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CONTAINS CONFIDENTIAL
INFORMATION

May 7, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Burma - Staff Report for the 1986 Article IV Consultation

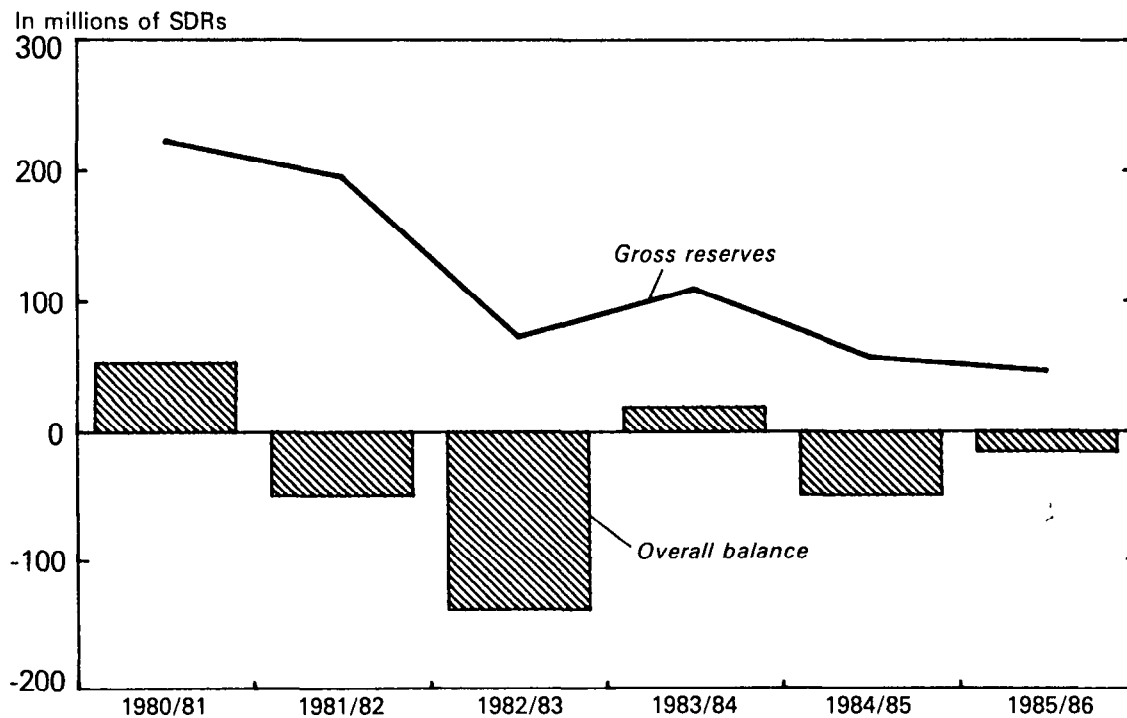
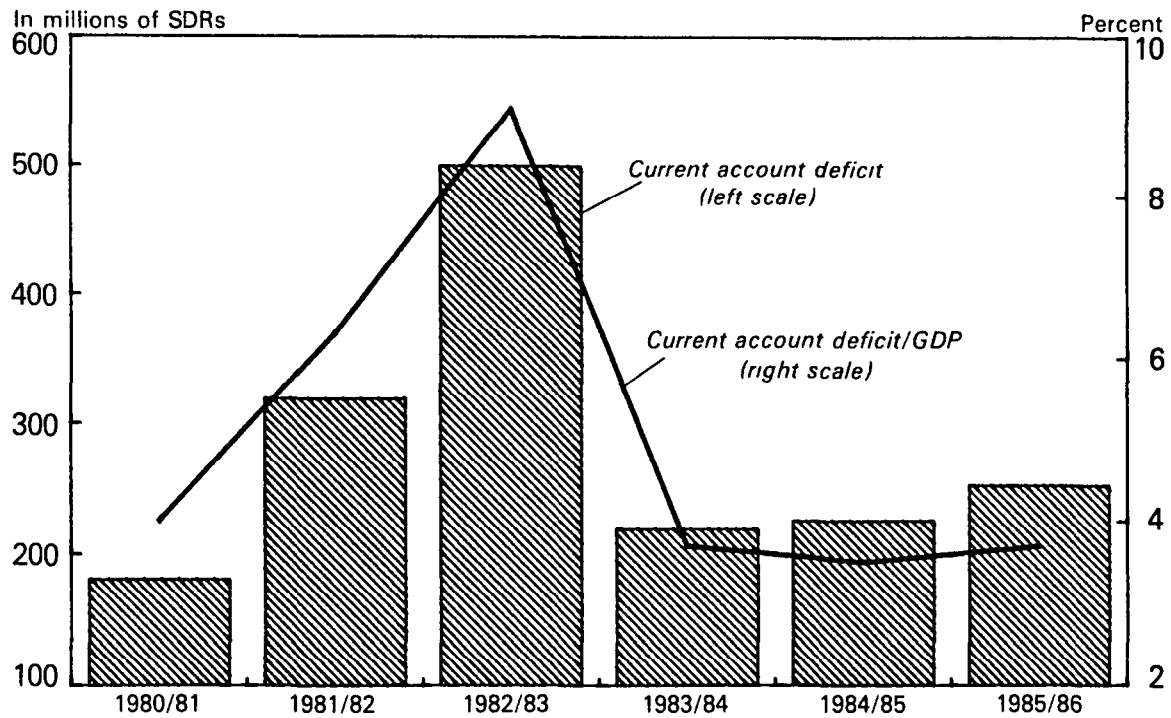
Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Burma, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 20.

Mr. Al-Eyd (ext. 7336) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CHART 2
BURMA
SELECTED BALANCE OF PAYMENTS INDICATORS,
1980/81-1985/86



Sources: Data provided by the Burmese authorities; and staff estimates

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

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Table 1. Burma: Major Economic and Financial Indicators,
1981/82-1986/87 1/

(Percentage changes, unless otherwise indicated)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85
Prov. | 1985/86
Est. | 1986/87
Proj. |
|---|---------|---------|---------|------------------|-----------------|------------------|
| Output and prices | | | | | | |
| Nominal GDP | 11.1 | 9.2 | 6.4 | 8.6 | 6.7 | 5.7 |
| Real GDP | 6.3 | 5.6 | 4.4 | 5.6 | 6.2 | 3.6 |
| Consumer prices <u>2/</u> | 1.4 | 5.2 | 5.7 | 5.3 | 6.8 <u>3/</u> | 6.0 |
| Investment and savings | | | | | | |
| Gross fixed investment | 19.5 | 16.3 | -9.8 | -6.6 | 15.6 | 0.3 |
| Domestic savings | 5.3 | -12.2 | 14.8 | -11.5 | 20.7 | 11.3 |
| Consolidated public finance | | | | | | |
| Total receipts | 9.8 | 17.5 | 2.1 | -1.6 | 3.1 | 13.5 |
| Total expenditure | 18.4 | 15.3 | -3.3 | -0.9 | 11.9 | 2.8 |
| Of which: capital expenditure and
net lending | 19.1 | 22.5 | -12.8 | -8.6 | 15.0 | -1.4 |
| Overall balance (in percent of GDP) | -9.2 | -9.3 | -7.4 | -6.9 | -8.7 | -6.8 |
| Money and credit | | | | | | |
| Domestic credit | 21.5 | 14.2 | 13.8 | 16.7 | 18.1 | ... |
| Broad money | 17.1 | 12.7 | 16.2 | 14.7 | 2.7 | ... |
| Balance of payments | | | | | | |
| Export value | 8.9 | -16.5 | 13.8 | -7.2 | 3.0 | -4.0 |
| Import value | 29.3 | 15.4 | -28.7 | -2.3 | 3.0 | -7.3 |
| Terms of trade | 2.1 | -13.4 | -5.6 | 7.6 | -18.1 | -9.9 |
| Current account balance (in percent of GDP) | -6.3 | -9.1 | -3.7 | -3.5 | -3.6 | -3.0 |
| International reserves in months of imports <u>4/</u> | 3.5 | 1.1 | 2.3 | 1.2 | 0.9 | 1.0 |

Sources: Data provided by the Burmese authorities; and staff estimates.

1/ Fiscal year ending March.

2/ Measured as the Rangoon consumer price index.

3/ During the 12-month period ended December 1985.

4/ At the end of period.

