

## Strong growth masks structural vulnerabilities



### General Information

<b>GDP</b>	USD64.8bn (World ranking 71, World Bank 2015)
<b>Population</b>	53.9mn (World ranking 25, World Bank 2015)
<b>Form of state</b>	Parliamentary government
<b>Head of government</b>	HTIN KYAW
<b>Next elections</b>	2021, general elections



### Strengths

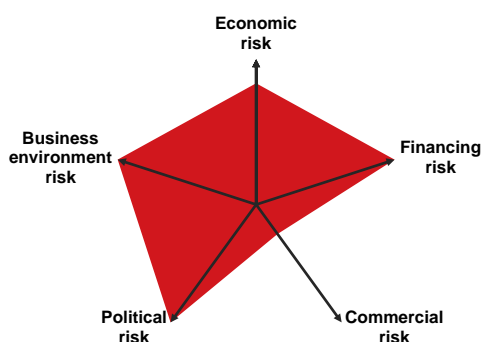
- Considerable natural resources
- Robust growth potential
- After years of sanctions, the country is opening to foreign investments and tourism
- Strategic location

### Weaknesses

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

### Country Rating

**D4**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	64% 1	30% China
Thailand	16% 2	26% Singapore
India	6% 3	14% Thailand
Japan	4% 4	6% Korea, Republic of
Korea, Republic of	2% 5	5% Japan

By product (% of total)

Exports	Rank	Imports
Cork and wood	28% 1	24% Petroleum, petroleum products and related materials
Gas, natural and manufactured	14% 2	9% Textile yarn and related products
Non metallic mineral manufactures	12% 3	8% Iron and steel
Fish, crustaceans, molluscs and preparations thereof	7% 4	5% Specialised machinery
Vegetables and fruits	7% 5	4% Road vehicles

Source: UNCTAD

## Economic Overview

### Strong growth hides structural vulnerabilities

Economic growth has slowed in FY2016-17. Yet performance has remained robust compared to regional peers. The economy sustained a supply shock related to massive flooding, a correction of the construction sector, subdued demand growth from main trade partners, and weak commodity prices.

And still, growth was firm. Favorable fiscal and monetary policies, positive investment inflows, and a wave of wide-ranging reforms intended to open and boost the economy were all helpful. Services, in particular, have continued to thrive thanks to an expansion of tourism, telecommunication, and financial services.

Going forward, growth should strengthen. A successful election in November 2015, eased sanctions from the US and an encouraging policy agenda from the new government provide a favorable environment for investment. This should, in turn, boost domestic demand.

Exports are set to pick-up gradually benefiting from a recovery in commodity prices and a gradual pick up in major trade partners' demand. Risks stem from weak policy buffers and a difficult business environment.

### Strengthening policy buffers will be a priority

Keeping GDP growth above +7% will require strong policy buffers. On the fiscal side, public debt is at an acceptable level due to a massive write-off by creditors and Japanese support on clearing arrears to the World Bank.

Yet the trend does not sit well with an increasing deficit. Fiscal management has been hampered by weaker than expected commodity prices.

The Central Bank faces various challenges. These include high inflation which soared above +10% y/y in Q1 2016, an excessive growth of credit (above +30% y/y in FY2015-16), and pressures on the currency in the wake of lower commodity prices and tighter monetary policy in the US. These vulnerabilities are exacerbated by poor buffers (low FX reserves, e.g.), weak operating framework and insufficient banking supervision.

Last, external vulnerabilities are high. On top of weak reserves, the economy has a chronic current account deficit. The latter is set to increase in the short term due to low commodity prices and continued imports growth of capital goods.

### Weak political and business environment weigh on the long-term outlook

Despite significant political progress (towards democracy and civil society), internal tensions hamper the outlook. The business environment is weak. The country still ranks poorly (170 out of 190) in the World Bank Doing Business survey, with significant shortcomings on contracts enforcement and investment protection.

### Key economic forecasts

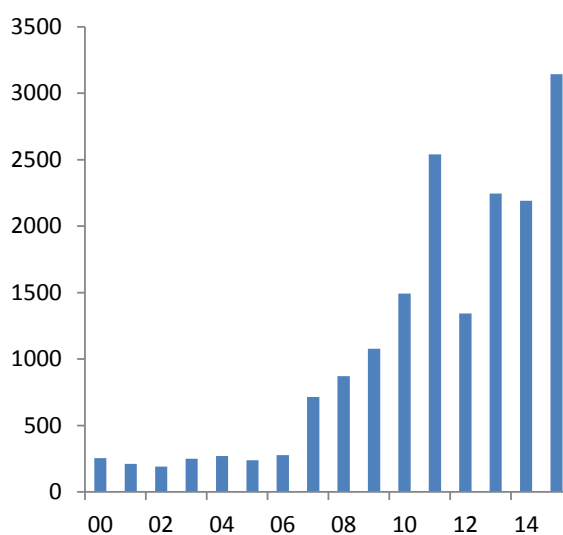
	2015e	2016f	2017f	2018f
GDP growth (% change)	7.3	7.1	7.5	8.0
Inflation (% , year average)	10.8	9.0	8.3	7.5
Fiscal balance (% of GDP)*	-4.8	-4.6	-4.7	-4.5
Public debt (% of GDP)*	34.3	34.2	35.1	35.0
Current account (% of GDP)	-7.8	-8.0	-8.5	-8.0
External debt (% of GDP)	15.7	15.8	15.1	14.8

Data are provided in Fiscal Year. 2015 refers to FY2015-16.

\*Fiscal figures include central government and nonfinancial Public Corporation

Sources: ADB, IMF, Euler Hermes

Figure 1 – Net foreign direct investment (USD mn)



Sources: ADB, Euler Hermes

#### DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.