INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/30

# MYANMAR

February 2017

## 2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MYANMAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 25, 2017 consideration of the staff report that concluded the Article IV consultation with Myanmar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 25, 2017, following discussions that ended on October 28, 2016, with the officials of Myanmar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 29, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Myanmar.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/33
FOR IMMEDIATE RELEASE
February 2, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Executive Board Concludes 2016 Article IV Consultation with Myanmar**

On January 25, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Myanmar.

Myanmar's economy grew broadly as expected in FY 2015/16 (ending March 31), at a healthy pace of 7.3 percent, despite massive floods during July–September 2015. Activity softened during the first half of FY 2016/17, but is expected to recover in the second half on account of the resumption of construction in Yangon after a temporary halt for regulatory compliance purposes. The growth of agricultural production was softer than expected. The external environment has been weak due to slowing demand from major trading partners and significant natural gas and other commodity price declines in 2015 and 2016. Macroeconomic imbalances persist, with continuing inflation pressure, an increased fiscal deficit, and a widening external current account deficit.

Taking into account sluggish activity in the first half of the year, growth for FY 2016/17 is projected at slower rate of 6.3 percent. Inflation is projected to be around 7 percent on average for FY 2016/17, and the external current account deficit to increase to about 6.5 percent of GDP. Risks to the growth outlook are tilted toward downside and relate to: (i) concerns over policy clarity; (ii) financial sector vulnerability on the back of rapid credit growth in recent years; (iii) weak commodity prices and slow export demand; (iv) global financial market volatility; and (v) natural disasters.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

**Executive Board Assessment**[2]

Executive Directors welcomed Myanmar's continuing progress on economic and political transition, and noted the robust growth performance in 2015/16. As Myanmar continues with its transition, Directors saw good opportunities to expand inclusive growth, which will require a strengthening of macroeconomic and financial stability and a deepening of structural reforms, as well as effective communication of economic policies and development plans to support confidence.

Directors highlighted the critical role of exchange rate flexibility in strengthening Myanmar's external position and protecting foreign exchange reserves. They observed that the official reference exchange rate should reflect market conditions consistent with the managed float exchange rate regime, and welcomed the authorities' interest in exploring options for a transparent mechanism for setting the reference rate. Directors stressed that continued structural reform to improve the business environment is critical to strengthening Myanmar's external position over the longer run.

Directors agreed that monetary conditions should be tightened to contain inflation and reduce pressure on the exchange rate. In this regard, they welcomed the authorities' commitment to phasing out financing by the Central Bank of Myanmar. A number of Directors encouraged a faster phase out of central bank financing, but a few others suggested caution in view of its potential impact on financing costs and credit flow to the private sector, given the underdeveloped bond market. In light of past monetary expansion and continued strong credit growth, Directors also supported a more active liquidity management in line with reserve money targets that are consistent with the medium term inflation objective.

While recognizing Myanmar's significant development needs, Directors emphasized the importance of fiscal restraint and improved spending efficiency to maintain debt sustainability. Directors welcomed improvements in tax administration, and encouraged continued efforts to increase fiscal revenues, including by swiftly moving to the next phase of revenue reform and streamlining tax exemptions and incentives. They also recommended prioritizing key infrastructure and social expenditure, and welcomed preparations for revised Financial Rules and Regulations and a public financial management law. Directors also underscored the importance of containing fiscal risks from state enterprises and public private partnerships.

Directors commended progress on financial sector reform, and called for further steps to reduce financial system risks. They urged the expeditious completion of full scope examinations of all banks, as well as the timely issuance of regulations to implement the Financial Institutions Law. Directors encouraged the authorities to accelerate the reform of systemically important state owned banks and to further increase financial sector supervision capacity. In order to improve access to credit for the agricultural sector and SMEs, Directors saw scope for a carefully

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

sequenced loosening of controls on lending interest rates, supported by appropriate supervision. Directors also emphasized that ongoing work on anti-money laundering/combating the financing of terrorism (AML/CFT) should remain a priority.

Directors welcomed the progress in capacity development in Myanmar and encouraged the authorities' further use of Fund technical assistance and training. They emphasized the importance of improved macroeconomic statistics for surveillance and macroeconomic management.

## Myanmar: Selected Economic Indicators, 2012/13–2018/19 1/

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|---|
| | | | | Est. | Proj. | Proj. | Proj. |
| **Output and prices** | | | | | | | |
| Real GDP 2/ | 7.3 | 8.4 | 8.0 | 7.3 | 6.3 | 7.5 | 7.6 |
| CPI (end-period; base year=2006 ) | 4.7 | 6.3 | 7.4 | 10.7 | 10.4 | 8.9 | 7.7 |
| CPI (end-period; base year=2012 ) | | | 6.1 | 8.5 | 8.3 | 7.1 | 6.5 |
| CPI (period average; base year=2006) | 2.8 | 5.7 | 5.9 | 11.4 | 9.0 | 8.7 | 7.9 |
| CPI (period average; base year=2012) | | | 5.1 | 10.0 | 7.0 | 6.9 | 6.7 |
| | | | (In percent of GDP) | | | | |
| **Consolidated public sector 3/** | | | | | | | |
| Total revenue | 19.0 | 20.1 | 21.9 | 18.8 | 17.2 | 16.5 | 16.8 |
| Union government | 8.7 | 10.0 | 12.1 | 10.8 | 10.0 | 9.6 | 9.9 |
| *Of which*: Tax revenue | 6.3 | 7.3 | 7.8 | 7.5 | 7.7 | 8.0 | 8.2 |
| SEE receipts | 10.3 | 9.7 | 9.5 | 7.2 | 6.6 | 6.2 | 6.2 |
| Grants | 0.1 | 0.3 | 0.3 | 0.6 | 0.6 | 0.7 | 0.7 |
| Total expenditure | 18.1 | 21.4 | 22.9 | 22.9 | 21.8 | 21.1 | 21.3 |
| Expense | 10.5 | 13.8 | 16.1 | 16.9 | 16.5 | 15.7 | 15.8 |
| Net acquisition of nonfinancial assets | 7.6 | 7.6 | 6.8 | 6.0 | 5.3 | 5.4 | 5.5 |
| Gross operating balance | 8.5 | 6.3 | 5.9 | 1.9 | 0.8 | 0.8 | 1.0 |
| Net lending (+)/borrowing (-) | 0.9 | -1.3 | -0.9 | -4.1 | -4.6 | -4.5 | -4.5 |
| Underlying net lending (+)/borrowing (-) 4/ | 0.9 | -1.7 | -3.1 | -5.3 | -5.6 | -4.5 | -4.5 |
| Domestic public debt | 16.6 | 15.4 | 15.3 | 18.1 | 19.7 | 20.2 | 20.6 |
| | | | (Percent change) | | | | |
| **Money and credit** | | | | | | | |
| Reserve money | 38.5 | 16.3 | 4.6 | 19.6 | 14.5 | 13.5 | 12.5 |
| Broad money | 46.6 | 31.7 | 17.6 | 26.3 | 24.2 | 21.8 | 21.0 |
| Domestic credit | 5.1 | 24.6 | 22.9 | 32.3 | 27.7 | 23.6 | 22.1 |
| Private sector | 50.5 | 52.5 | 36.5 | 34.3 | 28.5 | 28.4 | 26.1 |
| | | | (In percent of GDP) | | | | |
| **Balance of payments** | | | | | | | |
| Current account balance | -4.0 | -4.9 | -3.3 | -5.2 | -6.5 | -6.6 | -6.7 |
| Trade balance | -3.6 | -5.1 | -6.3 | -9.1 | -10.1 | -10.4 | -10.4 |
| Financial account | 9.8 | 7.6 | 7.1 | 7.0 | 6.4 | 7.9 | 8.1 |
| Foreign direct investment, net | 4.7 | 4.4 | 7.1 | 7.1 | 5.9 | 6.5 | 6.7 |
| Overall balance | 4.4 | 2.1 | 1.8 | -0.7 | -0.1 | 1.3 | 1.4 |
| CBM reserves (gross) | | | | | | | |
| In millions of U.S. dollars | 3,156 | 4,419 | 4,803 | 4,511 | 4,436 | 5,360 | 6,476 |
| In months of total imports | 2.4 | 2.8 | 3.0 | 2.6 | 2.3 | 2.4 | 2.5 |
| Total external debt (billions of U.S. dollars) | 13.7 | 10.2 | 8.8 | 9.6 | 9.9 | 10.9 | 12.0 |
| Total external debt (percent of GDP) | 23.0 | 17.0 | 13.9 | 15.9 | 15.4 | 15.5 | 15.4 |
| Exchange rates (kyat/$, end of period) | | | | | | | |
| Official exchange rate | 879.5 | 965.0 | 1,027.0 | 1,216.0 | … | … | … |
| Parallel rate | 878.0 | 964.7 | 1,085.5 | 1,200.5 | … | … | … |
| **Memorandum items:** | | | | | | | |
| GDP (billions of kyats) | 51,259 | 58,012 | 65,262 | 72,780 | 83,479 | 96,479 | 111,395 |

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ Fiscal year from April 1 to March 31.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises.
4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.

INTERNATIONAL MONETARY FUND

# MYANMAR

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

December 29, 2016

## KEY ISSUES

**Context:** Myanmar's historic general elections in late 2015 resulted in a wave of optimism. Foreign investor interest is strong and development partners are scaling up their engagement. The new government was formed in April and is articulating its economic plans as an integral part of political and economic transition.

**Economic situation and outlook:** Activity slowed during the first half of FY 2016/17 but is expected to recover during the second half. The slowdown, largely due to transition-related weakness in construction activity and a sluggish agricultural recovery from the impact of Cyclone Komen in 2015, has occurred amid continued inflation pressure, a weaker external position and emerging financial sector risks. Risks to the growth outlook are tilted toward downside.

**Medium term prospects:** With continued structural reform and strengthening foreign direct investment, economic prospects remain favorable. Maintaining macrofinancial stability and deepening structural reforms will be critical for sustaining growth.

**Policy recommendations:**

- Monetary policy should be tightened to contain inflation, by phasing out central bank financing of the fiscal deficit and more proactive liquidity management.
- The government should keep the fiscal deficit in check and build fiscal space by continuing to advance domestic revenue mobilization, expenditure prioritization, and spending efficiency.
- Greater exchange rate flexibility is needed to strengthen Myanmar's external position and maintain competitiveness.
- The authorities should accelerate financial sector reform to protect financial stability and enable greater financial inclusion, thereby supporting inclusive growth.

Approved By
**Markus Rodlauer and Steven Barnett**

Discussions took place in Nay Pyi Taw and Yangon during October 14-28, 2016. The staff team comprised Mr. Yang (head), Ms. Hunter, Mr. Wu (all APD), Ms. Gerling (FAD), Mr. Dobler (MCM), Ms. Korniyenko (SPR), and Ms. Sereevoravitgul (TAOLAM). Mr. Cowen (TAOLAM head) participated in some discussions and Mr. Ojima (Resident Representative) and his staff assisted the mission. Mr. Omar (Executive Director) and Ms. Win (OED) also participated in discussions. To-Nhu Dao and Francis Landicho assisted in preparing this report.

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**APPENDICES**

# CONTEXT

1. **The National League for Democracy led by Daw Aung San Suu Kyi formed a new government in April 2016 after historic elections in November 2015**. Following decades of isolation, prospects and expectations for the economy are high in both the private and public sectors. Development partners have been scaling up their engagement and support for Myanmar, and in October the United States lifted all remaining sanctions on trade, investment and financial flows.

2. **The new government faces formidable challenges, and has prioritized the peace process amid ongoing ethnic conflict**. First steps towards peace commenced with the 21st Century Panglong Peace conference in late August, which sought to bring into the peace process the armed ethnic groups currently outside of the Nationwide Ceasefire Agreement. Peace and national reconciliation will remain a priority for the new government as it continues with the effort to build a stable political foundation for socioeconomic development. Regional growth has been uneven, and GDP per capita and living standards differ significantly across regions and states. Progress on the peace process would improve the reach of infrastructure and social services and enhance the inclusiveness of growth.

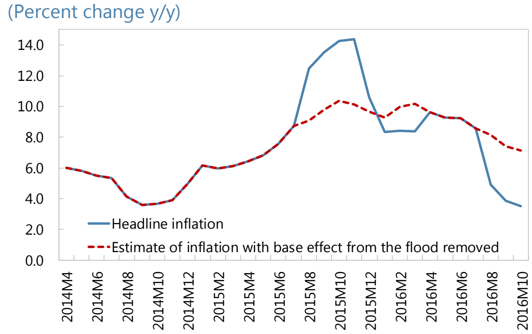
3. **The new government has launched a high-level economic vision and is in the process of articulating detailed action plans**. With the economy hitting a soft patch in the first half of FY 2016/17, the authorities have strengthened consultation with the business community to address concerns over policy uncertainty, including by expediting passage of the Investment Law. Nevertheless, the government continues to face challenges, including capacity constraints, in formulating detailed economic policies and supporting regulations, which are urgently needed to provide clarity on the business environment.

# RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Although growth fundamentals remain strong, activity slowed in the first half of FY 2016/17**. The economy grew broadly as expected in FY 2015/16, at a healthy pace of 7.3 percent, despite massive floods after Cyclone Komen in July 2015 and a weak external environment. Taking into account sluggish activity in the first half of the year, staff projects a slower growth rate of 6.3 percent for FY 2016/17—a downward revision of around 2 percentage points from last year's projection (which was made amid signs of economic overheating). The slowdown was largely associated with a temporary halt in construction projects in Yangon—which accounts for more than 20 percent of the country's economic activity—for regulatory compliance purposes. The growth of agricultural production was also softer than expected, disappointing predictions of a rebound from last year's floods, while the suspension of investment approvals by the Myanmar Investment Commission (MIC) earlier in the year contributed to the slowdown. At the same time, the external environment has been weak due to slowing demand from major trading partners and significant natural gas and other commodity price declines in 2015–16.

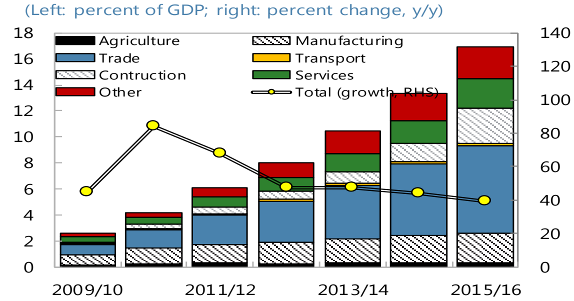
**5. Inflation and credit growth remain strong, notwithstanding some recent moderation.**[1] Inflation has been underpinned by money supply growth resulting from CBM purchases of government securities (Box 1), with flood effects on food prices adding further pressure. Inflation peaked at 14 percent in November 2015, before base effects caused a significant decline to 3.6 percent (y/y) in October 2016. However, inflation averaged 8 percent for the year to October, and excluding base effects underlying inflation remained at around 7 percent in October (Text Chart). Meanwhile, credit growth continued at 34 percent (y/y) in March, far outpacing nominal GDP growth. Preliminary data suggest that bank credit remains concentrated in the trade and construction sectors, and that credit expansion in the latter has slowed (Text Chart). While the strong credit growth partly reflects deepening from a very low base, it also raises potential credit risks.

**Removing the Flood Effect, Inflation Remains High**
(Percent change y/y)




Sources: Authorities' data; and IMF staff calculations.

**Private Banks: Credit by Sector and Growth 1/**
(Left: percent of GDP; right: percent change, y/y)




Sources: Authorities' data; and IMF staff calculations.
1/ It does not include credit to private sector by state-owned banks.

**6. The fiscal deficit widened sharply in FY 2015/16, reaching 4.1 percent of GDP from 0.9 percent in FY 2014/15**. The increase in the deficit resulted mainly from a decline in revenues from underperforming state economic enterprises (SEEs), on the back of lower energy prices and inefficiencies, as well as a rise in public sector wages (Table 2). Nevertheless, the deficit outturn was below the original budget estimate of 4.9 percent of GDP, as a result of over-performance in tax collection, under-execution of capital expenditure, and commendable efforts by the government to rationalize current expenditure. In net terms the deficit was entirely financed by the Central Bank of Myanmar (CBM) through automatic purchases of treasury bills.

**7. The external position has weakened due to a widening trade deficit and lower-than-expected FDI flows**. The current account deficit widened from 3.3 percent of GDP in FY 2014/15 to 5.2 percent of GDP in FY 2015/16, mainly driven by falling revenue from natural gas exports and continued import growth. At the same time, FDI inflows fell short of expectations in FY 2015/16, partly reflecting a pre-election wait-and-see approach to disbursement of committed investment. As a result, foreign reserves at the CBM fell to 2.6 months of prospective imports at end-March 2016 and further to 2.3 months at end-October, well below the estimated adequate level of 5–6 months of prospective imports (Box 3). In addition, the foreign exchange (FX) position of state-owned

[1] Inflation numbers are based on the new CPI series, with a 2012 base year. The new CPI series was launched in August, and showed lower inflation compared to the previous CPI series (2006 base year), due to reduced weight on food prices in the CPI basket.

banks (SOBs) has also declined (Figure 1).[2] Mirroring the weaker BOP position, the kyat has fallen in value, having depreciated by about 17 percent against the U.S. dollar from mid-2015 to end-November 2016. However, in real effective terms the kyat moderately appreciated, due to Myanmar's high inflation.

**8. Staff projects a recovery in economic activity in coming months**. This outlook is underpinned by an expected recovery in construction activity in Yangon and FDI inflows and increased development partner disbursements in the second half of FY 2016/17—following the resumption of both construction permit and FDI approval processes. Inflation is expected to remain elevated at 7 percent on average in FY 2016/17. Financial deepening will continue to boost credit growth, albeit at a more moderate pace as the stock of credit rises and slower economic activity (relative to previous years) weighs on demand. The fiscal deficit is projected to increase slightly to 4.6 percent of GDP in FY 2016/17, while the external current account deficit is likely to increase further to about 6.5 percent of GDP. The CBM's foreign reserves are projected at 2.3 months of prospective imports, before gradually improving on account of improved foreign exchange inflows, including from FDI and development partner inflows as noted above.

**9. Despite the positive outlook, risks are weighted towards the downside and challenges to maintain macrofinancial stability are significant**.

- Downside risk arises from concerns over policy clarity. Delays in phasing out CBM financing of the fiscal deficit could prolong high inflation, lowering real incomes, real interest rates, and external competitiveness. Rapid credit growth over the recent past may have weakened banks' balance sheets, which remain opaque. Weak gas prices and inefficiencies are weighing on SEE performance and thus government revenues. Natural disasters continue to pose significant risks to the economy, as shown by last year's floods and the earthquake earlier this year.[3]

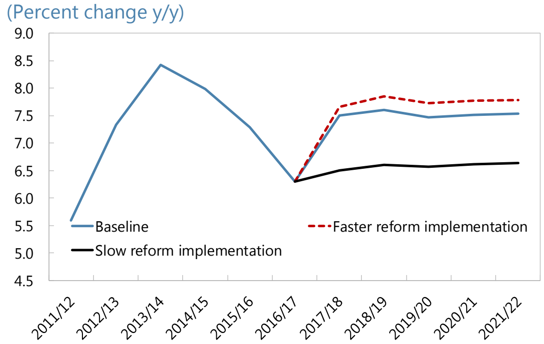
- On the external front, commodity prices remain a key risk, with lower gas prices dampening export receipts and government revenues. In addition, risks continue to arise from volatile global financial markets and the rebalancing of the Chinese economy. The potential for change in U.S. economic policy towards Asia as a result of the recent U.S. elections creates additional uncertainty.

**10. Should these downside risks materialize, Myanmar's economy would grow below potential in the near term and could even see the potential growth rate reduced over the longer run** (Text Chart). A slow or stalled reform process—including a continued high level of

[2] Foreign exchange assets at the SOBs are not classified as official reserves. Official FX reserves only include reserves held at the CBM.

[3] See the companion selected issues paper on "Macro-Fiscal Risks: The Challenge of Climate Related Disasters," by Kerstin Gerling and Chanaporn Sereevoravitgul.

Structural Reform Scenarios: Real GDP Growth
(Percent change y/y)




Source: IMF staff estimates.

monetary financing, stagnating revenue efforts, and failures to address risks to the external and financial sectors—would have a dampening effect on business confidence and reduce development partner and FDI inflows. This would exacerbate the current macroeconomic imbalances and increase the risk of abrupt policy adjustment. In an upside scenario, staff envisages Myanmar to rebound quickly from the current downturn toward the upper bound of its growth potential and maintain strong growth for a long time to come (see Box 2 for Myanmar's long-term growth potential). Despite the modest size of the growth gain, faster reform implementation would improve the sustainability of growth through lowering debt and strengthening the external position, thereby reducing downside risks. For this scenario to materialize, a strong and coherent set of policies needs to be put in place quickly, which would lead to early phase out of central bank financing, accelerated structural reforms (e.g., strong revenue and PFM efforts, SEE and SOB restructuring, and financial sector reform), and a boost to business confidence that would underpin strong FDI and aid inflows.

**11. The authorities have taken a number of steps to address downside risks, many of which were identified in past Article IV consultations** (Appendix I). In particular, they have for the first time outlined a plan gradually to phase out central bank financing of the fiscal deficit and launched a T-bond auction earlier this year. Significant progress has been made in revenue administration, and reform of public financial management is accelerating. The parliament has approved the Financial Institutions Law (FIL), and the CBM has brought banks in compliance with reserve requirements and made impressive strides in bank supervision. Nevertheless, continued efforts are needed to reduce macro imbalances and reduce financial sector risks, including through greater exchange rate flexibility and expeditious issuance of key prudential regulations.

### Authorities' views

**12. The authorities broadly shared the staff's assessment of recent developments, the outlook and risks**. They agreed with staff's growth outlook and concurred that factors weighing on growth in the first half of 2016/17 were temporary and that activity should pick up in the coming months. They were also concerned about persistent macroeconomic imbalances, and their forecasts of inflation and the current account balance were in line with staff projections. The authorities broadly agreed with staff's assessment of risks, but considered risks to growth to be more balanced. They highlighted external risks, given the continued effects of low commodity prices and weak export demand on the trade balance and the exchange rate. The authorities noted that the new government was taking steps to improve the business environment, including the recent passage of the Investment Law and strengthened communications with the business community.

# SAFEGUARDING MACROFINANCIAL STABILITY WHILE LAYING FOUNDATIONS FOR INCLUSIVE GROWTH

*Achieving these twin objectives calls for a strengthened policy mix. Safeguarding macrofinancial stability requires tighter monetary conditions, greater exchange rate flexibility, and swift actions to continue strengthening bank regulation and supervision. While the current level of fiscal deficit is broadly appropriate in view of the huge development needs, the authorities should prioritize the phasing-out of monetary financing to help anchor inflation and exchange rate expectations. Meanwhile, to improve key infrastructure and social services, continued fiscal reforms to mobilize required domestic revenue are needed along with improved expenditure efficiency. Together with further reforms of the financial sector and business regulation, these are critical to creating conditions for inclusive growth.*

## A. Ensuring Exchange Rate Flexibility for External Stability

**13. Greater exchange rate flexibility is needed to strengthen the external position**. As noted earlier, despite nominal depreciation against the dollar, the kyat has appreciated moderately in real effective terms due to higher domestic inflation relative to trading partners. The real appreciation has not been offset by commensurate productivity improvements, and as a result, the real exchange rate is assessed to be moderately overvalued (Box 3). This assessment is consistent with the observed weakening of Myanmar's external position, including the falling net FX assets of SOBs. Staff took note of the authorities' concern over the impact of exchange rate depreciation on inflation and stressed the need for tighter monetary policy to prevent potential feedback effects between inflation and exchange rate depreciation. Staff also encouraged the authorities to strengthen communications on their policies which should help guide exchange rate expectations.

**14. The exchange rate needs to be set through a transparent mechanism that reflects market conditions, in line with the de jure managed float regime**. Staff continues to support Myanmar's managed float exchange rate regime, which has helped to mitigate terms of trade shocks with limited foreign reserves. In order for the exchange rate regime to fulfill this important role, the CBM needs to conduct the daily FX auction in a manner to serve as a price discovery mechanism, rather than a signaling device (Box 4). Specifically, the cut-off rate, or the reference rate, at the auction must reflect demand and supply conditions in the broad, deep parallel markets to avoid persistent excess demand at the auction.[4] The misalignment between the auction rate and parallel market rates is detrimental to the long-term objective of achieving a unified, deep FX market, and to the exchange rate adjustment necessary for strengthening the external position. If the authorities are unable to change their current practice in conducting the auction, an alternative mechanism to set the exchange rate could be explored, such as setting the exchange rate based on market transactions, and accelerating inter-bank market development. However, should an alternative be pursued, any rate setting mechanism must operate in a transparent and independent

[4] However, staff has not identified at this time instances of shortages in the formal FX market.

manner. In addition, the government and SEEs would need to commit to using the new market-based reference rate for their FX transactions.

15. **Continued structural reform is critical to strengthening Myanmar's external position in the longer run**. Staff estimates that the CBM's current FX reserves are well below the estimated adequate level of 5–6 months of prospective imports, and baseline projections suggest a slow accumulation over the medium term. Tighter monetary policy and a flexible exchange rate, together with automatic transfer of state-owned foreign exchange from SOBs to the CBM, are key to preventing FX reserves from declining further. Moreover, Myanmar needs to deepen structural reforms in order to strengthen its external position on a sustained basis. Apart from infrastructure impediments (for example, inadequate electricity supply and transport networks), the business community considers onerous regulation and limited credit access for SMEs and agriculture to be major constraints to growth, including of exports. Staff encourages the development of a coherent plan to create an enabling environment for private enterprise, building on the existing national export strategy supported by the Diagnostic Trade Integration Study, national financial inclusion roadmap, and the Investment Law. In addition, staff encourages the timely release of regulations under the Investment Law and expeditious approval of the company law. These reforms would also help contain Myanmar's risk of debt distress, which is assessed to be low on account of prudent fiscal policy and expected broadening of the export base over time (see the Debt Sustainability Analysis).

**Authorities' views**

16. **The authorities remained committed to the managed float exchange rate regime, while expressing concern about continued depreciation pressures**. They recognized the importance of sound fiscal and monetary policies in anchoring the exchange rate and agreed that a more flexible reference rate was needed to unify the foreign exchange markets. However, the authorities were concerned about a potential depreciation-inflation spiral, and found it challenging to manage communications on the exchange rate regime and currency volatility in light of the public's desire for exchange rate stability. In this context, the CBM welcomed the discussion of options in setting the reference rate, and requested TA to study the feasibility of a fixing regime based on market transactions. The CBM believed that such a regime would help ease its communication challenge by attributing exchange rate volatility more to the market than mainly to the CBM.

## B. Tightening Monetary Policy to Contain Inflation

17. **Despite the recent economic slowdown, a stimulatory monetary policy is inappropriate at this juncture, as inflation and exchange rate pressures persist**. A tighter monetary policy stance is needed to reduce inflation and depreciation pressures on the exchange rate. High inflation has eroded the purchasing power of households and negatively affected investment and competitiveness. In addition, rising inflation has pushed down real interest rates, reducing returns to

depositors and making it more difficult for lenders to price credit risk as nominal lending and deposit interest rates are administratively set (paragraphs 28 and 29).

