REFORMS REVERSED
EXECUTIVE SUMMARY
ENGLISH/MYANMAR
A surge in neutral incomes, real household incomes, and economic growth is noted for the second half of 2021.

**Purchasing Managers’ Index (PMI)**

Real household income (real consumption) increased in the second half of 2021. The rise in PMI in the second half of 2021 is noted for the second half of 2021.

**Nominal household income**

Real household income (real consumption) increased in the second half of 2021. The rise in PMI in the second half of 2021 is noted for the second half of 2021.
အောက်ပါသော (current account deficit) ကိုလှူးးနိုင်ပါစေသည်။ ပြည်သူများနှင့် စိတ်ပြိုင်ဘာသာအားဖြင့် နောက်ဆုံးအားဖြင့် တစ်ယောက်ခံရသည်။ တို့ကိုကျွန်တော်များ သင်္ကေတများကို အခြေခံသော အင်္ဂါနာနှင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။

အာဏာရော်ပါရက်သည် အောင်မြင်သော အချက်အလက်များကို ပြောင်းလဲသည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။

မြန်မာနိုင်ငံ၏ လေးးအရေးပါရက်သည် အောင်မြင်သော အချက်အလက်များကို ပြောင်းလဲသည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။

မြန်မာနိုင်ငံ၏ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။ အင်္ဂလိပ် အားဖြင့် စိတ်ပြိုင်ဘာသာအားဖြင့် လာရောက်သည်။ နောက်ဆုံးအားဖြင့် လာရောက်သည်။
င်တယ်ကရှင်းရန်အောဏောပိုင်းနှင့်တက်ကြည်းကင်တင်ကန်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်က်ycler
ယင်းသို့ မကြာခဏ စစ်အဏေးဗားစားသူများက အသေစားပေးထားသော အချိန်များ၌ အာဏာပடောင်းဖော်မှုများသည် အစီအစဉ်ကို အမှန်တွင်းဖော်မှုထက် ထိုချိန်များ လွတ်လပ်စွာ ဖော်မှုထားသည်။ စိုက်ပျိုးရာလွှတ်တင်မှုကို သို့မဟုတ် အခြေခံပေါ်၍ အသေစားပေးထားသော အချိန်များ ဖော်မှုများသည် အနည်းဆိုးရေးဆွဲပါသည်။

Myanmar Economic Monitor July 2022

REFORMS REVERSED

JULY 2022

The World Bank

10

July 2022

ဗိုလ်ချုပ်စွဲမှုများ လွတ်လပ်စွာ ဖော်မှုထားသော အချိန်များသည် အနည်းဆိုးရေးဆွဲပါသည်။

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REFORMS REVERSED

MYANMAR ECONOMIC MONITOR JULY 2022

The composition of the economic environment (current account deficit) varied across years and reflects the impact of various factors. The current account deficit is influenced by the trade balance, which is affected by the overall balance-of-payments (payments). The current account deficit is a reflection of the balance-of-payments, which is influenced by the trade balance, which is affected by the overall balance-of-payments (payments).

<table>
<thead>
<tr>
<th>constant factor prices (Consumer Price Index)</th>
<th>GDP (of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of GDP</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

The overall balance-of-payments (overall balance-of-payments payments) is influenced by the trade balance, which is affected by the overall balance-of-payments (payments). The current account deficit is influenced by the trade balance, which is affected by the overall balance-of-payments (payments).
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MYANMAR ECONOMIC MONITOR JULY 2022

1 Economic Research Hub (May 2022), Myanmar's Economic Governance after the Coup: Changes in Policy and Practice.
World Bank Myanmar Economic Monitor: Executive Summary

Since the beginning of 2022, Myanmar's economy has faced a series of external and domestic shocks. The war in Ukraine has caused steep increases in global prices of fuel and fertilizer, which have passed through to a broader range of goods and services. This has led to a sharp rise in input costs across all industries, and fueled inflation which in turn further strained real household incomes. Domestic electricity shortages have also impacted households and businesses across the country. The security environment has deteriorated further in northern and southern regions, while Chin and the Dry Zone remain embroiled in severe conflict. This has disrupted economic activity, with one fifth of all firms (and two fifths of all agricultural firms) surveyed by the World Bank in May 2022 indicating that conflict was the most important challenge to their operations.

