

MYANMAR  
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**PROGRESS THREATENED;  
RESILIENCE TESTED**



# MYANMAR ECONOMIC MONITOR

## PROGRESS THREATENED; RESILIENCE TESTED

July 2021



## Preface and Acknowledgements

The Myanmar Economic Monitor (MEM) is published semiannually and is a product of the World Bank's Myanmar office. This edition was prepared by a team led by Kim Alan Edwards (Senior Economist) and included Faya Hayati (Senior Economist), Thi Da Myint (Country Economist), Thanapat Reungsri (Economist), Hans Anand Beck (Lead Country Economist), and Aka Kyaw Min Maw (Consultant). It was developed under the guidance of Sebastian Eckhardt (Acting Practice Manager, Macroeconomics, Trade, and Investment) and Mariam J. Sherman (Country Director).

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## Abbreviations

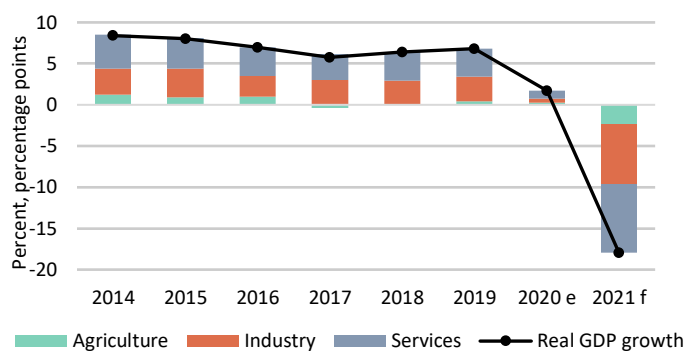
CBM	Central Bank of Myanmar
CDM	civil disobedience movement
CERP	COVID-19 Economic Relief Plan
CIT	Corporate Income Tax
CMP	Cut-Make-Pack
COVAX	COVID-19 Vaccines Global Access
CPI	Consumer Price Index
CT	Commercial Tax
DICA	Directorate of Investment and Company Administration
EAO	Ethnic Armed Organization
FDI	foreign direct investment
Fintech	Financial Technology
FY	Fiscal year
GDP	Gross Domestic Product
HCI	Human Capital Index
HFS	High-frequency survey
IFPRI	International Food Policy Research Institute
IOM	International Organization for Migration
LAYS	Learning-Adjusted Years of School
LNG	Liquefied natural gas
MADB	Myanmar Agriculture Development Bank
MCCT	Maternal and Child Cash Transfer
MEB	Myanmar Economic Bank
MEM	Myanmar Economic Monitor
MESC	Mandalay Electric Supply Corporation
MFI	Microfinance Institution
MMK	Myanmar kyat
MFI	Microfinance institution
MGTC	Moattama Gas Transportation Company
MLCS	Myanmar Living Conditions Survey
MOALI	Ministry of Agriculture, Livestock and Irrigation
MLCS	Myanmar Living Conditions Survey
MOE	Ministry of Education
MOEE	Ministry of Electricity and Energy
MOGE	Myanmar Oil and Gas Enterprise
PIT	Personal Income Tax
PMI	Purchasing Managers' Index
SEE	State Economic Enterprise
SGBV	sexual and gender-based violence
SGT	Special Goods Tax
TVET	Technical Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
WFP	World Food Programme
YESC	Yangon Electric Supply Corporation
yoy	year-on-year



## Executive Summary

In February 2021 the military assumed power in Myanmar, setting back the country's democratic transition, and immediately impacting an economy that had already been weakened by COVID-19. The February coup – together with the most recent third wave of the pandemic, which rapidly worsened in June and July – has had significant economic impacts, much larger than those observed after the earlier surge in COVID-19 cases that began in September last year. GDP is projected to fall by 18 percent in FY2021 (year ended September), consistent with a broad-based contraction across all sectors (Figure ES 1). Coming on top of very weak growth in FY2020, this would mean that the economy is around 30 percent smaller in September 2021 than it would have been in the absence of the dual shocks of COVID-19 and coup. Demand has been hit by reduced mobility, lower incomes and employment, logistics and transport constraints, and a reduction in new investment and new orders. Critical health, education, and business services have been disrupted, due in part to the Civil Disobedience Movement (CDM) and associated worker strikes which emerged as a protest against the coup. Liquidity shortages and banking sector disruptions have limited businesses' ability to pay employees and suppliers. Internet access was heavily restricted through the three months to April. Together with ongoing protests and security fears, these shocks have weakened consumption, investment, and trade, and constrained businesses' operations and the supply of labor and inputs.

Figure ES 1: Real GDP growth and contributions to growth by sector



This economic deterioration will be hugely damaging to livelihoods, which for many were already under severe strain. Around one million jobs could be lost, equivalent to 4 to 5 percent of total employment in 2019, and many other workers will experience a decline in their incomes due to reduced hours or wages. This is compounding the welfare challenges faced by the poorest and most vulnerable – including those that were hit hardest by COVID-19 in 2020 – leading to an additional increase in poverty, heightened food security risks, and deeper destitution for those already poor. The share of Myanmar's population living in poverty could more than double by the beginning of 2022, compared to levels before COVID-19 hit. Even in October 2020, around half of all households had reported reducing food or non-food consumption in response to the surge in COVID-19: with savings now drained even further, additional declines in household consumption are expected, with corresponding impacts on nutrition. Human capital gains of the last couple of decades also have the potential to be eroded. Schools were closed throughout the 2020–2021 year, and closed again in July due to the third wave of COVID-19. Questions remain around the timing of re-opening, the attendance rates of teachers and pupils, and the quality of education that will be provided when schools eventually do reopen.

While the initial economic impacts of the coup were extremely severe, in May and June there were early signs that constraints were easing in some areas. Mobility at retail and transport venues improved after the Thingyan holiday in April, and there were reports that factory workers, bank staff, and some public servants had returned to work. Several international apparel buyers resumed placing new orders with garment manufacturers, and

logistics bottlenecks eased. There was also some loosening of restrictions on internet access, with nightly blockages on fixed line broadband connections ending, and some internet applications accessible with mobile data, although only certain online services have been ‘whitelisted’ for use.

Yet overall economic activity remained weak throughout this period. Manufacturing survey data for May and June indicate that output and employment continued to decline from already very low levels (albeit at a slower rate than previous months), while input price pressures grew. All available information suggests that construction activity and employment have remained at very low levels. Farmers have been affected by lower farmgate prices, higher imported input prices, and limited access to credit. Exports in the five months up to and including June 2021 were 18 percent lower than the equivalent period in 2020, while imports were 26 percent lower. In a survey conducted in June, more than three quarters of firms across the country said that the impacts of the coup were worse than what was experienced during 2020 after the second wave of COVID-19. Firms’ confidence about the future is extremely weak, and there is ongoing uncertainty and concern about how the environment for doing business will evolve.

In addition to its direct health impacts, the third wave of COVID-19 is expected to further weaken economic activity in the final (September) quarter of FY2021, and potentially well into FY2022. The current trajectory of case numbers and positivity rates indicates that the recent resurgence in COVID-19 is a severe threat to lives, livelihoods, and the economy. These impacts have the potential to be significantly worse than what was observed in 2020, given the much weaker state of the economy in mid-2021, and the current lack of capacity in the public health system to adequately respond. Stay-at-home measures and precautionary behavior will restrict mobility, further weaken consumption and investment, and result in additional disruptions to businesses’ operations. External trade will also be constrained by recently imposed closures of border crossings.

A lack of liquidity has made it more difficult for individuals and businesses to make and receive payments, and continues to constrain economic activity. Despite bank branch re-openings and several interventions from the Central Bank of Myanmar (CBM), physical currency remains in short supply, at least in part due to a shortage of the raw materials needed to print banknotes. Access to banking services remains limited. Banks are continuing to impose strict withdrawal limits, and long queues at bank branches and ATMs persist. Trust in the formal banking sector appears to have largely diminished, with informal systems and markets emerging to allow customers to access physical kyat currency and make payments.

As at mid-July, the kyat reference rate had depreciated by around 23 percent against the US dollar since the end of January. The CBM has sold US dollars into the market to mitigate downward pressure on the exchange rate and alleviate foreign currency shortages, but reports indicate that US dollars remain difficult to access. At the same time, the exchange rate depreciation, together with trade and logistics constraints (and external factors in some cases), has led to significant price rises for imported goods. Fuel prices are up around 50 percent since the end of January. But weaker demand, particularly for discretionary purchases, is likely to have partly offset these inflationary pressures. Nevertheless, average annual inflation of 6 percent is projected for FY2021, which would be consistent with a significant acceleration in inflation in the second half of the year.

The fiscal position will be further strained by the dual shocks of COVID-19 and coup, which are affecting revenue collection and financing. In recent years fiscal policy has been structurally constrained by low revenue collection, with tax revenues at around 6 percent of GDP among the lowest in the world. With limited deficit financing options, the further reduction in revenues will limit the envelope for spending on critical public services, in an environment where the capacity to spend effectively is also likely to be constrained. Alternatively, a return to reliance on large-scale CBM financing is possible, but this would unwind gains made in recent years to reduce deficit monetization and could potentially have significant impacts on the exchange rate, inflation, and the overall credibility of macroeconomic management.

Amid substantial uncertainty around the magnitude and duration of recent economic shocks, there are large risks associated with these projections. Relatively severe economic impacts already appear to have persisted for

longer than what was assumed even in March, when we projected a 10 percent contraction in GDP in FY21. The third wave of COVID-19 will have substantial additional economic impacts in the September quarter, although the magnitude of these impacts will depend on how the outbreak evolves. In the near term, the outlook will depend on the public health response and the impact of containment measures, the actions of the military authorities, the persistence of the resistance and civil disobedience movements, the political and security situation, and the responses of the private sector and external investors and trading partners.

Over the longer term, recent events have the potential to jeopardize much of the development progress that has been made over the past decade. Through their impact on the fundamental drivers of economic growth – physical capital, human capital, and productivity – the impacts of the dual shocks could persist for many years into the future. Foreign Direct Investment (FDI) commitments have fallen, with implications not only for the capital stock, but also for access to foreign skills and technology, which are critical for the development of local industry. High levels of uncertainty about the future evolution of the economy and economic policy are reducing the incentives to invest. Since February the environment for doing business has worsened considerably, impacting productivity across the economy as scarce resources are allocated toward dealing with supply-side constraints. Lost months of education at school and university are of critical concern, including because of the longer-term implications for the accumulation of human capital and productive capacity. With these fundamental drivers of long-term growth at risk, there are already early signs of increased dependence on extractive and/or illicit activities, and a return to the inward-looking policies that have characterized much of Myanmar’s history. But moves in these directions would unwind much of the progress that has been made over the past decade to open the economy and build a foundation for more inclusive, sustainable growth.

*Table ES 1: FY21 economic projections*

	FY2017	FY2018	FY2019	FY2020 e	FY2021 f
<b>Real GDP growth, at constant factor prices</b>	5.8	6.4	6.8	1.7	-18.0
Agriculture	-1.5	0.1	1.6	1.2	-10.5
Industry	8.7	8.3	8.4	1.3	-20.3
Services	8.3	8.7	8.4	2.3	-19.9
<b>Inflation (Consumer Price Index), year average</b>	4.7	5.9	8.5	5.8	6.0
<b>Current Account Balance (% of GDP)</b>	-6.8	-4.7	-2.8	-3.4	-1.0
<b>Fiscal Balance (% of GDP)</b>	-2.6	-2.9	-3.8	-6.5	-8.5
<b>Public Sector Debt (% of GDP)</b>	38.4	40.3	38.8	40.5	55.2

## I. Recent economic developments

### A. Dual shocks a severe test of resilience

**The assumption of power by the military in February 2021 immediately impacted an economy that had already been weakened by COVID-19.** Beginning in September 2020, the surge in COVID-19 cases and second wave of strict containment measures had already struck Myanmar's economy hard. But the coup is likely to have had a much larger economic impact. Domestic activity and trade have been hit by reduced mobility; protests, security concerns, and worker strikes; and the ongoing disruption of critical business services including banking, logistics, and telecommunications. Taken together, these shocks have weakened domestic demand, and disrupted businesses' operations and the supply of labor and inputs. Margins are under pressure across several industries as input prices rise due to a combination of global factors, kyat depreciation, and trade constraints.

**While there were initial signs that some of these constraints had eased since the end of April, the rapid rise of COVID-19 cases in June and July has magnified public health and economic challenges.** Despite limited testing, the daily numbers of COVID-19 cases and deaths reported in July 2021 have been far higher than at any point since the start of the pandemic (Figure 1a). As of mid-July, cases are continuing to rise sharply across the country. The surge in new confirmed cases (or "third wave") started to be observed from the end of May 2021, initially in areas near the border with India. Between June 1 and July 19 more than 91,000 new confirmed cases have been reported. The seven-day average has increased from approximately 100 cases/day at the beginning of June to approximately 5,300/day during the third week of July. With daily testing capacity at 14,000 tests/day (as of July 19, 2021; Figure 1b), the positivity rate has reached as high as 37 percent (Figure 1c), suggesting wide-spread community transmission. Moreover, the geographic spread is broad. As at mid-July, COVID-19 infections had spread to 296 out of 330 townships.

Figure 1a: Reported new cases of COVID-19 per day

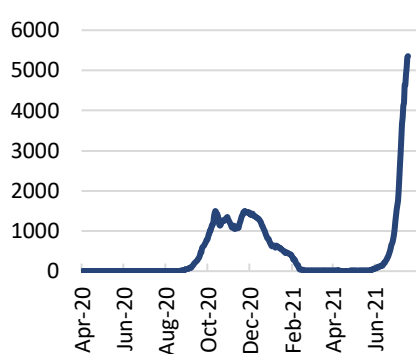


Figure 1b: COVID-19 tests per day

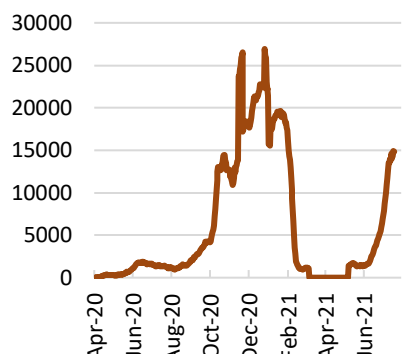
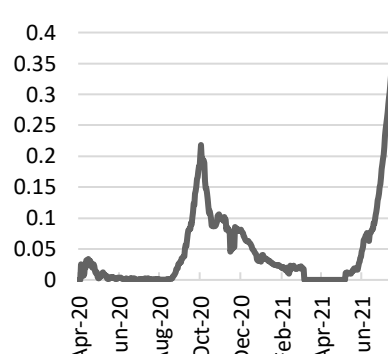


Figure 1c: COVID-19 positivity rate



Note: 7 day moving averages, data to 15 July 2021. Reported cases were low between February and April 2021 due to very limited testing.  
Source: <https://ourworldindata.org/>

**Large numbers of COVID-19 patients are not able to access adequate treatment.** The sharp increase in COVID-19 infections has come at a point when the capacity of the health system to provide treatment services is highly constrained. Many health facilities are operating at full capacity with insufficient beds, human resources, and critical inputs such as oxygen. It is estimated that the public sector health workforce has declined by more than 50 percent due to participation in the Civil Disobedience Movement (CDM). At the same time,

military hospitals are also short of doctors, critical inputs and medicine, and have limited service delivery to military personnel and family members.<sup>1</sup>

**A shortage of lifesaving medical supplies in the country, coupled with price hikes due to the limited supply and surge in needs, have exacerbated the health impacts of the current outbreak.** Increased demand for medical supplies, consumables and devices, combined with border closures with China and Thailand, has caused the price of essential items such as face masks and PPE to increase substantially. Oxygen and related equipment such as oxygen concentrators and tanks have become extremely scarce in the market and suppliers are struggling to meet rising demand.<sup>2</sup> The price of oxygen concentrators has reportedly tripled in certain places where available.

**Myanmar's COVID-19 vaccination deployment has stalled for months due to several factors, making containment of the outbreak more difficult.** 3.5 million doses arrived in January 2021 from the Serum Institute of India and were deployed to priority population groups. But while procurement efforts are ongoing, there is currently no vaccine stock in country to continue rollout to the population. In July, the global COVAX Facility<sup>3</sup> approved an initial allocation to Myanmar, with potential additional allocations in the coming months. Until this recent allocation, Myanmar had not received any vaccine allocations through the facility, due to the political instability and capacity constraints in the country. In addition to the challenges in procuring vaccines, other challenges include insufficient human resources necessary for any large vaccination rollout program, and vaccine hesitancy among the population due to current lack of trust in public health institutions.

**Some containment measures have already been announced, and are likely to be extended given the trajectory of case numbers and deaths.** On July 8, it was announced that all schools (public and private) will be closed until July 23, 2021 due to the surge in COVID cases. As of July 21, 86 townships are under stay-at-home orders.<sup>4</sup> On July 14, it was announced that all the government offices will be closed, coinciding with public holidays in the month of July, for 9 days starting from July 17.<sup>5</sup> Stay-at-home measures and precautionary behavior will restrict mobility, further weaken consumption and investment, and lead to additional disruptions to businesses' operations and the supply of labor and inputs, compounding the impacts of the first two waves and the coup. External trade will also be constrained by the closure of border crossings that have been imposed by neighboring countries.

## B. Impacts on economic activity and prices

Economic activity in the services sector has been affected by a combination of demand- and supply-side constraints.

**The service sector is likely to contract sharply in FY21.** Like other sectors, the largest service industries in Myanmar - retail and wholesale trade and transport, have been hit by a combination of supply- and demand-side impacts from the dual shocks of COVID-19 and coup. These industries together have accounted for just under a third of economic activity in Myanmar in recent years, and just over a third of non-agricultural employment. The contraction in these labor-intensive industries is therefore having a severe impact on livelihoods as well as overall economic activity. While other services such as telecommunications, finance, and health and education make a relatively smaller direct contribution to GDP and employment, they have also been severely disrupted, with significant implications for other sectors that depend on these services, as well as the broader economic and development outlook.

---

<sup>1</sup> The Irrawaddy, July 8, 2021. "[Myanmar Hospitals Run Out of Beds Amid COVID-19 Surge](#)".

<sup>2</sup> Eleven Media, July 10, 2021. "[Mandalay faces oxygen shortage](#)".

