Myanmar Firm Monitoring Survey

ROUND 11

31 MAY 2022

MYANMAR FIRM MONITORING draws from a frequent 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 11 RESULTS

High-level Findings

Myanmar Firm Monitoring Survey Round 11 (March 2022)[1]

Improved operating capacity

On average, firms operated at 74 percent of their capacity in March 2022 – an increase from 63 percent in December 2021 and the highest rate since June 2021.

Disruptive power outages

Fifty-two percent of firms reported that power outages were disruptive to their business operations.

Sluggish investment and expansion

Only 14 percent of firms reported having investment and business expansion plans for 2022.

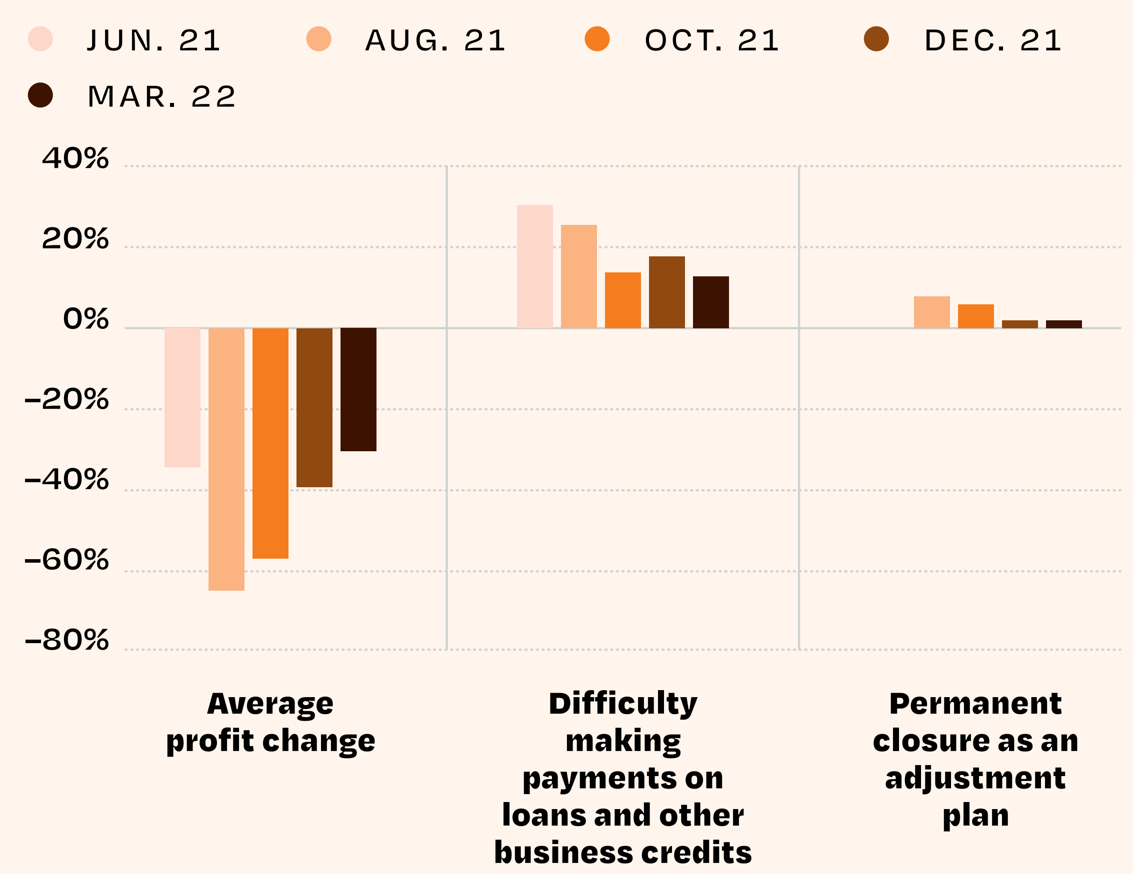
Improving outlook

Sixty-eight percent of firms expressed confidence in remaining open over the next month – up from 60 percent in December 2021 and the highest rate since June 2021.

1. Note The latest survey was administered between February 18, 2022, and March 14, 2021, and covered a nationally representative sample of 500 firms. Figures show the results of Round 7 (June 2021), Round 8 (August 2021), Round 9 (October 2021), Round 10 (December 2021), and Round 11 (March 2022) note Round 11 includes 261 of the same firms that were surveyed in Round 10. Due to attrition, the remaining firms have been substituted to meet sample needs.

Firms' business performance continued to stabilize, but uncertainty remains.

Figure 1 The business environment showed further signs of stabilizing in March 2022



Source:
The World Bank's Firm Survey Round 11

Survey results from March 2022 show a continued stabilization of the business environment (Figure 1). The reported decline in profits since January 2021 (on average across all firms) narrowed to 31 percent, a marked improvement since late last year. The share of firms reporting difficulties making repayments on loans and other business credits also fell slightly to 13 percent, the lowest since June 2021 (down from 18 percent in December 2021). Despite operating in an uncertain business environment, most firms do not anticipate permanent business closure as an option even if the current situation does not improve in the next three months. However, only 14 percent of firms reported plans to invest and expand their business in 2022 – indicating that the business environment and outlook remain challenging.

