
Country Report

Myanmar (Burma)

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Economist Intelligence Unit

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Executive summary

Highlights

January 2011

- Outlook for 2011-12**
- Myanmar is set to undergo its most profound political shake-up in many years, but there will be no major changes in the balance of power in 2011-12, with the military regime remaining the dominant force.
 - Freeing Myanmar's iconic pro-democracy leader, Aung San Suu Kyi, was a calculated risk on the part of the generals. There is still a possibility that they will struggle to contain popular support for change under her leadership.
 - Despite Western condemnation of the recent national elections as deeply flawed, China, India and members of the Association of South-East Asian Nations (ASEAN) will be supportive of the new, post-election administration.
 - Although there is a chance that technocrats could be appointed to important positions in a new cabinet, there is unlikely to be an immediate improvement in the quality of economic policymaking.
 - Recent developments on the political front are not expected to have a major bearing on the economy. Economic growth will be driven by investment from Asia in the power and petroleum sectors and in infrastructure.
 - Consumer price inflation slowed sharply in 2009 as a consequence of falling fuel and food prices, but it has since picked up, and will accelerate to an annual average of 12.4% in 2011-12.
- Monthly review**
- Since her release from house-arrest, Aung San Suu Kyi has sought to revitalise her party, the National League for Democracy, and to deepen ties with emerging pro-democracy groups.
 - Aung San Suu Kyi has also met a number of international leaders in recent weeks in an effort to increase her party's influence.
 - The military regime is currently taking a wait-and-see approach to its handling of the post-election activities of its opponents.
 - During his visit to Myanmar in late November the UN special envoy to the country, Vijay Nambiar, urged the Election Commission to address concerns about electoral fraud "as transparently as possible".
 - Despite recent growth in tax revenue, the rapid increase in the government's debt stock continued in August, indicating that the ruling military junta is continuing to run a large budget deficit.
 - There have been some signs of improvement in the economy, with sales of electricity to industry rising sharply in August.
 - Consumer price inflation slowed to 7.4% year on year in August, continuing the decelerating trend observed in recent months.

Outlook for 2011-12

Political outlook

Political stability There have been a number of dramatic political developments in Myanmar in recent months. National elections were held for the first time in two decades on November 7th, and six days later the iconic pro-democracy leader, Aung San Suu Kyi, was released from house-arrest. Although these events mean that in the next year or two the country will undergo its most profound political shake-up for many years, the Economist Intelligence Unit forecasts that there will be no major change in the balance of power in the country and that the military regime will remain the dominant force.

The State Peace and Development Council (SPDC, the ruling military junta) is no doubt disquieted by the scenes of thousands of people massing to see and hear Aung San Suu Kyi following her release from house-arrest on November 13th. But the fact that the military regime allowed her to go free less than a week after the elections suggests that it is confident of its position. The leading generals must be satisfied that they have achieved their domestic aims in the recent polls, given that the main military-aligned party, the Union Solidarity and Development Party (USDP), won a landslide victory. With the elections out of the way, the regime may have calculated that it was advantageous to allow Aung San Suu Kyi a degree of freedom, both to deflect foreign criticism of the poll result (and divert attention away from it), and also to reduce the potential for a violent domestic backlash (especially as Aung San Suu Kyi is likely to be especially authoritative in her advocacy of a non-violent approach by the opposition).

There is no suggestion, though, that the generals, having released their most formidable opponent, are now set to embark on an inclusive reform process. They remain firmly focused on implementing controlled reforms that will cement the military regime's grip on power under so-called "disciplined democracy". They are also trying to limit the risk that generational change will result in a major split within the military elite. The SPDC's ageing leader, Senior General Than Shwe, has sought to establish and control a new political order, still military-dominated and with his allies at the helm. This process has involved the promulgation in 2008 of a new constitution that ensures the perpetuation of a leading role for the military in running the country. It is also the likely rationale behind the decision to hold the elections, which were rigged to ensure that the majority of seats in the new lower and upper houses of parliament went to the USDP. General Than Shwe himself could also still choose to take up the new post of president (and head of state). Apart from ongoing battles with the armed wings of ethnic-minority groups in the border regions, the SPDC so far has succeeded in stage-managing every aspect of the political transition.

Freeing Aung San Suu Kyi was undoubtedly a calculated risk on the part of the generals, as there is still the possibility that the military regime will struggle to contain the popular forces for change that will be galvanised by her leadership.

Scenes of euphoria in the streets of the former capital, Yangon, confirm that Aung San Suu Kyi has lost none of her mass appeal, despite having spent the past seven and a half years in detention, mainly under house-arrest. She remains the figurehead for the pro-democracy movement, and the military's efforts to undermine her—not least by depriving her of her freedom for some 15 of the past 21 years—have failed utterly. Although stating that she is willing to work with the generals, Aung San Suu Kyi appears determined to effect change that will ultimately deprive the military of political control and will place power in the hands of the people. It seems inevitable, therefore, that at some stage Aung San Suu Kyi and her supporters will again overstep the boundaries of the generals' limited tolerance of opposition and dissent. Myanmar's history contains a number of bloody reminders of the generals' brutality in suppressing those who dare to challenge their authority.

Although the military will remain on the alert to quell any nascent pro-democracy uprising in the country's major cities during the coming months of political transition, it is in the border regions, which are populated—and in part controlled—by numerous ethnic-minority groups, where the military faces the major threats to its dominance. During the past year or so tensions have escalated in several areas (even where ethnic-minority organisations have signed ceasefire agreements) because of the junta's policy of forcing ethnic groups to transform their armies into Border Guard Forces controlled by the military. Most are reluctant to do so, as they see their armed wings as a guarantee of a degree of self-determination. Tensions and fighting have already escalated in several areas in recent weeks, partly in protest against the conduct of the elections, voting in which was banned in a number of regions dominated by ethnic-minority groups.

