MYANMAR ECONOMIC MONITOR

JUNE 2020

Myanmar In The Time Of COVID-19

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Preface and Acknowledgements

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

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

The team is grateful for inputs provided by Giorgia Demarchi (Senior Social Scientist), Emilie Bernadette Perge (Senior Economist), Lydia Kim (Consultant), Ekaterine T. Vashakmadze (Senior Country Economist), Smita Wagh (Senior Financial Sector Specialist), Nang Htay Htay (Financial Sector Specialist), and Linde De Nie (Consultant). The team also appreciates data inputs provided by McKinsey & Company (Myanmar), Thitsar Thitsar (Private Sector Specialist, International Finance Corporation), Pwint Thet Khaing (Consultant, International Finance Corporation) and the City Development Committees.

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

To be included on an email distribution list for the MEM series and related publications, please contact slwin1@worldbank.org. For questions and comments relating to this publication, please contact slwin1@worldbank.org.

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Abbreviations

CBM	Central Bank of Myanmar
CERP	Covid-19 Economic Relief Plan
CPI	Consumer Price Index
EMDEs	emerging markets and developing economies
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
GoM	Government of Myanmar
GRF	General Reserve Fund
H1	first half of the fiscal year
H2	second half of the fiscal year
ISSAI	International Standards of Supreme Audit Institutions
MLCS	Myanmar Living Conditions Survey
MOPFI	Ministry of Planning, Finance, and Industry
NFA	net foreign assets
OAG	Office of the Attorney General
PMI	Purchasing Managers' Index
Q1	first quarter
Q2	second quarter
Q3	third quarter
Q4	fourth quarter
REER	real effective exchange rate
SME	small and medium-sized enterprise
SEE	state economic enterprise
yoy	year-on-year

Executive Summary

Summary

The Covid-19 pandemic has interrupted Myanmar's economic expansion, and while Myanmar is expected to narrowly escape a recession, helped by a strong start to the fiscal year, policy responses, and the limited disease outbreak, the growth recovery is at great risk. Myanmar's GDP growth is estimated to drop from 6.8 percent in FY2018/19 to 0.5 percent in FY2019/20. Following strong activity in the first five months of the year, the pandemic and associated containment measures are undermining aggregate demand, disrupting value chains, and reducing the labor supply. The crisis has had an especially negative effect on wholesale and retail trade, tourism-related services, manufacturing, and construction, though weakening consumer demand is also projected to ease inflationary pressures in FY2019/20. Under the baseline scenario, Myanmar's GDP growth rate is projected to rise to 7.2 percent in the medium term, assuming that the domestic spread of the virus is brought under control, the impacts of the government's small but targeted Covid-19 Economic Relief Plan (CERP) materialize, and the global economy recovers. The anticipated recovery will be supported by rising investment in infrastructure and services, rebounding exports, and increased private consumption. However, risks to this year's growth estimate and the outlook are tilted heavily to the downside, as the unpredictable evolution of the pandemic could delay the resumption of economic activity. In all scenarios, severe damage to the operation of firms and the welfare of households is expected to pose serious risks to Myanmar's remarkable progress on poverty reduction.

Recent Developments

The worldwide spread of the Covid-19 novel coronavirus will cause the global economy to contract by a projected -5.2 percent in 2020. The share of economies in recession in the world will be more than 90 percent – the highest since 1870. Restrictions designed to prevent the transmission of Covid-19, coupled with the adoption of precautionary behaviors among workers and consumers, have caused a sharp contraction in global trade, severely disrupted travel and tourism, and fractured international value chains. Plunging global demand and uncertainty about OPEC's production targets have brought oil and gas prices to historic lows. The aggregate annual growth rate of the East Asia and Pacific region is projected to slow from 5.8 percent in 2019 to 0.5 percent in 2020.

Due to the pandemic, Myanmar's GDP growth forecast for FY2019/20 has been revised downward from 6.4 percent to just 0.5 percent as all sectors experience adverse effects of varying intensity. The impacts of the crisis are transmitted through external and domestic channels and are not evenly distributed across sectors: tourism-related services and transportation activities are highly exposed to the pandemic, while the agriculture and information and communications technology (ICT) sectors have proven relatively resilient. Indeed, the ICT sector is experiencing a surge of activity driven by a sudden increase in telecommuting and e-commerce. Meanwhile, precautionary behavior and travel bans continue to negatively impact wholesale and retail trade, tourism-related services, and transportation, and the service sector (which represents 42 percent of the economy) growth rate is expected to fall to 1 percent. Meanwhile, industrial production (36 percent of the economy) is expected to contract by -0.2 percent in FY2019/20 as lockdown measures restrict access to labor, the closure of the overland border with China disrupts the supply of industrial inputs, and both domestic and international consumer demand remain soft. Agriculture (22 percent of the economy) has proved resilient, with

growth estimated to slow to 0.7 percent, a smaller reduction than in other sectors, as strong crop production offsets a weakening livestock and fisheries sector.

The trade deficit widened in Q3 FY2019/20, as Covid-19 affected exports more severely than imports. The sudden drop in international gas prices, combined with slowing global manufacturing activity, sharply decreased total exports. Due to the ongoing disruption of supply chains and softening external demand, exports are expected to remain weak for the rest of the fiscal year. Meanwhile, imports are still expected to rise year-on-year, as a surge in imported capital and consumer goods in the first half of the year more than offset the negative impact of Covid-19 on imports of motor vehicles and intermediate goods for the manufacturing sector.

As the Covid-19 pandemic continues to suppress economic activity, declining consumer demand is moderating inflation. The headline inflation rate dropped from 9.5 percent in December 2019 to 5.2 percent, year-on-year, in April. Food-price inflation rate fell from 7.8 percent to 4 percent over the same period, while nonfood inflation fell from 12.3 percent to 7.5 percent. The core inflation rate remained high at around 13 percent in April 2020 and is projected to moderate from July onward as the year-on-year effect of increased electricity tariff rates drops out.

Slowing economic activity is reducing fiscal revenue, and the budget deficit is expected to widen in FY2019/20. The observed budget deficit in FY2018/19 was equal to 3.9 percent of GDP. In the wake of the Covid-19 pandemic, the projected deficit for FY2019/20 has been revised upward from about 4 percent of GDP to between 7 and 8 percent, reflecting a sharp decline in revenues driven by weakening natural gas revenue collection during the second half of the fiscal year. Overall, tax revenues are projected to decline by 6.0 percent, year-on-year, in FY2019/20.

Economic Outlook and Risks

Under the baseline scenario, the GDP growth is rate expected to recover to 7.2 percent in FY2020/21, but it will take time for the economy to recover to the size it would have been had the Covid-19 pandemic not struck. As Covid-19-related shocks dissipate, a combination of infrastructure investment, increased activity in the service sector, stronger exports, and resurgent private consumption is projected to return the GDP growth rate to its pre-crisis trend. In addition, several electricity and transportation infrastructure projects are expected to begin commercial operation over the near term. As demand and investment recover, the continued development of the e-commerce and insurance subsectors is expected to accelerate the growth of services. Despite the strong *growth* rebound anticipated in FY2020/21, Myanmar's GDP is forecast to remain 5.1 percent below the *level* that it would have achieved had the Covid-19 pandemic not occurred.

Downside risks dominate the growth outlook. Under a downside scenario in which the Covid-19 pandemic continues to inhibit domestic and global economic activity, Myanmar's GDP growth rate is projected to fall to -2.5 percent in FY2019/20 before recovering to 7.6 percent in FY2020/21. An uncontrolled domestic outbreak could delay the resumption of economic activity in key sectors, especially tourism, transportation, manufacturing, and retail. Despite the government's quick efforts, within its fiscal means, to mitigate the pandemic's impact, the balance sheets of households, banks, and corporations could suffer lasting damage. Domestic risks are compounded by heightened external uncertainty, including the possibility of a deeper global recession.

Policy Response

The government is attempting to mitigate the pandemic's impact on the macroeconomy, households and businesses by establishing a dedicated Covid-19 fund and by implementing the CERP. The Covid-

19 fund's initial capitalization is K 100 billion, equivalent to US$67 million or about 0.1 percent of GDP. The fund's first phase offered loans at a 1 percent annual interest rate to garment producers and other manufacturing firms, hotels, and tourism service providers. In late April, the government launched the CERP which includes an extensive array of mitigation and recovery measures that can offer relief and initiate a resilient recovery - including tax relief, credit for businesses, food support and cash transfer to households, and policies to facilitate trade and investment. However, the effectiveness of the plan could be increased by ensuring flexibility to spend what is committed, extending support to smaller enterprises, and ensuring that all households in Myanmar can benefit from transfers.

Special Topic 1: The Firm-Level Impact of the Covid-19 Pandemic

This edition of the MEM presents the results of the first round of a nationally representative survey of firms in Myanmar conducted by the World Bank in May 2020.[1] An analysis of the survey data reveals the uniformly negative but heterogeneously distributed impacts of Covid-19 on Myanmar's private sector. Based on this analysis, a set of policies is proposed to enhance the effectiveness of the CERP.

While firms in all sectors have been affected by Covid-19, the nature and severity of the pandemic's impact differ substantially across sectors. Overall, 16 percent of firms reported closing their operations for an average of eight weeks due to the Covid-19 pandemic, but this figure rose to 39 percent among service sector firms. By contrast, just 12 percent of manufacturers and 6 percent of agricultural firms reported temporary closures. 89 percent of manufacturers reported a reduction in sales, compared to 75 percent of agricultural firms.

Agriculture firms were the most likely to report cashflow shortages and diminished access to credit, reflecting their greater vulnerability to economic crises. Cashflow shortages affected one-half of firms across the country, but this share rose to two-thirds among agricultural firms. In addition, 42 percent of agricultural firms experienced a reduction in access to credit, versus 29 percent of all firms, due to their financial insecurity, frequent informality, and general lack of access to finance compared to firms in other sectors. Similarly, 32 percent of female-owned firms reported a reduction in access to credit, compared to 25 percent of firms owned by men.

Most surveyed firms were not able to adopt new mechanisms to cope with the challenges posed by Covid-19. Only 19 percent of firms reported switching to digital or online tools for business functions, and only 8 percent embraced remote-work arrangements. Agricultural firms were the least likely to have adopted new business processes or systems in response to Covid-19.

More than half of the surveyed firms were aware of local or national government support programs, but only a small fraction reported applying for such support. Just 9 percent of firms reported applying for any form public support, suggesting that the government may need to expand its outreach efforts and adopt a more inclusive package of support programs. While the CERP is adequately comprehensive, adopting further policy actions could reach a larger share of firms, while establishing expenditure targets could help preserve scare public resources. Categorizing firms based on their characteristics and indicators of sensitivity to the economic shock of the pandemic can help ensure that government support reaches the most vulnerable firms. To ensure an inclusive policy response, the scope and depth of the soft loans and guarantees provided by the government should be assessed in the context of Myanmar's unique financial-sector characteristics and the credit constraints that may impede investment at the early stages of the recovery. Creating an accessible process

[1] This survey is the first round in a planned series of eight rounds.

that reflects these conditions will be critical to ensure that unbanked small enterprises and informal firms are able to access public support programs that will enable them to cope with the ongoing economic impacts of the Covid-19 pandemic.

Special Topic 2: The Impact of Covid-19 on Household Welfare and Poverty

Slowing economic growth threatens to partially reverse Myanmar's recent progress in poverty reduction while deepening the poverty of households that are already poor. Under the baseline scenario, poverty rates are projected to increase in the short term and not return to their pre-crisis levels until FY2021/22. Under the downside scenario, in which the GDP growth rate falls to -2.5 percent in FY2019/20, poverty rates are projected to remain above their pre-crisis level until at least FY2022/23.

Urban residents are highly exposed to both the health risks and economic effects of Covid-19. Mobility restrictions and lockdown measures have had an especially acute impact on the livelihoods of workers from urban households who are especially likely to be employed in retail and travel-related activities. In 2017, two-thirds of urban households had members employed in retail or travel-related activities, and these sectors provided an average of 67 percent of their household income. Many urban households also depend on manufacturing, especially the garment industry, and construction; activity in both sectors has slowed markedly in the wake of the pandemic.

An anticipated decline in international remittances could directly reduce household income, though such remittances are concentrated among nonpoor households. In 2017, roughly two to three million migrants from Myanmar worked in Thailand, and a further 450,000 worked in Malaysia and Singapore. These migrants provided remittances to 8 percent of households in Myanmar, contributing 53 percent of their average income. The economic slowdown and the imposition of lockdown measures in destination countries have sharply curtailed remittance flows and triggered large-scale return migration to Myanmar. Rural households and nonpoor households are more likely than urban or poor households to receive international remittances.

Many poor households are especially exposed to the effects of the Covid-19 crisis due to job insecurity, employment in the informal sector, and low levels of savings. Wage workers at the lower end of the welfare distribution are more likely to work informally, often in casual or seasonal activities, which offer little or no job security. In many cases, a low-wage worker's entire daily income goes toward fulfilling basic needs, resulting in a lack of savings that leaves these workers highly vulnerable to income and health shocks.

A. Recent Economic Developments

The Covid-19 pandemic has caused disruption across the globe and Myanmar is no exception. On March 11, 2020, the World Health Organization (WHO) characterized Covid-19 as a pandemic. Myanmar reported its first cases of Covid-19 on March 23, 2020, and as of June 19, 2020, it has registered 286 confirmed cases, 187 recovered cases and 6 deaths. The domestic outbreak is straining Myanmar's limited healthcare infrastructure, and a surge in hospitalizations would overburden the country's medical facilities.[2]

The pandemic is inflicting simultaneous shocks to both supply and demand. The adverse economic effects of Covid-19 are evident in the data from 2019/20Q2 onward. Concerns about the spread of the contagion have sharply reduced demand for many goods and services, especially those involving human-to-human contact, with especially adverse consequences for the transportation, tourism, and traditional retail sectors. In addition, social distancing and lockdown measures are preventing certain forms of production, severing supply chains, and inhibiting the flow of goods, services, labor, and capital. Rates of capital formation and labor-force participation are declining, and output is contracting across multiple sectors. A return to normal economic activity will be impossible until the virus is contained, and the impact of market disruptions and behavioral changes are likely to endure long after the immediate crisis has abated.

Section A of this report provides an update on the global Covid-19 economic shock, its transmission channels to Myanmar, the impacts on sectors of the economy, outlook and risks, and the Myanmar government response. Section B goes deeper into impacts on firms and households drawing on a dedicated survey.

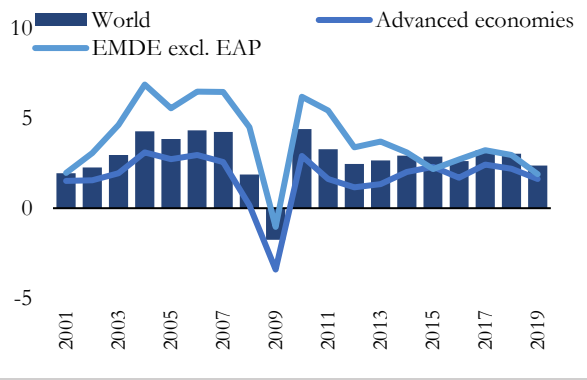
I. The Global Macroeconomic Shocks Caused by Covid-19

Global Economic Developments

The global economy was slowing before Covid-19 as global growth declined to 2.4 percent in 2019—the slowest growth rate since the global financial crisis in 2009. Global growth remained weak in 2019Q4 reflecting mixed performance in major economies (**Figure 1**). The U.S. economy grew by 2.1 percent in 2019Q4 (q/q saar), while growth in the euro area fell to 0.4 percent (q/q saar), its slowest pace since 2013. Activity in Japan contracted 7.1 percent in 2019Q4 (q/q saar) due to the increase in the value-added tax from 8 to 10 percent on October 1 and the impact of Typhoon Hagibis.

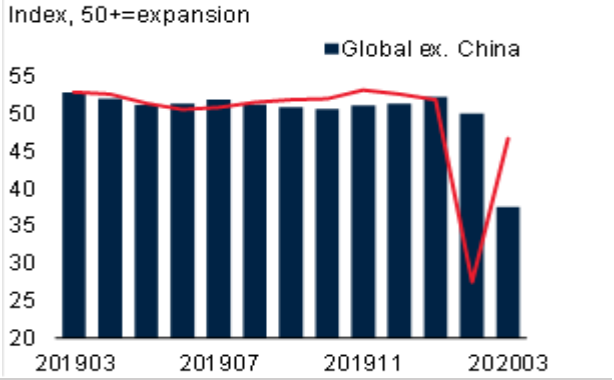
[2] https://www.bloomberg.com/news/articles/2020-03-24/myanmar-faces-squeeze-on-hospitals-basic-needs-as-virus-arrives

Figure 1: Global Economic Growth Rates, 2010-19
(%)



Source: Haver Analytics; World Bank.

Figure 2: Composite Purchasing Managers Index, 2019-20
(index)



Source: Haver Analytics; World Bank.

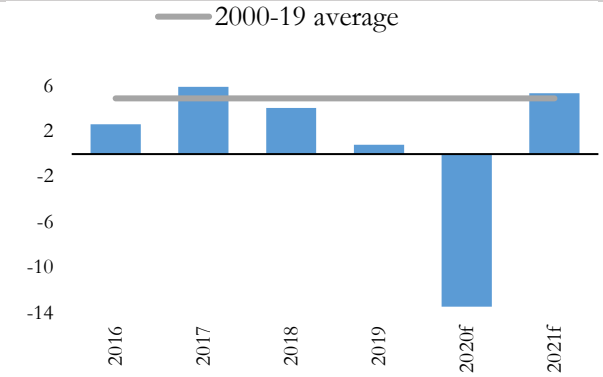
A pickup in global economic activity has been disrupted by the global pandemic and various mitigation measures implemented first in China and later in the rest of the world to slow the spread of the coronavirus. In China output contracted sharply in the first quarter. The contraction reached its nadir in mid-February, and activity started to recover in March following a relaxation of the domestic lockdown. In the rest of the world, activity deteriorated sharply in the latter part of 2020Q1. The global composite Purchasing Managers' Index (PMI) excluding China fell by 12.5 points to 37.6 in March. This was the steepest single-month decline ever recorded, which brought the index to its lowest level since January 2009 (**Figure 2**).

Preliminary data point to a sharp contraction in global trade reflecting major disruption in international travel, tourism, and supply chains. The outbreak has hit global trade as it was recovering from its multi-year low level in 2019 weighed down by trade tensions and subdued global economic growth. Activity at ports fell in February to its multi-year low levels (**Figure 3**). The travel restrictions and risk aversion have weighed on global tourism and travel. Global new export orders index registered 46.6 percent in March, a decrease of 3.7 percentage points compared to the February reading of 45.2 percent (**Figure 4**). Manufacturers' stocks of purchases fell in March, while suppliers' delivery times continued to rise pointing to bottlenecks in supply chains.

Global financing conditions have tightened abruptly. Global equity markets have fallen sharply as the coronavirus outbreak has accelerated globally. Flight-to-safety flows pushed the yield of the benchmark 10-year U.S. Treasury below 1 percent for the first time ever on March 4th, while spreads on higher-risk debt have widened. Markets remain highly volatile, with the VIX volatility index tripling in March, on average (**Figure 5**).

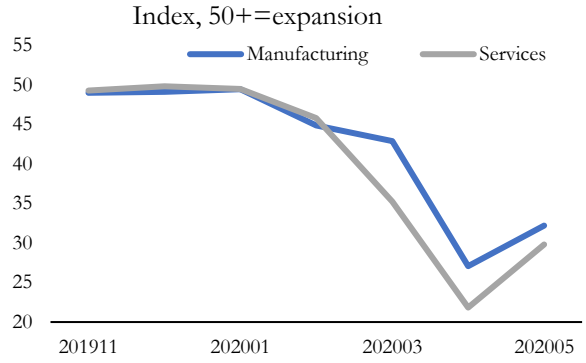
Emerging markets and developing economies (EMDEs) have experienced large capital outflows amid flight to safety. EMDE assets have been under significant pressure. Capital outflows from EMDEs exceed the worst period of the global financial crisis. Spreads on sovereign and corporate bonds have risen as a result, and most EMDEs have experienced drastic falls in domestic stock market indexes and currency values. Stock markets in the largest EMDEs have fallen by about a quarter, on average, since the start of the year. Markets expect central banks to provide significant additional monetary easing in the near term.

Figure 3: Global Trade, 2016-19
(%)



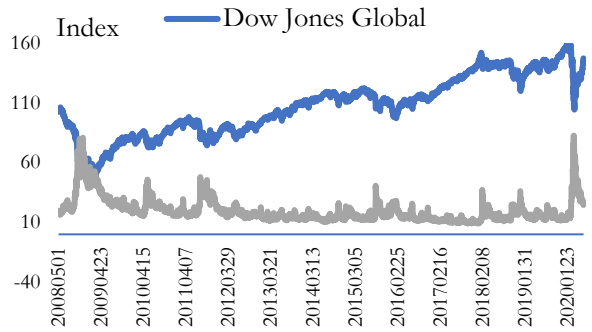
Source: Haver Analytics; World Bank.

Figure 4: Global New Export Orders, 2019-2020
(index)



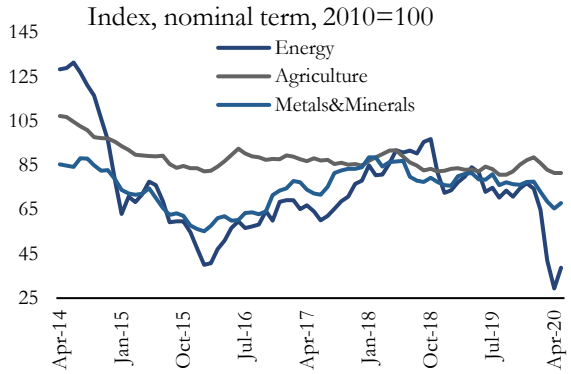
Source: Haver Analytics; World Bank.
Notes: Dow Jones global index (December 31 1991=100. United States CBOE volatility index [VIX].

Figure 5: Dow Jones Global Index and United States CBOE Volatility Index, 2007-2020
(index)



Source: Haver Analytics; World Bank.
Notes: Dow Jones global index (December 31 1991=100. United States CBOE volatility index (VIX).

Figure 6: Commodity Price Indices, 2014-2020 *(index)*



Source: Haver analytics; World Bank.

Commodity prices have fallen sharply. Oil prices have fallen more than 60 percent since January 20, the date human-to-human transmission of coronavirus was first publicly confirmed. West Texas International, the U.S. benchmark oil prices, dropped to around US$20 per barrel in mid-March before partially recovering to over US$30 in May. Containment measures taken to control the outbreak have resulted in a sharp decline in travel and therefore oil demand. The decline of oil prices has been exacerbated by the collapse of the production agreement between OPEC and its partners, including Russia. Global gas prices have also fallen sharply. The Natural Gas Price Index[3] has been declining continuously from 43.8 in February to 38.1 in April 2020, the lowest level in a decade. Industrial metals prices have also fallen, especially copper and zinc (~25 percent). Agricultural prices have been less affected, with the price of the three main grains down by 6 to 11 percent (**Figure 6**).

[3] Natural gas price index, 2010=100

The World Bank's June 2020 edition of Global Economic Prospects[4] estimates a -5.2 percent contraction in global GDP in 2020, the deepest global recession in eight decades, despite unprecedented policy support. The share of economies in recession in the world will be more than 90 percent – the highest since 1870. In the aggregate, advanced economies are projected to contract by 7 percent in 2020, as widespread social-distancing measures, tightening financial condition and a collapse in external demand. The output of EMDEs is expected to contract in 2020 for the first time in at least 60 years. adversely impacted by sharply weaker growth in China, and by the collapse in global commodity demand, especially oil.

In developing East Asia and the Pacific, economic growth is projected to slow sharply to 0.5 percent in 2020. This reflects the impact of pandemic-related lockdowns, tighter financing conditions, and a deep contraction in exports. Although subject to significant uncertainty, regional growth is expected to rebound to 6.6 percent in 2021 as the pandemic subsides, global import demand recovers, and capital flows to the region normalize.

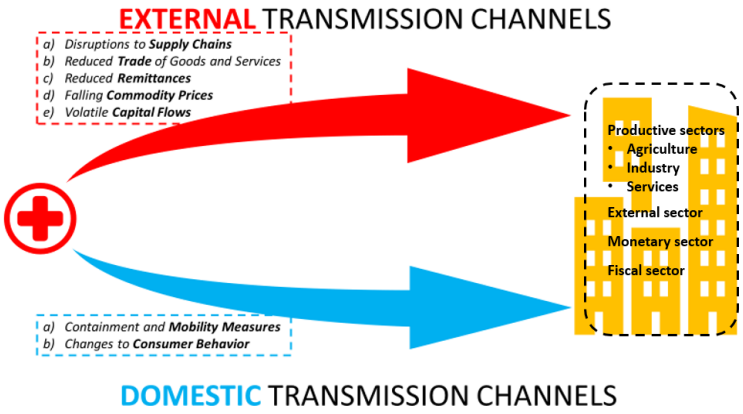
II. Transmission channels to Myanmar of the Covid-19 pandemic shocks

The Covid-19 pandemic shock is impacting Myanmar's economy through two distinct types of transmission channels, external and domestic, and their effects on some sectors will be deeper and more lasting than others. The shock first transmitted through the external channels, and subsequently through domestic channels once the disease reached Myanmar (**Figure 7**). The transmission channels impacted Myanmar's economy broadly across all three of its productive sectors (agriculture, industry and services) and its external, monetary and fiscal sectors (see **Section III. Covid-19 Economic and social impacts**).

The shock poses a risk to Myanmar's hard-won macroeconomic stability, but economic policy in recent years has built some resilience. Adverse developments in the real sector are exacerbating fiscal and external imbalances that had been slowly improving. In FY2019/20, the fiscal and external balances are expected to deteriorate sharply. Sharp revenue declines will cause the fiscal deficit to widen to 8.0 percent in the baseline scenario and may require inflationary borrowing from the central bank of Myanmar. On the external side, the Myanmar kyat (K) has paradoxically appreciated allowing a slight accumulation of foreign exchange reserves, although these remain low at only around 3.5 months of import cover. A sharp slowdown in exports could widen the current account deficit to 4.5 percent of GDP in the baseline scenario, putting pressure on foreign exchange reserves and the kyat. The government's adherence in recent years to fiscal rules and financing strategies, but also unintended underspending, helped Myanmar to maintain debt low and local. This allows Myanmar to borrow externally today to finance its crisis response (see **Section III.4. Fiscal Policy**).