**18. Staff encourages the authorities to accelerate the phase-out of monetary financing of the fiscal deficit**. The government plans to cap central bank financing at 40 percent of domestic financing in FY 2016/17, with gradual declines thereafter. While welcoming the right direction this plan sets, staff continues to recommend a faster switch from CBM to domestic market financing, over the next two years, and stress the importance of market-determined interest rates in attracting investors at the T-bill and T-bond auctions. The recent change to allow foreign banks to participate in the government securities auctions is a positive step.

**19. To prevent high inflation from becoming entrenched, the CBM should step up deposit auctions to mop up liquidity**. Bringing banks into compliance with reserve requirements and issuing the instruction to impose automatic penalties on non-compliant banks, have been important achievements. To attract sufficient volumes of bank deposits, the CBM should ensure that the interest rate at the deposit auctions is fully determined by the market.

**20. Adopting a medium-term inflation objective would help improve monetary policy communication and anchor inflation expectations**. Staff considers an inflation objective of around 5 percent as appropriate, in keeping with inflation targets/objectives for peer countries at similar stages of development. The objective should be framed as a medium-term guide rather than a fully fledged inflation target. By guiding reserve money targets the objective would clarify the nominal anchor for the economy, facilitating monetary policy communication and the setting of inflation expectations. To strengthen the design and implementation of monetary policy, staff encouraged the CBM to set up a monetary policy committee, supported by a monetary policy working group.

**Authorities' views**

**21. While acknowledging the inflationary impact of CBM financing of the fiscal deficit, the authorities preferred a gradual approach to phasing out such financing due to concerns about the increased cost to the budget of market financing**. They also believed that a gradual approach would help ensure that targets are achievable in switching to market financing. The authorities recognized that such a switch would require a major scaling up of treasury auctions and close cooperation between the CBM and the Ministry of Planning and Finance. Having granted permission for foreign banks in Myanmar to participate in the T-bill and T-bond auctions, the authorities expected treasury issuance to grow over time as interest rates were increasingly determined by the market. The CBM welcomed staff's recommendation to set a medium-term inflation objective and noted its intention to continue using the reserve money targeting framework to manage liquidity and respond to inflation, with continued enforcement of reserve requirements and scaling up of deposit auctions as needed.

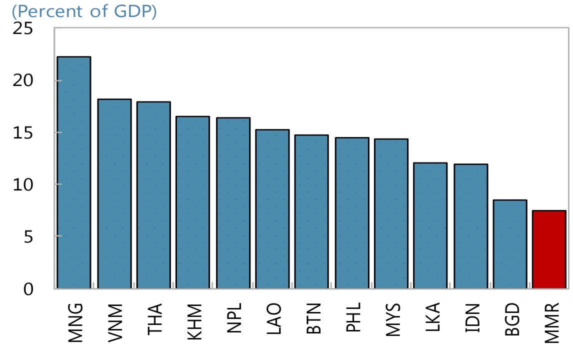
## C. Balancing Fiscal Sustainability and Development Needs

**22. The FY 2015/16 fiscal outcome was broadly in line with an adequate medium-term target that is consistent with long-term debt sustainability, and a prudent fiscal stance will help anchor inflation and exchange rate expectations**. Debt sustainability analysis suggests that a fiscal deficit of around 4½ percent of GDP over the medium term would be consistent with keeping Myanmar at low risk of debt distress while providing some fiscal space to respond to shocks, including frequent, climate-related natural disasters.[5] In addition to phasing out central bank financing, deeper reforms to mobilize domestic revenue are needed (see below), and the authorities should continue to prioritize expenditure on critical infrastructure and social services while improving efficiency, and containing fiscal risks—especially those emerging from SEEs (including SOBs) as well as public private partnerships.

**23. Building on considerable achievements, it is time for the next phase of revenue reform**. Myanmar has significantly improved revenue administration, including by establishing a large taxpayer office (LTO), with general government revenue (excluding grants) rising from 12 percent of GDP in FY 2011/12 to around 20 percent in FY 2015/16.[6] Myanmar now needs to tackle its tax system at a deeper level, including updating tax legislation, beginning with the income tax law. Meanwhile, high-level commitment will be needed to accelerate the reform of SEEs, to improve their efficiency and revenue contribution, while reducing contingent liabilities, including those in the banking sector. Over time, Myanmar should also tap its large revenue potential in the mining sector, building on good progress made in implementing the EITI. Priority actions on the revenue front include the following:

- *Rationalize tax exemptions and investment incentives*. As the first step, tax expenditures should be presented in annual budgets to increase transparency.
- *Introduce anti-corruption measures to protect the integrity and reputation of the tax system.*
- *Recruit more professional staff to strengthen IRD and LTO's capacity, including in the area of tax payer services.*
- *Pass the draft Tax Administration Procedure Law as soon as possible.*

**Tax Revenue, 2015**
(Percent of GDP)




Sources: Authorities' data; WEO; and IMF staff estimates.

- *Scale up sustained public education on the importance of taxation for economic development.*

[5] Myanmar is a pilot on climate change issues at the Fund.

[6] Myanmar is a pilot for domestic revenue mobilization in the context of Fund work to support Sustainable Development Goals.

24. **Sustained efforts are needed to improve the efficiency of public spending and build fiscal buffers for future shocks**. As the authorities continue to prioritize spending on key infrastructure and service delivery, greater attention needs to be paid to balanced allocation within sectors to achieve better development outcomes. Moreover, the authorities should continue to improve the medium-term fiscal framework, better integrate recurrent and capital expenditures, strengthen in-year monitoring and reporting (which would be greatly facilitated by automation), and improve cash management. To put these reforms on a sound legal footing, the authorities should ensure early approval of the Financial Rules and Regulations while preparing ground for a Public Financial Management (PFM) law. Given Myanmar's vulnerability to natural disasters, more budgetary resources should be allocated to reserves to meet contingency spending needs.[7]

**Authorities' views**

25. **The authorities broadly concurred with staff's recommendations**. They intended to keep the fiscal deficit within 3–4 percent of GDP (authorities' accounting method definition) for 2017/18 and over the medium term, and were committed to maintaining a low risk of debt distress. The authorities fully recognized the importance of revenue mobilization and were working closely with the Fund and other development partners to continue deepening reforms including by moving to Phase II of revenue reform. On expenditure management, the authorities planned to release an update on the Financial Rules and Regulations in the near term while preparing the groundwork for a PFM Law. Improving the performance of SEEs was a key policy priority, and the authorities were working with development partners to formulate a reform strategy. Increasing investment in key infrastructure and social services remained a priority for the authorities, though they noted the constraints on absorptive capacity in the short term.

## D. Addressing Financial Sector Risks and Improving Intermediation

26. **The financial sector reform agenda is well underway**. A new FIL was passed in early 2016, and progress has been made in finalizing regulations and strengthening supervision. Important advances have been made in undertaking full-scope bank examinations, and financial soundness indicators (excluding SOBs) have been developed with a view to publication in 2017. Efforts to extend T-bill maturity, the launch of T-bond auctions, and the recent change to allow foreign banks to participate in treasury auctions have been welcome. In addition, banks now fully comply with reserve requirements, as noted above. Given progress in improving the AML/CFT regime, Myanmar is no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Ongoing work to address outstanding AML/CFT issues, including preparing for the national risk assessment, remains a priority.

27. **Further reforms are needed given a growing, largely opaque, and undercapitalized financial system**. Despite the recent slowdown in credit growth, and the fact that credit is extended in local currency and funded by deposits, concerns remain regarding the quality of banks' assets

[7] See footnote 5.

given the limited availability of prudential data, ever-greening practices, concentration risk, and weak risk management. The banking system in general remains undercapitalized relative to risks, and the CBM is working with several banks to bring capital levels up to the requirements of the FIL. However, this process is being impeded by delays in the issuance of supporting regulations for the FIL, including those on capital adequacy and asset classifications. At the same time, growth in the number of banks operating in Myanmar continues to stretch supervisory capacity—arguing against permitting additional banks to enter the market until supervisory capacity has been substantially strengthened.

**28. Reform of systemically important SOBs should be accelerated**. Although their dominance of the financial system has declined, SOBs retain the largest network of bank branches and attract 36 percent of national deposits. Given the large amount of deposits at the SOBs and their poor financial conditions, key objectives of reform should include minimizing risks to the financial system and public finance, and to improve financial intermediation and inclusion. An immediate priority is to clarify the SOB's capital and net FX open positions. Ultimately, a restructuring plan needs to be formulated to guide the reform process, building on the World Bank's continued support in this area.

**29. Despite the rapid credit growth over the last few years, agriculture and small and medium-sized enterprises (SMEs) have been underserved**. With nearly two-thirds of households engaged in agriculture, this sector is key to inclusive growth. However, productivity levels are low due to the lack of modern inputs and technologies (seeds, fertilizer, irrigation facilities, and post-harvest services). In part this reflects lack of access to credit. Extensive controls in the wake of past banking crises—including a floor on deposit rates (8 percent) and a ceiling on lending rates (13 percent)—have made it difficult for farm households and SMEs to access credit. Over the past year, high inflation has exacerbated financial repression and there has been growing call for rapid liberalization of interest rates, which could bring large benefits. However, Myanmar is not yet ready for full liberalization of interest rates, and needs to continue working on the necessary conditions, including by further strengthening bank regulation and supervision, improving banks' risk management, and anchoring inflation expectations.

**30**. **Staff recommends a carefully sequenced increase in lending interest rates, supported by appropriate complementary policies**. Higher, tiered lending rates for new loan products permitted under the FIL (including unsecured and secured on moveable collateral) should be allowed, to help develop an interest rate structure for loans of longer than one year. In view of the critical need to improve access to finance for agriculture and SMEs, the authorities could also raise the interest rate caps on microfinance loans, along with measures to ensure their adequate supervision and regulation. Staff also encourages the authorities to consider complementary policy measures to ensure that the benefits of gradual financial liberalization are widely distributed. For example, improving rural infrastructure (particularly electricity supply and transport networks, which would increase access to mobile banking and bank branches), financial literacy, and business book keeping, as well as establishing a credit bureau, would help rural households and SMEs share the benefits of financial liberalization. Liberalization of interest rates without complementary measures to improve financial access to the rural population and SMEs could increase income inequality, as the bulk of the benefits from liberalization would accrue to businesses and households that already have access to finance.[8]

**31. Current priority actions for financial sector reform include the following:** [9]

- *Issue and enforce bank regulations as soon as possible*. This would empower the supervisors to enforce the FIL.

- *Complete full-scope bank examinations of all banks (including state-owned and policy banks*), identify and audit weak banks, and require capital and liquidity recovery plans to meet new regulatory requirements.

- *Further increase the size and training of the supervision team at the CBM, including on AML/CFT*.

- *Resource the function at the CBM to develop plans for bank recovery and resolution, to enable the CBM to deal with weak banks using its new FIL powers and to develop lender of last resort capabilities*.

**Authorities' views**

**32. The authorities broadly shared staff's views on financial sector risks and reform priorities and were moving forward with their reform agenda**. They were near completion of full-scope examinations of all banks, and were targeting end-March 2017 for issuing five key regulations to implement the FIL. With regard to bank capital adequacy, the authorities were committed to implementing, as the next step, more stringent capital requirements aligned closely with enhanced international standards. The authorities appreciated the importance of strengthening the supervision team and were seeking more resources while continuing with training. They planned to accelerate interbank money market development and contingency planning for bank recovery and resolution, and have requested TA in both areas. With regard to gradual liberalization of interest rates, they preferred to change bank lending and deposit rates simultaneously but keep rates on microfinancing low.

# CAPACITY DEVELOPMENT AND OTHER ISSUES

**33. Myanmar is a top recipient of Fund capacity development resources and has made substantial progress in strengthening capacity** (Appendix III).[10] Staff exchanged views with the authorities on Myanmar's priorities in capacity development in line with its surveillance objectives.

[8] See selected issues paper "Macroeconomic and Distributional Implications of Financial Reforms in Myanmar," by Adrian Peralta-Alva, Sandra Valentina Lizarazo Ruiz, Yiqun Wu, and Vinzenz Ziesemer, Myanmar is a pilot case for Fund work on inequality.

[9] See selected issues paper "Myanmar's Financial Sector: Strategy and Priorities for Reform," by Marc Dobler.

[10] Myanmar is a pilot for the IMF's capacity development initiative in fragile states.

The authorities welcomed Fund assistance and provided feedback on how to enhance the effectiveness of Fund capacity development, including through early engagement and close interactions at the planning and delivery stages and tailoring Fund recommendations to capacity constraints to improve short-term absorption and long-term sustainability.

**34. Statistics**. Improvement has been made in reducing the time lags in releasing data, and the recent rebased CPI series is a major achievement. However, data shortcomings continue to hamper surveillance significantly, particularly in the areas of external sector and government finance statistics. Sustained efforts will be needed for further progress (Information Annex III), and staff appreciated the authorities' strong commitment to improving statistics.

**35. Article VIII issues**. The authorities plan to accept Myanmar's obligations under Article VIII soon. An exchange restriction relating to transfer of salaries abroad was removed with the passage of the FIL, and work is in progress to remove the last remaining exchange restriction, relating to a tax certification requirement. The authorities have requested Fund approval of the multiple currency practice arising from the multiple-price FX auction.

# STAFF APPRAISAL

**36. The successful general elections in November 2015 ushered in a historic period of political and socioeconomic transition**. Peace and national reconciliation will help lay the foundation for stability and shared prosperity, and continued economic reform is integral to this great endeavor. Maintaining economic and financial stability is important for the transition.

**37. Greater exchange rate flexibility is critical to strengthening Myanmar's external position and developing a fully unified FX market**. Staff continues to support the managed float regime and encourages the CBM to conduct the daily FX auction in a competitive manner, which would minimize the exchange rate spread between the formal and informal markets. Should it be impossible to achieve these objectives under the auction regime, the authorities could explore an alternative way of setting the reference rate based on prices of market transactions.

**38. Monetary policy should be tightened by phasing out CBM financing of the fiscal deficit and stepping up deposit auctions to mop up liquidity**. These steps are essential to containing inflation and reducing pressure on the exchange rate. Market-determined interest rates for treasury securities are required to ensure the successful transition from CBM to domestic market financing. Staff welcomes the authorities' commitment to phasing out monetary deficit financing and encourages a more ambitious pace.

**39. Deeper fiscal reforms are needed to balance development and sustainability needs**. The current fiscal stance is appropriate, and the authorities should keep the fiscal deficit in check going forward to build fiscal buffers and maintain low risk of debt distress. To finance large needs for infrastructure development and social services, domestic revenue mobilization should move to the next level, including reform to tax legislation, building on the success of the first phase of reform. At the same time, continued efforts are required to ensure effective prioritization and implementation of expenditure plans.

**40. Further financial sector reform is critical to safeguarding financial stability and improving financial intermediation**. Rapid credit growth and lack of transparency in the banking system could pose systemic risks and contingent fiscal liabilities. Staff commends the authorities for passing the FIL and strengthening supervisory capacity, and continues to urge the authorities to issue supporting regulations for the FIL soon, and to formulate an SOB reform plan.

**41. Staff appreciates the authorities' commitment to improving macroeconomic statistics, and envisages a full capacity development agenda**. Building on good progress, further development of macroeconomic statistics is needed to better inform policy decision making and improve transparency. Staff looks forward to continuing capacity development work with Myanmar in statistics and other policy areas.

**42. Staff supports the authorities' request for approval of a multiple currency practice subject to Fund jurisdiction under Article VIII, Section 3**. The MCP arises from the mechanism of the foreign exchange auction which allows for a multiplicity of winning bids (Information Annex on Fund Relations), and is maintained principally for non-balance of payments reasons. The MCP does not materially impede the member's balance of payments adjustment, harm the interests of other members, or discriminate among members; it is temporary; and the authorities are unable to replace it at present. Staff therefore recommends Executive Board approval for its retention until January 18, 2018 or the conclusion of the next Article IV consultation, whichever is earlier. The authorities did not request, and staff does recommend, approval of the exchange restriction maintained inconsistent with Article VIII obligations.

**43. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.**

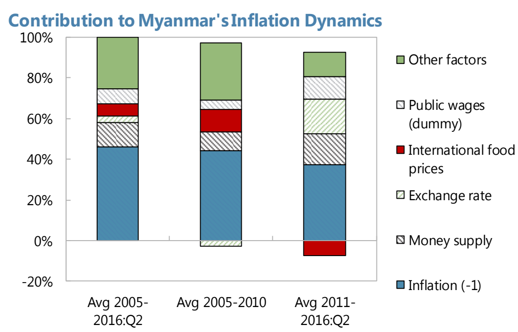
## Box 1. Myanmar: Recent Inflation Dynamics[1]

**Myanmar's inflation has been persistently above 10 percent since mid-2015, apart from recent data that has reflected base effects from the flood**.[2] The higher inflation rates appear to have mainly resulted from rising food prices, which represented more than two-thirds of the CPI basket. This can partly be explained by the severe floods in July–September 2015, caused by Cyclone 'Komen'. However, the double-digit inflation has been more persistent than can be explained by supply shocks alone. This box, therefore, aims to analyze other possible factors that have been driving inflation dynamics in recent years.

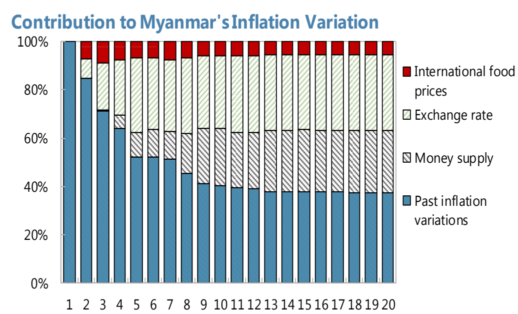
**Using quarterly data from 2005:Q1 to 2016:Q2, inflation in Myanmar is found to be driven by its past dynamics, reserve money supply, international food prices, public sector wage growth, and exchange rate depreciation (pass-through effect)**.[3] Past dynamics have contributed to approximately 40 percent of contemporaneous inflation for the whole period of the study. However, this contribution declined during the period 2011–2016:Q2 whereas changes in the exchange rate and money supply have increasingly driven inflation dynamics. Public sector wage growth has also contributed to inflation in the latter period. This includes the latest increase of public wages in FY 2015/16, which occurred at around the same time as the floods and may have contributed to inflation persistence.

**A variance decomposition of inflation confirms the role of past inflation, the exchange rate, and money supply in driving inflation dynamics**. For the first year, exchange rate pass-through explained around 20 percent of inflation variation, international food prices around 7 percent, and money supply around 5 percent. Over the medium term, exchange rate pass-through and changes in money supply have gained further explanatory power, contributing approximately 30 percent and 25 percent, respectively, to inflation variance. International food prices have a minimal contribution to inflation variation over the medium term.

**The above results suggest that a tighter monetary will be required to bring down persistently high inflation**. Monetization of the increased fiscal deficit in 2015/16 contributed significantly to the expansion of reserve money. At the same time, the CBM has not mopped up excess liquidity sufficiently through deposit auctions to offset deficit monetization. Although inflation itself is likely to have contributed to exchange rate depreciation, a rising current account deficit suggests that aggregate demand has outpaced domestic supply, putting pressure on the exchange rate.



Souce: IMF staff calculations.



Source: IMF staff estimates.
Note: The analysis applies VAR on first difference of log-transformed series of all variables.

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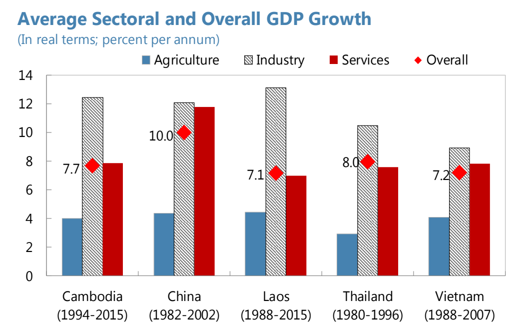
[1] Prepared by Chanaporn Sereevoravitgul.

[2] This analysis uses the 2006 base year CPI, as limited official historical data is available for the new 2012 base year CPI. The 2012 base year CPI shows lower inflation than previous series, due to a lower weight on food in the CPI basket.

[3] The estimation uses the OLS method. The contribution from each factor was obtained by multiplying the regression coefficients by the means of each variable.

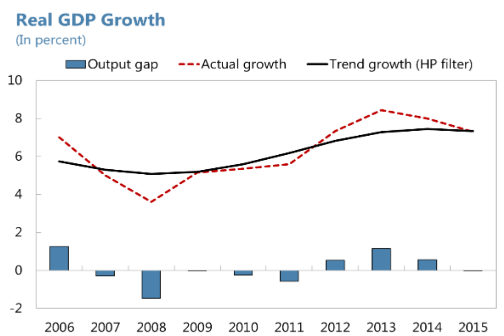
## Box 2. Myanmar: Potential Growth[1]

**Reliable estimates of potential output are critical to formulating an appropriate macroeconomic policy framework**. They are an essential input for calculating output gaps that help policymakers determine the cyclical position of the economy and for designing sustainable macroeconomic policies over the medium and long run. In the case of Myanmar, there has been limited empirical work in estimating its potential output even though rapid structural change over the last few years has made it imperative to gauge the country's new growth potential. This box presents preliminary results from three approaches: analysis of historical comparisons, the HP filter, and the Cobb-Douglass production function.



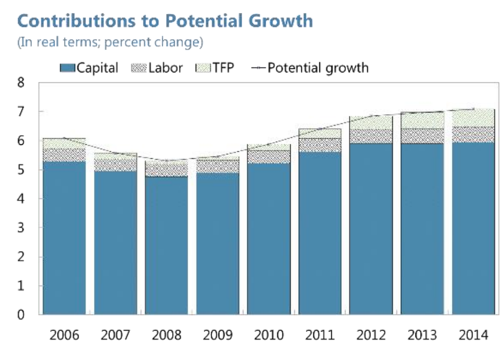
Sources: World Bank, World Development Indicators (2016); and IMF staff calculations.

**Myanmar's growth potential is substantial based on the experience of its regional peers**. The growth record of Cambodia, China, Laos, Thailand, and Vietnam suggests that, with appropriate policies, high growth in the range of 7-8 percent can be sustained over a relatively long period of time. Myanmar's per capita income today (about US$1,400 in constant 2011 PPP U.S. dollars) is similar to the levels of these countries (US$1,000-2,000 in constant PPP U.S. dollars) when they embarked on economic reforms and subsequently achieved sustained growth at 7-8 percent per year. China achieved even higher growth.



Source: IMF staff calculation.

**The results from the other two approaches also suggest that Myanmar can achieve long-term growth in the 7-8 percent range**. Both the HP filter and production function approaches show a notable pickup in trend growth since 2011 when Myanmar embarked on political and economic reforms (Charts 2 and 3). The estimated production function shows that the growth contribution of total factor productivity (TFP) has been rising in recent years, although the pace of factor accumulation—at 10 percent per year for capital and 1.1 percent for labor force since 2011—has been modest compared with that in neighboring countries during their economic expansion.



Sources: IMF staff calculation

**Myanmar needs to take advantage of its current position to emulate the successes of its neighbors**. The slowdown of global economic growth since the Global Financial Crisis makes it more difficult for Myanmar to increase its exports to advanced countries. However, China's rebalancing and moving up value chains have provided Myanmar with opportunities to export labor-intensive products and services, including through attracting Chinese FDI and tourists. Over the long run, there is also potential for Myanmar to export labor-intensive manufactured goods directly to China, in addition to agricultural and horticultural products. For this to materialize, Myanmar needs to continue improving its productivity, particularly given its low fertility rate that reduces demographic dividends. Continued efforts to build up human capital and integrate with regional economies are key to achieving sustained growth.

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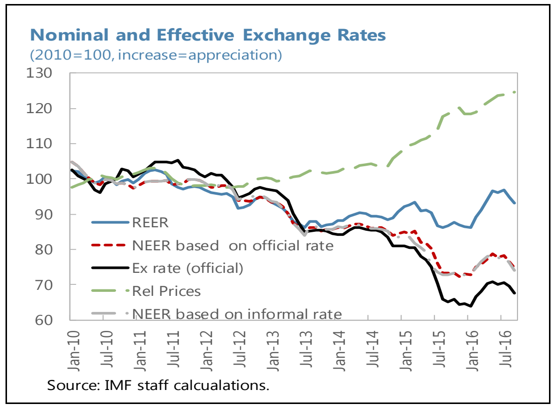
[1] Prepared by Yiqun Wu.

## Box 3. Myanmar: External Sector Assessment[1]




**Myanmar's external position worsened in 2015/16 and is assessed to be moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings**. This is consistent with the real exchange rate appreciation, relatively slow productivity improvement, and falling international reserves over the past year.

**The kyat real effective exchange rate (REER) appreciated by about 7.3 percent in the year to September 2016**, primarily driven by higher domestic inflation relative to Myanmar's trading partners (Figure 1). The nominal effective exchange rate depreciated by about 2 percent during the same period.

**Model-based estimates of the external position suggest the kyat is now moderately overvalued**. All three IMF models—the Current Account (CA), REER, and external sustainability (ES) approaches—show that the real exchange rate (RER) is moderately stronger than the level consistent with external balance, medium-term fundamentals and desirable policy settings (Table 1). The CA approach suggests an RER overvaluation of 3.3 percent in 2016/17, but after adjusting for the adverse flood effects, the overvaluation disappears. The REER approach suggests a somewhat larger overvaluation of 16 percent, while estimates under the ES approach show that an REER adjustment of 6.9 percent is needed to stabilize net foreign assets (NFA)-to-GDP at -40 percent in 20 years.[2]

**Table 1. Current Account and Real Exchange Rate Assessments**
(In percent of GDP)

| | CA approach | REER approach | ES approach |
|---|---|---|---|
| CA Actual | -7.7% | | |
| Cyclically adjusted CA Norm | -7.0% | | |
| CA Gap | -0.7% | | |
| Of which: Policy Gap | 3.2% | -5% | |
| ***Real Exchange Rate Gap*** | ***5.8%*** | ***17%*** | ***7.7%*** |

**Anecdotal evidence suggests Myanmar has lost some competitiveness over the past year**. There have been increasing complaints by domestic producers that imports, including possibly smuggled imports, of processed foods, have posed strong competition to domestic products. It has also been reported that Myanmar rice, a major foreign exchange earner for the country, has also been facing sluggish demand overseas because it is too expensive. Thus it appears that rising domestic inflation has contributed to the loss of competitiveness, which also continues to be hampered by non-price factors. Business surveys show that despite low wages, weak domestic supply chains and poor access to electricity, transport services and affordable financing are major impediments to business activity.

**Improving competitiveness would also help improve the CBM's foreign reserves buffer, which is assessed to be far below the estimated adequate level**. At end-September 2016 the CBM's net foreign reserves stood at US$4.5 billion and covered about 2.3 months of prospective imports, well below the estimated adequate level of 5-6 months of imports.[3] Inadequate reserves also suggest that it is important for the CBM to maintain a flexible exchange rate to absorb external shocks.

[1] Prepared by Yevgeniya Korniyenko.

[2] Provisional estimates put Myanmar's current NFA at -22.5 percent of GDP. It is assumed that with large development needs, Myanmar will increasingly rely on foreign saving over the next 20 years, pushing NFA to -40 percent of GDP.

[3] This estimate is based on the method set out in IMF Board Paper SM/14/334, which results in a reserve adequacy metric of 4 months of imports for a free floating exchange rate regime. However, given Myanmar's vulnerability to natural disasters and the fact that its exchange rate *de facto* is not fully flexible, the metric has been revised upwards.

