INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/100

MYANMAR

April 2019

2018 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 2018 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 15, 2019 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 15, 2019, following discussions that ended on December 13, 2018, 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 25, 2019.
- 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.

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April 12, 2019

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Myanmar

On March 15, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Myanmar.

Myanmar's economy rebounded in 2017/18 but appears to be losing momentum. Growth rebounded to 6.8 percent in 2017/18 driven by exports and a recovery in agriculture. The fiscal deficit reached about 2.7 percent of GDP in 2017/18, and central bank financing of the deficit continued to decline. Headline inflation was moderate in 2017/18 (4.0 percent on average) but has been rising from increased fuel prices and a depreciating kyat. The current account deficit widened marginally in 2017/18 to a little under 5 percent of GDP and was largely financed by strong FDI inflows keeping international reserves at around three months of imports. Preliminary data in the transition budget year (April–September 2018) point to deceleration of growth due to government underspending, waning investor confidence and moderating global demand.

The medium-term macroeconomic outlook remains favorable. Myanmar's economy is expected to gain steam over the medium term albeit at a somewhat slower pace than previously envisaged and subject to greater downside risks partly related to the humanitarian crisis in Rakhine state. The fiscal deficit for the new fiscal year is projected to increase, providing a modest fiscal stimulus on the back of higher capital spending. A drop in international oil prices and a gradual moderation in inflation over the near term should support consumer spending. Successful implementation of the second wave of reforms in the Myanmar Sustainable Development Plan will help sustain the growth take off and achieve the Sustainable Development Goals.

Risks are tilted to the downside. A prolonged humanitarian crisis and any withdrawal of trade preferences could reduce concessional donor financing and investment leading to lower growth. Macrofinancial spillovers from the ongoing banking sector restructuring process may be more severe if banks delay recapitalization. Risks on the global front include trade tensions and related global financial market volatility, high crude oil prices and spillovers from exposure to China. On the upside, a faster resolution of the humanitarian crisis would facilitate higher external financing that allows greater SDG-related spending and rebuilding of international reserves.

[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 recognized Myanmar's positive long-term prospects, reflecting its growing demographic dividend, competitive labor force, and strategic location. They noted, however, that economic activity is losing momentum and near-term downside risks have increased. They expressed particular concerns with the potential effects of the prolonged humanitarian crisis in the Rakhine state and the fragility of the banking sector. In this context, Directors welcomed the second wave of reforms embedded in the Myanmar Sustainable Development Plan (MSDP), which focuses on peace, stability, and good governance. In particular, they stressed the need to sustain prudent macro-economic policies and maintain the structural reform momentum.

Directors agreed that fiscal policy should aim at promoting spending to achieve the Sustainable Development Goals while phasing out central bank financing of the fiscal deficit and maintaining debt sustainability. They welcomed recent declines in central bank financing and efforts to increase fiscal transparency, which should help reduce risks related to infrastructure projects including from public-private partnerships. Given the low tax-ratio, Directors stressed the need to improve revenue mobilization; they also encouraged the authorities to pursue reforms in public financial management, strengthen budget execution, and enhance state-owned economic enterprise efficiency and governance.

Directors supported keeping current monetary conditions tight to anchor market interest rates and control inflation. They also endorsed further upgrades in the monetary framework and interest rate liberalization that would help enhance the transmission mechanism. Directors welcomed recent reforms, such as the market-based reference exchange rate, which should provide a cushion against exogenous shocks.

Directors emphasized the need to swiftly address the systemic risks and fragilities in the banking sector. They stressed the need to improve compliance, loss recognition and ensure recapitalization, where needed. They also affirmed the need to quickly form contingency plans to address systemic risks in the banking sector and to strengthen the resolution framework.

Directors noted that capacity development from the Fund will be critical in supporting the goals of the MSDP. They welcomed the authorities' progress on the MSDP thus far such as liberalization of restrictions on foreign investment but noted that there is room to further improve governance, including the fiscal transparency of natural resource management, financial sector regulations and AML/CFT regime, and implementation of the anti-corruption framework. Finally, Directors welcomed the recent improvements in data quality and coverage, and encouraged the authorities to address remaining data shortcomings.

It is expected that the next Article IV consultation with Myanmar will be held on the standard 12-month cycle.

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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, 2015/16–2020/21 1/

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Output and prices				(Percent change)			
Real GDP 2/	7.0	5.9	6.8	6.2	6.4	6.6	6.7
CPI (end-period; base year from 2014/15=2012)	8.4	7.0	5.4	8.6	7.2	7.1	6.2
CPI (period average; base year from 2014/15=2012)	10.0	6.8	4.0	7.1	7.5	6.7	6.2
Consolidated public sector 3/				(In percent of GDP)			
Total revenue	19.5	18.8	17.1	23.3	17.3	17.4	17.4
Tax revenue	6.1	6.5	6.7	8.4	7.0	7.2	7.4
Social contributions	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Grants	0.4	0.4	0.2	0.3	0.4	0.4	0.4
Other revenue	12.9	11.7	10.0	14.4	9.8	9.7	9.5
Total expenditure	23.9	21.3	19.7	24.8	20.7	21.2	21.5
Expense	15.9	14.8	13.7	18.2	14.5	14.7	14.9
Net acquisition of nonfinancial assets	8.0	6.5	6.0	6.6	6.3	6.5	6.6
Gross operating balance	3.7	4.0	3.3	5.1	2.8	2.6	2.6
Net lending (+)/borrowing (-)	-4.3	-2.5	-2.7	-1.5	-3.5	-3.8	-4.0
Domestic public debt	20.5	20.9	20.9	21.2	21.5	22.5	23.5
Money and credit				(Percent change)			
Reserve money	22.8	8.8	6.0	4.6	8.7	6.9	8.7
Broad money	26.3	19.4	18.0	18.6	14.3	13.5	13.7
Domestic credit	31.4	25.5	20.2	21.9	15.2	16.1	15.8
Private sector	34.3	33.8	23.0	21.3	14.0	13.5	13.0
Balance of payments 4/	(In percent of GDP)						
Current account balance	-5.2	-4.3	-4.7	-5.9	-4.9	-4.9	-4.8
Trade balance	-5.0	-5.1	-5.4	-6.0	-4.6	-4.5	-4.6
Financial account	-6.5	-7.2	-6.9	-7.3	-5.0	-4.9	-4.8
Foreign direct investment, net 5/	-5.8	-5.2	-5.4	-5.1	-4.2	-3.9	-3.8
Overall balance	-0.6	0.6	0.3	1.3	0.0	0.0	0.0
CBM reserves (gross)							
In millions of U.S. dollars	4,762	5,132	5,336	5,462	5,357	5,372	5,341
In months of prospective GNFS imports	3.5	3.4	3.3	3.4	3.2	3.0	2.9
Total external debt (billions of U.S. dollars)	12.7	12.3	17.9	17.9	17.8	17.7	17.7
Total external debt (percent of GDP)	21.2	19.4	26.9	26.8	27.1	24.8	22.6
Exchange rates (kyat/$, end of period)							
Official exchange rate	1,220.6	1,360.7	1,336.5	1,551.5	…	…	…
Parallel rate	1,207.8	1,361.1	1,327.2	1,563.6	…	…	…
Memorandum items:							
GDP (billions of kyats)	72,714	79,721	90,451	33,557	104,393	119,004	135,845
GDP (billions of US$)	59.7	63.2	66.7	23.7	65.7	71.4	78.1
GDP per capita (US$)	1,151	1,210	1,267	1,254	1,242	1,321	1,440

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.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.
4/ The balance of payments data has been revised according to the BPM6 methodology.
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 2018 ARTICLE IV CONSULTATION

February 25, 2019

KEY ISSUES

Context: The economic outlook has weakened with risks to stability rising. Growth rebounded in 2017/18, led by exports and a recovery in agriculture, but is losing momentum. The impact from the Rakhine crisis is depressing foreign investor sentiment and donor financing. Macro-financial spillovers from banking sector restructuring may be severe if banks delay recapitalization. Global risks include trade tensions and global financial volatility, high crude oil prices and spillovers from a slowdown in China.

Medium term prospects: Myanmar's economy is expected to gain steam albeit at a somewhat slower pace than previously envisaged but faces greater downside risks including from the crisis in Rakhine state. The country's long-term prospects remain strong, supported by a growing demographic dividend, a competitive labor force and its strategic location.

Policy Recommendations:

- Successful implementation of the second wave of reforms in the Myanmar Sustainable Development Plan with a focus on peace, stability and good governance will help sustain the growth take-off and achieve the Sustainable Development Goals (SDGs).
- Fiscal policy should aim to steadily phase out central bank financing, while raising domestic revenues and increasing market-based financing of the deficit to gradually scale up SDG-related spending.
- Keeping monetary conditions tight will anchor market interest rates and control inflation. A further upgrade of the monetary framework and interest rate liberalization would enhance the transmission mechanism.
- The new market-determined mechanism for setting the exchange rate has helped cushion against exogenous shocks and should continue.
- Financial regulations and supervision should be strengthened with a view to ensuring financial stability and deepening, while forming contingency plans to address systemic banking risks, and strengthening the resolution framework.
- Concessional financing and a careful management of fiscal risks of Public Private Partnerships remains important in an environment where donor financing is weakening, and proposed infrastructure projects are scaling up.

Approved By
Kenneth H. Kang and Johannes Wiegand

Discussions took place in Nay Pyi Taw and Yangon during November 29–December 13, 2018. The staff team comprised Mr. Peiris (Head), Mr. Ahokpossi, Mr. De, Ms. Nadeem (all APD), Ms. Moyo (MCM), Mr. Queyranne (FAD), Mr. Kamoshida (OAP), and Mr. Ojima (Resident Representative). Mr. Cowen (CDOT Director) and resident advisors joined part of the mission. Mr. Tan (Alternate Executive Director) and Ms. Ong (Advisor) also participated in discussions. Ms. Dao and Mr. Landicho assisted in preparing this report.

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CONTEXT

1. **Economic activity is losing momentum, despite favorable long-term prospects.** After rebounding in 2017/18, growth has weakened with stability risks rising. The humanitarian crisis is depressing foreign investor sentiment and donor financing, while bank restructuring is revealing fragilities in the system. Risks are tilted further to the downside. A prolonged humanitarian crisis, withdrawal of trade preferences or reduced donor financing and investment could weaken longer-term prospects, which currently remain strong reflecting the country's growing demographic dividend, competitive labor force and strategic location.

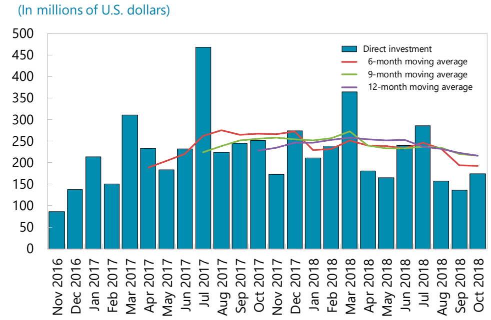
2. **Progress on addressing the humanitarian crisis in Rakhine state has stalled.** A Memorandum of Understanding was signed in June 2018 between UN agencies and Myanmar for a needs assessment and a process to repatriate refugees from Bangladesh. While the modalities for refugee repatriation were agreed, more progress is needed in key areas such as freedom of movement for returnees. A report from the UN on the atrocities by the military was released in September and the UNHRC is moving forward to assess evidence of "international crimes." More recently, the resumption of hostilities between the military and main insurgent group in Rakhine state has impeded UN access and the repatriation of refugees has stalled. Over 700,000 refugees have fled to Bangladesh since August 2017. Development partners (DPs) are closely watching progress on access to humanitarian assistance and the refugee repatriation process. With elections due in 2020 and the military-backed party making gains in recent by-elections, the prospects for major progress in addressing the Rakhine state crisis are limited.

3. **The Myanmar Sustainable Development Plan (MSDP), launched in August 2018, provides an overarching medium-term economic roadmap.** The MSDP includes a second wave of reforms in line with those called for by the 2017 Article IV consultation. Since then, FDI and interest rate restrictions were eased, the exchange rate regime and the investment promotion framework were clarified (Appendix I). The National Economic Coordination Committee was also elevated to a national policymaking body headed by State Counsellor Daw Aung San Suu Kyi, which should facilitate the implementation of the MSDP. The greater focus on the economy comes at a time when nationalist sentiment and support for the military is rising ahead of the 2020 elections.

RECENT DEVELOPMENTS

4. **After rebounding in 2017/18, economic activity is subdued.** Growth rebounded to about 6.8 percent in 2017/18 from 5.9 percent in 2016/17 led by strong garment and commodity exports and a recovery in agriculture (Table 1 and Figure 1). Growth slowed to about 6.2 percent in 2018 (April–September 2018, 6-month transition budget period) due to weakening external (in line with regional trends) and domestic demand. After hitting an all-time high in

Foreign Direct Investment
(In millions of U.S. dollars)

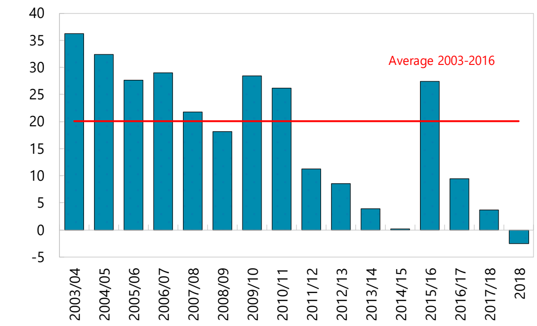


Sources: Myanmar authorities; and IMF staff calculations.

March, the PMI fell back to contractionary levels between April and October as manufacturing activity weakened, albeit recovering lately. Tourist receipts and consumer goods imports have also decelerated, depressing retail trade. Recent domestic business sentiment surveys and moderating capital goods imports point to weak investment confidence.[1] Partial FDI inflow data reported by banks also suggest moderation in 2018.

5. **External and inflation pressures are rising despite lower CBM financing.** Headline inflation was moderate in 2017/18 at 4.0 percent on average but spiked to 8.3 percent y/y in November, as fuel prices rose, and the kyat depreciated (14.5 percent since April 2018). The fiscal deficit reached about 2.7 percent of GDP in 2017/18, compared to 2.5 percent of GDP in 2016/17, which further reduced CBM financing of the deficit (to 3.5 percent of the previous year's reserve money and below the targeted 30 percent share of domestic financing). In addition, preliminary data to September 2018 show a small accumulation of government deposits at the CBM, reflecting the unusually low budget execution during the six-month transition budget. The current account deficit widened marginally in 2017/18 to 4.7 percent of GDP and was largely financed by continued strong FDI inflows (5.4 percent of GDP). The real exchange rate depreciated by 5 percent since April 2018, helping to slightly improve the trade deficit in 2018. International reserves remain around three months of imports, below staff's assessment of adequate reserves (five to six months of prospective imports).

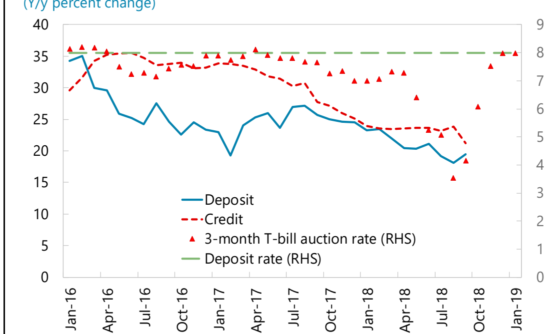
Central Bank Financing to Government
(In percent of previous year's reserve money)



Source: IMF staff calculaltions.

6. **Macrofinancial spillovers of the bank restructuring process are starting to be felt.** Credit growth has fallen sharply from 34 percent in 2016/17 to 20 percent by September 2018 as private banks gradually reduced their large exposures and placed more funds in risk-free securities adjusting to the 2017 prudential regulations, at times driving market interest rates lower than the retail deposit rate floor. This, combined with the retail deposit growth and slow NPL recognition, is putting further pressure on bank profitability and capital. State-owned banks' (SOBs) share of total bank lending has fallen to 11 percent, reflecting the contraction of directed lending to the agriculture sector. However, foreign bank branches are expanding FX lending to exporters with the easing of restrictions on their activities and have provided a counterbalance to the deleveraging taking place by domestic banks.[2]

Credit and Deposit Growth
(Y/y percent change)



Sources: Central Bank of Myanmar; and IMF staff calculations.

[1] Myanmar's fiscal year has changed from April–March, to October–September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year started October 2018.

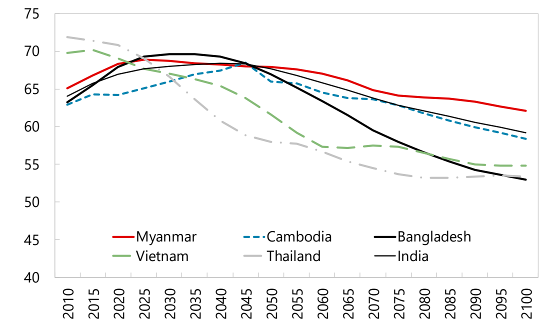
[2] Bank credit growth to the private sector would be closer to single-digit levels if foreign bank activities were excluded.

OUTLOOK AND RISKS

7. **Long-term economic prospects remain strong.** Myanmar's demographic dividend is just taking off with an expanding working-age population that is expected to persist much longer than its neighbors. The country is also strategically located between the global growth engines of China and India. The anticipated China-Myanmar Economic Corridor (CMEC) linking South-Eastern China to the Indian Ocean envisages several large infrastructure projects, including Kyaukpyu port currently under negotiation, and the oil/gas pipeline from Kyaukpyu, Rakhine state to Kunming, China. The Sittwe port, seen as an alternative gateway to isolated Northern-Eastern India, has been upgraded with official development assistance (ODA) from India and will facilitate cargo transshipment through river ports and the India-Myanmar-Thailand trilateral highway currently under construction. Myanmar is also a strategic partner for Japan with substantial Japanese ODA and FDI in the Thalawa free trade zone, as well as participating in regional connectivity projects (East-West corridor and Mekong-Japan Initiatives). All these infrastructure projects provide opportunities to diversify and create jobs for the growing youth population.

Working Age Population

(In percent of total population)

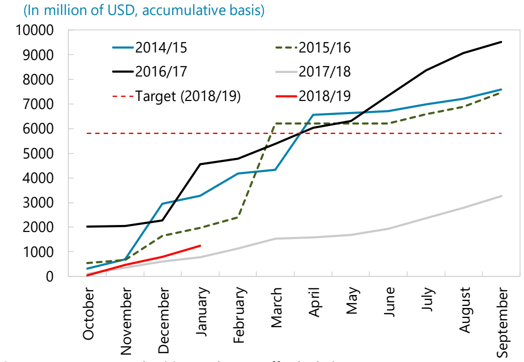


Source: United Nations.

8. **However, the near-term outlook has weakened.** Economic growth is expected to remain below potential (estimated at about 7 percent to 8 percent, see Country Report No. 17/30) in 2018/19 due to weakening export demand and subdued private construction activity related to the deleveraging by banks and corporates as real estate prices continue to correct from elevated levels. Real GDP growth is projected to accelerate slightly from 6.2 percent in 2018 to 6.4 in 2018/19 predicated on a fiscal stimulus as government spending picks up from the low levels recorded in the transition budget. Inflation is expected to moderate in 2018/19 as oil prices and the exchange rate has stabilized and continue to decline supported by the phasing out of monetary financing. Credit growth is expected to moderate further to low single digits. However, due to structural factors, credit and output in the baseline are expected to remain stronger compared to experiences of countries in similar situations. Domestic banks are poised to gradually diversify their lending portfolio to consumer credit with the allowance of uncollateralized lending at higher rates while foreign banks continue to expand lending activities to domestic corporates that are constrained by single borrower limits.

Myanmar: FDI Approvals

(In million of USD, accumulative basis)



Sources: Myanmar authorities; and IMF staff calculations.

9. The medium-term outlook is more favorable. Economic growth is expected to gradually rise close to 7 percent over the medium-term, but its pace is somewhat slower than previously envisaged, due to weaker FDI inflows and macrofinancial spillovers from bank restructuring (Table 5).[3] Tax revenue is expected to gradually rise with the reforms envisaged under the medium-term reform strategy (MTRS) process, supporting a gradual improvement in budget execution alongside public financial management (PFM) reforms. However, consolidated government revenues are on a decline due to the gradual depletion of natural gas reserves and state economic enterprises (SEE) losses, but over the longer term are expected to rise following recent discoveries of hydrocarbon deposits and exploration activities including a new bidding round planned in early 2019. While the current account deficit and external debt is expected to be sustainable, reserve coverage is projected to fall and remain below adequate levels reflecting the weaker FDI and DP financing outlook (Appendix III).

10. Risks to the outlook, both domestic and external, are tilted to the downside. A prolonged humanitarian crisis in Rakhine state and slow progress in addressing the refugee repatriation issue could further reduce concessional donor financing and fiscal space. A withdrawal of GSP+ trade preferences from the EU on human rights concerns poses an added risk to exports and investor confidence. Macro-financial spillovers may be more severe in the event of banking sector distress and delayed recapitalization (Appendix II).[4] Risks from natural disasters are ever present in Myanmar incurring large economic losses in the aftermath. Historically, these losses have been estimated to be around 2 percent of GDP annually (between 2006–2015) and are the largest shocks that affect debt sustainability (DSA).

11. On the global front, risks include trade tensions and global financial volatility, high crude oil prices, and spillovers from a slowdown in China. While financial integration remains limited, Myanmar participates in global and regional value chains, with China the largest export destination and source of FDI inflows. The EU is the largest export destination for garments, accounting for nearly half of garment/textile exports and employing about half a million workers. Myanmar is also a net importer of petroleum products, with oil imports exceeding natural gas exports in 2018.

12. Two financing scenarios, a downside and an upside scenario, illustrate the potential impact stemming from these risks on the economy and policy trade-offs. In the downside scenario, a reduction in external financing (nearly half of the level assumed in the baseline) and exports (based on export to EU benefiting from GSP+ trade preferences)

Myanmar: Scenario Analysis (FY2018 - FY2023)

Selected Macro Indicators	2017/18	Baseline Average (FY2018-FY2023)	Downside Average (FY2018-FY2023)	Upside Average (FY2018-FY2023)
Real GDP growth (in percent)	6.8	6.7	5.2	7.2
CPI (period average)	4.0	6.5	8.2	7.0
Primary fiscal balance (in percent of GDP)	-1.3	-1.9	-1.7	-2.5
Net lending/borrowing (in percent of GDP)	-2.7	-3.6	-3.7	-4.2
Current account balance (percent of GDP)	-4.7	-4.8	-5.1	-5.2
Import coverage (in months)	3.3	3.0	2.4	3.8
FDI (in percent of GDP)	5.4	4.1	3.8	4.6

Source: IMF staff calculations. FY2018 runs from October 2017 to September 2018. Thereafter, all fiscal years are on a October to September basis.

[3] See Box 2 - Country Report No. 17/30.

[4] The potential impact of banking sector distress on the rest of the economy is not quantified in a scenario given the high degree of uncertainty and non-linear, large impacts experienced by Myanmar during previous episodes (see IMF Country Report No. 18/91).

necessitates a combination of government spending cuts and higher monetary financing. Depreciation pressures lead to higher inflation while growth slows. On the upside, progress on the humanitarian crisis would facilitate a resumption in higher external financing including budget support that allows higher SDG related spending and rebuilding of international reserves to adequate levels over the medium term, lowering risk premia and crowding-in investment, supporting an uplift in growth (Debt Sustainability Analysis).

Authorities' Views

13. **The authorities broadly agreed with staff's view of the recent developments and outlook.** The moderation in growth was attributed to a number of external factors including uncertainty related to the Rakhine crisis, trade barriers faced by some of Myanmar's key exports as well as budget execution adjustments due to the fiscal year change. The authorities noted they are taking measures to support peace and stability in the region, including access to humanitarian needs and the refugee repatriation process, as well as supporting policies to promote economic development in affected areas. The authorities are carefully considering large infrastructure projects to benefit from the demographic dividend and Myanmar's strategic location while ensuring debt sustainability. The authorities appreciated the quantitative risk scenarios and policy trade-offs outlined by staff. They recognized the severity of the downside scenario to job losses and welfare of the poor and were keen to realize the gains envisaged in the upside scenario through implementation of the MSDP.

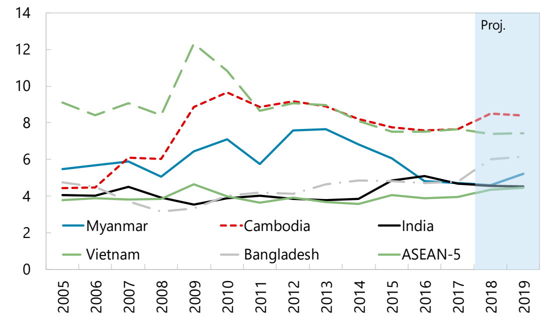
A SECOND WAVE OF REFORMS AND CONSOLIDATING STABILITY

The MSDP recognizes that a second wave of reforms is needed to achieve the SDGs. The economic policy framework embodied in the MSDP aims at consolidating economic stability and creating an environment for private sector-led growth broadly in line with the 2017 Article IV Consultation. Good governance will help mobilize domestic revenues and promote development more efficiently.

14. **A second wave of reforms is needed to sustain growth and achieve the SDGs.** Myanmar's first wave of economic reforms resulted in an impressive growth take-off and poverty reduction, supported by FDI and robust public investment funded by natural resource revenues. The 2018 MSDP recognizes that a second wave of reforms with greater investments in both physical and human capital is needed to achieve the SDGs, along with peace and stability. On investment, the scaling up of infrastructure projects including regional connectivity projects and PPPs would help realize Myanmar's growth potential and create jobs. To harness this potential, Myanmar will also need to invest heavily in human capital while managing fiscal risks. On peace and stability, addressing regional disparities and conflict in affected regions is a priority, including the resettlement of refugees in Rakhine state. Good governance and transparency will help mobilize tax and natural resource revenues as natural gas reserves are being depleted while improving spending efficiency. With a more open and clear investment framework in place, the country could attract

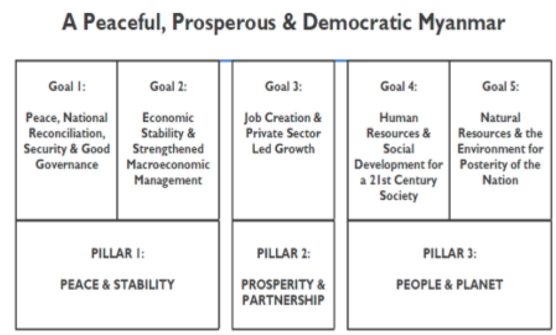
greater private capital, by strengthening its policy framework, consolidating peace and stability, as well as improving the business environment. To this end, the Companies Act 2017, including the recent opening of the retail/wholesale trade, education, finance companies, and the insurance sector to full foreign ownership was a bold reform.

Public Investment
(In percent of GDP)



Source: IMF's *World Economic Outlook* database.
Note: ASEAN-5 includes Indonesia, Malaysia, Philippines, Singapore, and Thailand.

Myanmar Sustainable Development Plan
(A comprehensive framework)



Source: Myanmar authorities.

FISCAL POLICY AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

Fiscal policy should be directed towards SDG-related spending, while lowering CBM financing and ensuring debt sustainability. With a very low tax-to-GDP ratio and a projected decline in natural resource revenues, a comprehensive MTRS is imperative to finance the much needed SDG-related spending. External financing on concessional terms remains vital as the country scales up spending without an undue reliance on domestic debt issuance or monetary financing.

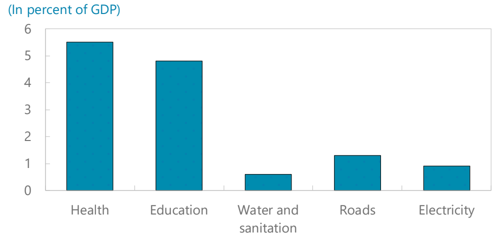
15. The fiscal deficit has remained moderate, allowing a reduction in CBM financing. Revenue underperformance in 2017/18 was substantial (-1.7 percent of GDP relative to 2016/17) and broad based, as non-tax revenue from SEEs, income tax receipts and grants all declined. However, spending under-execution largely offset revenue shortfalls, with a significant reduction in both current and capital spending (-1.6 percent of GDP). This resulted in a lower than expected fiscal deficit in 2017/18, thereby reducing CBM financing below the targeted 30 percent of domestic financing. The 2018 transition budget deficit appears to have been less than 2 percent of GDP, as revenues performed above target and capital spending struggled to adjust to the fiscal year change.

