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MYANMAR ECONOMIC MONITOR

JUNE 2024



LIVELIHOODS UNDER THREAT



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MYANMAR ECONOMIC MONITOR:

LIVELIHOODS UNDER THREAT

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Preface and Acknowledgements

The Myanmar Economic Monitor (MEM) is published semiannually and produced by the World Bank's Myanmar office. This edition was prepared by a team comprising Kim Alan Edwards (Program Leader and Senior Economist, Task Team Leader), Kemoh Mansaray (Senior Economist, Task Team Leader), Thi Da Myint (Country Economist), Sutirtha Sinha Roy (Economist), and Aka Kyaw Min Maw (Consultant). The MEM was developed under the guidance of Sebastian Eckardt (Practice Manager, Macroeconomics, Trade, and Investment), Rinku Murgai (Practice Manager, Poverty and Equity) and Mariam J. Sherman (Country Director).

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The views expressed in the MEM are those of the authors and do not necessarily reflect the views of the World Bank Group, its Executive Directors, or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

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Abbreviations

ACLED	Armed Conflict Location and Event Data Project
bbl	Barrel of Crude Oil
BE	Budget Estimate
BTA	Barter Transaction Arrangements
CBM	Central Bank of Myanmar
CIF	Insurance, and Freight
CMP	Cut-Make-Pack
CPI	Consumer Price Index
CSO	Central Statistical Organization
EAO	Ethnic Armed Organization
EAP	East Asia and Pacific
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FOB	Free on Board
FY	Fiscal Year
GDP	Gross Domestic Product
H1	The first six months of the year
H2	The second six months of the year
HDDS	Household Dietary Diversity Score
IDP	Internally Displaced Persons
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IRD	Internal Revenue Department
IZ	Industrial Zones
LFPR	The labor force participation rate
LIFT	Livelihoods and Food Security Trust Fund
MEM	Myanmar Economic Monitor
MFI	Micro Finance Institution
MMFA	Myanmar Microfinance Association
MMK	Myanmar Kyat
MOGE	Myanma Oil and Gas Enterprise
MOPF	Ministry of Planning and Finance
MSME	Micro, Small and Medium Enterprises
MSNA	Multi-Sectoral Needs Assessment
MSPS	Myanmar Subnational Phone Surveys
NEET	Number of people not in Employment, Education, or Training
NGO	Non Government Organizations
NPL	Nonperforming loans
NTLs	Nighttime Lights

PAR	Portfolio At Risk
PA	Provisional Actual
PGMF	Pact Global Microfinance Fund Myanmar
PMI	Purchasing Managers' Index
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RE	Revised Estimate.
RRR	Required Reserve Ratio
SEE	State-owned Economic Enterprise
SEZ	Special Economic Zone
TA	Temporary Actual
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
USD	US dollar
WBFSMS	Food Security and Market Survey
WFP	World Food Programme
yoy	year-on-year

Executive Summary

Myanmar's economy continues to face significant challenges in 2024. Economic activity has been constrained by elevated conflict, increased macroeconomic volatility, and a challenging business environment. In addition to its ongoing impacts on household livelihoods and agricultural production, conflict continues to disrupt land border trade with China and Thailand, as well as domestic supply chains. The announcement of mandated conscription in February 2024 has intensified migration to rural areas and abroad, leading to increased reports of labor shortages in some industries. Moreover, since October 2023 more than one million people have been displaced by conflict, bringing the total number of internally displaced persons (IDPs) to 3.1 million as of early June. Kyat depreciation and lack of access to foreign currency and import licenses have led to persistent inflation and shortages of essential imported inputs. Electricity outages have worsened, compelling firms to rely on expensive diesel generators, thereby increasing production costs. About 33 percent of firms surveyed by the World Bank in April reported power outages to be their primary challenge, up from 12 percent in September.

Recent indicators of economic activity have been subdued. GDP is estimated to have risen by just 1 percent in the year ended March 2024, remaining around 10 percent below pre-pandemic levels. In the April 2024 round of the World Bank Firm Survey, firms reported operating at 65 percent of their capacity on average, a pick up from September 2023 but still 10 percentage points below levels a year earlier. The services sector, particularly retail and tourism, has suffered due to high inflation and reduced consumer spending power. Though there has been some shift toward sales of domestically produced products, retailers continue to face significant stock shortages. The number of international tourists also remains significantly below pre-pandemic levels and has weakened further since the beginning of the year, impacting the hospitality and related industries. As of March 2023, the manufacturing purchasing managers' index had contracted for six consecutive months, as firms reported a drop in output and new orders, though these indicators subsequently improved in April and May. The agricultural sector has displayed signs of resilience, largely driven by increased input use and improvements in rice and other crop yields. However, limited access to credit and conflict-related disruptions to farming activities continue to weigh on agricultural production.

Reflecting anemic GDP growth, labor markets remain very weak. Following a marked deterioration in labor market conditions between 2017 and 2022—in terms of participation, employment, and formality—there has been only partial improvement over the year to end-2023.¹ According to the World Bank's Myanmar Subnational Phone Surveys (MSPS), the employment rate rose by 2.3 percentage points between the end of 2022 and the end of 2023, but remains well below 2017 levels. Meanwhile, the estimated adult unemployment rate rose from 6.7 percent to 8.1 percent over the year to end-2023. Measures of job vacancies – an indicator of demand for labor – have plateaued below 2020 levels. At the same time, some areas and industries have seen a reduction in labor supply, particularly in early 2024, due to labor movements within the country and across borders in response to conflict and fear of conscription. This combination of weakness in demand and supply has meant that real-time indicators of employment have deteriorated in recent months: in March 2024 the manufacturing purchasing managers' employment index (an indicator of the direction of month-on-month changes in employment at the firm level) fell to its lowest level since 2021, and as of May employment in the manufacturing sector had contracted for each of the last 12 months.

There has also been a significant decline in trade, driven in large part by disruptions at key land border posts. In the six months to March 2024, merchandise exports fell by 13 percent and imports fell by 20 percent

¹ The last official household survey in Myanmar – the Myanmar Living Conditions Survey (MLCS) – was conducted in 2017. Myanmar Subnational Phone Surveys (MSPS) have been conducted at the end of 2022 and the end of 2023.

compared to the same period a year earlier. Excluding natural gas, exports through land borders declined by 44 percent, while manufactured exports – largely garments and natural gas – also fell sharply. Imports via land borders declined by half, accounting for almost 40 percent of the decline in overall imports. Trade with China and Thailand has been blocked or restricted at those border posts that have fallen under the control of resistance groups, but there is some evidence of redirection towards alternative land gates and sea trade. Import and foreign exchange restrictions, weaker domestic demand, and a shift toward domestic production also contributed to the decline in imports. Due to the large decline in imports, the merchandise trade deficit narrowed to nearly zero in the six months to March 2024.

The market exchange rate has depreciated sharply since the beginning of the year. The kyat has depreciated by about 20 percent against the US dollar on parallel markets since the end of 2023 (as of early June the exchange rate was around 4300 kyat per dollar). The spread between the official fixed reference rate and the parallel market rate tripled over the year to end May 2024, to more than 50 percent. Multiple exchange rates are in effect between the official reference rate and the market rate, with persistent shortages of foreign currency at non-market rates. In addition to CBM sales of foreign currency, various administrative measures have been deployed in an attempt to maintain a balance between foreign exchange supply and demand, including foreign currency surrender requirements, import license restrictions barter transaction arrangements, controls on non-trade related offshore payments, promotion of the use of foreign currencies other than US dollars, and crackdowns on foreign exchange dealers not complying with regulated exchange rates. Several of these measures (and the actions taken by businesses in response) have further reduced the availability of foreign currency, exacerbating depreciation pressures on the parallel market.

Table ES 1: Economic estimates and projections
(annual percent change unless indicated otherwise)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 ^F
Real GDP growth, at constant factor prices	6.6	-9.0	-12.0	4.0	1.0	1.0
Agriculture	2.2	-5.7	-12.8	-2.2	2.0	2.4
Industry	8.0	-11.8	-8.2	8.0	0.0	1.4
Services	7.8	-8.4	-14.7	3.9	1.3	0.1
CPI inflation, year average	9.1	2.3	9.6	27.2	26.5	18.0
Trade balance (% of GDP)	-5.6	-2.9	-2.4	-5.5	-4.8	-4.6
Current account balance (% of GDP)	-1.8	-0.4	-2.4	-3.1	-3.7	-3.6
Fiscal balance (% of GDP)	-6.2	-7.5	-4.7	-3.3	-5.7	-6.1
Public debt (% of GDP)	42.3	54.6	61.5	62.6	61.5	63.0

Note: April-March fiscal year

Inflation has remained persistently high, driven by rising food and fuel prices, and reflecting the impacts of kyat depreciation on the price of imported goods. Headline consumer price inflation rose to 30.2 percent (yoy) in September quarter 2023, with both food and nonfood inflation increasing. Fuel and transport prices have risen further, due to both a pick-up in the global oil price and substantial pass-through from the depreciating exchange rate. Food inflation has also been driven by increased export prices, trade and logistics constraints, and disruptions in domestic production. More recent price indicators have continued to trend upwards since September: the World Food Program (WFP) index of food prices has risen by 27 percent over the six months to April 2024, while diesel and gasoline prices have increased by 6 percent and 34 percent, respectively. There is significant variation across Myanmar with WFP data indicating that the increase in food prices in Kachin, Sagaing, and Rakhine has been markedly higher than in less conflict-prone regions such as Yangon. High prices in conflict areas reflect disruptions to transport infrastructure, road blockages, and the

need to pay multiple road tolls and checkpoint fees, all of which act to compound pre-existing accessibility constraints. In addition, conflict has directly disrupted agricultural production in some parts of the country such as Sagaing and Rakhine, exacerbating food shortages and putting further upward pressure on prices. These trends have in turn contributed to food insecurity: according to an Food and Agriculture Organization (FAO) survey, a quarter of all Myanmar households were experiencing acute food insecurity in January 2024, 4 percentage points higher than what was reported six months earlier.

The fiscal deficit is expected to have widened in the year to March 2024. The fiscal deficit for FY2022/23 (year ended March) was smaller than expected, at 3.3 percent of GDP, with tax and non-tax revenues exceeding budget estimates, in part reflecting a moderate pick up of economic activities over that period. Nevertheless, Myanmar's fiscal deficit is expected to have widened to 5.7 percent of GDP in FY2023/24 and is set to widen further to 6.1 percent of GDP in FY2024/25. Revenue collection is expected to have moderated from FY2022/23 levels, while the authorities have announced plans to increase current and capital spending on defense, education, health, electricity generation, transport, and agriculture. Public debt is projected to reach 63.0 percent of GDP in FY2024/25, only a small increase from previous years. High inflation has eroded the domestic debt stock in Myanmar (as a proportion of GDP) in recent years, partially offsetting the effects of relatively large budget deficits, negative or low real GDP growth, and the valuation effects of kyat depreciation on external debt.

The cumulative impact of subdued economic activity, high prices, and weak labor markets has put households under substantial pressure, with close to a third of the population estimated to be in poverty as at the end of 2023. The 2023-24 MSPS indicates that there has been a significant increase in the headcount, depth and severity of poverty in Myanmar in recent years. The poverty rate is estimated to be 32.1 percent in 2023-24, a reversion to levels last seen in 2015. At the same time, the depth and severity of poverty has worsened in 2023-24, meaning that poverty is more entrenched than at any time in the last six years. Internally displaced populations (IDPs) are particularly vulnerable, with poverty rates as high as 48 percent.

While poverty is still higher in villages than cities, urban poverty has increased more quickly than rural poverty over the last six years, with substantial declines in consumption amongst more-educated people. The increase in rural poverty between 2017 and 2023 is related to job losses in rural areas, particularly in agriculture. The share of the rural population employed in agriculture has declined from 43 percent in 2017 to 34 percent in 2023, with these workers losing the subsistence and shock-absorbing benefits that agriculture provides. On the other hand, the sharp rise in urban poverty between 2017 and 2023-24 has coincided with a significant decline in job quality. The share of wage earners in overall employment fell by 9.3 percentage points between 2017 and 2022 and by a further 2.6 percentage points within just the last year. While more protected from job losses, individuals with higher levels of education have seen an increase in informality and relatively large declines in consumption between 2017 and 2023. Workers in manufacturing and services have experienced sharper reductions in consumption and increases in poverty than workers in agriculture.

The economic outlook remains very weak, implying little respite for Myanmar's households over the near to medium term. Following estimated GDP growth of 1 percent in FY2023/24 (year ended March 2024), GDP is expected to grow at 1 percent again in FY2024/25, a downward revision from our December 2023 projection of 2 percent growth for the year. These projections indicate that Myanmar's GDP in FY2024/25 will remain about 9 percent below FY2018/19 levels, in sharp contrast to the experience of other larger countries in the East Asia and Pacific region.

The downward revision in projected growth for FY2024/25 is largely due to the persistence of high inflation and constraints on access to labor, foreign exchange, and electricity, all of which are likely to have larger impacts on activity than was previously expected. Ongoing kyat volatility and rapid inflation (more persistent than expected six months ago) will continue to put pressure on already stretched coping

mechanisms and household consumption, with particularly large impacts on services industries such as retail trade. The manufacturing sector will continue to be affected by electricity shortages, foreign currency shortages, and restricted access to imported inputs, while energy production is expected to decline further. Increased labor shortages and churn – due in part to the threat of conscription, as well as declining real wages and broader conflict and displacement trends – will impact all sectors. On the other hand, agricultural activity is expected to continue to expand in FY2024/25, driven by higher export and farmgate prices, and some moderation in input costs (e.g. fertilizer) which should see yields continue to improve. Moreover, the impact of land border trade disruptions is expected to ease slightly as importers and exporters shift to alternative channels, while production in several major agricultural areas remains relatively unaffected by conflict.

Consumer price inflation is expected to remain high, moderating to 18 percent in FY2024/25 (in year average terms) from 26.5 percent in FY2023/24. Exchange rate depreciation, high logistics and transportation costs and ongoing import restrictions and foreign currency shortages will combine to keep food and nonfood prices elevated during FY2024/25. Ongoing central bank financing of the fiscal deficit will also continue to put upward pressure on inflation.

With prices continuing to rise, continuing constraints on incomes and employment, and rising informality, the outlook for poverty reduction and household living standards is bleak. Households are suffering from the cumulative impact of recent disruptions to employment and declines in real incomes, but these impacts are likely to persist in the near term given weak growth projections, stretched coping mechanisms and ongoing macroeconomic volatility. At the same time, recent employment trends, with more highly educated workers shifting into agriculture and/or facing increased informality, indicate a reversal of the structural transformation toward higher-productivity activities that has characterized Myanmar’s development over much of the last decade. Coupled with declining investment in human capital, these trends pose significant risks for Myanmar’s longer-term prospects for development and poverty reduction.

Figure ES 1: Conflict intensity index and trend

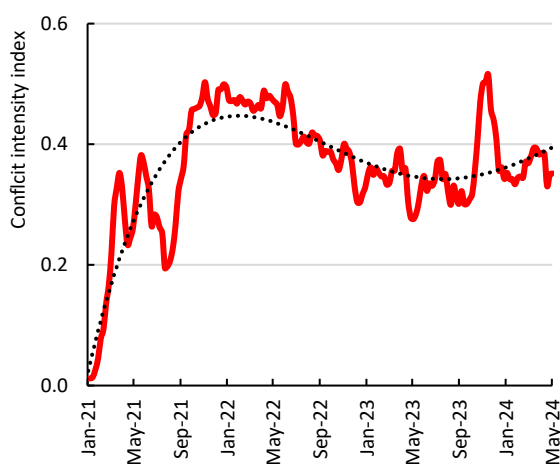


Figure ES 2: PMI employment index (>50 indicates expansion, <50 indicates contraction)

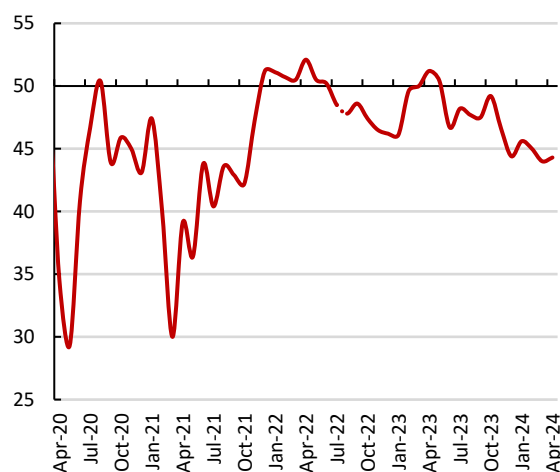


Figure ES 3: Exports, imports, and trade balance

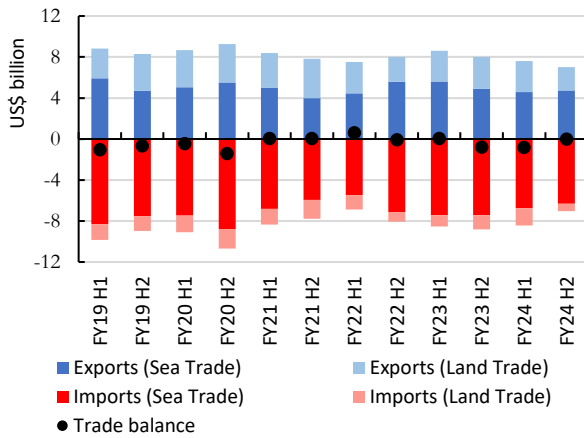


Figure ES 4: Myanmar exchange rates (kyat per USD)

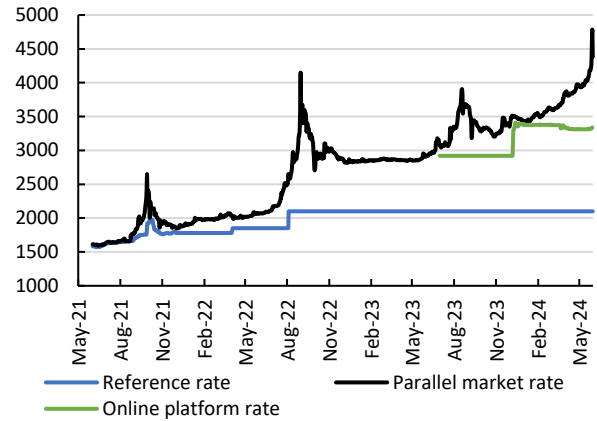


Figure ES 5: CPI inflation

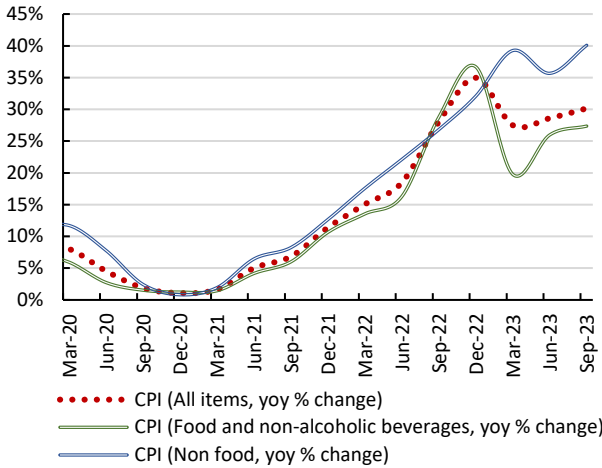


Figure ES 6: Firms' operating capacity

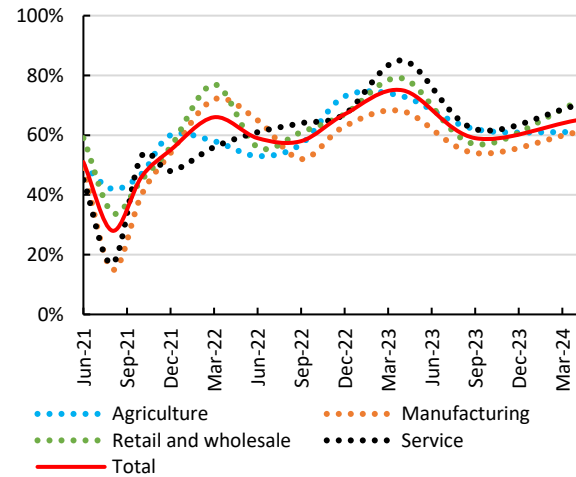


Figure ES 7: Real GDP estimates and projections (index, 2018-19 = 100)

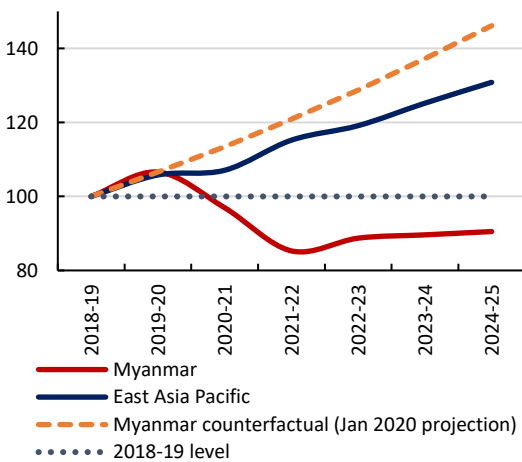
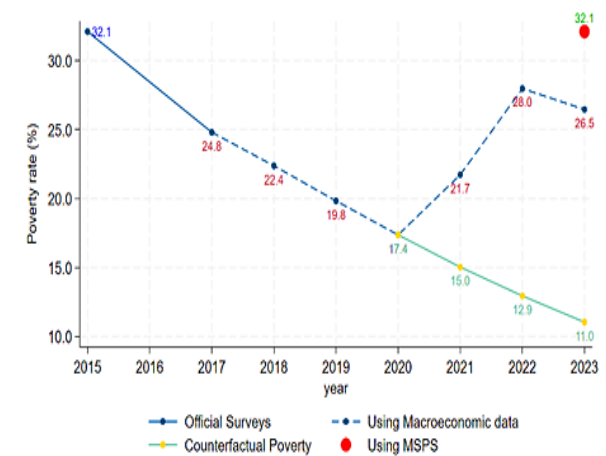


Figure ES 8: Poverty rate (%)



I. Recent Economic Developments

A. Conflict, labor movements, and shortages of key inputs continue to disrupt production.

Myanmar's economy continues to face a range of constraints including elevated conflict, trade and logistics disruptions, rapidly rising prices, and shortages of a range of key inputs including labor, electricity, and imported inputs. Conflict has led to substantial displacement among affected populations, disrupted the transport of goods within the country, and blocked cross-border trade. The activation of the conscription law in February has reportedly prompted significant migration out of major urban areas toward rural border areas and to Thailand, with some firms reporting labor shortages as a result. Continued exchange rate depreciation and constrained access to import licenses has resulted in higher prices and ongoing shortages of imported inputs. And electricity outages have worsened further as gas-powered supply falters, with firms forced to use expensive diesel-powered generators to substitute for grid-based power.

