Euler Hermes Economic Research

Country Risk Analysis

Myanmar

Gradual liberalisation process, but risks remain high

General Information

Form of state	USD7160.74651219781bn (World ranking 0, World Bank 2011)
Population	48.34 millions (World ranking 26, World Bank 2011)
Form of state	Civilian parliamentary government
Head of government	THEIN SEIN (USDP)
Next elections	2015, legislative

Strengths

- Myanmar has considerable natural resources (though decades of isolation and economic mismanagement have led to inefficient exploitation and cannot simply be wiped away).
- Large growth potential

Weaknesses

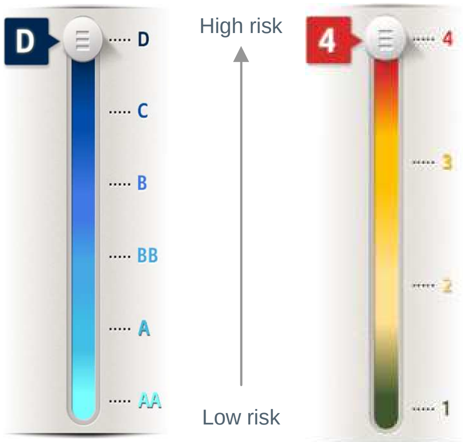
- Systemic political risk remains very high for now (military continues to dominate politics).
- One of the least developed economies in the world, suffering from decades of stagnation, mismanagement, and isolation.
- Unreliable, outdated economic data.
- The central bank's primary function is financing of government's fiscal deficits.
- Foreign exchange restrictions remain in place.
- Limited financial infrastructure, incl. externally imposed restrictions on some Burmese banks, is an important challenge to foreign investors.
- Very weak business environment.

Country Rating

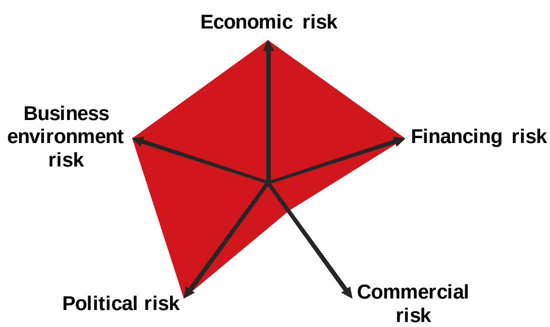
D4

Country Grade

Country Risk Level

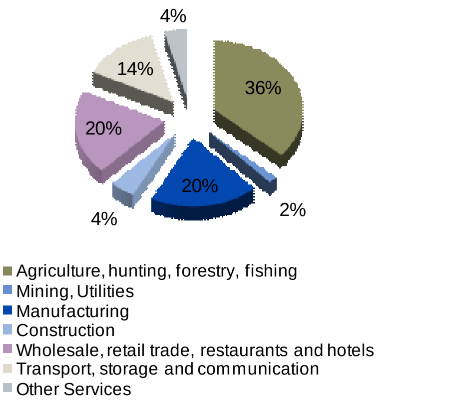


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
Thailand	43%	1	39%	China
China, Hong Kong SAR	14%	2	23%	Thailand
India	14%	3	10%	Singapore
China	7%	4	5%	Korea, Republic of
Japan	4%	5	4%	Malaysia

By product

Exports (% of total)		Rank		Imports (% of total)
Gas, natural and manufactured	36%	1	23%	Petroleum, petroleum products and related
Non metallic mineral manufactures, n.e.s.	15%	2	9%	Iron and steel
Cork and wood	13%	3	9%	Textile yarn and related products
Vegetables and fruits	10%	4	5%	Specialised machinery
Articles of apparel & clothing accessories	6%	5	4%	Road vehicles

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	11.0	5.1	5.3	5.5	6.2	6.3	6.7
Inflation (%, end-year)	24.1	7.1	8.9	5.0	6.1	5.3	5.0
Fiscal balance (% of GDP)	-2.2	-3.5	-5.1	-5.9	-5.3	-5.2	-5.0
Public debt (% of GDP)	89.6	55.5	53.0	53.5	43.5	40.3	38.6
Current account (% of GDP)	0.6	-2.8	-1.3	-2.6	-4.1	-4.2	-4.8
External debt (% of GDP)		37.5	30.1	27.8	23.6	19.8	20.6

