EXECUTIVE BOARD MEETING

EBS/20/117

June 17, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Myanmar—Requests for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Friday, June 26, 2020**
Proposed Decisions:	Page 15
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Questions:	Mr. Peiris, APD (ext. 34761) Mr. De, APD (ext. 34869) Ms. Nadeem, APD (ext. 37091)
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***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

MYANMAR

June 16, 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: The COVID-19 pandemic is expected to hit hard Myanmar's economy via weaker exports, tourism, remittances and domestic demand. The economic and social costs of a widespread outbreak could be large, against the backdrop of a frail healthcare system and inadequate social safety nets, as well as already low international reserves and a fragile banking system. The measures to contain and alleviate the effects of the pandemic open up sizeable BOP and fiscal financing gaps in the near term.

Policy Response: The authorities aim to bolster healthcare spending and mitigate the economic impact of the pandemic, while laying the groundwork for the recovery. Under the COVID-19 Economic Relief Plan (CERP), the authorities have enacted important emergency fiscal, financial and monetary measures and are planning several others. The Central Bank of Myanmar (CBM) has cut the policy interest rate by a cumulative 300 bps since mid-March and temporarily reduced the reserve and liquidity requirements for banks. The authorities have provided banks further forbearance from prudential requirements to encourage credit provision. The monetary stance is appropriate; however, the forbearance period should be shortened. The kyat has been allowed to adjust flexibly, with limited rules-based intervention to manage excessive volatility.

Request for Fund Resources: The authorities have requested Fund assistance, to be used as budget support, to mitigate the economic impact of COVID-19. Staff assesses that Myanmar meets the eligibility requirements for the blend Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) and supports a purchase and outright disbursement of SDR 258.4 million (50 percent of quota) on account of present and urgent balance of payments needs from a sudden and exogenous shock and the infeasibility of an Upper Credit Tranche (UCT) program at this time. Myanmar is a presumed blender based on the income criteria and access under the RCF and RFI will blend RCF/RFI resources in the ratio of 1:2. The access level would cover 21 percent of external financing gap and is expected to catalyze multilateral and bilateral support. The authorities have requested debt service suspension under the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club. Public debt (about 40 percent of GDP) is assessed as sustainable with low risk of debt distress, and there is adequate capacity to repay the Fund.

Approved By
Kenneth H. Kang and Bjoern Rother

An IMF team consisting of S. Peiris (head), J. De, P. Deb, S. Nadeem (all APD), Y. Xiao (FAD), Y. Hul and R. Zandvakil (both ICD), S. Iorgova (MCM) and N. Saker (IMF Resident Representative) and K. Tun (Resident Representative Office) held discussions with the Myanmar authorities by teleconferences led by Union Minister of Planning, Finance and Industry U Soe Win, and Central Bank of Myanmar Governor U Kyaw Kyaw Maung and other senior government officials during May 27–June 1, 2020. Advisors from the IMF Capacity Development Office in Thailand (CDOT) joined the technical discussions. A. Mahasandana (Executive Director) and A. Srisongkram (OED) participated in the discussions. Ms. Dao and Ms. Tanseco assisted in preparing this report.

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CONTEXT

1. **Prior to the onset of the COVID-19 pandemic, Myanmar's growth had been moderating**. Though previously bolstered by a first wave of reforms following the liberalization of the 2000s, the economy had been facing headwinds from slowing investment inflows and credit due to weakening real estate prices and bank deleveraging. External buffers continue to be inadequate, while the risk of systemic banking sector stress remains elevated. The health care system is frail with uneven provision and social safety nets are underdeveloped, while the informal economy accounts for the majority of employment (Figure 1). Progress towards resolving the humanitarian crisis has stalled in the runup to the election scheduled for November 2020, and the security situation has deteriorated in several border areas.

2. **The country has advanced important reforms in recent years, but faces challenges due to structural and capacity constraints**. Myanmar is the largest recipient of Fund Capacity Development (CD), which has been instrumental in supporting key reforms in revenue administration and public financial management (PFM) and the monetary and exchange rate policy framework. However, important challenges remain, notably on further raising tax revenue, chronic budget under-execution due to limited absorptive capacity, banking sector vulnerabilities, and weak cash management.[1] As a fragile state transitioning to a more open economy and democracy after decades of isolation under military rule, longstanding institutional weaknesses have created governance vulnerabilities that will take time to address.

