INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/90

MYANMAR

March 2018

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MYANMAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 12, 2018 consideration of the staff report that concluded the Article IV consultation with Myanmar.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 12, 2018, following discussions that ended on November 17, 2017, with the officials of Myanmar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 9, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Myanmar.

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

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 18/110
FOR IMMEDIATE RELEASE
March 28, 2018

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

IMF Executive Board Concludes 2017 Article IV Consultation with Myanmar

On March 12, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Myanmar.

Myanmar's economy stabilized in 2016/17. The new government saw a challenging first year with lower-than-expected growth of 5.9 percent in 2016/17 mainly due to weak agriculture production and exports, and temporary suspension of some construction projects in Yangon. The fiscal consolidation to about 2.5 percent of GDP deficit in 2016/17, from the election year deficit of about 4.5 percent of GDP, helped to reduce central bank financing of the deficit and imbalances. Inflation moderated to 6.8 percent, and the current account deficit fell to about 3.9 percent of GDP in 2016/17 from 5.1 percent 2015/16. The current account deficit continues to be mainly financed by FDI, with the real exchange rate and international reserves (at 3.2 months of prospective imports) broadly stable.

The medium-term macroeconomic outlook remains favorable. Growth is expected to rebound to 6.7 percent in 2017/18 mainly supported by a recovering agriculture sector and exports. Higher fiscal spending anticipated in the second half of 2017/18 due to buoyant tax revenues will also support growth. While the direct economic impacts of the humanitarian crisis in Rakhine state have been largely localized, the social costs and full impacts of the crisis are yet unfolding. Over the medium term, growth is expected to gradually pick up toward the estimated potential rate of about 7.0 percent to 7.5 percent, reflecting continued large FDI inflows and an improvement in public investment spending and efficiency.

Risks are tilted to the downside. The banking sector needs to adjust to important new prudential regulations after a period of rapid credit growth. The humanitarian crisis in Rakhine state could affect development finance and investor sentiment. Additional risks stem from commodity prices, potentially volatile global financial markets, exposure to spillovers from China, and the risk of natural disasters. On the upside, implementation of a more detailed strategic reform plan and higher infrastructure investment would raise potential growth.

[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.

Executive Board Assessment[2]

Executive Directors welcomed the rebound in Myanmar's economy and its favorable long-term growth prospects. However, downside risks have increased, including from the humanitarian crisis in Rakhine State. Expressing their strong concern, Directors highlighted the need for early and tangible progress toward peace and regional inclusion, to improve conditions in affected areas and to realize Myanmar's strong potential for inclusive growth. Directors also called for a second wave of reforms to help sustain Myanmar's economic transition and growth take-off. They commended the release of Myanmar's Sustainable Development Plan (MSDP) and recommended that the MSDP be expanded to address reform sequencing and regional disparities, including the humanitarian crisis in Rakhine State.

Directors underlined the need for sufficient resources to achieve the SDGs, while ensuring that fiscal policy remains anchored on debt sustainability and a lowering of central bank financing of the deficit. Directors welcomed the sustained progress on domestic revenue mobilization, and saw scope for further expenditure rebalancing and improvement in public financial management. Directors cautioned against excessive use of tax amnesties and incentives, which risk eroding the revenue base. State economic enterprises and large infrastructure projects, including PPPs, should be closely and transparently monitored to minimize fiscal risks and debt distress.

Directors noted the emergence of banking sector risks and supported steps toward improved financial sector regulation. They also supported the implementation of the Banking Sector Action Plan to respond to emerging risks, promote financial deepening, and strengthen the resolution framework. While Directors supported financial sector and interest rate liberalization, they agreed that this should proceed at a pace commensurate with the central bank's capacity to regulate and supervise.

Directors encouraged the authorities to formally adopt the new transactions-based exchange rate mechanism. To enhance market certainty, the Central Bank of Myanmar (CBM) should formally adopt the new transactions-based mechanism for setting the reference exchange rate. Directors also underlined the need to develop the interbank foreign exchange market and allow greater exchange rate flexibility to cushion against external shocks.

Directors considered the current stance of monetary policy as appropriate. They encouraged further development of the monetary framework, including deeper debt and interbank markets. Directors stressed the need to continue phasing out CBM financing of the fiscal deficit, and welcomed the decline in the level of CBM financing in 2016/17.

Directors underscored the central role of capacity development in Myanmar's economic transition and growth. They strongly supported the Fund's continuing strong efforts in this area and the close alignment with surveillance priorities. Directors commended the steady progress toward improving statistics, and welcomed Myanmar's participation in the Enhanced General Data Dissemination System.

Directors noted that Myanmar will soon be in a position to fully meet its obligations under Article VIII. They encouraged continued progress to remove the last remaining exchange restriction and multiple currency practice.

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

Myanmar: Selected Economic Indicators, 2013/14–2019/20 1/

	2013/14	2014/15	2015/16	2016/17	2017/18	2018	2018/19	2019/20
			Est.	Est.	Proj.	Proj.	Proj.	Proj.
Output and prices				(Percent change)				
Real GDP 2/	8.4	8.0	7.0	5.9	6.7	6.4	7.0	7.2
CPI (end-period; base year from 2014/15=2012)	6.3	6.1	8.4	7.0	5.5	5.9	6.1	6.3
CPI (period average; base year from 2014/15=2012)	5.7	5.1	10.0	6.8	5.1	5.6	5.8	6.2
Consolidated public sector 3/				(In percent of GDP)				
Total revenue	20.1	22.0	18.7	18.8	18.2	17.4	18.3	18.3
Union government	10.0	12.1	10.9	10.7	10.7	10.1	10.6	10.7
Of which: Tax revenue	7.3	7.8	7.5	7.8	8.1	7.8	8.4	8.7
SEE receipts	9.7	9.5	7.4	7.7	7.0	6.7	7.0	6.9
Grants	0.3	0.3	0.4	0.4	0.6	0.6	0.6	0.6
Total expenditure	21.4	22.9	23.2	21.3	21.7	21.3	22.3	22.4
Expense	13.8	16.1	17.1	16.5	16.2	15.9	16.4	16.5
Net acquisition of nonfinancial assets	7.6	6.8	6.1	4.8	5.5	5.4	5.9	5.9
Gross operating balance	6.3	5.9	1.7	2.3	2.1	1.6	1.9	1.8
Net lending (+)/borrowing (-)	-1.3	-0.9	-4.4	-2.5	-3.5	-3.9	-4.0	-4.1
Underlying net lending (+)/borrowing (-) 4/	-1.7	-3.1	-5.6	-3.7	-4.4	-4.7	-4.7	-4.7
Domestic public debt	16.2	16.0	18.6	20.1	20.3	20.1	19.9	20.2
Money and credit				(Percent change)				
Reserve money	16.3	4.6	22.8	8.8	11.9	13.1	13.2	13.5
Broad money	31.7	17.6	26.3	19.4	16.5	18.4	18.4	20.0
Domestic credit	24.6	22.9	31.4	25.5	21.2	20.7	18.7	20.9
Private sector	52.5	36.5	34.3	33.8	26.2	25.2	24.2	24.0
Balance of payments				(In percent of GDP)				
Current account balance	-4.9	-2.2	-5.1	-3.9	-5.3	-5.4	-5.6	-5.9
Trade balance	-5.1	-2.8	-6.8	-6.9	-7.1	-7.0	-7.1	-7.2
Financial account	8.2	4.6	6.5	6.9	5.7	7.6	8.1	7.4
Foreign direct investment, net 5/	4.4	4.4	5.8	5.3	6.3	6.3	6.2	6.2
Overall balance	2.6	1.6	-0.7	0.6	0.4	2.2	2.5	1.5
CBM reserves (gross)								
In millions of U.S. dollars	4,444	5,125	4,764	5,134	5,370	6,307	7,244	8,528
In months of prospective GNFS imports	3.7	3.8	3.5	3.2	3.0	3.2	3.7	3.9
Total external debt (billions of U.S. dollars)	10.2	8.8	9.5	9.1	9.6	11.0	11.0	12.0
Total external debt (percent of GDP)	17.0	13.5	16.0	14.5	14.5	14.5	14.7	14.5
Exchange rates (kyat/$, end of period)								
Official exchange rate	965.0	1,027.0	1,216.0	1,362.0	…		…	…
Parallel rate	964.7	1,085.5	1,200.5	1,357.0	…		…	…
Memorandum items:								
GDP (billions of kyats)	58,012	65,262	72,714	79,722	90,269	32,933	103,095	118,221
GDP (billions of US$)	60.1	65.6	59.5	63.3	66.5	24.1	75.0	83.0
GDP per capita (US$)	1,179.6	1,275.3	1,147.3	1,210.5	1,263.9	1,339.0	1,414.1	1,555.3

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards, the fiscal year is from October 1 to September 30. The six month transition period from April 1, 2018 to September 30, 2018 is shown in the column headed 2018.

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

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

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

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

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

February 9, 2018

KEY ISSUES

Context: The economy is rebounding and macroeconomic imbalances have stabilized. The global recovery has supported a rebound in exports and continued strong FDI inflows. However, the recovery has been moderately weaker than anticipated and downside risks have increased. Latent banking sector risks are surfacing, following a period of strong credit growth and as banks adjust to updated prudential financial regulations. The humanitarian crisis in northern Rakhine state has created uncertainty over development partner finance and foreign investor sentiment. While direct economic impacts have been largely localized, the social costs and full impacts of the crisis are yet unfolding.

Medium term prospects: Strong fundamentals continue to support a favorable medium-term economic outlook. Myanmar's initial phase of economic liberalization led to an impressive growth takeoff and poverty reduction; now a second wave of reforms is needed to continue the strong momentum.

Policy recommendations:

- An overarching medium-term growth strategy and a second wave of reforms is needed to set economic direction, and support investment and job creation. Structural reforms should focus on priority areas with strong payoffs, and further opening up of the economy to foreign trade and investment.
- Fiscal policy should target achieving the Sustainable Development Goals (SDGs) by raising social and infrastructure spending, while remaining anchored on debt sustainability and lowering central bank financing of the deficit.
- Fiscal resources for achieving the SDGs and greater infrastructure should be increased through continued domestic revenue mobilization, expenditure rebalancing, and improvements in Public Financial Management (PFM).
- Concessionary external financing can expand fiscal resources, while reducing the historical reliance on monetary financing and bolstering FX reserves.
- New prudential regulations should be implemented with a view to ensuring financial stability and deepening, while forming contingency plans to address systemic banking risks and strengthening the resolution framework.
- The central bank should formally adopt a new market-determined mechanism for setting the exchange rate, and continue to allow exchange rate flexibility to help cushion against exogenous shocks.

Approved By
Markus Rodlauer and Johannes Wiegand

Discussions took place in Nay Pyi Taw and Yangon during November 7-17, 2017. The staff team comprised Mr. Rodlauer (Reviewer), Mr. Peiris (head), Ms. Hunter, Mr. Wu (all APD), Ms. Moyo (MCM) and Mr. Queyranne (FAD). Staff from TAOLAM participated in some discussions and Mr. Ojima (Resident Representative) and his staff assisted the mission. Mr. Agung (Executive Director) and Mr. Alias (OED) also participated in discussions. To-Nhu Dao and Francis Landicho assisted in preparing this report.

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APPENDICES

CONTEXT

1. **Myanmar's economy is rebounding and long-term prospects remain strong.** The economy is rebounding from the slowdown in 2016/17, and the medium-term outlook remains favorable, albeit moderately weaker than previously anticipated. Strong endowments, such as demographics, competitive labor force and strategic location, continue to underpin convergence. However, the economic transition faces increased downside risk, including from the Rakhine State crisis, and latent banking sector risks which are surfacing as banks adjust to new prudential regulations that upgrade the regulatory framework towards international standards.

2. **The humanitarian crisis in Rakhine State has created downside risk, but direct economic impacts have been largely localized.** In August 2017, the new government's focus on the peace process faced a setback, due to the intensification of violence in northern Rakhine State. In the following months, more than 600,000 refugees are estimated to have fled to neighboring Bangladesh. Bangladesh and Myanmar in January 2018 agreed a timeframe for voluntary refugee repatriation that will be closely watched by the international community. The humanitarian crisis in northern Rakhine state has created uncertainty over development partner finance and foreign investor sentiment. While direct economic impacts have been largely localized, the social costs and full impacts of the crisis are yet unfolding.

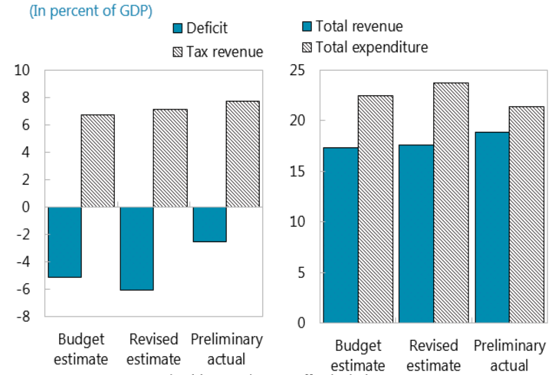
3. **A reinvigorated reform process is needed to sustain growth and achieve the Sustainable Development Goals (SDGs).** Myanmar has embarked on a complex reform process, to build institutions and transition to a market-based economy. Reform progress has continued, and several detailed sectoral reform plans have been created. However, the development of an overarching economic roadmap would provide a clear policy context for private sector development. Structural reforms should focus on priority areas with strong productivity payoffs, and making growth more inclusive.

RECENT DEVELOPMENTS

4. **The economy weakened but macroeconomic imbalances were reduced in 2016/17 (Table 1 and Figure 1).** The new government faced a challenging first year in 2016/17, with lower-than-expected growth of 5.9 percent. The growth slowdown was mainly due to the temporary suspension of construction permits in Yangon, and weak agricultural production and exports. In addition, the fiscal deficit was lower than expected, at around 2.5 percent of GDP, and down from the election year deficit of 4.4 percent of GDP in 2015/16 (Table 2). The lower fiscal deficit reduced the government's financing need, causing central bank financing of the deficit to fall in nominal kyat terms, although the target ceiling of 40 percent of domestic

Fiscal Revenue and Expenditure, 2016/17

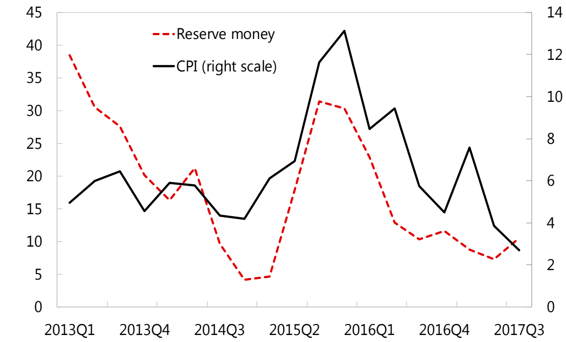
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff calculations.

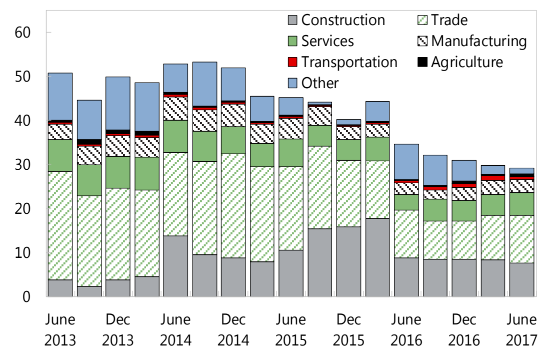
financing for 2016/17 was not met. On top of the reduced monetary financing, lower food prices took inflation to 6.8 percent (period average). The fiscal adjustment also contributed to a lower current account deficit, which fell to about 3.9 percent of GDP in 2016/17, from 5.1 percent in 2015/16. The current account deficit has continued to be principally financed by strong FDI, and the real exchange rate and international reserves were broadly stable over 2017 (Table 3 and Figure 2).[1] Foreign exchange reserves were US$5.2 billion or around 3 months of prospective imports as of November 2017, still below staff's assessment of adequate reserve levels (5-6 months of prospective imports).

Reserve Money and Inflation
(Year-on-year percent change)



Sources: Myanmar authorities; and IMF staff estimates.

Private Banks' Credit Growth: Contribution by Sector
(Contributions to annual growth, in percent)



Source: Authorities' data.

5. Deceleration of rapid credit growth is having a contractionary impact on corporate investment and the real estate sector while moderating financial stability risks (Figure 3). The banking system is adjusting to new prudential regulations, which are starting to shed light on previously under-reported fragilities. Against this background, credit growth has moderated from its peak though it was still strong at 27 percent (y/y) in September 2017 (Table 4). The slowdown in bank credit has affected corporate activity and contributed to softening in construction and the property market. The reduction in credit exposures to real estate and related lending to conglomerates that began in mid-2016 with the temporary suspension of construction permits in Yangon will help lower systemic risks.

OUTLOOK AND RISKS

6. The medium-term outlook remains favorable (Table 5). The near-term growth trajectory is weaker than previously expected, due to the subdued pick up in domestic investment and uncertainties related to the Rakhine state crisis, particularly for tourism. However, growth is expected to rebound to 6.7 percent in 2017/18, mainly supported by a recovering agricultural sector, exports, and higher public spending.[2] Rice and garment exports are growing at above 40 percent y/y in 2017/18 while natural gas exports are expected to get a boost as contracted prices reset with lag

[1] The sharp rise in FDI in 2017/18 partly reflects improved data collection from banks, which has caused a break in the data series.

[2] Tourism arrivals for the year to December 2017 (April-December) were 17 percent higher than in the same period in the previous year. This was a recovery from the weak tourism arrival data seen in 2016/17, albeit likely to moderate in the last quarter of 2017/18.

(Figure 1). In addition, Myanmar is poised to benefit from trade service flows associated with oil and gas pipelines from Southern Rakhine state to Kunming, China. Buoyant tax revenues and the 2017/18 supplementary budget are expected to support higher fiscal spending in the second half of 2017/18. Headline inflation is projected to decline to 5.5 percent in 2017/18. Dissipating lower food price effects are expected to cause inflation to increase temporarily before declining back to around 5 percent in the medium term. Over the medium term, growth is expected gradually to pick up towards the estimated potential rate of about 7-7.5 percent, reflecting continued FDI inflows and higher public investment spending and efficiency. In line with development needs, the current account balance is expected to remain in deficit, with the improvement in commodity prices and exports more than offset by growth in FDI and infrastructure related imports.

7. **Risks to growth are tilted to the downside.** Long-standing weaknesses in the banking sector have surfaced as banks adjust to new regulations, raising the risk of a sharp reversal of previously-strong credit growth. The humanitarian crisis in Northern Rakhine state has created uncertainties regarding DP finance and investor sentiment. The highly targeted U.S. sanctions are not expected to affect the broader economy, but any broadening of sanctions would add to downside risks. The upcoming change in the fiscal year, from October 1, 2018, will challenge limited public sector capacity and may introduce greater risks on revenue and budget under execution. Other risks stem from external sources, including commodity prices, potentially volatile global financial markets, and exposure to spillovers from China. Flood effects were relatively moderate in 2016/17, but natural disasters remain an ever-present risk (Annex 1).

8. **A reduction in external financing would raise risks to growth and stability, while the economy could be boosted by reinvigorated reforms and greater use of concessional finance.** The Rakhine state crisis has created uncertainty over DP budgetary financing, that may have macroeconomic consequences depending on the authorities' response. As an illustration, a temporary pause in anticipated DP budgetary financing (0.8 percent of GDP lower compared to the 2017/18 baseline) would result in a cut in spending, lower growth and higher central bank financing.[3] An equal cut in spending and higher fiscal deficit would result in a moderate exchange rate depreciation and higher inflation, assuming no indirect negative confidence effects. Under the assumption that the financing shortfall is limited to budgetary financing and does not trigger stability risks, the impacts would be manageable, but economic activity and the poor would be negatively affected. On the other hand, a second wave of reforms and higher public investment using greater concessional finance would raise potential growth and foster inclusion.[4]

[3] The scenario only assumes a pause in budgetary financing (general and sector budget support) while project financing is expected to disburse as in the baseline.

[4] The calibrated growth impact follows the 2016 SIP "Macroeconomic and Distributional Impacts of Financial Reforms in Myanmar" by Ruiz, Peralta-Alva, Wu, and Ziesemer.

Myanmar: Key Macroeconomic Assumptions

	Baseline	Low External Financing	High External Financing
	2017/18-2019/20	2017/18-2019/20	2017/18-2019/20
Real GDP growth (in percent)	7.0	6.8	7.3
Inflation (period average, in percent)	5.7	6.2	5.9
Overall fiscal balance (in percent of GDP)	-3.9	-3.6	-4.2
Net external financing (in percent of GDP)	1.3	0.5	1.5
Current account (in percent of GDP)	-5.6	-6.0	-5.8
Reserves (in months of imports)	3.5	2.6	3.2

Source: IMF staff calculations.

Authorities' Views

9. **The authorities broadly agreed with staff's view of the recent developments and outlook.** The authorities noted that the lower deficit was driven by greater fiscal prudence, which had helped to reduce central bank deficit financing and inflation. While limited capacity had hindered budget execution, implementation should improve with the change in the fiscal year. The authorities noted that although lower inflation was welcome, this had also reflected negative food price shocks and reduced farm incomes. Regarding the Rakhine state, they noted that public spending would be redirected to aid the reconstruction along with other efforts to address regional disparities.

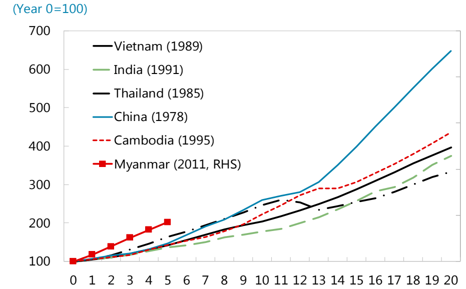
A SECOND WAVE OF REFORMS TO SUSTAIN THE GROWTH MOMENTUM

Myanmar's initial phase of economic liberalization led to an impressive growth take-off; now a second wave of reforms is needed to sustain the momentum. Articulation of an overarching economic roadmap will help to set economic direction and support investor confidence.

10. **Myanmar's initial economic liberalization led to an impressive growth take-off and poverty reduction, underpinned by FDI.** The growth take-off has been even stronger than in Myanmar's fast-growing neighbors and was led by a surge in FDI, with investors attracted by Myanmar's status as one of Asia's last frontier markets. World Bank estimates show a sharp decline in the poverty rate, from 48.2 percent in 2004/5 to 42.4 percent in 2009/10, and 32.1 percent in 2015—although 46 percent of the population remains under the near-poverty line.[5] The rate of poverty

Growth Index, Years from Reform Commencement

(Year 0=100)



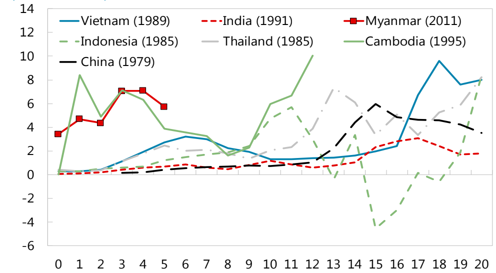
Sources: *World Economic Outlook* database; and IMF staff calculations.

[5] See Selected Issues Paper (SIP) on Poverty Dynamics and Growth in Myanmar.

reduction is comparable to early-liberalization success stories in the region.

FDI Inflow, Years from Reform Commencement

(Percent of GDP)



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

Poverty Reduction Following Economic Reforms

(Change in percent of total population)

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

11. Recent reform progress has included the updated prudential regulations and directives pertaining to the banking sector, and good progress on revenue mobilization and statistics. Financial sector reforms have also included developing a benchmark government bond yield curve and liberalizing trade finance activities of foreign bank branches. A civil service reform action plan was released and a rise in the minimum wage was announced recently.[6] A higher minimum wage may support more inclusive growth by raising incomes of workers near the poverty line while average labor costs in Myanmar would remain regionally competitive and support continued job creation (see Figure 2). A new Companies Act has been enacted, and is expected to be effective in FY2018/19. The new Companies Act replaces the 1914 Act, and will allow foreigners to take up to a 35 percent stake in Myanmar companies. The recent issuance of bylaws to the January 2016 Condominium Law which clarifies nonresident ownership should help stabilize the softening property market.

