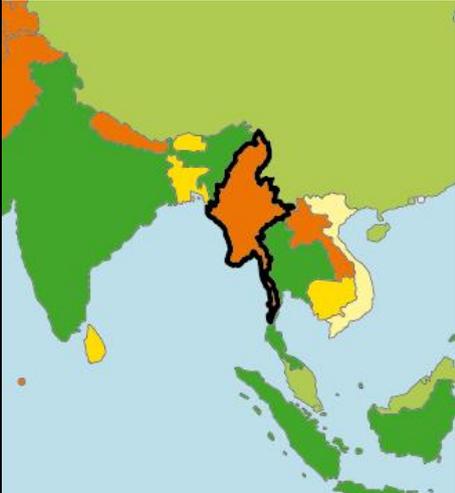
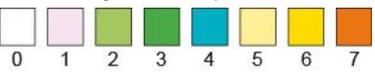


# Myanmar (Burma)

	<b>COUNTRY RISK CATEGORY</b>  <h1>7/7</h1> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	<b>EKN'S POLICY</b> <b>Only short-term letter of credit guarantees can be considered.</b>  See "EKN'S POLICY" section
	<b>EKN'S OUTSTANDING GUARANTEES ON THE COUNTRY</b> <b>Short-term transactions:</b> SEK 0 million <b>Medium and long-term transactions:</b> SEK 0 million	<b>DATE</b> <b>22/08/2013</b>

## Positive trend in early phase of transformation

Myanmar (Burma) is in the beginning of a fundamental process of transformation, both politically and economically. After decades of military dictatorship, misgovernance, internal conflicts and partial isolation, its challenges are enormous. The military's role remains strong and the process of peace and democratisation cannot be taken for granted. The economic base is narrow and most of the fundamental physical and institutional infrastructure and capacity that characterizes a market economy is lacking. This makes the reform process difficult and makes the economy vulnerable. Corruption, changing regulations and a rudimentary legal framework contribute to a rough business climate, which affects the risk in individual transactions. The direction of the reform process is however positive. The regime's ambitions are considered genuine and key progress has been made. Positive results in the form of increases in growth and direct investments, the easing of sanctions as well as debt relief contribute to the bolstering of the reform dynamic and it seeming more and more irreversible.

### STRENGTHS

- Strong reform dynamic with increased support from the IMF and other international organizations.
- Moderate external debt and increasing hard-currency earnings potential
- Substantial potential in natural resources, agriculture and tourism, a relatively large and young population and a strategic geographic location in a dynamic region.

### WEAKNESSES

- An inexperienced political system in the beginning of the transition from a military dictatorship and with a risk of setbacks and ethnic and religious conflicts flaring up.
- The economy is in the beginning of a transformation into an open market economy

and there are large deficiencies in macro-political governance and in institutional capacity in the state apparatuses.

- A narrow economic base centred around gas extraction and low-productive agriculture.
- A very difficult business climate.

## POLITICS

**Reform process becoming more and more irreversible**

The reforms initiated in the autumn of 2011 have quickly led the country to an early but fragile stage of democratisation after over 50 years of repressive military misgovernance. It is significant that the transformation did not start with a popular uprising, but was initiated by the military itself and not until after its political influence was secured. The constitution of 2008 reserves 25 percent of the seats in the parliament for the military and means that changes to the constitution require the approval of the military. A parliamentary majority was secured for the military's civilian political party, USDP, via rigged elections. In March 2011, the military junta dissolved itself and appointed a civilian government consisting of a younger generation of former military men with President Thein Sein at the head.

A comprehensive reform process has been initiated under Thein Sein. It includes economic reforms, a reconciliation process and reforms going in the direction of democracy. Among other things, a large number of political prisoners have been released, rules concerning unions and civil society have been liberalised and the freedom of the press has been expanded. Popular democracy advocate Aung San Suu Kyi was freed and her party, the National League for Democracy (NLD), was once again allowed to run in elections. The fact that NLD won a crushing victory in a by-election in 2012 came as a surprise for the regime. The reaction to the defeat has however been to strengthen the powers of reform in the government and increase the rate of reform in the hopes of being able to boast of progress by the 2015 elections. Aung San Suu Kyi and NLD have now been incorporated into parliamentary work and certain pragmatism seems to have materialised where forms of dialogue and cooperation have been established.