Election watch

The USDP won the November 7th polls by a large margin, securing a significant majority of all contested seats in the 440-seat *Pyithu Hluttaw* (People's Assembly, the lower house), the 224-seat *Amyotha Hluttaw* (Nationalities Assembly, the upper house) and the 14 state and regional assemblies. (In both national chambers, 25% of seats are reserved for appointees representing the military.) Voter turnout appears to have been low, based on various accounts detailing the absence of queues at polling stations, and reports suggest that there were serious irregularities, mainly involving the manipulation of advance voting on a sufficiently large scale to hand victory to USDP candidates. Despite the restrictions imposed on them during the campaign, pro-democracy and ethnic-minority parties picked up a few seats. However, the USDP and the military will together be firmly in control in the new parliament.

International relations

Myanmar will continue to receive the support of important allies in Asia, most notably China, India and Myanmar's fellow members of the Association of South-East Asian Nations (ASEAN), all of which will accord full recognition to the post-election administration. Following the elections, the regime received praise from these allies, which lauded the polls as a positive development in the country's political reform process. By contrast, and as expected, many Western governments condemned the elections as a sham, asserting that they were neither free nor fair. They have, however, celebrated the freeing of Aung

San Suu Kyi, and the junta is probably hoping that this is where the focus of international attention will remain. The military may hope that Aung San Suu Kyi's release will persuade the US and other Western governments to loosen economic sanctions against Myanmar. In late 2009 Aung San Suu Kyi held talks with military officials during which she is thought to have offered to co-operate with the generals to try to remove barriers to the country's development, particularly in relation to international sanctions. If she were to make such suggestions to the US and the EU, it would put their governments in an awkward position given that prospects for genuine political reform and improvements in human rights in Myanmar remain poor.

Economic policy outlook

Policy trends Although it is possible that technocrats may be appointed to important positions in a new cabinet, there is unlikely to be any immediate improvement in the quality of economic policymaking in the post-election period. In terms of fiscal policy, the government is likely to continue to focus on spending heavily on the military, and it will do little in the way of implementing policies to support households and businesses. The military regime's already extensive business links are set to grow further, and corruption will remain pervasive, with little transparency in the issuance of business licences and permits. The regime's recent emphasis on privatisation appears to be intended to provide members of the junta and their business associates with the opportunity to gain control of formerly state-owned assets, rather than to introduce genuine competition.

Fiscal policy The post-election administration is likely to continue to run a substantial fiscal deficit in 2011-12. Central government tax revenue has grown rapidly in recent months, but it will not be sufficient to reduce the deficit, given the small revenue base. The authorities do not provide timely data on fiscal expenditure, but there is anecdotal evidence to suggest that the government has been spending heavily on large projects (such as the development of the new capital city at Naypyidaw) that provide benefits to the military and its leaders, borrowing funds from the Central Bank of Myanmar and other sources to support such schemes. There are also indications that the SPDC went on a populist spending spree in the run-up to the election, investing in various small infrastructure projects throughout the country to much fanfare.

Monetary policy The willingness of the central bank to print money to finance the government's deficit means that monetary policy is in practice unavailable as a tool with which to steer the economy. Reflecting this, the bank rarely makes changes to official interest rates. The last time that it altered rates was in 2006, when it made the first adjustment for five years, raising its leading indicator rate by 2 percentage points, to 12%. Despite rapid inflation in 2006-08 and recent signs of renewed inflationary pressure, there have been no further changes. The central bank remains reluctant to tighten monetary policy aggressively, as it is not operationally independent from the government and is under pressure to avoid measures that would increase the public sector's debt-servicing burden.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2009	2010	2011	2012
Real GDP growth				
World	-0.8	4.7	3.8	4.0
OECD	-3.4	2.7	1.8	2.0
China	9.1	10.2	8.9	8.6
EU27	-4.2	1.7	1.1	1.5
Exchange rates				
¥:US\$	93.7	88.0	82.4	82.4
US\$:€	1.393	1.324	1.250	1.200
SDR:US\$	0.646	0.653	0.660	0.670
Financial indicators				
€ 3-month interbank rate	1.23	0.84	1.00	1.50
US\$ 3-month Libor	0.69	0.67	0.74	1.13
Commodity prices				
Oil (Brent; US\$/b)	61.9	80.0	82.0	81.3
Gold (US\$/troy oz)	973.0	1,222.3	1,328.8	1,232.5
Food, feedstuffs & beverages (% change in US\$ terms)	-20.4	11.0	13.1	-5.6
Industrial raw materials (% change in US\$ terms)	-25.6	42.6	5.0	-2.8

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

Economic growth

The recent political developments are not expected to have any immediate impact on the economy. Western governments are unlikely to ease trade sanctions or loosen restrictions on investment, and Myanmar's political situation has not had a negative impact on trade and investment links with the rest of Asia. Large projects funded by investors from China, South Korea and Thailand have been approved in a number of sectors (mainly power, petroleum and infrastructure), and these will support accelerating economic growth in the next two years. Excluding these sectors, the domestic economy will remain sluggish. Agriculture will continue to struggle to grow rapidly because of a lack of investment and poor access to important inputs and equipment. The manufacturing sector will remain troubled, reflecting the difficulties that it faces in obtaining essential inputs and investment capital. Gas production has plateaued and will not resume strong growth until new fields come on stream—something that will not happen until 2013 at the earliest. Gem mining will continue to be hampered by lacklustre global demand and the impact of sanctions on Myanmar's international trade, but there are signs that production is picking up.

The outlook for growth in private consumption and investment by local enterprises is also fairly bleak. Consumer spending is constrained by low average incomes, and also by a lack of confidence owing to price instability and the weak free-market exchange rate. In 2009 consumption was depressed by a drop in farm incomes amid falling international commodity prices, and by a decline in official and unofficial remittances from workers overseas as a result of job losses suffered by Burmese nationals employed abroad. Despite an improvement in these areas in 2010, a rapid rise in consumer spending is not expected to occur

as long as average household incomes remain low. Domestic investment will be constrained by a lack of confidence and limited access to capital.

Inflation Consumer price inflation is accelerating and is estimated at an average of 8.5% in 2010, owing mainly to high food prices. Supply-side price pressures will remain strong in the forecast period. In addition, the central bank is set to continue to finance the government's budget deficit by printing money, and the consequent growth in domestic credit will push up prices. In 2011-12 annual inflation will rise to double digits, averaging 12.4%.