Conflict intensity has trended upwards since January (Figure 1) with armed clashes spreading from Northern Shan, Sagaing and Magway to other parts of the country including Rakhine and Kachin. In early 2024, about half of Myanmar's 330 townships were embroiled in active conflict, disrupting livelihoods, employment, and economic activity. The UN estimates that more than one million people have been displaced since conflict escalated in October last year, bringing the total number of internally displaced persons in Myanmar to 3.1 million as of early June. Sagaing has the largest number of IDPs (around 1.2 million), reflecting the higher intensity of conflict in the Central region (Figure 2). In addition, conflict has curtailed land border trade with Thailand, China and India with major border posts falling under the control of Ethnic Armed Organization (EAOs). Excluding natural gas, total land trade (exports plus imports) declined by about 38 percent in the six months to March 2024 compared to the previous six months (see Part C).

Figure 1: Conflict intensity index and trend

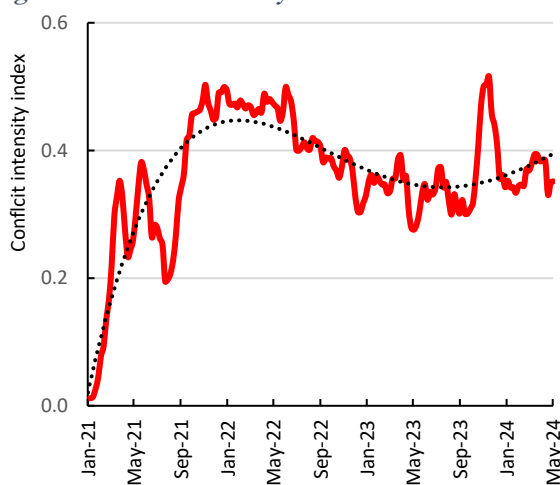
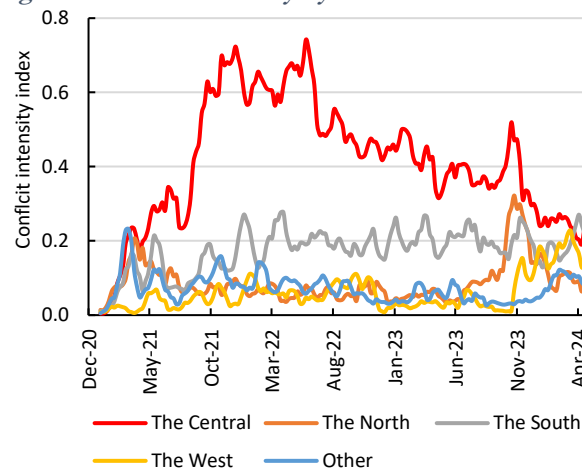


Figure 2: Conflict intensity by zones

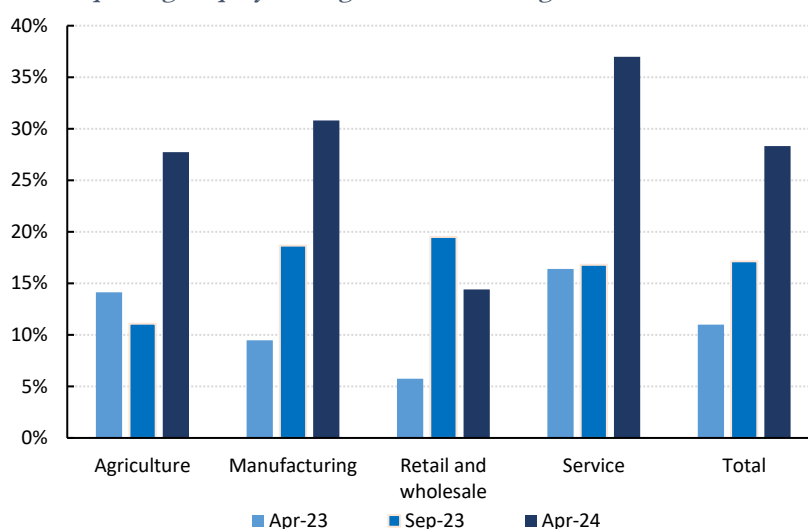


Source: WB staff calculations using data from the Armed Conflict Location and Event Data Project (ACLED)

Note: The data reflect a 4-week moving average. 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. The charts show the normalized value of the conflict intensity index between 0 and 1. The north includes Kachin and Shan (North); the Central includes Sagaing, Magway, and Mandalay; the South includes Mon, Kayin, Kayah, Tanintharyi, and Bago (East); the West includes Rakhine and Chin; the other includes Yangon, Ayeyawady, Bago (West), Nay Pyi Taw, Shan (South) and Shan (East).

Recently announced conscription rules have spurred internal and external migration, adding to push factors associated with higher conflict and declining real wages, and leading to reports of labor shortages in some areas. Firms have reported resignations as employees relocated to rural areas or migrated outside Myanmar to avoid conscription. Results from the April 2024 round of the World Bank Firm Survey indicate that the share of firms reporting employee resignations due to migration increased to 28 percent from 17 percent in September 2023 and 11 percent in April 2023, with services and manufacturing firms particularly severely affected (Figure 3). About half of the employees that resigned migrated to other countries while about a third relocated to other parts of Myanmar. Even before the conscription announcement, firms had been facing labor shortages caused by the escalation of conflict and declining real wages. A recent survey by the World Bank on the migration intentions of highly skilled graduate youth aged 20 – 40 indicate that more than half (52 percent) wish to migrate abroad, with East Asian countries such as Japan, Singapore, South Korea, and Thailand being the top preferred destinations.

Figure 3: Share of firms reporting employee resignation due to migration



Source: World Bank Myanmar firm monitoring survey

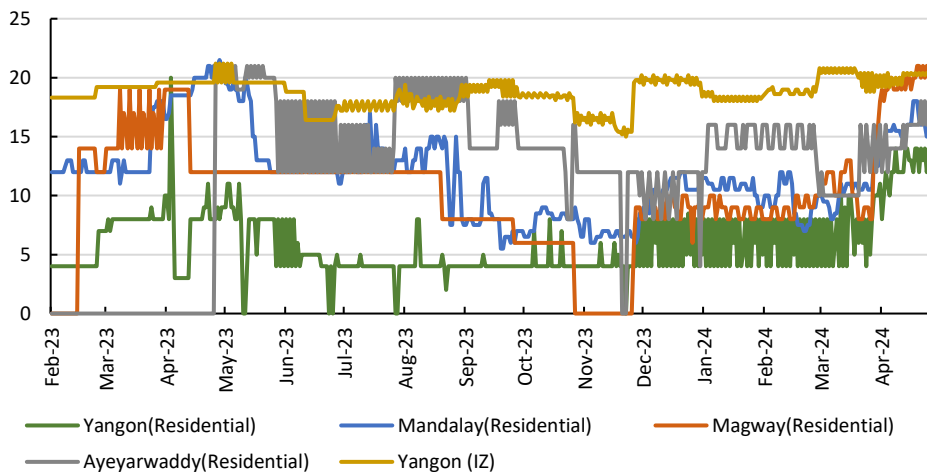
Note: For April 2023 and September 2023, firms were asked to report only outward migration. The question was modified in April 2024 to account also for domestic migration.

The market kyat exchange rate has depreciated rapidly and inflationary pressure persists, putting pressure on household consumption and retail sales. The kyat depreciated by about 28 percent against the US dollar on parallel markets over the year to May 2024, while foreign currency shortages remain prevalent (see part D). Combined with conflict-related logistics disruptions, border post closures, and restricted access to import licenses, exchange rate depreciation has seen inflation persist at high levels. The latest official estimates show that consumer prices rose by 30.2 percent over the year to September quarter 2023 (see Part E). More recent data indicate that food and fuel prices have continued to increase rapidly over the subsequent six months. High inflation is putting pressure on household consumption, with savings and other buffers already severely depleted, and has reportedly prompted a shift to lower-quality (often domestically produced) alternatives.

Electricity generation has continued to decline due to a downturn in gas-powered supply and conflict-related disruptions of transmission and distribution lines. Lower gas-powered supply has led to increased reliance on hydropower and the overutilization of aging dams, which in turn has accelerated wear and tear and increased safety risks. At least four major hydropower plants have experienced operational disruptions. In major urban residential areas, power outages have ranged from 5 to 20 hours per day in recent months (Figure 4), while industrial zones (where manufacturing firms are located) generally have been hit by even longer-lasting outages.

The decline in electricity provision has significantly raised operating costs for businesses, many of whom have been forced to run expensive diesel-powered generators as a substitute for grid-based power. A third of firms surveyed by the World Bank in April reported power outages as their primary challenge, up from 12 percent in September, while 68 percent of firms reported that they had invested in diesel generators and 17 percent in off-grid solar power.

Figure 4: Total blackout hours per day

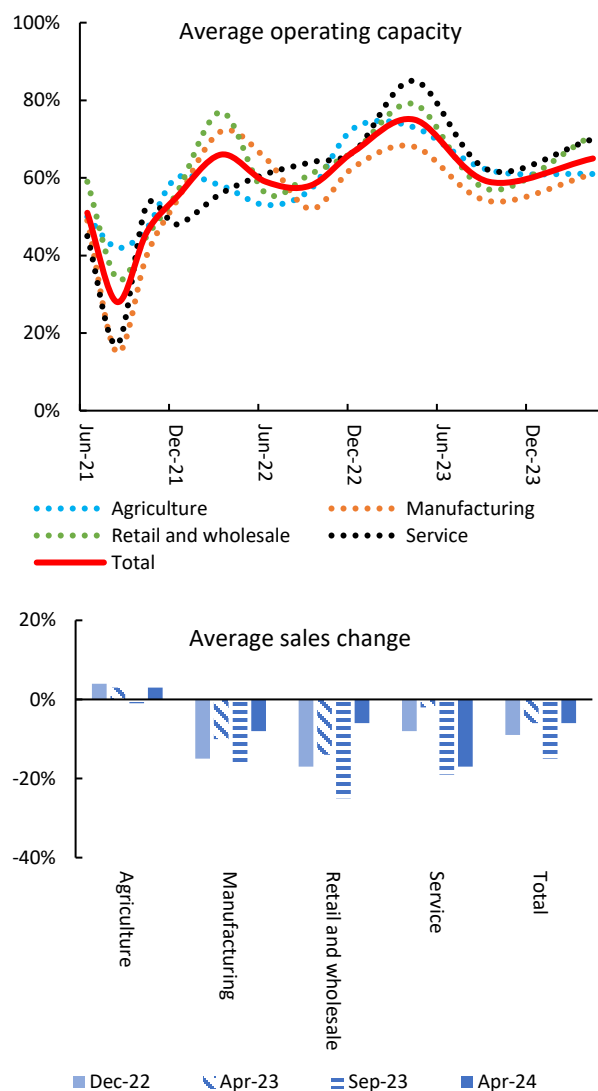


Source: FMR

B. Recent indicators of economic activity and employment have been subdued

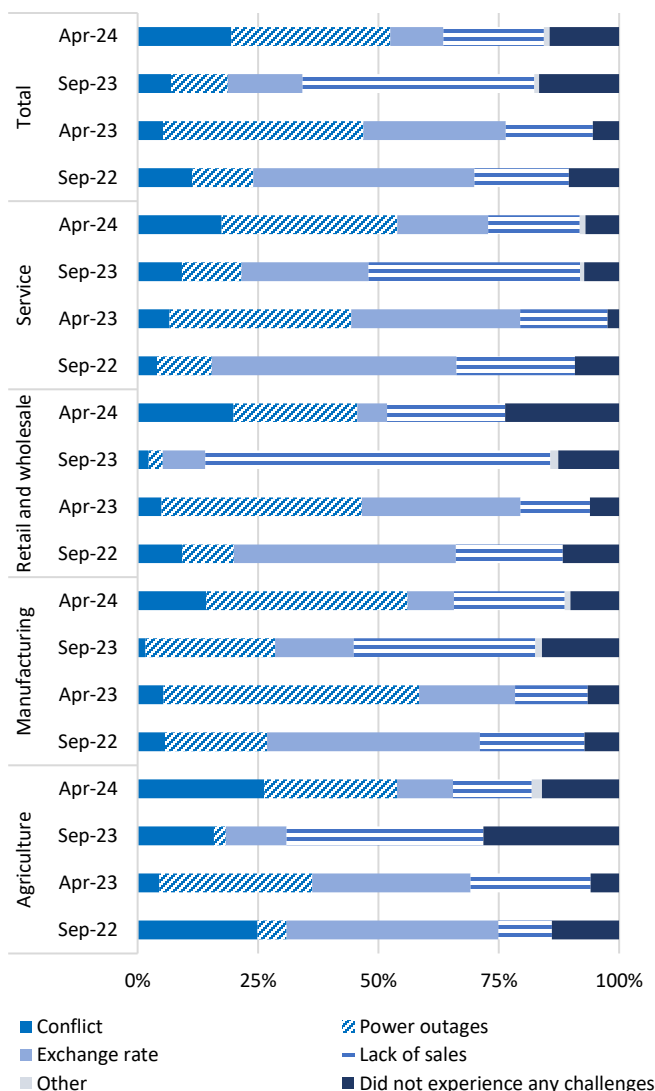
The April round of the World Bank Firm Survey suggests little improvement in economic activity over the past six months. Firms reported operating at a higher proportion of their capacity than in September 2023, but the average rate across surveyed firms of 65 percent was still 10 percentage points below the April 2023 level (Figure 5). Both sales and profits reportedly declined over the year to April 2024 (by 8 percent and 15 percent, respectively), although the size of these declines had moderated from those reported a year earlier. Across sectors, only agricultural firms reported an increase in sales in April 2024. The share of firms reporting conflict as their most significant challenge increased to 19 percent, up from 5 percent a year earlier, underscoring the adverse impacts of the recent escalation of conflict and the related supply chain disruptions. Power outages and lack of sales were also cited as major challenges, with 42 percent of manufacturing firms citing the former as their biggest challenge and a quarter of retail and wholesale firms citing lack of sales (Figure 6).

Figure 5: Firms' operating capacity and sales



Source: World Bank Myanmar firm monitoring survey

Figure 6: Primary challenges to firms' operations (by share of firms reporting)



Source: World Bank Myanmar firm monitoring survey

Labor market indicators remain weak, despite improvements in participation and employment over the last year. The World Bank’s Myanmar Subnational Phone Survey (MSPS) indicates that following substantial declines in labor force participation between 2017 and 2022, there was a moderate pick-up over the year to end-2023 (Table 1). The labor force participation rate (LFPR) rose 3.6 percentage points over the year to December 2023 but is yet to recover to levels observed in 2017. The employment rate (as a share of the working age population) increased by 2.3 percentage points over the last year but remains around 6 percentage points below 2017 levels. Meanwhile, the estimated adult unemployment rate rose from 6.7 percent to 8.1 percent over the year to end-2023, up more than 3 percentage points from 2017. After trending upwards in 2022, the number of job postings – a measure of labor demand – has plateaued since early 2023 (Figure 7), and remains well below pre-pandemic levels, consistent with an economy that is yet to fully recover from the earlier contraction in activity. Vacancies remain particularly weak in tourism-related industries; engineering; legal, accounting and finance; and several other professional services. While the number of people not in

employment, education, or training (NEET) has declined by 1.5 million over the past year, there are still 2.8 million additional NEET in 2023 compared to 2017, 70 percent of whom are women.

This ongoing weakness in labor demand has coincided with a more recent reduction in labor supply in some areas and industries, due to labor movements within the country and across borders in response to conflict and fear of conscription. Results from the April 2024 round of the World Bank Firm Survey indicate that over half of the firms with job vacancies reported difficulty in filling these vacancies, due to a lack of applicants, a lack of skills, and/or demands for higher wages than could be offered by the firm. This combination of weakness in demand and supply has meant that real-time indicators of employment have deteriorated in recent months: the April 2024 manufacturing purchasing managers' employment index (an indicator of the direction of month-on-month changes in employment at the firm level) fell to its lowest level since 2021, with employment in the manufacturing sector contracting for each of the last 10 months (Figure 8).

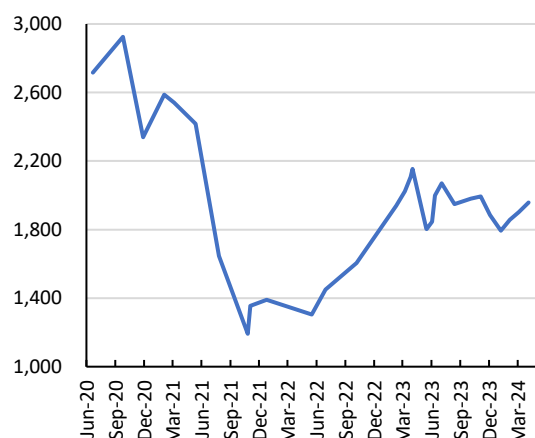
The quality of jobs has also declined over the last year. The share of wage work in overall employment and the share of formal employment among wage workers have fallen by 2.6 and 3.6 percentage points respectively over the last year (Table 1). Workers with more education are experiencing particularly marked deteriorations in job quality, which has affected their consumption levels and raised the likelihood of them falling into poverty (see Section F).² Agriculture, which can act as a shock-absorbing provider of subsistence livelihoods but is also a lower-productivity sector, has experienced a 3.3 percentage point rise in employment shares during the past year – with more highly educated workers entering the sector than in the past.

