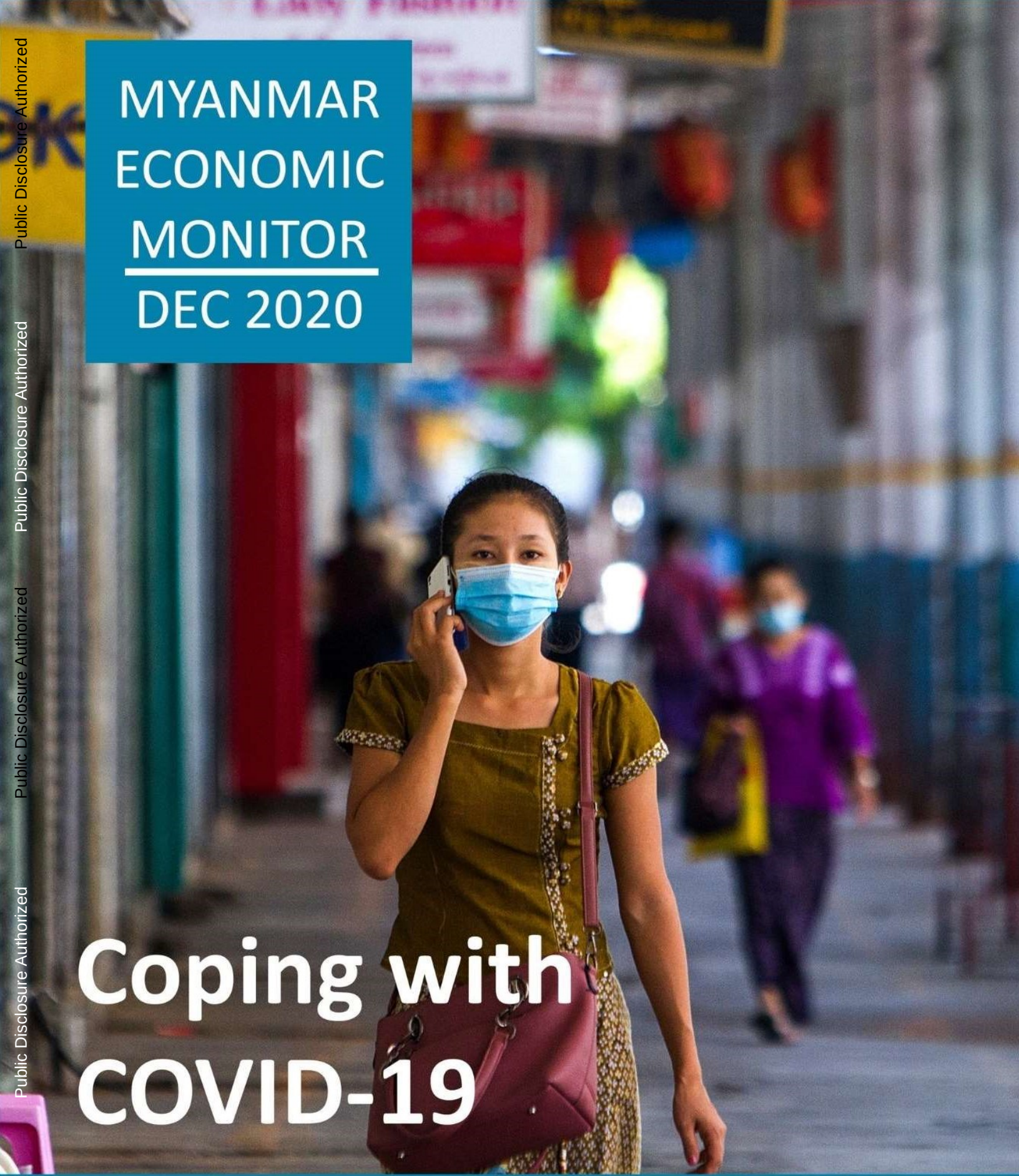
MYANMAR ECONOMIC MONITOR

DEC 2020



Coping with COVID-19

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

MYANMAR ECONOMIC MONITOR

COPING WITH COVID-19

December 2020

Preface and Acknowledgements

The Myanmar Economic Monitor (MEM) is published semiannually. It analyzes recent economic developments, discusses the medium-term outlook, and suggests policy priorities for Myanmar. The MEM draws on data reported by the government, as well as information collected through 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.

The MEM is a product of the World Bank's Myanmar office. It was prepared by a team led by Hans Anand Beck (Lead Country Economist) and included Faya Hayati (Senior Economist), Kim Alan Edwards (Senior Economist), Thi Da Myint (Country Economist), Fang Guo (Economist), Thanapat Reungsri (Economist), and Aka Kyaw Min Maw (Consultant). This edition of the MEM was developed under the guidance of Deepak Mishra (Practice Manager, Macroeconomics, Trade, and Investment).

The team is grateful for inputs provided by Giorgia Demarchi (Senior Social Scientist), Emilie Bernadette Perge (Senior Economist), Ekaterine T. Vashakmadze (Senior Country Economist), Smita Wagh (Senior Financial Sector Specialist), Marco Nicoli (Senior Financial Sector Specialist), Nang Htay Htay (Financial Sector Specialist), Radu Tatucu (Financial Sector Specialist), Hnin Hnin Pyne (Program Coordinator), Nang Mo Kham (Senior Health Specialist), Paul Jacob Robyn (Senior Health Specialist) , Minn Thu (Health Security Consultant), Alyssa Davis (Health Specialist, Consultant), Ye Naing Win (Health Specialist, Consultant), Thomas Poulsen (Senior Education Economist), Tobias Linden (Practice Manager). The team also appreciates data inputs provided by Thitsar Thitsar (Private Sector Specialist, International Finance Corporation), Pwint Thet Khaing (Consultant, International Finance Corporation) and the City Development Committees.

The team would like to thank Mariam J. Sherman (Country Director), Gevorg Sargsyan (Head of Office, Myanmar), Aaditya Mattoo (Chief Economist, East Asia and the Pacific), Ergys Islamaj (Senior Economist), Vera Kehayova (Research Analyst) and colleagues from the IMF; the Ministry of Planning, Finance and Industry; Ministry of Investment and Foreign Economic Relations, the Ministry of Commerce; the Ministry of Labour, Immigration and Population; and the Central Bank of Myanmar for their comments and advice on earlier drafts.

During the preparation of the MEM, the team discussed recent economic developments with several business associations and private businesses and greatly appreciates their time and insights. The team would like to thank Arnold Marseille, Kyaw Soe Lynn and the ECR team for their support and guidance on publication and outreach, as well as Sandi Soe Lwin for excellent administrative support and Sai Nay Lynn for data assistance.

For information about the World Bank and its activities in Myanmar, please visit https://www.worldbank.org/en/country/myanmar

To be included on an email distribution list for the MEM series and related publications, please contact slwin1@worldbank.org. For questions and comments relating to this publication, please contact slwin1@worldbank.org.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

LIST OF BOXES

Abbreviations

ASEAN	Association of Southeast Asian Nations
BPS	Business Pulse Survey
CBM	Central Bank of Myanmar
CBHW	Community-Based Health Worker
CERP	COVID-19 Economic Relief Plan
CMP	Cut-Make-Pack
CPI	Consumer Price Index
DAI	Digital Adoption Index
DHS	Demographic and Health Survey
DRM	Disaster Risk Management
DSSI	Debt Service Suspension Initiative
EAP	East Asia and Pacific
EHO	Ethnic Health Organizations
EMDEs	Emerging Market and Developing Economies
EU	European Union
EYRS	Expected years of School
FBO	Faith Based Organization
FDI	foreign direct investment
Fintech	Financial Technology
FY	Fiscal year
GCV	Gross Correlative Value
GDP	Gross Domestic Product
GEP	Global Economic Prospect
GFCF	Gross Fixed Capital Formation
GoM	Government of Myanmar
GPE	Global Partnership for Education
GRF	General Reserve Fund
GVA	Gross Value Added
HLO	Harmonized Test Scores
H1	first half of fiscal year
H2	second half of fiscal year
HCI	Human Capital Index
ICMV	Integrated Community Malaria Volunteer
ICT	Information, Communication and Telecommunication
ICU	Intensive Care Unit
LAYS	Learning-Adjusted Years of School
MAMS	Myanmar Academy of Medical Science
MCCT	Maternal and Child Cash Transfer
MDI	Multi-Dimensional Index
MEB	Myanmar Economic Bank
MERRP	Myanmar Economic Resilience and Relief Plan
MFI	Microfinance Institution
MOPFI	Ministry of Planning, Finance and Industry
MLCS	Myanmar Living Conditions Survey
MOE	Ministry of Education
MOGE	Myanmar Oil and Gas Enterprise
MOHS	Ministry of Health and Sports
MRH	Reproductive Health
MS-NPAN	Multi-sectoral National Plan of Action on Nutrition

NDA	Net Domestic Assets
NFA	Net Foreign Assets
NEER	nominal effective exchange rate
NPL	Non-performing Loan
PMI	Purchasing Managers' Index
PPP	Public Private Partnership
PSD	Private Sector Development
PUI	Patient Under Investigation
PV	Present Value
Q1	First quarter
Q2	Second quarter
Q3	Third quarter
RCCE	Risk Communication and Community Engagement
RMNCAH	Reproductive Maternal Newborn Child Adolescent Health
SEE	State Economic Enterprise
SGBV	sexual and gender-based violence
SGT	Special Goods Tax
SME	small and medium-sized enterprise
TSG	Technical Strategic Group
TVET	Technical Vocational Education and Training
UHC	Universal Health Coverage
WASH	Water, Sanitization and Hygiene
SEE	State Economic Enterprise
yoy	year-on-year

Executive Summary

Recent Developments

The second wave of the COVID-19 pandemic has amplified Myanmar's public health and economic challenges. Domestic cases of COVID-19 have risen rapidly in recent months. The pandemic and the associated containment measures have weakened consumption and investment, and disrupted businesses' operations and the supply of labor and inputs. While the global economy has begun to rebound following a gradual relaxation of lockdown measures, the continued spread of COVID-19 in several parts of the world is weighing on the nascent recovery.

Myanmar's economy is estimated to have grown by 1.7 percent in FY19/20, down from 6.8 percent in FY18/19. Growth in the industrial sector — which includes manufacturing and construction and accounts for around a third of the economy — is estimated to have slowed to 1.3 percent due to disruptions in supply chains, business and site closures, and reduced domestic and external demand. Growth in the services sector has also eased as a result of COVID-19 impacts on tourism and domestic mobility, incomes, and employment, which in turn weighed on retail trade, food and accommodation services. Some businesses taking advantage of internet-based platforms and e-commerce opportunities were better able to weather the impact of movement restrictions. Growth in the agricultural sector prior to the pandemic in FY2019/20 has been more resilient as weather conditions were favorable to rice, pulses and corn production. But weather and the pandemic pose risks to the 2020 monsoon crops.

The pandemic is having severe effects on the poorest and most vulnerable. The ongoing restrictions under the second wave are putting more households at risk of entering poverty. With limited savings, many poor households are being forced to reduce their food and non-food consumption in order to cope with income losses. Between August and October 2020, the share of households experiencing moderate to severe food insecurity increased from 12 to 25 percent. Servicing debt is also an issue for poorer households. Risky, unsustainable coping mechanisms (e.g. sales of productive assets, withdrawal of children from school so they can work) will have negative longer-term effects on income-earning capacity.

Domestic inflationary pressures have eased, with food prices gradually declining and the increase in electricity tariffs dropping out of the base. Inflation declined to 1.8 percent (yoy) in August from 9.1 percent (yoy) in January due to a reduction in food, energy and electricity prices. Core inflation (excluding food and fuel prices) was weaker as the effects of a previous one-off electricity price increase dropped out of the year-on-year calculations.

Trade has slumped as a result of COVID-19, but foreign direct investment approvals have been resilient. The trade deficit widened to 2 percent of GDP in FY19/20, with imports and exports shrinking in the second half of the year. Despite the widening trade deficit, the Myanmar Kyat has continued to strengthen against the US dollar over the past year, reversing the sharp depreciation that occurred in 2018. Foreign Direct Investment (FDI) approvals were supported by continued investment promotion amidst the pandemic and simplified rules and regulations.

Relatively high fiscal deficits are expected in FY19/20 and FY20/21, due to the effects of COVID-19 on spending and revenues. The deficit is projected to widen to 8.1 percent of GDP in FY20/21 from 7.1 percent of GDP in FY19/20. Revenue collection in FY19/20 is faring better than expected, supported by an increase in State-owned Enterprise (SEE) revenues and transfers. However, revenue is expected to decline in FY20/21 due to ongoing economic weakness, declining commodity prices and tax deferrals and exemptions, while spending is projected to remain broadly unchanged. At the same time, implementation of the COVID-19 Economic Response Plan (CERP) continues, funded by borrowing and budget reallocations. Estimates

indicate that over half of planned CERP spending (about 1.7 percent of GDP) was disbursed as of end-September. However, capital budget execution remains a challenge.

Economic Outlook and Risks

The economy is projected to grow by 2 percent in FY20/21, with domestic economic activity gradually recovering. The baseline projection envisions a contraction in Q1 FY20/21, reflecting the significant impact of economic disruption due to COVID-19 containment measures imposed in the quarter. A partial recovery is expected in subsequent quarters as mobility restrictions are gradually relaxed and cases of local transmission slow. The medium-term growth outlook is positive, with growth estimated to recover to 7 percent on average supported by: (i) new investments in construction activities in industrial and urban development projects; (ii) road transport and communication infrastructure development; (iii) power and energy; (iv) a gradual resurgence in manufacturing activities and (v) increased use of digital technology, which could boost productivity across a broad range of sectors.

Due to the slowdown in economic growth, poverty rates are simulated to increase from 22.4 percent in 2018/19 to 27 percent in FY20/21. In the absence of a substantial policy response, poverty is expected to return to its pre-crisis level in FY21/22 at the earliest. Well-designed policy responses that target the poor and most vulnerable, however, can avoid poverty increases in the current fiscal year and speed up the return to a steady poverty reduction path.

Risks to the outlook are high given continued uncertainty arising from the pandemic—both locally and globally. In the absence of a widely distributed vaccine or treatment, new waves of the pandemic could result in prolonged and potentially more severe restrictions, dampening domestic activity. Financial risks could heighten as borrowers in the most affected sectors face debt servicing challenges, which would impact the asset quality and loan portfolio of the banking system. On the external front, a global recession and deepening trends in global protectionism would weaken external demand for goods and services exports and create greater vulnerability to capital flow volatility. Natural disasters and post-election uncertainties pose additional downside risks.

Policy Recommendations

Once the spread of the virus has been contained and economic activity gradually resumes, measures will be required to stimulate the economy and establish the foundations for longer-term growth. Investments in key public infrastructure would bolster aggregate demand and construction sector activity in the short to medium term, while increasing the productive capacity of the economy in the longer term. Maintaining financial stability is a priority, given the risks around the debt servicing challenges faced by businesses and households noted above. Increased investment in digital technologies could help boost productivity across the economy, including in the financial sector. Myanmar could also explore economic opportunities in the areas of pharmaceutical production; value-added food products; ships and vessels maintenance and servicing; and insurance, health and educational services.

Over the longer term, there are several steps the Government could take to create fiscal space, spend better, and ensure fiscal sustainability. These include: (i) widening the tax base with more progressive taxation and a review of tax holidays; (ii) improving budget planning processes; (iii) enhancing budget flexibility and widening social protection; and (iv) monitoring the debt burden and fiscal risks. These measures would all help to ensure that Government is in a strong position to respond to future shocks. In the health and education sectors, it is critical to find ways to spend more and better, avoid disruptions to the delivery of essential services, and at the same time continue efforts to contain COVID-19 (see **Special Topic 2**).

Special Topic 1: Impacts of COVID-19 on Firms and Poverty

The Myanmar COVID-19 Monitoring Platform shows that the pandemic has had a significant adverse impact on households' welfare. In October, 87 percent of firms reported negative impacts on their operations, almost all firms reported a reduction in sales and around one-third of firms reported reductions in their investments, due to COVID-19, consequently affecting employment and labor income. The same survey also found that nearly one-third of households' main workers were unable to secure any form of paid work in October.

Informal and casual workers in manufacturing have been particularly hard hit, with some pushed further into deprivation in the absence of adequate social protection. Meanwhile, workers engaged in the retail and personal services, and transport sectors were not able to readily recover, and nearly half of those who are still working reported lower earnings given that most of these businesses have ceased operations due to the lockdown measures. On the other hand, workers dependent on income generated from tourism continue to work but earn less due to the increased likelihood that the local outbreak and international travel restrictions will delay the opening of the peak tourist season.

Economic migrants returning to Myanmar due to COVID-19 added pressure on households' welfare due to the reduction of sources of income and an increase in the number of household dependents. Remittance income in May were lower for 73 percent of households who still received them. Remittance flows seem to have improved in August, likely driven by domestic migrants' return to economic centers in the period preceding the second wave.

The economic impacts of the second wave of the COVID-19 pandemic are significantly more severe on businesses than the first as expectations for recovery worsen. The October survey results suggested that, on average, the majority of firms in all sectors besides agriculture experienced profit declines greater than 50 percent in the last completed month – compared to the same period last year. As the second-wave continues through to December, the ability of firms to survive consecutive months of large declines in profits severely limits their prospects for recovery. Meanwhile, a large digital divide continues in the adoption of online/digital platforms between sectors, firm sizes and geographical areas.

As households have been forced to adopt risky and unsustainable coping mechanisms to buffer the shock, their indebtedness has risen. About half resorted to reducing food or non-food consumption in May, with the figure progressively declining to about 30 percent in August. Despite the return of job opportunities and incomes in August, half of all households reported concern about their financial situation. Even before the second wave hit, the inability to repay debt was high. The poor and near-poor are particularly at risk of relying on informal lenders with higher interest rates. The second wave of restrictions and a prolonged economic crisis will likely push additional households to continue reducing consumption, divesting from human capital and productive assets with implications in the long term.

Special Topic 2: Impacts of COVID-19 on Human Capital (Health and Education)

The COVID-19 pandemic has undermined human capital development in Myanmar through disruptions in the delivery of essential health services and contributing to the declining welfare of households. It further cripples the existing health challenges in Myanmar – such as an already fragmented health service delivery system, an under-resourced health workforce, demand side barriers in accessing health care and inadequate levels of public health financing.

Options for strengthening Myanmar's health sector are suggested below, with the aim of building upon the current promising opportunities:

(a) **Focus area 1: Investing in the medium term in the effectiveness, efficiency and equity of Myanmar's health system through**: (i) spending more on improved health and nutrition of women

and children; (ii) considering strategic and coherent delivery of essential health services; (iii) strengthening community-based health service delivery; and (iv) optimizing ICT for improving the health and nutrition of women and children.

(b) **Focus area 2: Addressing in the short-term the immediate needs for public health preparedness and response to COVID-19 by prioritizing the following**: (i) the prevention and containment of COVID-19; (ii) avoiding disruptions to the delivery of essential health services; (iii) ensuring vulnerable groups are protected and addressing additional barriers to accessing health care; and (iv) establishing well-integrated and sustainable systems/institutions; (v) Preparing for COVID-19 vaccine.

School closures can lead to significant negative medium-term and long-term impacts on Learning-Adjusted Years of Schooling (LAYS); Expected Years of Schooling (EYRS); learning outcome; and its income effects. The current student cohort from 4-17 years of age is likely to lose between 0.4 (optimistic scenario) and 1.0 (pessimistic scenario) of their LAYS – an approximate 14 percent reduction. The shock could also result in a significant drop in learning outcomes, measured by Harmonized Test Scores (HLO) of ~25 points (~5.8 percent).

As school closures continue and education is seriously disrupted, the learning loss and negative income effects will continue to accelerate. Compounding the significant decrease in LAYS are the substantial economic losses from decreased annual earnings (per capita) and is estimated to be between US$ 92 in the optimistic scenario to US$212 in the pessimistic scenario. The aggregated lifetime Present Value earning loss of all students in school today from the extraordinary shock of COVID-19 - in a pessimistic scenario - is ~ US$20 billion (over a quarter of 2019 GDP) and counting. This represents a 4.9 percent reduction in accumulated foregone lifetime earnings, and will have marked impact on economic growth, prosperity and human capital development. Continued school closure for the remainder of the school year, with no significant improvement in teaching and education delivery modalities could see that number rise significantly. To address the learning loss from the shock of COVID-19 and the pre-existing learning crisis, while ensuring a safe return to school, the MOE should; 1) take advantage of additional available financial contributions from Development Partners; 2) ensure schools are safe for students to attend; 3) continue to safeguard the right to education and the learning needs of children; and 4) take advantage of the breadth of education service providers in Myanmar.

A. Recent Economic Developments

Global Economic Developments

Global activity has begun to rebound following a gradual relaxation of lockdown measures, however, the accelerating spread of COVID-19 in some regions is weighing on the nascent recovery. Global output is set to contract sharply in 2020— by much more than the contraction experienced in 2009 during the global financial crisis, and the deepest global recession since the Second World War (World Bank 2020) (**Figure 1**). But some macroeconomic indicators have improved in recent months. Manufacturing export orders reportedly expanded in September, after contracting sharply earlier in the year (**Figure 2**). Global goods trade continues to recover, though trade in services is lagging. International tourist arrivals remain more than 90 percent below last year's levels in many countries. The number of daily commercial flights recovered to about half of last year's levels by early August but has shown no further increase in September and October.

Central banks around the world have aggressively eased monetary policy and provided liquidity support to avoid shortages in credit markets. The Federal Reserve cut its policy rates to close to zero. Capital outflows from EMDEs, which exceeded the worst period of the global financial crisis at the outset of the pandemic, have subsided. Though yields remain low, sovereign credit ratings have continued to deteriorate, reflecting increasing debt sustainability concerns. Commodity markets have been following diverging trends. Oil prices fell nearly 7 percent in September before stabilizing in October, with the price of Brent crude oil averaging $40/bbl. Base metals prices continued to recover in October and are now nearly 6 percent higher than their pre-pandemic peak in January led by copper. The increase in prices has been supported by the strengthening of global economic activity, particularly in China. Agricultural commodity prices increased by 6 percent in September and are now above their January levels.

Figure 1: Most economies contracted
(Latest GDP growth data in selected countries)

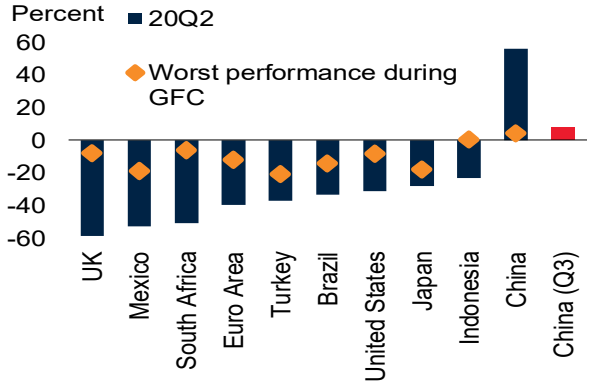
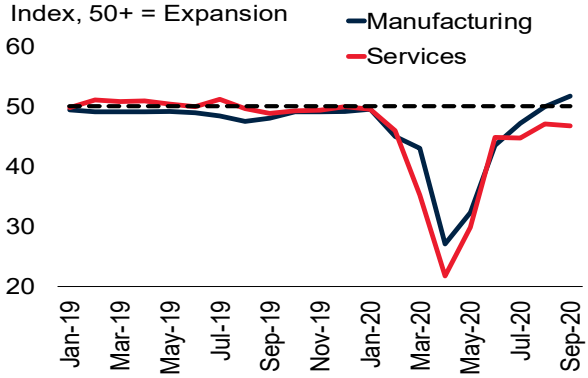


Figure 2: New export orders rebounded
(subindex of Purchasing Managers' Index (PMI))

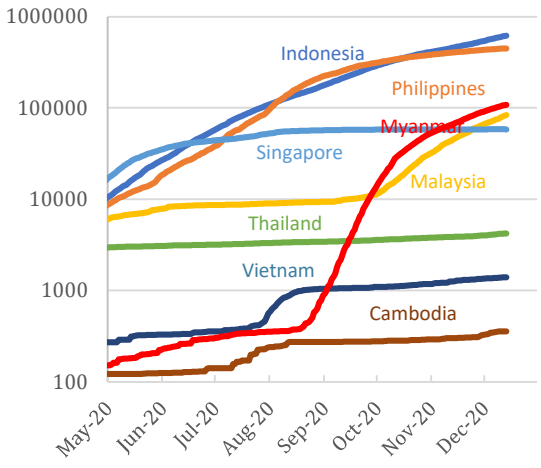


Source: Haver Analytics.
A. Figure shows quarter-on-quarter annualized growth rate for 2020Q2 for selected countries. Red bar indicates the 2020Q3 quarter-on-quarter nonannualized growth rate for China.
B. Manufacturing and services are measured by Purchasing Managers' Index (PMI). PMI readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is September 2020.

Myanmar's Second Wave of COVID-19 Transmission

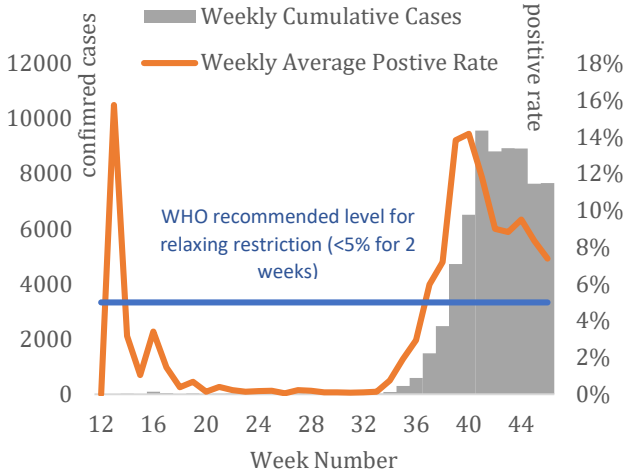
Following the initial outbreak in March 2020, Myanmar suffered a resurgence in case numbers beginning in August. As at November 16, 2020, Myanmar had recorded 70,161 confirmed cases (7.7 percent positivity rate) with 1,599 recorded deaths (2.3 percent case fatality rate). Myanmar has the third highest number of cases across ASEAN countries after Indonesia and the Philippines (**Figure 3**). During the first wave, imported cases accounted for about 80 percent with the remainder locally transmitted. Between March 23—the first known case—and August 15, approximately 374 positive cases were identified, with a positivity and fatality rate of 0.25 and 1.6 percent respectively. August 16 signaled the second wave, starting in Sittwe township in Rakhine State. Since then, almost 70,000 new cases have been confirmed, with a positivity rate of 9.5 percent (**Figure 4**) and fatality rate of 2.4 percent.

Figure 3: Myanmar's cumulative COVID-19 cases are now the third highest in ASEAN
(Total number of cases in ASEAN)



Source: World Health Organization
Note: Y-axis is in logarithmic scale

Figure 4: The COVID-19 positivity rate remains above the WHO-recommended threshold for relaxing containment measures
(Weekly Cumulative Confirmed Cases and Weekly Average Positive Rate Myanmar - 15 Mar - 16 Nov 2020)



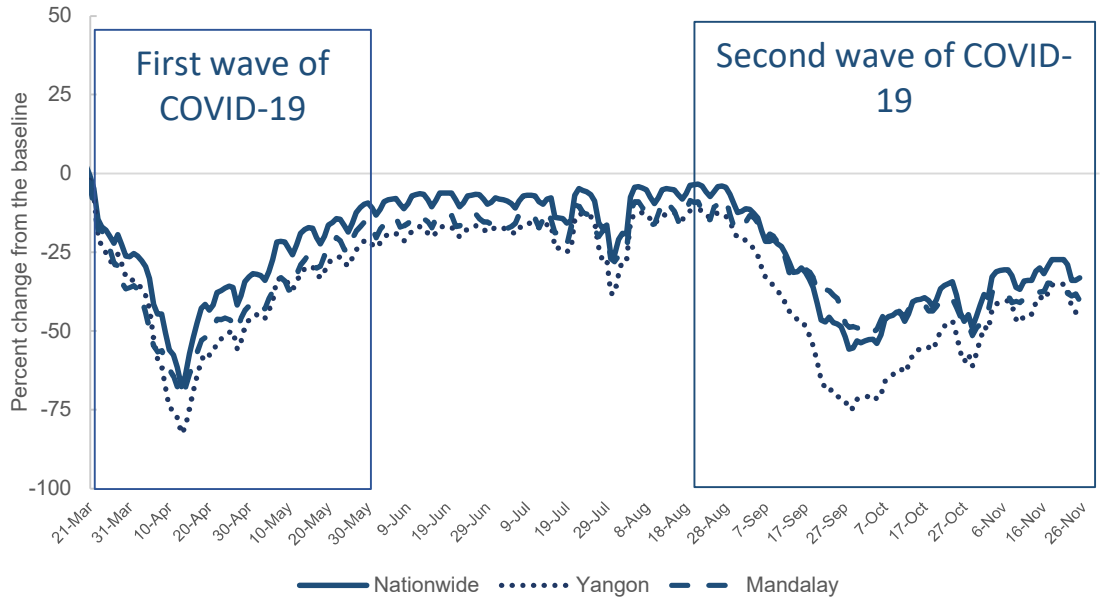
Source: Ministry of Health and Sports

In response, containment measures have again been tightened. The government's efforts to reduce community transmission have focused on testing, isolation, contact-tracing, and treatment. Stay home orders were introduced in Rakhine state from late August; similar orders were introduced in 7 townships in Yangon on September 1 and extended to 21 townships on September 9; and have since been introduced in over a dozen townships across Mon, Ayeyarwady, Bago and Mandalay and Kachin states and regions. Other actions include imposing restrictions of international and domestic travel, the closure of schools, restaurants and industries, and restricted recreational activities. Returning and incoming persons from abroad are obligated to undertake a 14-day quarantine period and are discharged only after receiving a negative COVID-19 result.

Myanmar has also ramped up its testing capacity. Until mid-September 2020, Myanmar performed approximately 5,000 tests per day; between mid-September and end of October, capacity was increased to 10,000-15,000 tests per day. There has been substantial private in-kind support to bolster these testing and quarantining functions. But despite substantial investments, challenges persist, including limited testing and treatment capacity, skills shortages (e.g. for operating laboratories), a lack of laboratory consumables such as extraction kits, and backlogs in sample testing.

Workplace mobility considerably worsened as the government re-introduced restriction measures in late August and early September to mitigate the risks associated with a rising number of COVID-19 confirmed cases (Figure 5). The second wave began in mid-August, leading to strict stay-at-home orders in late September. By October, workplace mobility was 45 percent lower than usual activity. Since the restrictions were tighter in Yangon, workplace mobility was 61 percent lower than usual while Mandalay was at 45 percent. Across Myanmar, by November, workplace mobility had improved to be 33 percent lower as some measures were eased but movement still remains significantly below pre-COVID-19 levels.