Exchange rates The junta is forecast to maintain its highly overvalued official exchange rate in the next few years, but it could scrap the Foreign Exchange Certificates (which are equal to US dollars, but which are converted at slightly different rates on the black market). At the free-market exchange rate the kyat appreciated to an average of Kt1,055:US\$1 in 2009, and it has strengthened further in recent months, owing in part to Myanmar's improved external trade position. The kyat is expected to average Kt970:US\$1 in 2010. It will then weaken in 2011-12, reflecting the forecast deterioration in the current-account position. The potential for political instability will also undermine confidence in the currency.

External sector Export revenue will continue on an upward trend in the next two years. Revenue from sales of natural gas, Myanmar's main export earner, will remain high but will not rise sharply until new fields come on stream (in 2013 at the earliest). Revenue from other important exports, such as pulses and timber, will strengthen in line with a recovery in regional demand. The import bill will grow rapidly in 2011-12, driven up by rapid growth in major foreign-invested projects in the oil and gas, power, mining and infrastructure sectors. In 2012 the merchandise trade surplus will be insufficient to offset the combined deficit on the services and income accounts, resulting in the country's first current-account deficit since 2003.

Forecast summary

(% unless otherwise indicated)

	2009 ^a	2010 ^a	2011 ^b	2012 ^b
Real GDP growth ^c	1.8	3.1	4.0	4.4
Gross fixed investment growth ^c	5.0	7.5	10.2	13.0
Gross agricultural production growth ^c	2.5	3.2	3.0	3.2
Consumer price inflation (av)	1.5 ^d	8.5	12.1	12.7
Consumer price inflation (end-period)	2.2 ^d	11.7	12.7	12.7
Short-term interbank rate	17.0 ^d	17.0	17.0	17.0
Government budget balance (% of GDP) ^c	-4.8	-5.1	-5.1	-5.2
Exports of goods fob (US\$ bn)	6.9	8.7	9.5	9.9
Imports of goods fob (US\$ bn)	4.0	4.9	6.0	7.0

Forecast summary

(% unless otherwise indicated)

	2009 ^a	2010 ^a	2011 ^b	2012 ^b
Current-account balance (US\$ bn)	0.7	0.9	0.4	-0.4
Current-account balance (% of GDP) ^e	2.7	2.8	1.0	-1.0
External debt (year-end; US\$ bn)	7.1	7.3	7.2	7.2
Official exchange rate Kt:US\$ (av) ^f	5.5 ^d	5.6	5.6	5.7
Exchange rate Kt:US\$ (av) ^g	1,055.0	970.0	1,000.0	1,045.0
Exchange rate Kt:¥100 (av) ^g	1,125.9	1,102.4	1,213.5	1,268.4
Exchange rate Kt:Bt (av) ^g	30.8	30.6	33.6	35.5

^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: January 2011

The political scene

The NLD seeks to broaden the pro-democracy base

Since her release from house-arrest on November 13th Myanmar's pre-eminent opposition leader, Aung San Suu Kyi, has sought to revitalise her party, the National League for Democracy (NLD), and to strengthen its ties with emerging pro-democracy groups. During the NLD leader's most recent, seven-year period of incarceration a new generation of pro-democracy activists has emerged, many of whom are currently serving lengthy jail terms for leading protests against the State Peace and Development Council (SPDC, the ruling military junta) in 2007. A number of new pro-democracy parties have also been formed during the past year and contested the November 7th national elections. In recent weeks Aung San Suu Kyi has had a number of meetings that appear to be aimed at addressing a broadening of the pro-democracy movement. She has urged NLD youth members to develop a pro-democracy network, using modern communications technology to reach out beyond the party. Aung San Suu Kyi has also made it clear in a number of interviews with foreign media that she is willing to work with all pro-democracy groups, including those that contested the elections despite the fact that she had called for a boycott. In late November she met representatives of two parties that fought the elections, the Democracy Party (DP) and the Peace and Diversity Party (PDP), and an agreement was reached on developing joint political and social programmes, although details have yet to be finalised. In a speech on Myanmar's National Day, November 25th, Aung San Suu Kyi stated that she and her party were ready to work with any group that wanted national reconciliation.

Despite the euphoria following Aung San Suu Kyi's release, the pro-democracy movement is operating in a challenging environment. There is limited freedom of assembly and practically no freedom of speech, with all national media heavily censored. The NLD itself is no longer a legal political party, and in late November the Supreme Court announced that it would not consider an appeal lodged by the NLD challenging the decision to disband the party. (According to the Election Commission, any party that failed to register to take part in the election would lose its legal political status—a ruling that the NLD claims should have applied only to new political parties and not those formed under previous legislation, which has not been repealed.) The NLD leader has sought to manage expectations of what she and her party can achieve. Stating that the NLD alone cannot bring about change, she has urged people to join the pro-democracy movement and take action by themselves.

Aung San Suu Kyi works to establish stronger regional ties

In addition to trying to strengthen the pro-democracy movement in Myanmar, in recent weeks Aung San Suu Kyi has had meetings with a number of foreign diplomats in an effort to increase her party's influence internationally. The NLD leader has been particularly keen to strengthen ties with regional neighbours, such as China and India. However, for the most part Myanmar's neighbours have continued with their efforts to engage the junta and have refrained from criticising the election process. As current chair of the Association of South-East

Asian Nations (ASEAN), Vietnam recently issued a statement welcoming the elections as a “significant step” in the junta’s road map to democracy. In an interview with a Singaporean state-owned newspaper, the *Straits Times*, Aung San Suu Kyi stated that she would like the Singaporean government to have closer ties with the Burmese democracy movement, but she avoided criticising the Singapore government’s ties with the junta, stating that she believed in the engagement process provided that it included all sides.

