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January 31, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Burma - Staff Report for the 1984 Article IV Consultation

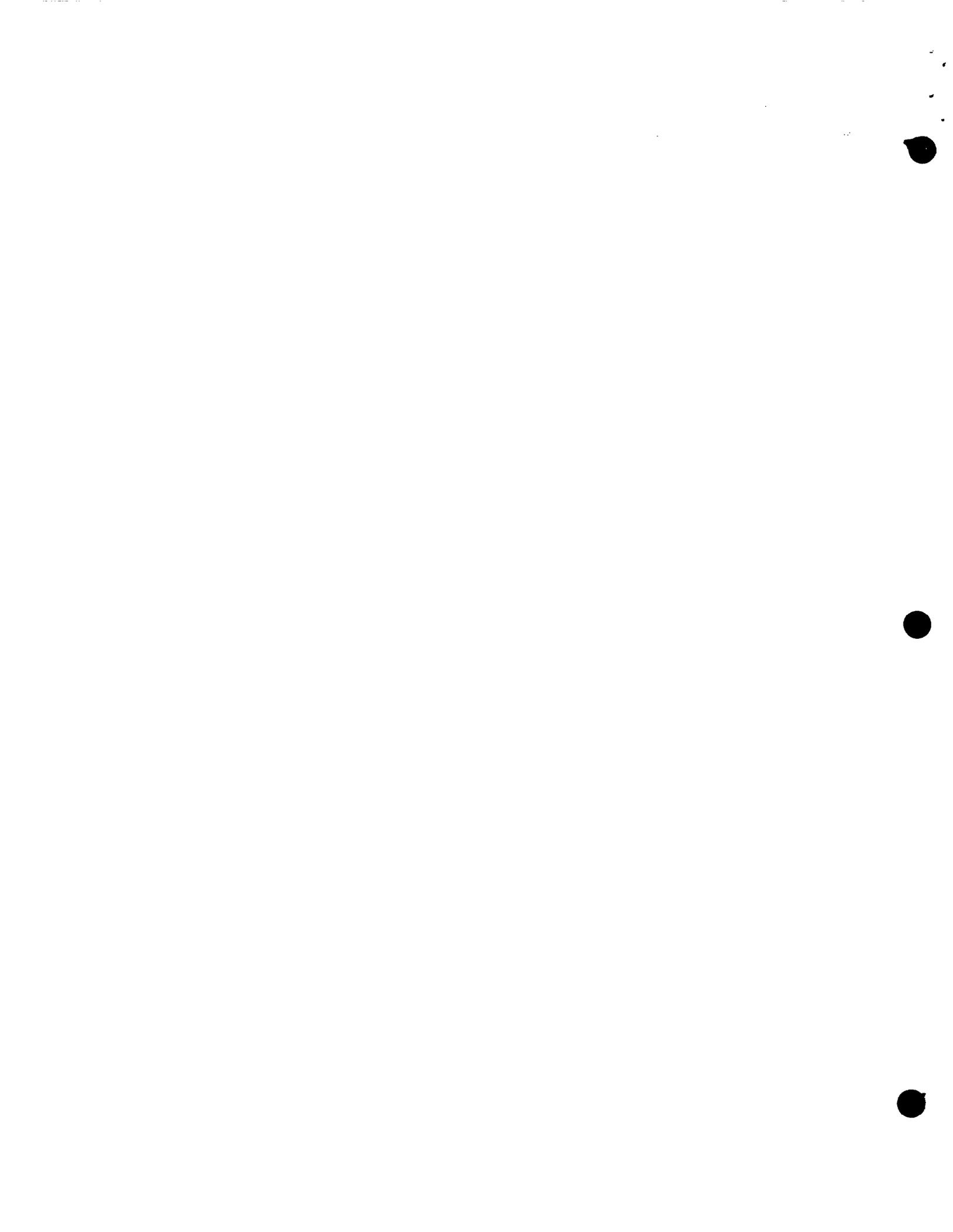
Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Burma. A draft decision appears on page 20.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Al-Eyd (ext. 7335).

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INTERNATIONAL MONETARY FUND

BURMA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984
Article IV Consultation with Burma

Approved by P.R. Narvekar and Eduard Brau

January 30, 1985

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I. Introduction

The 1984 Article IV consultation discussions with Burma were held in Rangoon during November 18-30, 1984. Discussions were held with the Deputy Minister of Planning and Finance, U Maung Shein; the Chairman of the Union of Burma Bank, U Aung Sin; and senior officials of various ministries and public enterprises. The staff team consisted of Mr. Al-Eyd (ASD, Head), Mrs. Meesook (ETR), Mr. Ishii (ASD), Mr. Feldman (EP, ASD), and Ms. Murrell (ASD).

Burma continues to avail itself of the transitional arrangements of Article XIV.

II. Economic Background

Burma's economic performance during the five-year period ended 1981/82 was impressive. 1/ Real GDP growth averaged 6.4 percent, the rate of inflation remained low, and the overall balance of payments recorded surpluses during most of these years. These favorable developments were mainly due to the comprehensive economic reform initiated in 1976/77, the implementation of the Whole Township Program for agricultural development, 2/ and the undertaking of high levels of public investment supported by a substantial rise in domestic savings and foreign borrowing. During this period, public sector investment was concentrated in infrastructure and import substitution industries to meet rising domestic demand.

In 1982/83, a sharp deterioration in the terms of trade significantly weakened Burma's external position and adversely affected its overall economic performance. Despite efforts to sustain rapid economic expansion through increased investment and imports, real GDP growth declined slightly to 6 percent mainly because of slower growth in the agricultural sector (Table 1 and Appendix Table 6). The rate of inflation, measured as the rate of change in the Rangoon consumer price index, accelerated to 5 percent, entirely due to increases in the prices of certain food items such as fish and edible oil. 3/ The sharp decline in prices of major exports, in particular rice, led to a marked

1/ The fiscal year ends on March 31.

2/ The prominent features of the Whole Township Program include provision of modern agricultural inputs, such as chemical fertilizers and high-yield variety seeds; provision of agricultural extension services; mobilization of labor during planting and harvesting seasons; and coordination of credit allocation to participating farmers.

3/ The underlying rate of inflation is believed to be higher than the recorded inflation rate, because officially priced items account for about 40 percent of the total weight in the Rangoon CPI. With few exceptions, administered prices have not been raised since 1977/78.

Table 1. Burma: Major Economic and Financial Indicators,
1981/82-1984/85 1/

(Percentage changes, unless otherwise indicated)

	1981/82	1982/83	1983/84 Prov.	1984/85 Staff Est.
Output and prices				
Nominal GDP	11.3	8.1	7.0	10.8
Real GDP	6.3	6.0	5.6	4.5
Consumer prices <u>2/</u>	1.4	5.2	5.7	6.0
Investment and savings				
Gross fixed investment	19.5	16.3	-7.2	-0.9
Domestic savings	5.3	-9.3	24.4	1.7
Consolidated public finance				
Total receipts	9.8	17.5	-4.8	-4.4
Total expenditure	19.8	14.4	-1.8	1.0
Of which: capital expenditure and net lending	22.1	20.8	-10.7	-5.3
Overall balance (in percent of GDP)	-9.4	-9.4	-9.2	-9.3
Money and credit				
Domestic credit	21.5	14.2	13.8	16.9 <u>3/</u>
Broad money	17.1	12.7	16.2	15.6 <u>3/</u>
Balance of payments				
Export value	8.9	-16.5	16.5	10.1
Import value	29.3	15.4	-24.3	2.3
Terms of trade	2.5	-19.2	-2.6	-1.9
Current account balance (in percent of GDP)	-6.3	-9.1	-4.5	-3.7
International reserves in months of imports <u>4/</u>	3.4	1.1	2.2	2.2

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 September 1984.

4/ At the end of period.

deterioration in the balance of payments position. The external current account deficit rose sharply to about 9 percent of GDP, the overall balance of payments recorded a deficit of SDR 138 million, and international reserves were reduced by more than half to a level equivalent to one month of imports.

The consolidated public sector budget recorded a large deficit (9.4 percent of GDP) that was financed by domestic bank and foreign borrowings in roughly equal proportions. Growth in total domestic credit fell to 14 percent, mainly due to a slower expansion in public sector credit and a reduction in private sector credit. The deceleration in domestic credit expansion, together with a large reduction in net foreign assets, led to a slowdown in broad money growth to 13 percent.

1. Developments in 1983/84

In 1983/84, with the objective of reducing both internal and external imbalances, the authorities adopted an adjustment program, the most important elements of which were significant reductions in both public investment and imports. Preliminary data indicate that public fixed investment fell by about 11 percent, almost entirely due to reduced investment undertaken by State Economic Enterprises (SEEs), and that imports declined by about 25 percent in real terms. Stocks of raw materials and intermediate goods were reduced considerably in order to ensure adequate input supplies needed to sustain industrial output growth and to expand export volumes. Despite these efforts, real GDP growth declined slightly to 5.6 percent.

The decline in real GDP growth was mainly due to the slower growth in agriculture caused by the stagnation of yields and the impact of adverse weather on some major crops (Chart 1). The average yield of major crops remained virtually unchanged, due to a 3 percent decline in the yield of paddy, which grew by an annual average rate of 10 percent during the past six years. The rate of inflation rose to 5.7 percent, reflecting lower output growth combined with higher liquidity expansion.

