



Overview: External Sector In Myanmar

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Outline

- I. External Sector Overview
- II. Useful Concepts & Indicators
- III. Balance of Payments Developments
in Myanmar
- IV. External Sector Considerations

External Sector Overview

Basic structure of Balance of Payments

Above the line

Current Account

Capital and Financial Account

Errors and omissions

Overall Balance

Below the line

Financing

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External Sector Overview

Basic Structure of current account balance (real transactions)

Trade Balance (Goods) = Exports - Imports

Trade Balance (Services) = Exports - Imports

Net Income (e.g., Interest, Profit Repatriation)

Net Transfers (Official, Private)

Current Account Balance

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External Sector Overview

Basic Structure of capital and financial account balance (financial transactions)

Capital Account (*e.g., Debt forgiveness*)

Financial Account

Direct Investment

Portfolio Investment

*Other Investment (e.g., net loans—disbursements minus repayment;
currency and deposits)*

Financial and Capital Account Balance

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External Sector Overview

Basic structure: financing

Flows

**-Overall Balance
= Financing**



**Change in Net Financial
Reserves**



Foreign Reserve Levels

Change in Arrears

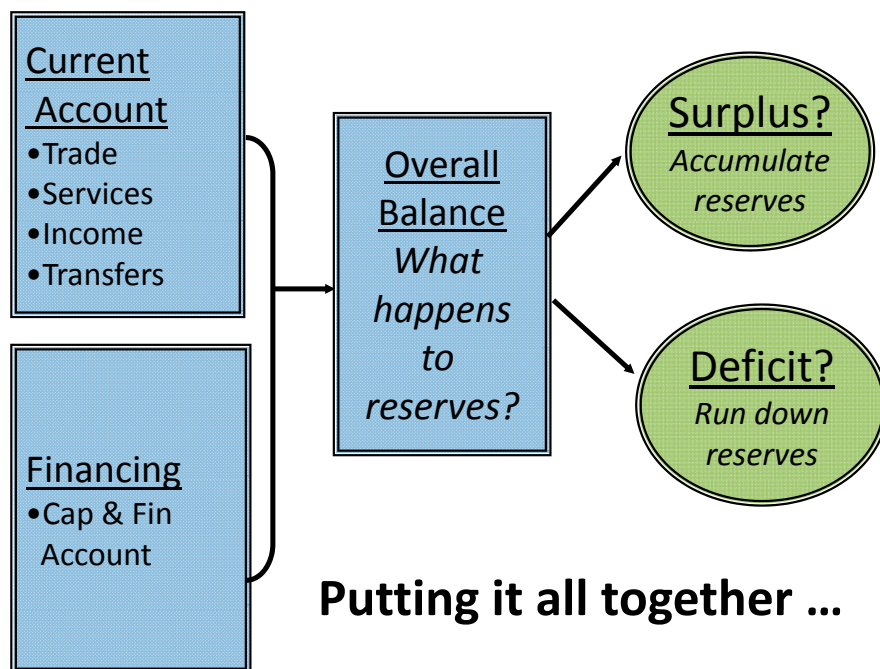


Stock of Arrears

Exceptional Financing

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External Sector Overview



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Useful Concepts & Indicators

The exchange rate

Kyat-US dollar
exchange rate:

- Devaluation
- Appreciation

What determines
the exchange
rate?

For what does the
exchange rate
matter?