The NLD leader has been more critical of India, stating in the Indian media in late November that she was “saddened” by India’s lack of support for democracy in Myanmar. Again, however, she avoided calling for disengagement with the Burmese military regime, saying that she did not “oppose relations with the generals” but calling on the Indian government to form stronger ties with pro-democracy groups as well. In late November both India and China voted against a UN resolution condemning human rights violations in Myanmar and calling for the release of political prisoners. For now, India appears to be prioritising its strategic ties with the regime in Myanmar, as it is keen to secure access to major new offshore gasfields and to improve security along the porous border between the two countries.

In late November the UN special envoy to Myanmar, Vijay Nambiar, met Aung San Suu Kyi, as well as Myanmar’s foreign minister, Nyan Win, other members of the junta and representatives of political parties that contested the recent election. Mr Nambiar said that he had urged the junta and the Election Commission to address concerns about election fraud “as transparently as possible”. He also called for the release of political prisoners, and the inclusion of a wide range of opposition groups in any political transition process. The fact that Mr Nambiar was allowed to visit Myanmar was a positive sign (the junta has frequently denied UN special advisers access to the country). However, opposition groups remain sceptical about the extent to which the UN can influence the junta.

The junta is currently allowing the opposition some space

For the time being, the military regime is taking a wait-and-see approach in its handling of the post-election activities of its opponents. The junta has made no public response to the NLD leader’s repeated calls for dialogue. For her part, Aung San Suu Kyi has not yet fully tested the limits of the junta’s patience, for example by carrying out her promise to travel around the country to meet her supporters. (During her last period of freedom, in 2002-03, Aung San Suu Kyi toured the country to meet supporters, drawing huge crowds at each stop. Alarmed by this display of public support, in May 2003 the SPDC orchestrated a mob attack on Aung San Suu Kyi’s convoy during which at least 70 of her supporters were killed, and the NLD leader was subsequently placed back under house-arrest.)

The only issue that has drawn comment from the junta is Aung San Suu Kyi’s call for another “Panglong conference”. This is a reference to the meeting in 1947 that brought together her General Aung San (the head of the Burmese independence movement, and Aung San Suu Kyi’s father), and the leaders of the country’s main ethnic-minority groups to discuss the shape of the country’s future as an independent nation. The junta made no official comment, but the

state-controlled media have stated that such a conference would “do more harm than good” and would contradict the junta’s own planned road map for political change, which includes convening the new parliament.

Ethnic minorities make up around 40% of Myanmar’s population, and there are a large number of ethnic-minority opposition groups (some in armed conflict with the junta) that are pushing for greater autonomy and a more democratic form of government in the country. The SPDC has frequently used ongoing ethnic conflict to justify continued military rule. In late November Aung San Suu Kyi met a number of ethnic-minority leaders to discuss plans. Following the meeting, concern was expressed that attempts to convene a Panglong-style meeting could trigger a crackdown by the junta. Aung San Suu Kyi herself stated that holding such a meeting, however difficult, was only a first step and that any agreements already reached on greater autonomy for ethnic minorities needed to be implemented. However, she also made it clear that she did not want to clash with the junta over the issue.

Any move to claim greater autonomy for ethnic minorities will be strongly resisted by the junta. The SPDC wants armed ethnic groups that have ceasefire agreements with the regime to join forces with the junta as part of a new Border Guard Force (BGF), a plan opposed by almost all ceasefire groups. The junta’s pursuit of its BGF plan has caused tension to rise in border areas in recent months. In some places an increase in fighting has resulted in thousands of ethnic-minority refugees fleeing across the border into Thailand.

The new, post-election landscape yet to take shape

The junta has yet to announce when it will convene the new parliament, comprising a 440-seat lower house, the *Pyithu Hluttaw* (People’s Assembly) and a 224-seat upper house, the *Amyotha Hluttaw* (Nationalities Assembly). According to official results, the Union Solidarity and Development Party (USDP), which is backed by the generals, won almost 80% of the contested seats in both houses (one-quarter of the seats in both houses are not elected and will be set aside for the military). Opposition groups claim that vote-rigging in favour of the USDP was widespread, particularly through the manipulation of large numbers of advance votes collected ahead of the November 7th poll. But opposition groups are finding it difficult to challenge the results, in part because of the high fee of Kt1m (around US\$1,000 at the official exchange rate, or US\$180,000 at the free-market rate) demanded by the Election Commission in return for accepting a complaint. Despite the problems, a handful of pro-democracy parties were successful in winning seats in the new parliament. Originally, most indicated that they planned to form alliances in parliament to pursue a pro-democracy agenda. However, the landslide victory for the USDP will limit the impact they can have. In addition, now that Aung San Suu Kyi is free, she and the NLD (which did not take part in the poll) are likely to become the focus for the pro-democracy movement. Given the various obstacles that they face, it is possible that some pro-democracy parties may yet choose to boycott the new parliament when it is finally convened. However, the two largest ethnic-based parties that won seats, the Rakhine Nationalities Development Party and the Shan Nationalities Democratic Party, have both indicated that they intend to take up their seats.

Democracy index: Myanmar

Despite the fact that a parliamentary election was held in November 2010, Myanmar remains one of the least democratic states in the world, ranking 163rd out of 167 countries surveyed in the Economist Intelligence Unit's democracy index; only Uzbekistan, Turkmenistan, Chad and North Korea rank below it in the index. Myanmar is among the countries considered "authoritarian", a designation that also includes China, Vietnam and Laos. The recent election was deeply flawed, and their outcome by no means reflected the will of the people. A pro-military party led by recently retired generals won a landslide victory, amid widespread complaints by opposition parties of vote-rigging. The election result also reflected the military regime's success in creating a climate of fear and intimidation. Opposition parties were severely hampered in their efforts to campaign for support in the run-up to the election, and financial constraints and a lack of time to prepare meant that pro-democracy parties struggled to field candidates and that in many constituencies the only candidates were those representing pro-military parties.

There will be a small number of opposition figures in the new parliament, and there is hope among pro-democracy groups that there will be gradual change for the better, but the military will remain the dominant political force, with practically no checks on its power. The military junta takes all major policy decisions and appoints all government members, most of whom have backgrounds in the armed forces. The government functions poorly, undermined as it is by rampant corruption and abuse of power. Regional military commanders enjoy considerable power in the areas that they control.

