

# Myanmar Economic Monitor June 2020





## *Myanmar in the Time of Covid -19*






## Covid-19 has interrupted growth, but while Myanmar is likely to escape a recession, the recovery is at risk, requiring robust policy implementation.

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- Growth is estimated to drop to 0.5 percent in FY2019/20, and -2.5 percent in the downside case, despite a strong start to the fiscal year, but policy responses, and the limited disease outbreak can support a recovery.
  - Industry (manufacturing) and services (retail, hospitality and transport) are most affected, while agriculture is more resilient.
  - Weakening consumer demand easing inflationary pressure.
  - The fiscal deficit widens with big revenue decline, and CERP spending plans

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- Pandemic could delay the resumption of economic activity.
  - Damage to firms and households is deep
  - Kyat is strong, but the external balance may deteriorate.

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- While CERP is designed to mitigate impact on firms/households, it requires significant budget reallocation, reprioritization and additional financing.
  - CERP effectiveness can be increased by ensuring flexibility to spend what is committed, extending support to smaller enterprises and ensuring all households in Myanmar can benefit from transfers



**Growth interrupted**



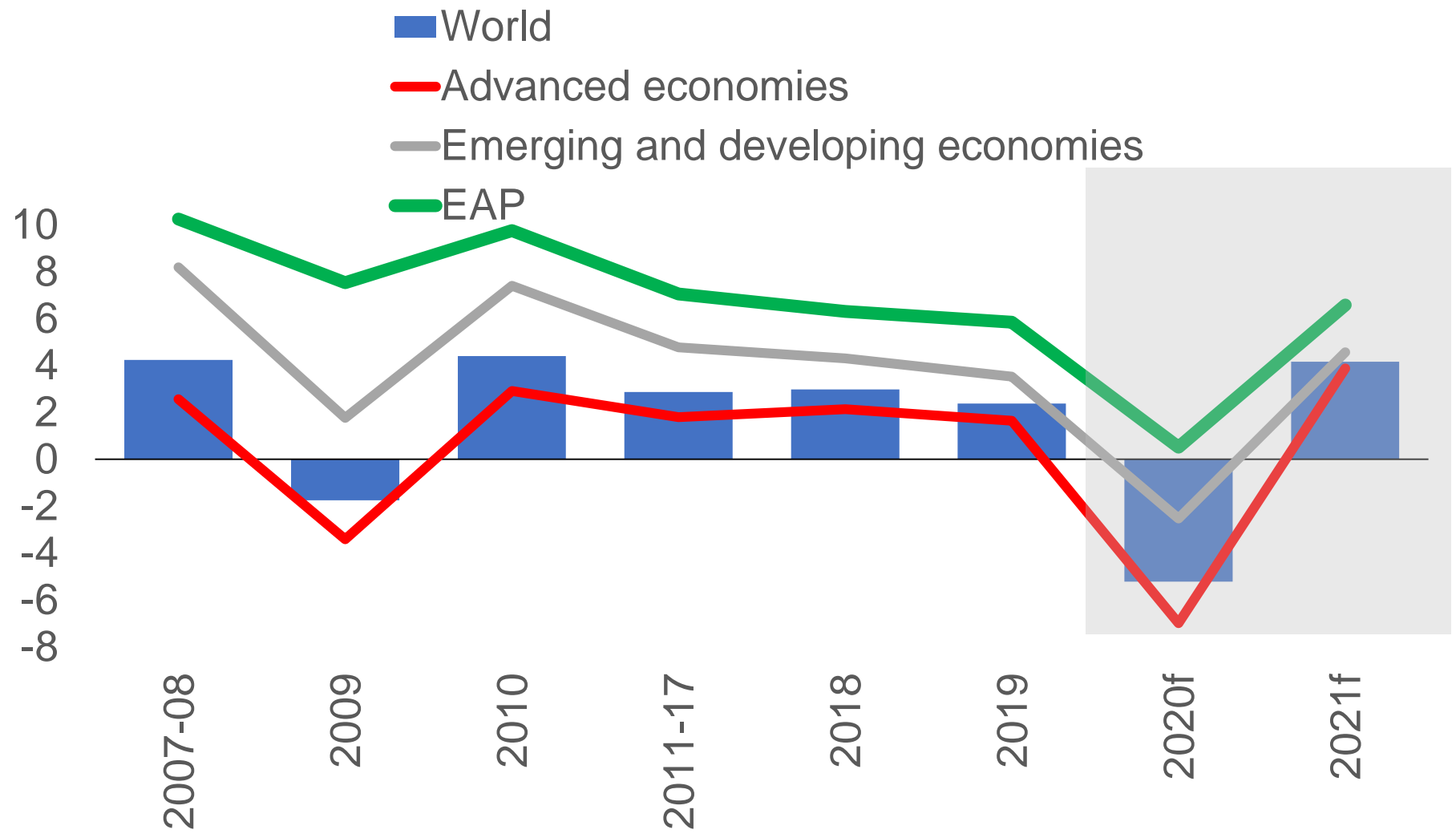
**Risk**



**Covid-19 response**



# Covid-19 struck an unprecedented blow to an already unsteady global economy

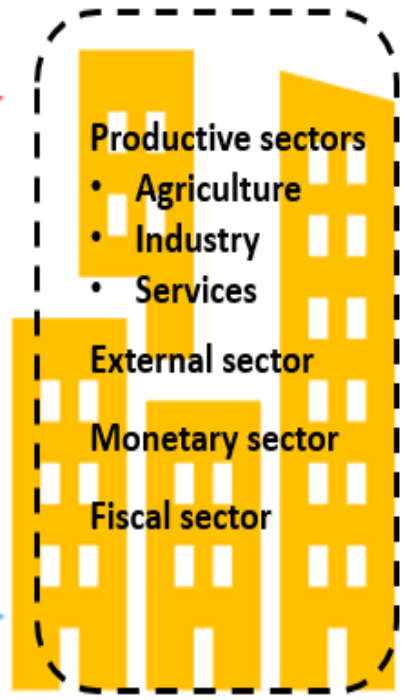
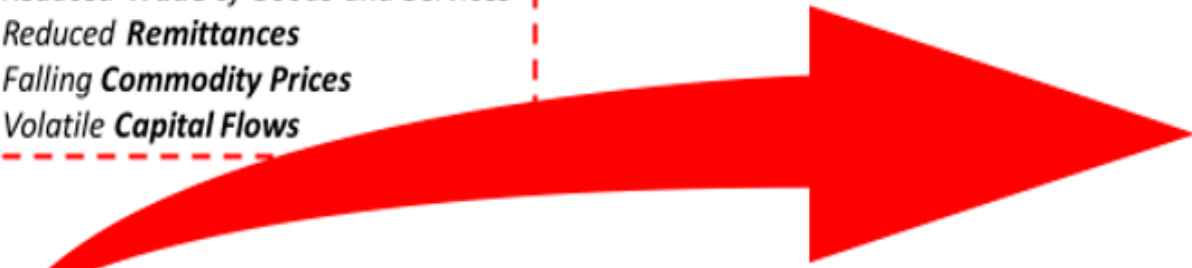




The Covid-19 Pandemic shock has transmitted to Myanmar via several external and domestic channels.

## EXTERNAL TRANSMISSION CHANNELS

- a) *Disruptions to Supply Chains*
- b) *Reduced Trade of Goods and Services*
- c) *Reduced Remittances*
- d) *Falling Commodity Prices*
- e) *Volatile Capital Flows*



- a) *Containment and Mobility Measures*
- b) *Changes to Consumer Behavior*

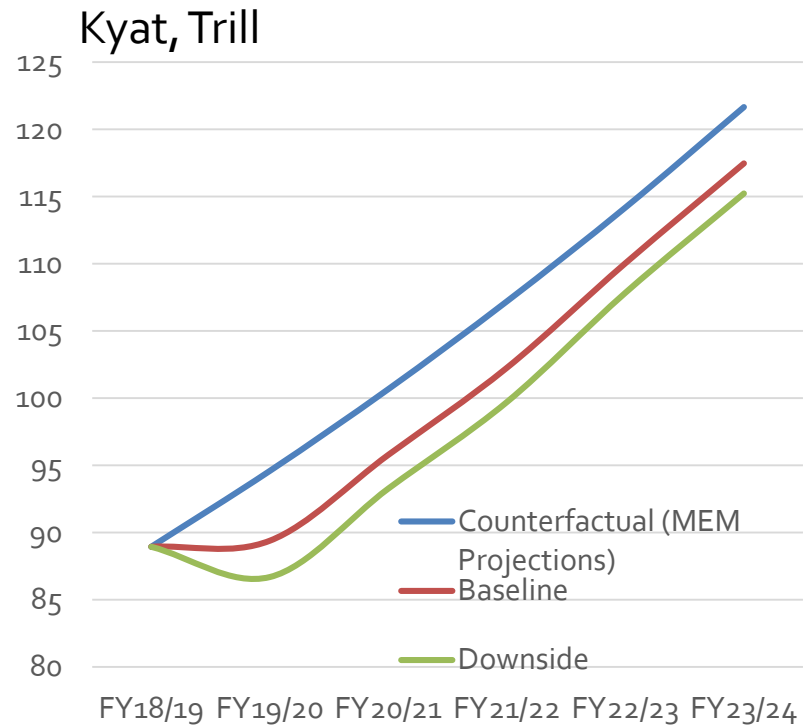
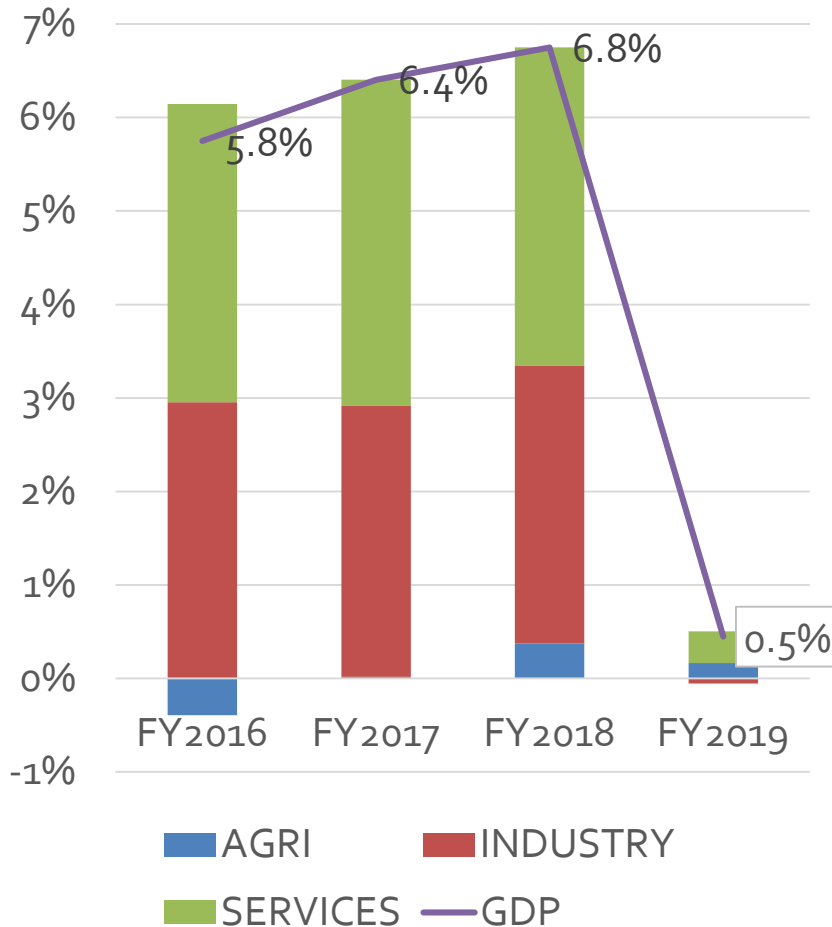
## DOMESTIC TRANSMISSION CHANNELS