Figure 2 Firms' operating status

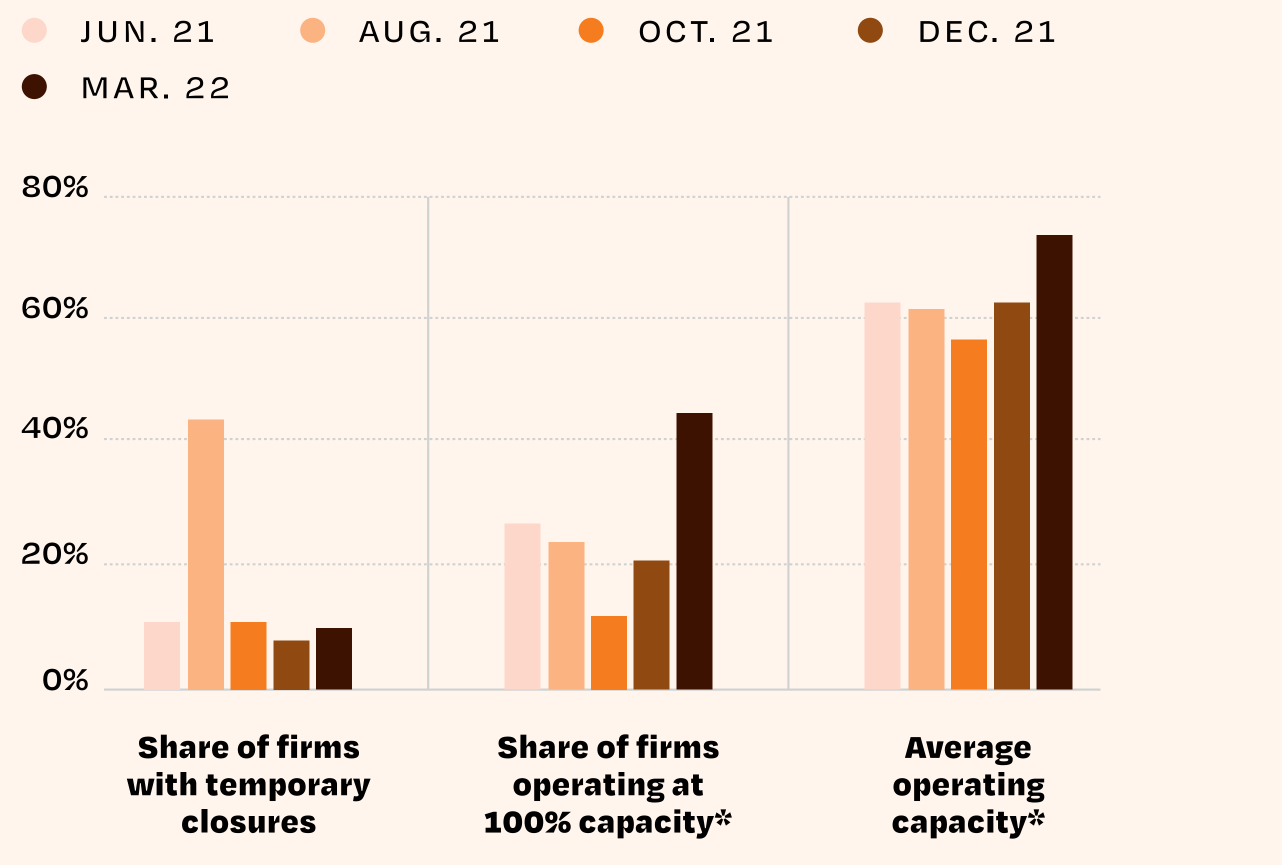


Figure 3 Average operating capacity of firms – by sector

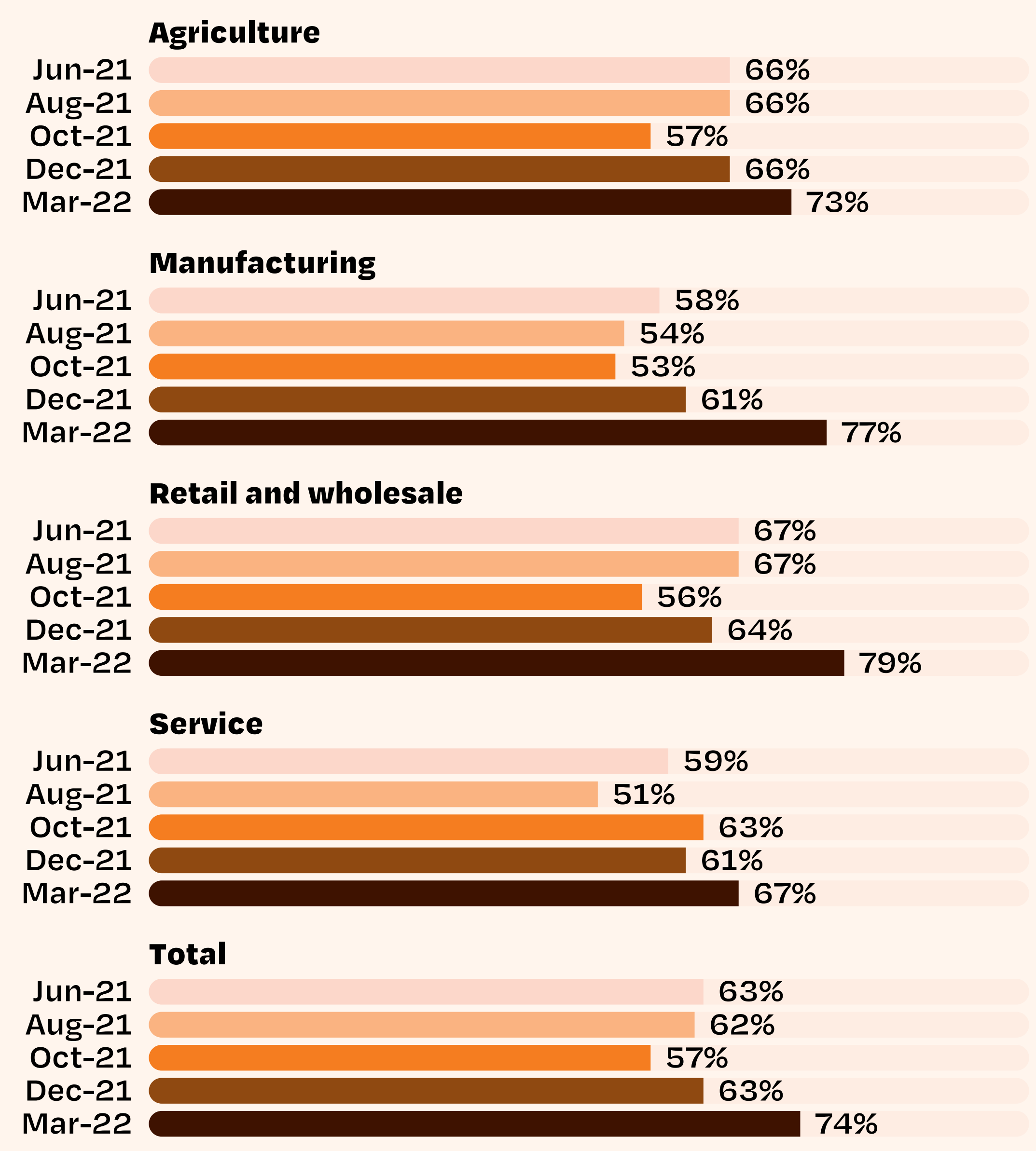
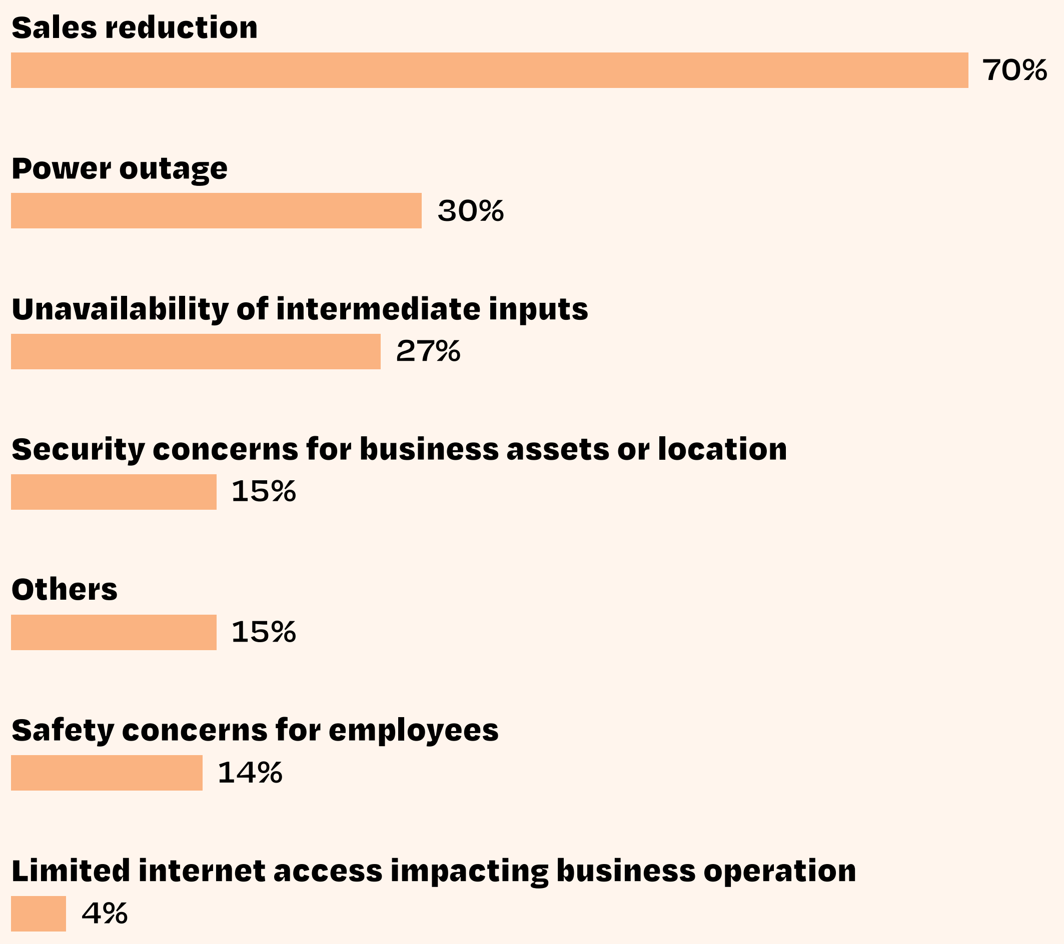


