Myanmar Firm Monitoring

BRIEF №14

17 JANUARY 2022

MYANMAR FIRM MONITORING draws from a monthly survey of enterprises undertaken by the World Bank Macro, Trade and Investment Global Practice to provide regular updates on enterprises' activities. Myanmar COVID-19 Monitoring was generously supported through the Trust Fund for Statistical Capacity Building (TFSCBIII) by the United Kingdom's Foreign Commonwealth and Development Office, the Government of Korea, and the Department of Foreign Affairs and Trade of Ireland. Additional support was provided by the governments of Australia, Denmark, Finland, and Sweden

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Results *from* Myanmar Firm Monitoring

ROUND 9 RESULTS

High-level Findings

Results from Myanmar Firm Monitoring Survey
Round 9 conducted in October 2021

Below Capacity

Despite a 4-fold decrease in firms reporting temporary closure compared to August 2021, average operating capacity of firms remained suppressed at only 57 percent

Supply Disruptions

Disruptions to the supply of inputs and raw materials remained a major concern for more than half of firms

Depreciation Impact

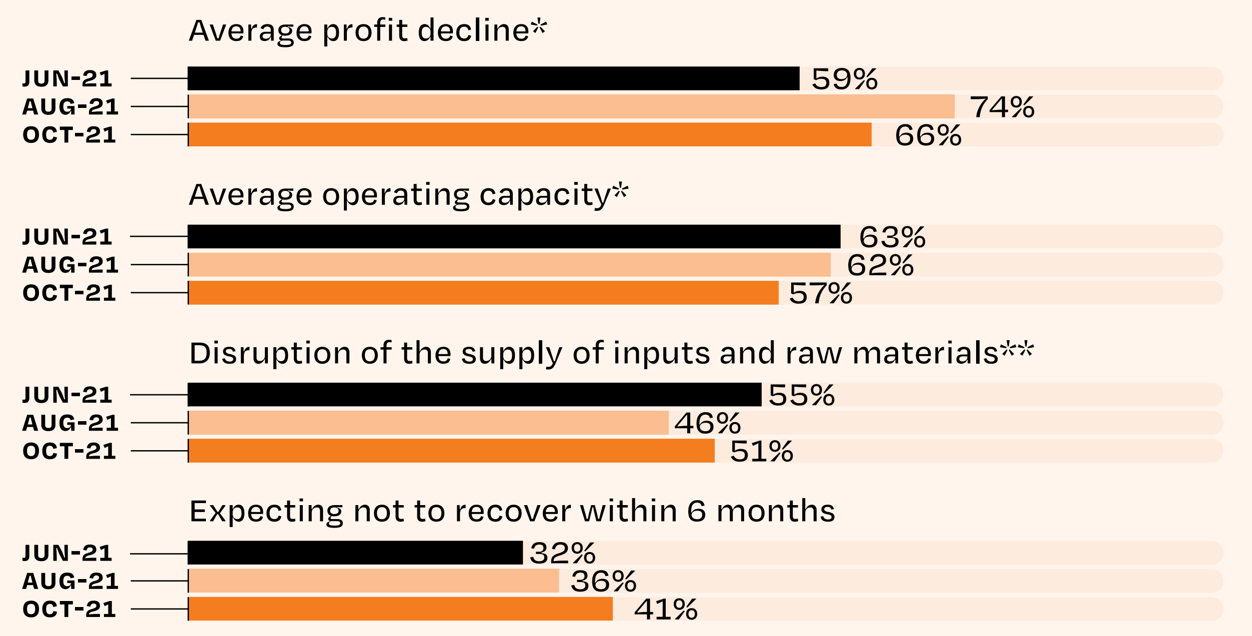
64 percent of firms reported that the depreciation of the Myanmar kyat against the US dollar materially impacted their operations and performance

Bleak outlook

The share of firms not expecting to recover to pre-February levels in next 6 months increased from 32 percent in June 2021 to 41 percent in October 2021

Note The latest survey was administered between October 13, 2021 and November 8, 2021 and covered a nationally representative sample of 500 firms. The figures below show the results of Round 7 (June 2021), Round 8 (August 2021), and Round 9 (October 2021). Round 9 includes 294 of the same firms that were surveyed in Round 8. Due to attrition, the remaining firms have been substituted to meet sample needs

Figure 1 Business environment remained vulnerable



Note:

* Firms were asked to report about the last completed month.

**Question is modified for October 2021. For June and August 2021, firms were asked to report whether they experienced the disruptions since February 2021, but for October 2021, firms were asked to report whether they experienced the disruptions in the last completed month.

October 2021 survey results indicate that firms' business performance and expectations remained weak

Results from the Myanmar firm survey round 9 indicate that the business environment remained vulnerable (Figure 1). In October 2021, firms reported that profit declined by an average of 66 percent compared to January 2021 – an improvement of 8 percentage points compared to August 2021. However, this finding was 7 percentage points worse than that observed in June 2021. This implies that firms' performance—in terms of profitability—slightly recovered from the impacts of COVID-19. However, firms' operating capacity and share of firms experiencing disruptions of the supply of inputs and raw materials remained as concerns for firms in October 2021. Given Myanmar's reliance on imports for raw materials and inputs, supply chain disruptions could have a material impact on agricultural and manufacturing firms. Consistent with that, both agricultural and manufacturing sectors saw 65 percent of their firms experiencing disruptions in October 2021 – 14-percentage points higher than the national average. As there were no significant improvements in the business conditions, the number of firms not expecting to recover to pre-February levels in the next 6 months has increased since June 2021.

