INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/267

MYANMAR

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MYANMAR

September 2015

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 2015 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 28, 2015 consideration of the staff report that concluded the Article IV consultation with the Myanmar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 28, 2015, following discussions that ended on July 1, 2015, 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 August 14, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Myanmar.

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

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 15/428
FOR IMMEDIATE RELEASE
September 18, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes 2015 Article IV Consultation with Myanmar

On August 28, the Executive Board of the International Monetary Fund (IMF) concluded the 2015 Article IV consultation[1] with Myanmar.

Myanmar's economic growth remains strong, but macroeconomic imbalances have increased significantly over the past year. Real GDP growth for fiscal year (FY) 2014/15 (April-March) is estimated to have reached 8.5 percent, while inflation rose to 8 percent (y/y) in May, up from 4 percent in October 2014, reflecting mainly strong domestic demand. The fiscal deficit increased to 3 percent of GDP in FY 2014/15, while credit to the private sector continued to grow strongly at 35 percent (y/y) in March, albeit lower than in FY 2013/14. The current account deficit widened to over 6 percent of GDP, largely reflecting a rapidly rising trade deficit. The official reference exchange rate came under strong downward pressure and depreciated by about 20 percent from Sept 2014 to July 2015. At end-March 2015, the Central Bank of Myanmar's (CBM) foreign reserves covered around 3 months of imports.

The Myanmar economy is set for strong growth this year amid signs of overheating. The economy is expected to grow by 8.5 percent, reflecting strong growth momentum and expansionary macroeconomic policies. The projected increase in the fiscal deficit in the FY 2015/16 budget will provide an expansionary stimulus and contribute to strong credit growth and a rising current account deficit. With higher deficit anticipated, CBM financing of the deficit is likely to remain significant while credit growth is expected to accelerate. As a result, inflation is expected to rise further in FY 2015/16 and the current account deficit to widen.

Downside risks to growth and stability in the near term have increased, and have been amplified by recent floods. Lower natural gas prices would further reduce export earnings and government revenue, and could also lead to lower-than-expected FDI (Foreign direct investment) inflows in the medium to long run. A sharper-than-expected slowdown in China's growth would also have a negative impact on Myanmar through the trade channel. Moreover, a tightening of monetary policy in the United States could strengthen the U.S.

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

dollar and put renewed downward pressure on the kyat. Increasing vulnerabilities resulting from rapid credit growth, a widening current account deficit, and an expansionary budget pose increasing risks to price and external stability. Despite its overall benefits, the ongoing liberalization of the financial sector, with the admittance of new foreign banks this year also comes with risks as the CBM's regulatory and supervisory capacity is still relatively weak. On the other hand, a well-received election outcome and peace process may provide an upside surprise, resulting in higher-than-expected FDI inflows.

Executive Board Assessment[2]

Executive Directors welcomed Myanmar's strong growth momentum and the advancement of the authorities' reform programs. Noting signs of economic overheating and the impact of the recent floods on the economy, Directors urged the authorities to strike a balance between the need to support economic recovery and reconstruction and the imperative to maintain macroeconomic stability.

Directors stressed the importance of containing the fiscal deficit to address the signs of economic overheating. At the same time, they noted that additional resources may be needed for recovery and reconstruction spending, with support from development partners. Noting the low revenue collection, large development needs, and the necessity to ensure fiscal sustainability, Directors encouraged the authorities to broaden the tax base, prepare for the introduction of a value-added tax, limit tax incentives, condition transfers to states and regions on implementation capacity, and further reprioritize expenditures. Directors welcomed the authorities' commitment to implement the Extractive Industries Transparency Initiative Standard. While commending the authorities for launching treasury bill auctions, Directors also stressed the urgency of allowing the interest rate at T-bill auctions to rise in order to attract higher bid volumes and terminate the Central Bank of Myanmar's (CBM) financing of fiscal deficits.

Directors encouraged the authorities to tighten monetary policy in order to reduce macroeconomic vulnerabilities arising from the signs of overheating. Given the recent floods, it was also noted that some flexibility in monetary tightening may be needed should the floods lead to a spike in demand for liquidity. The October target date for the implementation of the recalibrated reserve requirement should be maintained, and the CBM should be prepared to increase the reserve requirement and scale up deposit auctions should signs of second-round effects from food price increases on inflation emerge. Directors welcomed the recent move by the CBM to realign its reference exchange rate with the wider market

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

exchange rates, and noted the importance of maintaining exchange rate flexibility to cushion Myanmar from exogenous shocks and maintain external competitiveness in light of its relatively high inflation.

Directors stressed that existing prudential measures should be enforced and, where needed, tightened, in order to contain credit growth and reduce financial sector risks. The CBM should speed up the issuance of remaining prudential instructions and the strengthening of its supervisory capacity, particularly in view of the entry of nine foreign banks this year. Reforming state-owned banks and strengthening the supervision of policy banks and non-bank financial institutions will also be critical to safeguarding financial stability. Directors highlighted the importance of compiling and releasing consistent financial soundness indicators and of implementing measures on anti-money laundering and combating the financing of terrorism to protect Myanmar's correspondence bank relationships.

Directors emphasized that implementing the structural reform agenda is essential to achieve inclusive and sustainable growth. Measures should focus on further improving the business environment, financial inclusion, health services, and education. Further improvements in institutional capacity, supported by continued technical assistance, and better economic statistics will be important to enhance macroeconomic management.

Myanmar: Selected Economic Indicators, 2011/12–2017/18 1/

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
			Est.	Proj.	Proj.		
Output and prices							
Real GDP (authorities) 2/	5.6	7.3	8.4	8.7	9.3	…	…
Real GDP (staff working estimates)	5.6	7.3	8.4	8.5	8.5	8.4	8.3
CPI (end-period)	-1.1	4.7	6.3	7.4	13.3	10.2	8.2
CPI (period average)	2.8	2.8	5.7	5.9	12.2	11.8	9.2
Consolidated Public Sector 3/							
Total revenue	12.1	23.4	23.3	26.4	20.8	20.6	20.8
Union government	6.6	9.6	10.8	12.6	11.1	11.0	10.9
Of which: Tax revenue	3.9	7.1	7.8	8.2	8.2	8.5	8.8
SEE receipts	7.8	15.4	13.7	13.8	10.1	10.0	10.3
Grants	0.0	0.1	0.3	0.5	0.5	0.5	0.5
Total expenditure	16.7	25.1	25.1	29.3	25.6	25.2	25.3
Expense	9.8	16.9	17.0	21.3	18.6	18.5	18.6
Net acquisition of nonfinancial assets	6.8	8.2	8.1	8.0	7.0	6.8	6.8
Gross operating balance	2.2	6.5	6.4	5.1	2.2	2.1	2.2
Net lending (+)/borrowing (-)	-4.6	-1.7	-1.8	-2.9	-4.8	-4.7	-4.6
Underlying net lending (+)/borrowing (-) 4/	-4.6	-1.7	-2.2	-5.5	-5.9	-5.2	-4.6
Domestic public debt	22.6	17.8	16.8	17.2	17.6	17.1	17.0
Money and Credit							
Reserve money	7.9	34.2	17.0	11.4	17.9	16.9	15.7
Broad money	26.3	46.6	32.7	21.7	31.7	28.4	24.4
Domestic credit	25.1	5.1	24.6	28.8	34.7	30.3	27.9
Private sector	60.1	50.5	52.5	35.5	45.2	36.7	30.2
Balance of Payments							
Current account balance	-1.9	-4.2	-5.2	-6.1	-8.9	-8.3	-7.7
Trade balance	-0.3	-3.8	-4.6	-8.2	-11.6	-11.1	-10.0
Exports	18.3	18.6	19.9	19.6	18.9	20.4	21.8
Gas Exports	6.3	6.6	5.8	6.8	5.4	5.2	4.8
Imports	-18.6	-22.4	-24.4	-27.8	-30.5	-31.5	-31.8
Financial account	3.7	9.2	8.5	7.6	8.9	8.7	9.2
Foreign direct investment, net	3.7	5.0	4.6	5.2	5.5	6.5	6.9
Overall balance	-1.7	3.8	2.6	0.8	0.0	0.4	1.5
CBM reserves							
In millions of U.S. dollars	922	3,062	4,546	5,070	5,075	5,374	6,539
In months of total imports	0.8	2.4	2.8	2.8	2.5	2.3	2.5
External debt							
Total external debt (billions of U.S. dollars)	15.3	13.7	10.2	8.8	9.7	11.2	12.8
(In percent of GDP)	27.4	24.7	18.0	14.0	14.7	15.7	16.2
Of which: External debt arrears (billions of U.S. dollars) 5/	10.8	4.8	0.0	0.0	0.0	0.0	0.0
Terms of trade (in percent change)	-2.8	0.0	-0.1	0.8	4.6	-1.0	-0.4
Exchange rates (kyat/$, end of period)							
Official exchange rate	5.6	880	965	1,027	…	…	…
Parallel rate	822	878	965	1,070	…	…	…
Memorandum items							
GDP (billions of kyats)	43,238	47,722	54,699	62,834	76,471	92,641	109,600
GDP (billions of US$)	56.0	55.6	56.7	63.1	65.8	71.3	79.0
GDP per capita (US$)	1,118	1,100	1,112	1,228	1,269	1,364	1,502

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

1/ Fiscal year from April 1 to March 31.

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

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

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

5/ In 2012/13 and 2013/14, the figures incorporate arrears clearance agreements with Paris Club creditors, the World Bank and the Asian Development Bank.

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

August 14, 2015

KEY ISSUES

Context: Myanmar is undergoing a historical political transition, with its first general elections since the start of reforms scheduled on November 8, 2015. Meanwhile, negotiations with armed ethnic groups to reach a final ceasefire agreement are continuing against a tight deadline before the elections. Favorable outcomes on these two fronts would pave the way for greater political and social stability and underpin continued economic transition.

Economic Situation and Outlook: Growth remains strong, but signs of economic overheating have emerged in the face of supply bottlenecks and loose financial conditions. Vulnerabilities have increased significantly amid rising macroeconomic imbalances as reflected in rising inflation, depreciation pressure and a widening current account deficit driven by strong domestic demand and rapid credit growth. With an expansionary 2015/16 budget and limited tools available to tighten monetary policy, inflation is likely to accelerate, the current account deficit to widen, and foreign reserve coverage to fall in the short term.

Medium-long term prospects: With continued structural reforms and foreign direct investment, economic prospects remain favorable. Macroeconomic stability will be critical for sustaining growth and building up policy buffers.

Policy Recommendations: In the short term, concerted efforts are needed to tighten financial conditions. The authorities should reduce the fiscal deficit through revenue mobilization and expenditure reprioritization. Direct deficit financing by the Central Bank of Myanmar (CBM) needs to be replaced with Treasury bill issuance through auctions. The CBM should withdraw liquidity from the banking system by stepping up deposit auctions and implementing the recalibrated reserve requirement. Enforcing prudential measures will also be critical to slow credit growth and reduce financial sector risks. Over the medium-long term, continued structural reforms and capacity building are crucial for inclusive growth. Sustained efforts will be needed to mobilize revenues to support priority spending, modernize the regulatory and supervisory framework to safeguard financial stability and enhance financial inclusion, and improve the business environment to foster private enterprise.

Approved By
Hoe Ee Khor and Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon during June 17–July 1, 2015. The staff team comprised Mr. Yang (head), Mr. Kashiwase (both APD), Mr. Eckhold (MCM), Ms. Flamini (FAD), and Ms. Jahan (SPR). Mr. Khor (APD), Ms. Creane (head of TAOLAM), Mr. Cowen (incoming TAOLAM head), and Mr. Ojima (incoming Resident Representative) participated in some discussions. Ms. Wong (Resident Representative) assisted the mission. Ms. Tangcharoenmonkong and Ms. Tun (both OED) also participated in discussions. To-Nhu Dao and Sharlin George assisted in preparing this report.

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APPENDICES

CONTEXT

1. **Myanmar is undergoing a historical political transition.** On November 8, the country is scheduled to hold its first general elections since the start of reforms in 2011. Also of historical significance is the ongoing peace process. The Myanmar government has recently signed a draft ceasefire agreement with 16 armed ethnic groups, and negotiations to reach a final agreement before the elections are continuing. Favorable outcomes on these two fronts would pave the way for greater political and social stability and underpin continued economic transition.

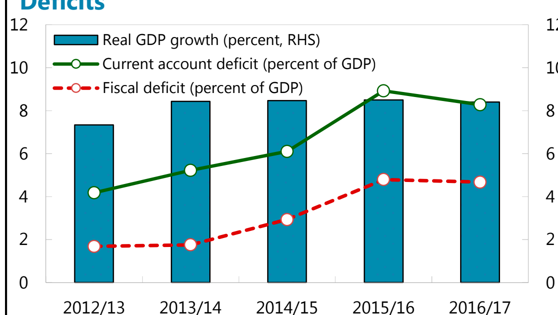
2. **Myanmar has made impressive strides in economic reform but the country continues to face daunting development challenges.** Trade and financial liberalization has moved forward rapidly with the dismantling of trade barriers and the opening of the banking sector. This year marks the entry of nine foreign banks and the operation of the Thilawa Special Economic Zone (SEZ), which will provide an initial platform for Myanmar's export-oriented growth. Despite these advances, Myanmar remains the poorest country in Southeast Asia and its development indicators are well below its peers in the region (Table 6). Moreover, Myanmar's capacity for economic management is low. The authorities have received considerable technical assistance from the Fund and have made good progress in implementing Fund policy recommendations, although much remains on the reform agenda (see the Appendix I).

3. **The key challenge in this election year is to maintain macroeconomic stability.** Following three years of strong growth supported by loosening financial conditions, the economy is running into supply constraints, including shortages of infrastructure services (e.g., electricity) and skilled and semi-skilled labor. While productive capacity will increase over time with continued structural reforms and investment, policy adjustments are necessary to slow the growth of aggregate demand in the short run. This is all the more important in the face of lower commodity prices which make it difficult to sustain current policy settings without jeopardizing macroeconomic stability.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Growth remains strong, but macroeconomic imbalances have increased significantly over the past year.** Real GDP growth for 2014/15 (April/March) is estimated to have reached 8½ percent (Table 1). Growth picked up pace in manufacturing, construction, tourism, and natural gas production, which more than offset a slowdown in agriculture. Inflation reached 8 percent (y/y) in May, up from 4 percent in October (non-food inflation rose from 3¾ percent to 6 percent), reflecting mainly strong domestic demand, with import volumes growing by 28½ percent in 2014/15.

Real GDP Growth, Fiscal and Current Account Deficits



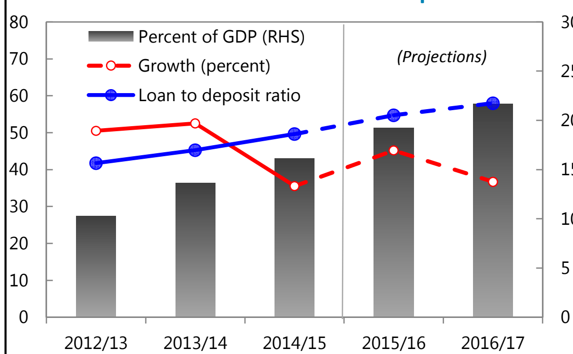
Sources: Authorities' data; and IMF staff estimates and projections.

The 2014/15 fiscal deficit is estimated at 3 percent of GDP, but the underlying deficit is estimated at 5½ percent once one-off receipts from telecom and gas companies are excluded (Table 2). The current account deficit widened to over 6 percent of GDP, largely reflecting a rapidly rising trade deficit, which increased from 4½ percent of GDP to 8¼ percent (Table 3). Since late 2014, the kyat has come under pressure to depreciate, and its value against the U.S. dollar has declined by about 20 percent. At end-March 2015, the Central Bank of Myanmar's (CBM) foreign reserves covered around 3 months of imports, well below the estimated adequate level of 5–6 months of imports.[1] Credit to the private sector continued to grow strongly at 35 percent (y/y) in March, albeit lower than the 53½ percent in 2013/14 (Table 4).

Staff's Views

5. The Myanmar economy is set for strong growth this year amid signs of overheating. The economy is expected to grow by 8½ percent this year, reflecting strong growth momentum but also expansionary macroeconomic policies. The projected increase in the fiscal deficit in the 2015/16 budget—amounting to almost 2 percent of GDP—will provide an expansionary stimulus and contribute to strong credit growth and a rising current account deficit. With increased financing need, CBM financing of the deficit is likely to remain significant at 1 percent of GDP while credit to private sector is expected to expand by about 45 percent. As a result, inflation is expected to rise to around 13 percent (end-year) in 2015/16 and the current account deficit to widen to about 9 percent of GDP, with the CBM's foreign reserves falling to about 2½ months of imports.

Credit to Private Sector and Loan to Deposit Ratio

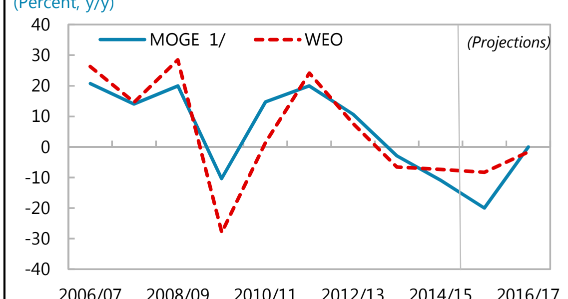


Sources: Authorities' data; and IMF staff estimates and projections.

6. Downside risks to growth and stability in the near term have increased (Table 7). The formula-based price smoothing mechanism under the contract has mitigated the impact of the fall in international commodity prices on Myanmar's gas export earnings, and the overall terms of trade remains favorable given that Myanmar is a net importer of fuel. However, lower natural gas prices would further reduce export earnings and government revenue, and could also lead

Natural Gas Prices

(Percent, y/y)



1/ Myanma Oil and Gas Enterprise.
Sources: Authorities' data; IMF's World Economic Outlook (April 2015); and IMF staff projections.

[1] The IMF's new metric for low-income countries suggests an adequate level of reserves of about 4½–7 months of imports for Myanmar. Given Myanmar's huge development needs, it would be appropriate for Myanmar to target around 5–6 months of prospective import cover.

to lower-than-expected FDI inflows in the medium-long run. A sharper-than-expected slowdown in China's growth would also have a negative impact on Myanmar. Moreover, a tightening of US monetary policy and uncertainty over Greece's economic situation could strengthen the US dollar and put further downward pressure on the kyat. Increasing vulnerabilities resulting from rapid credit growth, a widening current account deficit, and an expansionary budget pose increasing risks to price and external stability. The ongoing liberalization of the financial sector—despite its overall benefits—also comes with risks as the CBM's regulatory and supervisory capacity is still relatively weak. A combination of these potential shocks—if materialized amid political uncertainty related to the general elections—could severely strain the economy (see scenario analysis in the following section). On the other hand, a well-received election outcome and peace process may provide an upside surprise, resulting in higher-than-expected FDI inflows.

7. Myanmar's medium-long term growth prospects remain favorable on account of continued reform and FDI inflows (Table 5). Staff currently projects a long-term growth rate of around 7 percent. Given its low income level, Myanmar can sustain such rapid growth for a long time to come through catch up. With its strategic location and proximity to a dynamic East and Southeast Asia, Myanmar stands to benefit from an expected relocation of FDIs in manufacturing around the region in search of lower labor cost. To take advantage of this opportunity, Myanmar will need to continue to pursue market-oriented reform and improve its business environment.

Authorities' Views

8. The authorities are in broad agreement with staff's assessment of the current economic situation and outlook. However, they project growth at 9⅓ percent in 2015/16 on account of strong FDI inflows to support rapid growth in energy and manufacturing industries. A booming tourism sector will also help boost transportation and construction industries. Infrastructure development under the next Five-Year National Development Plan will help sustain economic growth in the long run.

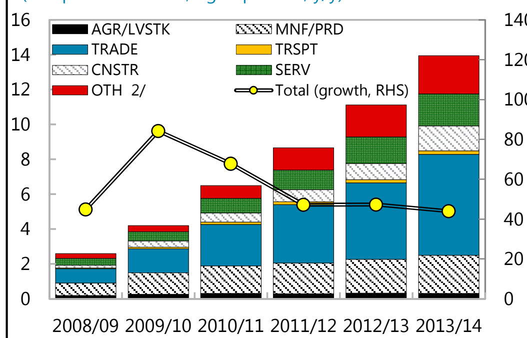
MAINTAINING NEAR-TERM MACROECONOMIC STABILITY

9. The authorities' 2015/16 budget projects an overall fiscal deficit of just under 5 percent of GDP. Staff's projections show a deficit of 4¾ percent of GDP after incorporating more plausible revenue and expenditure outcomes in contrast to the authorities' very conservative revenue projection and an ambitious and perhaps unsustainable reduction in capital expenditure. Nevertheless, the budget represents a fiscal expansion of nearly 2 percent of GDP from last year, largely reflecting a substantial wage increase for public sector employees, albeit from a very low base (a little over 2 percent of GDP).

10. Credit to the private sector has been growing by 50 percent annually on average during 2011/12–2014/15 and is expected to increase by about 45 percent this year. Much of the credit has been provided to trade, manufacturing, construction (including real estate) and agriculture, which collectively account for more than two-thirds of total credit. Over 90 percent of the credit is extended through loans for 12 months or less, which are routinely rolled over with capitalization of interest. Loans through hire-purchase are also rising, although they still account for less than 10 percent of total loans outstanding. Meanwhile, most banks are under-capitalized and data on loan quality and provisioning continue to pose difficulties for proper analysis.

Private Banks: Credit by Sector and Growth 1/

(left: percent of GDP; right: percent, y/y)



1/ It does not include credit to private sector by state-owned banks.
2/ Other includes credits to local stores and specialized shops.
Sources: Authorities' data; and IMF staff calculations.

11. Myanmar is facing challenges in implementing anti-money laundering/combating financing of terrorism (AML/CFT) measures. It remains listed by the Financial Action Task Force (FATF) as a country that has not made sufficient progress in implementing its action plan to address its significant AML/CFT shortcomings. Without progress, Myanmar banks' correspondent banking relationships in major financial markets could be adversely affected if the FATF calls for countermeasures against Myanmar. It is thus urgent that the authorities promulgate FATF–compliant AML/CFT laws and regulations and implement them effectively.

Staff's Views

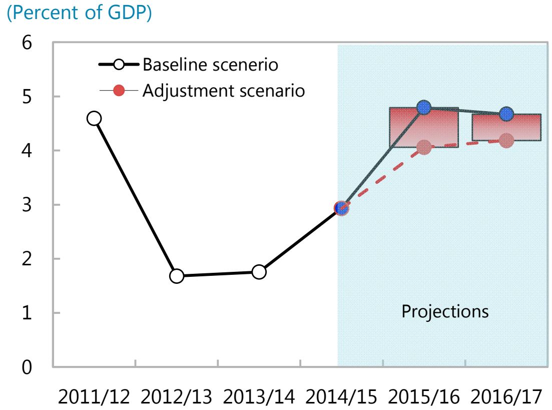
12. Myanmar's top policy priority in the near term is to address increasing macroeconomic imbalances and the resulting vulnerabilities. This calls for a tightening of monetary and fiscal policies along with exchange rate flexibility. Given the ongoing pressure on the kyat, early action to tighten policies and enforce prudential measures is needed to address the underlying causes of the growing macroeconomic imbalances.

Reducing the fiscal deficit and terminating CBM financing

13. Reducing the fiscal deficit is urgently needed to contain immediate inflationary pressure and anchor exchange rate expectations. Staff recommends that the fiscal deficit be reduced to about 4 percent of GDP in 2015/16, which would constitute a countercyclical measure to address the growing macroeconomic imbalances. This target can be achieved through a combination of measures in revenue mobilization and expenditure reprioritization in the upcoming 2015/16 supplementary budget expected in coming months. The budget should implement the collection of the commercial tax on telecom

Fiscal Deficit: Baseline vs. Adjustment Scenarios

(Percent of GDP)



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

services which was postponed earlier this year and reduce low-priority current spending, including on goods and services, and travel expenses. While expenditures on health, education and infrastructure should be protected, transfers to Regions and States should be contained in line with their implementation capacity and spending responsibilities. Over the medium term, a new fiscal rule aimed at addressing volatile gas revenues can be considered (see paragraph 24).

Fiscal Adjustment
(Percent of GDP)

	2015/16	2016/17
Baseline NFCPS budget deficit	**-4.8**	**-4.7**
Adjustment NCPS budget deficit	**-4.1**	**-4.2**
Recommended adjustments:	**0.7**	**0.5**
Tax revenue measures	0.05	0.5
Expenditure measures	0.68	...
Transfers to States and Regions	0.34	...
Other non-wage non-interest spending	0.34	...

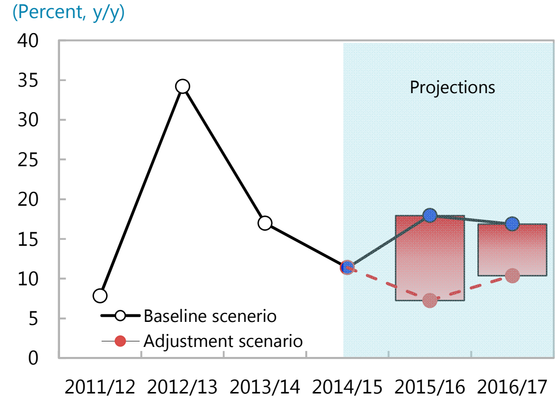
Source: IMF staff calculations.