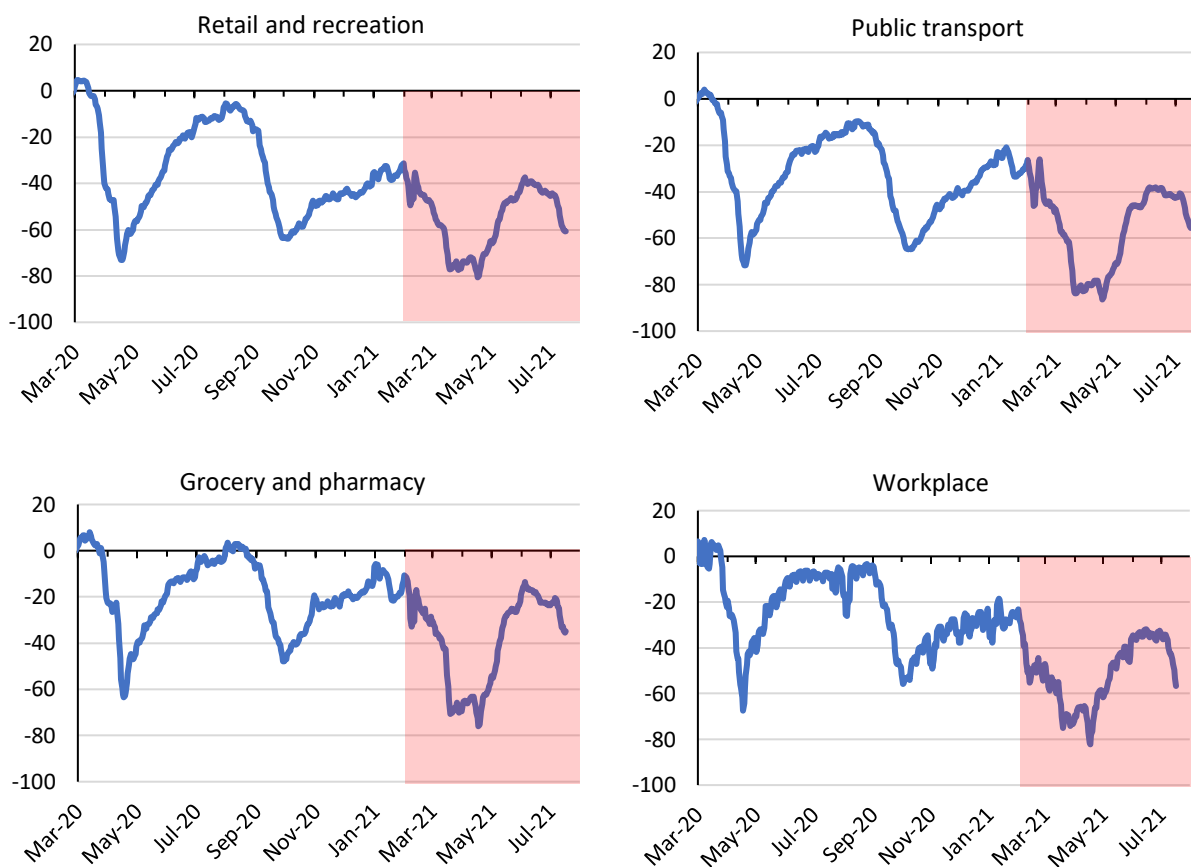
<sup>3</sup> The COVAX Facility is a global risk-sharing mechanism for pooled procurement and equitable distribution of COVID-19 vaccines.

<sup>4</sup> [Ministry of Health and Sports Stay-at-Home Order Announcement](#)

<sup>5</sup> Popular News Journal, July 14, 2021. "[Closure of Government Offices for 9 Days](#)".

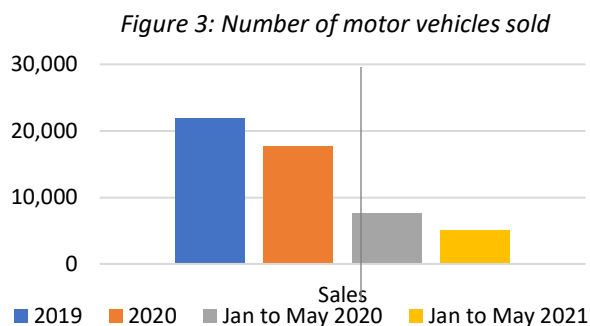
**Retail and wholesale trade have been affected by reduced mobility and demand, disruptions to key business services, and protests and security concerns.** There was a pronounced decline in mobility to retail and recreation outlets, groceries, and pharmacies between February and April 2021, following the large dip in response to the second wave of COVID-19 in September and October 2020 (Figure 2).<sup>6</sup> Despite a subsequent recovery, mobility to retail and recreation outlets remained around 45 percent below pre-COVID levels as at the end of June, and has fallen again in July due to the third wave. Employment and income losses have been reflected in lower discretionary spending, with automobile sales between January and May down by around a third from the previous year (Figure 3). Like other sectors, retailers and wholesalers have also been affected by banking disruptions, which have limited their ability to make and receive payments, including to employees. Logistics constraints and kyat depreciation have raised the cost of imported stock and put pressure on margins. In the period from February to April a significant proportion of retail outlets, including larger shopping malls, were closed or operated for reduced hours in response to the ongoing protests and security concerns. Night-time curfew restrictions led market vendors and shops to open late and close early, reducing their income-earning capacity.

Figure 2: Daily mobility (percent change from 3 January - 6 February 2020 baseline)



Note: Five day moving average, last data point is 16 July 2021  
 Source: Google COVID-19 Community Mobility Reports

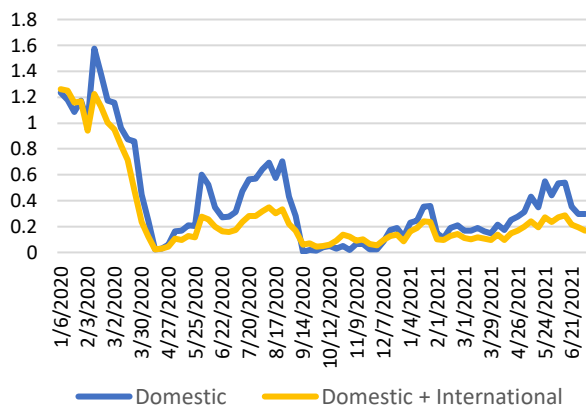
<sup>6</sup> Controlling for data issues, it may be the case that both the decline in mobility in mid-March and the rebound in May were less pronounced than the published data suggest. Mobile data blockages imposed in mid-March are likely to explain at least part of the steep decline in mobility recorded at that time. Reports suggest that mobile data coverage improved in May, which may partially explain the steepness of the recovery in the published mobility indicators.



Source: ASEAN Automotive Association

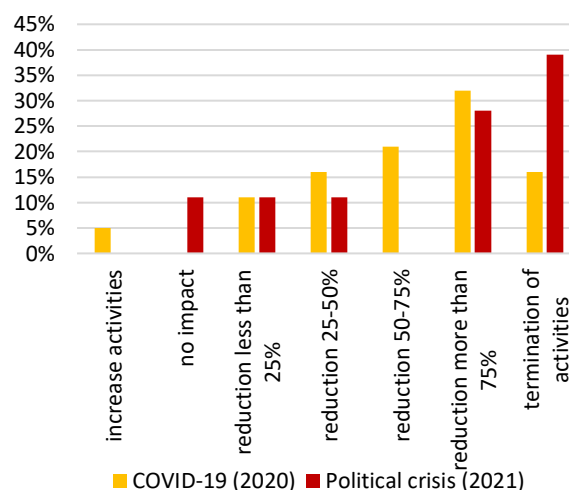
**International and domestic passenger movements have fallen due to the combined impacts of COVID-19 and the coup, with substantial implications for tourism-dependent businesses.** In 2019, with an annual total of 4.4 million visitors, tourism generated 14 percent of Myanmar’s total export revenues, and the tourism and hospitality sector employed over half a million people. But international tourism effectively ceased with the suspension of international commercial flights to Myanmar since March 2020. Domestic passenger flights remain very low compared with pre-COVID levels (Figure 4). In February and March 2021, a survey of businesses operating in Myanmar found that 39 percent of hospitality and tourism businesses had terminated their activities between February and early April 2021, compared with the 16 percent of businesses that terminated in 2020 in response to COVID-19 (Figure 5).<sup>7</sup> As of mid-July, mobility at transport hubs was about 30 percentage points lower than end-January levels, and almost 60 percent below pre-COVID-19 baselines.

**Figure 4: Passenger flight transport (2019 = 1)**



Source: Flightradar 24

**Figure 5: Impact of recent shocks on hospitality and tourism activity (% of surveyed businesses)**



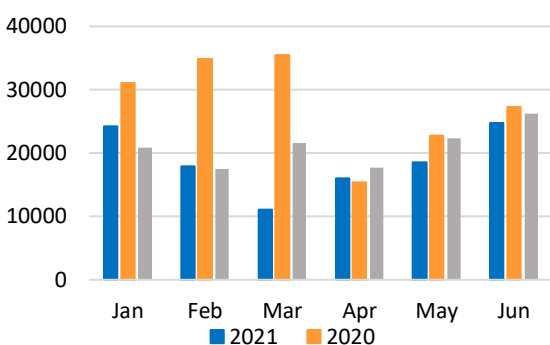
Source: Joint survey on the impact of businesses operating in Myanmar (April 2021), conducted by foreign chambers of commerce in Myanmar

**The transport and logistics sector has been affected by strikes, protest activity, and increased fuel costs, with significant implications for domestic and international trade.** As of mid-July, fuel prices were up around 50 percent since the end of January. CDM-related disruptions to trucking services also increased the costs of transporting goods around the country in February and March, and led to build-ups of imported cargo

<sup>7</sup> Joint survey on the impact of businesses operating in Myanmar (April 2021), conducted by foreign chambers of commerce in Myanmar.

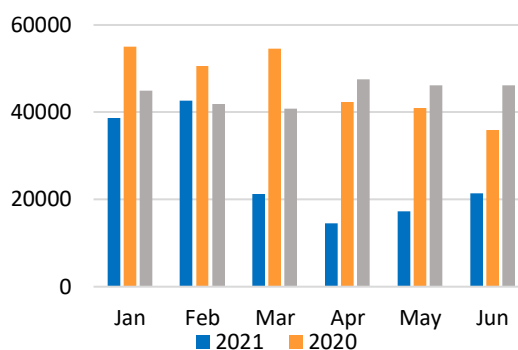
at the docks. Shipping vessels were more likely to leave Yangon and Thilawa Ports without cargo or only partially laden, and several shipping lines suspended calls to Myanmar in response. In addition, there were long delays at Yangon ports due to a breakdown in custom clearances processes. In late February and early March, shipping providers based in Yangon reported being affected by higher fuel prices, difficulties accessing cash, and worse conditions (than in January) for customer demand, ease of doing business, shipping costs and times, and access to drivers and vehicles.<sup>8</sup> This has been reflected by substantial reductions in the movement of both export and import containers (Figure 6a and Figure 6b). While exports via container appear to have recovered since March, imports via container have remained at very low levels. Container prices have risen by 2 to 3 times since January, due to a global shortage of containers and due to the decline in imports via container, which has exacerbated local container shortages. Nevertheless, since April truck drivers have returned to work, trucking prices have stabilized, port and custom clearance processes have normalized, and a simplification of customs clearance requirements has reduced backlogs in moving containers through the port.

Figure 6a: Exported Laden Containers (Twenty-Foot Equivalent Units/TEUs)



Source: Shipping operators

Figure 6b: Imported Laden Containers (TEUs)



Source: Shipping operators

**Internet restrictions have had severe impacts on internet-dependent businesses and services, while directly affecting activity in the telecommunication sector.** In recent years, telecommunication growth has been strong, with 23.7 million internet users and a 43.3 percent internet penetration rate as of January 2021 (Figure 7). In response to COVID-19 restrictions imposed in 2020, approximately 38 percent of firms adopted an online platform, with a 73 percent (yoy) increase in e-commerce payments providing support to wholesale and retail activity despite limited physical movement.<sup>9</sup> However, through the period from February to April, a nightly ban on fixed-line and fiber internet services was imposed, mobile data and wireless broadband networks were cut, and social media access was heavily restricted. As a result, businesses were forced to turn away from digital platforms (Figure 8). E-commerce activities and sales by online delivery businesses have reportedly declined substantially, while internet-dependent financial services were also adversely affected.

**From late April onwards, some internet services have been restored.** The night-time internet ban ended in April and the military authorities subsequently ‘whitelisted’ certain applications (including banking, business, communications, and some delivery services and entertainment sites). But ongoing restrictions on access are proving challenging for many businesses, and uncertainty about future disruptions continue to affect confidence and activity. In June, the Telenor group – a large international telecommunications company – fully wrote down its Myanmar operations<sup>10</sup>, noting limited prospects of improvement going forward, and subsequently announced the divestment of its business.

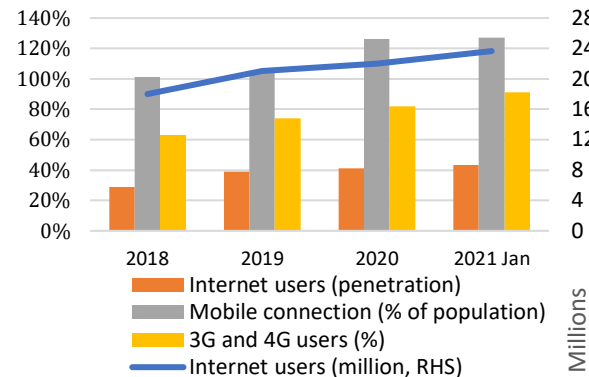
<sup>8</sup> Based on a survey of shipping providers in Rakhine State and Yangon by the Mercy Corps Market Analysis Unit.

<sup>9</sup> Myanmar COVID-19 Monitoring Platform firm survey.

<sup>10</sup> Nikkei Asia, May 4, 2021. “[Norway's Telenor fully writes off Myanmar unit for \\$782m](#)”.

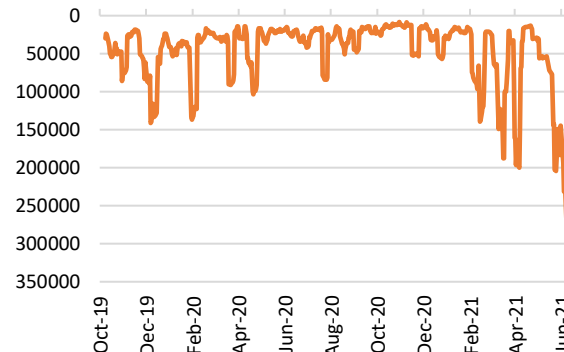


Figure 7: Digital growth in Myanmar (percent of population)



Source: Social Hootsuite

Figure 8: Alexa internet traffic ranking for shop.com.mm



Source: <https://siterankdata.com/shop.com.mm>

**COVID-19 containment measures and labor shortages have disrupted the provision of public services, as well as some privately provided services.** The CDM and associated worker strikes continue to disrupt government functions, including the delivery of health and education services, while the banking sector has also been affected. While health and education services make only a relatively modest direct contribution to economic activity (about 4 percent of total output), they are critical in terms of the well-being and human capital of the overall population. In February and March, almost a third of public hospitals were closed, crippling the country's COVID-19 treatment and vaccination programs. Schools were closed for the entirety of the 2020-21 school year, while those schools and universities that reopened in June were hit by high rates of non-attendance of both teachers and students. Schools have subsequently been closed again due to the third wave of COVID-19. The authorities have suspended or dismissed large numbers of civil servants who have been participating in the CDM, raising concerns about the capacity of the public sector to deliver these services in the period ahead.

Output and employment in the manufacturing industry have contracted significantly since February, and input price pressures are substantial.

**Manufacturing business conditions have worsened since February, from levels that were already weak due to COVID-19 impacts in 2020.** The manufacturing Purchasing Managers' Index (PMI) indicates that output and employment have contracted every month between August 2020 and June 2021, due initially to the surge in COVID-19 cases which began in September 2020, with the declines then worsening sharply due to the coup. The headline index fell from 47.8 in January to 27.7 in February (the sharpest decline recorded by the series to date), and remained at very low levels in March (Figure 9). This signaled a severe worsening in manufacturing business conditions from already very weak levels, with indicators for output and new orders falling to record lows amid factory closures and weakening demand, both domestically and from abroad. Almost three in four respondents noted a decline in new orders. Several international fashion retailers announced the suspension of new orders from Myanmar, with substantial implications for Myanmar's exports, of which garments and footwear account for over a third. Between January and May 2021, motor vehicle production fell by 77 percent compared to the same period in 2020 (Figure 10). Employment has also been hard hit. In March and April, thousands of migrant factory workers left Yangon and returned to their hometowns amid security concerns, factory closures, and cuts to hours and wages due to weak demand.

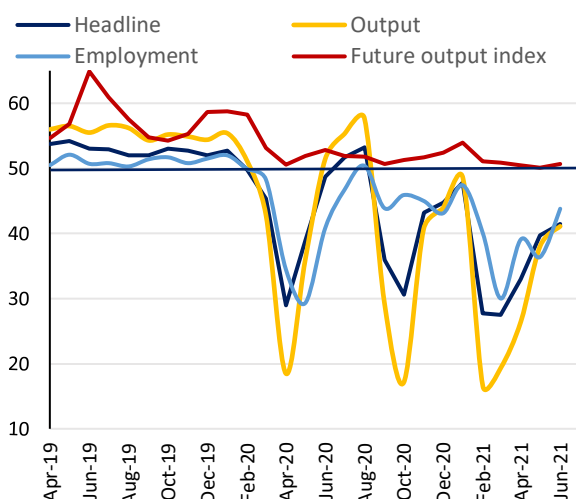
**The PMI shows that output and new orders continued to contract in May and June, albeit more slowly than in previous months.** Production continues to be affected by a combination of subdued demand, factory closures, material shortages, internet outages, and cash shortages. According to surveyed firms, some were able to resume their operations and saw returning customer demand. But firms found it difficult to hire skilled

replacements leading to a record accumulation in backlogs. The third wave of COVID-19 is likely to be constraining factory operations further, exacerbating staffing and logistics constraints.

**At the same time, reports indicate that workers have returned to factories since late April, and there have been some signs of recovery in new orders.** Reports suggest that many of those leaving Yangon in March returned after the Thingyan holiday, driven to return by a lack of jobs in the villages, an increased sense of stability in Hlaing Tharyar (the major garment producing district in Yangon), and in some cases ultimatums from factory managers to resume work or be fired/lose pay. In May it was reported that garment factories restarting operations had observed high attendance rates averaging 85 percent.<sup>11</sup> Several international clothing companies resumed placing orders with suppliers in Myanmar, although other retailers that had suspended new orders reported intentions to shift to other suppliers in the region such as Bangladesh, Cambodia and China.<sup>12</sup>

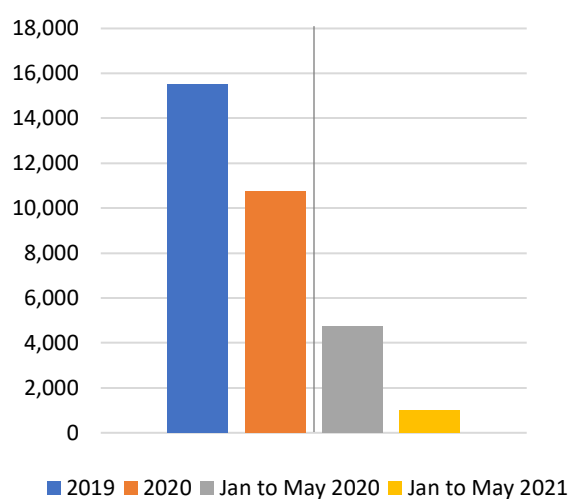
**Meanwhile, manufacturing businesses are facing significant input price pressures.** The input price index rose to its highest level since late 2018 in May (with only a small decline in June), due to the depreciation of the kyat, higher fuel costs, and material shortages (Figure 11). Firms reported passing on higher expenses by raising selling prices at a record rate, with this pass-through to consumer prices potentially raising broader inflationary risks. This contrasted with previous months, during which weak overall demand meant firms were only able to pass through part of the increase in material costs in their selling prices.