The implementation of the selective investment policy announced in mid-1982/83 helped reduce the gap between investment and domestic savings (Chart 2). Preliminary data indicate that much of the reduction in investment took place in the mining sector, where a copper mine project was in the final stage of completion. In spite of the sharp curtailment in public capital expenditures, the overall public sector deficit remained above 9 percent of GDP. A greater portion of the deficit than in 1982/83 was financed by domestic bank borrowing (Table 2). The reduction in capital expenditure was virtually offset by higher current spending caused by increases in interest payments and operating costs associated with newly completed agricultural and public works projects. Moreover, public sector receipts declined by an

Table 2. Burma: Summary of Consolidated Public Sector Budget,
1980/81-1984/85

(In millions of kyats)

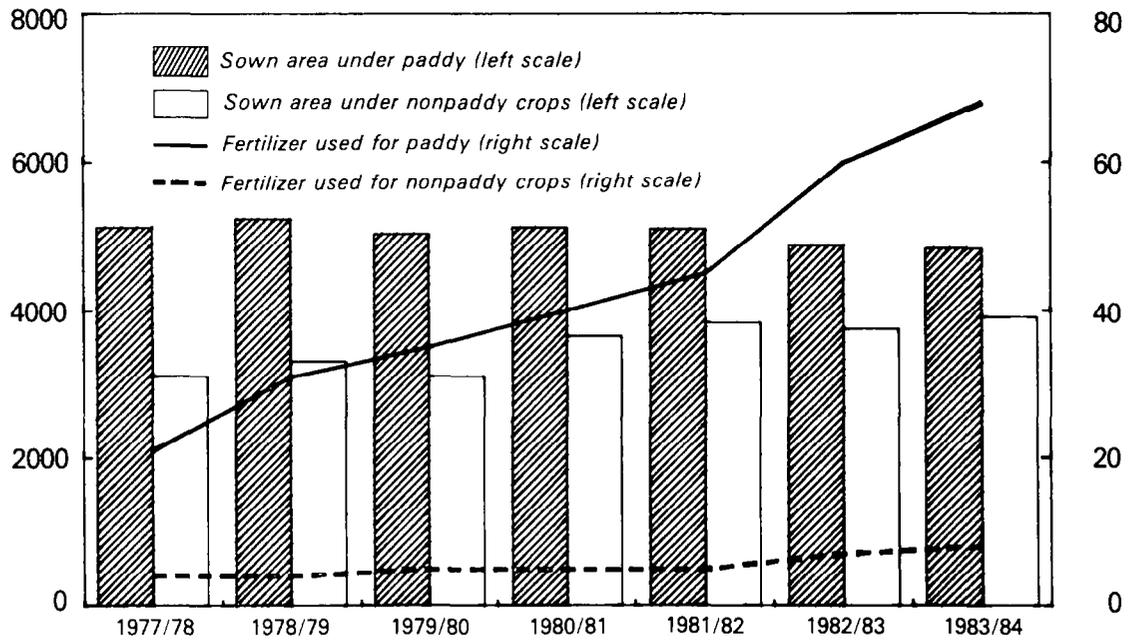
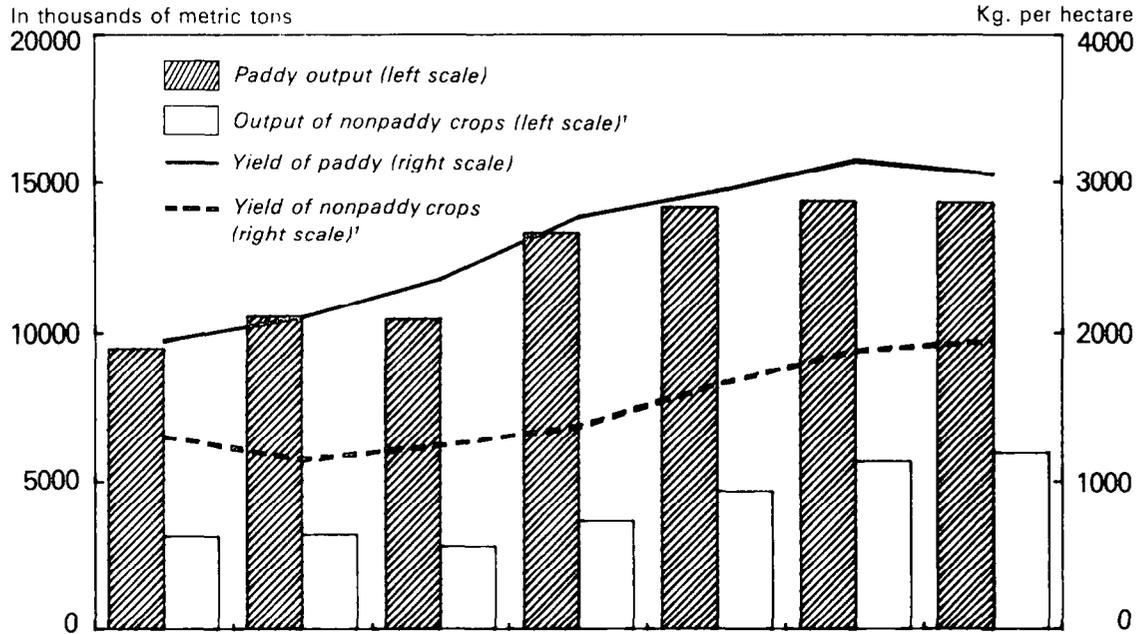
	1980/81	1981/82	1982/83	1983/84 Revised Est.	1984/85 Staff Est.
Receipts	<u>7,476</u>	<u>8,206</u>	<u>9,645</u>	<u>9,178</u>	<u>8,774</u>
Union Government	6,723	7,583	8,033	7,914	7,458
Tax revenue	(3,711)	(4,257)	(4,602)	(4,556)	(4,672)
SEE contributions	(1,712)	(2,217)	(1,954)	(2,050)	(1,630)
Other non-tax revenue	(1,300)	(1,109)	(1,477)	(1,308)	(1,156)
Local authorities	165	203	225	235	216
SEE current surplus	588	420	1,387	1,029	1,110
Expenditures	<u>10,207</u>	<u>12,230</u>	<u>13,994</u>	<u>13,744</u>	<u>13,886</u>
Current	4,941	5,798	6,224	6,802	7,309
Union Government	(4,818)	(5,663)	(6,081)	(6,640)	(7,137)
Of which: Interest payments	(891)	(1,210)	(1,485)	(1,750)	(2,073)
Local authorities	(123)	(135)	(143)	(162)	(172)
Capital ^{1/}	5,266	6,432	7,770	6,942	6,577
Union Government	(1,201)	(1,263)	(1,871)	(1,776)	(1,696)
Local authorities	(71)	(66)	(66)	(86)	(80)
SEEs	(3,994)	(5,103)	(5,833)	(5,080)	(4,801)
Overall balance (deficit -)	<u>-2,731</u>	<u>-4,024</u>	<u>-4,349</u>	<u>-4,566</u>	<u>-5,112</u>
Financing	2,731	4,024	4,349	4,566	5,112
Foreign loans (net)	963	1,738	2,151	1,846	1,702
Domestic financing	1,768	2,286	2,198	2,720	3,410
Bank ^{2/}	(1,855)	(2,378)	(2,310)	(2,887)	(3,623)
Nonbank	(-87)	(-92)	(-112)	(-167)	(-213)

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

^{1/} Includes net lending.

^{2/} Differs from the monetary survey statistics due to different closing dates.

CHART 1
BURMA
OUTPUT, YIELD AND PRODUCTION FACTORS OF
MAJOR CROPS, 1977/78-1983/84

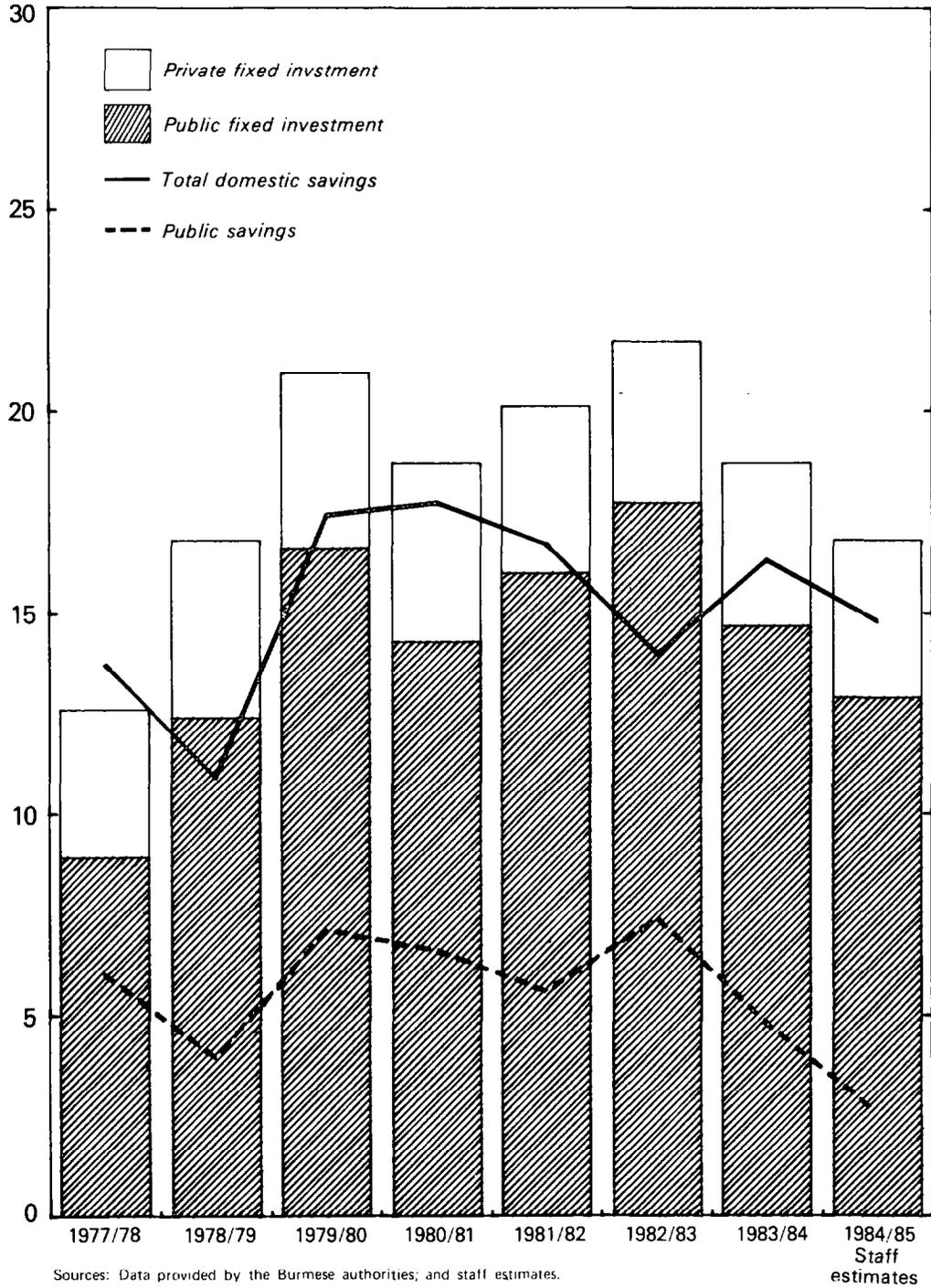


Sources: Data provided by the Burmese authorities; and staff estimates.

