Myanmar

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Growth has continued at around 6% driven by exports and investments in energy. Political reforms have encouraged western governments to lift sanctions imposed on human right concerns in the past. Risks of political backlash -- should new winds not deliver -- may be overstated after massive debt forgiveness, but Myanmar is facing a challenging transition to a market economy. .

Country Risk Analysis

After decade of isolation, Myanmar has reached out to interact with the outside World. For this the previous military junta has bitten the dust and released hundreds of political prisoners, accepted more free and fair elections and a freer press. It has also begun to dismantle an overregulated military plan-economy and accepted economic and social reforms. For this the western world has rewarded the country with easing of economic and financial sanctions imposed in the past on human right concerns. Late 2012, the Paris Club cancelled arrears counting for a half of the country's external debt while the IMF accepted to take the country under its wing by granting it a SMP (Staff monitored program) often perceived as a "seal of approval" of economic policies.

Myanmar (previously known as Burma) is the last major Asian country to enter the path of reforms to an open and modern market economy. The country is rich in resources, including for agriculture, mining and energy production but has been mismanaged for decades. Information about the country is improving rapidly but from a very low level. With that warning in mind, the country has reportedly managed reasonably solid growth and last year GDP reportedly expanded by 6%, while inflation was contained within 5.8% and the current account deficit within 4% of GDP. Official reserves stood at some 4 months of import and could rise further now as FDI begins to pour in.

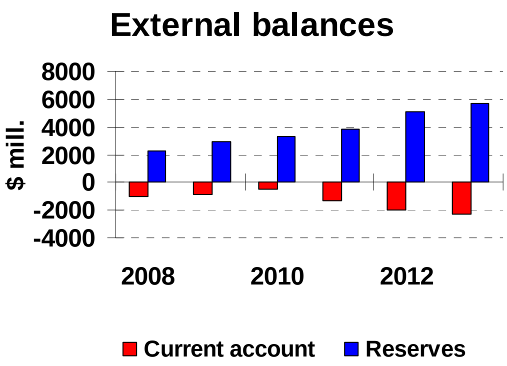
Risks to that up-beat picture include the danger of too buoyant growth should present capital inflows and domestic credit extension accelerate further, resulting in overheating and inflation following in the footsteps of other regional countries. On the other side are risks of mismanagement of reforms as a result of unsuccessful sequencing or too rapid progress perhaps to overcome inertia from powerful vested interests in status quo. Some also point to the danger of jobless growth as labour intensive manufacturing is crowded out by capital intensive commodities production.

Fair to say is that Myanmar is facing challenging years as it opens up to the world, but also great opportunities. Without any outstanding marketable debt of the sovereign, the country has yet to receive any external rating, but should one be provided, it would probably be at the very low end opf the rating spectrum due to the challenges ahead, a weak information base and short track record in addition to still very weak indicators for the business climate.

Recent economic developments

Steady growth continues: In 2012, the growth momentum continued at a slightly accelerated pace to deliver 6% economic expansion, up from 5,5% the year before according to estimates of the IMF. Strong exports spearheaded by commodities, including oil and gas but also revenues from foreign visitors, combined with growing investment demand for infrastructure, in particular hydro electricity. Notwithstanding higher real growth, price pressure abated from 5% rise in 2011 to less than 2% in 2012 according to private estimates. That occurred despite the acceleration of money growth to the range of 60-70% a year since 2011.

External balances deteriorate. Buoyant exports continued in 2012, including of gas that makes up about a third of the total. Nevertheless, the trade balance turned markedly negative as imports including of investment goods outpaced exports by a wide margin. That caused also the current account deficit to widen to more than 2% of GDP despite a steep 44% rise in the numbers of foreign visitors. Still, foreign reserves rose more than 25% as foreign donors stepped up loan disbursements and foreign investors poured money into new projects. In March 2012, reserves stood at $3,8bn equivalent to 4 months of imports or, alternatively, enough to cover a third of Myanmar's external debt estimated at $11,8bn. Most of that debt is of long average maturity but apparently also include s $8,6bn of longstanding arrears which essentially represent short term debt. Last December almost $6bn. of arrears was cancelled by the Paris Club, and IMF indicates that the remainder could be cancelled or rescheduled by the end of March 2014. That would relieve the country of deep financial distress and potentially enable it to approach international capital markets

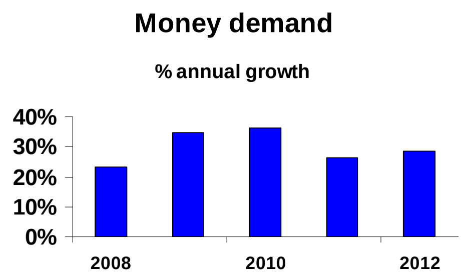


Domestic policies:

The fiscal deficit stays high: While higher growth boosted government revenues, active budget execution kept government spending at a high level of almost 17% of GDP thereby upholding the public sector deficit at more than 5% of GDP, an estimate that may fail to take fully account of the various off-balance sheet budgetary government transactions. As in previous years, about half of the deficit was financed by the central bank which balanced rising assets on the government by printing money. In return domestic public debt grew further to an estimated 26% of GDP in net terms, up from 23% the preceding year. To that one may probably add most of the external debt at more than 30% of GDP. Lifting the total to around 60% of GDP, a level considered high for a relatively poor emerging market country.