Democracy index

	Regime type	Overall score	Overall rank
2010	Authoritarian	1.77 out of 10	163 out of 167
2008	Authoritarian	1.77 out of 10	163 out of 167

The military continues to rule with an iron fist

Myanmar's score for *political culture* is relatively high, reflecting widespread mistrust of the military and the strong demand for democracy that exists in the country. But the public's democratic aspirations are harshly suppressed by the military, with political opponents regularly detained and subjected to torture. Although the pre-eminent opposition figure, Aung San Suu Kyi, was freed from house-arrest soon after the recent national election, it is thought that there are still around 2,000 political prisoners in the country. There is no freedom of expression, and the media are heavily censored. Uprisings against the military have tended to be sparked by economic distress; the mass protests in August-September 2007, for example, began as a response to soaring prices. Amid continued economic hardship, there could be a renewed effort on the part of the Burmese people to take to the streets to try to overthrow the military junta. However, there is little likelihood that such an attempt would be successful.

Democracy index 2010 by category

(on a scale of 0-10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
0.00	1.79	0.56	5.63	0.88

Democracy index 2010: Democracy in retreat, a free white paper containing the full index and detailed methodology, can be downloaded from www.eiu.com/DemocracyIndex2010.

Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy which reflect the state of *political freedom* and *civil liberties* are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Thus, our index also includes measures of *political participation*, *political culture* and *functioning of government*, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings for 60 indicators grouped in five categories: *electoral process and pluralism*; *civil liberties*; *functioning of government*; *political*

participation; and *political culture*. The five categories are interrelated and form a coherent conceptual whole. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries fall short in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

The index values are used to place countries within one of four types of regime:

- full democracies—scores of 8 to 10;
- flawed democracies—score of 6 to 7.9;
- hybrid regimes—scores of 4 to 5.9;
- authoritarian regimes—scores below 4.

Economic policy

Public debt soars, despite a further rise in tax revenue

Central government tax revenue rose by 26.8% year on year in April-August, the first five months of fiscal year 2010/11 (April-March). According to recently revised data, central government tax revenue (including customs duties) rose to Kt391bn (US\$70bn at the official exchange rate, or around US\$403m at the free-market rate). Growth in revenue in April-August was driven by a 58% year-on-year rise in commodity, services and commercial tax income, to Kt211.6bn, as well as an increase of close to 82% in customs revenue, to Kt24.6bn. However, the revised data show that receipts of income tax (the second-largest revenue category) fell by 13.8%, to Kt92.7bn.

The rapid build-up of the government's debt stock continued in August, suggesting that the junta continues to run a large budget deficit. The stock of five-year bonds surged to Kt389bn at the end of August, from Kt342bn at the end of July and Kt267bn at end-June. The stock of bonds of this maturity has more than doubled in five months, from only Kt182.6bn at the end of March. The value of outstanding three-year government bonds continued to fall in August, to Kt729bn, from Kt740bn at the end of July and from Kt751bn at the end of June, as repayments continued to outstrip new sales. However, the combined value of outstanding three- and five-year bonds rose to Kt1.1trn (US\$196bn at the official exchange rate, or around US\$1.1bn at the free-market rate) at the end of August, up steeply from Kt297bn at the end of March 2009 and just Kt178bn at end-March 2008.

Economic performance

There are signs that the economy is gaining strength

Providing an indication of an increase in industrial output, sales of electricity to industry increased by 20.3% year on year in August, after displaying weakness during the previous few months. (Demand for electricity by industry can be used as a rough proxy indicator for industrial activity; no regular industrial-output indices are published). Some sectors are performing well. For example, mining of gems and jade recorded rapid growth in the first five months of 2010/11. Production of gems rose by 27.1% year on year, while output of jade jumped by 97.6%, driven by a strong recovery in regional demand (offsetting the

impact of US sanctions on gem imports from Myanmar.) However, output of many items by the state sector (figures for the private sector are not available) remained sluggish. For example, output of cement, paper, cotton fabrics, oil, paints, fertiliser and bricks all fell on a year-on-year basis in April-August. During the five-month period Myanmar's exports continued to be dominated by sales of natural resources and agricultural products—natural gas, hardwoods and pulses being the top three export earners. Overall, exports managed growth of 11.8% year on year for the five-month period, to Kt20bn, while imports rose by 7.8%, to Kt12.7bn, resulting in a healthy merchandise trade surplus.



Moderating food prices help to bring down inflation

Consumer price inflation slowed to 7.4% year on year in August, from 8% in July and 9.3% in June. The consumer price index (CPI) has continued to track food prices, which are heavily weighted in the index. Food price inflation also accelerated during the first six months of 2010, peaking at 8.5% year on year in June, before falling back to 7.9% year on year in August. The upturn in food prices in 2010 on a year-on-year basis is partly a low-base effect, following a year of food price deflation in 2009.

Prices in the housing, rent and repairs category of the CPI continued to rise quickly, increasing by 16.4% in August, following jumps of 17.3% in July and 16.8% in June, although this marked a slowdown compared with the 24% year-on-year increase in this category in 2009 as a whole. However, price inflation for miscellaneous goods and services has slowed sharply, to 6.4% in July and 5.5% in August, down from 16.1% in June. Inflation in the clothing and footwear category dropped to 3.8% in August, from 3.9% in July. However, prices in the fuel and light category were up by 5.9% in August, after rising by 5.7% in July. The prolonged closure of part of the Thai-Burmese border following clashes between the SPDC and ethnic-minority fighters in August is likely to have pushed up prices for some important items imported from Thailand, including consumer goods such as toiletries, processed foods and electronics. This may not be fully reflected in the CPI data.

