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MYANMAR

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2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MYANMAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 24, 2014, following discussions that ended on June 17, 2014, 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 September 8, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 24, 2014 consideration of the staff report that concluded the Article IV consultation with Myanmar.
- A **Statement by the Executive Director** for Myanmar.

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

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MYANMAR

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

September 8, 2014

KEY ISSUES

Context: The authorities continue to make progress on their far-reaching political and economic reform program. Key economic reform priorities are being realized. However, macroeconomic and financial risks are building, and capacity constraints are slowing institutional reform. Constitutional amendments are being considered ahead of the 2015 elections, and peace negotiations are continuing despite religious and ethnic tensions.

Macroeconomic situation and outlook: Growth is accelerating, with average growth projected around 8¼ percent in the next few years, and inflation should remain broadly stable. After depreciating in 2013, the exchange rate has stabilized. The external current account has widened despite improved export performance but rising capital account inflows should enable Central Bank of Myanmar (CBM)'s international reserves to grow rapidly from their current low levels. Monetary aggregates are growing at double-digit rates. The underlying fiscal deficit in 2013/14 is estimated at 3 percent of GDP and is forecast to widen to around 5½ percent of GDP in 2014/15, but should decline below 5 percent of GDP in the medium term. However, off budget operations could increase the deficit. Risks also arise from capacity constraints and thin fiscal and external buffers.

Medium- and long-term prospects: Economic prospects remain strong. Myanmar's long-run growth potential is estimated at around 7 percent, in line with peer countries' experience, but sound institutional and policy frameworks need to be built to realize this.

Key policy recommendations: Macroeconomic policy challenges are likely to intensify in the short term. Monetary policy tools need to be more aggressively deployed, and mechanisms established to transfer public sector foreign exchange earnings automatically to the CBM. The regulatory framework for the banking sector needs to be urgently upgraded and supervision strengthened, particularly as foreign banks will soon enter. Tax policy and administration should aim at simplifying the system and preparing for the introduction of a value-added tax (VAT).

Technical assistance (TA): Capacity building will be crucial to achieve policy objectives. The IMF continues to provide intensive TA in key areas, including in a wide range of CBM operations, tax policy and administration, public financial management and statistics.

Approved By
Jerald Schiff and Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon during June 4–17, 2014. The staff team comprised Mr. Davies (head), Messrs Kashiwase and Pitt (all APD), Mr. Eckhold (MCM), Ms. Flamini (FAD), and Ms. Jahan (SPR). Ms. Creane (head of TAOLAM) and Mr. Schatan (FAD) joined the mission. Ms. Wong (Resident Representative) assisted the mission. Mr. Ghaffour and Ms. Tin (both OED) also participated.

CONTENTS

INTRODUCTION

1. Myanmar continues to make a rapid economic transition, but the challenges remain daunting. The authorities' reform program focuses on opening up the economy to spur inclusive growth. Initial reforms focused on the liberalization of the foreign exchange, trade and foreign investment regimes, and special economic zones (SEZs) are being established. This is beginning to attract foreign investment in the telecommunications, infrastructure, financial, and manufacturing sectors. However, there is a long way to go before modern institutions are established and the authorities' capacity is being strained as they implement numerous reforms simultaneously.

2. Continued progress in political reforms ahead of the 2015 elections would support gains made in opening the economy. Constitutional changes are being considered and the opposition is campaigning for amendments to enable Aung San Suu Kyi to run for the presidency and reduce the military's effective veto over constitutional changes. Nationwide peace negotiations have recently made significant progress. Religious frictions, however, continue, and dominate domestic and international attention. Provisional results of the 2014 Census, the first for over 30 years, indicate a population of 51.4 million, considerably lower than previously estimated.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. Growth is accelerating and the external balance remains stable. Output growth is estimated to have risen to 8¼ percent in 2013/14, driven by construction, manufacturing and services, and supported by agriculture. Inflation has broadly stabilized, and stood at 6 percent (y/y) in May 2014. The current account deficit is estimated to have widened to 5½ percent of GDP in 2013/14, but to have been more than financed by foreign direct investment (FDI), new loans, and inflows related to telecommunications licenses. After depreciating in 2013, the exchange rate has stabilized. International reserves held by the CBM increased to US$4.5 billion by end-March, covering nearly 3 months of prospective imports. While the base remains low, broad money and private sector credit continue to grow rapidly at 32 and 58 percent (y/y) respectively in February. Reserve money growth, in contrast, decelerated sharply to 14 percent (y/y). The underlying fiscal deficit, which excludes one-off revenues from telecommunications licenses, is estimated to have declined to 3 percent of GDP in 2013/14, due largely to improved performance of state economic enterprises (SEEs). The headline deficit is estimated at 1½ percent of GDP.[1]

[1] The fiscal year begins on April 1. For 2013/14, only partial above-the-line outturn is available—deficit estimates are based on monetary data.

A. Outlook and Risks

Staff Views

4. The economic outlook is favorable. Growth is expected to average 8¼ percent in the next few years, led by rising gas production and investment, though there is considerable uncertainty given data constraints. With the effects from wage and electricity price increases gradually dissipating and with stable global commodity prices, inflation is expected to remain under control at around 6 percent over the medium term. The current account deficit is projected to remain elevated as FDI-related imports are balanced by rising exports and transfers. However, the CBM's international reserves are forecast to continue to increase rapidly as foreign inflows intensify. Reserve money growth is projected to remain contained provided CBM undertakes significant sterilization operations while broad money and credit to the economy will continue to expand at double-digit rates. With transfers from the Union Government to states and regions increasing significantly, the underlying fiscal deficit is set to widen to around 5½ percent of GDP in 2014/15, but further one-off revenues should bring the headline deficit to around 4½ percent of GDP. In the medium term, the underlying fiscal deficit is projected to decline again below 5 percent of GDP as tax revenues increase gradually as a result of administration reforms. However, spending will need to be carefully prioritized as large increases in revenues are not expected until the VAT is introduced.

5. Risks are mainly domestic (Table 7). External and fiscal buffers remain thin, and the authorities' capacity to develop and implement policies and absorb technical assistance (TA) is being stretched. Fiscal strains are building as tax exemptions increase at the same time as expenditure pressures for both current and capital spending, including due to the forthcoming elections. External borrowing for off-budget operations is also increasing, raising risks. The entry of foreign banks will burden nascent supervisory capacity and challenge monetary and exchange rate management, particularly in the face of continuing demand-side pressures on inflation. On the upside, large one-off inflows from concession fees for oil and gas exploration could materialize in the near term. The debt sustainability analysis (DSA) indicates that Myanmar, following completion of arrears clearance with Paris Club creditors, is at low risk of external debt distress (Supplement 1). However, public debt is expected to remain close to, albeit below, the indicative benchmark.

6. Long-term prospects remain strong, but require sustained policy and institutional reforms. In order to achieve rapid and inclusive growth, it is vital to maintain near-term macroeconomic stability while building sound institutional and policy frameworks to manage the budget and financial sector. Good progress has been made in implementing previous surveillance advice in these areas, including under the 2013 Staff Monitored Program. Notable achievements include establishing an autonomous central bank, unifying exchange rates and maintaining fiscal control. Capacity constraints have, however, influenced the pace of structural reform and there is still a long way to go. Policy discussions therefore focused on the key outstanding reforms.

7. Intensive and well-tailored capacity building will be required to underpin the reforms. Reflecting this, IMF TA in key areas, notably central banking and statistics, will be further scaled up. Extensive support has already been provided (see Informational Annex) and has helped the authorities modernize the CBM, develop a coordination mechanism for international financial sector support, and establish a large taxpayer office. Key short-term priorities will be building CBM's systems and policies, enhance tax policies and systems, strengthen public financial management (PFM), and improve statistics and macroeconomic analysis.

Authorities' Views

8. **The authorities broadly concurred with the staff's assessment.** They noted that their growth estimates and projections for 2013/14 and 2014/15 were somewhat higher than staff's. They stressed the strong investor interest in special economic zones and noted the importance of initiatives to improve access to finance in rural areas. They also stressed the critical role of TA support in macroeconomic management, in particular in transforming the financial sector.

POLICY DISCUSSIONS

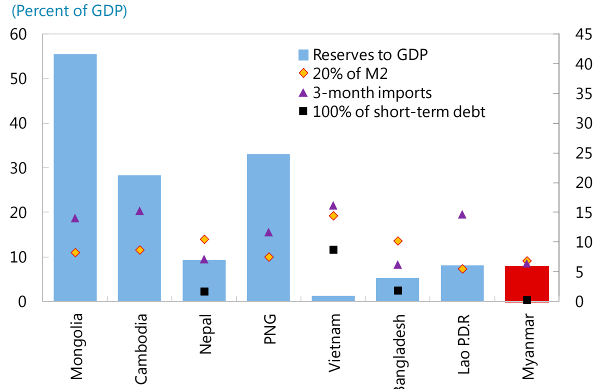
A. Maintaining Macroeconomic Stability

Background

9. **The exchange rate appears broadly in line with fundamentals but reserves remain low** (Box 1). International reserves have increased substantially in 2013/14, and are projected to rise further with more large one-off inflows (for the capitalization of foreign bank branches, and the remainder of telecommunications licensing fees), and a further rise in FDI and loan disbursements. Nonetheless, they remain well below levels (5–6 months of imports) suggested by reserve adequacy metrics (see IMF Country Report 13/250).

Gross Reserve Coverage, 2013[1]

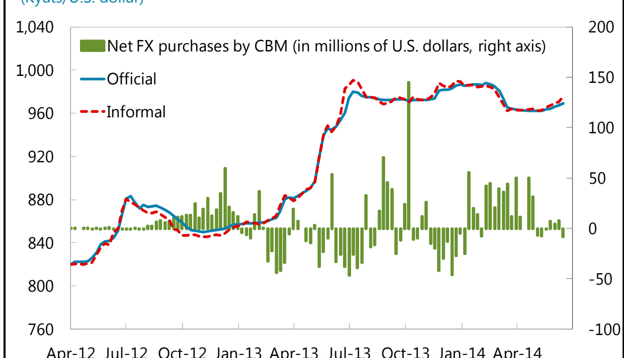
(Percent of GDP)



1/ The coverage for Myanmar is based on IMF staff projection for FY2013/14.

Exchange Rate Developments

(Kyats/U.S. dollar)



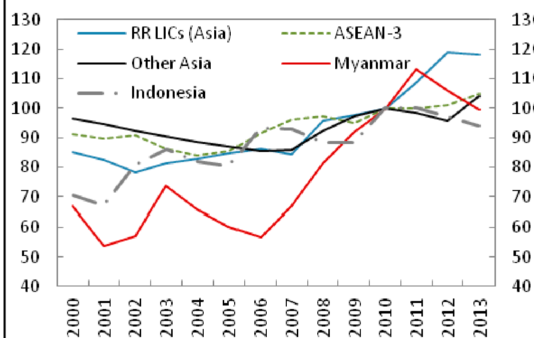
Sources: Myanmar authorities; and IMF staff calculations.

Box 1. External Assessment

Conventional econometrics-based methods of exchange rate assessment are hampered by severe data limitations. Moreover, their utility is significantly limited by the rapid structural change taking place in Myanmar. However, other indicators suggest that the recent depreciation has helped the previously overvalued kyat move closer toward alignment with longer-term fundamentals.

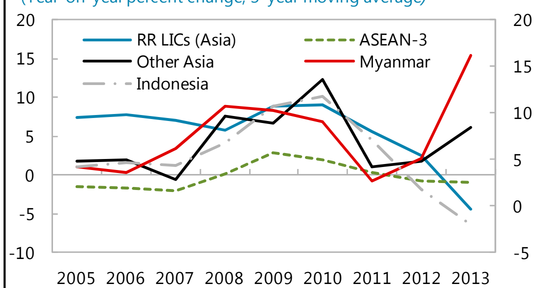
- The exchange rate depreciated by 15 percent between April 2012 (when it was floated) and June 2014, primarily reflecting strong import demand from the private sector. The depreciation has narrowed the divergence in real appreciation rates since 2006 between Myanmar and its peers.
- Export performance has recently improved markedly, with Myanmar's share in world exports growing significantly. This performance has been driven by natural resources, but other sectors have also contributed.
- Labor costs remain the lowest in the region which should underpin competitiveness. However, other costs are rising rapidly, particularly real estate. This, however, largely reflects capacity constraints.

Selected Peers: Real Effective Exchange Rates
(Index, 2010=100)



Sources: Authorities; and IMF staff calculations.

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



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

- The external current account is consistent with countries at similar stages of development and can be sustainably financed by FDI and aid.

Increases in natural resource revenues, FDI and other inflows are likely to exert upward pressure on the exchange rate over the medium term. Structural reforms will therefore be crucial for competitiveness.

10. Inflation has stabilized but pressures remain. After rising to 7.3 percent (y/y) in August 2013, in part driven by the exchange rate depreciation, inflation declined to 6 percent in May, but is likely to remain at this level due to increases in administered electricity prices and demand pressures. Real estate prices in urban areas continue to rise while money and credit have continued to grow strongly. However, financial depth remains low, with credit to the private sector at only 15 percent of GDP.

11. CBM's monetization of the fiscal deficit declined further in 2013/14. However, with the fiscal deficit widening in 2014/15 (Box 2) and CBM's international reserves projected to rise, there will be pressures on reserve money. The one-year transition period for the new CBM law ended in July 2014 giving CBM the budgetary autonomy needed to implement monetary policy effectively.

Box 2. Short-Term Fiscal Outlook

The authorities' 2014/15 budget envisages a widening of the overall deficit to 6 percent of GDP, while staff projections are significantly lower. Overall, staff's revenue projections imply a headline deficit below 5 percent of GDP, whereas the underlying deficit, which excludes one-off revenues from remaining inflows from telecommunications licenses, is expected at about 5½ percent of GDP.

- The authorities' tax and SEE revenue forecasts are conservative even after taking into account losses from tax policy changes. Union Government revenues from taxes are projected lower in nominal terms than the 2013/14 outturn and SEE receipts are budgeted to shrink by 1 percent of GDP.

- At the same time, nontax revenues from telecommunication licenses will be lower than budgeted. The budget includes about US$1.2 billion (2 percent of GDP) in nontax revenues from telecommunications licenses. However, US$750 million of these were received in 2013/14 after the budget was passed, and only about US$375 million are expected to materialize in 2014/15.

Short-Term Fiscal Outlook

	2014/15		2015/16
	Budget	Proj.	Proj.
	(In percent of GDP)		
Revenue and grants	22.5	24.2	24.0
Tax revenue	5.8	7.3	7.4
SEE receipts net of transfers to UG	12.9	13.4	13.3
Other nontax revenue	3.6	3.1	3.0
Grants	0.3	0.4	0.4
Expenditure	28.7	28.7	28.6
Expense	19.9	20.0	19.6
Net acquisition of nonfinancial assets	8.8	8.8	9.0
Net lending (+)/borrowing (-)	**-6.1**	**-4.5**	**-4.6**
Union Government	-6.6	-5.5	-5.7
SEEs net of transfers to UG	0.5	1.0	1.0
Underlying balance 1/	**-8.1**	**-5.4**	**-5.3**

1/ Excludes one-off proceeds from sales of telecommunications licenses awarded in June 2013

- Staff's revenue projection takes into account the changed pattern of telecommunications license receipts, as well as a likely negative net revenue impact of the changes in the 2014 taxation bill. Nonetheless, tax revenue and SEE receipts are expected to perform broadly in line with 2013/14 outcomes, which saw higher than budgeted SEE receipts and tax revenue.

- The budget envisages a further increase in transfers from the Union to sub-national governments, reflecting the political commitment to fiscal decentralization. While this is accompanied by some transfer of government functions, it is nonetheless expected to lead to a net increase in expenditure, in part because the basis for determining transfers is not yet clearly defined. The budget also increases civil servants' salaries by kyat 20,000 (US$20) per month, with proportional increases in allowances and pensions, leading to a rise in spending by around 0.4 percent of GDP. Spending on health and education as a share of GDP is budgeted to remain broadly stable, while defense spending is expected to decline to 3.7 percent of GDP, from 3.9 percent last year.

With spending pressure related to the fiscal decentralization process likely to continue in 2015/16, keeping the headline deficit within the 5 percent target will require continued good performance of SEEs and tax proceeds. At the same time, careful expenditure prioritization will be required to allow a resumption of growth in social expenditures and capital investment.

Staff Views

12. **Monetary policy will need to be more active in 2014/15.** Substantial sterilization will be required to keep reserve money and inflation under control. Credit growth will also need to be kept in check to avoid fuelling demand and creating prudential risks. Finally, the forthcoming entry of foreign banks could impose further demands on monetary policy.

- *Monetary policy tools need to be more aggressively deployed.* Good progress has been made in liquidity forecasting, deposit auctions have been held regularly, if generally at low volumes, and the authorities have adopted reserve money targets. However, further steps are needed to use reserve money targeting effectively. Key steps are reform of reserve requirements in line with previous IMF advice; and utilization of budgetary autonomy to increase the scale of monetary operations to meet the greater sterilization requirements. Furthermore, the excess liquidity at the Myanma Economic Bank (MEB) will need to be absorbed to make deposit auctions effective in establishing and influencing realistic market interest rates, and to allow development of an interbank money market. In the meantime, direct control of interest rates should be retained.