14. Automatic CBM financing of the residual gap in the fiscal deficit should be terminated and replaced by issuance of government securities. Staff welcomes the establishment of the Treasury Department in September 2014 and the launch of T-bill auctions in January 2015. To attract substantially larger volumes of bids that are needed to meet the CBM's reserve money target, it is urgent that the Ministry of Finance allows the interest rate at T-bill auctions to rise. Continued efforts will also be needed to integrate the auction with budget execution and cash management. In particular, the volume of fortnightly T-bill sales needs to be spread out to reduce pressures to issue large volumes of T-bills to the CBM at the end of the fiscal year. In addition, like domestic banks, foreign bank branches operating in Myanmar should be allowed to purchase government securities to broaden the government's funding base. This will also provide better options for bank liquidity management and aid the development of the money markets.

Tightening monetary policy and ensuring exchange rate flexibility

15. The CBM should tighten monetary condition to contain inflationary pressures and support the Kyat. The CBM should mop up liquidity by scaling up deposit auctions and transition to the recalibrated reserve requirement (which, in contrast to the current requirement, excludes government bonds from liquid assets) by the set target date of early October. The CBM's reserve money target should be tightened while being flexible enough to accommodate the seasonality of structural liquidity. Access to the CBM discount window should be revamped by shortening the maturity to overnight to prevent the facility from being used as a de facto revolving credit facility. Staff

Reserve Money: Baseline vs. Adjustment Scenarios
(Percent, y/y)



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

continues to encourage the authorities to convert the CBM's legacy debt portfolio to marketable government securities that can be used for open market operations. As inflation is expected to rise over the course of 2015/16, the CBM and government should consider increasing the current regulated minimum deposit and maximum lending rates, the CBM discount rate, and the fixed rates offered on Treasury bonds to improve the attractiveness of the instruments.

16. Staff welcomes the CBM's recent bold move to close the exchange rate gap by aligning its reference rate with parallel market rates. Exchange rate flexibility is critical to maintaining external stability. The current downward pressure on the kyat is largely a result of macroeconomic policy inconsistency—monetary and fiscal policies are too loose to anchor the exchange rate expectations, although external shocks have also played a role (Box 1). Under the current macroeconomic policy settings, resisting depreciation pressure could lead to a quick rundown of reserves. A priority import window for supply of FX to importers of fuel and cooking oil was introduced in late-June, prior to the recent realignment of the reference rate and parallel market rates (Box 2). Staff is examining any jurisdictional implications arising from the operation of the window. The authorities noted their intention to phase out the window.

Strengthening prudential measures

17. Prudential measures, as well as liquidity tightening, are needed to arrest credit expansion and minimize financial sector risks. Because of the uncertainty over the sustainable pace of financial deepening, prudential measures will need to be introduced quickly and measures already in place should be enforced and tightened where needed to ensure credit to the private sector grow at a safe pace. In this regard, a top priority is to finalize and issue the remaining six out of the eight instructions on prudential regulations. This would help empower the supervisors to ensure that all banks meet capital and liquidity requirements in a reasonably short timeframe, that prudent loan classification and loss provisioning are followed and that loans are sound before they are rolled over. The authorities should also strengthen monitoring of hire purchase and credit funded by foreign loans, and start to prepare a bank resolution framework.

Reducing risks and improving growth sustainability

18. Two alternative scenarios prepared by staff illustrate the importance of taking concerted actions to tighten macro policies and strengthen prudential measures outlined above (Box 3). The (policy) adjustment scenario highlights the potential benefits of taking early action to address the imbalances identified in the baseline. The result of tightening policies and strengthening prudential measures would be reduced vulnerabilities and improved policy buffers. Real GDP growth would be somewhat lower than in the baseline because of less expansionary macroeconomic policies, but this growth path would be more sustainable. In contrast, the adverse scenario provides a stress test of a situation where fiscal policy slippages and deteriorating prudential standards further increase credit expansion (as reflected in the rising money multiplier), to around 60 percent compared with 45 percent in the baseline. If Myanmar were also hit by further declines in the price and production of natural gas and lower FDI inflows arising from elections-related uncertainty, growth would be slower and economic vulnerabilities would rise further. In particular, the fiscal deficit in 2015/16 could rise to over 6 percent, the current account deficit widen to 10 percent, and CBM reserves fall to 1⅓ months of imports, with a further decline to less than 1 month in 2016/17.

Authorities' Views

19. **The authorities were in broad agreement with staff's policy recommendations.** They pointed out that they have been able to keep fiscal deficits lower than budgeted in recent years. While acknowledging the need to raise interest rates at T-bill auctions, they were concerned about increases in interest costs to the budget. They indicated that cutting maintenance cost and capital spending in the 2015/16 budget is necessary to meet the deficit target. The authorities indicated that increased transfers to sub-national governments are part of a political process for federalism.

20. **The authorities recognized the need to tighten monetary condition and intended to scale up deposit auctions to reduce liquidity and anchor exchange rate expectations.** The CBM has operational autonomy to mop up sufficient amount of liquidity. The authorities' initial reluctance to allow the CBM reference rate to align with the market rates was out of concerns over a potential downward depreciation-inflation spiral once the CBM reference rate is allowed to reflect market conditions. The authorities also recognized the need to implement prudential measures and strengthen monitoring of banks' balance sheets. In areas where prudential instructions are yet to be issued, the CBM has been using moral suasion to influence banks' behavior.

LAYING FOUNDATIONS FOR SUSTAINABLE, INCLUSIVE GROWTH

21. **Myanmar lacks a well-developed private sector and is currently short of public goods and social services to support inclusive growth.** The authorities' Framework for Economic and Social Reforms (FESR) appropriately targets infrastructure development as a priority, as lack of infrastructure services, particularly electricity supply, is a major constraint on business activities. Expenditure on health and education, another well-identified priority, has increased in recent years, but public resources devoted to this area are well below in those found in peer countries. At the same time, access to finance is limited, particularly for the vast rural population and small and medium-sized enterprises, and Myanmar's regulatory regime imposes heavy burdens on businesses.

Staff's Views

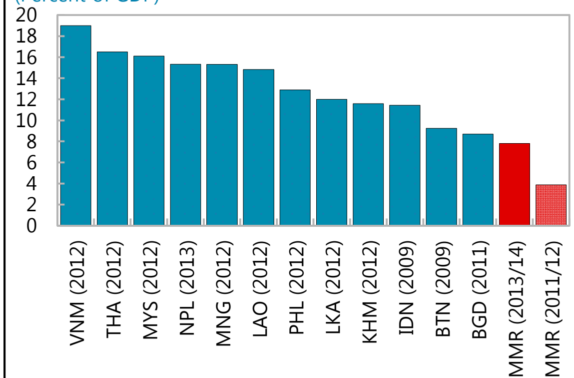
22. **Myanmar needs to implement well-focused reforms to foster inclusive growth.** Given the current circumstances, policies should aim to mobilize and make the best use of public resources available, strengthen regulatory and supervisory framework for the financial sector, and continue to improve the business environment to create the enabling condition for private enterprise to flourish. Building institutional capacity is critical to moving forward in these areas.

Building fiscal space and improving spending efficiency

23. Revenue mobilization remains a top priority to increase public resources available for promoting inclusive growth. Tax revenue has increased significantly over the last three years, but it is still well below levels in most peer countries because of a narrow tax base, exacerbated by extensive tax incentives and weak administration. Staff recommends that as an initial step to reduce tax incentives, tax expenditure be estimated and presented as part of annual budgets. Preparatory work on the introduction of a value added tax (VAT) by 2020/21 should begin in earnest, including by passing the special commercial tax bill. The extractive industry fiscal regime should be reformed with a view to centralizing collection of gas-related revenue and increasing transparency, along with continued progress toward the membership of the Extractive Industries Transparency Initiative (EITI) (see Selected Issues Paper 1). On tax administration, staff welcomes the operation of the Large Taxpayers Office (LTO) with the introduction of self-assessment on income taxes. However, more budgetary resources need to be allocated to the field offices and Internal Revenue Department (IRD) headquarters to boost their capacity, including through staffing and ICT improvement. The extension of self-assessment to medium taxpayers should be delayed until new procedures and systems, especially for effective audit, are put in place in the LTO.

Tax Revenue

(Percent of GDP)

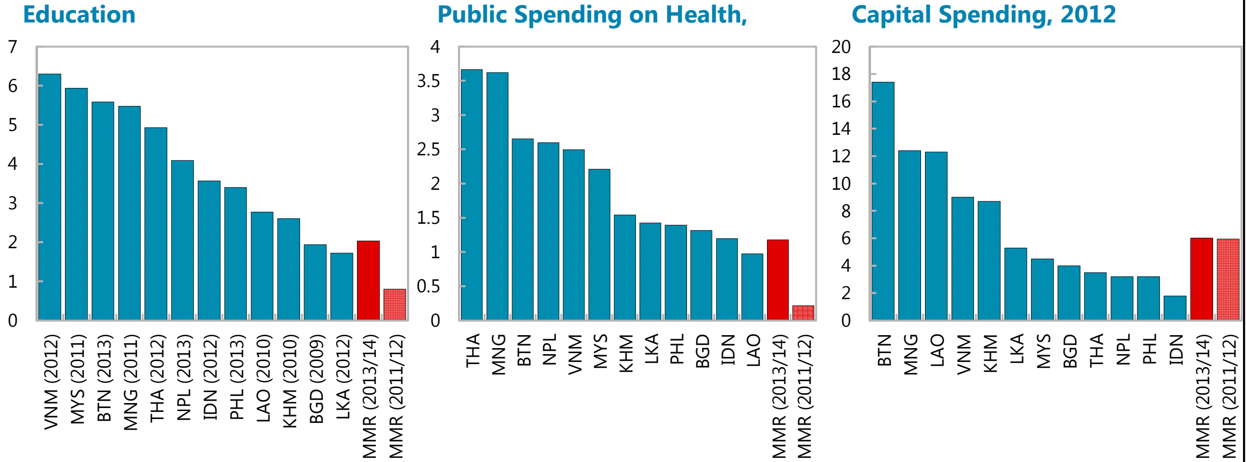


Sources: Authorities' data; the World Bank; and IMF staff estimates.

24. Myanmar should continue to prioritize expenditure on infrastructure and social programs and improve public financial management. In this respect, the cut in capital spending budgeted for 2015/16 is neither desirable nor consistent with the authorities' stated expenditure priorities. While it is important to raise public sector wages to retain and attract talents, the pace and structure of wage increases should be implemented in conjunction with a public service reform. Staff also encourages the authorities to assess the impact of expected increases in inflation on the poor and consider introducing well-targeted social programs as needed, such as free school meals to pupils attending compulsory education in public schools and free hospital treatments to pregnant and nursing women and elderly individuals. In the area of public financial management, the government should adopt a medium-term fiscal framework and consider introducing, over time, a fiscal rule to smooth spending against volatile gas revenues. The reform of state economic enterprises (SEEs) should be accelerated with a view to improving their efficiency and profitability in order to minimize contingent liabilities. This includes revising MOGE's financial requirements to reflect its role in collecting natural gas rents on behalf of the government.

25. Given the limited fiscal resources and huge spending needs, it is all the more important that Myanmar maintain fiscal discipline to ensure debt sustainability. Myanmar's risk of debt distress remains low (see the DSA), but overall public debt is projected to rise over time given the large financing needs for development. This highlights the importance of keeping deficits low and pursuing prudent external borrowing with an emphasis on concessional loans. Based on debt sustainability simulations, staff advised the government to lower its fiscal deficit target from 5 percent of GDP to 4½ percent of GDP over the medium to long term in order to safeguard fiscal sustainability.

Government Spending
(Percent of GDP)



Sources: Authorities Data; the World Bank; and IMF staff calculations.

Improving financial inclusion and promoting private enterprise

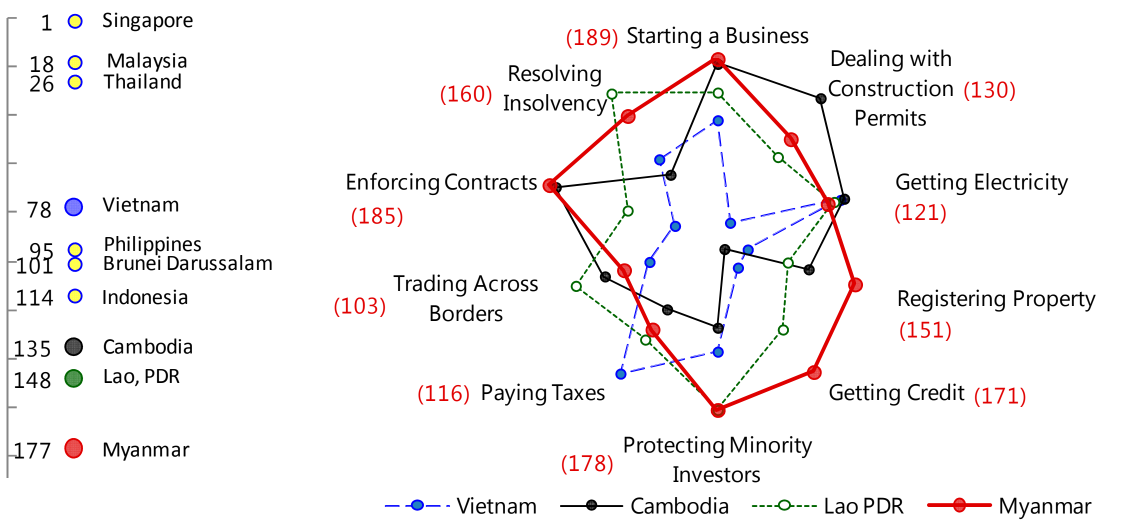
26. Improving financial inclusion will require safeguarding financial stability as well as broadening funding sources and reducing costs. Staff welcomes recent progress in preparing the Banks and Financial Institutions Law, the Investment Law and Company Law, and looks forward to their early approval by parliament. The enactment of these laws will help clarify the regulatory environment and make it more attractive to FDIs. The CBM should speed up approval of investment and other capital inflows consistent with these laws while maintaining appropriate capital management measures (such as setting annual ceilings of new borrowings) to safeguard financial stability. In addition, the CBM should consider allowing foreign exchange swaps and forwards to enable financial institutions and companies to hedge exchange rate risks and promote money market development. Foreign micro-finance institutions (MFIs) should be allowed to raise domestic kyat funding to facilitate more stable access to credit in the sector. Myanmar should take full advantage of the presence of nine foreign banks by end-September to modernize its banking sector while minimizing associated risks, such as volatility in capital flows (Selected Issues Paper 2).

27. Reforms of state banks should be accelerated, and policy banks, cooperatives, and MFIs need to be properly regulated and supervised (Box 4). Staff welcomes progress being made in the diagnostics of state banks with assistance of the World Bank and encourages the authorities to move expeditiously in formulating a reform plan to redefine the role of state banks and reduce financial and fiscal risks. One option would be to consolidate these banks and the many policy banks into one or two development banks with clear development mandates and a modern governance structure. Proper prudential regulations need to be applied to policy banks, cooperatives and MFIs, and their risks exposure, including foreign currency risks, should be monitored closely. Over time, the authorities should consider reducing fragmentation of financial supervision, with supervision power being consolidated in the CBM as its capacity develops.

28. Continued efforts will be needed to improve the business environment and external competitiveness. It is important to continue with regulatory reforms to reduce the cost of doing business, particularly in the areas of contract enforcement and business start-up, where Myanmar lags behind most of its peers. Myanmar has a great opportunity to leverage its participation in the ASEAN Economic Community to improve the business environment, as well as to take advantage of the dynamic regional market and value chains to implement its export-oriented development strategy, which entails export diversification to promote manufacturing activities (Selected Issues Paper 3). Raising labor productivity through education and training will be important to improve competitiveness, including in agriculture.

Ease of Doing Business: Overall Ranking and Its Components

Overall Ranking 1/ **Doing Business by Topics 2/**



1/ Economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.
2/ The number in () indicates Myanmar's raking for each topic.
Source: World Bank Doing Business (2015 Doing Business Report).

Authorities' Views

29. The authorities attach great importance to promoting inclusive growth. They are fully aware of the need to raise revenue but have noted that their efforts are often hampered by capacity constraints. To build up human capital and reduce poverty, the 2015/16 budget provided an extension of the free basic education program and more resources for medical education to train more healthcare professionals. The authorities are also planning to increase hospital coverage in rural areas and provide free books in primary and secondary public schools. The authorities recognize the need to improve the regulatory and supervisory framework to safeguard financial stability when promoting financial inclusion. Their approach to improve the business climate includes setting up special economic zones to make localized improvement in infrastructure and the regulatory regime.

DEVELOPING CAPACITY FOR MACROECONOMIC MANAGEMENT

30. Myanmar has an ambitious technical assistance (TA) program and is one of the largest recipients of Fund assistance. To meet the authorities' priorities, Fund TA has focused on central bank operations; financial sector supervision; revenue administration and tax reform; public financial management; macroeconomic analysis; AML/CFT; and statistics. Delivery is through a mix of resident advisors, experts in the Bangkok-based Technical Assistance Office for Lao P.D.R. and Myanmar (TAOLAM), and short-term HQ and expert missions. Considerable efforts have been made in collaboration and coordination with the World Bank and Asian Development Bank as well as bilateral development partners. Given the weak capacity in Myanmar, Fund assistance is likely to play a critical role for some time to come.

Staff's Views

31. Strong leadership is critical to continued improvement in the effectiveness of technical assistance and capacity building. Staff welcomes the establishment of a steering committee and working groups with officials from various departments of the CBM to develop and refine monetary policy tools and to improve financial market and legal infrastructure. In the area of accounting and the payment system, a strong push from the top management is needed to increase the momentum.

32. Continued improvements in macroeconomic statistics are important for timely and informed policy-making. Significant progress has been made in reducing the time lags of releasing data, particularly on monetary statistics, but serious data shortcomings, as discussed in the Statistical Issues Appendix, still pose significant challenges to macroeconomic surveillance. Data shortcomings include, among others, those in the areas of national accounts and external sector statistics. Staff encourages the authorities to prioritize the compilation of consistent financial soundness indicators (FSIs) and expedite the release of the rebased CPI.

Authorities' Views

33. The authorities recognize the importance of capacity building. They intend to strengthen leadership in this area and enhance absorptive capacity by facilitating suitably qualified officials to work closely with external experts. The rebased CPI is scheduled for release in the second half of 2015 and Fund technical assistance will be sought to improve FSIs.

STAFF APPRAISAL

34. The year 2015 marks a major milestone in Myanmar's political transition. A successful conduct of the November general elections and a timely conclusion of the peace negotiations will provide a firm basis for greater political and social stability and underpin continued economic transition.

35. The growth momentum remains strong, but signs of economic overheating have emerged in the face of supply bottlenecks and loose financial conditions. Downside risks to growth and stability have thus increased amid rising macroeconomic imbalances and a volatile external environment. This calls for urgent actions to reduce vulnerabilities.

36. An immediate policy priority is to tighten monetary condition. This action is essential to curb the rapid credit growth, a key factor behind the rising inflation and widening current account deficit, which in turn drive kyat depreciation. The CBM should scale up deposit auctions and promptly implement the recalibrated reserve requirement to mop up liquidity. Staff welcomes the CBM's willingness to allow interest rates at deposit and securities auctions to rise, which will help attract more deposits and Treasury bill purchases by banks.

37. Prudential measures need to be enforced to help curb credit expansion and minimize financial risks. The CBM should ensure that banks meet capital and liquidity requirements, and that their loan portfolios are properly classified and provisioning is adequate. Where needed, prudential standards should be tightened. Building on recent progress, the CBM should promptly finalize and issue remaining instructions on prudential regulations. More broadly, increased efforts will be needed to modernize the regulatory framework and strengthen the supervisory capacity.

38. Staff welcomes the recent bold move by the CBM to realign its reference rate with the wider market exchange rates. This policy change has helped balance the FX market by bringing FX supply back to the formal market and reducing excess FX demand. It is critical that the CBM support the exchange rate by tightening monetary condition to forestall any potential depreciation-inflation spiral. The kyat is broadly in line with its medium-term fundamentals, and staff encourages the authorities to advance structural reforms to improve external competitiveness.

39. Addressing economic overheating will also require reducing the fiscal deficit in the near term and terminating automatic CBM financing of the fiscal deficit. Raising tax revenue by commencing the collection of the commercial tax on telecommunication service and reducing tax incentives should be among the immediate priorities. On the expenditure side, the authorities should consider curbing transfers to States and Regions and cutting low-priority recurrent expenditure. Staff welcomes the launch of T-bill auctions and advises that interest rates be raised to attract substantially higher bid volumes to mop up liquidity.

40. Sustained efforts will be needed for revenue mobilization to meet Myanmar's huge development needs. Staff welcomes the operation of the Large Taxpayers Office and suggests that more resources be provided to the IRD to boost capacity. Legislation on the special commercial tax should be passed expeditiously and preparations for the introduction of a VAT should begin in earnest, as should work on estimating tax expenditure as part of annual budgets. Self-assessment of income taxes should not be extended to medium taxpayers until it works well in the LTO.

41. A large reform agenda remains on improving financial inclusion and the business environment to foster inclusive growth. Staff welcomes progress made in preparing relevant legislation and encourages its early approval in parliament. Much remains to be done in reforming state banks, strengthening supervision of policy banks and non-bank financial institutions, and facilitating market development to provide more reliable and affordable funding to these institutions. Early action is also needed to implement AML/CFT measures. Reducing the cost of doing business is important for fostering private enterprise, as is investing in human capital for raising labor productivity.

42. Continued technical assistance and capacity building are imperative to strengthen institutions for macroeconomic management. Staff encourages the authorities to provide strong leadership in implementing capacity building programs and make continued efforts to improve macroeconomic statistics, including early release of the rebased CPI and FSIs.

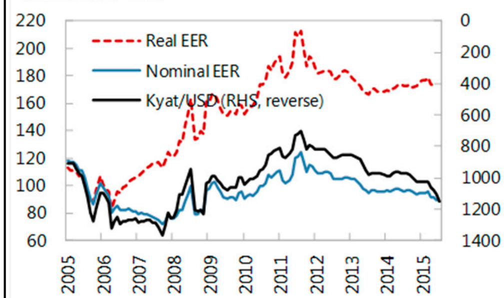
43. Staff supports the authorities' request for approval of a multiple currency practice subject to Fund jurisdiction under Article VIII, Section 3. The current multi-price FX auction is a necessary but temporary mechanism for price discovery and liquidity management given Myanmar's current underdeveloped FX market. The MCP arises from the mechanism of the foreign exchange auction and is maintained principally for non-balance of payments reasons. However, 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 is temporary, and the authorities are unable to replace it at present, staff recommends Executive Board approval for its retention until August 27, 2016 or the conclusion of the next Article IV consultation, whichever is earlier.

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

Box 1. External Sector Assessment

Myanmar's inflation-based real effective exchange rate (REER) appreciated by 3¾ percent between mid-2014 and March 2015. This has reversed the trend depreciation since 2012 when exchange rates were unified. However, the nominal exchange rate has depreciated significantly since March 2015, by as much as 16 percent against the U.S. dollar. Given that anticipated inflation differentials is expected to be much less than the nominal depreciation, it is likely that the REER has also adjusted downwards since March 2015. Since 2010, trade restrictions and controls on FX transactions have been gradually lifted. Pent-up import demand has widened the current account deficit, and external shocks such as lower gas prices have exerted downward pressure on the kyat. This trend is likely to continue until financial policies are tightened to rein in aggregate demand.

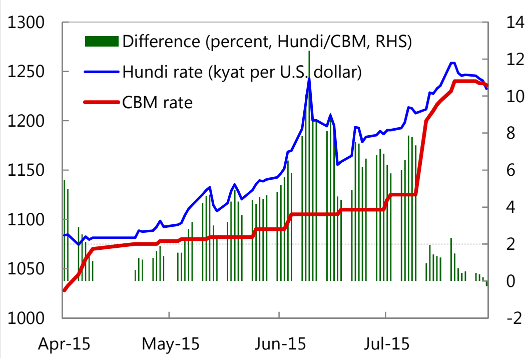
Market and Effective Exchange Rates (EER) 1/
(Index, 2005=100)



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

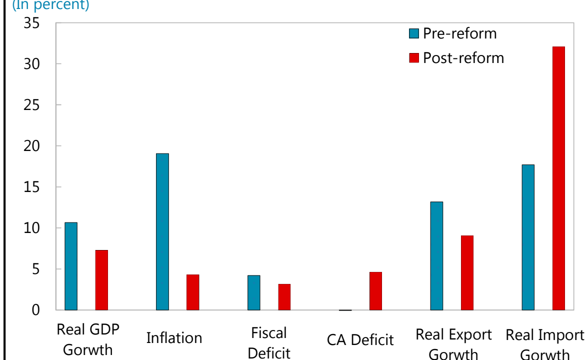
Given this background, the kyat appears to be broadly in line with Myanmar's medium-term fundamentals. Data limitations and structural changes make it difficult to apply conventional econometrics-based evaluation methods. However, the Central Bank of Myanmar's recent decision to move its reference exchange rate in line with the broad market rates has brought the exchange rate closer in line with the fundamentals. From September 2014 until mid-July 2015, the CBM was allowing the reference exchange rate to depreciate more slowly than the parallel market rate. However, in mid-July, the CBM brought its reference rate in line with market rates (a 6.7 percent depreciation). Staff projections, however, show that the current account deficit will likely remain elevated over the medium term as Myanmar continues to meet pent-up import demand. A moderate depreciation of the REER will help ensure that the deficit will narrow over the medium term.

Exchange Rates: CBM Reference and Hundi Rates



Sources: CBM and IMF staff calculations.

Pre and Post Reform Comparison (2000-10 v.s. 2011-14)
(In percent)



Source: IMF's World Economic Outlook.

