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# **The Myanmar economy after the February 2021 Coup**

## The coup d'état in Myanmar

- 1 February **2021**: the **Tatmadaw**—Myanmar's military—deposed the democratically elected members of the country's ruling party, the National League for Democracy (NLD),
- The Commander-in-Chief **Min Aung Hlaing** declared the results of the November 2020 general election invalid
- President **Win Myint** and State Counsellor **Aung San Suu Kyi** were detained, along with ministers, their deputies, and members of Parliament.
  - The coup d'état occurred the day before the Parliament of Myanmar was due to swear in the members elected at the 2020 election, thereby preventing this from occurring.



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# I. Background



As of 29 March 2022

- at least **1,719 civilians have been killed** by the junta forces, including children, and **9,984 arrested**.
- Three prominent NLD members **died while in police custody** in March 2021
- four pro-democracy activists were **executed** by the junta in July 2022
- Sean Turnell returned to Australia on 18th November 2022, after **650 days in prison**
  - he was released as part of a mass amnesty granted by the Myanmar military.
  - On 6 December 2022, the junta has revoked its pardon of Sean Turnell.



## Background

- in the **1962** the military seized power under the leadership of **Ne Win**,
  - precipitating 26 years of military rule
- In 1988, (8888) nationwide protests broke out following economic mismanagement
- The military's top leaders formed the **State Law and Order Restoration Council (SLORC)**, The military remained in power for another 22 years until 2011



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- The military's top leaders formed the **State Law and Order Restoration Council (SLORC)**, The military remained in power for another 22 years until 2011
- **Aung San Suu Kyi**, the daughter of the country's modern founder Aung San, became a notable pro-democracy activist during this period.
  - In **1990**, free elections were allowed by the military, under the assumption that the military enjoyed popular support.
  - he elections resulted in a **landslide victory for Aung San Suu Kyi's party**, the National League for Democracy. However, the military refused to cede power and placed her under house arrest



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  - In **1990**, **free elections** were allowed by the military, under the assumption that the military enjoyed popular support.
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## Background

- Between 2011 and 2015, a **tentative democratic transition** began with economic **market reforms**
- elections held in **2015 resulted in a victory** for **Aung San Suu Kyi's** party, the National League for Democracy (NLD).
- However, the **military retained substantial power**, including the right to appoint  $\frac{1}{4}$  of all parliament members.
- The **2021 coup** occurred in the aftermath of the general **election on 8 November 2020**
  - the **NLD won 396 out of 476** seats in parliament,
  - an even larger margin of victory than in the 2015 election.
  - The military's proxy party, the Union Solidarity and Development Party, won **only 33 seats**.



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## **II. The economic shock**



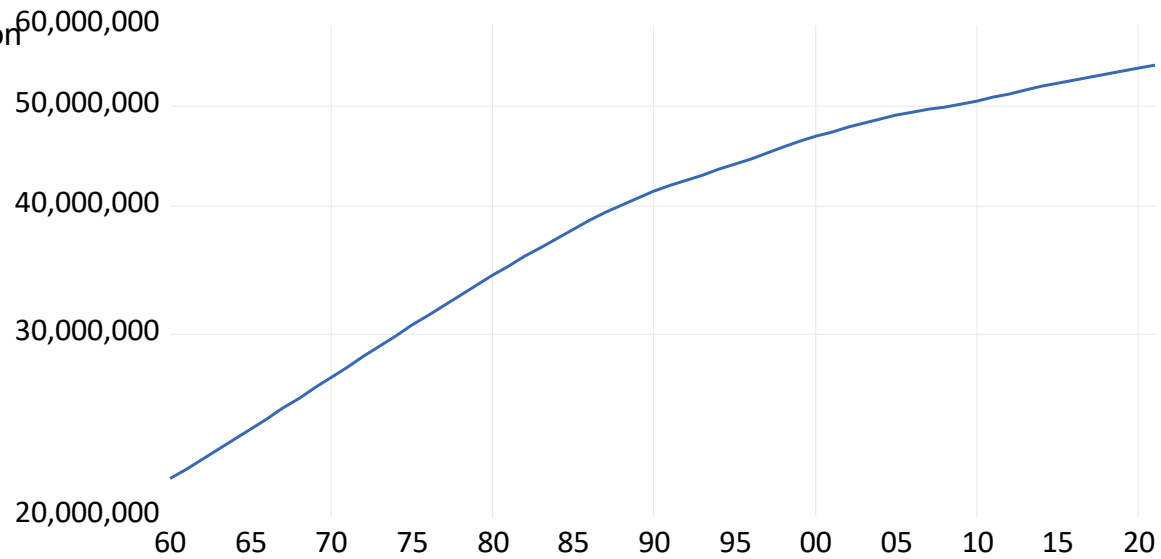
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## **Some long run tendencies**