- *Deficit monetization should be scaled back more rapidly to reduce money creation and inflationary pressures.* With significant foreign exchange inflows having occurred and more expected, this is becoming more urgent. The introduction of treasury securities auctions will be key for reducing CBM's deficit financing. Other forms of CBM financing of fiscal operations, such as the financing of the Myanma Agricultural Development Bank (MADB) should also be discontinued.

- *Budgetary autonomy requires a strong CBM balance sheet.* An important element should be converting old government debt to the CBM into marketable treasury bonds at market interest rates at a range of maturities. This would provide the CBM with an income stream sufficient to finance its operational expenses as well as substantial sterilization operations, should they become necessary. Intensive building of capacity and strengthening of systems will also be required—particularly in the accounting area.

13. Expected large inflows of foreign exchange to the public sector present an important opportunity to bolster the CBM's international reserves. In this regard, it is imperative to establish an automatic mechanism for transferring public sector foreign exchange earnings to the CBM. This would replace the current mechanism of individual ministerial approvals for state-owned banks' ad-hoc sales of foreign exchange to CBM. The CBM's policy of smoothing exchange rate fluctuations through the foreign exchange auctions remains appropriate. However, the CBM could use opportunities to acquire foreign exchange in the auctions more aggressively. Furthermore, a strategy to manage international reserves to maximize the CBM's returns and safeguard its thin reserves buffer should be developed.

14. The authorities' fiscal strategy of keeping deficits below 5 percent of GDP remains appropriate to balance Myanmar's large development needs with supporting macroeconomic stability and maintaining debt sustainability. Prolonged deficits above this level, particularly if domestically financed, would run the risk of stoking demand pressures and driving overall public debt above recommended levels. However, with rising transfers to regions and states, and new commercial tax exemptions and preferential rates, the underlying fiscal deficit is projected above the 5 percent target for the next two years (Box 2). Even this relies on tax and SEE revenues continuing to perform stronger than budgeted. If this does not materialize the underlying deficit could increase beyond 6 percent of GDP. Moreover, off-budget borrowing increases contingent liabilities. Fiscal policy in 2014/15 therefore needs to focus on strengthening revenue collection while minimizing CBM financing of the deficit. In preparing the 2015/16 budget, the authorities need to broaden the tax base, re-unify commercial tax rates and carefully prioritize expenditure pressures in order to maintain a prudent fiscal path. Loan-financed off-budget operations should be strictly limited and reported to the parliament alongside the budget.

Authorities' Views

15. The authorities indicated that setting the framework for the CBM's operations following the transition period was a high-priority task.

- They explained that they were focused on restructuring the legacy debt owed by the treasury to the CBM, and formulating the CBM's budget, and appreciated the IMF's support in these areas.
- The authorities also indicated that reforms to reserve requirements would be implemented soon, while efforts to improve their liquidity forecasting capacity were ongoing.
- They were considering using MEB's excess liquidity to accelerate the reduction of fiscal deficit monetization. This would reduce the burden on monetary policy tools in controlling system-wide liquidity, and offer a transition period of relatively low-cost domestic financing.
- In advance of the establishment of an automatic mechanism to transfer reserves, transfers of foreign exchange from state-owned banks to CBM were continuing.
- They accorded high priority to developing their statistical and accounting functions, not least as a precondition for implementing a new payments system. They requested further IMF TA to support achieving this goal.

16. The authorities stressed their commitment to maintaining fiscal discipline. They emphasized recent strong performance, and pointed to ongoing efforts to strengthen debt management. They also noted that they were building a medium-term fiscal framework to strengthen planning and were investigating establishing mechanisms for saving windfall revenues. The authorities agreed in particular that broadening the tax base and limiting exemptions were important, but pointed to the parliament's legislative authority.

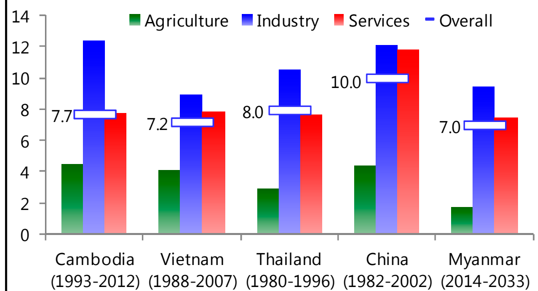
B. Sustaining Rapid and Inclusive Growth

Background

17. Myanmar's long-run growth potential is substantial. Regional peers' experience suggests that, with appropriate policies, high growth can be sustained over a relatively long period (Box 3). The authorities in 2013 introduced their Framework for Economic and Social Reforms (FESR), a long-term strategy for achieving sustainable economic growth and reducing poverty. If its reforms are implemented well, achieving average growth of around 7 percent over the next 20 years is within reach. Regional integration could also help, including through the establishment of the ASEAN Economic Community which could help Myanmar become integrated in regional supply chains and promote inward investment. However, the emergence of Myanmar's economy—with over

Box 3. Long-Run Growth

Average Sectoral and Overall GDP Growth
(Percent per annum)



Sources: World Bank, World Development Indicators (2013); and Fund staff calculations.

Successful episodes of economic transformation in the region were driven by sustained growth in industry and services supported by high public and private investment. Industrialization generally starts at the lower end of the value chain using cheap labor to produce for export markets, which supports a gradual shift of employment from agriculture to industry. The utility and construction sectors, underpinned by high investment, also contribute to growth across the economy. Services, including telecommunications, transportation, banking, and retail and wholesale trade, all facilitate business activities, and yield synergies for robust economic growth. Agriculture will grow at a slower pace, though it will continue to provide an important source of employment in rural areas. In Myanmar, further discoveries of natural resource deposits could add to growth prospects.

While the agricultural labor force is expected to gradually decline, economic transformation will likely raise employment in industry and services. In China, urbanization and internal migration raised the growth rate of the urban population to 4.4 percent a year on average during 1982–2002, compared to 1.2 percent growth in the total population during the same period. In Myanmar, the United Nations project a decline in population growth from 1 percent in 2014 to ¼ percent by 2033. This will require more rapid shifts in employment to sectors with high productivity growth which result in rapid urbanization.

50 million inhabitants, and a GDP of about US$65 billion—could raise competitive pressures for some other Asian low-income countries (LICs) for markets and FDI, especially in the garment sector, which has served as an entry point for many economies into the global production chain, as well as in tourism.

18. **The FESR appropriately focuses on poverty reduction.** Poverty has been declining in recent years but is still high, at around 26 percent. However, recent World Bank research suggests that the rate may be even higher. Poverty is particularly intense in coastal and hilly regions, where conflict is also most prevalent. Around a half of the poor rely on agriculture for their livelihood.

Staff Views

19. **Sustaining a broad-based and equitable economic expansion will require continued structural reforms and further reallocation of public expenditure.** Investments in infrastructure, boosting access to finance, and agricultural reform are critical to spread economic opportunities. The latter is particularly important for the reduction of poverty in rural areas. A legal and regulatory framework that is transparently administered and fosters competition is indispensable for encouraging domestic and international investment. To further accelerate poverty reduction, and improve productivity, further expansion of education and health services will be needed. Sound

macroeconomic management will be vital: long growth spells are often accompanied by a buildup in vulnerabilities, which need to be carefully managed.

20. If properly leveraged, Myanmar's natural gas wealth has the potential to boost growth and development. Natural gas revenues represent an opportunity to expand public investment which, if properly planned and executed, can help close infrastructure gaps, and increase productivity and growth. However, international experience points to the dangers of borrowing against future revenues to accelerate investment which can lead to absorption capacity constraints and threaten debt sustainability. To analyze these issues staff applied the DIGNAR model developed by the IMF Research Department.[2] Simulations indicate that future gas revenue streams in Myanmar should be used to finance a gradual scaling up in public investment while building fiscal space to help maintain a stable macroeconomic environment. A sound and transparent fiscal regime for extractive industries, as envisaged by the Extractive Industries Transparency Initiative, which Myanmar has joined, would help better realize the revenue potential of natural gas reserves.

21. Statistics need to be improved urgently to enable effective economic planning and management. Weak capacity and data shortcomings are a significant obstacle to economic and social policymaking and also hamper effective IMF surveillance. The importance of improving economic statistics is recognized by the prominence it has been given in the authorities' economic reform strategy. At the same time, the authorities are seeking technical support from a wide range of partners, including the IMF.

Authorities' Views

22. The authorities agreed that they needed to advance reforms on many fronts. They pointed to rising public investment, increased electricity generation, and progress in developing SEZs as important recent achievements. They also reiterated their commitment to preserving macroeconomic stability, with particular emphasis on containing inflation, which has a disproportionate effect on the poorer segments of the population. They also stressed the importance of financial sector development including through mobile telephony.

C. Building and Using Fiscal Space

Background

23. Fiscal space is limited. Public finances are dependent on SEEs and natural resource revenues. Tax revenues are very low and the tax base remains narrow, in part due to widespread exemptions, while social spending needs to rise. Public debt is projected to remain close to the benchmark over the long term, and breaches it in some scenarios. Recent and planned off-budget

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[2] The model explicitly takes into account the impact of scaled-up investment on economic growth and existing capacity constraints due to low public investment efficiency. Simulations were run around two potential public investment paths and two alternative gas revenue scenarios. The results of this work were produced in collaboration with RES staff and presented during the mission to representatives of the Ministry of Finance.

external nonconcessional borrowing and guarantees for policy banks and microfinance pose risks to debt control and complicate fiscal management. On the other hand, budget constraints could be eased in the short term if fees for oil and gas exploration materialize.

24. The 2014/15 taxation bill reduced revenue potential and complicated administration. While the bill broadened the tax base and streamlined income taxes, numerous exemptions and a new reduced rate for the commercial tax were introduced, further complicating administration. Some provisions were instituted to protect domestic industries, which complicates the mandate of the commercial tax and also makes it more difficult to enforce.

25. Structural reforms aimed at improving public sector effectiveness could pose short-term risks to Union government finances. Further increases in transfers to subnational governments without compensating transfer of functions and effective budget constraints on sub-national governments could be a drain on Union government resources. Moreover, reforms that separate SEEs from the budget could trigger contingent liabilities and would reduce an important source of funding for the Union Government budget.

Staff Views

26. Higher revenue is needed to provide a solid foundation for financing development, including increases in health and education spending. To this end, introducing a VAT as planned in 2018/19 is a key step. However, the groundwork for this needs to be laid soon. Critical steps, which should be taken in the 2015 taxation bill, are to (i) reduce exemptions from the commercial tax to a narrow range of well-defined consumption goods; (ii) unify the commercial tax rate to facilitate enforcement and compliance; and (iii) reform the taxation of special consumption goods into a separate excise tax (which will require agreement on apportioning the revenues to states and regions). In addition, ad-hoc tax exemptions should be strictly controlled. To spur effective tax administration, the Large Taxpayers Office (LTO) urgently needs to have taxpayers assigned. Unique taxpayer identification numbers, as well as taxpayer self-assessment also need to be introduced.

27. Fiscal decentralization and reform of SEE finances need to be carefully planned and implemented. Both need to take capacity constraints and the short-term impact on Union government finances into account. With regard to fiscal decentralization, it is important that reforms take account of lessons learned from international experience (Box 4). In the area of SEE reform, the degree of financial autonomy of SEEs, and their relation with the Union government need to be clarified. SEEs in the resource extraction sector will likely need to be treated differently than other SEEs, given their fundamental importance to the economy and public finances.

28. Increases in social spending need to resume, and public investment needs to be protected and expanded. This will add to spending pressures, and reinforces the need to prioritize other government spending and pursue the priorities in the government's PFM strategy, including at sub-national levels. In this regard, the establishment of a new treasury department in the MoF is awaiting approval by the cabinet. Immediate next steps include developing sufficient technical

Box 4. International Lessons for Design of Fiscal Decentralization[1]

Changes in the assignment of spending responsibilities and their financing (taxes, transfers, or borrowing) across government levels can significantly affect macroeconomic management, in particular government budgetary balances and debt position. Hence, the design of intergovernmental fiscal arrangements requires careful coordination and sequencing, and needs to strike a balance between efficiency and distributional considerations. Despite differences across countries' specific circumstances, some general lessons can be drawn from international experience.

- The sequencing of decentralization matters, as resources should be made available to subnational governments on equal footing with the assignment of spending responsibilities. Decentralization could start in sectors where improvements in service delivery are more likely and accountability can easily be established.
- At the same time, the pace of decentralization should be as much as possible linked to the capacity of subnational governments to carry out effectively the functions assigned to them. This implies that devolution of expenditure functions can proceed at different speed as PFM and other capacities vary across subnational governments (asymmetric arrangements).
- Subnational governments should face effective budget constraints which means that they should be provided with an overall envelope of resources (own revenue and transfers) that is sufficient to allow them to carry out their assigned spending responsibilities.
- Control over a portion of own resources is key to promoting accountability of subnational governments to their constituents, as well as fiscal responsibility. The assignment of own revenue sources to subnational governments must take into account economic considerations (such as the degree of mobility of the tax base) as well as institutional ones (in particular the capacity of subnational tax administrations). For instance, property and land taxes are typically assigned to subnational governments.
- As subnational own resources typically fall well short of spending responsibilities, intergovernmental transfers are needed. They should be carefully designed with a view to minimizing subnational governments' fiscal vulnerability to cyclical fluctuations. Transfers can also be used to address regional inequalities by taking into account relative taxing capacities and spending needs.
- Subnational borrowing needs to be carefully controlled to ensure fiscal discipline. Market discipline is rarely effective in low-income countries.

[1] This box draws from: Macro Policy Lessons for a Sound Design of Fiscal Decentralization, IMF Policy Paper, 2009.

capacity for cash flow forecasting, cash balance management, and treasury security issuance. More broadly, budget policies should generate a steady flow of spending, with a focus on social and investment expenditure, even if revenues are volatile due to one-off receipts.

29. Treasury securities auctions need to be introduced in time for the 2015/16 budget, which requires the establishment of a treasury department. The auctions would support a reduction of CBM financing of the budget and spur strengthening of fiscal accounting and reporting. Securities auctions will also assist financial sector development by helping reduce excess liquidity, and establishing market-determined interest rates.

Authorities' Views

30. **The authorities stressed their commitment to far-reaching fiscal reform.** They pointed out that many of the provisions for exemptions and special regimes in the 2014 taxation bill had been inserted by the legislature. They also explained that they intended to reform the taxation of special consumption goods in next year's taxation bill. With regard to tax administration, they indicated that they expect the LTO to be managing taxpayers as per their original implementation plan and they are taking measures to reduce tax evasion. The authorities were determined to move forward with treasury securities auctions by early 2015, and establish the treasury department in the MoF (for which they requested continued TA support). With regard to fiscal decentralization and SEE reform the authorities noted they were working closely with the World Bank to develop plans.

D. Financial Sector Modernization

Background

31. **Expansion and modernization of the financial sector is accelerating.** The authorities plan to grant licenses to 5–10 foreign bank branches during 2014. There are also proposals for further policy banks following the two licensed in 2013. A modernized Banking and Financial Institutions Law is in the final stages of drafting, and modernized prudential regulations have been drafted. The CBM's supervisory capacity is gradually being upgraded, with IMF TA support. The parliament passed Anti Money Laundering and Counterterrorism Laws in 2014, but substantial deficiencies remain in the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime.

32. **The functioning of the foreign exchange market continues to improve.** Foreign exchange auctions are now settled in overseas accounts, boosting the efficiency of the foreign exchange market.[3] At the same time, use of the interbank market is increasing, but remains low. To pave the way for acceptance of Article VIII obligations, a remaining key step is the issuance of a comprehensive set of regulations for the Foreign Exchange Management Law.

Staff Views

33. **The impending entry of foreign banks will likely trigger a sea-change in the capital, banking and financial markets.** This implies an urgent need for the CBM to define a unified playing field for both foreign and domestic banks. In addition to implementing prudential and monetary reforms already in train, policies on lending and deposits in foreign exchange; capital account flows; and foreign exchange reserve and liquidity requirements will need to be developed urgently. These policies need to focus on containing macroeconomic risks (including by preserving

[3] This removes the preliminary staff concerns of a multiple currency practice and exchange restriction mentioned in the staff report on the last review under the SMP (EBS/14/16 at footnote 3). See Informational Annex for details.

the CBM's discretionary approval of capital flows) while limiting the scope for dollarization. A key principle should be to establish a strengthened, rules-based and transparent regulatory environment before foreign banks commence operations. The entry of foreign banks should also be used as an opportunity to modernize the domestic financial sector by fostering cooperation and learning in a competitive environment.

34. The expansion of the number of policy banks is concerning as it generates fiscal risks and further segments the financial sector. While policy banks can be useful, international experience shows they often make poor lending decisions and are not commercially managed meaning that they incur large losses that ultimately have to be covered by the government budget.[4] They therefore need to protect the quality of their loan portfolios, be closely supervised and operate on a level playing field with other commercial banks, which requires strong management and credit assessment skills. The number of new policy banks should be minimized and their external borrowing tightly circumscribed.

35. Strengthening supervision is critical. The enforcement of existing and new macro- and microprudential regulations is key to preserving the stability of the financial system, especially in light of continued rapid credit growth. To this end, expansion and substantial training of the CBM's supervisory staff is needed, including with respect to AML/CFT. The CBM will also need to develop policies to attract and retain qualified staff, a task that is becoming more urgent as foreign banks will enter the labor market for staff with experience and qualifications.