16. The fiscal deficit is projected to increase as budget execution improves, providing a modest fiscal stimulus in 2018/19. Both current and capital expenditure are expected to gradually pick up over the medium term, on the back of an improvement in domestic revenue mobilization as the second phase of IRD revenue administration reforms takes off. The fiscal deficit is expected to rise to 3.5 percent of GDP in 2018/19, providing a modest fiscal stimulus to the economy. Over the medium-term, with increased public investment and PPPs to support the MDSP, the fiscal deficit should reach about 4 percent of GDP.

17. Fiscal policy should aim to phase out steadily CBM financing, while raising domestic revenues and increasing market-based financing of the deficit. Myanmar has one of the lowest tax to GDP ratios in the world at 6.7 percent of GDP, and non-tax revenue from SEEs is projected to further decline. Raising tax revenues and improving the efficiency of the SEEs sector are thus imperative to create fiscal space for SDG-related spending. The phasing-out of monetary financing by 2020/21 as envisaged in the MSDP is important to reduce fiscal dominance and strengthen the instituional setting for monetary policy. The greater appetite for government securities as banks deleverage provides a window to raise government securities issuance and fund the deficit in an uncertain external financing environment. As such, the targeted phasing out of monetary financing by 2020/21 should be recalibrated to a steadily declining path as a share of the previous year's reserve money rather than domestic financing to avoid an acceleration of monetary financing in the transition years and closely monitored to preserve external stability and control inflation.

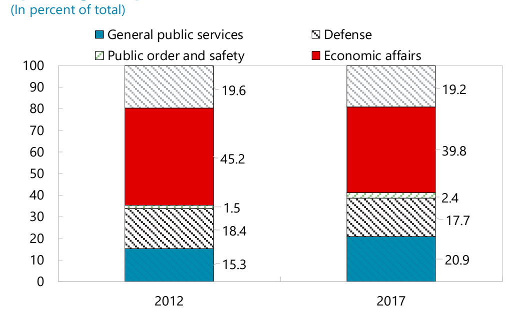
18. Fiscal structural and governance reforms are needed to scale up SDG-related spending while preserving debt sustainability. The SDG spending gaps in education, health and infrastructure spending for 2030 are estimated to be large in Myanmar (Appendix VII) and expenditures would need to be gradually scaled-up paying due regard to absorptive capacity constraints and debt sustainability. Realizing these objectives while keeping the fiscal deficit to about 4 percent of GDP to maintain a low risk of debt distress will require the implementation of a comprehensive medium-to-long term revenue strategy (MTRS). Higher concessional external financing and a temporarily higher deficit in line with the upside scenario could help make headway as the MTRS process develops. Rebalancing expenditure to social sectors, enhancing spending efficiency, and improving public financial management (PFM), would also help. These mutually reinforcing policy priorities are aimed to not only achieve these objectives but to also reduce fiscal governance vulnerabilities and strengthen anti-corruption efforts. Policies include:

Estimates of Additional Total Spending for Sustainable Development Goals in 2030 1/
(In percent of GDP)



Source: IMF staff estimates, using IMF FAD SDG costing framework.
1/ For education and health, estimates reflect the difference between the share of GDP in spending consistent with high performance in 2030 and the current level of spending as a share of GDP; For roads and electricity, estimates reflect the annualized additional spending to close the infrastructure gap between 2019 and 2030 expressed in percent of 2030 GDP.

Spending Composition
(In percent of total)



Sources: Myanmar authorities; and IMF staff calculations.

- **Policies to strengthen revenue mobilization.** The MTRS would provide greater predictability to scale up SDG-related spending by setting medium-term tax revenue targets based on the Internal Revenue Department's (IRD) second phase of the reform journey, customs reforms and various tax policy initiatives. Tax laws, including the Tax Administration and Procedures Law (TAPL), the Income Tax Law (ITL) with a chapter on extractive resources and rationalization of incentives, and a gradual move towards a VAT, should be modernized and enacted, thereby reducing the scope for discretion. Tax amnesties should be avoided until these laws are enacted and the administrative capacity of the IRD enhanced.

- **Policies to improve budget credibility and execution.** Substantial under-execution of spending over the last two years highlights an urgent need to better integrate planning and budgeting and improve absorptive capacity. In addition, budget credibility would be enhanced by stronger revenue forecasting capacity and realistic budget ceilings based on a robust medium-term fiscal framework (MTFF) anchored on the MSDP and linked to the macroframework.

- **PFM reforms to enhance spending efficiency and contain fiscal risks.** Building on the progress with treasury operations and reporting consistent with GFS standards, developing a harmonized chart of accounts and unified Financial Information Reporting System for the Treasury (FIRST) should be expedited to automate information and strengthen transparency.

- **Public-Private Partnerships (PPP) framework and managing fiscal risks.** Large infrastructure projects can be appraised and prioritized through the project bank, to be undertaken through public procurement, donor financing or through PPPs based on a value-for-money evaluation. As large PPPs may involve sovereign guarantees and generate contingent liabilities, a framework for managing, controlling and reporting fiscal risks should be instituted expeditiously as recommended by Fund TA (Box 1).

- **Restructuring of and improving governance of SEEs.** Improving SEE efficiency and corporate governance, including in natural resources and EITI implementation is critical to enhancing SEE performance. A key macro-critical priority is electricity tariff reform to reduce losses at the EPGE (about 1 percent of GDP), while mitigating the impact on the poor by designing a progressive tariff schedule and strengthening social safety nets. Given the additional generation capacity coming online and return guarantees provided to independent power producers in FX, a staggered adjustment in tariffs with an upfront revision in early 2019 is urgent. In terms of extractive resource revenues, the new bidding round should adopt a competitive bidding process and a "model contract" based on Fund TA and ongoing DP assistance.

Authorities' Views

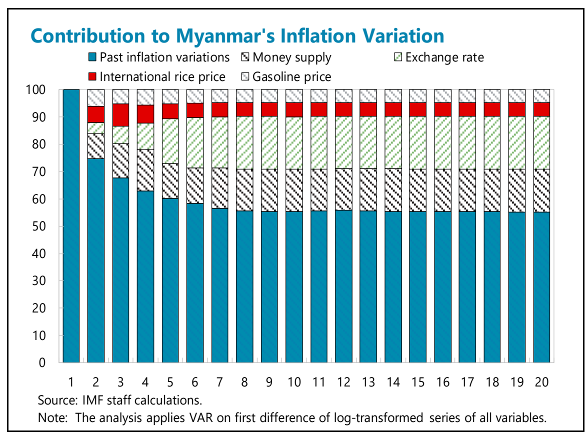
19. The authorities reiterated their commitment to steadily phase out monetary financing and maintain debt sustainability. They agreed that spending could pick up in the new fiscal year following the transition budget under-execution. They agreed that the targeted phasing out of monetary financing by 2020/21 should be recalibrated to a steady path as a share of reserve money rather than domestic financing and closely monitored to preserve external stability and control inflation. The authorities added that projects under CMEC and other regional connectivity will be scrutinized and subject to open tender. They also highlighted the cabinet's recent approval of the "project bank regulations" that requires all large infrastructure projects go through the same appraisal and approval process. They mentioned that the NECC also intends to institutionalize a PPP gateway process and transparent reporting of fiscal risks (as suggested by Fund TA) including utilizing "model contracts" in key sectors to the extent possible.

MACROFINANCIAL STABILITY AND DEVELOPMENT

To control inflation and reinforce confidence, reliance on CBM financing should be phased out and monetary conditions kept tight. The new market-determined mechanism for setting the exchange rate should continue allowing for exchange rate flexibility to cushion against exogenous shocks. Financial regulations and supervision should be strengthened with a view to ensuring stability and deepening, while forming contingency plans to address systemic banking risks and establishing a resolution framework.

A. Exchange Rate and Monetary Policy

20. To control inflation and anchor market interest rates, the authorities should keep monetary conditions tight and upgrade the monetary framework. Inflation in Myanmar is persistent and is driven by reserve money, exchange rate pass-through, food (rice) and gasoline prices. In 2019 and beyond, inflation is expected to gradually moderate to a range between 6 percent to 7 percent, consistent with its historical average, as the exchange rate has stabilized since November 2018, monetary financing of the deficit is phased-out, and food and fuel prices moderate. At the same time, market interest rates are under downward pressure due to the ongoing deleveraging in the banking sector and a greater appetite for debt securities. A pick up in government securities issuance and deposit auctions would provide a market-based mechanism for financing the government and sterilization while preventing a decline of interest rates below the deposit floor and helping banks improve profitability. This would help keep reserve money and market interest rates in line with the declining path for headline inflation projected. The CBM should also consider articulating a medium-term inflation objective and introducing an interest rate on excess reserve (IOER) to provide a floor on market interest rates and review the interest rate corridor quarterly, as recommended by Fund TA. Well anchored market rates would limit capital flight and speculative depreciation pressures.

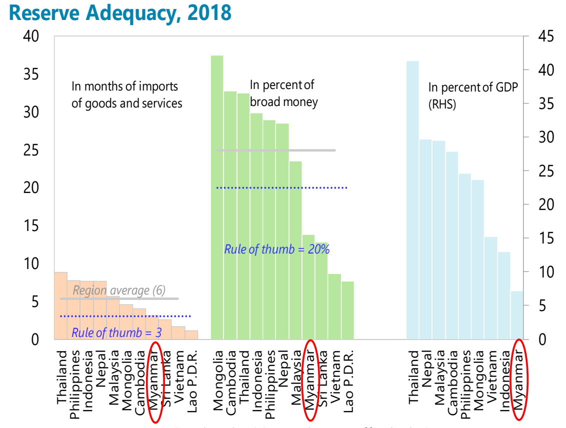


21. The CBM is making progress in adhering to a market-determined exchange rate. The reference rate has sharply depreciated between April and December 2018, largely following the interbank market and banks' customer transactions in line with the recommended formula, though the spread with the informal market rate has widened at times. The external position of Myanmar remained broadly consistent with fundamentals for 2018 as estimated by the Fund's external balance assessment (Appendix III). CBM took advantage of this opportune time to issue on

February 5, 2019 a formal regulation on the new rate setting system (Appendix IV). The clarification of the rate setting mechanism will help anchor market expectations and allow a phasing out of daily two-way FX auctions that no longer facilitate price discovery given the limited participation of banks.

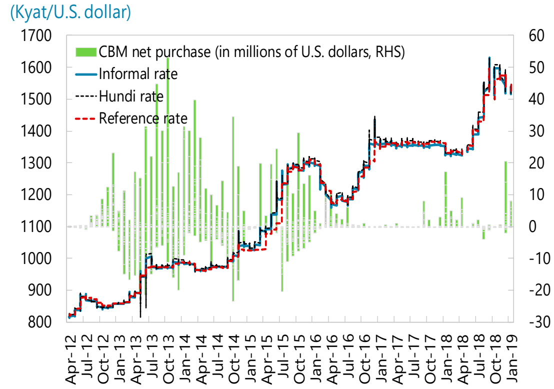
22. **The CBM should take additional steps to further strengthen external stability.** Medium-term priorities are to further deepen the interbank market and develop a FX intervention strategy. The CBM also issued guidelines (July 2018) for the use of FX swaps but their use to mitigate depreciation pressures in the absence of a developed FX spot and money markets is not advisable. The CBM should transition to an asymmetric FX intervention (buying FX during capital inflows and selling only to avoid disorderly market conditions) as conditions permit to avoid misalignment and build international reserves. Amendments to the FX management law would help address regulatory gaps and encourage the migration of FX transactions to the formal market including remittances and the repatriation of export proceeds. These amendments would also facilitate a development of interbank FX markets and hedging instruments through a gradual recalibration of net FX open positions.

Reserve Adequacy, 2018



Sources: IFS; WEO; National authorities; and IMF staff calculations.

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



Source: Central Bank of Myanmar.

23. **Exchange rate flexibility, interest rate liberalization and operational refinements will strengthen monetary autonomy.** The CBM is transitioning to a reserve money targeting framework with TA from MCM and should continue to lay the foundations by improving liquidity forecasting, and further developing indirect monetary instruments (e.g., use of repos) and the money market. Gradual liberalization of retail bank rates will strengthen the monetary transmission mechanism and the authorities are to be commended for allowing unsecured lending at higher rates, with the interest rate on these loans capped at six percentage points above the CBM bank rate effective February 1, 2019 (Appendix IV).

Authorities' Views

24. **The CBM will continue to follow a market-determined reference exchange rate and further upgrade the monetary framework.** They attributed the rising inflation to fuel prices and the depreciating kyat and agreed that lower CBM financing of the fiscal deficit will help contain inflation. The CBM has also recently issued a directive allowing unsecured loans at higher rates and

clarified the retail rate structure linked to the bank rate as part of a sequenced plan to upgrade and strengthen monetary policy. The CBM stepped up deposit auctions driving market rates above the banks' deposit interest rate floor and tightening monetary conditions to control inflation. They will consider further refinements to the monetary policy and operations framework with Fund TA.

B. Financial Stability

25. Fragilities in the banking system are surfacing with potentially large balance sheet impacts. Lax lending standards collateralized on (over-valued) real estate and significant evergreening through the rollover of overdrafts have raised systemic risks stemming from the credit boom. Under the new regulations, revised financial reporting to the CBM reflects the timebound conversion of overdrafts to term loans and new capital regulations (Appendix V). There has been progress in addressing legacy issues at the private domestic banks, but challenges remain.

Myanmar: Structure of the Banking System

	Number		Branches		Total Deposits (% of system)		Total Assets (% of system)		Total Loans (% of system)	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
State owned Banks	4	4	516	545	28%	26%	36%	33%	12%	11%
Private Banks	24	24	1520	1719	66%	66%	55%	57%	86%	85%
Foreign Bank Branches	13	13	13	13	6%	8%	9%	9%	2%	4%
In percent of GDP					44%	48%	61%	63%	23%	25%

Source: Myanmar authorities.

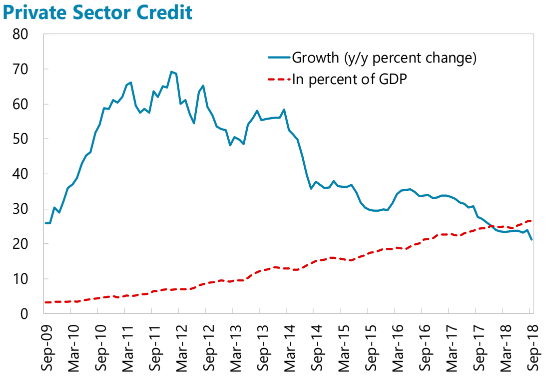
26. Decisive policy steps are needed to address systemic risks and reduce scope for poor governance:

- **Improving compliance, loss recognition and encouraging recapitalization.** CBM will have to play a key role in monitoring and enforcing these regulations. While data limitations hinder a full assessment of potential NPLs and recapitalization needs, the uneven loan loss recognition and inadequate provisions, large exposures, and low capital position of banks raise systemic concerns. The banking system including most private systemic banks are below minimum capital requirements. To strengthen capital buffers there is an urgent need to review and update the capital improvement plans submitted by banks to make them credible and sufficiently ambitious. On the resolution framework, the focus should be on cleaning up bank balance sheets through proper diagnostics and loss recognition, with enhanced external examinations undertaken in potentially systemic circumstances. For non-systemic insolvent and/or illiquid, non-viable banks, the CBM should immediately prepare for resolution including strengthening capacity, policies and procedures for bank resolutions and setting up a dedicated resolution team at the CBM. A well formulated financial safety net should also be gradually developed, with an emergency liquidity assistance framework operationalized to support banks facing temporary liquidity problems. Contingency plans should be formed to address systemic risks, though realizing the expected private recapitalizations will be a challenge. A number of banks are planning to issue subordinated debt while others may benefit from an injection of foreign capital, thanks to the recent (January 2019) CBM order allowing minority foreign shareholding up to 35 percent of capital. Weaker banks with larger recapitalization needs, however, may find it difficult to raise adequate capital in a reasonable timeframe and require public recapitalizations.

- **Steadfast implementation of the Financial Institutions Law (FIL) regulations and the ensuing Bank-Fund banking sector action plan (BSAP) developed in 2017.** A number of pending regulations under the FIL and Companies Act facilitating recapitalization (e.g., related to subordinated debt issuance and foreign equity investments) have been issued, although a directive on the modalities for revaluation of fixed assets remain pending. Those regulations targeted at minimizing connected lending and improving corporate governance should also be issued expeditiously. These guidelines will also help strengthen credit risk management at banks while risk-based supervision is strengthened at the CBM supported by IMF TA. A decision on the restructuring strategy for the four SOBs should be taken based on the World Bank's diagnostic study to ensure their viability.

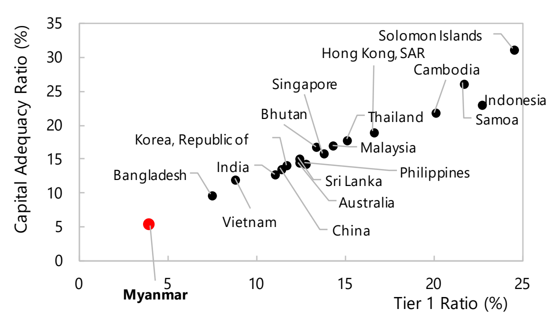
- **A gradual liberalization of retail bank interest rates** will help banks better price credit risks and raise capital through greater profitability. A first step was already taken by allowing unsecured loans at higher rates and the authorities could consider further liberalizing lending rates as well as deposits rates keeping the rate structure in line with policy needs and positive in real terms through a IOER and indirect instruments. Foreign entry to non-bank financial institutions and continued gradual liberalization of lending activities of foreign bank branches announced in 2018 could raise competition and broaden financial services in due course.[5]

Private Sector Credit



Sources: Central Bank of Myanmar; and IMF staff calculations.

Regulatory Total Capital and Tier1 Ratios to Risk Weighted Assets, 2017



Source: IMF staff calculations.

Authorities' Views

27. The authorities are committed to improving financial supervision and addressing systemic risks. The CBM noted the importance of seeing through the implementation of prudential regulations and their role in monitoring and enforcement. They agreed that loss recognition and

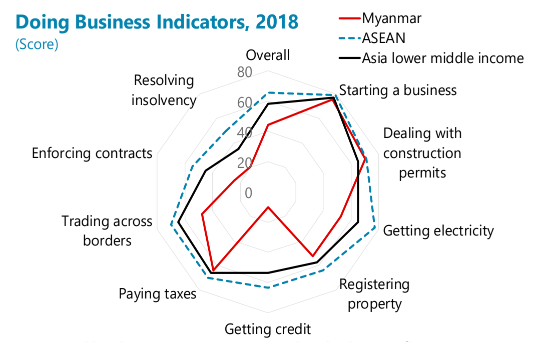
[5] The liberalization foreign bank activities have been phased-in with FX services to domestic clients allowed in 2018 and restrictions on local currency operations to be eased in 2020.

timely recapitalization will be key to maintain confidence in the banking system. The weak accounting standards and large recapitalization needs of some banks pose a challenge to enforcing credible capital improvement plans, though the authorities are committed to moving down the resolution ladder. A well formulated financial safety net and contingency plans are also being developed. They were appreciative of the updated BSAP and have requested additional TA to assist with these issues.

CAPACITY DEVELOPMENT AND STRUCTURAL ISSUES

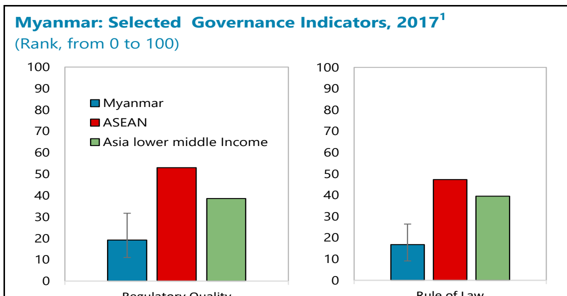
The business environment would benefit from upgraded infrastructure, access to finance and strengthening of the overall governance framework. Capacity development (CD) remains crucial to support these structural reforms as the Myanmar economy transitions. CD from the Fund is currently being aligned to the goals set in the MSDP.

28. Strengthening the business environment will help attract private investment including through reducing vulnerabilities to corruption. While labor costs remain competitive, a reliable power supply, access to finance and logistics are lacking (Figure 3 and 5). In terms of lowering the costs of doing business, contract enforcement, insolvency regime and trading across borders, particularly trade facilitation are priorities. Permitting bank accounts in the currency of Myanmar's main trading partners, particularly in border areas, would help lower financial transaction cost. In addition, business surveys identify corruption as a key impediment.



Source: World Bank Doing Business, 2018: Survey-based indicators reflect investors' perceptions on the business environment. These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

29. Improving governance and anti-corruption efforts are critical. While there are data gaps, available evidence, based in part on perceptions-based indicators, points to governance and corruption vulnerabilities. The new administration has made progress on some indicators including submitting amendments to the anti-corruption law, enhancing fiscal transparency and clamping down on smuggling, and strengthening financial sector regulations. The anti-corruption agency (ACA) agreed that the overall severe corruption assessment reflects systemic capacity weakness and the country's fragility, and thus the mission engaged with a view to developing a multi-year strategy leading to comprehensive improvements under the MSDP. The mission focused on fiscal governance and natural resource management; priority recommendations set out by the Asia



Source: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2017.

[1] Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible.

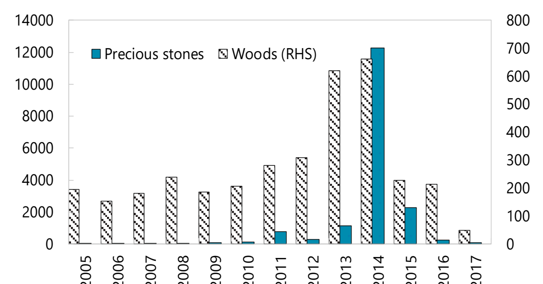
Pacific Group on Money Laundering; and progress on financial sector regulations; areas which are considered urgent and macrocritical. A number of amendments have been made to the anti-corruption law, and the ACA is awaiting peer review and compliance assessment against UN standards. Further amendments to the law and the implementation of the anti-corruption framework could be a focus in 2019.

30. Myanmar maintains a MCP subject to the IMF's jurisdiction under Article VIII, Section 3. The authorities have removed the exchange restriction arising from the tax certification requirement for transfers of net investment income abroad by revising the relevant provision in the new investment law and rules and by confirming that the practice conforms with the new provision.

31. Deficiencies in Myanmar's AML/CFT regime were identified by a July 2018 APG assessment. Myanmar received low ratings on the effectiveness of its AML/CFT regime and in its compliance with over half of the FATF 40 recommendations and as a result is subject to enhanced attention of the FATF. It could be listed by the FATF in February 2020 as a jurisdiction with strategic deficiencies unless it demonstrates sufficient progress by the end of 2019. Myanmar has since its assessment, published its National Risk Assessment, and expects to finalize and enact amendments to the AML/CFT legal framework by the third quarter of 2019. Myanmar should continue implementing the priority recommendations of the APG focusing on improving the effectiveness of the AML/CFT regime.

32. The integration of CD with surveillance priorities and with the goals set in the MSDP is a continuous process (Appendix VI). The Fund has enhanced its alignment of CD with this focus. The updated medium-term CD strategy covers governance weakness and institutional building identified above. Substantial progress has been made in improving macroeconomic statistics, but more remains to be done to improve the quality and timely dissemination of data. It is envisaged that the e-GDDS mission planned for early 2019 will help centralize and make available adequate data for surveillance (Informational Annex).

China's Imports of Myanmar's Precious Stones and Wood 1/
(In millions of U.S. dollars)



Source: Haver Analytics.
1/ Myanmar's export figures on precious stones and woods are significantly smaller than China's import figures.

STAFF APPRAISAL

33. Long-term growth prospects in Myanmar remains strong, but downside risks to the near-term outlook have risen. Lower external financing and investor sentiment arising from a prolonged crisis in Rakhine state and possible revocation of trade preferences on human rights concerns are immediate downside risks. Systemic risks stemming from fragilities in the banking system are surfacing and need to be addressed quickly. Over the medium term, growth is expected to gradually pick up, albeit at a slower pace, reaching close to 7 percent over the medium-term.

Economic policies to support peace and stability, including consistently durable progress on the humanitarian crises, will help Myanmar realize its strong growth potential.

34. **The medium-term economic roadmap, the MSDP, will play a critical role in providing strategic direction which can help achieve SDGs.** To be able to harness the potential from the demographic dividend and strategic location, Myanmar will need to invest heavily in physical and human capital while managing fiscal risks. Aligning capacity development to the MSDP strategies is key to achieving related goals. The Fund has enhanced its alignment of CD with this focus.

35. **Fiscal policy should aim at promoting SDG-related spending, while lowering CBM financing and ensuring debt sustainability.** Policy priorities in revenue mobilization, budget credibility and PFM reforms should be aimed to not only achieve these objectives but to also reduce governance related vulnerabilities. Myanmar's SDG spending gap in critical sectors is estimated to be large, requiring a gradual scaling up of expenditures. Carefully selected projects should be subject to open tender and undergo the same appraisal and approval process. 'Model contracts' in key sectors, particularly extractives, should be used to the extent possible to increase the transparent reporting of fiscal risks. Concessional financing should continue to be sought. Increasing the issuance of government securities, especially in an uncertain environment of external financing and at a time when banks are seeking safer assets, should be considered. Improving SEE efficiency and governance, including in natural resources and EITI implementation, remains critical.

36. **Monetary conditions should be kept tight by stepping up the issuance of debt securities and reducing the reliance on CBM financing.** Government securities issuances and deposit auctions are already being stepped up, as part of the authorities' firm commitment to steadily phase out monetary financing, driving market rates above the banks' deposit interest rate floor. More recently, the retail bank rate structure was clarified including allowing unsecured lending at higher rates. The authorities could consider further liberalizing lending rates as well as deposits rates keeping the rate structure in line with policy needs when conditions permit. The recently announced market-determined exchange rate reference system should continue to be followed allowing for exchange rate flexibility to cushion against shocks.

37. **Fragilities in the banking system are surfacing and systemic risks need to be addressed quickly.** Uneven loan loss recognition and inadequate provisions, large exposures, and low capital position of banks indicate systemic concerns. Cleaning up bank balance sheets through proper diagnostics and loss recognition and recapitalization are critical. Enhanced external examinations of systemic banks and preparation of contingency plans including a well formulated financial safety net should be developed. This should also include discussions for an emergency liquidity assistance framework operationalized to support banks facing temporary liquidity problems.

38. **CD remains crucial to support the ambitious second wave of reforms** articulated in the MSDP including strengthening good governance and anti-corruption efforts. The new administration has made progress on some governance indicators but more needs to be done to

improve fiscal transparency of natural resource management, financial sector regulations and AML/CFT regime, and implementation of the anti-corruption framework.

39. The authorities should soon be in position to accept Myanmar's obligations under Article VIII. Prior to doing so, in line with recent Fund TA, the authorities are encouraged to seek Fund approval of the remaining MCP if the criteria for approval are met, or to remove the MCP by—for example—no longer using the two-way FX auction.

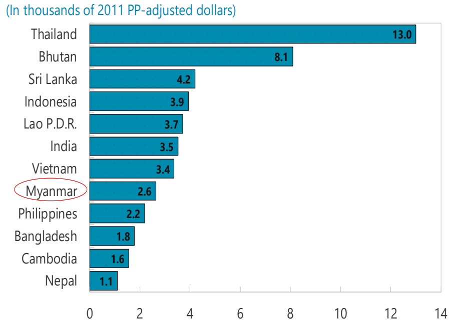
40. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Box 1. Private Participation in Infrastructure Projects

Myanmar has ambitious plans to address its large infrastructure needs through increased private sector participation. The public capital stock per capita is comparatively low in Myanmar and access to infrastructure is limited (see text chart). In addition, the infrastructure quality in Myanmar is perceived to be lower (2.4 on a scale of 1-7) than in emerging and developing Asia (3.7). Improving public infrastructure is a priority of the Myanmar Sustainable Development Plan (MSDP). To that end, the government intends to use more extensively Public-Private Partnerships (PPPs). Myanmar has so far limited experience with privately financed investment, mainly in the electricity and ports sectors.

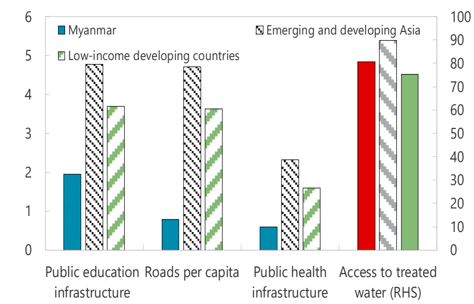
Infrastructure Developments

2015 Public Capital Stock per Capita
(In thousands of 2011 PP-adjusted dollars)



Sources: Center for International Comparisons (2013); OECD (2014), WEO; and IMF staff calculations.

