Euler Hermes Economic Research

Country Report

Myanmar

The gradual liberalization process boosts growth, but risks remain high

General Information

GDP	USD56.7 bn (IMF 2013)
Population	52.8 million (World ranking 24, World Bank 2012)
Form of state	Parliamentary government
Head of government	THEIN SEIN
Next elections	End 2015, legislative

Strengths

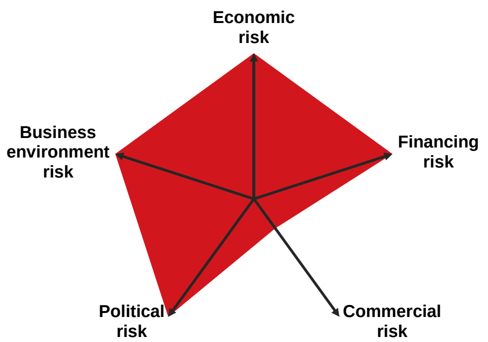
- Considerable natural resources
- Important growth potential
- After years of sanctions, the country is now opening to foreign investments and tourism
- Strategic location

Weaknesses

- Political risk remains high as the military continues to dominate politics
- Very weak business environment despite a few reforms implemented recently
- One of the poorest Asian country, suffering from mismanagement and isolation
- Ethnic tensions remain elevated amongst one of Asia's most diverse populations
- The Central Bank's role is still not clearly defined and its primary function remains to finance government's fiscal deficit
- Limited and unreliable data

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Thailand	42%	1	30%	China
Hong Kong	15%	2	26%	Singapore
India	14%	3	14%	Thailand
China	7%	4	6%	Korea, Republic of
Japan	4%	5	5%	Japan

By product (% of total)

Exports		Rank		Imports
Gas, natural and manufactured	38%	1	24%	Petroleum and related products
Non metallic mineral manufactures, n.e.s.	16%	2	9%	Iron and steel
Cork and wood	11%	3	8%	Textile yarn and related products
Vegetables and fruits	11%	4	5%	Specialised machinery
Clothing accessories and apparel	6%	5	4%	Road vehicles

Source: UNCTAD (2012)

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Economic Overview

Recent reforms allowed strong economic growth but income level remain very low

Since the installation of a civilian parliamentary government in March 2011, a series of political and economic reforms have followed: introduction of a floating exchange rate regime, new fiscal regulation liberalization of the telecommunication sector, reforms to strengthen the private sector (against risks of nationalization), attract FDI (notably via tax exemptions) and develop the financial sector. The US and the EU withdrew in mid-2013 all sanctions previously imposed.

These reforms, together with the countries' endowment in natural resources have spurred economic growth, reaching +8.3% in fiscal year 2013/2014 (from April 2013 to March 2014). This should continue at a similar pace in FY14/15 and FY15/16, thanks to rising gas production and continued national and foreign investments.

However, Myanmar remains one of the poorest countries in Asia: the World Bank estimates that in 2010, approximately 37.5% of the population was living below the poverty line. Large investments in infrastructures are also needed as 73% of the population lack access to electricity. Despite some improvements during the last years, Myanmar still ranks 177 out of 189 economies in the Doing Business 2015 survey.

Inflation is set to remain above 6%

Consumer price inflation has risen to 5.7% FY13/14 largely due to the increase in fuel, rent and food prices. Continued increase is expected in FY14/15 reflecting risings wages in the public sector and rising property prices.

Debt write off and increasing revenues helped public finance improve

Public finances are relatively sound and public debt represents +39.8% of GDP in FY13/14 (from 48% one year earlier). This improvement follows massive debt write off by creditor countries of the Paris club (10% GDP in Q1 2013) and support from countries such as Japan to clear arrears to the World Bank.

The fiscal deficit declined strongly during the two past years, representing -1.6% of GDP in FY13/14 (from -4.6% of GDP in FY11/12). Revenues doubled (from +11% of GDP to +23%) thanks to one-off operations from telecommunication licenses. Furthermore, the government managed to improve the performance of state economic enterprises and the underlying fiscal deficit (excluding one-off revenues) is estimated at +3% of GDP in FY13/14. These one-off operations allowed the government to increase expenditures (from +17% of GDP to +26%) and invest in infrastructures and other social reforms (poverty alleviation measures, new health insurance system expected April 2015). Government spending in education now account for approximately 2% of GDP (from 0.8% in FY11-12).