12. An overarching medium-term plan is needed to provide strategic direction. A well sequenced second wave of reforms and greater infrastructure investment would help Myanmar's economy to further integrate with global value chains (GVCs).[7] Cross-country experience suggests that simultaneous reform in multiple areas can have strong productivity payoffs, due to gains from complementarities, particularly for low income developing countries (LIDCs).[8] For Myanmar, increased private sector consultation and development of an overarching medium-term development plan with a fiscal framework, would help to provide strategic direction and facilitate reform implementation. Structural reforms should focus on agriculture, the banking system and interest rate liberalization, infrastructure, trade and the legal framework. Further opening up of the economy to foreign participation building on the new Companies Act (e.g., by allowing majority foreign ownership and reducing sectoral restrictions) will assist in providing opportunities for skills and technology transfer.

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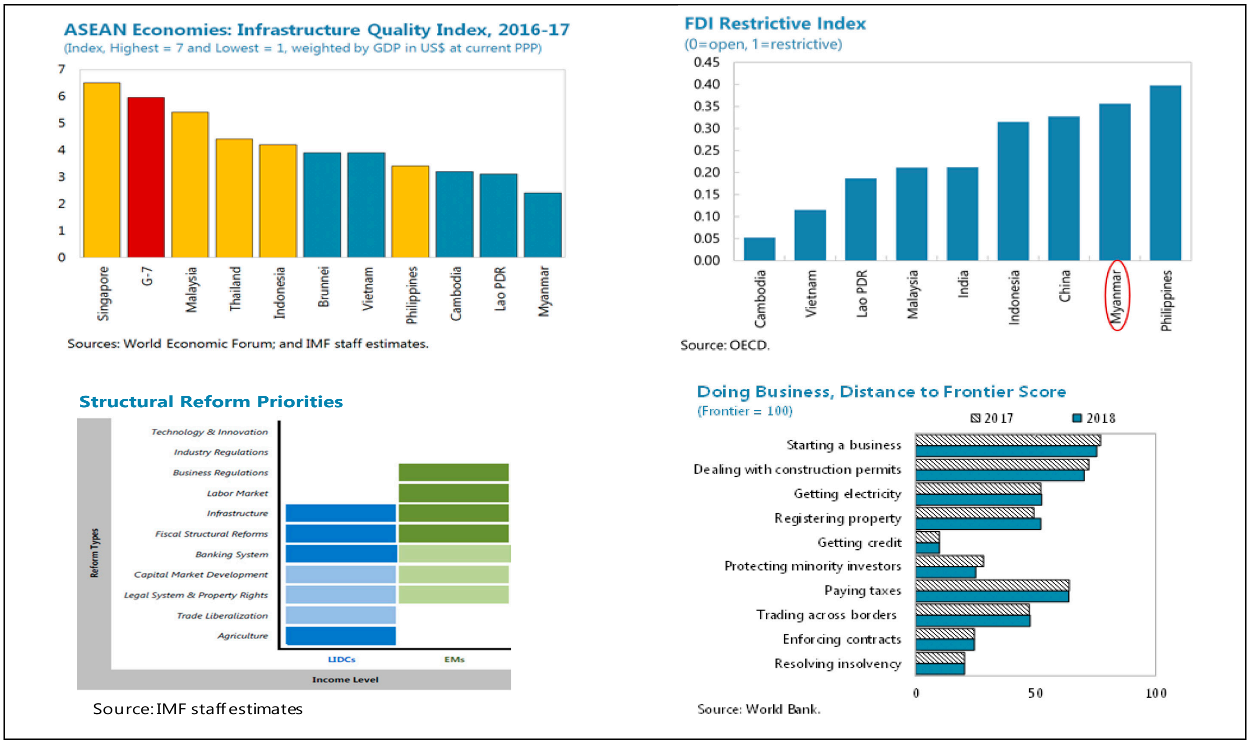
[6] In early January 2018, the government announced a proposed 33 percent increase in the daily minimum wage, to 4,800 kyats (around US$3.60). If no objections are raised during the 90-day consultation period with stakeholders, the National Committee for the Minimum Wage will issue an official notification.

[7] See Selected Issues Paper on the role of FDI and GVCs.

[8] IMF, 2015, "Structural Reforms and Macroeconomic Performance: Initial Considerations for the Fund."



Authorities' Views

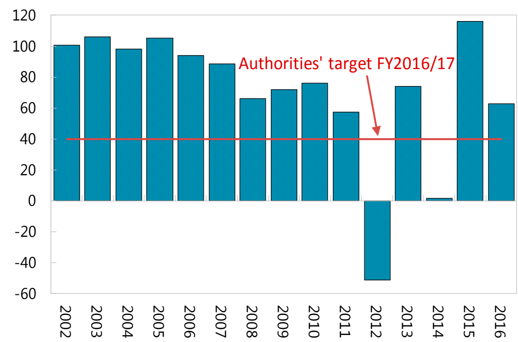
13. The authorities agreed on the importance of a medium-term growth strategy. They noted that the government was now implementing the Twelve Economic Policies, which were focused on inclusive sustainable development. However, they shared staff's view that an overarching strategy to set economic direction and clarify development priorities would be beneficial, with prioritization of the agricultural and financial sectors, infrastructure, and human capital development. They noted that investment interest in Myanmar remained strong, as indicated by continued FDI, but agreed that risks were currently to the downside.

FISCAL POLICY AND THE SUSTAINABLE DEVELOPMENT GOALS

Fiscal policy should be geared towards achieving the Sustainable Development Goals (SDGs) while being anchored on debt sustainability and lowering central bank financing of the deficit. Achieving the SDGs will require increasing fiscal resources through continued domestic revenue mobilization, expenditure rebalancing, and improving Public Financial Management (PFM). Concessionary external financing can supplement domestic revenues, while reducing the historical reliance on monetary financing and bolstering reserves.

14. The fiscal deficit fell to 2.5 percent of GDP in 2016/17, due to higher revenues and lower spending relative to budget. Increased tax collection led to a 9 percent overperformance relative to the revised budget in 2016/17. In part this reflected improved tax administration, including introduction of self-assessments for large taxpayers and capacity development within IRD. At the same time, commodity price declines weighed on non-tax revenues. Spending was under-executed relative to budget for both recurrent (by 6 percent) and capital spending (by 21 percent), leading to a large reduction in the deficit. However, at 57 percent, CBM financing exceeded the authorities' target ceiling of 40 percent of domestic financing. The authorities remain committed to reducing CBM financing, and have retained their target to limit CBM financing at 30 percent of domestic financing for 2017/18.

CBM Financing as Share of Total Domestic Financing
(In percent)



Source: IMF Monetary and Financial Statistics.

15. Myanmar's fiscal year will change from April-March, to October-September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year will commence from October 1, 2018. The transition to a new fiscal year should be carefully planned, with the six-month transition period best handled by linking budget ceilings to the previous year to minimize fiscal risks. Early and clear communication on tax filing and processes is needed to minimize risks to revenues and ensure stakeholders can make adequate preparations.[9] On the expenditure side, PFM reforms and significant adjustments to budget ceilings could be postponed to the full-year October 2018–19 budget given low implementation capacity.

16. The fiscal deficit is projected to increase to 3.5 percent of GDP in 2017/18, and to 4 percent in 2018/19 following the six-month transition budget. The deficit is projected to rise in 2017/18 notwithstanding buoyant tax revenues in the first half of 2017 as spending picks up in line with the expansionary supplementary budget. The deficit is expected to increase further to 4.0 percent of GDP in 2018/19 following the six-month transition budget, during which budget execution may be weaker (Table 2). A greater share of the fiscal expansion is expected to be allocated to recovery and reconstruction efforts in Rakhine state including on facilitating the planned return of refugees from Bangladesh. Revenue is projected gradually to rise, largely due to continued tax buoyancy as well as further tax policy and administration reforms. At the same time, the recent increase in commodity prices is expected to mitigate the projected decline in natural gas related revenues, as gas reserves are gradually exhausted. Tax revenue improvement will support increased spending, enabling increased infrastructure and social expenditure. The proposed minimum wage hike would have a fiscal impact by increasing entry level civil service wages, and

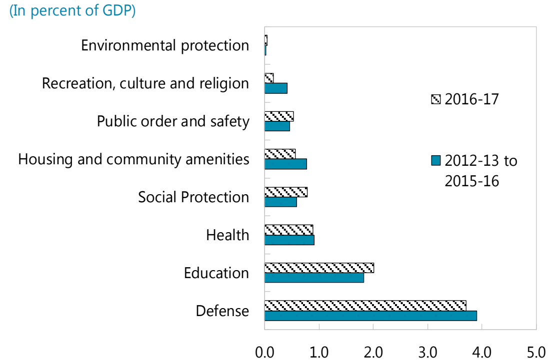
[9] A note on the pros and cons of whether to change the tax year consistent with the fiscal year was provided to the authorities, and a decision is expected soon.

should be integrated into the civil service reform initiative, including by reflecting other allowances in the base wage to minimize the rise in the wage bill.[10]

17. The deficit is expected to remain at around 4-4.5 percent of GDP in the medium term, a level consistent with low debt distress and the phasing out of CBM financing. A fiscal deficit of between 4-4.5 percent of GDP would maintain public debt at a low level of debt distress, based on the updated joint Bank-Fund Debt Sustainability Analysis (DSA). Phasing out CBM financing will require supportive domestic financial reforms and the development of the government securities market (Table 2). In particular, the government should attempt to accept all bids at the government securities auctions and avoid cut-off rates except for outliers.

18. Fiscal policy should be increasingly geared towards achieving the Sustainable Development Goals (SDGs, Figure 4).[11] Spending on education and health has remained low relative to peer countries, although it has significantly increased in recent years. Fiscal space for priority spending can be achieved through a combination of expenditure rebalancing towards social sectors (education and health) and priority infrastructure, improved Public Financial Management (PFM) and further revenue mobilization, as highlighted in the 2017 Public Expenditure Review. Additional public spending needs to reach the education and health SDGs are estimated at 2.5 percent of GDP in each of the sectors.[12] An increase in capital expenditure and efficiency is also needed to develop infrastructure, within the context of a strengthened public investment management (PIM) framework. Fiscal policy can also facilitate structural transformation and foster inclusion, by mitigating adjustment costs and addressing regional disparities. Greater access to external concessionary finance and structural reforms could allow the economy to sustain a higher level of spending to achieve the SDGs faster, consistent with the alternative scenario above and the DSA.

Union Government Expenditure Composition
(In percent of GDP)



Sources: IMF's Government Financial Statistics database; and IMF staff calculations.

19. Building on progress made since 2012, deeper PFM reform is needed to improve the effectiveness of fiscal policy. Progress achieved in building core PFM capabilities include: (i) reinforced Treasury functions, by establishing a Treasury department in the Ministry of Finance, moving to a system of market-based financing through treasury bill auctions, and modernizing cash and debt management; (ii) enhanced budget formulation through a top-down approach and the preparation of a medium-term fiscal framework; (iii) strengthened PFM legal and regulatory

[10] Once officially confirmed, the increase in the minimum wage is likely to be reflected in the 2018/19 budget (October– September).

[11] Selected Issues Paper on poverty.

[12] Selected Issues Paper on Poverty Dynamics and SDGs.

framework; and (iv) improved financial reporting. Building on these efforts, the authorities are preparing a new PFM strategy for the next five years with Bank and Fund TA. Further reform measures should prioritize:

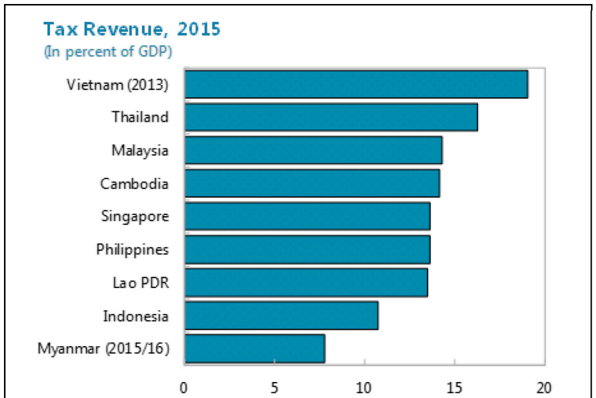
- *Fiscal transparency and reporting.* With good progress being made toward producing Government Financial Statistics (GFS), both the authorities' accounting and the GFS presentations should be included in the October 2018/19 budget and in the medium term fiscal framework.

- *Developing a Financial Information Reporting System for the Treasury (FIRST)*. Myanmar is one of the last countries in the world where PFM is managed on a fully manual basis. A simple IT solution could consolidate and validate financial information to strengthen fiscal reporting. In parallel, ongoing efforts to building capacity in treasury management need to continue.

- *Strengthening budget credibility would improve strategic allocation and expenditure efficiency*. A stronger interrelationship between planning and budget is needed to improve the budget-policy linkage and help deliver much needed infrastructure and social spending. And stronger revenue forecasting capacity would reinforce budget credibility.

- *Better managing fiscal risks from SEEs and large public investment projects*. The authorities should limit and manage fiscal risks from SEEs, including through restructuring and privatization. SEE performance has declined, in part reflecting lower commodity prices, but also poor financial management. A quarter of the 32 on-budget SEEs incurred losses in their most recent reporting year, with most of the loss arising from the Electric Power Generation Enterprise (EPGE). A gradual increase in electricity tariffs would help reduce EPGE losses, while mitigating negative effects on the poor through adequate design. The recent Government announcement of the intention to transform some of the SEEs to joint ventures with the private sector is also welcome and should avoid any government guarantee. In addition, large and much needed infrastructure projects, including through Public-Private Partnerships (PPPs), may generate significant fiscal risks and call for improved PIM.

20. Successful efforts towards revenue mobilization should continue to raise the low tax ratio. Modernizing indirect tax laws (commercial tax and special goods tax) and targeted administrative reforms under the first phase of reforms at the IRD, with Fund-supported TA, has paid dividends in terms of revenue buoyancy and taxpayer services. The next phase of revenue reforms approved by the Cabinet Economic Committee should be fully implemented with a focus on the following:



Sources: World Bank; and IMF staff calculations.

- *Complete the modernization of tax laws,* starting with the Tax Administration and Procedures Law, the Income Tax Law (including rationalizing incentives and a tax expenditure statement), and then amendments to the Commercial Tax Law (broadening the base and codifying the tax rates). Natural resource revenues could also be enhanced, and the petroleum production sharing agreements and mining tax regime reviewed.

- *Develop staff capacity and operations*, extend administrative reforms to the medium taxpayer segment, and link the regional offices through IT systems.

- *Improve customs administration*, both to increase tax revenue and to facilitate trade and investment, with the support of Fund TA.

Authorities' Views

21. The authorities emphasized that their medium-term fiscal framework was anchored on maintaining debt sustainability and phasing out CBM financing. They were continuing strong efforts to improve tax administration, and had been conducting public education on taxation. The Tax Administration and Procedures Law, and the Income Tax Law would be submitted to Parliament to be effective for the new fiscal year beginning October 2018. The authorities reiterated their commitment to reducing CBM financing of the deficit, and noted the missed target was due in part to insufficient government securities issuance in the under-subscribed auctions. They noted that SEE restructuring had commenced, with 12 SEEs brought back under line ministries as administrative units, and six SEEs corporatized.[13] The change in fiscal year was intended to improve implementation of capital and infrastructure expenditure, given the timing of the monsoon season. The authorities intend to release fiscal data in line with GFS in 2018.

MACROFINANCIAL STABILITY AND DEVELOPMENT

The central bank should formally adopt a new market-determined mechanism for setting the exchange rate and continue to allow exchange rate flexibility to cushion against exogenous shocks. Given moderate inflation, monetary tightening can be put on hold, pending further development of interbank markets and financial reforms. New financial regulations should be implemented with a view to ensuring stability and deepening, while forming contingency plans to address systemic banking risks and strengthening the resolution framework.

A. Exchange Rate and Monetary Policy

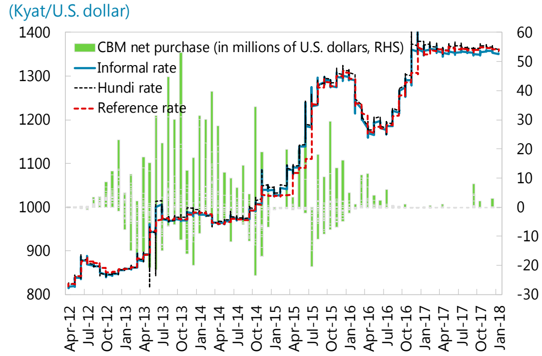
22. The kyat exchange rate remained stable through 2017, with the official reference exchange rate in line with market conditions. Exchange rate stability in 2017 contrasted with depreciation pressures over much of the previous year.[14] During 2016, the official reference rate was

[13] Not including the Central Bank of Myanmar.

[14] Myanmar has a managed floating de jure exchange rate regime, and the de facto exchange rate regime is classified as stabilized arrangement, effective January 12, 2017.

frequently out of line with market conditions as large spreads emerged between the official reference rate and the informal market rates, due to operational problems with the FX auction system. The greater exchange rate stability in 2017 could thus be seen partly as a response to the market correction in 2016 as well as the lower current account deficit and higher government securities yields supporting financial flows. The FX auctions have continued but with very limited participation and are no longer being used as a price discovery mechanism. Instead, the CBM has set the reference exchange rate taking account of FX transaction data reported by banks, bringing the reference rate closer to the informal market rate. However, this procedure has not been formally established. A prohibition on trading outside of the FX trading band (+/- 0.8 percent around the official reference rate) has been lifted and communicated to the market, although a formal regulation is yet to be issued.

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



Source: Central Bank of Myanmar.

23. It is an opportune time to formally adopt the new exchange rate mechanism and remove the trading band. First, the external position is broadly in line with medium term fundamentals and desirable policy settings, based on the IMF's EBA-light approach (Box 1). Second, the current CBM reference exchange rate is consistent with a new transaction-based mechanism for setting the market exchange rate in line with the MCM TA report of 2017. Third, the informal/hundi rate is aligned with current reference rate, and the announcement of a new market exchange rate setting mechanism and removal of the trading band to all banks should not lead to undue volatility. Formalizing the new mechanism and clear communication will provide credibility to the de jure managed floating exchange rate regime and help anchor market expectations. To avoid a multiple currency practice (MCP), the government and SEEs will need to use the prevailing market rate when they make FX transactions.

24. Continued exchange rate flexibility is needed to help manage shocks while building reserves. With limited interbank trading and bank customer transactions representing the bulk of FX trade, the market rate should be set as a weighted average of both types of transactions until the interbank develops further, with close supervisory monitoring but no administrative control of rates. Staff continues to recommend a managed exchange rate regime to avoid misalignment and greater exchange rate flexibility to enhance monetary autonomy. However, staff advises an asymmetric FX intervention strategy of building reserves during capital inflow episodes and letting the exchange rate act as a shock absorber during outflows. FX sales should be limited to avoiding disorderly market conditions, using the FX auction mechanism currently in place until an FX intervention strategy is developed further.

25. Monetary tightening can be put on hold, given the improved inflation outlook and other factors. Good progress has been made towards withdrawing excess liquidity from the banking system and gradually developing a market-determined government bond yield curve.

Reserve requirements now apply to all banks and have been enforced, in line with TA recommendations. Given the more moderate inflation outlook, slower growth, and potential banking sector risks, it is appropriate to maintain deposit auction volumes, pending further developments in inflation and liquidity. Efforts to improve liquidity forecasting and further developing indirect monetary instruments should continue. Should liquidity start to expand rapidly, or inflation pressures rise, deposit auction volumes should be increased.

26. With several building blocks in place, the CBM needs to further strengthen the monetary policy framework. A CBM directive has allowed for the formation of a monetary policy committee (MPC) but it is yet to be formally constituted, and the price stability mandate should be clarified by adopting a medium-term inflation objective. While continued exchange rate flexibility and phasing-out of CBM financing of the fiscal deficit will strengthen monetary policy independence, a gradual liberalization of interest rates (see below) and interbank market development are needed to improve monetary policy transmission. Interbank cash market development is hindered by excessive concentration of liquidity at some banks, including Myanmar Economic Bank, as well as fees charged for the return of banknotes by the CBM, which may contribute to a large share of currency in circulation.

Authorities' Views

27. The authorities intend to formally introduce the new exchange rate mechanism in the near future. The authorities noted that the official reference rate has been in line with market rates, and attributed exchange rate stability to continued FDI inflows and lower current account deficit, partly related to the weaker economy. They intended to formally adopt the new trade-based mechanism for determining the official reference exchange rate soon, but remained cautious due to concerns about the potential for rate manipulation. They saw value in retaining the FX auction for future intervention purposes. The authorities strongly agreed with the need to improve interbank markets, including by developing the repo market. They agreed that deposit auction volumes should not be raised further given liquidity conditions and the inflation outlook. They also concurred that the exchange rate trading band should be formally removed.

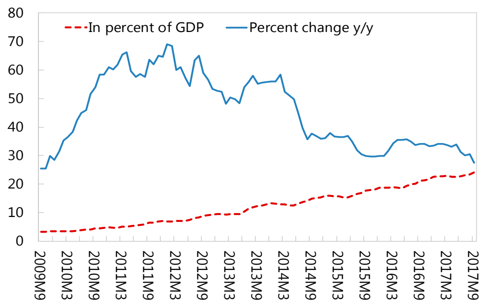
B. Financial Stability

28. Banking sector vulnerabilities are coming to the fore. Rapid credit growth has been in the form of one-year overdrafts secured on real estate, which have been continuously rolled over (evergreened). This practice has increased banks' exposure to property values, while potentially obscuring risks.[15] Domestic private commercial banks are now the largest players and are systemically important, particularly given large corporate exposures. A significant portion of lending has been to related parties. Various controls, notably on interest rates and product options, have

[15] The authorities have published FSI indicators for the first time (Table 6), but the system-wide measures mask significant differences among banking groups and the data on non-performing loans (NPLs) do not conform to international standards.

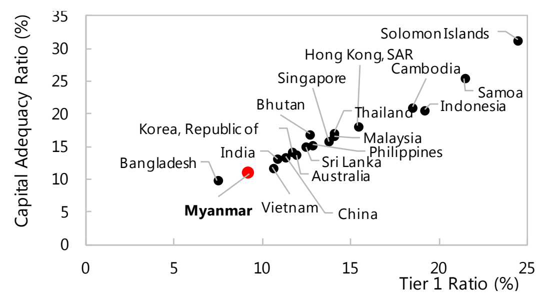
negatively affected banks' profitability and ability to price risks.[16] Profitability has also been impeded by other factors, such as lack of proper liquidity management in some banks. The banking system is undercapitalized including shortfalls in some SOBs and systemic domestic private banks, even under current NPL recognition levels. The CBM is working with several banks to bring capital levels up to the requirements of the FIL. At the same time, progress is being made strengthening onsite and off-site supervision with Fund TA but supervisory resources are stretched thin, and will be further challenged by the recent approval of five new domestic banks.

Private Sector Credit
(Percent change y/y, and in percent of GDP)



Source: Myanmar authorities.

Regulatory Total Capital and Tier1 Ratios to Risk Weighted Assets



Source: M. Dobler (2016).

Structure of the Banking System as of March 2017
In Kyat billions

	Number	Branches	Total Deposits	% of System	Total Assets	% of System	Total Loans	% of System
State owned Banks	4	516	9,979	28%	17,347	36%	2,234	12%
Private Banks	24	1520	23,324	66%	26,889	55%	16,155	86%
Foreign Bank Branches	13	13	2,120	6%	4,597	9%	327	2%
Total banking system			35,424		48,834		18,716	
In percent of GDP			44%		61%		23%	

Source: Myanmar authorities.

29. **The CBM released four key regulations in July 2017, to implement the FIL and strengthen regulation and supervision.**[17] The new regulations impose new capital and liquidity ratio requirements, asset classification and provisioning requirements, and a large-exposure limit. A further directive allows for the restructuring of viable overdrafts to term loans of up to three years.[18]

[16] Extensive controls were imposed following the 2003 banking crisis—including a floor on deposit rates (8 percent) and a ceiling on lending rates (13 percent).

