Myanmar Firm Monitoring Survey Round 10

BRIEF №15

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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 10 RESULTS

High-level Findings

Myanmar Firm Monitoring Survey Round 10 (December 2021)

Improved capacity

Average operating capacity of firms was at 63 percent in December 2021 (up from 57 percent in October 2021), returning to levels seen in June 2021.

Increased prices

Forty-five percent of firms reported an increase in the prices of their products and services since July 2021, resulting in an average output price increase of 12 percent across all firms.

Depreciation impact

Fifty-seven percent of firms reported that the depreciation of the kyat against the US dollar adversely affected their operations and performance.

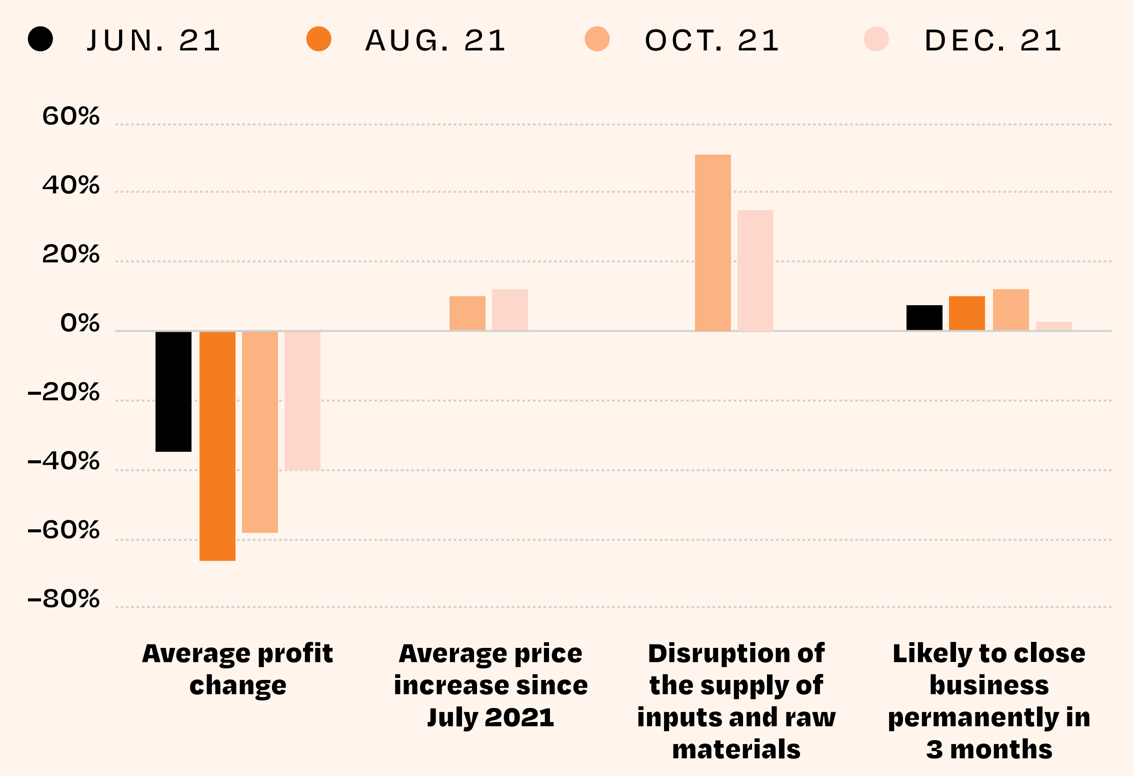
Stable outlook

Only 3 percent of firms reported that they were likely to close their business permanently in the next 3 months, representing the lowest rate in 2021.[1]

1. Note The latest survey was administered between December 8, 2021 and December 31, 2021 and covered a nationally representative sample of 500 firms. Most figures show the results of Round 7 (June 2021), Round 8 (August 2021), Round 9 (October 2021), and Round 10 (December 2021). Figures from Round 6 (December 2020) are also present in business expectation section. Round 10 includes 294 of the same firms that were surveyed in Round 9. Due to attrition, the remaining firms have been substituted to meet sample needs.

Firms' business performance and expectations modestly improved

Figure 1 Business environment modestly improved in December 2021



Source:
The World Bank's Firm Survey Round 10

There are signs that the business environment has started to stabilize (Figure 1). With fewer closures and a modest improvement in operating capacity, sales improved in December 2021, containing an average profit decline of 40 percent across all firms - the lowest since August 2021 yet and closer to levels seen in June 2021. Fewer firms experienced disruptions in the supply of inputs and raw materials. Despite modest improvements in profits, inflationary pressure remained a concern, likely driven by a depreciation of the Myanmar kyat. Only 3 percent of firms expected to close their businesses permanently in the next 3 months, a much lower proportion than earlier in the year.