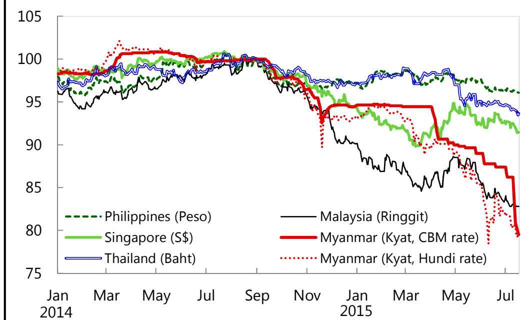
Myanmar will also need to strengthen macroeconomic stability and undertake structural reforms to improve its external position. Pent-up import demand unleashed by trade liberalization must be contained by tighter financial conditions. Over time, however, structural reforms to improve productivity are essential to raise Myanmar's external competitiveness. Labor costs in Myanmar remain among the lowest in Asia, but productivity is also low due to skill shortages and supply bottlenecks. Market liberalization and regulatory reforms, as recently seen in telecommunications, can bring down the cost of doing business and attract FDI.

Box 2. Recent Foreign Exchange Market Developments

The CBM has experienced considerable challenges in managing depreciation pressures on the kyat. Beginning in October 2014, the CBM attempted to slow kyat depreciation by setting its reference rate (the cut-off rate at the auction) at a more appreciated rate than the parallel market rate, causing the gap between the two rates to diverge significantly. Although the CBM allowed the reference rate to depreciate, it was always lagging behind the parallel market rate and it was not until July 13, 2015 that the CBM took a bold move to realign the reference rate with the parallel market rate. This has largely restored the price discovery mechanism embedded in the auction rules and led to a sharp depreciation of the CBM reference rate. A gap between the two continues to exist but it is now less than 2 percent. Balance has been restored in the FX market and the kyat appears to have stabilized for now.

The kyat has depreciated significantly since September 2014 reflecting both external and internal factors. It has depreciated by about 20 percent against the US dollar and about 6¾ percent on a nominal effective basis. This has largely resulted from strong import demand and rising inflation pressures, reflecting ongoing fiscal stimulus and easy monetary and credit conditions. However, other factors have also played a role, including a strengthening US dollar, declines in natural gas prices, and political uncertainty ahead of the elections in November.

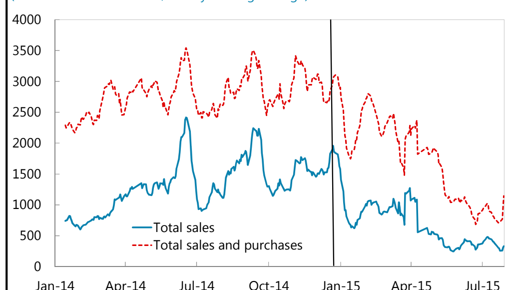
Currencies in Asia, 2014–2015 1/
(Index, 9/1/2014 = 100)



1/ Based on the bilateral exchange rate (US$/NCU).
Sources: DataStream; IMF staff calculations.

Alarmed by the strong depreciation pressure, the authorities tried to use administrative measures to curb speculation against the kyat but this only increased the imbalance in the FX market and undermined confidence in the currency. In December 2014 the CBM began to alter the allocation rules used in its daily FX auction such that FX was allocated on the basis of amount bid as opposed to price. With limited FX sales, this resulted in a divergence of the auction rate from the market rates. USD cash withdrawal limits were tightened in April 2015 in an attempt to reduce USD demand and the CBM took active steps to sanction both authorized dealers and informal market traders who were trading FX at significantly depreciated rates relative to the CBM reference rate. These measures only increased FX scarcity and hoarding exacerbating the imbalance in the FX market and putting further pressure on the kyat.

FX Turnover at Money Changers
(Thousands of U.S. dollars, 10 day moving average)



Source: Authorities' data.

Prior to the recent exchange rate realignment, foreign exchange became scarce in the formal authorized dealer market forcing importers into the informal markets. As authorized dealers are required to trade FX within 0.8 percent of the CBM reference rate they quickly became uncompetitive purchasers of FX relative to informal market dealers who were trading FX at rates up to 10 percent more depreciated relative to the CBM reference rate. Turnover with authorized dealers and legal money changers thus declined as banks turned away all but their best customers looking to purchase FX. In late June, a priority import window was introduced whereby unrestricted FX would be supplied to importers of cooking oil and fuel at the reference rate, although some transactions may have taken place initially at a different rate. With the July 13 exchange rate realignment, importers are now able to obtain FX from the formal market and all transactions under the window are now taking place at the reference rate, which has been within 2 percent of parallel market rates since July 13.

Box 3. A Scenario Analysis of the Myanmar Economy

This box provides comparisons between the baseline, an adjustment scenario, and an adverse scenario. The comparisons illustrate possible macroeconomic outcomes through macro-financial linkages. The baseline assumes a rising fiscal deficit that is in large part financed through issuance of government securities, and a slight tightening of monetary conditions, which lead to continued rapid credit growth and rising inflation. Import demand remains strong and the current account deficit widens further, with reserve coverage falling from the previous year, albeit moderately (Table below). While the economic situation is likely to improve gradually over the medium term, it is vulnerable to internal and external shocks.

- **The adjustment scenario** assumes that policy action is taken to mitigate the risks outlined above. Monetary policy is tightened by outright elimination of CBM's deficit financing in 2015/16, which implies that the government will substantially scale up T-bill auctions to meet its full financing needs. At the same time, prudential standards are more vigorously enforced. As a result, reserve money and credit growth is slower, and inflation pressure is eased. Fiscal policy is also tightened through containing transfers to sub-national governments, reducing low-priority spending, broadening the tax base on the commercial tax, and cutting tax incentives. Collectively, these measures help boost investor confidence, increase FDI inflows (which helps offset some of the contractionary effect of policy tightening), reduce the current account deficit, and boost foreign reserves.

- **The adverse scenario** provides a stress test of how certain shocks could affect the economy. It is assumed that the gas price and production decline by 15 percent and 5 percent, respectively, relative to the baseline, and political uncertainty related to the elections and easy monetary condition dents business confidence, resulting in lower FDI and other investment. On the fiscal front, revenue is lower than expected due to glitches in the newly introduced self-assessment of income taxes, and spending is higher due to political pressure. The resulting increase in the fiscal deficit is financed by the CBM, leading to more rapid growth in reserve money and private sector credit, and ultimately higher inflation, a further widening of the current account deficit, and lower foreign reserves. As banks are awash with liquidity, lending standards deteriorate, feeding back to credit growth (as reflected in the rising money multiplier). Ultimately, these lead to slower economic growth and greater vulnerabilities.

Baseline, Adjustment, and Adverse Scenarios

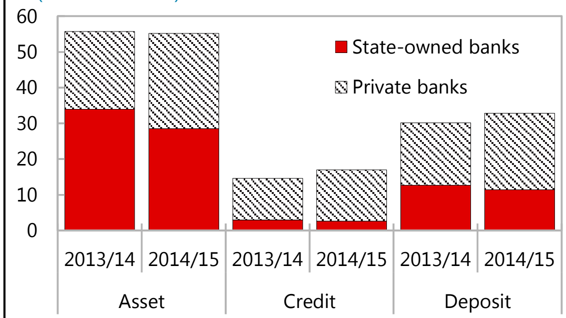
		2015/16					2016/17				
		Baseline	Adjustment	*Diff. 1/*	Adverse	*Diff. 1/*	Baseline	Adjustment	*Diff. 1/*	Adverse	*Diff. 1/*
Real GDP growth	*(Percent)*	8.5	8.2	*-0.3*	7.8	*-0.7*	8.4	8.2	*-0.1*	8.1	*-0.3*
Inflation	*(Percent)*	12.2	10.4	*-1.8*	16.5	*4.3*	11.8	8.8	*-3.0*	15.9	*4.1*
Reserve money growth	*(Percent)*	17.9	7.3	*-10.7*	26.8	*8.8*	16.9	10.4	*-6.5*	15.2	*-1.7*
Broad money growth	*(Percent)*	31.7	16.4	*-15.2*	43.8	*12.1*	28.4	19.8	*-8.6*	29.0	*0.6*
Private sector credit	*(Percent, y/y)*	45.2	30.1	*-15.1*	58.6	*13.3*	36.7	24.4	*-12.3*	37.4	*0.7*
	(Percent of GDP)	19.2	17.6	*-1.7*	21.0	*1.7*	21.7	18.5	*-3.1*	23.7	*2.0*
Current account balance	*(Percent of GDP)*	-8.9	-7.9	*1.0*	-9.9	*-1.0*	-8.3	-6.3	*1.9*	-10.1	*-1.8*
Trade account balance	*(Percent of GDP)*	-11.6	-10.6	*1.0*	-12.7	*-1.1*	-11.1	-9.2	*1.9*	-13.2	*-2.1*
Foreign Direct Investment	*(Percent of GDP)*	5.5	6.1	*0.6*	4.4	*-1.1*	6.5	7.2	*0.7*	5.5	*-0.9*
CBM reserves	*(Months of imports)*	2.5	3.1	*0.6*	1.6	*-0.9*	2.3	3.3	*1.0*	0.9	*-1.5*
Fiscal deficit	*(Percent of GDP)*	-4.8	-4.1	*0.7*	-6.3	*-1.5*	-4.7	-4.2	*0.5*	-5.8	*-1.1*
Miscellaneous item:											
CBM financing	*(Percent of GDP)*	1.0	0.0	*-1.0*	2.5	*1.5*	0.5	0.0	*-0.5*	1.7	*1.1*
Money multiplier	*(Level)*	2.54	2.47	*-0.07*	2.58	0.04	2.79	2.68	*-0.11*	2.89	0.10

1/ The difference is based on the respective alternative scenario against the baseline scenario.
Sources: Authorities' data; and staff calculations.

Box 4. State-Owned and Policy Banks in Myanmar

Ongoing economic transformation is reducing the dominance once enjoyed by state-owned banks (SOBs). Total banking sector assets have increased by 10 percent of GDP over the past two years, reaching 58½ percent of GDP at end February 2015. Assets owned by private banks now account for half of the total, up by 12½ percentage points, whereas SOB assets amount to 29½ percent of GDP, a decline of 2½ percentage points.

State-owned Banks vs. Private Banks
(Percent of GDP)

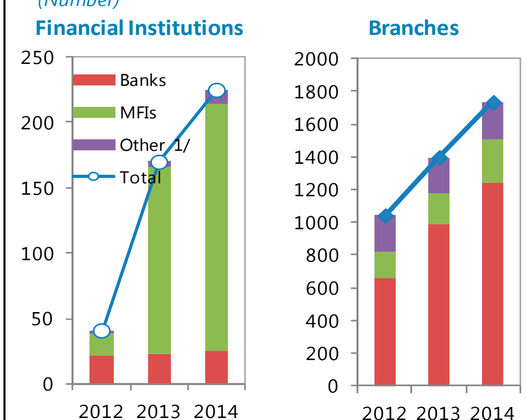


Sources: Authorities' data and IMF staff calculations.

In contrast to private banks SOBs have failed to capitalize on a booming private sector. Loans and advances to the private sector by private banks increased by more than twofold over the past two years, now accounting for 14 percent of GDP. At the same time, SOB lending to the private sector has increased much less rapidly and now accounts for a disproportionately small share in lending to the private sector (2½ percent of GDP). Myanmar Economic Bank, for example, has a large deposit base (5¼ percent of GDP), but its loans to the private sector account for only about 15 percent of its deposits. SOBs have also shifted their asset holdings to government securities.

A number of policy banks have been established in recent years, raising concerns over contingent liabilities for the government. These banks tend to be sponsored by a line ministry with private sector contributions and have a narrow sectoral focus for lending (e.g., tourism or construction). Like commercial banks, the policy banks take deposits and extend loans at the administratively controlled interest rates, except when they receive donor funding at lower costs. These banks also take foreign loans and on-lend in kyat, exposing themselves to exchange rate risks.

Financial Sector Landscape
(Number)



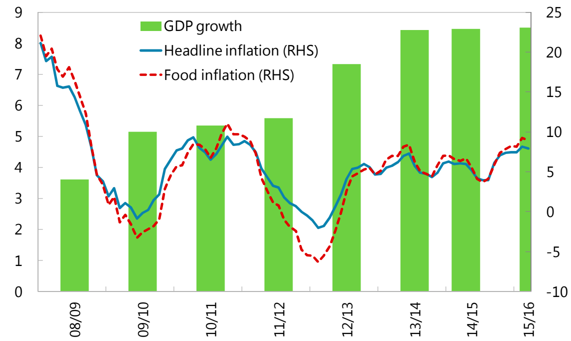
1/ Other includes cooperatives and financial company.
Source: Authorities data.

The government is in the process of formulating a reform strategy for SOBs and this will affect policy banks as well. This work is supported by the World Bank through comprehensive diagnostic studies of SOBs, with two finished already. The enactment of the Banks and Financial Institutions Act will provide a new regulatory framework for SOBs and policy banks, which will be required to reapply for licenses, providing an opportunity to eliminate regulatory arbitrage by policy banks. Staff has in the past recommended to consolidate SOBs and policy banks into a couple of policy banks.

Figure 1. Myanmar: Macroeconomic Developments: Overview

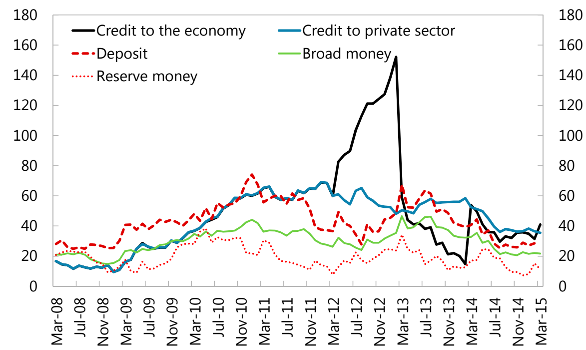
Growth remains strong, driven by manufacturing activities, construction and telecommunication services …

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



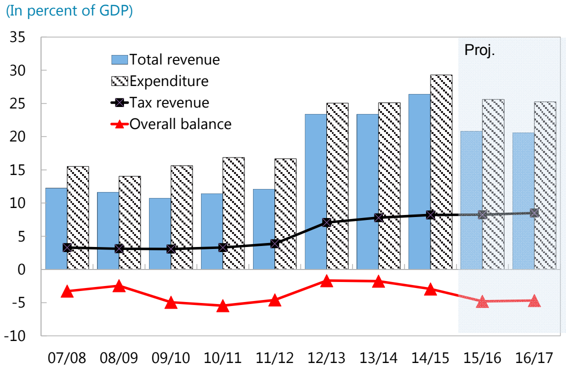
… and credit to the private sector continues to grow rapidly.

Monetary Indicators
(Year-on-year percent change)



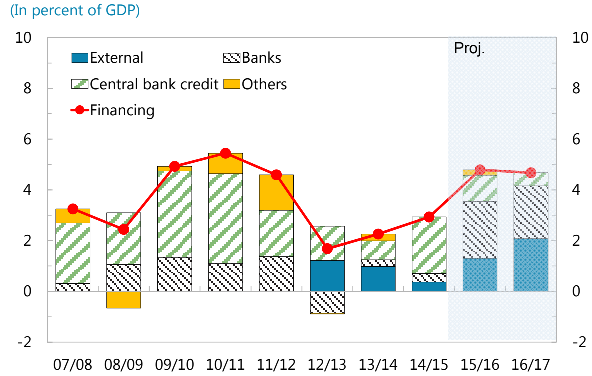
Revenue and expenditure have increased from low levels.

Fiscal Revenue and Expenditure
(In percent of GDP)



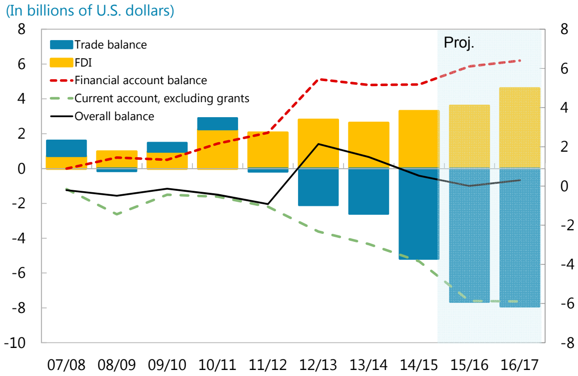
The fiscal deficit is expected to increase, and CBM financing of the deficit is likely to continue in 2015/16.

Fiscal Financing
(In percent of GDP)



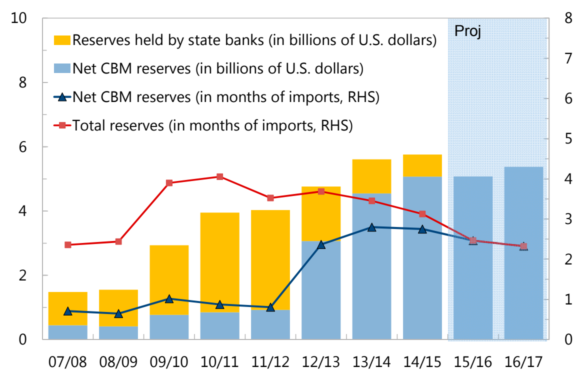
The current account deficit is widening, and largely financed by FDI inflows …

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



… and international reserves held by the CBM continue to rise, but the import coverage is expected to decline.

Total and Net CBM Reserves



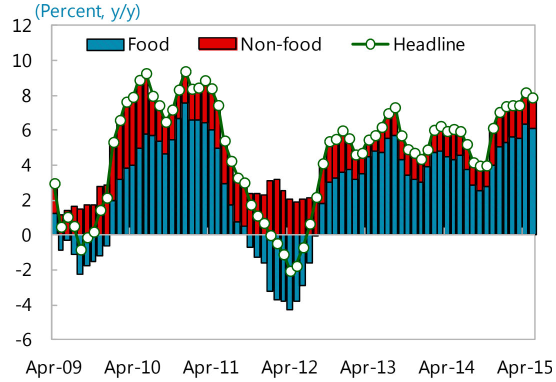
Sources: Authorities' data; CEIC Data; and IMF staff calculations.

Figure 2. Myanmar: Inflation and Real Sector Developments

Inflation picked up recently, driven primarily by food price inflation ...

Inflation

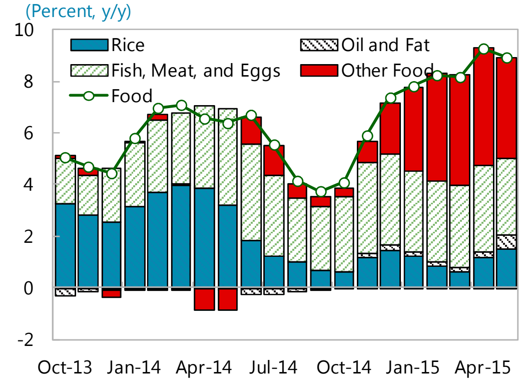
(Percent, y/y)



... while increases in rice prices have moderated, other food prices are rising rapidly, partly due to the kyat depreciation.

Inflation in Food Items

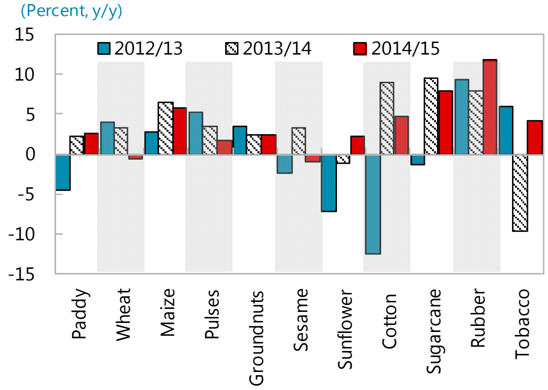
(Percent, y/y)



Agriculture grew again this year but at a slower pace than the previous year.

Principal Agricultural Crops

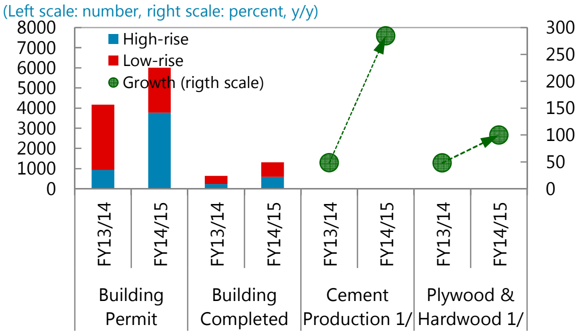
(Percent, y/y)



Construction has been growing strongly. The number of buildings completed more than doubled last year, supported by production of construction materials.

Construction Activities

(Left scale: number, right scale: percent, y/y)

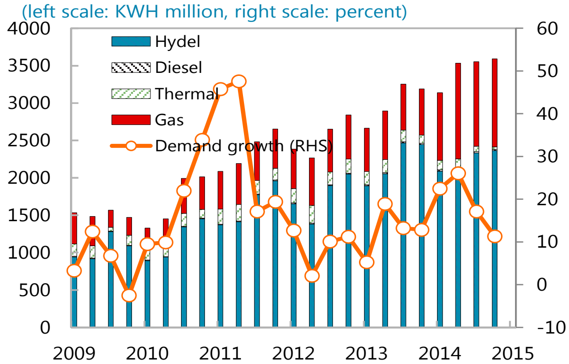


1/ Based on activities by private enterprises.

Electricity supply has been growing strongly and supporting industrial activities ...

Electricity Supply by Source and Demand Growth

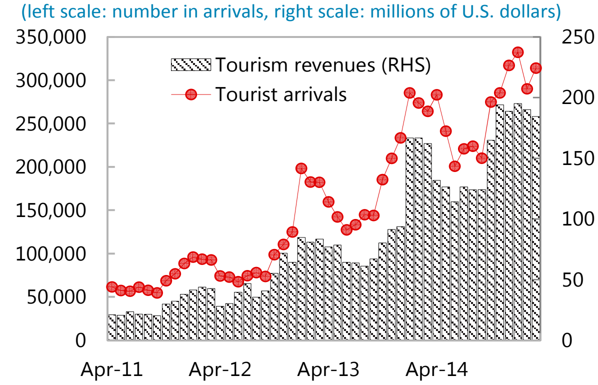
(left scale: KWH million, right scale: percent)



... and a surge in tourist arrivals has contributed to strong growth in the service sector.

Tourist Arrivals and Tourism Receipts

(left scale: number in arrivals, right scale: millions of U.S. dollars)

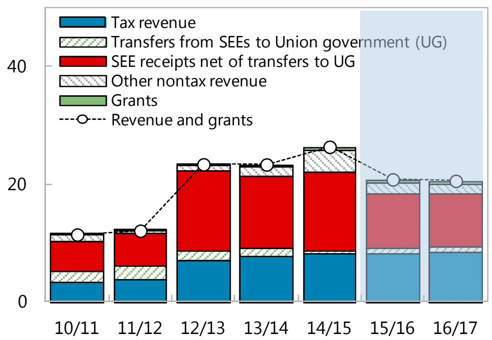


Sources: Authorities' data; CEIC Data; and IMF staff calculations.

Figure 3. Myanmar: Fiscal Sector Developments

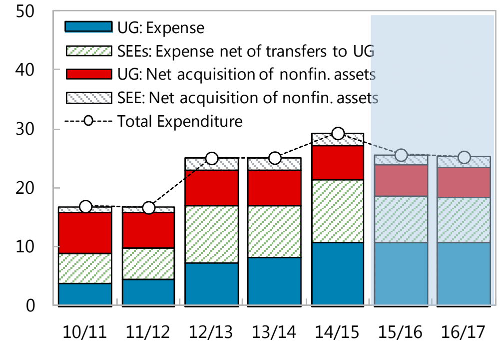
As growth in SEE receipts and one-off revenues moderates, their revenue in the consolidated public sector declines …

Total Revenue
(Percent of GDP)



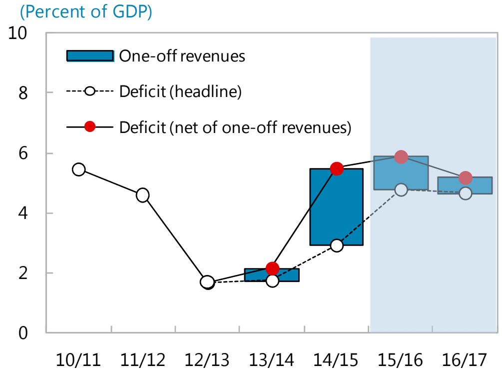
… subsequently, SEEs cut back their spending, and the Union government (UG) reduces its capital expenditure.

Total Expenditure
(Percent of GDP)



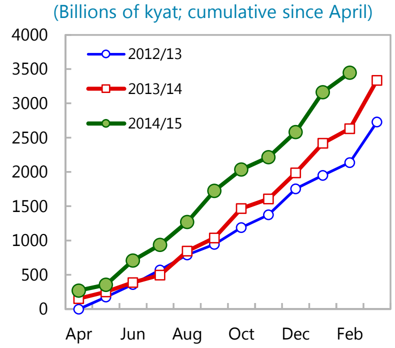
The headline deficit is expected to increase in 2015/16 …

Overall and Underlying Fiscal Deficit
(Percent of GDP)



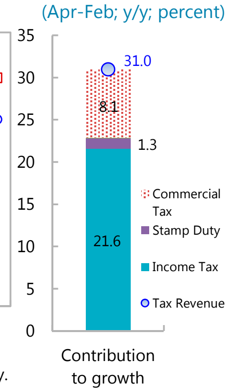
… while tax revenue has been growing strongly, driven by income tax revenue.

