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January 8, 2021

**Statement by Mr. Nakunyada and Mr. Essuvi on Myanmar
(Preliminary)
Executive Board Meeting
January 12, 2021**

We thank staff for the concise report as well as Ms. Mahasandana and Mr. Soe for their insightful Buff statement.

The economy of Myanmar has been affected by a more severe second wave of the COVID-19 pandemic, which has strained the public health system and dampened growth prospects. At the same time, containment measures have undermined manufacturing activity while weak external demand further depressed export and tourism receipts. Meanwhile, the contraction in fiscal revenues in the context of elevated health-related expenditures is expected to exacerbate fiscal imbalances in 2021. Consequently, additional external and fiscal financing gaps have emerged with renewed pressure on foreign reserves and the exchange rate. Against this background, **we support the authorities request for additional emergency financing under the RFI and RCF.** We are also re-assured by the sustainable debt levels with risks well-contained, and adequate capacity to repay the Fund.

Additional fiscal resources should be deployed to bolster crisis response efforts and cushion vulnerable businesses and households. In this respect, we view a strong social protection system as important to moderate the effects of the second wave of the pandemic on already worsening unemployment, and poverty levels. We, therefore, we commend the authorities for broadening the Maternity and Child Cash Transfer (MCCT) program and the support provided to the vulnerable population including informal workers and ethnic minorities. Nevertheless, we urge the authorities to better-target social support to ensure that they cater for intended beneficiaries. That said, we welcome the significant progress made in implementing the spending transparency commitments made under the first RCF/RFI request. Looking ahead, we are encouraged by the authorities' commitment to pursue prudent fiscal policy to preserve debt sustainability, while containing central bank borrowing within statutory limits. In this vein, we urge the authorities to rely more on concessional external borrowing to reduce monetary financing of deficits.

We view the accommodative monetary stance as appropriate to support economic activity, considering the well anchored inflation expectations. In addition, we urge the central bank to stand ready to further loosen monetary policy should growth prospects deteriorate. That said, we underline the need to balance the risks from deeper interest cuts with the need to preserve depositors' confidence. In addition, we underscore the need for the vigilant monitoring of monetary growth and inflation developments. In the financial sector, we see merit in extending the phase-in period for compliance with prudential regulations, while synchronizing its duration with the evolution of the COVID-19 crisis. Further, the authorities should prioritize the development of a comprehensive strategy to address NPLs given the inadequate provisioning. We, therefore, view the decision to conduct an Asset Quality Review (AQR), as a step in the right direction. Further efforts are required to explore alternative recovery options given the deficiencies in the insolvency framework. Importance should also be attached to contingency planning to ensure the amicable resolution of banking sector stress. That said, we welcome the central bank's efforts to strengthen bank recapitalization measures in the context of elevated credit risks. *Considering lack of necessary preconditions for the establishment of an asset management company, could staff elaborate on the effectiveness of their proposed combination of measures?*

Finally, structural reforms remain essential to strengthen the business environment, promote sector development, and inclusive growth. To this end, we support several measures adopted by the authorities to facilitate trade and investment, as well as measures to scale up the on-going reforms in governance, and anti-corruption. We also welcome the authorities' efforts to address attendant AML/CFT deficiencies, as important to ensure the integrity of the financial system. Going forward, we encourage the authorities to resume their medium-term reform agenda focused on revenue mobilization and the implementation of the PFM reforms, once the pandemic abates.

With these comments, we wish the authorities every success in their endeavors.