Table 1: Summary of key-labor market indicators (as a share of 15+ population)

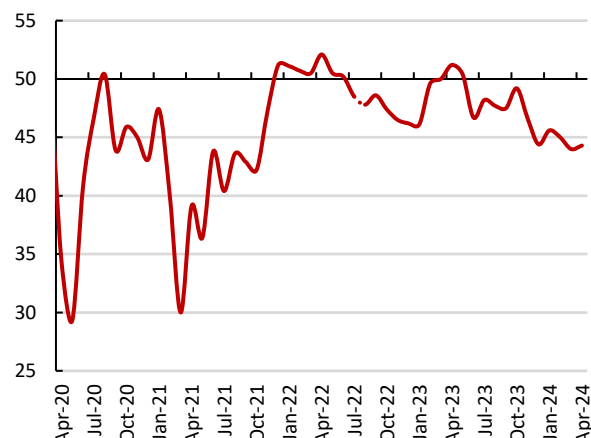
Year	LFP rate	LFP rate (Females)	Employment	Share of wage employment to total employment	Share of formal employment among wage employees	Share of agricultural employment (15+)
2017	64.2	53.4	62.6	38.2	13.0	49.5
2022	58.6	45.9	54.5	28.9	24.2	42.9
2023	62.2	51.9	56.8	26.3	20.6	46.1

Source: World Development Indicators (WDI), MSPS and Myanmar Living Conditions Survey (MLCS)

² Sinha Roy, Sutirtha and van der Weide, Roy. 2024. Development Reversed: Poverty and Labor Markets in Myanmar 2015 to 2023. World Bank.

Figure 7: Number of online job postings

Source: World Bank staff online data collection and calculations

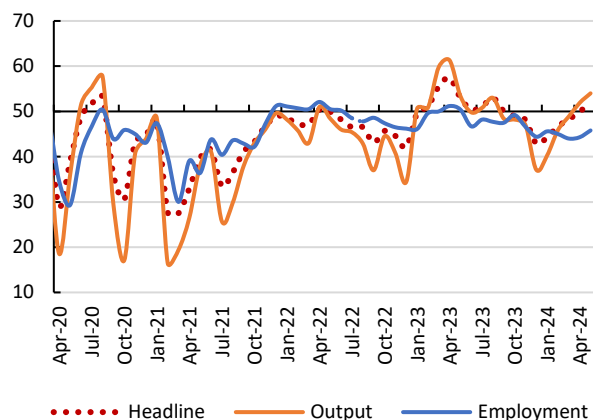
Figure 8: PMI Employment Index (>50 indicate expansion, <50 indicate contraction)

Source: S&P Global Market Intelligence.

The agriculture sector remained comparatively resilient in 2023/24. The latest round of IFPRI's Myanmar Agricultural Performance Survey (MAPS) indicates that rice yields increased by 7 percent in the 2023 monsoon season, following consecutive declines in 2021 and 2022. Fertilizer use on paddy rose as fertilizer prices moderated. MAPS survey results also showed farmers benefiting from an increase in nominal and real profits reflecting higher farmgate prices. Compared to April last year, sales and profits of agricultural firms in the World Bank Firm Survey increased by 3 percent and 4 percent, respectively, explained largely by favorable global prices and strong regional demand especially for rice and beans and pulses. However, conflict and insecurity remained a major challenge to farmers across the country. About 26 percent of surveyed agricultural firms in the World Bank Firm Survey reported challenges with conflict in April (up from just 4 percent in April last year). In the MAPS survey, farmers in insecure areas reported particular challenges in accessing agricultural inputs and fuel, as well as higher input costs.

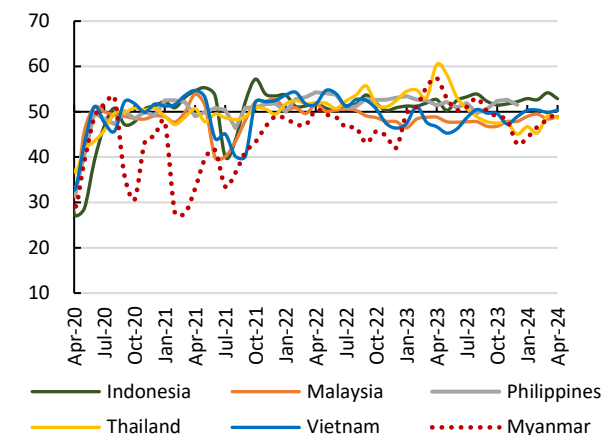
The manufacturing purchasing managers' index (PMI) indicated that the sector expanded in May 2024, but this was off a low base after several months of decline (Figures 9 and 10). After seven consecutive months of contraction, factory orders increased in April and May. The rise in new orders in turn supported an increase in manufacturing output in May for the first time since August 2023, with food processors in particular appearing to have benefited from substitution away from imported goods. On the other hand, the garment sector remains under pressure with exports down almost a quarter in the six months to March 2024, compared with the same period a year earlier (see Section C). Results from the April 2024 World Bank Firm Survey indicate that the manufacturing activity remains constrained by power outages, conflict, import restrictions and foreign currency shortages. Manufacturing firms operated at an average of 61 percent of their capacity in April 2024, 7 percentage points lower than a year earlier. While conflict has exacerbated supply chain disruptions, delays in obtaining import licenses have been the main driver of longer supplier delivery times, while the high cost of imported inputs remains a major constraint. Labor shortages have reportedly become an increased challenge for the sector in recent months due to falling real wages and the threat of conscription. Taking a longer-term perspective, analysis of night-time lights in industrial zones provides further evidence that manufacturing production has declined since FY2020/21 (Box 1).

Figure 9: Manufacturing Purchasing Managers' Index (>50 indicates expansion, < 50 indicates contraction)



Source: S&P Global Market Intelligence

Figure 10: Regional Manufacturing Purchasing Managers' Indices (>50 indicates expansion, < 50 indicates contraction)



Source: S&P Global Market Intelligence

Box 1: Manufacturing activity and nighttime lights (NTL) in Industrial Zones (IZs)

Nighttime lights can be used as a proxy for manufacturing activity in Myanmar, most of which takes place in Industrial Zones (IZs). Myanmar's 2020 Industrial Zone Law formalized the regulation and management of IZs with the aim of attracting foreign investment, creating employment, and promoting sustainable industrial development practices. Satellite images of nighttime lights (NTLs) at IZs are available at monthly frequency and can be useful as an alternative measure of economic activity in these areas.³

There has been a sharp reduction in NTLs across Myanmar's IZs since FY2020/21 (year ended March 2021) (Figure 11), in line with our estimates that manufacturing activity has declined over this same period. Quarterly data suggest a positive correlation between NTLs and manufacturing gross value added since 2012 (Figure 12). This correlation is consistent with results from recent rounds of the World Bank Firm Surveys which have showed that power outages are currently among the biggest constraints faced by manufacturing firms – 42 percent of surveyed firms reported power outages as a challenge in April 2024.

Figure 11: NTLs in Myanmar's IZs

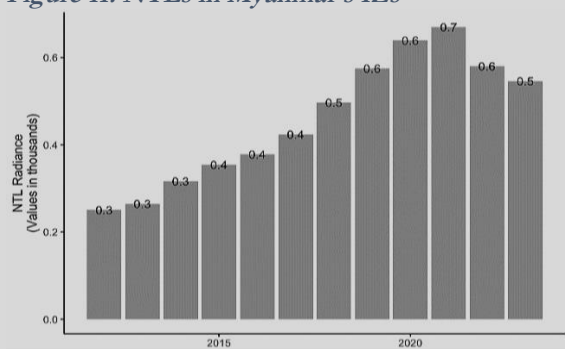
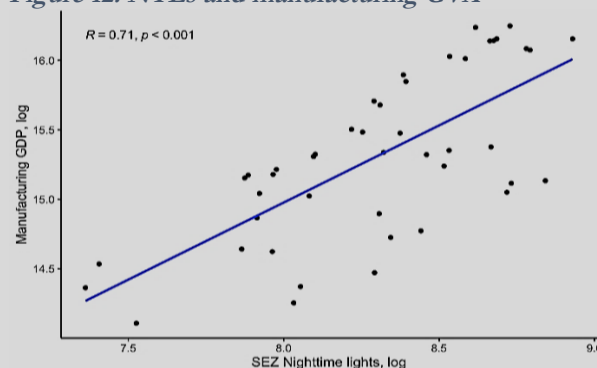


Figure 12: NTLs and manufacturing GVA

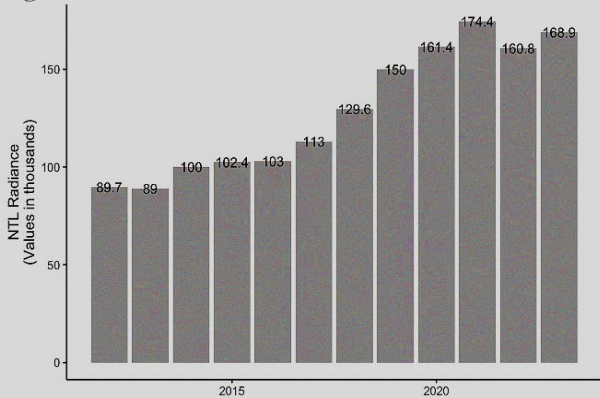


Source: NASA Black Marble and World Bank Staff

³ Following the pioneering work by Henderson, Storeygard, and Weil (2012), several studies have used NTL data to measure the short-run economic impact of events such as earthquakes, pandemics, conflict, and trade barrier.

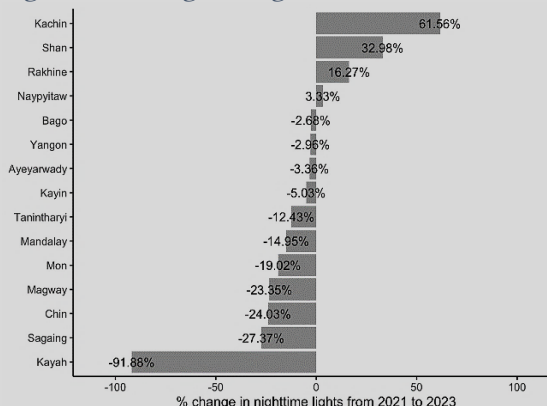
Outside IZs, the decline in NTLs has been less prominent (Figure 13). Across administrative units, the reduction in NTLs between FY2021 and FY2023 was most pronounced in Mandalay, Sagaing, Magway, Chin, Mon, and Kayah (Figure 14). On the other hand, there was an increase in NTLs in Kachin, Shan, Rakhine and Naypyitaw over the same period.

Figure 13: NTLs in Non-IZ locations



Source: NASA Black Marble and World Bank Staff

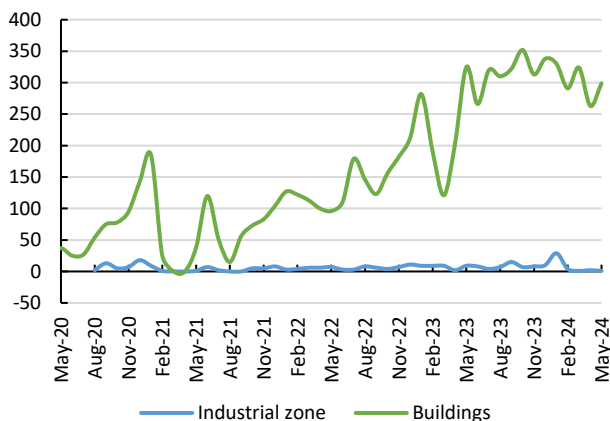
Figure 14: Average change in NTLs



Source: NASA Black Marble and World Bank Staff

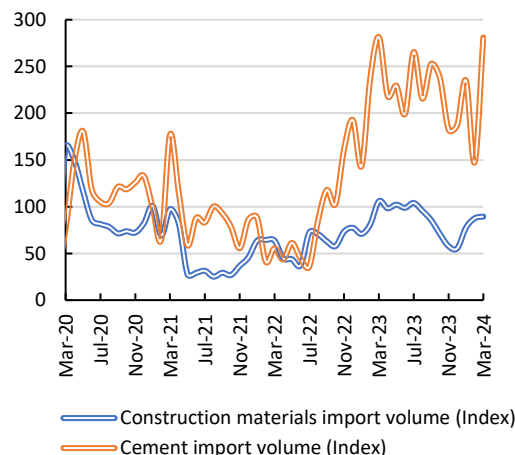
Indicators of construction activity have improved in FY2023/24. Permits for residential construction in Yangon, representing approximately half of total construction activity, grew steadily until the end of 2023 before easing in the first half of 2024 (Figure 15). Construction of small-scale government projects, including roads, bridges, public buildings, and bus stations, has also picked up. Reflecting these trends, the volume of imported construction materials from China rose in FY2023/24 compared with the previous year (Figure 16). However, major foreign funded infrastructure projects like the planned China CITIC deepwater port in Kyaukphyu and the Indian Kaladan project, which aims to connect India with the Sittwe port in Rakhine State, have faced ongoing delays. The price of construction materials has risen sharply since mid-2023 (Figure 17), reducing margins and constraining activity in the sector.

Figure 15: Total number of construction permits issued in Yangon



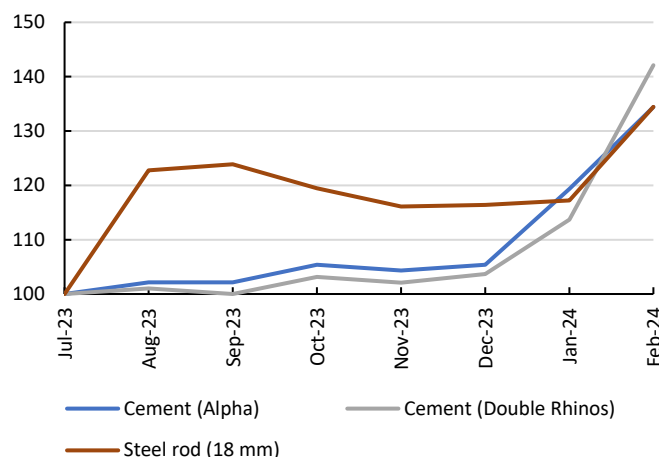
Source: Yangon City Development Committee

Figure 16: Volume of imports of construction materials from China (index, Jan 2019 = 100)



Source: China Customs department

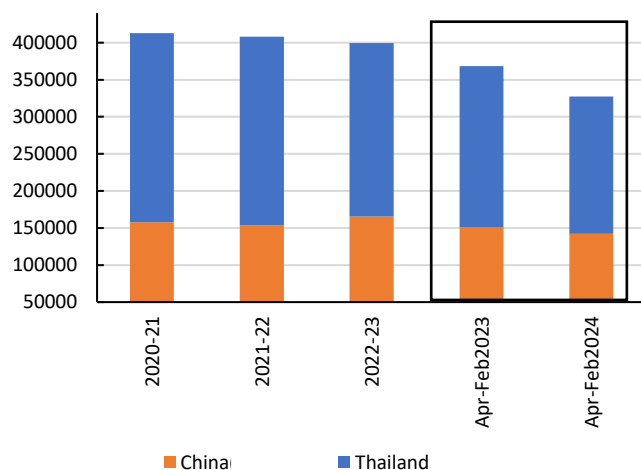
Figure 17: Price of construction materials (index, July 2023 = 100)



Source: Frontier

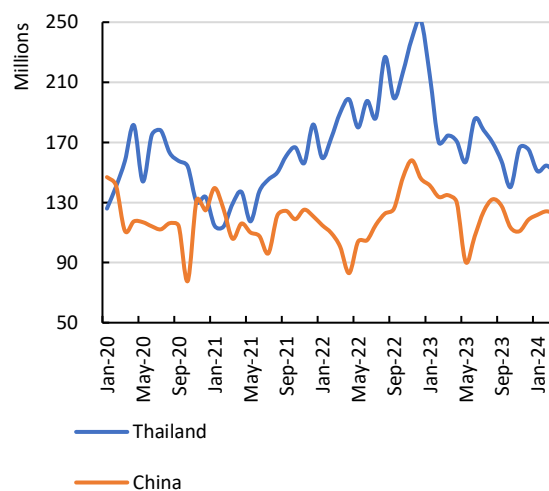
Natural gas production and exports declined on a year-on-year basis (Figure 18). Gas exports to Thailand and China declined by 23 percent in the six months to March 2024 (Figure 19) reflecting lower production volumes following the temporary closure of the Yadana pipeline for repairs. Taking a longer-term perspective, gas reserves at existing fields are diminishing rapidly and the medium-term outlook is for a pronounced decline in production in the absence of investment in exploration to develop new gas fields. International sanctions on Myanma Oil and Gas Enterprise – in conjunction with challenges in the broader business environment – have amplified risks and financial uncertainty, hastening the exit of existing investors and deterring new foreign investment.

Figure 18: Natural gas export volume (MMFCS)



Source: China Customs, Thailand Ministry of Energy, WB staff estimate

Figure 19: Gas export value (USD)

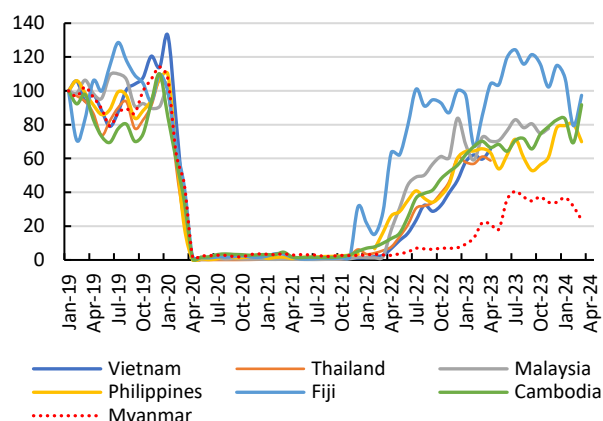


Source: China Customs, Thailand Ministry of Energy

Mineral production trended downwards in the six months to March 2024, mainly due to reduced mineral exports to China amid conflicts in northern Myanmar.⁴ Overall, mineral exports to China and Thailand fell by 14 percent reflecting disruptions caused by conflict. Rare earth exports also fell by 29 percent between December and March and by 18 percent year-on-year. However, copper and aluminum production improved as operations in the Wa region likely resumed in January 2024 after a five-month halt, reflecting strong demand for copper from China and Thailand. Informal or illicit mining activities have increased significantly over the past few years and could increase further due to the recent escalation of conflict across the country, posing serious social and environmental risks.

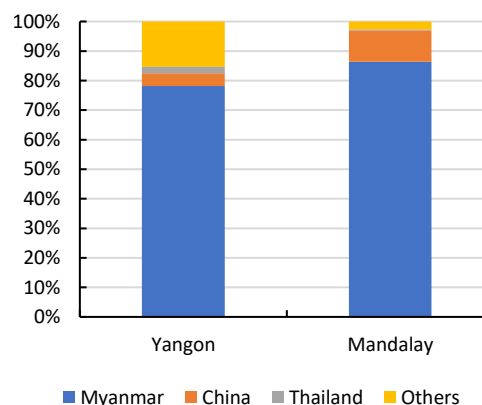
After a relatively strong recovery in international arrivals in 2023, tourism has seen a downturn since the beginning of 2024 due largely to the escalation of conflict (Figure 20). International arrivals have declined by 11 percent since December, to be less than a quarter of pre-pandemic levels in March 2024. The slump in international visitors has shifted the focus to domestic tourism in non-conflict areas, which has seen modest growth, with Myanmar people accounting for the large majority of hotel guests in Yangon and Mandalay (Figure 21). At the same time, some conflict-affected regions have experienced a surge in air travel as passengers sought to avoid insecurity risks associated with land transportation. Domestic arrivals at airports such as Tachilek, Myitkyina, and Lashio exceeded 2019 levels in 2023, but arrivals at previously popular tourist destinations such as Bagan (Nyaung U airport) are less than 5 percent of 2019 levels.