Figure 5: Containment measures have severely constrained mobility as a proxy for economic activity
(Google Mobility Data (5-day moving average) and Containment Measures in Myanmar)



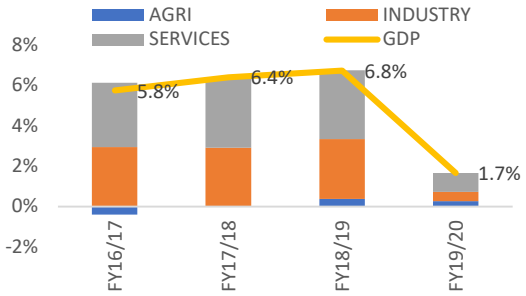
Note: Google daily mobility data is now available up to November 29, 2020. The values represent percentage changes compared to a baseline value for that day of the week, and the baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3 - Feb 6, 2020.
Source: Google and World Bank

Impacts on the Real Sector

COVID-19 caused economic growth to slow sharply in FY19/20, with output likely to have contracted in the manufacturing sector and some services sectors.

Myanmar's economy is estimated to have grown by 1.7 percent in FY19/20, down from 6.8 percent in FY18/19 (Figure 6). Strong growth in the first half of the year was followed by a contraction in economic activity in the June quarter, in response to the first wave of COVID-19 and the impact of associated mobility restrictions and disruptions to trade. Despite signs of recovery in July and August, the economic effects of the second wave on incomes, production, and spending in September are expected to have been significant.

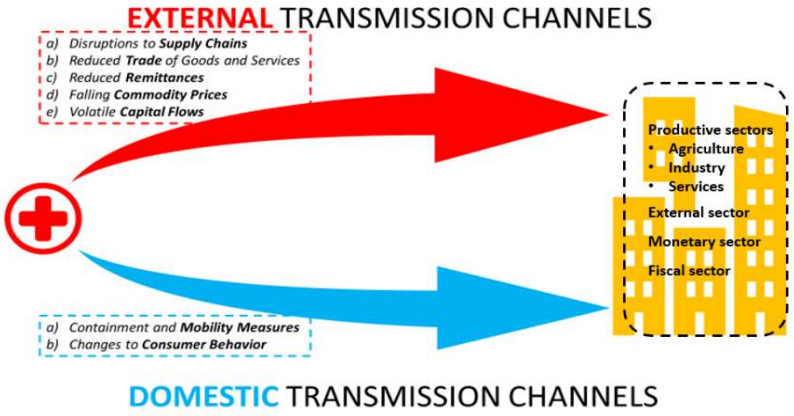
Figure 6: The growth slowdown was broad based
(GDP growth contributions by sector)



Source: World Bank staffs' estimate

The pandemic and the containment measures deployed in response have weakened consumption, investment, and trade, and disrupted businesses' operations and the supply of labor and inputs. Domestic containment measures and behavioral responses appear to be the dominant channel of impact, with external channels (disruptions to trade and supply chains, reduced remittances, declining commodity prices, etc) having a relatively smaller effect on GDP (**Figure 7**). According to forthcoming World Bank research, almost 90 percent of COVID-19 impacts on FY20 GDP in Myanmar are attributable to domestic transmission channels, with external transmission channels accounting for the remaining 10 percent.

Figure 7: COVID-19 has impacted Myanmar's economy through two distinct transmission channels



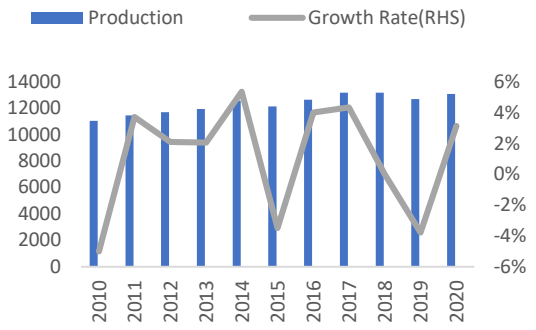
Source: World Bank

Activity in the manufacturing, retail, travel and leisure and recreational sectors was heavily affected in FY19/20, while the agriculture and ICT sectors were more resilient (see **Special Topic 1**). The industrial sector—accounting for 22 percent of gross value added (GVA) and 38 percent of employment —was impacted by disruptions in global supply chains and reduced domestic and external demand. The food, beverage and garment manufacturing industries were particularly hard hit. Activity in the services sector (42 percent of GVA) was affected as a result of impacts on domestic mobility and tourism, which in turn weighed on retail, food services and accommodation. On the other hand, services that were better able to weather the impact of movement restrictions, including those using internet-based platforms, continued to grow. Agriculture (22 percent of GVA) benefited from weather conditions that were favorable to rice, pulses and corn production, and was less directly affected by the pandemic.

Agricultural production has been broadly resilient to the economic effects of the pandemic.

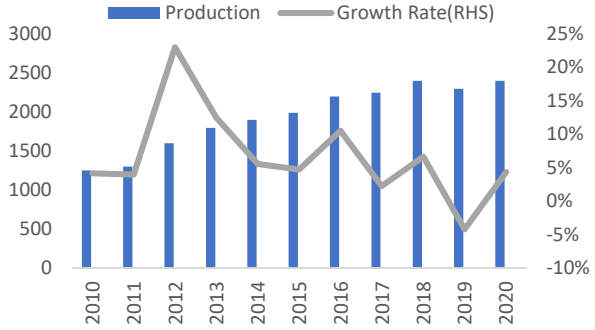
Agriculture output grew by an estimated 1.2 percent in FY19/20, driven by strong crop production—which accounts for over half of total agriculture output—and supported by favorable weather and increased demand for staple foods. Milled rice output (which accounts for 53.4 percent of Myanmar's total agriculture production by value) is estimated to have increased by 3 percent from 12.7 million tons in 2019 to 13.1 million tons in 2020 (**Figure 8**), as domestic and external demand increased. Corn production is estimated to have grown by 4.4 percent in 2020 (**Figure 9**), driven by an increase in demand from Thailand, while beans and pulse production also increased.

Figure 8: Milled rice production increased from the same period last year
(thousand metric ton/yoy growth)



Source: IndexMundi

Figure 9: Corn production also grew
(thousand metric ton/yoy growth)



Source: IndexMundi

Growth in livestock and fishery output, which accounts for 8 percent of agricultural gross value added, slowed to an estimated 0.9 percent in FY19/20. A decrease in market demand, reduced livestock prices, and transportation challenges caused a 40 percent reduction of the livestock breeding sector during the pandemic, mostly affecting small and medium breeding enterprises[1].

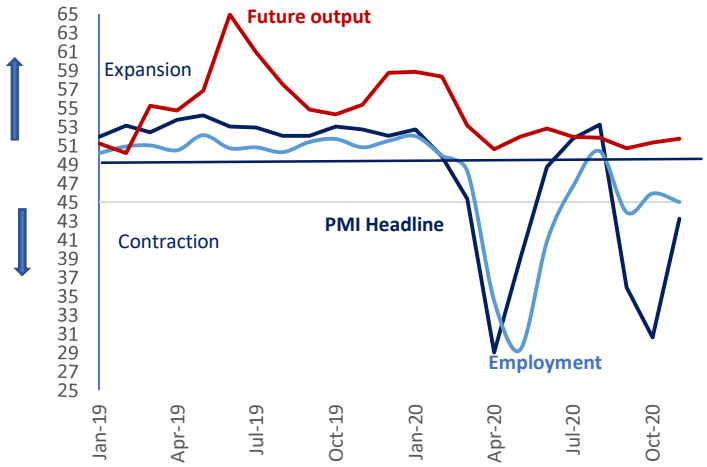
Agriculture modernization is key to stimulating agriculture growth over the longer term, but the pace of mechanization slowed in FY19/20. Since 2011, agriculture mechanization has increased largely due to the increased availability of hire-purchase financing arrangements for machinery and the growing number of machinery supply businesses. Between 2014-2017, machinery supply businesses have grown to represent 61 percent of shops newly entering the market.[2] However, in FY19/20, capital intensity (mechanization) growth has declined as reflected by a contraction in imports of farm machinery. In May/June 2020, most tractor service providers reported lower demand for machinery supply services[3] compared to the previous year. Over the longer term, digital innovations like agricultural e-commerce, digital literacy and digital financial services have the potential to benefit smallholder farmers and agriculture-based small and medium enterprises (SMEs) that provide distribution and marketing services.

[1] Covid-19 impact on Livestock. Livestock Breeding and Veterinary Department survey, April 2020
[2] Ben Belton, Peixun Fang, Eric Abaidoo (2019): Agriculture Machinery Supply Business in Myanmar's Dry Zone. Growth and Transformation
[3] Hiroyuki Takeshima, Myat Thida Win, and Ian Masias, June 2020: Monitoring the Impact of COVID-19 in Myanmar. Mechanization Service Providers

The pandemic had a severe impact on industrial output in the second half of FY19/20.

Growth in industrial output slowed to an estimated 1.3 percent in FY19/20 from 8.4 percent the previous year, due to the effects of the pandemic on manufacturing, electricity output and construction activity. The second wave of COVID-19 has had significant demand- and supply-side effects on the manufacturing sector. Activity in the food products, beverages and garment sectors contracted due to softening private consumption. Many factories were temporarily closed as new pandemic related restrictions were imposed, and the manufacturing PMI dropped from August's 15-month high of 53.2 to 30.6 in October (**Figure 10**), just slightly above the low of 29 in April. According to the World Bank's latest firm level survey on the impact of COVID-19, 19 percent of manufacturing firms were closed in October 2020 reducing employment rates by 52 percent. The November PMI indicated that conditions in the manufacturing sector continued to deteriorate, albeit at a slower pace than in the previous two months.

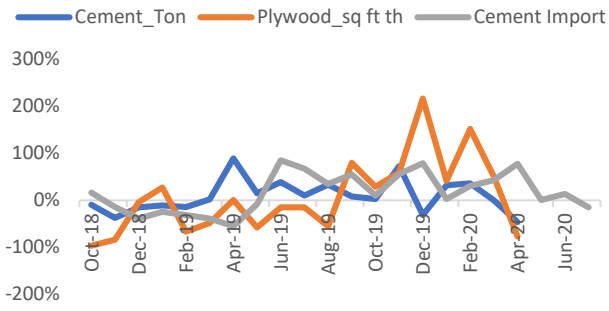
Figure 10: Manufacturing PMI has plummeted again…



Source: IHS Markit

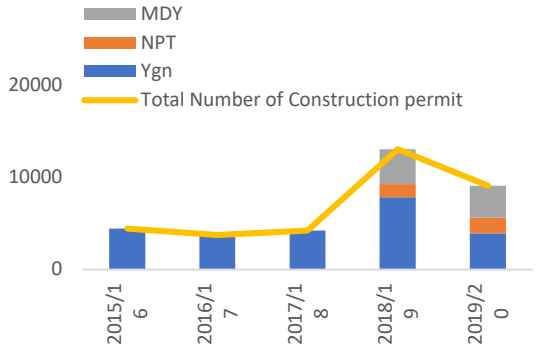
Growth in construction output slowed to an estimated 1.6 percent in the full year FY19/20, though the construction of telecommunication, electricity and transport infrastructure supported growth in the first half of the year. There was significant growth in the import and production of construction materials including cement, iron and steel material in the first half of the year (**Figure 11**). But lockdown and transmission mitigation measures led to the temporary closure of construction sites in the second half. Public capital spending declined (with reprioritization to essential sectors) and private residential construction—which accounts for 50 percent of total construction activity in Myanmar—has been materially impacted by the pandemic. The number of issued construction permits declined by 30 percent in FY19/20 as planned projects (**Figure 12**) were suspended. However, Myanmar has recently digitized its online permit system in order to facilitate quicker administrative processes, which should support approvals over the medium-term.

Figure 11: Imports of intermediate goods in the construction sector slowed (% yoy growth)



Source: CEIC, Ministry of Commerce

Figure 12: The number of construction permits approved declined (numbers)



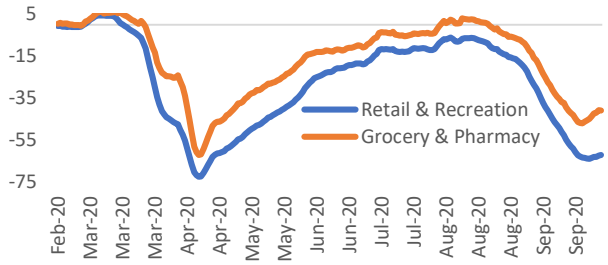
Source: YCDC, NCDC, MCDC

Growth in the services sector also slowed, though some subsectors were more resilient than others.

The services sector is estimated to have grown by an estimated 2.3 percent in FY19/20, down from 8.3 percent in FY18/19. COVID-19 has negatively impacted domestic consumption, tourism and travel, which had particularly significant effects on retail, food services and the hospitality and accommodation sectors. But health, public administration, and services provided through internet-based platforms saw an uptick in growth.

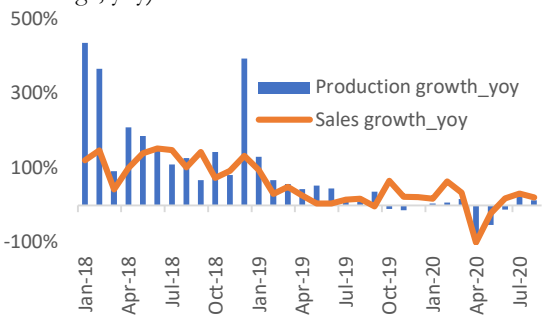
The impact of the pandemic on incomes, employment and mobility led to a sharp slowing of growth in the retail sector. Accounting for almost 20 percent of GDP, this sector is estimated to have grown by an estimated 1.8 percent in FY19/20, down from 7.8 percent in FY18/19. Lockdown measures reduced mobility to retail and recreation outlets, transit stations, groceries and pharmacies (**Figure 13**). After the first wave of the pandemic, retail and recreation sectors showed signs of recovery, but the second wave has had similarly large impacts on mobility. Consumption of non-essential and durable assets has fallen. Automobile sales and imports fell dramatically in April but have since recovered (**Figure 14**).

Figure 13: Mobility to retail and recreation outlets and groceries and pharmacies declined sharply with lockdown measures… (% change from baseline)



Source: Mobility data

Figure 14: …while automobile sales growth contracted following the April lockdown
(% change, yoy)



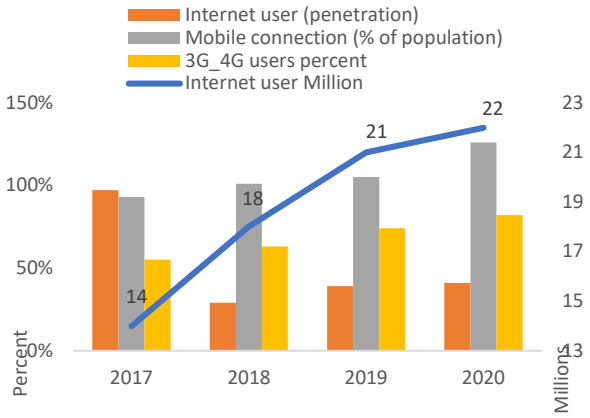
Source: ASEAN Automotive Association

Some retailers have moved to digital channels and adopted e-commerce platforms to expand their customer base during the lockdown. Online platforms and delivery services helped generate some buoyancy in the retail sector throughout the lockdown period. About 38 percent of firms adopted an online platform, providing some support to wholesale and retail activity (See **Special Topic 1**). Several startup SMEs have emerged to provide door-to-door delivery services for grocery items and other consumables. The COVID-

19 Economic Relief Plan (CERP) included actions to support technology and e-commerce including promoting the use of digital payments.

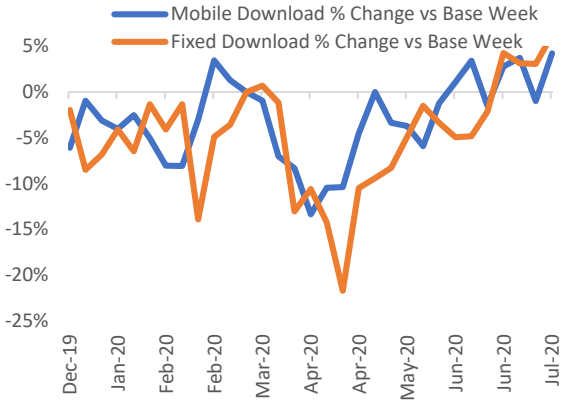
The telecommunication sector has proven resilient to the effects of the pandemic, and the consumption of internet services is growing rapidly. The sector is estimated to have grown by double digit rates (30 percent) in FY19/20, as recurring mobility restrictions and precautionary behaviors increase adoption and usage of data and broadband services (**Figure 15**) for office communication, sales, learning and interactive purposes (**Figure 16**). Both supply and demand factors are driving the growth of the telecommunication sector, including rising telecom infrastructure investment levels (reflected in growth of gross fixed capital formation) and intensifying competition among internet service providers.

Figure 15: Internet connectivity has grown primarily through mobile-enabled internet devices



Source: Social Hootsuite

Figure 16: Mobile/fixed download percent change (yoy change)

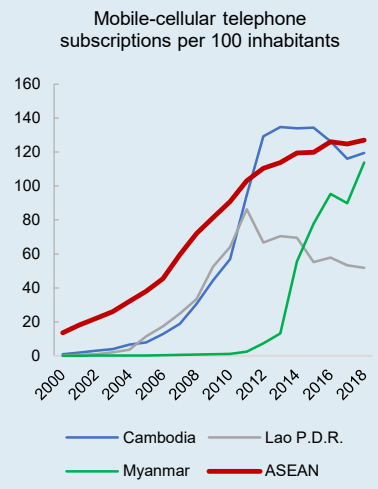


Source: Ookla

Box 1: Digital Development in Myanmar

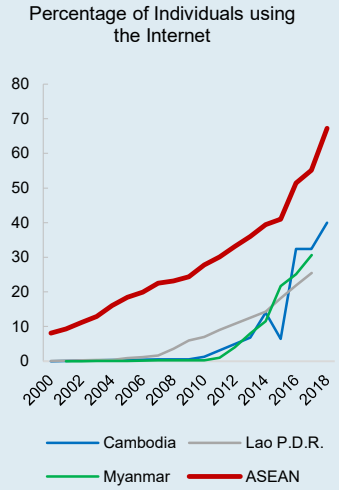
Myanmar can capitalize on its strong digital infrastructure to boost entrepreneurship, productivity, and service delivery, but substantial efforts to overcome 'analogue' constraints are required. Digital technologies have dramatically reduced information transfer costs and also lowered the cost of economic and social transactions for society. In turn, this contributes to greater organization and collaboration among economic agents, influencing how firms operate, how people seek opportunities, and how citizens interact with their governments (WDR, 2016). While liberalization of the telecom sector in Myanmar since 2012 has established the initial foundations for digital development, the country still has a long way to go in technological readiness despite a dramatic increase in mobile and internet access. Mobile and internet access in Myanmar, in terms of fixed broadband subscription rates has accelerated from a very low base. Mobile access accelerated from 2013, from 13.2 mobile subscriptions per 100 inhabitants to 113.8 mobile subscriptions per 100 inhabitants in 2018, bringing mobile access in Myanmar close to the ASEAN average (**Figure 17**). Internet access also grew apace, rising to 30.7 percent in 2017 and approaching towards the ASEAN level (55.2 percent) (**Figure 18**), whereas fixed broadband subscriptions per 100 inhabitants was negligible at 0.2 in 2018, much lower than the ASEAN average of 8.7 (**Figure 19**). Myanmar also lags regional peers in digital adoption (**Figure 20**). This severely limits Myanmar's opportunities for greater business efficiency and access to services and hamstrings its ability to leapfrog development obstacles by digitally transforming its government, economy, and society.

Figure 17: Myanmar's mobile access has soared to meet regional peers (access per 100 inhabitants)



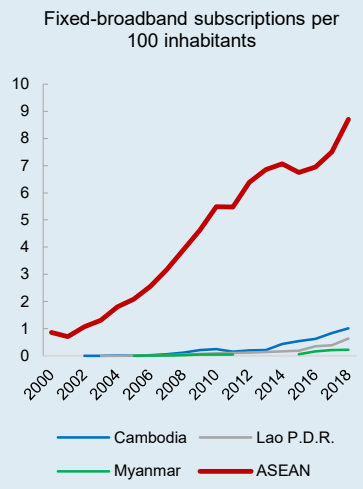
Source: ITU

Figure 18: ...and internet access has been on the rise... (% population usage)



Source: ITU

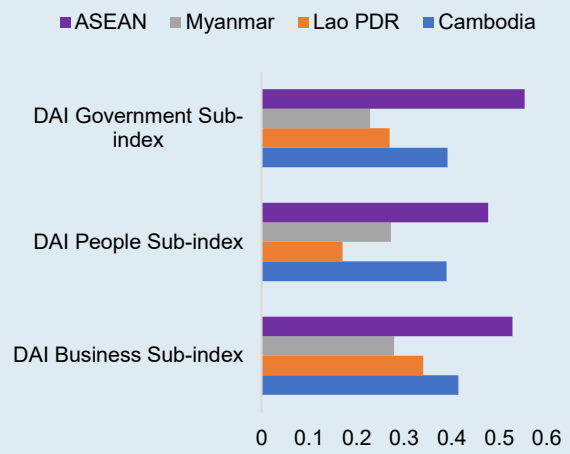
Figure 19: ...but fixed broadband access remains critically low. (access per 100 inhabitants)



Source: ITU

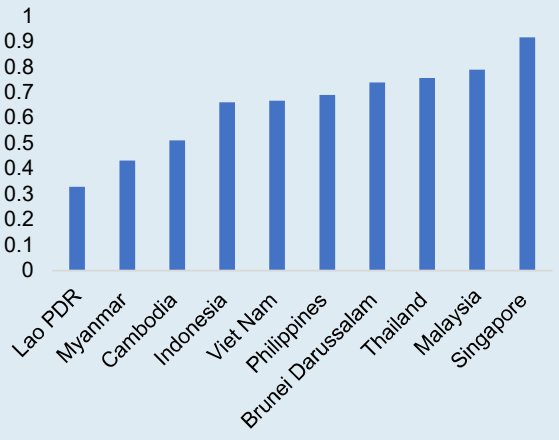
Digital technologies provide an opportunity to strengthen public institutions and to improve service delivery in Myanmar. In 2020, Myanmar ranked 146 out of 193 countries on the UN E-Government Development Index (**Figure 21**), which measures the country's use of information and communications technologies to deliver public services. The lack of comprehensive digital information management systems presents an enduring challenge to the efficiency and quality of analysis and reporting. Digital development can play a critical role in strengthening public institutions by improving transparency, accountability, and efficiency in the provision of public sector services, and effective inter-ministerial cooperation and coordination.

Figure 20: Digital Adoption Index (DAI), sub-indices for government, people and business



Source: Digital Adoption Index, the World Bank

Figure 21: 2020 E-government Development Index by country

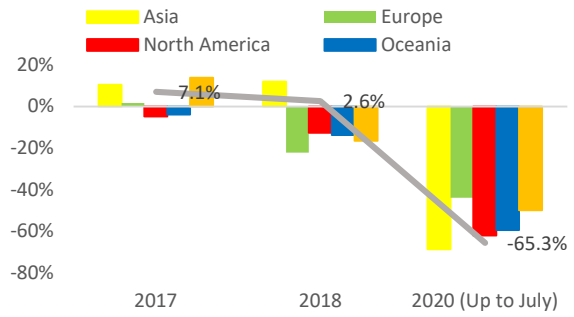


Source: UN, 2020

With appropriate policies, Myanmar can leverage new technologies and its growing digital infrastructure for additional productivity gains. Besides investing in digital connectivity infrastructure, Myanmar has an opportunity to support the growth of digital entrepreneurship and businesses through legislative and regulatory and policy changes (for example, data privacy and portability, innovation and technology law, and intellectual property rights for ICT), as well as strengthening the digital innovation ecosystem, including through supporting the development of digital literacy skills among the population. There are various options to harness the potential of digital solutions for governance and service delivery, including through government-to-citizen and government-to-business services (for instance, e-filing of taxes, one-stop online platforms for business services and trade), and embracing e-government systems for core government administration systems (including financial management, customs and tax management).

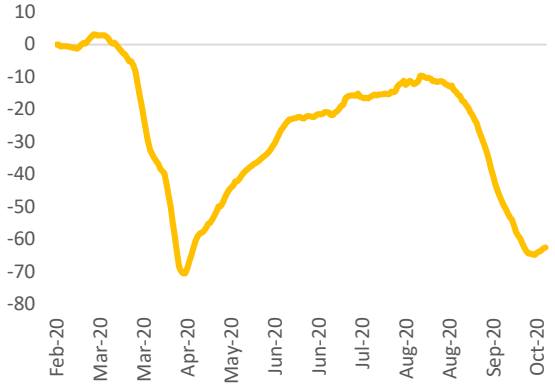
The transport and hospitality sectors contracted, as travel restrictions suppressed demand. Tourist arrivals have dropped by 65 percent in FY19/20 (**Figure 22**). International commercial flights to Myanmar have been suspended since March 31, a week after the first COVID-19 cases were reported in the country. The ban has been extended several times since then, and international flights remain officially prohibited until the end of the year. In the third quarter of FY19/20, there was a brief increase in domestic tourism, supported by stimulatory measures from government, but this recovery was curtailed by a resumption of restrictions in the subsequent quarter. Domestic flights stopped for the second time in the year (**Figure 24**) compounding the decline in tourism-related earnings from hotels, restaurants, the rental market, overland transportation and other services. Mobility data indicates the number of visitors to transit stations dropped by 60 to 70 percent during the two waves of the pandemic (**Figure 23**).

Figure 22: Tourist arrival declined significantly due to pandemic mitigation measures (% change yoy)



Source: Ministry of Hotels and Tourism

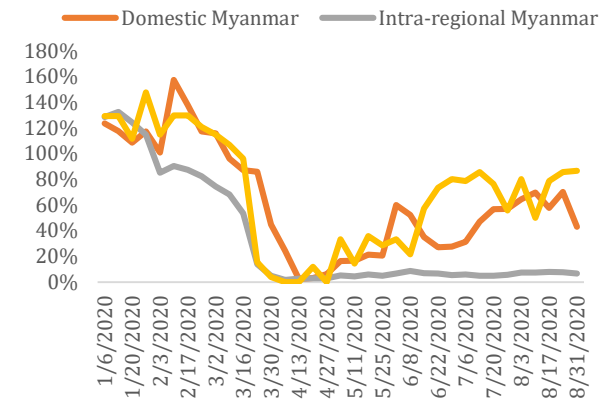
Figure 23: Transit stations mobility data (% change from baseline)



Source: Mobility data

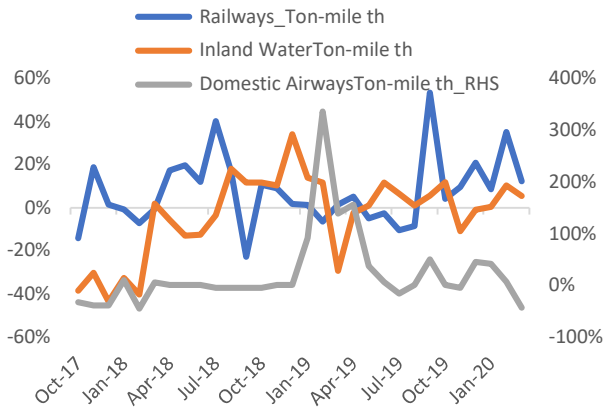
Supply chain disruptions, lockdowns, and weak demand have affected passenger transport (Figure 24), freight, and other logistics activities. The impact is most severe for small firms in the logistics and transport sectors: small trucking businesses tend to operate on thin margins and lack reserve capital or backup plans. Growth in air freight volumes eased to 4 percent (yoy) in the first seven months of FY19/20, after volumes doubled in the previous year. Inland water freight growth eased to 2 percent from 7 percent (yoy) in FY19/20. Growth in rail freight was more resilient due to improved rail transport infrastructure (**Figure 25**).

Figure 24: Passenger flights by type were materially impacted by COVID-19 measures (% change, yoy)



Source: Flightradar24

Figure 25: Railway freight remains well utilized (% change, yoy)



Source: CEIC

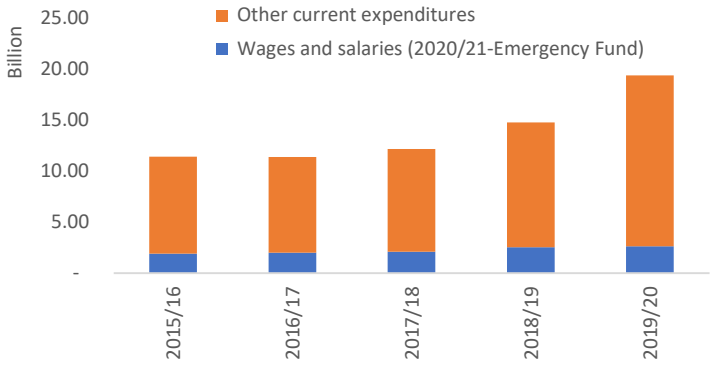
These sectoral developments were likely reflected in a slowdown in consumption and investment growth

Proxy indicators suggest that the slowdown in growth has been characterized by: i) weaker growth in household consumption (partially compensated by a pick-up in public spending); ii) a reduction in investment in the second half of FY19/20 (offsetting strong growth in the first half), and iii) weakness in external trade (see next section on **International Trade, Investment, and Exchange Rates**).

The pandemic appears to have had a sharp negative impact on consumption. Sluggish household demand is attributable to the implementation of strict containment measures, and the direct impacts of COVID-19 on incomes, remittances, and employment. The World Bank's survey shows that job losses resumed in June, and income losses remained widespread with 34 percent of households experiencing reduced income. The decline in consumption growth was broad-based across all major categories of consumption, but particularly noticeable in restaurant and accommodation spending, and other non-essentials such as clothing, automobiles, and transport services.

An increase in public consumption has offset some of these effects. Public consumption – comprised of spending on goods and services and pensions – increased by 37 percent in FY19/20 (**Figure 26**). Spending on medicines, in-kind and cash transfers to vulnerable segments of the population and government support to the agriculture sector all supported overall consumption.

Figure 26: Public consumption rose markedly in FY19/20



Source: Budget Department

Proxy indicators suggest investment growth was strong in the first half of FY19/20, but turned negative in the second half. Growth in the first half was driven by investment in electricity power generation and telecommunication and transport infrastructure, as proxied by imports of equipment in these sectors. But in the second half of the year, investment likely contracted in both the public and private sectors, owing to challenging external conditions, subdued business conditions and reprioritization of public capital expenditure. Purchases of machines and equipment declined.

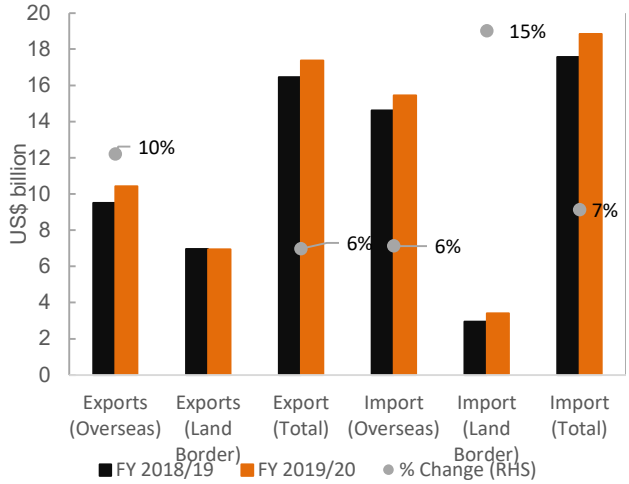
International Trade, Investment, and Exchange Rates

Myanmar's international trade has been significantly affected by the COVID-19 pandemic, with more impacts expected from the second wave.