[4] https://openknowledge.worldbank.org/handle/10986/33748

Figure 7: Covid-19 has impacted Myanmar's economy through two distinct transmission channels



Source: World Bank

1) External transmission channels:

The impact of the Covid-19 shock through external channels is amplified by Myanmar's increased trade integration with the global economy, but trade openness could also speed its recovery as external demand rebounds. External channels include reduced trade in goods and services, reduced remittances, disruptions to supply chains, falling commodity prices, and volatile capital flows.

a) Disruptions to supply chains: The disruption of manufacturing supply chains around the world has caused industrial production and employment in the manufacturing sector to contract in Myanmar, as the country's growing apparel industry is suffering from a shortage of raw materials from China. In 2018, up to 75 percent of the fabric processed in Myanmar's factories were supplied by China against 60 percent in 2013. With lockdowns enforced since late January, China's production of textile and leather fell, and exports of those goods to Myanmar dropped by 6 percent year-on-year in the combined months of January and February. Recorded from the Myanmar side, imports of textile and leather dropped by 10, 11 and 37 percent in January, February, and March, respectively, relative to their level the previous year, and the drop was driven by China. The shortage of raw materials has led several factories in Myanmar to reduce working hours, while others suspended operations entirely, leading to lay-offs. Media reported that in the Ayeyarwady region a single garment factory put over 1,000 workers out of a job in early March following a shortfall of raw materials from China

As Chinese firms resumed production and exports in March, the problem of supply chain disruptions was replaced by the challenge of declining external demand, as many orders were cancelled. Store closures due to quarantine measures in the EU and the US are having dire consequences. A recent report by McKinsey & Co[5] estimates that if stores remain closed for two months 80 percent of fashion companies in Europe and the US will find themselves in financial distress. To cut losses, major apparel

[5]https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/its%20time%20to%20rewire%20the%20fashion%20system%20state%20of%20fashion%20coronavirus%20update/the-state-of-fashion-2020-coronavirus-update-vf.ashx and https://www.mmtimes.com/news/more-woes-myanmar-garment-industry-eu-cancels-orders.html#:~:text=Update%3A%20More%20garment%20factories%20stopped,a%20senior%20industry%20leader%20said

brands and retailers are cancelling or postponing orders, including those already produced. Because brands typically do not pay for products until after they are shipped, when orders are put on hold or canceled so are payments. Canceled orders and associated non- or reduced payment have left firms in Myanmar—and all major clothing producing countries—without orders and unable to pay the wages of their workers[6].

b) ***Reduced trade of goods and services:*** Reduced global demand is expected to affect global trade at a more dramatic rate and more deeply than the global financial crisis. Myanmar has a lower dependence on trade as a share of GDP when compared to its neighboring EAP countries, but trade still represents 2/3 of GDP today compared with 47 percent of GDP in 2015[7]. Myanmar began feeling the impact of slowing global demand for its products very soon after the outbreak in China, beginning with land border closures on trade routes to China followed by significant cancellations to orders for manufacturing items from Europe. Myanmar's trade deficit continues to widen each month the pandemic continues particularly affecting manufacturing exports (see **Section III.2. International Trade, Investment, and Exchange Rates**). For services trade, Myanmar's modest but growing tourism sector is especially vulnerable to the crisis. Tourism revenue is projected to decline sharply in 2020, reflecting tightening global travel restrictions and falling earnings from hotels, restaurants, and transportation activities. With international airports closed, international tourism activity has halted.

c) ***Reduced remittances:*** Slowing external demand has seen a massive global movement of foreign workers back to their home countries as jobs are lost and industries that employ foreign workers are harshly affected. Myanmar has an estimated 1.9 to 3 million people living as economic migrants in Thailand, and a further 450,000 lived in Malaysia and Singapore (Ma 2017). The remittances from these workers reaches 8 percent of households in Myanmar and contributes to 53 percent of their income. The economic slowdown and lockdown measures in destination countries have triggered a mass return to Myanmar, with estimates up to 150,000 people before Thingyan alone and tens of thousands more following. Rural and non-poor households are more likely than the poor to receive international remittances. Although poor households are less likely than non-poor households to receive remittances, their reliance on these transfers for half of their income risks pushing them further into poverty. Simulations suggest that should the crisis have taken place in 2017, the year of the latest household living conditions survey, reduced remittances would have put 8 percent of near-poor households at risk of falling into poverty and would have moved a similar share of secure households closer to the poverty threshold. In addition to suffering the loss of an important source of income, remittance-dependent households could now face the additional burden of providing for more household members due to returning migrants.

d) ***Falling commodity prices:*** The reduction in global demand has driven commodity prices down with a 60.6 percent and 13.0 percent decline in oil and natural gas prices respectively between February and April 2020[8]. For Myanmar as an importer of oil, this is a positive outcome for consumers and producers. But Myanmar's second largest export product is natural gas and the decline in prices, amplifying the decline in demand (see transmission channel (b)) has significant implications for Myanmar's trade balance. Energy firms' viability and investment decisions are likely to be affected by the squeezing of their profit margins from lower demand and prices. Additionally, the lower gas prices

[6] https://asia.nikkei.com/Business/Business-Spotlight/Coronavirus-pandemic-tears-holes-in-Asia-s-garment-industry
[7] https://wits.worldbank.org/CountryProfile/en/Country/MMR/Year/2015/Summary
[8] According to World Bank Pink Sheet, crude oil average ($/bbl) and natural gas index (2010=100)

are expected to lower fiscal revenues from gas and oil by FY20/21 to about half the levels before the crisis (see **Section III.4. Fiscal Policy**).

e) Volatile capital flows: Global equity markets have fallen sharply as the coronavirus outbreak has spread globally. Flight to safety flows pushed the yield of the benchmark 10-year U.S. Treasury below 1 percent for the first time ever on March 4th to a low of 0.68 on 2nd June 2[9], while spreads on higher-risk debt have widened. Markets remain highly volatile, with the VIX volatility index tripling in March. While this is an important transmission channel for many economies, Myanmar is relatively insulated due to its shallow capital markets—very few Myanmar equities and government securities are traded, let alone bought by foreigners. Changes in foreign direct investment (FDI) flows are more important for Myanmar as these flows continue to finance roughly the entire annual trade deficit (US$1.9 billion in 2018/19), and they are often more stable source of financing, especially if the global shock is temporary and does not persist beyond a year. While investment approvals for Myanmar remain on track, actual FDI inflows for Myanmar was already lower in the first few months of 2020 and if economic uncertainty continues in global markets, firms' investment decisions into Myanmar are likely to be impacted (see **Section III.2. International Trade, Investment, and Exchange Rates**).

2) Domestic transmission channels

While the initial shock of Covid-19 was transmitted to Myanmar though external channels, domestic effects soon followed. To prevent the disease spreading within Myanmar, the government-imposed containment measures such as mandatory mobility restrictions, curfews, social distancing requirements and closed the borders to international tourists. Separately, many citizens have voluntarily changed their own consumer behaviors including decisions that affect retail trade, domestic tourism, urban and international migration and limiting use of public transport.

a) Mobility Restrictions: The Myanmar government swiftly implement several types of containment measures including mobility restrictions approaching the Thingyan Festival in late March to limit movement and subsequently the spread of the virus. This decision was the most significant domestic transmission channel to the economy as economic agents, including households, firms and government were all restricted in order to limit the spread of the deadly disease (**Box 1**).

b) Consumer Behaviors: For many households, the government's mandatory containment measures simply formalized ongoing voluntary changes in their behavior to impose social distancing. The first official case in Myanmar was reported on March 23rd 2020, but leading quickly to a 25 percent reduction in movement to workplaces and a nearly 50 percent reduction for retail related movement before March 28th when the first set of containment measures were introduced. This is consistent with global experience that many citizens were voluntarily imposing social distancing measures prior to government mandated lockdown measures. A recent study by the World Bank found that much of the decrease in mobility across country income groups is voluntary, driven by the number of Covid-19 cases and proxying for greater awareness of risk.[10] This observation has important implications for how much consumer's propensity to move and spend may recover after the mandatory containment measures are lifted, ultimately affecting the economic outlook (see **Section IV Outlook**).

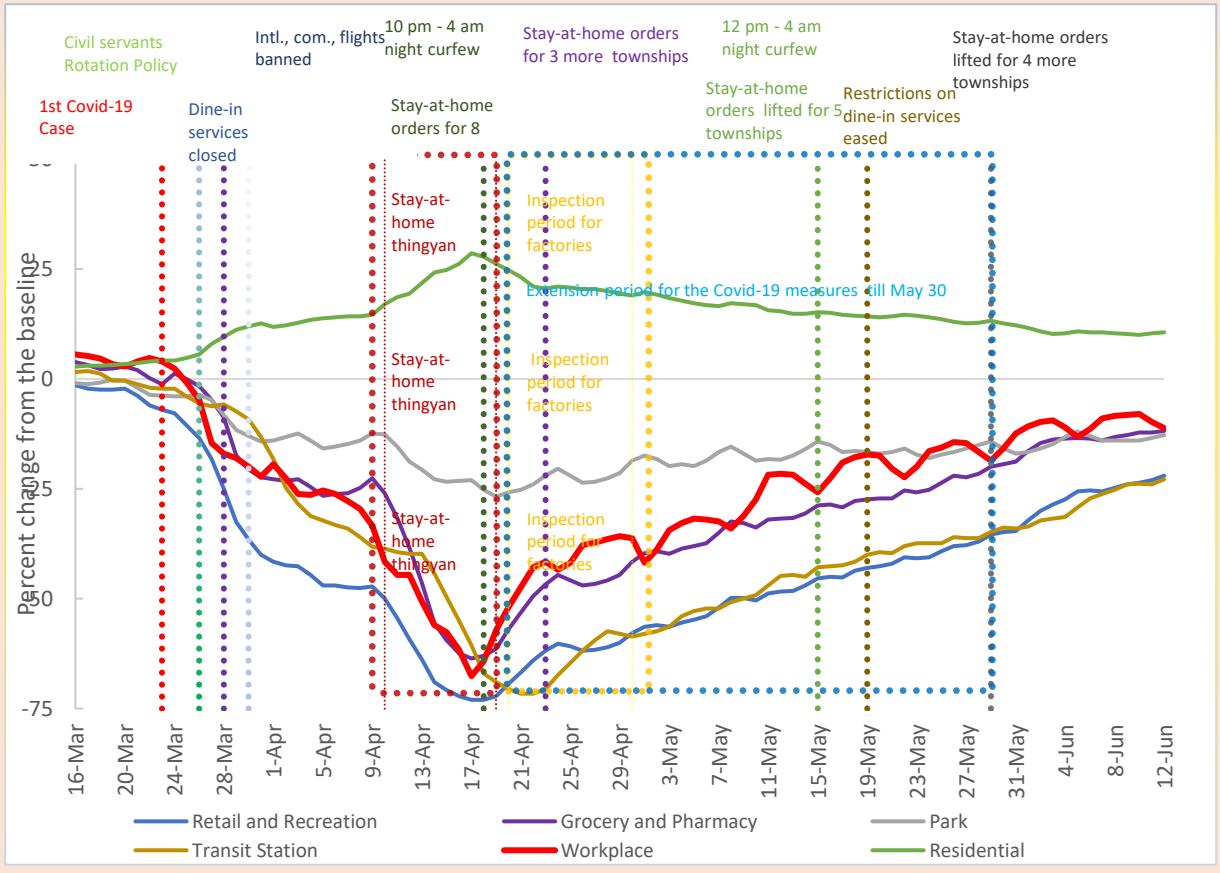
[9] https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield
[10] World Bank, 2020

Box 1: The effect of Myanmar Government's containment measures on movement

The government introduced movement restrictions to slow the spread of Covid-19 and mitigate its impact on morbidity and mortality. Dine-in at restaurants was banned on March 28. Foreign arrivals to Myanmar were restricted as visa restrictions were introduced, and then international flights were banned from March 30th. Lockdown measures were incrementally introduced to different townships from April 10 until the end of May. Following the "stay home" notice in effect from April 10 to 19 of the Thingyan holiday period, many workplaces required official certification of compliance with social distancing measures between April 20 and 30 before they could re-open operations in late April. Additionally, curfews in many townships allowed only essential activity to occur in April.

The extent of the impact of the containment measures can be better understood by examining the trends on movement during this period (Figure 8). Using Google Mobility data, we observe that retail and recreation movement reached a 59 percent fall in April compared to normal activity and by June 12 remained 21 percent below normal. Movements to grocery stories and pharmacies fared a little better at a 12 percent reduction from normal activity. Movement to workplaces improved from the lows in April, but still remained 9 percent below usual activity by June 12, indicating that the economy has yet to return to full capacity even as domestic lock-down measures have been all but lifted.

Figure 8: Google Mobility Data (5-day moving average) and Containment Measures in Myanmar



Note: Google daily mobility data is now available up to June 12, 2020. The values represent percentage changes compared to a baseline value for that day of the week, and the baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3 - Feb 6, 2020.
Source: Google and World Bank

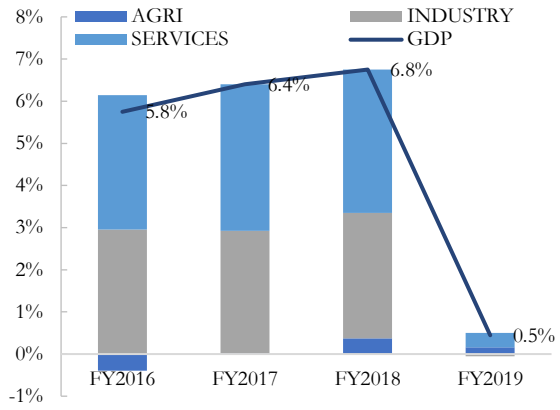
III. Covid-19 Economic and social impacts

III.1. The Real Sector

The Covid-19 outbreak has interrupted Myanmar's economic expansion

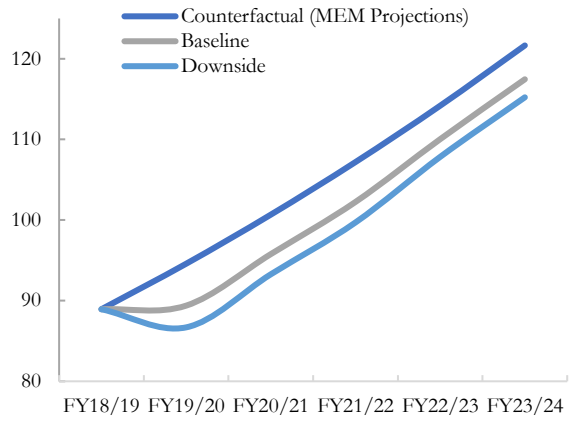
Myanmar's GDP growth rate is expected to fall from 6.8 percent in FY2018/19 to 0.5 percent in FY2019/20 in the baseline scenario (Box 2) affected through both external and domestic channels. The pandemic and associated containment measures are weakening aggregate demand, and disrupting the supply of labor and inputs with negative effects on wholesale and retail trade, tourism-related services, and manufacturing and construction activities. Depressed economic activity is inhibiting private consumption and investment, putting further downward pressure on economic growth. The revised FY2019/20 growth forecast is 5.9 percentage points lower than the pre-Covid-19 forecast for FY2019/20 of 6.4 percent (**Figure 9**). In the downside scenario growth could be as low as -2.5 percent. In other words, economic output could contract by as much as -2.5 percent in FY2019/20 compared with FY2018/19. This would be equivalent to a loss of national income of K 5.2 trillion (US$3.7 billion) relative to the pre-crisis counterfactual (**Figure 10**).

Figure 9: The Covid-19 outbreak has caused a sharp decline in real GDP growth…
(real GDP growth rate, %)



Source: WB staff estimate

Figure 10: GDP level projections remain well below their pre-crisis counterfactual for the medium term.
(kyat trillions)



Source: WB staff estimate

The effects of the pandemic differ across productive sectors. Agricultural production and information and communications technology (ICT) are less exposed to the direct effects of the pandemic, while tourism-related services and transportation activity is highly vulnerable and expected to decline steeply in FY2019/20. The agriculture sector accounts for 22 percent of gross value added and 38 percent of employment, the industry sector accounts for 36 percent of gross value added and 20 percent of employment, and the services sector accounts for 42 percent of gross value added and 42 percent of employment. Favorable weather conditions are expected to support a 0.7 percent increase in agricultural output, supported by crop production. In contrast, industrial production is expected to contract by -0.2 percent in FY2019/20, as a limited labor supply and weak demand slow growth in manufacturing and construction activities. The service sector is expected grow by 1

percent, as precautionary behavior and travel bans negatively impact wholesale and retail trade, tourism-related services and transportation.

Box 2: The Impact of Covid-19 on Annual GDP Growth under Baseline and Downside Scenarios

Containment measures have been shown to slow the spread of Covid-19, reducing its impact on morbidity and mortality, but the measures also entail major economic costs. While the effect of governmental lockdown, quarantine, and social-distancing policies can be difficult to disentangle from the effect of voluntary behavioral changes, this analysis attempts to estimate the impact on growth and thus the direct economic cost of containment measures.

The analysis presented below hinges on assumptions regarding (i) the intensity and duration of containment measures and (ii) their impact on GDP. The methodological approach was inspired by the IMF's approach for projections in the April 2020 WEO. The assumptions regarding the intensity and duration of containment measures are organized around two scenarios. The baseline scenario assumes that the virus is contained efficiently, and the lockdown is lifted in June, allowing for an economic recovery. The downside scenario assumes that the outbreak will linger and that containment measures will not be lifted until late September. A moderate lockdown was imposed in March, followed by a stringent lockdown in April. Widespread economic impacts are expected to materialize in April.

<table>
<tr><th>Assumptions about
Lockdown Intensity and Duration</th><th>Assumptions about
Lockdown Impact on GDP</th><th>Outcome</th></tr>
<tr><td><u>Baseline scenario</u>:
Pre-lockdown impact from last week of February to third week of March.
Moderate lockdown begins in the last week of March 2020 and again from mid-April to mid-May.
Strict lockdown during Thingyan, in the mid-April.
Post-Lockdown impacts from mid-May to October</td><td rowspan="2">Each type of lockdown reflects a different level of economic activity.
The numbers below represent the annualized impact of EACH WEEK of that type of lockdown.
Pre-lockdown: A few sectors are impacted. GDP contracts by 6 percent. (i.e. In pre-lockdown period, all businesses are operating, but tourism affected by travel restrictions in and out of Myanmar.)
Moderate lockdown: Most businesses still operating; GDP contracts by 21 percent
Stringent lockdown: Only essential businesses operating; GDP contracts by 41 percent
Post lockdown: Social-distancing measures remain in place; GDP contracts by 13 percent</td><td><u>Baseline scenario:</u>
The annual GDP growth rate falls to 0.5 percent in FY2019 and recovers to 7.2 percent in FY2020.</td></tr>
<tr><td><u>Downside scenario</u>:
Pre-lockdown impact from last week of February to third week of March.
Moderate lockdown begins in the last week of March 2020 and again from last week of April to August.
Strict lockdown during Thingyan and the week after
Post-Lockdown impact in September and a return to normal economic activity in October</td><td><u>Downside scenario:</u>
The annual GDP growth rate falls to -2.5 percent in FY2019 and recovers to just 7.6 percent in FY2020.</td></tr>
</table>

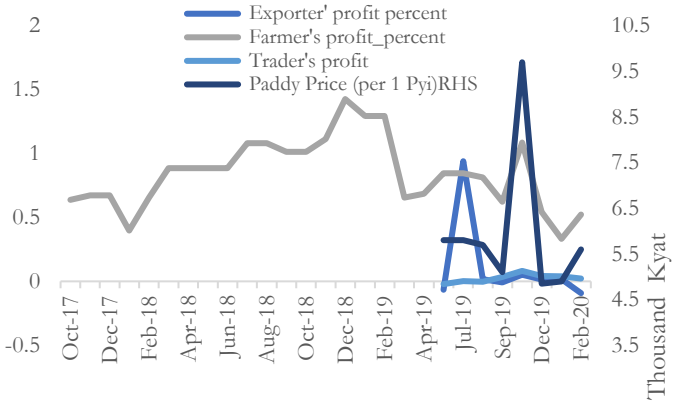
The agricultural sector's growth performance in FY2019/20 is proving resilient, though outcomes are mixed across subsectors

The agricultural sector is expected to grow by an estimated 0.7 percent in FY2019/20, down from 1.6 percent in FY2018/19, driven by strong crop production. Strong external and domestic demand for staple food is supporting agriculture activity. In the first 8 months of FY2019/20, agriculture crop export has grown by 20 percent compared with same period last year. Favorable weather and increased demand for staple foods are expected to support crop production, but livestock and fishery output is declining. Crop production, which accounts for 54 percent of agriculture output, has thus far proven resilient to the economic effects of the pandemic. Crop output is estimated to grow by an estimated 1.2 percent in FY2019/20, supported by paddy rice and beans and pulses. The bulk of the production and marketing process, especially for paddy rice, occurred during H1 FY2019/20 and was unaffected by the pandemic.[11] Paddy rice output, which accounts for about 17 percent of agricultural production had reached an estimated 14 million metric tons in H1 FY2019/20 compared with 27.5 million metric tons over the whole fiscal FY2018/19. Although beans and pulses represent a modest share of agricultural production, increased demand from India is driving the growth of the subsector. During FY2019/20, India raised its import quota for mung beans from 150,000 to 400,000 metric tons. However, perishable commodities, including fresh fruits and vegetables, which represent 8 percent of total crop production, have been hit hard by trade restrictions imposed by Myanmar's major trading partners due to covid-19 outbreak in China. Anecdotal evidence suggested that export loss in watermelon alone was estimated around K 90 billion (US$65 million)[12].

The declining profitability of the rice supply chain could adversely affect agricultural investment. In Q1, farmers' profit margins rose by double digits due to strategic buying by government in October/November 2019. Farmers passed these high prices on to millers, squeezing profits already affected by lower export prices. The falling profitability of rice milling (**Figure 11**) and trading could in turn cause millers to lower their purchase price from farmers, which could constrain the ability and incentive of farmers to invest during the next cropping period. The further weakening profitability of rice milling and trading in Q2 likely reflected the deteriorating terms of trade and the government's food-reserve scheme, which involved buying rice at a lower than market price. For emergency purposes and domestic self-sufficiency, the government stockpiled 50,000 metric tons of rice (equivalent to 10 percent of total rice exports) and 12,000 metric tons of palm oil at a total cost of K 38 billion. While enhancing food security is a critical objective during the pandemic, this policy may have negatively impacted agricultural exports, reducing the profitability of milling and trading in the process. Hence, constant monitoring on the policy will be crucial to ensure government efforts have the desired economic outcome.

[11] The first half of the fiscal year includes the monsoon and summer seasons. Monsoon paddy rice is sown in May-July and harvested in October-December. Summer paddy rice is sown in November-December and harvested in March- June.
[12] https://www.mmtimes.com/news/muses-melon-exports-severely-hit-virus-outbreak.html

Figure 11: Farmgate prices for paddy rice surged in Q1 FY2019 (Thousand Kyat/16 Pyi) boosting the profitability of rice farming at the expense of milling, trading, and exporting.
(profit, %)



Source: Ministry of Commerce

Weakening external demand and price volatility is causing livestock and fishery production to contract compared to the last year. Livestock and fishery output, which accounts for 8 percent of agricultural gross value added, contracted by an estimated -0.12 percent in FY2019/20. Despite strong growth in H1, lockdown measures and the border closure disrupted transportation and logistics networks and sharply reduced both domestic and external demand. Many fishery exports to China, US have been suspended[13] due to the outbreak of Covid-19, and buyers from EU markets have stopped signing new orders. Falling demand for low-margin fishery products is putting pressure on existing operations and may discourage investment in the coming production cycle. The fishery subsector accounts for 2 percent of total employment, and this share has been increasing over time, but unless supply and demand conditions normalize, job losses in the subsector are likely to accelerate.

The disruption of supply chains and weakening global demand have negatively impacted the industrial sector

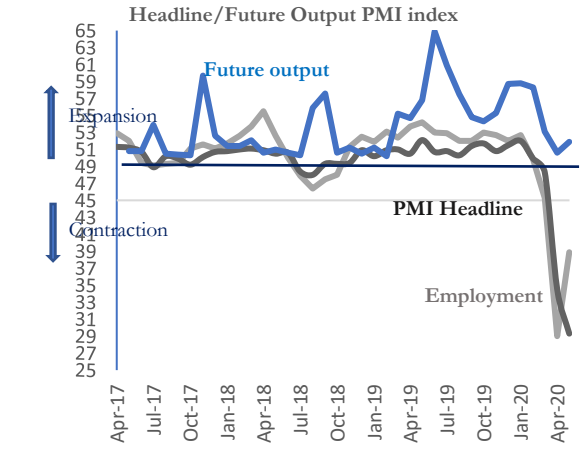
Industrial output is estimated to contract in FY2019/20 due to a decline in manufacturing and construction activity. The industrial sector's growth rate is estimated to fall from 8.4 percent in FY2018/19 to an estimated -0.2 percent in FY2019/20, reflecting a sharp drop in manufacturing activity, including gas, and construction activity during the pandemic. The manufacturing growth rate is estimated to fall from 9 percent in FY2018/19 to an estimated 0.5 percent in FY2019/20.

The headline manufacturing PMI indicates that the contraction began in February 2020. The headline PMI fell from 52.7 in January to below 50 to 45 in March and 29 in April, before recovering slightly to 39 in May, but stayed in deep contractionary territory (**Figure 12**). The PMI business confidence index also deteriorated as business activities were suspended. Essential consumer goods, including pharmaceuticals, sanitation products, and food and beverages, which together represent about 20 percent of total output, have performed well during the pandemic, but other manufacturing industries, representing 23 percent of total output, are expected to suffer. Moreover, the profitability of manufacturing is a concern: since April, output prices have fallen while input prices rose (**Figure 13**), mirroring developments in the agricultural sector.

[13] https://www.bloomberg.com/news/articles/2020-05-29/collapse-in-myanmar-seafood-exports-puts-1-million-jobs-at-risk

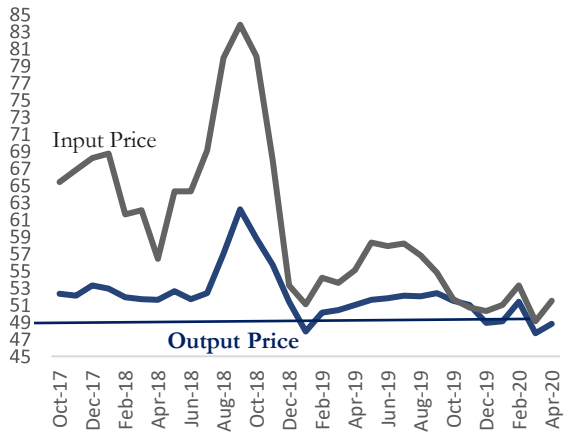
Compared to January, output prices have contracted by – 0.3 percent while input price expanded by 0.5 percent in April.

Figure 12: Manufacturing production has plummeted…
(index)



Source: IHS Markit and Nikkei

Figure 13: …and both output and input prices have fallen.
(index)



Source: IHS Markit and Nikkei

The manufacturing sector is suffering from the combined impact of international supply-chain disruptions, domestic restrictions on economic activity, and falling external demand. In Q2 of FY2019/20 Myanmar's manufacturing industry experienced a shortage of raw materials due to the suspension of imports from China. As China supplies 90 percent of the inputs for garment manufacturing, Myanmar's total manufacturing output declined sharply in Q2. Meanwhile, the authorities imposed lockdown measures in March and only started to lift them in May. Restrictions on economic activities and the movement of people reduced the productive capacity of the manufacturing sector. Meanwhile, the global pandemic has adversely impacted external demand leading to a drop in manufacturing exports during March. The contraction in manufacturing output has negative ramifications for wholesale and retail services, as 50 percent of domestic food production relies on the domestic agribusiness sector.

Short-term disruptions in manufacturing could drive a realignment of supply chains. The Covid-19 crisis has underscored the urgency of diversifying Myanmar's manufacturing sector by supporting the elaboration of domestic supply chains. For example, on healthcare products, Myanmar already produces some types of essential health equipment (e.g., surgical gowns), and it registered a 60 percent increase in medical exports to the United States in January 2020,[14] indicating the potential for greater diversification. As global investors consider options for moving manufacturing facilities out of China to reduce future exposure risks, Myanmar's manufacturing industry is well-positioned to benefit from the restructuring of supply chains.

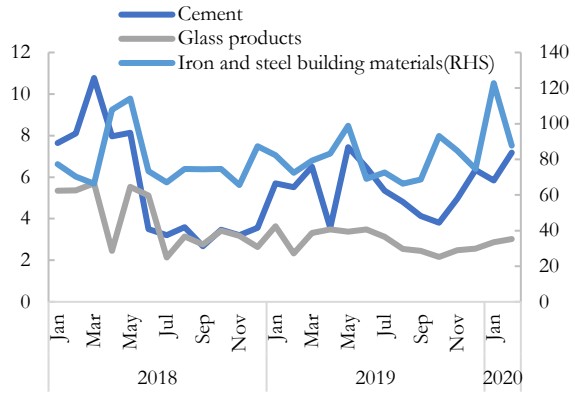
Manufacturing employment is expected to decline in the short term. The ILO expects the pandemic to disproportionally affect young people, who are especially vulnerable to decreased labor demand, and especially women, who are over-represented in the manufacturing sector. Since the beginning of the shutdown in Q3, an estimated 175 factories have laid off a total of about 60,000 workers.[15] Overall, manufacturing employment is threatening the livelihoods of 6 percent of households losing their jobs during the shutdown period. Employment in the manufacturing sector is likely to remain depressed until the end of fiscal year, due to the slow projected recovery and the persistence of social-distancing measures.

