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2013 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

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 2013 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 22, 2013, 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 June 13, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its June 28, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Myanmar.

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

Letter of Intent sent to the IMF by the authorities of Myanmar*
Memorandum of Economic and Financial Policies by the authorities of Myanmar*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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June 13, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

KEY ISSUES

Context: Against a background of political liberalization, the government is pursuing comprehensive economic reforms to open Myanmar to the global economy, boost growth, and reduce poverty. Nonetheless, challenges are formidable. Confidence has been bolstered by international re-engagement and domestic reforms, but the capacity for managing change and absorbing international assistance is being stretched.

Staff-Monitored Program: The program focuses on maintaining macroeconomic stability throughout the reform process and building the institutions and tools needed for the medium term. The SMP, which runs through end-2013, is on track. Quantitative targets and structural benchmarks for March 2013 were met. Wider structural reforms have proceeded broadly in line with the authorities' plans, although progress on establishing monetary control has been hampered by the delay in passing the Central Bank of Myanmar law.

Macroeconomic situation and outlook: Growth is accelerating, driven by gas production, construction and services, while inflation climbed to 4.7 percent (y/y) in March 2013. External balances remain stable even as the current account deficit has widened due to large inflows of foreign direct investment. The short-term economic outlook remains favorable, with growth expected to accelerate slightly in 2013/14, and inflation to remain contained. International reserves are projected to continue to rise. Fiscal policy is striking an appropriate balance between providing for much-needed investment and social spending, and supporting macroeconomic stability. Risks to the outlook are tilted slightly to the downside.

Longer-term prospects: The outlook is bright, if key institutional constraints are addressed. Myanmar has significant economic potential, which could yield sustained high growth with a stable external balance. However, to translate favorable endowments into high, sustained and inclusive growth, institutions and policies to manage the economy and supervise the financial system need to be built rapidly. In addition, policies supportive of private-sector investment, as well as public spending on infrastructure, health, and educations are required.

Exchange regime. Following the introduction of a managed float on April 1, 2012, the de-facto exchange rate regime is classified as "other managed arrangement." Myanmar continues to avail itself of the transitional arrangements of Article XIV, Section 2, but it no longer maintains restrictions under such arrangements. The authorities intend to accept the obligations of Article VIII, Sections 2(a) and 3 in 2013.

Approved By
Alfred Schipke and Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon during May 8–22, 2013. The staff team comprised Mr. Davies (head), Messrs. Kashiwase and Pitt, Ms. Wong (all APD), Ms. Flamini (FAD), Mr. Eckhold (MCM), and Ms. Jahan (SPR). Ms. Creane (head of TAOLAM) and Ms. Utsunomiya (COM) joined the mission. Mr. Ghaffour and Ms. Khin (both OED) also participated.

CONTENTS

INTRODUCTION 4

RECENT DEVELOPMENTS, OUTLOOK AND RISKS 4
A. Recent Developments 4
B. Outlook and Risks 5

POLICY DISCUSSIONS 7
A. Maintaining Stability 7
B. Forging the Tools for Monetary Control 11
C. Financial Sector Modernization 13
D. Fiscal Reforms 17
E. Boosting Broad-Based Growth 20

SMP ISSUES 21

STAFF APPRAISAL 22

BOXES
1. Risk Assessment Matrix 6
2. Reserve Adequacy 8
3. Exchange Rate Assessment 9
4. The 2013/14 Budget 11
5. Moving Toward Reserve Money Targeting 14
6. Reforming State-Owned Banks 17
7. The Government's Fiscal Reform Strategy 18

FIGURES
1. Myanmar and Its Peers—Selected Indicators 24
2. Myanmar—Macroeconomic Developments 25

TABLES

1. Selected Economic Indicators, 2009/10–2013/14 ____ 26
2. Summary Operations of the Nonfinancial Public Sector, 2009/10–2013/14 ____ 27
3. Balance of Payments, 2009/10–2013/14 ____ 28
4. Monetary Survey, 2009/10–2013/14 ____ 29
5. Medium-Term Projections, 2010/11–2018/19 ____ 30
6. Millennium Development Goals (MDG) Indicators ____ 31

APPENDICES

I. Letter of Intent ____ 33
Attachment I. Memorandum of Economic and Financial Policies ____ 35

INTRODUCTION

1. **Myanmar is rapidly emerging from a long period of isolation.** Against a background of political liberalization, the government is pursuing comprehensive economic reforms to open Myanmar to the global economy, boost growth, and reduce poverty. Concomitantly, the international community has suspended or abolished most sanctions. Relations with the Asian Development Bank (AsDB) and World Bank have been normalized, and an agreement has been reached with the Paris Club on rescheduling of arrears.

2. **The authorities' Staff-Monitored Program (SMP), which runs through end-2013, is on track.** The program focuses on maintaining macroeconomic stability throughout the reform process and building the institutions and tools needed for the medium term. A key focus is achieving Article VIII status in 2013. Quantitative targets and structural benchmarks for March 2013 were met. Wider structural reforms have proceeded broadly in line with the authorities' plans, although progress on establishing monetary control has been hampered by the delay in passing the Central Bank of Myanmar (CBM) law.

3. **Nonetheless, challenges are formidable.** Confidence has been bolstered by international re-engagement and domestic reforms. However, the capacity for managing change and absorbing international assistance is being stretched as the demands on economic policy formulation and institution building grow more complex. In addition, addressing widespread poverty and promoting broad-based growth will require comprehensive and wide-ranging reforms.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

4. **The course of political and economic reforms is becoming increasingly secure, despite ethnic and religious tensions.** Political reconciliation continues, with the parliament set to review the constitution. This will set the tone for the 2015 general election, which is increasingly shaping political (and economic) calculations. Recent reshuffles of ministers and high-ranking officials are widely seen as moves to strengthen governance.

5. **Relations with bilateral and multilateral creditors have been normalized.** In April 2012, Myanmar agreed with Japan, its largest creditor, on a debt restructuring plan to resolve its arrears. Furthermore, Myanmar resolved its arrears held by the World Bank and the AsDB in January 2013. In late-January 2013, agreement was reached with the Paris Club on a concessional debt treatment that will write off 50 percent of all arrears and reschedule the remainder over 15 years with a 7-year grace period. The phased treatment will be completed in early 2014.

6. **Growth is accelerating and external balances remain stable.** Growth is estimated to have risen to 6½ percent in 2012/13, driven by gas production, construction and services. Inflation climbed to 4.7 percent (y/y) in March 2013. The current account deficit is estimated to have widened

to around 4½ percent of GDP in 2012/13, but to have been financed by foreign direct investment. After a period of appreciation, the exchange rate has been depreciating markedly recently, by 6 percent in May alone. International reserves, some of which are still held by state banks, have increased to US$4.6 billion at end-March, covering 3¾ months of prospective imports. Broad money and private sector credit are growing rapidly at 58 and 48 percent (y/y), respectively, in February. The fiscal deficit in 2012/13 is estimated to have declined to 3¾ percent of GDP, lower than envisaged earlier, on account of higher tax revenues and lower than anticipated capital expenditure.

7. Over the past year, the government has pursued wide-ranging economic reforms, in line with previous staff advice, including under the SMP. Central elements have been the adoption of a managed floating exchange regime, which replaced a highly overvalued official exchange rate, and the establishment of a functioning formal foreign exchange market. The government has also liberalized imports and removed exchange restrictions, and steps to liberalize bank lending have been taken. In 2012/13, budget allocations for health and education have been increased substantially, from low levels, and efforts to reform tax policy and strengthen tax administration are underway. Legislation to improve the business climate and boost investment has also been passed.[1]

B. Outlook and Risks

Staff Views

8. The short-term economic outlook remains favorable. Growth is expected to accelerate slightly in 2013/14, led by rising gas production and investment, including in the transport and telecommunications sectors, and a recovery in agriculture. Pressures from wage increases and asset prices are building, but inflation is expected to remain contained at around 6½ percent (y/y), assisted by global commodity prices, which are forecast to decline. International reserves are projected to continue to rise. Financial intermediation is forecast to increase further, with broad money and credit to the economy continuing to expand at double-digit rates. Following a mid-year supplementary allocation, the budget deficit is projected at 5 percent of GDP.

9. Medium term prospects are bright, if key institutional constraints are addressed. Myanmar has significant economic potential, which could yield growth of around 7 percent in the medium term, with a stable external balance. In addition to abundant natural resources, it has fertile land; a young, cheap labor force; and a strategic geographic position, which could provide an entry point into Asian supply chains. Investor interest is high. However, to translate these favorable endowments into high, sustained and inclusive growth, institutions and policies to manage the economy and supervise the financial system need to be built rapidly. In addition, policies supportive of private-sector investment, as well as public spending on infrastructure, health, and education are required.

[1] For more details, see IMF (2012), "Myanmar: Staff-Monitored Program."

10. Risks to the outlook are tilted slightly to the downside (Box 1). The main risks stem from the authorities' limited macroeconomic management capacity, which is being strained by the rapid, broad-based economic transition and emerging domestic price pressures. In particular, meeting the policy challenges brought about by the liberalization and opening of the economy will require faster introduction of monetary policy tools. Nonetheless, progress so far has been impressive and, if the pace of reforms were to exceed expectations, growth could rise beyond baseline projections.

Authorities' Views

11. The authorities broadly concurred with staff's views on the economic outlook. They stressed that the implementation of measures to improve agricultural productivity, support industrialization and foster small and medium size enterprises (SMEs) should further strengthen the growth outlook. The authorities were optimistic about the implementation of the macroeconomic reform program, but acknowledged the need to appropriately prioritize and sequence reforms in line with their capacity to implement and absorb technical assistance (TA). They stressed the importance of IMF TA in key areas of macroeconomic management.

Box 1. Risk Assessment Matrix

Source	Likelihood	Impact
DOMESTIC RISKS		
Higher inflation than expected Foreign inflows, wage increases and money growth trigger higher inflation which the CBM is unable to control due to lack of capacity.	Medium	High
Political instability Ethnic and religious tensions undermine confidence and delay economic reforms.	Low	Medium
Limited administrative capacity The public sector is unable to cope with the speed of the reform program, leading to slippages and undermining confidence.	Medium	Medium
Natural disaster stalls growth and increases fiscal pressures Myanmar's largely agriculture-based economy remains vulnerable to cyclones.	Low	Medium
Faster than anticipated investor response to reforms (upside) Economic and political reforms bolster confidence and accelerate FDI and growth.	Medium	High
EXTERNAL RISKS		
Global oil shock triggered by geopolitical events Oil prices rise to $140/barrel.	Low	Low
Appreciation of the kyat in real effective terms Appreciation could erode competitiveness.	Low	Medium
Deeper than expected slowdown in emerging markets Lower than anticipated potential growth affects Myanmar's economy.	Medium	Low
Decline in natural gas prices High dependence on natural gas revenues increases budget deficit and/or triggers growth slowdown.	Low	High

POLICY DISCUSSIONS

A. Maintaining Stability

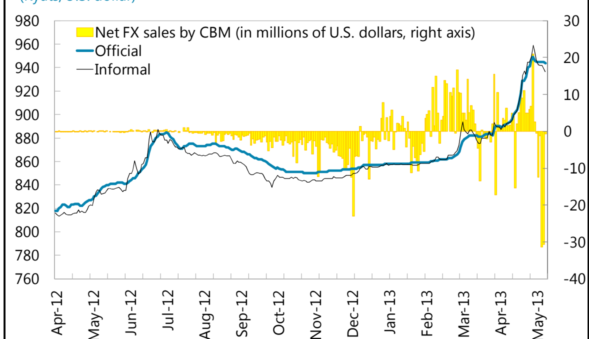
The key short-term macroeconomic policy challenge facing the authorities is to maintain stability in a rapidly changing economy with still relatively weak policy frameworks and limited instruments. Maintaining low inflation is vital to retain public confidence in the reform program and safeguard external stability.

Background

12. External balances remain stable. Notwithstanding a widening of the current account deficit, international reserves have increased, and are expected to rise further as direct investment and capital inflows (both through formal and informal channels) strengthen. While total reserves (i.e. including those held by state banks) are still above traditional adequacy metrics, those under the direct control of the CBM are only just sufficient to safeguard external stability, despite a faster increase than envisaged in the SMP (Box 2). A debt sustainability analysis indicates that Myanmar is now at low risk of debt distress after clearance of arrears to the AsDB and the World Bank in early 2013, and assuming completion of the full debt rescheduling agreed with the Paris Club in early 2014 upon successful completion of the SMP (Supplement 1).

13. The recent depreciation of the kyat is contributing to aligning the exchange rate with longer-term fundamentals, after some apparent overvaluation during 2012 (Box 3). The auction-determined reference exchange rate and the informal rate have converged.[2] After broadly appreciating through November 2012, the kyat has depreciated significantly, trading at around 945 kyat to the dollar in late-May 2013, 13½ percent lower than at the introduction of the managed float in April 2012. The depreciation has taken place largely due to higher import demand, seasonality in foreign exchange inflows stemming in part from agriculture, and fluctuations associated with a thin market. In foreign exchange auctions, the CBM has sought to smooth fluctuations, meet demand for foreign exchange and align the reference with the informal market rate without targeting a specific level of the exchange rate, and has, as a result, in recent weeks sold significant amounts of reserves.

Exchange Rate Development
(Kyats/U.S. dollar)



Sources: Myanmar authorities; and IMF staff calculations.

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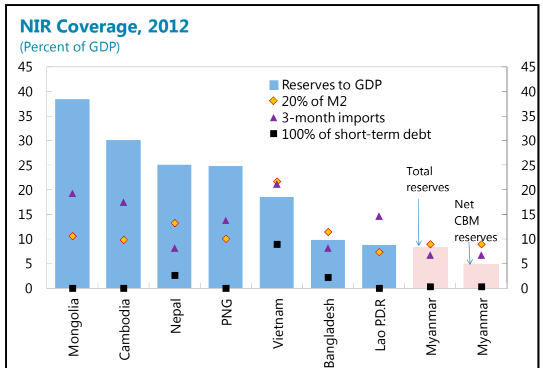
[2] The foreign exchange auction is a multiple-price auction, consistent with staff advice. It gives rise to a multiple currency practice (MCP) because foreign exchange is sold at a multiplicity of exchange rates, which may differ by more than two percent without a mechanism in place to prevent that such deviations arise. The IMF's Executive Board approved this MCP on January 10, 2013 until the next Article IV consultation.

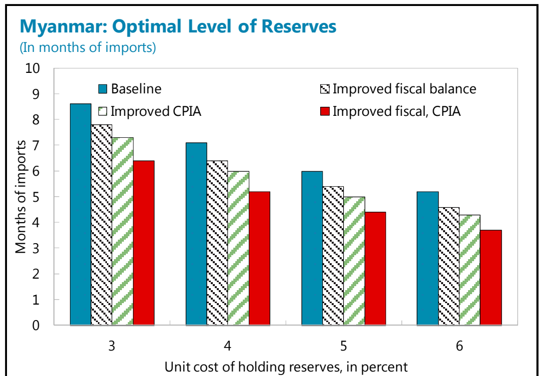
Box 2. Reserve Adequacy

Myanmar's total official reserves are held both in state banks and in the CBM. Based on traditional reserve adequacy metrics, total reserves appear sufficient to provide buffers, but reserves under direct CBM control are only just adequate to safeguard external stability. All reserves held by state banks are projected to be transferred to the CBM by 2014/15.



Sources: Authorities; and IMF staff calculations.

Reserve adequacy metrics for low-income countries that take into account the costs and benefits of holding reserves while adjusting for country characteristics and policy fundamentals (including the fiscal position and institutional capacity), however, suggest that Myanmar's reserves remain sub-optimal (see IMF, 2011, *Assessing Reserve Adequacy* for further details). The baseline scenario suggests that the optimal level of reserves is between about 5 and 8½ months of imports, depending on the cost of holding reserves. While Myanmar could be subject to movements in the current account, capital controls and low short-term debt prevent movements of the financial account. Also, the model does not take into account that some imports are directly related to FDI, or that, given the large need for infrastructure investment, the opportunity cost of reserves in Myanmar is likely at the higher end, suggesting that reserve coverage at the lower end of the range, i.e. of about 5–6 months of imports, would be appropriate.



Source: IMF staff calculations.

14. Inflation has increased significantly but remains moderate. Prices in December 2012 were 6 percent higher than a year earlier (after negative inflation in the first half of 2012), but inflation has since fallen back to 4.7 percent (y/y) in March. Key drivers have been increases in prices for fuel and rent, and food. Exchange rate developments have so far had only a small impact, though the recent depreciation is expected to partially feed through to domestic prices in the course of 2013/14. Asset price increases in urban centers and public sector wage rises could also add to price pressures.

15. Money and credit have been growing rapidly, though from a low base. About one-fifth of broad money growth reflects revaluation of foreign-currency deposits following the float. Increased inflows, from gas revenues as well as repatriations of capital through the informal market, and strong reserve money growth account for the remainder. At the same time, the CBM's deposit auctions, which were intended to sterilize the impact of its foreign exchange operations, were held only intermittently due to budgetary constraints. Excess reserves, held mostly by the Myanma Economic Bank (MEB), remain large, and the ratio of private sector credit to deposits has declined (and remained stable for private banks). Overall, the financial sector remains small, with broad money and credit to the private sector accounting for only 42 and 10 percent of GDP, respectively.

Box 3. Exchange Rate Assessment

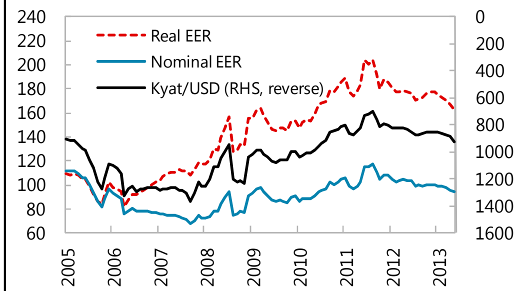
The kyat underwent a prolonged real appreciation in the informal market between 2006 and 2012, of which around two-thirds was due to inflation. Since the introduction of the managed float in April 2012—and the accompanying easing of imports—the reference and informal exchange rates have converged and the kyat has depreciated in real effective terms by around 9 percent by May 2013.

Conventional econometrics-based methods of exchange rate assessment are hampered by severe data limitations, and their utility is also significantly limited by the rapid structural change taking place in Myanmar. However, other indicators suggest that during 2012 the exchange rate has been modestly overvalued.

- The kyat's real appreciation since 2006 has far outstripped that of its peers and competitors, including resource-rich countries.
- Export shares have increased since 2006, both including and excluding gas exports. However, non-gas exports have stagnated in 2012/13, which may indicate a falling-off in competitiveness.
- Labor costs are rising at a faster pace than in peers in recent years but are still the lowest in Southeast Asia. Surveys by the Japan External Trade Organization (JETRO) indicate, however, that other business costs are high.
- The current account deficit, while widening, is consistent with the experience of other resource-rich countries at a similar stage of development, and is expected to be sustainably financed over the medium term, including through rising FDI.

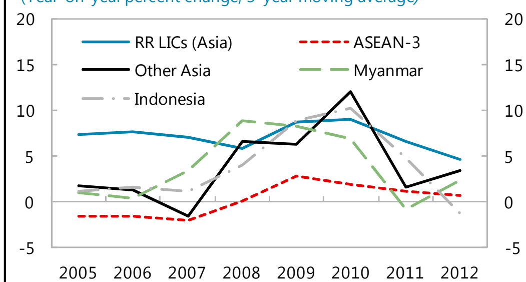
The recent significant depreciation of the kyat, however, suggests that the exchange rate is moving toward alignment with longer-term fundamentals. Nonetheless, the projected increases in natural resource revenues and aid inflows are likely to exert upward pressure on the real exchange rate in the future. There are only limited macroeconomic tools to address this: in the short term, given the absence of monetary policy tools, only fiscal policy can be employed, but with large development needs, fiscal tightening would be inappropriate. Therefore, structural policies to boost productivity in the nonresource sector are critical, both for growth and competitiveness.

Market and Effective Exchange Rates (EER) 1/
(Index, 2005=100)



Sources: Authorities; and IMF staff calculations.
1/ Auction rates (kyat/USD) are applied starting April 2012.

Selected Peers: Growth in Export Market Share
(Year-on-year percent change, 3-year moving average)



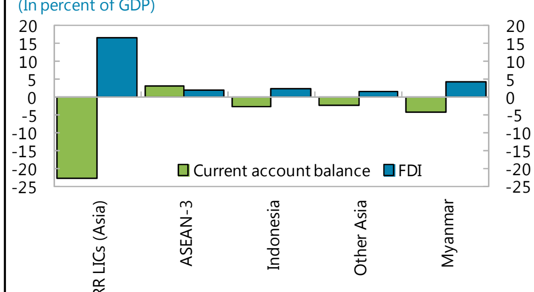
Sources: Authorities; IMF, *World Economic Outlook* and *Direction of Trade*; and IMF staff calculations.

Investment-Related Costs: Selected Indicators

	Rank 1/	
	FY 2007	FY 2011
Labor costs	28/28	31/31
Office rents	20/28	5/32
Mobile phone basic charge	1/28	1/32
Residential rentals	17/28	12/32

1/ Based on major cities in Asia and Oceania. A higher rank indicates higher costs.
Source: JETRO, Survey of Investment-related costs in Asia and Oceania (2008, 2012)

Selected Peers: External Indicators
(In percent of GDP)



Sources: Authorities; IMF, *World Economic Outlook*; and IMF staff calculations.

Staff Views

16. The CBM's policy of smoothing exchange rate fluctuations while not targeting a specific rate is appropriate. Attempting to target a specific exchange rate level could be costly, and given significant analytical uncertainty both due to a thin data base and the structural transformation of the economy, would be fraught with risk. Given the scale of the economic transition underway, the CBM should also strive to build further reserves to achieve at least 5 months of prospective import cover. This should take place both through further transfers from state banks and net purchases at auctions, but not at the expense of the stability and further development of the foreign exchange market. Expected higher foreign exchange inflows over the next year provide an opportunity to do so, though tools to sterilize foreign exchange inflows remain underdeveloped (see below). In addition, building capacity to better understand seasonality could serve as a precursor for smoothing exchange rate fluctuations over time horizons of months rather than days or weeks.

17. With monetary policy tools still being developed, fiscal policy is the main instrument for macroeconomic management. However, it also has to bear the burden of addressing Myanmar's large development needs. The 2013/14 budget and projected additional spending in the mid-term supplementary budget strike an appropriate balance between these two key goals of fiscal policy and are consistent with maintaining a low risk of debt distress (Box 4). At the same time, monetization of the fiscal deficit should be reduced and eliminated over the next few years. Over the medium term, the authorities' strategy of keeping deficits of around 5 percent of GDP while increasing nonresource revenue, boosting allocations to priority sectors, and increasing access to concessional finance is also appropriate to maintain debt sustainability while meeting pressing spending needs. This target may, however, have to be adjusted according to the macroeconomic environment and particularly so until effective monetary policy tools are developed.

18. Rapid credit growth is a welcome sign of financial deepening. It does not, at present, pose significant macroeconomic risks, but should be monitored carefully, and further relaxation of lending constraints should not be considered. Experience elsewhere has shown that sustained high levels of annual credit growth tend to lead to macroeconomic instability, particularly when accompanied by rapidly rising real estate prices. This should be factored into the authorities' monetary policy settings once effective tools are established.

