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MYANMAR ECONOMIC MONITOR

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Navigating Risks

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The Myanmar Economic Monitor (MEM), published semiannually, analyzes recent economic developments and prospects and policy priorities in Myanmar. The MEM draws on available data reported by the Government of Myanmar and additional information collected as part of the World Bank Group's regular economic monitoring and policy dialogue. The MEM team is grateful to the Ministry of Planning and Finance, the Ministry of Commerce, and the Central Bank of Myanmar for their excellent collaboration.

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Abbreviations

ASEAN	Association of Southeast Asia Nations
ASEAN-5	Indonesia, Malaysia, the Philippines, Singapore, and Thailand
BRI	Belt and Road Initiative
CBI	Centre for the Promotion of Imports from developing countries (the Netherlands)
CBM	Central Bank of Myanmar
CIF	Cost, Insurance and Freight
CPI	Consumer Price Index
CSO	Central Statistics Organization
DB	Doing Business (World Bank)
EAP	East Asia and Pacific
EBA	Everything But Arms
EMDEs	emerging markets and developing economies
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
GSP	Generalized System of Preferences
HS	Harmonized System
MEM	Myanmar Economic Monitor
MOPF	Ministry of Planning and Finance
MOHS	Ministry of Health and Sports
MOE	Ministry of Education
MOEE	Ministry of Electricity and Energy
PMI	Purchasing Managers' Index
SAR	special administrative region
SEEs	State Economic Enterprises
US GSP	United States Generalized Scheme of Preferences
yoy	year-over-year

Executive Summary

Summary

Myanmar's economy is navigating significant uncertainty and risks at home and abroad. A year after violent upheaval in Rakhine State led to the forced displacement of over seven hundred thousand refugees[1] to Bangladesh, limited progress has been made in resolving fundamental issues relating to rights, repatriation and recovery. Global economic and trade prospects have also become more uncertain. Myanmar's economic growth is expected to slow from 6.8 percent in 2017/18 to 6.2 percent in 2018/19, which is still robust by regional and global standards. Macroeconomic volatility has intensified since the May 2018 Myanmar Economic Monitor, with inflation breaching two-year highs in August 2018, and the kyat depreciating by 18 percent against the U.S. dollar since April. Growth is projected to recover to 6.6 percent by 2020/21, helped by recent policy changes such as the adoption of the Myanmar Sustainable Development Plan, liberalization of wholesale and retail trade, implementation of the Myanmar Companies Law and large investments in infrastructure projects including those related to the Belt and Road Initiative. Risks to the outlook are tilted to the downside due to the possibility of a global slowdown in trade, domestic macroeconomic imbalances, and the loss of trade-related preferences to the European Union.

Recent Developments

The global economic environment has become less favorable. Global real GDP growth is projected to moderate from 3 percent in 2018 to 2.9 percent in 2019, as economic slack dissipates, major central banks continue to remove policy accommodation, and global trade and investment growth weaken further with global trade policy uncertainty. Crude oil prices have been rising and becoming more volatile, rising to the highest level in 4 years in late October before declining. Growth in East Asia and Pacific region has remained resilient, with the region growing at 6.4 percent in Q2-2018, marginally lower than in previous quarters but still in line with expectations.

Economic growth is expected to moderate to 6.2 percent in 2018/19 from 6.8 percent in 2017/18. Industrial growth is expected to moderate to 8.2 percent in 2018/19 from 9.4 percent in 2017/18, on the back of softening consumption, slowing investment including FDI, and rising production cost pressure from fuel price increases and the depreciation of the kyat. Services sector growth is expected to moderate to 7.6 percent in 2018/19 from 8.3 percent in 2017/18. A slowdown in the tourism and transport sectors is offsetting continued robust growth in telecommunications services and wholesale and retail trade. Despite seasonal floods and landslides, agriculture output is projected to grow at 1.2 percent in 2018/19 with strong external demand driving up paddy prices.

Macroeconomic volatility has intensified. The kyat depreciated significantly by 18 percent against the U.S. dollar from April through October, with increased volatility. Depreciation was triggered by global factors, such as the possibility of faster-than-anticipated monetary policy normalization in the US. The depreciation was accelerated by Myanmar specific factors such as the continued reliance on FDI flows for financing the current account deficit and a thin foreign exchange market that means that few and relatively small transactions can significantly move the exchange rate. Inflation is expected to accelerate from 5.5 percent in 2017/18 to 8.8 percent in 2018/19, driven by exchange rate pass-through and rising food prices.

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[1] https://reliefweb.int/sites/reliefweb.int/files/resources/iscg_situation_report_27_sept_2018.pdf

The current account deficit has improved, supported by rising garment exports but also a slowdown in growth of imports. The current account deficit declined from 5.5 percent of GDP (US$ 3.5 billion) in 2016/17 to 2.6 percent of GDP (US$ 1.7 billion) in 2017/18 and is projected to narrow further in 2018/19. The trade deficit narrowed from 8.5 percent of GDP in 2016/17 to 5.7 percent of GDP in 2017/18, driven by rapid increase in exports from 16.8 percent of GDP to 20.2 percent of GDP, driven by rapid growth of garment exports. Imports increased marginally in the same period, with investment goods imports declining by 6 percent in 2017/18 due to declining industrial investment and moderation in construction activity, while the value of imports of petroleum products increased by 43 percent in 2017/18 due to higher fuel prices. Lower profit repatriation and higher (recorded) workers' remittances also helped narrow the current account deficit.

While FDI flows increased from 2016/17 to 2017/18, new FDI commitments[2] declined in 2017/18 and in the first half of this year. FDI commitments declined by 14 percent in 2017/18 compared to 2016/17, and by over 50 percent in the first half of 2018/19 as compared to the same period in 2017/18. These trends indicate that FDI flows may start declining in 2018/19. However, extrapolating from FDI approvals to FDI flows is challenging, as both commitments and flows tend to be lumpy and FDI may be committed outside of the regular approvals process. It is therefore too early to conclude that FDI commitments are in sustained decline. Nonetheless, investors and observers believe that the recent slowdown in commitments may reflect uncertainty in the investment climate related to the Rakhine crisis and weak reform momentum. Close monitoring of FDI commitments and flows going forward will ascertain whether investor confidence has been shaken significantly.

Fiscal deficits remain prudent, but below target reflecting challenges in budget execution. The actual budget deficit in 2017/18 was 2.7 percent, significantly below the 5.8 percent budgeted during the year. This reflects continuing challenges in budget execution, with underspending especially on capital projects. The budget deficit is increasingly financed by Treasury bills and bonds, with direct Central Bank financing reduced to below 19 percent in 2017/18, against a target of 20 percent by 2019/20 and zero by 2021/22, which supports the goal of limiting the growth of monetary aggregates. The approved 2018/19 budget projects an increase in the deficit to 6.0 of gross domestic product (GDP), but, as in 2017/18, ambitious plans may be limited by spending capacity, with actual deficits projected by the World Bank to be lower at around 4 percent of GDP.

Economic outlook and risks

The medium-term macroeconomic outlook projects a recovery to 6.6 percent by 2020/21. This is driven by an expected pickup in foreign and domestic investment responding to recent policy measures such as the opening of retail and wholesale sectors, services sector liberalization, loosening restrictions on foreign bank lending and continued implementation of the companies act. Construction activity is also expected to accelerate in response to a pickup in Belt and Road Initiative-related project activities. The government will likely increase spending, with an increase in the fiscal deficit from 2.7 percent of GDP in 2017/18 to 4 to 4.5 percent by 2020/21, in the lead-up to elections in 2020. In the baseline scenario, export growth will accelerate in response to a temporary boost to competitiveness from kyat devaluation.

Risks to the outlook are tilted to the downside from global and domestic sources. Global and regional growth, and trade flows, are at risk of slowing further amidst rising policy uncertainty and geopolitical tensions. Regional currencies, including the kyat, may come under further pressure triggered by faster-than-expected monetary policy normalization in advanced economies. These global risks interact with high domestic risks. The indirect economic impacts of the crisis in Rakhine State may intensify, with further slowdown in tourism revenues, which still account for 2.7 percent of GDP in direct revenues in addition to significant indirect

[2] Measured by FDI approved by the Directorate of Investment and Company Administration

economic benefits. Exports face a downside risk from the possible revocation of benefits under the Generalized System of Preferences (GSP) by the European Union (EU). This may particularly impact garment exports, which accounted for a quarter of overall export growth in Myanmar in the last year. Slowing growth may exacerbate rising macroeconomic imbalances, especially on external balances, with growing pressure on the kyat, which may increase inflationary pressures.

Special Topic 1: Short Term Revenue Mobilization

Revenue to GDP has declined from 20.3 percent of GDP in 2013/14 to 16.5 percent of GDP in 2017/18, even as spending needs are rising. Significant progress has been made in modernizing tax administration and the tax policy framework. Nevertheless, Union revenues have stagnated at 10 to 10.5 percent of GDP, driven by tax base erosion, with income tax as a share of GDP among the lowest in the world. The main sources of base erosion are: (i) commercial and specific goods tax exemptions; and (ii) corporate income tax incentives that are not targeted, not subject to cost-benefit analysis and administered in a fragmented manner. Corporate income tax incentives for large taxpayers alone could be costing Myanmar 1 to 1.5 percent of GDP in revenue.

Revenues from State Economic Enterprises (SEE), which constitute the remaining part of public sector revenues, have declined from 10 percent of GDP in 2013/14 to 6.4 percent of GDP in 2017/18. SEE revenue decline is driven by declining profitability from lower natural gas prices, inefficient production, and exposure to market competition.

Extractives sector revenues accounted for close to 20 percent of total revenues in 2017/18, or about 3.2 percent of GDP, with oil and gas revenues accounting for close to 2.4 percent of GDP in 2017/18. Sector revenue collection is likely to be suboptimal, as highlighted in the Myanmar EITI reports, and the sector presents a short-term revenue mobilization opportunity, but this requires clarification of roles and responsibilities for revenue collection, and more effective coordination between the Internal Revenue Department and resource SEEs.

The Myanmar Economic Monitor (MEM) identifies four revenue mobilization options that could help Myanmar raise 2 to 3 percent of GDP in revenues by 2020/21. These are (a) rationalizing tax incentives by targeting high social return sectors and conducting cost-benefit analysis, (b) reducing tax exemptions for the commercial tax and the specific goods tax, (b) investing in compliance and audit of non-self-assessed returns, and (d) standardizing rules regarding retention of revenues by SEEs, in particular natural resource SEEs, in other accounts.

Special Topic 2: Investing in Human Capital

Myanmar scored 0.47 on the World Bank's Human Capital Index, implying that a girl born today will only be half as productive as she could have been had she enjoyed full education and health. Myanmar's score is close to 20 percent lower than the average for the East Asia and Pacific region. Low public spending on health and education has contributed to weak outcomes, in addition to other service delivery challenges in these sectors. Nominal spending by the Ministry of Education and the Ministry of Health has increased from 2013/14 to 2017/18.

As a share of GDP, spending by the Ministry of Education has stagnated at 1.7 percent of GDP and spending by the Ministry of Health expenditure has declined to 0.8 percent of GDP from 1.0 percent

of GDP. This reflects growing challenges with budget execution, with the Ministry of Health struggling to absorb and execute current expenditure, and the Ministry of Education facing challenges in executing the capital budget. Within the ministries, this is driven by weak financial management capacity, inefficient paper-based systems, and multiple reporting requirements. Rigidities in the overall budgeting system also play a role, with lack of established procedures for transferring spending across line items or financial accounts, and limited delegation.

Fixing budget execution will require a long-term, collaborative effort between the Ministry of Planning and Finance and the Ministries of Health and Education. This would involve improved in-year diagnostics of emerging spending challenges, move to more automated systems for expenditure data compilation, investing in financial management capacity, and removing rigidities by introducing more delegation and allowing in-year transfer of funds.

Recent economic developments

Economic growth

Easing global growth, and a less supportive global environment

1. **The global economic environment has become less favorable**. Global growth is moderating, as the recovery in trade and manufacturing activity loses steam (Figure 1 and Figure 2). Global real GDP growth is projected to moderate from 3 percent in 2018 to 2.9 percent in 2019, as economic slack dissipates, major central banks continue to remove policy accommodation, and global trade and investment growth weaken further with global trade policy uncertainty. Growth in advanced economies is projected to ease slightly from 2.2 percent in 2018 to 2 percent in 2019, and decelerate, reaching 1.6 percent in 2020, as capacity constraints become binding and monetary policy normalization continues. External conditions, which started to deteriorate in 2018, are expected to become even less supportive for emerging markets and developing economies (EMDEs). This reflects moderating advanced-economy growth, softening global trade and investment, tightening financing conditions, and rising trade tensions. EMDE growth, which stalled at an estimated 4.2 percent in 2018, as several countries suffered financial pressures, is expected to remain unchanged at 4.2 percent in 2019 and pick up 4.6 percent in 2020.

Figure 1: Global GDP growth (%)

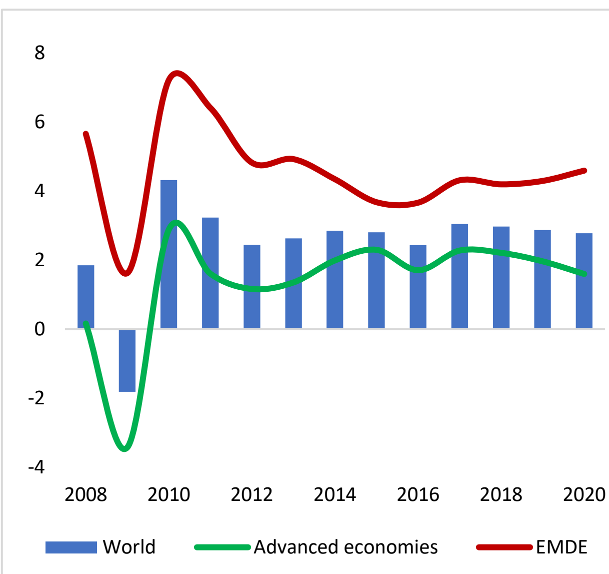
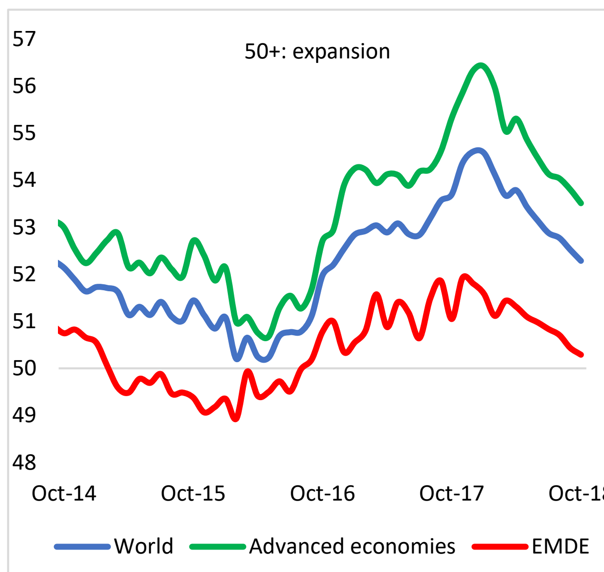


Figure 2: Manufacturing Purchasing Managers' Index (PMI)



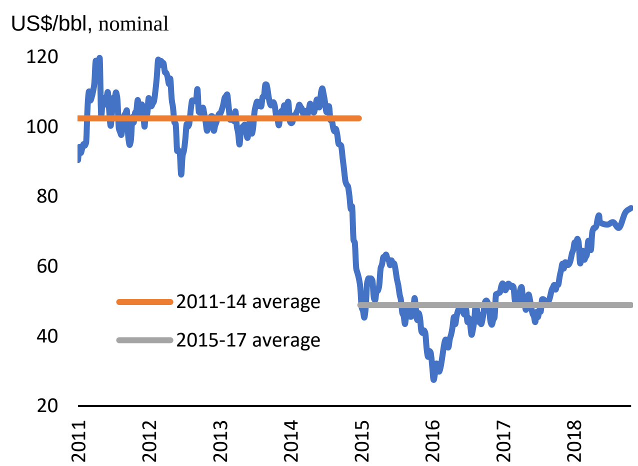
Source: World Bank

2. **Commodity prices are showing a divergent pattern, with energy prices rising and volatile, and other commodity prices declining.** Crude oil prices have risen to an average of US$ 75 per barrel in the third quarter of 2018 (Figure 3) but have since dropped with a sharp decline in prices since the end of October. Other commodity prices, especially copper and zinc, have declined in recent months amidst rising trade tensions.

3. **The appreciation of the U.S. dollar, intensifying trade tensions, and signs of weakening global growth have renewed concerns about emerging-market vulnerabilities and have contributed to significant depreciations and capital outflows in several EMDEs.** The strain on EMDE financial markets was most acutely felt in Turkey and Argentina. Meanwhile, other major EMDEs are exhibiting signs of increased risk aversion, especially those with relatively liquid financial markets and large current account deficits, or those that have been directly targeted by tariffs and sanctions. The renewed decline in industrial commodity prices has also negatively affected the currencies of commodity exporters.

4. **Growth remained resilient in developing East Asia and Pacific (EAP) during the first half of 2018.** The region grew at 6.4 percent in Q2-2018, and while the pace of growth was marginally lower than that observed in Q1-2018 (Figure 4), it was broadly in line with expectations. Growth was underpinned by strong domestic demand, especially among large regional economies, with consumer confidence remaining elevated across the ASEAN-5 economies, as strong labor demand and healthy wage growth supported consumption. Growth in China remained resilient in the first half of 2018 at 6.8 percent, underpinned by final consumption, which contributed 5.3 percentage points to GDP growth, while measures to support deleveraging cooled investment growth. This reflects ongoing efforts to rebalance the Chinese economy towards consumption and services.

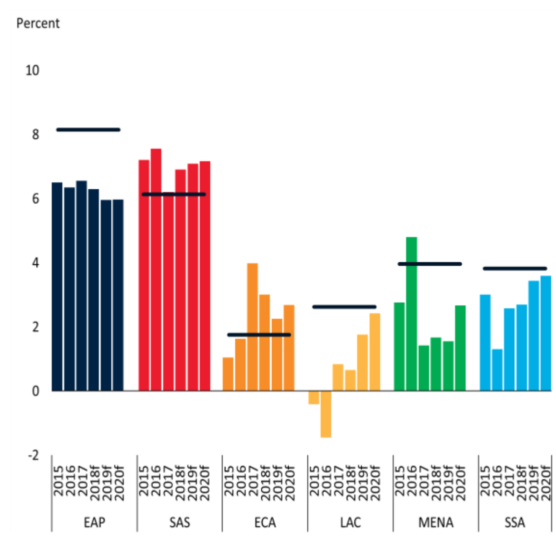
Figure 3: Crude oil prices are rising and volatile



Source: Global Economic Prospects, June 2018. Latest observation May 25, 2018.

Note: bbl = barrel.

Figure 4: Growth remains resilient in East Asia



Source: World Bank, East Asia and Pacific Economic Update, October 2018.

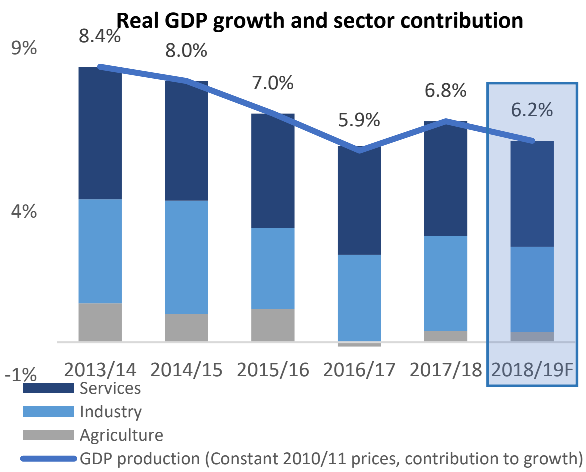
Note: EAP = East Asia and Pacific; SAS = South Asia; ECA = Europe and Central Asia; LAC = Latin America and Caribbean; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa.

Slowing growth amid headwinds from rising costs and moderating investments

5. **Economic growth in Myanmar is expected to moderate to 6.2 percent in 2018/19 from 6.8 percent in 2017/18 (Figure 5).** Industrial growth (32 percent of gross value added and 18 percent of employment) is expected to moderate to 8.2 percent in 2018/19 from 9.4 percent in 2017/18, on the back of softening consumption, slowing investment including FDI and rising production costs from fuel price increases and the depreciation of the kyat. Services sector growth (43 percent of gross value added and 33 percent of employment) is expected to moderate to 7.6 percent in 2018/19 from 8.3 percent in 2017/18. A

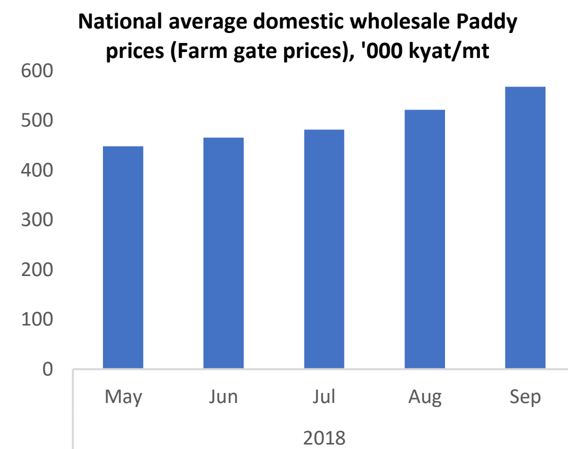
slowdown in the tourism and transport sectors is offsetting continued robust growth in telecommunications services and wholesale and retail trade. Despite seasonal floods and landslides, agriculture (25 percent of gross value added and 49 percent of employment) output growth is projected to be stable at 1.2 percent in 2018/19 compared to 1.3 percent in 2017/18, with strong external demand driving up paddy prices. The impacts of the Rakhine crisis on global perceptions of Myanmar are becoming evident, particularly in the tourism sector (Box 2). The economic impact of the crisis could intensify further if the Generalized System of Preferences (GSP) for Myanmar exports into the EU market are withdrawn (Box 3).

Figure 5: Real GDP growth is expected to decline



Sources: MOPF; WB staff estimates

Figure 6: The farmgate price of rice has picked up



Source: Ministry of Commerce

Note: mt = metric ton.

Stable agricultural growth, despite seasonal flooding and landslides

6. **The agriculture sector is estimated to grow at 1.2 percent in 2018/19 compared to 1.3 percent in 2017/18.** Crop production, which constitutes 69 percent of value added in the agriculture sector, grew at 0.1 percent in 2017/18 and is expected to grow at the same rate in 2018/19 supported by paddy and other grains. Paddy output is estimated to increase by 3 percent from 29.5 million tons in 2017/18 to 30.4 million tons,[3] as more than 6.47 million hectares of rice crop paddy were planted from January to June 2018, a higher sown area than the previous year. Paddy output growth has been supported by rising external demand for rice, especially from the EU due to competitive pricing vis-à-vis rice from competitors such as Cambodia, and by rising farmgate prices (Figure 6). However, rice exports to the EU are subject to uncertainty, linked to the possible revocation of GSP benefits for Myanmar exports. Maize output is estimated to remain at the same level as 2017/18, at 1.9 million tons, in response to stable demand from China and the domestic market.[4] Beans and pulses output and value added are anticipated to decline in 2018/19 as the sector is suffering from sustained import restrictions, most recently a quota, imposed by India in 2017/18 that has stifled external demand.

7. **Crop production may be impacted by seasonal flooding that occurred in July 2018.** Monsoon seasonal floods triggered by heavy rains affected several states and regions in Myanmar in July 2018. Close to

[3] US Department of Agriculture estimates
[4] US Department of Agriculture estimates

268,000 people were displaced, although the majority are now able to return home[5]. Floods may already have had an impact on paddy output, with wet season paddy acreage falling 3 percent short of the targeted area due to adverse weather conditions, and flooding in 10 of the 14 states and regions.

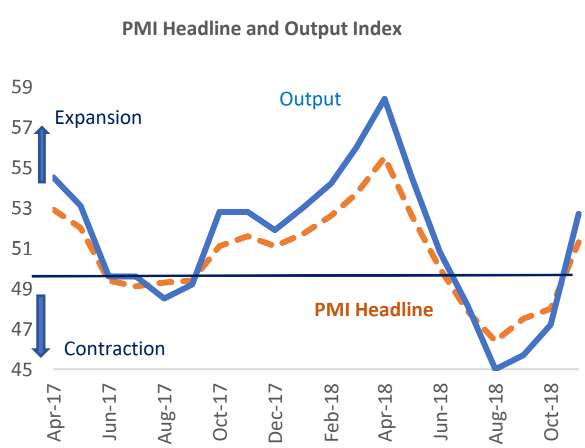
Industrial output impacted by rising costs and slowing demand

8. **The industrial sector is estimated to grow at 8.2 percent in 2018/19 down from 9.4 percent in 2017/18.** Manufacturing activity, which constitutes 75 percent of the industrial sector, is estimated to grow at 8.2 percent in 2018/19, down 2 percentage points from 2017/18, driven by declining investments and rising cost pressures from a depreciating kyat.

9. **The headline manufacturing Purchasing Managers' Index (PMI) indicated a contraction in the sector from July to October 2018, before recovering in November 2018.** The headline manufacturing PMI is a monthly composite index that measures the economic health (output, employment, output and input prices) of the manufacturing sector, based on monthly surveys with selected businesses. A score of 50 or below indicates a month on month contraction, while a score above 50 indicates a month on month expansion. The headline PMI fell below 50 in June 2018 and stayed in contractionary territory until October 2018, before recovering in November 2018 (Figure 7). Driven by weaker client demand, reduced investment and higher raw material cost, the PMI output index, which measures monthly changes in manufacturing output, also indicated contraction from July to October 2018 before recovering in November 2018.

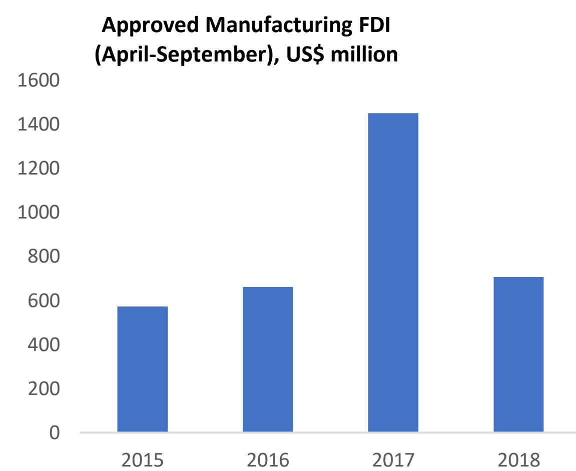
10. **The PMI results are reinforced by the regular Survey of Economic Conditions (SEC) conducted by the World Bank, which shows a slowdown in business activity and a decline in business sentiment** (see Box 1). Firms cite declining demand as a pressing factor in driving down business activity, indicating a moderation in aggregate consumption growth as household purchasing power was impacted by rising food and non-food inflation (see section on Inflation).

Figure 7: The PMI Headline Index indicated contraction from July to October 2018, before recovering in November 2018



Sources: IHS Markit and Nikkei

Figure 8: Approved FDI dropped in manufacturing



Source: Directorate of Investment and Company Administration

[5] https://reliefweb.int/sites/reliefweb.int/files/resources/OCHApercent20Myanmarpercent20Humanitarianpercent20Briefpercent20-percent20Septemberpercent202018.pdf

11. **Manufacturing investment, which grew by 65 percent in 2017/18, is expected to grow at a slower pace in 2018/19.** The sector is reliant on FDI and FDI commitments in the sector dropped by 50 percent (from US$ 1.4 billion to US$ 0.7 billion) back to 2016 levels, in the first half of 2018 compared to the same period last year (Figure 8).

Box 1: Results of periodic World Bank Myanmar Survey of Economic Conditions

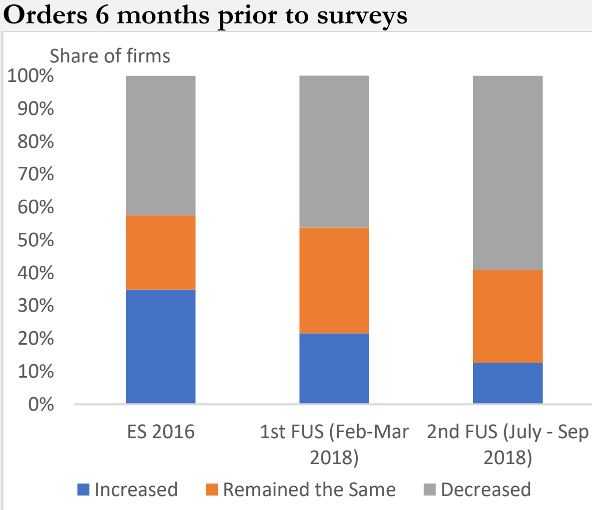
As part of the MEM, the World Bank conducts surveys of economic conditions in the manufacturing and services sectors. They follow-up on the Enterprise Survey of 2016, where 607 firms were interviewed on various constraints on their business. The first follow-up survey was conducted in February--March 2018 and the second one in July--September 2018, with 539 firms successfully re-interviewed.