[14] https://logisticstrendsandinsights.com/shortages-in-medical-supplies-linked-to-imports/
[15] Ministry of Labour and Immigration Department

Weakening domestic demand and declining investment are affecting nonessential construction work

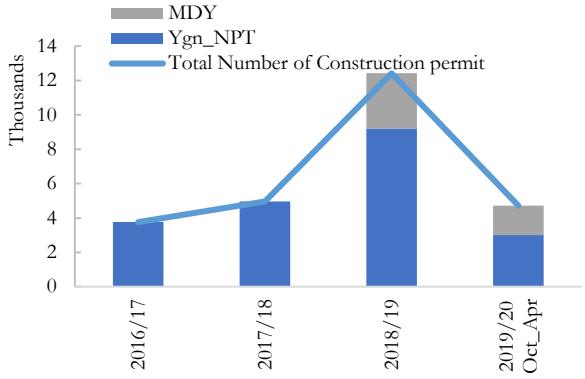
Despite its high growth potential, declining demand and investment are slowing activity in the construction sector, which is estimated to contract by an estimated -1.3 percent in FY2019/20 despite a strong first half of the year. Robust construction activity in H1 FY2019/20, combined with the launch of large infrastructure projects, accelerated imports of building materials (**Figure 14**). However, the Covid-19 outbreak presents a major challenge to the construction sector. The number of construction permits issued started to decline from April (**Figure 15**), and so far in Q3, many planned construction projects have been suspended. Falling demand for nonessential projects, such as offices and entertainment venues, coupled with cashflow problems and the impact of the temporary shutdown, has caused residential building construction activities to drop by an estimated 30 percent for FY 2019/20. Construction represents 6 percent of gross value added and employs 7 percent of the labor force. Most construction workers are paid on a daily basis and have no access to social security.

Figure 14: Prior to the emergence of Covid-19, imports of construction materials were strong and rising
(imports of construction materials, US$ millions)



Source: Ministry of Commerce

Figure 15: The number of construction permits issued is expected to decline, year on year, based on activity in the first seven months of 2019/20



Source: Yangon and Nay Pyi Taw City Development Committee

Accelerating the implementation of planned infrastructure projects could help mitigate both the short- and long-term economic impacts of Covid-19. Public investments in transportation and other forms of infrastructure could alleviate job losses in the construction sector while accumulating capital assets that increase future economic productivity. Myanmar's Project Bank[16] includes numerous preapproved projects, which would enable the government to rapidly scale up infrastructure investment once appropriate pandemic-related safety measures have been put in place.

The collapse of global oil prices in the wake of the Covid-19 pandemic is taking a toll on gas production. After growing by 1.3 percent in FY2018/19, the energy sector is expected to contract by -2.4 percent in FY2019/20. Despite rising investment levels in H1 FY2019/20, Myanmar's oil and gas sector is struggling to cope with low global oil prices. Gas production accounts for 3.6 percent of gross value added, and declining gas output is expected to increase the fiscal and external imbalances while intensifying financing pressures.

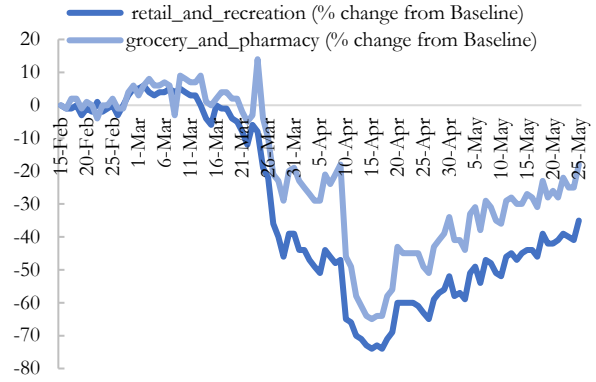
[16] https://projectbank.gov.mm/en/

Behavioral changes among consumers are altering demand for services

The service sector is estimated to grow by an estimated 1 percent in FY2019/20, down from 8.3 percent in FY2018/19, and the pandemic is profoundly affecting the types of services consumed. Activities involving transportation, wholesale and retail commerce, hotels and restaurants, and entertainment are being adversely affected by contagion fears and social-distancing measures. By contrast, the ICT sector, which accounts for 2.6 percent of gross value added, has continued to perform well, and the financial sector is likely to grow by an estimated 0.4 percent spurred by investment in the insurance sector.

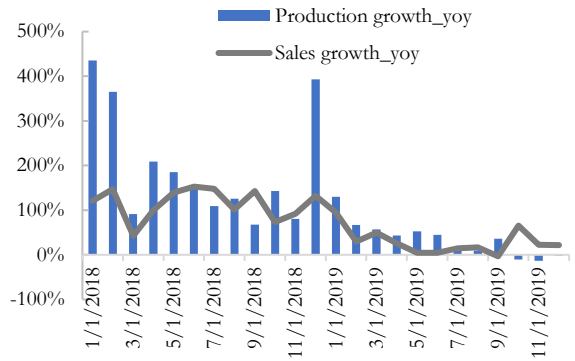
Cautious spending patterns and weakened supply chains are slowing the growth of wholesale and retail. The retail subsector, which accounts for almost 20 percent of GDP, is estimated to grow by an estimated 1.8 percent in FY2019/20, down from 7.8 percent in FY2018/19. Consumer confidence is deteriorating – in a recent survey by McKinsey & Co 57 percent of respondents said that Covid-19 will impact the economy for 6-12 months or longer followed by a possible recession, while another 8 percent said the recession could be lengthy.[17] Increasingly cautious consumers appear to be prioritizing essential items and delaying nonessential purchases. Consumption of essentials such as healthcare was up by 40 percent, household care by 20 percent and food by7 percent. However, the nonfood retail subsector has experienced an estimated 80 percent decline in total sales, as consumers have cut their discretionary spending on non-essentials during the shutdown period. Proxied mobility data suggests retail and recreation/grocery and pharmacy services declined sharply in Q3 (**Figure 16**). Drastic declines are evident in the consumption of apparel, vehicles, jewelry, gasoline, and accessories, as well as in broader consumption categories. Since Q1 FY2018/19, year-on-year automobile sales growth has fallen from 132 percent to 22 percent Q1 FY2019/20 (**Figure 17**), while falling imports of motorbikes and motorcycles indicate a decline in domestic sales. Meanwhile, the retail sector has experienced a 60 percent drop in inventory due to reduced domestic production and logistical constraints. Consequently, much of the retail market has limited its operating hours or some shut down entirely.

Figure 16: Retail and recreation and grocery and pharmacy services declined sharply in Q3…
(% change from baseline)



Source: Mobility data

Figure 17: …while automobile sales growth tapered off, and production began to contract.
(% change, yoy)



Source: ASEAN Automotive Association

As consumer behavior shifts, online shopping is emerging as a relative bright spot in the retail sector. In comparison with pre-Covid-19 period (January/February 2020), social-distancing measures spurred a 50 percent increase in online shopping orders, 60 percent increase in sales and 50 percent increase, in online payment[18] reported by major online shopping service. Since the beginning of the shutdown period, internet

[17] Source: McKinsey & Company Covid-19 Myanmar Consumer Survey 4/25 - 5/6/2020
[18] Shop.com.mm

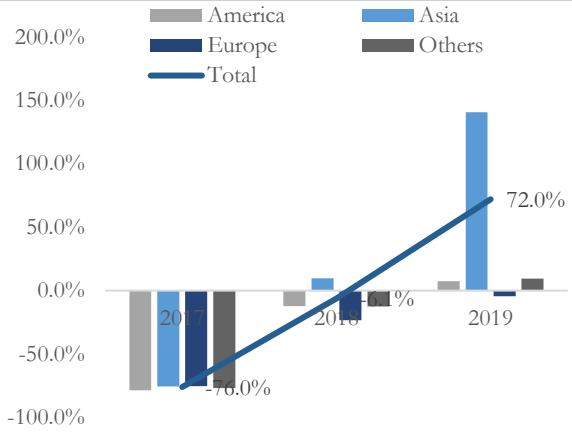
data usage has expanded by 25 percent, which has jumped from 263,320 TB in October 2019 to 327,688 TB in May 2020.

However, the nascent e-commerce market has a limited supply-chain and experiences frequent delivery delays. Developing ICT skills among entrepreneurs, building out electronic-payment systems, expanding digital literacy, retailed licensing and clarifying the legislative and regulatory framework for e-commerce could enable the retail sector to cope with the impacts of social distancing while providing a digital platform to support the development of small and medium enterprises (SMEs). Rapidly elaborating the physical, legislative, and institutional infrastructure for e-commerce sector could accelerate the development of the retail sector while positioning domestic firms to take advantage of further technological advancements.

The pandemic is having a deeply negative impact on travel and tourism-related services, as travel bans and precautionary behavior are constraining activity in the sector. In Q1, Myanmar saw a 72 percent year-on-year increase in tourist arrivals (**Figure 18**). However, tourist arrivals fell by half from Q2 onward as shutdown measures, travel bans, and border closures began to take effect. By February, tourist arrivals from China had dropped by 9 percent, South Korea by 33 percent, and Singapore by 21 percent[19]. In March, the government suspended visas for foreign nationals and restricted the arrival of international flights completely halting international tourism. By the end of FY2019/20, total arrivals for the year from major source markets is estimated to fall by 40-50 percent. Meanwhile, the number of domestic flights fell by 64 percent between mid-April and mid-May (**Figure 19**). The downward trend in domestic travel (**Figure 20**) compounded the decline in tourism-related earnings from hotels, restaurants, rentals, overland transportation, and other services. Due to precautionary behavior, the transportation, hospitality, and tourism industries are expected to recover more slowly than other sectors even after restrictions have been lifted (see **Special Topic 1: The Firm-Level Impact of the Covid-19 Pandemic**).

Figure 18: Tourist arrivals grew at a robust pace in Q1…

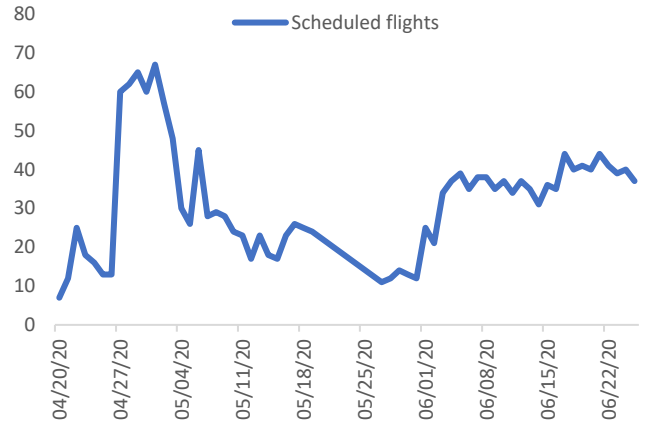
(% change, yoy)



Source: Ministry of Hotels and Tourism

Figure 19: …but air traffic into Yangon airport has plunged since April…

(scheduled flights to Yangon airport)

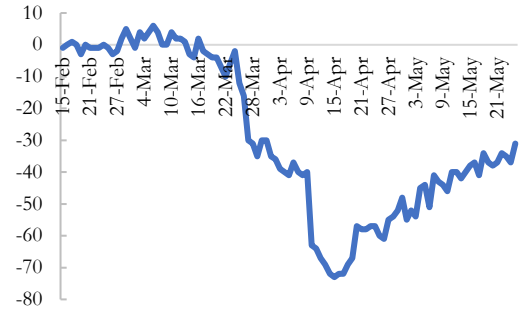


Source: https://www.flightradar24.com/data/airports/rgn/statistics

[19] Ministry of Hotels and Tourism, quoted in Collier International

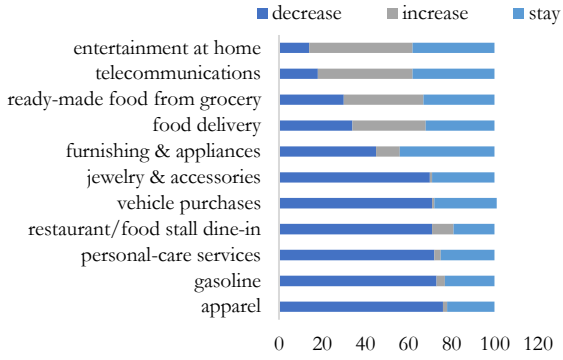
Figure 20: ….and domestic land transportation has been falling since March and remains below the baseline

(% change from baseline)



Source: Mobility Data

Figure 21: Private consumption has declined, while the focus of consumption has shifted.



Source: McKinsey & Co survey

Weakening consumer and business confidence is driving down private consumption and investment

Private consumption growth moderated in FY2019/20, reflecting diminished purchasing power and falling private income levels. Nearly 18.5 of households in Myanmar receive domestic and/or international remittances. Following strong remittance growth in Q1, remittance inflows subsequently dropped by an estimated a 30 percent decline in domestic remittance income (with an assumed 50 percent decline in international remittance income)[20] as the Covid-19 pandemic adversely impacted employment and earnings, both in the domestic market and in remittance source markets. Rising domestic unemployment and dwindling remittance inflows are estimated to have slowed consumption growth in FY2019/20 while shifting the focus of spending from discretionary items such as clothing, vehicles, jewelry, and gasoline (**Figure 21**) to essential items such as food and healthcare. Although expanding public expenditures may partially offset the drop in private consumption, a net shock to aggregate demand is expected to have adverse spillover effects on other sectors via trade and production linkages.

Liquidity constraints and uncertainty are expected to weigh on both domestic and international investment in FY2019/20. The current climate of economic volatility and unprecedented uncertainty is encouraging caution among private investors. Foreign investment is expected to fall as major FDI source markets, such as Singapore, China, and Thailand, face sharp domestic downturns. Meanwhile, fiscal revenue shortfalls could reduce public investment, including in basic infrastructure, compounding the short-term decline in private investment.

III.2. International Trade, Investment, and Exchange Rates

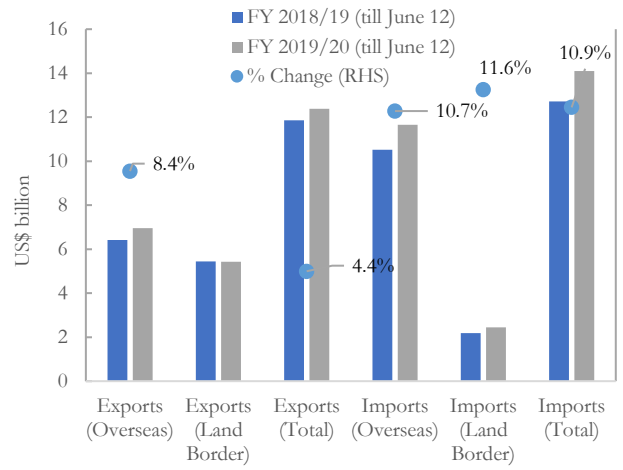
Despite a strong start to the year, Covid-19 may cause an annual decline in trade

Myanmar's trade with the rest of the world increased in the first eight and half months of FY 2019/20, from October 1, 2019 to June 12, 2020. Compared to the same period in FY 2018/19, trade volume increased

[20] https://myanmar.ifpri.info/2020/06/08/assessing-the-impact-of-declines-in-remittances-due-to-covid-19-on-household-incomes-and-poverty/

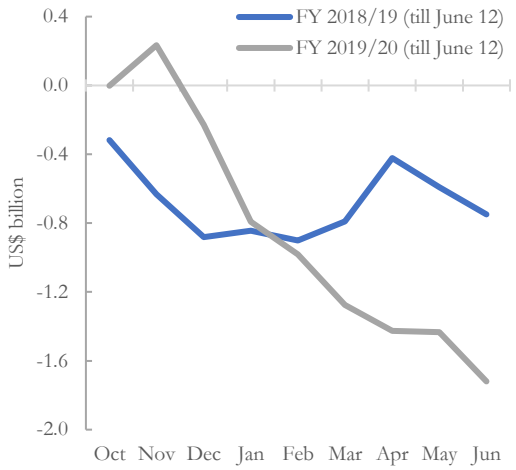
by US$1.9 billion (8 percent). The increase was driven largely by imports which grew by 11 percent (or US$1.4 billion) as exports grew by 3 percent (or US$0.5 billion) (**Figure 22**). Trade through both overseas and land border's increased by 10 percent and 3 percent, respectively.

Figure 22: Comparison of exports and imports between FY 2018/19 and FY 2019/20



Source: Ministry of Commerce

Figure 23: Comparison of cumulative trade balance between FY 2018/19 and FY 2019/20



Source: Ministry of Commerce
Note: Trade balance is cumulative, so each month represents cumulative trade balance of fiscal year. Due to the limited data availability, March covers period between March 1 and March 13, April covers period between March 14 and April 17, May covers period between April 18 and May 15, and June covers period between May 16 and June 12.

Covid-19 has led to a further widening of the trade deficit

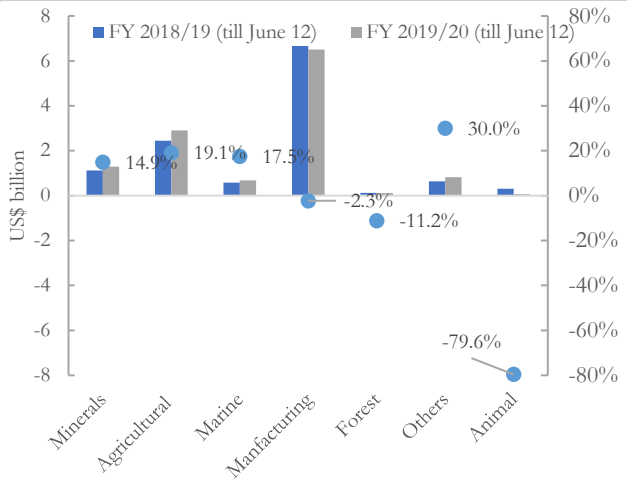
The trade deficit widened to US$1.7 billion, which is US$0.87 billion higher than the same period last year. In the previous fiscal year, the trade deficit was stable during the second quarter and narrowed in the third quarter (**Figure 23**). However, the current fiscal year saw the deficit widen in the second quarter and further widen in the third quarter as the effects of Covid-19 hit Myanmar.

After a strong performance this year, Covid-19 caused a sharp decline in Myanmar's manufacturing exports while other exports held up. The overall export increase was driven by agricultural products (19.1 percent increase), minerals (14.9 percent increase), marine products (17.5 percent increase) and other products (30 percent increase), compared to the same period last year (**Figure 24**). Exports of marine products are expected to decline in the coming months as global demand for fishery products weakens. Manufacturing exports,[21] which account for half of Myanmar's total exports, were 32 percent higher in the first 3 months of the fiscal year, prior to Covid-19, compared to the same period last year. However, as the pandemic set in, manufacturing exports were 39 percent lower in April, May, and June than in the same period last year. As a result, overall, manufacturing exports declined by 2.3 percent in this fiscal year to June when compared to last

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

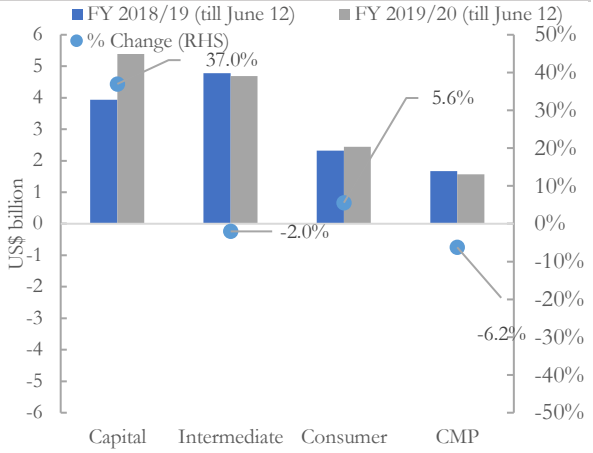
year. This is expected to be further reduced in the rest of the fiscal year due to the disruption in supply chains and weakening demand from Europe for Myanmar's manufacturing exports.

Figure 24: Change in exports by product group



Source: Ministry of Commerce

Figure 25: Change in imports by product group



Source: Ministry of Commerce

Myanmar's reliance on a few markets for gas and garment exports could put pressure on exports of manufactured goods. Thailand and China are the only markets for Myanmar gas exports capturing 70 and 30 percent respectively of total exports. Myanmar gas exports declined by a total of 25 percent in January and February compared to the same period last year. In early March, following weeks of plunging demand, China's largest national oil company suspended all gas imports invoking force majeure and this had further significant implications on Myanmar's exports[22,23]. Similarly, in Thailand, demand for piped and liquified gas from Myanmar dropped as the economy slowed down following partial lockdowns since the end of March and a full nationwide curfew since April 3. Garment exports also rely on a few major markets such as the EU, the US, Japan, South Korea and China. Exports to the EU and the US in January and February were not affected, most likely because manufacturers in Myanmar had sufficient inventories, and many orders were already out for shipment. However, the impacts of Covid-19 will be felt from March as garment orders from the EU market, which accounts for 70 percent of Myanmar's garment exports[24], were cancelled.

Myanmar's overall increase in imports were driven by capital and consumer goods, but Covid-19 led to a decrease in imports of intermediate goods. Myanmar's imports of capital goods, accounting for 38 percent of Myanmar's total imports, increased by 37 percent (or about US$ 1.45 billion) in this fiscal year compared to the same period last year (**Figure 25**) thanks to strong performance in the pre-Covid months. Consumer goods imports also increased, by 5.6 percent. However, inputs for cut-make-pack (CMP) garment products and intermediate goods imports decreased by 6.2 percent and 2 percent respectively - resulting in a decrease in manufacturing activities and exports.

[22] Force majeure is a legal exclusion from contract commitments in cases of circumstances beyond a party's control. For the clause to kick in it typically needs to be proven that due to the virus, the logistics of the cargo have been delayed or canceled, which may be harder for commodity importers to prove.

[23] https://www.economist.com/finance-and-economics/2020/05/07/with-oil-prices-depressed-china-presides-over-a-buyers-market

[24] https://www.mmtimes.com/news/more-woes-myanmar-garment-industry-eu-cancels-orders.html

Myanmar's overall land border trade increased thanks to new destinations offsetting a decrease from major partners

Myanmar's overall border trade was higher than in the same period in the previous year as border trade with Bangladesh offset the decline in trade with China and Thailand, which account for a total of 89 percent of Myanmar's total land border trade. Myanmar's land border trade increased by 3 percent – driven by an increase in imports of 11.6 percent while exports decreased by 0.3 percent. (Figure 22). While Myanmar's land border trade with the major partners, China and Thailand, decreased 4.5 percent and 7.4 percent respectively, the land border trade with Bangladesh significantly increased by US$747 million this fiscal year, compared to only about US$16 million in the same period last year. The increase was driven by exports and imports at the Sittwe border post (see note to **Figure 26** and **Figure 27**).

Figure 26: Change in exports by land border posts

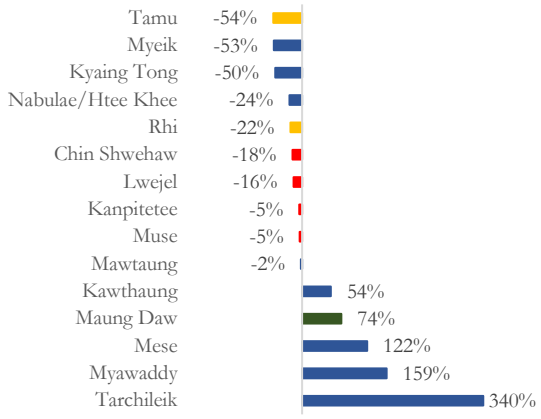
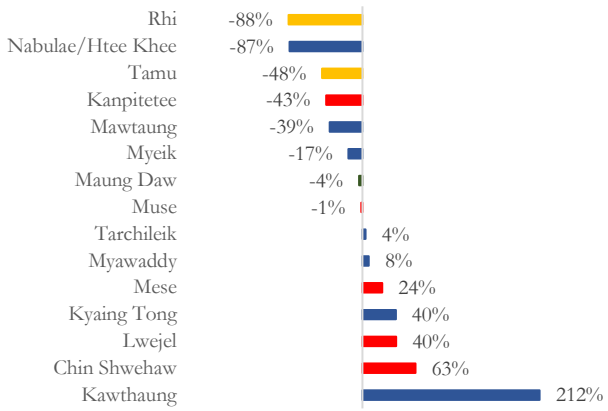


Figure 27: Change in imports by land border posts



Source: Ministry of Commerce
Note: Border posts with China are in red, with Thailand are in blue, with Bangladesh in dark green, and with India is yellow. The charts exclude trade with Kanglet, a border post with Laos, due to lack of data in the same period of FY 2018/19 and the data for FY 2019/20 has only exports data, which is about US$0.4 million of exports to Laos. The charts do not include Sittwe post, whose import and export percent changes are about 24,913 percent and 4,807 percent, respectively.

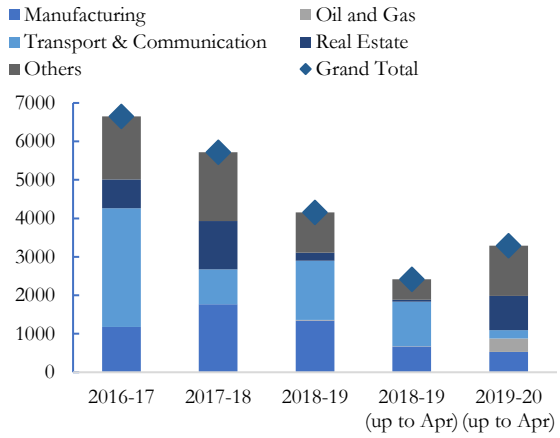
Myanmar's land border trade with China began to decline due to border restrictions stemming from Covid-19. The 4.5 percent June year to date decline in Myanmar's land border trade was driven by a decline in both exports (5 percent) and imports (1 percent) at the Muse border post (**Figure 26** and **Figure 27**). Trade through Muse accounts for about 83 percent of Myanmar's land border trade with China and almost half of Myanmar's total land border trade. The closure of the Muse-Ruili (also known as Shwe Li) border checkpoint[25] and restrictions of transportation routes[26] in late January and early February restricted Myanmar's ability to import raw materials for CMP garment products and to export fruit and vegetable products. The decline in trade during late January and early February was offset by increased exports and imports in late February and March as trade with China resumed from February 13[27]. From late April, however, China ordered a 60-day closure of all border checkpoints with Myanmar until June 24, 2020 to prevent Covid-19 from returning to China.[28]

[25] https://www.mmtimes.com/news/chinas-coronavirus-hits-myanmar-economy.html
[26] https://www.mmtimes.com/news/businesses-worry-about-virus-impact-border-trade.html
[27] https://www.mmtimes.com/news/40000-tonnes-rice-exported-muse.html
[28] https://www.irrawaddy.com/news/burma/china-closes-myanmar-border-stop-covid-19-returning.html

FDI commitments increased in FY2019/20 amidst rising uncertainties in actual inflows

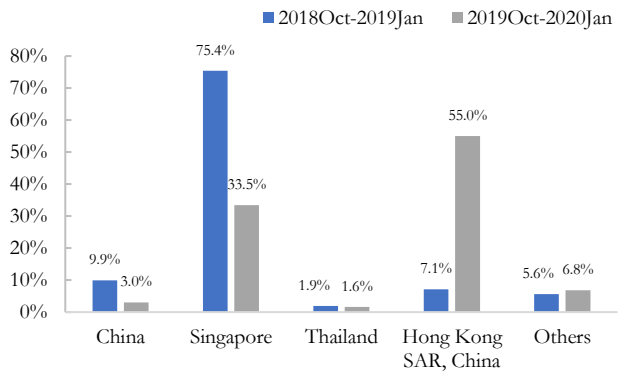
FDI commitments rose during the first seven months of FY2019/20 (y/y), but the Covid-19 outbreak could disrupt planned investments and flows. FDI commitments increased by 33 percent from US$2.4 billion in the first seven months of FY2018/19 to US$3.2 billion in the first seven months of FY2019/20 (**Figure 28**). Of the FDI projects approved during the first seven months of FY2019/20, 27.2 percent were in the real estate sector and 16.0 percent were in the manufacturing sector. However, the Covid-19 outbreak has cast doubt on the trajectory of actual FDI inflows, as the viability of the planned investments will depend on successful efforts to contain the virus and mitigate Myanmar-specific country risks, as well as the uncertain evolution of global markets. Although the volume of approved FDI has continued to increase despite the Covid-19 outbreak, actual investment inflows fell from US$800 million in Q1 FY2018/19 to US$500 million in Q1 FY2019/20.[29] Hong Kong SAR, China surpassed Singapore to become Myanmar's largest investor in the first four months of FY2019/20. Hong Kong accounted for 55 percent of total investment during the period, while Singapore and China accounted for 33.5 percent and 3 percent, respectively (**Figure 29**).

