March 31, 2020
Approval: 4/7/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/17-1

10:00 a.m., March 15, 2019

1. Myanmar—2018 Article IV Consultation

Documents: SM/19/41 and Correction 1; and Correction 2; and Supplement 1; and Supplement 1, Correction 1; and Supplement 2; and Supplement 2, Correction 1

Staff: Peiris, APD; Wiegand, SPR

Length: 27 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
	J. Essuvi (AE), Temporary
	F. Sylla (AF)
	J. Corvalan (AG), Temporary
N. Ray (AP)	
	Z.Mohammed (BR), Temporary
	P. Sun (CC)
	A. Guerra (CE)
	P. Mooney (CO), Temporary
	O. Bayar (EC), Temporary
	A. Sode (FF), Temporary
	I. Fragin (GR), Temporary
	M. Siriwardana (IN)
	P. Di Lorenzo (IT), Temporary
	Y. Saito (JA)
	S. Alavi (MD), Temporary
	P. Al-Riffai (MI), Temporary
	H. Etkes (NE), Temporary
	N. Vaikla (NO), Temporary
	A. Tolstikov (RU), Temporary
	R. Alkhareif (SA)
	K.Tan (ST)
	A. Urbanowska (SZ), Temporary
	D. Ronicle (UK)
	D. Crane (US), Temporary

H. Al-Atrash, Acting Secretary
K. Hviding, Summing Up Officer
E. Mannefred, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: J. De, K. Kang, S. Nadeem, S. Peiris, C. Rhee. Fiscal Affairs Department: M. Queyranne. Legal Department: I. Luca. Strategy, Policy, and Review Department: Wiegand. World Bank Group: L. Moorty. Senior Advisors to Executive Directors: G. Gasasira-Manzi (AE), E. Rojas Ulo (AG). Advisors to Executive Directors: M. Bangrim Kibassim (AF), M. Kikiolo (AP), U. Latu (ST).

1. MYANMAR—2018 ARTICLE IV CONSULTATION

Mr. Tan and Ms. Ong submitted the following statement:

On behalf of the Myanmar authorities, we thank the Fund for a constructive Article IV mission and their continuous engagement.

Myanmar is at an early but pivotal stage of development, navigating elevated risks amid a challenging global environment. The authorities seek to harness the country's demographic and resource endowments to deliver sustainable, broad-based improvements in economic welfare. The Myanmar Sustainable Development Plan (MSDP) lays out a far-reaching reform strategy, recognizing the need for intensive infrastructure and human capital investment, as well as sustained efforts to upgrade policy frameworks and build domestic capacity. Important reform progress was made in 2018, but the authorities recognize the long road ahead. They are grateful for the Fund's partnership and support, including through extensive technical assistance. They concur with the Fund's key policy recommendations and will consider these as they work to advance a second wave of reform.

Recent Economic Developments and Outlook

Economic momentum in Myanmar has remained strong, despite some moderation in pace following the FY2017/18 rebound. Real GDP growth during the transitional budget period is estimated at 6.8 percent, with a weather-related agricultural slowdown and cautious budget execution offset by continued strength in services and manufacturing.[1] CPI inflation picked up during the first three quarters of 2018 due to higher fuel prices and pass-through from the kyat depreciation, spiking at 8.6 percent y/y in September 2018 but moderating thereafter. Exchange rate pressures during the second half of 2018 were triggered by a tightening of global financial conditions against a backdrop of slower capital inflows and a shallow foreign exchange market. The current account deficit edged up to 4.7 percent of GDP during the transitional budget period, driven by imports and financed by FDI. Foreign exchange reserves remained broadly flat at over three months of imports.

In FY 2018/19, authorities expect a pickup in growth to 7.4 percent on the back of higher public spending and a recovery in agriculture, as well as

[1] Myanmar is shifting from a fiscal year of April-March to October-September to improve implementation of capital and infrastructure spending, given the monsoon season. As part of this shift, the authorities enacted a transitional six-month budget covering April to September 2018.

robust construction and manufacturing activity. Inflation is expected to remain manageable at around 5.1 percent over the year, and the current account deficit is projected to narrow to 4.0 percent of GDP. The authorities are keenly aware that near-term risks are elevated and tilted to the downside. External headwinds have grown more prominent, including the potential for negative spillovers from growing trade frictions, developments in major trading partners such as China and the EU, uncertainties relating to external financing, and the risk of further capital flow pressures should global financial conditions tighten. Domestically, the authorities are cognizant of the need to carefully manage the ongoing banking system restructuring process to avoid undue macrofinancial impact. Nonetheless, Myanmar's long-term prospects remain strong given its young population, natural resource wealth and strategic location within Asia.

Strengthening the Fiscal Framework

Fiscal policy remained prudent in 2017/18. Expenditure restraint and budget under-execution contributed to a lower-than-budgeted deficit of 2.5 percent of GDP. Central bank financing accounted for about a quarter of this deficit, well-below the CBM-imposed ceiling of 30 percent, and the share of market-based financing increased. As staff assesses, the risk of debt distress in Myanmar remains low. The 2018/19 budget envisages a moderate fiscal stimulus, with a projected deficit of around 4.8 percent of GDP and a continued rebalancing of the spending mix towards health and education as well as growth-enhancing capital expenditure. Efforts are also under way to improve budget forecasting and execution, in recognition that strengthened implementation is key to delivering on planned expenditure.

The authorities concur with staff's recommendations on the need for fiscal structural reforms. Myanmar's tax-to-GDP ratio is low compared to regional and peer comparators, and a revenue mobilization strategy is needed to help finance the MSDP and the UN Sustainable Development Goals. To this end, the authorities are committed to enhancing the equity, efficiency and transparency of the tax system and view the recent FAD mission on a medium-term revenue strategy as valuable. Tax administration reforms to date are also yielding results, with the Large Taxpayer Office registering strong revenue increases. Key milestones of the second phase of reform include the Tax Administration Law, currently under consideration by Parliament, and a new Income Tax Law, which will be rewritten with assistance from the IMF Legal Department. The authorities are working closely with development partners to further develop revenue management capabilities, including improving customs administration and budgetary operations.

The breadth of Myanmar's infrastructure financing needs place a premium on judicious project selection and efficient execution. The authorities see strengthening public financial management as vital. As a strong step in this direction, the November 2018 project bank regulation creates a centralized and rigorous process for project evaluation, which will assess the strategic value of proposed projects as well as their environmental and social implications. This initiative lays the ground for further steps to strengthen procurement and project execution. Enforcing transparent and competitive bidding and ensuring the use of model contracts will help manage fiscal risks from PPPs.

Monetary and Exchange Rate Framework

Continued progress has been made in strengthening monetary autonomy and modernize the monetary framework. In 2018, a decline in central bank deficit financing and a step-up in deposit auctions contributed to a tighter monetary stance, helping to counteract supply-driven inflationary pressures. In the coming year, the monetary policy stance will remain vigilant to price pressures. The CBM remains on track to phase out deficit financing by FY 2020/21, and concurs with staff's recommendation to link the target ceiling on deficit financing to reserve money. Meanwhile, the recent move to allow unsecured lending at higher interest rates was an important step towards interest rate liberalization. In the long term, these measures will help improve monetary transmission and allow greater risk differentiation in loan pricing. The CBM is grateful for the Fund's capacity development in monetary operations and is actively considering recent TA recommendations, including on introducing an interest rate on excess reserves.

The authorities recognize the importance of exchange rate flexibility as a mechanism to facilitate external adjustment. Despite significant kyat depreciation in 3Q 2018, foreign exchange intervention was limited. The CBM also removed the +/- 0.8 percentage trading band around the kyat-USD reference rate, as recommended in the last Article IV consultation, and authorized trading in dollar swaps to boost interbank liquidity. More recently in February 2019, the CBM codified its methodology of deriving the daily FX reference rate as a weighted average of interbank and bank-customer spot transactions, in line with international best practice. FX market activity has been growing strongly, albeit from a low base, and these measures are aimed at further promoting market deepening. The authorities concur with the need to amend the FX management law and to continue to build reserves as conditions permit.

Financial Sector Reform

An extensive financial sector reform process is under way. A key thrust of the reform strategy was to decisively confront legacy challenges built up by prominent gaps in underwriting standards and risk management. Accordingly, the CBM in 2017 issued a series of prudential regulations raising standards for bank capital, liquidity, asset classification and loan loss provisioning, and large exposures, followed subsequently by implementation guidance. These new rules have enabled the progressive identification of latent fragilities, which is a necessary first step to addressing them. The CBM is now enforcing the cleanup of banks' balance sheets and the rebuilding of capital cushions. Capital improvement plans of systemic banks are being reviewed and their implementation monitored, and corrective actions will be imposed as necessary. Measures have been taken to broaden options for recapitalization. In January, regulations were issued to liberalize foreign minority shareholdings in domestic banks and facilitate the issuance of subordinated debt; further guidance regarding the revaluation of fixed assets is forthcoming. The authorities concur with the need to effectively enforce prudential regulations and encourage recapitalization. They are requesting Fund TA on bank resolution and contingency planning.

While working to strengthen the domestic financial system, the authorities recognize the complementary role of foreign institutions in contributing to financial system deepening. In November 2018, the CBM broadened the scope of permissible activities for foreign banks to include lending to domestic corporates. In January 2019, the authorities also announced plans to permit foreign insurers to operate in the market through joint ventures as well as subsidiaries.

More broadly, the CBM remains committed to improving financial regulation and supervision, and broadening financial inclusion. With Fund support, the CBM is actively building risk-based supervisory as well as enforcement capacity. In tandem, they continue to make headway on further prudential safeguards, taking into consideration international standards and industry feedback. Measures in the pipeline include regulations on corporate governance, related party lending, fit and proper criteria, bank directorships, and acquisitions of substantial interest. Meanwhile, the interest rate liberalization measures referenced above will incentivize more risk-sensitive lending and catalyze credit to SMEs. The creation of Myanmar's first credit bureau, licensed by CBM in May 2018 and expected to go live in 2019, will further facilitate lending to creditworthy but collateral-poor borrowers.

Structural Reforms

Improving the commercial environment is critical to achieving the MSDP's goals of job creation and private sector-led growth. A new Ministry of Investment and Foreign Economic Relations was formed in November 2018 to promote and facilitate investment in Myanmar, and to enhance regional and international economic cooperation. Domestically, the landmark reforms enacted through the new Companies Law will modernize business regulation and enable domestic business to grow by harnessing foreign capital and expertise. Inter alia, the law allows foreign entities to take up to a 35 percent stake in domestic companies; liberalizes foreign investment in formerly-closed sectors such as retail/wholesale trade and insurance; enables foreign participation in the Yangon Stock Exchange; strengthens corporate governance and transparency; and streamlines company registration and administration, including by creating an electronic register of companies. These changes underpin a broader strategy of promoting private sector investment and competition.

Enhancing governance and accountability is a key strategy under the MSDP. The authorities continue to make progress on strengthening effectiveness of the anti-corruption framework, including through enhancements in 2018 to the Anti-Corruption Law. They concur with staff on the need to reinforce fiscal governance and natural resource management. In this regard, Myanmar is part of the Extractive Industries Transparency Initiative (EITI); its validation process against the EITI standard commenced in July 2018. In the AML/CFT space, the authorities have formed a cross-agency working group to expeditiously address the deficiencies identified in the APG mutual evaluation report, recognizing the need for strong political ownership and a whole-of-government approach. Key priorities include reinforcing operational independence of the Financial Intelligence Unit as well as strengthening preventive (supervisory) and enforcement capacity. The authorities aim to effect amendments to the AML/CFT legal framework by 3Q 2019.