Figure 4 Challenges reported by firms not able to operate at full capacity



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

Source: The World Bank's Firm Survey Round 11

Operational Status

Operational impacts on firms appear to have eased since mid-2021, though demand and supply-side challenges persist.

Firms' operational levels continued to improve (Figure 2). Compared with December 2021, the share of firms operating at full capacity doubled in March 2022 to 45 percent. On average, firms reported operating at 74 percent of their capacity – 11 percentage points higher than that observed in December 2022. Service firms' operating capacity was the lowest among all firms, with only 25 percent operating at full capacity and average operating capacity at 67 percent[2]. In contrast, 52 percent of retail and wholesale firms reported operating at full capacity, with an average operating capacity of 79 percent (Figure 3). In March 2022, 10 percent of all firms reported temporary closures, primarily driven by agricultural and services firms, with 18 percent of agricultural firms and 15 percent of services firms reporting temporary closures. The higher share of agricultural firms' temporary closures may be partly attributable to seasonality.[3] Across firm sizes, smaller firms made up the bulk of temporary closures, while large firms reported no temporary closures, signaling their greater resilience and access to working capital.

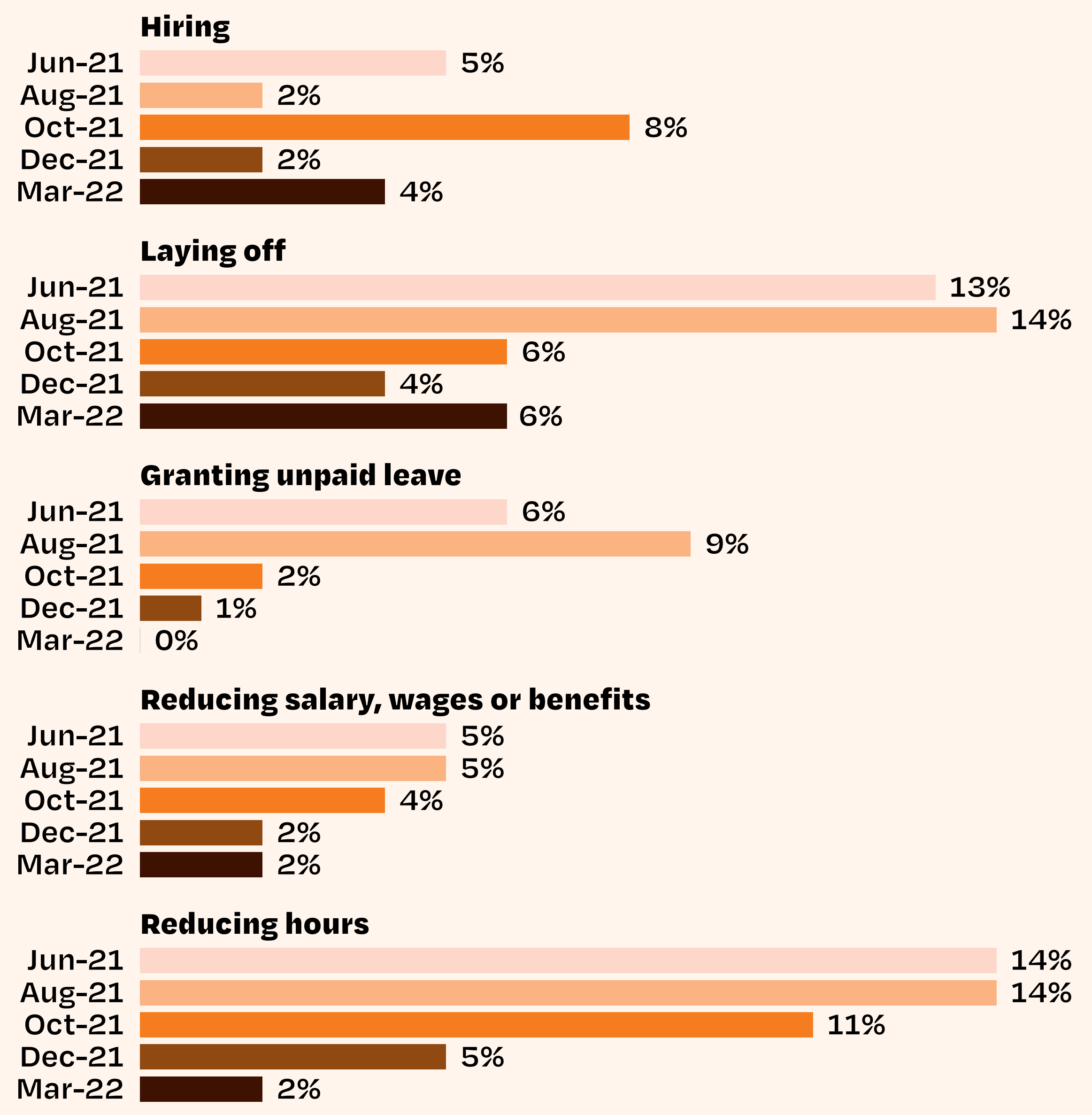
Lack of demand is the biggest constraint on firms' operations (Figure 4). Firms that did not operate at their full capacity in the last completed month reported that the reduction in sales posed a significant challenge. Supply-side challenges also persist, with one-third of firms reporting power outages and unavailability of intermediate inputs as major challenges. Security and safety concerns were less likely to be reported as significant constraints.

