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MYANMAR

March 2020

2019 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 2019 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 February 28, 2020 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 February 28, 2020, following discussions that ended on December 19, 2019, 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 February 11, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Myanmar.

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PRESS RELEASE

PR20/111

IMF Executive Board Concludes 2019 Article IV Consultation with Myanmar

FOR IMMEDIATE RELEASE

The Staff Report prepared by a staff team of the IMF for the Executive Board's consideration on February 28, 2020. The staff report reflects discussions with the Myanmar authorities during December 5–19, 2019 and is based on the information available as of February 11, 2020. It focuses on Myanmar's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. These developments have greatly amplified uncertainty and could heighten downside risks around the outlook. Staff is closely monitoring the situation, including related policy responses from the authorities, and will continue to work on assessing its impact in the Myanmar economy.

Washington, DC – March 26, 2020 - the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Myanmar.[1]

Economic activity in FY2018/19 remained below levels seen in the last decade. Growth is expected to be subdued at 6.5 percent in FY2018/19, up slightly from 6.4 percent in FY2017/18 on account of a modest fiscal stimulus and one-off increase in gas exports. Domestic demand remains weak reflecting slowing credit growth, a correction in real estate prices and declining investments. Subdued economic activity has narrowed the current account deficit as imports fell while exports, especially textiles, held up despite global headwinds. The narrower deficit offset weaker FDI and other inflows allowing reserves and the kyat to stabilize. Headline inflation stood at 8.6 percent at end-September due to one-off factors such as higher electricity tariffs and food and fuel prices.

Medium-term growth is likely to remain subdued. Growth in FY2019/20 is expected to moderate slightly to 6.4 percent as continued uncertainty weighs on investor sentiment in the runup to the November 2020 elections. This slowdown is despite the fiscal stimulus envisaged in the FY2019/20 budget, which is appropriate given cyclical weakness. Starting FY2020/21, bank deleveraging is likely to slow credit and GDP growth as legacy problems are addressed. Inflation is expected to fall to 6–7 percent range in the medium term as recent one-off factors abate.

Risks to the outlook have shifted further to the downside. On the domestic front, growth could underperform if fiscal spending does not pick up. Rising NPLs and undercapitalization in some

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[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.

700 19th Street NW
Washington, DC 20431
USA

private banks could precipitate systemwide distress with large macro-financial spillovers. Renewed conflict and limited progress on the ongoing refugee crisis would continue to limit donor financing and dampen investor sentiment. On the external front, risks include the impact of global trade tensions, higher crude oil prices, a slowdown in China, and natural disasters. An upside risk is that growth is boosted by the planned scaling up of infrastructure and human capital spending and full implementation of the Myanmar Sustainable Development Plan. However, these projects need to be carefully managed to contain fiscal risks.

Executive Board Assessment[2]

Executive Directors noted that economic activity remains below potential in the face of stronger domestic and external headwinds. In the near-term growth is likely to remain subdued due to the correction in the real estate market, weaker donor financing and investor sentiment, in part related to the ongoing humanitarian crisis in Rakhine, and macro financial spillovers from bank deleveraging. Directors agreed that a second wave of fiscal and structural reforms should focus on peace, stability and good governance to boost growth, help achieve the Sustainable Development Goals (SDGs) and realize Myanmar's favorable long-term prospects.

Directors emphasized the elevated systemic risks and the urgent need to address fragilities in the banking system. They noted that the extension granted by the Central Bank of Myanmar (CBM) for banks to comply with capital adequacy and large exposure limit requirements should be used to enhance monitoring and diagnostics. The CBM should also encourage banks to restructure viable loans, recapitalize and prepare a comprehensive financial sector restructuring strategy, including contingency plans in the event of further distress. In addition, Directors urged the authorities to fully implement international reporting standards to allow a more comprehensive assessment of the banks' financial situation.

Directors noted that the current monetary policy stance helps keep market rates at positive real levels and broad money growth on a declining trend. They commended the successful transition to a market-determined reference exchange rate mechanism and plans to introduce interest payments on excess reserves. Directors believed that further upgrades in the monetary framework and interest rate liberalization would help enhance the transmission mechanism.

Directors agreed that a mildly expansionary fiscal stance in the near-term was appropriate. They also noted that it would be critical to enhance revenue mobilization along with public financial management reforms to scale up SDG-related spending in a sustainable manner. Directors regretted the spike in central bank financing towards the end of last fiscal year. They encouraged the authorities to improve cash management and undertake proactive debt issuances to avoid a repetition in this fiscal year, and to phase out CBM financing in next fiscal year as originally envisaged. Over the medium term, the planned scaling up of infrastructure investment needs to be well managed with due regard to fiscal risks.

Directors agreed that capacity development will be crucial to support the ambitious structural and policy reforms, with some reprioritization to account for absorptive capacity constraints and rapidly evolving needs. They also noted that governance and corruption vulnerabilities need to be addressed, along with gaps in the AML/CFT framework identified by the Asia and Pacific Group.

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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.

Myanmar: Selected Economic Indicators, 2016/17–2021/22 1/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
Output and prices						
Real GDP 2/	5.8	6.4	6.5	6.4	6.0	6.2
CPI (end-period; base year from 2014/15=2012)	3.4	8.6	9.5	7.7	6.6	6.2
CPI (period average; base year from 2014/15=2012)	4.6	5.9	8.6	7.9	6.9	6.4
Consolidated public sector 3/			(In percent of GDP)			
Total revenue	18.3	18.8	18.0	18.1	18.1	18.4
Tax revenue	7.1	7.1	6.8	6.9	7.2	7.5
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.6	0.4	0.4	0.4
Other revenue	10.6	11.3	10.4	10.6	10.4	10.4
Total expenditure	21.0	21.8	21.5	22.1	22.5	22.9
Expense	14.6	14.7	14.7	15.0	15.1	15.3
Net acquisition of nonfinancial assets	6.4	7.1	6.8	7.2	7.4	7.6
Gross operating balance	3.7	4.1	3.3	3.1	3.0	3.1
Net lending (+)/borrowing (-)	-2.7	-3.0	-3.5	-4.1	-4.4	-4.4
Domestic public debt	23.3	26.3	23.4	23.5	23.9	24.4
Money and credit			(Percent change)			
Reserve money	8.0	4.6	11.3	8.4	9.0	8.9
Broad money	21.4	18.6	15.4	11.8	10.9	11.0
Domestic credit	22.3	21.4	17.2	14.5	11.2	11.7
Private sector	27.4	21.2	16.4	12.7	6.3	6.7
Balance of payments 4/			(In percent of GDP)			
Current account balance	-6.5	-4.2	-2.0	-3.2	-3.5	-4.0
Trade balance	-7.5	-5.1	-3.0	-3.7	-4.1	-4.5
Financial account	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7
Foreign direct investment, net 5/	-5.8	-4.8	-2.9	-3.1	-3.2	-3.5
Overall balance	0.5	0.5	0.3	0.4	0.5	0.7
CBM reserves (gross)						
In millions of U.S. dollars	5,141	5,462	5,667	5,936	6,376	7,040
In months of prospective GNFS imports	3.2	3.6	3.5	3.4	3.3	3.3
Total external debt (billions of U.S. dollars)	17.7	19.6	19.1	19.1	19.3	19.6
Total external debt (percent of GDP)	28.8	31.8	27.9	25.5	23.5	21.8
Exchange rates (kyat/$, end of period)						
Official exchange rate	1,357.7	1,551.5	1,533.0	…	…	…
Parallel rate	1,350.9	1,563.6	1,533.1	…	…	…
Memorandum items:						
GDP (billions of kyats)	82,700	92,789	105,012	120,872	138,076	157,026
GDP (billions of US$)	61.5	67.1	68.5	74.8	81.9	89.6
GDP per capita (US$)	1,267	1,279	1,242	1,321	1,440	1,593

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

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Real GDP series is rebased to 2015/16 prices by the authorities.

3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.

4/ The balance of payments data has been revised according to the BPM6 methodology.

5/ FDI from 2017/18 onwards reflects improved forex transaction data collection, which has caused a break in the data series.

MYANMAR

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

February 11, 2020

KEY ISSUES

Disclaimer: The Staff Report prepared by a staff team of the IMF for the Executive Board's consideration on February 28, 2020. The staff report reflects discussions with the Myanmar authorities during December 5–19, 2019 and is based on the information available as of February 11, 2020. It focuses on Myanmar's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. These developments have greatly amplified uncertainty and could heighten downside risks around the outlook. Staff is closely monitoring the situation, including related policy responses from the authorities, and will continue to work on assessing its impact in the Myanmar economy.

Context: The economic outlook has weakened in the face of stronger domestic and external headwinds, and growth remains below potential. The envisaged fiscal stimulus in the FY2019/20 is appropriate given the cyclical weakness with monetary policy anchoring inflation and external stability. Systemic risks in the banking system continue to be elevated, raising the urgency for comprehensive financial sector reform and contingency planning to preserve financial stability. The planned scaling up of infrastructure investments presents an upside risk if well managed.

Medium term prospects: Although long-term prospects remain favorable, near-term growth is likely to remain below potential as the correction in real estate market and continued uncertainty weighs on investor sentiment in the runup to the 2020 elections. Starting FY2020/21, bank deleveraging will further slow credit and constrain GDP growth as borrower's true ability to repay is revealed with term loans coming due and banks restructure in earnest. Inflation is expected to fall to 6 percent to 7 percent range in the medium term as the impact of one-off increase in electricity tariff abates.

Policy Recommendations:

- Fiscal and structural reforms will be important to boost medium-term growth, including implementation of the Myanmar Sustainable Development Plan (MSDP). Lasting progress on peace and stability remains critical to realize Myanmar's growth potential and poverty reduction. Associated fiscal risks must be prudently managed.

- Financial regulations and supervision should be strengthened to ensure financial stability, while forming contingency plans to address systemic banking risks and strengthening the resolution framework. Addressing governance gaps in the AML/CFT framework recommended by the Asia and Pacific Group (APG) is critical.
- The spike in monetary financing in September has highlighted gaps in cash management. Fiscal policy should aim to phase out central bank financing, by raising domestic revenue and increasing market-based financing of the deficit.
- Monetary conditions should be proactively managed to anchor market interest rates and control inflation. With the successful transition to the market-determined reference exchange rate mechanism, the time is right to upgrade the monetary policy framework and gradually liberalize retail bank interest rates.

Approved By
Kenneth H. Kang and Johannes Wiegand

Discussions took place in Nay Pyi Taw and Yangon during December 5–19, 2019. The staff team comprised Mr. Peiris (Head), Mr. De, Mr. Deb, Ms. Nadeem (all APD), Mr. Xiao (FAD), Ms. Iorgova (MCM), Mr. Ishiwaka (OAP), and Mr. Saker (Resident Representative), Mr. Tun (Resident Representative Office). Mr. Cowen (CDOT Director) and resident advisors joined part of the mission. Ms. Mahasandana (Executive Director) and Mr. Srisongkram (Advisor) also participated in discussions. Ms. Dao and Mr. Landicho assisted in preparing this report.

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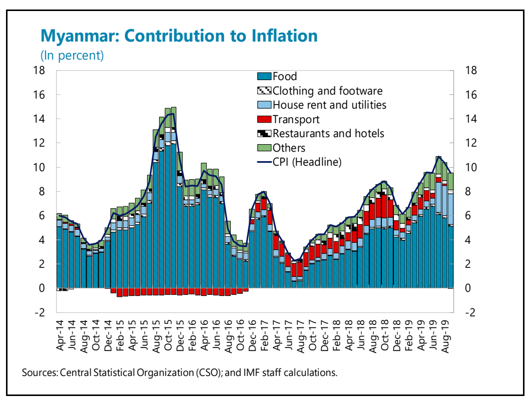
CONTEXT

1. Despite favorable long-term prospects, the economy remains below potential and downside risks have intensified. The economic outlook has weakened in the face of weak investor sentiment despite the gradual improvement in budget execution and still robust export growth amid global trade tensions. This is partly related to the real estate market correction and uncertainties in the runup to the November 2020 elections. Systemic risks in the banking system continue to be elevated, raising the urgency for comprehensive financial sector reform and contingency planning to preserve financial stability.

2. The Myanmar Sustainable Development Plan (MSDP) forms the basis of the authorities' economic roadmap and a second wave of reforms is underway. Recent achievements include adopting a market-based reference exchange rate, the long-delayed electricity tariff reform, and the enactment of the Tax Administration Law (see Appendix I). Continued capacity development (CD) remains crucial for Myanmar to implement the MSDP reforms and transition to a market-based open economy and build institutions.

3. Prospects for progress in addressing the refugee crisis in Rakhine State ahead of the 2020 elections are limited amid rising nationalist sentiment. The 2018 Memorandum of Understanding (MoU) signed between the UN and Myanmar for a needs assessment and a process to repatriate refugees from Bangladesh has faced difficulties with renewed conflict and refugees' reluctance to return. The State Counsellor Aung San Suu Kyi's recent visit to the International Court of Justice at the Hague has bolstered domestic support. Progress towards resolving the refugee crisis in Rakhine has stalled. In addition, the security situation has deteriorated in border areas according to the UN and ethnic-regional tensions remain elevated.

RECENT DEVELOPMENTS

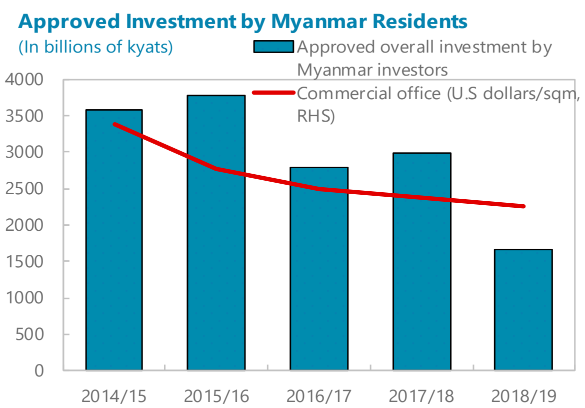


4. Economic activity in FY2018/19 remained below potential. [1] Growth is expected to be subdued at 6.5 percent in FY2018/19, up slightly from 6.4 percent in FY2017/18 on account of a modest fiscal stimulus and a one-off increase in gas exports.[2] Domestic demand remains weak reflecting slowing credit growth, a correction in real estate prices and declining

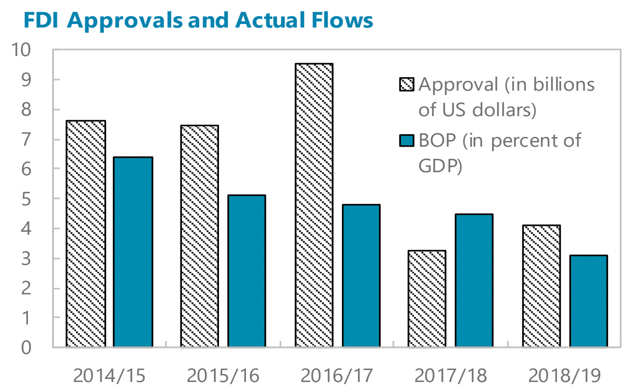
[1] Staff do not have updated estimates of potential growth due to ongoing revisions to national accounts, but growth is clearly less than the 7-8 percent estimated in 2016 Staff Report (see 2016 Article IV Consultation Staff Report (Box 2)

[2] Myanmar's fiscal year has changed from April–March, to October–September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year started October 2018. This report uses the new fiscal year definition for both historical data and projections.

investments. FDI inflows continue to decline as large projects have been completed amid tepid foreign investor sentiment, although FDI project approvals, a leading indicator of FDI inflows witnessed a slight uptick since its sharp decline in FY2017/18. Headline inflation stood at 8.6 percent at end-September on higher electricity tariffs (contributing over 2 percentage points) and food and fuel prices but is expected to moderate.

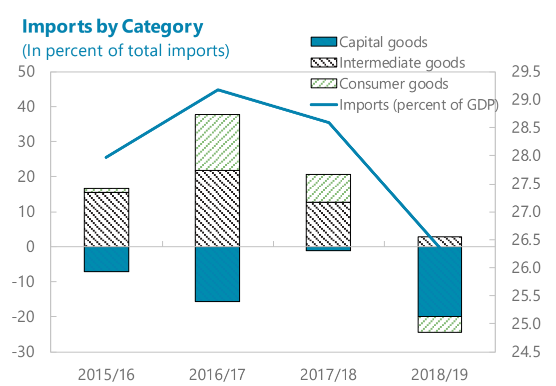


Sources: Coliers International Myanmar; DICA; and IMF staff calculations.



Sources: DICA; CBM; and IMF staff calculations.

5. **Restrained economic activity has narrowed the current account deficit.** The trade and current account deficits shrank from 5 to 3 percent and from 4 to 2 percent of GDP respectively in FY2018/19, as imports contracted sharply on lower FDI related imports, decline in iron and steel imports due to a slowdown in construction and one-off factors related to changes in automobile import regulations. In contrast, exports held up, led by garment manufacturing and natural gas, amid global trade tensions, the slowdown in China and logistical disruptions in the China-Myanmar trade corridor. The narrower deficit offset weaker FDI and other inflows. This allowed a modest buildup of FX reserves via auctions to about US$5.7 billion (3.5 months of imports) at end-September 2019. Overall, the external position in FY2018/19 was broadly in line with fundamentals and desirable policies (see Appendix II); risks of external debt and overall debt distress are low (see Debt Sustainability Analysis), but reserve coverage continues to be inadequate.

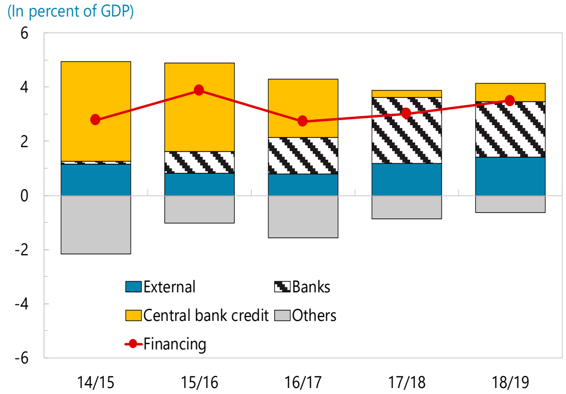


Sources: Myanmar authorities; and IMF staff calculations.

6. **Budget execution provided a modest stimulus in the last quarter.** After significant under-execution in the first three quarters, particularly on capital expenditures, spending picked up toward the end of FY2018/19. With revenues broadly in line with expectations, the fiscal deficit is estimated at 3.5 percent of GDP in FY2018/19, compared to 3 percent in FY2017/18. The rapid pick up in the deficit toward the end of the year raised sharply net CBM financing in September 2019 to 8.4 percent of last year's reserve money, above staffs' recommended 1 percent.

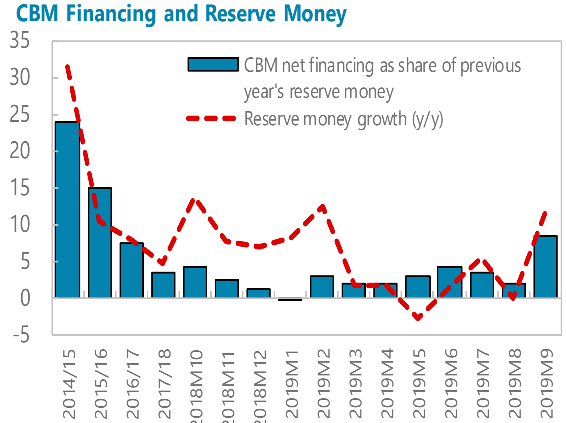
While the authorities' official target (gross CBM financing as a share of total domestic financing) may have been just met, it is a sharp reversal of the declining trend of net CBM financing observed over the last few years.[3] This partly reflects the change of the fiscal year that obscured seasonal patterns but also gaps in cash management and could have been avoided by greater domestic debt issuances through the year.

Fiscal Financing
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

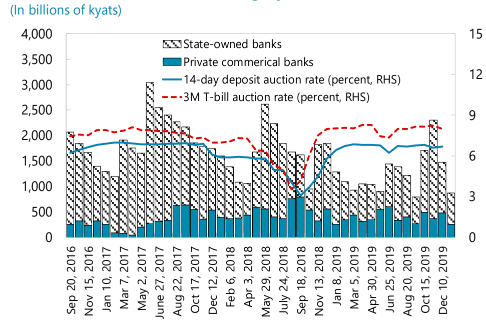
CBM Financing and Reserve Money



Sources: CBM; and IMF staff calculations.

7. Broad monetary aggregates and the exchange rate remained stable despite the temporary higher monetary financing in September. Reserve money growth picked up at the end of the fiscal year, due to increased monetary financing but remained within target as NFA remained broadly stable. Moreover, growth in broad money aggregates, the intermediate target, moderated from 19 percent in 2017/18 to 15½ percent in September 2019 as targeted. Treasury and deposit auction rates also remained relatively stable as excess reserves of the banking system were seasonally low and reserve money growth has moderated to about 6 percent y/y since September. The kyat and REER have been broadly stable since February 2019, when the CBM formally adopted a market-determined reference exchange rate; the move has better anchored market expectations and reduced the informal market spread with limited one-way FX intervention.

Excess Reserves in the Banking System and Auction Rates
(In billions of kyats)

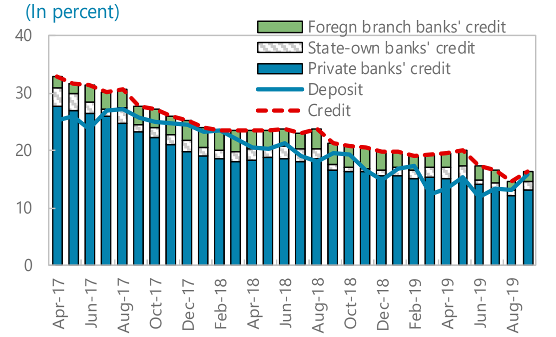


Sources: Myanmar authorities; and IMF staff calculations.

3 FY2018/19 was likely the first year that gross and net CBM financing deviated as there were accumulated government deposits at the CBM from the 6-month transition budget year (April to September 2018) when budget execution was exceptionally weak.

8. The slowdown in credit and correction in real estate market presented additional headwinds. Credit growth to the private sector continued to slow amid private bank deleveraging but is still robust at 16 percent in the year to end-September 2019, down from 21 percent a year earlier. The higher than expected credit expansion is supported by banks' steady deposit growth and the CBM's directive giving banks more time to meet large exposure limits and minimum capital adequacy levels. Overdrafts have continued to decline as envisaged by the 2017 prudential guidelines while banks face difficulties in recovering real estate collateral from NPLs. Real estate prices have also continued to correct from elevated levels, with some further pressures from the tightening in credit conditions and supply coming online. Anecdotal evidence suggests that rental rates may have declined by 50 percent and condo prices by 30 percent, with further declines likely as under-construction projects are completed. Land prices have reportedly adjusted less, with owners and collateral holders unwilling to take large haircuts for now.

Credit Growth Contribution and Deposit Growth
(In percent)

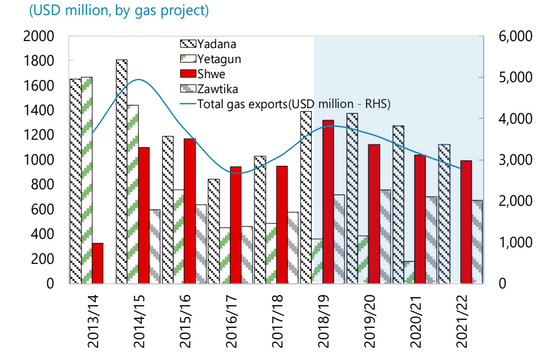


Sources: Central Bank of Myanmar; and IMF staff calculations

OUTLOOK AND RISKS

9. Although long-term prospects remain favorable, the dividends from the first wave of economic reforms is waning and legacy issues are coming to the fore. Implementing the second wave of reforms as articulated in the MSDP is needed to sustain growth and achieve the SDGs. Despite Myanmar's growing demographic dividend, competitive labor force, and strategic location, GDP growth since 2015 has moderated and reflects a new normal.[4] Revenues from natural gas extraction have been declining and will not be able to support the high public investment that drove growth in the past.[5] The scaling up of infrastructure projects including the China-Myanmar Economic Corridor (CMEC) and the East-West corridor could help realize Myanmar's growth potential by further integrating in regional supply chains (see Selected Issues 2018). On peace and stability, addressing regional disparities and conflict in affected regions remains a priority (see Selected Issues 2018),

Gas Exports
(USD million, by gas project)



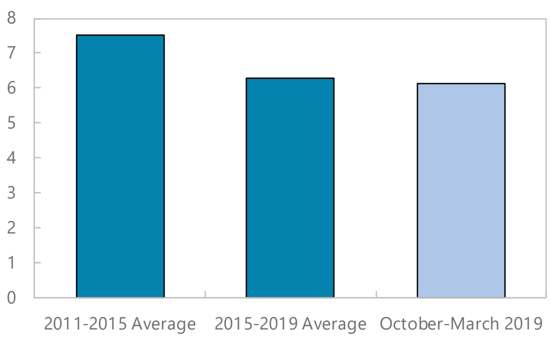
Sources: Myanmar authorities; and IMF staff calculations.

[4] The national accounts are in the process of being revised and rebased on a new 2015 supply and use tables with ADB and Fund assistance, though currently still not fully reflecting the updates.

[5] Myanmar's existing petroleum wells are on decline, but the A6 block of Shwe Yee Htun-2 has moved to the development phase and could come on stream by FY2022/23.

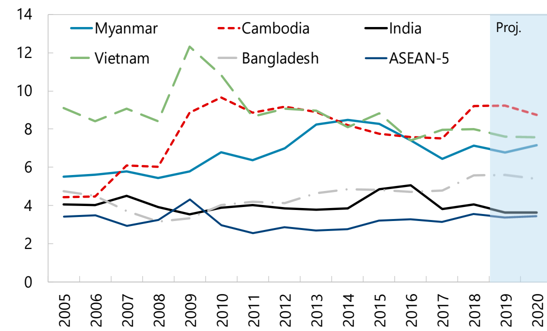
including the resettlement of refugees in Rakhine state. Legacy issues in the banking system continue to pose financial stability risk, raising the urgency for financial sector reform and contingency planning. Decades of international isolation and under-investment in human capital, also pose severe capacity constraints.

GDP Growth
(2015/16 constant prices)



Sources: Myanmar authorities; and IMF staff estimates.

Public Investment
(In percent of GDP)



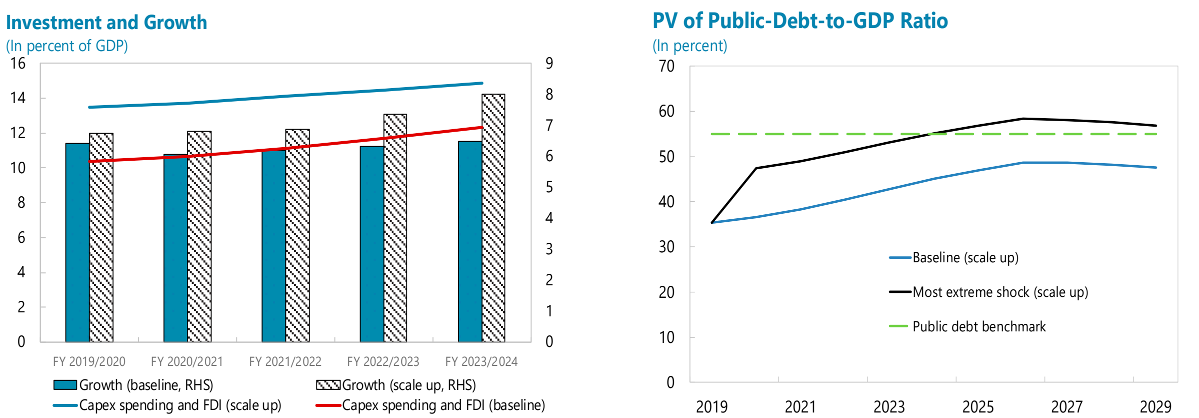
Source: IMF's *World Economic Outlook* database.
Note: ASEAN-5 includes Indonesia, Malaysia, Philippines, Singapore, and Thailand.

10. The near-to-medium-term growth outlook is likely to remain less favorable than the last decade's. Growth in FY2019/20 is expected to moderate slightly to 6.4 percent as continued uncertainty weighs on investor sentiment in the runup to the 2020 elections. Despite weakness in investments, domestic demand is supported by the fiscal stimulus envisaged in the FY2019/20 budget, which is appropriate given cyclical weakness. External demand is expected to provide a drag as the current account is projected to widen as the effects of one-off factors abate. Starting FY2020/21, bank deleveraging is likely to slow credit and GDP growth as legacy problems are addressed and borrower's true ability to repay is revealed with term loans coming due and banks restructure in earnest to comply with capital adequacy and large exposure limits by August 2020. As a result, medium term growth is now projected to be lower than previously envisaged given the delayed restructuring and weaker property market. Inflation is expected to fall to 6-7 percent range in the medium term as the one-off increase in electricity tariff and pressures from rising food prices abate.

11. Risks to the outlook have shifted further to the downside (Appendix I). On the domestic front, inflation could accelerate if fiscal financing does not sufficiently cover the budget deficit and raises CBM financing. Rising NPLs and undercapitalization in some private banks could precipitate system-wide distress with large macrofinancial spillovers (see below). Renewed conflict and limited progress on the ongoing refugee crisis would continue to limit donor financing and dampen investor sentiment. Project financing from large creditors is based on recent trends but could also surprise on the upside and boost growth as infrastructure is scaled up. On the external front, risks include the impact of global trade tensions, higher crude oil prices, a slowdown in China, and climate change and disasters. The economy is also exposed to risks from the novel coronavirus mainly through tourism.[6]

12. The planned scaling up of infrastructure and human capital spending and full implementation of the MSDP present an upside risk. To support achieving the Sustainable Development Goals (SDGs) by 2030, large infrastructure projects relating to electricity, gas, road and railways and ports are envisaged in the medium term. The planned scaling up investments could amount to as much as 3 percent of GDP per year over five years, funded predominantly from ODA and PPPs, and could raise growth by 1.5-2.0 percent over the medium-to-long term.[7] SDG-related spending gaps are estimated to be large in Myanmar (Appendix VII; Myanmar 2018 Article IV consultation) and expenditures are gradually scaled-up in the upside scenario reflecting absorptive capacity constraints. However, given the weaknesses in the public investment management framework and limited experience with PPP financed investment, significant fiscal structural reforms would be needed for this scenario to materialize and manage associated fiscal risks (see Debt Sustainability Analysis – staff scenario analysis).

Scaling Up Scenario



Sources: Myanmar authorities; and IMF staff estimates.

Source: IMF staff estimates.

