

MYANMAR
ECONOMIC
MONITOR

JULY 2022



REFORMS REVERSED



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**MYANMAR ECONOMIC MONITOR:
REFORMS REVERSED**

July 2022

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 (Program Leader and Senior Economist) and included Thi Da Myint (Country Economist, lead coauthor), Fang Guo (Economist, lead coauthor), Faya Hayati (Senior Economist), and Aka Kyaw Min Maw (Consultant). It was developed under the guidance of Sebastian Eckardt (Practice Manager, Macroeconomics, Trade, and Investment) and Mariam J. Sherman (Country Director).

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Abbreviations

ACLED	Armed Conflict Location and Event Data Project
ATM	Automated Teller Machine
bbl	Barrel of Crude Oil
CBM	Central Bank of Myanmar
CDM	Civil Disobedience Movement
CMP	Cut-Make-Pack
CPI	Consumer Price Index
CY	Crop Year
DICA	Directorate of Investment and Company Administration
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GWh	Gigawatt hours
H1	First Half
H2	Second Half
HS	Harmonized System
IFPRI	International Food Policy Research Institute
LNG	Liquified Natural Gas
MEM	Myanmar Economic Monitor
MESC	Mandalay Electric Supply Corporation
MW	Megawatt
MMK	Myanmar Kyat
MOC	Ministry of Commerce
MOGE	Myanmar Oil and Gas Enterprise
MOPF	Ministry of Planning and Finance
NPL	Non-Performing Loan
PBOC	People's Bank of China
PMI	Purchasing Managers' Index
PV	Photovoltaic
Q1	First Quarter
Q2	Second Quarter
SEE	State Economic Enterprise
UN	United Nations
YESC	Yangon Electric Supply Corporation
yoy	year-on-year

Executive Summary

Since the beginning of 2022, Myanmar's economy has faced a series of external and domestic shocks.

The war in Ukraine has caused steep increases in global prices of fuel and fertilizer, which have passed through to a broader range of goods and services. This has led to a sharp rise in input costs across all industries, and fueled inflation which in turn further strained real household incomes. Domestic electricity shortages have also impacted households and businesses across the country. The security environment has deteriorated further in northern and southern regions, while Chin and the Dry Zone remain embroiled in severe conflict. This has disrupted economic activity, with one fifth of all firms (and two fifths of all agricultural firms) surveyed by the World Bank in May 2022 indicating that conflict was the most important challenge to their operations.

Notwithstanding these shocks, some parts of the economy have stabilized and even recovered somewhat since late 2021, demonstrating the resilience and adaptability of Myanmar's businesses.

Firms have reported operating at higher capacity in 2022 than in 2021, particularly in the manufacturing sector. The manufacturing Purchasing Managers' Index reached neutral levels in the first half of 2022, after a long period of contraction. Garment manufacturers – mainly reliant on external demand – seem to have recovered relatively strongly, as demonstrated by the ongoing expansion in manufactured exports since mid-2021. Construction activity has also picked up as work on several projects has restarted after a long pause last year. This improvement in economic activity has been supported by a rise in mobility, with workplace mobility returning to pre-pandemic levels in June after substantial dips in 2021. The fourth wave of COVID-19 transmissions was much less severe than expected in January, with the number of recorded cases (and the severity of those cases) significantly lower than during the third wave in mid-2021.

But activity in other industries and services remains weak, as declining real household incomes have weighed on domestic demand.

Despite the recovery in mobility at retail and transport venues, World Bank household survey results from April 2022 suggest that real consumption – particularly of discretionary non-food items – had declined from a year earlier. Household survey results indicate that job losses, reduced work hours and lower wages and incomes from household farms and businesses have all contributed to a reduction in nominal household incomes. Real household incomes were further eroded by sharply rising inflation, with the latest available data indicating that CPI inflation accelerated to 17.3 percent (yoy) in March, driven by sharp increases in the prices of food and fuel. The weakness in private consumption was corroborated by the May 2022 firm survey results, which indicated that retail and wholesale firms' sales had fallen by more than a quarter from a year earlier.

Rising costs have affected the operations of all businesses, squeezing profit margins.

Increases in global oil prices – exacerbated by the Ukraine conflict – have driven pronounced increases in domestic fuel prices and transport costs, as well as in the cost of running diesel generators to compensate for recurring electricity outages. Over the first half of 2022, the local price of fuel rose by around 70 percent. Kyat depreciation, supply chain disruptions and the spillover effects of higher transport prices have resulted in price increases for a broader range of imported inputs, squeezing already thin profit margins. Increases in the price of fertilizer and other agricultural inputs have prompted a reduction in their use, with negative implications for future crop yields.

Despite a narrowed current account deficit, external balance of payment pressures have become acute.

The current account deficit narrowed in the year ended September 2021, due to a narrower goods trade deficit (with imports contracting by more than exports in FY2021), sharply lower travel and other services receipts, and a 30 percent decline in recorded overseas remittances. But there were more pronounced pressures on the financial account, with foreign direct investment down by about two thirds from the previous year, substantial outflows of foreign currency deposits, and sharp declines in other net financing flows through the year.

Together these resulted in a recorded reduction in foreign exchange reserves of close to US\$ 1 billion in the September quarter 2021. To the extent that these trends have continued, it is plausible that foreign exchange reserves have fallen to insufficient levels as at mid-2022 (with some reserves also inaccessible due to foreign sanctions). More recent data indicates that the US dollar value of goods imports has increased by more than goods exports in the first half of 2022, driven largely by rising imports of intermediate inputs, while FDI commitments remained very weak. This implies that neither net trade flows nor FDI flows have provided additional support to the balance of payments this year.

External pressures have been compounded by reversals of previous policy reforms. Undoing previous gains in macro-economic management, the authorities abandoned the managed float exchange rate regime, fixing the official reference exchange rate at an overvalued level not reflective of market supply and demand. In a bid to stem foreign exchange pressures the authorities also imposed foreign exchange restrictions. This has led to shortages of US dollars and a growing spread between official and parallel market rates (which had reached around 20 percent as at mid-July). In combination with onerous import license requirements, these foreign exchange restrictions have led to particularly significant impacts on the domestic supply of fuel, resulting in shortages and the emergence of a parallel fuel market to circumvent the authorities' efforts to impose price controls. Meanwhile, the imposition of kyat conversion and surrender requirements on foreign exchange earnings (and deposits) has effectively acted as a tax on exporters, with signs that the external price competitiveness of agricultural exports has been adversely affected since these measures were imposed in April. A recent central bank direction requiring banks to facilitate the temporary suspension of foreign loan repayments is intended to ease external liquidity pressures, but if implemented will likely reduce the creditworthiness and market access of Myanmar's corporate and financial sectors.

While cash liquidity constraints appear to be easing, weak financial sector balance sheets are constraining credit growth. Discussions with industry representatives indicate that non-performing loan and delinquency rates are high, having continued to rise since the start of the pandemic in 2020, with banks providing relief and rescheduling repayments on a customer-by-customer basis. Ongoing declines in asset quality have in turn prompted a cautious approach to new lending. While withdrawal limits remain in place, it has become easier to obtain kyat from ATMs and bank branches, in part due to a recovery in bank deposits.

The fiscal position has deteriorated, accompanied by shift of public spending away from critical public services. Tax collection declined from 6.5 percent of GDP in FY2020 to 4.9 percent of GDP in FY2021. Losses in large energy State Economic Enterprises (SEEs) have also contributed to an overall decline in revenue (in nominal kyat terms) of almost 30 percent. The fiscal deficit rose to around 9 percent of GDP in FY2021, with spending also falling – due to weak budget execution – but by less than the decline in revenue. Given reductions in other financing sources, there has been a return to reliance on central bank financing, in another sign of reversal of previous macro-fiscal reforms. Despite the critical importance of health, education, and social protection for livelihoods and human capital accumulation, public spending on these services has declined and budget allocations to these sectors have been sharply curtailed.

The impacts of COVID-19 and the aftermath of the military coup are estimated to have erased nearly a decade of poverty reduction progress. Estimates based on the latest available data indicate that poverty has doubled compared with its level in March 2020, with about 40 percent of the population now living below the national poverty line in 2022, matching levels of poverty a decade ago. Inequality is estimated to have worsened, with those already poor falling into deeper destitution. Moreover, household survey data indicate a movement of labor away from service industries and into agriculture over the past 18 months, as internal migration from cities to rural areas has been used as a coping mechanism to deal with job loss. However, this shift to lower productivity agriculture implies an overall decline in labor productivity, which in turn has

dampened household incomes. Lower household incomes in conjunction with higher food and fuel prices and ongoing credit/liquidity constraints have magnified risks of food insecurity, though these risks may have been at least partially offset by a pick-up in subsistence production. Household surveys indicate that coping mechanisms are under increasing strain, with over half of all households reporting cuts to non-food consumption, and significant proportions across the income distribution reporting cuts to food consumption, borrowing from friends and family, and sales of assets. While livelihoods have come under increased stress since 2020, public sector support has declined sharply, with virtually no households reporting receiving any form of social assistance in May 2022, in contrast to the 43 percent of households which reported receiving cash assistance in October 2020.

Amid persistent domestic and external headwinds, the economy is projected to only recover modestly in FY2022, implying continued pressure on incomes and livelihoods. Following the estimated 18 percent contraction in FY2021, GDP is projected to increase by 3 percent in the year to September 2022. The absence of a substantial rebound in FY2022 – with GDP still around 13 percent lower than in 2019 – is indicative of the severe supply- and demand-side constraints that continue to impact economic activity. At the aggregate level, the slight upward revision of our growth projection from the 1 percent growth forecast in the January MEM reflects the much less severe than expected impact of the fourth wave of COVID-19 in February and March. The manufacturing and construction sectors are driving most of the modest growth expected this year, with services sector activity constrained by weak demand and agricultural production hampered by higher input prices, logistics constraints, and conflict. Inflation is projected to remain elevated given persistent impacts from kyat depreciation, logistics constraints, and still-high global prices (despite a recent easing in some food and fertilizer prices). CPI inflation is projected to average 15 percent in FY22, with year-on-year inflation peaking in the second half of the year). The current account deficit is expected to widen slightly, with goods imports increasing by more than goods exports in the year to date, and services exports expected to remain weak. The fiscal deficit is expected to remain elevated in the twelve months to September 2022. Both expenditure and revenue outturns worsened significantly in FY21, and only a partial improvement in each is expected in the following 12 months.

Table ES 1: Economic data and FY22 projections

	FY17/18	FY18/19	FY19/20	FY20/21e	FY21/22f
Real GDP growth at constant factor prices	6.4%	6.8%	3.2%	-18%	3%
Inflation (Consumer Price Index), year average	5.9%	8.5%	5.8%	3.6%	15.0%
Current Account Balance (% of GDP)	-4.7%	-0.2%	-2.0%	-1.4%	-1.6%
Fiscal Balance (% of GDP)	-2.9%	-3.2%	-7.0%	-9.2%	-7.5%

Beyond 2022, the baseline outlook remains weak. On one hand, electricity disruptions appear to have eased with the onset of the rainy season (though structural constraints to supply remain), cash liquidity is more readily accessible, and mobility is trending upwards, with business activity in the main cities showing signs of normality. On some measures, business expectations about the future have strengthened. But household incomes have weakened, and coping mechanisms appear to be under increasing strain, limiting the potential for a pick-up in consumption. With global commodity prices remaining at relatively high levels and persistent downward pressure on the kyat exchange rate, domestic prices for food, fuel, and other imported inputs are likely to remain elevated over the short to medium term, constraining both production and domestic demand. The overall balance-of-payments situation is of growing concern, with foreign exchange shortages likely to continue to limit the availability of several imported items, including fuel and cooking oils. Elevated levels of conflict in some areas are expected to continue to constrain productive activity, particularly in agriculture. In conjunction with

the deterioration in the policy environment described below, these constraints imply that a return to pre-pandemic levels of economic activity in Myanmar is unlikely in the near term. This sharply contrasts with the situation in the rest of the East Asia and Pacific region, where GDP in all large countries has already recovered to above 2019 levels or is projected to do so in 2023.

Downside risks are elevated. With the exchange rate already under pressure and foreign reserves likely to have fallen to low levels, a further deterioration of the external position is a significant risk. This would ultimately require more painful adjustments to import volumes and prices, with particularly harsh effects on the poorest and most vulnerable. There are ongoing risks that conflict could become even more disruptive and spread to other parts of the country. Any further escalation would further reduce demand, strain logistics and supply chains, and increase the operating constraints faced by firms. Myanmar also remains highly vulnerable to other sources of risk, including a resurgence of COVID-19 or a natural disaster, which would severely test the authorities' capacity to respond.

Recent policy reversals are likely to have longer-term effects: inhibiting potential growth, worsening macroeconomic instability, and impairing the efficient allocation of resources. The overvalued official exchange rate, in conjunction with foreign exchange and trade restrictions, has worsened foreign currency shortages and impaired the competitiveness of Myanmar's export-oriented manufacturing and agricultural firms. The apparent return to relying on central bank financing to fund large budget deficits will heighten pressure on inflation and the exchange rate. A heavy-handed approach to the promotion of import substitution and self-sufficiency – through the institution of import and export trade license requirements, import bans and quotas, and support for import-competing activities such as steel mills and sunflower production – has curtailed imports of producer inputs and consumer goods, increased the administrative costs of trade, and reversed much of the increased openness and liberalization that has been a key driver of Myanmar's strong growth over much of the decade prior to the coup.

These policy changes are indicative of a broader shift in the way the economy is governed, with longer-term implications for Myanmar's growth and development potential. The measures described above all allow the authorities greater control over the allocation of resources in the economy (including through provision of access to foreign exchange, import licenses, regulatory exemptions, etc) raising risks of misallocation of resources to connected firms and individuals at the expense of more efficient uses. Observers have noted this broader shift away from a stable market-based system that is governed by the rule of law, and toward a system of policy making and governance that is less predictable, less clearly communicated, and characterized by more discretion in the enforcement of rules and regulations.¹ The lessons from Myanmar's economic history suggest that to the extent these trends continue, investor confidence will remain weak and the business environment will continue to suffer, constraining Myanmar's growth potential over the longer-term.

¹ Economic Research Hub. 2022. *Myanmar's Economic Governance after the Coup: Changes in Policy and Practice*.

I. Recent Economic Developments

A. Economic challenges persist

Since the beginning of 2022, Myanmar's economy has been hit by a series of external shocks, domestic disruptions, and policy-induced constraints. The war in Ukraine has pushed up the prices of key imported inputs and slowed global economic activity, including among Myanmar's main export destinations. On the domestic front, widespread electricity outages have impacted households and constrained the ability of business to operate. In many parts of the country, conflict continues to have substantial economic impacts, in addition to severe effects on lives and livelihoods. Additionally, trade-exposed businesses have faced a more difficult operating environment due to the imposition of onerous trade license requirements and foreign exchange restrictions, which among other things, have exacerbated shortages of foreign currency and delayed necessary external adjustments. These developments of the past six months have amplified supply- and demand-side pressures that had so severely tested Myanmar's economy through much of 2021.

The war in Ukraine has caused steep increases in the global prices of fuel and fertilizer, raising input costs across all industries, and putting further pressure on real household incomes. The price of Brent crude oil is projected to average \$100/bbl in 2022, a 42 percent increase from 2021 and its highest level since 2013. Together with exchange rate depreciation, this has pushed up domestic fuel prices by about 70 percent since the end of 2021 (see Section C). Non-energy global commodity prices are expected to rise by about 20 percent in 2022, in part reflecting the importance of energy as an input to other productive sectors.² The war in Ukraine has also weakened economic growth prospects among major trading partners, which may eventually affect demand for Myanmar's exports of goods and services. Land-border closures and logistics disruptions associated with China's domestic zero-COVID-19 policy have put further pressure on trade-exposed firms.

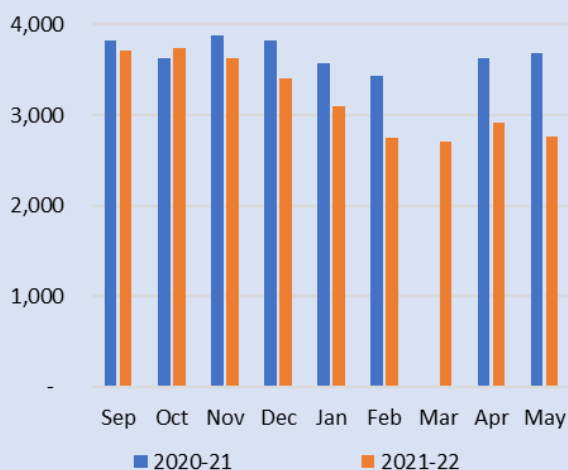
Domestic electricity shortages have affected households and businesses. Electricity generation has significantly declined since late 2021 due to the closure of gas fired rental power plants, disruption of power infrastructure, and a seasonal decline in water levels of hydropower reservoirs (Box 1). Daily generation levels have dropped significantly from 4,200 MW during the pre-coup period to around 2,100 MW – a 50 percent reduction. Two (liquefied natural gas (LNG) power plants have reportedly suspended their operations due to the higher price of imported liquefied natural gas, and in part because of the financial stress stemming from reduced demand and COVID-19-related tariff reductions since 2020. The current outages are widespread across regions, affecting small towns and rural areas of the country as well as large cities such as the commercial capital of Yangon. Most townships have suffered prolonged power shortages for large parts of the year to date, with an average of five to twelve hours of electricity outages a day (Figure 1). This has forced businesses to invest in costly alternatives such as backup generators to be able to meet their daily power needs. Structural constraints on supply are likely to persist over the medium term, despite a more recent easing in outages due to higher rainfall and water flows.

² World Bank. 2022. *Commodity Market Outlook: the Impact of the War in Ukraine on Commodity Markets*, April 2022. Washington, DC.

Box 1: Electricity supply disruptions

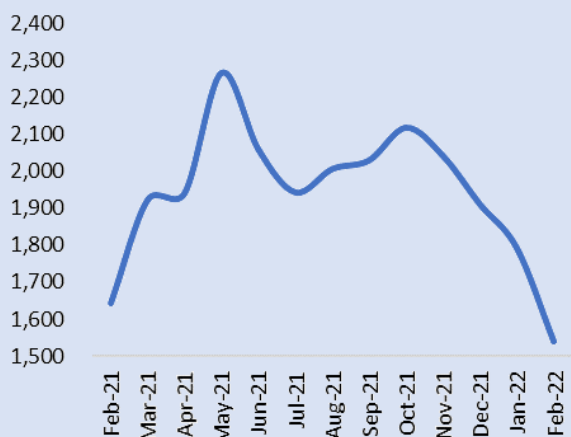
Power generation has decreased significantly since the beginning of the year, resulting in extreme load shedding throughout the country. The ministry announced in early March 2022 that merely over 2,100 MW (about 50 percent reduction from the pre-coup average daily peak generation of 4,200 MW) is being supplied to the national grid. The peak electricity generation declined by about 30 percent, from 3,747 MW to 2,763 MW, between October 2021 and March 2022 (Figure B1). In March 2022, it led to a load reduction of about 1,400 MW, which was a gap that could not be fulfilled by the current power system. Monthly electricity generation has declined significantly by about 30 percent since October last year (Figure B2).

