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Myanmar Economic Pulse

November 23, 2015

Progress toward liberalization driving economic growth…

KEY ECONOMIC FORECASTS	2014	2015E	2016F
GDP size (USD, bn)	63	66	71
GDP per capita (USD)	1,228	1,269	1,364
GDP growth (%)	8.7	8.5	8.4
Inflation (%)	5.9	12.2	11.8
Unemployment rate (%)	4.0	4.0	4.0
Current account balance (% GDP)	-6.1	-8.9	-8.3
Fiscal balance (% GDP)	-2.9	-4.8	-4.7
Public debt (% GDP)	32	33	33
- External debt (% GDP)	14	16	16
International reserves (USD, bn)	5.1	5.1	5.4
International reserves (Months of imports)	2.8	2.5	2.3

Source: IMF's forecasts, KT ZMICO Research

The lure of a frontier market's natural resources

Myanmar, also known as Burma, is one of the last untapped markets in the world. The country is rich in resources and as such offers investment opportunities in terms of natural gas, petroleum, minerals and agricultural products (e.g., rice, pulses & beans, maize). It borders Thailand and Lao PDR in the east and southeast, China in the north and northeast, and Bangladesh and India in the west and northwest. Its access to sea routes (Bengal and Andaman Sea) gives it the potential to become a regional trading hub.

Highest growth rate among peers

Among ASEAN, Myanmar is the best-performing economy in terms of economic growth, recording 8.1% annual average growth of real GDP in 2012-14. The country stands fifth in population size (51.4 million). However, it is a lower-middle-income nation (GDP per capita $1,147, GNI per capita $1,270) with a small-sized economy ($59bn). Inflation and unemployment have recently been stable, but remain relatively high compared with peers.

Outstanding growth potential is expected

Myanmar's economic prospects remain positive on the back of economic reforms and market liberalization, which is boosting confidence both domestically and abroad despite the ongoing transformation of the business environment and socio-political challenges. The plan to launch the Yangon Stock Exchange in early December can be viewed as a significant shift toward greater liberalization. Many international organizations predict the economy to enjoy favorably high economic growth in the periods ahead. The IMF projects the economy to achieve 8.5% and 8.4% growth in 2015-16, respectively, on account of the expected continuation of the upward trend in FDI inflow and capital spending activities as well as the commitment to making progress on Special Economic Zones (SEZs), in particular the Thilawa SEZ.

…but challenges lie ahead

Double deficits in the current account balance and fiscal balance as well as rapid credit growth make the economy more vulnerable to unfavorable shocks, adding downward pressure to the depreciation of the kyat exchange rate. The headwinds include a sharper-than-expected slowdown in China's economy, low commodity prices, and tightening of U.S. monetary policy. The impact of recent floods on the economy and the political transition should be closely monitored as well.

Although we have seen improvement in Myanmar's international ranking in terms of competiveness (despite still lagging behind peers) and the current account deficit related to the rapid growth of FDI-related imported capital goods (boding well for future productivity), policymakers must continue to address the macroeconomic challenges in order to sustain economic growth in the periods ahead.

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OVERVIEW

Geography: Myanmar is the second largest country in land area in Southeast Asia (the largest is Indonesia), with a total land mass of 653,080 sq km (World Bank, 2014). It stretches 936 km from east to west and 2,051 km from north to south. It borders Thailand and Lao PDR in the east and southeast, China in the north and northeast, and Bangladesh and India in the west and northwest. The country is also bordered by the Bay of Bengal and the Andaman Sea. Its access to sea routes (2,832 km of coastline) facilitates increased regional trade, giving it the potential to become a trading bridge between China, South Asia, and Southeast Asia. The government system is a Unitary Presidential Constitutional Republic. The official language of the country is Burmese.

Figure 1: Myanmar's location map

Figure 2: Distribution of population by State/Region

State/Region	Population (Million)	Share (%)
Yangon	7.4	14.3
Ayeyawady	6.2	12.0
Mandalay	6.1	12.0
Shan	5.8	11.3
Sagaing	5.3	10.3
Bago	4.9	9.5
Magway	3.9	7.6
Rakhine	3.2	6.2
Mon	2.1	4.0
Kachin	1.7	3.3
Kayin	1.6	3.1
Tanintharyi	1.4	2.7
Nay Pyi Taw	1.2	2.3
Chin	0.5	0.9
Kayah	0.3	0.6
Total	**51.4**	**100.0**

Source: The World Factbook (CIA), Ministry of Immigration and Population of Myanmar (2014), KT ZMICO Research

Myanmar is divided into seven states and seven regions. The capital is Nay Pyi Taw, which was established in 2005. Only 1.2 million people live in the capital. The former capital is Yangon (Rangoon), which is the country's commercial center and the largest city in Myanmar, with a population of 7.4 million. Ayeyawady and Mandalay are second and third, respectively. Around one-third of the population lives in urban areas, presenting significant opportunities for new sales markets and consumer products. The level of urbanization in Myanmar remains lower than most peers in the region (the third lowest); 34% of the country's population of 51.4 million reside in cities, while across ASEAN the average figure is almost two-fold higher at 52.3%, with Cambodia, Vietnam and Lao PDR at 21%, 33% and 38%, respectively.

Economy: Myanmar is one of the last untapped markets in the world. The country is rich in resources and as such offers investment opportunities in terms of natural gas, petroleum, minerals and agricultural products (e.g., rice, pulses & beans, maize). The economy is currently dominated by the agricultural and service sectors, with each contributing around 40% of GDP. The main export goods, which are mostly exported to Asian countries, are gases, precious stones and wood.

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Myanmar in ASEAN: Myanmar is a member of the ASEAN Economic Community (AEC), which will commence operations at the end of 2015. The AEC aims to strengthen regional cooperation and boost regional trade. This will provide Myanmar the opportunity to set itself up as a vital hub and production base between neighboring countries. Among ASEAN, Myanmar is the best-performing economy in terms of economic growth, recording 8.1% annual average growth of real GDP in 2012-14. The country stands fifth in population size (51.4 million). However, it is a lower-middle-income nation (GDP per capita $1,147, GNI per capita $1,270) with a small-sized economy ($59bn). Inflation and unemployment have recently been stable, but remain relatively high compared with peers.