Major Tax Revenue 1/
(Billions of kyat; cumulative since April)



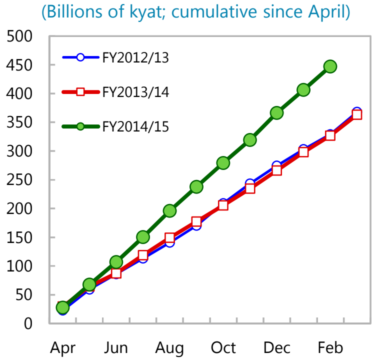
1/ Commercial and income taxes, and stamp duty.

Growth in 14/15
(Apr-Feb; y/y; percent)



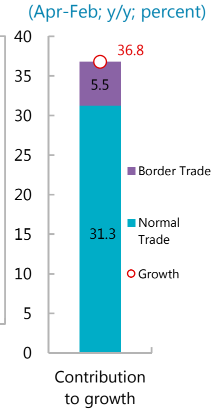
A surge in import growth has helped generate more custom duties, and this trend is likely to continue…

Custom Duties 1/
(Billions of kyat; cumulative since April)



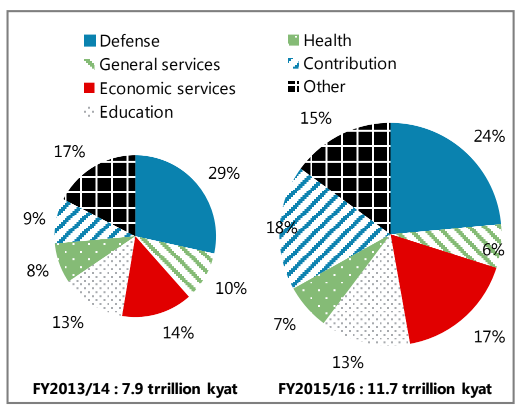
1/ Includes normal and border trade.

Growth in 14/15
(Apr-Feb; y/y; percent)



…more resources need to be allocated to priority areas for inclusive growth.

Union Government: Expenditure Composition
(Percent of total expenditure in the budget)



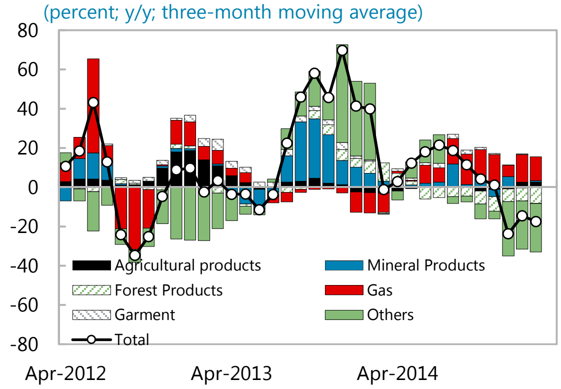
Sources: Authorities' data; CEIC Data; and IMF staff calculations.

Figure 4. Myanmar: External Sector Developments

Drivers of exports growth have changed with two new gas fields coming on stream, an export ban on logs, and declines in re-exports ...

Goods Exports 1/

(percent; y/y; three-month moving average)

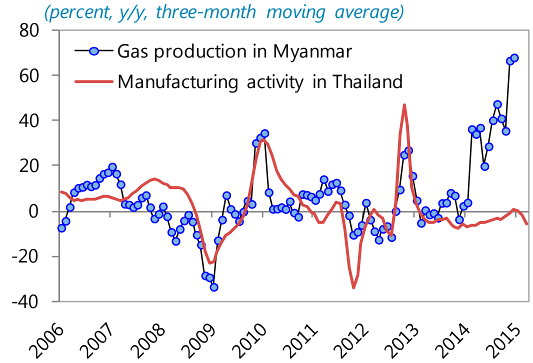


1/ Based on the U.S. dollar.

... gas exports to China more than offset a slower pace of gas exports to Thailand.

Gas Production in Myanmar and Manufacturing Activity in Thailand

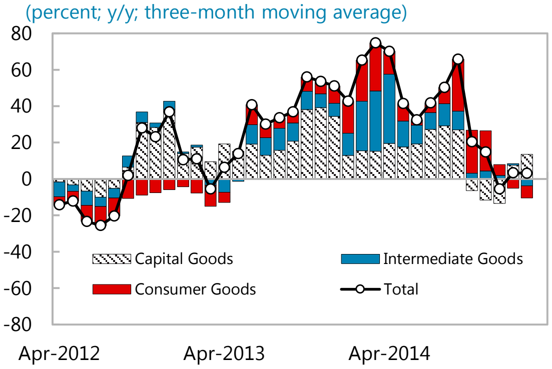
(percent, y/y, three-month moving average)



Imports growth has been strong, but recent kyat depreciation is slowing the growth.

Goods Imports 1/

(percent; y/y; three-month moving average)

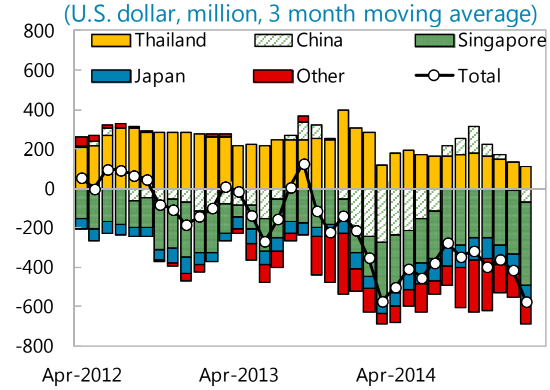


1/ Based on the U.S. dollar.

The trade deficit is rising, mainly driven by bilateral trade deficits with Singapore, China and "Other" since end-2013.

Trade Balance in Goods

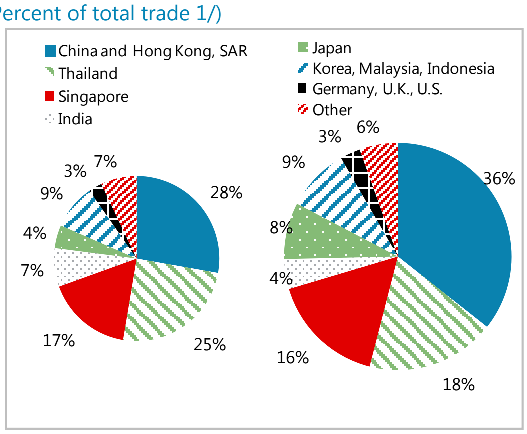
(U.S. dollar, million, 3 month moving average)



Meantime, the trade with China has been growing rapidly...

Total Trade by Major Partners, 2011/12 and 2014/15

(Percent of total trade 1/)

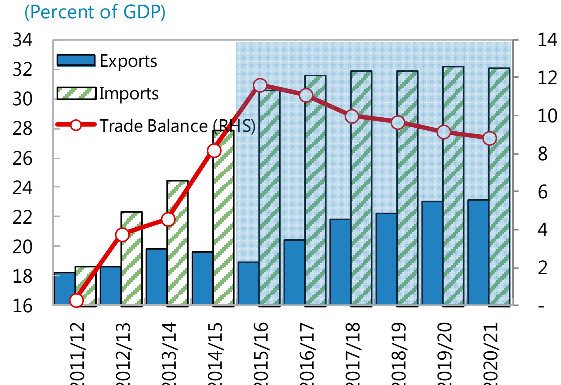


1/ Includes both exports and imports.

...while import growth has been strong since trade liberalization in 2012 and FDI and export growth will gradually pick up pace to help reduce the deficit over time.

Trade Balance, 2011/12-2020/21

(Percent of GDP)



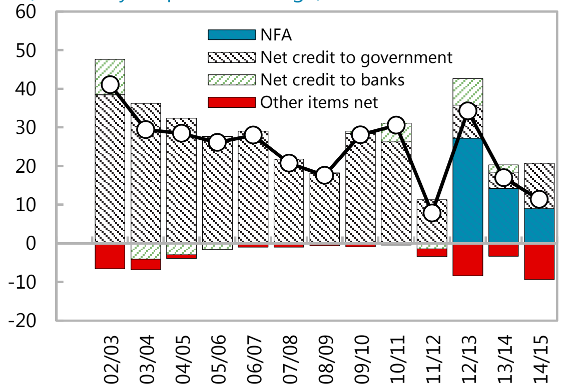
Sources: Authorities' data; CEIC Data; and IMF staff calculations

Figure 5. Myanmar: Monetary Sector Developments

Reserve money growth has declined significantly in recent years due to declines in growth of net foreign assets (NFA)...

Reserve Money Growth

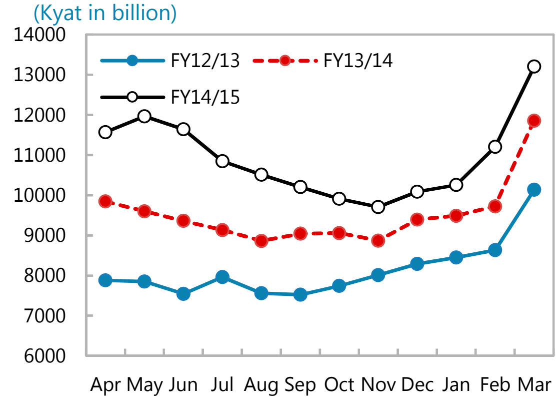
(Year-on-year percent change)



... however, it fluctuates during the fiscal year with a significant pick up toward the end of fiscal year in March.

Reserve Money

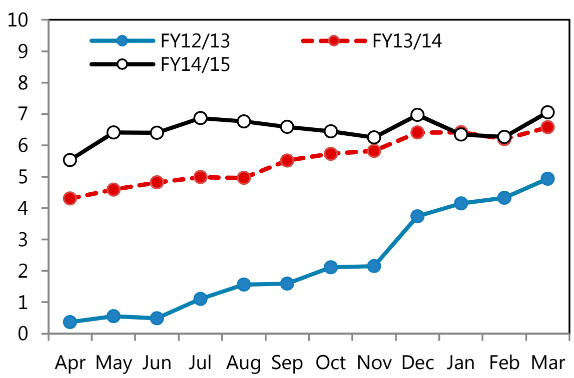
(Kyat in billion)



Growth in NFA in FY2014/15 was subdued as a result of a large trade account deficit ...

Net Foreign Assets (NFA)

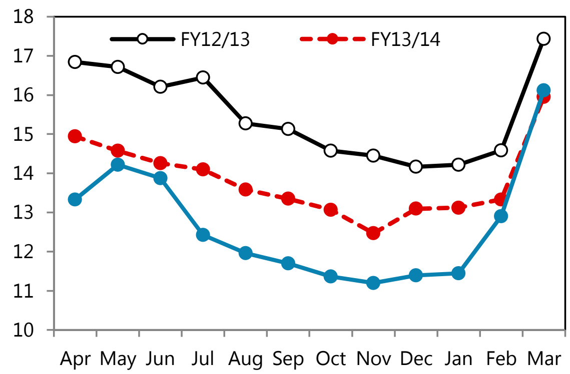
(Percent of GDP)



... while a significant increase in credit to the government is expected at the end of fiscal year.

Credit to the government

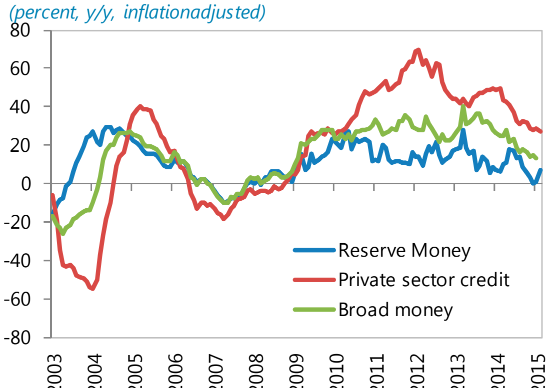
(Percent of GDP)



Meantime, credit to private sector continues to grow rapidly, fueling import demand and increasing the trade deficit...

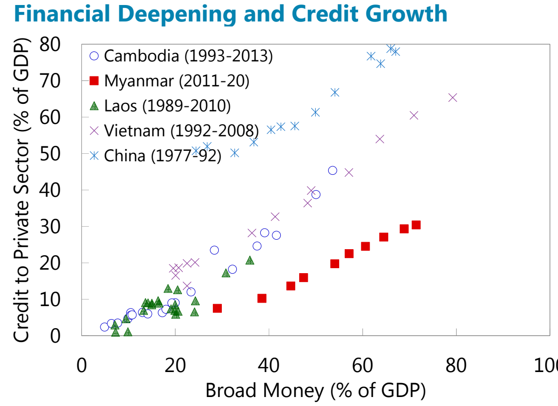
Reserve and Broad Money, and Private Sector Credit

(percent, y/y, inflationadjusted)



...as well as supporting financial deepening, as in other Asian neighbors with a rising money multiplier.

Financial Deepening and Credit Growth

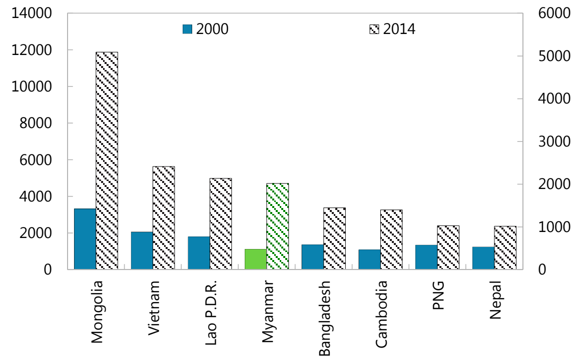


Sources: Authorities; The World Bank; and IMF staff calculations.

Figure 6. Selected Indicators: Myanmar and Its Peers

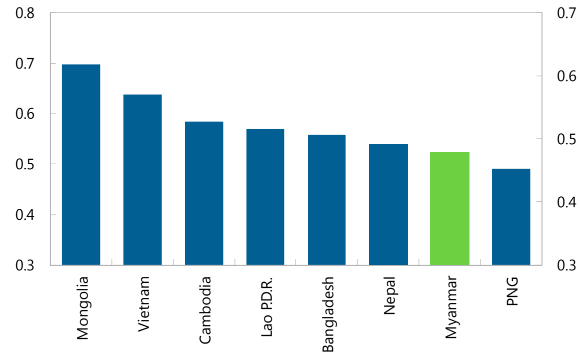
Living standards remain among the lowest in the region.

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



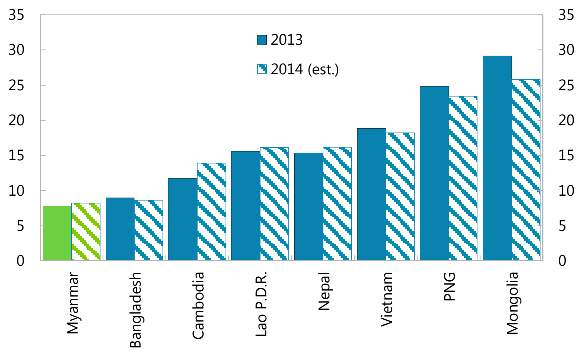
Social well-being is below that of regional peers, with Myanmar ranking 149th out of 186 countries.

Human Development Index, 2013
(Index)



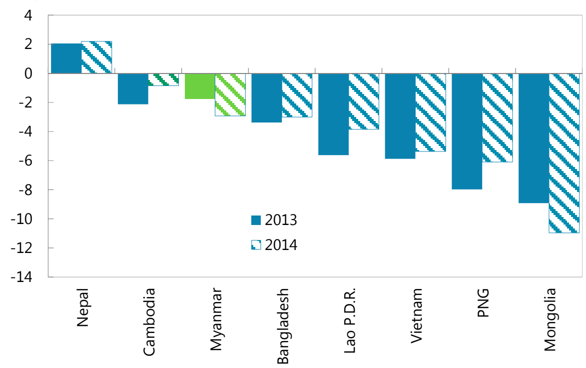
Tax revenue remains low …

Government Tax Revenue
(In percent of GDP)



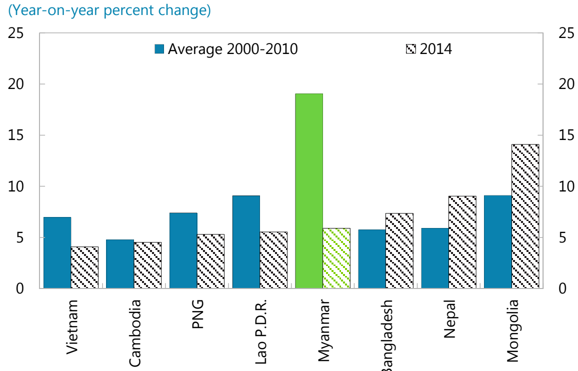
.. but fiscal deficits are moderate.

General Government Balance
(In percent of GDP)



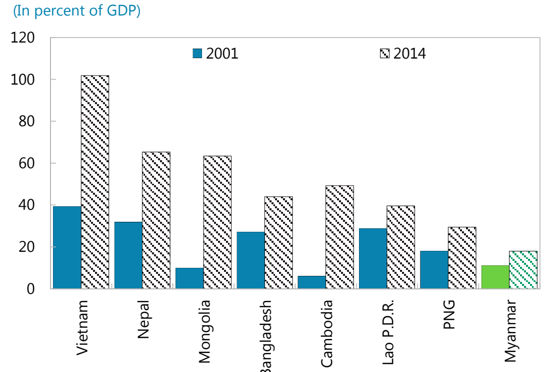
Inflation has declined significantly from the high levels during the earlier decade …

Inflation
(Year-on-year percent change)



… and overall credit remains low in percent of GDP despite rapid expansion in recent years.

Credit to the Economy
(In percent of GDP)

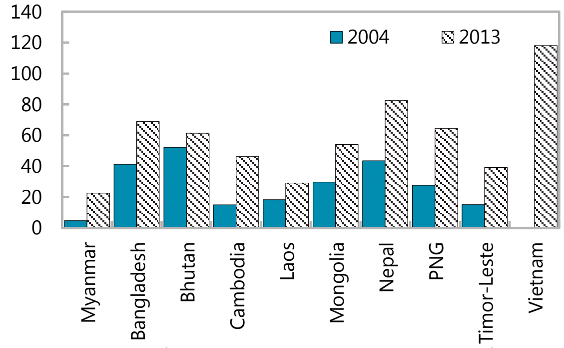


Sources: Authorities; The World Bank; and IMF staff calculations.

Figure 7. Financial Sector Developments: Myanmar and Its Peers

Although financial deepening is taking place, broad money in percent of GDP remains low …

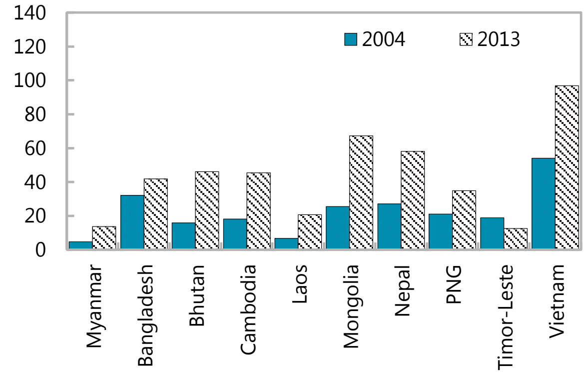
Broad Money 1/
(Percent of GDP)



1/ Based on 2010 for Laos. Only recent data is available for Vietnam.

… credit to private sector is growing rapidly although it is still low relative to the size of the economy.

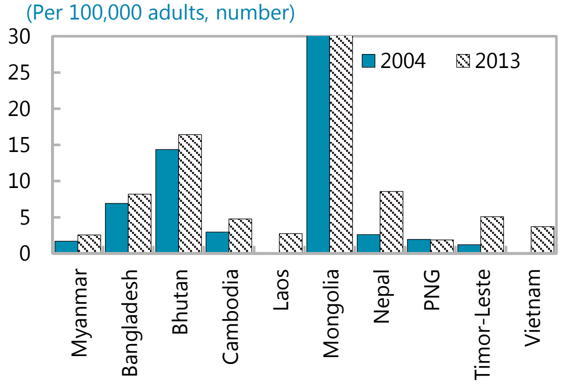
Credit to Private Sector 1/
(Percent of GDP)



1/ Based on 2010 for Laos.

Private banks are rapidly expanding their branch networks, contributing to improvement in financial inclusion …

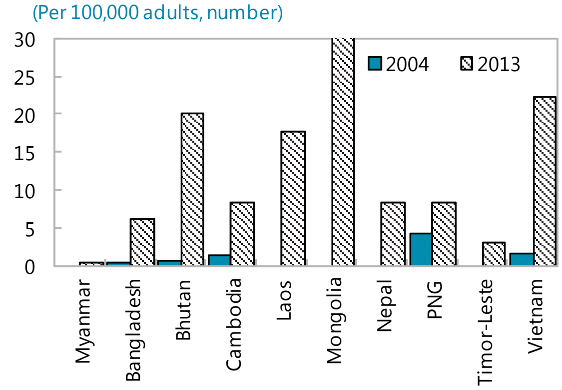
Commercial Bank Branches 1/
(Per 100,000 adults, number)



1/ The data for Mongolia is 40 (2004) and 72 (2013).

… but banking services are limited in rural areas, and there is little availability of ATMs.

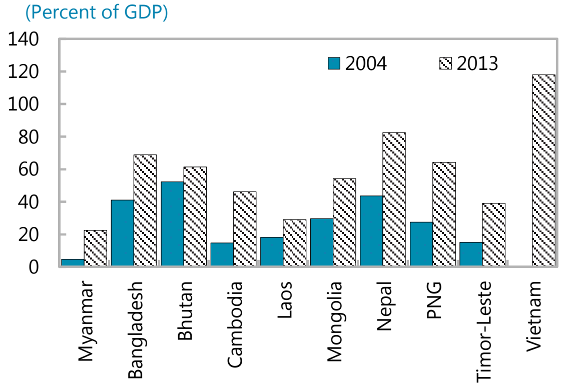
ATMs 1/
(Per 100,000 adults, number)



1/ The data for Mongolia is 50.6 (2013).

With expansion of the underlying economy, deposits have been growing rapidly but still low in percent of GDP.

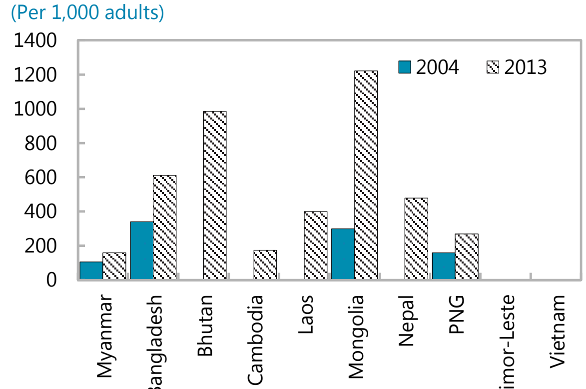
Outstanding Deposit with Commercial Banks 1/
(Percent of GDP)



1/ Based on 2010 for Laos.

… and the number of adults with deposits accounts remain low, compared to peers, albeit rising from the low base.

Deposit Accounts with Commercial Banks 1/
(Per 1,000 adults)



1/ No data is available for Timor-Leste and Vietnam.

Sources: Authorities; and IMF staff calculations.