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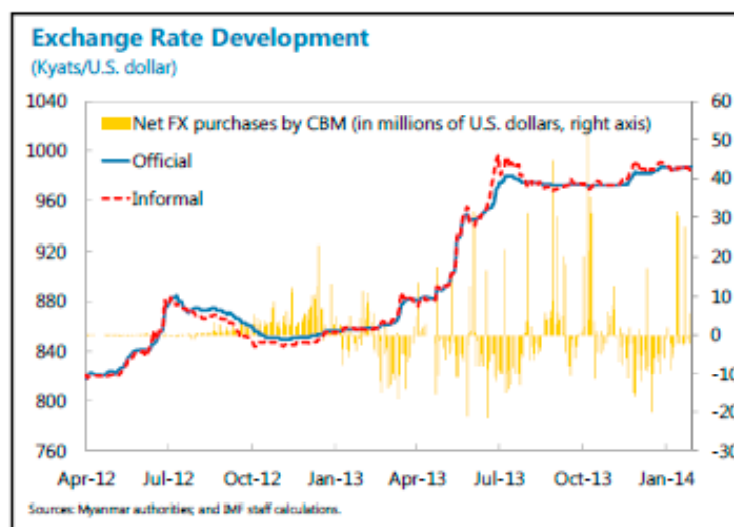
Useful Concepts & Indicators

What determines the exchange rate?

- Availability of
foreign exchange

Depends on ...

- Balance of
Payments
- Central bank
intervention



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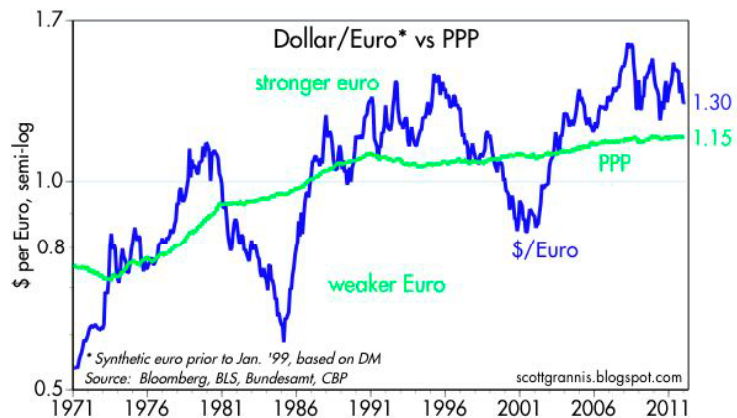
Useful Concepts & Indicators

Fundamental exchange rate factor: price differentials

Similar good in two countries should cost about the same

→ exchange rate corrects for price differential

→ Called 'Purchasing Power Parity'



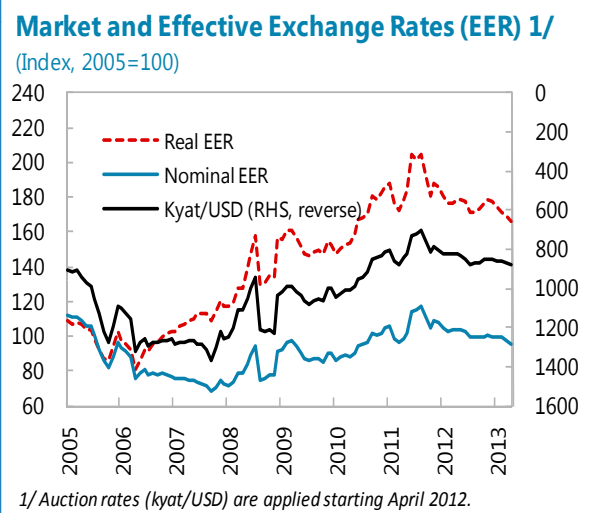
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Useful Concepts & Indicators

Real Exchange Rate

Comparing the price level in Myanmar with that of other countries, all expressed in kyat:

$$RER = \frac{CPI_{Myanmar}^{kyat}}{CPI_{us}^{us\$} \cdot \frac{kyat}{us\$}} = \frac{CPI_{Myanmar}^{kyat}}{CPI_{us}^{kyat}}$$



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Useful Concepts & Indicators

For what does the exchange rate matter?