Data and charts

Annual data and forecast

	2006 ^a	2007 ^b	2008 ^b	2009 ^b	2010 ^b	2011 ^c	2012 ^c
GDP^d							
Nominal GDP (US\$ m)	11,888 ^b	16,312	22,666	26,275	31,842	35,778	39,976
Nominal GDP (Kt bn)	15,217 ^b	21,043	26,859	27,720	30,886	35,778	41,775
Real GDP growth (%)	3.4 ^b	3.4	1.1	1.8	3.1	4.0	4.4
Expenditure on GDP (% real change)^d							
Private consumption	3.0 ^b	2.0	-1.8	0.2	1.5	2.0	2.0
Government consumption	15.0 ^b	15.0	15.0	12.0	8.0	8.0	6.0
Gross fixed investment	5.0 ^b	6.0	10.0	5.0	7.5	10.2	13.0
Exports of goods & services	12.0 ^b	10.0	2.5	5.0	8.0	6.1	5.0
Imports of goods & services	30.0 ^b	9.0	4.2	12.0	15.0	15.0	18.0
Origin of GDP (% real change)^d							
Agriculture	3.0 ^b	1.4	2.2	2.5	3.2	3.0	3.2
Industry	8.2 ^b	9.0	7.8	1.2	4.3	5.8	8.5
Services	1.7 ^b	3.5	-3.7	1.2	2.1	4.5	4.0
Population and income							
Population (m)	48.7	49.1 ^a	49.6 ^a	50.0 ^a	50.4	50.9	51.3
GDP per head (US\$ at PPP)	2,505 ^b	2,643	2,707	2,757	2,834	2,972	3,144
Fiscal indicators (% of GDP)^d							
Central government budget revenue	4.4 ^b	4.2	4.4	4.5	4.4	4.6	4.8
Central government budget expenditure	7.1 ^b	7.2	8.0	9.3	9.6	9.7	9.9
Central government budget balance	-2.6 ^b	-3.0	-3.5	-4.8	-5.1	-5.1	-5.2
Prices and financial indicators							
Exchange rate Kt:US\$ (av; official rate)	5.78	5.56 ^a	5.36 ^a	5.50 ^a	5.55	5.61	5.71
Exchange rate Kt:US\$ (av; free-market rate)	1,280 ^b	1,290	1,185	1,055	970	1,000	1,045
Consumer prices (end-period, %)	28.4	28.6 ^a	16.0 ^a	2.2 ^a	11.7	12.7	12.7
Stock of money M1 (% change; end-period)	26.5	30.2 ^a	6.8 ^a	24.0 ^a	15.2	16.2	18.0
Stock of money M2 (% change; end-period)	27.2	30.0 ^a	14.8 ^a	30.6 ^a	18.6	15.8	16.9
Lending interest rate (av; %)	16.1	17.0 ^a	17.0 ^a	17.0 ^a	17.0	17.0	17.0
Current account (US\$ m)							
Trade balance	2,211	3,206	3,216	2,842	3,832	3,483	2,890
Goods: exports fob	4,555	6,170	6,677	6,862	8,744	9,508	9,931
Goods: imports fob	-2,343	-2,964	-3,461	-4,020	-4,912	-6,025	-7,042
Services balance	-283	-307	-347	-418	-440	-471	-510
Income balance	-1,248	-1,750	-2,033	-2,035	-2,696	-2,832	-2,988
Current transfers balance	122	137	372	316	190	183	205
Current-account balance	802	1,285	1,208	705	885	363	-403
External debt (US\$ m)							
Debt stock	6,839	7,598 ^a	7,210 ^a	7,079	7,294	7,173	7,205
Debt service paid	124	203 ^a	188 ^a	153	174	175	171
Principal repayments	61	145 ^a	152 ^a	120	139	137	132
Interest	63	57 ^a	36 ^a	34	35	38	39
International reserves (US\$ m)							
Total international reserves	1,248	2,312	3,412	3,561	3,762	4,187	4,347

^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

	2008	2009				2010		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Prices								
Consumer prices (2000=100)	211.3	202.8	213.8	211.6	213.9	216.1	232.4	n/a
Consumer prices (% change, year on year)	19.5	3.4	5.6	-0.1	1.3	6.6	8.7	n/a
Financial indicators								
Exchange rate Kt:US\$ (av; official rate)	5.65	5.69	5.60	5.44	5.35	5.51	5.72	5.61
Exchange rate Kt:US\$ (av; free-market rate) ^a	1,186	1,068	1,050	1,103	998	1,007	1,017	960
Central bank rate (end-period; %)	12.0	12.0	12.0	12.0	12.0	n/a	n/a	n/a
Deposit rate (av; %)	12.0	12.0	12.0	12.0	12.0	n/a	n/a	n/a
Lending rate (av; %)	17.0	17.0	17.0	17.0	17.0	n/a	n/a	n/a
M1 (end-period; Kt bn)	3,437	3,665	3,764	3,926	4,260	n/a	n/a	n/a
M1 (% change, year on year)	6.8	16.9	14.8	18.2	24.0	n/a	n/a	n/a
M2 (end-period; Kt bn)	5,033	5,426	5,772	6,121	6,574	n/a	n/a	n/a
M2 (% change, year on year)	14.8	23.4	24.7	27.3	30.6	n/a	n/a	n/a
Sectoral trends, production								
Natural gas (bn cu ft)	101	79	111	113	105	99	112	n/a
Tin in concentrates (tonnes)	249	163	205	236	193	93	71	n/a
Crude oil ('000 barrels)	1,750	1,528	1,869	1,787	1,697	1,616	1,745	n/a
Jade (tonnes)	8,967	8,983	10,267	2,047	4,131	9,351	14,034	n/a
Gems ('000 carats)	2,090	3,589	1,448	3,095	3,326	3,447	2,253	n/a
Foreign trade (Kt m)								
Exports fob	12,802	8,359	9,124	11,150	8,471	12,662	11,702	n/a
Imports cif	7,516	6,518	5,274	8,531	3,976	5,056	8,436	n/a
Trade balance	5,285	1,841	3,850	2,619	4,494	7,607	3,266	n/a

^a Economist Intelligence Unit estimates.