Figure B1: Average daily peak generation (MW)



Source: Ministry of Electric Power
Note no data available for March 2021.

Figure B2: Monthly electricity generation (GWh)



Source: Ministry of Planning and Finance

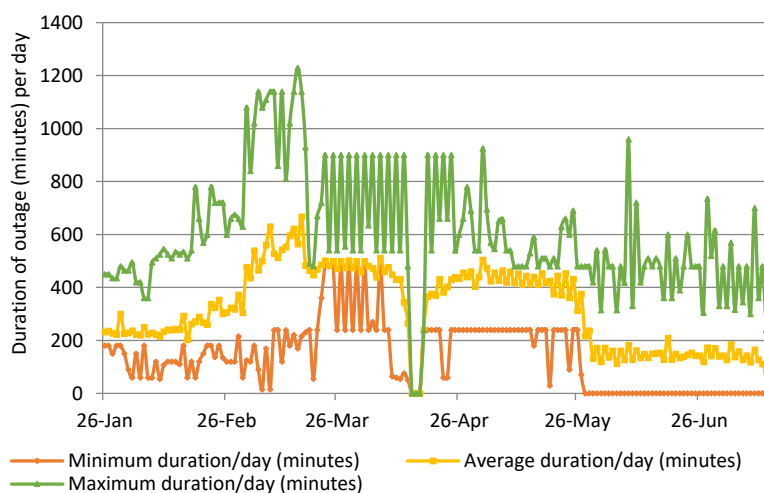
Reduction in power generation has been primarily driven by the closure of liquefied natural gas (LNG) power plants, damage to power infrastructure, and low water levels in hydropower reservoirs. The 400 MW LNG power plant in Thaketa and 350MW plant in the Thilawa Special Economic Zone in Thanlyin, both rental power producers backed by Chinese investors, have halted electricity generation with the surging LNG price and depreciating kyat making these operations not financially viable. Several transmission lines and substations, including those connecting to 220 MW Biluchaung Hydropower Plant, have been damaged and repairs have been delayed, in part due to human resource constraints. Lower water levels in hydropower reservoirs, caused by low precipitation in 2021, reduced generation capacity of hydropower plants until the rainy season started in May/June 2022. In off-grid areas, surging fuel prices made it difficult for mini-grid operators, many of whom are dependent on imported diesel, to secure fuel supply for electricity generation. Townships that are connected to the mini-grids also experienced power supply shortages and a substantial increase in electricity tariffs.

Efforts have been made to increase electricity supply, but a deteriorating investment climate poses challenges to meeting large capital expenditure needs. A 135 MW combined cycle gas plant in Kyaukphyu is under construction, owned by a joint venture between Power China and Myanmar’s Supreme Group of Companies, and expected to commence in May 2023. A few solar PV projects from an initial tender in 2020 and a subsequent tender in 2021, are still reportedly expected to move forward and add about 200-300 MW generation capacity. Another solar tender was launched in June 2022 for six projects to add about

260 MW. However, the demand-supply gap in the power sector remains much larger than the current pipeline, requiring higher capital investment to be mobilized. Furthermore, several foreign investors and developers are exiting Myanmar, with growing concerns including economic recession, political instability, foreign currency convertibility, government’s ability to meet payment obligations, and reputational risks. Several large multinational companies in the energy sector announced exit from Myanmar: 26 awardees out of 29 solar PV projects from the 2020 tender are known to have withdrawn. In the hydropower sector, Electricité de France withdrew from the large hydropower project, Shweli-3. Amid these challenges, industrial companies are seeking their own ways to secure reliable electricity supply, for example by investing in off-grid renewable energy solutions with energy storage. These solutions are becoming financially feasible given the high diesel price and supply constraints domestically, but high upfront capital needs and supply chain disruptions pose risks.

Despite recent temporary improvements, power supply disruptions will likely continue for the foreseeable future, undermining Myanmar’s business environment and economic recovery. Power outages could continue for some time if the global fuel supply disruption and price rally continue because of the war in Ukraine and other geopolitical tensions. Currency depreciation, electricity bill payment boycott, and a growing fiscal deficit will further undermine revenue income for maintenance and repair of grid infrastructure. Developing additional generation capacity to fill the gap will take time, particularly under the deteriorating investment climate. Continuing power supply disruptions will undermine economic prospects in Myanmar, with broad-based impacts across sectors.

Figure 1: Electricity outages in Yangon

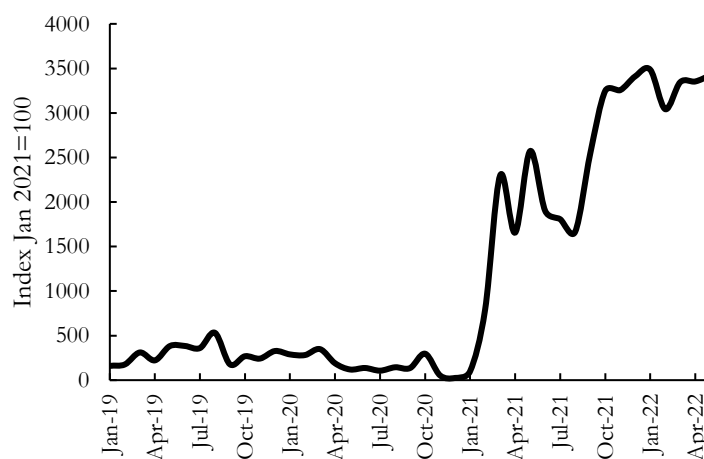


Source: World Bank monitoring team

The security environment has deteriorated further in northern and southern regions, while severe conflict persists in Chin and the Dry Zone. Data from the armed conflict location and event data project (ACLED) indicates that across the country, conflict has remained at a high level since late last year (Figure 2). Conflict has been focused in Sagaing, Magway, Chin, Kachin, Kayah, Kayin, and Thanitharyi (Figure 3), as well as in areas that had been largely spared from civil conflicts prior to the coup. Some of these areas account for a substantial proportion of overall economic activity in Myanmar. Taken together, Sagaing, Magway and Thanitharyi accounted for about a quarter of Myanmar’s GDP in FY2018/19. One fifth of all firms surveyed in May 2022 indicated that conflict was the most important challenge to their operations, including over 40 percent of agricultural firms, highlighting the more pronounced economic impact of conflict in rural areas. Chin and the Dry Zone – where conflict is particularly severe – is also the region with the highest proportion of firms (almost 40 percent) reporting that conflict is their biggest operational challenge, with firms from this region also reporting the highest rate of temporary closures.

Conflict, insecurity, and displacement continues to severely affect lives and livelihoods. The UN reports that nearly 760,000 people have been displaced by conflict and unrest since February 2021. Households in conflict-affected areas are experiencing reductions in income, soaring commodity prices and food shortages. Kayah and Chin, both heavily affected by conflict, saw the highest share of households suffering from reduced incomes compared to last year (88 and 77 percent, respectively), and also had the highest proportion of respondents with no income in the past three months (5 and 8 percent, respectively).³ Commodity prices in conflict-affected regions have risen even more sharply than elsewhere due to logistics and transport disruptions and, in some cases, direct efforts to block inflows of commodities, leading to heightened food security risks and shortages.

Figure 2: Conflict intensity in Myanmar

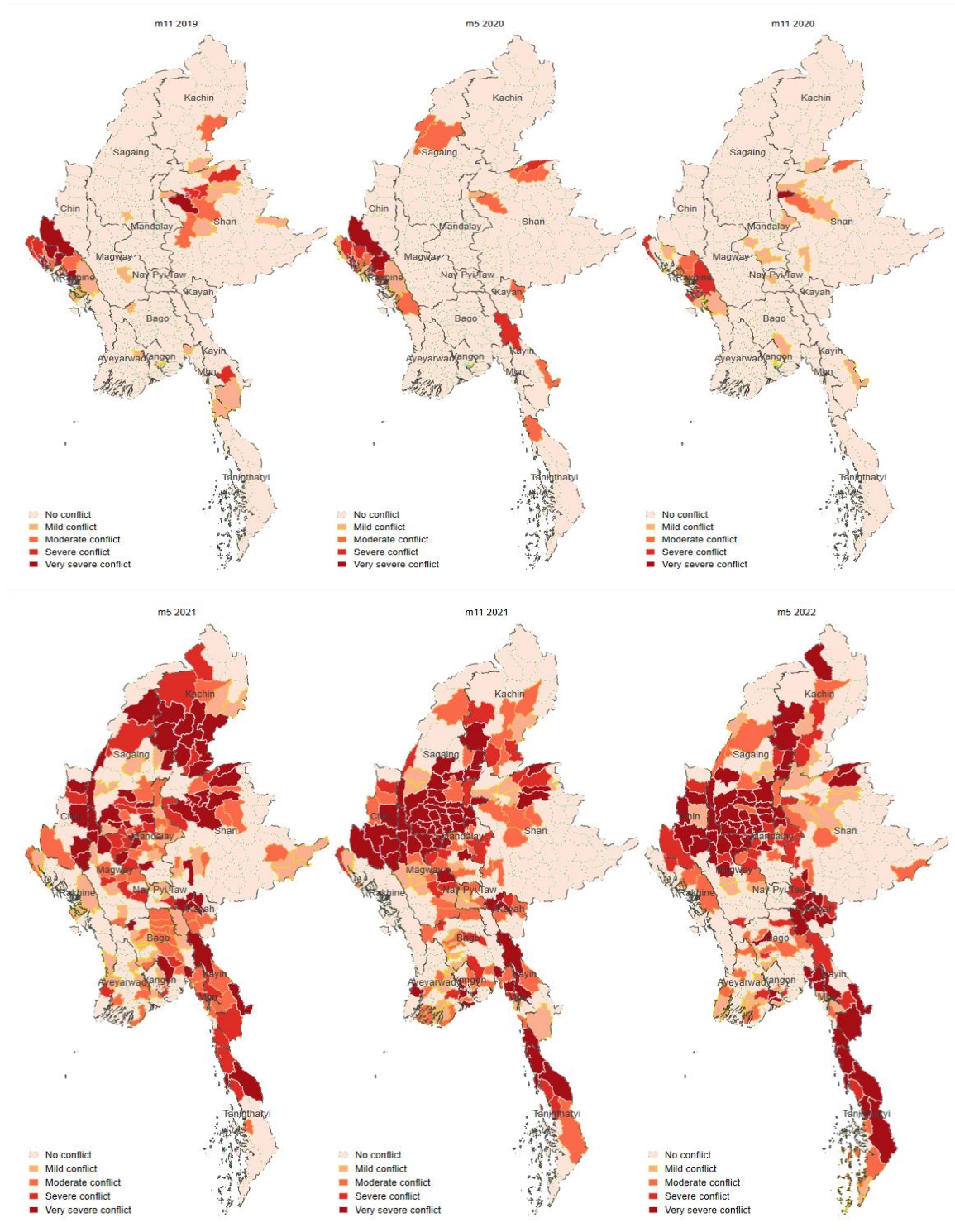


Sources: Armed Conflict Location and Event Data Project (ACLED)

Note: Conflict intensity is indexed to 100 for January 2021 as a base period. Conflict intensity is calculated as a geometric mean of events and fatalities. Events include battles, explosions and remote violence, protests, riots, and violence against civilians. Fatalities represent the total fatalities resulting from each event.

³ IFPRI. 2022. “Welfare and Vulnerability, Findings from the first round of the Myanmar Household Welfare Survey, Strategy Support Program”, Working Paper 18, June. Yangon: *International Food Policy Research Institute*.

Figure 3: Conflict intensity across states and regions from November 2019 to May 2022



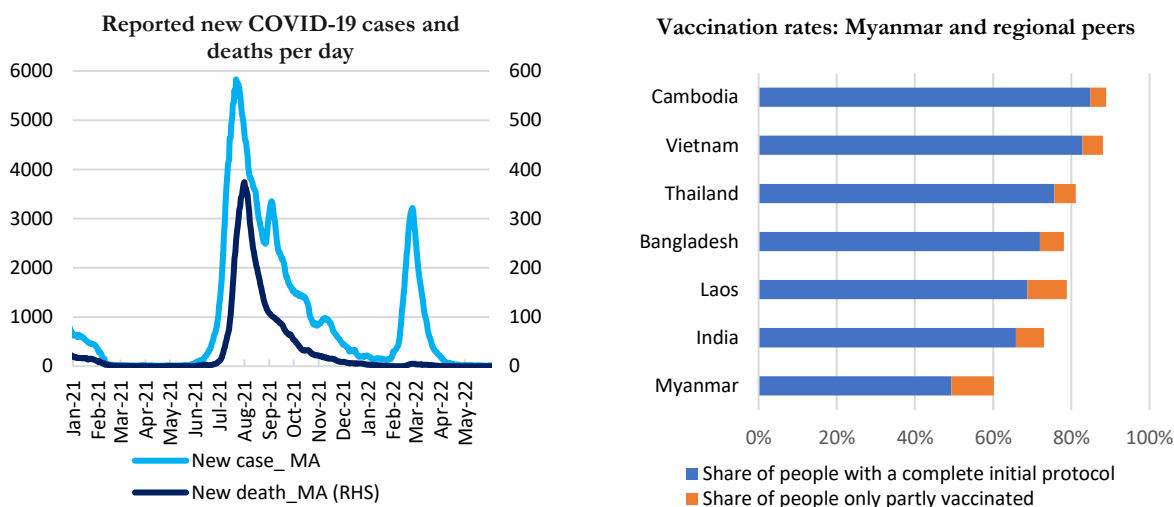
Source: World Bank staff estimates using data from the armed conflict location and event data project (ACLED)

Note: No conflict is defined as no conflict-related events in each month. The determination of “Mild” to “Very severe” conflict is determined by the quartile method – dividing data on the number of conflict related incidents into four parts.

The fourth wave of COVID-19 had a more limited impact than previously expected. Confirmed cases rose from an average of 155 cases per day in January to an average of 1642 cases per day in February before declining sharply in March. This fourth wave was less severe than expected, with the number of recorded cases and rates of hospitalization and death significantly lower than during the third wave in mid-2021. Consequently, mobility only declined slightly in February. In April, restrictions on public gatherings were lifted, and Yangon International Airport reopened after having suspended operations for over two years due to the pandemic. National vaccination rates have improved, with 49 percent of people having received double doses of the COVID-19 vaccine (up from 29 percent in early January) and another 11 percent having received partial vaccination. But the vaccination rate in Myanmar continues to lag regional peers (Figure 4).

Recent policy shifts have compounded macroeconomic challenges. Reversing previous gains in macroeconomic management, the authorities abandoned the managed float exchange rate regime, fixing the official reference exchange rate at an overvalued level not reflective of market supply and demand. The authorities have also imposed onerous trade license requirements and foreign exchange restrictions which have led to a growing disparity between the official rate and rates available in parallel markets, unwinding previous moves to unify the exchange rate regime. This has resulted foreign currency shortages have restricted access to critical imported inputs (including fuel) and reduced the competitiveness of some of Myanmar's exports. Moreover, a recent central bank regulation requires banks to temporarily suspend interest and principal repayments on foreign loans. While intended to ease liquidity needs, this is likely to erode creditworthiness and market access by the corporate and financial sector, further amplifying external balance of payment pressures. There have also been further announcements of import restrictions and measures to encourage import substitution (for example, of edible oils). While the intention is to alleviate foreign exchange pressures, boost domestic activity, and promote self-sufficiency, the historical experience suggests that such measures tend to divert resources from their most efficient use, as well as being inconsistent with the increased openness that has been a key driver of Myanmar's growth record over much of the last decade. Higher fiscal deficits (attributable to a sharp decline in revenues) have resulted in an apparent return to deficit financing by the Central Bank, which will erode the credibility of macroeconomic management and could entrench higher inflation over the longer term while adding additional downward pressure on the exchange rate.

Figure 4: COVID-19 cases and vaccinations



Source: <https://ourworldindata.org/>
 Note: 7-day moving averages for new case and new death

B. Signs of recovery have been weak and uneven

Notwithstanding the challenges mentioned above, there are some indications that parts of the economy have started to stabilize, but overall conditions remain fragile. Mobility has improved to levels last seen in 2020. Purchasing Managers' Index (PMI) data showed that output and employment in the manufacturing sector had stabilized in April and May, after 19 consecutive months of contraction, but returned to negative territory in June. Manufacturing exports have continued to recover strongly since mid-2021, while a similar trend upwards in agricultural exports reversed course in March. The number of company registrations increased by 87 percent in the first six months of 2022, compared to the same period in 2021. The World Bank firm survey showed that on average (and accounting for firms that had temporarily closed), firms operated at 66 percent of their capacity in March 2022 and 59 percent of their capacity in May, higher than in 2021 (Figure 5). But firms continue to report a range of challenges to their operations. Agricultural firms reported conflict as their most prominent challenge, while manufacturing and service firms cited power outages. Retail and wholesale firms have been most affected by a lack of demand, together with exchange-rate movements which have pushed up their costs (Figure 6).