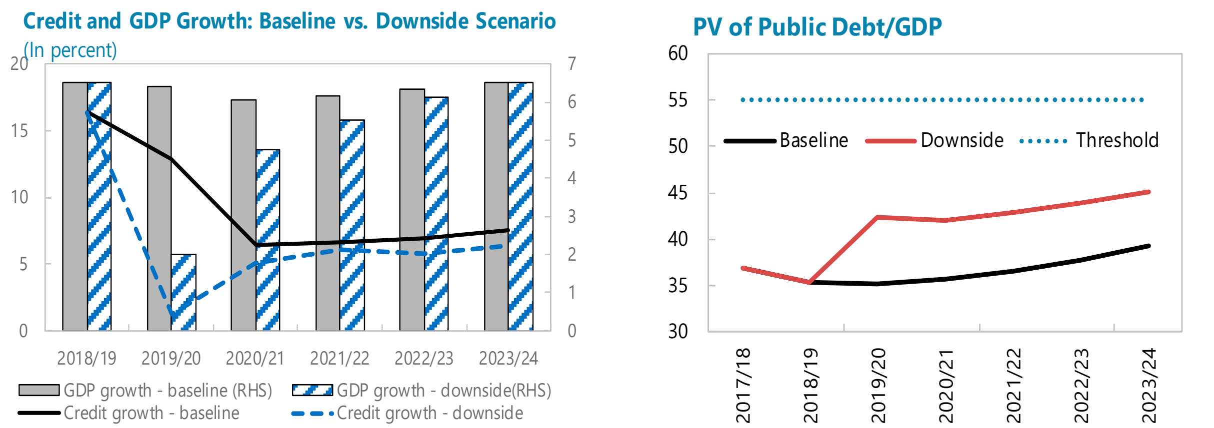
13. Conversely, macro financial spillovers from banking stress could be large. An illustrative scenario calibrated to cross-country experience suggests that in an event of bank distress, as observed in Myanmar's 2003 episode, deposit withdrawals could leak to the large informal FX market, given the lack of alternative assets and weak enforcement of existing capital controls. Output and credit growth could decline significantly relative to the orderly deleveraging assumed in the baseline, by as much as 4½ percentage points and 10 percentage points respectively, with

[6] In FY2017/18, revenue from international tourism was 2.6 percent of GDP, with the number of Chinese tourists doubling in FY2018/19 to reach 17 percent of total foreign visitors.

[7] The scaling up is drawn from development partner studies on electricity and transportation infrastructure gaps, investment needs to achieve the SDGs, and the authorities' intentions.

higher inflation, a more depreciated exchange rate, and large FX reserves losses; however, public and external debt would remain below their DSA risk thresholds.

Banking System Stress Scenario: Baseline vs. Downside



Sources: Myanmar authorities; and IMF staff estimates.

Authorities' Views

14. The authorities broadly agreed with staff's view of the recent developments and outlook. The subdued growth was attributed to several external factors including delays in project implementation and tepid investment, and continued correction in the real estate market. They opined that FY2018/19 GDP could surprise on the upside owing to a pickup in government spending at the end of the fiscal year and increase in tourist arrivals. The authorities are carefully considering large infrastructure projects, including the China-Myanmar economic corridor, to benefit from Myanmar's strategic location while ensuring debt sustainability. They were hopeful of a pickup in FDI and investment over the next few years. The authorities appreciated the quantitative risk scenarios and policy trade-offs outlined by staff. They recognized the severity of the downside scenario and were keen to realize the gains envisaged in the upside scenario through full implementation of the MSDP.

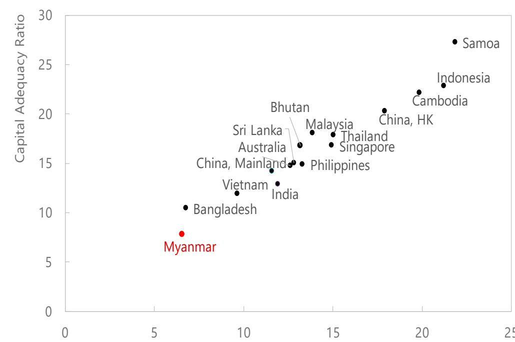
FINANCIAL SECTOR AND MONETARY POLICIES TO SAFEGUARD FINANCIAL STABILITY

A. Developing a Financial Sector Strategy

15. The process of addressing legacy asset quality problems in the banking sector is slowly moving forward, but vulnerabilities remain. The adoption of new prudential regulations in 2017 was a critical first step to start tackling systemwide vulnerabilities. Banks have continued to make progress switching from overdraft into term loans and appear to have met the July 2019 target of 30 percent of total lending set by the CBM. But the re-underwriting has led to a rise in NPLs, which, coupled with weaker real estate valuations, have stressed banks' already weak capital positions. The terms of the 3-year loans re-underwritten after the overdraft conversion include large bullet payments in some cases that are likely to pose repayment challenges. Moreover, specific provisioning for NPLs and required general provisions have been unevenly enforced. The loan-loss provisions could hence be substantially higher than reported going forward. Some banks including a few systemic private banks, have raised capital including through subordinated debt and minority stakes by foreign banks as allowed by the prudential regulations. However, the recapitalization needs could be quite large and unevenly distributed in a few banks that possess a disproportionate share of large legacy loans, making a purely private sector solution unviable and necessitating public support.

16. **Financial reporting by banks does not adhere to international standards as yet, putting a greater onus on enhanced financial sector surveillance and supervisory oversight.** All banks are in the process of finalizing their end-September 2019 annual financial statements as required under the Financial Institutions Act of 2016 and the 2017 prudential guidelines; this should give a clearer picture of their financial position including earnings that would no longer accrue interest on NPLs.[8] At the same time, some banks are restructuring delinquent loans into new loans at lower interest rates with step-in rights for the bank to take possession of the underlying collateral ("step in") in 180 days without resorting to lengthy court processes. The legal basis and accounting treatment of these loans will need to be evaluated. Though potentially facilitating collateral recoveries, rapid accumulation of real estate assets on the bank's books would raise systemic risk from a downward shift in realizable real estate values. While progress has been made in strengthening on- and offsite bank examinations and introducing of risk-based supervision with Fund TA, compliance and enforcement including judicious use of penalties remain at early stages.

Regulatory and Tier 1 Capital Ratios
(In percent, end-2018)



Source: IMF, Financial Soundnesss Indicators; and Myanmar authorities.
Note: Data for Myanmar is as of end-September 2018; the Tier 1 ratio is imputed.

Myanmar: Structure of the Banking System 1/

	Number		Branches		Total Deposits (% of system)		Total Assets (% of system)		Total Loans (% of system)	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
State-owned Banks	4	4	545	544	26.4	22.0	33.3	27.6	11.2	12.8
Private Banks	24	27	1719	1835	65.9	69.4	57.3	62.0	84.6	79.5
of which: Systemic Banks	6	6			61.2	0.6	52.5	51.1	68.9	64.7
Foreign Bank Branches	13	13	13	13	7.7	8.6	9.5	10.4	4.3	7.7
Total banking system										
In percent of GDP					47.9	47.0	63.5	66.0	25.3	28.3

Source: Myanmar authorities.
1/ March data for 2018 and June data for 2019

[8] Currently, domestic banks still use a cash-based accounting approach, but a local version of IFRS is due to be in place by all banks in 2022. Two smaller banks are currently starting to implement IFRS on a pilot basis supported by donor assistance. Progress amongst banks is generally constrained by inadequate IT and human resources.

17. Developing a comprehensive financial sector reform strategy is urgently required to safeguard financial stability. It is important to ensure that asset quality issues are tackled head-on: otherwise clean-up costs would be higher, taking a heavy toll on the economy. The CBM has extended the period for banks' compliance with capital adequacy and large exposure limit requirements to August 2020. During this extension, the CBM should ensure that banks maximize recoveries and book loan losses, adequately provision and rebuild capital and encourage banks to restructure viable loans. Given the potentially large macrofinancial spillovers from banking stress illustrated above, it is critical to start addressing gaps in the legal framework and building the institutional elements to fulfill key financial stability priorities. These include effective mechanisms to ascertain banks' true health; enable loss recognition and provisioning (including supportive tax provisions), orderly deleveraging, and recapitalization; and putting in place effective resolution mechanisms that limit spillovers while protecting small depositors. Immediate priorities are:

- *Phase out remaining forbearance and prepare for restructuring.* To this end, banks' submissions of large exposures and capital improvement plans should be reviewed to ensure that they are sufficiently ambitious and realistic, and their implementation monitored closely.

- *Asset quality reviews (AQRs) and risk monitoring.* An independent AQR of the top private banks by international specialists should be prioritized, given long lead times, to determine banks' asset quality and capital needs and enable the authorities to make informed policy decisions on resolution options.

- *Supervisory oversight should be strengthened.* The authorities should establish appropriate processes for high-frequency monitoring of credit and liquidity risks, building on progress made towards greater risk-based supervision.

- *Limits on banks' exposures to real estate and large corporate borrowers.* The authorities should take gradual steps to limit banks' excessive real estate holdings and facilitate their speedy disposal at market prices. Should the AQR identify a systemic problem with the viability of large corporates, there may be merit in a centralized solution for corporate restructuring within a proper governance framework.

- *Establishing an operational framework for emergency liquidity assistance (ELA) and resolution.* The authorities should strengthen their capacity, policies and procedures for emergency liquidity support for solvent banks (that differs from day-to-day liquidity management) and bank resolution framework including by establishing a dedicated restructuring group within the CBM.

- *Contingency planning and macroeconomic policies should financial stability risks materialize.* Public support and a credible policy package may be required to instill confidence in the banking system and exchange rate to protect the external and fiscal position. This would require setting up proper coordination mechanisms between the CBM and the Ministry of Planning, Finance and Industry (MOPFI). Supportive fiscal and monetary policy, and an external financing backstop would also be important to anchor expectations and respond to disorderly market conditions.

- *Addressing the health of non-systemic private banks and state-owned banks.* Non-systemic banks that are insolvent would need to be promptly resolved and undercapitalized state-owned banks restructured, guided by the World Bank's restructuring strategy.

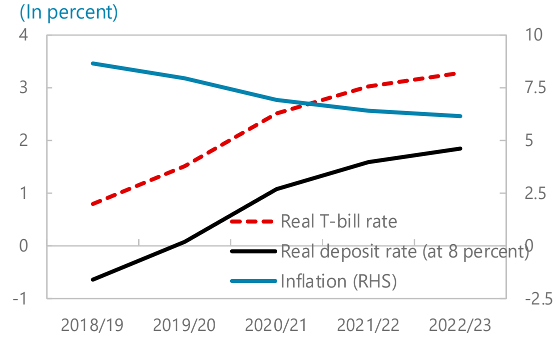
Authorities' Views

18. **The authorities are committed to improving financial supervision and addressing systemic risks.** The CBM noted progress made in converting overdrafts to term loans and were confident that most banks would meet capital adequacy and large exposure limits by August 2020. CBM also recognized the importance of seeing through the implementation of prudential regulations and their role in monitoring and enforcement. They agreed that timely recapitalization would be key to maintain confidence in the banking system and highlighted that some capital injections has taken place through the avenues provided by the CBM. AQRs could play a useful role in identifying the "true" financial position and restructuring options for some banks. While acknowledging the use of "step-in contracts" by some banks, they noted that the CBM has not approved their use. Uncertainties over the proper adherence by banks to international accounting standards and on the capacity or willingness to pay of large borrowers pose a challenge to enforcing credible capital improvement plans. They agreed that a well formulated financial safety net and contingency plans were needed to safeguard financial stability.

B. Upgrading the Monetary Policy Framework

19. **Monetary conditions should be proactively managed to anchor stability.** Inflation has recently spiked mainly due to supply side factors, notably the doubling of the electricity tariff. However, broad money growth (intermediate target) remains below target despite the September spike in monetary financing. The CBM should maintain the current monetary stance of market rates at slightly positive real terms despite a negative output gap to anchor external stability and inflation expectations. Inflation is projected to fall to mid-single digits as broad monetary aggregates continue to moderate supported by the phasing-out of CBM financing and positive real interest rates. Greater coordination between line ministries, MOPFI and CBM could also lower the risk of underfunding of the budget and excessive interest rate volatility. To enable this, it is important to improve liquidity forecasting and actively undertake open market operations to keep money growth contained and interest rates well anchored.

Inflation and Real Interst Rates
(In percent)



Source: IMF staff estimates.

20. **Upgrading the monetary policy framework and gradual interest rate liberalization would allow CBM to better respond to shocks.** With the successful transition to the market-determined reference exchange rate mechanism, the time is right to move to a more active and

credible monetary policy framework (Appendix III). A firm commitment to phase-out monetary financing of the deficit (keeping it under 1 percent of last year's reserve money in the interim) is important, and staff recommended adhering to eliminating CBM financing in FY2020/21 as originally communicated to parliament. There is also a need to support the development of deep and liquid money and FX markets. Priorities include:

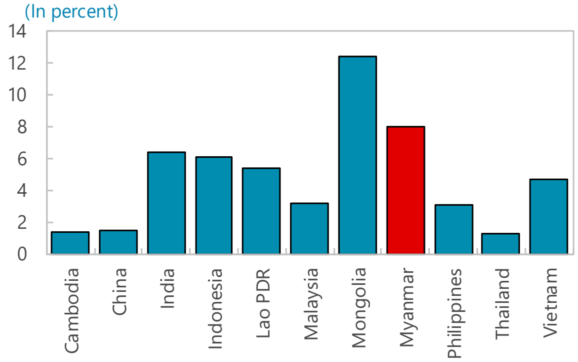
- *Establishing an interest rate corridor to guide short-term interest rates*. The lower band of the corridor would be established by the introduction of interest on excess reserves (IOER) at the CBM. The upper band would be the rate on the existing discount window facility. It is important that the CBM clarifies the discount window's purpose and eligibility criteria (as a monetary policy tool rather than a lender of last resort), duration (overnight), and permissible collateral. This would be independent from any lender of last resort facility which would have separate eligibility requirements and terms. Within this corridor, active liquidity management using deposit auctions and expanding the use of repos can help develop a reliable yield curve.

- *Enhancing monetary policy formulation and communication* by establishing a broad inflation objective; clarifying the decision-making process through a monetary policy committee; and regular reviews and communication of the monetary policy stance.

- *Gradually liberalizing commercial banks' deposit and lending rates*, commensurate with supervisory capacity and stability considerations. Greater flexibility in setting both the deposit and lending rates would strengthen monetary transmission and help banks better price credit risks and raise capital through improved profitability. The 8 percent deposit floor for savings/term deposits is high by regional standards while net interest margins remain moderate despite the recent liberalization of uncollateralized lending at higher rates.

Deposit Interest Rate

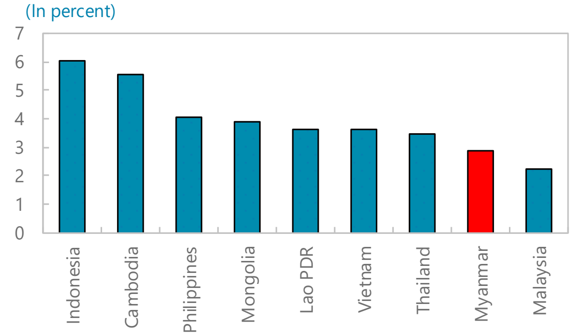
(In percent)



Source: IMF's *International Financial Statistics* database.

Bank Net Interest Margin, 2017

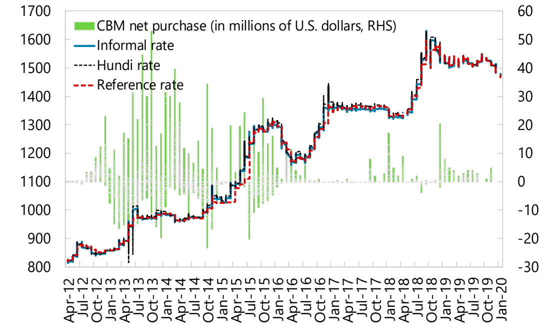
(In percent)



Sources: Bankscope and Orbis Bank Focus, Bureau van Dijk (BvD); and Global Financial Development Database.

- *Adhering to the new FX intervention rule and support FX market development*. The recently implemented asymmetric FX intervention strategy—buying FX during inflows (recent period) and selling only to avoid disorderly market conditions—appears to be working well while allowing the exchange rate to act as a shock absorber. The one-way FX auction with clear internal guidelines eliminates the multiple currency practice (MCP) resulting from the previous multi-price auction. The focus should now shift to supporting the development of formal FX markets by addressing regulatory gaps (amendments to the Foreign Exchange Management Law), encouraging the availability of hedging instruments, and improving the availability of timely market information.

Foreign Exchange Intervention
(Kyats/U.S. dollar)



Source: Central Bank of Myanmar.

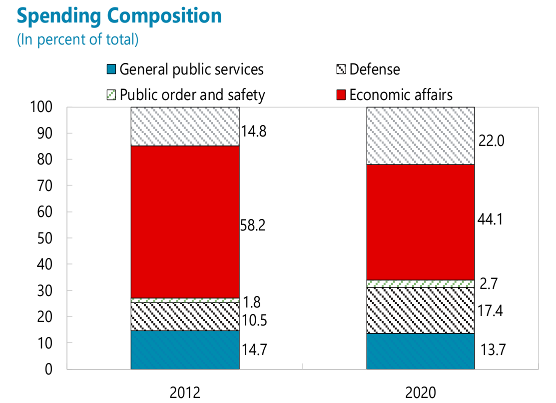
Authorities' Views

21. The CBM plans to further upgrade the monetary framework and the authorities reiterated their commitment to steadily phase out monetary financing. The CBM will continue to follow a market-determined reference exchange rate and will consider introducing an interest rate corridor including an IOER. While worried about rising inflation, they were open to gradual interest and deposit rate flexibility at the appropriate time. They noted that deposit and treasury auctions were working well and keeping market rates above expected inflation. While acknowledging the spike in monetary financing in September, authorities reiterated that after adjustments, it did not breach their gross nominal target of 20 percent of planned domestic financing. They agreed that given the planned spending pick up in FY2019/20 it would be important to closely monitor and forecast financing needs. They agreed that lower CBM financing of the fiscal deficit would help contain inflation and reiterated their commitment to steadily phase out monetary financing. However, they were not sure of the timing given the political cycle when the next 2020–21 budget would be submitted prior to the elections under uncertain external financing conditions.

CREATING FISCAL SPACE TO SUPPORT THE SUSTAINABLE DEVELOPMENT GOALS

A. Strengthening the Fiscal Framework

22. The improved budget execution supported growth in FY2018/19. The FY2018/19 fiscal deficit was in line with staff estimates and provided a modest stimulus as planned, albeit with greater net CBM financing than envisaged due to lower domestic debt issuances. Tax revenues were stagnant while non-tax revenue particularly from State Economics Enterprises (SEE) declined (Tables 2 and 3). However, capital expenditure was subdued reflecting capacity constraints in spending execution. To respond to weak cyclical conditions and address the rapidly increasing demand for electricity, the fiscal deficit for FY2019/20 should increase to about 4 percent of GDP, with increased revenue driven by higher electricity tariffs offset by higher infrastructure spending. The medium-term fiscal deficit should remain around 4-4½ percent of GDP to support growth while preserving debt sustainability. CBM financing should be phased out in FY2020/21 or FY2021/22 at the latest.



Sources: Myanmar authorities; and IMF staff calculations.

23. Fiscal structural reforms are needed to create the fiscal space for SDG-related spending and possible bank-related costs. Fiscal policy should focus on achieving the SDGs, by prioritizing investments in energy, infrastructure and social spending. At the same time, the revenue-to-GDP ratio is on a declining trend, partly due to declining natural resource revenue and stagnant tax revenues. The authorities should adopt a medium-term revenue strategy with specific targets to meet speeding needs in a sustainable way. Treasury management should be enhanced to ensure sufficient financing of the fiscal deficit and development of the bond market. Fiscal space can come from:

- *Modernizing the tax system to raise revenues.* A new Income Tax Law (ITL) should be submitted to parliament, incorporating a new rate structure for personal income tax to protect the tax base, raise revenues and rationalize incentives by removing scope for discretion (Appendix IV). Reduced rates for undisclosed income proposed in the FY2019/20 budget should be one-off and phased-out by the new ITL. Procuring the Integrated Tax Administration System (ITAS) and enacting the Tax Administration Law (TAL) represent two important milestones of the Internal Revenue Department's (IRD) reform journey. Enough resources should be devoted to implementing the TAL and ITAS, which will help improve governance and fight corruption. The fiscal regimes for the petroleum and mining sectors should be modernized, incorporating Fund recommendations in the ITL. In the medium term, a comprehensive tax reform encompassing commercial and the special goods tax should be developed paying due regard to capacity.

- *Improving budget execution and efficiency for more responsive fiscal spending.* A credible budget anchored on realistic revenue forecast and targets linked to tax reforms measures and macro developments is a priority. Continued PFM reforms including a new chartered accounts and financial information reporting system (FIRST 2.0) as well as GFS reporting in future budget documents can strengthen spending monitoring. The sharp rise of CBM financing toward the end of FY2018/19 reflects gaps in cash management which must be addressed urgently through better coordination between the Treasury and CBM and more proactive planning of needed treasury securities issuance.

- *Implementing pension reforms*. The plan to move to a defined contribution pension system through a Central Provident Fund (CPF), supported by the World Bank, aims to provide financial security for public sector retirees while ensuring long term fiscal sustainability. This will also help develop the domestic capital market. However, the main parameters of the pension reforms, such as the contribution rate and benefits including replacement rates, need to be carefully calibrated based on further actuarial study and may entail significant transition costs.

B. Managing Fiscal Risks in SEEs and PPPs

24. The government has made progress in enhancing governance in SEEs. The recent cost-recovery adjustment to electricity tariffs is commendable and will reduce Electric Power Generation Enterprise losses (about 1 percent of GDP in FY2018/19). Careful assessment of PPAs currently under negotiation based on cost competitiveness including contingent liabilities and guarantees should be centralized. The recent decision to bring SEE oversight under the MOPFI is timely and should be followed up by a privatization/restructuring strategy. Ongoing Fund TA will provide concrete recommendations on fiscal relations between SEEs and the center. On petroleum production sharing contracts, the new bidding round should adopt a competitive bidding process and a "model contract" based on Fund TA on fiscal aspects and linked to the new Petroleum law.

25. A framework for managing public investment including public-private partnerships (PPPs) should be established to monitor and control the associated fiscal risks. The "Project Bank" could be developed into a tool that can consolidate the key information of investment projects and facilitate appraisal and prioritization including in the power sector. Value for money analysis can help decide which projects should be on-budget, ODA financed or set up as PPPs. Current off-balance sheet liabilities related to existing power purchase agreements (PPAs) and PPPs (estimated at 3 percent of GDP) and the planned scaling up of infrastructure project could entail significant fiscal risks. A large share of the envisaged projects in the "project bank" are being proposed as PPPs, which may bring efficiency gains but can also entail contingent liabilities including from sovereign guarantees. Thus, it becomes crucial to identify and report contingent liabilities in a fiscal risk report which should be presented to the parliament on a regular basis. Further Fund TA can support the estimation and reporting of contingent liabilities in collaboration with the World Bank.

Myanmar: Off Balance Sheet Debt Related to PPPs and PPAs

	In Millions of U.S. Dollar	In percent of 2018 GDP
Electricity	1,874.7	2.8
Of which: electricity BOT	1,399.6	2.1
electricity JV/BOT	475.1	0.7
Gas	1,318.0	0.2
Ports	110.0	0.2
Total	**2,116.4**	**3.2**

Source: Myanmar authorities; and PPI database.

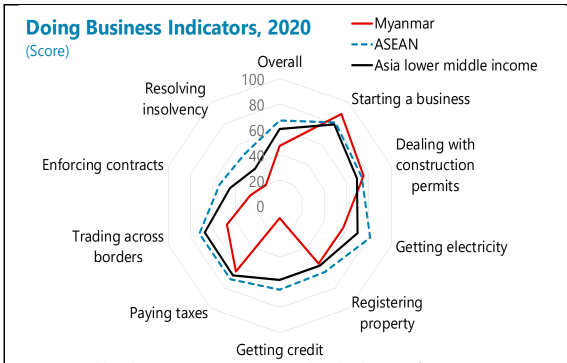
Authorities' Views

26. **The authorities agreed on the fiscal stance and are committed to fiscal reforms. The government's FY2019/20 budget contains a positive fiscal stimulus with strengthened capital spending particularly in the energy sector.** They reiterated the commitment to phasing out CBM financing of the budget, and explained the overshooting of the target in end FY2018/19 as temporary. The authorities are discussing the recommendations from the recent Fund mission on income tax policy, including scenarios on the personal income tax structure. The IRD is expanding the coverage of the self-assessment system (SAS) and centralizing tax return and payment processing for the large and medium taxpayer offices. Although the "Project Bank" has just been launched, they intended to make it instrumental in managing public investment including PPPs. The authorities highlighted that investments under the CMEC would be assessed according to international standards. They also noted the benefits from ongoing reforms to the state owned banks. They welcomed forthcoming Fund TA to support them in strengthening SEE governance and the management of fiscal risks.

ENHANCING STRUCTURAL REFORMS AND GOVERNANCE FOR INCLUSIVE AND SUSTAINABLE GROWTH

27. **Sustaining the reform momentum is important to achieving higher and more inclusive growth.** Building on recent progress to open foreign investment to new sectors such as insurance, further efforts to enhance the business environment, notably via more reliable power supply, contract enforcement, improved access to finance and logistics are required. A new energy masterplan with a clear project pipeline included in the "Project Bank" would help secure energy security at least cost. Measures to improve corporate governance, including via the new insolvency law, would ensure healthy investment in the economy. The authorities should move ahead briskly with the planned adoption of important financial infrastructure—including a credit bureau, a secured transactions framework and regulatory oversight of payments—to enable broader access to finance and support the rapidly expanding digital payment solutions in the country. On logistics, the East-West corridor and CMEC holds promise to better integrate markets, and should be developed through competitive bidding processes and transparent reporting of fiscal risks.

Doing Business Indicators, 2020
(Score)

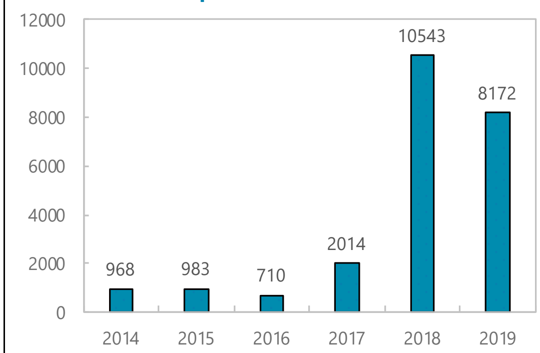


Source: World Bank Doing Business, 2020: Survey-based indicators reflect investors' perceptions on the business environment. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

28. **Despite some progress, governance and corruption vulnerabilities remain.** Recent achievements in strengthening the fiscal framework include establishing the medium taxpayer's

office, and the passage of the TAL. In addition, number of complaints made to the anti-corruption commission (ACC) have increased. The second cycle of review of United Nations Convention against Corruption (UNCAC) implementation is complete, with findings expected shortly. On IMF advice, the new bidding round for exploration has been delayed to ensure it is consistent with the draft ITL. The National Risk Assessment (2017) shaped the National Strategy which was formally adopted in 2019. Progress of addressing deficiencies highlighted by the 2018 Mutual Evaluation Report by the Asia Pacific Group (APG) have been held back by weak capacity and limited reforms, raising the risks that Myanmar will be placed on the "greylist" during the Financial Action Task Force (FATF) plenary in February 2020. Addressing gaps in the AML/CFT framework recommended by the APG is critical and the high-level coordination initiated in this regard is a welcome step, and should be followed up by further efforts to amend the AML law in line with Fund TA. Fiscal transparency, including EITI reporting, and strengthening anti-corruption efforts should help mobilize tax and natural resource revenues while reducing the costs of doing business (Appendix V).

Number of Complaints to ACC



Source: Myanmar Anti-Corruption Commission website.

29. The IMF stands ready to provide capacity development (CD) assistance on structural and policy reforms (Appendix VI). CD from several development partners, including the IMF, currently focuses on building fiscal and monetary institutions, strengthening the financial sector and legal framework and improving macroeconomic statistics. Whereas substantial progress is being made in these areas, more needs to be done in national accounts and treasury operations. Some reprioritization, given absorptive constraints and rapidly evolving needs, may be required.

STAFF APPRAISAL

30. Economic activity in FY2018/19 remained below historical levels. Growth is estimated at 6.5 percent in FY2018/19, up slightly from 6.4 percent in 2017/18 on account of modest fiscal stimulus and one-off increase in gas exports. Domestic demand remains weak reflecting a correction in real estate prices, slowing credit and declining investments. FDI inflows are subdued amid tepid foreign investor sentiment.

31. Although long-term growth prospects in Myanmar remain favorable, the outlook is subdued heading into the November 2020 elections. For FY2019/20 growth is expected to moderate slightly to 6.4 percent as the real estate price correction and uncertainty weighs on investor sentiment in the runup to elections. This is despite the fiscal stimulus envisaged in the FY2019/20 budget. Starting FY2020/21, bank deleveraging is expected to slow credit and GDP growth, as banks start writing off irrecoverable NPLs fully and recapitalize after the expiry of the forbearance that the authorities extended to August 2020. Medium-term growth is now projected to be lower than previously envisaged.

32. Systemic risks stemming from fragilities in the banking system remain elevated. Banks have continued to make progress switching from overdraft into term loans, but the re-underwriting has led to a rise in NPLs, which coupled with weaker real estate valuations, have stressed bank capital. Although some banks have raised capital including through foreign equity injections, this remains insufficient and the CBM has extended the period for banks' compliance with capital adequacy and large exposure limit requirements to August 2020. During this extension, the CBM should encourage banks to restructure viable loans, recapitalize and prepare a comprehensive financial sector restructuring strategy including contingency planning.

33. Monetary conditions should be proactively managed to anchor stability. The recent spike in inflation is mainly due to supply side factors, notably the doubling of electricity tariffs. Thus, the monetary stance should remain broadly unchanged by keeping market rates at positive real levels and broad money growth on its declining trend. The external position is broadly in line with fundamentals and the kyat and REER have been stable since February 2019. While the decline in the current account deficit resulting from import contraction has allowed modest reserve accumulation, reserve coverage at around 3½ months of imports remains inadequate. The transition to a one-way FX auction and implementation of clear internal guidelines which eliminate the MCP is to be commended and should also help accumulate reserves. The authorities have expressed interest in accepting Article VIII obligations, and staff is working with the authorities on this matter. With the successful transition to the market-determined reference exchange rate mechanism and a FX intervention rule, the time is right to upgrade the monetary policy framework and gradually liberalize retail bank interest rates.

34. Fiscal policy will continue to provide a modest stimulus in the near-term, though revenue mobilization will be critical to scale up SDG-related spending in a sustainable way. The mildly expansionary fiscal stance, with the fiscal deficit estimated at about 4 percent of GDP in FY2019/20, compared to 3½ percent in FY2018/19 is appropriate given the cyclical weakness. The rapid pickup in the deficit toward the end of FY2018/19 sharply raised central bank financing, partly reflecting the change in the fiscal year that obscured seasonal patterns but also gaps in cash management. Improved budget execution and proactive debt issuances should avoid a repetition in FY2019/20 and CBM financing should be phased out in FY2020/21 as originally envisaged. The declining trend in revenue-to-GDP ratio needs be reversed and a medium-term revenue strategy with specific targets is needed to meet SDG related spending needs in a sustainable way. This would involve modernizing the tax system to raise revenues while improving PFM systems for more efficient and responsive fiscal spending.