36. Reform of state-owned banks, particularly the MFTB, is an important priority. When foreign exchange reserves are channeled directly to the CBM, the MFTB's role will be considerably reduced. Its remaining operations will also be placed under competitive pressure by the entry of foreign banks. Therefore, options for its future function in the financial system need to be explored. Some of its staff could be absorbed by the CBM to assist in their expanded reserve management role. The MFTB operations with private customers could be transformed into a commercial bank on a par with other banks, sold, or closed. Any remaining policy functions would be absorbed into the government.

Authorities' View

37. The authorities expressed confidence that they would be able to accept the obligations of Article VIII soon. They pointed out that the process of issuing of foreign exchange regulations was in its last stage and that remaining restrictions in the Foreign Investment Law would be removed as part of the ongoing redrafting. While the interbank market continues to deepen, they requested an extension of the Executive Board approval for the Multiple Currency Practice (MCP) arising from the foreign exchange auction.

[4] For further discussion see, for example, Chapter 2 of "The future of state-owned financial institutions", Caprio, Fiechter, Litan and Pomerleano (2004).

38. The authorities acknowledged that the entry of foreign banks presented considerable challenges on a tight timeline. They were determined to meet them, since they had already made commitments, and indicated that they accorded high priority to this issue. They valued IMF advice, and requested additional TA to establish the policy and regulatory framework governing foreign (and domestic) banks in the new activities opening up, such as lending in foreign exchange. With regard to supervision, the authorities agreed on the need for capacity building and noted the need for continued TA support.

39. The authorities also acknowledged the risks associated with the creation of policy banks. However, they pointed to political imperatives, and explained that they considered that such banks could play an important role in developing the economy in areas where market-based incentives alone would under-serve segments of the population, or specific sectors such as agriculture. They indicated that they were exploring options to mitigate risks, including consolidation of policy banks into one national development bank, or regionalization. They also indicated that they would consider options for state bank reform, including transforming MFTB into an export-import bank and eventually transforming MEB into a development bank.

STAFF APPRAISAL

40. The authorities' economic reform program is bearing fruit, but challenges remain daunting. Economic growth is expected to continue rising, while inflation should remain broadly contained, though risks remain. The external position is improving, and the risk of debt distress is low. Sectoral reforms are advancing and are expected to trigger large investments, most notably in telecommunications and banking. Nonetheless, external and fiscal buffers remain thin, and fiscal pressures are rising. Macroeconomic management challenges will increase with rising foreign inflows, which will place further strain on the authorities' already stretched institutional capacity.

41. The CBM needs to take action on multiple fronts. Monetary policy tools need to be more aggressively deployed to manage the impact of foreign inflows. A continued reduction in deficit monetization is needed to ease the burden on these new tools. Foreign inflows should enable a much-needed boost to the CBM's international reserves. However, an automatic mechanism is required that firmly establishes the CBM as the guardian of the state's foreign exchange reserves. The CBM's policy of smoothing exchange rate fluctuations while not targeting a specific rate remains appropriate. Finally, the CBM's internal systems urgently need to be upgraded, particularly in accounting and reserves management.

42. The current strategy of keeping deficits below 5 percent of GDP remains appropriate but off-budget borrowing needs to be carefully controlled. Increased tax revenue is crucial to allow increases in social spending and public investment. Tax policy should focus on cutting back exemptions, unifying the commercial tax rate, and introducing an excise tax which would lay the foundation for a VAT in the medium term. Overall, budget policies should provide for a steady stream of spending even if revenues are volatile due to one-off receipts. To finance spending consistent with macroeconomic stability, treasury securities auctions need to be introduced which will require strengthening of cash and debt management capacity.

43. The regulation and supervision of the banking sector needs to be urgently upgraded. The impending entry of foreign banks brings forward the need for far-reaching policy reforms so that a modern regulatory regime is in place before the new banks begin operations. At the same time, the opportunity to modernize the domestic financial sector needs to be seized. To control risks, supervision needs to be strengthened appreciably, with adequate staff and financial resources devoted to this task, and the supervisory perimeter extended to state banks. The number of new policy banks should be minimized, the quality of their loan portfolios protected, and their external borrowing tightly circumscribed, particularly if state-guaranteed.

44. Continued intensive TA is critical for successful reform. Coordination, prioritization and adaptation to Myanmar's circumstances remain essential given the scarce administrative capacity and the breadth of the agenda. IMF TA has been scaled up further, and will continue to be intensive, evolve with Myanmar's needs, and has been delivered in close coordination with other development partners. In this regard, improving statistics to underpin economic management and IMF surveillance will be crucial.

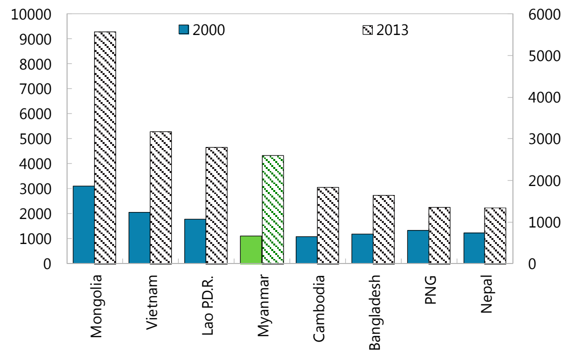
45. Staff support the authorities' request for approval of a MCP subject to Fund jurisdiction under Article VIII, Section 3. The MCP is maintained principally for nonbalance of payments reasons. Since the MCP does not materially impede the member's balance of payments adjustments, does not harm the interests of other members, and does not discriminate among members, and the authorities are unable at present to replace it, staff recommend Executive Board approval for its retention until September 23, 2015 or the conclusion of the next Article IV consultation, whichever is earlier.

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

Figure 1. Myanmar and Its Peers—Selected Indicators

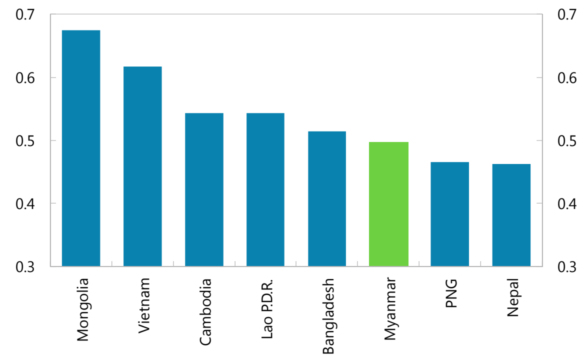
Living standards remain among the lowest in the region.

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



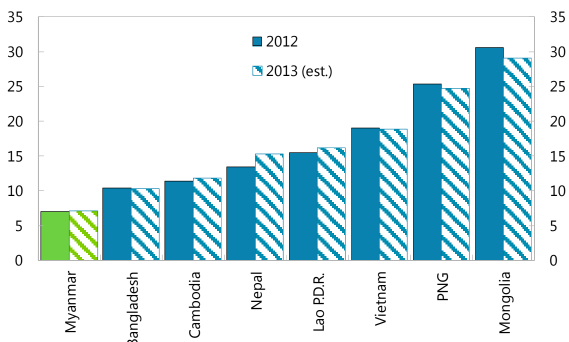
Social well-being is below that of regional peers, with Myanmar ranking 149th out of 186 countries

Human Development Index, 2012
(Index)



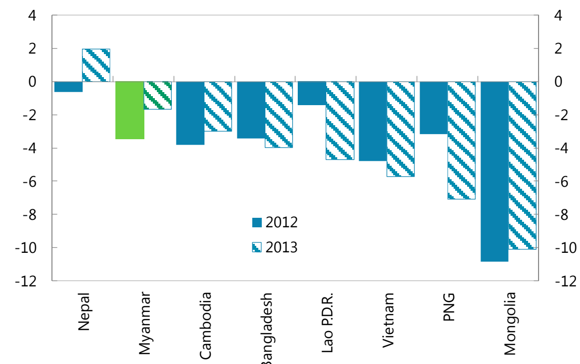
Tax revenue remains low …

Government Tax Revenue
(In percent of GDP)



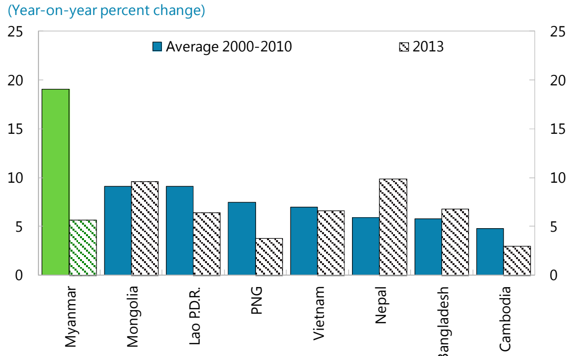
.. but fiscal deficits are moderate.

General Government Balance
(In percent of GDP)



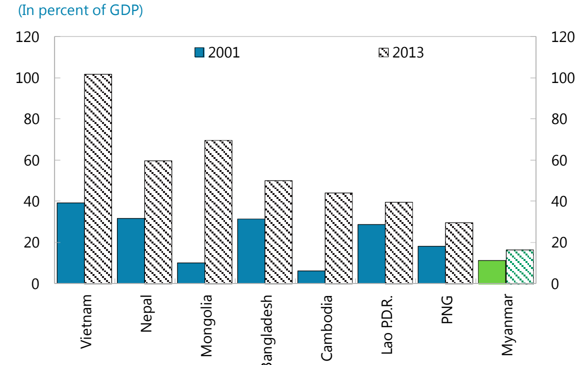
Inflation has declined significantly …

Inflation
(Year-on-year percent change)



… and credit to the economy remains low despite recent rapid expansion.

Credit to the Economy
(In percent of GDP)

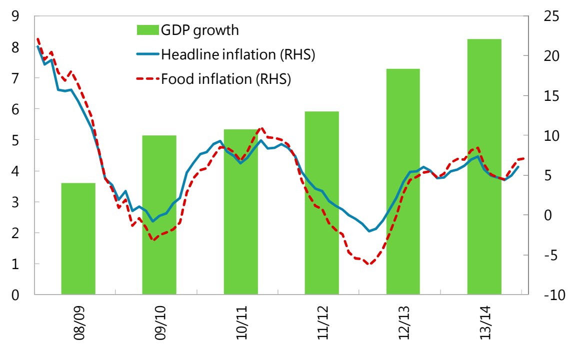


Sources: Data provided by the Myanmar authorities; Direction of Trade; IMF's World Economic Outlook; UNDP Human Development Report; and IMF staff calculations.

Figure 2. Myanmar—Macroeconomic Developments

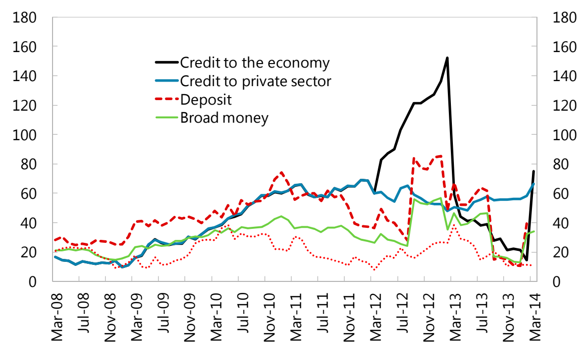
Growth has picked up, driven by construction and services, and supported by agriculture …

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



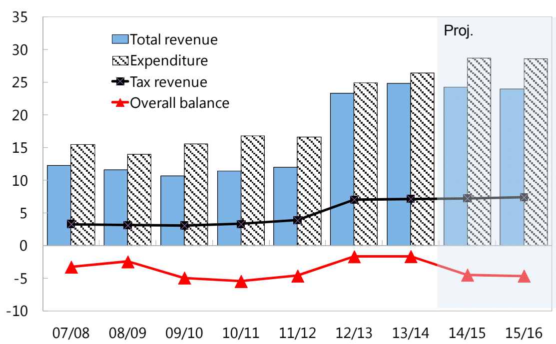
… and credit to the private sector continues to grow rapidly.

Monetary Indicators
(Year-on-year percent change)



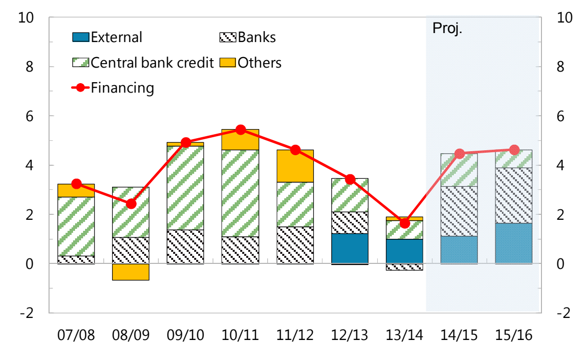
Revenue and expenditure have increased, but tax revenue remains low.

Fiscal Revenue and Expenditure
(In percent of GDP)



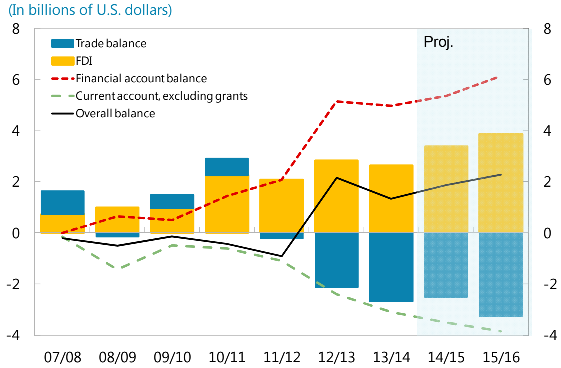
The fiscal deficit remains low but is expected to increase.

Fiscal Financing
(In percent of GDP)



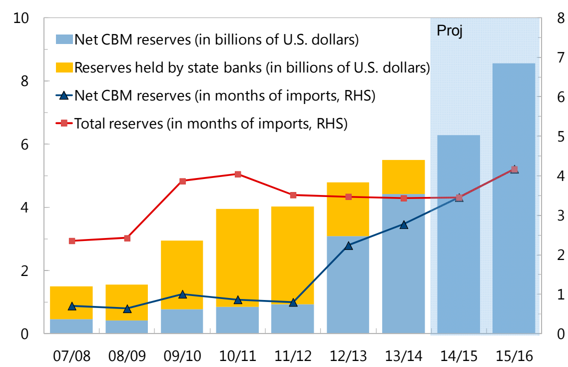
The current account deficit is largely financed by FDI inflows …

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



… and international reserves held by the CBM continue to rise.

Total and Net CBM Reserves



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

Table 1. Myanmar: Selected Economic Indicators, 2010/11–2015/16 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				Est.	Proj.	
Output and prices			(Percent change)			
Real GDP (authorities)	10.4	5.9	7.3	8.7	9.1	…
Real GDP (staff working estimates)	5.3	5.9	7.3	8.3	8.5	8.5
CPI (end-period)	8.9	-1.1	4.7	6.3	5.9	6.7
CPI (period average)	8.2	2.8	2.8	5.7	6.6	6.3
Consolidated Public Sector 2/			(Percent of GDP)			
Total revenue	11.4	12.0	23.3	24.8	24.2	24.0
Union government	6.3	6.5	9.5	11.4	10.4	10.4
Of which: Tax revenue	3.3	3.9	7.1	7.2	7.3	7.4
SEE receipts	7.0	7.8	15.3	14.7	14.3	14.6
Grants	0.0	0.0	0.1	0.2	0.4	0.4
Total expenditure	16.9	16.6	25.0	26.5	28.7	28.6
Expense	8.8	9.8	16.8	18.2	20.0	19.6
Net acquisition of nonfinancial assets	8.0	6.8	8.1	8.3	8.8	9.0
Gross operating balance	2.6	2.2	6.5	6.6	4.3	4.4
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.4	-1.6	-4.5	-4.6
Domestic public debt	21.1	22.7	22.8	20.6	21.1	21.3
Money and Credit			(Percent change)			
Reserve money	30.5	7.9	34.2	14.3	28.0	19.4
Broad money	36.3	26.3	46.6	33.8	32.3	26.4
Domestic credit	34.4	25.1	5.1	30.4	32.5	25.3
Private sector	65.4	60.1	50.5	66.5	44.7	31.8
Balance of Payments			(Percent of GDP, unless otherwise indicated)			
Current account balance	-1.2	-1.9	-4.3	-5.4	-5.3	-5.1
Trade balance	1.3	-0.3	-3.8	-4.7	-3.8	-4.3
Exports	17.8	18.2	18.6	21.5	22.9	22.6
Imports	-16.5	-18.6	-22.4	-26.2	-26.7	-27.0
Financial account	2.9	3.7	9.2	9.0	8.2	8.3
Foreign direct investment, net	4.5	3.7	5.0	4.6	5.1	5.2
Overall balance	-0.9	-1.6	3.8	2.6	2.9	3.2
CBM reserves						
In millions of U.S. dollars	850	922	3,062	4,546	6,439	8,783
In months of total imports	0.9	0.8	2.2	2.9	3.5	4.3
External debt						
Total external debt (billions of U.S. dollars)	14.4	15.3	13.7	10.9	11.9	13.4
(In percent of GDP)	29.0	27.3	24.6	19.2	18.2	18.2
Of which: External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	0.0	0.0	0.0
Terms of trade (in percent change)	0.0	2.0	-2.2	-0.4	-0.5	-0.4
Exchange rates (kyat/$, end of period)						
Official exchange rate	5.4	5.6	880	964	…	…
Parallel rate	861	822	878	965	…	…
Memorandum items						
GDP (billions of kyats) 4/	39,847	43,368	47,851	54,756	63,323	73,042
GDP (billions of US$)	49.6	56.2	55.8	56.8	65.3	73.6
GDP per capita (US$)	998	1,121	1,103	1,113	1,270	1,420