Figure 2 Share of firms reporting temporary closures – by sector

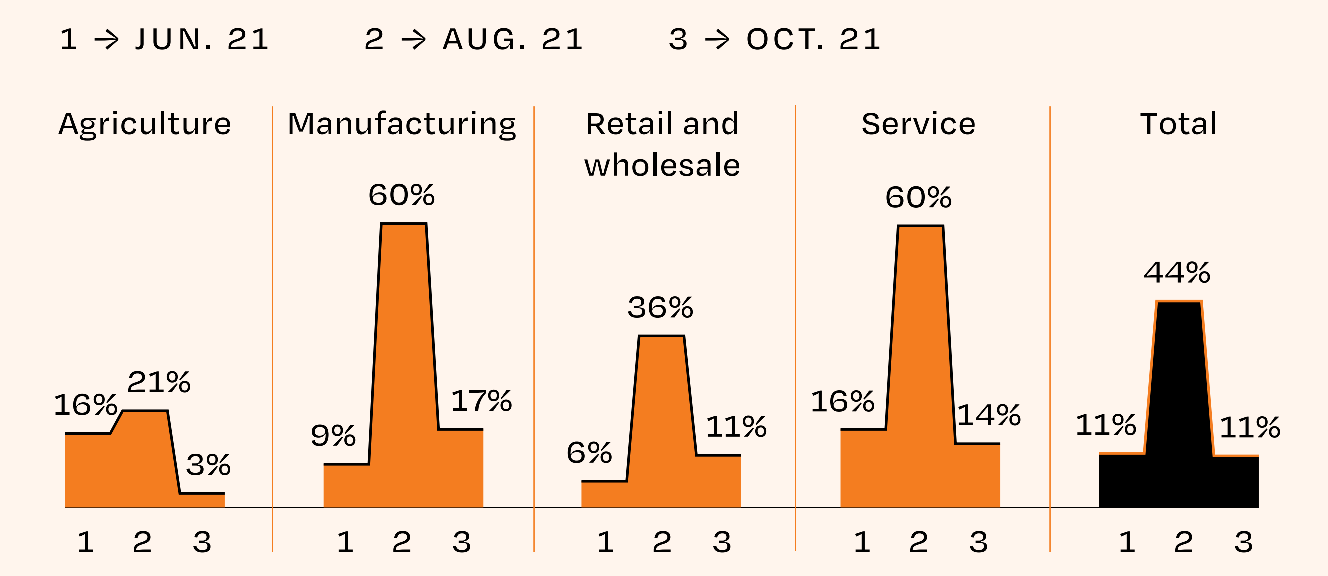


Figure 3 Share of firms reporting temporary closures – by firm size

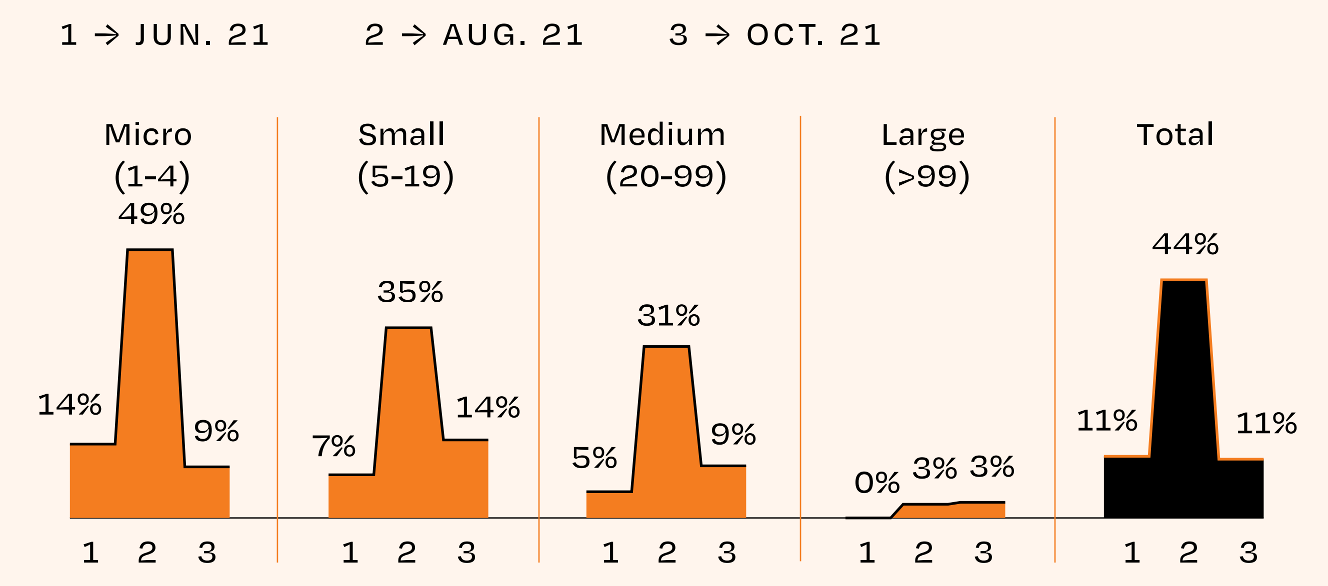


Figure 4 Average operating capacity – by sector

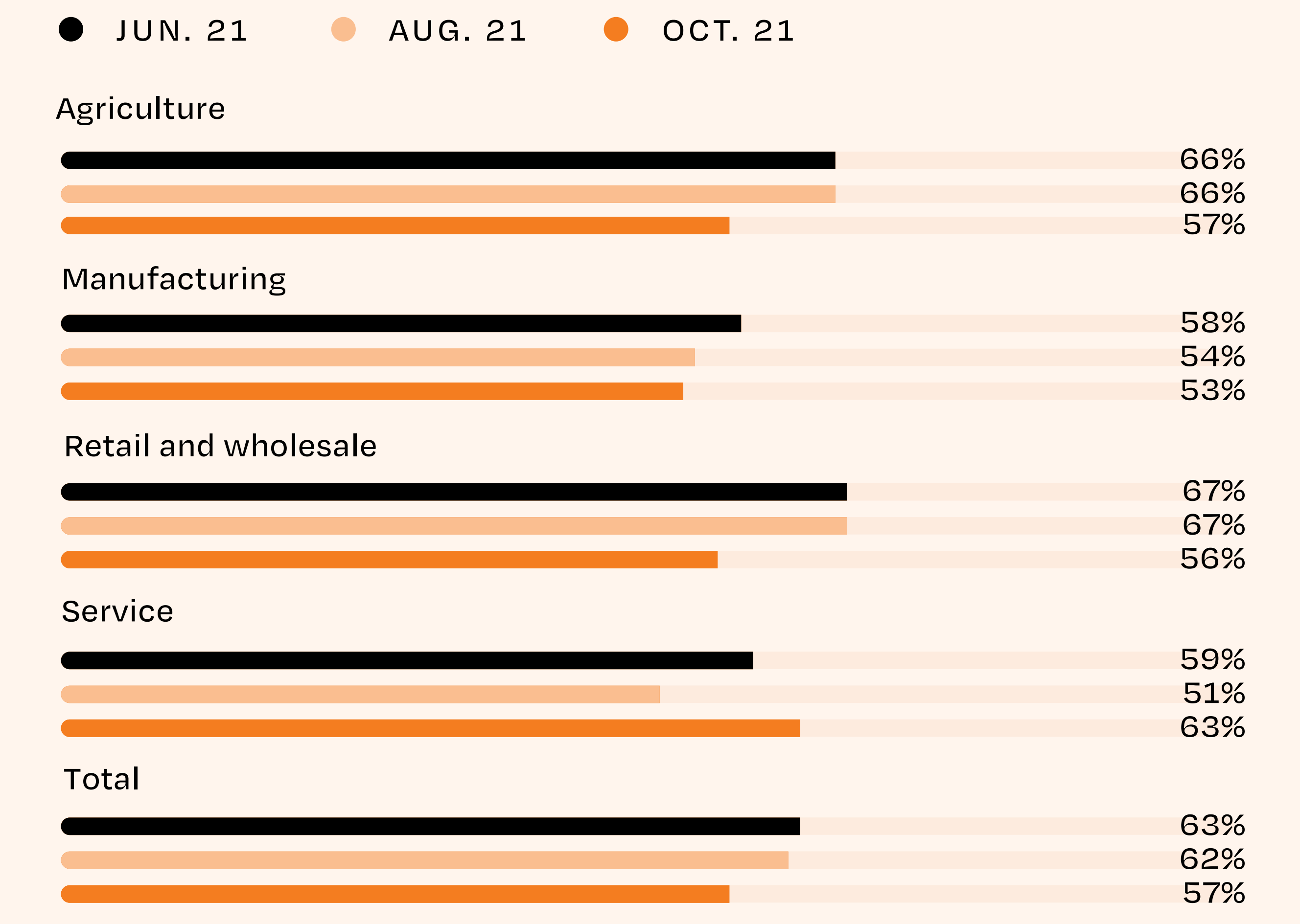
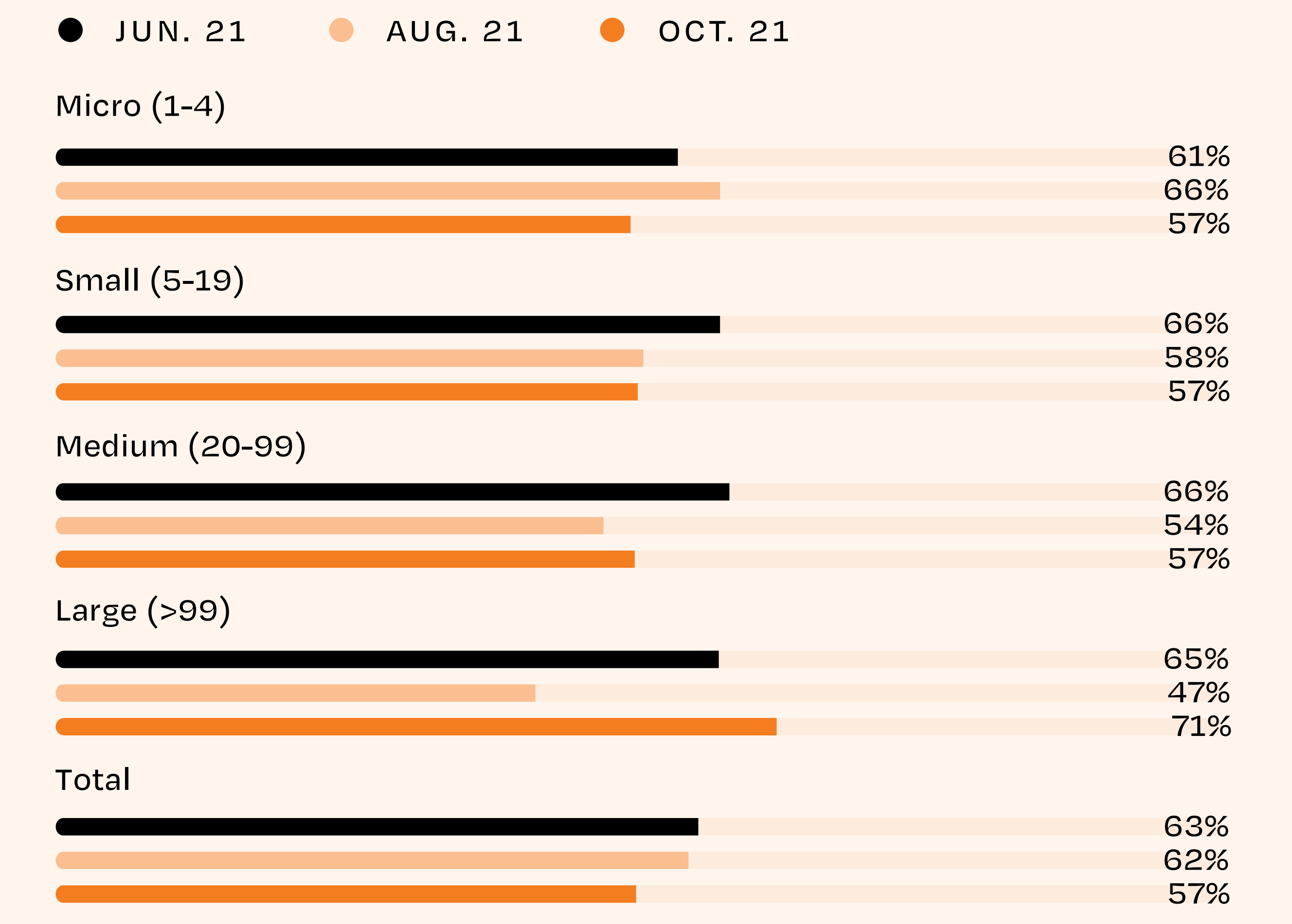


Figure 5 Average operating capacity - by firm size



Note: Firms were asked to report about the last completed month.

Operational Status

Temporary closures significantly declined, but firms' operating capacity declined further and remained well below full capacity

As COVID-19 cases eased, a rapid decline in temporary closures was observed. In October 2021, 11 percent of firms temporarily closed – four times less than that observed in August 2021 and on parity with that observed in June 2021. This is also consistent with the Google mobility data, where Myanmar's workplace mobility in October 2021 was 15 percentage points higher – compared to that observed in August 2021.[1] The significant decline in temporary closures was primarily driven by manufacturing and service sectors with about two-third of manufacturing and service firms reporting temporary closures (Figure 2). A 24-percentage point decrease in temporary closures of retail and wholesale firms between August and October was consistent with Google retail and recreation mobility, and grocery and pharmacy mobility indicators, both of which increased by 21-percentage points over the same period. By firm size, large firms continued to be the least affected by temporary closures (Figure 3).

Despite a significant share of firms reopening, firms' operating capacity continued to decline. In October 2021, the firms that were open operated at only 57 percent of their capacity – 5 percentage points lower than that observed in August 2021. This may be attributable to a further deteriorating security issue since August 2021 - resulting in limited operation hours, especially for manufacturing firms. The October result confirmed this with manufacturing firms operating with 53 percent of their full capacity, which was the lowest compared to other sectors (Figure 4). Unlike other sectors, the operating capacity of service firms increased by 12 percentage points compared to June 2021. This could be partly attributable to the nature of service firms – allowing more flexible working arrangements such as remote and flexible work, compared with other firms where operating hours can be impacted by security issues. By firm size, larger firms' operating capacity increased compared to June 2021. Despite being far from returning to their full operating capacity, large and medium firms' capacities increased by 24 and 3 percentage points respectively in October 2021 as compared to June 2021 (Figure 5). On the other hand, smaller firms' capacity continued to decline.

