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EBS/83/160

CONFIDENTIAL

August 2, 1983

To: Members of the Executive Board  
From: The Secretary  
Subject: Burma - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Burma for a purchase equivalent to SDR 29.15 million under the compensatory financing facility. A draft decision appears on page 12.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Chu, ext. 73753.

Att: (1)

INTERNATIONAL MONETARY FUND

BURMA

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research Department and the Asian Department

(In consultation with the Exchange and Trade Relations,  
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and Tun Thin

August 1, 1983

The Managing Director has been informed that the Burmese authorities will shortly request a purchase of SDR 29.15 million (26.6 per cent of quota) under the compensatory financing facility. The request is being made with respect to a shortfall in merchandise exports estimated for the 12-month period ended March 1983. If approved, the proposed purchase would raise Burma's outstanding CF purchases to SDR 54.75 million (50 per cent of quota) and the Fund's holdings of its currency from 155.7 per cent to 182.3 per cent of quota. 1/

This paper, which is being circulated in advance of the formal request from Burma, is presented in four sections and an annex. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and export prospects; and (4) staff appraisal and proposed decision. The relations of Burma with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

Burma's balance of payments continued to deteriorate for the second consecutive year in 1982/83. 2/ Exports declined sharply, following modest growth in the previous year, largely owing to continued weak world market conditions for rice and rice products, which constitute Burma's major export items. The terms of trade continued to deteriorate in 1982/83. Despite a substantial slowdown in the growth of imports, with cash imports remaining at broadly the previous year's level, the trade deficit increased by over SDR 100 million. Given roughly constant net inflows under services and transfers, the current account deficit rose to SDR 422 million, or 7.6 per cent of GDP. There was only a modest increase in net capital inflows. As a result, the overall deficit increased more than threefold to

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1/ Burma purchased SDR 25.6 million (23.4 per cent of quota) under the compensatory financing facility in December 1982 (EBS/82/219).

2/ Fiscal year ended March 1983.

SDR 129 million, or 2.3 per cent of GDP, and was financed largely by a very sharp drawing down of international reserves, which dropped to the equivalent of less than one month's imports by the end of March 1983 (Table 1).

Burma's balance of payments will continue to be in deficit in 1983/84, although both the current account and the overall balance of payments deficits are projected to be substantially lower than in 1982/83. Some recovery in exports is anticipated, largely on the strength of an improvement in the world market prices for rice. Net inflows on services, transfers, and capital accounts, however, are expected to weaken. The improvement in the balance of payments will, therefore, be achieved largely on account of imports, which will be sharply reduced through restraints on expenditures by the Union Government and by state enterprises. Given the very sharp drop in international reserves in 1982/83, there would not be much room for the further use of reserves to finance imports in 1983/84. Gross international reserves are projected to remain roughly stable at around one month's imports.

b. Cooperation with the Fund

The request for the proposed purchase may be met if the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The Executive Board last discussed Burma's economic situation and policies at EBM/82/159 on December 20, 1982. It was noted that the authorities had successfully implemented an adjustment program in 1981/82 (July/June) supported by a stand-by arrangement with the Fund, and that all performance criteria under the arrangement had been met. Executive Directors pointed out that, despite unfavorable external conditions, Burma's output had continued to grow strongly and inflation had remained low. They noted that efforts to strengthen public sector finance had been complicated by the deterioration in export markets, and considered it necessary to pursue a policy of public expenditure restraint that, combined with efforts to improve revenue collections, would contribute to limit the external deficit.