Figure 2 Share of firms reporting temporary closures – by sector

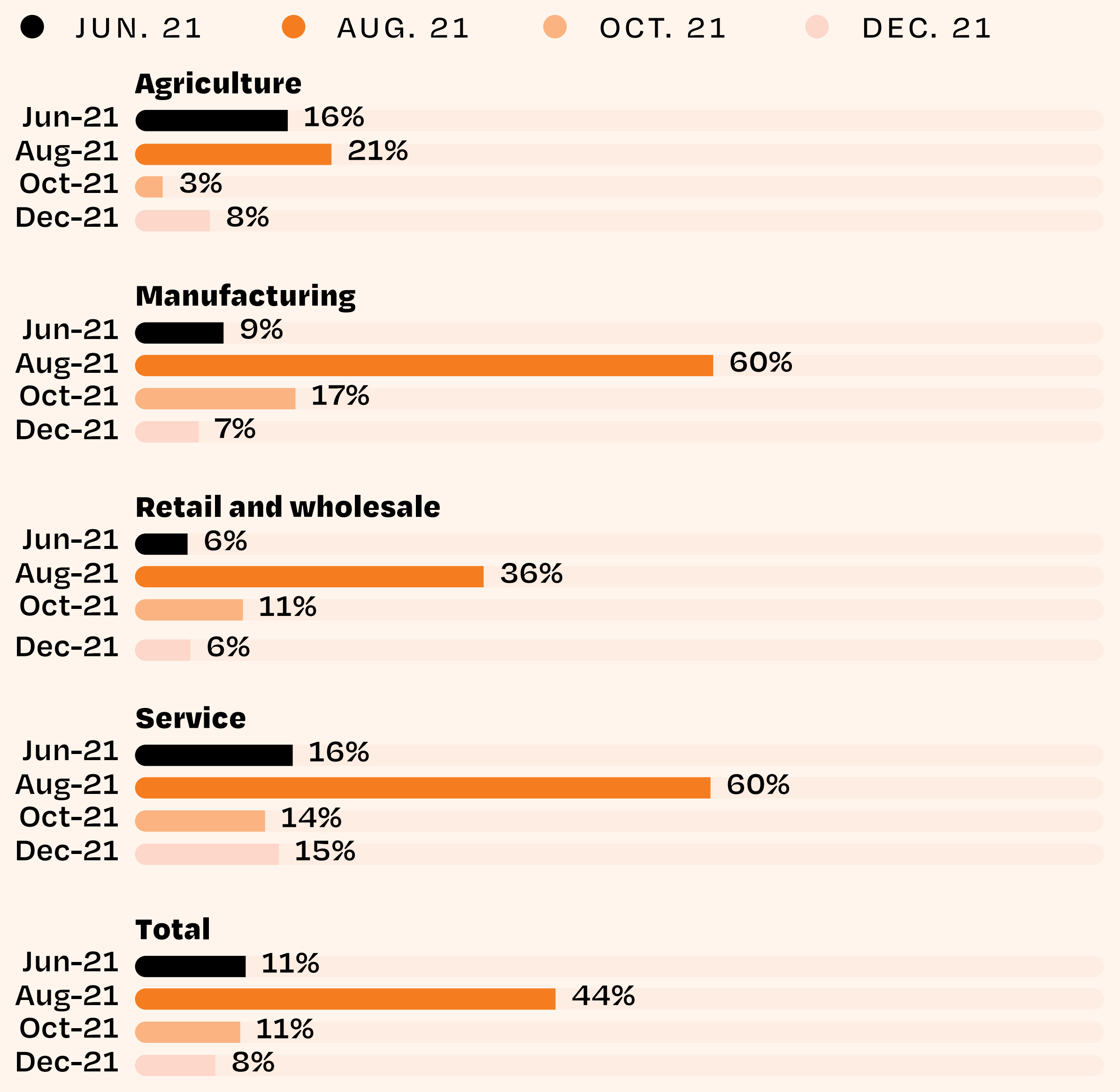


Figure 3 Average operating capacity – by sector

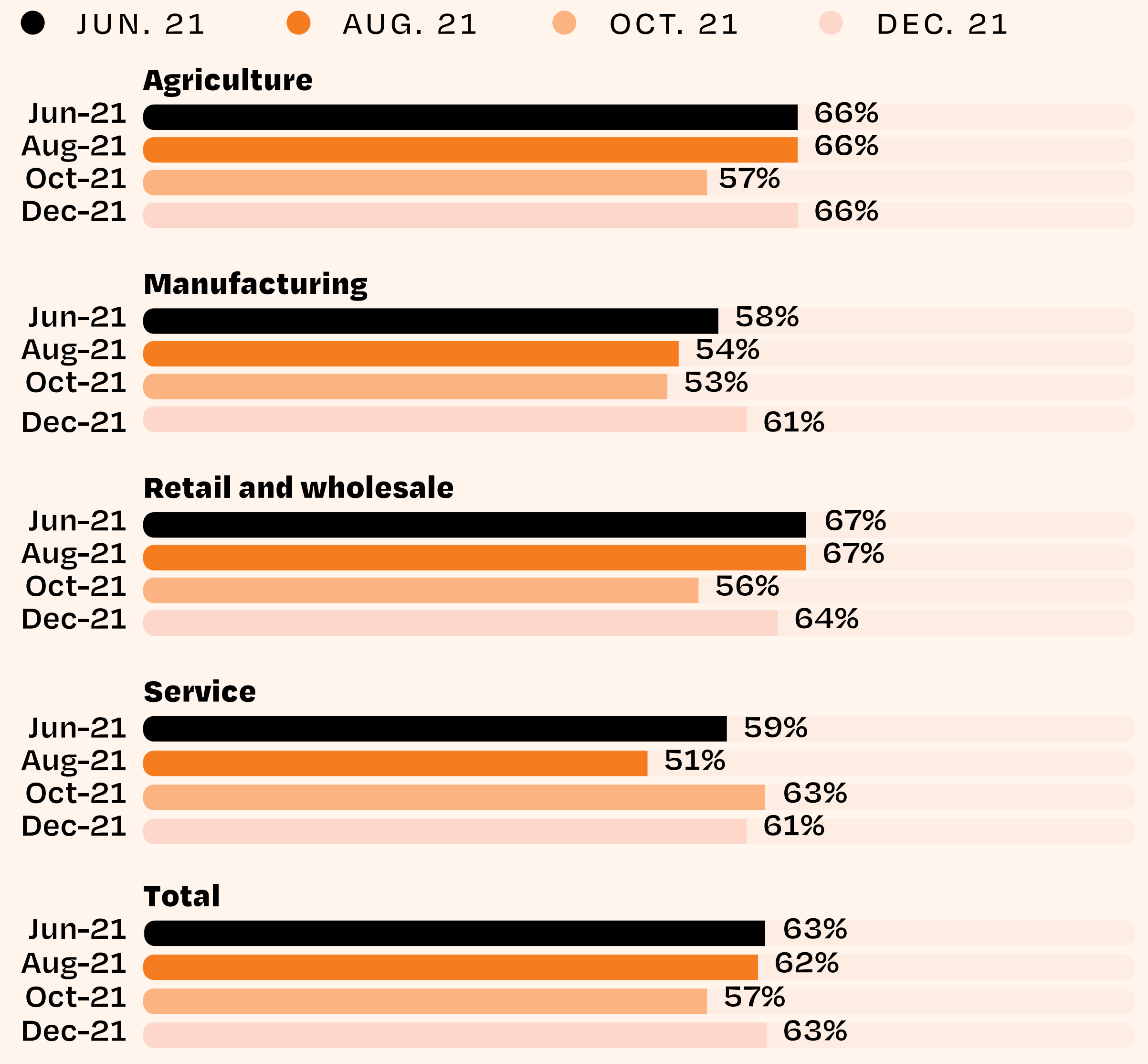
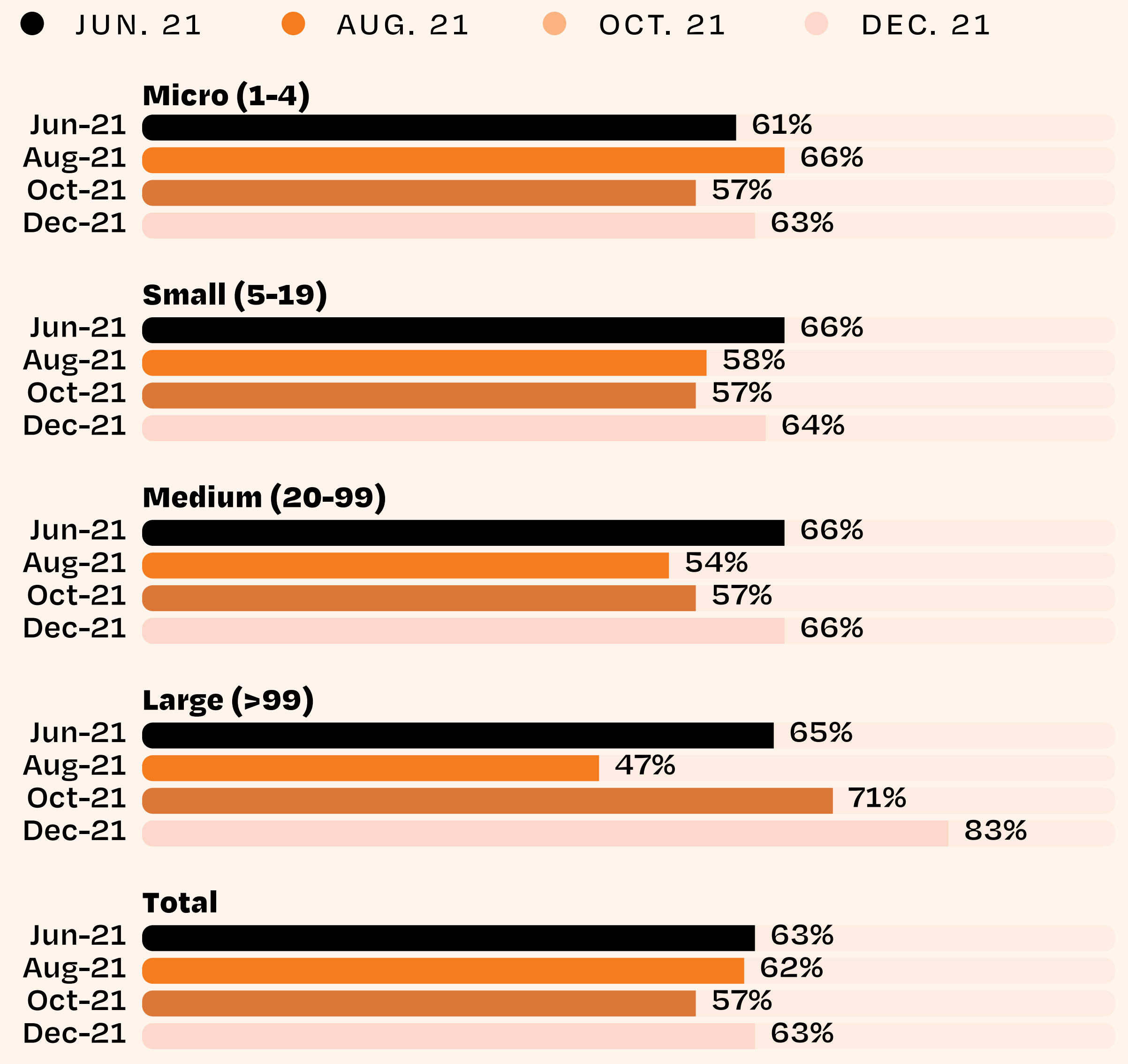