Figure 5: Firms' business performance

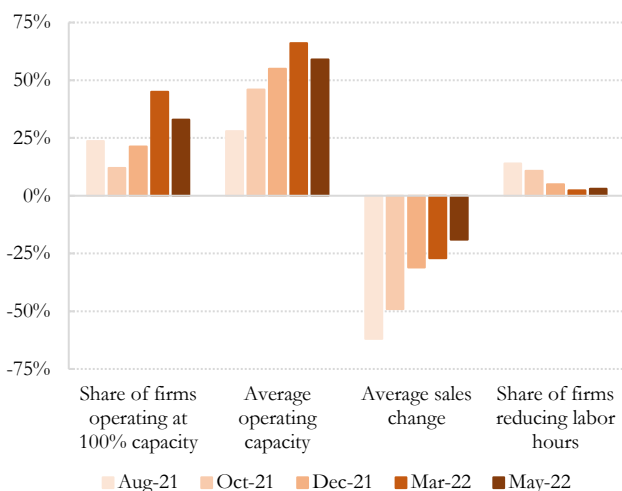
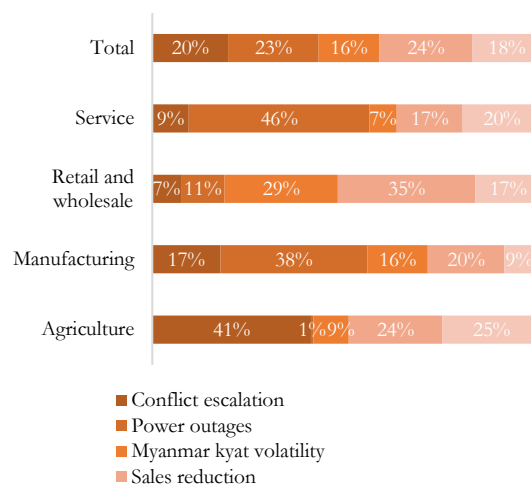


Figure 6: Challenges to firms' operations, May 2022



Source: World Bank firm monitoring surveys

Note: In the firms' business performance chart, the sales question was modified for round 12 (May 2022). This asked firms to report their sales situation compared to the same period last year, but in the previous rounds, firms were asked to report their sales situation compared to January 2021.

Mobility has recovered gradually since the middle of last year but remains substantially weaker than in the rest of the region. As at the end of June, mobility at retail (and transport) venues was around 20 percent below pre-COVID-19 levels (Figure 7), while mobility at workplaces had reached pre-COVID-19 levels (Figure 8). There was little discernible impact from the fourth wave of COVID-19, with mobility restrictions having eased.

Figure 7: Retail mobility

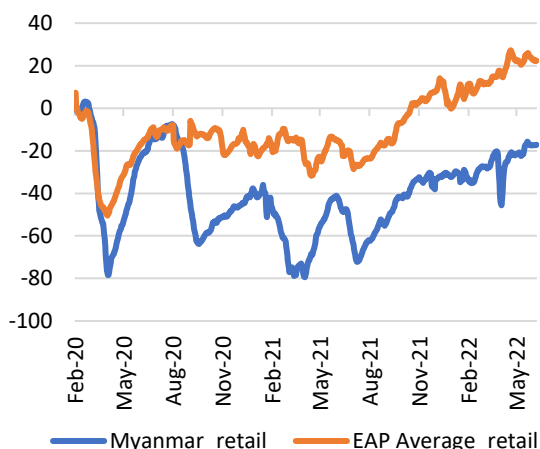
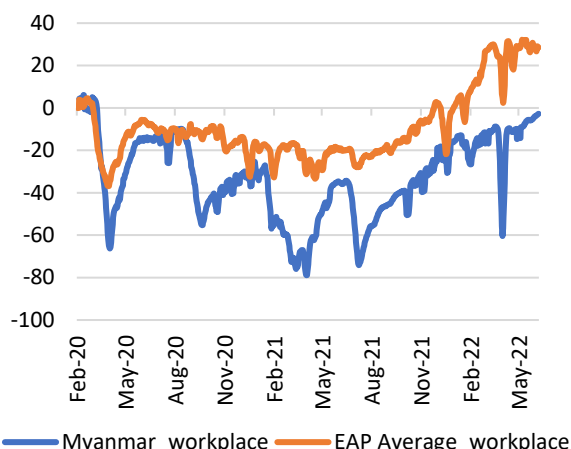


Figure 8: Workplace mobility

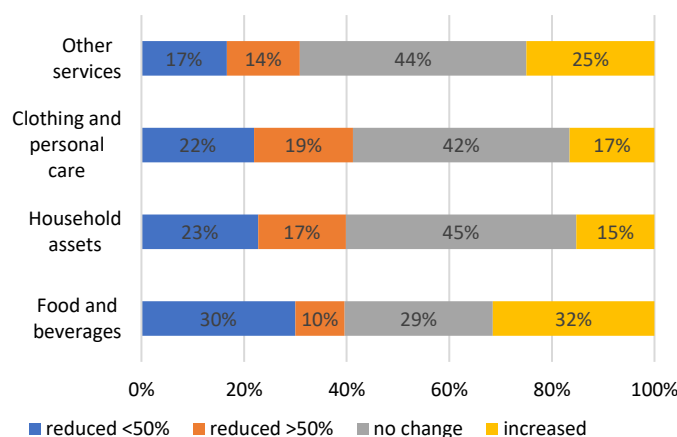


Source: Google COVID-19 community mobility report
 Note: 7-day moving average series. EAP average includes Indonesia, Malaysia, Philippines, Thailand, Vietnam, Cambodia, Lao PDR, Mongolia, Myanmar, Fiji and PNG

Source: Google COVID-19 community mobility report
 Note: 7-day moving average series. EAP average includes Indonesia, Malaysia, Philippines, Thailand, Vietnam, Cambodia, Lao PDR, Mongolia, Myanmar, Fiji and PNG

Despite improved mobility, the retail and wholesale sector has been adversely impacted by weak consumer demand. Household surveys indicate ongoing weakness in consumption – particularly discretionary non-food consumption – due to declining real incomes driven by lack of work, reduced income from farm and non-farm businesses, and higher prices. Increasingly strained household budgets appear to have prompted consumers to prioritize essential food items and delay non-essential purchases. Consumers have cut their discretionary spending on non-essentials, with around 40 percent of total households reporting reduced non-food consumption (for instance, household assets and clothing) in April 2022 compared to the same period last year (Figure 9). Increasingly strained household budgets appear to have prompted consumers to prioritize essential food items and delay non-essential purchases.

Figure 9: Spending changes in April 2022 compared to the same period last year



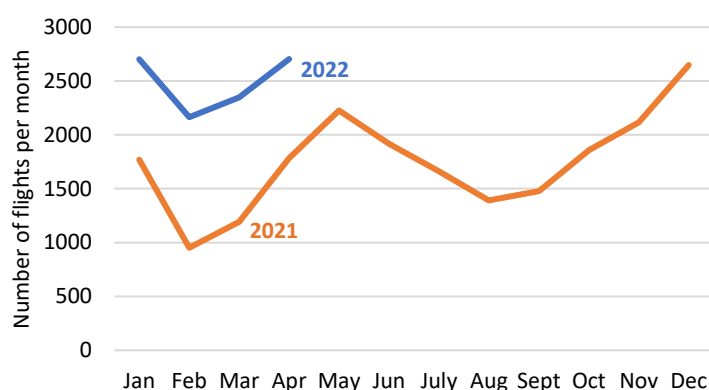
Source: World Bank high frequency phone survey (round 8).

Substantial increases in import prices have put additional pressure on retail and wholesale margins.

Prices of imported goods have increased significantly, reflecting rising commodity prices, supply-chain disruptions and depreciation of the kyat. Weak domestic demand is likely to have limited the ability of wholesalers and retailers to pass on these increased costs to their customers. According to results from the World Bank’s latest firm monitoring survey, 62 percent of retail and wholesale firms reported a decline in profit in April 2022 compared with a year earlier, with sales falling by more than a quarter on average.

In line with the increase in mobility at transport venues, the use of bus and air transport services has increased since late 2021. Mobility at transport venues has risen steadily since mid-2021 but remains around 20 percent below pre-COVID-19 levels as of the end of June 2022. Air traffic movement via Yangon International Airport has picked up, with demand for domestic flights increasing sharply in 2022, and scheduled international flights resuming in April 2022 (Figure 10). Users of public bus services in Yangon have increased by around 45 percent between December 2021 and May 2022, as fuel price rises led to a sharp increase in the cost of using private passenger vehicles. In contrast, official bus fares and flight ticket prices have remained relatively stable. However, public bus services in Yangon have experienced interruptions due to shortages of compressed natural gas, which have been caused by electricity outages.

Figure 10: Air traffic movements 2021-22, Yangon International Airport



Source: Yangon International Airport⁴

Household survey data suggest that labor has shifted away from service industries and towards agriculture over the past 18 months (Table 1). Persistent weakness in the services sector seems to have induced internal migration from cities to rural areas as a coping mechanism to deal with job loss. This shift is likely to result in a decline in labor productivity and hence labor incomes. To a lesser extent, there have also been movements into the manufacturing sector, which is likely to have provided more support for household incomes. Similar shifts can be observed among primary income earners of poorer households, but some of these workers also appear to have moved into the construction sector, potentially replacing workers from households that are better off.

⁴ Yangon Aerodrome, May 6, 2022. [“YIA Newsletter issue 7 Jan-Apr 2022.”](#)

Table 1: Changes in industrial composition of main workers between February 2021 and May 2022

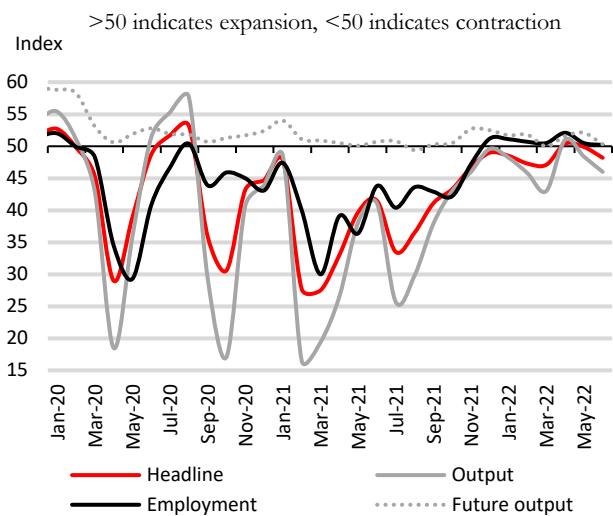
	Share of main workers from all households across industries			Share of main workers from poorest (bottom 40) households across industries		
	Before Feb 2021	During May 2022	Change May 2022 – Feb 2021	Before Feb 2021	During May 2022	Change May 2022 – Feb 2021
Agriculture	49.7	58.9	9.2	63.4	67.6	4.2
Manufacturing	4.9	6.2	1.2	2.7	3.9	1.2
Construction	11.3	9.0	-2.3	9.0	10.1	1.2
Other industry	1.2	1.9	0.7	0.6	0.8	0.2
Retail/Personal services	15.7	13.2	-2.5	11.2	8.2	-2.9
Tourism and Transport	10.3	8.5	-1.8	8.4	7.8	-0.6
Public and Private Admin	2.8	0.9	-1.9	3.1	0.7	-2.4
Other services	4.1	1.5	-2.5	1.8	0.8	-1.0

Source: World Bank high frequency household survey, May-June 2022 (round 8)

The manufacturing sector has shown signs of stabilization in recent months. The manufacturing Purchasing Managers' Index recovered to neutral levels in April and May 2022 (Figure 11). Employment has expanded modestly over this period, indicating that some confidence is returning to the sector. Surveys conducted in 2022 indicate that manufacturing firms are operating at a significantly higher capacity than in 2021 (Figure 14). Nevertheless, output is likely to have remained below pre-COVID-19 levels. Over the last two years, the duration and pace of the contraction in manufacturing has been significantly worse than elsewhere in the region (Figure 12). Moreover, the recent recovery in the index has been weaker than observed in other EAP countries, which have generally recorded expansions since late 2021, while in Myanmar there was a return to contractionary territory in June.

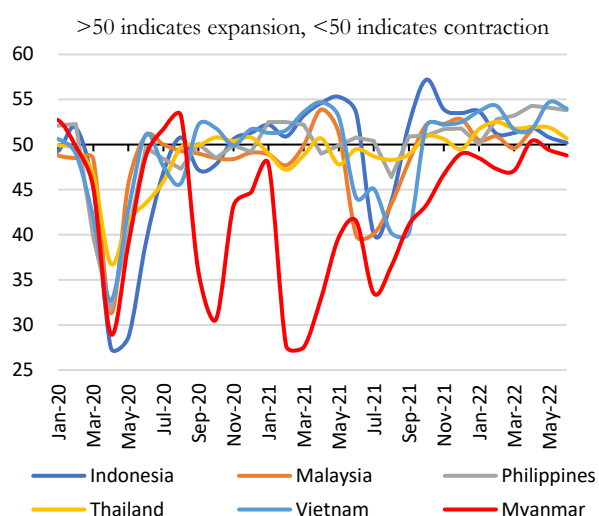
Despite these positive signs, manufacturing continues to be affected by supply-side disruptions. These include significant delays in supplier delivery times, increased cost of material inputs, shortages in raw materials, and electricity outages. Supply chains have been under pressure with the PMI data indicating record delivery delays for inputs in May 2022. Continued power outages have restricted the operating capacity of businesses, with higher fuel prices making the use of backup generators less viable. Fifty-nine percent of manufacturing firms in the May firm survey reported experiencing power outages disrupting their operations within the past three months, and 31 percent reported disruption in the supply of inputs and raw materials related to increased costs. Difficulties in obtaining import licenses and obtaining foreign exchange (due in part to recently introduced foreign exchange restrictions, see Section E) have also acted as constraints. In the automotive sector, Suzuki and Hyundai suspended their operations in July 2022 in response to higher import costs and shortages of spare parts – conditions which have been worsened by recently imposed trade and foreign exchange regulations.

Figure 11: Manufacturing Purchasing Managers' Index



Source: IHS Markit

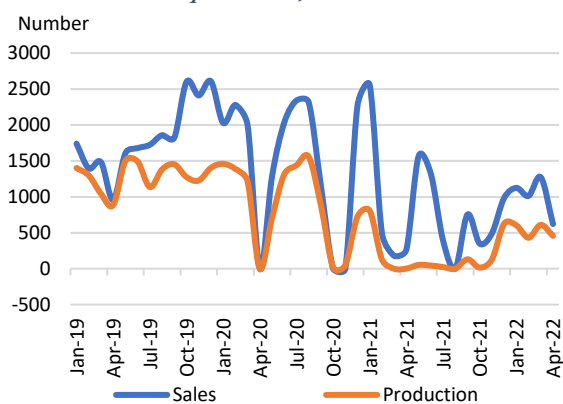
Figure 12: Manufacturing Purchasing Managers' Index – regional comparison



Source: IHS Markit

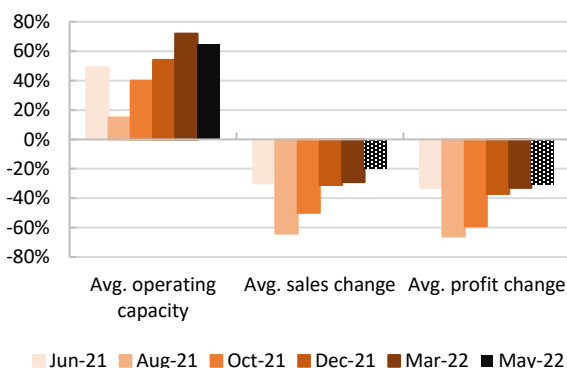
Demand conditions have varied across manufacturing sub-sectors. Garment manufacturers – mainly reliant on external demand – appear to be recovering relatively strongly, as demonstrated by the ongoing expansion in manufactured exports since mid-2021 (see Section D). The garment industry also appears to have been less impacted by the imposition of recent trade license restrictions (which have not applied to cut-make-pack imported inputs). In contrast, manufacturers of food and consumer goods have been more adversely affected by weak domestic demand. In recent months, motor vehicle production has improved modestly (Figure 13), with the suspension of vehicle imports from October 2021 likely to have provided some temporary support for domestic production, demand, and sales. Anecdotal evidence also suggests that motor vehicles have been viewed as a relatively safe store of value, similar to real estate.

Figure 13: Number of motor vehicles sold and produced, 2019-22



Source: ASEAN Automotive Federation

Figure 14: Manufacturing firms' operating capacity, sales, and profit changes

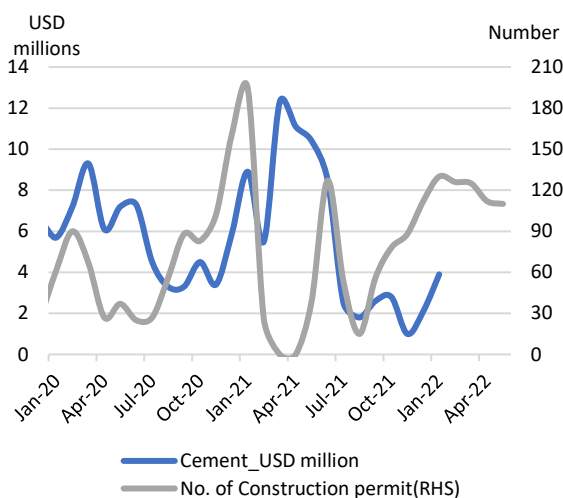


Source: World Bank firm monitoring surveys

Note: Sales and profit questions in May 2022 were modified to report changes compared with the same period last year, while the previous rounds asked firms to report changes compared to January 2021.

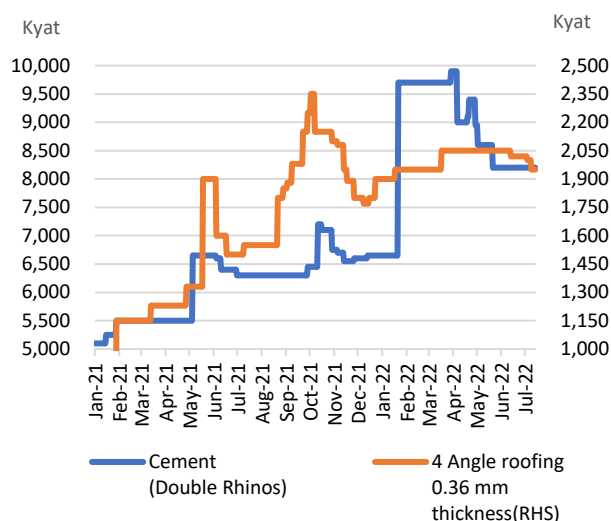
Construction activity appears to have increased from a very low base. The pipeline of new construction work, as measured by the number of permits issued, has increased by almost half between October 2021 and May 2022, compared to the same period a year earlier (Figure 15). Concurrently, work has resumed on several infrastructure and industrial construction projects had been halted between February and September 2021.