The latest survey shows a slowdown in business activity and more pessimistic expectations about the future. Availability of skilled workers, identified as one of the most pressing problems in the 2016 Enterprise Survey (ES 2016), seem to be constraining firms even now and with greater intensity.

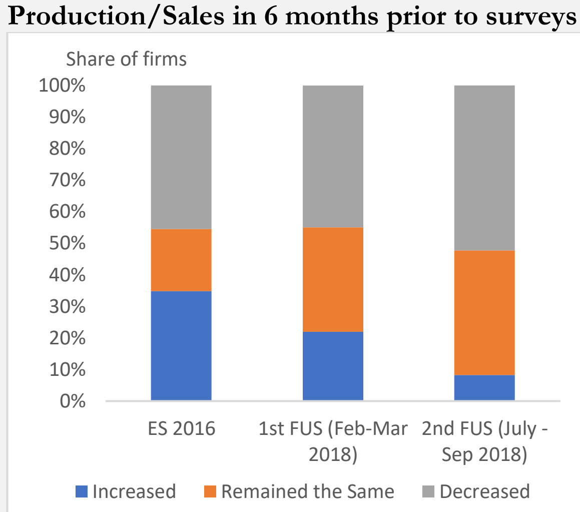
More firms experienced a decrease in business activity than an increase, with small and medium sized firms disproportionately impacted. Fewer firms report an increase than a decrease in production/sales and orders over the last six months (Figure 9), and few firms reported an increase in inventory levels and employment. Production or sales increased for only 8 percent of the firms and decreased for 52 percent. A higher proportion of small (53 percent) and medium-sized (55 percent) firms, compared to large firms (31 percent), witnessed a decrease in orders, sales, employment and inventories. The slowdown in sales is broad-based across all manufacturing and services firms, but firms in the retail and wholesale sector have been especially impacted—only 5 percent of firms in this sector had an increase in sales compared to 8 percent for all firms, and 62 percent had a decrease in sales and production compared to 52 percent for all firms.

Figure 9: Myanmar experienced a slowdown in business activity

Orders 6 months prior to surveys



Production/Sales in 6 months prior to surveys

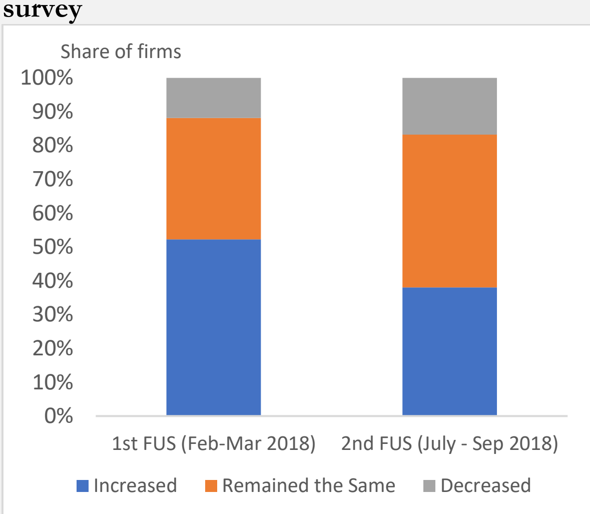


Source: Enterprise Surveys (2016, 2018).
Note: FUS = Follow Up Survey

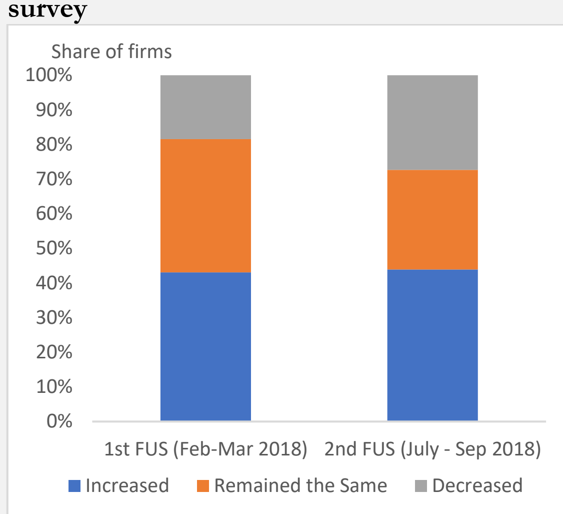
While still positive, fewer firms in Myanmar are optimistic about the future than six months ago. Thirty-eight percent of firms expect sales to increase in the next 12 months (figure 10) compared to 52 percent in the first survey. Small and medium-sized firms are less optimistic than large firms. By industry, firms in other service industries are most optimistic about sales (46 percent expect an increase), followed by manufacturing (26 percent), hotels and restaurants (19 percent), and retail and wholesale (8 percent).

Figure 10: Fewer firms are optimistic now about the future than previously

Expected sales in 12 months following the survey



Expected exports in 12 months following the survey



Source: Enterprise Surveys (2018).
Note: FUS = Follow Up Survey

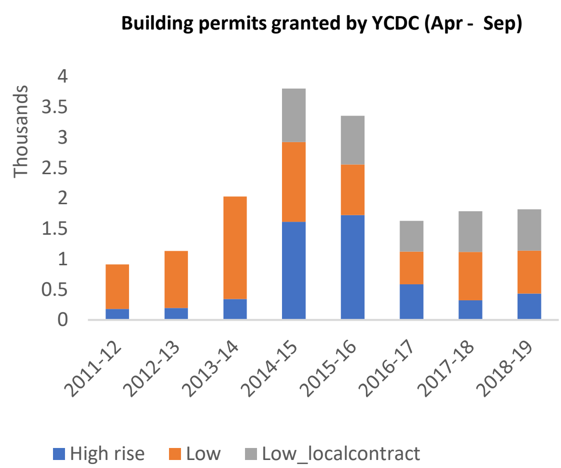
12. **The garment sector has emerged as a bright spot in manufacturing, but it may be impacted by possible removal of the Generalized System of Preferences (GSP) by the European Union.** The garment industry accounts for almost 3 percent of GDP and has created nearly 730,000 jobs of which over 83 percent are held by women. Garment sector growth has been supported by the benefits under the EU and the U.S. Generalized Scheme of Preferences (GSP) since 2013. During the first four months of 2018/19, the Cut-Make-Pack garment sector earned over US$1.4 billion, over twice the production revenues compared to the same period last year, with growth in exports to the EU, the Republic of Korea, and Japan. However, possible partial or complete revocation of the GSP is likely to have a significant dampening effect on investment in and growth of the sector (box 3).

13. **Construction sector growth is expected to moderate to 5 percent in 2018/19 compared to 6.1 percent in 2017/18.** The number of approved construction projects in Yangon where a large share of construction activity happens, grew more slowly in 2017/18 and remains well below the 2014/15 peak (Figure 11). Construction activities are under pressure from rising costs of inputs, especially fuel, driven by the depreciation of the kyat (Figure 12). Demand for office space[6] and residential space[7] has been cooling

[6] http://www.colliers.com/-/media/files/marketresearch/apac/myanmar/colliers_myanmar_yangon_office_3q2018.pdf
[7] http://www.colliers.com/-/media/files/marketresearch/apac/myanmar/q2_2018/colliers_myanmar_condominium_quarterly_report_q2_2018.pdf

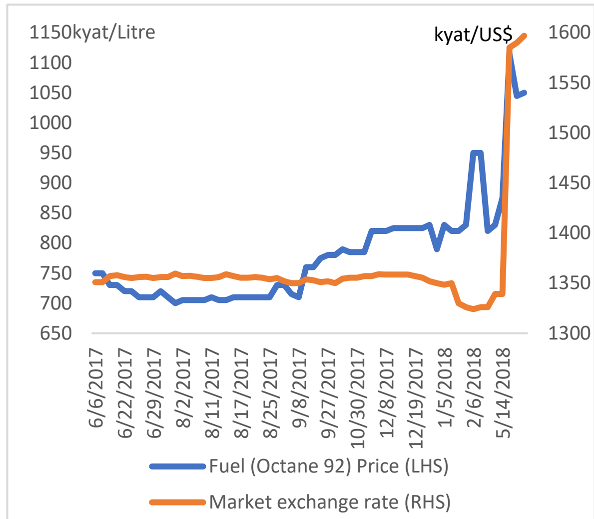
compared to the same period last year and there are concerns of supply disruption associated with construction delays. In addition, growth in domestic banking sector credit to the construction sector slowed to 0.3 percent (y/y) in Q1-2018/19, down from 4.5 percent during 2017/18. The sector is an important source of income for urban workers. As the sector accounts for close to 6 percent of total employment (9 percent of the total urban employed population), a slowdown in this sector will affect the time worked and income of the poor, affecting the pace of poverty reduction.

Figure 11: Approved number of construction projects remains below 2014/15 levels..



Source: Yangon City Development Committee

Figure 12:..as the sector has been hit by sharp increase in fuel prices, with exchange rate passthrough.



Source: Ministry of Commerce and Wahkema exchange

Services remain the main driver of growth, but performance has been mixed across sub-sectors

14. **Services sector growth is expected to moderate slightly to 7.6 percent in 2018/19 from 8.3 percent in 2017/18.** The moderation masks differing trends across sub-sectors. Robust growth is occurring in telecommunications services (5.1 percent of GDP in 2017/18) with continued expansion in network infrastructure and services. Domestic trade activities (19 percent of GDP in 2017/18) are expected to grow in line with previous year, supported by the opening of the retail and wholesale sector to full foreign ownership but held back by slight moderation in consumption. However, rental and transport activities (accounting for 16 percent of GDP) are slowing, brought about by a decline in tourism and rising costs due to fuel price increases and exchange rate passthrough.

15. **The telecommunications industries have been performing well, with continued expansion in network infrastructure and services.** Telecommunications-related investments increased in line with fast-growing consumption, contributing to declining costs and rapidly increasing access. Double-digit growth is anticipated in 2018/19, reflecting intensifying efforts on expanding 4G and broadband services. Myanmar is quickly catching up with its regional peers in terms of the Mobile SIM card, which is estimated to reach 100 percent penetration in 2018, and 4G penetration, which has risen rapidly since being introduced in 2016 to reach 38 percent in 2018.[8].

[8] *Source*: Detecon

16. **Tourism is going through troubled times in Myanmar, impacted by the Rakhine crisis, which has slowed the growth of rental and transport activities.** High-end tourism declined significantly in the first half of 2018, with a 50 percent decline in the number of tourists from the United States and Europe. Earnings from hotels, restaurants, and transport activities, which contribute 16 percent of GDP, are expected to decline year-on-year in 2018/19 as a result.

Box 2: Myanmar's tourism sector is going through troubled times

Tourism is important for the Myanmar economy in terms of its contribution to GDP and employment. According to the World Travel and Tourism Council (WTTC 2018), tourism directly contributed 2.7 percent of GDP and accounted for nearly 600,000 jobs, or 2.5 percent of employment. The indirect economic impacts of tourism are larger but are difficult to quantify. Myanmar's tourism sector contribution to GDP and employment remained below the ASEAN[a] averages as of 2017 (WTTC 2018).

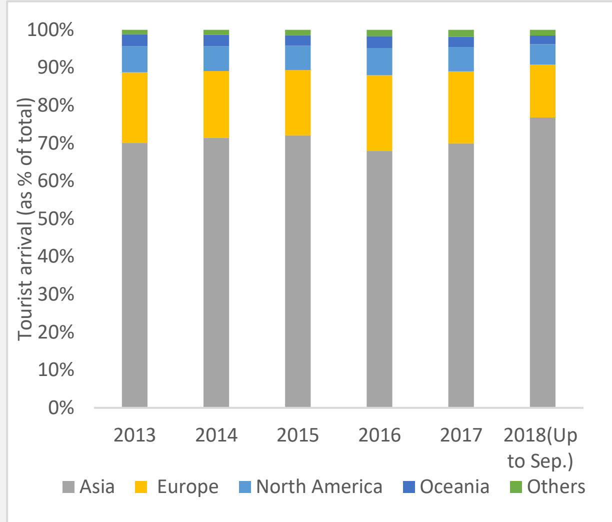
The sector has experienced slowing growth of tourist arrivals from 7.1 percent in 2017 to 0.7 percent year to date in 2018 (Figure 13). In the period up to September 2018, tourist arrivals from non-Asian regions declined: a 25 percent decline from Europe; a 15 percent decline from North America; a 15 percent decline from Oceana; and a 17 percent decline from other regions such as Africa, South America, and the Middle East. The number of tourists from Asia has increased by 10 percent, but this has been insufficient to reverse the slowdown in overall tourist growth. The share of tourists from Asia to Myanmar has increased to 79 percent in 2018 from 70 percent in 2017 (figure 14). The numbers reflect reports of cancellation of bookings and tours, especially by western tourists[b] in late 2017, after violence in Rakhine State was reported worldwide.

In contrast, Myanmar's neighbors have enjoyed a pick-up in the growth of tourist arrivals in the last year. Tourist arrivals have increased significantly in Vietnam (27 percent yoy growth), Thailand (12.5 percent yoy growth) and Cambodia (12.7 percent yoy growth). In contrast, Myanmar tourist arrivals have grown at only 0.7 percent in the same period. Cambodia (3 million tourists), Thailand (19.5 million tourists), Vietnam (7.9 million tourists) attracted significantly more tourists than Myanmar (0.6 million tourists) from January to June 2018. Increasing tourist arrivals in the region offers an opportunity for Myanmar to emerge as a tourist destination.

Figure 13: Growth in tourist arrivals to Myanmar has slowed..

Sources: Ministry of Hotels and Tourism; WB staff estimates

Figure 14:..with a decline in tourists from Europe and North America, compensated for by rise in tourists from Asia.



Sources: Ministry of Hotels and Tourism; WB staff estimates

The sector has also been impacted by declining average spending per tourist, which is driving down tourism related revenues. Total tourist expenditure declined by 10 percent in 2017, despite the 0.7 percent increase in the number of arrivals (see Figure 15). A possible contributing factor is a shortened average length of stay per tourist (see Figure 16), which also indicates that tourists may not be visiting secondary destinations beyond five or six established destinations, driven in part by infrastructure constraints[c]. Many visitors recorded as tourists are also thought to be day-trippers or short-stay tourists crossing the land border with Thailand. Another factor is a decline in prices of tourism services. Accommodations likely constitutes the major share of tourist spending in Myanmar[d] and accommodation prices have declined, with prices for hotel rooms in Yangon declining since 2016 due to increase in supply (especially high-end hotels)[e]. While data are scarce, tourism-related revenues are expected to decline further in 2018, with slowing growth of arrivals and no improvement anticipated in average spending per tourist.

Figure 15: Tourist expenditure has declined even as number of tourist arrivals has increased

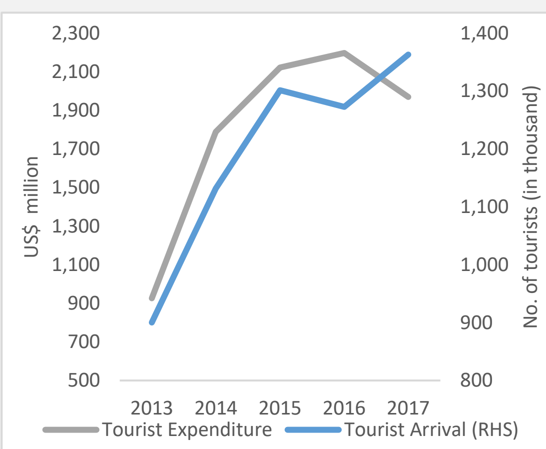
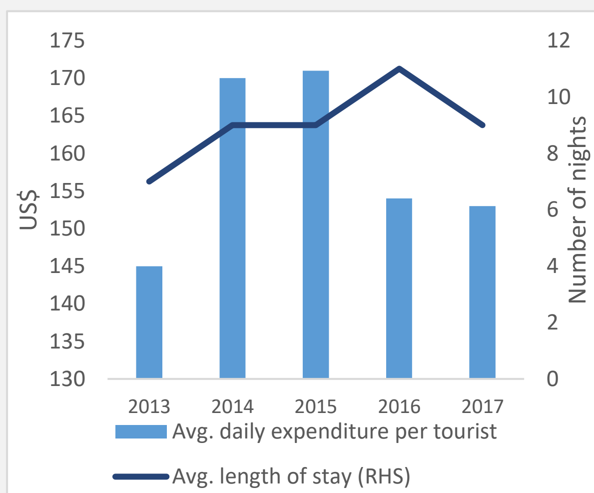


Figure 16: Average daily expenditure by tourists has declined



Sources: Ministry of Hotels and Tourism; WB staff estimates *Note:* RHS = Right Hand Side	*Sources:* Ministry of Hotels and Tourism; WB staff estimates *Note:* RHS = Right Hand Side

To respond to declining growth in tourist arrivals, the Government of Myanmar has removed visa requirements for tourists from several Asian countries. The government has removed visa requirements for tourists from China; Hong Kong SAR, China; Macao SAR, China; the Republic of Korea; and Japan effective October 1, 2018.

While the policy may boost tourism-related revenues, significant challenges remain. This policy does not impact the slowdown of arrivals of tourists from other regions, who tend to spend more, and does not impact the average length of stay. Other policy responses suggested by market participants include, in the short term, easier currency exchange access for tourists from Japan, Korea, and China, and, in the longer term, investment in infrastructure and broadening of tourism destinations. In the long term, in addition to the Rakhine crisis, other significant challenges such as conflict in the North East, regulatory issues, constraints in both basic and tourism-related infrastructure, limited skilled labor in the sector, and lack of diversified destinations impede Myanmar's tourism potential and its contribution to the economy.

Note: a. The ASEAN average overall contribution of tourism is 12 percent of GDP and 11.8 percent of employment. b.See https://www.irrawaddy.com/news/burma/tourists-shun-myanmar-wake-rakhine-crisis.html; http://www.atimes.com/article/rakhine-crisis-takes-shine-off-myanmar-tourism; https://www.mmtimes.com/news/local-tourism-feeling-impact-fewer-western-tourists.html; c. According to CBI (2018), tour companies identified six flagship destinations in Myanmar: Bagan, Inle Lake, Kyaikhtiyo, Mandalay, Ngapali Beach, and Yangon. d. There are no nationally representative data on the composition of tourist expenditure in Myanmar. However, a survey conducted by the International Tourism Council in Kayah State highlights that accommodations accounted for close to 59 percent of expenditure, followed by meals (19 percent), transportation (14 percent), souvenirs (5 percent), and guides and excursion (1 percent). e. https://oxfordbusinessgroup.com/analysis/accommodating-market-stock-high-end-hotels-increases-room-rates-are-witnessing-decline.

17. **Growth in the transportation sector is expected to slow in 2018/19 compared to 2017/18.** In addition to the tourism-related slowdown, the sector will be adversely impacted by higher imported fuel costs due to kyat depreciation and higher global fuel prices. Between March and November 2018, gasoline prices at the pump increased by 26 percent (figure 12). Air transport was most adversely impacted, as rising fuel and maintenance costs, weak supply infrastructure and slowing growth in tourist arrivals forced four domestic airlines to drop out of the market.

18. **Wholesale and retail service growth in 2018/19 is expected to be at par with 2017/18 with growth from possibly higher foreign investments offset by declining consumer confidence.** Consumer confidence seems to have slipped with rising consumer prices, with the Nielson Consumer Confidence Index declining in the early part of 2018/19. However, the sector is also likely to witness greater competition, more foreign investment and possibly improved efficiencies through the global supply chains, following the government decision in May 2018 to allow full foreign ownership for large-scale retail and wholesale services.

Moderating economic growth driven by consumption and investment weakness

19. **Private consumption is projected to moderate in 2018/19, driven by the reduced purchasing power of households due to rising inflation.** While official data on GDP by expenditure is more limited and lagged than production data, private consumption, which constitutes nearly 50 percent of GDP, is likely

to grow at a slower rate in 2018/19 compared to 2017/18. Private consumption growth is likely to be impacted by rising consumer price inflation, which is expected to accelerate to 8.8 percent (year-over-year) in 2018/19 up from 5.5 percent in 2017/18. Inflation reached 8.2 percent in August 2018, on the back on rising food and fuel prices, the highest rate in two years. Nevertheless, private consumption will continue to be supported by improved access to consumer durables and services, for instance, as behavioral shifts support more spending toward non-food items like telecommunications services and devices.

20. **Private investment is projected to moderate in 2018/19 amidst signs of deteriorating business sentiment and slowing investment goods imports.** As highlighted in the discussion on the industrial sector, growth in foreign and domestic investment is currently slowing. Slowing investment is also indicated by a decline in the imports of capital (investment) goods by 7 percent in the first half of 2018 as compared to the same period in the previous year. Business confidence about the future is declining driven by concerns about access to skilled labor, slowing demand, rising costs, continued uncertainty in the regulatory environment and overall concerns about weak reform momentum. This is also likely to reduce Myanmar's growth potential.

21. **Government spending is expected to increase, with the deficit projected to increase to 4.0 percent of GDP in 2018/19 from 2.7 percent of GDP in 2017/18.** This increase would be driven by an estimated increase of 1 to 2 percent of GDP in expenditures, driven by spending on energy and transport projects, providing a modest boost to growth.

Foreign trade, investment and exchange rate

22. **Myanmar's current account deficit declined from 5.5 percent of GDP (US$ 3.5 billion) in 2016/17 to 2.6 percent of GDP (US$ 1.7 billion) in 2017/18.** The trade deficit narrowed from 8.5 percent of GDP in 2016/17 to 5.7 percent of GDP in 2017/18, driven by rapid increase in exports from 16.8 percent of GDP to 20.2 percent of GDP, driven by rapid growth of garment exports. Imports increased marginally in the same period, with investment goods imports declining by 6 percent in 2017/18 due to declining industrial investment and moderation in construction activity, while imports of petroleum products increased by 43 percent in 2017/18 due to higher fuel prices. Lower profit repatriation and higher (recorded) workers' remittances also helped narrow the current account deficit.

23. **The current account deficit is projected to narrow further in 2018/19.** The trade deficit has continued narrowing in the first half of 2018/19, driven by robust growth in exports and stagnant imports, especially for investment goods imports. Garment sector exports have been driving export momentum, accounting for a quarter of export growth in Q1-2018/19 partially offsetting stagnant agricultural exports. Pulses and beans exports were hampered by import restrictions in India. Tourism, which is a significant source of export revenues, is experiencing a decline in export revenues associated with declining growth in arrival numbers and a shift in composition of visitors.

Table 1: The trade balance has been narrowing (share of GDP)

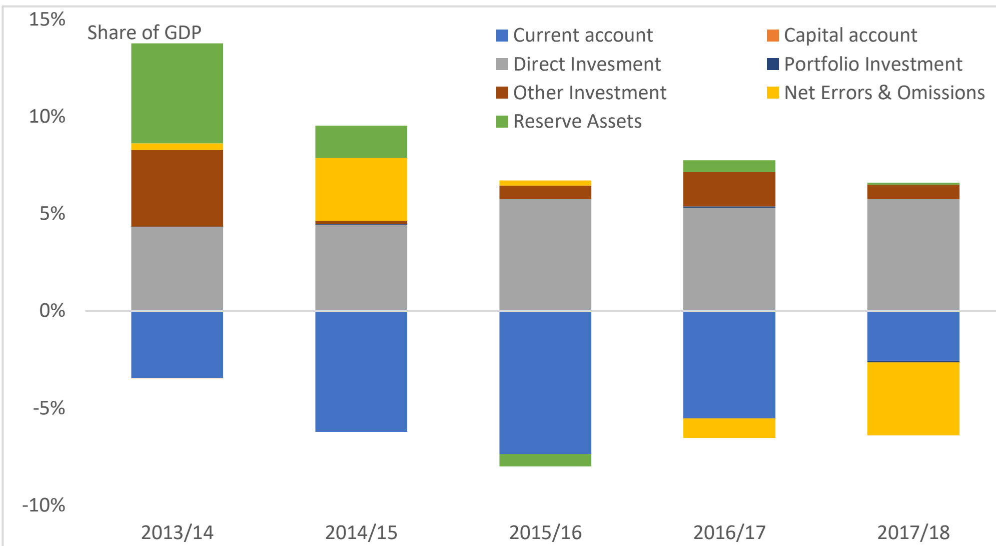
	2013/14	2014/15	2015/16	2016/17	2017/18
Current account	**-3.5%**	**-6.2%**	**-7.4%**	**-5.5%**	**-2.6%**
Trade balance	-3.6%	-6.2%	-9.0%	-8.5%	-5.7%
Exports	15.7%	18.6%	17.1%	16.8%	20.2%
Imports	19.3%	24.7%	26.1%	25.3%	26.0%
Services balance	0.9%	2.0%	1.8%	2.1%	1.9%
Primary income balance	-3.2%	-4.0%	-3.3%	-2.4%	-2.4%

Secondary income balance	2.3%	2.0%	3.1%	3.3%	3.7%

Sources: Ministry of Commerce for trade in goods; International Monetary Fund (International Financial Statistics) for other series for 2014/15 to 2017/18Q3; Central Bank of Myanmar for 2017/18Q4

24. **Myanmar relies on FDI flows to finance current account deficits (**Figure 17**).** FDI flows recorded in the balance of payments increased from US$ 3.5 billion in 2016/17 to US$ 4 billion in 2017/18. FDI inflows remain below the record inflows of 2015/16, but the share of equity has increased from 50 percent in 2015/16 to 75 percent in 2017/18. It should be noted that the Balance of Payments suffers from significant measurement challenges despite progress in data collection: informal remittances remain largely unrecorded, and informal trade remains large, but its magnitude is difficult to assess[9]. As a result, errors and omissions are significant and have increased in 2017/18 (Figure 18) to negative 4 percent of GDP. Potential causes include unrecorded imports, outflows due to profit repatriation, or outflows of capital.

Figure 17: FDI flows still finance a large share of the current account deficit



Sources: International Monetary Fund; Ministry of Commerce for trade balance.

25. **FDI flows may slow in 2018/19 as new FDI approvals have declined.** New FDI commitments approved by the Directorate of Investment and Company Administration fell by 14 percent in 2017/18 compared to 2016/17, and by more than 50 percent in the first half of 2018/19, from US$4.1 billion in the first half of 2017/18 to US$1.7 billion in the same period this year. It should be noted that extrapolating from FDI approvals to FDI flows is challenging, as both commitments and flows tend to be lumpy. Furthermore, FDI may be committed outside of the regular approvals process. For these reasons, it is too early to conclude that FDI commitments and flows are in sustained decline.

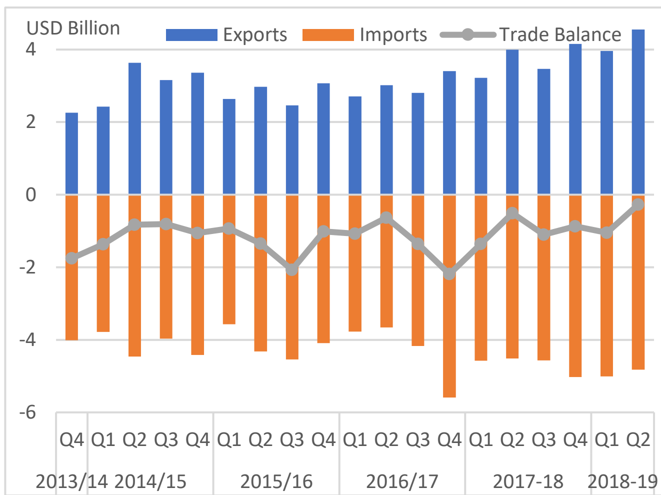
26. **The kyat depreciated by 18 percent against the U.S. dollar between April and November 2018, making it the most depreciated currency in the region.** The depreciation was initiated by global and regional triggers such as the faster-than-anticipated normalization of U.S. monetary policy and U.S. dollar appreciation against several regional currencies. As a result, the nominal effective exchange rate depreciated by around 8 percent between April and November. The real effective exchange rate, which accounts for the inflation differential between Myanmar and major trading partners, depreciated by 5 percent in the same period.

[9] The Myanmar Economic Monitor (Dec 2016) analyses informal trade in specific goods.