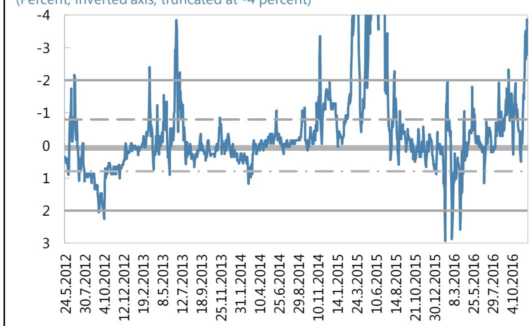
## Box 4. Myanmar: Recent Developments in the Foreign Exchange Markets

**Myanmar's exchange rate regime is underpinned by a daily foreign exchange auction**. The multi-price, two-way auction was designed to enable authorized dealers—mostly domestic banks—to bid for purchase and sale of FX in a competitive manner. The cut-off rate, which is intended to maximize market transactions and equilibrate demand and supply, is set in the early morning each day to serve as the reference rate for the day for the formal market—trade between authorized dealers, customers, and the CBM and the government. There is a trading band of 0.8 percent on either side of the reference rate.

**The auction has been under stress over the past two years and its function has been undermined by failures to adhere to the rules**. The auction served its purposes well in most of the period up to late 2014, when a strengthening of the U.S. dollar and adverse terms of trade shocks led the CBM to deviate from the well-designed auction rules. The reference rate has frequently deviated from the parallel market rate by more than 0.8 percent and the CBM has limited FX sales at the auction (see the chart below).[1] At deviations of such magnitude, authorized dealers that are bound by the band cannot compete with dealers in the parallel markets. Although technical difficulties contributed to some of the deviations, as parallel market rates have drifted away from the reference rate after it is set in the morning auction, heavy smoothing of the reference rate by the CBM has been the main reason for the deviations. Such smoothing occurs when the CBM does not determine the cut off rate based on broad demand and supply conditions. In such instances the CBM no longer makes the bid allocation on the basis of relative prices.

**Deviation Between Reference and Informal Market Rates**

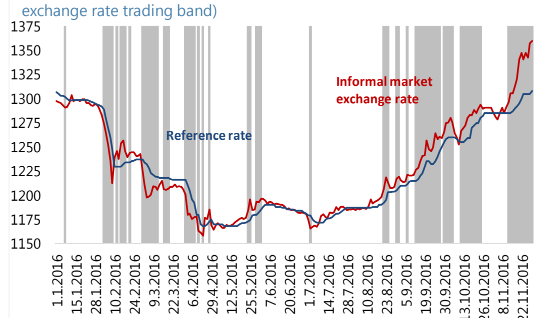
(Percent, inverted axis, truncated at -4 percent)



Sources: Authorities; and IMF staff calculations.

**Deviation between Reference and Informal Market Rates**

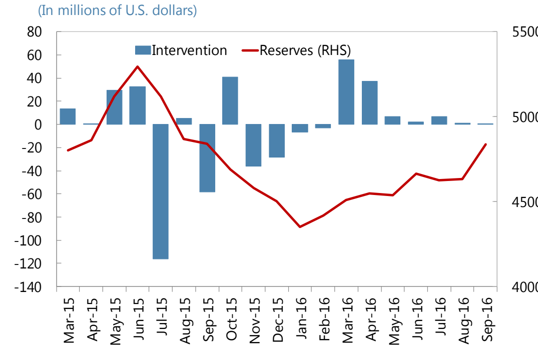
(Gray bars show days when the informal market rate is outside the exchange rate trading band)




Sources: Authorities and IMF staff calculations.

**CBM Net FX Intervention at Auction**

(In millions of U.S. dollars)




Sources: Central Bank of Myanmar; and IMF staff calculations.

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[1] However, staff has not identified at this time instances of shortages in the formal FX market.

## Box 5. Myanmar: Domestic Revenue Mobilization[1]

**Myanmar has one of the lowest tax revenue collections in the world with high potential to collect more**. Tax revenues total 7.5 percent of GDP, compared to the regional average of 14.6 percent. Less than half of the total revenue is derived from taxes. IMF estimates a ratio of 15 percent tax to GDP is needed to achieve sustainable growth. A revenue mobilization program began in 2012 based on IMF recommendations.

**The revenue reform momentum achieved by the Internal Revenue Department (IRD) is very encouraging**. Since 2012 tax revenues have increased on average by around 20 percent year-on-year. The new Large Taxpayer Office (LTO) became operational in 2014, and is adopting international good practice for a self-assessment system. Compliance by large taxpayers with core tax obligations (registration, on-time filing and payment) is nearing international good practice. Policy reforms include a separate excise tax (Specific Goods Tax) and some reform of the commercial tax; and the IRD headquarters was restructured to introduce some modern management and governance practices.

**Nevertheless, strategic revenue reforms of this nature need continuous and unwavering political commitment and support from key stakeholders including development partners**. Good progress has been made in formulating an updated reform plan, which forms the basis of communications and priorities for Phase II (2017-2022) of the reform program. Phase II needs to focus on:

- ***Modernizing the tax policy and legislation framework*** to increase certainty of tax liability and remove loopholes – start with income tax and a unified tax procedure law to streamline taxpayers' rights and obligations across all tax types.
- ***Extending the new processes*** and systems to medium size taxpayers.
- ***Introducing a new technology system***. Sufficient budget will be needed to allow this to happen.
- ***Recruiting experienced staff*** and developing existing staff to match the skills of professional tax advisors in the private sector.
- ***Developing an environment of integrity and good governance with modern human resource management practices*** to provide transparency of taxpayer rights and mechanisms that guarantee integrity.
- ***Building strong political support and stronger public understanding*** about the importance of taxation.

**Reforms in the Myanmar Customs Department (MCD) are in their early stages but some progress has been made**. MCD has progressively received more assistance from the IMF and some recommendations have been partly implemented. Greater recognition of the importance of the Strategic Plan and the operational plan would help strengthen reform traction in MCD. MCD should focus on: upgrading its capacity to scan the environment and develop and manage the reform program on its own, developing the MCD information and communication technology strategy; and implementing effective management systems and practices, including human resource management.

**The MCD will need ongoing external assistance and support**. This support will be most needed in: (i) consolidating and modernizing the customs legislation; (ii) introducing modern risk-based procedures; and (iii) reinforcing powers and capacities in the detection and investigation of commercial fraud. Procedures and processes will have to be reviewed, rationalized and simplified to reflect opportunities offered by new technology, e.g., the Myanmar Automated Customs Clearance System (MACCS).

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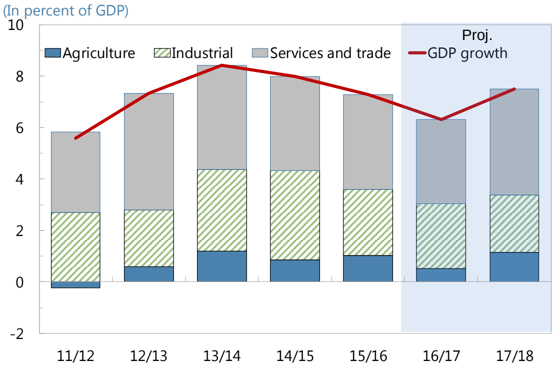
[1] Prepared by Margaret Cotton and Janos Nagy.

## Figure 1. Myanmar: Macroeconomic Developments

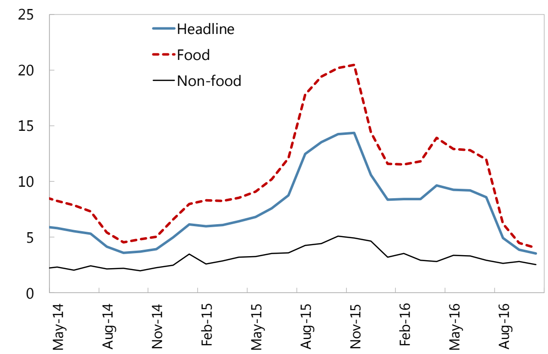
*Growth slowed in the first half of 2016/17, but is expected to recover over the remainder of the year.*

**GDP Growth**
(In percent of GDP)



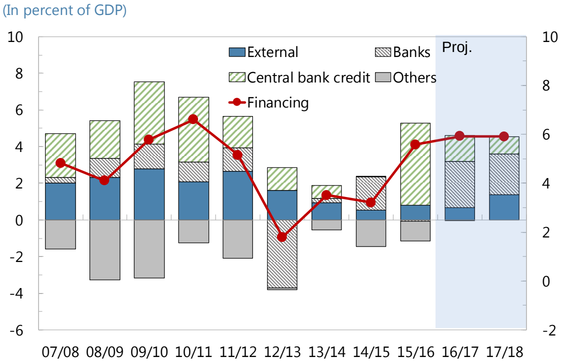

*Although inflation has fallen significantly, this largely reflects base effects from last year's floods and underlying inflation pressure remains strong.*

**Inflation**
(In percent change y/y)



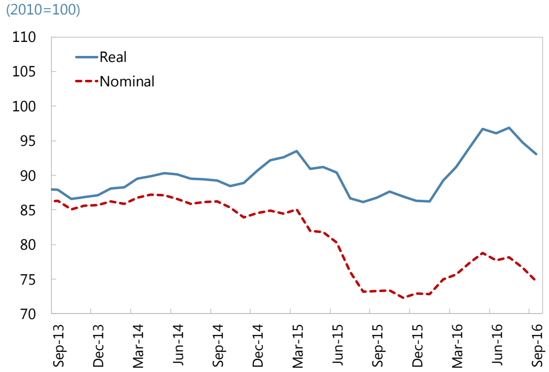

*Inflation is underpinned by CBM financing of the deficit, which increased significantly in 2015/16.*

**Fiscal Financing**
(In percent of GDP)



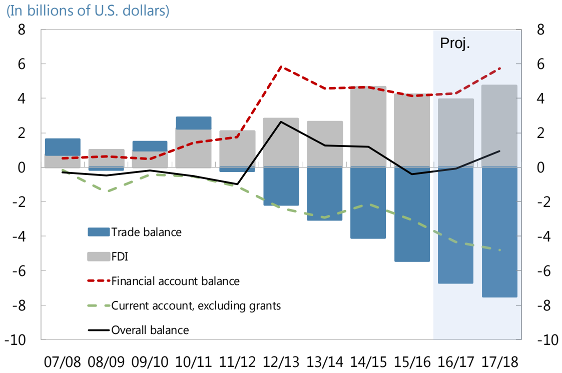

*Despite nominal depreciation, inflation has caused the real exchange rate to appreciate.*

**Effective Exchange Rates**
(2010=100)



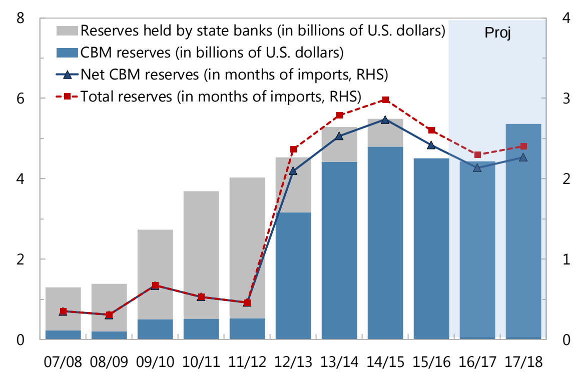

*Pent up demand for imports continues to widen the current account deficit, financed by FDI and other inflows…*

**Balance of Payments**
(In billions of U.S. dollars)




*… but these inflows are insufficient to allow CBM to accumulate international reserves in the short run.*

**Total and Net CBM Reserves**

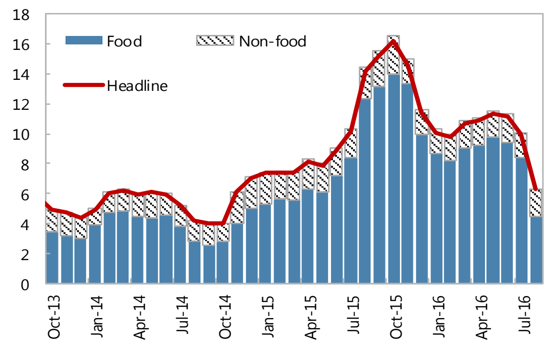



Sources: Authorities' data; and IMF staff calculations.

## Figure 2. Myanmar: Inflation and Real Sector Developments

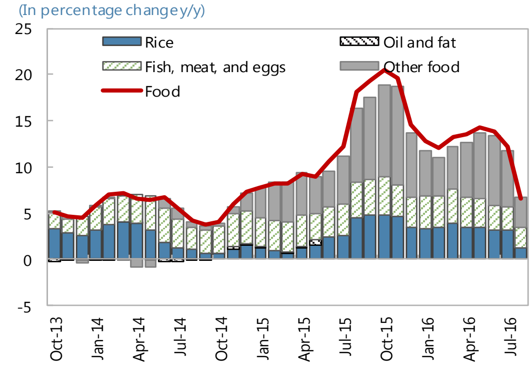
*Inflation was driven higher by food prices during last year's floods...*

**Inflation**
(In percent Change y/y)



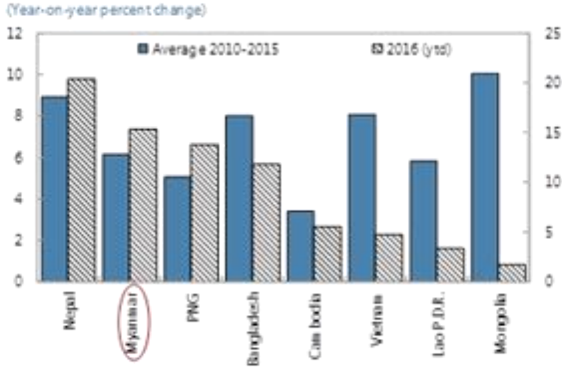

*...mostly reflecting "other" food prices (including vegetables) while rice prices remained relatively subdued.*

**Inflation in Food Items**
(In percentage change y/y)



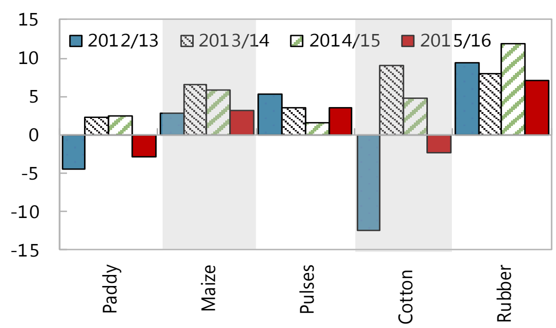

*Myanmar's inflation rate has been above regional peers.*

**Inflation**
(Year-on-year percent change)



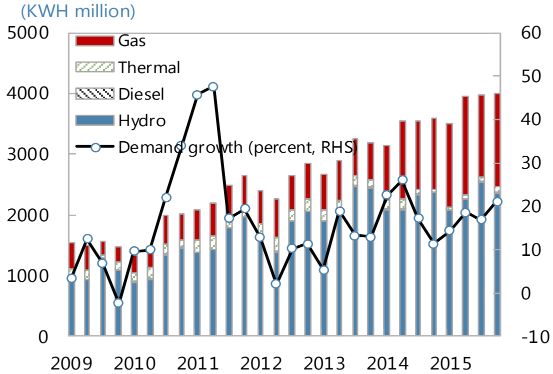

*Agricultural growth has been surprisingly weak, with no apparent rebound from the flood.*

**Principal Agricultural Crops**
(In percent change y/y)



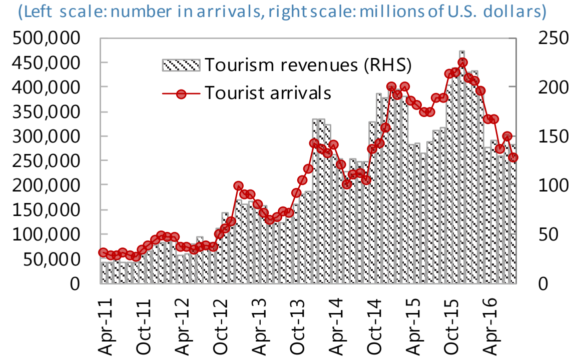

*Electricity demand and supply has continued to grow...*

**Electricity Supply by Source and Demand Growth**
(KWH million)




*... while the tourism sector has increased in recent years but remains small.*

**Tourist Arrivals and Tourism Receipts**
(Left scale: number in arrivals, right scale: millions of U.S. dollars)

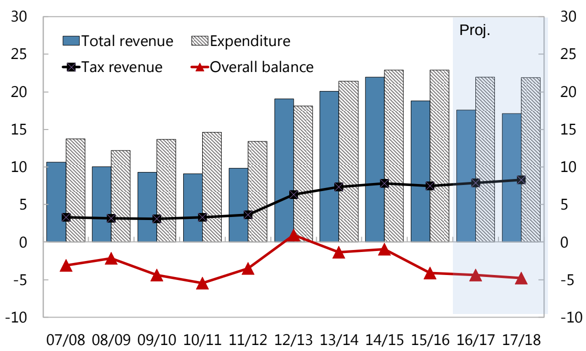



Sources: Authorities' data; and IMF staff calculations.

## Figure 3. Myanmar: Fiscal Sector Developments

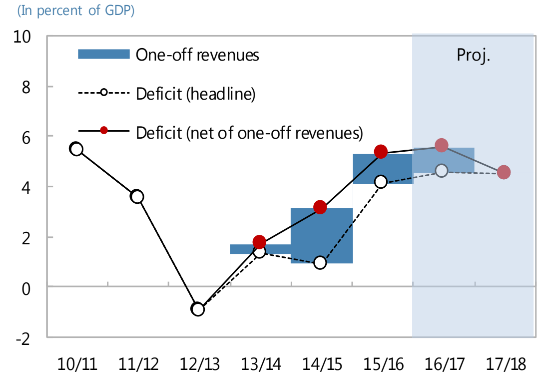
*The fiscal deficit increased in 2015/16, due to lower SEE revenues and increased spending...*

### Fiscal Revenue and Expenditure
(In percent of GDP)



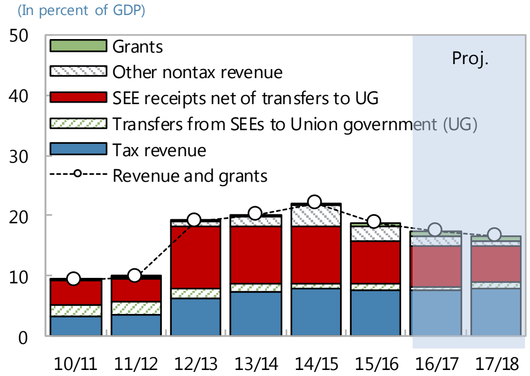

*... while one-off revenue items have recently been a significant factor keeping deficits contained.*

### Overall and Underlying Fiscal Deficit
(In percent of GDP)



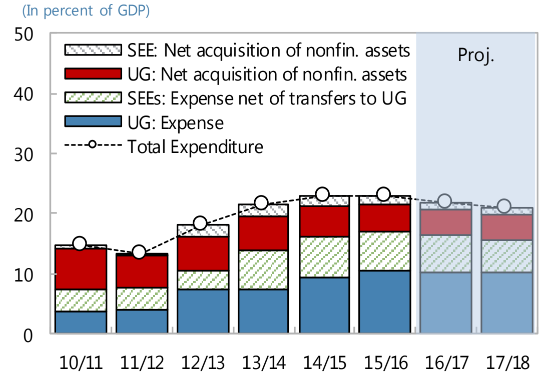

*SEE's account for around half of total revenue, but their performance has been negatively affected by commodity prices and inefficiencies.*

### Total Revenue
(In percent of GDP)



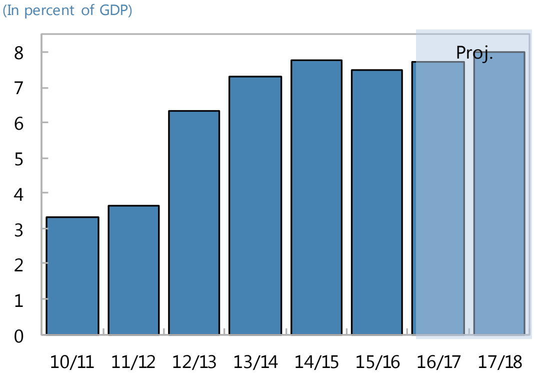

*Expenditure has risen to meet development needs, but spending growth is expected to remain in check to keep deficits contained.*

### Total Expenditure
(In percent of GDP)



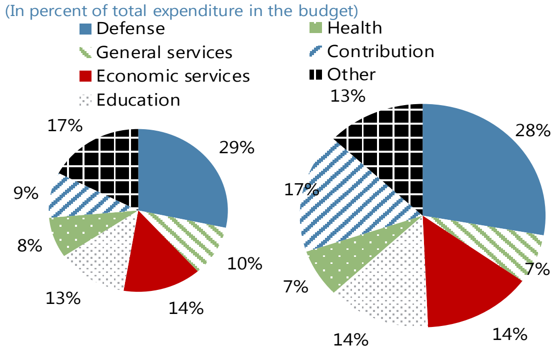

*Impressive progress in improving administration has led to a significant lift in tax revenues.*

### Tax Revenue
(In percent of GDP)




*While health and education spending has increased, further spending in these areas is needed to develop human capital.*

### Union Government: Expenditure Composition
(In percent of total expenditure in the budget)



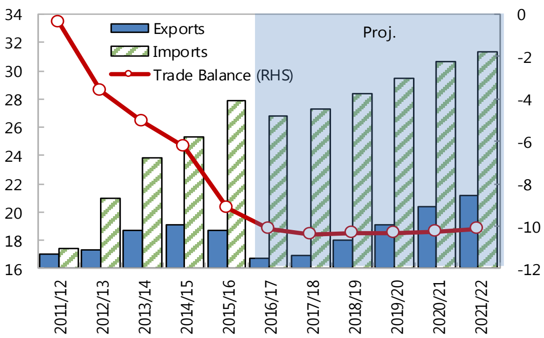

FY2013/14 : 7.9 trillion kyat FY2015/16 : 11.2 trillion kyat

Sources: Authorities' data; and IMF staff calculations.

## Figure 4. Myanmar: External Sector Developments

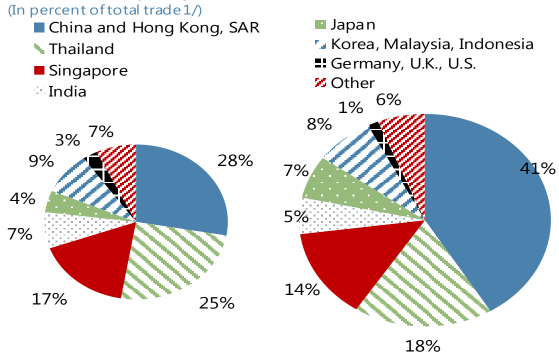
*The trade balance expected to stabilize, following rapid growth since liberalization …*

**Trade Balance, 2011/12-2021/22**
(In Percent of GDP)



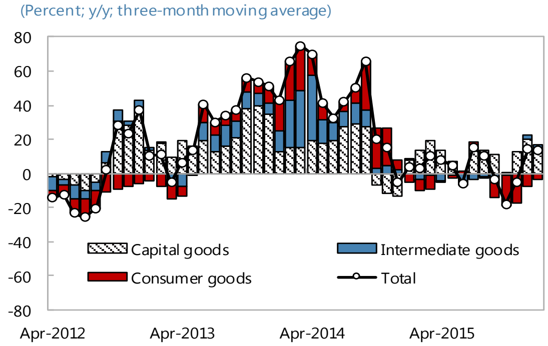

*…which has seen a strong increase in trade with China.*

**Total Trade by Major Partners, 2011/12 and 2015/16**
(In percent of total trade 1/)




*Goods import growth has been dominated by capital imports, while consumer goods imports fell over 2015 and 2016.*

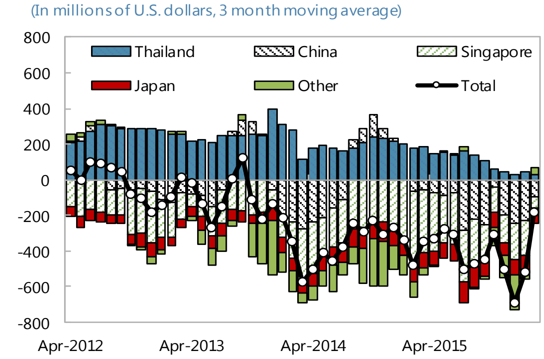
**Goods Imports 1/**
(Percent; y/y; three-month moving average)




1/ Based on the U.S. dollar.

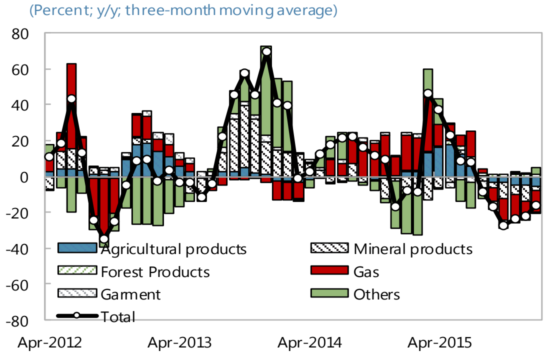
*Lower total imports have reduced the trade balance in recent months, while goods exports to Thailand have declined.*

**Trade Balance in Goods**
(In millions of U.S. dollars, 3 month moving average)




*Lower commodity prices have dampened gas and mineral exports…*

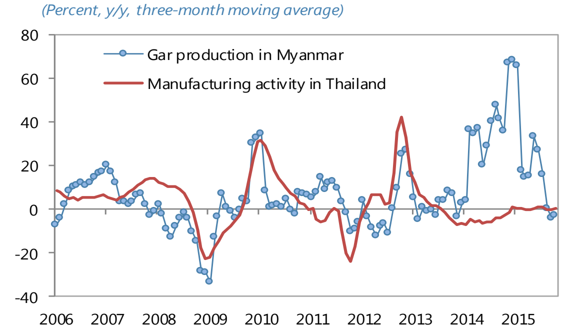
**Goods Exports 1/**
(Percent; y/y; three-month moving average)




1/ Based on the U.S. dollar.

*…while gas production has levelled off after two large fields have come on stream.*

**Gas Production in Myanmar and Manufacturing Activity in Thailand**
*(Percent, y/y, three-month moving average)*

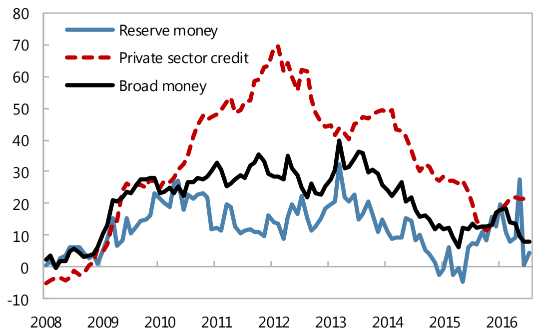



Sources: Authorities' data; and IMF staff calculations.