Figure 15: Number of construction permits issued vs. cement imports (US\$, millions)



Source: Yangon City Development Committee and CEIC

Figure 16: Price of construction materials

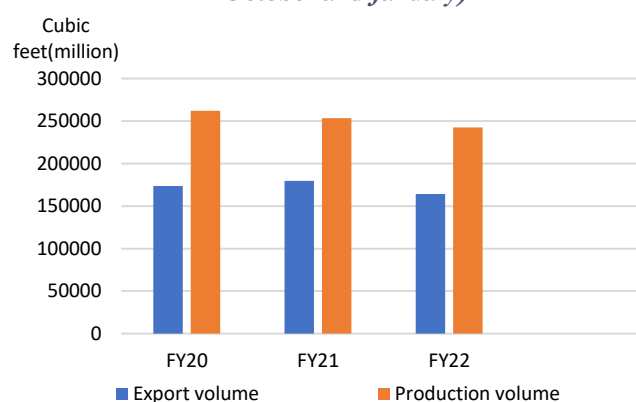


Source: Retail shop of construction materials

Construction firms reported operating at higher capacity in May 2022, but constraints due to the cost and availability of imported inputs have again begun to increase in severity over recent months. While the sample size in the firm survey is small, construction firms reported operating at almost three quarters of their capacity in May 2022, much higher than at any point in 2021. However, import price increases and shortages of imported inputs have created challenges and reduced the profitability of ongoing projects. The prices of some key inputs like cement have increased by around 30 percent over the year to June 2022 (Figure 16). This reflects rising commodity prices, trade constraints and kyat depreciation. Capital goods imports have remained at comparatively low levels in 2021 and 2022 and have been hindered more recently by import license requirements and foreign exchange restrictions.

Despite elevated global commodity prices, gas production and exports have declined in FY2022, while the electricity sector has been severely disrupted (see Box 1). Between October 2021 and February 2022, natural gas export volumes decreased by 8 percent compared to the same period last year (Figure 17) while the production volume reportedly declined by 4 percent during the same period. This was due to reduced investment as the Yetagun and Yadana offshore gas fields were depleted, and some international producers withdrew. Declining production would imply a corresponding impact on overall oil and gas revenue in FY22, though recent global price rises will eventually at least be partially reflected in the prices received for Myanmar’s gas exports. As noted in Box 1, output in the electricity sector has also declined – with significant impacts on the rest of the economy – although the sector makes a relatively small direct contribution to GDP (around 2 percent of GDP of FY20).

Figure 17: Natural gas exports and production (between October and January)



Source: CEIC

Agricultural production is facing a range of constraints.⁵ Although both cultivated and harvested paddy areas have declined only slightly between the 2018-19 crop year (CY) and CY2020-21, available estimates suggest a larger contraction in rice production during CY2021-22.⁶ 42 percent of households reported yield losses during the 2021-22 monsoon season, mostly due to weather conditions and to a lesser extent, the higher cost and reduced usage of fertilizers. Dry (second) season paddy is likely to have been more adversely affected, as farmers typically need to apply more fertilizer in the dry season. The World Bank's farmers' survey (conducted in December 2021 and May 2022) showed that while most households have continued cultivating the same crop area, 7 percent of farm households were renting out their plot as they could not afford farming (due to expensive inputs, shortage of agricultural workers, and low yields). Despite sustained foreign demand, the production of pulses has been constrained by the impact of conflict on key producing areas, as well as higher input and fuel prices. There is also some evidence that the price competitiveness of farm exports has been adversely affected by recent foreign exchange restrictions which force exporters to convert foreign currency earnings to kyat at a below-market rate. Given the higher prices and shortages of edible oils, authorities have promoted local oil seed production to reduce import dependency and secure local consumption. But even in the case where these measures are successful, it will take time for production of oil seeds to respond, and there are additional steps required to transform seeds into oil for consumption. In the past, the domestic production supported by such measures was unable to compete with cheaper oil from abroad.

Farmers are facing rising input costs, with limited capacity to pass on these costs into higher output prices, which further squeezes their margins. An IFPRI report found that prices for most inputs used in rice cultivation increased significantly between the main 2020 and 2021 monsoon seasons. Prices of urea, the most important chemical fertilizer used by rice farmers, increased by 56 percent on average over this period,

⁵ For more analysis on the agriculture sector, see [World Bank \(2022\), Food Security and Agriculture Monitoring Brief](#), January – June 2022.

⁶ As per the FAO, crop calendar for rice farming in Myanmar broadly runs from June to May, with variations across regions and states, where the main season (monsoon) extends from May-June to November-December, and the second season (dry) extends from November-December to May-June (<https://www.fao.org/giews/countrybrief/country.jsp?code=MMR&lang=en>).

and mechanization costs increased by 19 percent. At the same time, the average costs of transport increased by 74 percent over the year to March 2022, driven by reported fuel price increases of 168 percent⁷. Paddy prices on the farm increased by 8 percent, significantly less than input prices, squeezing rice farmers' profits during the 2021 monsoon⁸. Ahead of the 2022 monsoon season in April, 71 percent of surveyed farmers (against 64 percent in December 2021) reported higher harvest costs than one year earlier, while only 4 percent said the costs were lower. Similarly, in April 2022, 77 percent of farmers reported higher transportation costs than one year earlier, an increase from 63 percent in December 2021. Disruptions related to insecurity and check points have aggravated transport costs, often affecting wholesalers and retailers. Power outages have also affected agri-processors, including rice millers.

More farmers report improved access to credit from input suppliers, but expectations regarding repayment are subdued. In the World Bank farmers' survey, 68 percent of farmers confirmed having no issues obtaining credit from input suppliers, which represents a slight increase compared to December 2021. Among those respondents who still had issues, nearly half found a limited number of suppliers selling on credit. Fewer households reported high interest rates as an issue: 26 percent in round 2 compared to 36 percent in round 1. A further 16 percent of households reported facing limits on the amount of credit available to buy the agricultural inputs. An IFPRI report found that only 46 percent of traders who had lent money have either been repaid or expect to be fully repaid in the current year, while only 29 percent of traders who had borrowed money have either repaid it or expect to. Almost all borrowers expect to be able to repay eventually, but 7 percent of lenders expect they will never be fully repaid⁹. Given the uncertainty about length of time for repayment, only a small number of traders have increased their lending activities.

C. Prices have risen sharply

The latest available data indicate that CPI inflation increased to 17.3 percent (yoy) in March. Food price inflation rose to 15.4 percent and non-food inflation reached 20.4 percent (Figure 18). Recent non-food inflation has been largely explained by an increase in transport costs, which account for around a quarter of the CPI basket of non-food goods and services, and around 10 percent of the total CPI basket (Figure 19).

Inflationary pressures have increased further since February, in large part due to global price increases related to the Ukraine war. Since early 2021, increases in global oil prices and kyat depreciation have triggered pronounced increases in domestic fuel prices (Figure 20). The domestic fuel price was about 70 percent higher in June than in December 2021 and more than twice the levels of the same period last year. Changes in transport costs are closely correlated with changes in domestic fuel prices (Figure 21).

Food prices have also risen sharply. Food prices have climbed due to the combined effect of global price increases, kyat depreciation, the rise in fuel prices and transport costs, logistics and supply-chain constraints,

⁷ IFPRI. 2022. "Monitoring and Agri-food system in Myanmar: Agricultural Crop Traders. Strategy Support Program Research Note." 79, May. Yangon: *International Food Policy Research Institute*.

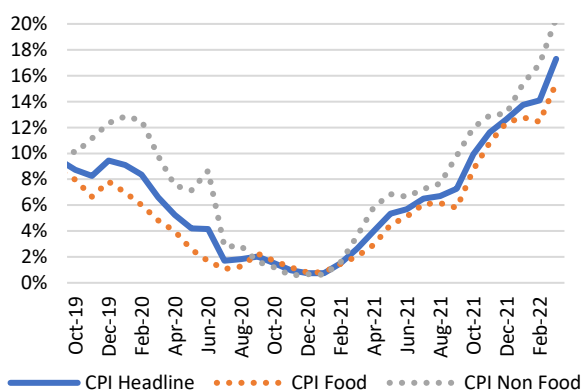
⁸ IFPRI. 2022. Rice productivity in Myanmar. Assessment of the 2021 monsoon and outlook for 2022. Strategy Support Program, Working Paper 19, May.

⁹ IFPRI. 2022. "Monitoring and Agri-food system in Myanmar: Agricultural Crop Traders. Strategy Support Program Research Note." 79, May. Yangon: *International Food Policy Research Institute*.

and local shortages caused by import license requirements and foreign currency shortages. Wholesale rice prices have risen by around 37 percent over the year to June 2022 (Figure 22). In Yangon, local market retail food prices have risen rapidly (Figure 23). From February to June 2022, the retail price of edible oil rose by 25 percent, mainly due to increases in import prices. Prices of low-quality rice and meat have risen by around 13 and 15 percent respectively, and fish prices by 25 percent (in June), due to constraints in local agricultural production. Nevertheless, some global food and fertilizer prices have eased more recently, which may start to be reflected in local prices in coming months.

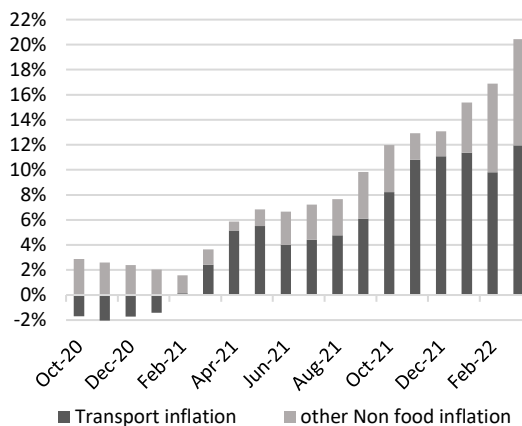
Manufacturing PMI price indices confirm that the prices of key business inputs (including fuel and raw materials) have been rising quickly. The input price index has remained above its neutral level since late 2020, indicating that over that entire period, a large proportion of manufacturing businesses have experienced more month-on-month increases in input prices than declines. Since the start of the Ukraine war in February 2022, the input price index has remained at a high level. Firms report that they have passed on these higher costs by raising their selling prices. This passthrough to consumer prices is potentially raising broader inflationary risks (Figure 24).

Figure 18: Headline, food, and non-food inflation (yoy)



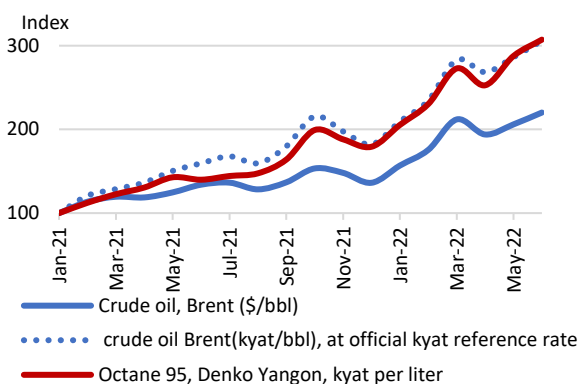
Source: Central Statistical Organization

Figure 19: Contributions to non-food inflation (percentage points)



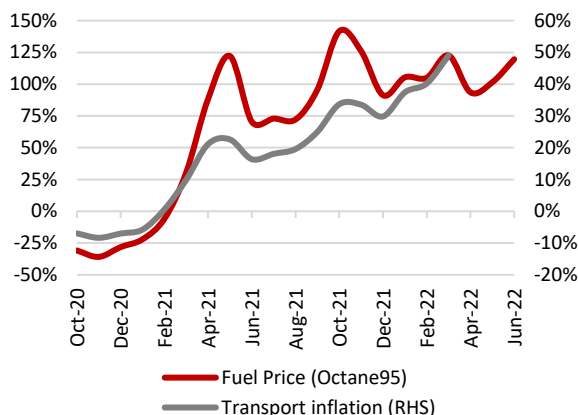
Source: Central Statistical Organization

Figure 20: Fuel prices and key drivers, January 2021 = 100



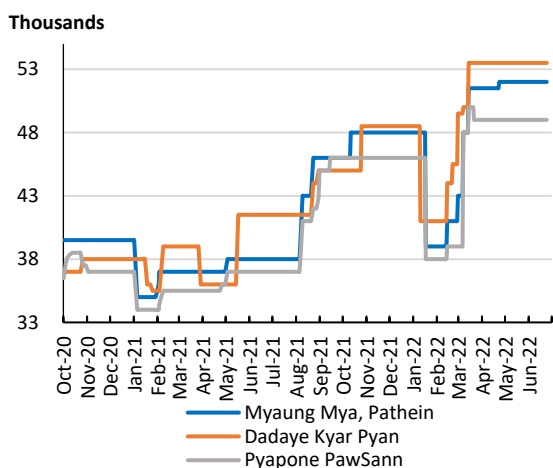
Sources: World Bank commodity price; Denko

Figure 21: Fuel and transport prices (yoy percentage change)



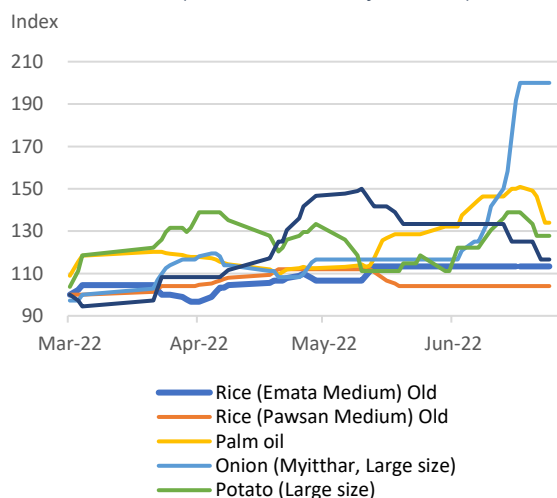
Sources: Central Statistical Organization; Denko

Figure 22 : Rice price per 108 lb (medium)



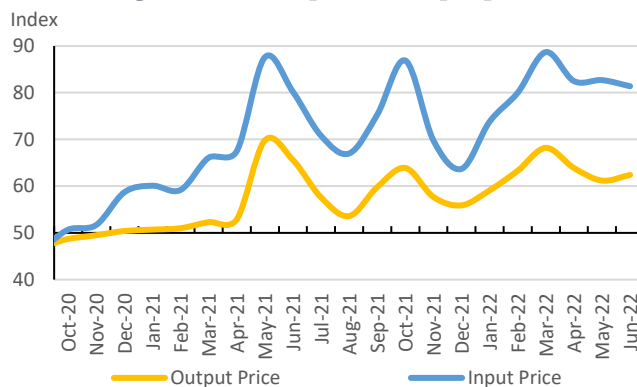
Source: Myanmar Rice Paddy Traders' Association

Figure 23: Retail prices in Yangon (Index: 24 February 22 = 100)



Source: CSO

Figure 24: PMI input and output prices

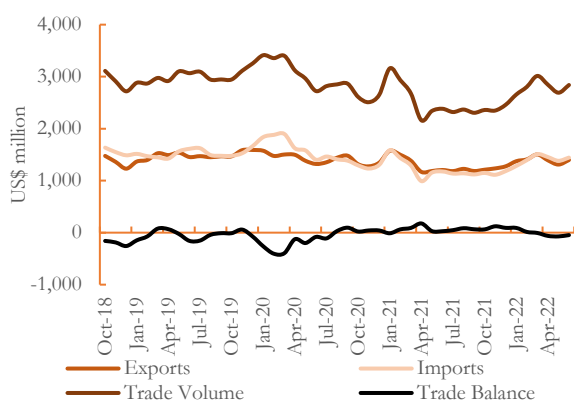


Source: IHS Markit

D. International trade has picked up

After stabilizing at relatively low levels in late 2021, Myanmar's international trade increased in the first half of 2022 (H1 2022) but remained below pre-COVID-19 levels.¹⁰ Compared with the same period last year, exports and imports increased by 12 percent and 20 percent respectively in H1 2022 – resulting in a 16-percent increase in trade values (Figure 25). With imports increasing by more than exports, Myanmar recorded a goods trade deficit of US\$159 million in H1 of 2022. Myanmar's international trade rose steadily in the March quarter of 2022, but trade moderated in the June quarter with the impacts of foreign exchange restrictions and trade license requirements beginning to become evident.

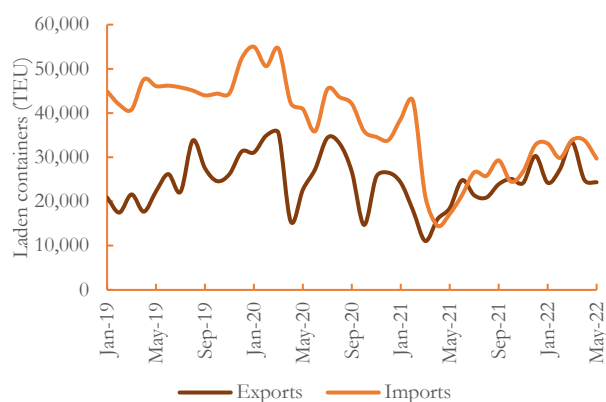
Figure 25: Trends of Myanmar's trade values



Sources: CEIC; Ministry of Commerce

Note: Data reflects a 3-month moving average for trade trends in the value term.

Figure 26: Exports and imports of laden containers (in twenty-foot equivalent units)



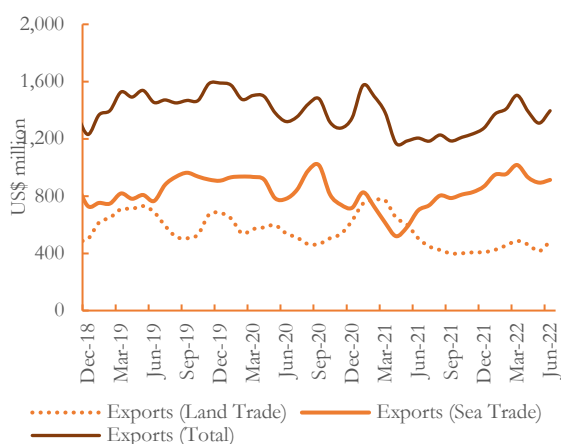
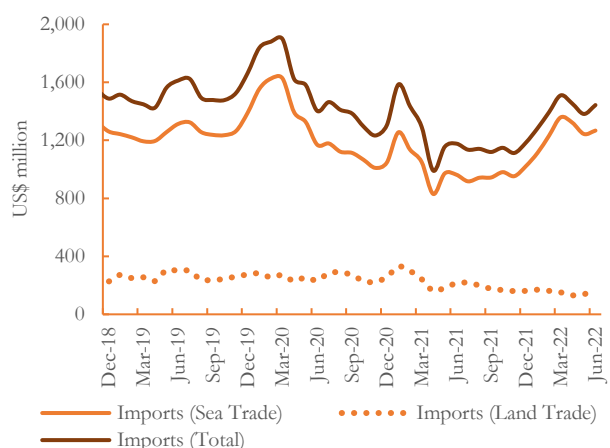
Source: Shipping operators

Note: Laden container data is available up to May 2022.