Figure 28: Approved FDI increased in the first seven months of FY2019/20…
(US$ millions)



Source: DICA

Figure 29: …and Hong Kong SAR, China became Myamar's top foreign investor.
(%)



Source: DICA and CEIC

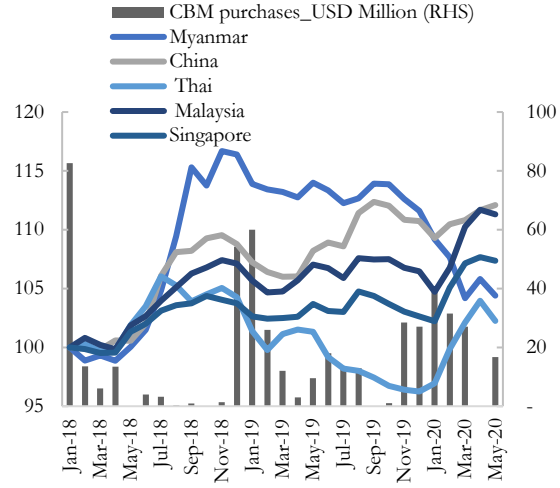
The kyat is growing stronger

Unlike other currencies, the Myanmar kyat has appreciated against the US dollar since the beginning of the Covid-19 outbreak. The kyat appreciated strongly compared with regional peers, rising by 4.4 percent to 1,404 kyat/dollar during Jan-May 2020 (**Figure 30**). The real effective exchange rate (REER)[30] appreciated (2.7 percent during Jan-Feb 2020) in line with as the nominal rate appreciated and domestic inflation declined

[29] See the April Myanmar Trade Update.
[30] The REER is an index of the domestic currency against the currencies of major trading partners, adjusted for trade weights and relative inflation.

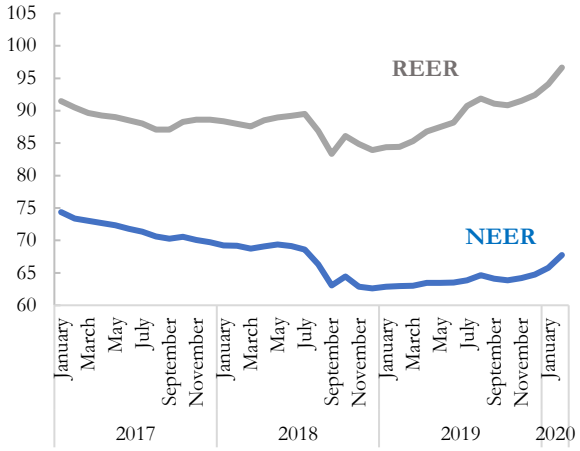
over time, but remained higher than inflation in major trading partners (**Figure 31**). If left unchecked, the continued appreciation of the REER could undermine Myanmar's export competitiveness vis-à-vis its major trading partners.

Figure 30: **Since January 2020, the kyat has appreciated against the currencies of Myanmar's major trading partners…**
(Exchange-rate index, January 2018=100; CBM purchases: US$ million)



Source: Central Bank of Myanmar

Figure 31 : …while the real effective exchange rate has appreciated in line with nominal exchange-rate appreciation.
(August 2012=100)



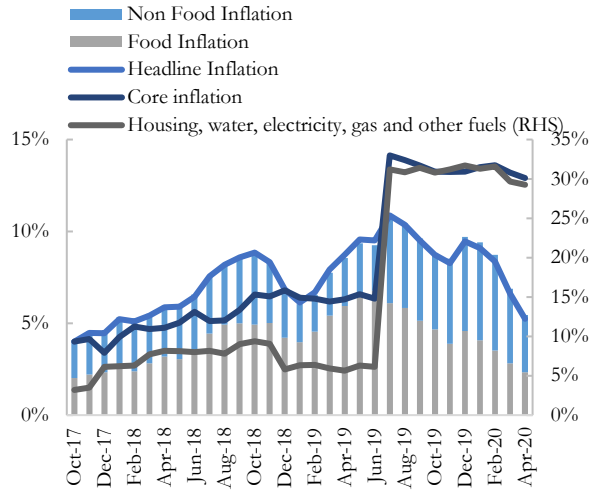
Source: Central Bank of Myanmar

III.3. Inflation and the Financial Sector

Inflation has softened further as Covid-19 reduces demand among households

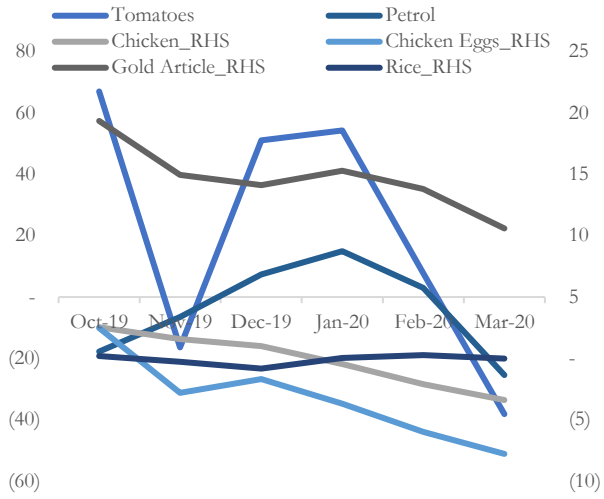
The headline inflation rate has steadily declined since December 2019 and softened further after the Covid-19 outbreak, driven by falling food and non-food prices. The headline inflation rate dropped from 9.5 percent in December 2019 to 5.2 percent (yoy) in April (**Figure 32**) as a slowdown in consumer demand outweighed supply side disruptions. Food-price inflation fell from 7.8 percent in December 2019 to 4 percent in April, reflecting lower prices for rice, cooking oil, chicken, eggs, and vegetables. Non-food inflation was more volatile, but declined overall, dropping from 12.3 percent in December to 7.5 percent in April, driven by low prices for clothing, alcoholic beverages, recreation and culture, fuel, and gold articles (**Figure 33**). The decline in prices for gold articles began in February and has not yet been affected by rising global gold prices. Core inflation (excluding volatile food and energy prices) remained high at around 13 percent in April 2020, but is projected to moderate from July onward, as the (yoy) effect of higher electricity tariff rates tapers off.

Figure 32: The headline inflation rate has fallen steadily…
(CPI, yoy % change)



Source: Central Statistical Organization

Figure 33: …driven by declines in both food and non-food prices....
(CPI, yoy % change)

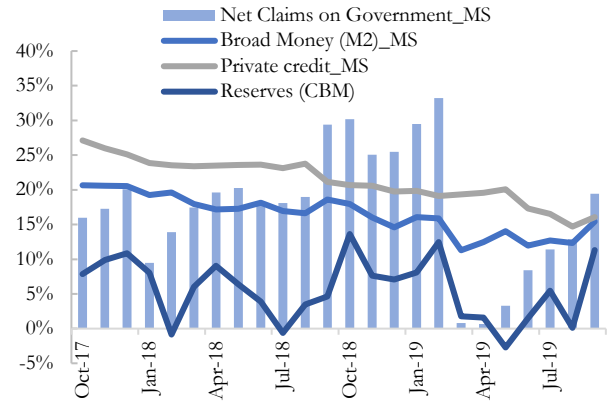


Source: Central Statistical Organization

High levels of lending to the central government helped stabilize the growth of the money supply

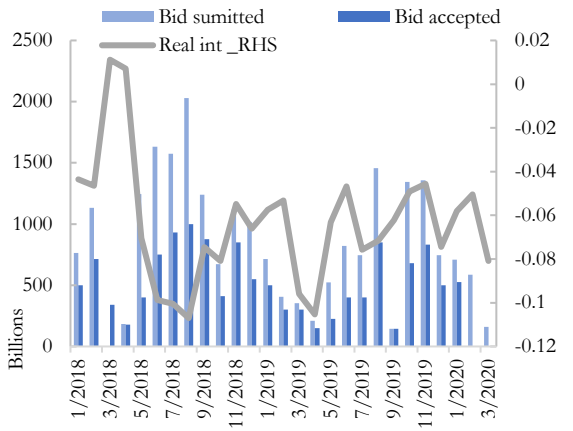
In the pre-Covid period, the broad-money growth rate remained stable at about 15 percent in Q4 FY2018/19, as the growth of lending to the central government increased, while the growth of private credit slowed. The growth of the net accumulation of foreign reserves also slowed, but was offset by an increase in net claims on the government, further stabilizing broad-money growth (**Figure 34**). In Q4 FY2018/19 the growth rate of net foreign assets (NFA), which combines the CBM and domestic commercial banks' NFA, dropped to an average 12 percent (yoy), with its lowest point being 4.7 percent (yoy) in September 2019. The CBM's NFA growth rate reached 1.3 percent (yoy) in September, while the NFA growth rate for domestic banks was 14.4 percent. Meanwhile, credit to the government increased. In Q4 FY2018/19, the growth rate in net claims on the government increased from close to zero in April 2019 to an average rate of 15 percent as the CBM financed the budget deficit. The growth rate of credit to the private sector continued to decline, falling from 17 percent in Q3 FY2018/19 to 16 percent in Q4.

Figure 34: The growth of broad money has been stable last FY…



Source: Central Bank

Figure 35: …and deposit auctions temporarily increased before declining again in Q2 FY2019/20.



Source: Central Bank

While CBM reserve money rose in Q4 FY2018/19, the value of deposit auctions increased before declining again in Q2 FY2019/20 to support liquidity. The growth rate of CBM reserve money increased from 2 percent (yoy) in Q3 FY2018/19 to 11.3 percent (yoy) in Q4. In an attempt to manage liquidity, the CBM scaled up deposit auctions from K 155.2 billion on average in Q3 FY2018/19 to K 199.1 billion on average in Q4. The value of deposit auctions continued rising until Q2 FY2019/20, when bid acceptance returned to zero (**Figure 35**), as the CBM acted to take less money out of circulation to support liquidity in the face of Covid-19. Interest rates at deposit auctions were slow to adjust to market conditions. Real interest rates declined to -0.1 percent due to falling nominal interest rates. In Q3 FY2019/20 the CBM lowered the policy rate from 10 percent to 7 percent while maintaining collateralized lending and deposit limits at +3% above and -2 below, respectively. For the first time, the regulated band around the policy rate was allowed to widen, as the ceiling on uncollateralized lending rates was left at 13 percent.

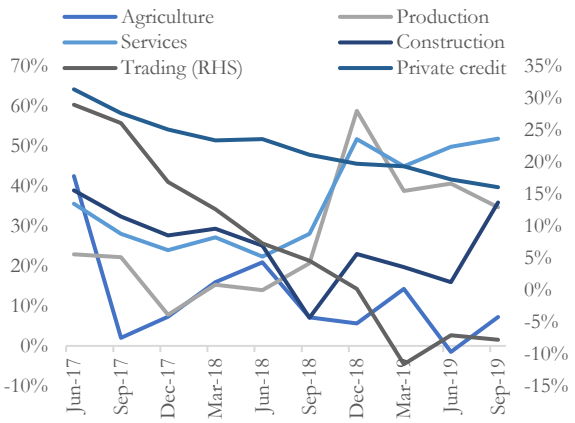
Private credit growth remains a concern for the financial sector

The growth rate of credit to the private sector slowed from 21 percent in FY2017/18 to 16 percent in FY2018/19. Credit growth from domestic private banks slowed by 4 percentage points between FY2017/18 and FY2018/19, but credit from foreign banks grew at a double-digit rate as it started from a low base when CBM regulations permitted foreign banks to lend to local businesses in November 2018. Expanding credit to the housing, agriculture, construction, and productive sectors drove credit growth in FY2018/19. In the pre-Covid period, lending to the housing sector grew by 409 percent (yoy) in FY 2018/19 driven by real estate and hire purchase promotion, while lending to agriculture grew by 7 percent, construction by 36 percent, and production by 35 percent (**Figure 36**). Lending by domestic banks remains concentrated in the trading sector, which accounts for 22 percent of total domestic lending, followed by construction at 15 percent, services at 16 percent, and agriculture at 12 percent.

In 2020, the CBM further liberalized financial markets by issuing new licenses to foreign banks. A third round of licensing for foreign bank branches and subsidiaries was launched in January. Under the new rules, banks can apply for either a branch license, which allows wholesale banking activities, or a subsidiary license, which permits both wholesale and retail banking. During the first two rounds, branch licenses were

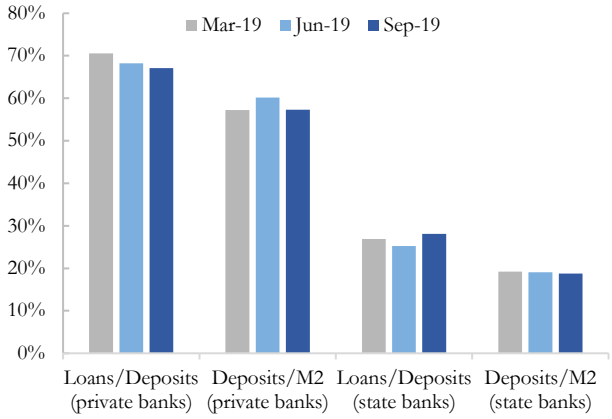
granted to 13 financial institutions. Combined with the recent reduction in interest rates as part of the monetary policy response to Covid-19, the licensing of additional foreign banks is expected to expand investment opportunities over the medium term.

Figure 36: In the pre-Covid period, lending by all banks was concentrated in the trading sector, but the growth of credit to the private sector has been slowing since end-2017.



Source: Central Bank

Figure 37: Liquidity indicators were already weakening slightly for private banks before Covid-19 struck.

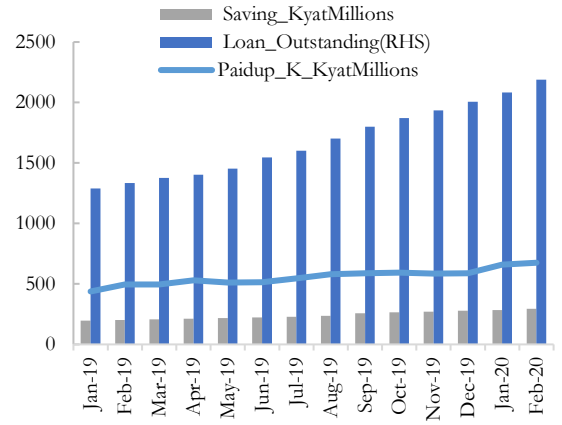


Source: Central Bank

Both bank profitability and liquidity indicators were weakening before Covid-19. The net profit of domestic private banks dropped, as return on assets declined from 0.6 percent in FY2017 to 0.36 percent in FY2018/19. This trend may reflect growth in specific sectors worsening the quality of the lending portfolio. Liquidity indicators also weakened for the private banks. The liquid asset ratio of private bank declined from 60 percent in Q3 FY2018/19 to 57 percent in Q4 FY2018/19 and private bank liquid assets to short-term liability data reduced to 67 percent in Q3 from 68 percent in Q4 F2018/19 (**Figure 37**). Meanwhile, liquidity of State-owned banks was stable. Among banks, total assets and deposits expanded, the latter increasing at a rate of 14 percent (yoy) in Q4 FY2018/19.

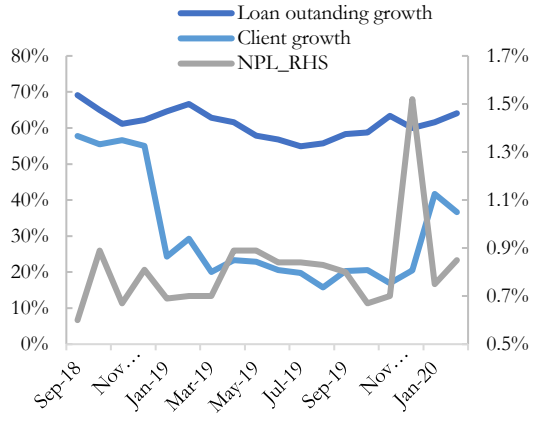
Microfinance institutions also have been growing, but the risk of nonperforming loans increased with the emergence of Covid-19 in FY2019/20. Between February 2019 and February 2020, the number of clients who had received microfinance loans rose from 4.3 million to 5.9 million, while total outstanding loans increased from K 1.3 trillion to about K 2.2 trillion (**Figure 38**). However, the share of nonperforming loans on the balance sheets of microfinance institutions, which for several years had been broadly stable at less than 1 percent, rose to 1.5 percent in FY2019/20 (**Figure 39**). Meanwhile, microfinance institutions face repayment challenges as Covid-19 restrictions hindered debt collection. During the Covid-19 period, the government froze collections of loan repayments and the acceptance of saving deposits, which provided repayment relief to microfinance borrowers, who are mostly low-income workers vulnerable to the economic fallout of Covid-19. There are indications from a major market player that repayment rates have picked up rapidly since the lifting of government restrictions.

Figure 38: The microfinance subsector is expanding…



Source: Financial Regulatory Department

Figure 39: …but its nonperforming loan ratio has begun to rise.

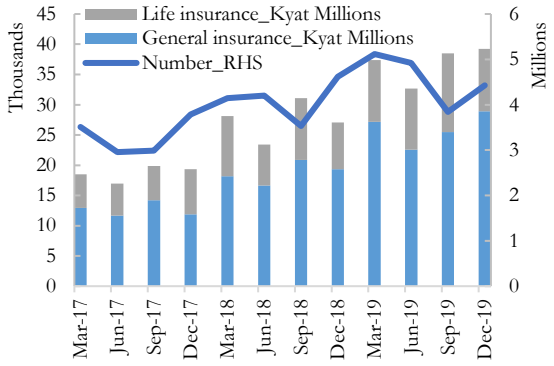


Source: Financial Regulatory Department

The growth of the insurance sector accelerated following the emergence of Covid-19

The insurance sector is expected to grow in FY2019/20 in value terms. Both supply and demand factors are driving the growth of the insurance sector, including rising investment levels, intensifying competition, and growing private-sector interest. In FY2019/20, the liberalization of the insurance sector enabled an increase in foreign investment and joint ventures, as five fully foreign-owned life insurers, six joint-venture general insurers, and three joint-ventures life insurers entered the market. Life insurance, which accounts for 31 percent of the insurance market, increased by 34 percent (yoy) in Q1 FY2019/20, while general insurance, which represents the remaining 69 percent of the market, grew by 50 percent (yoy). However, the total number of insured individuals did not increase as expected in Q1 FY2019/20 and instead declined from 4.6 million in December 2018 to 4.4 million in December 2019 (**Figure 40**).

Figure 40: The number of insured individuals declined (yoy) in Q1 FY2019/20, but the value of both life insurance and general insurance increased



Source: Financial Regulatory Department

Despite the emerging challenges posed by Covid-19, the insurance sector is expected to grow rapidly. The economic shock caused by the pandemic may reduce purchasing power and impair the ability of existing policyholders to pay insurance premiums, with adverse effects on the general insurance market. However, the

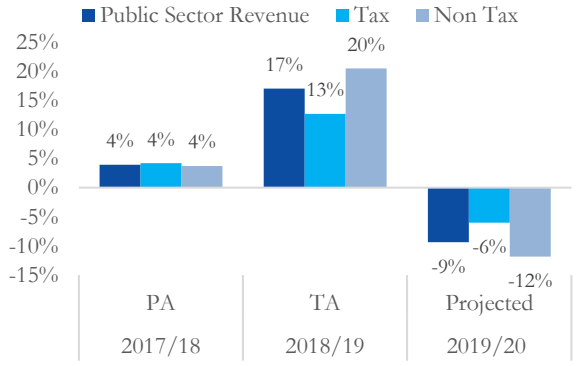
Covid-19 crisis has also increased public awareness of the importance of health insurance, and sales of health-insurance products have increased among employers who provide health insurance for their employees. Rising demand is expected to spur increased investments in Myanmar's insurance sector, expanding the range of available health, life, and general insurance products.

III.4. Fiscal Policy

The Impact of Covid-19: A Sharp Revenue Decline Coupled with Rising Expenditures and Financing Needs

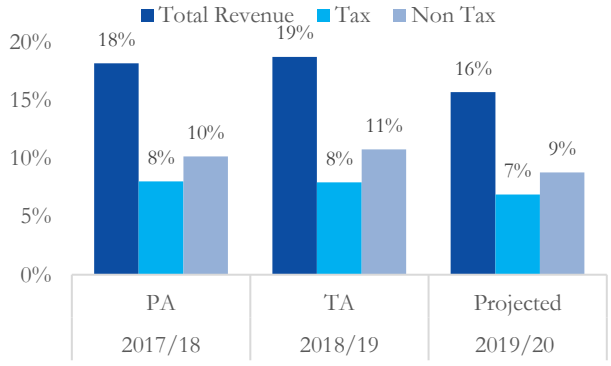
Preliminary estimates show that Myanmar's budget for FY2019/20 will be adversely impacted by Covid-19, with a significant decline in revenues forecast in the second half of the fiscal year following strong collections in the first half of the year. Tax revenues usually rise by around 10.0 percent in nominal terms year on year in line with underlying economic growth, but in FY2019/20, due to the impact of Covid-19, tax revenues are projected to decline by 6.0 percent, year on year **(Figure 41)**. This decline is being driven by weaker growth in the tax base on account of slowing economic activity and from the impact of measures announced in the CERP for tax deferrals and accelerated depreciation. In contrast to the usual increase of 7-8 percent, nontax revenues are expected to decline by 12.0 percent, year on year, in FY2019/20, driven by weakening natural gas revenue collections due to declining commodity prices and weakening of profitability of state economic enterprises (SEEs). As a result, public sector revenues are expected to decline by 9.0 percent, year on year, which is a sharp contrast to a projected 7-8 percent increase. As a result, revenues are anticipated to decline as a share of GDP from 18.2 percent of GDP in FY2018/19 to 15.7 percent of GDP in FY2019/20 (**Figure 42**).

Figure 41: Revenues are projected to fall sharply in absolute terms…



Sources: MOPFI, WB staff estimates

Figure 42: …and as a share of GDP.



Sources: MOPFI, WB staff estimates

The Pre-Covid-19 Fiscal Picture: Capital Budget Under-Execution, Average Revenue Performance, and a Continued Shift away from CBM Financing

The FY2019/20 Union budget was approved by the parliament in September 2019, underpinned by expectation of strong growth. Real GDP growth for FY2019/20 was projected to be 7.0 percent by the Ministry of Planning, Finance, and Industry (MOPFI), comparing favorably with the 6.4 percent growth by the World Bank. The government projected 28.0 percent of GDP of spending (K 31.9 trillion), with revenue projected at 22.1 percent of GDP (K 25.2 trillion), leading to a projected deficit of 5.9 percent of GDP by the government accounting classification methodology. This was an expansionary budget, driven by a projected moderate increase in expenditure coupled with stagnation of revenues. The financing of the deficit was expected to continue shifting away from direct Central Bank financing and towards treasury bills and bonds.

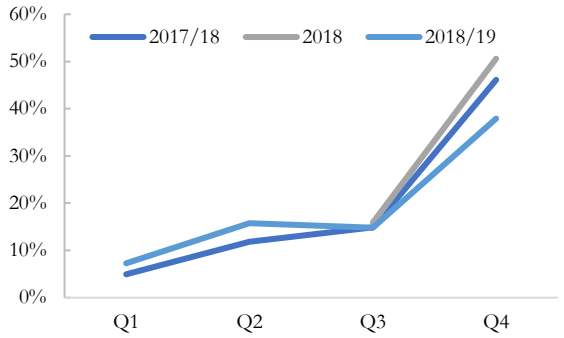
As in previous years, budget execution during the first half of FY2019/20 has been weak particularly for capital expenditures. Preliminary spending data for the first six months of the fiscal year (as at end of March 2020) indicates that actual spending was 77.6 percent of the first-half target. The shortfall was driven by capital spending, which has been executed at 45.7 percent of the half-year target (**Table 1**). This also indicates unrealistic spending targets for the first quarter, especially as agencies are preparing for procurement. Quarterly data for the last three years, shows a backloading pattern of capital budget execution as illustrated in **Figure 43**, with close to half of total capital budget execution taking place in the last quarter.

Table 1: First Half of FY2019/20 Budget Execution
(kyat trillions)

	First Half of 2019/20		
	Target*	Actual**	Actual/Target (%)
Total Expenditure	14.8	11.5	77.6
Current	10.9	9.3	85.5
Capital	3.2	1.5	45.7
Debt Service	0.7	0.7	100.0

Note: *Target first half of the original budget 2019/20
** Preliminary data by government accounting classification
Source: MOPFI; World Bank staff calculations

Figure 43: Capital Expenditure Execution Rate by Quarter
(share of budgeted capital expenditure)



Source: MOPFI; World Bank staff calculations

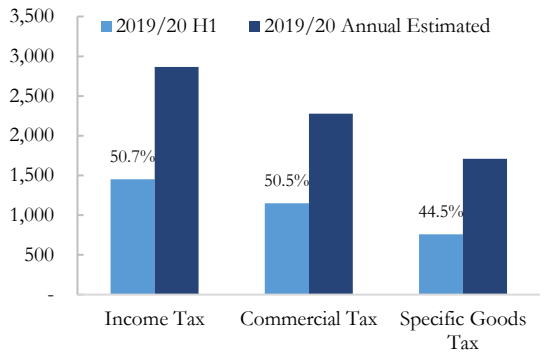
In contrast, revenue collection in the first half of the year met the target, with strong tax revenue collections. Preliminary data shows that K 11.0 trillion was collected in the first half of FY2019/20, which was 100.7 percent of the half-year target (**Table 2**). Indicative data suggests that the revenue collection on three major tax including Income Tax, Commercial Tax and Specific Goods Tax during October 2019 – March 2020 is on track to reach half of the annual estimated tax revenue collection (**Figure 44**).

Table 2: Revenue Collection during the First Half of FY2019/20
(kyat trillions)

		First Half of 2019/20		
		Target*	Actual**	Actual/ Target (%)
Total Collection	10.9	11.0		100.7
Current	9.3	10.1		109.2
Capital	0.21	0.04		20.6
Financial	1.4	0.8		57.9

Note: *Target first half of the original revenue 2019/20
** Preliminary data by government accounting classification
Source: MOPFI; World Bank staff calculations

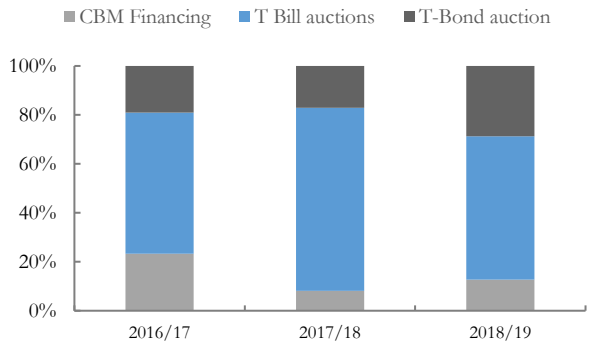
Figure 44: Tax Revenue Collection by 3 Major Tax Types
(kyat billions and percent share of annual estimated)



Source: MOPFI; World Bank staff calculations

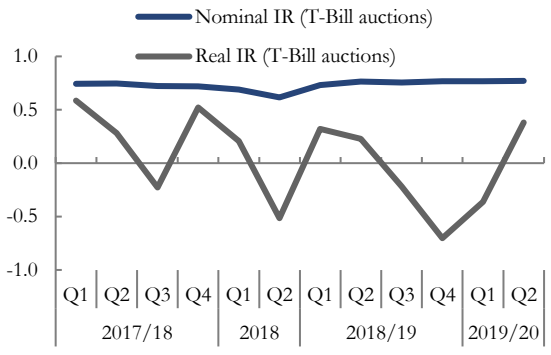
The shift in financing continued, with a continued move towards T-bill and T-bond financing. Despite a surge in CBM financing of approximately 1 percent of GDP in Q4 of FY2018/19, the share of CBM financing in total deficit financing remained at 12.6 percent in FY2018/19. As part of continued efforts to borrow from the public rather than from the CBM, T-bond issuances increased sharply, doubling as a share of total financing in FY2018/19 as compared to FY2017/18 (**Figure 45**). Preliminary data for the first six months of FY2019/20 indicate that, in volume terms, T-bill issuance has reached 70 percent and T-bond issuance 34 percent of the FY2018/19 annual level. Nevertheless, successful bids on a purely competitive basis in Treasury bond auctions are on average 81 percent of auction targets slightly lower than 85 percent in 2018/19, and for Treasury Bill auctions around 71 percent of auction targets lower than 79 percent in the previous year. Real interest rates recently become marginally positive in Q2 of FY2019/20 (**Figure 46**). However, the latter half of the FY2019/20, the real interest rate may decline and return to negative territory again due to the CBM's aggressive rate cuts in March totaling 3 percentage-points, as part of the Covid-19 response.