Table 1. Myanmar: Selected Economic Indicators, 2011/12–2017/18 1/

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
			Est.	Proj.		Proj.	
Output and prices			(Percent change)				
Real GDP (authorities) 2/	5.6	7.3	8.4	8.7	9.3	…	…
Real GDP (staff working estimates)	5.6	7.3	8.4	8.5	8.5	8.4	8.3
CPI (end-period)	-1.1	4.7	6.3	7.4	13.3	10.2	8.2
CPI (period average)	2.8	2.8	5.7	5.9	12.2	11.8	9.2
Consolidated Public Sector 3/			(Percent of GDP)				
Total revenue	12.1	23.4	23.3	26.4	20.8	20.6	20.8
Union government	6.6	9.6	10.8	12.6	11.1	11.0	10.9
Of which : Tax revenue	3.9	7.1	7.8	8.2	8.2	8.5	8.8
SEE receipts	7.8	15.4	13.7	13.8	10.1	10.0	10.3
Grants	0.0	0.1	0.3	0.5	0.5	0.5	0.5
Total expenditure	16.7	25.1	25.1	29.3	25.6	25.2	25.3
Expense	9.8	16.9	17.0	21.3	18.6	18.5	18.6
Net acquisition of nonfinancial assets	6.8	8.2	8.1	8.0	7.0	6.8	6.8
Gross operating balance	2.2	6.5	6.4	5.1	2.2	2.1	2.2
Net lending (+)/borrowing (-)	-4.6	-1.7	-1.8	-2.9	-4.8	-4.7	-4.6
Underlying net lending (+)/borrowing (-) 4/	-4.6	-1.7	-2.2	-5.5	-5.9	-5.2	-4.6
Domestic public debt	22.6	17.8	16.8	17.2	17.6	17.1	17.0
Money and Credit			(Percent change)				
Reserve money	7.9	34.2	17.0	11.4	17.9	16.9	15.7
Broad money	26.3	46.6	32.7	21.7	31.7	28.4	24.4
Domestic credit	25.1	5.1	24.6	28.8	34.7	30.3	27.9
Private sector	60.1	50.5	52.5	35.5	45.2	36.7	30.2
Balance of Payments			(Percent of GDP, unless otherwise indicated)				
Current account balance	-1.9	-4.2	-5.2	-6.1	-8.9	-8.3	-7.7
Trade balance	-0.3	-3.8	-4.6	-8.2	-11.6	-11.1	-10.0
Exports	18.3	18.6	19.9	19.6	18.9	20.4	21.8
Gas Exports	6.3	6.6	5.8	6.8	5.4	5.2	4.8
Imports	-18.6	-22.4	-24.4	-27.8	-30.5	-31.5	-31.8
Financial account	3.7	9.2	8.5	7.6	8.9	8.7	9.2
Foreign direct investment, net	3.7	5.0	4.6	5.2	5.5	6.5	6.9
Overall balance	-1.7	3.8	2.6	0.8	0.0	0.4	1.5
CBM reserves							
In millions of U.S. dollars	922	3,062	4,546	5,070	5,075	5,374	6,539
In months of total imports	0.8	2.4	2.8	2.8	2.5	2.3	2.5
External debt							
Total external debt (billions of U.S. dollars)	15.3	13.7	10.2	8.8	9.7	11.2	12.8
(In percent of GDP)	27.4	24.7	18.0	14.0	14.7	15.7	16.2
Of which : External debt arrears (billions of U.S. dollars) 5/	10.8	4.8	0.0	0.0	0.0	0.0	0.0
Terms of trade (in percent change)	-2.8	0.0	-0.1	0.8	4.6	-1.0	-0.4
Exchange rates (kyat/$, end of period)							
Official exchange rate	5.6	880	965	1,027	…	…	…
Parallel rate	822	878	965	1,070	…	…	…
Memorandum items							
GDP (billions of kyats)	43,238	47,722	54,699	62,834	76,471	92,641	109,600
GDP (billions of US$)	56.0	55.6	56.7	63.1	65.8	71.3	79.0
GDP per capita (US$)	1,118	1,100	1,112	1,228	1,269	1,364	1,502

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

1/ Fiscal year from April 1 to March 31.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises.
4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.
5/ In 2012/13 and 2013/14, the figures incorporate arrears clearance agreements with Paris Club creditors, the World Bank and the Asian Development Bank.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2011/12–2017/18

(Consolidated Accounts)

	2011/12	2012/13	2013/14	2014/15	2015/16		2016/17	2017/18
					Budget	Proj.	Proj.	
				(In billions of kyat)				
Revenue and grants	5,222	11,156	12,772	16,563	14,685	15,919	19,052	22,742
Tax revenue	1,678	3,375	4,262	5,160	5,113	6,309	7,874	9,590
Transfers from SEEs to Union Government	988	774	746	322	698	698	837	1,020
SEE receipts net of transfers to Union Government	2,376	6,560	6,738	8,372	7,027	7,027	8,427	10,269
Other nontax revenue 1/	180	422	881	2,404	1,503	1,503	1,450	1,315
Grants	0.22	26	146	305	345	382	463	548
Expenditure	7,208	11,955	13,732	18,405	19,018	19,582	23,379	27,762
Expense	4,259	8,062	9,297	13,387	14,164	14,228	17,110	20,345
Union government	1,945	3,521	4,493	6,729	8,110	8,175	9,931	11,597
SEEs net of transfers to Union Government	2,314	4,541	4,804	6,657	6,054	6,054	7,179	8,748
Net acquisition of nonfinancial assets	2,949	3,893	4,435	5,018	4,854	5,354	6,269	7,417
Union government	2,572	2,940	3,288	3,711	3,566	4,066	4,725	5,535
SEEs	377	953	1,147	1,307	1,288	1,288	1,545	1,882
Net lending (+)/borrowing (-)	-1,986	-799	-960	-1,841	-4,333	-3,664	-4,328	-5,020
Union government	-1,671	-1,865	-1,747	-2,248	-4,018	-3,348	-4,031	-4,658
SEEs net of transfers to Union Government	-315	1,066	787	407	-315	-315	-297	-362
Financing	1,986	803	1,237	1,841	…	3,664	4,328	5,020
External (net)	6	583	536	233	…	1,004	1,926	2,265
Domestic (net)	1,980	219	701	1,608	…	2,659	2,402	2,755
Of which: CBM	790	645	408	1,400	…	789	480	0
Deposit money banks 2/	588	-412	144	208	…	1,711	1,921	2,755
				(In percent of GDP)				
Revenue and grants	12.1	23.4	23.3	26.4	19.2	20.8	20.6	20.8
Tax revenue	3.9	7.1	7.8	8.2	6.7	8.3	8.5	8.8
Transfers from SEEs to Union Government	2.3	1.6	1.4	0.5	0.9	0.9	0.9	0.9
SEE receipts net of transfers to Union Government	5.5	13.7	12.3	13.3	9.2	9.2	9.1	9.4
Other nontax revenue	0.4	0.9	1.6	3.8	2.0	2.0	1.6	1.2
Grants	0.0	0.1	0.3	0.5	0.5	0.5	0.5	0.5
Expenditure	16.7	25.1	25.1	29.3	24.9	25.6	25.2	25.3
Expense	9.8	16.9	17.0	21.3	18.5	18.6	18.5	18.6
Union Government	4.5	7.4	8.2	10.7	10.6	10.7	10.7	10.6
SEEs net of transfers to Union Government	5.4	9.5	8.8	10.6	7.9	7.9	7.7	8.0
Net acquisition of nonfinancial assets	6.8	8.2	8.1	8.0	6.3	7.0	6.8	6.8
Union Government	5.9	6.2	6.0	5.9	4.7	5.3	5.1	5.1
SEEs	0.9	2.0	2.1	2.1	1.7	1.7	1.7	1.7
Net lending (+)/borrowing (-)	-4.6	-1.7	-1.8	-2.9	-5.7	-4.8	-4.7	-4.6
Union Government	-3.9	-3.9	-3.2	-3.6	-5.3	-4.4	-4.4	-4.3
SEEs net of transfers to Union Government	-0.7	2.2	1.4	0.6	-0.4	-0.4	-0.3	-0.3
Financing	4.6	1.7	2.3	2.9	…	4.8	4.7	4.6
External (net)	0.0	1.2	1.0	0.4	…	1.3	2.1	2.1
Domestic (net)	4.6	0.5	1.3	2.6	…	3.5	2.6	2.5
Of which: CBM	1.8	1.4	0.7	2.2	…	1.0	0.5	0.0
Deposit money banks 2/	1.4	-0.9	0.3	0.3	…	2.2	2.1	2.5
Memorandum items:				(In percent of GDP, unless otherwise indicated)				
Underlying net lending (+)/borrowing (-) 3/	-4.6	-1.7	-2.2	-5.5	-6.8	-5.9	-5.2	-4.6
Interest	1.1	1.2	1.5	1.6	1.4	1.5	1.5	1.5
Wages and salaries	1.2	2.0	2.1	2.2	3.5	3.5	3.5	3.5
Education expenditure	0.8	1.6	1.8	2.0	2.0	2.0	2.1	2.1
Health expenditure	0.2	1.5	1.2	1.2	1.0	1.0	1.0	1.1
Defense expenditure	2.9	4.4	4.1	4.2	3.6	3.6	3.2	2.9
Public debt	49	43	35	32	…	33	33	34
External	27	25	18	14	…	16	16	17
Domestic	23	18	17	17	…	18	17	17
GDP (in billions of kyat)	43,238	47,722	54,699	62,834	76,471	76,471	92,641	109,600

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

1/ Includes proceeds from sales of telecom licenses; and signature bonuses from gas production sharing contracts for on- and off-shore blocks.

2/ In FY2012/13 includes valuation adjustment for the replacement of the official exchange rate with a market-determined exchange rate.

3/ Excludes one-off receipts from telecom licenses and gas contracts signature bonuses.

Table 3. Myanmar: Balance of Payments, 2011/12–2017/18
(In millions of US$, unless otherwise indicated)

	2011/12	2012/13	2013/14 Est.	2014/15 Proj.	2015/16	2016/17 Proj.	2017/18
Current account	-1,063	-2,322	-2,960	-3,851	-5,867	-5,895	-6,072
Trade balance	-175	-2,095	-2,596	-5,174	-7,652	-7,917	-7,902
Exports, fob	10,233	10,341	11,264	12,383	12,435	14,537	17,267
Of which: Gas	3,503	3,666	3,299	4,310	3,544	3,703	3,829
Imports, mostly cif	-10,408	-12,436	-13,860	-17,557	-20,087	-22,454	-25,169
Nonfactor services, net	-496	-75	-117	974	1,007	1,020	973
Income, net	-882	-685	-1,155	-1,286	-1,064	-1,096	-1,452
Of which: Interest due	-560	-94	-220	-225	-233	-244	-258
Transfers, net	490	533	908	1,634	1,843	2,097	2,310
Official	41	28	205	318	329	356	395
Private	449	504	703	1,316	1,514	1,741	1,915
Capital and financial account	2,061	5,132	4,796	4,827	5,872	6,195	7,236
Direct investment, net	2,057	2,800	2,621	3,293	3,600	4,600	5,490
Other investment	4	926	556	234	864	1,482	1,633
MLT debt disbursements	605	1,085	761	454	1,200	1,895	2,014
Repayments due	-600	-159	-206	-220	-336	-413	-380
Other flows	-1	1,406	1,620	1,299	1,408	113	113
Errors and omissions	-1,924	-670	-352	-452	0	0	0
Overall balance	-925	2,140	1,484	524	5	299	1,165
Financing	925	-2,140	-1,484	-524	-5	-299	-1,165
Gross official reserves (increase: -)	-72	-2,140	-1,484	-524	-5	-299	-1,165
Change in arrears (increase: +)	997	-6,056	-4,792	0	0	0	0
Exceptional financing (positive: +)	0	6,056	4,792	0	0	0	0
Memorandum items							
CBM reserves (in million US$)	922	3,062	4,546	5,070	5,075	5,374	6,539
In months of prospective GNFS imports	0.8	2.4	2.8	2.8	2.5	2.3	2.5
Current account (in percent of GDP)	-1.9	-4.2	-5.2	-6.1	-8.9	-8.3	-7.7
Trade balance (in percent of GDP)	-0.3	-3.8	-4.6	-8.2	-11.6	-11.1	-10.0
Gas export volume (percent change)	8.2	-2.2	-6.7	42.3	2.9	7.5	2.9
Other exports volume (percent change)	0.0	-1.5	21.3	4.1	15.2	21.4	23.5
Import volume (percent change)	21.5	19.4	12.9	28.5	17.1	11.1	11.3
Foreign direct investment (in percent of GDP)	3.7	5.0	4.6	5.2	5.5	6.5	6.9
Public external debt (in percent of GDP)	27	25	18	13.99	14.74	15.68	16.20
Of which: Arrears	19	9	0	0	0	0	0
Market exchange rate (kyat/US$, eop)	754	880	965	1,027			
GDP	56,002	55,609	56,699	63,135	65,775	71,275	79,046

Sources: Authorities and Fund staff estimates and projections.

Table 4. Myanmar: Monetary Survey, 2011/12–2017/18 1/ 2/

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

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
					Proj.		
CENTRAL BANK OF MYANMAR (CBM)							
Net foreign assets	**-1.4**	**2,053**	**3,491**	**4,552**	**5,547**	**6,390**	**8,401**
Foreign assets	3.0	2,515	4,288	5,400	6,580	7,505	9,577
Foreign liabilities	4.4	462	797	848	1,033	1,115	1,176
Net domestic assets	**7,552**	**8,081**	**8,364**	**8,653**	**9,892**	**11,656**	**12,475**
Domestic credit	7,851	9,017	9,635	11,026	12,415	13,196	13,496
Claims on central government (net)	7,673	8,318	8,726	10,126	10,915	11,396	11,396
Claims on deposit money banks (net)	178	699	909	900	1,500	1,800	2,100
Other	0	0	0	0	0	0	0
Other items net	-299	-936	-1,271	-2,373	-2,523	-1,540	-1,021
Reserve money	**7,551**	**10,134**	**11,855**	**13,205**	**15,439**	**18,046**	**20,876**
Currency in circulation	6,070	7,426	8,965	10,432	12,197	14,256	16,492
Deposits	1,481	2,709	2,890	2,773	3,242	3,790	4,384
MONETARY SURVEY							
Net foreign assets	**25**	**6,006**	**9,017**	**9,702**	**11,322**	**12,390**	**14,701**
Foreign assets	49	7,218	10,820	12,050	14,155	15,505	17,877
Foreign liabilities	24	1,212	1,803	2,348	2,833	3,115	3,176
Net domestic assets	**12,548**	**12,422**	**15,444**	**20,078**	**27,894**	**37,958**	**47,927**
Domestic credit	12,948	13,610	16,958	21,837	29,424	38,329	49,023
Net claims on government	9,688	8,427	8,979	10,587	13,088	15,489	18,245
CBM	7,673	8,318	8,726	10,126	10,915	11,396	11,396
Deposit money banks	2,015	109	253	461	2,172	4,094	6,849
Credit to the economy	3,260	5,183	7,979	11,250	16,336	22,839	30,779
Private sector	3,255	4,899	7,471	10,125	14,702	20,098	26,162
Other	5	284	508	1,125	1,634	2,741	4,617
Other items net	-400	-1,188	-1,514	-1,759	-1,529	-371	-1,096
Broad money	**12,573**	**18,428**	**24,461**	**29,779**	**39,216**	**50,348**	**62,629**
Currency outside banks	5,563	6,695	7,967	9,380	12,353	15,608	19,102
Deposits	7,010	11,733	16,494	20,399	26,863	34,740	43,527
MEMORANDUM ITEMS							
Money multiplier	1.7	1.8	2.1	2.3	2.5	2.8	3.0
Velocity	3.4	2.6	2.2	2.1	2.0	1.8	1.8
Reserve money (y/y percent change)	7.9	34.2	17.0	11.4	17.9	16.9	15.7
Broad money (y/y percent change)	26.3	46.6	32.7	21.7	31.7	28.4	24.4
Broad money (in percent of GDP)	29.1	38.6	44.7	47.4	51.3	54.3	57.1
Credit to private sector (in percent of GDP)	7.5	10.3	13.7	16.1	19.2	21.7	23.9
Credit to private sector (y/y percent change)	60.1	50.5	52.5	35.5	45.2	36.7	30.2
Deposits (in percent of GDP)	16.2	24.6	30.2	32.5	35.1	37.5	39.7
Credit to economy/deposits (in percent)	46.5	44.2	48.4	55.1	60.8	65.7	70.7
Exchange rate (kyat/$, end of period)	5.56	880	965	1,027	...	...	...
Nominal GDP (in billions of kyat)	43,238	47,722	54,699	62,834	76,471	92,641	109,600

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, 2011/12–2020/21 1/

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
			Est.	Proj.			Proj.			
Output and prices					(Percent change)					
Real GDP (authorities) 2/	5.6	7.3	8.4	8.7	9.3	…	…	…	…	…
Real GDP (staff working estimates)	5.6	7.3	8.4	8.5	8.5	8.4	8.3	8.0	7.7	7.7
CPI (end-period)	-1.1	4.7	6.3	7.4	13.3	10.2	8.2	7.2	6.7	6.5
CPI (period average)	2.8	2.8	5.7	5.9	12.2	11.8	9.2	7.7	7.0	6.6
Consolidated Public Sector 3/					(Percent of GDP)					
Total revenue	12.1	23.4	23.3	26.4	20.8	20.6	20.8	21.5	22.0	22.3
Union government	6.6	9.6	10.8	12.6	11.1	11.0	10.9	10.9	11.2	11.3
Of which: Tax revenue	3.9	7.1	7.8	8.2	8.2	8.5	8.8	9.0	9.2	9.5
SEE receipts	7.8	15.4	13.7	13.8	10.1	10.0	10.3	11.0	11.2	11.4
Grants	0.0	0.1	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Total expenditure	16.7	25.1	25.1	29.3	25.6	25.2	25.3	25.9	26.4	26.6
Expense	9.8	16.9	17.0	21.3	18.6	18.5	18.6	19.0	19.2	19.3
Net acquisition of nonfinancial assets	6.8	8.2	8.1	8.0	7.0	6.8	6.8	6.9	7.2	7.3
Gross operating balance	2.2	6.5	6.4	5.1	2.2	2.1	2.2	2.5	2.8	3.0
Net lending (+)/borrowing (-)	-4.6	-1.7	-1.8	-2.9	-4.8	-4.7	-4.6	-4.4	-4.4	-4.3
Underlying net lending (+)/borrowing (-) 4/	-4.6	-1.7	-2.2	-5.5	-5.9	-5.2	-4.6	-4.4	-4.4	-4.3
Domestic public debt	22.6	17.8	16.8	17.2	17.6	17.1	17.0	17.0	17.3	17.4
Money and Credit					(Percent change)					
Reserve Money	7.9	34.2	17.0	11.4	17.9	16.9	15.7	14.3	13.4	12.7
Broad money	26.3	46.6	32.7	21.7	31.7	28.4	24.4	21.1	19.4	18.5
Domestic credit	25.1	5.1	24.6	28.8	34.7	30.3	27.9	23.0	20.4	18.6
Private sector	60.1	50.5	52.5	35.5	45.2	36.7	30.2	26.6	22.2	20.2
Balance of Payments					(Percent of GDP, unless otherwise indicated)					
Current account balance	-1.9	-4.2	-5.2	-6.1	-8.9	-8.3	-7.7	-7.5	-7.0	-6.7
Trade balance	-0.3	-3.8	-4.6	-8.2	-11.6	-11.1	-10.0	-9.7	-9.2	-8.8
Exports	18.3	18.6	19.9	19.6	18.9	20.4	21.8	22.2	23.0	23.2
Gas Exports	6.3	6.6	5.8	6.8	5.4	5.2	4.8	4.7	4.5	4.2
Imports	-18.6	-22.4	-24.4	-27.8	-30.5	-31.5	-31.8	-31.9	-32.2	-32.0
Financial account	3.7	9.2	8.5	7.6	8.9	8.7	9.2	9.0	8.8	8.8
Foreign direct investment, net	3.7	5.0	4.6	5.2	5.5	6.5	6.9	7.0	6.9	6.8
Overall balance	-1.7	3.8	2.6	0.8	0.0	0.4	1.5	1.6	1.8	2.1
CBM reserves										
In millions of U.S. dollars	922	3,062	4,546	5,070	5,075	5,374	6,539	7,903	9,666	11,882
In months of total imports	0.8	2.4	2.8	2.8	2.5	2.3	2.5	2.8	3.1	3.3
External debt										
Total external debt (billions of U.S. dollars)	15.3	13.7	10.2	8.8	9.7	11.2	12.8	14.6	16.4	18.5
(In percent of GDP)	27.4	24.7	18.0	14.0	14.7	15.7	16.2	16.7	17.1	17.4
Of which: External debt arrears (billions of U.S. dollars) 5/	10.8	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade (in percent change)	-2.8	0.0	-0.1	0.8	4.6	-1.0	-0.4	-0.4	-0.1	0.0
Exchange rates (kyat/$, end of period)										
Official exchange rate	5.6	880	965	1,027	…	…	…	…	…	…
Parallel rate	822	878	965	1070	…	…	…	…	…	…
Memorandum items										
GDP (billions of kyats)	43,238	47,722	54,699	62,834	76,471	92,641	109,600	127,426	146,739	168,469
GDP (billions of US$)	56.0	55.6	56.7	63.1	65.8	71.3	79.0	87.5	96.4	106.2
GDP per capita (US$)	1,118	1,100	1,112	1,228	1,269	1,364	1,502	1,650	1,806	1,977

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

1/ Fiscal year from April 1 to March 31.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises.
4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.
5/ In 2012/13 and 2013/14, the figures incorporate arrears clearance agreements with Paris Club creditors, the World Bank and the Asian Development Bank.

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

	1990	1995	2000	2005	2010	2013
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	73	74	75	75	76	76
Employment to population ratio, ages 15–24, total (%)	52	53	53	53	52	52
GDP per person employed (constant 1990 PPP $)	1,959	2,328	3,003	4,599	6,765	7,670
Income share held by lowest 20%	...	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	29	39	30	30	23	...
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)	...	...	76	88	95	...
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	..	..	..	..	4	6
Ratio of female to male primary enrollment (%)	93	94	98	100	99	...
Ratio of female to male secondary enrollment (%)	92	99	105	97	105	...
Ratio of female to male tertiary enrollment (%)	122	157	156	136	134	123
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	84	88	86
Mortality rate, infant (per 1,000 live births)	76	67	59	51	44	40
Mortality rate, under-5 (per 1,000 live births)	106	92	79	67	56	51
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15–19)	36	26	21	17	14	11
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)	580	470	360	260	220	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						
Incidence of tuberculosis (per 100,000 people)	393	404	412	403	384	373
Prevalence of HIV, female (% ages 15–24)	...	...	...	...	...	...
Prevalence of HIV, male (% ages 15–24)	...	...	...	...	...	...
Prevalence of HIV, total (% of population ages 15–49)	0.2	0.5	0.8	0.8	0.7	0.6
Tuberculosis case detection rate (%, all forms)	8	10	15	53	66	68
Goal 7: Ensure environmental sustainability						
Forest area (% of land area)	60.0	56.7	53.4	51.0	49	48
Improved sanitation facilities (% of population with access)	...	53	61	68	75	77
Improved water source (% of population with access)	56	59	67	75	83	86
Marine protected areas (% of territorial waters)	0	0	1	0	0	0
Goal 8: Develop a global partnership for development						
Net ODA received per capita (current US$)	4	3	2	3	7	74
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	18	19	1	1	0	8
Internet users (per 100 people)	0.0	...	0.0	0.1	0.3	1.2
Mobile cellular subscriptions (per 100 people)	0	0	0	0	1	13
Telephone lines (per 100 people)	0.0	0.0	1.0	1.0	1.0	1.0
Other						
Fertility rate, total (births per woman)	3.4	2.9	2.4	2.1	2.0	1.9
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)	59	60	62	63	65	65
Literacy rate, adult total (% of people ages 15 and above)	...	...	90	...	...	93
Population, total (millions)	42	45	48	50	52	53
Trade (% of GDP)	5.6	2.5	1.1	0.3	...	...

Source: The World Bank, *World Development Indicators (April* 2015*)* .

Table 7. Myanmar: Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Transmission Channels		Expected Impact of Risk	Recommended Policy Response
(A) Domestic Risks					
Expansionary fiscal policy due to elections	High	• The large increase in public sector wages triggers larger than expected wage increases in the private sector, which add to aggregate demand; • Due to a shallow treasuries market with interest rate controls, CBM finances a large fraction of fiscal deficit, raising inflation pressure.	High	• Raise inflation more than anticipated, which erodes public confidence in macroeconomic stability; • Increase external imbalances through a widening current account deficit and declining CBM reserves; • Introduce distortions in credit market as mobilizing resources and promoting better access to finance become more challenging.	• Introduce measures to raise tax revenues and reduce expenditure through prioritization in the supplementary budget; • Tighten monetary policy stance through scaled-up deposit auctions and implementation of recalibrated reserve requirements; and • Ensure that interest rates is market determined in Treasury bills auctions.
Prolonged high credit growth	High	• Rapid expansion of credit (including hire purchase loans) by banks and nonbank financial institutions lead to faster import growth and reduce asset quality; and • Operations by foreign bank branches, which commence by October, fuel foreign borrowing by domestic financial institutions to on-lend in local currency.	High	• Fuel pent-up demand for imports, which leads to higher inflation and larger current account deficit than anticipated with declines in CBM reserves. • Raise pressures for further depreciation, creating risks of financial market instability due to currency mismatch; and • Raise government contingent liabilities.	• Scale up deposit auctions to mop up excess liquidity to control credit growth; • Tighten reserve requirements; • Strengthen supervisory capacity and implement a revamped regulatory framework, including through enforcement of key micro prudential measures; and • Enforce NOP limits and repatriation requirements.
Political instability	Medium	• Undermine confidence in macroeconomic instability; • Cast doubt on the administration's ability to implement economic reforms; and • Ethnic and religious tensions as well as social unrests delay economic reforms.	Medium / High	• Weaken investor confidence, delay actual FDI flows, and reduce foreign investors commitments to future FDI; • Interrupt productive activities and slow economic growth; and • Create further challenges to raise tax revenues to contain fiscal deficit.	• Stress the importance of macroeconomic stability for poverty reduction and growth; • Resist monetization of government spending; • Safeguard central bank autonomy. • Enforces NOP limits and repatriation requirements.
Limited institutional capacity	Medium	• The public sector is unable to cope with speed of reform, leading to slippages and undermining confidence; • CBM does not have budgetary autonomy to effectively mop up liquidity to implement the reserve money targeting framework; and • Delays in strengthening supervisory capacity of the CBM contributes to building up of vulnerabilities in the financial sector.	Medium / High	• Overall macroeconomic stability could be compromised, including through: - failure to contain credit growth and inflation that leads to a higher current account deficit and kyat depreciation; - debt sustainability becomes severely hampered; - CBM financing of the fiscal deficit rises rapidly; and - exposures by financial institutions rise rapidly without proper measures	• Continue to provide well-tailored TA programs that focus on staff training to raise institutional capacity; • Coordinate TA programs with international donors and streamline and adjust the scope of the programs, if necessary; and • Further promote operational autonomy of the CBM and increase its operational budget to improve monetary policy operations.
(B) Global External Risks					
Persistent dollar strength	High	• Depreciation pressures lead the CBM to intervene in the FX auctions, widening the gap between the official and wider market rates. • Large sales of FX by CBM reduce the reserve buffer.	High	• Erode public confidence in onshore FX market; • Hamper development of the formal FX market; and • Lower CBM reserves increase vulnerabilities.	• Allow the CBM reference rate to flexibly adjust to the parallel market rates by following auction rules and preserve the CBM reserves; • Tighten monetary and fiscal policies to support the kyat; and • Enforce NOP limits and repatriation rules in Foreign Exchange Management Law to increase FX inflows to the official FX market.