Measure of Infrastructure Access (Most Recent Year) 1/



Source: World Development Indicators.
1/ Units: Education: secondary teachers by 1000 people; roads: km per 1000 people; health: hospital beds per 1000 people; electricity: kWh per 1000 people; water: percent of the population.

Myanmar gives priority to transformative projects in ports, roads and electricity, which are likely to create large fiscal commitments. Ongoing and planned infrastructure projects are very large and may create significant fiscal risks to the government.

The authorities have started to improve their public investment management framework, including for PPPs. The government recently issued the Project Bank Notification which aims at improving investment planning by identifying and screening infrastructure projects (above kyat 2 billion of investment). It is also building capacity in the Ministry of Planning and Finance to analyze and select infrastructure projects.

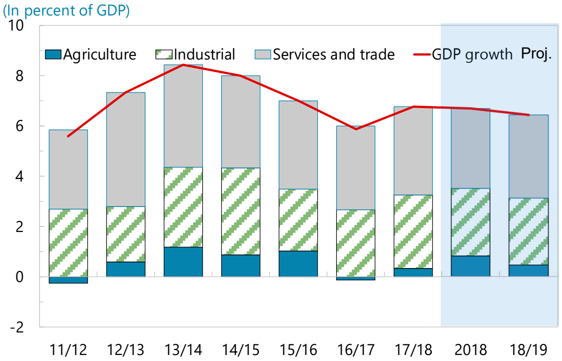
Additional efforts are needed to strengthen infrastructure management and limit fiscal risks from PPPs. Traditional public investment and PPPs should be prioritized on a level playing field through a unified public investment management process, which should also be better linked to the budget process to ensure that resource allocation is in line with fiscal constraints. The Ministry of Planning and Finance should play a gatekeeper role to stop projects that do not provide efficiency gains or are not fiscally affordable, and to issue guarantees to PPP projects. Reporting should also be improved to promote informed decision making on resource allocation to infrastructure projects. The legal framework should be updated to support these reforms and provide a more stable environment to prospective partners.

The government should aim at ensuring competitive bidding and the use of model contracts. The large number of unsolicited proposals consume scarce capacities and block government efforts to improve project preparation. Open tenders and due diligence during project preparation are needed to bring down project costs. Using model contracts for PPPs would also facilitate competitive tendering, reduce government transaction costs and limit the bargaining power of the private partner.

Figure 1. Myanmar: Macroeconomic Developments [1]

Growth is rebounding from the slowdown in 2016/17…

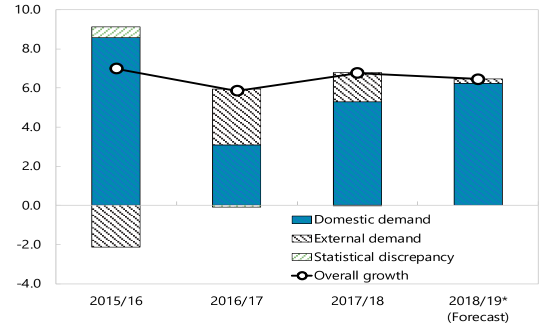
GDP Growth
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

…led by external demand.

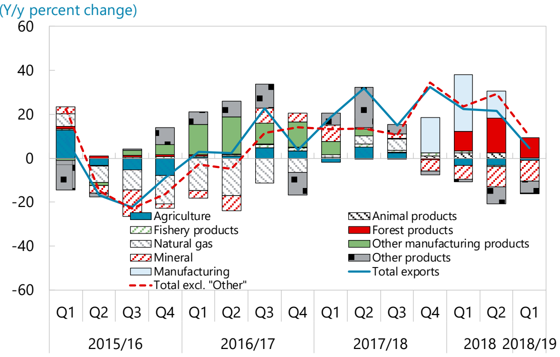
Contribution to Real GDP
(Year-on-year growth)



*Fiscal year is from April to March until 2017/2018 and from October to September in 2018/2019
Sources: Myanmar authorities; and IMF staff calculations.

Exports of manufactured goods performed strongly…

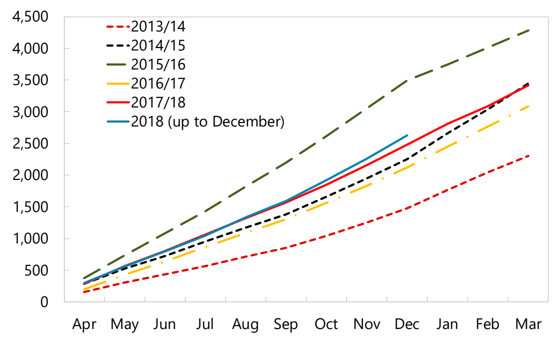
Goods Exports
(Y/y percent change)



Sources: Myanmar authorities; CEIC Data Co.; and IMF staff calculations.

… while tourism has stagnated more recently.

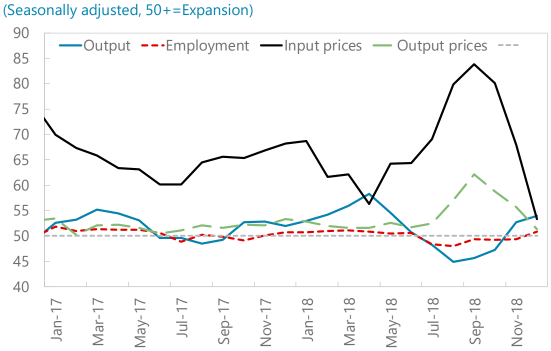
Tourist Arrivals
(In thousands, cumulative)



Source: Ministry of Hotels and Tourism.

Manufacturing production also weakened in FY 2018 on higher input prices…

Myanmar: PMI
(Seasonally adjusted, 50+=Expansion)



Sources: IHS Markit; and Haver Analytics.

…and is reflected in slower growth of intermediate imports.

Goods Imports
(Y/y percent change)

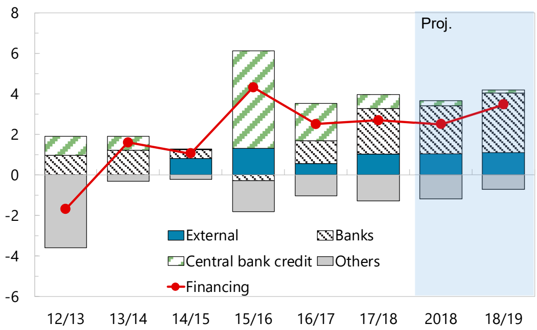
Sources: Myanmar authorities; CEIC Data Co.; and IMF staff calculations.

[1] The sixth month transition period is indicated as 2018 (April 1, 2018-Spetember 30, 2018). The new fiscal year started in October 2018 and is inidicated as FY 18/19.

Figure 2. Myanmar: Macro-Fiscal and External Developments[1]

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

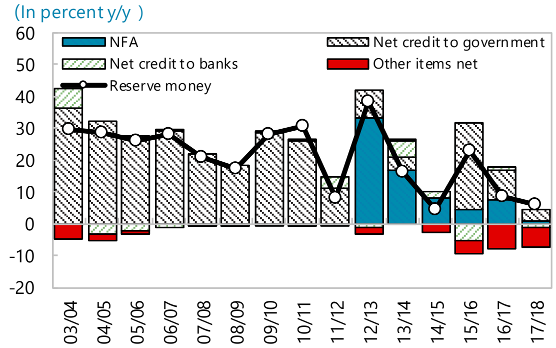
Fiscal Financing
(In percent of GDP)



Sources: Myanmar authorities; and IMF staff estimates.

while reserve money growth has moderated.

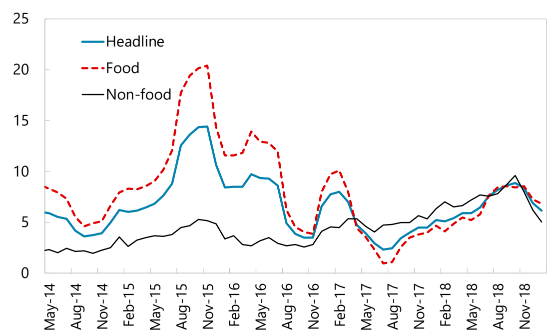
Reserve Money Growth
(In percent y/y)



Sources: Myanmar authorities; and IMF staff calculations.

However, inflation has picked up driven by higher oil prices…

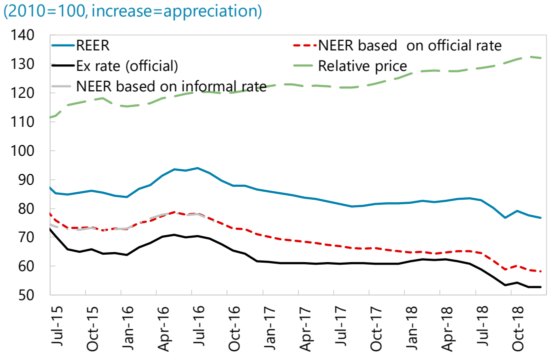
Inflation
(In percent change y/y)



Sources: Myanmar authorities; and IMF staff calculations.

…and exchange rate depreciation.

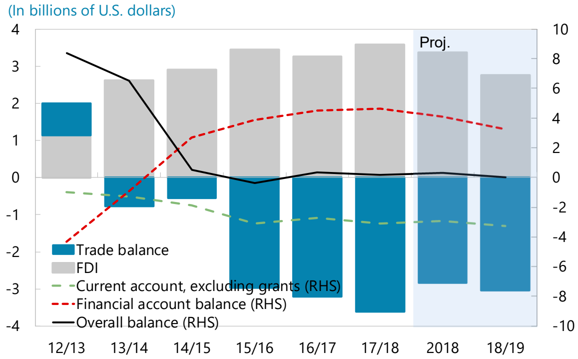
Nominal and Effective Exchange Rates
(2010=100, increase=appreciation)



Sources: Myanmar authorities; and IMF staff calculations.

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

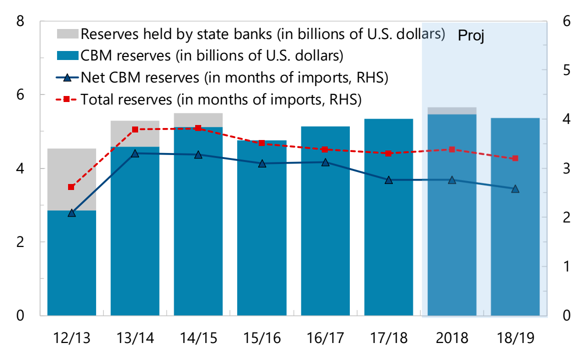
Balance of Payments
(In billions of U.S. dollars)



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.

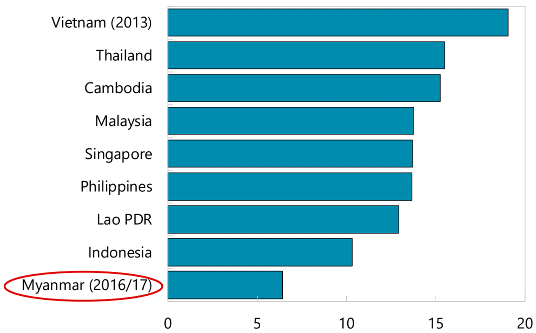
[1] The sixth month transition period is indicated as 2018 (April 1, 2018-Spetember 30, 2018). The new fiscal year started in October 2018 and is inidicated as FY 18/19.

Figure 3. Myanmar: Macro-Structural Developments[1]

Tax modernization needs to continue to raise more revenue…

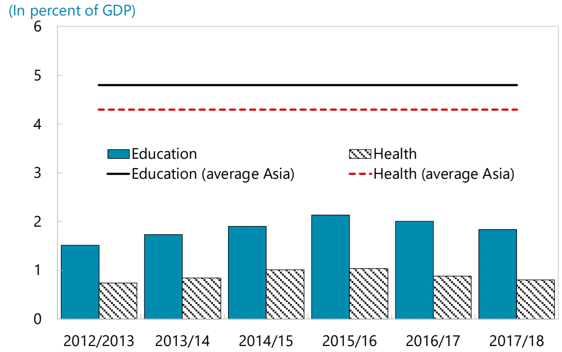
Social spending still lags behind peers in the region.

Tax Revenue, 2016
(In percent of GDP)



Sources: World Bank; and IMF staff calculations.

Union Government Spending on Education and Health
(In percent of GDP)

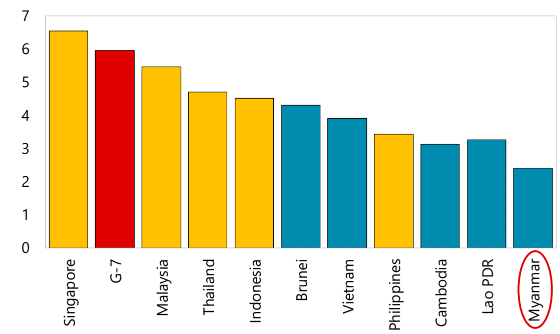


Source: Myanmar authorities.

Infrastructure quality remains a concern to attract FDI…

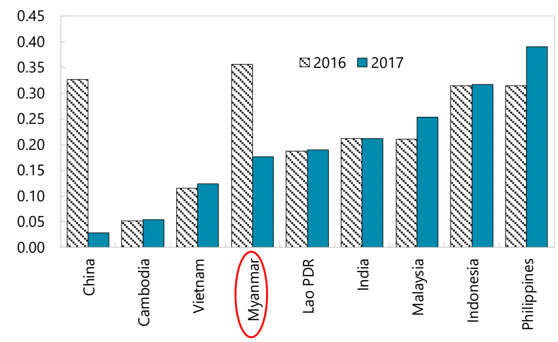
…while FDI restrictions have been eased.

ASEAN Economies: Infrastructure Quality Index, 2016–17
(Index, Highest = 7 and Lowest = 1, weighted by GDP in US$ at current PPP)



Sources: World Economic Forum; and IMF staff estimates.

FDI Restrictive Index
(0=open, 1=restrictive)

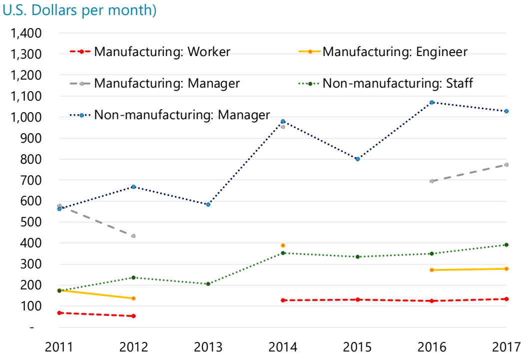


Source: OECD.

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

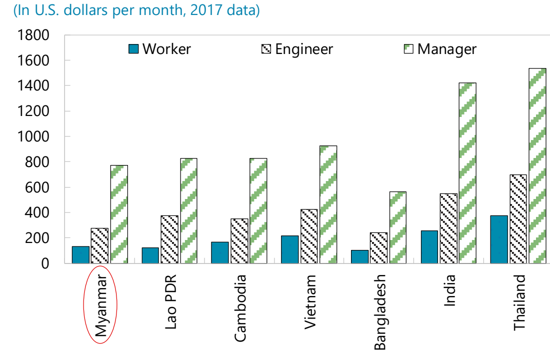
Myanmar's wage costs remain competitive.

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



Source: JETRO Survey.

Manufacturing: Wage Comparison
(In U.S. dollars per month, 2017 data)

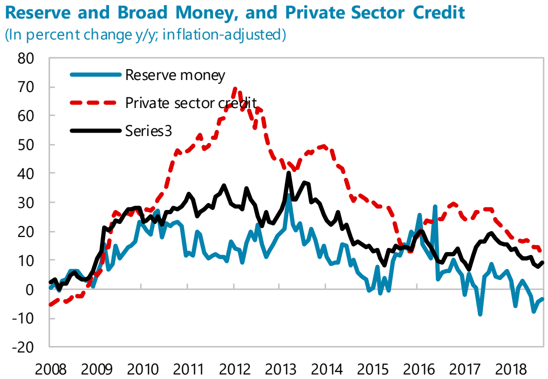


Source: JETRO Survey.

[1] The sixth month transition period is indicated as 2018 (April 1, 2018-Spetember 30, 2018). The new fiscal year started in October 2018 and is inidicated as FY 18/19.

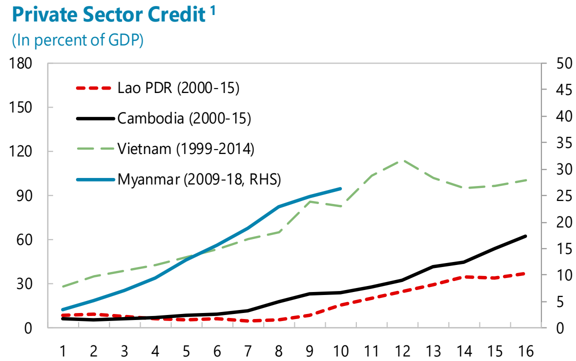
Figure 4. Myanmar: Macrofinancial Developments[1]

Money and credit growth has slowed down…



Sources: Myanmar authorities; and IMF staff calculations.

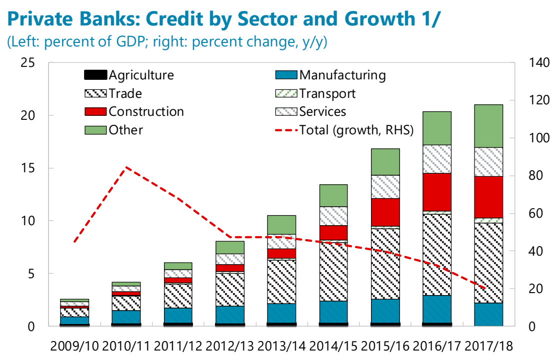
…but financial deepening is progressing…



Sources: Myanmar authorities; and IMF staff calculations.

1 X axis indicates the period from the start of the respective economy's liberalization.

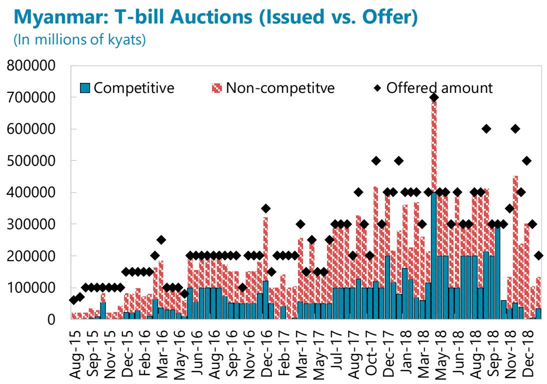
Private credit is concentrated in construction, trade and services sectors.



Sources: Myanmar authorities; and IMF staff calculations.

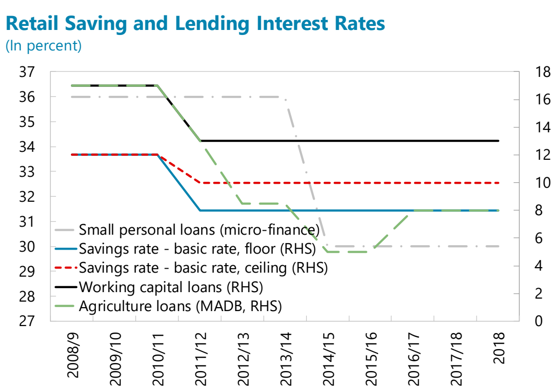
1/ Private banks only (excludes state-owned banks). "Other" includes credits to local stores and specialized shops.

Securities auctions are now mainly on competitive terms.



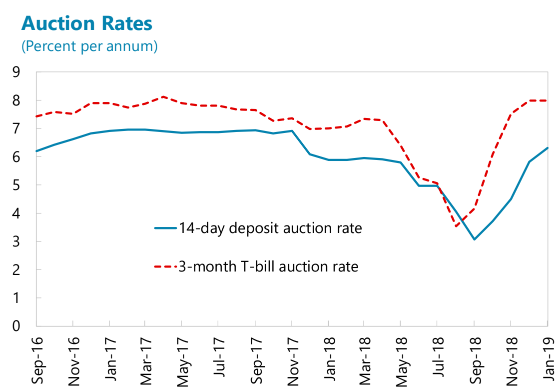
Sources: CBM/MOPF; and IMF staff estimates.

Retail bank rates remain at fixed levels…



Source: Central Bank of Myanmar.

…despite fluctuating Treasury rates.



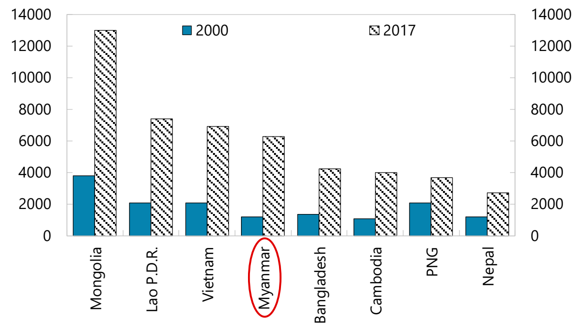
Source: Central Bank of Myanmar.

[1] The sixth month transition period is indicated as 2018 (April 1, 2018-Spetember 30, 2018). The new fiscal year started in October 2018 and is inidicated as FY 18/19.

Figure 5. Myanmar: Progress Towards Sustainable Development Goals

Strong growth has helped to increase per capita GDP…

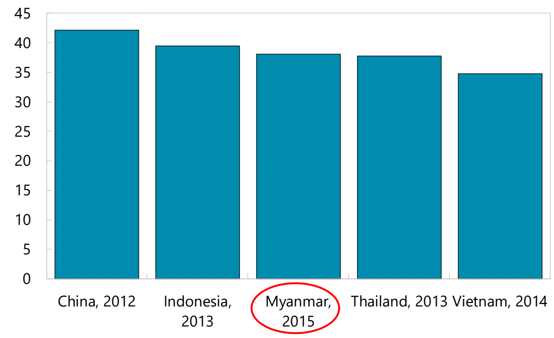
Per Capita GDP (PPP)
(In U.S. dollars)



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

…and income inequality is comparable to peer countries.

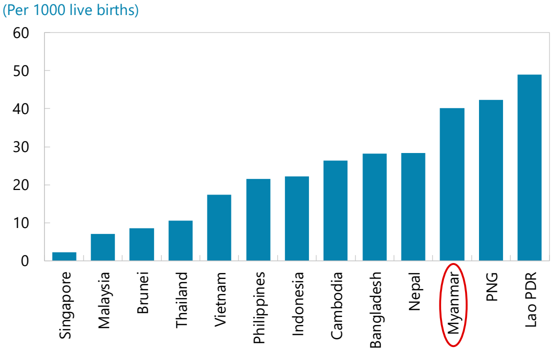
Income Inequality
(Gini coefficents)



Sources: World Bank.

However, healthcare is still lagging….

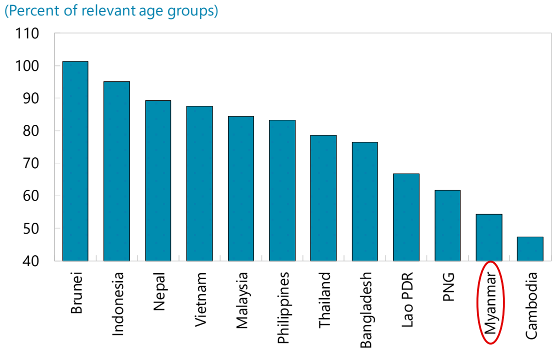
Infant Mortality
(Per 1000 live births)



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

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

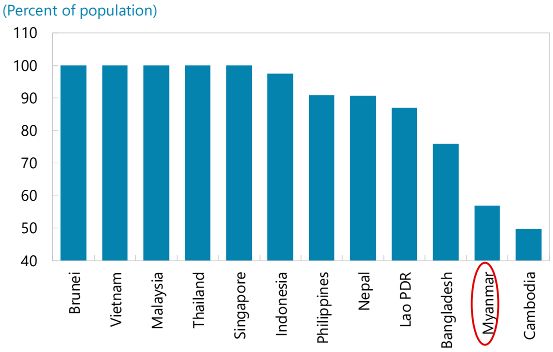
Lower Secondary School Completion
(Percent of relevant age groups)



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

…and infrastructure.

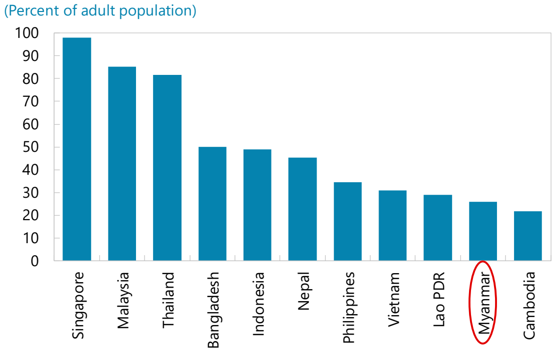
Access to Electricity
(Percent of population)



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 population)



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

Table 1. Myanmar: Selected Economic Indicators, 2015/16–2020/21 1/

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Output and prices	(Percent change)						
Real GDP 2/	7.0	5.9	6.8	6.2	6.4	6.6	6.7
CPI (end-period; base year from 2014/15=2012)	8.4	7.0	5.4	8.6	7.2	7.1	6.2
CPI (period average; base year from 2014/15=2012)	10.0	6.8	4.0	7.1	7.5	6.7	6.2
Consolidated public sector 3/				(In percent of GDP)			
Total revenue	19.5	18.8	17.1	23.3	17.3	17.4	17.4
Tax revenue	6.1	6.5	6.7	8.4	7.0	7.2	7.4
Social contributions	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Grants	0.4	0.4	0.2	0.3	0.4	0.4	0.4
Other revenue	12.9	11.7	10.0	14.4	9.8	9.7	9.5
Total expenditure	23.9	21.3	19.7	24.8	20.7	21.2	21.5
Expense	15.9	14.8	13.7	18.2	14.5	14.7	14.9
Net acquisition of nonfinancial assets	8.0	6.5	6.0	6.6	6.3	6.5	6.6
Gross operating balance	3.7	4.0	3.3	5.1	2.8	2.6	2.6
Net lending (+)/borrowing (-)	-4.3	-2.5	-2.7	-1.5	-3.5	-3.8	-4.0
Domestic public debt	20.5	20.9	20.9	21.2	21.5	22.5	23.5
Money and credit				(Percent change)			
Reserve money	22.8	8.8	6.0	4.6	8.7	6.9	8.7
Broad money	26.3	19.4	18.0	18.6	14.3	13.5	13.7
Domestic credit	31.4	25.5	20.2	21.9	15.2	16.1	15.8
Private sector	34.3	33.8	23.0	21.3	14.0	13.5	13.0
Balance of payments 4/				(In percent of GDP)			
Current account balance	-5.2	-4.3	-4.7	-5.9	-4.9	-4.9	-4.8
Trade balance	-5.0	-5.1	-5.4	-6.0	-4.6	-4.5	-4.6
Financial account	-6.5	-7.2	-6.9	-7.3	-5.0	-4.9	-4.8
Foreign direct investment, net 5/	-5.8	-5.2	-5.4	-5.1	-4.2	-3.9	-3.8
Overall balance	-0.6	0.6	0.3	1.3	0.0	0.0	0.0
CBM reserves (gross)							
In millions of U.S. dollars	4,762	5,132	5,336	5,462	5,357	5,372	5,341
In months of prospective GNFS imports	3.5	3.4	3.3	3.4	3.2	3.0	2.9
Total external debt (billions of U.S. dollars)	12.7	12.3	17.9	17.9	17.8	17.7	17.7
Total external debt (percent of GDP)	21.2	19.4	26.9	26.8	27.1	24.8	22.6
Exchange rates (kyat/$, end of period)							
Official exchange rate	1,220.6	1,360.7	1,336.5	1,551.5	…	…	…
Parallel rate	1,207.8	1,361.1	1,327.2	1,563.6	…	…	…
Memorandum items:							
GDP (billions of kyats)	72,714	79,721	90,451	33,557	104,393	119,004	135,845
GDP (billions of US$)	59.7	63.2	66.7	23.7	65.7	71.4	78.1
GDP per capita (US$)	1,151	1,210	1,267	1,254	1,242	1,321	1,440

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.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.
4/ The balance of payments data has been revised according to the BPM6 methodology.
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, 2015/16–2020/21 1/
(Consolidated accounts)