[17] Under the new regulations, minimum capital adequacy ratio requirements are 4 percent for tier 1 capital, and 8 percent for regulatory capital. Large exposures are limited to no more than 20 percent of core bank capital, and all overdraft loans must be cleared each year for a period of two consecutive weeks.

[18] This directive, on Asset Classification and Provisioning, was issued in November 2017.

A key challenge will be to restructure the viable overdrafts and wind down large exposures while avoiding a credit crunch and an excessive property price correction. Recapitalization needs will need to be assessed as banks submit their overdraft and large exposure conversion plans, and recognize losses as loans become overdue.[19]

30. Over time banks will need to enhance their credit risk management, and reduce the over reliance on collateral values to safeguard lending. A banking system action plan has been been drawn up with the Fund, to enhance the banking system's resilience and long-term role in supporting the economy, as well as strengthen the resolution framework.[20] This will feed into the broader financial system development strategy that was developed with IMF and WB TA and adopted in 2013. Priorities are to:

- *Move ahead with restructuring of state-owned banks (SOBs).* Following the review of diagnostic reports with World Bank assistance, key tasks will relate to requiring state-owned banks to submit plans for remedial actions, with associated timeframes and follow-up action plans to ensure compliance.

- *Continue financial sector and interest rate liberalization at a pace commensurate with the CBM's capacity to regulate and supervise.* The CBM intends to allow banks to lend unsecured where adequate risk management is in place, and has issued a directive to permit foreign banks to provide retail export financing services. Lifting of the tiered interest rate caps should be carried out in a gradual manner and foreign banks' domestic lending activities liberalized once the domestic banks are in a stronger and more competitive footing.

- *Increase bank capital.* Banks with capital shortfalls will need to be brought into compliance with the new regulations within realistic timeframes, or face penalties. Gradual interest rate liberalization will help banks better price credit risks and raise capital through improved profitability. Capital can also be injected through foreign minority equity investments, following amendments to the Companies Act.

- *Form contingency plans to address emerging systemic banking risks and strengthen the resolution capacity.*[21] Resource the function at the CBM to develop contingency plans for bank recovery and resolution, and enable lender of last resort operations to solvent banks while avoiding public sector bailouts.

31. Work is underway to improve financial inclusion and address outstanding AML/CFT concerns. Building on the Financial Inclusion Road Map, several recent initiatives should support improved financial inclusion. The CBM has established a basic regulatory framework for mobile financial services, in a step towards enabling mobile network operators to offer mobile financial

[19] Conversion and recapitalization plans should be closely monitored, on a bank by bank basis, avoiding generalized forbearance.

[20] See Selected Issues Paper.

[21] The CBM has requested World Bank and IMF TA on the resolution framework.

services. Regulations passed in 2016 and 2017 to support the 2011 Microfinance Business Law will assist with development of the microfinance sector. The credit reporting system regulation issued in March 2017 has paved the way for the establishment of a credit bureau, to help banks better assess credit risks and broaden loan collateral. Myanmar was removed from the FATF's monitoring process in June 2016, and will need to make good progress on outstanding AML/CFT issues. Myanmar underwent an APG Mutual Evaluation (ME) in late 2017, the report of which will be discussed and adopted by the APG Plenary in July 2018, and its national risk assessment will be released in 2018.

Authorities' Views

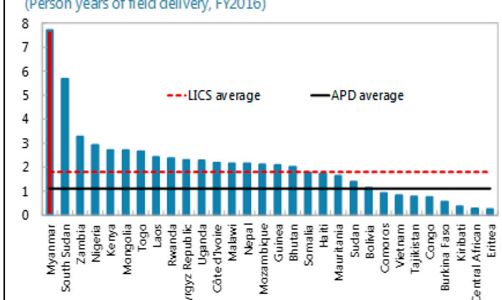
32. The authorities are committed to improving financial regulation and supervision. The authorities were very appreciative of the banking sector action plan and TA provided by the Fund and World Bank, and looked forward to its implementation. The CBM was actively consulting with banks in the transition to new regulatory requirements and was working to increase supervisory resources and training, but noted that capacity was highly constrained. The authorities agreed that interest rate caps should be removed gradually, and noted their intention to allow uncollateralized loans to SMEs at higher rates, once banks' risk management practices were strengthened. The authorities intended to use the ME results to assist with finalization of the draft AML/CFT bill, to allow for areas of weakness identified by the APG ME to be addressed in the AML/CFT law. They noted that improving customer due diligence in banks and implementing risk based AML/CFT supervision were key challenges.

CAPACITY DEVELOPMENT AND OTHER ISSUES

Myanmar's economic transition is heavily dependent on capacity development, which should be elevated to a higher level of strategic importance. While much remains to be done, good progress is being made towards improvements in macroeconomic statistics. The authorities should soon be in position to accept Myanmar's obligations under Article VIII.

33. Capacity Development (CD) is strategically important to economic reform. Significant progress has been achieved in CD in the short period since reforms began in 2011—in large part due to active engagement from Myanmar counterparts. Given large and broad CD needs, and multiple DP engagement, a strong link between surveillance and CD is needed (Annex 3). Myanmar is one of the IMF's largest recipients of CD resources.

TA Delivery to Low Income Developing Countries
(Person years of field delivery, FY2016)



Source: IMF staff calculations.

34. Although data provision seriously hampers surveillance, steady progress is being made to improve macroeconomic statistics for informed policy-making. The CBM's publication of its inaugural Quarterly Bulletin, monetary and financial statistics, and FSIs have been important steps forward. In addition, the MOPF expects to release GFS fiscal data in 2018, and the Central Statistical

Organization (CSO) is actively engaged in improving price and external sector statistics. Data dissemination should also benefit from Myanmar's participation in the Enhanced General Data Dissemination System (EGDDS).

35. Myanmar will soon be in position to fully meet its obligations under Article VIII. To this end, work is in progress to remove the last remaining exchange restriction, relating to a tax certification requirement. Furthermore, the adoption of a new mechanism to set the official exchange rate, which would replace the current multi-price auction, would remove the MCP that arose from the FX auction.

STAFF APPRAISAL

36. Myanmar's economy is rebounding and long-term prospects remain strong, but downside risks have increased. While the economy is rebounding from the slowdown in 2016/17, downside risks to the economic transition have increased. In particular, the humanitarian crisis in Rakhine State has created uncertainty regarding development finance and investor sentiment. While direct economic impacts have been largely localized, the social costs and full impacts of the crisis are yet unfolding. Peace and a favorable external environment would help Myanmar realize it's strong growth potential. Over the medium term, growth is expected gradually to pick up towards the estimated potential rate of about 7-7.5 percent, underpinned by higher investment.

37. A medium-term economic roadmap is needed to provide strategic direction and support continued strong investment and job growth. A second wave of reforms can help sustain the growth take-off and impressive poverty reduction. Reform sequencing and implementation would benefit from increased private sector consultation and an overarching development plan anchored by a medium term fiscal framework.

38. Fiscal policy should be geared towards achieving the SDGs, while remaining anchored on debt sustainability and lowering CBM financing of the deficit. Fiscal space for increased social and infrastructure spending can be created through a combination of expenditure rebalancing, improved PFM and further revenue mobilization. Greater use of concessional financing from DPs could also be used to expand fiscal resources for achieving the SDGs and fostering inclusion by addressing regional disparities. Better managing fiscal risks from SEEs and large public investment projects will be critical going forward with the new normal of lower global commodity prices and the envisaged infrastructure push. Restructuring and privatization of SEEs will be important to reduce the burden on budgetary resources, with a rationalization of the electricity tariff macro-critical.

39. It is an opportune time to formally adopt the new transactions-based exchange rate mechanism. With the auction no longer used as a price discovery mechanism, the CBM has informally set the official exchange rate near the informal market rate. To enhance market certainty regarding exchange rate determination, the CBM should now formally adopt the new transaction-based mechanism for setting the reference exchange rate.

40. Monetary policy tightening can be put on hold, given the more moderate inflation outlook. Good progress has been made towards withdrawing excess liquidity from the banking system and developing a market-determined government bond yield curve. Given recent inflation developments, slower growth, and potential risks in the banking sector, it would not be appropriate to raise deposit auction volumes further in the near term. Further development of debt and interbank markets will help enhance monetary policy effectiveness.

41. New prudential regulations should be implemented with a view to ensuring financial stability and growth, while forming contingency plans to address systemic banking risks. The CBM should continue to work with the banks as they transition to the updated regulatory environment, with appropriate consultation and communication. Encouraging an orderly restructuring of the banking system and recapitalization will be a key challenge including for the SOBs. Financial sector and interest rate liberalization should proceed at a pace commensurate with the CBM's capacity to regulate and supervise.

42. Capacity development merits strong strategic focus; good efforts on improving statistics should be continued. Greater recognition and focus on capacity development is needed, given the importance of CD to Myanmar's economic transition and reform implementation. While much remains to be done to improve statistics, steady progress should be continued.

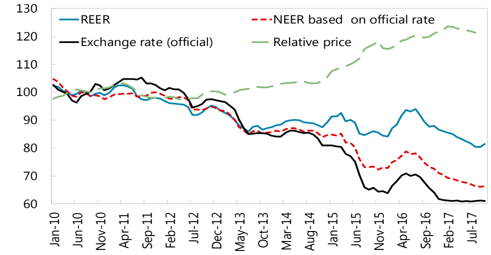
43. Myanmar should soon be in position to fully meet its obligations under Article VIII. Work is in progress to remove the last remaining exchange restriction as well as the MCP. The authorities did not request and staff does not recommend approval of the exchange restriction and MCP maintained inconsistently with Myanmar's Article VIII obligations.

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

Box 1. External Sector Assessment

The kyat real effective exchange rate (REER) depreciated by about 6 percent in the year to August 2017, and more than 13 percent since mid-2016, primarily driven by the depreciation of the nominal exchange rate against the U.S. dollar. This has reversed the trend of REER appreciation during 2015–16. The nominal effective exchange rate depreciated by about 3.6 percent since the beginning of 2017.

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



Sources: Authorities' data; and IMF staff calculations.

The external position is broadly consistent with medium-term fundamentals and desirable policy settings. Reflecting stronger exports and a lower account current deficit, the Current Account (CA) approach of EBA suggests a real exchange rate gap of -2.6 percent and a modest undervaluation, which is substantially lower than the near 6 percent gap and overvaluation in last years' assessment. The two other models—the REER and external sustainability approaches—suggest an overvaluation. However, a lower weight is attached to these approaches for EMDEs and the degree of overvaluation suggested by these two models have also substantially fallen and are within the uncertainty bands.

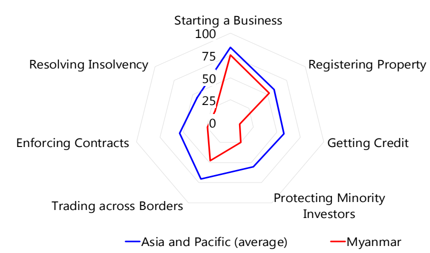
Table 1. Current Account and Real Exchange Rate
(In percent of GDP)

	CA approach	REER approach	ES approach
CA Actual	-5.3%		
Cyclically adjusted CA Norm	-5.5%		
CA Gap	0.5%		
Of which: Policy Gap	2.1%	-4.7%	
Real Exchange Rate Gap	***-2.6%***	***8.1%***	***4.0%***

Source: IMF staff estimates.

Competitiveness needs to be strengthened to ensure external balance and adequate reserves in the medium term. The World Bank's Doing Business Indicators show that Myanmar ranks behind its regional peers in the ease of enforcing contract, getting credit and trading across borders. Indeed, the country performs poorly in most areas in the life cycle of a business. Other business surveys also suggest that despite low wages, weak domestic supply chains and poor access to electricity, transport services and affordable financing and corruption are the major impediments to investment. At end-December 2017, the CBM's gross foreign reserves stood at US$5.2 billion and covered about 2.9 months of prospective imports (well below the estimated adequate level of 5-6 months of imports). [1] Reserves were equivalent to 10.5 percent of broad money. Inadequate reserves highlight the importance of maintaining a flexible exchange rate to absorb external shocks and taking opportunities to build a reserve buffer, including through concessional external financing, while working to improve competitiveness.

Doing Business Indicators, 2018
(Distance to frontier score, higher implies a more favorable environment)



Source: World Bank Group, Doing Business 2018.

Reserves Adequacy in 2016

	Myanmar	Asian LICs	LICs
Reserves/Broad money (in percent)	10.6	41.7	40.1
Reserves/Prospective GNFS imports (in month)	2.9	5.9	4.3

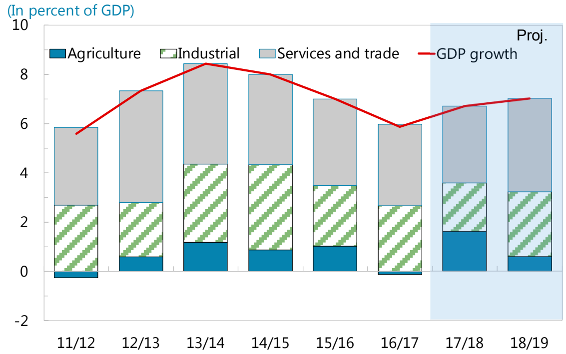
Source: IMF staff calucations.

[1] This estimate is based on the method set out in IMF Board Paper SM/14/334; also see CR 17/30.

Figure 1. Myanmar: Macroeconomic Developments

Growth is rebounding from the slowdown in 2016/17, supported by agriculture…

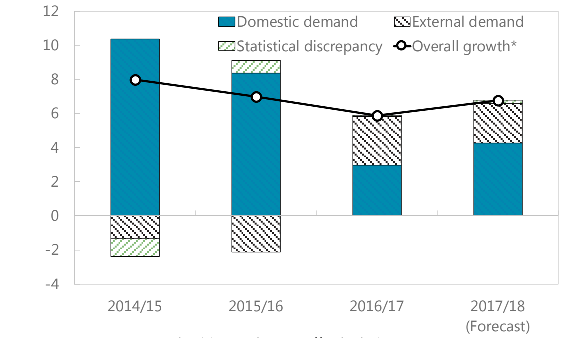
GDP Growth
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

…and external demand.

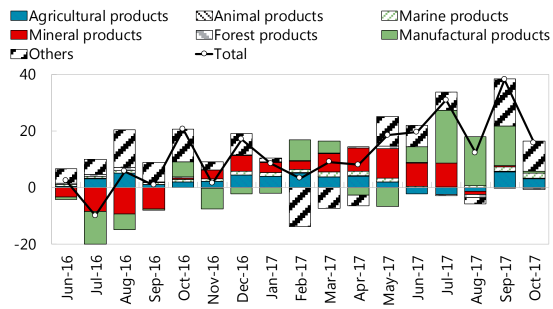
Contribution to Real GDP
(Year-on-year growth)



Sources: Myanmar authorities; and IMF staff calculations.

Exports of manufactured goods performed strongly, while gas exports suffered from a lagged price effect…

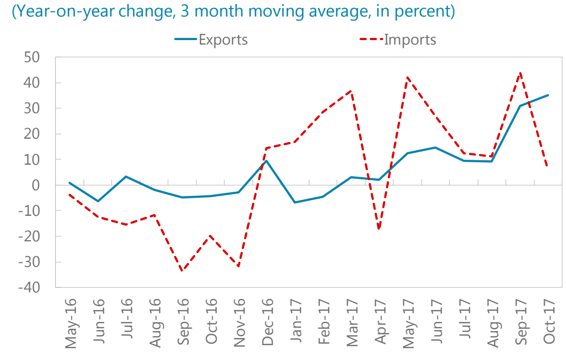
Goods Exports 1/
(Percent; y/y; and three-month moving average)



1/ Based on the U.S. dollar.
Sources: Myanmar authorities; and IMF staff calculations.

…and real exports rebounded strongly in 2017.

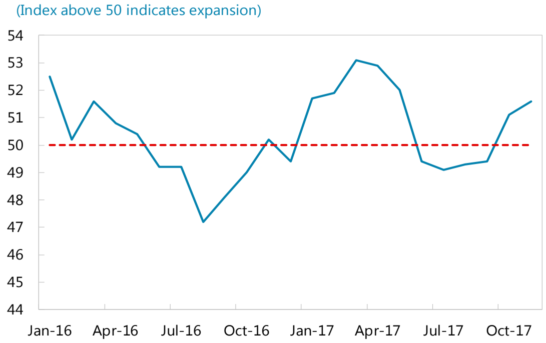
Real Imports and Exports
(Year-on-year change, 3 month moving average, in percent)



Sources: Myanmar authorities; and IMF staff calculations.

Survey data signaled a return to expansion in the manufacturing sector in late 2017.

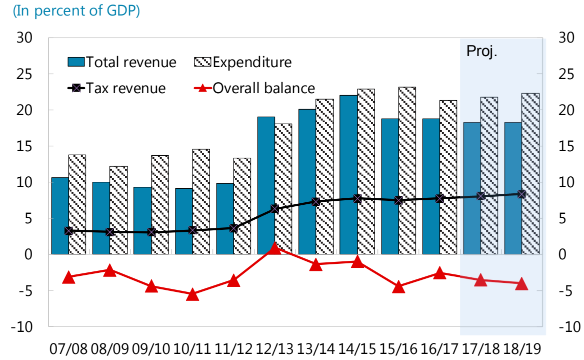
Nikkei Purchasing Managers' Index
(Index above 50 indicates expansion)



Source: IHS Markit.

However, the recovery is weaker than previously expected, consistent with the low 2016/17 fiscal deficit.

Fiscal Revenue and Expenditure
(In percent of GDP)

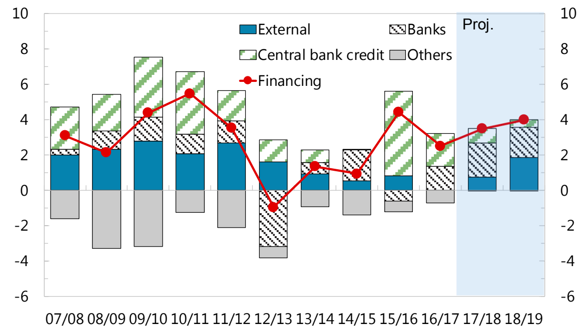


Sources: Myanmar authorities; and IMF staff estimates.

Figure 2. Myanmar: Macro-Structural Developments

The level of CBM financing fell, due to the lower financing need…

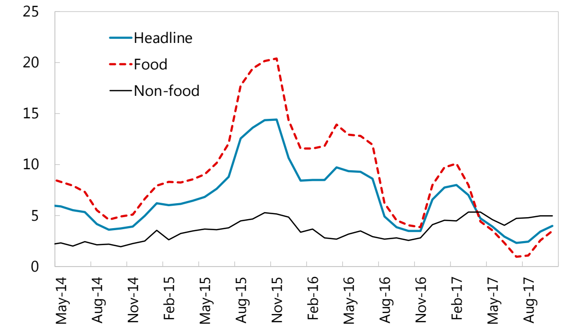
Fiscal Financing
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

…contributing to lower reserve money growth and inflation, which also reflected supply side factors.

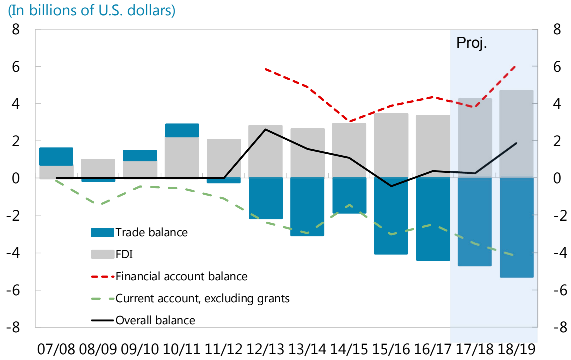
Inflation
(In percent change y/y)



Sources: Myanmar authorities; and IMF staff estimates.

Import demand continues to drive current account deficits, financed by FDI and other inflows…

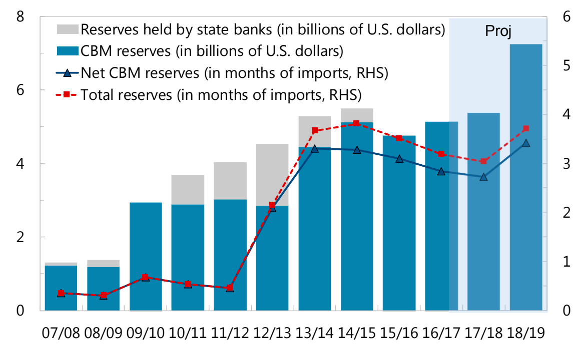
Balance of Payments
(In billions of U.S. dollars)



Sources: Myanmar authorities; and IMF staff estimates.

…but these inflows are insufficient to allow CBM to accumulate international reserves in the short run.

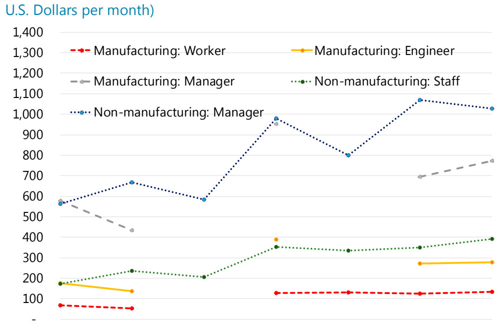
Total and Net CBM Reserves



Sources: Myanmar authorities; and IMF staff estimates.

Following the experience of 2015, the proposed minimum wage increase is likely to leave aggregate private sector wages broadly unchanged.

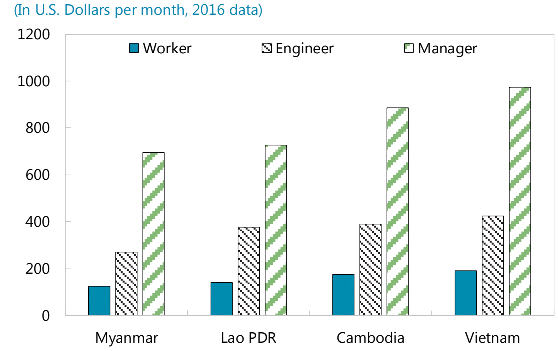
Wage Dynamics 2011–2017
(In U.S. Dollars per month)



Source: JETRO Survey.

Myanmar's wage costs remain competitive.

Manufacturing: Wage Comparison in CLMV
(In U.S. Dollars per month, 2016 data)

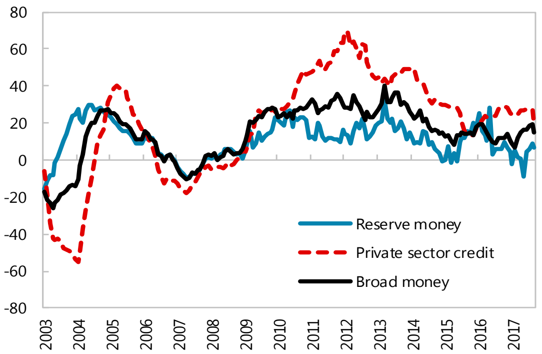


Source: JETRO Survey.

Figure 3. Myanmar: Macrofinancial Developments

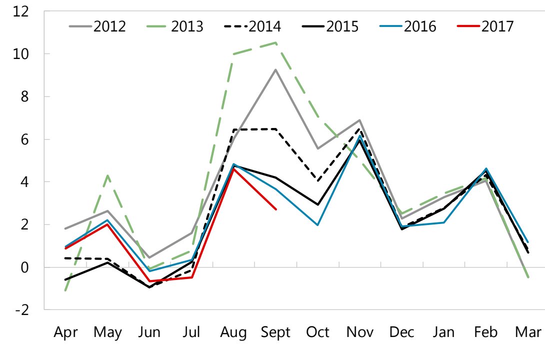
Strong money and credit growth have added to credit risks.