A peace process has also been initiated in the ethnic conflicts that have ravaged the country's border areas which are rich in natural resources for decades. Incorporating ethnic minorities into the political process is critical, since they make up over one third of the population. Ceasefire agreements with the majority of the major ethnic armies point in a positive direction, but the situation is complex and the mutual trust is fragile. The rise of Burmese-Buddhist extremism and ethnic-religious violence after the political liberalisation is disconcerting. The religious and ethnic tensions are one of the biggest threats to the reform process and stability.

The other major doubt concerns the military's willingness to see its position of power erode over time. Even though key steps have been taken toward democratisation, the military leadership has a decisive influence on the country's overall direction. The 2015 parliamentary elections will be a key test of the military's stomach for reform and of the young political system. NLD is the clear favourite, but the party is completely centred around Aung San Suu Kyi and there are doubts about whether the ageing party leadership is fit to govern. There are several sensitive issues concerning the constitution that would need to be solved to strengthen the prospects for political stability. A transition to a proportional election system, as well as increased federal elements would strengthen the ability of the ethnic minorities to have political influence. Furthermore, the constitution prevents Aung San Suu Kyi from becoming the president. These are issues that used to be completely taboo for the military. The fact that USDP signalled increased readiness to

discuss these issues last year could possibly indicate that a change of course may be under way. There are strong indications that the powers of reform in the regime and Aung San Suu Ky are pursuing a dialogue that could pave the way for the compromises and power sharing arrangements needed for coexistence or even cooperation beyond the elections.

Overall, the country is in the very beginning of a process of transformation with many pitfalls. The military's position of power remains strong and the new political landscape emerging is unexperienced and subject to change. The dynamic is nevertheless positive. The reform process has risen from the military's original plans and is beginning to reach a stage where it appears to be more and more irreversible.

## ECONOMY

### **Myanmar has potential, but is facing fundamental challenges**

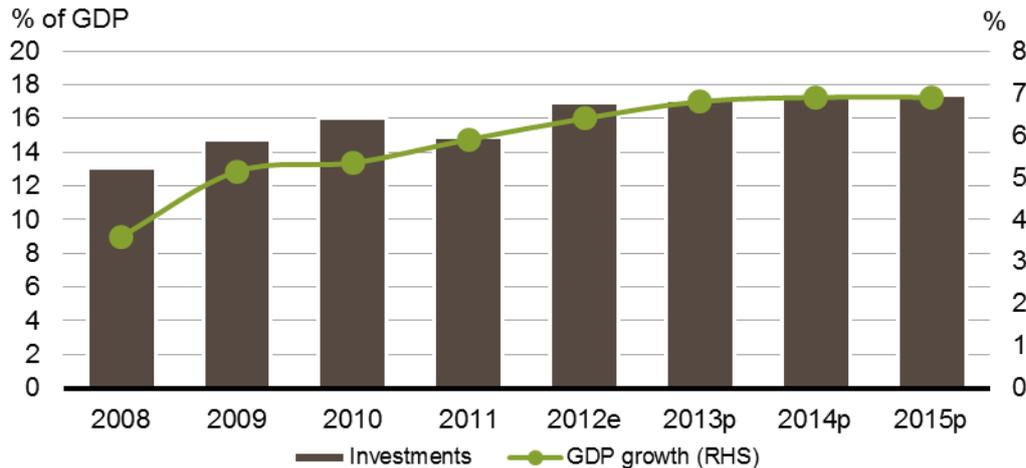
Myanmar has substantial potential for growth. The country has natural resources, in particular in the form of gas, copper and other minerals. There is great potential in agriculture and hydro power. Over half of the population of around 60 million are under 30 years old, which means good access to labour and a potentially sizeable domestic market. In addition, Myanmar is strategically located in a dynamic region where investments in infrastructure and economic integration give the country opportunities to be incorporated into growing trade and investment flows.

