

March 18, 2019
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/21-1

11:40 a.m., March 12, 2018

1. Myanmar—2017 Article IV Consultation

Documents: SM/18/30, and Correction 1, and Correction 2, and Supplement 1, and Supplement 2; SM/18/39

Staff: Peiris, APD; Wiegand, SPR

Length: 42 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
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M. Mkwezalamba (AE)

A. Olhaye (AF), Temporary
 C. Moreno (AG), Temporary
 C. Barron (AP)
 P. Fachada (BR)
 P. Sun (CC)
 T. Gonzalez (CE), Temporary
 N. Feerick (CO), Temporary

M. Erbenova (EC)

A. Castets (FF)
 K. Merk (GR)
 P. Dhillon (IN), Temporary
 M. Psalidopoulos (IT)

M. Kaizuka (JA)

P. Abradu-Otoo (MD), Temporary
 F. Al-Kohlany (MI), Temporary
 N. Jost (NE), Temporary
 R. Bartkus (NO), Temporary
 L. Palei (RU)

H. Alogeel (SA)

J. Agung (ST)

M. Panek (SZ)

V. White (UK)
 D. Crane (US), Temporary

C. McDonald, Acting Secretary

S. Kalra, Summing Up Officer

O. Beshpalova, Board Operations Officer

M. McKenzie, Verbatim Reporting Officer

Also Present

World Bank Group: D. Mishra. Asia and Pacific Department: L. Hunter, F. Landicho, S. Peiris, C. Rhee, M. Rodlauer, A. Win. Communications Department: T. Yan. Corporate Services and Facilities: T. Lenneiye. Fiscal Affairs Department: M. Queyranne. Legal Department: I. Luca. Monetary and Capital Markets Department: J. Moyo. Strategy, Policy, and Review Department: J. Wiegand. Alternate Executive Director: O. Bayar (EC), E. Villa

(ST). Senior Advisors to Executive Directors: F. Fuentes (BR), S. Maluck (GR), T. Ozaki (JA), M. Shaari (ST). Advisors to Executive Directors: H. Alias (ST), L. Cerami (IT), S. Ismail. (ST), G. Khurelbaatar (AP), A. Nainda (AE), Y. Naruse (JA), C. Ong (ST), S. Potapov (RU), V. Sanoubane (ST), O. Stradal (EC), L. Buteau Allien (BR), K. Lok (CC), M. Cowie (UK).

1. MYANMAR—2017 ARTICLE IV CONSULTATION

The staff representative from the Asia and Pacific Department submitted the following statement:

The information below has become available following the issuance of the staff report (SM/18/30). It does not alter the thrust of the staff appraisal.

There are signs of a continuing economic recovery. The Purchasing Managers' Index in January indicated an economic expansion for a fourth straight month, signaling an improved near-term manufacturing outlook.

While more recent FDI inflow data are unavailable, leading indicators such as FDI project amounts approved by the Directorate of Investment and Company Administration for the first 10 months of 2017/18 show a marked deceleration since September 2017.

The authorities submitted to parliament a proposal for an income tax amnesty/voluntary disclosure program, but details remained to be finalized. The proposal is designed to allow a one-off opportunity to declare undeclared income at a lower penalty.

The external sector remained resilient with a stable exchange rate and gross foreign reserves at US\$5.3 billion in January 2018, equivalent to about 3 months of prospective imports.

Private sector credit growth continued to moderate slightly to 26 percent (y/y) in November 2017, from 27 percent (y/y) in September 2017.

The authorities launched their Myanmar Sustainable Development Plan (MSDP) on February 26. The MSDP identifies a number of development priorities, reflecting multi-dimensional and vast development needs. While further work is needed to specify reform sequencing and integration with the medium term fiscal framework, the MSDP is a good first step towards setting reform direction, and building an inclusive development agenda.

Mr. Agung and Mr. Alias submitted the following statement:

Introduction

On behalf of the Myanmar authorities, we thank staff and management for the Fund's active engagement with Myanmar, including the constructive

and candid policy discussions during the Article IV consultation that took place from November 6 to 17, 2017.

In the past 5 years, the authorities have been intensifying reform efforts to further improve the living standards of the Myanmar people. Among the priorities are to reduce poverty, foster job creation and rural development as well as to promote better health and education services. The authorities agree that while Myanmar has made important progress in key areas of the economic reform program, a second wave of reforms is now needed to sustain the growth momentum. To this end, the authorities highly value the Fund's advice and technical assistance, and will continue to consider the Fund's advice in moving forward with the reform strategy. The authorities are in broad agreement with staff's assessment and will take the recommendations into consideration in formulating future policies.

Recent Economic Development and Outlook

The Myanmar economy registered growth of 5.9 percent in FY¹ 2016/2017. The lower-than-expected growth performance during this period was mainly due to the temporary suspension of construction permits in Yangon and weak agricultural production following severe weather conditions. Weak export performance also contributed to the moderation in growth. However, economic activity has since rebounded strongly. Real GDP is estimated to grow by about 7.0 percent in FY2017/2018 driven by a recovery in agriculture and exports and higher public spending, aided by growth in the construction and tourism sectors. As the authorities continue to strengthen macro-economic management, medium-term growth is projected to gradually pick-up to around 6.8 percent, supported by higher public investment spending and FDI inflows.

Developments since the 2016 Article IV point to more favorable macroeconomic conditions and reduced imbalances. Fiscal adjustments carried out during the year have narrowed the fiscal deficit to about 3 percent of GDP (compared to 4.4 percent of GDP in FY2015/2016), in turn further reducing the fiscal deficit financing by the Central Bank of Myanmar (CBM). Inflation declined to about 5.2 percent on the back of reduced monetary financing and lower food prices. Fiscal adjustment also contributed to a stronger external position, with the current account deficit falling to about

¹ The fiscal year (FY) starts on April 1 and ends on March 31

3.9 percent of GDP in FY2016/2017 (5.1 percent in FY2015/2016). The current account deficit continues to be financed by FDI.

The CBM's foreign reserves increased to US\$5.1 billion as at September 2017, sufficient to finance 3.4 months of imports. The authorities expected the accumulation of international reserves to continue given the increase in capital inflows. Foreign reserves are expected to remain above the minimum conventional threshold of 3 months' import coverage throughout 2017/2018 fiscal year. The Kyat remained broadly stable over the course of 2017.

Credit to the private sector remained healthy to support the growing economy, and is expected to expand by 33 percent attributed largely to increased business opportunity, better access to credit to business entities and further development of credit facilities to Small and Medium Enterprises.

Going forward, the growth momentum is expected to be sustained. While overall risks are currently skewed to downside, government's policies to promote private investment and improvement in macroeconomic management continues represent upside risks. Stronger growth in Myanmar's trading partners, particularly the ASEAN economies, could also have positive spillovers to Myanmar's economy. The latest economic data indicated steady flows of FDI and tourist arrivals into Myanmar. Financial stability risk is expected to be contained with the implementation of the new prudential regulations that will help improve banks' asset quality and capital positions.

Fiscal Policy

The authorities acknowledge the important role of fiscal policy in promoting economic growth and development as well as in ensuring the success of their reform agenda. Balancing fiscal prudence with the broader goals of inclusive growth and poverty reduction will require that the authorities strike the right balance in prioritizing critical socio-economic expenditure.

The implementation of a gradual and growth-friendly fiscal consolidation strategy in recent years has kept current spending in check. The positive fiscal performance continues in FY2016/2017 on the back of higher tax revenue, reflecting improved tax-administration including the introduction of self-assessments for large tax-payers and capacity development within the tax authority.

Myanmar's fiscal year will change from April-March, to October-September commencing 1 October 2018. The change in fiscal year is intended to improve implementation of capital and infrastructure, given the timing of the monsoon season. The latest budget will continue to focus on priority socio-economic spending with an increase in the budget for education and health, along with higher allocation for growth-enhancing infrastructure to the regions that face urgent development needs. The budget is anchored on conservative revenue projections and targets a fiscal deficit of 3.5 percent of GDP in the medium term. As acknowledged in the staff report, this deficit level is consistent with the assessment to build fiscal space to respond to shocks (including from natural disasters) and meeting the substantial development needs. Most importantly, it will also put Myanmar at minimal risk of debt distress.

On the revenue side, tax revenue improvements will support increased spending in infrastructure and social expenditure. The proposal to change the tax year to be consistent with the fiscal year is currently under consideration, with the authorities weighing the pros and cons, mindful of domestic implementation capacity.

Myanmar remains committed to implementing fiscal reform measures. These include enhancing tax and customs administration, and measures to reform tax policy aimed at strengthening domestic revenue mobilization. Progress has been made on improving revenue administration, notably the establishment of Large Taxpayer office in 2014 which has helped improve tax compliance and tax administration. The Internal Revenue Department (IRD) reform program has helped improve efficiency and effectiveness of the tax collection agency. This first phase of reforms has yielded dividends in terms of improving revenue buoyancy and tax payer services. Efforts are on-going to bring IRD practices closer to the international tax administration standards.

Going forward, the authorities are committed to further deepen the implementation of fiscal reforms. Modernization of tax laws to provide a transparent and legal basis for tax collection as well as rationalization of tax incentives are key reform priorities for 2018. These includes passage of the Tax Administration and Procedures Law and the Income Tax Law which are expected to be effective beginning the new fiscal year in October 2018. The authorities are working closely with the Fund TA team and other development partners to further develop revenue management capabilities including, improving customs administration and budgetary operations.

A new public financial management strategy is being prepared for the next 5 years with the World Bank and Fund TA focusing on strengthening institutional capacity to support efficient, accountable, and transparent delivery of public services.

The authorities intend to release fiscal data in line with the Government Finance Statistics (GFS) framework in 2018 to increase transparency and boost confidence of the private sector and development partners in the government's public financial management.

Monetary and Exchange Rate Policy

Within a relatively short period after the central bank was granted autonomy in July 2013, the CBM has made important progress to enhance its monetary policy framework and the managed float exchange rate system. This includes realignment of the reference rate with parallel market exchange rates and the conduct of deposit auctions to mop up liquidity. Treasury bill and bond auctions were introduced in January 2015 and September 2016 respectively. This has facilitated market-driven interest-rate determination and greater participation by commercial banks. The recent decision to allow purchase of government securities by foreign banks will further promote the development of the Treasury bond market. Myanmar is also in the process of developing its interbank market. Since April 2016, the authorities have allowed banks to engage in bilateral interbank lending and interbank market deposit to support the development of the banking sector and liquidity management. To improve the monetary policy framework, the CBM is trying to develop the repo market to improve the functioning of money markets and distribution of liquidity among banks. Plans are underway to gradually liberalize the interest rate, which would help strengthen monetary policy transmission.

The authorities concur with staff's recommendations in various areas regarding the monetary sector. The authorities recognize that greater exchange rate flexibility and phasing out of CBM fiscal deficit financing will strengthen monetary policy independence and effectiveness. The authorities remain committed to reducing CBM deficit financing in a gradual manner. In line with staff's recommendation, the authorities for the first time introduced a limit on the central bank deficit financing to 40 percent of domestic financing in FY2016/17. Although the limit was not met, the proportion of domestic financing has declined significantly. The limit will be further reduced to 30 percent of domestic financing for FY2017/2018 and fully eliminated in 2020. The gradual approach is to ensure the potential increase in cost to the

budget and any unintended crowding out effects on private sector credit flows are manageable.

Since April 2012, Myanmar has abandoned the fixed exchange rate regime (pegged to the SDR) in favor of a managed floating exchange rate regime. In the initial stage of transition, the daily reference rate for the U.S. dollar was determined through foreign currency auctions. However, there was limited market participation in foreign currency auctions, due to the under-developed market. The government has taken various steps to reduce the divergence between the official reference rate and market rate. The current foreign currency pricing mechanism has brought the reference rate closer to the informal market. At the same time, a prohibition on trading outside the FX trading band has been lifted. Moving forward, the authorities intend to formally introduce the new exchange rate mechanism but remain cautious regarding the potential rate manipulation.

Financial Stability

The authorities have made considerable progress in improving the regulatory environment to strengthen financial stability. This includes enacting new laws and regulations, upgrading prudential regulations, revising the supervisory framework, and developing supervisory techniques in line with international standards. Several laws have been enacted, namely, the new Foreign Exchange Management Law (August 2012), the new Central Bank of Myanmar Law (July 2013), the Securities Exchange Law (July 2013), Anti-Money Laundering Law (April 2014) and the Financial Institutions Law (2016).

In the past year, the CBM has stepped-up efforts to strengthen regulation and supervision of financial institutions including to address the authorities' concerns regarding the true picture of bank's asset quality and profitability. In July 2017, to implement the Financial Institutions Law, the CBM issued four important prudential regulations, namely, Asset Classification and Provisioning Regulations, Large Exposure Regulations, Liquidity Ratio Requirement Regulations and Capital Adequacy Regulations. The CBM is currently reviewing individual banks' measures to comply with regulations and active industry consultations are on-going to obtain feedback and address implementation issues. Based on industry feedback, a further directive that allows for the restructuring of viable overdrafts to term loans of up to three years was issued in November 2017. The CBM is working closely with the banks to shore up capital levels to meet the prudential requirement.

The authorities remain committed to improving financial regulation and supervision and are grateful for the technical assistance provided by the Fund and World Bank on the banking sector plan and look forward to its implementation. The authorities fully recognize that more needs to be done to further strengthen financial stability; however, they underscore the need for appropriate sequencing of reforms commensurate with economic development and the CBM's capacity to regulate and supervise the financial sector.

Efforts are on-going to promote a more inclusive financial system, including enhancing access to banking services and microfinance. The Mobile Banking Regulation and Mobile Financial Services Regulation issued in 2013 and 2016 have helped expand participation of financial service providers in the mobile payment network. The regulation on the Credit Information Reporting System issued in March 2017 provides a basis for the establishment of a Credit Bureau in Myanmar. The payment and settlement system has been further enhanced with the establishment of the CBM Net system. In addition, to improve the payment and settlement mechanism, the Real Time Gross Settlement System (RTGS) and Mechanized Clearing House (MCH) were implemented in January 2016.

