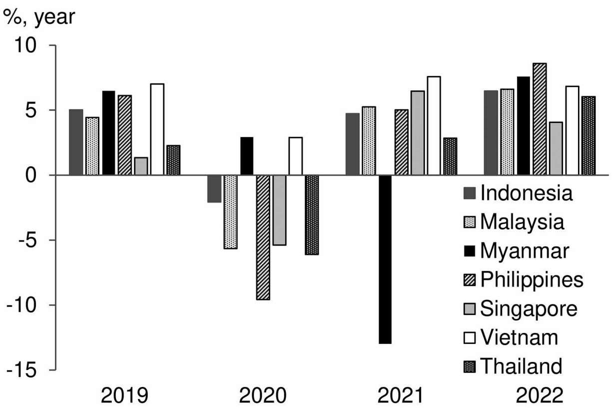
Myanmar - No Escape from Military Coup's Economic Damage

Sian Fenner
Lead Asia Economist, Oxford Economics

Myanmar's Feb. 1 military coup, which ousted the newly reelected NDL party over unsubstantiated claims of election fraud, has been deadly in human terms and devastating economically. Oxford Economics' once-positive outlook for this year and the medium term has soured. We now see GDP contracting 13% in FY2020-2021 (ending in September).

Prior to the Covid-19 pandemic, Myanmar was an Asian growth star, with GDP expanding by an average 6.7% pa over 2011-2019. Its impressive performance was derailed in 2020 as the global pandemic crushed tourist arrivals, disrupted supply chains, and reduced external demand. Still, we estimate that Myanmar grew 2.9% in FY2019-20, a relatively mild slide compared to the average 3.8% drop among key ASEAN economies in 2020. (Chart 1)

Chart 1. ASEAN: GDP growth



Source: Oxford Economics and Haver Analytics

Protests and restrictions on the internet and banking sector have severely disrupted private and government activity and services. The number of newly registered businesses is down 87 below that of a year ago, and the manufacturing PMI was still deep in contractionary territory in May. Production and new orders all point to further declines in activity as several factories remain closed and transportation disruptions cause logistical delays.

Trade data among some of Myanmar's major trading partners also suggest export momentum has stalled not only due to the domestic disruptions but also because of US sanctions on military-owned companies and cancelled orders by multinational clothing companies.

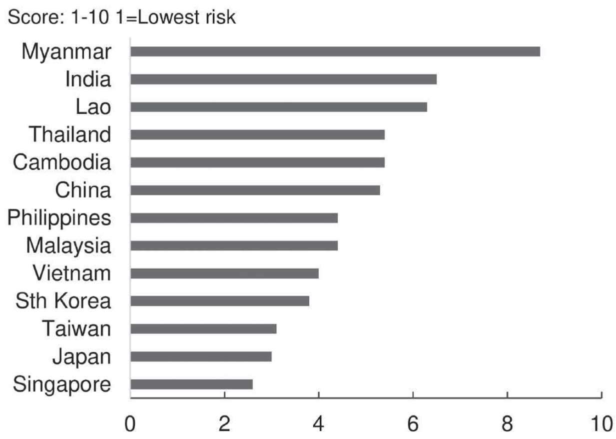
The subsequent food and cash shortages on top of an 8% deprecation in the kyat against the USD since the coup are also leading to higher consumer prices, with inflation up 2.6% y/y in March from 0.7% at the start of the year. This is causing a further deterioration in household income already weakened by job losses, absenteeism due to the pandemic, and now the ongoing civil disobedience movement.

Prospects remain glum

Myanmar's economic situation is unlikely to improve anytime soon. We expect the Tatmadaw (military) will remain in power, and even if elections are held within a year as promised, the military would still dominate any newly formed government. We also expect protests to continue, although they're likely to be scaled back somewhat as households face increasing financial hardship. But even then, we think a return to pre-coup production and exports is some time off.

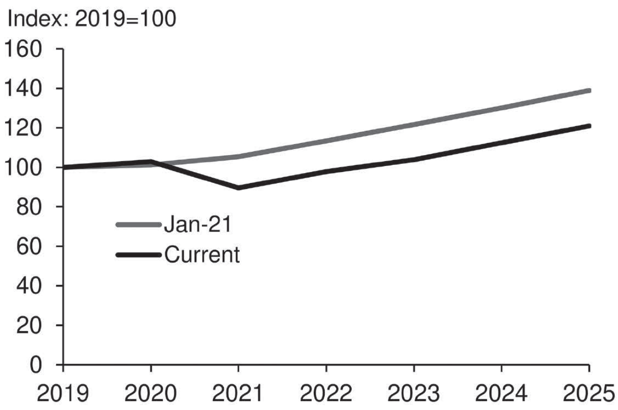
We also expect the effects of heightened political risk and business uncertainties on investment and FDI to be large, with several projects being delayed or cancelled. Indeed, several multinationals have already halted planned expansions, and we expect total investment to fall over 40% this year. Moreover, with Myanmar set to face a lengthy period of political instability and higher commercial risks, we expect FDI inflows, which have been a rising source for financing investment over the past

Chart 2. Asia: Political Risk score



Source: Oxford Economics and Control Risks

Chart 3. Myanmar: GDP projections



Source: Oxford Economics and Haver Analytics

decade, to remain below pre-coup levels for some time, despite China's likely ongoing involvement through its Belt and Road Initiative. (Chart 2)

With domestic savings set to be lower amid weaker national income, we have also downgraded our investment projections over the medium term. We now expect investment to grow by an average 4% pa to 2025 compared to over 6% before the coup. The plunge this year, coupled with lower investment over the next five years, will also have long-run impacts on the capital stock, the economy's productive potential, and GDP.

Indeed, while we expect growth to slowly resume after recording a 13% drop in FY2020-2021, we estimate that GDP will still be around 18% lower by 2025 than before the coup, and GDP per capita around US$1000 lower. (Chart 3)

De-escalating military-protester clashes is key

The risks around our baseline forecasts are skewed to the downside. Aside from factors related to the Covid pandemic, the outlook is contingent on the gradual restoration of production, transportation, and other key services including banking and the internet. This is intrinsically linked to de-escalated clashes between the military and anti-military protestors. However, an increased frequency in improvised explosive device attacks by a small component of the anti-coup movement could lead to a more violent military crackdown, putting at risk any quick de-escalation.

Myanmar is also facing a potential banking crisis, with cash shortages leading to daily withdrawal limits, as well as a possible balance-of-payments crisis. The kyat's 8% drop against the USD since Feb. 1 comes despite central bank intervention. We expect the currency to remain under considerable pressure given the prospect of falling export revenues and lower FDI inflows. Any one of these scenarios would see GDP growth contract even further in the short term, with inflation possibly even returning to levels of the early 2000s. The permanent economic scarring would also be larger.

（著者紹介）
Sian Fenner is a Lead Asia Economist at Oxford Economics and is involved in the forecast and presentation of the Asian macroeconomic views with a lead role in our coverage of Singapore, Malaysia, Vietnam and Thailand. Sian re-joined Oxford Economics in 2013 and has over 15 years' experience as a macroeconomic forecaster in the public and private sector primarily focused on the Asia-Pacific region. Prior to joining Oxford Economics Sian worked for Lloyds Bank as the lead emerging market economist responsible for forecasting the economic outlook, fx and monetary policy.