External competitiveness

$$\text{Export volume} = f(PD/ PD^* \cdot ER); YR^*; \dots)$$

Price
effect (-)

Foreign income
effect (+)

where:

- ER = nominal exchange rate (in home currency per \$)
- PD = domestic price level (in home currency)
- PD* = foreign price level (in \$)
- YR* = foreign income (proxied by real GDP)

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Balance of Payment Developments in Myanmar

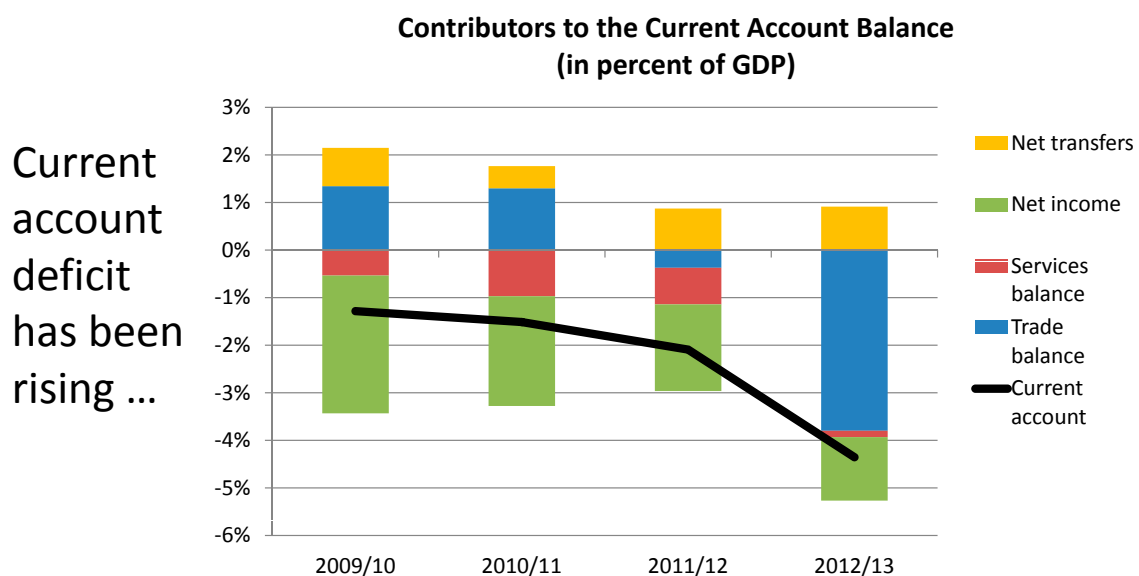
Table 3. Myanmar: Balance of Payments, 2010/11–2015/16
(In millions of US\$, unless otherwise indicated)

	2010/11	2011/12	2012/13 Est.	2013/14	2014/15	2015/16
				Projections		
Current account	-752	-1,175	-2,429	-2,713	-3,051	-3,078
Trade balance	645	-208	-2,120	-2,045	-1,654	-2,004
Exports, fob	8,829	10,228	10,345	11,947	14,678	16,428
Of which: Gas	2,523	3,503	3,666	4,311	5,805	6,037
Imports, mostly cif	-8,184	-10,437	-12,464	-13,992	-16,332	-18,431
Nonfactor services, net	-482	-432	-74	-75	-80	-21
Income, net	-1,145	-1,024	-744	-1,153	-1,999	-1,854
Of which: Interest due	-306	-560	-94	-170	-189	-204
Transfers, net	231	490	509	559	682	800
Official	64	41	28	40	121	194
Private	167	449	481	519	561	606
Capital and financial account	2,361	2,043	3,458	3,035	4,165	4,472
Direct investment, net	2,249	2,057	2,800	2,461	2,450	2,950
Other investment	114	4	680	594	965	1,522
MLT debt disbursements	500	605	839	800	1,200	1,765
Repayments due	-386	-600	-159	-206	-235	-244
Other flows 1/	-2	-19	-22	-20	750	0
Errors and omissions	-1,122	-1,790	-464	0	0	0
Overall balance	488	-922	565	322	1,114	1,393
Financing	-488	922	-565	-322	-1,114	-1,393
Gross official reserves (increase: -)	-1,015	-75	-565	-322	-1,114	-1,393
Change in arrears (increase: +)	528	997	-6,056	-4,792	0	0
Exceptional financing (positive: +)	0	0	6,056	4,792	0	0