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
	(billions of kyats)						
Revenue	14,205	15,001	15,423	7,817	18,042	20,686	23,681
Taxes	4,425	5,209	6,100	2,809	7,307	8,568	10,120
On income, profits, and capital gains	1,656	1,888	1,850	760	2,125	2,541	3,037
On property	13	37	44	13	43	49	56
On goods and services	2,150	2,748	3,615	1,740	4,436	5,176	6,113
On international trade & transactions	467	480	524	266	628	715	817
Other taxes	139	56	68	29	76	86	98
Social contributions	61	73	89	56	118	135	154
Grants	327	351	220	106	418	476	543
Other revenue	9,392	9,367	9,014	4,846	10,199	11,508	12,865
Interest income	64	66	59	21	30	0	0
Property income	1,072	1,098	1,132	430	1,341	1,528	1,745
Sales of goods and services 2/	8,320	8,269	7,882	4,416	8,859	9,979	11,120
Expenditure	17,350	17,006	17,859	8,319	21,657	25,248	29,141
Expense	11,541	11,824	12,403	6,113	15,130	17,532	20,197
Compensation of employees	2,144	2,966	3,130	1,821	4,075	4,765	5,439
Purchases/use of goods & services	5,943	5,759	7,083	3,121	8,122	9,377	10,840
Interest	867	1,078	1,278	746	1,593	1,953	2,277
External	202	225	254	68	442	496	537
Domestic	639	832	1,024	678	1,152	1,456	1,740
Subsidies and transfers	202	272	0	0	79	0	0
Social benefits	670	704	732	325	949	1,082	1,235
Other expense	1,715	1,046	179	101	311	355	405
Net acquisition of nonfinancial assets	5,809	5,183	5,456	2,206	6,527	7,716	8,944
Balances							
Gross operating balance	2,664	3,177	3,020	1,704	2,912	3,154	3,485
Net lending/borrowing	-3,145	-2,005	-2,436	-502	-3,615	-4,562	-5,459
Net acquisition of financial assets	530	-483	263	-76	4	109	94
Domestic	516	-492	255	-166	-31	37	41
Currency and deposits	165	-601	290	-216	-152	-76	-38
Central Bank	4	6	-10	87	0	0	0
Commercial banks	161	-607	300	-303	-152	-76	-38
Loans	342	-52	-92	14	49	39	-4
Equity	10	161	57	37	72	74	83
External	14	8	8	90	35	71	53
Equity	14	8	8	90	35	71	53
Net incurrence of liabilities	3,676	1,522	2,699	426	3,619	4,671	5,554
Domestic	3,134	1,566	2,395	330	3,211	4,357	5,175
Securities	3,113	1,558	2,382	330	3,211	4,357	5,175
Central bank	3,490	1,476	624	-2	150	75	0
In percent of domestic financing	111	94	26	0	5	2	0
Commercial banks	-204	887	2,046	1,168	3,061	4,282	5,175
Nonbanks	-174	-805	-288	-837	0	0	0
Loans	21	8	13	0	0	0	0
External	542	-44	305	95	407	254	378
Loans	958	461	924	369	1,148	1,250	1,494

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 1/ (concluded)

(Consolidated accounts)

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
			(percent of GDP)				
Revenue	19.5	18.8	17.1	23.3	17.3	17.4	17.4
Taxes	6.1	6.5	6.7	8.4	7.0	7.2	7.4
On income, profits, and capital gains	2.3	2.4	2.0	2.3	2.0	2.1	2.2
On goods and services	3.0	3.4	4.0	5.2	4.2	4.3	4.5
On international trade & transactions	0.6	0.6	0.6	0.8	0.6	0.6	0.6
Other taxes	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Grants	0.4	0.4	0.2	0.3	0.4	0.4	0.4
Other revenue	12.9	11.7	10.0	14.4	9.8	9.7	9.5
Interest income	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Property income	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Sales of goods and services 2/	11.4	10.4	8.7	13.2	8.5	8.4	8.2
Expenditure	23.9	21.3	19.7	24.8	20.7	21.2	21.5
Expense	15.9	14.8	13.7	18.2	14.5	14.7	14.9
Compensation of employees	2.9	3.7	3.5	5.4	3.9	4.0	4.0
Purchases/use of goods & services	8.2	7.2	7.8	9.3	7.8	7.9	8.0
Interest	1.2	1.4	1.4	2.2	1.5	1.6	1.7
External	0.3	0.3	0.3	0.2	0.4	0.4	0.4
Domestic	0.9	1.0	1.1	2.0	1.1	1.2	1.3
Subsidies and transfers	0.3	0.3	0.0	0.0	0.1	0.0	0.0
Social benefits	0.9	0.9	0.8	1.0	0.9	0.9	0.9
Other expense	2.4	1.3	0.2	0.3	0.3	0.3	0.3
Net acquisition of nonfinancial assets	8.0	6.5	6.0	6.6	6.3	6.5	6.6
Balances							
Gross operating balance	3.7	4.0	3.3	5.1	2.8	2.6	2.6
Net lending/borrowing	-4.3	-2.5	-2.7	-1.5	-3.5	-3.8	-4.0
Net acquisition of financial assets							
Domestic	0.7	-0.6	0.3	-0.5	0.0	0.0	0.0
Currency and deposits	0.2	-0.8	0.3	-0.6	-0.1	-0.1	0.0
Central Bank	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Commercial banks	0.2	-0.8	0.3	-0.9	-0.1	-0.1	0.0
Loans	0.5	-0.1	-0.1	0.0	0.0	0.0	0.0
Equity	0.0	0.2	0.1	0.1	0.1	0.1	0.1
External	0.0	0.0	0.0	0.3	0.0	0.1	0.0
Equity	0.0	0.0	0.0	0.3	0.0	0.1	0.0
Net incurrence of liabilities	5.1	1.9	3.0	1.3	3.5	3.9	4.1
Domestic	4.3	2.0	2.6	1.0	3.1	3.7	3.8
Securities	4.3	2.0	2.6	1.0	3.1	3.7	3.8
Central bank	4.8	1.9	0.7	0.0	0.1	0.1	0.0
Commercial banks	-0.3	1.1	2.3	3.5	2.9	3.6	3.8
Nonbanks	-0.2	-1.0	-0.3	-2.5	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.7	-0.1	0.3	0.3	0.4	0.2	0.3
Loans	1.3	0.6	1.0	1.1	1.1	1.1	1.1
Memorandum items:							
Primary balance	-3.1	-1.2	-1.3	0.7	-1.9	-2.2	-2.3
Functional breakdown of public sector expenditure							
Economic affairs	11.7	10.1	7.6	7.6	7.6	7.6	7.6
Social services	5.1	4.4	3.6	3.6	3.6	3.6	3.6
Of which: education	2.1	2.0	1.8	1.8	1.8	1.8	1.8
Of which: health	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Defense	4.3	3.7	3.4	3.4	3.4	3.4	3.4
Public debt	36.3	36.5	34.7	37.7	36.8	36.9	46.8
Of which: held by CBM	16.8	17.2	15.9	15.3	13.4	11.8	10.7
Of which: other and external	19.5	19.3	18.8	22.3	23.4	25.0	36.0
Domestic public debt	20.5	20.9	20.9	21.2	21.5	22.5	23.7
External public debt	15.9	15.6	13.8	16.4	15.3	14.4	23.1
Of which: Arrears							
GDP (in billions of kyat)	72,714	79,721	90,451	33,557	104,393	119,004	135,845
CBM financing (share of reserve money)	22.3	8.7	3.5	0.0	0.8	0.4	0.0
CBM financing (share of GDP)	4.8	1.9	0.7	0.0	0.1	0.1	0.0

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

1/ Revised to reflect Government Finance Statistics Manual 2014 classification. 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.

2/ Includes proceeds from SEEs' commercial activities.

Table 3. Myanmar: Balance of Payments, 2015/16–2022/23 1/

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account	-3,090	-2,721	-3,105	-1,412	-3,247	-3,512	-3,762	-4,058	-4,474
Trade balance	-2,970	-3,201	-3,608	-1,418	-3,039	-3,245	-3,604	-3,848	-4,385
Balance on goods	-4,048	-4,394	-4,680	-1,652	-3,823	-4,084	-4,502	-4,808	-5,412
Merchandise exports f.o.b.	9,498	9,471	10,468	5,855	12,818	13,162	13,952	14,331	15,137
Merchandise imports f.o.b.	13,546	13,865	15,148	7,506	16,641	17,247	18,453	19,138	20,548
Balance on services	1,078	1,193	1,072	234	784	839	898	960	1,026
Exports of services, total	3,678	3,638	4,168	1,662	3,555	3,733	3,919	4,115	4,321
Imports of services, total	2,601	2,446	3,096	1,429	2,771	2,894	3,022	3,155	3,295
Primary income balance	-1,986	-1,604	-1,987	-1,109	-2,431	-2,590	-2,590	-2,759	-2,759
Receipts	984	945	1,246	511	982	1,002	1,002	1,022	1,022
Expenditures	2,971	2,548	3,233	1,619	3,413	3,592	3,592	3,780	3,780
Secondary income balance	1,867	2,084	2,491	1,114	2,222	2,324	2,432	2,548	2,670
Capital and Financial Account	-3,897	-4,531	-4,633	-1,732	-3,268	-3,527	-3,730	-4,058	-4,334
Capital account	0	1	1	0	0	0	0	0	0
Financial account (+ = net increase / - = net decrease)	-3,897	-4,532	-4,634	-1,732	-3,268	-3,527	-3,730	-4,058	-4,334
Direct investment	-3,443	-3,260	-3,589	-1,206	-2,753	-2,753	-2,959	-3,184	-3,534
Assets	0	0	0	0	0	0	0	0	0
Liabilities	3,443	3,260	3,589	1,206	2,753	2,753	2,959	3,184	3,534
Portfolio investment	0	-37	47	33	0	0	0	0	0
Assets	0	0	49	35	0	0	0	0	0
Liabilities	0	37	2	2	0	0	0	0	0
Other investment	-454	-1,235	-1,092	-560	-516	-774	-771	-874	-800
Assets	-177	-1,478	-300	-75	0	0	0	0	0
Liabilities	277	-243	792	485	516	774	771	874	800
of which: MLT debt disbursements	786	366	682	261	722	750	859	944	1,036
of which: repayments due	-342	-401	-457	-194	-466	-561	-642	-647	-649
Overall Balance	-361	370	203	320	21	15	-31	-1	-140
Net errors and omissions	-1,168	-1,442	-1,326	0	0	0	0	0	0

Table 3. Myanmar: Balance of Payments, 2015/16–2022/23 1/ (concluded)

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current Account	-5.2	-4.3	-4.7	-5.9	-4.9	-4.9	-4.8	-4.7	-4.7
Trade balance	-5.0	-5.1	-5.4	-6.0	-4.6	-4.5	-4.6	-4.5	-4.7
Balance on goods	-6.8	-6.9	-7.0	-7.0	-5.8	-5.7	-5.8	-5.6	-5.7
Merchandise exports f.o.b.	15.9	15.0	15.7	24.7	19.5	18.4	17.9	16.7	16.1
Merchandise imports f.o.b.	22.7	21.9	22.7	31.6	25.3	24.2	23.6	22.3	21.8
Balance on services	1.8	1.9	1.6	1.0	1.2	1.2	1.1	1.1	1.1
Exports of services, total	6.2	5.8	6.2	7.0	5.4	5.2	5.0	4.8	4.6
Imports of services, total	4.4	3.9	4.6	6.0	4.2	4.1	3.9	3.7	3.5
Primary income balance	-3.3	-2.5	-3.0	-4.7	-3.7	-3.6	-3.3	-3.2	-2.9
Receipts	1.6	1.5	1.9	2.2	1.5	1.4	1.3	1.2	1.1
Expenditures	5.0	4.0	4.8	6.8	5.2	5.0	4.6	4.4	4.0
Secondary income balance	3.1	3.3	3.7	4.7	3.4	3.3	3.1	3.0	2.8
Capital and Financial Account	-6.5	-7.2	-6.9	-7.3	-5.0	-4.9	-4.8	-4.7	-4.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (+ = net increase / - = net decrease)	-6.5	-7.2	-6.9	-7.3	-5.0	-4.9	-4.8	-4.7	-4.6
Direct investment	-5.8	-5.2	-5.4	-5.1	-4.2	-3.9	-3.8	-3.7	-3.8
Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	5.8	5.2	5.4	5.1	4.2	3.9	3.8	3.7	3.8
Portfolio investment	0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Assets	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Liabilities	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	-0.8	-2.0	-1.6	-2.4	-0.8	-1.1	-1.0	-1.0	-0.8
Assets	-0.3	-2.3	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
Liabilities	0.5	-0.4	1.2	2.0	0.8	1.1	1.0	1.0	0.8
of which: MLT debt disbursements	1.3	0.6	1.0	1.1	1.1	1.1	1.1	1.1	1.1
of which: repayments due	-0.6	-0.6	-0.7	-0.8	-0.7	-0.8	-0.8	-0.8	-0.7
Overall Balance	-0.6	0.6	0.3	1.3	0.0	0.0	0.0	0.0	-0.1
Net errors and omissions	-2.0	-2.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
GDP (in millions of U.S. dollars)	59,687	63,240	66,721	23,750	65,665	71,403	78,124	85,857	94,227
Level of gross reserves (end of period)	4,762	5,132	5,336	5,462	5,357	5,372	5,341	5,340	5,200
Reserves (months of imports of G&S)	3.5	3.4	3.3	3.4	3.2	3.0	2.9	2.7	2.5

1/ Revised according to the BPM6 methodology. 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.

Table 4. Myanmar: Monetary Survey, 2015/16–2022/23 1/ 2/

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
CENTRAL BANK OF MYANMAR								
Net foreign assets	5,374	6,550	6,693	8,110	7,978	7,924	7,899	9,751
Foreign assets	5,847	7,016	7,178	8,670	8,565	8,534	8,533	10,407
Foreign liabilities	473	466	485	561	587	610	634	657
Net domestic assets	10,258	10,451	11,329	10,723	12,162	13,961	15,829	16,165
Net domestic credit	12,618	13,878	14,948	15,735	17,199	19,013	20,891	21,232
Net claims on central government	12,233	13,704	14,338	14,025	14,100	14,100	14,100	14,100
Net claims on deposit money banks	385	174	610	1,710	3,099	4,913	6,791	7,131
Other items net	-2,361	-3,427	-3,618	-5,012	-5,037	-5,052	-5,062	-5,067
Reserve Money	15,632	17,001	18,023	18,832	20,140	21,885	23,729	25,915
Currency in circulation	11,771	13,064	14,184	14,471	15,475	16,816	18,233	19,913
ODC liabilities	3,861	3,938	3,838	4,362	4,665	5,069	5,496	6,002
Transferrable deposits	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
MONETARY SURVEY								
Net foreign assets	9,263	9,281	9,306	11,780	12,162	12,699	13,353	15,959
Foreign assets	13,012	12,872	13,175	16,264	17,222	18,415	19,816	23,253
Foreign liabilities	3,749	3,591	3,869	4,484	5,060	5,716	6,464	7,294
Net domestic assets	26,777	33,753	41,466	50,471	58,504	67,671	78,258	89,298
Net domestic credit	27,386	34,362	41,310	50,996	59,204	68,571	79,058	90,548
Net claims on government	13,687	16,036	18,764	22,533	26,890	32,065	37,793	43,904
CBM	12,233	13,704	14,338	14,025	14,100	14,100	14,100	14,100
Deposit money banks	1,453	2,535	4,426	8,508	12,790	17,965	23,693	29,804
Net credit to the economy	13,699	18,326	22,546	28,463	32,314	36,506	41,265	46,644
Other items net	-609	-609	156	-525	-700	-900	-800	-1,250
Broad money	36,040	43,034	50,772	62,251	70,665	80,371	91,610	105,257
Narrow money	14,819	15,799	16,891	0.0	0.0	0.0	0.0	0.0
Currency in circulation	10,157	10,920	11,604	0.0	0.0	0.0	0.0	0.0
Transferrable Deposits	4,662	4,880	5,287	0.0	0.0	0.0	0.0	0.0
Other deposits	21,221	27,235	33,881	62,251	70,665	80,371	91,610	105,257
MEMORANDUM ITEMS								
Money multiplier	2.3	2.5	2.4	3.3	3.5	3.7	3.9	4.1
Velocity	2.0	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Reserve money (y/y percent change)	22.8	8.8	6.0	8.7	6.9	8.7	8.4	9.2
Broad money (y/y percent change)	26.3	19.4	18.0	14.3	13.5	13.7	14.0	14.9
Credit to private sector (y/y percent change)	34.3	33.8	23.0	14.0	13.5	13.0	13.0	13.0
Net credit to central govt. (y/y percent change)	34.3	33.8	23.0	14.0	13.5	13.0	13.0	13.0
Credit growth (y/y percent change)	31.4	25.5	20.2	15.2	16.1	15.8	15.3	14.5
Deposits (y/y percent change)	29.9	24.1	22.0	44.9	13.5	13.7	14.0	14.9
Reserve money (in percent of GDP)	21.5	21.3	19.9	18.0	16.9	16.1	15.3	14.7
Broad money (in percent of GDP)	49.6	54.0	56.1	59.6	59.4	59.2	59.1	59.6
Credit to private sector (in percent of GDP)	18.8	23.0	24.9	27.3	27.2	26.9	26.6	26.4
Credit to central government (in percent of GDP)	18.8	20.1	20.7	21.6	22.6	23.6	24.4	24.9
Deposits (in percent of GDP)	35.6	40.3	43.3	59.6	59.4	59.2	59.1	59.6
Credit to economy/deposits (in percent)	52.9	57.1	57.6	…	…	…	…	…
Nominal GDP (in billions of kyat)	72,714	79,721	90,451	104,393	119,004	135,845	155,114	176,590

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.
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 2015/16–2022/23 1/

	2015/16	2016/17	2017/18	2018 (transition)	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices				(Percent change)					
Real GDP (staff working estimates) 2/	7.0	5.9	6.8	6.2	6.4	6.6	6.7	6.9	6.9
CPI (end-period; base year=2012)	8.4	7.0	5.4	8.6	7.2	7.1	6.2	6.1	5.9
CPI (period average; base year=2012)	10.0	6.8	4.0	7.1	7.5	6.7	6.2	6.1	6.1
Consolidated public sector 3/				(In percent of GDP)					
Total revenue	19.5	18.8	17.1	23.3	17.3	17.4	17.4	17.7	18.1
Tax revenue	6.1	6.5	6.7	8.4	7.0	7.2	7.4	7.7	8.0
Social contributions	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Other revenue	12.9	11.7	10.0	14.4	9.8	9.7	9.5	9.5	9.6
Total expenditure	23.9	21.3	19.7	24.8	20.7	21.2	21.5	21.7	21.9
Expense	15.9	14.8	13.7	18.2	14.5	14.7	14.9	15.0	15.2
Net acquisition of nonfinancial assets	8.0	6.5	6.0	6.6	6.3	6.5	6.6	6.7	6.7
Gross operating balance	3.7	4.0	3.3	5.1	2.8	2.6	2.6	2.7	2.9
Net lending (+)/borrowing (-)	-4.3	-2.5	-2.7	-1.5	-3.5	-3.8	-4.0	-4.0	-3.8
Money and credit				(Percent change)					
Reserve money	22.8	8.8	6.0	4.6	8.7	6.9	8.7	8.4	9.2
Broad money	26.3	19.4	18.0	18.6	14.3	13.5	13.7	14.0	14.9
Domestic credit	31.4	25.5	20.2	21.9	15.2	16.1	15.8	15.3	14.5
Private sector	34.3	33.8	23.0	21.3	14.0	13.5	13.0	13.0	13.0
Balance of payments 4/				(In percent of GDP, unless otherwise indicated)					
Current account balance	-5.2	-4.3	-4.7	-5.9	-4.9	-4.9	-4.8	-4.7	-4.7
Trade balance	-5.0	-5.1	-5.4	-6.0	-4.6	-4.5	-4.6	-4.5	-4.7
Exports	15.9	15.0	15.7	24.7	19.5	18.4	17.9	16.7	16.1
Gas exports	7.3	4.7	5.3	9.2	7.4	6.6	6.5	5.8	5.7
Imports	22.7	21.9	22.7	31.6	25.3	24.2	23.6	22.3	21.8
Financial account	-6.5	-7.2	-6.9	-7.3	-5.0	-4.9	-4.8	-4.7	-4.6
Foreign direct investment, net 5/	-5.8	-5.2	-5.4	-5.1	-4.2	-3.9	-3.8	-3.7	-3.8
Overall balance	-0.6	0.6	0.3	1.3	0.0	0.0	0.0	0.0	-0.1
CBM reserves (gross)									
In millions of U.S. dollars	4,762	5,132	5,336	5,462	5,357	5,372	5,341	5,340	5,200
In months of total imports	3.5	3.4	3.3	3.4	3.2	3.0	2.9	2.7	2.5
External debt									
Total external debt (billions of U.S. dollars)	12.7	12.3	17.9	17.9	17.8	17.7	17.7	17.4	17.6
(In percent of GDP)	21.2	19.4	26.9	75.2	27.1	24.8	22.6	20.3	18.6
Exchange rates (kyat/$, end of period)									
Official exchange rate	1,221	1,361	1,336	1,552	...	...	...	...	...
Parallel rate	1,208	1,361	1,327	1,564	...	...	...	...	...
Memorandum items:									
GDP (billions of kyats)	72,714	79,721	90,451	33,557	104,393	119,004	135,845	155,114	176,590
GDP (billions of US$)	59.7	63.2	66.7	23.7	65.7	71.4	78.1	85.9	94.2
GDP per capita (US$)	1,151	1,210	1,267	1,254	1,242	1,321	1,440	1,593	1,718

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.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.
4/ The balance of payments data has been revised according to the BPM6 methodology.
5/ FDI from 2017/18 onwards reflects improved forex transaction data collection, which has caused a break in the data series.

Appendix I. Key Policy Recommendations from the 2017 Article IV Consultation

Policy advice	Implementation status
Monetary and exchange rate policies	
Objective: Keep inflation in check and maintain exchange rate flexibility.	
Maintain deposit auction volumes, pending further developments in inflation and liquidity; improve liquidity forecasting and further development of debt and interbank markets	In progress. The CBM has stepped up deposit auctions and the MOPF has increased its reliance on market-based borrowing from the debt market driving market rates above the banks' deposit interest rate floor.
Phase out CBM financing of the deficit.	CBM financing of the deficit in 2017/18 further declined to below the target ceiling of 30 percent.
Formally adopt a new transactions-based mechanism for setting the exchange rate and continue to allow for exchange rate flexibility to help cushion against exogenous shocks, including an asymmetric FX intervention strategy.	The CBM issued on February 4, 2019, a formal regulation announcing the transaction-based exchange rate, as the new reference rate.
Fiscal policy	
Objective: Create fiscal space to finance development needs while maintaining macroeconomic stability and debt sustainability.	
Keep the fiscal deficit between 4 and 4.5 percent of GDP over the medium term.	Achieved for 2017/18.
Expenditure rebalancing towards social (education and health) and priority infrastructure spending to help achieve Sustainable Development Goals (SDGs)	In progress.
Improvements in Public Financial Management (PFM), prioritizing fiscal transparency and reporting, incorporating an IT system for the Treasury, a stronger relationship between planning and budget, and better managing fiscal risks.	In progress. The Cabinet approved "project bank regulations" that requires all large infrastructure projects go through the same appraisal and approval process. The change in fiscal year has been implemented along with data releases in line with GFS.
Continued domestic revenue mobilization, including through modernizing tax laws (including a review of natural resource contracts), developing staff capacity, improving customs administration and targeted administrative reforms.	In progress. Implementation of phase II of the IRD reform journey in progress.

Policy advice	Implementation status
Financial sector	
Objective: Maintain financial stability and improve financial sector regulation and supervision.	
Accelerate reform of state-owned banks.	In progress.
Implement 2017 prudential regulations and issue pending regulation under FIL 2016.	In progress. A number of pending regulations under the FIL 2016 has been issued.
Continue financial sector and interest rate liberalization at a pace commensurate with CBM's capacity	In progress. Effective February 1, 2019, CBM now permits unsecured lending. The lending rates on loans either with collaterals other than the ones mentioned above or without collateral are capped at six percentage points above the CBM rate (currently 10%+6%=16%).
Increase bank capital	In progress.
Form contingency plans to address emerging systemic banking risks and strengthen resolution capacity.	In progress.

Source: IMF Country Report No. 18/90.

Appendix II. Risk Assessment Matrix[1]

	Shocks and Likelihood (Red= high likelihood; green = low likelihood)	Potential Impact (Red= high; green=low)	Policy Response
Domestic	Macro-financial spillovers in the event of banking sector distress and delayed recapitalization.	Fears of bank fragility could lead to bank runs/collateral fire sales; Possible credit crunch, if weak banks cut back on lending while adjusting to new regulations; Contingent fiscal liabilities related to recapitalization and/or possible liquidity support; Pressure for further exchange rate depreciation.	Implement contingency plans and encourage timely recapitalization; Move down the resolution ladder for non systemic banks; Continue to strenghten financial regulations and supervision with a view to ensuring financial stability and deepening while improving credit risk management of banks.
Domestic	Slow progress in resolving the Rakhine state humanitarian crisis.	Impacts the outlook for FDI and external financing. The risk of broader economic sanctions including potential loss of trade preferences. Delays overall economic reforms.	If development partner financial assistance is disrupted, rationalize public expenditures while preservering humanitarian spending and social sector spending; Resist monetization of fiscal deficit; Allow the exchange rate to adjust to any external financing shortfalls.
Domestic	Slippages in implementing needed reforms from limited institutional capacity.	The public sector is unable to cope with speed of reform, leading to slippages; Growth effects compounded by weaker business confidence.	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.
Domestic	Large natural disasters.	It is estimated that natural disasters in Myanmar have generated a direct economic loss of 1.82 percent of GDP every year (2006–15) on average. In additon human costs, natural disasters effect debt sustainability through damaging long-term growth and increasing borrowing for reconstruction needs from damage to infrastructure and capital.[2]	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.
External	Rising protectionism and retreat from multilateralism.	Weaker exports growth. Significantly reduce growth and contribute to kyat depreciation.	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.
External	Weaker-than-expected global growth in China. (Likelihood- ST: Low, MT: Medium).	Reduced export growth and FDI inflow, since China is an important trading partner and source of FDI.	Allow greater exchange rate flexibility to absorb external shocks; Continue with structural reforms to diversify exports and trading partners. Consider countercyclical macro-policies depending on financing conditions.
External	Sizeable deviations from baseline energy prices.	Impact the import bill - lumpy oil payments, that tend to put greater pressure on the foreign exchange market and thus high inflation.	Allow greater exchange rate flexibility to absorb external shocks; Consider tightening monetary policy to mitigate second round impacts.

Source: IMF staff.

[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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

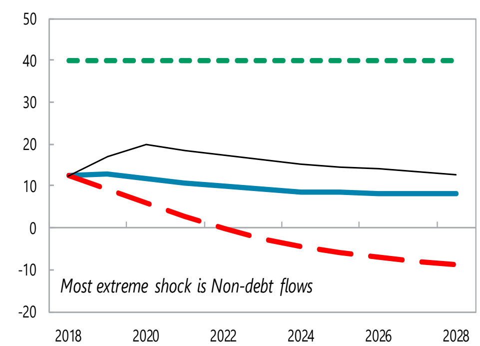
[2] Myanmar Selected Issues 2018; Country Report No. 18/91.

Appendix III. External Sector Assessment

Overall, the external position in 2018 is broadly in line with fundamentals and desirable policies. The current account deficit is expected to remain at a sustainable level and the external debt level is manageable, but reserve coverage continues to be below adequate levels. The policy mix and structural reforms should aim to boost investment and improve the business environment to increase competitiveness. Prudent debt management and efforts to boost tax revenue should continue and financing on concessional terms should be negotiated to the extent possible.

1. External debt sustainability. The debt sustainability analysis continues to assess Myanmar's external risk rating as low (2018 DSA). While concessional debt helps Myanmar maintain debt sustainability, the level of international reserves remains low. Concessional external financing is expected to continue over the medium term; though risks of a shortfall and greater recourse to commercial borrowing have risen given development partners' concerns regarding the Rakhine crisis and move toward large-scale infrastructure projects. Over the medium term, debt ratios are projected to remain on a sustainable path, assuming continued domestic revenue mobilization and growth enhancing capital spending.

PV Debt to GDP Ratio



Source: IMF staff estimates.

