

## Inya Economics

### Press Release

April 28, 2022

05:30 PM (Myanmar Time)

# Overlapping crises of COVID-19 and Coup Impact on Myanmar Business Environment in 2021: Report

Yangon, April 28, 2022 – In both microeconomic and macroeconomic terms, the Myanmar economy has been devastated in 2021 due to compounded crises of the COVID-19 pandemic and coup. Based on **Inya Economics Impact Index of the COVID-19 Pandemic and the Coup**, the military coup in 2021 has brought about the greater negative impact on Myanmar’s economy than the COVID-19 pandemic.

There are 5 main economic characteristics of Myanmar’s economy after the two crises.

- a. Lack of liquidity
- b. Decline in foreign demand for local products
- c. High rates of inflation and unemployment
- d. Poverty trap
- e. Service sector as the driving force

### **(a) Lack of liquidity**

Businesses and individuals are faced with significant difficulties in withdrawing money from the banks to make and receive payments. While those in the urban areas have become increasingly familiar with digital financial services, however, the cash shortage has burdened lower income individuals and those living in the rural parts of the country, who are faced with additional charges for making payments in cash. Businesses are facing difficulties in expanding their operations, as well as lack of access to get loans from banks. Further, microfinance institutions restrict lending from lending to more than one business per person.

### **(b) Decline in foreign demand for local products**

Agricultural products in Myanmar are mainly exported to China; however, demand for agricultural products has been severely constrained due to the strict Zero-COVID policy in China. Increasing transportation costs is another major challenge as well. Moreover, the coup led to uncertainty in key export industries, which are dependent on exporting to the EU and Western markets, resulting in a decline in demand. According to the index by Inya Economics in Figure 2, the decreasing demand has led to a dramatic decline in the income of local businesses. If China were to resume border trade in the future, that will positively impact Myanmar's agriculture and industrial sectors.

### **(c) High rates of inflation and unemployment**

Inflation in Myanmar is driving up commodity prices. Despite rising costs of commodities, the minimum wage has yet been reviewed and remains unchanged at 4,800 kyats, even though it was supposed to be reviewed every two years. Therefore, workers in the formal sectors, especially garment workers, are suffering from inflationary pressure.

The government's development projects to create jobs have been limited due to the outbreak of armed conflicts. In addition, employers in the private sector are reluctant to venture out due to political instability. As a result, the lack of job creation is pushing the largest working-age population (aged 15 - 60) to emigrate both illegally and legally to foreign countries, mostly to Thailand.

#### **(d) Poverty trap**

According to the index by Inya Economics, the impact of the coup has more adversely impacted the economy compared to the COVID-19 pandemic. This means that the longer the internal conflicts continue, the more it would impact the economy in the long term beyond the impact of COVID-19. The clashes in Kayin, Kayah, Shan, Magway and Sagaing – which are the main agricultural states and regions – will lead to the challenge in transporting the goods as well as food shortage since farmers were not able to farm. The education and health sectors are important social sectors for individuals to break out of the poverty trap; however, the positive effects of these sectors will continue to be eroded by the current crisis, further perpetuating the cycle of poverty.

#### **(e) Service sector as the driving force**

The contribution to GDP by sector is as follows: agriculture sector (21.3%), industry sector (38%) and service sector (40.7%). Both the agriculture and industrial sectors have been badly hit due to political instability and declining foreign demand. In contrast, businesses in the service sector, rely solely on domestic demand, which will be the main driver of the local economy, on the assumption that they will continue to have access to the internet and online banking services.

Read the full report here:

<https://www.inyaeconomics.com/reports/>

#### **For more information, press only:**

PR Contact: Private Sector Development Programme Director

Email: [inyaeconomics@gmail.com](mailto:inyaeconomics@gmail.com), [psd.ie.mm@gmail.com](mailto:psd.ie.mm@gmail.com)

Press Release: 2022/01/YGN

#### **For more information on organization:**

Website: <https://www.inyaeconomics.com/>