Figure 9: Manufacturing PMI



Source: IHS Markit and Nikkei

Figure 10: Number of motor vehicles produced

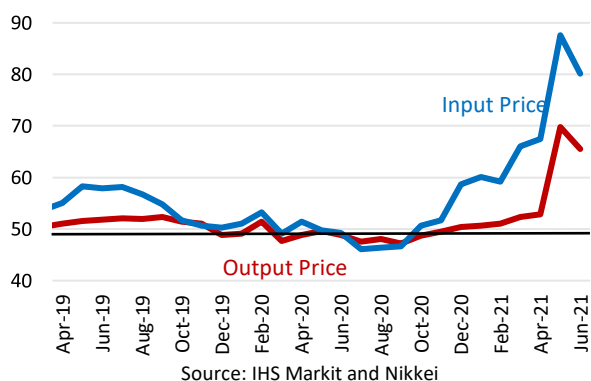


Source: ASEAN Automotive Federation

<sup>11</sup> Eurocham Myanmar, May 2021. [“The Garment Industry in Myanmar: Status Update and Current Dilemmas: Should We Stay or Should We Go?”](#)

<sup>12</sup> Financial Times, May 21, 2021. [“H&M and Primark resume Myanmar orders for first time since coup”](#).

Figure 11: PMI input and output prices

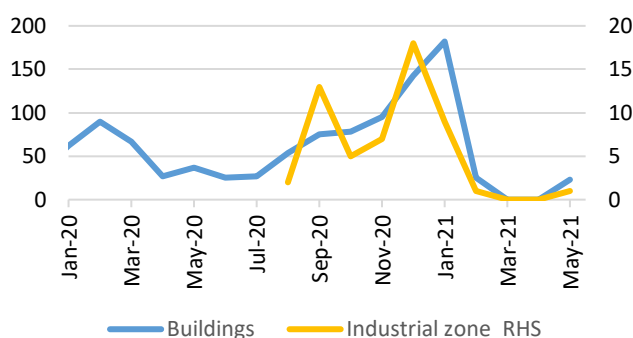


The construction sector has also been heavily affected by suspension of projects, increased operating risks, and cash shortages.

**Activity in the construction sector has slowed due to declining investment and increased operating risks.** There was significant recovery in construction of both residential buildings and construction site in industrial zones in the December quarter 2020. However, a large proportion of construction work has been suspended since February. Since January, the total number of issued construction permits in Yangon, which contributes just under half of total construction work across the country, has fallen substantially (Figure 12). Work on a range of major infrastructure projects and industrial parks has been halted.

**At the same time, cash shortages and financial sector disruptions have made it difficult for construction companies to pay for workers and inputs, whose prices are rising.** In June, it was reported that cash shortages at the state-run Myanmar Economic Bank (MEB) had constrained contractors’ abilities to pay wage and materials costs, prompting the suspension of government projects.<sup>13</sup> As in the manufacturing sector, the prices of key inputs (e.g., cement) have reportedly increased substantially, reflecting rising commodity prices as well as kyat depreciation and trade constraints. This has reduced the profitability of ongoing projects.

Figure 12: Number of construction permits issued



Source: Yangon City Development Committee

While natural gas production appears to have remained resilient, the electricity sector has suffered.

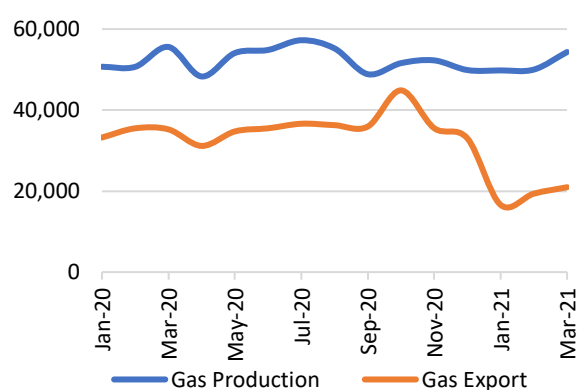
**Natural gas production appears to have been broadly resilient to recent developments.** The authorities reported that natural gas production remained relatively stable during the March quarter of 2021. Gas exports

<sup>13</sup> Frontier Real Estate & Construction Monitor, June 2021

reportedly declined in January 2021, although the reasons for this are unclear (Figure 13).<sup>14</sup> In April, Malaysian state-owned oil and gas company Petronas suspended operations in Myanmar, declaring force majeure at its Yetagun field in Myanmar, due to a decline in production levels. Data from the Thai Energy Policy and Planning Office shows that Thailand was importing more than 400 MMcf/day from Yetagun between 2005 and 2013, but this had dropped to an average of 52 MMcf/day in 2020 and 15 MMcf/day on average over January and February 2021. However, gas exports to Thailand sourced from the Yadana and Zawtika gas fields, which are operated by Total and PTTEP respectively (in production-sharing agreements with MOGE), have been more resilient in recent months and years.

**Staffing issues and security concerns along with a lack of new investment may be putting domestic electricity supply at risk in both the short- and longer-term.** The Ministry of Electricity and Energy (MOEE) has had among the highest levels of participation in the Civil Disobedience Movement, resulting in reduced bill collection (see section II.F. on Fiscal impacts) and potentially jeopardizing necessary maintenance and repair work. Reduced revenues could impinge on MOEE's ability to purchase power from Independent Power Producers, threatening the financial viability of the power sector. The volatile security situation around hydroelectric power plants could also threaten the stability of electricity supply.

Figure 13: Natural gas production and exports (MMcf/month)



Source: Central Statistical Organization

**At the same time, several investors have halted new investment plans in the gas and power sectors.** Marubeni has halted its 1,250 MW liquified natural gas (LNG)-fired power project and LNG storage based at the Thilawa Special Economic Zone, while Electricité de France has suspended work on its 671MW hydro project (Shweli-3) in Shan State. Many of the solar tenders awarded in 2020 are now on hold given the ongoing uncertainty. In response, a series of new energy projects have been approved by the authorities. The Mee Laung Gyaing, 1,390MW LNG Power Project (part of China's Belt and Road Initiative) was reportedly one of 15 projects recently approved by the administration, whilst on May 24 the MoEE issued a tender for up to 320MW of solar power across twelve new sites. But at least in the near term, implementation progress is likely to be slow given the difficult investment environment, fiscal risks and weakness in electricity demand.

Farmers have been affected by lower farmgate prices, higher prices for key inputs and restricted access to credit.

**Agriculture sector activity is expected to contract by around 10 percent in FY21, which is likely to have severe impacts on food security, particularly for the large numbers of poor people living in rural areas.** In recent months, farmers have been affected by (i) declining incomes because of lower farmgate prices for some produce (especially perishable items like tomatoes and onions); and (ii) higher prices for key inputs such as fertilizer, fuel, seeds and equipment, as well as food items of which they are net buyers (such as cooking oil, as well as rice in certain regions). Reduced incomes and higher costs are likely having adverse impacts on

<sup>14</sup> Central Statistical Organization, 2021. *Selected Monthly Economic Indicators (April 2021)*.

consumption and food security now, and in combination with financial constraints and output market uncertainties are also reducing the ability and appetite of farmers to invest.<sup>15</sup>

**Rice and cooking oil prices have increased since the beginning of the year, while prices of locally produced perishable items have declined.** The average retail price for (*emata*, medium) rice was about 15 percent higher in May 2021 than in January. According to WFP’s market information, the food insecure areas have experienced a continued increase in rice prices largely due to transportation and logistics challenges, with price increases of between 20-80 percent in some states (Figure 14a). Retail prices of cooking oil were 33 percent higher in May 2021 than in January, but there is also pronounced regional variation in the prices of cooking oil, with the highest retail prices in Mon, Rakhine, and Kayah (Figure 14b). On the other hand, onion and tomato prices have been declining in the months following the coup, with adverse income implications for those farmers producing and selling these food items. Based on WFP’s Market Monitoring Dashboard, on average, onion (Figure 14c) and tomato prices (Figure 14d) have been declining in the months following the coup, with adverse income implications for those farmers producing and selling these food items. Based on WFP’s Market Monitoring Dashboard, on average, onion and tomato prices declined by 13 percent and 11 percent in May compared to January, respectively. These price changes vary significantly across regions and states, partly due to variations in transport costs.

**Declines in farmgate prices for some crops are partly attributable to weakened demand from traders for farmers’ produce.** This can be attributed to: i) traders’ cash shortages, difficulties in making payments, and banking sector disruptions; ii) increases in the costs of transporting food from farms to retail markets; and iii) disruptions to communications (Figure 16). Based on more recent survey data collected during March and April 2021, around 60 percent of rice millers, 75 percent of crop traders, and nearly 95 percent of input traders in the sample reported increased transportation costs. These added costs and disruptions to traders’ ability to operate are in turn likely to have put downward pressure on their demand for some crops.

Figure 15: Agricultural price changes between January and May 2021

Figure 14a: Rice prices

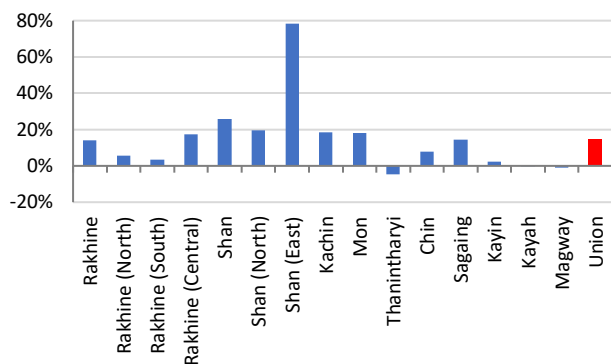
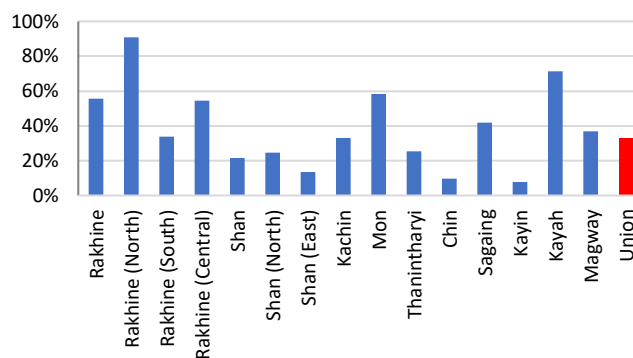


Figure 14b: Cooking oil prices



<sup>15</sup> This is broadly in line with June 2021 projections by IFPRI which indicated that agricultural production could be up to 15 percent lower during the June quarter 2021 and 9 percent lower for FY21 overall.

Figure 14c: Onion prices.

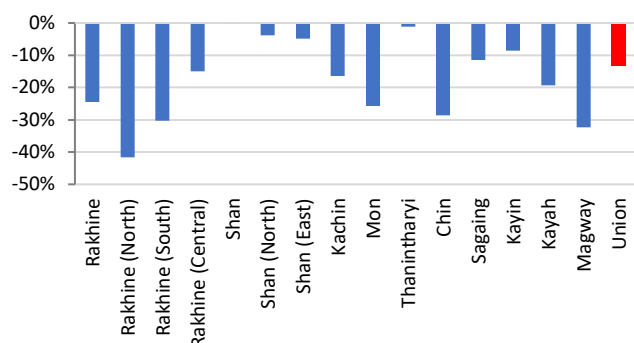
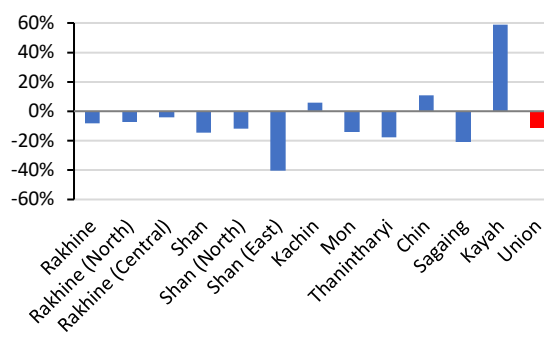
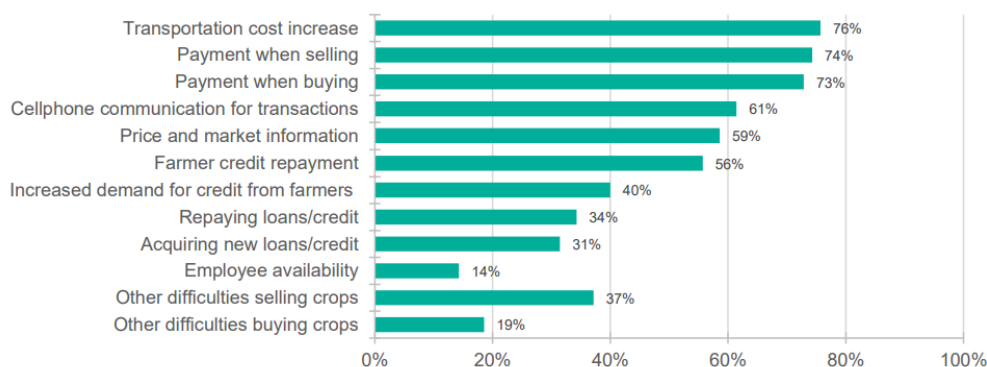


Figure 14d: Tomato prices



Source: Estimates based on WFP Market Dashboard

Figure 16: Disruptions experienced by crop traders in February and March (percent of traders surveyed)



Source: IFPRI, based on a survey of 154 traders in Shan, Sagaing, Magway, and Mandalay

**Closures of land borders and logistics constraints have adversely affected cross-border agricultural trade.** Several checkpoints at the Chinese border have been closed at various points since March, due primarily to COVID-19 concerns, disrupting export trade. Transport times have increased and expensive diversions have been required in some cases. Exports of rice, corn, onion, beans, and pulses have all been affected. Border closures have become more widespread with the recent surge of COVID-19 cases. Higher shipping and container costs have also acted to squeeze margins. While rice exports rebounded in May, they have remained lower than in 2020, primarily due to the continued closure of several check points along the Myanmar-China border and lower demand from EU countries.

**Farmers have also faced limited access to credit to finance working capital during the planting season.** Many smallholder farmers are cash constrained, but credit for farm input purchases has been difficult to access. MFIs that would lend to farmers in normal times are currently liquidity constrained. The Myanmar Agriculture Development Bank (MADB) has a critical role in providing credit to farmers so that they can purchase inputs necessary for monsoon season planting, but has indicated that they will only serve new loans to clients who have been able to pay back previous loans. Less than 20 percent of its clients reportedly met this criterion as of the end of May. Crop traders and input retailers also act as credit providers, but about a third expected to offer less credit to farmers during the 2021 monsoon season relative to 2020.

**In combination with finance constraints, higher input prices also have the potential to adversely impact planting activity, though the authorities estimate that the sown acreage of this year’s monsoon rice crop will be comparable to last year.** Based on a survey of agro-retailers conducted by IFPRI in June 2021, fertilizer prices were estimated to be 50 percent higher for urea and 30 percent higher for compound

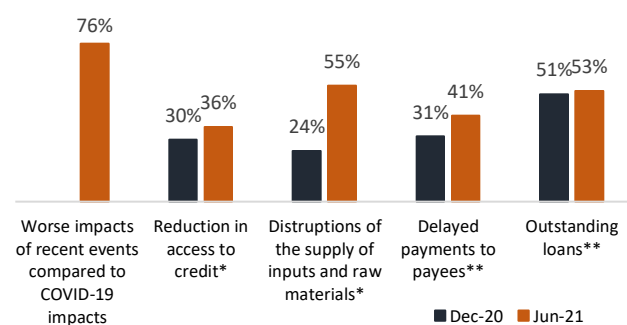
fertilizer compared to the same period a year earlier. Despite these challenges, the Ministry of Agriculture, Livestock and Irrigation (MOALI) estimates that sown acreage of the main rice crop (monsoon rice) will be 6.1 million hectares during the market year 2021/22, which is comparable to the sown area during the previous market year.

### C. Impacts on firms

Survey results indicate that the impact of the coup was worse than that of COVID-19 last year, exposing firms to a range of operational challenges and weakening their performance.

**Results from the Myanmar COVID-19 Monitoring Platform (based on the seventh round of a firm survey conducted in June 2021) indicate that firms have been heavily affected by recent events.<sup>16</sup> More than three-quarters of firms across the country said the impact of the coup was worse than what was experienced during COVID-19 last year (Figure 17). More than half of firms reported experiencing cash flow shortages in June (52 percent). The share of firms experiencing disruptions to the supply of inputs and raw materials increased from 24 percent in December 2020 to 55 percent in June 2021. In addition, recent events have exposed firms to financial difficulties. For instance, 41 percent of firms delayed payment to payees such as suppliers, a 10 percentage point increase since December 2020, in part reflecting banking sector issues. Moreover, growing numbers of firms experienced reductions in access to credit, reported at 36 percent in June 2021, a 6 percentage point increase since December 2020.**

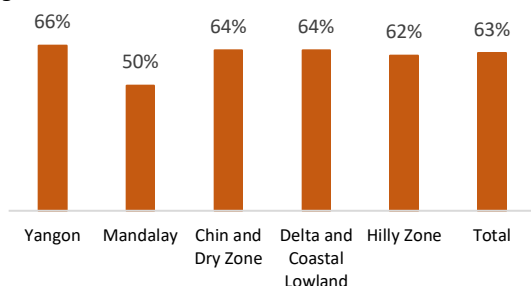
Figure 17: Share of firms reporting business performance challenges – by total



Note:  
 \*Question differs for December 2020 and June 2021 rounds. For December 2020, question is whether firms have experienced difficulties since the beginning of COVID-19, while for June 2021, question refers to the period since February 2021.  
 \*\*Indicator is lagged as the question asks about the last completed month. For December 2020, the last completed month is November 2020, for June 2021 it is May 2021.

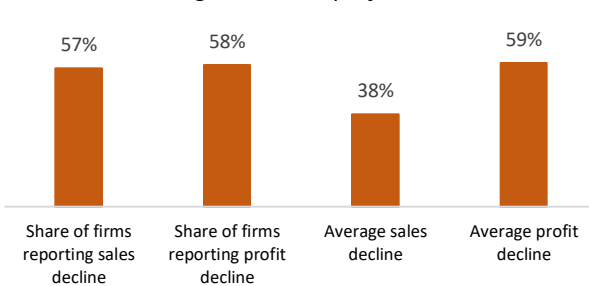
Source: The World Bank’s COVID-19 firm survey round 7

Figure 18: Average operating capacity of firms – by region



Note: Indicators are lagged as the questions on operation capacity, sales and profit asked about the last completed month (i.e. May 2021).  
 Source: The World Bank’s COVID-19 firm survey round 7

Figure 19: Share of firms reporting sales and profit decline and average sales and profit decline



<sup>16</sup> The firm survey began in May 2020 as part of an ongoing effort to monitor the social and economic impact of COVID-19 on Myanmar’s firms and households. For all information related to the Myanmar COVID-19 Monitoring Platform, see: <https://bit.ly/3exDADp>

**The firms that remained open did not operate at their full capacity, with average production levels lower than two-thirds of normal activity, with the Mandalay region worst affected.** Despite 89 percent of firms across the country reporting that their businesses were open, on average firms operated at only 63 percent of their capacity. In Mandalay, firms reported operating at only 50 percent capacity in June 2021 (Figure 18), although temporary closures were lower than in December 2020. Given operational challenges, more than half of firms experienced a decline in sales and in profits in June 2021 compared with January 2021 (Figure 19).