Box: Myanmar classified as lower middle income

GNI is a measure of overall income in an economy plus net receipts of primary income (e.g., employee compensation, property income) from abroad. It is a measure of the overall economic output of a country. GNI per capita can be large in natural-resource dependent countries, which may at the same time have high levels of poverty.

Myanmar's per capital Gross National Income (GNI) in 2014 stood at $1,270. Economies with a GNI per capita of $1,045 or less in 2014 are defined as low income; those with per capita GNI of between $1,045 and $12,736 are classified as middle income; and countries with a per capita GNI of $12,736 or more are classified as high income. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of $4,125. *(Source: World Bank)*

Figure 3: Myanmar in ASEAN

Country	GDP size (USD, bn)	GDP per capita (USD)	GDP growth (%)	Population (Million)	Inflation (%)	Jobless rate (%)
Brunei	18	44,547	-1.2	0.4	0.1	2.7
Cambodia	15	1,015	7.2	15.1	3.2	0.3
Indonesia	907	3,645	5.5	248.8	5.6	6.2
Lao PDR	11	1,567	7.8	6.8	5.4	1.4
Malaysia	325	10,833	5.4	30.0	2.3	3.0
Myanmar	**59**	**1,147**	**8.1**	**51.0**	**4.8**	**4.0**
Philippines	269	2,754	6.6	97.6	3.4	7.0
Singapore	300	55,615	3.6	5.4	2.7	1.9
Thailand	408	5,966	3.7	68.3	2.4	0.8
Vietnam	171	1,902	5.6	89.7	6.6	2.6

Note: The country order is alphabetical.

Source: IMF (2012-14 data average), KT ZMICO Research

RECENT DEVELOPMENTS

Progress in a wide range of reforms - political, economic, financial and social - over the past several years have liberalized Myanmar's economy and have ultimately yielded favorable outcomes. These reforms have enabled foreign investors to access the previously untapped so-called "frontier market" in areas such as investment and trade. In 2012, the kyat currency was floated and a foreign investment law was enacted to facilitate growth and attract foreign investment. The Special Economic Zones Law of 2014 also provides further incentives for foreign investors to enter the market in Myanmar, while tax reforms have significantly reduced profit taxes. As a result of these development-friendly policies, the country's economic growth is comparable to other high performing countries in the five-year period following the start of economic liberalization. Additionally, Myanmar's GDP growth is poised to achieve the highest GDP growth rate among peers in the past few years (see Figs 4-5).

Figure 4: Real GDP growth after liberalization

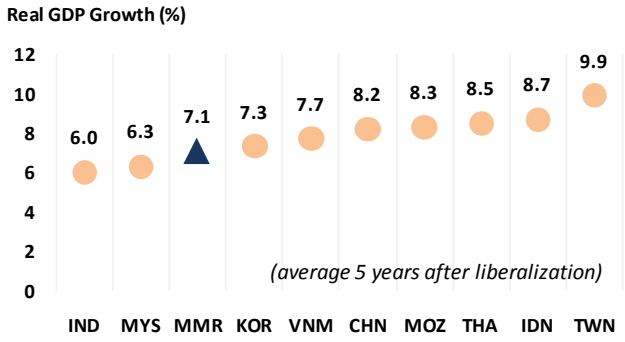
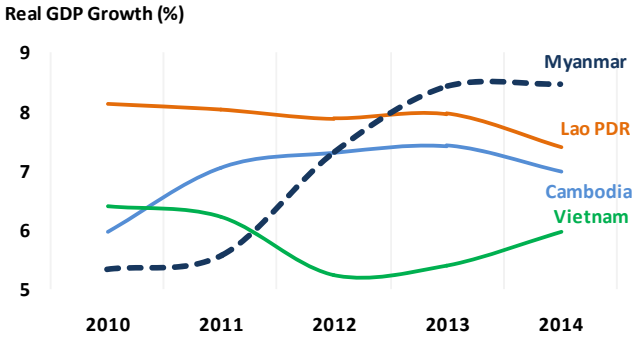


Figure 5: Myanmar's GDP growth (vs. peers)



Source: World Bank, IMF, KT ZMICO Research

Myanmar's real economic growth rates were revised upward to 8.4% and 8.7% from the prior figures of 7.8% and 8.5% in 2013-14, respectively. Acceleration in growth was made possible by increased capital spending and better performances in manufacturing, construction, tourism, and natural gas production in particular. The nation's total investment ratio continued to increase to 25.4% in 2014, from 14.9% in 2011, 18.0% in 2012 and 22.9% in 2013. In 2014, Myanmar received $3.3 billion in foreign direct investment (FDI), an approximately 60% increase compared with three years prior, mainly due to strong inflows to energy and manufacturing industries, according to data collected by the IMF.

Figure 6: Sector contribution to GDP growth

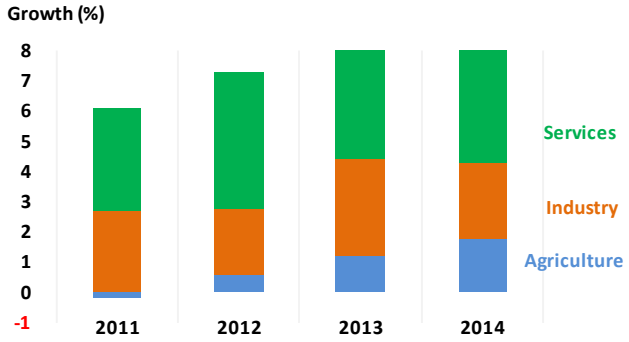
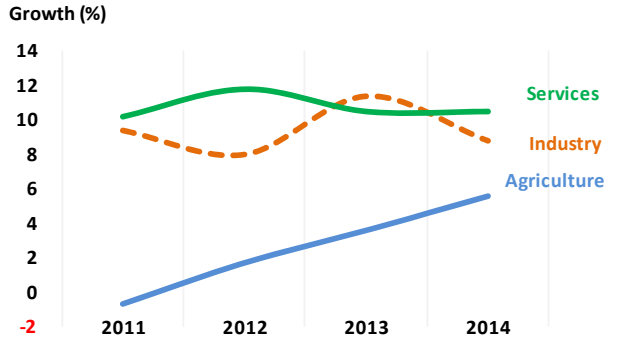
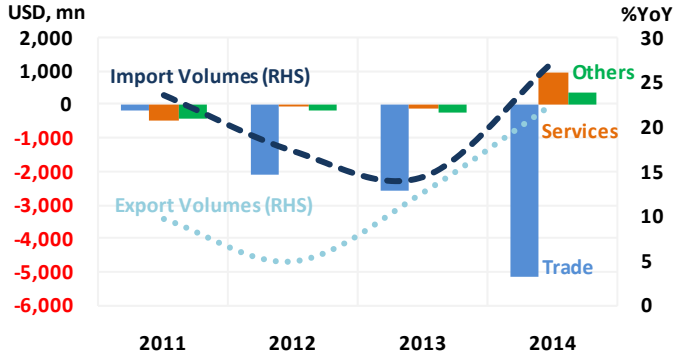