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

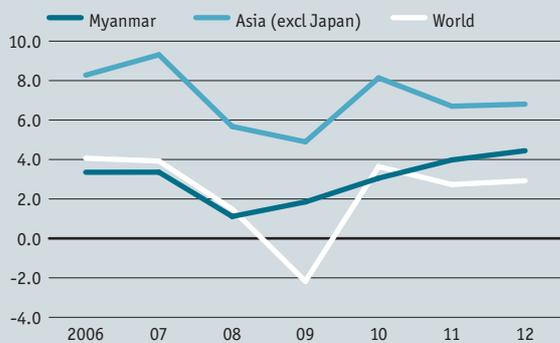
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Kt:US\$ (av; official rate)												
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	5.73	5.74	5.69	5.59	5.51	5.48	5.45	5.39	5.35	5.32	5.38
2010	5.44	5.53	5.57	5.61	5.75	5.79	5.66	5.61	5.57	n/a	n/a	n/a
Exchange rate Kt:US\$ (av; free-market)												
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	1,020	1,040	1,090	1,110	1,100	1,100	1,050	985	960
2010	1,020	1,000	1,000	1,000	1,000	1,050	980	950	950	n/a	n/a	n/a
Money supply M1 (% change, year on year)												
2008	27.7	25.4	17.0	16.1	20.1	19.5	20.5	19.4	12.4	10.7	8.4	6.8
2009	7.4	9.9	16.9	15.8	14.5	14.8	14.9	15.0	18.2	18.0	21.0	24.0
2010	24.2	n/a										
Money supply M2 (% change, year on year)												
2008	28.5	26.6	20.9	20.9	21.8	21.2	22.1	20.8	17.9	16.5	15.1	14.8
2009	15.5	17.6	23.4	24.0	22.4	24.7	23.8	24.7	27.3	27.7	29.9	30.6
2010	30.0	n/a										
Deposit rate (av; %)												
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	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2010	n/a											
Lending rate (av; %)												
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	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
2010	n/a											
Consumer prices (av; % change, year on year)												
2008	37.3	33.9	32.3	29.9	30.5	26.4	26.2	26.4	24.9	23.0	19.6	16.0
2009	4.6	3.8	1.9	3.0	0.5	1.0	0.5	-0.8	-0.1	0.2	1.4	2.2
2010	5.3	6.6	7.7	7.9	8.9	9.3	8.0	7.4	n/a	n/a	n/a	n/a

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

Annual trends charts

Real GDP growth
(% change)



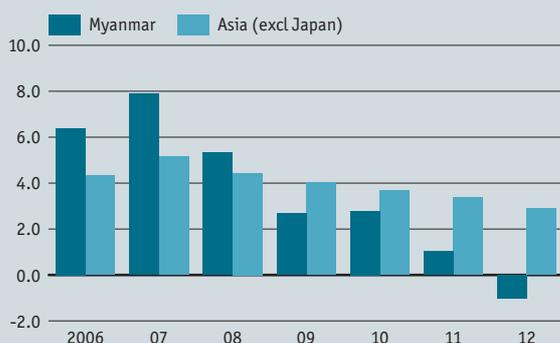
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



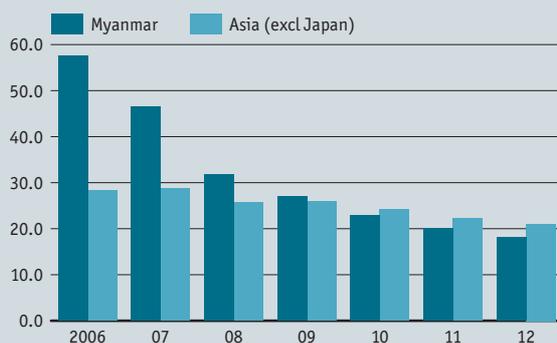
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



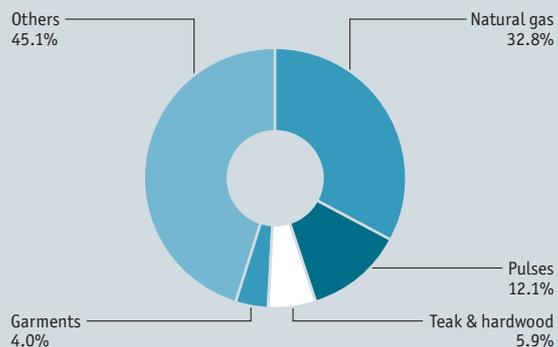
Source: Economist Intelligence Unit.

Total external debt
(% of GDP)



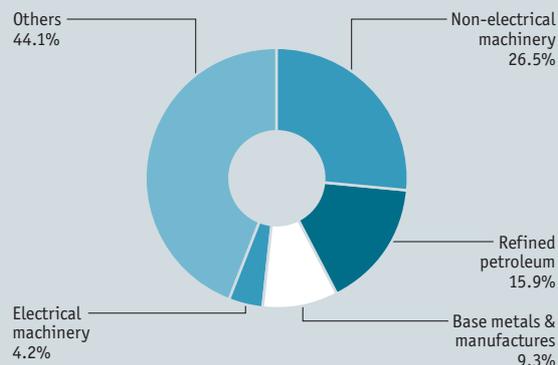
Source: Economist Intelligence Unit.

Principal exports, 2009
(share of total)



Source: Economist Intelligence Unit.

Principal imports, 2009
(share of total)



Source: Economist Intelligence Unit.

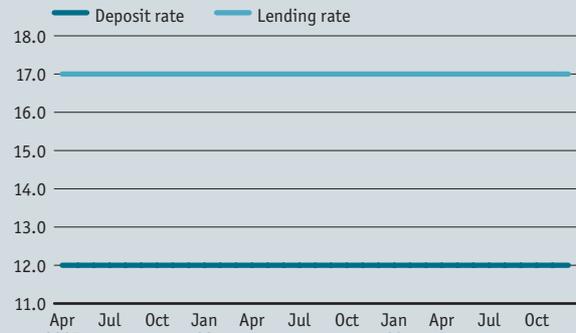
Monthly trends charts

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.

