SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Myanmar

Sara Davidsson
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Key messages

- This note provides early evidence of how Myanmar has been economically affected by the coronavirus pandemic.
- The World Bank has downgraded the GDP growth forecast for 2019/20 from 6.3% to between 2.0% and 3.0%.
- The initial economic impacts were largely attributed to Myanmar's close ties with China, with the garment industry having to close 20 factories (leading to 20,000 lost jobs) and the tourism industry hit by a sharp decline in visitors.
- The government has responded with tax holidays and loans to ease business activity, as well as funding to the health care system. The Central Bank has cut interest rates twice to counterweight the negative economic impacts.
- Data availability is limited, and assessments are partial, yet ongoing tracking is needed. Comments are welcome.

Introduction

Before the pandemic, economic activity in Myanmar was subdued compared with the previous decade. GDP growth was expected to be 6.4% in 2018/19 and 6.0% in 2019/20, limited primarily by domestic ethnic conflicts (imposing challenges for businesses in a third of Myanmar) and a fragile banking system. The pandemic has led the World Bank to more than halve the GDP growth forecast for Myanmar in 2019/20, to 2–3%. Economic impacts were seen early on, since China is Myanmar's main trading partner, accounting for 33% of exports and imports. Border trade with China decreased from $10 million to $1 million per day as a result of the closing of crossings. With 22 infected cases and 1 death from COVID-19 (as of 8 April), Myanmar has imposed significant restrictions on behaviour. Entry visas are suspended; all arrivals face 14 days quarantine; and celebrations for Buddhist New Year in mid-April are cancelled.

Spending on health care has increased since Myanmar shifted to a civilian government in 2011, but remains low in international terms (domestic spending on health care was $58.58 per capita in 2016 compared with an average of $82.71 for other lower-middle-income countries). In contrast, external health expenditure was higher than the average ($17.26 compared with $7.16 per capita). This reflects that Myanmar has recently opened to international assistance. However, the pandemic is affecting the drivers of Myanmar's growth, including manufacturing exports, tourism arrivals and remittances.

Economic and social impacts

The garment industry (accounting for 30.8% of exports in 2018) was first affected via a restricted supply of raw materials (up to 90% stems from China). As the virus spread to Europe (the destination for 60% of garment exports), halts on orders occurred. The Myanmar Chamber of Commerce warns that 80% of garment factories could shut, leaving 400,000 people unemployed. By 4 April, 20 factories had closed and 20,000 people had lost their jobs. Already in 2016, the industry was a significant contributor to formal employment: 55.9% of people working in garment, textile and footwear were wage employees, compared with 38.5% overall. Since then, the garment sector's importance as a share of exports has doubled.

Tourism is another affected and significant sector (amounting to 10.6% of exports in 2018). ADB estimates that Myanmar could lose between $106 and $319 million in tourism revenues (with the high case scenario implying 0.5% of GDP) as a result of the virus. Already, between January and March, there were cancellations in the industry worth $0.8 million owing to travel restrictions. In 2018, the direct contribution of the tourism sector to GDP was 2.81% (if also including indirect contributions, it was 6.8%).

Remittances are important to Myanmar: Migrant workers sent back money worth 4.6% of GDP in 2019. 3.8 million Myanmar citizens are estimated to work abroad, 90% of them in Thailand. By late March, over 200,000 Myanmar workers in Thailand had returned home as a result of cities shutting, indicating that the pandemic could lead to a significant drop in remittances. Remittances are particularly important in Mon State (the state neighbouring Thailand), accounting for 10–25 % of household incomes in 2016.

Investment: After western investments in Myanmar halted in 2017 because of the Rohingya crisis (with FDI dropping from 6.0% to 1.8% of GDP in one year), the importance of Chinese FDI grew. In 2019, FDI increased by 24%, driven by rising investments in transport, communication and manufacturing. 80% of investments in the garment industry comes from China and at least four large infrastructure projects have been noted as at risk of delay or suspension owing to the economic downturn following the pandemic.

Food prices are expected to rise and Myanmar has suspended new export licences on rice to keep national supplies high. Already before the pandemic, rising food prices and new electricity tariffs (effective from July 2019) were projected to cause an increase in inflation from 8.6% in 2017/18 to 9.5% in 2018/19. The pandemic is expected to put additional pressure on inflation and on 12 March it was estimated to be 8.8%. The government has imposed sanctions for selling facemasks and medical supplies at elevated prices.

More than three quarters of non-agricultural workers in Myanmar work informally without social safety nets. In addition, in 2015, the share of out-of-pocket expenditure in health spending was among the highest in the world (74%). About 14% of households spend more than 10% of their income on health care. Concerns exist for the 184,333 people living in 128 camps for internally displaced people across Myanmar.

Fiscal impacts

In 2019, Myanmar had a fiscal deficit of 3.9% of GDP and debt-to-GDP of 41.2% (reflecting an increase in fiscal pressure on 2018, when the deficit was 2.6% and debt-to-GDP 38.2%). On the positive side, private sector debt was 27.7% of GDP, low compared with other countries in East Asia and the Pacific. In 2018, IMF assessed Myanmar as at low risk of external debt distress, except in the event of extreme shocks, which would entail increased risks to the public sector balance sheet from the banking sector. With the pandemic, and increased pressure on global markets, Myanmar's volatile exchange rate and its fragile pre-crisis banking system could challenge fiscal stability.

Monetary and financial policy

The Central Bank has responded to COVID-19 by cutting interest rates twice since 12 March. Combined, the cuts make up a reduction of 1.5 percentage points and leave the new interest rate at 8.5% from April. This is expected to mainly support larger businesses since SMEs accounted for only 16 % of loans issued by the banking sector in Q3 2018 to Q2 2019.

Fiscal policy

Myanmar's committee on coronavirus response has announced a beneficial loan to the sectors most affected (garments, hotels and tourism) and SMEs: $72 million is available at 1% interest rate for one year. To further support businesses, two types of taxes have been allowed postponement to the end of the fiscal year: the 2% income tax normally imposed on exports and income taxes meant to be paid in March and June.

Additional funding to health care was announced in February: $0.2 million for equipment, medicines, laboratories and protective gear. In March, $100 million from a World Bank loan and $10 million from the state budget was allocated to improve health care in 20 townships. Also, the government plans to convert meditation centres, stadiums, universities and schools into quarantine and health centres. It has bought 100,000 pieces of personal protective equipment from the only factory in Myanmar that produces such equipment and instructed four government factories to shift production to manufacture facemasks.

Other policy

A minister has noted that, of workers laid off in garment factories by 15 March, some will continue to receive health care benefits but none unemployment benefits. The government will provide vocational training to the unemployed but new jobs are likely to be scarce. The government will also distribute basic foods to vulnerable households during Buddhist New Year.

Donor support

The World Bank has made the most significant commitment of support to Myanmar, of $50 million. ADB has made a broad commitment to its developing country members of a total of $6.5 million. The US will donate $1.8 million to Myanmar, channelled through various organisations, and has contributed medical supplies. Other donors of medical supplies are the UN, China, the Jack Ma Foundation and Singapore.

Information in this note is correct as of 8 April 2020. The author is an ODI Fellow with the Myanmar Development Institute; this note is written in a personal capacity. Comments welcome to s.davidsson.fs@odi.org.uk