**Myanmar will narrowly avoid a recession, but all sectors are hit, and the economy will be smaller than without Covid-19 for some time.**

**The industry sector will contract, and services slow considerably but agriculture shows resilience for now.**

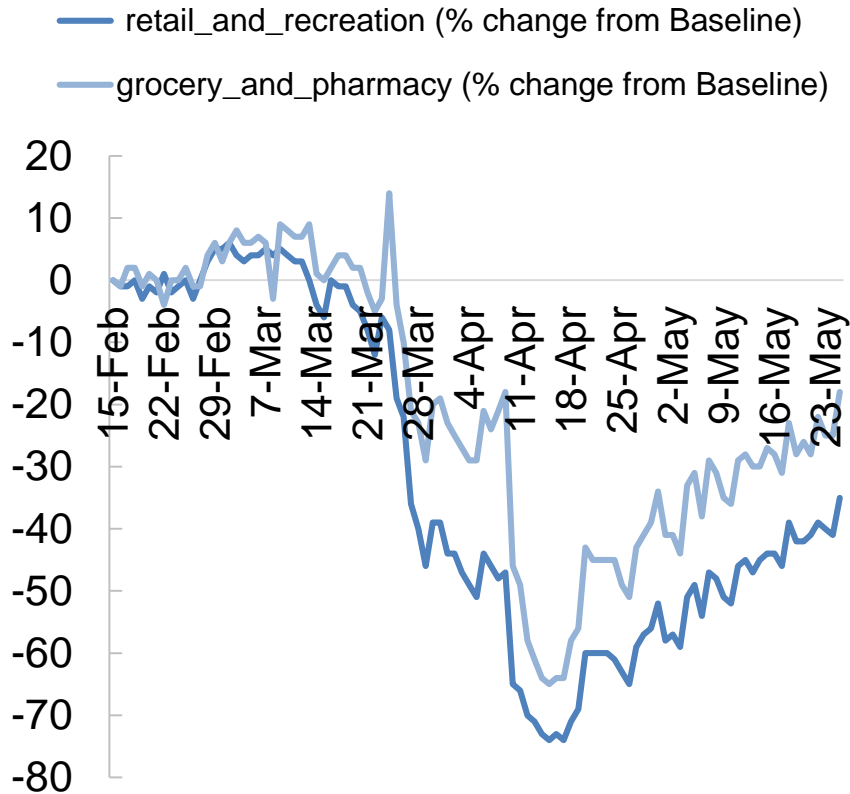
**Myanmar's economy has experienced a set back, even if growth recovers.**





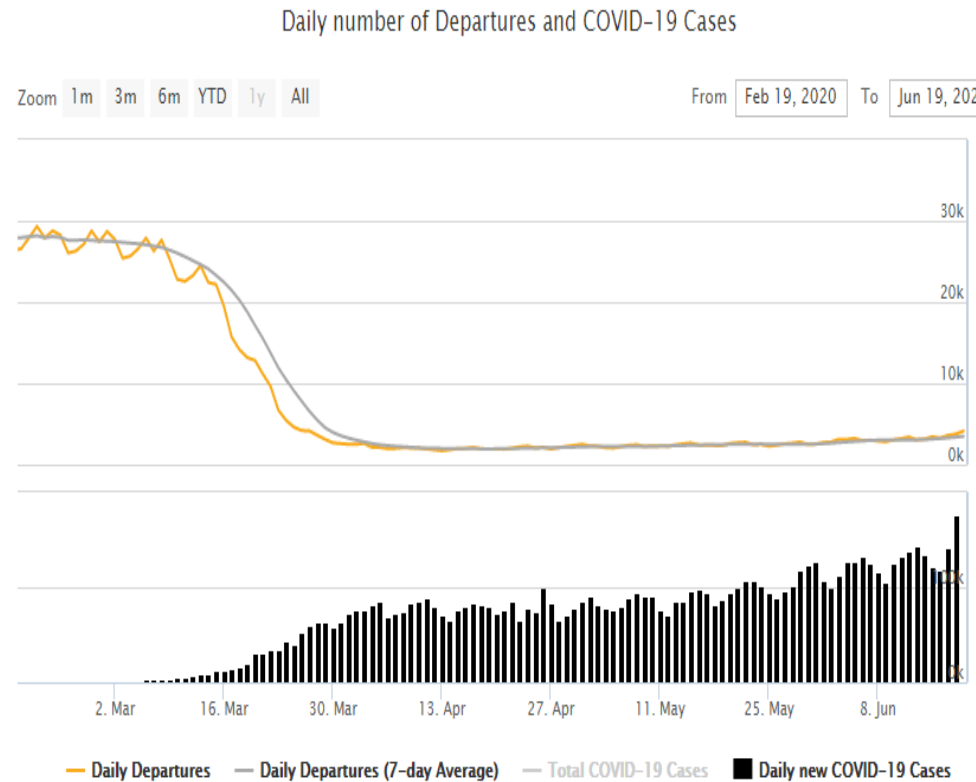
# Retail and tourism related services have suffered.