Figure 45: Deficit financing from the CBM picked up again in 2018/19 but remains managable.
(percent share of domestic financing)



Source: CBM; World Bank staff calculations

Figure 46: Real interest rates recovered into positive territory, making lending to government more attractive to investors.
(quarterly interest rate, %)

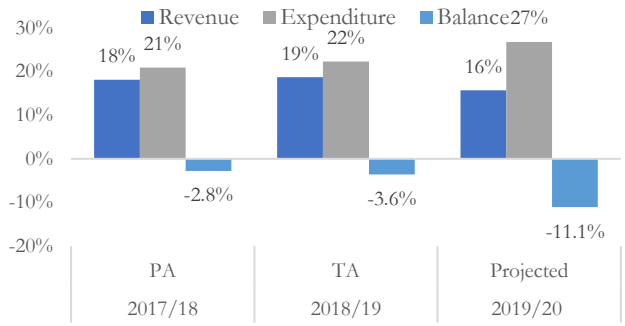


Source: CBM; World Bank staff calculations

Revenue declines and the growth slowdown will sharply raise the budget deficit, but budget under-execution will limit the increase. In the baseline scenario, if Myanmar spends as per the original approved budget for FY2019/20, declining revenue and slower GDP growth alone will lead to a significant increase in the budget deficit of 11.1 percent of GDP (**Figure 47**). This deficit estimate is, however, likely to be an overestimate on account of issues with budget under-execution, which have historically led to actual deficits being significantly lower than budgeted, by close to 2-3 percent of GDP. As a result, the deficit that may need to be financed may be close to 7-8 percent of GDP (**Table 3**). This estimate does not include the full implementation of the CERP, which is estimated to cost roughly 3 percent of GDP.

A budget deficit of 7-8 percent of GDP will increase Myanmar's baseline financing needs, creating a gap. The government has formulated the annual budget within a Medium-Term Fiscal Framework (MTFF) and has maintained a fiscal deficit below 5.0 percent of GDP. The 7-8 percent of GDP implied deficit due to the Covid-19 pandemic thus generates an additional funding gap equal to 2-3 percent of GDP, or about US$1.5-US$2 billion. This gap is likely to be higher when spending plans to address the Covid-19 pandemic are also considered.

Figure 47: The deficit will increase sharply as a share of GDP if spending plans remain unchanged



Sources: MOPFI, WB staff estimates

Table 3: Budgeted and Actual Deficits, FY2016/17 – FY2019/20
(% of GDP)

	Budget Deficit	
	Budgeted	Actual
2016/17	4.1	2.7
2017/18	5.9	2.8
2018/19	6.0	3.6
2019/20	7-8*	-

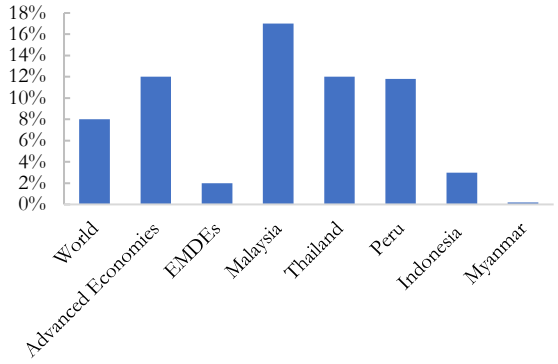
Note: *Planned deficit with under-execution taken in to account
Source: MOPFI; World Bank staff calculations

The Government has enacted an ambitious and coordinated Covid-19 response…

Myanmar announced initial measures, starting in March 2020, to mitigate the impact of the Covid-19 pandemic. The initial measures prior to the CERP include (i) establishing a Covid-19 Fund at the Myanmar Economic Bank with a capital of K 100 billion (US$70 million, 0.1 percent of GDP), composed of K 50 billion from the national Revolving Fund approved by the Union Government and K 50 billion from the Social Security Fund to provide loans to CMP businesses, hotels and tourism companies and SMEs owned by Myanmar nationals which are suffering the most negative economic consequences, at an interest rate of 1 per cent and a loan period of 1 year; (ii) deferral of the quarterly income tax and monthly commercial tax for Q2 and Q3 of FY 2019/20 for CMP businesses, hotels and tourism companies, and SMEs to September 30; (iii) exemption of the 2 per cent income tax levied in advance for export until the end of the FY 2019/20.

At 0.3 percent of GDP, the scale of the initial fiscal measures was modest when compared to other countries. Global and regional fiscal policy responses to the Covid-19 pandemic have been considerably larger than those during the global financial crisis with the average global response being close to 8.0 percent of GDP and around 1-2 percent of GDP for emerging markets. Some of Myanmar's neighbors, including Thailand and Malaysia, have enacted significantly larger fiscal response packages (**Figure 48**). By comparison, Myanmar's initial fiscal response of 0.1 percent of GDP in additional expenditures and close to 0.1-0.2 percent in revenue measures has been significantly smaller in scale.

Figure 48: Myanmar's fiscal response package in is smaller as a share of GDP than those of other countries.
(fiscal stimulus as share of GDP)



Source: World Bank Global Economic Prospects

Myanmar has now issued the Covid-19 Economic Relief Plan (CERP) on April 27, 2020, which are significantly more ambitious in scope and could cost up to 3 percent of GDP. Measures include: (i) providing direct in-kind transfers (rice, cooking oil, salt, onion, etc.) to poor households; (ii) electricity subsidy to household, religious organizations and local humanitarian organizations for up to 150 units of electricity during April and May; (iii) tax credits to businesses; (iv) allow state and regional governments to use the regular budget contingency fund of K 1 billion (US$0.7 million, 0.001 percent of GDP); and (v) Ministry of Health and Sports will be using international grants of US$10.7 million from GAVI and USAID for preventive and control measures. Other important and more expensive measures in the CERP include cash or lending support to the agricultural sector, cash transfer to vulnerable households, labor-intensive community infrastructure projects, etc.

… which requires significant budget reallocation, reprioritization, and additional financing

Taking the revenue decline, the *current* and *full* fiscal implementation of the CERP, and regular under-execution into consideration, Myanmar can be looking at a fiscal gap of around 3.0 – 6.0 percent of GDP above the sustainable deficit level of 5.0 percent of GDP. The fiscal gap is the difference between the planned fiscal deficit and the estimated sustainable level of 5 percent of GDP in the government's original fiscal framework[31]. *Current* implementation of the CERP could cost up to 0.3 of GDP, consistent with a fiscal deficit of 7-8 percent of GDP and a related fiscal gap of 2-3 percent of GDP. *Full* implementation of the CERP could cost approximately 2-3 percent of GDP (US$1.5-2 billion). Some of the major commitments in CERP include (i) unconditional cash and in-kind transfer to 5 million households (approx. US$ 210 million); (ii) cash or lending support to agricultural sector (~US$210 million); (iii) labor-intensive community infrastructure projects (~US$ 100 million). Full CERP implementation is consistent with a fiscal deficit of 10-11 percent of GDP representing an additional financing need of approximately 2-3 percent of GDP in relation to the current CERP implementation scenario. This would widen the financing gap to 5-6 percent of GDP. **Table 4** provides a summary of financing gap scenarios comparing between the current CERP and a full CERP implementation and suggests ways this gap could be financed through budget reallocations, and borrowing.

[31] The sustainable financing level is 5.0 percent of GDP in the country's medium-term fiscal framework due to the limited number of domestic debt market participants and the attempt to avoid monetary financing from CBM as it raises inflationary pressures.

Table 4: Summary of Financing Needs

	Spending Scenario	
	Current CERP	**Full CERP**
(1) Baseline Fiscal Deficit FY2019/20	7-8 percent of GDP	7-8 percent of GDP
(2) Sustainable financing	5 percent of GDP	5 percent of GDP
(3) Baseline FY2019/20 Financing Need (1)-(2)	2-3 percent of GDP (US$ 1.5 - 2 billion)	2-3 percent of GDP (US$ 1.5- 2 billion)
(4) CERP	0.3 percent of GDP (US$ 200 million)	2-3 percent of GDP (US$ 1.5-2 billion)
(5) Financing Need Scenario (3)+(4)	~3 percent of GDP. (US$ 2 billion)	~5-6 percent of GDP (US$ 3-4 billion)
(6) Savings from Reallocation of 10% of budget	~1 percent of GDP (US$ 1 billion)	~1 percent of GDP (US$ 1 billion)
(7) Additional Concessional Financing (as of June 2nd,2020)	~1.5 percent of GDP Total US$ 1.226 billion from US$ 700 million from IMF JY 30 billion (US$ 276 million) from JICA US$ 250 million from WB	~1.5 percent of GDP Total US$ 1.226 billion from US$ 700 million from IMF JY 30 billion (US$ 276 million) from JICA US$ 250 million from WB
(8) Unmet Financing Need (5)-(6)-(7)	~0.3 percent of GDP (US$ 200 million)	~2.5-3.5 percent of GDP (US$ 2-3 billion)

In line with the policies highlighted in the CERP, Myanmar can consider three complementary policy strategies to address this urgent fiscal financing gap (Table 4):

Policy Strategy 1: Reallocate spending to priority areas to respond to the outbreak and away from some existing spending plans. This strategy is directly linked to CERP "Goal 7: Increasing Access to Covid-19 Financing" and provides suggestions on how to potentially implement "Action 7.1.1: Budget Reallocation". To respond to Covid-19, the government needs to raise funds to budget for their responses. Budget reallocation is one of the options the government pursuing, the government planned to cut across 10 percent of all ministries budget and reallocate for Covid-19 response. However, the practicality of budget reallocation is governed by the Financial Rules and Regulations 2017 which allows budget reallocation with certain restrictions depending on the source of budget and conducted in line with the annual Budget Law.

- **Exceptional Covid-19 reallocation in June**: Myanmar has also approved a special process budgetary reallocation as part of the Covid-19 response, as of March 5th, 2020. Separate from the supplementary grant preparation process (see below, also known as the regular annual revised budget process), ministries have exceptionally been asked to re-appropriate 10 percent of their 2019/20 original budget (excluding loans and grants) to Covid-19 response. Those ministries that cannot spend and do not have Covid-19 spending is required to surrender 10 percent of their budget to the General Reserve Fund (GRF). The ministries with additional spending on Covid-19 such as the ministry of health can request additional budget from the GRF from the cabinet. Post cabinet approval, these ministries need to send the approved request to MOPFI for additional financial approval. However, as of June 5th,2020, the MOPFI is yet to receive or approve any ministry requests for additional Covid-19 expenditures from the GRF.

- **Regular supplementary grant (SG) in May/June:** The government approved the SG in early June 2020, with planned additional spending of 2.3 percent of GDP. The total additional budget amounted

to K 2.58 trillion (around 2.3 percent of GDP), which results in a total FY2019/20 budget allocation of K 31.29 trillion (around 27.5 percent of GDP). Of the total SG, K 2.01 trillion (78.2 percent of total) has been allocated to ministries' recurrent expenditure, K 0.38 trillion (14.9 percent of total) has been allocated to ministries' capital expenditure, and K 0.18 trillion (6.9 percent of total) to other central agencies and SEEs outside the Union Budget. While the SG has been prepared in time for the Covid-19 outbreak response, the absence of details on the SG allocation prevent an analysis of how the increased allocations can support the Covid-19 response and how it affects the financing gap scenarios in Table 4.

- **Regular budget contingency fund:** This fund is treated as regular part of the annual budget allocation process, but it is very small in Myanmar compared to the size of the budget. To use the fund, the department/ministry/state and region must submit the "matters incurred", the expenses and the reasons, to the next legislative session of the Assembly of the Union (Pyidaungsu Hluttaw). Moreover, Myanmar's contingency fund is relatively small compared to the total budget and already programmed. The contingency fund is budgeted K 100 billion which is approximately 0.3 percent of the total budget, or 0.09 percent of GDP in FY2019/20.

Policy Strategy 2: **Implementing and tracking spending priorities and relieving urgent bottlenecks such as on procurement.** This policy strategy seeks to ensure that the budget reallocations proposed in Strategy 1 can be implemented in accordance with flexibility in the government's financial rules and regulations. Policy strategy 2 directly links to the CERP "Goal 7: Increasing Access to Covid-19 Financing" and provides suggestions on how to potentially implement "Action 7.1.2: Improve Budget Flexibility and Responsiveness".

Policy 2.1 Track Covid-19 related spending. Covid-19 spending tracking is critical for monitoring expenditure efficiency, accountability to stakeholders, assessing impact, and meeting requirements of loans and debt service suspension. Myanmar's current transaction recording, compilation, and consolidation is done manually through pre-established reporting formats. The reporting forms are based on Administrative and Economic classifications which does not capture full information on spending units. Moreover, ability to track a source of fund is not available. MOPFI is considering options to address this and enable Covid-19 expenditures to be subject to additional scrutiny and reporting.

Policy 2.2: External support for procurement. This policy directly addresses to the procurement at the key agencies responsible for the Covid-19 response, the Ministry of Health and Sports (MOHS). The MoHS's professional procurement capacity is limited, and procurement activity is inefficient, fragmented and decentralized across MoHS departments and hospitals. An immediate priority is that MoHS considers using external partners for the Covid-19 response, where speed is of the essence.

Policy 2.3: Monitoring and oversight of Covid-19 related spending. Monitoring and oversight of Covid-19 related spending is critical for ensuring proper and efficient use of funds and performance of disaster relief efforts and recovery efforts. International Standards of Supreme Audit Institutions (ISSAI) 5500 series provide guidance on audits of disaster related aid across the disaster management cycle. The Office of the Attorney General (OAG) may draw on these guidelines to complete audits of Covid-19 related spending under its existing audit framework. Currently, no internal audit guidelines exist within Myanmar to address these activities. An internal audit team has been established at 80% of agencies, however, the functions established by the majority of agencies were more compliance self-review functions rather than internal audit functions. In order to manage material risks of Covid-19 related spending, a risk-based approach should be applied in the oversight of crisis response activities

to provide assurance on proper use of funds while paying adequate attention to likely issues of misappropriation and value for money. Therefore, the government could consider implementing the following actions to provide monitoring and oversight of Covid-19-related spending.

- **Test compliance with Covid-19 related spending.** Leverage the existing internal compliance self-review function to test compliance with payment rules and procedures related to Covid-19 related spending. Risk based criteria (i.e., nature of expenditure, level of materiality) could be defined to focus ex-post reviews of Covid-19 related expenditures. The Internal Audit Manual being developed could be implemented in major line ministries undertaking Covid-19 related expenditures, to assist existing internal audit teams evaluate/assess/monitor such expenditures. Such internal audit reports should be shared frequently with the OAG.

- **OAG Audits of disaster related spending.** Draw on the ISSAI 5500 series to complete a risk assessment of Covid-19 related expenditures, design an appropriate audit response and complete audits of Covid-19 related spending under OAG's existing audit framework. Based on the risk assessment, compliance audits may be conducted to ensure compliance with existing guidelines, rules, and regulations. Simultaneous audit procedures which enhance and not encumber relief efforts should be considered to immediately identify and correct any misuse of funds or other aid (i.e., observe distribution of food and supplies to beneficiaries). The results of internal compliance reviews and compliance audits should be used to inform OAG financial audits. Performance audit, which is in the early stages of rollout, may eventually be used to consider the degree of economy, efficiency, and effectiveness of undertakings when the framework has reached maturity.

Policy Strategy 3: Raise sustainable financing of the fiscal response by focusing on cash and liquidity consolidation, frontloading existing concessional commitments, and seeking new concessional sources of financing. This policy strategy directly supports the CERP "Goal 7: Increasing Access to Covid-19 Financing" and provides suggestions on how to potentially implement "Action 7.1.3: Increase Access to Covid-19 related external financing".

- **Policy 3.1: Frontloading of *existing* external concessional finance commitments which amounted to 1.4 percent of GDP in FY2018/19 or financed close to 8.0 percent of the budget**. Myanmar is already engaged in discussions with development partners to potentially re-program and frontload some of current loan commitments to finance the Covid-19 response. However, it is subject to financing availability and ability to reprogram by Line Ministries and external partners and the approval speed of these changes by the Myanmar government.
- **Policy 3.2: New Concessional Financing. Myanmar is also engaged in discussions with development partners on new concessional commitments to finance the Covid-19 response**. In this regard, a potential source of additional fiscal space is the opportunity to participate in the G-20 Covid-19 debt service suspension initiative which was endorsed by the G-20 Finance Ministers on April 15, 2020. Under the initiative, bilateral official creditors commit to reprofile all principal and interest coming due between May 1 and December 31, 2020, from public sector borrowers.

IV. Medium-Term Outlook and Risks

Outlook

Under the baseline scenario, growth in FY2019/20 is expected to fall by 6.3 percentage points to 0.5 percent from FY2018/19. However, growth is estimated to recover to 7.2 percent in FY2020/21. Following the Covid-19 related shocks in FY2019/20, growth is projected to return to trend in the medium term on the back of investment in infrastructure and the growth of services, exports, and private consumption. Transport infrastructure projects and a few large electricity generation projects are expected to begin commercial operation. Services sector activity is likely to be boosted by e-commerce and insurance services with increasing demand and investment. Despite a strong rebound in growth rate in FY2020/21, Myanmar's GDP is forecast to remain 5.1 percent lower than it would have been had the Covid-19 pandemic not occurred. The impact of falling demand is estimated to soften the inflation to 7.5 percent in FY2019/20 from 8.5 percent in FY2018/19. Despite monthly inflation recently subsiding and the effect of the July 2019 electricity price increase dropping out in July 2020, period average medium-term inflation remains at an average of 7.5 percent as aggregate demand begins to recover in 2020/21**(Table 5)**.

Myanmar's relatively lower level of interconnectedness with the global economy meant the vast majority of the impact of Covid-19 comes from the domestic transmission channel for Myanmar. The Covid-19 weighted average impact to Myanmar's trading partners GDP growth is expected to be 6.7 percent in 2020 but using the elasticities derived from a global vector autoregression (GVAR) model, we determine the impact on Myanmar's growth rate is 1.1 percentage points (**Box 3**). This suggests around 85 percent of the impact from Covid-19 in Myanmar was based on the domestic transmission channels of containment and mobility measures and changing consumer behaviors. There is a considerable likelihood that many preferences and behaviors are impacted for several months and years even, beyond the official containment measures. According to a survey from McKinsey & Company, one-third of respondents believe their routines will be impacted for at least 4-6 months. Consumer's decisions to place themselves in public spaces such as restaurants, shopping centers, hotels, airports, and public transport will have sizeable effects for the retail trade, hotel, tourism, and transport sectors of the economy. The widespread voluntary de-mobilization implies that ending government lockdown measures may not yield a V-shaped recovery if the reduction in Covid-19 risk is not credible in the eyes of consumers. These changes to consumer behaviors, if they last at least as long as the Covid-19 risks persists, suggest the consumer behavior transmission mechanism has the longest impact on Myanmar, much longer than any government containment measures will have.

The current-account deficit is likely to widen to an average of 4 percent in the medium term from 4.5 percent in FY2019/20 as exports suffer from weaker global demand and lower energy prices, while large-scale imports for major infrastructure projects continue.

The impact of Covid-19, together with the decline in gas revenue, will cause the fiscal deficit to exceed the 5 percent of GDP sustainable target in the medium term. The Covid-19 pandemic will undermine the government's already limited revenue collection capacity from Q3 FY2019/20 (April 2020) onward. Revenue collection will fall further as petroleum revenue declines, driven by the oil price shock in early 2020 and falling production from current fields. On the other hand, government expenditure will increase as the government implements fiscal responses to counter the negative impact of Covid-19 on the economy. The magnitude and length of fiscal response are still ambiguous and need to be further clarified by the government. In addition to declining revenues and increasing expenditures, lower GDP growth projections will increase pressure on the deficit-to-GDP ratio due to smaller denominator. Despite the existing under-execution challenge, which helps moderate the deficit level, the deficit will greatly exceed the sustainable target of 5 percent of GDP. The budget

deficit is estimated to reach 7-8 percent of GDP in FY2019/20, 9.6 percent in FY2020/21, and 6.4 percent in FY2021/22.

Table 5. Economic Outlook Indicators

	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Real growth (%)	6.8	0.5	7.2	6.8
Consumer price inflation (period average)	8.5	7.5	7.5	7
Current-account deficit (% of GDP)	2.0	4.5	4.5	4.0
Budget deficit (% of GDP)	3.6	8.0	9.6	6.4

Source: World Bank staff estimates

Risks

Risks to the economic outlook are dominated by downside risks arising from Covid-19. Under the downside scenario, the growth rate is estimated to slow further to -2.5 percent in FY2019/20 before rebounding to 7.6 percent in FY2020/21. However, further outbreaks could delay the resumption of economic activity. In addition, despite the government's quick efforts, within its fiscal means, to mitigate the pandemic's impact, household, banks, and corporate balance sheets could suffer lasting damage. Domestic risks are compounded by heightened external uncertainty, including the possibility of a more severe global recession. Tourism and related industries are expected to recover more slowly than other sectors even after restrictions have been lifted, due to precautionary behavior. Declining global energy prices would reduce export and diminish fiscal revenues from the gas sector, which represent roughly 2 percent of GDP.

Box 3: Estimating the External Impact of Covid-19 on Myanmar

In the previous decade, Myanmar became more linked with the global economy. Myanmar's participation in the world economy through trade, private capital flows and remittances remains relatively low, these links are growing in importance relative to its economy. The literature examining the extent to which global macro developments affect Myanmar remains sparse, as most papers deal with the other economies in the region and exclude Myanmar due to a lack of data and historically low levels of interconnectedness.

This box presents new research that examines the impact of global shocks and spillovers on Myanmar. We use a GVAR model to explore the implications of global economic shocks for Myanmar.[32] GVAR is a dynamic global model that combines individual country specific models in which domestic variables are related to country specific foreign variables in a consistent manner. One of the key advantages of the GVAR for our purposes is that in addition to identifying the impact on countries that are directly exposed to the country being shocked, we also include the indirect impacts on all other economies through their trade linkages. That is, we see not only the impact of an increase in foreign activity directly on Myanmar's economy, but also the indirect effect through the trade channels of all the other country models in the system.

[32] This box is based on the forthcoming World Bank working paper "Modelling Myanmar's Links to the Global Economy".

Our framework consists of 30 country/region specific models—namely a single Euro Area (comprising the standard 8 countries first outlined in Dees et al., 2007), the US, Japan, China, Association of Southeast Asian Nations member states, Myanmar and a range of other countries. The individual countries are solved in a global setting where core macroeconomic variables of each country are related to corresponding foreign variables (constructed to match the corresponding international trade pattern of the country under consideration). Our model has: real GDP, inflation, real effective exchange rate, short term interest (policy) rates and oil prices.

To ensure we capture Myanmar's changing relationship with the global economy we use trade weights that are time-varying. We use 3-year averages for the weights to smooth out fluctuations in year-to-year weights. The bilateral trade for each year is calculated as the average of exports and imports between countries. In the model we need to select a single year (or average of years) to solve the model (for forecasting/impulse responses). In the base model we use the average weights from 2016-2018.

China has become the largest trade partner for Myanmar with 1/3 of all trade from its neighbor. Myanmar's trade with China has increased markedly from the previous decades when the share with China was relatively small, with trade more focused on India and the United States. Other countries with significant weights include several countries in the region, such as Thailand (16.8); and Singapore (12.4) (**Table 6**).

Table 6: Trading Weights (2016-2018 Average of Exports and Imports)

(Percent)

China	35	India	4.6
Thailand	16.8	Malaysia	3.2
Singapore	12.4	Indonesia	3.1
Euro Area	6.9	Korea	2.6
Japan	6.2	USA	2.4

Source: IMF Direction of Trade Statistics

Using the GVAR we see the largest impact on Myanmar's economy comes from a shock to China's GDP. For each country in our model, we reduce output by 1 percent and see the impact on Myanmar's output (**Figure 49**). The largest impact is from a 1 per cent shock to China's output, which reduces Myanmar's output by around 0.12 percentage points. Other significant impacts come from shocks to the USA and Euro Area (around 0.05 percentage points). While these two countries/regions may not have large weights in Myanmar's foreign variables, their large weights in many other country models cumulates to a significant impact in Myanmar.

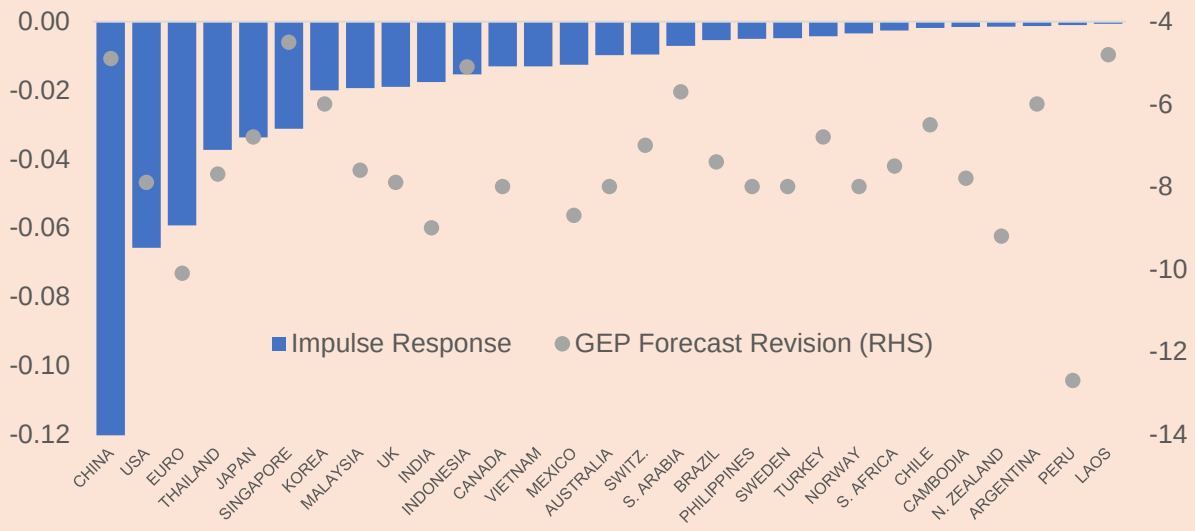
Using the elasticities of the GVAR we can identify the extent to which the enormous shock to Myanmar's trading partners will impact Myanmar. We derive the shocks to Myanmar's trading partner's by using the forecast revisions from the World Bank's Global Economic Prospects report of June 2020 compared to January 2020. The large forecast revisions would reduce the growth of Myanmar's trading partners' output by 6.7 percent in 2020. Imposing these forecasts on foreign countries in our model would result in a reduction in Myanmar's 2020 growth of around 1.1 percentage points.

Estimating the impact from Covid-19 stemming only from Myanmar's trading partners allows us to isolate the shock into its external and domestic components. Myanmar's forecast is revised downward by 7.9 percentage points in calendar year 2020[33] from the pre-Covid forecast and since the external impact was 1.1 percentage points from the GVAR, we can conclude that around 15 percent of the shock is from the

[33] Calendar years are used for comparability to the World Bank's *Global Economic Prospects*.

external channel while the remaining 86 percent is from domestic transmission channels (i.e., mobility restrictions and precautionary behaviors). This finding is consistent with Myanmar's weaker connections to the global economy relative to other economies. These findings need to be appropriately caveated, as the model does not include all variables that may be important to Myanmar's economy, including FDI flows due to a lack of data. Additionally, the model uses historical relationships and may not fully capture the unseen global dynamics associated with the current circumstances.

