
Country Report

Myanmar (Burma)

June 2009

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The Economist Intelligence Unit

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Executive summary

Highlights

June 2009

- Outlook for 2009-10**
- The State Peace and Development Council (SPDC, the ruling military junta) will continue to push ahead with its so-called road map to democracy, with the objective of legitimising its hold on power.
 - The junta will seek to ensure that Aung San Suu Kyi, the popular leader of the main opposition party, the National League for Democracy (NLD), does not play a direct role in the planned election in 2010.
 - The junta will continue to face sanctions from a number of Western governments, but it remains unlikely that the Association of South-East Asian Nations (ASEAN) will take punitive action against the junta.
 - The government remains focused on spending heavily on the military, with few (if any) initiatives in the pipeline to support households and businesses or to stimulate the economy in the face of the global economic downturn.
 - Official data may continue to show real GDP expanding at an implausibly rapid pace, but the Economist Intelligence Unit forecasts that growth will remain weak in 2009-10.
 - Based on the official price series, in 2009-10 inflation will fall from the high levels that it reached in 2008, but it will remain in double digits.
- Monthly review**
- Aung San Suu Kyi has been charged with breaking the terms of her house-arrest and in mid-May was moved to the notorious Insein prison in Yangon, where she was placed on trial.
 - The junta's imprisonment of Aung San Suu Kyi has attracted widespread international condemnation. ASEAN has expressed "grave concern" for her health and called for her release.
 - The NLD has yet to confirm whether it will participate in the planned 2010 election. Following a rare party conference in April, the group adopted a wait-and-see approach.
 - Central government tax revenue has continued to rise rapidly. However, the junta remains heavily reliant on borrowing from the Central Bank of Myanmar, reflecting the poor state of the government's fiscal position.
 - In January output of natural gas, crude oil, plywood and cotton yarn all fell sharply on a year-on-year basis, but growth in sales of electricity to industry (a proxy indicator for growth in the industrial sector) rose to 5.4%.
 - The year-on-year rise in the consumer price index slowed to 16.3% in January, its lowest level since May 2006.

Outlook for 2009-10

Political outlook

Domestic politics The State Peace and Development Council (SPDC, the ruling military junta) will continue to push ahead with its so-called road map to democracy, with the objective of legitimising its hold on power. Although this process is likely to feature a parliamentary election in 2010, the poll will not be free and fair. The junta will employ whatever means necessary to ensure that the election goes according to plan, including violently suppressing any signs of dissent and incarcerating its leading opponents. The recent arrest of the popular leader of the main opposition National League for Democracy (NLD), Aung San Suu Kyi, on dubious charges of violating the conditions of her house-arrest, was undoubtedly a pretext for ensuring that she will not play a direct role in the planned election. (Her punishment could be a further five years of incarceration—she has already been in detention for 13 of the past 19 years.) The junta's overarching aim is that of cementing a leading role for the military in government, both directly and indirectly, through civilianised military leaders and pro-military political parties created to bolster support for the unpopular regime.

The junta has yet to announce any details for the poll, but the chairman of the SPDC, Senior General Than Shwe, has called on all parties to refrain from undermining the 2008 constitution and has ruled out making any changes to the document. This was possibly a threat to opposition parties, particularly the NLD, which have been calling for changes to what they deem to be a flawed charter. The constitution has provisions for guaranteeing that 25% of seats in the national parliament (which has yet to be established) are reserved for the military. Following a rare party leadership summit in April, the NLD announced that it would continue with a wait-and-see approach before determining whether to field candidates in the planned election.

The NLD's dilemma is clear: if the party boycotts the poll, the legitimacy of the election outcome will be severely undermined, but, by not participating, the party runs the risk of being completely sidelined and unable to challenge the junta in any formal setting. However, even if opposition parties do take part in the poll, it remains unlikely that they will gain a significant share of power. The voting system will inevitably be rigged, and, ahead of the election, the junta will continue a policy of using violence and intimidation to suppress support for opposition groups. Unlike in 1990, when the NLD won a landslide victory in the country's last election (the results of which the junta has never accepted), there are unlikely to be any surprises this time around.

Although the most likely scenario in 2009-10 is that the junta will remain in control, there could be a degree of volatility. The public's abhorrence of the military is intense, fuelled in recent years by the brutal crackdown on protestors, including Buddhist monks, in September 2007 and by the junta's inadequate response to the devastation wrought by Cyclone Nargis in May 2008. The arrest on May 14th of Aung San Suu Kyi has further stoked tensions.

There are other underlying pressures that could build and eventually prompt sporadic shows of public defiance, not least those stemming from economic hardship as manufacturing exports contract and commodity prices (and thus farm incomes) fall sharply amid the global economic downturn. However, in recent months the capacity of opposition groups to plan large demonstrations has been weakened by the detention of many of the groups' leaders. Even if there was a repeat of the mass protests of September 2007, it is unlikely that any attempt to overthrow the military would succeed. The armed forces are expected to remain vigilant and would disrupt any signs of gathering protest. There is also no prospect that any outside force will intervene, even if the military uses again violence to end peaceful protests.

In focus

Detaining Aung San Suu Kyi

Aung San Suu Kyi, the leader of the main opposition National League for Democracy (NLD), was arrested on May 14th for violating the terms of her house-arrest. In the likely event that she is found guilty in closed-door trials, which began on May 18th in Yangon's notorious Insein prison, she could face a further five years of incarceration. The State Peace and Development Council (SPDC, the ruling military junta) has been facing intense international pressure to release the NLD leader ahead of planned election in 2010. (She has been under house-arrest for 13 of the past 19 years.) However, following her arrest, the junta will now claim to have justifiable cause to keep her in confinement while pursuing plans to cement its grip on power through a rigged election next year. Its determination to keep the daughter of the country's independence hero, Aung San, in detention reveals the extent to which she still threatens its grip on power.

The charges against Aung San Suu Kyi are highly dubious, stemming from the bizarre actions of a US citizen, John Yettaw, who allegedly swam across Inya Lake to Aung San Suu Kyi's compound and remained there for two nights in early May. Conspiracy theories abound, and Mr Yettaw's motives remain unclear. However, according to NLD officials, he was an unwelcome visitor, and his actions have provided the military authorities with a pretext to extend the party leader's detention. The truth will be hard to uncover, but there is no denying that the military is determined to keep Aung San Suu Kyi in detention. In late March the UN Working Group on Arbitrary Detentions announced that the detention order keeping Aung San Suu Kyi under house-arrest was in violation of Myanmar's own legislation, which allows the junta to detain those deemed to be a "threat to the state" for a period of up to five years. However, her latest period under house-arrest began in May 2003, and by May 27th this year she will have entered her seventh consecutive year in detention.

Despite the NLD's protestations and growing international pressure, there was never any real likelihood of Aung San Suu Kyi being freed ahead of the planned election in 2010. The last time she was released, in May 2002, the junta clearly miscalculated the extent to which she had remained a popular and influential figure. In a short period of relative freedom, Aung San Suu Kyi travelled around the country and was greeted by large crowds of supporters, proving that she was still a figure of national hope for a populace long oppressed by a ruthless military dictatorship.