The path toward realising this potential is however expected to be long and strenuous. After decades of misgovernance, Myanmar is the poorest and least developed economy in Southeast Asia. Its GDP per capita is just under 900 dollars and over 25 percent of the population live below the poverty line. The informal economy is far-reaching and low-productive agriculture accounts for just over 35 percent of GDP and employs about two thirds of the labour force. The manufacturing industry accounts for only about five percent of GDP. The country's infrastructure is very underdeveloped. Only one fourth of the population has access to electricity and power outages are frequent in the big cities. The need for investment is therefore enormous in everything from education to roads, the power grid and the mobile network. In addition, most of the institutional and legal infrastructure and capacity for governance that characterises a functioning market economy is lacking. With limited experience of market economics, the situation creates uncertainty concerning the regime's ability to manage the fast growing structural transformation and any impediments along the way.

It is therefore decisive that the reform process continues. The reform ambitions of Thein Sein are considered to be genuine and high. The government has established a framework for the reform work that has garnered support from the charitable community and it has initiated an initial IMF programme for 2013 that is proceeding according to plan. In addition to the easing of sanctions, a new investment law has contributed to foreign investments (FDI) beginning to rapidly increase. Reforms and the granting of licenses in the telecom and gas sector are indications of increased transparency in public tender processes. The government is planning to continue reducing the financing of the budget via the printing presses and limit the deficit to five percent of GDP. A substantial increase in the state's gas revenues enables an increase in the low social expenditure. The public debt is on the way to being reduced via write-downs, but is expected to consist of just over 40 percent of GDP. That is relatively high in light of the large need for development. With very low tax intake, the revenue base is concentrated in the gas sector. Along with the doubts concerning the government's control over the revenues that state-owned enterprises don't transfer to the government (over 55 percent of public revenue), this means that the position of the public finances is considered to be fragile.

The policy of reform and the easing of sanctions are beginning to produce positive results. Inflation, which on average has been at 23 percent from 2001 to 2010, has been reduced to around six percent. Growth is showing signs of accelerating, in particular driven by investments and gas production and is expected to reach levels of six to seven percent in the coming years.

## GDP GROWTH AND INVESTMENTS



*Growth reached 6.4 percent in 2012/2013 and investments are on the rise. Data: IMF*

The layer of reform-inclined powers in the state apparatuses is sparse and dependent on support from the military leadership. They have a tricky balance to strike to not alienate powerful special interests associated with the military and their business partners. The parliamentary process gives these interests opportunities to put the brakes on the reforms as the process shifts focus to more structural and sensitive areas. The implementation of reforms is made difficult by an acute lack of capacity and wide-spread corruption in the rampant bureaucracy and the lacking coordination between central and local governments. The reform process is moving forward, but the situation suggests that the process of transformation will take time and will have significant risks of setbacks.

## BALANCE OF PAYMENTS AND DEBT ISSUES

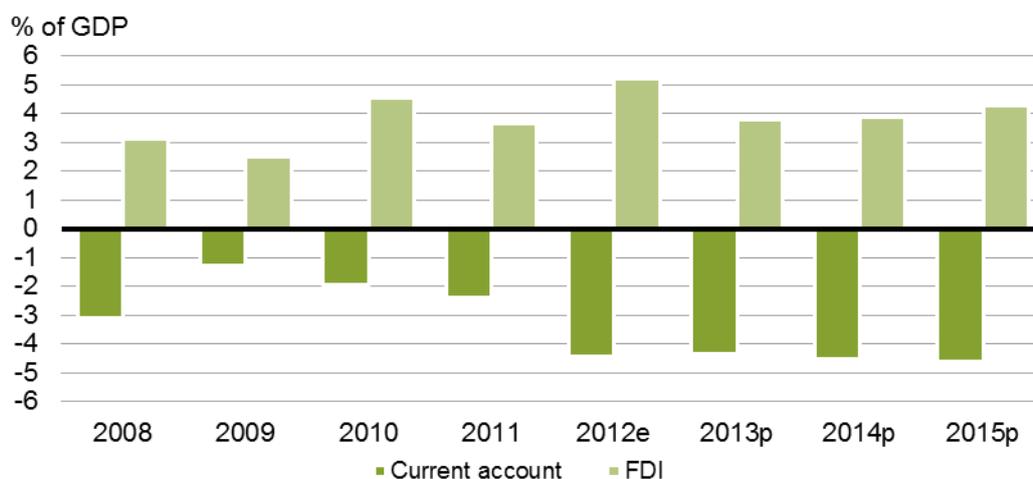
**Positive prospects, but also significant uncertainties**