## Figure 5. Myanmar: Monetary Sector Developments

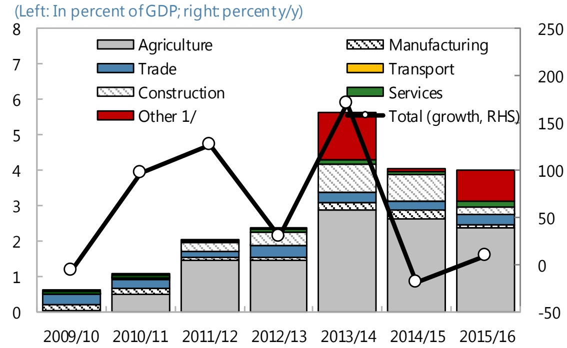
*Strong growth in money and credit aggregates has reflected credit deepening, but may also have raised credit risks.*

**Reserve and Broad Money, and Private Sector Credit**
(In percent change y/y; inflation-adjusted)




*While private banks' credit growth has been concentrated in trade and construction sectors, state owned banks have focused on agricultural lending.*

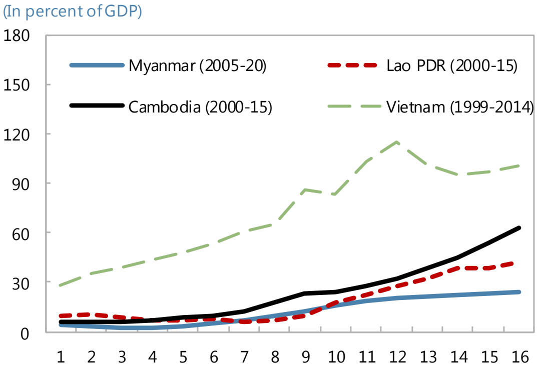
**State Banks: Credit by Sector and Growth 1/**
(Left: In percent of GDP; right: percent y/y)




1/ Other includes credits to local stores and specialized shops.

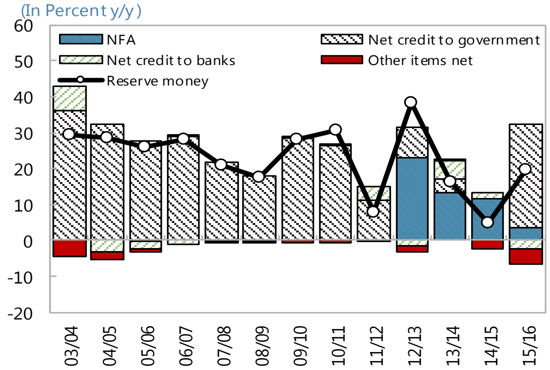
*In spite of rapid credit growth, financial deepening has been relatively modest with much scope for further financial sector growth.*

**Private Sector Credit**
(In percent of GDP)



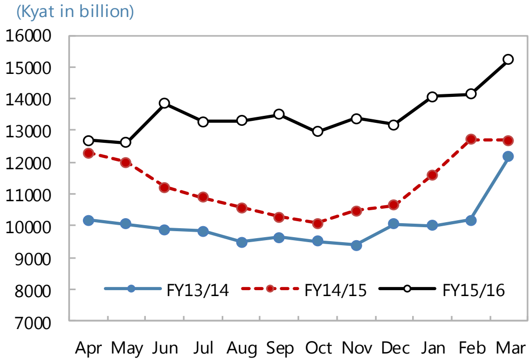

*Reserve money growth spiked in 2015/16 due to CBM financing of the fiscal deficit, while growth in recent years has also been driven by net foreign assets.*

**Reserve Money Growth**
(In Percent y/y)



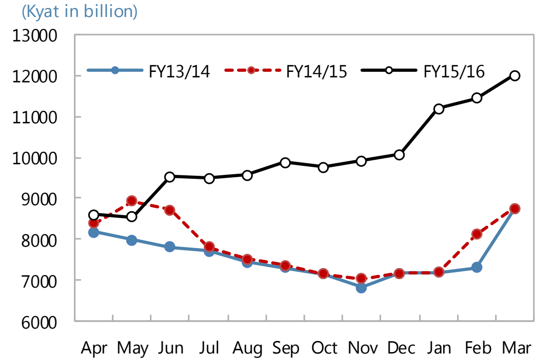

*Reserve money has tended to increase towards the end of the fiscal year…*

**Reserve Money**
(Kyat in billion)




*…reflecting the flow of government financing.*

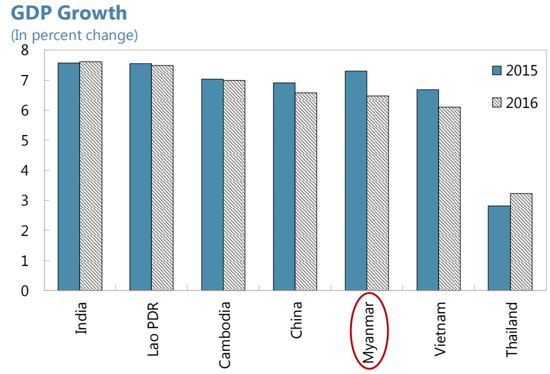
**Credit to Government**
(Kyat in billion)




Sources: Authorities' data; and IMF staff calculations.

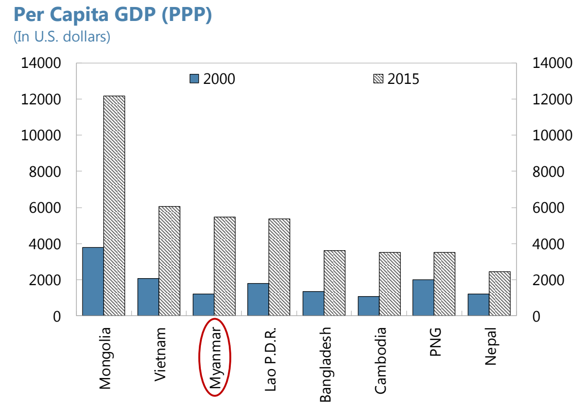
## Figure 6. Myanmar and Its Peers: Selected Indicators

*While growth slowed in 2016, it remains robust relative to regional peers.*

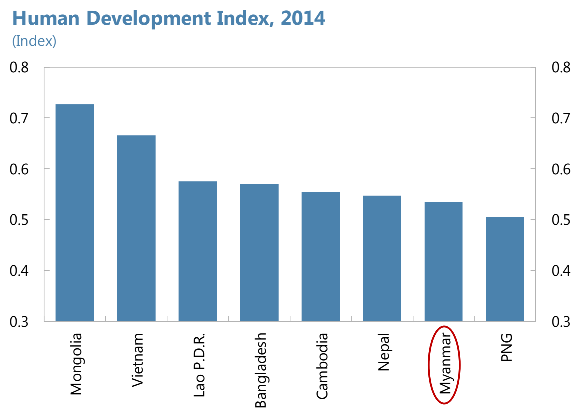



Sources: Data provided by Myanmar authorities; and IMF staff estimates.

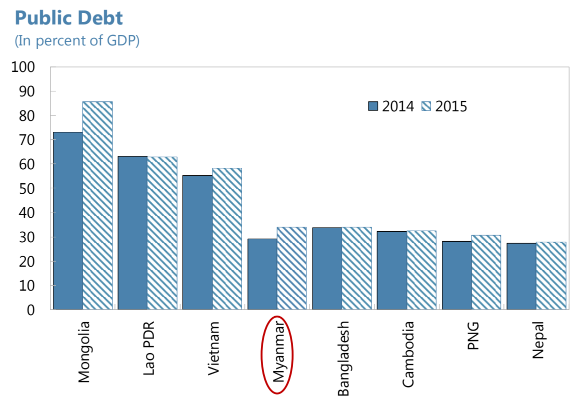
*However, living standards are among the lowest in the region.*



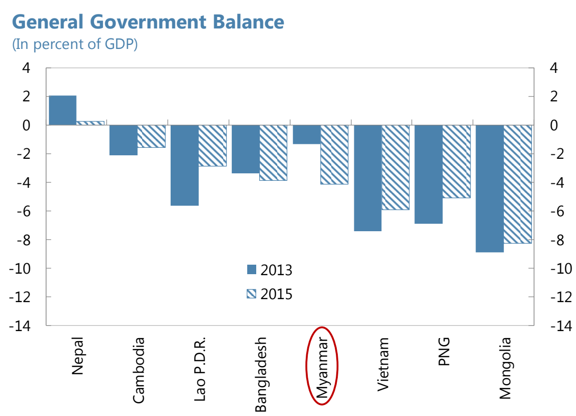

*Social well-being is below that of regional peers, Myanmar ranked 148th out of 188 countries.*



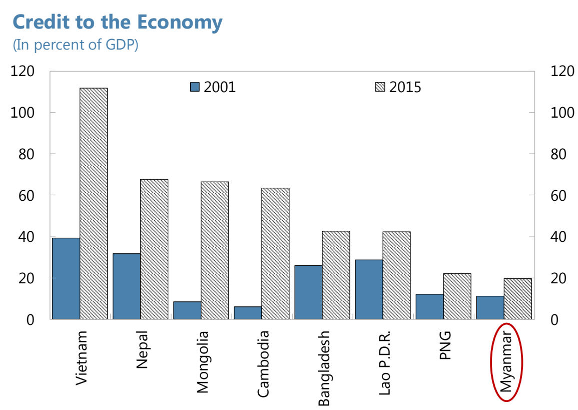

*Public debt remains low compared with some regional peers…*




*..and fiscal deficits are moderate.*




*Despite strong credit growth, credit remains low as a percent of GDP.*




Sources: Authorities' data; and IMF staff calculations.

## Table 1. Myanmar: Selected Economic Indicators, 2012/13–2018/19 1/

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|---|
| | | | | Est. | Proj. | Proj. | Proj. |
| **Output and prices** | | | | (Percent change) | | | |
| Real GDP 2/ | 7.3 | 8.4 | 8.0 | 7.3 | 6.3 | 7.5 | 7.6 |
| CPI (end-period; base year=2006 ) | 4.7 | 6.3 | 7.4 | 10.7 | 10.4 | 8.9 | 7.7 |
| CPI (end-period; base year=2012 ) | | | 6.1 | 8.5 | 8.3 | 7.1 | 6.5 |
| CPI (period average; base year=2006) | 2.8 | 5.7 | 5.9 | 11.4 | 9.0 | 8.7 | 7.9 |
| CPI (period average; base year=2012) | | | 5.1 | 10.0 | 7.0 | 6.9 | 6.7 |
| **Consolidated public sector 3/** | | | | (In percent of GDP) | | | |
| Total revenue | 19.0 | 20.1 | 21.9 | 18.8 | 17.2 | 16.5 | 16.8 |
| Union government | 8.7 | 10.0 | 12.1 | 10.8 | 10.0 | 9.6 | 9.9 |
| *Of which* : Tax revenue | 6.3 | 7.3 | 7.8 | 7.5 | 7.7 | 8.0 | 8.2 |
| SEE receipts | 10.3 | 9.7 | 9.5 | 7.2 | 6.6 | 6.2 | 6.2 |
| Grants | 0.1 | 0.3 | 0.3 | 0.6 | 0.6 | 0.7 | 0.7 |
| Total expenditure | 18.1 | 21.4 | 22.9 | 22.9 | 21.8 | 21.1 | 21.3 |
| Expense | 10.5 | 13.8 | 16.1 | 16.9 | 16.5 | 15.7 | 15.8 |
| Net acquisition of nonfinancial assets | 7.6 | 7.6 | 6.8 | 6.0 | 5.3 | 5.4 | 5.5 |
| Gross operating balance | 8.5 | 6.3 | 5.9 | 1.9 | 0.8 | 0.8 | 1.0 |
| Net lending (+)/borrowing (-) | 0.9 | -1.3 | -0.9 | -4.1 | -4.6 | -4.5 | -4.5 |
| Underlying net lending (+)/borrowing (-) 4/ | 0.9 | -1.7 | -3.1 | -5.3 | -5.6 | -4.5 | -4.5 |
| Domestic public debt | 16.6 | 15.4 | 15.3 | 18.1 | 19.7 | 20.2 | 20.6 |
| **Money and credit** | | | | (Percent change) | | | |
| Reserve money | 38.5 | 16.3 | 4.6 | 19.6 | 14.5 | 13.5 | 12.5 |
| Broad money | 46.6 | 31.7 | 17.6 | 26.3 | 24.2 | 21.8 | 21.0 |
| Domestic credit | 5.1 | 24.6 | 22.9 | 32.3 | 27.7 | 23.6 | 22.1 |
| Private sector | 50.5 | 52.5 | 36.5 | 34.3 | 28.5 | 28.4 | 26.1 |
| **Balance of payments** | | | | (In percent of GDP) | | | |
| Current account balance | -4.0 | -4.9 | -3.3 | -5.2 | -6.5 | -6.6 | -6.7 |
| Trade balance | -3.6 | -5.1 | -6.3 | -9.1 | -10.1 | -10.4 | -10.4 |
| Financial account | 9.8 | 7.6 | 7.1 | 7.0 | 6.4 | 7.9 | 8.1 |
| Foreign direct investment, net | 4.7 | 4.4 | 7.1 | 7.1 | 5.9 | 6.5 | 6.7 |
| Overall balance | 4.4 | 2.1 | 1.8 | -0.7 | -0.1 | 1.3 | 1.4 |
| CBM reserves (gross) | | | | | | | |
| In millions of U.S. dollars | 3,156 | 4,419 | 4,803 | 4,511 | 4,436 | 5,360 | 6,476 |
| In months of total imports | 2.4 | 2.8 | 3.0 | 2.6 | 2.3 | 2.4 | 2.5 |
| Total external debt (billions of U.S. dollars) | 13.7 | 10.2 | 8.8 | 9.6 | 9.9 | 10.9 | 12.0 |
| Total external debt (percent of GDP) | 23.0 | 17.0 | 13.9 | 15.9 | 15.4 | 15.5 | 15.4 |
| Exchange rates (kyat/$, end of period) | | | | | | | |
| Official exchange rate | 879.5 | 965.0 | 1,027.0 | 1,216.0 | … | … | … |
| Parallel rate | 878.0 | 964.7 | 1,085.5 | 1,200.5 | … | … | … |
| **Memorandum items:** | | | | | | | |
| GDP (billions of kyats) | 51,259 | 58,012 | 65,262 | 72,780 | 83,479 | 96,479 | 111,395 |

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ Fiscal year from April 1 to March 31.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises.
4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.

## Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2012/13–2018/19

(Consolidated accounts)

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|---|---|
| | | Act. | | Staff est. | Amend. budget | Staff proj. | Staff proj. | |
| | | | | (In billions of kyat) | | | | |
| Revenue and grants | 9,754 | 11,654 | 14,320 | 13,684 | 14,102 | 14,397 | 15,952 | 18,743 |
| Tax revenue | 3,244 | 4,236 | 5,076 | 5,441 | 5,367 | 6,450 | 7,695 | 9,163 |
| Private sector | 1,942 | 3,214 | 3,661 | 4,335 | 4,554 | 5,711 | 6,527 | 7,720 |
| SEEs | 1,302 | 1,022 | 1,415 | 1,107 | 813 | 739 | 1,168 | 1,443 |
| Profit transfers (from SEEs to Union Gvt.) | 774 | 746 | 538 | 802 | 572 | 412 | 830 | 1,066 |
| SEE receipts (excluding contributions to Union Gvt. and grants) 1/ | 5,258 | 5,646 | 6,179 | 5,207 | 6,310 | 5,505 | 5,986 | 6,851 |
| Other nontax revenue 2/ | 453 | 880 | 2,323 | 1,773 | 1,515 | 1,515 | 765 | 883 |
| Grants | 26 | 146 | 204 | 461 | 339 | 516 | 675 | 780 |
| Expenditure | 9,270 | 12,435 | 14,932 | 16,682 | 18,171 | 18,207 | 20,324 | 23,723 |
| Expense | 5,383 | 8,000 | 10,483 | 12,290 | 13,722 | 13,758 | 15,134 | 17,564 |
| Union Government | 3,844 | 4,307 | 6,103 | 7,639 | 8,424 | 8,424 | 9,835 | 11,654 |
| SEEs (before contributions to Union Gvt.) 1/ | 1,539 | 3,693 | 4,380 | 4,651 | 5,298 | 5,334 | 5,299 | 5,910 |
| Net acquisition of nonfinancial assets | 3,887 | 4,435 | 4,449 | 4,392 | 4,449 | 4,449 | 5,190 | 6,159 |
| Net lending (+)/borrowing (-) | 484 | -781 | -612 | -2,998 | -4,068 | -3,809 | -4,372 | -4,980 |
| Financing | -484 | 781 | 612 | 2,998 | … | 3,809 | 4,372 | 4,980 |
| Domestic (net) | -1,304 | 239 | 258 | 2,410 | … | 3,255 | 3,036 | 3,419 |
| *Of which:* CBM | 645 | 408 | 18 | 3,257 | … | 1,200 | 900 | 700 |
| External (net) | 820 | 542 | 355 | 588 | … | 554 | 1,335 | 1,561 |
| | | | | (In percent of GDP) | | | | |
| Revenue and grants | 19.0 | 20.1 | 21.9 | 18.8 | 16.9 | 17.2 | 16.5 | 16.8 |
| Tax revenue | 6.3 | 7.3 | 7.8 | 7.5 | 6.4 | 7.7 | 8.0 | 8.2 |
| Private sector | 3.8 | 5.5 | 5.6 | 6.0 | 5.5 | 6.8 | 6.8 | 6.9 |
| SEEs | 2.5 | 1.8 | 2.2 | 1.5 | 1.0 | 0.9 | 1.2 | 1.3 |
| Profit transfers (from SEEs to Union Gvt.) | 1.5 | 1.3 | 0.8 | 1.1 | 0.7 | 0.5 | 0.9 | 1.0 |
| SEE receipts (excluding contributions to Union Gvt. and grants) 1/ | 10.3 | 9.7 | 9.5 | 7.2 | 7.6 | 6.6 | 6.2 | 6.2 |
| Other nontax revenue 2/ | 0.9 | 1.5 | 3.6 | 2.4 | 1.8 | 1.8 | 0.8 | 0.8 |
| Grants | 0.1 | 0.3 | 0.3 | 0.6 | 0.4 | 0.6 | 0.7 | 0.7 |
| Expenditure | 18.1 | 21.4 | 22.9 | 22.9 | 21.8 | 21.8 | 21.1 | 21.3 |
| Expense | 10.5 | 13.8 | 16.1 | 16.9 | 16.4 | 16.5 | 15.7 | 15.8 |
| Union Government | 7.5 | 7.4 | 9.4 | 10.5 | 10.1 | 10.1 | 10.2 | 10.5 |
| SEEs (before contributions to Union Gvt.) 1/ | 3.0 | 6.4 | 6.7 | 6.4 | 6.3 | 6.4 | 5.5 | 5.3 |
| Net acquisition of nonfinancial assets | 7.6 | 7.6 | 6.8 | 6.0 | 5.3 | 5.3 | 5.4 | 5.5 |
| Union Government | 5.7 | 5.7 | 5.3 | 4.7 | 4.1 | 4.1 | 4.2 | 4.3 |
| SEEs | 1.9 | 2.0 | 1.5 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Net lending (+)/borrowing (-) | 0.9 | -1.3 | -0.9 | -4.1 | -4.9 | -4.6 | -4.5 | -4.5 |
| Financing | -0.9 | 1.3 | 0.9 | 4.1 | … | 4.6 | 4.5 | 4.5 |
| Domestic (net) | -2.5 | 0.4 | 0.4 | 3.3 | … | 3.9 | 3.1 | 3.1 |
| *Of which:* CBM | 1.3 | 0.7 | 0.0 | 4.5 | … | 1.4 | 0.9 | 0.6 |
| External (net) | 1.6 | 0.9 | 0.5 | 0.8 | … | 0.7 | 1.4 | 1.4 |
| **Memorandum items:** | | | | (In percent of GDP, unless otherwise indicated) | | | | |
| Primary balance | 2.3 | 0.0 | 0.4 | -2.9 | -3.5 | -3.2 | -2.3 | -2.1 |
| Underlying net lending (+)/borrowing (-) 3/ | 0.9 | -1.7 | -3.1 | -5.3 | -4.9 | -5.6 | -4.5 | -4.5 |
| Economic breakdown of Union Gvt. expenditure 4/ | 13.2 | 13.1 | 14.6 | 15.2 | 14.2 | 14.2 | 14.3 | 14.8 |
| Expenses | 7.5 | 7.4 | 9.4 | 10.5 | 10.1 | 10.1 | 10.2 | 10.5 |
| Wages and salaries 5/ | 2.1 | 2.6 | 2.6 | 3.3 | 3.0 | 3.0 | 3.0 | 3.0 |
| Contributions 6/ | 1.1 | 1.0 | 2.6 | 2.7 | 2.5 | 2.5 | 2.2 | 2.2 |
| Other expenditures | 4.3 | 3.8 | 4.1 | 4.5 | 4.6 | 4.6 | 5.0 | 5.3 |
| Net acquisition of nonfinancial assets | 5.7 | 5.7 | 5.3 | 4.7 | 4.1 | 4.1 | 4.2 | 4.3 |
| Functional breakdown of Union Gvt. expenditure 4/ | 13.2 | 13.1 | 14.6 | 15.2 | 14.2 | 14.2 | 14.3 | 14.8 |
| Economic services | 2.6 | 2.3 | 2.3 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 |
| Social services | 3.6 | 3.3 | 3.5 | 4.1 | 3.9 | 3.9 | 4.2 | 4.6 |
| *Of which:* education | 1.5 | 1.7 | 1.9 | 2.1 | 1.9 | 1.9 | 2.1 | 2.3 |
| *Of which:* health | 1.4 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.3 |
| Defense | 4.1 | 3.8 | 3.8 | 4.3 | 3.5 | 3.5 | 3.3 | 3.1 |
| Interest, subsidies and transfers, reserve fund | 2.5 | 2.3 | 3.9 | 3.7 | 3.9 | 3.8 | 4.1 | 4.3 |
| Other expenditures | 0.5 | 1.3 | 1.1 | 0.8 | 0.6 | 0.8 | 0.5 | 0.6 |
| Public debt | 40.1 | 32.3 | 29.2 | 34.1 | … | 35.1 | 35.7 | 36.0 |
| GDP (in billions of kyat) | 51,259 | 58,012 | 65,262 | 72,780 | 83,479 | 83,479 | 96,479 | 111,395 |

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ State economic enterprises' (SEEs) contributions comprise profit transfers, income and commercial taxes paid to the Union Government (UG).
2/ Includes proceeds from sales of telecom licenses; and signature bonuses from gas production sharing contracts for on- and off-shore blocks.
3/ Excludes one-off receipts from telecom licenses and gas contracts signature bonuses.
4/ Data on a comparable breakdown for SEEs is not available.
5/ Excludes defense wages and salaries.
6/ Includes mostly grants to subnational governments.

## Table 3. Myanmar: Balance of Payments, 2012/13–2018/19

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 Est. | 2016/17 Proj. | 2017/18 Proj. | 2018/19 Proj. |
|---|---|---|---|---|---|---|---|
| | | | | (In millions of U.S. dollars) | | | |
| **Current account** | -2,391 | -2,936 | -2,139 | -3,067 | -4,342 | -4,803 | -5,329 |
| Trade balance | -2,167 | -3,053 | -4,108 | -5,441 | -6,718 | -7,513 | -8,293 |
| Exports, fob | 10,341 | 11,264 | 12,524 | 11,137 | 11,066 | 12,208 | 14,431 |
| *Of which:* Gas | 3,666 | 3,299 | 3,707 | 2,514 | 1,787 | 1,859 | 1,944 |
| Imports, mostly cif | -12,508 | -14,317 | -16,633 | -16,578 | -17,784 | -19,721 | -22,724 |
| Nonfactor services, net | -75 | 193 | 1,213 | 1,002 | 1,128 | 1,287 | 1,425 |
| Income, net | -681 | -1,475 | -1,645 | -1,127 | -1,424 | -1,571 | -1,758 |
| *Of which:* Interest due | -94 | -220 | -391 | -363 | -335 | -350 | -355 |
| Transfers, net | 533 | 1,400 | 2,401 | 2,498 | 2,672 | 2,995 | 3,298 |
| Official | 28 | 205 | 318 | 384 | 410 | 507 | 560 |
| Private | 504 | 1,195 | 2,083 | 2,114 | 2,262 | 2,488 | 2,737 |
| **Capital and financial account** | 5,851 | 4,580 | 4,651 | 4,154 | 4,268 | 5,726 | 6,445 |
| Direct investment, net | 2,800 | 2,621 | 4,632 | 4,212 | 3,934 | 4,725 | 5,323 |
| Other investment | 926 | 556 | 319 | 442 | 334 | 1,002 | 1,122 |
| MLT debt disbursements | 1,085 | 761 | 539 | 786 | 805 | 1,499 | 1,659 |
| Repayments due | -159 | -206 | -220 | -344 | -471 | -497 | -537 |
| Other flows | 2,125 | 1,404 | -300 | -500 | 0 | 0 | 0 |
| **Errors and omissions** | -835 | -381 | -1,343 | -1,506 | 0 | 0 | 0 |
| **Overall balance** | 2,625 | 1,263 | 1,169 | -419 | -74 | 924 | 1,116 |
| **Change in gross official reserves (increase: -)** | -2,625 | -1,263 | -1,169 | 419 | 74 | -924 | -1,116 |
| | | | | (In percent of GDP) | | | |
| **Current account** | -4.0 | -4.9 | -3.3 | -5.2 | -6.5 | -6.6 | -6.7 |
| Trade balance | -3.6 | -5.1 | -6.3 | -9.1 | -10.1 | -10.4 | -10.4 |
| Exports, fob | 17.3 | 18.7 | 19.1 | 18.7 | 16.7 | 16.9 | 18.0 |
| *Of which:* Gas | 6.1 | 5.5 | 5.7 | 4.2 | 2.7 | 2.6 | 2.4 |
| Imports, mostly cif | -20.9 | -23.8 | -25.4 | -27.8 | -26.8 | -27.3 | -28.4 |
| Nonfactor services, net | -0.1 | 0.3 | 1.8 | 1.7 | 1.7 | 1.8 | 1.8 |
| Income, net | -1.1 | -2.5 | -2.5 | -1.9 | -2.1 | -2.2 | -2.2 |
| *Of which:* Interest due | -0.2 | -0.4 | -0.6 | -0.6 | -0.5 | -0.5 | -0.4 |
| Transfers, net | 0.9 | 2.3 | 3.7 | 4.2 | 4.0 | 4.1 | 4.1 |
| Official | 0.0 | 0.3 | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 |
| Private | 0.8 | 2.0 | 3.2 | 3.6 | 3.4 | 3.4 | 3.4 |
| **Capital and financial account** | 9.8 | 7.6 | 7.1 | 7.0 | 6.4 | 7.9 | 8.1 |
| Direct investment, net | 4.7 | 4.4 | 7.1 | 7.1 | 5.9 | 6.5 | 6.7 |
| Other investment | 1.5 | 0.9 | 0.5 | 0.7 | 0.5 | 1.4 | 1.4 |
| MLT debt disbursements | 1.8 | 1.3 | 0.8 | 1.3 | 1.2 | 2.1 | 2.1 |
| Repayments due | -0.3 | -0.3 | -0.3 | -0.6 | -0.7 | -0.7 | -0.7 |
| Other flows | 3.6 | 2.3 | -0.5 | -0.8 | 0.0 | 0.0 | 0.0 |
| **Errors and omissions** | -1.4 | -0.6 | -2.0 | -2.5 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | 4.4 | 2.1 | 1.8 | -0.7 | -0.1 | 1.3 | 1.4 |
| **Change in gross official reserves (increase: -)** | -4.4 | -2.1 | -1.8 | 0.7 | 0.1 | -1.3 | -1.4 |
| **Memorandum items:** | | | | | | | |
| Gross CBM reserves (US$ millions) | 3,156 | 4,419 | 4,803 | 4,511 | 4,436 | 5,360 | 6,476 |
| In months of prospective GNFS imports | 2.4 | 2.8 | 3.0 | 2.6 | 2.3 | 2.4 | 2.5 |
| Gas export volume (percent change) | -2.2 | -6.7 | 25.4 | 2.6 | 3.0 | 5.0 | 5.0 |
| Other exports volume (percent change) | -1.5 | 21.3 | 13.7 | 6.3 | 10.0 | 10.3 | 19.8 |
| Import volume (percent change) | 19.3 | 15.9 | 17.9 | 2.8 | 9.2 | 10.1 | 14.7 |
| Public external debt (in percent of GDP) | 23.0 | 17.0 | 13.9 | 15.9 | 15.4 | 15.5 | 15.4 |
| External debt service due (in percent of GNFS exports) | 2 | 3 | 3 | 4 | 5 | 4 | 4 |
| Official exchange rate (kyat/US$, eop) | 880 | 965 | 1,027 | 1,216 | .. | .. | |

