MYANMAR

Table 1	2019
Population, million	53.9
GDP, current US$ billion	67.9
GDP per capita, current US$	1260.1
Lower middle-income poverty rate ($3.2)[a]	14.9
Upper middle-income poverty rate ($5.5)[a]	54.3
School enrollment, primary (% gross)[b]	112.3
Life expectancy at birth, years[b]	66.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

The Covid-19 pandemic has caused a steep decline in economic growth to 0.5 percent (FY2019/20) in Myanmar. This is likely to erode recent gains in poverty reduction. In the medium term, growth is expected to pick up, supported by a gradual resurgence in manufacturing activities and accelerated investment in power, energy and digital technology. Risks remain high from new waves of local transmission and a deeper and prolonged global slowdown, compounding domestic uncertainties around the financial sector, ongoing conflicts and national elections in November 2020.

Recent developments

The global Covid-19 shock has taken a big toll on Myanmar's economy, lowering the GDP growth rate estimate from 6.8 percent last year to 0.5 percent in FY2019/20. Supply chain disruptions in the garment sector, a decline in tourism revenue and operational losses for retail and hospitality firms, led to a sharp decline in economic activity in the second and third quarters of FY2019/20. In Q2, the Myanmar Covid-19 monitoring firm survey revealed that 83 percent of firms experienced a reduction in sales, 51 percent of firms experienced cash flow shortages and 29 percent of firms experienced a reduction in access to credit. However, industrial production has shown signs of recovery with the Purchasing Manager's Index recovering to expansionary territory and a 15-month high in August. The recovery in transport and hospitality sectors continue to lag as demand for domestic travel and haulage remains low, and international travel restrictions are in place. The economic slowdown has had a large negative impact on employment and incomes, especially in the informal sector. Recent household survey data indicate that by May 2020, 54 percent of households' main earners had lost their jobs; of those still working, 55 percent had experienced reduced incomes.

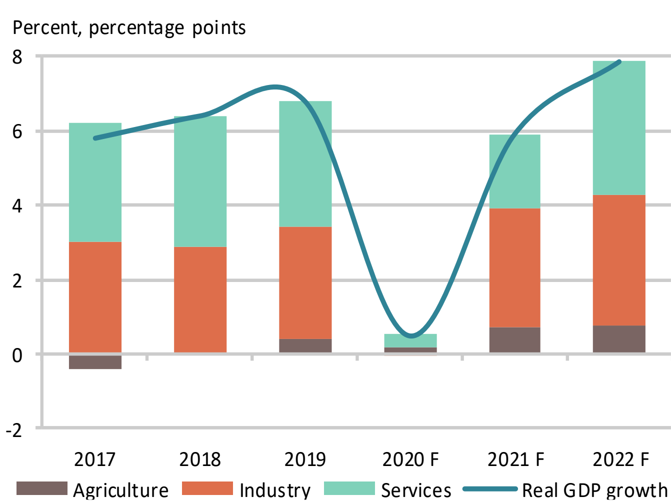
To mitigate the Covid-19 shock, the Central Bank intervened by cutting the interest rate by three percentage points; halting deposit auctions to maintain an adequate level of liquidity in the interbank market; and extending deadlines to comply with prudential regulations. On the fiscal front, the Covid Economic Relief Plan (CERP) was launched with fiscal support measures amounting to 3 percent of GDP. The plan includes tax breaks and deferrals. Government has redirected Kyat 1.3 trillion (USD 0.8 billion) toward health services, and a fund totaling Kyat 200 billion (USD 133 million) has been established to provide soft loans to affected business at reduced interest rates. The Government also reduced household electricity charges; provided food assistance and a new cash for work program.

Headline inflation subsided to 4.2 percent (y/y) in May 2020 after peaking at 9.5 percent in December 2019. Fuel prices fell and food inflation dropped to 2.6 percent, as poultry, eggs and vegetables prices decreased.. The Kyat remained strong, appreciating against regional currencies between April and August despite a widening trade deficit. The FY2018/19 current account deficit of 2 percent of GDP is expected to widen to 4.5 percent of GDP in FY2019/20 due to lower tourism exports and commodity prices, widening the trade deficit to USD 1.8 billion in July, which is USD 0.8 billion or 78 percent higher than the same period last year.