The 1983/84 budget provides for a sharp reduction in expenditure growth to 4 per cent in comparison with 20 per cent in 1982/83; capital expenditures of state economic enterprises are expected to fall by 4 per cent and will be accompanied by a smaller inflow of concessional foreign loans. At the same time, following a decline in public sector revenue in 1982/83, the authorities aim at revenue growth slightly in excess of the envisaged 6 per cent growth in nominal GDP, on account of intensified revenue collection efforts as well as further upward adjustments of the sales prices of state economic enterprises. As a result, the public sector's deficit and its domestic bank borrowing are expected to stabilize in relation to GDP, by comparison with the upward trend of the last two years. The restraint on public sector expenditure in 1983/84 is expected

Table 1. Burma: Balance of Payments, 1979/80-1983/84 <sup>1/</sup>

	1979/80	1980/81	1981/82	Prov. Actual 1982/83	Est. <sup>2/</sup> 1983/84
(In millions of SDRs)					
A. Current account	-156	-105	-308	-422	-236
Trade balance	-192	-167	-341	-459	-260
Exports, f.o.b. <sup>3/</sup>	310	374	411	353	406
Imports, c.i.f.	-502	-541	-752	-812	-666
Services and transfers (net)	36	62	33	37	24
B. Capital account	226	125	265	296	222
Disbursements of loans	279	184	358	350	314
Repayments	-51	-54	-93	-54	-92
Other capital (net)	-2	-25	--	--	--
C. Errors and omissions	-5	10	6	-3	--
D. Trust Fund	16	10	--	--	--
E. Allocation of SDRs	8	8	--	--	--
F. Overall balance	89	48	-37	-129	-14
G. Financing	-89	-48	37	129	14
Foreign assets (increase -)	-80	-18	25	141	--
Use of Fund credit (net)	-6	-21	22	16	18
Other foreign liabilities	-3	-9	-10	-28	-4

(In per cent of GDP)

Memorandum items:

Current account	-3.7	-2.3	-6.1	-7.6	-4.0
Overall balance	2.1	1.0	0.7	-2.3	-0.2
Gross official reserves (end of period)					
In millions of SDRs	206	224	199	58	58
In months of imports	4.9	5.0	3.2	0.9	1.0

Source: Union of Burma Bank; IMF, International Financial Statistics.

<sup>1/</sup> Fiscal year ending March.

<sup>2/</sup> Staff estimates based on information provided by the Burmese authorities.

<sup>3/</sup> Includes re-exports.

to result in a sharp drop in imports by roughly SDR 150 million; this drop in imports will account for most of the improvement in the current account of the balance of payments.

In order to increase Burma's export potential over the longer term, the authorities intend to continue their efforts to raise the productivity of rice production and to diversify output to other exportable agricultural products; efforts are also underway to expand agro-based industries. In addition to the existing agricultural measures implemented through the Whole Township Program, the authorities are presently setting up a central agricultural development center and an agricultural training center in order to develop new technologies and train personnel engaged in extension services. Improved seed varieties are being used and water pumps are being installed in dry areas. The authorities have also strengthened their export promotion efforts: trade missions are being sent both to traditional markets and prospective markets; implementation of export-oriented projects and modernization of port facilities and ships are given high priority.

In the light of the policy measures that have been taken by the Burmese authorities in the period of the stand-by and thereafter, the staff is of the view that the member will cooperate with the Fund in resolving its balance of payments problems. The tighter fiscal policy, the associated slowdown in the growth of liquidity, and the substantial reduction in the import program envisaged for 1983/84 will be the major factors in Burma's balance of payments adjustment which calls for a reduction of the current account deficit to about 4 per cent of GDP from about 8 per cent in the previous year. At the same time, efforts are being intensified to strengthen and diversify Burma's export base which is instrumental in sustaining sound development in the longer run.

While Burma maintains a restrictive exchange and trade system as part of its centrally-planned economy, there are no restrictions and practices that require approval by the Fund. Following the regular 12-month cycle, the staff discussion for the next Article IV consultation is scheduled to be held in October 1983. The request is expected to include a statement that the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

## 2. Estimation of the export shortfall

The estimated shortfall is based on actual export earnings for the entire shortfall year ended March 1983. After growing at an annual average rate of 15 per cent in the two pre-shortfall years, earnings declined by 15 per cent in the shortfall year. Earnings are projected to recover at an average annual rate of 17 per cent in the two post-shortfall years. On the basis of these export movements, the shortfall for the year ended March 1983 is estimated at SDR 51.2 million (Table 2). Since the shortfall year overlaps by six months the shortfall year of Burma's CF purchase of SDR 25.6 million in December 1982, SDR 12.8 million is deducted from the calculated shortfall to avoid double compensation; the resulting compensable shortfall is calculated at SDR 38.4 million, which is 32 per cent more than the proposed purchase of SDR 29.15 million.