Enhancing Data and Statistics

With technical assistance from the IMF and other development partners, the authorities continue to press on with enhancing the reliability and availability of economic data. In 2018, the authorities began publishing fiscal data in line with the Government Finance Statistics Manual (GFSM)

framework. Myanmar is also in the process of implementing e-GDDS, with its National Summary Data Page scheduled to go live by end-March 2019.

Conclusion

The authorities are committed to preserving macroeconomic and financial stability and promoting sustainable and inclusive growth. Given limitations in domestic implementation capacity, assistance from development partners is instrumental to advancing the extensive reform strategy, and so the authorities appreciate the Fund's efforts to align their capacity development work with the goals of the MSDP. The authorities would like to reiterate their sincere gratitude to the Fund, the World Bank, the Asian Development Bank and bilateral counterparts, and look forward to their continuing support as the country moves forward.

Ms. Levonian, Ms. McKiernan and Mr. Mooney submitted the following statement:

We thank staff for their comprehensive report and Mr. Tan and Ms. Ong for their informative buff statement. Despite favorable long-term prospects, economic growth has weakened in Myanmar and progress has stalled in addressing the humanitarian crisis in Rakhine state, while fragilities in the banking system and possible spillovers from a slowdown in China mean that risks are tilted to the downside. We broadly concur with staff's assessment and recommendations and offer the following remarks for emphasis.

We note the very low tax-to-GDP ratio in Myanmar and welcome the authorities' commitment to enhancing the equity, efficiency and transparency of the tax system, as per the buff statement. We welcome the conclusion in the SIP that the overall risk of debt distress is low. We note that the spending gaps in education, health and infrastructure are estimated to be large and agree with staff that fiscal structural and governance reforms are needed to scale up spending while preserving debt sustainability. We agree that the implementation of a comprehensive medium-to-long term strategy (MTRS) is required in this regard.

We note that the banking system remains undercapitalized and agree with staff that there is an urgent need to update banks' capital development plans to strengthen capital buffers, accompanied by a strengthened resolution framework. We note authorities' view that the enforcement of such plans may prove difficult in light of the weak accounting standards and large recapitalization needs of some banks. We note staff's assessment that an

emergency liquidity assistance (ELA) framework should be operationalized to support banks facing temporary liquidity problems and welcome authorities' confirmation that a well formulated financial safety net is being developed. We agree with staff that the 2017 Bank-Fund banking sector action plan (BSAP) should be implemented and note that the authorities have requested additional TA in this regard.

We agree with staff that improving governance and anti-corruption efforts are critical. We welcome the progress made by the new administration in this regard. We agree with staff that the business environment would be strengthened through reducing vulnerabilities to corruption, in addition to strengthening the power supply and improving access to finance.

Finally, we want to stress that we remain deeply concerned by the situation in Myanmar's Rakhine State. We note that hostilities have recently resumed between the military and the main insurgent group, which has impeded UN access and the repatriation of refugees. It is clear however that the reputational damage to the country, already reflected in the reduction of donor budget support, could have further serious economic impacts in the future, in addition to the unacceptable humanitarian consequences.

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

We thank staff for the informative papers and Mr. Tan and Ms. Ong for their insightful statement. We welcome the Myanmar Sustainable Development Plan (MSDP), launched in February 2018, provides an overarching medium-term economic roadmap, recognizing that a second wave of reforms is needed to achieve the SDGs. To align with 2017 Article IV Consultation, the economic policy framework embodied in the MSDP aims at consolidating economic stability and creating an environment for private sector-led growth. We encourage the authority to foster good governance to help mobilize domestic revenues and promote development more efficiently. While we positively take note that the country's long-term prospects remain strong, we share the staff's view that downside risks to the near-term outlook have risen, partly due to lower external financing and investor sentiment arising from a prolonged crisis in Rakhine state and possible revocation of trade preferences on human rights concerns. We urge the authorities to make progress on addressing the humanitarian crisis in Rakhine state. In this regard, the Japanese authorities' policy is to think together with the Myanmar government and to provide utmost support for its efforts to resolve various challenges including the issue of Rakhine State. We hope that the return of the displaced persons would take place in a safe, voluntary and dignified manner,

with UN cooperation. As we broadly agree with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

Fiscal policy should aim at reducing CBM financing and ensuring debt sustainability, while recognizing the large SDG spending gaps. We concur with staff's view that fiscal policy should aim to phase out steadily CBM financing, while raising domestic revenues and increasing market-based financing of the deficit. At the same time, enhancing spending efficiency and improving public financial management would also be needed. We observe that Myanmar's SDG spending gap in critical sectors is estimated to be large, requiring a gradual scaling up of expenditures. In this respect, we put emphasis on the importance of staff's suggested policies in the area of fiscal structure and governance. In particular, we note that the government intends to use more extensively Public-Private Partnerships (PPPs). Without strong governance institutions to manage risks and avoid unexpected costs from PPPs, the country will face significant fiscal risks. Could staff share their assessment whether the authority has sufficient capacity to use more PPP without significant fiscal risks, considering Myanmar's current limited experience with privately financed investment? In addition, restructuring of and improving governance of state economic enterprises (SEEs) is also important. Improving SEE efficiency and corporate governance is critical to enhancing SEE performance. Could staff elaborate more on how large the restructure of SEEs would have impact on macroeconomy going forward?

Macrofinancial Stability and Development

We welcome the recent progress in the area of interest rate liberalization and foreign exchange market. We see that effective February 1, 2019, CBM permits unsecured lending at higher interest rates. This measure will lead to expand the opportunity for banks to improve their risk pricing and risk management. However, during the initial stage of the liberalization, we encourage the authorities to carefully monitor banks' lending activities to avoid a build of credit risks. In this context, we would appreciate it if staff would provide their view how to control the credit risks to avoid the accumulation of NPLs. Furthermore, do the authorities have specific measures to foster the bank's capacity for assessing firms' credit risks?

We positively take note of current tight monetary policy, and encourage the authorities to keep the monetary conditions tight by stepping up the issuance of debt securities and reducing the reliance on CBM financing.

We support staff's view that the CBM should upgrade the monetary framework, including articulating a medium-term inflation objective and introducing an interest rate on excess reserve.

Capacity Development

We are pleased to see that capacity development from the IMF is aligned to MSDP, especially pillars one and two as well as surveillance priorities. This good example embodies the importance of the integration of the surveillance and capacity development. In this regard, we appreciate for Table 1 on page 46 to illustrate the integration and the current development of capacity development. The assistance of several programs contributed by JSA (Japan Administered Account for Selected IMF Activities) would hopefully be helpful to improve the capacity.

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

We thank staff for a concise and insightful report and Mr. Tan and Ms. Ong for their helpful buff statement.

Overall, we agree with staff that Myanmar's economy has significant long-term growth potential, conditional on pursuing reform course and consolidating peace and stability. Myanmar is particularly well-positioned to take advantage of its strategic location close to vibrant Asian economies by further opening its economy and establishing mutually-beneficial economic partnerships in the region. The near-term outlook may, however, entail stronger headwinds, not least due to the challenging external environment and the recovery process in the banking sector following a period of rapid credit growth. On top of that, an escalation of the humanitarian crisis would be highly disruptive and, in the economic realm, could spark further deterioration in risk sentiment with adverse growth implications, thus underscoring the urgent need for peaceful conflict resolution. For now, economic policy priorities should focus on preserving and boosting growth, building fiscal buffers, enhancing institutional capacities and implementing structural reforms conducive to private sector development.

We appreciate that the authorities have formulated the Myanmar Sustainable Development Plan (MSDP) that strives for a coherent reform strategy to achieve the SDGs. After the first wave of economic reforms has shown results, the authorities deserve credit for appropriately recognizing that further impetus is needed to create an open and business-friendly environment to attract investors and fully unfold entrepreneurial forces. To this end, it will

be necessary to strengthen institutions and governance while promoting public sector transparency and accountability. Such measures should also feed into the objective of advancing operational efficiency and service-delivery of state-owned enterprises.

The authorities should pursue a careful budgetary strategy that allows meeting ambitious development goals by taking a disciplined and focused approach to strategic public spending and safeguarding fiscal sustainability. Growth-enhancing capital spending, also encompassing human capital accumulation, should be prioritized over recurrent expenditures while improving spending efficiency more broadly through enhanced public management capacities. In a similar vein, the gap between planned and actual expenditure points to the need for enhancing the efficiency of budget execution. We would appreciate to hear staff's assessment on the bottlenecks that hold back the uptake of spending, in particular with regard to infrastructure investments and human capital development. In light of the limited budgetary scope, we agree with staff that a comprehensive revenue strategy is needed to mobilize sufficient revenues for the intended investments, while durably reducing the reliance on monetary financing. The comparatively low tax to GDP ratio suggests that there is room to enhance revenue mobilization through a combination of a broader tax base and strengthened administrative capacity for tax collection.

Key reforms in the area of monetary policy should aim at strengthening the institutional framework of an operationally independent central bank, rebuilding adequate international reserve coverage and maintaining exchange rate flexibility. Combined with a gradual process of interest-rate liberalization, further development and deepening of capital markets could be spurred. Monetary financing of the government has been reduced lately thanks in large part to smaller budgetary deficits. However, it is still a considerable feature of economic policy in Myanmar and we are somewhat concerned that any loosening of the fiscal policy stance could easily relaunch such practices in larger volumes. Accordingly, more thoughts could be given to establishing institutional setups that effectively prevent monetary financing. Staff comments would be welcome.

We encourage the authorities to move forward with tackling fragilities and bolstering the resilience of the financial system. It appears that the new set of prudential regulation has gained some traction in the banking sector, also impelling banks to enhance their risk management practices. However, supervisory activities should continue enforcing compliance with the regulatory requirements, including ensuring adequate capitalization levels.

Going forward, the strengthening of banks' balance sheets, addressing the identified AML/CFT deficiencies and upgrading the resolution framework should remain key priorities.

Finally, we encourage the authorities to consent to the publication of the report.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the reports and Mr. Tan and Ms. Ong for their statement. In recent years, Myanmar has achieved relatively strong economic growth and institutional development. However, the country is subjected to downside risks emerging from the humanitarian crisis in the Rakhine state, as well as trade tensions, spillover effects from a possible slowdown in China, and global financial volatility. The authorities are therefore encouraged to take further steps to position the economy on a more sustainable path with appropriate fiscal policy, sound monetary policy and improved financial regulation and supervision.

Although Myanmar's growth remains strong, the humanitarian crisis in Rakhine dulls its economic prospects. We take note of Myanmar's positive macroeconomic environment with robust growth, manageable inflation, low external debt and sustainable external gap. This notwithstanding, the short-term economic prospects are dampened by the risks of lower external financing and worsened investor sentiment due to the humanitarian crisis in Rakhine state and the slow progress in addressing the refugee crisis, together with possible revocation of trade preferences on human rights concerns. Accordingly, we urge the authorities to engage in regional cooperation with a greater focus in resolving the crisis and ensuring peace and stability for Myanmar to realize its true growth potential.

Appropriate fiscal policy aimed at achieving Sustainable Development Goals (SDGs) while ensuring public debt sustainability is vital to build on Myanmar's growth momentum. We agree with staff that policy priorities in revenue mobilization, budget credibility and Public Finance Management (PFM) reforms should aim at not only achieving debt sustainability but also reduce governance vulnerabilities. We also concur with staff that aligning capacity development with the Myanmar Sustainable Development Plan (MSDP) strategies would be key to achieving related goals. We continue to support the high level of engagement by the Fund on capacity development and encourage staff to ensure that this is coordinated with other technical assistance. Further, we take note that Myanmar's risks of debt distress

continue to be assessed as low and join with staff in encouraging the authorities to maximize concessional loans and improve budget execution to keep the debt burden contained.