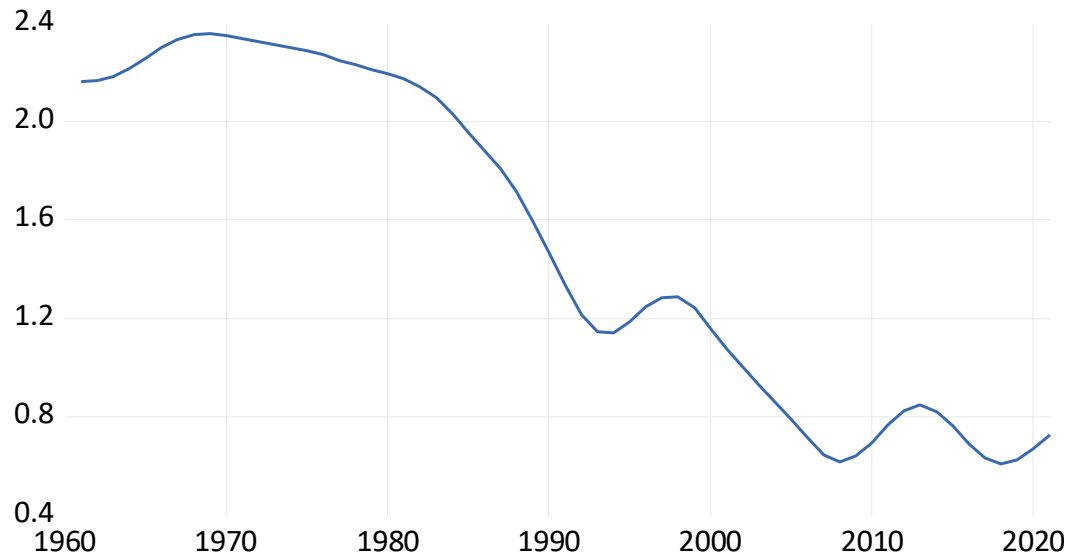


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# Myanmar: Total Population



## Population growth (annual %)





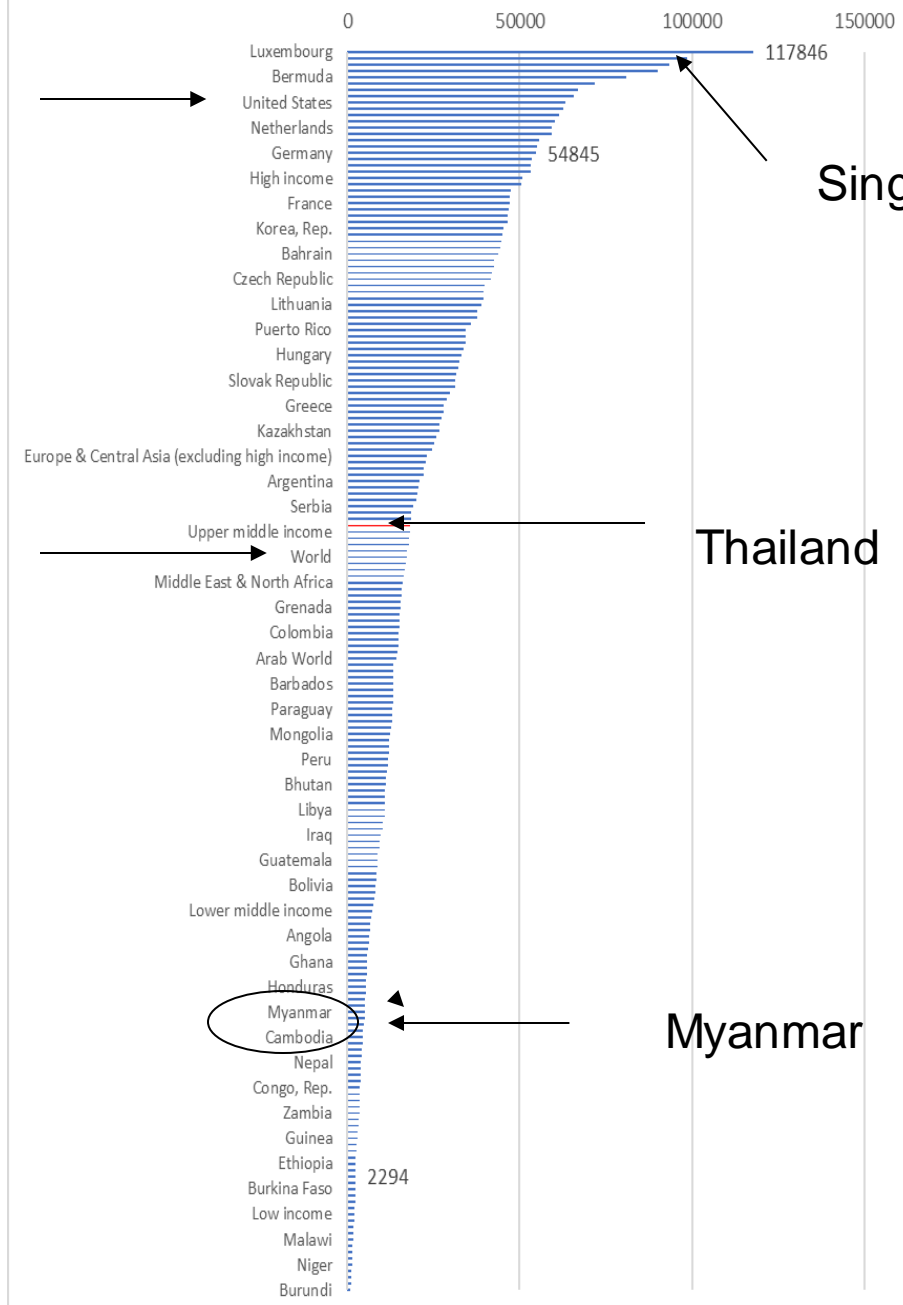
## Average income: GDP per capita

- An indicator for rich and poor countries

# GDP per capita 2020



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Singapore

Thailand

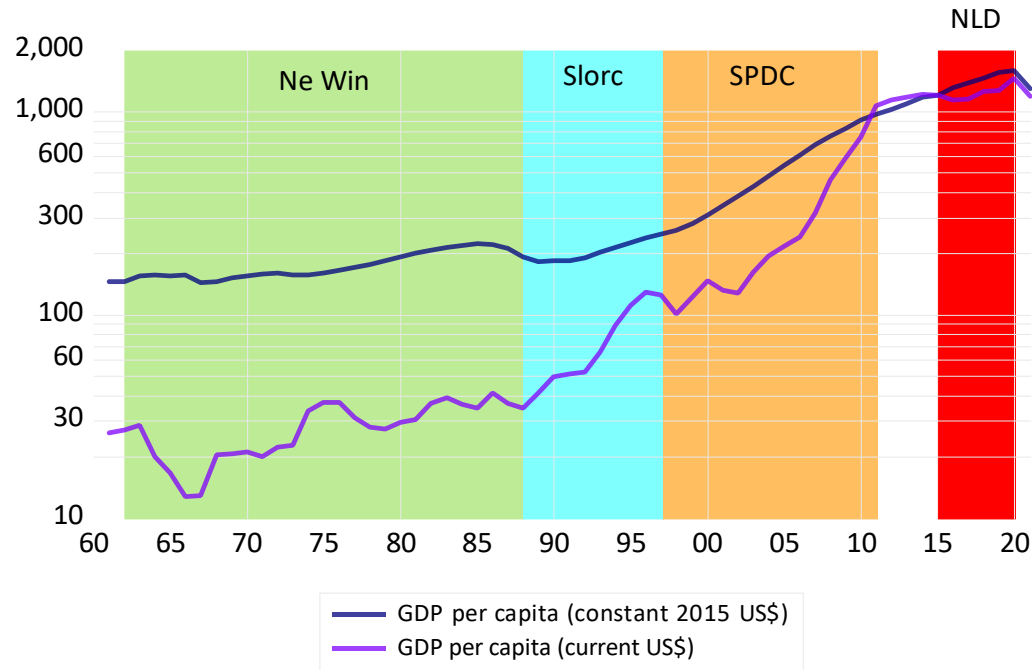
Myanmar



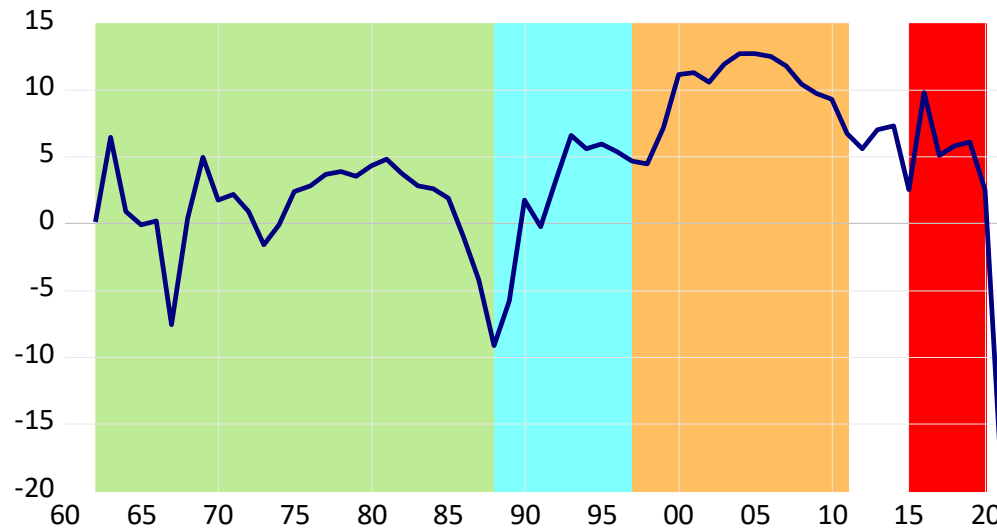
## Average income: GDP per capita

- An indicator for rich and poor countries
- **Economic growth**

# Myanmar GDP per capita



## GDP per capita growth (annual %)





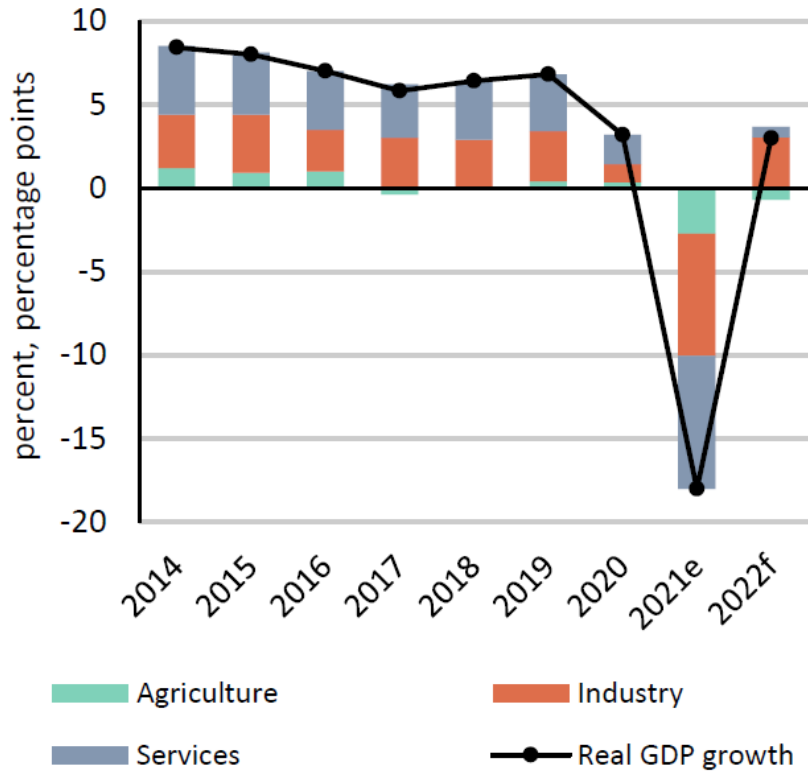
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## **Short run developments since the coup**