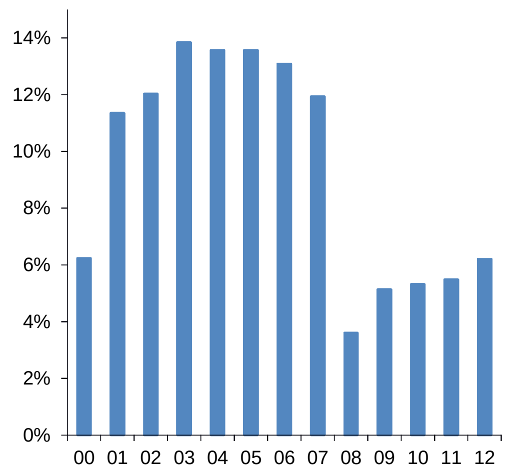
Sources: IHS Global Insight, National sources, Euler Hermes

Economic Growth

Economic growth is expected to accelerate modestly.

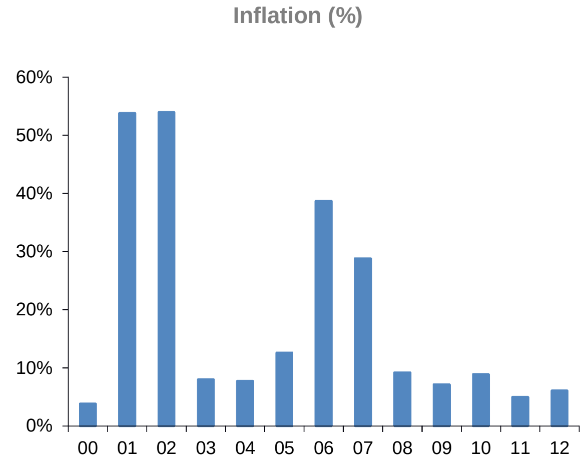
The ADB and the IMF project real GDP growth to pick up from an average annual +5% in FY2007-FY2011 to slightly above +6% in FY2012-FY2013 (FY=fiscal year ends in March of the following year) as the recently initiated economic reforms will benefit exports and foreign investment inflows.

GDP growth (annual, %)



Sources: IHS Global Insight, Euler Hermes

The Central Bank of Myanmar (CBM) does not have a monetary policy framework. It is a department within the Ministry of Finance and Revenue, with the primary function of financing fiscal deficits. There is no formal interbank market, and the CBM does not conduct any monetary operations. However, there are reform plans in this area.



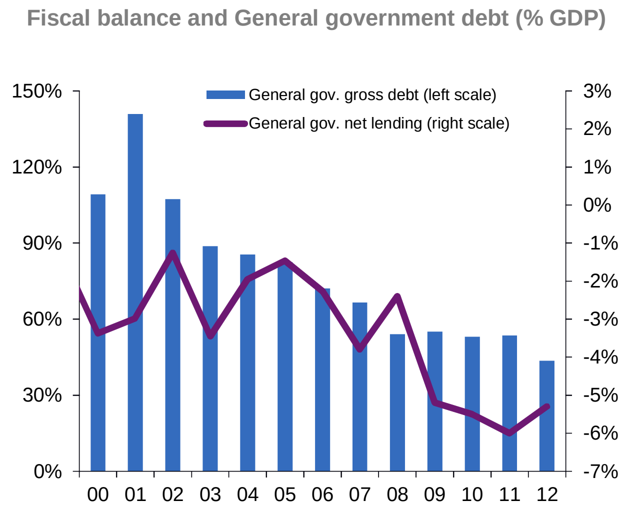
Sources: IHS Global Insight, Euler Hermes

Inflation is forecast to rise slightly.