In March 2022, the labor market continued to signal modest improvements (Figure 5). Despite a 2-percentage point increase in the share of firms reporting lay-offs, more firms reported new hires compared with December 2021. In addition, the percentage of firms reporting granting unpaid leave, reducing salary, wages, or benefits, and reducing employee working hours has continued to decline since August 2021. The decline in the number of firms reducing labor hours reflects increased operating capacity.

2 In this note, "service firms" refer to all types of service firms apart from retail and wholesale firms, which are identified as a separate sector.

3 For instance, due to paddy – a major agricultural crop – being grown and harvested mainly in the monsoon season, firms growing paddy as their main crop may not operate at full capacity in non-monsoon months, including February.

Figure 5 Share of firms reporting labor impacts



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

Source: The World Bank's Firm Survey Round 11

Figure 6 Sales impacts on firms

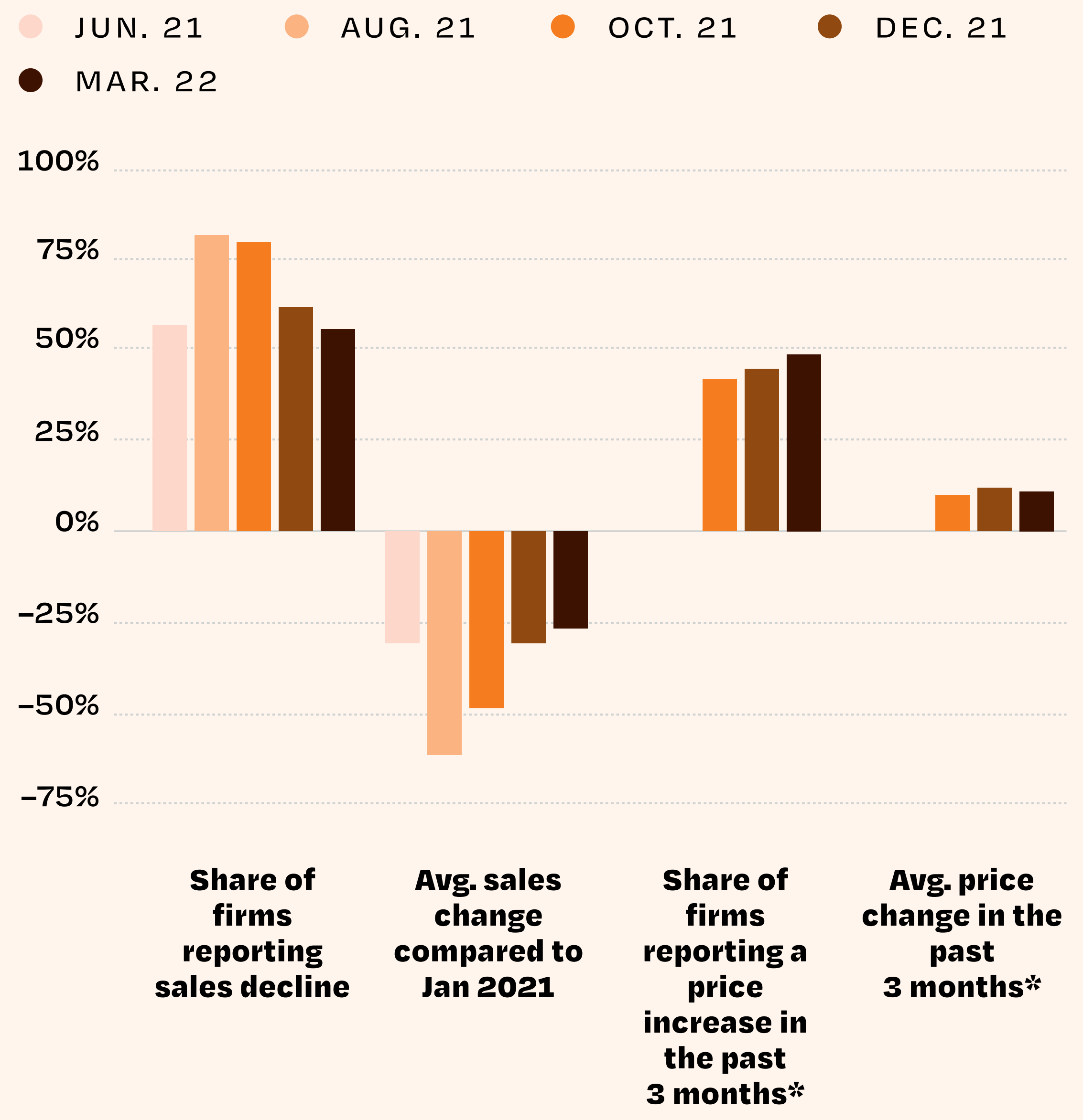
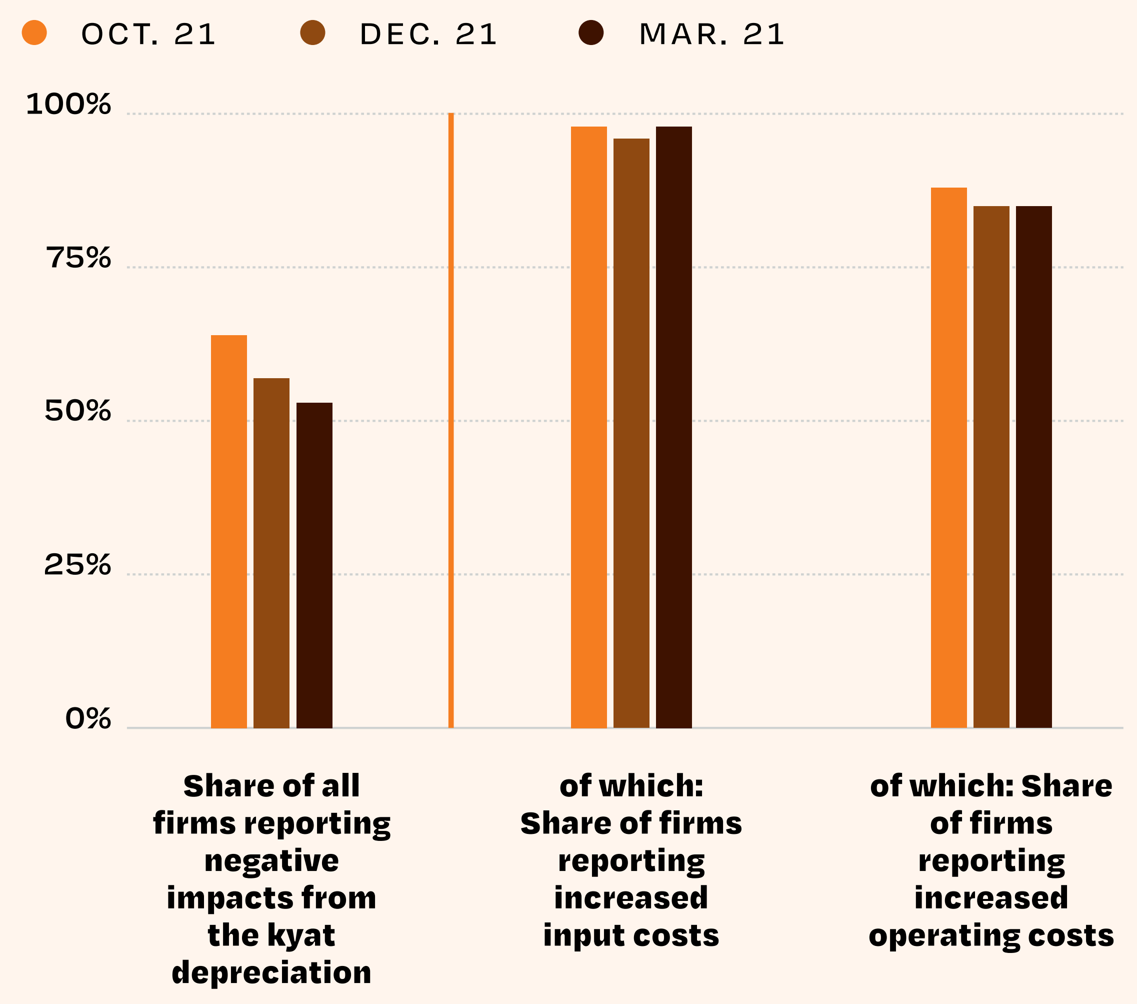