Important milestones have also been made in the AML/CFT area. The Anti-Money Laundering Law were enacted in 2014 and its accompanying regulations were issued in 2015. To help enhance compliance by banks and financial institutions, CBM has issued a Risk Management Guidance Note and an updated risk based Customer Due Diligence Directive in 2015. FATF removed Myanmar from the list of countries under ICRG process in June 2016.

Conclusion

The authorities remain committed to preserving macroeconomic and financial stability, promoting sustainable and inclusive growth and implementing appropriate reform measures. At the same time, given capacity constraints, the authorities are mindful of challenges in implementing reform measures on many fronts. Our authorities acknowledge that the pace of institutional capacity building needs to be enhanced to help smooth the reform process and ensure that the current growth momentum is sustainable. In this regard, the authorities recognize the instrumental role international financial institutions and countries in the region have played in helping to strengthen Myanmar's capacity building. Therefore, our authorities would like to express their sincere gratitude to the Fund, the World Bank, the Asian Development Bank and countries in the region for their support and policy advice over the

years and look forward for their continuous support as the country moves forward with its economic reform program.

Mr. Ostros and Mr. Bartkus submitted the following statement:

We thank staff for a well-written report and Messrs. Agung and Alias for their informative buff statement. We welcome the ongoing economic recovery in Myanmar and broadly agree with staff's characterization of outlook and risks, particularly with a strong emphasis on the banking sector challenges. We are pleased to note that the initial economic liberalization has led to a rapid acceleration of growth and poverty reduction.

Building on this success, the authorities should now make further progress in developing a comprehensive medium-term strategy for a second wave of reforms. We fully agree with staff's emphasis on reform complementarities and share their view on the priority areas, notably the need to focus on agricultural reforms, strengthening the banking sector, addressing infrastructure bottlenecks, further trade liberalization and economic openness.

The staff's update notes a marked deceleration in FDI based on the leading indicators, though at the same time underscores that the thrust of the staff appraisal remains unchanged, whereas the staff report assumes continued strong FDI growth. Recognizing data availability constrains, we would appreciate a clarification on the FDI dynamics.

We echo staff's policy advice on the need to gear the fiscal policy towards achievement of SDGs while anchoring debt sustainability and lowering monetary financing of the deficit. To support these overarching objectives, the fiscal reform strategy should be focused on improving domestic revenue mobilization, expenditure rebalancing, and strengthening public financial management.

We take note that further fiscal expansion is expected to be financed from continued tax buoyancy, tax policy and administrative reforms. We note with some concern the authorities' plans for a tax amnesty and would appreciate staff's elaboration and view on this issue. We would also appreciate a further comment on significant under-execution of capital spending, to what extent that reflects capacity constraints? Furthermore, we would welcome elaboration on the assumptions made in expecting continued tax buoyancy.

Reforms in the monetary area should remain focused on strengthening the monetary policy framework, exchange rate flexibility, phasing out monetary financing, strengthening the price stability mandate, and operational independence of the central bank. Developing the interbank market is also important for the monetary policy transmission. These issues are well recognized in the report.

The story of positive growth effects from initial trade liberalization is very much familiar from past transition experiences, unfortunately so does the building up banking sector fragilities. The authorities should give due attention to the banking sector fragilities noted in the report, particularly as regards the risks of evergreening, related party lending, and undercapitalization. We note the importance of continued TA support from the Fund in this regard.

Mr. Fachada and Mr. Fuentes submitted the following statement:

We thank staff for the reports. After a mild slowdown in 2016/17, Myanmar remains one of the fastest-growing economies in Asia. Real GDP growth is expected to average around 7 percent through fiscal year 2019/20, driven by strong foreign investment activity and public capital spending. Favorable external conditions and prudent domestic policies have supported the recovery, and reduced macroeconomic imbalances. However, important structural issues must be addressed to improve socioeconomic conditions for sustainable development in the country.

The humanitarian crisis in Rakhine State clouds the outlook. Renewed violence in the poverty-stricken northern state continues to affect thousands of people. While the expected direct economic impact is considered localized by staff, increasing social costs, withdrawal of donors, and the possibility of further sanctions from the international community could affect aid flows and foreign investor sentiment, with ramifications to overall economic activity. Greater regional cooperation is critical to solve this conflict and foster a more favorable domestic and external environment for growth.

Central bank continues to finance government deficits. In a context of subdued inflation and lower fiscal and current account deficits, financing from the Central Bank of Myanmar (CBM) has been limited but still considerable. Moving forward, strengthening the operational autonomy of the CBM is paramount to manage monetary policy in a market economy. The CBM also needs to bolster the monetary policy framework to improve the management of interest rates, liquidity, credit and inflation expectations.

Despite improvement in fiscal position, the budget deficit is projected to widen over the medium term. The fiscal deficit in 2016/17 was lower than anticipated, supported by buoyant tax revenues and moderation in spending, in the context of a low public debt. Yet, the deficit is expected to expand further, as capital spending accelerates and revenue remains limited by a very narrow tax base. Improving revenue mobilization and removing structural bottlenecks hindering expenditure efficiency are crucial to support inclusive growth in a context of fiscal sustainability. Against this background, we share staff's concerns regarding public sector capacity to effectively manage fiscal risks associated with the upcoming change in the fiscal year.

Keeping up reform momentum is critical for development. Since the political and socioeconomic reforms started in 2011, Myanmar has marched towards a market-based economy, with progress in strategic areas and sectors. Nonetheless, as alluded by staff, an overarching structural reform agenda is needed to provide policy context to private sector and international investors. This would also provide a clearer path for income convergence with Myanmar's peers in the region.

Mr. Doornbosch and Mr. Manchev submitted the following statement:

We thank staff for the comprehensive set of papers and Messrs. Agung and Alias for their informative buff statement. Growth is steadily regaining momentum after the Rakhine State humanitarian crisis, and the long-term prospects appear strong under the favorable demographics, competitive labor force and strategic location. Nevertheless, Myanmar faces several challenges common to newly liberalized economies. In addition, the effects of the recent Rakhine crisis on investors are yet to be determined, which puts the outlook under even more uncertainty, and downside risks may become larger than anticipated by staff. Since we broadly agree with the staff's appraisal, the following comments are provided for emphasis.

While the macroeconomic imbalances were recently reduced, a well-sequenced and credible reform strategy is warranted to set economic directions, catalyze medium term growth and guarantee income convergence with the neighbors. Despite the dramatic reduction of poverty in the last decade, the multi-faceted nature in Myanmar requires reinforcing policies, and investment. Like staff underscored, the so called "second wave of reforms" and investment in human and physical capital will be key going forward. The reduced foreign direct investment inflow comes at a particularly bad moment as increased risks in the banking sector would require substantial financing.

We encourage the authorities to continue with the peace process, economic and financial liberalization and integration in the global value chains through a closer engagement with the development partners. The strong collaboration between the Fund and other developing partners in Myanmar should continue, as well as the extensive provisioning of technical assistance (TA). Can staff provide additional information on the measures to reduce uncertainty and risks for the development partner financing, and projects with non-concessional financing?

Prudent fiscal policies and sound public financial and debt management remain essential to anchor debt sustainability, reduce historical reliance on monetary financing, and build the fundament for achieving the authorities' Sustainable Development Goals. The key takeaways from the Fund's pilot work on domestic revenue mobilization, climate change, and inequality in Myanmar should help the authorities to properly address development issues. However, we note that the recent deficit reduction remained largely driven by the underexecution of spending, especially capital spending, despite encouraging improvements in the revenue mobilization process last year. Rationalization of tax exemptions and investment incentives remains key to better benefit from Myanmar's advantageous geographic position and increase its participation in the global value chains. We believe that the fiscal consolidation process should take into account the country's development needs to efficiently weather external and nature-related shocks. Thus, we support staff's view that increased private sector consultation and strong commitment to an overarching medium-term development plan with a fiscal framework, would help to design the strategic direction and facilitate the reform implementation. The monetary financing of the budget also remains well above the targeted ceilings, and the authorities should expeditiously adopt a medium-term debt management strategy consistent with the fiscal framework to steadily abandon the debt monetarization. Going forward, use of non-concessional government borrowing should be limited to projects with high economic and social returns. If not met in a timely manner, the above critical conditions may further erode the investors' confidence in Myanmar's reforms.

The Central Bank of Myanmar (CBM) should further strengthen the monetary policy framework and increase transparency of its policy operations. Creating conditions for stronger exchange rate flexibility through the removal of the exchange rate trading band and strengthening interbank markets will also support Myanmar's external competitiveness and provide an important buffer against exogenous shocks. The CBM's recent progress with withdrawing excess liquidity and the improved inflation outlook provide a

window of opportunity to develop indirect monetary instruments and a market-determined government bond yield curve. We encourage the CBM to formally constitute its monetary policy committee and establish clearer medium-term price stability objectives to facilitate the next steps in the interest rate liberalization and cash management. While we note a decline in the direct monetary financing of the government deficit and debt, it remains well above the pre-established ceilings, and the CBM independence needs to be further strengthened to limit spillovers on inflation. Could staff clarify the impact of the above-the-target monetary financing on inflation and inflationary expectations?

We welcome the authorities' recent progress to address the financial stability and AML/CTF concerns. As a result, Myanmar was removed from the FATF's monitoring process, but several issues are still outstanding, and the new AML/CFT Law should be soon adopted in line with the recommendations. The selected issues paper on banking sector developments also unveils remarkable progress by the authorities with the banking sector reform. We welcome the comprehensive banking sector action plan, developed with Fund and World Bank TA. The CBM supervisory capacity constraints, however, may impede the implementation. These should be urgently addressed to guarantee proper enforcement of the bank credit risk management and safeguard sustainable lending to the private sector. Myanmar's small banking sector has expanded rapidly in the recent years, and the CBM continues with its liberal licensing policy. These developments also call for further strengthening of the supervisory and resolution framework, especially given the large presence of the foreign bank branches and private banks, which hold the majority of the households' deposits.

Finally, we urge the authorities to more forcefully improve the macroeconomic statistics, which will in turn lead to better surveillance and informed policy-making.

Mr. Gokarn and Mrs. Dhillon submitted the following statement:

We thank the staff for the Article IV report and Mr. Agung and Mr. Alias for the informative buff statement.

We take positive note of the staff assessment that Myanmar's economy stabilized in 2016/17 with growth at 5.9 percent. A favorable medium-term macroeconomic outlook projecting growth at 7.0 percent to 7.5 percent is further encouraging as is the progress on many economic indicators. Inflation moderated to 6.8 percent with low food prices and the current account deficit

fell to about 3.9 percent of GDP in 2016/17 from 5.1 percent in 2015/16. International reserves, at 3.2 months of prospective imports, were broadly stable. There are challenges to achieve sustainable and inclusive growth with external and internal risks from commodity prices, potentially volatile global financial markets, exposure to spillovers from China, natural disasters and the humanitarian crisis in Rakhine state. But there are also opportunities to further deepen reforms and create shared prosperity for all and we urge the authorities to build on the foundation provided by the growth performance.

We agree with staff that the Fiscal policy should be geared towards achieving the SDGs and debt sustainability and lowering CBM financing of the deficit. Based on the World Bank's metrics, poverty went down from 44.5 percent in 2004/5 to 37.5 percent in 2009/10 and 26.1 percent in 2015. However, poverty remains substantial, especially in rural areas. Achieving the SDGs will require increasing fiscal resources through continued domestic revenue mobilization, expenditure rebalancing, and improving Public Financial Management. The fiscal deficit fell to 2.5 percent of GDP in 2016/17 with higher revenues and lower spending and the authorities deserve praise for this. It is expected to remain at around 4-4.5 percent of GDP in the medium term. Myanmar has been assessed at low risk of external debt distress. We note that staff has recommended greater use of concessional financing from development partners to expand fiscal resources for achieving the SDGs and fostering inclusion by addressing regional disparities and has also suggested restructuring and privatization of SEEs. Has staff discussed with authorities an overall financing and debt management strategy, and the potential and mechanics for privatization?

On monetary policy, staff has recommended that it is an opportune time to formally adopt the new transactions-based exchange rate mechanism. While recommending this, staff has reasoned that with the auction no longer used as a price discovery mechanism, the CBM has informally set the official exchange rate near the informal market rate. While acknowledging that moving forward the authorities will formally introduce the new exchange mechanism, they remain cautious about potential rate manipulation. The report also mentions that the authorities have indicated that they see value in retaining the FX auction for future intervention purpose. We invite staff comments on the impact this retention could have. We concur with staff that given the more moderate inflation outlook, Monetary policy tightening can be put on hold. Beyond this, we also see this as an opportune time to further strengthen the monetary policy framework and urge the authorities to take calibrated action.

Financial stability remains a vulnerable spot and therefore necessitates improved regulation and supervision. We commend the authorities on the considerable progress in improving the regulatory environment including enacting new laws and regulations, upgrading prudential regulations, revising the supervisory framework, and developing supervisory techniques in line with international standards. We positively note that the banking sector action plan and TA provided by the Fund and World Bank is ready for implementation. With a wide, ambitious and challenging list of priorities including restructuring of state-owned banks, financial sector and interest rate liberalization, increase in bank capital, contingency plans to address emerging systemic banking risks, strengthening the resolution capacity and so on, we wonder whether there is a capacity to manage the transition. We invite staff comments. Has staff discussed the sequencing and timelines for the implementation? More critically, addressing of weakness identified in the AML/CFT law need to be fast tracked and we urge the authorities to make measurable progress on this.