## Mobility restrictions limited demand for retail services.



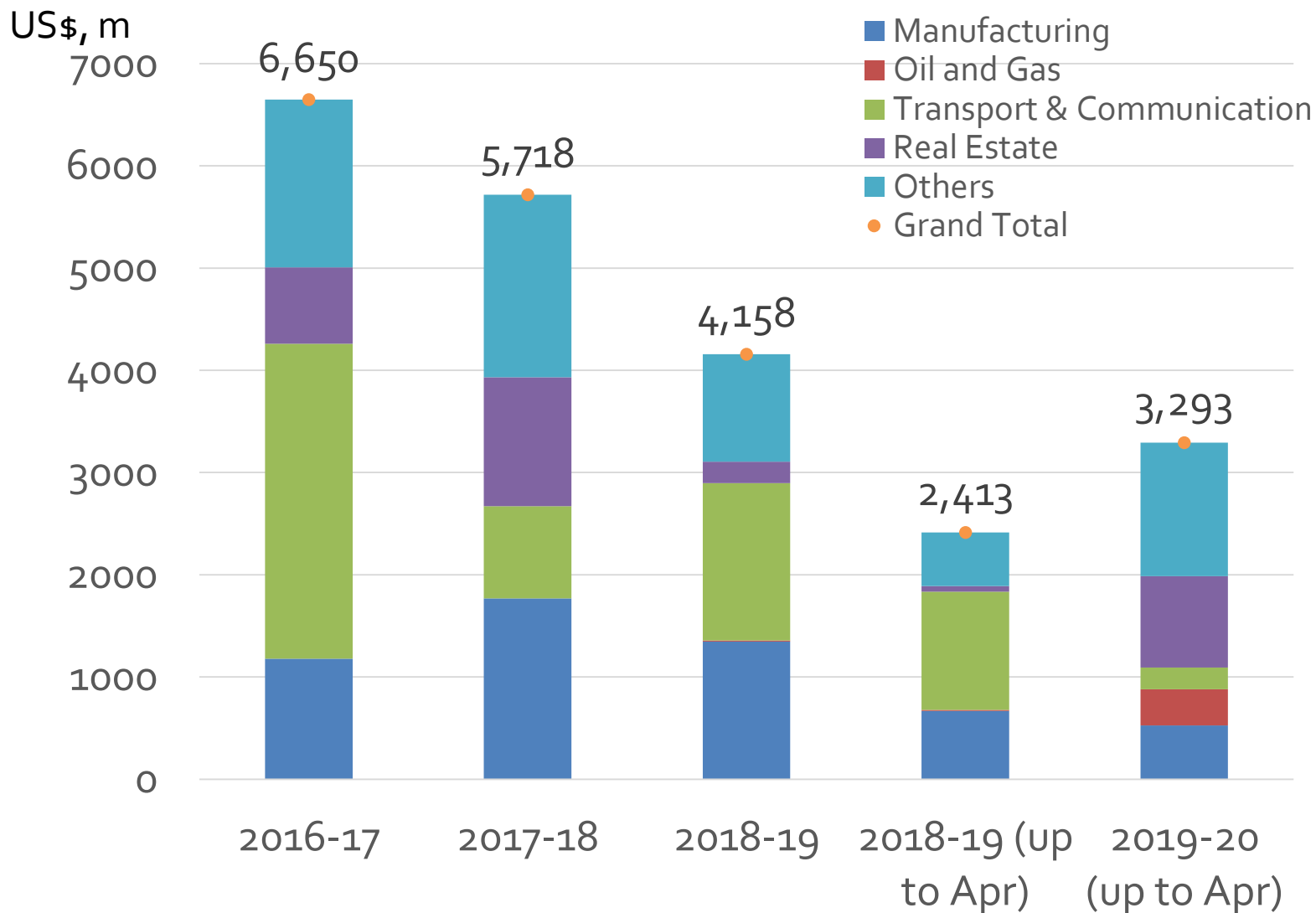
Source: Ministry of Tourism

## Strong tourism growth in Q1 has been stopped by air travel restrictions.



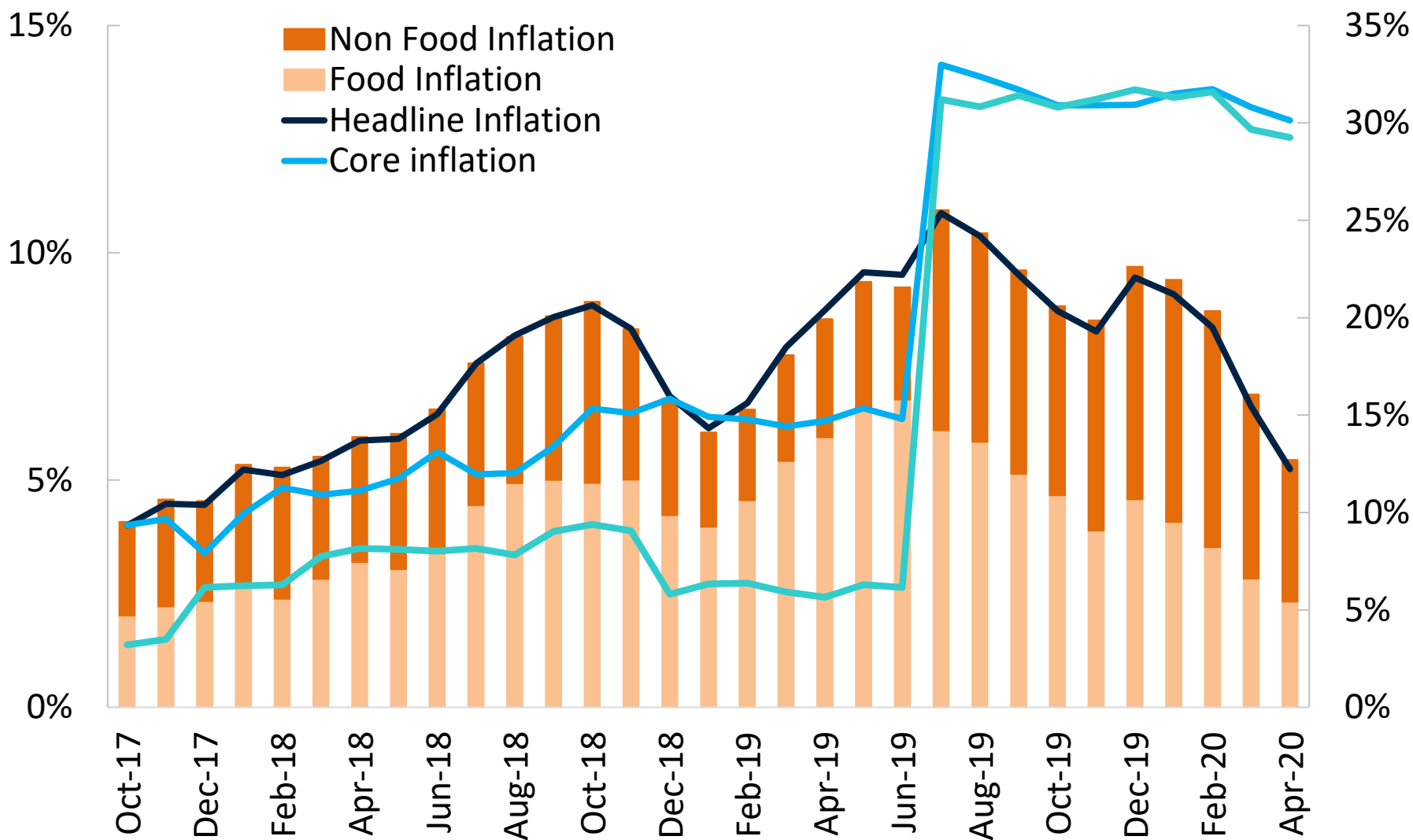
Source: ASDB

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