35. Implementation of the medium-term economic roadmap, the MSDP, will play a critical role to help achieve the SDGs. To be able to harness the potential from the demographic dividend and strategic location, Myanmar will need to invest heavily in physical and human capital while managing fiscal risks. A new impetus to move forward on the scaling up of infrastructure spending and structural (e.g., tax) reforms is forming given the weak economy and energy shortages. The focus is on PPPs and selected bilateral projects, including under the East-West and the China-Myanmar economic corridor, but the fiscal risks need to be assessed and properly managed.

36. Despite some progress, governance and corruption vulnerabilities are severe and systemic in Myanmar. Measures to address capacity and resource constraints are critical to address the AML/CFT deficiencies identified by the APG. The new bidding round for petroleum exploration should be competitive and consistent with the ITL to improve fiscal governance and natural resource management. Financial sector regulatory and corporate insolvency framework are paramount to address elevated banking sector risks. More resources should be dedicated to strengthening the anti-corruption framework including further integration to the MSDP.

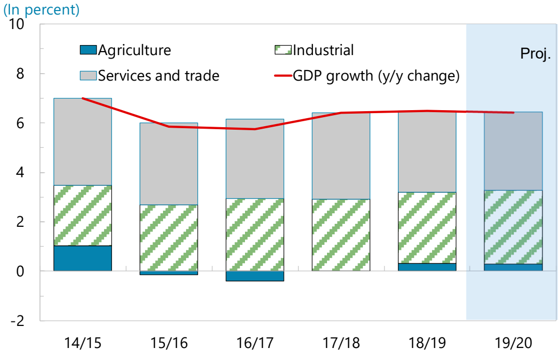
37. CD remains crucial to support the ambitious structural and policy reforms. Whereas substantial progress has been made, more needs to be done in national accounts statistics, treasury operations and AML/CFT framework. Some reprioritization, given absorptive constraints and rapidly evolving needs in the fiscal and financial sector may be required.

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

Figure 1. Myanmar: Macroeconomic Developments

Growth remains subdued…

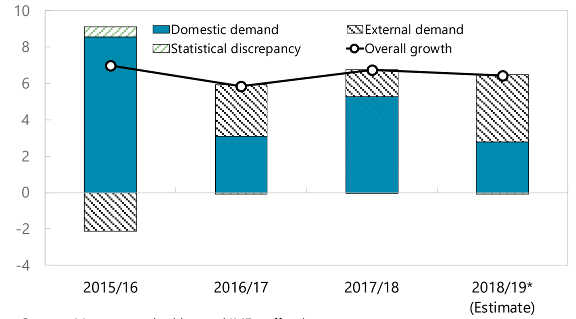
GDP Growth
(In percent)



Sources: Myanmar authorities; and IMF staff estimates.

…amid weak domestic demand.

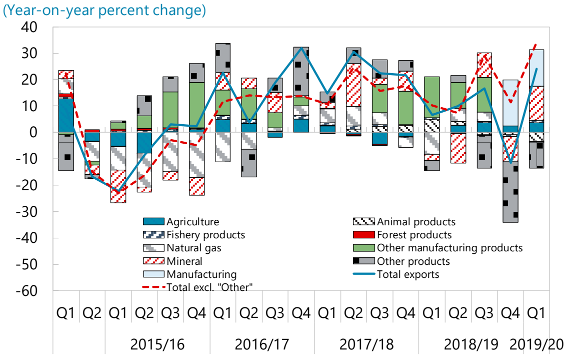
Contribution to Real GDP 1/
(Year-on-year growth)



Sources: Myanmar authorities; and IMF staff estimates.
1/ Fiscal year is from April to March until 2017/2018 and from October to September in 2018/2(forewards.

Exports of manufactured goods is holding up in the face of regional headwinds and border trade disruptions…

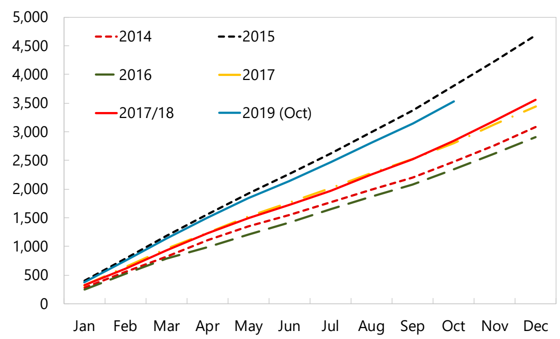
Goods Exports
(Year-on-year percent change)



Sources: Myanmar authorities; CEIC Data Co.; and IMF staff calculations.

… and more recently, tourism has picked up.

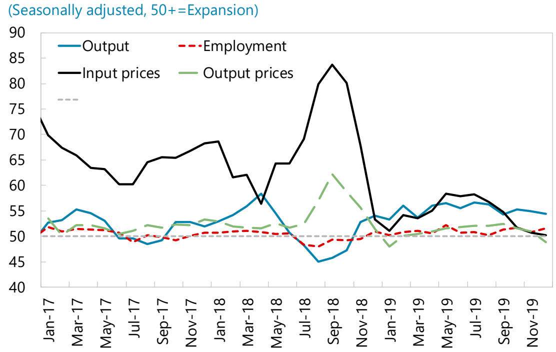
Tourist Arrivals
(In thousands, cumulative)



Source: Ministry of Hotels and Tourism.

Manufacturing production has begun to weaken…

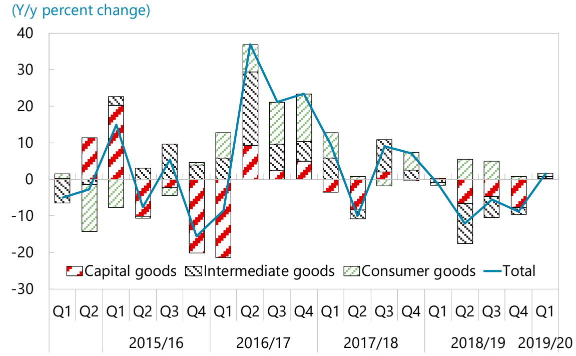
Myanmar: PMI
(Seasonally adjusted, 50+=Expansion)



Sources: IHS Markit; and Haver Analytics.

…while imports slow due to subdued domestic and foreign investment.

Goods Imports
(Y/y percent change)

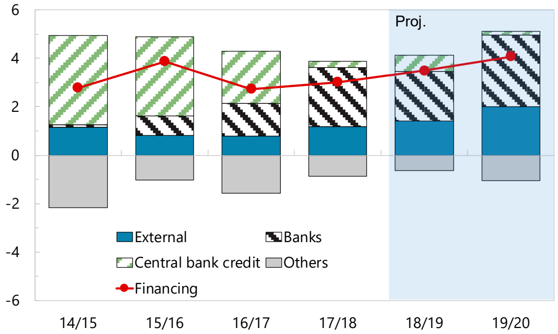


Sources: Myanmar authorities; CEIC Data Co.; and IMF staff estimates.

Figure 2. Myanmar: Macro-Fiscal and External Developments

The level of CBM financing spiked temporarily due to gaps in cash management…

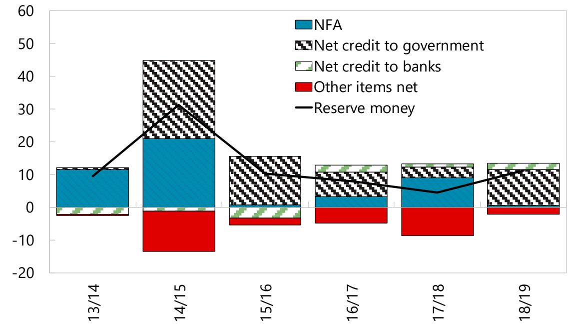
Fiscal Financing
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

…but reserve money growth remains moderate.

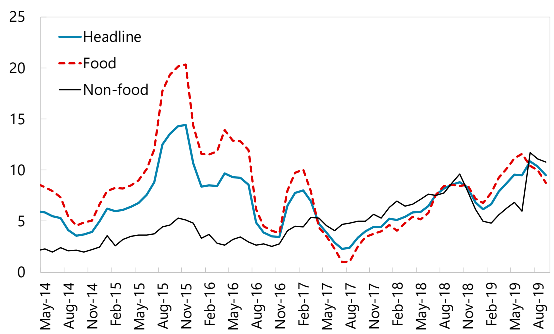
Reserve Money Growth
(In percent, year-on-year)



Sources: Myanmar authorities; and IMF staff estimates.

However, inflation has picked up driven by the near doubling of electricity tariffs and higher food prices…

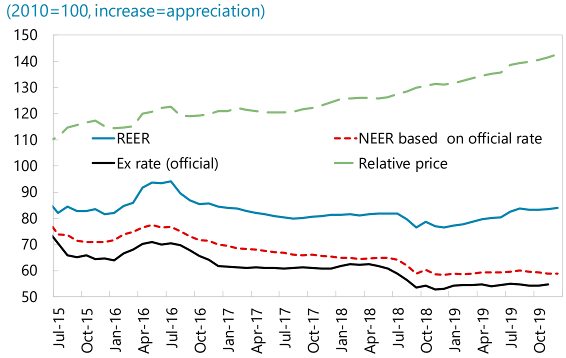
Inflation
(In percent change y/y)



Sources: Myanmar authorities; and IMF staff estimates.

…while the exchange rate has stabilized.

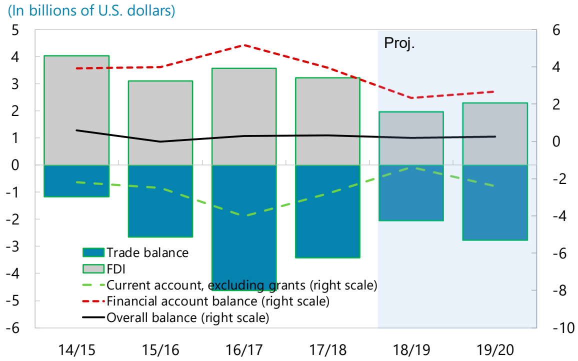
Nominal and Effective Exchange Rates
(2010=100, increase=appreciation)



Sources: Myanmar authorities; and IMF staff estimates.

Import demand contracted sharply decreasing the current account deficit, which remains financed by FDI…

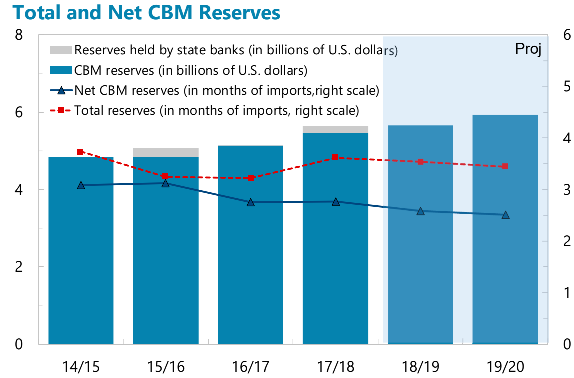
Balance of Payments
(In billions of U.S. dollars)



Sources: Myanmar authorities; and IMF staff estimates.

…but this is insufficient to allow CBM to accumulate international reserves in the short run.

Total and Net CBM Reserves

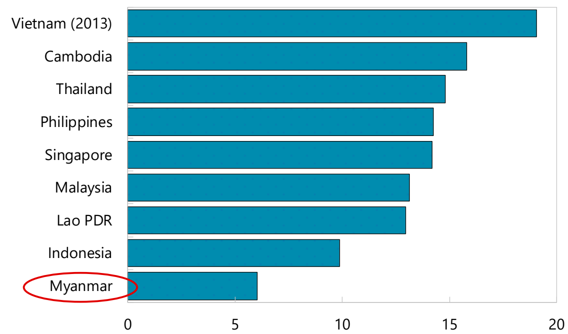


Sources: Myanmar authorities; and IMF staff estimates.

Figure 3. Myanmar: Macro-Structural Developments

Tax mobilization needs to raise more revenue…

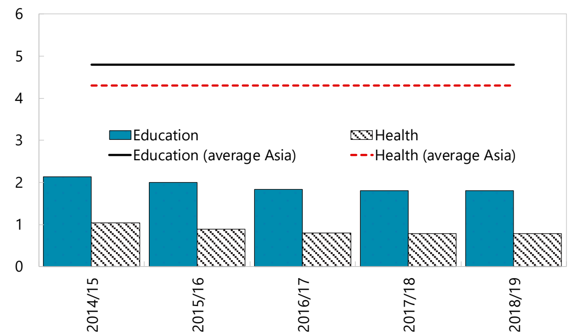
Tax Revenue, 2017
(In percent of GDP)



Sources: World Bank; and IMF staff estimates.

…as social spending still lags behind peers in the region.

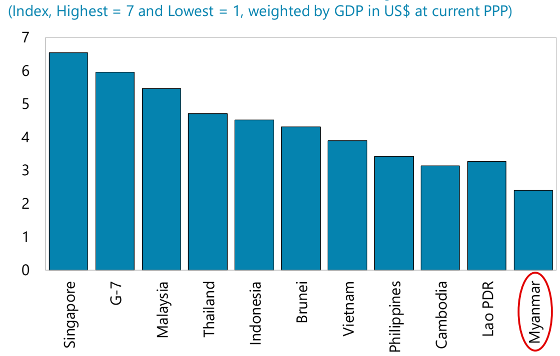
Union Government Spending on Education and Health
(In percent of GDP)



Source: Myanmar authorities.

Infrastructure quality remains a deterrent to attracting FDI…

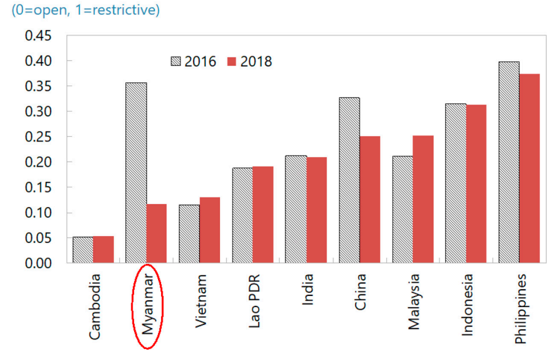
ASEAN Economies: Infrastructure Quality Index, 2016–17
(Index, Highest = 7 and Lowest = 1, weighted by GDP in US$ at current PPP)



Sources: World Economic Forum; and IMF staff estimates.

…while FDI restrictions have been eased.

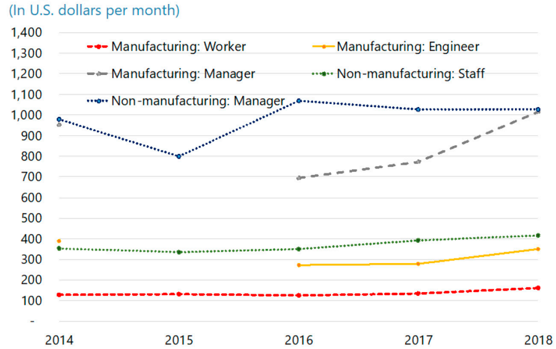
FDI Restrictive Index
(0=open, 1=restrictive)



Source: OECD.

Wages in the aggregate private sector remain broadly unchanged…

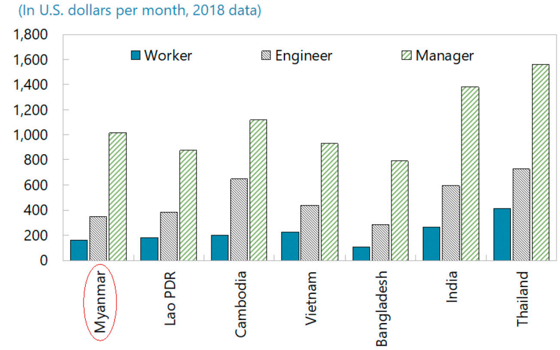
Wage Dynamics 2014–2018
(In U.S. dollars per month)



Source: JETRO Survey.

…and wage costs remain competitive.

Manufacturing: Wage Comparison
(In U.S. dollars per month, 2018 data)

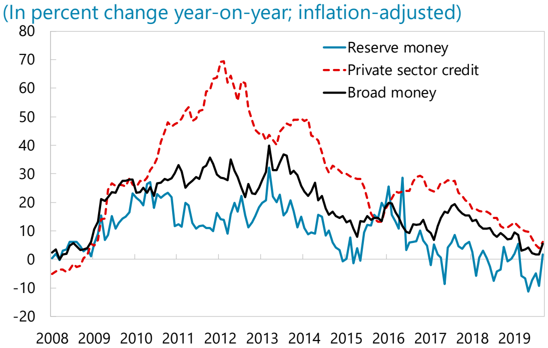


Source: JETRO Survey.

Figure 4. Myanmar: Macrofinancial Developments

Money and credit growth have slowed…

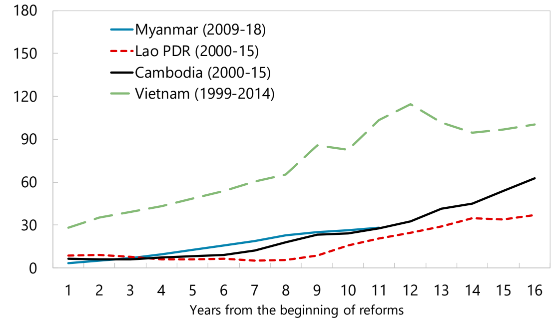
Reserve and Broad Money, and Private Sector Credit
(In percent change year-on-year; inflation-adjusted)



Sources: Myanmar authorities; and IMF staff estimates.

…but financial deepening is progressing.

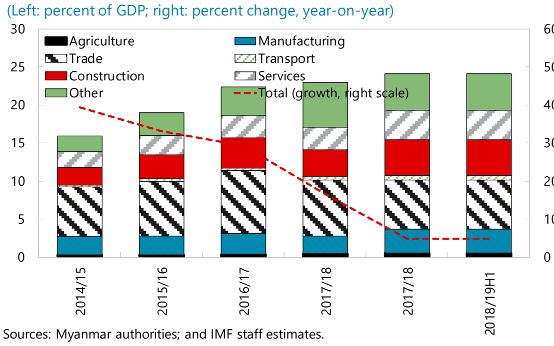
Private Sector Credit
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

Private credit is concentrated in construction, trade and services sectors.

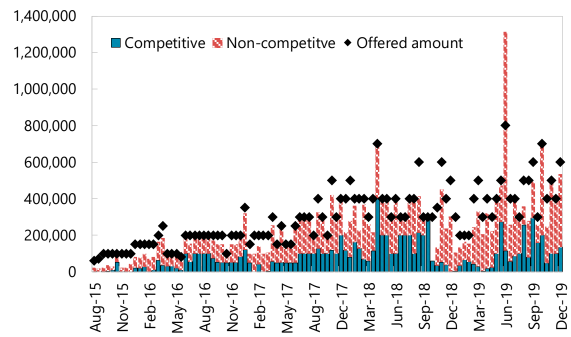
Private Banks: Credit by Sector and Growth 1/
(Left: percent of GDP; right: percent change, year-on-year)



Sources: Myanmar authorities; and IMF staff estimates.
1/ Private banks only (excludes state-owned banks). "Other" includes credits to local stores and specialized shops.

Securities auctions on competitive terms picked up through the year

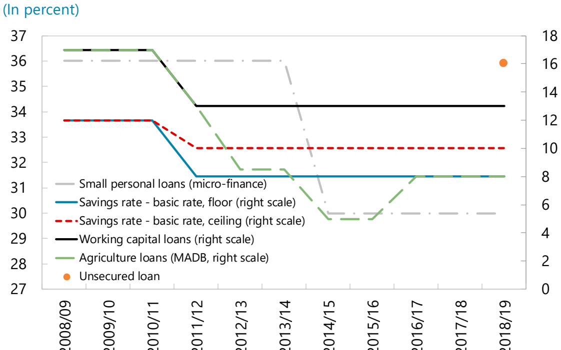
Myanmar: T-bill Auctions (Issued vs. Offer)
(In millions of kyats)



Sources: CBM/MOPF; and IMF staff estimates.

Retail bank rates remain at fixed levels…

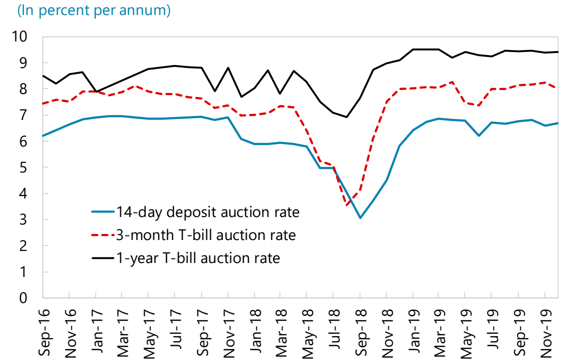
Retail Saving and Lending Interest Rates
(In percent)



Source: Central Bank of Myanmar.

…while Treasury rates have risen in line with inflation.

Auction Rates
(In percent per annum)

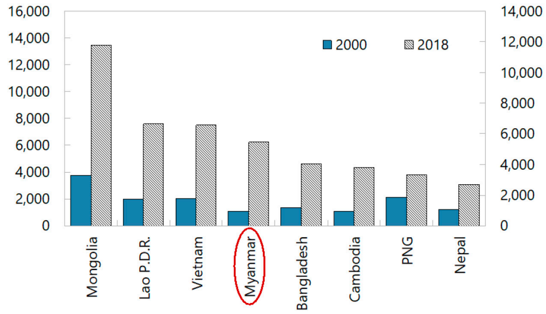


Source: Central Bank of Myanmar.

Figure 5. Myanmar: Progress Towards Sustainable Development Goals

Strong growth has helped to increase per capita GDP…

Per Capita GDP (PPP)
(In U.S. dollars)



Source: IMF's *World Economic Outlook* database.

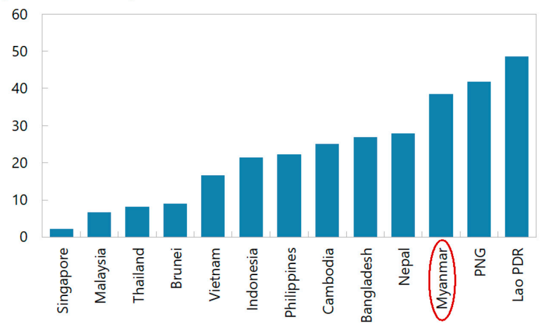
…and income inequality is comparable to peer countries.

Income Inequality
(Gini coefficents)

Source: World Bank.

However, healthcare is still lagging….

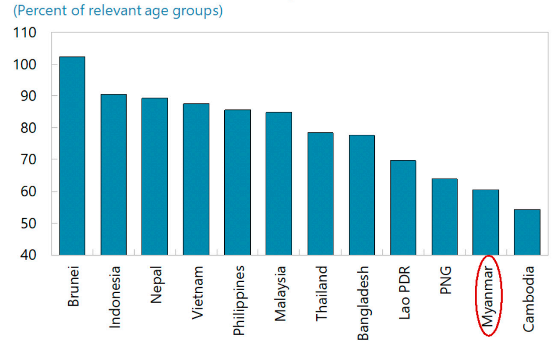
Infant Mortality
(Per 1000 live births)



Source: World Bank's *World Development Indicators*.

…and there is much to be gained from further investments in education….

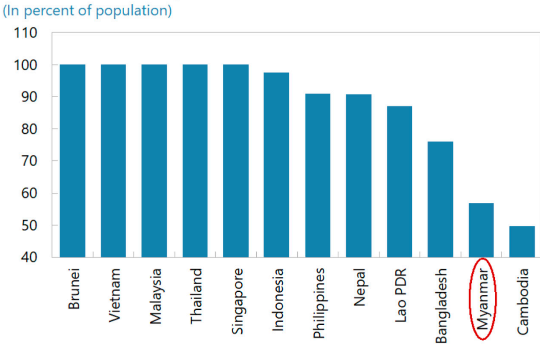
Lower Secondary School Completion
(Percent of relevant age groups)



Sources: World Bank's *World Development Indicators*; and IMF staff estimates.

…and infrastructure.

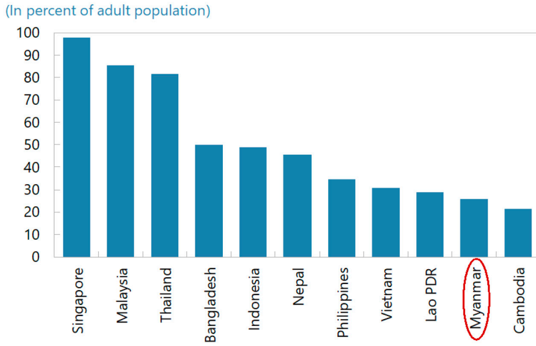
Access to Electricity
(In percent of population)



Sources: World Bank's *World Development Indicators*; and IMF staff estimates.

Access to the formal financial system remains low.

Access to Bank Account
(In percent of adult population)



Sources: World Bank's *World Development Indicators*; and IMF staff estimates.

Table 1. Myanmar: Selected Economic Indicators, 2016/17–2021/22 1/

	2016/17 Est.	2017/18 Est.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.
Output and prices						
Real GDP 2/	5.8	6.4	6.5	6.4	6.0	6.2
CPI (end-period; base year from 2014/15=2012)	3.4	8.6	9.5	7.7	6.6	6.2
CPI (period average; base year from 2014/15=2012)	4.6	5.9	8.6	7.9	6.9	6.4
Consolidated public sector 3/			(In percent of GDP)			
Total revenue	18.3	18.8	18.0	18.1	18.1	18.4
Tax revenue	7.1	7.1	6.8	6.9	7.2	7.5
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.6	0.4	0.4	0.4
Other revenue	10.6	11.3	10.4	10.6	10.4	10.4
Total expenditure	21.0	21.8	21.5	22.1	22.5	22.9
Expense	14.6	14.7	14.7	15.0	15.1	15.3
Net acquisition of nonfinancial assets	6.4	7.1	6.8	7.2	7.4	7.6
Gross operating balance	3.7	4.1	3.3	3.1	3.0	3.1
Net lending (+)/borrowing (-)	-2.7	-3.0	-3.5	-4.1	-4.4	-4.4
Domestic public debt	23.3	26.3	23.4	23.5	23.9	24.4
Money and credit			(Percent change)			
Reserve money	8.0	4.6	11.3	8.4	9.0	8.9
Broad money	21.4	18.6	15.4	11.8	10.9	11.0
Domestic credit	22.3	21.4	17.2	14.5	11.2	11.7
Private sector	27.4	21.2	16.4	12.7	6.3	6.7
Balance of payments 4/			(In percent of GDP)			
Current account balance	-6.5	-4.2	-2.0	-3.2	-3.5	-4.0
Trade balance	-7.5	-5.1	-3.0	-3.7	-4.1	-4.5
Financial account	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7
Foreign direct investment, net 5/	-5.8	-4.8	-2.9	-3.1	-3.2	-3.5
Overall balance	0.5	0.5	0.3	0.4	0.5	0.7
CBM reserves (gross)						
In millions of U.S. dollars	5,141	5,462	5,667	5,936	6,376	7,040
In months of prospective GNFS imports	3.2	3.6	3.5	3.4	3.3	3.3
Total external debt (billions of U.S. dollars)	17.7	19.6	19.1	19.1	19.3	19.6
Total external debt (percent of GDP)	28.8	31.8	27.9	25.5	23.5	21.8
Exchange rates (kyat/$, end of period)						
Official exchange rate	1,357.7	1,551.5	1,533.0	…	…	…
Parallel rate	1,350.9	1,563.6	1,533.1	…	…	…
Memorandum items:						
GDP (billions of kyats)	82,700	92,789	105,012	120,872	138,076	157,026
GDP (billions of US$)	61.5	67.1	68.5	74.8	81.9	89.6
GDP per capita (US$)	1,267	1,279	1,242	1,321	1,440	1,593

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

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Real GDP series is rebased to 2015/16 prices by the authorities.

3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.

4/ The balance of payments data has been revised according to the BPM6 methodology.