Myanmar's international trade rose in FY19/20 despite the pandemic, but by much less than in recent years. Compared to FY18/19, the total trade volume increased by 6 percent or US$2.2 billion. Total trade has risen on average by 13 percent per year since FY13/14. Both exports and imports contributed to the rise on a year-on-year basis – with a 6 percent increase in exports (US$0.9 billion) and a 7 percent increase in imports (US$1.28 billion) (**Figure 27**).

Figure 27: Imports and exports were higher in FY19/20 compared to FY18/19 due to a strong start prior to COVID-19

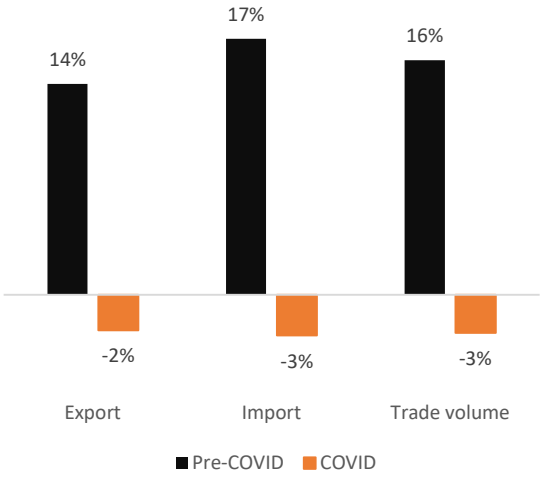
Comparative percentage change of exports and imports between FY18/19 and FY19/20 in US$ billion



Source: Ministry of Commerce

Figure 28: Myanmar's trade in the COVID-19 period (April-September) decreased in FY19/20 compared to same period in FY18/19

YOY comparison between FY18/19 and FY19/20



Source: Ministry of Commerce

Trade got off to a strong start in the year, but fell in the second half of FY19/20 as the COVID-19 pandemic set in. While trade expanded by 6 percent over the full year FY19/20 compared to FY18/19, it grew by 16 percent during the pre-COVID-19 period and fell by 3 percent during COVID-19 period. In the first six months[4], during the pre-COVID-19 period, both exports and imports increased by 14 percent and 17 percent respectively compared to the same period in FY18/19. However, the pandemic caused a contraction in exports and imports by 2 percent and 3 percent respectively in the rest of FY19/20, compared to the same period of FY18/19 (**Figure 28**). Compared to other countries that experienced a high number of COVID-19 cases in the region such as Indonesia and Philippines, Myanmar's trade performed better in the second half of the FY 19/20. However, when compared to countries[5] in the region that were only mildly affected by the cases and subsequently, containment measures such as Vietnam, Myanmar's trade outcomes were worse (**Figure 29**).

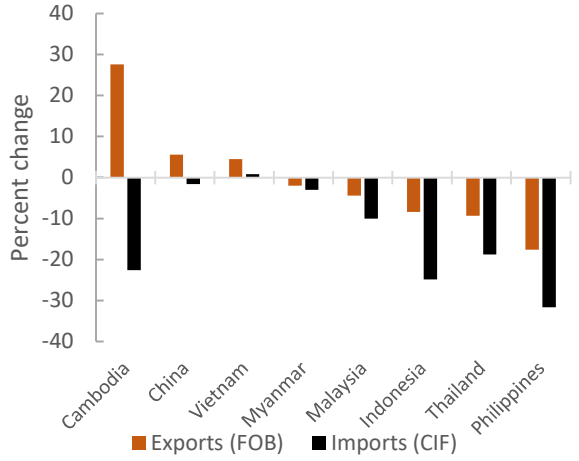
The trade deficit widened relative to last year and during the year. The trade deficit increased to US$1.5 billion in FY19/20 (2 percent of GDP) which was 33 percent wider than in FY18/19. Unlike in FY18/19 when the trade deficit stabilized half way through the year, the trade deficit in FY2019/20 continued to widen from April, as exports declined faster than imports month on month initially, before clawing back some of the deficit at the of the fiscal year (**Figure 30**). Compared with the previous year, both imports and exports declined in nearly every month after COVID-19 set in (**Figure 31**) and (**Figure 32**).

[4] The first COVID-19 confirmed case arrived in the last week of March, and the government started to enforce restrictions to contain the pandemic in the end of March. Hence, the first half of FY19/20 (from October 2019 to March 2020) is considered as pre-COVID period, and the rest of FY19/20 is considered as COVID period.

[5] For comparison, from April to the latest available month in 2020 was used for other countries – April to August for Cambodia, April to September for Philippines, April to October for China, Indonesia, Malaysia and Thailand, and April to November for Vietnam.

Figure 29: Countries in the region that were similarly affected by COVID-19 had worse trade outcomes than Myanmar's in the second half of FY19/20

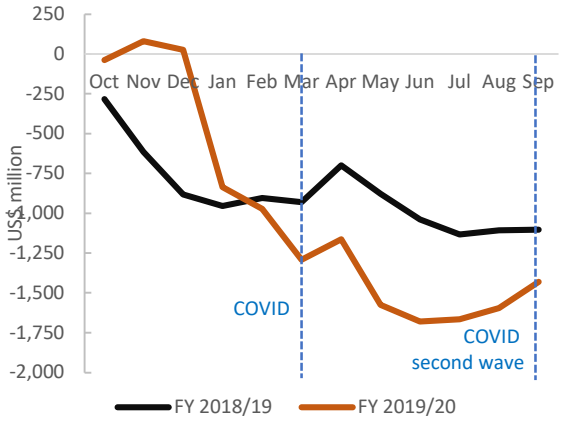
Comparison of YOY Myanmar's export and import with its regional peers (in percent change)



Source: Ministry of Commerce and CIEC
Note: Data is from April 2020 to the latest available month of each country compared to same period in 2019

Figure 30: Myanmar's trade deficit was US$1.5 billion in FY19/20

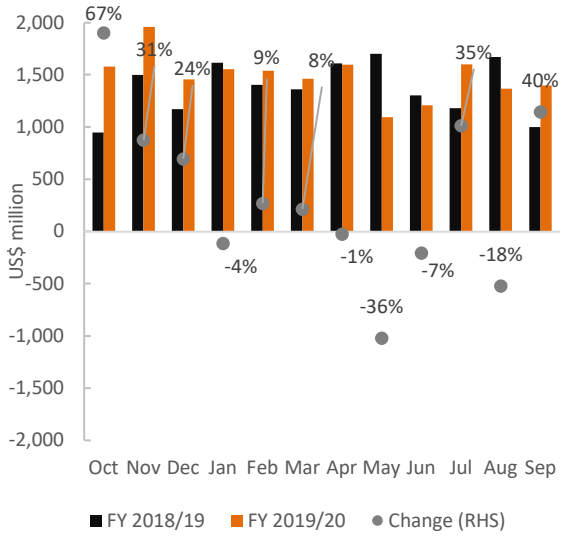
Comparative change of cumulative trade balance between FY18/19 and FY19/20 in US$ million



Source: Ministry of Commerce
Note: Trade balance is cumulative

Figure 31: Pre COVID-19 exports in FY19/20 exceeded FY18/19 and lower after

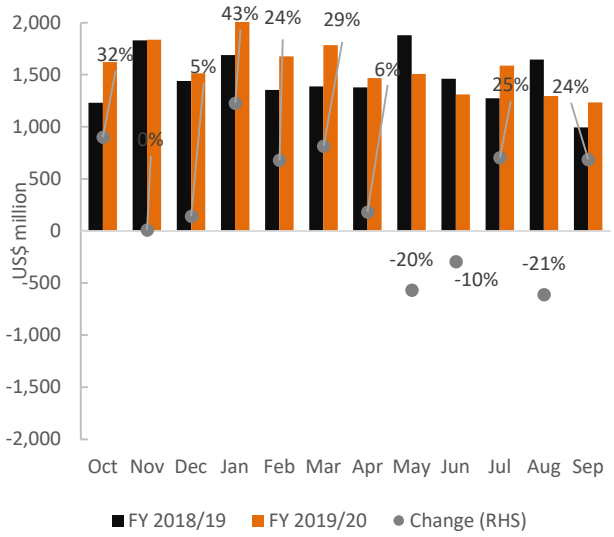
Percentage change of monthly exports between FY18/19 and FY19/20 in US$ million



Source: Ministry of Commerce

Figure 32: Pre COVID-19 imports in FY19/20 exceeded FY18/19 and lower after

Percentage change of monthly imports between FY18/19 and FY19/20 in US$ million



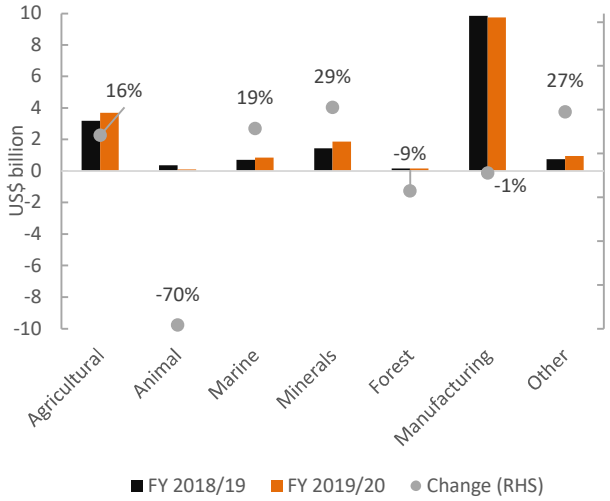
Source: Ministry of Commerce

The increase in exports in FY19/20 was driven by agricultural and mineral products, while manufacturing exports declined. Compared to FY18/19 mineral exports increased by 29 percent, marine exports increased by 19 percent and agricultural exports increased by 16 percent in FY19/20 (**Figure 33**). Regulatory relaxations on the mineral industry reduced barriers to foreign investment thereby resulting in

increased exports.[6] Exports of marine and fishery products were expected to decline in FY19/20[7] as demand waned from the EU and other markets due to the impacts of COVID-19. However, these exports in fact increased as Myanmar was able to access new markets due to improved safety in production processes[8]. Myanmar's manufacturing exports[9] (which account for 57 percent of Myanmar's total exports) decreased by 1 percent in FY19/20 compared to FY18/19 as global demand especially for gas and garments fell sharply. Manufacturing exports in the pre-COVID-19 period were 14.3 percent higher compared than the same period of FY18/19. However, as the impacts of the pandemic began to affect global markets, manufacturing exports decreased by 13.5 percent in the rest of FY19/20 when compared to the same period of FY18/19 (**Figure 34**). Closures of factories due to pandemic control measures also contributed to decreased manufacturing activities and exports. As at July 2020, 56 factories had permanently ceased operations due to COVID-19[10].

Figure 33: Compared to FY18/19, there has been an increase in mineral, marine and agricultural exports

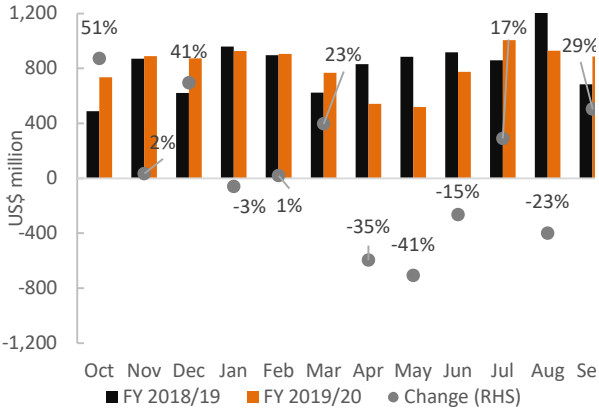
Percentage change in exports by product groups from FY18/19 to FY19/20 in US$ billion



Source: Ministry of Commerce

Figure 34: COVID-19 impacts resulted in a decrease in manufacturing exports since COVID-19

Percentage change of monthly manufacturing exports between FY18/19 and FY19/20 in US$ million



Source: Ministry of Commerce

The increase in imports was driven by capital goods, with COVID-19 causing a decrease in imports of intermediate and cut-make-pack (CMP) goods. Myanmar's imports of capital goods—accounting for 38 percent of Myanmar's total imports—increased by 28 percent (or about US$1.56 billion) in FY19/20 compared to FY18/19 (**Figure 35**). Along with an increase in capital goods imports, consumer goods imports also increased by 4 percent, and the increase in these goods has been consistent throughout FY19/20. However, CMP goods and intermediate goods decreased by 7 percent and 4 percent respectively – resulting in a 1 percent decrease in manufacturing activities and exports. As a result of the slump in global garment demand[11], a decrease in CMP imports is directly linked with the reduction in garment exports – which accounts for 40 percent of total manufacturing exports.

[6] Under new regulations introduced under the new Myanmar Mine Laws, foreign firms are now permitted to invest in large blocks of land of up to 500,000 acres, while local firms can invest in all types of blocks. https://www.gnlm.com.mm/mineral-exports-top-1-553-bln-in-current-financial-year/

[7] https://www.mmtimes.com/news/exports-fisheries-products-slow-crawl.html

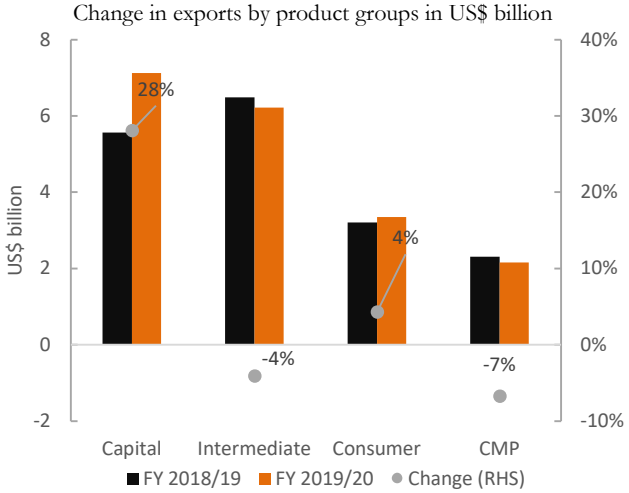
[8] https://www.gnlm.com.mm/myanmar-safe-marine-products-reach-more-foreign-markets/

[9] Gas is classified as manufacturing or industrial finished product. Mineral products include jade and jewels.

[10] https://www.gnlm.com.mm/56-factories-completely-shut-down-in-7-months-amid-covid-19-crisis/

[11] https://www.gnlm.com.mm/myanmar-garment-sector-faces-hardship-due-to-demand-slump/

Figure 35: Imports of capital goods in FY19/20 increased dramatically from FY18/19

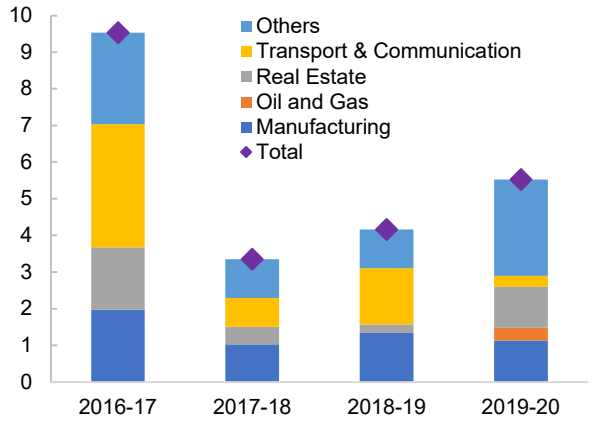


Source: Ministry of Commerce

FDI commitments increased in FY19/20 while actual inflows are likely to have slowed.

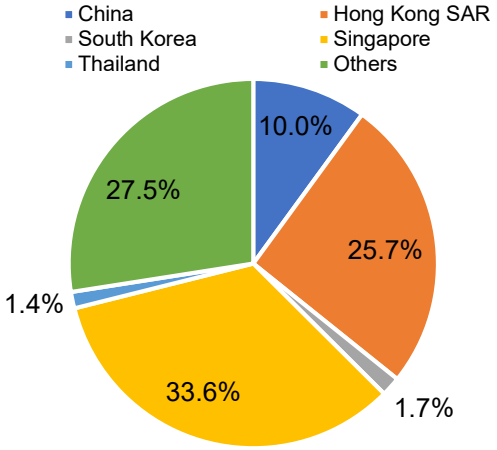
FDI commitments rose during FY19/20 (yoy) despite COVID-19 mobility restrictions. FDI commitments increased by 32.9 percent from US$4.1 billion in FY18/19 to US$5.5 billion in FY19/20 (**Figure 36**). Of the FDI projects approved during FY19/20, 20.2 percent were in the real estate sector and 20.4 percent were in the manufacturing sector. However, the pandemic has cast doubt on the trajectory of actual FDI inflows, as the viability of planned investments will depend on successful efforts to contain the virus and mitigate Myanmar-specific country risks, as well as the uncertain evolution of global markets. FDI inflows dropped from US$ 501 million in Q1 FY19/20 to US$414 million in Q2 FY19/20 before increasing slightly to US$ 430 million in Q3 FY19/20. In FY19/20, Singapore was the largest foreign investor in Myanmar in terms of commitments, accounting for 33.6 percent of overall approved investment, followed by Hong Kong (25.7 percent) (**Figure 37**). FDI in Myanmar stays resilient compared with the EAP peers (**Figure 38**), which could be attributed to continued investment promotion amidst the pandemic and simplified rules and regulations of the investment law.

Figure 36: Foreign investment approval accelerated in FY19/20 (US$ in billions)



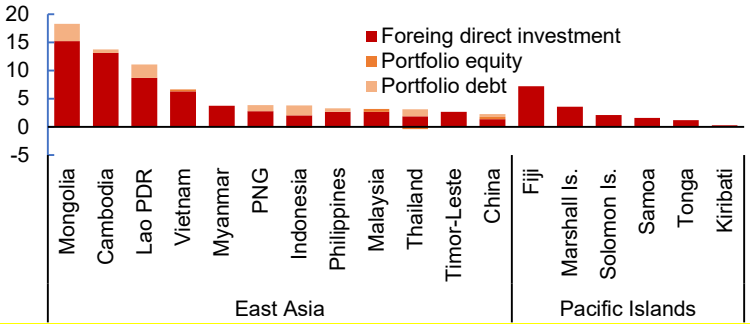
Source: DICA

Figure 37: Singapore and Hong Kong SAR are Myanmar's largest investors for approved investment (Percent)



Source: DICA

Figure 38: Capital flows exposure in EAP region
(Percent of GDP)

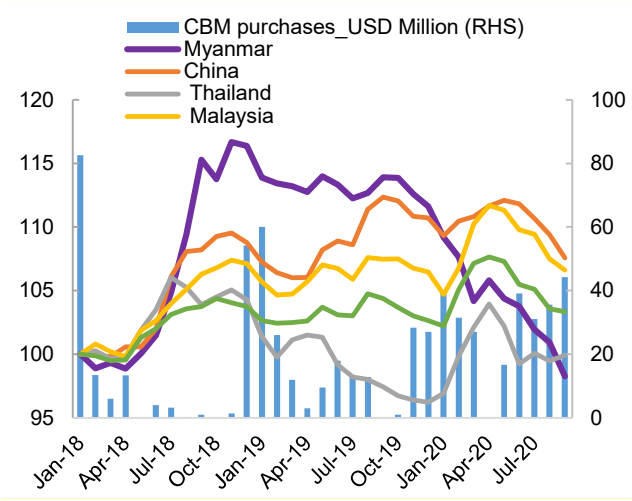


Source: EAP Update, October 2020, the World Bank

The kyat strengthened more than other currencies against the US dollar

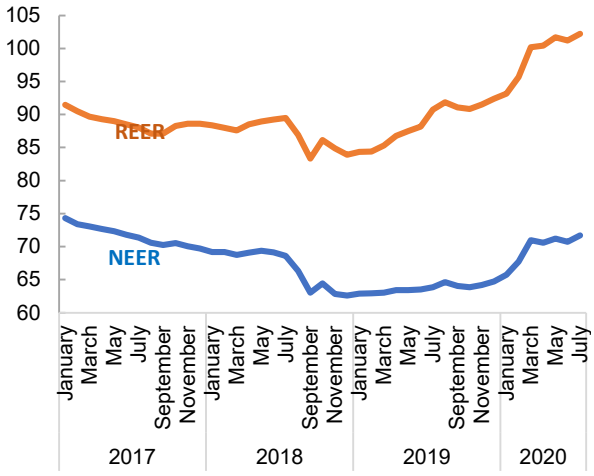
There is little data available to explain the observed strength of the Kyat relative to regional currencies. All regional currencies have appreciated against the US$ since April 2020. But the Kyat appreciated more than others during October 2019 to April 2020 and reached 1,293 kyat/dollar in October - 15.6 percent (yoy) stronger than in October 2019. These developments allowed the Central Bank of Myanmar (CBM) to accumulate reserves by buying US$ 321.1 million between October 2019 to September 2020 (**Figure 39**). The appreciation may be attributable a slight surplus on the trade balance in Q1 FY19/20, as well as investments on the capital account, although FDI and remittance flows were regular during the period of rapid appreciation. Another explanation may be that demand for the Kyat increased with the expectation that the Kyat would continue to appreciate, coupled with the fact that small trades can have big effects in Myanmar's shallow foreign exchange market. With higher inflation rates than its trading partners, Myanmar's real effective exchange rate (12.6 percent) has appreciated even more strongly than the nominal effective exchange rate during October 2019 and July 2020 (**Figure 40**). This appreciation has lowered export competitiveness and posed difficulties particularly to exporters and those engaged in export value chains, including farmers.

Figure 39: CBM bought US$ as Kyat appreciated
(LHS: Exchange-rate index, January 2018=100;
CBM purchases: US$ million)



Source: CBM

Figure 40: Real effective exchange rate appreciated faster than nominal effective exchange rate
(August 2012=100)



Source: CBM;
Note: Upward movement represents appreciation

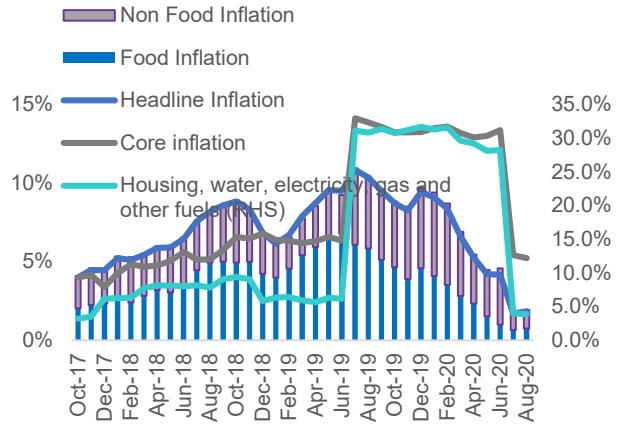
Inflation and Financial Sector

Inflation has declined

Headline inflation trended downward in FY19/20 compared to FY18/19 due to a gradual decline in certain food prices and the effect of the electricity tariff increase from last year dropping out of the base. Inflation dropped gradually to 1.8 percent (yoy) in August from 9.1 percent (yoy) in January due to a reduction of certain food prices, energy and electricity prices. Food price inflation gradually decreased to 1.3 percent in August from 7 percent (yoy) in January (**Figure 41**), primarily associated with the lowering of prices for edible (food) oils, chicken, eggs, beans and vegetables (**Figure 42**). However, the prices of other food product groups have declined only marginally. Non-food inflation also declined at a rapid rate to 2.8 percent (yoy) from 12.9 percent (yoy) in January 2020 driven by housing utility and transport costs. Fuel prices rebounded driven by recovering global crude oil prices, but remained lower than the same period last year. Meanwhile, the prices of transport (bus fares) increased with the adoption of social distancing travel behavior in passenger transport – by as much as 12.4 percent (yoy) in August 2020.

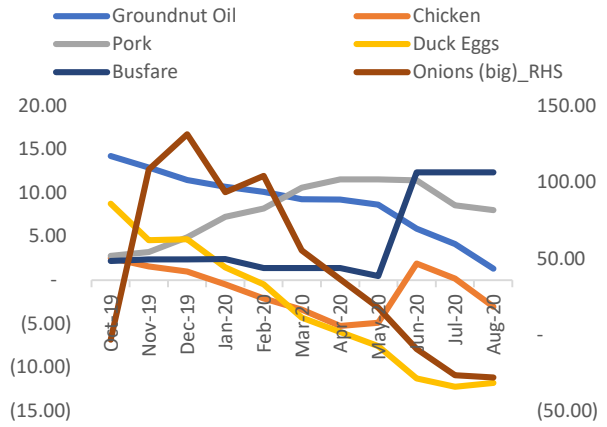
Core inflation fell from July 2020 as the year-on-year price effects of electricity price increase dropped out of the base. Core inflation (CPI excluding food and fuel prices) dropped to 5.2 percent (yoy) in August 2020 from 13.2 percent (yoy) in October 2019 predominantly driven by downward price pressures from slowing domestic demand and since the one-off administered electricity price increase in July 2019 dropped out of the base. A benign inflation environment has provided monetary authorities the impetus lower the interest rate.

Figure 41: Inflation (YoY)



Source: Central Statistical Organization

Figure 42: Price Changes of Main Products (% change, yoy)



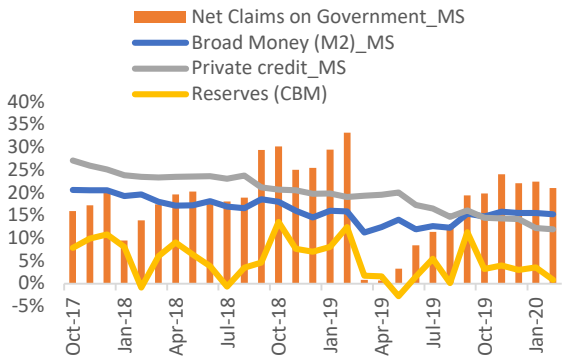
Source: Central Statistical Organization

Growth in foreign reserves had declined and credit growth had weakened prior to the pandemic

CBM reserves stabilized in early FY19/20, after rising gradually over most of 2019 (Figure 43). Foreign exchange reserves stood at US$ 5 billion (3 months of imports February 2020), providing a buffer against balance of payments shocks. The growth of net claims on the government dropped to 21 percent in February 2020 from 33 percent in the same period of the previous year as the CBM reduced its financing of the budget deficit.

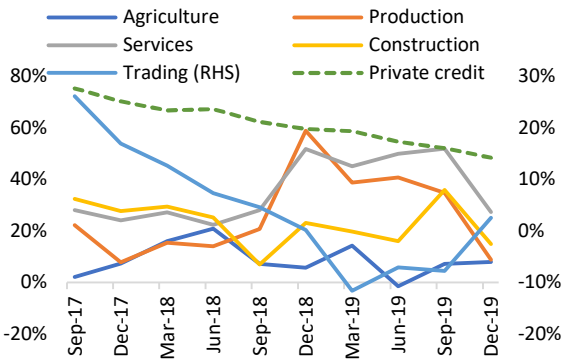
Private sector credit growth continued to decline to 12 percent in Q1 FY19/20, falling from 14 percent in Q4 FY18/19. In the pre-COVID period, lending to the housing sector grew by 217 percent (yoy) in FY 2018/19 driven by real estate and hire purchase promotion, while lending to agriculture grew by 8 percent, construction by 15 percent, and production by 8 percent (Figure 44).

Figure 43: In pre-COVID period, private credit growth continued to decline… and CBM reserve money growth declined…



Source: Central Bank

Figure 44: In the pre-COVID period, lending growth by all banks in trading sector, but the growth of credit to the private sector has been slowing since end-2017



Source: Central Bank

Pre-Pandemic banking sector challenges may be amplified by Pandemic-related private sector insolvencies, requiring reform momentum.

Aggregate banking sector data for Q1 2020 reveals a modest evolution of the sector overall, with considerable differences among the performance of state-owned banks, private banks and foreign banks. The banking sector overall experienced a modest increase in total loans (0.84 percent) over the December 2019-March 2020 period, but a small decline in total assets (-0.74 percent) and in total deposits (-2.19 percent). However, state-owned banks have experienced a much more pronounced decline in these three metrics than both private banks and foreign banks. Moreover, the banking sector overall has seen its income doubling during Q1 2020 (108 percent increase), but it's expenses also increasing by more than 134 percent (**Table 1**). Profitability indicators deteriorated during Q4 2019, with return on assets (ROA) declining from 0.36 in Q3 2019 to 0.13 in Q4 2019, and return on equity (ROE) declining from 5.07 in Q3 2019 to -1.80 in Q4 2019.[12].

Table 1: Aggregate Banking Sector Data: December 2019 – March 2020 (percentage change)

	Total Banking Sector	State-Owned Banks	Private Banks	Foreign Banks
Total Loans	0.84%	-20.32%	5.40%	3.42%
Total Assets	-0.74%	-5.90%	2.50%	-4.17%
Total Deposits	-2.19%	-6.55%	-0.30%	-6.07%
Total Income	108.26%	104.17%	110.35%	92.13%
Total Expenses	134.00%	282.34%	112.61%	65.98%

Source: CBM

While the banking sector in Myanmar has been undergoing important and much-needed reforms over the past few years, it has had to deal with some serious pre-existing conditions even before the COVID-19 pandemic struck. As per the 2019 IMF Article IV Consultations, the financial condition of the banking sector is potentially considerably weaker than reported numbers indicate, with most of the large domestic private banks being non-compliant with the required capital adequacy ratio of 8 percent, and with some of them not being compliant with the provisioning requirements. The continuing low transparency and lack of high-frequency data makes it very challenging to analyze the impact of COVID-19 on the banking sector, but it is anticipated that growing insolvency among their clients will further impede bank balance sheets and constrain their ability to finance post-COVID recovery.

The Asia Pacific region is expected to experience the highest increase in insolvencies in 2021. According to the Global Insolvency Outlook[13], the Asia-Pacific region is expected to see insolvencies increase by 24 percent in 2021 YoY – the highest of all regions – versus 16 percent YoY increase globally and in Western Europe, and 12 percent YoY increase in Central and Eastern Europe.

The October 2020 World Bank COVID-19 firm survey revealed that Myanmar is no exception with respect to business insolvencies. In September 2020, 26 percent of firms had outstanding loans, and 14 percent of firms delayed payments to their suppliers. Compared to March and May 2020 (the first wave of COVID-19 period), the number of firms with outstanding loans declined relative to March 2020 (43 percent) and May 2020 (35 percent). However, the October results found that 35 percent of firms expected to fall into arrears in the next three months. Firms relied more on family and friends to access loans than on financial

[12] CBM.

[13] Euler Hermes, https://www.eulerhermes.com/en_global/news-insights/economic-insights/global-insolvency-outlook-2020.htm

institutions. Given these challenges, 53 percent of firms indicated that access to loans / credit guarantees was the most need form of government support.