As firms' temporary closures declined, positive employment impacts were observed (Figure 6). In October 2021, 8 percent of firms reported hiring – 6 percentage points higher than that observed in June 2021. The share of firms reporting layoffs declined to 6 percent. As the majority of firms were open, firms granting

1 Google Mobility Data

Figure 6 Share of firms reporting labor impacts

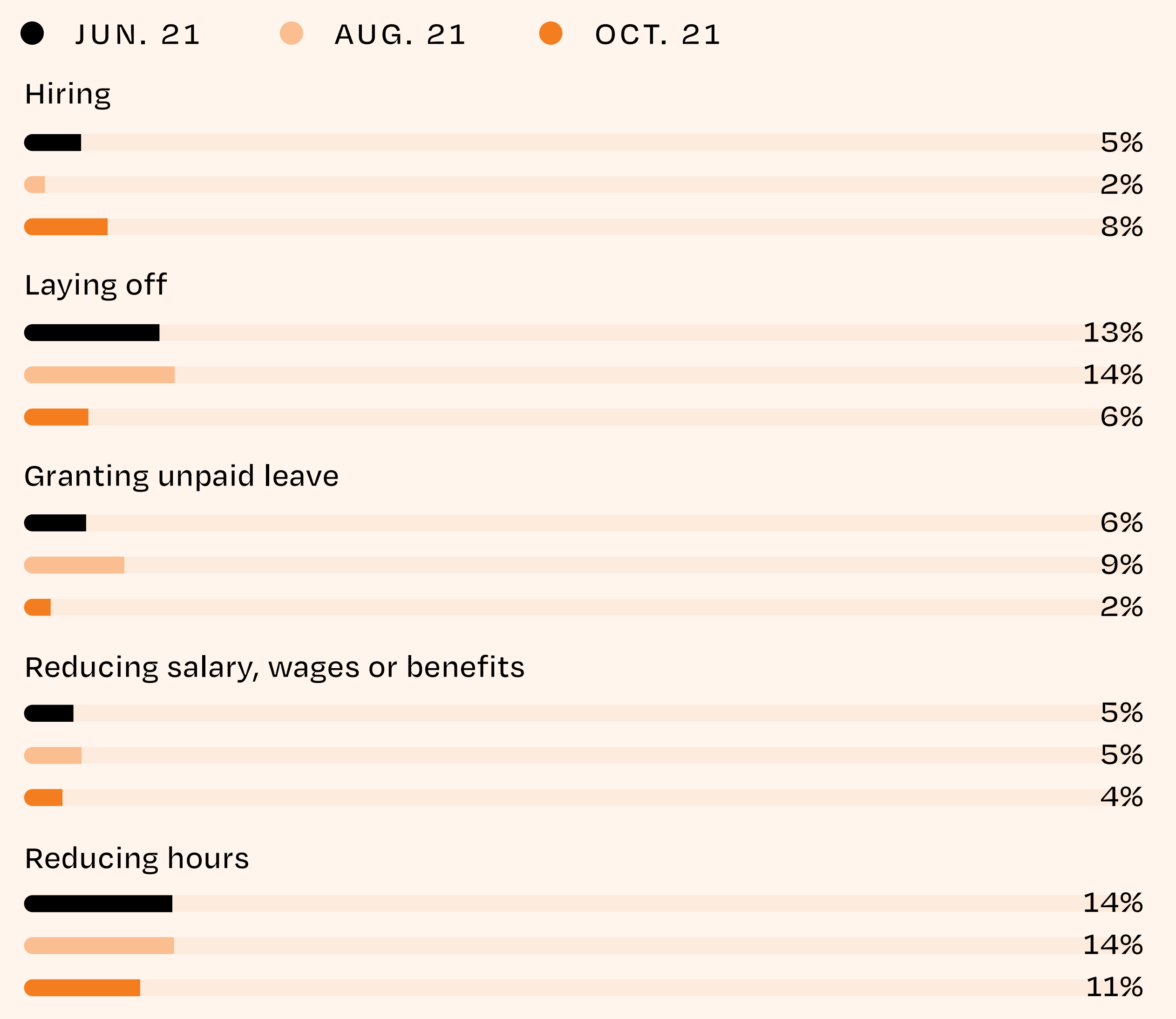


Figure 7 Share of firms reporting sales decline compared to January 2021 – by firm size