Finally, staff has emphasized that capacity development merits strong strategic focus. Myanmar is one of the IMF's largest recipients of CD resources. We note with concern that, despite this, data provision seriously hampers surveillance. We would urge the authorities to articulate a planned strategy for addressing data gaps. We would like to hear from the staff their experience with capacity development programs in Myanmar.

With these remarks we wish the authorities the very best in their endeavors.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the comprehensive reports and Mr. Agung and Mr. Alias for their informative buff statement. At this juncture, it is important for Myanmar to maintain strong momentum in reform implementation to achieve sustainable and inclusive growth. We broadly agree with staff's appraisal and limit our comments to the following for emphasis.

Efforts to mobilize revenue and enhance public financial management would help create fiscal space for promoting sustainable development. Myanmar's fiscal deficit has declined to 2.5 percent of GDP in 2016/17. We take positive note that part of this has resulted from improved tax administration, and encourage further efforts to mobilize revenue such that there is increased room for spending that is supportive of sustainable and inclusive growth. We find the latest budget to be rightly focused on priority socio-economic areas, with increased spending on education, health, and

growth-enhancing infrastructure. We also welcome the development of the new public financial management strategy. We believe these efforts would together contribute to achieving the Sustainable Development Goals.

Meanwhile, we appreciate the authorities' explanation on the intent of changing the fiscal year. Careful planning would be necessary to ensure a smooth transition, and a thorough assessment of the proposal to align the tax year to the fiscal year is also needed. We encourage the authorities to seek additional technical assistance where necessary during this transition. Could staff share on (i) the authorities' plan for the transition period from April to September 2018; and (ii) the considerations of changing the tax year to align with the new fiscal year?

Stronger monetary and exchange rate policy frameworks would contribute to macrofinancial stability. We welcome the authorities' intention to formally introduce a new trade-based mechanism for determining the official reference exchange rate, while remaining cautious of potential rate manipulation. Greater exchange rate flexibility would help cushion the economy against external shocks. In the meantime, efforts to further strengthen the monetary policy framework should continue. We share staff's view that phasing out the Central Bank of Myanmar's (CBM) financing of the fiscal deficit would help enhance monetary policy independence, and take positive note from the buff statement that the authorities have introduced limits to central bank deficit financing. Noting that the target limit for FY2016/17 had not been met, we encourage the authorities to intensify their efforts in meeting their target for FY2017/18.

Continued efforts are needed to mitigate vulnerabilities in the financial sector. Active efforts are being made by the authorities, with technical support from the Fund and World Bank, in improving financial regulation and supervision. With emerging vulnerabilities in the banking sector, sustained efforts are needed to strengthen capital buffers and improve liquidity and credit risk management of the banking sector. The introduction of key regulations by the CBM in 2017 is a welcome development, and we look forward to the successful implementation of the banking sector plan. With the expanded use of mobile banking, it is also important for the authorities to remain cautious of potential security risks that may arise and ensure sufficient consumer protection. Building on the progress achieved so far, the authorities should continue its work in addressing remaining issues in the AML/CFT area.

An overarching strategy would help guide further development efforts and increase confidence in the economy. While the medium-term outlook remains favorable and growth is expected to rebound to 6.7 percent in 2017/18, a clear roadmap setting out the direction and sequence of reforms would help guide further economic development and strengthen investor confidence. We also encourage the authorities to assign greater emphasis on capacity development and make further enhancements to their statistics in order to facilitate a smooth economic transition and reform implementation.

With these remarks, we wish the authorities every success in their endeavors.

Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for a set of well-focused papers and Mr. Agung and Mr. Alias for providing additional information in their statement. Myanmar's economy continues to grow at a brisk pace fueled by rebound in exports and large FDI inflows. According to staff, ongoing strengthening of macroeconomic frameworks and additional structural reforms may increase potential growth even further to about 7-7.5 percent. While the growth outlook remains favorable, significant downside risks remain, including uncertainty associated with the humanitarian crisis in the northern Rakhine state. Proactive policy measures are needed to promote sustainable and inclusive growth and maintain macro-financial stability. We agree with the analysis in the report of key policy challenges and staff's recommendations.

We welcome the launch of the Myanmar Sustainable Development Plan (MSDP). A gradual and careful sequencing of the key policy measures and structural reforms would help economic transition, reduce poverty, and improve the quality of growth. We encourage the authorities to integrate the MSDP with the medium-term fiscal framework. Technical assistance provided by the IMF and other partners remains critical in supporting Myanmar's economic reforms. At the same time, higher regional and global integration should support diversification of the economy.

Fiscal policy should continue to be prudent to preserve macroeconomic stability and ensure debt sustainability. Although the risks of public debt distress are limited and the size of this year's fiscal deficit is contained, additional fiscal space would help in supporting the Sustainable Development Goals (SDGs) and lowering financing of the deficit by the Central Bank of Myanmar (CBM). Fiscal pressures can come from both revenue and spending sides, as development-related grants could be

decreased, the banking sector remains undercapitalized, and the demand for higher social spending and better infrastructure is increasing. We support staff's proposals aimed at rebalancing and increasing spending efficiency (paragraph 19). Myanmar's low tax revenue/GDP ratio suggests ample room for additional base broadening, including through the modernization of tax laws and tax administration.

The staff argue that maintaining fiscal deficit at about 4-4.5 percent of GDP in the medium term would be consistent with the authorities' objective to phase out CBM financing to address the risks of higher inflation driven by money supply growth and strengthen monetary policy independence. While these estimates are encouraging, we welcome the authorities' commitment to cap central bank financing at 30 percent of domestic financing in FY 2017/18. We also welcome the authorities' plans to formally introduce the new exchange rate mechanism. We generally agree with staff's recommendations to allow greater exchange rate flexibility and to distribute the response to external shocks more evenly between exchange rate adjustments and the use of foreign exchange reserves. As a related matter, the authorities need to be more proactive in steady accumulation of additional foreign exchange reserves.

Following a period of rapid credit growth, the risks in the banking sector remain elevated. While staff's analysis shows mixed evidence on the presence of a credit boom, as a precautionary response, it is paramount to strengthen further regulation and supervision and address capital shortfalls and high exposures. The Fund has a good track record in providing technical assistance in this area. We also note the authorities' banking system action plan developed in collaboration with the World Bank.

Myanmar's further integration in the global value chains would require substantial improvements in the business environment and regulation. Myanmar's very low ranking in the 2018 Doing Business Database points to the scope for further reforms. Efforts in this area would also be helpful in addressing challenges associated with governance and institutional weaknesses.

Mr. Armas and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the report and the selected issues paper on Myanmar and Mr. Agung and Mr. Alias for their comprehensive buff statement.

We take positive note that the economy is rebounding and macro variables are stable. The efforts made so far to liberalize the economy and build institutional capacity started to pay-off with the reduction in poverty levels. More efforts to preserve the hard-won macroeconomic stability will certainly help the country reach more ambitious goals and promote a sustained and inclusive economic growth.

Fiscal consolidation remains a priority. We concur with staff's findings that raising social and infrastructure spending is needed for the near and medium term to unleash the growth potential of the country. The major challenge for policy makers might be to create a credible fiscal anchor. Over time, this step will be essential to boost credibility of the economic plan among domestic and foreign investors. At the same time, we welcome the authorities' willingness to restrain the use of central bank financing of the fiscal deficit.

To safeguard the inter-generational benefits of public investments, stronger capacity shall be built for key institutions like fiscal and monetary. It is encouraging to know the authorities' willingness to continue its work on institutional reforms and administrative modernization of the state. Strong Public Financial Management might be needed, as well as a proper calibration of the fiscal policy to broaden the tax base and the reduction of tax exemptions.

On monetary and financial policies, we fully support the plan to strengthen the monetary authority and to eliminate or minimize the monetization of the fiscal deficit and the steps to promote greater FX flexibility. These actions clearly set the path to allow the central bank to focus primarily on price stability and to create the mechanisms and tools to deepen well-functioning market forces. On the financial sector, the speed of credit growth for so many years is a concern as it is well above the nominal growth rate of the country. We encourage the authorities to make progress on strengthening the AML/CFT framework to address identified weaknesses and most of all to set the regulation and supervision of the financial system following international best practices.

We encourage the authorities to move swiftly on State-Owned Enterprises (SOEs) and State-Owned Banks (SOBs) reforms. These enterprises, if not well managed, will create potential liabilities risks to the fiscal accounts and should be carefully monitored. The authorities' limitations to increase supervisory resources and training, due to capacity constraints, caught our attention. We would like more details from staff on how to tackle

this situation and help not only the CBM but other regulators, to create a level playing field for private and public firms to operate.

A second wave of reforms might unlock the potential for an inclusive economic growth. Sustaining the reform momentum will be critical to improve the economic and social indicators should be a priority. Acceleration on the structural reforms agenda, while preserving the hard-won macroeconomic stability, will send the right signals to domestic and foreign investors to support economic growth.

With these comments, we wish the people of Myanmar success in their endeavors.

Mr. Merk and Mr. Maluck submitted the following statement:

We thank staff for their insightful report on Myanmar and Mr. Agung and Mr. Alias for their helpful buff statement.

We broadly concur with the staff's appraisal and their recommendations. After a brief slowdown of economic growth in 2016/17, Myanmar's economy is rebounding and macroeconomic imbalances have stabilized. At the same time, there are important downside risks to the outlook and structural reforms are urgently needed. In particular, banking sector risks are surfacing and the economy is highly dependent on external financing, which is at risk due to the Rakhine state crisis.

Banking fragilities have developed due to rapid credit growth in recent years and the specific structure of lending with concerning high related party lending and large exposure risks. Since the risks became systemic, efforts to foster banking regulation are essential and we fully agree with the staff's recommendations on additional regulations, strengthening credit risk management, increasing bank capital, and restructuring of state-owned banks as outlined in the selected issues paper.

Regarding building supervisory capacity we welcome the Fund's comprehensive Technical Assistance. It is crucial that supervisory capacity keeps up with financial sector development and, hence, we appreciate the staggered reform and liberalization process, which should also be used to strengthen financial stability and the resolution framework. Moreover, financial inclusion remains an important task as households and small enterprises in rural areas have yet to gain appropriate access to finance. We welcome the introduction of basic frameworks for microfinance and mobile

financial services and encourage the authorities to develop these fields further to boost financial access in rural areas.

In the baseline scenario both foreign direct investment and concessionary financing are expected to increase substantially in the coming years and staff highlights their importance for economic development. However, investor sentiment may be impaired by the humanitarian crisis in Rakhine state and development partner assistance could be disrupted. A sizable reduction in concessionary financing and FDI – as indicated by the staff representative on Myanmar in his statement (BUFF/18/7) – could have serious negative economic consequences. Given the current deceleration of FDI, could staff provide a more detailed analysis of the potential impact of this development on economic growth?

Opening the economy up to foreign trade and investment will help to diversify the economy. Given its low integration into the global economy, Myanmar has not been able to fully reap the benefits of its wage competitiveness, and skill and technology transfer has been hampered. We encourage the authorities to focus structural reforms on trade openness and to invest in infrastructure in order to improve the investor and business climate and to attract more investment.

We agree with staff that formally establishing a new market-based exchange rate mechanism would anchor expectations of market participants and therefore could improve investor confidence. To this end, we welcome the plan to officially adopt the new trade-based mechanism for determining the exchange rate, which removes the existing Multiple Currency Practice, and encourage the authorities to phase out the remaining exchange restriction in order to meet its Article VIII obligations. The resulting greater exchange rate flexibility will also allow Myanmar to build up their currently low foreign reserves.

We welcome the authorities' commitment to debt sustainability and their progress in Public Financial Management. At the same time, we urge the authorities to strengthen their public financial management by introducing an IT solution, to enhance revenue mobilization through a broader tax base, and to develop tax and customs administration capacity. Furthermore, fiscal risks from State Economic Enterprises and state-owned banks should be reduced through privatization and restructuring.

While Myanmar's progress in reducing poverty has been promising, considerable downside risks for the (near-)poor persist. 40 percent of the

population remains under or within 20 percent of the poverty line. Economic growth mostly benefitted urban households while hardly reaching the poorest decile of the population. Inequality increased, and particularly in rural areas, poverty reduction remains insufficient. In order to reflect the need for more inclusive growth, we encourage the authorities to realign public spending towards achieving the SDGs and eradicating poverty by improving access to health, education and markets. We commend staff for the insightful chapter on this topic in the selected issues paper.

Last but not least, we encourage the authorities to consent to the publication of the report.

Mr. Panek and Mr. Imashov submitted the following statement:

Despite Myanmar's strong growth in recent years, the economic weaknesses are still significant. Policy buffers are weak, and vulnerability to external shocks is high. We therefore encourage the authorities to take action along staff's recommendations and to implement structural reforms favoring a more sustainable and inclusive growth model. We share the thrust of the staff report and make the following comments for emphasis:

Fiscal policy should be focused on effective consolidation and well anchored on debt sustainability. Also, central bank financing of the deficit should be terminated. As staff state, progress toward the SDGs will require increased efforts at domestic revenue mobilization, expenditure rebalancing, and the improvement of PFM. Fiscal space for priority spending can be achieved through a combination of expenditure re-orientation toward social sectors (education and health) and further improvement of tax administration, as highlighted in the 2017 Public Expenditure Review.

Myanmar has one of the lowest ratios of tax revenue to GDP in the world, with a high potential to increase collection. The revenue reform undertaken so far by the Internal Revenue Department (IRD) is encouraging. Nevertheless, more strategic revenue reforms would require continued political commitment and support from key stakeholders. In case risks stemming from external sources, including commodity prices, and volatile global financial markets, materialize, the authorities will need to rationalize public expenditures, while persevering humanitarian spending and outlays aimed at reducing regional disparities.