The challenges faced by firms in sectors such as agriculture, manufacturing, services, and retail and wholesale can transmit to the financial sector. Whereas the Government of Myanmar has implemented various regulatory forbearance measures to support the financial sector during this time of crisis, a close and constant monitoring of the main evolutions in the financial sector is warranted. Otherwise, once the regulatory forbearance measures expire, it will likely reveal significant underlying troubled assets and a spike in NPLs could have truly negative consequences for the country's financial stability and the health of its economy overall.

Already, MFIs in Myanmar have been particularly hard hit by the COVID-19 pandemic. Indeed, the initial lockdown and travel restrictions have prevented many MFI agents from meeting with their clients and collecting loan payments. This resulted in an increase in NPLs for the MFI sector.

Box 2: Recent Policy Measures Adopted by the Government of Myanmar

During Q3 2020, the Government of Myanmar continued to implement various policy measures aimed to support both the financial sector and the real sector in dealing more effectively with the COVID-19 pandemic:

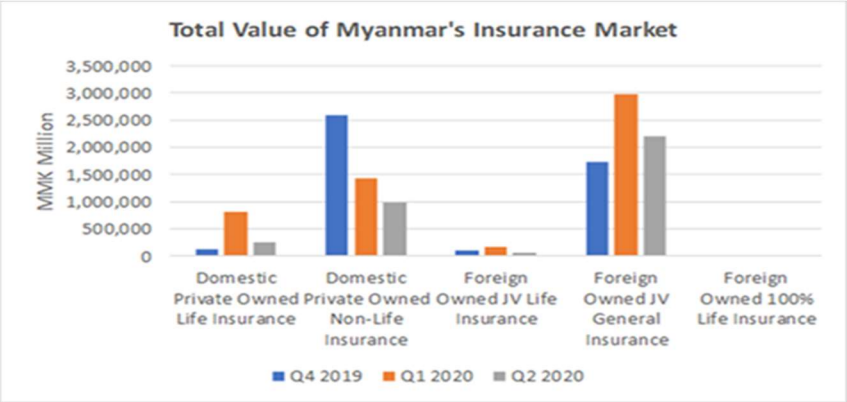
- On July 6th, the Government of Myanmar has allocated additional MMK100 billion (~ US$ 75.5 million) for the COVID-19 Fund to provide credit to businesses affected by the COVID-19. The additional support will target CMP business, hotels and tourism businesses, and SMEs.
- On July 23rd, the Government allocated a commercial loan of MMK 100 billion (~ US$ 75.5 million) for MFIs through MEB and the loans will be 3-year short-term loan with 1-year grace period and loan interest is 9% interest rate with collateral and 11.5% without collateral. In addition, the Government allocated working capital loans to MFIs through MEB and then MFIs will disburse the loans to teahouses and small restaurants which are COVID-19 impacted. Loans have one-year maturity with 1% interest rate to MFI and MFI will lend to teahouses and restaurants at 2% interest rate.
- On July 29th, the Government announced a new MMK100 billion (~ US$ 75.5 million) fund to provide loans to businesses in sectors not covered by previous relief efforts (agriculture and livestock, export/import, manufacturing, supply chains, F&B, foreign job agencies and vocational schools). Loans will be for 1-year with a 1 percent interest rate and can be used to pay wages and for business operations.
- The Central Bank of Myanmar (CBM) announced on September 22nd it was extending the temporary changes to banks reserve requirement and liquidity ratio calculations until March 31, 2021.

COVID-19 has been a set-back for the liberalizing insurance sector

The insurance sector in Myanmar continued the liberalization process started in 2019, but the COVID-19 pandemic impacted it severely, particularly during Q2 2020 when the first wave of the COVID-19 pandemic hit Myanmar. Motor insurance premium volumes dropped significantly, as elsewhere. This followed impressive (80 percent) growth in motor insurance premiums in 2018 and 2019. Also, both state and private owned insurance companies have experienced a decline in life and non-life insurance business in terms

of the number of policies and the total insurance premium income.[14] (**Figure 45**). Foreign-owned joint venture life and general insurance experienced an 82.6 percent and 71.6 percent increase respectively in total value of premiums between Q4 2019 and Q1 2020. But non-life then declined steeply by 67.2 percent in Q2 2020 and general declined by 25.97 percent. Foreign owned 100 percent life insurance has remained small in the first half of FY20 – both by total value of premium and by the number of policies – being in its very early stages. Much of the decline during Q2 2020 may be explained by the COVID-19 lockdown that placed significant travel restrictions across the country, with all three major distribution channels for insurance products – independent agents, bank-tied sales and walk-ins at branches – being severely impacted by the lockdown measures.

Figure 45: Total value of Myanmar insurance market



Source: Financial Regulation Department

Fiscal Policy

Revenue collection in FY19/20 RE was better than expected, but a sharp decline is forecast for FY20/21

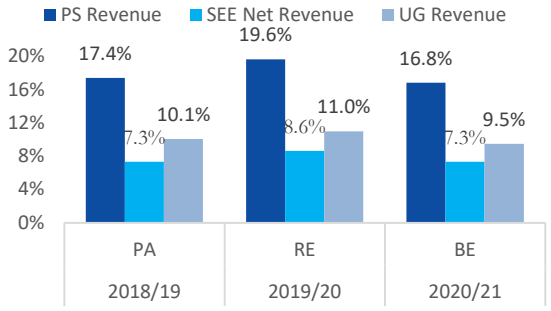
Revenue collection in FY19/20 RE[15] was higher than expected, despite the impact of COVID-19. Total public sector revenue is expected to reach 19.6 percent of GDP in FY19/20, up from 17.4 percent in FY18/19, due to increases in revenue from both the Union government and SEEs (**Figure 46**). Based on preliminary estimates, tax revenue declined slightly as share of GDP from 6.5 percent in FY18/19 to 6.2 percent of GDP in FY19/20, due to the economic slowdown and the impact of policy responses, such as tax deferrals and exemptions. However, non-tax revenue increased sharply from 10.9 percent of GDP in FY18/19 to 13.4 percent of GDP in FY19/20. This was due to a large one-off SEE contribution, and an increase in revenue from energy sector SEEs (**Figure 47**).

[14] For instance, in the case of the former, the total gross premium declined by 69 percent between Q1 2020 and Q2 2020, whereas the number of policies went down by approximately 19 percent over the same period. In the case of the latter, the total value of policies declined by 44.6 percent between Q4 2019 and Q1 2020, followed by a further decline of 32.4 percent between Q1 2020 and Q2 2020, whereas the total number of policies went down by 59.3 percent, respectively 75 percent over the same periods.

[15] **BE (Budget Estimate)**: The original expected revenue and budget allocation approved by the parliament before the beginning of the fiscal year.
RE (Revised Estimate): Revision of expected revenue and budget allocation typically takes place in the middle of the fiscal year. The Revised Estimate is equal to sum of the Budget Estimate and Supplementary Budget, minus unspent sums surrendered by line ministries.
PA (Provisional Actual): The provisional actual is like the temporary actual, except that the figures have been reconciled with bank statements from the MEB. Typically, changes between the TA and PA are not large.

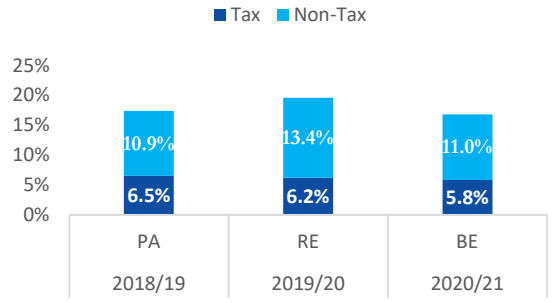
Government revenue in FY20/21 is expected to decline, as economic activity remains subdued and commodity prices low. Total public sector revenues are projected to fall from 19.6 percent in FY19/20 to only 16.8 percent of GDP in FY20/21, due to a decline in Union government and SEE revenue (**Figure 46**). Income and commercial tax revenue are expected to fall, due to the economic downturn and the impact of tax deferrals and exemptions. Overall tax revenue is projected to decline from 6.2 percent in FY19/20 to 5.8 percent in FY20/21. In addition, non-tax revenue also expected to fall sharply from 13.4 percent in FY19/20 to 11.0 percent of GDP in FY20/21 as a result of a sharp decline in energy sector SEE contributions due to declining commodity prices, a weakening of SEE profitability, and the absence of the one-off outstanding SEE contribution that supported revenues in FY19/20 (**Figure 47**). As a result, the fiscal deficit is expected to increase from 7.1 percent in FY19/20 to 8.1 percent of GDP in FY20/21.

Figure 46: Public sector revenue decline in both SEE's and Union government's revenue
(percent of GDP)



Sources: MOPFI, WB staff estimates

Figure 47: Both tax and non-tax revenue projected to decrease in FY20/21
(percent of GDP)



Sources: MOPFI, WB staff estimates

Expenditure increased in FY19/20 to accommodate an ambitious COVID-19 response plan, but is projected to decline in FY20/21 as a share of GDP

In FY19/20, the government injected an additional supplementary budget of 1.7 trillion kyat or around 1.5 percent of GDP, bringing total spending to 26.7 percent of GDP, a large expansion from spending of 21.0 percent of GDP in FY18/19. The Energy sector (including SEEs) received almost half of this additional allocation due to the increase in income tax payment and contribution payment of Myanmar Oil and Gas Enterprise (MOGE), Defense 11 percent, Education 7 percent, Non-energy SEEs 7 percent, Health 5 percent, MOPFI 4 percent, Transfer to State and Region 3 percent, Social Welfare 2 percent, and Agriculture 1 percent.

The FY20/21 Union budget of 34.1 trillion kyat was approved by the parliament in September 2020, increasing slightly from 33.7 trillion kyat in FY19/20 RE (under Myanmar's accounting method of budget presentation). Myanmar's approved FY20/21 budget expenditure increased by 0.4 trillion kyat or 1.2 percent from FY19/20 RE. The main driver of the increase is donor-funded recurrent expenditure of 1.5 trillion kyat (financed from WB, JICA and ADB borrowing) for COVID-19 prevention and control. However, by analytical method[16], the budget amount for FY20/21 is 30.7 trillion kyat compare with 30.4 trillion kyat in FY19/20. As share of GDP, spending is projected to decline from 26.7 percent of GDP in FY19/20 RE to

[16] Analytical method rearranges financial borrowing and financial expenditure (both domestic and external) in Myanmar's accounting method to be below the line. It is also removing the double counting impact by using net of transfer to Union Government from SEEs. Hence, the amount is lower than what the government has announced using accounting method

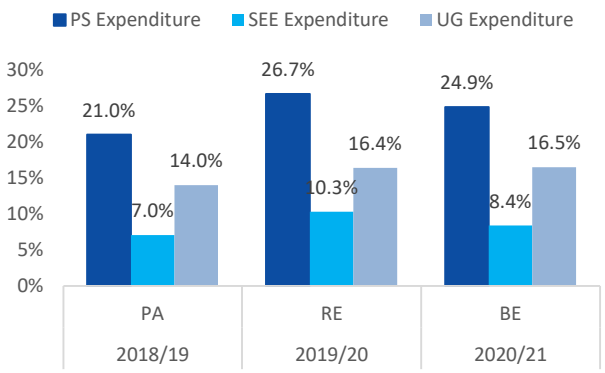
24.9 percent in FY20/21. Both SEEs and Union government have smaller expenditure as share of GDP in FY20/21 compare to FY19/20 (**Figure 48**). Apart from MOPFI, all ministries received less budget allocation as share of GDP in FY20/21 compared to FY19/20 (**Figure 49**).

The budget allocation to COVID-19 response was less than expected in FY20/21, in part due to rigidity in the budget preparation process. The budget preparation process for FY20/21 took place in January 2020 and line ministries submitted their budget proposal in late March – early April. Except for the donor-funded recurrent expenditure on COVID-19 prevention and control mentioned above, many of the budget proposals for FY20/21 do not seem to have incorporated COVID-19 response. Moreover, projects, programs and activities financed in the supplementary budget of FY19/20 do not appear to have been taken into consideration in the preparation of the FY20/21 budget. The rigidity of the budget preparation process means that fiscal policy is less responsive to shocks than it could be, and has resulted in a conservative FY20/21 budget given the impacts of COVID-19. As a result, the FY20/21 supplementary budget will likely be used to bolster the government's COVID-19 response this year.

The government also raised domestic resources for COVID-19 response in FY19/20, and as yet unused resources can be used in FY20/21 if needed. The government approved a 1.7 trillion kyat (around 1.5 percent of GDP) of supplementary budget during FY19/20, although most activities funded by this supplementary budget were non-COVID-related. The government also reallocated 306 billion kyat (0.3 percent of GDP) toward COVID-19 prevention, control and treatment within line ministries at the Union level. Lastly, 2.6 trillion kyat (2.3 percent of GDP) was reallocated from line ministries to the General Reserve Fund (GRF). But 1.0 trillion kyat of this amount was allocated to a Natural Disaster Management Fund. Accounting for all of the above, the government has raised between 1.9 to 3.6 trillion kyat (1.7 – 3.2 percent of GDP) in domestic funding for the COVID-19 response. In FY20/21, the government allocated 20 billion kyat to Natural Disaster Management Fund, 150 billion kyat to the Contingency Fund (100 billion under MOPFI, 36 billion kyat under line ministries and 1 billion kyat for each of the 14 States and Regions) which can be used for disaster and unexpected events.

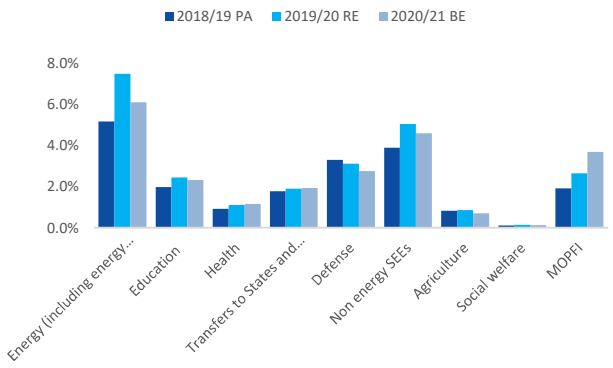
As of end-September, it is estimated that over half of the spending envisaged under the government's Covid-19 Economic Relief Plan (CERP) has been disbursed. The cost of the CERP has been estimated at between 2.9 to 3.7 trillion kyat (2.5 percent to 3.2 percent of GDP) depending on the coverage of each element of the plan. From April to June 2020, MOPFI reported that spending in response to Covid-19 was 836 billion kyat or 0.7 percent of GDP. On September 27, 2020, U Thaung Tun, the Union Minister of Investment and Foreign Economic Relations announced that the government had disbursed around 1.9 trillion kyat (1.7 percent of GDP) on the CERP which is equivalent to 69 percent of the low range estimate of the total cost (2.9 trillion kyat) and 54 percent of the high range estimate (3.7 trillion kyat). The CERP spending by activity is illustrated in **Figure 50**. Tax expenditures from deferrals and exemptions of around 431 to 490 billion kyat have not been costed and included in this implemented amount.

Figure 48: Public sector expenditure falls in both SEE and Union government
(percent of GDP)



Sources: MOPFI, WB staff estimates

Figure 49: Expenditure by ministry
(percent of GDP)



Sources: MOPFI, WB staff estimates

Budget execution continues to pose challenges.

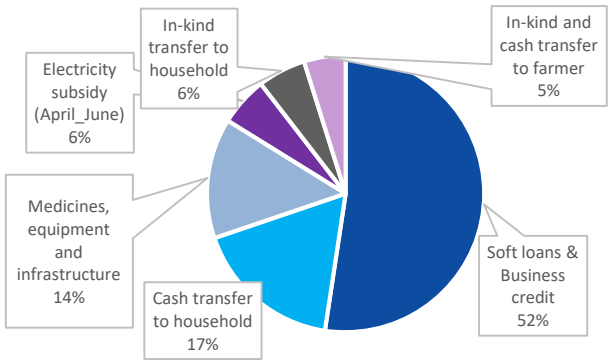
Budget under-execution has remained a persistent challenge during the first 10 months of FY19/20, particularly for capital spending. Preliminary spending data from 1st October 2019 to 31st July 2020 (10 months) indicates that actual spending was 63.5 percent of the revised budget (original budget plus supplementary budget). The shortfall was driven by capital spending, which had an execution rate of 42.3 percent (**Table 2**). In recognition of the challenges created by COVID-19, this year a special "carry-over" arrangement has been implemented so that the FY19/20 budget period has been extended to December 24th, 2020. The Treasury Department will therefore allow line ministries to record their expenditure for FY19/20 until December 24th, giving them an additional 3 months to execute their FY19/20 budget without having to restart the procurement process. As a result of this 'carry-over' provision, execution of the FY19/20 capital budget could reach over 80 percent.

Table 2: Ten Months of FY19/20 Budget Execution

	10 months of 2019/20		
	Budget*	Actual**	Actual/Budget (%)
Total Expenditure	33.7	21.4	63.5
Current	24.4	16.3	66.8
Capital	7.8	3.3	42.3
Debt Service	1.5	1.8	120.0

Note:
*Budget of the revised estimate (RE) budget 2019/20
** Preliminary data
Source: MOPFI; World Bank staff calculations

Figure 50: CERP spending as of September 2020 by activity (share of total CERP spending)



Source: Modified from https://www.gnlm.com.mm/covid-19-crisis-we-will-recover-and-build-back-better/

The budget deficit is expected to remain at elevated levels, but use of CBM financing is declining.

The fiscal deficit is expected to increase in FY20/21 compared with FY19/20. The deficit is projected to increase to around 8.1 percent of GDP compare with 7.1 percent in FY19/20 RE, due mainly to the fall in revenues (see **Box 3**). The deficit will be financed mainly by domestic borrowing (through T-bills and T-bonds) and around 30 percent through external borrowing. By Myanmar's accounting method, the government projects a slightly lower deficit of 5.4 percent of GDP compare with 5.7 percent of GDP in FY19/20 RE. Nevertheless, the accounting deficit is still projected to remain above the target deficit ceiling of 5 percent of GDP.

Use of CBM financing is declining and there has been a move towards T-bill and T-bond financing. The share of CBM financing in total financing (domestic and external) declined from 26 percent in FY18/19 to 11 percent in FY19/20. T-bill issuances increased sharply from 7 percent to 27 percent of total financing while T-bond decreased from 60 percent to 44 percent from FY18/19 to FY19/20 (**Figure 51**). Preliminary data of FY19/20 indicate that, in volume terms, T-bill issuance has increased by 74 percent and T-bond issuance has increased by 6 percent compared with FY18/19.

Myanmar is one of 44 countries around the world that participates in the Debt Service Suspension Initiative (DSSI) which was endorsed by the G-20, allowing debt service suspension to help countries manage the severe impact of the COVID-19 pandemic. For Myanmar, the amount of suspended debt service was estimated at around 0.4 percent of GDP in FY19/20, increasing the amount of fiscal space available for other priorities. Myanmar has committed to ensuring that the resources are used transparently and effectively to alleviate the effect of COVID-19. This includes the online publication of:

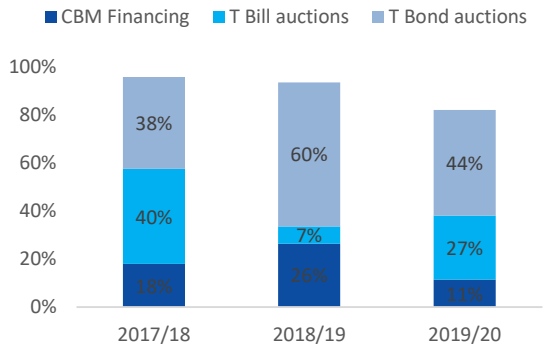
1. quarterly reports on COVID-19 related expenditures;
2. results of a targeted audit of COVID-19 related expenditures by the Office of the Auditor General;
3. information on COVID-19 related procurement contracts "with total contract value of over 100 million kyats".

More generally, the government is working closely with IMF, World Bank and other development partners to improve fiscal reporting, accounting, cash management, and targeting of cash transfers throughout the country.

Despite the government's ambitious CERP, Myanmar's fiscal response is still far less than other developing countries in ASEAN.

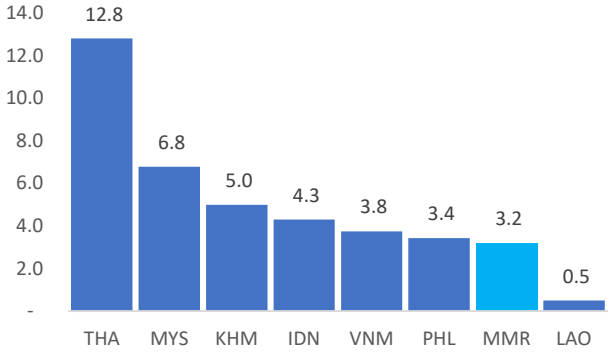
The CERP was designed for the 1st wave of Covid-19 but given the 2nd wave is much more severe, response measures will need to be scaled up. When compared with other ASEAN countries, Myanmar's response plan still lags behind its peers (**Figure 52**). There is room for the government to increase its spending in response to COVID-19, drawing on both domestic and external sources of financing. External donor support amounts to almost 1 percent of GDP, excluding in-kind support. This includes the IMF which provided 356 million USD budget support, World Bank provided 50 million USD emergency loan for public health emergency preparedness and 200 million USD credit to boost agricultural productivity and support farmers in wake of COVID-19, EU mobilized 5 million Euro and disbursed 37.6 million Euro for education, Japan provided emergency loan of 46.5 million USD to SMEs and grant of 18 million USD for COVID-19 related healthcare. Asian Development Bank (ADB) provided the loan USD 250 million for COVID 19 Active Response and Expenditure Support Program and the loan amounting up to USD 30 million for public health. Livelihoods and Food Security Fund provided 15.8 million USD funding, etc. However, the reporting of the external resources is not consolidated and execution is difficult to track on a timely basis.

Figure 51: Deficit financing continues to shift away from CBM financing
(percent share of total financing)



Source: CBM; World Bank staff calculations

Figure 52: Fiscal support in response to COVID-19 in ASEAN
(percent of GDP)



Source: MOPFI; World Bank staff calculations

Government is about to release a Myanmar Economic Resilience and Relief Plan (MERRP), building on the COVID-19 Economic Relief plan (CERP) still under implementation. However, it is not clear how the MERRP will work in complementarity with the on-going CERP. Short-term and medium-term measures should be clearly identified, and the scale of the response should be commensurate with the impact of the second wave, taking into account overall financing constraints. Government could also consider responding to private sector requests for soft loans to fund capital investments which may support businesses and bolster productive capacity over the medium to long term; increase MFIs liquidity and breaking the indebtedness cycle for the vulnerable groups.

Over the longer term, progress on the Public Financial Management reform agenda is critical.

Collecting more: The government needs to widen the tax base by:

- Rationalizing tax incentives - Tax incentives are costing Myanmar a significant share of revenue. The WB preliminary study shows, in FY18/19 Myanmar lost revenue from corporate income tax of at least 0.3 percent of GDP through Myanmar Investment Commission (MIC) exemption alone. The exceptions 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 study on the cost-benefit of tax incentives will help the government improve efficiency in this aspect.
- Enhance compliance focus – especially 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.
- Reduce the scope of commercial tax and SGT exemptions.

Spending better: Improve budget planning process, enhance budget flexibility and widening social protection.

- Improve budget planning process - In preparation of annual budget, it is important to consider the most recent budget allocation (including the supplementary budget) reflected in previous fiscal year RE. This will allow line ministries to continue providing the same level of public services. Failure to do so will force projects and programs approved during the RE period into an under-financed situation which, in turn, risks delaying implementation and increases transaction cost, as the line ministry then needs to request additional supplementary budget during the next RE period. This routine practice causes inefficiency and reduces budget credibility.
- Enhance budget flexibility – the government must improve budget appropriation and rules related to virements and contingency financing. This will allow Myanmar to respond quickly to unexpected events without relying on the supplementary budget process. This will also improve budget execution

rate as the supplementary budget is usually approved toward the end of fiscal year, leaving limited time to execute.

- Widening social protection and increasing budget allocations to essential services - It is important to extend social protection to cover all existing and new poor or vulnerable groups. Spending on health, education and social welfare has remained relatively low in levels terms, and stagnant as share of GDP and as a share of budget.

Manage risk: As deficit keep growing, Myanmar need to monitor debt burden and fiscal risks with care

- Improve comprehensive debt database - To keep the government informed and plan ahead, the debt database needs to be comprehensive (including both domestic and external) and up to date. The debt data should be updated on a monthly basis and debt reports produced regularly.
- Consider fiscal risks and contingent liabilities – It is important for the government to be informed of their fiscal risks and contingent liabilities, and have contingency plans in place.
- Aim to expand fiscal space – Myanmar has a low overall risk of debt distress and can afford to borrow more, but the slowdown in economic growth and wider fiscal deficits create risks. In the medium term, Myanmar must aim to expand fiscal space to maintain fiscal sustainability.

Box 3: FY20/21 Budget Allocation

The FY20/21 Union Budget was approved by the Union Parliament in September 2020. Compared with FY19/20, revenues are projected to be substantially lower, in part due to declines in gas prices, while spending is expected to be broadly unchanged in nominal terms and lower as a proportion of GDP. As a result, the deficit is projected to expand to 8.1 percent of GDP (10.0 trillion kyat) in FY20/21, from 7.1 percent in FY19/20. While these estimates are based on the (preferred) analytical method of budget presentation, under the accounting method of budget presentation, projected FY20/21 expenditure is 34.1 trillion kyat and projected revenue is 27.5 trillion kyat, resulting in a deficit of 6.6 trillion kyat (5.4 percent of GDP).

Key developments

1. For the first time in Myanmar, a specific petroleum forecasting section was included in the FY20/21 Budget Brief. This helps the government plan its fiscal financing strategy more effectively.
2. Due to COVID-19, the deadline for FY19/20 budget execution was extended from September 30th to December 24th, 2020, which is the first quarter of FY20/21. Without this "Carry-Over" provision, all unfinished projects would have been required to surrender their remining budget to MOPFI at the end of September and restart procurement process all over again in the next fiscal year. This would typically add another 2 - 3 months to the project implementation.
3. Introducing the Central Provident Fund.17 under MOPFI with initial capital of 100 billion kyat.
4. In response to the impact of COVID-19, the government have increased the Contingency Fund.18 amount from the regular 100 billion kyat to 150 billion kyat (0.12 percent of GDP).

Macroeconomic assumptions

The government projections underlying the FY20/21 budget were prepared earlier and are more optimistic than those in this Economic Monitor (but have subsequently been revised downwards). In the Budget, Government projected real GDP growth of 6.0 percent in FY20/21, declining from 6.9 percent in FY19/20. Inflationary pressures were expected to remain high with average annual inflation forecast around 6.0 percent driven by supply-side constraints and passthrough effects from increased prices of transport.

Policy priorities

The key policy priorities included in the FY20/21 budget are:

1. Increase spending on education, health and social protection;
2. Prioritize expenditure for SMEs to support growth and job opportunities;
3. Increase allocation for capital infrastructure for irrigation, electricity generation, drinking water, road transportation and rural development;
4. Spending on economic recovery after Covid-19.

The priority sectors were reflected in an increase in nominal (kyat) term of budget allocation. Compared with FY19/20, MOPFI received the highest increase of 51 percent as the Treasury Department has included the recurrent expenditure on COVID-19 prevention and control (funded by borrowing from WB, JICA and ADB) as part of MOPFI's allocation, MOHS received an increase of 13 percent, Education sector budget increases slightly at 3 percent. However, as a share of GDP, budget allocations to most sectors declined. Education and agriculture allocations saw relatively small declines in FY20/21 (from 2.5 to 2.3 percent and 0.9 to 0.7 percent of GDP respectively), while health and social welfare maintained their allocations as a share of GDP (1.1 and 0.1 percent respectively). Only MOPFI had an increase in expenditure allocation from 2.7 to 3.7 percent of GDP.

Outlook and Risks

Global output is projected to contract by 5.2 percent this year, despite unprecedented policy support (Figure 53). This reflects a widespread sudden stop of global activity in the first half of 2020, reflecting the national lockdowns implemented worldwide to contain the spread of the outbreak. Although a moderate recovery is envisioned in 2021, with global growth reaching 4.2 percent, output is not expected to return to its previously expected levels (Figure 54). The strength and sustainability of a global growth rebound depend on the duration of the pandemic, and the effectiveness of policy actions in preventing financial meltdowns, restoring global consumer and investor confidence, and resuming global travel.

Thus far, an extraordinary policy response has prevented the slowdown in activity from becoming a financial crisis, but financial conditions will remain fragile for many market participants. A prolonged disruption to economic activity could exacerbate financial stress. There is high uncertainty around the global growth forecast. The global recession would be deeper than the baseline forecast, if bringing the pandemic under control took longer than expected, or if financial stress triggered cascading defaults.

The pandemic is likely to have an on-going impact through multiple channels, including lower investment and innovation, erosion of human capital, and retreat from global trade and supply chains. The long-term damage related to the pandemic will be particularly severe in economies that suffer financial crises, and, in energy exporters, due to plunging oil prices. For example, in the average EMDE, over a five-year horizon, a recession combined with a financial crisis could lower potential output by almost 8 percent (World Bank 2020).

Figure 53: Global growth

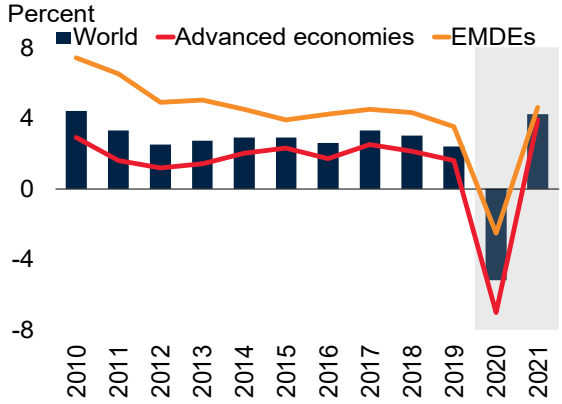
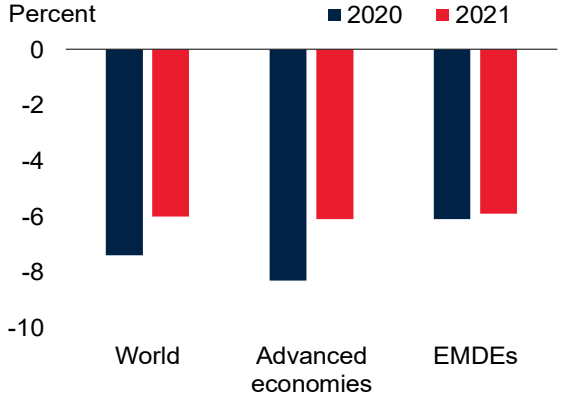


Figure 54: Level of output relative to January 2020 projections



Source: World Bank.
Note: EMDEs = emerging market and developing economies. Shaded area indicates forecasts. Aggregate growth rates calculated using constant 2010 U.S. dollar GDP weights. Data for 2019 are estimates.
A. Shaded areas indicate forecasts. Data for 2019 are estimates. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.
B. Figure shows the percent difference between the level of output in the January and June 2020 editions of Global Economic Prospects.