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

## Table 4. Myanmar: Monetary Survey, 2012/13–2018/19 1/ 2/

(In billions of kyat at end-period, unless otherwise indicated)

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|---|
| | | | | | Proj. | | |
| **CENTRAL BANK OF MYANMAR (CBM)** | | | | | | | |
| **Net foreign assets** | **1,731** | **3,127** | **4,530** | **4,961** | **4,149** | **5,613** | **7,415** |
| Foreign assets | 2,515 | 4,288 | 5,279 | 5,850 | 5,105 | 6,616 | 8,457 |
| Foreign liabilities | 784 | 1,161 | 749 | 889 | 956 | 1,002 | 1,041 |
| **Net domestic assets** | **8,725** | **9,036** | **8,195** | **10,255** | **13,267** | **14,146** | **14,808** |
| Domestic credit | 9,017 | 9,635 | 9,341 | 12,837 | 15,850 | 16,728 | 17,391 |
| Claims on central government (net) | 8,318 | 8,726 | 8,744 | 12,001 | 13,201 | 14,101 | 14,801 |
| Claims on deposit money banks (net) | 699 | 909 | 597 | 385 | 2,648 | 2,627 | 2,589 |
| Other | 0 | 0 | 0 | 451 | 0 | 0 | 0 |
| Other items net | -293 | -599 | -1,147 | -2,583 | -2,583 | -2,583 | -2,583 |
| **Reserve money** | **10,456** | **12,163** | **12,725** | **15,215** | **17,416** | **19,759** | **22,223** |
| Currency in circulation | 7,426 | 8,965 | 10,202 | 11,771 | 13,474 | 15,287 | 17,193 |
| Deposits | 3,030 | 3,199 | 2,523 | 3,444 | 3,942 | 4,472 | 5,030 |
| **MONETARY SURVEY** | | | | | | | |
| **Net foreign assets** | **3,660** | **6,629** | **7,681** | **8,849** | **9,924** | **11,388** | **13,190** |
| Foreign assets | 7,218 | 10,819 | 11,514 | 13,014 | 12,680 | 14,191 | 16,032 |
| Foreign liabilities | 3,557 | 4,191 | 3,833 | 4,166 | 2,756 | 2,802 | 2,841 |
| **Net domestic assets** | **14,768** | **17,635** | **20,844** | **27,191** | **34,838** | **43,143** | **52,781** |
| Domestic credit | 13,611 | 16,958 | 20,843 | 27,583 | 35,230 | 43,536 | 53,173 |
| Net claims on government | 8,427 | 8,979 | 10,188 | 13,395 | 16,695 | 19,744 | 23,178 |
| CBM | 8,318 | 8,726 | 8,744 | 12,001 | 13,201 | 14,101 | 14,801 |
| Deposit money banks | 109 | 253 | 1,443 | 1,393 | 3,493 | 5,642 | 8,377 |
| Credit to the economy | 5,184 | 7,979 | 10,656 | 14,188 | 18,536 | 23,792 | 29,995 |
| Private sector | 4,900 | 7,471 | 10,199 | 13,699 | 17,609 | 22,602 | 28,495 |
| Other | 284 | 508 | 457 | 489 | 927 | 1,190 | 1,500 |
| Other items net | 1,157 | 677 | 1 | -392 | -392 | -392 | -392 |
| **Broad money** | **18,428** | **24,264** | **28,524** | **36,040** | **44,762** | **54,532** | **65,972** |
| Currency outside banks | 6,695 | 7,967 | 8,605 | 10,157 | 11,638 | 14,178 | 17,153 |
| Deposits | 11,733 | 16,297 | 19,920 | 25,883 | 33,124 | 40,354 | 48,819 |
| **MEMORANDUM ITEMS** | | | | | | | |
| Money multiplier | 1.8 | 2.0 | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 |
| Velocity | 2.8 | 2.4 | 2.3 | 2.0 | 1.9 | 1.8 | 1.7 |
| Reserve money (y/y percent change) | 38.5 | 16.3 | 4.6 | 19.6 | 14.5 | 13.5 | 12.5 |
| Broad money (y/y percent change) | 46.6 | 31.7 | 17.6 | 26.3 | 24.2 | 21.8 | 21.0 |
| Broad money (in percent of GDP) | 36.0 | 41.8 | 43.7 | 49.5 | 53.6 | 56.5 | 59.2 |
| Credit to private sector (y/y percent change) | 50.5 | 52.5 | 36.5 | 34.3 | 28.5 | 28.4 | 26.1 |
| Credit to private sector (in percent of GDP) | 9.6 | 12.9 | 15.6 | 18.8 | 21.1 | 23.4 | 25.6 |
| Deposits (in percent of GDP) | 22.9 | 28.1 | 30.5 | 35.6 | 39.7 | 41.8 | 43.8 |
| Credit to economy/deposits (in percent) | 44.2 | 49.0 | 53.5 | 54.8 | 56.0 | 59.0 | 61.4 |
| Exchange rate (kyat/$, end of period) | 880 | 965 | 1,035 | 1,211 | 1,301 | 1,365 | 1,418 |
| Nominal GDP (in billions of kyat) | 51,259 | 58,012 | 65,262 | 72,780 | 83,479 | 96,479 | 111,395 |

Sources: Central Bank of Myanmar; and IMF staff estimates and projections.

1/ The fiscal year ends on March 31.

2/ From 2012/13, foreign assets and liabilites are valued at the reference rate (before: at official exchange rate).

## Table 5. Myanmar: Medium-Term Projections, 2012/13–2021/22 1/

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 Est. | 2016/17 Proj. | 2017/18 Proj. | 2018/19 Proj. | 2019/20 Proj. | 2020/21 Proj. | 2021/22 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Output and prices** | | | | | (Percent change) | | | | | |
| Real GDP (authorities) 2/ | 7.3 | 8.4 | 8.0 | 7.3 | ... | ... | ... | ... | ... | ... |
| Real GDP (staff working estimates) | 7.3 | 8.4 | 8.0 | 7.3 | 6.3 | 7.5 | 7.6 | 7.5 | 7.5 | 7.5 |
| CPI (end-period; base year=2006 ) | 4.7 | 6.3 | 7.4 | 10.7 | 10.4 | 8.9 | 7.7 | 7.4 | 7.4 | 6.9 |
| CPI (end-period; base year=2012 ) | | | 6.1 | 8.5 | 8.3 | 7.1 | 6.5 | 6.3 | 6.2 | 6.0 |
| CPI (period average; base year=2006) | 2.8 | 5.7 | 5.9 | 11.4 | 9.0 | 8.7 | 7.9 | 7.8 | 7.3 | 7.3 |
| CPI (period average; base year=2012) | | | 5.1 | 10.0 | 7.0 | 6.9 | 6.7 | 6.5 | 6.4 | 6.3 |
| **Consolidated public sector 3/** | | | | | (In percent of GDP) | | | | | |
| Total revenue | 19.0 | 20.1 | 21.9 | 18.8 | 17.2 | 16.5 | 16.8 | 17.1 | 17.3 | 17.4 |
| Union government | 8.7 | 10.0 | 12.1 | 10.8 | 10.0 | 9.6 | 9.9 | 10.2 | 10.5 | 10.7 |
| *Of which* : Transfers from SEEs to Union government | 1.5 | 1.3 | 0.8 | 1.1 | 0.5 | 0.9 | 1.0 | 1.0 | 1.0 | 1.1 |
| *Of which* : Tax revenue | 6.3 | 7.3 | 7.8 | 7.5 | 7.7 | 8.0 | 8.2 | 8.5 | 8.7 | 8.9 |
| SEE receipts | 10.3 | 9.7 | 9.5 | 7.2 | 6.6 | 6.2 | 6.2 | 6.1 | 6.1 | 6.0 |
| Grants | 0.1 | 0.3 | 0.3 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Total expenditure | 18.1 | 21.4 | 22.9 | 22.9 | 21.8 | 21.1 | 21.3 | 21.6 | 21.8 | 21.8 |
| Expense | 10.5 | 13.8 | 16.1 | 16.9 | 16.5 | 15.7 | 15.8 | 15.8 | 15.8 | 15.6 |
| Net acquisition of nonfinancial assets | 7.6 | 7.6 | 6.8 | 6.0 | 5.3 | 5.4 | 5.5 | 5.8 | 6.0 | 6.2 |
| Gross operating balance | 8.5 | 6.3 | 5.9 | 1.9 | 0.8 | 0.8 | 1.0 | 1.3 | 1.5 | 1.8 |
| Net lending (+)/borrowing (-) | 0.9 | -1.3 | -0.9 | -4.1 | -4.6 | -4.5 | -4.5 | -4.5 | -4.5 | -4.4 |
| Underlying net lending (+)/borrowing (-) 4/ | 0.9 | -1.7 | -3.1 | -5.3 | -5.6 | -4.5 | -4.5 | -4.5 | -4.5 | -4.4 |
| Domestic public debt | 16.6 | 15.4 | 15.3 | 18.1 | 19.7 | 20.2 | 20.6 | 21.0 | 21.4 | 21.6 |
| **Money and credit** | | | | | (Percent change) | | | | | |
| Reserve money | 38.5 | 16.3 | 4.6 | 19.6 | 14.5 | 13.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| Broad money | 46.6 | 31.7 | 17.6 | 26.3 | 24.2 | 21.8 | 21.0 | 21.5 | 20.7 | 20.3 |
| Domestic credit | 5.1 | 24.6 | 22.9 | 32.3 | 27.7 | 23.6 | 22.1 | 22.0 | 20.5 | 19.4 |
| Private sector | 50.5 | 52.5 | 36.5 | 34.3 | 28.5 | 28.4 | 26.1 | 25.9 | 23.1 | 21.7 |
| **Balance of payments** | | | | | (In percent of GDP, unless otherwise indicated) | | | | | |
| Current account balance | -4.0 | -4.9 | -3.3 | -5.2 | -6.5 | -6.6 | -6.7 | -6.6 | -6.5 | -6.4 |
| Trade balance | -3.6 | -5.1 | -6.3 | -9.1 | -10.1 | -10.4 | -10.4 | -10.3 | -10.3 | -10.2 |
| Exports | 17.3 | 18.7 | 19.1 | 18.7 | 16.7 | 16.9 | 18.0 | 19.1 | 20.3 | 21.2 |
| Gas exports | 6.1 | 5.5 | 5.7 | 4.2 | 2.7 | 2.6 | 2.4 | 2.3 | 2.2 | 2.2 |
| Imports | -20.9 | -23.8 | -25.4 | -27.8 | -26.8 | -27.3 | -28.4 | -29.4 | -30.6 | -31.4 |
| Financial account | 9.8 | 7.6 | 7.1 | 7.0 | 6.4 | 7.9 | 8.1 | 8.3 | 8.5 | 8.7 |
| Foreign direct investment, net | 4.7 | 4.4 | 7.1 | 7.1 | 5.9 | 6.5 | 6.7 | 6.9 | 7.1 | 7.3 |
| Overall balance | 4.4 | 2.1 | 1.8 | -0.7 | -0.1 | 1.3 | 1.4 | 1.7 | 1.9 | 2.3 |
| CBM reserves (gross) | | | | | | | | | | |
| In millions of U.S. dollars | 3,156 | 4,419 | 4,803 | 4,511 | 4,436 | 5,360 | 6,476 | 8,004 | 9,901 | 12,438 |
| In months of total imports | 2.4 | 2.8 | 3.0 | 2.6 | 2.3 | 2.4 | 2.5 | 2.7 | 2.9 | 3.3 |
| External debt | | | | | | | | | | |
| Total external debt (billions of U.S. dollars) | 13.7 | 10.2 | 8.8 | 9.6 | 9.9 | 10.9 | 12.0 | 13.3 | 14.6 | 16.1 |
| (In percent of GDP) | 23.0 | 17.0 | 13.9 | 15.9 | 15.4 | 15.5 | 15.4 | 15.4 | 15.4 | 15.5 |
| Exchange rates (kyat/$, end of period) | | | | | | | | | | |
| Official exchange rate | 880 | 965 | 1,027 | 1,216 | ... | ... | ... | ... | ... | ... |
| Parallel rate | 878 | 965 | 1,086 | 1,201 | ... | ... | ... | ... | ... | ... |
| **Memorandum items:** | | | | | | | | | | |
| GDP (billions of kyats) | 51,259 | 58,012 | 65,262 | 72,780 | 83,479 | 96,479 | 111,395 | 128,102 | 147,238 | 168,945 |
| GDP (billions of US$) | 59.7 | 60.1 | 65.6 | 59.5 | 66.3 | 72.4 | 80.0 | 88.7 | 98.4 | 109.0 |
| GDP per capita (US$) | 1,182 | 1,180 | 1,275 | 1,148 | 1,269 | 1,375 | 1,510 | 1,662 | 1,832 | 2,017 |

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ Fiscal year from April 1 to March 31.

2/ Real GDP series is rebased to 2010/11 prices by the authorities.

3/ Union and state/region governments and state economic enterprises.

4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.

# Appendix I. Myanmar—Key Policy Recommendations from the 2015 Article IV Consultation

| Category | Policy advice | Implementation status |
|---|---|---|
| **Monetary policy** | | |
| *Objective: Use reserve money targeting more effectively to keep inflation in check.* | | |
| | Mop up excess liquidity by scaling up deposit auctions | Ongoing |
| | Enforce the recalibrated reserve requirements | Banks are in compliance, and an instruction on noncompliance penalties has been issued |
| | Phase out CBM financing of the deficit | Committed and gradual reduction is planned |
| | Allow the interest rate at T-bill auctions to rise | Progress made, with more flexible rates and extended T-bill maturity. In addition foreign banks are now allowed to participate in treasury auctions. |
| **Fiscal policy** | | |
| *Objective: Create fiscal space to finance large development needs while maintaining macroeconomic stability and debt sustainability.* | | |
| | Reduce the fiscal deficit to about 4 percent of GDP in FY2015/16 (GFS definition), and keep it below 4½ percent of GDP over the medium term | The 2015/16 fiscal deficit of 4.1 percent of GDP was broadly in line with the medium-term target |
| | Strengthen revenue mobilization, and provide more resources to the IRD | Good progress with rising revenue collection. Strong reform momentum |
| | Extend taxpayer self-assessment to medium taxpayers | Ongoing |
| | Prioritize expenditures on infrastructure and social programs | Social spending is rising, but remains low |
| | Improve public financial management | In progress and efforts are intensifying |
| **Financial sector and exchange rate policies** | | |
| *Objective: Maintain flexibility of the exchange rate and financial market stability.* | | |
| | Enforce bank prudential regulations | Major achievements in bank supervision. Issuance of regulations has been delayed but in progress |
| | Strengthening supervisory capacity | Significant progress, but staffing level needs to increase and training needs to continue |
| | Approve the Banks and Financial Institutions Law and implement it | A new Financial Institutions Law (FIL) was passed, and progress has been made in finalizing regulations |
| | Strengthening the supervision of policy banks and non-bank financial institution | In progress |
| | Acclerate reform of state-owned banks | In progress |
| | Ensure exchange rate flexibility to mitigate impacts of external shocks | Committed to flexible exchange rate but operational challenges remain |

Source: IMF Country Report No. 15/267.

# Appendix II. Myanmar—Risk Assessment Matrix 1/

| Source of Risks | Relative Likelihood | Transmission Channels | Expected Impact of Risk | Recommended Policy Response |
|---|---|---|---|---|
| **(A) Domestic Risks** | | | | |
| Prolonged high credit growth and weak bank sector | High | • Lead to faster import growth, higher inflation and larger current account deficit, and reduce asset quality;<br>• Raise pressures for further depreciation, creating risks of financial market instability due to currency mismatch;<br>• Rapid credit growth over the past few years may have weakened banks' balance sheets, posing risks to financial stability | High | • Scale up deposit auctions to mop up excess liquidity to control credit growth;<br>• Tighten reserve requirements;<br>• Strengthen supervisory capacity and implement a revamped regulatory framework, including through enforcement of micro prudential measures;<br>• Enforce NOP limits and repatriation requirements. |
| Political instability | Medium | • Weaken investor confidence;<br>• Interrupt productive activities and slow economic growth;<br>• Ethnic and religious tensions as well as social unrests delay economic reforms. | Medium / High | • Use resources effectively by sub-national governments for maintaining peace and continue to promote inclusive growth and poverty reduction;<br>• Resist monetization of government spending;<br>• Safeguard central bank autonomy. |
| Limited institutional capacity | Medium | • The public sector is unable to cope with speed of reform, leading to slippages and undermining confidence;<br>• CBM financing of the fiscal deficit rises rapidly;<br>• Delays in strengthening supervisory capacity of the CBM contributes to building up of vulnerabilities in the financial sector. | Medium / High | • Continue to provide well-tailored TA programs that focus on staff training to raise institutional capacity;<br>• Coordinate TA programs with international donors and streamline and adjust the scope of the programs, if necessary;<br>• Further promote operational autonomy of the CBM and increase its operational budget to improve monetary policy operations. |
| Large natural disasters | Medium/High | • Destroy or damage infrastructure and other capital and bring devastating human cost, creating macroeconomic volatility;<br>• Have a negative impact on both short-term and potential growth. | High | • Identify risks and explicitly integrate them into the fiscal frameworks and budget planning.<br>• Build policy and financial buffers to enhance resilience to shocks<br>• Enhance preparedness and invest in infrastructure that better cope with natural hazards |
| **(B) External Risks** | | | | |
| Tighter and more volatile global financial conditions/Sharp rise in risk premia with flight to safety | Medium | • Depreciation pressures lead the CBM to intervene in the FX auctions, widening the gap between the official and wider market rates;<br>• Large sales of FX by CBM reduce the reserve buffer. | High | • Allow the CBM reference rate to flexibly adjust to the parallel market rates by following auction rules and preserve the CBM reserves;<br>• Tighten monetary and fiscal policies to support the kyat; and<br>• Enforce NOP limits and repatriation rules in Foreign Exchange Management Law to increase FX inflows to the official FX market. |
| Significant China slowdown and its spillovers | Low/Medium | • Reduce export growth and FDI inflow since China is an important trading partner and source of FDI;<br>• Significantly reduce growth and contribute to kyat depreciation. | Medium | • Allow greater exchange rate flexibility to absorb external shocks;<br>• Continue with structural reforms to diversify exports and trading partners;<br>• Improve business environment to attract more FDI from other sources. |
| Persistently lower energy prices | Low | • A further decline in pipeline gas prices, triggered by declines in global demand.<br>• Reduce government revenues;<br>• Reduce gas export earnings and FDI, weakening the balance of payments position. | Medium | • Allow greater exchange rate flexibility to absorb external shocks;<br>• Promotes diversification of export growth;<br>• Improve the business climate to attract FDI and develop SMEs. |

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

# Appendix III. Myanmar—Surveillance Priorities and Integrated Capacity Development

| Surveillance Priorities | Capacity Development Focus | Recent Results | Future Capacity Development |
|---|---|---|---|
| **Monetary and financial sector**<br>*Reduce CBM financing; improve exchange rate flexibility; maintain financial system stability.* | Monetary policy framework and operations | Adoption of reserve money targeting; issuance of reserve requirement penalty regime | Continued CD on monetary policy implementation and money market development |
| | Financial sector regulation and supervision | New regulations ready for approval; full-scope on-site examinations near completion | Continue to strengthen supervisory capacity and develop bank recovery and resolution functions at CBM |
| | Foreign exchange markets | Aligned the official and parallel market exchange rates and established a daily FX auction to set the official reference rate. | Advising on a reference rate setting mechanism, and further developing FX inter-bank market |
| | Central Bank financial management | Improved CBM accounting and budget | Continued CD in central bank accounting |
| **AML/CFT**<br>*Strengthen the AML/CFT regime* | Legal/institutional framework needed to promote greater transparency | Development of an AML/CFT law, and supporting directives and guidance notes | Assist with completion of the National Risk Assessment |
| **Fiscal sector**<br>*Reduce CBM financing; mobilize domestic revenue; improve spending effectiveness; maintain fiscal stability.* | Tax policy and administration/ strengthen the Inland Revenue Department | Phase 1 of reform led to the setting of reform direction, development of a project management and governance framework, and formation of a Large Taxpayer Office and headquarters restructuring | Phase 2 will continue to build staff capacity, extend administrative reform to the medium tax payer segment, introduce an automated tax system, and CD on tax policy and legislative reform |
| | Public financial management (PFM) | Establishment of a new Treasury Department, CD on cash management, and preparation of the Financial Rules and Regulations | Improvement in PFM strategy, finalization of the Financial Rules and Regulations, and CD on the PFM Law |
| | Strengthen the Myanmar Customs Department | Strategic reform planning, improvements to risk and HR management | Improve trader compliance and build staff capacity |
| **Macroeconomic analysis and statistics**<br>*Improve institutional capacity and adequacy of data for surveillance.* | Training government and CBM officials; Building up external sector, government finance, and price statistics and financial soundness indicators | Establishment of a core macro group; publication of a new Consumer Price Index and development of Financial Soundness Indicators; expanded coverage of monetary statistics | Continue to train officials and build capacity in statistical methodology, compilation, and publication; develop PPI and trade price indices; build data-sharing arrangements between institutions. |

INTERNATIONAL MONETARY FUND

# MYANMAR

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 29, 2016


Prepared By

Asia and Pacific Department
(In consultations with other departments)


## CONTENTS

# FUND RELATION

(As of October 31, 2016)

**Membership Status:** Joined on January 3, 1952; Article XIV.

**General Resources Account:**

| | SDR Million | Percent Quota |
|---|---|---|
| Quota | 516.8 | 100 |
| Fund holdings of currency (Exchange Rate) | 516.8 | 100 |
| Reserve Tranche Position | 0 | 0 |

**SDR Department:**

| | SDR Million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 245.76 | 100 |
| Holdings | 1.67 | 0.68 |

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

**Projected Payments to the Fund[1] (SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Principal | | | | | |
| Charges/Interest | 0.04 | 0.33 | 0.33 | 0.33 | 0.33 |
| **Total** | 0.04 | 0.33 | 0.33 | 0.33 | 0.33 |

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable

**Exchange Rate Arrangement**

The kyat had been pegged to the SDR at K 8.5057 per SDR since May 2, 1977. On April 1, 2012, the authorities replaced the official peg to the SDR with a managed float. The Central Bank of Myanmar (CBM) started daily two-way multiple-price foreign currency auctions with technical assistance (TA) provided by the Monetary and Capital Markets Department (MCM). The auctions provide a mechanism for the market to determine an exchange rate that the CBM can use to set its new reference rate. However, the CBM reserves the right to intervene to moderate excessive exchange rate volatility in the foreign exchange market. The de jure exchange rate arrangement was reclassified as *managed float*, and the de facto exchange rate regime is classified as *other managed arrangement*.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar has made significant progress toward satisfying Article VIII obligations. Almost all current account restrictions have been removed through the implementation of the 2012 Foreign Exchange Management Law. However, Myanmar still maintains an exchange restriction and a multiple currency practice (MCP) subject to Fund approval under Article VIII. The exchange restriction subject to Fund jurisdiction arises from the requirement of tax certification for authorizing transfers of net investment income abroad. The MCP arises from the two-way, multi-price foreign currency auction in the absence of a mechanism for maintaining winning bids within 2 percent of each other, and the authorities have sought a further IMF approval of the retention of this MCP.

**Article IV Consultation**

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on June 17–July 1, 2015 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2015 Article IV consultation on August 28, 2015.

**Technical Assistance**

Myanmar is now one of the largest recipients of IMF technical assistance (TA). Delivery is through a mix of resident advisors; experts in the Bangkok-based Technical Assistance Office for Lao P.D.R. and Myanmar (TAOLAM) and short-term HQ and expert missions. The key areas of focus are:

- Central Banking: a resident foreign exchange advisor and a monetary operations advisor based in TAOLAM provided frequent responsive advice, supported by HQ missions. In addition, regular expert missions were conducted in order to assist the CBM strengthen its accounting framework and systems. Both advisors have completed their assignments, and their replacements are scheduled to take duty over the coming months.

- Financial Sector Supervision: work in this area is led by a resident advisor in Yangon supported by HQ and expert missions. AML/CFT TA is delivered by HQ staff and short-term expert.

- Revenue Reform: a resident tax administration advisor is supported by HQ and expert missions aimed at modernizing the Internal Revenue Department (IRD). Work on tax policy is delivered through HQ missions.

- Public Financial Management: the focus is on capacity development of the Treasury Department, following its establishment in September 2014, which was led by an advisor based in TAOLAM and supported by HQ and expert missions.

- Statistics: the work plan in this area has been developed following a multi-sector diagnostic mission in 2013. As a result, external sector and government finance statistics advisors have taken up duties in TAOLAM and expert visits continue to assist in the development of price statistics. A rebased CPI was released in August 2016.

- Macroeconomic Analysis: an advisor based in TAOLAM leads the work in this area that is closely integrated with the broader IMF training program.

In all areas the IMF coordinates closely with other development partners. In the financial sector, the IMF team has assisted the Central Bank of Myanmar in developing a framework for coordination of international technical assistance.

**Resident Representative**

Mr. Yasuhisa Ojima has been the Resident Representative of the country and stationed in Yangon, since September 2015.

**The Technical Assistance Office for Lao P.D.R. and Myanmar (TAOLAM)**

The IMF opened TAOLAM in Bangkok in October 2012. The new office has been providing IMF technical assistance and training, in collaboration with the Bank of Thailand and the Government of Japan. There are currently four TA advisors in the office, covering public financial management, macroeconomics training, government financial statistics, and external sector statistics, for both Lao P.D. R. and Myanmar. TA and training have recently been extended to Cambodia and Vietnam. Mr. David Cowen has headed the office since September 2015.