We commend the authorities for considerable progress in improving the regulatory environment and strengthening financial stability. Further

financial system reforms are needed to ensure better compliance with national requirements and international regulatory standards, as well as overall resilience. As staff document, risks in the banking sector are increasing, following a period of rapid credit growth. We therefore call on the authorities to enforce prudential regulations in a way that supports financial stability and growth; to strengthen supervisory capacity, including bank resolution and contingency planning; and to develop a broader strategy to enhance the banking system's long-term role in supporting the economy.

We commend the efforts of the Myanmar authorities for the achievement in poverty reduction and improving living standards over the past years. However, as documented extensively in the selected issues paper, more remains to be done, given that a sizable share of the population remains under the near-poverty line.

We encourage the authorities to make a priority of further improving the business environment to attract more foreign investors. Accelerating much needed investment will also require progress on structural reforms in, among other areas, finance, energy, and business regulations. Bringing these together in a comprehensive medium-term economic program, along with an implementation plan and reporting mechanism, could sustain investor confidence. While these initiatives could help achieve steady growth in the near term, inclusive and durable development will require national peace and stability.

Ms. Horsman and Mr. Feerick submitted the following statement:

We thank staff for the staff report and the selected issues papers. Strong fundamentals such as demographics and a competitive labor force continue to support convergence with peer economies, and have facilitated a rapid reduction in poverty rates. However, further progress will be required across fiscal, financial and structural fronts to deliver sustainable growth into the future. As indicated in Messrs. Agung and Alias' buff statement, we welcome the fact that the authorities are keenly aware of these issues and strongly committed to addressing them. We note that there are increasing downside risks, most notably, uncertainty arising from the humanitarian situation in the Rakhine State. As we are broadly in agreement with the staff's assessment, we offer the following comments for emphasis.

While the aggregate fiscal policy remains appropriate, continued reforms in domestic resource mobilization, expenditure rebalancing and enhancing the PFM framework will generate fiscal space for necessary

investments. We are encouraged by the increased tax collection in 2017, which was partly attributed to improved tax administration. This is evidence that recent reforms to capacity are paying dividends. Turning to the SOE sector, noting that over a quarter of these are loss making, staff suggestions around restructurings and potential privatizations appear sensible.

We welcome the detailed work on the banking sector in the SIP and note that staff assess that banking sector vulnerabilities are rising. The staff consider that the new prudential regulations may be having an impact on the pace of credit growth (decelerating to a still high 27 percent) and that this is having a negative impact on corporate investment and the real estate sector. Ultimately though, this has to be weighed against improved financial stability and we would appreciate staff views on the balance between these two. An issue which is an undoubted concern, both in the SIP and the staff report, is the undercapitalization of some parts of the banking system. Addressing this key challenge upfront will pay dividends over the longer term and we encourage the authorities in this regard. In summary, notwithstanding the significant achievements by the authorities in advancing the financial reform agenda, bank balance sheets and risk management should continue to be strengthened.

We agree with staff that an overarching economic roadmap would provide strategic direction and support continued investment and job growth. Enhancing competitiveness and improving the business environment will be key inputs to any overarching economic roadmap. Box 1 describes a number of areas where Myanmar is lagging peers and are worthy of attention from the authorities. However, it is fair to say that sequencing of a ‘second wave’ of reforms will be key. Do staff have a view on which reforms need to be prioritized and how they should be sequenced?

Finally, we want to stress that we are deeply concerned by the situation in Myanmar’s Rakhine State. We note that staff have assessed the direct economic impacts of the Rakhine situation to be limited and localized. It is clear however that the reputational damage to the country, already reflected in the halting of donor budget support, could have further serious economic implications down the road, as well as important humanitarian consequences.

Ms. Pollard and Ms. Crane submitted the following statement:

We would like to thank staff for the informative papers and Mr. Agung and Mr. Alias for the useful buff statement. We agree with staff that a second

wave of reforms is needed to help sustain growth, and the authorities' Sustainable Development Plan provides a useful starting point. We welcome the Fund's broad technical assistance program for Myanmar, including the use of resident advisors. We broadly agree with staff's policy recommendations, which we hope can help the authorities identify a set of targeted and tangible economic reform measures to help boost growth prospects.

Banking Sector

Addressing emerging banking sector fragility needs to be a top priority. We encourage the authorities to proceed with phasing in Basel I standards and raising capital as needed. In parallel, the authorities need to move forward with improvements to supervision and provisioning, and to strengthen the resolution framework, as recommended by staff. We welcome the authorities' intention to address AML/CFT weaknesses identified in the Mutual Evaluation report of the FATF Asia Pacific Group, as noted in the staff report.

Macro Policy Framework

We encourage the authorities to enforce existing limits on monetary financing of the government, and to shift as quickly as possible toward government security issuance, as the market is able to bear. Greater movement on interest rate liberalization would help facilitate this transition. We also encourage the central bank to move forward with the new exchange rate mechanism, as recommended by staff, to allow adjustment of the exchange rate in line with underlying fundamentals. Can staff elaborate on the relative stability of the exchange rate over the past year, even as the central bank has reduced its intervention?

Fiscal/Debt Transparency and Sustainability

We appreciate the analysis in the DSA and welcome that Myanmar is currently at low risk of debt distress. Nonetheless, we are concerned that the government may take on substantial new debts for large infrastructure projects. We urge the authorities to share full information with the IMF about the nature of these future liabilities and we urge staff to include analysis of these potential debts in DSAs going forward. On a related note, improving fiscal transparency and appropriately reflecting state economic enterprises (SEEs) in the budget are important, both from the perspective of fiscal sustainability and good governance. We agree with staff that a key priority for the upcoming Public Financial Management strategy should be managing

fiscal risks from SEEs and large public investment projects. We appreciate that Myanmar is making progress toward the GDDS standard with substantial TA, but serious shortcomings on data provision remain. Can staff comment on the quality and comprehensiveness of the public debt data underpinning the DSA, including on contingent liabilities, SEEs and PPPs? How has staff sought to account for potential risks from SEEs and/or an infrastructure surge in the DSA projections and stress tests?

Finally, we note the planned allocation of greater fiscal resources toward Rakhine State. We call on the authorities to swiftly address the violence and humanitarian issues in Rakhine, in line with the Annan commission recommendations, both to maintain donor and investor confidence and to improve economic and social prospects in Myanmar.

Mr. Hurtado and Mr. Gonzalez submitted the following statement:

We would like to thank the staff for an insightful report and Messrs. Agung and Alias for a valuable buff statement.

Myanmar has made substantial progress since the first wave of economic liberalization. Despite the slowdown experienced in the past year, recent developments indicate growth is recovering, inflation appears to be under control and, despite some weaknesses, fiscal and financial indicators point to a favorable medium-term outlook. Authorities must be commended for their efforts and for the impressive results achieved so far in terms of growth and in mobilizing FDI.

Moving forward, we agree with the suggested priorities. Although the country will benefit from significant export growth, greater public spending, and a recovery in agriculture, the report rightly points to weaknesses in the banking sector, limited fiscal capacity and threats steaming from the humanitarian crisis in the Rakhine state as factors that could undermine both the medium-term outlook and the effectiveness of a second wave of structural reforms. Focusing on achieving SDGs in a fiscally sustainable manner, prioritizing regulation that increases financial deepening and stability, and embarking on a second set of structural reforms to sustain growth seem to be the correct priorities under the current circumstances.

But meeting these priorities will require significant improvements in fiscal capacity. Key policy targets will necessitate rebalancing the budget to compensate for low health and education spending, accommodating much needed infrastructure investment and a greater access to concessionary

financing—all of which will require improving PFM and, more generally, increasing the capacity to execute the budget across the government. Unfortunately, the lower fiscal deficit in 2016/17 appears to reflect more difficulties to spend than higher revenue.

We therefore see the proposed PFM reform as adequate, but would like to have more detail on the efforts to improve spending efficacy. Could staff provide detail on such actions, including SOE reform, privatization, the use of PPPs, and the setting of electricity prices? How can the current caps on foreign investment hinder these efforts? Along the same lines, what is the expected budgetary impact of the recent increase in the minimum wage for the civil service? And, can it create undue rigidities given the required flexibility in both public spending and the labor market?

On the monetary side, adoption of the new exchange rate mechanism should not be delayed. We broadly agree with the assessment of monetary policy and the recommendation to stop tightening. We also agree with the need to avoid delays in modernizing the FX market since the CBM has moved to setting the reference rate based on transaction data reported by banks. We favor using the exchange rate as a primary shock absorber, and support the reasons presented for removing the trading band; however, we would appreciate more explanation on the system advised by staff of simultaneously maintaining a managed exchange rate regime to avoid misalignment while allowing exchange rate flexibility. Could staff provide more details on the proposed asymmetric FX intervention?

Finally, we support the increased commitment of resources for capacity development. We understand that transition is heavily dependent on CD, are encouraged by the reported progress and support the relatively large resource commitment—especially in the current environment of productive engagement between authorities and the Fund. Hopefully, Myanmar will continue improving its institutional strength and will soon be ready to fully meet its obligations under Article VIII.

Ms. Erbenova, Mr. Bayar and Mr. Stradal submitted the following statement:

We thank staff for their set of reports, and Messrs. Agung and Alias for their buff statement. We welcome the continued economic growth benefitting from earlier liberalization efforts, which contributed to a significant reduction in the poverty rate over the past decade. However, further comprehensive reforms are needed to sustain growth and achieve the Sustainable Development Goals. The humanitarian crisis in Rakhine State is

of grave concern, and risks derailing the broad socioeconomic transformation and the Myanmar economy's integration into the global economy.

Securing peace is the elementary precondition for pursuing economic prosperity. The staff states that the direct economic impacts of the humanitarian crisis in Rakhine State have been largely localized, but the social costs and full impacts of the crisis are yet unfolding. In the update statement, staff informs that the approved FDI project amounts decelerated markedly since September 2017, which coincides with the intensification of violence in Rakhine State. This calls into question the durability of staff's forecasts which assume continued FDI inflows, and the knock-on effects on development partner financing and general investor confidence. We welcome staff comments, especially on the preliminary assessment of the causes of the drop in FDI project approvals.

We concur with staff that a second wave of reforms is necessary and that it would benefit from prioritization, coordination, and proper sequencing. We highlight the importance of institution-building and developing the legal framework, as well as a vigorous push to diminish the state's role in both banking and the real economy.

We welcome the continuing revenue mobilization efforts and agree with staff that more needs to be done. Myanmar urgently needs more infrastructure investments to address bottlenecks in transportation, electricity supply, telecommunications, as well as investments in human capital. We are encouraged by the authorities' intentions to allot a greater share of fiscal resources to the recovery and reconstruction efforts in Rakhine State, including on facilitating the planned return of refugees. Broadening the tax base, modernizing the tax laws, and improving tax and customs administration will help finance these needs on a sustainable basis. We further welcome the formulation of a public financial management reform strategy. We note the declining economic performance of state-owned enterprises, caused among others by poor financial management. We consider their restructuring and privatization as a high priority, together with the establishment of an information reporting system for the Treasury. In this vein, we would appreciate staff's assessment about the recent decision by the authorities to bring back twelve state economic enterprises under line ministries as administrative units.

Central bank financing regrettably continues on a large scale. Even though it has decreased significantly, it remains well above the target level set by the authorities, especially in a year where revenues overperformed and

expenditures were under-executed. We wonder whether the insufficient market interest in government securities was transient or if there are deeper structural hindrances. There should be renewed efforts to steadily and swiftly abandon this practice and lay the ground for the central bank to establish itself as an independent monetary authority. The gradual liberalization of interest rates and development of the money market are complementary steps that would enhance monetary policy transmission channels. The central bank's supervisory function should also be strengthened to address emerging banking sector vulnerabilities. We are particularly worried about possible pressures on the banking sector balance sheets as a legacy of past evergreening practices. In this regard, we note with concern the non-observance of the international standards on the data for non-performing loans (NPLs) and wonder if staff has an unofficial estimate of where the true NPLs stand. The recently adopted regulations should be thoroughly implemented and supervisory capacities be accordingly bolstered.

We fully agree with staff that exchange rate flexibility is an important, shock-absorbing mechanism. We welcome the authorities' intention to formally introduce the new exchange rate mechanism and their recent removal of the FX trading band. We also welcome the steady progress towards compliance with Article VIII. The removal of the remaining exchange rate restrictions and multiple currency practices will be important milestones on the path to the Myanmar economy's further international integration.

Finally, we encourage the authorities to build on the progress on outstanding AML/CFT issues. Following Myanmar's removal from the Financial Action Task Force's monitoring process, it is essential to keep the reform momentum, in particular by addressing the weaknesses to be identified by the APG Mutual Evaluation exercise.

Ms. Barron and Mr. Khurelbaatar submitted the following statement:

We thank staff for the report and Mr. Agung and Mr. Alias for their buff statement. Myanmar's economy is growing solidly following a series of economic liberalization reforms. Medium-term economic growth prospects are favorable but there are downside risks, including from uncertainty created by the humanitarian crisis in Rakhine state. We broadly agree with the staff report and make the following comments.

The authorities have undertaken reforms to transition to a market-based economy that have contributed to economic growth and macroeconomic stability. Improved tax administration leading to higher tax

revenue and a consolidation of recurrent spending has allowed a focus on priority spending in health, education and infrastructure. In response to emerging banking sector vulnerabilities, the authorities have worked with staff to develop a banking system action plan.

The authorities intend to formally introduce a new exchange rate mechanism to move to improve the flexibility of the exchange rate but have concerns about potential rate manipulation. But staff comment that it is an opportune time to formally adopt the new exchange rate mechanism. We would welcome staff's view on the risks of exchange rate manipulation.

Development partners budget financing is important to overcome revenue shortfalls. The budget deficit for the last year decreased to 2 percent of GDP, but it is projected to increase and remain around 4-4.5 percent of GDP in the medium term. Development partners budget financing will therefore be important to overcome revenue shortfalls and reduce Central bank budget financing. Could staff elaborate more on what share of the budget is planned from development partners' budget financing? Are there any contingency plans for the authorities if development partners' budget financing stops?