5/ FDI from 2017/18 onwards reflects improved forex transaction data collection, which has caused a break in the data series.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 1/

(Consolidated accounts, in billions of kyats)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Act.	Est.	Proj.	Proj.	Proj.	Proj.
	(In billions of kyats)					
Revenue	14,520	15,100	17,471	18,866	21,831	25,007
Taxes	5,294	5,897	6,561	7,168	8,372	9,909
On income, profits, and capital gains	1,772	1,873	1,895	2,145	2,589	3,096
On property	33	39	40	45	52	60
On goods and services	2,918	3,431	3,966	4,232	4,872	5,772
On international trade & transactions	474	495	588	666	766	875
Other taxes	98	60	71	80	92	106
Social contributions	63	78	110	125	144	164
Grants	346	332	278	635	483	552
Other revenue	8,817	8,792	10,522	10,938	12,832	14,382
Interest income	28	31	36	30	0	0
Property income	1,045	1,063	1,207	1,341	1,543	1,763
Sales of goods and services 2/	7,772	7,729	9,315	9,597	11,288	12,619
Expenditure	17,391	17,365	20,266	22,541	26,763	31,057
Expense	11,890	12,035	13,660	15,422	18,085	20,868
Compensation of employees	2,555	3,025	3,635	4,113	4,735	5,408
Purchases/use of goods & services	6,058	6,403	7,161	8,104	9,449	10,932
Interest	967	1,135	1,804	1,749	2,079	2,446
External	214	235	580	625	479	601
Domestic	722	900	1,224	1,124	1,600	1,845
Subsidies and transfers	260	0	64	79	238	272
Social benefits	684	713	792	1,035	1,191	1,360
Other expense	1,366	759	205	342	394	450
Net acquisition of nonfinancial assets	5,501	5,330	6,606	7,119	8,678	10,189
Balances						
Gross operating balance	2,630	3,065	3,811	3,444	3,746	4,139
Net lending/borrowing	-2,871	-2,265	-2,795	-3,675	-4,932	-6,050
Net acquisition of financial assets	663	-193	-13,438	-392	202	154
Domestic	652	-201	-13,441	-397	199	150
Currency and deposits	421	-304	-13,494	-542	66	33
Central Bank	369	0	-327	-674	0	0
Commercial banks	52	-305	-13,168	132	66	33
Loans	125	-54	-11	77	63	41
Equity	107	157	64	68	70	75
External	11	8	3	5	3	4
Equity	11	8	3	5	71	53
Net incurrence of liabilities	3,534	2,072	-10,643	3,283	5,133	6,204
Domestic	3,454	1,922	-11,077	2,769	3,771	4,590
Securities	2,961	1,912	1,675	2,774	3,771	4,590
Central bank	2,428	1,782	237	712	193	209
In percent of domestic financing	70	93	-2	26	5	5
Commercial banks	590	1,132	2,263	2,144	3,578	4,381
Nonbanks	-57	-1,002	-825	-81	0	0
Loans	494	10	-12,751	-6	0	0
External	79	150	434	514	1,363	1,614
Loans	608	648	1,107	1,485	2,417	2,762

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

1/ Revised to reflect Government Finance Statistics Manual 2014 classification. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Includes proceeds from SEEs' commercial activities.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 1/

(Consolidated account, in percent of GDP) (concluded)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Act.	Est.	Proj.	Proj.	Proj.	Proj.
			(In percent of GDP)			
Revenue	19.6	18.3	18.8	18.0	18.1	18.1
Taxes	7.1	7.1	7.1	6.8	6.9	7.2
On income, profits, and capital gains	2.4	2.3	2.0	2.0	2.1	2.2
On goods and services	3.9	4.1	4.3	4.0	4.0	4.2
On international trade & transactions	0.6	0.6	0.6	0.6	0.6	0.6
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.5	0.4	0.3	0.6	0.4	0.4
Other revenue	11.9	10.6	11.3	10.4	10.6	10.4
Interest income	0.0	0.0	0.0	0.0	0.0	0.0
Property income	1.4	1.3	1.3	1.3	1.3	1.3
Sales of goods and services 2/	10.5	9.3	10.0	9.1	9.3	9.1
Expenditure	23.4	21.0	21.8	21.5	22.1	22.5
Expense	16.0	14.6	14.7	14.7	15.0	15.1
Compensation of employees	3.4	3.7	3.9	3.9	3.9	3.9
Purchases/use of goods & services	8.2	7.7	7.7	7.7	7.8	7.9
Interest	1.3	1.4	1.9	1.7	1.7	1.8
External	0.3	0.3	0.6	0.6	0.4	0.4
Domestic	1.0	1.1	1.3	1.1	1.3	1.3
Subsidies and transfers	0.4	0.0	0.1	0.1	0.2	0.2
Social benefits	0.9	0.9	0.9	1.0	1.0	1.0
Other expense	1.8	0.9	0.2	0.3	0.3	0.3
Net acquisition of nonfinancial assets	7.4	6.4	7.1	6.8	7.2	7.4
Balances						
Gross operating balance	3.5	3.7	4.1	3.3	3.1	3.0
Net lending/borrowing	-3.9	-2.7	-3.0	-3.5	-4.1	-4.4
Net acquisition of financial assets						
Domestic	0.9	-0.2	-14.5	-0.4	0.2	0.1
Currency and deposits	0.6	-0.4	-14.5	-0.5	0.1	0.0
Central Bank	0.5	0.0	-0.4	-0.6	0.0	0.0
Commercial banks	0.1	-0.4	-14.2	0.1	0.1	0.0
Loans	0.2	-0.1	0.0	0.1	0.1	0.0
Equity	0.1	0.2	0.1	0.1	0.1	0.1
External	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	0.0	0.0	0.0	0.1	0.0
Net incurrence of liabilities	4.8	2.5	-11.5	3.1	4.2	4.5
Domestic	4.7	2.3	-11.9	2.6	3.1	3.3
Securities	4.0	2.3	1.8	2.6	3.1	3.3
Central bank	3.3	2.2	0.3	0.7	0.2	0.2
Commercial banks	0.8	1.4	2.4	2.0	3.0	3.2
Nonbanks	-0.1	-1.2	-0.9	-0.1	0.0	0.0
Loans	0.7	0.0	-13.7	0.0	0.0	0.0
External	0.1	0.2	0.5	0.5	1.1	1.2
Loans	0.8	0.8	1.2	1.4	2.0	2.0
Memorandum items:						
Primary balance	-2.6	-1.4	-1.1	-1.8	-2.4	-2.6
Functional breakdown of public sector expenditure						
Economic affairs	11.0	9.7	9.2	9.7	9.7	9.7
Social services	5.0	4.5	4.6	4.9	4.9	4.9
Of which: education	2.1	2.0	1.9	2.0	2.0	2.0
Of which: health	1.0	0.9	0.9	1.0	1.0	1.0
Defense	4.1	3.7	3.6	3.8	3.8	3.8
Public debt	37.8	38.3	40.8	38.2	36.9	37.2
Of which: held by CBM	16.1	15.8	16.5	14.3	12.6	11.2
Of which: other and external	21.7	22.5	24.3	23.8	24.3	26.0
Domestic public debt	22.0	23.3	26.3	23.4	23.5	23.9
External public debt	15.7	15.0	14.5	14.7	13.5	13.3
Of which: Arrears						
GDP (in billions of kyat)	74,216	82,700	92,789	105,012	120,872	138,076
CBM financing (share of reserve money)	17.5	11.6	1.4	4.1	1.0	1.0
CBM financing (share of GDP)	3.3	2.2	0.3	0.7	0.2	0.2

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

1/ Revised to reflect Government Finance Statistics Manual 2014 classification. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Includes proceeds from SEEs' commercial activities.

Table 3. Myanmar: Balance of Payments, 2016/17–2023/24 1/

(In millions of U.S. dollars, unless otherwise indicated)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(in millions of U.S. dollars)				
Current Account	-4,002	-2,811	-1,372	-2,402	-2,853	-3,558	-4,268	-5,024
(in percent of GDP)	-6.5	-4.2	-2.0	-3.2	-3.5	-4.0	-4.4	-4.7
Trade balance	-4,636	-3,429	-2,056	-2,762	-3,335	-4,006	-4,850	-5,604
(in percent of GDP)	-7.5	-5.1	-3.0	-3.7	-4.1	-4.5	-5.0	-5.2
Balance on goods	-5,816	-4,362	-2,791	-3,527	-4,131	-4,830	-5,700	-6,471
(in percent of GDP)	-9.5	-6.5	-4.1	-4.7	-5.0	-5.4	-5.8	-6.1
Merchandise exports f.o.b.	9,475	11,226	11,472	11,615	12,242	13,478	15,002	16,538
Merchandise imports f.o.b.	15,291	15,587	14,263	15,142	16,373	18,308	20,702	23,009
Balance on services	1,181	933	734	765	797	824	850	867
(in percent of GDP)	1.9	1.4	1.1	1.0	1.0	0.9	0.9	0.8
Exports of services, total	3,742	4,474	4,606	4,848	5,103	5,373	5,663	5,969
Imports of services, total	2,561	3,541	3,872	4,083	4,306	4,549	4,813	5,102
Primary income balance	-1,649	-1,960	-1,924	-2,058	-2,058	-2,218	-2,218	-2,389
(in percent of GDP)	-2.7	-2.9	-2.8	-2.8	-2.5	-2.5	-2.3	-2.2
Receipts	1,168	1,264	1,532	1,570	1,570	1,610	1,610	1,650
Expenditures	2,817	3,224	3,456	3,628	3,628	3,828	3,828	4,039
Secondary income balance	2,283	2,578	2,608	2,419	2,539	2,666	2,800	2,968
(in percent of GDP)	3.7	3.8	3.8	3.2	3.1	3.0	2.9	2.8
Capital and Financial Account	-5,189	-3,952	-2,326	-2,671	-3,293	-4,222	-4,817	-5,518
(in percent of GDP)	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7	-4.9	-5.2
Capital account	1	1	0	0	0	0	0	0
Financial account (+ = net increase / - = net	-5,190	-3,952	-2,326	-2,671	-3,293	-4,222	-4,817	-5,518
(in percent of GDP)	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7	-4.9	-5.2
Direct investment	-3,563	-3,229	-1,968	-2,286	-2,615	-3,090	-3,548	-4,235
(in percent of GDP)	-5.8	-4.8	-2.9	-3.1	-3.2	-3.5	-3.6	-4.0
Assets	0	0	0	0	0	0	0	0
Liabilities	3,563	3,229	1,968	2,286	2,615	3,090	3,548	4,235
Portfolio investment	5	-1	-45	0	0	0	0	0
(in percent of GDP)	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Assets	36	-1	-45	0	0	0	0	0
Liabilities	31	0	0	0	0	0	0	0
Other investment	-1,631	-721	-314	-385	-678	-1,132	-1,269	-1,283
(in percent of GDP)	-2.7	-1.1	-0.5	-0.5	-0.8	-1.3	-1.3	-1.2
Assets	-986	-417	253	0	0	0	0	0
Liabilities	645	304	567	385	678	1,132	1,269	1,283
Of which: MLT debt disbursements	482	801	969	1,496	1,637	1,701	1,858	2,031
Of which: repayments due	-370	-487	-634	-653	-680	-727	-734	-791
Overall balance	306	321	205	269	440	664	548	494
(in percent of GDP)	0.0	0.1	-0.1	0.0	0.1	0.1	0.0	0.0
Net errors and omissions	-883	-821	-749	0	0	0	0	0
(in percent of GDP)	-1.4	-1.2	-1.1	0.0	0.0	0.0	0.0	0.0
Memorandum items								
GDP (in millions of U.S. dollars)	61,504	67,145	68,538	74,802	81,868	89,552	97,789	106,919
Level of gross reserves (end of period)	5,141	5,462	5,667	5,936	6,376	7,040	7,588	8,082
Reserves (months of imports of G&S)	3.2	3.6	3.5	3.4	3.3	3.3	3.2	3.1

Source: Data provided by the authorities; and IMF staff estimates.

1/ Revised according to the BPM6 methodology. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

Table 4. Myanmar: Monetary Survey, 2016/17–2023/24 1/

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

	2016/17 Est.	2017/18 Est.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.
Central Bank of Myanmar								
Net foreign assets	6,519	8,010	8,116	8,357	8,775	9,418	9,944	10,416
Foreign assets	6,999	8,544	8,659	8,929	9,370	10,035	10,585	11,080
Foreign liabilities	480	534	543	572	595	618	641	664
Net domestic assets	10,043	9,317	10,658	12,553	14,019	15,398	17,273	19,388
Net domestic credit	13,346	14,066	15,767	17,930	19,615	21,207	23,295	25,635
Net claims on central government	13,099	13,662	15,048	15,241	15,450	15,450	15,450	15,450
Net claims on deposit money banks	247	404	719	2,689	4,165	5,757	7,845	10,185
Other items net	-3,303	-4,749	-5,110	-5,376	-5,597	-5,809	-6,023	-6,247
Reserve Money	16,562	17,327	19,291	20,911	22,794	24,815	27,217	29,804
Currency in circulation	12,227	13,652	15,491	16,792	18,304	19,927	21,856	23,933
ODC liabilities	4,335	3,675	3,800	4,119	4,490	4,888	5,361	5,871
Transferrable deposits	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Monetary survey								
Net foreign assets	8,908	10,841	11,466	12,045	13,181	14,209	15,620	16,574
Foreign assets	12,737	14,702	15,351	16,951	18,169	20,456	21,921	24,475
Foreign liabilities	3,829	3,861	3,885	4,905	4,989	6,248	6,301	7,900
Net domestic assets	37,030	43,640	50,900	58,228	64,735	72,298	80,829	90,761
Net domestic credit	36,324	44,081	51,675	59,144	65,789	73,491	82,065	92,044
Net claims on government	15,730	19,115	22,626	26,396	30,986	36,367	42,352	49,335
CBM	13,099	13,662	15,048	15,241	15,450	15,450	15,450	15,450
Deposit money banks	2,631	5,453	7,578	11,155	15,536	20,917	26,902	33,885
Net credit to the economy	20,594	24,966	29,050	32,747	34,802	37,124	39,713	42,709
Other items net	706	-441	-775	-916	-1,053	-1,193	-1,237	-1,283
Broad money	45,938	54,480	62,884	70,274	77,916	86,506	96,449	107,335
Narrow money	14,641	17,192	19,608.7	21,913.0	24,296.2	26,974.8	30,075.1	33,469.8
Currency in circulation	9,973	11,504	13,063.4	14,598.5	16,186.2	17,970.7	20,036.1	22,297.6
Transferrable Deposits	4,668	5,688	6,545.4	7,314.5	8,110.0	9,004.1	10,039.0	11,172.1
Other deposits	31,297	37,288	43,275	48,361	53,620	59,532	66,374	73,866
Memorandum items:								
Money multiplier	2.8	3.1	3.3	3.4	3.4	3.5	3.5	3.6
Velocity	1.8	1.7	1.7	1.7	1.8	1.8	1.8	1.9
Reserve money (y/y percent change)	8.0	4.6	11.3	8.4	9.0	8.9	9.7	9.5
Broad money (y/y percent change)	21.4	18.6	15.4	11.8	10.9	11.0	11.5	11.3
Credit to private sector (y/y percent change)	27.4	21.2	16.4	12.7	6.3	6.7	7.0	7.5
Net credit to central govt. (y/y percent change)	15.6	21.5	18.4	16.7	17.4	17.4	16.5	16.5
Credit growth (y/y percent change)	22.3	21.4	17.2	14.5	11.2	11.7	11.7	12.2
Deposits (y/y percent change)	25.7	19.5	15.9	11.8	10.9	11.0	11.5	11.3
Reserve money (in percent of GDP)	20.0	18.7	18.4	17.3	16.5	15.8	15.3	14.8
Broad money (in percent of GDP)	55.5	58.7	59.9	58.1	56.4	55.1	54.2	53.2
Credit to private sector (in percent of GDP)	24.9	26.9	27.7	27.1	25.2	23.6	22.3	21.2
Credit to central government (in percent of GDP)	19.0	20.6	21.5	21.8	22.4	23.2	23.8	24.4
Deposits (in percent of GDP)	43.5	46.3	47.4	46.1	44.7	43.6	43.0	42.1
Credit to economy/deposits (in percent)	57.3	58.1	…	…	…	…	…	…
Nominal GDP (in billions of kyat)	82,700	92,789	105,012	120,872	138,076	157,026	177,879	201,830

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

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

Table 5. Myanmar: Medium-Term Projections 2016/17–2024/25 1/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices				(Percent change)					
Real GDP (staff working estimates) 2/	5.8	6.4	6.5	6.4	6.0	6.2	6.3	6.5	6.5
CPI (end-period; base year=2012)	3.4	8.6	9.5	7.7	6.6	6.2	6.1	6.1	6.1
CPI (period average; base year=2012)	4.6	5.9	8.6	7.9	6.9	6.4	6.1	6.1	6.1
Consolidated public sector 3/				(In percent of GDP)					
Total revenue	18.3	18.8	18.0	18.1	18.1	18.4	18.8	19.1	19.4
Tax revenue	7.1	7.1	6.8	6.9	7.2	7.5	7.8	8.1	8.4
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Other revenue	10.6	11.3	10.4	10.6	10.4	10.4	10.5	10.5	10.5
Total expenditure	21.0	21.8	21.5	22.1	22.5	22.9	23.3	23.7	23.9
Expense	14.6	14.7	14.7	15.0	15.1	15.3	15.5	15.7	15.8
Net acquisition of nonfinancial assets	6.4	7.1	6.8	7.2	7.4	7.6	7.8	8.0	8.1
Gross operating balance	3.7	4.1	3.3	3.1	3.0	3.1	3.3	3.4	3.6
Net lending (+)/borrowing (-)	-2.7	-3.0	-3.5	-4.1	-4.4	-4.4	-4.5	-4.6	-4.5
Money and credit				(Percent change)					
Reserve money	8.0	4.6	11.3	8.4	9.0	8.9	9.7	9.5	9.5
Broad money	21.4	18.6	15.4	11.8	10.9	11.0	11.5	11.3	11.2
Domestic credit	22.3	21.4	17.2	14.5	11.2	11.7	11.7	12.2	12.0
Private sector	27.4	21.2	16.4	12.7	6.3	6.7	7.0	7.5	8.0
Balance of payments 4/				(In percent of GDP, unless otherwise indicated)					
Current account balance	-6.5	-4.2	-2.0	-3.2	-3.5	-4.0	-4.4	-4.7	-5.0
Trade balance	-7.5	-5.1	-3.0	-3.7	-4.1	-4.5	-5.0	-5.2	-5.7
Exports	15.4	16.7	16.7	15.5	15.0	15.1	15.3	15.5	15.8
Gas exports	5.1	5.2	5.6	4.9	3.9	3.1	3.6	3.3	3.0
Imports	24.9	23.2	20.8	20.2	20.0	20.4	21.2	21.5	22.2
Financial account	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7	-4.9	-5.2	-5.4
Foreign direct investment, net 5/	-5.8	-4.8	-2.9	-3.1	-3.2	-3.5	-3.6	-4.0	-4.2
Overall balance	0.5	0.5	0.3	0.4	0.5	0.7	0.6	0.5	0.4
CBM reserves (gross)									
In millions of U.S. dollars	5,141	5,462	5,667	5,936	6,376	7,040	7,588	8,082	8,509
In months of total imports	3.2	3.6	3.5	3.4	3.3	3.3	3.2	3.1	3.0
External debt									
Total external debt (billions of U.S. dollars)	17.7	19.6	19.1	19.1	19.3	19.6	20.0	20.7	21.8
(In percent of GDP)	28.8	29.1	27.9	25.5	23.5	21.8	20.5	19.4	18.6
Exchange rates (kyat/$, end of period)									
Official exchange rate	1,226	1,358	1,552	1,533	...	...	...	...	...
Parallel rate	1,238	1,351	1,564	1,533	...	...	...	...	...
Memorandum items:									
GDP (billions of kyats)	82,700	92,789	105,012	120,872	138,076	157,026	177,879	201,830	229,106
GDP (billions of US$)	61.5	67.1	68.5	74.8	81.9	89.6	97.8	106.9	117.0
GDP per capita (US$)	1,267	1,279	1,242	1,321	1,440	1,593	1,718	1,807	1,901

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

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Real GDP series is rebased to 2015/16 prices by the authorities.

3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.

4/ The balance of payments data has been revised according to the BPM6 methodology.

5/ FDI from 2017/18 onwards reflects improved forex transaction data collection, which has caused a break in the data series.

Annex I. Key Policy Recommendations from the 2018 Article IV Consultation

Policy advice	Implementation status
Monetary and exchange rate policies	
Objective: Contain inflation and maintain exchange rate flexibility and set groundwork for upgrading the monetary framework.	
Increase in government securities issuance and deposit auction volumes, pending further developments in inflation and liquidity; improve liquidity forecasting and further development of debt and interbank markets	In progress.
Strengthen monetary policy formulation by articulating a medium-term inflation objective and introducing an interest rate on excess reserve (IOER) to provide a floor for an interest rate corridor.	Under consideration
Steadily phase out CBM financing of the deficit and recalibrating the target as a share of previous year's reserve money rather than of domestic financing.	CBM financing of the deficit spiked at the end of FY 2018/19, to levels higher than in previous years, and was close to official target ceiling of 20 percent of domestic financing.
Develop a one-way FX intervention strategy and further develop FX market.	In progress. A one-way FX auction rule was adopted in November 2019, which in addition to the clear guidelines eliminates the MCP.
Fiscal policy	
Objective: Create fiscal space to help achieve Sustainable Development Goals (SDGs) while maintaining macroeconomic stability and debt sustainability.	
Provide a moderate fiscal stimulus to the economy, keeping the fiscal deficit around 4 percent of GDP over the medium term to maintain a low risk of debt distress.	Achieved for FY2018/19.
Continued domestic revenue mobilization, including through a comprehensive MTRS, modernizing and enacting tax laws (including a chapter on extractives), customs reforms, and strengthening administrative capacity.	The Tax Administration Law went into effect in September 2019. The income tax law is being revised and modernized. Other elements of IRD's second phase of the reform journey are in progress.
Expenditure rebalancing towards social sectors and priority infrastructure spending while enhancing spending efficiency to help achieve (SDGs).	In progress.
Improvements in Public Financial Management (PFM), prioritizing fiscal transparency and reporting, incorporating an IT system for the Treasury, a stronger	In progress.

relationship between planning and budget, and better managing, controlling and reporting fiscal risks.	
Restructuring and improving governance of SEEs; push ahead with electricity tariff reform.	SEE reform is advancing; the State Asset Management Corporation (a holding company for the best performing SEEs) is being established. A comprehensive electricity tariff reform enacted in July 2019.
Tap concessional external borrowing and increase market based domestic financing of the fiscal deficit.	In progress.
Financial sector	
Objective: Ensuring financial stability and deepening and strengthening financial sector regulation and supervision.	
Implement 2017 prudential regulations.	In progress. Banks appear to have met the July 2019 target of overdrafts comprising 30 percent of total lending. The CBM has extended the period for capital adequacy and large exposure limit compliance to August 2020.
Strengthen bank capitalization.	In progress.
Form contingency plans to address systemic banking risks and strengthen resolution framework.	In progress.
Accelerate reform of state-owned banks.	In progress.
Continue financial sector and interest rate liberalization at a pace commensurate with CBM's capacity.	In progress.

Source: IMF Country Report No. 19/100.

Annex II. Risk Assessment Matrix (RAM)[1]

	Shocks and Likelihood (Red= high likelihood; green = low likelihood)	Potential Impact (Red= high; green=low)	Policy Response
Domestic	Macro-financial spillovers in the event of banking sector distress and delayed recapitalization.	Fears of bank fragility could lead to bank runs/collateral fire sales; Likely credit crunch, if weak banks cut back on lending while adjusting to new regulations; Contingent fiscal liabilities related to recapitalization and/or possible liquidity support; Pressure for further exchange rate depreciation and FX reserve depletion.	Implement contingency plans and encourage timely recapitalization; Move down the resolution ladder for non systemic banks; Continue to strengthen financial regulations and supervision to ensure financial stability and deepening while improving credit risk management of banks; Strengthen macroeconomic policy frameworks to increase responsiveness to shocks. A flexible market-determined rate will help limit reserve losses and incentive to convert to FX, but an external financing backstop would also be important to anchor expectations and respond to disorderly market conditions. Under a deeper systemic crisis a tighter macro policy stance alongside a resort to partial deposit freezes or guarantees may be needed.
	Slow progress in resolving the Rakhine state humanitarian crisis.	FDI and external financing could be strained. The risk of broader economic sanctions including potential loss of trade preferences. Delays overall economic reforms.	If development partner financial assistance is disrupted, rationalize public expenditures while preserving humanitarian spending and social sector spending; Resist monetization of fiscal deficit; Allow the exchange rate to adjust to any external financing shortfalls and actively build up reserves where circumstances allow.
	Increased monetary financing of fiscal deficit ahead of the elections	Sharp and persistent increases in monetary financing could put pressures on inflation, lead to a loss of monetary control, and reduce credibility in the monetary regime.	Increase issuance of Treasury bills and bonds and tap external concessional borrowing where possible. Delay nonessential expenditure until financing is secured.
	Slippages in implementing needed reforms from limited institutional capacity.	The public sector is unable to cope with speed of reform, leading to slippages; Growth effects compounded by weaker business confidence. A listing of Myanmar by the Financial Action Task Force (FATF) could create financial stability risks.	Well-tailored TA programs that focus on staff training to raise institutional capacity; Coordinate TA programs with international donors and streamline and adjust the scope of the programs, if necessary; Further promote operational autonomy of the CBM.
External	Rising protectionism and retreat from multilateralism.	Weaker export growth, which could significantly reduce GDP growth and contribute to kyat depreciation.	Allow greater exchange rate flexibility to absorb external shocks; Continue with structural reforms to diversify exports and trading partners; Improve business environment to attract more FDI from other sources.
	Weaker-than-expected growth in China.	Reduced export growth and FDI inflow and infrastructure development, since China is an important trading partner and source of FDI.	Allow greater exchange rate flexibility to absorb external shocks; Continue with structural reforms to diversify exports and trading partners. Consider countercyclical macro-policies depending on financing conditions.
	Large swings in energy prices.	This would impact the import bill, 28 percent of which is fuel imports. Lumpy oil payments tend to put greater pressure on the foreign exchange market and thus raise inflation.	Allow greater exchange rate flexibility to absorb external shocks; Consider tightening monetary policy to mitigate second round impacts.
	Higher frequency and severity of natural disasters	It is estimated that natural disasters in Myanmar have generated a direct economic loss of 1.82 percent of GDP every year (2006–15) on average. In addition human costs, natural disasters effect debt sustainability through damaging long-term growth and increasing borrowing for reconstruction needs from damage to infrastructure and capital.[2]	Identify and explicitly integrate risks into fiscal frameworks and budget planning; Build policy and financial buffers to enhance resilience to shocks; Enhance preparedness and invest in infrastructure that can better cope with natural hazards.

Source: IMF staff.

[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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

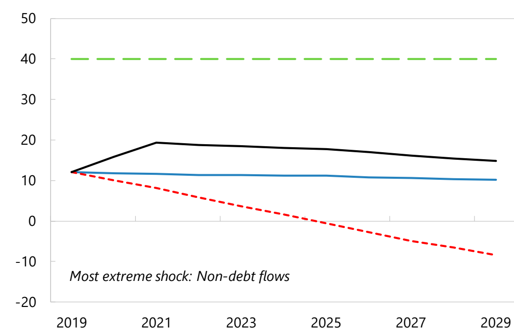
[2] Myanmar Selected Issues 2018; Country Report No. 18/91.

Annex III. External Sector Assessment

Overall, the external position in FY2018/19 is broadly in line with fundamentals and desirable policies. One-off factors in FY2018/19, such as the completion of gas pipeline repairs and changes in regulation in the auto industry imports, and cyclical weakness in the economy narrowed the current account deficit. The deficit is expected to widen but remain sustainable with manageable external debt. However, reserve coverage continues to be inadequate. Elevated systemic risks in the banking system could result in macro-financial spillovers and foreign exchange market pressures. Debt management capacity needs strengthening, given discussions around infrastructure scaling up and the authorities should remain vigilant about borrowing that leads to a rapid debt buildup.

1. External debt sustainability. Myanmar's risks of external debt and overall debt distress continue to be assessed as low (2019, DSA). While the overall debt outlook remains positive—several vulnerabilities exist. These include a slowdown in FDI, exports, the aftermath of a natural disaster or from larger than expected contingent liabilities arising from the banking system or from a ramp up in PPPs. Increasing and diversifying the export base, maximizing concessional loans and improving policy buffers would help keep the debt burden contained. Progress on the Rakhine state crisis has been slow and is affecting the outlook for external inflows.

PV of PPG External Debt-to-GDP Ratio



Source: IMF staff estimates.

2. Current account. Using the EBA-lite CA model, staff estimate the CA norm to be a deficit of 4.8 percent of GDP resulting in a CA gap of 2.0 percent of GDP and a policy gap of 1.2 percent of GDP. However, subdued economic activity coupled with one off factors narrowed the current account deficit in FY2018/19, overstating the gap.[1] The CA gap is significantly reduced (to -0.6 percent of GDP) when the cyclical weakness is fully taken into account and adjustments are made for the

Results: EBA-Lite CA Assessment

(In percent of GDP, FY 2019)

CA-Actual	-2.0%
Cyclical Contributions (from model)	0.2%
Cyclically adjusted CA	-2.2%
CA-Norm	-4.6%
Cyclically adjusted CA Norm	-4.8%
Multilaterally Consistent Cyclically adjusted CA Norm	-4.1%
CA-Gap	2.0%
of/which Policy gap	1.2%
Elasticity	-18.0%
REER Gap	-10.9%
CA-Fitted	-2.8%
Residual	0.8%
Natural Disasters and Conflicts	0.6%

Source: IMF staff estimates.

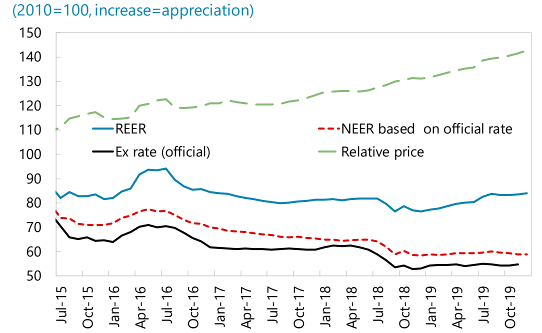
[1] The cyclical weakness in the economy is driven by weak investment which has greater import intensity. Imports contracted sharply on lower FDI related capital goods imports (down 1.1 percent of GDP relative to FY2017/18) and iron and steel imports (down 0.3 percent of GDP relative to 2017/18) due to a slowdown in construction.

one-off factors.[2] Moreover, given the current level of reserves, it is unlikely that the external position is stronger than fundamentals. Staff therefore judge the external sector to be in line with fundamentals and desired policies.[3] Staff has also estimated the REER gap using the REER model, which suggests a larger REER gap. A lower weight is attached to this approach as it has not performed as well for Myanmar.[4] Over the short to medium term, the CA deficit is expected to widen reflecting a slowdown in gas exports and a relatively stronger demand for imports including oil.

3. **Real exchange rate.** The kyat and REER have remained broadly stable since February 2019, when CBM formally adopted a market-determined reference exchange rate, which appears to have better anchored market expectations and reduced the informal market spread. FX auctions have been stepped up to provide dollar liquidity but with limited scope given the level of reserves.

Nominal and Effective Exchange Rates

(2010=100, increase=appreciation)



Sources: Myanmar authorities; and IMF staff estimates.

4. **Reserve coverage**. The narrower CA deficit offset weaker FDI and other inflows has allowed a modest buildup of FX reserves via auctions to about US$5.7 billion (3.5 months of imports) at end-September 2019. Staff estimate reserve optimal coverage for Myanmar to be around five to six months of import coverage.[5] Reserves have been relatively stable around three months of prospective imports given limited FX intervention. Staff continue to assess reserve coverage as below adequate, especially given the risks from the banking sector which if crystalizes, is likely to result in the conversion of deposits into foreign exchange, putting further pressure on reserves.

[2] One-off factors affected the CA deficit in FY2018/19. Gas exports were artificially boosted by the completion of the repairs of a major gas pipeline. In addition, new regulations on auto (a ban on all righthand side vehicles) reduced imports automobiles (down 0.3 percent of GDP relative to 2017/18), particularly used vehicles from Japan.

[3] The desirable policy (P*) for public health expenditure was adjusted to 5 percent of GDP based on preliminary estimates to achieve SDGs mainly driven by an increase in doctors and other health staff which are currently comparatively low. P* (15 percent of GDP) for private sector credit growth has been set slightly above but in line with nominal GDP growth.

[4] From the EBA-Lite REER model, the REER gap is 11.1 percent above what is warranted by fundamentals and desirable policies. However, the REER model does not account for Myanmar's transition to a market-based economy and the need to address decades of underinvestment.

[5] IMF Board Paper SM/14/334; also see Country Report No. 17/30.

Annex IV. Upgrading the Monetary Policy Framework

With important reforms to the FX market achieved, the focus should now shift to upgrading the monetary policy framework, which would better support price and external stability. Drawing on recent IMF TA, this note outlines key priorities in this regard and in light of the current macroeconomic juncture, primarily: strengthening monetary policy formulation, establishing and operationalizing a firm interest rate corridor, and continuing to gradually liberalize interest rates.

A. Strengthening the Overarching Monetary Policy Framework and Formulation

1. The overall objective of monetary policy and its formulation should be clarified and made explicit. This would provide the overarching basis to frame and inform CBM's open market operations. Further, the actual conduct of monetary targeting framework itself needs to be strengthened.

- **Formulating monetary policy.** An overall inflation objective should be clearly articulated to establish a monetary anchor. A Monetary Policy Committee drawing input from various departments and agencies, should now be formed to meet regularly and formally in a predefined process to monitor and review monetary aggregates versus the published targets relative to economic performance, and to adjust the monetary policy stance accordingly.

- **Review the monetary targeting framework.** The relationship between monetary aggregates, targets and inflation outturns, and the analytical tools to forecast these, should be carefully reviewed. Challenges in liquidity management make setting and adhering to reserve money targets difficult, necessitating investments in liquidity monitoring and forecasting capacity at both the CBM as well as banks (particularly state-owned banks). In light of this, a gradual move towards stabilizing excess reserves and interest rate targeting could be considered.