Figure 49: Impact on Myanmar's GDP from a 1 Percent Shock to Foreign Output and Forecast Revision



Source: World Bank, IMF, and Authors' calculations
Note: Some high-income forecasts use the IMF April World Economic Outlook 2020

V. Policy Responses

Myanmar's government has launched an ambitious and far-reaching set of response measures designed to mitigate the impact of the Covid-19 pandemic. Efforts to combat the spread of the virus and ameliorate its effects on public health, welfare, and economic activity include:

Public Health Policies

The government is expanding its public health response in an effort to contain the disease and alleviate its impact on health outcomes. Key measures include active disease surveillance, case management, quarantine, contract tracing, stockpiling essential consumables, strengthening diagnostic capacity, and engaging in continuous public outreach regarding the risks and status of the outbreak. Social-distancing measures have also been announced, and the authorities have prohibited large gatherings, including the Thingyan Festival. The Central Committee for Covid-19 Prevention, Control, and Treatment announced that the ban on entry visas and international flights will extend through end of June.

The government has obtained additional concessional financing for the health sector from its international partners. In March 2020, Myanmar's legislature approved a US$100 million loan from IDA and another US$10 million in funds from Global Financial Facility, which will finance the pandemic-response efforts of the Ministry of Health and Sports (MoHS). These funds will be used to upgrade the primary healthcare system, build institutional capacity, strengthen project management, and implement emergency health measures.

Social Protection and Labor Policies

The Ministry of Labour, Immigration, and Population (MoLIP) has extended healthcare benefits for unemployed contributors to the Social Security Board (SSB). MoLIP has extended healthcare benefits, as well as medical and travel benefits, from six months to one year from the date of unemployment and deferred SSB contributions for three months. MoLIP will now provide social security benefits to workers in factories and workshops that have been temporarily closed for inspection due to the Covid-19 outbreak. These workers must be registered for social security under the Social Welfare Programme and will receive unemployment compensation equal to 40 percent of their salaries (based on insurance fees) in accordance with the Social Security Law.

The government is providing basic food and free electricity to lower-income households. On April 6, the Central Committee for the Prevention, Control, and Treatment of Covid-19 announced a program to distribute essential food items to low-income households during the New Year Thingyan period. The Ministry of Commerce (MoCOM) will provide emergency food support to households whose livelihoods have been disrupted by the pandemic through community-based food banks and associations. In addition, the Ministry of Electricity and Energy (MoEE) has announced that it will suspend tariffs on the first 150KwH of household electricity consumption during the month of April and May.

Private Sector Support

The government has created a K 100 billion commitment fund to aid businesses affected by the Covid-19 pandemic. The fund will be capitalized by the Kyat National Revolving Fund (K 50 billion) and the Social Security Fund (K 50 billion), with total resources equal to about 0.1 percent of GDP. The fund will provide short-term, low-interest loans to businesses facing unprecedented challenges related to the pandemic, with a focus on the CMP garment sector, hotels and tourism firms, and SMEs owned by Myanmar nationals. Loans from the fund will be for a period of one year at an interest rate of 1 percent. Only domestic firms are eligible to apply, and they must be deemed to have suffered losses due to the pandemic.

Additional relief programs are targeting priority sectors. On April 21, the Ministry of Hotels and Tourism (MoHT) announced the six-month deferral of land-lease payment for 47 hotels (26 state-owned and 21 private) to alleviate the burden of Covid-19 on the travel and tourism sector. Meanwhile, the Myanmar Agricultural Development Bank will provide K 1,747 billion in loans to farmers in the current 2019-20 fiscal year, an increase of K 63 billion from the previous year.

International Trade and Investment

To facilitate social distancing, MoCOM now offers online procedures for issuing most import and export licenses. Since April 1, online procedures have been available for 815 tradable goods, including CMP garments, pharmaceutical products, hospital supplies, consumer goods, chemical fertilizers, essential foods, oil products, motorbikes and bicycles, agricultural products, and natural gas. Vehicle-import licenses have been

extended from one month to two months due to the disruption of domestic sales. To ease the shortage of medical supplies and equipment, the government has waived the import-license requirement for essential items to treat and combat the spread of Covid-19.

Additional measures have been put in place to encourage investment and reduce the administrative cost of doing business. The Myanmar Investment Commission has halved application fees for investors, and on March 18 the government announced that the 2 percent advance income tax on exports would be waived until the end of this fiscal year. The authorities are streamlining bureaucratic procedures and reducing customs duties for businesses that use the Myanmar Automated Cargo Clearance System (MACCS). Rice exports have been suspended while an improved export regime is developed.

Monetary Policy and the Financial Sector

The CBM has reduced interest rates. Effective May 1, the CBM cut interest rates by a combined 3 percent while retaining the -2 and +3 percentage-point bands for deposit rates and collateralized lending rates around the reference rate. As a result, the minimum bank deposit rate was lowered from 8 percent to 5 percent, while the maximum lending rate was lowered from 13 percent to 10 percent for collateralized loans and from 16 percent to 14.5 percent for non-collateralized loans. The interest rates for agriculture loans and savings accounts for farmers provided by Myanmar Agriculture Development, the Japan International Cooperation Agency (JICA), and Myanmar Economic Bank have been reduced to 1-1.5 percentage points.

The CBM is implementing measures to boost the liquidity of private banks. The CBM has announced that it will reduce banks' minimum reserve requirement from 5 percent to 3.5 percent of customer deposits and increase the bank liquidity requirement for Treasury Bonds from 50 percent to 90 percent, with both measures taking effect at end-September.[34] On April 24, the CBM extended the timeframe for banks to comply with capital-adequacy regulations, asset classification and provisioning regulations, large-exposure regulations, and liquidity-ratio requirements. The original deadline of August 31, 2020 has been pushed back by three years.

As the kyat has strengthened against the dollar, the CBM has increased auctions in an effort to stabilize the exchange rate. Between October 2019 and March 2020, the CBM purchased USD 154 million at an average auction exchange rate of K 1,470/US$. These purchases have reduced the amount of dollars in the market while bolstering scarce central-bank reserves.

Fiscal Policy

MoPFI is offering tax deferrals and waivers for taxes and fees as part of a revenue-side stimulus policy. The authorities have deferred tax payments until September 2020, and CMP businesses, hotels and tourism companies, and SMEs have been exempted from income tax and commercial tax. These measures are designed to ease short-term cashflow problems. Meanwhile, expenditure-side stimulus policies are also being implemented, including both on- and off-budget measures, but their scale is currently modest.[35]

[34] https://www.bclplaw.com/en-US/insights/myanmar-covid-19-myanmar-introduces-various-relief-measures-to-mitigate-the-effects-of-covid-19.html

[35] See **Section III.4. Fiscal Policy** for further details.

B. Special Topics

Special Topic 1: The Firm-Level Impact of the Covid-19 Pandemic

Myanmar reported its first confirmed case of Covid-19 on March 23, but the pandemic had already begun affecting firms in the first quarter of 2020 through trade and supply-chain disruptions. Manufacturing firms faced shortages of raw materials imported from China, mainly for CMP products, while trade restrictions at overland borders reduced agricultural exports to China.[36] Order cancellations from the European Union (EU)—the destination for 70 percent of Myanmar's garment exports—prompted the closure of more than 20 garment factories, causing over 10,000 people to lose their jobs.[37] A sharp decline in tourism arrivals adversely affected both tourism and related industries, such as food services, transportation, and recreational activities,[38] and this effect was compounded by the cancellation of large-scale events, the adoption of social-distancing measures, and the implementation of stay-at-home orders.

The impact of the pandemic intensified in April, as the number of confirmed cases increased, and mobility restrictions were introduced. The number of online company registrations dropped to 70 percent of its long-term average in April,[39] reflecting the uncertain business outlook. Along with the cancellation of garment orders, fishery exports to the EU were halted in April.[40] Real estate transactions in Yangon sharply declined in the beginning of the month; only 10 percent of properties were leased out, and a limited number of sales were transacted, as sales events were cancelled.[41] Construction activity slowed by 30 percent due to the disruption of input supply chains, diminishing cashflow, and an acute labor shortage, as construction workers returned to their hometowns during the lockdown and work-shift rotation policies were introduced.[42] Trade with China returned to normal levels by mid-March,[43] but overland border restrictions were reimposed in April,[44] placing renewed pressure on agricultural firms that export to China.

The World Bank commissioned a firm-level survey[45] to provide quantitative evidence of the impact of the Covid-19 pandemic. The survey was nationally representative and included firms from a wide range of sectors. Whereas firm-level surveys in Myanmar tend to focus on the manufacturing, retail/wholesale, and service sectors, the World Bank survey provided a more accurate cross-section of Myanmar's firms that encompassed the agricultural sector, SMEs, and informal firms. Overall, 16 percent of firms reported temporarily closing their operations for an average of eight weeks, and representatives of closed firms estimated that an average of four weeks would be required to resume their operations. Firms in the service sector were

[36] https://www.mmtimes.com/news/businesses-worry-about-virus-impact-border-trade.html
[37] https://www.mmtimes.com/news/more-woes-myanmar-garment-industry-eu-cancels-orders.html
[38] The Government of Myanmar banned international commercial flights from March 30 to May 31 and suspended entry visas.
[39] https://myanmar.mmtimes.com/news/138858.html
[40] https://www.mmtimes.com/news/exports-fisheries-products-slow-crawl.html
[41] https://www.mmtimes.com/news/yangon-real-estate-transactions-decline.html?fbclid=IwAR0Tsecv8HyQ3Za-eVoBwslV2-PO4Xb5H0Vw6zKITmQ3114yR3nzoUC-Ra4
[42] https://www.mmtimes.com/news/construction-contraction-due-virus-outbreak.html
[43] https://www.mmtimes.com/news/unofficial-chinese-demand-sugar-rises.html
[44] https://news-eleven.com/article/167998
[45] The nationally representative World Bank survey included 500 firms spanning a wide range of industries and firm sizes, as well as the formal and informal sectors. The first round has been completed, and seven subsequent rounds conducted between May and October 2020 will provide continuous information on the evolving impact of the Covid-19 pandemic.

worst hit by Covid-19, with 39 percent of firms reporting temporary closures (**Figure 50**). Across regions,[46] firms in Hilly Zone reported the largest share of firm closures at 23 percent, well above the national average of 16 percent (**Figure 51**). Since the Hilly Zone states of Shan and Kachin border China, the disruption of overland trade likely intensified the impact of the pandemic on local firms. Firms in Yangon and Mandalay also reported above-average shares of firm closures, at 20 percent and 18 percent respectively, which may reflect the higher business density of those areas and the greater integration of local firms into international supply chains (**Figure 51**).

Figure 50: Share of Firms Reporting Temporary Closures by Sector

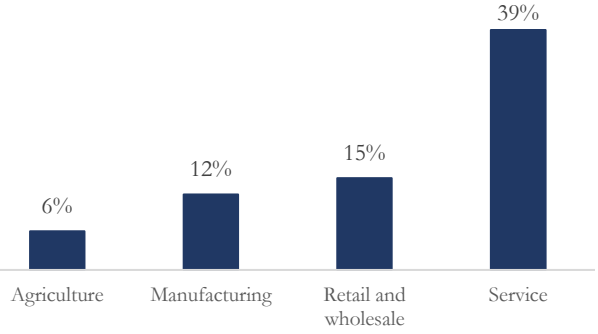
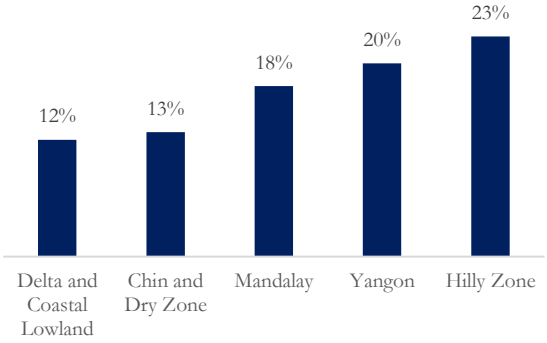


Figure 51: Share of Firms Reporting Temporary Closures by Geographic Region



Source: The World Bank's Covid-19 firm survey

While representatives of closed firms expected to resume operations in an average of four weeks, estimates among firms in the service sector were as high as 25 weeks. The range of responses reflects how differently Covid-19 has affected individual firms, even within the same sector (**Figure 52**). Only 12 percent of manufacturing firms reported temporary closures, and those firms were closed for an average of 8.6 weeks. (**Figure 50** and **Figure 52**). Agriculture firms were the most likely to continue operating, with only 6 percent of firms reporting temporary closures.

[46] States and regions are grouped into zones based on their economic and geographic characteristics. Two of the five zones are single regions, Yangon and Mandalay. The Hilly Zone includes the states of Kachin, Kayah, and Shan. The Delta and Coastal Lowland Zone includes Ayeyarwaddy region, Rakhine region, Mon state, Bago region, Tanintharyi region, and Kayin state. Chin and the Dry Zone includes Chin state, Sagaing region, Magwe region, and Nay Pyi Taw.

Figure 52: Number of Weeks Closed and Expected Number of Weeks to Resume Operations by Sector[47]

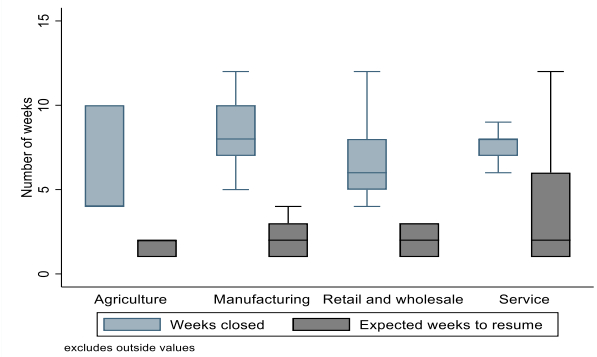
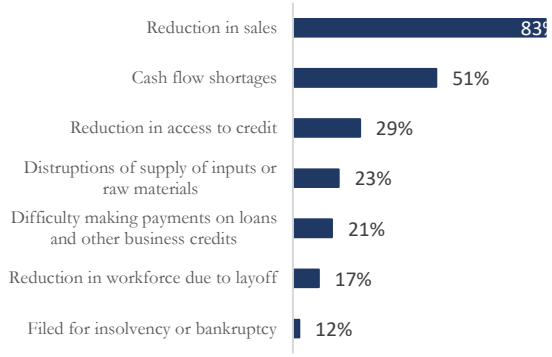
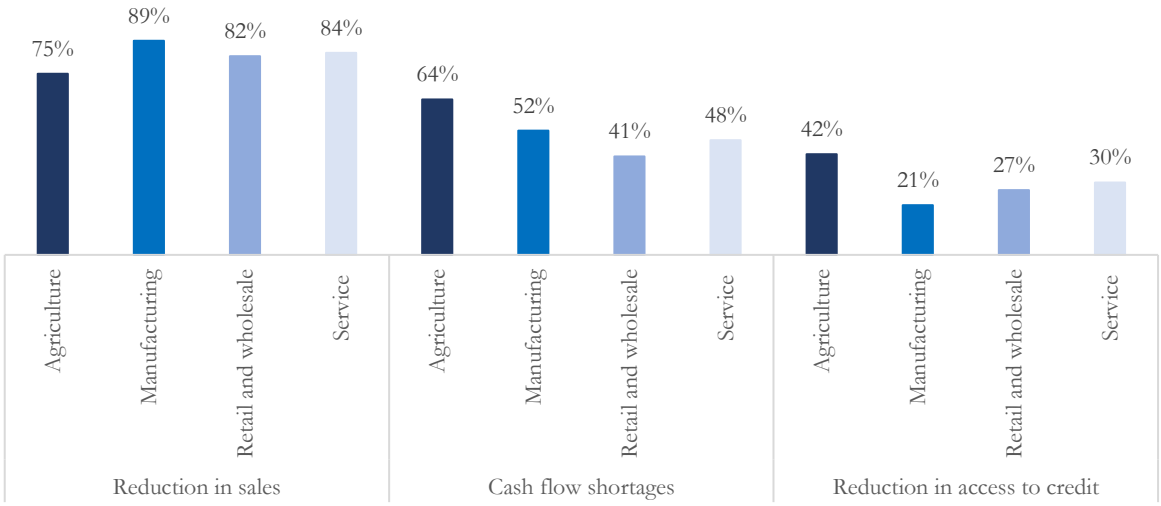


Figure 53: Effects of Covid-19 on Firm Operations



Source: The World Bank's Covid-19 firm survey

Figure 54: Most Commonly Reported Impacts of Covid-19 by Sector



Source: The World Bank's Covid-19 firm survey

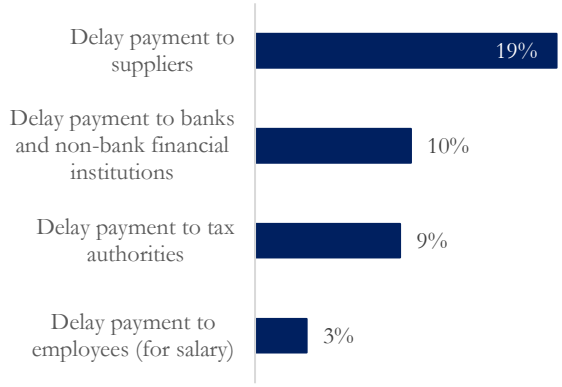
Across sectors, the three most commonly reported impacts of Covid-19 were lower sales, cashflow shortages, and reduced credit access. The share of firms reporting lower sales due to Covid-19 ranged from 90 percent in the manufacturing sector to 75 percent in the agricultural sector (**Figure 53**). Just over half of all firms reported cashflow shortages, and agricultural firms were the most likely to report both cashflow shortages and reduced access to credit. A full 64 percent of agricultural firms experienced cashflow shortages, well above

[47] This boxplot presents a standardized distribution of data based on a five-number summary: the minimum, the first quartile, the median, the third quartile, and the maximum. The first quartile is the middle value between the smaller value (not the minimum) and the median of the dataset; the median is the middle value of the dataset; the third quartile is the middle value between the median and the highest value (not the maximum). The whiskers represent the smallest and highest value, while the box includes the first quartile, median, and the third quartile. Datapoints that lie outside of the whiskers are outliers.

the average of 51 percent for all firms, and about 42 percent of agricultural firms experienced reduced access to credit, versus 29 percent of all firms (**Figure 54**).

Covid-19 caused a large share of firms to delay payments to suppliers, and agricultural firms were most likely to report delaying payments to financial institutions. Overall, 19 percent of firms reported delaying payments to suppliers by more than one week (**Figure 55**). By contrast, only 3 percent of firms reported delaying payments to employees. Retail/wholesale and manufacturing firms were the most likely to report delaying payments to suppliers, at 26 percent and 23 percent, respectively. Firms in the retail/wholesale sector were the most likely to report delaying payments to tax authorities at 15 percent, well above the average of 9 percent for all firms. Agricultural firms were the most likely to report delaying payments to banks or nonbank financial institutions, also at 15 percent, confirming that agricultural firms have experienced the greatest financial impact of Covid-19 despite its limited effect on sales. The sensitivity of agricultural firms to the pandemic reflects their limited financial security, frequent informality, and lack of access to financing during the economic downturn.

Figure 55: Share of Firms Reporting Delayed Payments due to Covid-19



Source: The World Bank's Covid-19 firm survey

Most firms were not able to adapt their operations to the new context of Covid-19. Starting or increasing delivery services was the most common adjustment mechanism adopted by firms (**Figure 56**). Only 19 percent of firms switched to digital platforms or online systems to perform business functions, and only 8 percent embraced remote-work arrangments. Agricultural firms were the least likely to report adopting new mechanisms to cope with Covid-19.

Figure 56: Operational Adjustment Mechanisms Reported by Firms

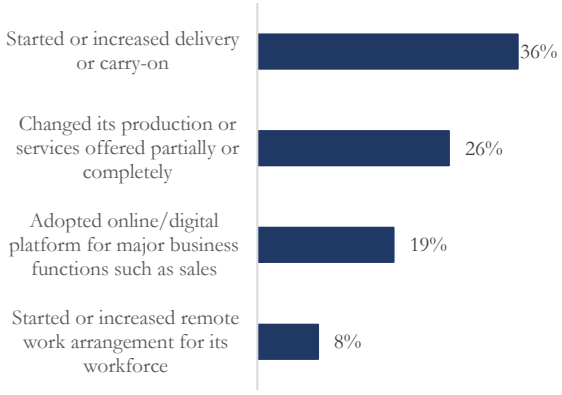
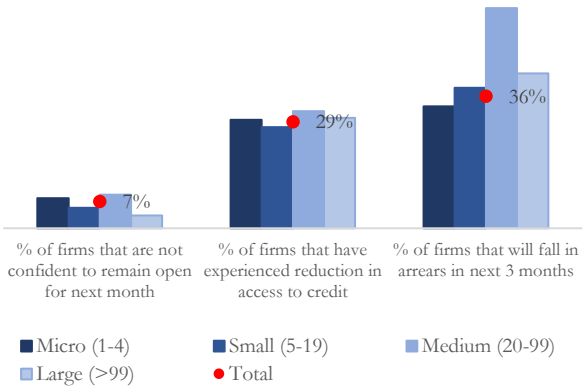


Figure 57: Self-Reported Resilience Indicators among Firms



Source: The World Bank's Covid-19 firm survey

While only 7 percent of firms were not confident they would remain open during the following month, about one-third of firms reported experiencing a reduction in credit access and expected to fall in

arrears in outstanding liabilities within the next three months. Medium-sized firms were most likely to report both uncertainty that they would remain open during the following month and reduced access to credit. Medium-sized firms were also most likely to report being at risk of falling into arrears on outstanding liabilities at 61 percent, far above the average of 36 percent (**Figure 57**). Over half of agricultural firms expected to fall in arrears on oustanding liabilities over the next three motnhs, compared to an average of 36 percent for all firms, further comfirming the outsized financial vulnerability of agricultural firms to Covid-19.

Female-owned firms were more likely to report negative effects from Covid-19. Female-owned firms were more likely to report diminished sales (86 percent), cashflow shortages (52 percent), and reduced access to credit (32 percent) than their male-owned counterparts (**Figure 58**). This pattern reflects underlying challenges facing female entrepreneurs in Myanmar, and it underscores the importance of crafting Covid-19 response programs that effectively reach vulnerable firms, including female-owned firms and SMEs, which face especially severe challenges during economic crises.

Figure 58: Impact on Firms by Owner's Gender

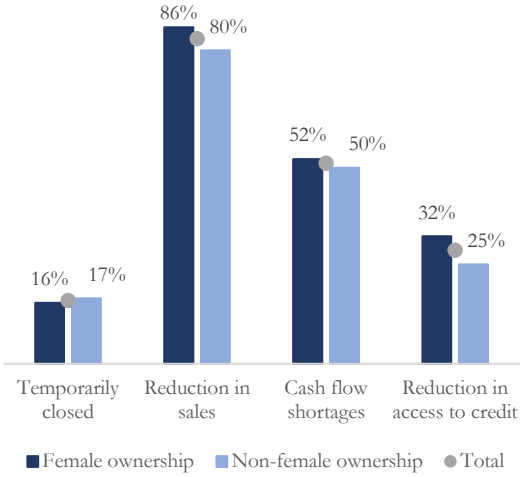
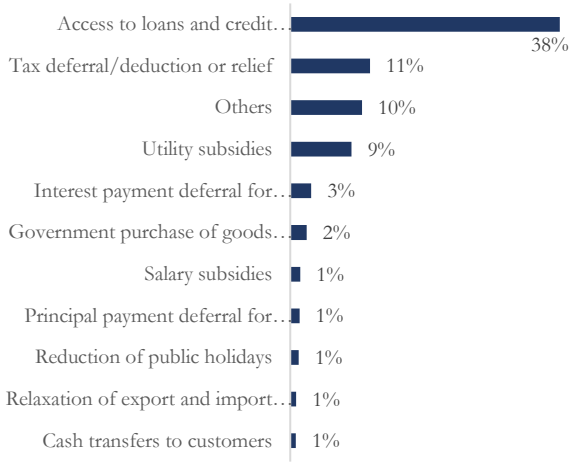


Figure 59: Most Urgent Government Policy Response



Source: The World Bank's Covid-19 firm survey

More than half of the firms were aware of economic support programs offered by local and national governments, but most had not applied for government support. While 60 percent of firms were aware of programs designed to mitigate the impact of Covid-19 on firms, only 9 percent of firms reported applying for public support. These results suggest that the government may need to expand its outreach efforts and develop a broader, more inclusive set of programs. Most firms suggested that access to loans and credit gurantees, tax deferrals, or tax relief were the most urgently needed forms of government support (**Figure 59**), which is consistent with the findings of other surveys (**Box 4**).

Box 4: Firm-Level Surveys of the Impact of Covid -19

In addition to the World Bank survey described in this section, several other surveys have attempted to assess the effects of the Covid-19 pandemic on firms in Myanmar. A survey conducted by the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) was the first to evaluate the impact of Covid-19. However, the survey's scope was restricted to UMFCCI members and firms in affiliated organizations. The survey was conducted in March, and it covered 440 firms across the manufacturing, retail/wholesale, and service sectors. In addition, the American Chamber of Commerce (AmCham) and the European Chamber of Commerce (EuroCham) conducted surveys in late March and early April to assess the impacts of Covid-19 on member firms operating in Myanmar. The AmCham survey covered 23 American firms, while the EuroCham survey covered 33 European firms. The Asia Foundation (TAF) and the Dana Facility jointly conducted the Myanmar Business Environment Index (MBEI) survey in late April and early May, which covered 750 firms in the manufacturing, retail/wholesale, and service sectors, with a focus on the food and beverage manufacturing, textiles, and accommodations subsectors. Each of these surveys provides a unique and valuable perspective on the ramifications of Covid-19, but no single survey is nationally representative. The UMFCCI survey focused on large formal firms and excluded informal firms and smaller sized firms; the AmCham and EuroCham surveys were restricted to two subsets of foreign firms operating in Myanmar; and the MBEI survey excluded agriculture and other primary-sector firms. Due to their differing sample selection criteria and analytical methodologies, the findings of these surveys cannot be directly compared with one another or with the World Bank survey discussed throughout this section.

The UMFCCI survey examined key areas of business performance in January-March of 2020 compared with the same period of 2019. During the first three months of 2020, 67 percent of firms had experienced a decline in sales; 17 percent had laid off employees; and 12 percent had experienced shortages of supplies or raw materials relative to the same period in 2019 (**Figure 60**). In addition, 64 percent of firms expected sales to decline over the following three months; 28 percent expected to fire employees; 24 percent expected to experience a raw material shortage; 22 percent expected to experience a cash flow shortage; and 5 percent expected to close down their operations.

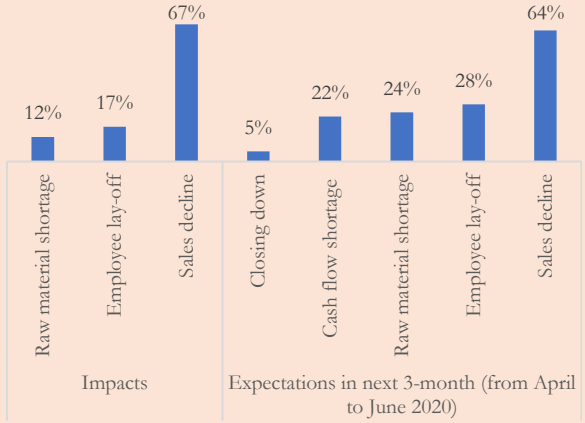
The EuroCham survey evaluated the effects of Covid-19 on European firms operating in Myanmar. The survey found that 91 percent of respondents reported revenue loses, while 88 percent reported adverse impacts on their business operations and operating costs (**Figure 61**). Order cancellations, project delays, and supply-chain disruptions were cited as the major causes of declining revenue. Meanwhile, Covid-19 put upward pressure on operating costs as firms adopted protective measures for employees, partners, and suppliers. Only 52 percent of the firms surveyed expected to recover within six months, suggesting greater pessimism about the recovery process among foreign firms than among their domestic counterparts.