2. Current account. The current account deficit and trade deficit are projected to widen over the medium term from a projected slowdown in gas exports. Using the EBA-lite CA model, staff estimate the CA norm to be a deficit of 4.7 percent of GDP resulting in a positive CA gap of 0.6 percent of GDP and a policy gap of 0.7 percent of GDP.[1] This suggests that the external sector is in line with fundamentals and desired policies. Staff has also estimated the REER gap using the REER model, which suggests a larger REER gap. However, a lower weight is attached to this approach as it has not performed as well for Myanmar.[2]

Myanmar: EBA-Lite CA Model

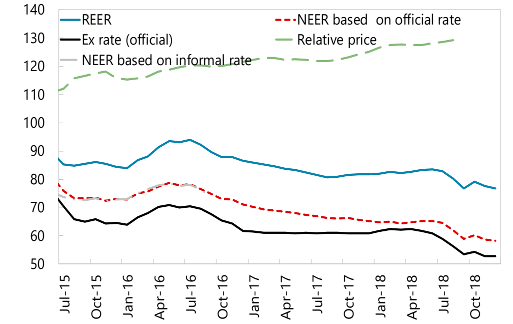
CA-Actual	-4.2%
Cyclical Contributions (from model)	-0.1%
Cyclically adjusted CA	-4.1%
CA-Norm	-4.8%
Cyclically adjusted CA Norm	-4.7%
CA-Gap	0.6%
of/which Policy gap	0.7%
Elasticity	-0.18
REER Gap	-3.3%
CA-Fitted	-4.1%
Residual	-0.1%

Source: IMF staff estimates.

[1] The desirable policy (P*) for public health expenditure was adjusted to 5 percent of GDP based on preliminary estimates to achieve SDGs mainly driven by an increase in doctors and other health staff which are currently comparatively low.

[2] From the EBA-Lite REER model, the REER gap is 25.7 percent above what is warranted by fundamentals and desirable policies. However, the REER model does not account for Myanmar's transition to a market-based economy and the need to address decades of underinvestment.

3. Real exchange rate. The kyat real effective exchange rate (REER) depreciated by about 2.2 percent in 2017 primarily driven by the depreciation of the nominal exchange rate against the US dollar. The nominal exchange rate has depreciated around 14 percent against the U.S. dollar in 2018 thus far but around 5 percent in real effective terms as domestic inflation continues to rise. FX auctions have been stepped up to provide dollar liquidity but with limited scope given the level of reserves.



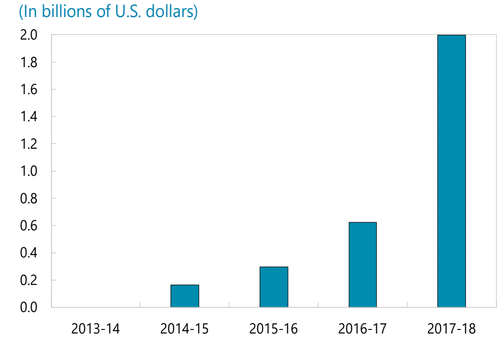
Sources: Myanmar authorities; and IMF staff calculations.

4. Reserve coverage. Staff estimate reserve optimal coverage for Myanmar to be around five months to six months of import coverage (IMF Board Paper SM/14/334; also see CR 17/30). Reserves have been relatively stable around three months of prospective imports given limited FX intervention. In the baseline, reserves are projected to decline over the medium term reflecting a slowdown in FDI and external financing. Staff continue to assess reserve coverage as below adequate The adequate pace of reserve accumulation is more in line with the upside scenario (staff report – paragraph 12) and brings reserve coverage to 5 months to six months of imports over the medium term.

Appendix IV. Interest Rate Liberalization and Exchange Rate Mechanism Updates—Recent Policy Actions

1. **Myanmar is gradually transitioning from an exchange rate anchor to a reserve money targeting framework.** In this respect, the authorities have committed to phasing out monetary financing of the government and are gradually liberalizing interest rates. The Central Bank of Myanmar (CBM) started daily two-way multiple-price foreign currency auctions to determine the reference exchange rate beginning 2012. However, in 2016 problems in operating the auction led to a sharp decline in traded auction volumes while interbank transactions picked up. To successfully transition to the new anchor (money targeting), CBM should continue to lay the foundations for a better control of reserve money by improving liquidity forecasting, and further developing indirect instruments (e.g., use of repos) and the money market.

Interbank Foreign Exchange Volume
(In billions of U.S. dollars)



Source: Central Bank of Myanmar.

2. **Until January 2019, CBM required all lending to be collateralized by real estate or other immovable assets, and to have a short maturity.** Admitted collaterals are: land and building, gold and gold jewelry, diamond and precious treasure, savings certificate, treasury bond, fixed deposit (time deposit), collateralizable securities and transferrable contracts, pledge, credit guarantee, and collaterals occasionally specified by the Central Bank of Myanmar (CBM). Before July 2017, the maximum contractual maturity of loans was one year (unless offset by matching long-term deposits). This maximum was increased to three years under the new prudential regulations of 2017.

3. **In addition, interest rates are controlled with interest rate caps and floors.** Lending interest rates were capped at three percentage points above the CBM rate (currently 10% + 3% = 13%) percent. Deposit interest rates are subject to a floor, which is two percentage points below the CBM rate (currently 10% - 2% = 8%). These controls have restricted banks' ability to price risk and may have hindered the development of risk management capabilities. In addition, by limiting profitability, interest controls have likely constrained capital accumulation in the banks.

4. **Effective February 1, 2019, CBM now permits unsecured lending at higher interest rates.** The lending rates on loans either with collaterals other than the ones mentioned above or without collateral are capped at six percentage points above the CBM rate (currently 10%+6%=16%). This complements the collateralized loans and expands the opportunity for banks to improve their risk pricing and risk management. Nevertheless, uncollateralized lending would need to be carefully monitored to avoid a build of credit risks.

5. **In 2018, the FX reference rate largely followed a formula consisting of a weighted average of FX interbank and bank-customer market rates, with occasional small deviations.** As

a result, the exchange rate depreciated by 14.5 percent between April and December. The CBM also abolished the trading band (Reference rate +/-0.8%) in August 2018, which clarified the current system and should lead to an increase in the volume and representativeness of the formal market. The spread between the reference rate and informal market was also low.

6. **CBM made further progress by issuing on February 4, 2019, a formal regulation announcing the market-based exchange rate, as the new reference rate.** Even though the FX reference rate has largely followed market rates in recent months, some market participants still perceive the reference exchange rate as a policy goal and confusing, as it stems from a two-way auction that is no longer a useful price discovery mechanism. The FX reference rate should gain in credibility, now that CBM has clearly communicated that the posted reference exchange rate is simply a weighted average of interbank and bank customer trades for the given day and does not represent a policy goal.

Appendix V. Financial Sector Update—Progress Since Enactment of the Financial Institutions Law[1]

1. **Some progress is being made in improving compliance in the banking sector since the issuance of CBM regulations eighteen months ago.** Non-performing loans are increasingly being recognized, albeit unevenly across banks, risk concentration gradually reduced and new products such as residential mortgages introduced. Overdraft conversion to viable amortized loans is underway, capital improvement plans have been submitted by the non-compliant banks, dividend restrictions are in force, and the first sanctions under the Financial Institutions Law (FIL) have been imposed.

2. **Nonetheless, important challenges remain, and banking sector fragilities are surfacing.** The financial condition of the sector remains weak and potentially much weaker than reported numbers indicate, against the background of a challenging environment for banks. The weaker institutions include most of the large domestic private banks who are non-compliant with minimum required capital adequacy ratio (currently 8 percent). Some are also non-compliant with general provisioning requirements. Banks continue to undertake credit risk assessments and, so far, it seems that about 50 percent of overdrafts have been restructured to amortized loans. This points to substantially higher NPLs than currently reported. Capital constraints are contributing to falling credit growth as banks deleverage, although its impact is limited by the small size of the banking system (under 30 percent of the formal economy). There is low transparency about the financial position of many banks, but this could change as financial reporting develops.

3. **Further actions are needed to strengthen the banking sector, tailored to each bank's level of co-operation with the supervisor.** Overall, it is recommended that the CBM intensify analysis and oversight of all non-compliant banks and develop contingency plans. Where the bank is cooperating but unable to meet capital and other prudential requirements in the near term, the CBM should agree a credible (but still ambitious) capital improvement plans and if needed, management changes. Where banks are not providing information to the CBM and otherwise not cooperating, stronger intervention through an escalation of assertive oversight is recommended. An additional priority should be developing a policy framework for emergency liquidity assistance (ELA), including preconditions for a bank to be eligible for ELA, the terms and conditions on which it would be provided and the monitoring arrangements for banks receiving ELA.[2] For smaller (non-systemic) insolvent and/or illiquid, non-viable banks, the CBM should immediately prepare for resolution.[3]

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[1] This note covers only private banks. State Owned Banks also have capital problems and are weak and the World Bank is assisting with these. For financial stability reasons public banks should also be required to recapitalize over the same period.

[2] In the longer term, ELA rules in the CBM law need to be amended to allow the CBM to provide ELA on wider categories of collateral, or to lend unsecured under an indemnity from the Government.

[3] For level playing-field reasons any small, solvent banks deemed viable and which are cooperating should also be afforded the extension.

Appendix VI. Supporting the Myanmar Sustainable Development Plan and IMF Capacity Development[1]

The Myanmar Sustainable Development Plan (MSDP) elaborates a forward-looking roadmap with development priorities for the country's welfare including reaching the SDGs. The framework aims to maintain peace, stability, prosperity while improving the quality of life for citizens and conserving the environment. Capacity development (CD) from several development partners, including the IMF, is supporting the authorities' endeavors with the intent to strengthen institutions and improve overall governance. CD from the IMF currently focuses on building fiscal and monetary institutions, strengthening the legal framework and improving macroeconomic statistics. Fiscal governance and natural resource management, anti-money laundering and combating the financing of terrorism (AML/CFT) and financial sector regulatory framework are areas which are considered macro-critical and surveillance priorities.

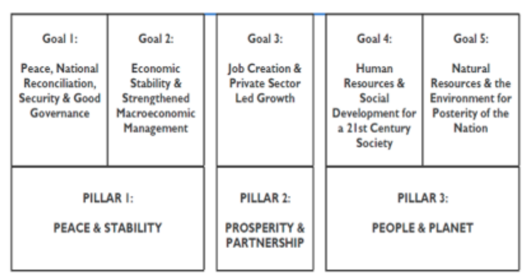
Background

1. In August 2018, the MSDP was launched providing an overarching medium-term economic roadmap for the country. The National Economic Co-ordination Committee, a national policymaking body headed by State Counsellor Daw Aung San Suu Kyi, is expected to facilitate the implementation of the MSDP. The MSDP is structured on three pillars, five goals, twenty-eight strategies and two hundred and fifty-one action plans firmly aligned with the SDGs, the Twelve Point Economic Policy of the Union of Myanmar, and various other regional commitments. The three pillars of the MSDP are (1) peace and stability; (2) prosperity and partnership; and (3) people and planet. For each pillar in the MSDP, clear goals, strategies and action plans have been identified.

Myanmar Sustainable Development Plan

(A comprehensive framework)

A Peaceful, Prosperous & Democratic Myanmar



Source: Myanmar authorities.

2. Pillar one, peace and stability, is founded on two goals one of which is economic stability and strengthened macroeconomic management. The strategies set out under this goal are intended to achieve macroeconomic stability by establishing appropriate fiscal, monetary and exchange rate policy. The strategies set for the other goal—peace, national reconciliation, security and good governance—have been designed to foster peace, promote justice, improve institutions and increase the engagement of the people with the government.

3. Pillar two, prosperity and partnership, focusses on a single goal—job creation and private sector-led growth. The strategies to achieve this goal are designed to improve the

[1] This Appendix updates the medium-term CD strategy for Myanmar developed in 2017 (Appendix III, IMF Country Report 18/90).

business environment, reduce the cost of doing business, develop SMEs, increase access to finance and build infrastructure.

4. Pillar three, people and planet, is based on two goals that address human resource development and conserving the environment. The strategies set under this goal aim to improve the quality of human resources and social development include improving the quality and access to health, education and nutrition, expanding social safety nets and protecting the rights of all. Strategies to ensure that goals such as providing a clean environment including clean water and energy, combating climate change, managing natural resources are included under this pillar as well.

Integrating CD with the MSDP

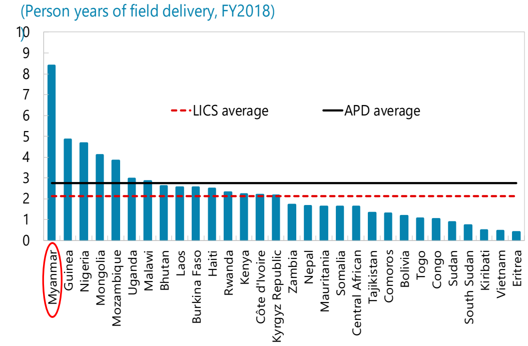
5. CD remains crucial to advance the successful implementation of the reforms in the MSDP and achieve SDGs. The MSDP is an ambitious plan set to help Myanmar transition towards an inclusive and open economy. The development needs, as highlighted by the MSDP pillars, that match this transition are expected to be large. Meeting these needs will require raising domestic revenues and increasing market-based financing of the fiscal deficit to gradually scale up SDG-related spending while maintaining fiscal sustainability. The authorities will also need well functioning markets, including interbank money and FX markets, to support the authorities' efforts to reduce central bank financing and for conducting effective monetary policy. Therefore, prioritizing expenditure, strengthening capacity in public financial management (PFM) and its legal framework, providing more granularity on the fiscal reporting of the SEEs and building on the progress made in strengthening the capacity in domestic revenue mobilization remain pivotal. Continued efforts to build and strengthen the monetary policy framework, as well as to enhance the implementation capacity of the central bank are needed. While good progress is being made towards improvements in macroeconomic statistics, timely dissemination of data will strengthen policy making. These efforts will also improve transparency, overall governance and reduce corruption vulnerabilities.

6. CD from the IMF is aligned to pillars one and two as well as surveillance priorities. To accomplish the goals set under each of these pillars, CD from the IMF has been geared towards building fiscal and monetary institutions thereby improving their overall governance, strengthening the legal framework and improving macroeconomic statistics. More specifically, CD is targeted towards enhancing fiscal transparency and budget performance, improving domestic revenue mobilization, upgrading the monetary policy framework and operations and developing the foreign exchange markets. CD in strengthening the overall legal framework including the review of tax laws, investment laws, anticorruption laws is ongoing. Additionally, steady TA to bridge the gap in current data reporting and publishing to internationally prescribed methodologies is ongoing. Staff development from training initiatives, such as the 'Developing Macroeconomic Management', are in place to help understand the functioning of the integrated macro-framework.

7. Myanmar already receives significant amounts of CD from the IMF. CD is being delivered by long-term resident advisors, by regional advisors from CDOT, and by STI, OAP, IMF HQ-based missions, and short-term experts. CD providers work closely with each other and coordinate with other development partners to avoid duplication and maximize synergies including through annual COFTAM (Conference of the Committee for the Coordination of Financial Sector Technical Assistance to Myanmar) and periodic MMSCG (Macroeconomic Management Sector Coordination Group).

TA Delivery to Low Income Developing Countries

(Person years of field delivery, FY2018)



Source: IMF staff calculations.

Bolstering the MSDP Pillars

Fiscal Sector

8. CD in the PFM programs has increased emphasis on improved budget planning and fiscal risk management while strengthening budget execution. Along with the traditional support on cash management, treasury operations, and internal audit, CD in PFM programs has helped with the PFM Law, Financial Rules and Regulations, internal controls and internal audit functions, the gradual introduction of information technology, the production of fiscal accounts consistent with GFS reporting standards. Building on this progress, the current priorities are centered developing a harmonized chart of accounts and a unified Financial Information Reporting System for the Treasury (FIRST) to automate information and strengthen transparency. Upcoming assistance being considered is for improving the corporate governance practices of State Owned Enterprises (SEEs), particularly those operating in the natural resource sector, and setting up an appropriate PPP framework. These efforts are expected better measure and report contingent liabilities with the aim of improving transparency and minimizing fiscal risks.

9. A comprehensive medium-term revenue mobilization strategy aligning revenue goals with SDG expenditure needs, as outlined in the recent TA recommendations, should be considered. The current revenue aspires to strengthen fiscal governance. CD assisting IRD's first phase of reforms has set the strategic reform direction, developed a project management and governance framework, and established a new function-based organization starting with IRD headquarters and a new office concentrating on large taxpayers. It has also helped the Myanmar Customs Department (MCD) with strategic reform planning, compliance risk management, an information and communication technology strategy and human resource management including the development of MCD's organizational structure. The importance of revenue strategy sets the stage for CD for the second phase of reforms and should be more closely aligned with SDG related spending. The revenue strategy will pay attention to the need for improved governance and integrity on the part of revenue staff, taxpayers, and importers. Greater clarity and transparency of extractives revenues and tax expenditures will also be key features. TA on the petroleum and mining fiscal regime, with an expectation that elements of best practice will be embodied in tax legislation, is ongoing while CD in reforming the fiscal regime for natural resources and addressing some of the shortcoming of the EITI progress report is being considered.[2] Additionally, CD for automation enhancements planned for both IRD and MCD will help provide greater transparency with taxpayer and importer account entries, and standardize procedures nationwide. Modernized legislation, for both tax and customs, will give greater clarity of the tax rules and procedures and certainty of taxable transactions, in turn minimizing opportunities for discretion and negotiation.

Monetary and Financial Sector

10. Efforts are ongoing for building and strengthening the monetary policy framework, as well as enhancing the implementation capacity of the central bank. CBM is transitioning to a reserve money targeting framework in line with its price stability mandate and the government's commitment to phase out central bank financing of the deficit. CD is expected to help lay these foundations by improving liquidity forecasting, further developing indirect monetary instruments (e.g., use of repos) and the money market. Assistance with improving deposit and treasuries auctions while training in liquidity management and forecasting remains essential. Central bank governance is also evolving, supported by TA in aligning accounting and audit practices with international standards while building staff capacity. TA to help fully transition to IFRS by 2021 as well as adopt risk-based audit procedures continues. From a governance perspective, the 2017 regulation on large exposure limits now provides safeguards against excess financial exposures and CD may help with the finalization and issuance of five regulations related to financial institutions.[3] Over time, assistance in helping the CBM set up a monetary policy committee and a technical working group to support the committee should be considered.

11. Further deepening of the interbank market and developing a FX intervention strategy are medium term priorities. The CBM is taking various steps to develop the interbank market. The regulation clarifying the mechanism for setting the exchange rate regime that it intends to follow going ahead has been issued. CD to design amendments to the FX management law would help address regulatory gaps. These amendments would also facilitate a development of interbank FX markets and hedging instruments through a gradual recalibration of net FX open positions.

12. CD should remain focused on the reforms included in the banking system action plan (BSAP). The BSAP includes reform recommendations in several areas including prudential regulations, supervisory capacity, recovery and resolution, SOB restructuring amongst others. CD to transition banks to risk-based lending, modernize CBM's regulatory and supervisory framework and train staff on risk-based supervision is currently in place. Accounting software and the new real time gross settlement system are operational and procedures around this are being put in place. The immediate priorities include assisting the CBM to issue the much-delayed key prudential regulations and continuing to strengthen supervisory capacity, including training staff to follow up on the findings of the full-scope bank examinations and rigorously enforcing the Financial Institutions Law. Additionally, CD on bank recovery and resolution and developing a policy framework for emergency

[2] The second EITI (Extractive Industries Transparency Initiative) progress report (March 2018) has flagged shortcomings.

[3] Board of directors, related party transactions, appointment of external auditors, Fit and Proper and directives on substantial interest under a World Bank financial sector operation.

liquidity assistance will be considered as priority. Other plans include TA on banking system structure, with the objective of providing analytic background for both supervision and on the ongoing reform work of the state-owned banks done by the World Bank and supervision of nonbank credit institutions (mainly finance companies).

13. Much needs to be accomplished to improve the identified AML/CFT deficiencies. Myanmar has received low ratings on the effectiveness of its AML/CFT regime and technical compliance by the APG assessment and as a result is subject to enhanced attention of the FATF. A National Risk Assessment has since been published and expects to finalize and enact amendments to the AML/CFT legal framework by third quarter of 2019. Assistance from the IMF will review the recent Mutual Evaluation Report to identify recommendations for strengthening the legal framework.

Data and Training

14. Substantial progress has been made in improving macroeconomic statistics, but more remains to be done to improve the quality and timely dissemination of data. Major progress has been made in improving the CPI and progress continues in improving external sector statistics by using data sources such as Foreign Exchange Transactions. Fiscal data releases are now in line with GFS and with the change in fiscal year. While significant achievements have been made with publishing MFS data, issues such as the lack of consistency and coverage with financial soundness indicators (FSIs) data, remain. CD on price statistics is expected which will help develop the GDP deflator. Improving monetary statistics (e.g., data on total bank assets and financial data of nonbank financial institutions) is expected to continue. As the CBM's capacity of supervision improves, more attention needs to be given to balance sheet data to aid its analysis of macro-financial linkages and consolidated supervision. On data dissemination, the recent e-GDDS mission will help centralize and make available adequate data for surveillance.

15. More dedicated resources are needed to understand macro-related issues. CD for training and analysis is expected to be a long-term process and will continue to include customized courses, specialized workshops (including during TA missions) and training in methodologies used in surveillance. The inter-agency core macroeconomic group (led by CDOT) meets up regularly to develop, update, and operationalize a macroeconomic framework for Myanmar. Group member and other officials are also being trained by CDOT and STI on issues such as quantitative skills and forecasting, financial programming and policies, macroeconomic diagnostics, and debt sustainability framework. Linking the macro framework and the medium-term fiscal framework (MTFF) is expected to strengthen macro-fiscal analysis and forecasting. Despite tangible progress, capacity in macroeconomic analysis and policy coordination remains low. Looking ahead, stronger inter-connectivity of the macro-framework with MTFF, DSA, liquidity forecasting/reserve money targeting, etc. is needed to build staffs policy designing capacity.

Table 1. Myanmar: MSDP and Capacity Development

Pillar	Goal	Strategy	Action Plan	Potential and ongoing CD/TA engagement	Comments
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.1 Allow the kyat to float more freely in response to market supply and demand	To develop the capacity of the authorities to implement FX operations efficiently and in a manner consistent with their chosen monetary policy FX regime	TA for FX auction operation to clear the markets and provide a market-clearing exchange rate.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.2 Ensure greater exchange rate flexibility as the CBM moves from a foreign exchange auction to an interbank transaction-based mechanism for setting the reference rate		Develop interbank foreign exchange market and progressively attach a greater weight to interbank transactions in setting the reference rate
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.3 Stabilize high volatility of the exchange rate		Maintain an adequate level of foreign exchange reserves and exchange rate consistent with medium term funtamentals
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.4 Develop an exchange rate intervention mechanism		Clear FX intervention strategy that is consistent with the chosen FX regime and well-understood by markets and the public
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.5 Stabilize inflation both from a monetary and fiscal policy perspective	Reduce CBM financing of the budget deficit and develop domestic debt market	Continued exchange rate flexibility and phasing-out of CBM financing of the fiscal deficit will strengthen monetary policy independence. CBM can better control inflation by utilizing the function of financial markets.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.1 Effectively manage the exchange rate and balance of payments	2.1.8 Develop the currency swap auction market through which foreign and domestic banks are more comfortable in conducting foreign currency interbank transactions, minimizing foreign exchange risk and uncertainty	Develop capacity to implement FX operations efficiently and in a manner consistent with the chosen monetary policy FX regime	Implement the policy regarding the provision of FX liquidity outside of the spot FX market intervention while adequately managing the associated risks.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.1 Continue monetary policy prudence with a view to stabilizing inflation and ensuring balance between economic growth and stability	Gradually move to a reserve money targeting framework with a flexible exchange rate regime	Currently, CBM's work on reserve money targeting is supported in the areas of target setting methods, liquidity monitoring/forecasting, and the reserve requirement. A reserve money targeting framework is being put in place, with deposit auctions as the main tool for liquidity management. In support, a liquidity forecasting framework has been put in place and the database of banks' balance sheet information has been established.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.3 Continue enforcing reserve requirement instructions on banks with flexibility to account for seasonality	Upgrade monetary operations	Recommendations have been made for holistic review of credit facilities and support has been provided for bi-weekly implementation of deposit auctions. Deposit auctions continue. Future action includes introduction of IOER.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.4 Strengthen treasury securities auctions and expand public understanding of bonds, bills and similar instruments	Further strengthen the primary government securities market and develop secondary market. Develop a yield curve.	Recommendations have been made for establishing the securities market committee to involve market participants as stakeholders. Development of repo market is also being discussed. Relevant directives issued by the CBM for securities transactions need to be fundamentally revised.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.6 Develop the interbank money market, and ultimately liberalize bank interest rates based on borrower risk profiles	Monetary operations and market development. Utilize the interbank transaction data collected by the CBM with the aim of publishing key interest rates.	Utilizing the collected interbank money market transactions data to better understand market activity and upgrade reporting quality. As interbank money market becomes becomes more transparent and easier to use for market participants, including the CBM, it improves banks' capacity to manage their liquidity. The next step wil be the revision of the supporting directive issued by the CBM and tabulating the results from the November 2018 survey.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.7 Develop the REPO market through which the CBM can absorb excess liquidity from the market through open market operations, including possibly REPO auctions	Implement roadmap to liberalize interest rates commensurate with the CBM's capacity to supervise financial system as well as calibrate macro-financial developments and implement market-based operations.	Interest rates become more market-determined, improving the scope and effectiveness of monetary operations. Possible introduction of repos.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.2 Reduce inflation and maintain monetary stability	2.2.9 Strengthen BOP shock absorptive capacity and build up foreign exchange reserves to support a more favourable BOP position	Capacity development in external sector statistics	Improved quality of BOP and IIP data, in terms of : (1) improved coverage, particularly for DI, remittances, and external debt; (2) consistency with MFS

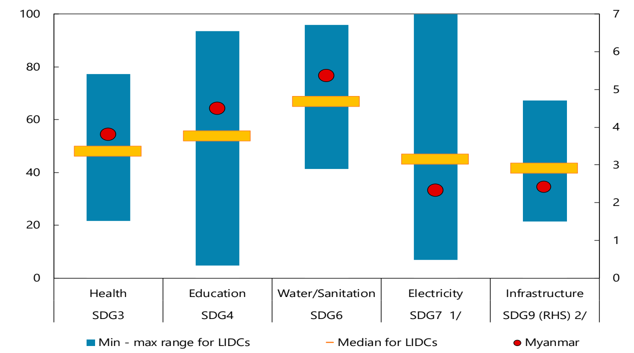
Table 1. Myanmar: MSDP and Capacity Development (concluded)

Pillar	Goal	Strategy	Action Plan	Potential and ongoing CD/TA engagement	Comments
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.1 Reform the structure and governance mechanisms of IRD and other relevant entities, and establish functionally based departments organized to best administer the tax system for different groups of taxpayers	Internal Revenue Department Reform Journey	Support activities in the Operations Management, Design and Monitoring, and Tax Reform directorates.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.3 Implement new information technology systems for registration, processing, accounting, and case work		ICT implementation
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.4 Develop modern tax laws, including a new Tax Administration Law, a new Income Tax Law and a new VAT Law		Development of new model production sharing contract (PSC) for petroleum. Income Tax Law including a specialized chapter on extractive industries.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.3 Increase domestic revenue mobilisation through a fair, efficient and transparent taxation system	2.3.5 Introduce anti-corruption and tax evasion counter- measures to protect the integrity and reputation of the tax system, including expanding the focus of internal audit and establishing an Internal Affairs Unit		Support activities in the Operations Management, Design and Monitoring, and Tax Reform directorates.
1. Peace & Stability	2 Economic Stability & Strengthened Macroeconomic Management	2.4 Strengthen public financial management to support stability and the efficient allocation of public resources	2.4.1 Significantly increase overall budget transparency, including the continued publication of Citizen Budgets, presentation of tax expenditures in annual budgets and other measures	PFM programs covering Myanmar: Supporting Improved Treasury Management and Modernization of Financial Management Systems; FMIS strategy and Financial Information Reporting System for the Treasury (FIRST) implementation. Improving the accounting policies and regulations and reconciliation procedures, including training of government accountants towards the adoption of a double-entry accounting system. Chart of Accounts (COA) modernization.	Phase I of Financial Information Reporting System for the Treasury (FIRST) developed; Time lag of budget execution reports and financial reports shortened; Format of fiscal reports more aligned with international standards. Automated financial reporting and reconciliation by Treasury covering Union and States financial accounts. Development of fiscal database. Developing readiness for budget and financial reporting integration. Developing capacity for medium-term FMIS development. Double-entry accounting system initiated in government. Harmonized administartive classification. Streamlined economic classification aligned with GFS and STA-CDOT support in this area.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.1 Strengthen the capacity of domestic financial institutions	Develop and strengthen banking regulations and prudential norms	Develop and strengthen banking regulations and prudential norms and more efficinet use of supervisory resources to better oversee key risks in their banking systems. TA to focus on Banking supervision and regulation including off-site supervision.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.4 Continue liberalisation of the banking sector including through plans and regulations for the Financial Institutions Law (FIL) and Foreign Exchange Management Law (FEML)		Modernize Foreign Exchange Management Law.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.8 Introduce measures that enable Myanmar banks to ensure full compliance with applicable prudential standards		Develop and strengthen banking regulations and prudential norms and more efficinet use of supervisory resources to better oversee key risks in their banking systems. TA to focus on Banking supervision and regulation including off-site supervision.
2. Prosperity & Partnership	3 Job Creation & Private Sector Led Growth	3.5 Increase broad-based access to financial services and strengthen the financial system overall	3.5.14 Increase financial transparency, including by enforcing existing regulations on financial reporting and the introduction of additional transparency-related regulations for financial institutions	Strengthen the CBM's institutional capacity to conduct financial management operations and ensure the integrity of its financial reporting	The CBM has established the basis of a modern accounting framework. Capacity development will be aimed at financial management, accounting and internal audit.