B. Establishing an Interest Rate Corridor

2. An interest rate corridor would help CBM guide short-term interest rates between a ceiling and floor, help mitigate excessive volatility, manage excess reserves, and allow better monetary control. To start, a relatively wider corridor would encourage banks to adjust and gradually increase participation in the interbank market while limiting the need for excessive CBM intervention. The level and width of the corridor should be reviewed periodically (e.g. starting quarterly) and adjusted as needed in line with macrofinancial developments. Ideally, the following elements of the interest rate corridor should be presented together to provide market participants full understanding of the framework:

- **Introduce interest on excess reserves (IOER) to establish the corridor floor.**
  - **Level.** There is a trade-off to balancing interest rate volatility and with remuneration costs. Given banks expected excess reserves levels, however, such costs are likely small. An IOER of 4 or 5 percent to begin with would limit remuneration costs for the CBM as well as allow market participants time to adjust to the corridor. A floor below the rate on government securities would support the T-bills/bonds market development and continued lending.
  - **Eligibility.** The IOER should apply to domestic and foreign private banks. For now, state-owned banks, in particular MEB, should be excluded from the IOER rate, given the size of their reserve positions, and ongoing restructuring. Attention should be placed on resolving the structural liquidity surplus of SOBs, including a single treasury account.

- **Upgrade existing discount window facility to form corridor ceiling.**
  - The discount window facility is distinct from the standard overnight overdraft (credit auction) facilities. Thus, its duration (overnight) should be standardized and haircuts adjusted to differentiate it from these standard facilities.
  - The existing 1995 Directive on this facility should be amended to clarify the discount window's legal basis (monetary operations tool), eligibility criteria, and collateral requirements as separate from regular overnight facilities and the LOLR facility as is currently implied by the 2013 Central Bank Law.
  - A special discount window facility for foreign banks should be introduced, which allows the use of USD as permissible collateral. This would address longstanding issues foreign banks' funding requirements.

C. Bolstering the Monetary Operations Toolkit

3. With the corridor established, the OMO toolkit should in turn be enhanced to enable CBM to guide the short-term interest rate effectively through the corridor. This toolkit would comprise:

- **Deposit and credit auctions.** As the main tool of the CBM, this can be enhanced by changing the frequency of auctions (weekly vs. bi-weekly, for a 1-week duration, plus 4-week where necessary), clarifying the amount for each duration offered, and simplify the procedures for participants as in government auctions. Credit auctions should be deployed to avoid liquidity squeezes. These should be kept separate from the discount window, which functions as a backstop with a penal rate.

- **T-bills/bonds.** Another priority is to improve cash and liquidity forecasting by the Treasury in deciding the amount of securities to offer, including improving coordination between the Treasury and CBM (sub-committees) to avoid underfunding and resort to monetary financing.

- **Repo market.** Although a limited number of bilateral repo transactions haven taken place, the CBM can play a larger role in encouraging the repo market, including a GMRA based CBM instrument.

- Refinements to the **reserve requirement framework**, including reducing the large lag between the calculation and maintenance periods, would increase overall effectiveness.

- Finalizing the **interbank reporting Directive** would enhance timely monitoring and the development of a yield curve, thereby supporting interbank activity.

D. Interest Rate Liberalization

4. With greater exchange rate stability, it is also now appropriate to consider further liberalizing the administrated controls on interest rates to better reflect risk. Allowing interest rates to respond to market conditions would also reinforce the CBM's adoption of the interest rate corridor and support the monetary transmission mechanism. More generally, decisions to adjust the interest rate corridor and retail rates should be made periodically in line with economic conditions.

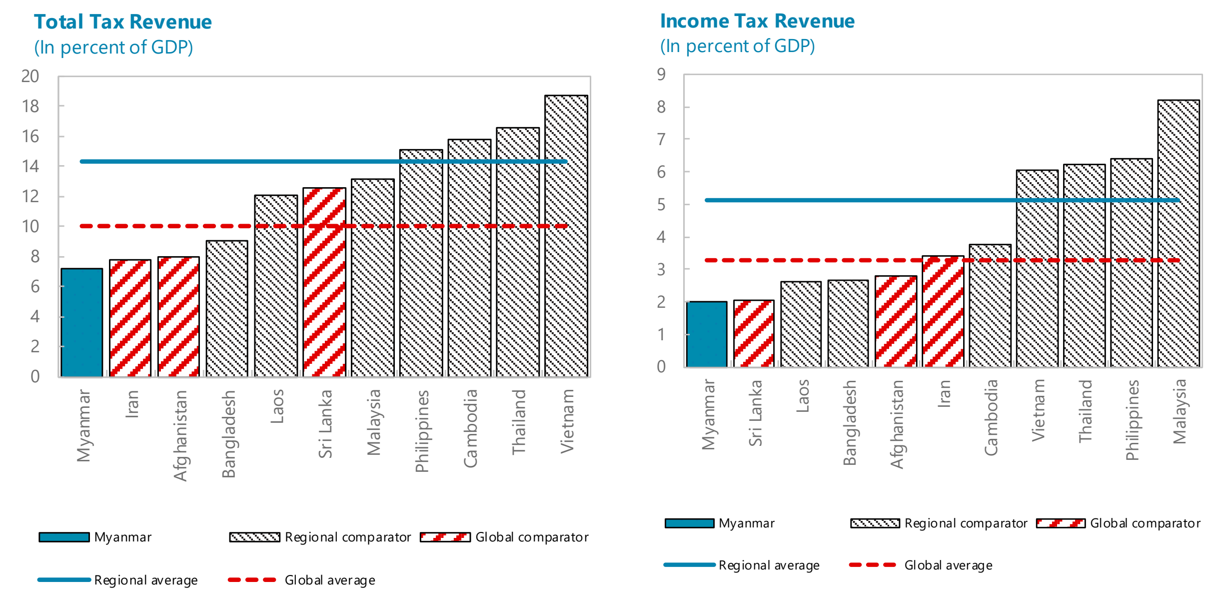
- **Deposit rate.** Myanmar's deposit rate is among the highest in the region. A decrease in the deposit rate floor would help stimulate economy and support bank profitability.

- **Lending rate.** Given weak cyclical conditions, a decline in the lending rate would be helpful. This could be done by lowering the collateralized lending rate cap at the same time as a deposit rate reduction.

Annex V. Reforming the Income Tax System

1. Modernizing the tax system in Myanmar is critical for securing revenues for achieving development goals as well as improving efficiency and equity. The current personal income tax (PIT) structure in practice excludes 98 percent of taxpayers, resulting in a very narrow base and a very low PIT potential. The PIT potential revenue is estimated to be only 0.3 percent of GDP even in the absence of any tax avoidance or evasion. On the corporate income tax (CIT) front, the overly generous and distortionary tax incentives are estimated to entail a direct cost exceeding 25 percent of total CIT revenue. To address the deficiencies of the current system, reforms need to be introduced to complete the Income Tax Law (ITL) draft. The draft ITL—assisted by the IMF—is at an advanced stage, but key policy decisions remain to be made.

Myanmar: Tax Revenue Compared to Peers



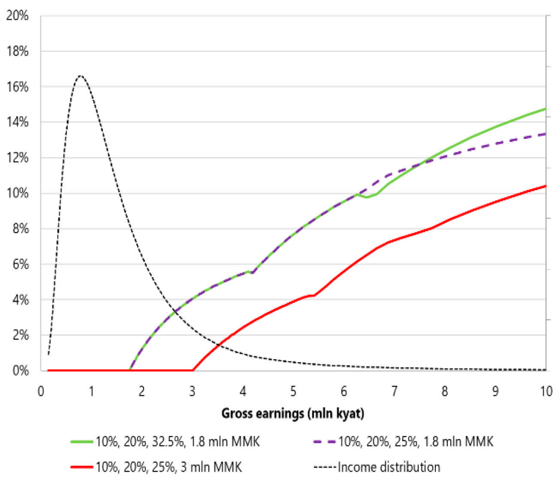
Source: Myanmar: Reforming the Income Tax System, IMF Technical Report, November 2019.

2. The IMF tax policy TA mission in September 2019 recommended reform options which should help to raise revenues by 2-4 percent of GDP and improve distribution over the medium term. The baseline package includes the following main elements:

a) Lower exemptions/deductions in the PIT from 6.8 million kyat to 1.75 million kyat (or at least to 3 million kyat) and revise the rate structure (see table below). The proposed tax structure would raise revenue from the 1/3 richest taxpayers and generate 3.8 percent of GDP. It only implies a small change for the majority of population as 93 percent of the population would lose less than 5 percent of gross income as a result.

Estimated Income Distribution and the Effects of PIT Reforms

(left scale: average tax rate; right scale: income distribution density)



Proposed PIT Scale

(dashed line in left figure)

General tax exemption plus value of deductions			1.75 mln
Bracket	**Start bracket**	**End bracket**	**Marginal tax rate**
1	1.7 mln (P67th percentile)	2.3 mln	10%
2	2.3 mln (P80th percentile)	4.3 mln	20%
3	>4.3 mln (P95th percentile)		25%
			Estimates
Revenue (% GDP)			3.8%
Revenue (MMK, billion)			3440
Fraction population paying PIT (full enforcement)			32%
Fraction population losing less than 5% of gross income			93%

Source: Myanmar: Reforming the Income Tax System, IMF Technical Report, November 2019.

b) Tax all capital gains at the corporate level at the statutory CIT rate of 25 percent, except for gains from selling majority-owned companies, including taxing capital gains in the petroleum sector using the statutory CIT rate.

c) Tax rental income at the corporate level at the statutory CIT rate.

d) Impose a domestic withholding tax (WHT) on interest of 10%.

e) Introduce a cross-border WHT on dividends and management and technical fees

3. Tax incentives should be rationalized. The draft ITL supersedes other legislations providing income tax incentives and allows for accelerated depreciation or investment allowances. The tax holidays and reinvestment tax credit in Myanmar Investment Law should be ideally repealed and replaced by cost-based incentives in the ITL such as tax investment credits or at the very least should be rationalized and made by rule-based with clear eligibility criteria in the ITL. This would entail detailed discussions with Myanmar Investment Commission and relevant ministries on how current incentive system should be rationalized by narrowing the scope (sectors, regions etc.) and generosity (e.g., time-bound with no renewals) through rules-based strict criteria and agreed by

Cabinet before the submission of ITL to Parliament. In addition, income tax incentives should be fully governed by the MoPFI, which should be provided information on tax expenditures as a requirement.

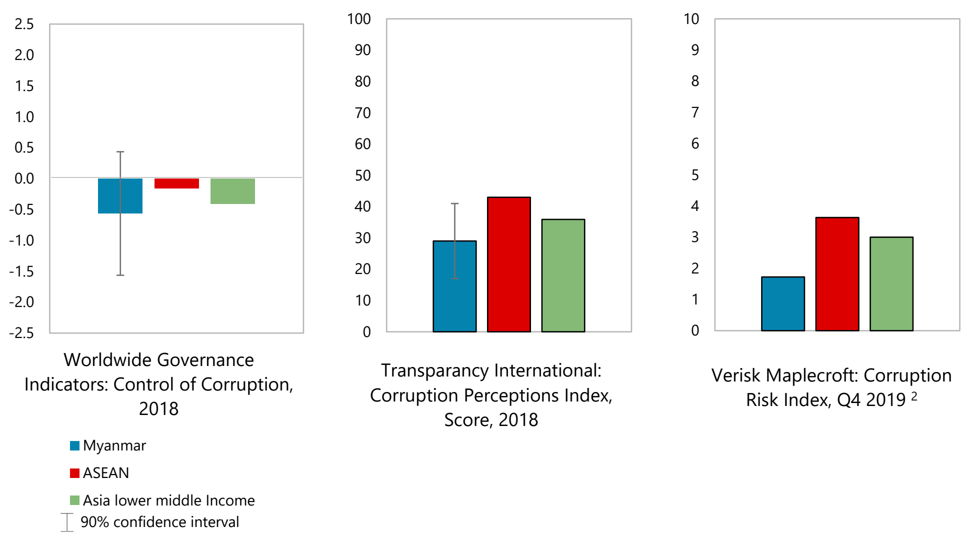
4. Other aspects of the income tax system should be revamped. These include introducing a simplified presumptive tax regime with a uniform turnover tax at a rate of 3 percent for businesses with a turnover below MMK 150,000 million, adopting transfer pricing legislation based on OECD guidelines and introducing additional rules regarding international taxation, addressing the distortions in the CIT by applying the standard CIT rate on listed firms and transparently defining allowable business expenditures, including amortization allowances of intangible assets. Given asset quality problems and very low provisioning levels in the banking sector, the authorities should permit mandatory bank provisions (as defined by the supervisory authority) to be tax deductible. Such a step, however, should be introduced in line with prudent fiscal considerations.

Annex VI. Strengthening Governance and the Anti-Corruption Framework

1. **Despite some progress, governance and corruption vulnerabilities are severe and systemic in Myanmar.** Numerous perception-based indicators point to corruption and governance related vulnerabilities (Figure 1). The authorities continue to work with the aim of reaching compliance with the United Nations Convention against Corruption (UNCAC), enhancing fiscal transparency, clamping down on money laundering and the financing of terrorism and smuggling, and strengthening financial sector regulations and governance. In May 2019, Myanmar underwent the second cycle of review of the implementation of the UNCAC, the findings from which are expected shortly.[1] Myanmar has been undergoing its second peer review assessment by the Asia Pacific Group on Money Laundering and is at risk at being 'greylisted' in February 2020 as part of this assessment.

Figure 1. Myanmar: Governance[1]

(Lower score indicates weaker governance)



Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2018; Verisk Maplecroft's Corruption Risk Index, 2019; Transparency International's Corruption Perceptions Index, 2018.

[1] Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible.

[2] Confidence intervals are not available for this indicator.

2. **The current revenue strategy will address fiscal governance vulnerabilities in a holistic way.** Recent progress by the Internal Revenue Department's (IRD) includes the establishment of the fifth medium taxpayer's office (March 2019) and the passing of the Tax Administrative Law (June 2019). Similarly, notable steps have been made in computerization, and with support from the

[1] Second review cycle on UNCAC implementations for Myanmar https://www.unodc.org/southeastasiaandpacific/en/myanmar/2019/05/country-visit/story.html.

IMF, developing the Export/Import Manual, providing new training and enhancing human resource policies in the Myanmar Customs Department (MCD). While progress has been made in both institutions, more proactive engagement and increased cooperation are needed for the reforms to expand further. Automation enhancements, planned in both the IRD and MCD, will help minimize the need for face-to-face contacts, provide greater transparency with taxpayers and importers, and standardize procedures nationwide. The revenue strategy will help focus attention on the need for improved governance and integrity on the part of revenue staff, taxpayers and importers. Greater clarity of extractives' revenues and tax expenditures will also be key features of revenue strategy discussions. Updated legislation, for both tax and customs, will give greater transparency and certainty of taxable transactions, in turn minimizing opportunities for discretion and negotiation. All these efforts are expected to improve governance and integrity of processes in both IRD and MCD.

3. **Prudent management of extractive industries (EI) is a key priority.** Myanmar has been a member of the (Extractive Industries Transparency Initiative) EITI since 2014. At its 2019 Annual Meeting, the EITI Board concluded that Myanmar has made meaningful progress in EITI implementation.[2] The Board commended Myanmar for its impactful EITI implementation, evident in the progress in introducing policy reforms, improving transparency in extractives data, stimulating robust public debate and creating a platform for dialogue among stakeholders. The Myanmar EITI Annual Progress Report for 2018 and 2019 have been published (with the 5th Report due in March 2020). These reports now cover the oil and gas sector, mineral, gems and jade, and pearl sector.[3] More recently, a new regulation on Beneficial Ownership was promulgated by the President's office. Looking ahead, Myanmar needs to further improve public disclosures, particularly related to license allocation, gemstone production data and data related to state-owned enterprises, while strengthening the comprehensiveness of its EITI reporting. The new bidding round for exploration has been pushed to allow the government to ascertain that its fiscal regime is sufficiently attractive and that legislative uncertainty is addressed. The IMF is providing TA on the petroleum and mining fiscal regime with an expectation that elements of best practice will be embodied in the tax legislation. More specifically, technical assistance is helping the authorities finalize the new Income Tax Law covering EI, put in place a new model production sharing contract, and reforms in mining sector taxation. Contract transparency will be critical in conducting a successful, credible and competitive bid round to increase the participation from international oil companies.

4. **Fiscal data releases are now broadly in line with GFSM format and compiled on a consolidated basis.** However, work continues towards improving financing data and some transactions of state economic enterprises (SEEs). The 2012 PEFA had highlighted several weaknesses in public procurement. Preliminary findings from the most PEFA, based on the more stringent new 2016 framework, indicate substantial improvements including in budget reliability,

[2] https://eiti.org/news/myanmar-moving-towards-greater-transparency, October 2019

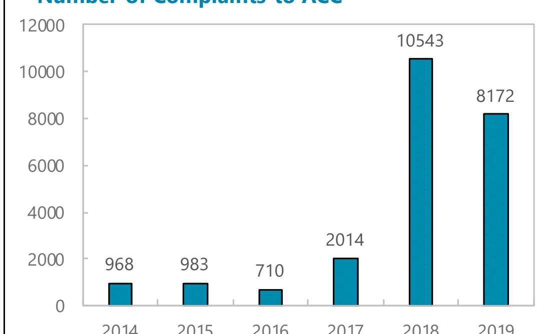
[3] See https://myanmareiti.org/en/publication/meiti-annual-progress-report-2018-2019

reporting, transparency and predictability.[4] The draft Procurement Law was submitted to parliament in November 2019 and was published to solicit comments from civil society. This law is expected to be passed in 2020. Implementing regulations are being drafted with the assistance of the World Bank. The greater focus on Public and Private Partnerships (PPPs) for infrastructure investments also calls for an appropriate PPP framework and reporting of contingent liabilities. Upcoming assistance is being considered for improving the corporate governance practices of SEEs, particularly those operating in the natural resource sector, and setting up an appropriate PPP framework. Timely publication of GFS, automation, more granular fiscal reporting, revenue disclosures, and tracking contingent liabilities remain crucial.

5. **In March 2019, the central bank issued all pending regulations on contentious corporate governance aspects highlighted in the 2018 Article IV consultation.** However, the supervisory authorities require further capacity building to operationalize these. Strengthening risk-based supervision, supported by IMF TA, continues at the central bank. TA is also helping the central bank in aligning accounting and audit practices with international standards while reinforcing staff capacity through training and hands-on guidance. The IMF is working with the central bank to fully transition to IFRS by 2021 as well as adopt risk-based audit procedures. Improving the corporate governance of banks by enforcing the regulations on the central bank's Directives ("Fit & Proper," "Directors," "External Auditors," "Related Parties," and "Substantial Interest" issued in March 2019) remains a priority. Generally, banks are implementing these regulations although progress has been hampered by capacity constraints and financial vulnerabilities. Progress on ensuring that banks publish financial statements in a timely manner has been slow. Corporate restructuring is expected to improve with passage of the new Insolvency Law., however, its implementation is expected to be gradual. More work also needs to be done on the framework for bank restructuring and resolution.

6. **The Anti-Corruption Commission (ACC) has become more active over the past year.** The number of complaints to the ACC has been increasing since the passing of the anti-corruption law. The new anti-corruption rules are currently with the parliament and accommodates whistleblower protections. The ACC continues to investigate high-profile cases including senior officials. Together with the Directorate of Investment and Companies Administration the ACC is focusing on the role of businesses in preventing corruption requiring companies to set up mechanisms to report corruption. To facilitate reporting, several corruption prevention units have been established in ministries. In 2019, Myanmar underwent a second cycle of the UNCAC review conducted by peer reviewers. The ACC recognizes

Number of Complaints to ACC



Source: Myanmar Anti-Corruption Commission website.

[4] More recently, the Auditor General Office and MOPF have agreed to move to International Public Sector Accounting Standards (IPSAS). Four State-owned Banks and SEEs plans to start to implement International Financial Reporting Standards (IFRS) by FY 2023/24, however, this could take 10−15 years to finish.

that more education to recognize and fight corruption is needed at the grassroot level and that the number of corruption prevention units need to be increased. The ACC notes that the soon to be released EITI report will strengthen anti-corruption efforts related vulnerabilities.

7. Myanmar needs to improve the effectiveness of its AML/CFT Framework. The 2018 Mutual Evaluation Report by the Asia Pacific Group found numerous deficiencies, both in terms of technical compliance and effectiveness. Lack of capacity and limited resources have held back reforms and Myanmar is at risk for being included on the "greylist" during the Financial Action Task Force (FATF) plenary in February 2020. Myanmar will therefore receive an Action Plan from the FATF that is designed to address the most significant shortcomings in the effectiveness and technical compliance of its AML/CFT regime. Encouragingly, a National Risk Assessment has already been conducted and recently the AML/CFT efforts have been placed under the vice president's office in order to ensure proper coordination. Nevertheless, compliance with the Action Plan will require a step up in efforts with strong political will, high level coordination, enough resources and TA. Enacting amendments to AML/CFT laws and rules in accordance with staff's recommendations, will address most of the outstanding technical compliance deficiencies. Bringing these laws and rules into effect, should be a priority.

Annex VII. Reprioritizing Myanmar's Capacity Development

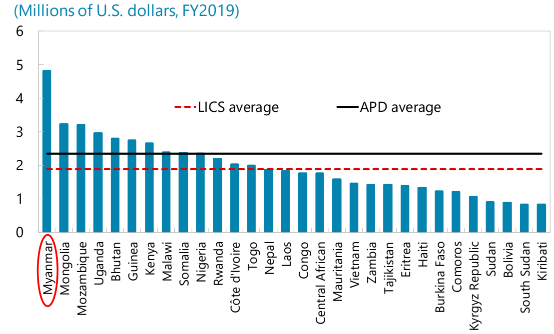
Capacity development (CD) remains crucial for Myanmar to help with the economic transition to a market-based open economy and build institutions. CD from several development partners, including the IMF, currently focuses on building fiscal and monetary institutions, strengthening the legal framework and improving macroeconomic statistics. Most of the CD in FY2018/19 was directed towards the fiscal and financial sectors through thematic medium-term projects. The updated CD strategy, included the 2018 Article IV staff report, identify the continued need for intensive CD. However, over the medium term, some rebalancing and streamlining is being considered reflecting the evolution of the Fund's CD engagement.

Background

1. **CD has been strategically important to economic reforms and rebuilding economic institutions in Myanmar.** The IMF's Independent Evaluation Office, in its report on capacity development, has highlighted the positive impact that CD has had on Myanmar.[1] Given large and broad CD needs, and multiple development partner engagement, a strong link between surveillance and CD has been established. Myanmar receives significant amounts of CD from the IMF. CD is being delivered by long-term resident advisors, by regional advisors from CDOT, by STI and OAP, and by IMF HQ-based missions, and short-term experts. CD providers work closely with each other and coordinate with other development partners to avoid duplication and maximize synergies including through annual COFTAM (Committee for the Coordination of Financial Sector Technical Assistance to Myanmar) and periodic MMSCG (Macroeconomic Management Sector Coordination Group) cochaired by the IMF.

2. **CD has been aligned to the authorities' development plans as well as the IMF's surveillance priorities.**[2] Development needs, as highlighted by the authorities' development plans, are large. These needs are currently being met with CD from the IMF and other development partners. Building fiscal and monetary institutions, strengthening the legal framework, improving macroeconomic statistics and increasing staff capacity with the aim to strengthening policy making while improving transparency, and overall governance and reducing corruption vulnerabilities remain broad objectives of setting CD and TA objectives. While substantial progress continues to be made in each of these areas, much more remains to be done to develop capacity and improve the quality of institutions.

TA Delivery to Low Income Developing Countries
(Millions of U.S. dollars, FY2019)



Source: IMF staff calculations.

[1] https://ieo.imf.org/en/our-work/evaluation-reports/Completed/2018-0403-the-imf-and-fragile-states.

[2] This was highlighted in the 2018 Article IV staff report which integrated CD with surveillance priorities and with the goals set in the authorities' long-term development plans.

Reflecting this and keeping in mind that some large projects are winding down, some reprioritization is being considered to optimize the IMF's CD resources to respond to the needs from a rapidly changing economic environment.

Fiscal Sector

Preliminary findings from the second Public Expenditure and Financial Accountability Assessment PEFA, based on the more stringent new 2016 framework, indicate substantial improvements including in budget reliability, reporting, transparency and predictability. However, Myanmar's tax revenue-to-GDP ratio remains low by regional and international standards. With a projected decline in natural resource revenues, a comprehensive medium-term revenue mobilization strategy aligning revenue goals with SDG expenditure needs and having a clear PPP framework as well as robust PFM system are essential in the aspiration to strengthen fiscal governance. Greater clarity and transparency of extractives revenues and tax expenditures are also key to strengthening governance.

5. Myanmar's transformational tax system reform journey is now in its second phase. With the help of intensive TA from the IMF, the reform journey is currently focusing on consolidating the reforms introduced in the first phase and introducing more features of a modern tax system. IMF CD continues in tax administration, tax policy development, and legislation drafting. Two key achievements in 2018−19 were the procurement of a new integrated tax administration system (ITAS) to be deployed over the next three years and the enactment of the Tax Administration Law (TAL)—both longstanding projects. In addition, IMF TA has helped IRD to begin transitioning towards revenue mobilizing reforms: expanding the taxpayer population covered by the self-assessment system, centralizing tax return and payment processing for the large and medium taxpayer offices, enhanced taxpayer services through a Technical Review Committee that provides greater clarity to interpretation and administration of the tax laws, and establishing a Public Education and Communications Unit that acts as a gatekeeper for the IRD website and public statements. A Risk and Intelligence Unit was also established to strengthen risk management capability. Staffing and competencies in the Information Technology Directorate have increased to reflect the additional workloads associated with the ITAS project and broader e-services.

6. ITAS and TAL implementation are the highest reform priorities scheduled for 2019−20. Modernizing the tax system in Myanmar is critical for improving efficiency and equity as well as securing revenues for achieving development goals. Following the adoption of TAL in July 2019, the next step should include reforming the income tax and adopting a new income tax law (ITL) as the sole legal instrument governing the income tax in line with previous IMF recommendations. Continuing work to centralize processing and taxpayer services and continuing the SAS expansion, along with trained dedicated staff, will be necessary to support ITAS and TAL implementation. Throughout 2019–20, IRD faces a range of competing demands on time, focus, and resources. Managing operations alongside reform activity will at times be complicated. During this transition, operations must continue, services to taxpayers must not decline, and revenues must be protected through enforcement and other compliance improvement responses. Stronger governance processes are needed to manage the changes and competing priorities.

7. **CD in the PFM programs has progressed on improving budget planning and managing fiscal risks while strengthening budget execution.** TA continues towards strengthening both planning and budgeting, with the broader aim of improving budget credibility and expenditure efficiency. Complementing this, TA for strengthening institutional, legal, budgetary and reporting frameworks to better manage fiscal costs and risks from PPPs has been provided. PPPs are expected to grow significantly in the coming years, however, the framework for managing these efficiently is yet to fully develop. In line with FAD recommendations, the authorities have updated the standardized PPP contracts. In addition, the first prioritized public investment program, Project Bank, has been launched with support from the World Bank. The Project Bank will help identify and screen infrastructure projects and account for the fiscal liabilities from PPPs. Further enhancing the fiscal risk management, including those from SEEs, should be a priority going forward. Strengthening treasury management, including progress in implementing the medium-term treasury reforms, continues. Progress has been made on accounting, fiscal reporting, cash and debt management. Recent milestones include: establishing the workplan for the newly created Treasury Policy and Quality Promotion Division and drafting instructions and new templates for SEEs reporting to Treasury. In addition, the TA on automating financial reporting has made considerable progress. Development partners are expected to take a more prominent role on some of the PFM related projects (such as FMIS) going forward.

8. **The first phase of the automated financial information reporting system for the Treasury (FIRST) has been developed as an initial step towards an eventual FMIS.** FIRST provides flexible, automated data entry and automated consolidation of Union level financial reporting. FIRST also includes a cash forecasting reporting and reconciliation functionality (with government bank account information). FIRST became operational at the Treasury level in July 2019 and plans for FIRST 2.0 are being discussed. FIRST 2.0 will integrate treasury and budget reporting and possibly extend financial reporting and accounting functionality to the spending unit level. For that to succeed, a key priority is to develop a unified chart of accounts (COA). Regional PFM and Treasury Advisors have established a COA working group and a COA review with relevant stakeholder has been agreed upon with the aim to enhance both administrative and economic classification to improve logical consistencies and support the automation process.

9. **While there has been progress with modernization in the MCD, an extensive reform agenda remains**. Notable progress has been made in computerization and, with IMF support, in developing the Export/Import Manual and new training and human resource policies. However, overall progress remains slow and TA needs remain significant. Key areas for future reform the medium term include enhancing the strategic management of reform initiatives, strengthening operational risk management, building the intelligence, post clearance audit, and investigation functions, strengthening enforcement, and increasing cooperation with the IRD. In addition, the law enforcement work stream requires a review and update of its methodology. In some of these areas, developing partners and donors taking the lead in CD delivery will help meet some of these CD requests.

10. Important issues in the legal and policy framework in the extractive industries (EI) still need to be addressed. A new draft Petroleum Law is being debated in parliament. In addition, drafting of a dedicated extractive industries (EI) chapter of the new Income Tax Law (ITL) is underway to address gaps and ambiguities in the application of income tax to the petroleum and mining sectors. TA on the EI fiscal regime, in particular on the reform of the model production sharing contract (PSC) ahead of the planned licensing round, is ongoing. With the authorities seeking to attract new investment in the sector, it is important that the government takes the necessary steps to make sure that the fiscal regime is sufficiently attractive and legislative uncertainty is addressed.

Monetary and Financial Sector

The central bank is upgrading the monetary policy framework, which would better support price and external stability. Progress has been made in bank supervision and regulation, while a *comprehensive financial sector reform strategy is required to safeguard financial stability.*

11. Priority for the central bank should be attributed to more firmly and credibly establishing its monetary targeting framework. TA will continue to support the Central Bank of Myanmar (CBM) to strengthen its reserve money targeting regime for upgrading: (i) its monetary policy toolkits by implementing recommendations from the IMF, and (ii) its liquidity monitoring. In addition, TA is also envisaged for helping CBM improve the operational procedures of monetary policy toolkits, publish the interbank market reference rates and upgrade CBM's market intelligence capacity. Over time, assistance in helping the CBM set up a monetary policy committee and a technical working group to support the committee should be considered. Further deepening of the interbank market and developing a FX intervention strategy are medium-term priorities. CD to design amendments to the FX management law would help address regulatory gaps. These amendments would also facilitate development of interbank FX markets and hedging instruments through a gradual recalibration of net FX open positions.

12. Strengthening bank supervision and regulatory framework is ongoing with CD from the IMF and the World Bank. Progress has been made in strengthening on-and-offsite bank examinations and introducing risk-based supervision with Fund TA, compliance and enforcement including judicious use of penalties remain at early stages. Developing a comprehensive financial sector reform strategy is urgently required to safeguard financial stability and the IMF and the World are closely engaged to assist in this endeavor. The key elements would include effective mechanisms to ascertain banks' true health; enable loss recognition and provisioning, orderly deleveraging, and recapitalization; and putting in place effective resolution mechanisms that limit spillovers while protecting small depositors. The World Bank is taking the lead on the regulatory and resolution framework while the IMF will continue strengthening bank supervision and financial stability analysis. Traction to date on bank resolution has been limited due to evolving circumstances in the sector and capacity constraints.

