

**EXECUTIVE  
BOARD  
MEETING**

SM/20/42  
Correction 1

February 26, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Myanmar—Staff Report for the 2019 Article IV Consultation**

Board Action: The attached corrections to SM/20/42 (2/12/20) have been provided by the staff:

**Evident Ambiguity**

**Page 4**

**Factual Errors Not  
Affecting the  
Presentation of  
Staff's Analysis or  
Views**

**Pages 6, 27, 32, 33, 53**

Questions:

Mr. De, APD (ext. 34869)  
Mr. Deb, APD (ext. 39577)  
Ms. Nadeem, APD (ext. 37091)  
Mr. Peiris, APD (ext. 34761)

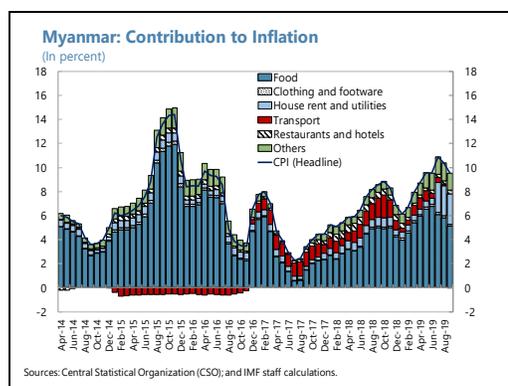


## CONTEXT

- 1. Despite favorable long-term prospects, the economy remains below potential and downside risks have intensified.** The economic outlook has weakened in the face of weak investor sentiment despite the gradual improvement in budget execution and still robust export growth amid global trade tensions. This is partly related to the real estate market correction and uncertainties in the runup to the November 2020 elections. Systemic risks in the banking system continue to be elevated, raising the urgency for comprehensive financial sector reform and contingency planning to preserve financial stability.
- 2. The Myanmar Sustainable Development Plan (MSDP) forms the basis of the authorities' economic roadmap and a second wave of reforms is underway.** Recent achievements include adopting a market-based reference exchange rate, the long-delayed electricity tariff reform, and the enactment of the Tax Administration Law (see Appendix I). Continued capacity development (CD) remains crucial for Myanmar to implement the MSDP reforms and transition to a market-based open economy and build institutions.
- 3. Prospects for progress in addressing the refugee crisis in Rakhine State ahead of the 2020 elections are limited amid rising nationalist sentiment.** The 2018 Memorandum of Understanding (MoU) signed between the UN and Myanmar for a needs assessment and a process to repatriate refugees from Bangladesh has faced difficulties with renewed conflict and refugees' reluctance to return. The State Counsellor Aung San Suu Kyi's recent visit to the International Court of Justice at the Hague has bolstered domestic support, ~~but p~~ progress towards resolving the refugee crisis in Rakhine has stalled. In addition, the security situation has deteriorated in border areas ~~according to the UN~~ and ethnic-regional tensions remain elevated.

