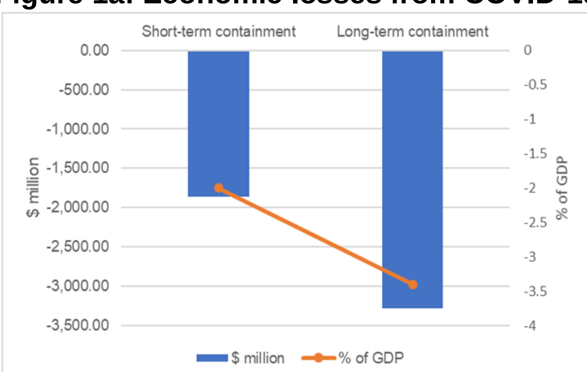
DEBT SUSTAINABILITY ASSESSMENT: MYANMAR

1. **Overview of Myanmar's fiscal outlook before the coronavirus disease (COVID-19) pandemic.** Fiscal policy was moderately accommodative with improvement in budget execution. In the run-up to the COVID-19 pandemic, the fiscal deficit was estimated at 2.6% of gross domestic product (GDP) in fiscal year (FY) 2020, narrowed from 4.0% in FY2019, and was considered as appropriate fiscal policy stance. Improved budget execution and proactive debt issuances have allowed the Central Bank of Myanmar financing to be phased out in FY2021 as originally envisaged.

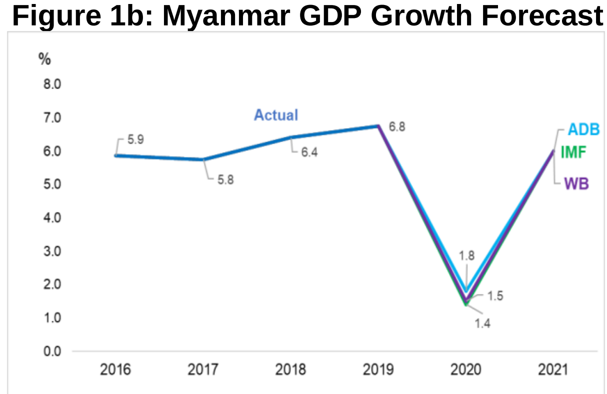
2. In the run-up to the COVID-19 pandemic, Myanmar's risks of external and overall debt distress were assessed as low.[1] Myanmar's total public debt is estimated to be 39.5% of GDP as of FY2019. Public domestic debt accounted for 62.5% of total public debt in FY2019 and public and publicly guaranteed (PPG) external debt stood at 37.5% of total public debt in FY2019. Domestic debt comprises treasury bills and bonds, a large share of which—mostly 3-month treasury bills—is held by the central bank. The largest share of PPG external debt is held by bilateral creditors amongst which People's Republic of China and Japan are the largest creditors. International Development Association and Asian Development Bank (ADB) are the largest multilateral creditors. Gross official reserves stood at $6.0 billion, (5 months of imports equivalence) in April 2020, up from $5.7 billion in FY2019.

Figure 1a: Economic losses from COVID-19



GDP = gross domestic product.
Source: ADB Estimates.

Figure 1b: Myanmar GDP Growth Forecast



ADB = Asian Development Bank, IMF = International Monetary Fund, WB = World Bank.
Source: Central Statistical Organization, Central Bank of Myanmar, Asian Development Bank, International Monetary Fund, and World Bank.

