

BUFF/ED/20/125

June 24, 2020

**Statement by Ms. Mahasandana and Mr. Srisongkram on Myanmar
Executive Board Meeting
June 26, 2020**

On behalf of the Myanmar authorities, we would like to thank Mr. Peiris and his team for their close engagement and continued support during these challenging times. We also thank the Board and Management for the prompt consideration of Myanmar's request for emergency financing under the RCF and RFI, which is instrumental to the authorities' effort in mitigating the impact of COVID-19 and maintaining macroeconomic stability going forward.

The Myanmar Government is requesting for disbursement under the RCF and RFI in the amount totaling SDR 258.4 million (50% of quota). The intention is to use the RCF/RFI proceeds for budget support to implement a comprehensive set of measures to strengthen healthcare, protect the socio-economic well-being of those affected by the pandemic, and support a steady recovery once the pandemic subsides. The authorities hope the initial amount of 50% of quota would catalyze concessional financing from the World Bank, ADB, and bilateral development partners. The authorities see as a prudent approach to only request additional financing up to a total of 100% of quota once financing needs become clearer.

The authorities have also requested debt service suspension from 14 creditors, including members of G20 and the Paris Club under the Debt Service Suspension Initiative (DSSI). As of June 13, 2020, the Memorandum of Understanding with 8 Paris Club creditors have been signed and the bilateral agreements for implementation in the process of being signed. 1 of the 6 other creditors have also agreed to implement the DSSI so far.

The authorities have sent a letter to the Managing Director expressing their readiness to accept Article VIII of the IMF Articles of Agreement. Myanmar has made significant progress toward satisfying Article VIII obligations over the years. The Central Bank of Myanmar (CBM) abolished its pegged exchange rate system and moved to a managed floating regime in 2012, and removed almost all current account restrictions

through the implementation of the 2012 Foreign Exchange Management Law. The authorities also 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 abolished trading band on FX market (reference exchange rate $\pm 0.8\%$) in 2018, which allowed the exchange rate in the formal market to be fully determined by market mechanism. The CBM also moved to a market-based Reference Exchange Rate in February 2019, which removed the difference between reference exchange rate and market exchange rates. More recently the CBM has implemented the one-way FX auction mechanism with clear internal guidelines that eliminates multiple currency practice which arose from the previous multi-price foreign currency auction.

Impact of COVID-19

Prior to COVID-19, the Myanmar economy grew 6.8% in FY2018/2019 driven by a recovery in the agriculture sector and was expected to record 7.0% growth in FY2019/2020 supported by investment and infrastructure spending. Inflation was expected to average at 8.43% in FY2019/2020. Economic growth for the first and second quarter of FY2019/2020 has recorded 6.5% and 5.3% respectively. Average inflation reached 9.1% in March 2020.

Following the first confirmed cases of COVID-19 in Myanmar in early March, the Myanmar government has rolled out a number of measures in response.

- The National-Level Central Committee for COVID-19 Prevention, Control and Treatment was created to facilitate coordination between relevant government agencies.
- The COVID-19 fund of MMK 100 billion was established and is being used to provide concessional loans to CMP (cutting, making, packaging) businesses in the garment sector, hotels and tourism companies and SMEs which are suffering the most negative economic consequences.
- The government has also extended the tax payment period for the income tax and commercial tax for FY2019/2020 until the end of the fiscal year, exempted the 2% advance income tax on exports until the end of the 2019/2020 fiscal year, reduced the interest rate including for agriculture loans, lifted import license fees for pharmaceutical and pharmaceutical raw materials.
- To support people's well-being, the government has subsidized 5 basic commodities for people who do not have regular income. The government exempted household electricity bills up to 150 units in April and May and up to 75 units in June. The Government has increased its stockpile of rice (50000 tons) and palm oil (12000 tons) to ensure domestic food security should the pandemic persist longer than expected. Medical equipment used in the treatment and prevention of COVID-19, medicines

and other essential supplies were declared as special goods with measures taken to prevent price speculation.

- Travel restrictions, border closure, and bans on mass public gatherings were put in place to contain the spread of COVID-19. Citizens were urged to stay home during the 10-day Thingyan Festival holiday (Myanmar New Year). The stay-at-home order was first announced on April 18, 2020 for seven townships in the Yangon region where most of the confirmed COVID-19 cases were found. This was later extended to include three more townships in Yangon and one township in the Sagaing Region in the north-western part of Myanmar. As of June 14, the reported number of confirmed COVID-19 cases is 261 which is significantly lower compared to other countries in the region. The stay-at-home order was gradually lifted and now only two townships in Yangon remains under partial lockdown.

Disruptions in economic activities as a result of the containment measure, together with weakened external demand and falling commodity prices have taken a heavy toll on the economic outlook and are expected to result in a large BOP financing gap of about USD 2.5 billion over the next 2 years in FY2019/2020 and FY2020/2021. The current account deficit is expected to widen significantly from 2% of GDP to 4.5% of GDP in FY2019/2020. This is driven by a sharp decline in exports of key goods namely garment and gas (which comprises about 50% of total exports) as well as tourism receipts and remittance flows, while imports will pick up from purchases of medical supplies. FDI flows will also slowdown further as investment projects are delayed by the disruption.

On the whole, the authorities expect GDP growth to slow down to 4-5% in FY2019/2020 followed by a gradual recovery in FY2020/2021. Compared to staff's forecast of 1.4% in FY2019/2020, the authorities are more optimistic about the remaining two quarters of the fiscal year as the partial lockdown is concentrated in the urban areas in Yangon and thus would have a smaller impact on overall growth. Nevertheless, there is broad agreement that the outlook is still subject to significant downside risks and uncertainties, and must be closely monitored.

