# Macroeconomic Management in Myanmar and Future Challenges

**Ministry of National Planning and Economic Development - IMF Workshop on Overview of Macroeconomic Analysis and Policy-Making in Myanmar**

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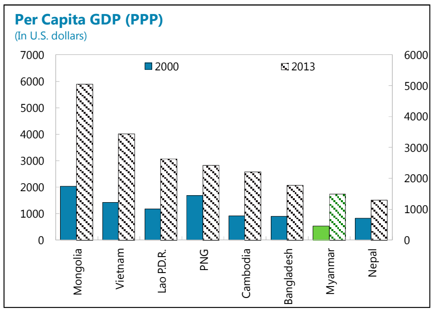
## Outline

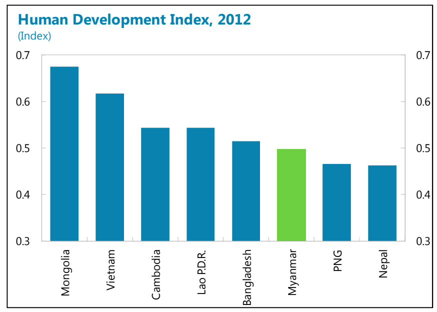
- Recent Economic Outlook and Risks
- Successful completion of a Staff-Monitored Program (SMP)
- Policy Prospects and Challenges

# The starting point

*Living standards remain among the lowest in the region…*

…ranking 149 among 186 countries in human development.



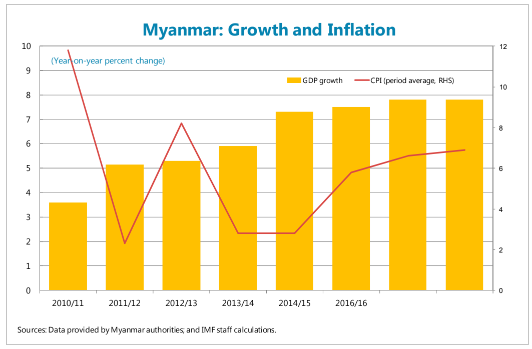




# Myanmar is undergoing a far-reaching transition

- The government is pursuing comprehensive economic reform to open Myanmar to the global economy, boost growth and reduce poverty
- Recent economic reforms include:
  - Adopting a managed float exchange rate regime and removing exchange restrictions
  - Establishing an autonomous central bank with a new CBM law enacted on July 11, 2013
  - Increasing significantly spending on health and education
- The authorities made good progress in 2013 on macroeconomic reform priorities
- To build on these gains and achieve sustained, strong, and inclusive growth

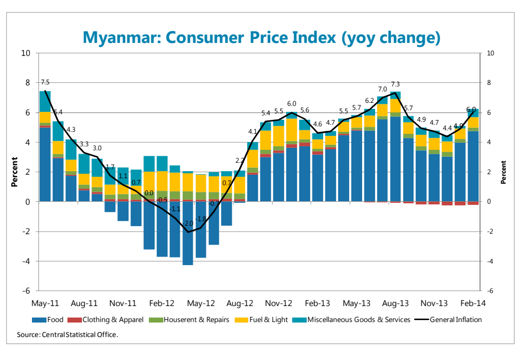
# Economic outlook is favorable

- Growth is expected to accelerate to 7¾ percent in FY2014/15 from 7½ percent in FY2013/14
- Main thrust from construction and services sector growth
- Framework for Economic and Social Reforms (FESR), a broad and ambitious economic reform program, should underpin growth of 7 percent and beyond over the medium term



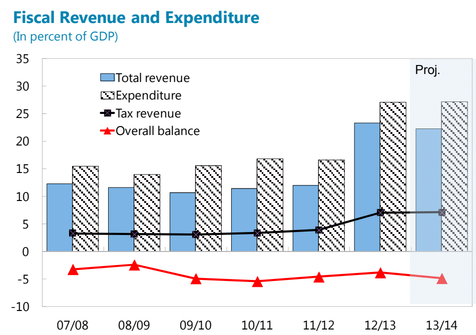

# Inflation remains elevated

- Inflation is expected to reach 7 percent by end FY2014/15
- Fueled by demand pressure and rise in electricity prices



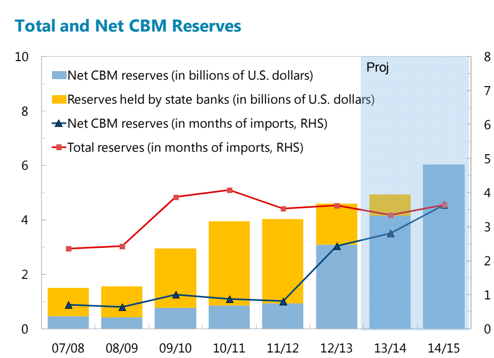
# Fiscal deficit remains contained

- The fiscal deficit in FY2013/14 is estimated to be broadly in line with the budget target of 5 percent of GDP with higher tax revenues offset by lower than expected receipts from SEEs.
- But expected to fall to 4½ percent in FY2014/15, as a result of one-off revenues from telecommunications licenses.




