (14)[19]. Among the most disadvantaged states and regions according to the measure are also Ayeyawady, Kayin, Tanintharyi, Chin and Shan. Mandalay, Kachin and Nay Pyi Taw, instead, present a lower level of non-monetary disadvantage.

There is no pattern across states and regions in term of which domain or indicator contributes most to the total MDI. Housing, water and sanitation are the biggest domain contributor in Rakhine, but this is not the case in Chin, where asset ownership plays the biggest role in explaining the total MDI. In Shan, on the other hand, education and water and sanitation domains contributed to a half of the total MDI. Overall, at the national level, housing, assets, water and sanitation domains together account for about 70 percent of the national MDI-1 (dwelling alone about 16 percent).

Large disparities in welfare are also visible within states and regions, across townships (Figure 44**,** Figure 45**).** For instance, Kachin and Sagaing are relatively better-off states, but northern townships in both states have some of the most disadvantaged populations in the country. In contrast, Yangon has the lowest MDI in Myanmar, but rural townships at the outskirts of the urban core are as disadvantaged as those in much more deprived Chin and Kachin states.

according to the MDI. So the index will still be valuable in targeting our efforts on the right dimensions and in the most deprived areas within Rakhine to help break the troubling cycle of poverty, discrimination and violence for all people.

[18] The MDI-1 is constructed based on the nested uniform weighting approach. For further details about selected indicators, weighting and aggregation of the MDI, see "*Multidimensional Welfare in Myanmar*" (2018).

[19] Yangon includes highly deprived rural townships. About 30% of Yangon Region's population is rural, according to Census data.

Figure 44: MDI-1 at State/ Region level

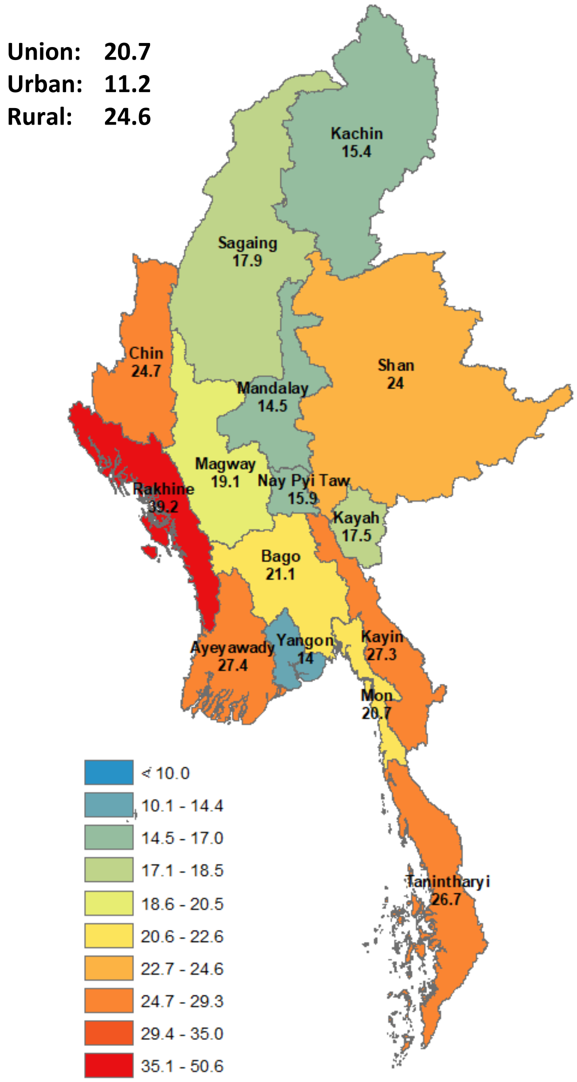
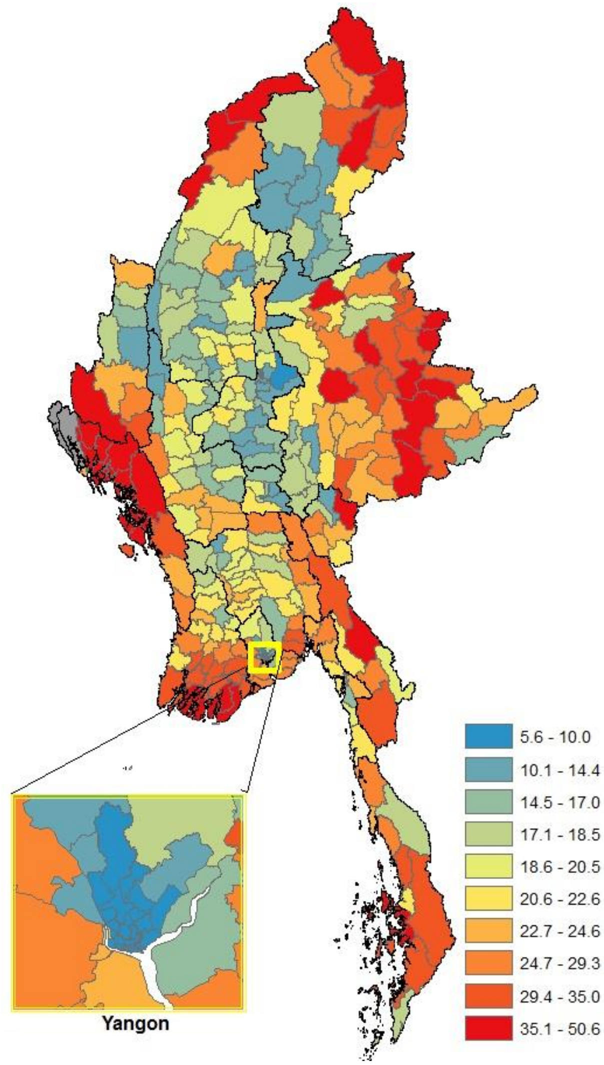