Authorities' Views

19. The authorities broadly concurred with staff's views. They stressed their commitment to a flexible exchange rate policy that does not target a specific level, while smoothing fluctuations and maintaining adequate international reserves. They also agreed that further transfers of reserves to the CBM were needed, but noted that declining reserves at state banks limited the scope for further growth from that source. They were also conscious of their limited ability to control monetary aggregates and credit developments. With regard to fiscal policy, the authorities reaffirmed their commitment to a medium-term deficit target of around 5 percent of GDP to maintain a low risk of debt distress and support macroeconomic stability. In this regard, they

Box 4. The 2013/14 Budget

The 2013/14 budget reflects the government's policies to reduce poverty, increase priority spending, and granting greater financial autonomy to state economic enterprises (SEEs). Key expenditure measures include:

- A 23 percent salary increase to public sector workers and pensioners intended to reduce the gap between public sector salaries in Myanmar and peer countries. With significant additional hiring planned, in particular in priority sectors, the wage bill is expected to increase by 50 percent. The wage bill, however, remains low by regional standards and still only accounts for 11 percent of current expenditure.

- Higher current spending in education and health, which has been increased by 30 and 78 percent, respectively, compared to 2012/13. Exceptional overheads are budgeted for the nationwide census.

- Allocations for capital are reduced as preparations for the South East Asian Games are being completed, and the focus in the health sector is shifting increasingly to primary health care and prevention (which requires less capital and more current spending).

- Increasing financial autonomy of SEEs. In 2013/14, profitable SEEs are expected to self-finance 100 percent of their working capital, while the government will cover 20 percent of working capital expenses of loss-making SEEs (in 2012/13, all SEEs were expected to self-finance 78 percent of the working capital).

On the revenue side, once the surge in tax revenues in 2012/13 is taken into account (which the budget, drafted before detailed revenue figures were available, does only to a limited degree), the budget deficit is projected at about 3¾ percent of GDP. However, the supplementary budget in mid-year is expected to introduce significant increases in spending, including on security due to continued ethnic and religious unrest, and also for the establishment of a Large Taxpayer Office (LTO), CBM open market operations and other priority areas. These additional expenditures, many of which are structural, are projected to result in a fiscal deficit of around 5 percent of GDP.

The 2013/14 Budget

	2012/13	2013/14	
	Estimate	Budget	Proj.
	(In percent of GDP)		
Revenue and grants	23.0	18.9	23.4
Tax revenue	6.4	4.4	6.6
SEE receipts net of transfers to UG	13.8	12.1	14.2
Expenditure	26.6	24.5	28.4
Expense	16.7	16.9	19.6
Of which: Education	1.2	1.2	1.4
Health	0.4	0.6	0.6
Defense	2.0	2.0	2.7
Investment	10.0	7.6	8.8
Net lending (+)/borrowing (-)	-3.7	-5.6	-5.0
Nominal GDP	47,433 0	59,249	53,501

Source: Ministry of Finance and Revenue; and staff projections

also reiterated their intention to use nonconcessional borrowing only to finance economically viable projects in priority sectors such as energy and infrastructure. They also reaffirmed their aim to raise tax revenue performance, and pointed to initiatives already taken in this area.

B. Forging the Tools for Monetary Control

The liberalization of the foreign exchange market necessitates the establishment of monetary control. Without an adequate framework and instruments to conduct domestic monetary policy, the CBM is unable to maintain domestic stability and build external buffers.

Background

20. **The authorities have made rapid progress toward a unified exchange rate and an open current account.** Flows through the formal exchange auction have increased markedly since its introduction in April 2012, and the official rate is now closely aligned with informal market rates.

A foreign exchange management law freeing all current transactions has been enacted in August 2012, and implementing instructions issued over the course of the past months. Payment restrictions on invisibles have been mostly lifted, and private banks enabled to offer foreign exchange operations at par with state banks. A plan to phase out Foreign Exchange Certificates (FECs) (SMP benchmark) is being implemented, with more than half of FECs outstanding already exchanged. Nonetheless, a small number of restrictions on current transactions arising from provisions in the foreign investment law remain. In addition, the recent cessation by the state banks of timely transfers of foreign exchange on behalf of the private banks is limiting development of the formal foreign exchange market as most suppliers of foreign exchange to the market hold their funds at one of the state banks.

21. Final enactment of the new law to give greater autonomy to the CBM has been delayed. While the CBM bill—drafted with IMF TA support—was approved by the legislature in March 2013, legal considerations necessitate revisions before it can be enacted. Furthermore, uncertainty remains over its provisions in key areas, notably budgetary and operational autonomy. The delay of the law has impeded the development and use of monetary policy tools, in particular deposit auctions, since the CBM currently operates under a budget appropriated by the parliament, which constrains its expenditure on open market operations. Regulations to establish effective reserve requirements have also not been issued. However, the CBM has removed the ban on interbank trading, and is considering further steps to help market development.

Staff Views

22. Remaining restrictions arising from provisions in the foreign investment law are minor, but need to be removed to achieve full compliance with Article VIII and ASEAN Economic Community obligations. The current policy of allowing profit transfers abroad after payment of profit taxes without further restriction should be continued and instructions issued to formalize the practice. At the same time, the deduction of living expenses from permissible transfers of salaries will need to be abolished. Also, the instructions issued to implement the foreign exchange management law over the last year by the CBM should be replaced and, where necessary, amended by a set of comprehensive regulations.

23. The wider foreign exchange market is still in its infancy, and requires active support for its development. To avoid jeopardizing hard-won gains in market formalization and exchange rate convergence, the CBM should further facilitate the replenishment of private banks' overseas accounts by placing their purchases of foreign exchange from the formal auction, upon request, directly into these accounts. Additionally, the Ministry of Finance and Revenue (MoFR) and CBM should together instruct the state banks to make foreign exchange payments on behalf of private banks in a timely manner as long as the private banks have sufficient funds in their accounts. The CBM should also reactivate its U.S. dollar account at the U.S. Federal Reserve so that it can make and receive foreign exchange payments on behalf of private banks that are purchasing foreign exchange in the auctions without recourse to one of the state banks. The development of a sufficiently deep and developed interbank market will also be important—price discovery of the exchange rate can then take place there, replacing the current multiple-price auction system.

24. Enactment of the CBM law and issuing implementing regulations are critical, and need to be achieved as soon as possible. The authorities need to ensure that the law contains key provisions for budgetary and operational autonomy, and authority to conduct monetary policy and supervise the financial sector, including state banks. Concrete supervisory powers will need to be specified in a new financial institutions law.

25. At the same time, the CBM should press ahead with a number of measures, while waiting for the CBM law, to prepare for its new mandate and move toward a reserve money targeting framework. Key immediate steps are (i) maintaining regular deposit auctions which have recently been resumed (new SMP benchmark); (ii) continuously improving the CBM's reserve money and liquidity projections; and (iii) recalibration of reserve requirements in line with previous IMF TA (Box 5). Finally, the CBM needs to further develop its internal organization, management and information dissemination so as to be able to fulfill its new mandate effectively.

Authorities' Views

26. The authorities reiterated their commitment to full liberalization of current account transactions and fully accepting their Article VIII obligations during 2013. They outlined their policy of helping to develop the interbank foreign exchange market. They noted, however, that, given capacity constraints, it is expected to take several years until the CBM will be able to forego their current auction system, and requested an extension of the Fund's approval for this MCP, along with continued TA for building the foreign exchange market. They also indicated that they viewed CBM support for private banks' foreign transactions as a transitory measure until banks could rely on their own infrastructure and correspondent banking relations.

27. The authorities broadly shared the staff's views on monetary policy, but explained that delays had in part occurred due to the uncertainty surrounding the new CBM law. They indicated their intention to resume regular deposit auctions, even if initially on a small scale, but hoped to be able to increase volumes at a later stage, when they would seek increased budget allocations for this purpose. They explained that once the CBM law was passed, budget restrictions would be lifted. The authorities also pointed out that they had already drafted instructions to introduce new reserve requirements, which were currently in the final stages of internal consultation.

C. Financial Sector Modernization

Development of a modern, well-regulated and supervised financial sector is critical to finance investment, reduce monetization, and transmit the CBM's monetary policy.

Background

28. The financial sector is small, segmented, partly dollarized, and repressed due to administrative controls that limit intermediation. State-owned banks continue to dominate and

Box 5. Moving Toward Reserve Money Targeting

Currently, the CBM has no nominal policy anchor. While its ultimate monetary policy goals—domestic price and external stability—will be established by the new CBM law, to achieve them, the CBM will need to develop a reserve money targeting framework to establish an intermediate policy target. To reach this objective, careful sequencing of reforms is needed:

- Regular deposit auctions, even at low volumes, serve to establish the practice and develop the market, even if current budgetary constraints do not permit operations on a meaningful scale. Once budget constraints are relieved through larger allocations in the mid-term supplementary budget and eventually removed when the CBM law enters into force, volumes should be stepped up. This also requires continuous refining of the CBM's reserve money projections, which will be supported by IMF TA.

- Recalibrating reserve requirements is a critical keystone in the monetary reform process, and should be implemented as soon as possible. This reform will give the CBM leverage over monetary conditions by creating a demand for CBM current account balances.

- This will support the development of an interbank market, which is critical to improve the transmission of monetary policy and permit the eventual liberalization of lending rates.

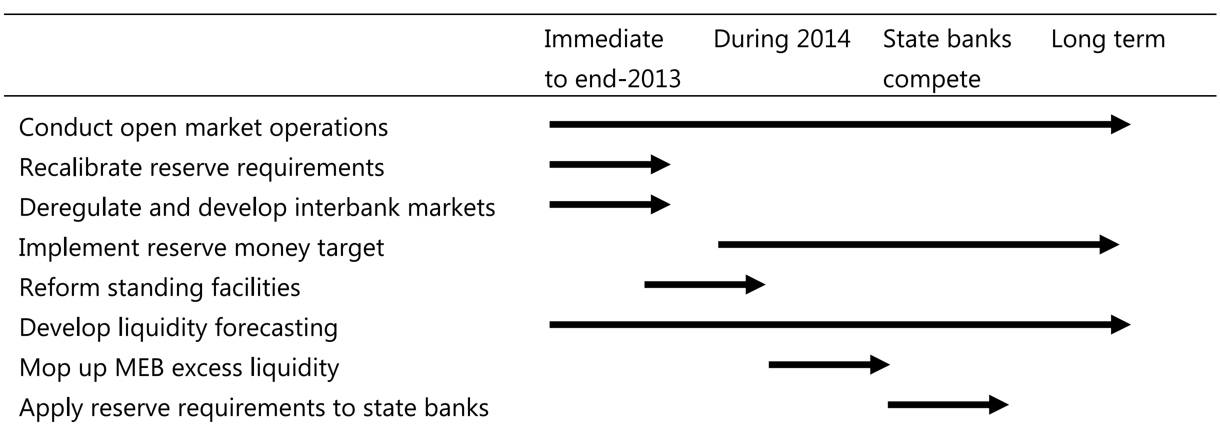
- These elements will enable the CBM to introduce a reserve money target in 2014. Reforms to standing facilities will help manage interest rate volatility.

- Development of liquidity forecasting and the integration of state banks into the monetary regime are medium-term issues. Liquidity forecasting can initially be focused on the factors the CBM knows best and then be developed over time.

- Once state bank reforms lead to competition with commercial banks, state banks will need to be subject to reserve requirements. The significant excess liquidity of the MEB needs to be mopped up to prevent a liquidity overhang in the banking system.

- Direct controls on retail interest rates should be retained until the CBM has established a track record of maintaining the reserve money target. Once the CBM has established control over wholesale interest rates, direct controls can be phased out.

The Process of Monetary Reform



public confidence is low. There is currently no operational foreign bank presence and governance and supervision of local banks is far behind international standards, including on AML/CFT issues.

29. However, the sector is growing and modernizing rapidly. Eligible collateral has been expanded to include key agricultural export goods, deposit rates have been liberalized within a fixed corridor, and the Myanma Agricultural Development Bank has raised credit limits for farmers. The authorities have also recently abolished the capital-to-deposit requirement, and eased capital requirements for the opening of new branches. Credit cards and automated teller machines have been introduced, and a payment union for interbank settlements established. There has also been a rapid increase in microfinance providers, but they are effectively unsupervised.

30. The sector is set to expand further. Applications for opening new bank branches have more than tripled relative to 2012/13. The establishment of a stock exchange is planned, several private insurance companies have recently been licensed, and the microfinance sector is projected to grow further. In addition, the authorities are in the process of finalizing their policy for admitting foreign banks, initially through joint ventures.

Staff Views

31. Increasing access to financial services is important for broad-based growth. In this regard, the expansion of microfinance institutions, the abolishment of the capital-to-deposit ratio, the expected licensing of private insurance companies, and the easing of capital requirements for opening new bank branches are steps in the right direction (though capital requirements for new branches should soon be removed completely). However, particular care will need to be taken to effectively supervise the increasing number of operators in the microfinance and the hitherto state-monopolized insurance sector (see below).

32. The transition to a modern financial system is complex. The changes required in the financial sector are wide-ranging, will take time, and require significant capacity building (in the CBM as well as in private and state-owned banks), in particular in regulation and supervision. Key priorities are:

- *Licensing and foreign bank entry.* Licensing policies and procedures need to be adequate to regulate the anticipated entry of international banks into Myanmar. Staff support the authorities' careful approach and their intention to allow domestic banks time to catch up with international banking standards. However, the proposed structure of joint-venture banks separated from wholly-owned domestic entities would create a parallel banking system which runs against international good practice, creates corporate governance risks and presents significant supervisory challenges.

- *Regulating foreign exchange positions.* To guard against the build-up of foreign exchange risk in the banking sector, supervision needs to be strengthened, and instructions limiting banks' net open foreign exchange positions, as well as other prudential regulations that may be needed, should be issued soon, with IMF TA support.

- *Establishing market-determined interest rates.* Establishment of deposit/credit auctions and of treasury securities auctions are the first steps toward market-determined interest rates. Regulations to govern such auctions are being prepared (SMP benchmark), and the IMF will provide TA to help implement them.

- *Modernizing prudential regulations and developing supervisory capacity.* In particular, bringing the definitions of bank capital and nonperforming loans closer to international standards; strengthening the enforcement of connected lending limits; and improving banks' risk management are needed before lending rates and maturities are liberalized. This requires not only the enhancement of supervisory capacity, for which the IMF will provide a resident advisor, but also the strengthening of banks' capacity and improvement in their reporting of key data and, given developments in the financial sector, a framework for consolidated supervision. In this regard, strengthening the legal framework through revision of the financial institutions act will be an important step. State banks also need to be brought under the CBM's supervision. Furthermore, supervision of the microfinance and the insurance sectors is in its infancy and needs urgent strengthening.

- *Addressing AML/CFT deficiencies.* Myanmar is classified by the Financial Action Task Force as having strategic AML/CFT deficiencies and not having made sufficient progress in addressing them, and could face countermeasures after October 2013, which could reverse recent progress in integrating with international financial markets. To avoid these, the authorities should act urgently to strengthen both the legal framework and supervisory arrangements for AML/CFT.

33. As private banks play an increasing role in the financial system, the role of state-owned banks will need to be considered (Box 6). State banks are effectively beyond the CBM's supervisory remit. In addition to subjecting these banks to CBM supervision once the CBM law is passed and the financial institutions law revised, reform options, in particular for the Myanma Foreign Trade Bank (MFTB) and the MEB, need to be developed, particularly as the process is complex and the transition must be carefully considered and managed.

Authorities' Views

34. The authorities broadly agreed with the staff's assessment and recommendations, but pointed to the need for significant additional TA.

- With regard to their planned policies on joint ventures, they emphasized the need to provide sufficient room for domestic banks to develop capacity to be able to effectively compete with foreign entrants, and pointed to the strong interest of foreign banks in establishing a presence in Myanmar, including through joint ventures.

- With regard to strengthening supervision and regulating net open foreign exchange positions, they explained that they had no experience in this area and were looking forward to forthcoming TA from the IMF, World Bank and other partners. They also requested comments on their draft regulations on treasury securities auctions and TA for implementing them.

- While acknowledging the challenges for supervision arising from the expansion of microfinance, they also stressed the need to rapidly boost credit availability in rural areas, in line with their emphasis on rural development, and counted on donor support, in particular form the World Bank and AsDB, to assist in building up supervision of these institutions.

- With regard to addressing AML/CFT deficiencies, they explained that, with IMF TA, they had brought key bills—a countering of money laundering law, and a counter terrorism bill—on their way to submission to parliament. They agreed that urgent action in this area was needed, but pointed to the parliament's crowded agenda as reforms were advancing in many areas.

Box 6. Reforming State-Owned Banks

There are four state-owned banks that carry out not only commercial operations but, to varying degrees, also state functions. The largest and most important banks are MFTB and MEB.

The MFTB has until recently held most of the government's foreign reserves and carried out most foreign exchange transactions also for state-owned companies and the private sector. However, the increasing role of private banks in foreign exchange operations and the ongoing transfer of reserves to the CBM necessitate a reconsideration of its role in the financial system. Its current role as an agent for foreign exchange operations is not a viable business model in the longer run, in particular after the normalization of international financial relations. Therefore, options need to be explored to absorb the MFTB (or all or parts of its staff) into the CBM, merge it with another state-owned bank, or unwind it.

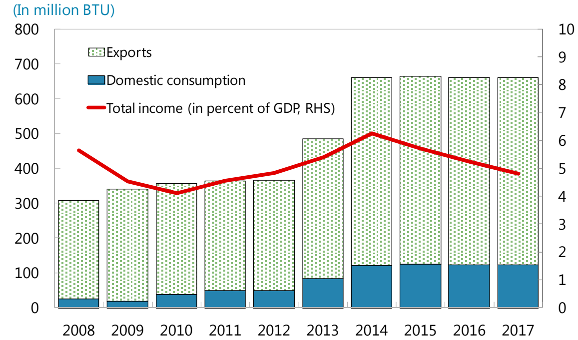
The MEB, in addition to its commercial relations with the private sector, also acts as the public sector's treasury. Despite some net purchases of treasury securities over the last year, it holds large balances of structural excess liquidity. Reducing this (e.g. through a swap against treasury bills held by the CBM) would open the way for allowing the MEB to participate freely in treasury securities auctions on a regular basis and integrate more fully with the nascent market-based financial system.

D. Fiscal Reforms

Background

35. A large share of government revenue is directly or indirectly related to natural resources, in particular gas. New fields coming on stream in 2013/14 will boost gas revenues in the next few years, with a peak of 6.5 percent of GDP projected in 2014/15. In the medium term, however, gas production is expected to level. Under current projections, which exclude revenues from potential new discoveries, all gas revenues are needed to finance the public sector budget

Gas Production and Revenues
(In million BTU)



Source: Ministry of Energy.

(which would still leave fiscal deficits of around 5 percent of GDP, in line with the government's fiscal strategy). Windfall receipts may also occur as the government licenses the use of state-owned assets, such as the telecommunications spectrum, and oil and gas blocks, or privatizes productive enterprises.

36. The government has begun to develop a far-reaching fiscal reform strategy to mobilize nonresource revenues and revamp public financial management (PFM) (Box 7). Key goals are broadening the tax base and improving accountability and public service delivery, as well as decentralization to state and regional governments and increased autonomy of SEEs.

Box 7. The Government's Fiscal Reform Strategy

Achieving the government's strategic goals requires reforms in tax administration, tax policy, and PFM.

Tax administration. A strategic reform plan has been adopted by the Internal Revenue Department (IRD). The plan envisages the establishment of a LTO in September 2013 (SMP structural benchmark) that will become fully operational from April 1, 2014. The LTO will also introduce taxpayer self-assessment and issue unique taxpayer identification numbers. In the longer term, the LTO will serve as a model to establish a number of medium taxpayer offices and ultimately for the reform of small taxpayer compliance methods. The IRD has initiated the staffing of LTO, compiled a list of the 1,000 largest taxpayers by turnover, and is in the process of selecting an accommodation for the LTO in Yangon. The selection of large taxpayers to be managed by the LTO and the design of staff training will be assisted by IMF TA.

Tax policy. The government's long-term objective is to introduce a full value-added tax (VAT) as the main broad-based consumption tax. In the interim, the focus is on reforming the taxation of special consumption goods into a separate tax and expanding the taxation of services. The government is also discussing the merits of tax incentives to promote investment, and has established a broad-based high-level committee to consider these issues.

PFM. The MoFR has established a working group to develop PFM reform strategies and help coordinate donors. The PFM strategy will be finalized in the next few months. The strategy focuses on key priorities including: (i) budget formulation; (ii) strengthening fiscal discipline and expenditure control; and (iii) fiscal accounting and reporting. Establishing a treasury department in the MoFR with cash and debt management functions will be a critical initial step (which will also facilitate the introduction of treasury securities auctions) and will be supported by TA from the IMF and other partners. A public expenditure review (PER) coordinated by the World Bank has been launched which aims to improve the efficiency of public spending and inform policies on fiscal decentralization. The government has also committed to implementing the Extractive Industry Transparency Initiative, which will support revenue transparency.

Staff Views

37. Higher nonresource revenues are needed to boost much-needed development expenditure and reduce dependence on natural resources. To this end, reforming tax policy and strengthening tax administration are critical.

- Tax policy should aim at broadening the tax base and simplify the existing rate structure. Key priorities in the short term are (i) reforming the taxation of special consumption goods into a separate tax as a precursor to introducing a VAT; (ii) expanding the taxation of services as soon as administrative capacity allows; and (iii) clarifying policy on tax incentives, including in the forthcoming small and medium enterprise and special economic zone laws, with a view to limiting such incentives to the largest extent possible so as not to undermine the tax base and place a larger burden on nonexempt taxpayers. In this regard, while providing an attractive investment environment is important, tax incentives should play only a minor role. Instead, other options to attract investment should be emphasized, such as streamlining bureaucracy, and providing key infrastructure and effective social services. Exemptions, to the extent they are retained, should be streamlined and time-limited.

- Improving tax administration will also be crucial to increasing revenue performance. The significant gains made in 2012/13 are encouraging in this regard. Going forward, the establishment of the LTO should see revenues increase further and will pave the way for subsequent reforms. It is therefore important that sufficient resources are allocated in the forthcoming supplementary budget to enable the LTO to establish operations.

38. Modernized fiscal systems are essential to improve public service delivery and accountability. The emerging priorities of the government's PFM strategy are appropriate, and the strategy should be finalized soon and disseminated to development partners to facilitate donor coordination. Early results from the PER should, if possible, be used to inform the preparation of the 2014/15 budget. A key first step will be the establishment of a treasury function.

39. Over the medium term, the authorities should develop a fiscal framework that ensures macroeconomic stability and debt sustainability. Key principles underlying such a framework include (i) smoothing of expenditures in the face of potentially volatile resource revenues; (ii) prudent projections of resource revenues to avoid a deficit path that leads to an unsustainable build-up of debt; and (iii) utilization of nonrecurring revenues (whether from nonrenewable resources or one-off revenues from asset sales) for investment, at least once a broad tax base is developed that can finance recurrent spending needs. The fiscal framework would also need to be supported by appropriate fiscal institutions for a transparent and efficient management of resource wealth, and a fiscal regime for extractive industries to better realize the revenue potential of natural resources. The framework will also need to take into account the impact of changing financial relations between the Union government, states and regions, and SEEs.