Most firms avoided temporary closure in June 2021, but around a third of firms have reduced employees.

**Fewer firms reported temporary closures compared to December 2020 - spurred by a large increase of firms re-opening in Mandalay, while temporary closures in Chin and the Dry Zone<sup>17</sup> increased significantly.** In June 2021, only 11 percent of firms—compared to 13 percent in December 2020—were temporarily closed. However, there were varying degrees of closures across Myanmar (Figure 20). Mandalay saw a decrease in reported closures: 18 percent of firms reported closures in June, less than half of the proportion in December when stricter stay-home restrictions were imposed. Yet, Chin and the Dry Zone experienced a significant increase in temporary firm closures in June (from 11 to 19 percent). Likewise, firms in the Hilly Zone experienced a slight increase in temporary closures with an increase of 2 percentage points. The increase in temporary closures in both regions is likely to be attributable to conflict and security concerns, while the resurgence of COVID-19 cases is likely to drive up closures significantly in July and August.

Figure 20: Share of firms reporting temporary closures (by region)

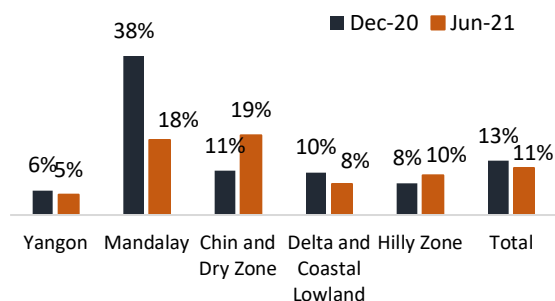
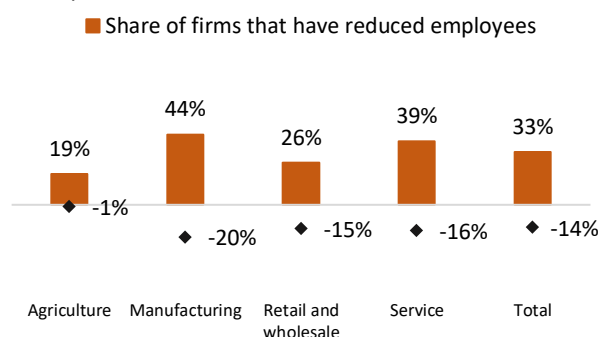


Figure 21: Share of firms reporting reductions in employees (by sector) and average firm size change (by sector)



Source: The World Bank's COVID-19 firm survey round 7

**Since February 2021 a third of firms have reduced employees.** Firms across all sectors have reduced employees, however, manufacturing firms reported the highest proportion of firms who had to reduce employees (44 percent of firms), followed by service firms (39 percent), retail and wholesale firms (26 percent), and agriculture firms (19 percent) (Figure 21). Likewise, manufacturing firms have experienced the largest firm-size reduction with a 20 percent decrease on average, while an average firm-size reduction for agricultural firms has been only 1 percent. As the agricultural sector has the weakest productivity of all sectors in the Myanmar economy, this is likely to correspond with a labor shift from more productive sectors to less productive sectors, which could hamper the structural transformation of the economy and the skill development of employees to the extent it persists.

<sup>17</sup> States and regions are grouped into zones based on their economic and geographic characteristics. Two of the five zones are single regions, Yangon and Mandalay. The Hilly Zone includes the states of Kachin, Kayah, and Shan. The Delta and Coastal Lowland Zone includes Ayeyarwaddy region, Rakhine region, Mon state, Bago region, Tanintharyi region, and Kayin state. Chin and the Dry Zone includes Chin state, Sagaing region, Magwe region, and Nay Pyi Taw.



**Faced with limited access to financing from banking and non-banking institutions, firms have increasingly relied on loans from family and friends as a major source of financing.** 38 percent of firms reported outstanding loans from friends and family in June 2021, a significant increase from the 26 percent in December 2020 (Figure 22). The survey results also indicated a 2 percentage point increase in firms with outstanding loans from commercial banks and a 5 percentage point decrease in firms with outstanding loans from non-banking financial institutions in June 2021, compared with what was observed in December 2020.

Figure 22: Share of firms with outstanding loans from each lender

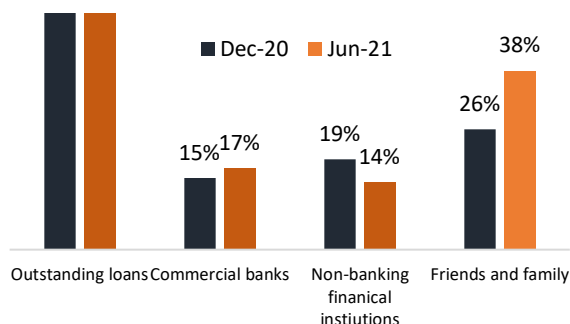
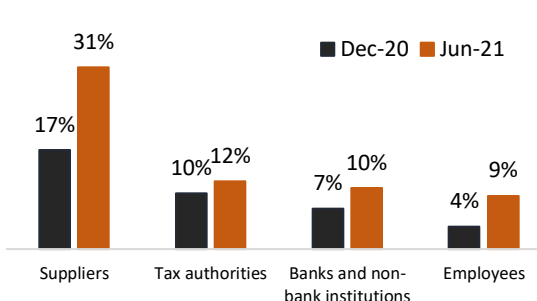


Figure 23: Share of firms reporting delayed payments to each payee



Source: The World Bank’s COVID-19 firm survey round 7

**Reflecting widespread liquidity constraints, a growing share of firms has delayed payments.** In June 2021, 31 percent of firms delayed payments to suppliers, compared with 17 percent in December 2020. In addition, since December 2020, the share of firms delaying payments to other payees have also increased, including to tax authorities, banks and non-bank institutions, and employees (Figure 23).

**A growing number of firms have experienced financial difficulties in June 2021, compared with December 2020.** Firms with female ownership have experienced a sharper rise in cash flow problems (Figure 24). However, additional reductions in access to credit were experienced more evenly by male and female-owned firms (Figure 25).

Figure 24: Share of firms reporting cashflow shortage (by gender)

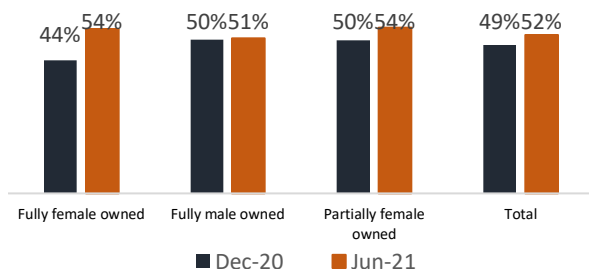
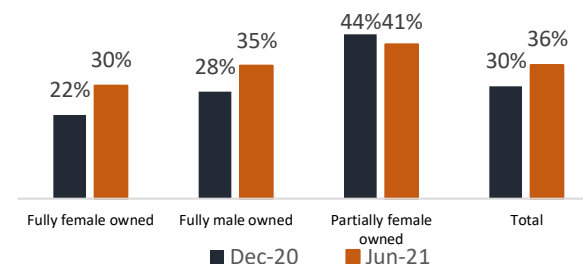


Figure 25: Share of firms experiencing reductions in access to credit (by gender)



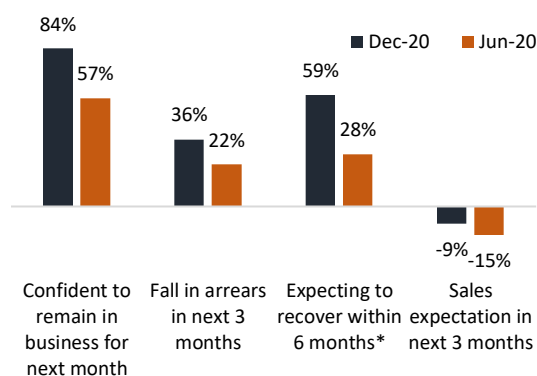
Source: The World Bank’s COVID-19 firm survey 7

Business expectations have deteriorated.

**Business confidence has been eroded, with firms’ future expectations now more negative than in 2020.**

In June 2021, only 57 percent of firms were confident of remaining in business over the next month, a large decline of 27 percentage points compared with that observed in December 2020 (Figure 26). In addition, only 28 percent of firms expected to recover to levels seen before February 2021 within the next six months. Firms expect that sales will decline by an additional 15 percent on average over the next three months compared to the same period last year (when firms in Myanmar struggled with the second wave of COVID-19). These results indicate that recent events have worsened firms’ expectations about the evolution of the business environment.

Figure 26: Firms’ expectations



Note: \*Question differs for December 2020 and June 2021 rounds. For December 2020, recovery is to pre-COVID levels while for June 2021, recovery is to pre-February levels.

Source: The World Bank’s COVID-19 firm survey 7

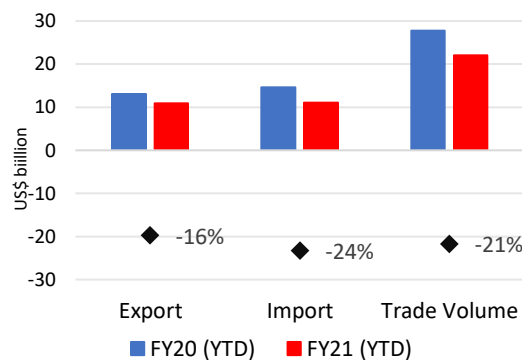
D. International trade, investment, and exchange rates

Myanmar’s international trade has been disrupted since February, with substantial falls in both exports and imports compared with previous years.

**Myanmar’s international trade has declined in FY21.**

Trade volumes decreased by 21 percent (or US\$5.7 billion) in FY21 (up to June), compared with the same period in FY20. The decline was driven by both exports and imports, which fell by 16 percent and 24 percent respectively (Figure 27) – resulting a trade deficit of US\$ 136 million over the FY21 year to date, which is 92 percent lower than the same period last year<sup>18</sup>. The trade decline was mainly driven by sea trade, which declined by 26 percent. Land trade also decreased by 8 percent, and a further decline is expected in coming months (especially in July) due to the resurgence of COVID-19 which has led to land border closures. In July, China, which accounts for half of Myanmar’s land trade, closed all its border crossing points with Myanmar.<sup>19</sup>

Figure 27: Myanmar trade decreased in FY21 (YTD), compared with the same period last year

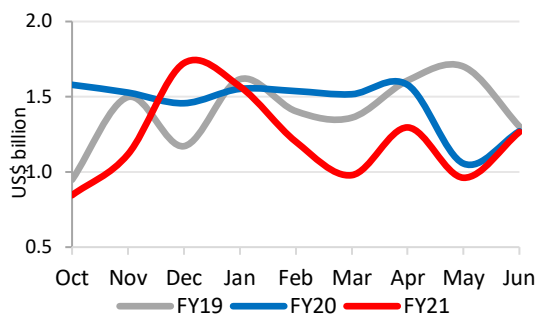


Source: Ministry of Commerce and CEIC

<sup>18</sup> In FY20 (up to June), both import and export increased by 8 percent and 4 percent respectively, compared with the same period of FY19.

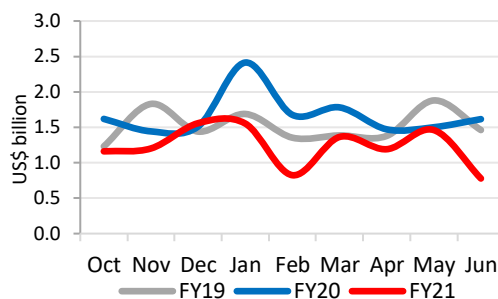
<sup>19</sup> Radio Free Asia, July 8, 2021. [“China Closes Border with Myanmar Amid COVID-19 Surge”](#).

Figure 28: Exports in FY21 (up to June), compared with FY19 and FY20



Source: Ministry of Commerce and CEIC

Figure 29: Imports in FY21 (up to June), compared with FY19 and FY20



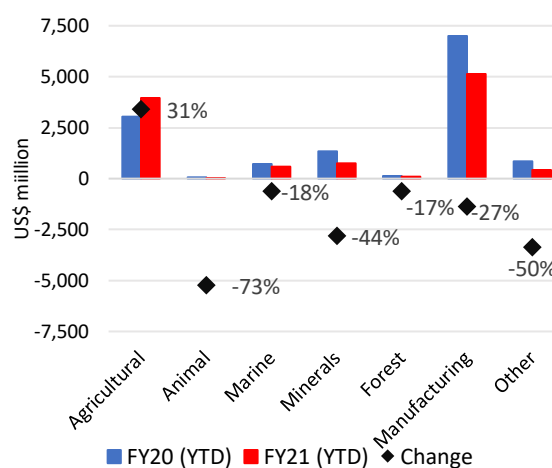
Source: Ministry of Commerce and CEIC

Since February, both exports and imports have declined substantially compared with previous years, in part due to logistics and financial sector disruptions. Over the five months from February to June, exports were 18 percent lower than in the same period last year, and imports were 26 percent lower (Figure 28 and Figure 29). Myanmar’s trade trends suggested that while the country’s trade was quite resilient to COVID-19 disruptions, it has been much less resilient to events since February.<sup>20</sup> This is in part attributable to logistics disruptions associated with the CDM. Cargo remained stuck at the ports during the period in which container trucks had halted operations, and a reduction in port staff had caused delays in documentation and clearance processes. In response, major international shipping lines operating in Myanmar suspended new bookings in March<sup>21</sup>. As a result, the number of container vessels arriving at Yangon ports was more than 45 percent lower in April and 25 percent lower in June compared with January 2021, while container prices have risen sharply. At the same time, disruptions to payment systems have made it difficult to conduct trades, particularly in US dollars.

**Manufacturing exports were a major contributor to the overall export decline.** Exports of manufactured products decreased by 27 percent in the first 9 months of FY21 (Figure 30). Garment exports, accounting for almost half of total manufacturing exports, suffered from the pause of new orders by several international retailers. Official data indicates that exports of natural gas, which accounts for about one-third of total manufacturing exports, also fell in the March quarter.

**On the other hand, agricultural exports have remained higher than previous years, despite a sharp decline since February.** Agricultural exports—Myanmar’s second largest export—increased by 31 percent in the nine months to June 2021 compared with the same period last year (Figure 31). This was mainly due to strong performance in the period between October and January 2021, due to increased demands for pulses and corn from Thailand, China, Philippines, Vietnam, and India,<sup>22</sup> and diversification into new markets, for instance

Figure 30: Exports of most products declined in FY21 (YTD)



Source: Ministry of Commerce and CEIC

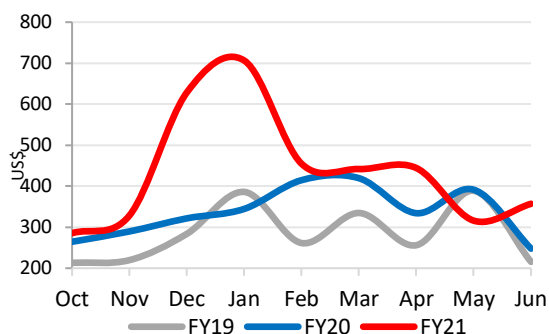
<sup>20</sup> In FY20, trade volume increased by 6 percent to US\$2.2 billion, compared with FY19. The increase was contributed by both exports and imports, with 6 percent increase in exports and with 7 percent increase in imports.

<sup>21</sup> <https://www.hellenicshippingnews.com/myanmar-protests-reduce-imports-as-shipping-lines-suspend-operations/>

<sup>22</sup> USDA, April 2021. *Grain and Feed Annual Report*.

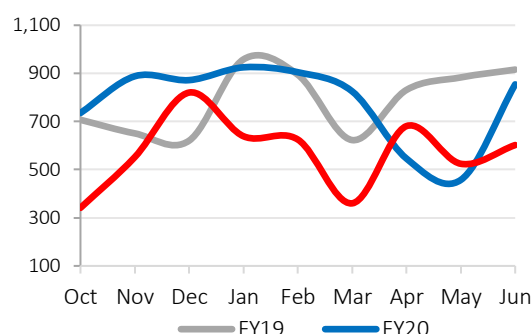
the first shipment of watermelons to the United Arab Emirates (UAE).<sup>23</sup> But agricultural exports have decreased since February, in part because of trade and supply disruptions at land borders (Figure 31). Rice exports—accounting for about 20 percent of total agricultural exports—have decreased by 6 percent in FY21 to date, compared with the same period last year.<sup>24</sup>

**Figure 31: Agricultural exports in FY21 (up to June) – compared with FY19 and FY20**



Source: Ministry of Commerce and CEIC

**Figure 32: Manufacturing exports in FY21 (up to June) – compared with FY19 and FY20**

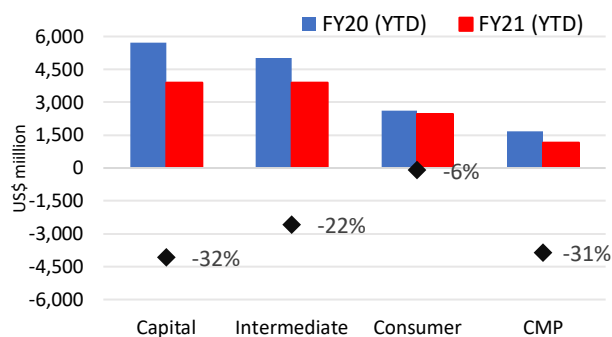


Source: Ministry of Commerce and CEIC

**Due to weaker domestic demand, all import sub-groups declined in FY21 (in the year to June).** Compared with the same period last year, cut-make-pack (CMP) goods decreased by 31 percent, capital imports decreased by 32 percent, intermediate goods decreased by 22 percent, and consumer goods decreased by 6 percent (Figure 33). The reductions in capital and consumer imports reflect less investment activity and lower consumer spending. Declines in intermediate and CMP goods are associated with reductions in manufacturing activities and exports.

**Fuel imports have seen a particularly large decline, posing risks to fuel reserve management and distribution.** Fuel imports in the first half of FY21 fell to nearly half of their levels in FY20. Fuel imports have been affected by disruptions in the banking sector and perceptions that the credit risk of Myanmar fuel importers has worsened. It was reported that the fuel stocks of private companies operating in Thilawa have fallen below 30 percent of storage capacity in June, which may have an adverse impact on country-wide fuel distribution.

**Figure 33: All import sub-groups decreased in FY21 (YTD), compared with the same period last year**



Source: Ministry of Commerce and CEIC

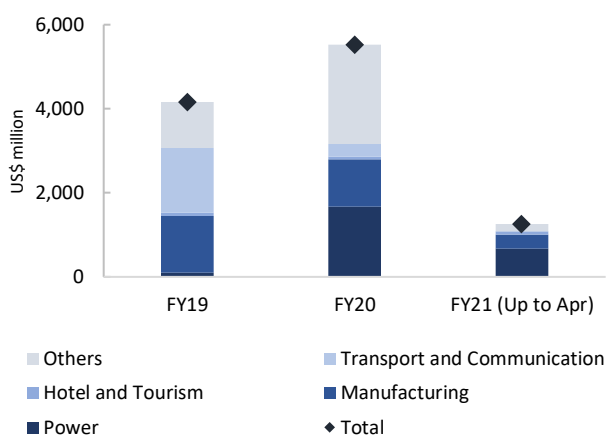
<sup>23</sup> Dutch Ministry of Agriculture, Nature, and Food Quality, December 15, 2020. [“Fruits export looks promising for Myanmar”](#).