¹Major nonpaddy crops include cotton, groundnuts, maize, pulses, rubber, sesame, sugarcane, tobacco, and wheat.



CHART 2
BURMA
GROSS FIXED INVESTMENT AND DOMESTIC SAVINGS,
1977/78-1984/85
(In percent of GDP)



1
2
3

4

5

estimated 5 percent, as tax revenue fell by 1 percent and the combined current surpluses of SEEs declined by 26 percent. ^{1/} The decline in tax revenue was mainly due to a significant fall in customs receipts caused by lower imports. The fall in SEEs' current surpluses was due to weaker profitability caused mainly by rising costs and inflexible pricing policies. Efforts to improve SEE efficiency through the use of the bonus system ^{2/} and the introduction of a piecework wage system were not sufficient to offset increased operating costs.

The credit and monetary program for 1983/84 was designed to accommodate the needs of nonfinancial SEEs and to maintain price stability. Though the deterioration in the profitability of SEEs raised their working capital needs, reduced public investment lowered the growth of public sector net credit from 17 percent in 1982/83 to 15 percent in 1983/84 (Table 3). However, total domestic credit growth remained at 14 percent as credit to the private sector, which declined by about 4 percent in the preceding year, rose by 2 percent. The growth of broad money accelerated from 13 percent in 1982/83 to 16 percent in 1983/84, reflecting the accumulation of international reserves. The growth of narrow money accelerated from 8 percent to 14 percent, whereas that of quasi-money decelerated from 28 percent to 22 percent, probably reflecting the further erosion of real interest rates resulting from the rise in inflation; nominal interest rates have remained unchanged since November 1977 (Chart 3 and Appendix Table 7). These developments appeared to have contributed to the increase in pressure on consumer prices.

The balance of payments position improved considerably in 1983/84 (Chart 4). Exports rose by about 17 percent, primarily due to increases in export volumes of 27 percent for rice and 33 percent for teak; the volume increase in rice exports was brought about by a reduction in stocks, and that in teak partly by exports of smaller logs (Table 4). Despite some improvement in the quality of rice, its export price fell by 5 percent, resulting in a 2 percent decline in the overall export unit value (Chart 5). Imports were reduced by 24 percent through volume cuts in all major categories, including raw materials and intermediate and capital goods, which together account for more than 90 percent of total imports. Consequently, the ratio of the current account deficit to GDP was halved to 4.5 percent, in spite of a small deterioration in the terms of trade. Although loan disbursements and grants declined,

^{1/} Public sector receipts comprise mainly tax and nontax revenues of the Union Government and current surpluses of public sector entities, primarily SEEs. The current surpluses of SEEs reflect only profits of nonfinancial SEEs; all profits of financial SEEs are transferred to the Union Government as SEE contributions.

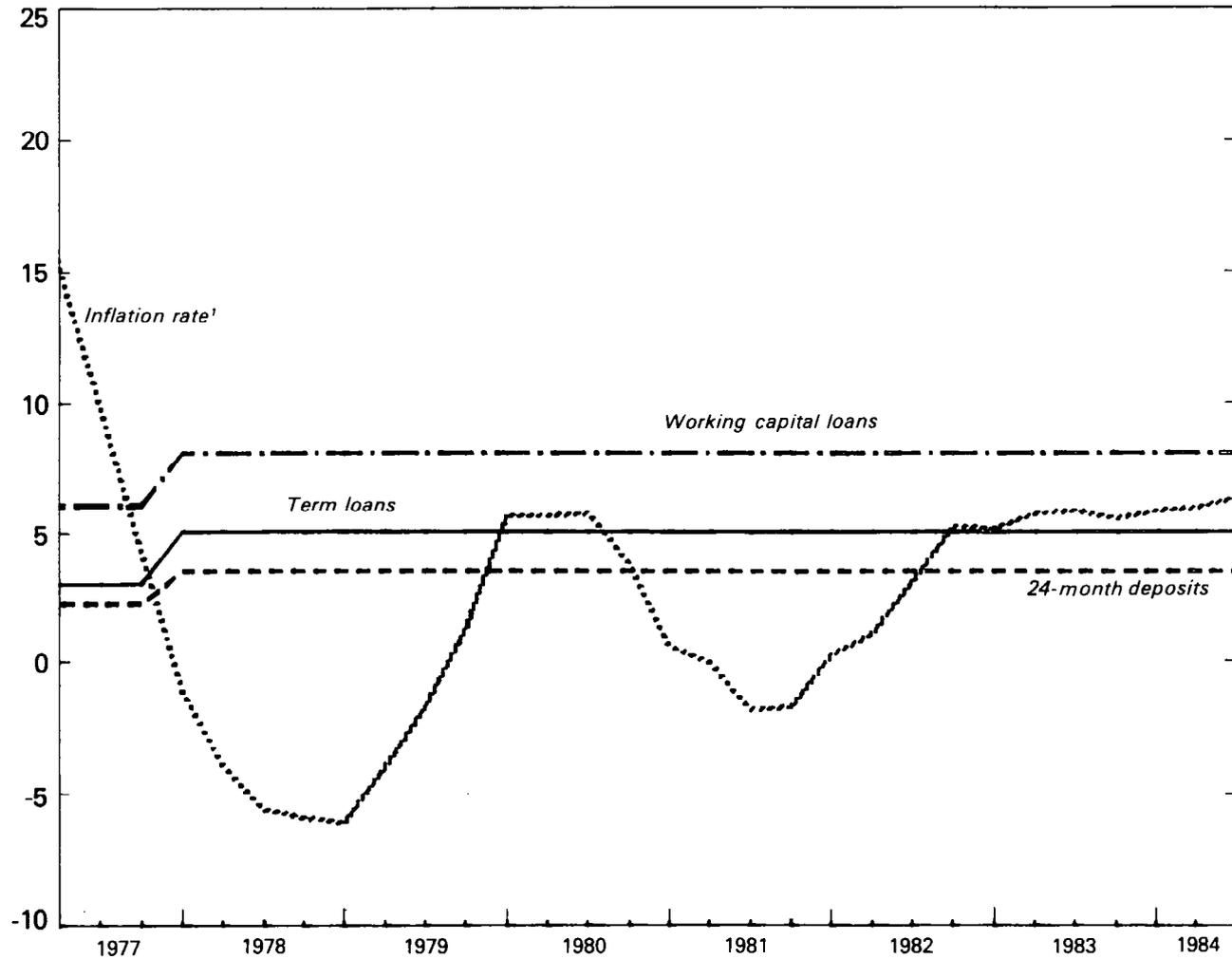
^{2/} Bonuses may be paid to workers in an SEE that makes a profit after financial costs and contributions to the Union Government. Bonuses are based on achievement of targets for the operating ratio (ratio of operating expenditure to operating revenue) and physical production. For details, see the forthcoming report on recent economic developments.

Table 3. Burma: Monetary Survey, 1980-1984

	1981	1982	1983				1984		
	March	March	March	June	Sept.	Dec.	March	June	Sept. Prov.
(In millions of kyats)									
Net foreign assets	1,603	1,188	12	-31	-70	23	174	223	145
Domestic credit	12,536	15,234	17,400	17,608	17,986	19,173	19,806	19,283	21,023
Public sector (net)	10,885	13,685	15,713	15,518	15,358	16,548	18,083	17,238	18,418
Union Government (net)	(-814)	(-3,203)	(-5,718)	(-5,702)	(-6,080)	(-6,144)	(-7,998)	(-8,948)	(-8,231)
Gross credit to SEEs	(11,699)	(16,888)	(21,431)	(21,220)	(21,438)	(22,692)	(26,081)	(26,186)	(26,649)
Private sector	1,651	1,749	1,687	2,090	2,628	2,625	1,723	2,045	2,605
Agriculture	(495)	(507)	(528)	(872)	(1,419)	(1,403)	(532)	(868)	(1,435)
Other items (net)	-2,926	-3,287	-2,615	-2,746	-2,470	-3,494	-2,793	-1,851	-3,313
Total liquidity	11,213	13,135	14,797	14,831	15,446	15,702	17,187	17,655	17,855
Money	8,946	9,985	10,751	10,606	10,952	11,128	12,242	12,263	12,538
Quasi-money	2,267	3,150	4,046	4,225	4,494	4,574	4,945	5,392	5,317
(Percentage change over previous year)									
Memorandum items:									
Domestic credit	17.8	21.5	14.2	19.1	18.0	16.2	13.8	9.5	16.9
Public sector (net)	21.1	25.7	16.5	22.6	20.9	18.0	15.1	11.1	19.9
Gross credit to SEEs	52.5	44.4	28.4	27.5	27.6	26.4	21.7	23.4	24.3
Credit to private sector	-0.1	5.9	-3.5	-1.7	3.2	6.3	2.1	-2.2	-0.9
Total liquidity	16.6	17.1	12.7	12.8	14.4	15.8	16.2	19.0	15.6
Narrow money	12.3	11.6	7.7	8.0	10.3	13.0	13.9	15.6	14.5
Quasi-money	37.1	39.0	28.4	27.1	25.5	22.9	22.2	27.6	18.3

Source: Union of Burma Bank.