Trade deficits projected to narrow further in 2018/19

27. **Trade deficits have continued narrowing in the first half of 2018/19, reaching US$300 million in Q2-2018/2019, the lowest level in five years.** Exports continued growing robustly through September 2018 (figure 18), supported by higher garment, rice, and livestock exports and, in a baseline scenario, exports are projected to grow faster year-over-year in 2018/19. Garment exports accounted for a quarter of growth in exports in Q1-2018/19. In addition, formal jade exports to China were negotiated during the Jade Emporium in December 2017, with sales nearly doubling from US$220 million in December 2016 to US$400 million. In contrast, tourism underperformed. Imports grew more slowly during the same period. Investments goods imports slowed while fuel imports rose due to rising fuel prices. Since the trade balance is the main component of the current account, it is likely that the current account deficit in the first half of 2018/19 has also narrowed.

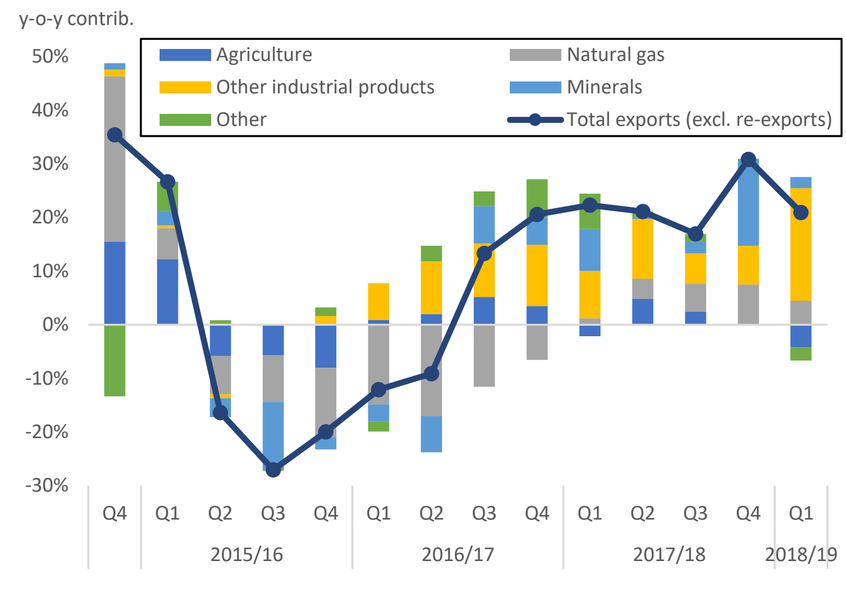
Figure 18: Exports have picked up, and imports have declined in recent months



Source: Ministry of Commerce

28. **Other industrial exports, particularly garments, accounted for a significant share of export growth in recent quarters (figure 19).** Garment exports, which account for more 75 percent of other industrial product exports, rose by 92 percent year-over-year in the first quarter of 2018/19. Garment exports accounted for 21 percentage points of the growth of exports in that quarter but may face potential hurdles if the GSP is removed.

Figure 19: Garment sector has driven export growth in recent quarters



Source: Ministry of Commerce

29. **With rising garment and rice exports, the EU has become Myanmar's fourth-largest export market.** In 2017/18, the EU accounted for 11 percent of Myanmar's exports compared to 7 percent in 2016/17. China remains Myanmar's main trading partner (40 percent of exports), followed by Thailand (20 percent) and Singapore (15 percent of exports), which is also a large source of FDI.

30. **Agricultural exports increased in 2017/18, but face headwinds in 2018/19 from import restrictions by trading partners.** Agricultural exports are important for Myanmar, accounting for 20 percent of total exports. Export prospects in the sector are mixed. Beans and pulses, which represent about 35 percent of agricultural exports and are mainly oriented toward the Indian market, saw volumes and prices severely decline in Q2-2018/19, due to trade restrictions imposed by the Indian government, citing a surplus of domestic production in India and declining prices there. Rice exports to the EU have compensated for the general decline in beans and pulses exports, mainly due to improved harvests, and now represent the largest share of agricultural exports at 35 percent. However, rice exports in 2018/19 may face challenges from the possible loss of trade preferences (see box 3), and continued uncertainty in the cross-border trade in rice with China.[10] The government lifted a ban on livestock exports (2 percent of total exports) in October 2017, which has led to a 20-fold increase in animal product export, which will likely continue in 2018/19.

[10] https://www.mmtimes.com/news/trade-myanmar-china-border-standstill-barter-system-urged.html.

Box 3:Impact of the Removal of the Generalized System of Preferences for Myanmar

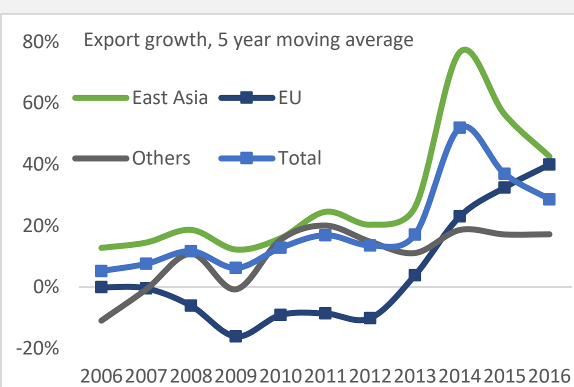
The potential removal of preferential access to the European Union (EU) market could have important ramifications for Myanmar. The EU market provides Myanmar the opportunity to diversify its export market, particularly for agriculture and labor-intensive products. Greater market access to the EU is also associated with a surge of FDI in the garment and footwear sectors which provide livelihoods to around 10 percent of employed workers in Myanmar. Removing preferential import tariffs would undermine the competitiveness of Myanmar exports, as the products will face stiffer competition from other countries that have more efficient production.

Since 2013, Myanmar has benefited from the maximum preferential access for merchandise exports to the EU market under the EU Generalized System of Preferences (GSP) program. The GSP is an administered program that provides zero import tariffs and quota-free access for products of least developed or developing countries. There are three degrees of trade preference and scope of products under the GSP, and Myanmar currently enjoys the most favorable option under the "Everything But Arms" (EBA) program. EBA covers all products except the export of weapons and munitions. To benefit from the EU program, importers need to show a certificate of origin that products are grown in, produced in, or mostly made of, materials originating from GSP beneficiary countries.

The EU has initiated a review on October 5 for a possible withdrawal of the "Everything but Arms" (EBA) program from Myanmar, which provides the preferential access under the GSP program. Under the EU GSP regulation, a withdrawal process can be triggered by serious and systematic violation of core principles in core human and labor rights, as set out by the United Nations and the International Labor Organization. The removal of GSP can also be triggered by unfair trade practices, gaps in customs control, trade-safeguard concerns, and graduation from least-developing country status. Responding to findings of the United Nations Fact-Finding Mission, which outlined violation of human rights in Rakhine[11], the European Union decided to investigate a possible withdrawal of GSP benefit for Myanmar.

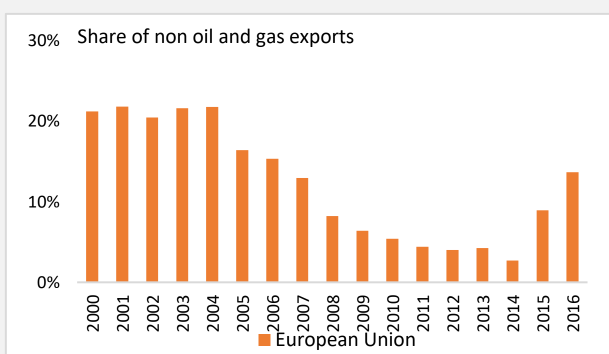
The EU EBA program has allowed Myanmar to gradually diversify markets. Myanmar's exports to the EU market grew rapidly after EBA preferences were granted (Figure 20). In 2016, about 86 percent of Myanmar export products to the EU were eligible for zero import duty under each country's GSP criteria.[a] Assuming that Myanmar exporters could fully use the GSP, export value under these programs reached US$1 billion or 12 percent of Myanmar's total exports of non-oil and gas products in 2016.[b] The EBA program is also associated with gradual progress in diversifying markets (Figure 21), with the share of Myanmar non-oil and gas exports to the EU increasing from 4.2 percent in 2013 to 13.3 percent in 2016.

Figure 20: Myanmar's non-oil and gas exports to the EU are growing...



Sources: UN-Comtrade, WB staff calculation

Figure 21:...gradually increasing the share of Myanmar exports to the EU.



Sources: UN-Comtrade, WB staff calculation
Note: Using mirror data

Access to the EU market is important for diversifying export products, particularly labor-intensive products and products with links to Myanmar's rural areas. Garments, footwear and related products accounted for 65 percent of Myanmar's total exports to the EU in 2016. In addition, the EU is the main export market for many of these products. In 2016, the EU market contributed 57 percent of Myanmar exports of suits and dresses (HS 6104), 55 percent of T-shirts (HS 6109), and 53 percent and jerseys (HS 6110). Footwear (HS 64) is another fast-growing export product that also benefited from the EU GSP. In agriculture, Myanmar has become an important supplier of rice and mung bean to the EU market. Myanmar official data suggested that Myanmar exported 400,000 tons of rice to the EU in 2017/2018, 300,000 tons of which was categorized as broken rice (HS 100640). The Myanmar Rice Federation highlights that exports to the EU represent 65 percent of total Myanmar rice exports, while EU data show that around 36 percent of the value of imported broken rice was from Myanmar.

Full or partial withdrawal of the GSP for Myanmar would lead to higher import tariffs, which would put Myanmar at a competitive disadvantage in the EU market. A full withdrawal of the GSP would imply that Myanmar products would be subject to most-favored nation rates, closer to the tariff schedule for other World Trade Organization members. Under this scenario, Myanmar garment exports to the EU would face a 12 percent tariff compared to the 9.6 percent preferential rate for India, Indonesia, and Vietnam. Although the nominal labor wage in Myanmar is lower than in these countries, it is likely that inadequate infrastructure, limited competent domestic suppliers, poor trade facilitation, and lack of trained workers supersede the wage advantage Myanmar offers. Furthermore, World Bank Enterprise Survey data highlight that average labor productivity in garment and footwear firms in Vietnam is three times higher than in Myanmar.

The competitive disadvantage created by a full or partial withdrawal of the GSP is likely to have a significant impact on FDI and employment prospects in labor-intensive sectors. Access to the GSP has been associated with rapidly growing FDI in manufacturing, particularly footwear and garments. In 2015, about 55 percent of registered garment firms in Myanmar were fully or partially owned by foreigners, with 42 percent of investments from China and Hong Kong SAR, China.[c] The garment and footwear sectors have also become an important source of livelihood for Myanmar workers. In 2015, 738,000 workers, or about 10 percent of employed workers in Myanmar, were estimated to work in those sectors,[d,e] of which an estimated nearly 83 percent are female.

Removing the EBA program could also have a negative impact on performance in other sectors. In addition to garments and footwear, fishery, furniture, rice, dried legumes (peas, mung beans), electronics parts, and wood products have also enjoyed significant growth in export value to the EU. Withdrawal of the EBA preference would reduce market access for those products from Myanmar. Lower export shipments to the EU could equally have a potentially negative impact on services along the logistics value chains, such as trucking, warehousing, and sea cargo services.

Note: a. An EU review on the Myanmar GSP in 2016 contains utilization rates. b. Based on 2016 mirror data, which includes Cost, Insurance and Freight (CIF). Actual figures on imports that used the GSP preference will be issued through an annual review by the EU. c. Gelb 2017. d. Hunyh 2016. e. According to Myanmar Living Conditions Survey, in 2015 there were 7.7 million workers categorized as "employees" of nongovernmental entities.

31. **Imports growth slowed over the second half of 2017/18, before rebounding in Q1-2018/19, with changes in composition.** Investment (capital) goods imports declined by 6 percent in 2017/18 over the previous year, including 10 percent in Q4-2018 compared to the same period in the previous year, reflecting

[11] https://www.ohchr.org/en/hrbodies/hrc/myanmarffm/pages/index.aspx

moderation in industrial and construction activity. The share of vehicles in total imports declined from 12 percent in 2016/17 to 6 percent in Q1-2018/19, as a response to policy actions, such as the ban on the import of right-hand-side vehicles from January 2018. Imports of petroleum products increased by 43 percent between 2017/18 and 2016/17, driven by higher fuel prices.

Foreign direct investment commitments declining, with limited diversification

32. **FDI commitments declined more than 50 percent year-over-year in the first half of 2018/19, which could lead to lower FDI flows in 2018/19.** It is important to distinguish between FDI flows and FDI commitments. FDI flows are linked to existing investments and past commitments. As a result, FDI commitments impact future flows with a time lag. FDI flows increased in 2017/18 compared to 2016/17, while FDI commitments, measured through approvals by the Directorate of Investment and Company Administration, declined by 14 percent in 2017/18 compared to 2016/17 (figure 22). FDI commitments continued declining in the first half of 2018/19 (April to September) to US$ 1.7 billion from US$4.1 billion in the first half of 2017/18 (figure 22). The lower commitments could result in lower FDI flows in 2018/19 compared to 2017/18. However, it should be noted that both FDI commitment and flows tend to be lumpy, so it is too early to conclude that FDI commitments are in sustained decline. Nonetheless, investors and observers believe that the recent slowdown in commitments may reflect uncertainty in the investment climate related to the Rakhine crisis and weak reform momentum. Close monitoring of FDI commitments and flows going forward will ascertain whether investor confidence has been shaken significantly.

Figure 22: New FDI approvals have been slowing..

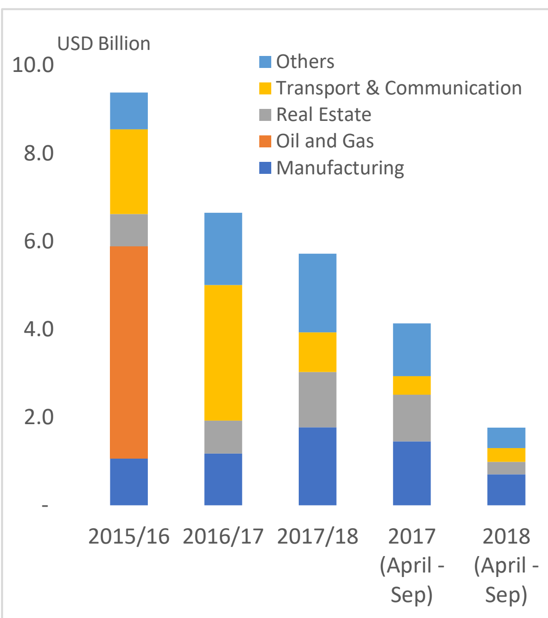
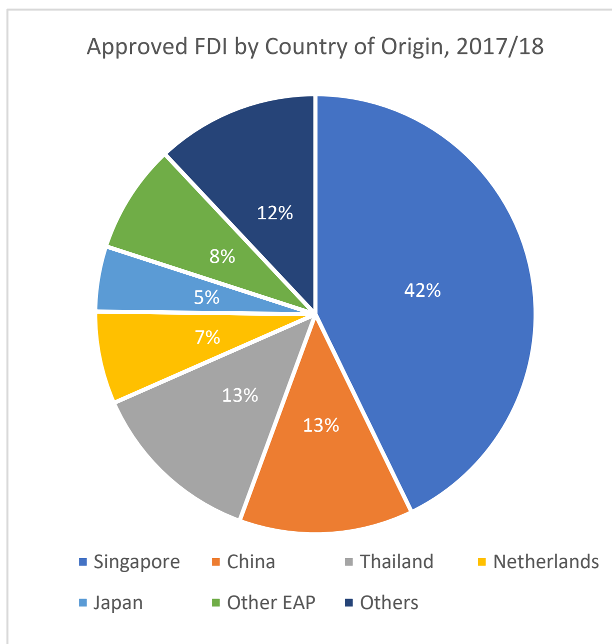


Figure 23:..with most approved FDI in 2017/18 coming from Singapore and China.



Source: DICA, ** 2018-19 Year to Date

33. **No new FDI has been approved in the oil and gas sector since 2015/16, even as production from existing gas fields is expected to decline in the medium term.** Investments in new exploration and production slowed over the last few years; no FDI has been approved in the sector since FY2015/16. While recent discoveries in deep offshore fields have been made, the path to their commercialization will require

policy certainty, and infrastructure investments. One of the main areas where reforms will be required is the fiscal regime for oil and gas exploration and production to incentivize private investment in higher cost and risk projects. Natural gas production from offshore fields is expected to plateau and decline sharply in the medium term; production is projected to decline by around 30 percent by 2024/25 and by 50 percent over the next 10 years without additional production from new fields.

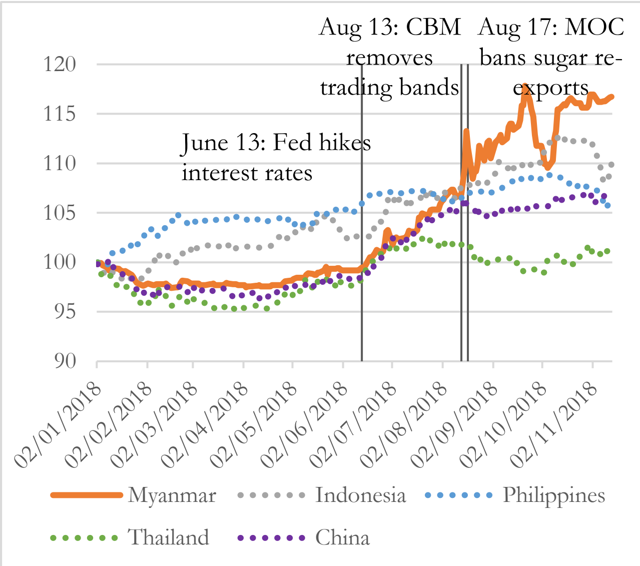
34. **Singapore, China and Thailand accounted for nearly 70 percent of FDI in Myanmar in 2017/18, with limited diversification of FDI sources (figure 23).** Singapore was the main source of investment in 2017/18 accounting for 43 percent of FDI, ahead of China (13 percent) and Thailand (13 percent). The progress on the China-Myanmar Economic Corridor under the Belt and Road Initiative may accelerate FDI from China into Myanmar in the next few years (see recent policy developments). Limited diversification of FDI sources has occurred in the past few years, except for FDI increase from Netherlands, with East Asian countries accounting for 80 percent of all investments in 2017/18 in line with trends in previous years (Figure 25).

Rapid depreciation of the kyat: global triggers magnified by Myanmar specific factors

35. **Global and regional events triggered the initial sharp depreciation of the kyat against the U.S. dollar in June 2018.** The U.S. Federal Reserve announced on June 13, 2018, that it would hike interest rates by 25 basis points, and in a policy statement pointed to a potentially faster pace of monetary policy normalization than markets expected. This triggered an appreciation of a number of regional currencies including the kyat (figure 26). Until mid-August 2018, the kyat depreciated in line with other regional currencies, and there was limited depreciation of the kyat against major trading partner currencies such as the Chinese renminbi, reflected in a stable nominal effective exchange rate.

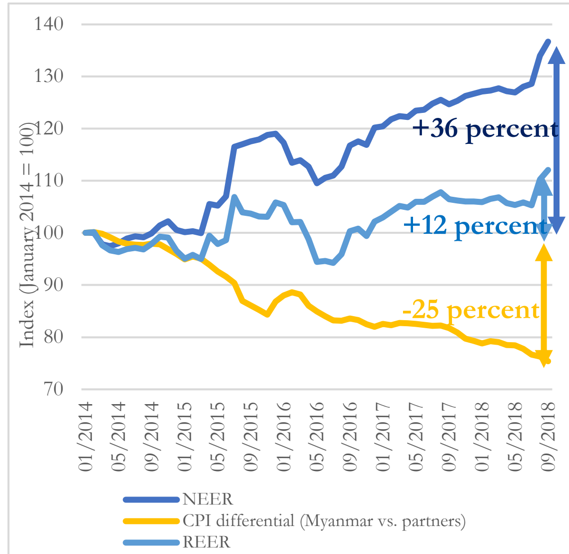
36. **The kyat depreciated faster than regional currencies since August 2018, before stabilizing in October.** The Central Bank of Myanmar (CBM) announced the removal of the +/- 0.8 percentage point trading band around the daily determined kyat to U.S. dollar reference rate on August 13, 2018. The kyat experienced increased volatility post the announcement in mid-August, before stabilizing in October (figure 24). On August 17, Ministry of Commerce suspended re-export activities towards China, which temporarily reversed the depreciation, but the exchange rate started again to depreciate in early September. A crackdown on informal currency trading in September also led to a sharp appreciation, but the exchange rate settled since October on levels around 1550 kyat to 1 US$.

Figure 24: Regional currencies have all depreciated against the U.S.dollar, but the kyat has depreciated more..



Source: *World Bank staff estimates*

Figure 25:…but depreciation has been more modest when seen in real effective terms.

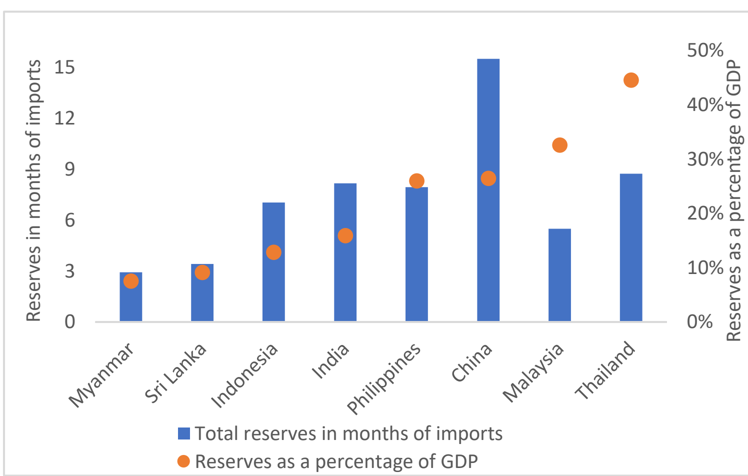


Source: World Bank staff estimates

Note: CPI = Consumer Price Index; NEER = nominal effective exchange rate; REER = real effective exchange rate.

37. **The rapid depreciation against the USD is more modest when considered in real effective terms considering the more rapid inflation in Myanmar.** The nominal depreciation of the kyat against the dollar is only part of the story. When considered against the major trading partners, the kyat has depreciated less against it's the currencies of its major trading partners – China, Thailand, Japan and Singapore. At the same time, inflation in Myanmar has been consistently higher than its neighbors eroding competitiveness. As a result, the real effective exchange rate (REER) has depreciated by only 12 percentage points since 2014, and only 7 percent since 2016 with the recent depreciation contributing a modest correction (figure 25).

Figure 26: Reserves levels are low compared to the rest of the region.



Source: International Monetary Fund

38. **Reliance on FDI to finance current account deficits are likely to have contributed to the kyat's depreciation.** The current account deficit widened considerably in 2015/16, and has since narrowed, but Myanmar remains vulnerable to reversals in investor sentiment. FDI flows are critical to finance trade deficits. Slowing FDI commitments in 2017/18 may have led to declining FDI flows in the first half of 2018/19 (FDI flows are only available with a six-month lag). Together with lower tourism inflows, this is likely to have contributed to currency pressures. Official foreign exchange reserves remain relatively low, which limit the ability to provide emergency foreign currency financing to banks. Foreign exchange "buffers" have not been built when investment flows were high. Reserves levels were at 7.5 percent of GDP in 2017/18 (figure 26), one of the lowest in the region, and below three months of import cover.

39. **The thin nature of the foreign currency market, in addition to possible speculation, may have also played a role in exacerbating kyat volatility.** Given the informal and thin nature of the kyat foreign exchange markets, a few high-value transactions for payment of suppliers or repatriation of profits by multinationals can have a large impact on the exchange rate. For example, border exports to China tend to be paid in renminbi, and the repatriation of sales revenues can take time, often channeled through Singapore. This may have created temporary imbalances in the availability of U.S. dollar in August and September, which, interacting with thin foreign exchange markets with widening spreads and low liquidity, may have had a large impact on the exchange rate. Currency speculation may have also played a role in enhancing currency volatility. Despite the closed financial account, which limits market-based speculative attacks, similar effects can result from short-selling techniques and manipulation of gold and currency markets, which are closely linked in Myanmar.[12]

40. **The government responded to currency pressures by removing trading bands around the Kyat and authorizing trading in dollar swaps to enhance interbank liquidity.** As noted, removing the bands around the Kyat increased volatility in the short term but is likely to have a positive impact in helping Myanmar respond to external sector imbalances in the future. The CBM authorized trading in dollar swaps with the objective of bolstering the formal interbank market and enhancing liquidity. This has not been as effective as hoped: U.S. dollars remain scarce, as CBM dollar auctions have been oversubscribed with a widening spread between the selling and buying rate, characteristic of an illiquid and volatile market (figure 32). The government did not respond to kyat depreciation by raising controlled interest rates or directly reducing the fiscal deficit. It should be noted that transmission channels for interest rate changes are weakened by thin financial markets.

41. **The short-term impact of the depreciation is likely to be contractionary although some sectors may benefit.** For the private sector, the depreciation has translated into rising costs of inputs, with passthrough of prices in key commodities (fuel, in particular). Depreciation has also contributed to rising inflation, hurting the purchasing power of households and dampening consumption growth. Positive effects of depreciation on exports are likely to be muted in the short term. In several export-oriented sectors, more economic agents are pricing domestic transactions in dollars in response to kyat volatility, which limits terms of trade gains from depreciation. In addition, tourism, which could have benefited from depreciation, is facing challenges from slowing tourist arrivals and declining revenues as a response to the Rakhine crisis. Some sectors may benefit from depreciation. Firms pricing in dollars with costs in Kyat (for example, hotels) are likely to benefit from higher margins and positive income effects. Garment sector exports may also benefit, with anecdotal evidence suggesting that real depreciation has led to improved price competitiveness, driving strong export performance in the first half of 2018/19.

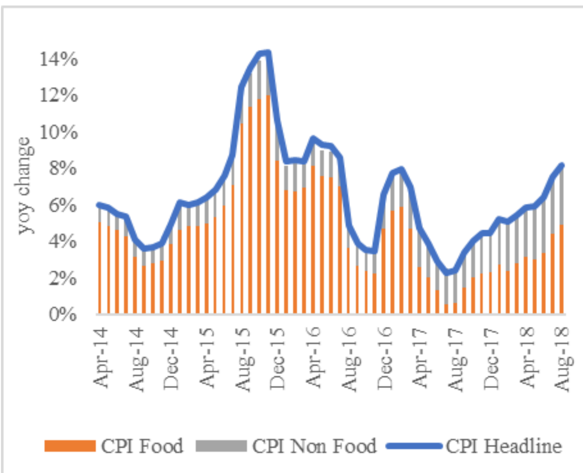
Inflation and the monetary sector

[12] https://frontiermyanmar.net/en/yangon-hustle-the-shadowy-trade-in-gold-and-dollars.

Rising inflation driven by food and fuel prices, reinforced by kyat depreciation

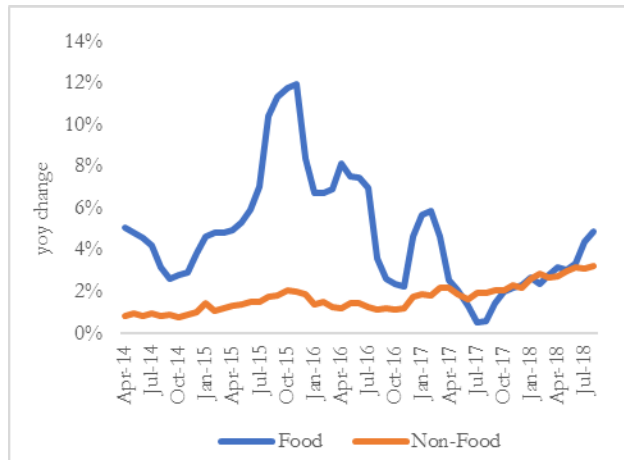
42. **Inflation rose to 8.2 percent (year-over-year) in August 2018, the highest level in two years** (figure 27). Inflation rose from 5.9 percent in April 2018, driven by higher food and beverage prices, which constitute almost 60 percent of the official Consumer Price Index (CPI) basket of goods and services (figure 28). Rice and cooking oil prices experienced sharp increases between April and August this year compared to the same period last year, by 11.4 percent and 10.1 percent, respectively, driven also by seasonal flooding and the impact of the depreciation of the kyat.

Figure 27: Inflation rose to its highest level in two years



Sources: CSO; World Bank staff estimates.
Note: yoy = year-over-year.