Appendix VII. Spending Needs for Reaching the Sustainable Development Goals (SDGs)[1]

1. **Myanmar's development strategy is anchored on achieving the SDGs**. The authorities have committed to reaching the SDGs in their 2018–2030 Myanmar Sustainable Development Plan (MSDP). Key development objectives are mapped with the SDGs, and the 251 action plans are fully aligned with SDGs indicators. Ten sector coordination groups are monitoring the MSDP implementation and progress towards reaching the SDGs. With UNDP support, the authorities published the SDG baseline report which presents local and international data for 60 percent of the 321 SDG indicators. Overall, Myanmar's SDG global ranking is 113 out of 156 (with 1 being the best) in terms of its composite SDG index. pointing to considerable gaps with SDGs targets. [2] However, there is variation in its performance across the 17 SDG goals, with Myanmar outperforming peer countries on several specific SDGs.

Myanmar: Selected Sustainable Development Goals



Source: IMF staff calculations using Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2017): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).

1/ Indicator: Access to electricity (percentage of population); Source: Myanmar authorities, Measuring Myanmar's starting point for the Sustainable Development Goals

2/ Indicator: Quality of Infrastructure.

SDG Performance

2. **Myanmar's health SDG status is slightly better than peers.** Myanmar's health performance as measured by the SDG index for health (SDG 3) is 55, which implies that it is 45 percent short of reaching this SDG. Myanmar slightly outperforms the score of median of low income and developing countries (LIDCs) of 48 (column for SDG 3 in Figure 1). Key health outcomes are above peers, such as healthy life expectancy at birth (66.6 years) and HIV prevalence. However, only 1.5 percent of the population is covered by health insurance or a public health system, far from the 2017–2021 National Health Plan objective of universal access to basic health services. And the maternal mortality rate (186 per 100,000 live births) and the under-five mortality rate (50 per 1,000 live births) are significantly higher than the SDGs targets of 70 and 25, respectively.

3. **Myanmar's performance in education has improved over the recent period and is stronger than peers (column for SDG 4 in Figure 1).** With a score of 64 on the SDG index related to education, Myanmar is closer to the target of 100 than the median of LIDCs (54). The authorities have sharply increased education spending since 2011/12, with a focus on primary and lower secondary education. As a result, the net primary enrollment rate is close to 100 percent. However,

[1] The author is Maximilien Queyranne (FAD). The author would like to thank Mercedes Garcia-Escribano, Delphine Prady, Mauricio Soto and Tewodaj Mogues (all FAD) for their support and advice. Spending needs estimates are calculated using IMF FAD SDGs Costing Framework. For more information on methodology, see: IMF Staff Discussion note, 2019, Fiscal Policy and Development: Human, Social and Physical Investment for the SDGs.

[2] SDG Index and Dashboards Report 2018. Source: http://sdgindex.org/reports/2018/

the mean years of schooling is 4.7 years, far from the objective of extending the basic education system for all to 13 years set in the 2016–2021 National Education Strategic Plan.

4. **Myanmar also outperforms peers on water and sanitation** (column for SDG 6 in Figure 1). Myanmar's score of 77 is higher than LIDCs' median of 67. According to the authorities, in 2015, 81 percent of population had access to improved drinking water and 80 percent to improved sanitation facilities. Water resource management appears also sustainable, with freshwater withdrawal, an indicator of pressure on the country's renewable freshwater resources, representing only 3.7 percent of total renewable water resources per year, compared to the world average of 65.4 percent (SDG Index and Dashboards Report, 2018).

5. **But Myanmar lags significantly behind peers in electricity and infrastructure (columns for SDG 7 and SDG 9 in Figure 1).** According to the Myanmar SDG baseline report, only 33 percent of the population has access to electricity, and per capita consumption is low with 333 kwh per year compared to emerging and developing Asia (3,048 kwh on average). Achieving the electricity SDG will require massive investment in generation and distribution capacities. Road infrastructure per capita is significantly below peers, with 0.8 km per 1000 people, compared with 3.6 km per 1,000 people in LIDCs on average and maintenance spending is insufficient to provide safe roads.

Assessing Spending Needs

6. **Total additional spending (private and public) on health is estimated at 5.5 percent of GDP in 2030, compared to 2015.** Myanmar currently spends about 4.1 percent of GDP on health, of which around a quarter is government expenditure (1.1 percent of GDP).[3] Total spending needed to reach an SDG index of high-performing peers is 9.6 percent of GDP in 2030, driven by an increase in the number of medical professionals from 0.6 to 0.9 doctors for 1,000 people and from 2.3 to 4.3 other medical staff for 1,000 people, and a rise in doctors' wages from 6.9 percent to 10.4 percent of GDP per capita. It is assumed that with the planned expansion of public health coverage, the public spending share of total health spending will rise to 52 percent by 2030. Under this assumption, needed public spending on health is estimated at 5 percent of GDP in 2030, and private spending at 4.6 percent of GDP.

7. **Myanmar needs to almost triple its total spending on education.** Currently, total education spending is about 2.5 percent of GDP, of which 1.8 percent of GDP is public spending. Benchmarking exercise against good performing LIDCs with high SDG index scores in education suggests that total education spending could reach 7.3 percent of GDP in 2030. Cost drivers include a sharp reduction in the students-per-teacher ratio (from 25 to around 15), an increase (from 63 to 80) in the enrollment rate from preprimary to tertiary education, and a higher ratio of teacher wages to GDP per capita (from 1.4 to 2.1). These estimates consider that the share of public spending in total education spending would increase from 70 percent to 80 percent from 2019–2030, to achieve higher enrollment rates and education outcomes for poor households. Under this assumption,

[3] About 53 percent of private spending is on retail sale and medical goods, 31 percent on hospitals, and 17 percent on ambulatory health care. Source: Myanmar National Health Accounts, 2014-2015, Ministry of Health and Sports, 2018.

public spending on education would amount to 5.8 percent of GDP, and private spending would double from 0.7 percent to 1.5 percent of GDP.

8. **Annual investment to achieve the water and sanitation SDG is estimated at 0.6 percent of GDP.** A World Bank costing model[4] estimates the annual investment to achieve universal access to clean and safe water and sanitation at 0.6 percent of GDP, with comparable additional spending needs in rural and urban areas.

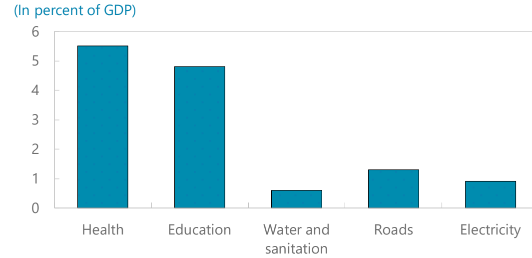
9. **In the electricity sector, the authorities will need to invest about 1 percent of GDP per year to reach universal access in 2030.** The 2015–2020 Energy Master Plan (EMP) aims at providing close to universal access to electricity (96 percent of households) and ensuring a per capita consumption of 1,124 kwh (high scenario). This would require a total investment of about US$16 billion by 2030, or about 1 percent of GDP per year. This costing is comparable to the authorities' estimates presented in the EMP (investment costs between US$11 and 17 billion).

10. **The size of the road network should broadly double by 2030.** The additional kilometers of roads needed to ensure road access for all (proxied by raising the Rural Access Index to at least 75 percent) are estimated at about 34,000 km. With an average unit construction cost of US$304,000 per km based on the authorities' data, the additional spending needed on roads is estimated at 1.3 percent of GDP per year over the period 2019–2030, of which 0.8 percent is investment and 0.5 percent of GDP is annual maintenance costs.

11. **Overall, total additional spending to reach the SGDs in social and infrastructure sectors is estimated at about 13 percent of GDP in 2030 mostly corresponding to public spending.** Government spending needs are about 8 percent of GDP in the social sectors, compared with about 2.5 percent of GDP for the private sector. Assuming spending needs on the areas of electricity, water and sanitation and roads are undertaken by the public sector, the total annual public spending needs would amount to 10.8 percent of GDP.

Estimates of Additional Total Spending for Sustainable Development Goals in 2030 1/

(In percent of GDP)



Source: IMF staff estimates, using IMF FAD SDG costing framework.
1/ For education and health, estimates reflect the difference between the share of GDP in spending consistent with high performance in 2030 and the current level of spending as a share of GDP; For roads and electricity, estimates reflect the annualized additional spending to close the infrastructure gap between 2019 and 2030 expressed in percent of 2030 GDP.

[4] Hutton, Guy and Mili Varughese, 2016, "The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene," Water and Sanitation Program: Technical Paper.

INTERNATIONAL MONETARY FUND

MYANMAR

February 25, 2019

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultations with other departments)

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FUND RELATIONS

(As of December 31, 2018)

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	0.10	0.04

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				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	2.70	2.71	2.71	2.71	2.71
Total	2.70	2.71	2.71	2.71	2.71

[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. In 2018, the CBM made progress in allowing market forces to play a bigger role in determining the exchange rate. The FX reference rate largely followed a formula consisting of a weighted average of FX interbank and bank-customer market rates, with occasional small deviations. As a result, the exchange rate depreciated by 14.5 percent between April and December. The CBM also abolished the trading band (reference rate +/- 0.8 percent) in August 2018, which clarified the current system and should lead to an increase in the volume and representativeness of the formal market. The CBM issued on February 4, 2019, a formal regulation announcing the transaction-based exchange rate, as the new reference rate. 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 *other managed,* effective April 20, 2018.

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. However, Myanmar maintains a Multiple Currency Practice subject to the IMF's jurisdiction under Article VIII, Section 3. The authorities have removed the exchange restriction arising from the tax certification requirement for transfers of net investment income abroad by revising the relevant provision in the new investment law and rules and by confirming that the practice conforms with the new provision.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were conducted on November 29- December 13, 2018 in Yangon and Nay Pyi Taw. The Executive Board concluded the 2018 Article IV consultation on March 15, 2019.

Technical Assistance

Myanmar is one of the largest recipients of IMF technical assistance (TA). Delivery is through a mix of resident advisors; regional advisors based in the IMF Capacity Development Office in Thailand (CDOT) 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 CDOT 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.

- 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), including to support the preparation of a Medium-Term Revenue Strategy. A resident custom advisor supports the Myanmar Customs Department (MCD) on compliance measurement, management control, risk Management and the development of MCD audit and anti-smuggling strategies. Work on tax policy is delivered through HQ missions, and include the preparation of the new income tax law (LEG) and modernization of the tax regime for extractive industries.

- 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 CDOT and supported by HQ and expert missions. Work on public investment management, budgeting and fiscal risks from PPPs is delivered through HQ 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 CDOT 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 CDOT 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.

IMF Capacity Development Office in Thailand (CDOT)

Mr. David Cowen, Director, has headed the office since September 2015. CDOT (formerly 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 CDOT's capacity development projects.

Myanmar: Key Technical Assistance by the Fund During 2018

Department	Topic	Period
FAD	MCD: HR development (training policy)	January-18
FAD	TA on Petroleum fiscal regime (FARI model)	January-18
CDOT	TA on Coordinated Direct Investment Survey (CDIS)	January-18
LEG	WS on National Risk Assessment (NRA)	January-18
CDOT/FAD	FMIS follow-up mission	January-18
FAD	IRD: Medium Taxpayer Office	January-18
FAD	IRD: Operational Management	January-18
CDOT	Monetary Operations	January-18
STA	GFS (Government Finance Statistics)	January-18
MCM	BFRIC Meeting (Presentation on IFRS)	January-18
CDOT	Monetary Operations in Yangon	February-18
MCM	Introducing LTX candidate on FM	February-18
LEG	Income Tax Law	February-18
FAD	IRD: Design and Monitoring	February-18
FAD/CDOT	FIRST follow-up mission	February-18
CDOT	Macroeconomic Core Group + BOP compilation	February-18
FAD	Petroleum fiscal regime (Income Tax Law)	February-18
STA	Tailored GFS and Public Debt Statistics Course (NPT)	March-18
CDOT/STA	ESS (External Sector Statistics)	March-18
FAD	IRD: Policy and Legal Directorates	February-18
FAD	Tax administration (IT system support)	February-18
MCM	STX on banking supervision (off-site inspection)	March-18
FAD	Budgeting and Planning	March-18
CDOT	Monetary Operations / COFTAM	March-18
FAD	IRD: Medium Taxpayer Office	March-18
FAD	IRD: Medium Taxpayer Office (Greg Topping)	March-18
FAD	MCD: HR development and law enforcement (revising Customs technical manuals, + WS)	March-18
FAD	MCD: HQ staff visit (work program) + WS	March-18
OAP	JISPA (interviews with candidates)	March-18

Department	Topic	Period
FAD/CDOT	Introductory Mission (for Chita)	March-18
MCM	COFTAM	March-18
CDOT	ESS: FET data (debt data) + estimation of remittances	April-18
MCM	STX on credit risk management	April-18
STA	PPI (Producer Price Index) (weights, questionnaire etc)	April-18
FAD/CDOT	FIRST follow-up mission	April-18
FAD	IRD: Policy and Legal Directorates	April-18
CDOT/STA	GFS follow-up mission (GFS WS)	May-18
CDOT	Monetary Operation (Yangon)	May-18
CDOT	WS on Quantitative Methods for FPP (QMS)	May-18
FAD	FAD HQ Staff Visit (Mid-review)	May-18
FAD	MCD: Recruitment and Temporary Employment Policy	May-18
CDOT	Treasury (Financial Reporting)	May-18
CDOT	Monetary Operation (Nay Pyi Taw)	May-18
CDOT	Training on FDI Survey (for DICA)	May-18
CDOT	ESS (for CBM)	June-18
FAD	Installation of regional resident advisor	June-18
FAD	Recruitment & Temporary Employment Policy	June-18
CDOT/STI	Course on Financial Programming and Policies	June-18
CDOT	Monetary Operation (NPT for 12-15, YGN for 20-22)	June-18
MCM	Banking S/V (off-site + on-site)	June-18
CDOT/STA	GFS/PFM WS for JPAC/MOPF	June-18
FAD	IRD: ITAS Stage 2 Bid Evaluation	June-18
CDOT	Macroeconomic Core Group	June-18
FAD	Treasury Strategic Review	July-18
WB/FAD	WS on Revenue Forecasting	July-18
MCM/CDOT	WS on Monetary and FX policy (Jul 11-12)	July-18
MCM	Financial Management	July-18
CDOT	Treasury Operation (Accounting /Reporting)	July-18
CDOT	Monetary Operation (interbank transaction etc) Yangon	July-18
FAD	IRD: Policy and Legal Directorates	July-18
FAD	IRD: MTO (amalgamation, taxpayer services)	July-18
FAD	TA on FARI (design of an R-Factor production sharing mechanism + methods for the determination of midstream pipeline tariffs)	July-18
CDOT	GFS (Bridge Table, Quarterly GFS etc)	August-18
FAD	MCD: Promotion Policy	August-18
CDOT/STA	DICA (FDI Statistics)	August-18
MCM	Introduction of Resident Advisor (Banking S/V)	August-18
FAD	Preliminary Discussion on MTRS with the Minister	August-18

Department	Topic	Period
CDOT/STA	WS on External Debt Statistics	August-18
CDOT	Monetary Operation (interbank transaction etc) Yangon	August-18
CDOT	Monetary Operation Nay Pyi Taw	August-18
FAD	Risk Management and Intelligence Unit	August-18
FAD	MCD: Human Resource Management (Tr Manuals)	September-18
MCM	Banking S/V (off-site monitoring etc)	September-18
CDOT	Monetary Operation Nay Pyi Taw	September-18
CDOT/FAD	Treasury Automation System	September-18
CDOT	Monetary Operation (interbank transaction etc) Yangon	September-18
CDOT	Macroeconomic Core Group Meeting etc	September-18
FAD	IRD: Policy and Legal Directorates	September-18
FAD	IRD: Centralized Data Processing	October-18
CDOT/STA	GFS (Government Financial Statistics)	October-18
CDOT/FAD	Treasury (Cash Management, Accounting etc)	October-18
CDOT/FAD	Treasury Automation System -Technical Review	October-18
CDOT/MCM	Monetary Operations (Yangon)	October-18
FAD	MCD – Follow-up Mission	October-18
CDOT/STA	ESS (External Sector Statistics)	October-18
MCM	Quick Review on Monetary/FX issues	October-18
CDOT/MCM	Monetary Operation Issues (NPT)	October-18
STA	PPI (Producer Price Index)	October-18
FAD	MTRS Mission	October-18
MCM/LEG	TA on FEML (Foreign Exchange Management Law)	November-18
FAD	IRD: Policy and Legal	November-18
FAD	MCD: Human Resource Management	November-18
FAD	IRD: Risk Management	November-18
FAD	TA on PPP fiscal risk assessment	November-18
MCM	Building bank S/V and regulations	November-18
CDOT/STA	ESS (follow-up with DICA)	December-18
CDOT/FAD	Treasury System (FIRST)	December-18
CDOT	GFS follow-up with AIV mission	December-18
CDOT	ESS follow-up with AIV mission	December-18
CDOT	Monetary Operations (in Yangon)	December-18
MCM	Financial Management (Accounting, Internal Audit)	December-18
CDOT	Macro-core group issues etc.	December-18
CDOT	Treasury Operations (Financial Reporting, COA)	December-18
LEG	AML-CFT	December-18
CDOT	Monetary Operations (in Nay Pyi Taw)	December-18
CDOT/FAD	Treasury Automation System -Technical Review	October-18
CDOT/MCM	Monetary Operations (Yangon)	October-18

Department	Topic	Period
FAD	MCD – Follow-up Mission	October-18
CDOT/STA	ESS (External Sector Statistics)	October-18
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CDOT/MCM	Monetary Operation Issues (NPT)	October-18
STA	PPI (Producer Price Index)	October-18
FAD	MTRS Mission	October-18
MCM/LEG	TA on FEML (Foreign Exchange Management Law)	November-18
FAD	IRD: Policy and Legal	November-18
FAD	MCD: Human Resource Management	November-18
FAD	IRD: Risk Management	November-18
FAD	TA on PPP fiscal risk assessment	November-18
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CDOT	Treasury Operations (Financial Reporting, COA)	December-18
LEG	AML-CFT	December-18
CDOT	Monetary Operations (in Nay Pyi Taw)	December-18

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/myanmar

Asian Development Bank: https://www.adb.org/countries/myanmar/main

MAIN WEBSITES OF DATA

Central Statistical Organization (www.csostat.gov.mm)

Consumer Price Index

Myanmar Statistical Information Service (www.mmsis.gov.mm)
National accounts
Population census
Labor and employment
Socioeconomic survey
Household income and expenditure survey

Ministry of Commerce (https://www.commerce.gov.mm)
Foreign trade

STATISTICAL ISSUES

As of January 31, 2019

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 the Asian Development Bank (AsDB) 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 with a public sector coverage are being compiled in the GFSM format, but financing data are incomplete, and 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. 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 based in CDOT. 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 with a wide coverage of the public sector for a 6-year period and reported these data to the Fund; and in 2018 have disseminated these data domestically on the Ministry of Finance website.
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), including foreign bank branches that commenced their operations in 2015. 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, but they are not 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. The CBM reports nine core and four encouraged FSIs for deposit takers for posting on the IMF's FSI website with a lag of more than one quarter. However, the reporting of one core and three encouraged FSIs was discontinued since the third quarter of 2016.	
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 advisor in CDOT 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 31, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	01/19	01/19	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	09/18	11/18	M	M	I
Reserve/Base Money	09/18	11/18	M	M	M
Broad Money	09/18	11/18	M	M	M
Central Bank Balance Sheet	09/18	11/18	M	M	M
Consolidated Balance Sheet of the Banking System	09/18	11/18	M	M	M
Interest Rates[3]	12/18	01/19	M	I	M
Consumer Price Index	12/18	01/19	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	FY 2018	11/18	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	FY 2018	11/18	A	I	NA
Stocks of Central Government and Central Government—Guaranteed Debt[6]	FY 2018	11/18	A	I	NA
External Current Account Balance	Q3/18	11/18	Q	Q	Q
Exports and Imports of Goods	12/18	1/19	M	M	M
GDP/GNP	FY 2018	11/18	Q	A	A
Gross External Debt	FY 2018	11/18	A	I	I
International Investment Position[7]	Q2 2018	11/18	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 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 25, 2019

Approved by **Kenneth H. Kang, Johannes Wiegand (IMF), and Lalita Moorty (IDA)**

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

Risk of external debt distress:	Low
Overall risk of debt distress:	Low
Granularity in the risk rating	Not applicable
Application of judgement:	No

Myanmar's risks of external debt and overall debt distress continue to be assessed as low. Under the new low-income country debt sustainability framework, debt carrying capacity of Myanmar has improved and all external debt and total public debt indicators remain below their respective indicative thresholds under the baseline scenarios and stress tests. External debt indicators are most vulnerable to shocks to nondebt flows and exports, reflecting the importance of FDI flows to the external position. Meanwhile, public debt indicators are most sensitive to a natural disaster shock, underscoring the importance of strengthening buffers to enhance resilience against shocks, including via continued revenue mobilization measures and building international reserves. Over the medium term, the authorities intend to expand external borrowing (mainly on concessional terms) to support large scale infrastructure projects under the Myanmar Sustainable Development Plan. Increasing the export base, maximizing concessional loans and improving the primary deficits would help keep the debt burden contained. Efforts to target infrastructure projects with high returns and financing these with concessional financing, including assessing fiscal risks of PPPs to limit and report contingent liabilities would benefit debt sustainability. Strengthening the business environment and governance, including in the natural resource sector would raise the investment outlook and potential growth.

PUBLIC DEBT COVERAGE AND COUNTRY CLASSIFICATION

1. The coverage of public sector debt used in the DSA is consolidated general government debt, government-guaranteed debt and social security funds. SOE debt is on lent and is therefore included in the coverage of public external debt.[1] There is no outstanding debt to the IMF.

Coverage of Public Sector Debt

1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	O/W: Social security fund	X
5	O/W: Extra budgetary fund (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

Source: IMF staff calculations

2. The new LIC DSF determines the debt sustainability thresholds by calculating a composite indicator (CI). In the previous debt sustainability framework (DSF), debt-carrying capacity was determined by the World Bank's CPIA score. Under this methodology, Myanmar was classified as having weak policy performance with a Country Policy and Institutional Assessment (CPIA) average of 3.07 for the period 2014–16. The CI, however, is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, and world growth and the CPIA score.[2] The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection, and the corresponding CPIA. For Myanmar, the CI score based on both the 2018 April WEO and 2018 October WEO data corresponds to a *medium rating* and thus the final debt carrying capacity classification for this DSA is medium. Thus, compared with the previous DSF methodology, the PV of debt-to-exports threshold has now increased from 100 percent to 180 percent while the debt service-to-exports and debt service-to-revenue thresholds remain unchanged. The indicative threshold for the PV of total public debt-to-GDP has been increased from 38 to 55 percent of GDP. A summary of the thresholds used in the exercise are included in the table below.

[1] The 2017 public debt management Law states that SOES can borrow directly from state-owned banks or benefit of on lending from the government.

[2] The details on the methodology can be found in the new LIC-DSF guidance note: https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

Applicable Thresholds

Applicable		Applicable	
External debt burden thresholds		Total public debt benchmark	
PV of debt in percent of exports	180	PV of total public debt in percent of GDP	55
GDP	40		
Debt service in percent of exports	15		
Revenue	18		

Source: IMF staff calculations.

BACKGROUND ON DEBT

3. **Myanmar's total public debt is estimated to be 38.5 percent of GDP as of FY2018.**[3] Public debt in this DSA covers public domestic debt (59.1 percent of total public debt in FY2018) and public and publicly guaranteed (PPG) external debt (58.2 percent of total public debt in FY2018).[4] Domestic debt comprises T-bills and T-bonds, a large share of which–mostly 3-month T-bills–is held by the central bank. The largest share of PPG external debt is held by bilateral creditors amongst which China and Japan are the largest creditors. International Development Association (IDA) and the Asian Development Bank (ADB) are the largest multilateral creditors (Table 1).

Myanmar: PPG External Debt

In USD millions	End-June 2018	In percent
Bilateral Loans	**8,108.8**	**81.6**
Paris Club	3,875.8	39.0
of which: Japan	2,419.5	24.3
Non Paris Club	**4,233.0**	**42.6**
of which: China	3,848.0	38.7
Multilateral Loans	**1,795.4**	**18.1**
of which: ADB	556.9	5.6
of which: IDA	1,220.0	12.3
Commercial	**38.1**	**0.4**
Total	**9,942.3**	**100.0**

Source: Myanmar authorities.

4. **Total private external debt is estimated to be 12.3 percent of GDP as of FY2018.** Total external debt includes revised estimates of private external debt benefitting from the intensive ongoing TA in external sector statistics. Thus, total external debt, a total of PPG external and private external debt, is estimated to be 28.4 percent of GDP as of FY2018.[5]

5. **Contingent liabilities include potential recapitalization needs of the banking system.** The banking system is adjusting to the 2017 prudential regulations by converting overdraft to term loans, deleveraging and recognizing previously unreported non-performing loans. With bank capital positions and profitability low in most private banks, banks will need to recapitalize through time. The government is assessing restructuring options for the state-owned banks based on the findings

[3] Myanmar's fiscal year has changed from April-March, to October-September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year started October 2018. This first year of projection in this DSA is FY2018. FY2018 covers the period October 2017 – September 2018.

[4] For Myanmar, the external debt definition used in this DSA is based on residency.

[5] These large changes in external debt in FY2017 and FY2018 are reflected in the large residuals in the debt dynamics table (Table1).

of recent diagnostics studies, which may entail fiscal costs of recapitalization. While data limitations hinder a full assessment of potential NPLs and recapitalization needs, the uneven loan loss recognition and inadequate provisions, large exposures, and low capital position of banks indicate systemic concerns. A shock covering 5 percent of GDP has been added to the analysis to account for potential recapitalization needs.

Coverage of Contingent Liabilities

1	The country's coverage of public debt	The central and local government plus social security, government-guarnateed debt	
		Used for the analysis	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1	0.0	
3	SOE's debt (guaranteed and not guaranteed by the government)[1]	0.0	By law: SOEs cannot borrow directly
4	PPP	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	
	Total (2+3+4+5) (in percent of GDP)	5.0	

Source: IMF staff calculations.

[1]The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

6. **The authorities plan on increasing their reliance on external borrowing particularly for the several infrastructure projects in support of the Myanmar Sustainable Development Plan (MSDP).** To achieve the SDGs, the MSDP recognizes that a second wave of reforms with greater investments in both physical and human capital are needed. Key investments include those under the China-Myanmar Economic Corridor (such as the Kyaukpyu port), as well as with ODA from India (the Sittwe port and the planned India-Myanmar-Thailand trilateral highway) and Japan (the Thilawa special economic zone and Mekong-Japan Connectivity Initiatives) and other projects funded by multilateral donors (the East-West corridor). To finance these and other projects, the Myanmar authorities continue to seek external borrowing on concessional terms while limiting financing on commercial terms to projects assessed to have a high return on investment.

7. **The authorities also intend to use more extensively Public-Private Partnerships (PPPs).** The authorities have started to improve their public investment management framework, including for PPPs. They have recently issued the Project Bank Notification which aims at improving investment planning by identifying and screening infrastructure projects. They are also committed to building capacity of the Ministry of Planning and Finance to analyze and select these infrastructure projects. Given their limited experience with privately-financed investment, these are likely to create large fiscal commitments and in turn significant fiscal risks.[6]

[6] A PPP shock in the LIC DSA framework is applicable only when the PPP capital stock is larger than 3 percent of GDP; per the latest data from the World Bank's PPP database, Myanmar PPP stock is estimated to be 1.42 percent of GDP.