Table 7. Myanmar: Risk Assessment Matrix 1/ (concluded)

Source of Risks	Relative Likelihood	Transmission Channels	Expected Impact of Risk		Recommended Policy Response
Risks to energy prices (persistently low prices)	Medium	• A further decline in pipeline gas prices, triggered by declines in global demand.	Medium	• Despite a formula-based smoothing mechanism, lower gas price would: - reduce government revenues; and - reduce gas export earnings and FDI, weakening the balance of payments position.	• Allow greater exchange rate flexibility to absorb external shocks; • Promotes diversification of export growth through investment in agriculture and infrastructure; improve the business climate to attract FDI and develop SMEs.
Sharp growth slowdown (2015-16) in China	Low	• Reduce export growth and FDI inflow since China is an important trading partner and source of FDI.	Medium	• Reduced exports lead to a greater current account deficit; • Significantly reduce growth and contribute to kyat depreciation.	• Allow greater exchange rate flexibility to absorb external shocks; • Promote export diversification through investment in infrastructure to address supply-side bottlenecks; • Improve business environment to attract more FDI from other sources.

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

Appendix I. Key Policy Recommendations from the 2014 Article IV Consultation

Category	Policy advice	Implementation status
Monetary policy		
Objective: Use reserve money targeting more effectively to keep inflation in check.		
	Reform of reserve requirements	In progress (regulations issued)
	Establish budgetary autonomy to increase scale of monetary operations	CBM has sufficient funds for monetary operations.
	Implement regular deposit auctions for liquidity sterilization	Ongoing
	Introduction of treasury securities auctions	Achieved
	Limit CBM financing of the deficit	Committed but implementation challenges remain
	The excess liquidity at the Myanma Economic Bank will need to be absorbed to make deposit auctions effective	In progress
	Discontinue financing of the Myanma Agricultural Development Bank (MADB)	MADB Financing remains
Fiscal policy		
Objective: Create fiscal space to finance large development needs while maintaining macroeconomic stability and debt sustainability.		
	Keeping deficits below 5 percent of GDP	Consistently achieved
	Strengthen revenue collection	Good progress with rising revenue collection, but tax incentives persist
	Assign taxpayers to the Large Taxpayers Office	Accomplished
	Introduce taxpayer self-assessment	Introduced for large taxpayers
	Prioritize expenditures	Spending on health and education is rising, but remains low
	Improve public financial management	Good progress
	Establishment of a new treasury department in the MoF	Accomplished
	Increase capacity for cash flow forecasting and cash balance management.	In progress
Financial sector and exchange rate policies		
Objective: Maintain flexibility of the exchange rate and financial market stability.		
	Draft new Banks and Financial Institutions Law and implement it.	In progress (in parliament for approval)
	Establish a strengthened, rules-based and transparent regulatory environment before foreign banks commence operations.	In progress
	The number of new policy banks should be minimized and their external borrowing tightly circumscribed	Problem recognized, but challenges remain
	Strengthening supervisory capacity	In progress
	Reform of state-owned banks	In progress
	Maintain exchange rate flexibility to mitigate impacts of external shocks	Bold steps have been taken

Source: IMF Country Report No. 14/307.

INTERNATIONAL MONETARY FUND

MYANMAR

August 14, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultations with other departments)

CONTENTS

FUND RELATIONS

(As of July 31, 2015)

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	Percent Allocation
Net cumulative allocation	245.76	100
Holdings	1.84	0.75

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				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.06	0.13	0.13	0.13	0.13
Total	0.06	0.13	0.13	0.13	0.13

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

Implementation of HIPC Initiative: Not Applicable

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

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

Exchange Rate Arrangement

The kyat had been pegged to the SDR at K 8.5057 per SDR since May 2, 1977. On April 1, 2012, the authorities replaced the official peg to the SDR with a managed float. The Central Bank of Myanmar (CBM) started daily two-way multiple-price foreign currency auctions with technical assistance (TA) provided by Monetary and Capital Markets Department (MCM). The auctions provide a mechanism for the market to determine an exchange rate that the CBM can use to set its new reference rate. However, the CBM reserves the right to intervene to moderate excessive exchange rate volatility in the foreign exchange market. The CBM has no predetermined target for the level of the kyat exchange rate or its trading range, and expects the kyat exchange rate to fluctuate according to supply and demand in the market. The de jure exchange rate arrangement was reclassified as *managed float*, and the de facto exchange rate regime is classified as *other managed arrangement*.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar has made significant progress toward satisfying Article VIII obligations. Almost all current account restrictions have been removed through the implementation of the 2012 Foreign Exchange Management Law. However, Myanmar still maintains exchange restrictions and a multiple currency practice (MCP) subject to Fund approval under Article VIII. Exchange restrictions subject to Fund jurisdiction arise from (i) requirement of tax certification for authorizing transfers of net investment income abroad, and (ii) limitations on the remittance abroad of net salaries. The MCP arises from the two-way, multi-price foreign currency auction, and the authorities have sought a further IMF approval of the retention of this MCP. The Foreign Exchange Management Regulations were issued on September 30, 2014, as planned.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on June 4–17, 2014 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2014 Article IV consultation on September 24, 2014.

Technical Assistance

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

- Central Banking: a resident foreign exchange advisor and a monetary operations advisor based in TAOLAM provide frequent responsive advice, supported by HQ missions. In addition regular expert missions are conducted in order to assist the CBM strengthen its accounting framework and systems.
- Financial Sector Supervision: work in this area is led by a resident advisor in Yangon supported by HQ and expert missions, including on AML/CFT.
- Revenue Reform: a resident tax administration advisor is supported by HQ and expert missions aimed at modernizing the Internal Revenue Department (IRD). Work on tax policy is delivered through HQ missions.

- Public Financial Management: the focus is on capacity development of the Treasury Department, following its establishment in October 2014, which is led by an advisor based in TAOLAM and supported by HQ and expert missions.
- Statistics: the work plan in this area has been developed following a multi-sector diagnostic mission in 2013. As a result, external sector and government finance statistics advisors have taken up duties in TAOLAM and expert visits continue to assist in the development of price statistics. A rebased CPI is scheduled to be released in 2015/16.
- Macroeconomic Analysis: an advisor based in TAOLAM leads the work in this area that is closely integrated with the broader IMF training program.

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

Resident Representative

Ms. Yu Ching Wong completed her assignment on July 24, 2015, and Mr. Yasuhisa Ojima will assume the position beginning September 2015.

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

The IMF opened TAOLAM in Bangkok in October 2012. The new office has been providing IMF technical assistance and training, in collaboration with the Bank of Thailand and the Government of Japan. There are currently five TA advisors in the office, covering public financial management, monetary operations, macroeconomics training, government financial statistics, and external sector statistics, for both Lao P.D. R. and Myanmar. Mr. David Cowen will head the office after the completion of assignment by Ms. Susan Creane in July 2015.

Myanmar: Technical Assistance by the Fund during 2014

Department	Topic	Period
MCM	Drafting regulations of the Foreign Exchange Management Law (FEML)	January, 2014
MCM	Building accounting framework of the CBM	February/July/August/ September, 2014
MCM	Coordinating Technical Assistance by donors	April, 2014
MCM	Developing operating budget framework of the CBM	June, 2014
MCM	Building regulatory and supervisory framework for the entry of foreign banks	August, 2014
LEG	Drafting Tax Law for tax reform	February, 2014
LEG	Modernizing Tax Policy and Administration	July, 2014
STA	Improving External Sector Statistics including BOP and IIP	January/April/June/July/August /October, 2014
STA	GFS and Public Sector Debt Statistics Workshops	July, 2014
STA	ASEAN Community Statistical System	October, 2014

WORLD BANK-IMF COLLABORATION

(July 2015)

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

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

Following the clearance of arrears to the International Development Association (IDA) in January 2013, the Bank has resumed normal lending relations with Myanmar and the International Finance Corporation (IFC) commenced its investment and advisory activities. A pre-arrears clearance IDA grant to finance a National community Driven Development Project preceded an initial Development Policy Operation in support of a program around macroeconomic stability and arrears clearance. Since then, four IDA financed projects have been approved by the Executive Board of Directors in electricity, telecommunications, public financial management, and education. The IFC has made investments in microfinance, hospitality and banking sector through the Global Trade Finance Program Facility. There are four IDA credit operations in the pipeline for delivery within the next 12 months: on health, agriculture, integrated river basin management, and electricity (guarantee for Independent Power Producer). IFC is developing its pipeline of investments in several sectors. The WBG has also significantly scaled up its analytical and advisory services.

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

There is strong collaboration between the WBG and IMF.

- *Macroeconomic policy advice to the authorities.* Representatives from the WB participate in discussions during IMF Article IV missions to Myanmar. They also jointly carry out the Debt Sustainability Analysis (DSA). In this context, staffs from both institutions discuss macroeconomic policies and the main messages to the authorities. Discussions with the

Ministry of National Planning and Economic Development were initiated recently on joint TA for real sector monitoring.

- In the *financial sector* the World Bank and IMF have been coordinating technical assistance through regular information sharing based on an earlier joint note on IMF-WB Financial Sector TA Plan for Myanmar. World Bank TA has focused on strengthening the financial sector legal and regulatory framework (including technical input on the Banks and Financial Institutions Law, and microfinance and insurance regulation and supervision); state-owned bank reform, through completion of diagnostics of the four main state-owned banks; regulatory framework for mobile financial services; and development of a Financial Sector Development Strategy.

- On *fiscal management*, the World Bank and the Fund have collaborated on producing a macro-fiscal analysis for the recently completed Public Expenditure Review; coordinating TA to the Large Taxpayers' Office in its efforts to introduce a risk-based audit system; coordinating TA to the Treasury Department and the Myanmar Economic Bank on strengthening of the payment and settlement system; coordinating TA on debt sustainability analysis; and coordinating policy dialogue through participation in the PFM sector working group.

- On *structural reforms* during the process of the preparation of the Myanmar Investment Law, the WBG has consulted frequently with the IMF on many provisions, in particular on issues related to capital and current account transfers and taxation. The IMF provided written comments on the 1st and 2nd drafts of the Investment Law to the IFC and the government.

- On *statistics,* there has been good ongoing collaboration including a joint IMF-ADB-WB mission to Myanmar under the auspices of the National Strategy for the Development of Statistics (NSDS) project to coordinate support and advice to the government. The IMF is primarily providing TA to government finance statistics (Ministry of Finance), balance of payments (Central Bank of Myanmar), prices (Central Statistical Organization) and monetary statistics/central bank balance sheets. The ADB is providing TA on the SNA compilation framework. The World Bank is currently focusing support to overall statistical strategy development, institutional reform, and poverty monitoring.

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

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

- **Macroeconomic stability.** Sustainable and inclusive growth will require macroeconomic stability, which must be underpinned by a consistent macroeconomic policy mix.

Macroeconomic imbalances in Myanmar have increased over the past year as seen in rising inflation and higher current account and fiscal deficits. These imbalances need to be addressed by a tightening of monetary and fiscal policies along with exchange rate flexibility.

- **Foreign exchange policy.** The authorities have come a long way in liberalizing the foreign exchange regime, including the re-unification of multiple exchange rates and the introduction of a daily FX auction in 2012. Foreign Exchange Management Regulations have been issued by the CBM. However, important work remains ahead, including finalizing and parliamentary approval of the Investment Law, which will replace the Foreign Investment Law and the Myanmar Citizens Investment Law. Deepening the foreign exchange market will require strong commitment by the CBM to follow the FX auction rules under the managed floating regime and further development of the interbank foreign exchange market.

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

- **Financial sector.** Liberalization of the financial sector needs to be complemented with a stronger regulatory and supervisory framework to maintain financial stability. Changes should be implemented step by step, in line with the development of needed supervisory capability and banks' capacity. For instance, developing money markets and improving banks' risk management are necessary precursors to liberalization of lending rates and maturities. The new Banks and Financial Institutions Law, drafted based on close collaboration of the WB and the Fund, will help set the sector on a modern footing. It will require the development and enforcement of modernized prudential regulations, including on bank capital, nonperforming loans, connected lending, and large exposures. This has become particularly urgent given the entry of foreign banks, which will also require regulations on foreign exchange lending, and revised regulations on capital flows and net open positions. The IMF and World Bank teams will work closely with the authorities in the coming months. Other priorities include developing a plan to reform the state-owned banks, establishing appropriate regulation of nonbank financial institutions, enhancing financial inclusion, modernizing financial infrastructure including the payments system and a credit bureau, and allowing banks to provide trade finance based on documentary collection.

- **Fiscal discipline and sustainability:** Myanmar faces considerable fiscal pressures due to significant spending needs on the one hand and a narrow revenue base on the other. The increased in the budget deficit this year highlights the importance of maintaining fiscal discipline. Priorities include: (i) strengthened revenue collection, including through collection of the commercial tax on telecommunication services, more transparent management of natural resource rents, and rationalization of tax exemptions; (ii) strengthened debt management, including preparation of a debt strategy that explicitly reviews the costs and risks of borrowing decisions; (iii) control in growth of the wage bill by linking any future changes to fiscal sustainability and civil service performance considerations; and (iv) continued efforts at promoting fiscal transparency.

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

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

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

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

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

The teams are committed to continue their close cooperation going forward. The table below details the specific activities planned by the two country teams over the period June 2015–May 2016.

Myanmar: Joint Management Action Plan June 2015–May 2016		
	Products	**Time horizon**
WB	**1) Lending operations**	
	Additional Financing CDD Project	Ongoing
	Agricultural Development Support Project	Ongoing
	Ayeyarwady Integrated River Basin Management Project	Ongoing
	Essential Health Services Access Project	Ongoing
	Myanmar Essential Health Services Access Project	Ongoing
	Myanmar Decentralizing Funding to Schools	Ongoing
	Modernization of Public Finance Management	Ongoing
	MM: Telecommunications Sector Reform	Ongoing
	Electric Power Project	Ongoing
	Myanmar National Community Driven Development Project	Ongoing
	National Electrification Project	Next 12 Mo.
	Myanmar Financial Inclusion Project	Next 12 Mo.
	Myanmar Development Policy Operation	Next 12 Mo.
	2) Analytical and advisory activities	
	Myanmar Civil Service Pay, Compensation and Human Resource Review	Ongoing
	Public Investment Management Diagnostic	Ongoing
	Public Expenditure Review 2	Next 12 Mo.
	Myanmar Investment Law TA	Next 12 Mo.
	Review of land title transfer procedures TA	Next 12 Mo.
	WBG Myanmar Financial Inclusion TA program	Ongoing
	Diagnostic Trade Integration Study (DTIS)	Ongoing
	Agriculture Public Policy and Public Expenditure Review	Next 12 Mo.
	Analysis of Farm Production Economics	Ongoing
	Analysis of fiscal space for health spending and health financing	Ongoing
	Policy Notes on Tobacco Taxation	Ongoing
	Monitoring and evaluation of school grants and stipends	Ongoing
	Update to BOOST database and support to MOF to use it to prepare 2016/17 budget	Next 12 Mo.
	Myanmar Power Sector Study of Electricity Tariffs and Subsidies Mechanisms	Next 12 Mo.
	Study on Economic Costs of Natural Gas for Myanmar Domestic Market	Next 12 Mo.
	Myanmar Power Sector Financial Analysis and Viability Action Plan	Next 12 Mo.
	Policy making and regulations for rural electrification	Next 12 Mo.
	Geospatial Least Cost Planning for distribution system expansion	Next 12 Mo.

Myanmar: Joint Management Action Plan (Concluded) June 2015–May 2016		
	Products	**Time horizon**
IMF	**1) Surveillance missions**	
	Staff visit	Dec. 2015
	Staff visit	Apr. 2016
	Article IV	Oct. 2016
	2) TA activities	
	Customs	Ongoing
	Customs Administration	Ongoing
	LTO and donor coordination	Ongoing
	Tax Administration	Ongoing
	Indirect taxation (consumption tax)	Ongoing
	Assistance for Revision of the Financial Regulations	Ongoing
	Cash flow forecasting and management	Ongoing
	Operations Management Unit Design	Ongoing
	PFM	Ongoing
	Performance Measurement	Ongoing
	SOE Governance Framework/TA Review including training on PFM concepts	Next 12 Mo.
	Support Establishment and Modernization of Treasury Functions	Ongoing
	Legal drafting and supervision	Ongoing
	National Risk Assessment	Ongoing
	Fiscal law for tax administration	Next 12 Mo.
	Financial System Modernization	Ongoing
	Banking Supervision	Ongoing
	Central Bank Accounting	Ongoing
	Monetary Operations	Ongoing
	Central Bank Financial Management	Ongoing
	CPI	Ongoing
	Government Finance Statistics	Ongoing
	External Sector Statistics	Ongoing
	Monetary Data Reported in SRF	Ongoing
	Reporting and Dissemination of FSIs	Next 12 Mo.
	General Data Dissemination System (GDDS)	Next 12 Mo.

RELATIONS WITH THE WORLD BANK GROUP[1]

(July 2015)

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

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

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

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

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

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

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

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

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

RELATIONS WITH THE ASIAN DEVELOPMENT BANK[2]

(July 2015)

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

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

In 2014, AsDB commenced analytical and consultative work for a full Country Partnership Strategy, planned for the period 2017–2021, to be submitted for Board endorsement in 2016. The Country Partnership Strategy as well as the annual Country Operations Business Plans for 2015–2017 (finalized in January 2015) reflect a gradual shift towards increased sector focus and selectivity, focusing on transport, energy, and education and training as core sectors. It will apply a long-term programmatic approach in the core sectors, and is coordinated and aligned with evolving strategies and sector activities of other development partners.

Myanmar cleared its arrears to AsDB in January 2013. The AsDB has so far provided 35 loans totaling US$1,246,4 million for 29 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 33 loans were from concessional Asian Development Fund resources. The AsDB has so far provided technical assistance (TA) totaling US$49.0 million for 71 projects. Of these 71 TA projects, 41 were approved since AsDB reengaged with Myanmar in 2012.

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

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

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

Myanmar: Asian Development Bank Lending

1973–June 2015

Sector	Loans (Number)	Loans (US$ million)	Percent
Agriculture and natural resources	15	316.1	25.4
Energy	5	86.8	7.0
Finance	2	20.0	1.6
Health, nutrition, and social protection	2	63.1	5.1
Industry and trade	3	26.4	2.1
Public sector management	1	575.5	46.2
Transport	3	122.5	9.8
Water supply, sanitation, and waste management	4	36.0	2.9
Total	35	1,246.4	100.0

Source: Asian Development Bank

STATISTICAL ISSUES

As of July 1, 2015

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Data are not provided in a timely manner, and official and independent estimates of key macroeconomic variables differ widely.
National Accounts: Myanmar's national accounts broadly follow the concepts and definitions of the System of National Accounts 1968. National accounts data are only available on an annual basis. Gross Domestic Product (GDP) is compiled at current and constant prices, by economic activity. While both production and expenditure approaches are used, significant discrepancies exist between the two. GDP is estimated at producer prices, instead of the internationally recommended market prices. The accuracy of the GDP in volume measure is hampered by the weaknesses of current price value-added estimates and the lack of relevant price indexes, such as the producer price index. Coverage of the growing private sector is incomplete due to a lack of comprehensive annual establishment/enterprise economic surveys. National accounts estimates do not completely account for informal sector activity. Estimates of some economic activities, particularly in agriculture, construction, and public administration, need major improvement. Resource constraints at the Planning Department and the Central Statistical Organization (CSO), along with the lack of interagency coordination and a clear delineation of responsibilities, limit the conduct of surveys and other data collection. Technical assistance (TA) is being provided by Asian Development Bank (AsDB) and United Nations Development Program (UNDP) to improve the national accounts and to implement the 2008 SNA.
Price Statistics: The current CPI weights are based on the 2006 Household Income and Expenditure Survey (HIES). The CPI does not reflect international standards and best practices due to a number of methodological weaknesses: weights only represent urban households; 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 is expected to address these issues when it introduces a new CPI, with weights based on the results of the 2012 HIES. The IMF Statistics Department (STA) has been providing TA to develop the new CPI since March 2013. In recent months, the CSO has made significant progress in updating the CPI. The authorities have committed to releasing an updated and improved index that more fully reflects international standards. It is planned that the new index will be released in September 2015.
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. Myanmar is participating in a three-year program funded by the government of Japan designed to improve government finance statistics in the Asia and Pacific Region. The next mission under the program is planned in 2015. In addition, a long-term GFS advisor is currently stationed at the IMF's Technical Assistance Office for the Lao PDR and the Republic of the Union of Myanmar (TAOLAM) in Bangkok, Thailand, also funded by the government of Japan, but under a separate program.

Monetary and Financial Statistics: The monetary survey compiled by the Central Bank of Myanmar (CBM) covers the central bank and all commercial banks (public and private). Reporting of monetary data in the Standardized Report Forms, which accord with the *Monetary and Financial Statistics Manual* classification principles, was established in January 2012. Nine finance companies and a multiple of deposit taking microfinance institutions have been established in 2013–14. In addition, nine foreign bank branches will commence their operations in 2015. They are currently not part of the monetary survey statistics. The quality of monetary statistics could be improved by: (i) expanding the coverage of institutions; (ii) monitoring the consistency of the reciprocal/interbank accounts that show positions between the CBM and the commercial banks; and initiating data review and resolution of large inconsistencies; (iii) using electronic means to capture and share data to minimize mistakes; (iv) in due course, adopting market or fair value-based valuation of financial instruments; and (v) reviewing the accuracy of recording of the IMF Accounts in the CBM's balance sheet.	
Financial sector surveillance: The authorities do not provide financial soundness indicators (FSI) to STA for dissemination. The CBM is currently implementing regulatory prudential measures. Compiling FSIs for all financial institutions and disseminating these data will be critical for effective surveillance of the financial sector.	
External sector statistics: The balance of payments and international investment position (IIP) are compiled on the basis of the fifth edition of the *Balance of Payments Manual* (*BPM5*). Myanmar has not yet participated in the Coordinated Direct Investment Survey (CDIS) or the Coordinated Portfolio Investment Survey (CPIS). The reliability of the balance of payments and IIP is impacted by coverage gaps. Several components of the balance of payments and IIP (e.g., some services, direct investment assets, portfolio investment assets and liabilities, and other investment assets) are missing. There are also concerned with the quality of the data on other aspects. The revaluation of the national currency in April 2012 has resulted in a large break in the balance of payments and IIP series. An STA three-year project on the Improvement of External Sector Statistics in Lao P.D.R. and Myanmar started in March 2014. Under the project, TA is provided by the external sector statistics resident advisor stationed at the TAOLAM in Bangkok, Thailand.	
II. Data Standards and Quality	
Myanmar began participating in the IMF's General Data Dissemination System in November 2013. No data ROSC is available.	Myanmar submits data to STA with a lag of two to six months. Quarterly balance of payments and IIP data are reported on an annual basis for the IMF's Balance of Payments Statistics Yearbook. 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 July 2015)					
	Date of latest Observation	**Date Received**	**Frequency of Data**[1]	**Frequency of Reporting**[1]	**Frequency of Publication**[1]
Exchange Rates	07/15	08/15	D	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	03/15	04/15	M	M	I
Reserve/Base Money	02/15	06/15	M	M	M
Broad Money	02/15	06/15	M	M	M
Central Bank Balance Sheet	02/15	06/15	M	M	M
Consolidated Balance Sheet of the Banking System	02/15	06/15	M	M	M
Interest Rates[3]	05/15	06/15	M	I	M
Consumer Price Index	05/15	06/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	FY 13/14	06/15	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	FY 13/14	06/15	A	I	NA
Stocks of Central Government and Central Government—Guaranteed Debt[6]	FY 13/14	06/15	A	I	NA
External Current Account Balance	FY 13/14	06/15	A	I	I
Exports and Imports of Goods	02/15	06/15	M	M	M
GDP/GNP	FY 13/14	06/15	A	I	I
Gross External Debt	FY 13/14	06/15	A	I	I
International Investment Position[7]	Q4 2013	10/14	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, extra budgetary funds, and social security funds), state and local governments, and State economic enterprises (SEEs).
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATIONS—DEBT SUSTAINABILITY ANALYSIS

August 14, 2015

Approved By
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Myanmar is assessed to remain at low risk of debt distress.[1][2][3] *Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators remain well below their indicative thresholds. Similarly, total public debt will also remain below the benchmark, even as it will rise over the long term. While Myanmar's risk of debt distress is characterized as low, it requires close monitoring, in particular because there is potential for both domestic and external downside risks to materialize that may adversely affect the level of debt. On the domestic front these risks include fiscal slippages from the authorities' current target of below 5 percent of GDP and lower growth. On the external side, shocks include further declines in gas prices and depreciation of the kyat. While these shocks do not lead to breaches of the indicative thresholds or benchmarks in the medium term,*[4] *keeping a low risk of debt distress will require prudent fiscal policy, sound public financial management and increasing use of concessional finance while limiting nonconcessional borrowing to viable and growth-enhancing projects.*

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

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

[3] This risk rating is unchanged from the previous DSA which had incorporated the resolution of the external arrears with the Paris Club, the World Bank and the Asian Development Bank.

[4] These are standard shock scenarios in the DSA template.

BACKGROUND

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

2. **The underlying macroeconomic assumptions remain broadly unchanged compared with the last DSA but updates have been made taking into account several changes in both the external and domestic environment since the last Article IV consultation.** Main changes in the estimates and projections are below:

- In 2014/15, the real GDP growth was 8.5 percent reflecting robust investment in productive sectors including manufacturing and services, particularly in telecommunications. It is expected that the average medium-term GDP growth rate will remain strong at 8.1 percent as production in the special export zones also picks up. Accordingly, growth has been revised slightly upward over the longer term, taking into account that many of these new investment projects could help raise long-term growth.[5][6]

- Inflation in 2014/15 increased to over 7.5 percent (end of period) and is projected to be higher in the medium term compared to the last DSA mainly due to expected kyat depreciation and higher inflationary expectations. However, it will converge back to the almost the same long-term trend as in the previous DSA.