Sound monetary policy should be implemented to ensure low inflation and financial stability. We welcome the continued efforts of the authorities to phase out central bank's financing of the budget and curb rising inflation. We see merit in strengthening of the monetary policy framework by enhancing the management and coordination of liquidity and interest rates. The issuance of government securities and deposit auctions are encouraging, as this not only provides the government with a market-based mechanism for financing but improves management of interest rates and enhances the banks' liquidity management and profitability. Moreover, the new market determined mechanism for setting the exchange rate is a step in the right direction, as it would allow the phasing out of the foreign exchange auctions that do not facilitate price discovery.

Systemic risks in the banking system need to be addressed with improved regulation and supervision. The uneven loan loss recognition and inadequate provisions and low capital position of banks are concerning and necessitates improved regulation and supervision. Whilst we note the challenges faced by the authorities, we urge them to continue their efforts in restructuring and, if needed, recapitalization of banks in order to maintain confidence in the banking system. On the AML/CFT framework, we commend the authorities for publishing Myanmar's National Risk Assessment. However, we strongly urge the authorities to address the identified deficiencies and ensure compliance with Financial Action Task Force (FATF) recommendations.

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

We thank staff for the informative papers and Mr. Agung and Ms. Ong for the helpful buff statement. Myanmar has made welcome progress on building economic institutions. We agree with staff that a further round of reforms is needed to sustain growth and make the economy more resilient; the recently launched Myanmar Sustainable Development Plan provides a useful framework. Given the extensive reform agenda, we encourage the authorities to identify, and focus on, a manageable number of near-term priority actions. Looking ahead, the authorities have significant challenges to navigate, including addressing banking sector fragilities and managing the scope and quality of public investment and contingent liabilities. In addition, peaceful resolution of the Rakhine crisis that allows for the safe, secure, and voluntary

return of refugees is essential not only as a humanitarian matter but also to restore investor and donor sentiment. We agree with the thrust of the staff appraisal and would highlight several points.

Fiscal and debt sustainability. Stronger efforts on revenue mobilization and prudent, transparent public investment will be key to maintaining fiscal and debt sustainability while enhancing growth prospects. We concur with staff advice to adopt a comprehensive medium-term revenue strategy, in light of Myanmar's very low tax revenue relative to peers, and to rebalance expenditures toward social sectors while improving public financial management. We welcome Myanmar's low debt risk rating, and its enhanced debt carrying capacity based on the new composite indicator in the Debt Sustainability Framework. However, we would have liked to see a scenario analysis of potential large-scale borrowing, even if it has not yet materialized, to provide stronger guidance to the authorities—and potential lenders—of the scale and terms of new lending that would be consistent with maintaining low debt risks. Staff comments would be welcome. We urge the authorities to proceed carefully with use of PPPs, taking due account of fiscal and debt sustainability risks.

Monetary reforms and financial stability. Further development of monetary and financial sector institutions will promote macroeconomic stability and provide a stronger foundation for growth. Managing the implementation of the 2017 capital requirements and related regulations should remain a key focus of the central bank to minimize systemic disruptions as the banking sector gradually modernizes. Urgent attention is needed to address near-term systemic risks, and the authorities should prioritize strengthening banks' capital improvement plans to make them credible and ensuring proper loss recognition including through use of external examinations. We welcome the initial efforts towards interest rate liberalization, and the opening of additional activities for foreign banks. We also welcome the continued steps towards a more market determined exchange rate, including the new rate setting system introduced last month.

Governance and Anti-Corruption. Strengthening governance and transparency in both the fiscal and financial sectors is needed to improve the business environment and promote private investment. As Myanmar considers major infrastructure and development projects, it will be critical to employ a robust process based on rigorous project appraisal, open tenders, and transparency of borrowing terms. On state economic enterprises, there is ample room for improving governance, including by implementing EITI in the natural resources sector. In the financial sector, it will be important to apply

regulations to reduce connected lending and improve corporate governance. Attention to addressing AML/CFT weaknesses is critically important and Myanmar should work to address the recommendations from its recent APG mutual evaluation.

Data: We welcome ongoing improvements to data and take note of the relatively broad coverage of debt data, for example. Nonetheless, we note that serious shortcomings in data still hamper surveillance and we encourage continued attention to addressing weaknesses over time.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for a well-written report and Mr. Tan and Ms. Ong for their informative buff statement. Myanmar´s economic growth is strong, and its long-term economic prospects are favorable, while the risks in the short term are tilted to the downside. We commend the authorities for their commitment to preserving macroeconomic stability, strengthening monetary autonomy, and enhancing exchange rate flexibility. However, we note with some concern that progress towards addressing the humanitarian crises in Rakhine has stalled and the impact from the crises continues to negatively affect foreign investor sentiment and donor financing. We broadly agree with staff's appraisal and would like to make the following comments for emphasis.

Fiscal policy should continue to be prudent and be focused on improving tax revenues.

We note that Myanmar´s tax revenue-to-GDP is relatively low and lags significantly below peer economies. We also note that the fiscal deficit is expected to increase to around 4 and 4.5 percent of GDP over the medium term on the back of fiscal stimulus and increased public investment spending. While the economy needs substantial investments in infrastructure, SDG gaps remain extensive and the external debt remains sustainable, we are somewhat concerned whether a deficit of such a scale over several years will be appropriate. Especially, in light of the risk of potential macro-financial spillovers from the banking sector, the limited fiscal framework and vulnerable fiscal governance, where data issues make it difficult to quantify contingent liabilities. We emphasize that fiscal policy should continue to be prudent in order to preserve macroeconomic stability and ensure debt sustainability. Raising domestic revenues should be prioritized to finance the SDGs and investment spending. Enhanced efforts to improve budget

execution, enhance public financial management, and the implementation of a medium- to long-term revenue strategy would also be appropriate.

Maintaining a tight monetary stance, improving the monetary policy framework, and phasing out central bank financing will be important to curb inflation pressures. We commend the authorities for the recent important policy steps taken, including permitting unsecured lending at higher interest rates, abolishing the FX trading band, and announcing the market-based exchange rate as the new reference rate, which enables the transition to a reserve money targeting framework. We also welcome the authorities' objective to phase out deficit financing by FY 2020/21 and urge the authorities to remain fully committed to this objective. We concur with staff that monetary conditions should be kept tight to bring inflation down to lower levels. We encourage the authorities to fully introduce a flexible exchange rate policy to mitigate external shocks and build up reserves. Finally, we emphasize the importance of continued efforts to strengthen the monetary policy framework and further develop of debt and interbank markets.

We welcome the Myanmar Sustainable Development Plan (MSDP) which is needed to fully realize Myanmar´s growth potential, reduce poverty, and create jobs. We encourage the authorities to remain committed to the reform agenda and to successfully implement the second wave reforms, which are also essential toward meeting the SDGs. We fully support the Fund´s work on capacity development focused on building fiscal and monetary institutions, strengthening the legal framework, and improving macroeconomic statistics. Building a strong business environment characterized by a sound legal framework, good governance, and low-corruption is essential for attracting investment and enhancing private sector led growth.

We note severe systemic challenges from fragilities in the banking system. In that regard, we encourage accelerating the reform of state-owned banks, implementing prudential regulations, and forming contingency plans to address systematic risks, as recommended by staff. Furthermore, capitalizing banks and restoring bank´s balance sheets will be essential to strengthen bank´s profitability and enhance rapidly decelerating credit growth. We urge the authorities to strengthen the AML/CFT framework and improve its effectiveness.

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

We thank staff for the set of comprehensive reports and Mr. Tan and Ms. Ong for their useful buff statement. While growth has rebounded in

FY2017/18, momentum has slowed and Myanmar faces a challenging path ahead with heightened downside risks stemming both domestically and from a more uncertain external environment. To weather through the challenges ahead, decisive actions and strong policy management are needed to move forward with the reform agenda and achieve the Sustainable Development Goals. We broadly concur with staff's appraisal and would like to limit ourselves to the following comments.

Steadfast reforms and significant investment in both physical and human capital are needed to fully harness Myanmar's demographic and resource endowments. In this regard, we look forward to the successful implementation of the Myanmar Sustainable Development Plan. Meanwhile, although Myanmar's risk of debt distress continues to be assessed as low, sufficient safeguards should be in place to ensure that the increase in investment spending does not undermine debt sustainability and overall fiscal health. To this end, fiscal structural and governance reforms are vital to managing fiscal risks. These include, among others, measures to strengthen revenue mobilization, improve public financial management, and enhance spending efficiency. The recently approved project bank regulation, which establishes a centralized and systematic process for project evaluation, is a step in the right direction. Better medium-to-long term planning would also help guide these efforts going forward.

To tackle persistent inflation and bolster confidence, the authorities should keep monetary conditions tight and strengthen the monetary framework. We welcome the authorities' efforts in this regard, and look forward to the phasing out of central bank deficit financing by FY2020/21. We also take positive note of the continued progress in adhering to a market-determined exchange rate, and encourage further strengthening of the economy's external stability, including through amending the FX management law.

The ongoing financial sector reform has revealed fragilities that require swift and decisive actions. We take positive note that the authorities are committed to addressing these challenges and are already taking steps on different fronts. We encourage staff to work closely with the authorities to address remaining weaknesses and mitigate systemic risks, providing technical assistance where necessary along the way. We also emphasize the importance of careful public communication during the bank restructuring and recapitalization process, including that of key messages from this staff report, to avoid unintended adverse market reactions and facilitate a smooth transition.

Improving the business environment is critical to building confidence and attracting private investment to the economy. We encourage the authorities to maintain its efforts in addressing governance weaknesses, tackling corruption, and building stronger institutions. As Myanmar continues to pursue various structural reforms to support its economic transition, the Fund's provision of capacity development assistance would remain essential.

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

Mr. Doornbosch, Mr. Psalidopoulos, Mr. Etkes and Mr. Di Lorenzo submitted the following joint statement:

We thank staff for the informative paper and Mr. Tan and Ms. Ong for their detailed statement. We concur with staff's analysis and recommendations and would like to focus our comments on the following issues.

Staff's analysis shows how addressing the humanitarian crisis is critical also from a macro-fiscal point of view. Its fallout can be very severe in a downside scenario, further aggravating the reduction in FDI inflow already ongoing and creating domestic and external imbalances. Taking good note on the authorities' commitment to support peace and stability in the region, we emphasis that creating the conditions to allow UN access and to favor the repatriation of refugees from Bangladesh is essential to restore donors and investors' confidence and to sustain growth. Does Staff already identify an adverse impact of the announced sanctions or risk of additional sanctions?

A more robust governance and the implementation of the anti-corruption legislation are also essential to enhance attractiveness for foreign private investments. We welcome the mission's specific focus on governance and would appreciate further elaboration on the scope of these discussions and the suggested policy measures.

Comprehensive reforms are needed to implement the authorities' development plan while maintaining the current rating of low risk of debt distress. The authorities intend to boost connectivity through a number of infrastructural projects, in line with the MSDP. At the same time, achieving the SDGs on health and education requires an additional public spending of about 8 percent of GDP from 2019 to 2030. A series of actions in the front of public financial management are needed to make these spending plans compatible with each other and with debt sustainability. Beside closely

monitoring large infrastructure projects, including PPP, it is vital that the authorities continue to work in collaboration with the Fund to develop a medium-term revenue mobilization strategy, structurally raising the very low tax ratio, thus providing funding for those spending needs.

Monetary policy needs to become fully independent from budget financing and exchange rate level goals. We agree with staff that the monetary financing of the budget from the central bank should quickly phased out. The consequent pick-up in government securities issuance, in combination with interest rate liberalization, can further contribute to a more effective monetary policy framework. Building on the progress toward a market-determined exchange rate, consideration should be given to additional actions to improve FX management, such as establishing a framework for interventions aimed to improve reserve adequacy. This could also contribute to the removal of the MCP moving forward. How do staff evaluate the authorities' target of phasing out deficit financing by 2020/21?

