

SUR/07/142

December 19, 2007

**The Acting Chair's Summing Up
Myanmar—2007 Article IV Consultation
Executive Board Meeting 07/104
November 28, 2007**

Executive Directors agreed with the thrust of the staff appraisal. They observed that Myanmar is taking steps to transition from a centrally planned to a market-based economy. The economy is growing modestly and the balance of payments continues to improve. Nevertheless, despite a rich natural and agricultural resource base and vast economic potential, Myanmar continues to suffer from weak economic policies, reflected in high inflation and budget deficits, structural impediments to investment, and low living standards. Directors called on the authorities to follow up on the Fund's policy advice to bring about the most urgently needed policy changes.

Directors stressed the need for strong efforts to reduce the budget deficit and contain its monetization, which is a major source of high inflation. While welcoming the progress made in improving revenue collection, Directors encouraged the authorities to continue efforts to improve tax administration and increase the use of the market exchange rate in customs valuation. They also saw a need to better rationalize capital expenditure based on systematic cost-benefit analyses, and to reform the state economic enterprises to reduce their reliance on the budget. Directors emphasized that a more balanced budget would provide room for needed increases in social spending, especially on health and education, and for well-targeted assistance for the poor as general subsidies are lifted with the adjustments to administered prices. A few Directors advised the authorities to adopt the principles of the Extractive Industries Transparency Initiative. The authorities were also encouraged to deal with external arrears.

Directors stressed the need for improvements in monetary policy and operations, which, along with fiscal efforts, will be key to bringing inflation under control. Interest rates, which are currently far below the inflation rate, should be gradually increased and eventually liberalized. These changes would increase confidence in the kyat, mobilize savings, and support the financing of budget deficits through treasury bonds rather than money creation. The Central Bank of Myanmar should also have greater autonomy to control the money supply, with the objective of safeguarding price stability.

Directors observed that the current multiple exchange rate system is a major obstacle to economic development, while unification would bring significant benefits, in particular if

supported by sufficiently tight fiscal and monetary policies. They welcomed changes that have led to greater use of the market rate, but emphasized that the current system is not transparent, imposes high costs on participants, weakens governance, distorts economic activity, and reduces fiscal revenue. Directors urged the authorities to eliminate the exchange restrictions and multiple currency practices subject to Fund approval under Article VIII as soon as possible.

Directors welcomed the progress made in strengthening the financial sector and combating money laundering and the financing of terrorism. They encouraged the authorities to continue their efforts to address weaknesses in the state banks, gaps in prudential regulation and supervision of banks, and remaining shortcomings in the AML/CFT framework. Moving toward a prudential and regulatory framework that is consistent with international best practices would safeguard banking sector health while supporting its development.

Directors were encouraged by the steps being taken to liberalize the agricultural sector, including the relaxation of remaining export controls. The challenge now is to ensure that local implementation is consistent with national policies, and to further deepen the reform effort in related areas. Directors also welcomed efforts to liberalize the trade regime and improve the investment climate. They stressed that greater investment would require, in addition to macroeconomic stability, transparent and predictable rules and regulations, the phasing out of administrative controls, and sustained improvements in infrastructure and human capital.

Directors expressed concern about the serious shortcomings in Myanmar's economic statistics, which are a major impediment to effective surveillance and policy formulation. They strongly urged the authorities to take steps to improve the quality and timeliness of data.

Directors took note of the plans for further Fund technical assistance to Myanmar in the areas of economic statistics, banking regulation and supervision, and AML/CFT. Many Directors supported the provision of clearly targeted assistance, with several of them cautioning that it should be conditional on continued progress in implementing past technical assistance recommendations. A few Directors, however, considered that further technical assistance at the current juncture was not justified, in light of the poor track record of following up on Fund policy advice, and the considerable demands for Fund technical assistance across the membership.

It is expected that the next Article IV consultation with Myanmar will be held on the standard 12-month cycle.