Decades of currency and import regulations have, combined with the West's sanctions, constrained the country's development of trade and investments. The export sector is limited and is dominated by natural gas (approximately one third of exports) and agricultural products, while the manufacturing industry accounts for less than five percent of exports. With a narrow export base, the country is exposed to cyclical commodity prices, weather-related disturbances and demand from a small number of markets (China and Thailand). As the economy is opened up, the external sector and the balance of payments is expected to undergo significant changes.

With limited domestic capacity for both production of capital goods and capital mobilisation, the country's development will largely have to occur with imports and be financed externally. It is positive that currency earnings are already expected to increase in the short term. Two large gas fields will be put into service in 2013, which are expected to increase gas exports by approximately 60 percent. The US can be expected to follow the EU's decision to grant the country privileged access to its markets, which promotes the development of other exports, such as in textiles, where FDI has begun to increase. Both tourism and remittances from Burmese in exile are on the rise. At the same time, imports are expected to increase

substantially due to the liberalisation of import and currency regulations and a great need for investment. The current account balance deficits are rising, but are expected to be stabilized at levels around four or five percent of GDP. On the financing front, FDI has increased significantly since 2009. The gas sector is expected to continue to dominate, but investments in the domestic economy (telecom, tourism, properties, consumption and finance) are increasing rapidly. On the condition that the reform process continues, it should be possible to finance the deficits with FDI, supplemented in particular by development assistance loans. In the IMF's scenario, the currency reserves will continue to increase, which enables the country to retain a moderate level of currency reserves equal to more than three months' imports in the coming years. However, only half of the reserves are under the control of the central bank (CBM). Transfer of the reserves from the state-owned banks to CBM is under way, but is not expected to be complete until 2014. The situation entails a certain degree of uncertainty in relation to the allocation of currency.

#### CURRENT ACCOUNT BALANCE AND FDI

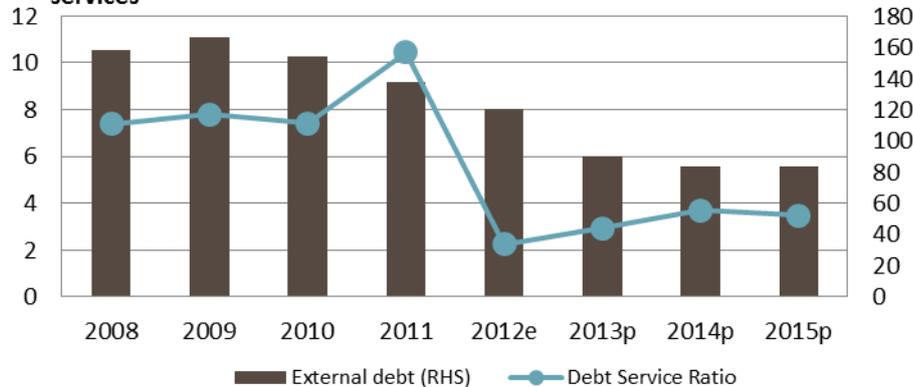


*Liberalisation contributes to a growing deficit in the current account balance. It is expected that the majority of it can be financed with FDI. IMF data.*

In the spring of 2013, Myanmar settled its debt in arrears to ADB and the World Bank and renegotiated debts to the bilateral creditors of the Paris Club. The latter resulted in write-offs to the tune of \$5.9 billion. This paves the way for development assistance loans from the World Bank, ADB and bilateral sources, especially Japan. This is in line with the IMF's recommendations to minimise the public sector's commercial borrowing, given limited debt capacity. Upon completion of restructuring in the beginning of 2014, foreign debt is expected to be equal to 85 percent of exports of goods and services, which is estimated to provide a manageable debt burden over the coming years.