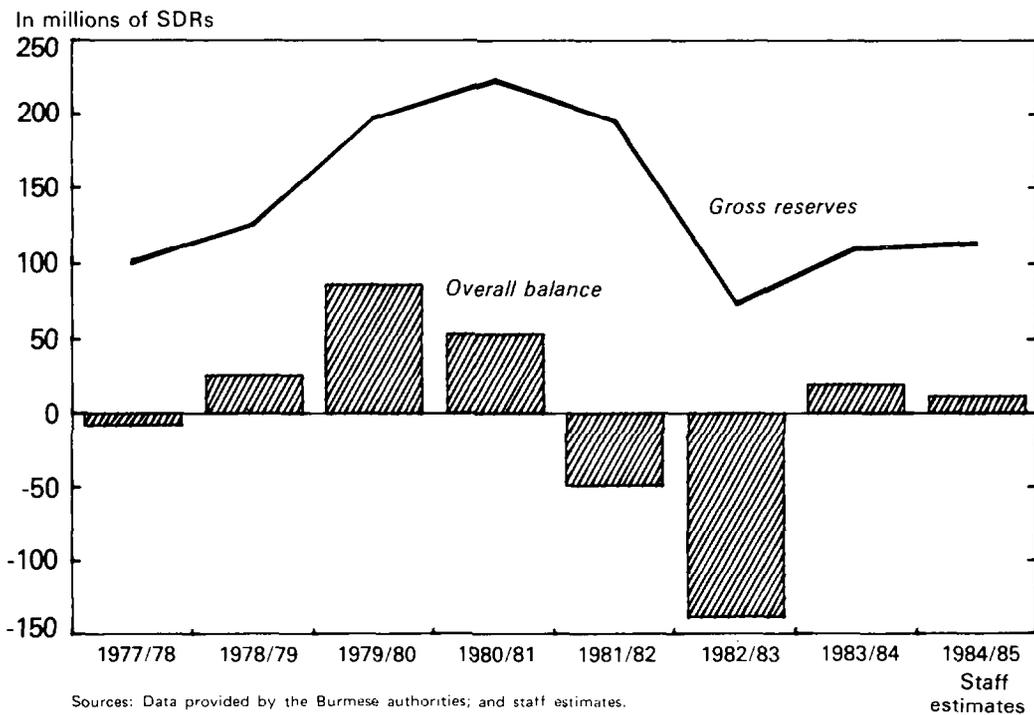
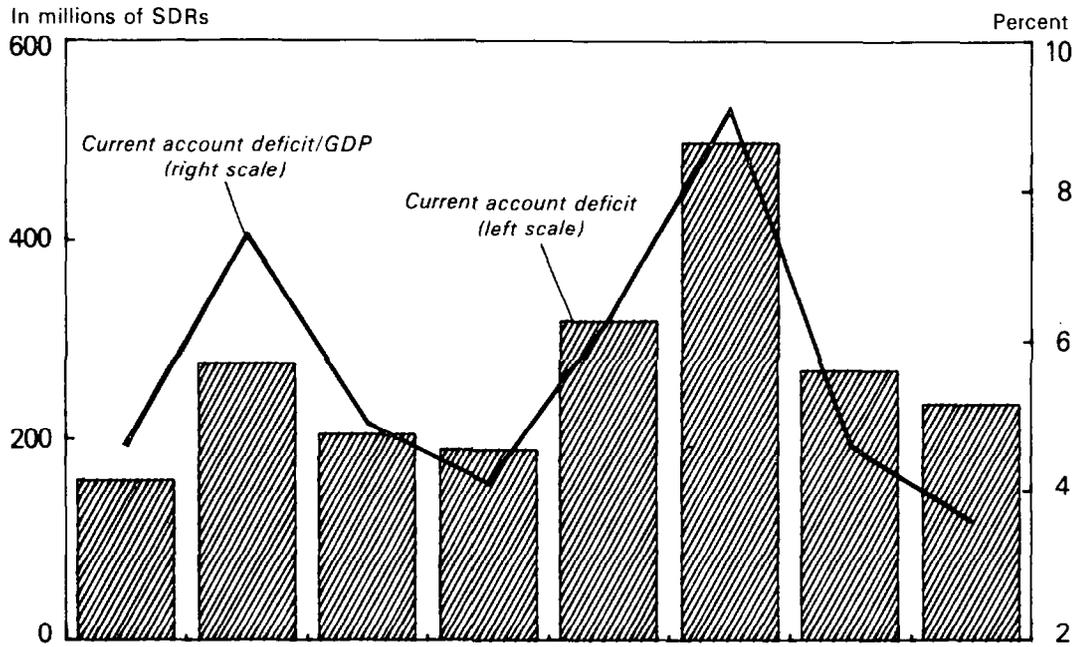
CHART 3
 BURMA
 INTEREST RATES AND THE RATE OF INFLATION, 1977-1984
 (In percent per year)



Source: Data provided by the Burmese authorities.
¹Measured as the Rangoon CPI (12-month moving average).



CHART 4
BURMA
SELECTED BALANCE OF PAYMENTS INDICATORS,
1977/78-1984/85



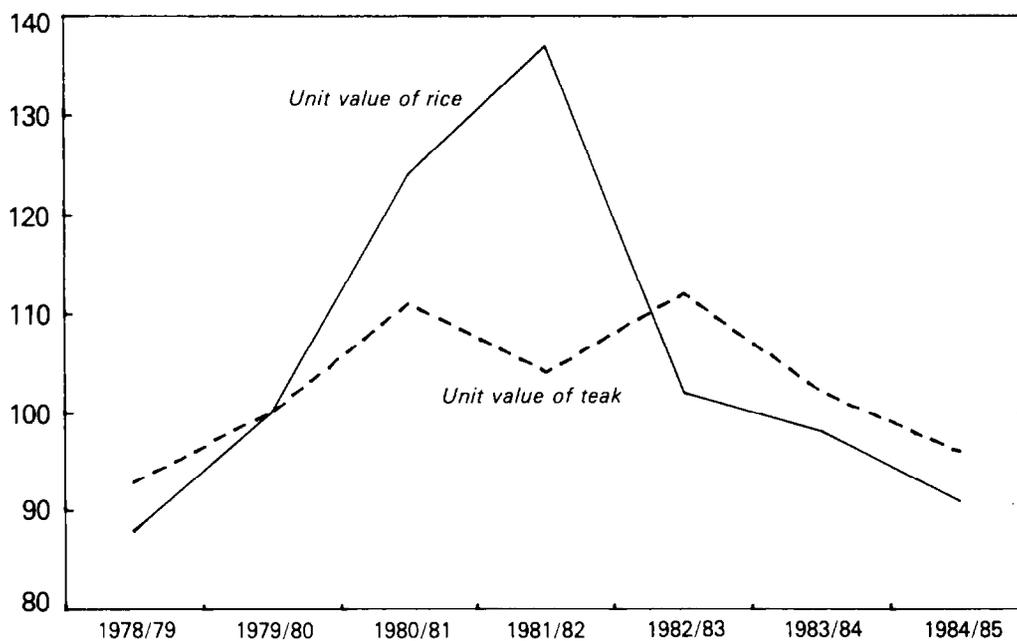
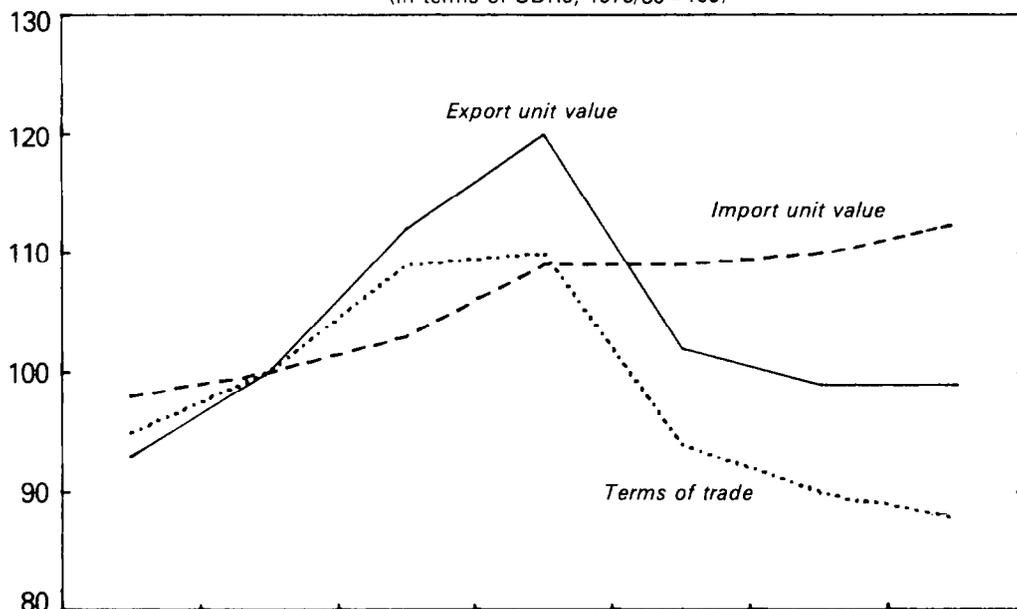
Sources: Data provided by the Burmese authorities; and staff estimates.

Staff estimates



CHART 5
BURMA
EXPORT AND IMPORT PRICES, AND TERMS OF TRADE,
1978/79-1984/85¹

(In terms of SDRs, 1979/80 = 100)



Staff estimates.

Sources: Data provided by the Burmese authorities, and staff estimates.
¹Indices based on prices in terms of SDRs



Table 4. Burma: Summary of Balance of Payments
1980/81-1984/85

(In millions of SDRs)

	1980/81	1981/82	1982/83	1983/84 Prov.	1984/85 Staff Est.
Exports, mainly f.o.b.	373.7	406.9	339.8	396.1	436.0
Of which: rice	(157.2)	(175.3)	(131.7)	(160.6)	(166.2)
teak	(84.7)	(83.1)	(85.9)	(103.6)	(100.5)
Imports, mainly f.o.b.	-540.9	-699.5	-807.4	-611.1	-625.0
Cash	-281.9	-359.3	-390.7	-245.3	-257.0
Externally financed	-259.0	-340.2	-416.7	-365.8	-368.0
Trade balance	<u>-167.2</u>	<u>-292.6</u>	<u>-467.6</u>	<u>-215.0</u>	<u>-189.0</u>
Services (net)	-26.0	-41.3	-53.2	-71.7	-74.0
Of which: interest payments	(-37.6)	(-45.5)	(-49.2)	(-65.9)	(-71.7)
Transfers (net)	3.2	15.0	21.6	16.4	26.0
Of which: private remittances	(7.0)	(10.0)	(17.1)	(19.2)	(21.4)
Current balance	<u>-190.0</u>	<u>-318.9</u>	<u>-499.2</u>	<u>-270.3</u>	<u>-237.0</u>
Official grants	<u>75.1</u>	<u>50.4</u>	<u>70.7</u>	<u>66.2</u>	<u>48.0</u>
Net long-term capital	<u>130.3</u>	<u>216.6</u>	<u>281.9</u>	<u>217.1</u>	<u>200.0</u>
Disbursements	183.9	289.8	346.0	299.6	320.0
Repayments	-53.6	-73.2	-64.1	-82.5	-120.0
Other capital (net)	-6.4	-3.2	-0.4	--	--
Errors and omissions ^{1/}	26.5	6.4	8.8	6.0	--
Trust Fund	10.5	--	--	--	--
SDR allocations	7.4	--	--	--	--
Overall balance	<u>53.4</u>	<u>-48.7</u>	<u>-138.2</u>	<u>19.0</u>	<u>11.0</u>
Monetary movements ^{2/}	<u>-53.4</u>	<u>48.7</u>	<u>138.2</u>	<u>-19.0</u>	<u>-11.0</u>
Gross reserves	-25.6	27.2	122.3	-36.4	-3.4
Use of Fund credit	-26.7	21.6	15.8	17.9	-7.6
Other liabilities	-1.1	-0.1	0.1	-0.5	--
Memorandum items:					
Current account balance					
in percent of GDP	-4.1	-6.3	-9.1	-4.5	-3.7
Gross international reserves					
at end of period	222.7	195.5	73.2	109.6	113.0
(in months of imports)	(4.9)	(3.4)	(1.1)	(2.2)	(2.2)

Sources: Data provided by the Burmese authorities; IMF, International Financial Statistics; and staff estimates.