13. CBM has committed to complying with International Financial Reporting Standards (IFRS) for its 2021 yearend. It has taken steps to adopt the Institute of Internal Auditors' International Professional Practices Framework for its Internal Audit function. TA to help fully transition to IFRS by this deadline as well as adopt risk-based audit procedures continues. Strengthening risk-based supervision supported by IMF TA continues at the CBM. The commitment to convert to risk-based auditing needs to be reinforced and should be incorporated into CBM's workplans.

14. The issuance of the 2019 regulations is expected to help strengthen credit risk management at banks. From a governance perspective, the 2017 regulation on large exposure limits now provides safeguards against excess financial exposures. In March 2019, CBM issued all pending regulations including on contentious corporate governance aspects. The issuance of these regulations is expected to help strengthen credit risk management at banks, however, the supervisory authorities require further capacity building to operationalize these.[3]

Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT)

In 2014 Myanmar enacted a new AML Law and a Counter Terrorism Law that contains CFT provisions and AML/CFT Rules were issued in 2015. The National Risk Assessment (NRA), completed in 2017, provided valuable input into the National Strategy which was formally adopted in 2019. However, as identified by the most recent APG evaluation, much remains to be accomplished to strengthen Myanmar's legal and regulatory AML/CFT framework.

15. Myanmar formally adopted the National Strategy in 2019. Since completing the NRA report in 2017 the National Risk Assessment Committee has taken several measures to disseminate its findings. An executive summary was prepared for senior officials and several seminars were conducted to discuss findings with a wide range of stakeholders. The NRA report proved to be a useful resource during Myanmar's 2017/18 mutual evaluation (ME) as its key findings were shared with assessors. The NRA report and the findings of the ME were key inputs for the National Strategy which was completed in May 2019 and formally adopted by Cabinet in May 2019.

16. The most recent APG evaluation has identified weak levels of effectiveness across Myanmar's entire AML/CFT regime. It is unlikely that the authorities will be able to demonstrate that the deficiencies identified in the mutual evaluation report have been corrected by the end of the observation period (October 2019). There is high risk that Myanmar will be grey-listed under the FATF's International Cooperation Review Group (ICRG) process in February 2020. Much of the shortcoming highlighted by the APG focusses on effectiveness which will require high levels of political commitment. A major concern in the context of TA from Fund is the failure to update and use most of the supervisory tools developed with the help of IMF. In addition, co-operation between Banking Regulation and Financial Supervision departments in the CBM continues to be sub-optimal. Under an on-going CD project, LEG has provided extensive legislative drafting recommendations to

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[3] CBM's Directives on "Fit & Proper," "Directors," "External Auditors," "Related Parties," and "Substantial Interest." were issued in March 2019 covering corporate governance and financial reporting.

assist that authorities to address these deficiencies. The Fund will continue to assist the CBM to improve the effectiveness of its AML/CFT supervision.

Data and Training

Noticeable improvements in government finance statistics (GFS) and external sector statistics (ESS) have resulted from extensive technical assistance (TA) and training delivered by the IMF, notably through regional advisors. However, improving coverage, quality, and timeliness, and ensuring better coordination between collecting and compiling agencies are imperative to assist policy formulation for analysis and decision-making.

17. Substantial progress has been made in improving macroeconomic statistics, but more remains to be done to improve the quality and ensure timely dissemination of data. Major progress has been made in improving the quality of CPI, ESS and GFS data. The revamped National Summary Data Page (NSDP) was launched in April 2019 implementing the e-GDDS.[4] Establishing banking system data collection for the balance of payments and administrative data collection for direct investments marked major recent achievements in ESS, but weak inter-agency cooperation remains major impediment to further progress. Recent TA has focused on the national accounts to assist with developing/updating measures of quarterly GDP (in line with rebased estimates of annual GDP by production and expenditure in FY2015/16 prices) and on price statistics with the objective of enhancing quality and developing sound GDP deflators. Coverage of FSIs and the lack of consistency with MFS data remain to be resolved. Improving monetary statistics (e.g., data on government financing and financial data of nonbank financial institutions) is expected to continue. As the CBM's capacity of supervision improves, more attention needs to be given to balance sheet data to aid its analysis of macro-financial linkages and consolidated supervision.

18. Training of officials is ongoing via customized courses, specialized workshops and training in methodologies used in surveillance. Recent in-country training provided by the IMF covers topics ranging from assessing the fiscal costs and risks from PPPs (Fiscal Risk Assessment Model), treasury management, budget analysis, government accounting and reporting, to monetary and exchange rate operations, statistical methodologies (including ESS and GFS), and financial programming and debt sustainability analysis. In addition, officials receive opportunities to join regional training events outside Myanmar, including those led by STI, CDOT, and OAP, which raise awareness of contemporary challenges facing developing and emerging market economies and foster peer-to-peer learning and exchanges. Recent offerings have focused on macro-forecasting, macroeconomic diagnostics, and macro-financial analysis, with an aim to building agencies' capacity to strengthen macroeconomic analysis and policy coordination over the longer term. To ensure a more systematic approach to training, the Ministry of Planning, Finance, and Industry (MPFI) has

[4] The NSDP is hosted by the Central Statistical Organization of the Ministry of Planning, Finance, and Industry on its website, utilizing the Statistical Data and Metadata Exchange (SDMX) standard. The NSDP also contains links to statistics published by the Central Bank of Myanmar and the Ministry of Planning, Finance, and Industry. Myanmar's NSDP is available via https://www.csostat.gov.mm/NSDP.htm.

established the PFM Academy with training courses expected to start in FY2019/20 with support from development partners, including the IMF. An inter-agency core macroeconomic group (led by CDOT) continues to meet regularly to develop, update, and operationalize a macroeconomic framework.

Rebalancing CD priorities

A majority of the CD from the IMF in Myanmar is being funded from external sources. Most missions are peripatetic and support medium-term thematic projects.[5] *A reprioritization and streamlining of CD was undertaken to reduce the resource allocation in FY2020. While medium-term CD demands remain strong, given immediate needs and absorptive capacity constraints, CD is expected to be further rationalized and reprioritized. There is further scope for streamlining as projects mature and for maximizing synergies with other development partners.*

19. Rationalization of CD was undertaken in the FY2018/19 RAP and would continue over the medium term. CD in several fiscal areas, such as customs reforms, may be reallocated given absorptive capacity and changes in the general Civil Service regulations. The tax administration project in IRD is maturing and will be less resource intensive going forward. Instead, CD in several areas including prudential regulations, supervisory capacity, training staff to follow up on the findings of the full-scope bank examinations, recovery and resolution, amongst others is needed. However, progress in this area would depend on the ownership of the reforms and the establishment of dedicated team to work on bank restructuring issues. Reprioritization, to include more of these immediate needs, and at the same time streamlining, reflecting capacity constraints of limited CD resources, is being considered and is contingent on the traction with the authorities.

[5] Peripatetic missions are a series of short-term missions within a longer life cycle of a medium-term CD project.

Table 1. Myanmar: MSDP and Capacity Development

Pillar	Goal	Strategy	Action Plan	Potential Programmes/Projects/Initiatives	CD Outcome
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.1 Allow the kyat to float more freely in response to market supply and demand	To develop the capacity of the authorities to implement FX operations efficiently and in a manner consistent with their chosen monetary policy FX regime	TA for FX auction operation to clear the markets and provide a market-clearing exchange rate.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.2 Ensure greater exchange rate flexibility as the CBM moves from a foreign exchange auction to an interbank transaction-based mechanism for setting the reference rate		Develop interbank foreign exchange market and progressively attach a greater weight to interbank transactions in setting the reference rate
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.3 Stabilize high volatility of the exchange rate		Maintain an adequate level of foreign exchange reserves and exchange rate consistent with medium term funtamentals
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.4 Develop an exchange rate intervention mechanism		TA for clear FX intervention strategy that is consistent with the chosen FX regime and well-understood by markets and the public
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.5 Stabilize inflation both from a monetary and fiscal policy perspective	Reduce CBM financing of the budget deficit and develop domestic debt market	Strengthen monetary policy tool kit, improvie liquidty mangement, reduce CBM financing of the budget deficit, and develop domestic debt market. CBM can better control inflation by utilizing the function of financial markets.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.8 Develop the currency swap auction market through which foreign and domestic banks are more comfortable in conducting foreign currency interbank transactions, minimizing foreign exchange risk and uncertainty	To develop the capacity of the authorities to implement FX operations efficiently and in a manner consistent with their chosen monetary policy FX regime	TA to implement the policy regarding the provision of FX liquidity outside of the spot FX market intervention while adequately managing the associated risks.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.1 Continue monetary policy prudence with a view to stabilizing inflation and ensuring balance between economic growth and stability	Gradually move to a reserve money targeting framework with a flexible exchange rate regime	The CBM can better control inflation and financial conditions.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.2 Continue conducting deposit auctions	Enforce and maintain reserve requirement and liquidity monitoring/forecasting.	
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.3 Continue enforcing reserve requirement instructions on banks with flexibility to account for seasonality	Upgrade monetary operations	
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.4 Strengthen treasury securities auctions and expand public understanding of bonds, bills and similar instruments	Further strengthening the primary government securities market and develop secondary market. Development of yield curve.	
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.6 Develop the interbank money market, and ultimately liberalize bank interest rates based on borrower risk profiles	Improve monetary operations and market development. Utilize the interbank transaction data collected by the CBM so that it is useful for market participants, with the aim of publishing key interest rates.	Interbank money market becomes more transparent and easier to use for market participants, including the CBM, improving banks' capacity to manage their liquidity.

Table 1. Myanmar: MSDP and Capacity Development (continued)

Pillar	Goal	Strategy	Action Plan	Potential Programmes/Projects/Initiatives	CD Outcome
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.7 Develop the REPO market through which the CBM can absorb excess liquidity from the market through open market operations, including possibly REPO auctions	Develop and implement roadmap to liberalize interest rates commensurate with the CBM's capacity to supervise financial system as well as calibrate macro-financial developments and implement market-based operations	Interest rates become more market-determined, improving the scope and effectiveness of monetary operations. Possible introduction of repos.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.9 Strengthen BOP shock absorptive capacity and build up foreign exchange reserves to support a more favourable BOP position	Strengthen external sector statistics. TA and training to improve data timeliness, quality, and coverage and macroeconomic analysis through TA aimed at building a comprehensive macroeconomic framework	Improved quality of BOP and IIP data, in terms of : (1) improved coverage, particularly for direct investment, remittances, and external debt; (2) consistency with MFS
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.1 Reform the structure and governance mechanisms of IRD and other relevant entities, and establish functionally based departments organized to best administer the tax system for different groups of taxpayers	Covered in IRD Reform Journey	Support activities in the Operations Management, Design and Monitoring, and Tax Reform directorates.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.3 Implement new information technology systems for registration, processing, accounting, and case work		ICT implementation
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.4 Develop modern tax laws, including a new Tax Administration Law, a new Income Tax Law and a new VAT Law		Development of new model production sharing contract (PSC) for petroleum. Income Tax Law including a specialized chapter on extractive industries.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.5 Introduce anti-corruption and tax evasion counter- measures to protect the integrity and reputation of the tax system, including expanding the focus of internal audit and establishing an Internal Affairs Unit		Support activities in the Operations Management, Design and Monitoring, and Tax Reform directorates.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.6 Expand the implementation of a Self-Assessment System to Medium Taxpayer Offices.		
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.7 Implement a risk-based approach to tax administration using a Compliance Improvement Strategy to guide the administration of taxpayer services and enforcement strategies.		
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.8 Streamline tax processes and procedures to reflect good international practice and maximise opportunities provided by modern technology		
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.9 Develop IRD staff capabilities by providing clear expectations of staff roles and responsibilities, relevant training, modern work practices including effective performance management		

Table 1. Myanmar: MSDP and Capacity Development (concluded)

Pillar	Goal	Strategy	Action Plan	Potential Programmes/Projects/Initiatives	CD Outcome
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.4 Strengthen public financial management to support stability and the efficient allocation of public resources	2.4.1 Significantly increase overall budget transparency, including the continued publication of Citizen Budgets, presentation of tax expenditures in annual budgets and other measures	Support through TA and training on strengthening public finanicial management (PFM), supporting improved treasury management and modernization of financial management systems, and improving government finance statistics (GFS) and public sector debt statistics (PSDS)	A treasury reform roadmap 2018-2022 has been developed. Phase I of Financial Information Reporting System for the Treasury (FIRST) has gone live. Time lag of budget execution reports and financial reports shortened. Format of fiscal reports more aligned with international standards. Developing capacity for medium-term FMIS development. Budget execution and controls are strengthened and have largely achieved. Comprehensiveness, frequency, and quality of fiscal reports has been enhanced.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.4 Strengthen public financial management to support stability and the efficient allocation of public resources	2.4.4 Strengthen scrutiny and oversight of budget proposals and cut unnecessary expenditures	Integrate recurrent and capital budgets, implement medium-term capital program (MTCP) and the mechanism for central review of project proposals and appraisals, develop baseline expenditure estimates and focus budget scrutiny on new initiativesve and solicit explanatory information in the budget to facilitate budget scrutiny and analysis.	Capital projects are better programmed with medium-term fiscal constrains and policy guidance.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.5 Enhancing the efficiency and competitiveness of State Economic Enterprises	2.5.4 Standardize financial reporting structures across SEEs and release financial data on SEEs to the public	Supporting Improved Treasury Management and Modernization of Financial Management Systems	New templates of SEEs' financial reports would support the consolidation of public accounts. Comprehensiveness, frequency, and quality of fiscal reports is enhanced.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.1 Strengthen the capacity of domestic financial institutions	Develop and strengthen banking regulations and prudential norms	Develop/Strengthen banking regulations and prudential norms and more efficient use of supervisory resources to better oversee key risks in their banking systems
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.4 Continue liberalisation of the banking sector including through plans and regulations for the Financial Institutions Law (FIL) and Foreign Exchange Management Law (FEML)		Modernize FEML.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.8 Introduce measures that enable Myanmar banks to ensure full compliance with applicable prudential standards		Develop/Strengthen banking regulations and prudential norms and more efficinet use of supervisory resources to better oversee key risks in their banking systems
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.12 Strengthen the CBM's supervisory and regulatory capacity, including through the development of a comprehensive banking sector strategy with clear responsibilities for the CBM		
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.14 Increase financial transparency, including by enforcing existing regulations on financial reporting and the introduction of additional transparency-related regulations for financial institutions	Strengthen the CBM's institutional capacity to conduct financial management operations and ensure the integrity of its financial reporting	The CBM has established the basis of a modern accounting framework

INTERNATIONAL MONETARY FUND

MYANMAR

February 11, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Asia and Pacific Department
(In consultations with other departments)

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FUND RELATIONS

(As of December 31, 2019)

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	0.24	0.10

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 12, 1981	Jun 11, 1982	27.00	27.00
Stand-By	Jul 28, 1978	Jul 27, 1979	30.00	30.00
Stand-By	May 06, 1977	May 05, 1978	35.00	35.00

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

	Forthcoming				
	2020	2021	2022	2023	2024
Principal					
Charges/Interest	1.84	1.82	1.82	1.82	1.82
Total	1.84	1.82	1.82	1.82	1.82

[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 Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement

The de jure exchange rate arrangement is classified as managed float, and the de facto exchange rate regime is classified as other managed, effective April 20, 2018. In 2018, the CBM made progress in allowing market forces to play a bigger role in determining the exchange rate. The FX reference rate largely followed a formula consisting of a weighted average of FX interbank and bank-customer market rates, with occasional small deviations. The CBM also abolished the trading band (reference rate +/- 0.8 percent) in August 2018. The CBM issued on February 4, 2019, a formal regulation announcing the transaction-based exchange rate, as the new reference rate. The CBM reserves the right to intervene to moderate excessive exchange rate volatility in the foreign exchange market.

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, most recently by implementing a new auction mechanism and clear internal guidelines that remove the MCP which arose from the previous multi-price foreign currency auction. Myanmar does not engage in multiple currency practices or maintain exchange restrictions on payments and transfers for current international transactions, except for restrictions imposed solely for reasons of international or national security that have been notified to the Fund pursuant to Decision No. 144.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on December 5-19, 2019 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2019 Article IV consultation on Feb 28, 2020.

Technical Assistance

Myanmar is one of the largest recipients of IMF technical assistance (TA). Delivery is through a mix of resident advisors; regional advisors based in the IMF Capacity Development Office in Thailand (CDOT) and short-term HQ and expert missions. The key areas of focus are:

- Central Banking: a resident foreign exchange advisor, a resident advisor on accounting and internal audit and a monetary operations advisor based in CDOT provided hands-on training and frequent responsive advice, supported by HQ missions. In addition, i the CBM is now being assisted by a resident financial management advisor to strengthen the CBM's accounting framework and systems.

- 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), including to support the preparation of a Medium-Term Revenue Strategy. A resident custom advisor supports the Myanmar Customs Department (MCD) on compliance measurement, management control, risk Management and the development of MCD audit and anti-smuggling strategies. Work on tax policy is delivered through HQ missions, and include the preparation of the new income tax law (LEG) and modernization of the tax regime for extractive industries.

- Public Financial Management: the focus is on capacity development of the Treasury Department, following its establishment in September 2014, which was led by PFM advisors (two) based in CDOT and supported by HQ and expert missions. Work on public investment management, budgeting and fiscal risks from PPPs is delivered through HQ 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 (two) have taken up duties in CDOT and expert visits continue to assist in the development of price statistics. A rebased CPI was released in August 2016. Assistance in developing GDP statistics was provided during 2019.

- Macroeconomic Management: an advisor based in CDOT leads the work on developing a macroeconomic framework and other analytical tools and providing customized macroeconomic courses and workshops, which 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. Neil Saker has been the Resident Representative of the country and stations in Yangon, since September 2019.

IMF Capacity Development Office in Thailand (CDOT)

Mr. David Cowen, Director, has headed the office since September 2015. CDOT (formerly TAOLAM) provides technical assistance and training in macroeconomic management and statistics, supported by resources from the Government of Japan and the Bank of Thailand. Currently, seven TA advisors are based in the office, covering public financial management (PFM), monetary and foreign exchange operations, macroeconomic management, government financial statistics, and external sector statistics for Myanmar, as well as Cambodia, Lao P.D.R., and Vietnam under most of CDOT's capacity development projects.

Myanmar: Key Technical Assistance by the Fund During 2019		
Department	**Topic**	**Period**
CDOT	Monetary Operations	Jan 16 – 18
CDOT	ESS follow-up (Trade in Services, Administrative Data)	Jan 22 – 24
STA	e-GDDS	Jan 23 – 29
CDOT	Monetary Operations	Jan 22 – 25
CDOT	Treasury Operations (Debt Accounting & Reporting)	Jan 28 – Feb 1
CDOT	PFM/Treasury Operations (Financial Reporting, COA)	Feb 4 – 8
FAD	MCD: Training Manual and Promotion Policy	Feb 11 – 22
CDOT/STA	GFS follow-up	Feb 11 – 15
CDOT	Macroeconomic Core Group	Feb 20 – 21
CDOT/STA	ESS FDI survey for DICA mainly on energy sector	Feb 20 – 22
FAD	IRD: Compliance Risk Management and Intelligence	Feb 25 – Mar 15
CDOT	Monetary Operations	Feb 26 – Mar 1
CDOT	ESS follow up (Trade in Services and Border Trade)	Mar 4 – 7
CDOT	PFM/Treasury Operations (Automation/COA)	Mar 5 – 8
MCM	Monetary TA assessment and Road Map	Mar 6 – 13
FAD	IRD: Brief Assessment	Mar 18 – 21
FAD	Fiscal Regime on Extractive Industry	Mar 20 – 29
FAD	MCD: Quick Review (Law Enforcement)	Mar 25 – 26
MCM/LEG	COFTAM	Mar 25 – 26
ICD	JSA TA needs discussion/ COFTAM	Mar 25 – 26
MCM	Bank S/V and Regulation	Mar 25 – Apr 4
CDOT	Monetary Operations	Mar 28 – 29
CDOT	Macroeconomic Core Group meeting	Apr 3 – 5
CDOT/STA	ESS (FDI Survey for DICA)	Apr 10 – 12
CDOT	Monetary Operation	Apr 25 – 26
MCM	TA on Contingency Planning	Mar 31 – Apr 10
FAD	IRD: Communications and change management	May 6 – 17
CDOT/STI	Financial Programing and Policy course (FPP)	May 6 – 17
FAD	MCD: Training Policy & Manual	May 12 – 24
CDOT	PFM for treasury issues	May 13 – 17
CDOT/FAD	PFM/Treasury Operations: (FIRST follow up)	May 14 – 31
CDOT	Monetary Operations	May 22 - 24
CDOT	GFS follow up	May 27 – 29
CDOT	Monetary Operations	May 28 – 31
FAD	IRD: Centralized Taxpayer Services	May 13 – Jun 4
FAD	IRD: Risk Management & Compliance Strategy	May 20 – Jun 7
FAD	IRD: Annual Review mission	May 21 – Jun 4
CDOT	ESS ((Trade in Goods and Services))	June 3 - 5
CDOT	Macroeconomic Core Group meeting	June 19 - 21

Department	Topic	Period
APD	Staff Visit	June 20 – 27
CDOT	Monetary Operations	June 20 - 21
CDOT	DSA Workshop	June 24 - 26
CDOT	Monetary Operations	June 25 - 28
CDOT/STA	ESS (FDI Survey for DICA)	July 1 – 5
FAD	MCD: Annual Review mission	July 2 – 15
CDOT	PFM/Treasury Management	July 9 - 23
CDOT	Monetary Operations	July 11 – 12
CDOT	ESS (Reporting and Use of FET Data from Banks)	July 22 - 24
CDOT	"FIRST" Support Mission	Jul 17 - Aug 14
CDOT	GFS follow-up	Aug 12-15
CDOT	Budget Restructuring and Analysis Tools Workshop	Aug 15
LEG	Tax Policy and Administration Strengthening	Aug 13- 16
CDOT	ESS (FDI survey for DICA)	Aug 19 - 23
CDOT	Monetary Operations	August 22 – 23
FAD	Tax Policy and Administration Strengthening - RMTF	Aug 26-30
CDOT	Monetary Operations	August 29 – 30
CDOT	ESS (FET data validation techniques)	Sep 4 - 6
CDOT	ESS (FET Workshop)	Sep 7
CDOT	ESS (Coverage Adjustments and Tourism Survey)	Sep 8 – 11
MCM/LEG	AML/CFT	Sep 9 -18
FAD	Tax administration visit	Sep 9 - 27
CDOT/FAD	PFM/Treasury Operations (COA)	Sep 10-24
FAD	Tax Policy Mission	Sep 16-27
MCM	Implementation of IFRS and modernizing Internal Auditing	Sep 18 - Oct 1
STA	Monetary Operations	Sep 26 – 27
STA	Quarterly National Accounts Statistics and Measuring Natural Resources in National Accounts	Sep 30-Oct 11
CDOT	GFS and Public Sector Debt Statistics (PSDS)	Oct 7 - 11
CDOT	Monetary operations	Oct 8 - 9
FAD	JSA9 Regional Workshop on customs administrations	Oct 8-10
MCM	Risk-based supervision manual	Oct 16 - 29
FAD	Centralized Taxpayer Services function	Oct 21 - Nov 8
CDOT	PFM Treasury Operations and UCOA	Oct 22 - 25
CDOT	Macroeconomic Core Group on the macroeconomic framework	Oct 22-24
CDOT	ESS (Data Sources and Compilation Framework)	Oct 28 - Nov 1
FAD	SAS expansion plan	Oct 28 - Nov 8

Department	Topic	Period
CDOT/STI/MCM	Workshop on Monetary and Exchange Rate Operations and Policy	Oct 30 - Nov 1
FAD	Integrity Action Plan and the MCD Discipline and Grievance processes.	Nov 4 - 15
CDOT	Monetary Operations	Nov 13 - 15
STA	CPI rebasing	Nov 18 - 29
FAD	MCD Risk Management Strategy.	Nov 25 - 29
CDOT	Monetary Operations	Nov 28 - Dec 6
CDOT	GFS and PSDS follow up	Dec 2 - 5
CDOT	ESS (Compilation of travel credits and other issues)	Dec 5 – 13
CDOT	PFM Treasury Operations and Unified COA and IA Manual	Dec 16 -24
CDOT	PFM (ICT for the FIRST)	Dec 16 - 17
CDOT	Monetary Operations	Dec 17 - 20

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/myanmar

Asian Development Bank: https://www.adb.org/countries/myanmar/main

MAIN WEBSITES OF DATA

Central Bank of Myanmar (https://www.cbm.gov.mm)
Government Securities
Deposit Auction

Central Statistical Organization (www.csostat.gov.mm)
Consumer Price Index

Myanmar Statistical Information Service (www.mmsis.gov.mm)
National accounts
Population census
Labor and employment
Socioeconomic survey
Household income and expenditure survey

Ministry of Commerce (https://www.commerce.gov.mm)
Foreign trade

Directorate of Investment and Company Administration (https://www.dica.gov.mm/en)
Investment

STATISTICAL ISSUES

As of December 31, 2019

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 up to FY 2017/2018. Compilation of quarterly data commences in FY 2018/19 at new base-year, 2015/2016, price. Gross Domestic Product (GDP) estimates are compiled at current and constant prices by production and expenditure approaches. 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 estimate 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 the Asian Development Bank (AsDB) to improve the national accounts through the compilation of supply and use tables and to implement the 2008 SNA. The IMF has provided TA on quarterly national account statistics and measures of non-renewable natural resources in national accounts and plans to provide follow-up TA.
Price Statistics: The IMF Statistics Department (STA) has provided TA to develop a new Producer Price Index (PPI) in 2018, but these data re not yet released. The assistance included the PPI questionnaire, pilot data collection, index calculation sheets and other needs of the development work. A new Household Income and Expenditure Survey was conducted in 2017. Results from this survey will be used to update the CPI basket and weights in 2020.
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 with a public sector coverage are being compiled in the GFSM format, but financing data are incomplete, and 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. In addition, recording of debt statistics is not comprehensive. Myanmar is participating in a two-year STA program funded by the government of Japan designed to improve government finance statistics in the Asia and Pacific Region with a GFS advisor based in CDOT. Regular TA visits to the country are undertaken by the GFS Advisor. In late 2017, the authorities established a fiscal reporting team who compiled annual GFS data with a wide coverage of the public sector for a 6-year period and reported these data to the Fund; and in 2018 have disseminated these data domestically on the Ministry of Finance website.

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), including foreign bank branches that commenced their operations in 2015. 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, but they are not 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 submitted quarterly financial soundness indicators (FSI) to STA for dissemination in March 2017, with data back to beginning of 2016. FSIs are critical for effective surveillance of the financial sector. The CBM is currently implementing regulatory prudential measures, which will improve the FSI data quality. The CBM reports nine core and four encouraged FSIs for deposit takers for posting on the IMF's FSI website with a lag of more than one quarter. However, the reporting of one core and three encouraged FSIs was discontinued since the third quarter of 2016. CBM reports data on several series and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
External sector statistics (ESS): The balance of payments and international investment position (IIP) are compiled on the basis of the IMF Balance of Payments and International Investment Position Manual (*BPM6*), sixth edition, since 2016 and quarterly figures are reported to STA. Myanmar has participated in the Coordinated Direct Investment Survey (CDIS), beginning its first data submission to STA in November 2017. Although recent revisions have resulted in more accurate classifications of transactions and positions, the coverage of some key components should be further reviewed and enhanced (particularly, trade in goods, remittances, and private non-bank financial transactions and positions). The revaluation of the national currency in April 2012 resulted in a large break in the balance of payments and IIP series. Myanmar continues to be one of the beneficiary countries in the current multi-year STA program on improving ESS in the Asia-Pacific Region funded by Government of Japan. Under the project, TA is provided by the ESS advisor in CDOT and ESS short-term experts reporting to STA.

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.	No data ROSC is available.

Myanmar: Table of Common Indicators Required for Surveillance
(As of December 31, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	11/19	11/19	D	D	D
Reserve Liabilities of the Monetary Authorities[2]	8/19	11/19	M	M	I
Reserve/Base Money	8/19	11/19	M	M	M
Broad Money	8/19	11/19	M	M	M
Central Bank Balance Sheet	8/19	11/19	M	M	M
Consolidated Balance Sheet of the Banking System	8/19	11/19	M	M	M
Interest Rates[3]	10/19	11/19	M	I	M
Consumer Price Index	9/19	11/19	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	FY 2018/19	12/19	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	FY 2018/19	12/19	A	I	NA
Stocks of Central Government and Central Government—Guaranteed Debt[6]	FY 2018/19	12/19	A	I	NA
External Current Account Balance	Q3 2019	12/19	Q	Q	Q
Exports and Imports of Goods	11/19	12/19	M	M	M
GDP/GNP	FY 2018/19	11/19	Q	A	A
Gross External Debt	FY 2018/19	12/19	A	I	I
International Investment Position[7]	Q3 2019	12/19	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.

INTERNATIONAL MONETARY FUND

MYANMAR

February 11, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved by **Kenneth H. Kang, Johannes Wiegand (IMF), and Marcello Estevão (IDA)**

Prepared by Staff of the International Monetary Fund and the International Development Association

Risk of external debt distress:	Low
Overall risk of debt distress:	Low
Granularity in the risk rating	Not applicable
Application of judgement:	No

Myanmar's risks of external debt and overall debt distress continue to be assessed as low. While the overall debt outlook remains positive—several vulnerabilities exist. These include a slowdown in FDI, exports, the aftermath from a natural disaster or from larger than expected contingent liabilities arising from the banking system or from a ramp up in PPPs. Increasing the export base, maximizing concessional loans and improving policy buffers would help keep the debt burden contained. Progress on the Rakhine state crisis has been slow and is affecting the outlook for external inflows. Limited monitoring of fiscal commitments and contingent liabilities poses significant fiscal risks. Infrastructure projects with high returns should be targeted keeping in mind that even a moderate increase in the deficit implies a recourse to central bank financing. Debt management capacity needs strengthening, and the authorities should remain vigilant about borrowing that leads to a rapid debt buildup. Strengthening the business environment and governance, including in the natural resource sector would raise the investment outlook and potential growth.

PUBLIC DEBT COVERAGE AND COUNTRY CLASSIFICATION

1. **The coverage of public sector debt used in the DSA is consolidated public sector debt, government-guaranteed debt and social security funds.** SOE debt is on lent and is therefore included in the coverage of public external debt.[1] There is no outstanding debt to the IMF.

Coverage of Public Sector Debt

1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	*Of which* : Social security fund	X
5	*Of which* : Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

Source: IMF staff estimates.

2. **The LIC DSF determines the debt sustainability thresholds by calculating a composite indicator (CI).** The CI, based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, and world growth and the CPIA score.[2] The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection, and the corresponding CPIA. For Myanmar, the final debt carrying capacity classification for this DSA is medium. A summary of the thresholds used in the exercise are included in the table alongside.