Authorities' Views

40. The authorities underlined their commitment to broad-based fiscal reforms. With the development of many reform plans supported by IMF TA, they concurred with staff on key priorities. While they agreed that a reform of taxation of special consumption goods was important, they did not commit to a timetable, in part because of ongoing internal policy debates. On the key issue of tax incentives, officials from the MoFR also pointed to discussions within the government, but stressed their commitment to limiting exemptions to the extent possible.

E. Boosting Broad-Based Growth

Background

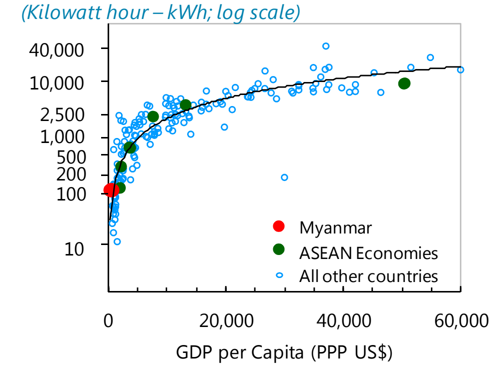
41. The authorities have developed a high-level reform plan outlined in their Framework for Social and Economic Reform (FESR). Poverty has decreased from 32 percent in 2005 but remained high at around 25 percent in 2010; there are also large regional disparities. The FESR therefore outlines a medium-term growth strategy that is focused on reducing poverty and diversifying sources of economic growth to provide income and employment, particularly in rural areas. The FESR was endorsed by donors in the Nay Pyi Taw Accord in January 2013, and envisages comprehensive reforms in priority sectors including agriculture, health care, education, industrial development, and infrastructure. The agenda is daunting, both on account of its wide range and the limited capacity of the administration.

42. The authorities are advancing reforms in priority areas and are opening the economy. Laws to promote foreign investment, access to land (including through titling), and microfinance have been passed and are being implemented, and others to promote the development of special economic zones and small enterprises are under consideration. Telecommunications licenses are in the process of being awarded, and new offshore blocks for oil and gas exploration are being tendered transparently (onshore blocks are being awarded shortly after tender). To address electricity shortages, the authorities are planning to double generating capacity within the next three to four years (largely in gas-fired plants fueled by the domestic share of new gas fields), and have earmarked future gas discoveries for domestic use.

Staff Views

43. A broad set of policies is needed to achieve sustainable growth and reduced inequality, underpinned by macroeconomic stability. Boosting productivity is critical to generate lasting increases in incomes. To this end, investments in infrastructure, in particular power generation and transportation, are key, whether by the state or the private sector. Together with supportive investment policies, this would promote industrial development and employment generation. Special economic zones, if well-managed and well-equipped, can play a key role in promoting industrialization, but care will need to be taken that they do not remain isolated enclaves without spillovers to the wider economy, and that they do not undermine the tax base. At the same time, agricultural productivity needs to be boosted to raise rural incomes. In this regard, policies to ensure that productivity gains as well as increases in final sales prices benefit farmers should be actively developed. Key among these are seed development and measures to increase competition among rice traders.

Electricity Consumption vs. Per Capita Income
(Kilowatt hour – kWh; log scale)



1/ Based on the 2005-09 average.
Sources: EIA, *International Energy Statistics database (August 2011)*; EIA, *Energy Information Outlook 2011*; The World Bank, *World Development Indicators 2012*; and IMF staff calculations.

44. To reduce the human effects of poverty and improve the productivity of the workforce, expenditures on education and health need to be raised further. The recent large increases in budgetary allocations in these sectors are appropriate, but expenditures (and outcomes) remain far below those of Asian peers. Furthermore, allocations need to be made with a view of achieving high spending productivity and equitable outcomes. In this regard, the reallocation of health expenditures toward more current spending in the 2013/14 budget is welcome.

45. Statistics need to be improved urgently to enable effective economic planning and management. Weak capacity and data shortcomings are a significant obstacle to macroeconomic policymaking and hamper effective IMF surveillance. The coverage and timeliness of key series such as national accounts, prices and balance of payments need urgent improvements and more timely fiscal and monetary statistics are also required. The importance of improving economic statistics is recognized by the prominence it has been given in the authorities' economic reform strategy. At the same time, the authorities are seeking technical support from a wide range of partners, including the IMF.

Authorities' views

46. The authorities agreed on the need for broad-based reforms across sectors. They pointed to ambitious plans for electricity generation and industrialization, and stressed the emphasis in their plans on the development of rural areas where the large majority of the population lives. They also agreed that improving statistics is a high priority, and requested TA in several areas.

SMP ISSUES

47. The authorities have made good progress in implementing their SMP. All quantitative and structural benchmarks for end-March 2013 were met. Reserve accumulation of the CBM significantly exceeded the target, and fiscal targets were met comfortably. Payment restrictions on invisibles have been lifted, private banks enabled to offer foreign exchange operations at par with state banks, and a plan for withdrawing FECs has been announced and is being implemented.

48. The authorities are also on track to meet the quantitative and structural benchmarks for September 2013. Fiscal deficit financing targets remain appropriate for the projected deficit outturn of 5 percent of GDP. This does not take into account proceeds from the sale of licenses for telecommunications and oil and gas blocks, which should be used to build fiscal buffers and to finance spending on priority areas over the medium-term in a manner consistent with maintaining macroeconomic stability. Targets for reserve accumulation also remain appropriate, and progress has been made to meet the structural benchmarks for September 2013 relating to the establishment of the LTO and treasury securities auctions. The next and final review is expected to be completed in early 2014.

49. Developing monetary policy tools is critical for achieving the SMP's goals. To reinforce progress even in advance of the passage of the CBM law, the authorities have resumed bi-weekly deposit auctions and included their continuation as a new structural benchmark in the revised Memorandum of Economic and Financial Policies. Volumes are currently small, but are expected to increase to sterilize the impact of foreign exchange operations once budget constraints are eased.

STAFF APPRAISAL

50. The authorities have made impressive strides in opening and liberalizing the economy, despite limited capacity. Import restrictions have been removed, import monopolies abolished, administrative procedures eased, and, not least, the exchange rate regime comprehensively overhauled. The financial sector, a year ago confined to domestic operations, has begun to modernize and integrate with the world economy. Legislation has been passed to lay the foundations for growth in key economic sectors. Social spending has been increased, and the government is moving to formulate new policies for more effective poverty alleviation. Nevertheless, the challenges ahead are daunting. In particular, administrative capacity is strained by rapid change and the need to catch up to international practices and standards.

51. Myanmar has come a long way in liberalizing its foreign exchange regime. With few exceptions, the current account is open and the formal and informal markets have converged. The recent depreciation of the kyat is contributing to aligning the exchange rate with its longer-term fundamentals, after some apparent overvaluation up to 2012. The CBM's policy of smoothing exchange rate fluctuations while not targeting a specific rate remains appropriate. Continuing to increase the CBM's international reserves is also crucial to provide a more comfortable external buffer to the reform process.

52. Macroeconomic stability has been preserved so far, but tools to manage the macro-economy need to be forged. Fiscal policy has struck an adequate balance between underpinning stability and supporting development, and is consistent with maintaining a low risk of debt distress following the recent rescheduling of external arrears. However, mounting price pressures indicate that additional instruments are needed. In this regard, it is critical that monetization of the fiscal deficit be reduced further.

53. The liberalization of the exchange rate and of the wider economy makes the deployment of monetary policy tools an urgent task. Establishing monetary control should be given the highest priority. Enactment of the new CBM law will be a vital step in establishing an appropriate legal foundation, but the CBM can and should be putting in place instruments in advance of the law's enactment. In this regard, the resumption of regular deposit auctions is welcome even if volumes are still constrained, and the authorities should continuously seek to improve their forecasting capability. Furthermore, reserve requirements should be recalibrated soon to gain additional levers of monetary control, and financing constraints on open market operations removed.

54. Development of a modern financial sector will support growth and assist in transmitting monetary policy. This will take some time, given capacity constraints, but requires immediate action to accelerate the process. A careful and well-sequenced approach is required. Key priorities are establishing an effective supervisory regime, including for foreign exchange operations, and developing a clear licensing regime for foreign banks.

55. Fiscal deficit targets should be applied judiciously. Volatility in natural resource revenues or lumpy inflows from asset and license sales should not lead to unwarranted volatility in expenditure. Rather, the authorities should move toward developing a medium-term fiscal framework that promotes the build-up of fiscal buffers through saving in good years that can then be spent prudently over the medium term. Such a framework will require development of a well-enforced broad-based tax system and strengthened public financial management.

56. Intensive hands-on technical assistance and capacity building tailored to Myanmar's specific needs will be critical for a successful reform process. Coordination, prioritization and adaptation to Myanmar's circumstances will be essential given the scarce administrative capacity and the breadth of the agenda. IMF TA is expected to continue to be intensive and will be led by government demand and delivered in close coordination with other development partners. In this regard, improving statistics to underpin economic management and strengthen IMF surveillance will be critical.

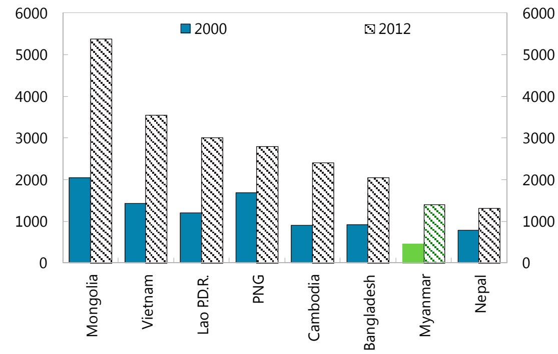
57. Staff supports the authorities' request for approval of a multiple currency practice (MCP) subject to Fund jurisdiction under Article VIII, Section 3. The MCP is maintained principally for nonbalance of payments reasons. Since the MCP does not materially impede the member's balance of payments adjustments, does not harm the interests of other members, and does not discriminate among members, and the authorities are unable at present to replace it, staff recommend Executive Board approval for its retention until June 28, 2014 or the next Article IV consultation, whichever is earlier.

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

Figure 1. Myanmar and Its Peers—Selected Indicators

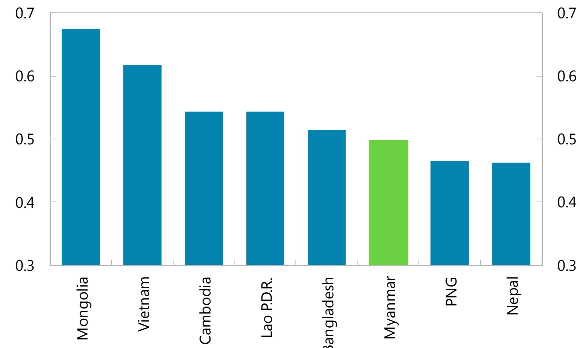
Living standards remain among the lowest in the region.

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



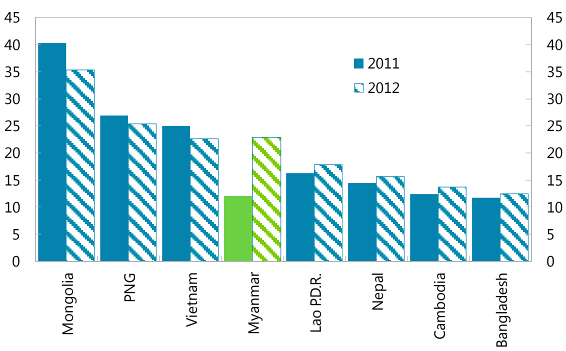
Social well-being is below those of regional peers, ranking 149 out of a total of 186 countries in human development.

Human Development Index, 2012
(Index)



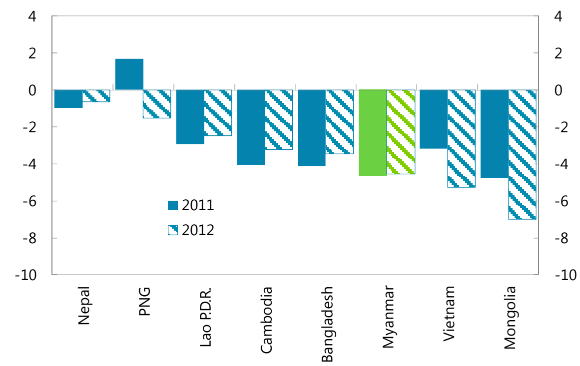
Recent increases in government revenue provide scope for expanding social expenditures…

Government Revenue Excluding Grants
(In percent of GDP)



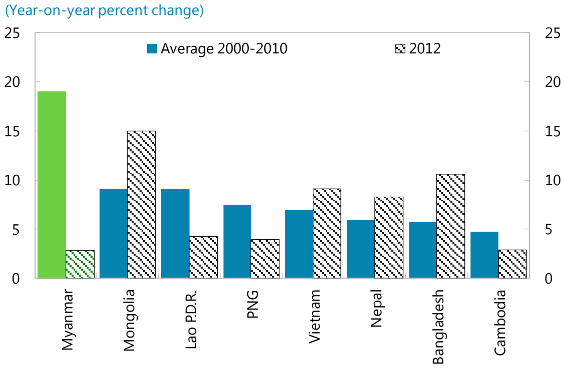
…and a decline in overall fiscal deficits.

General Government Balance
(In percent of GDP)



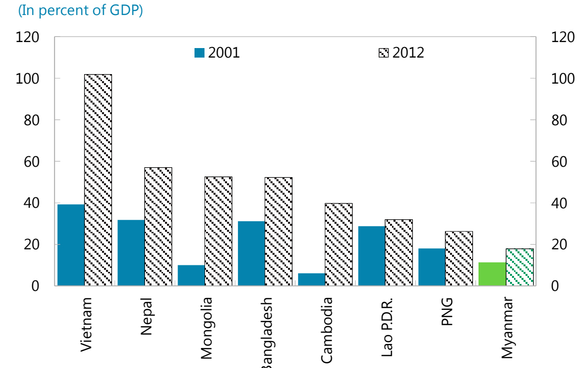
Reduced monetization of fiscal deficits has contributed to lower inflation…

Inflation
(Year-on-year percent change)



…while financial intermediation continues to be depressed by administrative controls.

Credit to the Economy
(In percent of GDP)

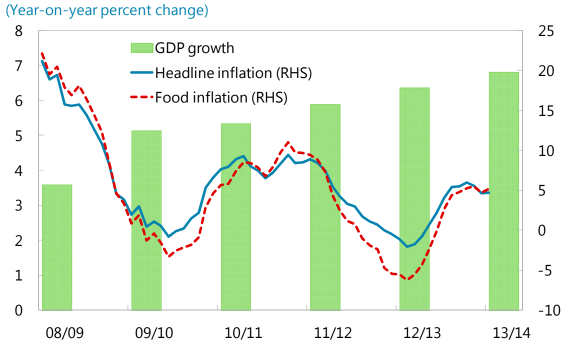


Sources: Data provided by the Myanmar authorities; Direction of Trade; IMF's World Economic Outlook; UNDP Human Development Report; and IMF staff calculations.

Figure 2. Myanmar—Macroeconomic Developments

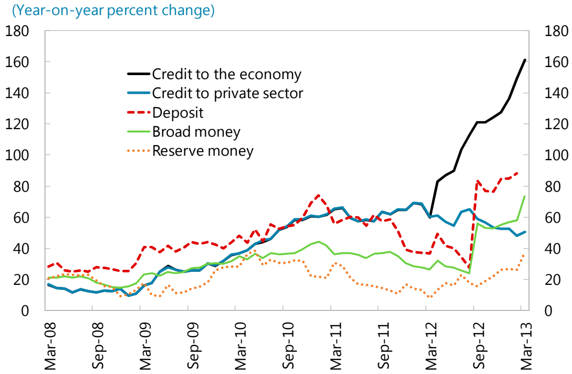
Growth is expected to pick up slightly, driven by improved business confidence due to reform momentum…

Growth and Inflation
(Year-on-year percent change)



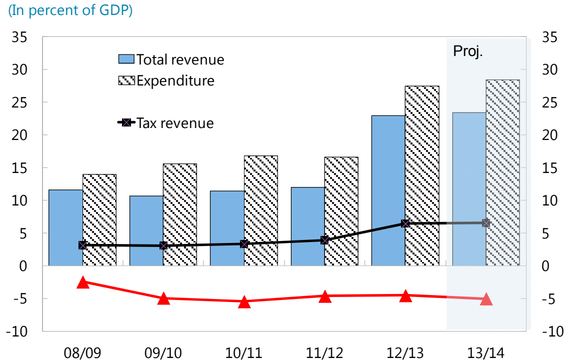
…and credit to the economy is growing rapidly.

Monetary Indicators
(Year-on-year percent change)



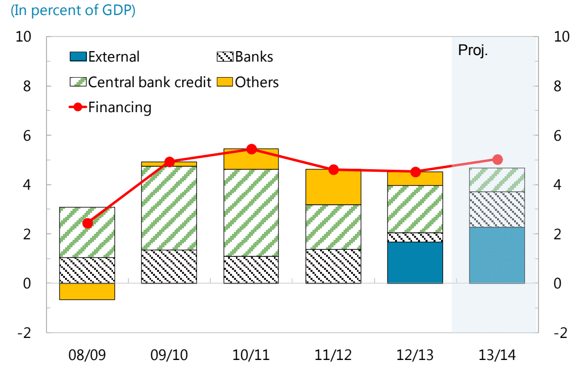
Higher expenditures were more than offset by higher resource revenue but tax revenue remains very low…

Fiscal Revenue and Expenditure
(In percent of GDP)



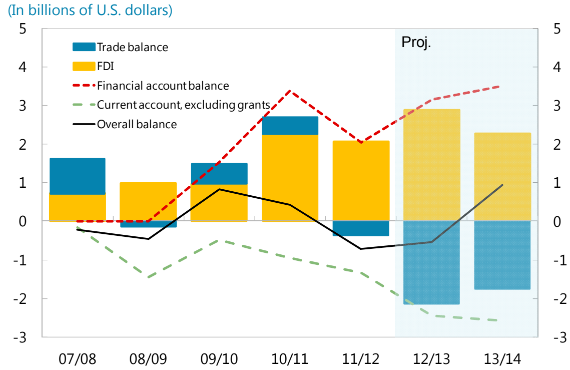
…while the narrowing fiscal deficit is financed less by monetization.

Fiscal Financing
(In percent of GDP)



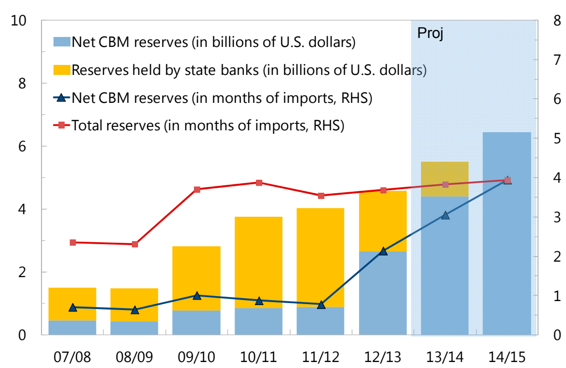
The current account deficit is largely financed by FDI inflows…

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



…and international reserves held by the CBM are increasing rapidly.

Total and Net CBM Reserves



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

Table 1. Myanmar: Selected Economic Indicators, 2009/10–2013/14 1/

	2009/10	2010/11	2011/12	2012/13 Est.	2013/14 Proj.
Output and prices			(Percent change)		
Real GDP (authorities)	10.6	10.4	5.9	6.7	...
Real GDP (staff working estimates)	5.1	5.3	5.9	6.4	6.8
CPI (end-period)	7.7	8.9	-1.1	4.7	6.5
CPI (period average)	2.2	8.2	2.8	2.8	5.6
Consolidated Public Sector 2/			(Percent of GDP)		
Total revenue	10.7	11.4	12.0	23.0	23.4
Union government	5.8	6.3	6.5	9.1	9.0
o/w: Transfers from SEEs to Union government	2.3	2.0	2.3	1.9	1.8
SEE receipt	7.2	7.0	7.8	15.8	16.0
Grants	0.0	0.0	0.0	0.1	0.2
Total expenditure	15.6	16.9	16.6	26.6	28.4
Expense	8.7	8.8	9.8	16.7	19.6
Net acquisition of nonfinancial assets	6.9	8.0	6.8	10.0	8.8
Gross operating balance	2.0	2.6	2.2	6.3	3.8
Net lending (+)/borrowing (-)	-4.9	-5.4	-4.6	-3.7	-5.0
Domestic public debt	18.7	21.0	22.5	22.6	22.4
Money and Credit			(Percent change)		
Broad money	34.8	36.3	26.3	69.9	26.2
Domestic credit	34.8	34.4	25.1	6.2	29.2
Private sector	36.9	65.4	60.1	49.9	36.8
Balance of Payments			(Percent of GDP, unless otherwise indicated)		
Current account balance	-1.3	-1.9	-2.4	-4.4	-4.3
Trade balance	1.3	0.9	-0.7	-3.9	-3.0
Exports	19.9	17.4	17.9	18.6	19.9
Imports	-18.6	-16.5	-18.6	-22.5	-22.8
Financial account	4.0	6.8	3.6	5.7	5.9
Foreign direct investment, net	2.5	4.5	3.7	5.2	3.8
Overall balance	2.2	0.8	-1.3	-1.0	1.6
Gross official reserves					
In millions of U.S. dollars	2,809	3,754	4,026	4,599	5,537
In months of total imports	3.7	3.9	3.5	3.7	3.9
External debt					
Total external debt (billions of U.S. dollars)	13.8	14.4	15.3	13.7	11.7
(In percent of GDP)	36.1	29.0	27.3	24.8	19.7
of which: External debt arrears (billions of U.S. dollars) 3/	9.3	9.9	10.8	4.8	...
Terms of trade (in percent change)	4.0	-2.9	-2.7	-0.1	0.3
Exchange rates (kyat/$, end of period)					
Official exchange rate	5.7	5.4	5.6	880	...
Parallel rate	1004	861	822	878	...
Memorandum items					
GDP (billions of kyats) 4/	34,958	39,847	43,368	47,433	53,501
GDP (billions of US$)	38.1	49.6	56.2	55.3	59.4
GDP per capita (US$)	587	742	900	868	915

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In FY2012/13 and FY2013/14, the terms of bilateral arrears clearance agreements with Japan, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2009/10–2013/14
Consolidated Accounts