However, authorities budget a widening of the overall fiscal deficit mostly on the back of increased in public servant salaries and fiscal decentralization. The overall fiscal deficit is thus expected to widen to -4.5% in FY14/15.

A current account financed by large inflows of foreign direct investment

The current account deficit widened to -5.4% in FY13/14 (from -4.3% one year earlier), due to the deterioration of the trade balance (large increase in imports). However, investment shows a less worrying picture as the current

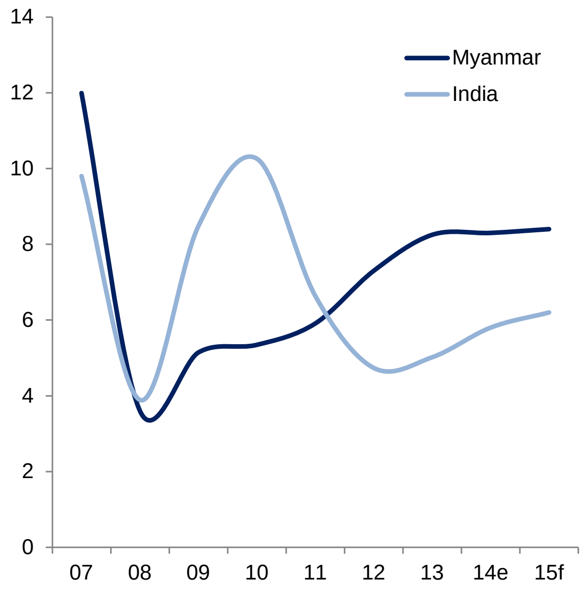
Key economic forecasts

	FY12/13	FY13/14	FY14/15	FY15/16
GDP growth (% change)	7.3	8.3	8.3	8.4
Inflation (%, year average)	2.8	5.7	6.5	6.3
General gov. net lending (% of GDP)	-1.7	-1.6	-4.5	-4.6
Public debt (% of GDP)	48.0	39.8	39.5	39.8
Current account (% of GDP)	-4.3	-5.4	-5.4	-5.2
External debt (% of GDP)	23.3	21.4	20.1	20.5

*Fiscal years run from April to March.

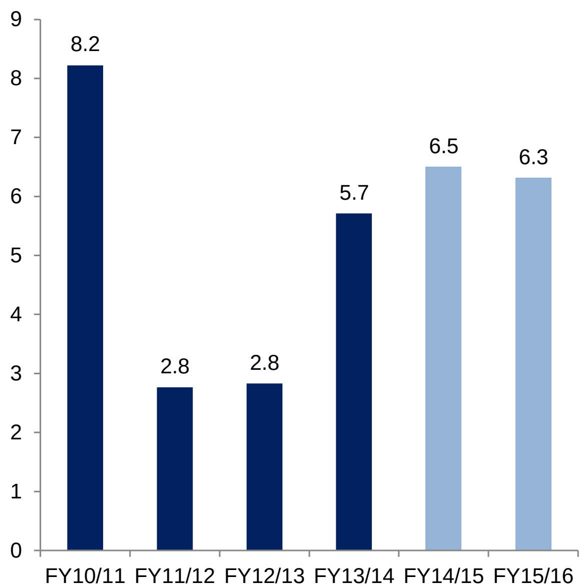
Sources: IMF, IHS, Euler Hermes

GDP growth (%)



Sources: IMF, IHS, Euler Hermes

Average inflation rate



Sources: IMF, IHS, Euler Hermes

account deficit is almost financed by FDI inflows (+4.6% of GDP in FY13/14). New loans, and inflows related to telecommunications licenses provide the other required financing. This tendency is projected to continue over FY14/15, with a current account balance representing -5.4% of GDP. The long run opportunities offered by Myanmar are unlikely to see a reversal in this pattern. Myanmar's external debt is on a decreasing trend. It is expected at 20.1% of GDP in FY14/15 (from 23.3% of GDP in FY12/13).

