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SM/84/22
Correction 1

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INFORMATION

February 9, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Burma - Staff Report for the 1983 Article IV Consultation

The following correction has been made in SM/84/22 (1/18/84):

Page 13, para. 2, lines 9 and 10: for "(see footnote 2 on page 12)"
read "(see footnote 1 on page 12)"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

The SEEs, as a group, are the major recipient of bank credit, while they hold most of their financial assets in noninterest earning demand deposits. The private sector (including cooperatives) has been holding an increasingly large amount of its financial assets in the form of savings and time deposits (including savings certificates). The authorities monitor closely the growth of narrow money (mostly currency but including some private sector demand deposits) in relation to developments in free market prices.

a. Developments in 1982/83

The credit and monetary program for 1982/83 was implemented to provide the funds required to sustain planned economic growth while containing inflation at about the same rate as in the previous year. Domestic credit grew by about 14 percent, lower than the 22 percent growth rate in the previous year, partly reflecting a 4 percent reduction in credit to the private sector. Growth of net credit to the public sector slowed to 17 percent from 24 percent in 1981/82. This slowdown, however, is not reflected in the data on the domestic financing of the overall public sector deficit (see footnote 1 on page 12).

The slower growth of total domestic credit was accompanied by a precipitous fall in net foreign assets, and the growth of total liquidity slowed down to 13 percent in 1982/83 from 17 percent in the previous year. The rate of increase of narrow money declined more markedly to 8 percent from 12 percent, while the growth of quasi-money remained high, largely in response to the relatively high real interest rates (Table 5). The velocity of broad money declined, however, reflecting the impact of monetization and the growth of bank branches that took place in 1982/83. The higher rate of increase in the consumer price index primarily reflected the upward adjustments of official prices.

b. The credit and monetary program for 1983/84

The credit and monetary program for 1983/84 has been implemented to support the authorities' policy adjustments, in particular the selective investment policy. The growth of total domestic credit is envisaged to be about 15 percent, slightly faster than in the previous year. The growth of net credit to the public sector is planned to remain at the previous year's rate of about 17 percent, while credit to the private sector is expected to rise by 4 percent, mainly on account of increased agricultural credit to support the diversification program. The growth of total liquidity is expected to be 12 percent, in line with the estimated growth of nominal GDP.

Table 5. Burma: GDP Growth, Liquidity, and Velocity,
1978/79-1983/84

	1978/79	1979/80	1980/81	1981/82	Provi- sional 1982/83	Esti- mate 1983/84
(Annual percent changes)						
Nominal GDP	7.8	11.1	9.3	11.0	8.6	11.3
Total liquidity (M2)	20.9	20.0	16.7	17.1	12.7	12.0
Narrow money	(17.6)	(14.7)	(12.3)	(11.6)	(7.7)	(...)
Quasi-money	(47.7)	(53.9)	(37.1)	(39.0)	(28.7)	(...)
(Ratio)						
Velocity ^{1/}						
GDP/narrow money	4.6	4.4	4.3	4.3	4.3	...
GDP/M2	4.0	3.7	3.4	3.3	3.1	3.0

Source: Appendix Table III.

^{1/} Ratio of nominal GDP to money stock at the end of the year.

The staff team noted the recent declining trend in credit to the private sector (which now accounts for only about 10 percent of domestic credit) and expressed concern about the rapid increase in credit to the SEEs. While attributing the declining private credit to weak demand, the authorities stated that they would review the system of credit extension and strengthen the monitoring of underlying investment and production activities. However, the authorities stressed that a fundamental approach to limiting the growth of credit to SEEs would be to strengthen their financial positions through the various policy adjustments recently introduced. They also noted that while the rate of expansion of credit to the SEEs was fast, the rate of growth of savings and time deposits remained high as a result of both the rapid rise in income and high real interest rates. The shift to savings and time deposits resulted in a substantial slowdown of the growth of narrow money and moderated the rate of inflation.