Financial stability risks from weak balance sheets need to be addressed urgently. Although credit growth has slowed down, and some progress is being made in ensuring adequate financial supervision, large vulnerabilities on both sides of the banks' balance sheets require stepping-up oversight function. Improving loss recognition and timely increasing capital levels represent the most urgent priorities, together with developing a framework for emergency liquidity for solvent, but temporary illiquid banks. The new regulations broadening the limits for foreign participations allows to lower the fiscal risks from public recapitalization, however we recognize that, especially in a weak profitability environment, large recapitalization can represent a challenge. A FATF listing would be very damaging in this respect, and we would urge the authorities to continue to work to make sure that all the measures recommended by the international bodies to strengthen its AML/CFT framework are in place by the expected deadline.

Mr. Trabinski and Ms. Urbanowska submitted the following statement:

We thank staff for the informative set of papers and Mr. Tan and Ms. Ong for their helpful buff statement. As we broadly share staff's assessment of the economic outlook and the balance of risks, we would like to offer the following comments for emphasis:

Myanmar's economy continues to grow, although at a slower pace. Growth is supported by external demand and recovery in the agricultural sector. Moreover, Myanmar's growing youth population, competitive labor

costs, and its strategic location could help harness its growth potential. However, the prolonged humanitarian crisis in Rakhine state, lower FDI inflows, trade tensions and volatile global financial conditions present significant risks to the outlook. Against this background, we encourage the authorities to continue with structural reforms to ensure strong and inclusive growth.

Fiscal policy should remain prudent, while ensuring debt sustainability. Although the overall risk of debt distress remains low, pockets of vulnerability exist. Maximizing concessional loans, broadening the export base, and improving fiscal buffers would help keep debt contained. Moreover, a close monitoring of large infrastructure projects and proper assessment of fiscal risks stemming from PPPs would ensure an efficient resource allocation, in line with fiscal constraints. In this regard, we would welcome staff's views on the authorities' more extensive engagement in utilizing PPPs, given capacity constraints and the scale of these projects. Moreover, it is important for the authorities to continue their fiscal structural reforms, e.g. by domestic revenue mobilization and improvements in public financial management.

Continued efforts to strengthen the monetary policy framework are warranted. We welcome the Central Bank of Myanmar's firm commitment to phase out monetary financing and its gradual transition to a new monetary policy framework that will target reserve money. In this context, the further development of the debt and interbank markets is key for improving the monetary policy transmission. Moreover, we agree that rebuilding of international reserves to an adequate level is necessary.

Strengthening financial regulation and supervision as well as addressing systemic risks is key to maintain confidence in the banking sector. We appreciate the progress made in tackling legacy issues in the banking sector. However, more efforts to clean up NPLs through loss recognition and recapitalization are needed. Furthermore, we support the authorities' efforts to strengthen the implementation of the 2018 APG assessment aimed at improving the AML/CFT framework.

We welcome Myanmar's Sustainable Development Plan (MSDP), which lays out the economic roadmap for the country's transition toward an inclusive and open economy. We welcome the reforms along the MSDP, which aim at consolidating economic stability and creating an environment for private sector-led growth. As flagged by staff in Appendix VI, extensive technical assistance provided by Fund and other development partners will be crucial to build domestic capacity and achieve inclusiveness.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

We thank staff for the informative report and Mr. Tan and Ms. Ong for their helpful buff statement. Myanmar's outlook remains strong, supported by favorable demographics, implementation of large-scale infrastructure projects, and ongoing transition to a more open, market-based economy. Over the last several years, Myanmar has achieved substantial progress in reforming its fiscal, monetary, and financial systems. It is encouraging that the authorities continue to press ahead with economic transformation, adopting the Myanmar Sustainable Development Plan (MSDP), which envisages a second wave of reforms broadly in line with the IMF recommendations. Consistent implementation of reforms is critically important for maintaining high growth and achieving Myanmar's development goals.

On the fiscal front, the authorities should continue their prudent fiscal stance to preserve macroeconomic stability and ensure debt sustainability. We welcome substantial progress in reducing the monetary financing of the budget and the authorities' commitment to phase it out completely by 2020/21. Myanmar's low tax-to-GDP ratio points to the need to increase tax revenue through tax reforms and improvements in administrative capacity.

Increased investment in infrastructure and human capital is a key precondition for strong and sustainable long-term growth. In view of still limited revenue capacity, the authorities are seeking private sector participation in infrastructure projects. However, it should be accompanied by the increasing efficiency of public investment project management (PIPM) on the basis of international experience and best practices. It is also essential to maintain access to concessional external financing to reduce monetary financing of the budget and ensure debt sustainability.

Inflation, while declining over the last years, remains relatively high and volatile, influenced to a great extent by the exchange rate movements. To achieve lower and more stable inflation a tight monetary stance and a more efficient monetary policy framework are needed. Liberalization of banks' lending rates is a step in the right direction, and we encourage additional efforts to improve the monetary transmission mechanism. Phasing out monetary financing of the budget will strengthen the institutional setting for monetary policy.

We welcome gradual transition to a more market-based exchange rate system in line with the Fund's recommendations. A recent move to

determining FX reference rate on the basis of market transactions and deepening the interbank market will strengthen the exchange rate framework. We note the conclusion in the external sector assessment regarding the insufficient level of international reserves. Therefore, the CBM should continue to accumulate reserves during the periods of capital inflows.

After a period of rapid credit growth, the vulnerabilities in the banking sector remain elevated. In many systemic banks capital is below the minimal capital requirements, loan loss recognition is uneven, and provisions are inadequate. Systemic risks should be addressed without delay. There is an urgent need to renew banks' recapitalization plans and accelerate cleaning up banks' balance sheets.

With these remarks, we wish the authorities further success.

Mr. Ray, Mr. David and Mr. Kikiolo submitted the following statement:

We thank staff for the comprehensive reports and Mr. Tan and Ms. Ong for their informative buff statement. While Myanmar experienced a rebound in growth, the economic outlook for the near term has weakened, and the country continues to face an ongoing humanitarian crisis. The medium-term outlook is favorable and long-term prospects are promising given its growing working age population, strategic geographical location and the development of major infrastructure projects. We broadly agree with staff assessment and offer the following comments for emphasis.

We agree with staff that successfully implementing the second wave of reforms in the Myanmar Sustainable Development Plan (MSDP) would assist in ensuring sustained economic growth. It would also assist to meet Myanmar's Sustainable Development Goals (SDGs) and we also see value in the work staff did to quantify the resources Myanmar needs to achieve the SDGs by 2030. Fiscal policy should be directed to SDG spending and reducing central bank financing. With one of the lowest tax to GDP ratios in the world, it is important to increase efforts in raising tax revenue as well as non-tax revenue from State Economic Enterprises. Fund support through TA and capacity development would be important to assist the authorities undertake necessary reforms through the medium-term revenue strategy and public financial management.

We encourage the authorities to continue to safeguard financial stability through better legislative framework and stronger supervision. We

agree with staff on the need to improve compliance, loss recognition and recapitalization, as well as implementing regulations and liberalizing retail bank interest rates to improve financial supervision and address system risks within the financial sector. Recognizing the capacity issues in Myanmar, we support the authorities request for the Fund to provide TA on bank resolution, contingency planning and other related areas. With respect to the AML/CFT deficiencies, we welcome the remedial measures the authorities undertook so far and urge them to sustain the positive momentum to avoid being listed by the FATF.

We welcome the efforts taken by the central bank to maintain a market-determined reference exchange rate and upgrade the monetary policy framework. With the on-going reduction in central bank deficit financing, enhancing the domestic Government securities market would assist with sterilization and monetary transmission. The Fund's assistance in the transition to a reserve money targeting framework should continue, if requested, to assist the authorities with implementing the TA recommendations. We welcome the recently introduced method of deriving the daily FX reference rate. Staff noted that the reference rate has sharply depreciated between April and December 2018, though the spread with the informal market rate has widened at times. Could staff advise on this informal market and what is the latest spread?

We welcome the authorities' focus on structural reforms. Addressing access to finance, contract enforcement and other issues that impedes private sector investment and inclusive growth would contribute to the growth potential of Myanmar. We noted that the humanitarian issue in Rakhine state poses downside risks to the economy and would like to encourage the authorities to find an amicable solution to this long-standing issue. We see that the TA support and policy advice from the Fund have been well received by the authorities and paying dividend for the country. We would like to see this continue. On statistics, we commend the collaborative efforts of the authorities, the Fund and other development partners that led to the improvement in data quality and publication of fiscal data in line with the GFSM framework.

Mr. Guerra, Ms. Arevalo Arroyo and Mrs. Suazo submitted the following statement:

We thank staff for a clear and insightful set of reports and Mr. Tan and Ms. Ong for their helpful buff statement. Long-term growth prospects in Myanmar remain strong. Nevertheless, there is need for economic policies to support peace and stability, including sustained progress on the humanitarian

crises, for the country to fully reach its growth potential. We broadly agree with the staff appraisal and we will comment on some specific points for emphasis.

The present juncture is fundamental to secure macroeconomic and financial stability, and to promote sustainable and inclusive growth. To this end, the authorities should profit from the demographic dividend and strategic location with a continued focus on the implementation of their extensive reform agenda. In this regard, we positively note the authorities' efforts and progress on the first wave of reforms to date. We welcome the launch of the Myanmar Sustainable Development Plan (MSDP), in line with past recommendations by the Fund, and consider it a step in the right direction to sustain growth and improve economic welfare.

Amidst a projected higher fiscal deficit in the medium term, commitment to the implementation of a medium-to-long-term revenue strategy (MTRS), improved public financial management, and a PPP framework to manage fiscal risks will be crucial. In this regard, as noted in the buff statement, we are encouraged by the measures undertaken by the authorities in terms of tax reform and regulations for a PPP framework to manage fiscal risks. Also, the continued reduction of the Central Bank of Myanmar (CBM)'s financing to the government is a step in the right direction.

We think the monetary policy stance is appropriate and welcome exchange rate flexibility and phasing out of CBM's financing to the government in order to reinforce monetary policy independence. Regarding the latter, stepping up issuance of debt securities will be a clear signal of the authorities' commitment to reduce CBM financing. We support the introduction of a market-determined mechanism to set the exchange rate and agree with staff it should be adhered to as a buffer against shocks.

While some reforms in the banking sector are showing progress, strengthening of supervision will be required to increase compliance and avoid systemic risk. In this regard, increasing resilience of banks' balance sheets through proper loss recognition and recapitalization is critical. We agree with staff that supervision of the CBM should be strengthened and contingency plans developed.

Finally, we underscore the importance of the extensive technical assistance provided by the IMF and that capacity development is closely aligned to the MSDP goals. In this regard, we thank staff for the useful table clearly mapping these links.

Mr. Ronicle and Ms. Freeman submitted the following statement:

We thank staff for the high-quality and balanced papers and Mr. Tan and Ms. Ong for their informative statement.

As staff note, Myanmar is a country with significant potential, and much has been achieved in recent years, albeit with some slowing projected in the near-term. Policies need to remain focused on realizing that potential. We agree with the staff assessment and support the policy recommendations, which build on last year's report. As such, we are reassured to note from Mr. Tan and Ms. Ong's statement that the Myanmar authorities concur with staff's key policy recommendations.