Figure 45: MDI-1 at Township-level



Note: Mapping colors are based on township-level MDI decile thresholds. Due to the limited number of enumerated populations, three townships in Northern Rakhine (Maungtaw, Buthidaung, Yethedaung) are highlighted in gray.
Source: MDI

The MDI findings will facilitate poverty reduction and equitable development in Myanmar

The granular view of non-monetary welfare in Myanmar presented in this study has large implications for policy-making. As the country moves towards implementation of the Myanmar Sustainable Development Plan, the MDI represents a fundamental tool for identifying the types of interventions that need the most attention in each geographic location and selecting geographic areas for most urgent action.

The MDI is already starting to contribute to targeting public resources and aid flows toward those who need it the most, with interventions that matter the most. For example, the township-level MDI is taken into account for budget allocation processes within states and regions. The MDI is also already driving state/region or township prioritization for World Bank projects, including the National Community Driven Development Project, Education Project, and other upcoming operations. This evidence-based approach can lead to the most visible strides in reducing poverty and promoting equitable development in Myanmar – and reaching some of the most excluded people in the country who have suffered from remoteness, conflict and discrimination.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2015/16	2016/17	2017/18	Transition Period	2018/19	2019/20	2020/21
Economic growth and prices							
Real GDP (kyat billion)	56,476	59,787	63,828	23,052	74,995	80,056	85,504
Agriculture	16,306	16`,231	16,439	5,207	21,861	22,299	22.811
Industry	16,963	18,477	20,217	6,700	22,808	24,975	27,222
Services	23,207	25,079	27,172	11,145	30,326	32,783	35,471
CPI (percent change, yoy)	8.4	7.0	5.4	7.1	6.5	N/A	N/A
Consolidated public sector (kyat billion)							
Revenue	13,645	14,505	14,942	7,034	15,741	16,231	18,764
o/w Tax	4,901	5,677	6,003	2,233	6,370	6,813	8,069
o/w Non-Tax	2,969	2,842	2,951	1,600	2,721	2,668	2,907
Expenditure	16,806	16,671	17,364	9,240	22,016	25,321	28,048
Recurrent	12,301	12,776	13,509	7,173	15,725	18,121	19,356
Capital	4,505	3,895	3,855	2,067	6,291	7,200	8,692