Sea trade – which accounts for more than 70 percent of Myanmar's total trade – has increased, but land trade has declined. Compared with the same period last year, sea-bound trade (in US dollar value terms) rose by 37 percent in H1 2022, but land trade declined by 25 percent. Sea-bound exports increased by 47 percent in H1 2022 (Figure 27), consistent with the trend in container exports via Yangon ports, which increased by 53 percent in the first five months of 2022 compared to the same period last year (Figure 26). According to shipping operators, the freight cost of a 20-foot container has dropped around 30 to 40 percent across multiple destinations since the beginning of 2022 compared to the 2021 cost.¹¹ Sea-bound imports increased by 30 percent in H1 2022 (Figure 28).

¹⁰ All figures related to trade in this section are from CEIC and the Ministry of Commerce (MOC). Monthly figures up to February 2022 are from CEIC and figures from March 2022 to June 2022 are from the MOC's website – which gathers data from the Customs Department under the Ministry of Planning and Finance (MOPF). Monthly figures from MOC are extracted from weekly cumulative figures.

¹¹ World Bank. 2022. *Transport and Logistics: Myanmar Infrastructure Monitoring*, June 2022.

Figure 27: Sea-bound exports and land exports*Figure 28: Sea-bound imports and land imports*

Source: CEIC; Ministry of Commerce

Note: Data reflects a 3-month moving average.

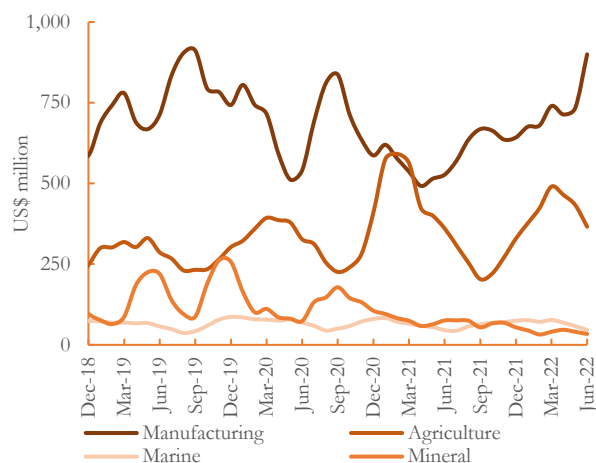
The weakness in land trade was largely due to COVID-19-related border disruptions with China. Exports through land trade were 24 percent lower in H1 2022 than in the same period last year (Figure 27), while imports through land trade remained stable at relatively low levels (Figure 28). Disruptions at the border with China included the closure of several land border posts; restrictions on Myanmar drivers and trucks entering via the Chinese border,¹² and China’s suspension of seven types of imports (including rice) over the land border, starting from mid-March 2022.¹³ Exports to Thailand over the land border were broadly stable, but imports declined in H1 2022. Reports indicate that border trade with Thailand has been impacted by conflict in border areas which has disrupted transport links and caused the temporary closure of border gates.

Manufacturing exports have picked up strongly, returning to pre-COVID-19 levels (Figure 29). Manufacturing exports increased by 54 percent in H1 2022 compared to the same period last year, and by 10 percent compared to the same period in 2019. More disaggregated data indicates that garment exports have driven the overall increase in manufacturing exports. The price competitiveness of garment exports has received a boost from kyat depreciation through 2021 and early 2022, with the historical relationship between garment export values and the exchange rate suggesting that this depreciation likely to have supported the recent recovery in garment exports (Figure 30).

¹² Global New Light of Myanmar, April 26, 2022. “[Rice exports through border show big slump in past mini-budget period](#),” Global New Light of Myanmar. April 19, 2022. “[Mango’s export market faces hindrance; growers keen on domestic market only](#).”

¹³ BNI Multimedia Group. March 18, 2022. “[China suspends imports of seven items, including rice](#).” The suspended products are rice, broken rice, green pepper, frozen food, seafood, daily necessities, and easy-to-pack meals.

Figure 29: Major exports by product groups



Sources: CEIC; Ministry of Commerce
 Note: Data reflects a 3-month moving average for the figure showing export value trends by product groups.

Figure 30: Relationship between garment exports and exchange rate

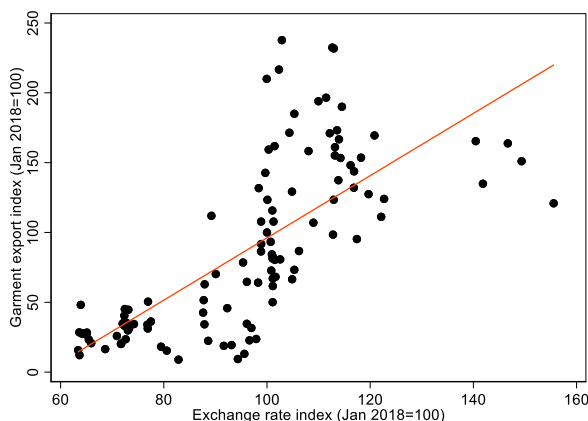
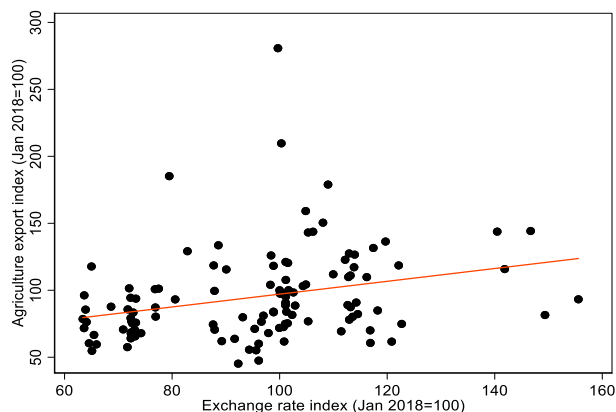


Figure 31: Relationship between agriculture exports and exchange rate



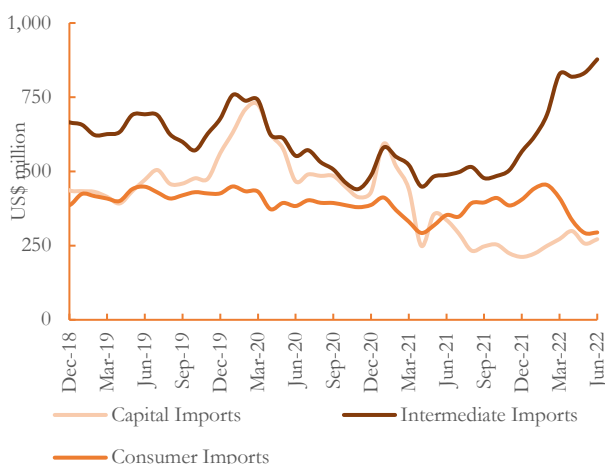
Sources: CEIC; the Central Bank of Myanmar; Money Exchangers
 Note: Positive movement of exchange rate indicates the kyat depreciation against the US dollar, and negative movement indicates the kyat appreciation. The analysis uses monthly data from July 2012 to Jan 2022.

Agricultural export values recovered over the six months to March 2022 but have subsequently declined (Figure 29). Reports indicate that since early 2022, rice export prices have risen strongly, and bean and pulse export prices have also increased.¹⁴ Disaggregated data indicates that volumes of beans and maize exports have also risen since late 2021. Market diversification may have helped to support agricultural exports:

¹⁴ See Global New Light of Myanmar. February 18, 2022 “[Export rice price spikes](#)” and May 25, 2022 “[Export rice prices spiking.](#)” as well as Wisarra International Co. 2022. “[Matpe and paesingon prices have increased.](#)”

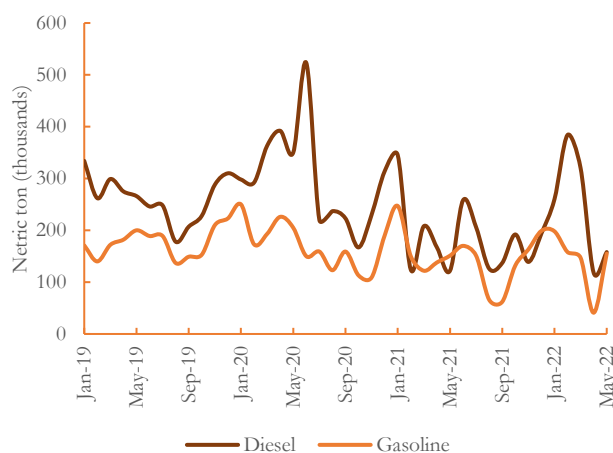
for example, rice exports to Sri Lanka commenced in late November 2021,¹⁵ and sugar exports to Vietnam in late 2021.¹⁶ However, increased input prices and recent policy changes appear to have triggered a decline in agricultural exports in Q2 2022. These include the imposition of maize export license requirements, which have led to delays and uncertainty, and recent exchange rate restrictions (see Section E) which have prevented agricultural exporters from benefitting from exchange rate depreciation, as they have done in the past (Figure 31).

Figure 32: Imports by product groups



Sources: CEIC; Ministry of Commerce
Note: Data reflects a 3-month moving average.

Figure 33: Refined mineral oil imports by product



Source: Shipping operators

Mirroring the recovery in manufacturing exports, intermediate imports drove an overall increase in import values in H1 2022. Compared to the same period last year, the value of intermediate imports was 69 percent higher in H1 2022, largely driven by increases in cut-make-pack (CMP) imports (inputs for garment production) as well as increases in import prices, including for fuel (Figure 32). In volume terms, diesel and gasoline imports have been volatile in recent months, due in part to trade and exchange rate restrictions which have caused difficulties in fuel importation and resulted in diesel and gasoline shortages (Figure 33).¹⁷ Power outages had led to an increase in the volume of diesel being imported over February and March 2022, as electricity consumption became more dependent on diesel-based generators. Consumer product imports have trended downward since January 2022, after they had returned to historical average levels. The weaker kyat has reduced the affordability of consumer product imports, and imports may also have been constrained by new license requirements, which have been effective from January 2022 for most products. Capital imports have remained very weak, reflecting slower investment activities.

¹⁵ Daily News Sri Lanka. November 30, 2021. [“Sri Lanka to import rice from Myanmar to stabilize the price of rice in local market.”](#)

¹⁶ Wisarra International Co. 2022. [“Sugar will be exported to Vietnam for the first time.”](#)

¹⁷ The Irrawaddy. May 18, 2022. [“Myanmar Fuel Importers Blame Shortages on Junta Dollar Controls.”](#)

Box 2. Recent disruptions in Myanmar-China trade

China is a major trade partner of Myanmar, accounting for about 33 percent of Myanmar’s total exports and 42 percent of Myanmar’s total imports. Myanmar’s major exports to China are mostly natural-resource-based products including minerals, fuels (primarily natural gas), and metals; Myanmar imports are mainly apparels and mechanical/electrical equipment (Figure 34). Land trade accounts for 80 percent of the total exports to China, and mostly passes through the Muse-Ruili border point.

Figure 34: Product distribution of Myanmar exports-to and imports-from China (average between 2016 and 2020)

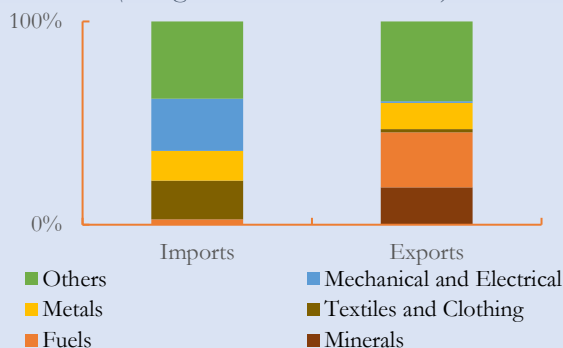
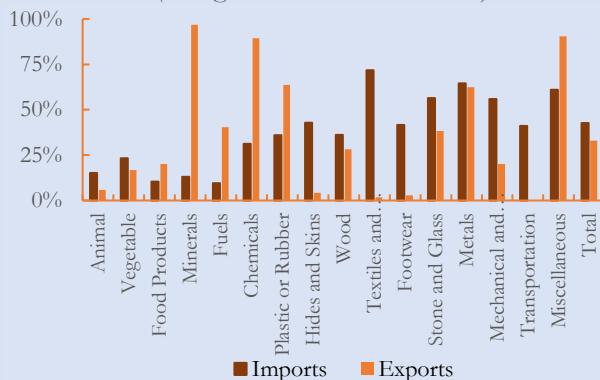


Figure 35: Myanmar’s trade with China by product as a share of its total global exports and imports (average between 2016 and 2020)



Source: World Bank staff estimates, using mirror data from the WITS
 Note: The HS chapters (2-digit level) are used for product groups.

Myanmar’s exports (especially non-fuels) are vulnerable to land border disruptions. Fuel and minerals accounted for more than 40 percent of Myanmar’s total exports to China, mostly through land borders (Figure 34). China is an also major destination for almost all of Myanmar’s mineral exports and accounts for 40 percent of Myanmar’s total fuel exports (Figure 35). While fuel exports to China have been broadly unaffected by border disruptions, mineral exports have been affected. Farmers and agricultural exporters have also suffered from border disruptions, though agricultural exports account for less than 10 percent of Myanmar’s total exports to China.

China’s COVID-19 policies appear to be impacting Myanmar’s trade with China. Lockdowns have depressed Chinese demand, while border closures and logistics disruptions have also been motivated by pandemic related restrictions. As a result, Myanmar’s exports to China via land borders have remained weak since mid-2021 (Figure 36), and land imports have also fallen to very low levels (Figure 37).

Figure 36: Myanmar’s exports to China

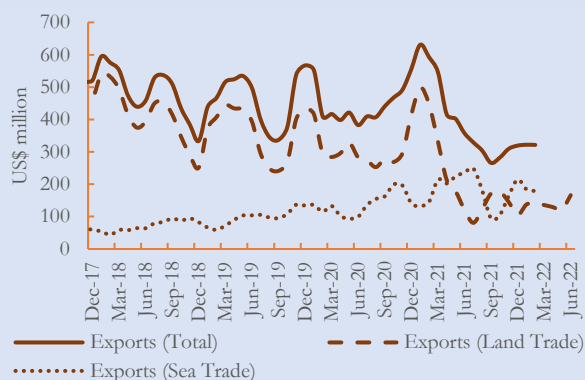
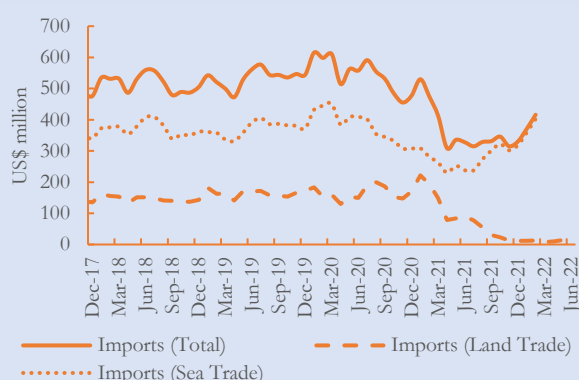


Figure 37: Myanmar’s imports from China



Sources: World Bank staff estimates; CEIC; Ministry of Commerce
 Note: Data for total is available only up to February 2022. Data for land trade is extracted from weekly aggregates of the MOC, and data from sea trade is extracted by subtracting land trade from total trade.

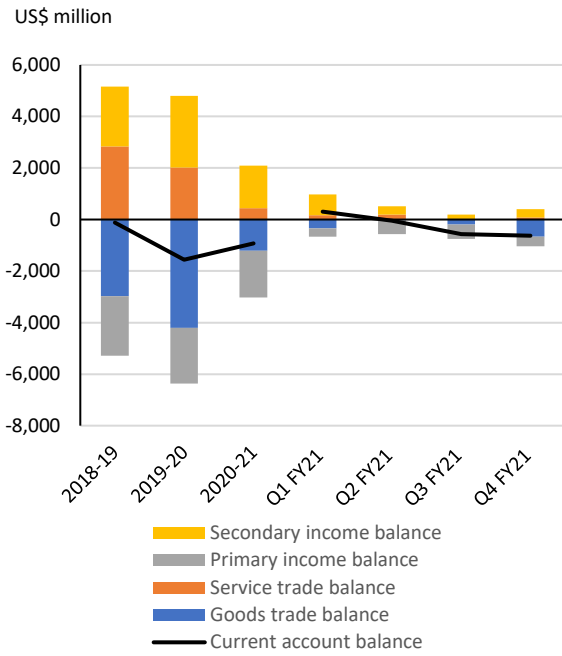
Import license requirements have risen sharply in 2022, reversing previous liberalization. About 81 percent of tariff lines at harmonized system (HS) 10-digit level currently require import licenses, which is a significant reversal of previous import license liberalization; only 35 percent of import items required licenses in 2021. License requirements have been imposed on imports of consumer products, raw materials, intermediate goods, and machinery. While over 9000 items now require import licenses, the capacity to administer these licenses remains limited. As a result, it reportedly takes longer now to obtain a license for certain imports (such as processed food), and there is less clarity around the decision-making process, increasing the uncertainty faced by firms managing their supply chains.

Certain agricultural exports now require export licenses. Maize products were added to the list of items subject to export licenses from April 2022. In May 2022, a further 181 tariff lines (agricultural products including beans and pulses, oilseeds, and edible oils) at HS 10-digit level were added to the list to promote food security and self-sufficiency. Export license requirements for these items will be effective from August 1, 2022, resulting in 13 percent of export items being subject to license requirements (compared to about 11 percent before April 2022). The reversal of trade license reforms will impact trade facilitation, increasing trade and compliance costs for traders, and potentially forcing a higher proportion of trade through informal channels.