Figure 4 Average operating capacity – by firm size



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

Source: The World Bank's Firm Survey Round 10

Operational Status

1

Temporary closures declined and operating capacity modestly improved

The rate of temporary closures continued to decline. In December 2021, 8 percent of firms reported temporary closures – the lowest since June 2021. This is also consistent with Google mobility data where workplace mobility in December 2021 was the highest since June 2021 despite remaining below the baseline.[2] The decline in temporary closures was primarily driven by the manufacturing sector with the share of firms reporting temporary closures being 10-percentage lower than that observed in October 2021 (Figure 2). However, a 5-percentage point increase in temporary closures for agriculture firms was observed in December 2021, partially attributable to seasonality.[3]

With more firms restarting operations, operating capacity reached June 2021 levels. In December 2021, firms that remained open operated at 63 percent of their capacity – on par with levels seen in June 2021 and 6-percentage points higher than that observed in October 2021 (Figure 3). However, despite the slight improvement, operating capacity remains low, suggesting a challenging environment for firms. Across sectors, agriculture firms had the highest operating capacity (Figure 3). Large firms' operating capacity has continued to increase since August 2021 (Figure 4).

In December 2021, the labor market showed signs of improvement as fewer firms reported lay-offs, reductions in hours, or reductions in pay for their staff (Figure 5). Despite only 2 per-

2 Google Mobility Data. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

3 For instance, paddy, a major agricultural crop, is produced mainly in monsoon season, and other crops are produced in cool and dry season; hence, firms that produce only paddy may not operate in December.