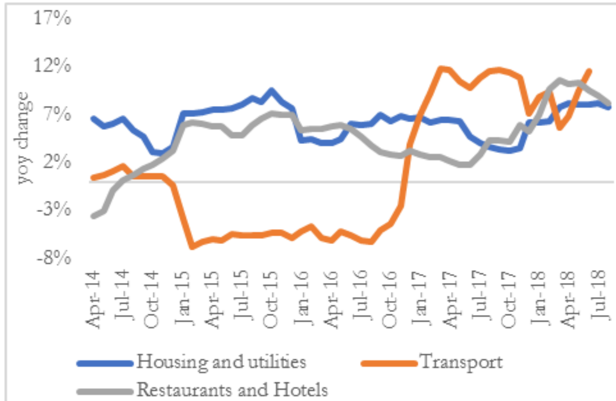
Figure 28:..driven by higher food and fuel prices



Sources: CSO; World Bank staff estimates.
Note: yoy = year-over-year.

43. **Non-food inflation increased to 7.8 percent (yoy) in August 2018, from 6.6 percent in April 2018.** Transport, housing and utilities, and restaurant and hotel prices account for close to 60 percent of the non-food CPI. Prices in each of these subcomponents experienced a significant increase since April 2019 (figure 29), with transport prices, which account for a quarter of the non-food CPI basket, rising by 13.3 percent (yoy) in August 2018 compared to 6.9 percent (yoy) in April 2018. The increase in transport prices is, in turn, driven by higher fuel prices on account of increases in global crude oil prices reinforced by the steep depreciation of the kyat.

Figure 29: Non-food inflation driven by rising transport prices

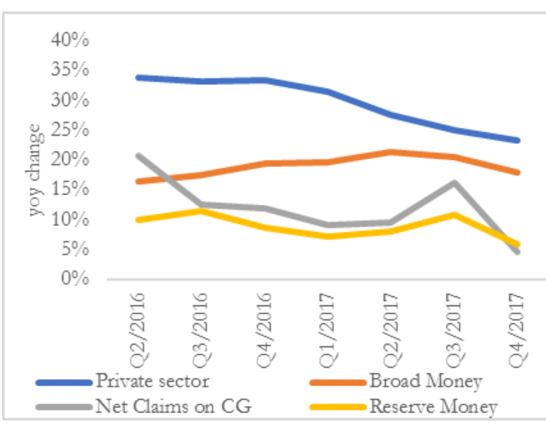


Sources: CSO; World Bank staff estimates.

Reserve money growth slowed, with broad money growth tapering

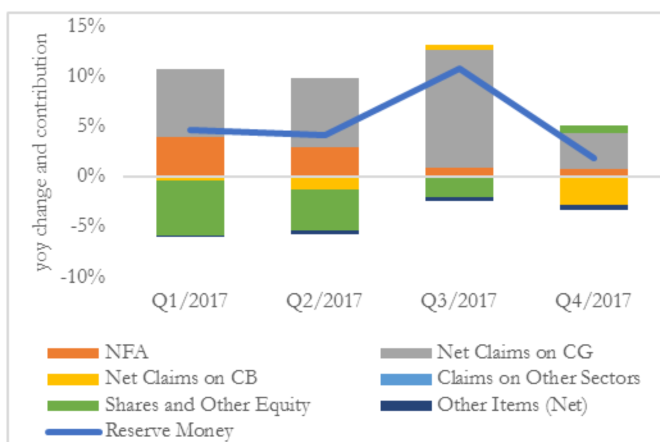
44. **Growth in reserve money and broad money slowed further in Q4-2017/18.** Growth in reserve money creation by the CBM dropped to 6 percent in Q4-2017/18, from 11 percent growth in Q3-2017/18. Broad money growth picked up marginally from 20 percent in Q1-2017/18 to 21 percent in Q2-2017/18 but slowed to 18 percent in Q4-2017/18 (figure 30), remaining below the 23 percent CBM target. The slowdown in reserve money growth was driven by lower growth of lending to commercial banks and to the central government, and to reversal in net accumulation of foreign reserves (figure 31). The CBM intervened in the foreign exchange market by selling US$14.8 million between April to September 2018 to contain the kyat's depreciation, but this was insufficient to satisfy demand, with cumulative (April to September) unmet dollar demand at US$179 million compared to US$14 million during the same period of the previous year.

Figure 30: Reserve and broad money growth is slowing



Sources: CBM; World Bank staff estimates.
Note: yoy = year-over-year.

Figure 31:..as credit to private sector slows and direct financing of government deficit declines.

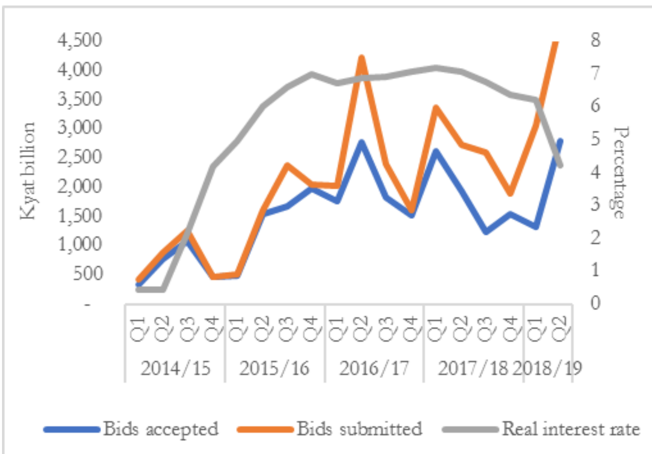


Sources: CBM; World Bank staff estimates.
Note: yoy = year-over-year.

45. **The CBM pursued goals of price stability and increased its intervention through the deposit auction market, but real interest rates continued to decline.** The market demand for deposit auctions from the CBM, reflected in bids accepted, expanded from 1.3 trillion in Q1-2018/19 to 2.8 trillion in Q2-2018/19 (figure 32). More deposits translate into more money taken out of active circulation, an important

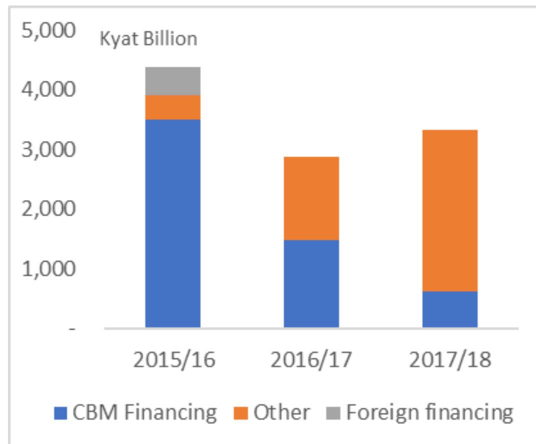
intermediate step in achieving the goals of price stability and smoothing exchange fluctuations. However, an increasing share of bids submitted, at possibly higher nominal interest rates, were not accepted in the same period. Bids submitted in Q1-2018/19 and Q2-2018/19 were 3.1 trillion kyat and 4.8 trillion kyat, respectively, much higher than the bid accepted over the same periods in 2017/18, and the real interest rate on deposits declined from 6.2 percent in Q1 2018/19 to 4.2 percent in Q2 2018/19.[13] Finally, the government aims at limiting the CBM financing for the budget deficit and increasing financing through domestic bonds and bills. Direct CBM monetary financing declined further in 2017/18 as T-bill and T-bond financing increased from 1,512 billion kyats in 2016/17 to 2,041 billion kyats in 2017/18 (figure 33).

Figure 32: Demand for CBM deposits rose sharply



Sources: CBM; World Bank staff estimates.

Figure 33: Government is diversifying fiscal financing sources



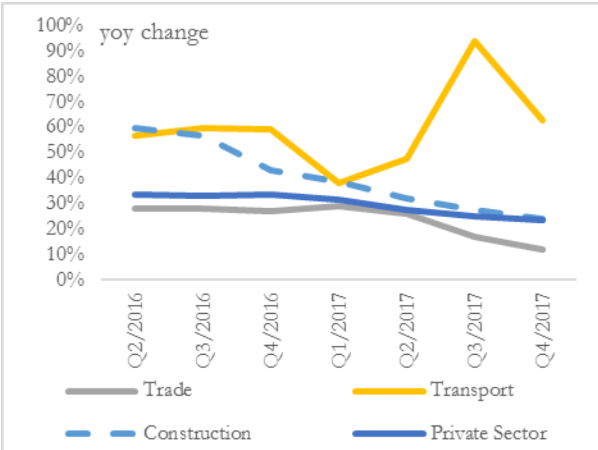
Sources: CBM; World Bank staff estimates.

Credit growth cooled and remains concentrated

46. **Credit growth cooled in 2017/18 as banks transitioned to the new regulatory environment** (figure 34) **and lending remained concentrated in a few sectors.** Growth in credit to the private sector was 23 percent in Q4-2017/18, down from 25 percent in Q3-2017/18. Anecdotal evidence suggests that uncertainties in the banking sector led to a further slowdown in lending. The share of credit to agriculture declined from 16 percent in Q3-2017/18 to 11 percent in Q1-2018/19 (figure 35). Lending growth remained concentrated, as 68 percent of new loans in Q1-2018/19 were directed to four sectors: trade, construction, services, and agriculture. This concentration should continue to be carefully monitored as the profitability of the construction sector is under pressure from excess capacity and the agriculture sector remains sensitive to weather- and trade-related shocks. Finally, lending remains biased toward large enterprises, as micro-, small, and medium-sized enterprises still face limited access to bank financing.

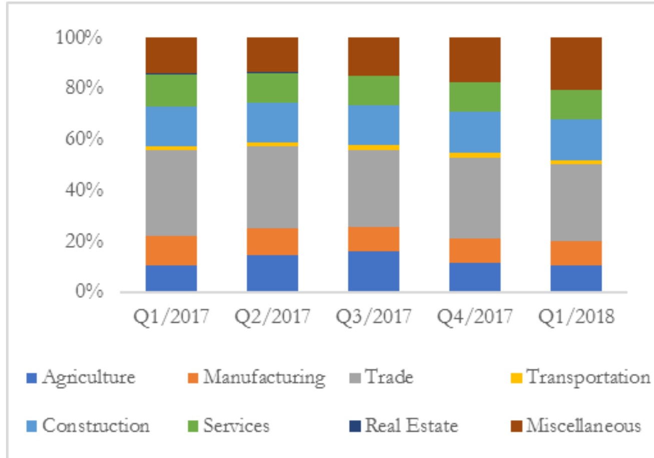
[13] The quarterly ex-post real interest rate is approximately equal to the quarterly nominal interest rate minus the month-over-month inflation rate in the same period. This is different from the ex-ante interest rate, which considers expected inflation instead of actual inflation.

Figure 34: Credit to the private sector cooled..



Sources: CBM; World Bank staff estimates.
Note: yoy = year-over-year.

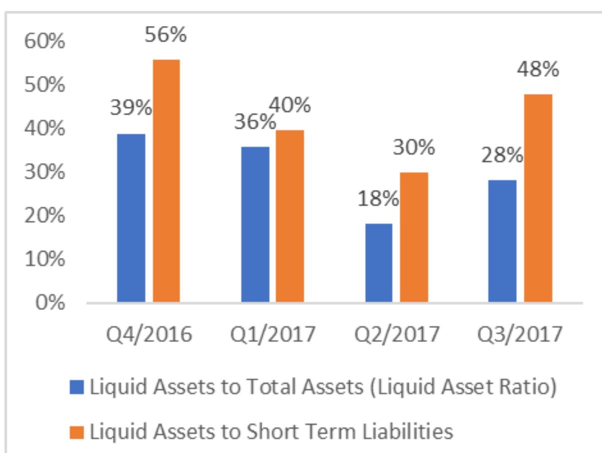
Figure 35:..and remained focused on trade and construction.



Sources: CBM; World Bank staff estimates.

47. **Banks' liquidity indicators strengthened while profitability declined in Q3-2017/18.** Banks' liquid asset ratio rebounded from 18 percent in Q2-2017/18 to 28 percent in Q3-2017/18, and liquid asset to short-term liability data improved to 48 percent in Q3-2017/18 (figure 36). Banks' profitability weakened in Q3-2017/18 compared to the same period in the last fiscal year, driven by lower return on assets, return on equity, and interest margin to gross income in Q3-2017/18. A floor of 8 percent on deposit rates and a ceiling of 13 percent on lending rates continued to impact banks' profitability, impacting their ability to grow their interest income as loan growth is cooling.

Figure 36: Banks' liquidity indicators improved



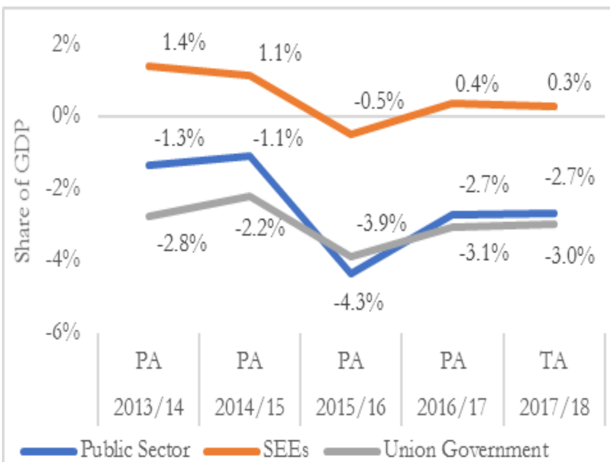
Sources: CBM; World Bank staff estimates.

Fiscal policy

Aggregate fiscal discipline maintained, with both revenue and expenditure shortfalls

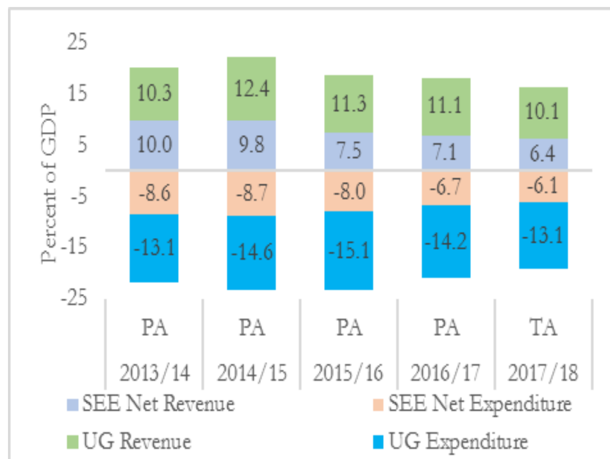
48. **Aggregate fiscal deficit remained stable at 2.7 percent of GDP in 2017/18, with revenue and expenditure both declining as a share of GDP.** The actual budget deficit was considerably lower than the 5.8 percent of GDP deficit estimate in the 2017/18 supplementary budget. Both general government receipts and spending have declined as a share of GDP compared to the previous fiscal year (figure 37 and 38). Declining State Economic Enterprise (SEE) recurrent and capital expenditures have helped offset falling SEE receipts. For the Union Government, declining revenue collection and expenditure as a share of GDP highlight the need for short-term revenue mobilization and budget execution efficiency enhancement. These topics are covered in depth in the special topics section of this MEM.

Figure 37: Fiscal deficit declined in 2017/18…



Sources: MOPF; World Bank staff estimates.

Figure 38:…with expenditure and revenue declining as share of GDP

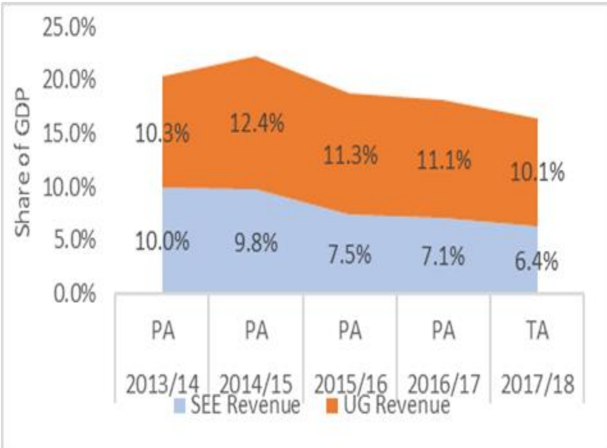


Sources: MOPF; World Bank staff estimates.

Revenue collections are on a declining trend, despite progress on reforms

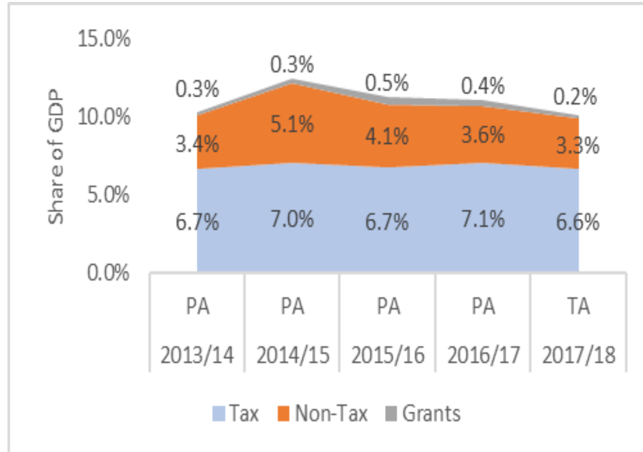
49. **Revenue to GDP declined from 18.2 percent of GDP in 2016/17 to 16.5 percent of GDP in 2017/18.** SEE receipts declined from 7.1 percent of GDP in 2016/17 to 6.4 percent in 2017/18, while Union Government revenues declined from 11.1 percent of GDP in 2016/17 to 10.1 percent of GDP in 2017/18 (figure 39). SEE revenue declines were driven by falling SEE competitiveness, faced with increased market competition and declining profits. Union Government non-tax revenues continue declining, and union tax revenues also declined by 0.5 percentage points from 2016/17 to 2017/18 (figure 40). The drivers of declining revenues are discussed in further detail in Special Topic 1 on short-term revenue mobilization.

Figure 39: SEE revenues are declining, while Union Government revenues stagnate…



Sources: MOPF; World Bank staff estimates.

Figure 40:…with decline in Union non-tax revenues insufficiently offset by modest tax increases.

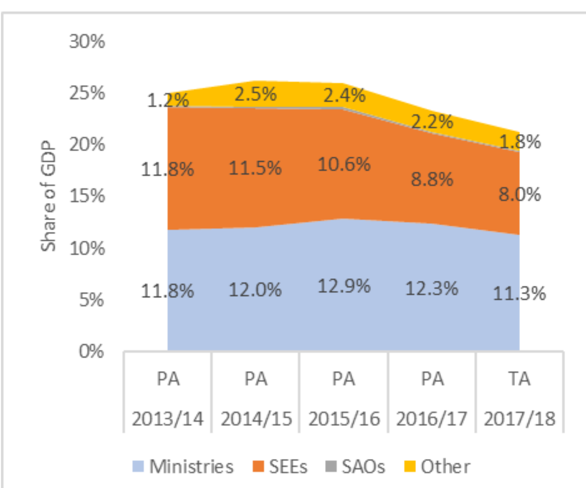


Sources: MOPF; World Bank staff estimates.

Expenditure execution does not match budgetary ambition

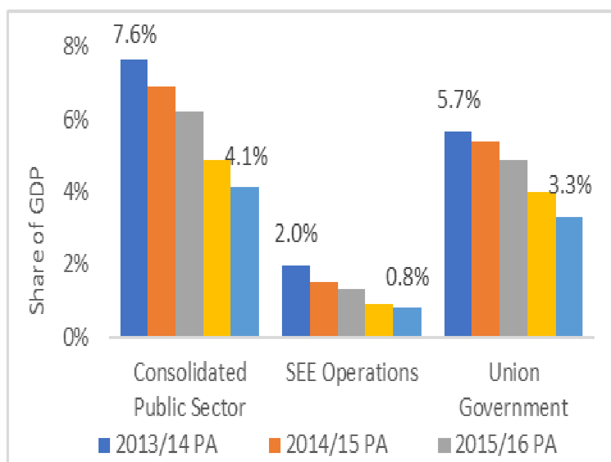
50. **Myanmar's consolidated public sector expenditure declined as a share of GDP, from 20.9 percent in 2016/17 to 19.2 percent in 2017/18 despite higher budgets (figure 41).** Union spending declined from 14.2 percent of GDP in 2016/17 to 13.1 percent in 2017/18, with declines in both recurrent and capital spending as a share of GDP. Spending by SEEs also declined, reflecting lower SEE revenues, from 5.8 percent of GDP in 2016/17 to 5.3 percent of GDP in 2017/18 (figure 42). The expenditure outturns in 2017/18 continue to show a gradual shift away from SEEs towards Union Government ministries, with the share of SEEs in total expenditure continuing to decline from 39.5 percent of GDP in 2013/14 to 31.7 of GDP in 2017/18.

Figure 41: Consolidated public sector expenditure is declining as share of GDP



Sources: MOPF; WB staff estimates

Figure 42:…with capital expenditure declining sharply.



Sources: MOPF; WB staff estimates

51. **Below-cost electricity tariffs are placing an increasing subsidy burden on the Union budget and placing the electricity sector's financial viability at risk.** Electricity tariffs have remained unchanged since 2014 while system costs increased considerably due to higher reliance on thermal generation and strong demand growth of over 12 percent. As a result, in 2017/18, the weighted average retail tariffs are estimated to be about 40 percent of cost-recovery levels. The financial deficit in the sector is growing rapidly and is currently being covered mostly through transfers from the Union budget. In 2018/19, the electricity sector's financial deficit was estimated at 900 billion kyats. These subsidies are highly regressive and benefit the wealthy. According to a preliminary distributional impact assessment of tariff subsidies, the wealthiest 20 percent of households receive 60 percent of the subsidies, while the poorest 20 percent of households receive only 2 percent. Addressing the sector's financial imbalance will be critical to making scarce resources available to support the country's electrification efforts. Such tariff adjustment should, however, ensure affordability of basic electricity services for the poor.

52. **The increasing gap between budgeted and actual spending reflects challenges in budget execution especially in priority spending ministries and for capital spending.** None of the top 10 spending union ministries,[14] excluding SEEs, have managed to spend 100 percent of their annual budgetary allocations for both current and capital expenditure since 2013/14. The capital budget has been consistently underspent by at least 0.4 percent of GDP since 2014/15; part of the cause, along with underestimated natural resource revenues, for actual deficits traditionally being smaller than budgeted deficits. In 2017/18, recurrent expenditure was also underspent by nearly 0.8 percent of GDP. The Special Focus section of the MEM highlights the drivers of underspending in the Ministries of Education and Health, two ministries prioritized by the government and provided with large increases in allocations but now facing budgetary execution constraints.

53. **The composition of spending remains biased toward recurrent spending, with capital spending declining significantly as a share of GDP (figure 44)**. Recurrent (or current) expenditure refers to spending on wages, salaries and purchase of goods and services, while capital spending refers to acquisition of fixed assets, such as land, buildings, and equipment. As a share of GDP, capital expenditure declined from 7.6 percent in 2013/14 to 4.3 percent in 2017/18 (figure 44). Low and falling public capital spending prevents Myanmar from addressing large infrastructure needs and using public investments to crowd in private investment in productive sectors.

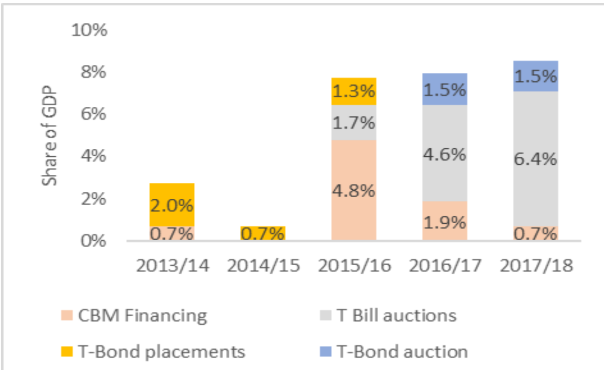
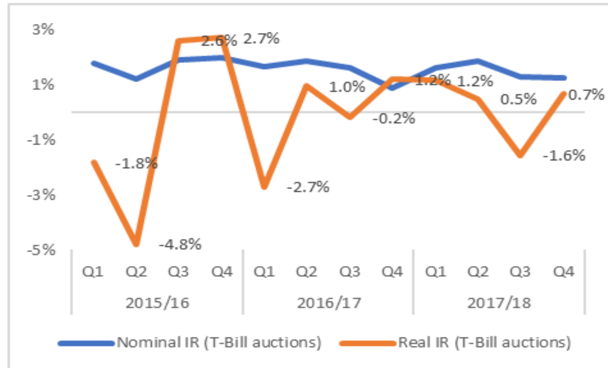
Financing sources are becoming more diversified

54. **The share of direct central bank financing of the deficit continued to decline, replaced by domestic Treasury bills and bonds.** The share of CBM financing of gross domestic financing declined from 27 percent in 2016/17 to 19 percent in 2017/18, while the share of Treasury Bills and Bonds sold in auctions increased from 73 percent to 81 percent. CBM financing declined to 0.7 percent of GDP in 2017/18 (figure 43), which is an important development in ensuring that the central bank can manage growth of monetary aggregates to ensure price stability.

55. **Interest rates need to better reflect market conditions to encourage market participation and development.** Market participation in both T-bills and T-bond auctions remains below potential. Successful bids on a purely competitive basis in Treasury bond auctions are on average 46 percent of auction targets, and for Treasury Bill auctions around 63 percent of auction targets, although real interest rates are now marginally positive, they have still declined from 2016/17 (figure 44). Maintaining interest rates in line with inflation

[14] Ministry of Agriculture, Livestock and Irrigation (MoALI), Ministry of Commerce (MoCom), Ministry of Construction (MoCon), Ministry of Education (MoE), Ministry of Electric Energy (MoEE), Ministry of Health and Sports (MoHS), Ministry of Information (MoI), Ministry of Planning and Finance (MoPF), Ministry of Social Welfare (MoSW), and Ministry of Transport and Communication (MoTC)

would likely encourage greater participation and support a lower inflation target. Moreover, a higher interest rate at this stage is not likely to significantly impact debt servicing costs as market instruments are still a small share of net financing needs.

Figure 43: Deficit financing is shifting from direct Central Bank financing	*Figure 44: Real interest rates remain below market*
	
Sources: CBM, WB Staff Estimates	*Sources:* CBM, WB Staff Estimates

Box 4: Overview of the Union Budget 2018/19

The Union Parliament approved the 2018/19 Union Budget in September 2018. This is the first annual budget to be aligned with the new fiscal year in Myanmar, which starts October 1.

The stated policy priorities reflect continuity from the previous fiscal year. The priorities remain (a) exchange rate and price stability; (b) increased tax collections and (c) increased focus on electricity and energy, education, health and social services. These priorities are reflected in the increased share of allocations to energy, education and health compared to these ministries' share of actual spending in the last fiscal year (more details in the expenditure description below).

The key fiscal aggregates show a doubling in the nominal fiscal deficit, driven by stagnant revenues and rising expenditure as a share of GDP. The 2018/19 approved spending is 22.1 trillion MMK[a], as compared to a 17.3 trillion kyats realized spending in the previous fiscal year. This represents a 27 percent nominal increase and a 2 percent increase as a share of GDP, from 19.2 percent of GDP in 2017/18 to 21.2 percent of GDP in 2018/19. Estimated revenues for 2018/19 are 15.9 trillion kyats, as compared to 14.9 trillion kyats realized revenues in the previous fiscal year. This represents a nominal increase of 6 percent and a 1.2 percent decrease as a share of GDP, from 16.5 percent of GDP in 2017/18 to 15.3 percent of GDP in 2018/19. As a result, the expected deficit is anticipated to more than double to 6.2 trillion kyats (around 6.0 percent of GDP) compared to a realized deficit of 2.4 trillion kyats (around 2.7 percent of GDP) in the last fiscal year.

The key economic growth assumptions underpinning the budget are optimistic. The government projects real GDP to grow at 7.6 percent in 2018/19, which is optimistic compared to World Bank projections of real GDP growth of 6.2 percent in 2018/19. Optimistic growth assumptions imply that the budget deficit as a share of GDP, per government calculations is close to 5.0 percent of GDP in 2018/19, whereas using World Bank growth assumptions, budgeted deficit is closer to 6.0 percent of GDP.

The government is budgeting to restrict direct central bank financing of the fiscal deficit to 20 percent, considering concerns of rising inflationary pressures. This assumption may be plausible if the pick-up in activity for Treasury bills and bonds seen in the last fiscal year continues. The share of CBM financing in overall financing of the deficit fell from 51 percent in 2016/17 to 19 percent in 2017/18, while financing through Treasury bills and bonds rose from 49 percent in 2016/17 to 81 percent in 2017/18.

