



# Coup Year in Review Analyses Series

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SFB Research

## Impact of the Coup on the Economy and Businesses

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Burma was still reeling from the impacts of the COVID-19 pandemic when the country's military staged a coup against the democratically-elected government. The twin crises of the coup and COVID-19 had a devastating impact on Burma's economic growth and development over the past year.

### *Economic Forecasts and Projections since the Coup*

According to the UNDP report from April 2021, 83 percent of Burmese households reported that their incomes have shrunk by almost half by the end of 2020 due to the pandemic.<sup>1</sup> This resulted in an 11-percentage point increase in the number of people living under the poverty line. The UN projected a further 12 percentage point increase in the number of those living under poverty as a result of the February 1 coup and the ensuing political and humanitarian crisis.<sup>2</sup> These projections indicated that up to 25 million people, nearly half of Burma's population, will be living under the poverty line by 2022.

In July 2021, the World Bank estimated an 18 percent contraction for the Burmese economy for the fiscal year ending in September 2021.<sup>3</sup> The projected contraction indicated a potential loss of income, jobs, and livelihood as economic activities were bound to be disrupted by the deteriorating political and security situation. As of January 2022, the World Bank estimated a one percent growth in the coming FY2022.<sup>4</sup>

While the latest projection shows signs of recovery and stabilization from last year's economic contraction, the near-term and long-term outlook remain grim as the crisis deepens.

### *Factors Affecting Economic Activities*

One of the key factors affecting economic activities since the coup was the security situation. The junta's violent crackdown on the civilian population coupled with armed conflicts in both urban centers and rural areas have caused major disruptions to key services such as electricity, logistics, and communication. The disruptions in the provisions of these essential business services contributed to an already-slipping economy.

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<sup>1</sup> "Myanmar Approaching Point of Economic Collapse: UN Report | | UN News," United Nations (United Nations, April 30, 2021), <https://news.un.org/en/story/2021/04/1091002>.

<sup>2</sup> UN. "Myanmar Approaching Point of Economic Collapse: UN Report | | UN News."

<sup>3</sup> World Bank Group, "Myanmar Economy Expected to Contract by 18 Percent in FY2021: Report," World Bank (World Bank Group, July 25, 2021), <https://www.worldbank.org/en/news/press-release/2021/07/23/myanmar-economy-expected-to-contract-by-18-percent-in-fy2021-report>.

<sup>4</sup> World Bank Group, "Myanmar Economic Monitor January 2022: Contending with Constraints," World Bank (World Bank Group, February 28, 2022), <https://www.worldbank.org/en/country/myanmar/publication/myanmar-economic-monitor-january-2022-economic-activity-in-myanmar-to-remain-at-low-levels-with-the-overall-outlook-blea>.

Additionally, the violent repression and persecution of workers who were actively participating in the Civil Disobedience Movement (CDM) were leaving thousands without a job and income.<sup>5</sup> Growing strikes and CDM participants have led to the shutdown of major sectors of the economy as job losses were reported nationwide.

With increasing unemployment (an estimated six percent or 1.2 million jobs in the second quarter of 2021) and loss of income due to the ensuing crisis of the coup, the economy experienced a negative supply and demand shock.<sup>6</sup> Staffing shortages coupled with a lack of strong demand from the population continued to depress activity throughout the past year.

These negative shocks were further exacerbated by a banking crisis due to a rapidly-declining public trust in the banking sector. The country was facing cash flow issues where banks were unable to provide sufficient cash to the population as panic withdrawals set in. The absence of sufficient staffing at banks due to CDM staff also paralyzed the business activities as well as the transactions for international trade.<sup>7</sup>

At the same time, the economy was also experiencing constraints on the foreign exchange and financial sectors. In the months following the coup, the Central Bank of Myanmar (CBM) struggled to defend the rapid depreciation of *Kyat* against foreign currency which diminished the country's foreign reserve as well as raised the prices of imports. These were contributing to a rise in inflation. In September 2021, the Asian Development Bank (ADB) forecasted a 6.2 percent inflation in Burma.<sup>8</sup> While Burma has had the highest inflation among the ASEAN countries since 2015, the underlying causes and persistent inflationary pressure will further impact the livelihood of the population and affect economic activities in the coming year.

### ***Detrimental Effects of Increasing Political and Security Risks for Businesses***

As the political and security risks elevate, businesses, both domestic and foreign, are finding it challenging to operate in a hostile environment. Potential foreign investors are hesitant in investing. The existing foreign businesses run the increasing reputational risks of operating in a country run by a repressive military regime.

Externally, public pressure had been mounting on certain foreign businesses to cease working with the state-owned enterprises (SOEs) and junta-affiliated businesses. While economic sanctions from western countries are in place to prevent the junta from earning foreign revenues, multinational companies are under pressure to review their operations in Burma and prevent payments to the junta.<sup>9</sup>

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<sup>5</sup> Frontier and Frontier, "Leaving Hlaing Tharyar: Factory Workers Flee City for Uncertain Future," Frontier Myanmar, April 4, 2021, <https://www.frontiermyanmar.net/en/leaving-hlaing-tharyar-factory-workers-flee-city-for-uncertain-future/>.

<sup>6</sup> ILO, "ILO Estimates Reveal Heavy Job Losses in the First Half of 2021 in Myanmar," Assessment: ILO estimates reveal heavy job losses in the first half of 2021 in Myanmar, July 19, 2021, [https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_814686/lang--en/index.htm](https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_814686/lang--en/index.htm).

<sup>7</sup> Arul Kurian, "Myanmar's Unfolding Banking Crisis," The Diplomat (The Diplomat, May 20, 2021), <https://thediplomat.com/2021/05/myanmars-unfolding-banking-crisis/>.

<sup>8</sup> "Myanmar: Economy," Asian Development Bank (Asian Development Bank, October 6, 2021), <https://www.adb.org/countries/myanmar/economy>.

<sup>9</sup> Htwe Htwe Thein and Michael Gillan, "How the Coup Is Destroying Myanmar's Economy," East Asia Forum (East Asia Forum, June 23, 2021), <https://www.eastasiaforum.org/2021/06/23/how-the-coup-is-destroying-myanmars-economy/>.

The increasing risks have also led to the exodus of major foreign businesses from Burma. Most notable departures include American Chevron and French TotalEnergies in the oil and gas industry and Norwegian Telenor in the telecommunication industry.<sup>10</sup>

In the long run, the economic prospects for Burma remain bleak. In addition to the slowing of the economy due to the coup and the pandemic, the disruptions to education, increasing unemployment, and displacement of the population will hinder the human capital development and productive capacity of Burma's economy for years to come. The rising poverty rate will further weaken the economic prospects.

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<sup>10</sup> Thomson Reuters Foundation, "Timeline-Foreign Companies Withdrawing from Myanmar after Coup," (news.trust.org, January 27, 2022), <https://news.trust.org/item/20220127140547-skysy>.