International relations The junta will continue to face sanctions from several Western governments, the leaders of which have been heavily critical of the junta's decision in May to bring fresh charges against Aung San Suu Kyi. The US government, under its new president, Barack Obama, has been in the process of reviewing of its policy towards Myanmar, seemingly recognising that its current approach, which has centred around sanctions on trade and investment, has yielded little in terms of bringing about positive change in the country. However, there is only a small chance that the US will change tack and begin a policy of engagement. Myanmar's fellow members of the Association of South-East Asian Nations (ASEAN) have been rather more muted in their criticism of the junta. Although ASEAN has adopted a new charter, partly aimed at improving human rights among member countries, it remains unlikely that the organisation as a whole will take punitive action against the junta, primarily because of the group's long-standing principle of non-interference in the domestic affairs of member states.

The UN will continue with its efforts to persuade the junta to implement genuine political reform, although it has had little success so far and it is not in a position to take decisive action. This reflects the fact that the SPDC enjoys the tacit support of China, a veto-wielding permanent member of the UN Security Council. China has refused steadfastly to accept the argument that the council should take a tougher line on Myanmar, saying that the problems affecting the country are internal and pose no threat to international security.

Economic policy outlook

Policy trends The junta's management of the economy will remain poor. It denies that the current global economic slowdown has had any impact on Myanmar, despite evidence of flagging industrial production and weak exports. However, even if the government accepted that the local economy was set to suffer along with others in the region, it is unlikely that it would be capable of taking effective action to limit the damage. On the fiscal policy side, the government remains focused on spending heavily on the military, with few (if any) initiatives in the pipeline to support households and businesses or to stimulate the economy. The government is also already borrowing heavily from the Central Bank of Myanmar to finance current expenditure, and although it could increase such borrowing, this would put further upward pressure on inflation. The central bank's readiness to print money to finance the government's deficits means that monetary policy is in effect unavailable as a tool with which to steer the economy.

Fiscal policy Although the junta has set aside additional funds for the post-cyclone reconstruction effort, the high cost of rebuilding is likely to be borne mainly by international donors. The junta will continue to run large fiscal deficits, but they will not be generated wholly by extra expenditure on the recovery effort. The junta may still spend heavily on large projects that provide benefits to the military and its leaders (such as the development of the new administrative capital, Naypyidaw), borrowing funds from the central bank to support such

schemes. Expenditure may also rise ahead of the 2010 election if the junta decides to go on a populist spending spree. Tax revenue has been rising in nominal terms, partly owing to efforts to reduce tax evasion, but the government's revenue base remains small.

Monetary policy The central bank typically does not tighten monetary policy significantly, even in periods of high inflation, meaning that interest rates will remain low in real terms. The bank made a surprise change to interest rates in April 2006, raising its leading indicator rate by 2 percentage points to 12%—the first adjustment for five years. However, the bank remains reluctant to tighten monetary policy aggressively, as it is not operationally independent from the government and is therefore keen to avoid increasing the public sector's debt-servicing burden.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.0	-1.8	2.1
OECD	2.7	0.9	-4.0	0.4
China	13.0	9.0	6.5	7.3
EU27	2.9	0.9	-4.4	-0.5
Exchange rates				
¥:US\$	117.8	103.4	96.3	94.8
US\$:€	1.369	1.470	1.328	1.385
SDR:US\$	0.651	0.629	0.664	0.648
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.40	1.43
US\$ 3-month Libor	5.30	2.91	1.05	1.04
Commodity prices				
Oil (Brent; US\$/b)	72.7	97.7	47.5	53.3
Gold (US\$/troy oz)	696.7	870.2	895.8	827.5
Food, feedstuffs & beverages (% change in US\$ terms)	30.9	29.5	-22.4	3.1
Industrial raw materials (% change in US\$ terms)	11.2	-5.1	-40.0	14.3

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The Economist Intelligence Unit forecasts that the global economy (at purchasing power parity exchange rates) will contract by 1.8% this year. It will then record a slow recovery in 2010. Asian economies will be negatively affected by the slowdown, and this will limit growth in Myanmar's exports to Thailand (mainly consisting of gas), India (primarily pulses) and China (a host of natural resources). Moreover, prices for many of Myanmar's commodity exports will weaken in 2009; we expect global food prices to fall sharply this year, before stabilising in 2010. Global crude oil prices (dated Brent Blend) will drop to US\$47.5/barrel in 2009, before rising to US\$53.3/b in 2010. Myanmar's import bill for petroleum products will decline in 2009-10 from its recent high levels.

Economic growth

Economic activity will remain subdued in the next two years owing to a combination of domestic factors and the impact of the global economic

downturn. Agriculture, which accounts for nearly one-half of total GDP, was hit badly by Cyclone Nargis, and it will struggle to grow in 2009-10. The post-cyclone aid-funded rebuilding effort has boosted construction growth, and, given the severity of the damage to housing and transport infrastructure in the south of the country, growth in construction will remain rapid. However, manufacturing will continue to be sluggish, owing to the lack of access to inputs and to capital for investment, while weak external demand will compound the difficulties of export-oriented manufacturing firms. Natural gas production will fall from recent highs, while the mining sector will suffer from weak global demand and the impact of sanctions on international trade. Recent media reports have revealed that several of the country's largest operations mining gems and jade have closed.

Our forecast for weak GDP growth in 2009-10 also reflects the poor prospects for private consumption and for investment by local enterprises. Consumer spending is typically constrained by low average incomes and a lack of confidence, owing to price instability and the weak free-market exchange rate. The collapse of small-scale fishing and farming in the south following the cyclone has increased economic hardship in that region. Elsewhere, consumption will be depressed by a drop in farm incomes (amid falling commodity prices) and a decline in remittances from workers overseas—the economic slowdown elsewhere in South-east Asia and the Middle East will result in many migrant workers from Myanmar losing their jobs. There will continue to be foreign interest in energy, mining and petroleum projects, particularly from Chinese firms. For example, a Chinese state-owned mining firm, China Non-Ferrous Metal Group, recently confirmed that it remained committed to developing a US\$800m ferro-nickel mine at Tagaungtaung in northern Myanmar. However, other sectors will struggle to attract large amounts of foreign direct investment (FDI), and a number of approved FDI projects may not proceed as planned amid the global economic downturn.

Inflation Consumer price inflation is set to slow in 2009-10 from a high of 26.8% in 2008, largely owing to falling fuel and food prices. Our inflation projection assumes that there will be no major shortages of rice. (Despite the damage to paddy fields caused by Cyclone Nargis in May 2008, the country has seemingly not endured a dramatic drop in food supplies.) The central bank is set to continue to carry on funding the government's budget deficit by printing money, and the consequent growth in domestic credit will continue to push up the general price level. However, because of easing supply-side pressures, annual inflation will drop back to around 10% in 2009-10.