^{1/} Includes valuation adjustments.

^{2/} A minus sign indicates an increase in assets and a decrease in liabilities.

the overall balance of payments moved to a surplus of SDR 19 million, allowing a buildup of international reserves to a level equivalent to about two months of imports.

2. Developments in 1984/85

In 1984/85, economic performance has weakened further. Real GDP growth is estimated to decline to 4.5 percent, largely due to slower growth in agricultural and industrial output. The second phase of the Whole Township Program initiated in the current fiscal year is unlikely to have an immediate impact on agricultural output. Industrial output growth is expected to fall on account of the reduction in availability of imported raw materials and intermediate goods. Production of some major manufacturing industries, including the cigarette, soap and metal industries, declined in the first five months of 1984/85, compared with the same period a year earlier. The rate of inflation is estimated to rise slightly to 6 percent, reflecting the continued high liquidity expansion and the slowdown in output growth.

No improvement in the financial position of the public sector is expected, since the budget provided for no significant new measures. The overall public sector deficit is estimated to be 9.3 percent of GDP, about the same level as in the previous year. The portion of the public sector deficit financed by domestic bank borrowing is estimated to rise from 63 percent in 1983/84 to 71 percent in 1984/85. The decline in the share of foreign financing reflects the Government's decision to continue refraining from nonconcessional borrowing.

Public sector receipts are estimated to decline by about 4 percent, mainly because of a decline in both nontax revenue and grants and a sluggish growth in tax revenue. The decline in nontax revenue is almost entirely due to an estimated 20 percent fall in contributions from SEEs, reflecting further deterioration in profitability, in particular that of manufacturing and processing SEEs. The decline in grants results, to a large extent, from the policy to avoid grants tied to nonconcessional loans. Tax revenue is estimated to rise by about 3 percent, implying a decline of about 1 percentage point in its ratio to GDP. Receipts from the commodities and services tax, the most important source of tax revenue, are estimated to grow slowly due to a shift in economic activity to sectors subject to lower tax rates, while receipts from customs duties are expected to decline slightly.

Total public sector expenditure is estimated to rise slightly. Current expenditure is estimated to rise by 7 percent, mostly due to increased interest payments and operating costs of newly-completed projects; the increase in the wage bill was limited because wages and salaries have not been raised since 1981/82. In contrast, capital expenditure is estimated to decline by 5 percent in line with the selective investment policy, with much of the reduction concentrated in the mining, manufacturing, and processing sectors where large projects have recently been completed.

Monetary developments so far in 1984/85 reflect continued high growth in public sector credit demand, in particular that of SEEs. Domestic credit grew by 17 percent in the 12-month period ended September 1984, due to a 24 percent growth in credit to SEEs; credit to the private sector declined slightly during the same period. The persistent weakness in the financial position of SEEs has led to an increase in their credit requirements. As a result, broad money rose by 16 percent in this period, compared with 14 percent during the same period a year earlier. While narrow money growth accelerated, quasi-money growth declined further.

The balance of payments is expected to improve further in 1984/85. The current account deficit is estimated to narrow to 3.7 percent of GDP, due to a 10 percent increase in exports and continued efforts to contain imports at their 1983/84 level. The increase in exports is entirely attributable to volume growth, as export prices are expected to remain unchanged. However, the estimated growth in export volume is considerably lower than that in the preceding year, because a significant expansion in exports through lowering of stocks is not possible, and because progress in export diversification has been slower than anticipated. Although diversification efforts have led to an expansion of mineral exports and the introduction of some new exports, nontraditional exports remain relatively small. Notwithstanding the improvement in the current account, the overall balance of payments is estimated to record a smaller surplus (SDR 11 million) because net disbursements of official medium- and long-term loans are estimated to decline by 8 percent; gross reserves are estimated to remain at a level equivalent to 2.2 months of imports.

External medium- and long-term public debt outstanding is estimated to rise from SDR 2.2 billion at the end of 1983/84 to SDR 2.4 billion (equivalent to about 37 percent of GDP) at the end of 1984/85. ^{1/} Owing mainly to a sharp increase in amortization payments, debt service payments are estimated to rise from about 34 per cent of current account receipts, including private remittances, in 1983/84 to about 39 percent in 1984/85.

Since May 1977, the kyat has been pegged to the SDR at K 8.50847 per SDR. On a trade-weighted basis, the value of the kyat, which had depreciated considerably in real terms over the period between 1976 and mid-1981, appreciated by about 9 percent during the three years ended September 1984 (Chart 6). This development resulted from the strengthening of the SDR vis-a-vis the currencies of some of Burma's major trading partners.

^{1/} There is no private external debt. No data on short-term debt are provided by the authorities, but available information indicates that such debt is negligible.

III. Report on the Discussions

Deterioration in the balance of payments, as well as the sharp rise in the debt service burden in 1982/83, prompted the authorities to initiate corrective measures in 1983/84. Adjustment efforts have been focused on reductions in public investment, imports and foreign borrowing. While these adjustment measures were essential for reducing both internal and external imbalances, prolonged retrenchment would inevitably lead to economic stagnation and a lowering of living standards. Policy discussions were therefore concentrated on the need for new policy initiatives aimed at improving the incentive structure, especially through appropriate and timely price adjustments; increasing domestic resource mobilization, particularly in the public sector; and stimulating exports.

1. Agricultural and export promotion policies

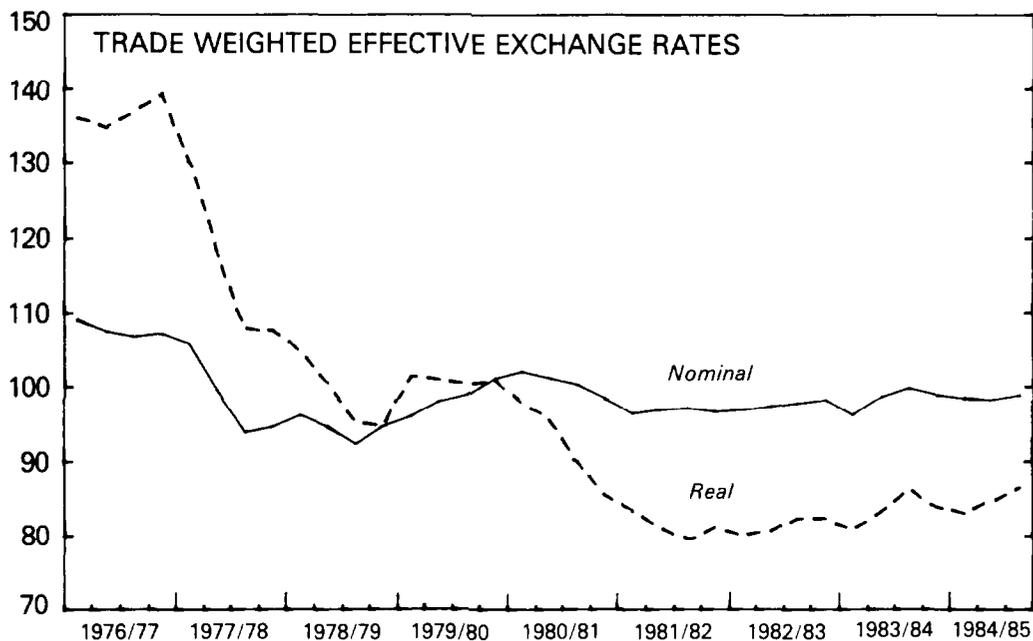
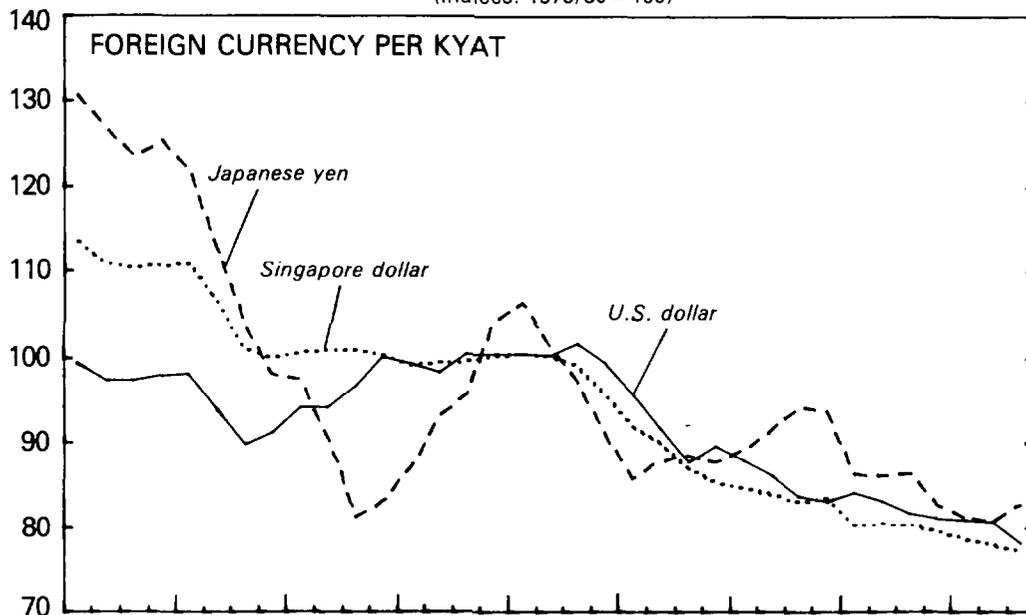
The authorities' long-standing objective has been the achievement of a high rate of economic growth with price stability. Toward this end, they have emphasized nonprice incentives such as the provision of inputs and preferential credit allocation, which, in their view, are superior means of fostering agricultural growth. In the course of the discussions, the authorities noted that the implementation of the first phase of the Whole Township Program brought about significant output growth. To maintain growth momentum, the second phase of this program--consisting of an increased supply of modern inputs, improved extension services, and the introduction of a crop monitoring system--was initiated in 1984/85.