The staff and the authorities agree that a second wave of economic reforms is important to achieve sustainable growth. The authorities have prepared a broad and ambitious economic reform plan. But as set out in Mr. Agung and Mr. Alias's buff statement, the authorities are mindful of challenges in implementing reform measures on many fronts. (In this regard, we were pleased to note staff's suggestion that some PFM reform could be postponed given low implementation capacity.) The authorities acknowledge that lack of capacity is a major issue and it may delay the reforms. At the same time, Myanmar was the highest recipient of Fund TA among LIDCs. And the information annex points to effective World Bank-IMF collaboration. While we welcome these effort by the Fund in developing capacity, it is equally or more important that the recipient country fully absorbs and develops its capacity from technical assistance. Could staff elaborate more on how the capacity development effort from the Fund and development partners are integrated into the economic plan of the authorities?

Mr. Castets and Mr. Sode submitted the following statement:

We thank staff for their exhaustive set of documents as well as Mr. Agung and Mr. Alias for their insightful buff statement. Despite a recent slow-down of economic growth, Myanmar remains on an upward trajectory,

supported by some reforms and a starting process of liberalization. Nonetheless, remaining challenges must be addressed within the medium-term to ensure both elevated and inclusive growth.

Macroeconomic Outlook

We welcome the overall positive outlook of Myanmar's economy. Nonetheless, despite a favorable medium-term outlook, the economy weakened in 2016/17, with 5.9 percent of GDP growth compared to 7.0 percent in 2015/16, and still faces risks of turnaround. Additional economic reforms and further liberalization are necessary to strengthen the current growth take-off and allow for greater poverty reduction. Moreover, the continued humanitarian crisis in Northern Rakhine state, additionally to humanitarian concerns, has created a climate of economic uncertainty which warrants further vigilance. Could staff share information on the likelihood for each of the macroeconomic scenarios to materialize based on the potential variation in external financing flows (Low, Baseline and High)? The continuous economic and political opening of the country constitutes a great opportunity to reduce social tensions and economic hardship, hence it must be preserved and even further deepened.

Fiscal Policy

We welcome the recent reduction of public deficit due to both higher revenues and lower spending. However, the projected trajectory of the public deficit is expected to continuously increase within the next years, from -2.5 percent in 2016/17 to -4.1 percent projected in 2019/20. We commend the authorities for the preparation of a new Public Financial Management strategy for the next five years, and encourage them to proceed with its implementation. We also encourage them to ensure a level of deficit contained between 4 and 4.5 percent of GDP. Moreover, Myanmar's tax-to-GDP ratio, at 7.9 percent in 2015, remains among the lowest compared to other countries of the area. We welcome last year increase in tax performance collection but advocate for the rapid enforcement of the second phase of revenue reforms approved by the Cabinet Economic Committee. Fund's technical assistance will remain central in the years to come to achieve these objectives.

Monetary Policy

Considering the current alignment of external position with external fundamentals and desirable policy settings, we concur with staff's

recommendation to shift to a managed floating exchange rate regime. Despite a current account deficit lower than previous years, -3.9 percent in 2016/17 against -5.1 in 2015/16, thanks to the reduction of Myanmar's fiscal deficit, foreign exchange reserves remain below the levels assessed by the Fund as adequate, representing only 3 months of importation. A managed floating regime would provide an additional policy instrument to manage shocks while building up appropriate reserves.

Financial Sector

We praise the CBM for the recent release of new supervisory regulations which will help strengthen Myanmar's financial framework and deepen the private financing sector. Nonetheless, Myanmar's public debt continues being mostly financed by the CBM, 57 percent in 2016/17, which entails vulnerabilities of the monetary policy and is a sign of a lack of development of the private financing system. We support a swift phasing out of CBM financing, to rapidly reach the target of 30 percent of domestic financing. Moreover, additional risks arise from the combination of large corporate exposures of domestic private commercial banks and their current undercapitalization. With the continuous advisory help of the Fund, we encourage the authorities to proceed with their Banking system action plan. We also support all efforts engaged by the authority to strengthen the implementation of AFT/CML frameworks.

Structural Reforms

We praise the authorities for the presentation in February of the Myanmar Sustainable Development Plan (MSDP) which received positive responses from Fund's members. We also welcome the recent announce of a raise in the minimum wage, which will help reduce poverty. We encourage the use of the SDGs as success indicators for under-going structural reforms. Considering the high level of poverty, 40 percent of the population remaining under the near-poverty line, we support staff's recommendation to proceed with expenditure reallocation towards education and health. Also, we welcome the enactment of the new Companies act which will help open the Myanmar's business market to foreign investors, but encourage the authorities to proceed with regulatory reforms to enhance the business environment and to better communicate to keep attracting external investors' interest. Could staff provide additional details on the current level of state's price subsidies in structural sectors such as energy and what measures are planned by the authorities to proceed with liberalization.

Humanitarian Crisis

As a final comment to our gray, we want to stress that we are deeply concerned by the situation in Myanmar's Rakhine State, resulting in violence, internal displacement and massive refugee flows to Bangladesh. Along with the international community, we call on the authorities to restore law and order to ensure urgently the protection of all people residing in Myanmar, to lift the restrictions for the humanitarian and to create the conditions for the voluntary, safe and dignified return of refugees and displaced persons.

Mr. Kaizuka, Mr. Ozaki and Mr. Naruse submitted the following statement:

We thank staff for informative papers and Mr. Agung and Mr. Alias for their statement. It is encouraging that the economy is rebounding from the slowdown in 2016/2017. Also, the medium-term outlook remains favorable, mainly due to a recovering agricultural sector and exports. However, downside risks also remain, including latent banking sector risks (e.g., undercapitalization) and the humanitarian crisis in Rakhine states. We encourage the authorities to further strengthen their efforts for necessary reforms, supported by the Fund's policy advices for capacity development. As we basically concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

We encourage the authorities to continue their efforts on fiscal reforms through revenue mobilization, expenditure rebalancing, and public financial management (PFM). Regarding revenues, we are pleased to see the increased tax collection in 2016/17, partly due to improved tax administration. On expenditures, we agree with staff that improving spending efficiency is important to create room for infrastructure and social sectors. As for the PFM, we encourage the authorities to continue drafting a new PFM strategy with the Bank and Fund TA. Among the proposed PFM's priorities, we believe that better managing fiscal risks from state enterprises is particularly important. We have concerns that state enterprises' performance has declined, in part reflecting poor financial management. In fact, we worry that a quarter of the 32 on-budget state enterprises incurred losses in their most recent reporting year. Thus, we see merit in the staff's appraisal that restructuring and privatization of state enterprises would be important to reduce the burden on budgetary resources. In this regard, could staff elaborate more on what kind of restructuring would be needed?

Monetary and Exchange Rate policy

We welcome the authorities' commitment to reducing the Central Bank of Myanmar (CBM) financing of fiscal deficit. Also, we agree with staff that continued exchange rate flexibility is needed to help manage shocks while building reserves. As staff recommends, we encourage the authorities to continue their efforts to phase out the CBM financing. While we welcome the fact that the authorities have set a target to limit such financing, we would appreciate it if staff would show the procedure to phase out the CBM financing beyond such a target. Regarding the exchange rate, we concur with staff that the CBM should continue to allow exchange rate flexibility to cushion against external shocks. While we welcome the authorities' intention to adopt a market-determined mechanism for setting the reference rate, we wonder if further procedure would be expected to allow exchange rate flexibility.

Financial Sector Policy

We encourage the authorities to continue improving financial regulation and supervision to ensure financial stability. We welcome the fact that the CBM issued new regulations to implement the Financial Institutions Law and strengthen regulation and supervision. And we look forward to seeing their steady implementation. Having said that, we note that banks' profitability has been impeded by several factors, such as interest rate controls. We also note that the banking system is undercapitalized, including shortfalls in some state-owned banks and systemic domestic private banks. In this light, we encourage the authorities to continue their efforts to assess the banks' restructuring and recapitalization needs. Also, we welcome the authorities' engagement to strengthen the resolution framework with the Bank and Fund TA.

Capacity Development (CD) and Other Issue

We agree with staff that a strong link between surveillance and CD is needed. We welcome the authorities' efforts for capacity development by closely working with the Fund. Also, we are pleased to see in Appendix III that the CD strategy is tailored to surveillance priorities. At the same time, we commend the authorities that they have increased the publication of statistics. Going forward, we encourage the authorities to further improve macroeconomic statistics to better serve surveillance and policy making. Lastly, we see in the staff's report that the Bank and Fund jointly conduct TA in several areas, such as a new PFM strategy, resolution framework, and

financial system development strategy. We would appreciate it if staff could show the division of roles between the Bank and the Fund.

Ms. White and Mr. Cowie submitted the following statement:

We support the overall findings and policy actions highlighted by staff in their report, and thank Mr. Agung and Mr. Alias for their informative buff statement. We welcome the country's economic rebound and the macroeconomic stabilization achieved over the past few years, with lower inflation, stable exchange rates, and managed fiscal deficit while noting that this progress could be jeopardized by the very concerning ongoing situation in Rakhine State.

We agree with the staff assessment of the economy and we broadly agree with the recommendations, many of which build on last year's report. Efforts to reduce central bank financing of the fiscal deficit have made progress, and should continue. We support the development of strategic plan and second wave of reforms to maintain growth, particularly on the banking sector, domestic resource mobilization and structural reforms. We also support the proposed recommendations on exchange rate flexibility and formally introducing the new exchange rate mechanism. We note however staff's continued assessment of inadequate foreign exchange reserves of around 3 months of prospective imports. Could staff provide more information on how reserves will accumulate over the medium-term? Are there measures that could increase reserves quicker?

We acknowledge the efforts being put by the authorities into developing the Myanmar Sustainable Development plan, and the subsequent need to ensure resources are prioritized according to this plan to deliver on the SDGs. While progress has been made on reducing poverty, inclusive growth policies across the country, in particular those targeting the poorest, remain important, as shown by the poverty dynamics analysis with a higher concentration in rural areas and the geographic disparities, with border regions the furthest behind. Government spending needs to increase on social sectors to reduce poverty and drive up human capital, as well as financial inclusion in these areas.

We continue to support the high level of engagement by the IMF on capacity development, and encourage staff to ensure this is coordinated with other technical assistance activities.

Finally, like other Directors, we are deeply concerned by the ongoing humanitarian crisis as a result of the violence, displacement and other disruption in Rakhine State. We highlight staff's assessment of the high risk associated with the situation in Rakhine State, note the World Bank's recent decision to put budget support on hold and consider that the resulting negative impact on investor sentiment and other sources of financing could destabilize the positive economic progress recently made. We call on the Myanmar authorities to work with the international community to bring an end to the conflict before further human and economic costs are inflicted.

Mr. Psalidopoulos and Ms. Cerami submitted the following statement:

We thank staff for the informative set of papers and Mr. Agung and Mr. Alias for their detailed and candid buff statement. We broadly concur with staff analysis and recommendations and would like to focus our comments on the following issues.

Reforms Agenda

We commend the authorities on the progress achieved towards poverty reduction and welcome staff emphasis on the urgency of a second wave of reforms to sustain the growth momentum and improve the living standards more broadly within the country, thereby reducing the still large regional disparities. We are deeply concerned about the ongoing humanitarian crisis in Rakhine State and its economic fallout. We call on the authorities to join the international community's efforts to stop the violence and alleviate its consequences in order to reduce poverty in the region and restore confidence among donors and investors.

Reforms should target the root causes of poverty, by promoting rural development and greater financial inclusion, and providing better health and education services. At the same time, reforms aimed at integrating the country into the global value chains would be critical for supporting the economy in the long run, achieving inclusive growth, and attracting FDI inflows. In this regard, we note that while Messrs. Agung and Alias observe that the latest data indicate steady flows of FDI, staff update reports that leading indicators show a marked deceleration since last September. Could staff provide more details on recent trends in FDI flows and prospects? More importantly, considering the high reliance of Myanmar on FDI inflows for economic development and their key role for integrating the country into global value chains, could staff clarify what measures are currently envisaged to establish a more open and competitive business climate?

Fiscal Policy

The fiscal outlook has improved, but the transition to a new October to September fiscal year may raise downside risks, which call for strict scrutiny. We welcome the authorities' commitment to implement fiscal reforms to foster domestic revenue mobilization and improve public financial management. However, we would also stress the urgency of more concrete measures to address the weaknesses of SEEs. The authorities noted twelve SEEs have been brought back under line ministries as administrative units. What are staff's views on this measure? Do staff consider this measure appropriate and sufficient to reduce the financial risks from SEEs?

Exchange Rate Policy

Considering the current external position and informal exchange rate level, already broadly aligned with the reference rate, we concur with staff that it is an opportune time to formally adopt the new transaction-based mechanism for setting the reference exchange rate. We also acknowledge that authorities intend to follow this recommendation, but they are concerned about a potential rate manipulation. Could staff provide suggestions on how to ease those concerns?

Monetary Policy

Building on the successful implementation of deposit auctions, monetary authorities should focus on liquidity distribution by promoting the development of the interbank market. The envisaged launch of a repo market is a welcome step to improve the functioning of money markets and the transmission of monetary policy. Well developed markets are a prerequisite to an effective and independent monetary policy framework. Equally important is also the phasing out of monetary financing of the fiscal deficit. We agree that full independence should be gradually achieved. Monetary financing was above target last year, reaching 57 percent of domestic financing despite higher revenues and lower spending relative to budget. Considering that the fiscal deficit is projected to increase this year, we would like to express some skepticism about the possibility to meet the target of 30 percent set by the authorities for the current fiscal year. Do staff consider the target for monetary financing appropriate in light of projected tax collection and spending, as well as the stage of development of the government securities market?