Monetary (kyat billion)							
Broad Money (M2)	36,040	43,034	50,772	N/A	N/A	N/A	N/A
Reserve Money	15,632	17,001	18,023	N/A	N/A	N/A	N/A
Balance of Payments (US$ million)							
Current account	(4,396)	(3,501)	(1,725)	(1,332)	N/A	N/A	N/A
Trade balance	(5,368)	(5,369)	(3,848)	(2,464)	N/A	N/A	N/A
Exports	10,221	10,649	13,563	5,482	N/A	N/A	N/A
Imports	15,589	16,018	17,411	7,947	N/A	N/A	N/A
Economic growth and prices (percent change)							
Real GDP	7.0%	5.9%	6.8%	6.4%	6.5%	6.6%	6.7%
Agriculture	3.4%	-0.5%	1.3%	N/A	1.2%	2%	2.3%
Industry	8.3%	8.9%	9.4%	N/A	9.6%	9.5%	9%
Services	8.7%	8.1%	8.3%	N/A	8.3%	8.1%	8%
CPI (percent change, yoy)	8.4	7.0	5.4	7.1	6.5	N/A	N/A
Consolidated public sector (percent of GDP)							
Revenue	18.8%	18.2%	16.5%	N/A	13.6%	14.0%	15.8%
o/w Tax	6.7%	7.1%	6.6%	N/A	5.5%	5.9%	6.8%
o/w Non-Tax	4.1%	3.6%	3.3%	N/A	2.4%	2.3%	2.5%
Expenditure	23.1%	20.9%	19.2%	N/A	19.0%	21.9%	23.7%
Recurrent	16.9%	16.0%	14.9%	N/A	13.6%	15.7%	16.3%
Capital	6.2%	4.9%	4.3%	N/A	5.4%	6.2%	7.3%
Monetary (percent change)							
Broad Money (M2)	26.3%	19.4%	18.0%	N/A	N/A	N/A	N/A
Reserve Money	22.8%	8.8%	6.0%	N/A	N/A	N/A	N/A
Balance of Payments (percent of GDP)							
Current account	-7.4%	-5.5%	-2.6%	N/A	N/A	N/A	N/A
Trade balance	-9.0%	-8.5%	-5.7%	N/A	N/A	N/A	N/A
Exports	17.1%	16.8%	20.2%	N/A	N/A	N/A	N/A
Imports	26.1%	25.3%	26.0%	N/A	N/A	N/A	N/A

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

Annex 2: Gross Domestic Product

	2014/15	2015/16	2016/17	2017/18	Transition Period	2018/19
GDP production (Current, kyat million)	58,012	65,262	72,714	79,760	N/A	115,577
Agriculture	17,133	18,162	19,467	20,314	N/A	33,691
Industry	18,774	22,509	25,064	27,941	N/A	35,150
Services	22,105	24,591	28,183	31,505	N/A	46,736
GDP production (2010/11 prices, kyat million)	48,879	52,785	56,476	59,787	N/A	74,995
Agriculture	15,346	15,769	16,306	16,231	N/A	21,861
Industry	13,963	15,659	16,963	18,477	N/A	22,808
Services	19,570	21,357	23,207	25,079	N/A	30,326
Real GDP growth (percent)	8.4%	8.0%	7.0%	5.9%	N/A	6.5%
Agriculture	3.6%	2.8%	3.4%	-0.5%	N/A	1.2 %
Industry	11.4%	12.1%	8.3%	8.9%	N/A	9.6 %
Services	10.3%	9.1%	8.7%	8.1%	N/A	8.3 %
GDP production (2010/11 prices, percent share)	100%	100%	100%	100%	N/A	100%
Agriculture	31.4%	29.9%	28.9%	27.1%	N/A	29.2%
Industry	28.6%	29.7%	30.0%	30.9%	N/A	30.4%
Services	40.0%	40.5%	41.1%	41.9%	N/A	40.4%