<sup>24</sup> Global New Light of Myanmar, May 18, 2021. [“Myanmar rice export down by US\\$ 30 mln in seven months of this FY”](#).

Foreign direct investment (FDI) commitments have declined, and actual FDI in FY21 is likely to be weak.

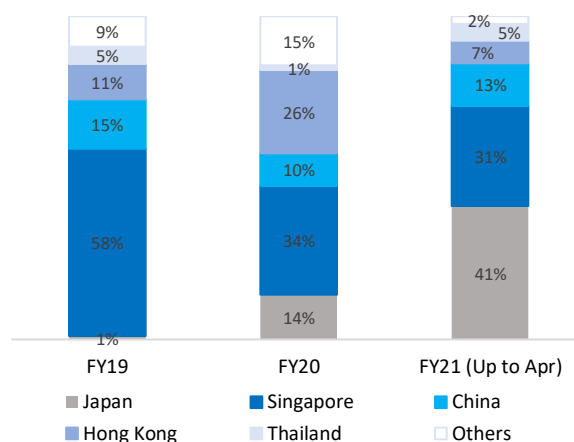
**FDI commitments declined sharply during the first seven months of FY21.** Compared with the same period last year, FDI commitments decreased by 63 percent to US\$2 billion in FY21 (from October to April) (Figure 34). The dual shocks of COVID-19 and the coup have prompted investors either to delay or withdraw investment decisions. Of the FDI projects approved during the first seven months of FY21, 54 percent were in the electricity sector, 26 percent in the manufacturing sector, and 6 percent in the hotel and tourism industry (Figure 35). Manufacturing and power sectors are likely to remain dominant recipients of FDI in FY21, since further investments in those sectors were approved in May including an electricity generation project valued at US\$2.5 billion.<sup>25</sup> On the other hand, there were no new investment commitments in major sectors such as oil and gas and the transport and communication sector in FY21 (up to April). These two sectors were major contributors of FDI commitments in FY19 and FY20. In terms of countries of origin, Japan accounted for 41 percent of total investment commitments in the first seven months of FY21 – much larger than in previous years. Other major investors were Singapore and China, accounting for 31 percent and 13 percent respectively (Figure 35).

Figure 34: FDI commitments in the first seven months of FY21 declined



Source: DICA

Figure 35: Investment commitments by country



Source: DICA

**Actual FDI is also expected to be sharply lower in FY21.** Actual FDI tends to trend well below FDI commitments, with actuals ranging from 22 to 67 percent of FDI commitments over the past seven years<sup>26</sup>. Given the current environment, the extent to which FDI commitments in FY21 will translate into actual investment remains unclear. Since February, several international firms have announced a suspension of their operations and/or changed their investment plans for pipeline projects (Table 1).

<sup>25</sup> Global New Light of Myanmar, May 11, 2021. “[Double the productivity with investments to boom economy](#)”.

<sup>26</sup> Actual FDI inflow data from UNCTAD and approved FDI data from DICA – from 2013 to 2019.

Table 1: List of firms leaving or suspending their businesses in Myanmar since February 2021

Company/Individual	Country	Description
Kirin Holdings Co. Ltd. <sup>27</sup>	Japan	Kirin Holdings Co. Ltd, Japanese drink giant terminated its joint venture (JV) partnerships with the military controlled Myanmar Economic Holding Ltd (MEHL). The company held 51 percent of Myanmar Brewery and Mandalay Brewery through JV partnerships.
Lim Kaling <sup>28</sup>	Singapore	Lim Kaling announced intentions to withdraw his investment from Virginia Tobacco Group, where he is a minority shareholder through RMH Singapore Pte LTD, which owns 49 percent of the firm, with the remainder owned by Myanmar Economic Holding Ltd (MEHL).
Amata Corporation <sup>29</sup>	Thailand	Thailand's Amata corporation, a real estate developer, suspended its US\$1 billion real estate project in Myanmar.
Woodside <sup>30</sup>	Australia	Woodside suspended its operations and fully de-mobilized its offshore exploration drilling team in Myanmar.
Petronas <sup>31</sup>	Malaysia	PC Myanmar limited (PCML), a subsidiary of Petronas, declared Force Majeure at its Yetagun field due to depletion of gas production. PCML has temporarily cased production at the field until further notice. It holds 40.9 percent of Yetagun gas project, along with Myanma Oil and Gas Enterprise (20.5 percent), Nippon Oil Exploration (19.3 percent), PTTEP (19.3 percent).
Électricité de France (EDF) <sup>32</sup>	France	EDF suspended a US\$ 1.5 billion hydropower dam project – still at an early stage and operated by a consortium including EDF, the Japanese Marubeni conglomerate and Ayeyarhinthar, a local conglomerate.
AEON <sup>33</sup>	Japan	AEON postponed construction of a shopping mall in Myanmar. The project, worth US\$ 180 million, was approved last year. It is a joint-venture partnership with Japanese AEON owning 70 percent.
Toyota <sup>34</sup>	Japan	Toyota postponed the plan to open a new plant in Myanmar. It announced a plan to build the US\$52.6 million production plant in 2019 and it had planned to commence operations of its first production plant in the country in February 2021.
Sembcorp <sup>35</sup>	Singapore	Sembcorp suspended an industrial park project worth US\$ 230 million. The project received investment approval in 2020.
Hongkong and Shanghai Hotels <sup>36</sup>	Hong Kong	Hongkong and Shanghai Hotels, operator of the Peninsula chain, suspended construction of the Peninsula Yangon project for a year. The project is worth US\$130 million. Hongkong and Shanghai Hotels owns 70 percent of the project.
Telenor <sup>37</sup>	Norway	Telenor announced that it reached an agreement to sell 100 percent of its Myanmar operations to Lebanese M1 group for US\$105 million.

<sup>27</sup> <https://www.ft.com/content/209f5ca9-0a09-42cd-b72c-b6897a7f643e>

<sup>28</sup> <https://www.aljazeera.com/economy/2021/2/9/singapore-businessman-will-end-army-linked-myanmar-investment>

<sup>29</sup> <https://asia.nikkei.com/Spotlight/Myanmar-Crisis/Thailand-s-Amata-halts-1bn-Myanmar-property-project-after-coup>

<sup>30</sup> <https://www.woodside.com.au/what-we-do/international-developments-marketing-and-exploration/myanmar>

<sup>31</sup> <https://www.petronas.com/media/press-release/petronas-upstream-operations-myanmar-declares-force-majeure-its-yetagun-field>

<sup>32</sup> <https://www.barrons.com/news/france-s-edf-says-myanmar-dam-project-halted-over-coup-01616341206>

<sup>33</sup> <https://www.irrawaddy.com/news/burma/japanese-retail-giant-aeon-shelves-myanmar-mall-plans.html>

<sup>34</sup> <https://asia.nikkei.com/Business/Automobiles/Toyota-delays-opening-of-new-Myanmar-plant-in-wake-of-coup>

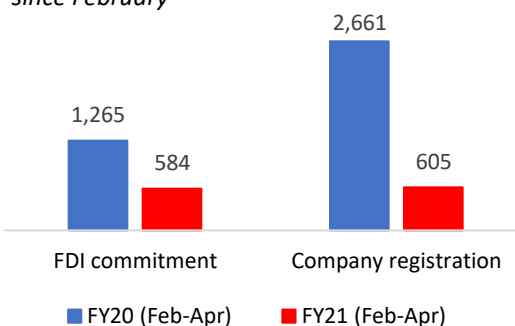
<sup>35</sup> <https://www.irrawaddy.com/news/burma/myanmars-economy-freerfall-military-regime.html>

<sup>36</sup> <https://asia.nikkei.com/Spotlight/Myanmar-Crisis/Peninsula-Hotels-suspends-130m-Yangon-project-for-a-year>

<sup>37</sup> <https://www.telenor.com/media/press-release/telenor-group-sells-telenor-myanmar-to-m1-group%E2%80%AF>

**Both FDI commitments and company registrations have decreased sharply since February.** From February to April, total FDI commitments were only US\$584 million, 54 percent lower than over the same period in FY20 according to DICA data (Figure 36). Only 605 companies were registered from February to April, 77 percent lower than the same period last year.

Figure 36: FDI commitments (US\$ million) and the number of company registrations have fallen since February



Source: DICA

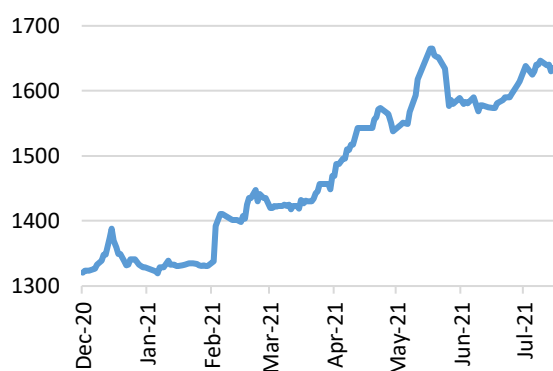
**Targeted sanctions against certain businesses and individuals in Myanmar have been imposed since February 2021.** International sanctions have been imposed on certain individuals, businesses, and state-owned enterprises. These sanctions included travel bans and asset freezes, with citizens and companies from sanction-imposing countries forbidden from making funds available to or doing business with sanctioned individuals and listed entities.

Sanctions have been imposed on two military-controlled business entities as well as various state-owned enterprises. As well as affecting the ability of sanctioned entities to trade or access finance internationally, these sanctions have also increased the due diligence requirements and uncertainty faced by all businesses operating in or trading with Myanmar, given the need to establish whether business partners have military connections.

There has been a pronounced depreciation of the Myanmar kyat since the end of January 2021.

**Since the end of January 2021, the Myanmar kyat (MMK) has weakened significantly against the US dollar (USD).** Between the end of January and mid-July 2021, the official CBM kyat reference rate has depreciated by around 23 percent (Figure 37). The kyat depreciation is likely attributable in part to lower FDI inflows and the suspension of foreign aid and loans, and in part to increased domestic demand for assets that are perceived as being safer, including US dollars. In an attempt to mitigate kyat depreciation pressure and increase the supply of US dollars in the market, the CBM sold a total of US\$ 69.8 million over a series of 16 auctions between February 3 and July 8. These amounts were relatively small in the context of Myanmar’s overall foreign exchange reserves, which were estimated to total around US\$6.8 billion as at September 2020, or around 4.7 months of imports.

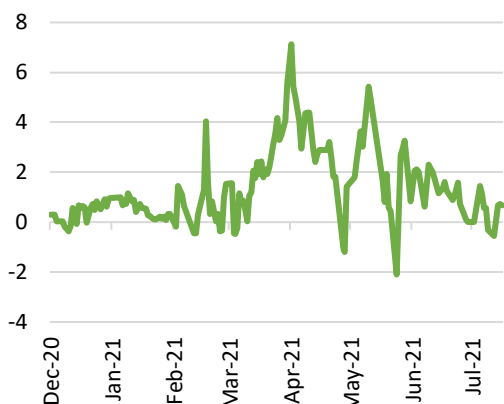
Figure 37: The CBM reference rate (MMK/USD) has depreciated since February 1



Source: The CBM

Note: The data is available up to July 16, 2021

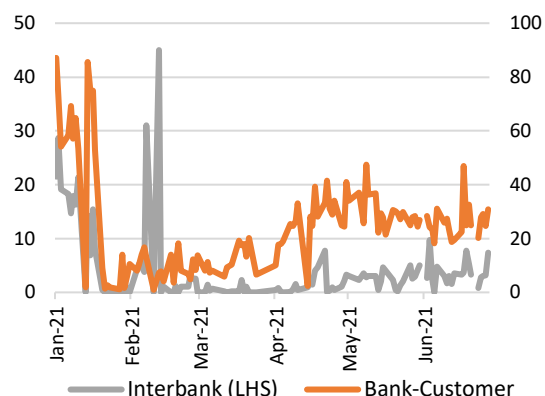
Figure 38: ...and the gap between the reference rate and the market rate has been volatile (percent)



Gap between CBM reference rate and the midpoint of Wakhema Exchange buy/sell rates for US dollars.

The data is available up to July 16, 2021

Figure 39: ...while US dollar transactions have declined (USD millions)



Source: The CBM

The data is available up to July 16, 2021

**The gap between the official and market exchange rates has been volatile since February 1** (Figure 38). In normal circumstances, a widening of the gap would indicate that the reference rate is not fully reflecting supply and demand for US dollars in the market. But despite a narrowing of the gap in June, and the stabilization of both official and market exchange rates, reports from businesses operating in Myanmar indicate that US dollars are still difficult to access in practice. This in turn may suggest some rationing of US dollars, with the burden of adjustment to supply and demand pressures for US dollars being borne by changes in quantities rather than prices.

**US dollar transactions (both interbank and bank-customer) have been relatively low since February 1** (Figure 39). The transactions were the lowest in February and March (except a few spikes in March for interbank transactions). This may have reflected staffing constraints as well as ongoing US dollar shortages, consistent with reports of limits being imposed on USD purchases by some money exchange operators and on USD withdrawals by some banks. While transactions increased in April, May and June compared with February and March, they remained low relative to January levels.

## E. Financial sector developments

**Myanmar's banks were among the most immediately and severely impacted businesses in the aftermath of February 1.** Even through 2020, Myanmar's banking sector was under pressure, with high levels of non-performing loans exacerbated further by repayment difficulties due to the impacts of COVID-19. Recent events have strained liquidity in the system, and disrupted the provision of basic banking services such as payroll. Despite several measures introduced by the Central Bank of Myanmar (CBM) and financial institutions themselves, confidence in the banking sector appears to be badly shaken. There have been signs of a "de-formalization" in the provision of financial services, with informal service providers playing an increasingly important role in meeting the public's demand for cash.

Elevated demand for cash combined with a restricted supply of banknotes has resulted in significant liquidity constraints.

**Depositors' confidence in the banking sector has been undermined.** New deposits are scarce as customers are uncertain about their ability to withdraw cash as required and households and businesses instead build their cash reserves as a precautionary measure. As in previous crises there has also been a push to shift out of kyat



bank deposits into what are perceived as safer assets such as cash, gold and foreign currency. At the same time, note printing has been curtailed as the international company that previously supplied the necessary raw materials to Myanmar to print cash suspended its contract, with the authorities needing to source inputs elsewhere. In response to these pressures, in March the CBM put in place withdrawal limits of MMK 2 million per week for personal accounts, MMK 20 million per week for corporate accounts, and MMK 500,000 from ATMs per day, with the stated objective of promoting digital payments. In practice, most banks have placed stricter limits on cash withdrawals, and several have established a token system to meet the withdrawal demands of their depositors on a first-come-first-served basis. Confidence in the banking sector has been further eroded by the growing scrutiny of certain types of transactions and uncertainty regarding the impact of international sanctions on the sector.

**Long lines for withdrawals have persisted even as some of the early logistical difficulties in the banking system have mitigated somewhat.** In the first few weeks after the coup most bank branches were unable to conduct regular business given the participation of their staff in the Civil Disobedience Movement (CDM). Frequent internet interruptions added to the challenges facing bank customers as electronic means of payments were also impacted. Since then most large banks have reported re-openings as their staff have returned to work. Banking and mobile money apps have been increasingly “whitelisted” and kept functional even as other internet access remains uncertain. This has led to growing cashless small value payments as merchants and financial institutions, at least in urban areas, are growing their partnerships to further the acceptance of electronic payments.

**The CBM has made a range of attempts to boost the cash position of banks.** The CBM allowed for the creation a new type of special bank account from early May, which are not subject to the withdrawal limits that apply to the older deposits. At least some businesses have reportedly taken up the opportunity to open new accounts, given the logistical and security challenges associated with holding significant amounts of cash outside the banking system. Several banks have offered attractive savings products to incentivize the public to open these accounts, and some banks have added the caveat that such deposits must be made in cash. Additionally, as per a directive issued on May 7 the CBM also made further changes to the formula for calculating the liquidity ratio, increasing the weight of government treasury bonds with a remaining maturity of more than one year from 90 percent to 100 percent, to be in effect until 30 September 2021. The CBM has also lowered the reserve requirement for banks from 3.5 percent to 3 percent, in effect until October 12, 2021. At the same time, reports indicate that CBM’s direct provision of physical cash to the banking sector has fallen short of demand, in part because of note printing constraints.

**The severe scarcity of cash has led to the emergence of informal markets for kyat that both banks and the CBM have committed to curbing.** Several informal agents have sought to benefit from the public’s demand for cash and a new type of black-market activity has emerged. Bank customers in need of cash can make an electronic transfer to the bank account of the agent. In return, they are supplied with cash minus a fee that can range anywhere from 3 percent to 13 percent. Additionally, banks have also been dealing with complaints alleging that some members of their staff are charging for tokens for cash withdrawals. The authorities and banks have stated their intent to restrict such activities and there are reports that the first arrest of an agent was made in June.

Pre-existing vulnerabilities on bank balance sheets have been exacerbated by the dual shocks.

**Even before the post-coup liquidity pressures emerged, Myanmar’s banking sector was already grappling with legacy vulnerabilities.** Through several decades of political and economic isolation Myanmar’s banking sector developed business practices that were sharply divergent from the international good practices as agreed in the Basel Accords. With the result that bank lending was disproportionately composed of overdrafts<sup>38</sup> backed principally by real estate collateral and characterized by very significant related party and

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<sup>38</sup> Reportedly as high as 75 percent of all lending in 2017.

large exposures. Moreover, it was a common practice for banks to rollover such overdrafts while only collecting interest payments, thus evergreening potential problem assets. After the issuance of prudential regulations by the Central Bank of Myanmar in July 2017 several banks initiated the process of transitioning to accounting and reporting standards more in line with international good practices.

**The CBM extended the original deadline for compliance to the new prudential regulations by three years to August 2023 as part of its policy response to mitigate the economic impacts of the COVID-19 pandemic.** There were already concerns that the economic slowdown associated with COVID-19 was feeding back into the banking sector as their clients increasingly struggled to make loan repayments. The extended forbearance was only serving to push out the revelation of the accumulating stressed assets. Additionally, the economic disruption associated with the political disruption has severely impacted businesses. As a result, loans at risk are likely to have grown significantly<sup>39</sup>, and the extent to which banks have sufficient capital buffers for adequate provisioning or the capacity to manage these risks remains unclear.

Basic financial services have been badly disrupted, with significant spillover impacts on the overall economy and livelihoods.

**In addition to the elevated concerns about the stability of the system, there are also questions about its basic functionality.** Some of the early disruptions in the backend payments and settlements service provided by banks, that had resulted in challenges in the execution of basic functions such as payroll and bank transfers, seem to have been at least partially resolved. But turnaround periods remain lengthy in some cases, especially on forex transactions. The picture on the restoration of credit services is much less clear, but there are several reasons to assume that new lending has dropped significantly. Not just banks but microfinance institutions (MFIs) are likely to have seen a drop in business. COVID-19 and the related lockdowns had already impacted the ability of MFIs to collect payments and make new disbursements. Several MFIs were also struggling with sourcing the necessary liquidity to keep their operations going. The current disruptions will only have amplified that issue. Initially this was largely in the urban areas, and now as the unrest has spread to rural areas MFIs and critical activities such as agriculture will also be affected.