	2009/10	2010/11	2011/12	2012/13	2013/14	
			Prel. Act.	Est.	Budget	Proj.
			(In billions of kyat)			
Revenue and grants	3,740	4,551	5,206	10,887	11,192	12,519
Tax revenue	1,077	1,318	1,683	3,058	2,609	3,509
Transfers from SEEs to Union Government	793	783	988	912	949	949
SEE receipts net of transfers to Union Government	1,706	2,022	2,376	6,564	7,180	7,611
Other nontax revenue	163	427	158	329	361	361
Grants	0.46	0.36	0.22	24	92	89
Expenditure	5,463	6,722	7,208	12,633	14,492	15,207
Expense	3,035	3,519	4,259	7,904	9,989	10,503
Union government	1,159	1,548	1,945	4,009	4,941	5,456
SEEs net of transfers to Union Government	1,875	1,971	2,314	3,895	5,047	5,047
Net acquisition of nonfinancial assets	2,428	3,203	2,949	4,729	4,504	4,704
Union government	2,016	2,831	2,572	3,234	2,993	3,193
SEEs	412	372	377	1,495	1,511	1,511
Gross operating balance	705	1,033	947	2,983	1,203	2,016
Union government	875	982	885	314	-930	-548
SEEs net of transfers to Union Government	-169	51	62	2,669	2,133	2,564
Net lending (+)/borrowing (-)	-1,723	-2,171	-2,002	-1,746	-3,301	-2,688
Union government	-1,141	-1,850	-1,687	-2,920	-3,923	-3,741
SEEs net of transfers to Union Government	-581	-321	-315	1,174	622	1,053
Financing	1,723	2,171	2,002	1,746	…	2,688
External (net) 1/	4	3	6	794	…	1,219
Domestic (net)	1,719	2,167	1,996	952	…	1,469
CBM	1,189	1,407	790	645	…	514
Commercial banks	467	437	588	254	…	769
Other 2/	63	323	618	53	…	186
			(In percent of GDP)			
Revenue and grants	10.7	11.4	12.0	23.0	18.9	23.4
Tax revenue	3.1	3.3	3.9	6.4	4.4	6.6
Transfers from SEEs to Union Government	2.3	2.0	2.3	1.9	1.6	1.8
SEE receipts net of transfers to Union Government	4.9	5.1	5.5	13.8	12.1	14.2
Other nontax revenue	0.5	1.1	0.4	0.7	0.6	0.7
Grants	0.0	0.0	0.0	0.1	0.2	0.2
Expenditure	15.6	16.9	16.6	26.6	24.5	28.4
Expense	8.7	8.8	9.8	16.7	16.9	19.6
Union Government	3.3	3.9	4.5	8.5	8.3	10.2
SEEs net of transfers to Union Government	5.4	4.9	5.3	8.2	8.5	9.4
Net acquisition of nonfinancial assets	6.9	8.0	6.8	10.0	7.6	8.8
Union Government	5.8	7.1	5.9	6.8	5.1	6.0
SEEs	1.2	0.9	0.9	3.2	2.5	2.8
Gross operating balance	2.0	2.6	2.2	6.3	2.0	3.8
Union Government	2.5	2.5	2.0	0.7	-1.6	-1.0
SEEs net of transfers to Union Government	-0.5	0.1	0.1	5.6	3.6	4.8
Net lending (+)/borrowing (-)	-4.9	-5.4	-4.6	-3.7	-5.6	-5.0
Union Government	-3.3	-4.6	-3.9	-6.2	-6.6	-7.0
SEEs net of transfers to Union Government	-1.7	-0.8	-0.7	2.5	1.0	2.0
Financing	4.9	5.4	4.6	3.7	…	5.0
External (net) 1/	0.0	0.0	0.0	1.7	…	2.3
Domestic (net)	4.9	5.4	4.6	2.0	…	2.7
CBM	3.4	3.5	1.8	1.4	…	1.0
Commercial banks	1.3	1.1	1.4	0.5	…	1.4
Other 2/	0.2	0.8	1.4	0.1	…	0.3
Memorandum items:			(In percent of GDP, unless otherwise indicated)			
Wages and salaries	0.9	1.1	1.2	1.6	1.9	2.1
Education expenditure	0.7	0.8	0.8	1.7	1.7	1.9
Health expenditure	0.2	0.2	0.2	1.5	1.1	1.2
Defense expenditure	1.9	3.3	2.9	4.4	3.8	4.8
Public debt	55	50	50	47	…	42
External	36	29	27	25	…	20
Of which: Arrears	24	20	19	9	…	0
Domestic	19	21	22	23	…	22
GDP (in billions of kyat)	34,958	39,847	43,368	47,433	59,249	53,501

Sources: Myanmar authorities, and IMF staff estimates and projections.

1/ Converted at the official exchange rate before FY2012/13, when the official exchange rate was replaced by a market-determined exchange rate.
2/ Includes domestic non-bank financing, privatization receipts, sales of government assets, and the statistical discrepancy.

Table 3. Myanmar: Balance of Payments, 2009/10–2013/14
(In millions of US$, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14
				Est.	Proj.
Current account	-489	-952	-1,338	-2,452	-2,578
Trade balance	512	445	-371	-2,140	-1,760
Exports, fob	7,578	8,629	10,065	10,288	11,803
Of which: Gas	2,927	2,523	3,282	3,563	4,311
Imports, mostly cif	-7,067	-8,184	-10,437	-12,428	-13,563
Nonfactor services, net	-204	-482	-432	-74	-79
Income, net	-1,103	-1,145	-1,024	-747	-1,356
Of which: Interest due	-289	-306	-560	-94	-174
Transfers, net	307	231	490	509	618
Official	85	64	41	28	98
Private	222	167	449	481	519
Capital and financial account	1,533	3,388	2,043	3,156	3,516
Direct investment, net	963	2,249	2,057	2,880	2,261
Other investment	207	114	4	926	1,354
MLT debt disbursements	564	500	605	1,085	1,560
Repayments due	-357	-386	-600	-159	-206
Other flows	363	1,025	-19	-650	-100
Errors and omissions	-212	-2,018	-1,430	-1,277	0
Overall balance	832	418	-725	-573	938
Financing	-832	-418	725	573	-938
Gross official reserves (increase: -)	-1,329	-945	-272	-573	-938
Change in arrears (increase: +)	498	528	997	-6,056	-4,792
Exceptional financing (positive: +)	0	0	0	6,056	4,792
Memorandum items					
Gross Official Reserves (incl. held by state banks, in million US$)	2,809	3,754	4,026	4,599	5,537
In months of prospective GNFS imports	3.7	3.9	3.5	3.7	3.9
CBM reserves (in million US$)	766	850	884	2,523	4,261
In months of prospective GNFS imports	1.0	0.9	0.8	2.0	3.0
Current account (in percent of GDP)	-1.3	-1.9	-2.4	-4.4	-4.3
Trade balance (in percent of GDP)	1.3	0.9	-0.7	-3.9	-3.0
Gas export volume (percent change)	75.0	-22.9	1.4	1.1	23.0
Other exports volume (percent change)	8.4	22.5	4.0	-1.5	10.0
Import volume (percent change)	6.5	11.8	21.8	19.1	8.7
Foreign direct investment (in percent of GDP)	2.5	4.5	3.7	5.2	3.8
Public external debt (in percent of GDP)	36	29	27	25	20
Of which: Arrears	24	20	19	9	0
Market exchange rate (kyat/US$, eop)	921	790	754	880	...
GDP	38,065	49,628	56,170	55,273	59,427

Sources: Authorities and Fund staff estimates and projections.

Table 4. Myanmar: Monetary Survey, 2009/10–2013/14 1/ 2/
(In billions of kyat at end-period, unless otherwise indicated)

	2009/10	2010/11	2011/12	Feb-13	2012/13	2013/14
					Est.	Proj.
CENTRAL BANK OF MYANMAR (CBM)						
Net foreign assets	-1.6	-1.6	-1.4	848	222	1,096
Foreign assets	2.9	2.9	3.0	2,393	1,847	2,798
Foreign liabilities	4.5	4.5	4.4	1,544	1,625	1,702
Net domestic assets	5,365	7,003	7,553	7,963	9,274	10,379
Domestic credit	5,518	7,162	7,851	7,677	9,068	9,832
Claims on central government (net)	5,476	6,883	7,673	6,960	8,318	8,832
Claims on deposit money banks	42	279	178	717	750	1,000
Other	0	0	0	0	0	0
Other items net	-153	-159	-299	286	205	546
Reserve money	5,363	7,001	7,551	8,812	9,496	11,475
Currency in circulation	4,232	5,227	6,070	6,969	7,597	9,180
Deposits	1,131	1,774	1,481	1,842	1,899	2,295
MONETARY SURVEY						
Net foreign assets	4	6	25	3,411	2,942	3,896
Foreign assets	26	30	49	7,677	7,297	8,598
Foreign liabilities	22	24	24	4,266	4,355	4,702
Net domestic assets	7,301	9,951	12,548	16,423	18,424	23,070
Domestic credit	7,700	10,348	12,948	11,879	13,756	17,773
Net claims on government	6,466	8,310	9,688	3,979	5,270	6,553
CBM	5,476	6,883	7,673	6,960	8,318	8,832
Deposit money banks	990	1,427	2,015	-2,981	-3,048	-2,279
Credit to the economy	1,234	2,038	3,260	7,900	8,486	11,220
Private sector	1,229	2,033	3,255	4,697	4,880	6,676
Other	5	5	5	3,203	3,607	4,544
Other items net	-399	-397	-400	4,543	4,667	5,297
Broad money	7,305	9,957	12,573	19,833	21,366	26,966
Currency outside banks	4,009	4,825	5,563	6,235	6,624	7,820
Deposits	3,296	5,132	7,010	13,598	14,743	19,146
MEMORANDUM ITEMS						
Money multiplier	1.4	1.4	1.7	2.3	2.3	2.4
Velocity	4.8	4.0	3.4	2.4	2.2	2.0
Reserve money (y/y percent change)	28.1	30.5	7.9	26.3	25.8	20.8
Broad money (y/y percent change)	34.8	36.3	26.3	58.2	69.9	26.2
Broad money (in percent of GDP)	20.9	25.0	29.0	42.2	45.0	50.4
Credit to private sector (in percent of GDP)	3.5	5.1	7.5	10.0	10.3	12.5
Credit to private sector (y/y percent change)	36.9	65.4	60.1	48.1	49.9	36.8
Deposits (in percent of GDP)	9.4	12.9	16.2	28.9	31.1	35.8
Credit to economy/deposits (in percent)	37.4	39.7	46.5	58.1	57.6	58.6
Exchange rate (kyat/$, end of period)	5.66	5.44	5.56	863	880	...
Nominal GDP (in billions of kyat)	34,958	39,847	43,368	47,043	47,433	53,501

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

1/ The fiscal year ends on March 31.

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

Table 5. Myanmar: Medium-Term Projections, 2010/11–2018/19 /1

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
			Est.			Proj.			
Output and prices				(Percent change)					
Real GDP (authorities)	10.4	5.9	6.7	...	...	...	...	...	...
Real GDP (staff working estimates)	5.3	5.9	6.4	6.8	6.9	6.9	7.0	7.1	7.1
CPI (end-period)	8.9	-1.1	4.7	6.5	6.1	5.8	5.4	5.1	4.7
CPI (period average)	8.2	2.8	2.8	5.6	6.3	6.0	5.6	5.2	4.9
Consolidated Public Sector 2/				(Percent of GDP)					
Total revenue	11.4	12.0	23.0	23.4	23.9	24.5	25.1	25.5	26.0
Union government	6.3	6.5	9.1	9.0	9.9	10.1	10.3	10.6	10.9
o/w: Transfers from SEEs to Union government	2.0	2.3	1.9	1.8	2.4	2.3	2.2	2.1	2.0
SEE receipt	7.0	7.8	15.8	16.0	16.2	16.3	16.4	16.4	16.5
Grants	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.5	0.6
Total expenditure	16.9	16.6	26.6	28.4	28.7	29.3	29.8	30.3	30.7
Expense	8.8	9.8	16.7	19.6	19.5	19.8	20.1	20.4	20.7
Net acquisition of nonfinancial assets	8.0	6.8	10.0	8.8	9.2	9.5	9.8	9.9	10.0
Gross operating balance	2.6	2.2	6.3	3.8	4.4	4.7	5.0	5.1	5.4
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.7	-5.0	-4.8	-4.8	-4.8	-4.8	-4.7
Domestic public debt	21.0	22.5	22.6	22.4	22.3	22.4	22.7	23.0	23.2
Money and Credit				(Percent change)					
Broad money	36.3	26.3	69.9	26.2	22.5	19.2	17.7	16.1	10.3
Domestic credit	34.4	25.1	6.2	29.2	24.5	18.4	16.5	15.2	6.2
Private sector	65.4	60.1	49.9	36.8	28.0	15.9	12.9	11.6	10.6
Balance of Payments				(Percent of GDP, unless otherwise indicated)					
Current account balance	-1.9	-2.4	-4.4	-4.3	-4.5	-4.6	-4.6	-4.6	-4.5
Trade balance	0.9	-0.7	-3.9	-3.0	-2.0	-2.5	-3.0	-3.3	-4.1
Exports	17.4	17.9	18.6	19.9	22.3	22.7	22.8	23.4	23.7
Imports	-16.5	-18.6	-22.5	-22.8	-24.4	-25.2	-25.7	-26.8	-27.8
Financial account	6.8	3.6	5.7	5.9	6.0	6.3	6.4	6.5	6.6
Foreign direct investment, net	4.5	3.7	5.2	3.8	3.9	4.3	4.6	4.6	4.7
Overall balance	0.8	-1.3	-1.0	1.6	1.4	1.6	1.8	1.8	2.1
Gross official reserves									
In millions of U.S. dollars	3,754	4,026	4,599	5,537	6,477	7,625	9,017	10,629	12,637
In months of total imports	3.9	3.5	3.7	3.9	4.0	4.1	4.3	4.4	4.5
External debt									
Total external debt (billions of U.S. dollars)	14.4	15.3	13.7	11.7	13.2	14.7	16.2	17.9	19.8
(In percent of GDP)	29.0	27.3	24.8	19.7	20.3	20.6	20.6	20.5	20.5
of which: External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	...	...	...	...	...	...
Terms of trade (in percent change)	-2.9	-2.7	-0.1	0.3	0.6	0.5	0.4	0.3	0.3
Exchange rates (kyat/$, end of period)									
Official exchange rate	5.4	5.6	880	...	...	...	...	...	...
Parallel rate	861	822	878	...	...	...	...	...	...
Memorandum items									
GDP (billions of kyats) 4/	39,847	43,368	47,433	53,501	60,797	68,897	77,857	87,733	98,528
GDP (billions of US$)	49.6	56.2	55.3	59.4	65.0	71.5	78.9	87.2	96.4
GDP per capita (US$)	742	900	868	915	981	1,058	1,145	1,241	1,345

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In FY2012/13 and FY2013/14, the terms of bilateral arrears clearance agreements with Japan, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 6. Myanmar: Millennium Development Goals (MDG) Indicators

	1990	1995	2000	2005	2011
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	73	74	75	75	76
Employment to population ratio, ages 15-24, total (%)	52	53	53	52	53
GDP per person employed (constant 1990 PPP $)	1,959	2,328	2,998	4,592	7,000
Income share held by lowest 20%	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	29	39	30	30	23
Poverty gap at $1.25 a day (PPP) (%)	...	...	...	...	...
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	...	...	...	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	...	...	93	...	96
Literacy rate, youth male (% of males ages 15-24)	...	...	96	...	96
Persistence to last grade of primary, total (% of cohort)	...	...	55	72	75
Primary completion rate, total (% of relevant age group)	...	...	81	95	104
Adjusted net enrollment rate, primary (% of primary school age children)	...	...	...	...	...
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	...	...	...	...	4
Ratio of female to male primary enrollment (%)	94	95	99	101	100
Ratio of female to male secondary enrollment (%)	95	101	107	98	106
Ratio of female to male tertiary enrollment (%)	125	161	160	138	137
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	30.7	33.6	35.7	...	...
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	68	82	84	80	99
Mortality rate, infant (per 1,000 live births)	77	69	62	55	48
Mortality rate, under-5 (per 1,000 live births)	107	95	84	73	62
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	24	21	17	13
Births attended by skilled health staff (% of total)	46	56	57	64	71
Contraceptive prevalence (% of women ages 15-49)	17	33	37	41	46
Maternal mortality ratio (modeled estimate, per 100,000 live births)	520	380	300	230	200
Pregnant women receiving prenatal care (%)	...	76	76	80	83
Unmet need for contraception (% of married women ages 15-49)	...	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	...	...	...	...
Condom use, population ages 15-24, female (% of females ages 15-24)	...	...	...	...	...
Condom use, population ages 15-24, male (% of males ages 15-24)	...	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	393	404	412	403	381
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	0.3
Prevalence of HIV, male (% ages 15-24)	...	...	...	...	0.2
Prevalence of HIV, total (% of population ages 15-49)	0.2	0.4	0.7	0.8	0.6
Tuberculosis case detection rate (%, all forms)	8	11	17	57	74
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	...	...	...	...	...
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	60.0	..	53.4	51.0	48.2
Improved sanitation facilities (% of population with access)	54	55	62	70	76
Improved water source (% of population with access)	56	59	67	75	83
Marine protected areas (% of territorial waters)	0	0	0	0	0
Net ODA received per capita (current US$)	4	4	2	3	8
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	18	19	1	1	7
Internet users (per 100 people)	0.0	..	0.0	0.1	1.0
Mobile cellular subscriptions (per 100 people)	0	0	0	0	3
Telephone lines (per 100 people)	0	0	1	1	1
Fertility rate, total (births per woman)	3	3	2	2	2
Other					
GNI per capita, Atlas method (current US$)	...	...	...	...	...
GNI, Atlas method (current US$) (billions)	...	...	...	...	...
Gross capital formation (% of GDP)	13.4	14.2	12.4	12.0	...
Life expectancy at birth, total (years)	57	60	62	63	65
Literacy rate, adult total (% of people ages 15 and above)	...	...	90	...	92
Population, total (billions)	0.0	0.0	0.0	0.0	0.0
Trade (% of GDP)	5.6	2.5	1.1	0.3	...

Source: The World Bank, *World Development Indicators* .

Appendix I. Myanmar—Letter of Intent

Nay Pyi Taw, June 12, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde,

The outlook for Myanmar's economy continues to improve. Macroeconomic stability, strong growth, and high investor interest are signs that the implementation of our ambitious reform program to improve the economic and social well-being of Myanmar's citizens is bearing fruit. Continued regularization of our international financial relations, aided by successful arrears rescheduling agreements with multilateral and bilateral creditors, should underpin continued growth and economic integration. Nonetheless, the liberalization of the economy and the expected inflows of capital will provide challenges to our macroeconomic management capacity and we will press ahead with rapidly building our macroeconomic management tools.

We remain strongly committed to the program of reforms detailed in our Letter of Intent (LOI) of December 28, 2012. This letter reports on the outcome of our first review of progress against the objectives of the supporting jointly-monitored program—called a Staff Monitored Program (SMP) by the IMF. The attached Memorandum of Economic and Financial Policies (MEFP) details our updated economic and institutional reform priorities through December 2013.

We have made good progress in implementing our program. All SMP quantitative and structural benchmarks for end-March 2013 were met. Reserve accumulation of the CBM significantly exceeded the target and fiscal targets were met comfortably. Payment restrictions on invisibles have been lifted, private banks enabled to offer foreign exchange operations at par with state banks, and a plan for withdrawing Foreign Exchange Certificates has been announced and is being implemented.

Our government is also on the right track to meet the quantitative and structural benchmarks for September 2013. Fiscal deficit financing targets remain appropriate for our projected deficit outturn of 5 percent of GDP. This does not take into account proceeds from the sale of licenses for telecommunications and oil and gas blocks, which we will use to build fiscal buffers and to finance spending on priority areas over the medium-term in a manner consistent with maintaining macroeconomic stability. We also expect to attain the structural benchmarks for September 2013 relating to the establishment of the Large Taxpayer Office and treasury securities auctions.

We expect the law to establish an autonomous Central Bank of Myanmar to be enacted soon. Developing monetary policy tools is critical for achieving our program goals and we intend to accelerate progress in this area in advance of the law's enactment**.** In particular, we have begun holding bi-weekly deposit auctions and propose to include their continuation as a new structural benchmark.

We remain strongly committed to reaching the objectives of our reform program, including the SMP objectives. This is also reflected in our dialogue with development partners and creditors, and in their endorsement of our Framework for Economic and Social Reform in the Nay Pyi Taw Accord in January 2013, as well as in the agreement reached with the Paris Club on rescheduling of arrears in the same month.

We believe that the policies and measures set forth here and in our LOI dated December 28, 2012 and the accompanying MEFPs, will allow us to achieve the objectives of our program. However, we will take any additional measures that may become necessary for this purpose. We will continue to consult closely with IMF staff on our adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide IMF staff with all the information it requests to assess implementation of the SMP.

Our government authorizes the IMF to publish this Letter of Intent, and the attached MEFP.

Sincerely yours,

/s/	/s/
U Win Shein	U Than Nyein
Union Minister of Finance and Revenue	Governor, Central Bank of Myanmar

Attachment I. Myanmar—Memorandum of Economic and Financial Policies

I. INTRODUCTION

1. **Economic activity in Myanmar has been robust.** Growth is estimated to have risen to 6½ percent in 2012/13, driven by gas production, construction, and services. Inflation rose to 6 percent (y/y) in December 2012, but has since declined to 4.7 percent in March 2013. International reserves, some of which are still held by state banks, have increased to $4.6 billion at end-March 2013, covering 3¾ months of prospective imports. The fiscal deficit in 2012/13 is estimated at 3¾ percent of GDP, slightly lower than envisaged earlier, largely as a result of large increases in tax collections.

2. **The outlook for Myanmar's economy continues to improve.** Growth in 2013/14 is expected to accelerate slightly, led by rising gas production and investment, including in the transport, energy and telecommunications sectors. Inflation is projected to remain contained at around 6½ percent (y/y). International reserves are forecast to continue to rise. Financial intermediation is expected to increase further, with broad money and credit to the economy continuing to expand at double-digit rates. Over the medium term, we expect Myanmar's significant economic potential to be realized, with sustained growth of around 7 percent. We will continue to increase our investment in health, education and infrastructure to ensure that growth is broad based and supports poverty reduction.

3. **Our Government's overarching development goals are outlined in the Framework for Economic and Social Reforms.** To achieve these goals we have identified as policy priorities (i) sustained industrial and agricultural development to attain poverty alleviation and rural development; (ii) equitable sharing of resources among regions and states while promoting local and foreign investment; and (iii) effective implementation of people-centered development, through community-driven, participatory approaches to improve education, health, and overall living standards. Full economic integration with ASEAN in accordance with the ASEAN Economic Community schedule will reinforce these policies. Key measures to implement our policies are land reform, improving access to credit, and supporting access to both domestic and overseas job markets, as well as industrial development to provide job opportunities.

II. PROGRAM OBJECTIVES AND POLICIES

4. **We recognize that to achieve our broader goals ensuring macroeconomic stability during the reform process is critical.** Our program therefore aims to (i) maintain low and stable inflation, increase our international reserves to provide a buffer against external shocks during the reform process, and ensure debt sustainability; and (ii) lay the foundations for sustainable growth by building a macroeconomic framework and develop the institutions and instruments to use it effectively.

5. **As we continue with our reforms, we have requested IMF staff to assist us in monitoring our economic policies through December 2013**. Our work with IMF staff will focus on the following areas: (i) eliminating remaining exchange restrictions and multiple currency practices (MCPs); (ii) developing monetary policy institutions and tools to support price stability; (iii) modernizing the financial sector to facilitate macroeconomic management and growth; and (iv) laying the foundations for improving our fiscal revenues in the medium term for sustainable development spending. In all of these areas, we are requesting continued IMF technical assistance (TA).

A. Foreign Exchange Policies

6. **We have taken significant steps to improve the operation of the foreign exchange market.** We have ensured through increased interventions and the consequent deepening of the foreign exchange market that the informal market rate and the reference rate have converged further. To complement authorized dealer banks and encourage the move from informal to formal markets, we have also licensed a number of non-bank money changers. Payment restrictions on invisibles have been lifted, private banks enabled to offer foreign exchange operations at par with state banks, and a plan for withdrawing Foreign Exchange Certificates is being implemented (all structural benchmarks).