## EXTERNAL DEBT BURDEN

% of export of  
goods &  
services



Debt relief and limited commercial borrowing are expected to limit the external debt burden Data: IMF

The carefully positive prospects are subject to significant uncertainties. Risk analysis is made difficult by the lack of history and macro data. The uncertainties are above all linked to the country's many challenges and management of the reform process. International experience indicates that there are risks associated with liberalisation of the financial sector and capital flows. This applies in particular when the institutional capacity is weak in both government agencies and in the financial sector, as it is in Myanmar.

## CURRENCY POLICY

### The monetary and currency policy framework is being built from the ground up.

For decades, access to currency has been strictly limited by a complex system of strict currency controls. The controls were to maintain the currency peg to the Special Drawing Rights (SDR) implemented in 1977. The official exchange rate is used only by the public sector, while the private sector's access to currency has been very heavily rationed. Informal foreign exchange markets and multiple exchange rates arose. The official exchange rate is heavily overvalued and was at just over 6 Kyats per dollar while the unofficial exchange rate was over 800. The Central Bank (CBM) financed the budget and lacked a role in currency policy and control over the country's currency reserves, which was partially managed by the state-owned banks.

Since the autumn of 2011, the country has made crucial progress with support from the IMF in essentially building up a more market-oriented monetary and currency policy framework. In April 2012, the peg was replaced by a *managed float*. The exchange rate is now set using a basis more in line with the market, even though a bit remains to develop an effective foreign exchange market. The fact that the exchange rate has begun to weaken since the spring of 2013 is indicative of an increasing function in the foreign exchange market. The trend is expected to persist in the coming year, which means that the overvaluation that the IMF announced earlier is subsiding. In August 2012, a new currency law was adopted. The goal is for the country to eliminate remaining currency restrictions in 2013 so it can sign IMF's Article VIII. By doing that, the country commits to keeping the currency convertible for current account transactions, which include recurring payments for exports and imports of goods and services. But there is still a certain degree of uncertainty concerning which restrictions will be in place. It is likely that the controls on capital flows will remain extensive. CBM is in the process of being built up to be able to fill a role in monetary and currency policy with control over the currency reserves. As a part of this process, a new central bank law was adopted in July 2013. The IMF has reported on certain difficulties for private banks in getting state-

owned banks to transfer funds on their behalf. This illustrates that there is a certain degree of uncertainty concerning the allocation of currency.

Overall, reforms are occurring at a rapid rate in a positive direction. There is nevertheless a significant degree of uncertainty on several fronts. The lack of capacity and experience of government agencies on the one hand and the financial sector along with trade and industry on the other in managing monetary and currency policy as well as managing international transactions is a factor of uncertainty. There is still uncertainty concerning currency regulations and not least with respect to the type of long-term lending EKN normally guarantees. EKN considers it inadvisable to guarantee transactions in the local currency.

## FINANCIAL SECTOR

### **Liberalisation and intense growth in the banking sector**

The financial sector is rudimentary and fragile. Traditional banking in the form of borrowing and lending has been very limited for a long time. Less than ten percent of the population have a bank account and loans for the private sector are equal to ten percent of GDP. The causes for this can be found in a history of extensive regulations that discriminated against private banking, prolonged high inflation and several episodes of bank crises. Confidence in the banking sector is therefore fragile, which in and of itself is a potential source of instability.

The banking system consists of about 20 domestic banks. Four of them are state-owned and have, if anything, functioned as the state's policy tools. Their roles will change significantly as the economy is transformed. When it comes to the rest of the banks, many of them only have a few years under their belt. Several of them are said to be linked to domestic business conglomerates. In several cases, the principal owners seem to be businessmen with historic links to the past military regime.

Reforms of the financial sector are high on the government's list of priorities and a lot of progress has already been noted. The regulatory framework is very restrictive, but liberalisations have been occurring on an ongoing basis since 2010, and they have resulted in lending beginning to expand rapidly. In 2012, the majority of the private banks were given authorisation to manage foreign currencies and banks have also begun to obtain authorisation to manage foreign transactions, which previously was reserved for the state-owned banks. The banks are now in the process of building up both knowledge and correspondent bank relationships. The remaining American sanctions are directed at private individuals and institutions, and prevent all banks from executing transactions in USD.