Exchange rates The free-market exchange rate has been relatively strong so far in 2009, compared with rates in late 2008. It stood at Kt1,040:US\$1 in mid-May, up from around Kt1,275:US\$1 in late November. Although the kyat will appreciate against the US dollar on an annual average basis in 2009, it will remain on a downward trend in 2009-10. Further cyclone-related aid inflows will be forthcoming, but inward remittances from overseas Burmese supporting their families will fall as a result of the global economic slowdown. The merchandise trade surplus will contract in 2009-10 from its recent highs.

External sector Export revenue will fall in 2009-10 from the high levels that were recorded in the past two years. This outlook reflects the depressed state of the global economy, which will cause demand for Myanmar's main export commodities to weaken. Export revenue will also be weak owing to the sharp drop in global commodity prices. Revenue from exports of natural gas will drop slightly, reflecting falling prices and an economic slowdown in Thailand, the destination of all of Myanmar's gas exports. Meanwhile, revenue from mining exports—particularly that from gems and jade, which helped to drive up total exports in 2008—will record a sharp fall in the next two years amid the global economic downturn and tougher trade sanctions. In 2009-10 the import bill will fall from the high level that it reached in 2008. This is primarily owing to the sharp drop in prices for imported petroleum products. However, the post-cyclone reconstruction programme and the development of petroleum and hydropower projects means that imports of building materials and machinery will remain high. The merchandise trade surplus will be large enough to offset the deficit on the combined services and income accounts in 2009-10, and, as a result, the current account will continue to post a surplus, although it will be smaller than in recent years.

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^a	2009 ^b	2010 ^b
Real GDP growth ^c	3.4	0.9	0.3	1.2
Gross fixed investment growth ^c	6.0	10.0	5.0	7.0
Gross agricultural production growth ^c	1.4	-3.0	-1.2	0.5
Consumer price inflation (av)	35.0 ^d	26.8 ^d	10.0	10.7
Consumer price inflation (year-end)	28.6 ^d	20.4 ^d	10.4	9.9
Short-term interbank rate	17.0 ^d	17.0 ^d	17.0	17.0
Government budget balance (% of GDP) ^c	-3.0	-3.6	-4.5	-4.8
Exports of goods fob (US\$ bn)	6.2	6.3	5.1	5.4
Imports of goods fob (US\$ bn)	3.0	3.4	3.1	3.2
Current-account balance (US\$ bn)	1.3	1.0	0.4	0.3
Current-account balance (% of GDP) ^e	7.9	4.5	1.5	1.2
External debt (year-end; US\$ bn)	7.1	7.7	7.2	7.2
Official exchange rate Kt:US\$ (av) ^f	5.6 ^d	5.4 ^d	5.6	5.5
Exchange rate Kt:US\$ (av) ^g	1,290.0	1,185.0	1,090.0	1,250.0
Exchange rate Kt:¥100 (av) ^g	1,095.3	1,146.4	1,132.5	1,319.3
Exchange rate Kt:Bt (av) ^g	37.4	35.6	30.7	35.0

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Fiscal years (beginning April 1st of year shown). ^d Actual. ^e Fiscal years (beginning April 1st of year shown); at free-market exchange rate (which understates the size of GDP). ^f Official rate (there is a wide differential between the official and free-market rates). ^g Free-market rate.

Monthly review: June 2009

The political scene

Aung San Suu Kyi is moved to Insein prison and goes on trial

The State Peace and Development Council (SPDC, the ruling military junta) has compounded its reputation as an oppressive autocratic regime intent on maintaining total control. In May the leader of the main opposition National League for Democracy (NLD), Aung San Suu Kyi, was charged with breaking the terms of her house-arrest and was moved to the notorious Insein prison in Yangon, where she was placed on trial. The SPDC fears the popular appeal of the NLD's charismatic leader, who has spent over 13 of the past 19 years under house-arrest (the most recent period of her detention began in May 2003).

The decision to arrest Aung San Suu Kyi on May 14th followed a bizarre incident in which a US citizen, John Yettaw, entered her well-guarded compound on May 3rd after swimming more than 2 km across Inya Lake behind her home; Mr Yettaw apparently refused to leave for two days. When he finally departed by swimming back across the lake, he was arrested and imprisoned. Police then spent several hours searching Aung San Suu Kyi's compound. Her doctor, Tin Myo Win, was arrested and later released. Along with her two housekeepers, Khin Khin Win and Win Ma Ma, Aung San Suu Kyi was moved to Insein prison, where most of the country's 2,000 political prisoners are being held.

The NLD has strongly denied that there is any connection between Aung San Suu Kyi and Mr Yettaw. Following a brief visit, US consular officials indicated that Mr Yettaw appeared to have a religious motivation for the visit. The timing is extremely frustrating for Aung San Suu Kyi's supporters, as the decision to arrest the NLD leader came just two weeks before her current period in detention was due to expire. There were faint hopes among her supporters that the junta was going to release her at the end of May as a goodwill gesture. However, there was never any real prospect of this happening. Just days before Mr Yettaw's appearance, NLD officials confirmed that the government had rejected an appeal against Aung San Suu Kyi's continued detention. There is little doubt that senior members of the SPDC fear that her could derail their plans to install a pro-military regime at the next national election, which is planned for 2010. (The NLD won the last election, which was held in 1990, but the junta has never accepted the results of the poll.) The incident with Mr Yettaw has dashed any hopes of the NLD leader being released in the near future.

Aung San Suu Kyi now faces charges of breaking the terms of her house-arrest and allowing a foreign visitor to stay overnight without permission (which is prohibited under Burmese law). If convicted, she could be jailed for up to five years. Political prisoners are regularly tried in Insein prison, where trials are frequently held behind closed doors, often with no legal representation for defendants. Aung San Suu Kyi has been allowed access to a legal team, but two of her senior lawyers were informed by officials that their licences had been revoked just before the trial began. Diplomats from a number of countries

attempted to monitor the trial as observers. Initially, all were turned away, but in a surprise move on May 20th, a group of diplomats and local journalists were permitted to observe the trial. However, this openness proved to be short lived, lasting for just one day. Political tensions heightened during the first few days of the trial. A number of opposition groups, including members of the NLD, staged peaceful demonstrations outside the prison, but riot police and members of the security services remained firmly in control.

The junta faces criticism over Aung San Suu Kyi's arrest

The junta's imprisonment of Aung San Suu Kyi has attracted widespread international condemnation. The US secretary of state, Hillary Clinton, has called the accusations against Aung San Suu Kyi "baseless", and on May 15th the US president, Barack Obama, stated that US sanctions against the military regime would remain in place. The new US administration had been reviewing its policy towards Myanmar, seemingly with the aim of developing a co-ordinated approach between itself and the junta's neighbours in Asia. However, the SPDC's latest move against Aung San Suu Kyi suggests that there will not be a softening of US policy in the near future. Meanwhile, the UN secretary-general, Ban Ki-moon, has also expressed his concern and UN officials have echoed widespread calls for Aung San Suu Kyi to be freed.