Notwithstanding these shocks, some parts of the economy have stabilized and even recovered somewhat since late 2021, demonstrating the resilience and adaptability of Myanmar’s businesses. Firms have reported operating at higher capacity in 2022 than in 2021, particularly in the manufacturing sector. The manufacturing Purchasing Managers’ Index reached neutral levels in the first half of 2022, after a long period of contraction. Garment manufacturers – mainly reliant on external demand – seem to have recovered relatively strongly, as demonstrated by the ongoing expansion in manufactured exports since mid-2021. Construction activity has also picked up as work on several projects has restarted after a long pause last year. This improvement in economic activity has been supported by a rise in mobility, with workplace mobility returning to pre-pandemic levels in June after substantial dips in 2021. The fourth wave of COVID-19 transmissions was much less severe than expected in January, with the number of recorded cases (and the severity of those cases) significantly lower than during the third wave in mid-2021.

But activity in other industries and services remains weak, as declining real household incomes have weighed on domestic demand. Despite the recovery in mobility at retail and transport venues, World Bank household survey results from April 2022 suggest that real consumption – particularly of discretionary non-food items – had declined from a year earlier. Household survey results indicate that job losses, reduced work hours and lower wages and incomes from household farms and businesses have all contributed to a reduction in nominal household incomes. Real household incomes were further eroded by sharply rising inflation, with the latest available data indicating that CPI inflation accelerated to 17.3 percent (yoy) in March, driven by sharp increases in the prices of food and fuel. The weakness in private consumption was corroborated by the May 2022 firm survey results, which indicated that retail and wholesale firms’ sales had fallen by more than a quarter from a year earlier.

Rising costs have affected the operations of all businesses, squeezing profit margins. Increases in global oil prices – exacerbated by the Ukraine conflict – have driven pronounced increases in domestic fuel prices and transport costs, as well as in the cost of running diesel generators to compensate for recurring electricity outages. Over the first half of 2022, the local price of fuel rose by around 70 percent. Kyat depreciation, supply chain disruptions and the spillover effects of higher transport prices have resulted in price increases for a broader range of imported inputs, squeezing already thin profit margins. Increases in the price of fertilizer and other agricultural inputs have prompted a reduction in their use, with negative implications for future crop yields.

Despite a narrowed current account deficit, external balance of payment pressures have become acute. The current account deficit narrowed in the year ended September 2021, due to a narrower goods trade deficit (with imports contracting by more than exports in FY2021), sharply lower travel and other services receipts, and a 30 percent decline in recorded overseas remittances. But there were more pronounced pressures on the financial account, with foreign direct investment down by about two thirds from the previous year, substantial outflows of foreign currency deposits, and sharp declines in other net financing flows through the year.
Together these resulted in a recorded reduction in foreign exchange reserves of close to US$ 1 billion in the September quarter 2021. To the extent that these trends have continued, it is plausible that foreign exchange reserves have fallen to insufficient levels as at mid-2022 (with some reserves also inaccessible due to foreign sanctions). More recent data indicates that the US dollar value of goods imports has increased by more than goods exports in the first half of 2022, driven largely by rising imports of intermediate inputs, while FDI commitments remained very weak. This implies that neither net trade flows nor FDI flows have provided additional support to the balance of payments this year.

**External pressures have been compounded by reversals of previous policy reforms.** Undoing previous gains in macro-economic management, the authorities abandoned the managed float exchange rate regime, fixing the official reference exchange rate at an overvalued level not reflective of market supply and demand. In a bid to stem foreign exchange pressures the authorities also imposed foreign exchange restrictions. This has led to shortages of US dollars and a growing spread between official and parallel market rates (which had reached around 20 percent as at mid-July). In combination with onerous import license requirements, these foreign exchange restrictions have led to particularly significant impacts on the domestic supply of fuel, resulting in shortages and the emergence of a parallel fuel market to circumvent the authorities’ efforts to impose price controls. Meanwhile, the imposition of kyat conversion and surrender requirements on foreign exchange earnings (and deposits) has effectively acted as a tax on exporters, with signs that the external price competitiveness of agricultural exports has been adversely affected since these measures were imposed in April. A recent central bank direction requiring banks to facilitate the temporary suspension of foreign loan repayments is intended to ease external liquidity pressures, but if implemented will likely reduce the creditworthiness and market access of Myanmar’s corporate and financial sectors.