Mr. Mkwezalamba made the following statement:

We thank the staff for the concise report and set of papers, as well as Mr. Agung and Mr. Alias for their informative buff statement. We would like to make a few remarks, as we did not issue a gray statement.

First, we welcome the rebound in Myanmar's economic activity and the favorable outlook, backed by a recovery in the agricultural sector, exports, and high public spending. However, the authorities still need to continue their efforts, as the recovery has been moderately lower than the expected and downside risks have increased, including the humanitarian crisis in the northern Rakhine State.

Second, we agree with the staff that a combination of measures, including fiscal rebalancing, improved public financial management, and enhanced revenue mobilization will result in a much-needed increase in social and infrastructure spending, which should fast-track Myanmar's achievement in terms of the Sustainable Development Goals (SDGs) and make growth more inclusive. Furthermore, we encourage the authorities to remain committed to limiting their use of central bank financing of the fiscal deficit.

Third, we welcome the good progress made toward withdrawing excess liquidity from the banking system and the gradual development of a market-determined government yield curve, which has eased inflationary pressures and improved the outlook. Going further, we urge the Central Bank of Myanmar to strengthen its monetary policy framework and formally establish a monetary policy committee.

As underscored in the staff report, the development of an interbank market will improve monetary policy transmission. Therefore, we encourage the authorities to accelerate efforts in this regard.

We also agree with the staff on the need for the central bank to adopt a new market-determined exchange rate mechanism and to continue to allow exchange rate flexibility.

Finally, we note that Myanmar's economic transition is heavily dependent on capacity development, and therefore, we welcome the significant progress made on Fund engagement with the authorities. Further support will increase the pace of implementing key reform measures and sustain the current growth momentum.

Mr. Alogeel made the following statement:

We thank the staff for the set of informative reports and Mr. Agung for the informative buff statement.

Like other Directors, we are deeply concerned about the social and economic developments associated with the humanitarian crisis in northern Rakhine State, as more than 600,000 refugees are estimated to have fled to neighboring countries. The crisis has clouded Myanmar's outlook since its full impact is still unfolding. In this regard, we agree with Mr. Fachada that increasing social costs, withdrawal of donor support, and the possibility of further sanctions from the international community could further affect aid flows and foreign investor sentiment, creating a negative spillover to the overall economy.

In this regard, we urge the authorities to accelerate their efforts to resolve the humanitarian crisis in a timely manner. We join Mr. Castets in calling on the authorities to restore law and order to urgently ensure the protection of all people residing in Myanmar. We consider that restoring peace and reaching national reconciliation are essential for safeguarding growth prospects and financial stability.

Finally, we would appreciate the staff's confirmation of the World Bank's recent decision to put budget support to Myanmar on hold. If this is the case, we wonder why such a decision is not referred to in the informational annex related to the World Bank report.

Mr. Kaizuka made the following statement:

I thank the staff for the informative paper and Mr. Agung and Mr. Alias for the comprehensive buff statement. Since we issued a gray statement, I will limit my intervention to only three issues.

First, with regard to resource mobilization, according to the paper, the controversial central bank budget financing will be phased out, and will be deleted by 2020. For that, there should be combined efforts on domestic resource mobilization or debt financing, external financing, and expenditure cuts.

In combining the policies, one of the key issues is domestic resource mobilization. Mr. Agung's buff statement has a long paragraph on how the authorities are enhancing domestic resource mobilization, which is

encouraging. Going forward, the tax policy and tax administration should be consistent with each other to enhance resource mobilization.

In that particular context, the medium-term revenue strategy can be workable for Myanmar case. I would like to know whether the medium-term revenue strategy that was conducted by the Fiscal Affairs Department (FAD) is being consideration for Myanmar.

With regard to technical assistance (TA) for tax administration, Japan has already stationed several people in Myanmar to help with enhancing the tax and customs administration. We would like to consolidate our efforts with the Fund's efforts, as well as the efforts of others, so collaboration is a key issue.

In that context, I appreciate the Informational Annex, which makes crystal clear how the staff coordinates with the other institutions, including the World Bank, the Asian Development Bank (ADB), and others. Other country paper should include this supplementary information.

Second, FDI is crucial for Myanmar's economy in the future. I take note, with some caution, of the written answer to the technical question. The staff mentioned that September FDI approvals have tapered compared to the same period in the previous year, and that the slowing FDI could have a significant impact on growth. Our future work should focus on facilitating FDI, identifying the policy measures necessary for that particular purpose.

Finally, on debt transparency, I fully echo the point raised by Ms. Pollard on that issue. The written response to the technical question says: "data limitations remain that make it difficult to quantify contingent liabilities, including from state economic enterprises (SEEs), state-owned banks and public-private partnerships (PPPs)."

Some progress has been made, but there is still some room to improve transparency. This is very important in terms of the Debt Sustainability Analysis (DSA). Also, as Ms. Pollard mentioned, it is critically important to determine how to enhance the corporate governance of those institutions.

Ms. Erbenova made the following statement:

We thank the staff for the informative set of reports and their answers to Directors' questions, and we thank Mr. Agung and Mr. Alias for their comprehensive buff statement.

We reiterate our grave concern about the humanitarian crisis in Rakhine State, which threatens the continuation of economic growth and internationalization of the Myanmar economy. We know that the staff assesses the direct impacts to be largely localized, but we doubt that large-scale displacement of people and associated confidence and reputational effects are not macro-critical for the economy in general.

The oversized role of the state-owned enterprises (SOEs) and state-owned banks is a major obstacle for accelerated economic growth in Myanmar. We know that, despite the solid progress in improving public data collection, data limitations remain, which make it difficult to quantify contingent liabilities from these SOEs and banks, as well as PPPs.

We call on the authorities to take full advantage of the extensive TA provided by the Fund and the World Bank, and to implement procedures to map these liabilities to put in place a comprehensive system for their management.

It goes without saying that a more complete understanding of contingent fiscal liabilities would also be necessary for Fund staff to discharge effective surveillance. I join Ms. Pollard's and Mr. Kaizuka's call in that respect.

Furthermore, on fiscal risks, we wonder whether the staff could share with the Board the main pros and cons they provided to the authorities with regard to shifting the fiscal year by six months. We see a misalignment between fiscal and tax years as risky in a country with a poor fiscal transparency framework.

We encourage the authorities to continue to decrease the share of public debt financed by the central bank. We are cognizant of the sequencing challenges, but our impression from the staff report is that most of the necessary building blocks are in place for the separation of fiscal and monetary policies, and to establish a truly independent central bank tasked with monetary policymaking, banking supervision, and macroprudential oversight.

We concur that now is the right time to adopt the new transaction-based mechanism for setting the reference exchange rate to eliminate market uncertainty as to the exchange rate determination. We welcome the authorities' broad agreement with the proposal and also take a

positive note of the ongoing work on removing the last remaining exchange restrictions.

Finally, we encourage the authorities and the staff to draw on the rich experience the Fund accumulated from the economic transition of the former communist countries in Central and Eastern Europe. The overarching lesson from this experience is the importance of decisive early measures aimed at sustainable macroeconomic stabilization and creating independent and well-resourced institutions which support the functioning of a market economy.

Ms. Crane made the following statement:

We thank staff for the answers to our technical questions and for the helpful bilateral engagement. We have issued a gray statement and would like to highlight a few points.

First, on the financial sector, strengthening bank balance sheets will be critical for supporting growth over the longer-term and for addressing financing shortages cited in business surveys, including for the critical small- and medium-sized enterprise (SME) sector. We appreciate that banks are working to meet capital and risk ratios, as Basel core principles are being implemented. We encourage the central bank to identify and audit weak banks and require capital and liquidity recovery plans to meet new regulations.

Second, on fiscal and debt transparency and sustainability, like other Directors, we welcome the progress that the authorities have made in strengthening data, including data on Government Finance Statistics, with the help of TA. We encourage continued efforts to modernize and strengthen data as well as public financial management.

Fiscal risks from PPPs and SOEs need to be well reflected in the fiscal accounts, where appropriate, and incorporated into DSAs going forward. We hope that the new Low-Income Country Debt Sustainability Framework (LIC-DSF) can provide a solid framework for future analyses.

Finally, we welcome the authorities' intention to reduce central bank financing of the government, and we encourage the authorities to proceed with interest rate liberalization, as recommended by the staff.

Mr. Merk expressed deep concern about the situation in Rakhine State, and supported the statements by Mr. Castets and other Directors. He called on the authorities to urgently

ensure the protection of all people in Myanmar and to address the violence and humanitarian issues in Rakhine State.

Mr. Castets made the following statement:

I thank the staff for the insightful set of documents. We also thank Mr. Agung and Mr. Alias for their informative buff statement.

We welcome Myanmar's economic liftoff and upward trajectory, helped by structural reform and the beginning of liberalization of key sectors. Nonetheless, the economy appears exposed to structural vulnerabilities, which raise concerns about the potential turnaround. We would like to limit ourselves to a few comments.

First, we welcome the improvement of the fiscal trajectory in 2017. Nonetheless, Myanmar's tax-to-GDP ratio remains low—and Mr. Kaizuka alluded to this—compared to regional peers. Hence, we encourage the authorities to proceed swiftly with the implementation of their new public financial management strategy.

Second, we commend the central bank for the recent release of new supervisory measures which will help improve the regulatory framework of the financial sector. However, we urge the authorities to abide by the commitment to rapidly phase out public debt financing by the central bank. Ms. Erbenova also mentioned this important issue. Public debt monetarization represents both a risk for the development of the private financing sector, as well as for inflation.

Third, we invite the authorities to proceed with the implementation of their banking sector action plan to strengthen private banks, which remain undercapitalized. This is one of the main risks, as it represents a source of vulnerability for the economy as a whole.

Fourth, we will not repeat what we wrote in our gray statement on the humanitarian crisis in the Rakhine region, but we wonder whether the impact of this humanitarian crisis has been fully integrated in the economic trajectory presented in these documents. We encourage the staff and the authorities to remain cautious regarding the potential impact, particularly related to FDI.

Finally, we support Ms. Pollard's and Ms. Crane's call for further efforts on debt transparency.

The staff representative from the Asia and Pacific Department (Mr. Peiris), in response to questions and comments from Executive Directors, made the following statement:²

There were several questions on the external financing outlook and the authorities' contingency plans, which are partly related to risks from the humanitarian crisis in Rakhine State. I will take those questions sequentially.

First, we share deeply the concern of others in the international community over the humanitarian crisis in Rakhine and the hardship of those affected.

I would like to point out some of the economic aspects highlighted in the staff report.

While the economic impact of the crisis in Rakhine State has been largely localized, the social cost and the full impacts of the crisis are still unfolding. From a macroeconomic perspective, there is significant uncertainty about the development finance and investor sentiment. We articulated this with a scenario analysis in the staff report.

In our baseline projections, we have reflected the existing commitments of the international development community or the development partners and the medium-term outlook, including their gradual move toward sector and general budget support.

However, if the situation in Rakhine remains unresolved, the outlook for external financing could be weaker, and our downside scenario reflects this potentially weaker external financing outlook, particularly on the sector and budget support financing. In such a scenario, the wider economy would be affected, the text box in the staff report tries to explore the magnitudes of its impact.

In our discussions with the authorities, they greatly appreciated these scenario analyses, not only the downside but also the upside scenarios. On the downside scenario, which may evolve if the issues in Rakhine State continue, the authorities thought that if the external financing audit is much weaker, it would be dealt with through a combination of spending cuts and recourse to greater monetary refinancing. In the current context, when they do not have financing, they turn to the central bank.

² Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

The approach of the authorities economic team was that they would like to move toward the high case scenario in the staff report, which they believe could be achieved by a greater focus on regional inclusion and structural reforms. On February 26, they launched Myanmar's sustainability development plan, which is a fairly comprehensive plan that lays out a medium-term framework and improves the growth of the agenda. They hope that could be a platform for progressing regional inclusion and also greater development finance, as articulated in the upside scenario of the staff report.

Finally, on the humanitarian crisis in Rakhine State, although we mentioned that the impacts appear to have been largely localized for now, as noted in the staff statement, there has been some indication from the latest data on FDI approvals—as opposed to the data on FDI actual inflows which are reported in the staff report—that FDI approvals, the signing of contracts, have slowed down significantly since August, which is when the issues in Rakhine State intensified. This could be seen as a leading indicator that investor sentiment could be affected if the situation is not resolved, but until now, the actual data show that the inflows have been quite strong and that the exchange rate remains relatively stable.

That addresses the broad questions on Rakhine and the external outlook. I would like to address some of the specific questions from the oral interventions.

There was a question about the World Bank's budget support operations and whether the Informational Annex reflected that. The Informational Annex does reflect that the policy support operations of the World Bank have been delayed and the International Development Association (IDA) allocation might be backloaded. We have reflected that possible delay and the backloading of the IDA allocation, including for the budget support operation. We have phased in the delay.

There was a question on the importance of revenue mobilization, about which we wholeheartedly agree, and whether it might be time for a medium-term revenue assessment. We have a detailed comprehensive TA program with the internal revenue authorities and with customs, where we also collaborate with Japan, which has been working on customs. There is a second phase of revenue reforms which has been just approved by the cabinet, and we are working on that. There are two or three big elements slated for this year, including drafting a whole new income tax law. Many things are ongoing, but we are thinking of taking stock of some of the measures we are

heavily involved in already and perhaps considering our medium-term revenue assessment this year. That is definitely a possibility; but the general view from FAD is that we are heavily engaged and doing that kind of work already, but it might be a good time to take stock because we are entering the second phase.

There was a question about keeping the fiscal year and tax year together. The authorities have not made a decision yet, but we have provided them a note that most countries in the world do have a fiscal year and a tax year which coincide, and that fiscal flexibility would be reduced if the tax year and fiscal year are different because one might not be perfectly able to plan how the tax revenues will come in for spending, especially in a country where the capacity is already quite low.