The list of reform plans is long, since most of the infrastructure is in its infancy. It includes a legal framework, a credit information system, a government bond and interbank market, etc. Substantial shortcomings include the very weak banking supervision and extremely deficient access to financial transparency with regard to banks. The government hopes to be able to accelerate development by allowing foreign banks to come in and joint ventures are expected to be permitted as a first step. Over the past two years, nearly thirty foreign banks, including a handful of international banks, such as SMBC, Standard and Chartered and ANZ have established representative offices in the country. Domestic special interests will probably oppose radical opening and it remains to be seen whether the new bank law expected to come in 2013 creates the conditions for international banks to get seriously involved.

The underdevelopment in the financial sector constrains monetary policy control and the economy's ability to channel domestic savings into investments. Deregulating the banking system and currency controls too quickly entails risks of currency and bank crises. From EKN's perspective, it can be concluded that the

banks have very limited experience of international transactions. The banks are very small, the financial transparency weak and a history of historic results is lacking. A significant degree of restrictiveness with regard to terms and amounts is therefore justified.

## BUSINESS ENVIRONMENT

**Rough business climate in need of extensive reforms**

The business climate is very difficult, but reforms are expected to lead to improvements in the long term. The country is ranked one of the worlds most corrupt, according to Transparency International (TPI). Under the past regime, high-ranking officials were thought to have connections with organised crime and the corruption is prevalent in state apparatuses. Trade and industry are dominated by an elite whose conglomerates in many cases were built up with the help of close relations with the military. The military as well as former officers also have wide-spread business interests. The networks of influence established during the military dictatorship will probably remain a part of the business environment for a long

The judicial system is weak and the courts lack independence. The corruption and a situation where the elite has not been subject to the law for a long time limits the abilities of foreign creditors to assert their rights against domestic debtors, especially if they belong to the elite. The civil law framework for lending (collateral, insolvency, etc.) is lacking or dates from the British colonial period and has not been used for a long time. Legal forms for establishing collateral in the form of moveable assets are not yet in existence. Financial due diligence of banks and businesses is very limited. The accounts, to the extent they are available, do not follow international standards and historic numbers are based on the previously overvalued exchange rate.

	WBGI		TPI
	Rule of Law	Regulatory Quality	Corruption Perceptions Index
Rank	203	207	172
Of total number of countries	212	210	176

*Myanmar is near the bottom in the index of institutional quality and corruption. Data: World Bank and TPI*

The situation contributes to a difficult regulatory environment. A culture of a predictable regulatory policy, for example, via inquiries and consultations, is lacking in the military-oriented administration. Historically, ministries have made overlapping regulations without coordination. Regulations have been issued or changed without notice and have not been collected or made available to the general public. Extensive changes are expected in many sectors, including telecom, finance, energy, etc., where laws and frameworks for supervision and regulation are in need of reform. This process is constrained by the lack of capacity and that domestic business interests have an influence on the end result. Sweden does not have a bilateral investment protection agreement with Myanmar, which complicates opportunities for covering investment guarantees. In this context, it is positive that the country's government has signalled that it is planning to join the New York Convention (*The Convention on the Recognition and Enforcement of Foreign Arbitral Awards*).

Improvement efforts have been initiated in many areas. The formulation of an anti-corruption law has been initiated and the country's first anti-corruption agency was established in January 2013, which was quickly followed by an investigation at the telecom ministry and the resignation of one minister. The government intends to join the Norwegian Extractive Industries Transparency Initiative (EITI), which would significantly increase requirements with respect to financial transparency, governance and environmental

considerations in the natural resource sectors. A stock market is being planned which in the long term can strengthen financial transparency. With the help of the World Bank, the business climate is being analysed to structure the reform efforts. A number of accounting firms, law firms and consulting firms have established local offices, which can assist investors and lenders with due diligence.

