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SM/86/97
Correction 1

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INFORMATION

May 29, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Burma - Staff Report for the 1986 Article IV Consultation

The following correction has been made in SM/86/97 (5/7/86):

Page 13, third full para., line 3: for "entities includes the following
features."
read "entities."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

attention to the development of the energy sector, through the construction of several hydroelectric projects, financed by the World Bank, and the exploitation of on-shore natural gas. They felt that development of the energy sector, including the completion of the national electric power grid, would result in large efficiency gains and act as a catalyst for other sectors. On the import side, priority was given to spare parts and raw materials so as to minimize disruptions in manufacturing and processing industries.

While welcoming the recent changes in investment policy, the staff expressed the view that, in the absence of fundamental improvement in the incentive structure, these changes alone are not likely to stimulate production sufficiently and bring about a major shift of resources to the traded goods sector. In this context, it was noted that paddy production has remained sluggish and the export base has remained narrow, owing to slow progress in the agricultural diversification program. Also, the official procurement prices of most agricultural products, including paddy, have remained fixed since 1977/78. In order, therefore, to increase production, promote efficiency, and minimize leakages to the informal market, greater use of price incentives is called for. If the vicious cycle of deteriorating export performance and harmful cuts in investment and imports is to be broken, it will be essential to implement pricing reforms and sustain the provision of adequate incentives through flexibility in pricing and exchange rate policies. Given the protracted period over which financial incentives have been allowed to deteriorate, significant adjustments in procurement prices as well as prices of inputs are needed in order to ensure a more efficient allocation of resources. In addition, to maintain the profitability of exporting SEEs, procurement price increases need to be accompanied by appropriate exchange rate action. Similarly, there will be a need to increase official retail prices of domestically marketed output.

The authorities were of the view that the deterioration in Burma's export performance was due to adverse terms of trade developments. Nonprice incentives were, in their opinion, sufficiently effective in promoting production and exports.

4. Exchange rate and external debt policies

Burma maintains a restrictive trade and payments system, with all imports involving use of official foreign exchange made by public sector entities. An import program is prepared annually as part of the foreign exchange budget drawn up by the Ministry of Finance; the budget is adjusted on a quarterly basis to reflect actual foreign exchange availability. Payments for invisibles outside the public sector are subject to licensing, and limits are placed on foreign exchange made available for officially approved travel. However, regulations governing the use of private individuals' own foreign exchange were liberalized somewhat in 1983/84 to permit the freer importation of certain durable goods.

In real effective exchange rate terms, the kyat is estimated to have appreciated by about 14 percent during the Fourth Plan period, mainly owing to the strengthening of the SDR, to which the kyat is pegged, vis-a-vis the currencies of Burma's principal trading partners (Chart 7). The staff team stated that, in the case of Burma, movements in the real effective exchange rate index do not alone provide a measure of the required adjustment in the exchange rate, because the underlying rate of inflation is significantly higher than the measured rate and because of the need to adjust the domestic relative price structure to that prevailing in world markets. Exchange rate policy needed to take these considerations into account if it is to help in strengthening incentives for traditional exports and promoting export diversification.

However, in view of the centrally planned nature of investment decisions, the administered system of prices, and the high proportion of imports financed by foreign grants and concessional loans, the authorities regard the exchange rate as having a minimal role in export promotion and the allocation of foreign exchange. They are also concerned that an exchange rate adjustment would add to inflationary pressures.

The authorities stated that, in light of the recent rapid increase in external debt and debt servicing obligations, nonconcessional borrowing has been avoided to the greatest extent possible since 1983/84. The staff team noted that this policy alone had not succeeded in preventing a sharp increase in the debt service ratio, and that commercial borrowing had been used to support the level of gross reserves in 1985/86.

5. Statistics

The staff discussed with the authorities several areas in which the quality, timeliness, and consistency of economic and financial statistics need to be improved. There is need to improve the consistency among monetary, fiscal, balance of payments, and external debt statistics, and the coverage of external debt and debt service payments. There is a substantial discrepancy between data on imports as reported by the authorities and the corresponding export data as reported by partner countries. Statistics on consumer prices, money and credit, and balance of payments are reported to the Fund with a lag of about four to eight months; finalized budgetary statistics are made available only after a two-year lag. The authorities agreed with the staff on the data limitations and explained that efforts to overcome them are constrained by administrative difficulties and limited skilled manpower resources.