Figure 5 Share of firms reporting labor impacts

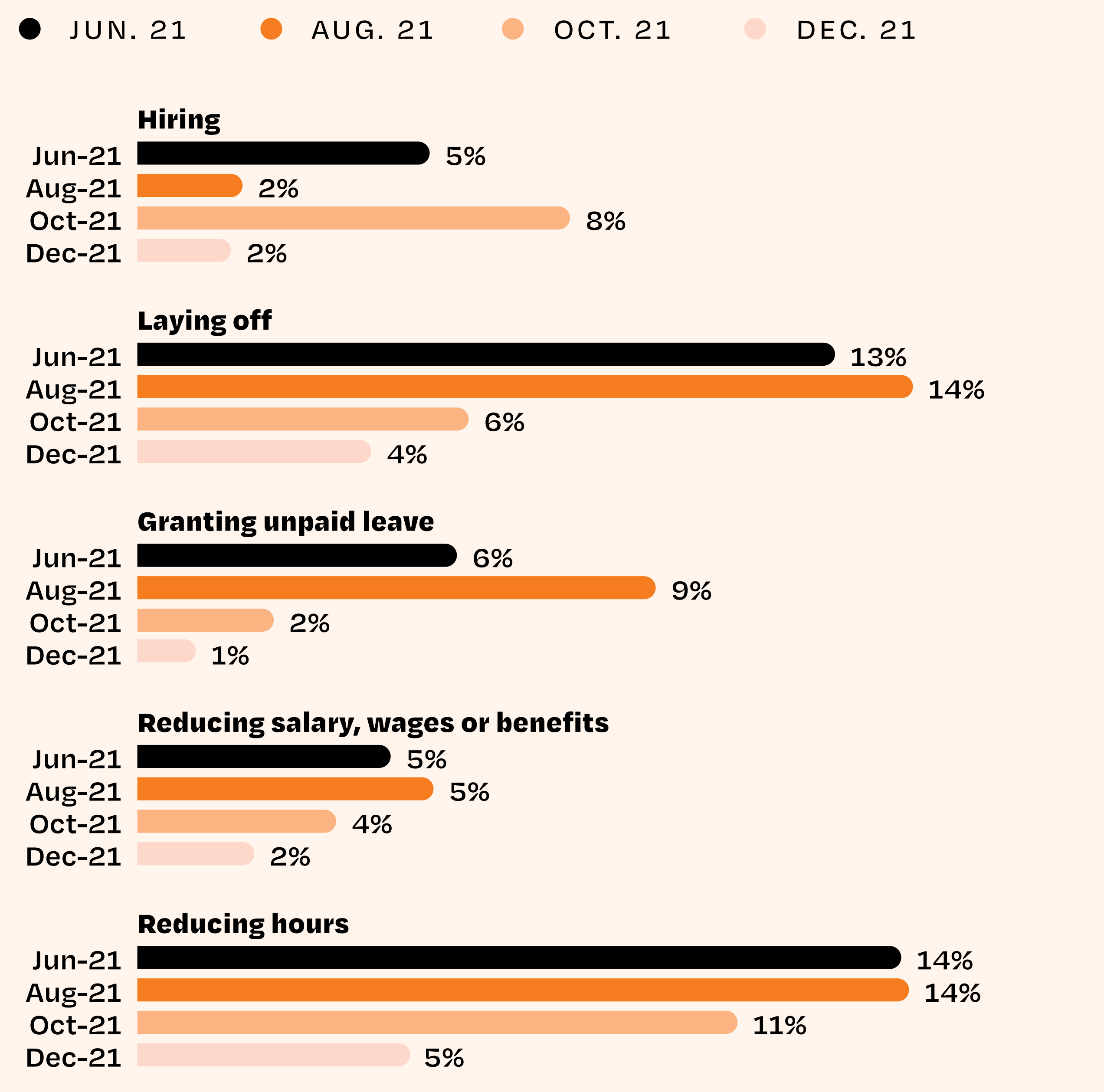


Figure 6 Sales impacts on firms

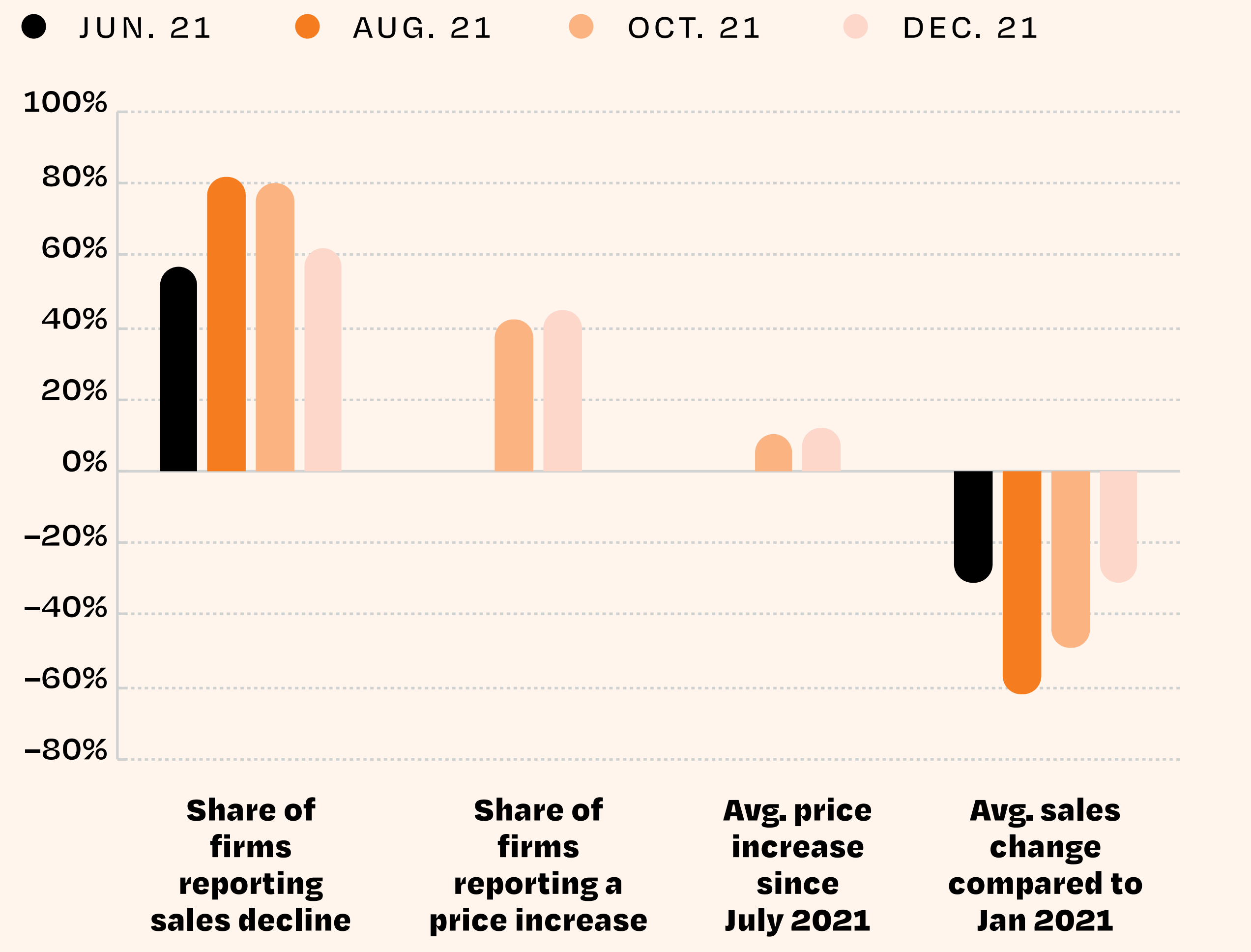
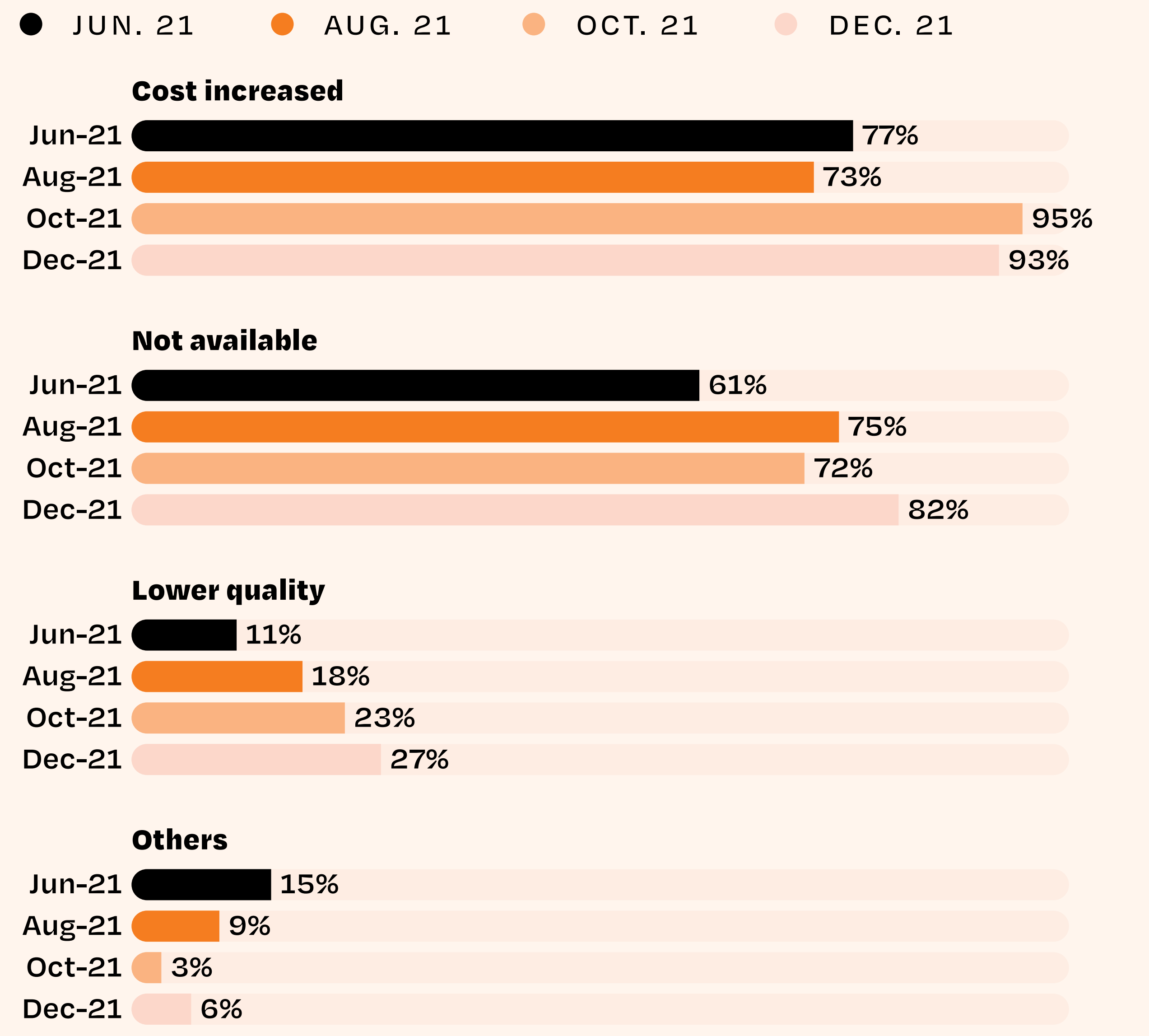