EU officials have indicated that sanctions against the regime could be tightened. Prior to Aung San Suu Kyi's recent arrest, on April 27th the European Council extended sanctions against Myanmar for another year. The measures, known as the EU's "common position", includes a bar on arms exports to Myanmar and a travel ban preventing senior members of the regime from visiting the EU. Since 2007 the measures have also included a ban on imports of items such as timber, metals and minerals, and on EU investment in these sectors. In the past EU ministers have indicated that the sanctions would be relaxed if the junta was to release the country's political prisoners, including Aung San Suu Kyi, or take other credible steps towards reconciliation with the democratic opposition. However, in recent weeks, EU officials have made it clear that no such move will be considered while Aung San Suu Kyi is being held in jail.

Comment from Myanmar's fellow members of the Association of South-East Asian Nations (ASEAN) has been more muted. Thailand currently holds the ASEAN chair, and on the group's behalf, the country's prime minister, Abhisit Vejjajiva, expressed "grave concern" for Aung San Suu Kyi's health and called for her release. However, as a group, ASEAN has yet to issue stronger criticism or threaten action if the junta ignores its demand. Despite having a new charter in place that requires member states to protect and promote human rights, ASEAN's policy towards the junta is shaped by the bloc's long-standing commitment to avoiding interference in the affairs of member states. However, several members have been more outspoken in their criticism of the junta. The Philippines' secretary of foreign affairs, Alberto Romulo, stated that his government was "troubled and outraged" by the "trumped-up" charges against the NLD leader, and he called for her unconditional release. The Ministry of Foreign Affairs in Singapore has also issued a statement noting its "dismay" at the NLD leader's imprisonment and calling for her release.

Previously the junta has proved impervious to international criticism and to pressure tactics such as sanctions. A concerted effort by Myanmar's neighbours could perhaps influence the junta to at least return Aung San Suu Kyi to house arrest (rather than keeping her in jail). However, the SPDC may simply decide that it will not risk a fresh election in 2010 unless the NLD leader is being detained.

The NLD takes a wait-and-see approach to the 2010 election

The NLD has yet to confirm whether it will participate in the planned 2010 election. In April the party was able to hold a conference and around 150 NLD delegates gathered in the main commercial city, Yangon, under the close scrutiny of the military's intelligence services. (Such meetings are rare, given the tight restrictions on political activity that are imposed by the junta.) Following the meeting, NLD officials reiterated the party's demands for the release of all of the country's political prisoners, dialogue with the SPDC and the amendment of clauses in the 2008 constitution, which leaves sweeping powers in the hands of the military. The statement also called on the junta to hold "free and fair elections" in the presence of international observers. The NLD did not confirm whether it would field candidates in the 2010 poll, saying only that it would wait to see what conditions were included in the new electoral law and registration law for political parties, which the junta is due to announce before the election goes ahead. The longer that the junta holds Aung San Suu Kyi in prison, the lower the likelihood of the party participating in the planned election.

An election without the participation of the NLD would lack credibility internationally (and domestically, given continued strong support for the party). However, the junta is likely to ignore such concerns, preferring to install a government dominated by the pro-military groups that are currently being groomed for this role.

Economic policy

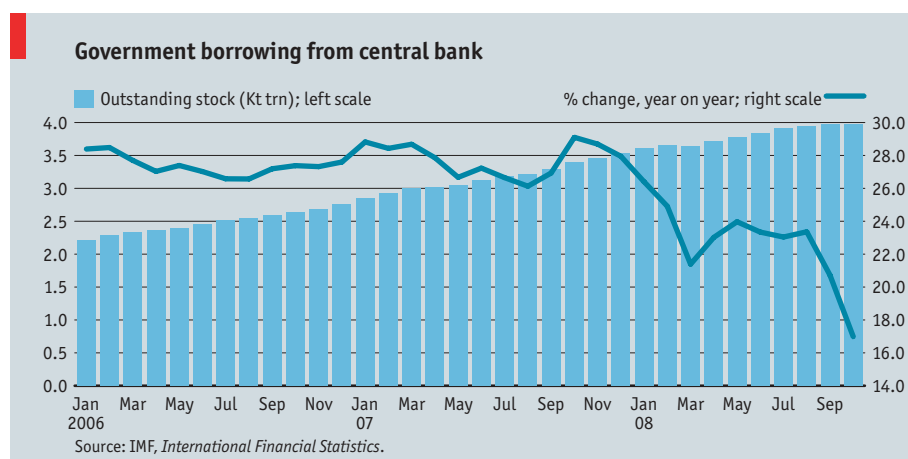
Despite rising revenue, government debt remains high

Central government tax revenue has continued to rise rapidly. In the first ten months of fiscal year 2008/09 (April-March), total tax revenue rose by 52.2% year on year to Kt843bn (US\$145bn at the inflated official exchange rate, or around US\$830m at the free-market rate). Efforts to improve tax collection procedures and tighten up on tax evasion helped to drive up revenue from income tax, which rose by 91.8% to Kt328bn. Revenue from commodity, services and commercial taxes, the other main source of tax revenue, rose by 22.2% to Kt323.8bn. Revenue from profit taxes rose by 18.6% to Kt80bn, while revenue from lottery and stamp duties increased by 28.4% to just over Kt25bn.

The government does not publish regular data on expenditure of the overall budget. Despite robust growth in central government revenue, the SPDC is believed to be running a large budget deficit, driven by heavy spending on the military and on government projects such as the development of the new capital city, Naypyidaw. Among a raft of large-scale projects at Naypyidaw, construction started in early 2009 on a new international airport, which will be able to handle an initial 3.5m passengers a year. The capacity is set to rise to

10.5m passengers a year by the time that the final phase is completed, which is expected to be within the next three years.

Reflecting the poor state of the government's fiscal position, the junta remains heavily reliant on borrowing from the Central Bank of Myanmar to finance its expenditure. In the first ten months of 2008 the junta's net borrowing amounted to Kt438bn, equivalent to around one-half of the total amount of tax that was collected in the same period. The junta has also been borrowing heavily from what is in effect a captive market of domestic private enterprises. In the first ten months of 2008/09, it issued Kt72.8bn in three-year bonds and Kt40.8bn in five-year bonds, while repaying a total of only Kt12.3bn.



Economic performance

Economic growth appears sluggish

The limited industrial production data that are available continue to suggest that economic growth in Myanmar has been sluggish at best. The Central Statistical Organisation (CSO) only produces data on industrial production by state-owned enterprises (data that include private-sector output are not available). These figures reveal that in January output of natural gas, crude oil, plywood and cotton yarn all fell sharply on a year-on-year basis. Output of natural gas (which dominates Myanmar's export earnings) dropped by nearly 50% year on year, while oil production dropped by 30%. However, output of a number of other items, including cement, paper, cotton fabrics and fertiliser all increased on a year-on-year basis. Output trends in mining were also mixed. Although output of jade reached around 3,180 tonnes in January, up from a monthly average of around 2,600 tonnes in 2008, the output of gems (such as rubies and sapphire) dropped to 800,120 carat, from a monthly average of 1.7m carat in 2008. Although growth in sales of electricity to industry (a proxy indicator for growth in the industrial sector) rose in January to 5.4% year on year, there is a clear indication that the junta's claims of double-digit economic growth are unrealistic.