Table 2. Burma: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending March				
	1981	1982	1983	Projected Exports 1/ 1984	1985
1. Exports	369.6	410.4	348.6	401.2	481.6
2. Compensable net export shortfall = (a)-(b)			38.4		
a. Export shortfall			(51.2)		
b. Double compen- sation 2/			(12.8)		
3. Proposed purchase			29.15		

1/ Based on the judgmental forecast of earnings given in Table 3.

2/ Half of SDR 25.6 million, purchased by Burma in December 1982 with respect to a shortfall for the year ended September 1982, prorated for the first half of the current shortfall year.

### 3. Causes of the shortfall and export prospects

The overall export shortfall of SDR 51.2 million is largely attributable to shortfalls for rice and rice products (SDR 27.4 million), forestry products (SDR 9.3 million), and other exports (SDR 7.9 million) (Table 3). Smaller shortfalls are estimated for rubber, metals and minerals, and jute. The shortfall in rice and rice products was caused primarily by low world prices of rice, whereas the shortfall in forestry products was caused largely by low volume, due to low world market prices for forestry products in 1981/82, as well as domestic transportation difficulties (Table 4). 1/

1/ Compared with the shortfall year ended September 1982, in respect of which Burma made a CF purchase in December 1982, export earnings in the shortfall year ended March 1983 were 5 per cent lower. This export movement is broadly in line with earlier projections made by the staff, as export earnings, having reached their lowest point in the last half of the shortfall year ended September 1982 (SDR 148 million during April-September 1982)--33 per cent lower than the level of the first half (SDR 221 million during October 1981-March 1982)--recovered to SDR 200 million during October 1982-March 1983, compared with SDR 202 million implied by the staff projection made earlier. Projections for the post-shortfall period, however, have been lowered somewhat, primarily owing to less favorable prospects for agricultural products (especially rice) and other exports.

Table 3. Burma: Export Earnings and Shortfalls by Major Commodities

	Years Ending March							Shortfall		
	1978	1979	1980	1981	1982	1983	1984	1985	Geometric	Arithmetic
(In millions of SDRs)										
Total 1/	202.8	213.9	311.5	369.6	410.4	348.6	401.2	481.6	51.2	53.7
Agricultural and										
food products	128.3	68.2	185.0	212.3	237.4	196.0	223.5	267.8	30.1	31.4
Rice and rice products	101.6	33.5	141.2	157.4	175.7	130.1	149.2	180.8	27.4	28.5
Beans and pulses	9.0	7.8	16.7	18.9	30.8	34.2	38.3	44.8	-2.1	-0.8
Rubber	5.0	7.1	8.6	9.5	9.7	7.0	7.5	8.2	1.3	1.4
Oilcakes	6.6	7.6	6.0	5.4	4.6	7.4	8.5	10.1	-0.5	-0.2
Fish and fish products	3.5	5.6	7.8	9.5	13.4	16.8	18.8	22.6	-1.3	-0.6
Jute	2.6	6.6	4.7	11.6	3.2	0.5	1.2	1.3	1.5	3.1
Forestry	46.7	99.5	68.4	92.5	97.7	94.0	108.3	127.8	9.3	10.1
Teak	45.8	92.7	56.3	84.0	89.4	87.1	100.3	118.5	8.0	8.8
Other forestry	0.9	6.8	12.1	8.5	8.3	6.9	8.0	9.3	1.3	1.3
Metal and minerals	5.1	22.4	25.2	29.6	37.0	43.7	53.0	67.4	0.6	2.4
Base metal and ore	3.8	19.1	22.1	22.1	32.6	38.7	47.0	61.0	-0.6	1.6
Silver	1.3	3.3	3.1	7.5	4.4	5.0	6.0	6.4	0.8	0.9
Other exports	22.7	23.8	32.9	35.2	38.3	14.9	16.4	18.6	7.9	9.8
(Percentage change)										
Total 1/		5	46	19	11	-15	15	20		
Agricultural and food										
products		-47	171	15	12	-17	14	20		
Rice and rice products		-67	321	11	12	-26	15	21		
Beans and pulses		-13	114	13	63	11	12	17		
Rubber		42	21	10	2	-28	7	9		
Oilcakes		15	-21	-10	-15	61	15	19		
Fish and fish products		60	39	22	41	25	12	20		
Jute		154	-29	147	-72	-84	140	8		
Forestry		113	-31	35	6	-4	15	18		
Teak		102	-39	49	6	-3	15	18		
Other forestry		656	78	-30	-2	-17	16	16		
Metals and minerals		339	13	17	25	18	21	27		
Base metals and ore		403	16		48	19	21	30		
Silver		154	-6	142	-41	14	20	7		
Other exports		5	38	7	9	-61	10	13		