Consolidated public sector revenues, which include revenues collected by the Union Government and by State Economic Enterprises (SEEs) are expected to decline by 1 percent of GDP. Union Government revenues are budgeted to decrease from 10.1 percent of GDP in 2016/17 to 9.4 percent of GDP in 2018/19. The decrease is driven by expectations of lower Union tax collections, falling from 6.6 percent of GDP in 2017/18 to 6.1 percent of GDP in 2018/19. Despite marginal improvements in performance expected on the commercial tax, the income tax and the specific goods tax nominal collections driven by anticipated tax administration improvements, the nominal collection growth cannot keep pace with the GDP growth. No significant changes in tax rates have been announced in the Union Tax Law, except for raising effective taxes on alcohol, tobacco and other select goods. Union non-tax revenues are expected to decline from 3.3 percent of GDP in 2017/18 to 2.7 percent of GDP in 2018/19, driven by lower oil and gas revenues. SEE revenues are expected to decline from 6.4 percent of GDP in 2017/18 to 5.8 percent of GDP in 2018/19 driven by declining profitability. Net revenues from energy sector SEEs are expected to decline from 4.5 percent of GDP in 2017/18 to 4.1 percent of GDP in 2018/19.

The expenditure profile highlights a significant budget increase for education, health, and energy, and a declining share of budget on defense. Within the overall spending mix, the government has shifted focus toward capital spending, which is budgeted to increase from 4.3 percent of GDP in 2017/18 to 6.0 percent of GDP in 2018/19, while recurrent expenditures are budgeted to remain stagnant.

Spending patterns highlight a continuing shift toward energy, education, and health. Energy spending is budgeted to increase from 4.7 percent of GDP in 2017/18 to 5.1 percent of GDP in 2018/19, maintaining its budget share at 22 percent of the budget. Energy spending is driven by SEEs, which account for over 90 percent of spending in this sector. Education spending is budgeted to increase from 1.8 percent of GDP in 2017/18 to 2.1 percent of GDP in 2018/19, driven by higher capital spending, which is expected to double in nominal terms. Health spending is increasing from 0.8 percent of GDP in 2017/18 to 1.1 percent of GDP in 2018/19. Defense spending is budgeted to decline from 3.3 percent of GDP in 2017/18 to 3.1 percent of GDP in 2018/19, but this still implies a 6.4 percent nominal increase.

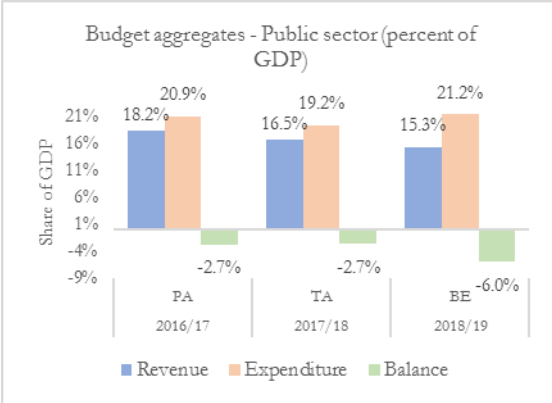
Increasing budget shares do not necessarily imply higher spending, as budget execution challenges are becoming increasingly important. In the previous fiscal year, the government underspent at least 10 percent of the Union budget, while the capital budget underspent by over 20 percent. Underspending was concentrated in the Ministry of Health and Sports, which spent 70 percent of its allocated budget, with underspending on both recurrent and capital expenditures.

Conclusion. The budget anticipates a significant increase in the fiscal deficit, which, coupled with slow growth in revenue collections, poses risks to fiscal sustainability. Maintaining a prudent fiscal deficit remains critical for Myanmar, considering financing constraints and limited recourse to central bank financing, given rising inflationary pressures. Revenue collection is a key concern, especially stagnation in tax revenues, which are insufficiently compensating for declining SEE revenues arising from lower profitability. The budget also reflects a realignment toward policy priorities, with an increased share of the budget to the health, education, and energy sectors; however, progress is contingent on improved budget execution.

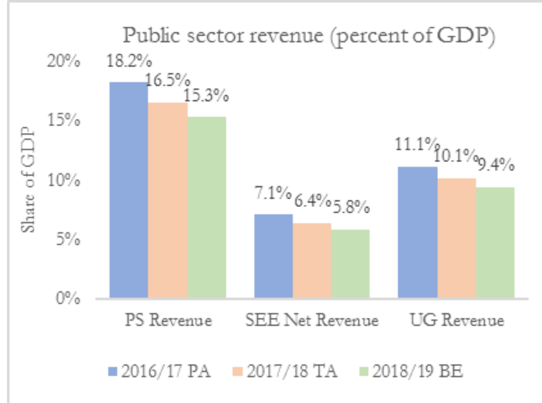
Note: a. All expenditure and revenue figures reported are (a) excluding loan receipts, repayment of loan principal, and interest repayments, which are considered below-the-line financing items, as per international standards; and (b) reporting SEE net balances, that is, subtracting from both revenue and expenditure any payments made by SEEs to the Union consolidated fund. Myanmar budget appropriations, however, include loan receipts, repayment of loan principal, and interest repayments above the line as "financial expenditures" and "financial receipts," and report SEE payments made to the Union fund on revenue and expenditure accounts.

Figure 45: Snapshot of the Union budget 2018/19

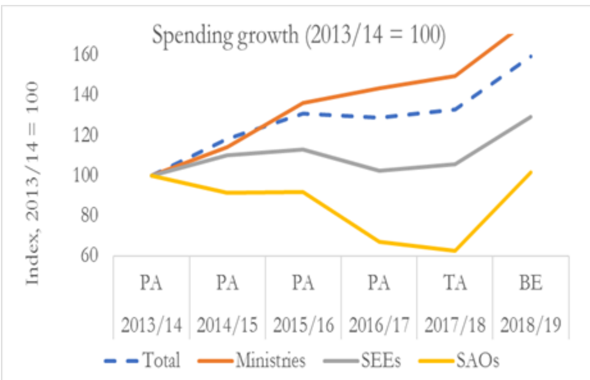
The budget reflects an increase in the deficit…



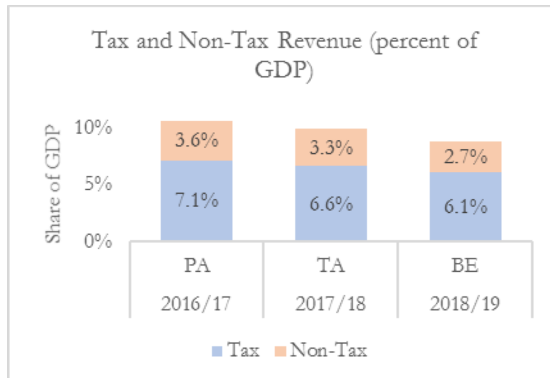
…with declining revenues…



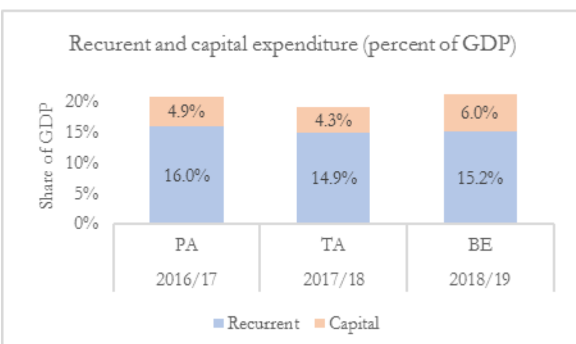
..and rising spending.



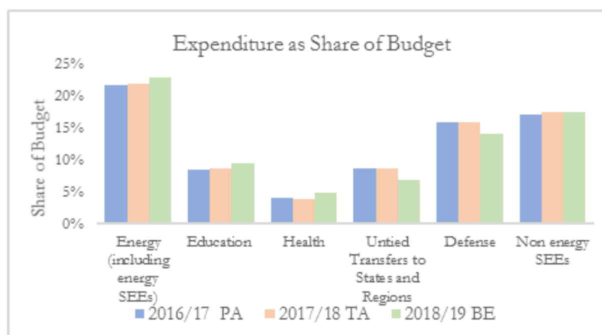
Both Union tax and non-tax revenue continues to decline.



Expenditure is becoming refocused further toward capital spending…



…with rising spending on energy, education, and health as a share of the budget.



Economic outlook and policy developments

Medium-term economic outlook

Modest downward revision in growth with medium-term recovery

56. **Myanmar's baseline economic outlook has been revised downward by 0.6 percentage points from the last MEM, with growth projected at 6.2 percent in 2018/19.** The downward revision is driven by weakness in industrial activity due to reduced investments, higher production costs due to higher fuel prices and exchange rate passthrough, and weaker demand due to rising inflation impacting household purchasing power. Construction sector activity is expected to slow in 2018/19, with proxy indicators such as stagnating building permits and slowing bank credit to real estate indicating a moderation. The services sector is expected to grow at a slower pace in 2018/19, with slower growth in the transport sector due to higher fuel prices, and in tourism due to the impact of the Rakhine crisis.

57. **In the medium term, growth is expected to gradually recover to 6.6 percent by 2020/21.** This is driven by a pick-up in foreign and domestic investment responding to recent policy measures such as the opening of retail and wholesale sectors, services sector liberalization and loosening restrictions on foreign bank lending. In the baseline, foreign bank entry is expected to have a positive impact on access to credit, particularly for construction and trade. Construction activity is expected to accelerate in response to pick up in Belt and Road Initiative related project activities, with new memorandums of understanding signed for the development of the Kyaukphyu deep-sea port and the Muse-Mandalay railway line. In addition, large investments may also accelerate from Japanese investments in Myanmar, including a likely increase in the next two years in Japanese investments in shipping, electricity infrastructure and rail modernization[15]. Growth will be supported by an increase in government spending, with a 1 to 2 percent increase projected in the fiscal deficit, in the lead up to the 2020 elections. In the baseline scenario, export growth will gradually accelerate in response to kyat devaluation, helping export competitiveness.

58. **Inflationary pressures remain high in the medium term, with inflation projected at 8.5 percent through 2020/21.** Consumer price inflation is expected to pick up to 8.8 percent in 2018/19 from 5.5 percent in 2017/18, driven by exchange rate passthrough, and food and fuel price increases. Crude oil prices are expected to remain elevated in 2018/19, projected to average US$ 72 per barrel as of October 2018, an upward revision of 10 percent since the last Myanmar Economic Monitor.[16] However, crude oil prices have declined significantly in November 2018, with prices for Brent crude oil prices falling to US$ 50 to 55 per barrel at the end of the month. This highlights that the crude oil price forecast for 2018/19 may be subject to considerable uncertainty. Inflationary pressures are projected to elevate in the medium term, with inflation forecast at 8.5 percent through 2020/21, as the government may tend toward a more expansionary fiscal stance as elections near in October 2020.

59. **The current account deficit is forecast to tighten in 2018/19, but gradually expand in the medium term as investment-related imports pick up.** In 2018/19, the current account deficit is expected to tighten to 2.5 percent of GDP: export growth will be supported by improved price competitiveness from

[15] https://asia.nikkei.com/Business/Business-Deals/China-and-Japan-set-to-reshape-shipping-in-Myanmar
[16] World Bank *Commodity Markets Outlook*, October 2018.

exchange rate depreciation, and import growth is expected to slow in response to decreased capital imports for investments, due to expectations of a slowdown in industrial and construction activity. This could be counteracted by rising fuel imports assuming crude oil prices remain elevated, although this forecast is now subject to considerable uncertainty. In the medium term, the current account deficit is forecast to widen to 3.5 percent of GDP in 2020/21, as capital imports pick up from the forecast rebound in investment activity.

60. **The budget deficit is forecast to widen in the medium term to 4.5 percent of GDP, as spending picks up closer to scheduled elections in 2020.** The government has programmed a significantly higher budget deficit in 2018/19, at close to 6.0 percent of GDP, compared to an outturn of 2.7 percent of GDP in 2017/18. The higher deficit target is underpinned by optimistic spending plans, and expected revenue to GDP by 1 percent of GDP, reflecting continuing challenges with tax base erosion, and an increase in expenditure by 2 percent of GDP. However, it is likely, given significant budget execution challenges in the past (as also highlighted in the Special Focus of the MEM), that the higher projected expenditure budgets will not translate to higher actual spending as a share of GDP. Therefore, the World Bank has projected the fiscal deficit for 2018/19 at a more modest 4.0 percent of GDP. The deficit is expected to widen to 4.5 percent of GDP in 2020/21 leading up to scheduled elections. This is higher than the deficit trends from previous years, and may add to inflationary pressures.

Risks tilted to the downside

61. **Myanmar's economy is facing a gathering storm due to both domestic and global factors.** Global and regional growth, and trade flows, are at risk of slowing further amidst high policy uncertainty and geopolitical risks. Regional currencies, including for Myanmar, may come under further pressure triggered by faster-than-expected advanced country monetary policy normalization. These global risks interact with high domestic risks: the indirect economic impacts of the crisis in Rakhine State may intensify. Slowing growth may exacerbate growing macroeconomic imbalances, especially on external balances, with growing pressure on the kyat which may increase inflationary pressures.

62. **Risks to the regional East Asian growth outlook are also tilted to the downside and have intensified.** Increased protectionist tendencies continue to create uncertainty about the future of established trading relationships. The imposition of trade restrictions by advanced economies would disproportionately affect the more open economies in the region. The East Asia and Pacific region is characterized by deep regional and global integration, which makes it vulnerable to trade shocks. It relies significantly on foreign income from exports and other foreign sources[17]. Slowing growth in the region may be transmitted to Myanmar through the trade channel by slowing external demand feeding into slowing exports.

63. **In addition, a faster-than-expected tightening of global financing conditions and associated financing stress could further reduce capital inflows and heighten financial market volatility.** These could be triggered, for instance, by changes in market expectations of advanced-economy monetary policy or a rise in risk aversion. In turn, reduced inflows and higher volatility could place pressure on regional exchange rates, such as the kyat. Rising borrowing costs could substantially increase the burden of debt servicing, which has been contained in recent years by low global interest rates and risk premiums. This risk is mitigated slightly as Myanmar remains at low risk of debt distress as per the World Bank and IMF Debt Sustainability Assessments.

64. **Domestic downside risks to the baseline are tilted to the downside from the ongoing impacts of the crisis in Rakhine State.** Some of the indirect economic impacts of the crisis are already being felt in the tourism sector. Further impacts could include the loss of trade preferences in the EU, and/or weaker FDI

[17] http://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update

commitments over the longer run due to heightened uncertainty in the investment climate. These economic impacts may intensify in coming months, depending on further international decision-making in response to the Rakhine crisis. This, in turn, could lead to a further downgrade in projected industrial growth for 2018/19 through 2020/21.

65. **If these risks intensify and are not managed well, one could envision a significantly lower growth scenario, which could lead to growing macroeconomic imbalances, with implications for broader stability.** Current account deficits would widen, from slowing exports and with lower foreign direct investment, the kyat would come under enhanced pressure. In turn, this would add further inflationary pressures, which may be exacerbated further if the fiscal deficit increase programmed in the 2018/19 budget comes to fruition. This would be directly threatening to macroeconomic stability and in turn would lead to further reduction in medium-term growth prospects.

Outlook for Economic Policy Developments

The last six months have seen some policy reform activity, most notably in opening of the retail and wholesale sector, issuance of implementing regulations under the Myanmar Companies Law and approval of the Myanmar Sustainable Development Plan, which may have a positive impact, if followed by effective implementation, in raising investments in the medium term.

Real Sector

66. **The new Myanmar Companies Law became effective in August 2018.** The new law allows up to 35 percent foreign ownership in local companies, and restrictions on foreigners to engage in certain sectors such as retail and wholesale and export/import activities have been removed. In addition, foreign investors are now allowed to participate in the Yangon Stock Exchange.

67. **The retail and wholesale sectors were opened-up to full foreign ownership for new investments**. To attract FDI, the Ministry of Commerce permitted foreign retailers and distributors to carry out large-scale retail and wholesale businesses effective May 2018. Restrictions still apply to protect small retail trade from overseas competition by limiting foreign investments and joint ventures operating mini markets, convenience stores and small-scale retail. The reforms were expected to have a positive impact on the services sector by promoting competition leading to potentially improved efficiency through the value chains.

68. **Myanmar and China have advanced on their negotiations to develop a deep-sea port in Kyaukphyu and on the Muse-Mandalay railway line, as part of China's Belt and Road Initiative (BRI).** A framework agreement signed on November 8, 2018 between the two parties, foresees a US$ 1.3 billion investment for implementation of the first phase of the Kyaukphyu deep-sea port. The total cost of the project, which is now planned in four phases, is estimated at about US$ 7 billion. The first phase will include two deep-water berths to be constructed and operated by a joint venture company with 70 percent Chinese ownership and 30 percent Myanmar ownership. The two countries also signed a memorandum of understanding in October 2018 for preparation of a feasibility study for the Muse-Mandalay railway line, the second major BRI project in Myanmar. The railway line would play an important role in enhancing connectivity within Myanmar and with the region -– for instance, from Kunming, China to Thilawa -- and will facilitate the link between

Moreh, India and Kunming by providing a connecting link for trains coming from Moreh passing through Tamu. In general, BRI projects have a potential to benefit involved countries with improved connectivity and trade opportunities and could have large positive spillover effects on global welfare[18]. It requires, however, overcoming the barriers on trade facilitation and effectively managing the risks related to debt sustainability and environmental and social impacts of large infrastructure projects.

69. **Myanmar's ranking in the 2019 World Bank Doing Business (DB) report remained unchanged at 171st out of 185 countries, but the average distance between Myanmar and the best performing country across all DB indicators improved slightly.** Distance to frontier reflects improvement across DB indicators relative to the best performing countries. Myanmar demonstrated improvement in distance to frontier of 0.51 points, higher than improvement in Cambodia or Lao PDR last year. The key improvements in 2019 included reducing by half the cost of registering a company (from April 1, 2018) and increasing the reliability of electricity supply and the transparency of tariff information. Myanmar now records and publishes details of every power outage, including time, duration, location and the reason for the outage (planned, unplanned and for load shedding). Nonetheless, Myanmar remains lowest ranked in Southeast Asia region, and has substantial scope to increase reform momentum and deepen reforms to ease doing business and accelerate long-run growth.

Monetary and Banking

70. **In May 2018, the Central Bank of Myanmar authorized creation of Myanmar's first credit bureau.** The Myanmar Credit Bureau Limited is a joint venture with Singapore's Asian Credit Bureau Holdings. As an intermediary between banks and non-bank financial institutions, the Myanmar Credit Bureau Limited is expected to collect information on the debt profile of borrowers and make the information accessible to lenders. This is an important step to help SMEs without collateral overcome this obstacle in accessing financial services. Lenders are expected to use the information provided by the Credit Bureau to better evaluate the creditworthiness of potential borrowers and improve their risk assessment procedures.

71. **The CBM stepped up policy measures to contain the kyat's depreciation including selling U.S. dollars, currency swaps and measures to stop currency speculation.** Following the sharp depreciation of the kyat and rising unmet demand, the CBM removed the trading bands around the Kyat and also allowed a currency swap facility in addition to auctions. These measures could help Myanmar manage external volatility in the future and provide for smoother adjustments. The CBM also sold US$ 14 million to private banks in auction between April to September 2018, but this was insufficient to satisfy demand, with cumulative (April to September) unmet demand for U.S. dollar at US$179 million compared to US$ 14 million in the same period the previous year. Under the currency swaps facility, private banks deposited kyat at the CBM in exchange for the equivalent value in U.S. dollars at a pre-agreed interest rate.

External Sector

72. **Service sector liberalization is continuing, with delivery and warehousing services the latest sectors to be opened.** As e-commerce is gaining momentum in the country, seven express foreign and domestic service delivery providers were granted permission to carry out postal and parcel express delivery services both domestically and internationally. In June 2018, the largest warehouse service and distribution provider Ryobi Myanmar, fully owned by a Japanese company, was launched in the Thilawa Special Economic

[18] Three Opportunities and Three Risks of the Belt and Road Initiative. Michele Ruta. World Bank. 2018. http://blogs.worldbank.org/trade/three-opportunities-and-three-risks-belt-and-road-initiative

Zone. With an estimated investment of Yen 29.7 billion (approximately US$ 260 million)[19] for building a warehouse in the Thilawa Special Economic Zone, developing storage and distribution systems is expected to support supply chains and economic development.

73. **Travelers from China, Korea and Japan were granted visa exemptions, as of October 1, 2018**. The government has taken steps to draw tourists from Asian countries with free visa allowances for tourists from China, Korea and Japan.

Fiscal Sector

74. **The government passed the 2018/19 budget with a large programmed increase in the fiscal deficit (see Box 4 for details).** Planned increases in spending reflect significantly increased allocations for capital spending, particularly in the energy sector.

75. **A 2 percent withholding tax on certain domestic payments was eliminated, effective July 1.** The government removed the withholding tax on domestic payments by State Economic Enterprises, local joint ventures, joint ventures owned by both Myanmar citizens and foreigners or the government and its private partners, for the purchase of goods and supply of services. Removal of this tax is intended to support the cash flow and profit of businesses and possibly support the tax base in the long term but will have a direct negative impact on tax revenue in the short-run.

Special topics

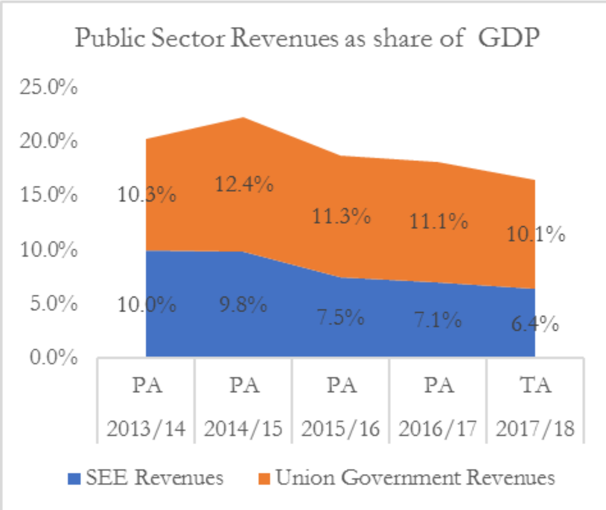
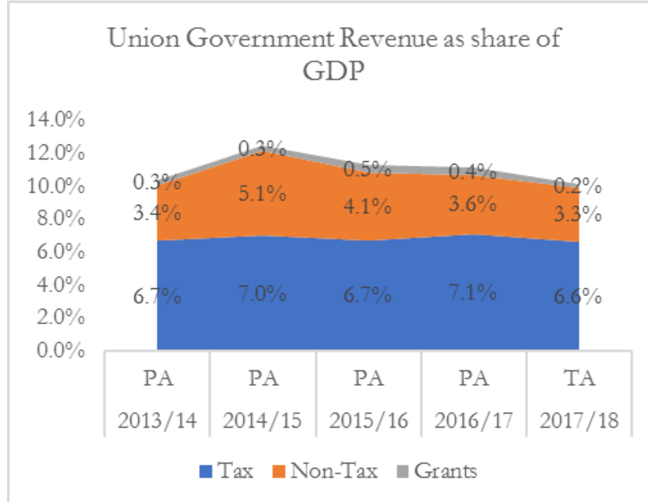
Topic 1: Short Term Revenue Mobilization

Revenue to GDP has declined in the last 5 years, even as spending needs rose. This special topic examines the drivers of revenue decline and identifies options for Myanmar to raise revenues by 2 to 3 percent of GDP in the short term. The focus is short-term but the recommendations are fully consistent with medium to long-term considerations for building a more efficient, effective and transparent tax system.

Revenue to GDP has declined, with union revenues stagnant and SEE revenues declining.

76. **Revenue to GDP has declined from 20.3 percent of GDP in 2013/14 to 16.5 percent of GDP in 2017/18 (figure 46).** SEE revenues have declined significantly from 10 percent of GDP in 2013/14 to 6.4 percent of GDP in 2017/18, driven by declining profitability from lower natural gas prices, inefficient production and exposure to market competition. Union government revenues have remained stagnant in the same period, declining marginally from 10.3 percent of GDP in 2013/14 to 10.1 percent of GDP in 2017/18.

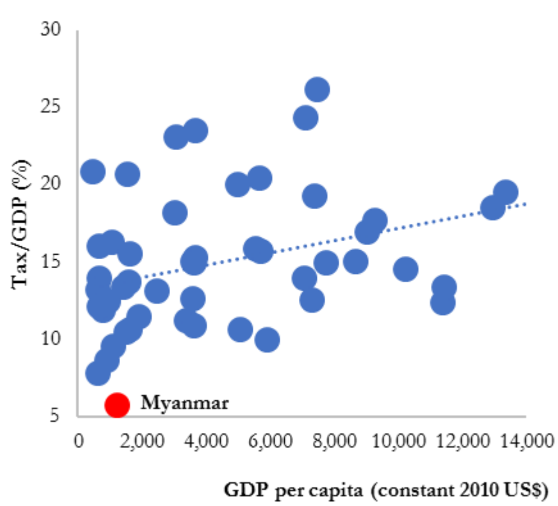
[19] https://www.mmbiztoday.com/articles/ryobi-myanmar-opens-biggest-warehouse-thilawa-sez

Figure 46: Public sector revenues have declined…	*Figure 47:..with union tax revenues stagnant, as non tax revenues decline.*
	
Sources: MOPF, WB Staff Estimaes	*Sources:* MOPF, WB Staff Estimates

77. **Within union government, tax revenues have remained stagnant while non-tax revenues have declined (figure 47).** Tax revenues have remained at 6.5 to 7.0 percent of GDP between 2013/14 and 2017/18, with limited tax buoyancy. Non-tax revenues have declined from 5.1 percent of GDP in 2014/15 to 3.3 percent of GDP in 2014/15 (figure 47), driven by decline in oil and gas royalty payments because of declining sector profitability and sector exemptions that are eroding the base (highlighted further in subsection on extractives revenues). Myanmar's tax to GDP ratio is among the lowest in the world and is significantly below levels predicted by per capita income (figure 48).

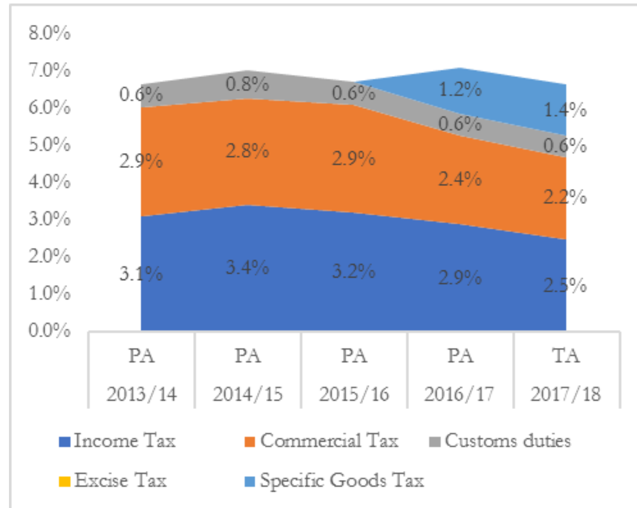
78. **Tax revenue stagnation has been driven by disappointing income tax collections despite reform effort, declining from 3.1 percent of GDP in 2013/14 to 2.5 percent of GDP in 2017/18 (figure 49).** In most countries, income tax revenues tend to be buoyant, increasing as a share of GDP as the economy grows, but this is not the case in Myanmar. Average CIT collected per taxpayer at the Large Taxpayer Office has increased by 40 percent – from 798 million kyat in 2016/17 to 1.1 billion kyat in 2017/18 (see below). But relatively few individuals and corporations are required to pay income tax, and those corporations that are required enjoy many exemptions.

Figure 48: Myanmar's tax revenues to GDP remain at one of the lowest levels in the world..



Sources: MOPF, WB Staff Estimates

Figure 49:..with disappointing income tax collections driving down overall tax collections.



Sources: MOPF, WB Staff Estimates

79. **Within income taxes, corporate income tax collections account for 85 percent and have declined from 2.4 percent of GDP in 2013/14 to 1.5 percent of GDP in 2017/18 reflecting a narrow tax base and declining electricity and gas sector profitability.** Myanmar has only 25,000 registered corporate income taxpayers, although this has grown by close to 40 percent since 2013/14 from an even narrower base. Declining profitability of the electricity and gas sector has played a major role in the decline. This sector accounted for close to 20 percent of total CIT collections in 2014/15 but has been impacted by rising costs and under-recovery from power tariffs (discussed in fiscal developments in Section 1). As a result, the sector has gone from an average 4.5 percent taxable profit as share of turnover in 2014/15 to 150 percent loss as share of turnover in 2017/18. As a result, electricity and gas sector tax payments account for only 1.5 percent of total corporate income taxes in 2017/18.