## RECENT DEVELOPMENTS

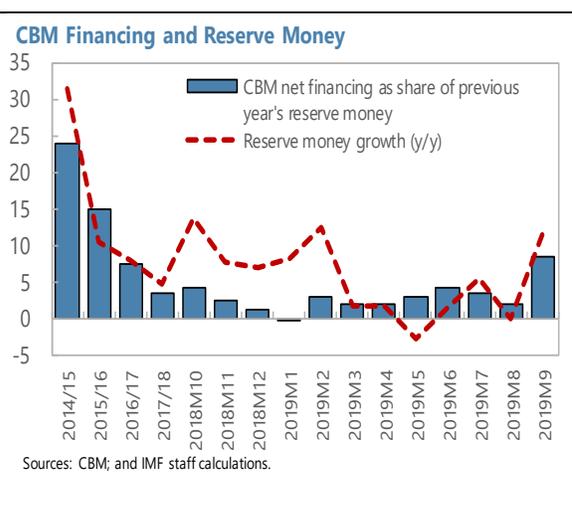
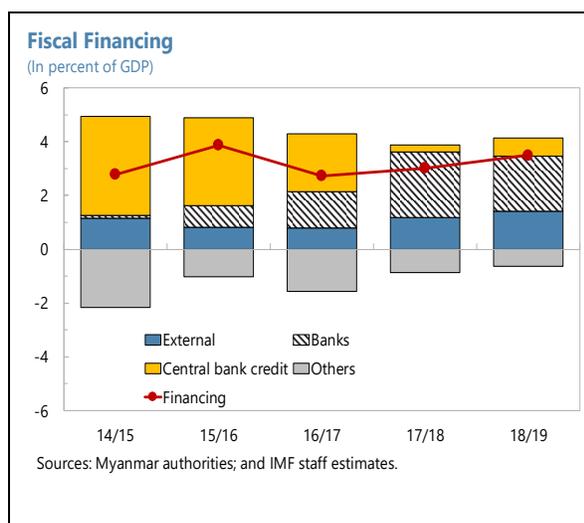
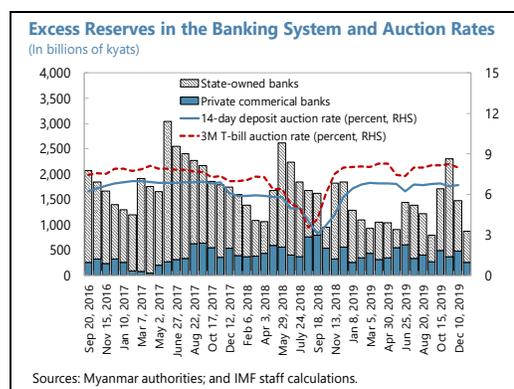
- 4. Economic activity in FY2018/19 remained below potential.**<sup>1</sup> Growth is expected to be subdued at 6.5 percent in FY2018/19, up slightly from 6.4 percent in FY2017/18 on account of a modest fiscal stimulus and a one-off increase in gas exports.<sup>2</sup> Domestic demand remains weak reflecting slowing credit growth, a correction in real estate prices and declining



<sup>1</sup> Staff do not have updated estimates of potential growth due to ongoing revisions to national accounts, but growth is clearly less than the 7-8 percent estimated in 2016 Staff Report (see 2016 Article IV Consultation Staff Report (Box 2))

<sup>2</sup> Myanmar's fiscal year has changed from April–March, to October–September. Following a six-month transition period, from April 1, 2018 to September 30, 2018, the new fiscal year started October 2018. This report uses the new fiscal year definition for both historical data and projections.

While the authorities' official target (gross CBM financing as a share of total domestic financing) may have been just met, it is a sharp reversal of the declining trend of net CBM financing observed over the last few years.<sup>3</sup> This partly reflects the change of the fiscal year that obscured seasonal patterns but also gaps in cash management and could have been avoided by greater domestic debt issuances through the year.



**7. Broad monetary aggregates and the exchange rate remained stable despite the temporary higher monetary financing in September.** Reserve money growth picked up at the end of the fiscal year, due to increased monetary financing but remained within target as NFA remained broadly stable. Moreover, growth in broad money aggregates, the intermediate target, moderated from 19 percent in 2017/18 to 15½ percent in September 2019 as targeted. Treasury and deposit auction rates also remained relatively stable as excess reserves of the banking system were seasonally low and reserve money growth has moderated to ~~below 5~~ about 6 percent y/y since September. The kyat and REER have been broadly stable since February 2019, when the CBM formally adopted a market-determined reference exchange rate; the move has better anchored market expectations and reduced the informal market spread with limited one-way FX intervention.

**8. The slowdown in credit and correction in real estate market presented additional headwinds.** Credit growth to the private sector continued to slow amid private bank deleveraging but is still robust at 16 percent in the year to end-September 2019, down from 21 percent a year

<sup>3</sup> FY2018/19 was likely the first year that gross and net CBM financing deviated as there were accumulated government deposits at the CBM from the 6-month transition budget year (April to September 2018) when budget execution was exceptionally weak.