<sup>1/</sup> Excluding re-exports.

Table 4. Burma: Value, Volume, and Unit Value Indices by Major Commodities

(1983 = 100 : in terms of SDRs)

	Value Share in Total Exports in 1983 (In per cent)	Years Ending March								Shortfall in Per Cent of Level in Shortfall Year
		1978	1979	1980	1981	1982	1983	1984	1985	
Value	95.5	53	55	82	97	111	100	115	139	11.5
Agricultural and food products	56.0	64	32	92	103	120	100	114	136	13.9
Rice and rice products	37.3	78	26	109	121	135	100	115	139	21.2
Beans and pulses	9.8	26	23	49	55	90	100	112	131	-6.2
Rubber	2.0	71	101	123	136	139	100	107	117	18.8
Oilcakes	2.1	89	103	81	73	62	100	115	136	-6.7
Fish and fish products	4.8	21	33	46	57	80	100	112	135	-7.2
Forestry	27.0	50	106	73	98	104	100	115	136	9.8
Teak	25.0	53	106	65	96	103	100	115	136	9.1
Other forestry	2.0	13	99	175	123	120	100	116	135	18.2
Metals and minerals	12.5	12	51	58	68	85	100	121	154	1.5
Base metals and ore	11.1	10	49	57	57	84	100	121	158	-1.8
Silver	1.4	26	66	62	150	88	100	120	128	15.2
Volume		63	65	85	91	100	100	110	121	3.9
Agricultural and food products		77	34	97	90	99	100	108	117	2.4
Rice and rice products		98	31	115	103	105	100	108	116	6.3
Beans and pulses		28	25	61	58	80	100	112	119	-9.2
Rubber		66	95	93	91	145	100	93	89	1.8
Oilcakes		83	98	68	69	55	100	107	118	-13.7
Fish and fish products		19	29	51	65	85	100	109	127	-5.2
Forestry		54	119	75	97	109	100	111	125	8.0
Teak		57	123	69	93	107	100	111	125	6.7
Other forestry		24	65	139	138	136	100	112	128	21.9
Metals and minerals		18	82	53	79	85	100	116	134	0.9
Base metals and ore		12	75	54	78	85	100	117	137	1.2
Silver		58	138	46	86	92	100	101	103	-3.8
Unit value		84	85	97	107	111	100	105	114	7.3
Agricultural and food products		83	92	95	114	122	100	105	117	11.3
Rice and rice products		80	84	95	117	129	100	106	120	13.9
Beans and pulses		93	91	80	95	112	100	100	110	3.2
Rubber		108	107	132	149	96	100	115	132	16.8
Oilcakes		107	104	119	105	114	100	107	116	8.2
Fish and fish products		111	116	90	87	94	100	103	106	-2.2
Forestry		91	89	98	102	96	100	104	109	2.1
Teak		93	87	93	103	96	100	104	109	2.3
Other forestry		54	151	126	90	88	100	104	105	-2.9
Metals and minerals		66	62	108	85	99	100	105	116	0.5
Base metals and ore		79	65	105	73	100	100	104	115	-2.7
Silver		45	48	134	174	96	100	118	124	19.6



a. Agricultural and food products

Agricultural and food products accounted for 56 per cent of Burma's exports in the shortfall year. A shortfall of SDR 30.1 million is estimated for this group of products, primarily because of low prices.