Outlook

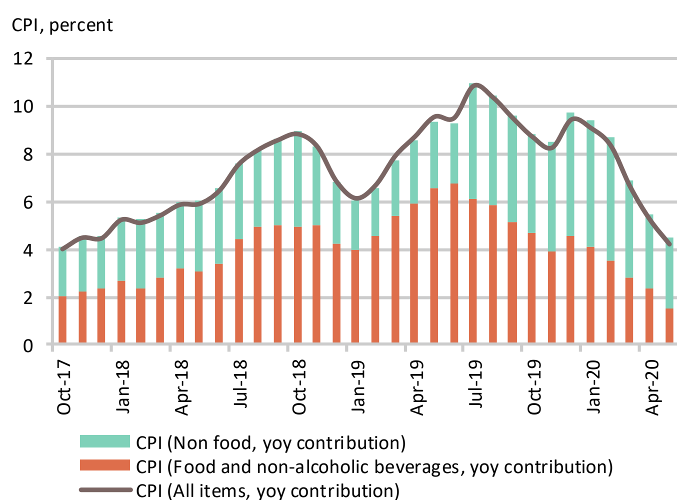
Growth is forecast to rebound from 0.5 percent in FY2019/20 to 5.9 percent in FY2020/21 and to roughly 7 percent in the medium term. These projections are in

FIGURE 1 Myanmar / Real GDP growth and contributions to real growth by sector



Sources: Ministry of Planning and Finance and World Bank staffs estimate.

FIGURE 2 Myanmar / CPI Inflation (yoy change)



Sources: Central Statistical Organization and Wakhema exchange rate.

line with the global recovery and supported by new investment operations in power and energy, a gradual resurgence in manufacturing activities and Covid-19 related investment in digital technology, which could boost productivity. The current account deficit is expected to remain at roughly 4 percent of GDP in the medium term driven by a prolonged export slowdown and large imports of supply materials for mega infrastructure projects. The slow economic growth threatens to reverse Myanmar's recent progress in poverty reduction while deepening deprivation for households that are already poor. Under the current GDP growth scenario for FY2019/20, poverty might slightly increase in the short term, before declining again shortly afterward. Food insecurity should be monitored as agriculture, the main sector of employment of poorer households, grew half as much in FY2019/20 as the previous year, with prospects for improvements next year at risk.

Risks and challenges

The risks to the forecast are high. The new waves of coronavirus outbreak is resulting in more severe and possibly prolonged restrictions on overall economic activity, posing a further impediment to growth in FY2020/21. Despite government interventions to mitigate Covid-19 related impacts, the household, banking, and corporate sector balance sheets could sustain severe damage. Given the regulatory forbearance measures announced by the Government in the spring, the CBM will need to shore up bank supervision to mitigate the risk of a considerable deterioration in asset quality and financial stability. Another risk is the sharp deterioration in the micro-lenders'asset quality due to the Covid-19 pandemic. While the share of non-performing loans on micro lenders' balance sheets has been stable below 1 percent for several years, it jumped to around 9.2 percent in recent months, partly due to the restrictions on travel that impacted MFI's ability to collect repayments.

Slow recovery in the labor market and productivity risks could affect medium-term growth. Impacts on agricultural production and exports require close monitoring as harvest season approaches. There are early indications of disruptions in the rice planting season due to lower access to credit and inputs and, since March this year, an inability for half of farming households to perform their regular activities. Under the downside scenario, the growth rate is estimated to slow further to -0.9 percent in FY2019/20 and the recovery in FY2020/21 will be slower than in the baseline case.

These domestic risks are compounded by global uncertainties not limited to the possibility of reduced external demand for a prolonged period. Travel restrictions will continue affecting the tourism and transportation industry. Protracted economic disruptions and income losses may give rise to food security concerns. Uncertainties around schools reopening and their affordability for many families, raise concerns around Myanmar's growth potential and widening inequalities.

TABLE 2 Myanmar / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.8	6.4	6.8	0.5	5.9	7.9
Real GDP growth, at constant factor prices	5.8	6.4	6.8	0.5	5.9	7.9
Agriculture	-1.5	0.1	1.6	0.7	1.6	4.0
Industry	8.7	8.3	8.4	-0.2	6.5	7.9
Services	8.3	8.7	8.4	1.0	7.7	9.9
Inflation (Consumer Price Index)	4.7	5.9	8.5	7.5	7.0	7.0
Current Account Balance (% of GDP)	-6.5	-4.2	-2.6	-4.5	-4.5	-4.0
Fiscal Balance (% of GDP)[a]	-2.6	-2.9	-3.8	-7.1	-7.8	-6.5
Public Sector Debt (% of GDP)[a]	38.4	40.3	38.8	43.8	45.9	46.3
Primary Balance (% of GDP)[a]	-1.3	-1.4	-2.3	-4.8	-6.0	-5.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	15.0	13.1	11.4	11.4	10.0	8.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	54.3	51.1	47.7	48.0	45.2	41.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Fiscal balances are reported in fiscal years (October 1st -September 30th).
(b) Calculations based on EAPPOV harmonization, using 2017-MLCS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(c) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.