The sluggish economy and concerns over fragile political stability have curbed foreign investor enthusiasm. In January only one new foreign-invested project was approved—a Thai investment of US\$15m in the hotel and tourism sector.

The country is also struggling to attract greater numbers of foreign tourists. In January total tourist arrivals fell by 0.7% year on year.

Inflation slows, but is still in double digits

Consumer price inflation has continued to fall. According to the latest available data from the CSO, in January 2009 the year-on-year rise in the consumer price index (CPI) slowed to 16.3%, its lowest level since May 2006, and down from 20.4% in December and an annual average of 26.8% in 2008. Anecdotal evidence suggests that the official rate of inflation may underestimate the actual rise in consumer prices. However, there has clearly been a deceleration in inflation in recent months, driven by improved food supplies following the start of the main annual rice harvest. Food production has risen in several areas of the country as a result of good growing conditions, alleviating the impact of Cyclone Nargis, which caused extensive damage to important agricultural areas in the southern delta in May 2008. Food prices fell by 1.6% month on month in January, having fallen by 1.7% in December and 0.4% in November. On a year-on-year basis, prices in the food price sub-sector (which has the heaviest weighting in the CPI) rose by 16.3% in January, while prices in the clothing category rose by 16.1% and in the fuel and lighting category by 13.7%. Prices in the housing and utilities category of the CPI showed a stronger increase, growing by 25.5%.

Exports rose sharply in January

Merchandise exports picked up in early 2009 owing primarily to a rise in exports of natural gas and pulses, both of which are important export commodities. In January total exports jumped by 38.3% year on year to Kt4.3bn. The strong rise in exports represented a turnaround when compared with weak growth of 6.8% year on year for the whole of 2008. Revenue from natural gas, which is sold to neighbouring Thailand, jumped by 163.4% year on year in January, to Kt2.8bn. However, official data from Thailand suggest that this trend did not persist for the whole of the first quarter, with the value of Thai imports from Myanmar (in baht terms) falling by 11% year on year in this period as a whole. In January export revenue from pulses rose by 73% year on year to Kt395.4m (US\$68m at the inflated official exchange rate, or around US\$390,000 at the free-market rate). Exports of pulses have been sustained by strong demand from India. According to press reports, in April the Indian government agreed to purchase 37,000 tonnes of pulses from Myanmar, beginning in May. However, a number of the country's other important exports performed poorly in January. Exports of teak and hardwood plummeted by 66% year on year to Kt69.4m, while revenue from "other" exports, a category that includes gems and jade, dropped by 52% to Kt477m, down from a monthly average of Kt1.1bn in 2008.

In 2008 growth in the value of imports easily outpaced that of exports, rising by 26.4%, compared with export growth of 7.1%. This trend was reversed in January 2009, when imports rose by just 3.8% year on year. Imports of machinery and transport equipment—the largest category of imports—dropped by almost 37% year on year to Kt214m. Imports of refined mineral oil dropped by almost 99% year on year to a mere Kt1.1m in January, primarily reflecting the drop in global prices. Weakening domestic demand may result in sluggish growth in imports this year. However, ongoing reconstruction work in the

southern delta region, the development of several major foreign-funded energy and mining projects, and building work at Naypyidaw will ensure continued demand for capital goods imports.

The sharp increase in exports, combined with sluggish growth in imports, saw the merchandise trade surplus widen to Kt2.9bn in January 2009, from Kt1.7bn in January 2008. Recent data on the current-account position and foreign-exchange reserves are not available. However, it is likely that rising exports and inflows of foreign aid following Cyclone Nargis have all helped to boost foreign-exchange reserves.

Data and charts

Annual data and forecast

	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^b	2009 ^c	2010 ^c
GDP^d							
Nominal GDP (US\$ m)	9,977	11,221	11,888 ^b	16,312	22,633	27,079	26,361
Nominal GDP (Kt bn)	9,079	12,287	15,217 ^b	21,043	26,821	29,516	32,951
Real GDP growth (%)	13.6	13.6	3.4 ^b	3.4	0.9	0.3	1.2
Expenditure on GDP (% real change)^d							
Private consumption	11.4 ^b	10.2 ^b	3.0 ^b	2.0	-2.0	-1.9	-1.0
Government consumption	16.7 ^b	26.2 ^b	15.0 ^b	15.0	15.0	12.0	8.0
Gross fixed investment	21.7	29.7	5.0 ^b	6.0	10.0	5.0	7.0
Exports of goods & services	15.6	3.6	12.0 ^b	10.0	-5.0	-4.0	2.0
Imports of goods & services	-16.5	2.3	30.0 ^b	9.0	4.2	3.5	4.0
Origin of GDP (% real change)^d							
Agriculture	11.0	12.1	3.0 ^b	1.4	-3.0	-1.2	0.5
Industry	21.4	19.9	8.2 ^b	9.0	7.8	0.2	-0.8
Services	14.4	13.1	1.7 ^b	3.5	3.2	2.2	3.0
Population and income							
Population (m)	48.0	48.4	48.7	49.1 ^a	49.6	49.9	50.3
GDP per head (US\$ at PPP)	491 ^b	444 ^b	440 ^b	433	435	433	426
Fiscal indicators (% of GDP)^d							
Central government budget revenue	5.4 ^b	4.6 ^b	4.4 ^b	4.2	4.4	4.2	4.2
Central government budget expenditure	7.3 ^b	6.7 ^b	7.1 ^b	7.2	8.0	8.7	9.0
Central government budget balance	-1.9 ^b	-2.2 ^b	-2.6 ^b	-3.0	-3.6	-4.5	-4.8
Prices and financial indicators							
Exchange rate Kt:US\$ (av; official rate)	5.75	5.76	5.78	5.56 ^a	5.36 ^a	5.65	5.51
Exchange rate Kt:US\$ (av; free-market rate)	910 ^b	1,095 ^b	1,280 ^b	1,290	1,185	1,090	1,250
Consumer prices (end-period, %)	3.8	14.3	28.4	28.6 ^a	20.4 ^a	10.4	9.9
Stock of money M1 (% change; end-period)	25.4	31.3	26.5	30.2 ^a	11.5	10.5	12.2
Stock of money M2 (% change; end-period)	32.4	27.3	27.2	30.0 ^a	15.6	14.7	13.1
Lending interest rate (av; %)	15.0	15.0	16.1	17.0 ^a	17.0 ^a	17.0	17.0
Current account (US\$ m)							
Trade balance	928	2,028	2,211	3,206	2,921	1,954	2,188
Goods: exports fob	2,927	3,788	4,555	6,170	6,348	5,075	5,425
Goods: imports fob	-1,999	-1,759	-2,343	-2,964	-3,427	-3,122	-3,237
Services balance	-205	-243	-283	-307	-347	-398	-420
Income balance	-745	-1,384	-1,291	-1,750	-1,928	-1,478	-1,631
Current transfers balance	134	174	122	137	372	316	190
Current-account balance	112	576	760	1,285	1,018	394	327
External debt (US\$ m)							
Debt stock	7,239	6,645	6,828	7,133	7,740	7,202	7,181
Debt service paid	125	107	86	109	105	96	98
Principal repayments	93	81	61	78	74	71	74
Interest	33	25	25	30	32	25	24
International reserves (US\$ m)							
Total international reserves	685	782	1,248	2,312	3,412	3,361	3,462

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Fiscal years (beginning April 1st of year shown).

