

SU/20/32

March 4, 2020

**The Acting Chair's Summing Up
Myanmar—2019 Article IV Consultation
Executive Board Meeting 20/23
February 28, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They noted that economic activity remains below potential in the face of stronger domestic and external headwinds. In the near-term growth is likely to remain subdued due to the correction in the real estate market, weaker donor financing and investor sentiment, in part related to the ongoing humanitarian crisis in Rakhine, and macro financial spillovers from bank deleveraging. Directors agreed that a second wave of fiscal and structural reforms should focus on peace, stability and good governance to boost growth, help achieve the Sustainable Development Goals (SDGs) and realize Myanmar's favorable long-term prospects.

Directors emphasized the elevated systemic risks and the urgent need to address fragilities in the banking system. They noted that the extension granted by the Central Bank of Myanmar (CBM) for banks to comply with capital adequacy and large exposure limit requirements should be used to enhance monitoring and diagnostics. The CBM should also encourage banks to restructure viable loans, recapitalize and prepare a comprehensive financial sector restructuring strategy, including contingency plans in the event of further distress. In addition, Directors urged the authorities to fully implement international reporting standards to allow a more comprehensive assessment of the banks' financial situation.

Directors noted that the current monetary policy stance helps keep market rates at positive real levels and broad money growth on a declining trend. They commended the successful transition to a market-determined reference exchange rate mechanism and plans to introduce interest payments on excess reserves. Directors believed that further upgrades in the monetary framework and interest rate liberalization would help enhance the transmission mechanism.

Directors agreed that a mildly expansionary fiscal stance in the near-term was appropriate. They also noted that it would be critical to enhance revenue mobilization along with public financial management reforms to scale up SDG-related spending in a sustainable manner. Directors regretted the spike in central bank financing towards the end of last fiscal year. They encouraged the authorities to improve cash management and undertake proactive debt issuances to avoid a repetition in this fiscal year, and to phase out CBM financing in next fiscal year as

originally envisaged. Over the medium term, the planned scaling up of infrastructure investment needs to be well managed with due regard to fiscal risks.

Directors agreed that capacity development will be crucial to support the ambitious structural and policy reforms, with some reprioritization to account for absorptive capacity constraints and rapidly evolving needs. They also noted that governance and corruption vulnerabilities need to be addressed, along with gaps in the AML/CFT framework identified by the Asia and Pacific Group.

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