- In 2014/15, the fiscal deficit was 2.9 percent of GDP, benefiting from considerable windfall gains from telecommunications and oil and gas licenses (which will be spread over a few years). In the medium term, the fiscal deficit is expected to increase to 4.5 percent of GDP due to structural increases in expenditure, including in the public sector wage bill. Revenues, however, have been revised downward both in the medium and long-term due to lower projected State-owned Economic Enterprises' (SEEs) revenues. As a result, the fiscal deficit is projected to rise to 4.2 percent of GDP in the long-term.

- The current account deficit widened in 2014/15, driven primarily by an increase in import demand. Given the downward revision in gas prices (expected to be 20 percent lower in 2015/16 compared with 2014/15), it is expected that the current account deficit will widen significantly in the medium-term compared to the last DSA.

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[5] The staff of the World Bank and the IMF, while strong supporters of the overall reform effort, reserve some caution given the newness of the reform program. In addition, there are possible downside risks stemming from the international environment.

[6] The long-term growth projections were also underpinned by growth diagnostics conducted by IMF staff f in 2014/15 DSA which based projections on age-specific population growth and sectoral level productivity based on the experience of similar countries. The final results were based on consultation with the World Bank.

Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2015/16-35/36)				
	Current DSA		Previous DSA	
	Medium Term 2015/16-2020/21	Long Term 2021/22-2035/36	Medium Term 2014/15-2019/20	Long Term 2020/21-2034/35
Real GDP Growth (in percent)	8.1	6.8	8.1	6.6
Inflation (in percent)	9.1	4.7	6.3	4.0
Overall fiscal balance (in percent of GDP)	-4.5	-4.2	-4.6	-3.8
Noninterest current account (in percent of GDP)	-7.3	-4.4	-4.7	-3.3
Revenue (nonfinancial public sector; in percent of GDP)	21.3	23.8	24	25
Source: IMF staff estimates				

3. As in the previous DSA, this analysis incorporates the resolution of Myanmar's arrears with its multilateral and bilateral creditors completed in 2013/14. In late-January 2013, the Paris Club reached an agreement with the Myanmar authorities on a debt treatment to 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 was phased, with 25 percent of the write-off occurring immediately and 75 percent on the successful completion of a staff-monitored program with the IMF. Furthermore, Myanmar resolved its arrears to the World Bank and the Asian Development Bank in January 2013, with the help of bridge financing from Japan.

4. Myanmar is also expected to gradually reduce its reliance on external nonconcessional financing over the medium term, as assumed in the previous DSA. With the resolution of its arrears and the re-engagement with traditional donors, Myanmar is expected to gradually regain access to concessional resources. In particular, after the resolution of arrears with its multilateral creditors (the World Bank and the Asian development Bank), Myanmar has begun to receive concessional financing from these two institutions. Myanmar's current largest bilateral creditors are Japan and China. It is expected that as the Paris Club donors re-engage with Myanmar, and gradually identify suitable projects, the share of nonconcessional financing will decline over the medium term. The average new disbursements from the non-Paris Club members in the past few years were around 90 percent of total disbursements. We assume that this number will decrease by more than 50 percent in the medium-term, but it will gradually increase over the long-term as Myanmar becomes more developed and will be able to access financial markets.

DEBT SUSTAINABILITY ANALYSIS

5. Recent developments have kept the stock of external debt at relatively low levels.

- The resolution of the arrears in 2013/14 after the successful completion of the Staff Monitored Program had helped reduce the external debt stock (this was also incorporated in the last DSA);
- Furthermore, the valuation effect of recent exchange rate changes has resulted in a reduction of the stock of external debt at end 2014/15.[7]
- Finally, there has been only modest external borrowing in 2014/15.

[7] The kyat (reference rate) appreciated against a basket of currencies in which Myanmar's external debt is denominated.

6. **Debt sustainability analysis shows that public and publically guaranteed external debt will remain well below the indicative thresholds throughout the project period.** Several of the standard stress tests reflect downside risks currently faced by Myanmar. In particular, these include a reduction in the value of exports (in Myanmar this may be caused by a further drop in gas price), and a depreciation of the exchange rate. Although the standard stress tests indicate that no thresholds will be breached,[8] there can be an increase in debt service (for example, a one-time depreciation increases the debt service to revenue ratio in Figure f in the Panel Chart 1a). It will, therefore, be important to exercise prudence in external borrowing in a volatile international environment where exchange rate changes can have a large impact –either positive or negative – on the debt burden. Furthermore, continued strong performance of the external sector is critical, including by maintaining high export growth in manufacturing and agriculture, in addition to gas, attracting FDI to fund investment projects and obtaining more concessional financing.

7. **Total public sector debt will also remain below the indicative benchmark under the baseline scenario but is vulnerable to shocks.** The present value of total public debt as a percentage of GDP remains below the indicative benchmark throughout the projection period but it continues to rise over the long-term. This trajectory reflects the significant development needs of Myanmar and the associated overall fiscal deficits assumed in the baseline scenario. This level of debt can give rise to vulnerabilities including a high debt service burden. Overall, the standard stress tests show that public debt sustainability is vulnerable to lower real GDP growth and fiscal slippages.[9] Risks are somewhat mitigated as the authorities aim to use their borrowing to only finance economically viable projects in priority sectors. The authorities plan to keep the fiscal deficit below 5 percent of GDP in the medium term. Based on DSA simulations, however, staff advised the authorities to lower the deficit target to 4½ percent, which would help keep public debt below the indicative benchmark in the long run. The authorities' 5 percent target could lead to a breach of the benchmark in the long run.

8. **Myanmar will need to maintain fiscal discipline to ensure debt sustainability**. Public finances are dependent on natural resource revenues. Tax revenues are very low and the tax base remains narrow, in part due to widespread exemptions. In addition, transfers to sub-national governments without devolving spending responsibilities will increase the overall public sector deficit. It is expected that in 2015/16, the balance of the aggregate SEEs will turn negative underscoring the need to implement reforms that increase SEEs efficiency. Furthermore, only prudent borrowing by the policy banks[10] should be allowed as guarantees for the policy banks could pose risks to debt control and complicate fiscal management. It is imperative to improve the collection of statistics on these institutions.

9. **Fiscal risks can be mitigated by taking several steps, some of which are already under consideration by the authorities**. Higher revenue is needed to provide a solid foundation for financing development. To this end, introducing a value added tax (VAT) and reducing tax incentives are key steps. Fiscal decentralization and reforms of SEEs finances need to be carefully planned and implemented to

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

[9] In the present value of total public debt to GDP ratio, the most extreme shock is the growth shock which causes a breach in the indicative benchmark in 2023/34 while fixing the primary balance causes a breach in 2033/34.

[10] Policy banks in Myanmar are financial institutions in which the government has an ownership stake and which carry. out functions that are associated with policies of the government.

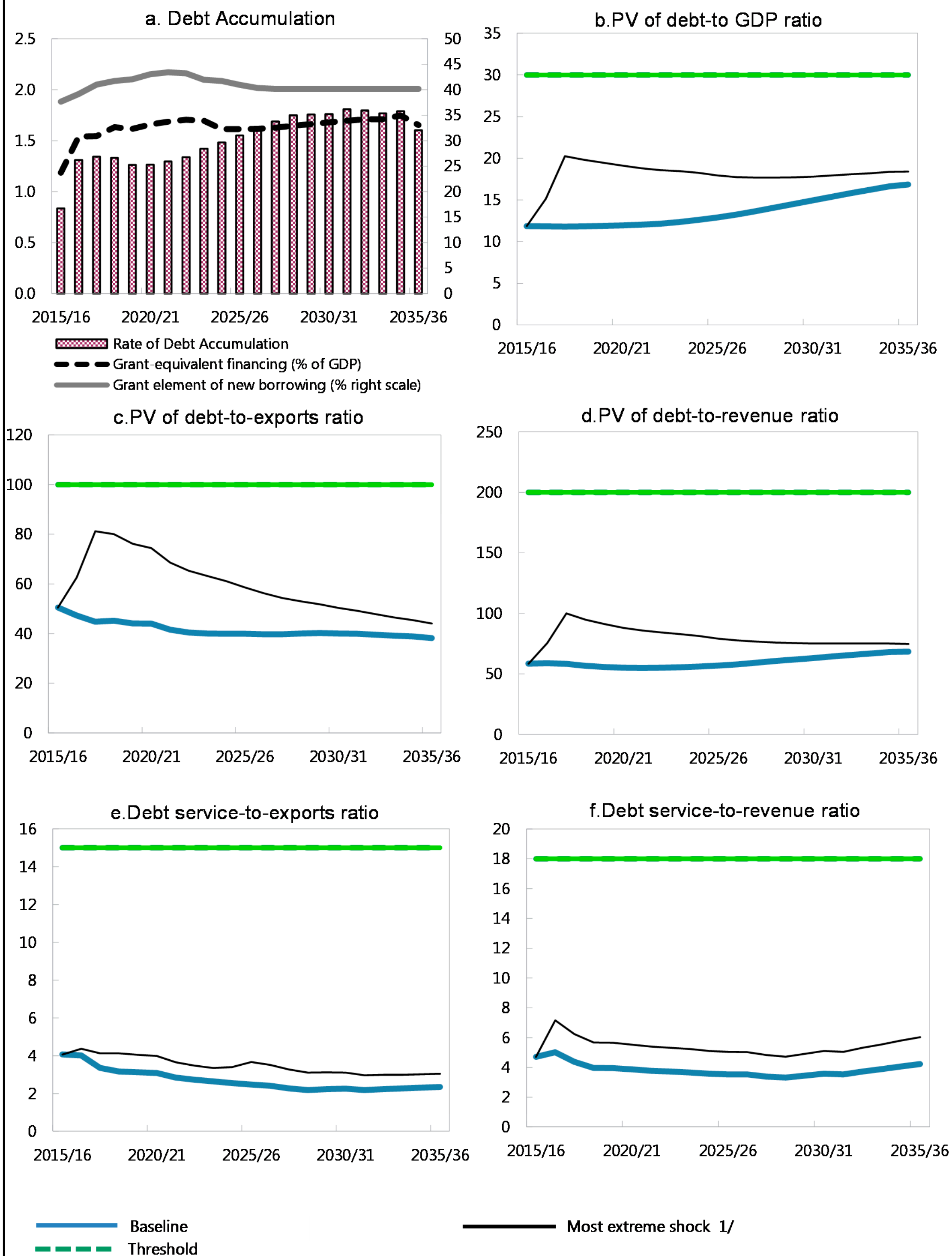
safeguard fiscal sustainability. Proper use of windfall revenues—such as those from oil and gas exploration—can also help strong the fiscal position, especially in the context of a medium-term fiscal framework.

STAFF ASSESSMENT

10. Myanmar is assessed to be at low risk of debt distress, but prudent macroeconomic policies and sound debt management will be required to keep debt sustainable. Under the baseline scenario, all indicators for the external debt are below their indicative thresholds and standard stress tests show that shocks will not cause breaches although shocks such as a one-time depreciation can cause debt service (expressed as a ratio of revenue) to increase. Under the baseline scenario, the total public debt also remains below the benchmark although it rises throughout the projection period and is vulnerable to fiscal slippages and low real GDP growth. Preventing total public debt vulnerability from increasing will require prudent fiscal policy, improvements in revenue performance and public financial management, limiting contingent liabilities by improving the performance of SEEs as well as prudent borrowing by policy banks, and increasing use of concessional finance.

11. 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 and reconfirmed their intention to use nonconcessional external borrowing only to finance economically viable projects in priority sectors, at levels consistent with low risk of debt distress. In order to limit the use of nonconcessional financing, the authorities reiterated their aim to keep the fiscal deficit below 5 percent of GDP over the medium term.

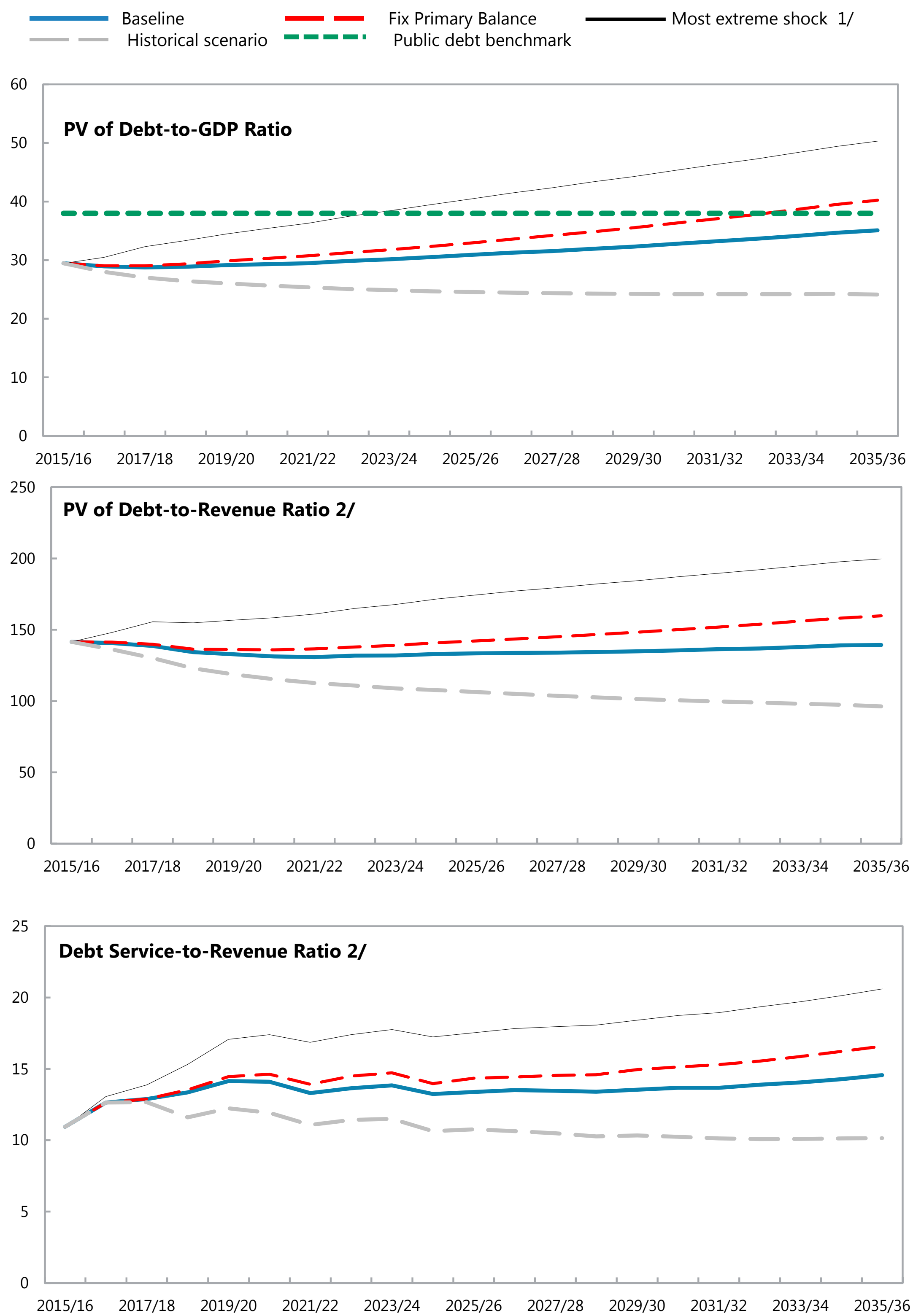
Figure 1a. Myanmar: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015/16-2035/36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 1b.Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2015/16-2035/36 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
In all three figures above, the most extreme shock is the growth shock.
2/ Revenues are defined inclusive of grants.

Table 1a .Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2012/13-2035/36 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2012/13	2013/14	2014/15	Average	Deviation	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2015/16-2020/21 Average	2025/26	2035/36	2021/22-2035/36 Average
External debt (nominal) 1/	**25.3**	**18.0**	**14.4**			**15.8**	**16.3**	**16.6**	**17.0**	**17.4**	**17.8**		**20.0**	**25.5**	
of which: public and publicly guaranteed (PPG)	25.3	18.0	14.4			15.8	16.3	16.6	17.0	17.4	17.8		20.0	25.5	
Change in external debt	-1.5	-7.3	-3.6			1.4	0.4	0.4	0.4	0.4	0.4		0.5	0.3	
Identified net debt-creating flows	-0.7	0.1	-1.0			2.3	0.6	-0.5	-0.7	-1.1	-1.3		-2.7	-1.9	
Non-interest current account deficit	**4.0**	**4.8**	**5.7**	**0.5**	**4.7**	**8.6**	**7.9**	**7.4**	**7.2**	**6.7**	**6.4**		**4.6**	**4.1**	4.4
Deficit in balance of goods and services	3.9	4.8	6.7			10.1	9.7	8.8	9.0	8.6	8.4		6.4	6.0	
Exports	20.8	22.6	24.2			23.5	25.0	26.3	26.2	27.0	27.2		32.4	44.2	
Imports	24.7	27.4	30.9			33.6	34.7	35.1	35.2	35.7	35.6		38.8	50.2	
Net current transfers (negative = inflow)	-1.0	-1.6	-2.6	-1.1	0.6	-2.8	-2.9	-2.9	-3.0	-2.9	-2.9		-2.6	-2.4	-2.6
of which: official	-0.1	-0.4	-0.5			-0.5	-0.5	-0.5	-0.6	-0.6	-0.6		-0.5	-0.5	
Other current account flows (negative = net inflow)	1.1	1.6	1.7			1.3	1.2	1.5	1.1	1.0	0.9		0.8	0.6	
Net FDI (negative = inflow)	**-5.0**	**-4.6**	**-5.2**	**-3.6**	**1.2**	**-5.5**	**-6.5**	**-6.9**	**-7.0**	**-6.9**	**-6.8**		**-6.3**	**-5.0**	-5.7
Endogenous debt dynamics 2/	**0.4**	**-0.1**	**-1.5**			**-0.8**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**		**-1.0**	**-1.0**	
Contribution from nominal interest rate	0.2	0.4	0.4			0.4	0.4	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-2.0	-2.1	-1.4			-1.2	-1.2	-1.2	-1.2	-1.2	-1.2		-1.3	-1.3	
Contribution from price and exchange rate changes	2.2	1.6	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.8**	**-7.4**	**-2.6**			**-0.9**	**-0.2**	**0.8**	**1.1**	**1.4**	**1.7**		**3.2**	**2.2**	
of which: exceptional financing	-10.9	-8.5	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	11.0			11.9	11.8	11.8	11.8	11.9	12.0		12.9	16.9	
In percent of exports	...	...	45.4			50.5	47.3	44.8	45.2	44.1	44.0		39.9	38.1	
PV of PPG external debt	**...**	**...**	**11.0**			**11.9**	**11.8**	**11.8**	**11.8**	**11.9**	**12.0**		**12.9**	**16.9**	
In percent of exports	**...**	**...**	**45.4**			**50.5**	**47.3**	**44.8**	**45.2**	**44.1**	**44.0**		**39.9**	**38.1**	
In percent of government revenues	**...**	**...**	**42.5**			**58.4**	**59.0**	**58.2**	**56.7**	**55.7**	**55.1**		**56.9**	**68.4**	
Debt service-to-exports ratio (in percent)	**2.2**	**3.3**	**2.9**			**4.1**	**4.0**	**3.4**	**3.2**	**3.1**	**3.1**		**2.5**	**2.4**	
PPG debt service-to-exports ratio (in percent)	**2.2**	**3.3**	**2.9**			**4.1**	**4.0**	**3.4**	**3.2**	**3.1**	**3.1**		**2.5**	**2.4**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**3.3**	**2.7**			**4.7**	**5.0**	**4.4**	**4.0**	**4.0**	**3.9**		**3.5**	**4.2**	
Total gross financing need (Billions of U.S. dollars)	-0.2	0.7	0.8			2.7	1.8	1.1	0.9	0.7	0.5		-1.4	0.7	
Non-interest current account deficit that stabilizes debt ratio	5.5	12.1	9.3			7.1	7.5	7.0	6.7	6.3	6.0		4.1	3.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.3	8.4	8.5	8.3	3.5	8.5	8.4	8.3	8.0	7.7	7.7	8.1	7.2	5.7	6.8
GDP deflator in US dollar terms (change in percent)	-7.5	-6.0	2.7	9.9	15.8	-4.0	0.0	2.4	2.5	2.4	2.3	0.9	2.3	2.3	2.3
Effective interest rate (percent) 5/	0.6	1.6	2.2	1.9	0.9	2.6	2.5	2.3	2.1	2.0	1.9	2.2	1.5	1.4	1.5
Growth of exports of G&S (US dollar terms, in percent)	4.9	10.8	19.4	17.6	11.5	1.1	15.2	16.9	10.1	13.6	10.8	11.3	12.6	11.7	12.9
Growth of imports of G&S (US dollar terms, in percent)	17.4	13.0	25.6	24.5	20.6	13.4	11.8	12.3	11.1	11.5	9.9	11.7	12.2	11.4	11.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.6	39.1	41.0	41.7	42.0	43.0	40.8	41.0	40.2	40.9
Government revenues (excluding grants, in percent of GDP)	23.3	23.1	25.9			20.3	20.1	20.3	20.9	21.4	21.7		22.7	24.7	23.3
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.6			0.7	1.1	1.4	1.7	1.9	2.2		2.9	6.6	
of which: Grants	0.0	0.2	0.3			0.3	0.4	0.4	0.5	0.6	0.6		0.9	2.0	
of which: Concessional loans	0.3	0.2	0.2			0.4	0.7	1.0	1.2	1.3	1.6		2.1	4.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.2	1.5	1.5	1.6	1.6	1.7		1.6	1.7	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			51.1	48.8	50.7	53.1	53.6	54.2		50.2	49.0	50.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	55.6	56.7	63.1			65.8	71.3	79.0	87.5	96.4	106.2		170.9	400.4	
Nominal dollar GDP growth	-0.7	2.0	11.4			4.2	8.4	10.9	10.7	10.2	10.2	9.1	9.7	8.2	9.3
PV of PPG external debt (in Billions of US dollars)			6.7			7.3	8.1	9.1	10.1	11.2	12.5		21.7	67.1	
(PVt-PVt-1)/GDPt-1 (in percent)						0.8	1.3	1.3	1.3	1.3	1.3	1.2	1.6	1.6	1.6
Gross workers' remittances (Billions of US dollars)	0.5	0.7	1.3			1.5	1.7	1.9	2.1	2.3	2.4		3.6	7.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	10.8			11.6	11.5	11.5	11.6	11.6	11.7		12.6	16.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	41.8			46.0	43.1	41.0	41.4	40.6	40.6		37.5	36.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.7			3.7	3.7	3.1	2.9	2.9	2.9		2.3	2.3	

Sources: Country authorities; and staff estimates and projections.