## World Bank:

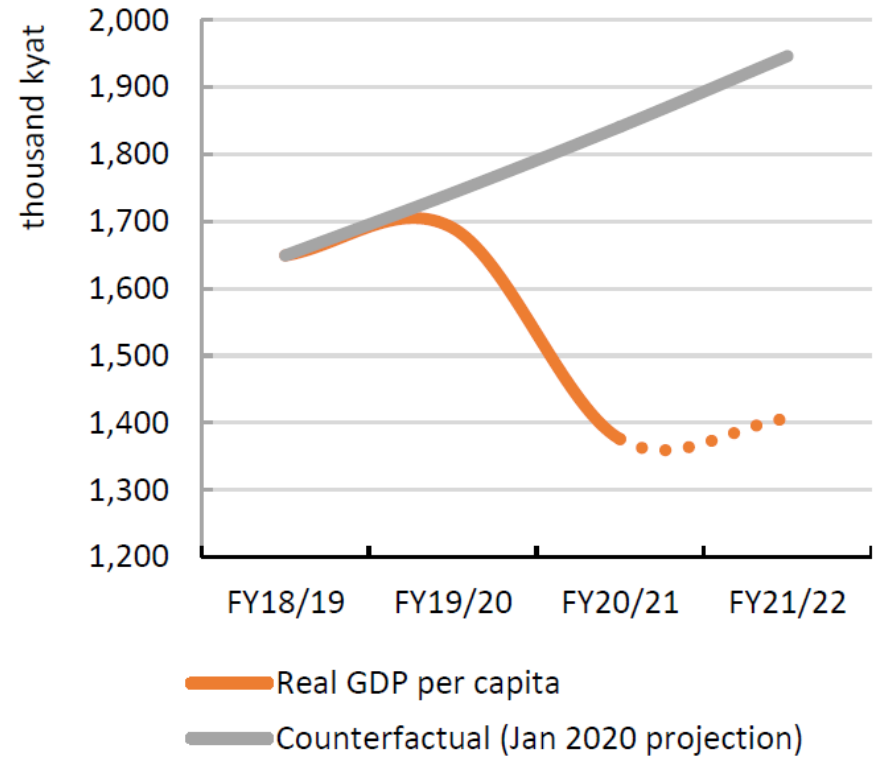
- Following the estimated 18 percent contraction in FY2021, **GDP** is projected to increase by 3 percent in the year to September 2022.
- Absence of a substantial rebound in FY22 – with GDP per capita **still around 15 percent lower than in 2019**
- Severe **supply- and demand-side constraints** that continue to impact economic activity.
  - The moderate upgrade reflects the less severe impact of the fourth wave of COVID-19
- The absence of a strong rebound in the economy over the coming year will continue to be hugely damaging to livelihoods.
  - <https://www.worldbank.org/en/news/press-release/2022/07/21/myanmar-economy-remains-fragile-with-reform-reversals-further-weakening-the-outlook>