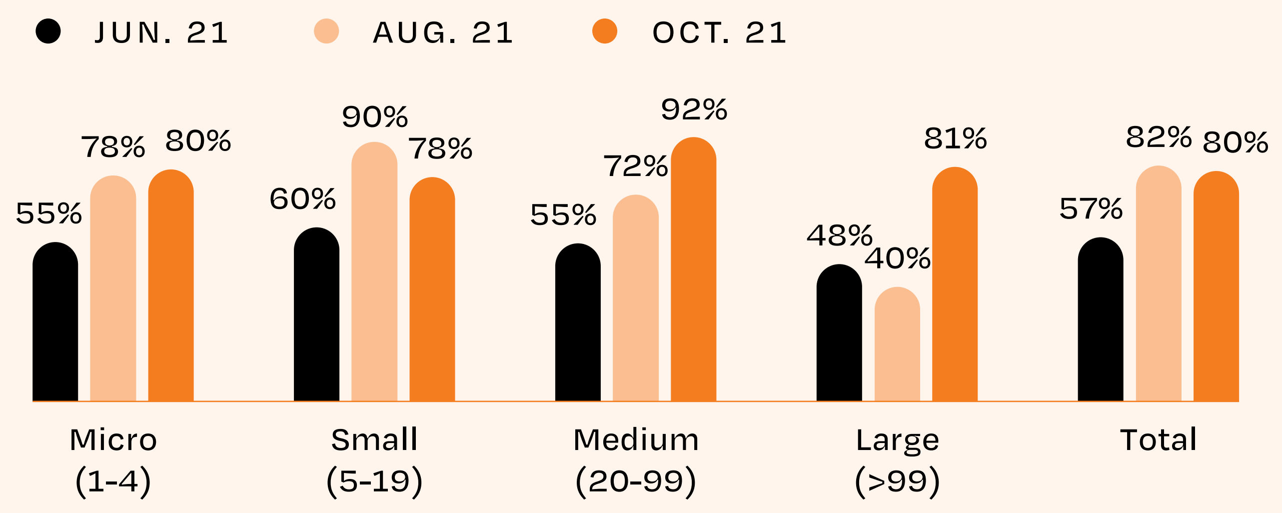
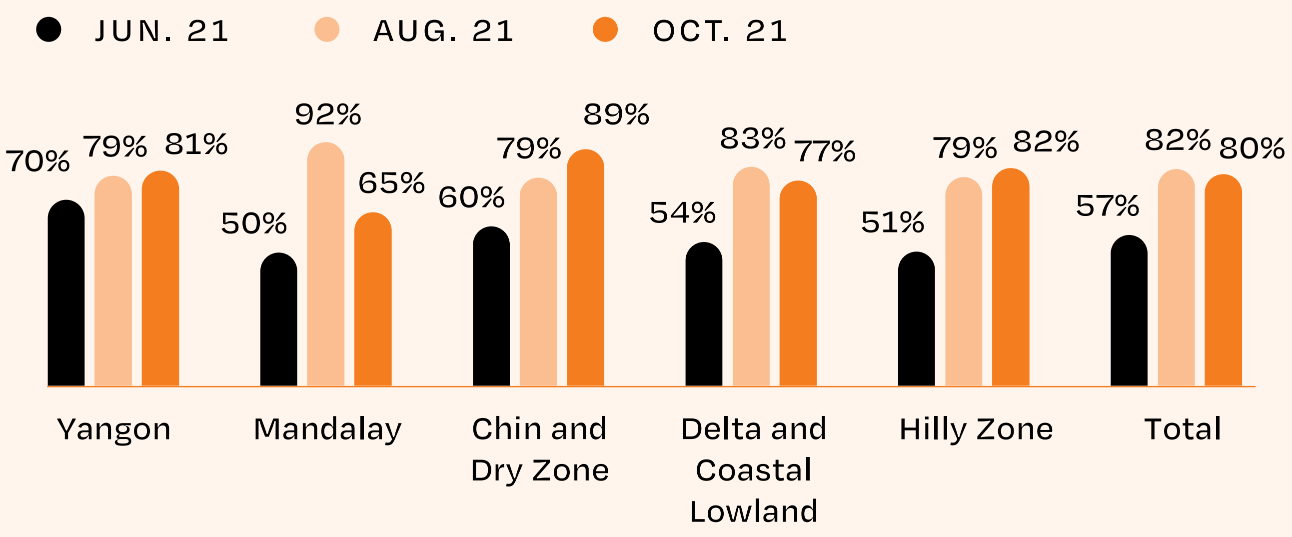
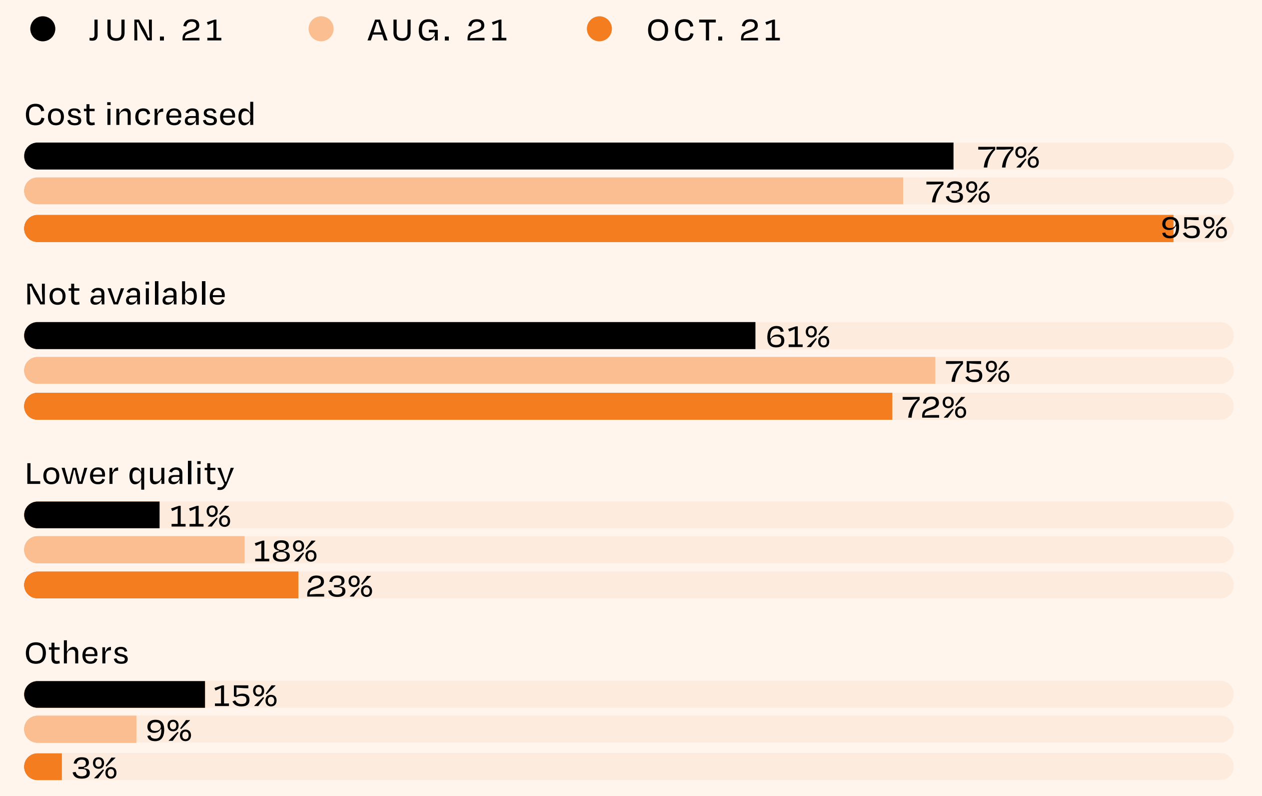


Figure 8 Share of firms reporting sales decline compared to January 2021 – by region



Note: Firms were asked to report about the last completed month.

Figure 9 Share of firms reporting major reasons for disruptions of intermediate materials or inputs



unpaid leave declined by 2 percent, and firms reducing labor hours also declined by 11 percent. Moreover, 4 percent of firms reduced salaries, wages or benefits representing a one percentage point decrease compared to August 2021.

Business performance

Business performance weakened significantly in the aftermath of the COVID-19 third wave

Sales decline continued for the majority of firms in October 2021. Compared to their sales in January 2021, 82 percent of firms experienced a decline in October 2021, slightly higher than 80 percent of firms reporting sales decline in August 2021. Differences among different firm sizes and regions were observed. In October 2021, the share of medium and large firms reporting sales declines significantly increased by 20 percentage points and 41 percentage points respectively (Figure 7) while the share of small firms experiencing declines in sales decreased by 12 percentage points, compared to August 2021. Likewise, the share of firms experiencing sales decline in the Chin and Dry Zone significantly increased by 10 percentage points while the share of firms experiencing sales decline in Mandalay decreased by 27 percentage points (Figure 8). In the Chin and Dry Zone, the share of firms experiencing sales decline has increased significantly since June 2021, and this could be in part attributable to the increased intensity of conflict in the region.

Rising costs were a major reason for firms experiencing disruptions of intermediate materials or inputs (Figure 9). In October 2021, 95 percent of firms experienced an increase in costs – 22 percentage points higher than that observed in August 2021. On average, firms experienced a 45 percent increase in the cost of raw materials and inputs as compared to the average cost in the past 3 months. They further experienced a 53 percent increase in the cost of raw materials and inputs as compared to January 2021. This could suggest that an increase in input prices were more pronounced recently – possibly associated with the recent impacts of the Myanmar kyat depreciation. The findings further complement the purchasing manager index (PMI) of Myanmar manufacturing firms – which increased from a PMI input price index of 67 in August to 86.9 in October 2021, well above from the benchmark 50 – showing inflation since the previous month.[2] The sharp depreciation in the exchange rate and the associated increase in fuel and transportation costs contributed to a sharp increase in input prices in October 2021. Besides cost, non-availability of inputs and raw materials was also a major challenge for manufacturing firms with 72 percent of firms reporting non-availability.

The depreciation of the Myanmar kyat against the US dollar have become a concern for firms. Two-thirds of firms reported that the depreciation of the kyat against the US dollar adversely affected their operations and performance (Figure 10). Among firms reporting this impact, 81 percent of firms in Yangon felt the impacts -17 percentage points higher than the national average (Figure 11). Along with depreciation against the US dollar impacts, 41 percent of firms reported impacts associated with the depreciation of the kyat against other foreign currencies other than US dollar. Given Myanmar's reliance upon imports for inputs and raw materials, the kyat's depreciation has become an inflationary force resulting in an increase in input and output prices for firms. This also lowers consumer spending power further impacting domestic spending.

