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# Recent Developments of the Myanmar Economy

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## １． Macro Economy

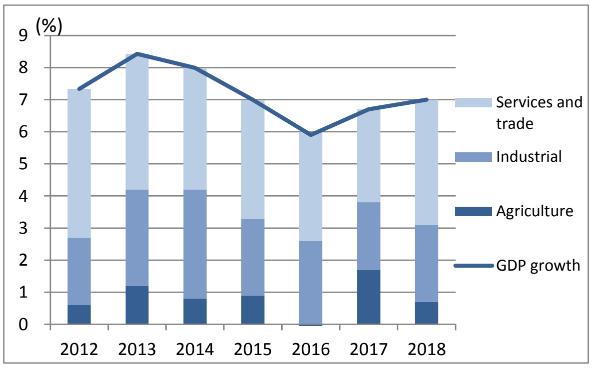
(1) Economy in a Temporary Lull

The Myanmar economy once achieved a high growth of real GDP that exceeded 7% during the fiscal years (FY) 2012[1] to 2014 for the first time since the transition to civilian rule in 2011 reflecting a series of economic reforms and gradual lifting of economic sanctions by the western countries. (Figure 1).

After that, the growth rate declined to 5.9% in the fiscal year 2016 due to a decrease in exports affected by bad weather and floods as well as due to procedural delays after the establishment of the new administration, but rebounded to 6.7% in FY2017 mainly due to recovery of agricultural production. In FY2018 and after, it is expected that the economy will recover the growth rate of around 7% supported by an increased inflow of foreign investment funds and increase in public infrastructure investment.

[1] The fiscal year of Myanmar ends in March, so FY2012 covers the year from April 2012 to March 2013.

**Figure 1 Developments of Real GDP Growth Rates**




(Note) Forecasts after FY2017
(Source) IMF

(2) Expenditures are Expanding despite Progress in Fiscal Reconstruction

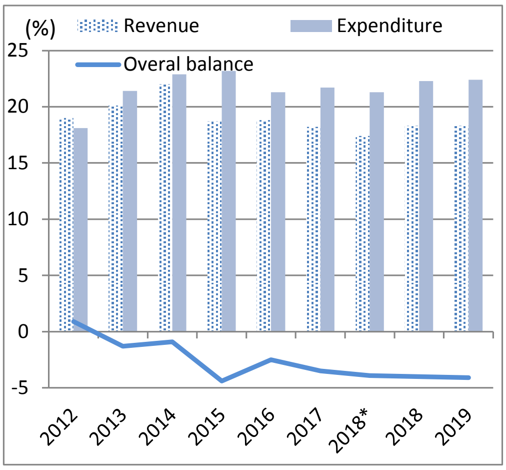
The government of Myanmar has been actively tackling with the fiscal reconstruction. The fiscal deficit expanded to 4.4% of GDP in FY2015 due to an increase of election expenses, but it narrowed to 2.5% of GDP in FY2016 (Figure 2). This reflected the increase in revenues resulted from strengthened tax administration although the revenue from natural gas decreased due to falls of commodity prices.

The government is also making efforts to restore a sound fiscal balance by drastically curtailing the fiscal financing by the Central Bank of Myanmar (hereinafter referred to the CBM) to make up the fiscal deficit for Y2016 (Figure 3). The government makes it a policy to revitalize the capital/bond market not only by encouraging the inflow of foreign investment and economic assistance funds but also by continuously issuing government bonds.

The Myanmar government announced to change the end month of fiscal year from March to September to promote infrastructure development and drew up an adjustment budget for the six-month period of April 1 to September 30 of 2018, establishing a period from October 2018 to September 2019 as the 2018 fiscal year[2]. From the standpoint of mid-term perspective, however, elimination of deficit is hard to expect due to increased expenditures for expenses associated with the shift of fiscal year and reconstruction assistance costs for the ethnic minority Rohingya refugees.

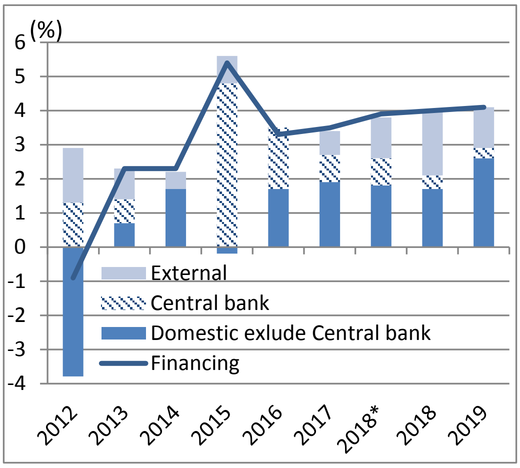
[2] In Myanmar, the economic activities such as infrastructure constructions increase in the dry season of November to May. Therefore the government changed the end month of fiscal years to September aiming to stimulate the purchases and spending for infrastructure project. In the figures, the half year budget for April to September 2018 is indicated as 2018*.