Figure 7: Sector GDP growth rates (%)



Source: World Bank, KT ZMICO Research

Figure 8: Current account balance and trade volume of goods & services



Source: IMF, KT ZMICO Research

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Figure 9: Trade classified by product

	Growth (%YoY)		Share (%)	
Merchandise exports	**2013**	**2014**	**2013**	**2014**
Agricultural products	1.4	9.3	23.9	23.3
Animal products	-61.9	-36.8	0.1	0.1
Marine products	8.2	-37.7	6.0	3.4
Mineral products	192.2	27.8	10.3	11.7
Forest products	59.2	-89.7	8.5	0.8
Manufactured products	-3.1	46.8	37.9	49.8
Others	392.9	-8.2	13.3	10.9
Total	**24.8**	**11.8**	**100.0**	**100.0**
Merchandise imports	**2013**	**2014**	**2013**	**2014**
Capital goods	52.3	24.3	44.5	45.7
Intermediate goods	45.4	13.7	32.0	30.1
Consumer goods	60.2	24.3	23.5	24.2
Total	**51.7**	**20.9**	**100.0**	**100.0**

Figure 10: Trade classified by partner

	Growth (%YoY)		Share (%)	
Merchandise exports	**2013**	**2014**	**2013**	**2014**
China	30.1	60.6	26.0	37.3
Thailand	7.6	-6.4	38.4	32.2
Singapore	138.2	9.3	6.2	6.1
India	12.3	-34.8	10.2	6.0
Others	50.5	7.8	19.2	18.5
Total	24.8	11.8	**100.0**	**100.0**
Merchandise imports	**2013**	**2014**	**2013**	**2014**
China	51.0	22.3	29.8	30.2
Singapore	14.8	42.2	21.2	24.9
Japan	18.7	35.0	9.4	10.5
Thailand	97.6	21.9	10.0	10.1
Others	101.0	-0.6	29.6	24.3
Total	51.7	20.9	**100.0**	**100.0**

Source: Ministry of National Planning and Economic Development of Myanmar, KT ZMICO Research

Myanmar has enjoyed significant growth of international tourists in the past few years as a result of the government's announcement in 2013 of a much longer list of areas that tourists could visit without, and in some cases with, prior permission. As a result of these privileges, inbound visitors surpassed one million in 2012 and reached three million at the end of 2014. In terms of growth, the numbers of tourists were 29.7%, 93.0% and 50.7% higher year-over-year in 2012-14, respectively. Most of the visitors came from Thailand (27%), China (17%), Japan (11%), U.S.A (9%) and South Korea (8%).

Box: Myanmar's top tourist destinations

Yangon: The former capital city boasts more colonial buildings than any other city in Asia and its glittering 2,000-year gold Shwedagon Pagoda is the most revered in Southeast Asia. Yangon has several attractive parks and lakes, while the historic downtown area is vibrant and cosmopolitan.

Bagan: The ancient city of Bagan has thousands of temples and shrines that date back to the Pagan dynasty and may soon be recognized by UNESCO.

Mandalay: As one of the country's biggest cities and the last royal capital, Mandalay and its surroundings are rich in history as well as a hub of entrepreneurial activity.

Inlelake: This picturesque lake in Shan State is studded with floating villages inhabited by the Intha tribe. It is also one of the best places to observe traditional silk weaving and visit shops for local handicrafts, e.g., lacquer ware.

Chaung Tha, NgewSaung, and Ngapali beaches: These three beaches are the most popular among tourists and locals alike and they are ideal for snorkeling, fishing and fresh seafood dining. None have been subject to overdevelopment and thus remain idyllic getaways. (*Source: Myanmar Investment Guide 2014)*

Figure 11: Myanmar's tourist arrivals

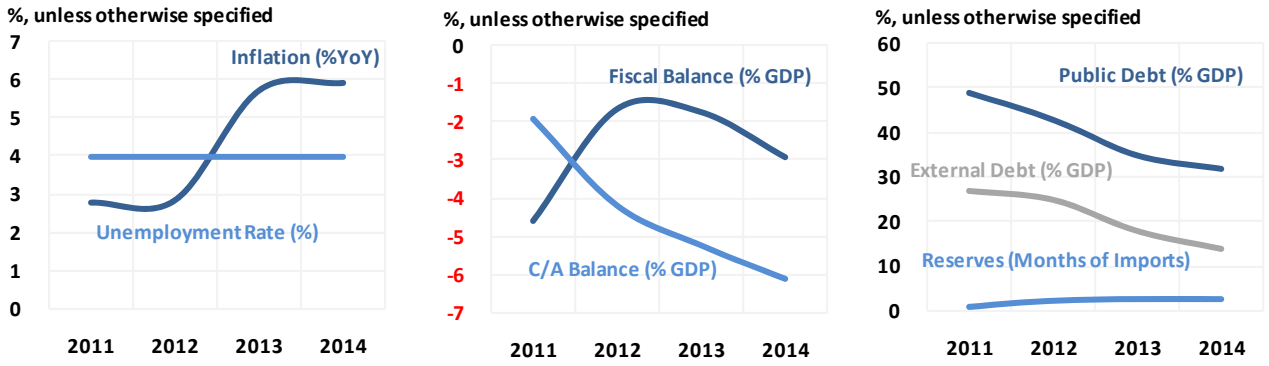
Number of tourists	2011	2012	2013	2014
Yangon	364,743			
	.....	559,610		
	.....	.....	817,690	
	.....	.....	.....	1,022,081
Mandalay	20,912			
	.....	32,521		
	.....	.....	69,596	
	.....	.....	.....	90,011
Nay Pyi Taw	5,521			
	.....	1,250		
	.....	.....	11,842	
	.....	.....	.....	19,261
Through border check points	425,193			
	.....	465,614		
	.....	.....	1,144,146	
	.....	.....	.....	1,949,788
Total	**816,369**	**1,058,995**	**2,044,307**	**3,081,412**