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

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015/16-2035/36

(In percent)

	Projections							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	**2025/26**	2035/36
PV of debt-to GDP ratio								
Baseline	12	12	12	12	12	12	**13**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	12	8	6	4	2	1	**1**	1
A2. New public sector loans on less favorable terms in 2015-2035 2	12	12	13	13	14	14	**18**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	12	12	12	12	12	13	**14**	18
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	12	13	15	15	15	15	**15**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	12	12	13	13	13	14	**15**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	12	15	19	19	19	18	**17**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	12	15	20	20	19	19	**18**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	12	16	16	17	17	17	**18**	24
PV of debt-to-exports ratio								
Baseline	50	47	45	45	44	44	**40**	38
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	50	32	21	14	8	4	**2**	2
A2. New public sector loans on less favorable terms in 2015-2035 2	50	48	48	51	51	53	**54**	58
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	50	46	44	44	43	43	**39**	38
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	50	55	69	69	66	65	**55**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	50	46	44	44	43	43	**39**	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	50	61	73	72	69	67	**53**	41
B5. Combination of B1-B4 using one-half standard deviation shocks	50	63	81	80	76	74	**59**	44
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	50	46	44	44	43	43	**39**	38
PV of debt-to-revenue ratio								
Baseline	58	59	58	57	56	55	**57**	68
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	58	40	28	18	11	5	**4**	4
A2. New public sector loans on less favorable terms in 2015-2035 2	58	60	63	64	65	66	**78**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	58	59	61	59	58	58	**60**	73
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	58	63	75	72	70	68	**66**	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	58	60	65	64	63	62	**65**	79
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	58	76	95	91	87	84	**76**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	58	76	100	95	91	88	**79**	75
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	58	81	81	79	78	77	**80**	97

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015/16-2035/36 (concluded)

				Debt service-to-exports ratio				
Baseline	4	4	3	3	3	3	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	4	4	3	2	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2015-2035 2	4	4	3	3	3	4	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	4	4	3	3	3	3	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	4	4	4	4	4	4	**4**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	4	4	3	3	3	3	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	4	4	4	4	4	4	**4**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	4	4	4	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	4	4	3	3	3	3	**2**	2
				Debt service-to-revenue ratio				
Baseline	5	5	4	4	4	4	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	5	3	3	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2015-2035 2	5	5	4	4	4	4	**5**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	5	5	4	4	4	**4**	5
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	5	4	4	4	4	**4**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	5	5	5	5	4	**4**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	5	5	5	5	4	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	5	5	5	**6**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	7	6	6	6	6	**5**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	40	40	40	40	40	40	**40**	40

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, 2012/13-2035/36

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012/13	2013/14	2014/15	Average 5/	Standard Deviation 5/	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2015/16-2020/21 Average	2025/26	2035/36	2021/22-2035/36 Average
Public sector debt 1/	43.1	34.8	31.6			33.4	33.4	33.6	34.1	34.7	35.1		38.0	43.7	
of which: foreign-currency denominated	25.3	18.0	14.4			15.8	16.3	16.6	17.0	17.4	17.8		20.0	25.5	
Change in public sector debt	-6.2	-8.3	-3.2			1.8	0.0	0.2	0.4	0.6	0.5		0.6	0.4	
Identified debt-creating flows	1.1	-1.6	-0.6			1.8	-0.1	0.2	0.4	0.6	0.4		0.5	0.6	
Primary deficit	0.4	0.2	1.3	1.8	1.2	3.3	3.1	3.1	2.9	2.9	2.8	3.0	2.8	2.4	2.6
Revenue and grants	23.4	23.3	26.4			20.8	20.6	20.8	21.5	22.0	22.3		23.2	25.2	
of which: grants	0.1	0.3	0.5			0.5	0.5	0.5	0.6	0.6	0.6		0.5	0.5	
Primary (noninterest) expenditure	23.8	23.6	27.7			24.1	23.7	23.8	24.4	24.9	25.1		25.9	27.5	
Automatic debt dynamics	0.6	-1.8	-1.8			-1.5	-3.3	-2.9	-2.5	-2.3	-2.3		-2.2	-1.7	
Contribution from interest rate/growth differential	-3.5	-3.4	-2.4			-2.9	-3.0	-2.7	-2.4	-2.2	-2.2		-2.1	-1.6	
of which: contribution from average real interest rate	-0.1	-0.1	0.4			-0.4	-0.4	-0.1	0.1	0.2	0.2		0.4	0.7	
of which: contribution from real GDP growth	-3.4	-3.3	-2.7			-2.5	-2.6	-2.6	-2.5	-2.4	-2.5		-2.5	-2.3	
Contribution from real exchange rate depreciation	4.1	1.6	0.5			1.4	-0.2	-0.2	-0.2	-0.1	-0.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-7.3	-6.7	-2.6			0.1	0.1	0.0	0.0	0.0	0.0		0.0	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	28.2			29.4	28.9	28.8	28.9	29.2	29.3		30.9	35.1	
of which: foreign-currency denominated	...	...	11.0			11.9	11.8	11.8	11.8	11.9	12.0		12.9	16.9	
of which: external	...	...	11.0			11.9	11.8	11.8	11.8	11.9	12.0		12.9	16.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.1	2.5	3.5			5.7	5.8	5.8	5.9	6.1	6.0		5.9	6.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	106.9			141.5	140.7	138.6	134.2	132.8	131.4		133.3	139.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	108.9			145.0	144.2	142.1	138.1	136.6	135.0		136.3	142.2	
of which: external 3/	...	...	42.5			58.4	59.0	58.2	56.7	55.7	55.1		56.9	68.4	
Debt service-to-revenue and grants ratio (in percent) 4/	10.3	8.3	8.1			10.9	12.6	12.9	13.4	14.2	14.1		13.4	14.6	
Debt service-to-revenue ratio (in percent) 4/	10.3	8.4	8.2			11.2	13.0	13.2	13.7	14.5	14.5		13.7	14.9	
Primary deficit that stabilizes the debt-to-GDP ratio	6.7	8.5	4.5			1.5	3.2	2.8	2.5	2.3	2.3		2.2	1.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.3	8.4	8.5	8.3	3.5	8.5	8.4	8.3	8.0	7.7	7.7	8.1	7.2	5.7	6.8
Average nominal interest rate on forex debt (in percent)	0.6	1.6	2.2	1.9	0.9	2.7	2.5	2.3	2.1	2.0	1.9	2.3	1.5	1.4	1.5
Average real interest rate on domestic debt (in percent)	2.4	1.5	2.7	-4.2	7.4	-3.6	-3.2	-0.9	0.4	1.2	1.5	-0.8	2.8	4.8	3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	17.1	7.1	3.1	-4.7	14.1	10.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.8	5.7	5.9	10.8	8.0	12.2	11.8	9.2	7.7	7.0	6.6	9.1	5.4	3.5	4.7
Growth of real primary spending (deflated by GDP deflator, in percent)	75.3	7.4	27.2	11.1	24.1	-5.4	6.6	8.9	10.7	9.5	8.6	6.5	7.8	6.2	7.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	37.6	39.1	41.0	41.7	42.0	43.0	40.8	41.0	40.2	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 1d. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2015/16-2035/36

	Projections							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2025/26	2035/36
PV of Debt-to-GDP Ratio								
Baseline	29	29	29	29	29	29	31	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	28	27	26	26	26	25	24
A2. Primary balance is unchanged from 2015	29	29	29	29	30	30	33	40
A3. Permanently lower GDP growth 1/	29	29	29	30	31	32	38	59
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	29	30	32	33	34	35	40	50
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	29	29	29	29	29	29	31	35
B3. Combination of B1-B2 using one half standard deviation shocks	29	29	29	29	30	31	35	42
B4. One-time 30 percent real depreciation in 2016	29	34	33	32	32	32	31	34
B5. 10 percent of GDP increase in other debt-creating flows in 2016	29	36	35	34	34	34	34	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	141	141	139	134	133	131	133	139
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	141	136	130	123	119	115	106	96
A2. Primary balance is unchanged from 2015	141	141	140	136	136	136	142	160
A3. Permanently lower GDP growth 1/	141	142	142	140	141	143	165	235
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	141	148	156	155	157	158	174	200
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	141	140	138	134	132	131	133	139
B3. Combination of B1-B2 using one half standard deviation shocks	141	140	138	137	138	139	150	168
B4. One-time 30 percent real depreciation in 2016	141	164	158	150	145	141	136	135
B5. 10 percent of GDP increase in other debt-creating flows in 2016	141	176	170	160	156	152	148	146
Debt Service-to-Revenue Ratio 2/								
Baseline	11	13	13	13	14	14	13	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	13	13	12	12	12	11	10
A2. Primary balance is unchanged from 2015	11	13	13	14	14	15	14	17
A3. Permanently lower GDP growth 1/	11	13	13	14	15	15	17	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	11	13	14	15	17	17	18	21
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	11	13	13	13	14	14	13	15
B3. Combination of B1-B2 using one half standard deviation shocks	11	13	13	13	14	15	15	17
B4. One-time 30 percent real depreciation in 2016	11	14	15	16	17	17	16	18
B5. 10 percent of GDP increase in other debt-creating flows in 2016	11	13	15	25	16	17	14	15

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.

MYANMAR

August 24, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared by Asia and Pacific Department

1. **This supplement provides preliminary information on the impact of the recent floods in Myanmar since the staff report was finalized in early August.** Staff's assessment is that in the short term the fiscal and current account deficits are likely to be higher, and overall growth this year weaker than previously projected, which may warrant a modest adjustment to the timing and pace at which some of the staff's policy recommendations should be implemented. Paragraph 4 of this supplement forms part of the staff's assessment of the recent developments, and paragraphs 5 and 6 outline the possible recalibration of some of the policy recommendations in the staff appraisal.

2. **Floods triggered by monsoon rains together with Cyclone Komen have caused major casualties and damages since July.** As of mid-August, the floods and associated landslides killed 117 people and affected more than 1 million people (Myanmar's population is estimated to be around 51 million). About 1.4 million acres of farmland are reportedly affected by flooding with about half of the affected totally damaged (around 3 percent of the estimated total sown area), and over 16,000 homes and 3,000 school buildings have been damaged by floods. The authorities are working on preliminary estimates of damages and losses, but it will take some time before an official comprehensive assessment of damages and losses can be completed. Nevertheless, the total damages and losses are expected to be significant. The authorities have requested World Bank assistance to carry out a Post-Disaster Needs Assessment (PDNA).

3. **A state of emergency has been declared in the four worst-hit states and regions in the west of the country and the government has appealed for international assistance.** Food, shelter, clean water and sanitation are in immediate need. The authorities have set up a National Natural Disaster Management Committee headed by a Vice President. Apart from immediate disaster relief, the government is organizing the distribution of seeds and providing support to the use of farm equipment for replanting. Repair of infrastructure, such as bridges and railroads, is already under way. A number of development partners have provided immediate disaster relief and humanitarian assistance. The World Bank and the Asian Development Bank plan to tap into their emergency assistance facilities, as well as to bring forward disbursement of some of the existing resources allocated for Myanmar, to assist the country's recovery and reconstruction efforts. The authorities intend to request Fund assistance under the Rapid Credit Facility.

4. **While an accurate assessment will require a PDNA, staff expects the floods to add significant short-term pressure on inflation, government spending, and the external position.** Some food prices have already experienced a spike, and it is expected that inflation will rise further from already elevated levels. Apart from an increase in spending in the immediate aftermath of the disaster, additional public resources will be needed for recovery and reconstruction through the next fiscal year. The increased spending will contribute to the already rapid growth of imports, and together with the reduced exports of crops, the balance of payments situation is likely to worsen compared with staff's baseline projections. On the other hand, the impact on the private banking sector is expected to be limited, as commercial banks in Myanmar have limited exposure to the agricultural sector, which appears to have borne the brunt of the disaster impact, although some businesses in urban areas may also have been affected by the floods. State-owned banks will likely be more affected as they are more involved in lending to the agricultural sector – losses here will impact on the fiscal position via a deterioration of the state economic enterprise sector balance.

5. **The expected impact of the floods may affect the timing of fiscal consolidation.** The authorities should continue to aim for an early phase-out of CBM financing of the fiscal deficit and scale up Treasury bill auctions, but a temporarily larger fiscal deficit in this and next fiscal year, commensurate with the additional resources needed for recovery and reconstruction, should be accommodated. To the extent that at least part of the additional spending needs will be covered by external assistance, the inflationary impact of moderately higher fiscal deficits will be limited, but a more decisive fiscal consolidation may be necessary in the outer years to preserve the fiscal target and debt sustainability. To this end, the authorities should also aim for grants and concessional loans in seeking external assistance. If external assistance falls short of the need, the authorities should consider further reprioritizing expenditure to protect spending targeted at the vulnerable and poor.

6. **On the monetary front, some short-term adjustment to the monetary policy stance may be required.** The early October target for the full implementation of the recalibrated reserve requirement should be maintained, but the CBM may need to adjust the timing of sterilization operations if pressures on liquidity begin to appear. The CBM's discount window could also be used to meet temporary increases in liquidity demand. However, the CBM should be prepared to resume tightening the monetary stance through increasing the reserve requirement and scaling up deposit auctions if there are signs of a long-lasting effect of higher food prices on aggregate inflation. Staff continues to advise the authorities to maintain exchange rate flexibility, which would help mitigate the impact of the floods on the external position and facilitate economic recovery.

Statement by Ms. Pornvipa Tangcharoenmonkong, Alternate Executive Director and Ms. Nwe Ni Tun, Advisor to the Executive Director
August 28, 2015

Introduction

1. On behalf of the Myanmar authorities, we would like to express our deep appreciation to Mr. Yongzheng Yang and his team for the productive discussions during the 2015 Article IV Consultation and for their comprehensive set of reports.

2. The authorities highly value the Fund's constructive policy advice and technical assistance which significantly complements and contributes to Myanmar's ongoing economic reform agenda. While Myanmar has made substantial achievements in most areas of the economic reform program, the authorities recognize the need to further accelerate the ongoing reform process. The authorities broadly agree with staff's recommendations and recognize the importance of sustaining economic and structural reforms through creating fiscal space to boost public investment, strengthening banking regulation and supervision to maintain financial stability, and improving the business environment to support inclusive growth. Our authorities broadly concur with the staff appraisal and remain fully committed to the economic reform process.

Recent Economic Developments and Outlook

3. In line with the objectives under the Framework for Economic and Social Reform (FESR)[1], Myanmar has continued its growth momentum over the years. In fiscal year[2] (FY) 2014/15 – the fourth year of the authorities' Five-Year National Development Plan (Five-Year Plan) - real GDP growth is estimated to grow at 8.5 percent[3], similar to 8.4 percent recorded in FY 2013/2014. The *services and other sector* is the largest contributor to GDP, with a share of 37.7 percent, followed by *the industry sector* (34.4 percent), and the *agricultural, livestock, fishery and forestry sector* (27.9 percent). The average CPI inflation, which increased slightly to 5.9 percent in FY 2014/15 (FY 2013/14: 5.7 percent), is expected to rise further as a result of strong domestic demand from expansionary fiscal policy and rapid growth in private sector credit. The severe flooding in several parts of Myanmar in July which has affected about 1.3 million people and destroyed large areas of rice fields could pose an upside risk to inflation in FY 2015/16.

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[1] The Framework for Economic and Social Reform (FESR) was developed to set the government's policy priorities for 2012- 2015 in order to achieve the long-term goals of the 20-year National Comprehensive Development Plan 2011-2031.

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

[3] Staff's estimation.

4. The current account deficit is estimated to widen to around 6 percent of GDP in FY 2014/15 (FY 2013/14: 5 percent of GDP) due mainly to the higher trade deficit, reflecting strong import growth. Gross international reserves held by the Central Bank of Myanmar (CBM) increased to US$ 5.12 billion, which is sufficient to finance about three months of imports.

5. Credit to the private sector is estimated to expand by 35.5 percent in FY 2014/15 (FY 2013/14: 52.5 percent), in light of increased government expenditure and better access to credit by the private sector, increased business opportunities, and the development of credit facilities to Small and Medium Enterprises (SMEs).

6. The authorities are in broad agreement with staff's assessment on the economic outlook. Medium-to long-term growth prospects remain favorable. However, the authorities' real GDP growth estimate for FY 2014/15 and projection for FY 2015/16 are 9.1 percent and 9.3 percent respectively, slightly higher than staff's projections. For FY 2015/16, the authorities expect to achieve a higher growth rate in the agriculture, livestock and fishery, energy, construction and transportation sectors, which are likely to receive a boost from reform measures that were implemented over the first four years of Myanmar's Five-Year Plan. Notably, reform measures targeted improvements in electricity and water supply, job creation and development in agriculture, tourism, trade and investment, and the financial sector.

Fiscal Policy

7. In line with the policy priorities and objectives of the FESR – a credible, responsive and transparent planning and budget process – the medium term fiscal framework for FY 2015/16 to 2017/18 has been laid out in order to achieve higher budget credibility, enhance fiscal discipline and improve strategic resource allocation.

8. The authorities have gradually tightened fiscal policy and remain committed to reducing central bank deficit financing. The authorities will ensure fiscal sustainability through greater revenue mobilization and expenditure re-prioritization. In addition, the government continues to scrutinize wage and salary increases and reduce non-productive expenditure.

9. The authorities are committed to the Public Finance Management (PFM) reform to strengthen budget formulation and fiscal discipline, control expenditure, as well as improve fiscal accounting and reporting processes. The authorities continue to focus on maintaining fiscal discipline in order to ensure debt sustainability and create the fiscal space needed. With the assistance of the World Bank and other development partners, the Myanmar Modernization of Public Finance Management Project is being implemented to

support efficient, accountable and responsive delivery of public services through Myanmar's PFM systems as well as to strengthen institutional capacity.

10. In order to develop cash and debt management operations, the authorities have established the Treasury Department under the Ministry of Finance (MoF). The Treasury bill auction was introduced in January 2015 to reduce central bank deficit financing and to access financial resources of the private sector. To develop a more effective market with market-determined interest rates and sufficient volume of bids, the authorities plan to issue Treasury bills with different maturities, on top of the existing 3-month bill, lower the minimum face amount of bids, and switch from single to multiple pricing auctions for government securities.

11. Under the fiscal reform program, the authorities have underscored the importance of increasing tax revenue by broadening the tax base and improving tax administration. Continuous efforts have been made to introduce the value-added tax and property tax, simplify the tax system, develop the legal and administrative framework, and implement the Extractive Industries Transparency Initiative (EITI)[4]. Thus far, the establishment of the Large Taxpayer Office (LTO) in 2014 has been effective in improving tax compliance and tax administration while the ongoing Internal Revenue Department (IRD) reform program will continue to help to improve the efficiency and effectiveness of the IRD and move it closer to international standards of tax administration.

12. On the expenditure side, the authorities will prioritize infrastructure development, socio-economic development, rural development and poverty alleviation. The authorities are committed to ensure the efficiency of spending in these priority areas.

Monetary and Exchange Rate Policy

13. The authorities have made significant progress in the area of monetary and exchange rate policies, including moving towards a managed float exchange rate system, enacting the new Central Bank Law, and introducing the deposit auction and Treasury bill auction after the CBM was granted its autonomy in July, 2013.

14. The authorities concur with staff's recommendations in various areas regarding the monetary sector. The authorities recognize the risk of increasing inflation as a result of rapid credit growth to the private sector and expansion of government expenditure. Accordingly, the authorities continue to maintain a tight monetary policy stance in line with the monetary target which is reviewed frequently. Substantial progress has also been made in improving the liquidity management framework. The deposit auction introduced in 2013 allows market driven interest rates and more terms of deposits with greater participation by commercial banks and greater flexibility for the CBM to target specific

[4] EITI is a global standard to promote open and accountable management of natural resources.

types of banks in the deposit auctions. In addition, the authorities have also introduced a new reserve requirement for banks and financial institutions in April 2015, with full compliance required by October 2, 2015.

15. In addition, the introduction of Treasury bill auctions in January 2015, in close cooperation with the MoF and with technical assistance from the Fund, has reduced central bank financing of the fiscal deficit, thereby decreasing inflationary pressures stemming from fiscal expansion.

16. To develop the government securities market, the Securities Steering Group and Working Group, which include senior officials from CBM and MoF, have been established to implement the development plans in this area. The authorities plan to introduce Treasury bond auctions in the near future to further promote the development of the Treasury bond market. This will further promote market-determined interest rate and attract investor participation in the Treasury bond market. Allowing the purchase of government securities by foreign banks would be the next step when all prerequisites are met.

17. The authorities have also taken note of staff's recommendation to tighten the access to the CBM discount window to prevent the use of the discount window as a de facto revolving credit facility. In this regard, the authorities plan to abolish the CBM discount window facility and replace it with the overnight window when the CBM Net system[5] can be fully implemented in 2016.

18. On the exchange rate regime, in line with staff's recommendation, the authorities have taken steps to reduce the divergence between the official reference rate and market rate as well as to abolish multiple exchange rates starting from July 13, 2015. As a result, the divergence between the CBM reference rate and the market rate has narrowed and will be unified in the near future. This will help deepen the foreign exchange interbank market, paving the way for completion of the remaining obligations under Article VIII.

19. Due to the strengthening of the US dollar and strong demand in the domestic market, the volatility in the foreign exchange market has increased towards the end of 2014, resulting in a shortage of foreign currencies. This in turn led to the depreciation of the Kyat. In response, the CBM started sales of foreign currencies to major importers by using CBM's foreign exchange reserves and was able to keep the Kyat broadly in line with medium-term fundamentals. Amidst the unfavorable external environment, potentially lower rice exports as a result of the recent flooding may put further pressure

[5] The CBM is implementing the project of "Modernizing the Funds, Payment and Securities Settlement Systems" by Japan International Cooperation Agency (JICA) since February 2014 which is a grant aid program. This project includes Real Time Gross Settlement System (RTGS), Securities Settlement System and Mechanized Clearing House System (MCH).

on the Kyat. Although the use of CBM's reserves has helped to meet the demand for foreign exchange and to smooth exchange rate fluctuations at this juncture, the authorities see the need to accumulate more reserves and are cognizant that adjusting macroeconomic policies are of the utmost importance in the longer term.

20. The authorities underscore their commitment to become an Article VIII member country and have made significant progress towards eliminating most of the Article XIV restrictions. The authorities are also taking active steps to address gaps that are preventing them from fully eliminating the present multiple currency practice. In this regard, the authorities have phased out foreign exchange certificates and the Foreign Exchange Management Law and accompanying regulations were enacted in August 2012 and September 2014, respectively.

21. Nevertheless, due to the absence of a mechanism in the multiple price foreign currency auction that would prevent exchange rates of accepted bids from deviating by more than 2 percent, the authorities would like to request the Fund's approval for Myanmar to retain the multiple currency practice under Article VIII, Section 3 until August 27, 2016 or the conclusion of the next Article IV consultation with Myanmar, whichever is earlier.

Financial Sector Developments

22. With the growing economy, Myanmar's financial sector is rapidly expanding. In ensuring that the financial sector remains supportive of growth without undermining financial sector stability, the authorities are highly committed to strengthening the regulatory and supervisory framework. Private sector credit growth, although remains elevated, has started to moderate. Progress has been made in strengthening the supervisory framework, including upgrading prudential regulations, revising supervisory framework, developing supervisory techniques in line with international standards, and enhancing the capacity of the supervisors through training and seminars with the assistance of international institutions, regional organizations and other development partners. The CBM has allocated its most qualified staff to work closely with the Fund to further enhance the supervisory framework.

23. In order to achieve greater access to international markets, the CBM, on October 1, 2014, granted preliminary approval to nine foreign banks to begin preparations to commence banking operations in Myanmar. Thus far, the CBM has issued final licenses to eight of the nine foreign banks, enabling them to begin their operations. In this regard, the authorities are concurrently strengthening the capacity of supervisors to supervise and regulate foreign banks. The presence of foreign bank operations will also help to promote greater use of technology and encourage international standard practices in the banking industry.

24. The authorities have made significant progress in improving the financial infrastructure to strengthen the financial system and to modernize its financial framework. Several laws and related regulations have been enacted, namely, the new Foreign Exchange Management Law (August 2012), the new Central Bank of Myanmar Law (July 2013), the Securities Exchange Law (July 2013) and the regulations of Foreign Exchange Management Law (September 2014). The enacting of a new Financial Institutions of Myanmar Law (FIML) and CBM rules and regulations are in the final stages. In particular, the rules and regulations under the FIML are expected to further modernize financial institutions.

25. The Anti-money Laundering and Counter Terrorism (AML/CFT) Law was enacted in March 2014 and its accompanying regulations are currently being drafted with high priority. A number of supervisory tools were developed under the IMF TA project with the objective of assisting the CBM to strengthen its overall AML/CFT legal framework and bring it in line with the Financial Action Task Force (FATF) Recommendations. As a result, the CBM has issued a Risk Management Guidance Note for banks on January 27, 2015. Moreover, to address concerns of the FATF identified in the Public Statement, the updated risk based CDD Directive has been prepared with the assistance of IMF and will be issued soon.

26. The enactment of the Securities Exchange Law in July 2013 was a major milestone as it enabled the establishment of the Securities Exchange Commission (SEC) to supervise and manage the securities market and also paved the way for further capital market development. The authorities have also adopted a concrete plan to establish a stock exchange in late 2015.

27. To develop greater financial access and promote a more inclusive financial system, the authorities have taken steps to expand the branch network of the banking system, encourage microfinance, and enhance innovations in ATMs, point-of-sale systems and mobile banking. In addition, the payment and settlement systems will be further enhanced with the establishment of the CBM Net system.

28. In addition, the Interbank Market Steering Committee will undertake continued and extensive efforts towards the establishment of a functioning and active interbank FX market and money market.

29. The authorities also place great importance on strengthening institutional foundation and capacity. Some programs are still ongoing and include, among others, introducing the "Modernizing the Funds, Payment and Securities Settlement Systems" project, developing the interbank foreign exchange market and money market, implementing new accounting standards and preparing a financial sector development master plan with the technical assistance from the regional and international community.

Macroeconomic and Structural Reforms

30. Comprehensive macroeconomic reforms are critical to maintaining economic stability, promoting sustainable growth and reducing poverty. In addition to the ambitious reforms in fiscal, monetary and exchange rate as well as financial sector policies, key reforms in business and trade sectors remain on track.

31. Recognizing the importance of creating a conducive investment climate and positive business environment to attract foreign direct investment (FDI), some laws relating to investments have been enacted while existing laws are being revised. Notably, the enacting of the new Foreign Investment Law (2012) has helped to attract more FDI by providing foreign companies access to a wide range of new businesses, longer term leases, favorable tax incentives with various tax and customs duty exemptions, and improving transparency of the foreign investment regulations and implementations. The establishment of Special Economic Zones (SEZs), with a new SEZs law (January 2014), will also help to promote local and foreign investment. Further, to support export development and competitiveness, the authorities are developing the National Export Strategy (NES) in cooperation with the International Trade Centre (ITC) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

32. The restructuring and privatization of state enterprises are crucial for sustained growth. In this regard, some state economic enterprises (SEEs) have been privatized, especially in the industrial and manufacturing sectors. This has also helped to reduce the fiscal deficit. To strengthen SMEs, the authorities have placed a strong emphasis on improving the legal framework and funding for SMEs. Various laws relating to the industrial sectors have also been enacted with the aim to transform Myanmar into an industrialized economy.

33. To enhance overall socio-economic development, the authorities have affirmed the development of the telecommunication sector as part of its economic reforms. In this regard, progress has been made in issuing telecom licenses to foreign companies. The authorities also underscore their commitment to promote inclusive growth through improving health and education services. The authorities recognize the importance of timely macroeconomic statistics for macroeconomic surveillance and have committed to undertake further efforts in this area.

34. The authorities deeply appreciate the Fund's constructive policy advice and technical assistance. However, given the vast challenges that Myanmar is facing and with TAs available only to some reform areas, the economy continues to face significant difficulties in expediting the comprehensive reforms.

Conclusion

35. Myanmar is undergoing a major economic transition towards a market oriented economy. Despite its positive economic growth performance over the years, Myanmar still faces significant challenges in implementing the economic reform agenda given the constraints in human capital, institutions and infrastructure. The authorities remain committed to continuing efforts in those needed areas under the ongoing reform agenda. In this regard, the authorities firmly believe that the technical assistance, capacity building and valuable advice from regional partners and the international community will enable Myanmar to overcome the remaining challenges and ultimately achieve its long-term economic development goals.

36. Finally, the authorities would like to express their gratitude to the Fund as well as to the World Bank and the ADB, for their unwavering support and valuable policy recommendations over the years. The authorities look forward to continuous support and cooperation as they press ahead with the ongoing economic reform agenda.