**Figure 2: Fiscal Deficits and Expenditures (in % of GDP)**




(Note) Estimate for the data for FY2017
(Source) IMF

**Figure 3: Fiscal Financing (in % of GDP)**




(Source) IMF

(3) Needed Continuous Inflow of Foreign Funds

With the ease of economic sanctions after 2011, imports from overseas increased and the current account deficit expanded to around 4% of GDP (Figure 4). To cover the deficit the Myanmar government has actively taken in the foreign direct investment and development assistance funds, and managed to keep the balance of payments in equilibrium.

Inflow of foreign direct investment has been basically on a rising trend since 2011 despite a temporary decrease due to the delay in investment permission procedures by the Direct Investment Commission of Myanmar (DIC) caused by the change of governments in 2016. Since the corporate law is to be revised in August 2018 and companies with foreign subscription of less than 35% are to be regarded as domestic companies, it is expected that the foreign direct will substantially increase in the future[3].

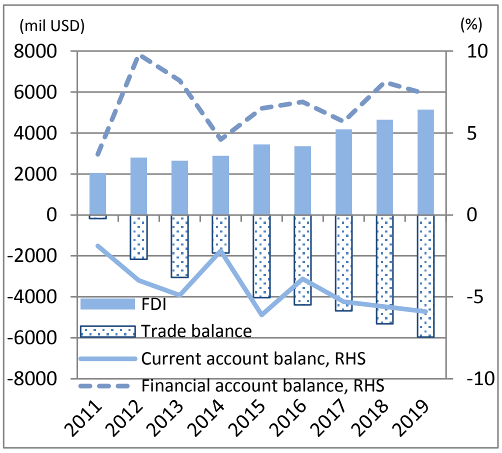
The foreign exchange reserves remain on the level of about $5 billion since 2014, well above the level equivalent of three months of imports, a standard level that is required to each country (Figure 5). However, there is a risk that the reserves will decrease due to a decline in exports of natural gas reflecting the falls of commodity prices and decline in inflow of foreign capital reflecting the confusing problems related to the Rohingyas. It will be required for Myanmar to explore new means to gain foreign currencies by fostering export industries other than natural resources and encouraging the participation of Myanmar companies in the global value chains

[3] According to the current corporate law, foreign capital control is applied to the companies with foreign participation and this has impeded their business expansion. In the future, it is expected the participation of foreign companies will increase in a JV style where foreign companies take a stake in Myanmar companies with less than 35% of capital. The computerization of investment authorization procedures will also encourage foreign investment.

in Asia by utilizing their geographical advantage.

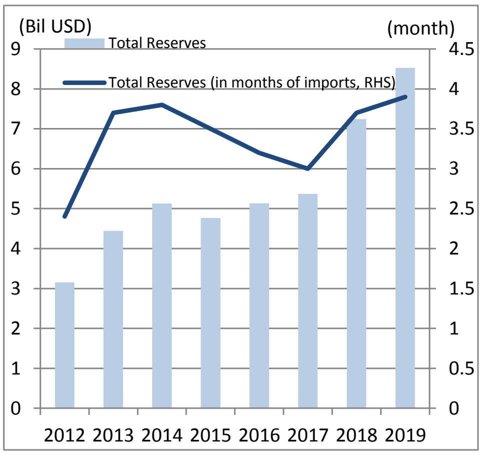
Myanmar's public debt outstanding stands at the order of 30% of GDP, a lower level than other Mekong countries as the country faced a limited means of financing due to the influence of longtime economic sanctions (Figure 6). The outstanding of external public debts remains on the order of 10% of GDP, suggesting a low risk of their default (Table 1). Yet, many multilateral assistance institutions including the Asian Development Bank (ADB) and the World Bank (WB) have started to shift their support from grant aids to loans and bilateral aids from Japan and China and lending from Chinese financial institutions have been on a rise, suggesting a future increase of external debt outstanding in the medium run. In the coming years Myanmar needs to manage the debts in line with the expansion of its economic scale.

