

MYANMAR ECONOMIC MONITOR

October 2013

Overview

The economy grew at 6.5 percent in 2012/13. The main drivers of growth were increased gas production, services, construction, foreign direct investment, and strong commodity exports.

Inflation has been on the rise in recent months, reaching 7.3 percent in August 2013.

The budget deficit declined to 3.7 percent of GDP in 2012/13, from 4.6 percent in 2011/12. The 2013/14 budget provides for increased spending on social sectors, although the defense budget remains high.

The nominal exchange rate has been depreciating since the turn of the year, reaching K975 to one US dollar in July 2013 with some reversal of this trend between August and September. The current account deficit increased to 4.4 percent of GDP in 2012/13, up from 2.4 percent in 2011/12, due to import liberalization and lifting of some exchange restrictions.

Gross international reserves reached US\$4.6 billion at the end of 2012/13, equivalent to 3.7 months of imports, up from US\$4.0 billion in 2011/12.

The outlook is positive, with the economy projected to grow at 6.8 percent in 2013/14 and rising further to 6.9 percent in the medium-term. This will be on account of a continued increase in gas production, increased trade, and stronger performance in agriculture.

Risks to the outlook include the challenge of maintaining the reform momentum. Externally, a slowdown in Chinese domestic investment and a decline in global commodity prices would hurt commodity exporting countries such as Myanmar.

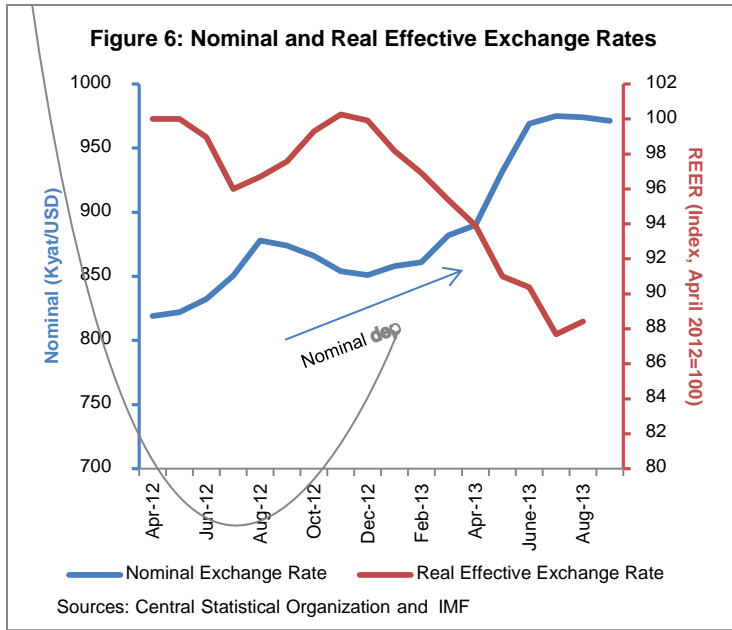
The Policy Watch section presents a number of

A.

Box 1: External Economic Environment: Implications for Myanmar

Global growth momentum has accelerated in recent months. The second quarter of 2013 marked the first time in 30 months that the economies of the Euro area, Japan, and the United States all posted positive growth. The Euro area exited from its long recession in the second quarter, registering a growth rate of 1.2 percent (quarter-on-quarter in seasonally adjusted terms). Recovery intensified in the United States, with its economy growing at 2.5 percent, while Japan's economy expanded by a solid 3.8 percent. Similarly, growth accelerated in several emerging markets including in Brazil, China, Malaysia, South Africa, and Turkey. Chinese quarterly GDP growth picked up sharply in Q3 to 9.3 percent, up from 7.3 percent in Q2, confirming an acceleration in industrial output and improving business sentiments. Leading indi

Figure 4: Expenditures in Health, Education, and Defense (as a % of GDP)



included a 50 percent write-off of arrears and restructuring of the remainder. This has resulted in a decline in Myanmar's total external debt, from 27.3 percent of GDP in 2011/12 to 24.8 percent in 2012/13. Further, a recent DSA conducted jointly by the World Bank and IMF concluded that Myanmar was at low risk of debt distress.