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Balance of Payment Developments in Myanmar

Current account balance (in % of GDP)

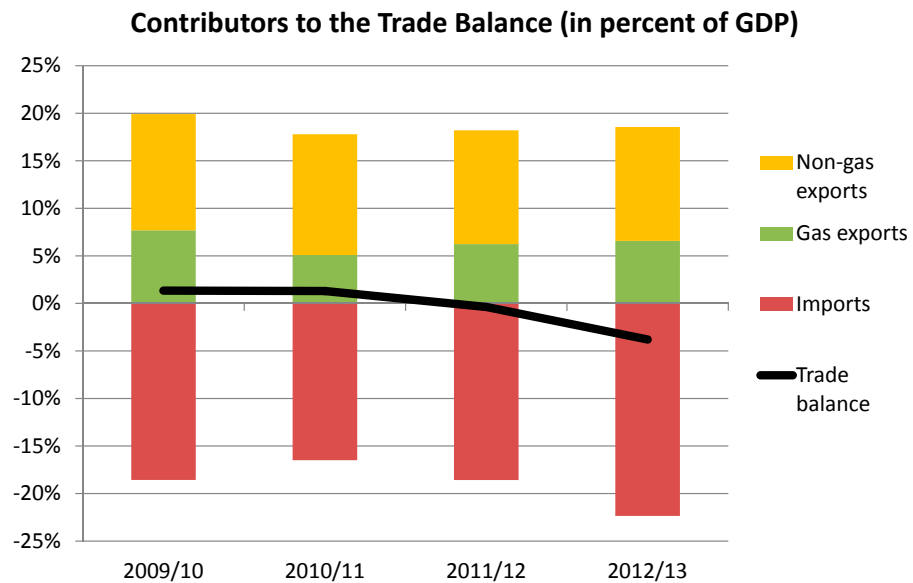


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Balance of Payment Developments in Myanmar

Trade balance (in % of GDP)

... mainly due to strong imports

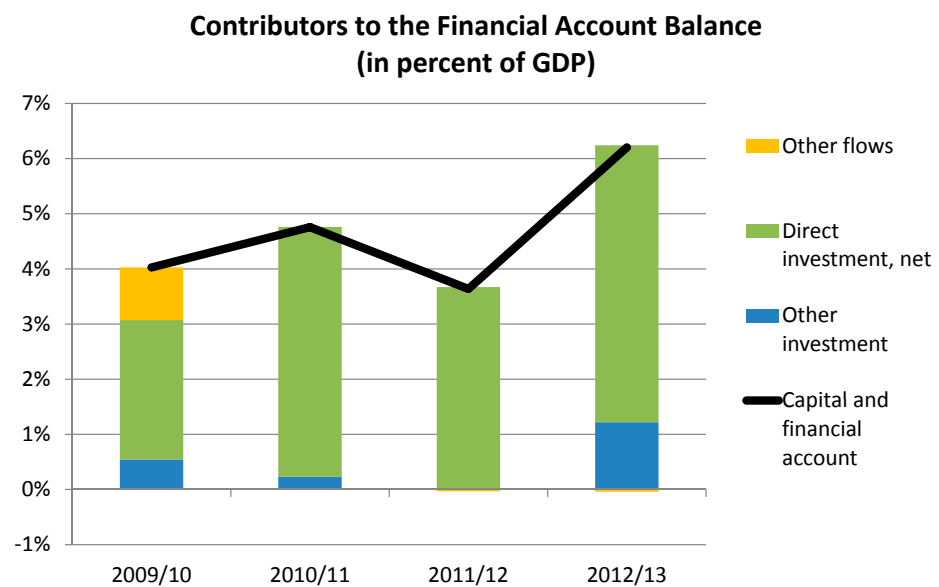


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Balance of Payment Developments in Myanmar