(1) Rice and rice products

The Whole Township Paddy Production Development Program has been primarily responsible for a 44 per cent increase in rice production over the past five years. This increase has been achieved mainly through higher yields resulting from improved inputs (especially fertilizer), the use of high-yielding varieties, and improved cultivation practices. Accordingly, earnings from rice exports rose rapidly in the pre-shortfall years until the end of 1981, when the international market began to weaken.

From their peak reached in the second quarter of 1981, world rice prices declined rapidly until, in the last quarter of 1982, they had been reduced by half in U.S. dollar terms. The main cause of this sharp decline was record world production. The volume of world rice trade declined by 10 per cent in calendar year 1982. By comparison, the volume of Burma's rice exports declined only by about 5 per cent in the shortfall year ended March 1983. <sup>1/</sup> Combined with an 18 per cent fall in unit values, earnings declined by 26 per cent.

The short-term outlook is for a strengthening in rice prices during 1983 and 1984, as a result of a recovery in international demand and a substantial reduction in world stocks. The volume of world rice trade is expected to increase by about 10 per cent in 1983, almost entirely as a result of the re-emergence of Indonesia as a major importer because of its poor 1983 crop. World stocks of rice are forecast to decline by over 20 per cent to reach their lowest level since 1974. Largely as a result of these developments, world rice prices began to rise in the first quarter of 1983 and during March-May were approximately 8 per cent above the level in the fourth quarter of 1982.

The volume of Burma's rice exports is forecast to increase by about 8 per cent per year in the two post-shortfall years as international demand recovers. These increases should easily be met by the abundant supplies that are expected over this period. Export unit values are projected to increase by 6 per cent and 13 per cent in the two post-shortfall years. As a result, earnings are expected to increase by 15 per cent and 21 per cent, respectively. A shortfall of SDR 27.4 million is estimated for rice and rice products.

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<sup>1/</sup> Although Burma accounts for only about 6 per cent of world rice exports, in a weak market it experiences difficulties in selling its relatively low quality rice. The preliminary outlook for the 1983 crop is for higher quality which should serve to improve export prospects especially in view of expected strengthening in world demand.

(2) Beans and pulses

Burma continued to expand rapidly its exports of beans and pulses in the shortfall year despite unfavorable prices, which declined by 11 per cent. With a volume increase of 25 per cent, earnings rose by 11 per cent. Volume is expected to continue to increase by about 9 per cent per year in the two post-shortfall years and, with moderate price increases, earnings are projected to rise by about 14 per cent per year. An excess of SDR 2.1 million is estimated for beans and pulses.

(3) Rubber

After growing at 10 per cent and 2 per cent in the two pre-shortfall years, earnings from rubber declined by 28 per cent in the shortfall year. This decline is attributable to a fall of 31 per cent in volume which more than offset a rise in unit values of 4 per cent, reflecting the beginning of a recovery of world market prices of rubber. The unit values, even after the increase, were roughly 20 per cent lower than the pre-shortfall period average. Export volume declined in the shortfall year after realizing its peak in 1981/82 primarily because of increasing domestic consumption resulting from a new tire factory which is expected to cause continuing volume reductions in the post-shortfall period.

World market prices of rubber are expected to increase by 15 per cent in 1983/84 as a result of increased world demand. They are projected to rise further by 14 per cent in 1984/85. The increases in export unit values reflecting these increases in world market prices are expected to more than offset the projected volume decline and result in increases in earnings by 7 per cent and 9 per cent in the two post-shortfall years. A small shortfall of SDR 1.3 million is estimated for rubber, mostly attributable to low prices.