In line with the findings of the other surveys, the American firms surveyed by AmCham were most likely to report a decline in revenue due to Covid-19. In the AmCham survey, 92 percent of respondent firms reported negative effects on revenue; 91 percent reported having to reevaluate their business strategies; and 65 percent reported that the pandemic was adversely affecting their business operations (**Figure 62**). Cash liquidity was also a major challenge for American firms, as 60 percent of respondents cited liquidity shortages (**Figure 62**). Together, the findings of the EuroCham and AmCham surveys highlight that the Covid-19 pandemic has negatively affected a large share of foreign firms despite their generally high levels of capacity and robust financial positions.

The MBEI survey provides important insights into the pandemic's effect on the retail and tourism sectors. The survey found that 92 percent of firms had experienced a decline in sales, consistent with the findings of other surveys (**Figure 63**). Moreover, a full 29 percent of firms reported having closed their operations completely; 67 percent anticipated imminent cashflow shortages; and 51 percent believed that the current economic situation posed a moderate or high risk to the survival of their business.

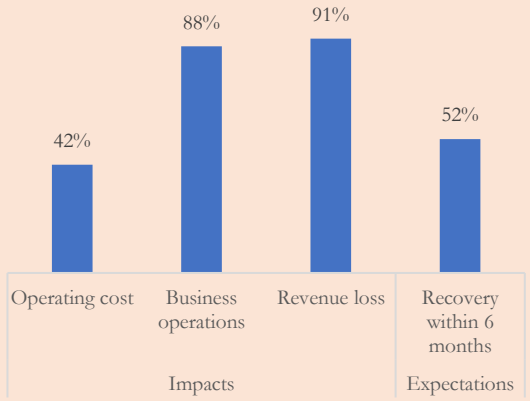
Finally, firms across all surveys reported that major government policies or regulatory interventions would be necessary to mitigate the impact of Covid-19. The UMFCCI and AmCham surveys both found that tax relief, in the form of tax deductions or deferrals, were the policy most favored by firms. In addition to tax policy, the EuroCham survey found that subsidies, targeted relief for import/export firms, and the implementation of expedited import-license approval and customs-clearance procedures were crucial to support firms affected by Covid-19.

Figure 60: Summary of Findings from the UMFCCI Survey



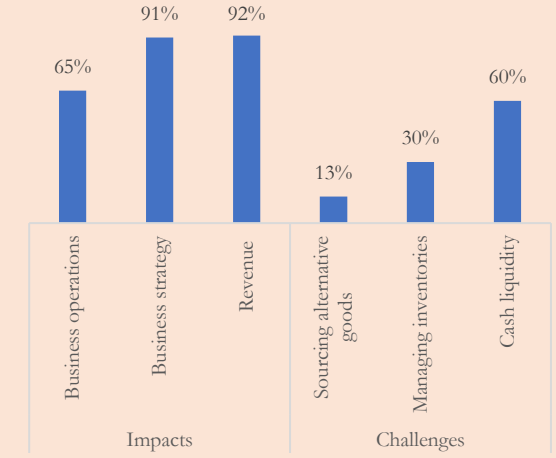
Source: UMFCCI Survey

Figure 61: Summary of Findings from the EuroCham Survey



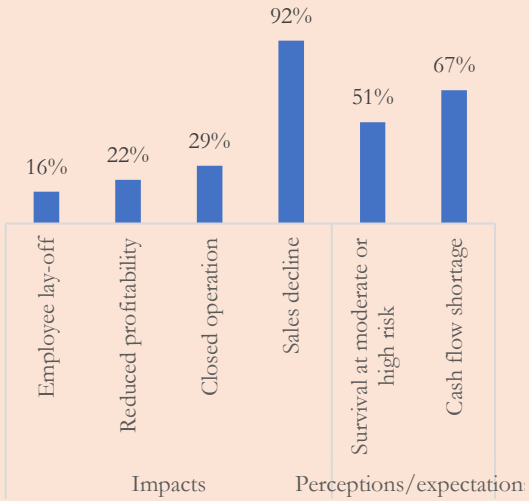
Source: EuroCham Survey

Figure 62: Summary of Findings from the AmCham Survey



Source: AmCham Survey

Figure 63: Summary of Findings from the MBEI Survey



Source: MBEI Survey

As part of its initial response to the pandemic, the government established a Covid-19 fund to support CMP firms, manufacturers, hotels, and tourism firms. With a total capitalization of K 100 billion (equivalent to 0.1 percent of GDP), the fund will offer loans to eligible firms at a 1 percent annual interest rate. The government has also eliminated the 2 percent advance income tax on exports, cut interest rates, introduced trade-facilitation measures, suspended licensing and license-renewal fees for tourism-related businesses, deferred lease payments by hotels, and accelerated investment approvals for labor-intensive public works and infrastructure projects designed to support the recovery of business activity. In late April, the government issued a comprehensive economic stimulus plan called the Covid-19 Economic Relief Plan (CERP), which defines seven goals for managing the impact of the pandemic, each with its own strategy and action plan. The second goal focuses on providing fiscal stimulus, making low-cost funds available, facilitating trade and investment, and easing pressure on the banking sector.

While the CERP is adequately comprehensive, adopting further policy actions could reach a larger share of firms, while establishing expenditure targets could help preserve scare public resources. Categorizing firms based on their characteristics and indicators of sensitivity to the economic shock of the pandemic can help ensure that government support reaches the most vulnerable firms. The design of the CERP increases the possibility that many of the policy measures under the second goal will primarily reach a narrow segment of formal firms, and while the plan includes detailed measures to support agricultural SMEs, there is a significant risk that it will not reach informal firms or SMEs in other sectors. To ensure an inclusive policy response, the scope and depth of the soft loans and guarantees provided by the government will need to be assessed in the context of Myanmar's unique financial-sector characteristics and the credit constraints that may impede investment at the early stages of the recovery. Interest-rate caps, collateral requirements, and limited capacity to present bankable proposals have long constrained access to bank credit among SMEs and informal firms. Moreover, domestic banks have difficulty assessing the creditworthiness of potential borrowers due to inadequate credit information, while a lack of credible auditing undermines the reliability of firms' financial statements. Creating an accessible process that reflects these conditions will be critical to ensure that unbanked SMEs and informal firms are able to access public support programs that will enable them to cope with the ongoing economic impacts of the Covid-19 pandemic.

Special Topic 2: Impacts of Covid-19 on Household Welfare and Poverty

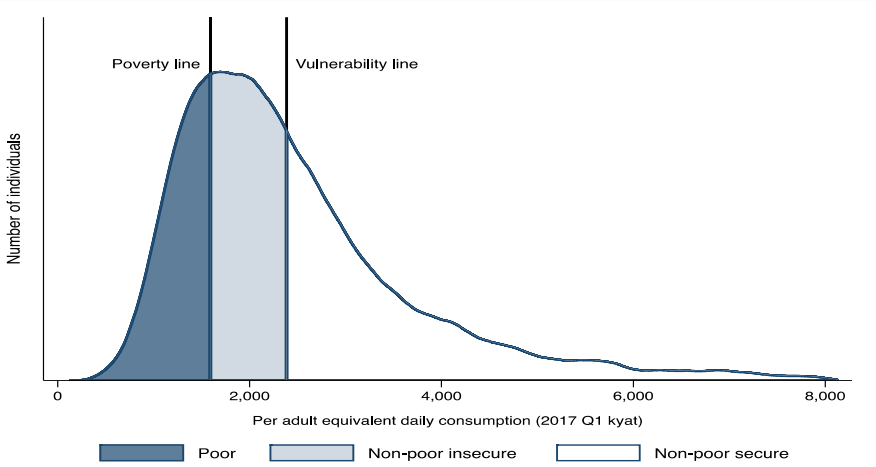
The economic disruption caused by Covid-19 and measures to contain its spread will have a significant impact on household welfare in Myanmar. With 286 confirmed cases as of 19 June 2020, the direct effects of the health shock may take some time to become visible. The indirect economic effects of the shock on people's welfare are however already tangible and will likely be long-lasting. In the absence of resolute policy responses, Myanmar households are likely to continue suffering the consequences of job losses and reduced incomes—both from labor and remittances.

Even a small set-back in incomes could reverse poverty reduction gains from the past and push those already poor into more severe deprivation. While the share of the population that is poor has halved between 2005 and 2017 (from 48.2 to 24.8 percent), the share of those vulnerable to falling into poverty has increased. In 2017, one-third of the population was clustered just above the poverty line, not poor but not economically secure either (**Figure 64**). They consume between K 1,590 and K 2,385[48] per day per adult equivalent. Even a

[48] All values were deflated to Q12017 kyats to ensure comparability.

small income shock could push these near-poor households into poverty, while bringing millions of poor further below the poverty line into extreme hardship.

Figure 64: Concentration around the poverty line (2017)



Note: The poverty line equals to 1,590 kyats and the vulnerability line is defined as 1.5 times the poverty line and is equal to 2,385 kyats More information on the vulnerability line is available in the 2017 Myanmar Living Conditions Survey: Poverty Report (CSO, UNDP and World Bank, 2019).

The Covid-19 crisis will not affect all households equally and is likely to be particularly damaging for poorer households—calling for targeted policy responses. Sector of economic activity, type of occupation, vulnerability of employment, and ability to diversify income sources will determine households' ability to respond to the Covid-19 economic shock. Should households be exposed to health shocks too, their ability to access health services and prevention measures will determine the extent to which they are affected. Those at the bottom of the distribution are expected to fare worse. The latest household survey data (2017 Myanmar Living Conditions Survey, MLCS) provide insights on household employment and income profiles[49] and the distributional impacts of Covid-19, which are summarized below.

Urban and non-poor households who derive their livelihoods from highly affected sectors and remittances are most likely to experience significant welfare losses and are at risk of falling below the poverty line…

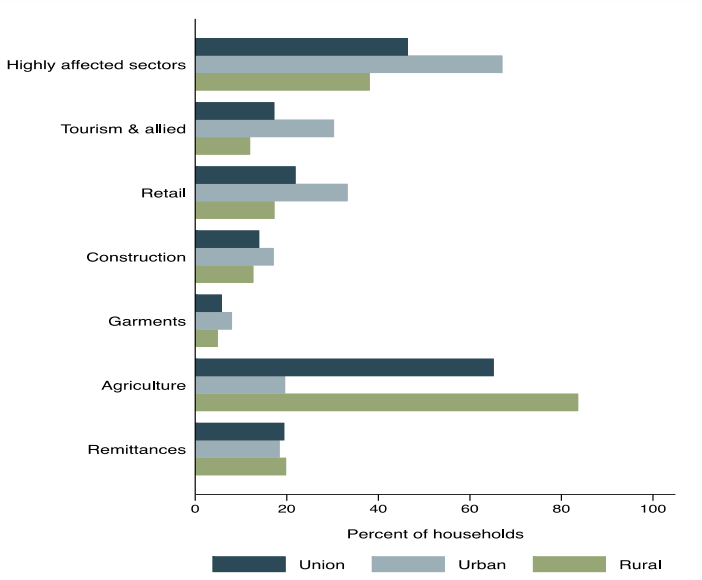
The economic slowdown and outbreak containment measures are expected to hit a large share of Myanmar households, given high reliance on the most affected economic activities for employment and incomes. Retail trade, tourism, and allied activities (including hospitality, transportation and food services), construction, and garment manufacturing are the sectors most affected thus far,[50] and they are likely to continue suffering in the medium term. Travel restrictions and social distancing measures, including prolonged lockdowns, caused dwindling numbers of customers in retail and tourism-related activities, which in 2017 provided jobs for 22 and 17 percent of households, respectively.[51] Limits to the number of workers per site also put a halt to large construction projects, constraining opportunities to earn a living in a sector that in 2017 provided work to 14 percent of households. Beyond these sectors, the garments industry has already been

[49] Further details on labor and income analysis based on the MLCS 2017 are available in CSO, UN and World Bank 2020.
[50] This analysis refers to retail trade, tourism and allied activities, construction, and garments manufacturing as "most affected" or "highly affected" sectors or activities.
[51] Note that the same household can be engaged in more than one sector.

severely hit, threatening the livelihoods of 6 percent of households based on 2017 data. At first, it suffered from a disrupted supply of inputs from China, which posed limits on production and led to immediate layoffs or closure of factories. Later, and more worryingly, this industry was impacted by declines in global demand that led to cancelled orders and further layoffs. Data from 2017 suggests that overall, close to half of Myanmar's households, accounting for over 9 million workers, are engaged in activities considered to be most affected.

The greater exposure of the service sector to the Covid-19 economic slowdown and containment measures threatens urban residents' livelihoods. Households living in urban areas, where engagement in retail and travel-related activities is higher, have been particularly impacted by mobility restrictions and lockdown measures. In 2017, two in three urban households were engaged in the abovementioned affected sectors (**Figure 65**), which provided on average 67 percent of their household income. One third of urban households have members working in retail, and three out of ten are involved in tourism-related activities. Engagement in the garments industry and construction is also higher in urban rather than rural settings. Though less exposed, rural households are however not immune to the shock in these sectors: 38 percent are engaged in activities identified as most affected and 46 percent are impacted either through labor income or domestic remittances, many of which come from workers in the urban service sector.

Figure 65: Urban households are more likely to be engaged in highly affected sectors (2017)

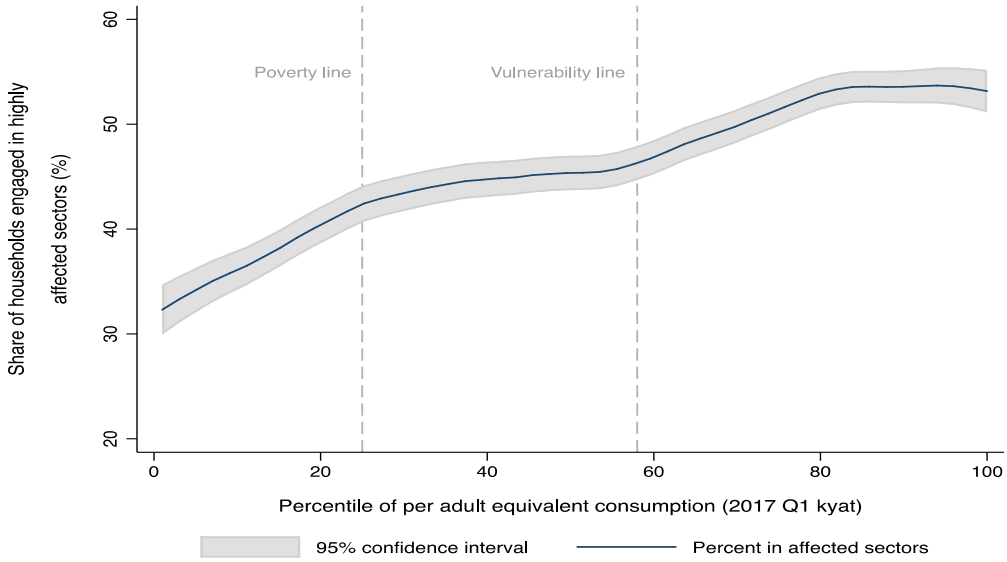


Note: Highly affected sectors here include tourism and allied, retail, construction, and garments

Households working in the most affected activities are less likely to be poor, but lack of livelihood diversification makes them highly exposed to income shocks. In 2017, households engaged in highly affected activities were 33 percent less likely than non-participating households to be poor (**Figure 65**). While 84 percent of affected households in 2017 are considered non-poor, they are not above the vulnerability line: three out of ten households engaged in the most affected economic activities have welfare levels between the poverty line and 1.5 times the poverty line. Thus, a small loss of income could push them into poverty (see **Figure 64** above). But even households in higher income quintiles are severely exposed, as they tend to lack

diversification in income sources away from highly affected sectors. Wealthier households derive a sizeable share of their total income from these sectors. Evidence from 2017 data shows that households in the wealthiest quintile are 23 percent more likely than the other quintiles to engage exclusively in one income-generating activity[52]. In urban areas, the prevalence of the service sector has made households prone to income shocks from multiple affected activities: about a fifth of urban households in 2017 were engaged in two or more highly affected activities, compared to just 8 percent of rural households.

Figure 66: Wealthier households are more likely to be engaged in highly affected sectors (2017)



Note: Highly affected sectors here include tourism and allied, retail, construction, and garments

The expected decline in international remittances could deprive households, especially non-poor ones, of an additional source of income. In 2017, an estimated 1.9 to 3 million people from Myanmar lived as economic migrants in Thailand, and a further 450,000 lived in Malaysia and Singapore[53] . These migrants provided remittances to 8 percent of households in Myanmar, contributing to 53 percent of their income. The economic slowdown and lockdown measures in destination countries have triggered a mass return to Myanmar, with estimates up to 150,000 people before Thingyan alone and tens of thousands more to follow. Rural and non-poor households are more likely than the poor to receive international remittances. Should the crisis have taken place in 2017, reduced remittances would have put 8 percent of near-poor households at risk of falling into poverty, and would have seriously impacted the welfare of a similar share of secure households. In addition to suffering the loss of an important source of income, remittance-dependent households could now face the additional burden of providing for more household members due to returning migrants. Although poor households are less likely than non-poor households to receive remittances, their reliance on these transfers for half of their income risks pushing them further into poverty.

[52] Central Statistical Organization (CSO), UNDP and WB (2020) "Myanmar Living Conditions Survey 2017: Socio-economic Report", Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.
[53] https://www.migrationpolicy.org/article/labor-migration-myanmar-remittances-reforms-and-challenges (last access 22 June 2020)

How far the agricultural sector will be affected remains unclear and needs to be monitored as the new planting and harvesting seasons approach; should agriculture be affected, the impact on the rural poor would be considerable. Agriculture (including aquaculture and fishing) is the main sector of employment in Myanmar, providing work to 84 percent of rural and poor households in 2017. Agricultural income makes up two thirds of total income for poor households engaged in the sector—significantly more than it does for secure agricultural households (53 percent). Disruptions in trade and logistics due to border restrictions in the early months of 2020 suggests that some farmers, livestock breeders, and seafood producers exporting to China may have been severely affected.[54] The extent to which the seasonality and perishable nature of products affected exporting farmers (and their suppliers) will have determined the welfare impact of these events. More important in determining the poverty impact of Covid-19 in this sector, however, is how the upcoming cultivation and harvesting season will evolve. Yields and agricultural incomes will be affected by the availability of inputs (including imported fertilizers and pesticides), access to credit for purchase of productive inputs, the constraints social distancing measures will pose on mobility and wages of agricultural laborers, and demand for rice and other agricultural products.

Box 5: Exposure to potential impacts vary by state/region

Source of employment and income vary considerably across states/regions. Understanding the relative importance of the most affected economic activities and remittances in each geographic area can help prioritize interventions and ensure they are contextually relevant.

Households in Yangon Region are by far the most exposed to job and earning losses in highly affected activities, but other states/regions with relatively developed urban service sectors are also at risk. Seven in ten households in Yangon Region in 2017 are engaged in highly affected sectors (Map 1a) and derive on average 70 percent of their total income from these activities. Mandalay and Bago Regions follow in terms of overall reliance on income from any highly affected sector. Other states/regions are particularly exposed to specific activities. For example, 22 percent of households in Kayin State in 2017 have members working in tourism-related activities, including those linked to the main border crossing trade route between Thailand and Myanmar; for these households, income from this sector represents about half of their total income. While Yangon Region has the highest share of households engaged in the garments industry (14 percent in 2017), Sagaing and Mandalay Regions also have non-trivial shares relying on income from the sector (8-9 percent). For engaged households in Mandalay Region, income from the garments sector represents nearly 46 percent of the total income in 2017. Should the agricultural sector be affected (see section below), a whole range of highly rural states/regions will be hit hard, including most

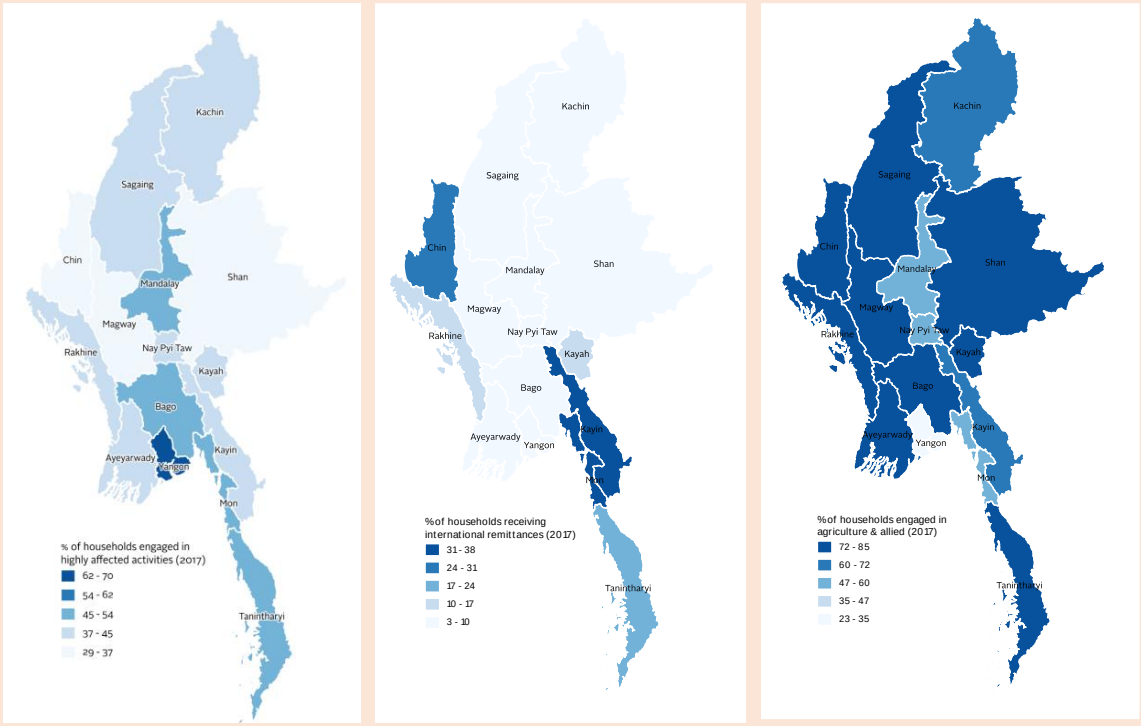
[54] See for example: https://www.mmtimes.com/news/muses-melon-exports-severely-hit-virus-outbreak.html

populated Shan State and Ayeyarwady Region, but also Chin State, Sagaing Region, Rakhine State, among others (Map 1c).

Tanintharyi and Rakhine would be particularly exposed if the aquaculture sector were to be hit hard, given households engaged in this sector there derive as much as 72.9 and 54.2 percent of their income from it. Though relying on aquaculture for a lower share of their income on average, a high share of people whose livelihoods depend also on aquaculture are in Ayeyarwady and Bago.

Map 1 In 2017, states/regions differ in their exposure to income shocks through each channel

Map 1a *Map 1b* *Map 1c*



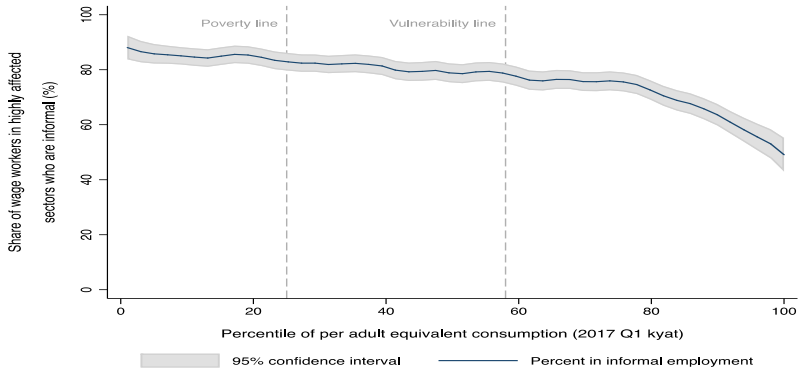
The consequences of decreased remittances and returning migrants will also be more visible in some states/regions. Kayin and Mon States are particularly at risk (Map 1b): in these states, as many as 38 and 34 percent of households, respectively, received remittances from abroad in 2017, in contrast with a Union average of 8 percent. One in four households in Chin State and one in five in Tanintharyi Region also receive international remittances. Households depending on remittances in Kayin State and Magway Region are particularly exposed, relying on this source for over 70 percent of their income on average. In addition to impoverishing loss in incomes, a potential rapid inflow of large volumes of jobless returnees may also have social consequences. Though the abovementioned states/regions are likely to see high numbers of returns from abroad relative to their population, others have already been affected by similar dynamics linked to domestic migration—with similar risks for social cohesion.

The poor and vulnerable will suffer most if hit, given insecure employment, weaker coping mechanisms, and greater exposure to health shocks

Wage employees and formal workers represent only a minority of the working population, making interventions in support of formal and larger firms unlikely to shelter the vast majority of households working in highly affected activities. Only about four in ten employed people aged 15 or more are wage-earning employees in 2017. Another 46 percent are own-account workers, operators of a family business, or employers. The 2015 Labor Force Survey estimated that 85 percent of employed individuals aged 15 or older were working in informal employment.[55] Similar characteristics can be seen in Covid-19-affected sectors, where 77 percent of waged employees in 2017 report informal employment.[56] The vast majority of own-account workers, who make up 44 percent of those employed in affected sectors in 2017, are likely to work informally as well.

Poorer households are more exposed to job insecurity, casual or seasonal work, and lower pay, potentially putting severe pressures on their livelihoods. Wage workers at the lower end of the welfare distribution are more likely to work informally (**Figure 67**), often in casual or seasonal employment. This puts them at particularly high risk of being critically affected by the current crisis, as they lack paid sick leave, workplace pensions, and the protection provided by formal employment and more predictable earnings. Across all sectors of engagement, poorer households are also more likely to be underemployed and self-employed, often as daily workers. Reliance on daily work introduces substantial variability in income from one day to the next. This typically results in the entire daily income going toward fulfilling basic needs, rather than contributing to savings that can be used to alleviate negative income shocks.

Figure 67: Informal work generates high vulnerability especially among poorer wage workers (2017)



Note: Highly affected sectors include tourism and allied, retail, construction, and garments. Informal employment includes wage employees in informal employment and unremunerated workers helping out in household enterprises. Data on job informality is unavailable for own-account workers, employers, and household business owners, and thus point estimates are likely underestimated.

[55] As outlined by the ICLS-17, *informal employment* is defined as remunerative work that lacks regulation and protection by legal or regulatory framework as well as non-remunerative work performed in an income-producing enterprise. This can be distinguished from *employment in the informal sector*, which does not capture informal workers in the formal sector or in households that produce for own consumption. The 2015 Labor Force Survey estimates employment in the informal sector is 75.6 percent.

[56] Using the 2017 MLCS, informal employment is based on 7-day recall and is defined as lacking sick/annual leave, a written contract, and workplace pensions.

The Covid-19 crisis could cause a significant setback both for women's welfare and empowerment. Female workers in 2017 are marginally more likely than male workers to be engaged in the sectors identified as most affected. In the garments industry, 84 percent of workers are women. This sector has been a crucial engine of poverty reduction over the last decade, providing women, particularly young and unmarried women with modest levels of education, the opportunity to earn an income—with broad gains also for their empowerment. Although on average better educated than workers in other affected sectors, a large share of garment workers have little education, limiting opportunities for transition to other jobs in the future. Women also participate actively in the retail sector, where they represent 69 percent of workers. Overall, women are significantly more likely than men to work in informal and vulnerable forms of employment, for example as unpaid workers in a family business or farm. In addition to vulnerabilities arising from job losses, women may be particularly impacted by loss of remittances: in 2017, female-headed households are 64 percent more likely than male-headed households to receive remittances, and these transfers account for a larger share of their total income. Loss of incomes for women could negatively affect child welfare, given that women tend to spend more of their earnings on children compared to men. Finally, should there be a wide outbreak in the country, women are more likely to be exposed due to the traditional roles they play as nurses and as primary caregivers, posing barriers on their ability to work.