While cash liquidity constraints appear to be easing, weak financial sector balance sheets are constraining credit growth. Discussions with industry representatives indicate that non-performing loan and delinquency rates are high, having continued to rise since the start of the pandemic in 2020, with banks providing relief and rescheduling repayments on a customer-by-customer basis. Ongoing declines in asset quality have in turn prompted a cautious approach to new lending. While withdrawal limits remain in place, it has become easier to obtain kyat from ATMs and bank branches, in part due to a recovery in bank deposits.

**The fiscal position has deteriorated, accompanied by shift of public spending away from critical public services.** Tax collection declined from 6.5 percent of GDP in FY2020 to 4.9 percent of GDP in FY2021. Losses in large energy State Economic Enterprises (SEE) have also contributed to an overall decline in revenue (in nominal kyat terms) of almost 30 percent. The fiscal deficit rose to around 9 percent of GDP in FY2021, with spending also falling – due to weak budget execution – but by less than the decline in revenue. Given reductions in other financing sources, there has been a return to reliance on central bank financing, in another sign of reversal of previous macro-fiscal reforms. Despite the critical importance of health, education, and social protection for livelihoods and human capital accumulation, public spending on these services has declined and budget allocations to these sectors have been sharply curtailed.

**The impacts of COVID-19 and the aftermath of the military coup are estimated to have erased nearly a decade of poverty reduction progress.** Estimates based on the latest available data indicate that poverty has doubled compared with its level in March 2020, with about 40 percent of the population now living below the national poverty line in 2022, matching levels of poverty a decade ago. Inequality is estimated to have worsened, with those already poor falling into deeper destitution. Moreover, household survey data indicate a movement of labor away from service industries and into agriculture over the past 18 months, as internal migration from cities to rural areas has been used as a coping mechanism to deal with job loss. However, this shift to lower productivity agriculture implies an overall decline in labor productivity, which in turn has
dampened household incomes. Lower household incomes in conjunction with higher food and fuel prices and ongoing credit/liquidity constraints have magnified risks of food insecurity, though these risks may have been at least partially offset by a pick-up in subsistence production. Household surveys indicate that coping mechanisms are under increasing strain, with over half of all households reporting cuts to non-food consumption, and significant proportions across the income distribution reporting cuts to food consumption, borrowing from friends and family, and sales of assets. While livelihoods have come under increased stress since 2020, public sector support has declined sharply, with virtually no households reporting receiving any form of social assistance in May 2022, in contrast to the 43 percent of households which reported receiving cash assistance in October 2020.

Amid persistent domestic and external headwinds, the economy is projected to only recover modestly in FY2022, implying continued pressure on incomes and livelihoods. Following the estimated 18 percent contraction in FY2021, GDP is projected to increase by 3 percent in the year to September 2022. The absence of a substantial rebound in FY2022 – with GDP still around 13 percent lower than in 2019 – is indicative of the severe supply- and demand-side constraints that continue to impact economic activity. At the aggregate level, the slight upward revision of our growth projection from the 1 percent growth forecast in the January MEM reflects the much less severe than expected impact of the fourth wave of COVID-19 in February and March. The manufacturing and construction sectors are driving most of the modest growth expected this year, with services sector activity constrained by weak demand and agricultural production hampered by higher input prices, logistics constraints, and conflict. Inflation is projected to remain elevated given persistent impacts from kyat depreciation, logistics constraints, and still-high global prices (despite a recent easing in some food and fertilizer prices). CPI inflation is projected to average 15 percent in FY22, with year-on-year inflation peaking in the second half of the year). The current account deficit is expected to widen slightly, with goods imports increasing by more than goods exports in the year to date, and services exports expected to remain weak. The fiscal deficit is expected to remain elevated in the twelve months to September 2022. Both expenditure and revenue outturns worsened significantly in FY21, and only a partial improvement in each is expected in the following 12 months.