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In 2012/13 and 2013/14, the terms of bilateral arrears clearance agreements with Paris Club creditors, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2011/12–2015/16
(Consolidated Accounts)

	2011/12	2012/13	2013/14	2014/15		2015/16
		Prel. Act.	Est.	Budget	Proj.	Proj.
			(In billions of kyat)			
Revenue and grants	5,201	11,152	13,582	14,274	15,349	17,508
Tax revenue	1,678	3,375	3,916	4,891	4,591	5,405
Transfers from SEEs to Union Government	988	774	811	533	533	958
SEE receipts net of transfers to Union Government	2,376	6,560	7,245	8,156	8,506	9,687
Other nontax revenue 1/	158	418	1,499	508	1,440	1,202
Grants	0.22	26	111	186	280	256
Expenditure	7,208	11,955	14,485	18,161	18,181	20,890
Expense	4,259	8,062	9,955	12,615	12,635	14,315
Union government	1,945	3,521	4,767	6,560	6,581	7,565
SEEs net of transfers to Union Government	2,314	4,541	5,187	6,054	6,054	6,750
Net acquisition of nonfinancial assets	2,949	3,893	4,530	5,546	5,546	6,574
Union government	2,572	2,940	3,066	3,741	3,741	4,383
SEEs	377	953	1,464	1,805	1,805	2,192
Net lending (+)/borrowing (-)	-2,007	-803	-903	-3,887	-2,832	-3,382
Union government	-1,692	-1,869	-1,496	-4,183	-3,478	-4,127
SEEs net of transfers to Union Government	-315	1,066	593	296	646	745
Discrepancy (+ indicates overfinancing)		841				
Financing	2,007	1,644	903	...	2,832	3,382
External (net) 2/	6	583	555	...	713	1,206
Domestic (net)	2,002	1,061	348	...	2,119	2,176
Of which: CBM	790	645	411	...	848	544
Commercial banks	643	429	-147	...	1,272	1,632
			(In percent of GDP)			
Revenue and grants	12.0	23.3	24.8	22.5	24.2	24.0
Tax revenue	3.9	7.1	7.2	7.7	7.3	7.4
Transfers from SEEs to Union Government	2.3	1.6	1.5	0.8	0.8	1.3
SEE receipts net of transfers to Union Government	5.5	13.7	13.2	12.9	13.4	13.3
Other nontax revenue	0.4	0.9	2.7	0.8	2.3	1.6
Grants	0.0	0.1	0.2	0.3	0.4	0.4
Expenditure	16.6	25.0	26.5	28.7	28.7	28.6
Expense	9.8	16.8	18.2	19.9	20.0	19.6
Union Government	4.5	7.4	8.7	10.4	10.4	10.4
SEEs net of transfers to Union Government	5.3	9.5	9.5	9.6	9.6	9.2
Net acquisition of nonfinancial assets	6.8	8.1	8.3	8.8	8.8	9.0
Union Government	5.9	6.1	5.6	5.9	5.9	6.0
SEEs	0.9	2.0	2.7	2.9	2.9	3.0
Net lending (+)/borrowing (-)	-4.6	-1.7	-1.6	-6.1	-4.5	-4.6
Union Government	-3.9	-3.9	-2.7	-6.6	-5.5	-5.7
SEEs net of transfers to Union Government	-0.7	2.2	1.1	0.5	1.0	1.0
Discrepancy (+ indicates overfinancing)	0.0	1.8				
Financing	4.6	3.4	1.6	...	4.5	4.6
External (net) 2/	0.0	1.2	1.0	...	1.1	1.7
Domestic (net)	4.6	2.2	0.6	...	3.3	3.0
Of which: CBM	1.8	1.3	0.8	...	1.3	0.7
Commercial banks	1.5	0.9	-0.3	...	2.0	2.2
Memorandum items:			(In percent of GDP, unless otherwise indicated)			
Net borrowing (-) excluding one-off revenues from telecom licenses	-4.6	-3.4	-3.0	-8.1	-5.4	-5.3
Wages and salaries	1.2	1.9	2.1	2.2	2.2	2.2
Education expenditure	0.8	1.6	1.9	2.0	2.0	2.1
Health expenditure	0.2	1.5	1.2	1.1	1.1	1.2
Defense expenditure	2.9	4.4	3.9	3.7	3.7	3.5
Public debt	50	47	40	...	39	40
External	27	25	19	...	18	18
Domestic	23	23	21	...	21	21
GDP (in billions of kyat)	43,368	47,851	54,756	63,323	63,323	73,042

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

1/ FY2014/15 includes proceeds from sales of two telecom licenses awarded in June 2013.
2/ Converted at the official exchange rate before FY2012/13, when the official exchange rate was replaced by a market-determined exchange rate.

Table 3. Myanmar: Balance of Payments, 2010/11–2015/16
(In millions of US$, unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				Est.	Proj.	
Current account	-617	-1,083	-2,390	-3,090	-3,472	-3,771
Trade balance	645	-195	-2,120	-2,677	-2,473	-3,197
Exports, fob	8,829	10,241	10,344	12,205	14,966	16,666
Of which: Gas	2,523	3,503	3,666	4,206	5,805	6,037
Imports, mostly cif	-8,184	-10,437	-12,464	-14,882	-17,440	-19,863
Nonfactor services, net	-336	-496	-46	-35	52	132
Income, net	-1,156	-882	-757	-1,286	-2,136	-1,992
Of which: Interest due	-306	-560	-94	-220	-219	-240
Transfers, net	231	490	533	907	1,085	1,286
Official	64	41	28	205	229	258
Private	167	449	504	702	857	1,028
Capital and financial account	1,430	2,066	5,110	5,110	5,365	6,116
Direct investment, net	2,249	2,057	2,800	2,621	3,350	3,850
Other investment	114	4	926	555	965	1,516
MLT debt disbursements	500	605	1,085	761	1,200	1,765
Repayments due	-386	-600	-159	-206	-235	-250
Other flows 1/	-933	5	1,384	1,934	1,050	750
Errors and omissions	-1,257	-1,908	-580	-536	0	0
Overall balance	-443	-925	2,140	1,484	1,893	2,344
Financing	443	925	-2,140	-1,484	-1,893	-2,344
Gross official reserves (increase: -)	-84	-72	-2,140	-1,484	-1,893	-2,344
Change in arrears (increase: +)	528	997	-6,056	-4,792	0	0
Exceptional financing (positive: +)	0	0	6,056	4,792	0	0
Memorandum items						
CBM reserves (in million US$)	850	922	3,062	4,546	6,439	8,783
In months of prospective GNFS imports	0.9	0.8	2.2	2.9	3.5	4.3
Current account (in percent of GDP)	-1.2	-1.9	-4.3	-5.4	-5.3	-5.1
Trade balance (in percent of GDP)	1.3	-0.3	-3.8	-4.7	-3.8	-4.3
Gas export volume (percent change)	-22.9	8.2	-2.2	18.0	38.2	4.9
Other exports volume (percent change)	26.3	0.0	-1.5	21.8	16.0	17.0
Import volume (percent change)	12.1	21.9	19.4	20.3	17.4	14.3
Foreign direct investment (in percent of GDP)	4.5	3.7	5.0	4.6	5.1	5.2
Public external debt (in percent of GDP)	29	27	25	19	18	18
Of which: Arrears	20	19	9	0	0	0
Market exchange rate (kyat/US$, eop)	790	754	880	964	...	
GDP	49,628	56,170	55,759	56,759	65,291	73,620

Sources: Authorities and Fund staff estimates and projections.
1/ The US $750 million of other flows in 2014/15 denotes the inflows from one time telecom business licenses.

Table 4. Myanmar: Monetary Survey, 2010/11−2015/16 1/ 2/

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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				Est.	Projections	
CENTRAL BANK OF MYANMAR (CBM)						
Net foreign assets	**-1.6**	**-1.4**	**2,053**	**3,756**	**5,713**	**8,202**
Foreign assets	2.9	3.0	2,515	4,314	6,278	8,786
Foreign liabilities	4.5	4.4	462	558	565	584
Net domestic assets	**7,003**	**7,552**	**8,081**	**7,832**	**9,124**	**9,509**
Domestic credit	7,162	7,851	9,017	9,539	10,977	11,721
Claims on central government (net)	6,883	7,673	8,318	8,729	9,577	10,121
Claims on deposit money banks (net)	279	178	699	810	1,400	1,600
Other	0	0	0	0	0	0
Other items net	-159	-299	-936	-1,707	-1,853	-2,212
Reserve money	**7,001**	**7,551**	**10,134**	**11,588**	**14,837**	**17,711**
Currency in circulation	5,227	6,070	7,426	8,801	11,268	13,451
Deposits	1,774	1,481	2,709	2,787	3,568	4,260
MONETARY SURVEY						
Net foreign assets	**6**	**25**	**6,006**	**8,556**	**11,013**	**13,902**
Foreign assets	30	49	7,218	10,314	13,078	16,286
Foreign liabilities	24	24	1,212	1,758	2,065	2,384
Net domestic assets	**9,951**	**12,548**	**12,422**	**16,109**	**21,628**	**27,365**
Domestic credit	10,348	12,948	13,610	17,752	23,528	29,483
Net claims on government	8,310	9,688	8,427	8,691	10,810	12,986
CBM	6,883	7,673	8,318	8,729	9,577	10,121
Deposit money banks	1,427	2,015	109	-38	1,234	2,866
Credit to the economy	2,038	3,260	5,183	9,061	12,717	16,497
Private sector	2,033	3,255	4,899	8,155	11,802	15,556
Other	5	5	284	906	916	940
Other items net	-397	-400	-1,188	-1,643	-1,900	-2,118
Broad money	**9,957**	**12,573**	**18,428**	**24,665**	**32,641**	**41,267**
Currency outside banks	4,825	5,563	6,695	7,893	10,445	12,999
Deposits	5,132	7,010	11,733	16,772	22,196	28,268
MEMORANDUM ITEMS						
Money multiplier	1.4	1.7	1.8	2.1	2.2	2.3
Velocity	4.0	3.4	2.6	2.2	1.9	1.8
Reserve money after open market operations (y/y percent change	...	...	34.2	14.3	17.7	18.1
Deposit auctions	...	...	...	0.0	1,200	1,600
Reserve money (y/y percent change)	30.5	7.9	34.2	14.3	28.0	19.4
Broad money (y/y percent change)	36.3	26.3	46.6	33.8	32.3	26.4
Broad money (in percent of GDP)	25.0	29.0	38.5	45.0	51.5	56.5
Credit to private sector (in percent of GDP)	5.1	7.5	10.2	14.9	18.6	21.3
Credit to private sector (y/y percent change)	65.4	60.1	50.5	66.5	44.7	31.8
Deposits (in percent of GDP)	12.9	16.2	24.5	30.6	35.1	38.7
Credit to economy/deposits (in percent)	39.7	46.5	44.2	54.0	57.3	58.4
Exchange rate (kyat/$, end of period)	5.44	5.56	880	964	...	...
Nominal GDP (in billions of kyat)	39,847	43,368	47,851	54,756	63,323	73,042

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

1/ The fiscal year ends on March 31.

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

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

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
				Est.			Proj.		
Output and prices				(Percent change)					
Real GDP (authorities)	10.4	5.9	7.3	8.7	9.1	…	…	…	…
Real GDP (staff working estimates)	5.3	5.9	7.3	8.3	8.5	8.5	8.2	8.0	7.7
CPI (end-period)	8.9	-1.1	4.7	6.3	5.9	6.7	6.5	6.2	6.0
CPI (period average)	8.2	2.8	2.8	5.7	6.6	6.3	6.6	6.3	6.1
Consolidated Public Sector 2/				(Percent of GDP)					
Total revenue	11.4	12.0	23.3	24.8	24.2	24.0	23.7	23.9	24.2
Union government	6.3	6.5	9.5	11.4	10.4	10.4	10.0	10.1	10.2
Of which : Tax revenue	3.3	3.9	7.1	7.2	7.3	7.4	7.6	7.7	7.8
SEE receipts	7.0	7.8	15.3	14.7	14.3	14.6	14.6	14.6	14.7
Grants	0.0	0.0	0.1	0.2	0.4	0.4	0.4	0.5	0.6
Total expenditure	16.9	16.6	25.0	26.5	28.7	28.6	28.5	28.7	28.8
Expense	8.8	9.8	16.8	18.2	20.0	19.6	19.4	19.5	19.6
Net acquisition of nonfinancial assets	8.0	6.8	8.1	8.3	8.8	9.0	9.1	9.2	9.2
Gross operating balance	2.6	2.2	6.5	6.6	4.3	4.4	4.3	4.4	4.6
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.4	-1.6	-4.5	-4.6	-4.8	-4.8	-4.6
Statistical discrepancy (+ indicates overfinancing)	0.0	-0.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic public debt	21.1	22.7	22.8	20.6	21.1	21.3	21.8	22.1	22.2
Money and Credit				(Percent change)					
Reserve Money	30.5	7.9	34.2	14.3	28.0	19.4	14.7	14.1	12.4
Broad money	36.3	26.3	46.6	33.8	32.3	26.4	20.1	17.9	15.1
Domestic credit	34.4	25.1	5.1	30.4	32.5	25.3	21.6	18.6	16.2
Private sector	65.4	60.1	50.5	66.5	44.7	31.8	22.6	19.1	15.6
Balance of Payments				(Percent of GDP, unless otherwise indicated)					
Current account balance	-1.2	-1.9	-4.3	-5.4	-5.3	-5.1	-5.0	-4.9	-4.6
Trade balance	1.3	-0.3	-3.8	-4.7	-3.8	-4.3	-4.5	-4.5	-5.1
Exports	17.8	18.2	18.6	21.5	22.9	22.6	22.8	23.2	24.0
Imports	-16.5	-18.6	-22.4	-26.2	-26.7	-27.0	-27.2	-27.7	-29.0
Financial account	2.9	3.7	9.2	9.0	8.2	8.3	7.0	6.9	6.9
Foreign direct investment, net	4.5	3.7	5.0	4.6	5.1	5.2	5.2	5.1	5.2
Overall balance	-0.9	-1.6	3.8	2.6	2.9	3.2	2.0	2.0	2.3
Gross official reserves									
In millions of U.S. dollars	3,951	4,026	4,782	5,482	6,439	8,783	10,387	12,210	14,593
In months of total imports	4.0	3.5	3.5	3.4	3.5	4.3	4.5	4.5	4.7
CBM reserves									
In millions of U.S. dollars	850	922	3,062	4,546	6,439	8,783	10,387	12,210	14,593
In months of total imports	0.9	0.8	2.2	2.9	3.5	4.3	4.5	4.5	4.7
External debt									
Total external debt (billions of U.S. dollars)	14.4	15.3	13.7	10.9	11.9	13.4	14.9	16.6	18.4
(In percent of GDP)	29.0	27.3	24.6	19.2	18.2	18.2	18.2	18.2	18.1
Of which : External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade (in percent change)	0.0	2.0	-2.2	-0.4	-0.5	-0.4	-0.4	-0.3	-0.3
Exchange rates (kyat/$, end of period)									
Official exchange rate	5.4	5.6	880	964	…	…	…	…	…
Parallel rate	861	822	878	965	…	…	…	…	…
Memorandum items									
GDP (billions of kyats) 4/	39,847	43,368	47,851	54,756	63,323	73,042	84,267	96,765	110,598
GDP (billions of US$)	49.6	56.2	55.8	56.8	65.3	73.6	82.2	91.4	101.5
GDP per capita (US$)	998	1,121	1,103	1,113	1,270	1,420	1,572	1,736	1,914

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In 2012/13 and 2013/14, the terms of bilateral arrears clearance agreements with Paris Club creditors, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 6. Myanmar: Millennium Development Goals (MDG) Indicators 1/

	1990	1995	2000	2005	2012
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	73	74	75	75	75
Employment to population ratio, ages 15–24, total (%)	52	53	53	52	51
GDP per person employed (constant 1990 PPP $)	1,959	2,328	3,003	4,599	7,670
Income share held by lowest 20%	...	...	...	...	...
Malnutrition prevalence, weight for age (% of children under 5)	29	39	30	30	...
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	...
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 (%)	..	..	..	..	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
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	72	84
Mortality rate, infant (per 1,000 live births)	76	67	59	51	41
Mortality rate, under-5 (per 1,000 live births)	106	92	79	67	52
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15–19)	36	26	21	17	12
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	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	377
Prevalence of HIV, female (% ages 15–24)	...	...	...	...	0.1
Prevalence of HIV, male (% ages 15–24)	...	...	...	...	0.1
Prevalence of HIV, total (% of population ages 15–49)	0.2	0.5	0.8	0.8	0.6
Tuberculosis case detection rate (%, all forms)	8	10	15	53	71
Goal 7: Ensure environmental sustainability					
Forest area (% of land area)	60.0	56.7	53.4	51.0	48.2
Improved sanitation facilities (% of population with access)	...	53	61	68	77
Improved water source (% of population with access)	56	59	67	75	86
Marine protected areas (% of territorial waters)	0	0	1	0	28
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US$)	4	3	2	3	10
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	18	19	1	1	0
Internet users (per 100 people)	0.0	...	0.0	0.1	1.1
Mobile cellular subscriptions (per 100 people)	0	0	0	0	10
Telephone lines (per 100 people)	0.0	0.0	1.0	1.0	1.0
Other					
Fertility rate, total (births per woman)	3.4	2.9	2.4	2.1	2.0
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
Literacy rate, adult total (% of people ages 15 and above)	...	...	90	...	93
Population, total (millions)	42	45	48	50	53
Trade (% of GDP)	5.6	2.5	1.1	0.3	...