Financial account balance (in % of GDP)

Financial account benefited from large FDI inflows

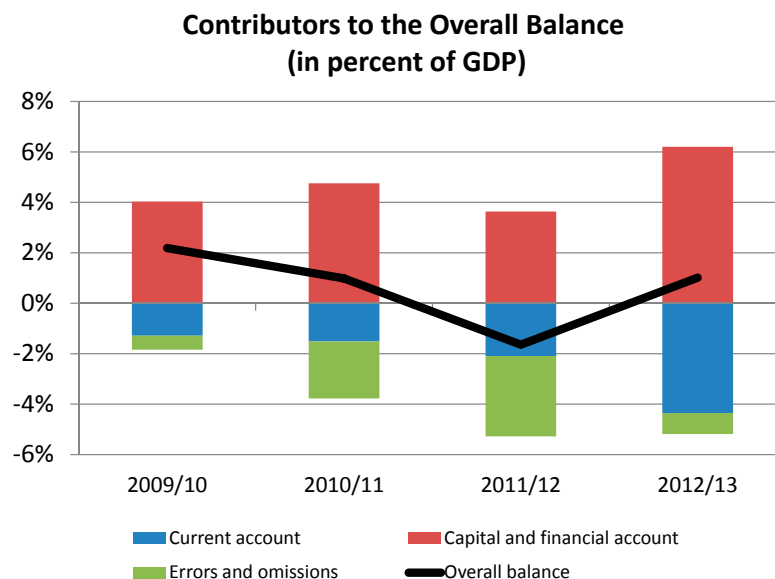


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Balance of Payment Developments in Myanmar

Overall balance (in % of GDP)

Deficits and surpluses of current account and financial account broadly offset each other

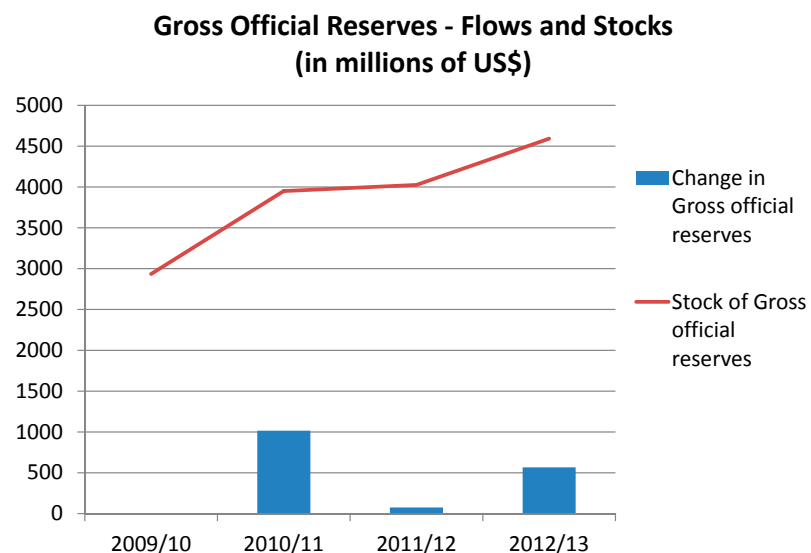


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Balance of Payment Developments in Myanmar

Gross official reserves (in millions of US\$)

Official reserves, incl. those held by state banks, have increased, but by enough?



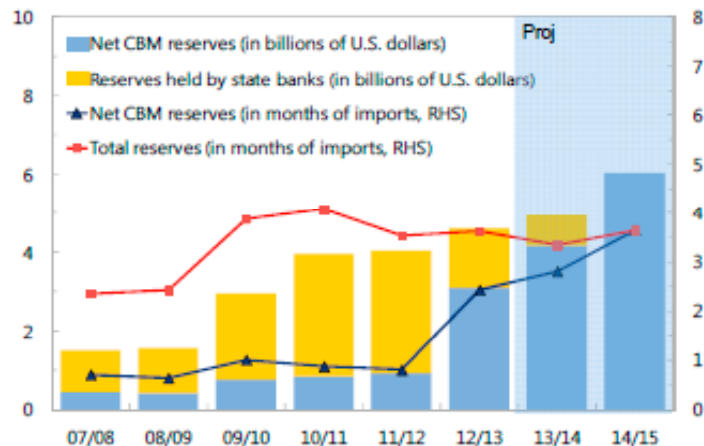
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Balance of Payment Developments in Myanmar