With few exceptions, procurement prices of major agricultural products have not been adjusted since 1977/78, causing large discrepancies between domestic and international prices (Appendix Table 8) and thereby diverting some products from formal markets. The staff recommended price adjustments to establish a closer link between domestic and international prices in order to reverse the declining trend in agricultural growth observed in the last two years, and to maximize the impact of nonprice incentives on output and exports. Specifically, the procurement prices of high quality rice and other major export commodities need to be raised. At the same time, corresponding consumer prices of these commodities and prices of fertilizers and other inputs should be raised in order to reduce price distortions and lessen the burden on the budget. The staff stressed that linking domestic prices to international prices would also promote timely shifts in production and exports in response to external market developments.

Progress in the Government's agricultural diversification program has been slower than anticipated, contributing to the recent slowdown in agricultural growth and the slow progress in export diversification. The program was aimed at increasing production of selected nonpaddy crops through a shift to nonpaddy cultivation in the drier regions of Upper Burma where rice production is marginal; in the wetter areas of

CHART 6
BURMA
DEVELOPMENTS IN EXCHANGE RATES,¹
1976/77-1984/85

(Indices: 1979/80 = 100)



Sources: IMF, IFS, and staff estimates.
¹A decline indicates a depreciation of the kyat.



Lower Burma, the program concentrates on crop intensification with short gestation rice followed by other crops. However, slower than anticipated output growth of nonpaddy crops in the drier regions and the emphasis placed on regional self-sufficiency in rice have caused a shift away from this strategy. Paddy cultivation is now encouraged in all regions; nonpaddy crop cultivation is promoted only in irrigated areas and lower regions where multiple cropping is feasible. The staff encouraged the authorities to reconsider this shift in policy, emphasizing the role of the crop diversification program in stimulating agricultural output and exports. The World Bank staff has similarly urged the authorities to diversify agricultural output in order to broaden the country's export base. 1/

Despite the success of the Whole Township Program in increasing rice output, the quality of rice remains inferior by international standards. The average export price of Burmese rice has been about 20 percent below that of Thai rice. The low quality of rice is due not only to old rice mills, but also to shortages of permanent closed storage. The authorities have been renovating several rice mills and building new ones to improve production as well as quality. Moreover, a project to expand storage facilities is currently under preparation.

Apart from diversification into nonpaddy crops, the authorities have been promoting other nontraditional exports. The completion of a copper mine project and the expansion of a lead ore concentrate plant have already contributed to an increase in those exports. Moreover, new exports have recently been introduced, including sheet glass, paper products, and canned and dried meat. The authorities have recently initiated the second phase of the rubber rehabilitation program so as to increase exports while ensuring greater supply of rubber to domestic users in the medium term.

2. Investment policy

During the period 1977/78-1981/82, the authorities emphasized public investment as a primary stimulus for economic growth. Public investment, which accounted for a large share of total investment, grew by an annual average rate of 25 percent, raising its share of GDP to 18 percent in 1982/83. In contrast, the share of private sector investment continued to be small at 4 percent of GDP. Much of public investment took place in the manufacturing and processing, agriculture, transportation, and telecommunication sectors. In general, public investment was directed toward output expansion for domestic uses and import substitution. Rapidly rising private savings, encouraged by positive real interest rates, were channeled through the banking system to finance a greater portion of public investment. Nevertheless, increased levels of foreign financing were needed to support public

1/ About half of World Bank group lending to Burma has been for agricultural projects.

investment, resulting in rapidly rising external debt service payments in recent years.

In the face of this rising debt service burden and adverse movements in the terms of trade, the authorities adopted the selective investment policy in mid-1982/83. Its objective was to reduce the overall level of public investment, while achieving more efficient utilization of resources so as to sustain economic growth and lower the debt service burden in the medium term. The selective investment policy gives high priority to ongoing projects and to new projects with good export potential, short gestation periods, a domestic raw material base, and low capital intensity. New projects oriented toward import substitution have been deferred. The staff team welcomed this shift in the investment strategy.

The World Bank staff has made similar recommendations with respect to investment policy. In pursuit of these policy recommendations, the World Bank group has directed its activities in Burma at easing constraints to growth by increasing and diversifying production for export, developing natural resources, and improving infrastructure. Priority will continue to be given to quick-yielding projects, with particular emphasis on the development of agriculture and forestry. Infrastructure improvements will continue in the power, transportation, telecommunications, and construction sectors in order to enlarge capacity and rehabilitate and increase utilization of existing facilities.

The authorities have recently allowed some increases in the share of private investment in certain areas, especially in the transportation sector. The staff team noted that increased domestic resource mobilization, particularly in the public sector, would allow private savings to be directed toward private investment in other productive sectors with high export potential, such as food processing and textiles.

3. Fiscal policy

The implementation of the selective investment policy has led to a considerable curtailment in the level of public capital expenditure beginning in 1983/84, but the overall public sector deficit remains large, mainly because of continued stagnation in total public sector receipts. The low buoyancy of revenue from the commodities and services tax appears to be caused by the shifting composition of economic activity toward sectors with relatively lower tax rates. The authorities are concerned with the deterioration in the revenue performance and have initiated a review of the tax system. The staff recommended that the review process be expedited, and that tax rates be revised to raise buoyancy and discourage informal trade. As for income taxes, efforts have been made to improve tax administration through education of local committees on tax procedures and improved

coordination between local and national authorities. While welcoming these efforts, the staff suggested a lowering of the exemption level.

Nontax revenues have been disappointing, due mainly to the falling profitability of nonfinancial SEEs. The authorities stated that the primary cause of this deterioration was unfavorable export prices rather than inflexible pricing policies. In their view, adequate price margins for SEEs are achieved through the automatic price adjustment system introduced in 1980/81 for import cost increases and through normal procedures for other cost increases. Given the high priority which policy places on stable domestic prices, especially those of essential commodities, SEEs have been encouraged to increase profitability mainly through measures to improve efficiency; such measures include decentralization of large-scale SEEs, product innovations, extension of the piecework wage system, and the continuation of the bonus system.

The staff noted that declining profitability has not been limited to exporting SEEs, but has occurred in most sectors, in particular the manufacturing and processing sectors. Despite the large number of adjustments following initiation of the automatic price adjustment system, the extent of the adjustments has been limited. Consequently, the domestic relative price structure continues to differ substantially from the world relative price structure, causing periodic shortages. The staff recommended that prices of SEE products should be set to reflect demand and supply conditions, and that the automatic price adjustment system should be extended to cover all cost increases, whether of foreign or domestic origin. The staff noted that, although such price adjustments will have an immediate impact on consumer prices, increased output through improved price incentives would help achieve price stability in the medium term.

Rising financial costs have been another major cause of the decline in the profitability of nonfinancial SEEs. Because the main criteria used to evaluate SEE performance do not take into account financial costs, there is little incentive for SEEs to economize on the use of borrowed funds. The staff recommended that financial costs should be reflected in the evaluation of SEE performance.

4. Monetary policy

As noted earlier, monetary and credit policy in Burma is formulated largely to meet public sector credit requirements and maintain price stability. The monetary and fiscal authorities cooperate in formulating the credit plan, as part of the regular budget cycle. The staff observed that credit to the SEEs continued to expand rapidly despite the tight investment budgets of 1983/84 and 1984/85, whereas credit to the private sector was stagnant. Given their existing large share in overall domestic credit, the continued expansion in credit to the SEEs has led to a high growth in domestic liquidity. The staff noted the resultant buildup of cash balances and suggested that this could exert pressure on prices in the future. The authorities stated that credit

creation had not resulted in a significant rise in the inflation rate and attributed the buildup of cash balances to increasing monetization of the economy.

The authorities noted that real interest rates for long-term deposits have been maintained positive, bringing about a significant increase in private savings. While commending the use of real interest rate incentives to encourage domestic resource mobilization, the staff team noted that the recent expansion in total liquidity had been associated with a faster growth of narrow money and a slower growth of quasi-money. The staff recommended the adoption of a more flexible interest rate policy in order to strengthen incentives to save.

5. Exchange rate and debt management policies

The authorities considered both the SDR peg arrangement and the present kyat-SDR rate as appropriate. They regard exchange rate policy as having no significant role in export promotion and the allocation of scarce foreign exchange resources. In their view, the impact of any changes in the exchange rate on export-oriented production and on the allocation of resources is likely to be minimal as long as producer prices of most exports remain fixed and a large share of imports is tied to foreign grants and loans. Overall, the authorities regarded Burma as being adequately competitive in the export market.

Burma maintains a restrictive trade and payments system. Imports utilizing official foreign exchange are made mostly by the public sector. In 1983/84, the import program (the foreign exchange budget for imports) was tightened, and cash imports were lowered substantially to build up gross international reserves to a level equivalent to 2.2 months of imports. The authorities consider this level of reserves acceptable, though less than desirable. In 1984/85 the import program has continued to be tight; should there be any shortfall in export earnings, the program will be tightened further. In contrast, rules governing imports utilizing own foreign exchange ^{1/} were liberalized somewhat in 1983/84, especially those governing the importation of motor vehicles.

The staff noted the recent appreciation of the kyat and urged the authorities to take corrective action. The staff team emphasized that an active exchange rate policy would not only restore lost competitiveness and strengthen incentives for traditional exports, but would also promote export diversification. On the import side, more realistic import prices could promote higher efficiency of public investment, make local industries more competitive, and lessen the need for administrative controls on the trade and payments system.

^{1/} A large proportion of which is earned by Burmese sailors working with foreign companies.