Figure 7 Share of firms reporting negative impacts from kyat depreciation



Note: Firms were asked to report the last completed month, and * indicates a slight change in questions.

Source: The World Bank's Firm Survey Round 11

Business performance

2

While remaining weak, sales have improved in recent months, but exchange rate depreciation and financial stresses continued to impact firms.

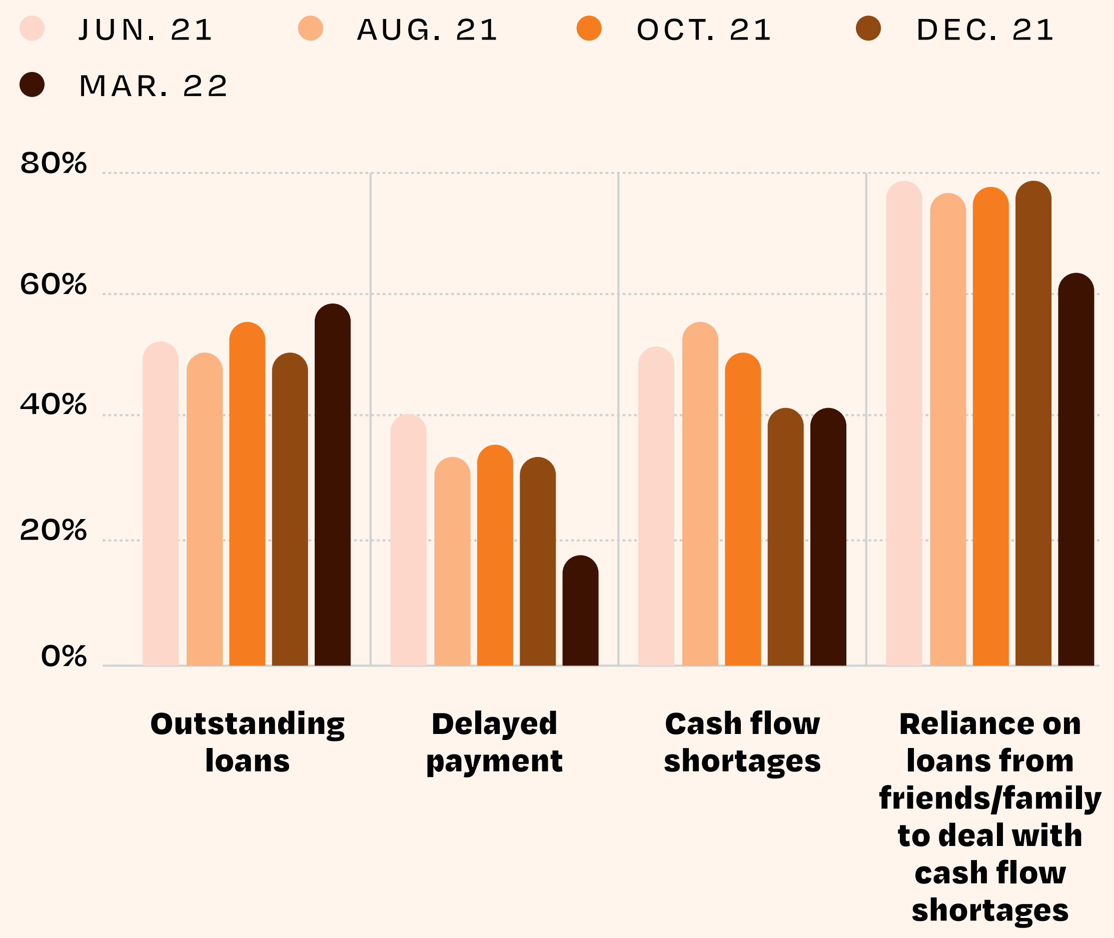
Sales continued to improve modestly despite remaining below pre-coup levels, but inflationary pressures remain (Figure 6). Fifty-six percent of firms reported lower sales in March 2022 than in January 2021 - the lowest proportion since June 2021. Average sales across all firms were 27 percent lower than pre-coup levels – down from 31 percent in December 2021. Despite improvements in sales, prices continued to increase, with 49 percent of firms increasing the prices of their products or services in the past three months. The primary reason was to cover higher costs in intermediate and input prices. With about half of firms increasing prices, prices across all firms increased by an average of 11 percent in the past three months. Across sectors, manufacturing, retail and wholesale firms raised prices by more than the national average (15 percent and 13 percent, respectively), while agricultural firms reported the most modest increase in prices (4 percent). An increase in manufacturing output prices is consistent with the purchasing managers' index (PMI) of Myanmar manufacturing firms in March 2021. The output price PMI has gradually increased since December 2021, with the March 2021 index the fourth strongest in the series' history.[4] Of the firms that have not yet increased prices, 21 percent of firms plan to increase prices in the next three months – suggesting further inflationary pressure in the near term.

Fewer firms reported negative impacts from the kyat depreciation in March 2022, but these impacts remained substantial (Figure 7). Fifty-seven percent of firms reported the kyat depreciation against the US dollar as a cause of suppressed business operations and performance, a lower proportion than in late 2021. Most of these firms cited increased input and operational costs as the biggest challenges associated with the kyat depreciation. Such challenges likely impact firms' decisions on temporary closures and reductions in operating capacity – ultimately contributing to lower outputs.