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



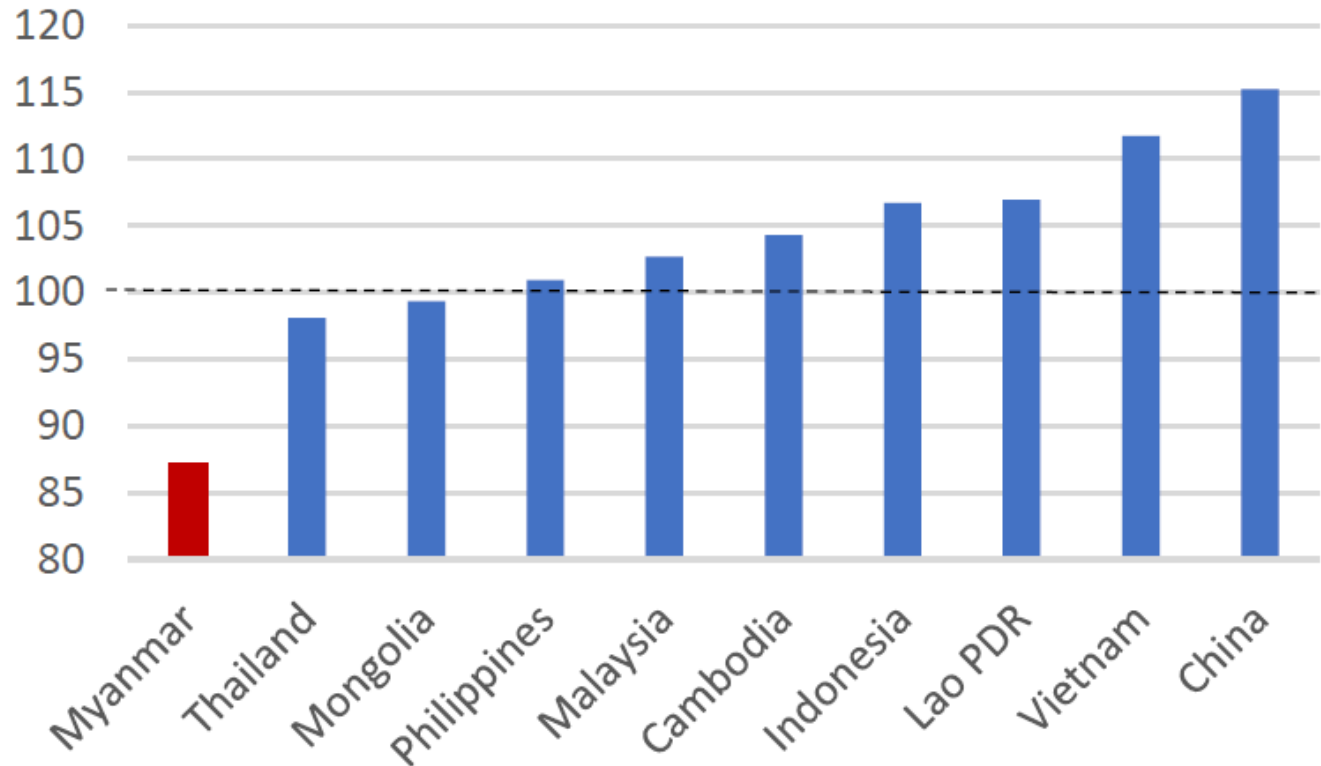
Source: Ministry of Planning and Finance and World Bank projections.

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



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

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



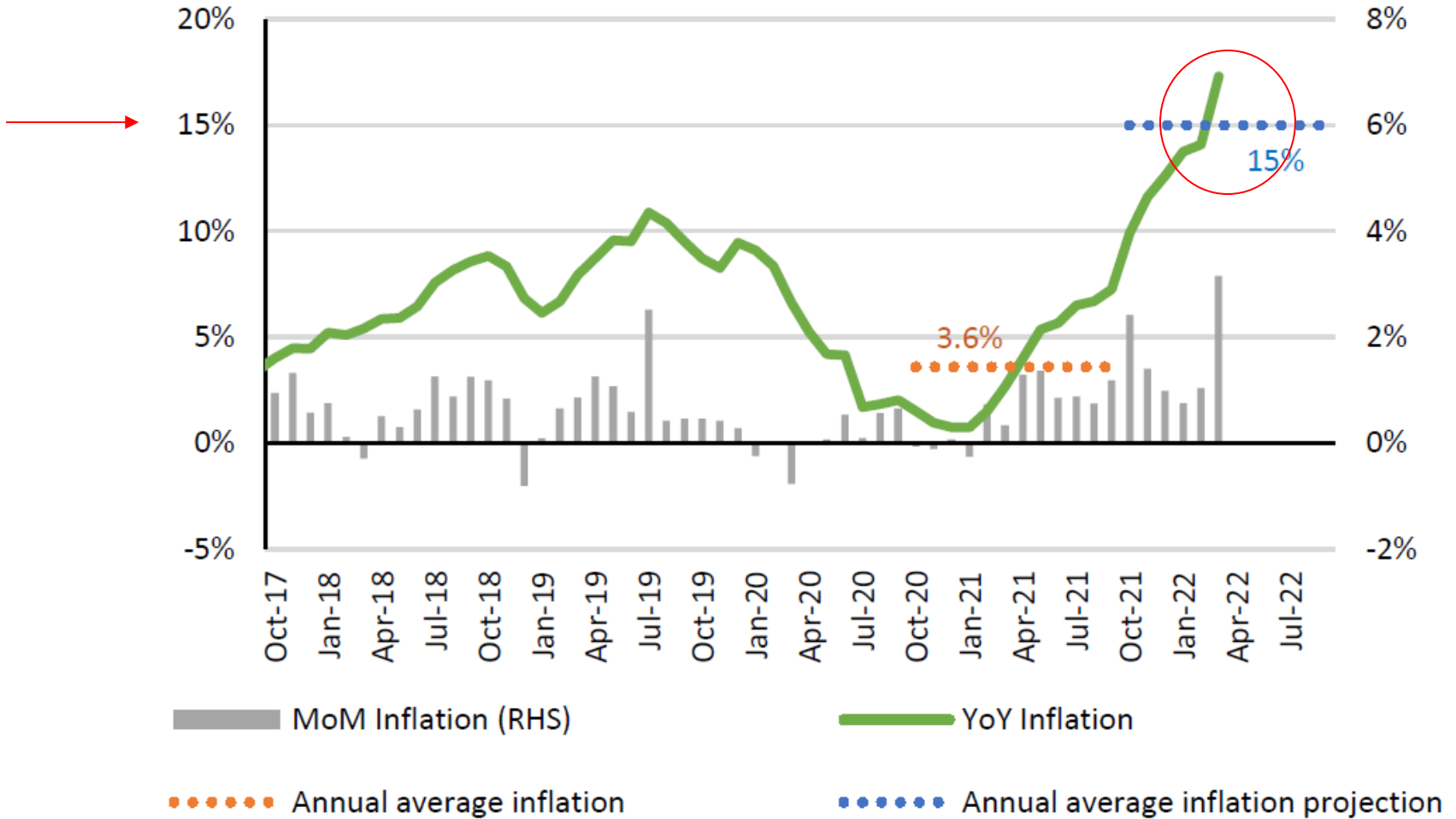
*Source:* Global Economic Prospects, June 2022

