SUR/10/24

March 1, 2010

The Acting Chair's Summing Up
Myanmar—2009 Article IV Consultation
Executive Board Meeting 10/18
February 24, 2010

Executive Directors agreed with the thrust of the staff appraisal. They noted that the effects of Cyclone Nargis and spillovers from the global crisis have slowed Myanmar's economic growth. While a modest recovery is underway, strong and sustainable growth will require improved macroeconomic management and wide-ranging reforms, including unification of the exchange rate and modernization of the financial sector.

While welcoming the reduction in fiscal deficits until FY 2008/09, Directors noted that the recent wage increase for civil servants and plans to raise infrastructure spending will delay fiscal consolidation. They urged the authorities to develop a realistic consolidation plan to ensure debt sustainability and contain inflation pressures. Simplifying the tax structure, reducing tax exemptions, and further broadening the tax base would generate fiscal space for development spending. Directors also saw room to reallocate spending to education, health, and infrastructure projects, especially in agriculture and power generation. Directors called for a strengthened effort toward resolving external arrears to multilateral and bilateral creditors.

Directors commended the authorities for resorting in part to bond financing of the fiscal deficit, thus helping contain the inflationary impact of the deficit. They recommended further steps to eliminating deficit monetization by broadening the investor base and developing a treasury securities market as soon as possible.

Directors observed that maintaining administratively-determined interest rates constrains the conduct of monetary policy. The recent shift toward bond financing provides an opportunity to start building capacity to adjust interest rates as macroeconomic conditions change. Directors recommended treasury auctions to begin establishing market-based interest rates. They stressed the importance of giving the central bank full operational autonomy and recommended that all central banking functions be transferred to it.

Directors welcomed the establishment of a task force to lay the groundwork for exchange rate unification. They urged the authorities to prepare the legal and institutional framework for unification to help meet Myanmar's commitment under the ASEAN Economic Community Blueprint to accept Article VIII by 2011. The authorities should also work towards swift removal of exchange restrictions subject to Fund approval under Article VIII.

Directors stressed the need to modernize the financial sector by reducing segmentation in banking activities, enabling a level playing field for state-owned and private banks, easing restrictions on private bank branch expansion, and allowing foreign participation. They recommended relaxation of the deposit-to-capital ratio and collateral requirements to help increase credit to the private sector, especially to agriculture. Directors welcomed the recent steps to curb money laundering and the financing of terrorism and looked forward to further strengthening of the AML/CFT framework.

Directors commended the authorities for reducing import tariffs under the ASEAN Free Trade Agreement and looked forward to the removal of the remaining nontariff barriers and upgrading customs valuation systems to international standards. They stressed the importance of further liberalizing trade and agriculture, and improving the business climate for Myanmar's economic development.

Directors expressed concern about the slow progress in following through on past Fund technical assistance, and urged the authorities to improve their track record in this respect. A number of Directors, however, also stressed the importance of continuity in the Fund's dialogue with the authorities. Directors stressed the importance of improving data quality, coverage, and timeliness, which at present are inadequate for effective surveillance.

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