Reserve and Broad Money, and Private Sector Credit
(Y/y percent change, inflation-adjusted)



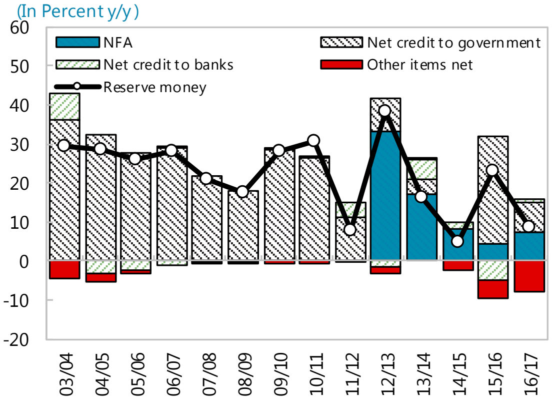
Credit continues to grow at a strong pace, but the growth is slowing.

Private Sector Credit Growth
(In percent, month-on-month)



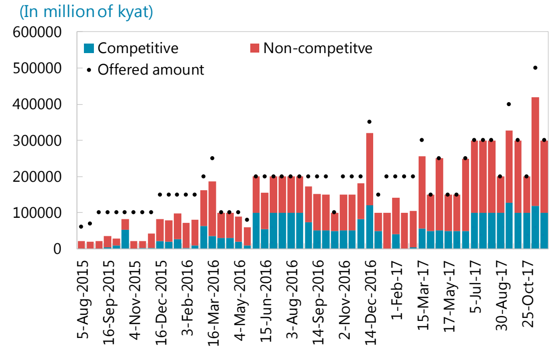
Reserve money growth fell due to the decline in the fiscal deficit and lower CBM financing…

Reserve Money Growth
(In Percent y/y)



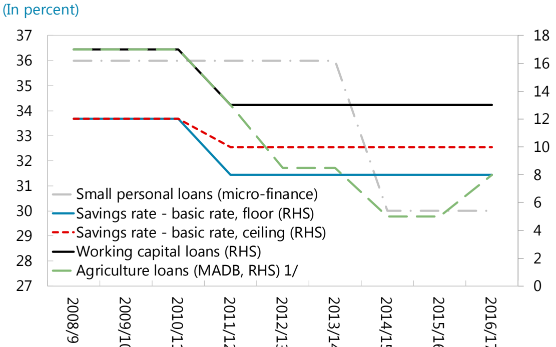
…but under-subscribed securities auctions caused CBM financing to be above expectation.

Myanmar: T-bill Auctions (Issued vs. Offer)
(In million of kyat)



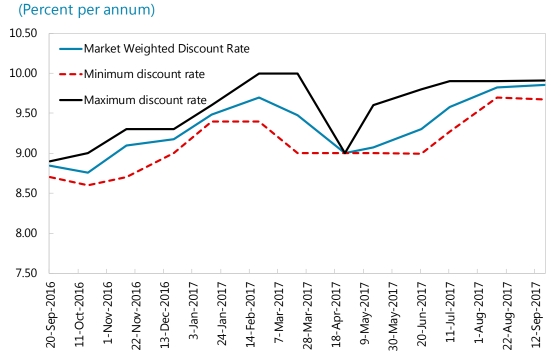
Retail bank rates remain at fixed levels…

Retail Saving and Lending Interest Rates
(In percent)



…despite rising Treasury bond yields.

Discount Rate (Bond Auction)
(Percent per annum)

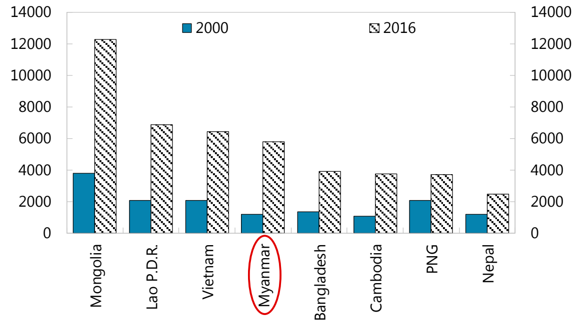


Sources: Myanmar authorities; and IMF staff calculations.

Figure 4. Myanmar: Progress Towards Sustainable Development Goals

Strong growth has helped to increase per capita GDP…

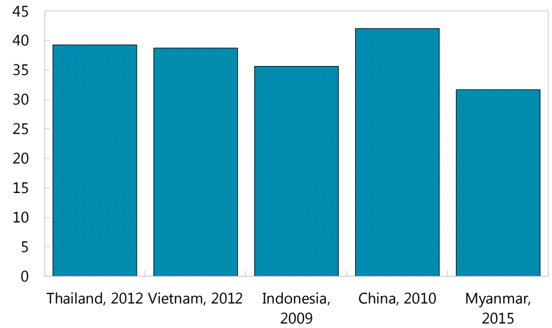
Per Capita GDP (PPP)
(In U.S. dollars)



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

…and income inequality is comparable to peer countries at similar stages of development.

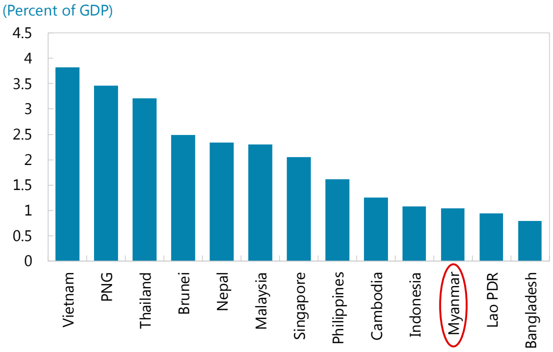
Income Inequality
(Gini coefficents)



Sources: World Bank.

However, expenditure on healthcare is lagging….

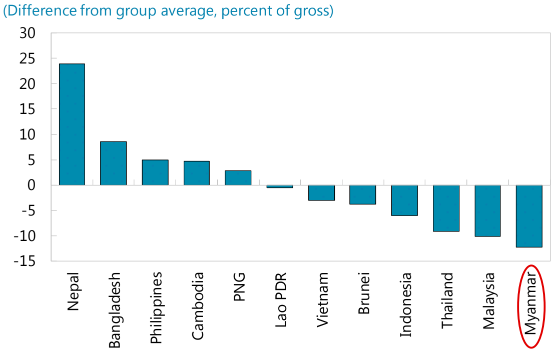
Public Expenditure on Healthcare
(Percent of GDP)



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

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

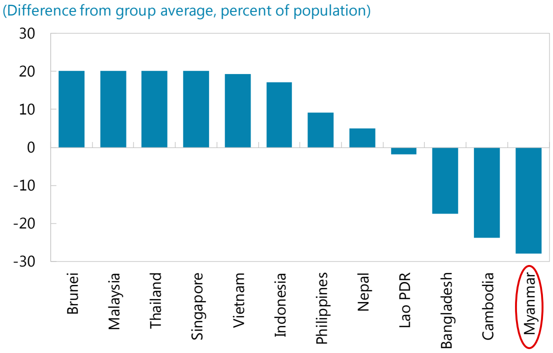
Primary School Enrollment
(Difference from group average, percent of gross)



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

…and infrastructure.

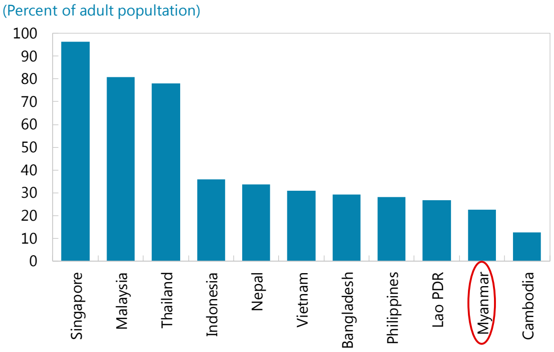
Access to Electricity
(Difference from group average, percent of population)



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

Access to the formal financial system remains low.

Access to Bank Account
(Percent of adult popultation)



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

Table 1. Myanmar: Selected Economic Indicators, 2013/14–2019/20 1/

	2013/14	2014/15	2015/16 Est.	2016/17 Est.	2017/18 Proj.	2018 Proj.	2018/19 Proj.	2019/20 Proj.
Output and prices			(Percent change)					
Real GDP 2/	8.4	8.0	7.0	5.9	6.7	6.4	7.0	7.2
CPI (end-period; base year from 2014/15=2012)	6.3	6.1	8.4	7.0	5.5	5.9	6.1	6.3
CPI (period average; base year from 2014/15=2012)	5.7	5.1	10.0	6.8	5.1	5.6	5.8	6.2
Consolidated public sector 3/			(In percent of GDP)					
Total revenue	20.1	22.0	18.7	18.8	18.2	17.4	18.3	18.3
Union government	10.0	12.1	10.9	10.7	10.7	10.1	10.6	10.7
Of which : Tax revenue	7.3	7.8	7.5	7.8	8.1	7.8	8.4	8.7
SEE receipts	9.7	9.5	7.4	7.7	7.0	6.7	7.0	6.9
Grants	0.3	0.3	0.4	0.4	0.6	0.6	0.6	0.6
Total expenditure	21.4	22.9	23.2	21.3	21.7	21.3	22.3	22.4
Expense	13.8	16.1	17.1	16.5	16.2	15.9	16.4	16.5
Net acquisition of nonfinancial assets	7.6	6.8	6.1	4.8	5.5	5.4	5.9	5.9
Gross operating balance	6.3	5.9	1.7	2.3	2.1	1.6	1.9	1.8
Net lending (+)/borrowing (-)	-1.3	-0.9	-4.4	-2.5	-3.5	-3.9	-4.0	-4.1
Underlying net lending (+)/borrowing (-) 4/	-1.7	-3.1	-5.6	-3.7	-4.4	-4.7	-4.7	-4.7
Domestic public debt	16.2	16.0	18.6	20.1	20.3	20.1	19.9	20.2
Money and credit			(Percent change)					
Reserve money	16.3	4.6	22.8	8.8	11.9	13.1	13.2	13.5
Broad money	31.7	17.6	26.3	19.4	16.5	18.4	18.4	20.0
Domestic credit	24.6	22.9	31.4	25.5	21.2	20.7	18.7	20.9
Private sector	52.5	36.5	34.3	33.8	26.2	25.2	24.2	24.0
Balance of payments			(In percent of GDP)					
Current account balance	-4.9	-2.2	-5.1	-3.9	-5.3	-5.4	-5.6	-5.9
Trade balance	-5.1	-2.8	-6.8	-6.9	-7.1	-7.0	-7.1	-7.2
Financial account	8.2	4.6	6.5	6.9	5.7	7.6	8.1	7.4
Foreign direct investment, net 5/	4.4	4.4	5.8	5.3	6.3	6.3	6.2	6.2
Overall balance	2.6	1.6	-0.7	0.6	0.4	2.2	2.5	1.5
CBM reserves (gross)								
In millions of U.S. dollars	4,444	5,125	4,764	5,134	5,370	6,307	7,244	8,528
In months of prospective GNFS imports	3.7	3.8	3.5	3.2	3.0	3.2	3.7	3.9
Total external debt (billions of U.S. dollars)	10.2	8.8	9.5	9.1	9.6	11.0	11.0	12.0
Total external debt (percent of GDP)	17.0	13.5	16.0	14.5	14.5	14.5	14.7	14.5
Exchange rates (kyat/$, end of period)								
Official exchange rate	965.0	1,027.0	1,216.0	1,362.0	...		...	...
Parallel rate	964.7	1,085.5	1,200.5	1,357.0	...		...	...
Memorandum items:								
GDP (billions of kyats)	58,012	65,262	72,714	79,722	90,269	32,933	103,095	118,221
GDP (billions of US$)	60.1	65.6	59.5	63.3	66.5	24.1	75.0	83.0
GDP per capita (US$)	1,179.6	1,275.3	1,147.3	1,210.5	1,263.9	1,339.0	1,414.1	1,555.3

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. The six month transition period from April 1, 2018 to September 30, 2018 is shown in the column headed 2018.

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

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

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

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

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2013/14–2019/20 1/

(Consolidated accounts)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018	2018/19	2019/20
	Act.		Act.	Act.	Proj.	Proj.	Proj.	Proj.
				(In billions of kyat)				
Revenue and grants	11,660	14,340	13,620	15,000	16,457	5,743	18,833	21,618
Tax revenue	4,236	5,076	5,442	6,188	7,278	2,556	8,621	10,241
Private sector	3,221	3,681	4,410	5,465	6,429	2,294	7,602	9,071
SEEs	1,015	1,395	1,032	724	849	262	1,019	1,169
Profit transfers (from SEEs to Union Gvt.)	746	538	819	595	632	248	793	927
SEE receipts (excluding contributions to Union Gvt. and grants) 2/	5,652	6,199	5,378	6,156	6,278	2,222	7,256	8,184
Other nontax revenue 3/	880	2,323	1,685	1,769	1,728	519	1,545	1,557
Grants	146	204	295	292	542	198	619	709
Expenditure	12,441	14,952	16,834	17,006	19,609	7,021	22,947	26,467
Expense	8,006	10,503	12,419	13,155	14,604	5,228	16,871	19,500
Net acquisition of nonfinancial assets	4,435	4,449	4,415	3,852	5,004	1,793	6,076	6,968
Deficit	-781	-612	-3,214	-2,006	-3,151	-1,278	-4,114	-4,850
Financing	1,348	1,471	3,910	2,603	3,151	1,278	4,114	4,850
Domestic	806	1,116	3,311	2,588	2,482	870	2,181	3,439
CBM	408	21	3,486	1,471	745	261	436	344
CBM as percent of domestic financing				*57*	*30*	*30*	*20*	*10*
External (net)	542	355	599	15	669	409	1,933	1,411
				(In percent of GDP)				
Revenue and grants	20.1	22.0	18.7	18.8	18.2	17.4	18.3	18.3
Tax revenue	7.3	7.8	7.5	7.8	8.1	7.8	8.4	8.7
Private sector	5.6	5.6	6.1	6.9	7.1	7.0	7.4	7.7
SEEs	1.8	2.1	1.4	0.9	0.9	0.8	1.0	1.0
Profit transfers (from SEEs to Union Gvt.)	1.3	0.8	1.1	0.7	0.7	0.8	0.8	0.8
SEE receipts (excluding contributions to Union Gvt. and grants) 2/	9.7	9.5	7.4	7.7	7.0	6.7	7.0	6.9
Other nontax revenue 3/	1.5	3.6	2.3	2.2	1.9	1.6	1.5	1.3
Grants	0.3	0.3	0.4	0.4	0.6	0.6	0.6	0.6
Expenditure	21.4	22.9	23.2	21.3	21.7	21.3	22.3	22.4
Expense	13.8	16.1	17.1	16.5	16.2	15.9	16.4	16.5
Union Government	7.4	9.4	10.6	10.7	10.5	10.3	10.8	11.1
SEEs (before contributions to Union Gvt.) 2/	6.4	6.7	6.5	5.8	5.7	5.6	5.6	5.4
Net acquisition of nonfinancial assets	7.6	6.8	6.1	4.8	5.5	5.4	5.9	5.9
Union Government	5.7	5.3	4.8	3.9	4.4	4.4	4.7	4.8
SEEs	2.0	1.5	1.3	0.9	1.1	1.0	1.2	1.1
Deficit	-1.3	-0.9	-4.4	-2.5	-3.5	-3.9	-4.0	-4.1
Financing	2.3	2.3	5.4	3.3	3.5	3.9	4.0	4.1
Domestic (net)	1.4	1.7	4.6	3.2	2.7	2.6	2.1	2.9
CBM	0.7	0.0	4.8	1.8	0.8	0.8	0.4	0.3
External (net)	0.9	0.5	0.8	0.0	0.7	1.2	1.9	1.2
Memorandum items:				(In percent of GDP, unless otherwise indicated)				
Primary balance	0.0	0.4	-3.2	-1.1	-2.2	-3.9	-2.5	-2.5
Underlying deficit 4/	-1.7	-3.1	-5.6	-3.7	-4.4	-4.7	-4.7	-4.7
Economic breakdown of Union Gvt. expenditure 5/	13.1	14.6	15.3	14.6	14.9	14.7	15.5	15.8
Expenses	7.4	9.4	10.6	10.7	10.5	10.3	10.8	11.1
Wages and salaries 6/	2.6	2.6	3.0	3.2	2.9	2.9	2.9	2.9
Contributions 7/	1.0	2.6	2.7	2.7	2.6	2.6	2.7	2.8
Other expenditures	3.8	4.1	4.9	4.9	5.0	4.8	5.1	5.4
Net acquisition of nonfinancial assets	5.7	5.3	4.8	3.9	4.4	4.4	4.7	4.8
Functional breakdown of Union Gvt. expenditure 5/	13.1	14.6	15.3	14.6	14.9	14.7	15.5	15.8
Economic services	2.3	2.3	2.2	2.9	2.4	0.0	2.4	2.4
Social services	3.3	3.5	4.0	4.1	3.9	3.6	4.1	4.4
Of which: education	1.7	1.9	2.1	2.1	1.9	1.6	2.0	2.2
Of which: health	1.1	1.1	1.1	1.1	1.2	1.2	1.3	1.4
Defense	3.8	3.8	4.3	3.7	3.2	3.2	2.9	2.8
Interest, subsidies and transfers, reserve fund	2.3	3.9	4.0	4.2	4.0	4.3	4.4	4.6
Other expenditures	1.3	1.1	0.9	-0.3	1.4	3.6	1.6	1.7
Public debt	33.2	29.5	34.6	34.6	34.8	34.6	34.6	34.7
Of which: held by CBM	15.0	13.4	16.8	17.2	16.0	15.2	14.4	12.9
Of which: other and external	18.2	16.1	17.8	17.4	18.8	19.4	20.2	21.9
Domestic public debt	16.2	16.0	18.6	20.1	20.3	20.1	19.9	20.2
External public debt	17.0	13.5	16.0	14.5	14.5	14.5	14.7	14.5
GDP (in billions of kyat)	58,012	65,262	72,714	79,722	90,269	32,933	103,095	118,221

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. The six month transition period from April 1, 2018 to September 30, 2018 is shown in the column headed 2018.

2/ State economic enterprises' (SEEs) contributions comprise profit transfers, income and commercial taxes paid to the Union Government (UG).

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

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

5/ Data on a comparable breakdown for SEEs is not available.

6/ Excludes defense wages and salaries.

7/ Includes mostly grants to subnational governments.

Table 3. Myanmar: Balance of Payments, 2013/14–2019/20 1/

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19A	2018/19	2019/20
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.
			(In millions of U.S. dollars)					
Current account	-2,936	-1,419	-3,010	-2,475	-3,532	-1,311	-4,207	-4,869
Trade balance	-3,053	-1,859	-4,048	-4,394	-4,695	-1,696	-5,318	-5,963
Exports	11,264	10,385	9,498	9,471	10,766	3,906	12,155	13,368
Imports	-14,317	-12,244	-13,546	-13,865	-15,461	-5,602	-17,473	-19,331
Nonfactor services, net	193	1,300	1,078	1,315	1,331	482	1,487	1,635
Income, net	-1,475	-3,154	-2,527	-2,191	-2,994	-1,085	-3,374	-3,715
Of which: Interest due	-220	-391	-363	-335	-350	118	-355	-360
Transfers, net	1,400	2,293	2,488	2,795	2,826	989	2,998	3,174
Official	205	210	384	368	399	145	450	498
Private	1,195	2,083	2,104	2,427	2,427	844	2,548	2,676
Capital and financial account	4,901	3,028	3,886	4,369	3,768	1,831	6,081	6,153
Direct investment, net	2,621	2,916	3,443	3,360	4,225	1,531	4,675	5,162
Other investment	556	260	266	-445	493	299	1,406	991
MLT debt disbursements	761	539	786	366	922	455	1,872	1,552
Repayments due	-206	-225	-344	-401	-428	-155	-466	-561
Other flows	1,724	-148	177	1,454	-950	0	0	0
Errors and omissions	-381	-527	-1,296	-1,515	0	0	0	0
Overall balance	1,584	1,081	-419	379	236	521	1,874	1,284
Change in gross official reserves (increase: -)	-1,584	-1,081	361	-370	-236	-521	-1,874	-1,284
			(In percent of GDP)					
Current account	-4.9	-2.2	-5.1	-3.9	-5.3	-5.4	-5.6	-5.9
Trade balance	-5.1	-2.8	-6.8	-6.9	-7.1	-7.0	-7.1	-7.2
Exports, fob	18.7	15.8	16.0	15.0	16.2	16.2	16.2	16.1
Of which: Gas	5.5	5.7	4.2	2.3	2.5	2.4	2.3	2.1
Imports	-23.8	-18.7	-22.8	-21.9	-23.2	-23.2	-23.3	-23.3
Nonfactor services, net	0.3	2.0	1.8	2.1	2.0	2.0	2.0	2.0
Income, net	-2.5	-4.8	-4.2	-3.5	-4.5	-4.5	-4.5	-4.5
Of which: Interest due	-0.4	-0.6	-0.6	-0.5	-0.5	0.5	-0.5	-0.4
Transfers, net	2.3	3.5	4.2	4.4	4.2	4.1	4.0	3.8
Official	0.3	0.3	0.6	0.6	0.6	0.6	0.6	0.6
Private	2.0	3.2	3.5	3.8	3.6	3.5	3.4	3.2
Capital and financial account	8.2	4.6	6.5	6.9	5.7	7.6	8.1	7.4
Direct investment, net 2/	4.4	4.4	5.8	5.3	6.3	6.3	6.2	6.2
Other investment	0.9	0.4	0.4	-0.7	0.7		1.9	1.2
MLT debt disbursements	1.3	0.8	1.3	0.6	1.4	1.9	2.5	1.9
Repayments due	-0.3	-0.3	-0.6	-0.6	-0.6	-0.6	-0.6	-0.7
Other flows	2.9	-0.2	0.3	2.3	-1.4	0.0	0.0	0.0
Errors and omissions	-0.6	-0.8	-2.2	-2.4	0.0	0.0	0.0	0.0
Overall balance	2.6	1.6	-0.7	0.6	0.4	2.2	2.5	1.5
Change in gross official reserves (increase: -)	-2.6	-1.6	0.6	-0.6	-0.4	-2.2	-2.5	-1.5
Memorandum items:								
Gross CBM reserves (US$ millions)	4,444	5,125	4,764	5,134	5,370	6,307	7,244	8,528
In months of prospective GNFS imports	3.7	3.8	3.5	3.2	3.0	3.2	3.7	3.9
Gas export volume (percent change)	-6.7	25.4	2.6	-14.7	0.0	0.0	0.0	0.0
Other exports volume (percent change)	21.3	13.7	6.3	10.0	10.8	0.0	12.9	10.1
Import volume (percent change)	17.3	-13.7	14.0	6.1	10.0	5.0	11.8	9.2
Public external debt (in percent of GDP)	17.0	13.5	16.0	14.5	14.5	0.0	14.7	15
External debt service due (in percent of GNFS exports)	3	3	4	5	4	4	4	4
Official exchange rate (kyat/US$, eop)	965	1,027	1,216	..	..			

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. The six month transition period from April 1, 2018 to September 30, 2018 is shown in the column headed 2018.