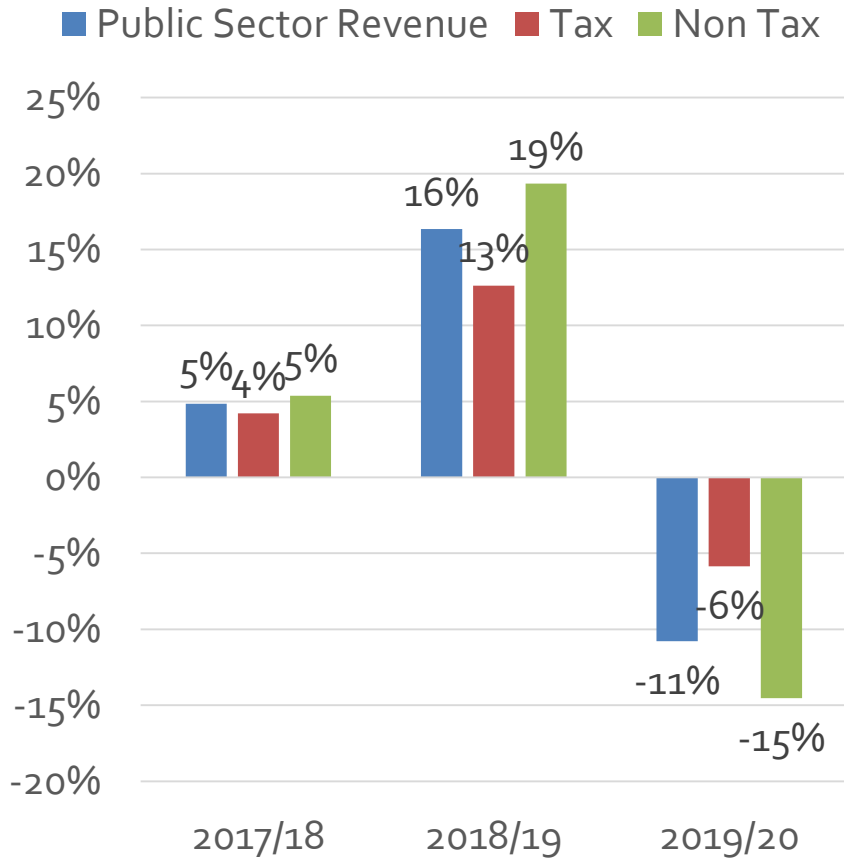


# Inflation has softened further with Covid-19 reducing demand among households

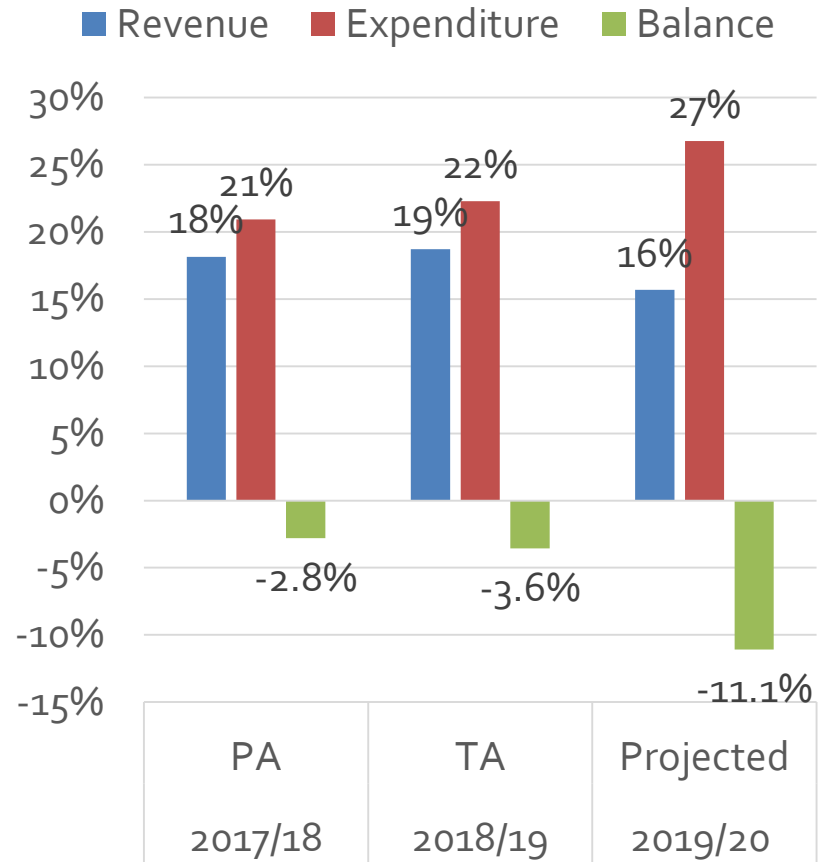


# Sharp revenue decline, rising expenditure plans and financing need.

Revenues are projected to fall sharply in absolute terms..