[17] The Central Provident Fund is social security system for government employee to set aside funds for retirement as a defined contribution scheme to replace a defined benefit scheme.
[18] Contingency fund is the fund prescribed in annual Union Budget Law for unexpected emergency cases. An agency required to set up the Contingency Fund can do so with the approval from the Parliament with the agreement from the responsible ministry.

Myanmar's economy is projected to grow by 2 percent in FY20/21 (compared to 1.7 percent in FY19/20) based on a gradual recovery in domestic economic activity. The baseline projection envisions a substantial contraction in Q1 FY20/21, reflecting the impact of COVID-19 containment measures imposed in the quarter, with some states and regions more adversely affected than others. Although businesses have started to reopen, and notwithstanding the offsetting support provided by the government's response, these containment measures are likely to have had a significant economic impact, longer-lasting than that of the first wave. The contraction in the first quarter is expected to be followed by a partial recovery over the remainder of the year as mobility restrictions are gradually lifted, assuming that the spread of the pandemic is contained and that the infection curve flattens by the end of 2020. As restrictions are lifted, demand is expected to gradually recover, with consumption constrained due to prior job losses and reduced household savings. In the second half of FY20/21, both supply and demand (production, private consumption and investment) are expected to follow a path of accelerated recovery as businesses and households regain confidence supported by government stimulus packages and infrastructure projects.

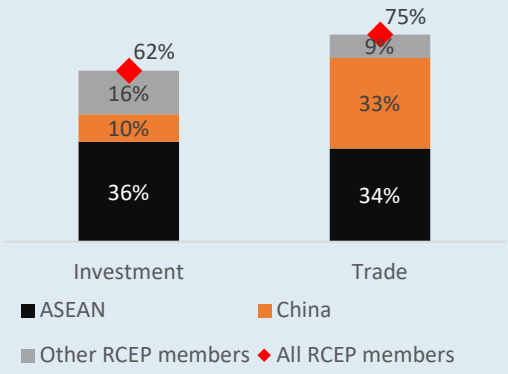
Longer-term growth prospects remain positive, with growth estimated to recover to 7 percent on average over the medium term (**Table 3**). Growth will be supported by: (i) new investments in industrial and urban development projects; (ii) road transport and communication infrastructure development; (iii) power and energy projects (which are currently in the pipeline); and (iv) a gradual resurgence in manufacturing activities and digital technology, which could boost overall productivity. Inflation of around 6.5 percent is expected as aggregate demand begins to recover. The current-account deficit is likely to widen to an average of 4.4 percent in the medium term from 4 percent in FY19/20 as exports suffer from weaker global demand and lower tourism income, while large-scale imports for major infrastructure projects continue.

The impact of COVID-19 together with lower gas revenues will mean that the fiscal deficit remains elevated over the medium term. Revenue collection will fall further as a result of economic slowdown and declining petroleum revenue driven by low oil price and declining production from the current fields in Myanmar. On the other hand, government expenditure will increase as Myanmar is expected to implement further fiscal responses to counter the negative impact of COVID-19. The budget deficit is estimated to be 7.1 percent in FY19/20, and is forecast to increase to 8.1 percent in FY20/21, before narrowing to 6.3 percent in FY21/22.

Box 4: Sitting on the shoulders of giants, Myanmar joins the largest trading bloc in the world, opening new advantages for local businesses and consumers

On November 15, 2020, Myanmar entered into the Regional Comprehensive Economic Partnership (RCEP) with fourteen countries in East Asia and Pacific[19] – becoming a part of the world's largest trading bloc.[20] Participants in RCEP cover a third of the worlds' population, account for 30 percent of global GDP, 27 percent of global trade in goods, over 18 percent of global trade in services and 19 percent of FDI flows. The agreement will promote better trade and investment relationships among member countries by reducing tariffs and non-tariff barriers (NTBs) in trade in goods and services. Compared to other free trade agreements (FTAs), the most significant part of RCEP is a unified definition for rules of origin for its members, allowing integration into the global value chain (GVCs) reconfiguration. As a quantified benefit, RCEP would add US$186 billion to the global annual income and 0.2 percent to the members' GDP on a permanent basis by 2030 (Petri and Plummer, 2020).[21]

Figure 55: Myanmar's trade and investment relationship with RCEP members in FY 19/20 (as share of total trade and investment)



Source: Ministry of Commerce and DICA

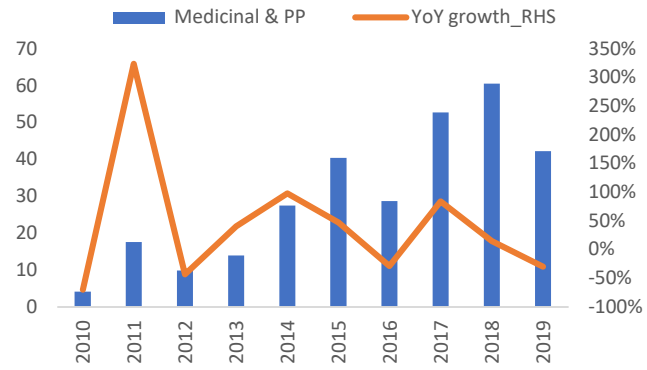
As a signatory of the agreement, Myanmar will enjoy better market access for its exports through fewer barriers and attracts more quality investment from RCEP members through a simplified process. Myanmar's has a strong trade and investment relationship with RCEP members: in FY 19/20, Myanmar's trade with RCEP members accounted for 75 percent of total trade (Figure 55). Likewise, 62 percent of total approved investment was derived from RCEP countries. Despite the existing strong ties, the agreement could further propel Myanmar's trade and investment ties with RCEP countries through greater access to high-end markets such as Japan, South Korea, New Zealand and Australia. Combined with lower labor costs, the unified rules of origin would likely attract investment and facilitate Myanmar's greater participation in global value chains. In addition, RCEP's strong provisions on intellectual property (IP) would ease investor concerns for IP rights, and encouraging Myanmar to implement its IP laws soon.[22]

Despite Myanmar's readiness, the RCEP provides its least developed members with concessions and market access benefits. Tariff reduction is one of the key benefits of RCEP membership: once the agreement is in force, RCEP members are required to eliminate 65 percent of tariffs.[23] However, as one of the least developed of its members, Myanmar is required to eliminate only 30 percent of tariffs. Further, while RCEP members are required to eliminate 80 percent of tariffs within 10 years, Myanmar benefits from a 15-year term to fulfil obligations.[24] While the RCEP will eliminate the majority of tariffs, agricultural products are not included for tariff reductions. Hence, given that agricultural products account for a significant share of Myanmar's exports comprising over 20 percent of total exports, Myanmar has a unique opportunity to leverage RCEP exemptions and to produce and export more-valued added products to maximize trade and economic benefits.

Myanmar should prepare and position itself effectively to exploit the benefits from the agreement to the greatest extent possible. To attract investors and participate in global value chains through the agreement, Myanmar will need to improve its infrastructure and connectivity issues. Myanmar ranked 137th out of 160 countries in the World Bank's overall logistics performance index (LPI)[25] in 2018 and 143rd for its infrastructure index, which captures the quality of trade and transport infrastructure such as port, railroads, roads and information technology. This low ranking suggests that the infrastructure readiness of Myanmar might discourage investors; in addition, poor infrastructure would also impact market access for Myanmar's exports as logistics barriers may likely lead to longer clearance process for exports. Besides hard infrastructure, Myanmar's regulatory environment would also to be improved to ease other trade and investment barriers contributing to its lower ranking of LPI and Doing Business indexes. For instance, Myanmar would need to exert renewed efforts to align its trade and customs regulations with international standards. In addition, legislation and enforcement mechanisms such as those relating to IP protection needs to be implemented to boost investor confidence and investment.

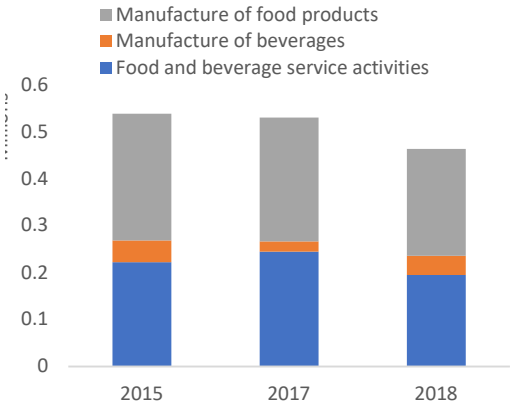
In the medium term, three manufacturing industries show particular promise: (i) medical products; (ii) value added food products; and (iii) ships and vessels maintenance and servicing. Firstly, pharmaceutical production has unharnessed potential, given the country's own pharmaceutical industry accounts for only 10 percent of domestic demand. The sector is also well-positioned to leverage from favorable domestic market trends including a rapidly growing population, increased government spending and business opportunities opening up to the medical healthcare insurance industry. As a result, the demand for local and imported pharmaceutical products is on the rise (**Figure 56**).

Figure 56: Pharmaceutical import (value USD million/% change yoy)



Source: CEIC

Figure 57: Employment in agri-food processing industry



Source: Labour Force Survey

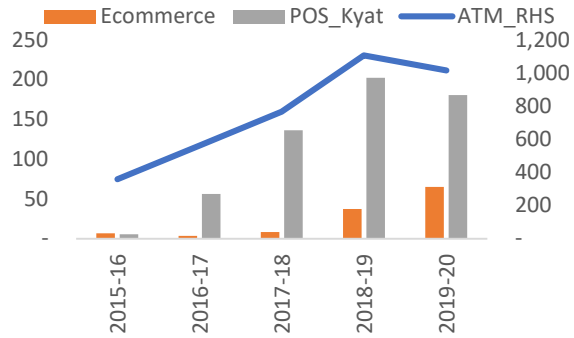
The second untapped manufacturing export market is packaged food processing industry. The agri-food sector—which includes a range of food products from rice millings to packaged food processing—is one of Myanmar's largest employment providers, contributing 0.5 million jobs in 2018 (**Figure 57**). This sector also has exposure to favorable market trends including strong demand from China and other regional fast-growing economies in Asia.

Thirdly, Myanmar is also seeing increased investment in its capacity in the ships and vessels services, upgrading and maintenance industry. Myanmar is strategically located, and hence the port and the related industry of ship building present unique labor and market stimulating opportunities. Progress in ship building has been made since 1988 but with particular growth in the past decade: Myanmar has built over 30 vessels for cargo and passenger services and imported over 100 passenger and cargo vessels to improve inland water transport capabilities. In FY19/20, the inaugural Singaporean engagement of Myanmar firms for aluminum ship building reflected a significant increase in gross capital formation in the subsector. Hence, the government, in concert with the private sector, can adopt a targeted approach that would unleash the sector's full potential in production of manufacturing products and maintenance and upgrading services.

[19] RCEP member countries include 10 ASEAN countries, China, Japan, South Korea, Australia and New Zealand.
[20] RCEP becomes a trading bloc overtaking the other large blocs such as the European Union.
[21] Petri, P. A., & Plummer, M. G. (2020). East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs. COVID-19, and East Asia's New Trade Blocs, Peterson Institute.
[22] Myanmar enacted four IP laws - Trademark Law, Industrial Design Law, Patent Law and Copyright Laws in 2019.
[23] Around 90 percent over the course of 20 years.
[24] https://www.irrawaddy.com/news/burma/rcep-trade-agreement-mean-myanmar.html
[25] The overall index is comprised of six indicators capturing trade and customs related processes and quality of trade and transport infrastructure.

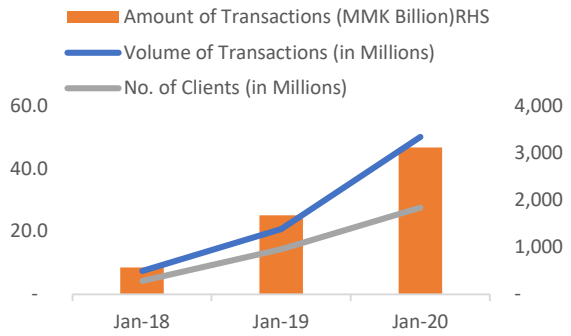
Meanwhile, COVID-19 has created opportunities to embrace financial technology (fintech) services, raising hopes for the expansion of financial inclusion in Myanmar, where banking penetration remains below the regional average. Financial inclusion in Myanmar is below 50 percent of the adult population[26]. During the pandemic, fintech allowed the effective delivery of transfer payments to vulnerable households in the form of social security payments, loans for farmers, emergency funds for garment workers and tea shops under the government's COVID-19 Economic Relief Plan using the local digital platform channel such as Wave Money and OnePay. The adoption of digital payment has been on the rise since the onset of the pandemic, with a 73 percent (yoy) increase for eCommerce payments compared to the previous year (**Figure 58**). As of September 2020, Kyat 3 trillion had been transacted via Wave money (**Figure 59**), representing an 86 percent growth in transaction and a 141 percent growth in transaction volume. Meanwhile, the growth in use of ATM and point of sale has contracted by 8 percent and 11 percent, respectively. This pattern indicates that, similar to other markets, Myanmar may be starting to move away from cash, which requires physical contact for withdrawals and payments, and higher operating costs. At the same time, critical reforms of the National Payments System continue to be necessary to make this a permanent shift moving forward.

Figure 58: Adoption of eCommerce payments and platforms has been steadily rising, with recent reductions in point of sales and ATM use…
(Kyat Billion)



Source: MPU

Figure 59: …and transaction values for eCommerce payments has been rising exponentially.



Source: Wave Money

Table 3: Economic outlook
(Percent, % of GDP)

	Outlook			
	FY18/19	FY19/20	FY2020/21	FY2021/22
Real growth	6.8	1.7	2.0	8.0
Consumer price inflation (period average)	8.5	6.4	6.0	7
Current account deficit (% of GDP)	2.0	4.0	4.2	4.5
Budget deficit (% of GDP)	3.7	7.1	8.1	6.3

Source: World Bank staff estimates

[26] MAP Financial inclusion survey, 2018.

Ongoing uncertainty around the course of COVID-19 continues to pose substantial risks to growth

Risks to economic growth are high given continued uncertainty arising from the pandemic—both locally and globally—and the associated economic effects. New waves of the pandemic in the absence of a vaccine or treatment could result in prolonged and potentially more severe restrictions, dampening domestic activity. The resulting economic disruption could exacerbate business closures and worsen unemployment, with the potential for damaging longer-term supply-side effects. Financial risks could heighten as borrowers in the most affected sectors may face debt obligation challenges, which would impact the asset quality and loan portfolio of the banking system. On the external front, a global recession and deepening trends in global protectionism would weaken demand for goods and services exports and create greater vulnerability to capital flow volatility. Natural disasters and the post-election uncertainties pose additional downside risks. Weather related shocks could create considerable fiscal pressures and adversely affect exports, impacting income generation avenues among the poor. Hence, the government will need to rebuild fiscal buffers and develop financing strategies to respond to future shocks.

Under the downside scenario, growth rate is estimated to be at (-0.5) percent for FY20/21 if containment measures are extended to the end of the first quarter. The prolonged restriction on economic activities is likely to suppress productivity growth driving firms out of business, curbing job creation, and diminishing productivity-enhancing investments. In addition, the second-wave effects from income losses and to consumption and investment could be more severe than the initial wave, and growth would struggle to recover to pre-crisis levels. On the upside, the economic slowdown could be less severe if government succeeds in implementing effective COVID-19 containment and government policy measures.

In the absence of a substantial policy response, the pandemic could have deep and long-lasting effects on poverty

The economic disruption could increase poverty by almost 10 percentage points in FY20/21 compared to what it would have been in the absence of the Covid-19 pandemic; poverty would return to its pre-crisis level in FY21/22 at the earliest. In 2017, the national poverty rate stood at 24.8 percent (CSO, UNDP and World Bank 2019).[27] Before COVID-19 hit, the projected average annual growth of 6.5 percent would have sustained the creation of more and better job opportunities for the poor. Poverty was expected to decrease to 20.2 in FY19/20 and 17.4 percent FY20/21, according to a macro-micro simulation model.[28] A downward revision to 1.7 percent GDP growth in FY19/20 and 2 percent in FY20/21 (baseline growth scenario), in the absence of a strong pro-poor policy response, is expected to result in poverty increasing to 25.7 percent in FY19/20 and 27 percent in FY20/21. Should the economic disruption be even more severe and slightly negative before FY21/22 (downward growth scenario), it would take an additional year to resume the downward path in poverty reduction. Households just above the poverty line will be pushed into poverty and those already poor deeper into severe deprivation.

Households face high uncertainty in incomes and welfare. Job and income losses affect households along the entire welfare distribution, as shown by high frequency phone survey data,[29] given sectors employing

[27] This is the official national poverty rate, calculated based on consumption measures using the Myanmar Living Conditions Survey (CSO, UNDP and World Bank 2019).

[28] The model was developed by World Bank authors. It combines macroeconomic forecasts explained in Real sector section with micro-level data on household welfare, livelihoods, and other characteristics from MLCS 2017 to project the impact of the outbreak on household welfare. Specifically, it measures changes in consumption looking at consumption in 2017 and applying sectoral consumption growth due to sectoral growth income, explained by changes in employment in the sector, population growth, and sectoral GDP growth projections. In this macro-micro simulation model, we assume a GDP pass-through to household consumption equal to 0.7. The sector of employment of reference is the one of the household head. Inflation is not spatially adjusted. The model does not account for change in international remittances.

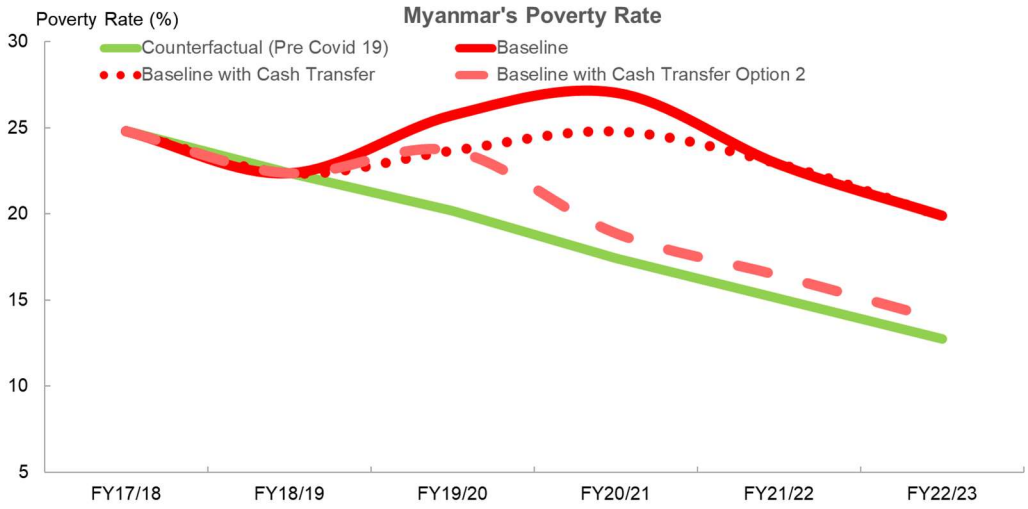
[29] See World Bank's Myanmar Covid-19 Monitoring Platform for details.

better-off households such as service and manufacturing are severely affected. After rapid deteriorations following the March/April restrictions, opportunities to earn incomes improved up to August, but deteriorated rapidly again as a second wave of restrictions were imposed. As of October, one third of households' main workers who were working before March were no longer working and over half of those who continued working earned lower incomes. These dynamics indicate uncertainty in people's ability to earn an income continues. While the high levels of informality and casual work in the Myanmar make labor markets flexible to adjust rapidly, they also make workers—especially poorer ones—extremely vulnerable.

Poorer households will fare worse, as they lack the means to protect themselves, leading to increases in inequality. Unable to rely on savings like better-off households, the poor resort to a greater extent to cutting down their food and non-food consumption to cope with income losses, threatening their food security. Between August and October 2020, the share of households experiencing moderate to severe food insecurity went from 12 to 25 percent (see **Special Topic 2**). The indebtedness cycle is also increasingly worrying. Almost a fourth of households borrowed from financial institutions in October and a similar share from family and friends, while 12 percent relied on money lenders. These sources are however not mutually exclusive, with households often borrowing from one source to repay another lender. Taken together, these coping mechanisms risk having long-term impacts on human capital and potential for future welfare improvements.

Well-designed policy responses that target the poor and most vulnerable at the height of the crisis can mitigate these risks (Figure 60). The government of Myanmar responded rapidly to shelter households from jobs and income losses and to protect the most vulnerable through a series of emergency response mechanisms. It expanded coverage and generosity of its categorically targeted existing social assistance programs (the Maternal and Child Cash Transfer and the non-contributory Social Pensions), while setting up a new emergency response program for the distribution of food to about 5.4 million households in April 2020 and later a cash transfers to about 5.6 million households identified as most in need within their community. Assuming the poorest half of Myanmar households received government support equal to about 75,000 kyats in the second half of FY19/20 (close to the actual intervention) and another 75,000 kyats in the first half of FY20/21 alone, poverty increases would be smoothened, and the poverty rate would be 3 percentage points lower than in the absence of support. This amount is however far from meeting the needs of households. To avoid poverty increases in the current fiscal year and return to a steady poverty reduction path, the benefit amount would need to be sustained throughout the year and doubled to a monthly 6,000 MMK per capita. A steady downward path similar to the pre-COVID-19 scenario would be maintained even declining cash transfers coverage over time, thus limiting fiscal sustainability concerns.

Figure 60: Well-designed social protection responses can mitigate impacts on poverty



Notes: [1] FY 2017/18 refers to the poverty rate estimated from the 2017 MLCS. [2] Counterfactual (Pre-Covid-19) scenario was developed ahead of the Covid-19 pandemic, so it reflects a scenario where Covid-19 had not existed, and GDP growth rate averaged about 6.5 percent per annum. [3] The baseline cash transfer simulation attempts to capture measures adopted by GoM, including three cash transfers and an in-kind transfer COVID-19 response in FY2019/20 to just under half of Myanmar households and expansion of existing social assistance programs (with some overlap in receiving households). When spread over the course of the year, the average transfer is estimated to be 1,500 kyats a month per capita, given average households size of 4.3 members. This scenario assumes similar support in FY2020/21, for a period of six months. The model assumes perfect targeting of the bottom half of households in the consumption distribution. Coverage is simulated to decrease to five percent following the crisis. The baseline cash transfer option 2 scenario differs from the previous one in average annual benefit amount (6,000 kyats per month per capita) and in that coverage would be reduced more gradually, from 50 percent of households at the height of the crisis to 40 percent in FY2021/22 to account for the prolonged impacts of the crisis.

Policy Responses and Recommendations

Myanmar's government has launched several policy measures to mitigate the impacts of the COVID-19 pandemic on businesses, households and the community. The fiscal response has been made possible through budget prioritization and allocation. Under the COVID-19 Economic Relief Plan (CERP), the government has allocated a budget of approximately 2.9 to 3.7 trillion kyat (2.5 percent to 3.2 percent of GDP), toward developing effective countermeasures to the COVID-19 outbreak. The most visible support measures have included: (i) supporting the development and implementation of disease prevention and treatment programs; (ii) supporting household consumption; and (iv) assisting firms to avoid bankruptcy. Initial mitigating measures have focused on: (i) tax deferrals and exemption to affected businesses. (ii) exemptions of electricity charges to households; (iii) supporting businesses and civil servants through loans and guarantees; (iv) providing direct financial assistance to vulnerable households through in-kind and cash transfers; and (v) increased spending on medicines, medical equipment and infrastructure. While, CERP is currently addressing the short-term mitigation measures of COVID-19 impact on business and households, the upcoming Myanmar Economic Resilience and Relief Plan (MERRP) mapped out with a focus on macroeconomic, financial stability and sustainable growth in the longer run.

The Government also adopted actions to mitigate the impact of the pandemic on financial institutions and borrowers. To offset the rapid decline in credit growth due to a confidence shock, the Central Bank of Myanmar (CBM) announced a series of measures including a 3 percentage point interest rate cut, halting deposit auctions to maintain adequate levels of liquidity, and reductions in banks' required reserve requirement ratio.

Government regulatory responses also included significant debtor forbearance measures as well as a large-scale loan repayment moratorium. The CBM announced the extension of the deadline for compliance with four prudential regulations from end-August 2020 to end-August 2023 to allow banks to provide support to the economy.

The mitigation measures introduced by the government thus far are likely to have provided relief, but the extent of their impacts on the business, financial sector and households remains to be seen. Close attention and monitoring will therefore be required in the period ahead.

Looking ahead, the Government's near-term focus should be on relief measures that slow the spread of the virus while protecting the most vulnerable. Economic slow-down may give rise to several challenges, not limited to heightened fiscal risks and waning investor sentiment. As such, there is a need for renewed focus on a coordinated policy response to result in slowdown by adopting integrated policy measures. In the short term, containment and mitigation measures to slow the spread of the virus and emergency relief responses require targeted and strategic Governmental attention. Curbing transmissions will be the most effective measure to prevent mass unemployment and further business shutdowns. During the pandemic, many workers, particularly those working in hard-hit sectors such as tourism and manufacturing, lost their jobs or were placed on unpaid leave. On the other hand, the pandemic has accelerated changes to the nature of work, with increased demand for digitization and automation. Hence, there is a need and opportunity to reskill and upskill the workforce to redeploy to sectors while ensuring firms can return to pre-pandemic levels, albeit adopting new technologies and ways of working.

Once the spread of the virus has been contained and activity gradually resumes, a demand-led strategy for a medium- to longer-term recovery will be required to stimulate the economy by supporting private consumption and investment. Ideally, consumption policy stimulus interventions should be designed and targeted to businesses that have been severely affected by COVID-19 and those households who have consumption demands but insufficient purchasing power. A well-designed consumption stimulation program remains a core consumption stimulation element and serves to complement typical stimulus programs such as tax cuts in attempt to mitigate the impacts of economic downturn and to protect households and community livelihoods.

An infrastructure-based stimulus for a medium to longer term recovery will be required. While households and the private sector are likely to remain cautious, the Myanmar government can play a role by boosting investment demand. This strategy should include supporting both hard and soft infrastructure development. This would result in a stimulating effect on private spending components of GDP and has a larger impact on aggregate demand via the multiplier effect while creating job opportunities. Infrastructure projects create ample job opportunities and contribute to speedy economic recovery, whereas spending programs that take months or years to complete may have diluted downstream impacts. Delays in spending be counterproductive if they come too late and contribute to overheating the economy. On the other hand, rushing to implement infrastructure projects without proper planning could result in long-lasting economic harm well after the recession ends. Hence, the government would need to provide funding for existing projects that are already planned and in progress rather than spending more on new projects.

Near and medium-term policy measures should aim to deliver greater economic stability by accelerating the development of an efficient and stable financial system. Maintaining financial sector stability is a critical challenge in light of the current risk climate. The COVID-19 pandemic has exacerbated structural issues in the financial sector such as slowing growth, shortages in liquidity and a higher level of non-performing loans. In response to the crisis, temporary relief measures including the lowering of interest rates, forebearance measures, loan-repayment moratoriums and relaxed prudential measures to mitigate immediate impacts were implemented. However, banks, MFI and regulators should be prepared for the anticipated increase in non-performing loans, and demonstrate a commitment to transparency and to instilling financial discipline in early identification and mitigation of sector financial instability.

Myanmar could explore new economic opportunities in the areas of digital technology, pharmaceutical production, insurance services, health/educational services and fintech as new growth levers. Efforts to develop five digital pillars – digital infrastructure, digital financial services, digital platforms, digital skills and digital entrepreneurship – could in the longer-term help to boost productivity and efficiency across a range of sectors. Government policy measures should support digital adoption among small firms, microentrepreneurs and consumers including those to close the digital divide across the country. The crisis also presents opportunities to expand production when both domestic and global demand are high and ripe for exploitation. As an emergent sector, fintech favors financial inclusion, and offers promising potential for broadening distributive access to financial markets and products. Regulatory changes have encouraged a collaboration between banks and mobile networks in offering greater accessibility to basic banking services through customer's mobile wallets, reducing the structural barriers to reaping the benefits of electronic and digital finance.

B. Special Topics

Special Topic 1: Impacts of COVID-19 on Firms and Households' Welfare

While Myanmar's decisive response to the first wave of COVID-19 limited adverse health impacts and allowed some economic recovery in August, evidence from the Myanmar COVID-19 Monitoring Platform[30] showed that impacts on households' welfare were deep and the ease of restrictions in June only enabled a partial rebound of the economy. Border movement restrictions starting in February and a complete lockdown between March and April forced non-essential businesses to cease operations and prevented people from traveling to work. Meanwhile, about 100,000 economic migrants returned from Thailand alone. As a result, in May 2020, about 54 percent of households' main workers reported not working and about 16 percent of firms had temporarily closed. The easing of restrictions between May and August contributed to a partial rebound of the economy which is still suffering from the impacts of reduced global demand, border trade disruptions, and potential changes in consumer behaviors.

As the second wave started, firms and households were vulnerable with widespread negative impacts that are degrading households and firms' expectations towards the future. Strict stay-at-home orders were introduced in Rakhine State in mid-August, followed by similar orders in all townships in Yangon Region (except Cocokyun township) and several other townships across the country since the end of September, including in Mandalay. The data used in this special topic were collected in October on households and firms across Myanmar. Three main findings come from these data:

(1) Even though mobility and business activity restrictions were more localized, an important share of households' main workers were not employed in October, and while agricultural workers were more able to work, they reported less earnings as in August. Except for administrative work, income from all activities were lower in October than in August. At the same time, for firms, the effects of the second wave of stay-at-home measures were deeper and larger than those of the first. Close to half of all firms in Yangon were temporarily closed in October and there was a small increase in temporary closures nation-wide driven by small sized firms and those in the manufacturing sector.

(2) Food security and the debt burden are of significant concern: more households were experiencing moderate to severe food insecurity compared to August, which, when added to the household economic impacts of the current health crisis, the high levels of employment uncertainty and income shortfalls, could further lead to household degradations of physical and mental health. In parallel, households have entered a cycle of debt which instigates negative short- and long-term coping behaviors, such as sales of productive assets for short-term liquidity; and longer-term actions such as withdrawing children out of school for the labor market, thereby reducing their future productivity.

(3) For firms, the implications deepen as the pandemic continues. As COVID-19 persists, firms are feeling the implications of the pandemic on short-term business and long-term growth. By October, almost all firms reported a reduction in sales as the principal concern and around one-third of firms reported reductions in their investments. Since the onset of the second wave, fewer firms are anticipating recovery with just over a half expecting to fully recover from the impacts of the pandemic.

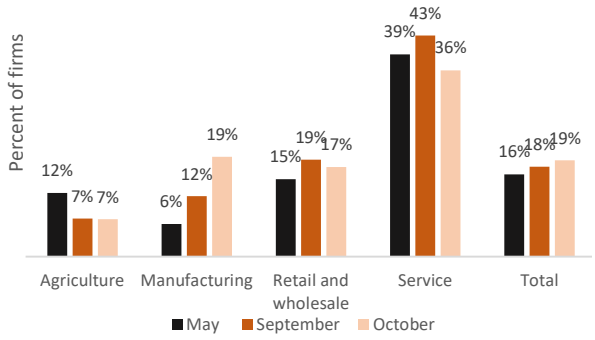
[30] For all information related to the Myanmar COVID-19 Monitoring Platform, please see here: https://www.worldbank.org/en/country/myanmar/brief/myanmar-covid-19-monitoring-platform-keeping-myanmar-informed-amid-uncertainty?fbclid=IwAR3vvh6ad_CVPmGtlQfugtd0Tp7zjtZlnLE8u_Uoq1uGL--D6Xa2Dt0XwM0

Firms are being affected by the second wave as households are unable to work or are generating lower incomes from labor.