Reserve adequacy

- In relation to trade: import coverage
 - Rule of thumb: reserves should cover 5-6 months of imports (IMF analysis)

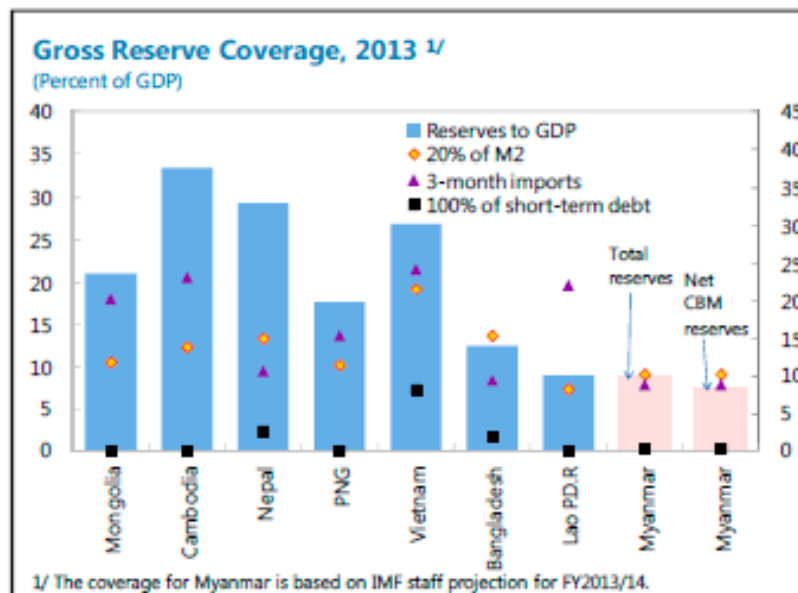
Total and Net CBM Reserves



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Balance of Payment Developments in Myanmar

- In relation to capital flows: vulnerability to sudden capital outflows?



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External Sector Considerations

Main considerations

From a macroeconomic viewpoint, analysis of external sector often focuses on:

- External sustainability
- Growth contribution



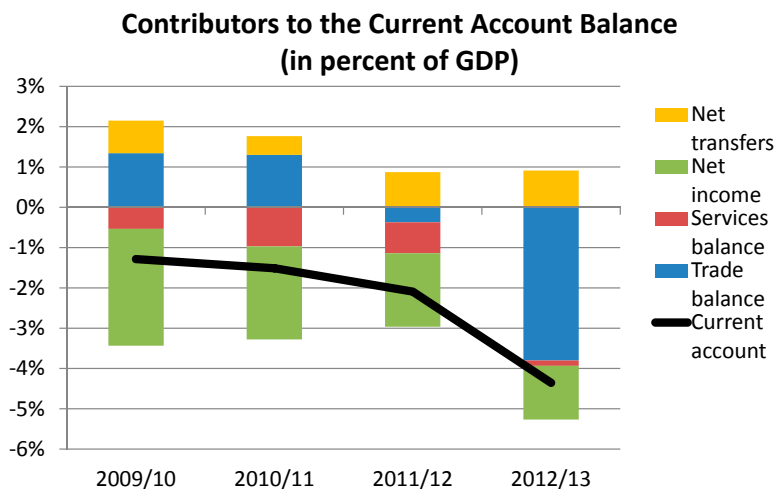
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External Sector Considerations

External sustainability

Key question: if country runs **current account deficits**, are they sustainable?

This issue matters for Myanmar!