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

Table 4. Myanmar: Monetary Survey, 2013/14–2020/21 1/2/

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

	2013/14	2014/15	2015/16	2016/17	2017/18 Proj.	2018 Proj.	2018/19	2019/20	2020/21
CENTRAL BANK OF MYANMAR									
Net foreign assets	3,127	4,861	5,374	6,550	6,531	6,759	8,117	9,384	10,698
Foreign assets	4,289	5,276	5,847	7,016	7,012	7,235	8,610	9,895	11,227
Foreign liabilities	1,162	415	473	466	480	477	493	511	530
Net domestic assets	9,036	7,864	10,258	10,451	12,497	11,972	13,084	14,679	16,614
Net domestic credit	9,635	9,011	12,618	13,878	15,800	15,399	16,511	18,106	20,041
Net claims on central government	8,726	8,747	12,233	13,704	14,449	13,844	14,280	14,624	14,624
Net claims on deposit money banks	909	263	385	174	1,351	1,556	2,231	3,483	5,417
Other items net	-599	-1,147	-2,361	-3,427	-3,303	-3,427	-3,427	-3,427	-3,427
Reserve Money	12,163	12,725	15,632	17,001	19,028	18,731	21,201	24,063	27,312
Currency in circulation	8,965	10,202	11,771	13,064	14,088	13,588	15,379	17,456	19,812
ODC liabilities	3,199	2,523	3,861	3,938	4,941	5,143	5,822	6,607	7,499
Transferrable deposits	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
MONETARY SURVEY									
Net foreign assets	6,629	8,011	9,263	9,281	9,587	10,102	11,735	13,532	15,455
Foreign assets	10,820	11,511	13,012	12,872	13,334	14,153	16,096	18,478	21,070
Foreign liabilities	4,191	3,499	3,749	3,591	3,747	4,051	4,361	4,946	5,615
Net domestic assets	17,635	20,513	26,777	33,753	40,547	40,850	48,593	58,866	72,008
Net domestic credit	16,958	20,846	27,386	34,362	41,652	41,459	49,202	59,475	72,617
Net claims on government	9,487	10,647	13,687	16,036	18,518	18,518	20,699	24,138	28,089
CBM	8,726	8,747	12,233	13,704	14,449	13,844	14,280	14,624	14,624
Deposit money banks	761	1,900	1,453	2,535	4,069	4,675	6,419	9,514	13,466
Net credit to the economy	7,471	10,199	13,699	18,326	23,134	22,941	28,502	35,337	44,528
Other items net	677	-333	-609	-609	-1,105	-609	-609	-609	-609
Broad money	24,264	28,524	36,040	43,034	50,135	50,952	60,327	72,398	87,463
Narrow money	10,991	12,574	14,819	15,799	18,104	18,399	21,785	26,144	31,584
Currency in circulation	7,967	8,605	10,157	10,920	12,437	12,312	14,577	17,494	21,134
Transferrable Deposits	3,024	3,969	4,662	4,880	5,668	6,088	7,208	8,650	10,450
Other deposits	13,273	15,951	21,221	27,235	32,030	32,553	38,542	46,255	55,879
MEMORANDUM ITEMS									
Money multiplier	2.0	2.2	2.3	2.5	2.6	2.7	2.8	3.0	3.2
Velocity	2.4	2.3	2.0	1.8	1.8	1.9	1.7	1.6	1.5
Reserve money (y/y percent change)	16.3	4.6	22.8	8.8	11.9	13.1	13.2	13.5	13.5
Broad money (y/y percent change)	31.7	17.6	26.3	19.4	16.5	18.4	18.4	20.0	20.8
Credit to private sector (y/y percent change)	52.5	36.5	34.3	33.8	26.2	25.2	24.2	24.0	26.0
Net credit to central govt. (y/y percent change	8.9	12.2	28.5	17.2	15.5	15.5	11.8	16.6	16.4
Credit growth (y/y percent change)	24.6	22.9	31.4	25.5	21.2	20.7	18.7	20.9	22.1
Deposits (y/y percent change)	38.9	22.2	29.9	24.1	17.4	20.3	18.4	20.0	20.8
Reserve money (in percent of GDP)	21.0	19.5	21.5	21.3	21.9	19.7	20.6	20.4	20.1
Broad money (in percent of GDP)	41.8	43.7	49.6	54.0	57.6	53.5	58.5	61.2	64.5
Credit to private sector (in percent of GDP)	12.9	15.6	18.8	23.0	26.6	24.1	27.6	29.9	32.8
Credit to central government (in percent of GD	16.4	16.3	18.8	20.1	21.3	19.4	20.1	20.4	20.7
Deposits (in percent of GDP)	28.1	30.5	35.6	40.3	41.8	40.6	44.4	46.4	48.9
Credit to economy/deposits (in percent)	45.8	51.2	52.9	57.1	61.4	59.4	62.3	64.4	67.1
Nominal GDP (in billions of kyat)	58,012	65,262	72,714	79,722	90,269	95,277	103,095	118,221	135,560

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. The six month transition period is from April 1, 2018 to September 30, 2018. The column headed 2018 shows data for September 2018.

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 2013/14–2022/23 1/

	2013/14	2014/15	2015/16	2016/17	2017/18	2018	2018/19	2019/20	2020/21	2021/22	2022/23
			Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices					(Percent change)						
Real GDP (staff working estimates)	8.4	8.0	7.0	5.9	6.7	6.4	7.0	7.2	7.3	7.4	7.5
CPI (end-period; base year=2012)		6.1	8.4	7.0	5.5	5.9	6.1	6.3	6.2	6.0	5.8
CPI (period average; base year=2012)		5.1	10.0	6.8	5.1	5.6	5.8	6.2	6.1	6.0	5.7
Consolidated public sector 3/					(In percent of GDP)						
Total revenue	20.1	22.0	18.7	18.8	18.2	17.4	18.3	18.3	17.8	17.8	18.0
Union government	10.0	12.1	10.9	10.7	10.7	10.1	10.6	10.7	10.3	10.4	10.5
Of which : Transfers from SEEs to Union government	1.3	0.8	1.1	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Of which : Tax revenue	7.3	7.8	7.5	7.8	8.1	7.8	8.4	8.7	8.8	8.9	9.1
SEE receipts	9.7	9.5	7.4	7.7	7.0	6.7	7.0	6.9	6.9	6.9	6.9
Grants	0.3	0.3	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Total expenditure	21.4	22.9	23.2	21.3	21.7	21.3	22.3	22.4	21.9	21.9	22.1
Expense	13.8	16.1	17.1	16.5	16.2	15.9	16.4	16.5	15.9	15.9	16.1
Net acquisition of nonfinancial assets	7.6	6.8	6.1	4.8	5.5	5.4	5.9	5.9	5.9	6.0	6.1
Gross operating balance	6.3	5.9	1.7	2.3	2.1	1.6	1.9	1.8	1.8	1.9	1.9
Net lending (+)/borrowing (-)	-1.3	-0.9	-4.4	-2.5	-3.5	-3.9	-4.0	-4.1	-4.1	-4.1	-4.2
Underlying net lending (+)/borrowing (-) 4/	-1.7	-3.1	-5.6	-3.7	-4.4	-4.7	-4.7	-4.7	-4.1	-4.1	-4.2
Domestic public debt	16.2	16.0	18.6	20.1	20.3	20.3	19.9	20.2	20.6	20.8	21.1
Money and credit					(Percent change)						
Reserve money	16.3	4.6	22.8	8.8	11.9	13.1	13.2	13.5	13.5	13.5	13.5
Broad money	31.7	17.6	26.3	19.4	16.5	18.4	18.4	20.0	20.8	20.9	20.8
Domestic credit	24.6	22.9	31.4	25.5	21.2	20.7	18.7	20.9	22.1	22.3	22.1
Private sector	52.5	36.5	34.3	33.8	26.2	25.2	24.2	24.0	26.0	26.5	25.7
Balance of payments					(In percent of GDP, unless otherwise indicated)						
Current account balance	-4.9	-2.2	-5.1	-3.9	-5.3	-5.4	-5.6	-5.9	-6.0	-5.9	-5.8
Trade balance	-5.1	-2.8	-6.8	-6.9	-7.1	-7.0	-7.1	-7.2	-7.1	-6.9	-6.7
Exports	18.7	15.8	16.0	15.0	16.2	16.2	16.2	16.1	16.3	16.4	16.5
Gas exports	5.5	5.7	4.2	2.3	2.5	2.4	2.3	2.1	1.9	1.9	1.9
Imports	-23.8	-18.7	-22.8	-21.9	-23.2	-23.2	-23.3	-23.3	-23.4	-23.3	-23.2
Financial account	8.2	4.6	6.5	6.9	5.7	7.6	8.1	7.4	7.2	7.2	7.1
Foreign direct investment, net 5/	4.4	4.4	5.8	5.3	6.3	6.3	6.2	6.2	6.0	5.9	5.8
Overall balance	2.6	1.6	-0.7	0.6	0.4	2.2	2.5	1.5	1.3	1.3	1.3
CBM reserves (gross)											
In millions of U.S. dollars	4,444	5,125	4,764	5,134	5,370	6,307	7,244	8,528	9,681	11,014	12,424
In months of total imports	3.7	3.8	3.5	3.2	3.0	3.2	3.7	3.9	4.0	4.1	4.2
External debt											
Total external debt (billions of U.S. dollars)	10.2	8.8	9.5	9.1	9.6	11.0	11.0	12.0	13.2	14.5	15.9
(In percent of GDP)	17.0	13.5	16.0	14.5	14.5	14.5	14.7	14.5	14.3	14.2	14.2
Exchange rates (kyat/$, end of period)											
Official exchange rate	965	1,027	1,216	1,362	...		...	...	...	...	...
Parallel rate	965	1,086	1,201	1,357	...		...	...	...	...	...
Memorandum items:											
GDP (billions of kyats)	58,012	65,262	72,714	79,722	90,269	32,933	103,095	118,221	135,560	155,306	177,154
GDP (billions of US$)	60.1	65.6	59.5	63.3	66.5	24.1	75.0	83.0	91.9	101.6	112.0
GDP per capita (US$)	1,180	1,275	1,147	1,210	1,264	1,339	1,414	1,555	1,710	1,880	2,061

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

1/ The fiscal year is from April 1 to March 31, up to 2017/18. From 2018/19 onwards the fiscal year is from October 1 to September 30. The six month transition period from April 1, 2018 to September 30, 2018 is shown in the column headed 2018.

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

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

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

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

Table 6. Myanmar: Financial Soundness Indicators, 2016 1/

(In percent)

1. Regulatory Capital to Risk-Weighted Assets	10.8
2. Regulatory Tier 1 Capital to Risk-Weighted Assets	9.2
3. Nonperforming Loans Net of Provisions to Capital	...
4. Nonperforming Loans to Total Gross Loans	...
5. Sectoral Distribution of Loans (Resident)	100.0
6. Return on Assets	0.4
7. Return on Equity	6.0
8. Interest Margin on Gross Income	53.5
9. Noninterest Expenses to Gross Income	71.7
10. Liquid Assets to Total Assets (Liquid Asset Ratio)	42.6
11. Liquid Assets to Short-Term Liabilities	60.6
12. Net Open Position in Foreign Exchange to Capital	...

Sources: Myanmar authorities' data; and IMF staff calculations.

1/ Banking system FSIs available at http://data.imf.org. Aggregate FSIs may not reflect risks that exist in sections of the banking system. Some accounting practices may be non-standard.

Appendix I. Key Policy Recommendations from the 2016 Article IV Consultation

Policy advice	Implementation status
Monetary and exchange rate policies	
Objective: Keep inflation in check and maintain exchange rate flexibility.	
Mop up excess liquidity by scaling up deposit auctions.	Good progress, deposit auctions were increased and liquidity has been reduced. The next step will be to address uneven distribution of liquidity.
Enforce the recalibrated reserve requirements.	Banks are in compliance.
Phase out CBM financing of the deficit.	Although the authorities exceeded their target ceiling in 2016/17, the proportion of domestic financing provided by the CBM has declined.
Allow the interest rate at T-bill auctions to rise.	Progress made, with more flexible rates and extended T-bill maturity. Foreign banks are allowed to participate in treasury auctions. However, interest rate flexibility remains insufficient and auctions have been under-subscribed.
Ensure exchange rate flexibility to mitigate impacts of external shocks. If the FX auction can no longer be used for price discovery, explore an alternative mechanism for setting the official exchange rate based on market transactions.	The official exchange rate has been in line with market conditions over 2017. The FX auction is no longer being used to set the official reference rate. A new transaction-based mechanism for setting the official exchange rate is expected to be adopted soon.
Fiscal policy	
Objective: Create fiscal space to finance development needs while maintaining macroeconomic stability and debt sustainability.	
Keep the fiscal deficit below 4½ percent of GDP over the medium term.	Achieved for 2016/17.
Rationalize tax exemptions and investment incentives.	Not met.
Introduce anti-corruption measures to protect the integrity and reputation of the tax system.	In progress.
Recruit more professional staff to strengthen IRD's capacity.	In progress.
Pass the draft Tax Administration and Procedures Law.	Staff expects the bill to be passed in second half of 2018.
Scale up public education on taxation.	In progress.
Financial sector	
Objective: Maintain financial stability, and improve financial sector regulation and supervision.	
Issue and enforce bank regulations.	In progress. Issuance of key regulations in July 2017 was an important achievement.
Adopt the proposed three-year plan for bank supervision, and increase supervisory resources and training.	The CBM did not formally adopt the proposed plan, but has made progress on some significant elements. Some progress is being made on recruiting new supervisory staff, but further increases and training remains needed.
Resource the function at the CBM to develop plans for bank recovery and resolution.	In progress.
Acclerate reform of state-owned banks.	In progress.
Allow a carefully sequenced increase in lending interest rates, supported by appropriate complementary policies.	Good progress. The CBM intends to allow uncollateralized loans to SMEs at higher rates, once risk management practices are strengthened.

Source: IMF Country Report No. 17/30.

Appendix II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Transmission Channels	Expected Impact of Risk	Recommended Policy Response
(A) Domestic Risks				
Weak bank sector	High	• Possible credit crunch, if weak banks cut back on lending while adjusting to new regulations; • Fears of bank fragility could lead to bank runs/collateral fire sales/contagion; • Contingent fiscal liabilities related to recapitalization of state-owned banks or possible liquidity support; • Pressure for further exchange rate depreciation.	High	• Enforce prudential regulations in a way that supports financial stability and growth; • Strengthen supervisory capacity, including bank resolution and contingency planning; • Form a broader strategy designed to enhance the banking system's long-term role in supporting the economy and improving credit risk management.
Internal Conflict and Rakhine State crisis	High	• Weaken investor confidence; • Disrupt flow of development partner assistance; • Risk of broader economic sanctions; • Interrupt productive activities and slow economic growth; • Ethnic and religious tensions as well as social unrests delay economic reforms.	High/ Medium	• If development parnter financial assistance is disrupted, rationalize public expenditures while preservering humanitarian spending and reducing regional disparities; • Resist monetization of fiscal deficit; • Allow the exchange rate to adjust to any external financing shortfalls.
Limited institutional capacity	High	• The public sector is unable to cope with speed of reform, leading to slippages and slower-than-expected growth; • Growth effects compounded by weaker business confidence; • CBM financing of the fiscal deficit rises rapidly.	Medium / High	• Well-tailored TA programs that focus on staff training to raise institutional capacity; • Coordinate TA programs with international donors and streamline and adjust the scope of the programs, if necessary; • Further promote operational autonomy of the CBM.
Large natural disasters	Medium/ High	• Human cost; damage to infrastructure and capital; macroeconomic volatility; • Negative impact on both short-term and potential growth.	High	• Identify and explicitly integrate risks into fiscal frameworks and budget planning; • Build policy and financial buffers to enhance resilience to shocks; • Enhance preparedness and invest in infrastructure that can better cope with natural hazards.
(B) External Risks				
Tighter global financial conditions	Medium	• Depreciation pressures lead the CBM to hold the official exchange rate more appreciated than the market, widening the gap between the official and wider market rates; • Large sales of FX by CBM reduce the reserve buffer.	High	• Allow the CBM reference rate to flexibly adjust to the parallel market rates and preserve CBM reserves; • Tighten monetary and fiscal policies to support the kyat; and • Enforce NOP limits and repatriation rules in Foreign Exchange Management Law to increase FX inflows to the official FX market.
Significant China slowdown and its spillovers	Low/ Medium	• Reduced export growth and FDI inflow, since China is an important trading partner and source of FDI; • Significantly reduce growth and contribute to kyat depreciation.	Medium	• Allow greater exchange rate flexibility to absorb external shocks; • Continue with structural reforms to diversify exports and trading partners; • Improve business environment to attract more FDI from other sources.
Lower energy prices	Low	• A further decline in pipeline gas prices, triggered by declines in global demand. • Reduce government revenues; • Reduce gas export earnings and FDI, weakening the balance of payments position.	Medium	• Allow greater exchange rate flexibility to absorb external shocks; • Promote diversification of export growth; • Improve the business climate to attract FDI and develop SMEs.

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

Appendix III. Surveillance Priorities and Integrated Capacity Development

Surveillance priority: Fiscal financing for SDGs and stability

CD Focus	Past Results	Current and Future CD	Outcomes
Internal revenue	Phase 1: • Set reform direction • Developed a project management and governance framework • Formed the Large Taxpayer Office	Phase 2: • Modernize tax laws (Tax Administration and Procedures Law; Income Tax Law; Commercial Tax Law) • Extend administrative reform to the medium tax payer segment (add new centralized services) • Build staff capacity	• Mobilize domestic and customs revenue to provide fiscal space for growth and achievement SDGs, and to phase out CBM financing of the deficit
Customs modernization	• Strategic reform plan • Improvements to risk and HR management	• Improve trader compliance and build staff capacity	
Public financial management (PFM)	• Established the Treasury Department in MOPF • Cash management CD • Updated the Financial Rules and Regulations • Preparation of draft PFM Law	• Advise on the new PFM Law • Advise on gradual introduction of information technology in PFM • CD on cash management, treasury function, and internal audit	• Improving budgeting processes and spending effectiveness

Surveillance priority: Financial Stability

CD Focus	Past Results	Current and Future CD	Outcomes
Monetary policy framework and operations	• Central Bank Act • Adoption of reserve money targeting • Reserve requirement penalty regime	• Strengthen capacity to implement reserve money targeting framework • Money market development • Liquidity management and forecasting	• Improve capacity to implement monetary policy
Foreign exchange markets	• 2012 adoption of the de jure managed float exchange rate regime • Aligned the official and parallel market exchange rates	• Advise on the official reference rate setting mechanism • FX inter-bank market development	• Maintain exchange rate flexibility

Surveillance priority: Financial Stability (concluded)			
CD Focus	**Past Results**	**Current and Future CD**	**Outcomes**
CBM Financial Management	• Increased staff capacity • Regulation issued to establish Audit Committee	• Modernization of internal audit and accounting, including adoption of IFRS	• Improve financial reporting to support effective central bank operations
AML/CFT	• AML/CFT law • Supporting directives and guidance notes	• Assist with completion of the National Risk Assessment	• Reduce money laundering and financing of terrorism
Financial sector regulation and supervision	• 2016 Financial Institutions Law and key prudential regulations issued July 2017 • Prepared 3-year plan to enhance bank supervision	• Implementation of prudential regulations • Strengthen supervisory capacity • Assist with development of CBM bank recovery and resolution functions	• Maintain financial system stability
Surveillance priority: Build analytical capacity and improve data for surveillance			
CD Focus	**Past Results**	**Current and Future CD**	**Outcomes**
Macroeconomic data and analysis	• Established an inter-agency core macro group • Published the new Consumer Price Index, Financial Soundness Indicators, and Monetary and Financial Statistics • EGDDS participation.	• CD and training in statistical methodology and compilation • Data-sharing arrangements between institutions • Data dissemination including through EGDDS • Government Financial Statistics • Develop PPI and trade price indices	• Improve the quality and timeliness of information used in the policy making process. • Increased transparency and availability of macroeconomic data and information

Appendix IV. Takeaways from Fund-Wide Pilot Work

Myanmar was a pilot for Fund work on domestic revenue mobilization, climate change, and inequality.

Domestic Revenue Mobilization

Myanmar has one of the lowest tax revenue collections in the world with high potential to collect more. The revenue reform momentum achieved by the Internal Revenue Department (IRD) is encouraging. Nevertheless, strategic revenue reforms need continuous political commitment and support from key stakeholders. Good progress has been made in formulating an updated IRD reform plan incorporating some of the suggestions of the enhanced revenue mobilization analytical work in the pilot (including tax policy issues). This formed the basis of communications and priorities for Phase II (2017-2022) of the reform program. Reforms in the Myanmar Customs Department are in early stages and will need ongoing external assistance and support.

Climate Change

Myanmar is prone to large scale climate-related natural disasters and is one of the most vulnerable countries among developing Asian countries. The SIP for the 2016 AIV showed that the policy response of the authorities to past natural disasters was more limited compared with other Developing Asia countries. Staff's analytical work highlighted the need for addressing weaknesses in ex-ante resilience and ex-post adaptive capacity. The authorities concurred with staff on the need to continue with structural reforms to improve its growth potential and resilience, and enhance preparedness and response ability to more effectively mitigate the impact of climate-related disasters.

Inequality

Myanmar is one of the fastest growing countries in Asia. However, the quality of growth is also important, since growth alone is not sufficient to achieve poverty reduction. Achieving inclusive growth requires strengthening macroeconomic and financial stability, and deepening structural reforms. The analytical work in the SIP for the 2016 AIV (also featured in the 2017 Asia and Pacific *Regional Economic Outlook*) showed that higher infrastructure investments and financial sector reforms in Myanmar could significantly boost economic growth, reduce poverty, and improve nationwide income distribution. The authorities were acceptive to staff's advice and has continued reform process to sustain growth and achieve the Sustainable Development Goals.

INTERNATIONAL MONETARY FUND

MYANMAR

February 9, 2018

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

FUND RELATIONS

(As of December 31, 2017)

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

General Resources Account:

	SDR Million	Percent Quota
Quota	516.8	100
Fund holdings of currency (Exchange Rate)	516.8	100
Reserve Tranche Position	0	0

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	245.76	100
Holdings	0.54	0.22

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

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

	Forthcoming				
	2018	2019	2020	2021	2021
Principal					
Charges/Interest	1.81	1.82	1.82	1.82	1.82
Total	1.81	1.82	1.82	1.82	1.82

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

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement

The 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 the Monetary and Capital Markets Department (MCM). The auctions provided a mechanism for the market to determine an exchange rate that the CBM could use to set its new reference rate. However, in 2016 problems in operating the auction led to a sharp decline in traded auction volumes. Over 2017 the CBM has informally set the official reference exchange rate near the informal market rate. Despite not being used for price discovery, the auction remains in place, and may be used for future intervention purposes. The CBM reserves the right to intervene to moderate excessive exchange rate volatility in the foreign exchange market. The de jure exchange rate arrangement is classified as *managed float*, and the de facto exchange rate regime is classified as *stabilized arrangement,* effective January 12, 2017.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar has made significant progress toward satisfying Article VIII obligations. Almost all current account restrictions have been removed through the implementation of the 2012 Foreign Exchange Management Law. However, Myanmar still maintains an exchange restriction and a multiple currency practice (MCP) subject to Fund approval under Article VIII. The exchange restriction subject to Fund jurisdiction arises from the requirement of tax certification for authorizing transfers of net investment income abroad. The MCP arises from the two-way, multi-price foreign currency auction in the absence of a mechanism for maintaining winning bids within 2 percent of each other.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on October 14-28, 2016 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2016 Article IV consultation on January 25, 2017.

Technical Assistance

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

- Central Banking: a resident foreign exchange advisor and a monetary operations advisor based in TAOLAM provided frequent responsive advice, supported by HQ missions. In addition, regular expert missions were conducted in order to assist the CBM strengthen its accounting framework and systems. Both advisors have completed their assignments, and their replacements are scheduled to take duty over the coming months.

- Financial Sector Supervision: work in this area is led by a resident advisor in Yangon supported by HQ and expert missions. AML/CFT TA is delivered by HQ staff and short-term expert.

- Revenue Reform: a resident tax administration advisor is supported by HQ and expert missions aimed at modernizing the Internal Revenue Department (IRD). Work on tax policy is delivered through HQ missions.

- Public Financial Management: the focus is on capacity development of the Treasury Department, following its establishment in September 2014, which was led by PFM advisors based in TAOLAM and supported by HQ and expert missions.

- Statistics: the work plan in this area has been developed following a multi-sector diagnostic mission in 2013. As a result, external sector and government finance statistics advisors have taken up duties in TAOLAM and expert visits continue to assist in the development of price statistics. A rebased CPI was released in August 2016.

- Macroeconomic Management: an advisor based in TAOLAM leads the work on developing a macroeconomic framework and other analytical tools, which is closely integrated with the broader IMF training program.

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

Resident Representative

Mr.Yasuhisa Ojima has been the Resident Representative of the country and stationed in Yangon, since September 2015.

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

The IMF opened TAOLAM in Bangkok in October 2012. Mr. David Cowen, Director, has headed the office since September 2015. TAOLAM provides technical assistance and training in macroeconomic management and statistics, supported by resources from the Government of Japan and the Bank of Thailand. Currently, six TA advisors are based in the office, covering public financial management (PFM), monetary and foreign exchange operations, macroeconomic management, government financial statistics, and external sector statistics for Myanmar, as well as Cambodia, Lao P.D.R., and Vietnam under most of TAOLAM's capacity development projects.