**Myanmar: Key Technical Assistance by the Fund During 2015–16**

| Department | Topic | Period |
|---|---|---|
| FAD | Tax Policy on Petroleum Fiscal Regimes | January 2016 |
| FAD | Customs | February/March/May/June/September 2016 |
| FAD | Tax Administration | August/September/November 2015, February/April/May/June/July/August/September/October/November 2016 |
| FAD | Annual Review of FAD R1 TA program | March 2016 |
| FAD | Fiscal Law | April 2016 |
| FAD | Public Financial Management (taking stock) | October 2016 |

| Myanmar: Key Technical Assistance by the Fund During 2015–16 (Concluded) | | |
|---|---|---|
| **Department** | **Topic** | **Period** |
| MCM/TAOLAM /LEG | Coordination of Financial Sector Technical Assistance | March 2016 |
| MCM | Central Bank Organizational Structure | September 2015 |
| MCM | Review of MCM TA Program | October 2015 |
| MCM | Banking Supervision | March/June/September 2016 |
| MCM | De-dollarization | September 2016 |
| LEG/MCM | Article VIII | February 2016 |
| LEG | AML/CFT Supervision | February/July 2016 |
| LEG | ML/TF National Risk Assessment | September/October 2015, March/August/October 2016 |
| STA | CPI Statistics | January/September 2016 |
| STA | e-GDDS Implementation | February 2016 |
| STA | Monetary Statistics and FSI | May 2016 |

# WORLD BANK-IMF COLLABORATION

(November 2016)

**The Fund and the Bank country teams for Myanmar, led by Mr. Yang (International Monetary Fund, IMF) and by Mr. Zachau (World Bank Group, WBG)**, maintain excellent working relations and dialogue on macroeconomic and structural issues.

**The level of cooperation and coordination is strong, and is becoming more regular as both institutions have been scaling up their engagement in Myanmar**. Staffs routinely share country documents prepared by both institutions for their respective Executive Boards and collaborate regularly in areas of mutual interest.

**Following the clearance of arrears to the International Development Association (IDA) in January 2013, the Bank has resumed normal lending relations with Myanmar and the International Finance Corporation (IFC) commenced its investment and advisory activities**. A pre-arrears clearance IDA grant to finance a National Community Driven Development Project preceded an initial Development Policy Operation in support of a program around macroeconomic stability and arrears clearance. Since then, 10 IDA financed projects have been approved by the Executive Board of Directors with commitments exceeding US$1.5 billion in electricity, telecommunications, public financial management, education, health, agriculture, and river basin management. The IFC has made investments in infrastructure, microfinance, hospitality and banking sectors and is developing its pipeline of investments in several sectors. The WBG has also significantly scaled up its analytical and advisory services.

**Following the completion of the 2013 Staff Monitored Program, the IMF is continuing to provide intensive policy advice and technical assistance to Myanmar**. On the surveillance side, annual Article IV consultations are supplemented with regular staff visits and frequent engagement through the resident representative office which was opened in 2013. Technical Assistance continues to intensify with two (three up to July 2015) resident advisors in Myanmar and five (up to October 2016) in the Bangkok-based TAOLAM alongside regular HQ-missions. Key TA priorities include development of monetary and exchange rate policy tools, enhancing bank supervision, strengthening tax policy and administration, enhancing budget preparation and execution, strengthening macro policy analysis and developing macroeconomic statistics. The Fund also has a wide-ranging training program for Myanmar.

**There is strong collaboration between the WBG and IMF**.

- *Macroeconomic policy advice to the authorities.* WB and IMF regularly exchange views on macroeconomic developments, carry out the joint Debt Sustainability Analysis (DSA), coordinate messages to the authorities, and coordinate TA, including on macroeconomic monitoring and forecasting.
- In the *financial sector*, the World Bank and IMF have been coordinating technical assistance through regular information sharing based on an earlier joint note on the IMF-WB Financial Sector TA Plan for Myanmar. World Bank TA has focused on strengthening the financial sector legal and regulatory framework (including technical input on the now approved Financial Institutions Law, and microfinance and insurance regulation and supervision); state-owned bank reform, through completion of diagnostics of the four main state-owned banks; regulatory framework for mobile financial services; and development of a Financial Sector Development Strategy.
- On *fiscal management*, the World Bank and the Fund have exchanged views on priorities for the Second Public Expenditure Review; coordinating TA to the Large Taxpayers' Office in its efforts to introduce a risk-based audit system; coordinating TA to the Treasury Department and the Myanmar Economic Bank on strengthening of the payment and settlement system; and coordinating policy dialogue through participation in the PFM sector working group.
- On *structural reforms*, during the process of the preparation of the Myanmar Investment Law, the WBG has consulted frequently with the IMF on many provisions, in particular on issues related to capital and current account transfers and taxation. The IMF provided written comments on the first and second drafts of the Investment Law to the IFC and the government.
- On *statistics,* there has been good ongoing collaboration including joint IMF-ADB-WB missions to Myanmar under the auspices of the National Strategy for the Development of Statistics (NSDS) project to coordinate support and advice to the government. The IMF is primarily providing TA to government finance statistics (Ministry of Finance), balance of payments (Central Bank of Myanmar), prices (Central Statistical Organization), monetary statistics/central bank balance sheets, and financial soundness indicators. The ADB is providing TA on the SNA compilation framework. The World Bank is currently focusing support to overall statistical strategy development, institutional reform, and poverty monitoring.

**Based on the above partnership, the World Bank and the Fund share a common view about Myanmar's macroeconomic and structural reform priorities**. Important reform priorities include:

- **Promoting long-term growth and diversification**. Modernizing Myanmar's economy will require removing impediments to growth by enhancing the business and investment climate, encouraging financial sector development, and further liberalizing trade and foreign direct investment. The government's Framework for Economic and Social Reform would benefit from coordination across government agencies, broader consultation with stakeholders, and lessons from other countries' experiences through substantial capacity building efforts.

- **Macroeconomic stability**. Sustainable and inclusive growth will require macroeconomic stability, which must be underpinned by a consistent macroeconomic policy mix. Macroeconomic imbalances in Myanmar have increased over the past year as seen in rising inflation and higher current account and fiscal deficits. These imbalances need to be addressed by a tightening of monetary policy and a prudent fiscal policy, along with exchange rate flexibility.

- **Foreign exchange policy**. The authorities have come a long way in liberalizing the foreign exchange regime, including the realignment of exchange rates and the introduction of a daily FX auction in 2012. Foreign Exchange Management Regulations have been issued by the CBM. Deepening the foreign exchange market will require strong commitment by the CBM to follow the FX auction rules under the managed floating regime and further development of the interbank foreign exchange market.

- **Monetary policy**. Strengthening the CBM's capacity to conduct monetary policy is a critical prerequisite for macroeconomic management. To this end, the authorities need to ensure the CBM is granted full budgetary autonomy with a strengthened balance sheet and improved accounting systems. Continued attention to building tools and capacity for monetary policy is required. Priorities include regularly conducting basic open market operations, enforcing reserve requirements, and refining the reserve money forecasting and targeting framework.

- **Financial sector**. Liberalization of the financial sector needs to be complemented with a stronger regulatory and supervisory framework to maintain financial stability. Changes should be implemented step by step, in line with the development of needed supervisory capability and banks' capacity. For instance, developing money markets and improving banks' risk management are necessary precursors to liberalization of lending rates and maturities. The new Financial Institutions Law is expected to help set the sector on a modern footing. The next step is the issuance of modernized prudential regulations, including on bank capital, loan classification, connected lending, related parties, and large exposures. Other priorities include developing a plan to reform the state-owned banks, developing plans for bank recovery and resolution, establishing appropriate regulation of nonbank financial institutions, enhancing financial inclusion, modernizing financial infrastructure including the payments system and a credit bureau, and allowing banks to provide trade finance based on documentary collection.

- **Fiscal discipline and sustainability**. Myanmar faces considerable fiscal pressures due to significant spending needs on the one hand and a narrow revenue base on the other. Priorities include: (i) improved revenue collection, including through the system of tax self-assessment; (ii) strengthened debt management through implementation of the newly adopted Public Debt Law (2016); (iii) efficiency of expenditure, particularly related to public investments; and (iv) ensuring fiscal discipline of State Economic Enterprises.

- **Prioritizing fiscal policies toward social and infrastructure spending**. Continued increases in budgetary allocations towards health and education are welcome. There is still room for reallocating further resources to social sectors where spending levels remain relatively low. Further room remains also for increased efficiency in spending on infrastructure which is currently in a poor state and negatively affecting the business climate.

- **Strengthening statistical capacity**. The government has outlined six priority areas for statistical development: (i) modernizing the system of national accounts by adopting the SNA 2008 framework and improving source data; (ii) strengthening the monitoring of poverty and living conditions; (iii) revising and updating the Central Statistical Authority Act 1952; (iv) developing and adopting a National Strategy for Development of Statistics; (v) establishing inter-agency statistical clusters to improve coordination and collaboration on statistical issues; (vi) strengthen capacity of Central Statistics Organization including through staffing and budget allocations.

  These are very sensible priorities, which will need to be implemented in a prioritized and sequenced manner. In the short term the government aims to implement SNA 2008 (today they broadly follow SNA 1968). This implies developing complementary data systems to produce the minimum required data sets and constructing a Supply-Use Table (SUT). The ADB is providing TA on the compilation framework/SUT and IMF is providing TA to selected sectors.

  WB is in discussions with the government on financial and technical support for a new household survey. Besides information on poverty and household living conditions, a new household survey will be an important source of data on the household final consumption for the SUT.

- **Private Sector Development**. To enhance investment (especially FDI) reforms are needed to streamline procedures around funds transfers, including the inflow and repatriate of profits and capital. The Investment Law ensures the rights for funds transfer, but there is uncertainty in regard to the procedures and time required for funds transfers to be approved by the CBM.

**The teams are committed to continue their close cooperation going forward**. The table below details the specific activities planned by the two country teams over the period November 2016–October 2017.

| Myanmar: Joint Management Action Plan<br>November 2016–October 2017 | | |
|---|---|---|
| | **Products** | **Time horizon** |
| **WB** | **1) Lending operations** | |
| | Additional Financing CDD Project | Ongoing |
| | Agricultural Development Support Project | Ongoing |
| | Ayeyarwady Integrated River Basin Management Project | Ongoing |
| | Myanmar Essential Health Services Access Project | Ongoing |
| | Myanmar Decentralizing Funding to Schools | Ongoing |
| | Modernization of Public Finance Management | Ongoing |
| | MM: Telecommunications Sector Reform | Ongoing |
| | Electric Power Project | Ongoing |
| | Myanmar National Community Driven Development Project | Ongoing |
| | National Electrification Project | Ongoing |
| | Flood and Landslide Emergency Recovery Project | Ongoing |
| | Myanmar Financial Sector Development Project | Next 6 Mo. |
| | Myanmar Development Policy Operation | Next 6 Mo. |
| | Myanmar Disaster Risk Management Project | Next 12 Mo. |
| | **2) Analytical and advisory activities** | |
| | Myanmar Economic Monitor | Ongoing |
| | Myanmar Civil Service Pay, Compensation and Human Resource Review | Ongoing |
| | Public Expenditure Review 2 | Ongoing |
| | Review of land title transfer procedures TA | Ongoing |
| | WBG Myanmar Financial Inclusion TA program | Ongoing |
| | Agriculture Public Policy and Public Expenditure Review | Ongoing |
| | Myanmar Power Sector Study of Electricity Tariffs and Subsidies Mechanisms | Ongoing |
| | Myanmar Power Sector Financial Analysis and Viability Action Plan | Ongoing |
| | Policy making and regulations for rural electrification | Ongoing |
| | Geospatial Least Cost Planning for distribution system expansion | Ongoing |
| | Myanmar Jobs Report | Ongoing |

| | Myanmar: Joint Management Action Plan<br>November 2016–October 2017 (Concluded) | |
|---|---|---|
| | **Products** | **Time horizon** |
| **IMF** | **1) Surveillance missions** | |
| | Staff visit | Apr. 2017 |
| | Article IV | Nov. 2017 |
| | **2) TA activities** | |
| | Customs Administration | Ongoing |
| | Tax Administration (including, Performance management; Project management; Human resources strategy, and others) | Ongoing |
| | Operations Management Unit Design | Ongoing |
| | MTO planning/ data analysis | Next 12 Mo. |
| | Legal unit procedures design | Ongoing |
| | Tax policy including fiscal regime for oil and gas | Ongoing |
| | PFM | Ongoing |
| | Banking Diagnostic Review | Next 12 Mo. |
| | Banking Supervision | Ongoing |
| | FX markets | Ongoing |
| | Legal drafting and supervision | Ongoing |
| | AML/CFT supervisory tools | Ongoing |
| | ML/TF National Risk Assessment Report | Ongoing |
| | Fiscal law for tax administration | Next 12 Mo. |
| | PPI | Ongoing |
| | Government Finance Statistics | Ongoing |
| | External Sector Statistics | Ongoing |

# RELATIONS WITH THE WORLD BANK GROUP[1]

(November 2016)

Myanmar became a member of the World Bank in 1952, IFC in 1956, IDA in 1962, and MIGA in 2013. By 1987, the Bank's total portfolio amounted to US$804 million equivalent, of which US$752.8 million equivalent had been disbursed. New lending ceased after 1987. The last formal Consultative Group meeting was held in January 1986 in Tokyo, chaired by the World Bank.

Myanmar went into arrears with the World Bank in January 1998 and subsequently into nonaccrual status in September 1998. All credits that had been approved but which had not fully disbursed were cancelled and Myanmar was not eligible for new loans. The World Bank's engagement with Myanmar became limited to monitoring economic and social developments in the country.

[1] Prepared by the World Bank Group's staff.

Relations between Myanmar and the World Bank were recently normalized. The World Bank provided a US$80 million grant in 2012 for a Community Driven Development Project. The Government of Myanmar cleared the full amount of its arrears to the World Bank in January 2013, in the amount of US$420 million through a bridge loan from the Government of Japan. The World Bank resumed lending to support Myanmar's foreign exchange needs, including those associated with IDA arrears clearance.

The World Bank opened its first ever country office in Myanmar on August 1, 2012. Initial engagement with Myanmar was guided by an Interim Strategy Note (FY13–14). This was followed by a Systematic Country Diagnostic (SCD) that identified priorities for accelerating progress towards the twin goals that the WBG has committed to helping attain in its member countries: ending poverty and boosting shared prosperity.

The SCD provided the basis for a Country Partnership Framework (CPF), the first full country strategy for Myanmar since 1984. The CPF program, which runs from FY2015 to FY2017, has three areas of focus: reducing rural poverty; investing in people and effective institutions for people; and supporting a dynamic private sector to create jobs.

Myanmar's IDA 17 allocation is US$1.6 billion. The CPF identifies an indicative program based on this amount, with significant frontloading. In addition, IFC expects to provide up to US$1 billion in investments over the CPF period and US$20 million in technical assistance. MIGA will provide insurance against political risks based on demand by private investors.

Since the approval of the pre-arrears grant to finance a National Community Driven Development Project, ten IDA lending projects have been approved by the Executive Board of Directors in agriculture, additional financing for the community driven development project, river basin management, electricity, telecommunications, public financial management, health, education, and agriculture. IFC has made investments in infrastructure, microfinance, hospitality and banking,

There are several WB lending projects in the pipeline for delivery within the next 12 months: on financial inclusion, health financing, and policy-based lending. IFC is developing its pipeline of investments in several sectors. Apart from lending programs, the World Bank has significantly scaled up its analytical and advisory services.

## RELATIONS WITH THE ASIAN DEVELOPMENT BANK[2]

(November 2016)

Myanmar joined the Asian Development Bank (AsDB) in 1973 and operations started the same year. In 2012, as the international community resumed engagement with Myanmar as a result of significant economic and political reforms, the AsDB developed a road map for resumption of normal operations. The activities included initial assessments of the economy and of key sectors,

[2] Prepared by the Asian Development Bank's staff.

provision of technical assistance, and development of an interim country partnership strategy for 2012–2014.

AsDB's interim country partnership strategy for 2012–2014 (extended to 2016) seeks to support the government in achieving sustainable and inclusive growth. It focuses on (i) building human resources and capacities (capacity building in ministries in core areas of AsDB involvement, and education); (ii) promoting an enabling economic environment (macroeconomic and fiscal management; and trade, investment and financial sector reform); and (iii) creating access and connectivity (rural livelihoods and infrastructure development, especially energy and transport). AsDB has mainstreamed the thematic areas of good governance, environmental sustainability, private sector development, and regional cooperation and integration into its operations. AsDB will focus on the crosscutting areas of knowledge and partnerships. The AsDB Country Operations Business Plan 2014–2016 (finalized in November 2013), laid out an investment program covering energy, transport (roads), agriculture and natural resources, and urban development.

In 2016, AsDB completed the analytical and consultative work for a full Country Partnership Strategy, planned for the period 2017–2021, to be submitted for Board endorsement in early 2017. The Country Partnership Strategy as well as the annual Country Operations Business Plan for 2017–2019 (finalized in October 2016) reflect a gradual shift towards increased sector focus, concentrating on infrastructure (transport, energy, and urban development), education and training, and rural development as priority activities. It will apply a long-term approach in the priority areas, and is coordinated and aligned with evolving strategies and sector activities of other development partners.

Myanmar cleared its arrears to AsDB in January 2013. The AsDB has so far provided 43 loans and grants totaling US$1,532.4 million for 37 projects and one policy-based operation. Of these, two loans amounting to US$6.6 million were from the AsDB's ordinary capital resources (OCR) which have already been pre-paid, 34 loans were from concessional Asian Development Fund resources, and 7 were grant-financed. The AsDB has so far provided technical assistance (TA) totaling US$67.8 million for 97 projects. Of these 71 TA projects, 54 were approved since AsDB reengaged with Myanmar in 2012.

With resumption of its engagement with the international community, Myanmar is an increasingly active participant in the Greater Mekong Subregion Economic Cooperation Program and the Association of Southeast Asian Nations (ASEAN). AsDB coordinates closely with the IMF, the World Bank, the UNDP, and other development partners and is actively engaged in various sector and thematic working groups formed by the government for aid coordination purposes.

The largest share of AsDB assistance has been provided to support public sector management, followed by development of the agricultural sector (largely prior to 1988). The sector composition of AsDB accumulated lending to Myanmar is shown below:

**Myanmar: Asian Development Bank Lending and Grants**
**1973–November 2016**

| Sector | Loans (Number) | Loans (US$ million) | Percent |
|---|---|---|---|
| Agriculture and natural resources | 17 | 341.1 | 22.3 |
| Energy | 6 | 166.8 | 10.9 |
| Finance | 2 | 20.0 | 1.3 |
| Health, nutrition, and social protection | 3 | 73.1 | 4.8 |
| Industry and trade | 3 | 26.4 | 1.7 |
| Public sector management | 2 | 578.5 | 37.8 |
| Transport | 4 | 222.5 | 14.5 |
| Water supply, sanitation, and waste management | 6 | 104.0 | 6.8 |
| Total | 43 | 1,532.4 | 100.0 |

Source: Asian Development Bank

# STATISTICAL ISSUES

As of December 15, 2016

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General:** Data provision has serious shortcomings that significantly hamper surveillance. Data are not provided in a timely manner, and official and independent estimates of key macroeconomic variables differ widely. |
| **National Accounts:** Myanmar's national accounts follow the 1968 System of National Accounts. National accounts data are only available on an annual basis. Quarterly data are also compiled, but are not disseminated. Gross Domestic Product (GDP) estimates are compiled at current and constant prices by production and expenditure approaches, with 2010/2011 as base year. Significant discrepancies exist between the two approaches. GDP is estimated at producer prices, instead of the internationally recommended market prices. The quality of the GDP measures is hampered by inadequate source data and the lack of relevant price indexes, such as the producer price index. National accounts estimates do not completely account for informal sector activity. Estimates of some economic activities, particularly in agriculture, construction, and public administration, need major improvement. Resource constraints at the Planning Department and the Central Statistical Organization, along with the lack of interagency coordination and a clear delineation of responsibilities, limit the conduct of surveys and other data collection. Technical assistance (TA) is being provided by Asian Development Bank (AsDB) and United Nations Development Program (UNDP) to improve the national accounts and to implement the 2008 SNA. |
| **Price Statistics:** The IMF Statistics Department (STA) has been providing TA to develop a new CPI since March 2013. The new CPI covering the whole country was released in August 2016. The new CPI is based on the 2012 Household Income and Expenditure Survey (HIES), and is according to international standards and best practices. The new index includes 274 products and services, compared to 158 in the previous one. |
| **Government Finance Statistics:** There is no comprehensive monthly or quarterly compilation of fiscal data. Monthly cash-based budget execution data are available in local language, but are not published. Annual comprehensive data are compiled with delays of up to 12 months after the end of the reference year. In addition, some transactions of state economic enterprises are recorded partly on an accrual and partly on a cash basis. Fiscal and monetary data are not consistent. Budget estimates and actual expenditures tend to differ by wide margins. In addition, recording of debt statistics is not comprehensive.<br><br>Myanmar is participating in a three-year program funded by the government of Japan designed to improve government finance statistics in the Asia and Pacific Region. In addition, a long-term GFS advisor is currently stationed at the IMF's Technical Assistance Office for the Lao PDR and the Republic of the Union of Myanmar (TAOLAM) in Bangkok, Thailand, also funded by the government of Japan, but under a separate program. Regular TA visits to the country are undertaken by the GFS Advisor. |
| **Monetary and Financial Statistics:** The monetary survey compiled by the Central Bank of Myanmar (CBM) covers the central bank and all commercial banks (public and private). Reporting of monetary data in the Standardized Report Forms, which accord with the Monetary and Financial Statistics Manual classification principles, was established in January 2012. Nine finance companies and a multiple of deposit taking microfinance institutions have been established in 2013–14. In addition, nine foreign bank branches commenced their operations in 2015 and were included in the monetary statistics. The quality of monetary statistics could be further improved by: (i) |

| | |
|---|---|
| expanding the coverage of institutions; (ii) monitoring the consistency of the reciprocal/interbank accounts that show positions between the CBM and the commercial banks; and initiating data review and resolution of large inconsistencies; (iii) using electronic means to capture and share data to minimize mistakes; and (iv) in due course, adopting market or fair value-based valuation of financial instruments. | |
| **Financial sector surveillance:** The authorities do not provide financial soundness indicators (FSI) to STA for dissemination, but compilation program for the Financial Soundness Indicators is currently under development, which will be critical for effective surveillance of the financial sector. The CBM is currently implementing regulatory prudential measures, which will improve the FSI data quality. | |
| **External sector statistics:** The balance of payments (BOP) and international investment position (IIP) are compiled on the basis of the sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6) since 2015 and quarterly figures are reported to STA. Myanmar has not yet participated in the Coordinated Direct Investment Survey (CDIS). Although recent revisions have resulted in more accurate classifications of transactions and positions, the reliability of the balance of payments and IIP remains broadly impacted by coverage gaps in most components of (e.g., some services, direct investment assets, portfolio investment assets and liabilities, and other investment assets). The revaluation of the national currency in April 2012 resulted in a large break in the balance of payments and IIP series.<br>A STA three-year project on the Improvement of External Sector Statistics in Lao P.D.R. and Myanmar started in March 2014. Under the project, TA is provided by the external sector statistics resident advisor stationed at the TAOLAM in Bangkok, Thailand. | |
| **II. Data Standards and Quality** | |
| Myanmar began participating in the IMF's General Data Dissemination System (GDDS) in November 2013, which was superseded by the enhanced GDDS (e-GDDS) in 2015.<br>A Fund mission on e-GDDS to Myanmar in early 2016 under a Japan government-funded project for enhancing data dissemination in the Asia and Pacific region facilitated the authorities' progress in implementing the e-GDDS. | No data ROSC is available. |

## Myanmar: Table of Common Indicators Required for Surveillance
(As of December 15, 2016)

| | Date of latest Observation | Date Received | Frequency of Data[1] | Frequency of Reporting[1] | Frequency of Publication[1] |
|---|---|---|---|---|---|
| Exchange Rates | 11/16 | 11/16 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2] | 10/16 | 10/16 | M | M | I |
| Reserve/Base Money | 10/16 | 10/16 | M | M | M |
| Broad Money | 10/16 | 10/16 | M | M | M |
| Central Bank Balance Sheet | 10/16 | 10/16 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 10/16 | 10/16 | M | M | M |
| Interest Rates[3] | 10/16 | 10/16 | M | I | M |
| Consumer Price Index | 11/16 | 11/16 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5] | FY 15/16 | 10/16 | A | I | NA |
| Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government | FY 15/16 | 10/16 | A | I | NA |
| Stocks of Central Government and Central Government—Guaranteed Debt[6] | FY 15/16 | 10/16 | A | I | NA |
| External Current Account Balance | FY 15/16 | 10/16 | Q | Q | Q |
| Exports and Imports of Goods | 02/16 | 10/16 | M | M | M |
| GDP/GNP | FY 15/16 | 10/16 | A | A | A |
| Gross External Debt | FY 15/16 | 10/16 | A | I | I |
| International Investment Position[7] | Q2/2016 | 10/16 | Q | Q | Q |

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), state and local governments, and State economic enterprises (SEEs).
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

# MYANMAR

## STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

December 29, 2016

Approved By **Markus Rodlauer and Steven Barnett (IMF), and John Panzer (IDA)**

Prepared By
International Monetary Fund
International Development Association

*Myanmar is assessed to remain at low risk of debt distress.[1][2][3] Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators are projected to remain below their indicative thresholds. Similarly, total public debt is also projected to remain below the benchmark in the baseline, though stress tests lead to breaches in the event of an extreme shock, fiscal slippages and a severe natural disaster. These vulnerabilities call for close monitoring, in particular because there is potential for both domestic and external downside risks (such as uncertain growth in China and weak natural gas prices) to materialize that may adversely affect the level of debt. Therefore, to keep Myanmar at low risk of debt distress, the authorities need gradually to consolidate the fiscal position while continuing to strengthen economic resilience, including by building up policy buffers and broadening the productive base. Use of nonconcessional borrowing should be limited to high-return projects.*

[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the LIC DSA framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy dependent. The quality of a country's policies and institutions are normally measured by the World Bank's Country Policy and Institutional Assessment (CPIA). The most conservative thresholds are applied for the purposes of this DSA based on the average CPIA index of the last two years which indicate a weak rating for Myanmar.

[2] The DSA was jointly prepared by the IMF and the World Bank staffs.

[3] This risk rating is unchanged from the previous DSA, published in September 2015, as a part of the staff report for the 2015 Article IV consultation with Myanmar (SR/15/267) http://www.imf.org/external/pubs/cat/longres.aspx?sk=43293.0

# BACKGROUND

1. **The external and public debt sustainability analyses are based on the standard LIC DSA framework**. The DSA framework presents the projected path of Myanmar's external and public sector debt burden indicators, and draws conclusions on the sustainability of debt.

2. **The underlying macroeconomic assumptions remain broadly unchanged from the last DSA but updates have been made taking into account several changes in both the external and domestic environment since the last Article IV consultation**. Myanmar is undergoing a major economic transition, and its long-term economic prospects are favorable on account of continued reform and external support. Main macroeconomic assumptions:

- Growth remained robust in 2015/16 at about 7.3 percent, but is expected to soften in 2016/2017 as a result of a number of transitory factors since the new government took office in April 2016. Over the medium term, growth is expected to converge to its estimated potential rate of 7-8 percent, as private investments begin to accelerate and production in the special economic zones gradually rises. Over the longer term, growth will slow down to somewhat below 7 percent (see Table 1), as Myanmar's income levels rise.

- Inflation (GDP deflator, percent change y/y) is projected to fall slowly and average around 7.2 percent over the medium term (2021/22). Long-term inflation is expected to settle at around 5 percent in line with staff's recommended inflation objective.