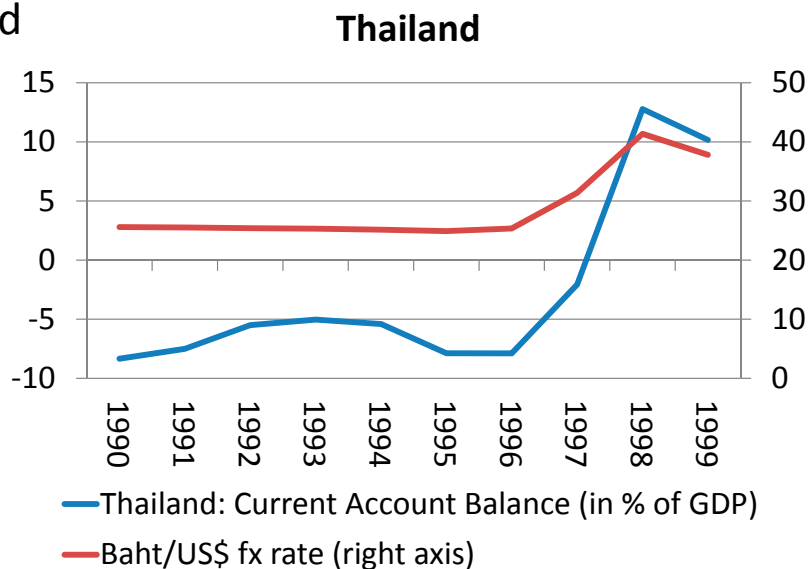
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External Sector Considerations

External sustainability

Consider Thailand crisis:

- Large deficits prior to crisis
- Inability to finance deficits was critical cause of crisis
- ... and led to currency crisis



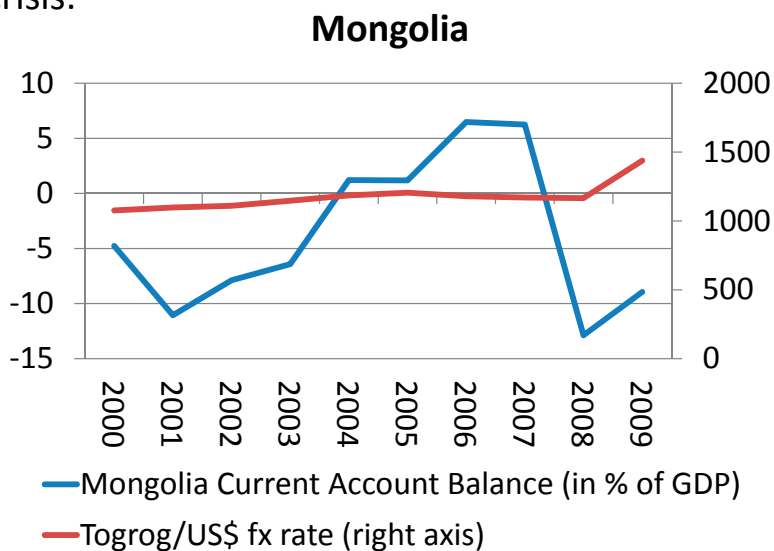
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External Sector Considerations

External sustainability

Consider Mongolia crisis:

- Mongolia has large natural resource exports
- Current account surplus prior to crisis
- Sharp drop in international commodity prices during GFC led to current account and currency crisis