..widening the deficit to between 7 and 11 percent of GDP





**Growth interrupted**



**Risk**



**Covid-19 response**



# Lockdown and behavior changes has changed consumer demand for services.



Behavior changes



Cautious spending and weak supply chain slow growth of wholesale/retail

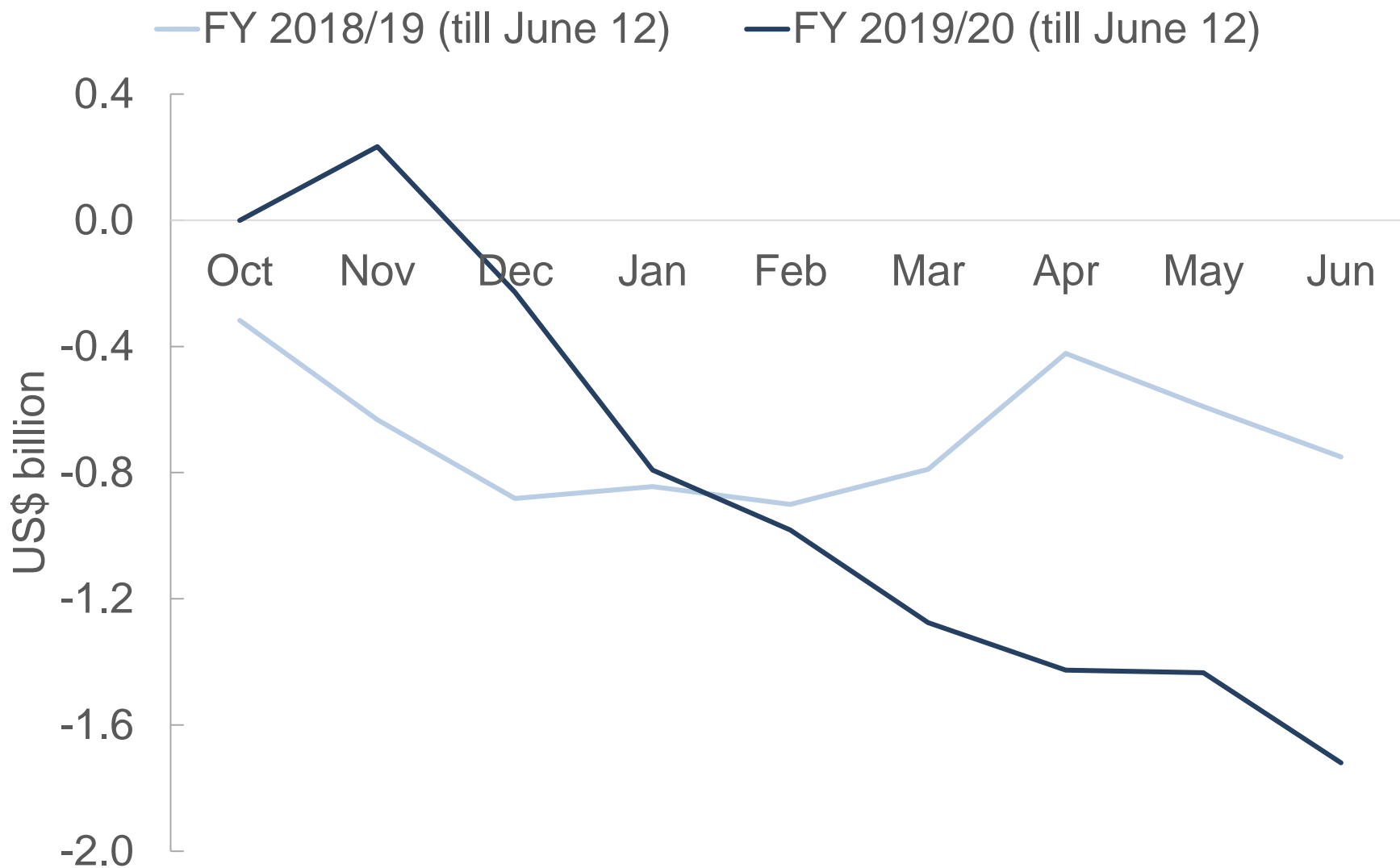


More people buying online





# The trade balance deteriorated significantly.





## Special Topic 1: Firms are feeling the pressure



Service sector firms were the worst hit by Covid-19



Agriculture sector experienced the most cash flows shortages and reduction in access to credit



Firms with female-participation were worse hit.



Majority of firms were not able to adopt innovation to combat Covid-19



Majority of firms did not apply for any government support

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Government could consider:

- i. Multi-track approach for protecting jobs/firms
- ii. Closed gaps for unserved “middle segment”
- iii. Extend credit to larger share of SME firms



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



Slow economic growth threatens Myanmar recent progress in poverty reduction



Urban households are highly exposed to health and economic effect of Covid-19



Anticipated decline in remittance could directly reduce household income (among the non poor and rural households)