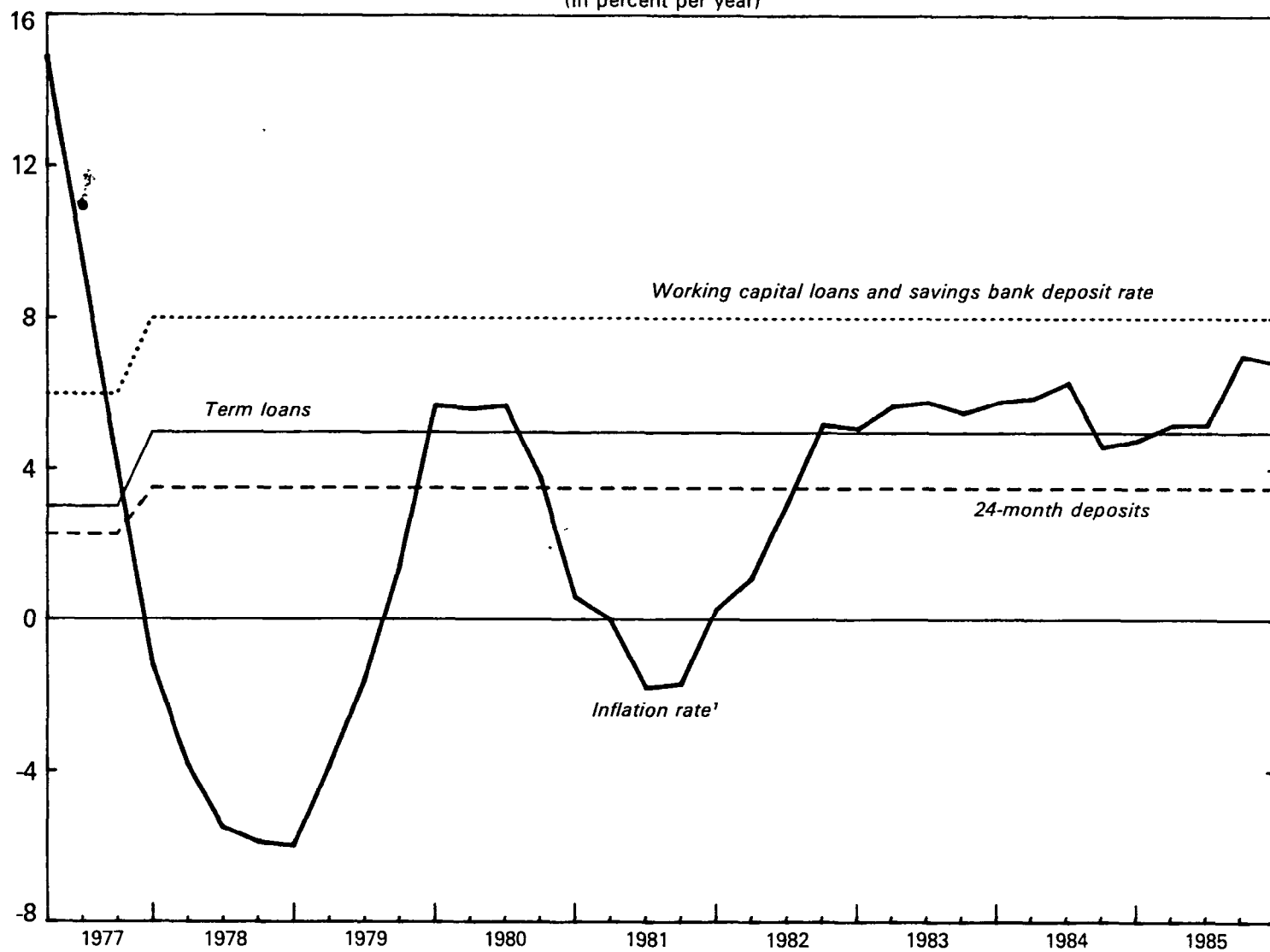
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CHART 5
BURMA
INTEREST RATES AND THE RATE OF INFLATION, 1977-85
(In percent per year)

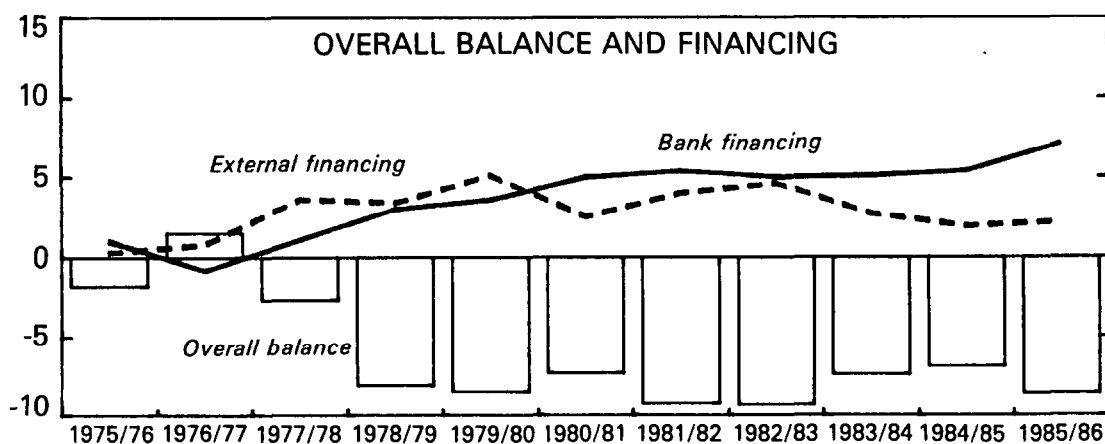
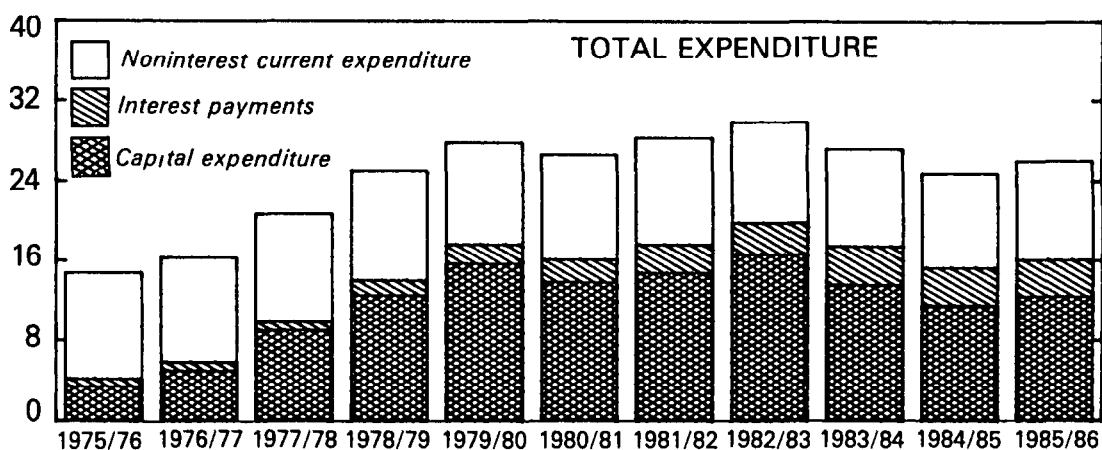
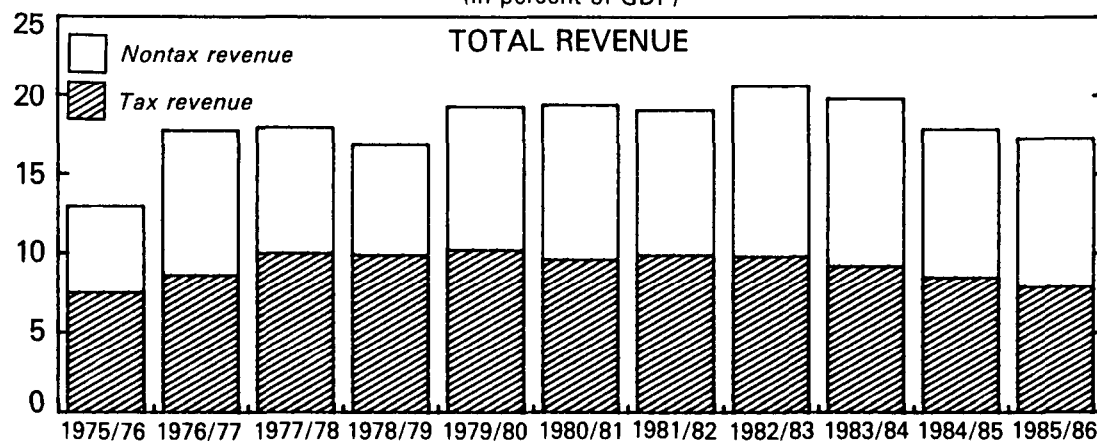


Source. Data provided by the Burmese authorities

¹ Measured as the rangoon CPI (12-month moving average).