Table 1. Myanmar: Selected Economic Indicators, 2016/17–2021/22 1/

	2016/17	2017/18		2018/19		2019/20	2020/21	2021/22
	Est.	Proj.	Est.	Proj.	Proj.	Proj.	Proj.	
<b>Output and prices</b>								
Real GDP 2/	5.8	6.4		6.5	6.4	6.0	6.2	
CPI (end-period; base year from 2014/15=2012)	3.4	8.6		9.5	7.7	6.6	6.2	
CPI (period average; base year from 2014/15=2012)	4.6	5.9		8.6	7.9	6.9	6.4	
<b>Consolidated public sector 3/</b>								
	(In percent of GDP)							
Total revenue	18.3	18.8		18.0	18.1	18.1	18.4	
Tax revenue	7.1	7.1		6.8	6.9	7.2	7.5	
Social contributions	0.1	0.1		0.1	0.1	0.1	0.1	
Grants	0.4	0.3		0.6	0.4	0.4	0.4	
Other revenue	10.6	11.3		10.4	10.6	10.4	10.4	
Total expenditure	21.0	21.8		21.5	22.1	22.5	22.9	
Expense	14.6	14.7		14.7	15.0	15.1	15.3	
Net acquisition of nonfinancial assets	6.4	7.1		6.8	7.2	7.4	7.6	
Gross operating balance	3.7	4.1		3.3	3.1	3.0	3.1	
Net lending (+)/borrowing (-)	-2.7	-3.0		-3.5	-4.1	-4.4	-4.4	
Domestic public debt	23.3	26.3		23.4	23.5	23.9	24.4	
<b>Money and credit</b>								
	(Percent change)							
Reserve money	8.0	4.6		11.3	8.4	9.0	8.9	
Broad money	21.4	18.6		15.4	11.8	10.9	11.0	
Domestic credit	22.3	21.4		17.2	14.5	11.2	11.7	
Private sector	27.4	21.2		16.4	12.7	6.3	6.7	
<b>Balance of payments 4/</b>								
	(In percent of GDP)							
Current account balance	-6.5	-4.2		-2.0	-3.2	-3.5	-4.0	
Trade balance	-7.5	-5.1		-3.0	-3.7	-4.1	-4.5	
Financial account	-8.4	-5.9		-3.4	-3.6	-4.0	-4.7	
Foreign direct investment, net 5/	-5.8	-4.8		-2.9	-3.1	-3.2	-3.5	
Overall balance	0.5	0.5		0.3	0.4	0.5	0.7	
CBM reserves (gross)								
In millions of U.S. dollars	5,141	5,462		5,667	5,936	6,376	7,040	
In months of prospective GNFS imports	3.2	3.6		3.5	3.4	3.3	3.3	
Total external debt (billions of U.S. dollars)	17.7	19.6		19.1	19.1	19.3	19.6	
Total external debt (percent of GDP)	28.8	31.8		27.9	25.5	23.5	21.8	
<b>Exchange rates (kyat/\$, end of period)</b>								
Official exchange rate	1,357.7	1,551.5		1,533.0	...	...	...	
Parallel rate	1,350.9	1,563.6		1,533.1	...	...	...	
<b>Memorandum items:</b>								
GDP (billions of kyats)	82,700	92,789		105,012	120,872	138,076	157,026	
GDP (billions of US\$)	61.5	67.1		68.5	74.8	81.9	89.6	
GDP per capita (US\$)	1,267	1,279		1,242	1,321	1,440	1,593	

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Real GDP series is rebased to 2015/16 prices by the authorities.

3/ Union and state/region governments and state economic enterprises. Revised to reflect Government Finance Statistics Manual 2014 classification.

4/ The balance of payments data has been revised according to the BPM6 methodology.

5/ FDI from 2017/18 onwards reflects improved forex transaction data collection, which has caused a break in the data series.