# International reserve buffers are still low

- External current account deficit is expected to widen further to about 5 percent of GDP in FY2014/15
- Rising imports is expected to be more than offset by rising FDI-related inflows
- Reserve accumulation should pick up in FY2014/15 as foreign direct investment and other inflows outweigh the current account deficit
- Overall reserves (owned by the state and held by the CBM and state-owned banks) remain slightly above 3 months of imports



## Risks to the Outlook

- **Risks largely from limited macroeconomic management capacity and narrow buffers**
  - Inflation remains elevated while the CBM is still developing its monetary policy tools
  - International reserves are still low and vulnerable to external shocks, insufficient to resist short-term exchange rate pressures
  - Risks from speedy liberalization of the financial sector and rapid credit growth
  - Potential escalation of the ethnic and religion conflicts could undermine confidence

- **Coordinated and prioritized technical assistance is crucial to assist and manage the reform process**

## Successful SMP helped prioritization and sequencing of reforms

- The IMF has been supporting the authorities to monitor progress on the government's own reform plans through a 12-month Staff Monitored Program (SMP) through 2013
- An informal and flexible instrument for dialogue between the IMF staff and a member country on its economic policies. Not accompanied by financial support
- Focused on maintaining macroeconomic stability and build framework and tools for effective macroeconomic management
- All SMP quantitative and structural benchmarks were achieved. Advances in reform include building the CBM's international reserve, maintaining an appropriate fiscal deficit, liberalizing the foreign exchange market, and building monetary and fiscal policy tools and institutions.
- Facilitated Paris Club debt relief

## Policy Prospects and Challenges

- The IMF is delighted to have assisted the authorities achieve a successful outcome to the 2013 SMP
- Looking forward, it is important to continue building on the progress made on the priority areas under the SMP
- Some key short and medium-term macroeconomic policy challenges

## Fiscal Policy

- **Remain committed to a fiscal deficit target of 5 percent of GDP**
- An appropriate balance between financing development expenditures and maintaining macroeconomic stability
- While monetary policy tools are still being developed, fiscal policy has to bear the burden of macroeconomic stabilization
- Monetization of the deficit should be quickly reduced to moderate inflation pressures
- Tax revenue is growing quickly but remains low; to enable increased spending it should be boosted though broadening the tax base and improving tax compliance
- Public financial management (PFM) reforms centered on creating a treasury department

## Monetary Policy

- **Boosting the CBM's international reserves to mitigate external risks**
  - The CBM's reserves grew rapidly in 2013 through transfers from state owned banks and it now holds most of the government's international reserves (CBM Law).
  - This progress needs to be made automatic so that CBM can accumulate further reserves to provide a larger cushion against external shocks.
- **Developing monetary policy tools urgently to counter inflationary pressure**
  - Achieving a reserve money target consistent with price stability
- CBM also requires **full budgetary autonomy** to implement effective monetary policy including sterilization operations

## Financial Sector

- **Financial sector modernization will require sustained reform efforts over several years**
- The banking sector is growing and modernizing rapidly and will require updated regulations and improved supervision capacity
- Foreign bank participation can play a useful role in accelerating financial sector development but a gradual process is needed to minimize risks and to limit additional strain on supervisory resources
- Need to ensure new policy banks are managed soundly and to minimize fiscal risks
- Continued strengthening of AML/CFT regime

# IMF's Engagement in Myanmar

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|---|---|
| **Policy advice** | Focus on ensuring macroeconomic stability and building a framework and institutions for effective macro-economic management.<br>Through Article IV Consultation advice the authorities to develop key economic goals—domestic price stability, a unified exchange rate, adequate international reserves, sustainable budget deficits. |
| **Monitoring of Progress** | A Staff Monitored Program (12-month through end-2013) assisted the Government to monitor progress of their macroeconomic policy goals against a small set of quantitative and structural benchmarks. All benchmarks have been achieved. |
| **Technical Assistance (TA)** | Provide intensive and tailored support, in close coordination with other donors, to help the authorities develop critical institutions and policy tools.<br>TA provided in fiscal, monetary, foreign exchange market and financial sector reforms, and on statistical improvement, through short-term experts and 3 resident advisors (foreign exchange, bank supervision and tax administration), and 4 TA advisors based in TAOLAM (PFM, monetary operation, macro and external statistics). |
| **Training** | Capacity building through in-country training and through IMF's regional institutions in Bangkok, Singapore and Tokyo. |
| **Local Presence** | Resident representative's office opened in June 2013.<br>Technical Assistance Office for Lao P.D.R. and Myanmar (TAOLAM) located in Bangkok for coordinating TA and training opened in August 2012. |

## *Thank you*