Figure 20: International arrivals (Jan 2019 = 100)



Source: Haver analytics

Figure 21: Proportion of hotel guests by nationality (January 2024)



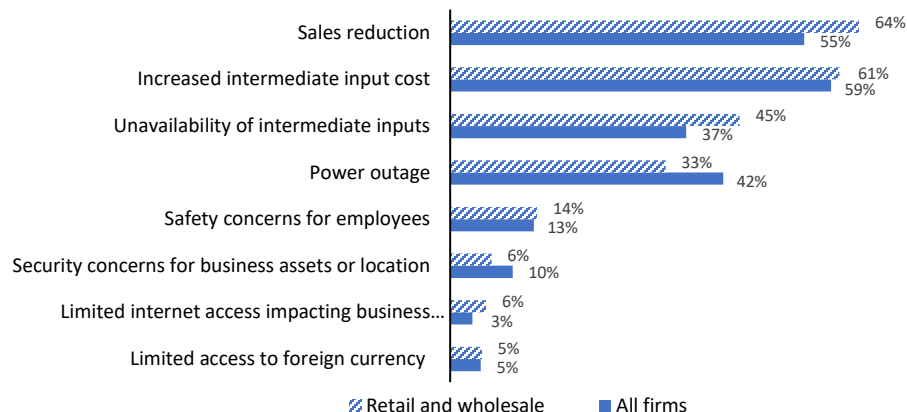
Source: Hoteliers' association

The wholesale and retail sector continues to face supply and demand side challenges, with some evidence of a shift of sales toward locally produced goods. Import restrictions have led to a shortage of imported consumer goods, resulting in an increased reliance on domestically produced goods, which now account for over half of retail sales. With high inflation and weak nominal incomes driving consumers to prioritize essential items, retailers have responded by offering smaller package sizes and substituting premium imported products with more affordable (but lower quality) domestic alternatives. However, retailers continue to grapple with stock shortages as supply from domestic manufacturers is also hindered by limited access to imported raw materials and other constraints. Compared with firms in other sectors, in the April 2024 World

⁴ Figures do not include informal or illicit mining which has increased significantly over the past few years.

Bank Firm Survey retail and wholesale firms reported greater challenges related to the availability and cost of intermediate inputs, as well as weaker demand and reduced sales (Figure 22).

Figure 22: Operational challenges reported by firms
(% of firms reporting, of those firms not operating at full capacity)

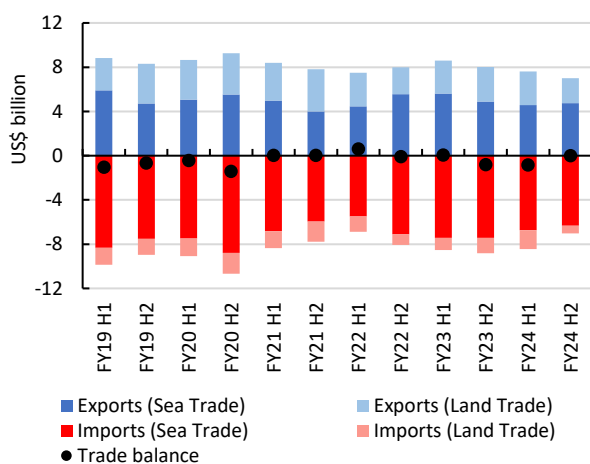


Source: April 2024 World Bank Firm Survey

C. Trade has weakened considerably and external weaknesses persist

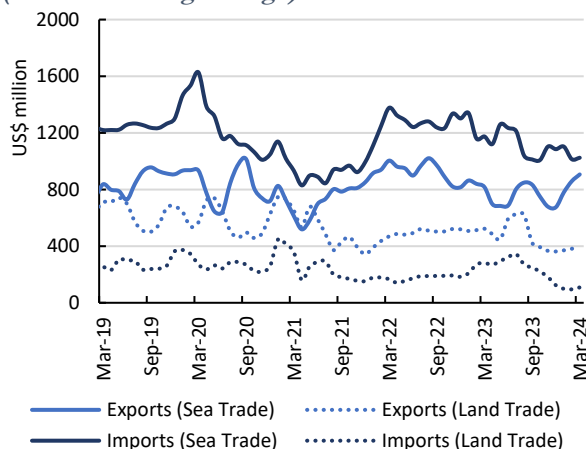
Goods exports and imports experienced sharp declines in the six months to March 2024 (H2 FY24) (Figure 23), by 13 percent and 20 percent respectively compared with the same period last year. The declines were primarily associated with disruptions in land border trade. Compared to the same period last year, exports through land borders decreased by 27 percent. Excluding natural gas exports, the decline in exports via land borders was 44 percent. Imports through land borders fell by 50 percent. Exports via sea routes were comparatively stable, declining by 3 percent, while imports via sea routes declined by 15 percent. Besides border disruptions, a range of other factors contributed to the decline in imports, including import and foreign exchange restrictions, weaker domestic demand, and the domestic production of substitute items. The relatively large decline in imports resulted in a sharp narrowing of the merchandise trade deficit in the six months to March 2024 (Figure 24).

Figure 23: Exports, imports, and trade balance



Source: Ministry of Commerce

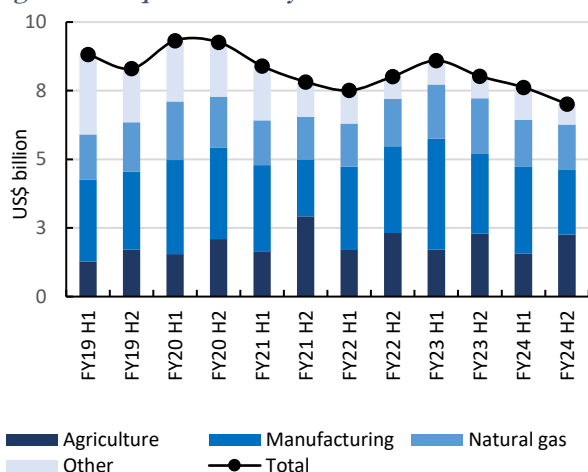
Figure 24: Trade by land and sea (3 month moving average)



Source: Ministry of Commerce

The largest contributor to the overall reduction in exports in the six months to March was the decline in manufacturing export (garments and natural gas), which fell 19 percent compared to the same period last year (Figure 25). Garment exports to major international markets – the EU, Japan, Korea, the UK, and the US⁵—experienced a 24 percent decline (Figure 26) due to sustained weak global demand throughout 2023 and the withdrawal of global brands from Myanmar. The value of Myanmar’s gas exports to China and Thailand also saw a 23 percent decline (or approximately US\$475 million)⁶ in the past six months compared to the same period last year (Figure 27).

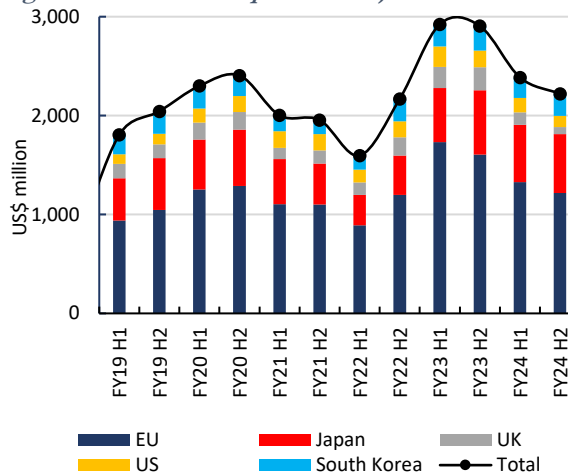
Figure 25: Export trends by sector



Source: WB staff calculation using data from CEIC, Ministry of Commerce and UN Comtrade.

Note: ‘Manufacturing’ exports denote all manufactured exports excluding natural gas (largely garments). Natural gas exports for January, February and March 2024 are estimated using data on gas imports from Thailand and China.

Figure 26: Garment exports to major markets



Source: WB staff calculation using data from Eurostat, Statistics of Japan, UK Office for National Statistics, US Census Bureau, and Korea Customs Service

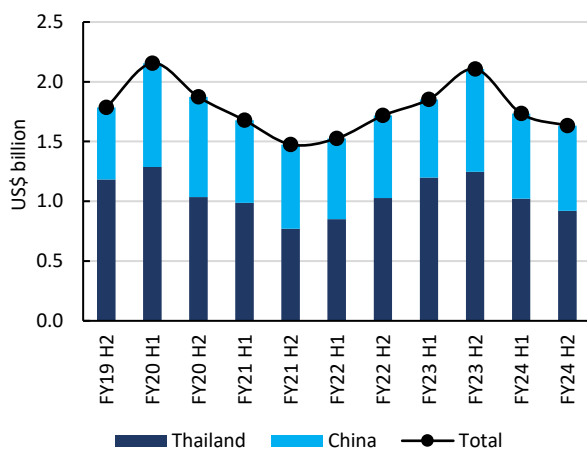
Agricultural exports were relatively stable in the past six months compared to the same period last year (Figure 28). Data from the Myanmar Rice Federation indicates that Myanmar rice exports increased by 25 percent in value terms but decreased by 4 percent in volume terms – suggesting that the increase was mainly due to the global rice price upturn, with some sources indicating that rice prices rose by 17 percent in the six months to March 2024 compared to the same period last year.⁷ On the other hand, the 4 percent decline in volume terms reflects lower production levels in recent years and the impact of trade restrictions (including a temporary export ban to curb domestic rice prices and frequent changes in foreign currency surrender requirements). Myanmar’s bean and pulse exports declined by 8 percent in value terms and 19 percent in volume terms, driven primarily by land border disruptions (primarily to China, which is the second major destination for Myanmar beans and pulses and accounts for about 30 percent of total beans and pulses exports). Bean and pulse exports through land borders declined by 73 percent (or US\$81 million).

⁵ Altogether, these markets account for about 90 percent of Myanmar’s total garment exports.

⁶ Calculated based on the mirror data of China and Thailand’s imports from Myanmar.

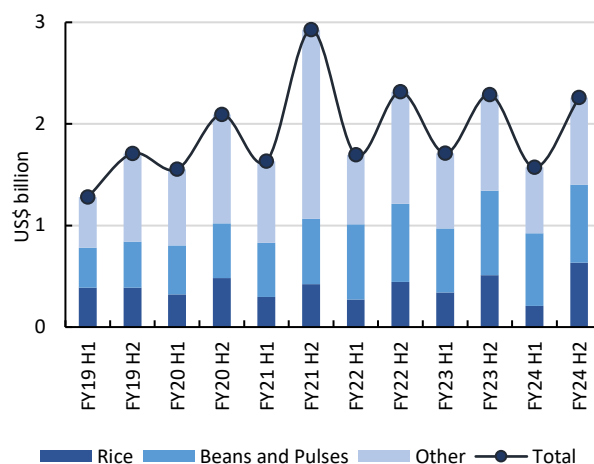
⁷ [FAO Rice Price Update May 2024](#).

Figure 27: Myanmar gas exports to China and Thailand



Source: China's General Administration of Customs and Thailand's Ministry of Commerce

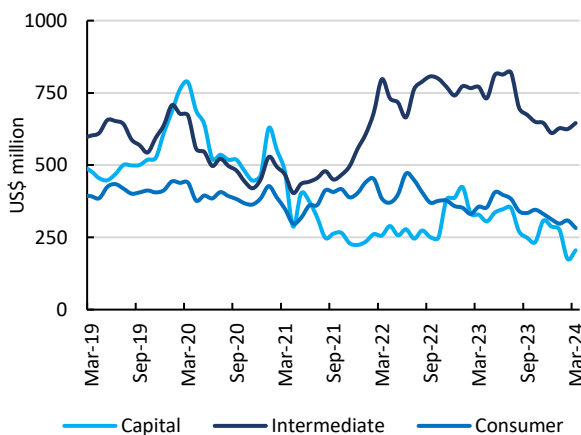
Figure 28: Agricultural export trends



Source: Central Statistical Organization, Ministry of Commerce, UN Comtrade, and Myanmar Rice Federation.

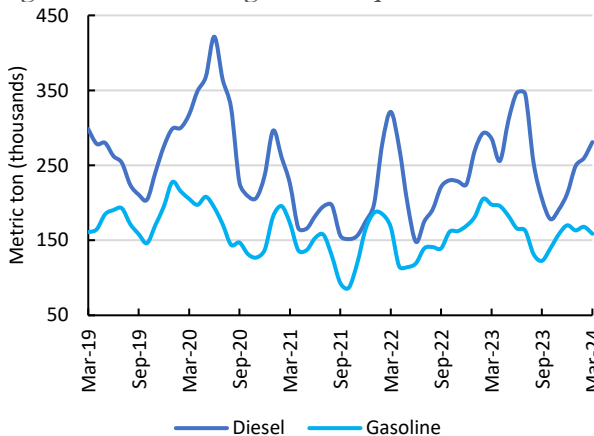
Imports declined significantly in the past six months, attributable to a combination of import restrictions, border disruptions, and lower domestic demand. All import categories declined in the six months to March 2024 compared to the same period the previous year. The value of capital imports fell by 31 percent, while imports of intermediate goods and consumer products each declined by 17 percent (Figure 29). Myanmar's diesel and gasoline imports through Yangon seaport, in volume terms, declined by 3 percent and 13 percent (Figure 30), respectively – consistent with frequent fuel shortages in recent years with reportedly the worst shortage in December 2023,⁸ due to difficulty in accessing US dollars and unpredictable policy changes.⁹

Figure 29: Import trends by type



Source: Ministry of Commerce

Figure 30: Diesel and gasoline import trends



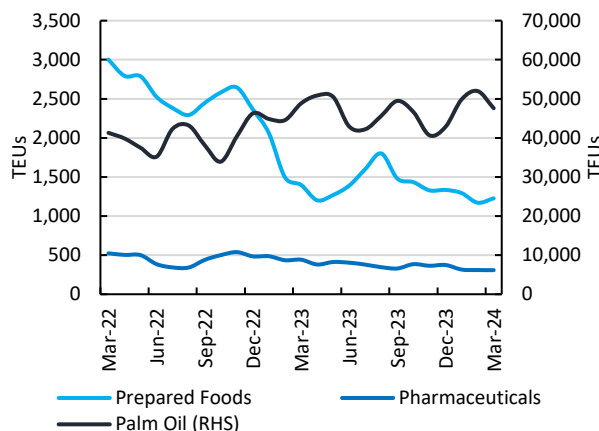
Source: Shipping operators

⁸ <https://eng.mizzima.com/2024/03/03/7680#>

⁹ For instance, in December 2023 the CBM announced that fuel importers were no longer allowed to access US dollars at the official reference rate of 2,100 kyats per US dollar and were instead required to buy at the market rate.

Available data from shipping operators indicates that imports of major consumer products, except palm oil, continued to decline. Palm oil is a staple commodity for most Myanmar households, and imports of it remained strong in volume terms in the past six months. However, imports of prepared food and pharmaceuticals through the Yangon seaport declined by 23 percent and 41 percent, respectively, due to lower demand and import restrictions (Figure 31).

Figure 31: Selected consumer import trends



Source: Shipping operators

Box 2: Recent developments in land border trade

Conflict has had a pronounced impact on Myanmar’s land border trade over the six months to March 2024. Exports to China and Thailand (excluding natural gas exports) through the land border declined by 47 percent and 24 percent respectively compared to the same period last year (Figure 32), while imports from China and Thailand across land borders declined by 29 percent and 57 percent respectively (Figure 33). These declines in land trade have accounted for just under 40 percent of the fall in Myanmar’s overall goods exports during this period, and just under 40 percent of the fall in imports. Land trade accounted for just 18 percent of Myanmar’s overall goods trade in the six months ended March, down from 29 percent a year earlier.

Figure 32: Exports to China and Thailand through the land border (excluding natural gas)



Source: Ministry of Commerce

Figure 33: Imports from China and Thailand through the land border



Source: Ministry of Commerce

Trade with China has been blocked at those border posts that have fallen under the control of resistance groups, but there is some evidence of redirection towards alternative land gates and sea trade. Trade through major crossing points with China such as Muse and Chinshwehaw has ceased since

November (Figure 34), as both border posts have fallen under the control of Ethnic Armed Organizations (EAO). On the other hand, since October 2023, there has been a notable increase in exports and imports through Kyaing Tong, which has remained under the control of the military authorities, and was previously only a minor crossing point with a monthly average export and import value of less than US\$1 million. Similarly, imports from China through Kyaing Tong have surged since November 2023, reaching US\$37 million in March 2023 (Figure 35). Similar shifts have been observed at the Kanpitete and Lwejel crossing points in this period. However, Lwejel has recently fallen under EAO control and this is likely to have disrupted trade at the crossing since March 2024. Some reports indicate that trade through the land border with China could shift towards sea trade and other crossing points, such as Tachileik in Shan state.¹⁰ While Tachileik is a town bordering Thailand, its geographical location allows it to potentially facilitate trade with China through Laos.

Figure 34: Exports to China through land border posts (excluding natural gas)

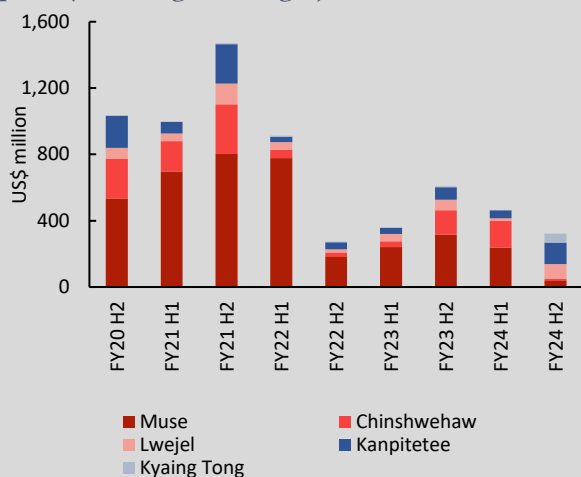
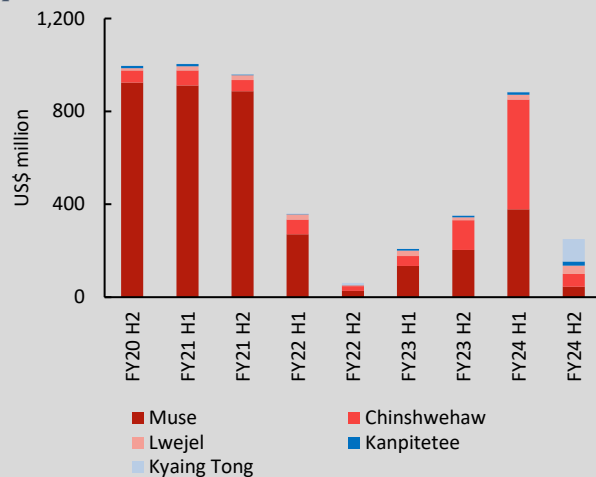


Figure 35: Imports from China through land border posts



Source: Ministry of Commerce and UN Comtrade

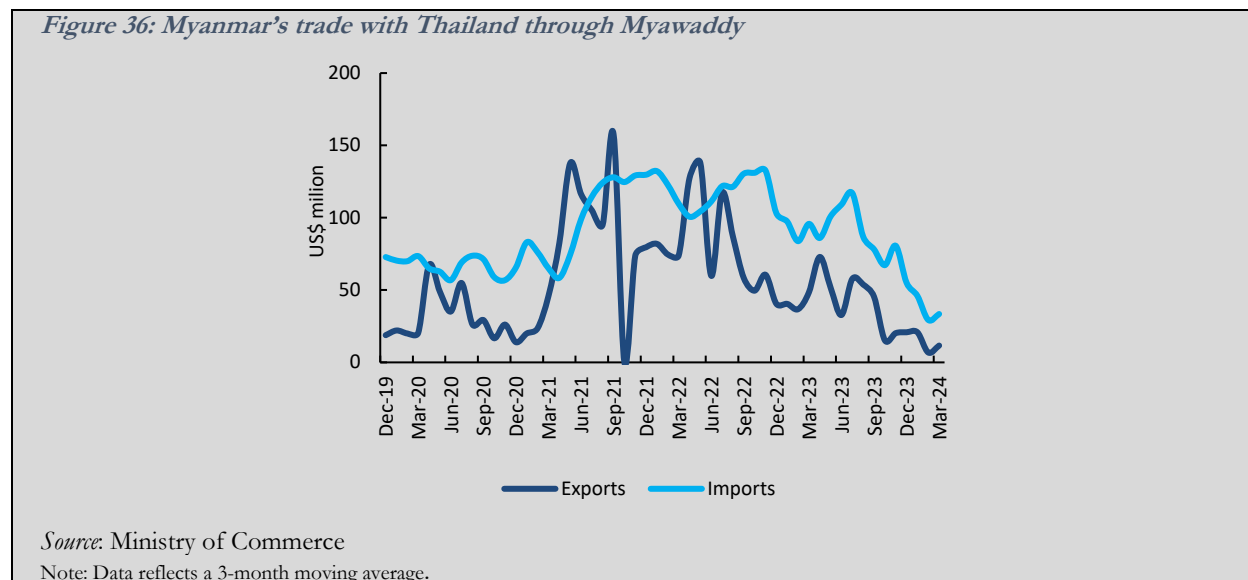
Note: Border crossing points in red are currently under EAO control, while those in blue are under military control. Natural gas exports have been excluded from the Muse border crossing point data.