MACRO FORECASTS AND SCENARIOS

A. The Baseline Scenario

8. The assumptions in the baseline scenario are consistent with the macroeconomic framework presented in the staff report. The main assumptions in the baseline are:

- **Real GDP growth.** Economic growth is expected to gradually rise close to 7 percent over the medium-term, but its pace is somewhat slower compared to the previous DSA anticipating weaker FDI inflows and macro-financial spillovers of the on-going bank restructuring process.[7]

- **Inflation.** Headline inflation was moderate but has spiked recently due to higher fuel prices and kyat depreciation. Inflation is projected to rise temporarily given the pass-through of kyat depreciation and higher oil prices.

- **Current account.** The current account deficit narrowed in FY2017/18 largely financed by sustained FDI inflows, keeping international reserves at about three months of imports. The current account deficit is projected to increase to around 5 percent of GDP over the short to medium term reflecting a relatively stronger demand for imports including oil.

- **External financing.** Project financing from large creditors is currently in place, however, budget financing from creditors remains uncertain. Multilateral financing is expected to remain stable, while bilateral financing is projected to pick up from 2021 onwards. The medium-term outlook for FDI and external financing has become more uncertain than previously and is dependent on how the humanitarian crisis in Rakhine unfolds. FDI inflows are expected to slow down over the medium-term to slightly below 4 percent of GDP.

- **Fiscal outlook.** Fiscal deficit for FY2018/19 is projected to increase as budget execution improves. The greater appetite for government securities as banks deleverage provides a window to raise government securities issuance and fund the deficit in an uncertain environment for external financing. The primary deficit is expected to increase over the medium term as budget execution improves which will help close the SDG gaps in education, health and infrastructure.

- **Realism of the baseline.** The shift in PPG external debt-to-GDP ratio compared with the DSA from five years ago (2013) arises from the large debt relief the country received. Cross-country experience suggests that the baseline fiscal expansion is feasible, and the projected growth path is in line with a fiscal multiplier of 0.2.[8]

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[7] Myanmar: 2016 Article IV Consultation Staff Report (Box 2); IMF Country Report No. 17/30.

[8] Public/Private investment rate charts are not available in the current DSA from data limitations.

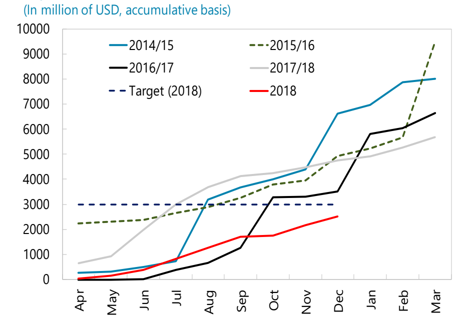
Key Macroeconomic Assumptions : FY2018 - FY2023 (average)				
	Baseline	Low External Financing	High External Financing	Previous DSA
Real GDP growth (in percent)	6.7	5.2	7.2	7.3
Inflation (percent change, y/y)	6.5	8.2	7.0	6.0
Primary fiscal balance (in percent of GDP)	-1.9	-1.7	-2.5	-2.4
Overall fiscal balance (in percent of GDP)	-3.6	-3.7	-4.2	-4.1
Current account (in percent of GDP)	-4.8	-5.1	-5.2	-5.8
FDI (in percent of GDP)	4.1	3.8	4.6	6.0

Source: IMF staff calculations. FY2018 runs from October 2017 to September 2018. Thereafter, all fiscal years are on a October to September basis.

B. Staff Scenario Analysis

9. Two financing scenarios, a downside and an upside scenario, illustrate the potential impact stemming from these risks on the economy and policy trade-offs. A prolonged humanitarian crisis in Rakhine state and lack of progress in addressing concerns of the international community on the refugee repatriation process could further reduce concessional donor financing and fiscal space. A withdrawal of GSP+ trade preferences from the EU on human rights concerns poses an added risk to exports and investor confidence. FDI project approvals, a leading indicator of FDI inflows, has already fallen sharply since the humanitarian crisis intensified in 2017. The downside scenario assumes a higher share of new borrowing on non-concessional terms and lower FDI inflows and exports over the medium-term based on negative investor sentiment and development partner sentiment compared with the baseline. This necessitates a reduction in government spending and results in depreciation pressures that leads to lower growth and higher inflation. On the upside, progress on the humanitarian crisis would facilitate a resumption in higher external concessional financing including budget support that allows higher SDG related spending and rebuilding of international reserves, lowering risk premia and crowding-in investment, supporting an uplift in growth. The shocks under both scenarios are temporary and it is assumed that over the medium-to-long term the economy converges towards the baseline.

Myanmar: FDI Approval
(In million of USD, accumulative basis)



Sources: Myanmar authorities; and IMF staff calculations.

Box 1. Medium Term Assumptions for Staff Scenarios

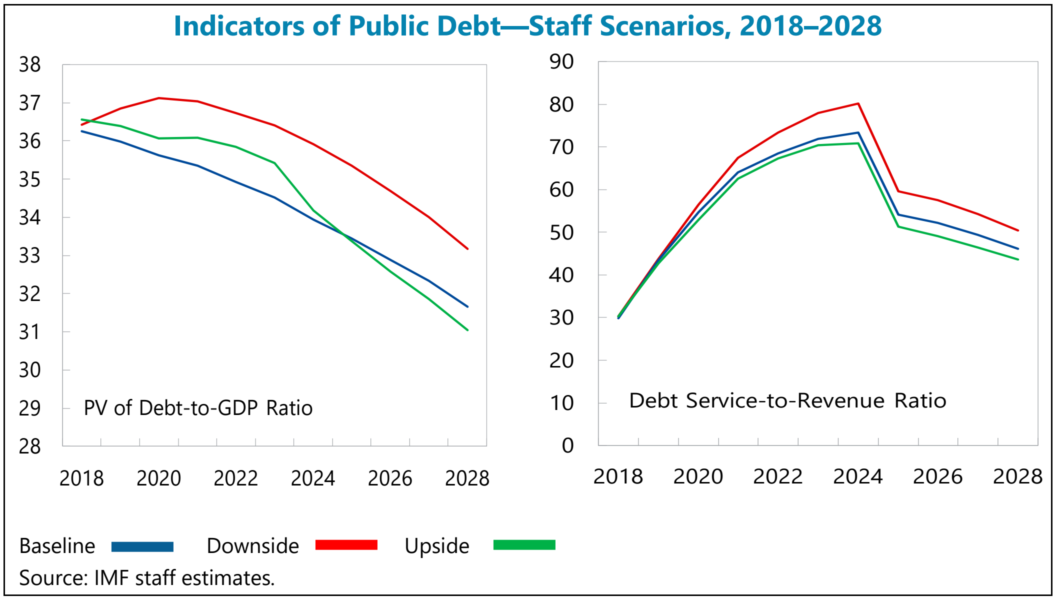
In the low financing scenario, as a share of GDP, external financing from multilateral official donors has been reduced by approximately half while FDI has been reduced by 0.4 percent. An export shock, corresponding to the exposure to the European market (a reduction in exports of goods by US$500 million on average annually), is also included. Given the lower external financing, government project spending has been reduced by 0.2 percent of GDP, however, central bank financing of the deficit has been increased which has increased domestic interest payments by 20 percent over the medium term. The increase in the central bank financing implies a depreciation of the exchange rate (6 percent on average) and an increase in inflation expectations (2.5 percent on average). In this context, growth in the scenario is expected to be around 5 percent over the medium term. In the upside high financing scenario, financing (including budget support) is expected to improve as is FDI (by 0.5 percent of GDP on average) on the premise that good progress will be made on the humanitarian crises. This is reflected in increased financing from major multilateral and bilateral donors (by 0.6 percent of GDP) which in turn increases project spending (by 0.7 percent of GDP). The exchange rate depreciates while inflation increases, but at a pace slower than the low financing scenario (by 1.0 percent and 0.7 percent). Growth is higher on average by 0.8 percent in medium term.

Myanmar: Scenario Analysis (FY2018 - FY2023)

Selected Macro Indicators	2017/18	Baseline Average (FY2018-FY2023)	Downside Average (FY2018-FY2023)	Upside Average (FY2018-FY2023)
Real GDP growth (in percent)	6.8	6.7	5.2	7.2
CPI (period average)	4.0	6.5	8.2	7.0
Primary fiscal balance (in percent of GDP)	-1.3	-1.9	-1.7	-2.5
Net lending/borrowing (in percent of GDP)	-2.7	-3.6	-3.7	-4.2
Current account balance (percent of GDP)	-4.7	-4.8	-5.1	-5.2
Import coverage (in months)	3.3	3.0	2.4	3.8
FDI (in percent of GDP)	5.4	4.1	3.8	4.6

Source: IMF staff calculations. FY2018 runs from October 2017 to September 2018. Thereafter, all fiscal years are on a October to September basis.

10. **Under both scenarios, the PV of public-debt ratio remains under its indicative thresholds.** In the downside scenario, the PV-of-public-debt to GDP ratio deteriorates throughout the projection period under the assumption that new borrowing will be contracted on non-concessional terms and economic growth will slow down. The debt-service-to-revenue ratio deteriorates due to higher debt service payments falling due relatively earlier compared to the baseline. Similarly, in the upside, the deterioration of the PV-of-public-debt to GDP ratio from the initial rapid accumulation of debt from both concessional and non-concessional resources is small due to the higher spending assumed for productive investments and in turn higher growth. The debt-service-to-revenue ratio marginally improves compared to the baseline from the assumption that revenue collection is stronger in a higher growth environment.



EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

11. All external PPG debt indicators remain below the policy relevant thresholds in the baseline scenario (Figure 1). The PV of external debt-to GDP ratio is expected to grow gradually and then decline from 12.3 percent in FY 2018 to around 10 percent over the projection period corresponding to new disbursements for key infrastructure projects, including those envisioned under the MSDP. However, the standardized stress tests show that a shock to non-debt flows has the largest negative impact, causing a deterioration of three external debt ratios—the PV of debt-to-GDP ratio, PV of debt-to-exports ratio and the debt service-to-revenue ratio (Figure 2). This shock underscores the importance of preserving robust investor sentiment in Myanmar. The impact from the humanitarian crises is starting to reflect in weakening foreign investor sentiment and donor financing. The debt service-to-exports ratio is affected by a shock to exports highlighting the need to expand the export base and the importance of the new ongoing gas explorations. The authorities need to build up policy buffers, particularly domestic revenues and foreign reserves and continue their efforts with structural reforms to improve growth potential and resilience and promote economic diversification.

12. The PV of total public debt-to-GDP ratio lies comfortably below the public debt benchmark (Figure 2). The standardized sensitivity analysis shows that the largest shock that pushes the PV of public debt-to-GDP in FY 2028 to reach 40 percent of GDP is the natural disaster shock (Figure 2, Table 4).[9] It is estimated that natural disasters in Myanmar have generated a direct economic loss of 1.82 percent of GDP every year (2006–15), on average (Myanmar Selected Issues 2018). Natural disasters affect debt sustainability through damaging long-term growth and

[9] One-off shock of 10 percentage points of GDP to debt-GDP ratio in the second year of the projection period (2019 for this case). Real GDP growth and exports are lowered by 1.5 and 3.5 percentage points, respectively, in the year of the shock.

increasing borrowing for reconstruction needs. To more effectively mitigate the impact of climate-related disasters, the authorities need to enhance preparedness and response ability through addressing weaknesses in ex-ante resilience and ex-post adaptive capacity. The vulnerability to this shock also highlights the need for stronger growth in the medium term and the importance of building fiscal and external buffers.

ASSESSMENT OF RISK RATING

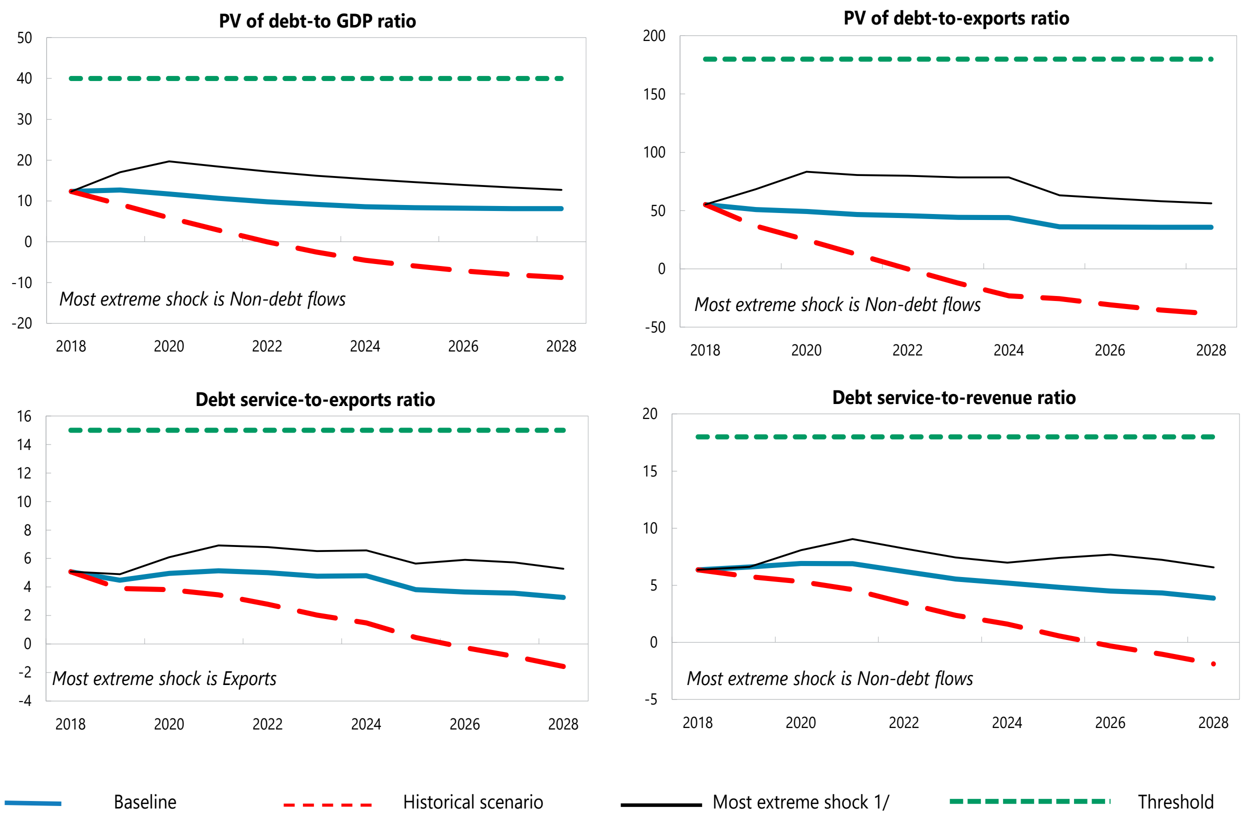
13. The DSA under the new LIC DSF framework suggests that Myanmar's risk of external debt distress is low as is the overall risk of debt distress. While the overall debt outlook remains positive—the total public debt and the total PPG external debt are expected to remain below their respective thresholds and benchmarks over the projection period—several vulnerabilities exist. These include a shock to FDI (non-debt flows), exports, the aftermath from a natural disaster or from larger than expected contingent liabilities arising from the banking system. Increasing the export base, maximizing concessional loans and improving policy buffers would help keep the debt burden contained. The authorities should strengthen their debt management capacity and remain cautious about borrowing that leads to a rapid debt buildup and should target infrastructure projects with high returns and concessional financing, including assessing fiscal risks of PPPs to limit and report contingent liabilities. While the debt service-to-exports and debt service-to-revenue ratios remain well below the thresholds, the authorities should remain mindful of liquidity risks. Limited financing options imply that even a moderate increase in the deficit implies a recourse to central bank financing. This, in turn, creates inflationary pressures and raises broader macro-stability concerns. The in-year challenges of foreign exchange availability for lumpy external debt repayments coupled with thin foreign exchange markets, could put pressure on the Kyat and, in turn, raise financing challenges.

Strengthening the business environment and governance, including in the natural resource sector would raise the investment outlook and potential growth. Progress on the Rakhine state crisis will be closely watched by the international community and affect the outlook for investment inflows and donor financing. Fragilities in the banking system are surfacing and the authorities should remain vigilant of the potential impact by monitoring the balance sheet of the banks as they conform to the new regulations. Over the long term, the need to strengthen economic resilience and increasing fiscal and external buffers is emphasized to strengthen debt sustainability.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the debt sustainability analysis. The authorities are carefully considering large infrastructure projects to benefit from the demographic dividend and Myanmar's strategic location while ensure debt sustainability. The authorities added that projects under CMEC and other regional connectivity will be scrutinized and subject to open tender. They also highlighted the cabinet's recent approval of the Project Bank Notification that requires all large infrastructure projects go through the same appraisal and approval process. Regarding the crises in Rakhine state, they noted the international scrutiny and possible implications to investor sentiment including from a reduction in external financing. They appreciated the downside scenario and policy trade-offs outlined by staff. They reiterated their commitment to steadily phase-out monetary financing and noted that spending could pick up in the new fiscal year following the transition budget under-execution.

Figure 1. Myanmar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018–2028 1/ 2/



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices 2/	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	5.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	20
Avg. grace period	7	5

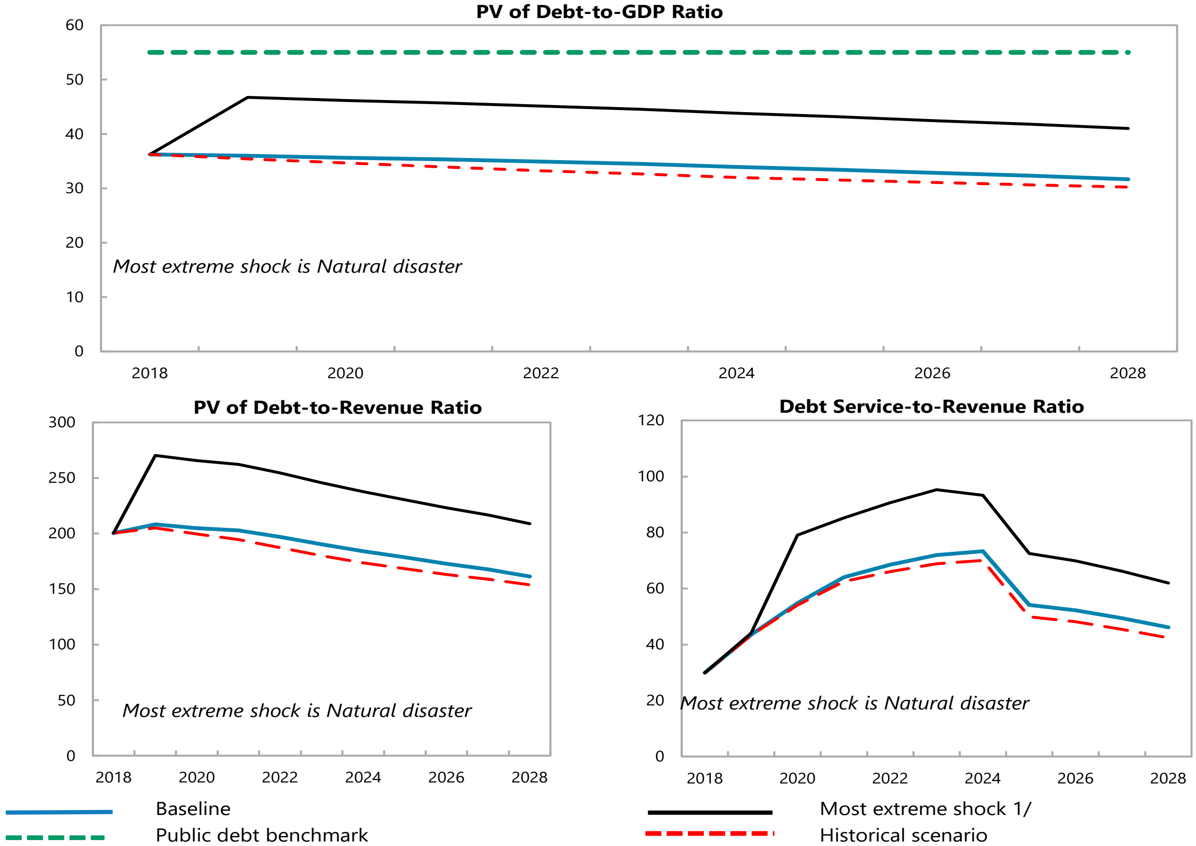
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2018-28 1/



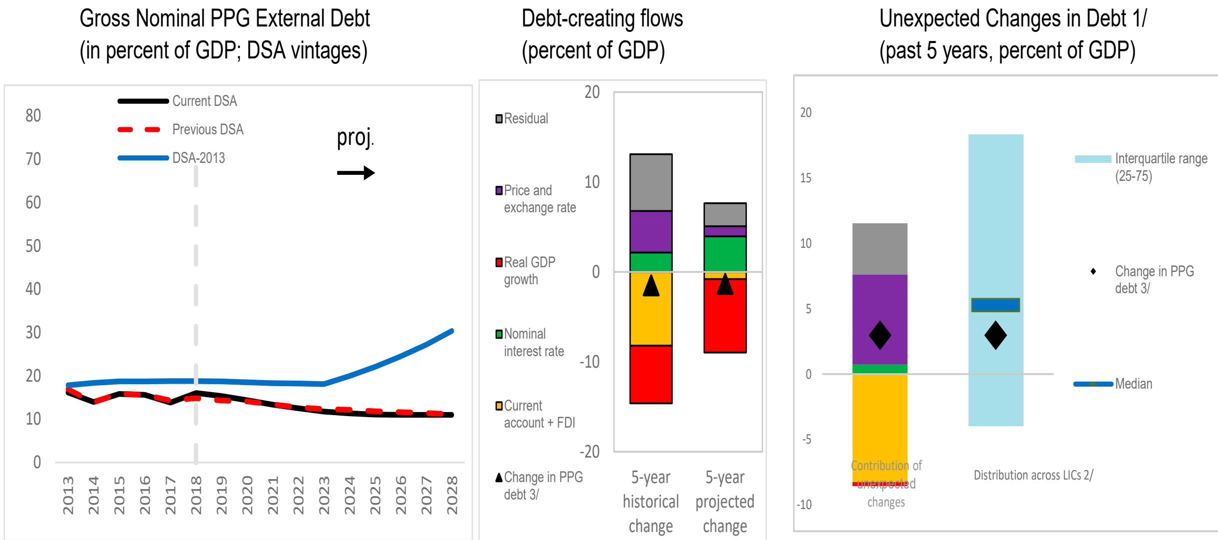
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	11%	11%
Domestic medium and long-term	52%	52%
Domestic short-term	37%	37%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.1%	5.0%
Avg. maturity (incl. grace period)	28	20
Avg. grace period	7	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.2%	3.0%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.8%	0.8%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

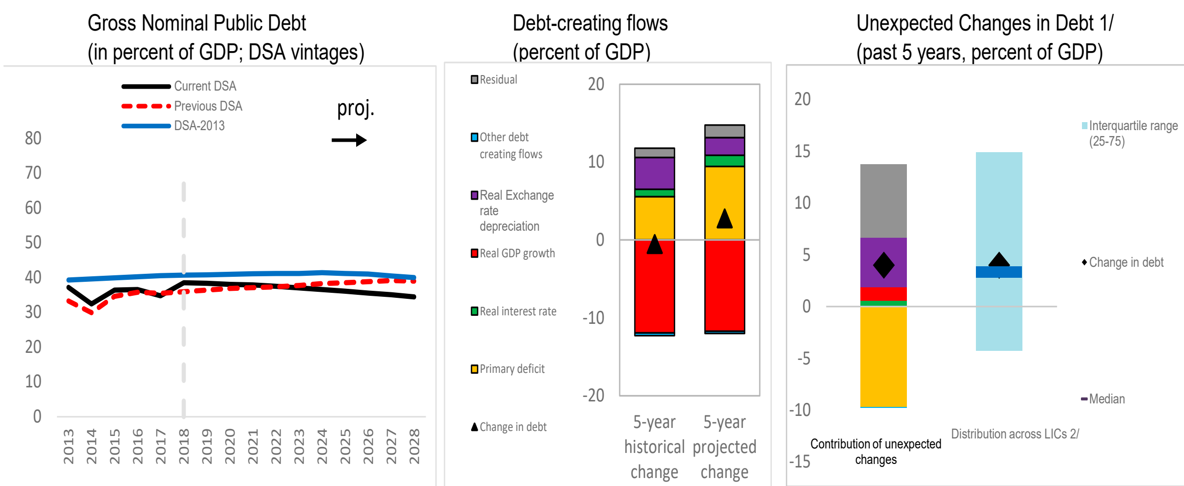
Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Myanmar: Drivers of Debt Dynamics—Baseline Scenario

External Debt



Public Debt



Source: IMF staff calculations.

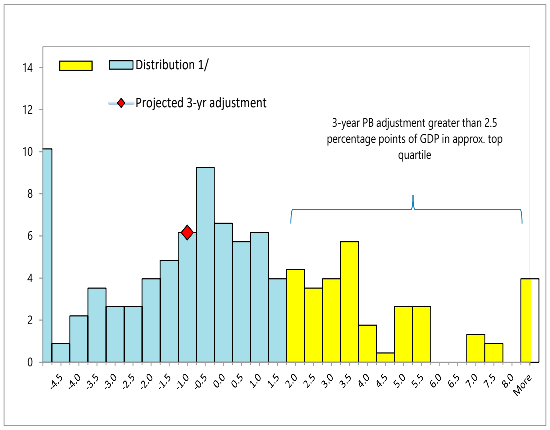
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

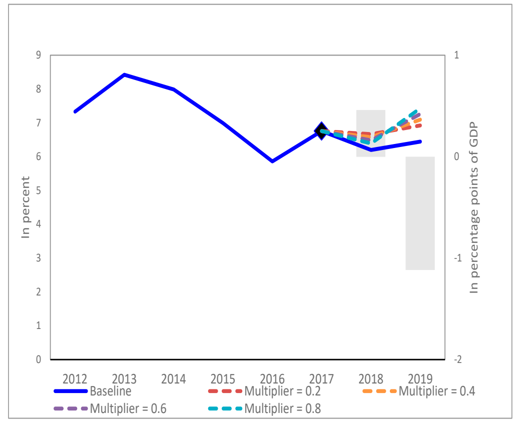
Figure 4. Myanmar: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



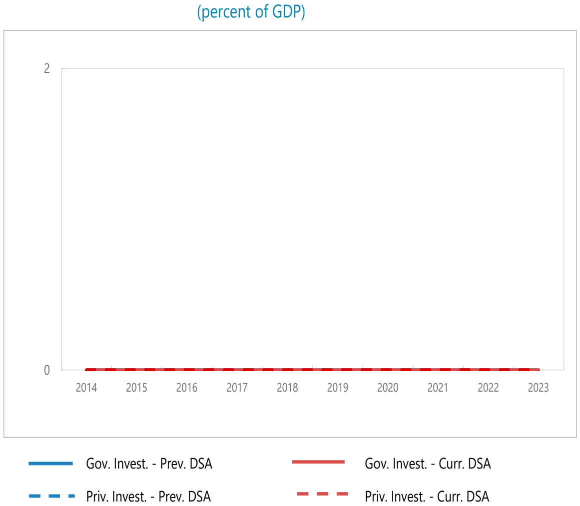
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

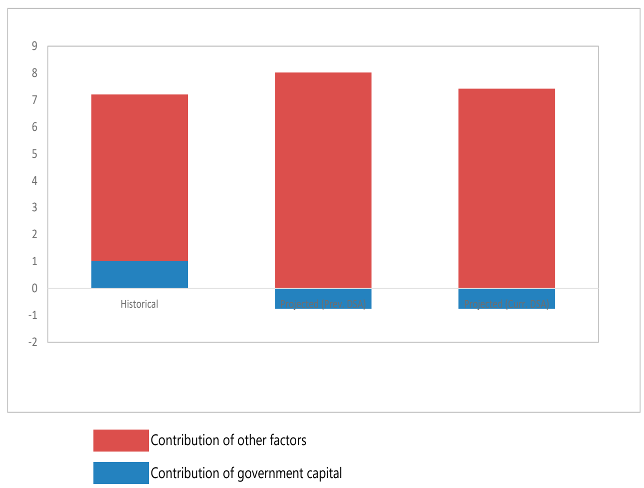


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)



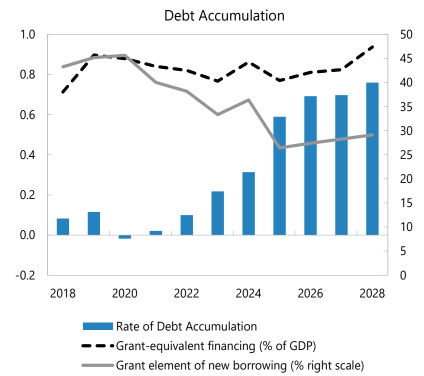
Source: IMF staff calculations.