Figure 7 Share of firms reporting major reasons for disruptions of intermediate materials or inputs



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

Source: The World Bank's Firm Survey Round 10

cent of firms reporting new hires, the share of firms reporting lay-offs has declined from 14 percent in August 2021 to 4 percent in December 2021. Likewise, the share of firms granting unpaid leave for employees and reducing employees' hours has declined since August 2021 – which in turn has contributed to the reported increase in operating capacity. Also, fewer firms have reduced employees' salaries.

Business performance

2

Business performance modestly improved, but constraints remained

Sales remained low relative to pre-coup levels, while prices have continued to increase (Figure 6). Compared with January 2021, 62 percent of firms reported lower sales in December 2021, down from 80 percent of firms reporting lower sales in October 2021. With two-thirds of firms experiencing a sales decline, average sales across all firms were 31 percent lower than pre-coup levels. Nonetheless, both the share of firms reporting sales decline and average sales change in December 2021 were lower than that observed in August and October 2021 – in line with the purchasing managers' index (PMI) of Myanmar manufacturing firms, where an output decline in December 2021 was the softest in the past 16 months.[4] With exchange rate depreciation driving up input prices and transportation costs, 45 percent of firms have reported an increase in the prices of their products or services since July 2021. With about half of firms increasing prices, the average price increase across all firms was 12 percent since July 2021. By sector, manufacturing firms and retail and wholesale firms increased prices by 15 percent and 17 percent respectively – higher than the national average. Of the firms increasing prices, the major decision was to cover higher costs due to an increase in intermediate and input prices – reported by 90 percent of firms.

Rising costs remained a major concern for firms (Figure 7). Among the firms experiencing supply disruptions of intermediate materials or inputs, 93 percent of firms experienced a cost increase, reporting an average of 38 percent increase in the cost of raw materials and inputs in December 2021 as compared to average costs over the prior 3 months. The sharp depreciation in the exchange rate and the associated increase in fuel and transportation costs remained major contributors to input price increases. Besides cost, unavailability of inputs and raw materials has also become a pressing issue for firms with 82 percent of firms reporting unavailability – the highest since June 2021. An increase in the unavailability of inputs may lead to further temporary closures and reductions in operating capacity, decreasing firms' outputs.

The depreciation of the Myanmar kyat against the US dollar softened but still impacted firms. Fifty seven percent of firms reported that the depreciation of the kyat against the US dollar adversely affected their operations and performance – lower than 64 percent of firms reporting adverse impacts in October 2021. Among those firms, 96 percent reported an increase in input costs and 85 percent reported an increase in operation costs (which could be attributed by an increase in fuel and transportation costs).

Fewer firms had outstanding loans but their access to finance became constrained. Fifty - one percent of firms reported having outstanding loans – 5-percentage points lower than that observed in October 2021. However, the decline might suggest limited financing access for firms or a decline in demand for financial products given the limited business expansion and investment opportunities in 2021. Among firms with no outstanding loans, savings were most frequently used to finance expenses (Figure 8). While this demonstrates resilience for financing, it could also impact firms' decisions for investment and business expansion since savings are being used for expenses rather than business expansion. In addition, this could also suggest limited access to finance