7. **We remain committed to accepting the obligations of Article VIII Section 2(a), 3 and 4 of the IMF's Articles of Agreement and level the playing field for private banks.** To further facilitate the replenishment of private banks' overseas accounts, the CBM is preparing to place banks' purchases of foreign exchange from the formal auction, upon request, directly into these accounts. We will also continue allowing profit transfers abroad after payment of profit taxes without further restriction. Furthermore, we will consolidate recently issued instructions into a consolidated set of implementing regulations for the Foreign Exchange Management Law, which will be issued by the end of 2013. We will also continue our policy of supplying sufficient liquidity to the foreign exchange auctions to avoid large deviations from the informal market, and not target any specific exchange rate level. Finally, we will seek continued approval of the IMF's Executive Board for the multiple currency practice arising from our multi-priced foreign exchange auctions, which is nondiscriminatory and will be maintained on a temporary basis until the foreign exchange market develops.

B. Monetary Policy and Operations

8. **Strengthening our capacity to conduct monetary policy is a critical prerequisite for macroeconomic management.** To this end, we are in the process of preparing a revision of the definition of required reserves to include only current account balances with the CBM, lengthen the reserve maintenance period to two weeks, and adjusting the required reserve and liquid asset ratios, in line with previous IMF TA recommendations. We have also begun to forecast liquidity and reserve money, and conducted several deposit auctions, but our ability to conduct monetary operations is constrained by the limited budget allocated by the Hluttaw for this purpose. Nonetheless, we have begun holding deposit and credit auctions regularly every two weeks with small volumes, and will

step up volumes to sterilize our foreign exchange operations once budget constraints are eased. To strengthen monetary policy transmission, we have also removed the ban on interbank trading.

9. **Final enactment of the new law to give greater autonomy to the CBM has been delayed.** While the law was approved in March 2013, legal considerations necessitate revisions before it can be enacted. Once the law is passed, we intend to fully use our monetary policy tools.

10. **We will reinforce our efforts to establish effective control over monetary conditions, even ahead of the implementation of the new CBM law.** To this end, we will continue to gradually transfer international reserves from state banks to the CBM. We will also continue our bi-weekly deposit auctions (continuous structural benchmark), and will ease budget constraints in the supplementary budget until they are lifted with the implementation of the CBM law. We will also further strengthen our capacity to forecast key monetary aggregates, making use of IMF TA. We continue to aim to move to a reserve money targeting framework during 2014 following the establishment of a track record of deposit auctions and the revision of reserve requirements for private banks, which we intend to implement without waiting for the CBM law to come into force. The revised reserve requirements will be extended to state banks when sufficient capacity is developed. To better manage foreign exchange risk, we have abolished the mandatory surrender requirement for foreign exchange and, with IMF TA, will develop instructions on limiting banks' net open foreign exchange position

C. Financial Sector Modernization

11. **A modern well-regulated financial sector is important to support monetary policy transmission and finance public sector deficits without recourse to monetization.** To promote the expansion of financial services, we have eased capital requirements for opening new bank branches, and abolished the capital-to-deposit ratio. We have also permitted the Myanmar Economic Bank (MEB) to purchase treasury bills to reduce its excess liquidity, but this has not been sufficient to eliminate it. We have begun to develop a draft regulation that will establish treasury security auctions (structural benchmark) and will move toward implementation with IMF TA support.

12. **Modernizing prudential regulations and developing supervisory capacity are critical prerequisites for further liberalization of the financial sector.** Once IMF resident advisors on bank regulation and supervision are in place, we will bring the definitions of bank capital and nonperforming loans closer to international standards; strengthen the enforcement of connected lending limits to contain risks to financial stability during the modernization process of the financial sector; and improve banks' risk management as a precursor to liberalization of lending rates and maturities. These changes will be implemented step by step, in line with the development of needed supervisory capacity.

13. **We will also prepare to integrate the MEB more fully into the nascent market-based financial system.** To this end, we will, once the new CBM law is promulgated, the new reserve requirements are applied to the MEB, and treasury securities auctions started, consider options for

fully absorbing MEB's remaining excess liquidity (e.g. through a swap against treasury bills held by the CBM) and allowing the MEB to freely participate in treasury securities auctions.

14. **The increasing role of private banks in foreign exchange operations and the ongoing transfer of reserves to the CBM necessitate a reconsideration of the role of the Myanma Foreign Trade Bank (MFTB) in the financial system.** We will therefore begin to consider options for MFTB reform, and will request IMF TA to help us in developing and assessing alternatives.

D. Fiscal Policies

15. **Our fiscal policy is geared toward maintaining macroeconomic stability, especially as monetary policy tools are still being developed, while addressing the large development needs of our country.** To this end, we have passed a budget for 2013/14 that envisages further growth in education and health current expenditure. Reduced allocations for capital arise from the near-completion of several projects for the 2013 South East Asia Games. We also expect the need to increase spending on security, due to continued ethnic and religious unrest, and intend to increase allocations for priority sectors in the forthcoming supplementary budget. Nonetheless, we will ensure that the overall budget deficit (IMF definition) will remain around the 5 percent of GDP we believe is consistent with macroeconomic stability. We aim to keep the deficit around this level over the medium term while continuing to increase allocations for health and education as well as infrastructure investment. Nonconcessional financing will be used only for economically viable projects in priority sectors such as energy and infrastructure, at levels consistent with maintaining debt sustainability and low risk of debt distress.

16. **Modernized fiscal systems are essential to improve public service delivery and accountability.** We have developed a comprehensive strategic plan to modernize our tax administration, the centerpiece of which is the establishment of the Large Taxpayer Office (LTO). We have also formed a working group to develop reform strategies for public financial management (PFM) and serve as a tool for donor coordination, after receiving TA from the IMF and World Bank, and launched a public expenditure review (PER) with the World Bank to better inform our fiscal policies and improve the efficiency of public spending in our priority areas.

17. **We remain committed to broadening the tax base and improving compliance to raise resources for development spending and to reduce our reliance on natural resources.** We have therefore formed a Scrutinizing and Monitoring Tax Collection Board, with government and private sector participation, to advise on a tax reform action plan. Introducing a value added tax remains our medium-term goal; in the interim, we are considering reforming the taxation of special consumption goods (such as alcohol, tobacco, luxury items, and polluting goods) and expanding the taxation of services. In our tax policy strategy, while conscious of the need to attract investment, we will establish the principle of streamlining and limiting tax exemptions to ensure a broad revenue base. This principle will also inform the implementation of other planned laws, including the small and medium enterprises law currently being debated, and the revised law on special economic zones, which is currently being considered by the Hluttaw. Our short-term priority in tax administration is to ensure a successful establishment of the LTO (structural benchmark) which will

pave the way for eventually rolling out taxpayer self-assessment across the tax system. We will therefore allocate sufficient resources to the LTO in the forthcoming supplementary budget for it to adequately prepare for taking over the administration of large taxpayers at the beginning of 2014/15.

18. **Improving public financial management is crucial for successful development outcomes and enhancing transparency.** To this end, we will finalize our PFM strategy and disseminate it to development partners in July 2013. The strategy will focus on key priorities including: (i) budget formulation; (ii) strengthening fiscal discipline and expenditure control; and (iii) fiscal accounting and reporting. An early action will be establishing a treasury department with cash and debt management functions in the Ministry of Finance and Revenue during 2013 with TA from the IMF and other partners. We also expect to finalize the PER during 2014 and will use the early analysis to inform the preparation of our 2014/15 budget.

E. Policies for Growth

19. **The ultimate goal of our economic policies is to attain sustainable growth and poverty reduction.** In addition to the institutional and macroeconomic policy reforms outlined above, the focus of our reforms is on improving health and education, and attracting domestic and foreign investment to enhance human capital and attain higher growth. In addition to increased allocations for health and education in our budget, we are also working with our development partners to build strategies to maximize the impact of our expenditure, and obtain additional funding. To promote investment, we have issued implementing regulations for the foreign investment law passed last year, and laws on special economic zones and small and medium enterprises, which are key to supporting industrialization, are expected to be passed by the Hluttaw in 2013. We are also focusing on attracting international investment to develop critical infrastructure, including energy, transport and telecommunication. Transparent tendering processes have been adopted in these areas, as demonstrated by the recent auctioning processes for telecoms licenses and oil and gas blocks. To support agricultural development we are giving high priority to implementing the new land and microfinance laws recently passed by the Hluttaw.

F. Statistics

20. **We continue to place high priority on improving the accuracy and timeliness of our statistics.** We have already accelerated the provision of monetary data to the IMF, and have re-estimated GDP for 2010/11 and 2011/12. With assistance from our partners, including the IMF, we intend to move forward in developing an updated national accounts series with broader coverage, an updated CPI, and enhanced coverage of the balance of payments. We will also strive to improve fiscal and monetary statistics, including through more timely provision.

III. PROGRAM MONITORING

21. **We will continue to closely monitor the implementation of our program.** In addition to the structural benchmarks for end-September already set in our MEFP of December 28, 2012, we

have also introduced one new benchmark to reflect the need for additional measures to ensure that intended program outcomes are achieved (Table 2). The definitions of the relevant variables remain as outlined in the Technical Memorandum of Understanding attached to our MEFP of December 2, 2012. However, the target for net domestic financing of the nonfinancial public sector deficit will be adjusted downward by the amount of proceeds from telecommunications licenses, which we will report to the IMF's Asia and Pacific Department. Also, we will henceforth report to the IMF's Asia and Pacific Department the receipts, payments, and the balances of the State Fund Account and all its sub-accounts on a monthly basis, no more than six weeks after the end of each month.

22. **Our SMP Monitoring Committee continues to monitor implementation of our program.** It includes senior representatives from the CBM, Ministry of Finance and Revenue and the Ministry of National Planning and Economic Development and reports regularly to the Minister of Finance and Revenue on progress in the implementation of our program. The Committee also works with IMF staff in conducting formal reviews of progress; the next review is due to take place in January 2014.

Table 1. Myanmar: Quantitative Benchmarks 1/

	Sep 2012	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014
Net international reserves of the CBM (floor) 2/							
(cumulative flow from end-September 2012; in millions of US$)							
Target/Projection 3/	...	...	**705**	1,300	**1,504**	1,916	2,125
Actual	...	974	**948**				
Target met			Yes				
Net domestic financing of the NFPS deficit (ceiling) 4/							
(cumulative flow from the beginning of the fiscal year to end-period; in billions of kyat)							
Target/Projection 3/	...	...	**1,921**	343	**1,053**	1,523	1,815
Actual	-346	-390	**952**				
Target met			Yes				
Net CBM financing of the NFPS deficit (ceiling) 4/							
(cumulative flow from the beginning of the fiscal year to end-period; in billions of kyat)							
Target/Projection 3/	...	...	**960**	31	**191**	314	794
Actual	-453	-914	**645**				
Target met			Yes				
Accumulation of new external payment arrears by the non-financial public sector (ceiling) 5/							
(ceiling on stock at end-period; in millions of US$)							
Target/Projection 3/	0	0	**0**	0	**0**	0	0
Actual			**0**				
Target met			Yes				
Contracting or guaranteeing of nonconcessional external debt (ceiling)							
(cumulative flow from the beginning of the fiscal year to end-period; in millions of US$)							
Target/Projection 3/	...	...	**2,000**	2,000	**2,000**	2,000	2,000
Actual			**0**				
Target met			Yes				

1/ Fiscal year begins April 1.
2/ Includes SDRs and gold. Valued at program exchange rate of US$/euro=1.27 and a gold price of US$1,750 per troy ounce.
3/ Targets are set for September 2013.
4/ The nonfinancial public sector (NFPS) comprises the Union government and state economic enterprises. A program exchange rate of 850 kyat/US$ applies.
The target will be adjusted downward by the amount of proceeds from the auctioning of telecommunications licenses.
5/ Excludes accumulation of new arrears on debt already in arrears.

Table 2. Myanmar: Structural Benchmarks

Actions	Macroeconomic Objective	Date	Status
For first review			
Eliminate exchange restrictions on payments and transfers for invisibles (¶6)	To eliminate Article VIII restrictions	March 2013	Met
Announce plan for phasing out Foreign Exchange Certificates (¶6)	To eliminate a multiple currency practice	March 2013	Met
Remove restrictions that prevent private banks from conducting foreign exchange operations at par with state banks (¶6)	To help unify informal exchange	March 2013	Met
For second review			
Conduct bi-weekly deposit auctions (¶10) (new benchmark)	To help establish control over monetary aggregates	Continuous from June 2013	In progress
Prepare regulations to introduce treasury securities auctions (¶11)	To facilitate market-based deficit financing	September 2013	In progress
Establish an operational large taxpayer unit (¶17)	To improve tax administration and increase tax revenues	September 2013	In progress

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

June 13, 2013

Approved By
Alfred Schipke and Dhaneshwar Ghura (IMF)
Sudarshan Gooptu and Sudhir Shetty (IDA)

Prepared By
International Monetary Fund
International Development Association

Myanmar is assessed to be at low risk of debt distress following the clearance of its external arrears.[1] [2] The baseline scenario assumes the planned resolution of Myanmar's external arrears will be completed in 2013/14 as agreed with the Paris Club creditors. The baseline scenario also assumes a gradual reduction in Myanmar's reliance on nonconcessional financing, as more concessional resources become available after the resolution of arrears. Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators remain well below their indicative thresholds. One alternative stress test (export shock) leads to a temporary breach of the indicative threshold for the debt-to-exports ratio. However, Myanmar's good track record of implementing large natural gas projects and contractual purchasing commitments of project partners mitigate some of the risks. While Myanmar's risk of debt distress can be characterized as low despite the breach, it requires close monitoring, in particular because of the relatively high levels of domestic debt. Maintaining the low risk categorization will require continuation of the current prudent fiscal policy, improvements in tax policy and public financial management, and increasing use of concessional financing while limiting nonconcessional borrowing to only viable and growth-enhancing projects.

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[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the LICDSA framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy-dependent. The quality of a country's policies and institutions are normally measured by the World Bank's Country Policy and Institutional Assessment (CPIA). Since Myanmar does not currently have a CPIA rating, the most conservative thresholds are applied for the purposes of this DSA. The thresholds, which apply to external PPG debt, are: 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, 200 percent for the NPV of debt-to-revenue ratio, 15 percent for the debt service-to exports ratio, and 18 percent for the debt service-to-revenue ratio.

[2] The DSA was jointly prepared by the IMF and the World Bank in consultation with the Asian Development Bank.

BACKGROUND

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

2. **Myanmar's DSA builds on the macroeconomic assumptions presented in Box 1.** Compared to the previous DSA, the assumptions have been revised to take into account recent developments. In particular, the medium term GDP growth has been revised upward to 7 percent from an average of about 6.6 percent in the previous DSA, reflecting robust FDI and related private investment in productive sectors, as well as in public investment. The overall fiscal deficit remains the same as in the previous DSA in the medium-term, although revenue collection is expected to improve, reflecting the better-than-expected performance in 2012/13. Long-term growth and inflation, however, are expected to be approximately the same as in the previous DSA.

3. **The current DSA incorporates the agreed resolution of Myanmar's arrears with its multilateral and bilateral creditors**. In April 2012, Myanmar agreed with Japan, its largest creditor, on a debt restructuring plan to resolve its arrears through a bridge loan operation and cancellation of principal payments and overdue charges.[3] Furthermore, Myanmar resolved its arrears held by the World Bank and the Asian Development Bank in January 2013, with the help of a bridge financing operation by Japan. In late-January 2013, the Paris Club reached agreement with the Myanmar authorities on a debt treatment that will be completed in early 2014. Paris Club members agreed to write off 50 percent of all arrears and reschedule the remaining arrears over 15 years with a 7 year grace period. The treatment will be phased, with 25 percent of the write-off occurring immediately and 75 percent on a successful completion of the SMP. Japan signed the minutes but will continue with the more generous treatment that it had previously announced. Norway, in addition, wrote off 100 percent of its outstanding debt. In March 2013, Italy signed a bilateral agreement with Myanmar to cancel 50 percent percent of all arrears and conduct a debt-for development swap of the remaining arrears.

4. **Myanmar is expected to gradually reduce its reliance on external nonconcessional financing.** With the expected resolution of its arrears and the re-engagement of the international community, Myanmar is expected to gradually regain access to concessional resources. As donors re-engage with Myanmar, and gradually identify suitable projects, the share of nonconcessional financing is expected to decline. The authorities aim to use nonconcessional external borrowing only to finance economically viable projects in priority sectors such as energy and infrastructure, at levels consistent with maintaining low external risk and debt sustainability. In order to limit the use of nonconcessional financing, the authorities also aim to keep the fiscal deficit in FY2013/14 and over the medium-term broadly unchanged at around 5 percent of GDP.

[3] In FY2012/13 Japan cancelled arrears on payments due after 2003. Principal and interest arrears on pre-2003 payments due were rescheduled on very concessional terms also before the end of FY2012/13. Before the end of FY2013/14, Japan is expected to cancel late interest charges on pre-2003 arrears. The implementation of this agreement was done in the context of the Paris Club framework.

Box 1. Myanmar: Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2013/14–33/34)

- Real GDP growth is assumed to average about 7 percent over the medium term, driven by commodity exports and higher investment due to the implementation of Myanmar's structural reform plans, with the support of the international community, and suspension of sanctions. Over the long term, real GDP growth is expected to increase to 7.5 percent in 2033/34, supported by prudent macroeconomic policies and robust FDI and related investments.

- Inflation (as measured by the change in the GDP deflator) is projected on average at 5.6 percent (y/y) in the medium term and expected to continue trending down and reach around 4 percent in FY2033/34. This is based on the assumption that deficit monetization will be replaced with bond financing, as well as having a consistent monetary policy framework in place.

- The primary fiscal deficit of the nonfinancial public sector in terms of GDP is expected to widen from 2.1 percent in FY2012/13 to 3.2 percent in the medium term. Revenues are expected to increase significantly over the medium term, primarily due to a substantial increase in gas export revenues expected with the completion of Shwe and Zawtika projects as well as planned improvements to tax administration and efforts to broaden the tax bases. Expenditures are also expected to increase, reflecting Myanmar's significant development needs.

- Exports as a percentage of GDP are assumed to average 24.7 percent in the medium term, reflecting mainly new natural gas projects coming on stream. Over the longer term, export growth remains robust, averaging around 30.7 percent during FY2019/20–FY2033/34, driven by export diversification beyond commodity exports supported by higher investment, including foreign direct investment.

- Imports as a percentage of GDP are assumed to average 27.8 percent in the medium term given the authorities' removal of exchange restrictions on current international payments and transfers and the import content of higher investment including FDI. Over the longer term, imports as a percentage of GDP are projected to average 35.7 percent during FY2019/20–FY2033/34, reflecting the need to for imported capital goods to support growth.

- The current account (including official grants), which in FY2012/13 registered a deficit of about 4.4 percent, is expected to remain in deficit in the medium-term. Over the long term, the current account deficit is expected to stabilize at around 5 percent of GDP.

- As of end-FY2012/13, around 35 percent of public domestic debt was in the form of treasury bonds, with the rest in the form of treasury bills (bearing a nominal interest rate of 4 percent). Treasury bonds are issued in maturities of two, three, and five years, bearing nominal interest at fixed interest rates of 8.75, 9, and 9.5 percent, respectively. Average real interest rates on domestic public debt turned positive in FY2011/12 as inflation subsided but are projected to narrow in FY2013/14, due to rising inflation and fixed nominal interest rates. Real interest rates are expected to remain positive in the short term, in line with the government's plan to further shift toward bond financing of the deficit and moderate inflation, and widen in the medium term, as the government moves toward a market-based deficit financing.

- Financing of the deficit is expected to be met by a combination of domestic public borrowing and foreign loans, including from bilateral and multilateral creditors. In the short term, deficit financing will rely on nonconcessional external financing and increasingly on the issuance of treasury bonds. Over the medium term, the share of external financing is expected to increase, especially from concessional sources. Nonetheless, treasury bond issuance is expected to continue over the medium term consistent with the goal to develop a domestic treasury bond market. This will also facilitate the liberalization of interest rates with the planned move to treasury security auctions.

Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2013/14–33/34)				
	2013 DSA Baseline		2012 DSA Baseline	
	2013/14–2018/19	2019/20–2033/34	2012/13–2017/18	2018/19–2032/33
Real GDP Growth (in percent)	7.0	7.4	6.6	7.4
Inflation (in percent)	5.6	3.8	4.8	3.9
Overall fiscal balance (in percent of GDP)	-4.9	-4.2	-4.9	-4
Noninterest current account (in percent of GDP)	-4.2	-4.7	-4.5	-5.2
Revenue (nonfinancial public sector; in percent of GDP)	24.7	26.7	20.3	21.9
Source: IMF staff estimates				

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Myanmar: External PPG Debt Indicators			
	Indicative Thresholds	End 2012/13	End 2013/14
NPV of debt as a percent of:			
GDP	30	22.1	15.9
Exports	100	106.8	72.7
Revenue	200	96.5	68.6
Debt Service, as a percentage of:			
Exports	15	2.2	4.2
Revenue	18	2.0	3.9
Sources: IMF and World Bank			

5. **It will be essential to complete the resolution of the remaining arrears in 2013/14 to bring all external debt indicators below their indicative thresholds in 2013/14.** The first phase of the resolution of arrears conducted in 2012/13 helped to improve the debt burden indicators. However, the NPV of debt as a percentage of exports was still above the threshold in 2012/13. Under the baseline scenario, all external debt indicators will be below their indicative thresholds at end-FY2013/14, which assumes the completion of the second phase of the resolution of Myanmar's arrears. The impact of the debt rescheduling is evident in the decline in the debt burden indicators between FY2012/13 and FY2013/14 (Table 1a). For example, the PV of the debt-to-GDP ratio decreases from about 22 percent in FY2012/13 to 16 percent in FY2013/14.

6. **Standard stress tests indicate that Myanmar's external debt sustainability is vulnerable to export shocks and exchange rate depreciation.** In particular, the export shock leads to a temporary breach of the PV of debt-to-exports indicative threshold (Figure 1 and Table 1b).[4] [5] However, the temporary breach (which is initially moderate, but quickly declining) reflects the introduction of the shock at the time of the projected increase in exports due to the completion of the Shwe and Zawtika gas projects (introducing the shock at any other point in time would eliminate the breach). These two projects are on track to start exports in FY2013/14. Myanmar's good track record of implementing natural gas sector projects (e.g. the Yadana and Yetagun projects are fully operational) and contractual purchasing commitments by project partners (who have agreed to purchase most of the production from these projects), mitigate some of the risks of this particular shock, i.e. a significant slowdown in exports compared to the baseline scenario. Accordingly, Myanmar can be classified at low risk of debt distress.

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

[5] The PV of debt-to-GDP ratio is temporarily above the threshold due to a combination shock. However, this is only temporary lasting FY15–17 and it marginally above the threshold.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

7. Public debt burden indicators (including domestic public debt) are expected to improve initially, reflecting the impact of the planned arrears resolution. The nominal debt stock would decrease from 48.0 percent in 2012/13 to 41.9 percent in 2013/14, mainly due to the clearance of the arrears. Thereafter, the public debt burden indicators are expected to remain broadly unchanged despite robust and sustained economic growth (Figure 2 and Table 1c). This reflects the significant development needs of Myanmar and the associated overall fiscal deficits assumed in the baseline scenario. It should be noted that public sector domestic debt is high. However, risks are mitigated as the share of nonconcessional financing is expected to decline. The authorities aim to use nonconcessional external borrowing only to finance economically viable projects in priority sectors, which will also be crucial to growth.