Source: IMF, *International Financial Statistics*.

Quarterly data

	2007				2008			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (2000=100)	433.0	466.8	513.3	525.0	558.6	602.6	651.2	645.2
Consumer prices (% change, year on year)	37.0	38.9	38.5	30.3	29.0	29.1	26.9	22.9
Financial indicators								
Exchange rate Kt:US\$ (av; official rate)	5.67	5.61	5.55	5.41	5.34	5.23	5.35	5.65
Exchange rate Kt:US\$ (av; free-market rate) ^a	1,290	1,250	1,310	1,310	1,183	1,155	1,215	1,186
Central bank rate (end-period; %)	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Deposit rate (av; %)	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Lending rate (av; %)	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
M1 (end-period; Kt bn)	2,682	2,744	2,956	3,217	3,136	3,279	3,355	n/a
M1 (% change, year on year)	25.5	24.9	27.8	30.2	17.0	19.5	13.5	n/a
M2 (end-period; Kt bn)	3,637	3,819	4,078	4,384	4,398	4,631	4,842	n/a
M2 (% change, year on year)	27.1	28.3	27.7	30.0	20.9	21.2	18.7	n/a
Sectoral trends, production								
Natural gas (bn cu ft)	114	119	119	118	116	104	118	101
Tin in concentrates (tonnes)	159	210	177	222	202	158	159	249
Crude oil ('000 barrels)	1,885	1,919	1,938	1,883	1,880	1,701	1,911	1,750
Jade (tonnes)	6,726	7,494	2,930	2,854	6,957	10,876	4,095	8,967
Gems ('000 carats)	6,354	7,178	5,176	4,956	5,358	6,491	6,559	2,090
Foreign trade (Kt m)								
Exports fob	8,970	6,683	13,186	6,321	8,995	7,234	8,634	n/a
Imports cif	4,855	3,279	4,741	5,347	4,889	5,899	4,940	n/a
Trade balance	4,116	3,404	8,445	974	4,107	1,335	3,693	n/a
Foreign payments (US\$ m)								
Merchandise trade balance	789.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Services balance	-169.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Income balance	-237.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net transfer payments	50.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Current-account balance	433.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Reserves excl gold (end-period)	1695.3	1782.8	n/a	n/a	n/a	n/a	n/a	n/a

^a Economist Intelligence Unit estimates.

Sources: Central Statistical Organisation, *Selected Monthly Economic Indicators*; IMF, *International Financial Statistics*.

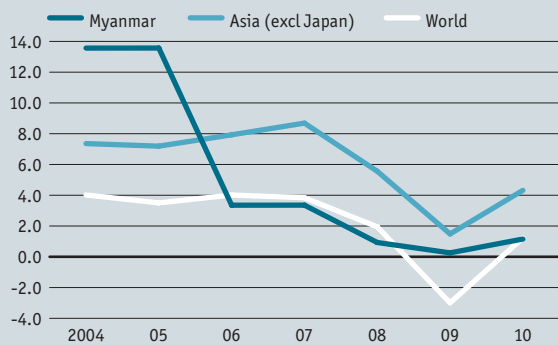
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Kt:US\$ (av; official rate)												
2007	5.69	5.68	5.64	5.60	5.61	5.63	5.56	5.56	5.51	5.46	5.36	5.40
2008	5.37	5.37	5.28	5.20	5.24	5.26	5.22	5.37	5.47	5.62	5.74	5.59
2009	5.60	5.78	5.79	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Kt:US\$ (av; free-market)												
2007	1,300	1,300	1,270	1,250	1,250	1,250	1,280	1,300	1,350	1,300	1,310	1,320
2008	1,250	1,200	1,100	1,115	1,150	1,200	1,185	1,190	1,270	1,200	1,235	1,125
2009	1,190	1,000	1,015	0	0	0	0	0	0	0	0	0
Money supply M1 (% change, year on year)												
2007	29.6	27.6	25.5	25.0	20.7	24.9	22.8	25.8	27.8	30.8	32.0	30.2
2008	27.7	25.4	17.0	16.1	20.1	19.5	20.5	19.5	13.5	12.7	n/a	n/a
2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (% change, year on year)												
2007	28.8	27.7	27.1	26.9	25.4	28.3	26.5	28.1	27.7	29.4	30.8	30.0
2008	28.5	26.6	20.9	20.9	21.9	21.2	22.1	21.0	18.7	18.0	n/a	n/a
2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2007	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2008	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2009	12.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2007	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
2008	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
2009	17.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2007	34.6	37.5	38.7	40.9	38.7	37.1	36.3	34.5	34.2	32.7	29.8	28.6
2008	29.1	29.0	28.8	28.3	30.5	28.4	27.7	26.8	26.2	25.1	23.5	20.4
2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
2007	1,297	1,421	1,695	1,369	1,652	1,783	n/a	n/a	n/a	n/a	n/a	n/a
2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2009	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

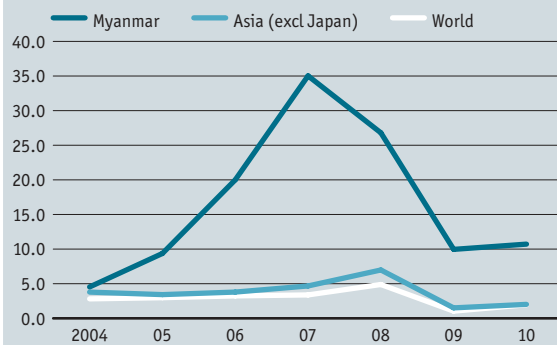
Annual trends charts

Real GDP growth
(% change)



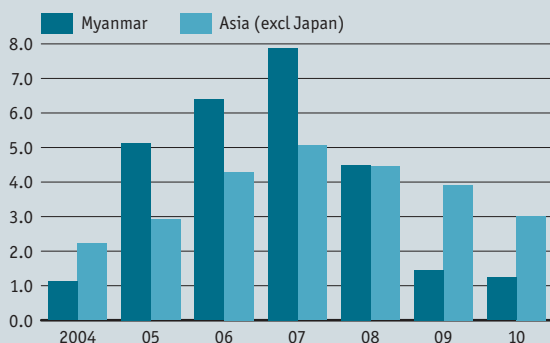
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