Source: The World Bank, *World Development Indicators* (May 2014).

1/ The information is based on the data prior to the release of the provisional results from the 2014 Myanmar Population and Housing Census.

Table 7. Myanmar—Risk Assessment Matrix 1/

Source or Nature of Risk	Likelihood	Expected Impact and Policy Response
(A) Domestic Risks		
Rising inflation		
A weather-related supply shock on agricultural production and/or further depreciation stokes inflation that CBM is not able to counter due to undeveloped policy tools.	**Medium**	**Impact: High** High inflation could erode public confidence in the CBM's ability to maintain macroeconomic stability. **Policy Response:** Accelerate reduction of monetization of fiscal deficit and more aggressive use of CBM's deposit auctions to reduce reserve money growth.
Political instability		
Ethnic and religious tensions as well as failure to introduce expected amendments to the 2008 Constitution stoke social uprising and delay economic reforms.	**Medium**	**Impact: Medium** Political instability in advance of general elections could undermine investor confidence in government reform programs and delay investment. **Policy Response:** Use resources effectively by sub-national governments for maintaining peace and continue to promote inclusive growth.
Fiscal risks		
A wide range of tax exemptions is retained, and/or external borrowing for off-budget operations increases.	**Medium/High**	**Impact: High** Revenue generation is undermined, and/or public debt rises beyond thresholds. **Policy Response:** Minimize tax exemptions and off-budget borrowing.
Entry of foreign banks		
Supervisory capacity is stretched by entry of foreign banks and new foreign exchange activities of domestic banks.	**Medium/High**	**Impact: High** Dollarization is promoted, and financial sector stability is threatened. **Policy Response:** Tightly circumscribe domestic activities in foreign currency, retain discretionary CBM approval for capital account flows, and strengthen supervisory capacity
Limited institutional capacity		
The public sector is unable to cope with speed of reform program, leading to slippages and undermining confidence.	**Medium**	**Impact: High** Progress toward building capacity for macroeconomic management will be significantly delayed, and macroeconomic stability could be compromised. **Policy Response:** Prioritize reform program, with better donor coordination and sequencing.
(B) External Risks		
Growth slowdown in China		
Growth may fall significantly below the authorities' target, with the slowdown caused by a variety of possible reasons and absent offsetting stimulus measures.	**Low**	**Impact: Low** Major exports to the country includes gas, jade, and other natural resources, but gas exports are predetermined in contracts. Also, two new gas fields are coming fully on stream this year, implying that exports will likely grow regardless. **Policy Response:** Continue with structural reforms to diversify exports and trading partners.
Continued buildup and eventual unwinding of excess capacity, eventually resulting in a sharp growth slowdown and large financial and fiscal losses (medium-term).	**Medium**	**Impact: Medium** If China's sharp growth slowdown spans over the medium term, Myanmar's export to and FDI from China could decline substantially over time. **Policy Response:** Continue with structural reforms to diversify exports and trading partners, and to improve business climate for attracting FDI and developing the country's manufacturing base.
Protracted period of slower growth in advanced and emerging economies:		
	High	**Impact: Low/Medium** Although Myanmar is integrating with the global economy, exports (excluding gas) remain small. **Policy Response**: Continue with structural reforms to diversify exports and trading partners, and build the manufacturing and services sectors.
Sustained decline in fuel prices		
A sustained decline in fuel prices, triggered by deceleration of global demand and coming-on-stream of excess capacity (medium-term)	**Medium**	**Impact: Low/Medium** The level and prices of gas exports are predetermined in contracts. Two new gas fields are expected to come fully on stream this year, implying that exports will likely grow regardless. Export revenues from other commodities may decline. **Policy Response:** Continue with structural reforms to diversify exports and trading partners, and build the manufacturing and services sectors.

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 of risks listed 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 of 30 percent or more). 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.

INTERNATIONAL MONETARY FUND

MYANMAR

September 8, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultations with other departments)

CONTENTS

FUND RELATIONS

(As of July 31, 2014)

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	1.99	0.81

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				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.10	0.20	0.20	0.20	0.20
Total	0.10	0.20	0.20	0.20	0.20

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 periodically intervene to mitigate undue exchange rate volatility and support the liquidity of the kyat in the foreign exchange market. The CBM has no predetermined target for the level of the kyat exchange rate or its trading range, and expects the value to fluctuate with supply and demand in the market. The de jure exchange rate arrangement has been reclassified to a managed float. Due to the multiple exchange rates and divergence of these rates from the official rate, the de facto exchange rate regime is classified as *other managed arrangement*.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar has made significant progress toward satisfying Article VIII obligations. Almost all current account restrictions have been removed through the implementation of the 2012 Foreign Exchange Management Law, the authorities plan to issue a comprehensive set of regulations for the Law during 2014. 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-priced foreign currency auction, and the authorities have sought a further IMF approval of the retention of this MCP.

The MCP arising from the foreign exchange certificate (FEC) rate has been removed, as FECs were redeemed from April 1, 2013 to March 31, 2014, and have subsequently been abolished.

The CBM has also adopted measures whereby foreign exchange auctions are settled in overseas accounts, eliminating difficulties encountered by banks in making transfers of foreign exchange to offshore accounts for purposes of current international transactions, as well as the foreign exchange rate premiums charged as a result of these difficulties. This has removed the staff preliminary concerns of a MCP and exchange restriction mentioned in the staff report for the last review under the SMP (EBS/14/16, footnote 3).

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on May 8–22, 2013 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2013 Article IV consultation on June 28, 2013.

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 advisors 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 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 development of a Government Treasury, 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 advisor have taken up duties in TAOLAM and expert visits continue to assist in the development of price statistics.

- 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 has been the Resident Representative of the country and stationed in Yangon, since May 2013.

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

IMF opened TAOLAM in Bangkok in October 2012. The new office, headed by Ms. Susan Creane, is providing IMF technical assistance and training, in collaboration with the Bank of Thailand and the Government of Japan. There are currently four TA advisors in the office, covering public financial management, monetary operations, macroeconomics training, and external statistics, for both Lao P.D. R. and Myanmar.

WORLD BANK-IMF COLLABORATION

(July 2014)

The Fund and the Bank country teams for Myanmar, led by Mr. Davies (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 on mutually relevant areas.

Following the clearance of arrears to the International Development Association (IDA) in January 2013, the Bank has resumed normal lending relations to Myanmar and 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 the Myanmar authorities. On the surveillance side, annual Article IV consultations will be supplemented with regular staff visits and frequent engagement through the resident representative office which was opened in 2013. Technical Assistance continues to intensify with three resident advisors in Myanmar and four 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, 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 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.

- In the *financial sector*, the Bank and Fund teams have jointly prepared a note on collaborative IMF-WB Financial Sector Technical Assistance Plan for Myanmar. The note specifies the areas where the two institutions will collaborate and the specific areas in which each institution will take the lead. In this regard, the Bank's Financial and Private Sector Development team has had joint missions with the IMF's MCM Department team on the development of a financial sector strategy, bank supervision, the Central Bank Law, and Financial Institutions Law.

- Similarly, there have been joint missions in *public financial management*, including more recently, in delivering a PFM Foundational Course and conducting a DSA. The teams are also collaborating in the preparation of the macro-fiscal analysis chapter of the Public Expenditure Review which is currently underway.

- The IFC has consulted the IMF during its engagement with the CBM and banking sector on the establishment of a private sector owned and operated credit bureau as well as during the process of working with the government on the preparation of the new Investment Law, which has implications for capital repatriation and tax incentives for investors.

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

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

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

- **Foreign exchange policy.** The authorities have come a long way in liberalizing the foreign exchange regime and will soon be able to accept their Article VIII obligations. Important actions include: removing the remaining restrictions arising from provisions in the foreign investment law and issuing comprehensive regulations for the foreign exchange management law, which will replace the instructions issued over the last year by the CBM. Deepening the foreign exchange market will require 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 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 Banking and Financial Institutions Law, drafted with World Bank support, 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 impending 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 on this with the authorities in the coming months. Other priorities include developing a plan to reform the state-owned banks and establishing appropriate regulation of nonbank financial institutions.

- **Fiscal discipline and transparency.** Prudent fiscal policy is essential to maintain macroeconomic stability. Staffs emphasize an urgent need to improve the quality, timeliness, and transparency of government financial statistics, including those of the state economic enterprises (SEEs). Strengthening public financial management, including by establishing a treasury function, and defining institutional arrangements to delineate fiscal responsibilities under the planned decentralization, are essential to safeguard financial discipline. SEE reform needs to take a differentiated approach that takes into account the impact on broader government finances, particularly as regards the autonomy of those in the resource extraction sector. The government is commended for its strong commitment to adopting the Extractive Industry Transparency Initiative (EITI).

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

- **Avoiding accumulation of quasi-fiscal deficits.** Staff welcomes the April 2014 adjustments of electricity tariffs for end-customers, which will help reduce the quasi-fiscal deficit (QFD) in the power sector resulting from tariffs below cost recovery. Elimination of QFD, which leads to de-capitalization of the asset base in the power sector, is essential for financial viability and mobilization of necessary investments to reduce electricity shortages and promote inclusive development. However, it is advisable to gradually reduce cross-subsidies in electricity tariffs for all residential users to encourage efficient use of electricity and avoid overcharging other user groups. In addition, the wholesale electricity tariffs could now be adjusted to remove quasi-fiscal deficit at the Myanmar Electric Power Enterprise. Care also needs to be taken to avoid building up contingent liabilities in other areas, in particular the financial sector, where the establishment of policy banks funded by state-guaranteed external borrowing could lead to a buildup of fiscal risks.

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

Myanmar: Joint Management Action Plan June 2014–May 2015			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
MUTUAL INFORMATION ON RELEVANT WORK PROGRAMS			
The World Bank's work program in the next 12 months	***(i)Overall engagement strategy***		
	Myanmar Country Partnership Framework	Ongoing	November–December 2014
	(ii) Lending programs and grant projects (approved and pipeline)		
	Implementation support, National Community Driven Development Project	Ongoing	Approved by Board in 2012
	Implementation support, Myanmar Electric Power Project	Ongoing	Approved by Board in September 2013
	Preparation, IDA Guarantee—Myingyan Independent Power Producer Project	Ongoing, Next mission in August 2014	Board date within next 12 months
	Implementation support, Telecommunications Sector Reform Project	Ongoing	Approved in February 2014
	Implementation support, Public Finance Management Modernization Project	Ongoing, Next mission in October 2014	Approved by Board in April 2014
	Implementation support, Support to Education Project	To be determined	Approved by Board in May 2014
	Preparation, Support to Health Project	Ongoing	Board date within next 12 months
	Preparation, Myanmar Ayeyarwady Integrated River Basin Management Project	Ongoing	Board date within next 12 months
	Preparation, Myanmar Agricultural Development Support Project	Ongoing	Board date within next 12 months
	Support for Corporatization of the Yangon Electricity Supply Board and Privatization (IFC)	Ongoing	Mandate signed in February 2014
	Support for Myingyan IPP Tendering Process (IFC)	Ongoing	Mandate signed in January 2014
	Investment in ACLEDA MFI Myanmar (IFC)	Ongoing	Board Approved November 2012
	Trade Finance Program, Myanmar Oriental Bank (IFC)	Ongoing	February 2014
	Loan to Shangri-La Asia Ltd. (IFC)	Ongoing	Board Approved March 2014

Myanmar: Joint Management Action Plan June 2014–May 2015			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
	(iii) Analytical and advisory services		
	Public Expenditure Review	**Ongoing**	**September 2014**
	Financial Management and Procurement Fiduciary Assessments (completed for Education, Electricity, PFM, Education, and Health sectors)	Additional assessments to be determined	To be determined
	Myanmar Economic Monitor (biannual)	Ongoing	December 2014
	Systematic Country Diagnostic	Ongoing	September 2014
	Diagnostic Trade Integration Study (DTIS)	To be determined	to be determined
	Support to preparation of a National Strategy for the Development of Statistics (NSDS)	To be determined	To be determined
	Just-in-time support to ICT sector reforms	Ongoing	To be determined
	Myanmar EITI Preparation Support & Myanmar EITI Multi-Donor Trust Fund Grant preparation	On going	September 2014/TBD
	Financial Sector Development Program (national strategy, Banking and Financial Institutions Law, state bank reform, financial infrastructure)	Ongoing	FY15
	Financial Inclusion for National Development (FIND) Program	Ongoing	To be determined
	Investment Climate Assessment	Ongoing	To be determined
	Myanmar Poverty Programmatic AAA	Ongoing	Modular deliveries throughout 2015 & 2016
	Trade Facilitation and Competitiveness in Myanmar—support to streamlining of NTMs	Ongoing	August 2015
	Support for Investment Policy—Investment Law and implementation (IFC)	Ongoing	June 2018
	Myanmar Business Forum—support to establish public-private dialogue platform (IFC)	Ongoing	June 2018
	Microfinance Sector Development (IFC)	Ongoing	June 2017
	Myanmar Credit Bureau Development (IFC)	Ongoing	June 2018
	Support for Investment Climate Reform (IFC)	Ongoing	June 2018
The Fund's work program in the next 12 months	Staff visits	November 2014 Early 2015	
	Article IV	Mid 2015	
	Article VIII (follow-up)	September 2014	Late 2014
	Establishing treasury securities auction	July 2014	Early 2015
	Tax Policy follow-up	September 2014	
	Regulatory regime for foreign banks (potentially joint with WB)	August 2014	

Myanmar: Joint Management Action Plan June 2014–May 2015			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
	Financial programming course and macroeconomic training program	Ongoing	
	Government Finance Statistics Training Course	July 2014	
	Support to IRD—Resident advisor and ongoing HQ missions	Ongoing	
	Establishment of Government Treasury—Frequent missions from TAOLAM	Ongoing	
	Development of Bank Supervision—Resident advisor plus HQ missions	Ongoing	
	Strengthening Foreign Exchange Market-Resident Advisor	Ongoing	
	Developing Monetary Operations—Frequent missions from TAOLAM	Ongoing	
	Building external sector statistics—Frequent missions from TAOLAM	Ongoing	
	Government Finance Statistics—Resident Advisor	Late 2014	

RELATIONS WITH THE WORLD BANK GROUP[1]

(July 2013)

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

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

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

The Bank opened its first ever country office in Myanmar on August 1, 2012. Its engagement with Myanmar is currently guided by an Interim Strategy Note. Preparation of a full Country Partnership Framework is underway and is being informed by a Systematic Country Diagnostic that identifies key priorities for accelerating progress towards ending poverty and boosting shared prosperity, the twin goals that the WBG has committed to helping attain in its member countries.

Since the approval of the pre-arrears grant to finance a National Community Driven Development Project, four IDA lending projects have been approved by the Executive Board of Directors in electricity, telecommunications, public financial management, and education. IFC has made investments in microfinance, hospitality and banking sector through the Global Trade Finance Program Facility. There are four WB lending projects in the pipeline for delivery within the next 12 months: on health, agriculture, integrated river basin management, and electricity (guarantee for independent power producers). IFC is developing its pipeline of investments in several sectors. Apart from lending programs, the 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]

(June 2014)

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

AsDB's interim country partnership strategy for 2012–2014 seeks to support the government in achieving sustainable and inclusive growth. It focuses on (i) building human resources and capacities (capacity building in ministries in core areas of AsDB involvement, and education); (ii) promoting an enabling economic environment (macroeconomic and fiscal management; and trade, investment, financial sector reform); and (iii) creating access and connectivity (rural livelihoods and infrastructure development, especially energy and transport). AsDB will mainstream the thematic areas of good governance, environmental sustainability, private sector development, and regional cooperation and integration into its operations. AsDB will focus on the crosscutting areas of knowledge and partnerships. The AsDB Country Operations Business Plan 2014–2016 was finalized in November 2013, which laid out an investment program covering energy, transport (mainly roads), agriculture and natural resources, and urban development. In 2014, AsDB commenced analytical and consultative work for a full Country Partnership Strategy which covers the period 2017–2021.

Myanmar cleared its arrears to AsDB in January 2013. The AsDB has so far provided 34 loans totaling US$1,166 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 which have already been pre-paid, and 32 loans were from concessional Asian Development Fund resources. The AsDB has so far provided TA totaling US$43.2 million for 67 projects. Of these 67 TA projects, 31 projects have been approved since AsDB reengaged with Myanmar in 2012.

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

The majority of AsDB assistance has been provided to support public sector management, followed by development of the agricultural sector. The sector composition of AsDB lending to Myanmar is summarized in the following table.

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

Myanmar: Asian Development Bank Lending

1973–June 2014

Sector	Loans (Number)	Loans (US$ million)	Percent
Agriculture and natural resources	15	316.1	27.1
Energy	5	86.8	7.4
Finance	2	20.0	1.7
Health, nutrition, and social protection	2	63.1	5.4
Industry and trade	3	26.4	2.3
Public sector management	1	575.5	49.3
Transport and communications	2	42.5	3.6
Water supply, sanitation, and waste management	4	36.0	3.1
Total	34	1,166.4	100.0

Source: Asian Development Bank

STATISTICAL ISSUES

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. NA data are only available on an annual basis. Gross Domestic Product (GDP) is compiled at current and constant prices, by economic activity. While production 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. TA is being provided by ADB and 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 has made no progress in implementing past TA missions' recommendations due to the lack of commitment and inadequate resources. The CSO was expected to address these issues when it introduced a new CPI in early 2014 with weights based on the results of the 2012 HIES. However, the new CPI was not released as planned. Stronger direction from senior levels is needed. STARE will provide more frequent TA to engage the authorities and promote improvements.