CHART 6
BURMA
PUBLIC SECTOR OPERATIONS, 1975/76-1985/86

(In percent of GDP)



Source: Data provided by the Burmese authorities

Table 2. Burma: Summary of Consolidated Public Sector Budget, 1981/82-1986/87

| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86
Revised
Est. | 1986/87
Budget
Est. |
|---|----------|----------|----------|----------|----------------------------|---------------------------|
| (In millions of kyats) | | | | | | |
| Receipts | 8,206 | 9,645 | 9,848 | 9,689 | 9,985 | 11,328 |
| Union Government | 7,583 | 8,033 | 7,882 | 7,941 | 7,806 | 8,205 |
| Tax revenue | 4,257 | 4,602 | 4,602 | 4,601 | 4,583 | 4,684 |
| SEE contributions ^{1/} | 2,217 | 2,954 | 2,062 | 2,071 | 1,733 | 1,883 |
| Other nontax revenue | 680 | 746 | 689 | 765 | 880 | 1,030 |
| Grants | 429 | 731 | 529 | 504 | 610 | 608 |
| Local authorities | 203 | 225 | 238 | 252 | 252 | 259 |
| SEE current surplus after contributions | 420 | 1,387 | 1,728 | 1,496 | 1,927 | 2,864 |
| Expenditures | 12,154 | 14,011 | 13,551 | 13,433 | 15,033 | 15,450 |
| Current | 5,798 | 6,224 | 6,760 | 7,226 | 7,892 | 8,407 |
| Union Government | 5,663 | 6,081 | 6,610 | 7,067 | 7,702 | 8,219 |
| Of which: interest payments | (1,210) | (1,485) | (1,890) | (2,074) | (2,128) | (2,265) |
| Local authorities | 135 | 143 | 150 | 159 | 190 | 188 |
| Capital and net lending | 6,356 | 7,787 | 6,791 | 6,207 | 7,141 | 7,043 |
| Union Government | 1,224 | 1,888 | 1,804 | 1,686 | 1,806 | 2,022 |
| Local authorities | 66 | 66 | 61 | 47 | 94 | 94 |
| SEEs | 5,066 | 5,833 | 4,926 | 4,474 | 5,241 | 4,927 |
| Overall balance (deficit:-) | -3,948 | -4,366 | -3,703 | -3,744 | -5,048 | -4,122 |
| Excluding grants | (-4,377) | (-5,097) | (-4,232) | (-4,248) | (-5,658) | (-4,730) |
| Financing | 3,948 | 4,366 | 3,703 | 3,744 | 5,048 | 4,122 |
| Foreign loans (net) | 1,738 | 2,151 | 1,324 | 1,024 | 1,254 | 1,221 |
| Domestic financing | 2,210 | 2,215 | 2,379 | 2,720 | 3,794 | 2,901 |
| Bank | 2,302 | 2,327 | 2,533 | 2,946 | 4,074 | 3,196 |
| Nonbank | -92 | -112 | -154 | -226 | -280 | -295 |
| (In percent of GDP) | | | | | | |
| Memorandum items: | | | | | | |
| Total receipts | 19.1 | 20.6 | 19.8 | 17.9 | 17.3 | 18.6 |
| Excluding grants | 18.1 | 19.0 | 18.7 | 17.0 | 16.2 | 17.6 |
| Of which: tax revenue | 9.9 | 9.8 | 9.2 | 8.5 | 7.9 | 7.7 |
| Total expenditure | 28.3 | 29.9 | 27.2 | 24.8 | 26.0 | 25.3 |
| Overall balance | -9.2 | -9.3 | -7.4 | -6.9 | -8.7 | -6.8 |
| Excluding grants | (-10.2) | (-10.9) | (-8.5) | (-7.8) | (-9.8) | (-7.8) |
| Domestic bank financing | 5.4 | 5.0 | 5.1 | 5.4 | 7.1 | 5.2 |
| Foreign financing | 4.0 | 4.6 | 2.7 | 1.9 | 2.2 | 2.0 |

Source: Data provided by the Burmese authorities.

^{1/} These contributions are of three types: contributions from profits of financial SEEs; those from domestic profits of nonfinancial SEEs; and those from the Export Price Equalization Fund, which are based on profits and losses from exports of nonfinancial SEEs.

Table 3. Burma: Monetary Survey, 1982-86

| | 1982
March | 1983
March | <u>1984</u> | | <u>1985</u> | | 1986
March
Staff Est. |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------------|
| | | | March | Sept. | March | Sept. | |
| (In millions of kyats) | | | | | | | |
| Net foreign assets | 1,188 | 12 | 174 | 155 | -417 | -449 | -545 |
| Domestic credit | <u>15,236</u> | <u>17,400</u> | <u>19,806</u> | <u>20,974</u> | <u>23,108</u> | <u>24,608</u> | <u>27,284</u> |
| Public sector (net) | <u>13,487</u> | <u>15,713</u> | <u>19,083</u> | <u>18,396</u> | <u>21,310</u> | <u>21,857</u> | <u>25,384</u> |
| Union Government
(net) | (-3,202) | (-5,718) | (-7,998) | (-8,256) | (-9,975) | (-10,356) | (...) |
| Gross credit to
SEEs | (16,689) | (21,431) | (26,081) | (26,660) | (31,285) | (32,213) | (...) |
| Private sector | 1,749 | 1,687 | 1,723 | 2,578 | 1,798 | 2,751 | 1,900 |
| Other items (net) | -3,289 | -2,615 | -2,793 | -2,973 | -2,976 | -3,683 | -6,483 |
| Total liquidity | <u>13,135</u> | <u>14,797</u> | <u>17,187</u> | <u>18,156</u> | <u>19,715</u> | <u>20,476</u> | <u>20,256</u> |
| Money | <u>9,985</u> | <u>10,751</u> | <u>12,242</u> | <u>12,553</u> | <u>13,732</u> | <u>14,064</u> | ... |
| Quasi-money | 3,150 | 4,046 | 4,945 | 5,603 | 5,983 | 6,412 | ... |
| (Percentage changes) | | | | | | | |
| Domestic credit | <u>21.5</u> | <u>14.2</u> | <u>13.8</u> | <u>16.6</u> | <u>16.7</u> | <u>17.3</u> | <u>18.1</u> |
| Public sector (net) | <u>23.9</u> | <u>16.5</u> | <u>15.1</u> | <u>19.8</u> | <u>17.8</u> | <u>18.8</u> | <u>19.1</u> |
| Private sector | 5.9 | -3.5 | 2.1 | 0.9 | 4.4 | 6.7 | 5.7 |
| Broad money | <u>17.1</u> | <u>12.7</u> | <u>16.2</u> | <u>17.5</u> | <u>14.7</u> | <u>12.8</u> | <u>2.7</u> |
| Money | <u>11.6</u> | <u>7.7</u> | <u>13.9</u> | <u>14.6</u> | <u>12.2</u> | <u>12.1</u> | ... |
| Quasi-money | 39.0 | 28.4 | 22.2 | 24.7 | 21.0 | 14.4 | ... |

Sources: Data provided by the Burmese authorities; and staff estimates.

Table 4. Burma: Summary Balance of Payments, 1981/82-1986/87

(In millions of SDRs)

| | 1981/82 | 1982/83 | 1983/84 | 1984/85
Prov. | 1985/86
Staff
Est. | 1986/87
Staff
Proj. |
|---------------------------------------|----------|----------|----------|------------------|--------------------------|---------------------------|
| Trade balance | -292.6 | -467.6 | -188.5 | -203.2 | -209.0 | -181.8 |
| Exports, mainly f.o.b. | 406.9 | 339.8 | 386.8 | 358.8 | 369.6 | 354.5 |
| Rice and rice products | (177.9) | (119.5) | (169.4) | (124.6) | (...) | (...) |
| Timber products ^{1/} | (97.1) | (100.0) | (109.1) | (125.0) | (...) | (...) |
| Other exports | (131.9) | (120.3) | (108.3) | (109.2) | (...) | (...) |
| Imports, mainly f.o.b. | -699.5 | -807.4 | -575.3 | -562.0 | -578.6 | -536.3 |
| Of which: cash imports | (-359.3) | (-390.7) | (-256.5) | (-272.8) | (-221.2) | (...) |
| Services (net) | -41.3 | -53.2 | -75.3 | -65.7 | -79.0 | -78.2 |
| Receipts | 61.6 | 54.7 | 44.9 | 44.8 | 43.6 | 48.8 |
| Payments | -102.9 | -107.9 | -120.2 | -110.5 | -122.6 | -126.9 |
| Of which: interest | (-45.5) | (-49.1) | (-64.1) | (-65.5) | (-71.3) | (-73.8) |
| Private transfers (net) | 15.0 | 21.7 | 44.5 | 43.6 | 45.4 | 46.2 |
| Current account balance | -318.9 | -499.1 | -219.3 | -225.3 | -242.6 | -213.8 |
| Nonmonetary capital | 267.3 | 351.5 | 223.3 | 187.8 | 227.4 | 238.9 |
| Official grants | 50.3 | 70.7 | 62.1 | 59.0 | 72.7 | 74.9 |
| Long-term capital (net) ^{2/} | 216.7 | 281.9 | 171.7 | 136.6 | 165.9 | 176.3 |
| Disbursements | (289.8) | (346.0) | (256.7) | (230.1) | (284.7) | (290.1) |
| Repayments | (-73.1) | (-64.1) | (-85.0) | (-93.5) | (-118.8) | (-113.8) |
| Other capital (net) | 0.3 | -0.5 | -7.0 | -0.6 | -0.5 | -0.6 |
| Trust Fund | -- | -0.6 | -3.5 | -7.2 | -10.7 | -11.7 |
| SDR allocation | -- | -- | -- | -- | -- | -- |
| Errors and omissions (net) | 2.8 | 9.4 | 15.0 | -11.6 | -- | -- |
| Overall balance | -48.8 | -138.2 | 19.0 | -49.1 | -15.2 | 25.2 |
| Monetary movements | 48.8 | 138.2 | -19.0 | 49.1 | 15.2 | -25.2 |
| Gross reserves (increase -) | 27.3 | 122.3 | -36.5 | 52.1 | 11.0 | 1.8 |
| Use of Fund credit | 21.6 | 15.9 | 17.9 | -7.6 | -16.7 | -27.0 |
| Other liabilities | -0.1 | -- | -0.4 | 4.6 | 20.9 | -- |
| Memorandum items: | | | | | | |
| Current account balance | | | | | | |
| (in percent of GDP) | -6.3 | -9.1 | -3.7 | -3.5 | -3.6 | -3.0 |
| Gross international reserves | 195.4 | 73.1 | 109.6 | 57.5 | 46.5 | 44.7 |
| (in months of imports) | 3.4 | 1.1 | 2.3 | 1.2 | 1.0 | 1.0 |
| Debt service ratio ^{3/} | 25.6 | 29.7 | 34.4 | 38.8 | 47.4 | 50.3 |
| External public debt | | | | | | |
| outstanding | 1,521 | 1,880 | 2,168 | 2,314 | 2,452 | 2,589 |

Sources: Data provided by the Burmese authorities; and staff estimates.