Source: UMFCCI, Openclipart, KT ZMICO Research

Myanmar has exhibited favorable economic growth and robust domestic demand. Meanwhile, the rate of unemployment has been stable at 4%, and consumer inflation more than doubledto 5.9% in 2014 from 2.8% in 2011. The strong demand for investment-related capital imports widened the trade deficit in 2014 to -8.2% of GDP from 2013's -4.6%. However, the service account posted a small net surplus because of fees and royalties from the gas and telecommunication sectors, leading to a narrower current account balance deficit to -6.1% of GDP. Gross international reserves have been broadly stable at a level covering 2.8 months of imports.

Regarding the fiscal stance, authorities have employed an expansionary stance with a net deficit at 2.9% of GDP, up slightly over -1.8% of GDP in 2013, reflecting wage increases in the public sector. Excluding one-off receipts from gas and telecommunications companies, the underlying deficit has increased to -5.5%. The government passed a new law on minimum wages and established a national committee to set minimum wage levels for workers. In August 2015, a new minimum wage rate was approved at 3,600kyat ($2.8) per day for all sectors and industries (excluding small businesses employing less than 15 workers) after several rounds of negotiations.

Figure 12: Selected indicators of economic stability



Source: IMF, KT ZMICO Research

Regarding political developments, we have seen the emergence of various political parties and social organizations, the release of political prisoners and increasing press freedoms since the reforms started in 2011. The country is now preparing to form a new government after the successful election gearing towards democratization on November 8, 2015. Official results indicated that Aung San Suu Kyi's National League for Democracy (NLD) won a majority in Myanmar's historic election, ending decades of military-backed rule. Even with a win for her party, Mrs. Suu Kyi cannot become president under the country's constitution as she is married to a foreigner. However, she has let it be known that she will hold the real power in any NLD-led government. A new president will not be chosen until early 2016. The elected members of parliament (MPs) will nominate two candidates. Military-picked MPs will nominate a third candidate, and then all the parliamentarians will vote to determine who becomes president. The two runners-up will become vice presidents. The new government will take power in April 2016.

Box: Key dates for the formation of a new government

2015	November	Election day
	End of November	Official vote results
2016	February-March	Selecting the president
	End of March	Current administration's term ends
	April	New administration takes power

(*Source: Press, KT ZMICO Research)*

Authorities in Myanmar have continued to pursue reform measures and initiatives to develop the financial sector. According to the recent statement of its leaders at the 2015 annual meetings held by the IMF and the World Bank Group in October, these include strategies focusing on the following: fostering monetary developments with a new foreign exchange management law; a new Central Bank of Myanmar law together with greater autonomy for the bank; further opening the banking sector to foreign participation; restructuring of the tax system; a more transparent and efficient budget system; and developing the country's capital market with the plan to launch the Yangon stock exchange in December 2015. To achieve greater access to international markets, the Central Bank of Myanmar granted approvals to nine foreign banks last October to prepare for commencing banking operations in the country; all nine banks have been granted final licenses.

ECONOMIC OUTLOOK

Continued growth: The IMF expects Myanmar's economy to grow at a robust pace of 8.5% in 2015, below the government's target of 9.3%, on account of the expected continuation of an upward trend in FDI inflows and investment-related activity. The forecast is subject to revisions as more details come in on the impact of the floods caused by Cyclone Komen in late July though. The floods have hit two of the poorest states in Myanmar, namely Rakhine and Chin, which have been declared natural disaster zones. Supply pressures caused by floods will make for slow agricultural growth; meanwhile, domestic spending, particularly investment, is expected to recede for a while owing to the period of political transition.