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

## World Bank:

- **Annual average inflation** is expected to increase to 15 percent in FY22, up from 3.6 percent in FY21.
  - This forecast sharply **exceeds the January projection** of 9 percent,
  - effects of the **Ukraine war** on the global prices of Myanmar's imports
  - compounded by ongoing **kyat depreciation**, domestic logistics constraints, and **trade restrictions** which have prompted **shortages** of some items.
- Year-on-year inflation is projected to **peak** in the second half of the FY, before easing slightly by year end

*Figure 61: CPI inflation*

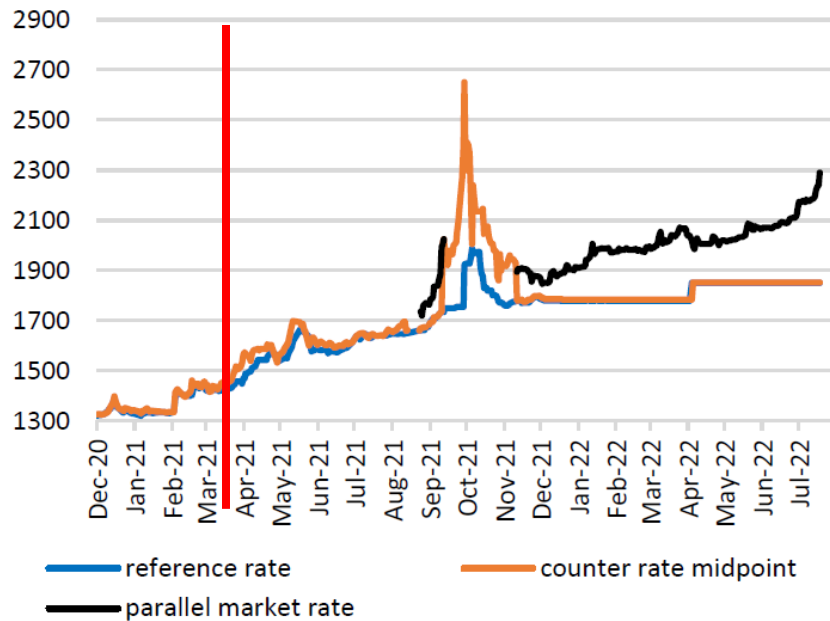


Sources: Central Statistical Organization; World Bank projections

## Foreign exchange

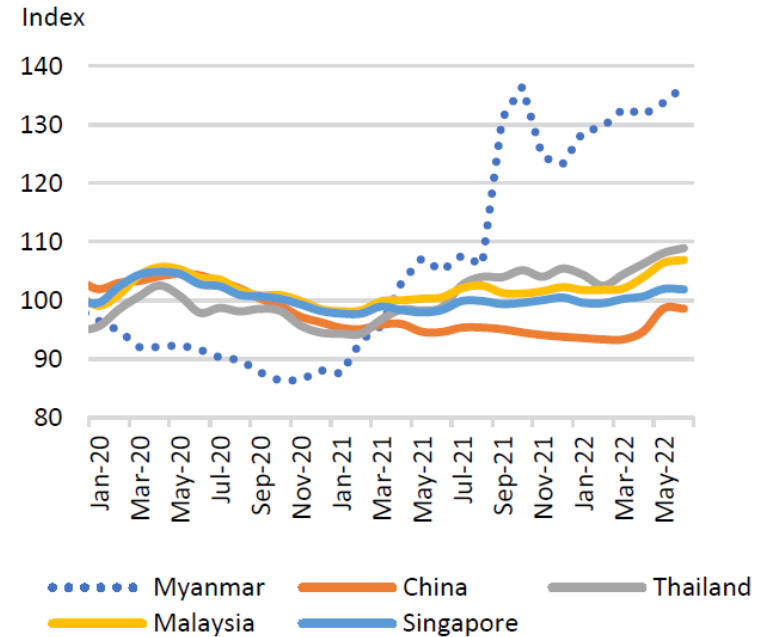
- The **previous managed float regime has been abandoned** and the CBM has **fixed the reference rate** (currently at 1850 kyat per US dollar).
  - As this rate is **overvalued** relative to supply and demand in the market,
  - A parallel market has emerged, with the **spread** increasing to around **20 percent** as of mid-July.
- The **abolition** of the managed float **exchange rate regime** and the imposition of surrender requirements have led to
  - **foreign currency shortages**
  - reduced the competitiveness of exports,
  - substantial **uncertainty**.