^{1/} Teak and hardwood logs and timber products.

^{2/} Includes commercial borrowing.

^{3/} Total debt service payments, including Fund repurchases, as a percent of total current receipts, including private transfers.

long-term loans are estimated to have increased by over 20 percent. In sum, the deficit in the overall balance of payments is estimated to have declined from SDR 49 million in 1984/85 to SDR 15 million in 1985/86. Recourse was made to commercial borrowing in order to arrest the rapid depletion of gross reserves, which, nevertheless, are estimated to have declined to SDR 47 million, the equivalent of less than one month of imports.

External medium- and long-term public debt outstanding is estimated to have increased from SDR 2.31 billion at the end of 1984/85 to SDR 2.45 billion (equivalent to about 36 percent of GDP) at the end of 1985/86. Owing to a sharp increase in amortization payments and large repurchase obligations to the Fund, debt service payments are estimated to have risen from about 39 percent of current receipts in 1984/85 to about 47 percent in 1985/86.

3. The outlook for 1986/87

Limited information on the 1986/87 budget and the targets of the annual Plan were made available to the staff after the discussions with the authorities were concluded. The annual Plan for 1986/87 calls for a sharply lower real GDP growth of 3.6 percent. While a slowdown is projected in all sectors, most significant is the projected decline in agricultural growth to 2.2 percent from an estimated 4.2 percent in 1985/86; with growth of paddy output projected to slacken only slightly, this implies a substantial loss in momentum in the growth of other crops. In the staff's view the achievement of the GDP growth target will be difficult, given the external outlook.

The balance of payments is expected to come under increasing pressure in 1986/87, owing to an increase in debt service obligations and a further prospective deterioration in the terms of trade. Export receipts are projected by the staff to decline by 4 percent, mainly because of sharply lower prices for rice and metal exports. Debt service payments are projected to rise to 50 percent of current receipts, while disbursements of official grants and concessional loans are expected to remain unchanged in real terms. These expected developments imply that, if Burma adheres to the policy of strictly limiting new borrowing on commercial terms, imports would have to be cut by 8 percent in nominal terms (9 percent in real terms), entailing further adverse consequences for investment and real economic growth.

The overall public sector deficit is projected by the authorities to decline to 6.8 percent of GDP. A significant improvement in SEEs' current operating surpluses and cuts in their investment expenditures are envisaged. Total public receipts are projected to increase by 13.5 percent, mainly on account of a nearly 50 percent increase in the SEE current surplus after contributions. In view of the prospect of a decline in exports and imports in 1986/87, the staff believes that the budget estimate for current surplus of SEEs, and hence for total receipts, might be optimistic. The budget provides for a slowdown in

the growth of total expenditure; while current expenditure growth is projected to decline to 6.5 percent, capital expenditure is budgeted to decline in absolute terms. Reflecting the lower deficit, domestic bank financing is expected to fall to the equivalent of 5.2 percent of GDP, compared with 7.1 percent last year.

III. Report on the Discussions

The adjustment effort during the last three years, confined to curtailing public sector investment expenditure and imports, resulted in a temporary improvement in the balance of payments position, but did not restore conditions conducive to growth and financial stability. Against this background--and recalling that, on the occasion of the last Article IV consultation, Executive Directors cautioned against prolonged and exclusive reliance on short-term demand management policies--discussions with the authorities focused on the need to implement supply-oriented, medium-term adjustment policies. The staff team recommended measures aimed at increasing the mobilization of domestic resources, especially in the public sector; improving the incentive structure to stimulate production and encourage a shift of resources to the export sector; and aligning domestic prices with international prices. The mission emphasized that the adoption of a more active exchange rate policy would constitute an important element in such a policy package.

1. Fiscal policy

The persistence of high overall public sector deficits despite restraint in investment expenditure reflects deteriorating performance of public sector revenues; current expenditure has grown at an average annual rate of 8 percent in recent years, mainly reflecting rising interest payments on both domestic and foreign debt. Major fiscal reforms were last introduced in April 1976, but the impact of these changes had dissipated by 1981/82. The staff emphasized that strong revenue measures were needed to narrow the fiscal gap. The authorities shared the staff's concern and indicated that a new rate structure for taxes on income and profits had been proposed in the 1986/87 budget, with a view to reducing the incidence of tax evasion and improving incentives. The staff considered that this step should be accompanied by a new round of major price adjustments in the public enterprise sector along the lines proposed by the World Bank.

About two thirds of public sector revenue in Burma is collected from SEEs in the form of (i) the commodities and services tax (CST), a tax on domestic sales of goods and services produced by the SEEs; (ii) contribution of the SEEs to the Union Government, which replaced the former income tax on SEEs; and (iii) net profits of SEEs after contribution to the Union Government (Appendix Table 8). The growth of revenue from these three sources, which is directly influenced by the overall financial performance of the SEE sector, has decelerated rapidly in recent years. Moreover, customs duty collections, another major

source of revenue, have declined steadily in recent years, reflecting the decline of imports associated with the restraint on the public sector investment program.

The authorities stated that given the considerable tax burden already borne by SEEs, increases in CST rates would not be appropriate and that as the financial performance of SEEs improved, public sector revenue would grow. It is their view that the deterioration in the SEEs' financial position was caused by unfavorable export prices rather than by inflexible domestic pricing policies. They considered that adequate price margins were being provided through the automatic price adjustment system introduced in 1980/81 for passing on import cost increases and through normal procedures for recovering other cost increases. The authorities also stated that SEEs were being encouraged to increase profitability through measures aimed at improving efficiency and expanding output. To achieve a higher rate of capacity utilization, priority was given to the import of spare parts and raw materials.

The staff stated that price rigidity was perhaps the most important cause of the poor performance of the SEE sector, and noted that declining profitability was not limited to exporting SEEs. Despite the introduction of the automatic price adjustment scheme and expansion of its coverage, resistance to price adjustments remained very strong because of concern about inflation, adversely affecting the profitability of public enterprises and narrowing the base of the commodities and services tax. Hence a new round of major price adjustments is crucial for increasing the mobilization of domestic resources.

The rapid increase in interest payments on bank borrowings has also contributed significantly to the erosion in the profitability of the nonfinancial SEEs. Because the evaluation of their performance is based mainly on achievements of production targets and on operating ratios that exclude financial costs, the SEEs have little incentives to minimize their recourse to bank credit. Greater emphasis on financial discipline in the SEE sector is therefore required. To support this objective, the staff recommended the inclusion of financial costs in evaluating the performance of SEEs, and the adoption of commercial standards in allocating bank credit to nonfinancial public enterprises.

2. Monetary policy

The role of monetary policy in Burma's centrally planned economic system has been largely confined to meeting the credit requirements of the public sector. In particular, priority has been given to the provision of adequate financing to SEEs, which have absorbed the bulk of bank credit. The staff noted that the growth of domestic credit has accelerated in the last two years. In 1984/85 the growth of broad money was well in excess of nominal GDP growth, exerting pressure on free market prices. The estimated sharp drop in the growth rate of broad money in 1985/86 is the direct result of the demonetization measure last November.

The staff also noted that the annual growth rate of quasi-money had decelerated sharply from 50 percent in the early 1980s to 14 percent during the first half of 1985/86. The staff attributed this development to the erosion in real interest rates resulting from the rise in inflation in recent years. It was emphasized that the decline in real interest rates was probably greater than that indicated by movements in the Rangoon consumer price index, which tends to understate the rate of inflation. Considering that nominal interest rates have remained fixed since 1977, and recognizing the need to stimulate domestic savings, the staff recommended the adoption of a more flexible interest rate policy. The authorities, however, felt that real interest rates were still sufficiently attractive to savers.

3. Investment, production, and export promotion policies

During the Third Plan period, the authorities implemented an ambitious public investment program that was primarily aimed at providing infrastructure, expanding agricultural output, and promoting import substitution. The program was financed by rapidly growing private savings, spurred by highly attractive real interest rates, and by external loans, a fair share of which was on commercial terms.