Applicable Thresholds

APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		TOTAL public debt benchmark	
PV of debt, in percent of		PV of total public debt, in percent of GDP	55
Exports	180		
GDP	40		
Debt service, in percent of			
Exports	15		
Revenue	18		

Source: IMF staff estimates.

[1] The 2017 public debt management Law states that SOES can borrow directly from state-owned banks or benefit of on lending from the government. By law, SOE's cannot borrow directly from external creditors.

[2] The details on the methodology can be found in the new LIC-DSF guidance note: https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf.

BACKGROUND ON DEBT

3. Myanmar's total public debt is estimated to be 38.1 percent of GDP as of FY2018/19.[3] Public debt in this DSA covers public domestic debt (61.8 percent of total public debt in FY2018/19) and public and publicly guaranteed (PPG) external debt (38.2 percent of total public debt in FY2018/19).[4] Domestic debt comprises T-bills and T-bonds, a large share of which—mostly 3-month T-bills—is held by the central bank. The largest share of PPG external debt is held by bilateral creditors amongst which China and Japan are the largest creditors. International Development Association (IDA) and the Asian Development Bank (ADB) are the largest multilateral creditors.

Total Public and Publicly Guaranteed Debt

(Estimated End-August 2019)	(USD millions)	In percent of total
Bilateral Creditors	**8.1**	**30.6**
Paris Club	4.2	16.0
Of which: Japan	2.9	10.9
Non-Paris Club	3.9	14.6
Of which: China	3.4	13.0
Multilateral Creditors	**2.0**	**7.5**
Of which: ADB	0.6	2.2
Of which: IDA	1.4	5.2
Commercial Creditors	**0.0**	**0.1**
Domestic Debt	**16.3**	**61.8**
T-Bills	11.7	44.2
T-Bonds	4.7	17.6
Total	**26.4**	**100.0**

Source: Myanmar authorities.

4. Total private external debt is estimated to be 13.1 percent of GDP as of FY2018/19. The estimated total private external debt stock has been revised to reflect the findings of private external debt benefitting from the intensive ongoing TA in external sector statistics Thus, total external debt, a total of PPG external and private external debt, is estimated to be 27.9 percent of GDP as of FY2018/19.

5. The authorities continue to seek external financing on concessional terms, however, reliance on CBM financing persists. New loans with bilateral and multilateral creditors have been signed on highly concessional terms for financing infrastructure and other projects ranging from power, electrification, and transportation to health. During the transition period (April 2018 – September 2018) and in the new fiscal year (October 2018 – September 2019) loans totaling approximately US$ 843.0 million have been signed. With revenues broadly in line with expectations, the fiscal deficit is estimated at about 3.5 percent of GDP in FY2018/19, compared to 3 percent in FY2017/18. The unexpected rapid pickup in the deficit toward the end of the year raised sharply CBM financing to 8.4 percent of last year's reserve money in FY2018/19, higher than the authorities' plan. However, the authorities are still committed to phasing out CBM financing through greater treasury securities issuances.

[3] Myanmar's fiscal year has changed from April-March, to October-September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year started October 2018. This first year of projection in this DSA is FY2018/19. FY2018/19 covers the period October 2018-September 2019.

[4] For Myanmar, the external debt definition used in this DSA is based on residency.

6. Contingent liabilities should be closely monitored. Staff estimate current off-balance sheet liabilities related to PPPs and PPAs are approximately 3.2 percent of GDP. Using the standard methodology under the IMF/WB LIC DSA framework translates this to a shock of 1.09 percent of GDP as part of the contingent liabilities.[5] Banks have continued to make progress converting from overdraft into term loans and appear to have met the July 2019 target of 30 percent of total lending set by the CBM. However, with capital positions and profitability low in most private banks, banks will need to recapitalize through time. Data limitations hinder a full assessment of potential NPLs and recapitalization needs, however, the uneven loan loss recognition and inadequate provisions, large exposures, and low capital position of banks indicate potential systemic concerns. The standard shock covering 5 percent of GDP has been added to the analysis to account for potential recapitalization needs.

Myanmar Off-Balance-Sheet Debt related to PPPs and PPAs

	Million of USD	Percent of 2018 GDP
Electricity	1874.7	2.8
of which electricity BOT	*1399.6*	*2.1*
of which electricity JV/BOT	*475.1*	*0.7*
Gas	131.8	0.2
Ports	110.0	0.2
Total	**2116.4**	**3.2**

Sources: Myanmar authorities; and PPI database.

Coverage of Contingent Liabilities

1 The country's coverage of public debt	The central, state, and local governments plus social security, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0	By law: SOEs cannot borrow directly externally
4 PPP	35 percent of PPP stock	1.09	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		6.1	

Source: IMF staff estimates.

MACRO FORECASTS IN THE BASELINE SCENARIO

7. The assumptions in the baseline scenario are consistent with the macroeconomic framework presented in the staff report. The main assumptions in the baseline are:

[5] A PPP shock in the LIC DSA framework is applicable only when the PPP capital stock is larger than 3 percent of GDP; per the latest data from the World Bank's PPP database, Myanmar PPP stock is estimated to be 1.42 percent of GDP.

- **Real GDP growth.** Economic activity remained below potential in 2018/19. Growth appears to have slowed further to 6.4 percent in FY2018/19 from 6.5 percent in the six-month transition budget, on the back of weaker investment and a lower than expected fiscal stimulus. Investment demand remains subdued due to moderating credit growth in the backdrop of a correction in real estate prices. Over the medium term, growth is expected to gradually rise as infrastructure investment accelerates. However, the pace would be slower than envisaged in the 2018 Article IV as bank restructuring begins in earnest post-election, slowing credit and GDP growth in line with the experience of countries that have experienced credit booms.

Key Macroeconomic Assumptions, FY 2019-FY 2024 1/
(Average)

	Baseline	Previous DSA
Real GDP growth (in percent)	6.2	6.7
Inflation (percent change, y/y)	7.0	6.5
Primary fiscal balance (in percent of GDP)	-2.1	-1.9
Overall fiscal balance (in percent of GDP)	-3.9	-3.6
Current account (in percent of GDP)	-4.7	-4.8
FDI (in percent of GDP)	2.9	4.1

Source: IMF staff estimates.
1/ FY2019 runs from October 2018 to September 2019. Thereafter, all fiscal years are on a October to September basis.

- **Inflation.** Headline inflation stood at 8.6 percent at end-September 2019 on higher electricity tariffs and food and fuel prices but is expected to moderate. Inflation is expected to fall to 6-7 percent range in the medium term as the one-off increase in electricity tariff and pressures from rising food prices abates.

- **Current account.** Subdued economic activity has narrowed the current account deficit. Imports contracted sharply on lower FDI related imports, decline in iron and steel imports due to a slowdown in construction and one-off factors related to changes in automobile import regulations. In contrast, exports held up, led by garment manufacturing and natural gas, despite global trade tensions, the slowdown in China and disruptions in the China-Myanmar trade corridor. The narrower deficit offset weaker FDI and other inflows. The current account deficit is projected to increase to 5 percent of GDP over the short to medium term reflecting a slowdown in gas exports and a relatively stronger demand for imports including oil.

- **External financing.** Project financing from large creditors is currently in place, however, budget financing from creditors remains uncertain. Multilateral financing is expected to remain stable, while bilateral financing is projected to pick up in the near term. While FDI inflows have continued to decline, FDI approvals, a leading indicator of inflows has seen a small uptick recently suggesting a slight recovery in inflows over the short to medium term (see Box 1). Little progress has been made in solving the humanitarian crisis and according to the UN, security has deteriorated in border areas. With elections due in 2020, in staff's view, prospects for progress are limited. The economic outlook is heavily dependent on external financing channels, and progress on the humanitarian crisis remains critical for donor financing.

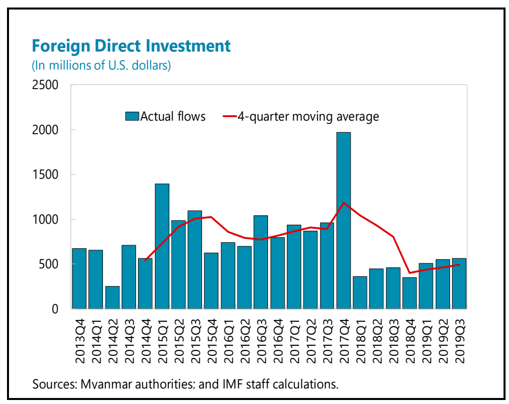
- **Fiscal outlook.** Revenues are expected to remain stable as gains from tax compliance offsetting declining gas revenues, while the tax to GDP ratio remains well below peers. Fiscal spending will focus on social and capital spending which will help close the SDG gaps in education, health and infrastructure. Recent underspending on investment projects partly reflects implementation constraints and optimistic planning, while some acceleration is expected in the short term as many projects are entering the implementation phase. Fiscal deficit is projected to increase from previous years and remain around 4½ of GDP in the medium term, with primary deficit around 2½ percent of GDP.

- **Realism of the baseline.** The PPG external debt-to-GDP ratio follows a similar path compared to the previous DSA (published 2019) but is shifted downwards compared with the DSA from five years ago (published 2014) given the large debt relief. Cross country experience suggests that the baseline fiscal expansion is feasible, and the projected growth path is in line with a fiscal multiplier of 0.2.[6]

Box 1. Foreign Direct Investment to Myanmar (2015 – 18)[1/]

Myanmar's FDI statistics are compiled by the Directorate of Investment and Company Administration (DICA) under the Ministry of Investment and Foreign Economic Relations. DICA has extensively improved the FDI data collection and compilation process over the past three years and is currently producing FDI statistics in line with sixth edition of the Balance of Payments Manual. Funded by Japan, technical assistance in this area continues from the IMF's Statistics Department and Capacity Development Office in Thailand.

Total FDI in 2018 reached US$ 1.6 billion, compared with US$ 4.7 billion (2017) and US$ 3.9 billion (2016) respectively. This significant drop is attributed to several factors ranging from saturation in investments in key sectors that have received significant investments in the last 3 to 4 years, completion of large projects and the overall slowdown of foreign investments, particularly to emerging and frontier markets, in 2018. In addition, there is a notable reduction in reinvested earnings and a higher repayment of intercompany debt in 2018, particularly compared to 2017. Japan, China, Singapore and Thailand continue to remain the top sources of FDI in 2018.



Sources: Myanmar authorities; and IMF staff calculations.

[6] Public/Private investment rate charts are not available in the current DSA from data limitations. Technical assistance from the IMF and various partners continue is ongoing to strengthen macroeconomic data (Appendix VII).

Box 1. Foreign Direct Investment to Myanmar (2015 – 18)[1] (concluded)

A detailed sectoral breakdown of FDI transactions for 2017 and 2018 (Table 1) highlights that except for banking, services (excluding banking), and airport and aviation sectors, there has been a notable reduction in FDI to all other major sectors in 2018. Key sectors, such as manufacturing, oil and gas, mining, telecommunications and hotels, received limited FDI in 2018 compared to the previous three years, indicating some saturation of investments. Significant intercompany debt has been repaid and reinvested earnings recorded a negative investment in some sectors. The mining and oil and gas sectors recorded disinvestments as well as significant intercompany debt repayments in 2018. Data also indicate that financial services, services sector (excluding banking and finance) and real estate & construction are some of the emerging sectors that have received notable investments in the past few years.

Table 1. FDI transactions
(US$ millions, calendar year basis)

	2015	2016	2017	2018
Equity – Paid up Capital	2,132	2,842	2,525	2,080
Equity - Reinvested	-6	-129	419	109
Intercompany debt	2,148	1,168	1,790	-580
Total FDI	**4,274**	**3,881**	**4,733**	**1,610**

Source: Myanmar authorities.

While FDI inflows have continued to decline, FDI approvals, a leading indicator of inflows has seen a small uptick recently suggesting a slight recovery in inflows over the short to medium term. In addition, FDI inflows are expected to improve related to the development of the A6 block which has estimated reserves of 2-3 trillion cubic feet of natural gas.[2/]

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[1] Data (calendar year basis) are based on annual surveys and is supplemented with administrative data received from the Foreign Exchange Management department of the central bank, Thilawa Special Economic Zone, Myanmar Oil and Gas Enterprise and the Ministry of Electricity and Energy. Currently, the Foreign Direct Investment Survey (FDIS) covers over 3,500 active direct investment enterprises.

[2] Oil and Gas journal; September 24, 2018. Available via https://www.ogj.com/exploration-development/discoveries/article/17296507/total-updates-shwe-yee-htun2-gas-appraisal-offshore-myanmar.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

8. **All external PPG debt indicators remain below the policy relevant thresholds in the baseline scenario (Figure 1).** The PV of external debt-to GDP ratio is gradually declining from 12.0 percent of GDP in FY2018/19 to around 10.0 percent of GDP over the projection period. Standardized stress tests show that slowdown in exports and FDI negatively impact the PV of debt-to-GDP ratio, PV of debt-to-exports ratio and the debt service-to-exports ratio (Figure 2) highlighting the need to expand the export base, the importance of the new bidding round and

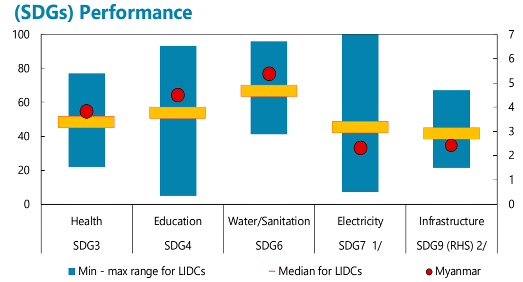
taking the right steps to improve the business environment. The debt service-to-revenue ratio is affected by depreciation. The authorities need to build up policy buffers, particularly domestic revenues and foreign reserves, and continue their efforts with structural reforms to improve growth potential and resilience and promote economic diversification.

9. The PV of total public debt-to-GDP ratio lies below the public debt benchmark (Figure 2). The standardized sensitivity analysis shows that the largest shock that pushes the PV of public debt-to-GDP in FY2027/28 to reach 55.0 percent of GDP is the natural disaster shock (Figure 2, Table 4).[7] Myanmar is exposed to a range of natural disasters accompanied by high economic and social costs, with significant impact on the poor and most vulnerable.[8] Annual expected losses from natural hazards are one of the highest among all countries in Southeast Asia (World Bank, GFDRR). To effectively mitigate the impact of climate-related disasters, the authorities need to enhance preparedness and response ability through addressing weaknesses in ex-ante resilience and ex-post adaptive capacity. The vulnerability to this shock also highlights the need for stronger growth in the medium term and the importance of building fiscal and external buffers.

STAFF SCENARIO ANALYSIS[9]

10. The planned scaling up of infrastructure projects is key to accelerating growth but entails significant fiscal costs and risks. Myanmar is planning to undertake large investment projects in the near to medium term to address sizeable infrastructure gaps in electricity, gas, roads and railways, and ports as part of their commitment to reaching SDGs as detailed in the Myanmar Sustainable Development Plan. Scaling up public investment requires additional financing, which would have important implications for public debt dynamics. Some of these projects are also being proposed as Public-Private Partnerships (PPPs), which may bring efficiency gains, but can also entail substantial fiscal risks where they involve contingent liabilities, including from sovereign guarantees. Staff assess the macro-fiscal impact of these

Myanmar: Selected Sustainable Development Goals (SDGs) Performance



Source: IMF staff calculations using Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2017): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).
1/ Indicator: Access to electricity (percentage of population).
2/ Indicator: Quality of Infrastructure.

[7] One-off shock of 10 percentage points of GDP to debt-GDP ratio in the second year of the projection period (2019 for this case). Real GDP growth and exports are lowered by 1.5 and 3.5 percentage points, respectively, in the year of the shock.

[8] Risks from natural disasters are ever present in Myanmar incurring large economic losses in the aftermath. Historically, these losses have been estimated to be around 2 percent of GDP annually (between 2006–15) and were also highlighted, in the previous DSA, as the largest shocks that affect debt sustainability (IMF/WB DSA 2018).

[9] The staff scenario analysis is an illustrative exercise. It differs from the standard shock analyses in the LIC DSA framework where shocks are standardized across countries to facilitate cross country comparison.

infrastructure investments through a scenario analysis by considering the growth benefits of a ramp up of such investment resulting in increased public debt and fiscal risks.

11. The scaling up scenario is drawn from development partner studies on electricity and transportation infrastructure gaps and the authorities' intentions as signaled in the *Project Bank*. [10] Sectoral investment assumptions and their implications for the fiscal spending, investment flows, and GDP growth are as follows.

- **Electricity sector.** A recent World Bank study estimates that Myanmar needs to double the historical level of investment spending (both public and private) to meet its rapidly growing electricity demand.[11] In line with this study and projected needs, this scenario assumes that, for the public sector, (i) annual power purchasing agreement (PPA) payments to independent power producers (IPPs) will increase by US$800 million for an additional capacity of 1000 MW, enough to satisfy the nation's demand for electricity in the next 5 years, and (2) public sector capital spending will increase by US$500 million (doubling the historical level) for scaling up infrastructure in generation, transmission and distribution. Accordingly, private sector investments in generation by IPPs is expected to also double from historical levels which would provide the required additional generation capacity,

- **Transportation sector.** Myanmar's transportation infrastructure lags regional peers. In a 2016 study, Asian Development Bank estimates that the country needs to increase investments in the sector to 3-4 percent of GDP (up from 1-1.5 percent) in line with other countries at similar stages of development (e.g., China, Thailand, and Vietnam). [12] In this scenario, an additional spending of 2 percent of GDP each year is assumed. Furthermore, it is assumed that the additional spending is equally shared between direct budget spending and private sector (through PPPs).

- **Macroeconomic linkage.** Scaling up infrastructure investments will boost Myanmar's growth potential. WEO (2014) suggests that the contemporaneous effect of a 1 percentage point of GDP increase in public investment is a 0.25 percent increase in output, which gradually increases to about 0.5 percent four years after the shock.[13] As a result, under the assumed investment scaling up, GDP growth could be raised by 1.5–2.0 percent in the medium to long term.[14]

12. Under the scaling up scenario, the PV of public-debt ratio rises but remains under its indicative thresholds. In this scenario, the PV-of-public-debt to GDP ratio deteriorates significantly

[10] The scenario analysis focuses on the electricity and transportation sectors in Myanmar which directly link to SDGs and capture the main areas that significant public investment is envisaged. Data availability in other sectors is sparse.

[11] World Bank (2019). Myanmar: Energy Infrastructure Sector Assessment. *Unpublished*.

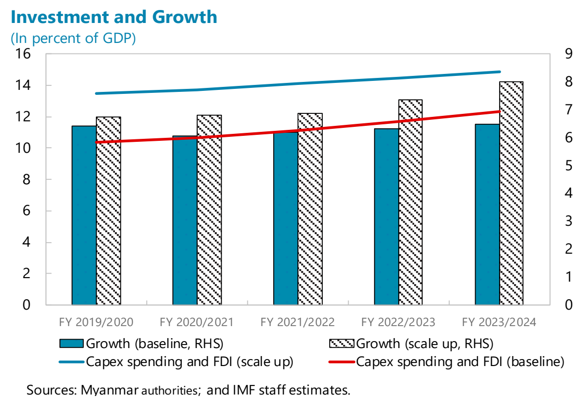
[12] Asian Development Bank (2016). Myanmar Transport Sector Policy Note: Summary for Decision Makers.

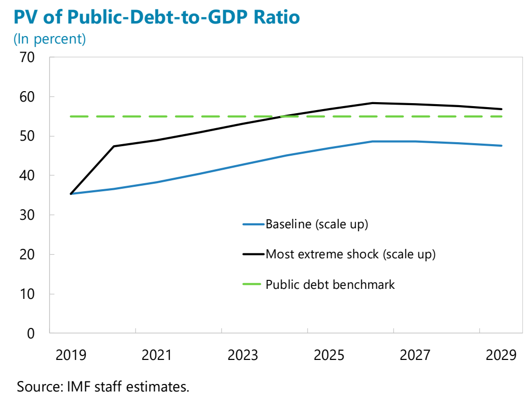
[13] This is broadly in line with the calibrated heterogeneous agent dynamic stochastic equilibrium model tailored to Myanmar. Macroeconomic and Distributional Implications of Financial Reforms in Myanmar, in Myanmar Selected Issues Paper, IMF Country Report 17/31.

[14] Prior estimates have suggested that Myanmar can achieve long-term growth in the 7-8 percent range. More details are available in Box 2 of Myanmar: 2016 Article IV Consultation (Country Report No. 17/30).

despite the assumption that the planned scaled up investments could raise growth to about 8 percent in the medium to long term. It could also push the PV-of-public-debt to GDP ratio, under the most extreme shock, to breach its indicative threshold in the medium term suggesting a worsening of the risk rating under the IMF/WB's LIC DSA framework.

Scaling Up Scenario





Sources: Myanmar authorities; and IMF staff estimates.

13. Although privately-financed investments help to address infrastructure bottlenecks, they are likely to create large fiscal commitments and in turn significant fiscal risks. The assumed additional PPP projects and PPA payments could result in long term fiscal commitments and explicit and implicit contingent liabilities. The PPA payment commitments assumed in this scenario not only have direct budget costs, but also create additional fiscal risks as payments for electricity purchased are measured in foreign currency and the government will assume the risk of exchange rate fluctuations. The limited ability of the government to track these contingent liabilities is particularly important given the need for foreign currency requirements and the level of reserves.

14. The higher public debt trajectory and fiscal risks resulting from scaling up highlights the need to strengthen public investment selection and management framework. To reap the maximum benefits on future growth from today's infrastructure investments, the authorities need to ensure that projects with the highest economic returns are selected and implemented. The first public investment program in Myanmar, the Project Bank, was launched in December 2019 with support from various development partners including the World Bank. Although still at its infancy, the Project Bank aims to eventually become the hub to identify and screen infrastructure projects and account for the fiscal liabilities from PPPs. To makes this happen, the authorities need to implement a public investment management framework that ensures value for money assessments and sound fiscal risk management. The authorities are also committed to building the capacity of the Ministry of Planning and Finance to analyze and select these infrastructure projects.

Box 2. Energy Infrastructure Sector Investment

Myanmar has the lowest electrification rate in Southeast Asia with an access rate of 50 percent nationwide. Electricity consumption in Myanmar is only about one-tenth of the world's average. Access to modern fuels for daily activities is limited to mostly urban areas, where only a third of the population lives. It is expected that demand for electricity will only increase given the favorable medium-term outlook. The World Bank estimates that consumption will grow at an average annual rate of 11.1 percent until 2030 reaching 12.6 GW by 2030—a significant increase from the current level of 3.6 GW. In addition, the outlook for domestic gas production is on the decline starting 2020/21 -although gas production from the A6 block could help reduce the decline in the medium term. To achieve its energy goals, the authorities are aiming to attract private investments and increase public investments in power and gas sectors. Investments in these sectors are estimated to be around US$2 billion per year for electricity and about US$10 billion for gas over the medium term.

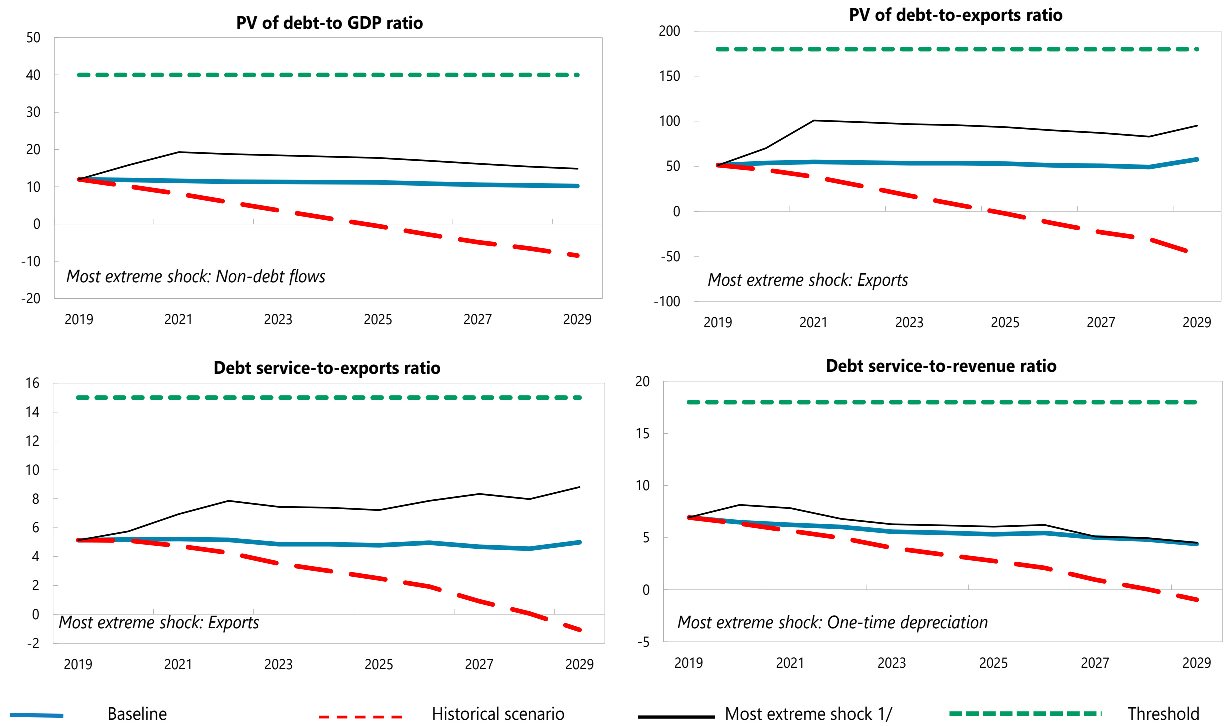
ASSESSMENT OF RISK RATING

15. Myanmar's risk of external debt distress is low as is the overall risk of debt distress. While the overall debt outlook remains positive, it remains vulnerable to slowdown in FDI, exports, and natural disasters. Progress on the Rakhine state crisis has been slow and is affecting the outlook for investment inflows and donor financing. More immediate concerns include larger than expected contingent liabilities arising from the banking system or from a rapid ramp up in PPPs. The authorities should remain vigilant of the potential impact from the fragilities in the banking system and put in place frameworks that better monitor fiscal risks incurred from PPPs. Moreover, currently, contingent liabilities are concentrated in a few sectors and thus establishing a monitoring framework at this stage is opportune. In this context, strengthening debt management capacity remains priority. To avoid a recourse to central bank financing, the authorities should embark on a medium-term revenue strategy underpinned by a revenue target and comprehensive tax policy reforms building on the administrative reforms. With low level of reserves, in year demand for FX requirements to service debt could put further depreciation pressures on the kyat. Thus, supporting the development of formal FX markets by addressing regulatory gaps, encouraging the availability of hedging instruments, and improving the availability of timely market information is key. Over the medium term, strengthening the business environment and improving governance would raise the investment outlook and potential growth. Over the longer term, the need to strengthen buffers against natural disasters by increasing fiscal and external buffers is emphasized which in turn will also strengthen debt sustainability.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of the debt sustainability analysis. In the context of the proposed infrastructure scaling up, the authorities appreciated the staff analysis and presentation on risks from scaling up. They reiterated the commitment to phasing out CBM financing of the budget and explained the overshooting of the target at end FY 2018/19 as temporary. Although the "Project Bank" has just been launched, they intended to make it instrumental in managing public investment including PPPs. They also welcome oncoming Bank and Fund TA to support them in strengthening SEE governance and the management of fiscal risks.