**Disruptions in the banking sector have increasingly pushed Myanmar's 4 million migrant workers abroad to use informal channels to remit funds to their families.** Informal *bundi* transfers have historically been the preferred remittance channel for most of Myanmar's migrant workers. But in recent years some Myanmar banks were making attempts to collaborate with regional banks and fintech companies to increase their participation in this market<sup>40</sup>. While mobile money operators have generally not reported major issues they do not have a license to operate across borders and the cash-out delivery model means that they are also vulnerable to domestic cash shortages. The drastic slowdown of transfers through formal channels since February has reversed recent trends, increasing concerns about the impact of the coup on the slow-moving but important gains made on the formal financial inclusion front in recent years.

## F. Fiscal impacts

Tax revenue is particularly at risk, while some non-tax revenues are likely to be more resilient.

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<sup>39</sup> The CBM has not publicly disclosed data about NPLS in recent years as banks have been transitioning to a new regulatory framework on Asset Classification and Loan Loss Provisioning.

<sup>40</sup> Recent estimates by the Ministry of Labor, Employment, and Social Security indicate that USD 2.8 billion of remittances was being transferred through formal remittance channels last year, approximately 4% of the country's GDP, but with around USD 5.2 billion being left out of formal financial channels annually there has been keen interest in this market segment.

**Tax revenue has fallen sharply in the first five months of FY21, due to the combined impacts of COVID-19 and coup.** Preliminary data for the five months between October and February shows that tax revenues fell by 32 percent in FY20/21, compared with the same period a year earlier (Figure 40). Among the three major taxes (Box 1), specific goods tax fell by 51 percent, commercial tax declined by 32 percent and income tax by 25 percent. In the month of February 2021, income tax, commercial tax, and specific goods tax revenue were each around half of year-earlier levels (Figure 41).

Figure 40: Tax revenue collection in the first five months of the fiscal year (Oct to Feb), % of GDP

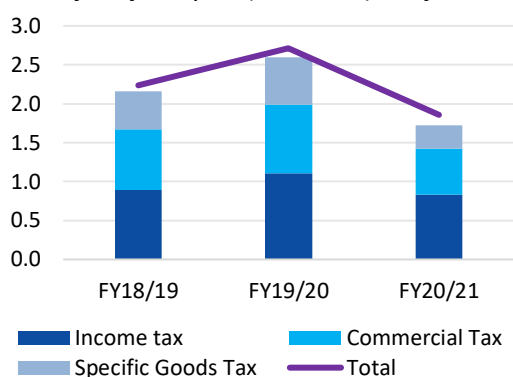
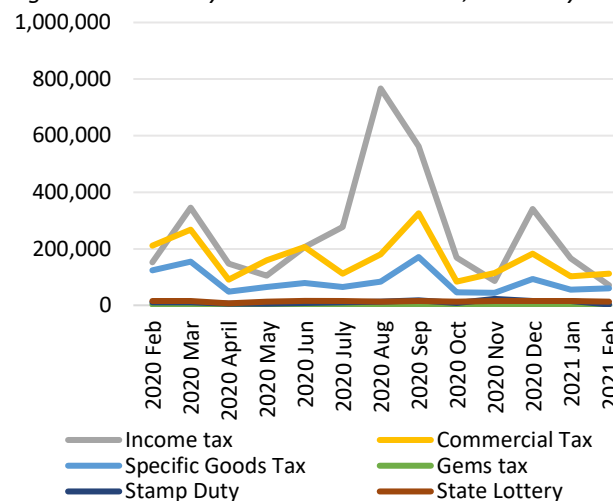


Figure 41: Monthly tax revenue collection, million kyat



**Tax revenues are being affected by the shrinking economic base and by the CDM-related non-payment and non-collection of taxes.** Tax revenues, which normally account for around 30 percent of overall revenues, have fallen partly because the overall economy is contracting, as reflected in declines in incomes, consumption, and trade (Table 2). But the decline in tax revenues is likely to have been disproportionately large since February due to widespread non-payment and/or non-collection of taxes. For example, in the retail and hospitality sectors, commercial tax is usually paid in the form of stamps that businesses buy from the Internal Revenue Department and then affix to a customer's receipt. Reports indicate that several businesses are no longer affixing these stamps and/or accepting customer's requests not to pay. State lottery revenues are also reported to have fallen since the coup, although these are a very small proportion of total revenues.

Table 2: Myanmar's revenue composition as share of total revenue based on FY19/20

Tax	30%
Income Tax	12%
Commercial Tax	10%
Customs duties	2%
Excise Tax	0%
Special Goods Tax	7%
<b>Non-Tax</b>	<b>68%</b>
Receipts on use of national properties (including royalties, land use fee, fee on telephone operators)	4%
Contributions from SEEs (contribution of revenue from all SEEs including CBM)	9%
License and fees (incl. vehicle, driving license and business license)	1%
Other non-tax (incl. sales stamps, hotel license, interest receipts)	5%
Other Current Receipts (revenue collected by departments and SEEs)	50%
<b>Grants</b>	<b>2%</b>
<b>Total revenue</b>	<b>100%</b>

Source: WB staff estimates

**Box 1: Major Taxes in Myanmar**

**Corporate Income Tax (CIT)** tax collections account for 85 percent of total income tax revenue. The standard CIT rate is 25 percent. Myanmar has a narrow income tax base with only 25,000 registered corporate income taxpayers, although this has grown by close to 40 percent since FY14. Resident companies are taxed on a worldwide basis, while non-resident companies are taxed only on income sourced from within Myanmar.

**Personal Income Tax (PIT)** rates range from 0 – 25 percent with an annual minimum exemption threshold of MMK 4.8 million.

**Commercial tax (CT)** is levied on the sales of goods and services at rates ranging from 0 – 8 percent. The standard rate generally applied is 5 percent.

**Specific Goods Tax (SGT)** rates range from 5 – 80 percent applicable to a wide range of commodities/goods made within Myanmar, imported from, or exported to a foreign country.

**Non-tax revenue provides over two thirds of total revenue, the large majority of which is derived from State Economic Enterprises (SEEs) in the energy sector.** Oil, gas, and electricity SEEs are estimated to contribute around half of Myanmar’s total public revenue, consisting of: 1) 37 percent from the operations of energy sector SEEs including Myanmar Oil and Gas Enterprise (MOGE), Yangon Electric Supply Corporation (YESC) and Mandalay Electric Supply Corporation (MESC), recorded as “other current receipts” in Table 2; 2) 9 percent from SEEs’ contributions to the Union Government (energy sector SEEs are the largest payers of this contribution); 3) 2 percent from petroleum royalties; 4) 3 percent from income tax and 2 percent from commercial tax (most of which is paid by energy SEEs).

**Electricity bill collection has reportedly plummeted since the coup, having already weakened as a result of reduced demand and tariff reductions due to COVID-19 in 2020.** It has been estimated that as of March, MOEE was collecting 100 billion kyat (around USD 60 million) less per month than before the coup, with the bill collection rate only 2 percent in Yangon and 3 percent in Mandalay.<sup>41</sup> If sustained for the entirety of FY21, the budgetary impact on non-tax revenue is likely to be significant.<sup>42</sup> The fall in bill collection is partly attributable to widespread refusal to pay electricity bills, and partly due to a lack of staff – including meter readers and bill collectors – at the MOEE. Many are participating in the CDM or reportedly fear reprisals for facilitating bill payments, while thousands of others have reportedly been dismissed.

**Oil and gas revenues may be more resilient this year, although the reported decline in exports from January 2021 onwards could have some impact.** International energy companies announced in May that they had decided to suspend cash distributions to the shareholders of the Moattama Gas Transportation Company (MGTC), which operates the pipeline that transports gas from the Yadana field to Thailand. Shareholders include MOGE which owns 15 percent. However, this will have a relatively small impact on overall oil and gas revenues in FY21, and the trend in other revenues including royalties, tax payments, and other dividends and profits is less clear. That said, several operators have paused their exploration activities and planned projects which could impact revenue flows over the longer term.

Little recent information is available on public spending, but there may have been CDM-related impacts in some sectors, while capital budget execution is likely to be substantially weaker.

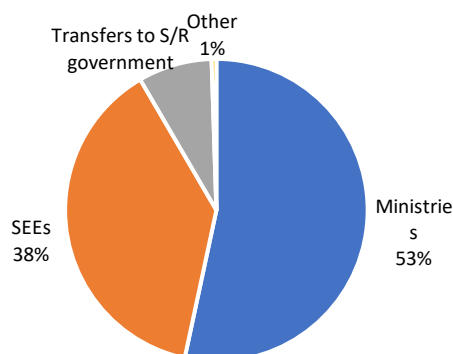
**Previous government spending data may provide some insight as to how spending may have been affected in FY21 to date.** The historical actual government spending data shows that ministries and departments of the Union government account for just over half of all spending, while 38 percent is spent

<sup>41</sup> Independent Economists for Myanmar (IEM), 14 July 2021. “Myanmar’s Electricity Sector After the Coup”.

<sup>42</sup> Electricity revenues have previously (in FY16/17) accounted for around 40 percent of total energy revenues.

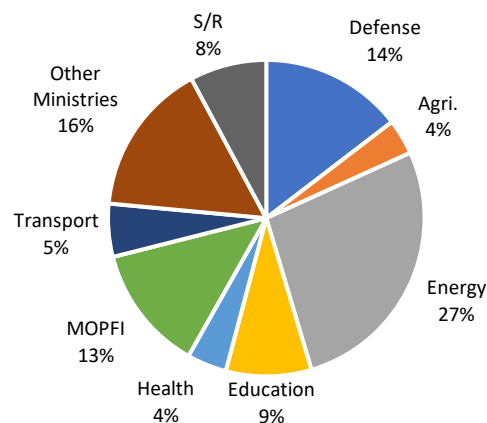
through SEEs and 8 percent through state and region governments (Figure 42). The Ministry of Electricity and Energy accounts for 27 percent of total expenditure (Figure 43). Recurrent spending accounts for 78 percent of the total and capital spending the remainder. The execution of previously-budgeted capital spending is expected to be particularly weak in FY21, including because of disruptions in the construction sector. Current spending may also be affected by reduced salary payments in some sectors, although the numbers of public servants participating in the CDM and the impact on their salary payments remains unclear and is likely to have varied significantly depending on specific circumstances.

Figure 42: Ministries and SEEs cover 92 percent of total expenditure



Source: WB staff estimates

Figure 43: Total expenditure by sector



Source: WB staff estimates

Since February, the military authorities appear to have been dependent on the state-owned Myanmar Economic Bank for domestic financing.

### The coup appears to have dampened the domestic securities market as a source of deficit financing.

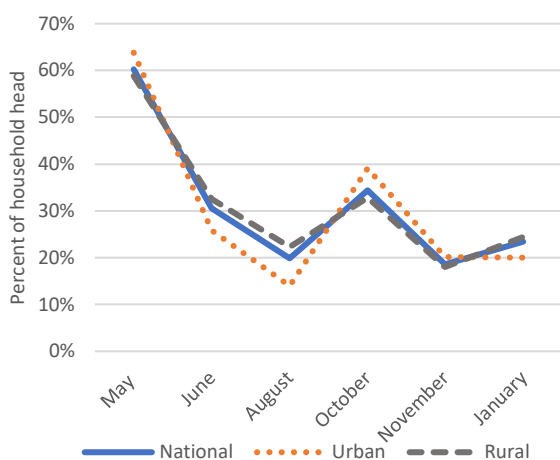
In recent years Myanmar has continued to shift away from direct Central Bank financing and towards treasury bills and bonds. Central Bank financing has been held below 20 percent of total deficit financing, with a large proportion of the remaining financing needs filled by T-bill and T-bond auctions through a competitive domestic financing market. However, the impact of the coup has reportedly dampened the domestic securities market. In early March, out of a total offered amount of MMK 500 billion of T-Bills and T-Bonds, MMK 323 billion was ultimately purchased. Myanmar Economic Bank (MEB) bought over 90 percent of the purchased securities as a non-competitive bidder, with private banks buying the remainder. In a T-bond auction later in March, MMK 200 billion was offered, but only MMK 53 billion was ultimately issued, with MEB again buying over 90 percent.

## G. Household welfare

**Towards the end of 2020, jobs and labor income losses related to COVID-19 impacts slowed and food insecurity measures started to show improvements.** Evidence from high-frequency phone surveys of households, reported in the World Bank COVID-19 Monitoring Platform for Myanmar, indicates that by November 2020, as COVID-related restrictions softened, the share of household heads who were no longer working had settled at around 19 percent (Figure 44). Income losses followed a similar trend in 2020, rising in

October before declining in November, and continuing to decline between November 2020 and January 2021 (Figure 45).

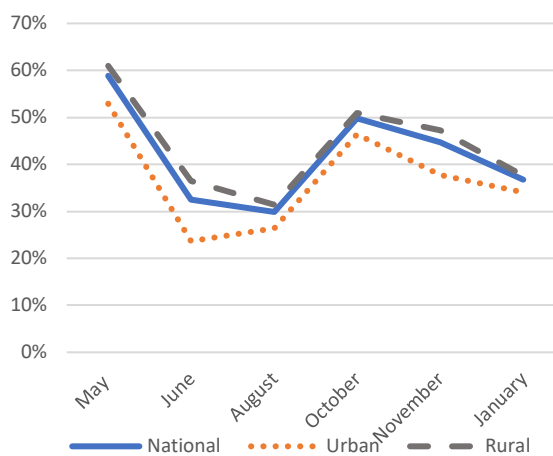
Figure 44: Share of household heads not working



Source: World Bank COVID-19 Monitoring Platform

Note: Based on household heads who reported working in March 2020.

Figure 45: Share of working household heads reporting less income



Source: World Bank COVID-19 Monitoring Platform

**The economic consequences of the coup have reversed these positive trends.** Job and income losses, higher prices, and substantial disruptions to public services are likely to have significantly worsened the still-precarious situation faced by many households at the end of 2020. Welfare impacts will be even more severe as a result of the third wave of COVID-19 that has emerged since June 2021. Poverty will deepen, as the sharp contraction of GDP is channelled through the labor market to households (see Chapter II. Economic outlook and projections).

**Impacts on households' welfare will be unequal across locations and groups, with food security a visible concern for urban households in the short-term, but the crisis rapidly expanding to rural areas too.** Before the latest outbreak and restrictions, the WFP estimated that between 1.5 and 3.4 million new food insecure will join the 2.8 million already considered food insecure at the height of the COVID-19 crisis last year—the vast majority in urban centers.<sup>43</sup> Rural households will not be spared, however, especially in the medium- to long-term, as domestic remittances from urban centers decline and farmers face difficulties in securing inputs, accessing markets, and repaying debts.

**The ability of households to cope with these economic impacts is severely constrained following the prolonged COVID-19 crisis, cash flow issues, and absence of social protection programs.** The cash transfer programs rolled-out or expanded as a response to COVID-19 that had reached about 6 million vulnerable households by November 2020 have come to a sudden halt. These programs represented a fundamental poverty alleviation measure. In addition, the nationwide expansion of cash transfer programs targeting pregnant mothers and children under 2 years old also contributed to sustaining longer-term gains in human capital, by addressing some of the causes of malnutrition in the first 1,000 days of life of a child, which have long term implications for children's future productivity and economic growth. MFIs' liquidity is constrained and some are reportedly calling for rapid repayments of loans issued during COVID-19. Households are thus pushed towards even riskier coping mechanisms, such as contracting a loan with money

<sup>43</sup> World Food Program, 2021. [Myanmar: Analysis of the Economic Fallout and Food Insecurity in Wake of the Takeover – 2021.](#)

lenders at higher interest rates or selling productive assets. Even for relatively better-off households, options are more limited than before, with access to savings compromised in some cases.

**The economic consequences of the dual shocks are transmitted to households through three main channels:**

- **Jobs and labor income losses.** The impacts are not distributionally neutral. The jobs and incomes channel will further affect those already struggling most profoundly due to COVID-19 or underlying poverty and vulnerability. There have been widespread job and income losses in manufacturing, construction, and in the service sector, which had been already heavily affected by COVID-19 impacts in 2020. Affected workers are, for example, poorer informal daily wage workers in the construction sector, and women employed in garments factories, who are more likely to come from poor and near-poor households, based on evidence from the 2017 MLCS. Given lack of savings (or limited access to savings) and the protracted COVID-19 impacts, the coup will result in deprivation even for previously more secure groups working in the service sector.
- **Decline in remittances.** In 2017 more than 12 percent of households reported receiving internal remittances, particularly in Ayeyarwady and Chin State, and 7.5 percent reported receiving international remittances, particularly in Kayin, Mon, Shan, and Bago.<sup>44</sup> COVID-19 is estimated to have caused a substantial decline in international remittances. According to World Bank estimates, total international remittances sent via formal channels fell 7 percent in 2020. However, most remittances sent to Myanmar are informal, so this figure presents only a partial picture. Estimates of total remittances from UNDP suggest that the outbreak caused a 20 percent decline. Restrictions to international migration will continue to constrain remittances, affecting an important channel for poverty reduction in the medium-term. Financial sector disruptions are inhibiting inflows of international remittances or increasing their cost. In addition, with migrant workers returning from cities to their villages, or experiencing reduced or unpredictable incomes, domestic remittances will continue to falter. Impacts through declines in domestic remittances have the potential to affect a much larger number of households, and households which are more likely to be poorer. At the same time, returnees may face saturated labor markets and increasing risks of social tensions.
- **Prices of basic commodities.** Increasing prices of basic agricultural commodities are negatively affecting both farmers and consumers. As noted previously, farmers are being squeezed by lower farmgate prices and higher input prices resulting from increases in shipping and transportation costs, while struggling to access markets to sell their produce and to repay debts accumulated at the height of the COVID-19 period. Poor harvests and returns in this sector have the potential to have a significant impact on poverty and rural livelihoods, given the vast majority of the poor (87 percent) live in rural areas and were primarily reliant on the agricultural sector in 2017, on average for two thirds of their incomes.<sup>45</sup> Meanwhile, the price of imported food commodities and non-food products such as fuel has increased, weighing heavily on households' purchasing power. Poorer households will be particularly affected by increases in prices of food and basic commodities, given they devote a higher share of their total expenditures to these goods and may have limited substitution possibilities.

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<sup>44</sup> Central Statistical Organization, UNDP, and World Bank, 2018. *Myanmar Living Conditions Survey 2017: Key indicators report*. Yangon and Nay Pyi Taw, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

<sup>45</sup> Central Statistical Organization (CSO), UNDP and World Bank. (2020). *Myanmar Living Conditions Survey 2017: Socioeconomic report*. Nay Pyi Taw and Yangon, Myanmar: Ministry of Planning, Finance and Industry, UNDP and WB.

## II. Economic outlook and projections

Economic output is likely to fall sharply this year, leaving the economy about 30 percent smaller than pre-COVID projections, with substantial impacts on livelihoods.

**GDP is projected to fall by 18 percent in FY2021 (year to September), consistent with a broad-based contraction across all sectors** (Figure 46). Coming on the back of the second wave of COVID-19 in late 2020, the coup has had particularly marked impacts on large industries such as manufacturing (about a quarter of the economy in 2019), wholesale and retail trade (about 20 percent of the economy), transport (about 12 percent), and construction (about 6 percent). Agriculture – particularly critical for livelihoods outside the major urban areas – is also being affected by financial disruptions, higher input costs and constraints in transporting produce to markets. The overall projection is consistent with a sharp downturn over the February to April 2021 period but signs of stabilization in some areas – including mobility, logistics and transport, and manufacturing activity – in May and June.