80. **A broad decline in SEE profitability has also driven a decline in overall corporate income tax collections and declining non-tax payments.** Assessed by Myanmar standards, SEE Operating Profits declined from 4 percent of GDP to an estimated 0.75 percent of GDP between 2013 and 2016, in large part but not exclusively driven by the electricity and gas sectors mentioned above. By following international standards, and not including Other Income (and not subtracting tax and interest), it is estimated that SEE Operating Profits declined from 3.6 percent of GDP to an estimated 0.5 percent between 2013 and 2016.[20] Declining profits have driven a decline in SEE corporate income tax payments from 1 percent of GDP in 2014/15 to 0.5 percent of GDP in 2017/18, and a decline in overall non-tax revenue collections due to declining natural gas royalty payments.

[20] The MTFF in the macro-fiscal developments and outlook chapter shows small operating losses in 2015/16 and 2016/17 for SEEs as a whole. There are 2 reasons for this. The first is that data gaps at individual SEE level in the information collected for this chapter creates difficulties for the comprehensiveness of this exercise. The second is that the MTFF approximates Operating Balance by subtracting total recurrent expenditure from total revenue, which is reported separately in Form 14.

Myanmar has embarked on modernizing its tax policy and administration…

81. **Myanmar commenced comprehensive tax reforms in 2012, starting from an outmoded tax administration and low tax collection**. Prior to reform in 2010/11, the tax to GDP ratio (at less than 4 percent) and revenue to GDP ratio (at 6.3 percent) were considerably lower than other countries at similar levels of income. The tax administration was characterized by manual processes and major gaps in basic taxpayer functions, contributing to low levels of compliance.[21] In addition, tax liabilities were administratively assessed by tax authorities following negotiations with taxpayers, lowering the transparency of the system and raising risks of collusion.[22] Myanmar authorities identified the key objective of reform as "arriving at a system that is efficient, equitable and simple, delivering necessary resources to Government while minimizing the administrative burden on taxpayers".[23]

82. **A major hallmark of Myanmar's tax administration reform in Phase 1 is the transformation from official assessment to self-assessment.** An official assessment system implies that the taxpayer presents his/her books to the tax authority and, after negotiations, the taxpayer and the authority agree upon a tax liability. Self-assessment shifts the initial burden of compliance and reporting to the taxpayer[24]. since 2012, the Internal Revenue Department (IRD) has been implementing a plan to sequentially move tax administration to self-assessment over time. Large taxpayers have been self-assessed with accompanying tax audits since 2015/16 while Medium Taxpayers have been self-assessed since 2016/17.

83. **The move to self-assessment has also been accompanied by a move to restructure tax administration to focus on taxpayer segments by size.** The early phase of reform, since 2012, has focused on the establishment of: (i) a Large Taxpayer Office (LTO) to handle not just large businesses by businesses in complex sectors; (ii) 3 Medium-sized taxpayer offices (MTO1, MTO2, MTO3); and (iii) Small Taxpayer Offices (STO) in the regions. Segmentation by taxpayer size is considered global good practice, as it allows both audit and taxpayer service to focus on the needs of the taxpayer segment. For example, large taxpayers usually like to have a relationship with the tax administration to ask for guidance (and rulings eventually) ahead of making transactions to prevent a problem later, while small taxpayers usually need taxpayer service to guide them on how to fill out tax forms.[25]

84. **Tax policy reforms in Phase 1 have focused on streamlining Myanmar's major direct tax instruments, through amendment of an Income Tax Law (ITL) in 2011, and, on the indirect tax side, the enactment of the Specific Goods Tax (SGT) in 2016.** Myanmar's tax instruments involve a mix of direct and indirect taxes, as in other countries in the region. The tax structure currently comprises 15 different

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[21] "Modernization of Public Financial Management Project: Project Appraisal Document", World Bank (2014).
[22] Ibid.
[23] Internal Revenue Department Reform Journey:
http://www.irdmyanmar.gov.mm/sites/default/files/Reform%20Journey%20%28For%20EC%29%20%28Combination%29%20-%20Copy.pdf
[24] The tax payer is required to build a case that supports the level of economic activity (profit, revenue, and cost) which underpins the final tax liability. Thus a level of "trust" must be accorded to the tax payer, which over time with a compliance track record is confirmed or not. The tax payer is required to be the basic source of data for the LTO, but in order to corroborate data, the LTO must collect other information from the third party sources. Finally the burden is on the tax payer to prove any challenges to the data or "story".
[25] Administration of SAS requires building a taxpayer profile, which involves: (a) Compulsory documentation (filing forms) which allow the LTO to understand business operations including profits and losses and their components, financing operations and tax planning strategies; and (b) Third party information to supplement taxpayer data which includes taxpayer data, establishing market conditions and competitiveness and establishing the international environment for comparison and to understand how a multinational firm works

types of direct and indirect taxes -- details on Myanmar's tax handles are summarized in Box 5 below. The ITL allowed foreign transactions to be covered and military owned companies also now pay income tax.

85. **Major legislative changes to the revenue framework are currently reflected in the second phase of the revenue reform program from 2017/18 to 2020/21.** This includes the following laws under discussion: (i) a Tax Administration Law (TAL) that standardizes administrative processes to support self-assessment, and (ii) a new Income Tax Law, that looks to clarify income tax rules, and updated the tax framework to align with a self-assessment system, and not an official assessment system.

86. **Translating reforms into improved revenue collections has proved challenging and constraints remain.** Policy and structural constraints remain to the efficiency and equity of the tax system, which impact on the sustainability of reforms and how quickly they can generate higher revenues. On policy constraints, for example, the widespread use of tax incentives (discussed below) means that effective tax rates (i.e. actual tax liability compared to tax earnings) have been declining, even though tax rates are relatively uniform. This is not only inefficient but could also imply revenue foregone without incremental investment. On more structural, long-term constraints, natural gas related revenues still comprise a major part of overall revenue collection which are on a declining trend from declining production and prices.

Box 5: Snapshot of Myanmar's Major Taxes

Personal Income Tax: The legal basis is provided under the revised Income Tax Law (2012). The applicable rate is 0 to 25 percent, with income thresholds highlighted in Table 3, with the annual minimum exemption threshold of 4.8 million kyats. Capital gains is taxed at the rate of 10 percent. Rental income is taxed on gross revenues. Dividends are exempt. The tax applies to all resident individuals in Myanmar, foreign non- residents who have income sourced in Myanmar, and citizens of Myanmar who reside outside the country (non-residents).

Corporate Income Tax: The legal basis is provided under the Income Tax Law (2012).

Rate: The standard CIT rate is 25 percent. The tax liability follows the standard tax accounting which would net out the sales from Cost of goods sold (COGS), interest payment, fiscal depreciation and other overheads expenses. A withholding tax at the rate of 2 percent is applicable to importation and exportation.

Incentives and Loss Carry Forward: CIT incentives are multiple, generous and scattered through various tax and investment laws and legislation. A company registered under the Myanmar Investment Commission (MIC) or in a Special Economic Zone is entitled to enjoy more tax exemptions and reliefs. Losses can only be carried forward for 3 years, but some companies that receive investment incentives may be allowed to carry forward losses indefinitely. Pooling of losses from all companies within a conglomerate is not allowed, but as returns are not consolidated by company groups, pooling is difficult to detect.

Residency definitions: Resident companies are taxed on a worldwide basis, while non-resident companies are taxed only on income sourced from within Myanmar. Individuals who reside in Myanmar for no less than 183 days in any one fiscal year are considered resident for tax purposes. A person that resides in Myanmar for 183 days (or even 360 days) divided equally over two fiscal years is not considered a resident of Myanmar.

International Taxation:: Anti-avoidance rules covering the major aspects of international taxation are absent. The Myanmar Income Tax Act does not have a provision that defines Permanent Establishment (PE) and the territorial rule of income taxation of non-resident foreigner is applicable. The IRD is empowered to collect a tax from such taxpayers based their income received from Myanmar, and a withholding tax (WHT) mechanism is used as the collection tool.

Commercial Tax: This has been introduced as a sales or turnover tax.

Rates and exemptions: Commercial tax is levied at various rates for different products, varying from 5 percent for primary products and escalating to a higher rate as sales move up the value chain. Annual exemption thresholds (based on sales revenues) for CT is 50 million kyats. Commercial tax is zero-rated on all exports, except for electricity and crude oil.

Input versus output tax: CT is designated as an 'output tax' when businesses charge and collect the tax, but it is regarded as an 'input tax' when applied to business purchases and expenses. Input taxes can be offset against output tax.

Specific Goods Tax: The specific goods tax was introduced in 2016 to replace commercial taxes for certain products.

Rate: The specific goods tax rates range from 5 percent to 80 percent. Zero-rating is applied to all exports, except for natural gas, wood logs and wood cuttings, raw gemstones, and processed gemstones.

Coverage: The tax is applicable to a wide range of commodities and goods made within Myanmar, imported from, or exported to a foreign country. The list of goods include tobacco, alcohol, precious gems, and jade.

Base and exemptions: Commercial Tax is imposed on the value of transaction gross of the SGT. Like the case of the commercial tax, input tax offsetting is allowed.

..but incentives and exemptions are eroding the tax base..

87. **Corporate and personal income tax rates are comparable in Myanmar to regional and global benchmarks (table 2).** The current standard CIT rate of 25 percent is comparable regionally and globally. The PIT highest marginal rate (25 percent) is lower than the EAP average (27 percent) and is significantly lower than the one in OECD or global average (42 and 31 percent, respectively), while threshold levels are comparable. The PIT income thresholds are highlighted in Table 3 below.

Table 2: Statutory rates in Myanmar compare favorably to global and regional averages

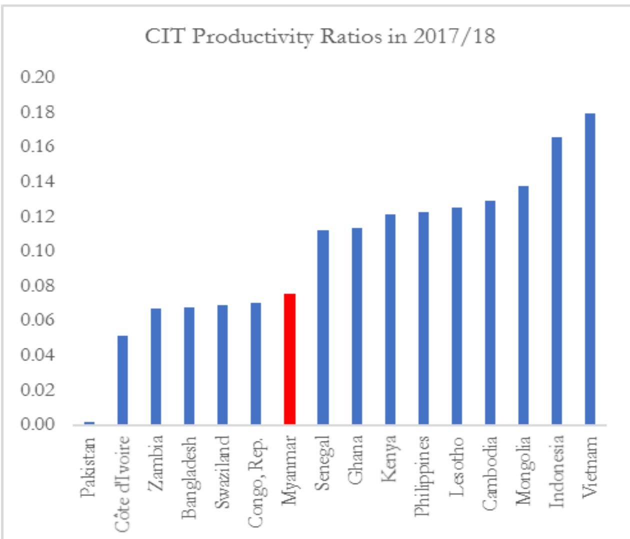
Country/Region	CIT statutory rate	PIT statutory rate
Myanmar	25	25
EAP Average	23	27
OECD Average	25	42
Global Average	24	31

Table 3: Statutory rates in Myanmar compare favorably to global and regional averages

Assessable Income Layer		PIT Rate
From kyats	*To kyats*	
1	2,000,000	0%
2,000,001	5,000,000	5%
5,000,001	10,000,000	10%
10,000,001	20,000,000	15%
20,000,001	30,000,000	20%
30,000,001 and above		25%

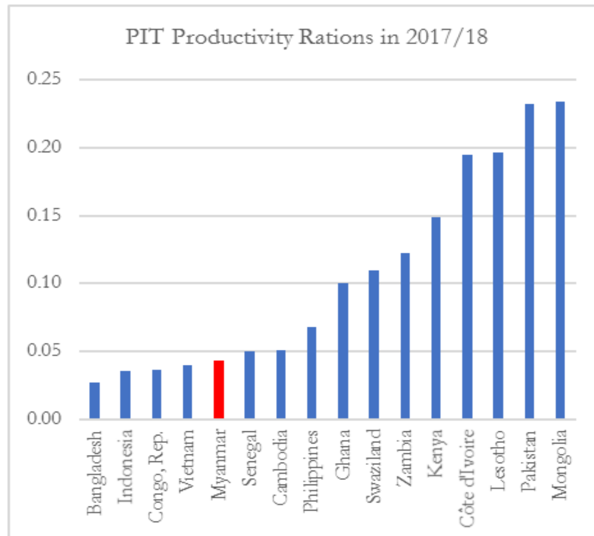
88. **PIT and CIT productivity is low in Myanmar (figures 50 and 51).** Tax productivity is defined as the tax to GDP ratio divided by the statutory tax rate – a lower productivity highlights that effective tax rates are significantly lower than statutory rates, due to tax exemptions or weak compliance. Myanmar's tax productivity for both CIT and PIT are significantly lower than a sample of comparable countries (countries at similar levels of income per capita, excluding highly resource-dependent countries).

Figure 50: CIT productivity in Myanmar is low..



Source: WB Staff Calculations

Figure 51:..and similarly for PIT productivity.



Source: WB Staff Calculations

89. **Low tax productivity is linked to increasing tax incentives especially for corporate income taxes.**[26] There are four key considerations when assessing tax incentives.

i. **Type of incentives:** Myanmar offers a range of profit-based and cost-based incentives (Table 4) including tax holidays, reduced rates, tax credit, specific incentives for SEZs, and other discretionary incentives. The least effective are tax holidays, which offer blanket exemptions over a period – despite the time limits, these are often renewed, or companies can close businesses at the end of the period and then reopen as a new investment. The length of the tax holiday period in Myanmar is generous when compared to the region.[27] Myanmar could consider moving away from profit-based tax incentives, which have no discernible impact on the investment decision of marginal investors.

ii. **Targeting of incentives:** Tax incentives are not targeted to sectors that have high economic returns, but low private returns. Such targeting by sector could help ensure that the benefits from incentives, from increased economic returns, outweigh the costs in terms of revenue foregone. An

[26] This paragraph is adapted from the "Myanmar Public Expenditure: Fiscal Space for Economic Growth" (2017), World Bank.

[27] However, comparing tax holiday durations across countries is complicated by the fact that the start of the tax holiday is triggered by different factors: first year of sales in Myanmar; commencement of operations in Lao P.D.R. and Thailand; and realization of taxable income in Vietnam.

estimation of benefits versus tax revenue foregone is currently not undertaken in Myanmar on a systematic basis.

iii. **Administering tax incentives:** Tax incentives are provided in a fragmented manner, across several government agencies which results in coordination challenges and lack of consistent criteria for assessing eligibility for incentives.

iv. **Cost of incentives:** Myanmar does not produce a tax expenditure statement that systematically assesses the costs, in terms of revenue foregone, from tax incentives. Calculations of revenue foregone are also hindered by the absence of a cross-government database of tax incentives provided. Scenario based estimates suggest that revenues foregone for large corporate income taxpayers alone could be as high as 1 to 1.5 percent of GDP.

Table 4: Cost based tax incentives are more efficient than profit based incentives

Type of Incentives	Instruments	Impacts
Cost Based Tax Incentives	Include specific allowances linked to investment expenses (e.g., accelerated depreciation schemes; special tax deductions and credits)	Effect on lowering the cost of capital and thus making a greater number of investment projects more profitable at the margin.
Profit Based Tax Incentives	Incentives that reduce the tax rate applicable to taxable income (e.g., tax holidays and reduced tax rates).	Government Revenue Loss without discernible impact on marginal investment decision.
In general, tax incentives that lower the cost of investments are more efficient and effective than profit based tax incentives.		

90. **Commercial tax and specific goods tax are economically inefficient in design, with multiple exemptions in place.** Commercial plus specific goods tax collections have remained stagnant at 3 to 3.5 percent of GDP since 2013/14 (figure 51) even as GDP growth has picked up. These tax handles tend to be buoyant and the lack of buoyancy is linked to the design and exemptions. The commercial tax currently functions as either a (i) quasi-turnover tax, when input tax credit are not allowed at certain intermediary stages of the production-distribution chain; or a (ii) quasi-retail sales tax in the case when all input taxes are credited before the goods or services reach the final sales stage. Either case is economically inefficient. When functioning as a quasi-retail sales tax, the administration of the CT is likely costly—literature shows that the cost of administration of a retail sales tax is similar in magnitude with the one for a VAT. The SGT includes a mixture of traditional excisable items and luxury goods tax base eroded by widespread exemptions and input tax allowance.

..and even as investing in strengthening tax administration systems remains a priority.

91. **The tax administration reforms are already showing positive impacts, especially on performance of the Large Taxpayer Office.** The share of tax collection from the Large Taxpayer Office, subject to self-assessment, has increased from 27 percent of total corporate income tax collections in 2015/16 to 65 percent of total corporate income tax collections in 2017/18. Average CIT collected per taxpayer at the LTO has also increased by 40 percent – from 798 million kyat in 2016/17 to 1.1 billion kyat in 2017/18.

92. **Even as progress has been made, considerable challenges remain.** While average CIT collections have risen at the LTO, they have declined in other offices, such as MTO-2 where taxpayers are not yet subject to self-assessment and tax audits. Taxpayer registration is also growing faster in MTO-2 and 3, which suggests that tax-base shifting, whereby firms that should be registering in LTO-1 are splitting up and moving to parts

of the system that are subject to less scrutiny. This underscores the need to continue focus on expanding self-assessment to cover all taxpayers over time, and to strengthen tax information systems to capture taxpayer information to enhance the efficacy of audits and to limit tax base shifting.

93. **Addressing these challenges requires more resources, strengthened legal framework and investment in information systems to move away from manual processes.** IRD's cost of collection, which is the administrative budget as a share of tax revenues collected, is estimated at 0.3 percent. This is considerably lower than regional averages and underscores the need to invest more in revenue collection. The Tax Administration Law (TAL), tabled in the current sitting of parliament, remains critical to enact to enable the implementation of the Integrated Tax Administration System (ITAS) software and to provide the legal basis for expanding self-assessment through to all corporate income taxpayers.

Extractives sector revenue collections are declining, but still present a significant short-term revenue opportunity.

94. **Oil and gas tax administration and policy reform present a major opportunity for short term revenue mobilization.** A sequenced approach, commencing with the reform of SEE revenue retention rules in the short run followed by the establishment of new extractives revenue audit and policy units, could address both immediate revenue needs and help build institutional capacity towards effective revenue management in the long run, also bringing greater policy certainty to potential investors.

95. **The oil and gas sector still account for close to 15 percent of total government revenues with other extractives adding another 5 percentage points.** Official statistics indicate that the sector contributed 6 percent of gross domestic product in 2015/16[28], though this disregards significant unofficial economic activity, particularly within the gems and jade sectors[29]. The value of official exports from the extractives sector amounted to over US$ 5 billion, or 47.6 percent of total exports, in 2015/16[30], while approved foreign direct investment for the mining and oil and gas sectors has been US$21.5 billion over the past decade[31]. The extractives sector is an important source of domestic revenue, contributing over MMK 3.4 trillion, or 20 percent of total government revenue[32], with the Oil and Gas sub-sector (including Oil and Gas transportation) accounting for 15 percent of total government revenues.

96. **Emerging evidence suggests that the level of government revenue collected from the extractives sector and made available to the union budget is suboptimal.** This is driven by two issues: total net receipts to the State, through both taxes and income raised from natural resources by State Economic Enterprises (SEEs), may be lower than what should have been collected on account of exemptions; and secondly, a large share of these revenues is retained by resource SEEs and not made available for regular allocations through the union budget.

97. **On the mining side, a large share of jades and gems production is likely to be undeclared, contributing to lower revenues.** Sale of jades and gems from the 50 companies represented at the Gems and Jade Emporiums amounted to US$ 844 million in 2015/16 while the remaining 1,500 registered companies reported a production of less than US$ 100 million[33]. This imbalance between revenues at the emporiums

[28] Central Statistics Organization
[29] NRGI's Jade Portal estimates that the Jade industry alone could be worth between US$ 6.3 billion and US$ 6.6 billion, or approximately 10% of GDP, per year
[30] 'EITI Report for the Period April 2015 – March 2016, Myanmar Extractive Industries Transparency Initiative', 2018
[31] DICA Approved Foreign Investment, 2008/09-2017/18
[32] 'EITI Report for the Period April 2015 – March 2016, Myanmar Extractive Industries Transparency Initiative', 2018

[33] Ibid.

and otherwise declared revenues, indicates that a substantial share of production is likely undeclared. Mine site valuation methods of gemstones are subjective and prone to underreporting. On the other hand, export declarations of market-based sales are more likely to reflect the true value of the sales. But to date, the formal customs declarations for export of gemstones, the M14 Form, is not widely used.

98. **Optimizing net receipts requires a coherent fiscal regime that combines tax and non-tax instruments for extractive industries.** Responsibilities for the fiscal regimes of the extractives sectors are shared between the Ministry of Planning and Finance, the Myanmar Investment Commission, line ministries responsible for natural resource sectors, and various State Economic Enterprises. This has led to challenges in designing and managing the fiscal regime, with extractives revenue and related tax expenditures not properly assessed through budgetary processes and further complicated by the existence of arbitrary tax exemptions. The Internal Revenue Department estimates these exemptions annually cost the budget more than 200 billion kyat (US$ 130 million) or 0.2 percent of GDP in the oil sector, with similar tax exemptions also existing in the mining and gems sectors.

99. **International experience demonstrates the need to separate policy, regulation and commercial activities between ministries, regulatory bodies and natural resource companies**[34]. For Myanmar, the design of a coherent fiscal regime would be best achieved through the consolidation of extractive revenue policymaking with strong oversight by the Ministry of Planning and Finance. A sequenced approach would be to form an extractives policy unit[35] which would initially be authorized to collect financial data from resource related SEEs to conduct revenue analysis and modelling. As capacity of this unit increases, the unit's role would shift towards providing Ministerial policy advice before taking on full responsibility for design and oversight of the extractives sector fiscal regime.

100. **Increasing the administrative capacity of IRD to effectively audit complex self-assessments from international extractives firms could also improve net receipts from the sector.** IRD collected tax revenues from the extractives sector totaling 685 billion kyat in 2015/16 which made up 20 percent of total extractives revenue to the government. However, underreporting of gems production and undervaluation of gems cost the government at least hundreds of millions of dollars in forgone revenue per year. IRD, and SEEs that collect profit shares, must also confront base erosion and profit shifting by private contractors, like other jurisdictions around the world. Audits in the extractives sector to address these issues are particularly challenging and require a high level of specialized expertise. It has therefore been recommended that IRD establishes an extractives audit unit within the Large Taxpayers Office[36], with international technical assistance utilized to build domestic expertise in this area[37].

101. **Government has an opportunity to more effectively and transparently allocate the public resources it does collect from the sector.** Under Ministry of Planning and Finance directives, 55 percent of State Economic Enterprises profits are directed to 'Other Accounts' in the Myanmar Economic Bank. This has led rent collecting natural resource SEEs to accumulate large balances in their Other Accounts[38], which go beyond their commercial needs. Government has an opportunity to modernize these rules to meet sectoral

[34] 'The Extractives Sector: Essentials for Economists, Public Finance Professionals and Policy Makers', 2015, World Bank
[35] This unit could sit within the Ministry of Planning & Finance itself, or the prospective Ministry of Investment and Foreign Economic Relations
[36] Section 7.1.1, 'EITI Report for the Period April 2015 – March 2016, Myanmar Extractive Industries Transparency Initiative', 2018
[37] There would also be the need to design complementary HR policies to ensure the selection and retention of this domestic expertise.
[38] NRGI estimated that Other Account balances totalled MMK 11.45 trillion in January 2017

objectives and the needs of the national budget[39]. In addition, increased transparency and discussion on the sources and uses of these funds would enhance effective management.

Short term revenue mobilization options

102. **Myanmar can raise revenues by 2 to 3 percent of GDP in the short term with some targeted actions.** Some feasible, high impact short-term actions have been identified and are summarized in table 5. These include:

- *Rationalizing tax incentives:* Tax incentives are costing Myanmar a significant share of revenue and are inefficient – as they are profit based, not subject to cost-benefit analysis and not provided in a coordinated manner, using consistent criteria, across government. The short-term recommendation is to create a consolidated list of current incentives provided to estimate costs in terms of revenue foregone; consolidate provision of exemptions under tax law with transparent and unambiguous criteria; target sectors with high social and economic returns and move to cost (rather than profit) based incentives.

- *Enhance compliance focus:* by focusing on risk-based audits but also to ensure that audits and compliance is also focused on tax return filings at offices that are not currently under self-assessment. This would be to ensure that any tax base shifting is adequately captured by IRD and addressed. The role of Integrated Tax Administration System (ITAS) will be critical to ensure that tax filings across officers can be quickly compared and analyzed.

- *Reduce the scope of exemptions in both CT and SGT:* Reducing exemptions will improve the productivity of these taxes and raise overall collections. The change will also reduce administrative burden on IRD as it would eliminate the need for tracking and matching input and output tax credits.

103. **Standardizing other accounts revenue retention formulas are also an important short-term measure that can increase resources available for spending by union line ministries.** Differentiating retention and optimizing rules, after assessing the investment and commercial needs of SEEs, could help with consolidation of revenues within union budget accounts. It should be noted that this change would not raise overall consolidated public-sector revenues but would ensure a greater share of these resources are available for spending under the union budget for line ministries.

104. **Improving monitoring of production and sales of jade and gems at both the mine site and export points could also raise revenues in the short term.** This could entail requiring the systematic use of export forms (M14 forms) to capture the value of exported stones as well as automated production declarations at mine sites. Comparing reported imports of jade and gems from China and Thailand with reported exports from Myanmar, highlights that such measures could increase export values by US$3 billion US$5 billion. Assuming government share, per royalty collections of 10 percent of declared value, this could result in an additional US$300 million to US$500 million in revenues.

[39] A number of options are laid out in 'SEE Reform in Myanmar: The Case of Natural Resource Enterprises', 2018, NRGI

Table 5: Short term revenue mobilization options

Revenue Mobilization Options	Implementation Issues	Possible Revenue Impact
Rationalize Tax Incentives –estimate costs, consolidate in one legislation, move to cost based and target by sector	Consolidated list of incentives not available. Legislative and administrative change needed to consolidate provision of incentives and ensure role of IRD in estimating costs.	Rationalizing tax incentives could help increase Myanmar's CIT tax productivity. If Myanmar's CIT productivity rises to the mean productivity within ASEAN, the revenue gains could be in the range of 1.5 percent of GDP.
Enhance compliance focus – especially risk based audits and compliance focus on non self-assessed returns.	More budget needed for enhanced compliance and audit capacity a critical constraint.	The revenue gains from this change are difficult to quantify.
Reduce Commercial Tax and Specific Goods Tax exemptions	May require legislative changes but could also be considered union tax law revisions	Reducing exemptions will improve tax productivity. Enhancing indirect tax productivity to the level of the mean productivity within ASEAN, could enhanced revenues by 1-1.5 percent of GDP.

Topic 2: Spending More on Human Capital

Investing in human capital is critical for future growth and increasing productivity. Neglecting investments in its people can dramatically weaken a country's competitiveness in a rapidly changing world, where knowledge and talent are paramount to sustain growth.[40] Investing in education yields distinctly large returns and plays an important role in ending poverty and sharing prosperity.[41]

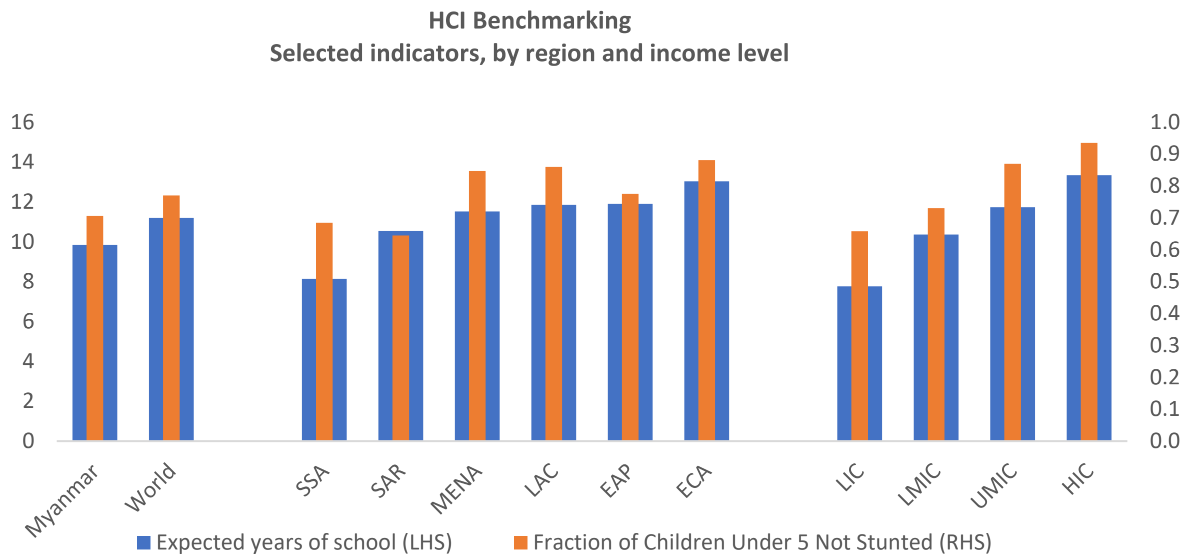
This special focus piece takes a closer look at public investment in human capital in Myanmar, by examining spending trends for the Ministry of Health and Sports and the Ministry of Education and providing recommendations to improve budget execution in these sectors.