The authorities stated that, in light of the recent rapid increase in the external debt and debt service obligations, the policy to refrain from nonconcessional borrowing has been strictly applied. In 1984/85, this policy was strengthened by the decision to forgo, as far as possible, grants and concessional loans tied with nonconcessional loans. The reduced overall level of borrowing and the decline in the proportion of nonconcessional loans in the total debt are expected to moderate the pressure of the debt service burden over the medium term. The staff expressed the view that adequate export expansion is essential for easing the debt service burden without adversely affecting economic growth.

6. Statistics

There are several areas in which the coverage and timeliness of economic and financial statistics could be improved. The formulation and execution of public policy would benefit substantially, in particular, from a clearer delineation and classification of public sector financial transactions, including financial flows related to SEEs, and from a more comprehensive coverage of external debt and debt service payments. Timely compilation and presentation of statistical data would also enable the authorities to respond to economic developments quickly and effectively. The authorities have identified many limitations in national economic and financial data and have made an effort to overcome them. However, the authorities have been constrained by administrative difficulties and limited skilled manpower resources.

IV. Medium-Term Outlook, 1984/85-1989/90

The medium-term scenario discussed below underscores the need for appropriate adjustment policies to improve the balance of payments position and contain the debt service burden, while maintaining a satisfactory rate of economic growth. In this scenario, the external current account deficit is projected to decline from 3.7 percent of GDP in 1984/85 to less than 3 percent during the following five years, and the overall balance of payments is targeted to be in surplus throughout this period. This will enable the authorities to maintain gross reserves at the targeted level of 2.2 months of imports. Vigorous export promotion efforts and continued restraint in investment and imports will be required to achieve the targeted overall balance of payments outcome (Table 5).

External debt outstanding is projected to decline steadily from 37 percent of GDP in 1984/85 to 32 percent in 1989/90. However, reflecting large borrowings in recent years, external debt service payments are projected to increase significantly during the period 1984/85-1986/87, and to decline thereafter. The debt service ratio (including IMF obligations) is estimated to rise from 39 percent of exports of goods and services and private transfers in 1984/85 to 43 percent in 1985/86, and then decline to 29 percent by 1989/90. The

Table 5. Burma: Medium-Term Balance of Payments and External Debt Outlook, 1982/83-1989/90

(In millions of SDRs, unless otherwise indicated)

	1982/83	1983/84 Prov.	1984/85 Staff Est.	1985/86	1986/87	1987/88 Staff Projections	1988/89	1989/90
External resources								
Availability	722	702	710	742	818	888	969	1,051
Exports of goods <u>1/</u>	340	396	436	478	530	577	628	683
Private transfers <u>2/</u>	17	19	21	25	28	31	35	39
Official transfers	75	64	53	54	57	59	62	65
Net capital account <u>3/</u>	290	223	200	185	203	221	244	264
Uses	860	683	699	723	781	851	947	1,036
Imports of goods <u>4/</u>	807	611	625	642	695	761	849	930
Net services <u>5/</u>	53	72	74	81	86	90	98	106
Monetary movements								
(- increases in assets) <u>6/</u>	138	-19	-11	-20	-37	-37	-22	-15
Of which: IMF	(16)	(18)	(-8)	(-17)	(-27)	(-24)	(-7)	(--)
Debt service payments <u>7/</u>								
Interest	51	65	72	77	82	87	92	101
Of which: IMF charges <u>8/</u>	(3)	(5)	(6)	(5)	(3)	(1)	(--)	(--)
Amortization	78	94	127	165	170	163	137	125
Of which:								
IMF repurchases <u>8/</u>	(16)	(11)	(8)	(17)	(27)	(24)	(7)	(--)
Total debt service as a percent of exports of goods and services								
Including private transfers	31.3	34.1	38.9	43.4	40.9	37.4	31.6	28.7
Excluding private transfers	32.7	35.6	40.6	45.4	42.9	39.2	33.2	30.2
Payments to IMF as a percent of total debt service								
	14.5	10.1	6.5	9.1	11.9	10.4	3.1	--
Memorandum items:								
Gross reserves (months of imports)	1.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Current account deficit to GDP ratio	9.1	4.5	3.7	3.0	2.8	2.7	2.9	2.9
Debt outstanding (end of period)	1,882	2,169	2,362	2,530	2,705	2,902	3,140	3,404
Of which: IMF	(65)	(83)	(75)	(58)	(31)	(7)	(--)	(--)
Debt outstanding as percent of GDP	34.8	37.1	36.5	35.3	34.1	33.0	32.2	31.5

Sources: Data provided by the Burmese authorities; IBRD External Debt System; and staff estimates.

1/ Export volume is assumed to grow by 5 percent per annum during the projected five-year period; export prices in terms of SDRs are assumed to remain constant in real terms.

2/ Private remittances are projected to grow by 12 percent annually.

3/ Includes errors and omissions for 1982/83 and 1983/84. Gross capital flows are estimated at SDR 320 million in 1984/85 and are assumed to remain constant in real terms thereafter.

4/ For 1985/86-1989/90, imports are treated as a residual; import prices in terms of SDRs are assumed to rise by 4 percent annually.

5/ Includes interest payments on projected new borrowing.

6/ Overall balance is assumed to be in a surplus sufficient to maintain gross reserves at 2.2 months of imports from 1984/85 onward.

7/ For 1984/85-1989/90, includes new borrowings which are assumed to be concessional with an average annual interest rate of 3 percent and a grace period of 6 years.

8/ Excludes Trust Fund.

projected rise in this ratio during the next two years partly reflects a large increase in principal repayments on bilateral loans already disbursed; the avoidance of nonconcessional loans beginning in 1983/84 primarily accounts for the projected fall in the debt service ratio in subsequent years.

The above scenario is based on several key assumptions. Disbursements of external loans are assumed to rise by about 7 percent in 1984/85 and to remain constant in real terms from 1985/86 onward. Newly disbursed loans are assumed to be entirely concessional with a grace period of six years and an average interest rate of 3 percent per annum. After stagnating in 1984/85 and 1985/86, both imports and investment are projected to rise by about 6 percent in real terms during the remaining years, as more foreign exchange becomes available with the decline in external debt payments. With the recent emphasis on export oriented projects, real GDP is expected to grow by about 4.5 percent per annum, and export volume to increase by about 5 percent per annum during the period 1985/86-1989/90. These projected rates of growth compare less favorably with those achieved during the five-year period ended 1984/85.

The terms of trade are forecast to remain unchanged during the period 1985/86-1989/90, with both export and import prices (in terms of SDRs) assumed to rise by about 4 percent per annum. The projected rise in export prices is predicated on a steady improvement in the quality of rice, and a continued effort to raise the value added of exported teak. Moreover some progress in export diversification is expected. Service receipts and official grants are assumed to grow by 4 percent per annum in the coming years, whereas private inward remittances are projected to rise by an annual rate of 12 percent, the same rate observed in the preceding two years.

V. Staff Appraisal

A sharp deterioration in the terms of trade in 1982/83 contributed to the abrupt end of a period of rapid economic growth with price stability, sustained by a vigorous investment effort and a satisfactory balance of payments performance. To reduce both external and internal imbalances, the authorities embarked on a policy centered on substantial reductions in investment and imports. Strict implementation of this policy during the preceding and current fiscal years has resulted in a significant improvement in the balance of payments, despite a further deterioration in the terms of trade. However, the underlying balance of payments position remains weak, the overall public sector deficit remains high, the rate of economic growth has decelerated, and the rate of inflation has been relatively high in historical perspective. These economic difficulties underscore the need for a more comprehensive macroeconomic adjustment aimed at improving the incentive structure, increasing domestic resource mobilization, and promoting exports.

In the agricultural sector, the impressive output growth achieved under the Whole Township Program has reached a plateau. Improvements in the price incentives would provide an important boost to the second phase of this program and help regain the lost growth momentum. Timely increases in the procurement prices of agricultural commodities and the maintenance of a closer link between domestic and international prices would help to increase supply, improve quality, and promote the diversification of agricultural output and exports. At the same time, adequate adjustments in the consumer prices of these commodities and of agricultural inputs would avoid price distortions and ease the burden on the budget.

Despite the curtailment of public investment, the overall public sector deficit has remained high, underscoring the need for increased domestic resource mobilization. Toward this end, it will be essential to raise the efficiency of SEEs, and reform the tax system to make it better reflect the many changes in the commodity composition of domestic trade and production. Improving the efficiency of SEEs would require, in particular, that the automatic price adjustment system, which currently applies only to import cost increases, be extended to all cost increases, whether of foreign or domestic origin.

In view of the inflationary potential of monetary expansion, liquidity growth should be carefully monitored. In this context, it is important to review the annual credit plan in the course of the year in order to prevent excessive credit creation. This is all the more necessary as imports are being severely restrained. A flexible interest rate policy would also help reduce pressure on prices by increasing domestic savings and encouraging more productive use of scarce resources.

Implementation of an active exchange rate policy would help prevent a further erosion in Burma's external competitiveness. Flexibility in exchange rate management would not only encourage traditional exports, but would also promote export diversification, and thus provide a cushion against adverse movements in relative prices. It would thus be possible to reduce the reliance on administrative controls in the trade and payments system.

The authorities have exercised commendable caution by relying more on concessional loans and minimizing recourse to commercial borrowing. Despite these efforts, the external debt service ratio has risen sharply in recent years, and is projected to rise further in the next fiscal year before declining gradually. The staff welcomes the authorities' decision to avoid commercial loans, as far as possible, and to carefully screen investment projects. In the meantime, export promotion efforts should be intensified to help reduce the debt service burden without jeopardizing investment and economic growth.

The coverage, completeness, and timeliness of data provided by Burma could be improved. In particular, the time lag in reporting fiscal and monetary data needs to be shortened considerably.

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 in concluding the 1984 Article IV consultation with Burma.

1. 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).

2. 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/ . 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 liberalize the trade and exchange system.