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 for August 2014. In addition, a long-term GFS advisor will soon be posted in the country, also funded by the government of Japan, but under a separate program.

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

Financial sector surveillance: The authorities do not provide financial soundness indicators to the IMF Statistics Department for dissemination.

External sector statistics. The reliability of the balance of payments and international investment position (IIP) is impacted by coverage gaps. Several components of the balance of payments and IIP (e.g., some of services, direct investment assets, portfolio investment assets and liabilities, and other investment assets) are missing. The, revaluation of the national currency in April 2012 has resulted in a large break in the balance of payments and IIP series. Data for 2012 were reported to STA with a lag of nine months. However, the data were not disseminated in the IMF's *2013 Balance of Payments Yearbook* because of data quality issues. To address these issues, the TA mission in January 2014 proposed three benchmark actions: (i) initiate compilation of quarterly balance of payments data with an initial six month lag; (ii) resubmit balance of payments and IIP standard component datasets to correct for the erroneous presentation of the capital account item, and revalue liabilities to reflect the revaluation of the national currency in 2012Q2; and (iii) correct the treatment of foreign-owned enterprises in Myanmar's ITRS and update ITRS coding in line with the sixth edition of the *Balance of Payments and International Investment Position Manual*.

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, technical assistance is provided by a resident advisor stationed at the TAOLAM in Bangkok, Thailand.

Data Standards and Quality

Myanmar began participating in the IMF's General Data Dissemination System in November 2013. No data ROSC is available.

Reporting to STA (optional)

Myanmar submits data reports to STA with a lag of two to six months. Balance of payments and IIP data for 2012 are not yet disseminated in the IMF's *2013 Balance of Payments Yearbook* because of data quality issues. 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 June 2014)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	06/14	06/14	W	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	03/14	06/14	M	M	I
Reserve/Base Money	03/14	06/14	M	M	M
Broad Money	03/14	06/14	M	M	M
Central Bank Balance Sheet	03/14	06/14	M	M	M
Consolidated Balance Sheet of the Banking System	03/14	06/14	M	M	M
Interest Rates[3]	03/14	05/14	M	I	M
Consumer Price Index	04/14	06/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	FY 12/13	06/14	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	FY 12/13	06/14	A	I	NA
Stocks of Central Government and Central Government—Guaranteed Debt[6]	FY 12/13	06/13	A	I	NA
External Current Account Balance	FY 12/13	06/13	A	I	I
Exports and Imports of Goods	03/14	06/14	M	M	M
GDP/GNP	FY 12/13	06/14	A	I	I
Gross External Debt	FY 13/14	06/14	A	I	I
International Investment Position[7]	Q1 2012	10/12	Q	I	I

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, 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 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

September 8, 2014

Approved By
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Satu Kahkonen (IDA)

Prepared By
International Monetary Fund
International Development Association

Myanmar is assessed to be at low risk of debt distress, following the clearance of its external arrears in 2013/14 with the Paris Club creditors.[1,2,3] *Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators remain well below their indicative thresholds. Similarly, under the baseline scenario, total public debt will also remain below the benchmark. However, shocks lead to the indicative benchmark for the present value of total public debt being exceeded. While Myanmar's risk of debt distress can be characterized as low, it requires close monitoring, in particular because the level of total public debt is close to the benchmark. Preventing total public debt vulnerability from increasing will require prudent fiscal policy, improvements in tax policy and public financial management and increasing use of concessional finance while limiting nonconcessional borrowing to only viable and growth-enhancing projects.*

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[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the low-income countries debt sustainability framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy-dependent. The quality of a country's policies and institutions are normally measured by the World Bank's Country Policy and Institutional Assessment (CPIA). Since Myanmar does not currently have a CPIA rating, the most conservative thresholds are applied for the purposes of this debt sustainability assessment (DSA). The current DSA framework uses the 5 percent discount rate specified in the new guidance note.

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

[3] This risk rating is unchanged from the previous DSA which had assumed that the resolution of the external arrears would be completed as planned.

BACKGROUND

1. **The update of the external and public debt sustainability analyses are based on the standard low-income countries 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 macroeconomic assumptions remain broadly unchanged compared with the last DSA but updates have been made, with recent developments taken into account.** The medium-term GDP growth rate has been revised upward to 8.1 percent, reflecting the better than anticipated GDP growth performance in 2013/14 (8¼ percent) which is expected to continue in the medium term, given robust investment in productive sectors including manufacturing in special export zones.[4] However, growth has been revised slightly downward over the longer term, taking into account the new growth diagnostics conducted for Myanmar. Several windfall gains, such as revenues from telecommunication and bank licenses that are spread over a few years, have also caused a revision to the fiscal deficit. The fiscal deficit is expected to improve compared to last DSA both in the medium and long term.

Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2014/15–34/35)				
	Current DSA		Previous DSA	
	Medium Term	Long Term	Medium Term	Long Term
	2014/15–2019/20	2020/21–2034/35	2013/14–2018/19	2019/20–2033/34
Real GDP Growth (in percent)	8.1	6.6	7.8	7.4
Inflation (in percent)	6.3	4	6.2	3.8
Overall fiscal balance (in percent of GDP)	-4.6	-3.8	-4.8	-4.2
Noninterest current account (in percent of GDP)	-4.7	-3.3	-4.5	-4.6
Revenue (nonfinancial public sector; in percent of GDP)	24	25	23	24.3
Sources: IMF staff estimates				

3. **The current DSA 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 written-off occurring immediately and 75 percent on the successful completion of a staff-monitored program with the IMF.[5] 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. **As in the previous DSA, Myanmar is expected to gradually reduce its reliance on external nonconcessional financing**. With the resolution of its arrears and the re-engagement with the international community, Myanmar is expected to gradually regain access to concessional resources. As donors re-

[4] The staffs of the World Bank and the IMF, while strong supporters of the overall reform effort, note that there is significant uncertainty surrounding the growth projections, given that the reform program has only begun recently and data and capacity constraints are significant.

[5] Myanmar has signed bilateral agreements with all eleven Paris Club creditors. Japan, Norway, Denmark, Canada, and Italy have provided a more generous treatment than agreed in the Paris Club minutes.

engage with Myanmar, and gradually identify suitable projects, the share of nonconcessional financing is expected to decline.

DEBT SUSTAINABILITY ANALYSIS

5. Successful completion of the resolution of the arrears in 2013/14 has ensured that all external debt indicators are below their indicative thresholds. Furthermore, standard stress tests indicate that no thresholds will be breached.[6] To maintain external debt below the threshold, continued strong performance of the external sector is critical, including by maintaining high export growth, attracting foreign direct investment (FDI) to fund investment projects and obtaining more concessional financing.

6. 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 in the medium term. This trajectory reflects the significant development needs of Myanmar and the associated overall fiscal deficits assumed in the baseline scenario. It also underscores the need to limit the share of nonconcessional financing as is assumed in the baseline scenario. However, this level of debt can give rise to vulnerabilities including a high debt service burden. Overall, public debt sustainability is vulnerable to lower real GDP growth, and fiscal slippages. Risks are somewhat mitigated as the authorities aim to use their borrowing to only finance economically viable projects in priority sectors.

7. Myanmar continues to face fiscal risks. Public finances are dependent on state-owned economic enterprises (SEEs) and natural resource revenues. Tax revenues are very low and the tax base remains narrow, in part due to widespread exemptions. Recent off-budget external non-concessional borrowing and guarantees for policy banks[7] and microfinance pose risks to debt control and complicate fiscal management. Increases in transfers to subnational governments without effective budget constraints on subnational governments could be a drain on government resources as a whole. Moreover, reforms that separate SEEs from the budget could trigger contingent liabilities and would reduce a critical source of budget funding.

8. Several steps can be taken to mitigate against fiscal risks. Higher revenue is needed to provide a solid foundation for financing development. To this end, introducing a value added tax (VAT) is a key step. Fiscal decentralization and reform of SEE finances need to be carefully planned and implemented. Off-budget borrowing needs to be strictly limited and reported to the legislature alongside the budget. Strong capital inflows, such as one-off revenues from oil and gas exploration, can also ease budget constraints in the short-term.

[6] 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.

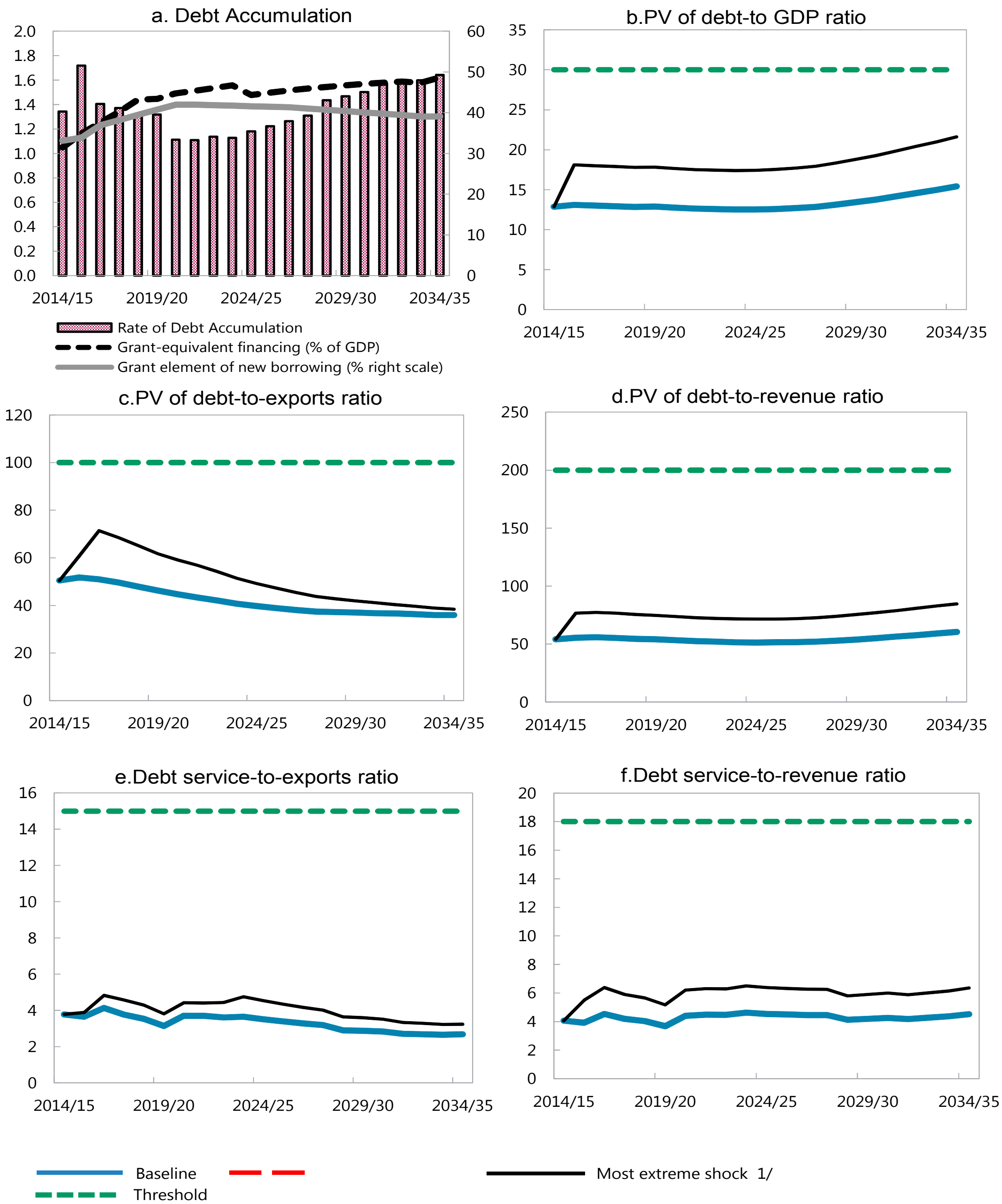
[7] Policy banks in Myanmar are financial institutions in which the government has an ownership stake and which carry out functions that are associated with policies of the government.

STAFF ASSESSMENT

9. Myanmar is assessed to be at low risk of debt distress, following the resolution of its external arrears in 2013/14. Under the baseline scenario, which incorporates the resolution of all arrears in 2013/14 as agreed with the Paris Club, all indicators for the external debt are below their indicative thresholds. Under the baseline scenario, the total public debt also remains below the benchmark although it is vulnerable to fiscal slippages and low real GDP growth. Preventing total public debt vulnerability from increasing will require continuation of the current prudent fiscal policy, improvements in tax policy and public financial management and increasing use of concessional finance.

10. The authorities broadly agreed with these conclusions and with the thrust of the analysis. They concurred with staff on the need to be cautious on nonconcessional borrowing 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. The authorities reiterated their aim to keep the fiscal deficit below 5 percent of GDP over the medium term.

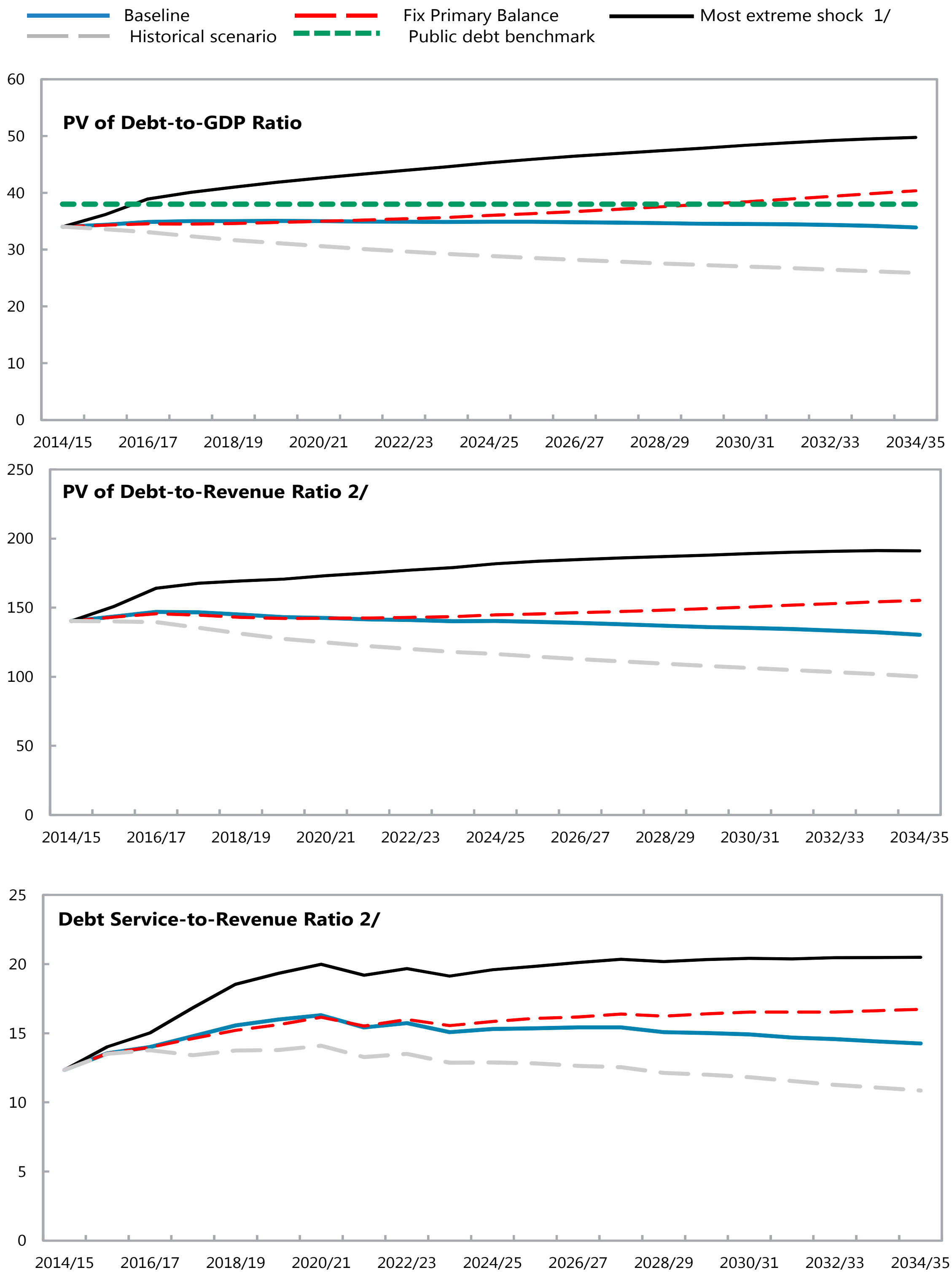
Figure 1. Myanmar: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014/15–2034/35 1/



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 2024/25. In figure b. it corresponds to a one-time depreciation shock; in c. to an export shock; in d. to a one-time depreciation shock; in e. to an export shock and in figure f. to a one-time depreciation shock.

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2014/15–2034/35 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 2024.

2/ Revenues are defined inclusive of grants.