E. Balance of payments pressures have become acute

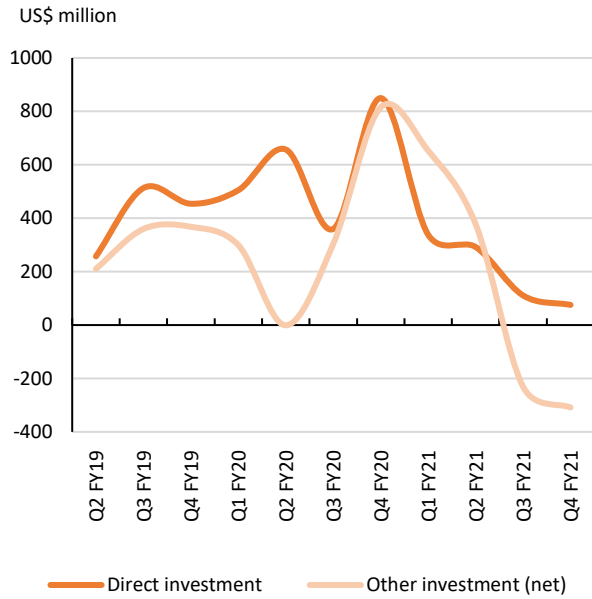
While the current account deficit narrowed in FY21, reported trends in external financial flows through the year suggest substantial balance of payment pressures in FY22. The current account deficit narrowed in FY21 (October-September) with goods imports falling by more than exports, reflecting a decline in domestic demand. This more than offset the reduction in tourism receipts and in recorded remittances, with migrants in neighboring countries experiencing income losses (Figure 38). But there were more pronounced pressures on the financial account, with foreign direct investment contracting by about two thirds from the previous year, sharp reductions in other investment inflows, and substantial outflows of foreign currency deposits (Figure 39). Amid a deteriorating balance of payments position and CBM interventions to stem downward pressure on the exchange rate, foreign exchange reserves fell by close to US\$ 1 billion in the September quarter 2021 (Figure 40). If these trends have continued, foreign exchange reserves may have fallen to insufficient levels as of mid-2022. As per the previous section, the US dollar value of goods imports has increased by more than goods exports in the first half of 2022, driven largely by rising imports of intermediate inputs (Figure 41). This implies that, unlike last year, net trade flows have weighed on the balance of payments this year.

Figure 38: Current account balances



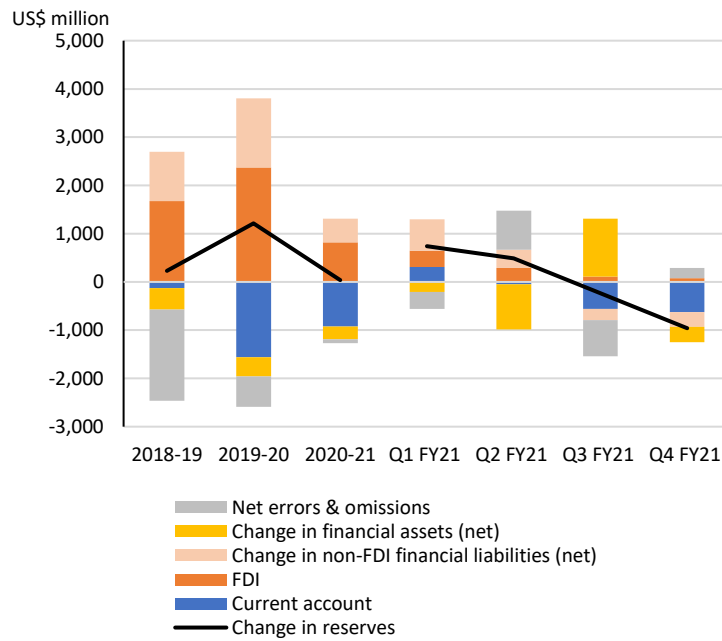
Source: Central Bank of Myanmar

Figure 39: Foreign direct investment and net other investment



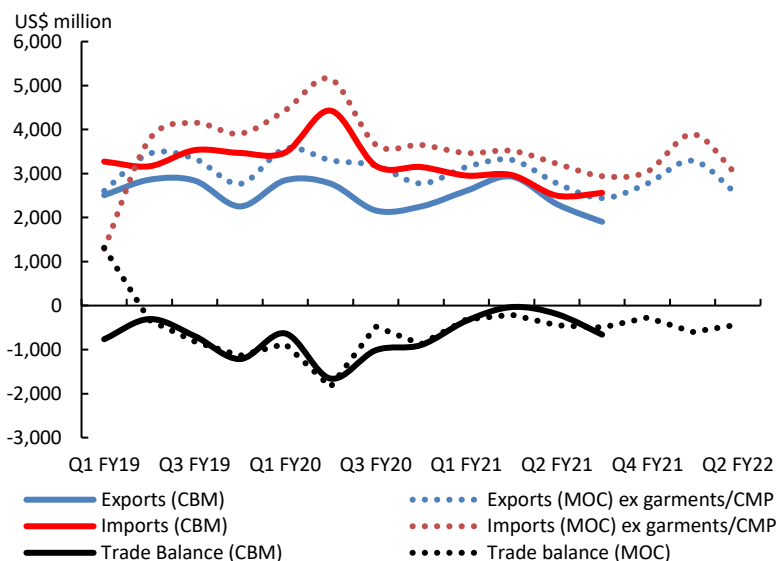
Source: Central Bank of Myanmar

Figure 40: Balance of payments



Source: Central Bank of Myanmar

Figure 41: Merchandise trade (US dollar millions)

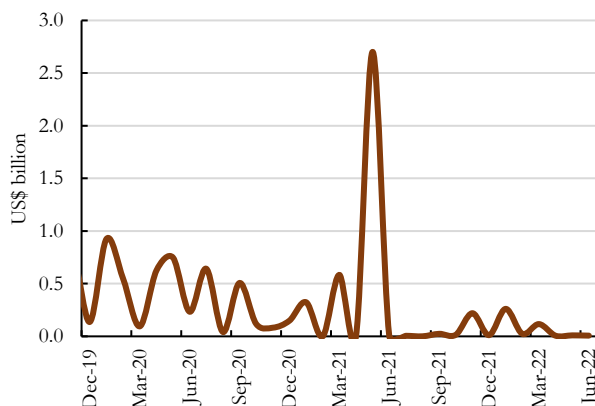


Sources: Central Bank of Myanmar; Ministry of Commerce

Note: CBM trade data counts garments manufacture as a service export rather than a goods export

FDI commitments remained low in the first half of 2022, indicating that actual FDI inflows are unlikely to recover in the near term. FDI commitments totaled about US\$423 million in H1 2022 (Figure 42) Figure 42. Historical evidence suggests that only around half of FDI commitments result in actual FDI inflows (with a lag), implying that actual FDI inflows will remain very low in the near term. Singapore was the top investor in this period with 51 percent (or US\$215 million) of total FDI commitments, followed by Hong Kong with 22 percent (or US\$94 million), and China with 14 percent (or US\$60 million). By industry, other services and manufacturing dominated total FDI commitments with 50 percent (or US\$214 million across one permitted project) and 33 percent (or US\$138 million across 35 projects) respectively.

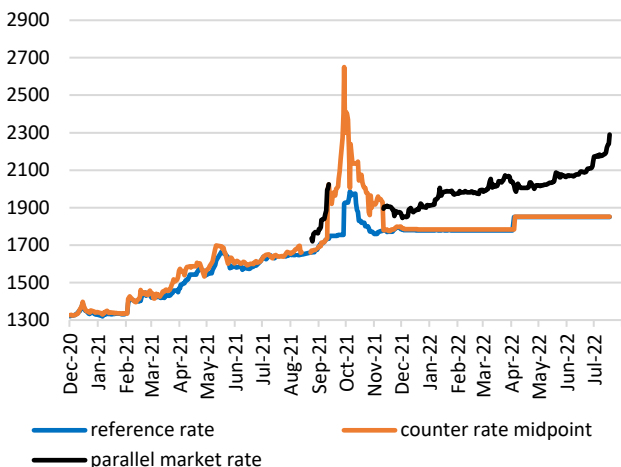
Figure 42: FDI commitments



Source: DICA

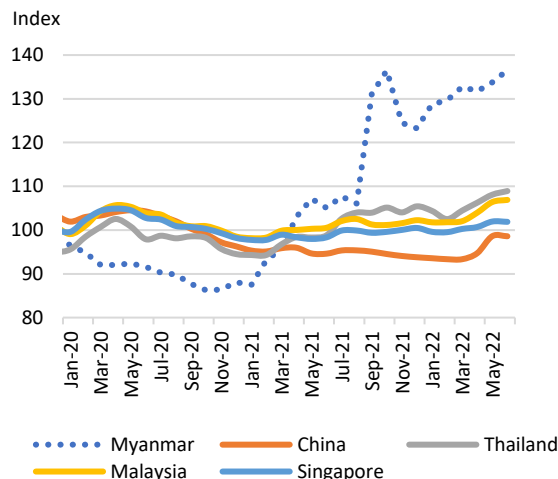
The Myanmar kyat has further weakened against the US dollar in the first nine months of FY22. As of end-June, the market rate had depreciated by 9 percent against the US dollar since end-December 2021 (Figure 43), and by 23 percent compared to the same period last year. The recent depreciation reflects balance of payments pressures, in part due to lower FDI and other inflows, but also a general strengthening of the US dollar against regional currencies (Figure 44). Faced with dwindling reserves, the CBM has stopped auctioning US dollars into the market since early March, though it has continued to provide US dollars at the fixed reference rate to selected importers, for example, importers of fuel and palm oil (Figure 45).

Figure 43: Myanmar kyat exchange rates



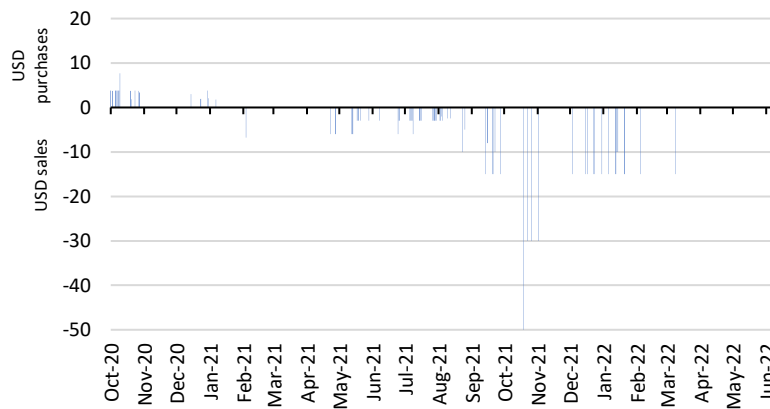
Source: Central Bank of Myanmar; Money Exchangers

Figure 44: Asian currencies per US dollar (index, January 2019 = 100)



Source: exchange-rates.org

Figure 45: CBM auctions of US dollars (US dollar millions)



Source: Central Bank of Myanmar

The abolition of the managed float exchange rate regime and the imposition of surrender requirements have led to foreign currency shortages and reduced the competitiveness of exports, as well as creating substantial uncertainty. First, the previous managed float regime has been abandoned and the CBM has fixed the reference rate (currently at 1850 kyat per US dollar). As this rate is overvalued relative

to supply and demand in the market, shortages of foreign currency have resulted for importers seeking to purchase US dollars at that rate. A parallel market has emerged, with the spread increasing to around 20 percent as of mid-July. Second, the CBM issued a notification in April that required – within one working day – the conversion of new and existing foreign currency deposits into Myanmar kyat at the reference rate, which at that point was still well below parallel market rates of more than kyat 2,000 to the dollar (Figure 44). Although several exemptions and amendments have subsequently been issued, these conversion requirements have created substantial uncertainty among the Myanmar private sector, with the full extent of implementation and enforcement remaining unclear. The requirements have also acted as a tax on exporters (who were previously able to convert foreign exchange earnings at the market rate), squeezing margins even further given the rise in kyat-denominated costs facing most businesses. This already appears to have impacted the price competitiveness of agricultural exports, which have declined in the months since these measures were introduced.

These interventions have also reduced the availability of imports. With a lack of US dollars available at the overvalued, official exchange rate, fuel imports have been disrupted, leading to domestic fuel shortages and the emergence of a parallel market. Under current rules, fuel importers must follow an onerous process, including: (a) obtaining an import license from the Ministry of Commerce; (b) being granted permission to buy foreign currency from the Foreign Exchange Supervisory Committee; and (c) waiting for inspection from the private bank prior to being issued foreign currency. These have protracted importers' delivery times and added costs to importing businesses, which have already been high due to exchange rate control measures. In the face of higher costs, strict import quotas, and fuel-price restrictions, fuel importers are limiting fuel sales to retailers, leading to domestic shortages and the emergence of a parallel fuel market (with prices in some cases about 30 percent higher than in the formal market).

F. Financial sector vulnerabilities remain

Financial sector balance sheets remain vulnerable, with likely implications for future credit growth.¹⁸

The performance of Myanmar's banking sector regarding the financial stability indicators was weak even before the coup, with low profitability metrics, high non-interest expenses as a share of gross income, and low capital adequacy ratios. Discussions with industry representatives indicate that non-performing loan and delinquency rates are high and have continued to rise since the start of the pandemic in 2020, forcing banks to provide relief and reschedule repayments on a customer-by-customer basis. This has led to a cautious approach to new lending.

While withdrawal limits remain in place, it has become easier to obtain kyat from ATMs and bank branches, in part due to a recovery in bank deposits. ATM withdrawal limits depend on the bank but have been reported within the MMK 300,000 to MMK 1 million per week range, while a larger number of bank branches are allowing customers to withdraw money without an advance appointment. As these restrictions have eased, the fees charged by agents providing informal cash withdrawal services are reportedly dropping. Deposits are also recovering, with businesses making use of 'flexi' accounts, which the CBM announced would

¹⁸ For more analysis on the financial sector, see World Bank (2022), [Myanmar Financial Sector Reforms Policy Note](#), July 2022.

be made available to bank customers from May 2021, and which are not subject to the withdrawal limits that apply to legacy accounts.

To mitigate liquidity concerns, the CBM extended the temporary reduction of banks' minimum reserve requirements in March 2022. The CBM's policy of requiring 3 percent of total deposits to be held at the CBM (including customer deposits and interbank deposits) has been extended until March 2023. The minimum reserve requirement was reduced to 3.5% from 5% in April 2020, and further again to 3% in May 2021.

Various measures have also been adopted to reduce reliance on US dollars.

- **Limits on foreign currency withdrawals from international cards have been reduced.** On April 12, 2022, the CBM lowered the withdrawal cap for a range of international credit and prepaid cards from US\$ 5,000 to US\$ 2,500.¹⁹
- **Restrictions were announced on payments.** On May 25, 2022, the CBM advised the public sector to use Myanmar kyat for domestic payments, in an effort to reduce the use of foreign currencies. For online payments, On June 10, 2022, the CBM issued a warning that when making online payments, the use of mobile pay/mobile wallet payment services that are not officially permitted by the CBM could lead to a fine or imprisonment, or both.²⁰
- **The Central Bank of Myanmar (CBM) allowed the Thai baht as an official settlement currency for land-border trade payments.** In March 2022, the CBM allowed baht/kyat direct payments for land trade through Thailand, in order to facilitate trade and reduce reliance on the US dollar. This follows a similar instruction issued in October 2021, allowing yuan/kyat direct payments for land trade with China.

G. The fiscal position has deteriorated

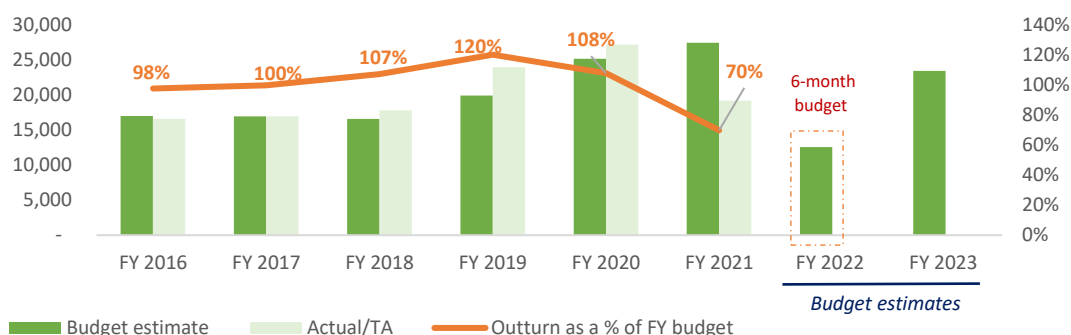
Only 70 percent of budgeted revenues were collected in FY2021, in contrast to previous years where revenue targets were met or exceeded (Figure 46). As a result, nominal kyat revenues declined by about 30 percent from FY2020 levels. The decline in revenues was attributable to a decrease in both tax and non-tax revenue.

¹⁹ MM Gold Land. April 10, 2022. "[The maximum amount of local bank cards that can be used is set](#)".

²⁰ Eleven Media Group. June 11, 2022. "[Central Bank warns public against illegal Mobile Pay/Mobile Wallet and payment services](#)".

Figure 46: Actual and budgeted revenue collected, MMK

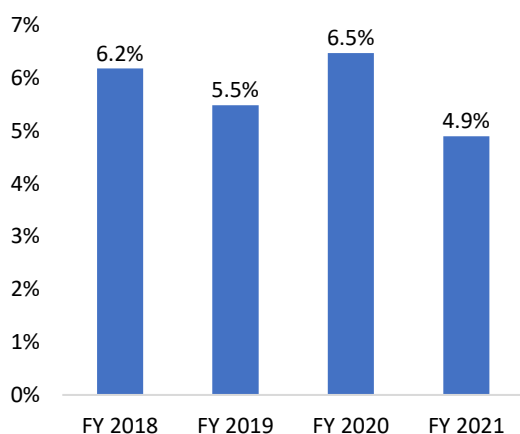
Aggregate revenue outturn



Source: <https://www.mopf.gov.mm/>; WB Staff estimates.
 Note: Actual / TA = actual outturns or temporary estimates.

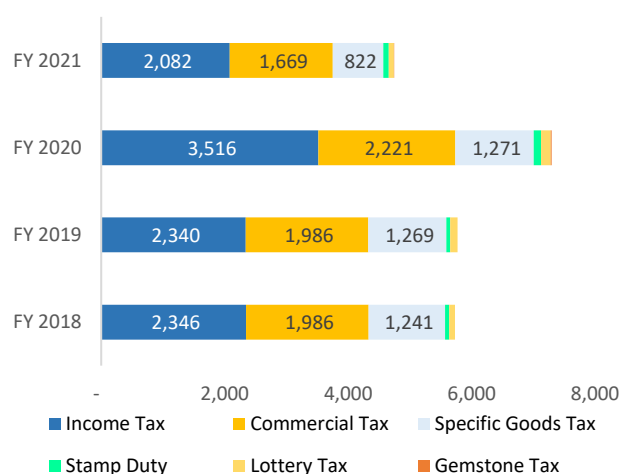
Tax revenue has declined due to the shrinking economic base and increased non-compliance (Figure 47). Tax revenue, which typically accounts for around 30 percent of overall revenues, declined from 6.5 to 4.9 percent of GDP, due to weaker receipts of income tax, Special Goods Tax (SGT),²¹ and commercial tax; the three largest tax sources (Figure 48). Overall, tax revenue declined by 35 percent in nominal terms, from MMK 7.3 trillion in FY2020 to 4.7 trillion in FY2021. The fall in tax revenue can be attributed to both the economic downturn and increased non-compliance.