A shock in the agricultural sector would leave millions, particularly the rural poor, struggling to provide for their basic needs and ensure food security. Work in agriculture is particularly insecure. Virtually no worker employed in this sector is formally employed. A large share is self-employed or working in a family-owned business, often without pay. A meager harvest would threaten food security for the rural poor, who rely heavily on their own agricultural production or volatile demand for labor (in the case of landless agricultural worker) to fulfil their food needs. They may respond to the shock by reducing their food intake, thus worsening nutrition outcomes that are already worrying for a country where one in three children are stunted in 2016 [57]. Food security may become a concern beyond poor rural households, should the harvest of key staple foods such as rice be poor and food prices high.

Poorer households also face greater exposure to health shocks, as they are less likely to be able to avoid contagion and have access to health services when sick. The poor, especially those living in congested urban areas, are largely unable to adopt social distancing measures. They are more likely to live in close proximity to others compared to better-off households, as evidenced by higher incidence of overcrowding (e.g., living area per household member), which may facilitate the spread of infectious diseases. Prevention measures are also less available to poorer households, who have lower access to adequate water, sanitation, and hygiene infrastructure, such as handwashing stations and piped water at home (**Figure 68**). In 2017, households in the top quintile were twice as likely as those in the bottom quintile to have a safe water source on their premises. In addition to facing greater risk of infection, the poor also are more likely to have limited access to medical treatment if exposed to Covid-19, as they are less likely to live near medical facilities. Even when they do, they are less likely to seek medical treatment for severe illnesses or injury (**Figure 69**), suggesting that affordability is a key barrier.

Although more exposed to Covid-19 economic and health risks, the poor and near-poor have lower access to coping mechanisms that can mitigate the impact of such shocks. In addition to having little employment protection, the poor are also less likely to have the strategies to cope with job losses or other

[57] Ministry of Health and Sports (MoHS) and ICF. 2017. Myanmar Demographic and Health Survey 2015-16. Nay Pyi Taw, Myanmar, and Rockville, Maryland USA: Ministry of Health and Sports and ICF.

negative income shocks. In 2017, when faced with a negative income shock, 57 percent of households resorted to borrowing. The poor were more likely to borrow as a result of shocks compared to those in the wealthiest quintiles, who were more likely to rely on savings. In the context of Covid-19, the ability to rely on informal networks (such as family and friends) as well as formal credit providers to overcome loss of income is expected to be more limited. As a result, there is a heightened risk that the poor would adopt risky coping mechanisms with long term consequences, such as borrowing from informal moneylenders at exorbitant rates, taking children out of school, or resorting to substandard nutrition practices.

Figure 68: Poorer households have less access to sanitation to prevent contagion…

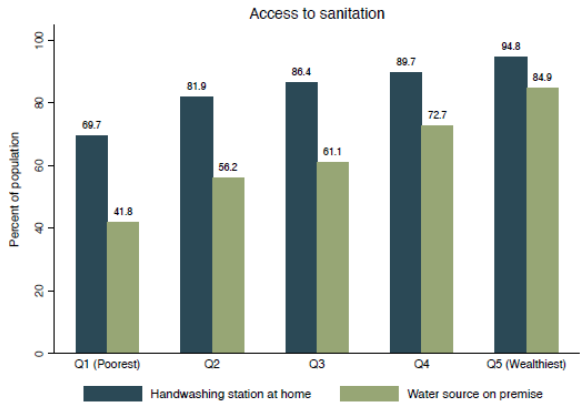
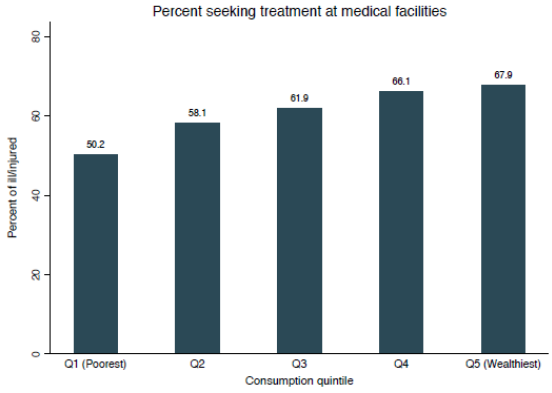


Figure 69: …and if household members fall ill, they are less likely to seek treatment.



Source: 2017 MLCS

The current crisis threatens to reverse poverty reduction gains, unless a strong response is set in place to protect the most vulnerable

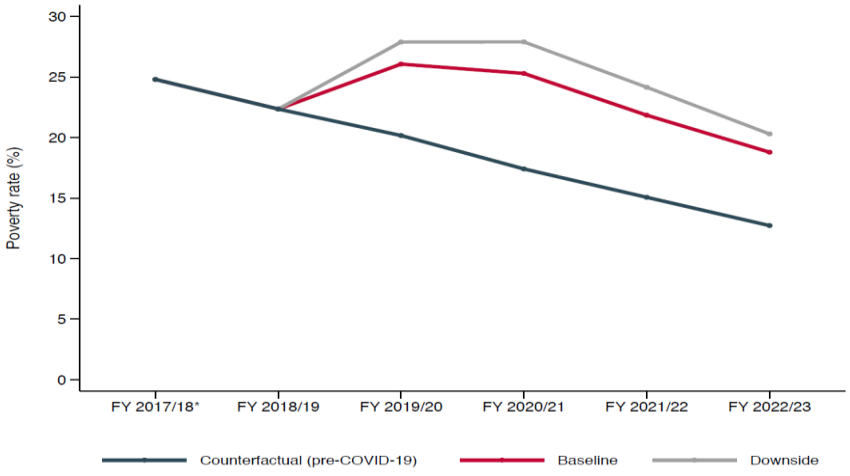
The expected growth slowdown threatens to reverse Myanmar's progress in lifting millions out of poverty and to heighten deprivation among those already poor. Before the Covid-19 crisis hit, Myanmar was set on a path of steady poverty reduction. Households working in sectors most affected by the Covid-19 crisis today are likely among those who benefitted from structural transformation and urbanization that opened up better employment opportunities, including through internal migration, over the last decade. Growth averaging above 6 percent could have sustained the creation of more and better job opportunities for the poor, just as it did in the past, with prospects of halving the 2017 level of poverty by 2022 according to a macro-micro simulation model.[58] In the current baseline growth scenario, where GDP is set to increase by 0.5 percent in FY19/20, opportunities for the poor to move up the welfare ladder would temporarily subside, while the depth of poverty would increase. Meanwhile, lower growth prospects, and even shrinking economic activity for

[58] The model was developed by World Bank authors. It combines macroeconomic forecasts explained in section III of the MEM report with micro-level data on household welfare, livelihoods, and other characteristics from MLCS 2017 to project the impact of the outbreak on household welfare. Specifically, it measures changes in consumption looking at consumption in 2017 and applying sectoral consumption growth due to sectoral growth income, explained by changes in employment in the sector, population growth, and sectoral GDP growth projections. In this macro-micro simulation model, we assume a GDP pass-through to household consumption equal to 0.7. The sector of employment of reference is the one of the household head. Inflation is not spatially adjusted. The model does not account for change in international remittances.

part of the year (e.g. in the tourism sector), would cause income shocks capable of pushing many below the poverty line (**Figure 70**). Under this baseline scenario, poverty levels are expected to increase in the short term, and only come below pre-crisis levels in FY21/22. Under the downside growth scenario, where GDP growth in FY19/20 is assumed to be -2.5 percent, the poverty impacts would be amplified. In this case, it would take an additional year to resume the downward path of the past.

The simulations confirm the key insights from the profiling above. The economic impacts of Covid-19 will be felt across all welfare groups, with wealthier quintiles and households engaged in the service sector particularly likely to be affected, but the poorest more affected in relative terms, compared to the counterfactual scenario where no Covid-19 pandemic would have taken place. While the poverty rate in the service sector is the lowest, households engaged in this sector are likely to see the largest relative increases in poverty between the counterfactual (pre-Covid-19) scenario and the baseline or downside scenario. Compared to the "already poor" in 2020, the "new poor" are about 40 percent more likely to be engaged in the service sector

Figure 70: In the absence of interventions targeting the poor, the Covid-19 crisis could reverse the poverty reduction trend in Myanmar



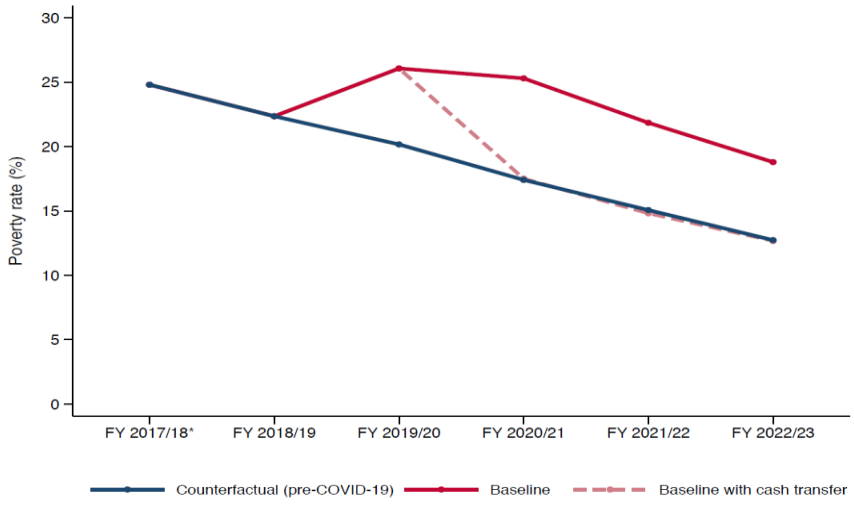
Source: World Bank macro-micro simulation model, described in Footnote 58.
Note: Pre-Covid scenario is the counterfactual scenario if Covid-19 pandemic had not existed and GDP growth rate averaged about 6 percent per annum. *FY 2017/18 refers to the poverty rate estimated from the 2017 MLCS.

Mitigating these risks is possible through policy interventions targeting the poor and near-poor. Current policy responses in support of firms are crucial but need to be complemented by measures to protect vulnerable workers and poor households. Supporting employment retention and restoration is an important avenue to ensure households continue to receive an income, and thus preventing increases in poverty. Such supply-side measures include tax cuts, grants and subsidies to firms (and in particular small firms), which can minimize lay-offs in the short-term and help them support active labor market programs at the end of the crisis. However, these measures will not suffice to protect the most vulnerable. Responses to the crisis need to be tailored also to the vast majority of households who are reliant on informal or otherwise insecure forms of employment, and less able to withstand the impact of the health shock. Regular and timely monitoring of the

Covid-19 crisis will allow to observe impacts on households as the situation unfolds, and design adequate responses tailored to different groups.[59]

There is a strong role for social protection mechanisms to support poor households and vulnerable workers. Well-designed social protection interventions could pay a big role. Even a modest cash transfer of K 7,500 per capita per month targeted to the poorest 25 percent of the population would allow a return to the steady downward path in the poverty headcount within a year (**Figure 71**), according to this simulation. The challenge in Myanmar is that social protection is in a nascent stage, making it harder for new programs to be introduced rapidly in response to the current crisis. Promising solutions include scaling up or increasing the benefit amount of existing social assistance programs targeting vulnerable categories (e.g., pregnant women and children under 2; people aged 85 and above). A variety of interventions will be needed to reach very different groups—from casual workers to returning migrants to those structurally poor in rural areas. Meanwhile, measures that help households continue investing in human capital of the younger generation (e.g. school feeding, education stipends) will be critical to ensure prospects for long-term growth and prosperity.

Figure 71: With targeted interventions that protect the poor, Myanmar could quickly revert onto its poverty reduction



Source: World Bank macro-micro simulation model, described in Footnote 58.
*FY 2017/18 refers to the poverty rate estimated from the 2017 MLCS.

[59] With support from the Central Statistical Organization (CSO), the World Bank is conducting a high-frequency phone survey of 1,500 households throughout Myanmar to provide real-time data and information on how households' employment, poverty, welfare, and food security are changing in the current context. This phone survey is being conducted from May until November 2020 with monthly rounds of data collections with adaptable questionnaires as the situation evolves.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2016/17	2017/18	2018/19	2019/20f	2020/2021f	2021/2022f
Economic growth and prices						
Real GDP (kyat billion)	78,483	83,510	89,147	89,594	95,999	102,489
Agriculture	19,549	19,562	19,872	20020	20,485	21,155
Industry	27,361	29,639	32,126	32,066	34,501	36,880
Services	31,573	34,309	37,149	37,508	41,013	44,453
CPI (percent change, yoy)	3.4%	8.6%	9.5%	N/A	N/A	N/A
Consolidated public sector (kyat billion)						
Revenue	14,505	15,363	17,744	20,377	23,144	26,910
o/w Tax	5,677	6,004	6,843	6,571	7,782	9,255
o/w Non-Tax (including Grants)	8,828	9,359	10,901	13,806	15,362	17,655
Expenditure	16,671	18,025	21,787	28,719	32,034	36,248
Recurrent	12,776	14,016	16,726	21,253	23,168	25,346
Capital	3,895	4,009	5,061	7,466	8,866	10,903
Monetary (kyat billion)						
Broad Money (M2)	45,937	54,477	62.883	72,315	83,163	95,637
Reserve Money	16,562	17,327	19,290	20,833	22,500	24,300
Balance of Payments (US$ million)						
Current account	-4,164	-3,144	-1,776	N/A	N/A	N/A
Trade balance	-4,644	-3,471	-2,219	N/A	N/A	N/A
Exports	9,475	11,226	10,463	N/A	N/A	N/A
Imports	15,291	15,587	13,440	N/A	N/A	N/A
Economic growth and prices (percent change)						
Real GDP (2015/16 base year)	5.8%	6.4%	6.8%	0.5%	7.2%	6.8%
Agriculture	-1.5%	0.1%	1.6%	0.7%	2.3%	3.3%
Industry	8.7%	8.3%	8.4%	-0.2%	7.6%	6.9%
Services	8.1%	8.7%	8.3%	1.0%	9.3%	8.4%
CPI (percent change, average)	4.7%	5.9%	8.5%	7.5%	7%	7%
Consolidated public sector (percent of GDP)						
Revenue	17.5%	16.6%	16.9%	17.9%	17.7%	18.1%
o/w Tax	6.9%	6.5%	6.5%	5.8%	6.0%	6.2%
o/w Non-Tax	10.7%	10.1%	17.4%	10.4%	12.1%	11.8%
Expenditure	20.2%	19.4%	20.7%	25.2%	24.5%	24.4%
Recurrent	15.4%	15.1%	15.9%	18.7%	17.7%	17.0%
Capital	4.7%	4.3%	4.8%	6.6%	6.8%	7.3%
Monetary (percent change)						
Broad Money (M2)	21.4%	18.6%	15.4%	15.0%	15.0%	15.0%
Reserve Money	8.0%	4.6%	11.3%	8.0%	8.0%	8.0%
Balance of Payments (percent of GDP)						
Current account	-6.5%	-4.2%	-2.0%	-4.5%	-4.5%	-4.0%
Trade balance	-7.5%	-5.2%	-3.2%	N/A	N/A	N/A
Exports	15.4%	16.7%	15.3%	N/A	N/A	N/A
Imports	24.9%	23.2%	19.6%	N/A	N/A	N/A

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

Annex 2: Gross Domestic Product

	2016/17	2017/18	2018/19	2019/20
GDP production (Current, kyat million)	82,700,023	92,788,955	105,441,780	113,918,120
Agriculture	20,606,881	21,344,044	23,504,637	25,455,208
Industry	29,333,003	34,093,232	37,997,930	40,771,942
Services	32,760,138	37,351,678	43,939,212	47,690,971
GDP production (2010/11 prices, kyat mil)	78,483,199	83,510,030	89,147,341	89,594,225
Agriculture	19,548,623	19,562,189	19,872,350	20,019,990
Industry	27,361,166	29,639,296	32,125,923	32,066,281
Services	31,573,409	34,308,544	37,149,069	37,507,953
Real GDP growth (%)	5.8%	6.4%	6.8%	0.5%
Agriculture	-1.5%	0.1%	1.6%	0.7%
Industry	8.7%	8.3%	8.4%	-0.2%
Services	8.1%	8.7%	8.3%	1.0%
GDP production (2010/11 prices, % share)				
Agriculture	24.9%	23.4%	22.3%	22.5%
Industry	34.9%	35.5%	36.0%	36.0%
Services	40.2%	41.1%	41.7%	42.1%

Source: MOPFI

Annex 3: Consumer Price Index

	2016/17	2017/18	2018/19	2019/20 April
CPI (All items, yoy % change)	3.41%	8.58%	9.50%	5.2%
CPI (Food and non-alcohol. bev., yoy % change)	2.52%	8.55%	8.77%	4.0%
CPI (Non-food, yoy % change)	4.97%	8.69%	10.80%	7.5%
Alcoholic beverages, tobacco	3.40%	7.15%	8.45%	12.5%
Clothing and footwear	1.38%	3.55%	4.92%	3.6%
Housing, water, electricity, gas and other fuels	3.36%	9.03%	31.41%	29.2%
Furnishings, household equip and routine hh maintenance	2.59%	4.49%	7.80%	5.1%
Health	4.20%	6.05%	8.12%	7.4%
Transport	11.68%	15.69%	-0.06%	-13.0%
Communication	8.92%	-0.61%	-0.73%	-0.3%
Recreation and culture	0.86%	2.60%	12.06%	2.7%
Education	0.27%	8.69%	4.08%	4.4%
Restaurants and hotels	4.26%	8.57%	4.74%	8.5%
Miscellaneous goods and services	4.32%	6.28%	11.60%	7.1%
CPI (All items, annual average % change)	4.66%	5.94%	8.50%	N/A
CPI (Food and non-alcohol. bev., annual average, % change)	4.87%	7.03%	9.17%	N/A
CPI (Non-food, annual average, % change)	4.40%	2.25%	7.66%	N/A
Alcoholic beverages, tobacco	1.91%	11.53%	0.42%	N/A
Clothing and footwear	2.50%	1.33%	4.87%	N/A
Housing, water, electricity, gas and other fuels	5.61%	5.55%	12.86%	N/A
Furnishings, household equip and routine and hh maintenance	1.89%	0.80%	7.55%	N/A
Health	4.36%	5.86%	8.16%	N/A
Transport	7.57%	0.20%	6.85%	N/A
Communication	0.50%	0.01%	-0.80%	N/A
Recreation and culture	1.98%	0.25%	7.99%	N/A
Education	2.36%	4.25%	7.09%	N/A
Restaurants and hotels	2.83%	-0.04%	5.32%	N/A
Miscellaneous goods and services	5.28%	-0.51%	9.89%	N/A

Source: Central Statistical Organization

Annex 4: Balance of Payments (US$ million)

	2015/16	2016/17	2017/18	2018/19
Current account	-2430	-4,164	-3,144	-1,776
Trade balance	-3858	-4,644	-3,471	-2,219
Merchandise Exports	9103	9,475	11,226	10,463
Merchandise Imports	12961	15,291	15,587	13,440
Services balance	1206	1,173	890	759
Primary income balance	-1817	-1,650	-1,960	-2,042
Secondary income balance	2040	2,129	2,288	2,484
Capital account	0	1	1	0
Financial account	-3811	-5,190	-3,952	-2,804
Direct Investment	-3110	-3,563	-3,230	-2,131
Portfolio Investment	-8	5	-2	-30
Other Investment	-693	-1,631	-721	-642
Net Errors & Omissions	-1462	-719	-488	-822
Overall balance	1381	307	320	205
Reserve Assets	-81	228	189	N/A
	Balance of Payments (% of GDP)			
Current account	-4.0%	-6.5%	-4.2%	-2.0%
Trade balance	-6.4%	-7.5%	-5.2%	-3.2%
Exports	15.4%	15.4%	16.7%	15.3%
Imports	21.5%	24.9%	23.2%	19.6%
Services balance	2.0%	1.9%	1.3%	1.1%
Primary income balance	-3.0%	-2.7%	-2.9%	3.0%
Secondary income balance	3.4%	3.5%	3.4%	3.6%
Capital account	0.0%	0.0%	0.0%	N/A
Financial account	-6.3%	-8.4%	-5.9%	4.1%
Direct Investment	-5.2%	-5.8%	-4.8%	-3.1%
Portfolio Investment	0.0%	0.0%	0.0%	0.0%
Other Investment	-1.1%	-2.7%	-1.1%	0.9%
Net Errors & Omissions	-2.4%	-1.2%	-0.7%	-1.2%
Overall balance	2.3%	0.5%	0.5%	0.3%
Reserve Assets	-0.1%	0.4%	0.3%	N/A

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

Annex 5: Monetary Survey

Monetary Survey (kyat billion)	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Assets				
Net Foreign Assets	9,242.90	8,908.24	10,840.88	11,352.58
CBM (net)	6,021.84	6,518.82	8,009.66	8,113.08
DMB (net)	3,221.06	2,389.41	2,831.22	3,239.50
Net Domestic Assets	28,588.14	37,029.61	43,639.50	51,530.71
Net Claims on Government	12,362.55	14,345.60	18,561.68	22,167.10
CBM	11,944.25	13,098.94	13,662.12	15,133.57
DMB	418.30	1,246.66	4,899.56	7,033.52
Credit to the economy	17,349.25	21,978.22	25,519.25	29,593.88
Private sector	16,115.05	20,569.85	24,919.43	28,926.25
Other	1,234.20	1,408.38	599.82	667.64
Other items (net)	(1,123.67)	705.79	(441.43)	(230.27)
Liabilities				-
Broad money (M2)	37,831.04	45,937.84	54,477.29	62,883.30
Central Bank of Myanmar Balance Sheet (kyat billion)				
CBM Assets (kyat billion)				-
Net Foreign Assets	6,021.84	6,518.82	8,009.66	8,113.08
Net Claims on Central Government	11,944.25	13,098.94	13,662.12	15,133.57
Net Claims on Commercial Banks	645.27	699.04	801.17	836.26
Claims on Other Sectors	0	0)	0	0
Shares and Other Equity	(2,655.13)	(3,345.09)	(4,354.02)	(4,638.18)
Other Items (Net)	91.32	42.41	(394.90)	(37.00)
CBM Liabilities (kyat billion)				
Monetary Base	15,329.30	16,562.12	17,327.03	19,290.73
Currency in Circulation	11,349.08	12,227.29	13,652.30	15,490.79
Liabilities to Other Depository Corporations	3,980.15	4,334.72	3,674.58	3,799.78

Source: Central Bank of Myanmar

Annex 6 a: Fiscal operations (kyat billion)

	2015/16	2016/17	2017/18	2018/19	2019/20
	PA	**PA**	**PA**	**TA**	**BE**
Consolidated Public Sector					
Revenue	**13,662**	**14,505**	**15,363**	**17,744**	**20,377**
Expenditure	**16,806**	**16,671**	**18,025**	**21,787**	**28,719**
Balance	**(3,145)**	**(2,166)**	**(2,662)**	**(4,043)**	**(8,342)**
SEE Operations					
Revenue	**7,360**	**7,262**	**7,505**	**9,400**	**11,399**
Net of transfers to UG	5,444	5,634	6,124	7,730	9,620
Expenditure	**5,797**	**5,348**	**5,911**	**7,426**	**10,776**
Recurrent	6,738	6,263	6,543	8,152	10,853
Net of transfers to UG	4,823	4,635	5,161	6,482	9,074
Capital	975	714	749	944	1,702
SEE Balance	**1,562**	**1,914**	**1,595**	**1,974**	**623**
Union Government					
Revenue	**8,217**	**8,871**	**9,239**	**10,015**	**10,757**
Tax	4,901	5,677	6,004	6,843	6,571
o/w Income	2,326	2,324	2,264	2,692	2,474
o/w Commercial	2,106	1,878	1,975	2,257	2,228
Non-Tax	2,986	2,842	3,015	2,808	3,513
Grants	330	351	220	363	672
Expenditure	**11,009**	**11,322**	**12,115**	**14,362**	**17,943**
Recurrent	7,478	8,141	8,854	10,244	12,180
Wages	1,622	1,716	1,821	2,212	2,279
Transfers	1,949	1,964	1,889	2,211	2,394
Interest	719	925	1,189	1,484	2,426
Other	3,187	3,536	3,956	4,337	5,080
Capital	3,531	3,182	3,260	4,117	5,763
Union Government Balance	**(2,792)**	**(2,452)**	**(2,876)**	**(4,347)**	**(7,186)**

Sources: MOPFI, WB staff estimates

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

Annex 6 b: Fiscal operations (percent of GDP)

	2015/16	2016/17	2017/18	2018/19	2019/20
	PA	**PA**	**PA**	**TA**	**BE**
Consolidated Public Sector					
Revenue	**18.4%**	**17.5%**	**16.6%**	**16.9%**	**17.9%**
Expenditure	**22.6%**	**20.2%**	**19.4%**	**20.7%**	**25.2%**
Recurrent	16.6%	15.4%	15.1%	15.9%	18.7%
o/w Interest	1.2%	1.3%	1.5%	1.6%	2.3%
Capital	6.1%	4.7%	4.3%	4.8%	6.6%
Balance	**-4.2%**	**-2.6%**	**-2.9%**	**-3.8%**	**-7.3%**
SEE Operations					
Revenue	**9.9%**	**8.8%**	**8.1%**	**8.9%**	**10.0%**
Net of transfers to UG	7.3%	6.8%	6.6%	7.3%	8.4%
Expenditure	**7.8%**	**6.5%**	**6.4%**	**7.1%**	**9.5%**
Recurrent	9.1%	7.6%	7.1%	7.7%	9.5%
Net of transfers to UG	6.5%	5.6%	5.6%	6.2%	8.0%
Capital	1.3%	0.9%	0.8%	0.9%	1.5%
SEE Balance	**2.1%**	**2.3%**	**1.7%**	**1.9%**	**0.5%**
Union Government					
Revenue	**11.1%**	**10.7%**	**10.0%**	**9.5%**	**9.4%**
Tax	6.6%	6.9%	6.5%	6.5%	5.8%
o/w Income	3.1%	2.8%	2.4%	2.6%	2.2%
o/w Commercial	2.8%	2.3%	2.1%	2.1%	2.0%
Non-Tax	4.0%	3.4%	3.2%	2.7%	3.1%
Grants	0.4%	0.4%	0.2%	0.3%	0.6%
Expenditure	**14.8%**	**13.7%**	**13.1%**	**13.6%**	**15.8%**
Recurrent	10.1%	9.8%	9.5%	9.7%	10.7%
Wages	2.2%	2.1%	2.0%	2.1%	2.0%
Transfers	2.6%	2.4%	2.0%	2.1%	2.1%
Interest	1.0%	1.1%	1.3%	1.4%	2.1%
Other	4.3%	4.3%	4.3%	4.1%	4.5%
Capital	4.8%	3.8%	3.5%	3.9%	5.1%
Union Government Balance	**-3.8%**	**-3.0%**	**-3.1%**	**-4.1%**	**-6.3%**

Sources: MOPFI, WB staff estimates

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

	2015/16	2016/17	2017/18	2018/19	2019/20
	PA	**PA**	**PA**	**TA**	**BE**
Total Expenditure	**25.5%**	**22.2%**	**21.0%**	**22.3%**	**26.7%**
Ministries	**12.6%**	**11.6%**	**11.3%**	**11.7%**	**13.6%**
Defense	4.2%	3.6%	3.4%	3.1%	3.0%
Agriculture	1.5%	1.2%	0.8%	0.8%	0.8%
Education	2.1%	1.9%	1.8%	2.0%	2.4%
Health	1.0%	0.9%	0.9%	0.8%	1.0%
Planning and Finance	1.1%	1.5%	1.8%	1.9%	2.6%
Other Ministries	2.5%	2.2%	2.2%	2.5%	3.1%
Energy (Including SEE)	**6.3%**	**4.9%**	**4.6%**	**5.2%**	**6.8%**
Non Energy SEEs	**4.3%**	**3.9%**	**3.7%**	**3.9%**	**4.9%**
SAOs	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
Other	**2.4%**	**2.1%**	**1.8%**	**1.9%**	**2.0%**

Sources: MOPFI, WB staff estimates

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