Table 6. Burma: Output and Prices, 1980/81-1984/85

(Annual percentage changes)

	1980/81	1981/82	1982/83	1983/84 Prov.	1984/85 Staff Est.
GDP at 1969/70 prices	7.9	6.3	6.0	5.6	4.5
Agriculture	12.7	8.8	6.8	4.8	4.5
Nonagriculture	5.7	5.4	5.6	5.9	4.5
Of which:					
Livestock and fisheries	4.2	4.0	3.2	10.2	9.0
Manufacturing and processing	7.5	7.6	6.2	9.0	4.0
Services	7.0	7.2	6.2	3.8	4.0
Trade	4.4	2.4	3.6	4.2	4.0
Implicit GDP deflator	1.2	4.6	2.1	1.3	6.0
Consumer price index in Rangoon (Annual average)	-0.2	1.4	5.2	5.7	5.6 <u>1/</u>
Food and beverages	-1.0	-3.0	5.8	8.2	4.9 <u>1/</u>
Other items	1.2	9.4	4.1	1.2	6.9 <u>1/</u>

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

1/ The 12-month period ended August.

Table 7. Burma: Interest Rates, 1975-84

(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
Car purchase loans	7.00	9.00
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: Comparison of Export and Domestic Procurement Prices of Major Agricultural Products, 1980/81-1983/84

	1980/81	1981/82	1982/83	1983/84
(In SDR equivalent per metric ton)				
Export unit price				
Rice <u>1/</u>	233.6	259.2	192.9	182.6
Rubber	960.0	768.0	645.5	802.2
Jute	176.7	164.2	162.2	...
Pulses and beans	250.4	251.3	302.4	382.8
Maize	132.1	108.5	107.4	126.8
Government procurement price <u>2/</u>				
Rice <u>3/</u>	85.8	85.8	85.8	85.8
Rubber <u>4/</u>	484.6	484.6	484.6	484.6
Jute <u>5/</u>	223.0	223.0	223.0	223.0
Pulses and beans <u>4/</u>	127.2	127.2	127.2	127.2
Maize	94.0	94.0	94.0	94.0
(In percent)				
Ratio of government procurement price to export unit price				
Rice	36.7	33.1	44.5	47.0
Rubber	50.5	63.1	75.1	60.4
Jute	126.2	135.8	137.5	...
Pulses and beans	50.8	50.6	42.1	33.2
Maize	71.2	86.6	87.5	74.1

Source: Data provided by the Burmese authorities.

- 1/ Excluding rice products.
- 2/ Excluding transportation cost.
- 3/ Paddy converted; Ngasein ordinary.
- 4/ Average of various qualities and varieties.
- 5/ First grade.

BURMA

Basic Data

Area	676,540 sq. km. (261,228 sq. miles)			
Population (1983/84)	35.7 mn. (annual growth rate of 2.0 percent)			
Gross domestic product (1983/84)	SDR 5,845 million (K 49,730 mn.)			
Per capita GDP (1983/84)	SDR 164 (K 1,393)			
	1981/82	1982/83	1983/84 Prov.	1984/85 Staff Est.
	(Percentage changes)			
Output and prices				
GDP at constant market prices	6.3	6.0	5.6	4.5
GDP deflator	4.6	2.1	1.3	6.0
Consumer prices (annual average)	1.4	5.2	5.7	6.0
	(In percent of GDP)			
Investment and savings ^{1/}				
Domestic savings	16.7	14.0	16.3	14.9
Domestic gross investment	22.9	22.8	20.0	17.9
Of which: fixed investment	20.1	21.6	18.7	16.9
Consolidated public finance ^{2/}				
Total receipts	19.1	20.8	18.5	15.9
Excluding grants	18.1	19.2	17.3	15.2
Of which: tax revenue	9.9	9.9	9.2	8.5
Total expenditure	28.5	30.1	27.6	25.2
Current expenditure	13.5	13.4	13.7	13.3
Capital expenditure and net lending	15.0	16.7	14.0	11.9
Overall balance	-9.4	-9.4	-9.2	-9.3
Domestic bank financing	5.5	5.0	5.8	6.6
Foreign financing	4.0	4.6	3.7	3.1
	(Percentage changes; end of period)			
Money and credit ^{3/}				
Domestic credit	21.5	14.2	13.8	16.9
Public sector, net	25.7	16.5	15.1	19.9
Private sector	5.9	-3.5	2.1	-0.9
Broad money	17.1	12.7	16.2	15.6
Income velocity (GDP/broad money)	3.3	3.1	2.9	2.8
Interest rate (one-year savings bank account)	8.0	8.0	8.0	8.0
	(Percentage changes)			
Balance of payments				
Export value ^{4/}	8.9	-16.5	16.5	10.1
Of which: rice	14.5	-24.2	22.2	1.2
Import value ^{4/}	29.3	15.4	-24.3	2.3
Export volume	0.7	2.5	19.0	9.7
Import volume	21.9	15.3	-24.7	0.8
Export unit value ^{4/}	8.1	-18.8	-2.1	0.4
Import unit value ^{4/}	5.5	0.5	0.6	1.5
Terms of trade	2.5	-19.2	-2.6	-1.9
Current account balance/GDP ^{5/}	-6.3	-9.1	-4.5	-3.7
Overall balance (in millions of SDRs)	-42	-138	19	11
Gross official reserves (SDRs mns.) ^{6/}	195	73	110	113
(In months of imports)	3.4	1.1	2.2	2.2
	(In millions of SDRs)			
External debt				
Medium- and long-term debt	1,472	1,816	2,086	2,287
Use of Fund credit	55	65	83	75
Total debt	1,527	1,881	2,169	2,362
(In percent of GDP)	30.2	34.5	37.1	36.5
Debt service	135	129	159	199
In percent of current receipts, including private remittances	28.2	31.3	34.1	38.9
	(Percentage changes)			
Exchange rate indices, trade weighted (annual average)				
Nominal effective rate	-2.2	0.5	1.6	0.4 ^{7/}
Real effective rate	-9.3	1.4	3.1	1.7 ^{7/}

^{1/} Staff estimates.

^{2/} Figures for 1983/84 are revised estimates.

^{3/} Figures for 1984/85 are actuals for the year to September 1984.

^{4/} In SDRs.

^{5/} Excludes official grants.

^{6/} At end of year.

^{7/} During the 12-month period ended September 1984.

Burma-Fund Relations

(As of December 31, 1984)

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 kyat: 208.6
(152.3 percent of quota)
- (c) Fund credit: 78.6
(57.4 percent of quota)
 - Credit tranches: 23.8
(17.4 percent of quota)
 - Compensatory financing facility: 54.8
(40.0 percent of quota)
- (d) Reserve tranche position: 6.9
- (e) Current operational budget: None
- (f) Lending to the Fund: None

III. Current Stand-By or Extended Arrangement 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

- (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

Burma--Fund Relations (continued)

IV. SDR Department

- (a) Net cumulative allocations: 43.5
- (b) Holdings: 0.07
(0.16 percent of net cumulative allocation)
- (c) Current Designation Plan: None

V. Administered Accounts

- (a) Trust Fund loans:
 - (i) Disbursed: 58.6
 - (ii) Outstanding: 51.2
- (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 February 10, 1984. Staff discussions were held during October 28- November 10, 1983 (SM/84/22; SM/84/29). The Executive Board adopted the following decision:

"The Fund takes this decision in concluding the 1983 Article XIV consultation with Burma, in the light of the 1983 Article IV consultation with Burma conducted under Decision No. 5392-(77/63), adopted April 29, 1977

Burma--Fund relations (concluded)

(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/84/22 and SM/84/29. 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. |
| (d) Other: | None. |

XI. Resident Representative/Advisor: None.

IBRD Group Operations in Burma

Burma became a member of the World Bank in 1952, IFC in 1956, and IDA in 1962. During the period 1956-61, the Bank made three loans totaling \$33.1 million, all for transportation projects. No lending was requested during the period 1962-72. After the resumption of operations in 1973, 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 IBRD 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 disbursements by the IBRD group was in support of agricultural projects, including irrigation, rubber, livestock, seed development, and grain storage projects (Table 9). About 20 percent was for transport projects, and the remaining 35 percent for projects mainly in the forestry, mining, manufacturing, construction industry, power and telecommunications sectors. Projects presently under discussion include irrigation, seed development, and grain storage projects.

In addition to the provision of financial assistance, the IBRD group has been providing policy advice to support the formulation and implementation of effective development policies. Recent policy recommendations have emphasized the need to improve the efficiency of public enterprises and increase domestic resource mobilization.

Table 9. Burma: IBRD and IDA Lending:

(As of October 31, 1984)

	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	--	44.1	44.1 (11.9)	12.0
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:	August 1983; an economic report has been prepared by the mission but remains in a draft form due to the postponement of the Aid Group Meeting originally scheduled for November 1984. The most recent Economic Report: "Burma: Priorities for Continued Growth" was issued on May 7, 1982.			
Burma Aid Group:	The last meeting was held on July 6, 1982, in Tokyo, under the chairmanship of the IBRD. The aid pledges totaled about \$900 million for the next two years. The next Aid Group Meeting is scheduled for January 1986.			

1/ Figures in parentheses represent percentage of total.

Burma - Statistical Issues

1. Coverage, currentness, and reporting of data in IFS

		<u>Latest Data in January 1985 issue of IFS</u>
Real Sector	- National Accounts	1983/84
	- Prices	June 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982/83
	- Financing	1982/83
	- Debt	n.a.
Monetary Accounts	- Central Bank	Dec. 1983
	- Deposit Money Banks	Dec. 1983
	- Other Financial Institutions	n.a.
	- Monetary Survey	Dec. 1983
External Sector	- Merchandise Trade: Values	June 1984
	- Merchandise Trade: Prices	June 1984
	- Balance of Payments	QIV 1983
	- International Reserves	Sept. 1984
	- Exchange Rates	Sept. 1984

The present coverage of IFS remains limited, and the reporting of data except for exchange rate, international reserves, national income accounts has been subject to long delays.

2. Outstanding statistical issues

Government finance: Although revised estimates of the 1983/84 budget are available, the latest data provided to the Bureau of Statistics of the Fund refer to 1982/83. The staff urged the currentness of the data be improved, but the authorities noted that definitive budgetary statistics are available only after two years. Given the importance of public enterprises in the economy, it is desirable to include data on public enterprises as well as the statistics on government finance.

Monetary accounts: The reporting lag, which is currently about one year, needs to be shortened substantially. At the same time, the consistency between monetary and fiscal statistics needs to be improved. The staff presented to the authorities a proposed revision

of monetary survey statistics by the Bureau of Statistics of the Fund during the mission. The authorities agreed to review the proposal.

Balance of payments: The balance of payments data published in IFS are reasonably current, but consistency between monetary survey and balance of payments statistics needs to be improved.