We expect the second wave of reforms under the Myanmar Sustainable Development Plan (MSDP) to play an important role in realizing Myanmar's potential, with its range of donor-supported growth initiatives on human capital, public-private partnerships, and economic governance. We remain deeply concerned by the humanitarian crisis in Rakhine State, which is also acting to depress investment and jeopardize sustained inclusive growth for all; we strongly support the focus on "peace, stability and good governance" in the MSDP, as highlighted by staff. We encourage the Government to continue to engage with development partners around the longer-term planning agenda to ensure a better protracted crisis response in Rakhine.

We agree that expenditure should be targeted towards delivery of the goals in the MSDP, including reducing the fiscal deficit, and enhancing expenditure efficiency to foster inclusive growth. Where expenditure does increase, we support this being channeled towards social sectors that increase human capital or towards critical physical capital expenditure. We are concerned that expenditure outside of the MSDP, for example on energy subsidies, could worsen fiscal vulnerabilities and reduce the prospects for inclusive growth.

We support the medium-to-long-term revenue strategy (MTRS) process to support greater resource mobilization towards the SDGs, given Myanmar's low tax to GDP ratio. Given strong efforts already being undertaken by the Internal Revenue Department through its 'medium-term reform journey', we recommend that the MTRS focuses on promoting a 'whole of government' approach to domestic resource mobilization. This could include a focus on rationalizing tax exemptions to increase tax revenue,

raising non-tax revenue, and providing a mechanism for more effective donor co-ordination.

Mr. Kaya and Mr. Bayar submitted the following statement:

We thank staff for the well-written report, and Mr. Tan and Ms. Ong for their helpful buff statement. Myanmar has set a track record of robust growth, reflecting its demographic window of opportunity, strategic location between the growth engines of Asia, and the authorities' earlier reform efforts. However, the economy appears to fall short of its potential as the deepening humanitarian crisis in the Rakhine State takes a greater toll and risks undermining the broad social cohesion, as well as the structural transformation of the Myanmar economy. Going forward, maintaining strong growth and achieving the Sustainable Development Goals (SDGs) would hinge critically on faster progress in resolving the humanitarian crisis, including through the repatriation of refugees, as well as the decisive implementation of the second wave of reforms prescribed in the Myanmar Sustainable Development Plan.

Fiscal policy should be geared toward achieving the SDGs while safeguarding macro-financial stability and debt sustainability. Myanmar has significant gaps in humanitarian and infrastructure spending. Staff, in this regard, estimates the spending needs to reach the SDGs in the social and infrastructure sectors at around 13 percent of GDP. Realizing these objectives without hampering fiscal sustainability therefore calls for a comprehensive medium-to-long term strategy to guide revenue mobilization efforts, including through broadening the tax base, modernizing tax laws, and improving tax and customs administration. Further efforts to improve budget execution capacity and spending efficiency, particularly on public infrastructure projects, are also warranted. In view of the significant under-execution of public expenditures in 2017/18, we would appreciate staff's comments on the extent to which the reduction in spending can be attributed to revenue shortfalls and hence, is not an indication of execution capacity. We also take note of the authorities' intentions to more extensively utilize public-private partnership programs to further their investment agenda, and encourage them to incorporate the legal and institutional safeguards to manage contingent fiscal liabilities.

Phasing out monetary financing remains the key challenge to price stability. While moderation in the fiscal deficit – mostly due to under-spending – allowed for a reduction in monetary financing last year, we note with concern that this may not constitute a downward trend, as the authorities plan to adjust public expenditures this year. We believe that the current

appetite for government securities provides a window to increase reliance in market-based financing, while at the same time easing the constraints on the liberalization of interest rates. We welcome the authorities' progress toward a market-determined exchange rate, including the new regulation on the rate-setting mechanism and encourage them to take additional measures to deepen the interbank market, and transitioning to an asymmetrical foreign exchange intervention strategy. We also welcome the authorities' growing readiness to accept Myanmar's obligations under Article VIII, and encourage them to remove the remaining exchange rate restrictions and multiple currency practices.

Strengthening supervision in line with the international standards is needed to address fragilities in the financial sector. We are concerned that the systemic risks stemming from the banking sector balance sheet vulnerabilities have started to have material macroeconomic implications. The central bank needs to boost its efforts to improve the monitoring and enforcement of the regulatory framework and ensure, inter alia, that the sizable recapitalization needs are addressed in a smooth and transparent manner. We support the ongoing technical assistance provision by the Fund and the World Bank to improve institutional capacity in the central bank and other agencies.

Finally, we encourage the authorities to build on their recent progress in the AML/CFT space to avoid a potential adverse listing by the Financial Action Task Force.

Mr. Sylla and Mr. Bangrim Kibassim submitted the following statement:

We thank the staff for a well-written report and Mr. Tan and Ms. Ong for their buff statement.

Myanmar has strong development potential and prospects supported by its demographic dividend, privileged geographic position, and a competitive labor force. Authorities' ambitious development program MSDP (Myanmar Sustainable Development Plan) aiming at achieving peace, stability, prosperity, human resource development, and environmental conservation is demonstrating their efforts for the future and substantial progress in their reforms. While the economic growth has rebounded in 2017/18, the crisis in Rakhine region and risks stemming from trade tensions and global financial conditions pose significant challenges to Myanmar's near outlook and need to be addressed to preserve stability and increase potential growth. Going forward, the pursuit of prudent fiscal policy coupled with fiscal reforms, improvement in the monetary framework, and targeted structural

reforms will reduce fragilities and support the country's development goals in the long-term.

We broadly agree with the staff's assessment and are reassured by authorities' views on their findings. For emphasis, we will provide the following comments.

Authorities' efforts in fiscal reforms should be geared towards increasing tax-to-GDP ratio while improving public financial management to ensure adequate spending for SDGs. In this sense, we welcome the commitment to enhance the equity, efficiency and transparency of the tax system as indicated in Mr. Tan and Ms. Ong's buff statement. While the fiscal deficit, remained moderate but expected to reach 4 percent over the medium-term call for cautiousness, we agree on the importance of lowering fiscal dominance and considering appropriate financing in the context of external uncertainties. Given substantial financing needs, the projected decline in non-tax revenues from SEEs (state economic enterprises) and revenue underperformance in 2017/18, it's crucial to press ahead with tax and customs reforms. The implementation of a comprehensive strategy would help to address weaknesses and preserve a sustained domestic revenue mobilization. On the other hand, meeting SDGs objectives and reducing the country's gaps in some areas will require to increase spending on health, education, electricity, water, sanitation, social and infrastructure sectors. We also share the view that to achieve these objectives and strengthen fiscal governance and credibility, the authorities should improve budget execution, enhance PFM and contain fiscal risks by strengthening PPPs framework and increasing efficiency in SEEs.

On monetary policy, we are of the view that containing inflation, preserving external stability and upgrading policy frameworks should be priorities. We are encouraged by the steps taken by the CBM (Central Bank of Myanmar) to phase out fiscal financing and tighten monetary conditions as it will contribute to limit inflation. While progress has been achieved by the CBM in the implementation of monetary policy, we see room for more improvements. Notably, we encourage the authorities to enhance monetary transmission mechanism and FX management and further develop the interbank market. They are also encouraged to take advantage of Fund's technical assistance (TA) to upgrade the operational framework of the central bank, among others, to ensure an adequate regulatory framework and international reserves level.

Vulnerabilities in the financial sector and particularly in the banking sector need to be tackled without delay to preserve financial stability. We welcome the new regulations aiming at controlling risks emerging from credit boom, the progress made by the authorities in addressing legacy issues in domestic banks and their commitment to strengthening oversight in the sector. However, we concur with staff on the need to clean up the bank balance sheets, strengthen external scrutiny of systemic banks and the formulation of a contingency plans to ensure stability in the system. In this regard, a comprehensive strategy considering all stakeholders will be necessary to provide support in terms of recapitalization and regulation laws. In addition, we encourage the authorities to build on partners' TA to implement the banking sector action plan (BSAP) and pending issues including the restructuring strategy for four state-owned banks (SOB).

While capacity developing(CD) efforts are supporting structural reforms, the authorities should address weaknesses in business climate and governance. In this sense, we appreciate the alignment of Fund's priorities in CD with that of the MSDP and encourage authorities to explore ways to improve statistics particularly in terms of quality and accuracy. While the country is undertaking an ambitious development plan, it is crucial to improve the business climate which requires to reform the electricity sector and increase access to finance. In the same vein, enhancing the Doing of Business based on friendly legislation preserving investors rights is critical. As for governance, we recognized the achievements made in the fight against corruption and transparency but encourage the authorities to step up their efforts, particularly to implement the recommendations aiming at addressing the shortcomings in the AML/CFT regime identified by the July 2018 APG assessment. The staff rightly pointed out the need for enhanced preparedness against natural disasters. Given the large impact on debt development and long-term growth, could the staff provide their assessment of the country's capacity in this area and what specific assistance could be provided to the authorities?

Mr. de Villeroché, Mr. Castets and Mr. Sode submitted the following statement:

We thank staff for their set of documents as well as Mr. Tan and Ms. Ong for their insightful buff statement. While Myanmar has achieved considerable economic progress over the last years, we agree with staff that downside risks have increased due to vulnerabilities on the fiscal and banking sectors as well as to the negative spillovers from the crisis in Rakhine state. To avoid a growth slowdown, economic reforms should continue, and a cautious and transparent approach should be adopted regarding externally-

financed infrastructure projects. We agree with the thrust of staff analysis and recommendations, we would like to highlight several points:

We support staff's recommendations to design and implement a medium-term revenue strategy to durably increase domestic resources mobilization and finance public investment in physical and human capital. We also agree with staff that central bank financing must be steadily phased-out and that market-based financing should be developed. Public financial management reforms will also be essential to improve the budget process. Improving the governance and restructuring of state-owned enterprises will also help to improve public expenditure efficiency and reduce contingent liability risks.

We strongly value the Fund technical assistance in the domain of PPP, notably in the current context of increased prospects for big infrastructure projects. We fully agree with staff that a framework for managing, controlling and reporting fiscal risks of PPP should be instituted expeditiously. More broadly efforts to increase public debt transparency should be pursued and we encourage staff to remain proactive in this domain.

We share staff's concerns about financial stability and risks in the banking sector. We encourage the authorities to improve the balance sheet data collection framework, better assess NPL and, if necessary, prepare appropriate recapitalization plans. We also agree that Myanmar should continue implementing the priority recommendations of the APG focusing on improving the effectiveness of the AML/CFT regime.

We concur with staff's assessment on the criticality of improving governance and anticorruption policies. While we commend the authorities for recent efforts to tackle these issues, we encourage staff to pursue their monitoring of reform implementation and to maintain a policy dialogue on these issues (in coordination with the development partners).

Given the country vulnerability to climate change, we encourage staff and the authorities to work on integrate this risk into fiscal frameworks, build buffers to enhance resilience to shocks and invest in infrastructure that can better cope with natural hazards. Is capacity development in this area planned and how staff collaborate on these issues with other development partners?

As a final comment to our gray, we want to stress that we are deeply concerned by the situation in Myanmar's Rakhine State. Along with the international community, we call on the authorities to restore law and order to

ensure the protection of all people residing in Myanmar, to create the conditions for the voluntary, safe and dignified return of refugees and displaced persons.

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

We thank staff for their well-focused reports and Mr. Tan and Ms. Ong for their informative buff statement.

After recovering in 2017/18 Myanmar's economy appears to be weakening. Aside global vulnerabilities, downside risks to the growth outlook have intensified with the uncertainty on the prolonged humanitarian crisis in Rakhine state, fragilities in the banking system and possible spillovers from a slowdown in China. Against this backdrop, accelerated implementation of Myanmar's Sustainable Development Plan and the next wave of reforms could bolster confidence and support growth. We broadly concur with staff's assessment and recommendations and offer the following remarks for emphasis.