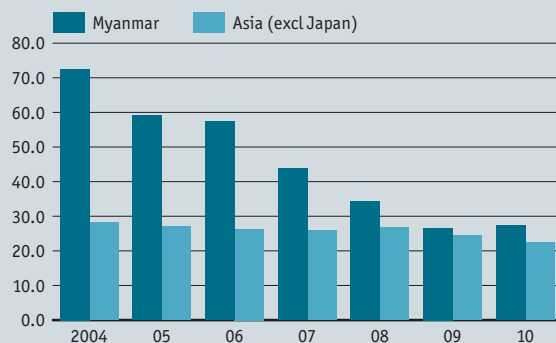
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



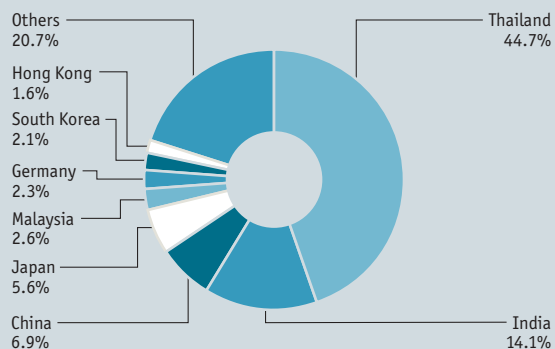
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



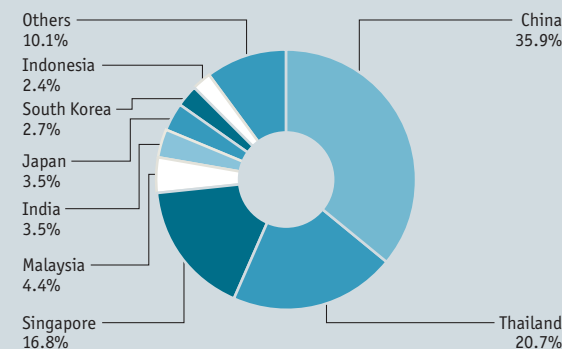
Source: Economist Intelligence Unit.

Main destinations of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

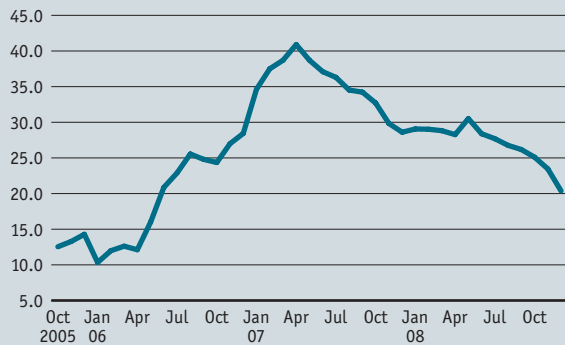
Main origins of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

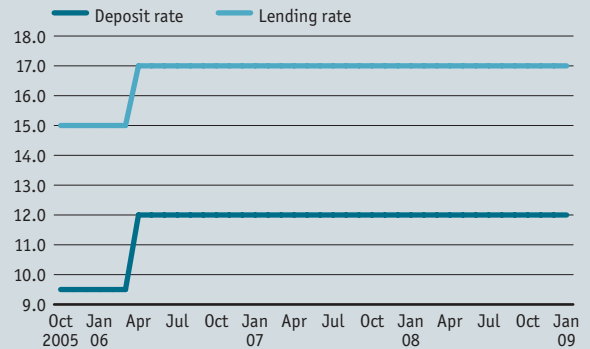
Monthly trends charts

Consumer price inflation
(% change, year on year)



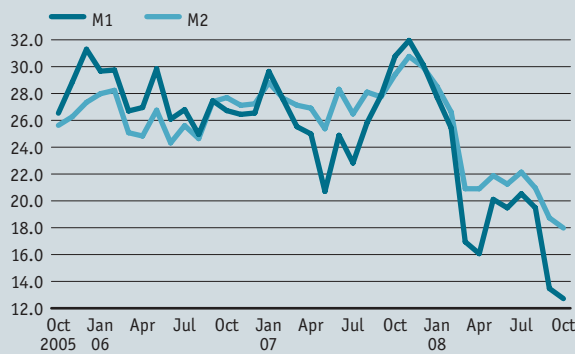
Source: Economist Intelligence Unit.

Interest rates
(av; %)



Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



Source: Economist Intelligence Unit.

Natural gas: US spot price
(US\$/BTU m)



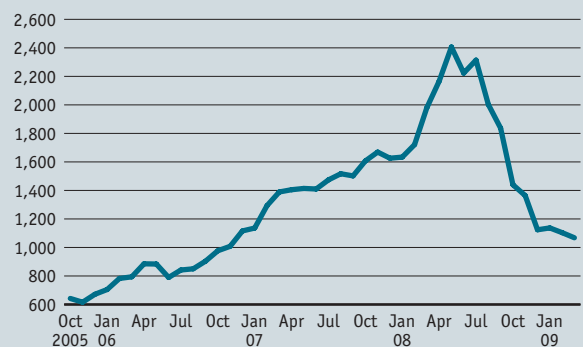
Source: Economist Intelligence Unit.

Oil: Brent crude price
(US\$/b; av)



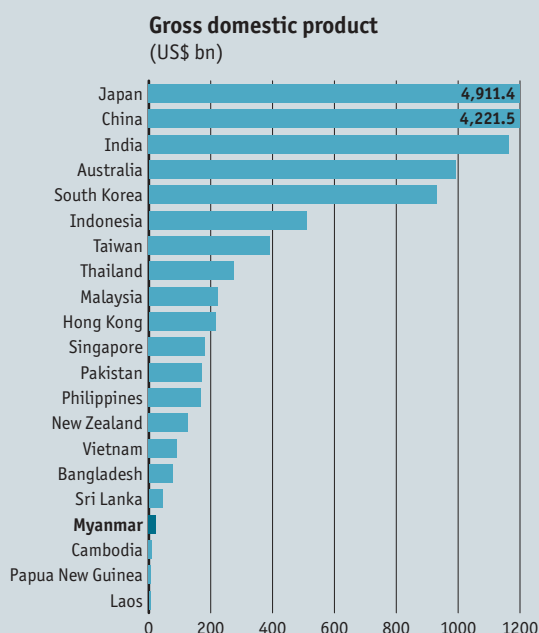
Source: Economist Intelligence Unit.

Tin: LME price
(US cents/kg)

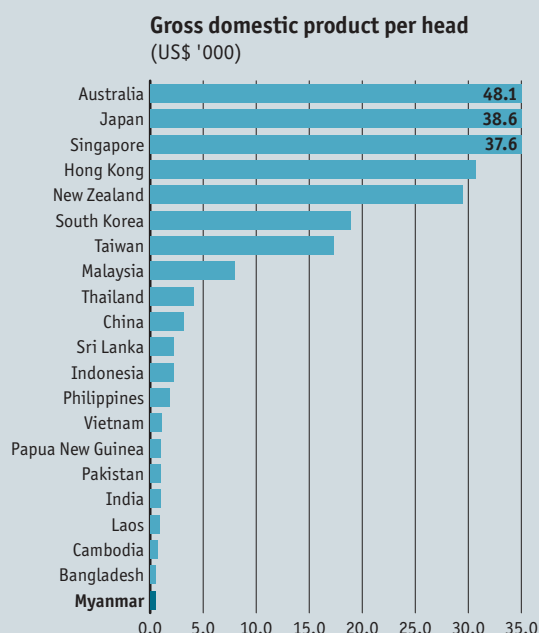


Source: Economist Intelligence Unit.