- The fiscal deficit widened in 2015/2016 to 4.1 percent of GDP, and is expected to remain above 4 percent in 2016/2017, reflecting slowdown in revenue growth and in part an expected increase in expenditure on key infrastructure and social services. The staff advises the authorities to keep the fiscal deficit at no more than 4.5 percent of GDP in the medium term and gradually reducing the deficit below that level over the longer term in line with slower GDP growth.

- The current account deficit is expected to remain relatively high over the medium term at between 6-7 percent, reflecting Myanmar's strong investment and development needs, but is expected to fall over time as export capacity strengthens.

**Table 1. Myanmar: Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2016/17-36/37)**

| | Current DSA | | Previous DSA | |
|---|---|---|---|---|
| | 2016/17-2021/22 | 2022/23 - 2036/37 | 2015/16-2020/21 | 2021/22 - 2035/36 |
| Real GDP Growth (in percent) | 7.3 | 6.6 | 8.1 | 6.8 |
| Inflation (GDP deflator percent change, y/y) | 7.2 | 5.1 | 9.1 | 4.7 |
| Overall fiscal balance (in percent of GDP) | -4.5 | -4.1 | -4.5 | -4.2 |
| Noninterest current account (in percent of GDP) | -6.3 | -5.5 | -7.3 | -4.4 |
| Revenue (nonfinancial public sector; in percent of GDP) | 17.1 | 18.8 | 21.3 | 23.8 |
| *Memo:* | | | | |
| PV of public debt | 32.6 | 34.4 | 29.1 | 32.1 |
| PV of external public debt | 11.8 | 11.4 | 11.9 | 14.2 |
| PV of domestic public debt | 20.8 | 23.0 | 17.2 | 17.9 |

Source: IMF staff estimates.

**3. Reliance on external concessional financing is expected to rise over the medium term, similar to the previous DSA**. While bilateral creditors (Japan and China) remain the biggest lenders to Myanmar (see Table 2), the Asian Development Bank and the World Bank are gradually stepping up concessional financing to Myanmar. In the medium term, external debt commitments from multilaterals and other concessional lenders (i.e., JICA) are expected to rise,[4] although lags in disbursements may occur given weak project implementation capacity. Reliance on nonconcessional borrowing is expected to decline over the medium term, as concessional financing from multilateral and bilateral lenders becomes more readily available. However, we assume that the share of nonconcessional borrowing in the total external borrowing will gradually increase over the long term as Myanmar becomes more developed and able to access financial markets.

**Table 2. Myanmar: External Public Debt FY2015/16**

| | In millions US$ | In % of total public debt | In % of GDP |
|---|---|---|---|
| **Total debt** | **9,528.8** | **38.4** | **15.9** |
| **Multilateral** | **1,386.1** | **5.6** | **2.3** |
| *Asian Development Bank* | ***524.1*** | ***2.1*** | ***0.9*** |
| *World Bank/IDA* | ***836.8*** | ***3.4*** | ***1.4*** |
| *Other* | ***25.2*** | ***0.1*** | ***0.0*** |
| **Offical Bilateral** | **4,006.8** | **16.2** | **6.7** |
| *Paris Club* | ***2,133.0*** | ***8.6*** | ***3.6*** |
| of which, Japan | 1,983.9 | 8.0 | 3.3 |
| *Non Paris Club* | ***1,873.7*** | ***7.6*** | ***3.1*** |
| of which, China | 1,524.7 | 6.1 | 2.5 |
| **Financial Institutions** | **4,060.6** | **16.4** | **6.8** |
| *Paris Club* | ***1,273.0*** | ***5.1*** | ***2.1*** |
| *Non Paris Club* | ***2,787.6*** | ***11.2*** | ***4.7*** |
| of which, China | 2,787.6 | 11.2 | 4.7 |
| **Other** | **85.9** | **0.3** | **0.1** |

Sources: Myanmar authorities; and IMF staff estimates.

# DEBT SUSTAINABILITY ANALYSIS

**4. Total external public and publicly guaranteed debt increased in 2015 for the first time in 10 years, to 15.9 percent of GDP from 13.9 percent a year earlier**. Total public debt also increased in 2015 to 34.1 percent of GDP from 29.2 percent in 2014, largely as a result of a large increase in the central bank financing of the widened fiscal deficit, which has raised concerns about the inflationary impact of budget financing and underscores the importance of increasing market financing.

**5. The new government has taken steps to ensure continued debt sustainability by passing a new Public Debt Management Law (PDML) and starting preparation of a comprehensive Medium-Term Fiscal Framework**. The government continued its efforts in shifting from short-term towards medium-term financing through issuance of Treasury Bonds. Additionally, for 2016/17 the authorities set a cap of 40 percent for CBM financing of the total public deficit, with gradual declines thereafter. These are steps in the right direction and should help to keep public debt on a sustainable path in the future. Nevertheless, a more ambitious pace of phase out of CBM financing, replaced by domestic debt issuance, would help more forcefully address inflationary pressures.

**6. Public and publically guaranteed external debt is projected to remain below the indicative thresholds throughout the projection period**. Debt indicators also remain below the various thresholds under the baseline assumptions and the standard and alternative stress tests.[5] Nevertheless, some indicators, such as the PV of debt-to-GDP and PV of debt-to-export ratios, are relatively sensitive to the exports shock, the depreciation shock, and the combination of shocks. For example, the exports shock (due to further drop in gas prices) causes a significant rise in the debt-to-exports ratio, as shown in Figure 1a, chart c. Given Myanmar's large current account deficit and vulnerabilities to exogenous shocks, such as commodity price volatility and natural disasters, the authorities need to pursue prudent macroeconomic policies and build up policy buffers, particularly foreign reserves. Over the long run, economic diversification will be important, with improvements in productivity and export competitiveness in manufacturing and agriculture. Building on the new Investment Law, further efforts will be needed to attract FDI to fund investment projects.

**7. Total public sector debt will also remain below the indicative benchmark under the baseline scenario, but it is vulnerable to shocks**. In the baseline, the PV of total public debt as a percentage of GDP stays below the indicative benchmark throughout the projection period. However, the standard stress tests show that the PV of debt-to-GDP ratio could breach the benchmark toward the end of the projection period if shocks result in a significant decline in GDP growth and if fiscal slippages result in a failure in gradual fiscal consolidation.[6]

**8. Myanmar is prone to large scale weather related natural disasters and is one of the most vulnerable countries among developing Asian countries** (see selected issues paper on "Macro-Fiscal Risks: The Challenge of Climate Related Disasters"). In light of this risk, an alternative stress test is conducted, a scenario whereby a severe natural disaster of a magnitude similar to the impact of Cyclone Nargis in 2008 is assumed to happen in fiscal year 2017/2018 (almost ten years after).[7] This stress test leads the PV of debt-to-GDP ratio to breach the benchmark threshold in the long run after 2029/2030. To manage these risks, Myanmar needs to continue with structural reforms to improve its growth potential and resilience. A continued commitment to prudent fiscal policy is essential.

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[4] The Asian Development Bank is expected to approve a total of US$3 billion in sovereign and non-sovereign loans over 2013–2018. The World Bank is expected to commit about US$1 billion in 2016–2018. In November 2015, the Prime Minister of Japan announced that Japan will commit an ¥800 billion (US$7.7 billion) package, which will comprise funding from both the public (through Japan International Cooperation Agency (JICA)) and private sectors to be spread over five years.

[5] The typical historical scenario is not shown in this analysis. In the case of Myanmar, the historical scenario would imply an unlikely return to pre-reform policies: low noninterest current account deficits (consistent with binding international sanctions) and sustained real exchange rate pressures.

[6] For the PV of total public debt to GDP ratio, the most extreme shock is the growth shock which causes a breach in the indicative benchmark in 2025/26, while fixing the primary balance leads to a breach in 2029/30.

[7] The alternative cyclone scenario is based on the following assumptions: projected GDP growth is reduced by two-thirds in 2017 and 2018; the nominal exchange rate depreciates by 35 percent in 2017-2019; inflation is expected to double in 2017 and 2018; following historical experience both government revenue and expenditures are adjusted downward; financial aid and concessional finance is expected to increase.

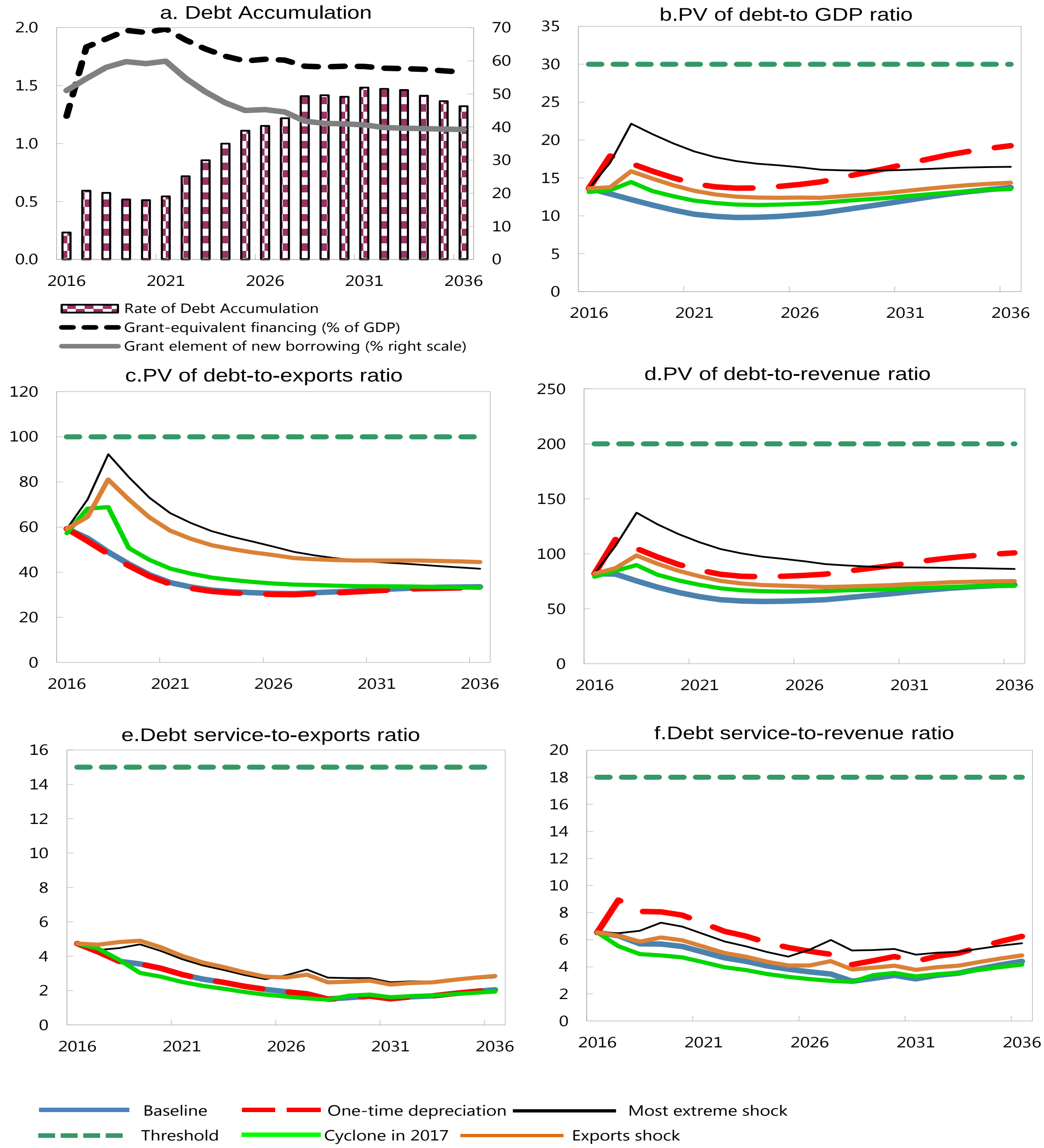
# STAFF ASSESSMENT

**9. Myanmar is assessed to remain at low risk of debt distress**. Public and publicly guaranteed (PPG) external debt is generally resilient to shocks under standard and alternative stress tests, although it is sensitive to export and exchange rate depreciation shocks. Continuation of export-market and exchange rate risks should be monitored carefully, given high uncertainty over growth in China and commodity price outlook. Downside realization of these risks, especially if combined with other risks, could shift risk ratings higher in a relatively short period of time. Total public debt is projected to stay below the benchmark, but it is vulnerable to growth shocks and fiscal slippages. These findings suggest that Myanmar needs to strengthen its economic resilience, including through broadening its production and export base and building up policy buffers such as higher foreign reserves. Moreover, given the sharp rise in the fiscal deficit in 2015/16 and potential shocks including natural disasters, gradual fiscal consolidation and a long-term commitment to fiscal prudence are critical to preserving debt sustainability.

### Authorities' Views

**10. The authorities broadly agreed with these conclusions and the analysis**. They planned to take a conservative approach to external borrowing that balances development needs with long-term fiscal sustainability. They shared staff's view that nonconcessional external borrowing should be used only to finance high-return projects in priority sectors, at levels that are in line with the new PDML and consistent with low risk of debt distress. The authorities were committed to improving the medium-term fiscal framework, including by developing a medium-term debt management strategy.

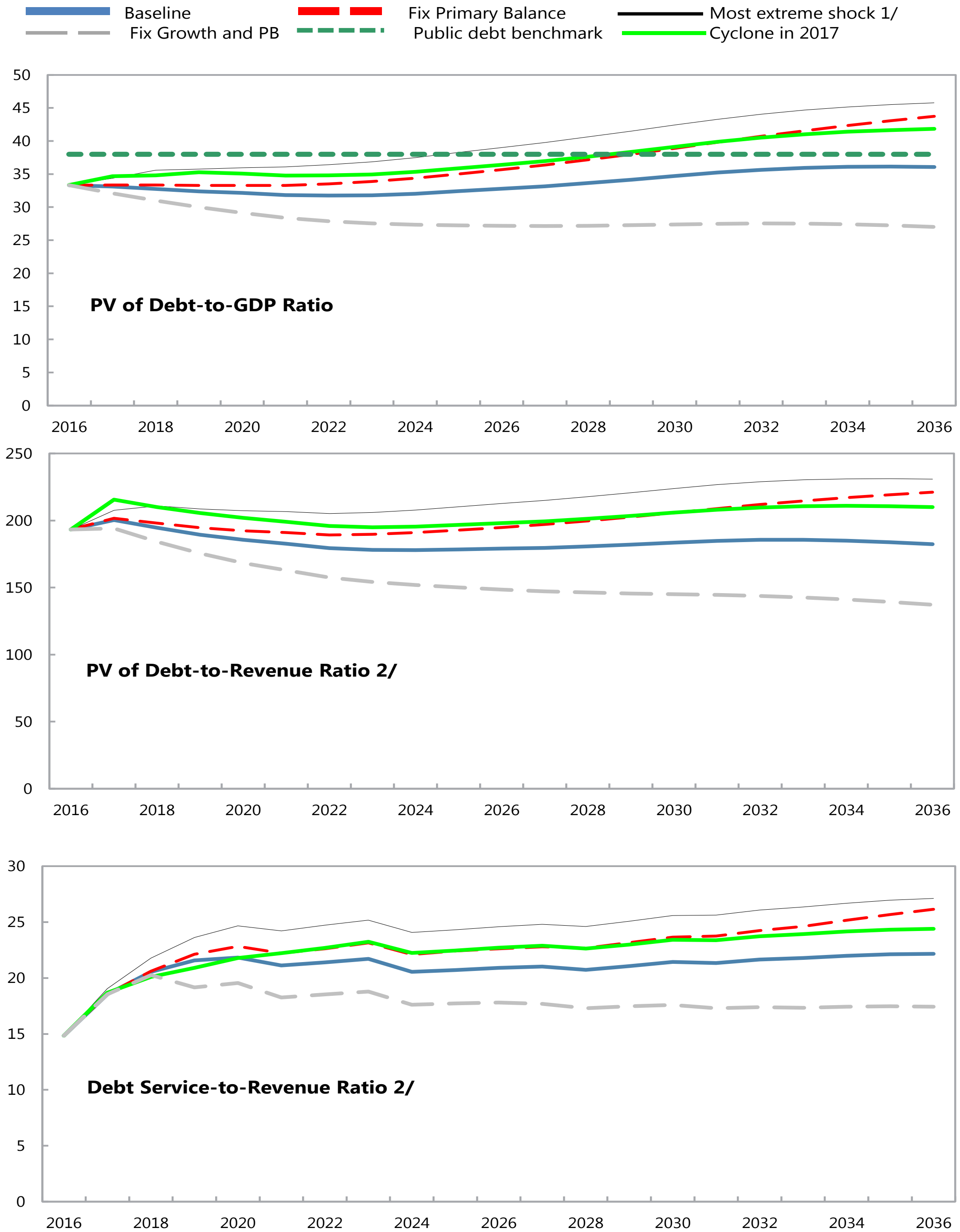
## Figure 1a. Myanmar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2016/17–2036/37 1/




Sources: Country authorities; and staff estimates and projections.

1/ In Panel bcd, the most extreme shock is the combination shock; in panel e, the most extreme shock is the export shock; and, in panel f, the most extreme shock is one-time depreciation shock.
2/ The combination shock assumes real GDP, exports, US dollar deflator of GDP, and non-debt creating flows all at their historical averages over 2005-2015 minus one standard deviation.

**Figure 1b. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2016/17–2036/37 1/**




Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the growth shock.
2/ Revenues are defined inclusive of grants.

## Table 3a. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2013/14-2036/37 1/

(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical Average 6/ | Standard Deviation 6/ | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2016-2021 Average | 2026 | 2036 | 2022-2036 Average |
| **External debt (nominal) 1/** | **17.0** | **13.9** | **15.9** | | | **15.4** | **15.5** | **15.4** | **15.4** | **15.4** | **15.5** | | **16.8** | **21.4** | |
| *of which: public and publicly guaranteed (PPG)* | 17.0 | 13.9 | 15.9 | | | 15.4 | 15.5 | 15.4 | 15.4 | 15.4 | 15.5 | | 16.8 | 21.4 | |
| Change in external debt | -6.6 | -3.1 | 2.0 | | | -0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | | 0.4 | 0.3 | |
| Identified net debt-creating flows | 0.4 | -5.2 | -0.5 | | | -0.3 | -0.9 | -1.0 | -1.3 | -1.6 | -2.0 | | -2.8 | -2.8 | |
| **Non-interest current account deficit** | **4.5** | **2.7** | **4.5** | **1.3** | **3.6** | **6.2** | **6.3** | **6.3** | **6.3** | **6.3** | **6.2** | 6.3 | **5.8** | **4.7** | 5.5 |
| Deficit in balance of goods and services | 4.8 | 4.4 | 7.5 | | | 8.4 | 8.6 | 8.6 | 8.5 | 8.4 | 8.1 | | 7.2 | 5.3 | |
| Exports | 21.8 | 24.6 | 25.0 | | | 23.0 | 23.4 | 24.8 | 26.2 | 27.7 | 28.9 | | 33.1 | 41.0 | |
| Imports | 26.6 | 29.0 | 32.5 | | | 31.4 | 32.1 | 33.4 | 34.7 | 36.1 | 37.0 | | 40.3 | 46.3 | |
| Net current transfers (negative = inflow) | -2.3 | -3.7 | -4.2 | -1.6 | 1.3 | -4.0 | -4.1 | -4.1 | -4.1 | -4.1 | -4.0 | | -3.8 | -3.3 | -3.6 |
| *of which: official* | -0.3 | -0.5 | -0.6 | | | -0.6 | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 | | -0.7 | -0.7 | |
| Other current account flows (negative = net inflow) | 2.1 | 1.9 | 1.3 | | | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | | 2.3 | 2.7 | |
| **Net FDI (negative = inflow)** | **-4.4** | **-7.1** | **-7.1** | **-4.2** | **1.7** | **-5.9** | **-6.5** | **-6.7** | **-6.9** | **-7.1** | **-7.3** | | **-7.7** | **-6.7** | -7.4 |
| **Endogenous debt dynamics 2/** | **0.2** | **-0.8** | **2.0** | | | **-0.5** | **-0.7** | **-0.7** | **-0.7** | **-0.8** | **-0.8** | | **-0.8** | **-0.8** | |
| Contribution from nominal interest rate | 0.4 | 0.6 | 0.6 | | | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | | 0.2 | 0.3 | |
| Contribution from real GDP growth | -2.0 | -1.2 | -1.1 | | | -0.9 | -1.1 | -1.1 | -1.0 | -1.0 | -1.0 | | -1.1 | -1.1 | |
| Contribution from price and exchange rate changes | 1.8 | -0.2 | 2.5 | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| **Residual (3-4) 3/** | **-7.0** | **2.1** | **2.5** | | | **-0.2** | **1.0** | **1.0** | **1.3** | **1.6** | **2.0** | | **3.2** | **3.1** | |
| *of which: exceptional financing* | -8.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| PV of external debt 4/ | ... | ... | 14.4 | | | 13.6 | 12.9 | 12.2 | 11.4 | 10.8 | 10.2 | | 10.1 | 13.7 | |
| In percent of exports | ... | ... | 57.5 | | | 59.2 | 55.1 | 49.0 | 43.6 | 38.9 | 35.4 | | 30.6 | 33.5 | |
| **PV of PPG external debt** | **...** | **...** | **14.4** | | | **13.6** | **12.9** | **12.2** | **11.4** | **10.8** | **10.2** | | **10.1** | **13.7** | |
| **In percent of exports** | **...** | **...** | **57.5** | | | **59.2** | **55.1** | **49.0** | **43.6** | **38.9** | **35.4** | | **30.6** | **33.5** | |
| **In percent of government revenues** | **...** | **...** | **79.1** | | | **81.9** | **81.6** | **75.4** | **69.7** | **64.8** | **61.1** | | **57.5** | **71.9** | |
| **Debt service-to-exports ratio (in percent)** | **4.9** | **5.0** | **4.7** | | | **4.7** | **4.3** | **3.7** | **3.6** | **3.3** | **2.9** | | **1.9** | **2.1** | |
| **PPG debt service-to-exports ratio (in percent)** | **3.2** | **3.8** | **4.7** | | | **4.7** | **4.3** | **3.7** | **3.6** | **3.3** | **2.9** | | **1.9** | **2.1** | |
| **PPG debt service-to-revenue ratio (in percent)** | **3.6** | **4.3** | **6.5** | | | **6.5** | **6.3** | **5.7** | **5.7** | **5.5** | **5.1** | | **3.6** | **4.4** | |
| Total gross financing need (Billions of U.S. dollars) | 0.9 | -2.0 | -0.7 | | | 0.9 | 0.6 | 0.5 | 0.3 | 0.1 | -0.3 | | -2.3 | -4.9 | |
| Non-interest current account deficit that stabilizes debt ratio | 11.1 | 5.7 | 2.5 | | | 6.7 | 6.3 | 6.4 | 6.3 | 6.3 | 6.1 | | 5.4 | 4.4 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 8.4 | 8.0 | 7.3 | 7.6 | 3.0 | 6.3 | 7.5 | 7.6 | 7.5 | 7.5 | 7.5 | 7.3 | 7.0 | 5.5 | 6.6 |
| GDP deflator in US dollar terms (change in percent) | -7.2 | 1.0 | -15.4 | 8.9 | 17.8 | 4.8 | 1.5 | 2.8 | 3.1 | 3.2 | 3.0 | 3.1 | 2.5 | 2.3 | 2.4 |
| Effective interest rate (percent) 5/ | 1.6 | 3.8 | 4.1 | 2.3 | 1.2 | 2.6 | 2.6 | 2.4 | 2.1 | 1.9 | 1.7 | 2.2 | 1.4 | 1.5 | 1.4 |
| Growth of exports of G&S (US dollar terms, in percent) | 13.5 | 22.9 | -7.7 | 15.4 | 14.1 | 2.4 | 11.3 | 17.0 | 17.1 | 17.3 | 15.6 | 13.4 | 12.7 | 9.7 | 11.7 |
| Growth of imports of G&S (US dollar terms, in percent) | 15.8 | 19.0 | 1.6 | 24.1 | 20.8 | 7.8 | 11.3 | 15.2 | 15.1 | 15.3 | 13.7 | 13.1 | 11.5 | 9.0 | 10.8 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 51.0 | 54.7 | 58.0 | 59.7 | 59.1 | 59.9 | 57.1 | 45.3 | 39.3 | 43.3 |
| Government revenues (excluding grants, in percent of GDP) | 19.8 | 21.6 | 18.2 | | | 16.6 | 15.8 | 16.1 | 16.4 | 16.6 | 16.7 | | 17.6 | 19.1 | 18.1 |
| Aid flows (in Billions of US dollars) 7/ | 0.4 | 0.4 | 0.6 | | | 1.0 | 1.8 | 2.1 | 2.5 | 2.7 | 3.0 | | 3.6 | 7.5 | |
| *of which: Grants* | 0.2 | 0.2 | 0.4 | | | 0.4 | 0.5 | 0.6 | 0.6 | 0.7 | 0.8 | | 1.2 | 2.7 | |
| *of which: Concessional loans* | 0.3 | 0.2 | 0.3 | | | 0.6 | 1.3 | 1.5 | 1.8 | 2.0 | 2.2 | | 2.3 | 4.8 | |
| Grant-equivalent financing (in percent of GDP) 8/ | ... | ... | ... | | | 1.2 | 1.8 | 1.9 | 2.0 | 2.0 | 2.0 | | 1.7 | 1.6 | 1.7 |
| Grant-equivalent financing (in percent of external financing) 8/ | ... | ... | ... | | | 67.5 | 66.1 | 68.6 | 69.7 | 69.3 | 69.7 | | 58.2 | 52.7 | 56.4 |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Nominal GDP (Billions of US dollars) | 60.1 | 65.6 | 59.5 | | | 66.3 | 72.4 | 80.0 | 88.7 | 98.4 | 109.0 | | 175.7 | 403.7 | |
| Nominal dollar GDP growth | 0.7 | 9.0 | -9.2 | | | 11.4 | 9.1 | 10.6 | 10.8 | 10.9 | 10.8 | 10.6 | 9.7 | 7.9 | 9.1 |
| PV of PPG external debt (in Billions of US dollars) | | | 8.6 | | | 8.7 | 9.1 | 9.5 | 10.0 | 10.4 | 10.9 | | 17.5 | 54.9 | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | | | 0.2 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 1.2 | 1.3 | 1.3 |
| Gross workers' remittances (Billions of US dollars) | 1.2 | 2.1 | 2.1 | | | 2.3 | 2.5 | 2.7 | 3.0 | 3.3 | 3.6 | | 5.4 | 10.5 | |
| PV of PPG external debt (in percent of GDP + remittances) | ... | ... | 13.9 | | | 13.2 | 12.5 | 11.8 | 11.0 | 10.4 | 9.9 | | 9.8 | 13.4 | |
| PV of PPG external debt (in percent of exports + remittances) | ... | ... | 50.3 | | | 51.6 | 48.0 | 43.0 | 38.6 | 34.7 | 31.7 | | 28.0 | 31.5 | |
| Debt service of PPG external debt (in percent of exports + remittances) | ... | ... | 4.2 | | | 4.1 | 3.7 | 3.3 | 3.1 | 2.9 | 2.6 | | 1.8 | 1.9 | |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