Table 1a. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2011/12–2034/35 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 2/	Standard 2/	Projections									
												2014/15–2019/20			2020/21–2034/35
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average	2024/25	2034/35	Average
External debt (nominal) 1/	**27.3**	**24.6**	**19.2**			**18.2**	**18.2**	**18.2**	**18.2**	**18.1**	**18.2**		**18.6**	**23.3**	
of which: public and publicly guaranteed (PPG)	27.3	24.6	19.2			18.2	18.2	18.2	18.2	18.1	18.2		18.6	23.3	
Change in external debt	-1.6	-2.7	-5.4			-1.0	0.0	-0.1	0.0	0.0	0.1		0.2	0.6	
Identified net debt-creating flows	-5.1	-0.5	0.4			-1.2	-1.4	-1.4	-1.4	-1.7	-2.0		-2.7	-3.3	
Non-interest current account deficit	**1.0**	**4.1**	**5.1**	**-0.5**	**4.6**	**5.0**	**4.9**	**4.8**	**4.7**	**4.4**	**4.3**		**3.7**	**2.5**	3.3
Deficit in balance of goods and services	1.3	3.9	4.8			3.8	4.3	4.4	4.4	5.1	5.3		4.9	3.9	
Exports	19.6	20.7	24.3			25.5	25.3	25.5	26.1	26.8	27.9		31.5	43.0	
Imports	20.9	24.7	29.1			29.3	29.6	29.9	30.5	31.9	33.2		36.4	46.8	
Net current transfers (negative = inflow)	-0.9	-1.0	-1.6	-1.0	0.3	-1.7	-1.7	-1.9	-2.1	-2.3	-2.3		-2.2	-2.2	-2.2
of which: official	-0.1	-0.1	-0.4			-0.4	-0.4	-0.4	-0.5	-0.6	-0.6		-0.5	-0.5	
Other current account flows (negative = net inflow)	0.6	1.2	1.9			2.9	2.4	2.3	2.4	1.6	1.3		1.1	0.8	
Net FDI (negative = inflow)	**-3.7**	**-5.0**	**-4.6**	**-3.3**	**1.1**	**-5.1**	**-5.2**	**-5.2**	**-5.1**	**-5.2**	**-5.3**		**-5.5**	**-5.0**	-5.3
Endogenous debt dynamics 3/	**-2.4**	**0.4**	**0.0**			**-1.1**	**-1.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**		**-0.9**	**-0.8**	
Contribution from nominal interest rate	1.0	0.2	0.4			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-1.5	-2.0	-2.0			-1.4	-1.4	-1.3	-1.3	-1.3	-1.2		-1.2	-1.2	
Contribution from price and exchange rate changes	-1.9	2.2	1.6			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**3.4**	**-2.2**	**-5.8**			**0.2**	**1.4**	**1.3**	**1.4**	**1.7**	**2.0**		**2.9**	**3.9**	
of which: exceptional financing	0.0	-10.9	-8.4			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	13.4			12.9	13.1	13.0	12.9	12.8	12.9		12.5	15.4	
In percent of exports	...	...	55.0			50.5	51.7	51.0	49.7	47.9	46.2		39.8	35.9	
PV of PPG external debt	**...**	**...**	**13.4**			**12.9**	**13.1**	**13.0**	**12.9**	**12.8**	**12.9**		**12.5**	**15.4**	
In percent of exports	**...**	**...**	**55.0**			**50.5**	**51.7**	**51.0**	**49.7**	**47.9**	**46.2**		**39.8**	**35.9**	
In percent of government revenues	**...**	**...**	**54.4**			**54.1**	**55.5**	**55.8**	**55.4**	**54.5**	**54.0**		**51.4**	**60.5**	
Debt service-to-exports ratio (in percent)	**10.5**	**2.2**	**3.1**			**3.8**	**3.7**	**4.1**	**3.8**	**3.5**	**3.1**		**3.5**	**2.7**	
PPG debt service-to-exports ratio (in percent)	**10.5**	**2.2**	**3.1**			**3.8**	**3.7**	**4.1**	**3.8**	**3.5**	**3.1**		**3.5**	**2.7**	
PPG debt service-to-revenue ratio (in percent)	**17.2**	**2.0**	**3.0**			**4.1**	**3.9**	**4.5**	**4.2**	**4.0**	**3.7**		**4.5**	**4.5**	
Total gross financing need (Billions of U.S. dollars)	-0.2	-0.1	0.8			0.8	0.6	0.8	0.8	0.4	0.1		-0.8	-4.4	
Non-interest current account deficit that stabilizes debt ratio	2.6	6.8	10.5			6.1	4.9	4.9	4.7	4.5	4.2		3.5	1.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.9	7.3	8.3	8.8	3.9	8.5	8.5	8.2	8.0	7.7	7.6	8.1	7.0	5.5	6.6
GDP deflator in US dollar terms (change in percent)	6.9	-7.5	-6.0	8.5	17.1	6.0	3.9	3.1	3.0	3.0	2.5	3.6	2.2	2.2	2.2
Effective interest rate (percent) 6/	3.9	0.6	1.6	1.8	0.9	2.0	2.0	2.0	2.0	1.9	1.9	2.0	1.7	1.5	1.6
Growth of exports of G&S (US dollar terms, in percent)	16.9	5.1	19.3	16.9	12.1	20.8	11.8	12.6	13.5	14.2	14.8	14.6	12.0	11.3	12.1
Growth of imports of G&S (US dollar terms, in percent)	28.7	17.3	20.2	21.7	23.0	15.8	13.8	12.9	13.3	16.3	14.8	14.5	11.0	11.0	11.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.1	33.9	36.9	38.2	39.5	40.7	37.0	41.6	39.1	40.8
Government revenues (excluding grants, in percent of GDP)	12.0	23.3	24.6			23.8	23.6	23.3	23.4	23.6	23.9		24.4	25.5	24.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.1			0.4	0.5	0.8	1.1	1.4	1.6		2.7	6.1	
of which: Grants	0.0	0.0	0.1			0.3	0.3	0.3	0.5	0.6	0.7		0.9	2.0	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.2	0.5	0.6	0.8	0.9		1.8	4.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.1	1.2	1.3	1.3	1.4	1.4		1.5	1.6	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			46.1	42.3	46.3	49.6	52.8	54.0		51.8	48.1	51.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	56.2	55.8	56.8			65.3	73.6	82.2	91.4	101.5	111.9		176.7	400.6	
Nominal dollar GDP growth	13.2	-0.7	1.8			15.0	12.8	11.6	11.2	11.0	10.3	12.0	9.3	7.8	8.9
PV of PPG external debt (in Billions of US dollars)			7.6			8.4	9.5	10.5	11.6	12.8	14.2		21.9	61.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	1.7	1.4	1.4	1.3	1.3	1.4	1.2	1.6	1.4
Gross workers' remittances (Billions of US dollars)	0.4	0.5	0.7			0.9	1.0	1.2	1.5	1.7	2.0		3.1	6.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.2			12.7	12.9	12.8	12.7	12.6	12.7		12.3	15.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	52.4			48.0	49.0	48.1	46.8	45.1	43.5		37.7	34.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.9			3.6	3.5	3.9	3.5	3.3	3.0		3.3	2.6	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014/15–2034/35

(In percent)

	Projections							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**2024/25**	2034/35
PV of debt-to GDP ratio								
Baseline	13	13	13	13	13	13	**13**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014–2034 1/	13	10	8	6	4	2	**-1**	2
A2. New public sector loans on less favorable terms in 2014–2034 2/	13	13	14	14	15	15	**17**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015–2016	13	13	14	14	14	14	**13**	16
B2. Export value growth at historical average minus one standard deviation in 2015–2016 3/	13	14	16	15	15	15	**14**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015–2016	13	15	16	16	16	16	**16**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015–2016 4/	13	15	18	17	17	17	**15**	16
B5. Combination of B1–B4 using one-half standard deviation shocks	13	16	20	19	19	19	**17**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	13	18	18	18	18	18	**17**	22
PV of debt-to-exports ratio								
Baseline	50	52	51	50	48	46	**40**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014–2034 1/	50	41	31	21	14	9	**-3**	4
A2. New public sector loans on less favorable terms in 2014–2034 2/	50	53	54	55	54	54	**53**	54
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015–2016	50	51	50	49	47	45	**39**	36
B2. Export value growth at historical average minus one standard deviation in 2015–2016 3/	50	58	70	68	65	62	**51**	42
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015–2016	50	51	50	49	47	45	**39**	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015–2016 4/	50	61	70	67	64	61	**48**	38
B5. Combination of B1–B4 using one-half standard deviation shocks	50	61	71	68	65	62	**49**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	50	51	50	49	47	45	**39**	36
PV of debt-to-revenue ratio								
Baseline	54	55	56	55	54	54	**51**	60
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014–2034 1/	54	44	34	24	16	10	**-4**	7
A2. New public sector loans on less favorable terms in 2014–2034 2/	54	57	59	61	62	63	**68**	91
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015–2016	54	56	59	58	57	57	**54**	64
B2. Export value growth at historical average minus one standard deviation in 2015–2016 3/	54	59	67	66	65	63	**58**	62
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015–2016	54	62	70	70	69	68	**65**	77
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015–2016 4/	54	66	77	75	73	71	**62**	63
B5. Combination of B1–B4 using one-half standard deviation shocks	54	68	84	82	80	78	**69**	70
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	54	77	77	77	76	75	**71**	85

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guranteed External Debt, 2014/15-2034/35 (concluded)

(In percent)

	Projections							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	**2024/25**	2034/35
Debt service-to-exports ratio								
Baseline	4	4	4	4	4	3	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014–2034 1/	4	3	4	3	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2014–2034 2/	4	4	4	4	4	4	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015–2016	4	4	4	4	4	3	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2015–2016 3/	4	4	5	5	4	4	**5**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015–2016	4	4	4	4	4	3	**4**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015–2016 4/	4	4	4	4	4	3	**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 2015 5/	4	4	4	4	4	3	**4**	3
Debt service-to-revenue ratio								
Baseline	4	4	5	4	4	4	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014–2034 1/	4	4	4	3	3	2	**1**	0
A2. New public sector loans on less favorable terms in 2014–2034 2/	4	4	5	4	4	4	**6**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015–2016	4	4	5	4	4	4	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2015–2016 3/	4	4	5	4	4	4	**5**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015–2016	4	4	6	5	5	5	**6**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015–2016 4/	4	4	5	5	4	4	**6**	5
B5. Combination of B1–B4 using one-half standard deviation shocks	4	4	5	5	5	4	**6**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	4	6	6	6	6	5	**6**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	38	38	38	38	38	38	**38**	38

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 2a. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011/12–2034/35

(In percent of GDP, unless otherwise indicated)

	Actual			Average 1/	Standard Deviation 1/	Estimate	Projections								
	2011/12	2012/13	2013/14			2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2014/15–2019/20 Average	2024/25	2034/35	2020/21–2034/35 Average
Public sector debt 2/	49.4	48.0	39.8			39.5	39.8	40.3	40.5	40.6	40.6		41.2	41.9	
of which: foreign-currency denominated	26.7	25.2	19.2			18.3	18.5	18.5	18.4	18.4	18.5		18.8	23.4	
Change in public sector debt	-0.2	-1.4	-8.3			-0.3	0.4	0.5	0.2	0.1	0.1		0.2	-0.1	
Identified debt-creating flows	-1.6	2.9	-2.3			-0.7	-0.1	0.1	0.1	0.0	0.1		0.2	-0.2	
Primary deficit	2.5	2.2	0.0	2.0	1.1	2.9	3.0	3.2	3.2	2.9	2.7	3.0	2.4	1.4	2.1
Revenue and grants	12.0	23.3	24.8			24.2	24.0	23.7	23.9	24.2	24.5		24.9	26.0	
of which: grants	0.0	0.1	0.2			0.4	0.4	0.4	0.5	0.6	0.6		0.5	0.5	
Primary (noninterest) expenditure	14.5	25.5	24.8			27.1	27.0	26.9	27.1	27.1	27.2		27.3	27.4	
Automatic debt dynamics	-3.1	0.6	-2.3			-3.6	-3.1	-3.1	-3.0	-2.9	-2.7		-2.2	-1.6	
Contribution from interest rate/growth differential	-1.8	-3.1	-3.6			-3.0	-2.9	-2.9	-2.8	-2.7	-2.6		-2.2	-1.1	
of which: contribution from average real interest rate	0.9	0.2	0.0			0.1	0.2	0.1	0.1	0.2	0.3		0.5	1.1	
of which: contribution from real GDP growth	-2.8	-3.4	-3.7			-3.1	-3.1	-3.0	-3.0	-2.9	-2.9		-2.7	-2.2	
Contribution from real exchange rate depreciation	-1.3	3.7	1.3			-0.6	-0.2	-0.2	-0.2	-0.2	0.0		...	...	
Other identified debt-creating flows	-1.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.0	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	1.4	-4.2	-6.0			0.4	0.5	0.4	0.0	0.0	0.0		0.0	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	33.9			34.0	34.4	34.8	35.0	35.0	35.0		34.9	33.9	
of which: foreign-currency denominated	...	...	13.4			12.9	13.1	13.0	12.9	12.8	12.9		12.5	15.4	
of which: external	...	...	13.4			12.9	13.1	13.0	12.9	12.8	12.9		12.5	15.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	6.7	3.1	3.2			6.2	6.5	6.8	7.0	6.9	6.8		6.4	5.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	136.8			140.3	143.5	147.0	146.6	144.9	143.2		140.4	130.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	138.0			142.9	145.6	149.5	149.7	148.6	146.8		143.2	133.0	
of which: external 4/	...	...	54.4			54.1	55.5	55.8	55.4	54.5	54.0		51.4	60.5	
Debt service-to-revenue and grants ratio (in percent) 5/	32.3	10.4	11.8			12.3	13.5	14.0	14.8	15.6	16.0		15.3	14.3	
Debt service-to-revenue ratio (in percent) 5/	32.3	10.5	11.9			12.6	13.7	14.2	15.1	16.0	16.4		15.6	14.5	
Primary deficit that stabilizes the debt-to-GDP ratio	2.8	3.6	8.3			3.2	2.6	2.7	3.0	2.9	2.6		2.2	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.9	7.3	8.3	8.8	3.9	8.5	8.5	8.2	8.0	7.7	7.6	8.1	7.0	5.5	6.6
Average nominal interest rate on forex debt (in percent)	4.0	0.6	1.6	1.8	0.9	2.0	2.0	2.0	2.0	2.0	1.9	2.0	1.7	1.6	1.6
Average real interest rate on domestic debt (in percent)	2.8	2.3	0.4	-4.5	7.2	0.3	0.6	0.4	0.6	1.0	1.2	0.7	2.7	4.2	3.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.7	15.2	5.7	-4.2	14.1	-3.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.8	2.8	5.7	10.6	8.2	6.6	6.3	6.6	6.3	6.1	5.8	6.3	4.6	3.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	75.3	13.2	9.0	23.7	18.6	7.9	8.0	8.6	8.0	7.8	9.8	7.0	5.5	6.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	33.1	33.9	36.9	38.2	39.5	40.7	37.0	41.6	39.1	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ 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.

4/ Revenues excluding grants.

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

Table 2b. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2014/15–2034/35								
	Projections							
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2024/25	2034/35
PV of Debt-to-GDP Ratio								
Baseline	34	34	35	35	35	35	35	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	34	33	32	32	31	29	26
A2. Primary balance is unchanged from 2014	34	34	35	35	35	35	36	40
A3. Permanently lower GDP growth 1/	34	35	36	37	37	38	44	63
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015–2016	34	36	39	40	41	42	45	50
B2. Primary balance is at historical average minus one standard deviations in 2015–2016	34	34	35	35	35	35	35	34
B3. Combination of B1–B2 using one half standard deviation shocks	34	35	35	36	36	37	39	40
B4. One-time 30 percent real depreciation in 2015	34	40	39	39	38	38	36	33
B5. 10 percent of GDP increase in other debt-creating flows in 2015	34	42	42	41	40	40	38	36
PV of Debt-to-Revenue Ratio 2/								
Baseline	140	143	147	147	145	143	140	130
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	140	140	140	136	131	127	116	100
A2. Primary balance is unchanged from 2014	140	143	146	145	143	142	145	155
A3. Permanently lower GDP growth 1/	140	145	151	153	155	156	177	240
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015–2016	140	151	164	168	169	171	182	191
B2. Primary balance is at historical average minus one standard deviations in 2015–2016	140	144	147	147	145	143	140	130
B3. Combination of B1–B2 using one half standard deviation shocks	140	144	148	150	150	150	155	155
B4. One-time 30 percent real depreciation in 2015	140	165	165	162	158	155	145	127
B5. 10 percent of GDP increase in other debt-creating flows in 2015	140	174	175	170	166	163	154	138
Debt Service-to-Revenue Ratio 2/								
Baseline	12	14	14	15	16	16	15	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	14	14	13	14	14	13	11
A2. Primary balance is unchanged from 2014	12	14	14	15	15	16	16	17
A3. Permanently lower GDP growth 1/	12	14	14	15	17	17	19	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015–2016	12	14	15	17	19	19	20	20
B2. Primary balance is at historical average minus one standard deviations in 2015–2016	12	14	14	15	16	16	15	14
B3. Combination of B1–B2 using one half standard deviation shocks	12	14	14	15	15	17	17	17
B4. One-time 30 percent real depreciation in 2015	12	14	16	17	18	18	18	18
B5. 10 percent of GDP increase in other debt-creating flows in 2015	12	14	15	25	17	19	16	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.

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

IMF Executive Board Concludes 2014 Article IV Consultation with Myanmar

On September 24, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Myanmar.