Myanmar: Key Technical Assistance by the Fund During 2017		
Department	**Topic**	**Period**
FAD/TAOLAM	Treasury System Review	September 2017
FAD	Tax Policy	March 2017
FAD	Tax Administration	January/February/March/April/May/ July/August/November 2017
FAD	Annual Review of FAD IRD TA program	May 2017
FAD	Income Tax Modernization Strategy and Policy	January/March/July/September/ November 2017
FAD	TA on Extractive Industries	May 2017
FAD	TA on Customs	July 2017
MCM	Banking Resolution	June 2017
MCM	Accounting and Internal Audit	May/August/November 2017
MCM	FX Reference Rate System	March 2017
MCM	Banking Supervision	March/November/December 2017
MCM	COFTAM	March 2017
LEG	AML/CFT Supervision	March 2017
LEG	ML/TF National Risk Assessment	August 2017
STA	PPI Statistics	August 2017
STA	Monetary Statistics and FSI	March 2017
TAOLAM/MCM	Liquidity Forecasting and Reserve Money Targeting	October/November 2017
TAOLAM	Debt Sustainability Analysis	September 2017
TAOLAM/STI	Introduction to Financial Programming and Policies	June 2017
TAOLAM	Macroeconomic Framework	February/May/September/December 2017
TAOLAM/STA	Government Financial Statistics	February/April/May/July/September/ November 2017
TAOLAM/FAD	Internal Audit (PFM)	February/March/May/July 2017
TAOLAM/FAD	Cash Management and Planning/Fiscal Reporting	January/February/March/May/ September 2017
TAOLAM/FAD	PFM Act/Financial Rules	January/February/March/May 2017
TAOLAM/STA	Foreign Direct Investment Statistics	January/April/July/August/October/ November 2017
TAOLAM/STA	Balance of Payments Compilation and BPM6	January/February/March/May/June/August/ October/November 2017
TAOLAM/FAD	Quantitative Methods in Financial Programing	January 2017

WORLD BANK-IMF COLLABORATION

(January 2018)

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

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

Following the clearance of arrears to the International Development Association (IDA) in January 2013, the Bank has resumed normal lending relations with Myanmar and the International Finance Corporation (IFC) commenced its investment and advisory activities. A pre-arrears clearance IDA grant to finance a National Community Driven Development Project preceded an initial Development Policy Operation in support of a program around macroeconomic stability and arrears clearance. To date, 13 IDA financed projects have been approved by the Executive Board of Directors with commitments around US$2 billion in electricity, telecommunications, public financial management, education, health, agriculture, and river basin management. The IFC has made investments in infrastructure, microfinance, hospitality and banking sectors and is developing its pipeline of investments in several sectors. The WBG has also significantly scaled up its analytical and advisory services.

Following the completion of the 2013 Staff Monitored Program, the IMF is continuing to provide intensive policy advice and technical assistance to Myanmar. On the surveillance side, annual Article IV consultations are supplemented with regular staff visits and frequent engagement through the resident representative office which was opened in 2013. Technical Assistance continues to intensify with two (three up to July 2015) resident advisors in Myanmar and five (up to October 2016) in the Bangkok-based TAOLAM alongside regular HQ-missions. Key TA priorities include development of monetary and exchange rate policy tools, enhancing bank supervision, strengthening tax policy and administration, enhancing budget preparation and execution, strengthening macro policy analysis and developing macroeconomic statistics. The Fund also has a wide-ranging training program for Myanmar.

There is strong collaboration between the WBG and IMF.

- *Macroeconomic policy advice to the authorities.* WB and IMF regularly exchange views on macroeconomic developments, carry out the joint Debt Sustainability Analysis (DSA), and coordinate TA, including on macroeconomic monitoring and forecasting. The Fund country team shares its economic outlook during surveillance missions and comments on the World Bank's recently launched bi-annual Myanmar economic monitor. The Bank and the Fund have collaborated on the Staff Issue papers, notably the recent paper on poverty and regional disparities.

- In the *financial sector*, the World Bank and IMF have been coordinating technical assistance through regular information sharing based on an earlier joint note on the IMF-WB Financial Sector TA Plan for Myanmar. World Bank TA has focused on strengthening the financial sector legal and regulatory framework (including technical input on the now approved Financial Institutions Law, and microfinance and insurance regulation and supervision); state-owned bank reform, through completion of diagnostics of the four main state-owned banks; regulatory framework for mobile financial services; and development of a Financial Sector Development Strategy. The Fund has focused on bank supervision, monetary and FX operations, central bank financial management and the resolution framework. The Bank and Fund also recently completed a focused update on the joint banking sector action plan.

- On *fiscal management*, the World Bank and the Fund have exchanged views on priorities for the recently completed Second Public Expenditure Review; coordinating TA to the Large Taxpayers' Office in its efforts to introduce a risk-based audit system; coordinating TA to the Treasury Department and the Myanmar Economic Bank on strengthening of the payment and settlement system; and coordinating policy dialogue through participation in the PFM sector working group. Staff from the Bank and the Fund continue the joint preparation for the Debt Sustainability Analysis.

- On *structural reforms*, during the process of the preparation of the Myanmar Investment Law, the WBG has consulted frequently with the IMF on many provisions, in particular on issues related to capital and current account transfers and taxation. The IMF provided written comments on the first and second drafts of the Investment Law to the IFC and the government. The Bank and the Fund have also provided views on the new Myanmar Companies Act to the authorities.

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

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

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

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

- **Foreign exchange policy.** Continued exchange rate flexibility is needed to help manage shocks while building reserves. Priorities are to formally adopt the new mechanism for setting the official reference rate, and to further develop the interbank foreign exchange market.

- **Monetary policy.** Strengthening the CBM's capacity to conduct monetary policy is a critical prerequisite for macroeconomic management. Continued attention to building tools and capacity for monetary policy is required. Steps to improve the monetary framework include: (i) *Strengthen monetary policy independence and phasing-out CBM financing of the fiscal deficit*; (ii) *Improve functioning of money markets*; (iii*) Formally establish the monetary policy committee while clarifying the CBM's price stability mandate by adopting a medium-term inflation objective.*

- **Financial sector.** Liberalization of the financial sector needs to be complemented with a stronger regulatory and supervisory framework to maintain financial stability. Changes should be implemented step by step, in line with the development of needed supervisory capability and banks' capacity. The issuance of key prudential regulations has been a critical step forward. Immediate priorities include: (i) *Issue an amendment to the directive, or supervisory guidance, on credit risk management*; and (ii) *Move ahead with restructuring of state-owned banks (SOBs)*. The World Bank has discussed the special diagnostic reports of the four SOBs and is working with government to follow up on the findings.

- **Fiscal policies.** Fiscal policy should be geared toward achieving the Sustainable Development Goals (SDGs)[1], while being anchored on debt sustainability and lowering central bank financing of the deficit. Fiscal space for increased spending towards SDGs can be achieved through further revenue mobilization and improved PFM. A strong focus is also needed on PFM reforms including the public investment management framework and State Economic Enterprises reforms, building on the enactment of the Financial Rules and Regulations and improvements in cash management through the introduction of government securities auctions.

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[1] The Systematic Country Diagnostic (SCD) of the World Bank was published in 2014. It highlighted Myanmar's priorities in (1) raising incomes in rural communities; (2) increasing universal access to basic services such as health care, education, water and sanitation, and electricity; (3) and improving investment climate for private sector led growth and good jobs. The Fund has collaborated with the World Bank in addressing these priorities. The IMF team has also collaborated with the UNDP on the macro-fiscal implications of SDG financing in Myanmar.

- **Revenue mobilization.** Revenue mobilization should build on the good progress achieved in the first phase of the revenue reform. The next phase of revenue reforms approved by the Cabinet Economic Committee should be fully implemented with the prioritization of: (i) *complete the modernization of tax laws*; (ii) *reducing sources of revenue leakages, such as through inefficient tax incentives;* (iii) *develop staff capacity and operations*; and (iv) i*mprove customs administration*, with the help of IMF TA.

- **Strengthening statistical capacity.** Continue the good progress towards improving macroeconomic statistics needed for informed policy-making. The CBM's publication of its inaugural Quarterly Bulletin, monetary and financial statistics, and financial soundness indicators were important steps forward. In addition, participation in EGDDS and publication of GFS will further assist in improving the availability of statistics. The government aims to implement SNA 2008 (today they broadly follow SNA 1968). This implies developing complementary data systems to produce the minimum required data sets and constructing a Supply-Use Table (SUT). The ADB is providing TA on the compilation framework/SUT and IMF is providing TA to selected sectors.

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

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

The teams are committed to continue their close cooperation going forward. The table below details the specific activities planned by the two country teams over the period January–December 2018.

Myanmar: Joint Management Action Plan January–December 2018		
	Products	**Time Horizon**
WB	**1) Lending operations**	
	Additional Financing CDD Project	Ongoing
	Agricultural Development Support Project	Ongoing
	Ayeyarwady Integrated River Basin Management Project	Ongoing
	Myanmar Essential Health Services Access Project	Ongoing
	Myanmar Decentralizing Funding to Schools	Ongoing
	Modernization of Public Finance Management	Ongoing
	MM: Telecommunications Sector Reform	Ongoing

Myanmar: Joint Management Action Plan January–December 2018		
	Products	**Time Horizon**
	Electric Power Project	Ongoing
	Myanmar National Community Driven Development Project	Ongoing
	National Electrification Project	Ongoing
	Flood and Landslide Emergency Recovery Project	Ongoing
	Myanmar Financial Sector Development Project	Next 6 Mo.
	Myanmar Development Policy Operation	Next 6 Mo.
	Myanmar Disaster Risk Management Project	Next 12 Mo.
	2) Analytical and advisory activities	
	Myanmar Economic Monitor	Ongoing
	Myanmar Civil Service Pay, Compensation and Human Resource Review	Ongoing
	Public Expenditure Review 2	Completed
	Review of land title transfer procedures TA	Ongoing
	WBG Myanmar Financial Inclusion TA program	Ongoing
	Agriculture Public Policy and Public Expenditure Review	Ongoing
	Myanmar Power Sector Study of Electricity Tariffs and Subsidies Mechanisms	Ongoing
	Myanmar Power Sector Financial Analysis and Viability Action Plan	Ongoing
	Policy making and regulations for rural electrification	Ongoing
	Geospatial Least Cost Planning for distribution system expansion	Ongoing
	Myanmar Jobs Report	Ongoing
IMF	**1) Surveillance missions**	
	Staff visit	May. 2018
	Article IV	Nov. 2018
	2) TA activities	
	Customs Administration	Ongoing
	Tax Administration	Ongoing
	Income Tax Modernization (including HR development)	Next 12 Mo
	Planning and Budgeting	Next 12 Mo
	SEE Governance	Next 12 Mo.
	PFM	Ongoing
	Banking Supervision	Next 12 Mo.
	AML/CFT supervisory tools	Ongoing
	CBM Financial Management	Ongoing
	Monetary Operations/FX markets	Next 12 Mo.
	Public Debt Statistics	Ongoing
	Government Finance Statistics	Ongoing
	External Sector Statistics	Ongoing

RELATIONS WITH THE WORLD BANK GROUP[1]

(January 2018)

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

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

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

The World Bank opened its first ever country office in Myanmar on August 1, 2012. Initial engagement with Myanmar was guided by an Interim Strategy Note (FY 2013–14). This was followed by a Systematic Country Diagnostic (SCD) that identified priorities for accelerating progress towards the twin goals that the WBG has committed to helping attain in its member countries: ending poverty and boosting shared prosperity.

The SCD provided the basis for a Country Partnership Framework (CPF), the first full country strategy for Myanmar since 1984. The CPF program, which runs from FY 2015 to FY 2017, has three areas of focus: reducing rural poverty; investing in people and effective institutions for people; and supporting a dynamic private sector to create jobs.

Myanmar's IDA 18 allocation is SDR1.11 billion or US$1.58 billion equivalent[2]. While the Country Partnership Framework (CPF) identifies an indicative program based on this amount, it will be largely backloaded, given potential delays with the Development Policy Operations. In addition, IFC has already invested and mobilized a total of US$1.2 billion over the current CPF period. It plans to continue to support the domestic and international private sector over the next two years, with a key

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

[2] Converted U.S. dollar amount is based on the SDR/USD exchange rate of 1.42413 SDR as of end of December 2018.

focus on infrastructure and job creation. MIGA will provide insurance against political risks based on demand by private investors.

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

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

RELATIONS WITH THE ASIAN DEVELOPMENT BANK[1]

(December 2017)

Myanmar joined the Asian Development Bank (ADB) 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 ADB developed a road map for resumption of normal operations. In a phased approach, ADB undertook (i) intensive dialogue with government, civil society, the private sector and other development partners; (ii) prepared comprehensive economic and sector studies; developed a country partnership strategy for Myanmar; mounted an extensive capacity development and policy advisory technical assistance program; and resumed sovereign and non-sovereign lending operations.

ADB's first full country partnership strategy (CPS) for 2017-2021 was approved in March 2017 and it is fully aligned with Myanmar's strategic priorities. It emphasizes on supporting the government in laying the foundations for sustainable and inclusive economic development, and job creation for poverty reduction. ADB operations will focus on: (i) improving access and connectivity to connect rural and urban areas and markets, and to link Myanmar with the regional and global marketplace; (ii) strengthening human capital to promote a skilled workforce and increased employment while enabling the poor and disadvantaged to participate in and benefit from economic growth; and (iii) promoting structural and institutional reform to support the modernization of the economy. In implementing these priorities, infrastructure (energy, transport and urban development) will remain the largest component of ADB operations. To enhance inclusiveness, ADB will also provide concerted support for rural development and education and training. To help accelerate Myanmar's transformation process, ADB will intensify its focus on capacity development and governance; private sector development; environment and climate change, and disaster risk management; regional cooperation; and gender equity. ADB has established a pipeline of projects addressing Myanmar's key transport, energy, urban development, rural development, and education and training needs. The Country Partnership Strategy as well as the annual Country Operations Business Plan reflect a gradual shift towards increased sector focus, concentrating on infrastructure (transport, energy, and urban development), education and training, and rural development as priority activities. It will apply a long-term approach in the priority areas, and is coordinated and aligned with evolving strategies and sector activities of other development partners.

Myanmar cleared its arrears to ADB in January 2013. The ADB has so far provided 41 loans and grants totaling US$1,671.85 million. Of these, two loans amounting to US$ 6.6 million were from the ADB's ordinary capital resources (OCR) which have already been pre-paid, and the rest were from concessional Asian Development Fund resources. From 2012–June 2017, ADB approved a total of 45 technical assistance projects (TAs), totaling about US$69 million, focusing on capacity needs in education and training, finance sector, public financial management, external debt management,

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

private sector development, trade and investment policy, energy, power, transport, information and communication technology, statistics, tourism, environmental and social safeguards, disaster risk management and reduction, conflict-sensitivity, community and civil society participation in development, and urban development and infrastructure.

Myanmar is an increasingly active participant in the Greater Mekong Subregion Economic Cooperation Program and the Association of Southeast Asian Nations (ASEAN). ADB 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 largest share of ADB assistance has been provided to support public sector management (including a US$512 million loan provided alongside with bridge financing for clearing arrears with an objective to support the government budget reform), followed by development of the agricultural sector (largely prior to 1988). The sector composition of ADB accumulated lending to Myanmar is shown below:

Myanmar: Asian Development Bank Lending
1973–December 2017

Sector	Loans (Number)	Loans (US$ million)	Percent
Agriculture, Natural Resources and Rural Development	16	391.1	23.39
Education	1	98.49	5.89
Energy	6	166.8	9.98
Finance	2	20.0	1.20
Health, nutrition, and social protection	3	75.1	4.49
Industry and trade	3	26.4	1.58
Public sector management	1	575.5	34.42
Transport and ICT	4	222.5	13.30
Water supply, sanitation, waste management and urban infrastructure services	5	95.96	5.74
Total	41	1,671.85	100.0

Source: Asian Development Bank.

STATISTICAL ISSUES

As of January 5, 2018

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. Data are not provided in a timely manner, and official and independent estimates of key macroeconomic variables differ widely.
National Accounts: Myanmar's national accounts follow the 1968 System of National Accounts. National accounts data are only available on an annual basis. Quarterly data are also compiled, but are not disseminated. Gross Domestic Product (GDP) estimates are compiled at current and constant prices by production and expenditure approaches, with 2010/2011 as base year. Significant discrepancies exist between the two approaches. GDP is estimated at producer prices, instead of the internationally recommended market prices. The quality of the GDP measures is hampered by inadequate source data and the lack of relevant price indexes, such as the producer price index. National accounts 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, along with the lack of interagency coordination and a clear delineation of responsibilities, limit the conduct of surveys and other data collection. Technical assistance (TA) is being provided by Asian Development Bank (AsDB) and United Nations Development Program (UNDP) to improve the national accounts and to implement the 2008 SNA.
Price Statistics: The IMF Statistics Department (STA) has been providing TA to develop a new CPI since March 2013. The new CPI covering the whole country was released in August 2016. The new CPI is based on the 2012 Household Income and Expenditure Survey (HIES), and is according to international standards and best practices. The new index includes 274 products and services, compared to 158 in the previous one. For further improvement of price statistics, Myanmar should start to develop a producer price index.
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 with a long-term GFS advisor stationed at the IMF's Technical Assistance Office for the Lao PDR and the Republic of the Union of Myanmar (TAOLAM) in Bangkok, Thailand. Regular TA visits to the country are undertaken by the GFS Advisor. In late 2017, the authorities established a fiscal reporting team who compiled annual GFS data for a 6-year period and reported these data to the Fund; and a decision to disseminate these data domestically is under consideration.
Monetary and Financial Statistics: The monetary survey compiled by the Central Bank of Myanmar (CBM) covers the central bank and all commercial banks (public and private). Reporting of monetary data in the Standardized Report Forms, which accord with the Monetary and Financial Statistics Manual classification principles, was established in January 2012. Nine finance companies and a multiple of deposit taking microfinance institutions have been established in 2013–14. In addition, nine foreign bank branches commenced their operations in 2015 and were included in the monetary statistics. The quality of monetary statistics could be further improved by: (i) expanding the coverage of institutions; (ii) monitoring the consistency of the reciprocal/interbank accounts that show positions between the CBM and the commercial banks; and initiating data review and resolution of large inconsistencies; (iii) using electronic means to capture and share data to minimize mistakes; and (iv) in due course, adopting market or fair value-based valuation of financial instruments.
Financial sector surveillance: The authorities submitted quarterly financial soundness indicators (FSI) to STA for dissemination in March 2017, with data back to beginning of 2016. FSIs are critical for effective surveillance of the

financial sector. The CBM is currently implementing regulatory prudential measures, which will improve the FSI data quality.	
External sector statistics: The balance of payments (BOP) and international investment position (IIP) are compiled on the basis of the sixth edition of the IMF Balance of Payments and International Investment Position Manual (*BPM6*) since 2016 and quarterly figures are reported to STA. Myanmar has participated in the Coordinated Direct Investment Survey (CDIS), beginning its first data submission to STA in November 2017. Although recent revisions have resulted in more accurate classifications of transactions and positions, the coverage of some key components should be further reviewed and enhanced (particularly, trade in goods, remittances, and private non-bank financial transactions and positions). The revaluation of the national currency in April 2012 resulted in a large break in the balance of payments and IIP series. Myanmar continues to be one of the beneficiary countries in the current STA three-year project on the Improvement of External Sector Statistics in Asia-Pacific Region (August 2017–July 2020). Under the project, TA is provided by the external sector statistics resident advisor stationed at the TAOLAM in Bangkok, Thailand, and external sector statistics short-term experts reporting to STA.	
II. Data Standards and Quality	
Myanmar began participating in the IMF's General Data Dissemination System (GDDS) in November 2013, which was superseded by the enhanced GDDS (e-GDDS) in 2015. A Fund mission on e-GDDS to Myanmar in early 2016 under a Japan government-funded project for enhancing data dissemination in the Asia and Pacific region facilitated the authorities' progress in implementing the e-GDDS.	No data ROSC is available.

Myanmar: Table of Common Indicators Required for Surveillance
(As of January 16, 2018)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	01/18	01/18	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	09/17	12/17	M	M	I
Reserve/Base Money	10/17	01/18	M	M	M
Broad Money	10/17	01/18	M	M	M
Central Bank Balance Sheet	10/17	01/18	M	M	M
Consolidated Balance Sheet of the Banking System	10/17	01/18	M	M	M
Interest Rates[3]	12/17	01/18	M	I	M
Consumer Price Index	10/17	12/17	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	FY 16/17	11/17	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	FY 16/17	11/17	A	I	NA
Stocks of Central Government and Central Government—Guaranteed Debt[6]	FY 16/17	11/17	A	I	NA
External Current Account Balance	Q1/17	10/17	Q	Q	Q
Exports and Imports of Goods	4/17	12/17	M	M	M
GDP/GNP	FY 16/17	11/17	A	A	A
Gross External Debt	FY 16/17	11/17	A	I	I
International Investment Position[7]	Q2/2017	10/17	Q	Q	Q

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[3] Officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), state and local governments, and State economic enterprises (SEEs).
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

MYANMAR

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 9, 2018

Approved By **Markus Rodlauer and Johannes Wiegand (IMF), and John Panzer (IDA)**

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

Myanmar is assessed to remain at low risk of external debt distress.[1/ 2] *Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators are projected to remain below their indicative thresholds. Similarly, total public debt is also projected to remain below benchmark in the baseline, though stress tests lead to breaches in the event of an extreme shock and fiscal slippage. Keeping Myanmar at low risk of debt distress will require prudent fiscal policy and sound public financial and debt management. Use of nonconcessional borrowing should be limited to projects with high economic and social returns.*

[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the LIC DSA framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy dependent. Myanmar is classified as having weak policy performance with a Country Policy and Institutional Assessment (CPIA) average of 3.07 for the period 2014–16, and the DSA uses the indicative threshold indicators on the external public debt for countries in this category: 30 percent for the present value (PV) of debt-to-GDP ratio; 100 percent for the PV of the debt to-export ratio; 200 percent for the PV of the debt-to-revenue ratio; 15 percent for the debt-service-to-exports ratio; and 18 percent for the debt-service-to-revenue ratio.

[2] This risk rating is unchanged from the previous DSA, published in February 2017, as a part of the staff report for the 2016 Article IV consultation with Myanmar (CR/17/30) https://www.imf.org/~/media/Files/Publications/CR/2017/cr1730.ashx.

BACKGROUND

1. **External public and publicly guaranteed debt decreased to 15.0 percent of GDP as of June-2017 from 16.0 percent a year earlier.** The composition of external debt has also slightly changed. As of mid-2017, the share of multilateral creditors in external debt increased to 16.3 percent from 14.4 percent in 2015/16. During the same period, the share of official bilateral creditors increased to nearly 43 percent from 42 percent. By contrast, the share of commercial creditors has declined from 42.6 percent of the total to 40.7 percent in 2016, mostly due to large amortization payments to the Exim Bank of China in accordance with the original schedule.

Table 1. Myanmar: External Public Debt as of June-2017

	In million US$	In percent of GDP	Composition (in percent)	2015/16 Composition (in percent)
Total external debt	**9,487.9**	**15.0**	**100.0**	**100.0**
Multilateral	**1,544.3**	**2.4**	**16.3**	**14.4**
Asian Development Bank	*516.9*	*0.8*	*5.4*	*5.5*
World Bank/IDA	*1,012.9*	*1.6*	*10.7*	*8.8*
Other	*14.5*	*0.0*	*0.2*	*0.2*
Official Bilateral	**4,067.9**	**6.4**	**42.9**	**42.0**
Paris Club	***2,308.4***	***3.6***	**24.3**	**22.4**
of which, Japan	*2171.3*	*3.4*	22.9	20.8
Non Paris Club	***1,759.5***	***2.8***	***18.5***	***19.7***
of which, China	*1,405.3*	*2.2*	*14.8*	*16.0*
Financial Institutions	**3,859.3**	**6.1**	**40.7**	**42.6**
Paris Club	**1,267.9**	**2.0**	**13.4**	**13.4**
Non Paris Club	**2,591.4**	**4.1**	**27.3**	**29.3**
of which, China	*2,591.4*	*4.1*	*27.3*	*29.3*
Other	**16.4**	**0.0**	**0.2**	**0.9**

Sources: Myanmar authorities; and IMF staff estimates.

