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Myanmar In The Time Of COVID-19

EXECUTIVE SUMMARY

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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. The pandemic and associated containment measures are undermining aggregate demand, disrupting value chains, and reducing the labor supply, following strong activity in the first 5 months of the year. The crisis has had an especially negative effect on wholesale and retail trade, tourism-related services, manufacturing, and construction. However, 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) kick in; and the global economy recovers. The anticipated recovery is 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, damage to firms and households is expected to be deep, posing 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 significantly contract, by a projected -5.2 percent in 2020. 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 are hit, with adverse effects of varying intensity projected across all sectors. The impacts of the crisis transmit 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 by less than in other sectors, to 0.7 percent, thanks to strong crop production offsetting 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 around 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 if Covid-19 had 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 100 billion kyats, 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 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.

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

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.