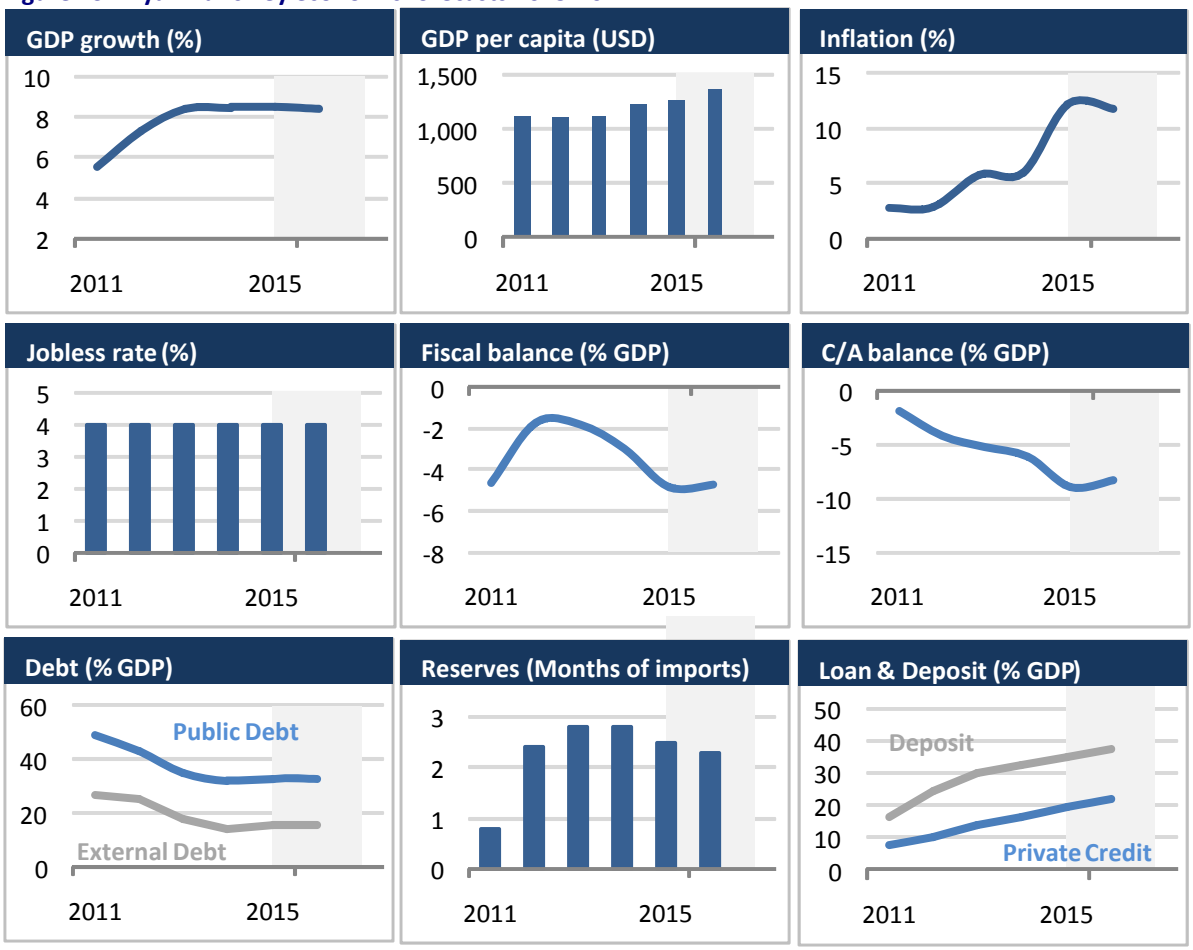
Box: Myanmar's 2015-16 GDP growth forecast comparison

	2015	2016
Government	9.3	n/a
IMF	8.5	8.4
ADB	8.3	8.2
World Bank	6.5	7.8

(*Source: IMF, World Bank, ADB)*

In 2016, while the impact of flooding on the agricultural sector fades, the services sector is expected to expand further (especially the telecommunications and banking industries); in addition, capital spending should resume post election coupled with strong growth of exports. As a result, the economy is likely to exhibit a strong 8.3% growth rate in the year to come. Looking beyond, the economic growth prospects remain solid over the medium term assuming continued progress on economic reforms, a smooth political transition and ongoing FDI inflows in conjunction with infrastructure development under the Five-Year National Development Plan. Myanmar has the potential to maintain its number one ranking in terms of economic growth, which is expected to average above 8% until 2020.

Figure 13: Myanmar's key economic forecasts 2015-16



Source: IMF's forecasts, KT ZMICO Research

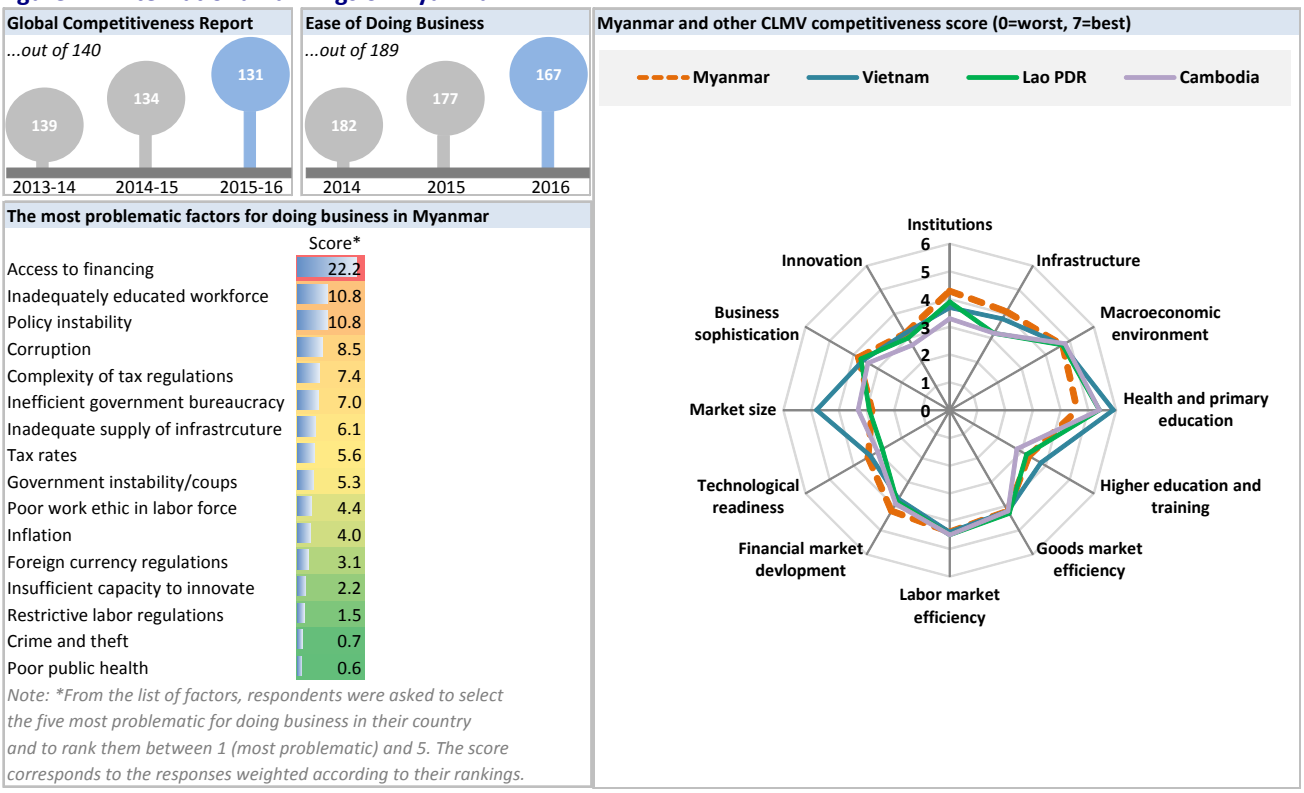
With regard to credit, loans to the private sector maintained a fairly rapid double-digit growth rate of 35.5% last year, which reflects higher access to credit in line with strong domestic economic expansion in addition to a historically-low base of financial intermediation. This compares with the above 50% credit growth recorded during 2011-2013. The trend is highly likely to persist next year because of robust economic expansion. The loan-to-deposit ratio of the banking sector was at 50% in the year ending 2014, while the non-performing loan (NPL) ratio of private banks was reported at around 2%. The country's policy rate has remained fixed since January 2012. Deposit and lending rates for commercial banks are also administratively determined. Regarding our exclusive meeting with the Central Bank of Myanmar, the authority has not yet signaled any changes with respect to the interest rate outlook in the foreseeable future.