(4) Oilcakes

The introduction of high yielding varieties of oilseeds, which are used primarily for producing vegetable oil, resulted in a large increase in output in the shortfall year. The volume of oilcake exports, a vegetable oil by-product used for animal feed, accordingly increased by 82 per cent in the shortfall year. Although prices declined by 12 per cent as a result of large world supplies and weak demand for animal feed, earnings increased by 61 per cent because of the higher volume.

The prices of animal feeds began to recover in the first quarter of 1983 as a result of the beginning of a recovery in demand and in anticipation of production cutbacks by the world's largest exporter, the United States. Prices are expected to rise by an average of about 7 per cent per year in the post-shortfall period. Combined with continuing volume increases of about 8 per cent per year, earnings are projected to increase by 15 per cent and 19 per cent in 1983/84 and 1984/85, respectively. A small excess of SDR 0.5 million is estimated for oilcakes.

(5) Fish and fish products

After growing by an average of about 40 per cent per year from 1978/79 to 1981/82, the growth of exports of fish and fish products decelerated in the shortfall year to 25 per cent. Growth in fish exports is expected to continue in the post-shortfall period because of large investments in storage and transportation facilities, but the rate of growth is projected to be slower than in previous years because of large world supplies limiting price increases and greater protectionist tendencies constraining volume increases. An excess of SDR 1.3 million is estimated for fish and fish products.

(6) Raw jute

Exports of raw jute declined by 72 per cent in 1981/82 and 84 per cent in the shortfall year (1982/83) almost entirely as a result of reduced volume. Jute growers experienced serious production problems because of shortages of required inputs. In addition, large quantities of raw jute were used in the rapidly expanding production of jute manufactures. Earnings in the post-shortfall period are projected to rise to a level equal only to about 10 per cent of the level in 1980/81, as the emphasis on jute manufactures is expected to be maintained. As a result of these export movements, a shortfall of SDR 1.5 million is estimated for raw jute.

b. Forestry products

Exports of forestry products declined by 4 per cent in the shortfall year, as volume declined by 8 per cent, while unit values rose by 4 per cent. The decline in volume reflected a lagged response by producers to the low world market prices in 1981/82 and transportation difficulties experienced during the shortfall year. World prices are expected to continue to rise by 4 per cent per year in the post-shortfall period. Combined with a volume recovery of 12 per cent per year, earnings are forecast to increase by 15 per cent and 18 per cent in 1983/84 and 1984/85, respectively. A shortfall of SDR 9.3 million is estimated for forestry products, mostly attributable to low volume.

Teak accounts for about 90 per cent of Burma's forestry exports shipped mostly to Japan; this share is expected to increase as a result of a planned substitution of other hardwoods for domestic use. Earnings are projected to increase by 16 per cent per year during the post-shortfall period, and a shortfall of SDR 8 million is estimated for teak.

c. Metals

As a result of a rapid expansion of capacity, metal exports have increased sharply in recent years and rose by 18 per cent in the shortfall year. Base metals and ores (tin, tungsten, lead, zinc, copper, and nickel) account for over 90 per cent of these exports. Silver exports account for the remainder.

Tin has been responsible for much of the recent growth in base metals and ore exports, following the construction of a new dredge and a refinery with a capacity of 1,000 tons per year. Export volume of these metals is projected to increase by 15 per cent per year in the post-shortfall period, as further new capacity, especially for copper concentrates, comes into operation. With world market prices for these metals also expected to increase over the period, earnings are forecast to increase by over 20 per cent per year. A small excess of SDR 0.6 million is estimated for base metals and ores.

The silver market recovered in the last half of 1982 and prices increased by 4 per cent in the shortfall year, to a level still far lower than the average for the pre-shortfall period. Combined with a 9 per cent rise in volume, earnings increased by 14 per cent. They are expected to increase further by 20 per cent in 1983/84 as the full effect of the price recovery is experienced. A small shortfall of SDR 0.8 million is estimated for silver, entirely as a result of low prices.