Investment in the agricultural sector, mostly in connection with the implementation of the Whole Township Program, resulted in a significant rise in agricultural output, particularly in paddy production. However, growth tapered off during the Fourth Plan period as the impact of the Program peaked, and also because of adverse weather. In order to revive the growth momentum, the authorities initiated in 1984/85 the second phase of the Whole Township Program, the main elements of which are increased supply and more efficient use of modern inputs and improved extension services. They also initiated the second phase of the Rubber Rehabilitation Program with a view to increasing exports and meeting domestic requirements. An agricultural diversification program aimed at increasing production of exportable nonpaddy crops, most notably pulses and beans, was also launched in the early 1980s. To improve the quality of rice, which is low by international standards, several modern rice mills and storage facilities are currently under construction with financial assistance from China, Japan, the Asian Development Bank, and the World Bank; some of these projects have already been completed.

In the face of a sharp deterioration in the terms of trade and a rapid rise in debt service obligations, the authorities adopted a selective investment policy whose main objectives were to achieve a more rational allocation of resources, reduce the overall level of public sector investment and imports, and contain the level of external commercial borrowing to the extent possible so as to reduce the debt service burden in the medium term. Under this policy, priority was given to completing ongoing projects and to new projects that were less capital intensive, had short gestation periods, a domestic resource base, and good export potential. The authorities were giving particular

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 includes the following features. 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

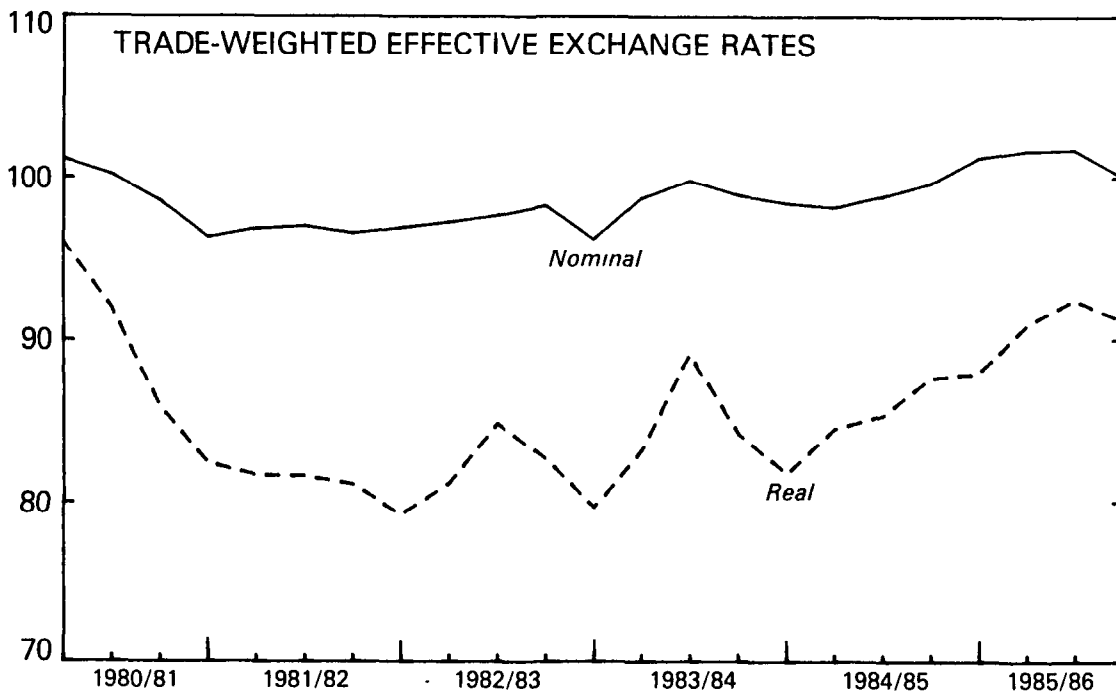
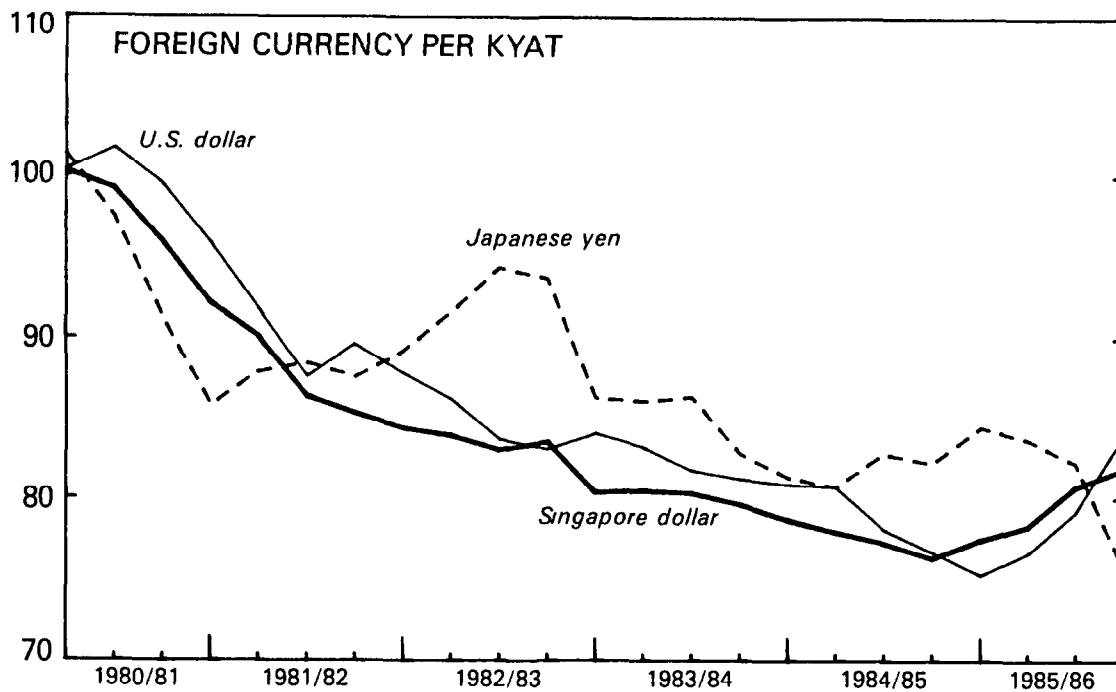
The staff discussed with the authorities several areas in which the quality, timeliness, and consistency of economic and financial statistics need to be improved. There is need to improve the consistency among monetary, fiscal, balance of payments, and external debt statistics, and the coverage of external 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.

CHART 7

BURMA

EXCHANGE RATE DEVELOPMENTS¹, 1980/81-1985/86

(Indices: 1979/80=100)



Sources: International Monetary Fund, *International Financial Statistics*; and staff estimates.

¹ A decline indicates a depreciation of the Kyat

IV. Medium-Term Outlook, 1986/87-1989/90

The staff discussed with the authorities the country's medium-term prospects in light of the guidelines for the Fifth Four-Year Plan (1986/87-1989/90), and the likely availability of domestic and external resources. Initially, the guidelines called for an economic growth rate of 6 percent, supported by an ambitious investment and import program. However, the target was recently scaled down to an average of 4.5 percent over the Plan period, with agriculture growing by 3.9 percent and the nonagricultural sector by 4.7 percent. The staff pointed out that the external consequences of the Plan as envisaged would be difficult to sustain. Given the current low rate of capacity utilization, the achievement of the Plan growth targets would require investment to grow at an annual rate of 5 percent in real terms, and growth in real imports could be held to about 4 percent per annum. Assuming that (i) export volume grows at an annual rate of about 4 percent, because of physical supply constraints, compared with 6 percent during the Fourth Plan; (ii) the terms of trade decline by 10 percent in 1986/87 and remain generally stable thereafter; and (iii) disbursements of concessional loans remain constant in real terms, the scenario projects overall deficits averaging at about SDR 63 million per year during 1986/87-1989/90. If reserves are to be maintained at a level equivalent to about one month of imports and Fund repurchases are taken into account, the average financing gap will be about SDR 82 million per year (Scenario A, Table 5). If this gap were to be closed through borrowing on commercial terms, a high debt service burden would persist over the long term. Outstanding disbursed debt would increase by about SDR 934 million over the Fifth Plan period to SDR 3.39 billion in 1989/90, and debt service payments would average about 43 percent of current receipts, compared with 38 percent during the Fourth Plan period.