Overall, the conditions for lending are considered to be very difficult. The difficulties in assessing counterparties are substantial and the risk of final losses in the event of default is high. Therefore, the provision of guarantees should be restrictive and be limited to strong risk objects and/or where the guarantee holder can demonstrate a good and established business relationship.

## EKN'S OBLIGATIONS AND PAYMENT EXPERIENCE

### Increased business interest after easing of sanctions

EKN closed the door for the provision of medium-term guarantees in 1987, but kept it open for short-term guarantees with a letter of credit requirement until 2001. Since then, EKN has only been able to consider short-term letter of credit guarantees. Only a dozen or so transactions have been guaranteed since 1980, the most recent in 1996. Similarly to EKN, other export credit institutions in the OECD have had a very restrictive policy for a long time now and have limited current payment experience. Only a few institutions have reported new transactions in recent years, and they were only short-term. A number of institutions have for a long time had unsettled claims for transactions that Myanmar stopped paying in 1988. These claims have been renegotiated in 2013 in the Paris Club, upon which a handful of institutions have eased their restrictions slightly. The majority of institutions are still reporting that only short-term transactions are approved, but it is estimated that several institutions have plans to review their guidelines.

The EU's sanction policy, which has been in force since 1996, was temporarily eased in the spring of 2012. In April 2013, the EU's trade sanctions were basically revoked. The remaining sanctions involve trade with weapons and other equipment that can be used for repressive purposes. The US has significantly eased its regime of sanctions, but has retained parts primarily involving private individuals and the military. Information about sanctions is available on the website of the Office of Foreign Assets Control (OFAC).

The business interest from the Swedish business community has increased since the sanctions were eased. EKN's dialogue with exporters and banks indicates that EKN's risk coverage could become in demand in several sectors, especially the telecom, mining, transport and construction sectors. The flow of transactions could however be constrained by several factors. The past strict currency and import regulations are in the process of being transformed. Before the framework has taken hold, uncertainty about what rules are applicable and difficulties for EKN's guarantee holders to ensure that transactions occur in accordance with the applicable regulatory framework could get in the way of transactions. In addition, informal payment systems have emerged in the sanction years and it could take time until the flows are moved into the formal channels that emerge. Finally, Myanmar is subject to the OECD's policy for sustainable lending related to the public sector.

## EKN'S POLICY

### Opening the door to a restricted provision of guarantees is proposed.

EKN classifies Myanmar as the highest country risk category, category 7, which is the same classification as the OECD.

**Pure sovereign risks:** Restrictive risk assessment is justified by the fact that the country is subject to EKN's policy for sustainable lending as well as by a lack of experience of international transactions. Risk category C is normally applied.

**Other public risks:** Requirements for government guarantees are justified by the very weak institutional conditions in the administration.

**Bank risks:** Restrictive risk assessment is justified by the fact that the banks are mostly small, that financial transparency is weak, and by the lack of experience of international transactions. Risk category D is normally applied.

**Corporate risks:** Restrictive risk assessment is justified by the weak conditions for lending. The provision of guarantees should be limited to strong risk objects and/or where the guarantee holder can demonstrate a good and established business relationship. Risk sharing is normally required and risk category E is normally applied.

**NORMAL RISK ASSESSMENT**

There are not any limitations to the risk assessment or preconditions for risk assessment stipulated in advance.

**RESTRICTIVE RISK ASSESSMENT**

EKN places higher demands on the risk assessment to guarantee a transaction. EKN may have specified special criteria that are central to the risk assessment of the debtor category in question.

## OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATING	
	COUNTRY CEILING	SOVEREIGN RATING
<b>Area:</b> 677,000 km <sup>2</sup> (1.5 times Sweden)	<b>Moody's:</b> n/a	n/a
<b>Population:</b> approx. 60 million (2011e)	<b>S&amp;P:</b> n/a	n/a
<b>Population growth:</b> 1.3% (2007–2011e)	<b>Fitch:</b> n/a	n/a
<b>GDP:</b> USD 51.4 billion, 2011e (Sweden USD 540 billion, 2011)		
<b>GDP/capita:</b> USD 834, 2011e (Sweden USD 53,170, 2011)		