With supply chain and financial sector related disruptions, 42 percent of firms reported increases in prices of their products or services since July 2021. This finding complements PMI output prices change – from 57.6 in July to 63.8 in October, indicating an output price increase. Despite a significant share of firms experiencing supply chain disruptions, agricultural firms seemed to absorb the increase in input prices more than firms in other sec-

2 IHS Markit Myanmar manufacturing PMI

Figure 10 Share of firms reporting impacts of Myanmar Kyat depreciation and limited access to foreign currencies

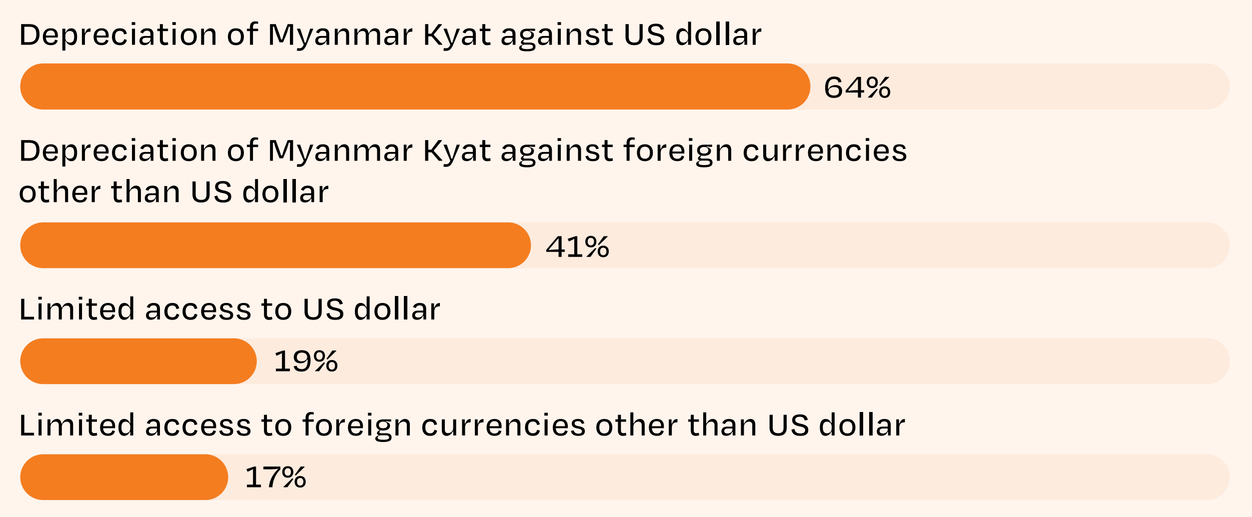


Figure 11 Share of firms reporting impact of Myanmar Kyat depreciation against US dollar – by region

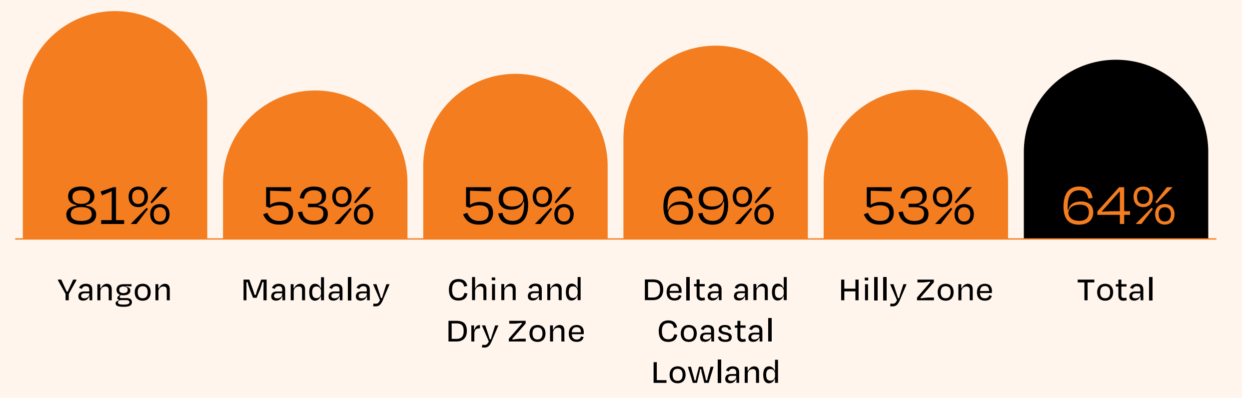


Figure 12 Share of firms reporting increase in prices of their products or services since July 2021 – by sector

Figure 13 Share of firms reporting increase in prices of their products or services since July 2021 – by firm size

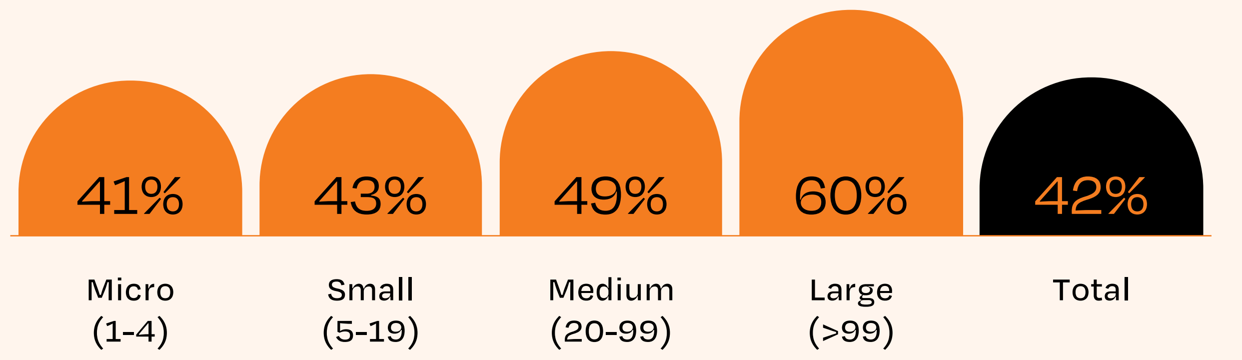
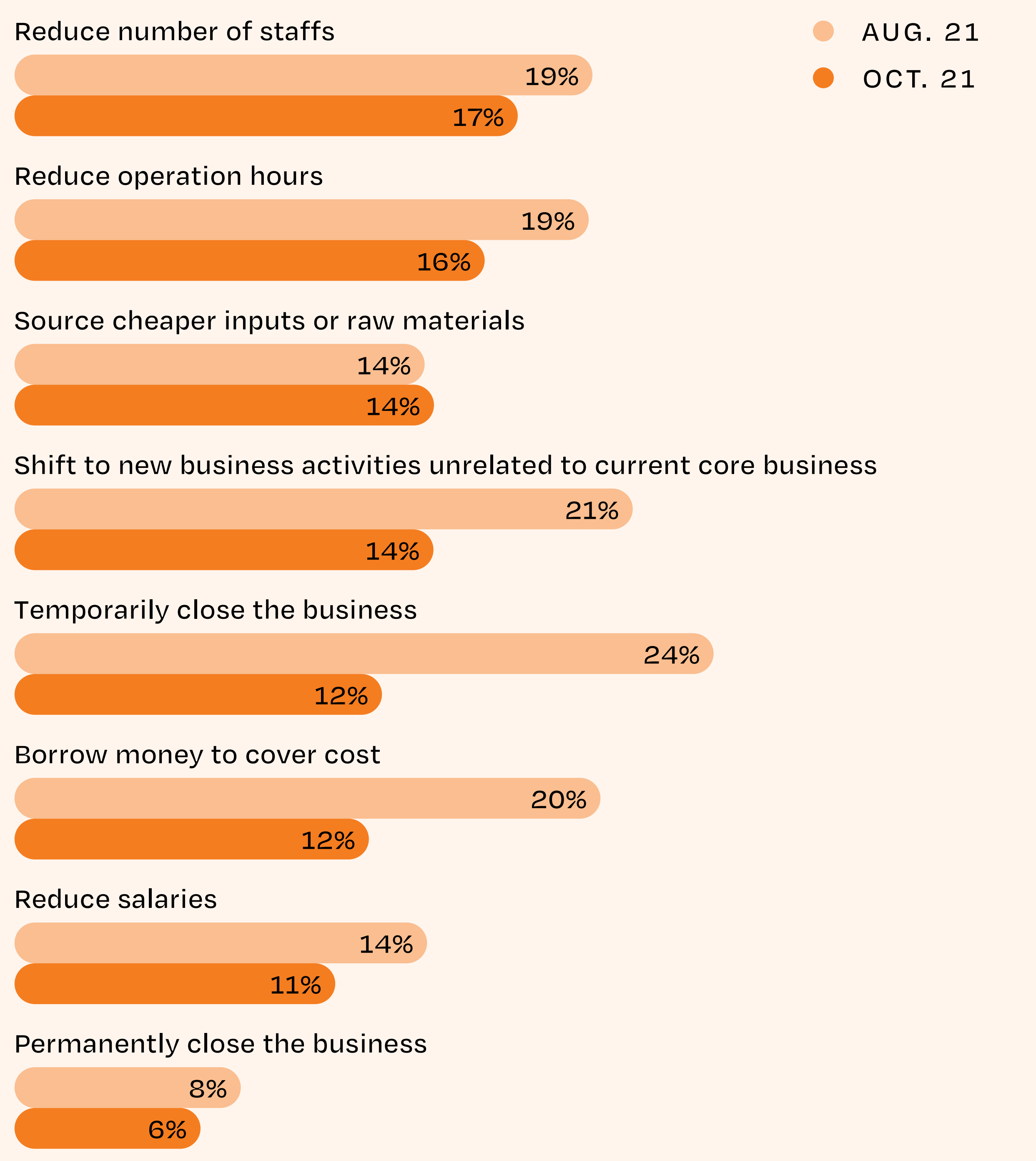