Headline consumer price inflation moderated from double digits in 2005-2008 to an average annual 4% in 2011 but is estimated to have quickened to 6-7% in 2012-2013, mainly as a result of increased administered prices.

New managed currency float regime provides opportunities ...

In April 2012, Myanmar shifted to a new exchange rate regime, a managed currency float. The previous 35-year lasting dual exchange rate regime—an official rate at 8.5 kyat (MMK) per SDR (roughly 5.5 MMK per USD) and an informal market rate that had been trading within a much wider band, at last at around 800 MMK per USD—had created severe macroeconomic distortions. The new currency regime, which introduced a reference exchange rate of 818 MMK per USD, provides the basis for medium-term macroeconomic stabilisation. For now, the MMK has depreciated by nearly 6% to 865 MMK/USD on 11 March 2013, almost one year after the new exchange rate regime was introduced.



Sources: IHS Global Insight, Euler Hermes

... but also raises insolvency risk.

However, the transition to the new currency regime could also be painful as the previous official exchange rate was widely used by the state-owned enterprises (SOEs) for import transactions. Owing to the initial sharp depreciation of the official rate, these SOEs may now face losses and insolvencies. Moreover, managing the new currency float may prove challenging, especially if large foreign capital inflows would result in upward pressures on the MMK.

Foreign exchange restrictions remain in place.

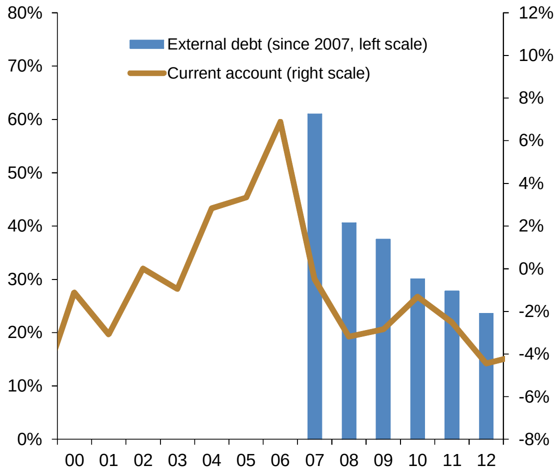
Probably intended to mitigate these problems, many foreign exchange restrictions will remain in place until at least end-2013. Foreign investors and exporters should be cautious with regards to these restrictions.

External debt distress has moderated at the start of 2013.

Although the external debt-to-GDP ratio had remained relatively low and stood at around 23% of GDP (USD12bn, all public or publicly-guaranteed debt) at end-2012 according to the IMF, Myanmar had been in continued debt distress, primarily due to a very high share of external arrears (data on external debt and arrears vary significantly across different sources).

However, a substantial improvement of the external debt burden and potential external funding was achieved in January 2013. With the help of Japan, all arrears owed to the ADB and the World Bank were cleared, paving the way for a resumption of financial assistance from these institutions. Moreover, the Paris Club of creditors agreed to cancel half of the arrears Myanmar owed them in two stages, rescheduling the rest over 15 years. On top of that, Norway cancelled all the debt owed to it (USD0.5bn), while Japan cancelled more than USD3bn. These agreements are estimated to have resulted in debt relief of around 50% of total external debt and complete clearance of arrears.

External debt and current account (% of GDP)



Sources: IHS Global Insight, Euler Hermes

The current account deficit is expected to widen.

The current account balance has been in moderate deficit or surplus over the last decade as sanctions had limited imports. Since the lifting of most sanctions and the partial relaxing of foreign exchange controls is likely to boost imports, we forecast the current account deficit to widen to about 4.5% of GDP in 2013-2014.

Ambiguous data on foreign exchange reserves.

Official foreign exchange reserves have been boosted in recent years thanks to rising hydrocarbon exports and high international commodity prices and were estimated at USD7bn at end-2011 (see International Financial Statistics of the IMF). Thereafter reserves have fallen to USD6.2bn in August 2012 (latest available data). This should cover around four months of imports. However, a recent country report also by the IMF put foreign exchange reserves at end-2011 much lower, at just USD3.8bn.

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