Growth is accelerating and the external balance remains stable. Output growth is estimated to have risen to 8¼ percent in fiscal year (FY) 2013/14 (April-March). Inflation has broadly stabilized, and stood at 6 percent (year-on-year, y/y) in April 2014. After depreciating in 2013, the exchange rate has stabilized. The current account deficit is estimated to have widened to 5½ percent of GDP in 2013/14, but to have been more than financed by foreign direct investment, new loans, and inflows related to telecommunications licenses. International reserves held by the Central Bank of Myanmar (CBM) increased to US$4.5 billion by end-March, covering 2¾ months of prospective imports. While the base remains low, broad money and private sector credit continue to grow rapidly, at 32¼ and 58½ percent (y/y), respectively in February. The headline fiscal deficit in 2013/14 is estimated at 1½ percent of GDP. A debt sustainability analysis indicates that Myanmar is now at a low risk of debt distress.

The economic outlook is favorable. Growth is expected to average 8¼ percent in the next few years, led by rising gas production and investment. Inflation is expected to remain under control at around 6 percent over the medium term. The current account deficit is projected to remain broadly stable, while the CBM's international reserves are forecast to continue to increase rapidly as foreign inflows intensify. With transfers from the Union Government to states and regions increasing significantly, the underlying fiscal deficit is set to widen to around 5½ percent of GDP in 2014/15, but further one-off revenues should bring the headline deficit to around 4½ percent of GDP. In the medium term, the underlying fiscal deficit is projected to again decline to below 5 percent of GDP.

[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.

Medium and long-term prospects remain strong, but require sustained policy and institutional reforms even as the authorities' capacity is being strained. In order to achieve rapid and inclusive growth, it is vital to maintain near-term macroeconomic stability while building modern institutions and sound policy frameworks to manage the budget and financial sector.
Risks arise from thin external and fiscal buffers, particularly as the authorities' capacity to develop and implement policies and absorb technical assistance is being stretched. The entry of foreign banks will burden nascent supervisory capacity and challenge monetary and exchange rate management, particularly in the face of continuing demand-side pressures on inflation. At the same time, structural fiscal risks are building as tax exemptions increase even as expenditure pressures rise. External borrowing for off-budget operations is also increasing. On the upside, large one-off inflows from concession fees for oil and gas exploration could materialize in the near term

Executive Board Assessment[2]

Executive Directors commended the authorities for the continued progress with their economic reform program, which has contributed to strong growth. Directors noted that while the medium and long-term economic prospects are favorable, Myanmar's economy faces risks in the short run as fiscal buffers are thin and the capacity to develop and implement policy remains constrained. Accordingly, Directors recommended further efforts to reinforce policy and institutional frameworks and pursue structural reforms. Directors agreed that continued technical assistance from the Fund and other international institutions remains critical given Myanmar's vast transformational needs and limited capacity.

Directors welcomed the advances made in developing monetary policy tools, but saw need for a more vigorous deployment of these tools to manage the impact of foreign inflows, and keep reserve money and inflation under control. Priority should be given to improving liquidity forecasting, and developing a market for treasury bonds. Deficit monetization also needs to continue to be scaled back. Directors supported the policy of smoothing exchange rate fluctuations while not targeting a specific rate. Noting that international reserves remain low, they urged the establishment of an automatic mechanism to transfer public sector foreign exchange earnings to the central bank. Furthermore, Directors encouraged the authorities to strengthen over time the central bank's internal systems, particularly in accounting and reserves management.

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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.

Directors emphasized the importance of a prudent orientation of fiscal policy that addresses Myanmar's development needs while safeguarding debt and macroeconomic sustainability. They supported the strategy to keep fiscal deficits below 5 percent of GDP and underscored that off-budget borrowing needs to be carefully controlled. Additional efforts to mobilize revenues are also necessary to allow increases in social spending and public investment. Priority should be given to cutting back exemptions, strengthening tax administration, and preparing for the introduction of a VAT. Directors stressed the need to strengthen public financial management.

Directors underscored the importance of upgrading regulation and supervision of the banking sector in anticipation of entry by foreign banks. They also cautioned against the establishment of additional policy banks and encouraged the authorities to ensure that their operations do not pose financial and fiscal risks. Directors recommended addressing the remaining deficiencies in the anti-money laundering framework.

Directors stressed that continued progress with structural reforms is necessary to ensure macroeconomic stability and spur inclusive growth. Reform efforts should focus on investments in infrastructure, expanding education and health services, boosting access to finance, improving the business climate, and diversifying exports. Improving economic statistics is also essential.

Myanmar: Selected Economic Indicators, 2010/11–2015/16 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
				Est.	Proj.	
Output and prices			(Percent change)			
Real GDP (authorities)	10.4	5.9	7.3	8.7	9.1	...
Real GDP (staff working estimates)	5.3	5.9	7.3	8.3	8.5	8.5
CPI (end-period)	8.9	-1.1	4.7	6.3	5.9	6.7
CPI (period average)	8.2	2.8	2.8	5.7	6.6	6.3
Consolidated Public Sector 2/			(Percent of GDP)			
Total revenue	11.4	12.0	23.3	24.8	24.2	24.0
Union government	6.3	6.5	9.5	11.4	10.4	10.4
Of which: Tax revenue	3.3	3.9	7.1	7.2	7.3	7.4
SEE receipts	7.0	7.8	15.3	14.7	14.3	14.6
Grants	0.0	0.0	0.1	0.2	0.4	0.4
Total expenditure	16.9	16.6	25.0	26.5	28.7	28.6
Expense	8.8	9.8	16.8	18.2	20.0	19.6
Net acquisition of nonfinancial assets	8.0	6.8	8.1	8.3	8.8	9.0
Gross operating balance	2.6	2.2	6.5	6.6	4.3	4.4
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.4	-1.6	-4.5	-4.6
Domestic public debt	21.1	22.7	22.8	20.6	21.1	21.3
Money and Credit			(Percent change)			
Reserve money	30.5	7.9	34.2	14.3	28.0	19.4
Broad money	36.3	26.3	46.6	33.8	32.3	26.4
Domestic credit	34.4	25.1	5.1	30.4	32.5	25.3
Private sector	65.4	60.1	50.5	66.5	44.7	31.8
Balance of Payments			(Percent of GDP, unless otherwise indicated)			
Current account balance	-1.2	-1.9	-4.3	-5.4	-5.3	-5.1
Trade balance	1.3	-0.3	-3.8	-4.7	-3.8	-4.3
Exports	17.8	18.2	18.6	21.5	22.9	22.6
Imports	-16.5	-18.6	-22.4	-26.2	-26.7	-27.0
Financial account	2.9	3.7	9.2	9.0	8.2	8.3
Foreign direct investment, net	4.5	3.7	5.0	4.6	5.1	5.2
Overall balance	-0.9	-1.6	3.8	2.6	2.9	3.2
CBM reserves						
In millions of U.S. dollars	850	922	3,062	4,546	6,439	8,783
In months of total imports	0.9	0.8	2.2	2.9	3.5	4.3
External debt						
Total external debt (billions of U.S. dollars)	14.4	15.3	13.7	10.9	11.9	13.4
(In percent of GDP)	29.0	27.3	24.6	19.2	18.2	18.2
Of which: External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	0.0	0.0	0.0
Terms of trade (in percent change)	0.0	2.0	-2.2	-0.4	-0.5	-0.4
Exchange rates (kyat/$, end of period)						
Official exchange rate	5.4	5.6	880	964	...	...
Parallel rate	861	822	878	965	...	...
Memorandum items						
GDP (billions of kyats) 4/	39,847	43,368	47,851	54,756	63,323	73,042
GDP (billions of US$)	49.6	56.2	55.8	56.8	65.3	73.6
GDP per capita (US$)	998	1,121	1,103	1,113	1,270	1,420

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

1/ Fiscal year from April 1 to March 31.

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

3/ In 2012/13 and 2013/14, the terms of bilateral arrears clearance agreements with Paris Club creditors, the World Bank and the AsDB are incorporated.

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

Statement by Mr. Abdul Ghaffour, Alternate Executive Director and Ms. Moe Moe, Senior Advisor to Executive Director for Myanmar

September 24, 2014

1. On behalf of our Myanmar authorities, we would like to express our sincere appreciation to Mr. Matt Davies and his team for the constructive discussions during the Article IV Consultation and for the comprehensive reports. We are encouraged by the positive assessment that the authorities continue to make progress on its economic reform agenda and that the economic reform program is bearing fruit. The authorities highly value the Fund's advice and technical assistance, and also underscore the need to continue to consider the Fund's advice in moving forward with their reform strategy. They are in broad agreement with staff reports in several areas including the reduction of fiscal deficit monetization, improving public finance management and strengthening regulatory and supervisory framework.

Recent Economic Development

2. Real GDP growth is estimated to rise from 7.3 percent in 2012/13 to 8.7 percent in 2013/14 which was mainly driven by gas production, construction, manufacturing, services and trade sectors and supported by agriculture. This growth momentum is projected to continue and reach at 9.1 percent in 2014/15. Consumer price inflation has risen to 5.71 percent in 2013/14 largely due to the increase in fuel, rent and food prices.

3. The current account deficit is expected to be widened at 5.5 percent of GDP in 2013/14 mainly because of the increase in imports of capital goods. Export has increased by 24.8 percent while import has risen by 51.7 percent in 2013/14 compared to the previous year. The current account deficit has been largely financed by capital inflows, mainly FDI which has stood at 4.6 percent of GDP in 2013/14. Gross international reserves held by the CBM has increased from USD 3.1 billion in 2012/13 to USD 4.5 billion at end-March 2014 which is adequate to finance 3 months of imports. We envisage international reserves to continue to increase given the increased capital inflows. While our authorities broadly concurred with staff's assessment on economic outlook, our authorities' growth estimates and projections for 2013/14 and 2014/15 are slightly higher than staff's estimates.

4. Credit to the private sector has increased year on year by 50 percent in 2012/13 and 52 percent in 2013/14 largely due to the business opportunity booming, relaxation on collateral requirement, expansion of the credit access and SME's encouraging development. However, the share of state-owned banks' lending to the private sector has decreased while increasing by the private banks'. Money growth has decreased to 32.73 percent year on year in 2013/14 comparing to the previous year.

Fiscal Policy

5. The 2014/15 Budget was enacted in March 2014 with greater focus on priority socio-economic spending e.g. with increase in budget for education and health sector. The 2014/15 budget also allows allocating more funds to local governments in order to fulfill rural development and for poverty alleviation. More funds will also be allotted to the regions that are in urgent needs. As the goal of achieving inclusive and sustainable growth and poverty reduction is our authorities' main priority, it is critical to strike the right balance by prioritizing critical socio-economic expenditure to maintain a prudent fiscal path. We are encouraged to note that staff is of the view that the authorities fiscal strategy of keeping deficit below 5 percent of GDP as appropriate. This is critical to balance Myanmar's large development needs with supporting macroeconomic stability and maintaining debt sustainability.

6. Despite having an expansionary budget in 2014/15, our authorities remain committed to maintain fiscal discipline and continue ongoing efforts to increase tax revenue by strengthening tax administration, broadening tax base and simplifying the tax rate structure as well as strengthening public debt management. In an effort to improve tax compliance and thus collect tax efficiently, large tax-payers office (LTO) has been established in April 2014. In implementing the public finance management reform, while the authorities have been making efforts to increase revenue, they are also committed to continue improving fiscal transparency including report on revenues from natural resources, preparing the budget including the issuance of ceilings, preparing the medium-term fiscal framework, improving the information on public procurement outcomes, empowering budget holders to execute budget within clearly defined procedures and regulations, issuing budget execution report, submitting the audit report to the parliament.

7. The authorities concur with staff's view on that government's spending could be prioritized while public investment needs to be protected and expanded. In this regard, the new Treasury Department in the Ministry of Finance has been established in September 2014. The new Treasury Department will initially focus on cash management, debt management and accounting and reporting functions during this year. In addition, the introduction of treasury securities auctions is also being considered and our authorities intend to reform the taxation of special consumption goods to further enhance tax revenue. Fiscal decentralization and SEE reform are also being implemented and is in the initial stage. The authorities also stressed that the importance of greater transparency, accountability and responsibility in the use of allotted funds, and systematically use of allotted funds in accord with financial rules and regulations and following the audit codes of conduct.

Monetary and Exchange Rate Policy

8. On monetary and exchange rate policy front, our authorities have made good progress in liquidity forecasting, deposit auction, reserve money targeting and in implementing the

managed float exchange rate system with a flexible exchange rate policy within the short period of time with the technical assistance of the Fund. In fulfilling the objective to achieving monetary stability which is one of the CBM's goals, the authorities have reduced deficit monetization which was previously considered as one of the main factors contributing to inflationary pressure. In light of this, the authorities take note the staff's recommendations of introducing treasury securities auctions and converting old government debt to the CBM into marketable treasury bonds at market interest rate and with a range of maturities.

9. Our authorities are mindful of the potential inflationary pressure of capital inflows, rising credit growth and government's expansionary expenditure although deficit financing is on a declining path. Given the nascent stage of money market in Myanmar and with managed interest rate policy, the main instruments currently used to control inflation in the economy are liquidity forecasting and deposit auction, which have placed inflation under control, at the expense of reducing CBM's net foreign assets. In this context, the authorities share staff's view that substantial sterilization is required to keep reserve money and inflation under control. The authorities are also considering using the excess liquidity of the Myanmar Economic Bank (MEB), the largest state-owned bank, to accelerate the reduction of fiscal deficit monetization.

10. Since transforming to the managed floating exchange rate system, the overvalued Kyat has moved closer toward alignment with long-term fundamentals and narrowed the divergence between Myanmar and its peers. The function of foreign exchange market is improving. However, given the still absence of a mechanism in the multiple price foreign currency auction that prevents that exchange rates of accepted bids at the multiple price auction do not deviate by more than 2 percent, our authorities would request the Fund to retain a multiple currency practice subject to Fund approval under Article VIII, Section 3 until September 23, 2015 or the conclusion of the next Article IV consultation, whichever is earlier. To be a member of Article VIII, the regulations for the Foreign Exchange Management law still needs to be issued as a remaining main step. The bill for regulations for the said law has been submitted to the parliament and expected to be enacted soon.

Financial Sector Policy

11. The Myanmar's financial sector continues to expand and is undergoing rapid modernization and the authorities acknowledge that the regulation and supervision of the financial sector needs to be continuously strengthened. In this regard, a modernized Banking and Financial Institutions Law is currently in the final stages of drafting, modernized prudential regulations have been drafted and the CBM's supervisory capacity is being upgraded. Under the Myanmar's 20 year Financial Sector Development Plan (FSDP) starting from 2011/12 to 2030/31 with the aim of developing the financial sector, a number of initiatives have been identified. The goals of FSDP consist of to implement net open position of foreign exchange for authorized dealer licensed private banks; establish Yangon foreign exchange market successfully; modernize the payment and settlement system; improve the

opportunities of people's investment and to increase the paid-up capital for developing the small and medium enterprises; initiate and develop the private insurance enterprises; and to increase the job opportunities through the development of microfinance businesses. Our authorities have been implementing these goals of FSDP with the help of technical assistance mainly from IMF, WB, ADB and support from other international partners. The implementation status of the plan is very encouraging and in line with the plan despite some challenges of human capacity constraints and still weak institutional infrastructure developments. Nonetheless, our authorities have committed to continue making efforts to speed up the development of financial sector.

12. By most international standard, Myanmar's financial sector is still small. And the current structure of the financial system consists of four state owned banks, 23 private banks, 42 foreign bank representative offices, about 800 branches of banks, one state-owned insurance company, 12 private insurance companies, 189 microfinance institutions licensed, and 3 upcoming policy-based banks, impending entry of foreign banks and a nascent capital market.

13. While banking and financial sector is rapidly expanding, the authorities have made strides to reform regulatory environment. Since 2011, the development of regulatory reforms in financial sectors include passing microfinance law in 2011, enacting foreign exchange management law in 2012, enacting new central bank law and securities exchange law in 2013, the process of drafting new financial institutional law is ongoing, the process of issuing regulations for the central bank law and foreign exchange management law are in last stage. Other CBM's policies governing bank operations have also been changed depending on the required situation.

14. Our authorities note that current regulatory reforms need to be expedited given such a rapidly expansion in financial sector, especially with the entry of foreign banks into the system. As such, the authorities share staff's view on that strengthening supervision is critical, and a strengthened, rule-based and transparent regulatory environment should be established before foreign banks commence operations. Our authorities are determined and committed to this effort and look forward to additional TA to strengthen the policy and regulatory framework in new areas of activities of both domestic and foreign banks.

15. Anti Money Laundering and Counterterrorism law has been enacted in 2014, and its bylaws are underway of in their second draft. Our authorities remain committed to implement a strong AML/CFT system and to address the remaining deficiencies in its AML/CFT regime.

Conclusion

16. Although growth outlook is favorable, the authorities are mindful of the challenges in implementing reform measures on many fronts given the capacity constraints. To this end,

our authorities acknowledge that institutional capacity building need to be enhanced in a speedier way to help smooth reform process to ensure current growth momentum is sustainable. In this regard, the authorities note that the role of international financial institutions and countries in the region in helping to strengthen Myanmar's capacity building. Therefore, our authorities would like to express their sincere gratitude to the Fund, the World Bank, the ADB and countries in the region for their support and policy recommendations over the years and look forward for their continuous support as we move forward with our economic reform program.