Box: Basic set indicators on financial inclusion

% of adults with an account at a formal financial institution	5%
% of adults with at least one loan outstanding from a regulated financial institution	19%
% of adults with at least one insurance product from a regulated financial institution	3%
% of formal SMEs with an account at a formal financial institution	17%
% of SMEs with an outstanding loan or line of credit	4%

(*Source: MAP Making Access Possible Myanmar Country Diagnostic 2013, World Bank)*

Figure 14: International rankings of Myanmar



The most problematic factors for doing business in Myanmar

	Score*
Access to financing	22.2
Inadequately educated workforce	10.8
Policy instability	10.8
Corruption	8.5
Complexity of tax regulations	7.4
Inefficient government bureaucracy	7.0
Inadequate supply of infrastrcuture	6.1
Tax rates	5.6
Government instability/coups	5.3
Poor work ethic in labor force	4.4
Inflation	4.0
Foreign currency regulations	3.1
Insufficient capacity to innovate	2.2
Restrictive labor regulations	1.5
Crime and theft	0.7
Poor public health	0.6

*Note: *From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.*

Source: IMF, World Bank, KT ZMICO Research

SEZs to support favorable competitiveness

The necessary establishment of laws has taken place in all sectors, underpinning business investment. Although improvements are evident, continued regulatory reforms to reduce the cost of doing business, particularly in the areas of contract enforcement and business start-ups, where Myanmar lags behind most of its peers, are still needed (see Fig 14). With incentives providing investors with greater business opportunities, longer-term land leases, and favorable tax and customs privileges, the new Foreign Investment Law in 2012 has helped attract FDI inflows. The Special Economic Zones Law was enacted on 23 January 2014. Construction of three major SEZs is already underway in Thilawa, Dawei, and Kyauk Phyu. Each SEZ is linked to major infrastructure development projects, including the construction of deep sea ports, power grids and pipelines to neighboring countries, along with improved connectivity following the construction of major highways.

Figure 15: Main SEZ plans in Myanmar

Thilawa SEZ
It covers an area of 2,400 hectares and is located 23 km southeast of Yangon. It is being developed by Myanmar Japan Thilawa Development Limited, which is a joint venture between Myanmar and Japan. Myanmar's government owns 10% of the project under the Thilawa SEZ Management Committee. At present, Thilawa is the most advanced SEZ project starting construction in November 2013.

Dawei SEZ
It is located in Myanmar's southern Tanintharyi Region. The initial phase of Dawei SEZ includes construction of a two-lane road, a wharf to accommodate 13,000-20,000 tonnes of vessels, an industrial zone for labor intensive industries, a power plant, residential buildings and a water supply system. Future plans include a motorway linking to Thailand's Kanchanaburi province, as well as a railway and links to oil and gas pipelines.

Kyauk Phyu SEZ
It is in the western region of Rakhine State. The first phase comprises the development of 1,000 hectares of industrial park, a deep-sea port with a container handling capacity of 8,000 20-foot equivalent units (TEU) and 500 hectares of integrated residential area. A Singapore-based consortium has been assigned to develop the master plan, with the Bid Evaluation and Awarding Committee of Kyauk Phyu SEZ. The SEZ Committee is currently evaluating Expressions of Interest from local and international developers for the development of a deep-sea port, an industrial park and an integrated residential area.

Source: Myanmar Investment Commission (2014), KT ZMICO Research

Thilawa SEZ, one of the most promising SEZs in Myanmar and a monumental project strongly supported by the governments of both Myanmar and Japan, was opened to develop the export-oriented sectors and boost the country's economic competitiveness. The development of the Class A project covers 396 hectares, with 189 hectares for the first phase out of a total 2,400 hectares. The current occupancy rate for the first phase of the project is approximately 70% based on our conversation with officials from Myanmar Thilawa SEZ Holding Public Limited duringa business trip to Yangon. Incentives for investors under the Myanmar SEZ law include:

- Income tax holidays for the first seven years starting from the date of commercial operation for businesses operating in exempted zones or exempted zone businesses.
- Income tax holidays for the first five years starting from the date of commercial operation for businesses operating in a business promoted zone or other business in a promoted zone.
- 50% income tax relief for investment businesses operating in an exempted zone and businesses in promoted zones for a second five-year period.
- For the third five-year period, 50% income tax relief on the profits of the business if they are maintained for re-investment in a reserve fund and re-invested therein within one year after the reserve is made.
- Exemptions on customs duty and other taxes for raw materials, machinery and equipment and certain types of goods imported for investors in exempted zones; meanwhile, for investors in promoted zones exemptions on customs duty and other taxes for the first five years for imported machinery and equipment required for construction starting from the date of commercial operation, followed by 50% relief of customs duty and other taxes for a further five years.
- Carry forward of loss for five years from the year the loss is sustained.