2. **External concessional financing is expected to rise over the medium term.** Multilateral lenders (the Asian Development Bank and the World Bank) are gradually stepping up concessional financing to Myanmar according to their country assistance strategies. The World Bank is expected to commit about US$1.2 billion over three fiscal years. The Asian Development Bank is expected to allocate concessional lending of about US$350 million per year in the near and medium term. External debt commitments of other concessional lenders are expected to be even higher. JICA has continued to commit a concessional lending package of US$1.0 billion to 1.2 billion per year to help with infrastructure development during the next three years.

3. **Domestic public debt has recorded a small increase.** It increased slightly to 22.6 percent of GDP in 2016/17 from 21.6 percent of GDP in the previous year. T-bills accounted for 81 percent of

domestic debt (76 percent were 3-month T-bills sold to the central bank[3], and 5 percent were sold in auction), and T-Bonds accounted for the rest 19 percent (around 6.5 percent were sold in auction)[4]. In 2016/17, the lower fiscal deficit reduced the government's financing need, causing central bank financing of the deficit to fall in nominal kyat terms, although the target ceiling of 40 percent of domestic financing for 2016/17 was not met.

4. **The government is committed to maintaining debt sustainability.** The Public Debt Management Law (PDML) enacted in 2016 has helped strengthen public debt management. It requires the Ministry of Finance to prepare annually the Medium-term Debt Management Strategy for the next three years. Having started using a comprehensive Medium-Term Fiscal Framework, the government remains committed to reducing Central Bank of Myanmar (CBM) financing, and retains the target to limit CBM financing at 30 percent of domestic financing for 2017/18. It has continued to shift from short-term towards medium-term financing through issuance of Treasury Bonds.

UNDERLYING ASSUMPTIONS

5. **The macroeconomic assumptions take into account developments through end-2017.** The key assumptions are:

- Growth weakened in 2016/17 to 5.9 percent, but is expected to recover to 6.7 percent in 2017/18, mainly supported by a recovering agricultural sector, exports, and higher public spending. In the medium term, growth is expected to pick up towards its estimated potential of 7 percent to 7.5 percent, reflecting continued FDI inflows and higher public investment spending and efficiency.

- Inflation is projected to fall slowly to an average of around 6 percent over the medium term, consistent with the authorities' commitment to gradually phasing out monetary financing. Long-term inflation is expected to settle at around 5 percent, in line with staff's recommended inflation objective.

- The fiscal deficit narrowed from 4.4 percent to 2.5 percent of GDP in 2016/2017 due to higher revenues and lower-than budgeted spending. The deficit is expected to widen to 3.5 percent in 2017/2018 reflecting the supplementary budget and to remain between 4 percent to 4.5 percent of GDP in the medium term, a level consistent with the phasing out of CBM financing, if supported by domestic financial reforms and the development of the government securities market. Staff advises the authorities to not exceed this fiscal deficit in the medium term and gradually reduce the deficit over the longer term.

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[3] T-Bills sold to the CBM were settled at the interest rate 4 percent per annum for borrowings through FY 2015/16 and at average market auction rate for borrowings starting from FY 2016/17.

[4] T-bills were started to sell in the auction since January 2015. T-bonds (2-year and 3-year) were started to sell in the auction since September 2016, at coupon interest rate ranging from 9-9.5 percent. Foreign bank branches, securities companies and insurance companies were permitted to participate in the auction starting from late 2016.

- The current account deficit is expected to remain relatively high over the medium term at around 5.5 percent to 6 percent, reflecting Myanmar's strong investment and development needs, but is expected to fall over time as export capacity strengthens and diversifies. Exports growth are projected to be robust over the medium and longer-term (on the back of a pickup in manufacturing and services, a recovery of global oil prices, and further opening up of the economy to trade and investment[5]), but the risks are tilted to the downside.

Table 2. Myanmar: Key Macroeconomic Assumptions Underlying the DSA

	Baseline		Baseline in 2016 Article IV	
	2017/18-2022/23	2023/24-2037/38	2016/17-2021/22	2022/23-2036/37
Real GDP growth (in percent)	7.2	6.4	7.3	6.6
Inflation (percent change, y/y)	5.8	4.8	6.9	5.2
Overall fiscal balance (in percent of GDP)	-4.0	-3.8	-4.5	-4.1
Current account (in percent of GDP)	-5.7	-4.8	-6.6	-5.7
Net external financing (in percent of GDP)	1.3	1.4	1.3	1.7

Source: IMF staff calculations.

6. **Alternative scenarios.** This DSA presents two additional scenarios, illustrating higher external financing, and lower external financing, consistent with the Staff Report. The low financing scenario assumes external financing of 0.5 percent of GDP per year during the medium term, compared with the 1.3 percent of GDP in the baseline. In the longer term, this scenario assumes a lower fiscal deficit of 3.3 percent of GDP (compared with the baseline of 3.8 percent of GDP) that is financed by lower external borrowing. The high financing scenario assumes external financing of 1.5 percent of GDP during the medium term. In the longer term, this scenario assumes a higher fiscal deficit of 4.1 percent of GDP with higher external borrowing.

Table 3. Myanmar: Key Macroeconomic Assumptions for Alternative Scenarios

	Low External Financing		High External Financing	
	2017/18-2022/23	2023/24-2037/38	2017/18-2022/23	2023/24-2037/38
Real GDP growth (in percent)	7.0	6.2	7.3	6.5
Inflation (percent change, y/y)	6.2	5.3	5.9	5.0
Overall fiscal balance (in percent of GDP)	-3.5	-3.3	-4.3	-4.1
Current account (in percent of GDP)	-6.0	-5.2	-5.8	-5.0
Net external financing (in percent of GDP)	0.6	0.8	1.5	1.6

Source: IMF staff calculations.

[5] See the Selected Issues Paper on the role of FDI and global value chains for Myanmar's further integration into the global economy.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY ANALYSIS

7. **External Debt Sustainability Analysis.** Under the baseline scenario and stress tests, all external PPG debt indicators remain below the policy relevant thresholds. However, some indicators, such as the PV of debt-to-GDP and PV of debt-to-export ratios, are relatively sensitive to stress tests (Table 1). For example, a combination stress test (that combines perturbations to GDP growth, inflation, exports and non-debt creating flows) leads to a significant increase in ratios of PV of PPG external debt to exports (panel c) and the debt-to-revenue ratio (panel d)[6]. Myanmar is vulnerable to external shocks, such as commodity price volatility, and is prone to large scale climate-related natural disasters. The authorities need to pursue prudent macroeconomic policies and build up policy buffers, particularly foreign reserves. Over the long run, it needs to continue with structural reforms to improve growth potential and resilience, and promote economic diversification.

8. **Total Public Debt Sustainability Analysis.** Public debt (external plus domestic) remains below benchmark under the baseline scenario, and is expected to remain stable throughout the forecast period. However, sensitivity analyses reveal that public debt sustainability remains vulnerable to shocks[7], particularly to GDP growth and the fixed primary deficit scenario (which "fixes" the deficit at its 2017 level relative to the baseline). In both scenarios, the PV of debt to GDP ratio breaches the 38 percent of GDP benchmark by 2029. In the extreme shock scenario, the PV of debt to revenue ratio rises to above 200 percent of GDP in the medium term.

STAFF ASSESSMENT

9. **Myanmar is assessed to remain at low risk of external debt distress.** Public and publicly guaranteed (PPG) external debt is generally resilient to shocks under standard and alternative stress tests. Total public debt is projected to stay below benchmark, but is vulnerable to extreme shocks and fiscal slippage. Overall, the analysis demonstrates the vulnerability of public debt sustainability to a number of shocks. These findings highlight the need for Myanmar to strengthen its economic resilience and maintain a prudent fiscal policy. Government should remain cautious about borrowing that leads to a buildup in debt, and should target projects that broaden the export base and have a significant impact on potential growth (e.g., infrastructure investment) and increase resilience of debt sustainability.

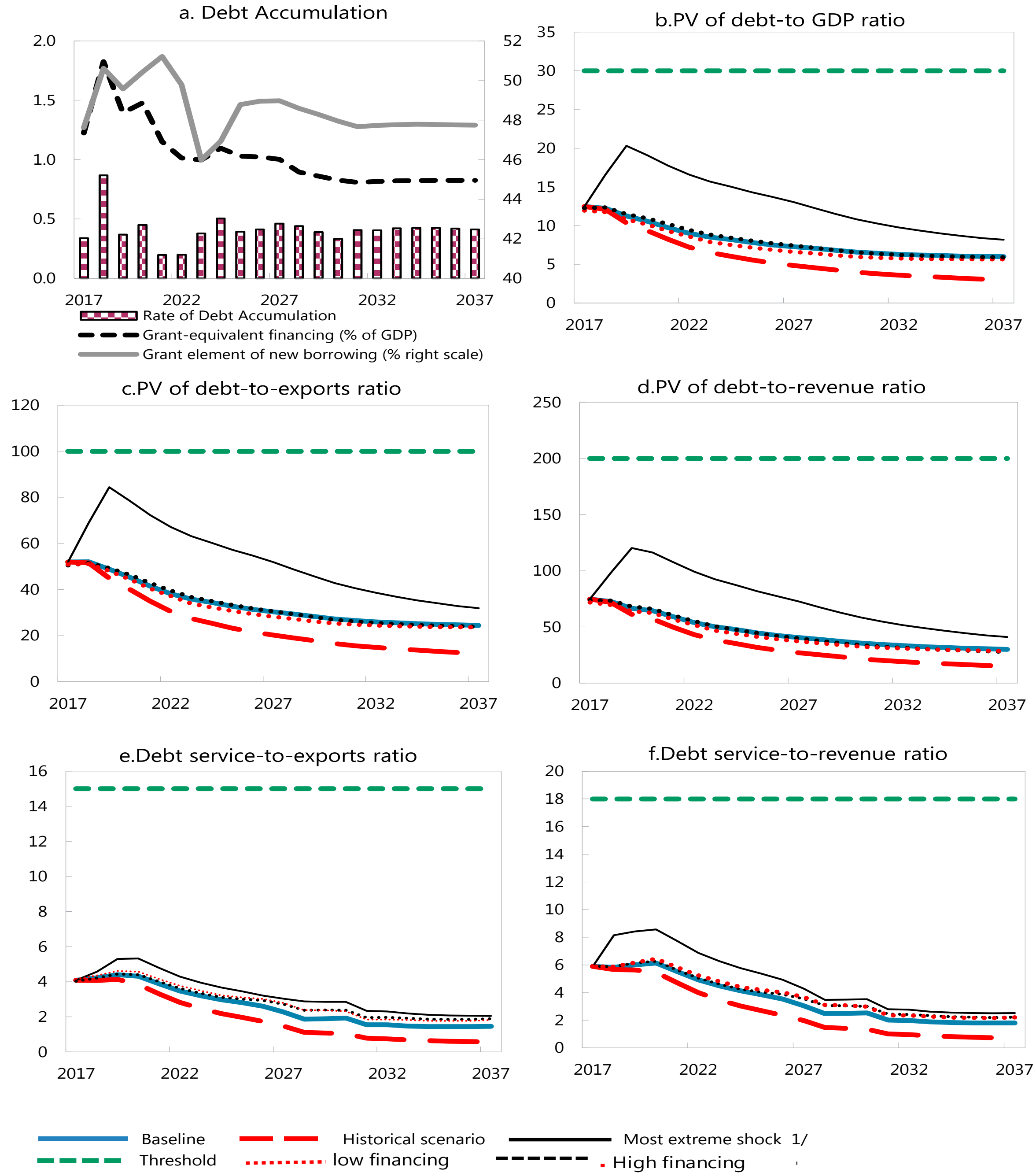
[6] An alternative probability approach confirms the conclusion of "low risk".

[7] There are risks from the banking sector stress on the public-sector balance sheet. Nevertheless, owing to data limitations, it is difficult to quantify contingent liabilities related to recapitalization of state-owned banks.

Authorities' Views

10. The authorities broadly agreed with these conclusions and the analysis. They agreed that fiscal policy should be anchored in debt sustainability and lowering central bank financing of the deficit. The authorities were committed to improving the medium-term fiscal framework, including by updating their medium-term debt management strategy. 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 and growth-enhancing projects in priority sectors, at levels consistent with low risk of debt distress.

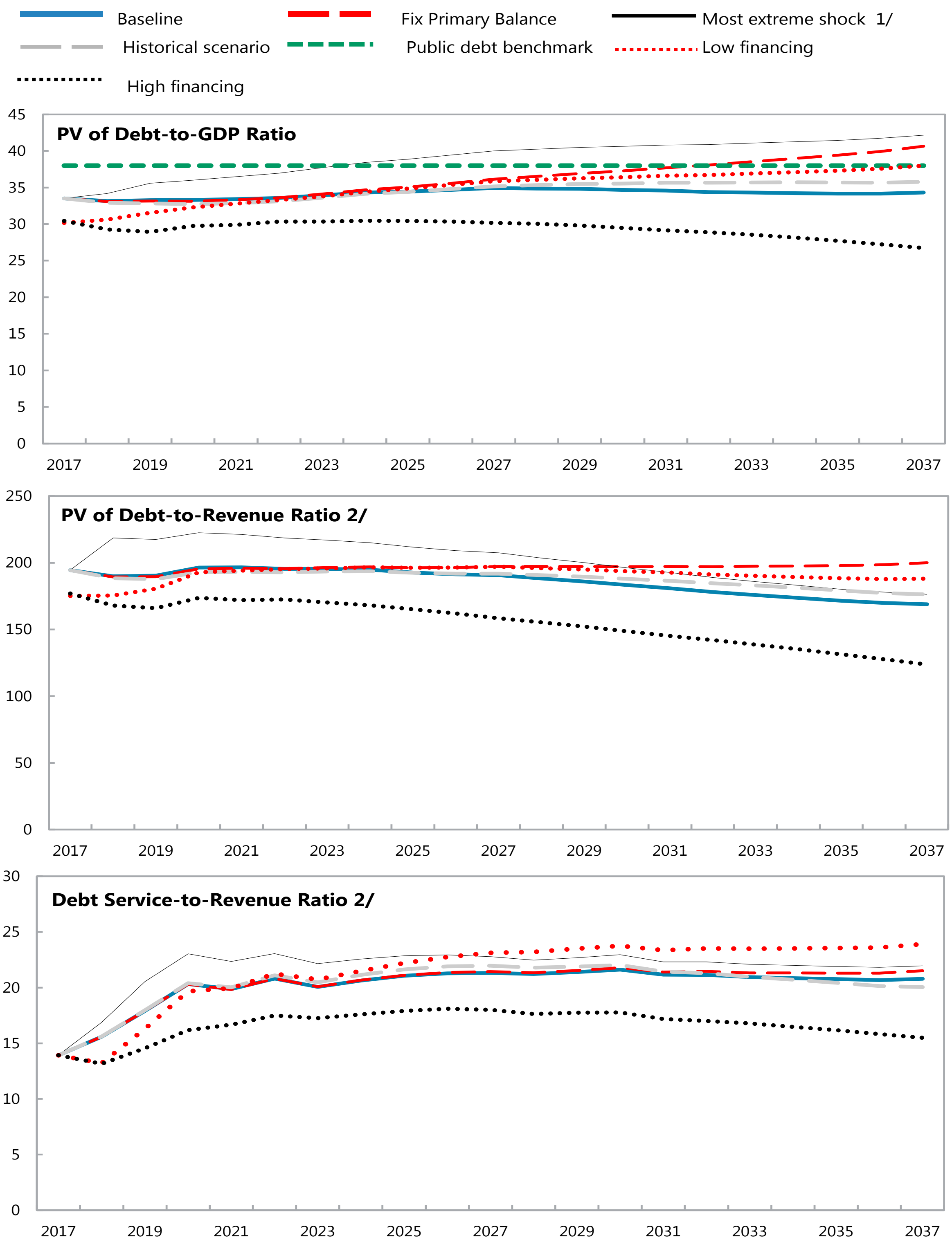
Figure 1a. Myanmar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2017–2037 /1



Sources: Country authorities; and IMF staff estimates and projections.

1/ In Panel bcd, the most extreme shock is the combination shock; in panel e, the most extreme shock is the export shock; and, in panel f, the most extreme shock is one-time depreciation shock. The combination shock assumes real GDP, exports, US dollar deflator of GDP, and non-debt creating flows all at their historical averages over 2006-2016 minus one standard deviation in 2018-19.

Figure 1b. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2017–20137 1/



Sources: Country authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

Table 4a. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2014–2037 1/

(In percent of GDP, unless otherwise stated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**13.9**	**15.9**	**15.6**			**14.4**	**14.8**	**14.4**	**14.1**	**13.4**	**12.7**		**11.5**	**9.6**	
of which: public and publicly guaranteed (PPG)	13.9	15.9	15.6			14.4	14.8	14.4	14.1	13.4	12.7		11.5	9.6	
Change in external debt	-3.1	2.0	-0.3			-1.3	0.5	-0.5	-0.2	-0.7	-0.7		-0.2	-0.1	
Identified net debt-creating flows	-3.7	0.7	-2.3			-2.0	-1.5	-0.5	-1.2	-1.2	-1.1		-1.2	-0.9	
Non-interest current account deficit	**2.8**	**5.7**	**4.4**	**3.5**	**1.6**	**5.0**	**5.3**	**5.5**	**5.7**	**5.6**	**5.6**	5.4	**5.0**	**4.0**	4.7
Deficit in balance of goods and services	0.9	5.0	4.9			5.1	5.2	5.2	5.3	5.1	5.0		4.1	2.8	
Exports	21.3	22.2	20.9			24.0	23.5	23.0	23.3	23.5	23.6		24.0	24.5	
Imports	22.2	27.1	25.8			29.0	28.7	28.2	28.6	28.6	28.6		28.1	27.3	
Net current transfers (negative = inflow)	-3.5	-4.2	-4.4	-1.9	1.6	-4.2	-4.0	-3.8	-3.8	-3.7	-3.6		-3.3	-2.9	-3.2
of which: official	-0.3	-0.6	-0.6			-0.6	-0.6	-0.6	-0.5	-0.5	-0.5		-0.4	-0.4	
Other current account flows (negative = net inflow)	5.4	4.9	4.0			4.2	4.1	4.1	4.1	4.1	4.2		4.2	4.0	
Net FDI (negative = inflow)	**-4.4**	**-5.8**	**-5.3**	**-4.1**	**1.1**	**-6.3**	**-6.3**	**-5.4**	**-6.2**	**-6.1**	**-6.0**		**-5.5**	**-4.5**	-5.2
Endogenous debt dynamics 2/	**-2.0**	**0.8**	**-1.5**			**-0.6**	**-0.5**	**-0.6**	**-0.6**	**-0.7**	**-0.7**		**-0.6**	**-0.4**	
Contribution from nominal interest rate	-0.6	-0.6	-0.5			0.4	0.4	0.3	0.3	0.3	0.2		0.1	0.1	
Contribution from real GDP growth	-1.2	-1.1	-0.9			-1.0	-0.9	-1.0	-0.9	-0.9	-0.9		-0.7	-0.5	
Contribution from price and exchange rate changes	-0.2	2.5	-0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.6**	**1.4**	**2.0**			**0.7**	**2.0**	**0.0**	**1.0**	**0.5**	**0.4**		**1.0**	**0.9**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.8			12.5	12.2	11.2	10.6	9.7	9.0		7.3	6.0	
In percent of exports	...	...	66.2			51.9	52.0	48.8	45.4	41.5	38.1		30.3	24.4	
PV of PPG external debt	**...**	**...**	**13.8**			**12.5**	**12.2**	**11.2**	**10.6**	**9.7**	**9.0**		**7.3**	**6.0**	
In percent of exports	**...**	**...**	**66.2**			**51.9**	**52.0**	**48.8**	**45.4**	**41.5**	**38.1**		**30.3**	**24.4**	
In percent of government revenues	**...**	**...**	**75.1**			**74.9**	**72.5**	**66.6**	**64.4**	**59.0**	**53.9**		**40.6**	**30.1**	
Debt service-to-exports ratio (in percent)	**-1.2**	**-0.2**	**0.5**			**4.1**	**4.2**	**4.4**	**4.3**	**3.9**	**3.5**		**2.3**	**1.5**	
PPG debt service-to-exports ratio (in percent)	**-1.2**	**-0.2**	**0.5**			**4.1**	**4.2**	**4.4**	**4.3**	**3.9**	**3.5**		**2.3**	**1.5**	
PPG debt service-to-revenue ratio (in percent)	**-1.2**	**-0.2**	**0.6**			**5.9**	**5.8**	**6.0**	**6.1**	**5.5**	**4.9**		**3.0**	**1.8**	
Total gross financing need (Billions of U.S. dollars)	-1.2	0.0	-0.5			-0.3	0.0	0.3	0.4	0.4	0.4		-0.1	-0.7	
Non-interest current account deficit that stabilizes debt ratio	5.8	3.6	4.7			6.2	4.8	6.0	5.9	6.3	6.3		5.1	4.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.0	7.0	5.9	6.8	2.3	6.7	7.0	7.2	7.3	7.4	7.5	7.2	6.9	5.3	6.4
GDP deflator in US dollar terms (change in percent)	1.0	-15.2	0.4	8.2	18.0	-1.4	5.3	3.3	3.2	3.0	2.5	2.6	2.5	1.7	2.3
Effective interest rate (percent) 5/	-3.8	-4.1	-3.5	-2.6	1.2	2.4	2.8	2.6	2.4	2.2	2.0	2.4	1.4	0.9	1.3
Growth of exports of G&S (US dollar terms, in percent)	6.6	-5.8	0.4	9.5	8.9	20.6	9.0	9.9	12.0	11.5	10.9	12.3	9.8	7.5	9.2
Growth of imports of G&S (US dollar terms, in percent)	-9.0	11.0	1.0	18.1	22.2	18.5	9.8	10.5	12.0	10.8	10.2	11.9	9.2	6.9	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	47.6	50.6	49.6	50.4	51.2	49.8	49.9	49.0	47.7	47.9
Government revenues (excluding grants, in percent of GDP)	21.7	18.3	18.4			16.6	16.9	16.9	16.4	16.5	16.7		17.9	19.9	18.5
Aid flows (in Billions of US dollars) 7/	0.7	1.0	0.6			1.3	2.3	1.8	2.2	1.8	1.8		2.9	5.2	
of which: Grants	0.2	0.2	0.2			0.4	0.4	0.5	0.5	0.5	0.5		0.7	1.6	
of which: Concessional loans	0.5	0.8	0.4			0.9	1.8	1.3	1.7	1.3	1.3		2.2	3.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.2	1.8	1.4	1.5	1.2	1.0		1.0	0.8	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.1	60.4	63.3	61.8	65.0	64.1		61.5	63.9	62.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	65.6	59.5	63.3			66.5	74.0	83.0	91.9	101.6	112.0		179.1	401.7	
Nominal dollar GDP growth	9.0	-9.3	6.3			5.2	11.2	12.2	10.7	10.6	10.2	10.0	9.5	7.2	8.9
PV of PPG external debt (in Billions of US dollars)			8.1			8.3	8.9	9.2	9.5	9.7	9.9		12.9	23.9	
(PVt-PVt-1)/GDPt-1 (in percent)						0.3	0.9	0.4	0.4	0.2	0.2	0.4	0.5	0.4	0.4
Gross workers' remittances (Billions of US dollars)	2.1	2.1	2.4			2.4	2.5	2.7	2.9	3.2	3.5		5.2	9.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.3			12.0	11.8	10.9	10.2	9.4	8.7		7.1	5.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	55.9			45.1	45.4	42.8	39.9	36.6	33.7		27.1	22.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.4			3.5	3.7	3.9	3.8	3.4	3.1		2.0	1.3	

Sources: Country authorities; and IMF staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 4b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–2037

(In percent)