Table ES 1: Economic data and FY22 projections

<table>
<thead>
<tr>
<th>Metric</th>
<th>FY17/18</th>
<th>FY18/19</th>
<th>FY19/20</th>
<th>FY20/21</th>
<th>FY21/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth at constant factor prices</td>
<td>6.4%</td>
<td>6.8%</td>
<td>3.2%</td>
<td>-18%</td>
<td>3%</td>
</tr>
<tr>
<td>Inflation (Consumer Price Index), year average</td>
<td>5.9%</td>
<td>8.5%</td>
<td>5.8%</td>
<td>3.6%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>-4.7%</td>
<td>-0.2%</td>
<td>-2.0%</td>
<td>-1.4%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>-2.9%</td>
<td>-3.2%</td>
<td>-7.0%</td>
<td>-9.2%</td>
<td>-7.5%</td>
</tr>
</tbody>
</table>

Beyond 2022, the baseline outlook remains weak. On one hand, electricity disruptions appear to have eased with the onset of the rainy season (though structural constraints to supply remain), cash liquidity is more readily accessible, and mobility is trending upwards, with business activity in the main cities showing signs of normality. On some measures, business expectations about the future have strengthened. But household incomes have weakened, and coping mechanisms appear to be under increasing strain, limiting the potential for a pick-up in consumption. With global commodity prices remaining at relatively high levels and persistent downward pressure on the kyat exchange rate, domestic prices for food, fuel, and other imported inputs are likely to remain elevated over the short to medium term, constraining both production and domestic demand. The overall balance-of-payments situation is of growing concern, with foreign exchange shortages likely to continue to limit the availability of several imported items, including fuel and cooking oils. Elevated levels of conflict in some areas are expected to continue to constrain productive activity, particularly in agriculture. In conjunction with
the deterioration in the policy environment described below, these constraints imply that a return to pre-pandemic levels of economic activity in Myanmar is unlikely in the near term. This sharply contrasts with the situation in the rest of the East Asia and Pacific region, where GDP in all large countries has already recovered to above 2019 levels or is projected to do so in 2023.

**Downside risks are elevated.** With the exchange rate already under pressure and foreign reserves likely to have fallen to low levels, a further deterioration of the external position is a significant risk. This would ultimately require more painful adjustments to import volumes and prices, with particularly harsh effects on the poorest and most vulnerable. There are ongoing risks that conflict could become even more disruptive and spread to other parts of the country. Any further escalation would further reduce demand, strain logistics and supply chains, and increase the operating constraints faced by firms. Myanmar also remains highly vulnerable to other sources of risk, including a resurgence of COVID-19 or a natural disaster, which would severely test the authorities’ capacity to respond.

Recent policy reversals are likely to have longer-term effects: inhibiting potential growth, worsening macroeconomic instability, and impairing the efficient allocation of resources. The overvalued official exchange rate, in conjunction with foreign exchange and trade restrictions, has worsened foreign currency shortages and impaired the competitiveness of Myanmar’s export-oriented manufacturing and agricultural firms. The apparent return to relying on central bank financing to fund large budget deficits will heighten pressure on inflation and the exchange rate. A heavy-handed approach to the promotion of import substitution and self-sufficiency – through the institution of import and export trade license requirements, import bans and quotas, and support for import-competing activities such as steel mills and sunflower production – has curtailed imports of producer inputs and consumer goods, increased the administrative costs of trade, and reversed much of the increased openness and liberalization that has been a key driver of Myanmar’s strong growth over much of the decade prior to the coup.

These policy changes are indicative of a broader shift in the way the economy is governed, with longer-term implications for Myanmar’s growth and development potential. The measures described above all allow the authorities greater control over the allocation of resources in the economy (including through provision of access to foreign exchange, import licenses, regulatory exemptions, etc) raising risks of misallocation of resources to connected firms and individuals at the expense of more efficient uses. Observers have noted this broader shift away from a stable market-based system that is governed by the rule of law, and toward a system of policy making and governance that is less predictable, less clearly communicated, and characterized by more discretion in the enforcement of rules and regulations. The lessons from Myanmar’s economic history suggest that to the extent these trends continue, investor confidence will remain weak and the business environment will continue to suffer, constraining Myanmar’s growth potential over the longer-term.

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