Myanmar lags behind the region and its income peers on human capital outcomes…

105. **Myanmar lags behind the region on the Human Capital Index (HCI).** The Human Capital Index (HCI) measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.[42] In 2017, Myanmar's HCI was 0.47 (figure 52), lower than the average for its region (0.61). The index of 0.47 indicates that a child born in Myanmar today will be 47 percent as productive when she grows up as she could be if she enjoyed complete education and full health.

[40] https://www.foreignaffairs.com/articles/2018-06-14/human-capital-gap
[41] The World bank Group Goals; http://www.worldbank.org/content/dam/Worldbank/document/WB-goals2013.pdf
[42] HCI is made up of five indicators: the probability of survival to age five, a child's expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate (fraction of 15-year olds that will survive to age 60), and the proportion of children who are not stunted.

Figure 52: Myanmar lags behind the region on human capital outcomes



Source: World Bank.
HCI is made up of five indicators: the probability of survival to age five, a child's expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate (fraction of 15-year olds that will survive to age 60), and the proportion of children who are not stunted. SSA = Sub Saharan Africa; SAR = South Asia; LAC = Latin America; MENA = Middle East & North Africa; EAP = East Asia & Pacific; ECA = Europe & Central Asia; LIC = Low-income Counties; LMIC = Lower Middle-Income Counties; UMIC = Upper Middle-Income Counties; HIC = High-Income Counties

106. **Myanmar's performance lags behind regional peers on all HCI indicators, despite progress made in recent years.** Children should ideally have 14 years of schooling before the 18th birthday, but in Myanmar a child born today could expect to complete only 9.9 years of school, which is two years less than the EAP region's average. However, when "how much a child has learned in school" is considered, or the years of schooling adjusted for quality of learning, a child in Myanmar is expected to have only 6.7 years of schooling. The learning gap, therefore, is 3.1 years. Moreover 29 out of 100 children in Myanmar are stunted, and at risk of cognitive and physical limitations that can last a lifetime, as compared to 22 out of 100 children in East Asia and Pacific. There have been some notable improvements in outcomes: over the past 25 years, mortality rates (maternal, under-five, and infant) have all fallen substantially. Life expectancy has increased from 63 years in 2005 to 65 years in 2015.

107. **Investing in people through nutrition, health care, and quality education helps develop human capital – and is key to ending poverty and creating more inclusive growth.** Continued investments in human capital in Myanmar offer an opportunity to help close the gap in outcomes, especially in rural areas where health status and education outcomes fare worse than in urban areas (World Bank, 2015).[43] More specifically, investments in teacher training, more schooling years, modernizing curriculum, and early childhood education offer space for improvements in education. An additional year of schooling is estimated to be associated with 6.7 percent higher income[44] contributing to better health and social protection. Opportunities for improving health outcomes could be grasped by increasing the share of budget resources

[43] World Bank. 2015. "Myanmar Public Expenditure Review: Realigning the Union Budget to Myanmar's Development Priorities".
[44] World Bank. 2016. "Closing the Gap: Expanding Access to Social Services" - http://hdl.handle.net/10986/23784

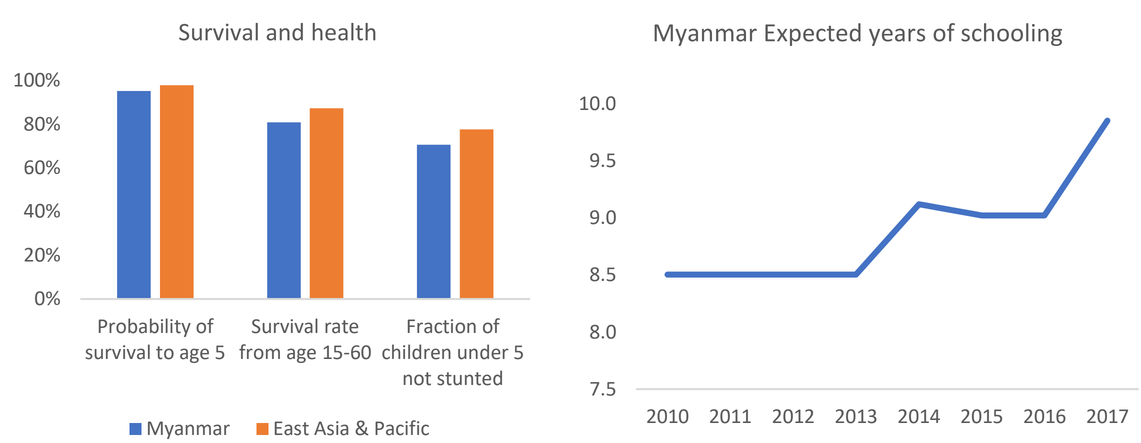
to preventive care and health interventions with strong public goods characteristics (for more detail see, World Bank, 2015).[45] Although some progress has been recently made in Myanmar, significant challenges remain.

…with an urgent need to scale up public investment in health and education…

108. **Historically low government spending on health and education sectors have translated to inadequate basic social services and large gaps in education, health and nutrition outcomes** (World Bank, 2015).[46] In addition, prohibitive out-of-pocket payments have led to low school enrolment and completion rates; poor learning outcomes; and inequalities in access to and quality of education across the country. High out of pocket expenditure on health have forced individuals and families to forego or delay seeking health care and have caused shocks to households and, in time, resulted in impoverishment. Public expenditure levels are also insufficient for Myanmar to address a "double burden" of an unfinished MDG agenda, which focuses on communicable diseases and maternal and child health, and a growing burden of non-communicable diseases, such as diabetes and hypertension

109. **In recent years, Myanmar has increased public spending on health and education from a low base, which has led to some improvements in outcomes**. Between 2011/12 and 2017/18, Myanmar increased spending on education from 0.67 percent to 1.77 percent of GDP for education and from 0.19 percent to 0.80 percent of GDP for health.[47] Performance on HCI indicators during the same period suggests that some improvements have indeed accompanied increased spending on health and education. Most notable improvements are in the fraction of children not stunted (figure 55), as well as in an increase in expected years of schooling, from 8.5 to 9.9 years (figure 53). In addition to outcomes, there was also a decline in out-of-pocket spending as a share of total spending, which dropped from 63 percent in 2010 to 30 percent in 2015 for education.

Figure 53: Human development outcomes have improved modestly in recent years

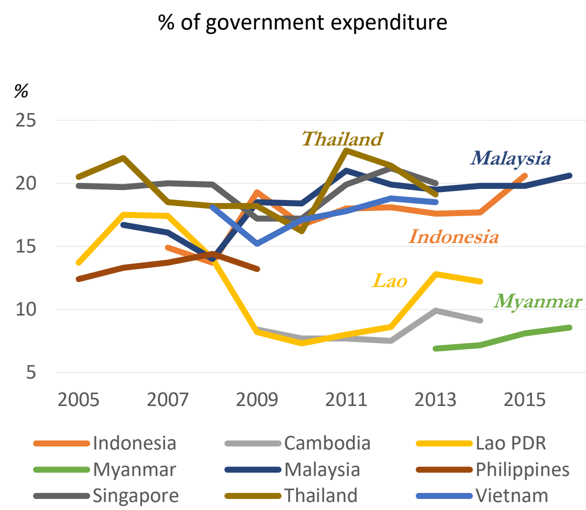


Source: World Bank.

[45] For example, nutrition, water and sanitation, occupational health, maternal and child health, leprosy, AIDS-STD, tuberculosis and water-borne diseases.
[46] World Bank. 2015. "Myanmar Public Expenditure Review: Realigning the Union Budget to Myanmar's Development Priorities".
[47] The expenditure figures correspond to spending by Ministry of Education and Ministry of Health and Sports. They represent the majority share but not the entirety of public spending on health and education.

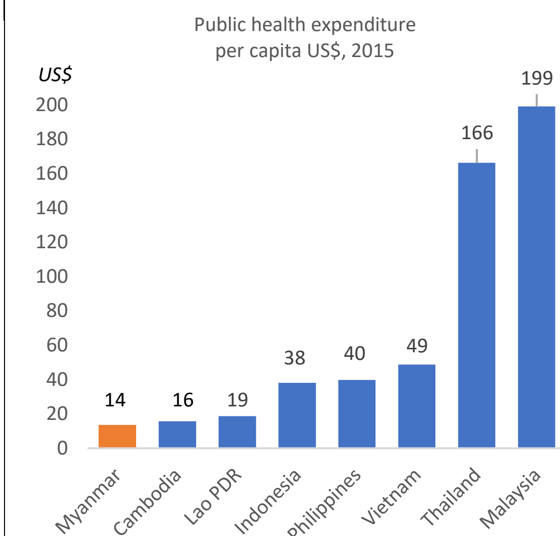
110. **Despite the increase, Myanmar still trails behind all of its neighbors in public expenditure on education and health, in per-capita terms and as a share of total expenditures** (figures 54 and 55). In 2016, 8.6 percent of government expenditure was spent on education, which is lower than recent estimates for Cambodia (9.1 percent), Lao (12.2 percent), Thailand (19.1 percent) or Vietnam (18.5 percent). Government expenditure on health is also low relative to Myanmar's neighbors. Estimates show that Myanmar government spent approximately US$14 on health per person in 2015, lower than US $15 in Cambodia, US$ 19 in Lao, US$ 49 in Vietnam, or US$ 166 in Thailand.

Figure 54: Myanmar spends less on education as a share of budget than its neighbors..



Sources: MoPF, UNESCO, WB staff

Figure 55:..and less on public health spending per capita.



111. **Only a quarter of overall health spending in Myanmar is borne by the public sector (23 percent in 2015), considerably lower than in other countries at a similar level of health spending and income.** Total health spending per capita is also low in Myanmar, at 70,100 kyat (US$ 54) per capita and in aggregate about 4.7 percent of GDP[48]. Out-of-pocket (OOP) spending by households remains the dominant source of financing for health comprising 74 percent of total health spending in 2015. The situation is marginally better for education, with OOP spending accounting for close to 63 percent of total education spending in 2009. OOP expenditure continues to rise in absolute terms and is a major cause of catastrophic expenditure by households and can push or keep households in poverty. 1.7 million individuals in Myanmar were pushed into poverty in 2015 due to their health spending.

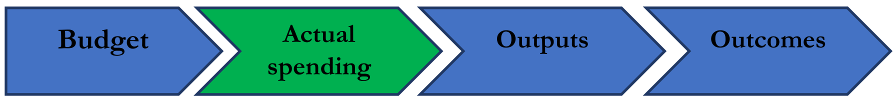
…but ambitious spending plans are coming up against budget execution challenges…

112. **Effective budget execution to translate budgets into spending levels is the first step in a chain towards translating increased budget allocations to improved outcomes.** For example, increasing budget allocation to build health centers, to procure equipment and medicines, or to train more providers should result in higher output, expressed by the larger number of health facilities with more skilled staff, which in turn should lead to more and better services. Increased share of population with better access to health services

[48] Myanmar National Health Accounts, 2015

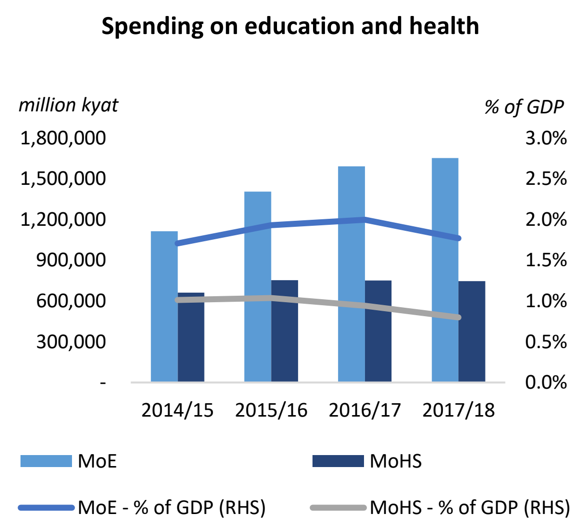
leads to improved outcomes. However, without effective budget execution, the chain from budgets to improved outcomes is broken at the outset — for example, the health centers may not be built in the first place and medicines not purchased in a timely manner. The following section explores under-execution of education and health budgets in Myanmar.

Figure 56: Budgets need to spent before they translate into improved outcomes



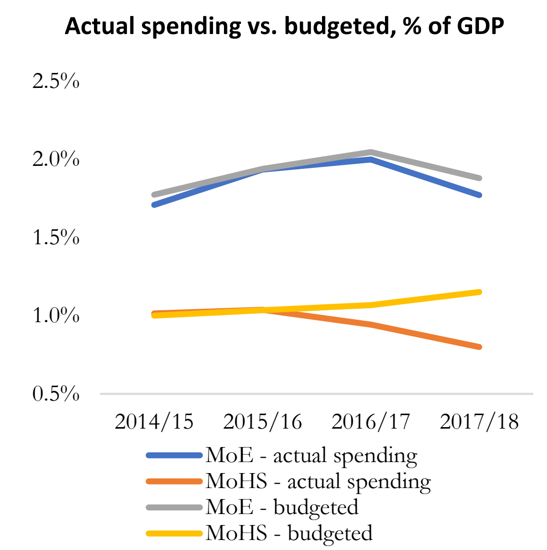
113. **Union spending on health and education have been declining or stagnant as share of GDP (figure 57) despite increasing budgets.** Budgeted expenditure increasing as a share of GDP for both ministries – for Ministry of Education (MOE) from 1.57 percent of GDP in 2014/15 to 1.88 percent of GDP (Figure 58) and for Ministry of Health and Sports (MOHS) from 0.86 percent of GDP in 2014/15 to 1.15 percent of GDP in 2017/18. Despite this increase, actual expenditure by MOE as share of GDP has remained stagnant at around 1.7 percent of GDP and actual expenditure by MOHS has declined 1.0 percent to 0.8 percent of GDP in the same period.

Figure 57: Nominal budgets are increasing, but education and health spending as share of GDP has declined..



Sources: MOPF, WB Staff Estimates

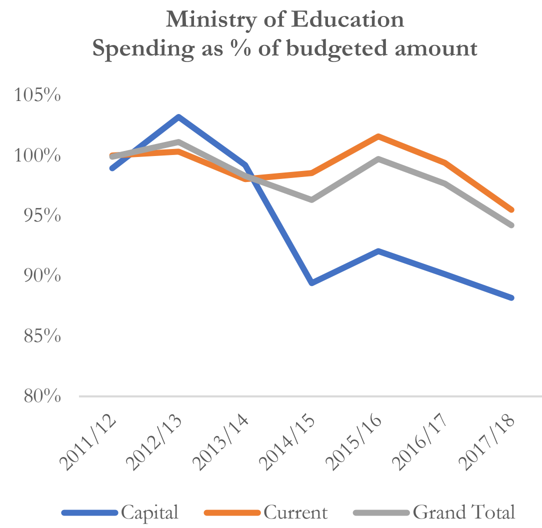
Figure 58:..and actual spending is significantly lower than budgeted spending.

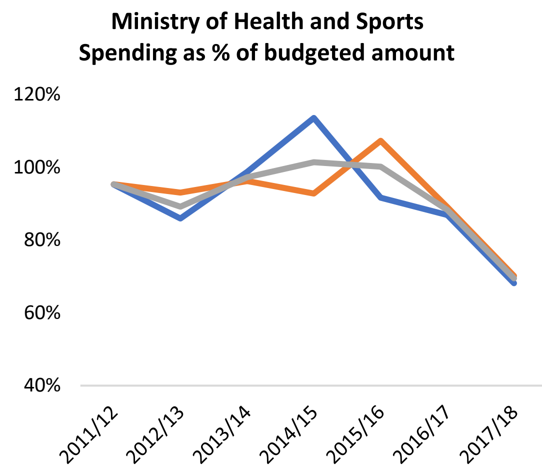


Sources: MOPF, WB Staff Estimates

114. **The gap between planned and actual expenditure reflects growing challenges of budget execution (figure 59).** Execution rates at MOE are higher than that of MOHS, at an average of 90 percent spending of allotted budgets in the past five years. However, budget execution at MOE has been declining since 2015/16, with lower execution rate for capital investments. MoHS is facing a sharper decrease with the execution rate of 69 percent in 2017/18, the worst among the top 10 spending ministries with decline for both current and capital spending. Both ministries are below the average capital (105 percent) and current (94 percent) budget execution rates among 10 largest ministries.

Figure 59: Underspending in health and education has worsened in the last fiscal year



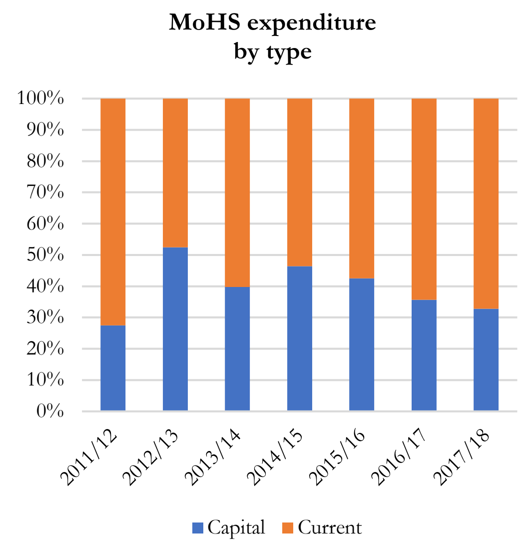
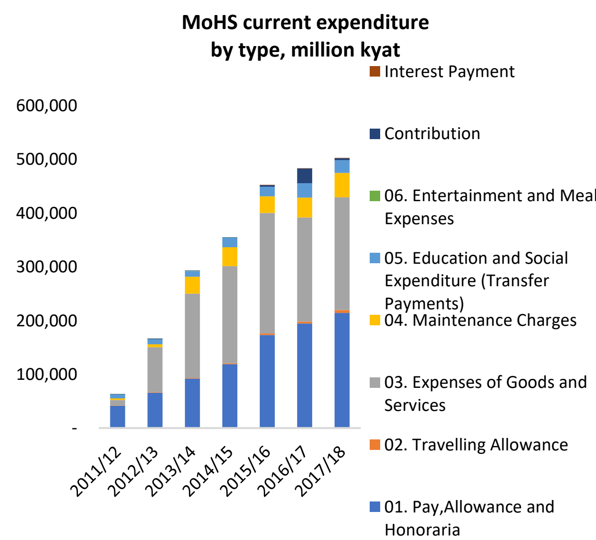


Sources: MOPF, WB staff estimates.

The next two subsections take a closer look at the composition of spending, under-spending patterns by type of spending and by department, and drivers of under-spending for MOHS and MOE respectively.

MOHS: Sharply declining budget execution with underspending on current expenditure

115. **MOHS spends most of its budget on current expenditure**. The share of current spending has increased from 48 percent in 2012/13 to 68 percent in 2017/18, while the share of capital spending has decreased commensurately (figure 60). Employee compensation and expenses on goods and services dominate current expenditure (figure 61). "Pay, Allowance and Honoraria" and "Expense on goods and services" account for about 85 percent of MoHS (42 percent each) total current spending. The former includes pay, allowances, accommodation costs, overtime and other pay related costs. Expense of goods and services includes office equipment, petrol, postage and other communication expenses, electricity, books, uniforms, medical expenses, assembly and seminar expenses and others.

Figure 60: Current expenditure dominates health spending..	*Figure 61:..with an increasing share spent on pay and compensation.*
	

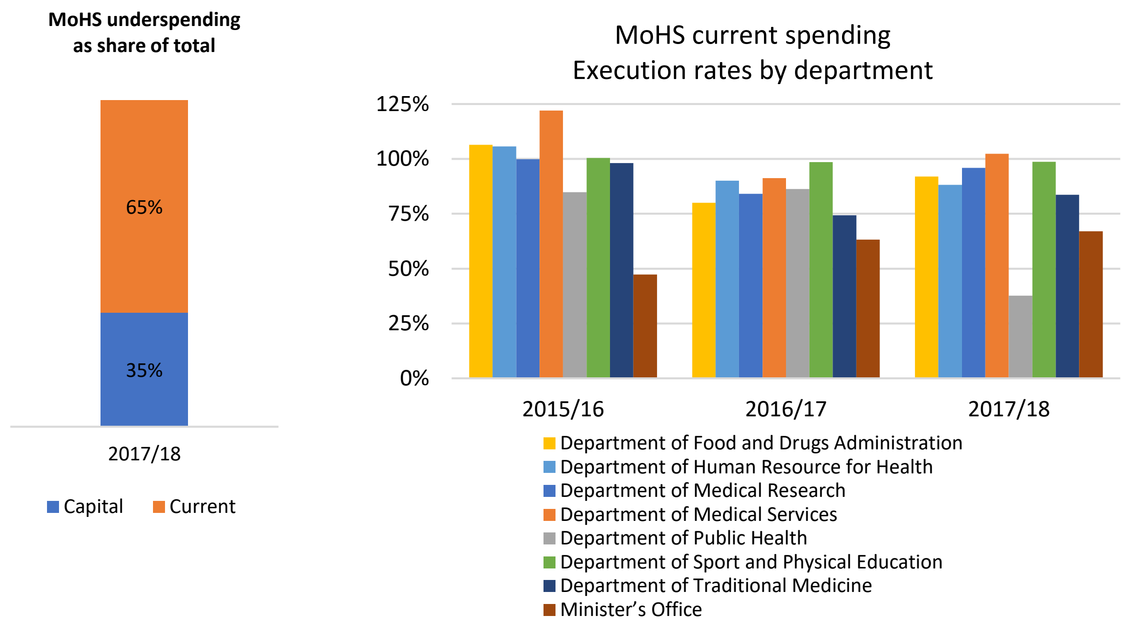
Sources: MOPF, WB staff estimates.

116. **Departments of Public Health and Department of Medical Services account for most of current expenditure at MOHS.** The two departments have averaged 88 percent of total current expenditure since 2015/16. Department of Medical Services is the largest spending department at 62 percent of total current expenditure in 2017/18, while Department of Public Health accounts for 26 percent.[49] The Department of Medical Services provides clinical care services across the country through its network of primary, secondary, tertiary and specialist and teaching hospitals. The Department of Public Health, through its cadre of basic health staff, provides public health services at the rural and urban public health facilities and in the community.

117. **MOHS has faced challenges in executing current expenditure budgets, with current expenditure accounting for 65 percent of total underspent amount in 2017/18** (figure 62). This is almost solely driven by underspending under the Department of Public Health, which accounts for 97 percent of the ministry's total current underspending. In nominal terms, the department's underspending is estimated to reach 214 billion kyat in 2017/18, a large increase from under 29 billion kyat in the previous year. The challenge for the Department of Public Health is of absorbing large increases in the budget -– the size of the recurrent budget has nearly tripled for the department since 2015/16 but its execution rate has declined from 86 percent of the budget in 2016/17 to 38 percent in 2017/18 (figure 62).

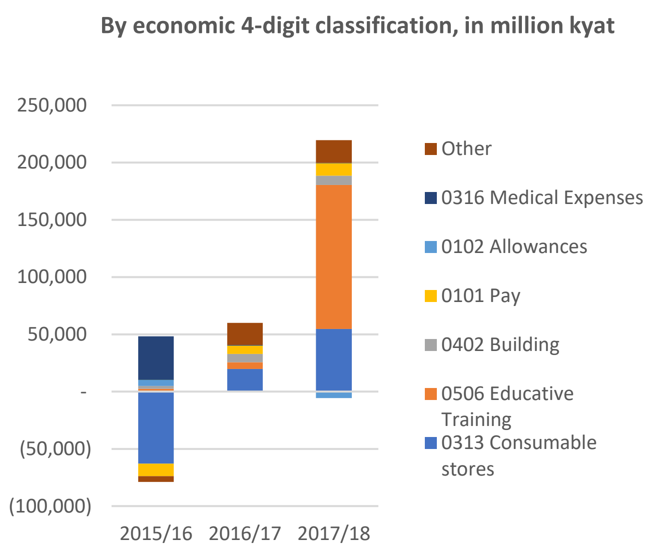
[49] Analysis of MoHS expenditure excludes capital spending due to data limitations.

Figure 62: MOHS underspending driven by recurrent under-spending, with the department of public health struggling to absorb budget increases.



Sources: MOPF, WB staff estimates.
Note: Underspending in kyat reported as budget – actual spending: positive amount indicates the underspending.

Figure 63: …particularly for educative training.



Source: MOPF, WB staff estimates.
Note: Underspending in Kyat reported as budget – actual spending: positive amount indicates the underspending.

118. **"Educative training" and "expense on consumable stores" account for most of the recurrent expenditure underspending (figure 63).** "Educative training" and expense on "consumable stores" account for 85 percent of all recurrent underspending in MoHS. The former is the largest underspent spending item, with only 20 billion out of nearly 146 billion budgeted spent in 2017/18. This could be due to challenges in

absorbing a nearly 5-fold increase in the budgeted amount, from 29 billion kyat to nearly 146 billion kyat from 2016/17 to 2017/18. Educative training (0506) encompasses all expenses associated with the delivery of capacity building activities for MoHS' own staff, staff from other related government agencies and departments, and community based voluntary health workers and associations. Significant amount of external aid for health is also accounted under this category, with funds from the Global Alliance of Vaccines and Immunizations and the Asian Development Bank accounting for majority of the underspending in this category in 2017/18. Consumable stores (0313) covers a broad category of expenses related to the running of health facilities to provide public health and clinical services, such as costs of medicines and non-medical commodities, drinking water, supplies for sanitation and infection control.

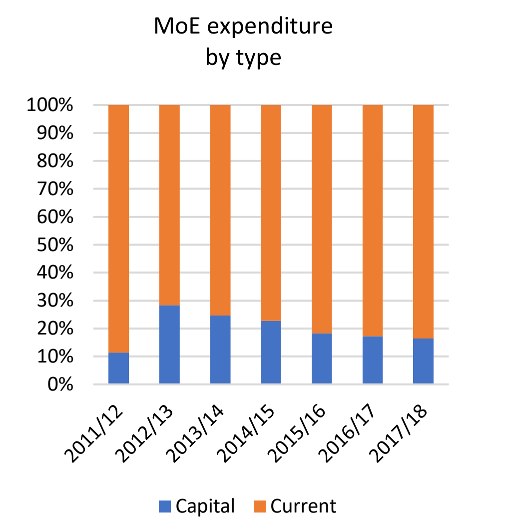
119. **Construction, machinery and equipment related investments contribute to the largest share of underspending of capital expenditure.** In 2017/18, actual spending on construction fell nearly 68 billion kyat, or 27 percent, short of the budgeted amount. Underspending on machinery and equipment is even higher in relative terms, with actual spending 43 percent lower than the budgeted amount, or by 47 billion kyat.

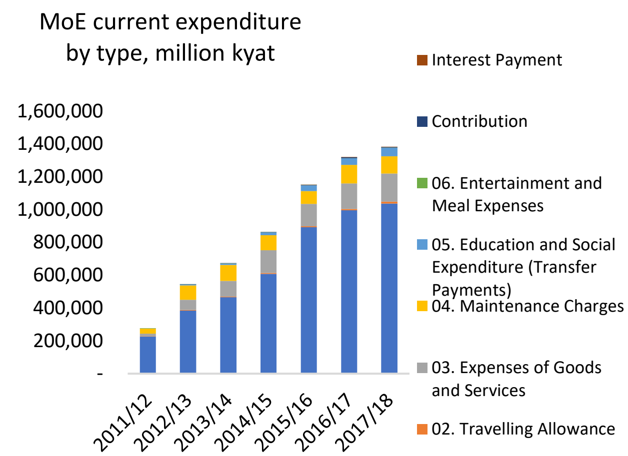
120. **Existing budget execution weaknesses have been exacerbated by Ministry reorganization in 2015.** MOHS was reorganized in 2015 with the former Department of Health split into two separate entities, the Department of Public Health and Department of Medical Services. Existing weaknesses in budget execution have become more pronounced post reorganization, with the most salient challenges including: (i) insufficient human resources for financial management at the spending units at the frontline; (ii) cumbersome and often redundant internal procedures for activity and budget proposal submission, review and approval; (iii) lack of tried-and-tested formula for estimating the needs and allocation for medicines and consumables at public health facilities; (iv) limited capacity and time to do proper (multiyear) planning; lack of integrated information system for capital planning for public health facilities; (v) low level of understanding and skills among union level finance and program staff in managing on-budget off-system external aid; (vi) weak collaboration and coordination between the program units which receive and implement external aid, and overall departmental planning and finance units during the planning and budgeting process; and (vii) existing paper-based financial management system poorly equipped to do timely monitoring and expenditure tracking.