Temporary closures increased with more manufacturing and small firms closing. As government stay-at-home orders continue, there was an increase in temporary closures in the manufacturing sector which increased the national average (**Figure 61**). Medium and large firms sustain the highest rates of temporary closures as they are more closely regulated by authorities to observe stay-at-home orders. Large firms saw fewer closures in October (12 percentage point improvement), but around 1 in 3 remain temporary closed. Small firms were the only firms to experience a rise in temporary closures since September (6 percentage points).

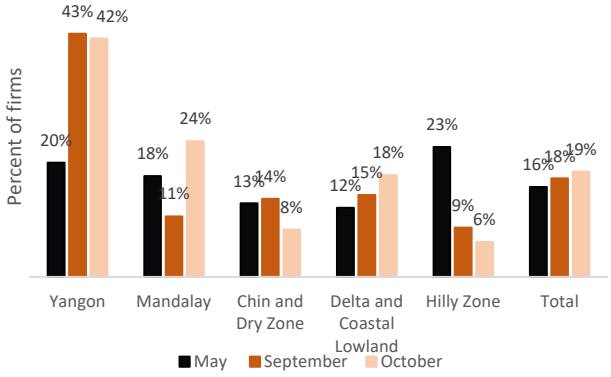
Different regional mandates have yielded varying degrees of temporary closures across Myanmar. Yangon sees the highest proportion of temporary closures, with nearly half of all firms in Yangon temporarily closed; double the national average. With newly introduced stay-at-home orders introduced in certain townships, Mandalay experienced a doubling in closures between September and October (from 11 to 24 percent). Temporary closures in Hilly Zone and Chin and Dry Zone reported the lowest shares of closures in Myanmar (8 percent and 6 percent of firms, respectively) and temporary closures in both regions improved in October (**Figure 62**).

Figure 61: Manufacturing sector firm closures increased disproportionately as stay-at-home orders continued.
Temporary closures of firms – by sector



Source: Myanmar COVID-19 Monitoring Platform – firm survey

Figure 62: Almost half of Yangon firms were temporarily closed in September and October.
Temporary closures of firms – by geographical area



Source: Myanmar COVID-19 Monitoring Platform – firm survey

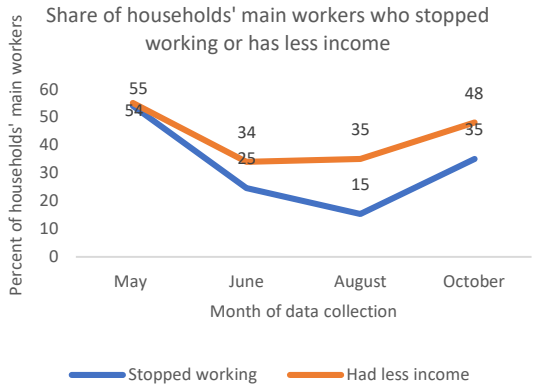
The setbacks suffered by firms across all sectors and sizes in the most dynamic economic centers of Yangon and Mandalay were reflected in household employment and incomes. While the gradual recovery from the first wave meant that 15 percent of households' main workers were not working in August, by October, 35 percent of households' main workers were not able to work, affecting households across the whole welfare distribution (**Figure 63**).[31] Households' main workers in the retail and personal services, and transport sectors were the most affected given the mobility restrictions affected these sectors to a greater degree than others (**Figure 64**). With respect to income, nearly half of those who were still working reported earning lower incomes than before the second wave, and this affected more households' main workers at the bottom of the welfare distribution than at the top. Households' main workers in the retail sector suffered the most from these income losses (66 percent of them). This could be accounted for by the finding that households' demand for goods and services may have likely decreased since households have been reducing food and non-food expenditures to cope with the impacts of the crisis. In addition, high levels of informality across all sectors (except for administrative work) means that workers do not enjoy labor protections against pandemic-related

[31] Welfare quintiles are measured using a consumption aggregate predicted using multiple imputations and stepwise regressions and dividing the whole consumption distribution with imputations into five continuous intervals.

economic slowdowns and are not entitled to income when they do not work. While it has been reported that some factory workers may have received partial advance payments to cover for the initial two-week stay-at-home orders announced in September, this relief was not widespread and did not continue into October.

Figure 63: Households' main workers report earning less and ceasing employment at rates similar to the first wave…

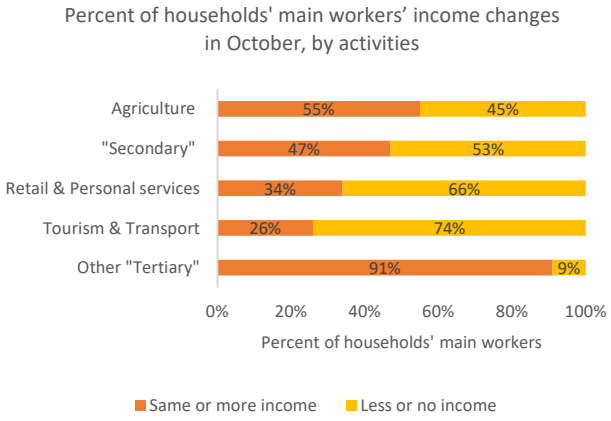
Employment and income status of households' main workers since May – by percent



Source: Myanmar COVID-19 Monitoring Platform – household survey

Figure 64: Retail & Personal Services, and Tourism & Transport were most affected by mobility restrictions

Changes in households' main workers' income in October – by sector



Source: Myanmar COVID-19 Monitoring Platform – household survey.
Note: Secondary includes manufacturing, construction and other type of secondary activities. Tertiary includes public and private administration and other types of activities.

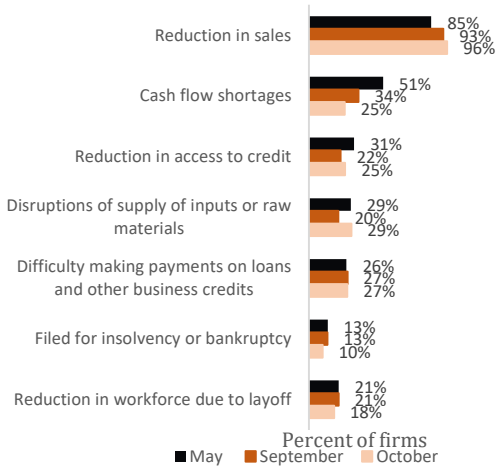
Contrary to the first wave with its countrywide and strict containment measures, most households engaged in agricultural work managed to work on their farm in October, although incomes were lower than in August. Fewer households' main workers engaged in agriculture[32] were not engaged in agriculture in October than at the time of the first lockdown (21 percent versus 61 percent). In addition, about 11 percent of farming households stopped farming in October with slightly more households at the bottom of the distribution than at the top who were able to continue farming. However, when looking at employment in agriculture—including agricultural wage activities and farm businesses—more households' main workers at the bottom of the welfare distribution (17 percent) were unemployed than those households at the top (10 percent). This is due to the likelihood that poorer agricultural laborers could not as readily travel to where labor was in demand, heightening barriers to securing paid employment and suppressing income earning potential. The principal reasons households reported cessations in farming were weather conditions (with 33 percent of relevant agricultural households reporting) and pandemic-related mobility limitations obstructing their access to markets to either sell outputs or acquire inputs required for income generation and production (with 10 percent of farmers who stopped farming). As of early October 2020, the Paddy Rice Exchange Centers in Yangon were open only three days a week, while the Mandalay Beans and Pulses Exchange market and the Zegyo market were closed. Border trade disruptions, reported in late September and October at the borders with China and Thailand, have resulted in delays or the inability to trade goods (see also section on **International Trade, Investment, and Exchange Rates**). Because of these disruptions in market access and in weather conditions, more than half of households' main workers engaged in agriculture had lower incomes in October than in August.

[32] This includes both farming households (cultivating land, harvesting any crops, owning livestock or engaging in aquaculture), households with a non-farm agricultural business, and households engaged in wage agricultural activities. This variable is measured at the level of the main worker in the household.

The economic impact of the second wave of the COVID-19 pandemic remains significantly more severe on businesses than the first as expectations for recovery worsen.

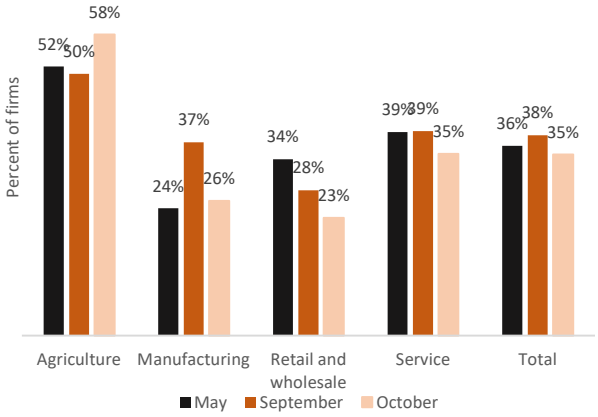
As the pandemic continues, the number of firms negatively impacted grows. In October, 87 percent of firms reported negative impacts on their operations due to COVID-19, significantly higher than the rate in August when 3 out of every 4 firms reported negative impacts. When questioned about their concerns, nearly all respondents (96 percent) were concerned about reductions in sales, with particular concern prevalent among micro, small and medium firms. Indeed, the matter of sales reductions has remained not only the top but also a growing issue for firms (**Figure 65**). Comparatively, in May and during the first wave, 85 percent of firms reported sales reduction concerns, 11-percentage points lower than the findings during the second wave. The greater share of firms reporting reductions in sales in October than May reflects the harsher impact of the second wave of stay-at-home restrictions which have endured months, and served to compound the challenges from the first-wave. The third most common issue in October was difficulty making repayments on loans (27 percent), followed by a quarter of firms reporting cash flow shortages and reduction in access to credit (**Figure 65**). Notably, cash flow shortages continue to be worse for fully female-owned firms in October, and fully-female owned firms also suffered a greater deterioration in access to credit.

Figure 65: Almost all firms report a reduction in sales, and this has worsened from May.
Concerns about impacts of COVID-19 on firm operations – by type



Source: Myanmar COVID-19 Monitoring Platform – firm survey

Figure 66: On average, a third of all firms expect to fall into arrears, but agricultural firms are disproportionately represented.
Firms expecting to fall into arrears in next 3 months – by sector



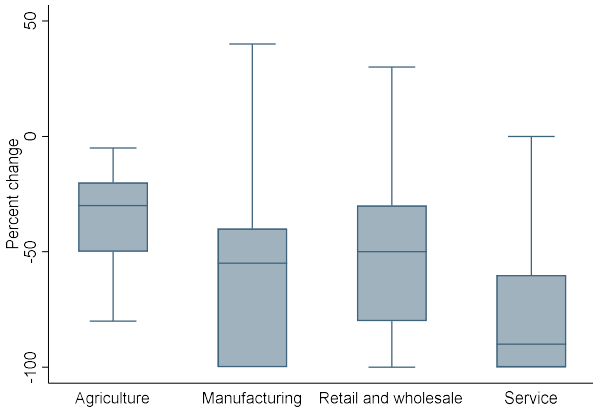
Source: Myanmar COVID-19 Monitoring Platform – firm survey.

More firms are less able to repay their outstanding loans and remain at risk of falling into arrears. In the second wave, fewer firms reported outstanding loans: 26 percent of firms in October compared to 43 percent in March. The decline in outstanding loans was predominantly driven by fewer loans from commercial banks and non-banking financial institutions, and in particular, for the services and agricultural sector. Both sectors saw drastic drops in their outstanding loans from commercial banks, as shares of agricultural firms with outstanding loans dropped from 23 percent in March to 7 percent by September, while services declined from 19 percent in July to 4 percent in September. This likely reflects reduced demand and supply for working capital: falling demand has resulted in lesser production and the unfavorable economic climate has likewise led to an increased aversion from formal institutions to lend during this period. With respect to making payments, by October, 35 percent of firms expected to fall in arrears in any of their outstanding liabilities in the next three months, with more than half of agricultural firms anticipating arrears (**Figure 66**).

Majority of firms experience declines in profits greater than 50 percent, affecting their ability to remain solvent. The October survey results suggested that, on average, the majority of firms in all sectors besides agriculture experienced profit declines greater than 50 percent in the last completed month – compared to the same period last year. The majority of agricultural firms were likely to experience profit declines between 20 percent and 50 percent (**Figure 67**). Firms with traditionally higher value-added production activities, such as service firms, were the worst hit as most of these firms had profit declines between 60 percent and 100 percent (**Figure 67**). Astonishingly, 47 percent of firms in the services sector reported 100 percent profit declines and 26 percent from manufacturing in October. As the second-wave continues through to December, the ability of firms to survive consecutive months of large declines in profits severely limits their prospects for recovery.

Figure 67: All firms experienced profit declines, but some to greater degrees than others…

Firms' profit change compared to same period last year – by sector

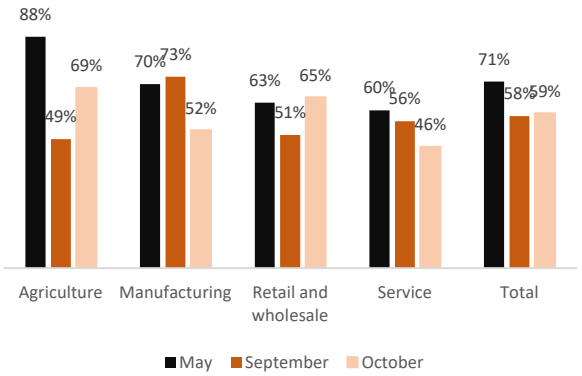


Source: Myanmar COVID-19 Monitoring Platform – firm survey

Note: Boxplot presents a standardized distribution of data. The whiskers represent the smallest and highest value, while the box includes the first quartile, median, and the third quartile. Datapoints that lie outside of the whiskers are outliers – which are excluded in the chart.

Figure 68: …and only just over half of firms, on average, expect a full recovery

Firms expecting business recovery from pandemic – by sector



Source: Myanmar COVID-19 Monitoring Platform – firm survey.

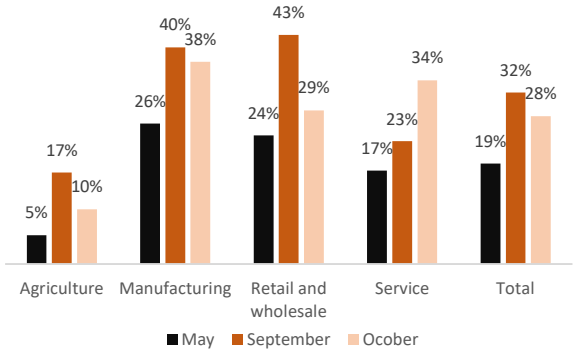
Around one-third of firms have reduced their investments during COVID-19, with service sector worst affected. At 42 percent, nearly half of service sector firms reported a decline in total investments in September, compared to the same month last year. This share exceeds the nation-wide average of 28 percent. Meanwhile, agricultural firm investments stand the least affected with only 14 percent reporting a decline in September, a substantial improvement since the summer (23 percentage point decline from 37 percent in July). Future sales expectations in the next three months also remain negative with the average sales decline expected to be 26 percent lower than the same period a year ago, which is slightly better than was expected last month.

Expectations of a recovery among firms remain bleak. In October, about half of firms in the manufacturing and services sector did not expect to recover, but there was an improvement in agriculture with a decrease in the number of firms that do not expect to recover from the impacts of COVID-19. Relative to the first wave, the latest October survey suggests that firms remain less optimistic of recovery during the second wave: the share of expectant firms was previously 71 percent in May (**Figure 68**).

A large digital divide continues in the adoption of online/digital platforms between sectors, firm sizes and geographical areas. Agricultural firms reported the lowest share of digital adoption (10 percent in October) while 34 percent of firms in the services sector adopted digital platforms (**Figure 69**). Large and Medium sized firms are twice as likely than Small and Micro firms to adopt digital platforms. Furthermore,

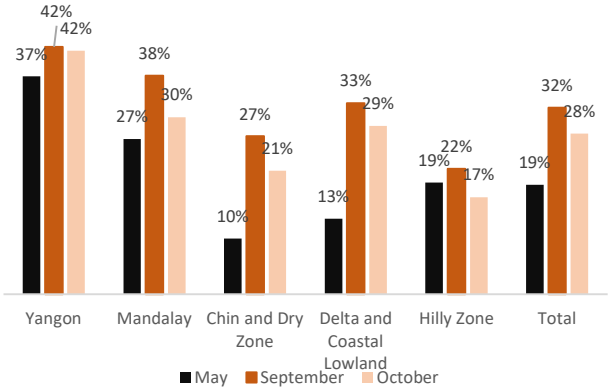
large differences prevail across geographical areas, with 42 percent of firms in Yangon adopting digital platforms, more than double the adoption rates in the Hilly Zone and Chin and Dry zone (**Figure 70**). Access to IT skills remains challenging, with 25 percent of firms in agriculture reporting a lack of IT capacity and technological skills to adapt to the risks faced during COVID-19 compared to 13 percent nationally. These differences perpetuate existing inequalities that limit firms' abilities to institute resilience mechanisms to cope with the massive declines in sales they endure during stay-at-home measures.

Figure 69: Service firms led digital adoption as a COVID-19 mitigation measure
Firms adopting online/digital platforms – by sector



Source: Myanmar COVID-19 Monitoring Platform – firm survey

Figure 70: Yangon and Mandalay firms adopted digital platforms to a greater degree than firms in other areas
Firms adopting online/digital platforms – by geographical areas



Source: Myanmar COVID-19 Monitoring Platform – firm survey.

Uncertainty in income and employment has a great toll on households' welfare with food insecurity and debt burden increasing as households are decreasing food consumption and taking more loans

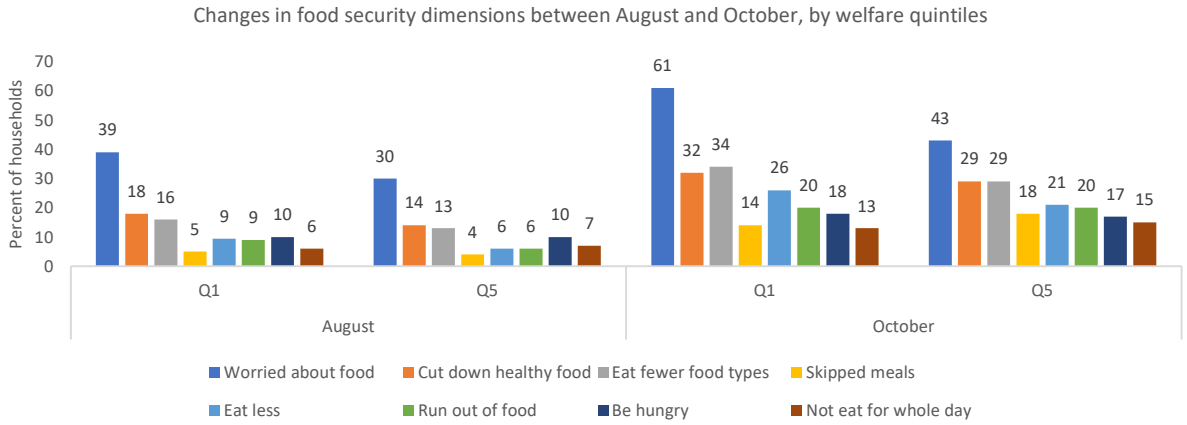
Food and nutrition security degraded rapidly between August and October with an increase of 14 percentage points in the share of households experiencing moderate to severe food insecurity and poorer households being more affected than richer ones. In August, 12 percent of households experienced food insecurity and 25 percent of households did so in October. Households were not only worried about having enough food to eat but ate less and went hungry all day because of COVID-19. There is a worrying increase in share of households reporting eating less healthy food which could increase the risk of stunting. In October, households at the bottom of the welfare distribution were more likely to report any of these issues and troublingly, the gap between households at the bottom and top of welfare distribution has widened: the range was between 9 and 1 percentage points in August and between 19 and 2 percentage points in October (**Figure 71**).[33] At the same time, households did not report major concerns about accessing main food items (rice, ngapi, or chicken), even though data from the community assessment suggests that remote communities are more concerned about securing food supplies. Below average rainfall patterns in key rice producing areas, coupled with little access to inputs (seeds and fertilizers) during the 2020 monsoon planting season may lead to lower rice yields in FY2020/21, which is a concern given the lack of diversification in other crops. Some surveys are showing that farmers are experiencing a decline in productivity due to limited access to inputs, agricultural labor and access to finance. This deterioration combined with lower imports of foodstuffs could result in the decreased livelihood of farmers and casual agricultural laborers, and an escalation in food security concerns

[33] In Figure 71, we are reporting the eight criteria used to measure the food insecurity experience scale (FIES) (FAO, 2020). Food and Agriculture Organization of the United Nations. 2020. http://www.fao.org/in-action/voices-of-the-hungry/using-fies/en/

among households. Food insecurity could also be impacted by income losses driven by recent lockdowns and the ability of households to cope with these losses.

Figure 71: The gap between households at the bottom and top of welfare distribution has widened from the beginning of COVID-19 to October 2020

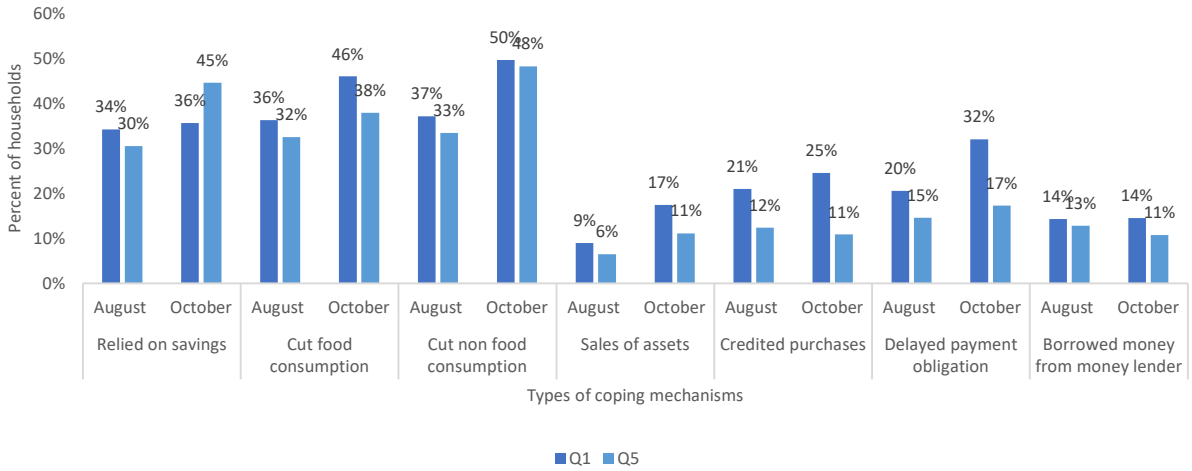
Changes in food security dimensions August to October – by welfare quintiles



Source: Myanmar COVID-19 Monitoring Platform – household survey
Note: Q1 refers to the bottom quintile in the welfare distribution. Q5 refers to the top quintiles in the welfare distribution.

Households have been adopting risky and unsustainable coping mechanisms to buffer the shock. Approximately half of households have resorted to reducing food or non-food consumption in October, after a decline to about 30 percent in August as people returned to work over that period (**Figure 72**). The increase in using these coping mechanisms is greater for households at the bottom of the welfare distribution than at the top, reinforcing the idea that circumstances are worsening for the poor. In addition, since the beginning of the pandemic households have contracted new loans from financial institutions, money lenders or their family, especially those households at the bottom of the welfare distribution. Households at the top of the welfare distribution were more likely than other households to use their savings, although more than 40 percent of the households at the bottom of the welfare distribution still relied on savings in October. As households are relying on their savings to cope with shocks, the need to repay debt, invest in inputs for the new agricultural season, and the prolonged nature of the crisis might push households into a cycle of indebtedness. What is described by the community assessment respondents as "a way of life in Myanmar" is extremely concerning: many households accumulate even more expensive loans to repay previous lower-interest ones, often pawning and losing their productive assets. The poor and near-poor are particularly at risk of relying on informal lenders with higher interest rates.

Figure 72: Food consumption changes remain one of the most adopted coping mechanisms by households
Types of coping mechanisms in August and October – by welfare quintiles



Source: Myanmar COVID-19 Monitoring Platform – household survey
Note: Q1 refers to the bottom quintile in the welfare distribution. Q5 refers to the top quintiles in the welfare distribution.

Box 5: Changes in labor market composition returning migrants and remittances

Between late March and the end of June 2020, approximately 136,000 migrants returned from Thailand and China through official border crossings, and more migrants are likely to have entered undetected. At the same time, persistent border closures have resulted in these returnee migrants remaining in Myanmar to date. Although the household survey data cannot capture this influx as the first round took place in May, data from October do point out that on average households have increased with 1.3 new members. As a result, and as suggested by the data collected through the community assessment, there has been an increased likelihood of employers reducing wages being paid. This could also account for the lower incomes reported over the period. In addition, fewer domestic and international migrants puts pressure on households' welfare due to the reduction of sources of income and an increase in the number of dependents to provide for. While more than one out of ten households reported that they had received remittances in the last 12 months, remittances in May were lower for 73 percent of them. Remittance flows seem to have improved in August, likely driven by domestic migrants' return to economic centers in the period preceding the second wave. However, economic disruptions being particularly acute in the economic areas where domestic migrants work, in October 63 percent of households said that remittances were lower than in August. It is very uncertain as to when remittances will return to pre-crisis levels soon—particularly those sourced from abroad—thereby continuing to deprive mostly rural and poorer households from a critical source of income.

Source: Myanmar COVID-19 Monitoring Platform – Community assessment; Myanmar COVID-19 Monitoring platform – Household survey round 4; and International Labour Organization. "COVID-19: Impact on migrant workers and country response in Myanmar." June 22, 2020. https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-yangon/documents/briefingnote/wcms_754998.pdf

*Health and educational outcomes could worsen even more if efforts to provide safe health and educational services are not put in place (See **Special Topic 2**).*

Myanmar now faces a health crisis on top of an economic slowdown, which adds even more pressure on households' and poor households' welfare. Although more than 80 percent of households reported wearing masks and gloves, and washing their hands as ways to mitigate the spread of COVID-19, fewer households reported adopting adequate social distancing with less than a third of households avoiding gathering and five percent maintaining distance when conversing. There were no differences between households across the welfare distribution except with respect to the use of hand sanitizer: 14 percent of households at the bottom of the welfare distribution used it compared to 22 percent for those at the top. The adoption rates of these behaviors have also gone down since August. In addition, as poorer households are larger, more likely to live in crowded dwellings, and less likely to have access to adequate water, sanitation and hygiene (WASH), their risk of exposure is greater. Finally, this health risk combined with the uncertainty in income and food security could potentially increase households' stress: in October about 64 percent of households reported they were somewhat worried or very worried about their finances. The incidence of severe stress could have potential longer-term implications for mental health and intra-household relations.

While households did not report any COVID-19-related issues to accessing health services, Myanmar has high rates of foregone care with the pandemic potentially discouraging households to decide to seek care even further. On average 60 percent of households reported they needed health services in October mostly to purchase medicine (90 percent of households who needed healthcare). Less than a quarter of households who needed care went for adult healthcare and again did not report any challenges. However, even prior to the pandemic, poorly resourced health posts and other primary care facilities in rural areas might have discouraged households to seek care. The community assessment revealed that travel restrictions and absenteeism of health workers fearing infection had further hindered access to health services.

Education poses particular concerns due to the potential decrease in enrolment rates when school reopens, disproportionately affecting children in poorer households as they were less likely to receive learning support since closures commenced. Schools have remained closed for more than seven months, with little prospects of reopening in the short term. Over that period, less than 40 percent of households indicated that their children who were enrolled in school in February 2020, had been engaged in learning activities. Although, this varied from a quarter of households at the bottom of the welfare distribution to more than half of households at the top. For 82 percent of households, these learning activities were mostly carried out by parents' tutoring, while less than 10 percent of households could provide online learning to their children: as explained in **Special Topic 2**, resources to offer online teaching were scarce. When schools reopen, children who did not benefit from any support might struggle to keep up with lessons and be disincentivized from remaining enrolled. Furthermore, it is highly likely that reduced household incomes could act as a push factor for households to keep children out of school in order to reduce expenses or in favor of paid work as school dropouts are often motivated by educational costs (CSO, UNDP and World Bank, 2020). This could be more the case for poorer households who are already more likely to struggle to afford educational costs, and as mentioned below, were more likely to report reduced income from multiple sources.

Government assistance to firms and vulnerable households could be better adapted to reach the ones most in need, which could give some space to increase transfer generosity.

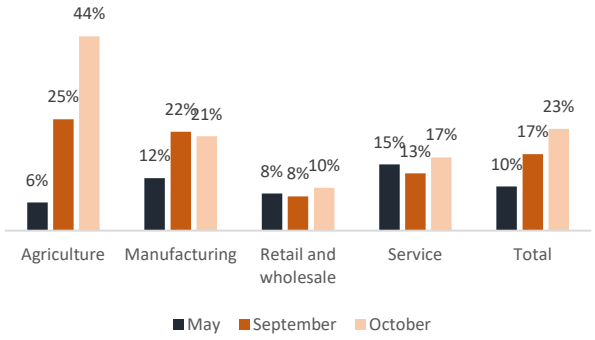
There has been an increase in the number of firms applying for government support, but many more still need it. In October, more firms applied for government support (23 percent) relative to the first wave (10 percent in May) (**Figure 73**). Almost half of firms in agriculture have applied for government support. In asking why firms were not applying for government support, the latest survey revealed the top reason was due to firms not knowing how to apply (21 percent of firms), followed by the fact that they did not qualify for the support (9 percent of firms), did not understand the application form (9 percent of firms) and did not have

formal documents to apply (9 percent of firms). About half of firms reported access to loans/credit guarantees as the most needed government support. While access to loans/credit guarantees was also the number one priority for firms in October with 53 percent of firms. Tax deferral, deduction or relief was the second most requested policy priority for firms in October with 11 percent of firms.

Firms that did not apply for government support were also more likely to be experiencing greater profit declines than those firms that applied. In October, firms that applied for government support experienced an average 46 percent profit decline in the last completed month of September as compared to the same period last year (**Figure 74**). This scale of impact is significant and warrants government support, but the average profit decline of firms who did not (or could not) apply was even higher, at 63 percent. In addition, of the firms that applied for government support, only 45 percent reported to have both a cash shortage and worse than average profit declines. These results demonstrate the need for government assistance to be extended to help reach those firms not applying for more urgently needed support than those who are.