4 IHS Markit Myanmar manufacturing PMI

Figure 8 Share of firms reporting major reasons for not having outstanding loans

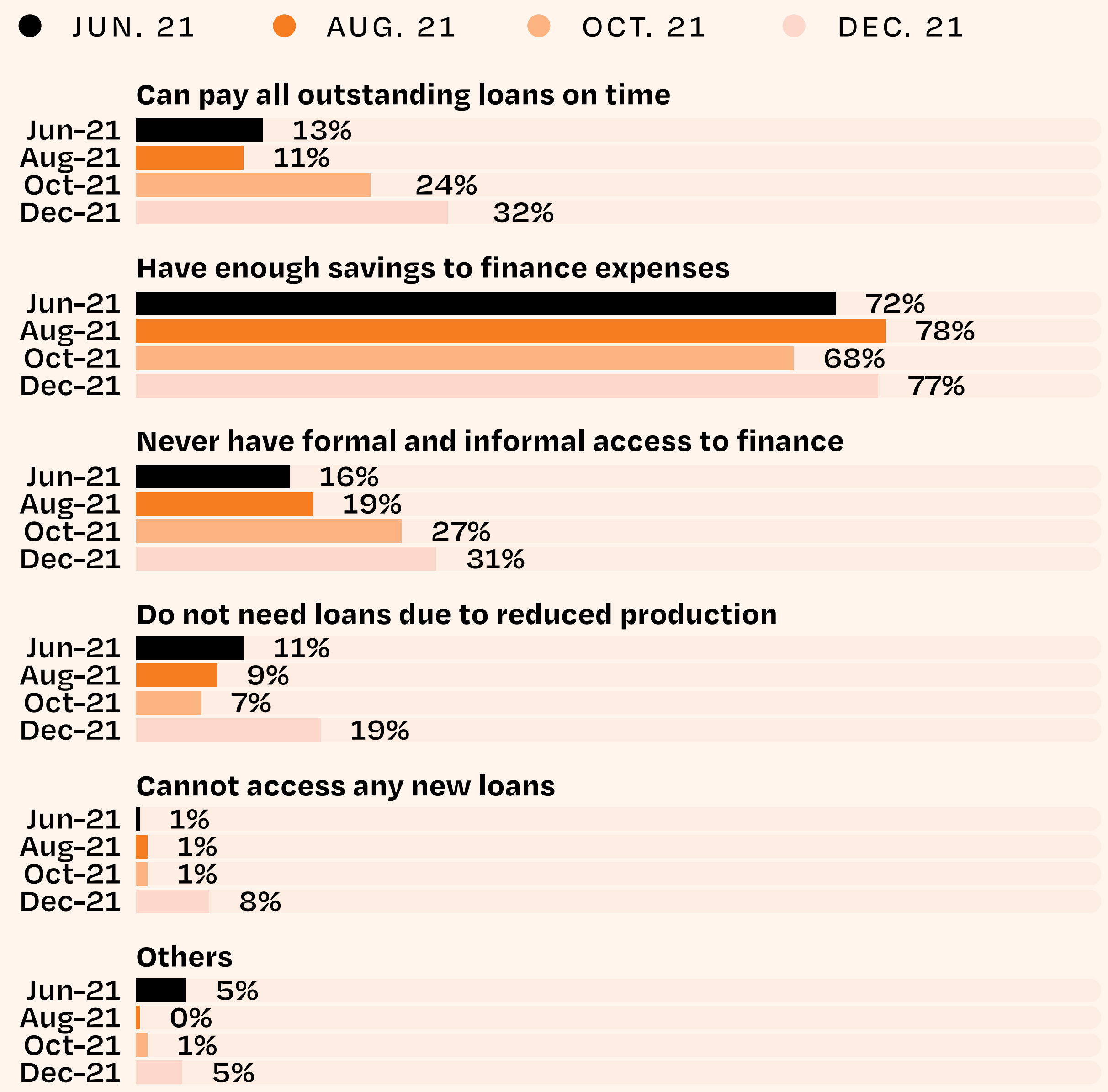


Figure 9 Share of firms reporting adjustments made in the current situation

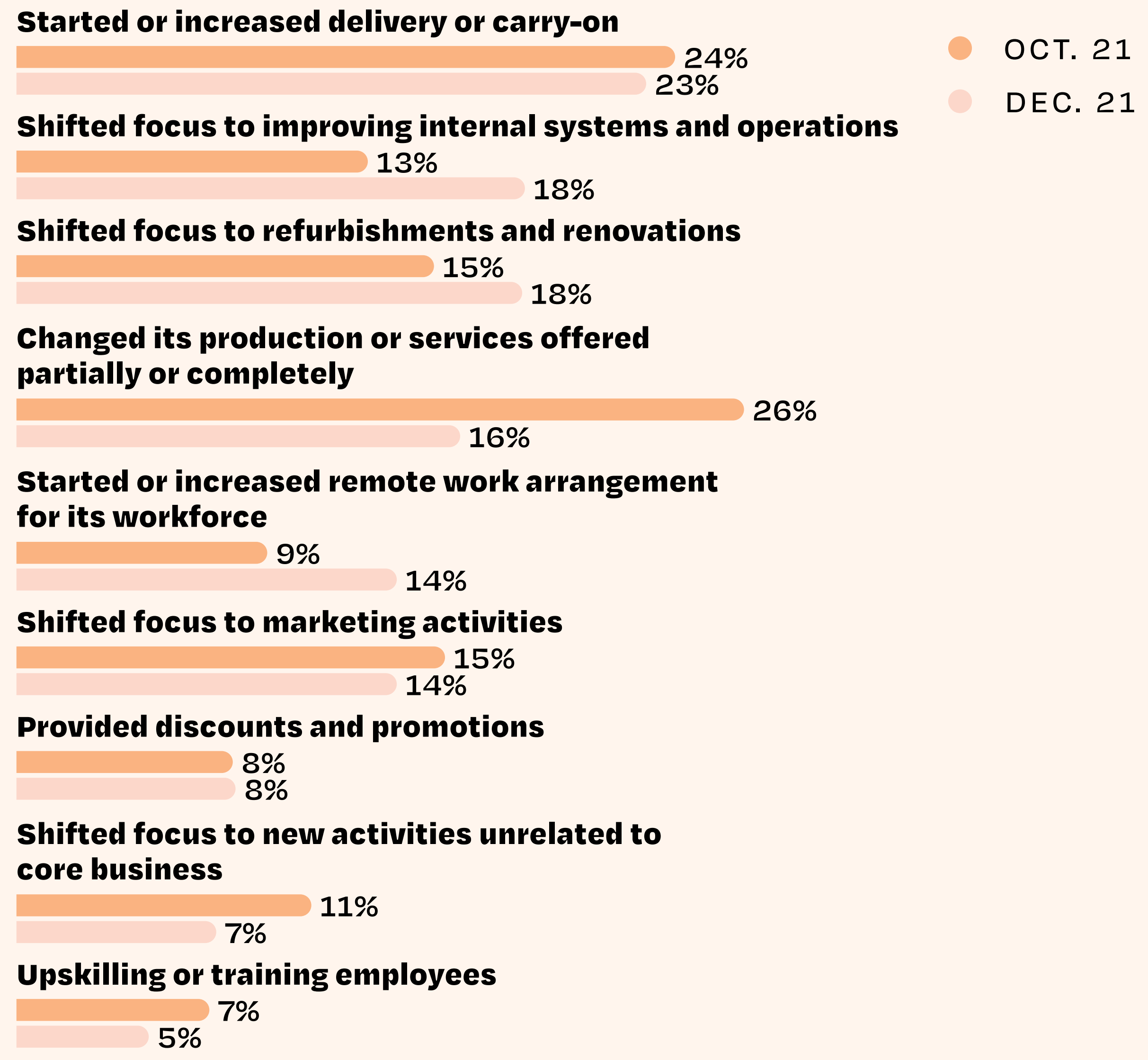
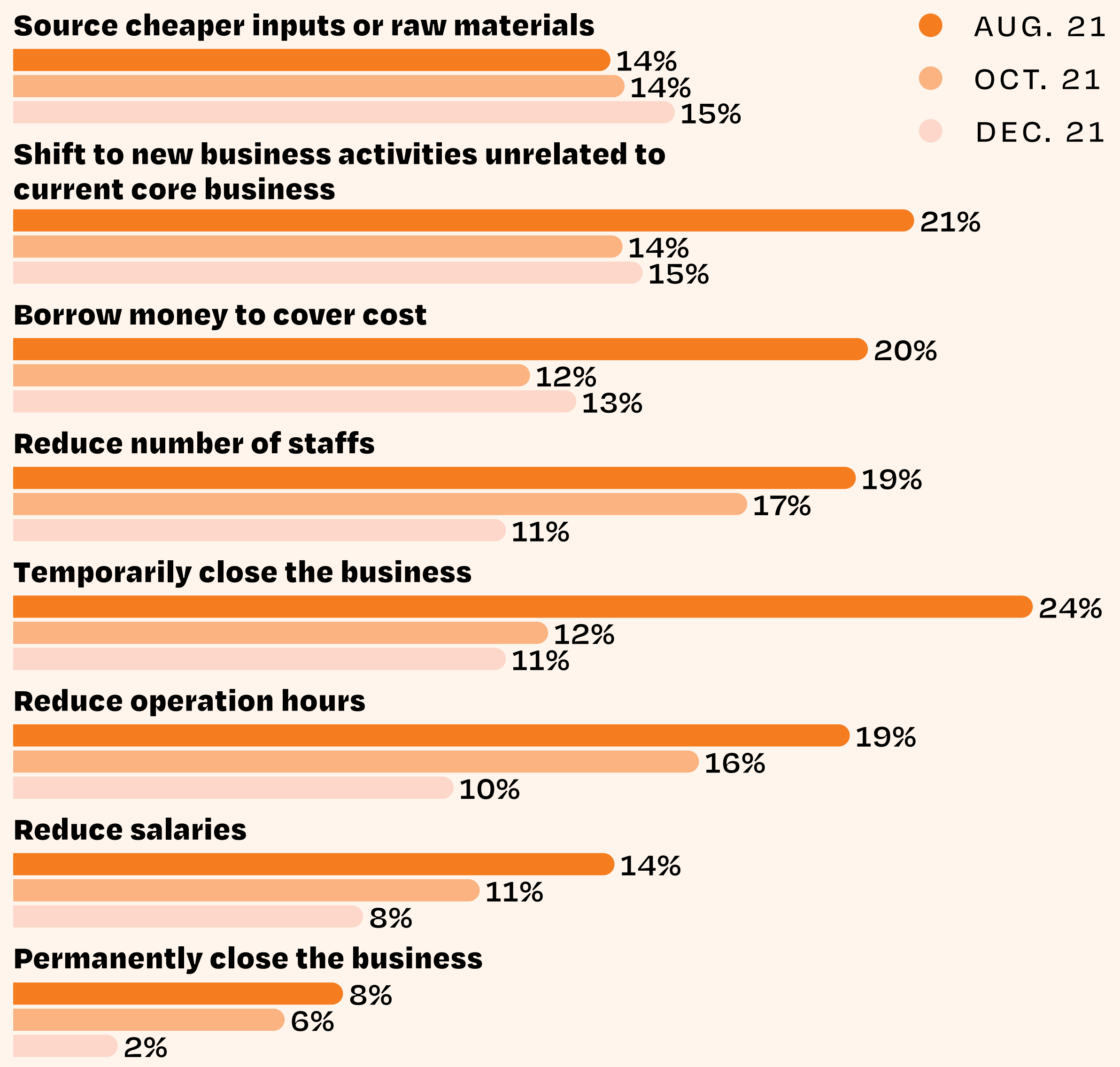