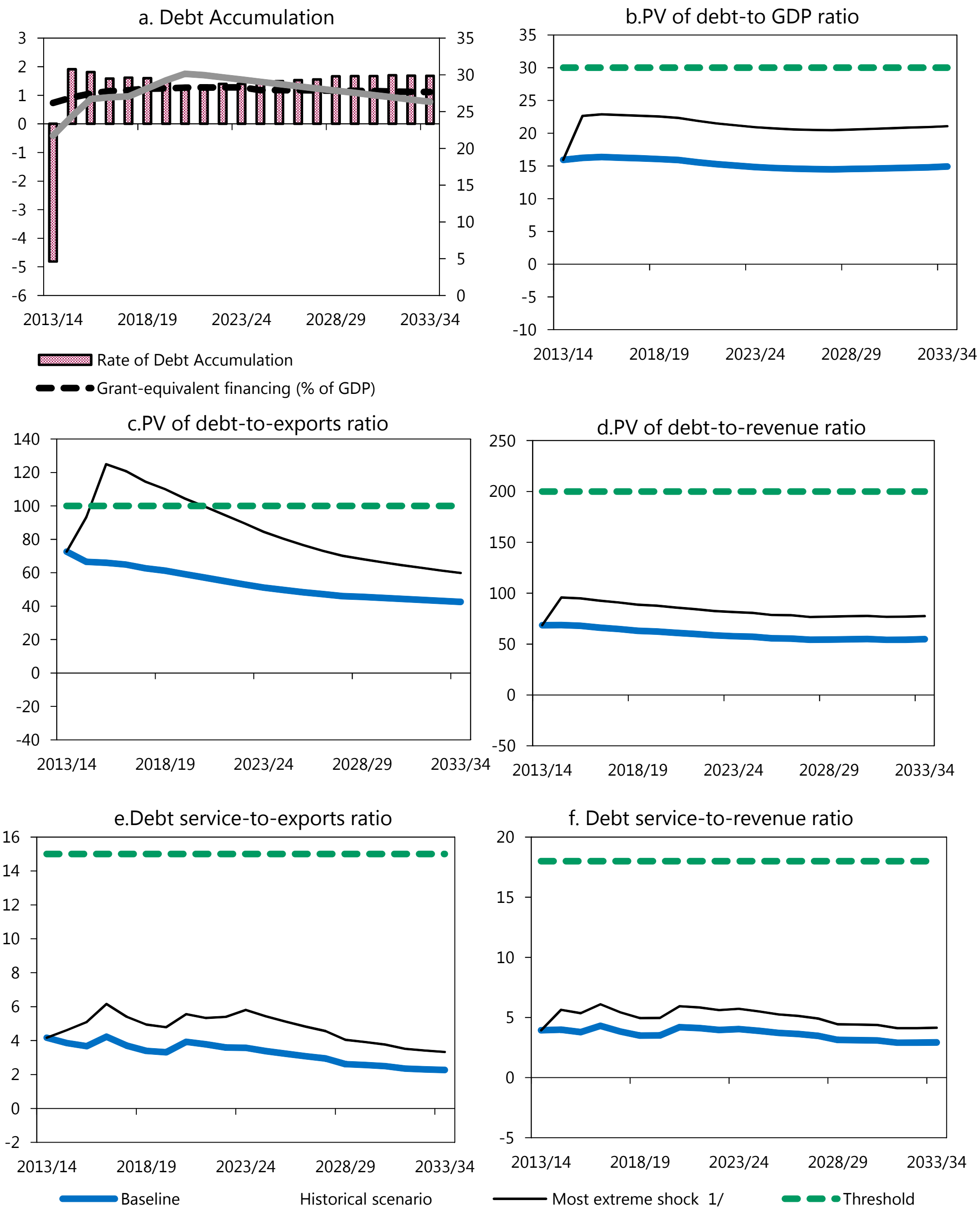
8. Stress tests indicate the presence of vulnerabilities. In particular, public debt sustainability is vulnerable to lower real GDP growth, and large and persistent primary fiscal deficits (Table 1d). The stabilization of the debt-to-GDP ratio at a relatively high level under the baseline scenario and the vulnerabilities indicated by the stress tests highlight the need for a prudent fiscal policy, through improvements in tax policy and public financial management including strengthening of debt management functions, and project assessment (i.e. ability to identify projects with good economic returns) and capacity to obtain more concessional financing.

STAFF ASSESSMENT

9. Myanmar is assessed to be at low risk of debt distress given its planned resolution of arrears. This is in line with the previous DSA, which was undertaken in November 2012. Developments since then, including a successful arrears rescheduling process consistent with assumptions, and continued strong economic performance with enhanced growth prospects, support that DSA's analysis**.** Myanmar is therefore evaluated to be at low risk of debt distress under the baseline scenario, which assumes a resolution of the remaining arrears in 2013/14 as agreed with the Paris Club. This resolution of arrears with the Paris Club creditors will improve all debt burden indicators. However, under the baseline scenario, the indicative threshold for the PV of debt-to-export ratio is temporarily breached under the export shock. As explained above, the risks associated with this shock are mitigated by the good track record of Myanmar in terms of implementation of large natural gas projects as well as contractual purchase commitments of project partners. However, it also underscores the importance of diversifying Myanmar's export base. Overall public debt sustainability is vulnerable to fiscal slippages and low real GDP growth, particularly given the relatively high domestic debt levels. This highlights the need for prudent fiscal policy, as well as improvements in tax policy to reduce reliance on nontax revenues from nonrenewable sources and public financial and debt management.

10. The authorities broadly agreed with these conclusions and with the thrust of the analysis. They concurred with staff on the need to be cautious on nonconcessional borrowing. They acknowledged the importance of the maintaining high exports in light of the temporary breach of the threshold.

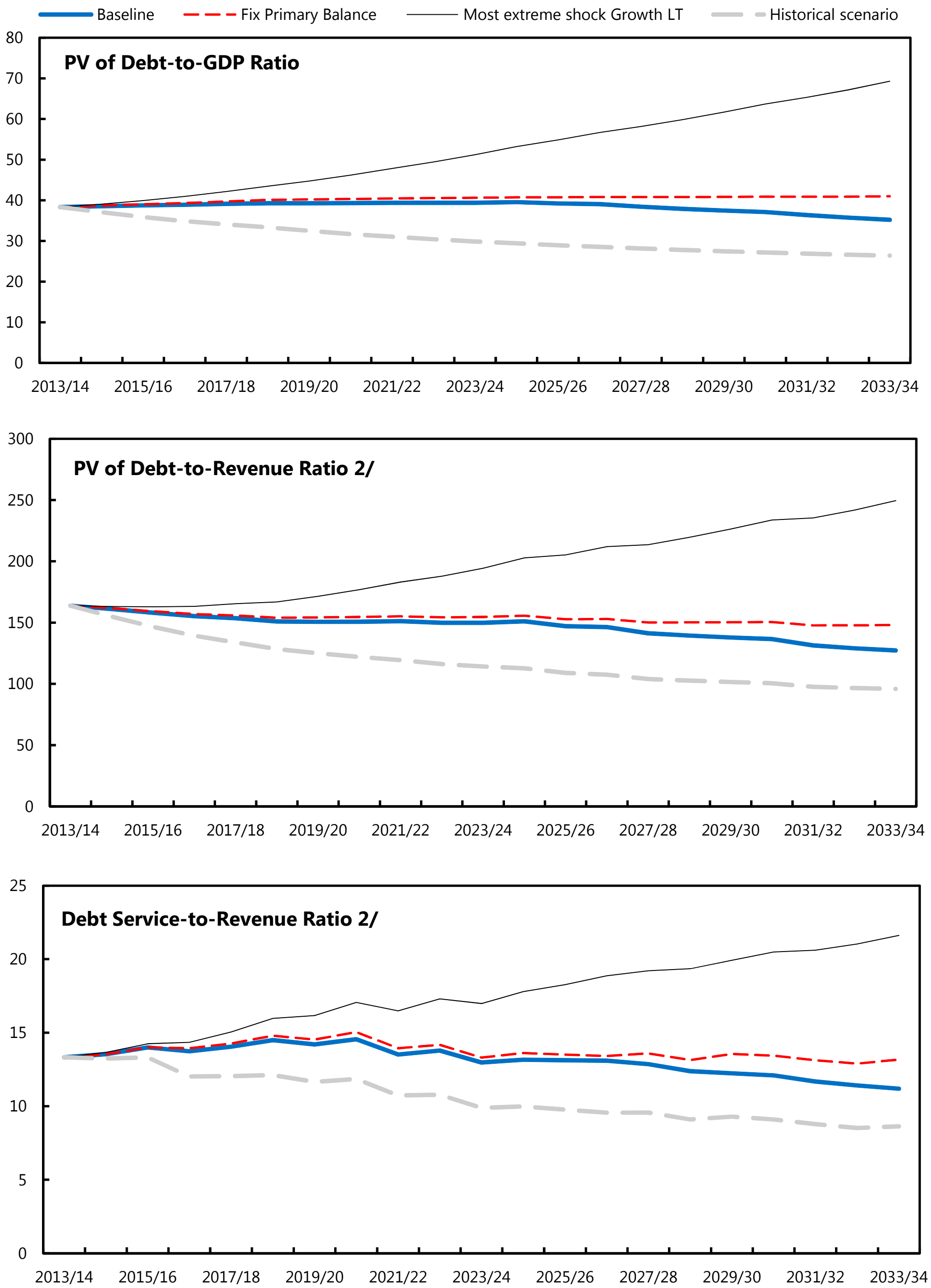
Figure 1.Myanmar: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios. 2013/14–2033/34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2013/14–2033/34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 1a. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2010/11–2033/34 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections									
	2010/11	2011/12	2012/13			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2013/14–2018/19 Average	2023/24	2033/34	2019/20–2033/34 Average
External debt (nominal) 1/	**29.0**	**27.3**	**24.8**			**19.0**	**19.6**	**20.0**	**20.0**	**20.1**	**20.1**		**19.3**	**19.6**	
of which: Public and publicly guaranteed (PPG)	29.0	27.3	24.8			19.0	19.6	20.0	20.0	20.1	20.1		19.3	19.6	
Change in external debt	-7.3	-1.6	-2.5			-5.8	0.6	0.3	0.0	0.0	0.0		-0.1	0.1	
Identified net debt-creating flows	-11.1	-4.7	-0.3			-1.0	-0.6	-0.9	-1.3	-1.2	-1.5		-2.1	-1.4	
Non-interest current account deficit	**1.3**	**1.4**	**4.3**	**-1.0**	**4.2**	**4.0**	**4.2**	**4.3**	**4.3**	**4.3**	**4.2**		**4.5**	**4.7**	4.7
Deficit in balance of goods and services	0.1	1.4	4.0			3.1	2.2	2.6	3.0	3.4	4.1		4.8	4.9	
Exports	18.3	19.3	20.7			21.9	24.4	24.9	25.0	25.8	26.2		29.0	35.0	
Imports	18.4	20.7	24.7			25.0	26.6	27.4	28.0	29.2	30.3		33.9	40.0	
Net current transfers (negative = inflow)	-0.5	-0.9	-0.9	-0.9	0.2	-1.0	-1.2	-1.2	-1.3	-1.4	-1.4		-1.3	-1.0	-1.2
of which: Official	-0.1	-0.1	-0.1			-0.2	-0.3	-0.4	-0.5	-0.6	-0.6		-0.6	-0.5	
Other current account flows (negative = net inflow)	1.7	0.8	1.2			2.0	3.2	3.0	2.6	2.3	1.5		0.9	0.8	
Net FDI (negative = inflow)	**-4.5**	**-3.7**	**-5.2**	**-3.1**	**1.1**	**-3.8**	**-3.9**	**-4.3**	**-4.6**	**-4.6**	**-4.7**		**-5.5**	**-5.0**	-5.4
Endogenous debt dynamics 3/	**-7.8**	**-2.4**	**0.6**			**-1.3**	**-0.9**	**-0.9**	**-1.0**	**-1.0**	**-1.0**		**-1.0**	**-1.1**	
Contribution from nominal interest rate	0.6	1.0	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-1.5	-1.5	-1.8			-1.6	-1.2	-1.2	-1.3	-1.3	-1.3		-1.3	-1.3	
Contribution from price and exchange rate changes	-7.0	-1.9	2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.8**	**3.0**	**-2.1**			**-4.8**	**1.2**	**1.2**	**1.3**	**1.2**	**1.5**		**2.0**	**1.5**	
of which: Resolution of arrears	0.0	0.0	-11.0			-8.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	22.1			15.9	16.2	16.4	16.3	16.2	16.1		14.8	14.9	
In percent of exports	...	...	106.8			72.7	66.6	65.9	64.9	62.7	61.3		51.1	42.6	
PV of PPG external debt	**...**	**...**	**22.1**			**15.9**	**16.2**	**16.4**	**16.3**	**16.2**	**16.1**		**14.8**	**14.9**	
In percent of exports	**...**	**...**	**106.8**			**72.7**	**66.6**	**65.9**	**64.9**	**62.7**	**61.3**		**51.1**	**42.6**	
In percent of government revenues	**...**	**...**	**96.5**			**68.6**	**68.7**	**68.0**	**66.2**	**64.8**	**63.1**		**57.8**	**54.9**	
Debt service-to-exports ratio (in percent)	**7.6**	**10.7**	**2.2**			**4.2**	**3.9**	**3.7**	**4.2**	**3.7**	**3.4**		**3.6**	**2.3**	
PPG debt service-to-exports ratio (in percent)	**7.6**	**10.7**	**2.2**			**4.2**	**3.9**	**3.7**	**4.2**	**3.7**	**3.4**		**3.6**	**2.3**	
PPG debt service-to-revenue ratio (in percent)	**12.2**	**17.2**	**2.0**			**3.9**	**4.0**	**3.8**	**4.3**	**3.8**	**3.5**		**4.0**	**2.9**	
Total gross financing need (Billions of U.S. dollars)	-0.7	0.1	-0.1			0.8	1.0	0.9	0.8	0.8	0.6		0.3	2.9	
Non-interest current account deficit that stabilizes debt ratio	8.6	3.0	6.7			9.8	3.6	4.0	4.3	4.3	4.2		4.6	4.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.3	5.9	6.4	9.2	4.3	6.8	6.9	6.9	7.0	7.1	7.1	7.0	7.4	7.5	7.4
GDP deflator in U.S. dollar terms (change in percent)	23.8	6.9	-7.5	12.7	18.2	0.7	2.3	2.9	3.1	3.2	3.2	2.6	3.2	3.0	3.2
Effective interest rate (percent) 6/	2.2	3.9	0.6	1.7	1.0	1.3	1.8	1.7	1.7	1.6	1.6	1.6	1.4	1.3	1.4
Growth of exports of G&S (U.S. dollar terms, in percent)	13.6	19.4	5.6	14.8	13.2	14.0	21.7	12.1	11.2	13.8	12.3	14.2	13.4	13.1	13.0
Growth of imports of G&S (U.S. dollar terms, in percent)	18.6	27.7	17.3	19.7	23.9	9.0	16.0	13.7	12.9	14.9	14.8	13.5	13.0	12.5	12.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	21.7	24.4	26.7	26.9	27.1	28.2	25.8	29.4	26.3	28.4
Government revenues (excluding grants, in percent of GDP)	11.4	12.0	22.9			23.2	23.6	24.1	24.6	24.9	25.4		25.7	27.2	26.3
Aid flows (in Billions of U.S. dollars) 7/	0.0	0.0	0.0			0.5	0.8	1.1	1.3	1.5	1.8		3.3	7.7	
of which: Grants	0.0	0.0	0.0			0.1	0.2	0.3	0.4	0.5	0.6		1.0	2.3	
of which: Concessional loans	0.0	0.0	0.0			0.4	0.6	0.8	0.9	1.0	1.2		2.3	5.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.7	0.9	1.1	1.1	1.2	1.2		1.3	1.1	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			26.4	32.3	36.9	39.5	41.1	43.3		43.9	39.4	41.7
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	49.6	56.2	55.3			59.4	65.0	71.5	78.9	87.2	96.4		159.9	450.8	
Nominal dollar GDP growth	30.4	13.2	-1.6			7.5	9.3	10.1	10.4	10.5	10.5	9.7	10.8	10.7	10.8
PV of PPG external debt (in Billions of U.S. dollars)			11.9			9.3	10.4	11.6	12.7	14.0	15.4		23.6	67.1	
(PVt-PVt-1)/GDPt-1 (in percent)						-4.8	1.9	1.8	1.6	1.6	1.6	0.6	1.4	1.7	1.5
Gross workers' remittances (Billions of U.S. dollars)	0.2	0.4	0.5			0.5	0.6	0.6	0.7	0.7	0.8		1.1	2.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.9			15.8	16.1	16.2	16.1	16.0	15.9		14.7	14.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	102.5			69.9	64.3	63.8	62.8	60.8	59.5		49.9	42.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			4.0	3.7	3.6	4.1	3.6	3.3		3.5	2.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ 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.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013/14–2033/34

(In percent)

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**2023/24**	2033/34
PV of debt-to GDP ratio								
Baseline	16	16	16	16	16	16	**15**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	16	11	7	4	2	0	**-5**	-7
A2. New public sector loans on less favorable terms in 2013–2033 2/	16	17	18	18	19	19	**20**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	16	16	17	17	17	17	**15**	15
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	16	19	24	23	22	22	**19**	16
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	16	17	19	19	19	19	**17**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	16	18	20	20	19	19	**17**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	16	19	23	22	22	21	**18**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	16	23	23	23	23	23	**21**	21
PV of debt-to-exports ratio								
Baseline	73	67	66	65	63	61	**51**	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	73	45	30	18	8	0	**-16**	-21
A2. New public sector loans on less favorable terms in 2013–2033 2/	73	69	71	73	72	73	**69**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	73	66	65	64	62	61	**51**	43
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	73	93	125	121	114	110	**84**	60
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	73	66	65	64	62	61	**51**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	73	73	81	79	75	73	**58**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	73	89	110	106	101	97	**74**	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	73	66	65	64	62	61	**51**	43
PV of debt-to-revenue ratio								
Baseline	69	69	68	66	65	63	**58**	55
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	69	47	31	18	8	0	**-18**	-27
A2. New public sector loans on less favorable terms in 2013–2033 2/	69	71	73	74	75	75	**78**	84
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	69	69	70	68	67	65	**60**	57
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	69	80	97	93	90	86	**72**	58
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	69	73	79	77	76	74	**68**	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	69	75	83	80	78	75	**65**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	69	80	95	91	88	84	**71**	57
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	69	96	95	93	91	89	**81**	78

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033 (concluded)

(In percent)

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**2023/24**	2033/34
Debt service-to-exports ratio								
Baseline	4	4	4	4	4	3	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	4	3	3	3	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2013–2033 2/	4	4	4	4	4	4	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	4	4	4	4	4	3	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	4	5	5	6	5	5	**6**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	4	4	4	4	4	3	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	4	4	4	4	4	4	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	5	5	4	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	4	4	4	4	3	**4**	2
Debt service-to-revenue ratio								
Baseline	4	4	4	4	4	3	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	4	4	3	3	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2013–2033 2/	4	4	4	5	4	4	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	4	4	4	4	4	4	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	4	4	4	5	4	4	**5**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	4	4	4	5	5	4	**5**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	4	4	4	5	4	4	**5**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	4	4	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	6	5	6	5	5	**6**	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	**25**	25

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 1c. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010/11–2033/34

(In percent of GDP, unless otherwise indicated)

	Actual			Average 1/	Standard Deviation 1/	Projections									
	2010/11	2011/12	2012/13			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2013/14–18/19 Avg.	2023/24	2033/34	2019/20–33/34 Avg.
Public sector debt 2/	49.5	49.2	48.0			41.9	42.3	42.6	42.9	43.2	43.5		44.0	39.9	
of which: Foreign-currency denominated	28.5	26.7	25.5			19.5	20.0	20.3	20.3	20.2	20.2		19.4	19.6	
Change in public sector debt	-5.4	-0.4	-1.1			-6.1	0.4	0.4	0.3	0.3	0.2		0.1	-0.5	
Identified debt-creating flows	-7.2	-1.9	3.5			0.3	0.3	0.3	0.3	0.3	0.2		0.1	-0.5	
Primary deficit	3.9	2.5	2.1	2.4	1.0	3.4	3.2	3.2	3.2	3.2	3.1	3.2	3.2	2.2	2.8
Revenue and grants 3/	11.4	12.0	23.0			23.4	23.9	24.5	25.1	25.5	26.0		26.3	27.7	
of which: Grants	0.0	0.0	0.1			0.2	0.3	0.4	0.5	0.6	0.6		0.6	0.5	
Primary (noninterest) expenditure 3/	15.4	14.5	25.0			26.8	27.2	27.7	28.3	28.7	29.1		29.5	29.8	
Automatic debt dynamics	-9.8	-3.1	1.5			-2.8	-2.9	-2.9	-2.9	-2.9	-2.9		-3.1	-2.7	
Contribution from interest rate/growth differential	-3.5	-1.8	-2.3			-3.0	-2.7	-2.7	-2.7	-2.6	-2.6		-2.9	-2.2	
of which: Contribution from average real interest rate	-0.7	0.9	0.6			0.0	0.0	0.1	0.1	0.2	0.3		0.1	0.6	
of which: Contribution from real GDP growth	-2.8	-2.8	-2.9			-3.1	-2.7	-2.7	-2.8	-2.8	-2.9		-3.0	-2.8	
Contribution from real exchange rate depreciation	-6.2	-1.3	3.8			0.3	-0.2	-0.2	-0.3	-0.3	-0.3		... ..	...	
Other identified debt-creating flows	-1.4	-1.3	0.0			-0.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.4	-1.3	0.0			-0.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.8	1.5	-4.7			-6.4	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	44.7			38.3	38.6	38.7	38.9	39.1	39.3		39.4	35.2	
of which: Foreign-currency denominated	...	...	22.1			15.9	16.2	16.4	16.3	16.2	16.1		14.8	14.9	
of which: External	...	...	22.1			15.9	16.2	16.4	16.3	16.2	16.1		14.8	14.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		... ..	...	
Gross financing need 4/	7.2	6.7	5.1			6.8	6.7	6.9	6.9	7.0	7.1		6.8	5.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	194.6			163.8	161.1	158.1	155.3	153.6	151.0		149.9	127.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	195.0			165.0	163.1	160.7	158.4	157.0	154.5		153.4	129.5	
of which: External 5/	...	...	96.5			68.6	68.7	68.0	66.2	64.8	63.1		57.8	54.9	
Debt service-to-revenue and grants ratio (in percent) 6/	24.8	32.1	12.1			13.3	13.5	14.0	13.7	14.0	14.5		13.0	11.2	
Debt service-to-revenue ratio (in percent) 6/	24.8	32.1	12.1			13.4	13.7	14.2	14.0	14.4	14.8		13.3	11.4	
Primary deficit that stabilizes the debt-to-GDP ratio	9.4	2.9	3.2			9.6	2.8	2.9	2.9	2.9	2.8		3.1	2.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.3	5.9	6.4	9.2	4.3	6.8	6.9	6.9	7.0	7.1	7.1	7.0	7.4	7.5	7.4
Average nominal interest rate on forex debt (in percent)	2.3	4.0	0.6	1.7	1.0	1.3	1.8	1.7	1.7	1.7	1.7	1.6	1.5	1.3	1.4
Average nominal interest rate on domestic debt (in percent)	5.5	5.6	7.0	5.1	0.8	6.6	6.4	6.4	6.4	6.4	6.4	6.4	5.0	5.0	5.0
Average real interest rate (in percent)	-1.4	2.0	1.3	-1.2	1.8	0.1	0.0	0.2	0.3	0.5	0.7	0.3	0.2	1.7	0.4
Average real interest rate on foreign-currency debt (in percent)	-3.0	-2.5	-1.5	-2.2	0.6	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	0.0	-1.8
Average real interest rate on domestic debt (in percent)	-2.5	2.8	4.1	-5.7	7.6	0.9	0.1	0.4	0.8	1.1	1.4	0.8	0.8	2.0	1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-18.3	-4.7	15.2	-6.1	14.0	1.1	...	...	...	...	...	...	... ..	...	...
Inflation rate (GDP deflator, in percent)	8.2	2.8	2.8	12.1	8.5	5.6	6.3	6.0	5.6	5.2	4.9	5.6	4.2	3.0	3.8
Growth of real primary spending (deflated by GDP deflator, in percent) 3/	14.6	0.2	83.1	19.9	25.0	14.5	8.3	9.2	9.1	8.7	8.6	9.7	7.6	7.6	7.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	21.7	24.4	26.7	26.9	27.1	28.2	25.8	29.4	26.3	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ The valuation effect raised revenues and expenditures in FY2012/13 due to the exchange rate unification on April 1, 2012.