## COUNTRY ANALYST



EKN's country analyst for Myanmar:

Johan Fredriksson

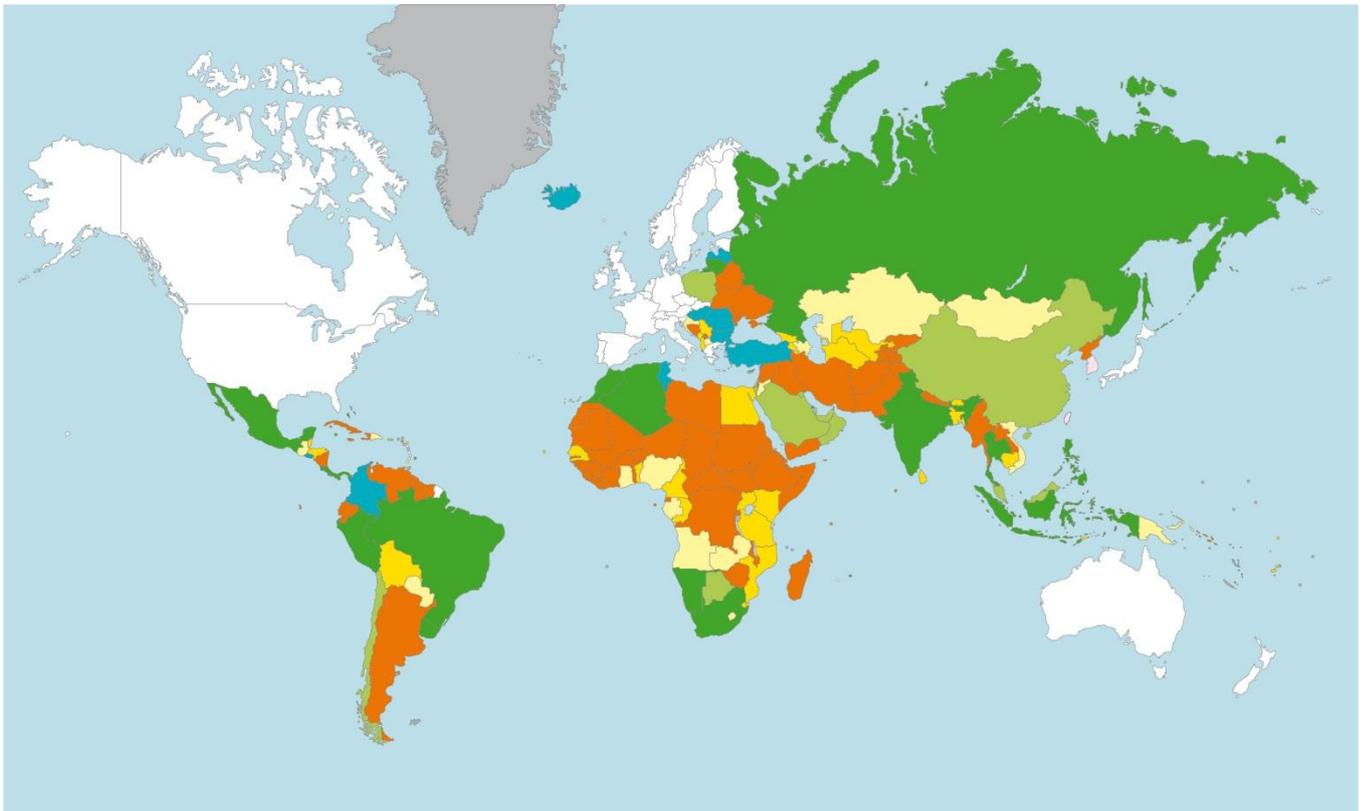
Telephone: +46-8-788 00 08

email: johan.fredriksson@ekn.se

**DISCLAIMER**

The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

## EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.

**EKN – CREATING CONFIDENCE IN YOUR EXPORTS**

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

Kungsgatan 36, PO Box 3064, SE-10361 Stockholm, Sweden | Tel +46 (0)8-7880000 | [www.ekn.se](http://www.ekn.se) | email [info@ekn.se](mailto:info@ekn.se)