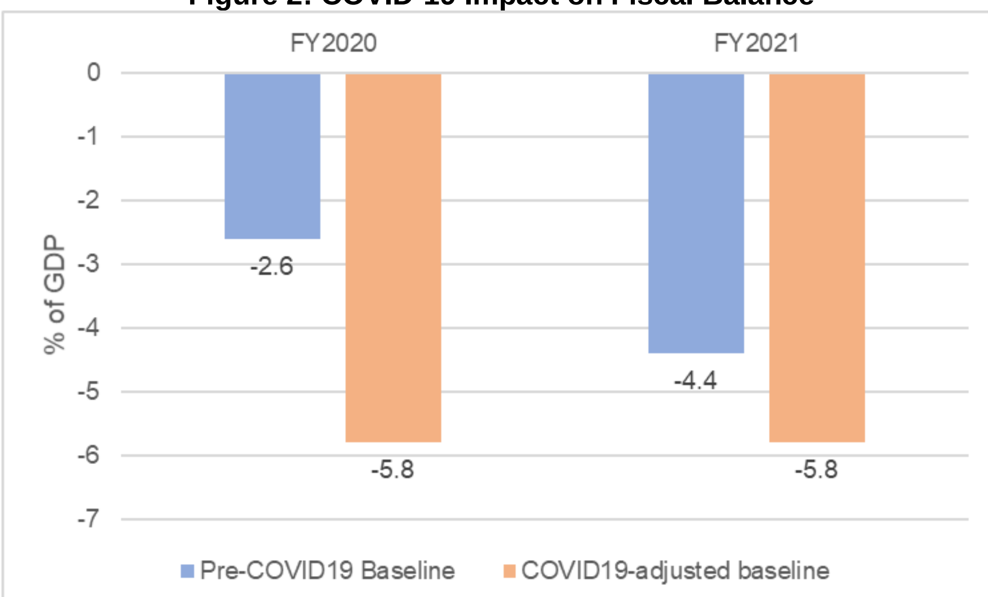
3. **Profound impact on Myanmar's economy.** While the fullest extent of the health impacts due to COVID-19 is yet to be seen, the vulnerabilities of Myanmar's public health systems have exerted economic shock waves to real sectors. The outbreak containment measures such as a travel ban, national lockdowns, closing of non-essential businesses, and postponed or even canceled investment have disrupted economic activities across all sectors; and manufacturing, construction, and services are among the hardest hit by these COVID-19-induced economic shocks. ADB estimates that in comparison with the case without COVID-19, Myanmar's economic losses stemming from the COVID-19 pandemic could amount to $1.8 billion (2.0% GDP losses) in the short-term containment scenario. The economic losses may be more pronounced to $3.3 billion (3.4% GDP losses) in the long-term containment scenario (Figure 1a). However, the precise impact on Myanmar is highly uncertain and is dependent on the degree of community

[1] International Monetary Fund. 2019.

spread, amplification of existing vulnerabilities, and policy responses. ADB revised downward projected growth in FY2020 to 1.8% from the pre-shock estimate of 6.8% (Figure 1b). The pre-outbreak promising outlook was attributable to robust growth in garment manufacturing and construction industries, coupled with a recovery of the agriculture sector. A more adverse scenario, with wider community spread and interactions with fiscal and financial sector vulnerabilities, could lead to a contraction in 2020 and a more sluggish recovery.

4. **Fiscal deficits have risen sharply due to revenue shortfalls and reprioritization of public spending.** Fiscal deficit is projected to increase from 2.6% to 5.8% of GDP in FY2020 and from 4.4% to 5.8% of GDP in FY2021 (Figure 2). The widened fiscal deficit is driven mainly by a decline in tax revenue due to a slowdown in economic activity and the need for fiscal spending on COVID-19 responses. In a plausible scenario with a wider outbreak and even weaker economic activity, this could be even higher due to further revenue losses and necessary additional expenditures. Government revenue is projected to decline by 18.1% in FY2020. Tax revenues are expected to plunge by 4.6% in FY2020 due to a slowdown in economic activity and revenue losses due to the COVID-19 Economic Relief Plan (CERP). Public expenditure in FY2020 is projected to remain relatively unchanged at $14.4 billion, due to reprioritization of public spending for recurrent expenditures under the CERP away from capital expenditures.