Source: MOPF

Annex 3: Consumer Price Index

	2014/15	2015/16	2016/17	2017/18	Transition Period
CPI (All items, yoy % change)	**6.1**	**8.4**	**7.0**	**5.4**	**8.6**
CPI (Food and non-alcohol. bev., yoy % change)	**8.3**	**11.8**	**8.0**	**4.8**	**8.6**
CPI (Non food, yoy % change)	**2.9**	**3.1**	**5.4**	**6.5**	**8.7**
Alcoholic beverages, tobacco	8.9	11.7	4.0	19.4	7.2
Clothing and footwear	5.8	5.5	2.5	1.7	3.5
Housing, water, electricity, gas and other fuels	7.1	4.1	6.5	7.7	9.0
Furnishings, household equip and routine hh maintenance	4.1	6.4	1.0	3.2	4.5
Health	8.1	5.7	4.1	5.4	6.1
Transport	-6.3	-5.8	11.8	5.7	15.7
Communication	0.9	-0.5	-2.3	9.3	-0.6
Recreation and culture	2.7	2.1	0.9	0.9	2.6
Education	2.3	2.0	2.8	0.4	8.7
Restaurants and hotels	6.0	5.5	2.6	10.6	8.6
Miscellaneous goods and services	4.7	10.2	5.3	3.2	6.3
CPI (All items, annual average % change)	**5.1**	**10.0**	**6.8**	**4.0**	**N/A**
CPI (Food and non-alcohol. bev., annual average, % change)	**6.9**	**13.9**	**8.7**	**3.3**	**N/A**
CPI (Non-food, annual average, % change)	**2.4**	**3.9**	**3.5**	**5.4**	**N/A**
Alcoholic beverages, tobacco	10.3	14.9	5.8	9.4	N/A
Clothing and footwear	2.5	6.8	3.9	1.7	N/A
Housing, water, electricity, gas and other fuels	5.5	7.1	6.1	5.1	N/A
Furnishings, household equip and routine and hh maintenance	1.8	6.1	3.4	2.1	N/A
Health	5.4	7.5	5.4	4.4	N/A
Transport	-0.9	-5.6	-0.9	9.9	N/A
Communication	0.6	0.1	-1.6	6.2	N/A
Recreation and culture	0.9	2.9	2.2	0.7	N/A
Education	3.0	1.8	3.9	0.5	N/A
Restaurants and hotels	1.7	5.9	3.7	5.0	N/A
Miscellaneous goods and services	0.8	10.1	6.5	4.4	N/A

Source: Central Statistical Organization

Annex 4: Balance of Payments

	2013/14	2014/15	2015/16	2016/17	2017/18	Transition Period
	Balance of Payments (US$ million)					
Current account	**-2,087**	**-4,070**	**-4,396**	**-3,501**	**-1,725**	**-1,332**
Trade balance	-2,164	-4,052	-5,368	-5,369	-3,848	-2,464
Exports	9,438	12,145	10,221	10,649	13,563	5,482
Imports	11,603	16,197	15,589	16,018	17,411	7,947
Services balance	570	1,298	1,085	1,311	1,248	617
Primary income balance	-1,902	-2,624	-1,984	-1,523	-1,596	-738
Secondary income balance	1,409	1,308	1,871	2,081	2,471	1,254
Capital account	**-1**	**0**	**0**	**1**	**1**	**0**
Financial account	**4,993**	**3,031**	**3,851**	**4,520**	**4,311**	**1,639**
Direct Investment	-2,619	-2,907	-3,437	-3,362	-3,860	-820
Portfolio Investment	-0.4	-16.4	0.1	-37.2	45.8	-14
Other Investment	-2,374	-107	-414	-1,121	-497	-804
Net Errors & Omissions	**199**	**2,121**	**158**	**-639**	**-2,527**	**-332**
Overall balance	**2,906**	**-1,039**	**-545**	**1,020**	**2,587**	**306**
Reserve Assets	**3,105**	**1,081**	**-387**	**382**	**60**	**-26**
	Balance of Payments (% of GDP)					
Current account	**-3.5%**	**-6.2%**	**-7.4%**	**-5.5%**	**-2.6%**	**N/A**
Trade balance	-3.6%	-6.2%	-9.0%	-8.5%	-5.7%	N/A
Exports	15.7%	18.6%	17.1%	16.8%	20.2%	N/A
Imports	19.3%	24.7%	26.1%	25.3%	26.0%	N/A
Services balance	0.9%	2.0%	1.8%	2.1%	1.9%	N/A
Primary income balance	-3.2%	-4.0%	-3.3%	-2.4%	-2.4%	N/A
Secondary income balance	2.3%	2.0%	3.1%	3.3%	3.7%	N/A
Capital account	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**N/A**
Financial account	**8.3%**	**4.6%**	**6.5%**	**7.1%**	**6.4%**	**N/A**
Direct Investment	-4.3%	-4.4%	-5.8%	-5.3%	-5.8%	N/A
Portfolio Investment	0.0%	0.0%	0.0%	-0.1%	0.1%	N/A
Other Investment	-3.9%	-0.2%	-0.7%	-1.8%	-0.7%	N/A
Net Errors & Omissions	**0.3%**	**3.2%**	**0.3%**	**-1.0%**	**-3.8%**	**N/A**
Overall balance	**4.8%**	**-1.6%**	**-0.9%**	**1.6%**	**3.9%**	**N/A**
Reserve Assets	**5.2%**	**1.7%**	**-0.6%**	**0.6%**	**0.1%**	**N/A**