MOE: Challenges in execution of capital spending

121. **MOE spends most of its budget on recurrent expenditure (figure 64).** MoE's recurrent spending stands at 84 percent in 2017/18, an increase from 72 percent in 2012/13. Employee compensation and expenses on goods and services make the largest share of MoE current expenditure. "Pay, Allowance and Honoraria" and "Expense on goods and services" combine for 87 percent (75 percent and 12 percent, respectively) of the ministry's total current expenditure. The former includes pay, allowances, accommodation costs, overtime and other pay related costs. Expense of goods and services includes office equipment, petrol, postage and other communication expense, electricity expense, books, uniforms, medical expenses, assembly and seminar expenses and more.

Figure 64: Ministry of Education is spending most of its budget on current expenditure..	*Figure 65:..with pay and compensation a rising share*





Sources: MOPF; WB staff estimates.

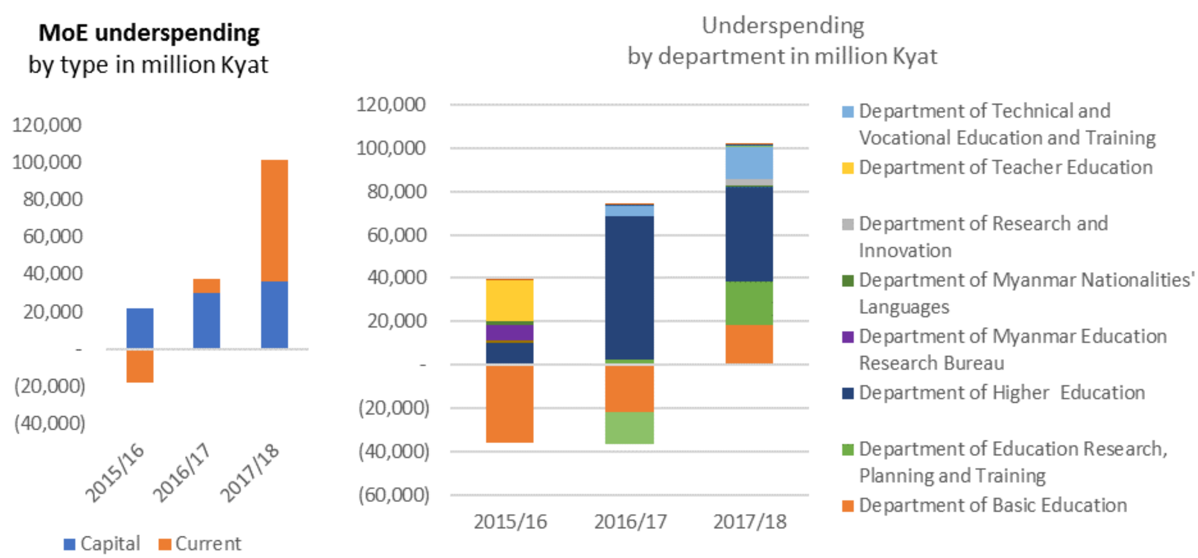
122. **The Department of Higher Education (DHE)[50] and Department of Basic Education (DBE) account for almost all of MOE spending**[51]. Following restructuring in 2015/16 the two departments have since accounted for nearly all MoE expenditure. DBE is by far the largest spender, accounting of 80 percent of total MoE spending in 2017/18, with DHE accounting for 16 percent of total spending.

123. **MOE faces challenges in executing capital projects, with capital expenditure accounting for most of the underspending (figure 66).** Underspending of capital expenditure has been steadily growing, from 22 billion to 36 billion kyat between 2015/16 and 2017/18. More recently, underspending of current expenditure in 2017/18 has increased to 65 billion Kyat (from 7 billion kyat in 2015/16), accounting for 64 percent of total underspent amount in 2017/18. Despite an increasingly large share of total underspending, execution rate for recurrent spending is still high (96 percent of total budgeted amount).

[50] DHE oversees the administration and coordination of higher education institutions under the Ministry of Education

[51] DBE oversee, administers and finances the operation of all MoE's primary and secondary schools across Myanmar, totalling more than 47,000.

Figure 66: Underspending is driven by capital expenditure by the Department of Higher Education



Source: MOPF, WB Staff Estimates

Source: Ministry of Planning and Finance; WB staff estimates.
Note: Underspending in kyat reported as budget – actual spending: positive amount indicates the underspending.

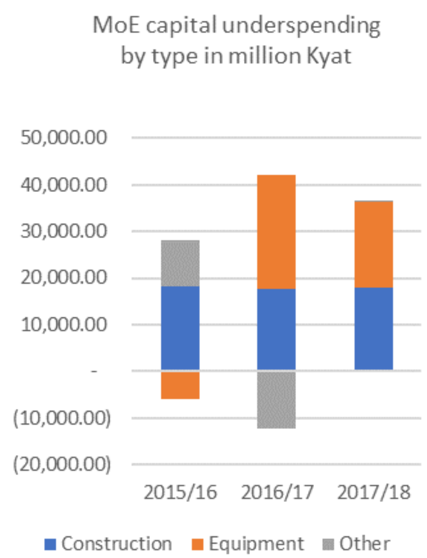
124. **Department of Higher Education accounts for most of underspending in MoE (figure 66).** Despite accounting for only 16 percent of the MoE budgeted spending, this department accounts for 42 percent of the ministry's underspending, with execution rates of 78 percent and 86 percent in 2016/17 and 2017/18, respectively. The Department of Education Research, Planning and Training, and the Department of Technical, Vocational Education and Training account for less than 4 percent of total MoE spending but are responsible for a third of MOE's underspending. The Department of Basic Education accounts for 18 percent of total underspending, but with average execution rates close to 100 percent.

125. **Construction and equipment related investments contribute to the largest share of underspending of capital expenditure (figure 67).** In 2017/18, spending on equipment fell 18 billion kyat, or 32 percent, short of the budgeted amount, a reversal from 6 billion kyat overspent in 2015/16. Over the last 3 years, construction spending has consistently fallen short by 17 to 18 billion kyat of the budget.

126. **"Expenses of Goods and Services" and "Educational and Social Expenditure (Transfer payments)" account for nearly all the recurrent expenditure underspending (figure 68).** Approximately 64 percent of the recurrent underspending in the MoE is attributed to "Expenses of Goods and Services", which covers a wide range of operational and administrative expenses including transport, printing and publications charges, expenses for foreign consultants, office equipment and costs related to assembly's and seminars. External aid is, in part, accounted for under this category, with pledge but unreceived funds from JICA and UNICEF contributing significantly to underspending in 2017/18. "Educational and Social Expenditure (Transfer payments)" which covers expenses related to social security payments, gratuity, gifts and donations, staff welfare and training costs, accounts for 23 percent of the underspending. At the 4-digit budget particular (line item) level, hiring and manufacturing charges are significantly underspent in percentage terms and transport charges are underspent, which indicate lower than budgeted spending on outreach activities.

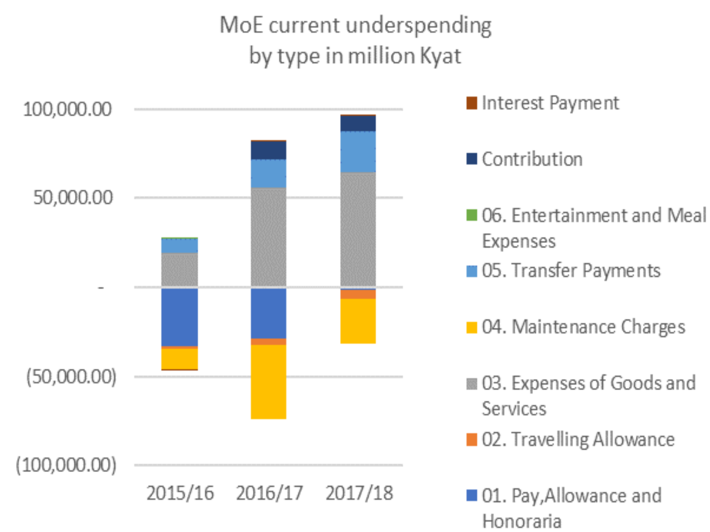
127. **Despite overall underspending of recurrent expenditure, MoE has over-spent in some categories.** In 2017/18, largest overspending of about 25 billion kyat, or 31 percent of budgeted amount, was observed under "Maintenance charges". Wage related expenses under "Pay, Allowance and Honoraria" contributed to average recurrent overspending of about 32 billion kyat, or 3 percent, in 2015/16 and 2016/17.

Figure 67: Construction and equipment drive MOE capital underspending..



Source: MOPF, WB Staff Estimates

Figure 68:..while goods and services, and educational and social expenditure, account for recurrent underspending.



Source: MOPF, WB Staff Estimates

Sources: MOPF, WB staff estimates.
Note: Underspending in kyat reported as budget – actual spending: positive amount indicates the underspending. "Transfer payments" are also referred to as "Education and Social Expenditure".

…which need to be addressed in a collaborative, cross-government approach.

128. **The first step to improved budget execution is improved diagnostics.** Understanding the source of the underspending in a timely manner through regular in-year reporting and interaction between the Ministry of Planning and Finance (MOPF) and the line ministries is critical. In the absence of diagnostics, targeted action on removing constraints within departments would not be possible.

129. **Improved diagnostics requires timely data that is collected and analyzed.** At present, budget execution is compiled with at least 6-month lag to prepare annual accounts. The data is now being systematically analyzed through the creation of expenditure databases at the Ministry of Planning and Finance, for the 10 largest spending ministries, at the 2-digit spending level for recurrent expenditure and by type of spending for capital expenditure. The databases could be extended to 4-digit spending level, including spending disaggregated by states and regions, with improved collaboration between MOPF and line ministries, which would enable more granular analysis and identification of solutions.

130. **Improved collaboration and communication between MOPF and line ministries will improve the quality and relevance of the diagnoses.** Regular in-year interaction between the budget officers at MOPF and counterparts at line ministries, will complete the data driven diagnosis. For example, data analysis of expenditure databases can identify the major sources of the underspending by line item and by department. The inputs of line ministry budget officers and the officials responsible for executing the budget is crucial to understand why the underspending may be taking place and possible actions, that can be taken across government, to alleviate the challenges. Such interactions could be programmed into the budget cycle – for example, during the revised estimate preparation stage and during the next year budget preparation phase.

131. **Weak capacity, paper-based systems, incremental budget practices and multiple reporting requirements are holding back budget execution within MOE and MOHS.** Budgets are often allocated to departments based on patterns of historical spending with limited planning for new priorities. As a result, budgets may not reflect in-year needs of departments. The ministries suffer from a dearth of personnel skilled in financial management at the frontline spending units. Outdated paper-based financial management systems are slow and error-ridden, and do not produce timely data and reporting for effective and efficient decision-making. For MOHS, these problems are compounded by multiple parallel systems of planning, budgeting, reporting, fund flow and financial management established to manage the external aid for health (off-system but on-budget).

132. **The challenges cannot be addressed in the short term, but, with improved information, major spending bottlenecks can be prioritized**. Both ministries are currently undertaking reforms over the medium-term to improve capacity, automating data, and changing budget allocation methods but this process will take time. In the interim, data analysis and in-year collaboration with MOPF could help address pressing spending challenges as they arise and help inform the medium-term reforms currently underway.

133. **MOPF has a role to play in reducing spending rigidities in the system.** Myanmar does not have an established procedure of virements, which are common practices across budgeting systems to allow for transfer of spending items across line items or financial accounts. Introducing such procedures and, for expenditure up to a certain threshold, allowing for delegation to departments and spending units for virements, could help address issues of uneven budget execution. Virements will be most effective if designed in a collaborative cross-government manner, with inputs from line ministries and from other stakeholders.

134. **Finally, Myanmar needs to spend more but also better.** Focus and further analysis on other parts of the budget chain is important to ensure improved outcomes. While aligning actual spending closer to budgets is important, by itself it will not necessarily guarantee improved outcomes. Myanmar not only needs to spend more, it needs to spend better. It is essential to ensure budgets are allocated effectively, aligned with priority issues, focused on cost-effective interventions and on lagging geographic areas and groups.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Economic growth and prices							
Real GDP (kyat billion)	52,785	56,476	59,787	63,828	67,764	72,187	76,956
Agriculture	15,769	16,306	16,231	16,439	16,640	16,973	17,380
Industry	15,659	16,963	18,477	20,217	21,882	23,633	25,405
Services	21,357	23,207	25,079	27,172	29,242	31,581	34,171
CPI (percent change, yoy)	6.1	8.4	7.0	5.4	8.8	8.3	8.5
Consolidated public sector (kyat billion)							
Revenue	14,550	13,645	14,505	14,942	17,370	19,680	22,523
o/w Tax	4,586	4,901	5,677	6,003	7,073	7,943	9,282
o/w Non-Tax	3,332	2,969	2,842	2,951	3,328	3,794	4,505
Expenditure	15,248	16,806	16,671	17,364	21,530	24,778	28,665
Recurrent	10,733	12,301	12,776	13,509	16,018	18,139	20,885
Capital	4,514	4,505	3,895	3,855	5,513	6,639	7,781
Monetary (kyat billion)							
Broad Money (M2)	28,524	36,040	43,034	50,772	47,093	52,892	59,050
Reserve Money	12,725	15,632	17,001	18,023	19,029	21,372	24,043
Balance of Payments (US$ million)							
Current account	(4,070)	(4,396)	(3,501)	(1,725)	(2,080)	(2,600)	(3,120)
Trade balance	(4,052)	(5,368)	(5,369)	(3,848)	(5,201)	(5,513)	(5,721)
Exports	12,145	10,221	10,649	13,563	21,322	22,050	22,362
Imports	16,197	15,589	16,018	17,411	26,523	27,563	28,083
Economic growth and prices (percent change)							
Real GDP	8%	7.0%	5.9%	6.8%	6.2%	6.5%	6.6%
Agriculture	2.8%	3.4%	-0.5%	1.3%	1.2%	2.0%	2.4%
Industry	12.1%	8.3%	8.9%	9.4%	8.2%	8.0%	7.5%
Services	9.1%	8.7%	8.1%	8.3%	7.6%	8.0%	8.2%
CPI (percent change, yoy)	6.1	8.4	7.0	5.4	8.8	8.3	8.5
Consolidated public sector (percent of GDP)							
Revenue	22.3%	18.8%	18.2%	16.5%	16.7%	16.6%	16.5%
o/w Tax	7.0%	6.7%	7.1%	6.6%	6.8%	6.7%	6.8%
o/w Non-Tax	5.1%	4.1%	3.6%	3.3%	3.2%	3.2%	3.3%
Expenditure	23.4%	23.1%	20.9%	19.2%	20.7%	20.9%	21.0%
Recurrent	16.4%	16.9%	16.0%	14.9%	15.4%	15.3%	15.3%
Capital	6.9%	6.2%	4.9%	4.3%	5.3%	5.6%	5.7%
Monetary (percent change)							
Broad Money (M2)	12.9%	26.3%	19.4%	18.0%	-7.2%	12.3%	11.6%
Reserve Money	4.6%	22.8%	8.8%	6.0%	5.6%	12.3%	12.5%
Balance of Payments (percent of GDP)							
Current account	-6.2%	-7.4%	-5.5%	-2.6%	-2.0%	-2.5%	-3.0%
Trade balance	-6.2%	-9.0%	-8.5%	-5.7%	-5.0%	-5.3%	-5.5%
Exports	18.6%	17.1%	16.8%	20.2%	20.5%	21.2%	21.5%
Imports	24.7%	26.1%	25.3%	26.0%	25.5%	26.5%	27.0%

Sources: MOPF, CBM, MOC, IMF BOP Statistics, CSO, WB Staff estimates

Annex 2: Gross Domestic Product

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
GDP production (Current, kyat million)	51,259	58,012	65,262	72,714	79,760	90,451
Agriculture	15,680	17,133	18,162	19,467	20,314	21,106
Industry	16,594	18,774	22,509	25,064	27,941	32,829
Services	18,985	22,105	24,591	28,183	31,505	36,516
GDP production (2010/11 prices, kyat million)	45,081	48,879	52,785	56,476	59,787	63,828
Agriculture	14,807	15,346	15,769	16,306	16,231	16,439
Industry	12,534	13,963	15,659	16,963	18,477	20,217
Services	17,740	19,570	21,357	23,207	25,079	27,172
Real GDP growth (percent)	7.3%	8.4%	8.0%	7.0%	5.9%	6.8%
Agriculture	1.7%	3.6%	2.8%	3.4%	-0.5%	1.3%
Industry	8.0%	11.4%	12.1%	8.3%	8.9%	9.4%
Services	12.0%	10.3%	9.1%	8.7%	8.1%	8.3%
GDP production (2010/11 prices, percent share)	100%	100%	100%	100%	100%	100.0%
Agriculture	32.8%	31.4%	29.9%	28.9%	27.1%	25.7%
Industry	27.8%	28.6%	29.7%	30.0%	30.9%	31.7%
Services	39.4%	40.0%	40.5%	41.1%	41.9%	42.6%

Source: MOPF

Annex 3: Consumer Price Index

	2014/15	2015/16	2016/17	2017/18
CPI (All items, yoy % change)	**6.1**	**8.4**	**7.0**	**5.4**
CPI (Food and non-alcohol. bev., yoy % change)	**8.3**	**11.8**	**8.0**	**4.8**
CPI (Non food, yoy % change)	**2.9**	**3.1**	**5.4**	**6.5**
Alcoholic beverages, tobacco	8.9	11.7	4.0	19.4
Clothing and footwear	5.8	5.5	2.5	1.7
Housing, water, electricity, gas and other fuels	7.1	4.1	6.5	7.7
Furnishings, household equip and routine hh maintenance	4.1	6.4	1.0	3.2
Health	8.1	5.7	4.1	5.4
Transport	-6.3	-5.8	11.8	5.7
Communication	0.9	-0.5	-2.3	9.3
Recreation and culture	2.7	2.1	0.9	0.9
Education	2.3	2.0	2.8	0.4
Restaurants and hotels	6.0	5.5	2.6	10.6
Miscellaneous goods and services	4.7	10.2	5.3	3.2
CPI (All items, annual average % change)	**5.1**	**10.0**	**6.8**	**4.0**
CPI (Food and non-alcohol. bev., annual average, % change)	**6.9**	**13.9**	**8.7**	**3.3**
CPI (Non-food, annual average, % change)	**2.4**	**3.9**	**3.5**	**5.4**
Alcoholic beverages, tobacco	10.3	14.9	5.8	9.4
Clothing and footwear	2.5	6.8	3.9	1.7
Housing, water, electricity, gas and other fuels	5.5	7.1	6.1	5.1
Furnishings, household equip and routine and hh maintenance	1.8	6.1	3.4	2.1
Health	5.4	7.5	5.4	4.4
Transport	-0.9	-5.6	-0.9	9.9
Communication	0.6	0.1	-1.6	6.2
Recreation and culture	0.9	2.9	2.2	0.7
Education	3.0	1.8	3.9	0.5
Restaurants and hotels	1.7	5.9	3.7	5.0
Miscellaneous goods and services	0.8	10.1	6.5	4.4

Source: Central Statistical Organization

Annex 4: Balance of Payments

	2013/14	2014/15	2015/16	2016/17	2017/18
	Balance of Payments (US$ million)				
Current account	**-2,087**	**-4,070**	**-4,396**	**-3,501**	**-1,725**
Trade balance	-2,164	-4,052	-5,368	-5,369	-3,848
Exports	9,438	12,145	10,221	10,649	13,563
Imports	11,603	16,197	15,589	16,018	17,411
Services balance	570	1,298	1,085	1,311	1,248
Primary income balance	-1,902	-2,624	-1,984	-1,523	-1,596
Secondary income balance	1,409	1,308	1,871	2,081	2,471
Capital account	**-1**	**0**	**0**	**1**	**1**
Financial account	**4,993**	**3,031**	**3,851**	**4,520**	**4,311**
Direct Investment	-2,619	-2,907	-3,437	-3,362	-3,860
Portfolio Investment	-0.4	-16.4	0.1	-37.2	45.8
Other Investment	-2,374	-107	-414	-1,121	-497
Net Errors & Omissions	**199**	**2,121**	**158**	**-639**	**-2,527**
Overall balance	**2,906**	**-1,039**	**-545**	**1,020**	**2,587**
Reserve Assets	**3,105**	**1,081**	**-387**	**382**	**60**
	Balance of Payments (% of GDP)				
Current account	**-3.5%**	**-6.2%**	**-7.4%**	**-5.5%**	**-2.6%**
Trade balance	-3.6%	-6.2%	-9.0%	-8.5%	-5.7%
Exports	15.7%	18.6%	17.1%	16.8%	20.2%
Imports	19.3%	24.7%	26.1%	25.3%	26.0%
Services balance	0.9%	2.0%	1.8%	2.1%	1.9%
Primary income balance	-3.2%	-4.0%	-3.3%	-2.4%	-2.4%
Secondary income balance	2.3%	2.0%	3.1%	3.3%	3.7%
Capital account	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Financial account	**8.3%**	**4.6%**	**6.5%**	**7.1%**	**6.4%**
Direct Investment	-4.3%	-4.4%	-5.8%	-5.3%	-5.8%
Portfolio Investment	0.0%	0.0%	0.0%	-0.1%	0.1%
Other Investment	-3.9%	-0.2%	-0.7%	-1.8%	-0.7%
Net Errors & Omissions	**0.3%**	**3.2%**	**0.3%**	**-1.0%**	**-3.8%**
Overall balance	**4.8%**	**-1.6%**	**-0.9%**	**1.6%**	**3.9%**
Reserve Assets	**5.2%**	**1.7%**	**-0.6%**	**0.6%**	**0.1%**

Sources: IMF Balance of Payments Statistics, IMF Article IV (2016), CBM, WB Staff estimates

Annex 5: Monetary Survey

Monetary Survey (kyat billion)	**2015/16**	**2016/17**	**2017/18**
Assets	**36,040**	**43,034**	**50,772**
Net Foreign Assets	**9,263**	**9,281**	**9,306**
CMB (net)	5,374	6,550	6,693
DMB (net)	3,888	2,731	2,613
Net Domestic Assets	**26,777**	**33,753**	**41,466**
Net Claims on Government	13,198	15,532	18,252
CMB	12,233	13,704	14,338
DMB	964	1,834	3,915
Credit to the economy	14,188	18,823	23,064
Private sector	13,667	18,244	22,517
Other	521	579	547
Other items (net)	**(608)**	**(609)**	**149**
Liabilities	**36,040**	**43,034**	**50,772**
Broad money (M2)	**36,040**	**43,034**	**50,772**
Narrow money (M1)	14,819	15,799	16,891
Currency outside depository corporation	10,157	10,920	11,604
Transferable deposits	4,662	4,880	5,287
Quasi money	21,221	27,234	33,881
Central Bank of Myanmar Balance Sheet (kyat billion)			
CBM Assets (kyat billion)	**15,632**	**17,001**	**18,022**
Net Foreign Assets	5,374	6,550	6,693
Net Claims on Central Government	12,233	13,704	14,338
Net Claims on Commercial Banks	385	174	610
Claims on Other Sectors	-	-	-
Shares and Other Equity	(2,244)	(3,060)	(3,164)
Other Items (Net)	(116)	(367)	(455)
CBM Liabilities (kyat billion)	**15,632**	**17,001**	**18,022**
Monetary Base	15,632	17,001	18,022
Currency in Circulation	11,771	13,064	14,184
Liabilities to Other Depository Corporations	3,861	3,938	3,838

Source: Central Bank of Myanmar

Annex 6 a: Fiscal operations (kyat billion)

	2015/16	2016/17	2017/18	2018/19
	PA	PA	TA	Budget
Consolidated Public Sector				
Revenue	13,892	14,638	15,044	15,812
Expenditure	17,058	16,750	17,365	22,039
Balance	(3,166)	(2,112)	(2,321)	(6,227)
SEE Operations				
Revenue	7,367	7,276	7,504	7,801
Net of transfers to UG	5,444	5,634	5,775	6,079
Expenditure	7,719	6,990	7,228	8,814
Recurrent	6,738	6,263	6,477	7,252
Net of transfers to UG	4,823	4,635	4,755	5,531
Capital	981	727	751	1,562
SEE Balance	(352)	286	276	(1,013)
Union Government				
Revenue	8,390	8,980	9,261	9,819
Tax	4,901	5,677	6,003	6,370
o/w Income	2,326	2,324	2,264	2,325
o/w Commercial	2,106	1,878	1,975	2,123
Non-Tax	3,159	2,952	3,045	2,792
Grants	330	351	213	657
Expenditure	11,204	11,378	11,858	15,033
Recurrent	7,478	8,141	8,677	10,281
Wages	1,622	1,716	1,814	2,228
Transfers	1,949	1,964	1,885	2,174
Interest	719	925	1,121	1,415
Other	3,188	3,536	3,857	4,464
Capital	3,726	3,237	3,181	4,752
Union Government Balance	(2,814)	(2,398)	(2,597)	(5,214)

Sources: MOPF, WB Staff estimates

Annex 6 b: Fiscal operations (percent of GDP)

	2015/16	2016/17	2017/18	2018/19
	PA	**PA**	**TA**	**Budget**
Consolidated Public Sector				
Revenue	18.8%	18.2%	16.5%	15.3%
Expenditure	23.1%	20.9%	19.2%	21.2%
Recurrent	16.9%	16.0%	14.9%	15.2%
o/w Interest	1.2%	1.4%	1.4%	1.5%
Capital	6.2%	4.9%	4.3%	6.0%
Balance	-4.3%	-2.7%	-2.7%	-6.0%
SEE Operations				
Revenue	10.1%	9.1%	8.3%	7.5%
Net of transfers to UG	7.5%	7.1%	6.4%	5.8%
Expenditure	10.6%	8.7%	8.0%	8.5%
Recurrent	9.3%	7.9%	7.2%	7.0%
Net of transfers to UG	6.6%	5.8%	5.3%	5.3%
Capital	1.3%	0.9%	0.8%	1.5%
SEE Balance	-0.5%	0.4%	0.3%	-1.0%
Union Government				
Revenue	11.3%	11.1%	10.1%	9.4%
Tax	6.7%	7.1%	6.6%	6.1%
o/w Income	3.2%	2.9%	2.5%	2.2%
o/w Commercial	2.9%	2.4%	2.2%	2.0%
Non-Tax	4.1%	3.6%	3.3%	2.7%
Grants	0.5%	0.4%	0.2%	0.6%
Expenditure	15.1%	14.2%	13.1%	14.4%
Recurrent	10.3%	10.2%	9.7%	9.9%
Wages	2.2%	2.2%	2.0%	2.1%
Transfers	2.7%	2.5%	2.1%	2.1%
Interest	1.0%	1.2%	1.2%	1.4%
Other	4.4%	4.4%	4.3%	4.3%
Capital	4.9%	4.0%	3.4%	4.5%
Union Government Balance	-3.9%	-3.1%	-3.0%	-5.0%

Sources: MOPF, WB Staff estimates

Annex 6c: Public Expenditure Composition (Share of GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18
	PA	PA	PA	PA	TA
Total Expenditure	**21.7**	**23.4**	**23.1**	**20.9**	**19.2**
Ministries	11.5	11.8	12.7	12.0	10.6
Defense	3.8	3.8	4.3	3.7	3.3
Agriculture	1.1	1.5	1.5	1.2	0.8
Education	1.7	1.9	2.1	2.0	1.8
Health	1.1	1.1	1.1	0.9	0.8
Planning and Finance	1.3	1.3	1.2	1.5	1.6
Other Ministries	2.4	2.4	2.5	2.7	2.3
Energy (Including SEE)	**7.1**	**7.4**	**6.4**	**5.1**	**4.7**
Non Energy SEEs	5.0	4.3	4.4	4.0	3.7
SAOs	0.2	0.2	0.1	0.1	0.1
Other	1.2	2.5	2.4	2.2	1.8

Sources: MOPF, WB Staff estimate

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