We agree with staff on strengthening of the fiscal framework, promoting SDG-related spending with the accompanying goals of reducing governance vulnerabilities and debt sustainability. At present, we take note of the large gap in Myanmar's SDG spending in education, health and infrastructure and the low tax-GDP ratio. Rebalancing of expenditure will be critical going forward. Revenue mobilization, vigilant budget planning and PFM reforms should be actively targeted for expanding financing opportunities and improving efficiency. In an uncertain environment of external financing, staff has suggested that large infrastructure projects be prioritized through the project bank and undertaken through public procurement, donor financing or through PPPs. Could staff elaborate on the appetite for this within Myanmar and the exposures of financing materializing under the present readiness levels?

Monetary conditions should be kept tight and reliance on CBM financing should be phased out to control inflation and reinforce confidence. Continued progress in strengthening monetary autonomy and modernizing the monetary framework is reassuring. We positively note the issuance of Government securities in line with the authority's commitment to phase out monetary financing and checking interest rate declines. The new market-determined mechanism for setting the exchange rate should continue, allowing for exchange rate flexibility. Beyond this, we would encourage the authorities

to consider further refinements to the monetary policy including in lending and deposit rates, FX management law and bank resolution.

Systemic risks in the banking system need prompt solutions. Extensive financial sector reform process under way is notable. Prudential regulations have targeted the weakness on bank capital, liquidity, asset classification and loan loss provisioning and large exposures. Cleanup of banks' balance sheets, rebuilding of capital cushions should be fast tracked. Moving ahead, reinforcements through strengthened financial regulations and supervision, and improving the effectiveness of AML/ CFT would ensure stability and financial resilience.

We recognize that capacity development remains vital to support the reforms and establishing foundations for a strengthened governance framework and sustained policy implementation. We support the efforts of the Fund in this direction and welcome the progress made on governance indicators and data. We would emphasize swift action on fiscal transparency, anti-corruption efforts, financial sector regulations and in improving the quality and timely dissemination of data. Could staff share more details of their experience on the capacity building in terms of sustainability and absorption capacities?

With these comments, we wish the authorities the best in their endeavors.

Mr. Di Tata and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the comprehensive report on Myanmar and Mr. Tan and Ms. Ong for their informative buff statement.

After slowing to 6.2 percent in the 6-month transition budget period, Myanmar's growth is expected to experience a modest recovery in 2018/19 because of a pickup in manufacturing activity. The humanitarian crisis in Rakhine state is affecting foreign investment and donor financing, with risks tilted to the downside because of a possible prolongation of the crisis, withdrawal of trade preferences, and/or reduced investment. Global trade tensions and financial volatility, high crude oil prices, and spillovers from a slowdown in China are also important concerns. At the same time, however, the country's longer-term prospects remain strong owing to the demographic dividend and its strategic location. Economic growth is expected to gradually rise to 7 percent over the medium-term, a pace somewhat slower than

previously envisaged. Could staff elaborate on the existing trade preferences and the possible impact of their withdrawal?

Against this backdrop, we welcome the Myanmar Sustainable Development Plan (MSDP) launched last year, which contemplates a second wave of reforms in line with those called for by the previous consultation. Restoration of peace and steps toward regional inclusion are crucial to unlock Myanmar's growth potential in a sustainable manner. Greater investment in both physical and human capital is needed to achieve the SDGs, which requires putting in place a more open and clear investment framework while improving the business environment. In this regard, we welcome the reforms enacted through the new Companies Law to modernize business regulation, liberalize foreign investment in formerly closed sectors, strengthen corporate governance and transparency, and streamline investment procedures.

We agree with staff that fiscal policy should aim to support SDG-related spending while lowering CBM financing and ensuring debt sustainability. We take note that the fiscal deficit has remained moderate recently, allowing for a reduction in a CBM financing, but we notice that the deficit is expected to increase to about 4 percent of GDP over the medium term, as budget execution improves. Could staff comment on the difference between the fiscal deficit of 3.5 percent of GDP envisaged for 2018/19 in the report and that of 4.8 percent mentioned in the buff statement for the same fiscal year?

Going forward, we encourage the authorities to implement a comprehensive medium-to-long term revenue strategy to be able to scale up SDG-related spending. Myanmar exhibits one of the lowest tax-to-GDP ratios in the world and consolidated revenues are declining due to the depletion of natural gas reserves and losses incurred by state economic enterprises (SEE), although they are expected to rise over the longer term following recent discoveries of hydrocarbon deposits and exploration activities. Strengthening revenue mobilization requires modernizing and enacting new tax legislation to gradually move towards the VAT and reduce the scope for discretion, as well as decisively implementing tax and customs reforms and other tax initiatives. In addition, there is a need to improve budget credibility and execution, enhance spending efficiency through PFM reforms, establish a proper framework for managing fiscal risks (including contingent liabilities related to PPPs), and enhance SEE efficiency and corporate governance. Could staff comment on the authorities' plans regarding electricity reform, including the feasibility of implementing the required adjustments in electricity tariffs?

On the monetary front, monetary conditions should be kept tight to control inflation and the CBM should upgrade its monetary framework. Reserve money and interest rates should be kept in line with the projected declining path for inflation. Regarding exchange rate policy, we welcome the authorities' commitment to continue with their efforts to adhere to a market-determined exchange rate and take note that the external position of Myanmar remains broadly consistent with fundamentals, as estimated by the external balance assessment. Going forward, we encourage the CBM to continue with its efforts to allow further interest rate liberalization, improve liquidity forecasting, and develop indirect monetary instruments to ensure a smooth transitioning to reserve money targeting. In this connection, we commend the authorities for the steps taken in February to allow unsecured lending at higher interest rates and to clarify the retail rate structure linked to the bank rate. We also welcome the authorities' intention to consider further refinements to the monetary policy and operations framework with Fund TA.

Myanmar's banking system shows important vulnerabilities. As noted in the report, lax lending standards collateralized on over-valued real estate and significant evergreeing have raised systemic risks. Moreover, most private banks are below minimum capital requirements. In these circumstances, there is an urgent need to review the capital improvement plans submitted by banks, clean up balance sheets through loss recognition, and strengthen policies and procedures for bank resolution. Moreover, the authorities need to develop an adequate emergency assistance framework to support banks facing temporary liquidity problems. In addition, it is important to move ahead with the implementation of pending regulations under Financial Institutions Law and with the Bank-Fund banking sector action plan developed in 2017, including the restructuring strategy for four State-Owned Banks (SOBs) to ensure their viability. Could staff elaborate on the TA plans to assist the authorities on financial sector issues?

On the structural front, contract enforcement, the insolvency regime, trade facilitation, and corruption constitute key impediments to doing business. We agree with staff that the efforts under way to improve governance and fight corruption should be strengthened by implementing a multi-year strategy under the MSDP. We also encourage the authorities to address promptly the deficiencies in the AML/CFT regime identified by the July 2018 APG assessment. In this regard, we look forward to the enactment of amendments to the legal framework by the third quarter of 2019 and to continued implementation of the priority recommendations.

With these comments, we wish the authorities of Myanmar every success in their future endeavors.

The Acting Chair (Mr. Furusawa) remarked that Myanmar had favorable long-term growth prospects, but that growth had recently weakened, and stability risks had risen. Directors welcomed the authorities' reform efforts and noted that the economic roadmap set out in the Myanmar Sustainable Development Plan (MSDP), together with fiscal reforms, would be critical in achieving the Sustainable Development Goals (SDGs) and in supporting private sector-led growth. Directors also called for urgent attention to address the fragilities and risks of the banking sector and expressed concerns about the humanitarian situation in the Rakhine State.

Mr. Alkhareif made the following statement:

Like other Directors, we are deeply concerned about the social and economic developments associated with the prolonged humanitarian crisis in Rakhine State, where more than 700,000 refugees have fled to Bangladesh since August 2017.

We agree with other Directors that the prolonged crisis poses significant risks to Myanmar's outlook with adverse impact on foreign investment incentives and donor financing. In this regard, we join Mr. Saito and Mr. Ray in urging the authorities to swiftly address their longstanding humanitarian crisis. Indeed, we consider that restoring the peace and reaching national reconciliation to be essential to safeguard growth and financial stability.

Mr. Saito made the following statement:

We note that Myanmar's longstanding, long-term prospects remain strong. We also welcome the authorities' strong commitment to preserving macroeconomic and financial stability and promoting sustainable and inclusive growth. However, we share the staff's concern that downside risks to near-term outlook have risen due to prolonged crisis in Rakhine State. We urge the authorities to make progress on addressing the humanitarian crisis. As we issued a gray statement, we will provide three additional comments for emphasis.

First, on public-private partnerships (PPPs) and state economic enterprises (SEEs), we note that the government intends to use PPPs more extensively, responding to its large infrastructure needs. The staff indicated in its written responses that Myanmar had limited experience and capacity with

private participation in infrastructure. While we positively note that the authorities are gradually building an institutional framework for managing PPPs, we encourage the authorities to be mindful of the risks when using PPPs and to develop capacity with the help of the Fiscal Affairs Department (FAD).

Regarding SEEs, they have large fiscal impact as their revenues represent more than half of the total public sector revenues, according to the staff's response. In this regard, we reiterate the importance of improving SEE efficiency and corporate governance.

Second, on the interest rate liberalization and banks' capacity to assess firms' credit risks, we welcome the recent progress of interest rate liberalization, including the lending rate for unsecured lending, which could help banks better price credit risks and increase profitability. That being said, there could be possibilities that banks could take excessive credit risks. As it will take time for banks to enhance capacity for credit risk management, the authorities should carefully monitor banks' lending activities to avoid the buildup of NPLs.

Finally, we underscore the importance of capacity development. Capacity development is crucial for Myanmar to help the economy transition to a more open economy. We are pleased to see that capacity development from the Fund is aligned to Myanmar's sustainable development front. We encourage the authorities to make the most of capacity development going forward. With that, we wish the Myanmar authorities all success in the future endeavors.

Ms. Crane made the following statement:

First, we welcomed the integration of information on multilateral development bank (MDB) and particularly World Bank programs into the document. We note that the World Bank staff is here today, so we wanted to note that we appreciate that and encourage continued close cooperation between the Fund and the MDBs.

Second, I want to echo Mr. Saito's points on the need to carefully manage PPP risks as well as address banking sector fragilities.

Third, we asked a question about scenario analysis, and we wanted to follow-up a bit. Our question was more about a potential scenario of rapid scale up of infrastructure, and as I understand the scenarios, which were helpful, the ones that were in the staff report and the DSA were downside

scenarios where the fallout from the serious humanitarian crisis could cause continued pulling back, and then the upside was the continued external financing. What we were asking about are potential risks to an increase or a rapid scale up in financing.

In that sense, we thought it could be useful to have a bit more information about some of the assumptions on financing terms. We were very pleased to see that the Myanmar authorities will be pursuing concessional finance as much as possible. That is important, but we believe it could be helpful for the Fund to do the kind of scenario analysis of rapid scale up, including some sensitivity analysis on the financing assumptions.

Mr. Corvalan asked the staff to elaborate on the sentence on paragraph 28 of page 16 that read: “Permitting bank accounts in the currency of Myanmar’s main trading partners, particularly in border areas, will help lower financial transaction costs.”

Mr. Sun made the following statement:

The Myanmar authorities are facing a challenging road ahead with elevated downside risks. We welcome their continued commitment to the reform agenda and wish them all the best in their policy endeavors. We also encourage the staff to continue to provide capacity development support where needed along the way.