Figure 10 Share of firms reporting adjustment plan if the situation does not improve in next 3 months



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

Source: The World Bank's Firm Survey Round 10

for firms since loans from formal channels to finance expenses have become limited. The share of firms reporting not having either formal or informal access to finance and being unable to access new loans increased. Moreover, the share of firms reporting no need for loans due to reduced production further increased – suggesting a further impact on outputs. With limited access to finance, 47 percent of firms reported a change of their business and investment plans since February 2021.

47%

Firms reported a change of their business and invesment plans with limited access to finance since February 2021

Adjustments

3

Firms' adaptation ability remains limited, but permanent closure is off the table for most

The ability of firms to cope with a challenging environment remains limited although fewer firms are considering permanent closure. Despite sales reductions being a major issue, only a small share of firms adjusted activities directly related to improving sales such as shifting their focus to marketing activities and providing discounts and promotions in December 2021 (Figure 9). Moreover, adjustments related to operational improvements such as refurbishment and innovation, and improving internal systems and operations remained low, despite slight improvements compared to October 2021. While a lower adaptation rate for adjustments suggests firms' limited ability to adapt to a challenging business environment, it could also suggest that firms do not think these measures would help boost their sales and profits in the current circumstances, or simply they do not think these measures are necessary. Notwithstanding limited ability for making such adjustments, permanent closure is not a planned adjustment for firms even if the overall current situation does not improve in the next 3 months (Figure 10). Instead, firms are likely to reduce their costs by sourcing cheaper inputs or raw materials to continue their operations.