Figure 47: Tax collection (percentage of GDP)



Source: <https://www.mopf.gov.mm/>

Figure 48: Revenue collection by tax type FY2018-21 (MMK, billions)

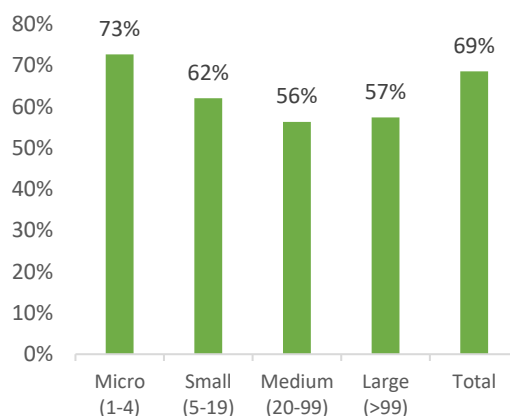


Source: IRD Annual Report for FY2021

²¹ The Specific Goods Tax Law replaced commercial tax on a list of specific goods that are imported into Myanmar, manufactured in Myanmar, or exported to a foreign country. The list of specific goods includes products like cigarettes, tobacco leaves, cigars, wine, beer as well as natural resource products such as teak, lumber, jade, kerosene petroleum, diesel and natural gas. The SGT rates range from five to 60 percent.

The share of firms not paying taxes has increased. In March 2022, around 69 percent of firms surveyed by the World Bank indicated that they had not paid taxes in the previous three months (Figure 49), higher than the 53 percent of firms reporting non-payment in 2020. Non-payment of taxes is higher amongst smaller firms (1-4 employees) and less common amongst medium (20-99 employees) and large firms (more than 100 employees).²²

Figure 49: Tax compliance; percentage of surveyed firms reporting non-payment of taxes (by firm size)



Source: World Bank firm monitoring survey (Round 11)

Non-tax revenue also declined, with losses in energy State Economic Enterprises (SEEs) adding to fiscal pressures. Non-tax revenue typically provides over two-thirds of total revenue, the bulk of which is derived from State Economic Enterprises (SEEs) in the energy sector. In FY2021, energy SEEs recorded a loss of MMK 1,235 billion (equivalent to around 6 percent of overall revenues), down from the profit of MMK 419 billion recorded in FY2020 (Figure 50). The overall loss is likely attributable to losses at electricity-related SEEs and a decline in gas export earnings, with gas production and export volumes declining between October 2021 and February 2022.²³

Revenue projections in the FY2023 budget (the first full year budget since FY2021) appear optimistic.²⁴ The budget estimates revenue collection of around MMK 23 trillion, more than 22 percent higher than the MMK 19 trillion (around 20 percent of estimated GDP) collected during FY2021, the last full 12-month fiscal year. This is despite ongoing weakness in overall economic activity, issues with tax collection, and continued

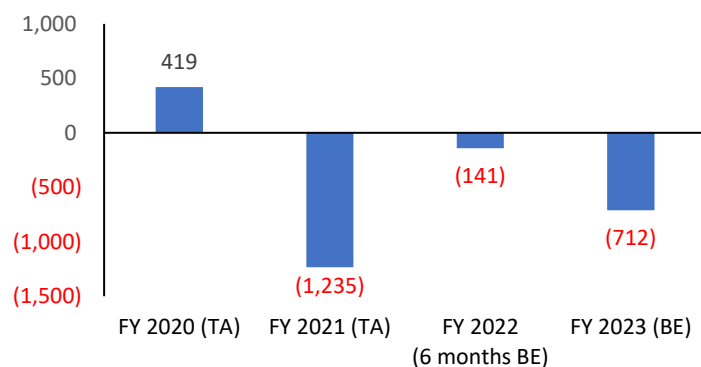
²² Across sectors, tax compliance is highest among firms in the food and beverage sectors (36-38 percent of firms report paying taxes), manufacturing (36 percent), and retail/wholesale (34 percent).

²³ Gas sales are MOGE's main source of revenue. Gas prices are set quarterly based on a 12-month moving average to smooth volatility in market prices. As a result, increases in market gas prices will not be immediately reflected in MOGE revenue collections.

²⁴ Starting in April 2022, Myanmar's budget year changed from October-September to April-March. A 6-month interim budget was used to bridge the end of the FY2021 on September 30, 2021, and the new FY2023 that commenced on April 1, 2022. In this fiscal section (only), "FY2022" is used to refer to the six months ended March 2022, and "FY2023" refers to the 12 months ended March 2023. Elsewhere in the MEM the FY's refer to years ended September.

pressure on SEE revenues, including projections of continued losses in energy SEEs (it is not clear the extent to which these projections incorporate the sharp rise in global energy prices since early 2022).

Figure 50: Profitability of energy SEEs (profit/loss, MMK billions)

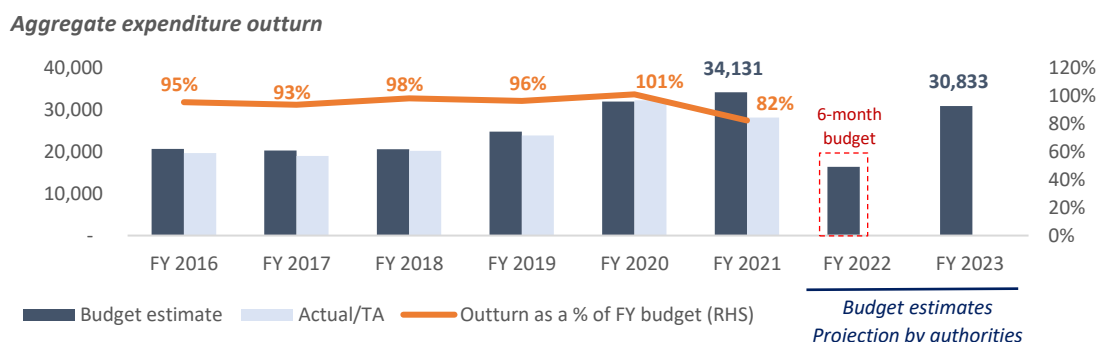


Sources: MOPF <https://www.mopf.gov.mm/> and World Bank staff estimates

Notes: TA = temporary actuals; BE = budget estimate; Energy SEEs in the figure include the Myanmar Oil and Gas Enterprise, Electricity Supply Enterprise, Electric Power Generation Enterprise, Myanmar Petroleum Product Enterprise and Yangon/Mandalay Electricity Supply Corporation; YESC/MESC distribute electricity in the two largest cities. Electricity is produced by either the state-owned plants or private companies, which is then sold to Electric Power Generation Enterprise at a contractually determined rate.

Spending declined by about 13 percent in nominal kyat terms from the previous year in FY2021, with the rate of budget execution far lower than normal (Figure 51). Given the estimated economic contraction in FY2021, spending was roughly stable as a share of GDP at around 29 percent. The declines in expenditure execution have been particularly sharp in the social sectors such as education, health, and social protection (Figure 52), marking a reversal in the trend of year-on-year increases in spending since 2011 (Figure 53).

Figure 51: Actual and budgeted spending



Sources: <https://www.mopf.gov.mm/>; World Bank staff estimates
 Note: Actual/TA = actual outturns or temporary estimates.

Figure 52. Expenditure execution: Spending as percentage of budget, FY2012-21

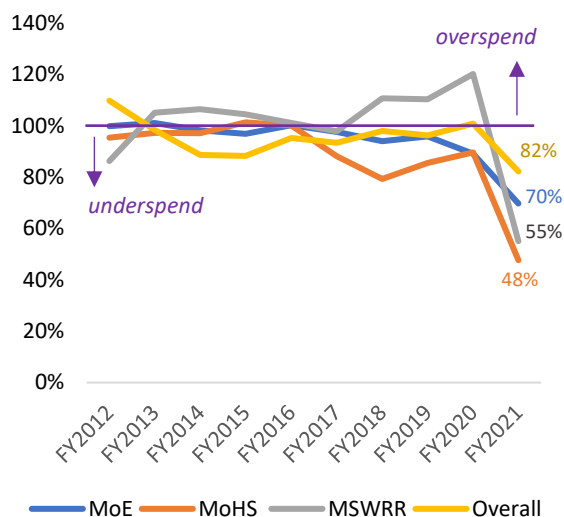
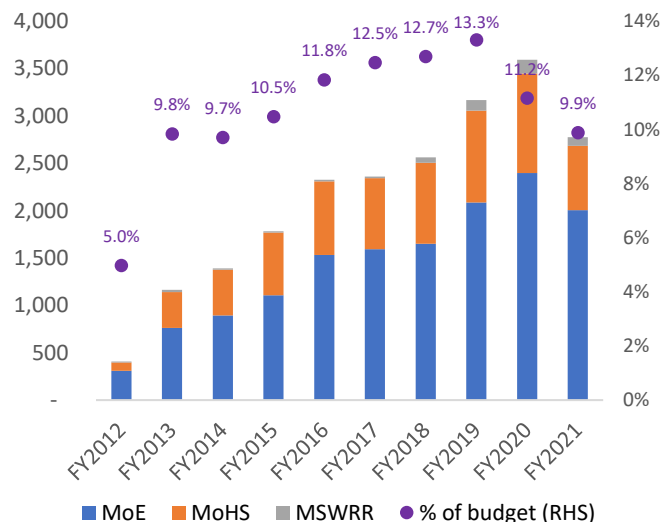


Figure 53. Expenditure in social sectors (MMK, million)



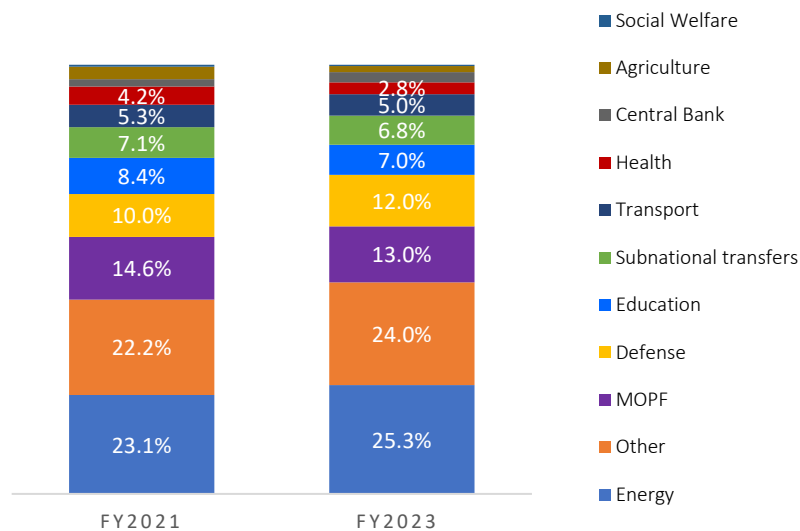
Sources: MOPF .gov.mm and World Bank staff estimates

Note: MoE = Ministry of Education; MoHS = Ministry of Health and Sports; MSWRR = Ministry of Social Welfare, Relief and Resettlement; BE = budget estimates

The FY2023 budget projects lower spending than in FY2021. In nominal terms, the aggregate spending plans in the FY2023 budget are nearly 11 percent lower than in the FY2021 budget, though remain higher than actual spending in FY2021 (Figure 51:).

The FY2023 budget has allocated a relatively large share of spending to energy and defense, while reducing planned spending on health, education and social protection (Figure 54). Energy spending continues to dominate, taking up around a quarter of the budget. The energy sector has seen the largest increase, with its share of the budget increasing by 2.2 percentage points to account for over a quarter of the overall budget. This likely reflects projected losses in MOGE and electricity enterprises, as noted above. Spending on defense increased from 10 percent of the budget to 12 percent between FY2021 and FY2023. Part of the increase in spending in both these sectors can likely be attributed to the impact of exchange rate depreciation on import costs. On the other hand, allocations to health, education, and social welfare have declined to just 10 percent of the budget combined, down from over 13 percent of the budget in FY2021.

**Figure 54. Budget priorities:
Budgeted spending by sector/ministry, percentage of total**

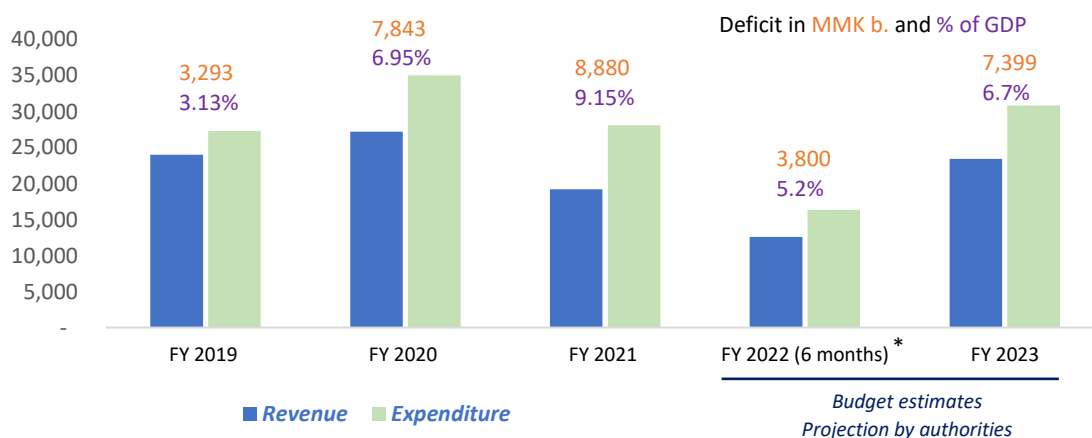


Sources: MOPF.gov.mm/; World Bank staff estimates

Note: Transport and energy sectors are predominantly SEE spending (80 and 90% of the sector, respectively). “Other” includes ministries of labor, industry, border affairs, international cooperation, information, and natural resources and environment.

The fiscal deficit remains wide amidst low revenue collection (Figure 55). In nominal kyat terms, the 30 percent decline in revenue in FY2021 was only partially offset by reduced spending, resulting in a fiscal gap of MMK 8,880 billion (9.2 percent of GDP). The authorities’ own budget projections for FY2023 indicate a further sizable deficit of MMK 7399 billion, equivalent to 6.7 percent of projected FY2022 GDP. While recent challenges with budget execution suggest that spending plans may be ambitious, revenues are also likely to fall short of target, which would keep the deficit at elevated levels.

Figure 55. Fiscal balance (MMK, billions)



Sources: <https://www.mopf.gov.mm/>; World Bank staff estimates.

Note: * The authorities used the 6-month budget in the interim to facilitate the change in the budget calendar for FY2023, which would cover the period from April to March.

The use of CBM financing appears to have increased, with a shift away from T-bills and T-bonds issuance. Since February 2021, the domestic securities market has become a less viable source of financing, and development assistance has declined. According to the 6-month Citizen's Budget issued by the authorities for the six months to March 2022, 55 percent of public financing needs were expected to be met by the CBM, with only 18 percent being covered by issuance of T-bills and T-bonds. This marks a significant unwinding of previous efforts to reduce the share of CBM financing. By comparison, across the FY2020 and FY2021 budgets (on average), it was projected that those proportions would be roughly reversed, with 17 percent of financing needs to be met by the CBM and 52 percent to be covered by bill and bond issuance.

H. Livelihoods and food security are severely strained

COVID-19 and the aftermath of the military coup are estimated to have erased nearly a decade of poverty reduction progress. The latest evidence and modelling indicate that poverty levels doubled in 2022 compared against March 2020.²⁵ The simulations suggest about 40 percent of Myanmar's population is living below the national poverty line in 2022, matching the levels of a decade prior.²⁶ Inequality is estimated to have worsened, with those already poor falling into deeper destitution. While there is substantial uncertainty around the magnitude of the poverty estimates (as there is with the estimates of GDP), all credible assumptions lead to the conclusion of a sharp deterioration in household welfare over the last two years.

Over the year to February 2022, as well as over the subsequent three months to May 2022, household incomes from most sources have tended to weaken or stay unchanged rather than increase, contributing to the overall weakness in consumption demand. Over half of all households in Myanmar report reduced household income in February 2022 relative to January 2021, while only 13 percent reported an increase. Over 90 percent of the households reporting income declines in that period reported additional income declines in the subsequent three months, whereas around three quarters of the households who were reporting increases reported further increases, suggesting that inequality has worsened through this period. Family business or farm operators have been among the hardest hit. About 60 percent of households with a family non-farm business reported a lower income from this source in February 2022 than in January 2021, and around half of households with a farm business reported lower income from that business. The economic strains from job and income losses have also had a negative impact on domestic remittances, with 57 percent of households reporting reduced remittances.

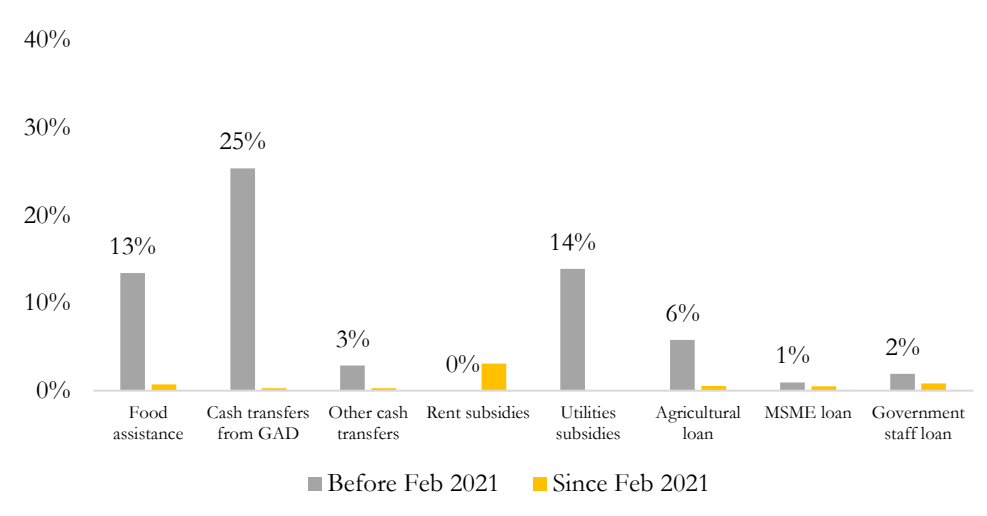
Declining social sector spending is reflected in a sharp reduction in cash and food assistance from the public sector. Public sector social assistance was scaled up during the pandemic and was targeted towards the poor. According to World Bank's household surveys, 43 percent of households received cash assistance in October 2020, compared to just 3 percent in June 2020. Poorer households were more likely to receive these transfers, which cushioned the negative impacts on their incomes but were insufficient to protect them fully against losses. Nevertheless, these interventions were estimated to have reduced headcount poverty by 1.7

²⁵ World Bank. 2022. *Progress, Setbacks, & Uncertainty: Effects of COVID-19 and Coup on Poverty in Myanmar*. July 2022.