Table 5. Myanmar: Medium-Term Projections 2016/17–2024/25 1/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Est.	Proj.						
<b>Output and prices</b>									
	(Percent change)								
Real GDP (staff working estimates) 2/	5.8	6.4	6.5	6.4	6.0	6.2	6.3	6.5	6.5
CPI (end-period; base year=2012)	3.4	8.6	9.5	7.7	6.6	6.2	6.1	6.1	6.1
CPI (period average; base year=2012)	4.6	5.9	8.6	7.9	6.9	6.4	6.1	6.1	6.1
<b>Consolidated public sector 3/</b>									
	(In percent of GDP)								
Total revenue	18.3	18.8	18.0	18.1	18.1	18.4	18.8	19.1	19.4
Tax revenue	7.1	7.1	6.8	6.9	7.2	7.5	7.8	8.1	8.4
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Other revenue	10.6	11.3	10.4	10.6	10.4	10.4	10.5	10.5	10.5
Total expenditure	21.0	21.8	21.5	22.1	22.5	22.9	23.3	23.7	23.9
Expense	14.6	14.7	14.7	15.0	15.1	15.3	15.5	15.7	15.8
Net acquisition of nonfinancial assets	6.4	7.1	6.8	7.2	7.4	7.6	7.8	8.0	8.1
Gross operating balance	3.7	4.1	3.3	3.1	3.0	3.1	3.3	3.4	3.6
Net lending (+)/borrowing (-)	-2.7	-3.0	-3.5	-4.1	-4.4	-4.4	-4.5	-4.6	-4.5
<b>Money and credit</b>									
	(Percent change)								
Reserve money	8.0	4.6	11.3	8.4	9.0	8.9	9.7	9.5	9.5
Broad money	21.4	18.6	15.4	11.8	10.9	11.0	11.5	11.3	11.2
Domestic credit	22.3	21.4	17.2	14.5	11.2	11.7	11.7	12.2	12.0
Private sector	27.4	21.2	16.4	12.7	6.3	6.7	7.0	7.5	8.0
<b>Balance of payments 4/</b>									
	(In percent of GDP, unless otherwise indicated)								
Current account balance	-6.5	-4.2	-2.0	-3.2	-3.5	-4.0	-4.4	-4.7	-5.0
Trade balance	-7.5	-5.1	-3.0	-3.7	-4.1	-4.5	-5.0	-5.2	-5.7
Exports	15.4	16.7	16.7	15.5	15.0	15.1	15.3	15.5	15.8
Gas exports	5.1	5.2	5.6	4.9	3.9	3.1	3.6	3.3	3.0
Imports	24.9	23.2	20.8	20.2	20.0	20.4	21.2	21.5	22.2
Financial account	-8.4	-5.9	-3.4	-3.6	-4.0	-4.7	-4.9	-5.2	-5.4
Foreign direct investment, net 5/	-5.8	-4.8	-2.9	-3.1	-3.2	-3.5	-3.6	-4.0	-4.2
Overall balance	0.5	0.5	0.3	0.4	0.5	0.7	0.6	0.5	0.4
CBM reserves (gross)									
In millions of U.S. dollars	5,141	5,462	5,667	5,936	6,376	7,040	7,588	8,082	8,509
In months of total imports	3.2	3.6	3.5	3.4	3.3	3.3	3.2	3.1	3.0
External debt									
Total external debt (billions of U.S. dollars)	17.7	19.6	19.1	19.1	19.3	19.6	20.0	20.7	21.8
(In percent of GDP)	28.8	29.1	27.9	25.5	23.5	21.8	20.5	19.4	18.6
<b>Exchange rates (kyat/\$, end of period)</b>									
Official exchange rate	1,226	1,358	1,552	1,533	...	...	...	...	...
Parallel rate	1,238	1,351	1,564	1,533	...	...	...	...	...
<b>Memorandum items:</b>									
GDP (billions of kyats)	82,700	92,789	105,012	120,872	138,076	157,026	177,879	201,830	229,106
GDP (billions of US\$)	61.5	67.1	68.5	74.8	81.9	89.6	97.8	106.9	117.0
GDP per capita (US\$)	1,267	1,279	1,242	1,321	1,440	1,593	1,718	1,807	1,901

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

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## Annex I. Key Policy Recommendations from the 2018 Article IV Consultation