Source: Ministry of Commerce

Land border trade with Thailand through Myawaddy has also fallen (Figure 36). While Myawaddy was primarily under the control of the authorities until March 2024, intermittent armed clashes in the vicinity of Myawaddy and its connecting transport routes have led to a large decline in trade with Thailand through the land border (Figure 37). This decline in land trade through Myawaddy has accounted for 51 percent of the total decline in Myanmar’s exports to Thailand and 56 percent of the total decline in imports from Thailand in the six months to March. In April 2024, conflict escalated in Myawaddy, further disrupting trade flows. In response, the Ministry of Commerce issued a new directive in April which introduced a new trade procedure via Kawthaung.¹¹ According to the directive, traders now have the option to export by sea from Yangon to Kawthaung and then proceed by land from Kawthaung to Ranoung, a border crossing point in Thailand, and vice versa for imports. The measure is likely aimed at avoiding trade disruptions along the connecting land transport routes.

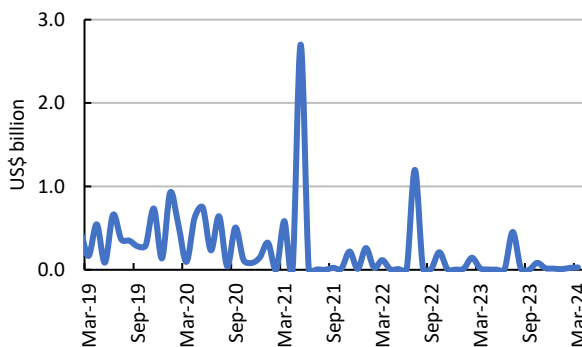
¹⁰ <https://eng.mizzima.com/2024/04/22/9219>

¹¹ MOC Export/Import Bulletin No. 1/2024



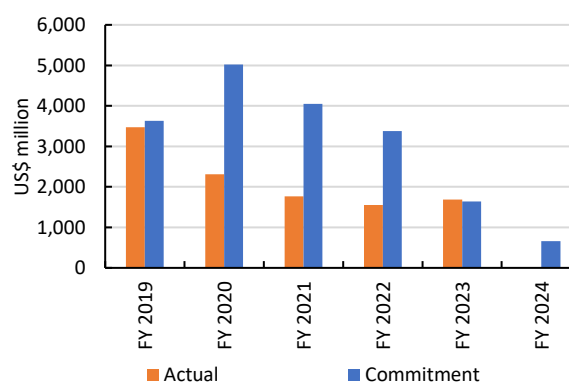
Foreign direct investment (FDI) commitments fell to US\$177 million in the six months to March 2024, a 56 percent decline from the same period last year (Figure 37). The manufacturing sector dominated total FDI commitments by industry, accounting for 50 percent (US\$88 million across 34 projects). The power sector comprised 32 percent (US\$57 million), while the ‘other services’ and real estate sector accounted for 12 and 6 percent, respectively. China was the top investor in the six months to March 2024, accounting for 51 percent of the total commitments, followed by Thailand (14 percent) and Hong Kong (11 percent). The trajectory of actual FDI flows is expected to have broadly followed the trajectory of commitments in FY2023/24, although the relationship is by no means precise, including because of lags in implementing commitments (Figure 38).

Figure 37: FDI commitments



Source: DICA

Figure 38: FDI commitments and actuals



Source: CBM and DICA

While there is no recent official data on the balance of payments, the latest provisional estimates released by the Central Bank of Myanmar indicate that the current account deficit widened to 3.1 percent of GDP in FY2022/23 from 2.4 percent in the previous year.¹² The merchandise trade deficit more than doubled, rising to 5.5 percent of GDP from 2.5 percent in FY2021/22 as the growth rate of imports outpaced a moderate recovery in exports. On the other hand, net services receipts increased, reflecting a

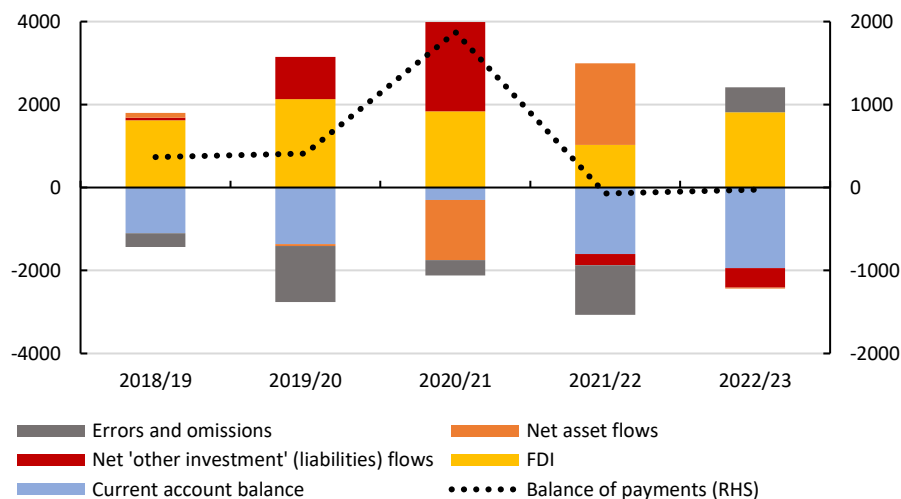
¹² The latest published data is for the June 2023 quarter.

recovery in transport and logistics services and the resumption of international flights. Net secondary incomes also rose by 0.4 percentage points to 2.7 percent of GDP driven mainly by workers remittances, which doubled from US\$ 852 million to US 1,628 million.

The reported balance of payments was close to zero in FY2022/23. The balance of payments has shifted from surpluses averaging about USD 0.9 billion or 1.2 percent of GDP between FY2018/19 and FY2020/21, to be close to zero in FY2021/22 and FY2022/23 (Figure 39). This shift can be attributed to a pronounced fall in services exports (largely tourism related) over this period, declines in net primary and secondary income, and a reversal of other investment inflows into Myanmar. Nevertheless, the balance of payments trends imply foreign exchange reserves have remained little changed over the two years to March 2023, though the accessibility of CBM’s foreign currency reserve holdings overseas remains unclear.¹³ Moreover, large errors and omissions in the official statistics cast some doubt on the implied evolution of foreign reserve holdings.

The external situation is expected to have deteriorated in FY2023/24. The Ministry of Commerce trade data indicates that both exports and imports both declined in FY2023/24, with the trade deficit estimated to have narrowed slightly to 5.0 percent of GDP. However, net services receipts are estimated to have moderated to just 0.3 percent of GDP following recent disruption in cross-border transport networks, pushing the estimated overall current account deficit up to 3.6 percent of GDP. At the same time, downward pressure on actual FDI inflows is likely to have persisted, alongside an increase in other net financial outflows.

Figure 39: Balance of payments (USD)



Source: CBM, World Bank Staff estimates

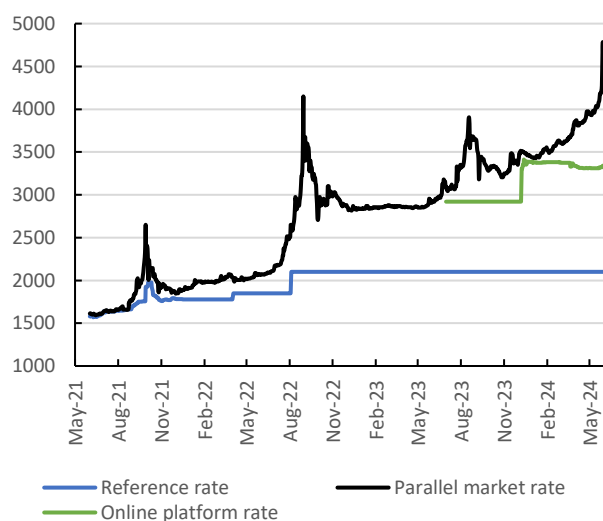
¹³ In August 2023, Singapore’s United Overseas Bank (UOB) announced restrictions on cross-border payments to and from Myanmar effective October 1, 2023, including closure of nostro accounts of military-affiliated entities. This was followed by the decision of United States government (in June 2023) to impose sanctions against Myanmar Foreign Trade Bank (MFTB) and the Myanmar Investment and Commercial Bank (MICB), two large state-owned banks that are legally mandated to manage foreign exchange transactions on behalf of Myanmar’s state-owned enterprises.

D. Exchange rate pressures intensified amid persistent foreign currency shortages

The market exchange rate has depreciated sharply since the beginning of the year (Figure 40). The kyat has depreciated by about 22 percent against the US dollar on parallel markets since the end of 2023, and slightly less against regional currencies such as the Thai baht and Chinese renminbi. The spread between the official fixed reference rate (2100 kyat per USD) and the parallel market rate widened around threefold over the year to May 2024. Multiple exchange rates are in effect between the official reference rate and the market rate, with persistent shortages of foreign currency at those rates which are not determined by the market (including the online trading platform rate of ~3300 kyat per USD).¹⁴ At the same time, official statistics suggest that the balance of payments has been in surplus or close to zero since 2020, and hence that foreign exchange reserves have risen over that period. This implies that external pressures have largely manifested themselves in a combination of exchange rate depreciation and import compression.

Rather than intervening to support the parallel market kyat exchange rate, the authorities have focused on maintaining stability in regulated rates, such as the central bank platform rate. Various measures have been deployed in an attempt to maintain a balance between foreign exchange supply and demand at these regulated rates, including import restrictions, foreign currency surrender requirements on exporters, CBM sales of foreign currency, controls on non-trade related offshore payments, promotion of the use of barter arrangements and foreign currencies other than US dollars, and crackdowns on foreign exchange dealers not complying with regulated prices (see below). But several of these measures – and the actions taken by businesses in response – have reduced the availability of foreign currency in the parallel market, exacerbating depreciation pressures there. At the same time, these measures have generally failed to mitigate persistent shortages of foreign currency at regulated rates, which have in turn been reflected in restrictions in access to import licenses and delays in foreign exchange orders being met.

Figure 40: Kyat per US dollar exchange rates

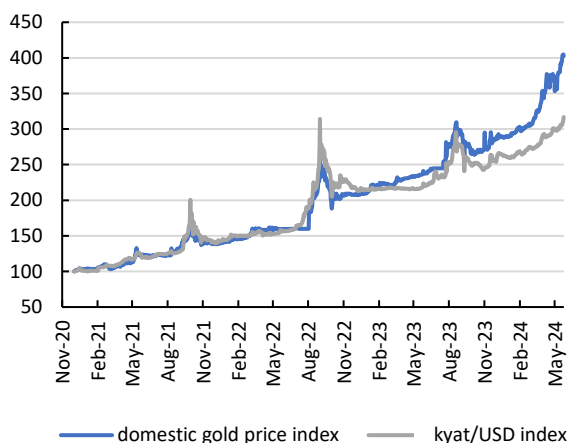


Source: CBM, Exchange market and World Bank Staff

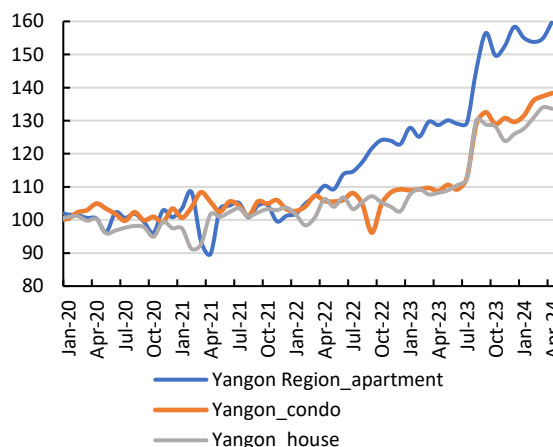
¹⁴ The prevailing exchange rates include the official fixed reference rate, official online platform rate, remittance rate, visa rate, air ticket rate, and parallel market rate (see World Bank Myanmar Economic Monitor December 2023).

Kyat depreciation has in part been driven by demand for assets that are viewed as safer than the local currency. These assets include gold and real estate, as well as foreign currencies. Gold prices have reached record levels (Figure 41), with the authorities imposing a price ceiling on gold in response. The price of Yangon real estate has also increased sharply over the past year (Figure 42). Such asset price inflation can largely be attributed to the search for a safe store of value in a high-inflationary environment, in the absence of alternative investment opportunities within Myanmar.

Figure 41: Kyat prices of gold and US dollars *Figure 42: Real estate prices (index, Nov 2018 = 100) (indexes, Dec 2020 = 100)*



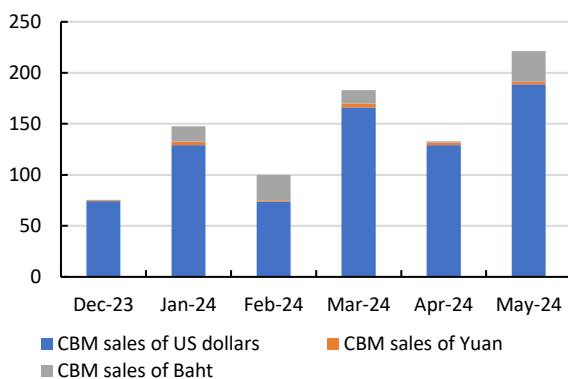
Source: Gold Market and exchange market



Source: Imyanmarhouse

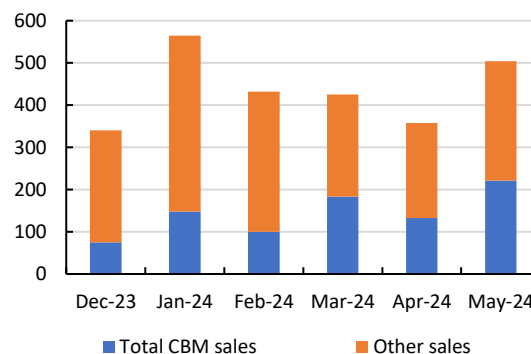
The Central Bank has intervened to support the exchange rate on the online platform by increasing foreign currency sales at the platform rate. While the CBM announced in December 2023 that it would allow the exchange rate on the online platform to be determined by market forces, in practice there has been little movement in the rate after the initial sharp depreciation in December, with the gap between the online platform rate and the market rate growing rapidly in the period since. As of May 2024, the CBM had sold a total of US\$ 860 million (Figure 43) on the online platform in an attempt to meet the excess demand for foreign currency at the platform rate. The CBM has targeted importers of essential commodities like fuel and edible oil, but shortages persist for importers of other products. The total value of forex sales on the online platform over the six months to May 2024, both from the CBM and from market participants, was US\$ 2,325.5 million, representing just 14 percent of the total FY2022/23 import bill (Figure 44).

Figure 43: CBM foreign exchange sales (USD million)



Source: CBM

Figure 44: Total value of foreign exchange sales on the CBM online platform (USD million)



Source: CBM

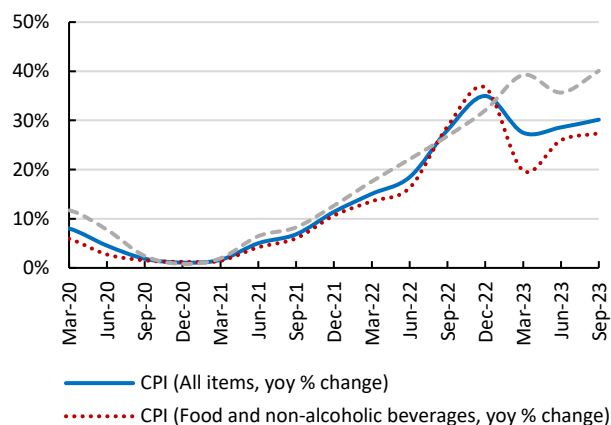
The authorities have also promoted the use of non-US dollar currencies for trade purposes, as well as barter arrangements. Close to 90 percent of the total forex sales by the CBM are in US dollars while the Thai Baht and Chinese Yuan account for about 10 percent and 2 percent, respectively. In May 2024, the Ministry of Commerce introduced a new procedure for Barter Transaction Arrangements (BTA), in an attempt to facilitate the exchange of goods of equal value between countries without using foreign currency.¹⁵ However, the licensing and procedural requirements at this stage appear quite onerous, while there is currently a US\$60 million limit on the monthly trade volume that can be carried out under BTA, which is only equivalent to around 2-3 percent of Myanmar’s total trade.

The CBM has moved to more strictly enforce foreign exchange rules and directives, but these have imposed significant costs on businesses while doing little to address fundamental drivers of foreign currency shortages and kyat depreciation. The CBM has been active in revoking and suspending the licenses of foreign exchange traders and dealers, and strengthened efforts to dismantle the hundi system—an unregulated method of international money transfer. Since January 2024, 21 money changer licenses had been revoked, while 32 were suspended for 3 or 6 months due to failure to comply with rules and directives issued by the CBM. The CBM also carried out surprise inspections to enforce compliance with its rules and directives. But these measures have done little to address the fundamental pressures driving foreign currency shortages and kyat depreciation, while significantly increasing the uncertainty and compliance costs faced by businesses needing to conduct foreign currency transactions. There are also indications that businesses are finding ways to work around these restrictions, including e.g. by holding foreign exchange receipts abroad to avoid forced conversion into kyat in Myanmar.

E. Inflation has remained persistently high driven by rising food and fuel prices

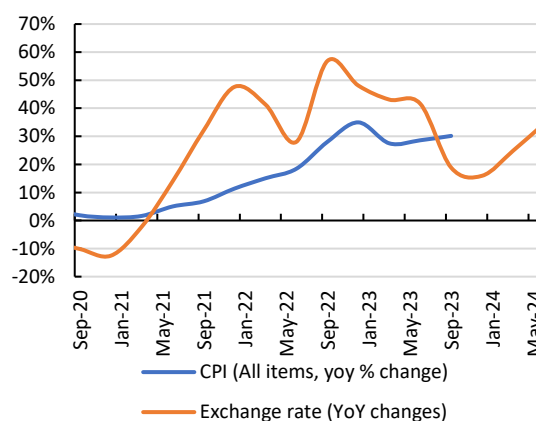
The headline consumer price inflation rose to 30.2 percent (yoy) in September quarter 2023, with both food and nonfood inflation increasing from the June quarter (Figure 45). Food inflation remained elevated at 27.4 percent in September, while nonfood inflation increased to around 40 percent in September 2023, driven by passthrough from exchange rate depreciation and disruptions to domestic supply (Figure 46).