Figure 73: On average, more firms are applying for Government support across survey rounds…

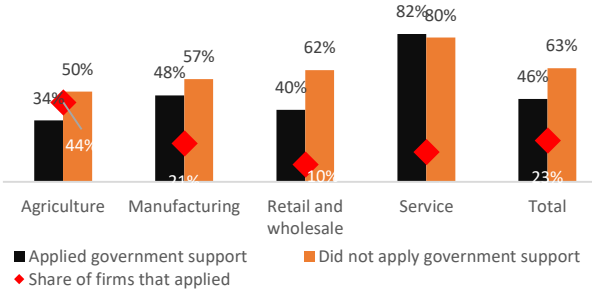
Firms applying for government support – by sector



Source: Myanmar COVID-19 Monitoring Platform – firm survey

Figure 74: Firms not applying for governmental support are experiencing greater

Average profit decline comparison between firms that applied government support and firms that did not apply in October 2020 (compared to last year) – by sector



Source: Myanmar COVID-19 Monitoring Platform – firm survey.

While GOM is extending COVID-19 funds to businesses and developing the economic recovery plans,[34] it could still consider adopting further policy actions to reach out to a larger share of firms to further the primary objective of ensuring firm survival. Despite the GOM's COVID-19 fund which has disbursed loans to businesses with a one percent interest rate over three rounds since May, the latest firm survey results suggested that access to credit and guarantees was still the most requested policy response as firms grapple to cope with the continued impacts of the second-wave of stay-at-home measures designed to limit the spread of the disease. As the priority continues to be support packages to help distressed firms, the government should consider additional emergency support to the private sector. Once the contagion is contained, policies towards business recovery will need to be prioritized. On awareness, the survey results found that only 52 percent of firms were aware of any government support in October. As such, the GOM could explore the following policy options to help broaden the support to a larger share of firms by:

1. categorizing firms based on their characteristics and vulnerability such as exposure to the shock, asymmetric access to financial and banking channels, and informality;
2. closing large gaps for "unserved middle" considering the structure of the financial sector; and
3. exploring options for better access to finance to a larger share of firms, in particular SMEs.

[34] The GOM approved a second round of COVID-19 funds to businesses in October. In addition, the GOM is drafting Myanmar Economic Resilience and Relief Plan (MERRP), which is an extension of COVID-19 Economic Relief Plan (CERP) published in April.

Early government support has strained already limited resources, and as such, there is a need for strategic prioritization and targeted support on a needs-basis. When COVID-19 initially hit Myanmar, the Government rapidly stepped up efforts to protect the most vulnerable, first with the Thingyan food distribution, electricity subsidies, and top-up to existing cash transfers which included maternal and child cash transfer and social pensions. In October, about 23 and 41 percent of households reported having received food assistance or received cash assistance from the government, respectively.[35] However, while food assistance does not seems to have benefitted more households at the bottom—as opposed to the top—of the welfare distribution (with 21 percent and 20 percent respectively), the electricity subsidy has overwhelmingly benefited wealthier households who are more likely to access and use electricity (46 percent versus 36 percent of households at the bottom of the welfare distribution). However, cash assistance in October was successful in effectively reaching those households who were most in need: 40 percent of households at the bottom of the welfare distribution who are suffering the most from income losses while having fewer coping mechanisms received cash assistance in October, and about 35 percent of households at the top.

Improved targeting of the resources could help the Government to better design its interventions and potentially increase the generosity of its transfers. The generosity of cash transfers distributed over the period ranges from 15,000 (Thingyan transfer) to 30,000 kyats (one-off top-up transfer to eligible beneficiaries of the maternal and child cash transfer (MCCT) program and the Ngwe Bike program).[36] The latter amount is roughly equivalent to 12 percent of the estimated 2019 monthly consumption of a bottom-40 household. Learning from this first experience, the government has provided repeated payments of 40,000 kyats to 5.4 million households in July and August, increasing the number of beneficiaries to 5.6 million in September and to 6.1 million in November. As shown through the simulations in poverty outlook, the provision of repeated payments until the end of the crisis coupled with forming a long-term social assistance program targeting Myanmar's poorest would be the most effective means by which Myanmar can reduce the impacts of the crisis on households and protect its poor from further falling into poverty. In addition, preliminary results on the fiscal impacts of COVID-19 responses show that the support through electricity prices is costlier than other potential government responses and it also serves to increase inequalities, given that this support modality benefits wealthier households. On other hand, increasing the coverage of the existing MCCT could yield more effective and efficient results in terms of poverty and inequality reductions than the universal electricity support.

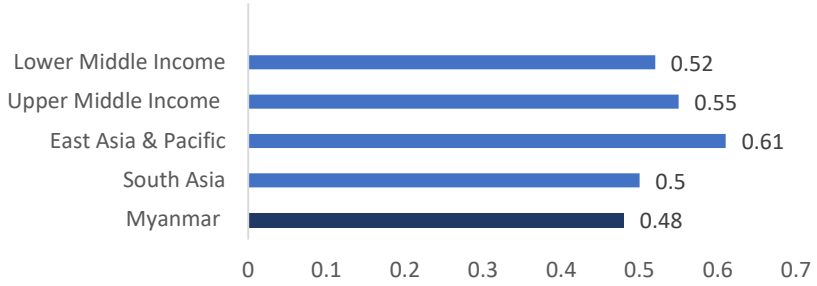
[35] The authors acknowledge that these numbers on cash transfers are less than the numbers reported by the Government: 5.4 million households have received two cash payments in July and August, and 5.6 million households in September. In the future survey rounds, a module on social protection will be included to collect more robust data to monitor the Government's efforts for cash assistance.

[36] This program covers pregnant women and children under two in areas where MCCT is not available.

Special Topic 2: Impacts of COVID-19 on Myanmar's Human Capital Development (Health and Education)

With a score of 0.48 on the Human Capital Index (HCI) (Figure 75), Myanmar ranks 120 out of 174 countries included in the global index. This means that a child born in Myanmar today could be 52 percent more productive in the future if not for the potential-limiting factors of poor education and health conditions. Myanmar's score of 0.48 thus suggests that GDP per worker could be more than double if the country reached the benchmark of complete education and full health.

Figure 75: Human Capital Index



Source: Human Capital Index 2020

Human capital is a key driver of sustainable growth and poverty reduction. It is estimated that between 10 and 30 percent of per capita gross domestic product (GDP) differences is attributable to cross-country variances in human capital.[37] Investing in human capital contributes to poverty reduction and economic development by increasing an individual's current and future productivity as well as their contribution to society. Increasing human capital through investments in education provides both private returns (post-tax earnings for individuals) and social returns comprising pre-tax earnings, in addition to numerous other societal benefits.[38]

COVID-19 threatens to undermine human capital development in Myanmar. It will set back progress through disruptions to the delivery of essential health and education services, and through the declining welfare of households due to loss (see **Special Topic 1**) of employment and reduced income.

I. Impacts of COVID-19 impact on Myanmar's health system and outcomes

The additional burdens of COVID-19 on the country's health sector have can cripple a health system that already faced longstanding challenges. These challenges include both supply-side weaknesses that impact the quality and availability of health services, as well as demand-side barriers such financial and geographic accessibility.

These challenges and current pressures provide unique opportunities to mend and strengthen Myanmar's health system for the future. These include (i) locking in political and policy commitments to progress towards Universal Health Coverage for the country's population, including ensuring there is sufficient fiscal space for newly emerging priorities resulting from the COVID-19 pandemic, such as COVID-19 vaccine procurement and delivery and the necessary investments within the health system to ensure an effective vaccine

[37] World Bank 2018a.

[38] In his "Wealth and Welfare," A.C Pigou argued that marginal net product of resources wisely invested in persons is higher than that of resources wisely invested in the material capital (p. 355-356). Benefits can include: Emotional and cognitive development; employment; welfare and reduced crime; in addition to health benefits.

deployment as they become available on the global market and the medium to longer term impact of COVID induced hospital upgrades on the future health spending and organizing of health service delivery; (ii) expanding low-cost, high-impact service platforms, such community-based health services, that address longstanding barriers to accessing essential care; (iii) developing new frameworks to guide prioritization, alignment and integration of health services, including strengthening engagement with the private health sector; and (iv) harnessing new opportunities in information technology to improve health information systems and the delivery of health services.

Policy recommendations are presented below that can support the health system through its longstanding and current pressures. These include both investing in the medium term in the effectiveness, efficiency and equity of Myanmar's health system, and addressing the short-term immediate needs for public health preparedness and responses to COVID-19.

COVID-19 is eroding Myanmar's already low health status through several channels

COVID-19 has eroded Myanmar's already low and heterogeneous health status. A child born in Myanmar today could expect to be only about half (48 percent) as productive in adulthood as compared to a well-nourished child who has completed primary and secondary education in full health.[39] Health outcomes in Myanmar vary substantially across geographic and socio-economic population groups. Key areas of health outcomes and health service delivery still experience lags in progress with significant disparities across the country. The 2014 Myanmar Census and the 2015-2016 Demographic and Health Survey (DHS) provide key data points to measure these disparities. The under-five mortality rate was measured at 50 deaths per 1,000 live births, with much higher rates in rural areas than in urban (80 versus 42 deaths per 1,000 live births). Infant mortality rates were measured at 40 deaths per 1,000 live births, ranging from 37 per 1,000 live births in Mon State to 80 in Bago Region. Additionally, 29 percent of children younger than five years of age are stunted, with figures ranging from 20 percent in Yangon Region to 41 percent in Chin State.[40]

Based on previous Global pandemic experience, COVID-19 is expected to have significant negative effects on health system performance in terms of supply and demand and ultimately outcomes. As seen with past health emergencies, health sector resources—including public, external aid, among others—for broader and regular care risk being diverted to respond to the immediate needs of the pandemic. For example, the 2014-2015 Ebola Virus Disease in West Africa led to essential immunization programs being interrupted, along with other essential health services. In terms of population health seeking behavior, during a public health emergency such as COVID-19, households may become wary of seeking professional medical care due to the potential risk of exposure at health facilities where qualified service providers are stationed, resulting in decreases in utilization of essential health services. In terms of health outcomes, child mortality rates may increase due to both disruptions in the delivery of maternal and child health services or a reduction in care-seeking behaviors by households due to mobility restrictions, reduced financial capacity to cover costs of health care, or as already noted, an underlying fear of potential exposure at health facilities. Broader economic downturns, like those currently at play as a result of the COVID-19 pandemic, are also associated with significant increases in child mortality and malnutrition. The elderly and people with significant co-morbidities are also at heightened risk of experiencing severe health shocks during the pandemic. Special efforts will be needed to maintain coverage of key essential health services and interventions particularly for women, children and the elderly.

Diverted health resources to COVID-19 needs may leave millions without essential health services. Over the last several months, the health workforce at all levels has been challenged by demands of the national

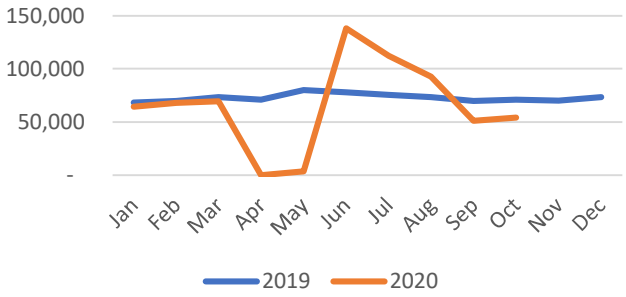
[39] Human Capital Index 2020. HCI includes measures of health, nutrition, and education such as the rate of survival of children under five, adult survival rate, stunting prevalence, years of school completion, and learning outcomes.

[40] Myanmar Demographic and Health Survey (DHS), 2016.

COVID-19 response, including a scaling up of vital public health prevention measures and clinical management of cases. Alarmingly, modeling estimates indicate that large service disruptions in Myanmar have the potential to leave 669,200 children without oral antibiotics for pneumonia; 1,092,500 children without DPT vaccinations; 87,300 women without access to facility-based deliveries; and 1,692,600 fewer women receiving family planning services. As a result of disruptions across all essential services, both maternal and child mortality rates in Myanmar could increase by 22 percent over the next year.[41] Stunting rates could also increase with household income and food insecurity. According to high frequency phone surveys carried out by the World Bank[42], about one in five surveyed families reported in October that they ate less or ran out of food, and that one-third of families had to reduce the diversity and quality of foods they had otherwise consumed. This indicates early signs of nutritional deterioration, quietly increasing the risks of stunting and micronutrient deficiencies, especially of women and children. What is even more worrying is that all these indicators are showing a rapid rise for the past few months, warranting the need to respond before incurring long-lasting and potentially irreversible impacts on nutrition and human capital. The elderly and people with co-morbidities are also at heightened risk. Maintaining essential health services during the COVID-19 pandemic is critical to prevent these severe outcomes and protect health outcome improvements made over the last decade.

An analysis of routine data from the national health information system (DHIS-2) that compares trends between 2019 and 2020 for child immunization coverage (Pentavalent 3) (**Figure 76**) show a significant impact of the pandemic on delivery of essential health services.

Figure 76: Monthly number of doses of DPT 3 vaccine delivered, 2019-2020



Source: DHIS2, Ministry of Health and Sports

Myanmar's health sector suffered from broad challenges prior to COVID-19

On the supply side, there are multiple providers providing fragmented health service delivery. The health system of Myanmar has been shaped by the country's complex economic, political, and social history. Health services are delivered through a pluralistic mix of public, private, non-profit and ethnic health providers, with significant variations in service delivery models across the country. Although Myanmar has a mainly public sector driven healthcare system—with more than 60 percent of formal health facilities being public—there is an active and growing private health sector (both for-profit and non-profit). For-profit private sector facilities and services are concentrated in urban areas (for instance, Yangon and Mandalay) and focus mostly on: (i) secondary and tertiary hospital care; (ii) diagnostic and radiology services; and (iii) different aspects of pharmaceutical and medical equipment supply chains. Ethnic Health Organizations (EHOs) also play an important role in delivering health services, especially for people living in hard to reach and conflict-affected areas and areas not reached by government services. The informal sector for pharmaceuticals is extensive and largely unregulated, resulting in a plethora of unlicensed drug shops and pharmacies across the country.

[41] Preserve Essential Health Services During the COVID-19 Pandemic Myanmar. Global Financing Facility, 2020.

[42] https://www.worldbank.org/en/country/myanmar/brief/myanmar-covid-19-monitoring-platform-keeping-myanmar-informed-amid-uncertainty?fbclid=IwAR3vvh6ad_CVPmGtlQfugtd0Tp7zjtZlnLE8u_Uoq1uGL--D6Xa2Dt0XwM0

Community-based health services—despite being provided for specific services, initiatives and vertical programs—are currently not formally institutionalized within the public health system.

The public health workforce is insufficient both in number and clinical expertise. Shortages in human resources for healthcare are identified across almost all States and Regions, including major cities, with wide disparities in urban and rural areas. In 2016, 13 out of 15 states and regions were below the WHO recommended ratio of one doctor per 1,000 population. Further, numerous challenges remain in rural health workforce retention. Insufficient compensation for per day (or part thereof) overtime, transport allowances or hardship allowances for rural health workers are noted within the public health system. Poor health facility infrastructure and an inadequate supply of drugs and clinical equipment demotivate health workers in the sector.

On the demand side there are numerous barriers to accessing health care. Physical proximity poses significant demand side challenges in Myanmar's health sector. Financial barriers to accessing services also pose a significant challenge affecting demand and access to essential health services. For example, the requirement to pay out of pocket for healthcare services without effective financial protection or pre-payment mechanisms also affects health seeking behavior, or otherwise pushes many households into poverty. Complexities also exist surrounding community perceptions of health care, including perceived quality of care, satisfaction and trust in providers. Trust and acceptance of providers within a community are often only achieved after their longstanding presence and their ability to be responsive to a given community's health needs.

Health financing is highly dependent on private out of pocket payments from households, with public funds financing only a small share of total health expenditure. The distribution of contributions to health financing in Myanmar highlights the limited government contribution to the sector (16.7 percent of total health expenditure) and its high dependency on private out of pocket spending for health, accounting for 76 percent of total health expenditure in 2018. External financing is also relatively limited at 7.7 percent of total health expenditure.[43] While government spending on health has increased significantly from 0.19 percent to 1.1 percent of GDP Between FY 11/12 and FY 17/18, the prioritization for health remains low compared to other countries in region. Although nominal budgets continue to increase since 2011-12, after adjusting for inflation and taking into account the population growth, government health budget has hit a plateau since 2017-18 with a decline in per capita spending. Risk pooling mechanisms for health are small and fragmented, while prepayment schemes are limited. Out of pocket spending results in households slipping into poverty: with 32.1 percent of the population below the poverty line, it has been estimated that, in 2017, an additional 3.4 percent of households were pushed into poverty as a result of out-of-pocket spending on health. With supplementary resources for COVID-19 provided, the health share of government spending in FY 2019/20 has increased from 3.67% to estimated 3.9 percent. It is not yet clear what budgetary allocations have been made for non-COVID-19 spending. Further analysis is required to assess whether resources were appropriately reprioritized within the health budget and if so, the impact on resource allocation for delivering essential health services above and beyond those related to COVID-19. For FY 20/21, health share of general government expenditure is allocated at 4.19 % (Citizen Budget, MoPFI, 2020).

II. Current opportunities and promising initiatives to address health sector challenges in Myanmar

The current environment in Myanmar provides several unique opportunities to engage in productive dialogue on the country's health system and opportunities to strengthen it for the future. First, with the national elections completed and new administration to assume office in first quarter of 2021, it presents an opportunity to advance ongoing dialogue and consultation on priority issues, including health. It has further ushered a reconsideration of the achievements, persisting challenges and potential paths forward towards

[43] National Health Accounts (2016-2018), Ministry of Health and Sports, 2020

achieving Universal Health Coverage (UHC). Second, the availability of and access to different sources of health sector data is greater now than ever before, alongside significant enhancements in the quality and comprehensiveness of data for the sector. For example, the routine health information system has been substantially strengthened through the rollout of DHIS2 (District Health Information System 2) and the introduction of new ICT tools such as the use of tablet-based solutions. There are also ongoing efforts for comprehensive data on the COVID-19 response—in the form of an online Dashboard—to be continually updated and be made widely available. Third, the present pandemic has repositioned health at the center of national narrative in Myanmar. This renewed focus provides an opportunity to engage in a focused dialogue on strengths and weaknesses of the current health landscape and identify avenues to strengthen the system going forward. While critical resources are needed for effective response efforts, there is a concurrent need to ensure that other core responsibilities of the health system—in particular health service delivery at scale and at quality—remain a priority in parallel with COVID-19 mitigation efforts.

III. Policy recommendations and options for strengthening Myanmar's health sector

In light of the abovementioned double burden Myanmar's health system currently faces—grappling with both immediate responses to COVID-19, alongside addressing longstanding systemic weaknesses of the health system—several policy recommendations are presented below. These aim to strengthen the national response to COVID-19 for effective containment, while proposing options to ensure that essential health services not only avoid disruption due to the focus on COVID-19, but continue to invest in strengthening systems with a focus on improving equitable access, efficiency and effectiveness of the country's health system. The recommendations build on the current opportunities that are outlined in the preceding section of this note.

Focus area #1: Investing in the medium term in the effectiveness, efficiency and equity of Myanmar's health system

Gaps in health information, provider coordination and service coverage can have negative consequences for ensuring an effective COVID-19 response and the continuity of essential health services, while higher level health facilities may become overburdened with treatment of patients infected with the virus. Supply chains for medical equipment, supplies and medicines may become strained, leading to service delivery disruptions and delays in deployment of an eventual COVID-19 vaccine. Movement restrictions (and the fear of contracting COVID-19) may hinder appropriate care-seeking behavior and disrupt routine outreach services. Inaccurate health information and rumors may further discourage appropriate social distancing and care-seeking behaviors. Under these circumstances, re-thinking service delivery models to both protect the delivery of essential health services and avoid their disruption under current circumstances—as well as identify ways to strengthen them for the future—becomes even more crucial.

Re-thinking service delivery models involves considering new ways to deliver services—optimizing the use of all available resources and leveraging opportunities for innovation to improve health outcomes. While the pluralistic mix of public, private, non-profit and ethnic health providers across the country provide a range of services to different populations, their full potential remains unharnessed. Similarly, technological advances are providing new ways of sharing information, building capacity and engaging directly with the public, but are yet to be applied at scale throughout the health system. A rich ecosystem of technology use is an opportunity to leverage and optimize the use of ICT tools to assist in service delivery redesign. The impact of the COVID-19 pandemic on Myanmar's health system will likely exacerbate existing challenges and impediments including limiting inclusive access to maternal and child health and nutrition services and impede progress towards Universal Health Coverage. Despite this challenge, with a vision for a nationally coordinated response to COVID-19 and commitment toward advancing UHC, there are options for achieving greater

coherence across types of providers and extending the reach of the health system to all communities. Below we outline several areas for further exploration with this objective in mind.

1. ***Spend More, Spend Better' for improved health and nutrition of women and children:*** The impact of COVID-19 on public financing for health, in particular for non-COVID related services and functions, is likely to lead to a reprioritization of resource allocations towards COVID-19 related investments and in turn a reduction in fiscal allocations for delivering other high-impact health services, particularly for maternal and child health. Opportunities include:

    a. **Investing in a robust monitoring system resource mapping and expenditure tracking.** Such data will be an important contribution to informing strategic dialogue with MOFPI/GoM on future budget considerations and supplementary grant processes within the health sector. There will be a need to not only protect resources mobilized for maternal and child health—given the historically low government allocations to health generally—but also for advocating for increasing resources directed towards delivering essential health services for women and children.

    b. **Public financial management reforms for greater impact of resources allocated to the health sector can lead to:** (i) improve efficiency; (ii) expand risk pooling, (iii) introducing financial protection mechanisms to enhance equity in health outcomes, including expanding prepayment mechanisms to reduce financial risks for accessing health services; and (iv) institutionalizing strategic purchasing within the health sector to improve coverage and quality of health services.

    c. **For future planning for the health sector, the GoM should begin the process of planning for an eventual reduction in external financing and the need to transition to more domestic financing:** With external financing expected to decline as the country continues to experience rapid economic growth, strategic planning should begin to identify options to ensure domestic resources are mobilized.

2. ***Strategic and coherent delivery of essential health services for women and children:*** The multitude of different types of health providers in Myanmar (public, private, EHO, among others) will be needed to avoid further disruptions in the delivery of essential health services. Opportunities include:

    a. **There is a need to formalize private, community-level and ethnic health providers, through accreditation or other policy tools and establishing a consensus and clear policy guidance on a defined package of essential services.**

    b. **Moving towards strategic purchasing of these services through more effective and efficient provider payment mechanisms with a focus on high-impact primary health care, will also be important.**

    c. **Investments to improve mechanisms for coordination, collaboration, oversight and monitoring, and strengthening multi-stakeholder platforms for dialogue, coordination, consensus building and decision making at regional and state levels will contribute to improving effective coverage of essential health services.**

    d. **Invest in better health sector data and information systems.** Data-sharing and information on access, coverage and quality of essential health services will help inform decision-making and policy development in the health sector.

3. ***Strengthening standards of community-based health service delivery:*** There is a need to improve the availability and quality of health services delivered at the community level. Opportunities include:

    a. The introduction of a standardized system of certification and registration for Community Based Health Workers (CBHWs), institutionalizing CBHWs through inclusion in the national budget, planning and supply systems.

b. Introducing performance monitoring and standardized incentives for CBHWs, both financial and non-financial.

4. Optimizing ***ICT for improving the health and nutrition of women and children:*** There is an opportunity to expand innovation that takes advantage of the rapid penetration of ICT in Myanmar and leverages the introduction of new digital platforms and technology, such as tablets for frontline providers. This will contribute to: (i) expanding the general population's access to essential health information and knowledge; (ii) improving the quality of care through training and competency building of health care providers; (iii) enhancing accountability and performance monitoring; and (iv) strengthening coordination mechanisms and collaboration across different types of providers. Opportunities include:

   a. **Improving outreach through telehealth and proactive feedback methods enables the more accessible use and demand for services such as ANC care and birth planning.** In addition, this direct communication method can be used to disseminate accurate and timely information about COVID-19 or other health alerts, the status of health services, and other information related to health service delivery to allow for planning or alternative care seeking to avoid disruption of essential services during lockdowns or overburdened health facilities, and can also be utilized to solicit feedback on the quality and coverage of services, collecting data on gaps that can be addressed quickly.

   b. Expanding assisted self-care through use of ICT (telehealth) combined with effective CBHWs embedded in communities.

Focus area #2: Addressing the short-term immediate needs for public health preparedness and responses to COVID-19

1. ***Prevention and containment of COVID-19*****.** Immediate investments to strengthen health system functions will have a positive impact on containing the spread of COVID-19 in Myanmar. These include strengthening: (i) surveillance, detection and containment mechanisms; (ii) clinical management of cases; (iii) effective communication; and (iv) data availability and transparency.

2. ***Avoiding disruptions to the delivery of essential health services:*** Priority actions to maintain integrity to wider health services include: (i) preserving basic health services for maternal and child health and other vulnerable populations; (ii) ensuring continuity of care for chronic conditions such as HIV/AIDS and tuberculosis, and the management of non-communicable diseases; (iii) providing emergency and critical care services; (iv) supporting frontline health workers through the provision of essential (and protective) equipment and incentives for increased risk and additional efforts or overtime; (v) reducing disruption to supply chains for medical equipment, drugs and related essentials through engagement of the private sector, use of telemedicine and e-health; and (vi) strengthening the monitoring of service delivery through robust and timely evaluation systems.

3. ***Adopt measures to protect vulnerable groups from additional barriers to accessing health care:*** Policies options to support groups such as women, children and adolescents, the urban poor, refugees, migrants, marginalized and institutionalized groups, the elderly and people with disabilities include increasing benefits through existing social assistance programs, reducing financial barriers to health care through fee waivers and exception policies for vulnerable groups to access health services, and expanding health services to address immediate preventive care needs for the elderly.

4. ***Establish well-integrated and sustainable systems and institutions:*** This would entail: (i) designing an evidence-based and comprehensive surveillance strategy; (ii) adopting a "one-health" approach; (iii) integrating health in disaster risk management (DRM) systems; and (iv) preparing urban areas and slums for future pandemics.

5. ***Preparing for COVID-19 vaccine:*** Dialogue and global efforts on COVID-vaccine financing are revving up. Although there are still many unknowns about vaccines such as cost, delivery requirements, market availability, important implications for Myanmar's health sector, both in terms of fiscal space and health system performance, are emerging. Myanmar will need to think about how vaccines (purchase and delivery) will be financed, what are the implications on fiscal space, given a national immunization program is not a short-term intervention but something that will need to be integrated in to health service delivery for the foreseeable future.

COVID-19 impact on education and human capital

Myanmar was in a learning crisis even before COVID-19

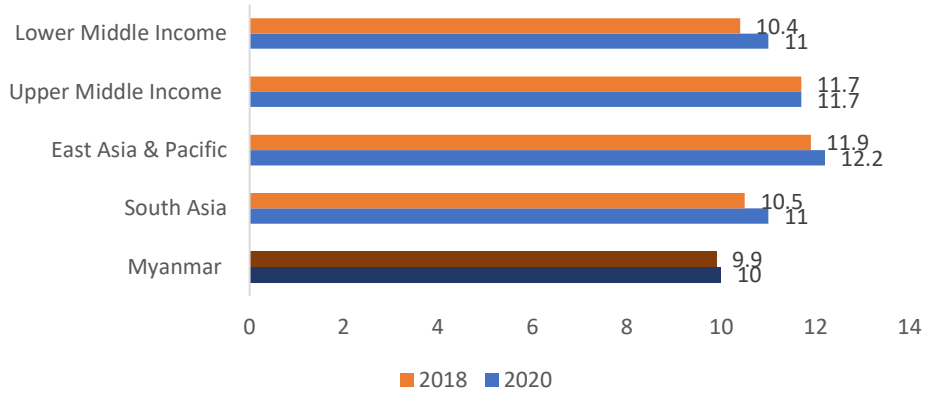
Too many children of school going age remain out of school. In the 2019/2020 academic year, a total of ~10 million learners were enrolled in Myanmar's education system, almost half (4.9 million) of whom were enrolled in primary school. There are ~4.045 million learners in both levels of secondary education, while higher education and TVET accounts for some 1 million students.[44] Pre-COVID-19 approximately 1.8 million students of primary and secondary school age were out of school – equivalent to ~20 percent of all students.[45] The unmitigated impact of COVID-19 on the education system in Myanmar, could see the number of out of school children increase significantly.

Returns to schooling are well below the regional average. The average private return to an additional year of schooling at any grade (schooling premium) for the employed population in Myanmar is ~5.1 percent.[46] This is significantly lower than the regional average. The schooling premium of females, on average, exceeds that of males by approximately 2 percent.[47] Returns to schooling are larger in urban areas, for women, and for workers in the tertiary sector.

Children who do make it to school are effectively learning only two thirds of the time. A child can expect to complete 10 years of school (**Figure 77**), but this is equivalent to only 6.7 years of learning. Factoring in what children learn from attending school in Myanmar, the Learning-Adjusted Years of School (LAYS) (**Figure 78**) is only 6.8 years. Comparing the Expected years of School (EYRS) (**Figure 79**) with LAYS indicates a learning gap of 3.2 years.[48] On average, girls outperform boys.[49] The key educational outcomes in Myanmar are lower than the regional average, as are its level of income, and the extent of unequal distribution across geographic and socioeconomic status. Dropout rates are especially high for children and youth from poorer households.[50]

[44] This does not include the ~350,000 students enrolled in the Ethnic Basic Education Systems and CSO run schools, of which the majority of the students attend primary school.
[45] UNESCO Institute of Statistics (UIS) 2018
[46] An Analysis of Poverty in Myanmar (2017): Ministry of Planning and Finance & The World Bank Group; MOPF and World Bank (2017).
[47] Ibid.
[48] World Bank Human Capital Index 2020
[49] Country Economic Monitor 2020
[50] Among families belonging to the bottom 40 percent of the consumption distribution, 74 percent of children (compared to 60 percent overall) starting grade 1 drop out before the end of middle school. Dropouts and the number of out-of-school children vary substantially across townships and across states and regions. The gap in the non-attendance rates for those aged between 6 and 16 years in 2014 (census data) between the state with the highest prevalence of non-attendance (Shan East, 53 percent) and the region with the lowest (Chin, 15 percent) is nearly 39 percentage points.

Figure 77: Expected Years of School



Source: World Bank HCI Data 2018 and 2020

COVID-19 is impacting education in Myanmar

School closures are affecting all students (~10M), putting especially the poorest at risk of permanent learning loss, child labour and mental and physical health challenges. School closures in Myanmar are currently affecting some 9 million students in the basic education sector, and approximately 1 million students in Higher Education Institutions and TVET. School closures present a logical solution to enforcing social distancing within communities, but if not properly executed, prolonged closures are expected to have long-lasting negative impacts on the education sector in Myanmar.[51] School closures compounded by income inequalities will disproportionally affect students from marginalized households, notably in rural areas. The impact of school closures transcends education with additional ramifications for children's health, nutrition and protection. There is a risk that children from vulnerable households will be drawn into child labor to mitigate the economic impact on families and will not return to school, resulting in an increase in out-of-school children nationwide with evident downstream effects. Girls and female youth are more at risk of dropping out, due to societal norms and expectations regarding their share of the burden of domestic chores, but also to the risk of early marriage in the poorest households. There is also a heightened risk of sexual and gender-based violence (SGBV) and early pregnancy due to lockdown measures, which in turn negatively affect girls' ability to access education.[52] The mental health and wellbeing of students will also be negatively impacted, especially if teachers, parents and caregivers are poorly equipped to provide socioemotional support.[53] Extended school closures may cause not only loss of learning, but also further loss in human capital and diminished economic opportunities over the long term. A dire situation is poised to become worse, particularly where safety nets are weakest.