**Figure 4: Balance of Payments (in % of GDP)**



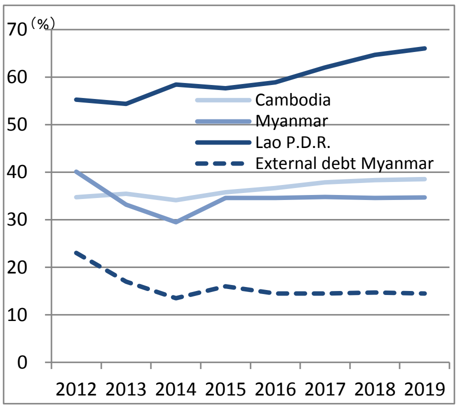

(Note) Estimated figures after FY2017
(Source) IMF

**Figure 5: Foreign Exchange Reserves (in $ billions and in months of imports)**




(Note) Estimated figures after FY2017
(Source) IMF

**Figure 6: Public Debts (in % of GDP) External**




(Note) Estimated figures after FY2017
(Source) IMF

**Table 1: External Public Debts by Lenders**

| | | Bil USD | In percent of GDP | Composition % |
|---|---|---|---|---|
| Total | | 9.5 | 15.0 | 100.0 |
| Multirateral | | 1.5 | 2.4 | 14.4 |
| | ADB | 0.5 | 0.8 | 5.4 |
| | WB | 1.0 | 1.6 | 10.7 |
| Bilateral | | 4.1 | 6.4 | 42.9 |
| | Japan | 2.2 | 3.4 | 22.9 |
| | China | 1.4 | 2.2 | 14.8 |
| Financial Institution | | 3.9 | 6.1 | 40.7 |
| | China | 2.6 | 4.0 | 27.3 |

(Source) IMF

## ２． Financial Challenges for Myanmar and its Efforts

As noted above, financial level of Myanmar is still in a developing phase and authorities including the Ministry of Finance and Planning and the CBM are promoting reforms while trying to acquire financial knowledges from Japan and other advanced countries. Following are its challenges and efforts in the areas of exchange rate policy, improvement of bond market, and banking sector.

### (1) Changes in exchange rate policy

Myanmar abolished its dual exchange rates in April 2012 and shifted to a managed floating regime. The CBM has implemented auctions on sales and purchases of foreign currencies for which city banks with transaction rights place their orders to the central bank.

The official kyat exchange rate against the U.S. dollar has been broadly depreciating after Myanmar’s transition to the managed floating regime. Especially since the latter of 2016, the kyat rate dramatically fell in the backdrop of appreciation of the U.S. dollar reflecting the interest rate hikes in the U.S. and expectations on the tax reform that President Trump had announced (Figure 7).

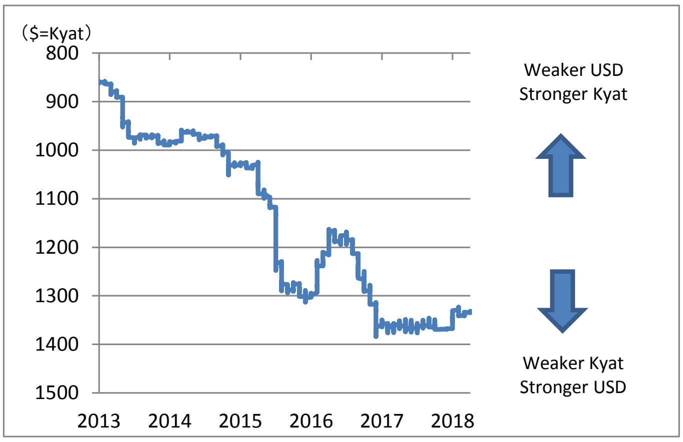
To control large fluctuations of the kyat rate against the dollar, the CBM had introduced FX trading bands[4], but there often happened the events where the interbank rates were traded outside of the reference rate offered by the CBM, leading to no deal of exchange transactions. The participation in the FX auction gradually declined, causing a gap between official rate and interbank rates.

Later the CBM began to offer reference rates taking account of FX transaction data reported every morning by banks, and since the latter of 2017 the official kyat rate against the dollar remains stable at around 1,300 kyat mark.

The International Monetary Fund (IMF) recommends that Myanmar should lift the procedures temporarily used now and formally adopt new exchange rate mechanism based on trades to secure more flexibility of the exchange rate. The Myanmar authorities also agree with the IMF on the removal of FX trading bands and comment that they will try to improve the interbank market and introduce repo market in the future.

[4] The regulation that restricts the customer exchange rates offered by city banks within the range of ±0.8% of the reference rate that the Central Bank sets every day.

**Figure 7: Kyat Exchange Rates (official rate against the U.S. dollar)**




(Source) Reuiter

(2) Improvement of Bond Market

Since the transition to civilian rule, Myanmar's bond market had been rapidly improved by the enactment of the Securities Transaction Law and establishment of the Securities and Exchange Commission of the Myanmar Securities Exchange Centre Co., Ltd. (MSEC) with support from the Japanese government and private companies. However, the participation in the bond market is still limited with the market remaining in the early days of development. In order to invigorate the market, it is important to boost the numbers of investors from home and abroad, and for that the government of Myanmar should make the investment standards meet those of foreign investors and improve the financial literacy of the citizens.