Figure 45: CPI inflation



Source: CSO

Figure 46: CPI inflation vs changes in the USD/kyat exchange rate

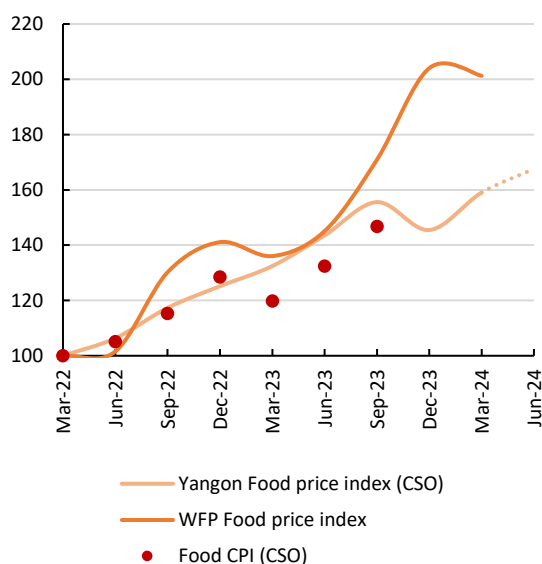


¹⁵ See <https://www.dfdl.com/insights/legal-and-tax-updates/myanmar-barter-transaction-arrangement-bta-procedure/> for details.

More recent high frequency price indicators suggest that prices continue to trend upwards (Figure 47). The World Food Program (WFP) index indicates that food prices have increased by 27 percent between October 2023 and April 2024 reflecting higher prices of key staples such as rice, meat, edible oil, and vegetables. Compared to April last year, the WFP food price index has increased by 56 percent. The (CSO) Yangon food price index also increased by 11 percent in the six months to April 2024 and by 24 percent year-on-year. The increase in food prices reflects surging food export prices (especially for rice), foreign exchange constraints, as well as disruptions in domestic production caused by import restrictions and elevated conflict.

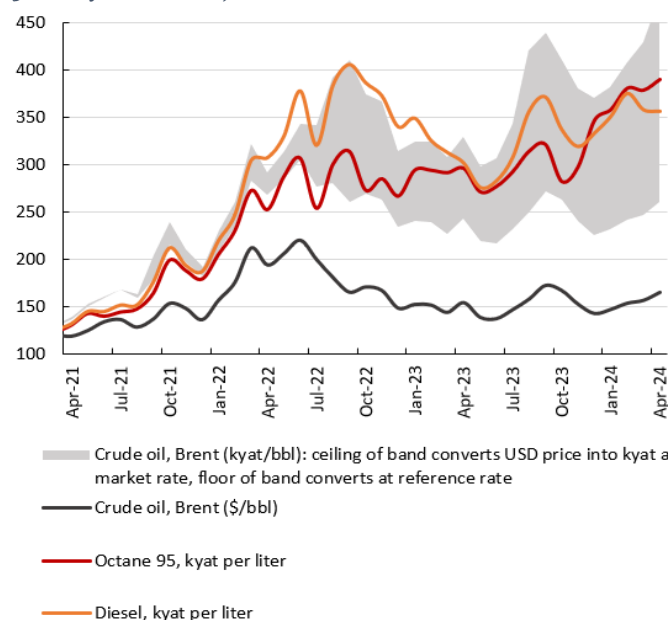
Fuel prices have risen by 13 percent between December and April 2024 (Figure 48) and by 31 percent year-on-year, due to rising global oil prices, rapid exchange rate depreciation, and constraints on access to regulated exchange rates. Fuel prices continue to trend upwards despite the Central Bank of Myanmar's renewed attempts from early 2024 onwards to allow fuel importers access to subsidized exchange rates, at least for part of their import needs. Notwithstanding these efforts, increased foreign currency shortages have constrained fuel importers' access to forex at preferential rates, pushing local prices (particularly of gasoline) higher.

Figure 47: Food price indexes¹⁶ (Mar 2022 = 100)



Source: CSO, WFP, and World Bank Staff

Figure 48: Fuel price indexes and key drivers (January 2021 = 100)



Source: World Bank commodity price, Denko

Box 3. Inflation and food insecurity

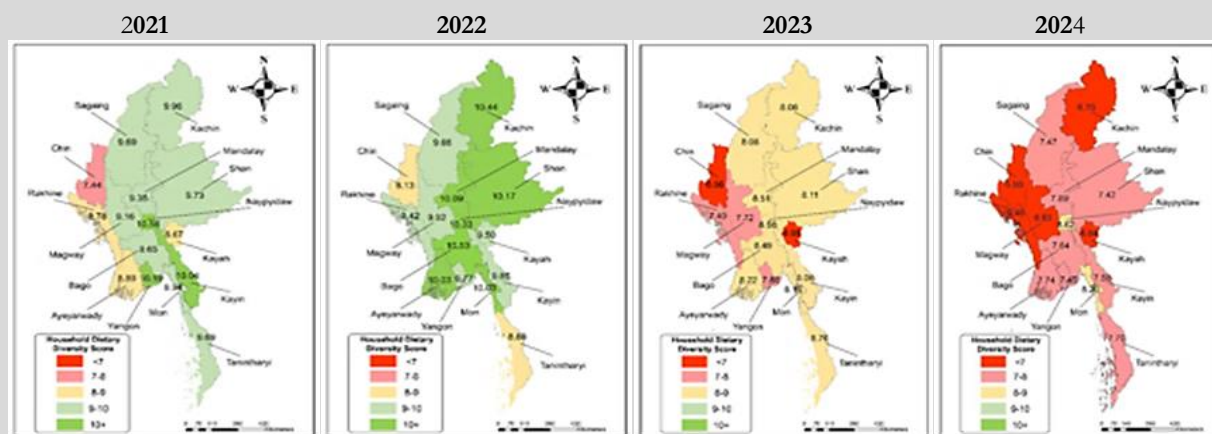
Households have borne the brunt of recent food price inflation. According to the FAO's recent Data in Emergencies survey (December 2023), the proportion of households experiencing acute food insecurity

¹⁶ The WFP and Yangon price indexes are unweighted averages of a basket of staple food prices. The WFP food price index includes cereal and tubers, meat, fish and eggs, oil and fats, pulses and nuts, and vegetables and fruits, with prices drawn from markets across the country. The CSO Yangon food price index includes rice, edible oil, beans and pulses, vegetables, meat and fish, with prices collected from markets in Yangon. The WFP and CSO Yangon price indexes are based on monthly data translated into a quarterly series to illustrate the relationship with the quarterly CPI data. The last data point for the CSO Yangon series is based on April and May data only.

increased to 25 percent in January 2024, 4 percentage points higher than what was reported six months earlier. The International Food Policy Research Institute’s (IFPRI) March 2024 food vendor survey indicated that the cost of a healthy diet had increased by 29 percent over the past year driven mainly by higher prices of staple food items. Survey results indicate that increases in food costs have outpaced wage growth over the past year, making food increasingly unaffordable even for wage earners. According to IFPRI, the purchasing power of daily urban construction wages relative to healthy diet costs declined by 11 percent compared to March 2023. By this measure, worse-off households are primarily located in the Hilly and Coastal areas which have been significantly affected by conflict and displacement.

The March 2024 round of the World Bank’s Food Security and Market Survey (WBFSMS) indicated that prevalence of households reporting lack of access to food persisted over the past year, in part due to higher logistics and transport costs caused by conflict-related disruptions. Survey results showed that the proportion of households reporting challenges accessing food was 27 percent in March 2024, up slightly from 25 percent in March 2023. There was significant deterioration in dietary diversity due to a spike in the cost of a healthy diet following increases in the prices of staples. In March 2024, between 50 and 75 percent of surveyed households reported consuming less healthy products such as fruits, pulses, fried foods, and proteins (eggs, fish, meat), compared to under 50 percent last year. On a scale of 1 to 12, the overall Household Dietary Diversity Score (HDDS) has dropped from 9.6 in 2021 to 7.4 in 2024 (Figure 50), marking a substantial deterioration in the nutritional status of households. The deterioration in dietary diversity has hit some regions particularly hard, with the lowest HDDS values found in Chin (5.50), Rakhine (6.46) and Kachin (6.70).

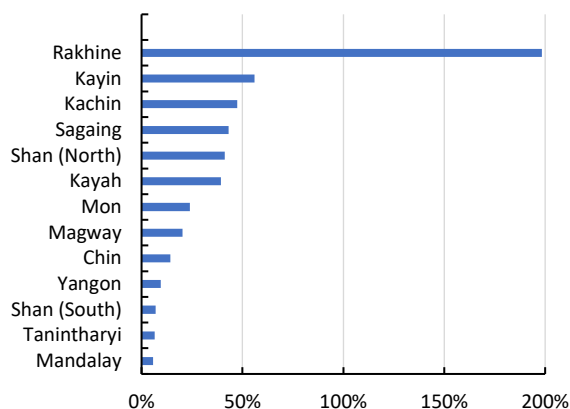
Figure 49: Household dietary diversity by state and region



Source: World Bank Food Security Survey

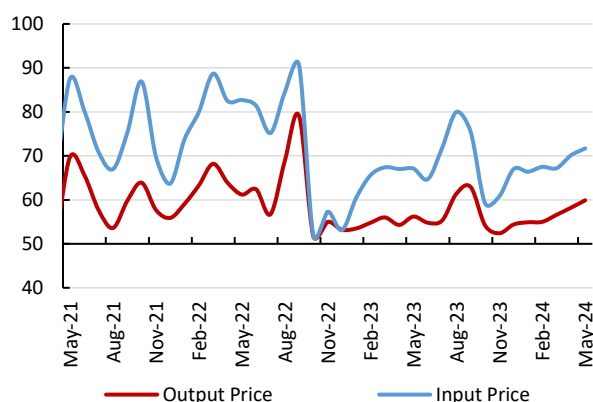
There is significant variation in food and fuel prices across Myanmar with particularly large increases in conflict-affected areas (Figure 50). Over the year to March 2024, food prices have risen by around 40 to 50 percent in Kachin, Sagaing, Northern Shan and Kayah, by 56 percent in Kayah, and by nearly 200 percent in Rakhine, while price increases in Yangon and Mandalay have been more moderate. High food prices in conflict prone areas reflect road blockages, disruptions to transport infrastructure, rising logistics costs due to the increased prevalence of tolls, checkpoint fees and informal payments, and the direct impacts of conflict on agricultural production.

Figure 50: Average food prices by region (change over the year to March 2024)



Source: World Food Program
 Note: Average food price changes include: cereal, meat, fish, eggs, oil and fats, pulses and nuts, vegetables and fruits.

Figure 51: Manufacturing Purchasing Managers' Indices - Prices (>50 indicates expansion, < 50 indicates contraction)



Source: S&P Global Market Intelligence

Manufacturing input and output prices continue to rise. Kyat depreciation, foreign exchange shortages and import restrictions have increased raw material costs, while elevated transport and logistics costs have also contributed to pressure on input prices which is passing through to the wholesale and retail prices of manufactured goods (Figure 51).

F. Poverty has risen to levels last seen in 2015

Weakness in economic activity and labor markets have had significant impacts on household welfare, with the poverty rate estimated to have risen to nearly a third by the end of 2023 and early 2024.¹⁷ The 2023/24 Myanmar Subnational Phone Survey (a nationally and sub-nationally representative survey of 8500 households across Myanmar, conducted from December 2023 to February 2024) indicates that there has been a substantial increase in the headcount, depth and severity of poverty in Myanmar in recent years. The poverty rate is estimated to be 32.1 percent in 2023-24 (Figure 52), a reversion to levels last seen in 2015, while a further third of the population are at risk of sliding into poverty, with consumption less than 1.5 times that of the poverty line. Myanmar now has around 7 million more poor people than at the start of the COVID-19 pandemic. At the same time, the depth and severity of poverty – indicators of how far the poorest households’ consumption lies from the poverty line – have worsened considerably since 2017, indicating that poverty has become increasingly entrenched. On the other hand, counterfactual estimates suggest that had Myanmar sustained its pre-pandemic growth trends in recent years, there would have been 8 million fewer poor people in 2023 and the poverty rate would be just 11 percent.

¹⁷ This section (and the included figures) is based on Sinha Roy, Sutirtha and van der Weide, Roy. 2024. Development Reversed: Poverty and Labor Markets in Myanmar. World Bank.

Figure 52a: Poverty rate

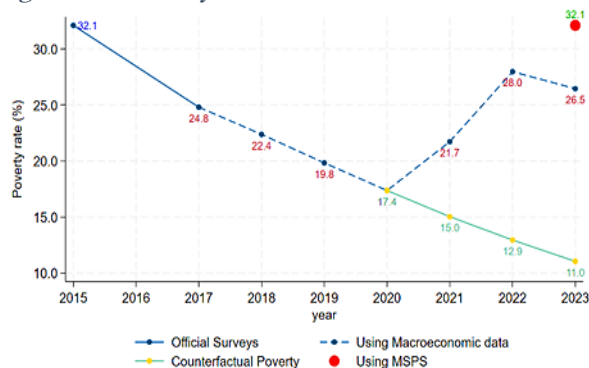
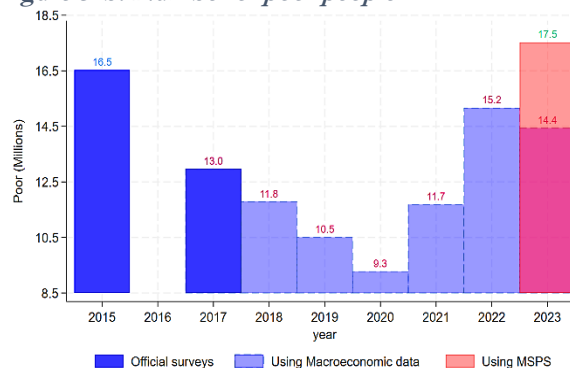


Figure 52b: Number of poor people



Notes: "Official surveys" refer to estimates of poverty rates from official household surveys conducted in 2015 and 2017.

Estimates of poverty rates 'using macroeconomic data' for the period between 2018 and 2023 are calculated by deriving estimates of household consumption from estimates of real GDP per capita, using a pass-through rate and assuming that inequality has remained unchanged through this period. The estimate of the 'counterfactual poverty rate' uses the same approach, but is based on a counterfactual of continued GDP growth from 2021 onwards at the pre-pandemic trend rate.

In contrast, the 'MSPS' estimate is based on actual household survey data, based on a model of the relationship between household characteristics – as measured by the 2023-24 MSPS – and household consumption. It is therefore not reliant on macro estimates of GDP per capita, assumed pass-through rates of GDP growth to household consumption growth, or assumptions on the evolution of inequality across households.

For more details see Sinha Roy, Sutirtha and van der Weide, Roy. 2024. Development Reversed: Poverty and Labor Markets in Myanmar. World Bank.

Poverty has risen particularly sharply in conflict-affected states and regions. Sagaing, Kayin and Kayah have seen substantial increases in poverty over the last six years, despite already having among the highest rates of poverty in Myanmar in 2017 (Figure 53), while poverty in Mandalay and Tanintharyi has also increased sharply. On the other hand, there has been a notable decrease in poverty in Ayeyarwady which has seen relatively less conflict and remains one of Myanmar's leading food producing regions. While the survey data shows a small reduction in poverty in Rakhine, pressures on household consumption have increased markedly in more recent months due to the impacts of conflict and rising prices. The MSPS data show that internally displaced populations (IDPs) are particularly vulnerable, with poverty rates around 50 percent, and unemployment rates of 40-45 percent, almost three times higher than the unemployment rate of non-IDPs (Box 4).

Figure 53a: Changes in poverty rates

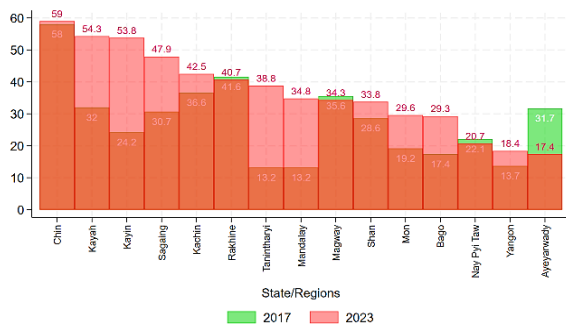
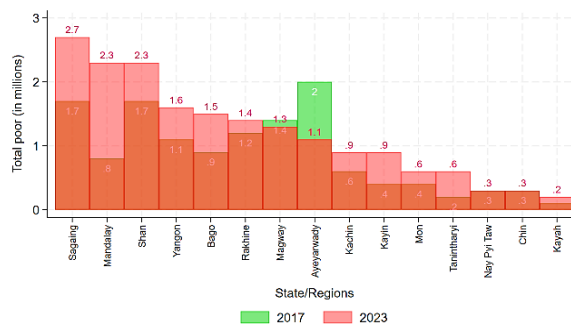


Figure 53b: Changes in poor population

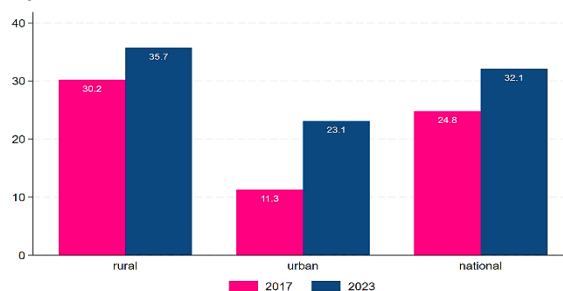


Notes: Individual level sampling weights used in the above figure.

While poverty is still higher in villages than cities, urban poverty has increased faster between 2017 and 2023-24 than poverty in rural areas (Figure 54). Average household consumption in rural areas is estimated to be 6 percent lower in 2023 than in 2017 (in real terms), while household consumption in urban

areas has fallen by almost 20 percent over the same period. In both rural and urban areas, poorer and richer households have experienced more significant declines in consumption than have households in the middle of the income distribution.

Figure 54: Poverty headcount by location



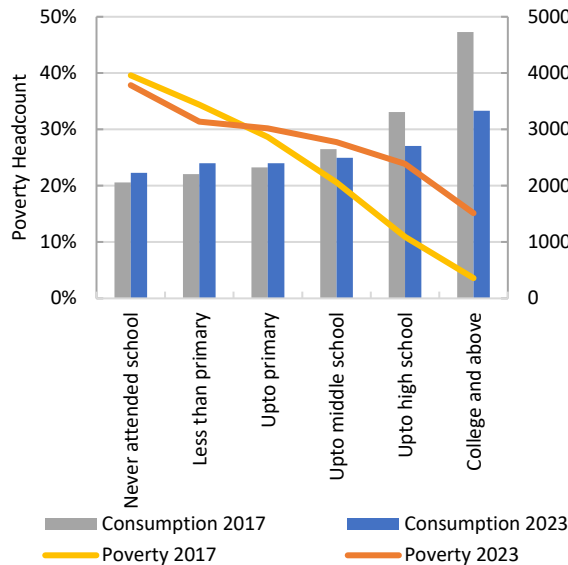
The increase in rural poverty between 2017 and 2023 can in part be explained by job losses afflicting less-educated populations in villages, particularly in agriculture. The share of the rural population employed in agriculture has declined from 43 percent in 2017 to 34 percent in 2023, largely due to poorer and less-educated workers moving out of agricultural employment. These shifts are likely to have had substantial implications for poverty: poorer and less-educated households are more likely to have reduced spending on food, health, and education to cope with recent shocks, and the MSPS findings indicate that poor households that have no members working in agriculture are particularly likely to resort to these negative coping strategies, compared to poorer households that have at least one member employed in agriculture.

On the other hand, the significant rise in urban poverty between 2017 and 2023-24 has coincided with a decline in the *quality of available jobs*. Waged employment has become more restricted among urban populations, with the share of waged employment falling by 8.7 percentage points between 2017-2022 and recovering less than 1 percentage point over the past year. The proportion of waged workers with formal contracts and pension provisions has fallen by 3.6 percentage points in the past year. These declines have been especially pronounced among college graduates.