#### d. Other exports

Other exports accounted for only 4 per cent of total exports in the shortfall year, as earnings declined sharply by 61 per cent from the previous year. The main causes of this decline were weak demand due to the world recession and the virtual disappearance of a previously important export item, heavy petroleum oil. Exports of heavy petroleum oil became negligible by 1982 as a result of increasing domestic consumption, and they are expected to remain negligible in the post-shortfall period. Similarly, exports of cement also dropped sharply because of higher domestic consumption. In addition, production problems affected a wide range of industries during the shortfall year. Serious fuel oil shortages caused many industrial plants to operate at significantly less than full capacity.

The outlook for this group of products is for earnings to reach a level by 1984/85 equal only to about half the 1981/82 level. Increased domestic consumption of several important items is the main reason for this relatively low pace of projected recovery. A shortfall of SDR 7.9 million is estimated for other exports.

#### 4. Staff appraisal and proposed decision

The Burmese authorities are expected to request a purchase equivalent to SDR 29.15 million (equivalent to 26.6 per cent of quota) under the compensatory financing decision in respect of a shortfall in export earnings for the year ended March 1983. If approved, this purchase will raise Burma's outstanding CF purchases to SDR 54.75 million (50 per cent of quota).

In 1981/82, Burma's current account deficit widened sharply to SDR 308 million from SDR 105 million in 1980/81; the overall balance changed to a deficit of SDR 37 million in 1981/82 from a surplus of SDR 48 million in 1980/81. When exports declined by 15 per cent in 1982/83 and imports rose by 8 per cent, the current account deficit grew to SDR 422 million and

the overall deficit to SDR 129 million. Gross international reserves declined by SDR 141 million to a level equivalent to less than one month of imports compared with 3.2 months at the end of 1981/82. The staff considers that Burma's balance of payments need justifies the proposed purchase under the compensatory financing decision. The request for a compensatory financing purchase is expected to include a statement that Burma will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

Export earnings in the shortfall year ended March 1983 were 11 per cent less than the average of the two pre-shortfall years and 21 per cent less than the average projected for the two post-shortfall years. The shortfall for the year ended March 1983 is estimated at SDR 51.2 million. The largest shortfalls are estimated for rice (SDR 27.4 million), forestry products (SDR 9.3 million), and other exports (SDR 7.9 million). Low international market prices due to record world supplies were primarily responsible for the shortfall in rice. The shortfall in forestry products, on the other hand, was largely attributable to a decline in export volume due to low world prices in the previous year and transportation difficulties. In addition, increases in domestic consumption contributed to the shortfalls in rubber and other exports, but this factor was relatively minor in the determination of the overall shortfall. With the projected recovery in the prices of Burma's major export commodities, particularly rice, already underway, earnings are forecast to increase by 15 per cent and 20 per cent the two post-shortfall years, respectively. The staff considers that the shortfall in Burma's export earnings, being related predominantly to weak world demand and low world market prices of key export commodities, was largely attributable to factors beyond the member's control.

The staff considers that the request meets all the requirements set forth in the compensatory financing decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request by the Government of Burma for a purchase of SDR 29.15 million under the Decision on Compensatory Financing of Exports Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).
2. The Fund approves the purchase in accordance with the request.

Burma: Relations with the Fund  
(As of June 30, 1983)

Date of membership:	January 3, 1952
Status:	Article XIV
Quota:	SDR 109.5 million (proposed quota SDR 137 million)
Fund holdings of kyat:	SDR 170.5 million, or 155.7 per cent of quota
Holdings of SDRs:	SDR 0.2 million or 0.4 per cent of net cumulative allocation of SDR 43.5 million
Direct distribution of profits from gold sales:	US\$9.5 million
Distribution of gold:	51,349.512 fine ounces
Trust Fund:	SDR 24.9 million was disbursed in the first period and SDR 33.8 million in the second period.
Stand-by arrangement:	Last stand-by (SDR 27 million) expired June 1982.
Exchange rate system:	The kyat has been pegged to the SDR at K 8.50847 per SDR since May 2, 1977. Burma applied margins of 2 per cent in respect of spot exchange transactions.
Exchange practices under Article VIII:	None.
Last Article IV consultation:	Held in Rangoon during September 26- October 8, 1982; the Executive Board discussed the staff report (SM/82/222) on December 20, 1982.