In the staff's view, a more likely scenario is one that is consistent with the authorities' present policy of limiting recourse to commercial borrowing (Scenario B, Table 5). However, with a continuation of current policies, this scenario entails a severe import constraint accompanied by corresponding limits on investment and economic growth. The assumptions regarding terms of trade, disbursement of grants and concessional loans, and the target level of reserves are the same as in scenario A, but export volume is assumed to grow at a slightly slower rate of 3.3 percent because of the lower overall growth implications of this scenario. Under these circumstances, the growth of real imports would be limited to an average of about 2 percent per annum. The current account deficit relative to GDP would average 3.2 percent, slightly less than in Scenario A, and the overall balance would record small surpluses. However, the debt service burden is on average projected to remain almost as high as in Scenario A, because of high payments in the first three years of the Fifth Plan period and because of the lower level of exports. The former can be attributed to the peaking of amortization payments in 1986/87-1987/88, resulting from the increased level of commercial borrowing during the Third Plan, Fund

Table 5. Burma: Medium-Term Balance of Payments and
External Debt Outlook, 1986/87-1989/90

(In millions of SDRs; unless otherwise indicated)

| | 1982/83-1985/86
(Fourth Plan) | 1986/87-1989/90
(Fifth Plan) | |
|---|-------------------------------------|---------------------------------|---|
| | | | Scenario A <u>1/</u> Scenario B <u>2/</u> |
| | (Period averages) | | |
| Availability of resources | 798.4 | 889.5 | 883.4 |
| Current receipts <u>3/</u> | 449.7 | 504.8 | 498.7 |
| Nonmonetary capital inflows | 348.7 | 384.7 | 384.7 |
| Use of resources | 844.3 | 952.5 | 865.6 |
| Current payments <u>3/</u> | 746.3 | 830.1 | 750.0 |
| Nonmonetary capital outflows | 98.0 | 122.4 | 115.6 |
| Overall balance | -45.9 | -63.0 | 17.8 |
| Monetary movements | 45.9 | 63.0 | -17.8 |
| Change in reserves (increase -) | 37.2 | -4.5 | -3.2 |
| Fund credit | 2.4 | -14.6 | -14.6 |
| Other liabilities/financing gap <u>4/</u> | 6.3 | 82.1 | -- |
| Memorandum items: | | | |
| Gross reserves | 71.7 | 57.4 | 51.6 |
| In months of imports | 1.4 | 1.0 | 1.0 |
| Current account balance | -296.6 | -325.3 | -251.4 |
| Ratio to GDP <u>5/</u> | -5.0 | -4.0 | -3.2 |
| Ratio to current receipts <u>5/</u> | -67.3 | -64.4 | -50.2 |
| Debt service payments <u>6/</u> | 169.7 | 216.6 | 202.3 |
| Amortization <u>6/</u> | 107.2 | 133.4 | 130.1 |
| Interest | 62.5 | 83.2 | 72.0 |
| Ratio to current receipts <u>5/</u> | 37.6 | 43.3 | 41.1 |
| Outstanding debt | 2,203.6 | 3,048.6 | 2,856.1 |
| Ratio to GDP <u>5/</u> | 35.9 | 37.2 | 36.0 |
| | (Average annual percentage changes) | | |
| Real GDP | 5.6 | 4.5 | 2.8 |
| Export volume | 5.8 | 4.1 | 3.3 |
| Import volume | -5.2 | 4.0 | 1.8 |
| Terms of trade | -8.3 | -2.2 | -2.2 |

Sources: Data provided by the Burmese authorities; and staff estimates.

1/ Scenario A represents staff estimates of the external consequences of achieving an average real growth rate of 4.5 percent, as targeted in the Fifth Four-Year Plan. The scenario attributes debt service payment on commercial terms to the financing gap.

2/ Under Scenario B, imports are assumed to be constrained to prevent the emergence of a financing gap.

3/ Includes private transfers.

4/ Borrowing for 1982/83-1985/86; financing gap for scenario projections.

5/ In percent.

6/ Includes Fund repurchases.

repurchases, and the expiration of grace periods on some older concessional loans. Debt service payments are projected to increase from 47 percent of current receipts in 1985/86 to 50 percent in 1986/87, but gradually decline thereafter to 33 percent in 1989/90. Outstanding disbursed debt would rise from SDR 2.45 billion in 1985/86 to SDR 3.16 billion in 1989/90, though relative to GDP it would remain stable at about 36 percent.

While the outcome of the current account and the overall balance is more favorable in Scenario B under the above assumptions, growth would be constrained below the Plan target. The impact of the import constraint would be felt almost immediately by the manufacturing sector through shortages of imported inputs and spare parts. In due course agricultural growth would also decline owing to limited availability of imported fertilizer, adversely affecting the prospects of growth of export volumes. This in turn would result in a further slowdown in imports and growth over the longer term.

These results suggest that because of the external constraint on import growth, demand management policies alone will not restore conditions conducive to adequate growth, and that supply oriented measures are needed. The focus of policies should, therefore, be on making more efficient use of available resources and on increasing the supply of traded goods through the adoption of structural adjustment measures, including pricing reforms and other measures to mobilize domestic resources, supported by the application of an active exchange rate policy.

V. Staff Appraisal

During the past four years, Burma's overall economic situation has deteriorated steadily. While the rate of real GDP growth was satisfactory, albeit lower than that achieved during the previous two Plans, other macroeconomic trends were not favorable. Price inflation, which was negligible during the Third Plan period, accelerated significantly, and the internal and external imbalances that emerged in 1981/82 persisted in succeeding years. The financial position of the public sector weakened considerably owing to the low buoyancy of the tax system, and the declining profitability of SEEs. The external position deteriorated sharply owing to the combined influences of adverse developments in the terms of trade, and a rapid rise in debt service obligations. Although financial policies were tightened beginning in 1983/84, mainly through cuts in investment spending and imports, the external position remained under pressure. With no fundamental change in policies, the economic situation is not expected to improve over the medium term.

In order to restore conditions conducive to growth and financial stability, the underlying structural weaknesses and rigidities in the economy have to be addressed: (1) Burma's export base is narrow and

export earnings are vulnerable to external shocks; the authorities' reliance on nonprice incentives has had only limited effect in expanding production and diversifying output and exports; (2) administered prices have remained virtually unchanged since 1977/78; as they have become increasingly out of line with costs and with international prices the financial position of SEEs has deteriorated. This, together with the low elasticity of the tax system and the existence of a large unofficial sector, has further weakened resource mobilization in the public sector in recent years; (3) private sector savings have also declined as real interest rates have declined with higher inflation; nominal interest rates have remained unchanged since 1977.

The persistence of high overall public sector deficits and the rise in domestic bank credit to the SEEs, despite the curtailment in public sector investment, underscore the need for increased domestic resource mobilization. Greater tax effort and improved financial performance in the SEE sector are needed. A new round of major price adjustments is required to strengthen the financial position of SEEs. Such price adjustments need to be accompanied by increased attention to financial control of SEEs, and by the inclusion of financial costs in the evaluation of their performance.

Monetary growth was recently curtailed sharply through the demonetization of bank notes accounting for about 50 percent of the currency in circulation. The impact of this measure can only be temporary, and credit expansion should be effectively controlled. This requires that recourse to bank credit by SEEs is carefully scrutinized and that commercial criteria are applied in allocating credit to them. Higher real interest rates are required to encourage more productive use of available resources and increase private domestic savings.

Achievement of substantial economic growth with balance of payments viability requires the restoration of incentives in the agricultural sector through comprehensive price adjustments. Procurement prices, as well as the prices of agricultural inputs and of domestically marketed output, need to be adjusted to levels that provide adequate producer margins. Pricing measures along these lines, supported by an active exchange rate policy, will be needed in order to ensure an expansion of the export base and a more efficient allocation of resources. Because prices have remained fixed over a long period of time, the adjustments now required are large; however, the inflationary consequences are likely to be transitory and would be outweighed by the benefits of sustained growth with external viability over the medium term.

A major objective of the Government's selective investment policy was to avoid, to the extent possible, external borrowing on commercial terms. Notwithstanding the implementation of this policy, the external debt service ratio has risen significantly and is projected to remain high. Hence the emphasis in the future should be on increasing export earnings so as not to adversely affect investment and economic growth.

Burma maintains a restrictive trade and payments system. The staff encourages the authorities to implement policies that would permit a significant liberalization of these restrictive practices.

It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Burma, in the light of the 1986 Article IV consultation with Burma conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).
2. Burma maintains restrictions on payments and transfers for current international transactions in accordance with Article XIV as described in SM/86/97 and SM/86/.... The Fund encourages the authorities to implement policies that would permit a significant liberalization of these restrictive practices.

Table 6. Burma: Output and Prices, 1980/81-1985/86

(Percentage changes)

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85
Prov. | 1985/86
Est. |
|--|---------|---------|---------|---------|------------------|-----------------|
| GDP at 1969/70 prices | 7.9 | 6.3 | 5.6 | 4.4 | 5.6 | 6.2 |
| Agriculture | 12.7 | 8.8 | 6.8 | 4.9 | 3.0 | 4.2 |
| Nonagriculture | 6.2 | 5.4 | 5.1 | 4.2 | 6.7 | 7.0 |
| Of which: | | | | | | |
| Livestock and
fisheries | 4.2 | 4.0 | 3.2 | 7.3 | 9.7 | 5.4 |
| Manufacturing and
processing | 7.5 | 7.6 | 5.3 | 3.3 | 7.3 | 8.6 |
| Services | 7.0 | 7.2 | 6.2 | 4.2 | 6.0 | 7.0 |
| Trade | 4.4 | 2.4 | 3.5 | 4.1 | 5.1 | 5.3 |
| Implicit GDP deflator | 1.2 | 4.4 | 3.4 | 2.0 | 2.8 | 0.4 |
| Consumer price index at
Rangoon (annual
average) | -0.2 | 1.4 | 5.2 | 5.7 | 5.3 | 6.8 <u>1/</u> |
| Food and beverages | -1.0 | -3.0 | 5.8 | 8.2 | 3.0 | 9.7 <u>1/</u> |
| Other items | 1.2 | 9.4 | 4.1 | 1.3 | 9.6 | 1.8 <u>1/</u> |

Source: Data provided by the Burmese authorities.