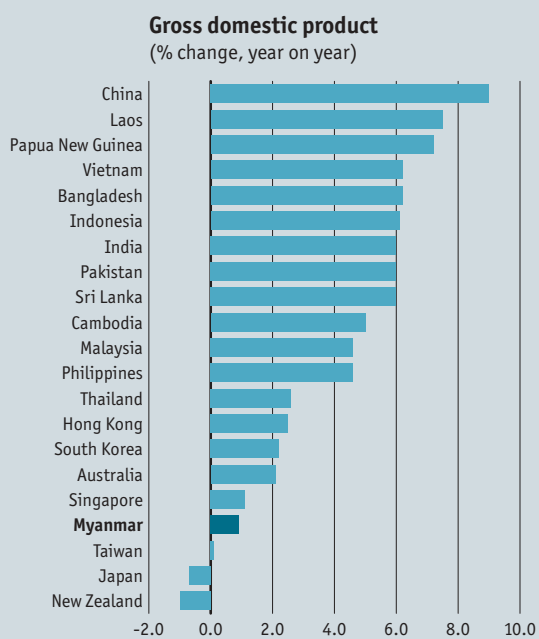
Comparative economic indicators, 2008



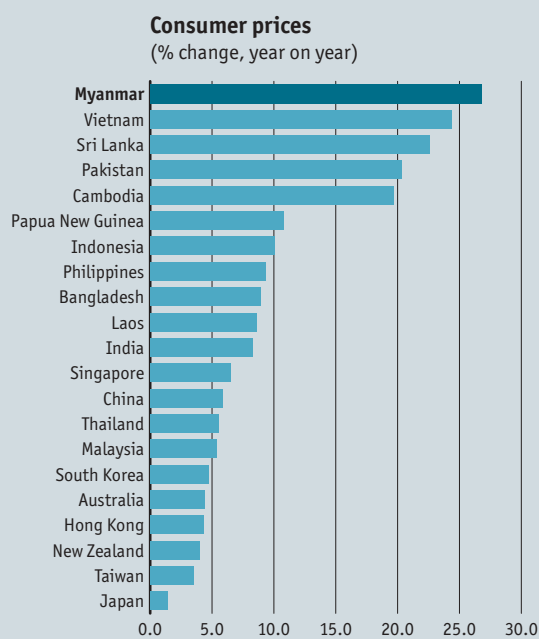
Sources: Economist Intelligence Unit estimates; national sources.



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Country snapshot

Basic data

Land area 676,563 sq km

Population 48.8m (IMF mid-2007 estimate)

Main towns Population in '000 (1983 census)

Yangon	2,513	Pegu	320
Mandalay	533	Moulmein	220

Note. In 2006 the junta moved the country's administrative capital from Yangon to the newly built town of Naypyidaw. In the text, places are referred to by their pre-1989 names, apart from Yangon and Myanmar. Pre-1989 names appear in brackets on the map at the beginning of this report

Climate Subtropical

Weather in Yangon (altitude 5 metres) Hottest month, April, 24-36°C; coldest month, January, 18-23°C; driest month, January, 3 mm average rainfall; wettest month, July, 582 mm average rainfall

Language Burmese; numerous other minority languages are also in use, such as Karen and Shan

Measures Derived from the UK system. Some other units are in use. For example, 0.9842 long or imperial tons=1 metric tonne=1.10231 short tons. Local measures include: 1 lakh=100,000 units; 1 crore=10,000,000 units; 1 viss or peiktha=100 ticles=1.6 kg; 1 basket (paddy)=20.9 kg; 1 basket (rice)=34 kg

Currency 1 kyat (Kt)=100 pyas. Average official exchange rate in 2008: Kt5.36:US\$1. Average free-market exchange rate in 2008: K1,185:US\$1 (based on private estimates)

Time 6.5 hours ahead of GMT

Fiscal year April 1st-March 31st

Public holidays January 4th (Independence Day); February 12th (Union Day); March 2nd (Peasants' Day); March 27th (Armed Forces' Day); April 12th-16th (Thingyan, New Year); May 1st (Workers' Day); July 19th (Martyrs' Day); November 11th (National Day); December 25th (Christmas Day); plus other holidays, the timing of which depends on lunar sightings.

Political structure

Official name	Union of Myanmar	
Form of state	Military dictatorship	
The executive	Following a military coup in 1988, the State Law and Order Restoration Council assumed executive power. In 1997 it was renamed the State Peace and Development Council (SPDC)	
Head of state	Chairman of the SPDC, Senior General Than Shwe	
National legislature	The Pyithu Hluttaw (People's Assembly) was abolished after the military coup in 1988; an election was held for a new People's Assembly in 1990, resulting in an overwhelming victory for the opposition National League for Democracy (NLD), but the junta refused to recognise the result. In 2003 the junta announced a seven-point "road map" that would lead to the convening of parliament following fresh elections	
National elections	In February 2008 the junta announced plans to hold a multiparty national election in 2010 as a stage on its reform road map. It remains unclear under what conditions the election will take place	
National government	The SPDC controls all organs of state power	
Main political organisations	Since the military coup, most political parties have been declared illegal. The few that are still officially registered face restrictions on their activities. The NLD is the most significant remaining opposition political party. The junta has developed the Union Solidarity Development Association (which was set up in 1993 as a welfare organisation) into a quasi-political party and support bloc for the military regime. A number of ethnic-based political groups and their armed wings also exist	
Main political parties	NLD; National Unity Party (NUP); Shan Nationalities League for Democracy (SNLD) and other ethnic-based parties	
Main members of the State Peace and Development Council	Chairman	Senior General Than Shwe
	Vice-chairman	Deputy Senior General Maung Aye
	Secretary-1	Lieutenant General Tin Aung Myint Oo
	Prime minister	General Thein Sein
Key ministers	Agriculture	Major General Htay Oo
	Commerce	Brigadier General Tin Naing Thain
	Defence	Senior General Than Shwe
	Energy	Brigadier General Lun Thi
	Finance & revenue	Major General Hla Tun
	Foreign affairs	Major General Nyan Win
	Home affairs	Major General Maung Oo
	Industry-1	Aung Thaung
	Industry-2	Vice-Admiral Soe Thein
	Labour	Aung Kyi
	Mining	Brigadier General Ohn Myint
	Telecommunications, posts & telegraphs	Brigadier General Thein Zaw
Central bank governor	Than Nyein	