Despite improvements in March 2022, financial stress remained an issue (Figure 8). Fifty-nine percent of firms reported having outstanding loans from financial sources – 8-percentage points higher than in December 2021. But the share of firms delaying payments by more than one week to any of their payees declined from 41 percent in June 2021 to 18 percent in March 2022. Moreover, the share of firms experiencing cashflow shortages remained less than 50 percent – the same as that observed in December 2021 and 9-percentage points lower than that observed in October 2021. Loans from friends or family members remained a primary mechanism to deal with cash flow shortages.

4 IHS Markit Myanmar manufacturing PMI

Figure 8 Share of firms reporting financial impacts on their businesses



Source: The World Bank's Firm Survey Round 11

Figure 9 Share of firms reporting power outages being disruptive to business operations

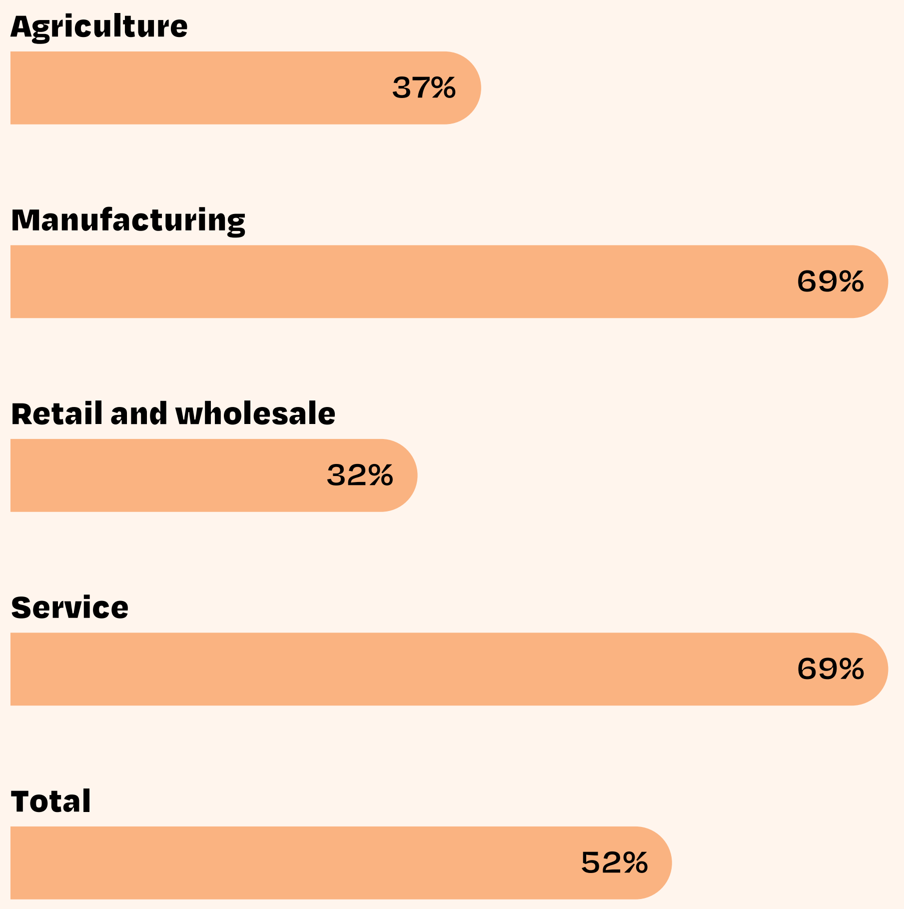
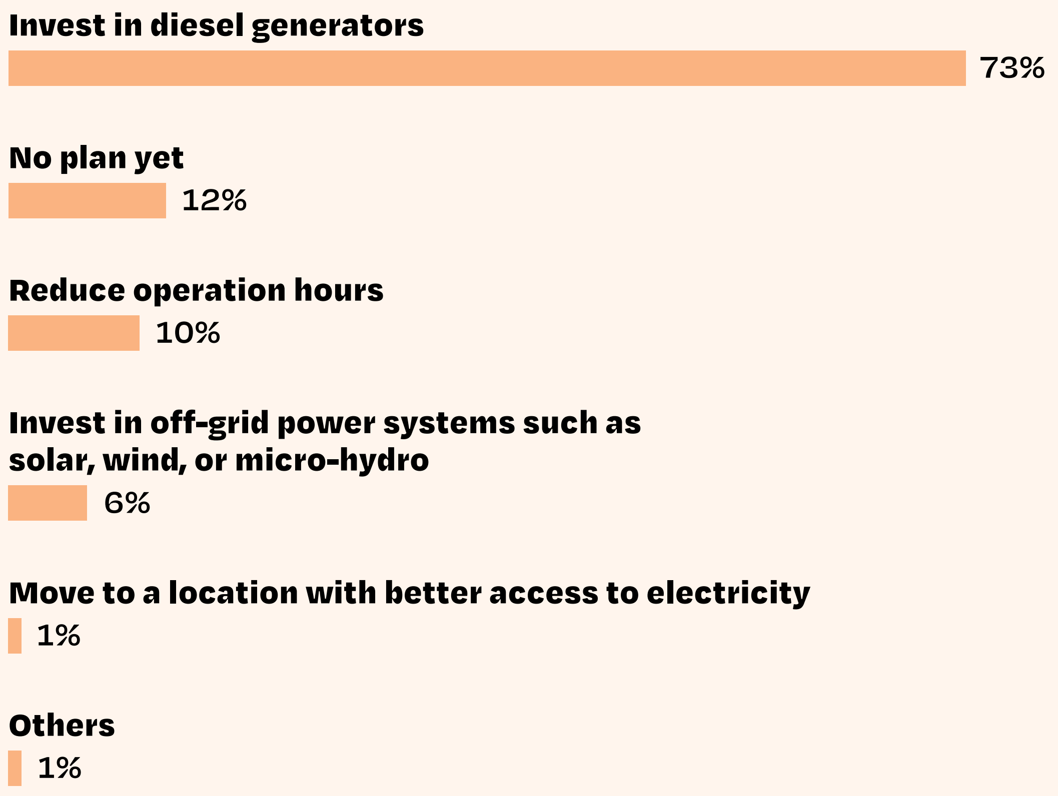


Figure 10 Share of firms reporting adjustment plans to manage power outages



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

Source: The World Bank's Firm Survey Round 10

Power outages – impacts and responses

03

Power outages have become a concern for firms' performance and operations.

Power outages have become a serious issue with more than half of firms reporting outages as disruptive to their business operations (Figure 9). The impacts of power outages varied across different sectors. Given the different intensity of electricity consumption, power outages impacted manufacturing and service sectors more significantly than other sectors, with 69 percent of firms in both sectors reporting disruptive impacts. This is likely to affect overall output in these sectors, which are more dependent on electricity than agricultural and retail firms.

Besides being disruptive to business performance, power outages lead to additional costs for those firms switching to off-grid electricity generation. Of the firms reporting disruptions from power outages, investing in diesel generators is the preferred adjustment to manage these outages, as reported by 73 percent of firms (Figure 10). But with increased fuel prices, a pivot toward diesel generators will increase production costs for firms and may pass through into firms' output prices.