1/ The 12-month period ended December.

Table 7. Burma: Interest Rates, 1975-85

(In percent per annum)

| | Effective Date | |
|--|------------------------------|----------------------------|
| | Apr. 1975
to
Nov. 1977 | Nov. 1977
to
Present |
| Deposit rates | | |
| Fixed deposits | | |
| Three months | 0.50 | 1.00 |
| Six months | 0.75 | 1.50 |
| Twelve months | 1.25 | 2.50 |
| Twenty four months | 2.25 | 3.50 |
| Savings bank accounts | | |
| Basic rate | 6.00 | 8.00 |
| Premium on three-year
minimum balance | 2.00 | 2.00 |
| Savings certificates | | |
| Twelve-year maturity | 7.60 | 10.90 |
| Lending rates | | |
| State corporations | | |
| Working capital loans <u>1/</u> | 6.00 | 8.00 |
| Financial loans <u>1/</u> | 6.00 | 8.00 |
| Term loans | 3.00 | 5.00 |
| Cooperatives | | |
| Working capital loans <u>2/</u> | 6.00 | 8.00 |
| Term loans | 7.00 | 9.00 |
| Private sector | | |
| Agriculture | | |
| To village banks <u>3/</u> | 6.00 | 8.00 |
| To farmers <u>4/</u> | 12.00 | 12.00 |
| House repair and other loans | 8.00 | 10.00 |
| Small personal loans | 24.00 | 24.00 |

Source: Data provided by the Burmese authorities.

1/ Penalty rates are 10 percent.

2/ Overdrafts are charged 0.5 percent above loan rates.

3/ Lending rate of the Myanma Agricultural Bank.

4/ Relending rate of village banks.

Table 8. Burma: Major Sources of Public Sector Revenue,
1980/81-1985/86

| | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (In millions of kyats) | | | | | | |
| SEE related revenue | <u>4,658</u> | <u>5,183</u> | <u>5,971</u> | <u>6,526</u> | <u>6,315</u> | <u>6,460</u> |
| Commodities and services tax | 2,358 | 2,546 | 2,630 | 2,736 | 2,748 | 2,800 |
| Contributions to Union Government | 1,712 | 2,217 | 1,954 | 2,062 | 2,071 | 1,733 |
| Current surplus after contribution | 588 | 420 | 1,387 | 1,728 | 1,496 | 1,927 |
| Customs duties | <u>846</u> | <u>1,114</u> | <u>1,297</u> | <u>1,144</u> | <u>1,078</u> | <u>1,060</u> |
| Other revenue | <u>1,972</u> | <u>1,909</u> | <u>2,377</u> | <u>2,178</u> | <u>2,296</u> | <u>2,465</u> |
| Tax | 507 | 597 | 675 | 722 | 775 | 723 |
| Nontax | 1,465 | 1,312 | 1,702 | 1,456 | 1,521 | 1,742 |
| Total revenue | <u>7,476</u> | <u>8,206</u> | <u>9,645</u> | <u>9,848</u> | <u>9,689</u> | <u>9,985</u> |
| (Percentage changes) | | | | | | |
| SEE related revenue | 7.8 | 11.3 | 15.2 | 9.3 | -3.2 | 2.3 |
| Customs duties | 3.4 | 31.7 | 16.4 | -11.8 | -5.8 | -1.7 |
| Other | 17.6 | -3.2 | 24.5 | -8.4 | 5.4 | 7.4 |
| Total revenue | 9.7 | 9.8 | 17.5 | 2.1 | -1.6 | 3.1 |
| Memorandum items: | | | | | | |
| Total revenue/GDP | 19.4 | 19.1 | 20.6 | 19.8 | 17.9 | 17.3 |
| Tax revenue (mn. kyats) | 3,711 | 4,257 | 4,602 | 4,602 | 4,601 | 4,583 |
| (In percent of GDP) | (9.6) | (9.9) | (9.8) | (9.2) | (8.5) | (7.9) |

Source: Data provided by the Burmese authorities.

ANNEX I

BURMA

Basic Data

| | | | | | |
|---|--|---------|---------|------------------|-------------------|
| Area | 676,540 sq. km. (261,228 sq. miles) | | | | |
| Population (1984/85) | 36.4 mn. (annual growth rate of 2.0 percent) | | | | |
| Gross domestic product (1984/85) | SDR 6,361 million (K 54,124 mn.) | | | | |
| Per capita GDP (1984/85) | SDR 175 (K 1,487) | | | | |
| | 1981/82 | 1982/83 | 1983/84 | 1984/85
Prov. | 1985/86
Est. |
| | | | | | |
| | (Percentage changes) | | | | |
| Output and prices | | | | | |
| GDP at constant market prices | 6.3 | 5.6 | 4.4 | 5.6 | 6.2 |
| GDP deflator | 4.6 | 3.1 | 2.0 | 2.9 | 0.4 |
| Consumer prices (annual average) | 1.4 | 5.2 | 5.7 | 5.2 | 6.8 ^{1/} |
| | (In percent of GDP) | | | | |
| Investment and savings | | | | | |
| Domestic savings ^{2/} | 16.7 | 13.4 | 14.5 | 11.8 | 13.2 |
| Domestic gross investment | 23.0 | 22.2 | 18.0 | 15.1 | 16.6 |
| Of which: fixed investment | 20.1 | 21.5 | 18.2 | 15.6 | 16.9 |
| Consolidated public finance ^{3/} | | | | | |
| Total receipts | 19.1 | 20.6 | 19.8 | 17.9 | 17.3 |
| Excluding grants | 18.1 | 19.0 | 18.7 | 17.0 | 16.2 |
| Of which: tax revenue | 9.9 | 9.8 | 9.2 | 8.5 | 7.9 |
| Total expenditure | 28.3 | 29.9 | 27.2 | 24.8 | 26.0 |
| Current expenditure | 13.5 | 13.3 | 13.6 | 13.3 | 13.7 |
| Capital expenditure and net lending | 14.8 | 16.6 | 13.6 | 11.5 | 12.3 |
| Overall balance | -9.2 | -9.3 | -7.4 | -6.9 | -8.7 |
| Domestic bank financing | 5.4 | 5.0 | 5.1 | 5.4 | 7.1 |
| Foreign financing | 4.0 | 4.6 | 2.7 | 1.9 | 2.2 |
| | (Percentage changes; end of period) | | | | |
| Money and credit | | | | | |
| Domestic credit | 21.5 | 14.2 | 13.8 | 16.7 | 18.1 |
| Public sector, net | 23.9 | 16.5 | 15.1 | 17.8 | 19.1 |
| Private sector | 5.9 | -3.5 | 2.1 | 4.4 | 5.7 |
| Broad money | 17.1 | 12.7 | 16.2 | 14.7 | 2.7 |
| Income velocity (GDP/broad money) | 3.3 | 3.1 | 2.9 | 2.7 | 2.9 |
| Interest rate (one-year savings bank account) | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| | (Percentage changes) | | | | |
| Balance of payments | | | | | |
| Export value ^{4/} | 8.9 | -16.5 | 13.8 | -7.2 | 3.0 |
| Of which: rice | 14.7 | -32.8 | 41.8 | -26.4 | ... |
| Import value ^{4/} | 29.3 | 15.4 | -28.7 | -2.3 | 3.0 |
| Export volume | 0.7 | 2.8 | 12.8 | -11.2 | 21.6 |
| Import volume | 22.6 | 14.9 | -29.2 | -3.0 | 2.5 |
| Export unit value ^{4/} | 8.1 | -18.8 | 0.9 | 4.4 | -15.3 |
| Import unit value ^{4/} | 5.5 | 0.5 | 0.6 | 0.7 | 0.5 |
| Terms of trade | 2.5 | -19.2 | 0.3 | 3.7 | -15.7 |
| Current account balance/GDP ^{5/} | -6.3 | -9.1 | -3.7 | -3.5 | -3.6 |
| Overall balance (in millions of SDRs) | -49 | -138 | 19 | -49 | -15 |
| Gross official reserves (SDRs mns.) ^{6/} | 195 | 73 | 110 | 58 | 47 |
| (In months of imports) | 3.4 | 1.1 | 2.3 | 1.2 | 1.0 |
| | (In millions of SDRs) | | | | |
| External debt | | | | | |
| Medium- and long-term debt | 1,472 | 1,815 | 2,085 | 2,239 | 2,394 |
| Use of Fund credit | 49 | 65 | 83 | 75 | 58 |
| Total debt | 1,521 | 1,880 | 2,168 | 2,314 | 2,452 |
| (In percent of GDP) | 30.2 | 34.2 | 37.0 | 36.4 | 36.1 |
| Debt service | 124 | 124 | 164 | 174 | 218 |
| In percent of current receipts, including private remittances | 25.6 | 29.7 | 34.4 | 38.8 | 47.4 |
| | (Percentage changes) | | | | |
| Exchange rate indices, trade weighted ^{7/} | | | | | |
| Nominal effective rate | 0.6 | -0.7 | 2.3 | 2.8 | 0.4 |
| Real effective rate | -3.9 | 0.5 | 2.7 | 7.5 | 4.1 |

Sources: Data provided by the Burmese authorities; and staff estimates.