Figure 14 Share of firms reporting adjustment plan if the situation does not improve in next 3 months



tors – with only 24 percent of firms reporting an increase in prices of their products since July 2021, a full 18 percentage points lower than the national average (Figure 12). On the other hand, more than half of firms in the retail and wholesale, and service sectors have increased prices since July 2021. By firm size, the share of larger firms that have increased prices of products or services were higher than those of micro and small firms (Figure 13). This suggests that larger firms can pass through cost increases to customers more easily than smaller firms, or that there is more competition among smaller firms offering similar products or services. Among those firms that increased prices between July and October 2021, August was the most common month that firms (with 45 percent) decided to increase prices - with the principal reason as cited by 95 percent of firms being to cover higher costs due to an increase in intermediate and input prices. This resulted in an average price increase of 23 percent between July 2021 and October 2021. Besides an increase in prices of inputs and raw materials, the kyat's depreciation against the US dollar could influence firms' decision to increase their prices.

95%

of firms experienced an increase in costs

Adaptations

3

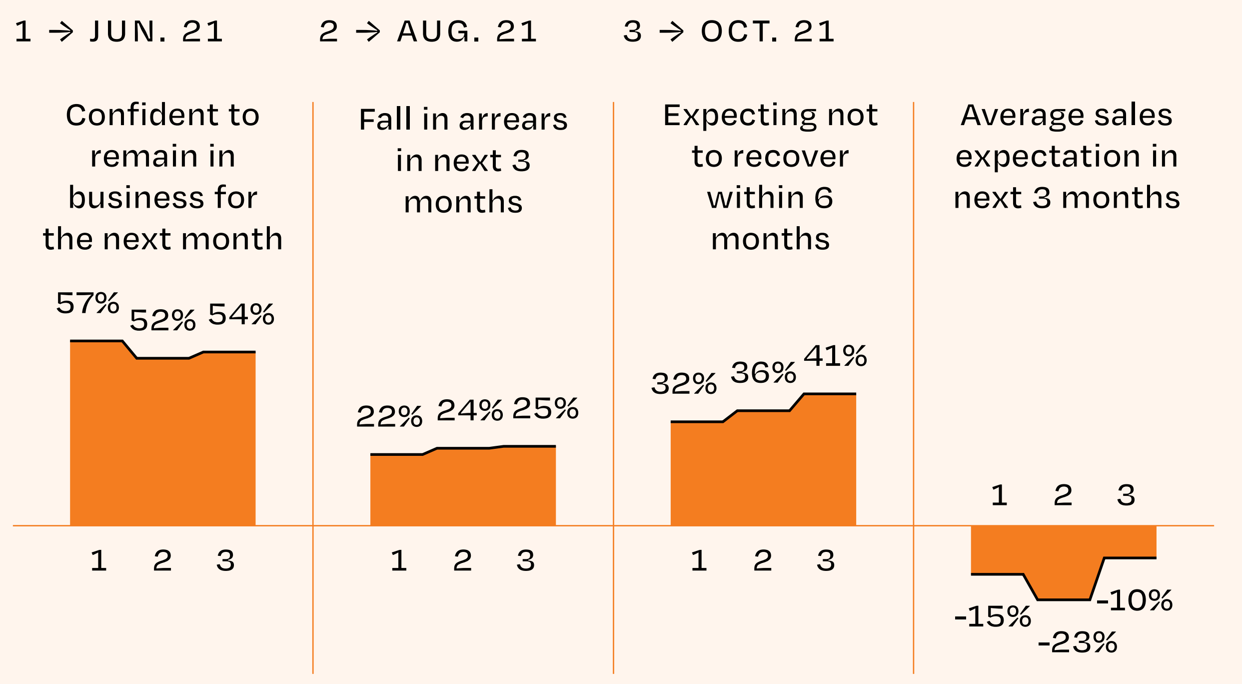
Reducing number of staffs and operation hours were planned adjustments for firms if the current business situation does not improve

A shift in planned adjustments was observed in October 2021 (Figure 14). Layoffs were the most reported adjustment that firms would adopt if the business situation did not improve in next three months (reported by 17 percent of firms), followed by reducing operation hours (reported by 16 percent of firms) and sourcing cheaper inputs or raw materials (reported by 14 percent of firms). While temporary closures were the most reported adjustment mechanism that firms would adopt reported in August 2021, the share of firms reporting this adjustment as a major plan halved from 24 percent in August 2021 to 12 percent in October 2021. Overall, if the current busines situation does not improve, firms are likely to adjust their business operations by reducing headcount and trimmed operating hours instead of temporary cease operations – implying that firms prefer to cut their costs in ways, which may likely result in output reduction to stay in business rather than close their businesses temporarily (which would be more costly for firms).