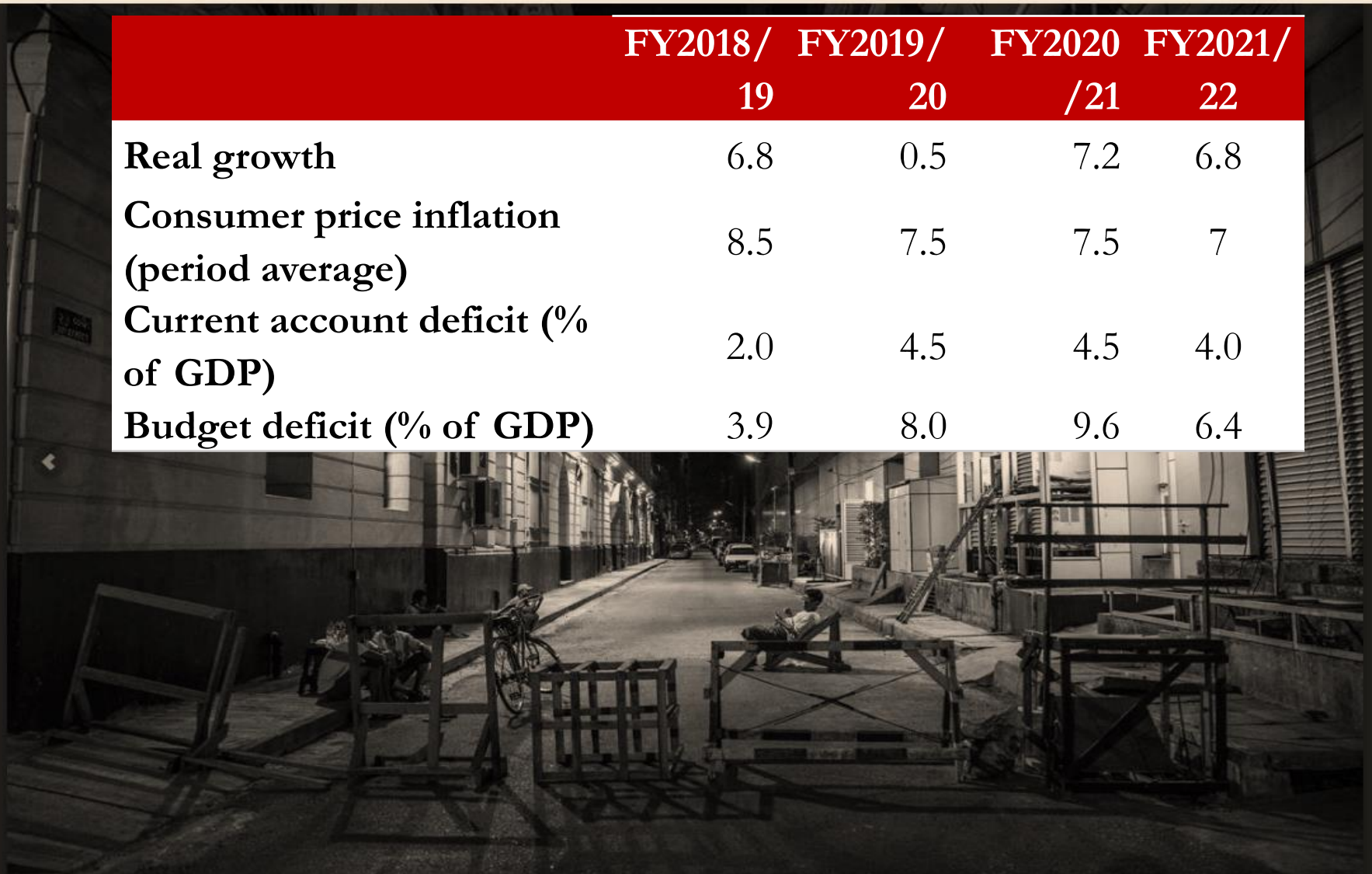


Job insecurity in the informal sector



# Growth is projected to return to trend in the medium term

	FY2018/ 19	FY2019/ 20	FY2020 /21	FY2021/ 22
<b>Real growth</b>	6.8	0.5	7.2	6.8
<b>Consumer price inflation (period average)</b>	8.5	7.5	7.5	7
<b>Current account deficit (% of GDP)</b>	2.0	4.5	4.5	4.0
<b>Budget deficit (% of GDP)</b>	3.9	8.0	9.6	6.4