²⁶ These simulated poverty estimates for 2022 were produced combining the imputed poverty level across HFPS rounds for 2020 and 2021 and extending the analysis with estimated labor income losses (based on GDP sectoral projections) and non-labor income losses. The national poverty line is 1590 kyat per day per adult equivalent in 2017 prices (around US\$4 in PPP terms) and was constructed using the cost of basic needs approach.

percentage points from counterfactual, no-intervention levels. While needs have increased since early 2021, assistance from the public sector has declined sharply, with almost no households reporting receiving any form of assistance in May 2022 (Figure 56).

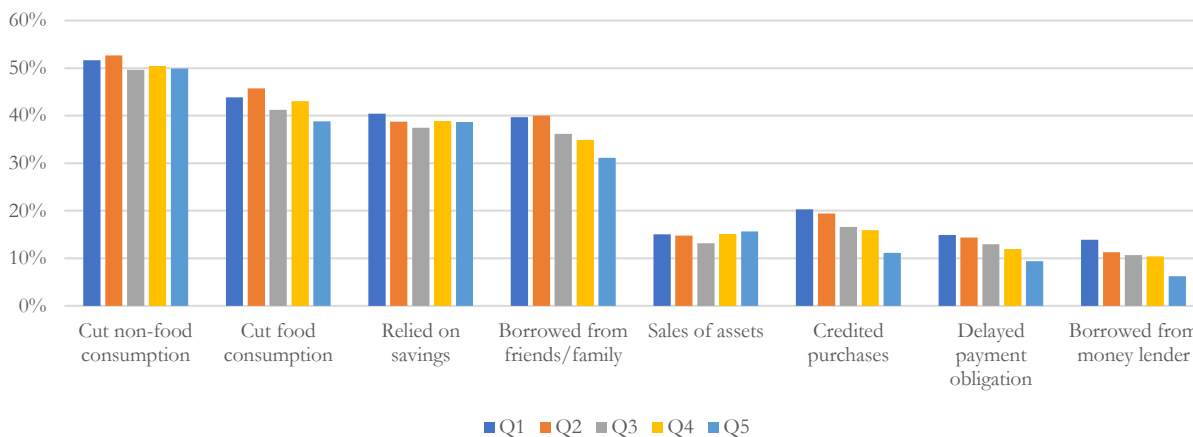
Figure 56: Percent of households receiving government assistance by type



Source: World Bank high frequency household surveys, May-June 2022 (round 8).

In the absence of assistance from the public sector, households have adopted risky coping strategies to deal with food prices and other shocks. More households in May 2022 than February 2022 reported curtailed consumption, borrowing from family and friends, and depleted savings. These coping strategies were particularly pronounced among the poorest households relative to richer households (Figure 57) and so may carry long-term adverse consequences.

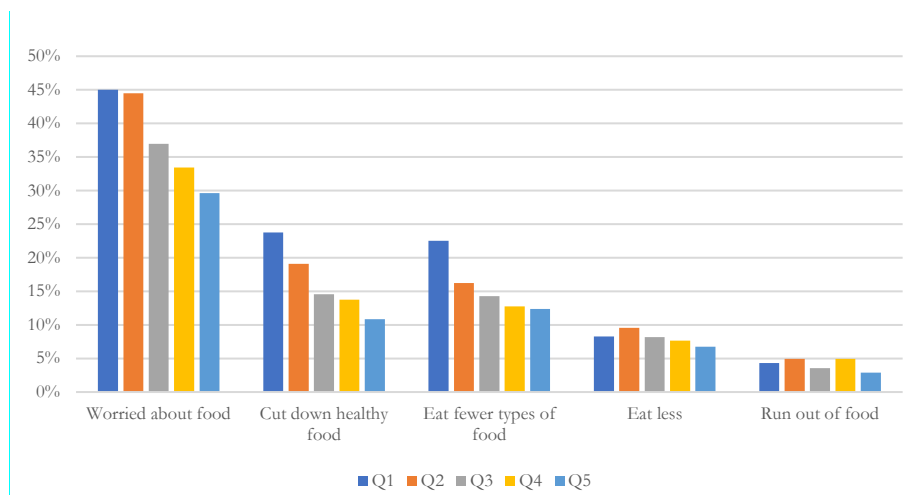
Figure 57: Percent of households by coping mechanism and quintile



Source: World Bank high frequency household surveys

Food security has been threatened by rising food prices, exacerbated by conflict and logistics disruptions. Rising food prices are the most frequently reported shocks in the World Bank’s high-frequency household surveys: almost 95 percent of households reported experiencing rising food prices in 2022. Indicators of food insecurity were worst for the poorest households: in May 2022 the bottom 20 percent of households were 50 percent more likely to be worried about food than the top 20 percent (Figure 58). Nevertheless, despite declining household incomes and greater use of coping mechanisms, the share of households worried about food has fallen by 7 percentage points between the February 2022 and May 2022 rounds, possibly reflecting a combination of seasonal factors and increased reliance on self-production.

Figure 58: Percent of households facing issues fulfilling food requirements by quintile

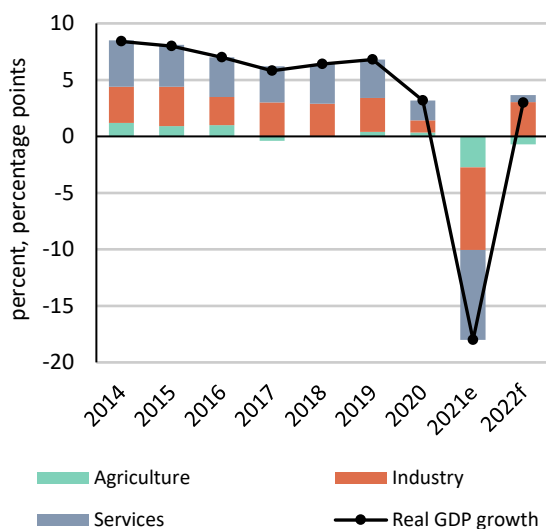


Source: World Bank high frequency household surveys

II: Outlook and Risks

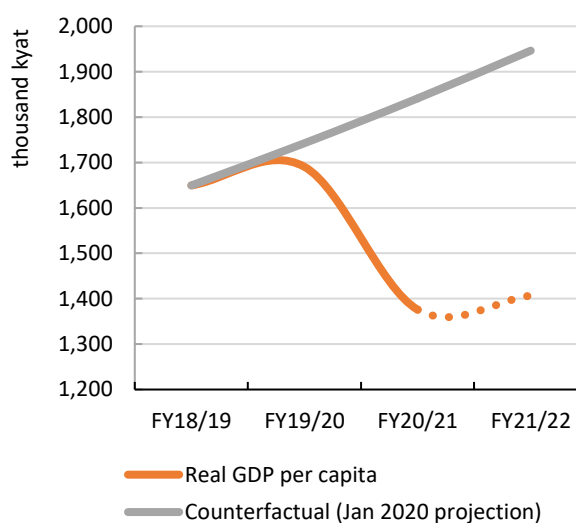
Following the estimated 18 percent contraction in FY2021, GDP is projected to increase by 3 percent in the year to September 2022. After such a large fall in economic activity last year, the absence of a substantial rebound in FY22 – with GDP per capita still around 15 percent lower than in 2019 – is indicative of the severe supply- and demand-side constraints that continue to impact economic activity. The moderate upgrade of the projection from the 1 percent growth forecast in the January MEM reflects the less severe impact of the fourth wave of COVID-19 in February and March appears to have had on economic activity this year (it was previously expected to reduce growth by around 2.5 percentage points in FY2022). The absence of a strong rebound in the economy over the coming year will continue to be hugely damaging to livelihoods.

Figure 59: Real GDP growth and contributions to growth by sector (percent, percentage points)



Source: Ministry of Planning and Finance and World Bank projections.

Figure 60: Real GDP per capita (constant FY2018/19 prices)



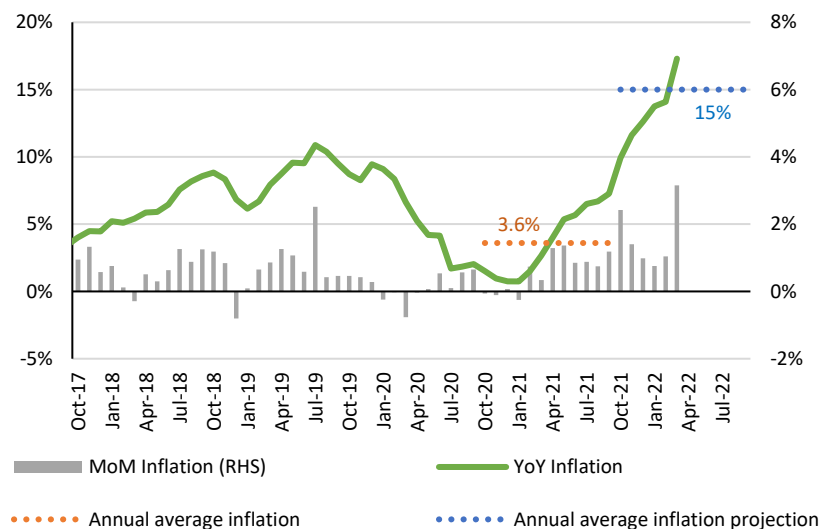
Source: Ministry of Planning and Finance and World Bank projections.

The manufacturing and construction sectors are driving most of the modest growth expected this year, with the services sector activity constrained by weak demand and agricultural production hampered by higher input prices, logistics constraints, and conflict. Growth has been supported by stronger-than-expected garment production and exports, and a pick-up in construction activity. These improvements appear to have persisted through the first half of 2022, despite higher input prices, shortages of raw materials, and electricity outages. In part, the relatively strong growth expected in the industrial sector in FY2022 can be attributed to a weak base effect, with much of the previous year characterized by factory closures and temporary halts in construction projects. Growth in the services sector is expected to have been more subdued, with improvements in mobility at retail and transport locations and an easing of cash liquidity constraints largely offset by the impacts of higher prices and lower household incomes, both of which will have acted to dampen spending behavior. A contraction in agricultural production is expected due to increased imported input price pressure, supply chain and transport disruptions, elevated conflict. At the same time, exchange rate restrictions appear to be reducing external price competitiveness.

Annual average inflation is expected to increase to 15 percent in FY22, up from 3.6 percent in FY21.

This forecast sharply exceeds the January projection of 9 percent, with the effects of the Ukraine war on the global prices of Myanmar's imports compounded by ongoing kyat depreciation, domestic logistics constraints, and trade restrictions which have prompted shortages of some items. Assuming that the exchange rate and global oil prices remain roughly stable at June 2022 levels through the remainder of FY22, and that the pass-through from transport price inflation to food inflation remains consistent with historical relationships, year-on-year inflation is projected to peak in the second half of the FY, before easing slightly by year end (Figure 61).

Figure 61: CPI inflation



Sources: Central Statistical Organization; World Bank projections

The current account deficit is expected to widen slightly. In the nine months to June 2022, imports have increased by 20 percent compared with the same period last year, while exports have increased by 12 percent. This is consistent with a larger goods trade deficit in FY2022. Trade and foreign exchange restrictions are expected to result in a moderation in both imports and exports in the near term. Services exports and remittances are expected to have remained weak.

The fiscal deficit is expected to remain elevated in the twelve months to September 2022. Both expenditure and revenue outturns worsened significantly in FY21, and only a partial improvement is expected in the following year. In the short term, revenue collection will remain below pre-coup levels, with only modest improvement in tax collection forecast, along with weak performance in the energy sector SEEs. Only a moderate improvement in spending execution is expected. In nominal terms, the deficit over the 12 months ending in September 2022 is projected to persist at over MMK 8 trillion, or around 7.5 percent of GDP.

Public debt to GDP is projected to remain just below 60 percent of GDP. The relatively contained rise in debt to GDP is a result of higher inflation in FY22 which has inflated nominal GDP. Nevertheless, the level of debt has picked up substantially compared with earlier years, and the associated financing needs have also risen. At the same time, official sources of international financing have been paused or withdrawn and the low participation of private banks in domestic debt issuance has meant a stronger reliance on CBM financing. To

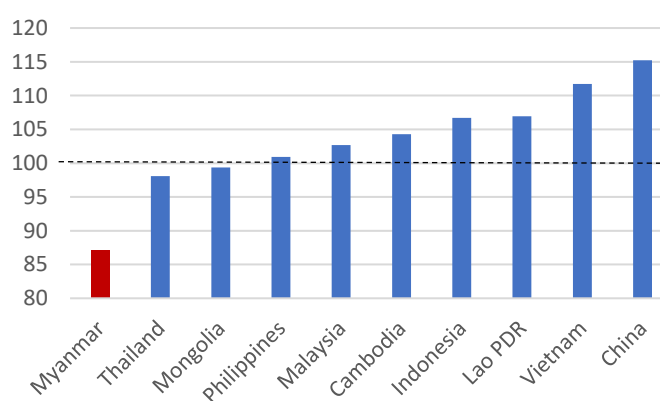
the extent it persists, larger-scale monetization of the deficit would put additional pressure on the exchange rate and inflation over the medium term.

Table 2: Economic data and FY22 projections

	FY17/18	FY18/19	FY19/20	FY20/21e	FY21/22f
Real GDP growth at constant factor prices	6.4%	6.8%	3.2%	-18%	3%
Agriculture	0.1%	1.6%	1.7%	-12.5%	-3.0%
Industry	8.3%	8.4%	3.8%	-20.6%	8.6%
Services	8.7%	8.4%	3.4%	-18.4%	1.6%
Inflation (Consumer Price Index), year average	5.9%	8.5%	5.8%	3.6%	15.0%
Inflation, year end	8.6%	9.5%	2.0%	7.3%	15.0%
Current Account Balance (% of GDP)	-4.7%	-0.2%	-2.0%	-1.4%	-1.6%
Fiscal Balance (% of GDP)	-2.9%	-3.2%	-7.0%	-9.2%	-7.5%
Public Sector Debt (% of GDP)	38.3%	38.7%	42.2%	58.3%	58.7%

Beyond 2022, the baseline outlook remains weak. On one hand, electricity disruptions appear to have eased with the onset of the rainy season (though structural constraints to supply remain), cash liquidity is more readily accessible, and mobility is trending upwards, with business activity in the main cities showing signs of normality. On some measures, business expectations about the future have strengthened. But household incomes have weakened and coping mechanisms appear to be under increasing strain, limiting the potential for a pick-up in consumption. With global commodity prices remaining at relatively high levels and persistent downward pressure on the kyat exchange rate, domestic prices for food, fuel, and other imported inputs are likely to remain elevated over the short to medium term, constraining both production and domestic demand. The overall balance-of-payments situation is of growing concern, with foreign exchange shortages likely to continue to limit the availability of several imported items, including fuel and cooking oils. Elevated levels of conflict in some areas are expected to continue to constrain productive activity, particularly in agriculture. In conjunction with the deterioration in the policy environment described below, these constraints imply that a return to pre-pandemic levels of economic activity in Myanmar is unlikely in the near term. This sharply contrasts with the situation in the rest of the East Asia and Pacific region, where GDP in all large countries has already recovered to above 2019 levels or is projected to do so in 2023 (Figure 62).

Figure 62: Forecast real GDP level in 2022 (2019 = 100)



Source: Global Economic Prospects, June 2022

Notes: Real GDP level in 2019 is indexed as 100. f = forecast.

Downside risks remain elevated. With the exchange rate already under pressure and foreign reserves likely to have fallen to low levels, a further deterioration of the external position is a significant risk. This would ultimately require more painful adjustments to import volumes and prices, with particularly harsh effects on the poorest and most vulnerable. There are ongoing risks that conflict could become even more disruptive and spread to other parts of the country. Any further escalation would further reduce demand, strain logistics and supply chains, and increase the operating constraints faced by firms. Myanmar also remains highly vulnerable to other sources of risk, including a resurgence of COVID-19 or a natural disaster, which would severely test the authorities' capacity to respond.

Recent policy reversals are likely to inhibit potential growth, worsen macroeconomic instability, and impair the efficient allocation of resources. While recent measures have been intended to reduce reliance on imports and preserve scarce foreign exchange, they are already having unintended consequences which are likely to become more acute over time. The overvalued official exchange rate has worsened foreign currency shortages, while foreign exchange and trade restrictions have reduced the availability of imports and impaired the competitiveness of Myanmar's export-oriented manufacturing and agricultural firms. Foreign exchange surrender requirements may initially reduce the pressure on foreign exchange reserves and the market for foreign currency, but their impact on the availability of foreign currency is likely to wane as private sector participants adjust via an increased use of offshore accounts, changes in invoicing behavior, and a greater reliance on informal markets and payment channels. A heavy-handed approach to the promotion of import substitution and self-sufficiency – through the reinstatement of import and export trade license requirements, import bans and quotas, and support for import-competing activities such as steel mills and sunflower production – has curtailed imports of producer inputs and consumer goods, increased the administrative costs of trade, and reversed much of the increased openness and liberalization that had been a key driver of Myanmar's strong growth over much of the decade prior to the coup. Moreover, the apparent return to relying on central bank financing to fund large budget deficits will heighten pressures on inflation and the exchange rate, running counter to other efforts to stabilize the external position.

These policy changes are indicative of a broader shift in the way the economy is governed, with longer-term implications for Myanmar's growth and development potential. The measures described above all allow the authorities greater control over the allocation of resources in the economy (including through provision of access to foreign exchange, import licenses, regulatory exemptions, etc) raising risks of misallocation of resources to connected firms and individuals at the expense of more efficient uses. Observers have noted this broader shift away from a stable market-based system that is governed by the rule of law, and toward a system of policy making and governance that is less predictable, less clearly communicated, and characterized by more discretion in the enforcement of rules and regulations.²⁷ The lessons from Myanmar's economic history suggest that to the extent these trends continue, investor confidence will remain weak and the business environment will continue to suffer, constraining Myanmar's growth potential over the longer-term.

²⁷ Economic Research Hub. 2022. *Myanmar's Economic Governance after the Coup: Changes in Policy and Practice*.