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.

5/ Revenues excluding grants.

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

Table 1d. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2013/14–2033/34

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2023/24	2033/34
PV of Debt-to-GDP Ratio								
Baseline	38	39	39	39	39	39	39	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	38	37	36	35	34	33	30	26
A2. Primary balance is unchanged from 2013	38	39	39	39	40	40	41	41
A3. Permanently lower GDP growth 1/	38	39	40	41	42	43	51	69
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	38	40	41	42	43	44	46	44
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	38	39	39	39	39	39	39	35
B3. Combination of B1-B2 using one half standard deviation shocks	38	38	38	38	38	38	38	34
B4. One-time 30 percent real depreciation in 2014	38	45	44	44	44	43	41	35
B5. 10 percent of GDP increase in other debt-creating flows in 2014	38	47	46	46	45	45	43	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	164	161	158	155	154	151	150	127
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	164	155	146	139	134	128	114	96
A2. Primary balance is unchanged from 2013	164	162	159	157	156	154	155	148
A3. Permanently lower GDP growth 1/	164	163	163	163	165	167	194	250
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	164	165	168	168	168	168	175	160
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	164	161	159	156	154	151	150	127
B3. Combination of B1-B2 using one half standard deviation shocks	164	159	155	152	151	148	146	124
B4. One-time 30 percent real depreciation in 2014	164	188	181	175	171	166	157	127
B5. 10 percent of GDP increase in other debt-creating flows in 2014	164	196	189	182	178	172	164	133
Debt Service-to-Revenue Ratio 2/								
Baseline	13	14	14	14	14	15	13	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	13	13	12	12	12	10	9
A2. Primary balance is unchanged from 2013	13	14	14	14	14	15	13	13
A3. Permanently lower GDP growth 1/	13	14	14	14	15	16	17	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	13	14	15	15	16	16	15	14
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	13	14	14	14	14	15	13	11
B3. Combination of B1-B2 using one half standard deviation shocks	13	14	14	13	14	14	13	11
B4. One-time 30 percent real depreciation in 2014	13	14	16	16	16	17	16	13
B5. 10 percent of GDP increase in other debt-creating flows in 2014	13	14	15	24	15	17	14	12

Sources: Country authorities; and staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

June 13, 2013

Prepared By

Asia and Pacific Department
(In consultations with other departments)

CONTENTS

FUND RELATIONS 2

WORLD BANK-IMF COLLABORATION 7

RELATIONS WITH THE WORLD BANK GROUP 11

RELATIONS WITH THE ASIAN DEVELOPMENT BANK 12

STATISTICAL ISSUES 14

FUND RELATIONS

(As of April 30, 2013)

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

General Resources Account:

	SDR Million	Percent Quota
Quota	258.4	100
Fund holdings of currency (Exchange Rate)	258.4	100
Reserve Tranche Position	0	0

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	245.76	100
Holdings	0.27	0.11

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					
Charges/Interest	0.14	0.17	0.17	0.17	0.17
Total	0.14	0.17	0.17	0.17	0.17

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangement

The kyat had been pegged to the SDR at K 8.5057 per SDR since May 2, 1977. Myanmar applied margins of 2 percent in respect of spot exchange transactions. In February 1993, the Central Bank of Myanmar (CBM) started issuing foreign exchange certificates (FEC) at a rate of 1 FEC=US$1. FECs were largely used as a proxy for U.S. dollars for limited transactions. In December 1995, the authorities established FEC exchange centers where the FEC could be traded at K 450 per FEC, but also allowed the FEC to be traded in parallel markets. The FEC counters were closed in April 2010. Effective October 1, 2011, the Thein Phyu (TP) market was introduced as a retail foreign exchange market. There are 17 private banks with money changer licenses to operate in TP counters. On April 1, 2012, the authorities replaced the official peg to the SDR with a managed float. The Central Bank of Myanmar (CBM) started daily two-way multiple-price foreign currency auctions with MCM technical assistance (TA). The auctions provide a mechanism for the market to determine an exchange rate that the CBM can use to set its new reference rate. However, the CBM reserves the right to periodically intervene to mitigate undue exchange rate volatility and support the liquidity of the kyat in the foreign exchange market. The CBM has no predetermined target for the level of the kyat exchange rate or its trading range, and expects the value to fluctuate with supply and demand in the market. The de jure exchange rate arrangement has been reclassified to a managed float. Due to the multiple exchange rates and divergence of these rates from the official rate, the de facto exchange rate regime is classified as *other managed arrangement*.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar has made significant progress towards satisfying Article VIII obligations. Almost all current account restrictions have been removed through the implementation of the new Foreign Exchange Management Law. However, Myanmar still maintains exchange restrictions and a multiple currency practice subject to Fund approval under Article VIII.[1] Exchange restrictions subject to Fund jurisdiction arise from (i) requirement of tax certification for authorizing transfers of net investment income abroad, (ii) limitations on the remittance abroad of net salaries and (iii) a multiple currency practice arising from the formal FEC rate. The authorities are committed to removing these in 2013. FECs, which represent a multiple currency practice, are being phased out and will cease to be legal tender at end-June 2013. The authorities have sought extension of IMF approval for the multiple currency practice arising from the two-way multi-priced foreign currency auction.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on January 10–25, 2012 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2011 Article IV consultation on March 19, 2012.

[1] Staff continues to assess the situation on the general restrictions on the making of payments and transfer for invisibles.

Technical Assistance

Previously the Fund's TA to Myanmar was limited partly due to lack of ownership and poor implementation of past advice. Starting in FY 2011/12, TA began to intensify and was prioritized to focus on the authorities' plans to unify the exchange rate and accept Article VIII Sections 2(a), 3, and 4 obligations.

In FY 2012/13, the Fund further intensified its TA activities with multiple missions from FAD, LEG, MCM and STA (Table 1). An MCM resident advisor was also placed in the central bank, and a TA Office for Lao and Myanmar (TAOLAM) was established.

In FY 2013/14, TA is expected to continue to be intensive and will be closely coordinated with activities of other providers. Key areas of focus will be monetary policy and operations, financial sector development, economic statistics, tax administration and policy, and public financial management. There will be two resident advisors in the central bank, one focusing on foreign exchange market development and the other on bank supervision. In addition, three resident advisors based in TAOLAM will mainly focus on Myanmar. The Singapore Technical Institute plans to offer financial programming courses and macroeconomic training program beginning in August 2013 in coordination with the TAOLAM macroeconomic advisor.

Resident Representative

Ms. Yu Ching Wong took up the first Resident Representative post of the country in Yangon, starting May 2013.

A TA Office

IMF opened TAOLAM in Bangkok in October 2012. The new office, headed by Ms. Susan Creane, will provide IMF technical assistance and training, in collaboration with the Bank of Thailand and the Japanese Government.

Table 1. Technical Assistance Delivered: March 2012–May 2013

Topic	Date	Brief Description
Fiscal Affairs Department (FAD)		
Public Financial Management (PFM)	Jul. 2012	Diagnostic mission of the current PFM system and practices.
Tax Administration	Oct. 2012 March 2013	Undertook a broad-based tax administration diagnostic assessment to develop a strategic plan for tax administration reforms.
Tax Policy	Oct. 2012	Diagnostic review of Myanmar's tax system, with special attention to commercial and income tax policy.
Strengthening of Treasury Function	Dec. 2012	Developed options for organizing and strengthening the treasury function and set out the basic work program of the treasury advisor.
Fiscal Regime for Natural Resources	May 2013	A workshop, jointly organized by FAD and the International Tax and Investment Center, provides technical advice in this area.
Legal Department (LEG)		
Foreign Exchange Management Law	Mar. 2012	Assisted the authorities in revising a draft Foreign Exchange Management Law, as prepared by the CBM, in line with Myanmar's intention to reform its foreign exchange system to bring it into compliance with the provisions of Article VIII.
AML/CFT	Sep. 2012	Assisted the authorities to improve anti-money laundering and combating the financing of terrorism (AML/CFT) regime.
AML/CFT Supervisory Capacity	Feb. 2013	Assisted the authorities in strengthening basic bank supervision skills, and the development of general and AML/CFT supervisory capacity.
Central Banking Law and Central Bank Organization 1/	Mar. 2012	Provided advice and assisted the Myanmar authorities in their efforts to modernize the legal, institutional, and operational framework of the CBM.
Article VIII (follow-up) 1/	Sep. 2012	Developed a detailed roadmap for the unification of the country's multiple exchange rates in connection with the country's envisaged acceptance of Article VIII obligations. (The initial assessment of Myanmar's foreign exchange system took place in 2011.)
Central Banking Law and Central Bank Organization (follow-up) 1/	Oct. 2012	Finalized and agreed on a draft of the new CBM Law with the authorities, and provided outreach on the draft of the new CBM Law to relevant counterparties, including the Parliamentary Committee, the Office of the President, the Ministry of Finance and Revenue (MoFR), and the Union Attorney General's Office (UAGO).
1/ Monetary and Capital Markets Department (MCM) also participated in the TAs.		

Table 1. Technical Assistance Delivered: March 2012–May 2013 (Concluded)

Topic	Date	Brief Description
Monetary and Capital Markets Department (MCM)		
FX Auctions (follow-up)	Apr. 2012	Assisted the authorities in developing foreign exchange auctions, following the adoption of a managed floating exchange rate regime.
Introduction of open market operations	Jun. 2012	Assisted the authorities in developing monetary operations through deposits and credit auctions.
Central Bank Modernization	Oct. 2012	Made a broad TA needs assessment of the central bank and provided recommendations which will further develop the work plan for resident advisors and determine what additional experts may be needed to supplement the work of the General Advisor.
FX Regulations	Jan. 2013	Assisted the authorities in drafting implementing regulations to give effect to FX Management Law.
Reserve Requirements	Mar. 2013	Provided advice on the transition to a more effective set of reserve requirements, interest rates liberalization, and liquidity management through T-bill auctions.
Multi-topic TA (with the World Bank)	May 2013	Set a framework for assistance to the CBM, on monetary operations, banking supervision, human resources and training.
Banking Supervision	May 2013	Identified the TA priorities and developed jointly with the authorities a strategic plan that would identify the products, sequencing and timing of TA in banking supervision.
Statistics Department (STA)		
Report on the Government Finance Statistics	May 2012	Made assessment of fiscal data compilation and dissemination practice, and recommended for their improvement.
Consumer Price Index	Mar. 2013	Made assessment of the current concepts and methods used to compile the CPI, recommended for improvement in the new CPI series based on the 2011 Household Income and Expenditure Survey (HIES).
Monetary and Financial Statistics	Mar. 2013	Identified the contributing items to the deficit financing QPCs of the Staff-Monitored Program, investigated the source data for the key items, and determined the reporting timeframe for these items.
BOP Statistics	Apr. 2013	Assessed the balance of payments (BOP) and international investment position (IIP) statistics and recommended a thorough review of the coding system used by the exchange transaction registry of banks to conform to BOP needs.

WORLD BANK-IMF COLLABORATION

(May 2013)

The Fund and the Bank country teams for Myanmar, led by Mr. Davies (IMF) and by Ms. Dixon (World Bank), maintain excellent working relations and dialogue on macroeconomic and structural issues.

The level of cooperation and coordination is excellent, and is becoming more regular as both institutions have been scaling up their engagement in Myanmar. Myanmar was in arrears to the WB, which previously limited the WB's level of engagement in the country. Following the clearance of arrears to IDA in January 2013, the Bank has resumed normal lending relations to Myanmar. There are currently four IDA lending projects in the pipeline scheduled for delivery within the next 12 months. The WB has also significantly scaled up its analytical and advisory services, and there is already collaboration with the IMF. For example, in the financial sector, the Bank and Fund teams have jointly prepared a note on collaborative IMF-WB Financial Sector Technical Assistance Plan for Myanmar. The note specifies the areas where the two institutions will collaborate and the specific areas in which each institution will take the lead. In this regard, the Bank's Financial and Private Sector Development (FPSD) team has already had joint missions with the IMF's Monetary and Capital Markets (MCM) Department team on the development of a financial sector strategy, bank supervision, the Central Bank Law, and Financial Institutions Law. Similarly, there have been joint missions in public financial management, including more recently, in delivering a PFM Foundational Course and conducting a Debt Sustainability Analysis. The teams have also agreed to collaborate in preparing the macro-fiscal analysis chapter of the Public Expenditure Review (PER) which is currently underway. The two institutions have further agreed to collaborate in all other mutually relevant areas. Staffs routinely share country documents prepared by both institutions for their respective Executive Boards.

Recent key areas of cooperation and coordination include:

- **Macroeconomic policy advice to the authorities.** Representatives from the WB participate in IMF Article IV and SMP missions to Myanmar. In this context, staffs from both institutions discuss macroeconomic policies and the main messages to the authorities.

- **Structural reforms.** Fund and WB teams have worked together and have shared views on a range of other issues, including structural reforms for a better investment climate and private sector development, and social development. Representatives from the World Bank participate in IMF Article IV and SMP missions, and provide their comments and inputs on important structural issues that are incorporated in the IMF staff reports.

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

- **Promoting long-term growth and diversification.** Modernizing Myanmar's economy will require removing impediments to growth by enhancing the business and investment climate, encouraging financial sector development, and further liberalizing trade and foreign direct investment (FDI). The new government's recent efforts, supported by the IMF SMP, go in the right direction and would benefit from coordination across government agencies, broader consultation with stakeholders, and using best international practices distilled from other countries' experiences through substantial capacity building efforts.

- **Foreign exchange policy.** The authorities have come a long way in liberalizing the foreign exchange regime. Finalizing the unification of the exchange rate and removing any remaining current account restrictions should continue to be given high priority. Important actions include: developing an interbank foreign exchange market; removing the remaining restrictions arising from provisions in the foreign investment law and issuing comprehensive regulations for the foreign exchange management law, which will replace the instructions issued over the last year by the CBM.

- **Monetary policy.** Strengthening the CBM's capacity to conduct monetary policy is a critical prerequisite for macroeconomic management. To this end, the authorities need to give greater autonomy to the CBM with enactment of the CBM law. Prior to that, continued attention is required to building tools and capacity for monetary policy. Priorities include regularly conducting basic open market operations, reforming reserve requirements, and developing a reserve money forecasting and targeting framework.

- **Further liberalization of financial intermediation and strengthening regulatory and supervisory framework.** To promote the expansion of financial services, the authorities have eased capital requirements for opening new bank branches, and abolished the capital-to-deposit ratio. Setting definitions of bank capital and nonperforming loans closer to international standards is critical. To contain risks to financial stability during the financial-sector modernization process, the authorities need to strengthen the enforcement of connected lending limits. Improving banks' risk management is a necessary precursor to liberalization of lending rates and maturities. In all, changes must be implemented step by step, in line with the development of needed supervisory capacity. Liberalization of the financial sector should be complemented with a stronger regulatory and supervisory framework to maintain financial stability. Developing a plan to reform the state-owned banks is also required.

- **Fiscal discipline and transparency.** Prudent fiscal policy is essential to maintain macroeconomic stability. Staffs emphasize an urgent need to improve the quality, timeliness, and transparency of government financial statistics, including those of the state economic enterprises (SEEs). Strengthening public financial management, including by establishing a treasury function, and defining institutional arrangements to delineate fiscal responsibilities under the planned decentralization, are essential to safeguard financial discipline. The government is commended for its strong commitment to adopting the Extractive Industry Transparency Initiative (EITI).

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

- **Avoiding accumulation of a quasi-fiscal deficit in the energy sector.** Staff welcomes recent adjustments of electricity tariffs which will help reduce the quasi-fiscal deficit (QFD) in the power sector resulting from tariffs below cost recovery. Elimination of QFD, which leads to decapitalization of the asset base in the power sector, is essential for financial viability and mobilization of necessary investments to reduce electricity shortages and promote inclusive development.

The teams are committed to continue their close cooperation going forward. The table below details the specific activities planned by the two country teams over the period June 2013–May 2014.

Myanmar: Joint Managerial Action Plan June 2013–May 2014			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
MUTUAL INFORMATION ON RELEVANT WORK PROGRAMS			
The World Bank's work program in the next 12 months	***(i) Lending programs (pipeline)***		
	• Myanmar Electric Power Project	Ongoing	Board date within next 12 months
	• Telecommunications Sector Reform Project	Ongoing, Next mission in August 2013	Board date within next 12 months
	• Public Finance Management Modernization Project	To be determined	Board date within next 12 months
	• Support to Education Project	To be determined	Board date within next 12 months
	(ii) Analytical and advisory services		
	Public Expenditure Review	Ongoing	July 2014
	Real-time support to the preparation of a PFM Reform strategy	Ongoing	July 2013
	Financial Management and Procurement Fiduciary Assessments	To be determined	To be determined
	Myanmar Economic Brief	Ongoing	Regularly but frequency yet to be determined

Myanmar: Joint Managerial Action Plan (concluded) **June 2013–May 2014**			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
	Myanmar Economic Monitor (biannual)	Ongoing	December, 2013
	Development Policy Note	Ongoing	September 30, 2013
	Diagnostic Trade Integration Study (either as a leader or contributor)	To be determined	To be determined
	Support to preparation of a National Strategy for the Development of Statistics (NSDS)	June/July, 2013	To be determined
	Outline of Energy Development Policy (update of the policy note presented to GoM in March 2013)	Ongoing	December 2013
	Just-in-time support to ICT sector reforms	Ongoing	June 2014
	Myanmar EITI Preparation Support	To be determined	September 2014
	Support to Financial Sector Development	On going	June 2014
	Financial Inclusion for National Development (FIND) Program	Ongoing	To be determined
	Investment Climate Assessment	Ongoing	End of 2013
The Fund's work program in the next 12 months	SMP review	Late 2013	
	Article IV	Mid 2014	
	Conference on natural resource management		Late-May 2013
	Follow-up mission in large taxpayer office (LTO)		June 2013
	AML/CFT (follow-up)	Mid-2013	
	Article VIII (follow-up)	Late-2013	
	Establishing treasury securities auction	August 2013	
	Long-term monetary operation advisor to assume duties in TA office in Bangkok (TAOLAM)	September 2013	
	Resident banking supervision advisor begins duties		September 2013
	Multi-sector mission for national accounts	Late-June 2013	
	Follow-up on CPI	July 2013	
	Financial programming course and macroeconomic training program	August 2013	
	Development of Government Finance Statistics	Ongoing	

RELATIONS WITH THE WORLD BANK GROUP[2]

(May 2013)

Myanmar became a member of the World Bank in 1952, IFC in 1956, and IDA in 1962. By 1987, the Bank's total portfolio amounted to US$804 million equivalent, of which US$752.8 million equivalent had been disbursed. New lending ceased after 1987 due to a lack of dialogue on policy reform. The last formal Consultative Group meeting was held in January 1986 in Tokyo, chaired by the Bank. Since then, occasional contacts between the government and the Bank continued on the sidelines of the Annual Meetings.

Myanmar went into arrears with the Bank in January 1998 and subsequently into nonaccrual status in September 1998. All credits that had been approved but which had not fully disbursed were cancelled and Myanmar was not eligible for new loans. The Bank's engagement with Myanmar became limited to monitoring economic and social developments in the country based on available information and reports, liaising with other international donors and agencies, continued participation in IMF Article IV missions, and providing support to the work of other donors in selected areas.

Relations between Myanmar and the Bank have however been recently normalized. As part of its efforts to restore normal relations with the international community, the Government of Myanmar cleared the full amount of its arrears to the Bank in January 2013, in the amount of US$420 million through a bridge loan from the Japan Bank for International Cooperation. The Bank resumed normal lending to Myanmar, with the first loan being a concessional IDA credit extended to help Myanmar repay in full the bridge loan contracted to clear the arrears.

The Bank opened its first ever country office in Myanmar on August 1, 2012. Its engagement with Myanmar is currently being guided by an Interim Strategy Note (ISN) pending the preparation of a full Country Partnership Strategy. The ISN was discussed by the Bank's Executive Board of Directors on November 1, 2012, on which date the Board also approved an US$80 million pre-arrears clearance grant to fund a Community Driven Development Project. The Bank is currently in the process of preparing four possible lending projects over the next 12 months in energy, telecommunications, public finance management, and education.

Apart from lending programs, the Bank has significantly scaled up its analytical and advisory services, some of which are financed by development partners. For example, it has just completed its first ever Public Expenditure and Financial Accountability assessment with funding from DFID while a PER is underway.

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

RELATIONS WITH THE ASIAN DEVELOPMENT BANK[3]

(May 2013)

Myanmar joined the Asian Development Bank (AsDB) in 1973 and operations started the same year. In 2012, as the international community resumed engagement with Myanmar as a result of significant economic and political reforms, the AsDB developed a road map toward resumption of normal operations. The activities included initial assessments of the economy and of key sectors, provision of technical assistance, and development of an interim country partnership strategy for 2012–2014.

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

Myanmar cleared its arrears to AsDB in January 2013. The AsDB has so far provided 33 loans totaling US$1,107 million for 28 projects and one policy-based operation. Of these, two loans amounting to US$6.6 million were from the AsDB's ordinary capital resources (OCR) which have already been pre-paid, and 31 loans were from the concessional Asian Development Fund resources. The AsDB has so far provided technical assistance (TA) totaling US$21.8 million for 54 projects. Of these 54 TA projects, 16 were approved since AsDB reengaged with Myanmar in 2012.