Figure 1. Myanmar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–2029 1/ 2/



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	5.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	23	20
Avg. grace period	6	5

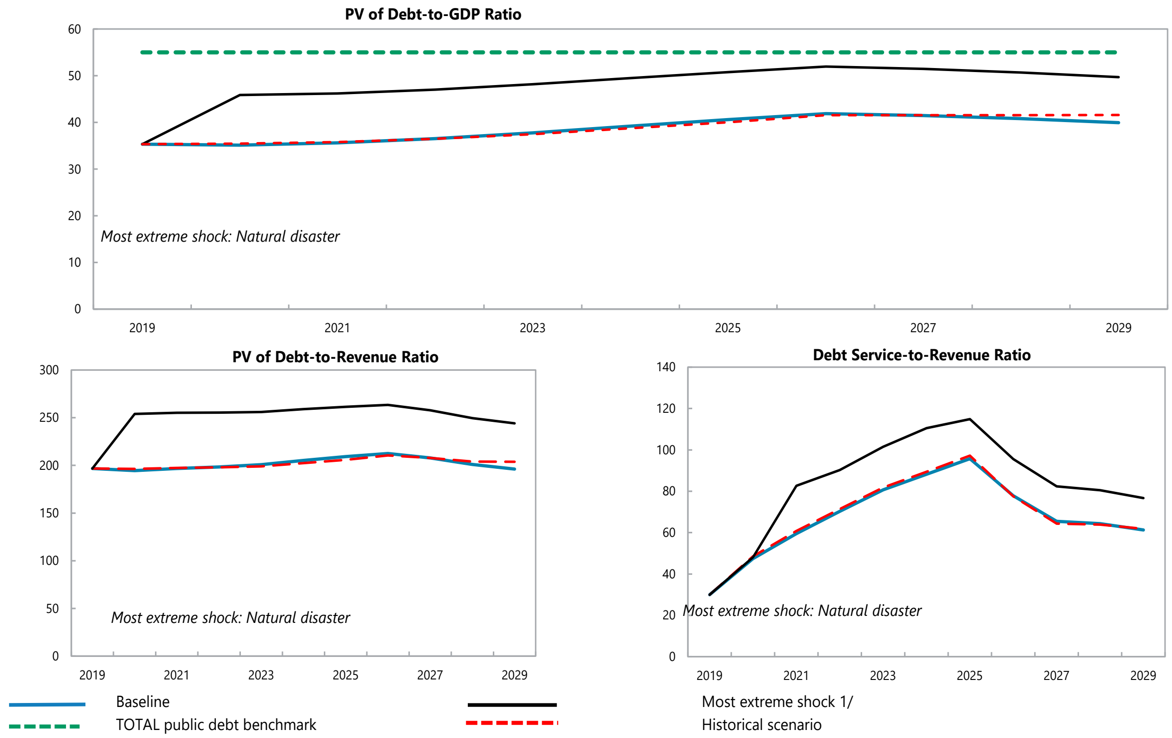
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2019–29 1/

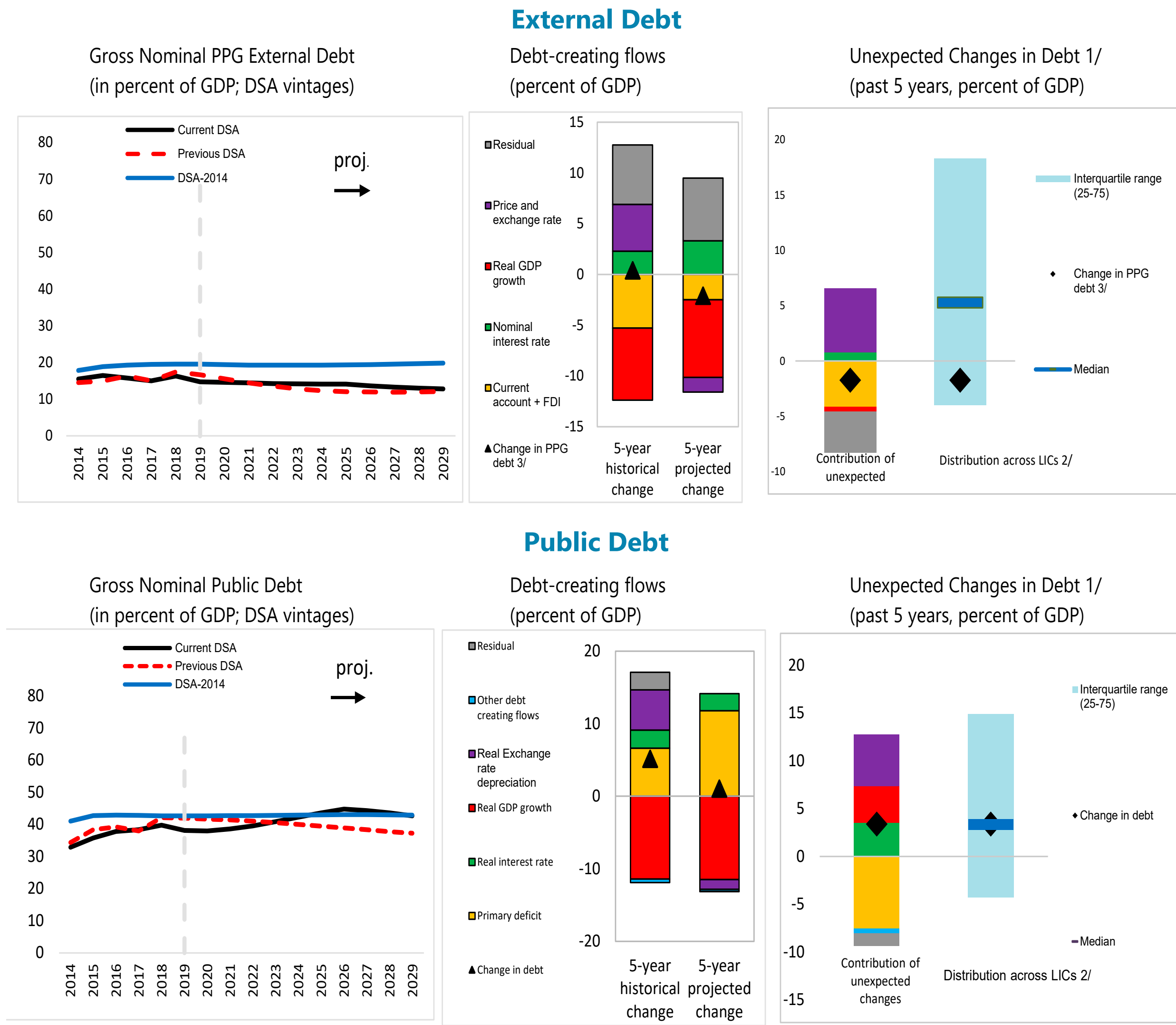


Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	12%	12%
Domestic medium and long-term	52%	52%
Domestic short-term	36%	36%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	5.0%
Avg. maturity (incl. grace period)	23	20
Avg. grace period	6	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.4%	3.0%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Myanmar: Drivers of Debt Dynamics—Baseline Scenario



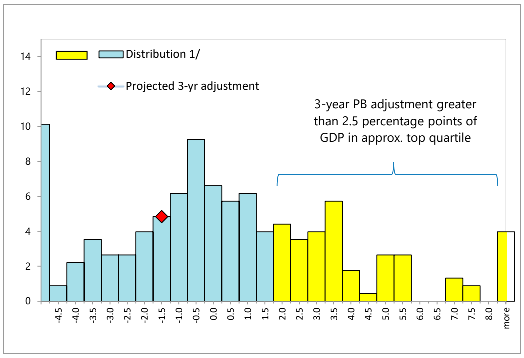
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

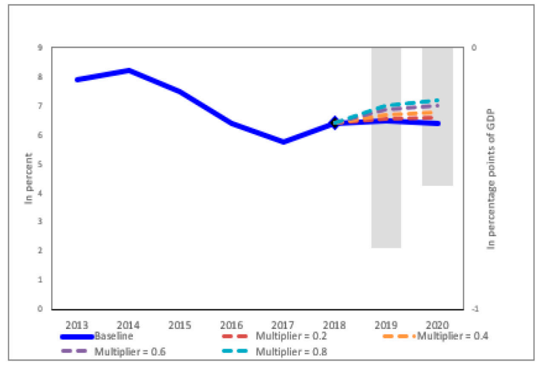
Figure 4. Myanmar: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



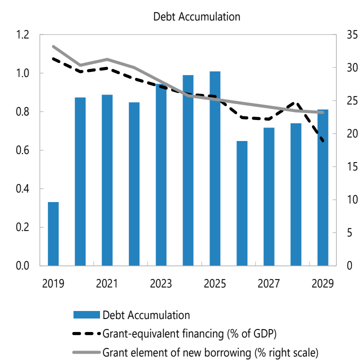
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

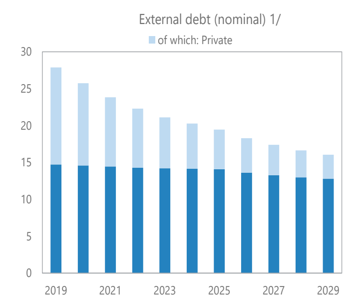
Table 1. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**20.9**	**28.9**	**30.9**	**27.9**	**25.7**	**23.8**	**22.3**	**21.1**	**20.3**	**16.1**	**15.7**	**17.9**	**20.8**
of which: public and publicly guaranteed (PPG)	**15.7**	**15.0**	**16.3**	**14.7**	**14.6**	**14.5**	**14.3**	**14.2**	**14.1**	**12.8**	**14.5**	**13.5**	**13.9**
Change in external debt	-0.5	8.0	2.0	-3.1	-2.1	-1.9	-1.5	-1.2	-0.8	-0.6	0.2		
Identified net debt-creating flows	**0.0**	**0.3**	**-3.1**	**-2.8**	**-1.5**	**-1.1**	**-0.8**	**-0.6**	**-0.5**	**0.2**	**0.6**	**-2.7**	**-0.8**
Non-interest current account deficit	**3.8**	**6.0**	**3.6**	**1.2**	**2.5**	**2.8**	**3.4**	**3.8**	**4.2**	**4.9**	**4.6**	**2.0**	**3.7**
Deficit in balance of goods and services	4.4	7.5	5.1	3.0	3.7	4.1	4.5	5.0	5.2	6.0	5.7	**1.0**	**4.9**
Exports	21.3	21.5	23.4	23.5	22.0	21.2	21.1	21.1	21.1	17.7	22.3		
Imports	25.8	29.0	28.5	26.5	25.7	25.3	25.5	26.1	26.3	23.6	28.0		
Net current transfers (negative = inflow)	-3.4	-3.7	-3.8	-3.8	-3.2	-3.1	-3.0	-2.9	-2.8	-2.3	-1.7	**-2.0**	**-2.8**
of which: official	-0.5	-0.6	-0.7	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3		
Other current account flows (negative = net inflow)	2.7	2.2	2.3	2.0	2.0	1.9	1.9	1.7	1.7	1.2	0.6	**3.0**	**1.7**
Net FDI (negative = inflow)	**-5.1**	**-5.8**	**-4.8**	**-2.9**	**-3.1**	**-3.2**	**-3.5**	**-3.6**	**-4.0**	**-4.2**	**-3.6**	**-4.1**	**-3.7**
Endogenous debt dynamics 2/	**1.4**	**0.1**	**-1.8**	**-1.1**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.7**	**-0.6**	**-0.4**		
Contribution from nominal interest rate	0.4	0.5	0.6	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4		
Contribution from real GDP growth	-1.4	-1.2	-1.7	-2.0	-1.6	-1.4	-1.3	-1.3	-1.3	-1.0	-0.8		
Contribution from price and exchange rate changes	2.4	0.8	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	**-0.5**	**7.7**	**5.1**	**-0.2**	**-0.7**	**-0.8**	**-0.7**	**-0.6**	**-0.3**	**-0.8**	**-0.4**	**4.0**	**-0.6**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**11.9**	**12.0**	**11.8**	**11.6**	**11.4**	**11.3**	**11.2**	**10.2**	**11.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**51.0**	**51.2**	**53.6**	**54.7**	**54.0**	**53.4**	**53.3**	**57.7**	**52.5**		
PPG debt service-to-exports ratio	**4.4**	**4.7**	**5.1**	**5.1**	**5.2**	**5.2**	**5.2**	**4.9**	**4.9**	**5.0**	**4.1**		
PPG debt service-to-revenue ratio	**4.9**	**5.6**	**6.4**	**6.9**	**6.5**	**6.2**	**6.0**	**5.6**	**5.5**	**4.4**	**4.1**		
Gross external financing need (Million of U.S. dollars)	2812.7	4428.2	3403.4	3429.2	4271.7	4534.1	4536.6	4649.0	4637.5	5862.3	10523.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	5.8	6.4	6.5	6.4	6.0	6.2	6.3	6.5	6.5	5.8	**6.4**	**6.4**
GDP deflator in US dollar terms (change in percent)	-10.2	-3.7	2.6	-4.2	2.6	3.2	3.0	2.7	2.7	2.6	2.3	**4.3**	**2.1**
Effective interest rate (percent) 4/	1.7	2.3	2.3	2.8	2.8	2.7	2.7	2.6	2.6	2.7	2.7	**4.7**	**2.7**
Growth of exports of G&S (US dollar terms, in percent)	-10.8	2.5	18.8	2.4	2.4	5.4	8.7	9.6	8.9	-8.2	18.5	**8.9**	**6.0**
Growth of imports of G&S (US dollar terms, in percent)	-0.5	14.7	7.2	-5.2	6.0	7.6	10.5	11.6	10.2	-2.4	13.2	**15.4**	**6.9**
Grant element of new public sector borrowing (in percent)	...	...	...	33.2	30.4	31.2	30.0	27.9	25.8	23.2	22.4	**...**	**27.2**
Government revenues (excluding grants, in percent of GDP)	19.1	17.9	18.5	17.4	17.7	17.7	18.0	18.4	18.7	20.1	22.3	**16.3**	**18.7**
Aid flows (in Million of US dollars) 5/	647.8	658.6	1223.0	985.6	1076.3	1271.2	1207.9	1190.7	1168.9	1187.9	3004.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.1	1.0	1.0	1.0	0.9	0.9	0.6	0.7	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	53.2	42.0	42.7	42.2	40.4	38.7	36.0	32.3	**...**	**41.5**
Nominal GDP (Million of US dollars)	60,411	61,504	67,145	68,538	74,802	81,868	89,552	97,789	106,919	166,772	386,548		
Nominal dollar GDP growth	-4.4	1.8	9.2	2.1	9.1	9.4	9.4	9.2	9.3	9.2	8.3	**10.8**	**8.6**
Memorandum items:													
PV of external debt 7/	...	...	26.5	25.1	22.9	21.0	19.4	18.2	17.3	13.5	12.9		
In percent of exports	...	...	113.5	107.2	104.2	98.9	92.1	86.0	82.4	76.1	58.0		
Total external debt service-to-exports ratio	27.7	32.4	27.0	28.6	28.5	27.8	24.4	21.6	19.5	15.5	7.5		
PV of PPG external debt (in Million of US dollars)			8003.9	8225.8	8824.8	9488.7	10182.9	11028.6	11996.5	17021.3	45275.9		
(PVt-PVt-1)/GDPt-1 (in percent)				0.3	0.9	0.9	0.8	0.9	1.0	0.8	1.3		
Non-interest current account deficit that stabilizes debt ratio	4.3	-2.0	1.6	4.2	4.6	4.8	4.9	5.0	5.0	5.5	4.4		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





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) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

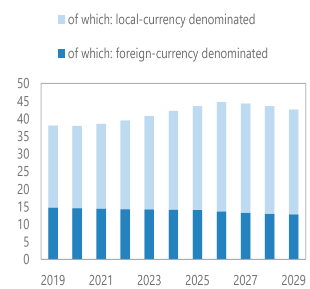
Table 2. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

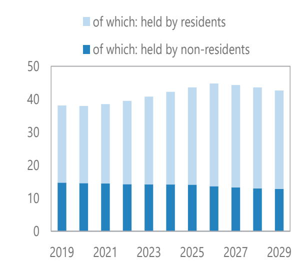
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	37.8	38.3	39.8	38.1	37.9	38.5	39.5	40.8	42.2	42.6	30.8	33.8	41.4
of which: external debt	15.7	15.0	16.3	14.7	14.6	14.5	14.3	14.2	14.1	12.8	14.5	13.5	13.9
Change in public sector debt	2.0	0.5	1.4	-1.7	-0.1	0.6	1.0	1.3	1.4	-1.0	-1.0		
Identified debt-creating flows	0.7	0.3	0.6	-0.9	0.0	0.8	1.1	1.4	1.5	-0.9	-1.0	-0.7	0.4
Primary deficit	2.6	1.4	1.1	1.8	2.4	2.6	2.5	2.5	2.5	1.3	0.4	1.9	2.1
Revenue and grants	19.6	18.3	18.8	18.0	18.1	18.1	18.4	18.8	19.1	20.4	22.6	16.5	19.1
of which: grants	0.5	0.4	0.3	0.6	0.4	0.4	0.4	0.4	0.4	0.3	0.3		
Primary (noninterest) expenditure	22.1	19.6	19.9	19.8	20.4	20.7	20.9	21.3	21.6	21.6	23.0	18.4	21.2
Automatic debt dynamics	-1.8	-0.9	-0.4	-2.6	-2.3	-1.8	-1.3	-1.0	-0.9	-2.1	-1.4		
Contribution from interest rate/growth differential	-1.1	-1.9	-1.9	-2.6	-2.3	-1.8	-1.3	-1.0	-0.9	-2.1	-1.4		
of which: contribution from average real interest rate	1.0	0.2	0.4	-0.2	0.0	0.4	0.9	1.3	1.6	0.5	0.4		
of which: contribution from real GDP growth	-2.2	-2.1	-2.3	-2.4	-2.3	-2.2	-2.2	-2.3	-2.5	-2.7	-1.8		
Contribution from real exchange rate depreciation	-0.6	1.0	1.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.4	0.0
Privatization receipts (negative)	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.3	0.3	0.8	-0.8	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	1.4	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.8	35.4	35.1	35.6	36.5	37.8	39.2	39.9	27.9		
PV of public debt-to-revenue and grants ratio	...	...	195.6	196.8	194.5	196.7	198.4	200.9	205.2	196.1	123.3		
Debt service-to-revenue and grants ratio 3/	28.2	29.4	28.8	30.0	47.4	59.5	70.3	80.7	88.2	61.3	29.5		
Gross financing need 4/	8.0	6.5	6.4	7.2	10.9	13.3	15.4	17.6	19.3	13.7	7.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	5.8	6.4	6.5	6.4	6.0	6.2	6.3	6.5	6.5	5.8	6.4	6.4
Average nominal interest rate on external debt (in percent)	2.6	2.3	3.7	2.0	2.0	2.0	2.1	2.1	2.1	2.5	2.7	4.9	2.2
Average real interest rate on domestic debt (in percent)	4.3	0.1	0.9	-1.0	-0.1	1.8	4.0	5.5	6.2	1.7	1.8	-2.4	3.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.9	6.5	10.4	...	...	...	...	...	...	...	...	-0.4	...
Inflation rate (GDP deflator, in percent)	1.1	5.4	5.4	6.3	8.2	7.7	7.1	6.5	6.5	6.4	6.1	5.5	6.8
Growth of real primary spending (deflated by GDP deflator, in percent)	2.3	-6.2	7.9	6.0	9.8	7.6	7.2	8.0	8.2	5.4	6.4	12.4	7.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.6	0.8	-0.4	3.5	2.5	2.0	1.5	1.2	1.1	2.2	1.4	0.3	1.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus social security, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of debt-to GDP ratio										
Baseline	12	12	12	11	11	11	11	11	11	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	12	10	8	6	4	2	-1	-3	-5	-7	-8
B. Bound Tests											
B1. Real GDP growth	12	12	12	12	12	12	12	11	11	11	11
B2. Primary balance	12	12	12	12	12	12	12	11	11	11	11
B3. Exports	12	14	18	17	17	17	17	16	15	15	14
B4. Other flows 3/	12	16	19	19	18	18	18	17	16	15	15
B5. Depreciation	12	15	12	11	11	11	11	11	11	11	11
B6. Combination of B1-B5	12	16	18	17	17	17	17	16	15	15	14
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	13	13	13	13	13	12	12	12	12
C2. Natural disaster	12	13	13	14	14	14	14	14	14	14	14
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	51	54	55	54	53	53	53	51	50	49	58
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	51	46	38	28	17	7	-3	-13	-23	-31	-48
B. Bound Tests											
B1. Real GDP growth	51	54	55	54	53	53	53	51	50	49	58
B2. Primary balance	51	54	56	56	56	56	56	54	54	52	62
B3. Exports	51	70	101	99	97	96	93	90	87	83	95
B4. Other flows 3/	51	72	91	89	87	86	84	80	77	73	84
B5. Depreciation	51	54	43	43	43	43	43	42	42	41	49
B6. Combination of B1-B5	51	75	81	87	86	84	83	79	77	73	84
C. Tailored Tests											
C1. Combined contingent liabilities	51	57	59	59	60	60	60	59	59	57	68
C2. Natural disaster	51	61	65	66	66	68	68	68	68	67	80
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	5	5	5	5	5	5	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	5	4	4	3	2	2	1	0	-1
B. Bound Tests											
B1. Real GDP growth	5	5	5	5	5	5	5	5	5	5	5
B2. Primary balance	5	5	5	5	5	5	5	5	5	5	5
B3. Exports	5	6	7	8	7	7	7	8	8	8	9
B4. Other flows 3/	5	5	6	7	6	6	6	7	7	7	8
B5. Depreciation	5	5	5	5	4	4	4	5	4	4	4
B6. Combination of B1-B5	5	5	7	7	7	7	6	7	7	7	8
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	5	5	5	5	5	5	5	5
C2. Natural disaster	5	5	6	6	5	6	6	6	6	5	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	7	6	6	6	6	5	5	5	5	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7	6	6	5	4	3	3	2	1	0	-1
B. Bound Tests											
B1. Real GDP growth	7	7	6	6	6	6	5	6	5	5	5
B2. Primary balance	7	6	6	6	6	6	5	6	5	5	5
B3. Exports	7	7	7	8	7	7	7	7	7	7	6
B4. Other flows 3/	7	6	7	8	7	7	7	8	8	8	7
B5. Depreciation	7	8	8	7	6	6	6	6	5	5	5
B6. Combination of B1-B5	7	7	8	8	7	7	7	8	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	6	6	6	6	6	6	5	5	5
C2. Natural disaster	7	6	7	6	6	6	6	6	6	6	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18
Memorandum item:											
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

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

3/ Includes official and private transfers and FDI.

Table 4. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2019–29

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of Debt-to-GDP Ratio										
Baseline	35	35	36	37	38	39	41	42	41	41	40
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	35	35	36	36	38	39	40	42	42	42	42
B. Bound Tests											
B1. Real GDP growth	35	36	38	39	41	43	45	47	47	47	46
B2. Primary balance	35	36	38	39	40	42	43	44	43	43	42
B3. Exports	35	37	41	42	43	44	46	47	46	45	43
B4. Other flows 3/	35	39	43	44	45	46	47	48	47	46	45
B5. Depreciation	35	35	34	33	32	32	32	32	30	28	26
B6. Combination of B1-B5	35	35	35	35	36	37	39	40	40	39	38
C. Tailored Tests											
C1. Combined contingent liabilities	35	41	41	42	43	44	46	47	46	45	44
C2. Natural disaster	35	46	46	47	48	50	51	52	51	51	50
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	197	195	197	198	201	205	209	212	208	201	196
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	197	196	197	198	199	202	206	210	208	204	204
B. Bound Tests											
B1. Real GDP growth	197	200	208	213	218	225	232	237	235	230	227
B2. Primary balance	197	202	211	212	213	217	220	223	218	211	205
B3. Exports	197	206	229	229	230	232	235	236	229	220	213
B4. Other flows 3/	197	217	239	238	238	241	243	243	236	226	219
B5. Depreciation	197	193	185	178	173	169	166	163	152	140	129
B6. Combination of B1-B5	197	192	195	189	192	196	200	203	198	192	187
C. Tailored Tests											
C1. Combined contingent liabilities	197	228	229	229	230	232	235	237	231	223	217
C2. Natural disaster	197	254	255	255	256	259	262	263	258	250	244
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	30	47	60	70	81	88	96	78	66	64	61
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	30	49	61	71	82	89	97	78	64	64	62
B. Bound Tests											
B1. Real GDP growth	30	48	62	74	86	95	104	86	74	74	71
B2. Primary balance	30	47	62	75	85	93	100	82	69	68	64
B3. Exports	30	47	60	72	82	90	97	79	68	66	63
B4. Other flows 3/	30	47	61	72	83	90	97	80	68	67	64
B5. Depreciation	30	45	56	64	74	81	88	71	59	58	54
B6. Combination of B1-B5	30	46	58	68	78	86	93	75	63	62	59
C. Tailored Tests											
C1. Combined contingent liabilities	30	47	73	81	92	100	105	86	73	72	68
C2. Natural disaster	30	48	83	90	102	111	115	96	82	80	77
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Ms. Alisara Mahasandana, Executive Director, and
Mr. Acharawat Srisongkram, Advisor to the Executive Director
February 28, 2020

On behalf of the Myanmar authorities, we would like to thank the IMF Article IV mission team for the constructive and candid discussions centered on the priority actions to tackle imminent risks in the financial sector and to strengthen policy frameworks towards more sustainable growth. The authorities are fully committed to advance the comprehensive reform agenda under the Myanmar Sustainable Development Plan (MSDP) and are well-aware of the important challenges ahead. They are grateful for the Fund's partnership and continued support, including through extensive technical assistance which have proven highly valuable to their efforts. The authorities broadly concur with the staff's appraisal and policy recommendations, which they will duly take into consideration as they continue to advance the reform agenda.

Recent Economic Developments and Outlook

Myanmar is expected to record GDP growth of 6.8 percent in FY2018/19. This is mainly driven by a rebound in the agricultural sector from the floods in 2018 which would partly offset the slowdown in domestic demand. Headline inflation spiked in the second half of 2019 largely due to supply-side factors namely the one-off hike in electricity tariffs that took effect on July 1, 2019 and increase in food prices from poor harvest. For FY2019/2020, the authorities project a GDP growth of 7.0 percent supported by higher government spending and private investment, as well as continued strength in the manufacturing including MSMEs (Micro, small, and medium-sized enterprises) and garments, and the tourism sectors. The current account (CA) deficit is expected to widen to 2.0 percent of GDP arising from the pickup in investments following the resumption of FDI inflows and increased government spending ahead of the elections. Meanwhile, headline inflation is expected to average 8.8 percent.

The authorities agree with staff's assessment of the key challenges facing the Myanmar economy and the need to step up structural reform implementation. While external headwinds remain at large, domestic risks warrant close attention. Authorities are vigilant of the risks in the banking sector and are committed to follow through with the ongoing financial sector reforms and strengthen the supervisory framework to avoid negative spillovers to the broader economy. Steadfast implementation of reforms to strengthen domestic institutions and lay down necessary infrastructure are critical to underpin macroeconomic stability, foster sound business climate, and capitalize on the country's endowment to improve longer-term prospects.

Fiscal policy

Fiscal policy is expected to remain expansionary to support growth amidst waning domestic demand. Fiscal deficit was 3.5 percent of GDP in FY2018/19. This provided a modest stimulus as intended but were slightly smaller than the budget estimate of 4.5 percent and revised estimate of 5 percent in FY2018/19 with lower-than-expected capital expenditure due to constraints in spending execution. The FY2019/20 budget envisions a higher fiscal deficit of 5.6 percent of GDP, where higher revenues from the recent electricity tariff hike and new tax amnesty measures would accommodate increased spending on infrastructure investment and social spending.

The authorities remain committed to phase out CBM financing. CBM financing was largely non-existent during the six months transition period (April-September 2018)[1] as borrowing through government bonds and bills were sufficient to finance the interim budget. In FY2018/19, CBM financing accounts for approximately 21 percent of domestic financing, and is below the statutory limit of MMK 1 trillion. The authorities see merit in staff's recommendation to target CBM financing as a share of reserve money so as to have a more direct handle on inflation but noted that the proposed target of 1 percent of reserve money may restrain needed spending. Nevertheless, they concur that CBM financing should be reduced further and agreed on the need to strengthen liquidity forecasting capabilities and cash management for more effective and better-planned treasury issuance to lessen reliance on CBM financing going forward.

The authorities will continue to work with the Fund and other development partners to advance ongoing fiscal reforms to build up fiscal buffer and ensure longer-term fiscal sustainability. The new Income Tax Law (ITL) will introduce a new rate structure and rationalize tax incentives for corporates, under the goal of strengthening the tax base with minimal impact on the broader population. The draft new ITL has completed the public consultation stage and is being submitted to the Union Attorney General's Office for their legal opinions. The authorities plan to table the draft new ITL to the Cabinet in June-July 2020 before it is proposed to the Parliament for approval. The ITL will complement progress made so far to improve tax administration by the Internal Revenue Department (IRD)'s tax administration capacity, including the new Tax Administration Law and upgraded computer systems.

On the expenditure side, the second phase of PFM reforms is underway and focuses on enhancing governance of State Economic Enterprises (SEE). The "Project Bank" has recently been operationalized. The Project Bank is a database of projects created to strengthen implementation of infrastructure investments by providing government agencies with better visibility and facilitating selection of projects and financing options. The PPP center has also been setup as a centralized body that would provide technical support for the PPP units of line ministries, conduct value-for-money assessments, and proposing PPP projects to the PPP Committee. Nevertheless, it is still early days for both the Project Bank and the PPP center. To effectively perform their intended functions, the former will require greater awareness and training for the users, while the latter needs to address its lack of personnel and continue working with the World Bank to build capacity.

Monetary and exchange rate policies

CBM will maintain a tight monetary policy stance with a focus on managing excess liquidity and ensuring external stability in order to anchor inflation expectations. CBM's current priority is improving its monetary policy operations by introducing an interest rate corridor to

[1] The Myanmar government realigned their fiscal calendar from Apr 1 – Mar 31 to Oct 1 – Sep 30. At the end of FY2017/18, an interim budget was adopted for the six months leading up to FY2018/19.

better guide short-term interest rates and improve monetary policy effectiveness. They are contemplating the introduction of interest on excess reserves (IOER), noting the importance of having a safeguard in place given significantly large excess reserves of some state-owned banks. CBM recognize the drawbacks of existing limits on deposit and lending rates and agree with the need to work on the appropriate policy to gradually liberalize interest rates. That said, an adjustment to the minimum deposit rates and maximum lending rates must consider the potential impact on well-being of depositors and be communicated with care.

On exchange rates, the asymmetric intervention strategy and rule-based one-way FX auction implemented since November 2019 has been an effective tool in smoothing exchange rate movements and accumulating reserves. This helped curb exchange rate volatility amidst recent appreciation pressure and build up international reserves which now covers 3.5 months of imports. The spread between the reference and informal market rates narrowed, and interbank FX transactions have increased markedly, paving way towards a deeper and more liquid FX market. The CBM is committed to the established FX auction rules and plans to increase transparency of the rules as the FX market becomes more developed.

Financial sector

The CBM is working closely with the banking sector to ensure that they are on track to meeting CBM prudential regulations (2017) by the August 2020 deadline. To date, most of the domestic banks have met the CAR requirements. The CBM will continue to oversee the recapitalization process closely. Actions taken by banks include cash contributions, fixed asset revaluation, reduction on related party loans, subordinated debt issuance, and temporary suspension of dividend payments. Efforts to convert overdraft loans to term loans is also progressing as planned. The share of overdraft loans has been declining and was within the 30 percent target for 2019. Most banks are on-track towards meeting the 20 percent target for 2020. The authorities currently do not plan to reduce the target further at least in the near term, viewing that the 20 percent cap would provide the needed flexibility given that overdrafts are used for working capital purposes. NPLs started to come down from recent efforts to step up debt collection through a debt-property swap arrangement. As most collateral from such arrangement are land and building, the authorities are cognizant of the risks associated with banks' increased exposure to the property market and will consider staff's recommendation on how to address such exposures.

Despite recent progress in the banking sector reforms, risks to Myanmar's financial stability remains. The authorities will continue to be vigilant and monitor risk developments closely and concur that further efforts are needed to effectively address the growing vulnerabilities. They broadly agree with the key priorities outlined in paragraph 17 of the Staff Report and will continue to work closely with the team in developing the necessary safeguards and contingency plans.

Structural reforms

The various policy and reforms underway across the different sectors will contribute to an improved investment climate, which is critical to realizing the MSDP's goal of more inclusive and private sector led growth.

The authorities are making headway in their efforts to fight corruption. The fourth amendment to the Anti-Corruption Law (2018) tightened anti-corruption rules and created greater public trust. As a result, the number of complaints filed, investigations and prosecutions, and disciplinary actions (e.g. suspension of pay increase, demotions, etc.) have also increased significantly in the past 3 years. The progress made on this front will be supplemented by the new anti-corruption rules. In 2019, Corruption Prevention Units have been established in the different ministries to detect and resolve corruption issues.

The authorities agree with staff on the need to address deficiencies in the AML/CFT framework highlighted in the peer-review by the Asia Pacific Group (APG). The authorities have made a number of progress in addressing recommendations from the Mutual Evaluation Report in October 2018. These include (1) the completion and publication of the first National Risk Assessment Report as well as AML/CFT National Strategy;(2) the President Office order requiring all reporting organizations to comply with provisions related to CDD, EDD, BO, PEP related matters; (3) CBM's revised Customer Due Diligence Directive for banks and non-banks financial institutions to conduct customer due diligences measures and ML/TF risk management; (4) the new remittance business regulation to formalize informal money/value-transfer services such as "hundi"; and (5) conducting on-site and off-site AML/CFT supervision on large- and medium-sized banks. As a result, the APG's First Follow-up Report (2019) upgraded two recommendations from partially compliant and compliance to largely compliant, and one recommendation from non-compliant to largely compliant. To date, 6 and 12 recommendations are rated compliant and largely compliant, respectively.

The new AML/CFT law is in the works and will the strengthen role of the Myanmar Financial Intelligence Unit (FIU) in investigating and prosecuting money laundering cases. The draft bill is being prepared for submission to the Parliament soon.

Conclusion

The Myanmar authorities remain fully committed to preserving macroeconomic and financial stability and promoting sustainable and inclusive growth. Given the nascent stage of improving the policy framework and institutions and limited capacity, assistance from development partners are essential to realize the reform objectives while also sustaining the growth momentum in a more challenging global economic environment. The authorities would like to reiterate their sincere gratitude to the Fund, the World Bank, the Asian Development Bank, and bilateral partners for their continuing support as the country moves forward with the reform agenda.