Figure 16: FDI by sector, existing enterprises

No.	Sector	Projects	USD, mn	Share (%)
1	Oil and Gas	93	18,718	39.2
2	Power	7	13,295	27.8
3	Manufacturing	470	4,899	10.3
4	Transport & Communication	19	3,715	7.8
5	Mining	10	2,341	4.9
6	Hotel & Tourism	42	1,955	4.1
7	Real Estate	19	1,729	3.6
8	Agriculture	14	214	0.4
9	Livestock & Fisheries	16	193	0.4
10	Industrial Estate	2	179	0.4
	Other sectors	37	506	1.1
	Total	**729**	**47,745**	**100.0**

Figure 17: FDI by country, existing enterprises

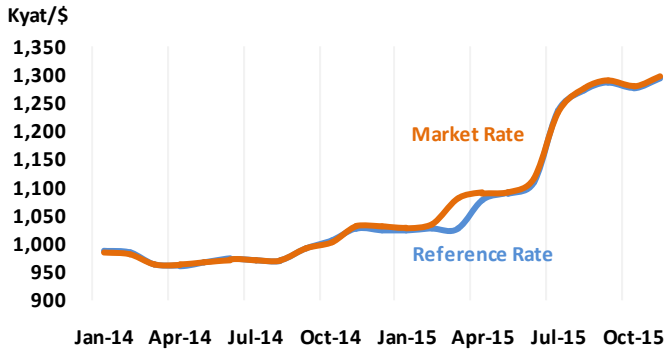
No.	Country	Projects	USD, mn	Share (%)
1	China	83	15,198	31.8
2	Singapore	142	10,564	22.1
3	Hong Kong	96	7,173	15.0
4	U.K.	48	3,401	7.1
5	South Korea	108	3,313	6.9
6	Thailand	51	3,162	6.6
7	Malaysia	25	1,065	2.2
8	Netherlands	10	747	1.6
9	India	21	726	1.5
10	Vietnam	9	691	1.4
	Other countries	136	1,706	3.6
	Total	**729**	**47,745**	**100.0**

Source: The Directorate of Investment and Company Administration of Myanmar (Oct 31, 2015), KT ZMICO Research

Challenges for economic stability still lie ahead: Addressing macroeconomic challenges will require continued efforts by policymakers. Double deficits of the current account balance and fiscal balance as well as rapid credit growth make the economy vulnerable to unfavorable shocks and add downward pressure on the depreciation of the kyat exchange rate. The headwinds include a sharper-than-expected slowdown in China's economy, low commodity prices, and a tightening of U.S. monetary policy, on top of the fact that a smooth domestic political transitionis not ensured. In 2016, the IMF predicts the current account and fiscal balance of Myanmar at -8.3% and -4.7% of GDP, respectively, somewhat better than this year's estimates. Credit to the private sector is expected to enjoy a favorable growth rate at 36.7% compared with the 45.2% expected in 2015. Gross official reserves remain broadly stable, but they are less than three months of total imports.

Although the current account is estimated to remain in deficit to a large degree, this is a response to the rapid growth of FDI-related imported capital goods, which bodes well for future productivity and sustained economic growth. As a result, a growing current account deficit together with unfavorable external factors have caused the kyat to depreciate since early 2015 (by almost -21%). Nonetheless, the monetary authorities' recent move to allow for greater flexibility in the kyat-dollar exchange is positive, as this has helped close the gap between the official reference rate and the parallel market rate in the past. The kyat was traded at 1,297 per dollar versus the reference rate at 1,294 per dollar as of 19 Nov.

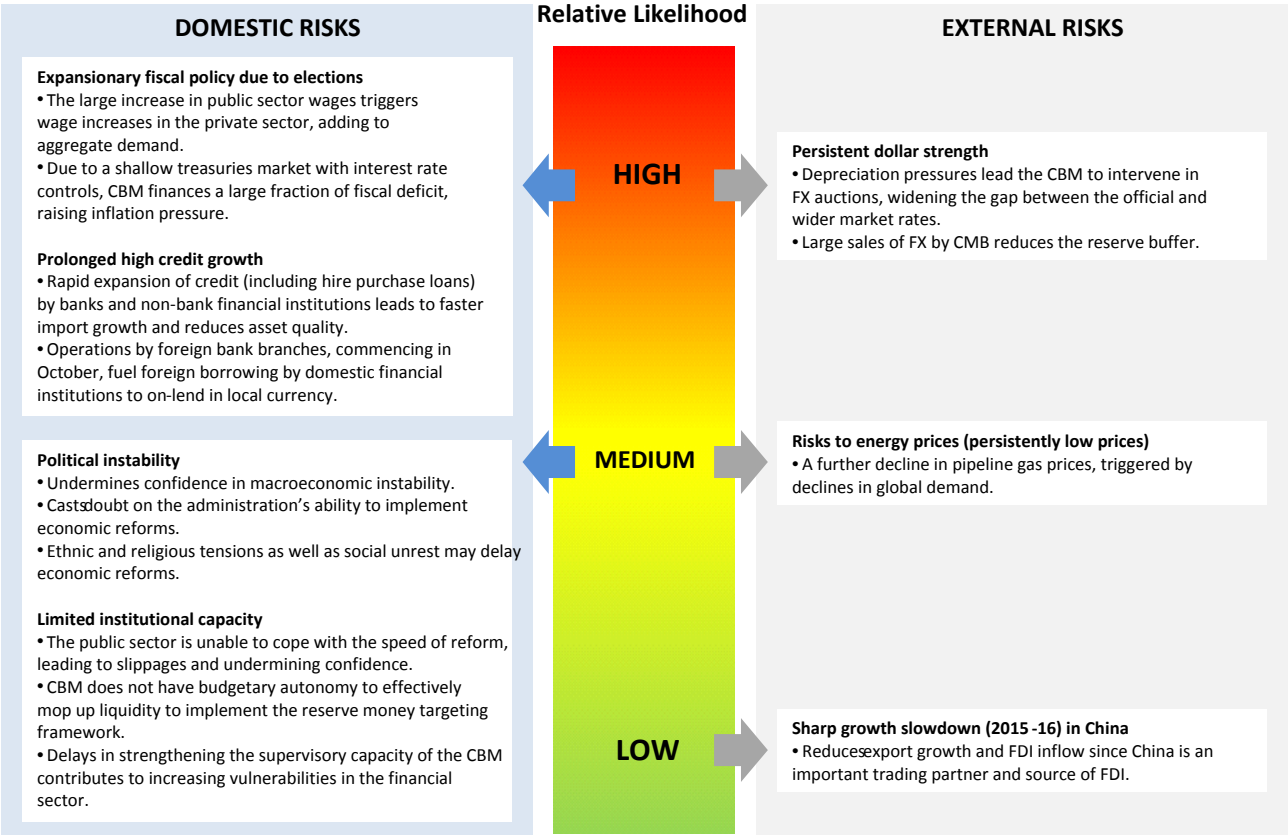
Figure 18: Exchange rate's movement (kyat per US dollar, period end)



Source: Central Bank of Myanmar, Bloomberg, KT ZMICO Research

Regarding internal stability, the effects of the weakening kyat and the recent severe floods in major crop areas (food contributes 68% of the CPI basket) pose upside risk to inflation this year. Consumer inflation is likely to surge to 12.2% on average this year, with an expected year-end reading of 13.3%, and it will remain at a high level of 11.8% in 2016, the highest in ASEAN. The unemployment rate is expected to be flat, the same pace as the past several years, thanks to a relatively robust economic growth rate.