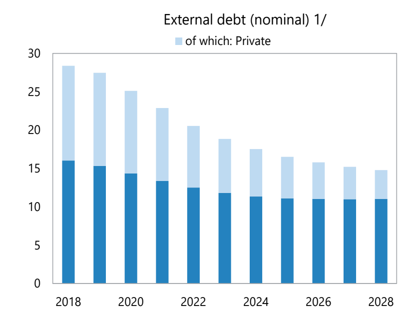
Table 1. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	21.1	20.6	26.7	28.4	27.5	25.1	22.9	20.5	18.9	14.8	15.9	15.9	20.3
of which: public and publicly guaranteed (PPG)	15.9	15.6	13.8	16.0	15.3	14.4	13.4	12.5	11.8	11.0	14.6	13.1	12.6
Change in external debt	2.3	-0.6	6.1	1.7	-0.9	-2.4	-2.2	-2.3	-1.7	-0.4	0.3		
Identified net debt-creating flows	1.3	-2.0	-1.8	-2.4	-1.1	-0.6	-0.5	-0.4	-0.3	-0.5	-0.3	-2.5	-0.7
Non-interest current account deficit	4.8	4.0	4.0	3.5	4.0	4.1	4.1	4.1	4.2	4.1	3.7	2.1	4.0
Deficit in balance of goods and services	5.0	5.1	5.4	4.2	4.6	4.5	4.6	4.5	4.7	4.6	4.4	1.2	4.5
Exports	22.1	20.7	21.9	22.3	24.9	23.7	22.9	21.5	20.6	22.7	23.5		
Imports	27.1	25.8	27.3	26.6	29.6	28.2	27.5	26.0	25.3	27.3	27.9		
Net current transfers (negative = inflow)	-3.1	-3.3	-3.7	-3.3	-3.4	-3.3	-3.1	-3.0	-2.8	-2.4	-1.6	-1.8	-2.8
of which: official	-0.5	-0.4	-0.7	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.3		
Other current account flows (negative = net inflow)	2.9	2.2	2.4	2.5	2.8	2.8	2.6	2.6	2.4	1.8	0.9	2.8	2.4
Net FDI (negative = inflow)	-5.8	-5.2	-5.4	-5.0	-4.2	-3.9	-3.8	-3.7	-3.8	-4.0	-3.4	-3.9	-4.0
Endogenous debt dynamics 2/	2.2	-0.8	-0.4	-0.8	-0.9	-0.8	-0.8	-0.8	-0.7	-0.6	-0.6		
Contribution from nominal interest rate	0.4	0.3	0.6	0.9	0.9	0.8	0.7	0.6	0.6	0.4	0.3		
Contribution from real GDP growth	-1.4	-1.2	-1.3	-1.7	-1.9	-1.7	-1.5	-1.4	-1.3	-1.0	-0.9		
Contribution from price and exchange rate changes	3.3	0.0	0.2	...	...	...	...	...	...	...	...		
Residual 3/	1.1	1.5	7.9	4.1	0.2	-1.8	-1.7	-1.9	-1.4	0.1	0.5	3.5	-0.4
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		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	12.3	12.3	12.7	11.7	10.7	9.8	9.1	8.1	10.8		
PV of PPG external debt-to-exports ratio	...	...	56.1	55.2	51.0	49.3	46.7	45.7	44.2	35.7	45.9		
PPG debt service-to-exports ratio	28.2	27.6	5.4	5.1	4.5	5.0	5.1	5.0	4.8	3.3	3.2		
PPG debt service-to-revenue ratio	32.6	31.2	7.1	6.4	6.6	6.9	6.9	6.2	5.5	3.9	3.5		
Gross external financing need (Million of U.S. dollars)	3191.0	2865.6	3560.8	3278.1	4159.7	4402.0	4654.4	4849.4	4695.0	4437.4	7027.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.0	5.9	6.8	6.7	6.4	6.6	6.7	6.9	6.9	7.0	6.5	6.3	6.8
GDP deflator in US dollar terms (change in percent)	-14.9	0.1	-1.2	-1.6	-8.0	2.0	2.5	2.8	2.6	2.7	2.4	5.7	1.3
Effective interest rate (percent) 4/	1.9	1.7	3.2	3.4	3.2	3.3	3.1	3.0	3.0	2.7	2.4	4.8	3.0
Growth of exports of G&S (US dollar terms, in percent)	-5.8	-0.5	11.6	2.3	9.3	3.2	5.8	3.2	5.5	9.0	8.6	8.3	8.3
Growth of imports of G&S (US dollar terms, in percent)	11.0	1.0	11.9	-2.3	8.9	3.8	6.6	3.8	7.0	9.3	8.8	13.0	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	43.3	45.2	45.6	40.0	38.2	33.3	29.1	26.6	...	35.7
Government revenues (excluding grants, in percent of GDP)	19.1	18.4	16.8	17.8	16.9	17.0	17.0	17.3	17.7	19.1	21.5	15.7	17.9
Aid flows (in Million of US dollars) 5/	1054.5	644.9	574.0	784.5	931.7	990.6	987.5	1036.4	972.2	1773.2	3650.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.7	0.9	0.9	0.8	0.8	0.8	0.9	0.8	...	0.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	54.1	59.8	60.6	56.0	54.7	51.1	46.9	36.2	...	51.2
Nominal GDP (Million of US dollars)	59,687	63,240	66,721	67,054	65,665	71,403	78,124	85,857	94,227	150,910	372,491		
Nominal dollar GDP growth	-9.0	6.0	5.5	0.5	-2.1	8.7	9.4	9.9	9.7	9.8	9.0	12.2	7.8
Memorandum items:													
PV of external debt 7/	...	...	25.1	24.7	24.8	22.4	20.2	17.8	16.2	11.8	12.1		
In percent of exports	...	...	114.5	110.5	99.6	94.7	88.3	83.1	78.4	52.2	51.6		
Total external debt service-to-exports ratio	28.2	27.6	30.5	28.8	26.1	25.0	24.7	24.5	22.0	12.6	6.7		
PV of PPG external debt (in Million of US dollars)			8211.4	8266.1	8343.0	8331.0	8345.6	8423.4	8610.0	12219.9	40184.9		
(PVt-PVt-1)/GDPt-1 (in percent)				0.1	0.1	0.0	0.0	0.1	0.2	0.8	1.3		
Non-interest current account deficit that stabilizes debt ratio	2.5	4.5	-2.1	1.7	4.9	6.4	6.3	6.4	5.9	4.5	3.4		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





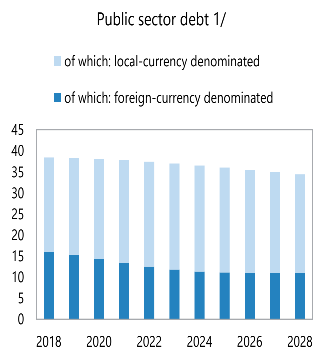
Sources: Country authorities; and IMF staff estimates and projections.
1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.
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/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ 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).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

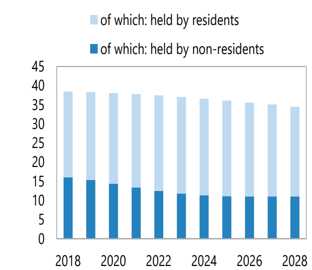
Table 2. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	**36.3**	**36.5**	**34.7**	**38.5**	**38.3**	**38.0**	**37.8**	**37.4**	**37.0**	**34.5**	**29.7**	**32.9**	**36.8**
of which: external debt	**15.9**	**15.6**	**13.8**	**16.0**	**15.3**	**14.4**	**13.4**	**12.5**	**11.8**	**11.0**	**14.6**	**13.1**	**12.6**
Change in public sector debt	3.9	0.2	-1.8	3.8	-0.1	-0.3	-0.2	-0.4	-0.4	-0.6	-0.5		
Identified debt-creating flows	**3.3**	**1.0**	**-1.8**	**2.1**	**-0.1**	**-0.3**	**-0.2**	**-0.4**	**-0.4**	**-0.6**	**-0.5**	**-1.3**	**-0.2**
Primary deficit	**3.1**	**1.2**	**1.3**	**0.8**	**1.9**	**2.2**	**2.3**	**2.1**	**1.9**	**1.5**	**1.1**	**1.5**	**1.8**
Revenue and grants	19.5	18.8	17.1	18.1	17.3	17.4	17.4	17.7	18.1	19.6	21.8	**15.9**	**18.3**
of which: grants	0.4	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.3		
Primary (noninterest) expenditure	22.7	20.0	18.3	18.9	19.2	19.6	19.8	19.9	20.1	21.1	22.9	**17.4**	**20.1**
Automatic debt dynamics	**0.2**	**0.0**	**-3.0**	**1.4**	**-2.0**	**-2.4**	**-2.5**	**-2.5**	**-2.3**	**-2.0**	**-1.6**		
Contribution from interest rate/growth differential	-1.8	-1.5	-2.0	-1.0	-2.2	-2.4	-2.4	-2.4	-2.2	-2.0	-1.6		
of which: contribution from average real interest rate	0.3	0.6	0.3	1.2	0.2	0.0	0.0	0.1	0.2	0.3	0.3		
of which: contribution from real GDP growth	-2.1	-2.0	-2.3	-2.2	-2.3	-2.4	-2.4	-2.4	-2.4	-2.3	-1.8		
Contribution from real exchange rate depreciation	2.0	1.5	-1.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.4**	**0.0**
Privatization receipts (negative)	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.6**	**-0.8**	**0.0**	**4.0**	**0.1**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**1.7**	**0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**33.0**	**36.3**	**36.0**	**35.6**	**35.3**	**34.9**	**34.5**	**31.7**	**26.1**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**193.4**	**200.4**	**208.2**	**204.9**	**202.7**	**197.0**	**190.4**	**161.3**	**119.9**		
Debt service-to-revenue and grants ratio 3/	**26.3**	**25.6**	**29.8**	**29.9**	**43.5**	**54.8**	**64.0**	**68.6**	**71.9**	**46.2**	**25.9**		
Gross financing need 4/	8.4	5.8	6.3	6.2	9.4	11.6	13.4	14.3	14.9	10.5	6.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.0	5.9	6.8	6.7	6.4	6.6	6.7	6.9	6.9	7.0	6.5	**6.3**	**6.8**
Average nominal interest rate on external debt (in percent)	2.6	2.3	3.7	2.7	2.8	2.8	2.7	2.7	2.6	2.5	2.4	**4.9**	**2.6**
Average real interest rate on domestic debt (in percent)	1.1	2.0	-0.1	5.6	0.2	-0.6	-0.4	-0.1	0.5	1.2	1.5	**-3.7**	**0.9**
Real exchange rate depreciation (in percent, + indicates depreciation)	15.3	9.8	-6.6	...	...	...	...	...	...	...	...	**-0.9**	**...**
Inflation rate (GDP deflator, in percent)	4.1	3.6	6.3	0.3	5.8	6.9	7.0	6.8	6.5	6.4	6.1	**6.3**	**6.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	3.2	-6.7	-2.1	5.3	8.2	8.6	7.8	7.4	8.0	8.0	7.2	**11.3**	**7.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.8	1.0	3.1	-2.9	2.1	2.5	2.6	2.5	2.4	2.1	1.6	**1.1**	**1.8**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





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

1/ Coverage of debt: The central, state, and local governments plus social security, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–28

(In percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	12	13	12	11	10	9	9	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	12	9	6	3	0	-3	-5	-6	-7	-8	-9
B. Bound Tests											
B1. Real GDP growth	12	13	12	11	10	10	9	9	9	9	9
B2. Primary balance	12	13	12	11	11	10	10	9	9	9	9
B3. Exports	12	15	17	15	14	13	13	12	12	11	11
B4. Other flows 3/	12	17	20	18	17	16	15	15	14	13	13
B5. Depreciation	12	16	11	10	9	9	8	8	8	8	8
B6. Combination of B1-B5	12	17	18	17	16	15	14	13	13	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	12	13	12	12	11	10	10	10	9	9	9
C2. Natural disaster	12	14	13	13	12	12	11	11	11	11	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	55	51	49	47	46	44	44	36	36	36	36
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	55	37	25	12	0	-12	-23	-26	-31	-35	-39
B. Bound Tests											
B1. Real GDP growth	55	51	49	47	46	44	44	36	36	36	36
B2. Primary balance	55	52	52	50	49	49	49	41	40	40	40
B3. Exports	55	65	79	76	75	74	74	60	58	56	55
B4. Other flows 3/	55	68	83	80	80	78	78	63	61	58	56
B5. Depreciation	55	51	37	35	34	32	32	26	27	28	28
B6. Combination of B1-B5	55	72	74	74	74	72	72	58	56	54	53
C. Tailored Tests											
C1. Combined contingent liabilities	55	53	52	50	50	50	50	41	41	41	41
C2. Natural disaster	55	57	58	56	57	57	59	49	50	50	51
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	5	4	5	5	5	5	5	4	4	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	5	4	4	3	3	2	1	0	0	-1	-2
B. Bound Tests											
B1. Real GDP growth	5	4	5	5	5	5	5	4	4	4	3
B2. Primary balance	5	4	5	5	5	5	5	4	4	4	4
B3. Exports	5	5	6	7	7	7	7	6	6	6	5
B4. Other flows 3/	5	4	6	7	7	6	6	6	6	6	6
B5. Depreciation	5	4	5	5	4	4	4	3	3	3	2
B6. Combination of B1-B5	5	5	6	7	6	6	6	6	6	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	5	4	5	5	5	5	5	4	4	4	4
C2. Natural disaster	5	5	5	6	6	5	6	4	4	4	4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	6	7	7	7	6	6	5	5	5	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	6	6	5	5	3	2	2	1	0	-1	-2
B. Bound Tests											
B1. Real GDP growth	6	7	7	7	7	6	5	5	5	5	4
B2. Primary balance	6	7	7	7	6	6	5	5	5	5	4
B3. Exports	6	7	7	8	7	7	6	6	6	6	6
B4. Other flows 3/	6	7	8	9	8	7	7	7	8	7	7
B5. Depreciation	6	9	9	8	7	6	6	5	4	4	4
B6. Combination of B1-B5	6	7	8	9	8	7	7	7	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	6	7	7	7	6	6	5	5	5	5	4
C2. Natural disaster	6	7	7	7	7	6	6	5	5	5	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

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

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2018–28

(In percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	36	36	36	35	35	35	34	33	33	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	36	35	35	34	33	33	32	32	31	31	30
B. Bound Tests											
B1. Real GDP growth	36	37	39	39	40	40	40	40	41	41	41
B2. Primary balance	36	38	40	39	39	38	38	37	36	36	35
B3. Exports	36	38	41	40	40	39	38	37	36	36	35
B4. Other flows 3/	36	40	44	43	42	42	41	40	39	38	36
B5. Depreciation	36	36	34	33	31	29	27	25	23	21	19
B6. Combination of B1-B5	36	36	36	34	34	33	33	32	32	31	30
C. Tailored Tests											
C1. Combined contingent liabilities	36	41	40	40	39	39	38	37	37	36	35
C2. Natural disaster	36	47	46	46	45	45	44	43	42	42	41
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	200	208	205	203	197	190	184	179	173	168	161
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	200	205	200	195	187	180	174	168	163	159	154
B. Bound Tests											
B1. Real GDP growth	200	216	223	225	224	221	218	216	213	211	207
B2. Primary balance	200	221	230	226	219	211	204	197	190	184	177
B3. Exports	200	221	234	230	223	214	207	199	191	184	176
B4. Other flows 3/	200	234	252	248	239	230	221	213	203	195	185
B5. Depreciation	200	210	198	187	173	159	145	133	121	110	98
B6. Combination of B1-B5	200	208	207	196	190	184	178	172	167	162	155
C. Tailored Tests											
C1. Combined contingent liabilities	200	237	232	229	222	214	206	199	192	186	179
C2. Natural disaster	200	270	266	262	255	246	238	230	223	217	209
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	30	43	55	64	69	72	73	54	52	49	46
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	30	43	54	63	66	69	70	50	48	45	42
B. Bound Tests											
B1. Real GDP growth	30	45	59	70	77	82	85	66	65	64	61
B2. Primary balance	30	43	60	73	77	81	81	61	59	55	52
B3. Exports	30	43	55	65	70	73	74	56	54	51	48
B4. Other flows 3/	30	43	56	66	71	74	75	57	55	52	49
B5. Depreciation	30	41	52	59	63	66	67	49	47	44	40
B6. Combination of B1-B5	30	42	54	63	67	70	72	53	51	48	45
C. Tailored Tests											
C1. Combined contingent liabilities	30	43	66	74	78	82	82	62	59	56	52
C2. Natural disaster	30	44	79	85	91	95	93	73	70	66	62
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by the Staff Representative on Myanmar
March 15, 2019

The information below has become available following the issuance of the staff report (SM/19/41). It does not alter the thrust of the staff appraisal.

1. **The latest activity indicators suggest a modest recovery in 2018/19 as expected**: the PMI rose further to expansionary levels in February, suggesting a continued pick up in manufacturing activity. The trade deficit narrowed to US$0.9 billion end-February, as exports strengthened 5.4 percent year-on-year and imports weakened 4.9 percent due to lower capital goods imports. FDI project approvals (a leading indicator of FDI inflows) remain sluggish relative to historical trends, albeit showing some improvement in the last few months.

2. **The exchange rate has remained relatively stable since November, supporting a further decline in inflation.** The kyat has strengthened nearly 2.5 percent against the U.S. dollar since end-December and gross reserves have risen by US$0.11 million to US$5.67 billion as of end-January 2019. Inflation has fallen sharply to 6.1 percent year-on-year in January from 8.3 percent in November 2018 due to a moderation in rice and fuel prices.

3. **Monetary conditions have remained tight as recommended by staff.** Treasury bill and deposit auction rates have continued to increase in 2019, with the market-determined rate structure now comfortably above the inflation rate.

4. **On the political front, in early February, Myanmar's Union Parliament approved the formation of a committee to discuss proposed amendments to the constitution**, following the submission of a proposal by the incumbent National League for Democracy. These include amendments to the nomination of Defense Services members to parliament, and removal of restrictions on voting and qualifications to run for office.

Statement by Mr. Keng Heng Tan, Alternate Executive Director, and
Ms. Chengyi Ong, Advisor to the Executive Director
March 15, 2019

On behalf of the Myanmar authorities, we thank the Fund for a constructive Article IV mission and their continuous engagement.

Myanmar is at an early but pivotal stage of development, navigating elevated risks amid a challenging global environment. The authorities seek to harness the country's demographic and resource endowments to deliver sustainable, broad-based improvements in economic welfare. The Myanmar Sustainable Development Plan (MSDP) lays out a far-reaching reform strategy, recognizing the need for intensive infrastructure and human capital investment, as well as sustained efforts to upgrade policy frameworks and build domestic capacity. Important reform progress was made in 2018, but the authorities recognize the long road ahead. They are grateful for the Fund's partnership and support, including through extensive technical assistance. They concur with the Fund's key policy recommendations and will consider these as they work to advance a second wave of reform.

Recent Economic Developments and Outlook

Economic momentum in Myanmar has remained strong, despite some moderation in pace following the FY2017/18 rebound. Real GDP growth during the transitional budget period is estimated at 6.8%, with a weather-related agricultural slowdown and cautious budget execution offset by continued strength in services and manufacturing.[1] CPI inflation picked up during the first three quarters of 2018 due to higher fuel prices and pass-through from the kyat depreciation, spiking at 8.6 percent y/y in September 2018 but moderating thereafter. Exchange rate pressures during the second half of 2018 were triggered by a tightening of global financial conditions against a backdrop of slower capital inflows and a shallow foreign exchange market. The current account deficit edged up to 4.7 percent of GDP during the transitional budget period, driven by imports and financed by FDI. Foreign exchange reserves remained broadly flat at over three months of imports.

In FY 2018/19, authorities expect a pickup in growth to 7.4 percent on the back of higher public spending and a recovery in agriculture, as well as robust construction and manufacturing activity. Inflation is expected to remain manageable at around 5.1 percent over the year, and the current account deficit is projected to narrow to 4.0 percent of GDP. The authorities are keenly aware that near-term risks are elevated and tilted to the downside. External headwinds have grown more prominent, including the potential for negative

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[1] Myanmar is shifting from a fiscal year of April-March to October-September to improve implementation of capital and infrastructure spending, given the monsoon season. As part of this shift, the authorities enacted a transitional six-month budget covering April to September 2018.

spillovers from growing trade frictions, developments in major trading partners such as China and the EU, uncertainties relating to external financing, and the risk of further capital flow pressures should global financial conditions tighten. Domestically, the authorities are cognizant of the need to carefully manage the ongoing banking system restructuring process to avoid undue macrofinancial impact. Nonetheless, Myanmar's long-term prospects remain strong given its young population, natural resource wealth and strategic location within Asia.

Strengthening the Fiscal Framework

Fiscal policy remained prudent in 2017/18. Expenditure restraint and budget under-execution contributed to a lower-than-budgeted deficit of 2.5 percent of GDP. Central bank financing accounted for about a quarter of this deficit, well-below the CBM-imposed ceiling of 30 percent, and the share of market-based financing increased. As staff assesses, the risk of debt distress in Myanmar remains low. The 2018/19 budget envisages a moderate fiscal stimulus, with a projected deficit of around 4.8 percent of GDP and a continued rebalancing of the spending mix towards health and education as well as growth-enhancing capital expenditure. Efforts are also under way to improve budget forecasting and execution, in recognition that strengthened implementation is key to delivering on planned expenditure.

The authorities concur with staff's recommendations on the need for fiscal structural reforms. Myanmar's tax-to-GDP ratio is low compared to regional and peer comparators, and a revenue mobilization strategy is needed to help finance the MSDP and the UN Sustainable Development Goals. To this end, the authorities are committed to enhancing the equity, efficiency and transparency of the tax system and view the recent FAD mission on a medium-term revenue strategy as valuable. Tax administration reforms to date are also yielding results, with the Large Taxpayer Office registering strong revenue increases. Key milestones of the second phase of reform include the Tax Administration Law, currently under consideration by Parliament, and a new Income Tax Law, which will be rewritten with assistance from the IMF Legal Department. The authorities are working closely with development partners to further develop revenue management capabilities, including improving customs administration and budgetary operations.

The breadth of Myanmar's infrastructure financing needs place a premium on judicious project selection and efficient execution. The authorities see strengthening public financial management as vital. As a strong step in this direction, the November 2018 project bank regulation creates a centralized and rigorous process for project evaluation, which will assess the strategic value of proposed projects as well as their environmental and social implications. This initiative lays the ground for further steps to strengthen procurement and project execution. Enforcing transparent and competitive bidding and ensuring the use of model contracts will help manage fiscal risks from PPPs.

Monetary and Exchange Rate Framework

Continued progress has been made in strengthening monetary autonomy and modernize the monetary framework. In 2018, a decline in central bank deficit financing and a step-up in deposit auctions contributed to a tighter monetary stance, helping to counteract supply-driven inflationary pressures. In the coming year, the monetary policy stance will remain vigilant to price pressures. The CBM remains on track to phase out deficit financing by FY 2020/21, and concurs with staff's recommendation to link the target ceiling on deficit financing to reserve money. Meanwhile, the recent move to allow unsecured lending at higher interest rates was an important step towards interest rate liberalization. In the long term, these measures will help improve monetary transmission and allow greater risk differentiation in loan pricing. The CBM is grateful for the Fund's capacity development in monetary operations and is actively considering recent TA recommendations, including on introducing an interest rate on excess reserves.

The authorities recognize the importance of exchange rate flexibility as a mechanism to facilitate external adjustment. Despite significant kyat depreciation in 3Q 2018, foreign exchange intervention was limited. The CBM also removed the +/- 0.8 percentage trading band around the kyat-USD reference rate, as recommended in the last Article IV consultation, and authorized trading in dollar swaps to boost interbank liquidity. More recently in February 2019, the CBM codified its methodology of deriving the daily FX reference rate as a weighted average of interbank and bank-customer spot transactions, in line with international best practice. FX market activity has been growing strongly, albeit from a low base, and these measures are aimed at further promoting market deepening. The authorities concur with the need to amend the FX management law and to continue to build reserves as conditions permit.

Financial Sector Reform

An extensive financial sector reform process is under way. A key thrust of the reform strategy was to decisively confront legacy challenges built up by prominent gaps in underwriting standards and risk management. Accordingly, the CBM in 2017 issued a series of prudential regulations raising standards for bank capital, liquidity, asset classification and loan loss provisioning, and large exposures, followed subsequently by implementation guidance. These new rules have enabled the progressive identification of latent fragilities, which is a necessary first step to addressing them. The CBM is now enforcing the cleanup of banks' balance sheets and the rebuilding of capital cushions. Capital improvement plans of systemic banks are being reviewed and their implementation monitored, and corrective actions will be imposed as necessary. Measures have been taken to broaden options for recapitalization. In January, regulations were issued to liberalize foreign minority shareholdings in domestic banks and facilitate the issuance of subordinated debt; further guidance regarding the revaluation of fixed assets is forthcoming. The authorities concur with the need to effectively enforce prudential regulations and encourage recapitalization. They are requesting Fund TA on bank resolution and contingency planning.

While working to strengthen the domestic financial system, the authorities recognize the complementary role of foreign institutions in contributing to financial system deepening. In November 2018, the CBM broadened the scope of permissible activities for foreign banks to include lending to domestic corporates. In January 2019, the authorities also announced plans to permit foreign insurers to operate in the market through joint ventures as well as subsidiaries.

More broadly, the CBM remains committed to improving financial regulation and supervision, and broadening financial inclusion. With Fund support, the CBM is actively building risk-based supervisory as well as enforcement capacity. In tandem, they continue to make headway on further prudential safeguards, taking into consideration international standards and industry feedback. Measures in the pipeline include regulations on corporate governance, related party lending, fit and proper criteria, bank directorships, and acquisitions of substantial interest. Meanwhile, the interest rate liberalization measures referenced above will incentivize more risk-sensitive lending and catalyze credit to SMEs. The creation of Myanmar's first credit bureau, licensed by CBM in May 2018 and expected to go live in 2019, will further facilitate lending to creditworthy but collateral-poor borrowers.

Structural Reforms

Improving the commercial environment is critical to achieving the MSDP's goals of job creation and private sector-led growth. A new Ministry of Investment and Foreign Economic Relations was formed in November 2018 to promote and facilitate investment in Myanmar, and to enhance regional and international economic cooperation. Domestically, the landmark reforms enacted through the new Companies Law will modernize business regulation and enable domestic business to grow by harnessing foreign capital and expertise. Inter alia, the law allows foreign entities to take up to a 35 percent stake in domestic companies; liberalizes foreign investment in formerly-closed sectors such as retail/wholesale trade and insurance; enables foreign participation in the Yangon Stock Exchange; strengthens corporate governance and transparency; and streamlines company registration and administration, including by creating an electronic register of companies. These changes underpin a broader strategy of promoting private sector investment and competition.

Enhancing governance and accountability is a key strategy under the MSDP. The authorities continue to make progress on strengthening effectiveness of the anti-corruption framework, including through enhancements in 2018 to the Anti-Corruption Law. They concur with staff on the need to reinforce fiscal governance and natural resource management. In this regard, Myanmar is part of the Extractive Industries Transparency Initiative (EITI); its validation process against the EITI standard commenced in July 2018. In the AML/CFT space, the authorities have formed a cross-agency working group to expeditiously address the deficiencies identified in the APG mutual evaluation report, recognizing the need for strong political ownership and a whole-of-government approach. Key priorities include reinforcing operational independence of the Financial Intelligence Unit as well as strengthening preventive (supervisory) and enforcement capacity. The authorities aim to effect amendments to the AML/CFT legal framework by 3Q 2019.

Enhancing Data and Statistics

With technical assistance from the IMF and other development partners, the authorities continue to press on with enhancing the reliability and availability of economic data. In 2018, the authorities began publishing fiscal data in line with the Government Finance Statistics Manual (GFSM) framework. Myanmar is also in the process of implementing e-GDDS, with its National Summary Data Page scheduled to go live by end-March 2019.

Conclusion

The authorities are committed to preserving macroeconomic and financial stability and promoting sustainable and inclusive growth. Given limitations in domestic implementation capacity, assistance from development partners is instrumental to advancing the extensive reform strategy, and so the authorities appreciate the Fund’s efforts to align their capacity development work with the goals of the MSDP. The authorities would like to reiterate their sincere gratitude to the Fund, the World Bank, the Asian Development Bank and bilateral counterparts, and look forward to their continuing support as the country moves forward.