It is two years after the stock market was opened but the number of listed companies stands at only 5 with market capitalization of about $500 million. Although there are not a few potential investors including conglomerate companies and some wealthy individuals, the number of companies that have a need to raise fund in the stock market is quite limited.

The government introduced in the bond market a competitive bidding system for the government bonds while issuing the bonds regularly. However, the amount of issued government bonds stood at only 22.6% of GDP in FY2016, of which short-term bond with maturity of less than 3 months accounted for about 80%. The government bonds that were traded under the competitive bidding system accounted for only 10% of the total issues, the rest of which were accepted by the CBM. So it is hard to say that the competitive bidding system is fully working. In addition, as the liquidity of government bonds of Myanmar is low with no provision of ratings by external agencies, there has been few participation in the bidding by foreign banks.

In the meanwhile, there are no records of issuance of corporate bonds and local government bonds. To promote fiscal rehabilitation the government aims at privatization of state owned companies and voluntary management of budget and financing of the local governments and is now trying to consolidate the related legal and taxation systems with the leadership of the Securities and Exchange Committee of Myanmar so that they can raise funds through the issuance of corporate bonds and local government bonds.

(3) Regulatory Reform of Banking Sector

The banking sector of Myanmar made a rapid development after the transition of government to civilian rule, but the outstanding amount of credit provision is still small as compared to other developing countries, standing at around 20% of GDP as of FY2016 (Figure 8). The CBM authorized foreign banks to do business in Myanmar in 2014, and has gradually promoted the financial deregulation on foreign banks[5]. It also tries to absorb the global standard financial knowledge through 13 foreign banks currently operating in Myanmar, by which to encourage the development of banking business of local banks.

In July 2017, the CBM introduced the following four regulations to the domestic banks based on the Basel 3 regulations.[6]

- Capital adequacy: Regulatory capital adequacy ratio is 8%, and the minimum Tier I[7] Capital Adequacy Ratio is 4%.
- Asset classification and provisioning: A bank shall clarify the asset classification of provisional payments and keep the outstanding overdraft amount of the customers at zero for two consecutive weeks every year.
- Large exposure: A bank shall not take on financial exposure in respect of a person or a single counterparty or group of connected counterparties which constitutes in the aggregate a liability amounting to more than 20% of the core capital of the bank
- Liquidity ratio requirement: A bank shall maintain a minimum liquidity ratio of 20% at all times

These regulations aim at stabilization and internationalization of Myanmar’s financial system and has had an impact of restraining a rapid increase of lending to construction and real estate industries in recent years. Although there are transition measures of 3 years for the implementation of these regulations, banks have been demanding the customers to repay the loans to comply with the regulations, bringing about an aspect that they put a kind of burdens on the Myanmar companies.

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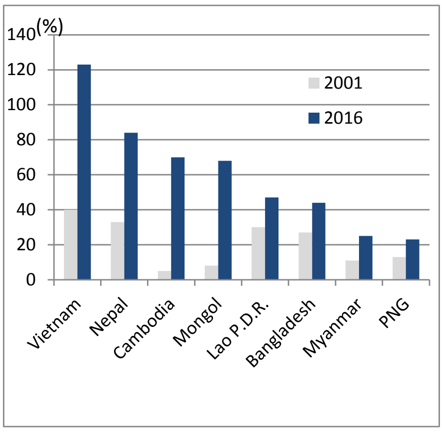
[5] In 2017, it authorized foreign financial institutions export finance business geared to domestic corporations.

[6] Learning lessons from global financial crisis, it introduced capital adequacy regulations to banks which engage in international banking business to secure their financial soundness.

[7] Represents core capital with high quality such as capital stock, legal reserves, and surplus funds.

**Figure 8: Total Credit Outstanding of Banking Sector (% of GDP)**




(Source) IMF

## 3. Conclusion

In the past 5 years since the transition to civilian rule Myanmar has promoted its efforts to eliminate poverty while enjoying a high growth. However, the economy has levelled off, and the IMF points out to the needs of medium-term growth strategy and a second wave of economic reforms. Myanmar will have to secure continuous inflow of capital to improve infrastructures, after establishing and improving its financial system and related regulations. It also has downward risks such as political instability after the replacement of presidents and suppression problem of ethnic minority Rohingyas that may hinder the efforts for economic reforms, and therefore it will not necessarily be easy for Myanmar to maintain its rapid economic development.

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