That being said, there are also a few other issues which are more administrative and also attributed to the reform process. A number of key reforms are slated to be rolled out this year at the inland revenue authority. A change in the tax year potentially could have the effect of disrupting or delaying a number of key reforms. We provide the pros and cons of those issues, and the authorities are expected to make a decision on this soon.

Finally, there were questions on debt and liability. The authorities issued a debt report for the first time last year. They are making great progress on coverage of debt statistics and public finance in general. Our fiscal data do reflect the SOEs, so they are consolidated fiscal data, including the debt. What we are missing is the contingent liabilities, if unforeseen things happen in the future which requires a more sophisticated analysis that does not include the state enterprises. But we do cover the direct debt.

Mr. Agung made the following concluding statement:

On behalf of our Myanmar authorities, we thank Directors for their thoughtful gray statements and comments. We appreciate the constructive suggestions and encouragement and will faithfully convey the messages to our authorities.

This year's Article IV missions continued to build on the good work that the Fund and the authorities have achieved in recent years. The authorities are in broad agreement with the staff's assessment and policy recommendations. In fact, for the most part, the staff's recommendations are consistent with the initiatives that are already in the pipeline or are envisaged by the authorities.

Our authorities remain cognizant of the need to strengthen macroeconomic stability as a precondition to promote sustainable and broad-based growth. The authorities are determined to intensify the reform to further improve the quality of life of Myanmar's people by reducing poverty, fostering job creation, and promoting better health and education services.

In the past few years, the authorities have embarked on a complex reform process to build institutions and transition to a market economy. The authorities agree that, while Myanmar has made important progress in the economic reform program, a second wave of reforms is now needed to accelerate growth momentum. So much so that the phrase "second wave of reform" is now popular in Myanmar after the Article IV press statement by the mission chief in November 2017. The phrase is repeatedly used by government officials in their conversations about reforms.

With this in mind, the authorities launched the Myanmar Sustainable Development Plan (MSDP) on February 26, 2018. The MSDP covers development plans with a strong focus on sustainable growth and institution building, including promoting regional stability, improving the legal system, and reforming SOEs.

While it is still in its early days, we believe MSDP is an important step toward setting reform direction and building an inclusive development agenda in line with the staff's recommendations.

Recognizing the long way ahead, the authorities underscore the need for appropriate reform prioritization and sequencing commensurate with their stage of economic development and the authorities' capacity to implement the reform. In this regard, the authorities highly value the Fund's advice and TA and will continue to consider the Fund's advice while moving forward with their reform strategy.

The current government assumed power in 2016 following the historic election in November 2015. The government continues to face difficult challenges, as it continues to strengthen the foundation for socioeconomic development. Despite this, the Myanmar economy continued to register healthy growth of 5.9 percent in fiscal year 2016-2017.

Although growth is lower than expected, macroeconomic imbalances were reduced, the fiscal deficit improved, current account deficit fell, and inflation moderated. Growth is expected to rebound to about 7 percent this

year, mainly supported by recovering agriculture sectors, exports, and higher public spending. Over the medium term, growth is expected to gradually pick up to 6.8 percent from continued FDI inflows, high public investment spending, and improved efficiency.

I would like to emphasize the authorities' position on several policy areas that were raised in the staff report.

On the exchange rate, our authorities emphasized that Myanmar maintains and remains committed to a managed exchange rate regime. The authorities appreciate the staff's positive assessment on the external sector and exchange rate and agree that the time is now right to formally adopt a new exchange rate mechanism and remove the trading ban.

The authorities remain committed to reducing central bank deficit financing; however, the authorities prefer this to be done in a gradual manner. To this end, the authorities have reduced the cap on central bank financing at 30 percent of the deficit for fiscal year 2017-18 from a cap of 14 percent last year.

On fiscal policy, we welcome the staff's view that a deficit of around 4.5 percent of GDP would be consistent with keeping Myanmar at low risk of debt distress while providing fiscal space to respond to shocks and meet the country's huge developmental needs.

Building on the progress made since 2012, the authorities are committed to continue with fiscal reforms, especially to strengthen domestic revenue mobilization.

On the financial sector, in the past year, the central bank has stepped up measures to strengthen regulation and supervision of the banking sector to address concerns on asset quality and profitability. In line with the staff's recommendations, the central bank issued important prudential regulation in July 2017. The central bank is currently reviewing the individual banks' measures to comply with regulations. Active consultations with the industry are ongoing to obtain feedback and address implementation issues.

Finally, capacity building is critical to ensure the success of many reforms in Myanmar. The authorities are fully committed to developing the capacity and upgrading administration in a wide range of areas, including banking supervision, tax administration, and monetary policy formulation. The authorities are fully appreciative of Fund TA and look forward to continuing this excellent partnership with the Fund and other development partners. The Fund's surveillance, policy advice, and TA have been valuable in supporting Myanmar's efforts to achieve sustainable and inclusive development.

I would like to conclude by expressing my authorities' appreciation to the Fund and Mr. Peiris and his team for their thoughtful analysis and constructive policy dialogue and advice. I would also like to convey our appreciation to Ms. Hunter for her work and dedication throughout her Myanmar assignment, as this Article IV was her last mission to Myanmar.

The Acting Chair (Mr. Furusawa) noted that Myanmar availed itself of transitional arrangements under Article XIV, and maintained an exchange restriction and a multiple currency practice (MCP) subject to Fund approval under Article VIII. In the absence of a timetable for their removal, Fund approval of the exchange restriction and MCP was not recommended.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the rebound in Myanmar's economy and its favorable long-term growth prospects. However, downside risks have increased, including from the humanitarian crisis in Rakhine State. Expressing their strong concern, Directors highlighted the need for early and tangible progress toward peace and regional inclusion, to improve conditions in affected areas and to realize Myanmar's strong potential for inclusive growth. Directors also called for a second wave of reforms to help sustain Myanmar's economic transition and growth take-off. They commended the release of Myanmar's Sustainable Development Plan (MSDP) and recommended that the MSDP be expanded to address reform sequencing and regional disparities, including the humanitarian crisis in Rakhine State.

Directors underlined the need for sufficient resources to achieve the SDGs, while ensuring that fiscal policy remains anchored on debt sustainability and a lowering of central bank financing of the deficit. Directors welcomed the sustained progress on domestic revenue mobilization, and saw scope for further expenditure rebalancing and improvement in public financial

management. Directors cautioned against excessive use of tax amnesties and incentives, which risk eroding the revenue base. State economic enterprises and large infrastructure projects, including PPPs, should be closely and transparently monitored to minimize fiscal risks and debt distress.

Directors noted the emergence of banking sector risks and supported steps toward improved financial sector regulation. They also supported the implementation of the Banking Sector Action Plan to respond to emerging risks, promote financial deepening, and strengthen the resolution framework. While Directors supported financial sector and interest rate liberalization, they agreed that this should proceed at a pace commensurate with the central bank's capacity to regulate and supervise.

Directors encouraged the authorities to formally adopt the new transactions-based exchange rate mechanism. To enhance market certainty, the Central Bank of Myanmar (CBM) should formally adopt the new transactions-based mechanism for setting the reference exchange rate. Directors also underlined the need to develop the interbank foreign exchange market and allow greater exchange rate flexibility to cushion against external shocks.

Directors considered the current stance of monetary policy as appropriate. They encouraged further development of the monetary framework, including deeper debt and interbank markets. Directors stressed the need to continue phasing out CBM financing of the fiscal deficit, and welcomed the decline in the level of CBM financing in 2016/17.

Directors underscored the central role of capacity development in Myanmar's economic transition and growth. They strongly supported the Fund's continuing strong efforts in this area and the close alignment with surveillance priorities. Directors commended the steady progress toward improving statistics, and welcomed Myanmar's participation in the Enhanced General Data Dissemination System.

Directors noted that Myanmar will soon be in a position to fully meet its obligations under Article VIII. They encouraged continued progress to remove the last remaining exchange restriction and multiple currency practice.

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

APPROVAL: March 25, 2019

JIANHAI LIN
Secretary

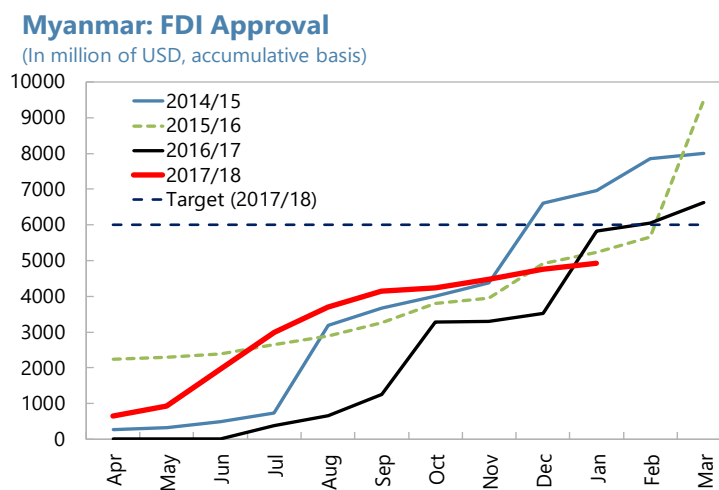
Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of measures to reduce uncertainty and risks for development partner financing, potential variation in external financing flows, causes of the drop in FDI approvals and contingency plans for budget financing will be addressed in staff's oral intervention at the Board meeting.

Outlook and Risks

1. ***Recognizing data availability constrains, can staff clarify the FDI dynamics?***
2. ***Could staff provide more details on recent trends in FDI flows and prospects?***
 - The staff's projection for FDI as a percent of GDP in 2017/18 slightly declines over the medium term. The staff notes that the large one-off increase in actual FDI inflows in 2017/18 reflected improved data availability from banks, causing a break in the data series.
 - FDI inflows for the first half of the fiscal year remained strong, and the full year projection remains attainable. However, since September the FDI approval data has tapered compared to the same period in previous years.



Sources: The authorities; and Fund staff estimates

3. ***Can staff elaborate on the measures to reduce uncertainty and risks for the development partner financing, and projects with non-concessional financing?***
 - The staff will respond to this question during the Board meeting.

4. *Given the current deceleration of FDI, could staff provide a more detailed analysis of the potential impact of this development on economic growth?*

- As Myanmar's growth has been heavily reliant on FDI, the impact of slowing FDI on growth could be significant. However, staff does not expect a large impact on employment given that most of the labor force is employed in the agricultural sector and domestic firms. The external impact is expected to be limited, given the effect of high FDI import content in reducing net FX inflows. Financial sector effects are also expected to be limited, as foreign investment flows are not intermediated through the banking system in large scale, and foreign companies do not borrow significantly from domestic banks.

5. *Could staff share information on the likelihood for each of the macroeconomic scenarios to materialize based on the potential variation in external financing flows (Low, Baseline and High)?*

- The staff will respond to this question during the Board meeting.

Fiscal Policy and Debt Sustainability

6. *Can staff elaborate their view on this issue [we note with some concern the authorities' plans for a tax amnesty]?*

- The tax amnesty and voluntary disclosure program proposal is currently being debated in parliament and the details are yet to be finalized. The tax amnesty and voluntary disclosure program would apply to various undisclosed income sources, and lead to lower tax rates and reduced penalties in line with previous amnesties in Myanmar. While the authorities intend this tax amnesty to be the last one, staff has cautioned against risks of future revenue losses if expectations remained of future amnesties and near term revenue losses if tax payers wait for the tax amnesty to declare taxable income.

7. *Can staff further comment on significant under-execution of capital spending, to what extent that reflects capacity constraints?*

- When the new administration took office in 2016, the 2016/17 budget was already approved by the previous administration, and thus the under-execution is partly due to the fiscal consolidation efforts, given large monetary financing during the election year. Nonetheless, under-execution of capital expenditure relative to budget is a persistent problem in Myanmar, reflecting lack of capacity in the public sector and weaknesses in public financial management.

8. *Can staff elaborate on the assumptions made in expecting continued tax buoyancy?*

- Myanmar has significant scope to lift tax revenues from currently low levels, and has demonstrated its ability to improve domestic revenue mobilization, including through the first revenue reform phase supported by IMF TA. The staff assumes that this positive progress will continue over the medium term under the second phase of revenue reforms recently approved by Cabinet, including through enhanced public information campaign on taxation and tax policy and revenue administration reforms supported by IMF TA.

9. *Has staff discussed with authorities an overall financing and debt management strategy, and the potential and mechanics for privatization?*

- The authorities adopted and published their first Debt management strategy in 2016, and prepared their first annual debt report in 2017. Discussions with staff focused on the phasing out of monetary financing of the deficit, the need to increase domestic debt financing, and potential scope for increased concessional debt to support development objectives. In addition, the staff report and debt sustainability analysis present alternative macroeconomic scenarios with lower and higher access to concessional financing. At this juncture, privatization is being considered for small scale state-owned enterprises to reduce the fiscal burden from non-performing SOEs and reduce fiscal risks, with the World Bank's support.

10. *Could staff share on (i) the authorities' plan for the transition period from April to September 2018; and (ii) the considerations of changing the tax year to align with the new fiscal year?*

- The authorities are finalizing a 6-month budget which is expected to be approved soon to bridge the gap between the two fiscal years. It is based on limited policy changes to reduce transition risks. They are also preparing a more policy-oriented 2018/19 budget. At the authorities' request, staff provided advice on pros and cons of having a different tax year and fiscal year. In most countries, fiscal year and tax year are aligned, but a few countries, most of which have higher income levels, have different tax and fiscal years. The authorities' decision is expected shortly.

11. *Can staff comment on the quality and comprehensiveness of the public debt data underpinning the DSA, including on contingent liabilities, SEEs and PPPs?*

12. *How has staff sought to account for potential risks from SEEs and/or an infrastructure surge in the DSA projections and stress tests?*

- The authorities have made solid progress in improving public debt data collection, with capacity building from the IMF and other development partners. However, data

limitations remain that make it difficult to quantify contingent liabilities, including from SEEs, state-owned banks and PPPs.