Figure 11 Firms' expectations improved but remained uncertain

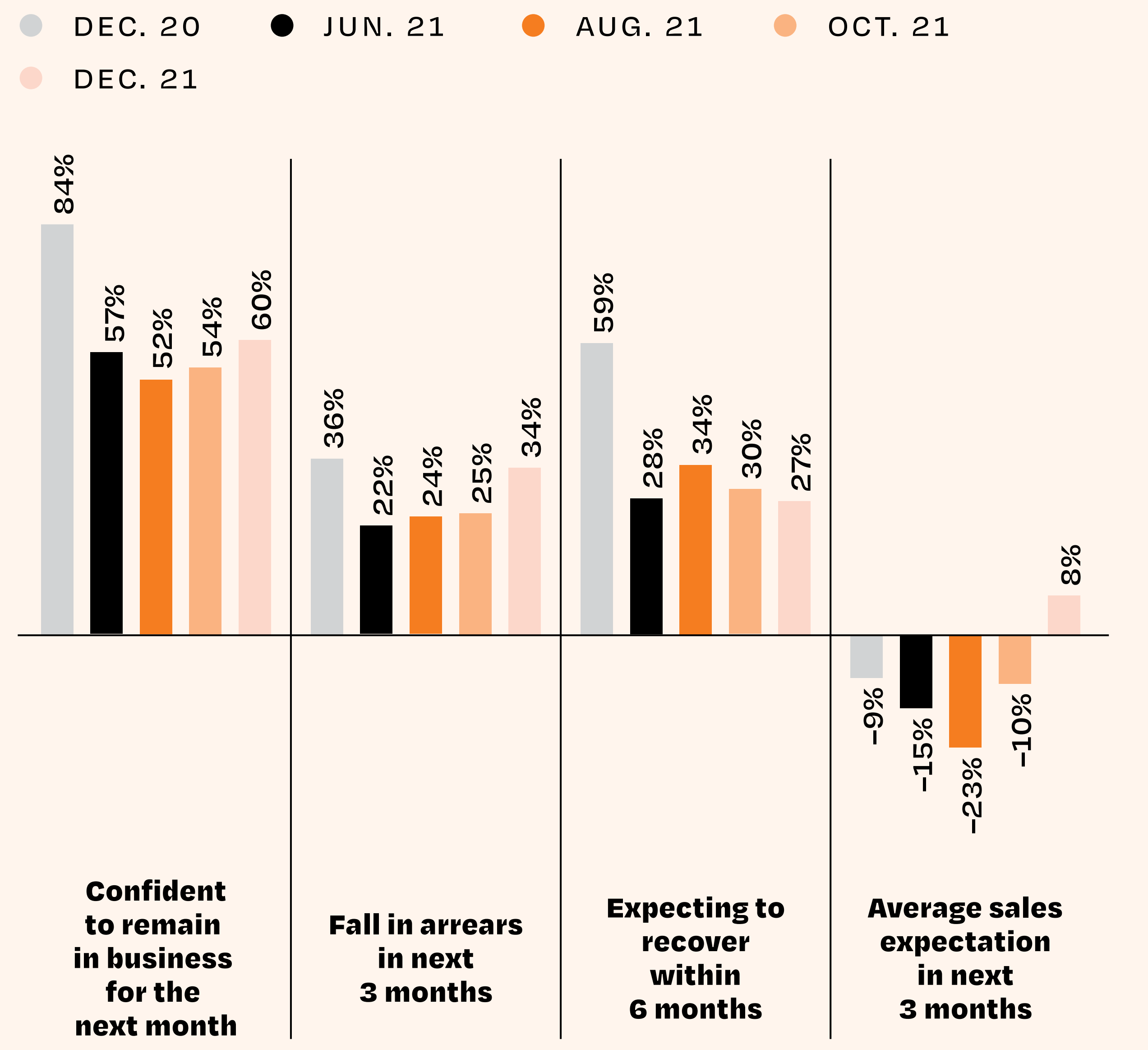
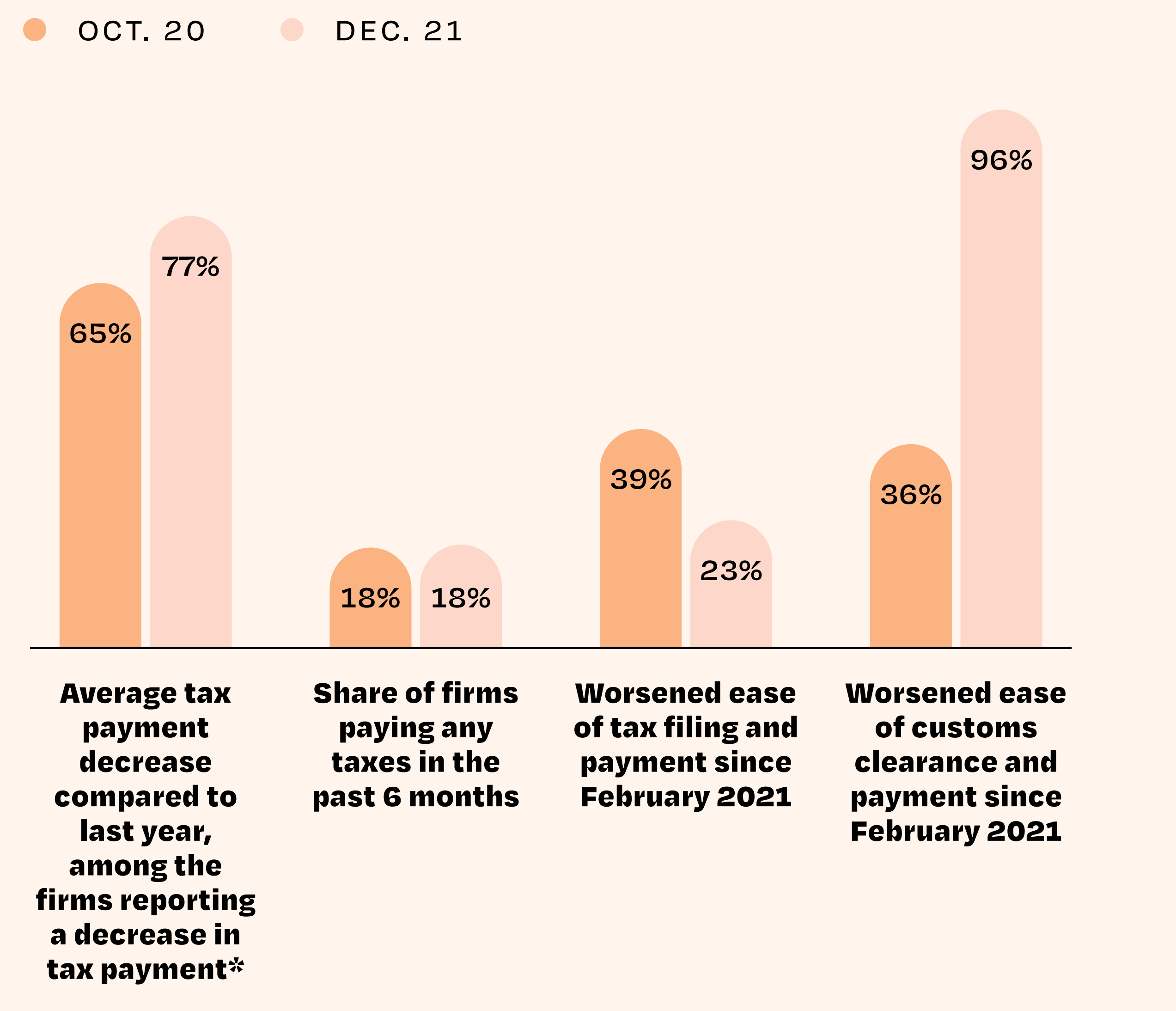


Figure 12 Average tax payment decrease and share of firms reporting tax payment and public service delivery



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

Source: The World Bank's Firm Survey Round 10

Business expectations

4

Business expectations improved but remained uncertain

Survey results suggest mixed expectations for the future (Figure 11). In December 2021, the share of firms that were confident to remain in business for the next month was the highest since June 2021. Firms also expected that sales would increase by an average of 8 percent in the next 3 months compared to the same period last year. This is the first time that firms reported a positive sales expectation since December 2020. However, the number of firms expecting to fall into arrears in the next 3 months has continued to increase since June 2021. Likewise, the share of firms expecting to recover to levels before February 2021 within the next 6 months continued to decline. Hence, there are signs of some optimism, but uncertainty remains.

8%

By an average, Firms expected to increased their sales in the next 3 months compared to the same period last year

Tax payments & regulatory constraints

5

Regulatory compliance waned

Tax payments remained lower, and the ease of compliance with regulations worsened (Figure 12) In the past 6 months, only 18 percent of firms reported that they paid any taxes owed to authorities. Among the firms that paid taxes in the past 6 months, registration tax was the most paid taxes by 63 percent of firms. Compared to last year, average tax payments declined by 77 percent in 2021 among the firms reporting a decrease in tax payments. Further, regulatory burdens have not eased. Among the firms engaging in tax filing and payments, 23 percent reported reduced ease of filing taxes and payments. Customs clearance and payment service further deteriorated since February 2021.

23%

Firms reported a reduced ease of filing taxes and payment