Figure 43: Myanmar kyat exchange rates



Source: Central Bank of Myanmar; Money Exchangers

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



Source: exchange-rates.org



## Fiscal policy

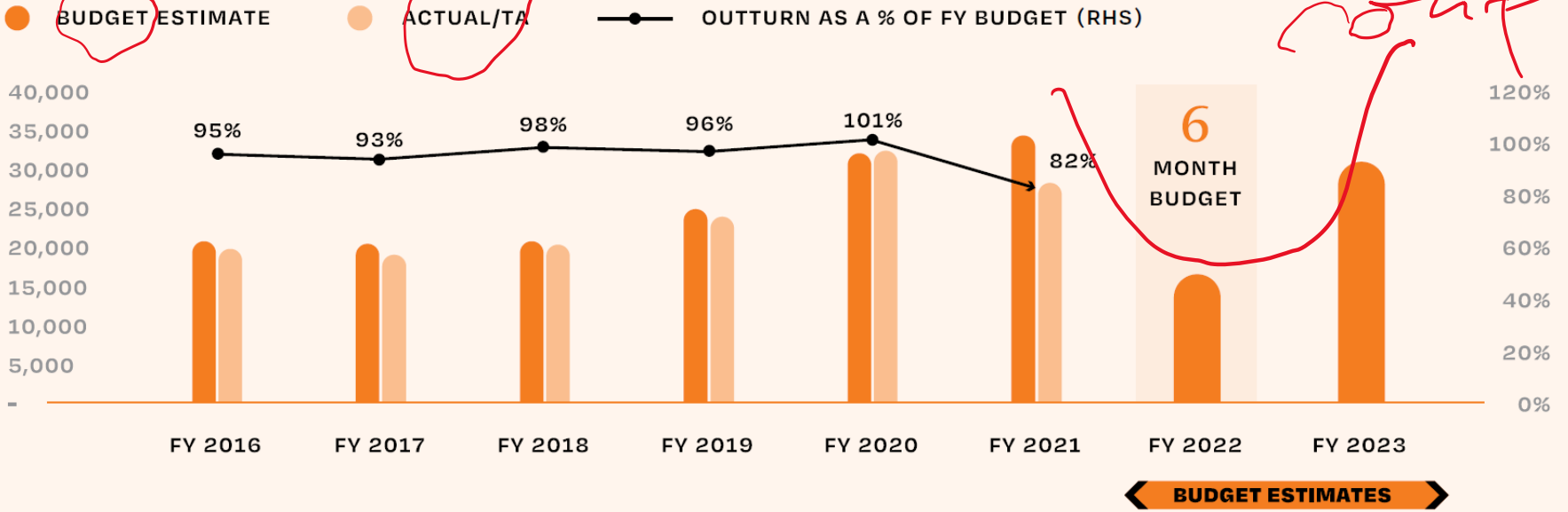
- The **fiscal position has deteriorated**
  - Only **70 percent** of budgeted revenues were **collected** in FY2021, in contrast to previous years where revenue targets were met or exceeded
- As a result, **nominal kyat revenues declined** by about 30 percent from FY2020 levels.
  - The decline in revenues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



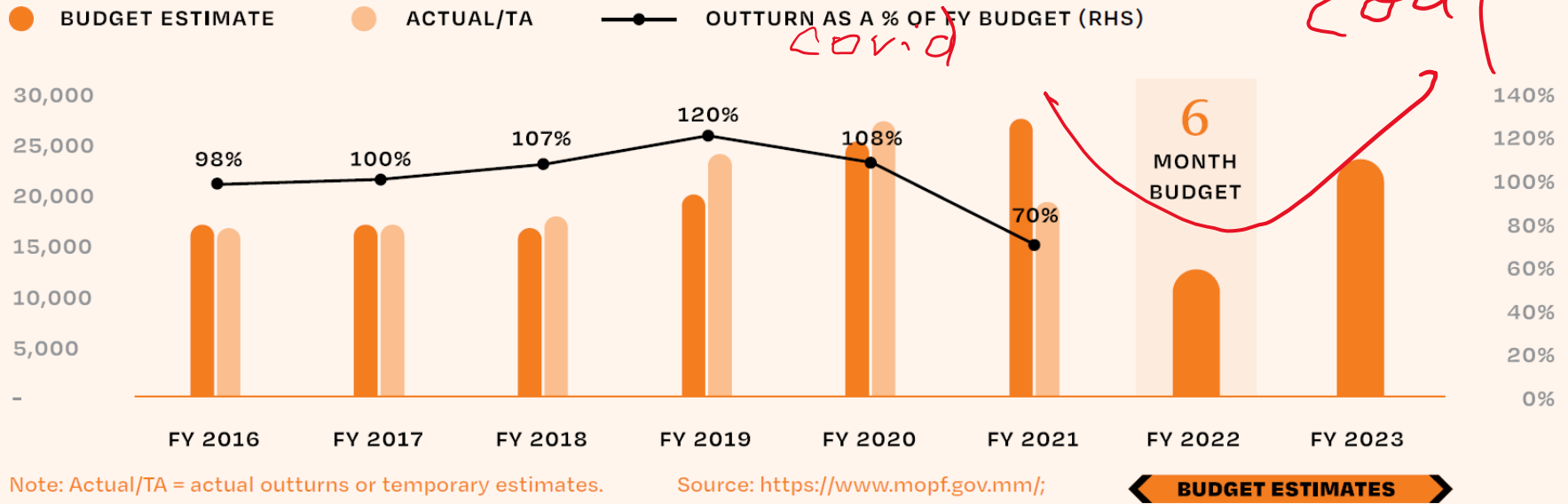
## World Bank Fiscal Monitor (2022):

- **Budget execution** worsened in FY2021.
- Both expenditure and revenue outturns worsened in FY2021,
  - declining to 82 percent and 70 percent, respectively.
- This marks a notable decline in aggregate budget credibility following strong performance between 2015 and 2020.

# Aggregate expenditure outturn



# Aggregate revenue outturn



Note: Actual/TA = actual outturns or temporary estimates.

Source: <https://www.mopf.gov.mm/>;  
World Bank Staff estimates.