Monetary policy remains poorly defined: Monetary policy formulation and execution remain in the hands of the ministry of finance and the four state owned banks which hold most of the foreign reserves. The central bank's main purpose is to print money to finance the annual budget deficit. As a result, monetary policy setting has been rigid with administratively set interest rates remaining unchanged for decades and leaving changes in banks' reserve requirements the only monetary policy instrument.

Monetary policy in a challenging transition. Banks were recently allowed some discretion to differentiate deposit and loan rates. That has opened for large pent-up demand for credits as seen in a sharp rise of credit growth to the private sector to an estimated 68% in the fiscal year 2011/2012, probably concentrated to the many private banks. By contrast, credit allocations of the state owned banks which dominate some 30% of the market, are apparently still under strict control of the ministry of finance. The new bank loans have in part been financed by other means than deposits implying money growth undershooting credit growth by a wide margin but still high at around 30% in recent years clearly exceeding nominal growth of the economy at around .20%. So far this has not created excessive inflation which has rather declined. Nevertheless, we believe the monetary authorities would be well advised to monitor these developments keenly lest too much money creates inflationary conditions at a later stage



Exchange rate policies: Last March, the authorities abandoned the old and completely outdated official foreign exchange rate at 8Kyat to the US dollar with a much more depreciated rate some 100 times lower in line with the parallel market rate. Apparently, that did not yet mean a full unification of the foreign exchange market which for many years has been guided by the government's "Export-first" policy, enforced by complex exchange restrictions which permit private imports to the extent of available private export earnings. Conceding that such segmentation of the foreign exchange market is distortionary and prevents efficient allocation of scarce resources, the authorities have begun work on a properly unified exchange rate. In November 2011, 11 banks were licensed as authorized foreign currency dealers. It is unclear whether these licenses have been activated, but such licensing would be among several prerequisites for planned foreign currency auctions and inter-bank trading. Another prerequisite would be the gradual loosening of present controls on banks interest rate setting.

Financial sector nascent rise: Being mainly cash-based economy, the formal financial sector is small and total bank credits to the private sector makes up only a sixth of GDP.. Fore several decades pervasive controls prevented a normal development of the financial structure which was dominated by four state owned banks. Over the recent couple of years, by contrast, a number of new banks have sprung up and the non-state banking sector today comprises 19 private banks and 17 branches of foreign banks. That is despite continued uneven supervisory treatment of state banks and private banks from a banking supervision that lags far behind international standards.

Financial reforms: The authorities are making progress on improving regulatory standards for the financial sector, but have also made clear they will prioritize strengthening of the supervisory and regulatory framework before further financial liberalization, indicating full financial sector liberalization may still take some time. Based on mixed experience with shock liberalization in Eastern Europe in the 1990s, that may not be ill-advised as long as the reform drive is strong enough to overcome inertia from vested interests including from Myanmar's elite families which run some of the banks to finance the operations of their conglomerates. To counter risks associated with dismantling controls the: IMF and the World Bank are working with the government to devise a comprehensive financial sector master plan. A first step on this was taken in late 2012, when the cabinet approved a new Central Bank law.

Structural policies: Up until recent years, most sectors were guided by the principles of strict plan economy. Licence is still needed for imports and investments and the business environment is still undermined by high level of corruption according to Transparency International and low level of "rule of law" according to the World Bank survey. However, the government has for some time now been preparing to improve the flexibility of the economy.

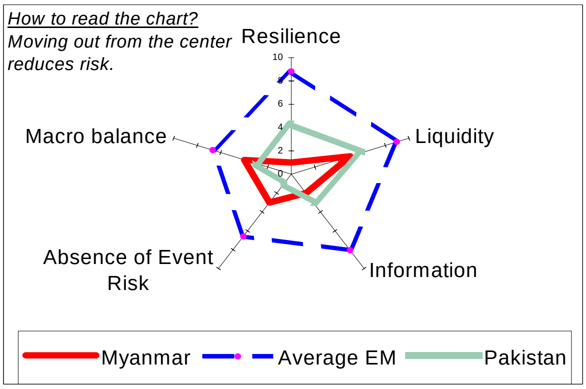
- It has since long privatized many state owned companies
- It is considering replacing a positive FDI list with a less restrictive negative list, i.e. stipulating only the areas preserved for local investors.
- Import liberalization is on-going
- The law on special economic zones (SEZ) is being overhauled.
- A land reform will give farmers titles that can be used as collateral for loans..
- A new law aims at ensuring a stable and predictable environment for foreign investments

Combined with the reforms of the foreign exchange policies and the incipient restructuring of the financial sector the stage may be set for a path where the economy enters a virtuous circle of reforms and growth.[1]

Political developments:

Over the last two years, political prisoners have been released and by elections in 2012 were conducted peacefully and in the event swept by the opposition National League for democracy lead by Nobel-Peace prize winner, Suu Kui. The press has been granted new freedoms and unions are reportedly being allowed to engage in collective bargaining. The US, EU and Japan have begun to ease restrictions on business and investments with Myanmar despite allegations from observers of the authorities' involvement in ongoing violence and ethnic conflicts in Rakhine and other border areas. Next parliamentary elections are planned for 2014, but apparently no date has been set for new Presidential elections. The sitting president, Thein Sein, was elected before democratic reform in 2011.

