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.

- 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

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

- 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**

- Disruptions to *Supply Chains*
- Reduced *Trade* of Goods and Services
- Reduced *Remittances*
- Falling *Commodity Prices*
- Volatile *Capital Flows*

**DOMESTIC TRANSMISSION CHANNELS**

- Containment and *Mobility Measures*
- Changes to *Consumer Behavior*

**Productive sectors**
- Agriculture
- Industry
- Services

**External sector**

**Monetary sector**

**Fiscal sector**
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 setback, even if growth recovers.
Retail and tourism related services have suffered.

Mobility restrictions limited demand for retail services.

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

Source: Ministry of Tourism

Source: ASDB
Covid-19 impact Myanmar’s economy through two transmission channels: External and Domestic.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Oil and Gas</th>
<th>Transport &amp; Communication</th>
<th>Real Estate</th>
<th>Others</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>6,650</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2017-18</td>
<td>5,718</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2018-19 (up to Apr)</td>
<td>4,158</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2018-19 (up to Apr)</td>
<td>2,413</td>
<td></td>
<td></td>
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<tr>
<td>2019-20 (up to Apr)</td>
<td>3,293</td>
<td></td>
<td></td>
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</table>
Inflation has softened further with Covid-19 reducing demand among households.
Revenues are projected to fall sharply in absolute terms...

..widening the deficit to between 7 and 11 percent of GDP
Lockdown and behavior changes has changed consumer demand for services.

- 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

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
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

<table>
<thead>
<tr>
<th></th>
<th>FY2018/</th>
<th>FY2019/</th>
<th>FY2020</th>
<th>FY2021/</th>
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<tbody>
<tr>
<td></td>
<td>19</td>
<td>20</td>
<td>/21</td>
<td>22</td>
</tr>
<tr>
<td>Real growth</td>
<td>6.8</td>
<td>0.5</td>
<td>7.2</td>
<td>6.8</td>
</tr>
<tr>
<td>Consumer price inflation</td>
<td>8.5</td>
<td>7.5</td>
<td>7.5</td>
<td>7.0</td>
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<tr>
<td>(period average)</td>
<td></td>
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<tr>
<td>Current account deficit (% of</td>
<td>2.0</td>
<td>4.5</td>
<td>4.5</td>
<td>4.0</td>
</tr>
<tr>
<td>GDP)</td>
<td></td>
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<tr>
<td>Budget deficit (% of GDP)</td>
<td>3.9</td>
<td>8.0</td>
<td>9.6</td>
<td>6.4</td>
</tr>
</tbody>
</table>

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

**Upside**
- Covid-19 controlled
- Reform pace quickens

**Downside**
- Extended outbreak
- Trade disruptions
- CERP implementation challenges
Growth interrupted

Risk

Covid-19 response
The CERP response is constrained by implementation capacity and low revenues, but with space to borrow.

<table>
<thead>
<tr>
<th>Budget Execution First Half of FY 2019/20 Actual/Target (%)</th>
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<tbody>
<tr>
<td><strong>Total Expenditure</strong></td>
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<tr>
<td><strong>Current</strong></td>
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<tr>
<td><strong>Capital</strong></td>
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**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
- K100 billion commitment fund to aid businesses
- CBM has reduced interest rates
- Offering tax deferrals and waivers