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

Annex 5: Monetary Survey

Monetary Survey (kyat billion)	2015/16	2016/17	2017/18	Transition Period
Assets	**36,040**	**43,034**	**50,772**	**N/A**
Net Foreign Assets	**9,263**	**9,281**	**9,306**	**N/A**
CMB (net)	5,374	6,550	6,693	N/A
DMB (net)	3,888	2,731	2,613	N/A
Net Domestic Assets	**26,777**	**33,753**	**41,466**	**N/A**
Net Claims on Government	13,198	15,532	18,252	N/A
CMB	12,233	13,704	14,338	N/A
DMB	964	1,834	3,915	N/A
Credit to the economy	14,188	18,823	23,064	N/A
Private sector	13,667	18,244	22,517	N/A
Other	521	579	547	N/A
Other items (net)	**(608)**	**(609)**	**149**	**N/A**
Liabilities	**36,040**	**43,034**	**50,772**	**N/A**
Broad money (M2)	**36,040**	**43,034**	**50,772**	**N/A**
Narrow money (M1)	14,819	15,799	16,891	N/A
Currency outside depository corporation	10,157	10,920	11,604	N/A
Transferable deposits	4,662	4,880	5,287	N/A
Quasi money	21,221	27,234	33,881	N/A
Central Bank of Myanmar Balance Sheet (kyat billion)				
CBM Assets (kyat billion)	**15,632**	**17,001**	**18,022**	**N/A**
Net Foreign Assets	5,374	6,550	6,693	N/A
Net Claims on Central Government	12,233	13,704	14,338	N/A
Net Claims on Commercial Banks	385	174	610	N/A
Claims on Other Sectors	N/A	N/A	N/A	N/A
Shares and Other Equity	(2,244)	(3,060)	(3,164)	N/A
Other Items (Net)	(116)	(367)	(455)	N/A
CBM Liabilities (kyat billion)	**15,632**	**17,001**	**18,022**	**N/A**
Monetary Base	15,632	17,001	18,022	N/A
Currency in Circulation	11,771	13,064	14,184	N/A
Liabilities to Other Depository Corporations	3,861	3,938	3,838	N/A

Source: Central Bank of Myanmar

Annex 6 a: Fiscal operations (kyat billion)

	2015/16	2016/17	2017/18	Transition Period	2018/19
	PA	**PA**	**TA**	**Budget**	**Budget**
Consolidated Public Sector					
Revenue	13,645	14,505	14,942	7,034	15,741
Expenditure	16,806	16,671	17,364	9,240	22,016
Balance	(3,162)	(2,166)	(2,422)	(2,205)	(6,275)
SEE Operations					
Revenue	7,360	7,262	7,496	3,718	7,801
Net of transfers to UG	5,444	5,634	5,775	2,910	5,994
Expenditure	7,713	6,976	7,228	3,827	8,814
Recurrent	6,738	6,263	6,477	3,290	7,252
Net of transfers to UG	4,823	4,635	4,755	2,482	5,445
Capital	975	714	751	536	1,562
SEE Balance	(353)	286	268	(108)	(1,013)
Union Government					
Revenue	8,200	8,871	9,168	4,125	9,748
Tax	4,901	5,677	6,003	2,233	6,370
o/w Income	2,326	2,324	2,264	863	2,325
o/w Commercial	2,106	1,878	1,975	692	2,123
Non-Tax	2,969	2,842	2,951	1,600	2,721
Grants	330	351	213	292	657
Expenditure	11,009	11,322	11,857	6,221	15,010
Recurrent	7,478	8,141	8,754	4,691	10,281
Wages	1,622	1,716	1,814	965	2,228
Transfers	1,949	1,964	1,885	1,305	2,174
Interest	719	925	1,121	672	1,415
Other	3,187	3,536	3,933	1,748	4,464
Capital	3,531	3,182	3,103	1,530	4,729
Union Government Balance	(2,809)	(2,452)	(2,689)	(2,097)	(5,262)