Short and medium-term outlook and risks

11. **The outlook remains positive in the short to medium-term.** The economy is projected to grow at 6.8 percent in 2013/14 and rising further to 6.9 percent in the medium-term. Continued strong growth will be on account of a continued increase in gas production, increased trade, and stronger performance in agriculture. G

Table 1: Myanmar: Key Economic Indicators

B. POLICY WATCH

12. The economic reform process continues and is focused on removing further regulatory restrictions to trade and investment, improving the provision of essential backbone services, and reducing corruption in order to improve Myanmar's business environment.

Trade and investment

13. **The requirement for import and export license was recently removed on some 600 products.** The Government became cognizant of the fact that these licensing requirements were only making importation and exportation of goods unnecessarily cumbersome, and therefore, hampering international trade. The move is therefore aimed at ensuring that Myanmar takes full advantage of trading opportunities that are opening up, the latest being the expiration and non-renewal of the broader ban in July on imports from Myanmar to the United States, excluding jadeite and rubies, and articles of jewelry containing them. In addition, the recent reinstatement of trade preferences under the EU's Generalized System for Preferences (GSP) for least-developed countries will give Myanmar duty and quota free access to the EU market for all its exports, except arms and ammunition.

14. **Parliament approved new regulations on foreign investment.** The Foreign Direct Investment (FDI) law that was passed in November 2012 was general in most of its provisions and hence, difficult to implement in practice. Therefore the new regulations, which were passed on March 18, 2013, seek to supplement and operationalize the Foreign Direct Investment (FDI) Law. For example, the FDI Law restricted or prohibited foreign investment in a range of sectors such as agriculture, livestock, fisheries and manufacturing and services "which can be carried out by the citizens," while also limiting foreign investment in sectors that could affect the natural environment and public health. On the other hand, the regulations permit 20 percent foreign ownership in a firm in these sectors, if a citizen of Myanmar owns the remaining 80 percent.

15. **Myanmar is in the process of preparing consumer protection and competition laws and recently restructured some of the departments in the Ministry of Commerce.** As Myanmar continues on the path of economic liberalization, it becomes important to ensure that there is fair competition amongst companies and that the interests of consumers are protected. Although Myanmar has some laws with provisions on consumer protection (e.g. the 1992 National Drug Law, the 1996 Traditional Drug Law, the 1997 National Food Law and the 2004 Electronic Transaction), there is no dedicated law to consumer protection. Similarly, although the new constitution has a provision for fair competition, there is no comprehensive law on competition. It is for this reason that the Ministry of Commerce is leading the process of preparing the two laws. The consumer protection law will include matters related to foodstuff, drugs, as well other commodities such as refrigerators and cars. Meanwhile, the Ministry of Commerce also recently announced that its Department of Border Trade had been reconstituted as the Department of Commerce and Consumer Affairs, expanding its size and functions. The Commerce and Consumer Affairs Department would be formed with sub-departments of trade and trade flow, internal trade, trade coordination, competition policy, and consumer affairs. Similarly, the Ministry of Commerce also reconstituted its Myanmar Agricultural and Farm Produces Trading as the Trade Promotion Department. The Ministry announced that these initiatives were intended to streamline the department's procedures in preparation for the country's active participation in ASEAN Free Trade Agreements.

Financial sector

16. **The Central Bank of Myanmar Law was enacted by the Parliament on July 11, 2013, paving the way for a more autonomous Central Bank.** To date, the Central Bank of Myanmar has not been functioning as most central banks in other countries traditionally do. In particular, unlike in other countries, it has been operating as a department in the Ministry of Finance and has relied mostly on direct monetary policy instruments such as reserve requirements and interest rate controls instead of indirect monetary policy levers such as open market operations. The new law therefore provides for a Central Bank that

monetary policies. The Central Bank's management includes the board of directors which comprises the governor, three deputy governors, and five retired academics and professionals. Preparation of rules and regulations to operationalize the Central Bank of Myanmar Law is in progress. These will include administrative arrangements for the formation of five committees responsible for monetary policy, financial stability, payments, foreign exchange management, and internal auditing.

17.

is still entitled to around 30 percent of minerals extracted, plus the relevant income tax and royalties owed. Another area of concern for foreign investors is the prohibition of exports of ore, coal and gold, a protectionist measure meant to ensure that processing is done in-country. Foreign investors are also concerned about the requirement for separate contracts during each phase of a mining operation, from exploration to development. Therefore the new law, which will replace the existing 1994 mining law is aimed at addressing some of these issues.