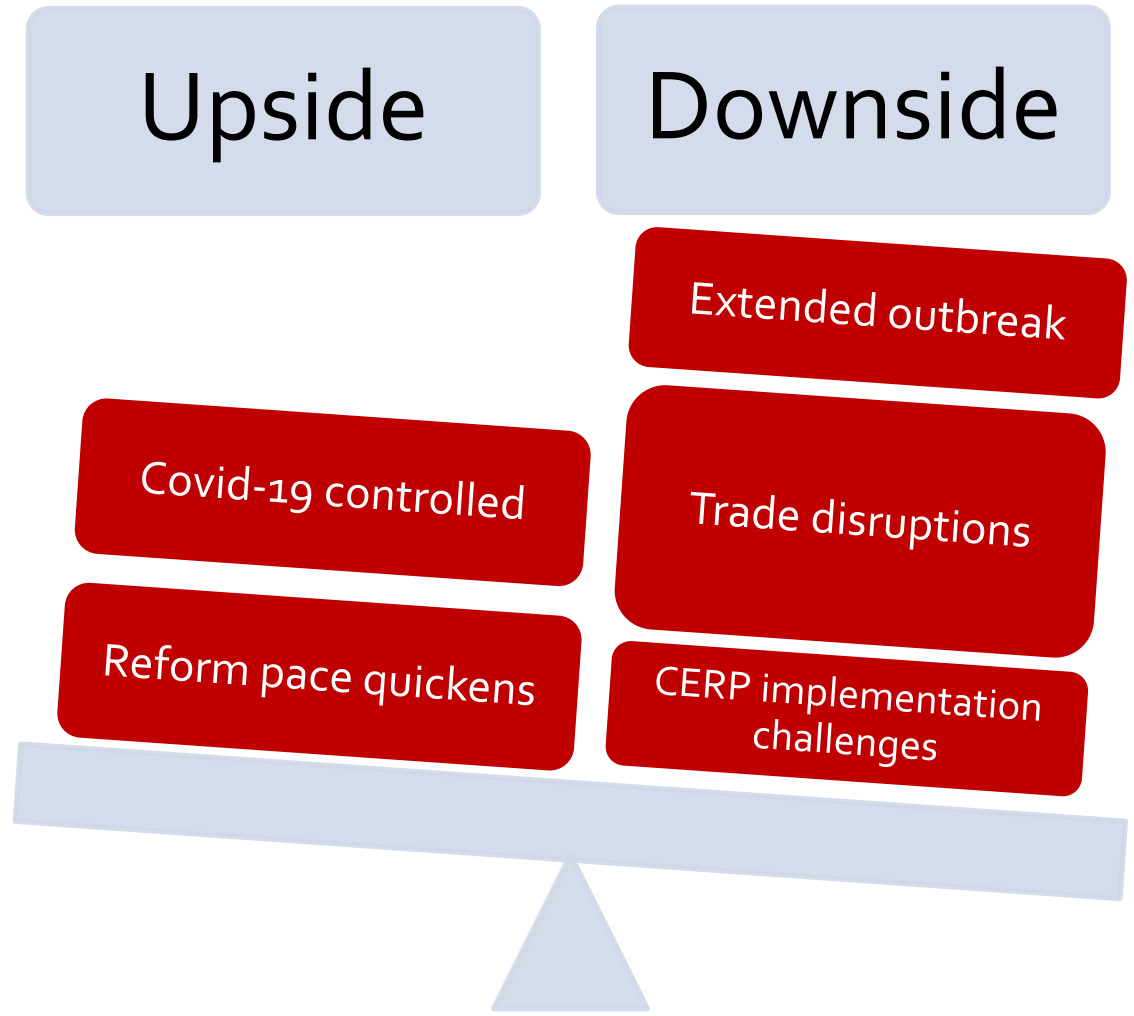


Local residents seen in a street which placed under a semi-lockdown in Pabedan township, Yangon.





# Risks to the growth outlook are tilted to the downside





**Growth interrupted**



**Risk**



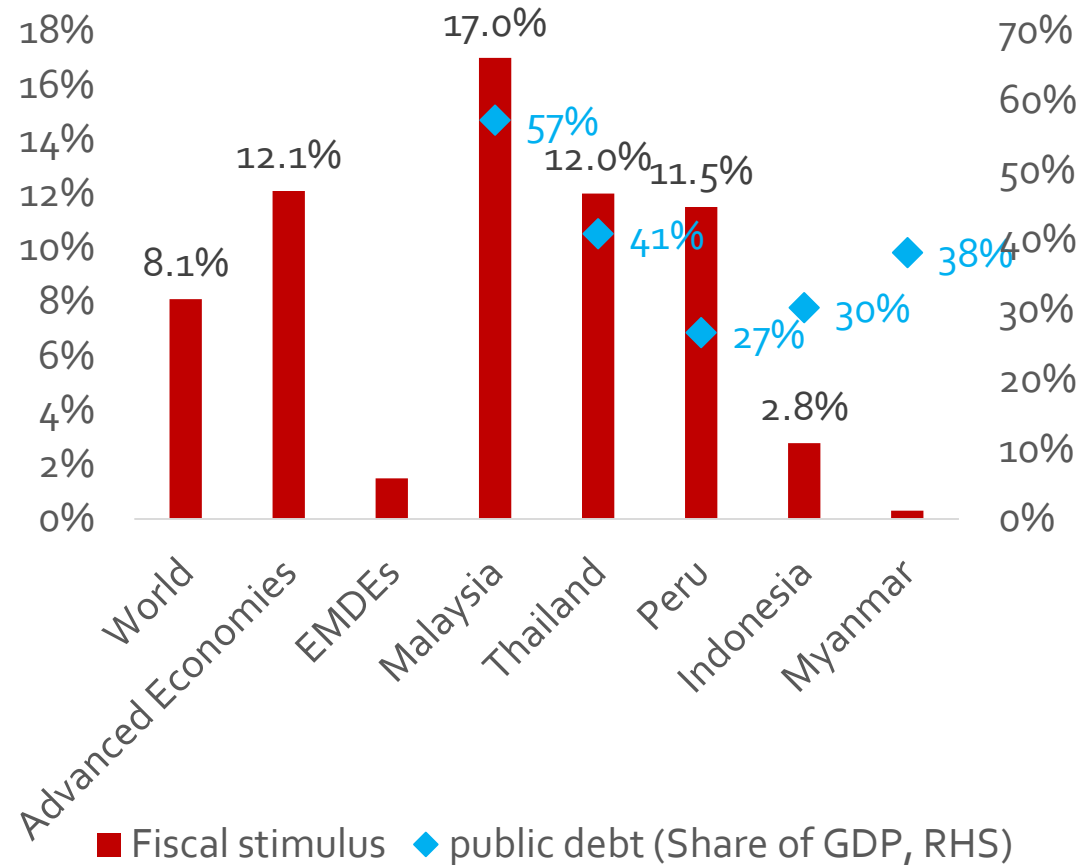
**Covid-19 response**



# The CERP response is constrained by implementation capacity and low revenues, but with space to borrow.

	Budget Execution First Half of FY 2019/20 Actual/Target (%)
Total Expenditure	77.6
Current	85.5
Capital	45.7

Fiscal stimulus and public debt (RHS) (share of GDP)





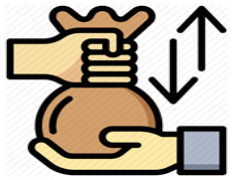
While the CERP is relatively small, it is extensive and evolving



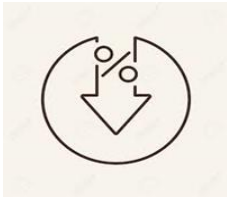
Expanding public health response to contain the disease



Providing basic food and free electricity to lower-income households



K 100 billion commitment fund to aid businesses



CBM has reduced interest rates



Offering tax deferrals and waivers

# ကျေးဇူးတင်ပါတယ်

<http://www.worldbank.org/en/country/myanmar/publication/myanmar-economic-monitor-reports>