Sources: MOPF, WB Staff estimates

Annex 6 b: Fiscal operations (percent of GDP)

	2015/16	2016/17	2017/18	Transition Period	2018/19
	PA	**PA**	**TA**	**Budget**	**Budget**
Consolidated Public Sector					
Revenue	18.8%	18.2%	16.5%	N/A	13.6%
Expenditure	23.1%	20.9%	19.2%	N/A	19.0%
Recurrent	16.9%	16.0%	14.9%	N/A	13.6%
o/w Interest	1.2%	1.4%	1.4%	N/A	1.3%
Capital	6.2%	4.9%	4.3%	N/A	5.4%
Balance	-4.3%	-2.7%	-2.7%	N/A	-5.4%
SEE Operations					
Revenue	10.1%	9.1%	8.3%	N/A	6.7%
Net of transfers to UG	7.5%	7.1%	6.4%	N/A	5.2%
Expenditure	10.6%	8.7%	8.0%	N/A	7.6%
Recurrent	9.3%	7.9%	7.2%	N/A	6.3%
Net of transfers to UG	6.6%	5.8%	5.3%	N/A	4.7%
Capital	1.3%	0.9%	0.8%	N/A	1.4%
SEE Balance	-0.5%	0.4%	0.3%	N/A	-0.9%
Union Government					
Revenue	11.3%	11.1%	10.1%	N/A	8.4%
Tax	6.7%	7.1%	6.6%	N/A	5.5%
o/w Income	3.2%	2.9%	2.5%	N/A	2.0%
o/w Commercial	2.9%	2.4%	2.2%	N/A	1.8%
Non-Tax	4.1%	3.6%	3.3%	N/A	2.4%
Grants	0.5%	0.4%	0.2%	N/A	0.6%
Expenditure	15.1%	14.2%	13.1%	N/A	13.0%
Recurrent	10.3%	10.2%	9.7%	N/A	8.9%
Wages	2.2%	2.2%	2.0%	N/A	1.9%
Transfers	2.7%	2.5%	2.1%	N/A	1.9%
Interest	1.0%	1.2%	1.2%	N/A	1.2%
Other	4.4%	4.4%	4.3%	N/A	3.9%
Capital	4.9%	4.0%	3.4%	N/A	4.1%
Union Government Balance	-3.9%	-3.1%	-3.0%	N/A	-4.6%

Sources: MOPF, WB Staff estimates

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

	2014/15	2015/16	2016/17	2017/18	Transition Period
	PA	**PA**	**PA**	**TA**	**Budget**
Total Expenditure	26.2	26.0	23.1	21.1	N/A
Ministries	12.0	12.8	12.0	11.2	N/A
Defense	3.8	4.3	3.7	3.4	N/A
Agriculture	1.5	1.5	1.2	0.9	N/A
Education	1.9	2.1	2.0	1.8	N/A
Health	1.1	1.1	0.9	0.8	N/A
Planning and Finance	1.3	1.2	1.5	1.7	N/A
Other Ministries	2.4	2.5	2.4	2.4	N/A
Energy (Including SEE)	7.4	6.4	5.1	4.7	N/A
Non Energy SEEs	4.3	4.4	4.0	3.7	N/A
SAOs	0.2	0.1	0.1	0.1	N/A
Other	2.5	2.4	2.2	1.8	N/A

Sources: MOPF, WB Staff estimate

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