Media Release

Myanmar's $_{g}B_{2}$ rating reaffirmed

RAM Ratings has reaffirmed Myanmar's respective global, ASEAN and Malaysia national-scale sovereign ratings of $_{g}B_{2}$(pi)/Stable/$_{g}$NP(pi), $_{sea}B_{1}$(pi)/Stable/$_{sea}$NP(pi) and B_{1}(pi)/Stable/NP(pi). The ratings reflect the country's sizeable economic potential, institutional constraints and high susceptibility to shocks. Myanmar's weaker near-term growth outlook is balanced by ongoing reforms to realise its economic potential. Meanwhile, Myanmar's T&C risk has improved following new regulations which provide an indirect and restricted means for non-residents to issue and invest in debt instruments in the domestic capital market.

A young demographic and easy access to a wealth of natural resources support Myanmar's long-term growth. Its geography allows the country to gain significant economic benefits from trade with India and China, which has been largely untapped to date. "However, the economy remains highly vulnerable to shocks, given that the agriculture sector accounts for a sizeable proportion of Myanmar's labour force, private-sector savings are low, infrastructure capacity insufficient and the country's institutional framework is underdeveloped," notes Esther Lai, RAM's Head of Sovereign Ratings.

Myanmar's near-term growth is expected to underperform the long-term trend of 8.2% in view of reduced private consumption and investment growth. Household spending is projected to be weaker largely due to an unanticipated acceleration of inflation following a sharp depreciation of the local currency in mid-2018. At the same time, investment and tourism sector activity is expected to be lacklustre following international condemnation of the humanitarian crisis in the Rakhine state. The re-imposition of targeted sanctions by the US and the EU in 2018 underscores this concern.

That said, recent market-oriented reforms are a step in the right direction to realising Myanmar's economic potential. These reforms, which would increase foreign investor participation in the economy, include a revision of the Company Law, greater access to foreign banks and the liberalisation of the wholesale and retail trade sector. New regulations under the Financial Institutions Law will gradually improve the sustainability of the banking system. The economic benefits from these reforms are, nevertheless, viewed as limited in the near term owing to institutional constraints,

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heightened investor risk aversion to possible sanctions and the reputational damage arising from the country's domestic conflicts.

Myanmar's fiscal position remains constrained by its State Economic Enterprises (SEEs). Fiscal revenues derived by SEEs – making up 38.7% of revenues in fiscal year ending March 2018 – are volatile due to the exposure of these entities to global commodity prices and the high degree of informality in the sectors in which they operate. While the ongoing corporatisation of the entities is a positive move to improve fiscal oversight, its effects have not been tangible. Other key reforms such as the introduction of the Special Goods Tax and the establishment of Large and Medium Taxpayer Offices in FY 2017 would likely improve the fiscal trajectory over the long term.

As Myanmar's macroeconomic risks are deemed elevated, any upside potential to its sovereign ratings is limited in the near term. The ratings could be adjusted downwards in the event of persistent growth stagnation, a rollback of the current economic liberalisation programme, or the intensification of domestic conflicts which would impair business activity or result in a significant deterioration in FDI inflows.

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