							Projections										
	2017	2018	2019	2020	2021	2022	**2027**	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
							PV of debt-to GDP ratio										
Baseline	12	12	11	11	10	9	**7**	7	7	7	6	6	6	6	6	6	6
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2017-2037 1/	12	12	10	9	8	7	**5**	5	4	4	4	4	3	3	3	3	3
A2. New public sector loans on less favorable terms in 2017-2037 2	12	12	13	12	12	11	**10**	10	10	10	10	10	10	10	10	10	10
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	12	12	12	11	10	9	**8**	7	7	7	7	7	6	6	6	6	6
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	12	13	14	13	12	11	**9**	9	8	8	7	7	7	7	7	7	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	12	14	15	14	13	12	**10**	9	9	9	8	8	8	8	8	8	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	12	16	17	16	15	14	**11**	11	10	9	9	8	8	8	8	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	12	17	20	19	18	17	**13**	12	12	11	10	10	9	9	9	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	12	17	15	15	13	12	**10**	10	9	9	9	9	9	8	8	8	8
							PV of debt-to-exports ratio										
Baseline	52	52	49	45	41	38	**30**	29	28	27	27	26	26	25	25	25	24
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2017-2037 1/	52	52	45	40	35	31	**20**	19	18	17	16	15	14	14	13	13	12
A2. New public sector loans on less favorable terms in 2017-2037 2	52	53	55	53	50	47	**43**	42	42	41	40	40	40	39	39	39	40
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	52	52	48	45	41	37	**30**	29	28	27	26	26	25	25	25	24	24
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	52	61	72	67	61	56	**44**	42	40	38	37	35	34	33	32	32	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	52	52	48	45	41	37	**30**	29	28	27	26	26	25	25	25	24	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	52	67	76	70	65	60	**47**	44	41	39	37	35	33	32	31	30	29
B5. Combination of B1-B4 using one-half standard deviation shocks	52	69	84	78	72	67	**52**	49	46	43	41	39	37	35	34	33	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	52	52	48	45	41	37	**30**	29	28	27	26	26	25	25	25	24	24
							PV of debt-to-revenue ratio										
Baseline	75	73	67	64	59	54	**41**	39	37	36	34	33	32	32	31	31	30
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2017-2037 1/	75	72	61	57	50	43	**27**	25	23	22	20	19	18	17	16	16	15
A2. New public sector loans on less favorable terms in 2017-2037 2	75	74	75	75	71	67	**58**	56	55	53	52	51	50	50	49	49	49
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	75	73	69	66	61	56	**42**	40	39	37	36	34	34	33	32	32	31
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	75	77	83	80	73	67	**50**	47	45	42	40	38	37	35	34	33	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	75	83	87	84	77	71	**53**	51	49	47	45	44	43	42	41	40	40
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	75	92	103	100	92	85	**62**	58	54	50	47	45	42	40	39	37	36
B5. Combination of B1-B4 using one-half standard deviation shocks	75	98	120	116	108	99	**73**	68	63	58	55	52	49	47	44	43	41
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	75	99	91	88	81	74	**56**	54	51	49	47	46	45	44	43	42	42

Table 4b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–2037 (concluded)

(In percent)

								Debt service-to-exports ratio									
Baseline	4	4	4	4	4	3	**2**	2	2	2	2	2	1	1	1	1	1
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2017-2037 1/	4	4	4	4	3	3	**1**	1	1	1	1	1	1	1	1	1	1
A2. New public sector loans on less favorable terms in 2017-2037 2	4	4	5	5	4	4	**3**	3	3	3	3	3	2	3	2	2	3
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	3	**2**	2	2	2	2	2	1	1	1	1	1
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	4	5	5	5	5	4	**3**	3	3	3	2	2	2	2	2	2	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	3	**2**	2	2	2	2	2	1	1	1	1	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	4	4	5	5	4	4	**3**	3	3	3	3	2	2	2	2	2	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	5	5	4	**3**	3	3	3	3	3	3	2	2	2	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	4	4	4	4	4	3	**2**	2	2	2	2	2	1	1	1	1	1
								Debt service-to-revenue ratio									
Baseline	6	6	6	6	6	5	**3**	2	2	3	2	2	2	2	2	2	2
A. Alternative Scenarios																	
A1. Key variables at their historical averages in 2017-2037 1/	6	6	6	5	5	4	**2**	1	1	1	1	1	1	1	1	1	1
A2. New public sector loans on less favorable terms in 2017-2037 2	6	6	6	7	6	6	**4**	4	4	4	3	3	3	3	3	3	3
B. Bound Tests																	
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	6	6	6	6	6	5	**3**	3	3	3	2	2	2	2	2	2	2
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	6	6	6	6	6	5	**3**	3	3	3	3	3	2	2	2	2	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	6	7	8	8	7	7	**4**	3	3	3	3	3	3	2	2	2	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	6	6	6	7	6	5	**4**	4	4	4	3	3	3	3	3	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	8	7	6	**5**	5	5	5	4	4	3	3	3	3	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	6	8	8	9	8	7	**4**	3	3	4	3	3	3	3	3	3	3
Memorandum item:																	
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	**48**	48	48	48	48	48	48	48	48	48	48

Sources: Country authorities; and IMF 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 4c. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–2037

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	29.9	34.5	35.7			35.4	35.9	36.4	36.9	37.1	37.3		39.1	37.9	
of which: foreign-currency denominated	13.9	15.9	15.6			14.4	14.8	14.4	14.1	13.4	12.7		11.5	9.6	
Change in public sector debt	-3.3	4.6	1.2			-0.3	0.5	0.5	0.5	0.2	0.2		0.3	0.1	
Identified debt-creating flows	-1.9	3.3	1.1			0.0	0.6	0.5	0.5	0.3	0.3		0.2	0.4	
Primary deficit	0.5	4.1	2.0	2.4	2.1	2.9	3.0	3.0	3.0	2.8	2.7	2.9	2.2	1.4	1.9
Revenue and grants	22.0	18.7	18.8			17.2	17.5	17.5	17.0	17.0	17.2		18.3	20.3	
of which: grants	0.3	0.4	0.4			0.6	0.6	0.6	0.6	0.5	0.5		0.4	0.4	
Primary (noninterest) expenditure	22.4	22.8	20.8			20.1	20.5	20.5	19.9	19.8	19.8		20.6	21.7	
Automatic debt dynamics	-2.3	-0.5	-0.8			-2.9	-2.5	-2.5	-2.4	-2.5	-2.4		-2.1	-1.0	
Contribution from interest rate/growth differential	-1.8	-0.4	0.8			-3.8	-2.7	-2.3	-2.2	-2.3	-2.3		-1.6	-0.5	
of which: contribution from average real interest rate	0.7	1.6	2.7			-1.6	-0.4	0.1	0.3	0.3	0.3		0.9	1.4	
of which: contribution from real GDP growth	-2.5	-2.0	-1.9			-2.3	-2.3	-2.4	-2.5	-2.5	-2.6		-2.5	-1.9	
Contribution from real exchange rate depreciation	-0.5	-0.1	-1.6			0.9	0.2	-0.2	-0.2	-0.2	-0.1		...	...	
Other identified debt-creating flows	-0.1	-0.3	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	-0.3	-0.1			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	1.3	0.1			-0.3	-0.1	-0.1	-0.1	-0.1	-0.1		0.2	-0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	34.0			33.5	33.2	33.3	33.3	33.4	33.6		34.9	34.3	
of which: foreign-currency denominated	...	...	13.8			12.5	12.1	11.2	10.6	9.7	9.0		7.3	6.0	
of which: external	...	...	13.8			12.5	12.1	11.2	10.6	9.7	9.0		7.3	6.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.6	5.6	3.4			5.3	5.8	6.2	6.4	6.2	6.2		6.1	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	180.5			194.5	189.9	190.4	196.4	196.5	195.5		190.7	168.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	184.1			201.5	196.6	197.2	203.0	202.5	200.8		195.0	172.3	
of which: external 3/	...	...	75.1			74.9	71.6	66.6	64.4	59.0	53.9		40.6	30.1	
Debt service-to-revenue and grants ratio (in percent) 4/	4.7	7.2	7.6			13.9	15.6	17.9	20.3	19.9	20.8		21.3	20.8	
Debt service-to-revenue ratio (in percent) 4/	4.8	7.4	7.8			14.4	16.1	18.5	21.0	20.5	21.4		21.8	21.2	
Primary deficit that stabilizes the debt-to-GDP ratio	3.8	-0.5	0.7			3.2	2.5	2.6	2.5	2.5	2.5		1.9	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.0	7.0	5.9	6.8	2.3	6.7	7.0	7.2	7.3	7.4	7.5	7.2	6.9	5.3	6.4
Average nominal interest rate on forex debt (in percent)	-3.9	-4.1	-3.5	-2.6	1.2	2.4	2.8	2.6	2.4	2.2	2.0	2.4	1.4	0.9	1.3
Average real interest rate on domestic debt (in percent)	3.1	2.1	2.7	-1.7	6.0	-0.3	-0.7	0.0	0.6	0.7	1.3	0.3	2.1	3.8	2.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.1	-0.5	-9.2	-4.4	35.8	7.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	4.1	3.6	8.0	6.5	6.1	6.7	7.0	6.9	6.7	6.1	6.6	5.3	3.6	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	16.8	8.9	-3.7	2.3	6.0	3.4	9.1	7.2	4.3	6.5	7.7	6.4	7.6	5.6	7.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	47.6	50.6	49.6	50.4	51.2	49.8	49.9	49.0	47.7	...

Sources: Country authorities; and IMF staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4d. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt, 2017–2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	34	33	33	33	33	34	35	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	34	33	33	33	33	33	35	36
A2. Primary balance is unchanged from 2017	34	33	33	33	33	34	36	41
A3. Permanently lower GDP growth 1/	34	33	34	34	34	35	39	46
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	34	34	36	36	36	37	40	42
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	34	34	35	35	35	35	36	35
B3. Combination of B1-B2 using one half standard deviation shocks	34	34	35	35	35	35	38	39
B4. One-time 30 percent real depreciation in 2018	34	38	37	37	36	36	36	34
B5. 10 percent of GDP increase in other debt-creating flows in 2018	34	38	38	38	38	38	38	36
PV of Debt-to-Revenue Ratio 2/								
Baseline	195	190	190	196	197	196	191	169
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	195	188	188	193	193	193	192	176
A2. Primary balance is unchanged from 2017	195	189	190	195	196	196	197	200
A3. Permanently lower GDP growth 1/	195	191	193	200	202	203	211	224
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	195	196	203	212	214	215	218	207
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	195	194	199	205	204	203	196	171
B3. Combination of B1-B2 using one half standard deviation shocks	195	193	198	205	206	206	206	190
B4. One-time 30 percent real depreciation in 2018	195	217	213	216	213	209	195	170
B5. 10 percent of GDP increase in other debt-creating flows in 2018	195	219	218	223	221	219	207	176
Debt Service-to-Revenue Ratio 2/								
Baseline	14	16	18	20	20	21	21	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	16	18	20	20	21	22	20
A2. Primary balance is unchanged from 2017	14	16	18	20	20	21	21	22
A3. Permanently lower GDP growth 1/	14	16	18	21	20	21	23	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	14	16	19	21	21	22	23	23
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	14	16	18	21	20	21	21	21
B3. Combination of B1-B2 using one half standard deviation shocks	14	16	18	21	20	21	22	22
B4. One-time 30 percent real depreciation in 2018	14	17	21	23	22	23	23	22
B5. 10 percent of GDP increase in other debt-creating flows in 2018	14	16	18	21	20	21	22	21

Sources: Country authorities; and IMF 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.

Statement by the Staff Representative on Myanmar
March 12, 2018

The information below has become available following the issuance of the staff report (SM/18/30). It does not alter the thrust of the staff appraisal.

1. There are signs of a continuing economic recovery. The Purchasing Managers' Index in January indicated an economic expansion for a fourth straight month, signaling an improved near-term manufacturing outlook.

2. While more recent FDI inflow data are unavailable, leading indicators such as FDI project amounts approved by the Directorate of Investment and Company Administration for the first 10 months of 2017/18 show a marked deceleration since September 2017.

3. The authorities submitted to parliament a proposal for an income tax amnesty/voluntary disclosure program, but details remained to be finalized. The proposal is designed to allow a one-off opportunity to declare undeclared income at a lower penalty.

4. The external sector remained resilient with a stable exchange rate and gross foreign reserves at US$5.3 billion in January 2018, equivalent to about 3 months of prospective imports.

5. Private sector credit growth continued to moderate slightly to 26 percent (y/y) in November 2017, from 27 percent (y/y) in September 2017.

6. The authorities launched their Myanmar Sustainable Development Plan (MSDP) on February 26. The MSDP identifies a number of development priorities, reflecting multi-dimensional and vast development needs. While further work is needed to specify reform sequencing and integration with the medium term fiscal framework, the MSDP is a good first step towards setting reform direction, and building an inclusive development agenda.

Statement by Mr. Juda Agung, Executive Director for Myanmar, and Mr. Harizal Bin Alias, Advisor to the Executive Director March 12, 2018

Introduction

1. On behalf of the Myanmar authorities, we thank staff and management for the Fund's active engagement with Myanmar, including the constructive and candid policy discussions during the Article IV Consultation that took place from November 6 to 17, 2017.

2. In the past 5 years, the authorities have been intensifying reform efforts to further improve the living standards of the Myanmar people. Among the priorities are to reduce poverty, foster job creation and rural development as well as to promote better health and education services. The authorities agree that while Myanmar has made important progress in key areas of the economic reform program, a second wave of reforms is now needed to sustain the growth momentum. To this end, the authorities highly value the Fund's advice and technical assistance, and will continue to consider the Fund's advice in moving forward with the reform strategy. The authorities are in broad agreement with staff's assessment and will take the recommendations into consideration in formulating future policies.

Recent Economic Development and Outlook

3. The Myanmar economy registered growth of 5.9 percent in FY[1] 2016/2017. The lower-than-expected growth performance during this period was mainly due to the temporary suspension of construction permits in Yangon and weak agricultural production following severe weather conditions. Weak export performance also contributed to the moderation in growth. However, economic activity has since rebounded strongly. Real GDP is estimated to grow by about 7.0 percent in FY2017/2018 driven by a recovery in agriculture and exports and higher public spending, aided by growth in the construction and tourism sectors. As the authorities continue to strengthen macro-economic management, medium-term growth is projected to gradually pick-up to around 6.8 percent, supported by higher public investment spending and FDI inflows.

4. Developments since the 2016 Article IV point to more favorable macroeconomic conditions and reduced imbalances. Fiscal adjustments carried out during the year have narrowed the fiscal deficit to about 3 percent of GDP (compared to 4.4 percent of GDP in FY2015/2016), in turn further reducing the fiscal deficit financing by the Central Bank of Myanmar (CBM). Inflation declined to about 5.2 percent on the back of reduced monetary financing and lower food prices. Fiscal adjustment also contributed to a stronger external position, with the current account deficit falling to about 3.9 percent of GDP in FY2016/2017 (5.1 percent in FY2015/2016). The current account deficit continues to be financed by FDI.

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

5. The CBM's foreign reserves increased to USD5.1 billion as at September 2017, sufficient to finance 3.4 months of imports. The authorities expected the accumulation of international reserves to continue given the increase in capital inflows. Foreign reserves are expected to remain above the minimum conventional threshold of 3 months' import coverage throughout 2017/2018 fiscal year. The Kyat remained broadly stable over the course of 2017.

6. Credit to the private sector remained healthy to support the growing economy, and is expected to expand by 33 percent attributed largely to increased business opportunity, better access to credit to business entities and further development of credit facilities to Small and Medium Enterprises.

7. Going forward, the growth momentum is expected to be sustained. While overall risks are currently skewed to downside, government's policies to promote private investment and improvement in macroeconomic management continues represent upside risks. Stronger growth in Myanmar's trading partners, particularly the ASEAN economies, could also have positive spillovers to Myanmar's economy. The latest economic data indicated steady flows of FDI and tourist arrivals into Myanmar. Financial stability risk is expected to be contained with the implementation of the new prudential regulations that will help improve banks' asset quality and capital positions.

Fiscal Policy

8. The authorities acknowledge the important role of fiscal policy in promoting economic growth and development as well as in ensuring the success of their reform agenda. Balancing fiscal prudence with the broader goals of inclusive growth and poverty reduction will require that the authorities strike the right balance in prioritizing critical socio-economic expenditure.

9. The implementation of a gradual and growth-friendly fiscal consolidation strategy in recent years has kept current spending in check. The positive fiscal performance continues in FY2016/2017 on the back of higher tax revenue, reflecting improved tax-administration including the introduction of self-assessments for large tax-payers and capacity development within the tax authority.

10. Myanmar's fiscal year will change from April-March, to October-September commencing 1 October 2018. The change in fiscal year is intended to improve implementation of capital and infrastructure, given the timing of the monsoon season. The latest budget will continue to focus on priority socio-economic spending with an increase in the budget for education and health, along with higher allocation for growth-enhancing infrastructure to the regions that face urgent development needs. The budget is anchored on conservative revenue projections and targets a fiscal deficit of 3.5 percent of GDP in the medium term. As acknowledged in the staff report, this deficit level is consistent with the assessment to build fiscal space to respond to shocks (including from natural disasters) and meeting the substantial development needs. Most importantly, it will also put Myanmar at minimal risk of debt distress.

11. On the revenue side, tax revenue improvements will support increased spending in infrastructure and social expenditure. The proposal to change the tax year to be consistent with the

fiscal year is currently under consideration, with the authorities weighing the pros and cons, mindful of domestic implementation capacity.

12. Myanmar remains committed to implementing fiscal reform measures. These include enhancing tax and customs administration, and measures to reform tax policy aimed at strengthening domestic revenue mobilization. Progress has been made on improving revenue administration, notably the establishment of Large Taxpayer office in 2014 which has helped improve tax compliance and tax administration. The Internal Revenue Department (IRD) reform program has helped improve efficiency and effectiveness of the tax collection agency. This first phase of reforms has yielded dividends in terms of improving revenue buoyancy and tax payer services. Efforts are on-going to bring IRD practices closer to the international tax administration standards.

13. Going forward, the authorities are committed to further deepen the implementation of fiscal reforms. Modernization of tax laws to provide a transparent and legal basis for tax collection as well as rationalization of tax incentives are key reform priorities for 2018. These includes passage of the Tax Administration and Procedures Law and the Income Tax Law which are expected to be effective beginning the new fiscal year in October 2018. The authorities are working closely with the Fund TA team and other development partners to further develop revenue management capabilities including, improving customs administration and budgetary operations.

14. A new public financial management strategy is being prepared for the next 5 years with the World Bank and Fund TA focusing on strengthening institutional capacity to support efficient, accountable, and transparent delivery of public services.

15. The authorities intend to release fiscal data in line with the Government Finance Statistics (GFS) framework in 2018 to increase transparency and boost confidence of the private sector and development partners in the government's public financial management.

Monetary and Exchange Rate Policy

16. Within a relatively short period after the central bank was granted autonomy in July 2013, the CBM has made important progress to enhance its monetary policy framework and the managed float exchange rate system. This includes realignment of the reference rate with parallel market exchange rates and the conduct of deposit auctions to mop up liquidity. Treasury bill and bond auctions were introduced in January 2015 and September 2016 respectively. This has facilitated market-driven interest-rate determination and greater participation by commercial banks. The recent decision to allow purchase of government securities by foreign banks will further promote the development of the Treasury bond market. Myanmar is also in the process of developing its interbank market. Since April 2016, the authorities have allowed banks to engage in bilateral interbank lending and interbank market deposit to support the development of the banking sector and liquidity management. To improve the monetary policy framework, the CBM is trying to develop the repo market to improve the functioning of money markets and distribution of liquidity among banks. Plans are underway to gradually liberalize the interest rate, which would help strengthen monetary policy transmission.

17. The authorities concur with staff's recommendations in various areas regarding the monetary sector. The authorities recognize that greater exchange rate flexibility and phasing out of CBM fiscal deficit financing will strengthen monetary policy independence and effectiveness. The authorities remain committed to reducing CBM deficit financing in a gradual manner. In line with staff's recommendation, the authorities for the first time introduced a limit on the central bank deficit financing to 40 percent of domestic financing in FY2016/17. Although the limit was not met, the proportion of domestic financing has declined significantly. The limit will be further reduced to 30 percent of domestic financing for FY2017/2018 and fully eliminated in 2020. The gradual approach is to ensure the potential increase in cost to the budget and any unintended crowding out effects on private sector credit flows are manageable.

18. Since April 2012, Myanmar has abandoned the fixed exchange rate regime (pegged to the SDR) in favor of a managed floating exchange rate regime. In the initial stage of transition, the daily reference rate for the US Dollar was determined through foreign currency auctions. However, there was limited market participation in foreign currency auctions, due to the under-developed market. The government has taken various steps to reduce the divergence between the official reference rate and market rate. The current foreign currency pricing mechanism has brought the reference rate closer to the informal market. At the same time, a prohibition on trading outside the FX trading band has been lifted. Moving forward, the authorities intend to formally introduce the new exchange rate mechanism but remain cautious regarding the potential rate manipulation.

Financial Stability

19. The authorities have made considerable progress in improving the regulatory environment to strengthen financial stability. This includes enacting new laws and regulations, upgrading prudential regulations, revising the supervisory framework, and developing supervisory techniques in line with international standards. Several laws have been enacted, namely, the new Foreign Exchange Management Law (August 2012), the new Central Bank of Myanmar Law (July 2013), the Securities Exchange Law (July 2013), Anti-Money Laundering Law (April 2014) and the Financial Institutions Law (2016).

20. In the past year, the CBM has stepped-up efforts to strengthen regulation and supervision of financial institutions including to address the authorities' concerns regarding the true picture of bank's asset quality and profitability. In July 2017, to implement the Financial Institutions Law, the CBM issued four important prudential regulations, namely, Asset Classification and Provisioning Regulations, Large Exposure Regulations, Liquidity Ratio Requirement Regulations and Capital Adequacy Regulations. The CBM is currently reviewing individual banks' measures to comply with regulations and active industry consultations are on-going to obtain feedback and address implementation issues. Based on industry feedback, a further directive that allows for the restructuring of viable overdrafts to term loans of up to three years was issued in November 2017. The CBM is working closely with the banks to shore up capital levels to meet the prudential requirement.

21. The authorities remain committed to improving financial regulation and supervision and are grateful for the technical assistance provided by the Fund and World Bank on the banking

sector plan and look forward to its implementation. The authorities fully recognize that more needs to be done to further strengthen financial stability; however, they underscore the need for appropriate sequencing of reforms commensurate with economic development and the CBM's capacity to regulate and supervise the financial sector.

22. Efforts are on-going to promote a more inclusive financial system, including enhancing access to banking services and microfinance. The Mobile Banking Regulation and Mobile Financial Services Regulation issued in 2013 and 2016 have helped expand participation of financial service providers in the mobile payment network. The regulation on the Credit Information Reporting System issued in March 2017 provides a basis for the establishment of a Credit Bureau in Myanmar. The payment and settlement system has been further enhanced with the establishment of the CBM Net system. In addition, to improve the payment and settlement mechanism, the Real Time Gross Settlement System (RTGS) and Mechanized Clearing House (MCH) were implemented in January 2016.

23. Important milestones have also been made in the AML/CFT area. The Anti-Money Laundering Law were enacted in 2014 and its accompanying regulations were issued in 2015. To help enhance compliance by banks and financial institutions, CBM has issued a Risk Management Guidance Note and an updated risk based Customer Due Diligence Directive in 2015. FATF removed Myanmar from the list of countries under ICRG process in June 2016.

Conclusion

24. The authorities remain committed to preserving macroeconomic and financial stability, promoting sustainable and inclusive growth and implementing appropriate reform measures. At the same time, given capacity constraints, the authorities are mindful of challenges in implementing reform measures on many fronts. Our authorities acknowledge that the pace of institutional capacity building needs to be enhanced to help smooth the reform process and ensure that the current growth momentum is sustainable. In this regard, the authorities recognize the instrumental role international financial institutions and countries in the region have played 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 Asian Development Bank and countries in the region for their support and policy advice over the years and look forward for their continuous support as the country moves forward with its economic reform program.