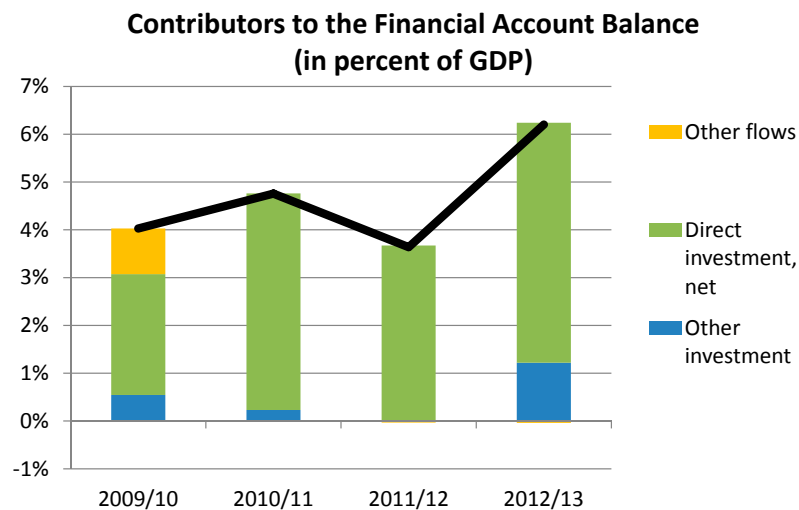
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External Sector Considerations

External sustainability

Important factor for sustainability of current account deficits is how they are financed:

- Stable financing source lowers risk of crisis
- FDI is a fairly stable financing source
- This is good news for Myanmar!



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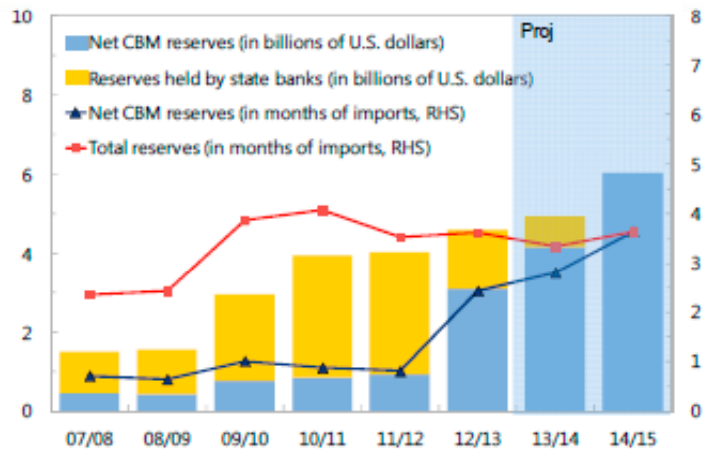
External Sector Considerations

External sustainability

Another important factor for sustainability of current account deficits is levels of foreign exchange reserves:

- They serve as a buffer in case of a crisis
- Does Myanmar have sufficient reserves?

Total and Net CBM Reserves



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External Sector Considerations

Growth contribution

Large expansion of manufacturing sector was key driver of growth in Asia!

- Export-driven growth strategy
- Manufacturing-related FDI inflows
- External competitiveness is key for this strategy to work



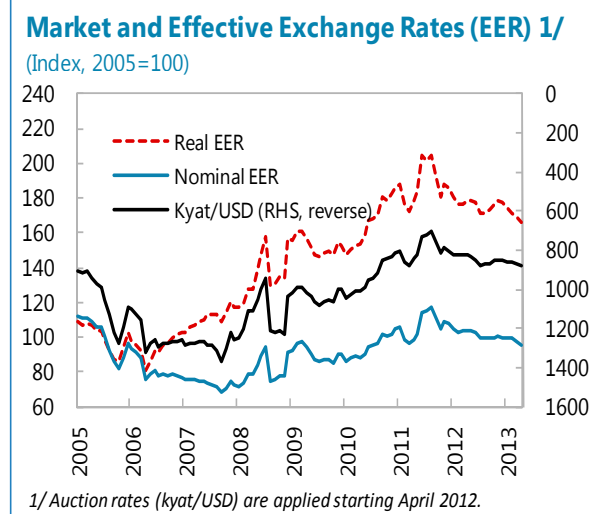
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External Sector Considerations

Growth contribution

Real exchange is common indicator for external competitiveness

- Real appreciation undermines external competitiveness
- Is Myanmar's real appreciation a problem?



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Outlook

Next, we will explore in more detail ...

- ... the monetary sector, which helps with analyzing inflation and the exchange rate.

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