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GRAY/20/2506

June 25, 2020

**Statement by Mr. Mahlinza and Mr. Essuvi on Myanmar
(Preliminary)
Executive Board Meeting 20/73
June 26, 2020**

We thank staff for the comprehensive report and Ms. Mahasandana and Mr. Srisongkram for their insightful Buff statement.

Prior to COVID-19, the Myanmar's economy was showing strong growth supported by infrastructure and investment spending. Growth prospects are now threatened by the global pandemic. Containment measures have curtailed domestic demand. At the same time tourist arrivals have declined alongside a weakening in remittances. The country's external and fiscal positions have deteriorated, creating urgent external and fiscal financing needs. Against this background **we support Myanmar's request for a purchase under the Rapid Financing Instrument (RFI) and a disbursement under the Rapid Credit Facility (RCF)**. We are also encouraged by the authorities' intention to avail of the DSSI, which should contribute to reducing the financing gap. At the same time, we would encourage the authorities to engage development partners to close the remaining financing gap.

We welcome the authorities' prompt response to contain the impact of COVID-19.

Given the severe impact on the economy, we commend the authorities for putting together a COVID-19 Economic Relief Plan (CERP) which includes measures to bolster healthcare spending and mitigate the impact of the pandemic on the most vulnerable households and businesses, while laying the groundwork for recovery. We however take note that the country continues to face limited social protection coverage. In this context, we support staff's views that the current juncture presents an opportunity to strengthen the social protection system. In the same vein, we encourage staff to deepen capacity development efforts to enhance Public Finance Management (PFM). *Could staff elaborate the technical assistance being delivered in this area, including debt management.*

The authorities have enacted important monetary and financial measures to support the economy. In this respect, the Central Bank of Myanmar (CBM) cut the policy rate,

temporarily lowered reserve requirements, eased liquidity requirements and paused deposit auctions. While we welcome the extension of the phase-in period for compliance with prudential regulations, we would encourage the authorities to consider shortening the period in line with the duration of the COVID-related economic slowdown. We concur with staff that an excessive period would raise the cleanup costs for NPLs. Further, we take note that the authorities intend to establish an asset management company to absorb banks' troubled assets. Given the relatively high level of non-performing loans, coupled with inadequate provisioning, we see the need for adoption of a mechanism for NPL cleanup and bank recapitalization. In this respect, we would encourage the authorities to adopt and approach that is consistent with reducing fiscal costs. Continuing to preserve a market-determined exchange rate regime would help build reserves and serve as the first line of defense against external shocks.

Over the medium term, we encourage the authorities to continue with efforts to implement their revenue mobilization agenda and PFM reforms. In light of low domestic revenues relative to its peers, once the crisis subsides, it is important that the authorities return to their commitment to implement the fiscal reform agenda through improved revenue mobilization, and PFM reforms to increase fiscal space for priority public investments and social outlays. In addition, enhancing the governance of SOEs and developing a robust framework for managing public investment, including public-private partnerships, are key to maximize the benefits from large projects. At the same time, efforts should be made to address fragilities in the banking system.

Finally, continuing to implement measures to reduce corruption vulnerabilities and increase transparency, is crucial. We also encourage the authorities to enact amendments to the AML/CFT laws to address outstanding compliance deficiencies. *Staff comments on ongoing technical assistance to help the authorities address gaps in the AML/CFT framework, would be appreciated.*

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