52%

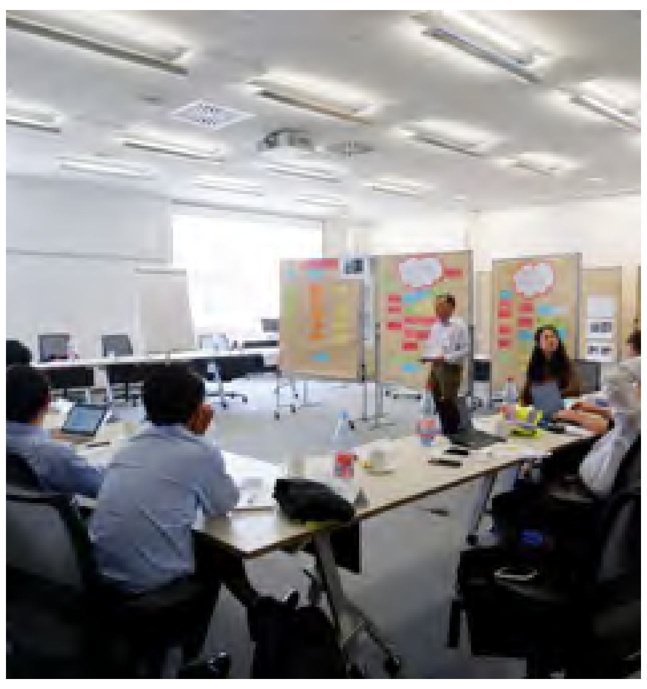
of firms reported that power outages were disruptive to business operations

Business expectations

04

Business expectations have continued to improve modestly, but a smaller share of firms plan to invest and expand their businesses in 2022.

Survey results suggest modestly better business expectations, but uncertainty remains (Figure 11). In March 2022, the share of firms reporting confidence to stay in business for the next month increased to two-thirds. In the next three months, the share of firms expecting to fall into arrears declined sharply compared with December 2021. Still, less than one-third of firms expect to recover to early-2021 levels within the next six months. Moreover, firms expect their sales to decrease by 1 percent in the next three months compared to the same period last year – predominantly driven by agricultural firms with an average decline of 11 percent. The expected sales reduction within the agricultural sector could partly be influenced by the increased intensity of conflict in 2022 in some regions and the impacts of higher input prices.



68%

of firms reported confidence to stay in business for the next month

Figure 11 Firms' expectations have continued to improve modestly

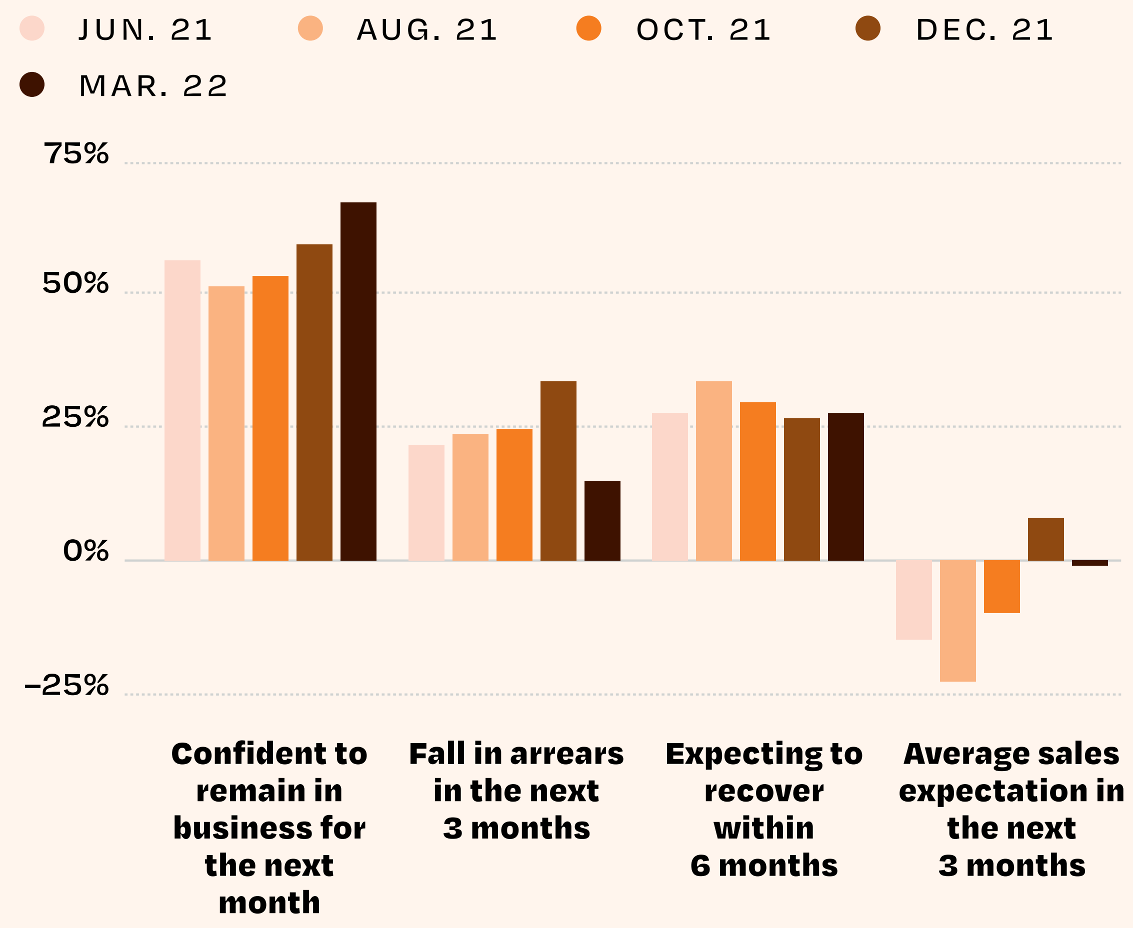


Figure 12 Type of expansion of business operations reported by those firms with intentions to expand

