

Economic hurdles ahead despite growth



By Steve Gilmore | Monday, 09 May 2016

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Myanmar's [economic outlook is good](#), Finance Minister U Kyaw Win told a [meeting](#) of Asian Development Bank governors in Frankfurt last week, despite cautions from economic experts that the country still faces an array of challenges.



Finance Minister U Kyaw Win leaves parliament in March. Photo: EPA

[Rising gas production](#) and investment were the main factors behind the positive outlook, U Kyaw Win said at the May 5 meeting, adding that the country's current account deficit is projected to remain "broadly stable" and larger flows of foreign capital will help increase the Central Bank's international reserves.

The ADB projects a current account deficit of 8.3 percent of GDP for Myanmar in 2016, falling to 7.7pc in 2017, according to its economic outlook released in March. The Directorate of Investment and Company Administration (DICA) approved US\$9.4 billion in foreign investment for 2015-16, although it [struggles to track](#) how much approved FDI actually enters the country.

[Inflation remains a risk](#) due to rising food and rental prices, U Kyaw Win said. The ADB estimates inflation will run at 9.5pc in 2016, falling to 8.5pc in 2017. Other analysts noted that inflation was likely to fall after the severe flooding in 2015, and said that, although it remained a concern, high levels of inflation were typical of fast-growing economies like Myanmar.

The IMF's world economic outlook published last month [projects GDP growth of 8.6pc](#) in Myanmar this year – the highest in the world. Foreign investment is likely to pour in following the elections and there will be economic improvements, said Chaipat Poonpatibul, group head and lead economist at the ASEAN+3 Macroeconomic Research Office (AMRO).

AMRO conducts biannual economic reports on its member countries, although these are only made available to relevant finance ministries and central banks.

But for Myanmar, macroeconomic stability is a challenge, he added. The new government's economic policies include plans to [review the tax system](#) and introduce new tariffs to raise more funds. Mr Poonpatpibul sees a "strong intention" to increase revenue, but it will remain difficult, he told *The Myanmar Times*.

"In terms of the fiscal position, [the government] will have to spend a lot on important works related to health, education and infrastructure," he said. "On the other side gas prices, a key export, will continue to be low, so it's not easy for them. They will have to do a lot more raising revenue through various measures."

Both the current account deficit and foreign exchange reserves would remain issues, he said.

Mr Poonpatpibul said the Central Bank will have to continue to support the fiscal deficit, although "they will try not to make [this] too sizeable", he said, adding that he was confident the government would keep the deficit below 5pc of GDP.

Myanmar's government helped to cover the deficit for many years by selling Treasury bills to the Central Bank at interest rates well below inflation. U Maung Maung Win, head of the Treasury Department, told *The Myanmar Times* the government is hoping to start selling two-, three- and five-year Treasury bonds to local investors this year.

This would reduce the burden on the Central Bank, he said, adding the volume of treasury bonds sold will depend on the size of the deficit.

New foreign investment and infrastructure expansion will keep exports high, while export growth will be another challenge, which in turn likely means a weaker kyat over the next year or so, Mr Poonpatpibul said.

"Although the currency also moves [in response] to others in the region and also depends on [moves of] the US dollar," he added.

Myanmar's currency started the year at K1307 to the dollar and was worth K1170 on May 6, according to the Central Bank's exchange rate.

Despite the hurdles, Myanmar will benefit from its position within the Association of Southeast Asian Nations, which represents a bright spot for economic growth – surrounded as it is by countries and regions where growth is either expected to fall or remain stable, according to ADB projections.

Growth across developing Asia will fall from 5.9pc in 2015 to 5.7pc in 2016 and 2017, whereas aggregate growth across the 10 ASEAN economies will accelerate steadily from 4.4pc in 2015 to 4.5pc in 2016 and 4.8pc in 2017, according to ADB forecasts.

"ASEAN as a whole is very much integrated and has been for many years through a regional production network," said ADB deputy chief economist Juzhong Zhuang. However, this had previously been more the case for the middle-income members like Thailand, Malaysia and Indonesia, he added.

"But increasingly the lower-income countries like Myanmar and Cambodia are becoming more integrated, so benefiting [too]."

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