Considerable learning and income may be lost

Current school closures can lower effective learning time by up to a year and learning outcomes by up to 14 percent. The World Bank has developed a simulation model to analyze the impact of COVID-19 school closures across a range of different scenarios to measure a range of potential outcomes across learning

[51] Myanmar COVID-19 National Response and Recovery Plan for the Education Sector. Myanmar Ministry of Education May 2020 – October 2021

[52] UNICEF Education COVID-19 Response Issue Brief: COVID-19 and Girls' Education in East Asia and Pacific October 2020

[53] Ibid

and income parameters.[54] The school closures can lead to significant negative medium-term and long-term impacts on LAYS, EYRS, learning outcomes, and income earning potential.[55] The simulation estimates that the medium-term effects of the shock on LAYS and EYRS are significant: learning losses range widely depending on the parameters of the simulation, but the general thrust of these assumptions is that the current student cohort from four to 17 years of age is likely to lose between 0.4 (optimistic scenario) and 1.0 (pessimistic scenario) of their LAYS (**Figure 78**). In the pessimistic scenario this represent a ~14 percent reduction. The shock is likely to result in a significant drop in learning outcomes, measured by Harmonized Test Scores (HLO) of 25 points (roughly 5.8 percent) in the pessimistic scenario (**Figure 80**).

The continued unmitigated school closures will result in loss of learning, reduced lifetime earnings, and a national estimated loss of ~$20bn in the pessimistic scenario. Compounding the significant decrease in LAYS are the substantial economic losses in terms of the modeled decrease in average annual earning loss per student (2017 PPP $), ranging from $92 in the optimistic scenario to $212 in the pessimistic scenario – a decline from $4,361 in the baseline to $4,149 in the pessimistic scenario (**Figure 81**).[56] The aggregated lifetime Present Value earning loss of all students in school today from the extraordinary shock of COVID-19 - in a pessimistic scenario - is ~$20 billion and counting (**Figure 82**).[57] This represents an 4.9 percent reduction in accumulated foregone lifetime earnings, and will have marked impact on economic growth, prosperity and Human Capital Development.[58] Continued school closures for the remainder of the school year, with no significant improvement in teaching and education delivery modalities could see that number rise significantly and the negative impacts increasing.

Figure 78: Learning-Adjusted Years of Schooling (LAYS)

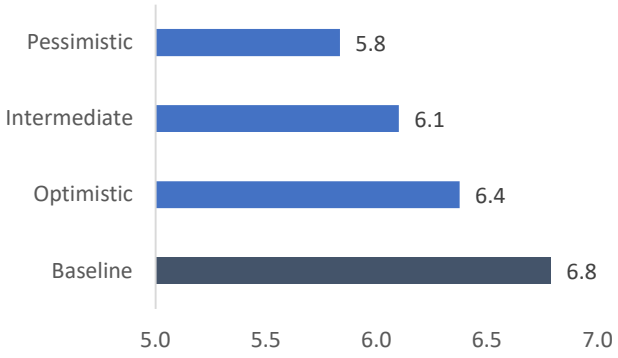
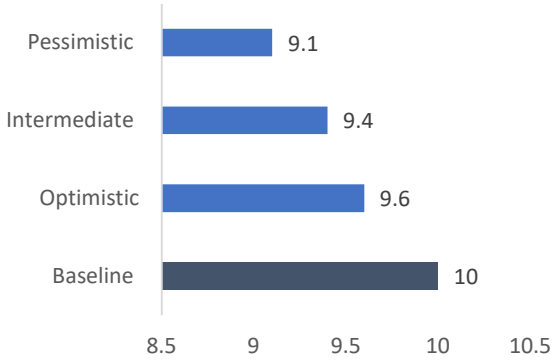


Figure 79: Expected Years of Schooling (EYRS)



[54] (i) the typical learning gains from one grade to the next (p); (ii) the duration of school closures (s); (iii) the supply of remote education modalities (G); (iv) access to these alternative modalities (A); (v) the effectiveness of alternative modalities (E); (vi) γ, families are losing income; (vii) *d*, countries have age group specific income elasticities to schooling, which will lead some children to drop out.

[55] The simulation is up until the end of September and the negative effects will continue to increase as the situation unfolds, noting that the effects simulated are forward looking and do not consider any future government response to remediate the negative effects of school closures once lockdown measures ease and schools reopen.

[56] In 2017 Purchasing Power Parity.

[57] Accumulated foregone earnings of examines the impacts of school closures on the stock of learning adjusted years of schooling (LAYS) and its two components - expected years of schooling (EYRS) and harmonized learning outcomes (HLO). It translates this impact into dollar terms. The HCI 2017 database is used as the baseline for these calculations. In addition to simulating the direct effects of school closures, we simulate the income effects by combining data on the projected GDP per capita change provided by WEO (World Economic Outlook, IMF) with the GMD (collection of globally harmonized household survey data, WBG) to estimate how much dropout is likely to occur as a result of COVID-19.

[58] In comparison, GDP in Myanmar was worth 76.09 billion US dollars in 2019.

Figure 80: Harmonized Test Scores (HLO)

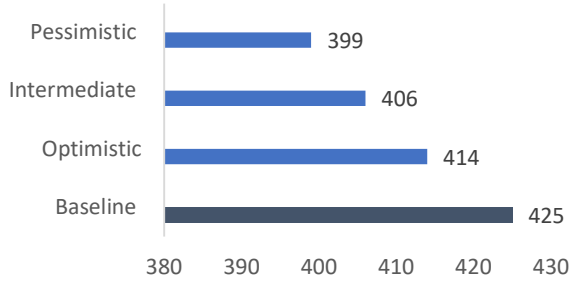
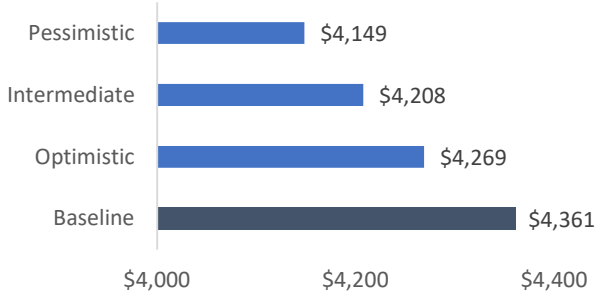
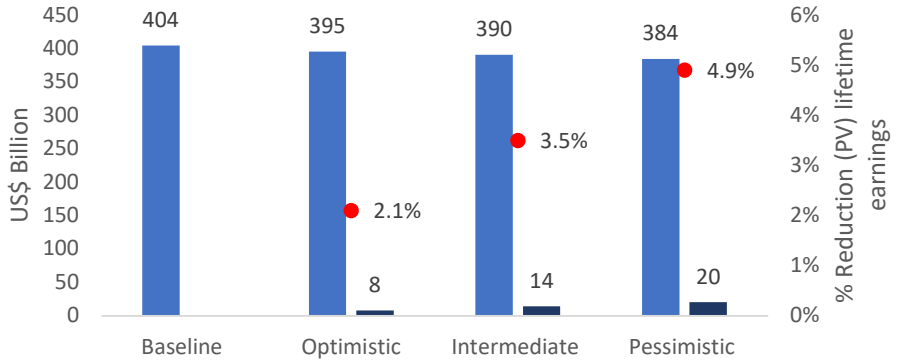


Figure 81: Average annual earning per student (2017 PPP$)*



Source: Marie-Helene Cloutier, Joao Pedro Azevedo, Diana Goldemberg (2020) "EAP country tool for simulating the potential impacts of COVID-19 school closures on schooling and learning outcomes, Version 1". World Bank, Washington DC. Parameters, estimations and calculations from the World Bank Myanmar Education Team.
Notes: Mean monthly earnings of employees in 2017 PPP $ are sourced from ILO (as cited in Azevedo et al. (2020a)). Country specific where available otherwise average for country's income class.

Figure 82: PV of lifetime earnings for all students



Source: Azevedo et al. (2020a) using parameters from the World Bank Myanmar Education Team.

Policy response during school closure – the challenges of moving on-line

The COVID-19 pandemic struck Myanmar in March, towards the end of the academic year 2019/20 with plans that schools would reopen in September upset by the second pandemic wave. The schools initially stayed open ensuring that all students completed the school year. During the summer break, the MOE, with support of development partners, finalized the 'MOE COVID-19 National Response and Recovery Plan for the Education Sector: May 2020 – October 2021' (Recovery Plan). In addition, the MOE received a grant from the Global Partnership for Education (GPE) of $11 million supporting the Ministry's efforts mitigating the effects of COVID-19. The Recovery Plan was primarily based on a scenario whereby education institutions anticipated reopening in September. The continued closure of educational institutions, paired with the extremely varied characteristics of Myanmar's States and Regions and the wide-ranging needs and the specific challenges of learners across the country, presents the MOE with immense challenges in responding effectively to the crisis.

The MOE has primarily chosen a response emphasizing digital modalities, but in conjunction with low tech and no-tech options including Department of Basic Education (DBE) Boxes and distributing textbooks.[59] The evidence on the effectiveness of remote learning appears mixed at best in both developed and developing countries, and Myanmar has very limited experience implementing online learning in public schools.[60] Resources to roll out online teaching programs are scarce and many schools and households do not have access to electricity, let alone the internet. In addition, students and teachers alike have limited exposure to distance teaching resources. Also, household access to technology, especially among the poorest, affects their access to remote teaching. In Myanmar less than 50 percent of household have access to internet, meaning that adopting online modalities exclusively would be, in effect, discriminatory by design. Currently there is little information on the number of students making use of the different instruction modalities, and what modalities are in use and where.

Despite the commendable efforts of the MOE to alleviate the impact of COVID19 on education, children are mostly left without resources to continue their education while schools are closed.[61] Approximately 40% of households with children who were in school in February have participated in learning activities since the beginning of school closure, primarily in activities directed by parents and relatives. Only one out of ten households report using the internet to provide learning activities to their children. And one out of five households, with children enrolled in school in February, report being in contact with teachers, mostly through meeting the teachers (61%) or through phone (38%).[62]

Policy response after school closure – Safe and Smarter schools

It is critical to address the significant challenges arising from the current nationwide school closure, while at the same time creating a post COVID-19 system which delivers better learning outcomes for all. Myanmar must develop smart and sustainable strategies for delivering quality education for all, enabling children to learn anywhere, anytime. The strategies should address the current situation while adjusting to the 'new normal,' focusing on five key drivers: *learners*, *teachers*, *learning resources*, *learning spaces*, and *school leaders*.[63] While challenging and complex, targeted and strategic policy design is both urgent and necessary to address the learning losses from the shock of COVID-19 and the pre-existing learning crisis.

1. **Take advantage of additional available financial contributions from Development Partners**. This will allow the MOE to increase spending, while spending better, in order to swiftly put in place measures that ensure the schools are safe and ready to reopen as soon as possible.

2. **Ensure schools are safe.**
    a. Minimum physical safety measures include: (i) mandatory facemasks for students and teachers; (ii) regular hand washing; (iii) social distance measures, such as use of plastic dividers; (iv) temperature checks of children at school entrances; (v) staggered arrival and departure times to avoid crowding of parents and families, as well as staggered returns to school by class or grade; and (vi) regular deep cleaning and sanitization of schools.
    b. Plan for COVID-19 cases: Schools must enforce an "all-closure" management approach (no outsiders can enter) and develop contingency plans for if and when an active case of COVID-19 is found amongst a student or staff member.

[59] Myanmar COVID-19 National Response and Recovery Plan for the Education Sector. Myanmar Ministry of Education May 2020 – October 2021
[60] Murphy and Zhiri (1992), Bosch (1997), Maldonado and De Witte (2020).
[61] Myanmar COVID-19 Monitoring Platform, Household survey 2020
[62] Ibid
[63] Marie-Helene Cloutier, Joao Pedro Azevedo, Diana Goldemberg (2020) "EAP country tool for simulating the potential impacts of COVID-19 school closures on schooling and learning outcomes, Version 1". World Bank.

c. Adopt a blended learning approach—combining face-to-face as well as a remote instruction rotating system—with a certain number of days or weeks on site and at home.
d. Communicate openly about the plans for reopening schools and put in place transparent conditions and tools to ensure safe operations of schools.
e. Promote local decision-making to allow, enable and empower schools—in close collaboration with the Township Education Officers and national guidelines—to implement the most appropriate mitigation and prevention measures rather than subscribe to a one-size-fits-all approach.

3. **Beyond safety and health, schools must address the learning needs of children.**
   a. MOE should deliberate extending the school year and compressing the curriculum across all grades in order to compensate for lost schooling.[64] Changes in the start and end date and accelerated learning (and catch-up) programs are could be considered.[65]
   b. After reopening, the first weeks should be dedicated to overcoming the stress for children and teachers of being and learning at home and assessing the learning levels of children and adjusting teaching curriculums accordingly.
   c. Additional measures which will have short-term and longer-term impacts include distance learning materials in ethnic minority languages,[66] increasing engagement with parents to support learning, and rapidly expanding access to tech and low-tech learning modalities to all students.
   d. Ensure vulnerable groups (children in conflict affected areas, refugees, economically marginalized, migrants, and children with disabilities) are specifically targeted for interventions, and that barriers to re-entering schools for these groups are understood and mitigated.

4. **Take advantage of the breadth of education service providers in Myanmar.** There are a multitude of different types of education providers in Myanmar (Private, Ethic Basic Education Providers (EBEPs), civil society, among others) that meaningfully can support the MOE in its efforts to reopen schools and avoiding further disruptions in education delivery. Formalizing community-level and EBEP relationships while establishing consensus and clear policy guidance for service delivery, would be a constructive first step.

[64] In countries surveyed in the World Bank-UINCEF-UNESCO survey, adjustments to the school calendar are reported in more than 50 percent of the countries.
[65] Cambodia started the 2020-21 academic year several weeks earlier than scheduled (in September) and Vietnam extended the 2019-20 having it end in mid-July instead of the regular end date in late May.
[66] As in Vietnam.

Annex 1: Medium-Term Outlook (Baseline scenario)

	2016/17	2017/18	2018/19	2019/20e	2020/2021f	2021/2022f
Economic growth and prices						
Real GDP (kyat billion)	78,483	83,510	89,147	90,630	92,464	99,867
Agriculture	19,549	19,562	19,872	20,106	20,053	20,764
Industry	27,361	29,639	32,126	32,534	33,427	35,771
Services	31,573	34,309	37,149	37,990	38,984	43,333
CPI (percent change, yoy)	3.4%	8.6%	9.5%	2%	N/A	N/A
Consolidated public sector (kyat billion)						
Revenue	14,505	15,363	18,271	22,379	20,742	24,684
o/w Tax	5,677	6,004	6,843	7,071	7,172	8,619
o/w Non-Tax (including Grants)	8,828	9,359	11,428	15,307	13,571	16,065
Expenditure	16,671	18,025	22,135	30,433	30,677	33,678
Recurrent	12,776	14,016	16,903	22,648	23,282	25,045
Capital	3,895	4,009	5,232	7,786	7,395	8,633
Monetary (kyat billion)						
Broad Money (M2)	45,937	54,477	62.883	72,315	83,163	95,637
Reserve Money	16,562	17,327	19,290	20,833	22,500	24,300
Balance of Payments (US$ million)						
Current account	-3990	-2531	-1,776	N/A	N/A	N/A
Trade balance	-5829	-4379	-2,219	N/A	N/A	N/A
Exports	9,466	11,218	N/A	N/A	N/A	N/A
Imports	15,295	15,597	N/A	N/A	N/A	N/A
Economic growth and prices (percent change)						
Real GDP (2015/16 base year)	5.8%	6.4%	6.8%	1.7%	2.0%	8.0%
Agriculture	-1.5%	0.1%	1.6%	1.2%	-0.3%	3.5%
Industry	8.7%	8.3%	8.4%	1.3%	2.7%	7.0%
Services	8.1%	8.7%	8.3%	2.3%	2.6%	11.2%
CPI (percent change, average)	4.7%	5.9%	8.6%	6.4%	6.0%	7.0%
Consolidated public sector (percent of GDP)						
Revenue	17.5%	16.6%	17.3%	19.6%	16.8%	17.3%
o/w Tax	6.9%	6.5%	6.5%	6.2%	5.8%	6.0%
o/w Non-Tax	10.7%	10.1%	10.8%	13.4%	11.0%	11.3%
Expenditure	20.2%	19.4%	21.0%	26.7%	24.9%	23.6%
Recurrent	15.4%	15.1%	16.0%	19.9%	18.9%	17.6%
Capital	4.7%	4.3%	5.0%	6.8%	6.0%	6.1%
Monetary (percent change)						
Broad Money (M2)	21.4%	18.6%	15.4%	15.0%	15.0%	15.0%
Reserve Money	8.0%	4.6%	11.3%	8.0%	8.0%	8.0%
Balance of Payments (percent of GDP)						
Current account	-6.5%	-4.2%	-2.6%	4.5%	4.5%	4.0%
Trade balance	-7.5%	-5.2%	-3.2%	N/A	N/A	N/A
Exports	15.4%	16.7%	15.3%	N/A	N/A	N/A
Imports	24.9%	23.2%	19.6%	N/A	N/A	N/A

Sources: MOPF, CBM, MOC, IMF BOP Statistics, CSO, WB Staff estimates. Use 2015/16 as new base year from 2018/19.

Annex 2: Gross Domestic Product

	2016/17	2017/18	2018/19	2019/20
GDP production (Current, Kyat million)	82,700,023	92,788,955	105,441,780	114,055,380
Agriculture	20,606,881	21,344,044	23,504,637	25,302,978
Industry	29,333,003	34,093,232	37,997,930	40,943,225
Services	32,760,138	37,351,678	43,939,212	47,809,177
GDP production (2010/11 prices, Kyat mil)	78,483,199	83,510,030	89,147,341	90,629,549
Agriculture	19,548,623	19,562,189	19,872,350	20,106,000
Industry	27,361,166	29,639,296	32,125,923	32,533,897
Services	31,573,409	34,308,544	37,149,069	37,989,652
Real GDP growth (%)	5.8%	6.4%	6.8%	1.7%
Agriculture	-1.5%	0.1%	1.6%	1.2%
Industry	8.7%	8.3%	8.4%	1.3%
Services	8.1%	8.7%	8.3%	2.3%
GDP production (2010/11 prices, % share)				
Agriculture	24.9%	23.4%	22.3%	22.2%
Industry	34.9%	35.5%	36.0%	35.9%
Services	40.2%	41.1%	41.7%	41.9%

Source: MOPF

Annex 3: Consumer Price Index

	2016/17	2017/18	2018/19	2019/20 August
CPI (All items, yoy % change)	3.4%	8.6%	9.5%	1.8%
CPI (Food and non-alcohol. bev., yoy % change)	2.5%	8.6%	8.8%	0.7%
CPI (Non-food, yoy % change)	5.0%	8.7%	10.8%	1.2%
Alcoholic beverages, tobacco	3.4%	7.2%	8.5%	0.1%
Clothing and footwear	1.4%	3.6%	4.9%	0.2%
Housing, water, electricity, gas and other fuels	3.4%	9.0%	31.4%	0.8%
Furnishings, household equip and routine hh maintenance	2.6%	4.5%	7.8%	0.2%
Health	4.2%	6.1%	8.1%	0.3%
Transport	11.7%	15.7%	-0.1%	-0.9%
Communication	8.9%	-0.6%	-0.7%	0.0%
Recreation and culture	0.9%	2.6%	12.1%	0.0%
Education	0.3%	8.7%	4.1%	0.1%
Restaurants and hotels	4.3%	8.6%	4.7%	1.2%
Miscellaneous goods and services	4.3%	6.3%	11.6%	0.5%
CPI (All items, annual average % change)	4.7%	5.9%	8.6%	7.5%
CPI (Food and non-alcohol. bev., annual average, % change)	4.9%	7.0%	9.2%	N/A
CPI (Non-food, annual average, % change)	4.4%	2.3%	7.7%	N/A
Alcoholic beverages, tobacco	1.9%	11.5%	0.4%	N/A
Clothing and footwear	2.5%	1.3%	4.9%	N/A
Housing, water, electricity, gas and other fuels	5.6%	5.6%	12.9%	N/A
Furnishings, household equip and routine and hh maintenance	1.9%	0.8%	7.6%	N/A
Health	4.4%	5.9%	8.2%	N/A
Transport	7.6%	0.2%	6.9%	N/A
Communication	0.5%	0.01%	-0.8%	N/A
Recreation and culture	2.0%	0.3%	8.0%	N/A
Education	2.4%	4.3%	7.1%	N/A
Restaurants and hotels	2.8%	-0.04%	5.3%	N/A
Miscellaneous goods and services	5.3%	-0.5%	9.9%	N/A

Source*:* Central Statistical Organization

Annex 4: Balance of Payments (US$ million)

	2015/16	2016/17	2017/18	2018/19
Current account	-2430	-4,164	-3,144	-1,776
Trade balance	-3858	-4,644	-3,471	-2,219
Merchandise Exports	9103	9,475	11,226	10,463
Merchandise Imports	12961	15,291	15,587	13,440
Services balance	1206	1,173	890	759
Primary income balance	-1817	-1,650	-1,960	-2,042
Secondary income balance	2040	2,129	2,288	2,484
Capital account	0	1	1	0
Financial account	-3811	-5,190	-3,952	-2,804
Direct Investment	-3110	-3,563	-3,230	-2,131
Portfolio Investment	-8	5	-2	-30
Other Investment	-693	-1,631	-721	-642
Net Errors & Omissions	-1462	-719	-488	-822
Overall balance	1381	307	320	205
Reserve Assets	-81	228	189	N/A
	Balance of Payments (% of GDP)			
Current account	-4.0%	**-6.5%**	**-4.2%**	-2.6%
Trade balance	-6.4%	-7.5%	-5.2%	-3.2%
Exports	15.4%	15.4%	16.7%	15.3%
Imports	21.5%	24.9%	23.2%	19.6%
Services balance	2.0%	1.9%	1.3%	1.1%
Primary income balance	-3.0%	-2.7%	-2.9%	3.0%
Secondary income balance	3.4%	3.5%	3.4%	3.6%
Capital account	0.0%	0.0%	0.0%	N/A
Financial account	-6.3%	-8.4%	-5.9%	4.1%
Direct Investment	-5.2%	-5.8%	-4.8%	-3.1%
Portfolio Investment	0.0%	0.0%	0.0%	0.0%
Other Investment	-1.1%	-2.7%	-1.1%	0.9%
Net Errors & Omissions	-2.4%	-1.2%	-0.7%	-1.2%
Overall balance	2.3%	0.5%	0.5%	0.3%
Reserve Assets	-0.1%	0.4%	0.3%	N/A

Sources: IMF Balance of Payments Statistics, CBM, WB staff estimates

Annex 5: Monetary Survey

Monetary Survey (kyat billion)	2015/16	2016/17	2017/18	2018/19
Assets				
Net Foreign Assets	9,242.90	8,908.24	10,840.88	11,352.58
CBM (net)	6,021.84	6,518.82	8,009.66	8,113.08
DMB (net)	3,221.06	2,389.41	2,831.22	3,239.50
Net Domestic Assets	28,588.14	37,029.61	43,639.50	51,530.71
Net Claims on Government	12,362.55	14,345.60	18,561.68	22,167.10
CBM	11,944.25	13,098.94	13,662.12	15,133.57
DMB	418.30	1,246.66	4,899.56	7,033.52
Credit to the economy	17,349.25	21,978.22	25,519.25	29,593.88
Private sector	16,115.05	20,569.85	24,919.43	28,926.25
Other	1,234.20	1,408.38	599.82	667.64
Other items (net)	(1,123.67)	705.79	(441.43)	(230.27)
Liabilities				-
Broad money (M2)	37,831.04	45,937.84	54,477.29	62,883.30
Central Bank of Myanmar Balance Sheet (kyat billion)				
CBM Assets (kyat billion)				-
Net Foreign Assets	6,021.84	6,518.82	8,009.66	8,113.08
Net Claims on Central Government	11,944.25	13,098.94	13,662.12	15,133.57
Net Claims on Commercial Banks	645.27	699.04	801.17	836.26
Claims on Other Sectors	0	0)	0	0
Shares and Other Equity	(2,655.13)	(3,345.09)	(4,354.02)	(4,638.18)
Other Items (Net)	91.32	42.41	(394.90)	(37.00)
CBM Liabilities (kyat billion)				
Monetary Base	15,329.30	16,562.12	17,327.03	19,290.73
Currency in Circulation	11,349.08	12,227.29	13,652.30	15,490.79
Liabilities to Other Depository Corporations	3,980.15	4,334.72	3,674.58	3,799.78

Source: Central Bank of Myanmar

Annex 6 a: Fiscal operations (kyat billion)

Based on Analytical Method and WB macroeconomic projections

	2016/17	2017/18	2018/19	2019/20	2020/21
	PA	**PA**	**PA**	**RE**	**BE**
Consolidated Public Sector					
Revenue	**14,505**	**15,363**	**18,271**	**22,379**	**20,742**
Expenditure	**16,671**	**18,025**	**22,135**	**30,433**	**30,677**
Balance	**(2,166)**	**(2,662)**	**(3,864)**	**(8,055)**	**(9,935)**
SEE Operations					
Revenue	**7,262**	**7,505**	**9,370**	**11,630**	**11,310**
Net of transfers to UG	5,634	6,124	7,699	9,851	9,037
Expenditure	**5,348**	**5,911**	**7,401**	**11,731**	**10,318**
Recurrent	6,263	6,543	8,128	11,821	10,719
Net of transfers to UG	4,635	5,161	6,457	10,042	8,447
Capital	714	749	943	1,690	1,872
SEE Balance	**1,914**	**1,595**	**299**	**(1,880)**	**(1,281)**
Union Government					
Revenue	**8,871**	**9,239**	**10,572**	**12,528**	**11,705**
Tax	5,677	6,004	6,843	7,071	7,172
o/w Income	2,324	2,264	2,692	2,747	2,754
o/w Commercial	1,878	1,975	2,257	2,231	2,202
Non-Tax	2,842	3,015	3,319	4,686	3,672
Grants	351	220	410	770	861
Expenditure	**11,322**	**12,115**	**14,734**	**18,702**	**20,358**
Recurrent	8,141	8,854	10,446	12,606	14,835
Wages	1,716	1,821	2,221	2,314	2,371
Transfers	1,964	1,889	2,211	2,522	4,299
Interest	925	1,189	1,484	2,400	2,350
Other	3,536	3,956	4,530	5,370	5,816
Capital	3,182	3,260	4,289	6,096	5,523
Union Government Balance	**(2,452)**	**(2,876)**	**(4,162)**	**(6,175)**	**(8,653)**

Sources: MOPFI, WB staff estimates

Note: Due to data availability, the fiscal section annex uses October-September FY standard from 2018/19.

Annex 6 b: Fiscal operations (percent of GDP)

Based on Analytical Method and WB macroeconomic projections

	2016/17	2017/18	2018/19	2019/20	2020/21
	PA	PA	PA	RE	BE
Consolidated Public Sector					
Revenue	**17.5%**	**16.6%**	**17.3%**	**19.6%**	**16.8%**
Expenditure	**20.2%**	**19.4%**	**21.0%**	**26.7%**	**24.9%**
Recurrent	15.4%	15.1%	16.0%	19.9%	18.9%
o/w Interest	1.3%	1.5%	1.6%	2.2%	2.0%
Capital	4.7%	4.3%	5.0%	6.8%	6.0%
Balance	**-2.6%**	**-2.9%**	**-3.7%**	**-7.1%**	**-8.1%**
SEE Operations					
Revenue	**8.8%**	**8.1%**	**8.9%**	**10.2%**	**9.2%**
Net of transfers to UG	6.8%	6.6%	7.3%	8.6%	7.3%
Expenditure	**6.5%**	**6.4%**	**7.0%**	**10.3%**	**8.4%**
Recurrent	7.6%	7.1%	7.7%	10.4%	8.7%
Net of transfers to UG	5.6%	5.6%	6.1%	8.8%	6.8%
Capital	0.9%	0.8%	0.9%	1.5%	1.5%
SEE Balance	**2.3%**	**1.7%**	**0.3%**	**-1.6%**	**-1.0%**
Union Government					
Revenue	**10.7%**	**10.0%**	**10.0%**	**11.0%**	**9.5%**
Tax	6.9%	6.5%	6.5%	6.2%	5.8%
o/w Income	2.8%	2.4%	2.6%	2.4%	2.2%
o/w Commercial	2.3%	2.1%	2.1%	2.0%	1.8%
Non-Tax	3.4%	3.2%	3.1%	4.1%	3.0%
Grants	0.4%	0.2%	0.4%	0.7%	0.7%
Expenditure	**13.7%**	**13.1%**	**14.0%**	**16.4%**	**16.5%**
Recurrent	9.8%	9.5%	9.9%	11.1%	12.0%
Wages	2.1%	2.0%	2.1%	2.0%	1.9%
Transfers	2.4%	2.0%	2.1%	2.2%	3.5%
Interest	1.1%	1.3%	1.4%	2.1%	1.9%
Other	4.3%	4.3%	4.3%	4.7%	4.7%
Capital	3.8%	3.5%	4.1%	5.3%	4.5%
Union Government Balance	**-3.0%**	**-3.1%**	**-3.9%**	**-5.4%**	**-7.0%**

Sources: MOPF, WB staff estimates

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

	2016/17	2017/18	2018/19	2019/20	2020/21
	PA	**PA**	**PA**	**RE**	**BE**
Total Expenditure	**20.2%**	**19.4%**	**21.0%**	**26.7%**	**24.9%**
Ministries	**11.6%**	**11.3%**	**12.0%**	**14.2%**	**14.3%**
Defense	3.6%	3.4%	3.3%	3.1%	2.8%
Agriculture	1.2%	0.8%	0.8%	0.9%	0.7%
Energy	0.3%	0.4%	0.5%	0.7%	0.5%
Education	1.9%	1.8%	2.0%	2.5%	2.3%
Health	0.9%	0.9%	0.9%	1.1%	1.2%
Social Welfare	0.0%	0.1%	0.1%	0.1%	0.1%
MOPFI	1.5%	1.8%	1.9%	2.7%	3.7%
Other Ministries	2.2%	2.1%	2.5%	3.1%	3.0%
SEEs	**6.5%**	**6.4%**	**7.0%**	**10.3%**	**8.4%**
SAOs	**0.1%**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
Other	**2.1%**	**1.7%**	**1.9%**	**2.1%**	**2.1%**

Sources: MOPF, WB staff estimates