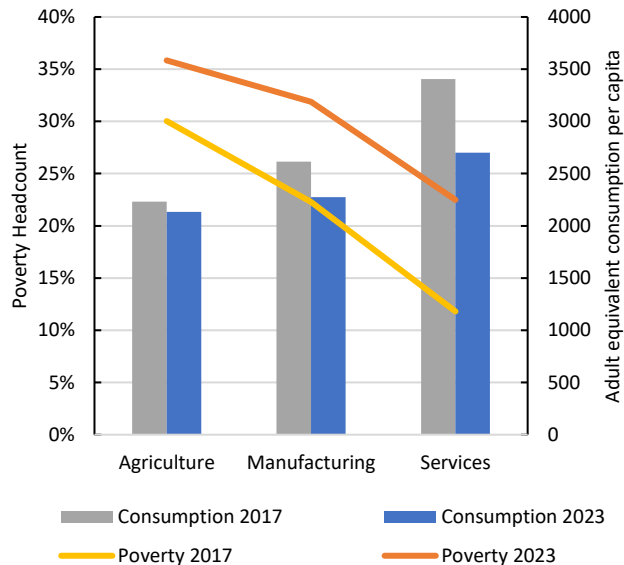
Declines in consumption have also been particularly significant among more educated workers with more work experience. In 2017, households with greater endowments—such as better education, more assets, smaller household sizes, and service sector jobs—exhibited lower poverty levels. However, consumption has substantially declined among these groups, leading to a rise in poverty (Figure 55). For example, individuals with college or higher levels of education had a poverty rate of 4 percent in 2017, but the poverty rate among this group increased to 18 percent in 2023-24 (panel a). Workers in manufacturing and services have also experienced sharper reductions in consumption and increases in poverty than workers in agriculture (panel b). Some of Myanmar’s most educated workers are turning to typically lower-productivity farming activities as a result of the current economic and security conditions, a reversal of the normal structural transformation process.

Figure 55: Patterns of consumption and poverty by individual and household characteristics

Panel a: By education



Panel b: By sector



Box 4: Patterns of forced displacement in Myanmar¹⁸

Internally displaced populations (IDPs) rank among the poorest groups in Myanmar. Across various household and individual attributes, IDP status is strongly correlated with elevated poverty levels. In 2023, the mean consumption value for IDP households (in real terms) was approximately 11 percent below that of non-IDP households. Consequently, the poverty rate among IDP households was around 50 percent, higher than average rural poverty rate of 35.7 percent in 2023-24. IDPs account for approximately 1.3 million of the total 17.5 million poor people in Myanmar.

Data from the Multi-Sectoral Needs Assessment (MSNA), a survey conducted by humanitarian agencies in Myanmar (including UNOCHA and UNHCR) during June to August 2023, shows that IDPs undergo cyclic patterns of forced displacement, often forced to repeatedly seek shelter from violence and conflict. IDPs displaced since February 2021 (“new IDPs” or “newly displaced IDPs”) reported 5-6 displacement events on average between 2021 and 2023. Newly displaced IDPs belong to states and regions that had experienced comparatively fewer incidences of conflict and violence prior to the military coup of February 2021. Forced displacement is highly localized with most households seeking shelter within the same township as their pre-displacement location. New IDPs are predominantly rural and often take shelter in locations that are planned and organized by community-based organizations. These IDPs typically have access to health and education services delivered by informal or community-based organizations.

Those IDPs that reside in unplanned settlement sites – that are not under the management of community organizations – are among the most vulnerable. They suffer from poor housing conditions,

¹⁸ This box is based on Sinha Roy, Sutirtha. 2024. Populations in Peril: Decoding Patterns of Forced Displacement in Myanmar. World Bank. This report uses data from the Multi-Sectoral Needs Assessment (MSNA), a household survey which prominently includes IDPs in its sample. The MSNA was conducted in 2023 by a research and data collection agency in collaboration with the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), the United Nations High Commissioner for Refugees (UNHCR), and the Inter-cluster Coordination Group (which includes the Shelter and NFI cluster).

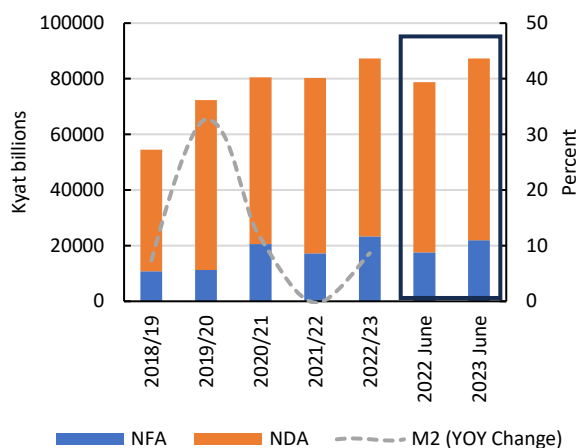
possess fewer identification documents and report more movement restrictions than any other group of IDPs. The biggest restriction around internal mobility occurs at designated checkpoint locations.

Unemployment and lack of income are substantial challenges for displaced families. IDPs have unemployment rates that are three times those of non-displaced households. Kayah, a state with high conflict intensity, has among the highest unemployment rates in the country. In addition, IDPs also have relatively high proportions of children participating in labor activities. Average monthly earnings of non-displaced households are 80 percent higher than IDPs and 50 percent higher than returnee households. Labor outcomes of IDPs lag those who have not been displaced, even after controlling for households’ rural/urban status: IDPs living in rural areas report higher levels of unemployment and greater incidence of child labor than non-displaced households living in rural locations.

G. Financial sector indicators have been mixed; microfinance institutions face challenges

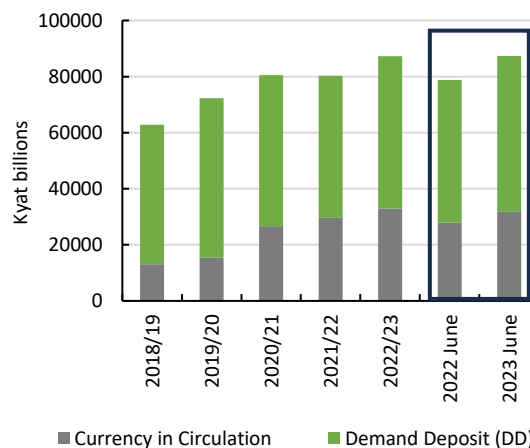
The latest available data indicate that the money supply expanded over the year to June 2023. Broad money grew by 11 percent (year-on-year) as of June 2023 (Figure 56) driven by increases in net foreign assets (23 percent) and net domestic assets (7 percent). On the liabilities side, demand deposits and currency in circulation contributed to the increase in money supply, increasing by 9 percent and 14 percent, respectively (Figure 57).

Figure 56: Net foreign assets and net domestic assets



Source: CBM and World Bank Staff estimates

Figure 57: Currency in circulation and demand deposits



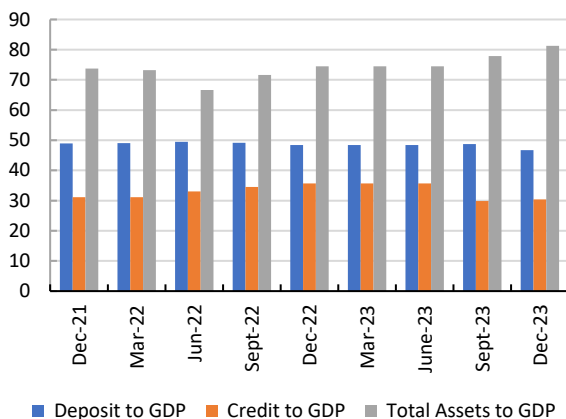
Source: CBM

CBM indicators of bank liquidity remain comparatively robust, though credit has declined as a proportion of GDP. Although still lower than levels seen before the COVID-19 pandemic, CBM data show that banking sector deposits increased by 5 percent over the year to December 2023, but declined modestly as a proportion of GDP to 46.7 percent (Figure 58). Banks’ investment in government securities picked up in June 2023, consistent with an uptick in banking system liquidity¹⁹ (see Figure 59). Bank credit has also picked up in nominal terms due mainly to increased loans to MSMEs and the trading sectors. However, bank credit declined by more than 5 percentage points of GDP between June and December 2023 given high inflation, while

¹⁹ Banks typically maintain a loan-to-deposit ratio ranging between 65% to 75% and invest the excess to increase interest incomes.

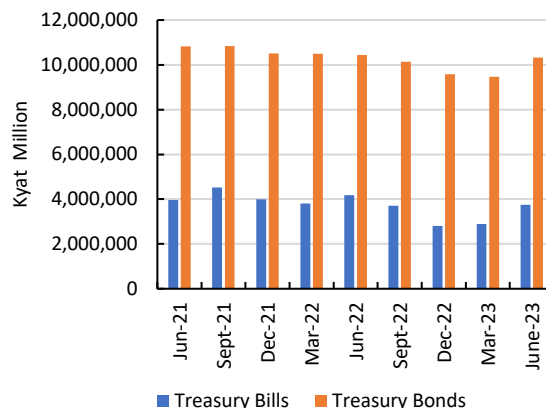
microfinance lending and client numbers have fallen markedly since 2020, due to funding challenges, elevated NPLs, and the exit of Pact Global Microfinance Fund in June 2023 (Box 5).

Figure 58: Deposits, loans and assets (% GDP)



Source: CBM

Figure 59: Government treasury bills and treasury bonds



Source: CBM

The CBM increased the required reserve ratio (RRR) by 25 basis points to 3.75 percent in May 2024, to respond to high inflation and increased liquidity in the banking system. The interest rate on excess cash reserves was also raised by 20 basis points to 3.8 percent, but the eligible threshold for receiving interest payments on excess reserves remained unchanged – between MMK 7 to MMK 50 billion.²⁰ There has been no observed passthrough of the RRR increase to other money market interest rates. While the RRR was last increased to 3.5 percent in April 2023, lending rates remained unchanged throughout the last year, at 14.5 percent (for unsecured facilities) and 10 percent (for secured facilities), respectively. Average deposit rates have also remained fixed at 5.0 percent since last year.

Box 5: MFI challenges and options to build resilience²¹

Microfinance institutions (MFIs) play a critical role in Myanmar, providing both rural and urban populations with the credit they need to finance purchases of working capital, agricultural inputs, and other goods and services. The sector experienced rapid growth between 2012 and 2020, with the number of MFI clients increasing from around 1 million to 6 million over this period. Alongside fast growth in lending, Myanmar MFIs have contributed significantly to financial inclusion, particularly of women, who comprised 86 percent of MFI clients as of December 2023.

The earlier expansion of the MFI sector in Myanmar has been unwound in recent years. MFI client numbers plateaued in 2020 as repeated lockdowns and social distancing measures directly impacted the face-to-face business models of MFIs, hampering both loan disbursements and collections. The number of MFI clients and the total value of outstanding loans have fallen substantially since the end of 2020, by 43 and 32 percent respectively, as economic and security conditions have worsened. The exit of Pact Global

²⁰ CBM guidelines caps excess reserves held banks at MMK50 billion.

²¹ This box is based on World Bank, 2024, Micro-finance/macro-challenges: Identifying and responding to the constraints faced by Myanmar microfinance institutions.

Microfinance Fund (PGMF)²² in June 2023 also contributed significantly to these declines. At the end of December 2023, the sector had 3.5 million clients, with a loan portfolio valued at under MMK 2 trillion, both well down from 2020 levels (Figures 60 and Figure 61).

Figure 60: Number of MFI clients

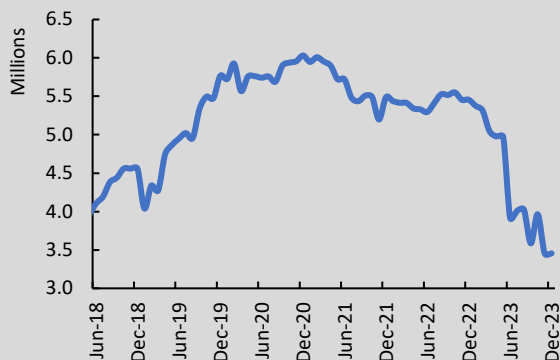
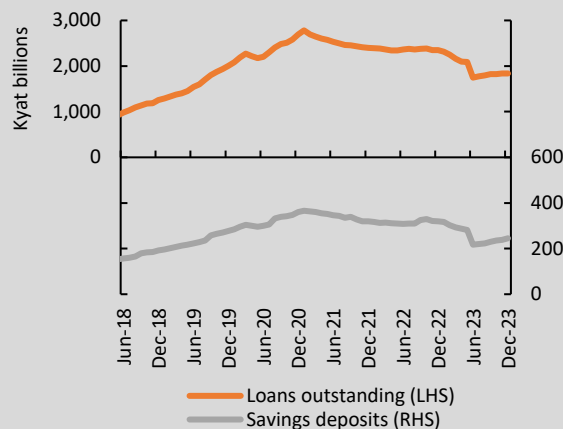


Figure 61: MFI loans and saving deposits



Economic challenges have weakened the ability of microfinance clients to repay their loans, leading to a spike in NPLs. NPLs rose from 9.6 percent in December 2020 to 25.3 percent in May 2021, increasing further to 28 percent as of June 2022. Data from the Myanmar Microfinance Association (MMFA) shows that MFIs’ portfolio at risk (PAR) – i.e. the proportion of loans with repayments more than 30 days overdue – increased from below 1 percent in December 2019 to 12.4 percent in December 2020 and peaked at 33.9 percent in December 2021, before subsequently easing to 23.1 percent as at the end of 2023 (Figure 62). A high proportion of NPLs are older legacy loans (i.e. those disbursed in 2021 or earlier), while newer loans issued over the previous 15 months (particularly agricultural loans) tend to have better repayment rates. Although NPLs remain a challenge, MFIs’ reliance on equity financing has ensured a degree of resilience to the deterioration in asset quality.

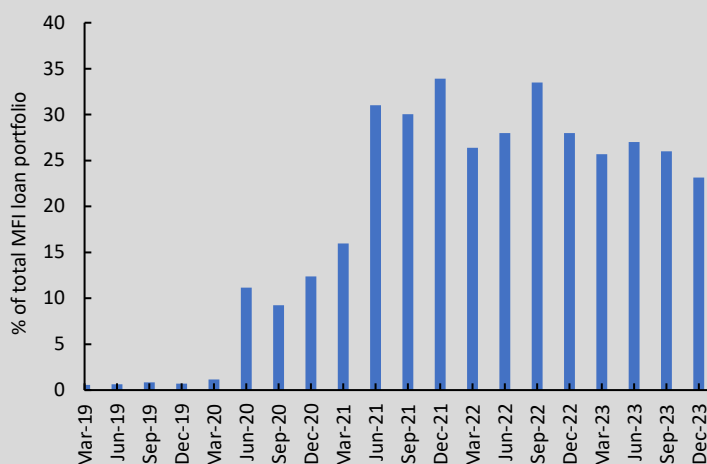
Access to the key sources of funding needed by MFIs to facilitate new lending – i.e. new deposits, loans, and/or equity injections – has become much more difficult. International sources of funding have become almost impossible to access due to foreign exchange risks and restrictions, challenges in obtaining approval for international funds transfers, and instructions to suspend repayments on foreign loans. Regulatory approvals of foreign loans now reportedly face significant delays of up to 6 months. Significant kyat depreciation and the emergence of a multiple exchange rate regime – which has been associated with persistent foreign currency shortages – have made it more difficult and costly for MFIs to hedge and repay existing foreign currency denominated loans, and to obtain new loans. Borrowing from local banks is costly – in some cases prohibitively so – due to stringent collateral requirements²³.

²² PGMF began collaborating with nine local NGOs in 2013 to develop and expand microfinance operations in remote areas of the country, supported by funding from the Livelihoods and Food Security Fund (LIFT). Notably, 99 percent of its clients were women, and its lending supported nearly 1 in 10 households across Myanmar. Its closure in June 2023 affected almost a million borrowers.

²³ Myanmar MFIs are typically required to post cash collateral equivalent to a large proportion of the total loan amount (typically 40 percent) before borrowing from local banks. This means that MFIs can effectively only access 60 percent of the funds they borrow, but are nevertheless obliged to pay interest on the entire loan amount.

Figure 62: Portfolio at risk

Proportion of MFI loans with repayments > 30 days overdue



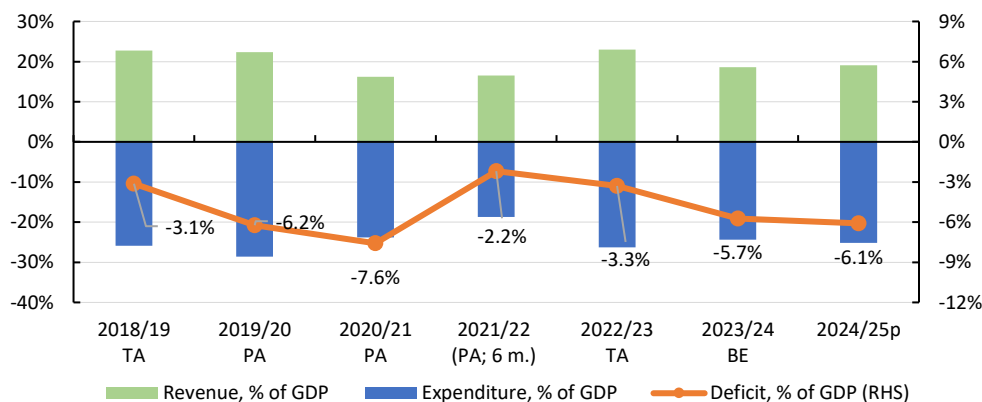
Source: MMFA (based on data sharing of MMFA members)

To meet demand for microcredit, the MFI sector has two distinct and urgent needs: (i) sourcing funding, and (ii) managing a deteriorating loan portfolio which hinders new credit growth and raises potential solvency concerns. There is evidence to suggest that large numbers of clients are currently missing out on MFI loans. Greater access to funding would allow loan volumes to increase, meeting at least part of this currently unmet demand. New credit lines would directly provide an additional source of funding to enable new MFI lending. Credit guarantees could help MFIs unlock kyat loans from local banks on more sustainable terms. In addition, recapitalization through equity investments or targeted grants would allow MFIs to write-off legacy NPLs while mitigating the associated pressure on solvency ratios.

H. The fiscal situation has become more opaque but remains precarious

Provisional budget outturns indicate that the overall fiscal deficit in 2022/23 was 3.3 percent of GDP (Figure 63), lower than initial projection of about 6 percent of GDP due mainly to better-than-expected revenue performance, particularly nontax revenues. However, the fiscal deficit is estimated to have increased to 5.7 percent of GDP in FY2023/24, driven by a substantial fall in revenue from the previous year, only partially offset by a smaller decline in spending.

Figure 63. Fiscal balance



Source: MOPF, CBM, IRD and WB staff estimates.

Note: Differences in historical aggregates from the previous MEMs stem from updates in fiscal estimates published by the authorities.

PA = Provisional Actual, TA = Temporary Actual, BE = Budget Estimate, RE = Revised Estimate.

Starting in April 2022, Myanmar’s budget calendar has changed from October–September to April–March. To accompany the change, a 6-month interim budget was introduced to bridge the end of 2020/21 fiscal year on September 30, 2021.

Total revenue is estimated to have moderated to 18.6 percent of GDP in 2023/24 reflecting a decline in both tax and nontax revenues (Figure 64 and Figure 65). Nontax revenue which accounts for about two thirds of total revenue is expected to have declined to about 12.7 percent of GDP, 3.5 percentage points lower than the previous year, due largely to a slump in revenue from government ministries, departments, and agencies as well as State-owned Economic Enterprises (SEEs), including those in the oil and gas sectors. Tax revenues are expected to have declined from 6.8 percent of GDP in 2022/23 to 5.9 percent of GDP in FY2023/24 explained largely by a reduction in income tax receipts, specific goods taxes, and taxes on state utilities. According to the April 2024 Firm Monitoring Survey, only about 21 percent of firms reported paying taxes in April 2024 compared to 28 percent in the same period last year.