- Given that an infrastructure surge would likely be externally financed, staff has incorporated an alternative high external financing scenario mainly spent on productive infrastructure calibrated from last year selected issues paper of a Dynamic Stochastic General Equilibrium model for Myanmar. Data limitations have precluded incorporating tailored stress tests on PPPs and SEEs including state-owned commercial banks in the DSA but the stress test of a 10 percent of GDP shock to debt could be thought of a proxy for a large contingent liability realization or unproductive large infrastructural project.
- 13. *Can staff elaborate on such actions [efforts to improve spending efficacy], including SOE reform, privatization, the use of PPPs, and the setting of electricity prices?***
- 14. *How can the current caps on foreign investment hinder these efforts?***
- Over the last five years, the number of SEEs has been reduced from 44 to 32 by integrating mostly non-commercial SEEs such as those with regulatory functions into regular administrative units of the government. In addition, 7 commercial SEEs have been corporatized and operate with more autonomy. However, SEEs' financial performance continues to deteriorate and calls for further reforms and stronger fiscal oversight. This emails further restructuring and privatization, as well as efforts to ensure cost recovery, particularly in the electricity sector which accounts for the largest deficits among SEEs. The current electricity tariff deficit (around 25 Kyats on every kWh sold in 2016-17) calls for tariff increases and measures to address high generation costs in the sector. The World Bank is providing support to the authorities on electricity reform through its Energy Infrastructure Assessment Program. The government should prioritize reforms of commercially viable SEEs receiving public subsidy and non-viable SEEs to limit budget costs. It should also improve and standardize reporting requirements, and build a new policy framework for SEEs ownership, regulation and management that moves away from decentralized ownership by line ministries. The World Bank is advising the government on these reforms.
 - Myanmar remains at an early stage of implementing PPPs, with a PPP capital stock estimated at about 2 percent of GDP, significantly below the Emerging and Developing Asia average (about 10 percent of GDP). The government is currently developing a PPP policy and framework and has expressed interest in receiving technical assistance on managing fiscal costs from PPPs.
 - The effects of current caps on foreign investment hinder foreign participation in joint ventures including privatization of SEEs.

15. *Along the same lines, what is the expected budgetary impact of the recent increase in the minimum wage for the civil service? And, can it create undue rigidities given the required flexibility in both public spending and the labor market?*
 - The increase in the minimum wage will be effective on April 1, 2018 only for private companies with more than 10 employees. The transition budget (Apr – Sep 2018) is not expected to increase public compensation. The authorities are considering raising the minimum salary of civil servants to align it with the minimum wage in the next budget (Oct 2018 – Sep 2019) and exploring options to limit the fiscal cost by reallocating existing allowances (or subsidies) to basic salary.
16. *In the update statement, staff informs that the approved FDI project amounts decelerated markedly since September 2017...This calls into question the durability of staff's forecasts which assume continued FDI inflows, and the knock-on effects on development partner financing and general investor confidence. Can staff comment, especially on the preliminary assessment of the causes of the drop in FDI project approvals?*
 - The staff will respond to this question during the Board meeting.
17. *We would appreciate staff's assessment about the recent decision by the authorities to bring back twelve state economic enterprises under line ministries as administrative units?*
 - See response to question 11 above.
18. *What are staff's views on this measure? Do staff consider this measure appropriate and sufficient to reduce the financial risks from SEEs?*
 - See response to question 11 above.
19. *Could staff elaborate more on what share of the budget is planned from development partners' budget financing?*
 - Budget support anticipated in the baseline is around \$400m, which would represent about 15 percent of projected financing need for 2018/19, or about 2.6 percent of total expenditures for 2018/19.
20. *Are there any contingency plans for the authorities if development partners' budget financing stops?*
 - The staff will respond to this question during the Board meeting.
21. *We see merit in the staff's appraisal that restructuring and privatization of state enterprises would be important to reduce the burden on budgetary resources. Can staff elaborate more on what kind of restructuring would be needed?*

See response to question 11 above.

Monetary and Exchange Rate Policies

22. *Could staff clarify the impact of the above-the-target monetary financing on inflation and inflationary expectations?*

- Although the authorities' target ceiling for monetary financing as a share of domestic financing was missed, there was a significant decline monetary financing of the deficit in 2016/17 from 2015/16. However, given the relationship between the money supply and inflation (2016 staff report, Box 1) staff welcomes the authorities' commitment to reducing monetary financing of the deficit gradually to zero. The staff notes that the reduction in inflation has also reflected the effect of supply-side factors on food prices.

23. *Can staff comment on the impact this retention [the authorities see value in retaining the FX auction for future intervention purpose] could have?*

- The staff recommended that the retain the auction for intervention purposes, in the interim period while interbank FX market is being developed. Tools and strategy for FX intervention will part of the medium-term TA program. The staff agrees that if the auction continues to be used in its current form then, as a multiple price auction, the MCP would remain in place. However, staff notes that a fixed price auction used for intervention purposes should not create an MCP.

24. *Can staff elaborate on the relative stability of the exchange rate over the past year, even as the central bank has reduced its intervention?*

- The relative exchange rate stability has come after a lengthy period of significant depreciation in 2016. As noted in the staff report, the exchange rate stability in 2017 can be attributed to a response to the market correction in 2016, to the lower current account deficit, and also to higher government securities yields supporting financial flows.

25. *Could staff elaborate on the proposed asymmetric FX intervention [on the system advised by staff of simultaneously maintaining a managed exchange rate regime to avoid misalignment while allowing exchange rate flexibility]?*

- The staff has advised an asymmetric intervention strategy due to the need to rebuild FX reserves. Under this strategy the exchange rate should flexibly adjust to depreciation pressure, with no intervention. However, when there is market pressure for exchange rate appreciation staff has advised the authorities to rebuild FX reserves, while periodically re-evaluating the level of the exchange rate against market fundamentals.

26. *We would welcome staff's view on the risks of exchange rate manipulation?*

- The new mechanism is based on a weighted average of customer and interbank market transactions. However, automated verification of customer transactions is difficult. MCM has provided technical suggestions on the reference rate calculation, including to minimize risk of exchange rate manipulation. In addition, the CBM aims to promote an expedited development of the interbank FX market, with Fund TA.

27. *Can staff show the procedure to phase out the CBM financing beyond such a target?*

28. *Can staff comment wonder whether the insufficient market interest in government securities was transient or if there are deeper structural hindrances?*

- The authorities' revenue mobilization strategy will act to both increase resources for development and reduce CBM financing of the deficit. Greater external budgetary financing and development of the domestic debt market would also help to achieve the objective of phasing out CBM financing. Given that the domestic debt market remains at an early stage of development and in light of the current bank restructuring process, staff sees debt market development as a gradual and medium term process.

29. *While we welcome the authorities' intention to adopt a market-determined mechanism for setting the reference rate, we wonder if further procedure would be expected to allow exchange rate flexibility?*

- Adoption of the transaction-based mechanism aims to ensure that the official reference exchange rate reflects market dynamics. The reference rate is expected to follow the market in response to shocks, without diverging from the informal market exchange rate, as has occurred in the past. The FX intervention strategy for the future would help to avoid disorderly market conditions.

30. *Could staff provide more information on how reserves will accumulate over the medium term?*

31. *Are there measures that could increase reserves quicker?*

- Reserve accumulation reflects the balance of payments projection. The BOP is projected to be in surplus despite continued current account deficits, due to capital and financial account inflows. The staff report notes that concessionary financing could both expand fiscal resources as well as bolstering FX reserves.

32. *We also acknowledge that authorities intend to follow this recommendation, but they are concerned about a potential rate manipulation. Could staff provide suggestions on how to ease those concerns?*

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- See response to question 23 above.

33. *Do staff consider the target for monetary financing appropriate in light of projected tax collection and spending, as well as the stage of development of the government securities market?*

- The staff strongly encourages the authorities to continue efforts to phase out monetary financing, but notes that the targets imply a strong increase in government securities issuance. The staff has discussed measures to reduce under-subscription of the securities auctions. The staff has recommended that the government should attempt to accept all bids at the government securities auctions and avoid cut-off rates except for outliers.

Financial Sector

34. *The staff consider that the new prudential regulations may be having an impact on the pace of credit growth (decelerating to a still high 27 percent) and that this is having a negative impact on corporate investment and the real estate sector. Ultimately though, this has to be weighed against improved financial stability. Can staff elaborate their views on the balance between these two?*

- The new prudential regulations were much needed in bringing Myanmar's regulatory framework closer to international standards. Myanmar experienced rapid credit growth with lax lending standards and is going through a bank restructuring process as the sector adheres to international standards. The current balance tilts towards a focus on financial stability to avoid a further rise in systemic risks and costly banking crises of the past.

35. *We note with concern the non-observance of the international standards on the data for non-performing loans (NPLs) and wonder if staff has an unofficial estimate of where the true NPLs stand?*

- Only the recent issuance of prudential financial regulations requires banks to adhere to classification and reporting standards in line with international standards. The regulations became effective on January 7, 2018 and banks are only beginning to submit their NPLs, capital improvement plans and large exposures based on these new requirements. The authorities have requested IMF stress-testing TA of bank balance sheets based on March 2018 (end-financial year) data when they become available end April/May 2018.

Structural Reforms

36. *Can staff comment whether there is a capacity to manage the transition [with regard banking sector action plan's wide, ambitious and challenging list of priorities]?*

37. *Has staff discussed the sequencing and timelines for the implementation?*

- The banking sector action plan (BSAP) prepared in collaboration with the World Bank is a sequenced and comprehensive plan with multi-donor assistance – it identifies some near-term and medium-term priorities. The staff have advised financial sector and interest rate liberalization should proceed at a pace commensurate with CBM's capacity to regulate and supervise. The Fund has been providing long-term technical assistance on banking supervision and have advocated hiring more supervisory capacity. The Central Bank of Myanmar has hired more staff recently. The World Bank has approved a financial sector loan and is working on several financial sector reform elements including leading on restructuring of state-owned commercial banks. Fund staff will participate in the upcoming 6th committee meeting of COFTAM scheduled for March 21-23 with other donors working on the financial sector aimed at coordinating the provision of TA.

38. *Can staff elaborate on their experience with capacity development programs in Myanmar?*

- Myanmar has a long way to go to build the institutions that would underpin macroeconomic stability and sustainable growth. However, considerable CD progress in has been made in the short period since reforms began in 2011, due to the dedication and hard work of Myanmar counterparts. To make the most of this strength, staff has encouraged the authorities to elevate the strategic position of CD. From the Fund's side, CD should take account of the need for effective coordination across development partners, and absorption capacity/availability of counterpart resources.

39. *Can staff elaborate how to tackle this situation [authorities' limitations to increase supervisory resources and training, due to capacity constraints] and help not only the CBM but other regulators, to create a level playing field for private and public firms to operate?*

- The authorities are working with the World Bank on SOB restructuring, in the context of the Financial Sector Development Project. Diagnostic reports are being finalized, and will provide input for recommendations for remedial actions. The World Bank and other development partners are also working with the CBM to support CBM capacity development.

40. *Do staff have a view on which reforms need to be prioritized and how they should be sequenced?*

- In staff's view structural reforms should prioritize the agricultural sector, banking system, infrastructure, trade and the legal framework. Further opening up of the economy to foreign participation building on the new Companies Act will assist in providing opportunities for skills and technology transfer. Financial sector liberalization is commencing, but should continue to be a gradual process as discussed in the staff report. Liberalization of foreign banks' domestic lending

activities can occur after the domestic banks are in a stronger and more competitive footing.

41. *Could staff provide additional details on the current level of state's price subsidies in structural sectors such as energy and what measures are planned by the authorities to proceed with liberalization?*

- The largest government subsidies benefit the electricity sector to offset the Electric Power Generation Enterprise's (EPGE) deficit (estimated at about 0.8 percent of GDP in 2017/18). There are no other large generalized price subsidies, except for the Myanmar Railways which runs a 0.2 percent deficit as tickets' prices are regulated.

42. *Could staff elaborate more on how the capacity development effort from the Fund and development partners are integrated into the economic plan of the authorities?*

- Implementation of the proposed Myanmar Sustainable Development Plan (MSDP) is yet to be fully laid out, but staff notes that much of the macroeconomic content of the MSDP is consistent with staff's advice. The Fund will continue to work alongside other development partners to provide CD and support the authorities' reform agenda. Fund TA is currently in the field, working on integrating planning and budgeting process, to support fiscal and reform implementation. The authorities have recently established the Development Assistance Coordination Unit, to support development partner coordination.

43. *Could staff provide additional details on the current level of state's price subsidies in structural sectors such as energy and what measures are planned by the authorities to proceed with liberalization?*

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- The largest government subsidies benefit the electricity sector to offset the Electric Power Generation Enterprise's (EPGE) deficit (about 0.8 percent of GDP). Myanmar Railway also runs substantial deficits (about 0.2 percent of GDP). Private sector participation has increased in the electricity sector, as the authorities have recently signed a large power purchase agreement with an independent power producer. Other sectors will require a combination of tariff increases and SEEs' restructuring to reduce costs and improve productivity.

44. *More importantly, considering the high reliance of Myanmar on FDI inflows for economic development and their key role for integrating the country into global value chains, could staff clarify what measures are currently envisaged to establish a more open and competitive business climate?*

- As discussed in the selected issues paper "Integrating into the Global Value Chains," business surveys point to the need for progress on access to electricity, transport services, affordable financing, and corruption in order to reduce impediments to investment. Stable and transparent business conditions, based on political and social stability and sound legal frameworks, are particularly important for Myanmar. The

Companies Act will also open many sectors for joint ventures, from the second half of this year.

45. *We would appreciate it if staff could show the division of roles between the Bank and the Fund.*

- Please see the World Bank-IMF Collaboration section of the Informational Annex.