Anti-corruption

22. **A new Anti-corruption Law was recently enacted.** It came into effect on September 17, 2013, replacing the 1948 Suppression of Corruption Act. Myanmar has had a reputation of being one of the most corrupt countries in the world. The new administration therefore recognizes that such an image is a threat to the reform process and to growth and development, hence the move to strengthen the legal framework for fighting corruption. The new Law provides for the formation of a 15-member Anti-Corruption Commission to lead the process of fighting corruption in the country. It also requires all officials in the executive, judicial and legislative branches of the government to declare their asset and provides for various penalties for those found to have broken the law under the Act.

C. SPECIAL FEATURE: MYANMAR PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) ASSESSMENT

23. **The Public Expenditure and Financial Accountability (PEFA) assessment for Myanmar provides the first-ever comprehensive review of public financial management (PFM) systems in the Republic of the Union of Myanmar.** It is an international framework that evaluates a country's PFM system in six dimensions. Details of the framework can be found at www.pefa.org. The review of Myanmar's PFM system was conducted jointly by the Ministry of Finance and the World Bank with the aim of identifying the strengths and weaknesses of the PFM system in order to articulate a reform strategy that would build on the strengths and address the weaknesses in a prioritized manner, so that over time Myanmar's PFM system is able to: (i) maintain aggregate fiscal discipline; (ii) allocate public

resources to policy priorities of the government effectively; and (iii) promote value for money in public spending.

24. **The authorities are using the PEFA assessment report in a number of ways.** First, they are openly sharing and discussing results with stakeholders across government, civil society and development partners to foster a shared understanding of the current PFM system, the issues faced, and the areas that require improvement. Second, the authorities have used

significant differences in composition of budget (the share received by ministries relative to the whole budget) and actual spending. However, on the revenue side, budgeted and actual revenues show less variation. Nonetheless, the overall practice of issuing supplemental budgets mid-year weakens the credibility of the original annual budget.

Increasing comprehensiveness and transparency

27. **While progress has been made in making the Union Budget Law public contributing to transparency, the budget is not comprehensive.** In particular, there are significant unreported government operations which make it difficult to develop a comprehensive picture of government spending and revenues. Additionally, such budgetary information as prior year's budget out-turns or an explanation of fiscal implications of policy changes are not included in the published budget law.

Making policy-based budgeting stronger

28. **There is insufficient policy guidance for the preparation of the budget.** Budget preparation in Myanmar is currently not being done within a framework of available resources. This makes effective prioritization of expenditure choices, and hence, alignment between the budget and policies difficult. Additionally, capital and recurrent budgeting functions are divided between separate planning and finance ministries, creating potential for not adequately provisioning for maintaining assets.

Strengthening predictability and control in spending

29. **Spending bodies have a reasonable degree of predictability about the resources available to them while control in budget execution seems to be somewhat varied across ministries.** Myanmar currently operates under a highly delegated system where spending agencies have a significant ability to manage finances. This is good practice. Similarly, spending agencies have reasonable predictability in the resources they receive. However, the financial management and procurement rules and regulations governing how agencies should spend the money and be accountable for results are outdated and have lagged the current actual practice. As such, control arrangements and procurement processes are thus somewhat ad hoc, differing from ministry to ministry. Moreover, the regulations are

open to interpretation by financial management officials and it is not clear the regulations are well understood throughout ministries and states/regions. A need therefore exists for the government to update the financial rules and regulations so that they are in line with current practices.

Accounting, recording and reporting

30. **Myanmar employs a simple cash-based double entry accounting system, with reasonable integrity of spending records.** Reporting on spending happens monthly and at the end of the fiscal year – but may not be completed in a timely fashion because of outdated manual systems. Further, it is currently more oriented towards discipline and consolidation than providing a basis for active fiscal management.

External audit and oversight

31. **Institutions of audit and external scrutiny have been established and strengthened, although follow-up on issues remains limited.** Myanmar has recently established a number of institutions to support accountability, including a Public Accounts Committee (bipaTJ744 5494 500.2169.23ETBT9 I1(I)-63E

The *Myanmar Economic Monitor* is available at www.wor