We would like to express our concern over the placement of a chart on China’s imports of Myanmar precious stones and wood in the discussion of governance and anti-corruption efforts in paragraph 29 of the staff report, and the chart is on the next page. I understand from the staff that their intention was actually to illustrate progress in Myanmar’s customs enforcement and reporting by showing that discrepancies with trading partners in reported export flows have declined recently. We appreciate the staff’s good intention, but unfortunately the current chart does not serve the staff’s purpose. More importantly, the current presentation and placement of the chart gives rise to ambiguity that may mislead readers into thinking that somehow the recent reduction in Chinese imports had something to do with improved governance. This is a serious matter. We therefore request that a necessary deletion and/or correction be made to rectify this mistake under the Fund’s Transparency Policy to remove evident ambiguity.

We also encourage the staff to be more careful in the future when using charts to substantiate their points, particularly in cases where references are made to specific countries.

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]

> We answered all of the insightful specific questions we received already, so before getting into the questions asked in the Board, let me address a more general issue related to the banking sector. While data limitations hinder a full assessment of banking vulnerabilities in Myanmar, the information we have is that there are vulnerabilities building up and that we will continue to monitor these closely as data evolve. We will also continue to also provide the technical assistance (TA) both into the resolution framework and contingency planning so that we work with the authorities to help them deal with the potentially serious impact it could have on the fiscal position, which depending on the contingent liabilities, could affect our debt sustainability outlook as well. We are continuing to monitor this closely and we will continue to report this back as things evolve.
>
> On the specific questions we received in today's discussion, let me answer those three questions in order. First, on the PPPs, it is true that we have mainly downside scenarios in the staff report and in the Debt Sustainability Analysis (DSA), but we do have one upside scenario in the staff report, which envisages an increase in spending through borrowing both externally and domestically, including a bit of more non-concessional financing but where the authorities still stay to their maximum ceiling of 5 percent deficit. It may not capture fully the idea of a massive scaling up of infrastructure products including PPPs, but it captures an element of it. One of the reasons we have not looked at a full detailed assessment of PPPs or infrastructure scaling up is because there is a lot of discussion but not many large contracts have been signed, and the authorities are generally very transparent. They publish all external debt contracts and terms in their public debt report, which is generally publicly available, so we intend to use that information, and as the size of the projects and the concessionality become clear, we intend to include this in future scenarios and in the DSA. It was simply reflecting where they are at on the PPPs, where they have not really got to signing contracts yet.

[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.

On the second specific question on why we recommend the idea of allowing foreign exchange deposits in border areas, it is just that the current laws in Myanmar only allow U.S. dollar deposits in the banking sector outside local currency, and there is border trade in Myanmar, particularly at a small- and medium-sized enterprise level, which seem to be hindered by not being able to open foreign exchange deposits in the currencies they are trading in, so it was really addressing a very specific concern in these border areas because of the strict regulations.

Finally, on governance issues and the chart, it was our intention was to capture the improvement in customs enforcement and reporting from Myanmar. Unfortunately, the data on the Myanmar side are quite weak, and we do not have export data from Myanmar which goes to countries bilaterally, only the aggregate amount of exports on these items. So we had to rely on trading partners' information, which was much better and more detailed, and we saw this big decline because Myanmar has always been reporting a very low level of precious stones and wood, and now we see that using trading partner data, it has come down close to what Myanmar is reporting. This implies that there has been better enforcement and reporting from Myanmar that is matching more, but because of data limitations, we could not show the data from the Myanmar side matching directly with the other trading partners.

The staff representative from the Strategy, Policy, and Review Department (Mr. Wiegand) acknowledge the request for correction or deletion and remarked that discussions were already underway. He noted that the request fell under the pre-Board rules under the Transparency Policy.

Mr. Tan made the following concluding statement:

I thank Directors for the thoughtful gray statements and helpful comments, which I will convey faithfully to my Myanmar authorities.

The authorities are aligned with Fund staff on the key priorities and the way forward. We issued a detailed buff statement, so I will limit myself to some general remarks before commenting on a few specific policy areas.

Myanmar has enormous growth potential, but it is important to remember that it is also a fragile state with sharply binding domestic capacity constraints. The macroeconomic outlook is swayed by developments outside the control of the central bank and the Ministry of Planning and Finance. The role of economic policymakers is to preserve macroeconomic stability amid these headwinds and build a dynamic, inclusive, and resilient economy.

The staff report calls for a second wave of reforms with which my authorities agree fully, and there is a long road ahead to achieve the MSDP goals. It is also important to recognize the progress that has been made. Let me highlight a few key things over the past year.

On the structural side, the new companies law is a potential game changer not only because of changes such as opening up key sectors to foreign investment, but also through its basic administrative provisions. The creation of an electronic registry of companies, for example, offers dividends in transparency, tax administration, data collection, and so forth.

On the monetary front, the adoption of the market-driven exchange rate mechanism and the steps toward interest rate liberalization were bold moves in their own right. They are also building blocks for the broader shift toward monetary autonomy. The authorities have also removed exchange rate restrictions subject to Article VIII removal. The remaining multiple currency practice arises from the application of potentiality, which is now being reconsidered under the multiple currency practices review.

Let me turn to two areas Directors focused on in their gray statements, fiscal reform and financial sector restructuring. On fiscal reforms, Myanmar faces a large infrastructure spending gap. Priorities include upgrading economic infrastructure such as for electricity generation, which keeps improving the business environment. In this regard, my authorities view PPPs as a useful channel to leverage private-sector expertise and accelerate infrastructure delivery. Nonetheless, they are also aware that there can be fiscal risks, particularly given limited domestic expertise, and they are committed to strengthening governance in this area and see the project bank notification as a major step to impose structure and rigor to project selection. More broadly, they recognize the need to build fiscal space to deliver on the MSDP. They agree with Directors who have emphasized revenue mobilization and public spending efficiency and will continue to work with the Fund in this regard.

On financial sector restructuring, my authorities are confronting deeply rooted legacy issues. As the staff and Directors have noted, fragilities are surfacing. The central bank is working on multiple fronts to address concerns about asset quality and bank capital. The authorities agree that this process has to be carefully managed to avoid systemic disruptions and macro-financial spillovers, particularly in the current macroeconomic conjunction. In this regard, they appreciate Directors' support for their request for Fund TA on the resolution framework and contingency planning.

That being said, it is also important to place these challenges within the broader context. Weaknesses in bank balance sheets are coming to light because of measures to enhance transparency and raise standards throughout the sector. In other words, the current situation is another step toward transforming the banking sector into an engine of sustainable growth. The authorities' strategy goes beyond addressing banks' financial position, extends to areas such as corporate governance and market conduct. They look forward to working with the Fund and its long-term experts on these issues.

Let me conclude by underscoring again that the reform MSDP journey will be a multi-year effort, and my authorities are committed to the process. They see the Fund as a vital partner in this endeavor, and on their behalf, we would like to reiterate our appreciation for the Fund's guidance and extensive capacity development, which is aligned to the MSDP goals.

Finally, we would like to thank the tireless mission chief, Mr. Peiris, and his highly committed team. During this consultation and through the year, they have been unfailingly patient, pragmatic, creative, and earnest in their efforts to provide tailored advice and better support to the authorities, and under Mr. Peiris leadership, the entire team has done the Fund proud, in my humble opinion. My authorities look forward to building on this dialogue in the years to come.

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

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. Directors recognized Myanmar's positive long-term prospects, reflecting its growing demographic dividend, competitive labor force, and strategic

location. They noted, however, that economic activity is losing momentum and near-term downside risks have increased. They expressed particular concerns with the potential effects of the prolonged humanitarian crisis in the Rakhine state and the fragility of the banking sector. In this context, Directors welcomed the second wave of reforms embedded in the Myanmar Sustainable Development Plan (MSDP), which focuses on peace, stability, and good governance. In particular, they stressed the need to sustain prudent macro-economic policies and maintain the structural reform momentum.

Directors agreed that fiscal policy should aim at promoting spending to achieve the Sustainable Development Goals while phasing out central bank financing of the fiscal deficit and maintaining debt sustainability. They welcomed recent declines in central bank financing and efforts to increase fiscal transparency, which should help reduce risks related to infrastructure projects including from public-private partnerships. Given the low tax-ratio, Directors stressed the need to improve revenue mobilization; they also encouraged the authorities to pursue reforms in public financial management, strengthen budget execution, and enhance state-owned economic enterprise efficiency and governance.

Directors supported keeping current monetary conditions tight to anchor market interest rates and control inflation. They also endorsed further upgrades in the monetary framework and interest rate liberalization that would help enhance the transmission mechanism. Directors welcomed recent reforms, such as the market-based reference exchange rate, which should provide a cushion against exogenous shocks.

Directors emphasized the need to swiftly address the systemic risks and fragilities in the banking sector. They stressed the need to improve compliance, loss recognition and ensure recapitalization, where needed. They also affirmed the need to quickly form contingency plans to address systemic risks in the banking sector and to strengthen the resolution framework.

Directors noted that capacity development from the Fund will be critical in supporting the goals of the MSDP. They welcomed the authorities' progress on the MSDP thus far such as liberalization of restrictions on foreign investment but noted that there is room to further improve governance, including the fiscal transparency of natural resource management, financial sector regulations and AML/CFT regime, and implementation of the anti-corruption framework. Finally, Directors welcomed the recent improvements in data quality and coverage, and encouraged the authorities to address remaining data shortcomings.

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

APPROVAL: April 7, 2020

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:

Outlook/Risks

1. ***Taking good note on the authorities' commitment to support peace and stability in the region, we emphasis that creating the conditions to allow UN access and to favor the repatriation of refugees from Bangladesh is essential to restore donors and investors' confidence and to sustain growth. Does Staff already identify an adverse impact of the announced sanctions or risk of additional sanctions?***

- While the direct impact from the humanitarian crisis in Rakhine has been mostly localized thus far, it is has started depressing foreign investor sentiment and donor financing. Risks such as a withdrawal of GSP+ trade preferences from the EU on human rights concerns, or further sanctions on lack of progress in Rakhine are added downside risks. Looking ahead, as reflected in the baseline, Myanmar's economy is expected to gain steam albeit at a somewhat slower pace than previously envisaged due to weaker investor sentiment from the crisis in Rakhine state.

2. ***The staff rightly pointed out the need for enhanced preparedness against natural disasters. Given the large impact on debt development and long-term growth, could the staff provide their assessment of the country's capacity in this area and what specific assistance could be provided to the authorities?***

- The most recent MTDS recognizes the increasing risks from natural disasters. The Selected Issues Paper for the 2016 Article IV Consultation showed that the policy response of the authorities to past natural disasters was more limited compared with other countries in Developing Asia. Staff's analytical work highlighted the need for addressing weaknesses in ex-ante resilience and ex-post adaptive capacity. Capacity development in debt management and strengthening revenue mobilization to create fiscal buffers is ongoing with support from the Fund and other development partners. A World Bank loan of the amount SDR 70.75 million for the Southeast Asia Natural Disaster Risk Management Project was signed with Yangon City Development Committee in 2018.

3. ***Given the country's vulnerability to climate change, we encourage staff and the authorities to work on integrate this risk into fiscal frameworks, build buffers to enhance resilience to shocks and invest in infrastructure that can better cope with natural hazards. Is capacity development in this area planned and how staff collaborate on these issues with other development partners?***

- Capacity development (CD) from the Fund along with other development partners is directed towards strengthening public financial management and debt management to improve transparency and the management of potential contingent liabilities. CD in revenue mobilization is also ongoing, which should help build fiscal buffers to increase resilience from shocks. A World Bank loan of the amount SDR 70.75 million for the Southeast Asia Natural Disaster Risk Management Project was signed with Yangon City Development Committee in 2018.