^{1/} During the 12-month period ended December 1985.

^{2/} Staff estimates.

^{3/} Figures for 1985/86 are revised estimates.

^{4/} In SDRs.

^{5/} Excludes official grants.

^{6/} At end of year.

^{7/} Change in the index between fourth quarters of the fiscal years, except for 1985/86 which is the change between third quarters.

Burma-Fund Relations

(As of March 31, 1986)

I. Membership Status

- (a) Date of membership: January 3, 1952
(b) Status: Article XIV

A. Financial Relations

(Amounts in millions of SDRs, unless otherwise indicated)

II. General Department

- (a) Quota: 137.0
(b) Fund holdings of kyats: 195.4
(142.6 percent of quota)
(c) Fund credit: 58.4
(42.6 percent of quota)
Credit tranches: 6.9
(5.0 percent of quota)
Compensatory financing facility: 51.5
(37.6 percent of quota)
(d) Reserve tranche position: --
(e) Current operational budget: None
(f) Lending to the Fund: None

III. Stand-By or Extended Arrangements and Special Facilities

- (a) Current stand-by or extended arrangements: None
(b) Previous stand-by and extended arrangements:

| <u>Type of Arrangement</u> | <u>Date of Approval</u> | <u>Duration</u> | <u>Amount</u> | <u>Utilization</u> |
|----------------------------|-------------------------|-----------------|---------------|--------------------|
| SBA | 11/22/74 | 1 year | 31.5 | 31.5 |
| SBA | 05/06/77 | 1 year | 35.0 | 35.0 |
| SBA | 07/28/78 | 1 year | 30.0 | 30.0 |
| SBA | 06/15/81 | 1 year | 27.0 | 27.0 |

Burma--Fund Relations (continued)

(c) Special facilities:

| <u>Type</u> | <u>Date of Approval</u> | <u>Amount</u> |
|-------------|-------------------------|---------------|
| CFF | 12/20/82 | 25.60 |
| CFF | 08/26/83 | 29.15 |

IV. SDR Department

(a) Net cumulative allocations: 43.5

(b) Holdings: 0.08
(0.18 percent of net cumulative allocation)

(c) Current Designation Plan: None

V. Administered Accounts

(a) Trust Fund loans:

(i) Disbursed: 58.6

(ii) Outstanding: 36.7

(b) SFF Subsidy Account: None

VI. Overdue Obligations to the Fund: None

VII. Use of Fund Resources to Date: Yes

B. Nonfinancial Relations

VIII. Exchange Rate Arrangement: The kyat has been pegged to the SDR at K 8.50847 per SDR since May 2, 1977. Burma applies margins of 2 percent in respect of spot exchange transactions.

IX. Last Article IV Consultation: The Executive Board discussed the staff report on March 1, 1985. Staff discussions were held during November 18-30, 1984 (SM/85/32; SM/85/55). The Executive Board adopted the following decision:

Burma--Fund relations (concluded)

"The Fund takes this decision in concluding the 1984 Article XIV consultation with Burma, in the light of the 1984 Article IV consultation with Burma conducted under Decision No. 5392-(77/63), adopted April 29, 1977

(Surveillance over Exchange Rate Policies).

Burma maintains restrictions on payments and transfers for current international transactions in accordance with Article XIV as described in SM/85/32 and SM/85/55. The Fund encourages the authorities to restore a flexible policy with regard to the foreign exchange budget for cash imports and related import procedures and to resume their liberalization of the trade and exchange system."

It was proposed to hold the next Article IV consultation on the standard 12-month cycle.

X. Technical Assistance:

| | |
|---------------------------|--|
| (a) CBD: | None. |
| (b) Fiscal: | None. |
| (c) Bureau of Statistics: | Statistical assistance on money and banking in January 1983. |

XI. Resident Representative/Advisor: None.

World Bank Group Operations in Burma

Burma became a member of the World Bank in 1952, IFC in 1956, and IDA in 1962. During 1956-61, the Bank made three loans totaling \$33.1 million, all for transportation projects. No lending was requested during 1962-72. Lending resumed in 1973, and 25 IDA credits totaling \$632.7 million had been extended by the end of October 1984, of which \$337.2 million had been disbursed. IFC has made no investments in Burma. The World Bank Group currently accounts for about 12 percent of Burma's total external debt outstanding and about 1 percent of its debt service. About 45 percent of total IDA disbursements was in support of agricultural projects, including irrigation, rubber, livestock, seed development, and grain storage projects (Table 1). About 20 percent was for transport projects, and the remaining 35 percent for projects in the forestry, mining, manufacturing, construction industry, power, and telecommunications sectors. Irrigation, seed development, and grain storage projects are presently under discussion.

In addition to providing financial assistance, the World Bank has been providing advice on the formulation and implementation of development policies. Recent policy recommendations have emphasized the need to improve the efficiency of public enterprises, to diversify exports, review pricing structures, and to increase domestic resource mobilization.

Table 1. Burma: IBRD and IDA Lending

(As of December 31, 1985)

| | | Disbursed | | | Undisbursed |
|---|---|-------------|-------------|---------------|-------------|
| | IBRD | IDA | Total | <u>1/</u> | |
| (In millions of U.S. dollars) | | | | | |
| Agriculture | -- | 165.0 | 165.0 | (44.5) | 132.0 |
| Forestry | -- | 42.6 | 42.6 | (11.5) | 15.9 |
| Mining | -- | 15.8 | 15.8 | (4.3) | -- |
| Manufacturing | -- | -- | -- | (--) | 28.1 |
| Construction industry | -- | 7.1 | 7.1 | (1.9) | 10.9 |
| Power | -- | 20.3 | 20.3 | (5.5) | 50.4 |
| Transport | 33.1 | 42.3 | 75.4 | (20.4) | 46.2 |
| Telecommunications | -- | <u>44.1</u> | <u>44.1</u> | <u>(11.9)</u> | <u>12.0</u> |
| Total | 33.1 | 337.2 | 370.3 | (100.0) | 295.5 |
| Repayments | 33.1 | 0.7 | 0.7 | | |
| Debt outstanding
(including undisbursed) | -- | 632.0 | 632.0 | | |
| Commitments for FY 1984 | -- | 54.7 | 54.7 | | |
| Last economic mission: | June 1985; an economic report "Burma: Policies and Prospects for Economic Adjustment and Growth" was prepared by the mission and was issued on November 18, 1985. | | | | |
| Burma Aid Group: | The last meeting was held on January 14, 1986, in Tokyo, under the chairmanship of the IBRD. The aid pledges totaled about \$1.0 billion for the next two years. | | | | |

1/ Figures in parentheses represent percentage of total.

Burma--Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

| | | <u>Latest Data in
April 1986 IFS</u> |
|--------------------|--------------------------------|--|
| Real Sector | - National Accounts | 1984 |
| | - Prices (consumer) | December 1985 |
| | - Production | n.a. |
| | - Employment | n.a. |
| | - Earnings | n.a. |
| Government Finance | - Deficit/Surplus | 1982 |
| | - Financing | 1982 |
| | - Debt | n.a. |
| Monetary Accounts | - Monetary Authorities | July 1985 |
| | - Deposit Money Banks | July 1985 |
| | - Other Financial Institutions | n.a. |
| External Sector | - Merchandise Trade: Value | January 1986 |
| | Unit value | January 1986 |
| | - Balance of Payments | QIV - 1984 |
| | - International Reserves | February 1986 |
| | - Exchange Rates | February 1986 |

2. Outstanding Statistical Issues

a. Monetary accounts

The reporting lag, which is currently about eight months, needs to be shortened substantially. Major changes in the classification of the monetary accounts, designed to reduce discrepancies between the monetary, fiscal, and balance of payments data, were proposed by the Bureau of Statistics on the basis of a technical assistance mission in July 1983. The proposal is still under review by the authorities.

b. Government finance

Data on actual budgetary outcome are available only after a two-year lag. It would be desirable to include data on public enterprises (SEEs), an important sector of the economy, along with statistics on government finance.

c. External sector

Data on balance of payments transactions are fairly comprehensive but corresponding stock data in respect of the capital account items are not available. There is a substantial discrepancy between data on imports as reported by the authorities and the corresponding export data as reported by partner countries. To the extent that this is due to the exclusion of late reporting of imports in the monthly data, the discrepancy could be reduced by the inclusion of such figures in the annual totals, if not in the revised monthly figures.