Policy responses

The near-term priority for macroeconomic policies is to mitigate the impact of COVID-19 and support the economic recovery. The COVID-19 Economic Relief Plan (CERP) launched by the Ministry of Planning, Finance, and Industry (MOPFI) on April 27, 2020 is a comprehensive package of measures to achieve those goals.

On the fiscal front, key actions taken include the recently approved supplementary budget for FY2019/20 and reallocation of up to 10% of FY2019/2020 budget estimate (except of loans and grants) towards COVID-19 related spending, tax credits and deductions, and waiver of taxes and custom duties on supplies and products critical to the prevention and treatment of COVID-19. The CERP also entails further

actions to support the private sector and household income. These include further increasing the size of the COVID-19 Fund used to provide soft loans for businesses, credit guarantees schemes to support employment retentions among SMEs and high-growth sectors, and direct cash transfers to vulnerable households and those affected by COVID-19. These cash transfers also include support for vulnerable groups such as the elderly, internally displaced persons camps, local farmers, and those at the grassroot level. The authorities will leverage technology to ensure that these transfer programs are well-targeted, particularly through mobile payment which is widely used in Myanmar.

Fiscal deficit in FY2019/2020 is expected to widen to MMK 6.5 trillion or 5.46% of GDP. In financing this deficit, the share of CBM financing is expected to rise to about MMK 1.3 trillion. The authorities are keenly aware of the risk this poses to inflation and commit to phase out CBM financing when the crisis abates. To prevent unexpected surge in CBM financing, the authorities are offering higher yields on government securities and will be working closely with commercial banks to ensure steady market demand for government bills/bonds. The authorities also plan to delay low-priority spending to make room for COVID-19 related spending if the pandemic persist longer than expected and additional financing needs were to arise. The authorities remain committed to medium-term fiscal sustainability and will continue to advance fiscal reforms under the Myanmar Sustainable Development Plan (MSDP) as the pandemic subsides. These includes modernizing the Income Tax Law and designing a value added tax, as well as adopting a computerized system for tax administration, with the aim of better managing revenue risks, improving integrity of the tax system, and strengthening domestic revenue mobilization.

The CBM has eased their monetary policy stance by cutting the policy rate by a cumulative 300 basis points since March 12, 2020. This is complemented by temporary reduction in the reserve requirements. The liquidity ratio calculation is also temporarily altered to lessen the haircut ratio applied to treasury bonds with more than one year (from 50% to 10%). Deposit auctions are also temporarily suspended. The authorities expect inflation to be largely contained in the near-term. The impact of the one-time electricity tariff hike that resulted in a sharp spike in inflation last year will dissipate by July 2020. Meanwhile, the economic slowdown is likely to keep a lid on inflation. Nevertheless, the CBM agrees on the need to closely monitor inflationary pressure as the inflation outlook is subject to large uncertainties, especially those related to the pandemic and its implications to economic activities. Exchange rate flexibility continued to play an important role as a shock absorber. FX intervention has been limited and adheres to the established FX intervention rule to build adequate FX reserves. The authorities will continue to upgrade monetary operations, including the introduction of interest on excess reserves, with technical assistance from the IMF.

Financial sector policies are focused on facilitating credit provision and smooth functioning of the banks, while ensuring a robust regulatory framework.

- Prior to COVID-19, NPLs in the banking system started to stabilize around 20%. The banking sector made good progress in converting overdraft loans to term loans and were broadly on track to bring overdraft loans down to 20% of total loans by July 2020. However, the pandemic is likely to result in some setbacks as the authorities anticipate a slight increase in NPLs and possible delays in meeting the overdraft conversion target.
- Against this backdrop, the CBM has extended the deadline for meeting the 2017 prudential regulations by up to 3 years from August 2020 to August 2023. This is to facilitate bank credit during the ongoing crisis and allow sufficient time for banks to build their capital buffers in compliance with the prudential regulation. To ensure banks remain prudent during the extension and avoid backsliding on the progress made so far, the CBM will ask banks to conduct a preliminary assessment of their compliance gap and to present their proposed compliance plan by the end of the three year period. The CBM will examine and rectify as necessary their self-assessment presented by banks and will monitor their progress toward full compliance over time.
- Banks will also be allowed to restructure or reschedule loans impaired by the consequences of Covid-19. To ensure that this opportunity is not misused for legacy NPLs, loan classification will remain unchanged and a directive will be issued to separate COVID-19 impaired loans from other loans to be given different treatment.
- The authorities will continue to work closely with the IMF mission team on the implementation of financial sector reform and contingency planning to preserve financial stability as agreed during the 2019 Article IV consultation

The authorities remain fully committed to the structural reform agenda under the MSDP. Improving business climate is essential to foster a robust recovery and will lay the groundwork towards realizing the MSDP's goal of more inclusive and private sector led growth. Strengthening governance, continuing the fight against corruption, and strengthening the AML/CFT framework remain high on the reform priority. To similar ends, the authorities are committed to ensuring transparency and accountability of crisis spending. They will closely monitor budget spending and publish a report on COVID-19 related expenditures as well as the audit results and information on large procurement contracts. They will continue to pursue further reform progress where possible as the crisis abate.

Conclusion

The Myanmar authorities remain fully committed to preserving macroeconomic and financial stability and will continue to advance reforms towards sustainable and inclusive growth as the crisis abates. The COVID-19 pandemic is an unprecedented shock that poses a threat to the reform progress made over the years. To this end, Fund support through the RCF and RFI will catalyze additional financing supports from donors and creditors, and is

instrumental to the authorities' effort to mitigate the impact of COVID-19 and sustaining growth momentum, while preserving policy buffers. The authorities are deeply grateful for the continued support from the Fund and other partners in these difficult times.