Figure 2: COVID-19 Impact on Fiscal Balance

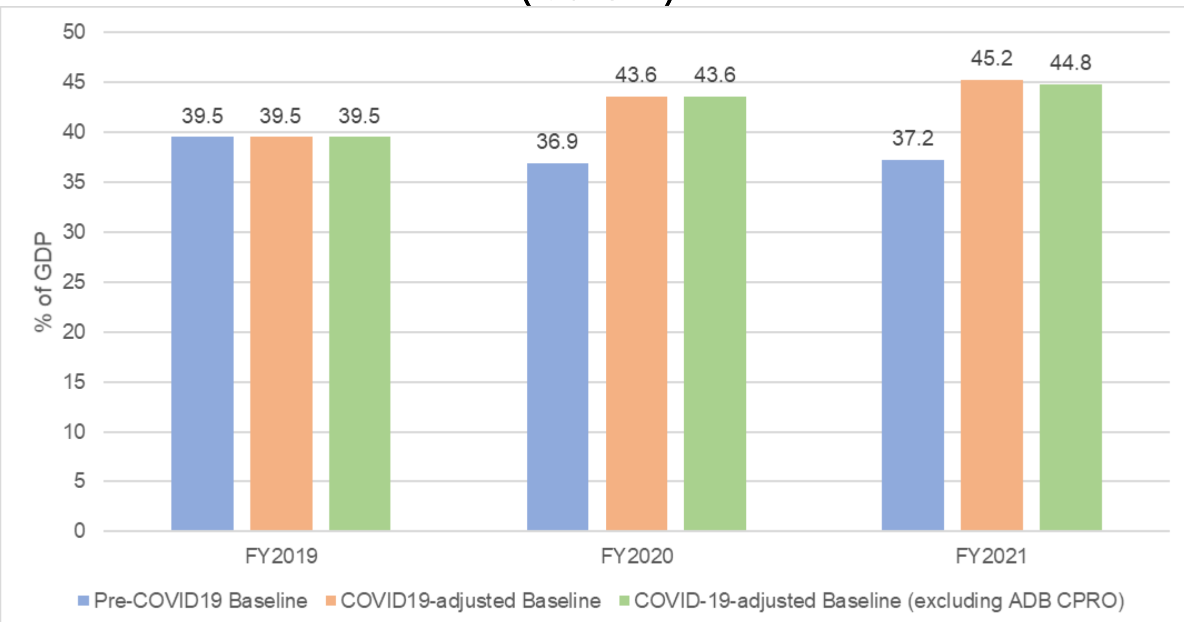


COVID-19 = coronavirus disease, FY = fiscal year, GDP = gross domestic product.
Source: Asian Development Bank Estimates.

5. **COVID-19 is projected to have a moderate impact on the public debt level.** The debt sustainability assessment (DSA) employs the debt sustainability framework of the International Monetary Fund, whereby identified debt-creating flows in a given year are attributable to: (i) primary deficits; (ii) automatic debt dynamics relating to real GDP growth, the real interest rate, and the real exchange rate; and (iii) other identified debt-creating flows. The COVID-19 outbreak has put an upward pressure on Myanmar's public debt projection. Under the baseline macroeconomic and fiscal assumptions where GDP growth slows to 1.8% in FY2020 and bounces back to an expansion of 6.0% in FY2021, the public debt to GDP ratio is expected to increase to 43.6% of GDP from 36.9% in FY2020 and to 45.2% of GDP from 37.2% in FY2021 (Figure 3). The COVID-19 Active Response and Expenditure Support Program (CARES) Program

under the COVID-19 Pandemic Response Option (CPRO) ($250 million) is estimated to have a small impact, adding around 0.38 percentage point to the public debt to GDP ratio in FY2021.[2] The existing debt ratio and projected public indebtedness, including the potential impact of the prospective pandemic response option borrowing, is sustainable as the public debt to GDP ratio is still below the public debt sustainability threshold of 55% of GDP.

Figure 3: COVID-19 Impact on public debt dynamics (% of GDP)



ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 Pandemic Response Option, FY = fiscal year, GDP = gross domestic product.
Source: Asian Development Bank Estimates.

Table 1: COVID-19 Impact on Development Financing Needs
($ billion)

Item	FY2020 Pre-COVID-19	FY2020 COVID-19 Adjusted	Change (%)	FY2021
Total financing requirement (net)	**3.70**	**4.18**	**13.0**	**4.54**
Domestic borrowing	2.70	2.50	(7.4)	3.01
Foreign borrowing	1.00	1.68	68.0	1.53
COVID-19 Financing		**1.09**		**0.82**
ADB (CPRO)				0.25
G20 Debt Service Suspension Initiative		0.32		0.10
European Union		0.06		0.06
International Monetary Fund (RCF/RFI)		0.35		0.35
Japan International Cooperation Agency		0.28		
World Bank		0.08		0.06
Other Financing Sources	**1.00**	**0.59**	**(41.0)**	**0.71**

( ) = negative, ADB = Asian Development Bank, COVID-19 = coronavirus disease, CPRO = COVID-19 Pandemic Response Option, FY = fiscal year, RCF = Rapid Credit Facility, RFI = Rapid Financing Instrument.
Source: Asian Development Bank estimates based on International Monetary Fund.

6. **Myanmar's public debt outlook is likely to remain sustainable.** The government has announced fiscal measures (including foregone tax revenue) totalling $2.5 billion to tackle

[2] The loan is expected to have two disbursements in October and December 2020, which will fall in FY2021.

COVID-19 pandemic. The Ministry of Planning, Finance and Industry plans to reallocate the FY2020 budget to finance the immediate spending under the CERP. The total financing requirement is expected to increase by 13.0% from $3.70 billion to $4.18 billion in FY2020 (Table 1). The government plans to mobilize $1.68 billion of development financing through concessional borrowing from development partners and multilateral organizations, in line with the International Monetary Fund recommendation. The proposed CARES program under the CPRO will help the government implement the CERP.