4. ***Could staff elaborate on the existing trade preferences and the possible impact of their withdrawal?***

- A withdrawal of GSP+ trade preferences from the EU on human rights concerns is an added risk, given Myanmar's exposure to EU from exports and FDI, particularly in the labor-intensive garment sector. The downside scenario in the staff report illustrates the potential impact on the real economy of a combined shock of lower exports due to a partial withdrawal of trade preferences and a decline in external financing reflecting lack of progress in Rakhine.

Fiscal Policy and Debt Sustainability

5. ***We note that the government intends to use more extensively Public-Private Partnerships (PPPs). Without strong governance institutions to manage risks and avoid unexpected costs from PPPs, the country will face significant fiscal risks. Could staff share their assessment whether the authority has sufficient capacity to use more PPP without significant fiscal risks, considering Myanmar's current limited experience with privately financed investment?***

- Myanmar has limited experience and capacity with private participation in infrastructure, with the exception of the electricity sector. The authorities are gradually building an institutional framework for managing PPPs and have already made progress in strengthening infrastructure planning. They are also receiving capacity building assistance from FAD and various donors, which should help work towards managing fiscal risks.

6. ***Although the overall risk of debt distress remains low, pockets of vulnerability exist. Maximizing concessional loans, broadening the export base, and improving fiscal buffers would help keep debt contained. Moreover, a close monitoring of large infrastructure projects and proper assessment of fiscal risks stemming from PPPs would ensure an efficient resource allocation, in line with fiscal constraints. In this regard, we would welcome staff's views on the authorities' more extensive engagement in utilizing PPPs, given capacity constraints and the scale of these***

projects.

- Myanmar's infrastructure needs are very large, as described in the assessment of spending needs to achieve the SDGs (see Annex 7). To raise infrastructure provision in a sustainable manner, the authorities are strengthening their infrastructure management framework, including fiscal risks management. They have started reporting on fiscal risks in their annual debt report and are building capacity at the Treasury to identify, assess, and mitigate fiscal risks from PPPs.

7. ***Restructuring of and improving governance of state economic enterprises (SEEs) is important. Improving SEE efficiency and corporate governance is critical to enhancing SEE performance. Could staff elaborate more on how large the restructure of SEEs would have impact on macroeconomy going forward?***

- SEEs have a large overall fiscal impact in Myanmar, as SEE revenues represent more than half of total public-sector revenue, and as electricity companies receive significant subsidies from central government. Macrocritical reforms include upgrading the fiscal regime of the extractive sector with IMF support, and electricity tariffs reforms. The authorities are planning to take actions in the near future to address those issues. The World Bank is also assisting the authorities calibrate the electricity tariff reforms minimizing the import on the poor and on SEE corporate governance reform, in general.

8. ***The gap between planned and actual expenditure points to the need for enhancing the efficiency of budget execution. We would appreciate to hear staff's assessment on the bottlenecks that hold back the uptake of spending, in particular with regard to infrastructure investments and human capital development.***

- Under-execution of social and capital expenditure relative to budget is a persistent problem in Myanmar, reflecting limited capacity in the public sector and weaknesses in public financial management. In addition, difficulties in forecasting government revenues leads to a careful execution of spending in the first half of the year that prevents the full implementation of the budget.

9. ***We welcome Myanmar's low debt risk rating, and its enhanced debt carrying capacity based on the new composite indicator in the Debt Sustainability Framework. However, we would have liked to see a scenario analysis of potential large-scale borrowing, even if it has not yet materialized, to provide stronger guidance to the authorities—and potential lenders—of the scale and terms of new lending that would be consistent with maintaining low debt risks. Staff comments would be welcome.***

- Given that an infrastructure surge would likely be externally financed, staff has incorporated a high external financing scenario in the DSA, which is mainly spent on productive infrastructure reflecting high financing flows from major multilateral and bilateral donors. While the debt ratios under this scenario do not deteriorate much given he assumption of higher growth and in turn revenue collection, staff continue to urge the authorities to remain cautious by maximizing concessional loans and improving policy buffers. Moreover, given the greater downside risks, limited financing options imply that even a moderate increase in the deficit would imply a recourse to central bank financing. This, in turn, creates inflationary pressures and raises broader macro-stability concerns.

10. ***In view of the significant under-execution of public expenditures in 2017/18, we would appreciate staff's comments on the extent to which the reduction in spending can be attributed to revenue shortfalls and hence, is not an indication of execution capacity.***

- Under-execution of social and capital expenditure relative to budget is a persistent problem in Myanmar, reflecting limited capacity in the public sector and weaknesses in public financial management. In addition, difficulties in forecasting government revenues leads to a careful execution of spending in the first half of the year that prevents the full implementation of the budget. Revenues often over-perform while capital outlays significantly fall short of budget ceilings.

11. ***In an uncertain environment of external financing, staff has suggested that large infrastructure projects be prioritized through the project bank and undertaken through public procurement, donor financing or through PPPs. Could staff elaborate on the appetite for this within Myanmar and the exposures of financing materializing under the present readiness levels?***

- In line with good international practice, the project bank is expected to include all public investment projects irrespective of the sources of financing (government budget, donor financing, or private financing) or the procurement method (traditional public procurement or PPP) through which they would be implemented. All donor-financed projects and large publicly-procured projects are already included in budget documents and would be constrained by available fiscal space and the medium term fiscal framework. PPPs will be subject to competitive bidding and dependent on domestic and foreign investor interest. For example, the Yangon elevated expressway is currently following an open international bidding process assisted by the International Finance Corporation and has received expressions of interest from several reputed domestic and international companies.

12. ***Could staff comment on the difference between the fiscal deficit of 3.5 percent of***

GDP envisaged for 2018/19 in the report and that of 4.8 percent mentioned in the buff statement for the same fiscal year?

- Annual budget execution has consistently fallen short of expenditure and deficit ceilings in last few years. Based on experience showing a systematic underestimation of revenue in the budget and under execution of spending, staff projects higher revenue and lower expenditure than in the 2018/19 budget.

13. ***Could staff comment on the authorities' plans regarding electricity reform, including the feasibility of implementing the required adjustments in electricity tariffs?***

- The authorities are considering gradually increasing electricity tariffs to reduce losses at the electricity generation company, with a first tariff increase planned this year and further risen post-2020 elections. The World Bank is also assisting the authorities calibrate the electricity tariff reforms to minimize the import on the poor.

Monetary and Exchange Rate Policies

14. ***We welcome the recent progress in the area of interest rate liberalization and foreign exchange market. We see that effective February 1, 2019, CBM permits unsecured lending at higher interest rates. This measure will lead to expand the opportunity for banks to improve their risk pricing and risk management. However, during the initial stage of the liberalization, we encourage the authorities to carefully monitor banks' lending activities to avoid a build of credit risks. In this context, we would appreciate it if staff would provide their view how to control the credit risks to avoid the accumulation of NPLs. Furthermore, do the authorities have specific measures to foster the bank's capacity for assessing firms' credit risks?***

- The current NPLs reflect legacy issues. Regulations passed in July and November 2017 under the Financial Institutions Law (2016) led Myanmar banks to re-underwrite their overdraft loan portfolios, which at the time accounted for over three-quarters of bank lending. The re-underwriting has resulted in a substantial increase in reported non-performing loans (NPLs) given that banks cannot continue to evergreen their loans. While it will take time to enhance banks' capacity to assess firms' credit risks, the issued credit risk guidelines, greater CBM enforceability and strengthening accounting standards are expected to help.

15. ***Monetary financing of the government has been reduced lately thanks in large part to smaller budgetary deficits. However, it is still a considerable feature of economic policy in Myanmar and we are somewhat concerned that any loosening of the fiscal policy stance could easily relaunch such practices in larger volumes. Accordingly,***

more thoughts could be given to establishing institutional setups that effectively prevent monetary financing. Staff comments would be welcome.

- Deficit and monetary financing has been on a declining path under the new administration. At present, the ceiling on monetary financing is the key short-term fiscal anchor and is transparently communicated and approved by Parliament. Given that the legislation to establish an autonomous CBM, separate from the Ministry of Finance and Planning, was only enacted in 2013, it may be too early to consider changing the law to alter the institutional setup. Moreover, a number of treasury operation functions remain with the state-owned banks and it would be premature to focus on central bank independence at this stage of institutional development.

16. ***How do staff evaluate the authorities' target of phasing out deficit financing by 2020/21?***

- The new government has placed monetary financing firmly on a downward path and is committed to phase it out in the medium term. The planned phasing-out of monetary financing has been clearly communicated to the Parliament and general public. The government Treasury market has developed rapidly and should be able to gradually absorb more government T-bill and bond issuances in an increasingly uncertain environment for external financing.

17. ***We welcome the recently introduced method of deriving the daily FX reference rate. Staff noted that the reference rate has sharply depreciated between April and December 2018, though the spread with the informal market rate has widened at times. Could staff advise on this informal market and what is the latest spread?***

- The informal *hundi* system to transfer funds developed during the dual exchange regime era prior to unification in 2011, as well as to avoid restrictions on the use of FX, which were tightened after the Asian financial crisis in 1997 and the 2003 Myanmar banking crisis. The interbank foreign exchange market has deepened considerably since then as a result of the easing of exchange restrictions and move to a market-determined exchange rate regime (see Annex IV). Despite these achievements, transaction volumes in the informal market outperforms its official counterpart. Further reforms envisaged to the foreign exchange management law should help further deepen the formal FX market. As of March 14, 2019, the spread between the formal and informal markets has narrowed to around 1 percent.

Structural Reforms

18. ***A more robust governance and the implementation of the anti-corruption legislation are also essential to enhance attractiveness for foreign private***

investments. We welcome the mission's specific focus on governance and would appreciate further elaboration on the scope of these discussions and the suggested policy measures.

- As part of the Article IV Consultation, staff met with a wide range of agencies (such as the Anti-Corruption Agency, tax administration officials, Ministry of Energy and Electricity, Ministry of Mines) in the context of strengthening governance, including the management of natural resources, implementation of EITI and reporting of fiscal risks of PPPs (see Staff Report). These discussions will continue to be an ongoing focus of the team, including in the 2019 Article IV Consultation.

Capacity Development

19. ***We recognize that capacity development remains vital to support the reforms and establishing foundations for a strengthened governance framework and sustained policy implementation. We support the efforts of the Fund in this direction and welcome the progress made on governance indicators and data. We would emphasize swift action on fiscal transparency, anti-corruption efforts, financial sector regulations and in improving the quality and timely dissemination of data. Could staff share more details of their experience on the capacity building in terms of sustainability and absorption capacities?***

- CD remains crucial for Myanmar to help the economy transition to a more open economy. Most of the CD in FY18 was delivered in the fiscal sector followed by the monetary and financial sector. With the help of the CD being provided, the new administration has made progress on areas such as submitting amendments to tax laws, enhancing fiscal transparency and strengthening financial sector regulations. Substantial progress has been made in improving macroeconomic statistics, but more remains to be done to improve the quality and timely dissemination of data. Over the medium-term, CD has been aligned to the Myanmar Sustainable Development Plans goals. The Fund has enhanced its alignment of CD with this focus which broadly covers governance weakness and institutional building (see Annex VI).

20. ***Could staff elaborate on the TA plans to assist the authorities on financial sector issues?***

- Strengthening the financial sector will remain an important objective for upcoming Fund TA including through the implementation of the banking sector action plan developed in 2017. MCM will continue to actively engage with the authorities through the Conference for the coordination of Financial Sector Technical Assistance to Myanmar (COFTAM) on March 25-26, 2019 as well through our Banking Supervision resident advisor based in Myanmar, supported by peripatetic financial

supervision short-term missions. In addition, we have one resident advisor in FX operations based in Myanmar and one in monetary operations based in Thailand who also continue to provide support to the authorities as requested.