

Structural vulnerabilities weigh on the outlook

General Information



GDP	USD67.4bn (World ranking 70, World Bank 2016)
Population	52.9mn (World ranking 26, World Bank 2016)
Form of state	Parliamentary government
Head of government	HTIN KYAW
Next elections	2021, general elections



Strengths

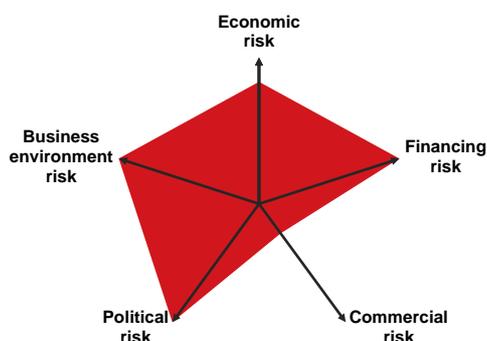
- Considerable natural resources
- Robust growth potential
- After years of sanctions, the country is opening to foreign investments and tourism
- Strategic location

Weaknesses

- Political risk remains high as the military continues to dominate politics
- Very weak business environment despite a few reforms implemented recently
- Ethnic tensions remain elevated
- The Central Bank's role is still not clearly defined and its operating framework is weak
- Macroeconomic policies buffers are poor with weak FX reserves and weak public finances
- Limited access to information

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	41% 1	34% China
Thailand	19% 2	14% Singapore
India	9% 3	13% Thailand
Singapore	8% 4	8% Japan
Japan	6% 5	7% India

By product (% of total)

Exports	Rank	Imports
Gas, natural and manufactured	24% 1	22% Petroleum, petroleum products and related materials
Non metallic mineral manufactures, n.e.s.	20% 2	8% Textile yarn and related products
Cork and wood	18% 3	8% Iron and steel
Vegetables and fruits	8% 4	6% Specialised machinery
Fish, crustaceans, molluscs and preparations thereof	7% 5	4% Road vehicles

Source: UNCTAD

Economic Overview

Solid economic growth, structural constraints

Economic growth has slowed to 5.9% in FY2016-17 (after +7.3% in FY2015-16). Massive floods hit agriculture production and export performances. The construction industry performance was weak as some projects in Yangon were suspended.

Going forward, economic growth is expected to pick up speed at a gradual pace. First, agriculture production and exports should recover as flood impacts moderate and demand from major partners continue to rise. Second, domestic activity is set to benefit from stronger performance in the construction industry in Yangon, and a continued rise in FDI inflows. In the longer term, financial deepening, further integration into regional and global supply chains, and continued reforms could help the economy grow at 7% to 8% a year.

Downside risks remain elevated. Economic weaknesses are significant with low policy buffers and a strong vulnerability to external shocks. Weaker gas prices, lower demand from China and a rise in protectionist measures (Indian ban on beans imports, e.g.) are all issues. Second, both the political and business environment are weak which could hinder investment growth.

A need to strengthen policy buffers

Policy buffers are limited. Fiscal management is weak. Public debt is at an acceptable level due to a massive write-off by creditors and Japanese support on clearing arrears to the World Bank. Yet, the fiscal balance is on a downward spiral. The fiscal deficit rose from -0.9% in FY2014-15 to -4% in FY2016-17. More importantly, almost all of the fiscal deficit financed by the Central Bank.

The Central Bank faces various challenges. These include high inflation (above +6%), an excessive growth of credit (+33% y/y in FY2016-17), and downward pressures on the currency on the back of tighter monetary policy in the US and internal political uncertainties. These vulnerabilities are exacerbated by poor buffers (foreign reserves at barely 3 months, e.g.) and weak operating framework and banking supervision.

Last, external vulnerabilities are high. On top of weak reserves, the economy has a chronic current account deficit (-6.7% GDP expected in FY2017-18). It is set to increase due to continued imports growth of capital goods.

The long term outlook is hampered by weak political and business environment

The country still ranks poorly (171 out of 190) in the World Bank Doing Business survey, with significant shortcomings on contract enforcement and investment protection. Despite significant political progress towards democracy and civil society, internal tensions undermine the outlook.

Key economic forecasts

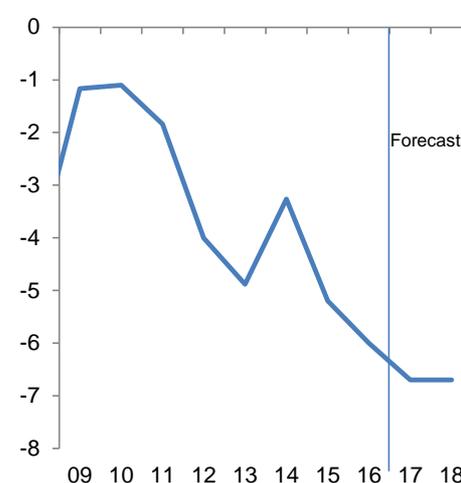
	2016e	2017f	2018f	2019f
GDP growth (% change)	5.9	6.5	7.0	7.1
Inflation (% , year average)	7.0	6.9	6.7	6.7
Fiscal balance (% of GDP)*	-4.0	-4.5	-4.5	-4.2
Public debt (% of GDP)*	36.4	36.8	36.8	37.0
Current account (% of GDP)	-6.0	-6.7	-6.7	-7.0
External debt (% of GDP)	15.4	15.6	15.7	16.0

Data are provided in Fiscal Year. 2016 refers to FY2016-17.

*Fiscal figures include central government and nonfinancial Public Corporation

Sources: IMF, Euler Hermes

Figure 1 – Current account balance (% GDP)



Sources: IHS, Euler Hermes

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