Policy advice	Implementation status
<b>Monetary and exchange rate policies</b> <b>Objective: Contain inflation and maintain exchange rate flexibility and set groundwork for upgrading the monetary framework.</b>	
Increase in government securities issuance and deposit auction volumes, pending further developments in inflation and liquidity; improve liquidity forecasting and further development of debt and interbank markets	In progress.
Strengthen monetary policy formulation by articulating a medium-term inflation objective and introducing an interest rate on excess reserve (IOER) to provide a floor for an interest rate corridor.	Under consideration
Steadily phase out CBM financing of the deficit and recalibrating the target as a share of previous year's reserve money rather than of domestic financing.	CBM financing of the deficit spiked at the end of <b>FY 2018/19</b> , to levels higher than in previous years, and was close to official target ceiling of 20 percent of domestic financing.
Develop a one-way FX intervention strategy and further develop FX market.	In progress. A one-way FX auction rule was adopted in November 2019, which in addition to the clear guidelines eliminates the MCP.
<b>Fiscal policy</b> <b>Objective: Create fiscal space to help achieve Sustainable Development Goals (SDGs) while maintaining macroeconomic stability and debt sustainability.</b>	
Provide a moderate fiscal stimulus to the economy, keeping the fiscal deficit around 4 percent of GDP over the medium term to maintain a low risk of debt distress.	Achieved for FY2018/19.
Continued domestic revenue mobilization, including through a comprehensive MTRS, modernizing and enacting tax laws (including a chapter on extractives), customs reforms, and strengthening administrative capacity.	The Tax Administration Law went into effect in September 2019. The income tax law is being revised and modernized. Other elements of IRD's second phase of the reform journey are in progress.
Expenditure rebalancing towards social sectors and priority infrastructure spending while enhancing spending efficiency to help achieve (SDGs).	In progress.
Improvements in Public Financial Management (PFM), prioritizing fiscal transparency and reporting, incorporating an IT system for the Treasury, a stronger	In progress.

assist that authorities to address these deficiencies. The Fund will continue to assist the CBM to improve the effectiveness of its AML/CFT supervision.

## Data and Training

*Noticeable improvements in government finance statistics (GFS) and external sector statistics (ESS) have resulted from extensive technical assistance (TA) and training delivered by the IMF, notably through regional advisors. However, improving coverage, quality, and timeliness, and ensuring better coordination between collecting and compiling agencies are imperative to assist policy formulation for analysis and decision-making.*

**17. Substantial progress has been made in improving macroeconomic statistics, but more remains to be done to improve the quality and ensure timely dissemination of data.** Major progress has been made in improving the quality of CPI, ESS and GFS data. The revamped National Summary Data Page (NSDP) was launched in April 2019 implementing the e-GDDS.<sup>4</sup> Establishing banking system data collection for the balance of payments and administrative data collection for direct investments marked major recent achievements in ESS, but weak inter-agency cooperation remains major impediment to further progress. Recent TA has focused on the national accounts to assist with developing/updating measures of quarterly GDP (in line with rebased estimates of annual GDP by production and expenditure in FY2015/16 prices) and on price statistics with the objective of enhancing quality and developing sound GDP deflators. Coverage of FSIs and the lack of consistency with MFS data remain to be resolved. Improving monetary statistics (e.g., data on government financing and financial data of nonbank financial institutions) is expected to continue. As the CBM's capacity of supervision improves, more attention needs to be given to balance sheet data to aid its analysis of macro-financial linkages and consolidated supervision.

**18. Training of officials is ongoing via customized courses, specialized workshops and training in methodologies used in surveillance.** Recent in-country training provided by the IMF covers topics ranging from assessing the fiscal costs and risks from PPPs (Fiscal Risk Assessment Model), treasury management, budget analysis, government accounting and reporting, to monetary and exchange rate operations, statistical methodologies (including ESS and GFS), and financial programming and debt sustainability analysis. In addition, officials receive opportunities to join regional training events outside Myanmar, including those led by STI, CDOT, and OAP, which raise awareness of contemporary challenges facing developing and emerging market economies and foster peer-to-peer learning and exchanges. Recent offerings have focused on macro-forecasting, macroeconomic diagnostics, and macro-financial analysis, with an aim to building agencies' capacity to strengthen macroeconomic analysis and policy coordination over the longer term. To ensure a more systematic approach to training, the Ministry of Planning, Finance, and Industry (MPFI) has

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<sup>4</sup> The NSDP is hosted by the Central Statistical Organization of the Ministry of Planning ~~and Finance, and Industry~~ on its website, utilizing the Statistical Data and Metadata Exchange (SDMX) standard. The NSDP also contains links to statistics published by the Central Bank of Myanmar and the Ministry of Planning, ~~and Finance, and Industry~~. Myanmar's NSDP is available via <https://www.csostat.gov.mm/NSDP.htm>.