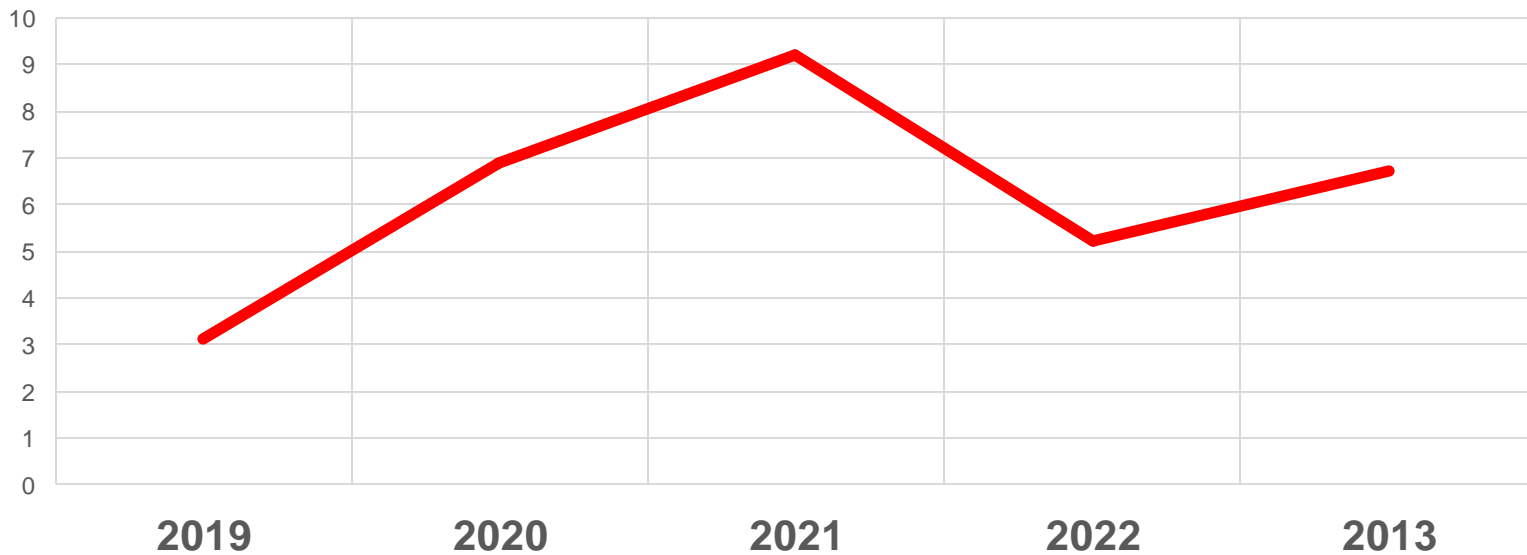
**BUDGET ESTIMATES**

- The share of firms **not paying taxes** appears to have **increased** since before February 2021.
  - According to the World Bank Firm Survey, April 2022, around **69 percent of the 473 surveyed firms** indicated that they had **not paid taxes in the previous 3 months**, noticeably higher than the **53** percent of firms reporting nonpayment between August 2020 and January 2021.

## The fiscal deficit

- the fiscal deficit is the gap between government spending and public revenue

Myanmar deficit per GDP





- How is the deficit financed?
- Under military rule: by **printing money**
  - Borrowing from state banks
  - and Myanmar Central Bank
- Under semi-civil government: by developing **financial market**
  - Treasury bonds
- This has important consequences for monetary policy and **inflation and exchange rates**



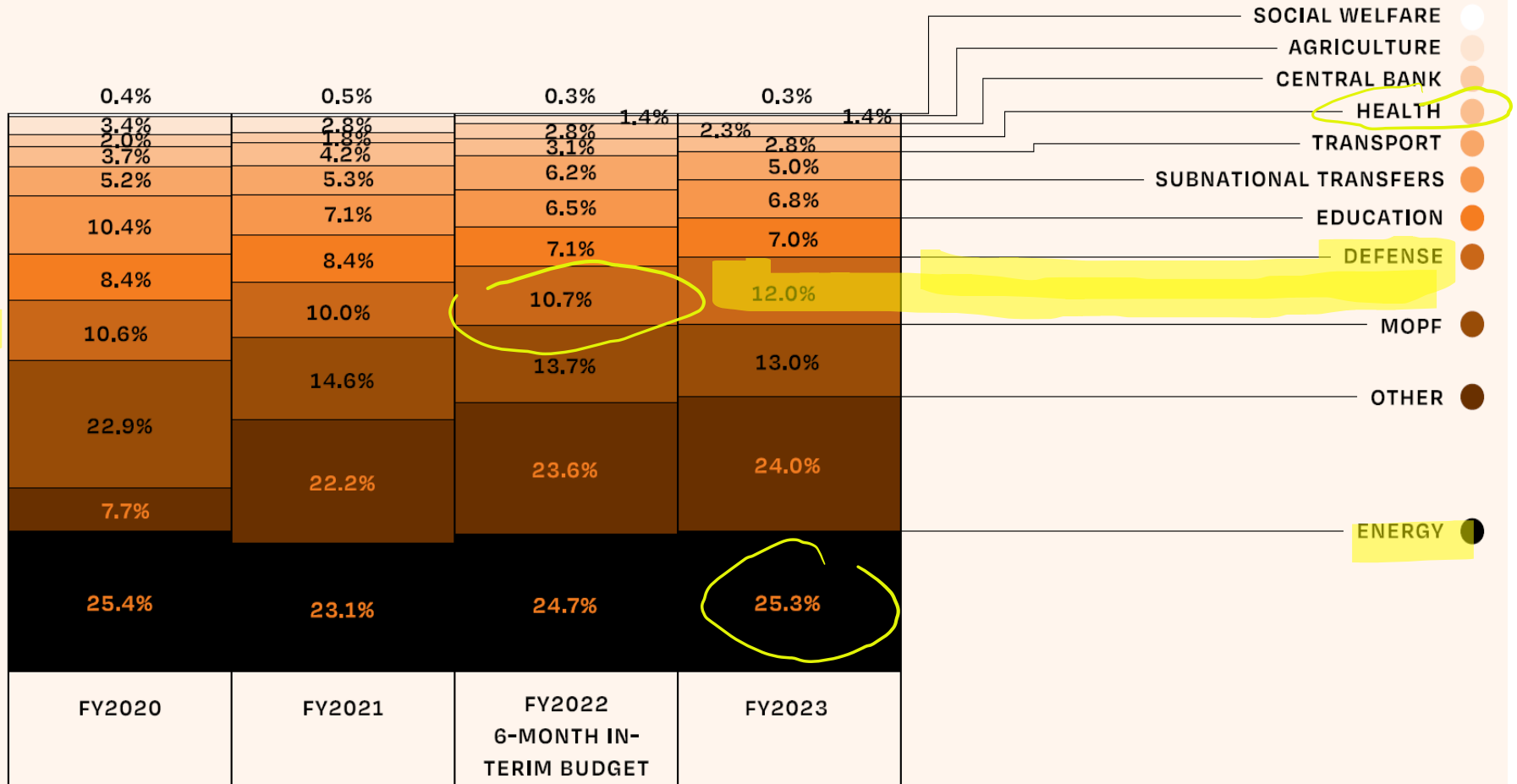
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# The Budget of Myanmar Union Government

- The FY**2023** budget **increases allocations** as an increased share of the budget toward :
- **energy and defence**
- with **reduced** planned spending on **health, education, and social protection**

- Under the authorities, **budgeted defence spending (12 percent)** continues to be larger than allocations to **health (2.8 percent)** and **education (7 percent)** combined.
- Spending on defence has **increased** from 10 percent of the budget in FY2021 to 12 percent in the FY2023 budget.
- The extent of **off-budget military spending** is not clear.

**FIGURE 11 BUDGET PRIORITIES** BY SECTOR/MINISTRY, % OF TOTAL



Note: BE = budget estimates.

- The projected declines in spending on social sectors could be reflecting the **decreased demand for services** as well as **supply-side constraints**
  - through a decrease in external financing, lower priority placed on social sectors, and staffing issues (including because of suspensions and/or participation in the Civil Disobedience Movement).
- In 2021, **one-quarter** of Myanmar's more than **12 million students** have reportedly **enrolled for the new school year**.
  - Reduced planned spending could also reflect the decrease in the availability of external financing provided by donors.



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## World Bank Fiscal Monitor (2022):

- The drop in budget credibility could be explained by the events which followed the **2021 February coup**,
- including because of the **Civil Disobedience Movement (CDM)** which has had implications for **public sector staffing and the payment and collection** of taxes and fees.