Figure 64: Tax and non-tax revenue (% of GDP)

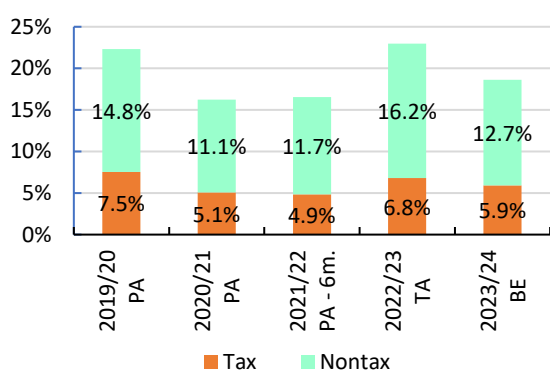
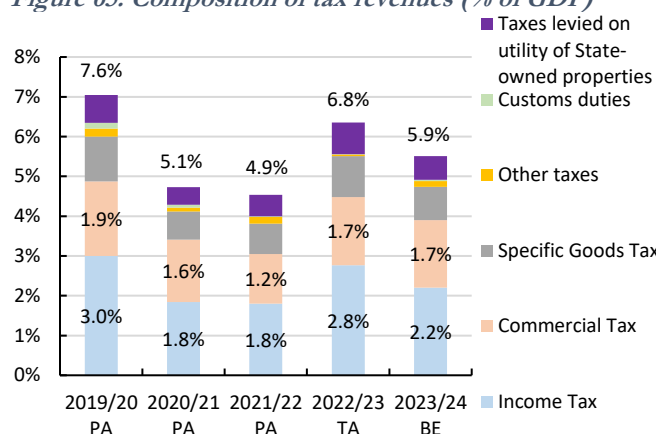


Figure 65: Composition of tax revenues (% of GDP)

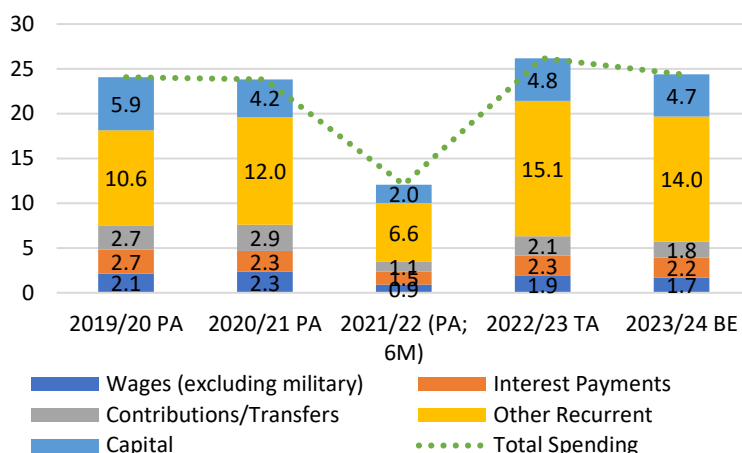


Source: <https://www.mopf.gov.mm/>; WB staff estimates.

Note. PA = Provisional Actual, TA = Temporary Actual, BE = Budget Estimate, RE = Revised Estimate.

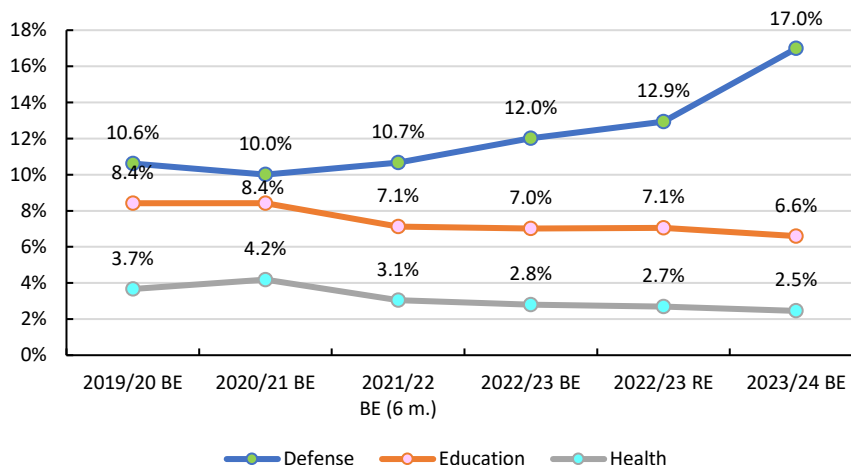
Total expenditure is expected to have declined to 24.3 percent of GDP in FY2023/24, down by 2 percentage points from the previous year. Recurrent spending is expected to have declined by about 1.7 percentage points to 19.7 percent of GDP reflecting a programmed reduction in wages, transfers, and “other current spending” such as use of goods and services (Figure 66). Debt interest payments remained fairly stable at about 2.2 percent of GDP reflecting high domestic interest payments which account for about 90 percent of total interest payments.

Figure 66: Composition of expenditure by economic use (% of GDP)



Over recent years, the fiscal landscape has been characterized by a shift in spending priorities, with a notable decrease in allocations for essential services such as health and education. The proportion of spending on health and education has fallen sharply from about 4 percent of GDP in 2020/21 to approximately 2.2 percent in the 2023/24 budget. This represents a decline from 12.6 percent to less than 9.1 percent of budgeted spending, with substantial longer-term implications for human capital accumulation (Figure 67). Meanwhile, the allocation to defense spending increased to 17 percent of the total budget in 2023/24.

Figure 67: Defense, health and education expenditure (share of budget)



Source: MOPF; WB staff estimates.

Budget execution reports for FY2023/24 and the FY2024/25 budget statement were not published as of early June, indicating a reduction in fiscal transparency, with potential implications for fiscal discipline and budget credibility. The nonpublication of the FY2024/25 budget and execution reports for FY2023/24 raises concerns that fiscal outcomes could be worse than estimated. In FY2022/23, total expenditure exceeded budget by about 7 percent, though this was likely due to high inflation in the cost of providing public goods and services (Figure 68). While revenue exceeded budget by 23 percent in FY2022/23, revenue is expected to have declined substantially in FY2024 (Figure 69).

Figure 68: Spending actuals and budget estimates

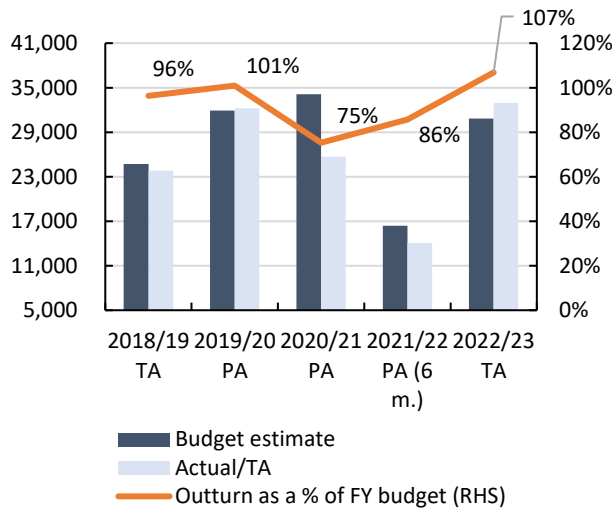
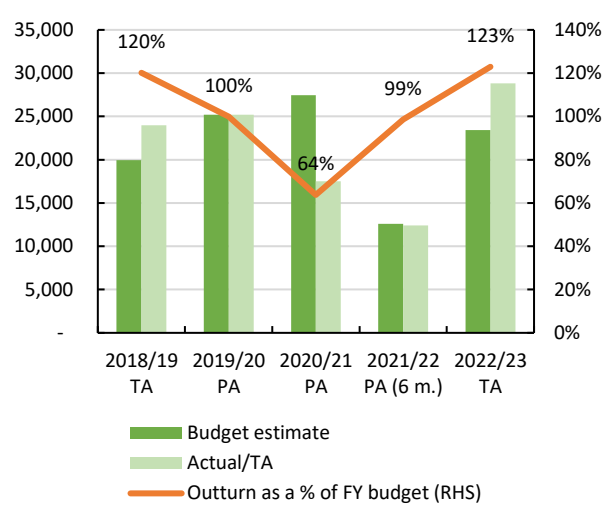


Figure 69: Revenue actuals and budget estimates



Source: <https://www.mopf.gov.mm/>; WB staff estimates.

Note. PA = Provisional Actual, TA = Temporary Actual, BE = Budget Estimate, RE = Revised Estimate.

Public debt remained high at about 62 percent of GDP reflecting elevated fiscal deficits, weak economic growth, and exchange rate valuation changes. Myanmar’s public debt profile has changed since 2020, with domestic debt increasing from about 27 percent of GDP to 42 percent in FY2023/24 reflecting increased domestic borrowing. Limited access to external borrowing has forced the authorities to finance the fiscal deficit from domestic sources – largely Central Bank borrowing. A large portion of this domestic debt is held by the Central Bank of Myanmar (CBM) in the form of short-term treasury bills.²⁴ High inflation has eroded the value of the domestic debt stock in Myanmar (as a proportion of GDP) in recent years, partially offsetting the effects of relatively large budget deficits, negative or low GDP growth, and the valuation effects of kyat depreciation on external debt. External debt is estimated at approximately 20 percent of GDP, with about 70 percent held by bilateral creditors and the remainder by multilateral creditors²⁵.

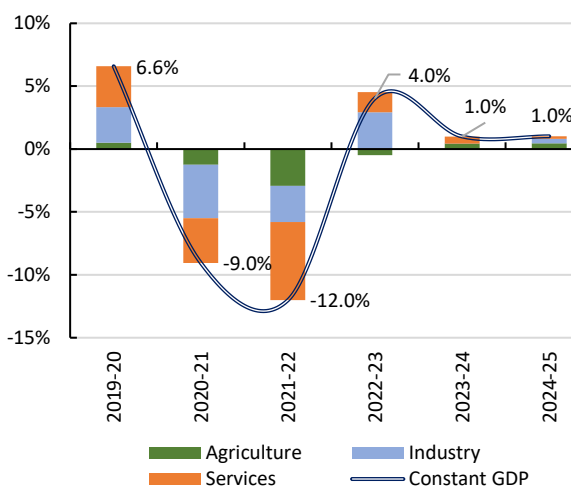
²⁴ Fiscal Policy Statement 2023-24 and CSO quarterly statistics bulletin Q4 2022-23

²⁵ Annual Debt Report (2020/21), MoPF

II. Outlook and Risks

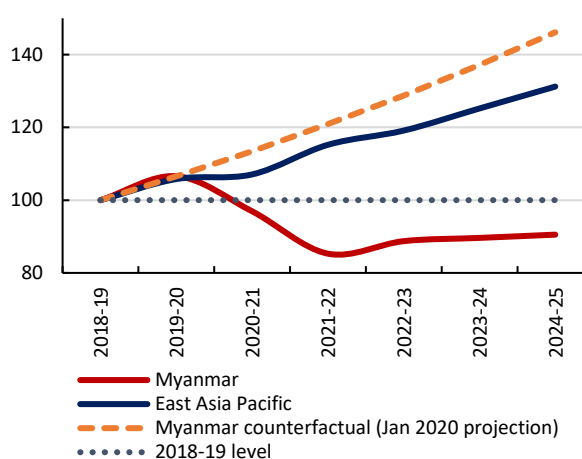
The economic outlook remains very weak, implying little respite for Myanmar’s households over the near to medium term. The business environment will continue to be constrained by conflict, trade and logistics disruptions, macroeconomic volatility, regulatory uncertainty, and power outages. Persistently high inflation, weak employment growth, declining real wages, and stretched household buffers will limit consumption and retail sales. Following estimated GDP growth of 1 percent in FY2023/24 (year ended March 2024), GDP is expected to grow at 1 percent again in FY2024/25, a downward revision from our December 2023 projection of 2 percent growth for the year (Figure 70). These projections are in line with the failure of the economy to rebound in any meaningful sense from the sharp contraction that was estimated for FY2020/21 and FY2021/22. Our estimates imply that Myanmar’s GDP in FY2024/25 will remain about 9 percent below FY2018/19 levels, in sharp contrast to the experience of other larger countries in the East Asia and Pacific region (Figure 71).

Figure 70: Real GDP growth and contributions to real growth by sector (percent, percentage points)



Source: Planning department and WB staff estimate

Figure 71: Real GDP estimates and projections (FY2018/19 = 100)



Source: Planning department and WB staff

The downward revision in projected growth for FY2024/25 (Table 2) is largely due to the persistence of high price inflation and constraints on access to labor, foreign exchange, and electricity, all of which are likely to have larger impacts on activity than was previously expected. Ongoing kyat volatility and rapid inflation (more persistent than expected six months ago) will continue to put pressure on already stretched coping mechanisms and household consumption, with particularly large impacts on services industries such as retail trade. The manufacturing sector will continue to be affected by electricity shortages, foreign currency shortages, and restricted access to imported inputs, while energy production is expected to decline further. Increased labor shortages and churn – due in part to the activation of the conscription law, as well as declining real wages and broader conflict and displacement trends – will impact all sectors. On the other hand, agricultural activity is expected to continue to expand in FY2024/25, driven by higher export and farmgate prices, and some moderation in input costs (e.g. fertilizer) which should see yields continue to improve. Moreover, the impact of land border trade disruptions is expected to ease slightly as importers and exporters shift to alternative channels, while production in several major agricultural areas remains relatively unaffected by conflict.

Table 2: Selected Macroeconomic Indicators (annual percent change unless indicated otherwise)

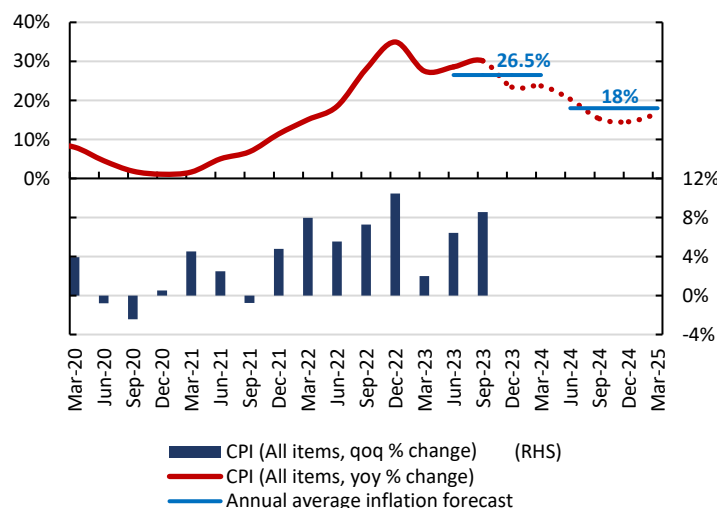
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 ^F
Real GDP growth, at constant factor prices	6.6	-9.0	-12.0	4.0	1.0	1.0
Agriculture	2.2	-5.7	-12.8	-2.2	2.0	2.4
Industry	8.0	-11.8	-8.2	8.0	0.0	1.4
Services	7.8	-8.4	-14.7	3.9	1.3	0.1
CPI inflation, year average	9.1	2.3	9.6	27.2	26.5	18.0
Trade balance (% of GDP)	-5.6	-2.9	-2.4	-5.5	-4.8	-4.6
Current account balance (% of GDP)	-1.8	-0.4	-2.4	-3.1	-3.7	-3.6
Fiscal balance (% of GDP)	-6.2	-7.5	-4.7	-3.3	-5.7	-6.1
- Revenue (% of GDP)	22.3	16.3	22.7	19.8	18.6	19.1
- Expenditure (% of GDP)	28.6	23.8	27.4	26.2	24.3	25.2
Public debt (% of GDP)	42.3	54.6	61.5	62.6	61.5	63.0

Note: April-March fiscal year

Source: World Bank Staff estimates

Consumer price inflation is expected to remain high, moderating to 18 percent in FY2024/25 (in year average terms) from 26.5 percent in FY2023/24 (Figure 72). Exchange rate depreciation, high logistics and transportation costs and ongoing import restrictions and foreign currency shortages will combine to keep food and nonfood prices elevated during FY2024/25. Ongoing monetary financing of the fiscal deficit will also continue to put upward pressure on inflation.

Figure 72: Inflation projections



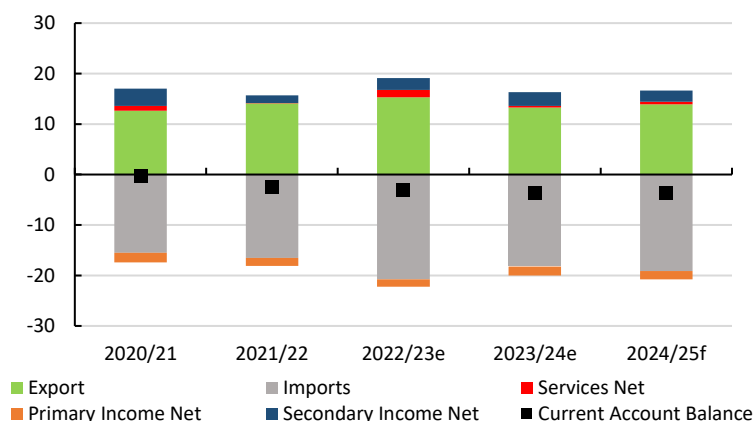
Source: CSO and WB staff estimate

The current account deficit is projected to remain at about 3.7 percent of GDP in FY2024/25 (Figure 73), roughly the same as in the previous year²⁶. Both a larger trade deficit and lower net services receipts will contribute to the current account deficit. Exports are expected to recover from about a 12 percent decline

²⁶ Provisional estimate from the CBM indicate the current account deficit was 3.1 percent of GDP compared to the projected 6 percent GDP due to increased net service receipts and soaring secondary incomes helped by workers remittances.

last year. But the import bill will remain large despite restrictions, driven mainly by exchange rate depreciation pressures and increased public sector imports reflecting anticipated increases in total government spending. Net services flows suffered a reversal last year due to disruptions caused by conflict, and are projected to remain subdued given the continued disturbance across key cross-border transport corridors.

Figure 73: Current account (% of GDP)



Source: Central Bank, World Bank staff estimate

The overall budget deficit is expected to increase by 0.4 percentage points to about 6.1 percent of GDP in FY2024/25 as an increase in spending is expected to outpace revenue mobilization. Total expenditure is projected to increase by about 0.8 percentage points to 25.2 percent of GDP driven by increased spending on defense as well as increased allocations to social and productive sectors. The authorities have announced plans to increase spending on education, health, electricity generation, transport and agriculture to support the ailing economy. Revenues are projected to increase modestly 0.5 percentage points to 19.1 percent of GDP reflecting a slight uptick of nontax receipts, particularly from SEEs, while tax revenue is expected to be broadly stable at 5.8 percent of GDP reflecting low growth. Public debt is projected to increase slightly to 63 percent of GDP due to expected increase in the fiscal deficit, low economic growth, and valuation effects of the exchange rate depreciation on external debt; however, these effects will continue to be offset by high inflation.

With prices continuing to rise, ongoing constraints on incomes and employment, and rising informality, the baseline outlook for household welfare and poverty reduction is bleak. Households are suffering from the cumulative impact of recent disruptions to employment opportunities and significant declines in real incomes, but these impacts are likely to persist in the near term given weak economic projections and ongoing macroeconomic volatility. Coping mechanisms have been stretched: savings buffers are falling, cuts to food and non-food consumption will be difficult to sustain for a prolonged period, and in many cases there is little scope for further asset sales or reductions in the use of agricultural inputs. While employment in agriculture has supported household resilience – including in terms of reduced consumption losses compared to non-agriculture households – agricultural employment is in fact declining among poorer rural households. And with less opportunity for agricultural employment and production for own consumption in cities, urban poverty could rise further if job quality continues to decline.

The major risks to outlook are on the downside. The security situation remains volatile: if conflict spreads to other areas it could challenge the resilience of agricultural activity, further disrupt transport networks and intensify shortages of fuel and other key inputs, culminating in lower yields and elevated operational constraints. Higher than projected inflation could increase business uncertainty, hold back private investment and further

squeeze household consumption, lowering growth prospects. Other risks include a worsening of power supply constraints or an increase in financial sector disruptions following restrictions on cross-border payments.

Medium to long-term prospects for living standards also remain at considerable risk of worsening further. Further policy responses that rely heavily on market interventions – such as price controls and trade restrictions – would amplify longer-term risks of growing inefficiencies and reduced productivity gains from specialization and exposure to international competition. Moreover, recent employment trends, with more highly educated workers shifting into agriculture and/or facing increased informality, indicate a reversal of the structural transformation into higher-productivity sectors that has characterized Myanmar’s development over much of the last decade. Alongside reductions in health and education investments (by both households and the authorities) and ongoing declines in human capital, these trends pose significant risks for Myanmar’s longer-term prospects for development and poverty reduction.

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