17%

would adopt layoffs if the economic situation did not improve in next three months

Figure 15 Firms' expectations remained bleak



54%

of firms were confident to remain in business for the next month

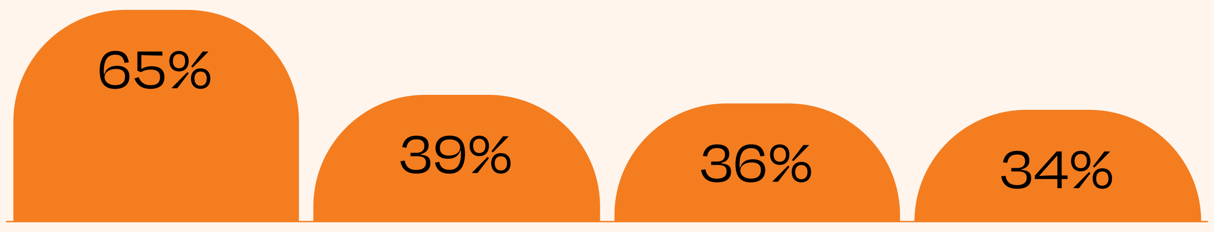
Business expectations

4

Business expectations remained bleak

With a deteriorating business environment, firms' expectations remained bleak for the future. In October 2021, 54 percent of firms were confident to remain in business for the next month, a 2 percentage points increase compared to August 2021, but a 3-percentage points decrease compared to June (Figure 15). Firms expecting to fall in arrears in the next 3 months continued to increase since June 2021, from 22 percent in June, 24 percent in August to 25 percent in October 2021. In addition, 41 percent of firms expected not to recover to levels seen before February 2021 within the next 6 months, an increase of 5-percentage points from August 2021 and 9-percentage points from June 2021. Firms reported an expectation that sales would decline by an average of 10 percent in the next 3 months compared to same period last year.

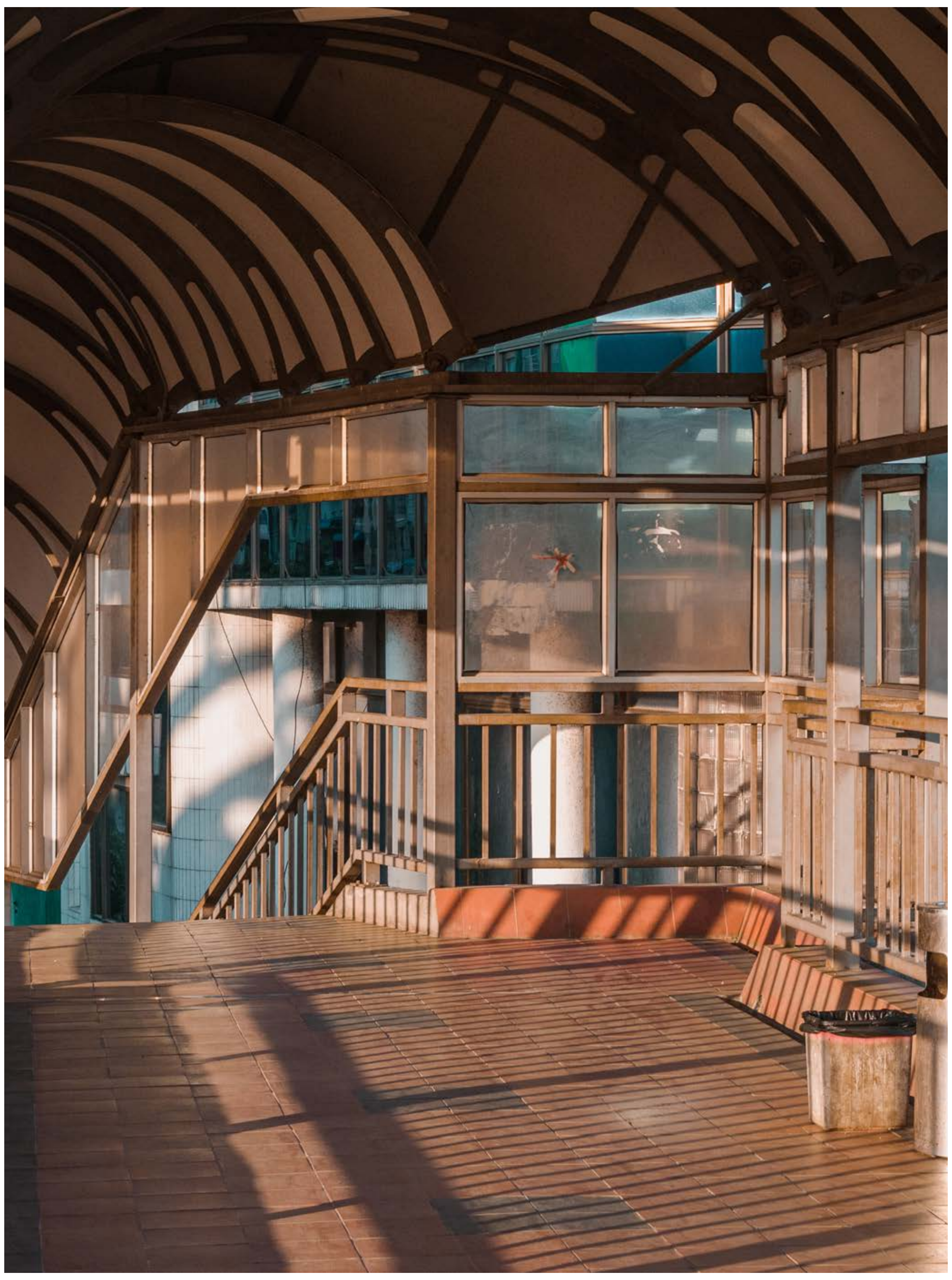
Figure 16 Average tax payment decrease and share of firms reporting tax payment and public service delivery



Average tax payment decrease compared to last year, among the firms reporting a decrease in tax payment*	Worsened ease of taxes filing and payment since February 2021	Worsened ease of customs clearance and payment since February 2021	Decrease in the share of firms paying taxes from the past 6 months before February 2021 to the past 6 months before October 2021

Note: *Indicator reported average tax payment decrease, and the rest indicators reported share of firms.

Source: The World Bank's Firm Monitoring Survey Round 9



Tax payments & regulatory constraints

5

Tax payments declined and regulatory burdens increased

Tax payments and ease of regulatory requirements have declined since February 2021 (Figure 16). Only 18 percent of firms reported that they paid taxes owed to authorities in the past 6 months (before October 2021), 34 percentage points lower compared to that in the 6 months prior to February 2021, possibly attributable to tax resistance in response to the coup. Among firms reporting a decrease in tax payment in this year, average tax payments declined by 65 percent as compared to last year. Besides decline in tax payments, increased regulatory burdens was also reported. Since February 2021, 39 percent of firms experienced worsened ease of filing taxes and payment, and 36 percent of firms experienced worsened ease of customs clearance and customs payment.

18%

of firms reported that they paid taxes to authorities in the past 6 months