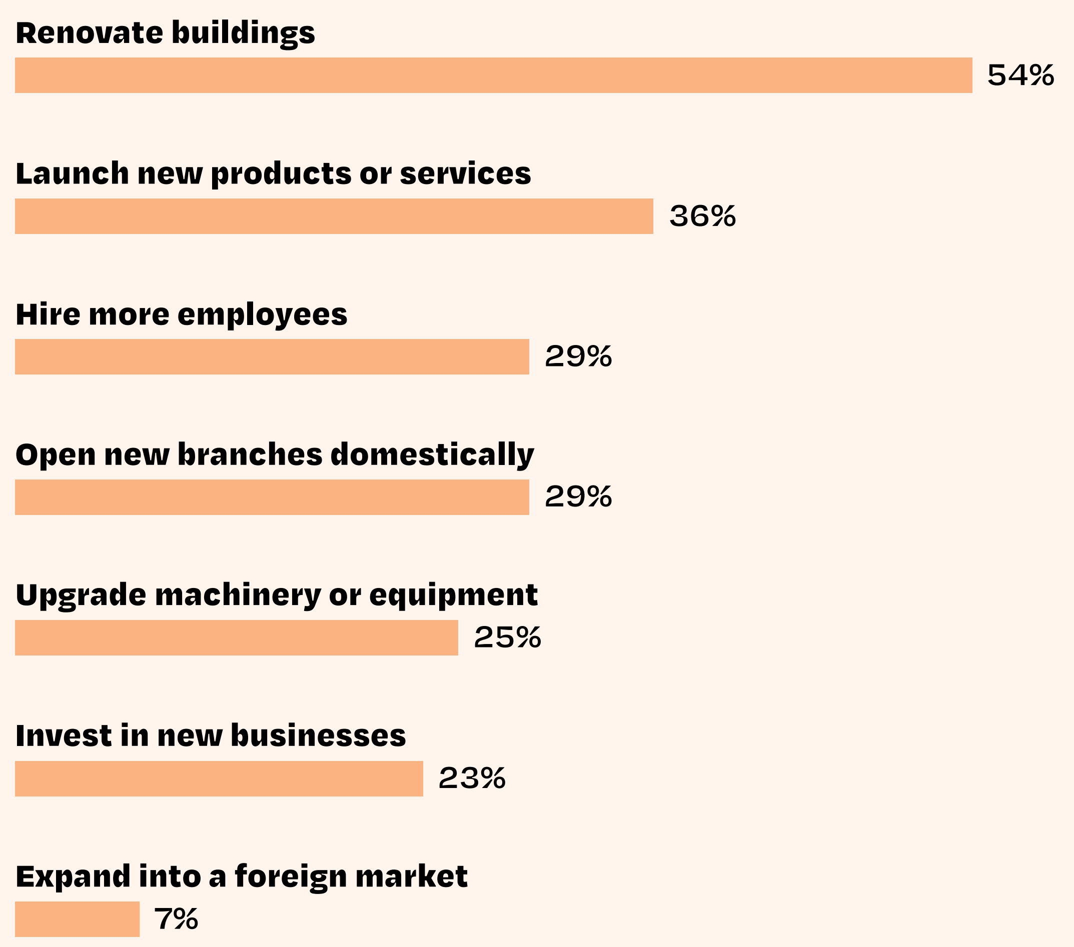
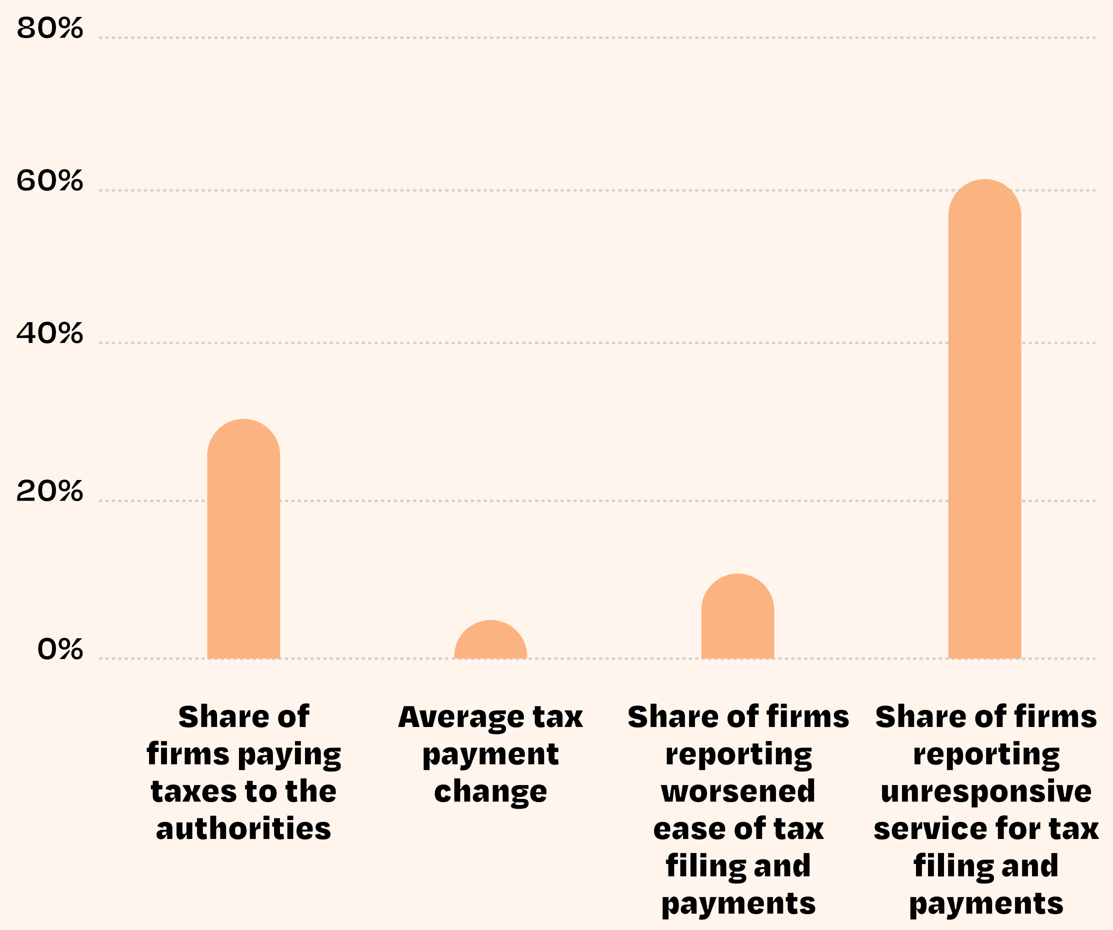


Figure 13: Tax payments and ease of tax filing and payments in the past 3 months



Source: The World Bank's Firm Survey Round 11

Only 14 percent of firms plan to invest and expand their businesses in 2022. Of these firms, the primary plan reported by over half was to renovate real property and buildings (Figure 12). Thirty-six percent plan to launch new products or services, and less than one-third plan to hire more employees and open new branches in the domestic market. Intensified conflict, softened demand, and an unpredictable policy environment are likely to be affecting firms' decisions to invest and expand.

Tax payments

5

Tax payments remained low.

The share of firms paying taxes remained low (Figure 13). Only 31 percent of firms reported paying any taxes owed to the authorities in the past three months – 16 percentage points lower than the pre-coup level (six months before February 2021). Among those firms that did pay taxes, 18 percent paid more than they did in the same period last year, while the payments remained the same for 78 percent of firms. As a result, the average tax payment increased by 5 percent in the past three months among those firms that paid taxes. Eleven percent of firms reported it being harder to file and pay taxes, primarily due to the unresponsiveness of the tax authorities. But most firms reported no change to ease of filing and payments from last year.

31%

of firms reported paying any taxes owed to the authorities in the past three months