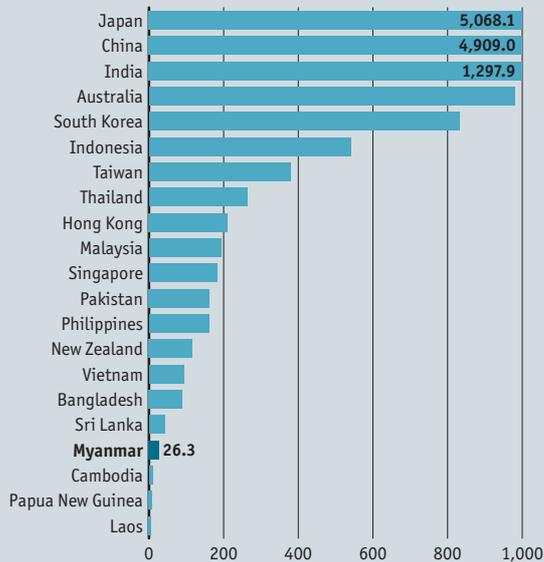
Tin: LME price
(US cents/kg)



Source: Economist Intelligence Unit.

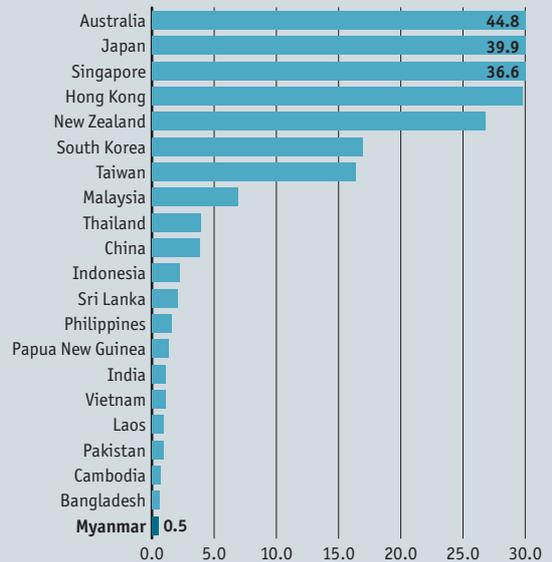
Comparative economic indicators, 2009

Gross domestic product
(US\$ bn; market exchange rates)



Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US\$ '000; market exchange rates)



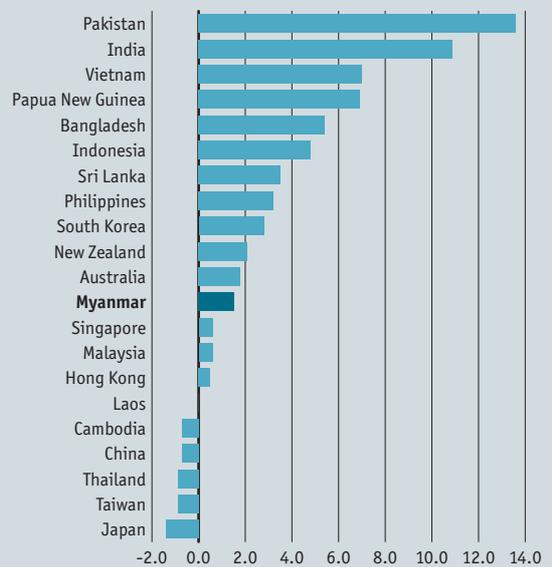
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 676,563 sq km

Population 50m (IMF mid-2009 estimate)

Main towns Population in '000 (1983 census)

Yangon	2,513	Pegu	320
Mandalay	533	Moulmein	220

Note. In 2006 the ruling military junta moved the country's administrative capital from Yangon to the town of Naypyidaw. In the text, places other than Myanmar and Yangon are referred to by their pre-1989 names. Pre-1989 place names appear in brackets on the map at the start 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 minority languages, such as Karen and Shan, are also in use

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); Kt1 = 100 pyas. Average official exchange rate in 2009: Kt5.5:US\$1. Average free-market exchange rate (based on private estimates) in 2009: K1,055:US\$1

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 13th-17th (Thingyan, New Year); May 1st (Workers' Day); July 19th (Martyrs' Day); November 25th (National Day); December 25th (Christmas Day); plus other holidays, the timing of which depends on lunar sightings

Political structure

Official name	Republic of the Union of Myanmar	
Form of state	A military dictatorship, which is in the process of being replaced by a "disciplined" multiparty democratic system	
The executive	Currently the State Peace and Development Council (SPDC). However, a new executive will be formed following the national elections that took place in November 2010, with a Presidential Electoral College (formed by the newly established legislature) appointing a president and two vice-presidents	
Head of state	Currently the chairman of the SPDC, Senior General Than Shwe. However, the president, when appointed, will become head of state	
National legislature	Two new legislative chambers, a 440-seat <i>Pyithu Hluttaw</i> (People's Assembly, lower house) and a 224-seat <i>Amyotha Hluttaw</i> (Nationalities Assembly, upper house), must sit within 90 days of the election. In both assemblies, 25% of seats are reserved for appointees representing the military	
National elections	Multiparty national elections were held on November 7th 2010 for both the lower and upper houses	
National government	The SPDC currently controls all organs of state power, but a civilian administration is to be appointed by the president under the new constitution. However, the 2008 constitution specifies no timeframe for this transfer of power	
Main political organisations	The military-aligned Union Solidarity and Development Party (USDP) secured a landslide victory in the November 2010 election. The National League for Democracy (NLD) was for more than two decades the country's main pro-democracy party, but it refused to register under new electoral laws in 2010 and no longer officially exists. An offshoot of the NLD, the National Democratic Force (NDF), contested the election, as did a number of ethnic-based political groups. Another party with close ties to the military, the National Unity Party (NUP), contested the election but fared poorly compared with the USDP	
Main political parties	USDP, NUP, NDF, Shan National Democratic Party, Rakhine Nationalities Development Party, 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	Tin Aung Myint Oo
	Prime minister	Thein Sein
Key ministers	Agriculture	Htay Oo
	Commerce	Tin Naing Thain
	Defence	Than Shwe
	Energy	Lun Thi
	Finance & revenue	Hla Tun
	Foreign affairs	Nyan Win
	Home affairs	Maung Oo
	Industry-1	Aung Thaung
	Industry-2	Soe Thein
	Labour	Aung Kyi
	Telecommunications, posts & telegraphs	Thein Zaw
Central Bank governor	Than Nyein	