Figure 19: Risk assessment matrix



Source: IMF, KT ZMICO Research

CONCLUSION

Looking at Myanmar, the country has the potential for higher economic growth than other ASEAN members as well as most of the rest of the world. As the largest non-island landmass within ASEAN borders possessing ample natural resources, a sizable population and low labor costs, along with a high-potential workforce, Myanmar should continue to attract significant global capital inflows in the periods ahead. In 2014, we saw foreign direct investment in Myanmar account for 5.2% of GDP, an almost 50% increase compared with three years previously. Around two-thirds of the money flowed into oil & gas and the power sector with China, Singapore and Hong Kong as the top three investors. Although the transformation to a business-friendly regulatory environment and a smooth political transition remain challenges, ongoing economic reforms and continuing market liberalization, which is regaining confidence both domestically and abroad, should pave the way for brighter economic prospects in the medium term. Moreover, the plan to launch the Yangon Stock Exchange in early December can be viewed as a significant shift toward greater liberalization.

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Figure 20: Key economic statistics

		2011	2012	2013	2014	2015E	2016F
Output							
Gross domestic product, current prices	MMK, bn	43,238	47,722	54,699	62,834	76,471	92,641
	USD, bn	56	56	57	63	66	71
Gross domestic product per capita, current prices	USD	1,118	1,100	1,112	1,228	1,269	1,364
Gross domestic product, constant prices	%	5.6	7.3	8.4	8.7	8.5	8.4
Prices							
Inflation (avg.)	%	2.8	2.8	5.7	5.9	12.2	11.8
Inflation (end)	%	-1.1	4.7	6.3	7.4	13.3	10.2
Public Sector							
Total revenue	MMK, bn	5,222	11,156	12,772	16,563	15,919	19,052
	% GDP	12.1	23.4	23.4	26.4	20.8	20.6
Total expenditure	MMK, bn	7,208	11,955	13,732	18,405	19,582	23,379
	% GDP	16.7	25.1	25.1	29.3	25.6	25.2
government net lending/borrowing	MMK, bn	-1,986	-799	-960	-1,841	-3,664	-4,328
	% GDP	-4.6	-1.7	-1.8	-2.9	-4.8	-4.7
Public debt	% GDP	49	43	35	32	33	33
- External	% GDP	27	25	18	14	16	16
- Domestic	% GDP	23	18	17	17	18	17
Balance of Payments							
Volume of exports of goods and services	%	9.6	4.9	12.6	22.6	5.7	14.8
Volume of exports of goods	%	8.6	1.0	10.7	12.9	5.0	16.5
Volume of imports of goods and services	%	23.6	17.4	14.5	27.4	16.1	11.1
Volume of imports of goods	%	21.5	19.4	12.9	28.5	17.1	11.1
Trade balance	USD, bn	-0.2	-0.3	-2.6	-5.2	-7.7	-7.9
	% GDP	-0.3	-3.8	-4.6	-8.2	-11.6	-11.1
Current account balance	USD, bn	-1.1	-2.3	-3.0	-3.9	-5.9	-5.9
	% GDP	-1.9	-4.2	-5.2	-6.1	-8.9	-8.3
International reserves	USD, bn	0.9	3.1	4.5	5.1	5.1	5.4
	Months of imports	0.8	2.4	2.8	2.8	2.5	2.3
Money and Credit							
Broad money	%	26.3	46.6	32.7	21.7	21.7	28.4
Credit to private sector	%	60.1	50.5	52.5	35.5	45.2	36.7
	% GDP	7.5	10.3	13.7	16.1	19.2	21.7
Deposits	% GDP	16.2	24.6	30.2	32.5	35.1	37.5
FX & Rate							
Exchange rate (end)							
- Official rate	Kyat/$	5.6	880	965	1,027	--	--
- Market rate	Kyat/$	822	878	965	1,070	--	--
Interest rate (end)							
- Central bank rate	%	12	10	10	10	--	--
Other Indicators							
Foreign direct investment	% GDP	3.7	5.0	4.6	5.2	5.5	6.5
Population	Million	50.1	50.5	51.0	51.4	51.8	52.3
Unemployment rate	%	4.0	4.0	4.0	4.0	4.0	4.0

Source: IMF's forecasts, IMF-World Bank Annual Meetings 2015, KT ZMICO Research

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Note:
KT ZMICO is a partnership between KTB and ZMICO.
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KT ZMICO is a co-underwriter of SCI, SR, J, TKN.

Anti-corruption Progress Indicator

- **Level 1 (Committed) :** Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws.
- **Level 2 (Declared) :** Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
- **Level 3 (Established) :** Public out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
- **Level 4 (Certified) :** Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
- **Level 5 (Extended) :** Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
- **Insufficient or not clearly defined policy**
- **Data not available / no policy**

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KT ZMICO Research – Recommendation Definitions

Stock Recommendations

BUY: Expecting positive total returns of 15% or more over the next 12 months

OUTPERFORM: Expecting total returns between -10% to +15%; returns expected to exceed market returns over a six-month period due to specific catalysts

UNDERPERFORM: Expecting total returns between -10% to +15%; returns expected to be below market returns over a six-month period due to specific catalysts

SELL: Expecting negative total returns of 10% or more over the next 12 months

Sector Recommendations

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index by at least 10% over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index by 10% over the next 12 months.