Key ratios	**2012**
Population (mill.)	47.3
GDP/capita ($)	1090
GDP (change)	6.3%
Inflation	5.8%
Curr.Acc. Balance/GDP	-3.8%
Reserves/imports (months)	5
Budget balance/GDP	-5.3%
Government debt/GDP	74%



External ratings:
Fitch: Not rated
S&P: Not rated
Moody's: Not rated

Peers:
Nigeria
Greece
Laos

Graph: The graph presents a clear picture of a country clearly much weaker than the average in our rating universe. Like one of its peers, Pakistan, Myanmar's main comparative advantage is its relatively strong reserve position. Resilience is very weak.

[1] Paraphrased from "Myanmar's economic policy priorities" Vikram Nehru, Carnegie endowment, Nov. 2012

Key data:	2008	2009	2010	2011	2012	2013	2014	2015
GDP (mill.US$)	31 367	35 225	45 380	51 444	53 140	57 450	61 786	66 230
GDP/capita (US$)	663	739	946	1064	1090	1169	1248	1327
GDP (change)	3.6%	5.1%	5.3%	5.5%	6.3%	6.0%	5.4%	5.1%
Investments/GDP								
Budget balance/GDP	-2.4%	-5.2%	-5.5%	-6.0%	-5.3%	-5.2%	-5.0%	-4.8%
Govt debt/GDP(*)	74%	77%	76%	79%	74%	71%	72%	73%
CPI inflation (%)	22.5%	8.2%	8.2%	4.2%	5.8%	6.0%	5.4%	5.2%
Money demand (%)	23%	35%	36%	26%	29%			
Stock prices								
Interest rates								
Exch. Rate ($)	992	1004	861	810	810	810	810	810
Trade/GDP (%)	45%	40%	38%	40%	45%	47%	50%	52%
Oil price (Brent)	$97	$62	$79	$111	$112	$106	$109	$113
Millions US $								
Export of goods	7 241	7 139	8 980	10 200	11 308	12 907	15 170	16 475
Imports of goods	6 938	7 067	8 184	10 180	12 621	13 984	15 946	17 775
Other:	-1 303	-972	-1 296	-1 320	-687	-1 223	-2 024	-1 900
Current account	**-1 000**	**-900**	**-500**	**-1 300**	**-2 000**	**-2 300**	**-2 800**	**-3 200**
(% of GDP)	-3.2%	-2.6%	-1.1%	-2.5%	-3.8%	-4.0%	-4.5%	-4.8%
FDI (net)	976	963	969	1 992	2 325	1 811	2 050	2 600
Loan repayments	-342	-410	-455	-353	-282	-366	-389	-398
Net other capital flows	581	1 002	386	170	1 210	1 481	1 576	1 735
Balance of payments	**215**	**655**	**400**	**509**	**1 253**	**626**	**437**	**737**
Reserves	2 254	2 909	3 309	3 818	5 071	5 697	6 134	6 871
Total debt	12 744	13 207	13 643	14 632	12 251	11 230	12 666	14 190
o/w short term debt(**)	8 825	9 323	9 850	10 592	2 372	4 195	4 784	5 333

Source: OEF (Oxford Economic Forecasting) and SEB estimates.

(*) Includes extrenal debt

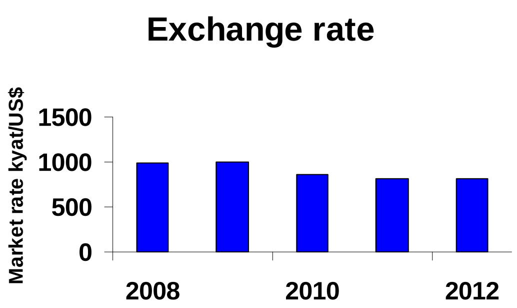
(**) Arrears

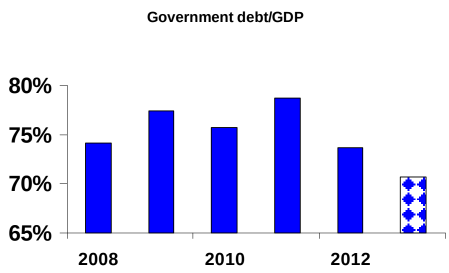
Rating history

Fitch (eoy)

Moodys

Type of government:	
Next elections	possibly in 2014 (Legislative)
Other:	
Latest PC deal	2012 Active, Amounts treated: $9.9 bn. o/w 5.6bn. Cancelled
Recent IMF programs	2012: Staff monitored program





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