**In the fourth quarter (July to September 2021) the third wave of COVID-19 is expected to severely exacerbate the ongoing supply- and demand-side constraints associated with the coup.** The current trajectory of case numbers and positivity rates indicates that the recent resurgence in COVID-19 will pose a severe threat to lives, livelihoods, and the economy. These impacts have the potential to be significantly worse than for the first two waves which hit in 2020, given the much weaker state of the economy and the current lack of capacity in the public health system to adequately respond. In addition to the direct health impacts, stay-at-home measures and precautionary behavior will restrict mobility, further weaken consumption and investment, and lead to additional disruptions to businesses' operations and the supply of labor and inputs. External trade will also be constrained by the closure of border crossings that have recently been imposed.

**An economic deterioration of this magnitude will be hugely damaging to livelihoods.** An 18 percent contraction in FY2021, coming on top of very weak growth in FY2020, would mean the economy is around 30 percent smaller than it would have been in the absence of COVID-19 and the further contraction observed since February 2021. The corresponding reductions in income and employment will compound the welfare challenges faced by the poorest and most vulnerable – including those that were hit hardest by COVID-19 in 2020 – leading to an additional increase in poverty, heightened food security risks, and deeper destitution for those already poor. Even in October 2020, around half of all households reported reducing food or non-food consumption in response to the surge in COVID-19 cases – with savings now drained even further, additional declines in household consumption are expected, with a corresponding deterioration in nutrition. Prolonged economic and physical insecurity will impact mental health and aspirations. Human capital gains of the last couple of decades have the potential to be largely eroded (see Chapter III. Development progress at risk). Schools were closed throughout the 2020-2021 year, and closed again in July due to the third wave of COVID-19.

Figure 46: Real GDP growth and contributions to growth by sector

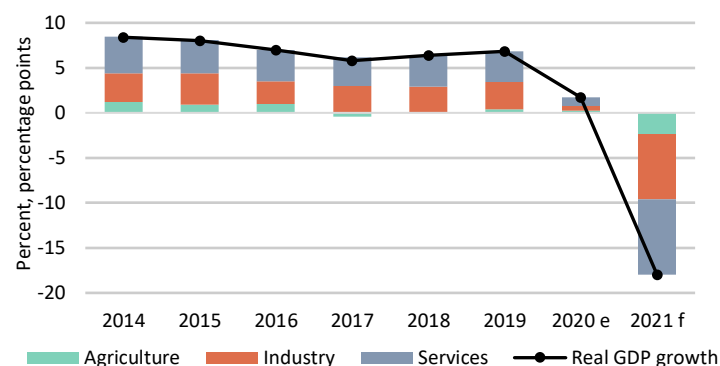




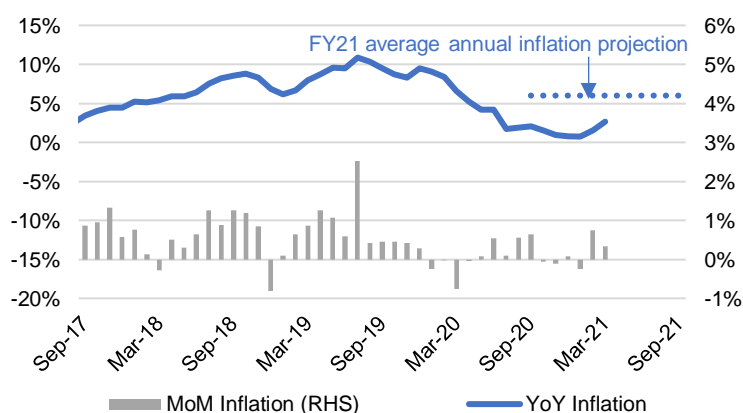
Table 3: Economic data and FY21 projections

	FY2017	FY2018	FY2019	FY2020 e	FY2021 f
<b>Real GDP growth, at constant factor prices</b>	5.8	6.4	6.8	1.7	-18.0
Agriculture	-1.5	0.1	1.6	1.2	-10.5
Industry	8.7	8.3	8.4	1.3	-20.3
Services	8.3	8.7	8.4	2.3	-19.9
<b>Inflation (Consumer Price Index), year average</b>	4.7	5.9	8.5	5.8	6.0
<b>Current Account Balance (% of GDP)</b>	-6.8	-4.7	-2.8	-3.4	-1.0
<b>Fiscal Balance (% of GDP)</b>	-2.6	-2.9	-3.8	-6.5	-8.5
<b>Public Sector Debt (% of GDP)</b>	38.4	40.3	38.8	40.5	55.2

Prices are rising and balance of payments vulnerabilities have increased.

**Inflation is expected to rise in FY21 due to kyat depreciation and trade and logistics constraints, though weak demand will have a dampening effect.** In March 2021, inflation remained relatively contained at 2.6 percent in year-on-year terms, following (year-average) inflation of 5.8 percent in FY2020. But the significant depreciation of the kyat against the US dollar has passed through to the prices of imported consumer goods and inputs, while trade, logistics and other supply constraints have added further upward pressure to the prices of both tradable and non-tradable goods and services. The manufacturing PMI data indicate that higher input prices have been reflected in higher output prices in recent months. Fuel prices have risen by around 50 percent since the end of January. Offsetting these pressures has been a substantial fall in incomes and employment within Myanmar which has contributed to much weaker demand, particularly for discretionary purchases. Overall, average annual inflation of 6 percent is projected for FY2021, which would be consistent with a significant acceleration in inflation in the second half of the year (Figure 47). Nevertheless, some prices – including food prices in some food-deficit areas of the country – are likely to increase more sharply, with adverse impacts on real incomes and livelihoods for households in these areas.

Figure 47: CPI Inflation



Source: Central Statistical Organization, WB projections

**The external accounts are likely to be heavily affected.** As imports have declined more than exports in FY21 (up to June), the trade deficit is expected to decline, and the current account deficit is projected to narrow to 1 percent of GDP, from 3.4 percent of GDP in FY20. Despite the narrowing of the current account deficit, a sharp decline in foreign investment and financing from development partners is likely to put further pressure on the balance of payments, with foreign exchange reserves at around 4.7 months of imports (as at September 2020) providing a smaller than optimal buffer. In the absence of further exchange rate adjustment, shortages of foreign currency are likely to continue.

The fiscal deficit is expected to widen, primarily due to falling revenues, while gross public financing needs could create significant fiscal pressures.

**The impacts of the coup on economic activity and revenue collection are likely to further widen the fiscal deficit, which was already elevated due to the impact of COVID-19 in FY20.** In nominal kyat terms, total revenue is projected to fall by 25 percent in FY21, falling from 19.8 percent of GDP in FY20 to 17.2 percent in FY21. The decline in revenue is attributable to the projected contraction in the tax base, and disruptions to tax and non-tax revenue collections (Figure 48). Spending is projected to decline by around 15 percent from last year, consistent with potentially severe cuts in public service provision. The deficit is projected to expand from -6.5 percent of GDP in FY19/20 to -8.5 percent of GDP in FY20/21, slightly higher than the FY21 deficit forecast (8.1 percent of GDP) in the December MEM (Figure 49).<sup>46</sup>

Figure 48: Public sector revenue (share of GDP)

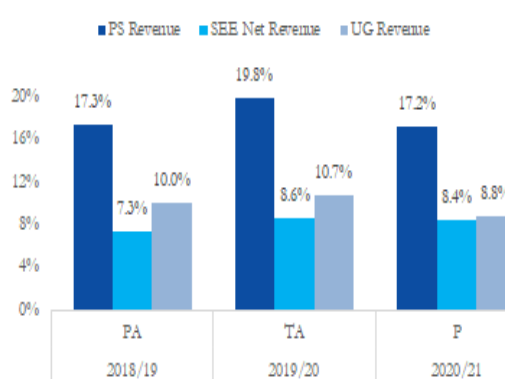
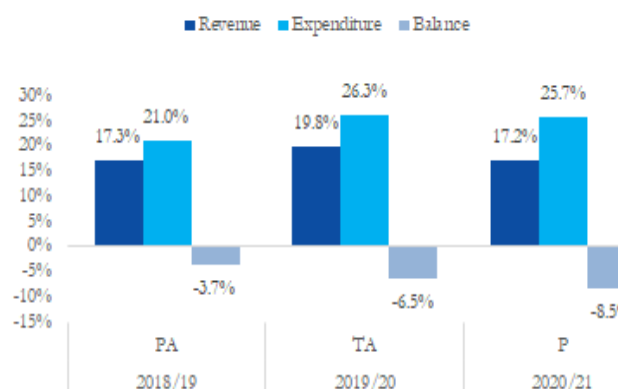


Figure 49: Fiscal aggregates (share of GDP)



Note:

**TA** (Temporary Actual): The temporary actuals are the first unaudited actual revenue and spending figures.

**PA** (Provisional Actual): The provisional actual reconciles the temporary actual figures with bank statements from the MEB. Typically, changes between the TA and PA are not large.

**P** is WB projection.

Source: WB staff estimates

**Public debt will rise.** Debt to GDP is projected to increase from 40.5 percent of GDP in FY19/20 to 55.2 percent in FY20/21. This is due to the increase in the fiscal deficit, with the nominal kyat value of public debt projected to increase by around 18 percent in FY21, as well as the projected contraction in GDP.

**While Myanmar is likely to face significant gross financing needs in FY21, its access to financing is likely to be constrained.** Together with the projected fiscal deficit, debt amortization requirements are projected to see total gross financing needs exceed 13 percent of GDP in FY21. On the other hand, access to traditional sources of financing appears to be heavily constrained. The participation of private banks in recent domestic debt issuances has been very low, with the state-owned Myanmar Economic Bank purchasing the large majority of T-Bills and T-Bonds offered to the market since February. Official sources of international financing have also been paused or withdrawn. A return to reliance on CBM financing is possible, but would unwind gains made in recent years to reduce deficit monetization and could potentially have significant impacts on the exchange rate, inflation, and the overall credibility of macroeconomic management.

<sup>46</sup> Note that deficit presented in this report is based on government's analytical method of budget presentation which is different from the GFS presentation. On revenues, there are differences in how taxes on property and sales of goods and services are accounted for; on expenditures, there are differences in the accounting of goods and services purchases, as well as subsidies and transfers.

Substantial job losses are likely to result from recent shocks, alongside cuts to hours and wages.

**The COVID-19 outbreak and the military takeover have created significant disruptions in the labor market.** The World Bank high-frequency household surveys show that job losses have been widespread since the beginning of the pandemic. While impacts were most severe at the beginning of the pandemic, the share of household heads reporting not working remained above 20 percent since the surveys started in May 2020.<sup>47</sup> Job losses have been experienced across sectors, but as the pandemic continued in 2020 impacts have been felt more sharply in retail and personal services (and these sectors are expected to be hit hardest by the ongoing third wave). The coup has led to further reductions in employment, with reports of significant job losses in manufacturing (which employs mainly women), construction, and services sectors that were already experiencing the effects of the COVID-19 outbreak.

**Around 1 million jobs are projected to be lost in FY2021 as a result of the forecast contraction in economic output,** equivalent to 4 to 5 percent of total employment in 2019. Employment is projected to shrink by around 300,000 jobs in the industrial sector, driven by large losses in construction and manufacturing, and by around 600,000 jobs in the services sector, driven by large losses in wholesale and retail trade. The agricultural sector is also projected to see job losses, although these will be mitigated by the trend of displaced workers from other heavily affected sectors returning to their hometowns and villages and moving into agriculture and/or self-employment as a safety net.

**In addition to these job losses, other labor market adjustments will also have significant impacts on incomes and welfare.** These include the taking of forced or unforced leave (i.e. temporary rather than permanent employment loss), reductions in working hours and wages, and declines in job quality. Such adjustments still imply substantial income and welfare impacts for affected workers, but can potentially allow a smoother return to 'full' employment once economic conditions improve. Other studies have found that reductions in working hours, rather than job losses, were the main channel of COVID-19's labor market impacts across Asia in 2020.

The impact on poverty is likely to be severe.

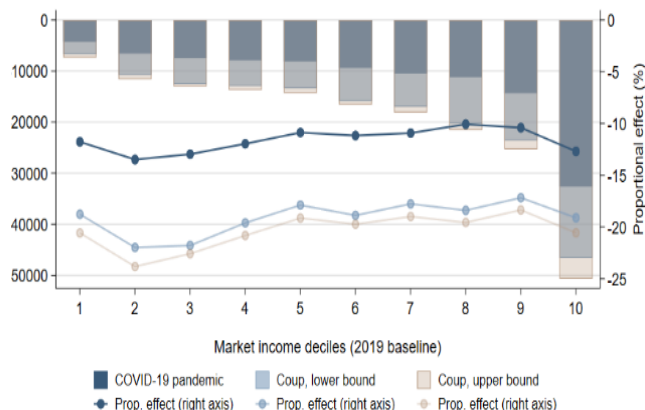
**While no systematic evidence on welfare measures is available at this point, simulation models based on the macroeconomic projections indicate that poverty is likely to become substantially worse in FY21.** For households across most income deciles, disposable income could decrease by 20 percent due to employment losses, remittance losses, and the end of cash transfers that supported households during COVID-19 pandemic in 2020 (Figure 50). Households in the lower income deciles are expected to see the sharpest declines, on average. Simulations conducted before the third wave of COVID-19 emerged indicate that poverty could double by the beginning of 2022 compared to what poverty was estimated to be in March 2020 (Figure 51). The economic implications of the coup compound the already severe impacts of the pandemic.<sup>48</sup> These simulated poverty estimates for 2022 were produced combining the imputed poverty level across HFS rounds for 2020 and 2021, and extending the analysis with estimated labor income losses (based on GDP sectoral projections) and non-labor income losses (as all government cash transfer programs and remittances stopped, see Annex 1). As the third wave of COVID-19 outbreak struck and strict containment measures were reimposed, an even worse scenario could unfold, with poverty levels in 2022 rising to well over twice as high as they were in 2019, wiping out gains of over a decade of poverty reduction progress.

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<sup>47</sup> World Bank, 2021. "Poverty and Welfare Impacts of COVID-19 and the Military Takeover: Preliminary Insights."

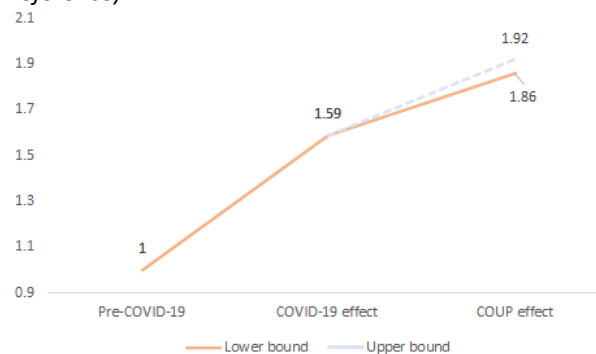
<sup>48</sup> Further details on different scenarios of economic slowdown and transmission channels are available in the UNDP report (UNDP, 2021). Results presented here differ from those of the UNDP, with these estimates calculated on the assumption that poverty had decreased between 2017 and 2019, given the favorable macroeconomic context.

Figure 50: Change in disposable income since 2019, by deciles



Source: authors' simulations based on 2017 MLCS data. Note: Simulations of income losses during the coup include additional losses of employment as reflected by sectoral changes in the GDP and two labor demand scenarios: elasticity of 0.7 (lower bound) and elasticity of 1.0 (upper bound). See Annex 1 for more information.

Figure 51: Relative poverty ratio (pre-COVID as reference)



Source: authors' simulations based on 2017 MLCS data. Note: Simulations of income losses during the coup include additional losses of employment as reflected by sectoral changes in the GDP and two labor demand scenarios: elasticity of 0.7 (lower bound) and elasticity of 1.0 (upper bound). Note that we are here simulating poverty changes for a whole year rather than for each round and to do so we are using 2017 MLCS data with information on income losses from HFS. The 2017 MLCS has a better coverage and representativeness of poorer households. See Annex 1 for more information.

There is significant uncertainty around the outlook, even in the near-term, and downside risks are elevated.

**Amid substantial uncertainty around the magnitude and duration of recent economic shocks, there are wide error bands around the 18 percent contraction in Myanmar's economy projected for FY21.** Relatively severe economic impacts already appear to have persisted for longer than what was assumed even in March – when we projected a 10 percent contraction in GDP for FY21 – while the third wave of COVID-19 will have significant additional economic impacts in the September quarter, although the precise magnitude is difficult to predict. Previously, there was some evidence of a 'new normal' economy emerging from around mid-May, with signs of improved mobility, private sector workers returning to work, and easing constraints in the logistics and transport sectors. But substantial supply and demand constraints persisted – including in the financial sector – and the third wave of COVID-19 is already exacerbating these economic constraints, lowering domestic demand, trade, and workplace activity, in addition to its significant impacts on lives and livelihoods. The evolution of the current COVID-19 outbreak remains a significant risk. The outlook will depend on the public health response, the actions of the military authorities, the persistence of the resistance and civil disobedience movements, the political and security situation more generally, and the responses of external actors, including the impacts on external trade and investment.

**Banking sector risks remain elevated, while external and fiscal vulnerabilities are building.** While banknote printing has reportedly resumed, it remains unclear whether and when banks will be able to supply the kyat liquidity businesses need to purchase inputs, pay staff, and receive payment for goods and services. In addition to the ongoing liquidity pressures, structural issues on bank balance sheets – including a legacy of non-performing loans – are likely to have worsened due to the shock to the real economy. In the absence of renewed inflows of foreign exchange, additional pressure on the exchange rate is likely, and the supply of US dollars may remain limited, constraining businesses' and households' access to imports. Further declines in revenue collection would result in additional pressure on the fiscal position and gross public financing needs, which are already likely to be difficult to meet given current financing constraints.

### III. Development progress at risk

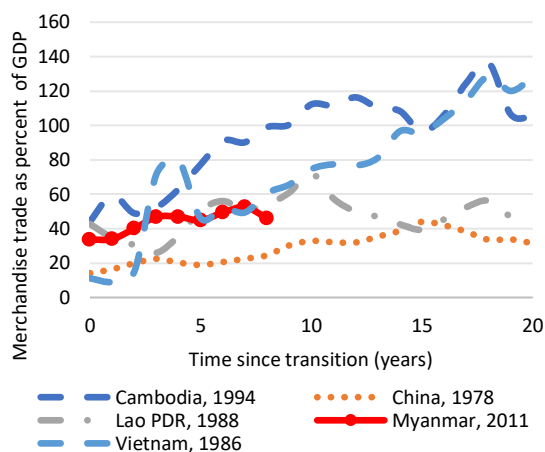
Current economic circumstances stand in stark contrast to progress made over the last decade.

**Myanmar has come a long way over the last ten years, loosening many of the restrictions to economic growth and development that had constrained the country over previous decades.** In 2011, political and economic reforms provided hope for more durable progress towards inclusive development. Progress included a ceasefire with some Ethnic Armed Organizations (EAOs) and advances toward a peace process; free elections and a change in power in 2015; opening to the private sector; and the concomitant lifting of Western sanctions. In line with the growth model in other Asian countries, the general intent of reform was to support more stable, export-led growth financed through higher domestic savings and foreign investment.