## Table 3b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016/17-2036/37
(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | **2026** | 2036 |
| **PV of debt-to GDP ratio** | | | | | | | | |
| **Baseline** | 14 | 13 | 12 | 11 | 11 | 10 | **10** | 14 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2016-2036 1/ | 14 | 11 | 8 | 6 | 4 | 3 | **2** | 4 |
| A2. New public sector loans on less favorable terms in 2016-2036 2 | 14 | 13 | 13 | 13 | 13 | 13 | **15** | 22 |
| A3. Alternative Scenario : Cyclone in 2017 | 13 | 13 | 14 | 13 | 13 | 12 | **12** | 14 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2017-2018 | 14 | 13 | 13 | 12 | 11 | 11 | **11** | 14 |
| B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/ | 14 | 14 | 16 | 15 | 14 | 13 | **12** | 14 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018 | 14 | 14 | 15 | 14 | 13 | 13 | **13** | 17 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/ | 14 | 17 | 20 | 19 | 18 | 17 | **15** | 15 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 14 | 17 | 22 | 21 | 20 | 18 | **16** | 16 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/ | 14 | 18 | 17 | 16 | 15 | 14 | **14** | 19 |
| **PV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 59 | 55 | 49 | 44 | 39 | 35 | **31** | 34 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2016-2036 1/ | 59 | 45 | 32 | 23 | 15 | 11 | **5** | 9 |
| A2. New public sector loans on less favorable terms in 2016-2036 2 | 59 | 56 | 53 | 49 | 46 | 44 | **45** | 53 |
| A3. Alternative Scenario : Cyclone in 2017 | 57 | 68 | 69 | 51 | 45 | 42 | **35** | 33 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2017-2018 | 59 | 54 | 48 | 43 | 38 | 35 | **30** | 33 |
| B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/ | 59 | 64 | 81 | 72 | 64 | 58 | **48** | 45 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018 | 59 | 54 | 48 | 43 | 38 | 35 | **30** | 33 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/ | 59 | 72 | 82 | 73 | 65 | 59 | **46** | 37 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 59 | 72 | 92 | 82 | 73 | 66 | **51** | 42 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/ | 59 | 54 | 48 | 43 | 38 | 35 | **30** | 33 |
| **PV of debt-to-revenue ratio** | | | | | | | | |
| **Baseline** | 82 | 82 | 75 | 70 | 65 | 61 | **57** | 72 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2016-2036 1/ | 82 | 67 | 50 | 36 | 26 | 18 | **10** | 19 |
| A2. New public sector loans on less favorable terms in 2016-2036 2 | 82 | 83 | 81 | 79 | 77 | 76 | **84** | 114 |
| A3. Alternative Scenario : Cyclone in 2017 | 79 | 85 | 90 | 81 | 76 | 72 | **66** | 71 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2017-2018 | 82 | 82 | 78 | 72 | 67 | 63 | **60** | 75 |
| B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/ | 82 | 87 | 98 | 91 | 85 | 80 | **70** | 75 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018 | 82 | 89 | 93 | 86 | 80 | 75 | **71** | 89 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/ | 82 | 107 | 126 | 117 | 108 | 102 | **86** | 80 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 82 | 107 | 137 | 127 | 118 | 111 | **93** | 86 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/ | 82 | 113 | 105 | 97 | 90 | 85 | **80** | 101 |

## Table 3b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016/17-2036/37 (Concluded)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | **2026** | 2036 |
| **Debt service-to-exports ratio** | | | | | | | | |
| **Baseline** | 5 | 4 | 4 | 4 | 3 | 3 | **2** | 2 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2016-2036 1/ | 5 | 4 | 3 | 3 | 2 | 2 | **1** | 0 |
| A2. New public sector loans on less favorable terms in 2016-2036 2 | 5 | 4 | 4 | 4 | 4 | 3 | **3** | 3 |
| A3. Alternative Scenario : Cyclone in 2017 | 5 | 4 | 4 | 3 | 3 | 3 | **2** | 2 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2017-2018 | 5 | 4 | 4 | 4 | 3 | 3 | **2** | 2 |
| B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/ | 5 | 5 | 5 | 5 | 5 | 4 | **3** | 3 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018 | 5 | 4 | 4 | 4 | 3 | 3 | **2** | 2 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/ | 5 | 4 | 4 | 4 | 4 | 3 | **3** | 2 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 5 | 4 | 4 | 5 | 4 | 4 | **3** | 3 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/ | 5 | 4 | 4 | 4 | 3 | 3 | **2** | 2 |
| **Debt service-to-revenue ratio** | | | | | | | | |
| **Baseline** | 7 | 6 | 6 | 6 | 6 | 5 | **4** | 4 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2016-2036 1/ | 7 | 6 | 5 | 4 | 4 | 3 | **1** | 1 |
| A2. New public sector loans on less favorable terms in 2016-2036 2 | 7 | 6 | 6 | 6 | 6 | 6 | **5** | 7 |
| A3. Alternative Scenario : Cyclone in 2017 | 7 | 6 | 5 | 5 | 5 | 4 | **3** | 4 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2017-2018 | 7 | 6 | 6 | 6 | 6 | 5 | **4** | 5 |
| B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/ | 7 | 6 | 6 | 6 | 6 | 5 | **4** | 5 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018 | 7 | 7 | 7 | 7 | 7 | 6 | **5** | 6 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/ | 7 | 6 | 6 | 7 | 6 | 6 | **5** | 5 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 7 | 6 | 7 | 7 | 7 | 6 | **5** | 6 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/ | 7 | 9 | 8 | 8 | 8 | 7 | **5** | 6 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 45 | 45 | 45 | 45 | 45 | 45 | **45** | 45 |

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

## Table 3c. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013/14-2036/37

(In percent of GDP, unless otherwise indicated)

| | Actual | | | Average 5/ | Standard Deviation 5/ | Estimate | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2016-21 Average | 2026 | 2036 | 2022-36 Average |
| **Public sector debt 1/** | 32.3 | 29.2 | 34.1 | | | 35.1 | 35.7 | 36.0 | 36.4 | 36.8 | 37.1 | | 39.5 | 43.7 | |
| *of which: foreign-currency denominated* | 17.0 | 13.9 | 15.9 | | | 15.4 | 15.5 | 15.4 | 15.4 | 15.4 | 15.5 | | 16.8 | 21.4 | |
| Change in public sector debt | -7.8 | -3.1 | 4.9 | | | 1.1 | 0.5 | 0.3 | 0.4 | 0.4 | 0.3 | | 0.6 | 0.0 | |
| Identified debt-creating flows | -1.6 | -1.8 | 3.1 | | | 1.2 | 0.5 | 0.2 | 0.3 | 0.3 | 0.2 | | 0.3 | -0.1 | |
| Primary deficit | -0.3 | -0.9 | 2.4 | 1.2 | 1.9 | 2.9 | 2.6 | 2.4 | 2.4 | 2.4 | 2.3 | 2.5 | 2.2 | 1.2 | 1.9 |
| Revenue and grants | 20.1 | 21.9 | 18.8 | | | 17.2 | 16.5 | 16.8 | 17.1 | 17.3 | 17.4 | 17.1 | 18.3 | 19.8 | 18.8 |
| *of which: grants* | 0.3 | 0.3 | 0.6 | | | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | | 0.7 | 0.7 | |
| Primary (noninterest) expenditure | 19.8 | 21.0 | 21.2 | | | 20.2 | 19.2 | 19.2 | 19.5 | 19.7 | 19.7 | | 20.5 | 21.0 | |
| Automatic debt dynamics | -1.0 | -0.7 | 1.0 | | | -1.7 | -2.2 | -2.1 | -2.1 | -2.1 | -2.1 | | -1.8 | -1.3 | |
| Contribution from interest rate/growth differential | -2.8 | -1.6 | -1.2 | | | -1.9 | -2.1 | -1.9 | -1.9 | -2.0 | -2.0 | | -1.7 | -1.3 | |
| *of which: contribution from average real interest rate* | 0.3 | 0.8 | 0.8 | | | 0.2 | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 | | 0.8 | 1.0 | |
| *of which: contribution from real GDP growth* | -3.1 | -2.4 | -2.0 | | | -2.0 | -2.5 | -2.5 | -2.5 | -2.5 | -2.6 | | -2.6 | -2.3 | |
| Contribution from real exchange rate depreciation | 1.8 | 0.9 | 2.2 | | | 0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | | ... | ... | |
| Other identified debt-creating flows | -0.3 | -0.1 | -0.3 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | -0.3 | -0.1 | -0.3 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | -6.2 | -1.3 | 1.8 | | | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | 0.2 | 0.1 | |
| **Other Sustainability Indicators** | | | | | | | | | | | | | | | |
| **PV of public sector debt** | ... | ... | 32.5 | | | 33.3 | 33.1 | 32.7 | 32.4 | 32.1 | 31.8 | 32.6 | 32.8 | 36.1 | 34.4 |
| *of which: foreign-currency denominated* | ... | ... | 14.4 | | | 13.6 | 12.9 | 12.2 | 11.4 | 10.8 | 10.2 | | 10.1 | 13.7 | |
| *of which: external* | ... | ... | 14.4 | | | 13.6 | 12.9 | 12.2 | 11.4 | 10.8 | 10.2 | 11.8 | 10.1 | 13.7 | 11.4 |
| PV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| Gross financing need 2/ | 2.0 | 1.4 | 5.1 | | | 5.5 | 5.7 | 5.8 | 6.1 | 6.2 | 6.0 | | 6.0 | 5.6 | |
| PV of public sector debt-to-revenue and grants ratio (in percent) | ... | ... | 172.9 | | | 193.3 | 200.4 | 194.6 | 189.5 | 185.7 | 182.7 | | 179.0 | 182.4 | |
| PV of public sector debt-to-revenue ratio (in percent) | ... | ... | 178.9 | | | 200.4 | 209.2 | 203.1 | 197.5 | 193.5 | 190.4 | | 186.2 | 188.9 | |
| *of which: external 3/* | ... | ... | 79.1 | | | 81.9 | 81.6 | 75.4 | 69.7 | 64.8 | 61.1 | | 57.5 | 71.9 | |
| Debt service-to-revenue and grants ratio (in percent) 4/ | 9.9 | 10.1 | 14.1 | | | 14.9 | 18.6 | 20.6 | 21.6 | 21.8 | 21.1 | | 20.9 | 22.2 | |
| Debt service-to-revenue ratio (in percent) 4/ | 10.0 | 10.3 | 14.5 | | | 15.4 | 19.4 | 21.4 | 22.5 | 22.8 | 22.0 | | 21.7 | 22.9 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 7.5 | 2.2 | -2.5 | | | 1.9 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | | 1.6 | 1.2 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 8.4 | 8.0 | 7.3 | 7.6 | 3.0 | 6.3 | 7.5 | 7.6 | 7.5 | 7.5 | 7.5 | 7.3 | 7.0 | 5.5 | 6.6 |
| Average nominal interest rate on forex debt (in percent) | 1.6 | 3.9 | 4.1 | 2.4 | 1.2 | 2.6 | 2.6 | 2.4 | 2.1 | 1.9 | 1.7 | 2.2 | 1.4 | 1.5 | 1.4 |
| Average real interest rate on domestic debt (in percent) | 4.2 | 5.1 | 4.0 | -2.5 | 7.5 | 0.0 | 1.6 | 2.8 | 2.9 | 3.0 | 3.1 | 2.2 | 4.3 | 5.2 | 4.6 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 8.5 | 5.4 | 16.8 | -4.3 | 15.8 | 0.8 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 4.4 | 4.2 | 3.9 | 9.8 | 7.5 | 7.9 | 7.5 | 7.3 | 7.0 | 6.9 | 6.7 | 7.2 | 5.4 | 4.5 | 5.1 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 27.9 | 14.6 | 8.3 | 5.2 | 9.4 | 1.2 | 2.1 | 7.7 | 9.2 | 8.7 | 7.6 | 6.1 | 7.3 | 5.7 | 7.0 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | ... | ... | 51.0 | 54.7 | 58.0 | 59.7 | 59.1 | 59.9 | 57.1 | 45.3 | 39.3 | ... |

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

## Table 3d. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2016/17-2036/37

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 | 2036 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 33 | 33 | 33 | 32 | 32 | 32 | 33 | 36 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 33 | 32 | 31 | 30 | 29 | 28 | 27 | 27 |
| A2. Primary balance is unchanged from 2016 | 33 | 33 | 33 | 33 | 33 | 33 | 36 | 44 |
| A3. Permanently lower GDP growth 1/ | 33 | 33 | 33 | 33 | 34 | 34 | 38 | 52 |
| A4. Alternative Scenario : Cyclone in 2017 | 33 | 35 | 35 | 35 | 35 | 35 | 36 | 42 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018 | 33 | 34 | 36 | 36 | 36 | 36 | 39 | 46 |
| B2. Primary balance is at historical average minus one standard deviations in 2017-2018 | 33 | 33 | 33 | 33 | 33 | 32 | 33 | 36 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 33 | 33 | 33 | 33 | 33 | 33 | 35 | 41 |
| B4. One-time 30 percent real depreciation in 2017 | 33 | 39 | 37 | 36 | 35 | 34 | 33 | 35 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2017 | 33 | 40 | 39 | 38 | 37 | 36 | 36 | 38 |
| **PV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 193 | 200 | 195 | 189 | 186 | 183 | 179 | 182 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 193 | 194 | 184 | 175 | 168 | 163 | 149 | 137 |
| A2. Primary balance is unchanged from 2016 | 193 | 202 | 198 | 195 | 192 | 191 | 195 | 221 |
| A3. Permanently lower GDP growth 1/ | 193 | 202 | 198 | 195 | 194 | 193 | 207 | 263 |
| A4. Alternative Scenario : Cyclone in 2017 | 193 | 216 | 210 | 206 | 202 | 199 | 198 | 210 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018 | 193 | 208 | 211 | 209 | 207 | 207 | 213 | 231 |
| B2. Primary balance is at historical average minus one standard deviations in 2017-2018 | 193 | 202 | 199 | 193 | 189 | 186 | 181 | 183 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 193 | 201 | 196 | 193 | 192 | 190 | 193 | 205 |
| B4. One-time 30 percent real depreciation in 2017 | 193 | 233 | 221 | 211 | 202 | 195 | 180 | 179 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2017 | 193 | 242 | 232 | 219 | 213 | 207 | 196 | 191 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 15 | 19 | 21 | 22 | 22 | 21 | 21 | 22 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 15 | 19 | 20 | 19 | 20 | 18 | 18 | 17 |
| A2. Primary balance is unchanged from 2016 | 15 | 19 | 21 | 22 | 23 | 22 | 23 | 26 |
| A3. Permanently lower GDP growth 1/ | 15 | 19 | 21 | 22 | 23 | 22 | 24 | 31 |
| A4. Alternative Scenario : Cyclone in 2017 | 15 | 19 | 20 | 21 | 22 | 22 | 23 | 24 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018 | 15 | 19 | 22 | 24 | 25 | 24 | 25 | 27 |
| B2. Primary balance is at historical average minus one standard deviations in 2017-2018 | 15 | 19 | 21 | 22 | 23 | 21 | 21 | 22 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 15 | 19 | 21 | 21 | 22 | 22 | 23 | 24 |
| B4. One-time 30 percent real depreciation in 2017 | 15 | 20 | 23 | 25 | 25 | 24 | 23 | 25 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2017 | 15 | 19 | 22 | 36 | 24 | 25 | 21 | 23 |

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by IMF Staff Representative on Myanmar**
**January 25, 2017**

The information below has become available following the issuance of the staff report (SM/17/1). It does not alter the thrust of the staff appraisal.

1. **In December 2016, the parliament passed a supplementary budget for FY 2016/17 that would increase the overall fiscal deficit by 0.7 percent of GDP, but full budget implementation is unlikely** (Text Table 1). The supplementary budget would increase the overall fiscal deficit to 5.3 percent of GDP from 4.6 percent for FY 2016/17 if fully implemented, making the fiscal policy stance more expansionary than envisaged. However, full budget implementation is considered unlikely, given historical under-execution of budgeted expenditures (by 2 percent of GDP on average for the past 5 years). Staff therefore does not expect the supplementary budget to have a major impact on the baseline assessment of the Myanmar economy.

2. **The additional spending is mostly in the areas of infrastructure (including transportation), social services, and security**. Detailed information on the supplementary budget is not yet available, but according to the available data the supplementary budget included 1.5 percent of GDP of spending, offset by 0.5 percent of under-executed spending for a net spending increase of 1.0 percent of GDP. Budgeted revenues were increased by 0.3 percent of GDP, leading to an additional financing need of 0.7 percent of GDP (0.5 percent for domestic financing and 0.2 for external financing).

**Text Table 1. Myanmar—Supplementary Budget for FY 2016/17**

| | Net Changes Relative to the Amended Budget | |
|---|---|---|
| | (in billions of kyat) | (in percent of GDP |
| **Supplementary revenue** | **243** | **0.29** |
| Tax revenue | 293 | 0.35 |
| Non tax revenue | -177 | -0.21 |
| Grants | 127 | 0.15 |
| | | |
| **Supplementary expenditure** | **839** | **1.00** |
| Additional current expenditure | 743 | 0.89 |
| Underexecuted current expenditure | -445 | -0.53 |
| Additional capital expenditure | 541 | 0.65 |
| | | |
| **Supplementary overall balance** | **-596** | **-0.71** |
| | | |
| **Supplementary financing** | **596** | **0.71** |
| Domestic financing | 443 | 0.53 |
| Foreign financing | 152 | 0.18 |
| | | |
| **Memo items:** | | |
| Supplementary expenditures 1/ | | |
| Infrastructure and transportation | 188 | 0.23 |
| Social | 119 | 0.14 |
| Security | 86 | 0.10 |
| Other | 890 | 1.07 |

Source: Preliminary data provided by the Myanmar authorities.

1/ Staff's calculations. Expenditure classifications may overlap.

**Statement by Marzunisham Omar, Executive Director for Myanmar and Ms. May Toe Win, Advisor to the Executive Director**
**January 25, 2017**

## Introduction

1. On behalf of the Myanmar authorities, we thank staff and management for the Fund's active engagement with Myanmar, including the constructive policy discussions that took place in Yangon and Nay Pyi Taw from October 14 to 28, 2016.

The staff report reflects a good account of these discussions. The authorities appreciate staff's policy advice to address macroeconomic imbalances, including keeping the fiscal deficit in check, tightening monetary policy in light of growing inflationary pressures, allowing greater exchange rate flexibility, strengthening financial sector stability, and accelerating structural reforms to lay the foundation for more resilient and inclusive growth. The authorities broadly concur with the assessment and would take the recommendations into consideration in formulating future policies.

## Recent Economic Developments and Outlook

2. After experiencing a rapid expansion of 7.3 percent in FY[1]2015/16, economic activity softened in the first half of FY2016/17 due to weak external demand, low commodity prices and sluggish growth in the construction and investment sectors. Nevertheless, economic activity is expected to pick-up over the remainder of FY2016/17 and into FY2017/18 against the backdrop of the new government's policies that are expected to boost investor confidence. Under the National Development Strategy, medium-term growth is projected to average 8.2 percent annually in the next 5 years, underpinned by improved macroeconomic management, increased natural gas production and exports, and stronger performance in the non-gas sectors as the economy opens up to foreign investment.

3. Inflation declined to 6.3 percent in August and is projected to average at 7 percent in FY2016/17 primarily on account of money supply growth. The current account deficit widened to 5.2 percent of GDP in FY2015/16 as a result of lower natural gas exports and continued strong import growth. The Central Bank of Myanmar's (CBM) foreign reserves was lower by about US$290 million due mainly to a decline in FDI inflows amidst uncertainty during the political transition. The Kyat depreciated by about 17 percent against the U.S. dollar in nominal terms over the course of the fiscal year, but appreciated in real effective terms on account of high inflation.

[1] The fiscal year (FY) starts on April 1 and ends on March 31.

4. The authorities consider the risks to growth to be more balanced. In particular, as uncertainties associated with the political transition subside and the new government's policies to promote private investment start to bear fruit, upside risks to growth could materialize. On the external front, uncertainty over commodity prices and the rebalancing of the Chinese economy continue to pose downside risks to growth. Weak natural gas prices are weighing on export and government revenues while natural disasters remain a significant risk to the economy, as demonstrated by the massive floods in 2015 and the earthquake earlier in 2016. The authorities remain vigilant of the downside risks and will continue to undertake measures and reforms to enhance macro-financial stability and ensure economic resilience.

**Fiscal Policy**

5. After a sharp increase in the fiscal deficit to 4.1 percent of GDP in FY2015/16, the authorities plan to maintain the deficit at around 4.5 percent of GDP over the medium term, which in staff view would be consistent with keeping Myanmar at low risk of debt distress while providing fiscal space to respond to shocks (including from frequent natural disasters) and meeting the large development needs.

6. Keeping the deficit in check is essential to maintain long-term debt sustainability and anchor inflation and exchange rate expectations. Therefore, Myanmar remains committed to the implementation of fiscal reforms, particularly tax and custom administration and tax policy reforms aimed at strengthening domestic revenue mobilization. Notable progress has been made on improving revenue administration, including the establishment of the large taxpayer office. The authorities are working closely with the Fund and other development partners to continue deepening the fiscal reforms, including by moving to Phase II of the revenue reform agenda. They also recognize the need to ensure consistency and clarity of tax legislation and to pass the Tax Administration Procedure Law, which is currently in drafting stage, in order to provide a stable and transparent legal basis for tax collection.

7. On expenditure management, the authorities will continue to prioritize expenditure on critical infrastructure and social services while improving efficiency, and containing fiscal risks - especially those emerging from State Economic Enterprises (SEEs), State-owned Banks (SOBs) and public-private partnerships (PPPs). Thus, they are developing the groundwork for the Public Financial Management Law while updating the Financial Rules and Regulations in the near term. The authorities, with the assistance of development partners, are also in the process of formulating reform strategies to improve SEE performance.

8. The authorities have agreed to switch to the GFS[2] definition of fiscal deficit as soon as practicable, which would increase transparency and boost confidence of the business community and development partners in the government's public financial management.

[2] Government Finance Statistics

9. While public debt remains sustainable with the debt sustainability analysis showing a low risk of debt distress, the authorities are determined to continue improving the medium-term fiscal framework, particularly by developing a medium-term debt management strategy.

**Monetary and Exchange Rate Policy**

10. Myanmar has made important improvements to the monetary policy framework and managed float exchange rate system in the last several years. These reforms include the realignment of the reference rate with parallel market exchange rates in 2015, the conduct of deposit auctions to mop up liquidity and the introduction of treasury bill (T-Bill) auctions. The deposit auction, which was introduced in September 2012, facilitated market-driven interest rate determination and more terms of deposits with greater participation by commercial banks and greater flexibility for the CBM to target specific types of banks in the deposit auctions. In addition, the reserve requirements for banks, introduced in April 2015, have been fully complied with since October 2016.

11. The CBM continues to tighten monetary conditions to prevent further increases in macroeconomic imbalances and welcome staff's recommendation to consider adopting a medium-term inflation objective of around 5 percent to anchor inflation expectations and guide its reserve money targeting.

12. A key measure to control inflation is the phasing out of central bank financing of the fiscal deficit. For the first time, the authorities will limit the central bank deficit financing to 40 percent of domestic financing in FY2016/17. This limit will be reduced gradually over the medium term to ensure the potential increase in cost to the budget and any unintended crowding out effects on private sector credit flows are manageable.

13. To facilitate the phasing out of central bank deficit financing, T-bill and Treasury Bond (T-bond) auctions were introduced in January 2015 and September 2016 respectively. Progress has been made with the T-bill auctions with market-determined interest rates and extended T-bill maturities. Foreign banks have been allowed to purchase government securities, which will also help to promote the development of the market.

14. Myanmar maintains and remains committed to a managed float exchange rate regime. Kyat depreciated by 17% against the USD between mid-2015 to end-Nov 2016, which is substantial and underscores that the exchange rate is flexible. In managing the exchange rate, the authorities need to strike a careful balance - excessive depreciation will further exacerbate inflation and could also affect confidence. Rather, the appreciation of real exchange rate is due to high inflation and thus, the measures by the CBM to tighten monetary conditions and reduce CBM financing of fiscal deficit. At the same time, the authorities agree that a more flexible reference rate setting mechanism is needed. In this context, the authorities agree on the options presented by staff in setting the reference rate, and requested Fund TA to study possible

realignment between the auction rate and parallel market rate based on market transactions as advised by staff.

**Financial Stability**

15. Notable progress has been achieved in strengthening financial stability. The Financial Institutions Law (FIL) has been enacted and bank regulation and supervision has been strengthened, including major advances made in full scope bank examinations, issuance of Mobile Financial Services Regulation and publication of IMF financial soundness indicators.

16. However, in view of the rapid credit growth due mainly to the large demand for credit by productive sectors and still-weak capital levels in some banks, the authorities are committed to further strengthening the financial supervision and regulatory framework. The CBM targets to issue and enforce prudential regulations by end-March 2017, as well as enforcing the FIL, completing full-scope examinations of all banks, and requiring banks to have capital and liquidity recovery plans to meet the new regulatory requirements. In this connection, the authorities agree with staff on the need to strengthen the capacity, including by having more human resource at the CBM, to develop plans for bank recovery and resolution to enable the CBM to deal with weak banks using its new FIL powers and to develop lender-of-last-resort capabilities. The authorities' welcome staff advice to carefully sequence higher lending rates under the FIL, accelerate reforms of SOBs and deepen the money and foreign exchange markets. Myanmar looks forward to further Fund support in the development of the interbank money market and contingency planning for bank recovery and resolution.

17. Achieving resilient and inclusive growth requires continued reforms to the financial sector to improve financial intermediation and inclusion. In this regard, the authorities are implementing measures to expand the branch network of the banking system, encourage microfinance, and roll-out innovations in ATMs, point-of-sale systems and mobile banking. The CBM issued the Mobile Financial Services Regulation in March 2016 which now allows the participation of mobile network operators in mobile money market and mobile payments. In addition, the payment and settlement systems will be further enhanced with the establishment of the CBM Net system.

18. Important steps have been taken to further strengthen the AML/CFT framework with the passage of the Anti-Money Laundering Law and the Counter Terrorism Law, including its accompanying regulations since 2015 as well as a Risk Management Guidance Note and the updated risk based customer due diligence Directive for the compliance of financial institutions. As a result, the FATF removed Myanmar from the list of countries under the ICRG process in June 2016. A National Risk Assessment (NRA) on ML/TF is being conducted with the assistance of the IMF, and the NRA Report is expected to be issued in mid-2017.

**Structural Reforms to Achieve Resilient and Inclusive Growth**

19. After a smooth political transition in April 2016, the new government's economic priorities are focused on implementing sound macroeconomic policies, enhancing human capital, developing the essential economic infrastructure as well as the agriculture and industry sectors, and promoting balanced economic development across the states and regions in the country. A significant milestone is the passage of the Investment Law in October 2016 which is a key policy instrument to improve the business environment and promote private sector participation.

20. The authorities' welcome staff's recognition of the improvements made to statistics and efforts towards developing capacity. Nevertheless, further attention to the Fund's recommendations to capacity constraints to improve short-term absorption and long-term sustainability is still required and the authorities are committed to taking appropriate steps to address them.

**Conclusion**

21. The Myanmar authorities are committed to preserving macroeconomic and financial stability, promoting sustainable and inclusive growth, and stand ready to implement any measures deemed appropriate. The authorities are grateful to the Mission for the productive discussion and valuable assessment and recommendations. The authorities value the Fund continuous support to Myanmar and look forward to strengthening the level of communication and relationship with the Fund in the future.