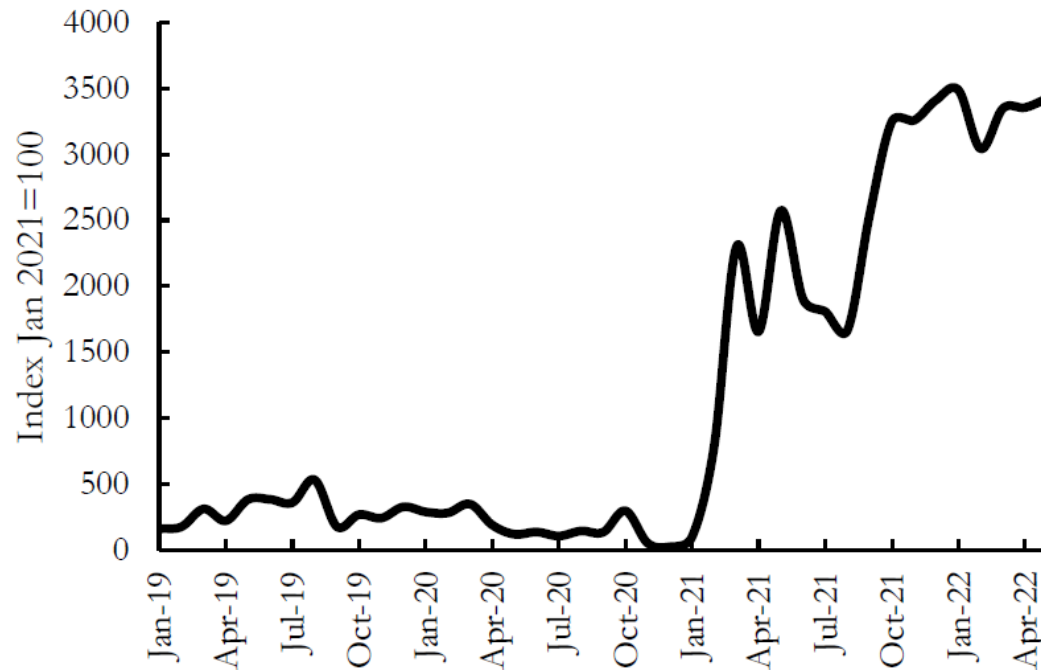


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# The Civil War

- Since the Coup the security situation has deteriorated dramatically

*Figure 2: Conflict intensity in Myanmar*



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

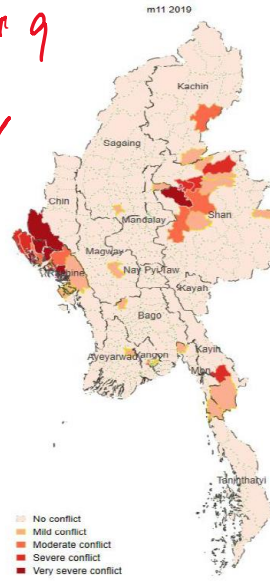
*Note:* Conflict intensity is indexed to 100 for January 2021 as a base period. Conflict intensity is calculated as a geometric mean of events and fatalities. Events include battles, explosions and remote violence, protests, riots, and violence against civilians. Fatalities represent the total fatalities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

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

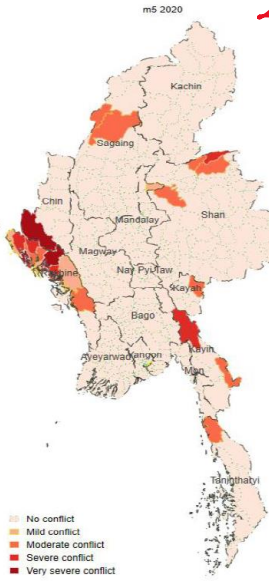


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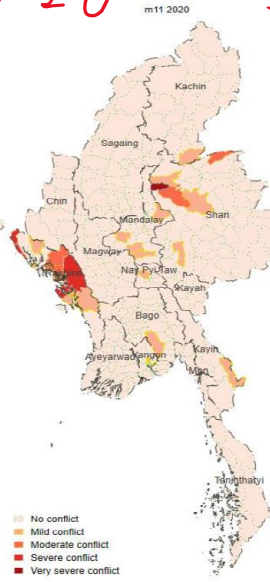
2019  
May



2020

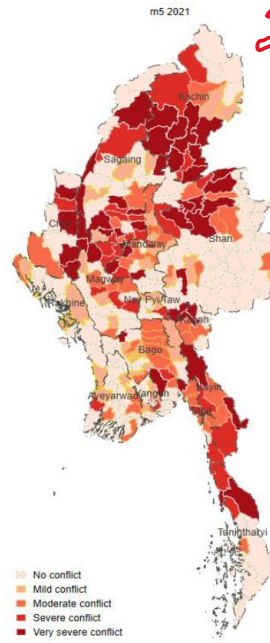


Nov.

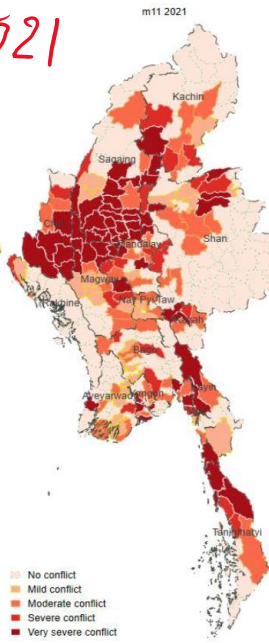


May

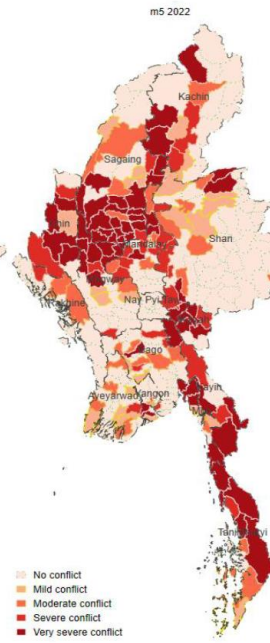
2021



m11 2021



2022  
May



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

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



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# Conclusion

- **A sad state of affairs: the reverse of all reforms**
- Likelihood that economic situation will further deteriorate
  - Incompetent economic policies
  - High uncertainty for investors
  - Low income, consumption and saving
  - Violence
- Increasing number of refugees in neighbouring countries
  - Can they absorb?
  - Myanmar as a destabilising force in the region

## Myanmar is facing a fundamental road block to economic development