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

The majority of AsDB assistance has been provided to support public sector management, followed by development of the agricultural sector. The sector composition of AsDB lending to Myanmar is shown below:

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

Myanmar: Asian Development Bank Lending			
Sector	Loans (Number)	Loans (US$ million)	Percent
Agriculture and natural resources	15	316.1	28.6
Energy	4	26.8	2.4
Finance	2	20.0	1.8
Health, nutrition, and social protection	2	63.1	5.7
Industry and trade	3	26.4	2.4
Public sector management	1	575.7	52.0
Transport and communications	2	42.5	3.8
Water supply, sanitation, and waste management	4	36.0	3.3
Total	33	1,106.6	100.0

Source: Asian Development Bank

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance

General. Data provision continues to have serious shortcomings that hamper effective surveillance. Data are not provided in a timely manner, while official and independent estimates of key macroeconomic variables differ widely.

National accounts. National accounts statistics are available only on an annual basis with considerable delay. Coverage of the private sector is incomplete as a proper business directory for sampling is not available yet. Resource constraints, primarily at the Planning Department and the Central Statistical Organization (CSO), limit the conduct of surveys and other data collection. GDP estimates do not completely account for informal sector activity. Agricultural work-in-progress is not included; construction is recorded on the basis of construction permits; and taxes and subsidies on products are excluded. Estimates of goods for processing and many services (including construction, financial services and insurance), as well as the deflators for financial and insurance services need improvement. Taxes and subsidies on products are not recorded.

Price statistics. The current CPI weights are based on the 2006 Household Income and Expenditure Survey (HIES). There are a number of weaknesses in the CPI: weights only represent urban households even though rural areas were also surveyed; some construction inputs are included; rentals of owner-occupied housing are excluded; missing prices are not imputed; and the classification of items is outdated. The CSO plans to address these issues when it introduces a new CPI in early 2014 with weights based on the results of the HIES that was conducted in November 2012. Other improvements to methods and practices will be introduced at the same time.

Government finance statistics. There is no comprehensive monthly or quarterly compilation of fiscal data. Monthly cash-based budget execution data are available in local language, but are not published. Annual comprehensive data are compiled with delays of up to 12 months after the end of the reference year. In addition, some transactions of state economic enterprises are recorded partly on an accrual and partly on a cash basis. Fiscal and monetary data are not consistent. Budget estimates and actual expenditures tend to differ by wide margins. In addition, recording of debt statistics is not comprehensive.

Monetary and financial statistics. The monetary survey compiled by the CBM covers the central bank and all commercial banks (public and private). Reporting of monetary data in the Standardized Report Forms, which accord with the *MFSM* classification principles, was established in January 2012. The quality of monetary statistics could be improved by: (i) 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; (ii) using electronic means to capture and share data to minimize mistakes; (iii) in due course, adopting market or fair value-based valuation of financial instruments; and (iv) reviewing the accuracy of recording of the IMF Accounts in the CBM's balance sheet.

External sector statistics. The coverage and reliability of the balance of payments could be improved. Merchandise imports are underestimated as military imports and other official imports, including imports linked to FDI under joint venture agreements with exemptions from custom duties, are generally excluded. Trade data are recorded at the time of entries by customs, causing serious volatility in values and incorrect time records. Many of the recommendations of the STA TA missions conducted in 1999 and 2000 have not been implemented. Items recorded in the current account, such as goods, services, and income (both primary and secondary accounts), rely on a mix of compilation methods with limited coverage. Detailed data on services transactions and financial flows are generally not available and transactions that are not undertaken through the official banking system are usually not estimated. A detailed recording of transactions in goods, services, income, and financial items between residents and nonresidents is necessary. Evaluation of external debts that are not denominated in U.S. dollars is conducted irregularly. Elaboration of external debt and arrears is needed. FDI flows are not properly measured. Identification and proper classification of official reserves and other external assets is necessary. The current compilation of IIP data relies on the accumulation of BOP flows, which makes position data extremely unreliable. It does not allow to bridge data to external debt tables. Compilation of IIP data also needs to be revamped.

Myanmar is participating in a three-year program that was designed for the improvement of External Sector Statistics in the Asia and Pacific Region. In May 2013, the first TA mission took place in which a work plan phased in two semesters was designed. The first two specific and attainable objectives agreed with the authorities by November 2013 are: (a) timely quarterly dissemination of BOP data and; (b) elaboration of external debt tables. In addition, the mission is of the view that the CBM is in a position to improve, as a priority, data collection and dissemination on direct investment, other investment, and official reserves during 2013.

Data Standards and Quality

Myanmar does not participate in the IMF's General Data Dissemination System. No data ROSC is available.

Reporting to STA (optional)

Myanmar submits data reports to STA with a lag of two to six months. However, balance of payments statistics have not been reported to STA for publication since 2007. No fiscal data are reported to STA for publication in the *IFS*. Annual data on the operations of the consolidated central government were last reported for 2005 to STA for publication in the *Government Finance Statistics Yearbook,* but do not include an economic classification of expenditure.

Myanmar: Table of Common Indicators Required for Surveillance (As of May 2013)					
	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	05/13	05/13	W	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	02/13	05/13	M	M	I
Reserve/Base Money	02/13	05/13	M	M	M
Broad Money	02/13	05/13	M	M	M
Central Bank Balance Sheet	02/13	05/13	M	M	M
Consolidated Balance Sheet of the Banking System	02/13	05/13	M	M	M
Interest Rates[3]	04/13	05/13	M	I	M
Consumer Price Index	03/13	05/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] - General Government[5]	FY 11/12	05/13	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4] - Central Government	FY 11/12	05/13	A	I	NA
Stocks of Central Government and Central Government - Guaranteed Debt[6]	FY 11/12	05/13	A	I	NA
External Current Account Balance	FY 11/12	05/13	A	I	I
Exports and Imports of Goods	FY 12/13	05/13	M	M	M
GDP/GNP	FY 11/12	05/13	A	I	I
Gross External Debt	FY 12/13	05/13	A	I	I
International Investment Position[7]	Q1 2012	10/12	Q	I	I

[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, extrabudgetary 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
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Myanmar

On June 28, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Myanmar[1].

Recent economic developments have been positive. Growth is estimated to have risen to 6½ percent in fiscal year 2012/13 (April-May), driven by gas production, construction and services while inflation climbed to 4.7 percent in March 2013. The external current account deficit is estimated to have widened to around 4½ percent of GDP in 2012/13, but to have been largely financed by foreign direct investment. The recent depreciation of the kyat is contributing to aligning the exchange rate with longer-term fundamentals, after some apparent overvaluation during 2012. The auction-determined reference exchange rate, which is the rate used by the central bank, and the informal rate have converged. International reserves, some of which are still held by state banks, have increased to US$4.6 billion at end-March, covering 3¾ months of prospective imports. Broad money and private sector credit are growing rapidly. The fiscal deficit in 2012/13 is estimated to have declined to 3¾ percent of GDP, on account of higher tax revenues.

Over the past year, the government has successfully pursued wide-ranging economic reforms, including under their Staff-Monitored Program with the IMF, which is on track. It focuses on maintaining macroeconomic stability throughout the reform process and building the institutions and tools needed for the medium-term. Central elements of the government's policy program have been the adoption of a managed floating exchange regime, and the establishment of a functioning formal foreign exchange market. The government has also liberalized imports and removed exchange restrictions, and steps to liberalize bank lending have been taken. In 2012/13, budget allocations for health and educations have been increased substantially, and efforts to reform tax policy and strengthen tax administration are underway. Legislation to improve the business climate and boost investment has also been passed.

[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. 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.

The economic outlook remains favorable. Growth is expected to accelerate slightly in 2013/14, led by rising gas production and investment, including in the transport and telecommunications sectors, and a recovery in agriculture. Pressures from wage increases and asset prices are building, but inflation is expected to remain contained at around 6½ percent (year-on-year) assisted by global commodity prices which are forecast to decline. International reserves are projected to continue to rise. Financial intermediation is forecast to increase further, with broad money and credit to the economy continuing to expand at double-digit rates. Following a mid-year supplementary allocation, the budget deficit is projected at around 5 percent of GDP. In the medium-term, sustained and inclusive growth of around 7 percent is achievable, provided institutions and policies to manage the economy and supervise the financial system continue to be built. In addition, policies supportive of private sector investment, as well as public spending on infrastructure, health, and education are required. Risks to this outlook stem from limited macroeconomic management capacity, which is being strained by the rapid, broad-based economic transition and emerging domestic price pressures.

Executive Board Assessment

Executive Directors commended the authorities for the impressive progress in liberalizing the economy, which had facilitated development and poverty reduction. They welcomed in particular the advancement toward medium-term macroeconomic stability and institutional development objectives outlined in the government's economic program. Directors noted, however, that the challenges ahead are daunting, requiring stronger institutions and prudent policies to preserve macroeconomic and financial stability during the economic transformation. Accordingly, they stressed the importance of proceeding with needed reforms in a carefully sequenced manner and at a pace consistent with administrative capabilities.

Directors considered that fiscal policy appropriately balances macroeconomic stability with development objectives. They supported plans to reorient expenditures toward health, education, and infrastructure, taking due regard to implementation and absorptive capacity, as well as the need to maintain debt sustainability following the recent rescheduling of external arrears. Directors encouraged the authorities to reduce the monetization of the fiscal deficit further, and to develop a medium-term fiscal framework aimed at smoothing expenditure and building fiscal buffers. This would require improved public financial management and a well-administered broad-based tax system to mobilize non-resource revenues.

Directors welcomed the far-reaching liberalization of the foreign exchange system. They observed that the adoption of a managed float regime has facilitated the convergence of the formal and informal exchange rates, and the recent depreciation of the kyat has helped align the exchange rate with longer-term fundamentals. Directors encouraged a further build-up of the central bank's international reserves to more comfortable levels in support of the reform process. They looked forward to the full liberalization of current account transactions envisaged for this year.

Directors highlighted the urgency of improving monetary policy tools. Key priorities in this area are the enactment of a new central bank law to establish an autonomous and credible monetary authority and the development of instruments for effective monetary operations. Directors welcomed the resumption of regular deposit auctions and looked forward to the removal of financing constraints on open market operations.

Directors encouraged sustained efforts to develop a modern financial sector to support growth and the transmission of monetary policy. In this context, they emphasized the need to strengthen supervision, including of foreign exchange operations and state banks, enhance prudential regulations and regulatory capacity, and improve licensing procedures for banks. Directors also urged the authorities to address remaining deficiencies in their regime against money laundering and the financing of terrorism.

Directors recognized the importance of intensive technical assistance to support Myanmar's reform process, and noted that technical assistance should be demand-led and tailored to Myanmar's specific needs. The breadth of the reform agenda and the limited implementation capacity call for prioritization and close coordination with development partners. Directors stressed that particular priority should be given to improving economic statistics.

Myanmar: Selected Economic Indicators, 2009/10–2013/14 1/

GDP (2012/13): US$55.3 billion
Population (2010/11): 61.2 million
Quota: SDR 258.4 million

	2009/10	2010/11	2011/12	2012/13	2013/14
				Est.	Proj.
Output and prices			(Percent change)		
Real GDP (authorities)	10.6	10.4	5.9	6.7	…
Real GDP (staff working estimates)	5.1	5.3	5.9	6.4	6.8
CPI (end-period)	7.7	8.9	-1.1	4.7	6.5
CPI (period average)	2.2	8.2	2.8	2.8	5.6
Consolidated Public Sector 2/			(Percent of GDP)		
Total revenue	10.7	11.4	12.0	23.0	23.4
Union government	5.8	6.3	6.5	9.1	9.0
o/w: Transfers from SEEs to Union government	2.3	2.0	2.3	1.9	1.8
SEE receipt	7.2	7.0	7.8	15.8	16.0
Grants	0.0	0.0	0.0	0.1	0.2
Total expenditure	15.6	16.9	16.6	26.6	28.4
Expense	8.7	8.8	9.8	16.7	19.6
Net acquisition of nonfinancial assets	6.9	8.0	6.8	10.0	8.8
Gross operating balance	2.0	2.6	2.2	6.3	3.8
Net lending (+)/borrowing (-)	-4.9	-5.4	-4.6	-3.7	-5.0
Domestic public debt	18.7	21.0	22.5	22.6	22.4
Money and Credit			(Percent change)		
Broad money	34.8	36.3	26.3	69.9	26.2
Domestic credit	34.8	34.4	25.1	6.2	29.2
Private sector	36.9	65.4	60.1	49.9	36.8
Balance of Payments			(Percent of GDP, unless otherwise indicated)		
Current account balance	-1.3	-1.9	-2.4	-4.4	-4.3
Trade balance	1.3	0.9	-0.7	-3.9	-3.0
Exports	19.9	17.4	17.9	18.6	19.9
Imports	-18.6	-16.5	-18.6	-22.5	-22.8
Financial account	4.0	6.8	3.6	5.7	5.9
Foreign direct investment, net	2.5	4.5	3.7	5.2	3.8
Overall balance	2.2	0.8	-1.3	-1.0	1.6
Gross official reserves					
In millions of U.S. dollars	2,809	3,754	4,026	4,599	5,537
In months of total imports	3.7	3.9	3.5	3.7	3.9
External debt					
Total external debt (billions of U.S. dollars)	13.8	14.4	15.3	13.7	11.7
(In percent of GDP)	36.1	29.0	27.3	24.8	19.7
of which: External debt arrears (billions of U.S. dollars) 3/	9.3	9.9	10.8	4.8	…
Terms of trade (in percent change)	4.0	-2.9	-2.7	-0.1	0.3
Exchange rates (kyat/$, end of period)					
Official exchange rate	5.7	5.4	5.6	880	…
Parallel rate	1004	861	822	878	…
Memorandum items					
GDP (billions of kyats) 4/	34,958	39,847	43,368	47,433	53,501
GDP (billions of US$)	38.1	49.6	56.2	55.3	59.4
GDP per capita (US$)	587	742	900	868	915

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

1/ Fiscal year from April 1 to March 31.

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

3/ In FY2012/13 and FY2013/14, the terms of bilateral arrears clearance agreements with Japan, the World Bank and the AsDB are incorporated.

4/ Real GDP series is rebased to 2010/11 prices by the uthorities.

Statement by Mr. Abdul Ghaffour and Ms. Cho Cho on Myanmar
Executive Board Meeting
June 28, 2013

1. On behalf of our Myanmar authorities, we would like to extend our sincere gratitude and appreciation to Mr. Matt Davies and his team for their excellent and constructive discussions on macroeconomic and financial sector developments during the recent Article IV consultation and the first review of the Staff Monitored Program (SMP). We are encouraged by the positive assessment that the authorities have achieved impressive progress in its reform agenda which has contributed to macroeconomic stability, strong growth and high investor interest. These are signs that the appropriate implementation of the reform agenda to improve the economic and social well-being of our people is bearing fruit. We are further encouraged by the good SMP progress review with all quantitative targets and structural benchmarks have been successfully met, some with significant margins. Nonetheless, our authorities remain mindful of the challenges in institutional and capacity constraints and that embarking on such extensive reform requires careful deliberation and attention to unintended consequences. Our authorities concurred with the broad appraisal in the staff report and would thoughtfully consider the recommendations therein.

2. As staff report accurately articulates, our authorities are pursuing comprehensive economic and structural reforms. In line with the recommendations made during the last Article IV consultation and SMP discussion, our authorities continue to prioritize implementation of macroeconomic and structural reform, as outlined in the Framework for Economic and Social Reform, a medium term growth strategy that is focused on reducing poverty and diversifying sources of economic growth. This will contribute towards achieving a sustainable and equitable growth with poverty reduction.

Recent Economic Development

3. Myanmar has maintained its growth momentum over the past years. Growth is estimated to rise to 6.7% in 2012/13, compared with the average growth rate of 5% in the previous five years. The authorities expect growth to accelerate more than 8% in 2013/14, mainly led by rising gas production and investment, services, construction and also recovery in agriculture sector which was affected by flood in mid-2012. This is in line with the staff's estimation of the potential higher growth prospects for 2013/2014. While inflation has increased to 4.7% in 2012/13, it remains moderate. Key drivers have been increases in prices for fuel and rent, and food. While pressures from wage increases and asset prices are building, the authorities expect inflation to remain contained at around 5.3% in 2013/14, with global commodity prices forecasted to decline. The current account deficit is projected to widen to 4.4% in 2012/13 due to the increase in import of capital goods. International reserves have risen to US$ 4.6 billion at the end of March, 2013 which covers 3.75 months of

imports. Our authorities broadly concurred with staff's assessment on economic outlook and our authorities believe that the implementation of measures over the past years to improve agricultural productivity, supporting industrialization and fostering the growth of SME would further strengthen growth outlook.

4. The agriculture sector remains a major contributor to the GDP. The reform measures undertaken in the sector, such as land reform, exemption of taxes on some export items and intensifying trade promotion especially with neighboring countries, the agriculture sector, including livestock and fishery is expected to contribute towards a higher growth rate. Industrial sector including manufacturing, power, energy, construction and mining and services sector is also expected to contribute towards a higher growth rate. These achievements are largely attributable to on-going implementation of reform process such as diversification of economic structure, simplifying business registration, measures to facilitate corporatization and privatization, as well as opening up the private sector investment opportunities. Similarly, the services and trade sectors is also expected to contribute to a higher growth rate attributable to rising exports with greater access to international markets, liberalization on export and foreign investment in the transportation and telecommunication sectors.

5. Concerted efforts are also being made to push ahead with industrial development reform and giving more financial autonomy and accountability to State Economic Enterprises (SEEs) to facilitate economic transformation and development. Along with the other developments, expansion of electric power generation to address the electricity shortage; discovering new oil and gas fields for domestic consumption; and investments in infrastructure will also contribute to a higher economic growth.

Fiscal Policy

6. In order to achieve the goal of inclusive, sustainable and equitable development and poverty reduction and upgrading standard of living of our people, our authorities are committed to a broad-based fiscal reform and have developed a fiscal reform strategy consistent with staff advice. This includes broadening the tax base, strengthening the tax administration, improving accountability and simplifying tax rate structure. Large Taxpayer Office is expected to be established in the very near future to further strengthen the tax administration and increase tax revenue. Establishment of a working group and a treasury department in the Ministry of Finance and Revenue are also on track.

7. To pave the way to strengthen public financial management (PFM) and to improve public service delivery and accountability, comprehensive fiscal reform process including developing PFM strategy is also under process with the Fund's technical assistance.

Monetary and Exchange Rate Policy

8. We are encouraged to note the assessment that Myanmar has made great strides in the liberalization of its foreign exchange regime and broadly agree with staff's recommendation in the staff report. The authorities are committed towards maintaining a flexible exchange rate policy that does not target a specific level, while smoothing fluctuations and maintain adequate international reserves. Our authorities continue to carry out reforms measures in line with the previous staff advice on monetary and exchange rate policies.

9. In accordance with our authorities' plan to reform the complex exchange rate system, pegged official exchange rate had been replaced by a managed float system since April 1, 2012 with technical support from the Fund. Foreign exchange auction is now being operated and Foreign Exchange Certificate is now being phased out gradually to maintain exchange rate stability and achieve the goal of exchange rate unification.

10. The authorities concur with the staff recommendation that increased access to financial services is important to facilitate economic growth. In this regards, reform measures such as liberalizing the interest rate on deposits, easing restrictions on eligible collateral, lifting deposit-to-capital ratio and capital requirement for branch expansion, and granting foreign exchange operations to private banks, have been taken to enhance effective intermediation of funds in supporting a sustainable economic growth.

11. The authorities recognize the importance of operational autonomy to the Central Bank of Myanmar and it is expected that the new CBM Law, once enacted, will provide greater operational autonomy to the CBM in carrying out its core central bank functions. The CBM plans to review the existing Financial Institutions of Myanmar Law, 1990 to establish a comprehensive legal framework for the orderly development of the Myanmar financial sector. The authorities are committed in developing monetary policy tools that is critical for achieving program goals and intends to accelerate progress in this area in advance of the law's enactment. In particular, the authorities have begun holding bi-weekly deposit auctions and will include this as a new structural benchmark.

12. Our authorities reaffirmed their commitment to fully liberalize the current account transactions and fully accepting the obligations of Article VIII during the year. So as to fulfill their commitments, the Foreign Exchange Management Law, was enacted in August, 2012, with the aim of improving foreign exchange management and removing restrictions on current payments and transfers abroad. Rules relating to the said law are now in drafting stage.

Financial sector

13. The Myanmar's financial sector is growing and undergoing rapid modernization. The authorities concur that the presence of a modern, well-regulated and supervised financial sector is critical to finance investment, reduce monetization and enhance the effectiveness of CBM's monetary policy transmission. A number of key measures have been implemented to enhance the role of the financial sector in supporting economic reform. Eligible collateral has been expanded to include key agricultural export goods and this will further enhance access to credit. Deposit rates have also been liberalized within a fixed corridor and the authorities have abolished the capital-to-deposit requirement, and eased capital requirements for the opening of new branches. Credit cards and ATMs have been introduced, and a payment union for interbank settlements has been established.

14. To further liberalise the financial sector, in accordance with the commitments under the ASEAN Economic Community blueprint, the CBM will allow foreign bank entry to participate in the banking sector in the form of Joint-Venture in the near future. Nonetheless, the authorities emphasized that it is paramount to safeguard financial stability and the need to provide sufficient room for domestic banks to develop capacity to be able to compete effectively with the new foreign entrants. In this regard, the CBM is currently in the process of finalizing the policy for admitting foreign banks.

15. Overall, the financial position of the banking sector remain sound with high level of capitalisation, adequate liquidity buffers, improved performance in profit earnings and manageable NPL level. Nevertheless, with the current rapid expansion and modernization of the banking sector, the CBM is mindful of the importance of strengthening the supervisory and regulatory framework and enhancing capacity building. In this regards, the authorities look forward to the continued support in the form of technical assistance, in the several areas identified in the staff report.

16. The draft Counter Terrorism Law has been finalized and is in the process of being submitted to the Parliament. The new Control of Money Laundering Law is being redrafted with the assistance of the Fund's technical assistance to more comprehensively address the requirements of international standards. Myanmar remained committed to implement a strong AML/CFT system and to address the remaining deficiencies in its AML/CFT regime.

Statistical Issues

17. The authorities agree that the improvements in statistics are important for effective functioning of the Fund's surveillance and supporting policy formulation. The importance of improving economic statistics can be recognized by the prominence it has been given by our authorities in their economic reform strategy. The authorities appreciate the help of the

Fund's TA on compilation of CPI and National Account in the first stage and look forward for further technical support in this area.

SMP Performance

18. We are encouraged to note the positive assessment on the SMP. The authorities have made good progress in meeting all the benchmarks set for the program, including building the international reserves of CBM and improving the functioning of the foreign exchange market. Further progress can be expected during the year towards the program objectives and the authorities are on the right track to meet the quantitative and structural benchmarks for September 2013.

Conclusion

19. Although significant progress has been made and growth outlook is favourable, the authorities are mindful of the challenges ahead especially in the area of institutional and capacity building. While the authorities remain committed to pursue needed reform, the pace of changes would have to be commensurate with the implementation capacity of the authorities and existence of appropriate preconditions and safeguards. Therefore, the need for appropriate sequencing of measures cannot be underestimated. This will ensure reform process proceeds smoothly and macroeconomic stability is maintained at all times. Our authorities would like to express their sincere gratitude to the Fund, the World Bank and the ADB for their continuous support and invaluable input over the years and policy recommendations in the various areas and look forward to continued cooperation in the years to come.