**The second stage of reforms was underpinned by improvements to macroeconomic management and the deregulation of trade and key economic sectors.** Three policy areas were key. First, the unification of the exchange rate stabilized a chronically volatile macroeconomic environment and fostered trade integration. Second, making the Central Bank of Myanmar an autonomous institution not obliged to monetize deficits was an important step toward building investor confidence. Third, opening tightly regulated sectors in the economy to foreign investment, including telecoms and manufacturing, made a wider range of goods and services available at lower prices. In the telecommunications sector, the government broke the monopoly of State Economic Enterprises (SEEs) and awarded three mobile licenses to foreign operators, causing remarkable growth in mobile ownership.

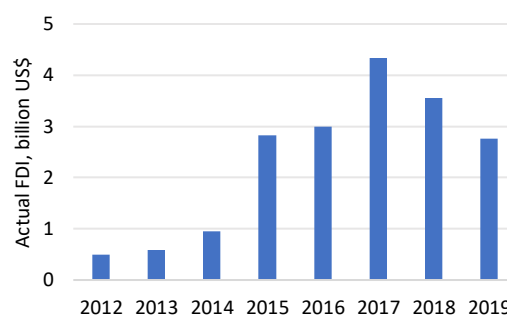
**The transition since 2011 catalysed major economic reform achievements.** Domestic reforms bolstered the international image of Myanmar, and almost all sanctions were lifted in 2012-2013<sup>49</sup>. Policies such as the removal of trade license requirements opened the economy to trade and investment and facilitated a re-integration of Myanmar in international markets. Export and import trade increased, and foreign direct investment soared, from a very low base, before moderating more recently (Figure 52, Figure 53). After decades of debilitating restraints, Myanmar's business owners and operators pushed to overcome bureaucratic and technological obstacles.

Figure 52: Reforms supported trade ...



Source: WDI and World Bank staff calculations

Figure 53: ... and foreign investment



Source: Directorate of Investment and Company Administration (DICA)

<sup>49</sup> The 2017 Rakhine crisis did negatively impact on Myanmar's international standing and led to targeted sanctions being reimposed.

**There was a significant growth acceleration from 2011 to 2019, driven primarily by capital investment.**

Between 2011 and 2019, GDP grew by an average of 6.3 percent per year, putting Myanmar among the fastest growing countries in the world over that period. This growth was driven primarily by the accumulation of physical capital – following decades of under-investment – with business confidence and investment spurred by economic opening and reform. Economic progress was matched by an acceleration in real GDP per capita growth and other favorable development outcomes, including a rapid reduction in the rate of extreme poverty.

**Significant progress was also made towards improving Myanmar’s stock of human capital, critical to sustaining economic growth and development over longer periods.**

Myanmar has made significant gains in the education sector in the past decade. Notable achievements include improved access to basic education;<sup>50</sup> improved completion rates;<sup>51</sup> an updated national curriculum;<sup>52</sup> more and better qualified teachers;<sup>53</sup> and the development of the Basic Education School Quality Assurance Standards Framework to guide quality assurance efforts in all schools. Alongside strategic reform, public spending on education has increased significantly from US\$230 million in 2011 (3.7 percent of total Union spending) to US\$1.5 billion in 2020 (8.4 percent of total Union spending). Notable improvements in health have also been made over the past decade. Government health spending per capita has increased fivefold. Health outcomes, particularly in the reduction and management of communicable diseases, such as malaria, HIV/AIDS, and TB have also improved. For example, the incidence of malaria decreased by around half between 2012 and 2015.

**While the trajectory was in the right direction, further steps were needed to improve the accessibility and quality of health and education services.**

The World Bank’s Human Capital Index shows that a child born in Myanmar today can contribute to the economy only roughly half of what it could with full access to adequate health, education, and nutrition. A child who starts school at age 4 can expect to complete 10 years of schooling by his or her 18<sup>th</sup> birthday, but only 6.8 years when factoring in what children actually learn (Learning Adjusted Years of Schooling – LAYS).<sup>54</sup> Health and education spending as a proportion of GDP remain well below regional benchmarks. Nevertheless, in the decade to 2020 a platform had been laid for further progress: to continue the trend of increased spending on health and education, but sharpen the focus on how well (as well as how much) funds are spent.

Recent events have put this progress at risk, with significant impacts on investment and the business environment.

**Investment and investment intentions have fallen substantially since February, with longer-term implications for the capital stock and the productive capacity of the economy.**

FDI commitments have fallen, with implications not only for the capital stock, but also for the access to skills and technology that FDI tends to bring, critical for the development of local industry. Several international firms have severed ties with military-linked businesses and state-owned enterprises. Other international investors have adopted a ‘wait-and-see’ approach, pausing or scaling back their operations in the country while the security and economic situation

<sup>50</sup> Access to basic education has significantly improved as measured by the Net Enrolment Rate (NER). The NER in primary education has increased gradually from 94.5% in 2014-15 to ~97% in 2018-19. The NER in middle school has increased by more than 17 percentage points in five years, to 71.5% in 2018-19. In four years, the high school NER increased substantially to reach 46.2% in 2018-19. Enrolment in TVET programs has increased noticeably during the period of NESP 2016-2021 implementation. Between 2016-17 and 2019-20, the number of students grew from 6,604 to 8,431, a 27.7% increase.

<sup>51</sup> The primary completion rate increased from 66.8% in 2015-16 to 76.4% in 2018-2019. For middle school it increased from 70.8% to 87.6% over the same period.

<sup>52</sup> The new curriculum, along with its textbooks, teacher guides, teaching/learning resources and teacher training have been put in place for kindergarten and grades 1-4, 6-7, 10.

<sup>53</sup> Student-to-teacher ratios have been steadily falling since 2012-13 in primary (29:1 in 2012-13 to 21:1 in 2019-20) and middle school education (37:1 in 2013-14 to 27:1 in 2019-20) a result of a growing number of teachers in both primary and middle education schools.

<sup>54</sup> World Bank Human Capital Index 2020.

remains volatile. High levels of uncertainty about the future evolution of the economy and economic policy persist, reducing the incentives to invest.

**Since February the environment for doing business has worsened, which will impact productivity across the economy.** Leading up to the coup, COVID-19 had already impacted private sector activity and investment, but firms were hopeful for the future, with over 80 percent of firms surveyed in December 2020 expecting to recover within 6 months. But firms have experienced disruptions to supply chains, trade and logistics, access to liquidity and financial services, and connectivity since February 2021 – resulting in a much tougher operating environment and greater negativity about the outlook (see section I.C. on Impacts on firms). Businesses also face a range of security threats which require them to adjust their operations to ensure the safety of their workers and their customers, pulling resources away from alternative uses. In all these ways, the capacity of firms to use their existing resources and capabilities for productive purposes has weakened.

Human capital development has also been jeopardized due to a severe disruption to health services and considerable education losses.

**Since February 2021 there has been a significant reduction in capacity to deliver health services.** It has been estimated that approximately half of the national health workforce in Myanmar are participating in the CDM. Essential programs to boost immunization and prevent HIV-AIDS, tuberculosis, and malaria have been severely constrained. Like other imported products, the supply of medicines and medical equipment has been affected by trade, logistics and financial sector disruptions. Health workers have been subject to attack in some cases. Limited availability of reliable data on service delivery, including routine immunization and COVID-19 vaccination coverage, as well as limited functionality of disease surveillance (including COVID-19), will affect the timeliness and adequacy of any response.

**The first two waves of COVID-19 have already had a devastating impact on the education sector.** Public schools remained closed for the entire 2020-2021 school year, which has resulted in significant learning losses. But school closures are likely to have disproportionately affected students from marginalized households, notably in rural and conflict-affected areas. Girls and female youth are more at risk of permanently dropping out, and face heightened risks of sexual and gender-based violence (SGBV) and early pregnancy.<sup>55</sup>

**Estimates suggest that about 75-80 percent of schools reopened for the 2021-22 school year in June, but schools have subsequently closed in response to the third wave of COVID-19.** The reopening in June was marked by low levels of attendance by both students and teachers. Large numbers of teachers, academics, and other staff at schools and universities have gone on strike since February, some of whom have now been suspended from their jobs. Data from end of May, indicates that more than 125,000 teachers have been suspended.<sup>56</sup> Major development partners have suspended their support to the MOE. In FY 20-21, approximately 7 percent of total budgeted recurrent and capital expenditure was financed by foreign aid.<sup>57</sup> The suspension translates into a potential reduction in the education budget of US\$130M in FY 21-22, which is bound to have an impact on ongoing reforms and core activities in the MOE.

**The closure of schools will result in significant learning losses.** Significant negative impacts are projected for Expected Years of Schooling (EYRS), Learning Adjusted Years of Schooling (LAYS), learning outcomes, and income earning potential. While learning loss estimates vary, the current student cohort from four to 17 years of age is likely to have lost between 0.6 and 1.1 of their LAYS due to schools being closed throughout 2020-21, and these losses could potentially double if schools remain closed in 2021-22. This would entail a

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<sup>55</sup> UNICEF, [UNICEF Education COVID-19 Response \(Issue Brief: COVID-19 and Girls' Education in East Asia and Pacific\)](#), October 2020

<sup>56</sup> Myanmar Teachers Federation; Reuters, [“More than 125,000 Myanmar teachers suspended for opposing coup”](#), May 23, 2021

<sup>57</sup> Loan, budget support and grants.

significant drop in learning outcomes, which could potentially lower average annual earnings over the lifetime of affected students by around US\$385 (in 2017 PPP terms). Extended school closures may cause not only loss of learning, but also further losses in human capital and even more diminished economic opportunities over the longer term.

**School closures compounded by income inequalities will disproportionately affect students from marginalized households, notably in rural areas.** The impact of school closures has additional ramifications for children's health, nutrition, and protection. There is a risk that children from vulnerable households could be drawn into child labor to mitigate the economic impact on families and will not return to school. There is also a heightened risk of sexual and gender-based violence (SGBV) and early pregnancy, which in turn negatively affect girls' ability to access education.<sup>58</sup> 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.<sup>59</sup>

And the ability of people to deploy their human capital – including through migration – is likely to be constrained.

**The labor market disruptions caused by COVID-19 and the coup could limit the opportunities for Myanmar's human capital to be put to productive use.** While the education level of Myanmar's workforce is low overall, younger workers in Myanmar are more highly educated than older ones, which has created an opportunity to meet the skills demands of a growing and more globally integrated economy. But the dual shocks of COVID-19 and the coup are likely to limit the extent of these opportunities. Job loss and unemployment, particularly among young people, can have longer-term effects on the human capital of workers and their family members. While research on developing countries is limited, studies in developed economies find that unemployment spells can lead to lower earnings and worse labor market outcomes in the longer run in part because skills erode. Unemployment among adults can also negatively affect accumulation of human capital by disrupting investments in children and the family environment.<sup>60</sup>

**The shutdown of migration channels is also likely to have longer-term implications for human capital development and deployment.** Migration has significant benefits for internal and international Myanmar migrants beyond the immediate impacts of better paying jobs on migrant and household wellbeing.<sup>61</sup> Migrants gain skills while working abroad with evidence that returned migrants are more likely to work in more highly skilled jobs outside of the farm sector and to be self-employed in non-agricultural work upon their return to Myanmar. Households in Myanmar increasingly use remittances not just for consumption but also to make investments in health care, education, and productive assets.

**The COVID-19 outbreak had already limited the opportunities that migration creates for many people in Myanmar.** The outbreak led to the return of more than 165,000 Myanmar migrants from abroad, primarily from Thailand and China, due to restrictions, economic disruptions, and safety concerns related to COVID-19 (IOM 2020). Many returned migrants reported plans to remigrate as soon as COVID-19-related travel restrictions were lifted, but continued outbreaks in Thailand and other destination countries have meant that these restrictions have remained in place. Indeed, an estimated 35,000 migrants have moved back to Myanmar from Thailand since February 2021 due to COVID-19, job loss, and expired visas.<sup>62</sup> Many internal migrants

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<sup>58</sup> UNICEF, October 2020. [UNICEF Education COVID-19 Response \(Issue Brief: COVID-19 and Girls' Education in East Asia and Pacific\)](#).

<sup>59</sup> Ibid.

<sup>60</sup> Francesconi, Marco and James J. Heckman. 2016. "Child Development and Parental Investment: Introduction," *The Economic Journal* 126:F1-F27.

<sup>61</sup> Testaverde, Mauro, Harry Moroz, and Puja Dutta. 2020. *Labor Mobility as a Jobs Strategy for Myanmar: Strengthening Active Labor Market Policies To Enhance the Benefits of Mobility*. Washington, D.C.: World Bank.

<sup>62</sup> IOM (International Organization for Migration), 2021. "Myanmar Mobility Monitoring Assessment."



also returned home when COVID-19-related restrictions were put in place. The disruption of the migration experiences of these migrants has cut off access to jobs for the migrants and to the remittances that they send home, while also increasing competition for scarce jobs in their home communities.

**The impacts of the coup further complicated labor mobility.** The takeover has led to more internal migrants returning home, and made mobility into a coping mechanism rather than a channel of opportunity. UNHCR estimates that between February 1, 2021 and May 2021 61,000 people were displaced internally primarily from Yangon to Rakhine, Ayeyarwady, and Kachin due to instability and job losses.<sup>63</sup> While there are reports of returns to Hlaing Tharyar Township in Yangon, the availability of jobs remains uncertain due to weak demand and factory closures. An additional 12,000 refugees moved to neighboring countries between February and May.<sup>64</sup>

With fundamental drivers of growth at risk, the economy could potentially become more dependent on extractive and/or illicit activities.

**Economic growth is driven by the accumulation of physical and human capital, and by increases in productivity (i.e., improvements the way in which this capital is used).** But investment in both physical capital and education is likely to decline substantially as a result of the combined impacts of COVID and the coup, jeopardizing the contribution of these drivers of growth in the medium and long term. Productivity growth is also likely to be severely curtailed as businesses continue to deal with supply constraints, disruptions to public and financial services, and ongoing uncertainty and security concerns. Mobility constraints act to prevent labor from moving to areas and activities where it can be more productive.

**Given the weakening of traditional drivers of growth and the constraints facing the formal economy, natural resources and illicit activity have become more attractive as a source of income and foreign exchange.** Already there has been a reported pick-up in illegal mining activity for rare earths and jade, while the military authorities have announced their intention to sell a range of metal ores and tailings in July, following the auction in May of previously-seized illegal timber. Increased deforestation activity has been reported in Tanintharyi and Shan states since February. In 2021 to date, Thai drug authorities have reportedly seized double the amount of yaba and crystal meth than they had by this point last year.

**These developments highlight some of the environmental and social risks associated with the rebalancing of the economy toward extractive activities.** Illegal rare-earth mining was controlled under the civilian government, but inspections have reportedly ceased in recent months, resulting in a sharp increase in mining activity. The mines pollute soil, waterways and groundwater. Deforestation is a significant threat to biodiversity, with Tanintharyi home to a range of unique and endangered species. Moreover, while substantial financial gains are associated with these activities, the benefits tend to accrue to only a few, with little positive spillover to the broader economy and significant potential to disrupt local communities and trigger conflict and violence.

A return to a more interventionist and inward-looking approach to economic management would also limit prospects for sustainable and inclusive growth.

**In the decades following the inauguration of the Burmese Way to Socialism in the early 1960s, Myanmar was an inward-looking economy,** which aimed to reorient production toward internal demand by restricting trade and repressing prices. Basic public goods and services were not provided while military spending was high. This took Myanmar on lower development path than its peers who instead sought to open the private sector to domestic and foreign trade and investment, and double down on fundamental basic service provision.

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<sup>63</sup> UNHCR (United Nations High Commission on Refugees). 2021. *“Myanmar Emergency Update”*, and IOM (2021)

<sup>64</sup> UNHCR (2021).

**Recent announcements indicate that some of these import substitution policies may have been revisited.** Individual traders are no longer permitted to import soap, detergent and toothpaste through land borders, with the stated justification to safeguard the interests of local small and medium enterprises. Overland imports of certain drink products from Thailand have also been banned as of early May, including soft drinks, fruit juice, ready-made coffee, sweetened condensed milk and fresh milk. Measures to ensure local oil sufficiency and local cotton production have been promoted despite having failed in the past.

**Such measures tend to lower productivity and divert resources from their most efficient use.** While there is the potential to create employment in the short term as domestic producers supply what was previously imported, in the long run growth is likely to suffer as resources are allocated to activities that are potentially unsuited to local factor endowments. Conversely, Myanmar's striking growth performance over the last decade came at the very same time as the country was reintegrated into international markets and experienced a sharp rise in both exports and imports. Undoing these gains would risk losing the potential for productive gains from specialization and competition, as well as consumer gains from access to cheaper foreign imports.

## Annex 1: Methodology to simulate poverty impacts

Our simulations combine the 2017 Myanmar Living Conditions Survey (MLCS) data with high-frequency survey (HFS) data from the Myanmar COVID-19 Monitoring Platform carried out between March 2020 and January 2021 to assess the baseline situation before the coup, but accounting for the effects of the pandemic.

**To estimate the impacts of COVID-19** we match households in the 2017 MLCS data and HFS data based on households' characteristics, as well as the employment type of the household head and the agricultural activity of the household. We can use the 2017 MLCS consumption aggregate (a proxy for disposable income) updated based on real wage growth by sector of employment and inflation to create a dataset with baseline (pre-COVID) 2019 consumption. Income losses during the pandemic are simulated based on information on changes in employment and agricultural activity across each wave of the HFS applying the employment status of the household head to all business and employment income (work income) in the household. To account for seasonality in agriculture, we look at the proportion of household heads in the 2017 MLCS that reports working in the last 12 months but not in the last 7 days and apply this proportion to the HFS. We assume that this proportion of HH heads would not be working during a particular point in time without the pandemic, and thus we do not decrease their income.

The status of each of agricultural and non-agricultural incomes is treated independently for each wave of the survey, with each wave covering two months of income. These losses are then distributed across the year to measure the average monthly income loss for the entire year. Furthermore, the HFS also includes information on changes in income even if non-agricultural or agricultural activity continues. In cases of reduced or increased reported income we use a factor of 0.2 for the pertinent two-month period. Finally, we account for reported losses of remittances, also included in the HFPS. We also include government response programs distributing the payments across the year (the Maternal and Child Cash Transfers, the social pension programs, electricity subsidy and the GAD COVID relief scheme). A combination of regional and self-reported material characteristics from the HFS is used to match the eligibility criteria and recipient numbers of each wave of the GAD scheme in the 2017 MLCS. The 2017 poverty line is indexed to 2019 in line with inflation.

**To estimate the impacts of the coup** we use a similar methodology except that the income losses as a result of the coup are simulated based on projected sectoral changes in GDP. We assign losses of work to a randomly assigned proportion of workers in each sector with an upper bound scenario with labor demand elasticity of 1.0 and a lower bound scenario of labor demand elasticity of 0.7. The lost net labor income is calculated on a per capita basis and subtracted from the household per capita disposable income. Since changes in GDP are measured in comparison to a 2019 baseline, we only apply losses that occur on top of what has already been simulated in the COVID-19 assessment. We also decrease disposable income by what remains of remittances and eliminate all government cash transfer programs and indirect subsidies that were simulated in the baseline. This includes COVID-19 response policies, the maternal cash transfer, the social pension and electricity subsidy. Since we do not have external data on agricultural activity, we assume agricultural income stays at the same level, but maintain losses from the past year.

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