The role of the Central Bank needs to be strenghtened and better defined to enhance macro-stability

The Central Bank of Myanmar (CBM) is a department within the Ministry of Finance and Revenues and still does not have a monetary policy framework. Its primary function is to finance deficits but the forthcoming Central Bank law (draft) is intended to give an independent role to the Central Bank.

Consequently, four national banks, namely the Union of Burma Bank, Myanma Economic Bank, Myanma Foreign Trade Bank (MFTB) and Myanma Agriculture Bank have emerged, facing no foreign competition. As part of the ongoing reforms, authorities awarded nine licenses to foreign bank branches in October 2014.

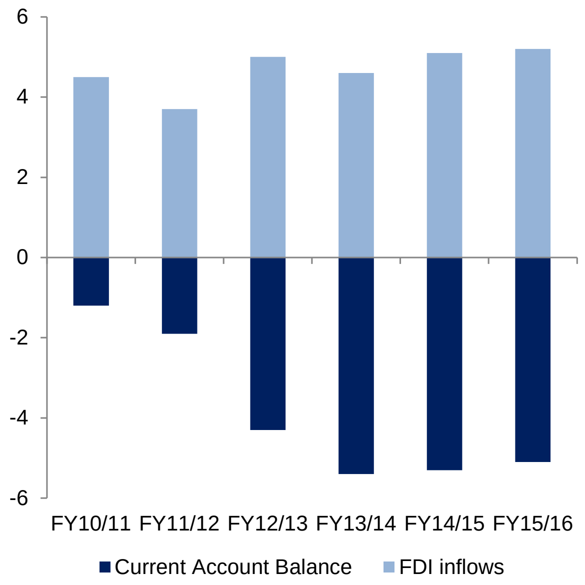
Foreign reserves numbers differ if only reserves hold by the Central Bank are taken into account (used in the IMF article IV) or if additional reserves hold by state banks (notably the MFTB) are also acknowledged for (data published by the International Financial Statistics). Reserves detained by the Central Bank rose sharply during the past years due to large foreign inflows and a move from state banks to the CBM. Covering less than one month of imports in FY11/12 (IMF article IV definition), it now covers 2.9 month of imports (foreign reserves stand at USD4.5 bn in FY13/14), which remain still below adequate level (above 3 months). Myanmar shifted from a fixed official exchange rate regime (at approximately MMK5.5 per USD, in coexistence with an informal market rate) to a managed currency float. Since its introduction in April 2012, it has depreciated by 17%; with a small appreciation since January 2014.

The political situation remains fragile

From 1962 to 2011, the country was ruled by the military junta that suppressed almost all dissident voices with absolute power over the country and the economy.

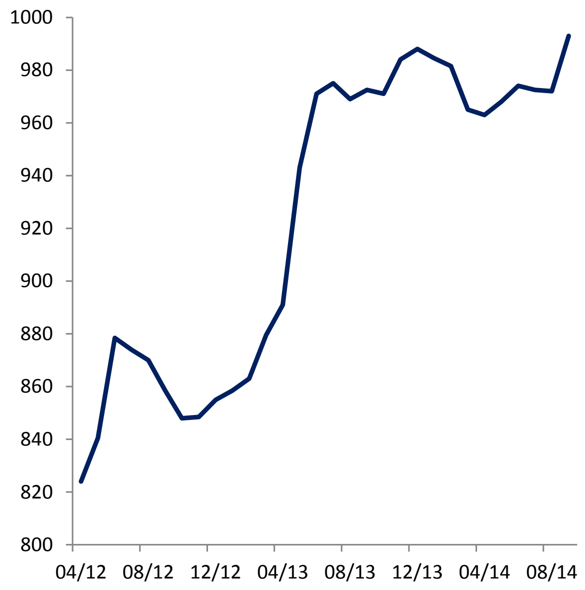
The Burma are the largest ethnic group but several ethnic groups cohabit in Myanmar, what has led to considerable ethnic tension and fuelled intermittent protests and separatist rebellions. Ceasefire deals signed in late 2011 and early 2012 with rebels of the Karen and Shan ethnic groups have slightly improved the situation but tensions remain high.

Current account balance and FDI inflows (% of GDP)



Sources: IMF, IHS, Euler Hermes

Exchange rate under the new managed currency float (MMK per USD)



Sources: IHS, Euler Hermes

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