IMPACT OF THE PANDEMIC AND OUTLOOK

A. Initial Impact and Response

3. **The Myanmar economy is being deeply affected by the outbreak**. As of June 11, 2020, Myanmar had reported 249 cases and 6 fatalities—a very low incidence relative to the size of the population and in view of porous regional borders (Figure 1). This may also reflect limited testing capacity that is mostly focused on major urban areas and is now being ramped up. From the onset of the outbreak, tourist arrivals have sharply declined, and supply chains have been disrupted in the labor-intensive garment sector (about one-fourth of exports), cross-border trade and agriculture (half of employment) (Figure 2). This has resulted in widespread layoffs and factory closures. Virus containment measures adopted in March have further curtailed domestic demand, while magnifying preexisting weaknesses in the real estate and construction sectors. Inflation fell to 6.6 percent in March from 8.8 percent at end-2019. Meanwhile, unlike other currencies in the region, the kyat has appreciated, likely reflecting strong export performance through March, as the fall in gas export

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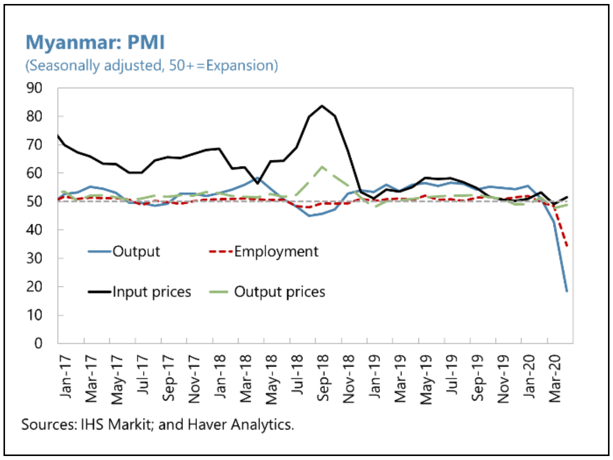
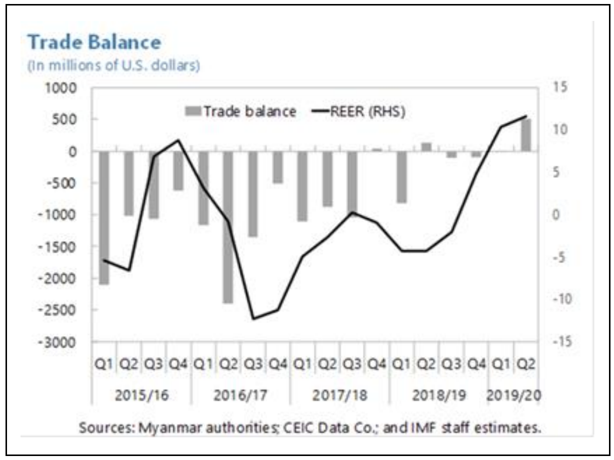
[1] The new fiscal year covers the period starting October 1 to September 30. This report uses this definition of the fiscal year for both historical data and projections.

contract prices are reflected with about a 6-month lag, and import compression has narrowed the trade balance. Reserves edged up to US$6.1 billion as of May 2020.



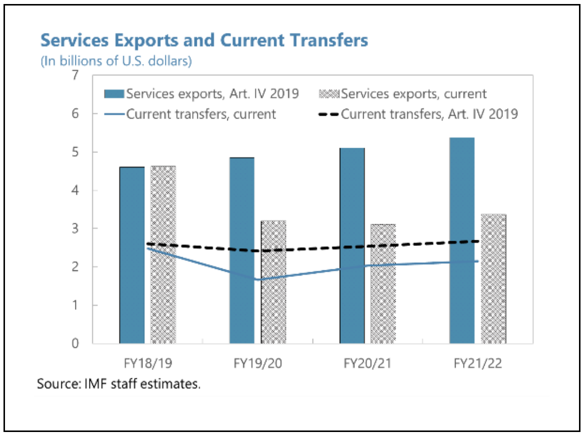


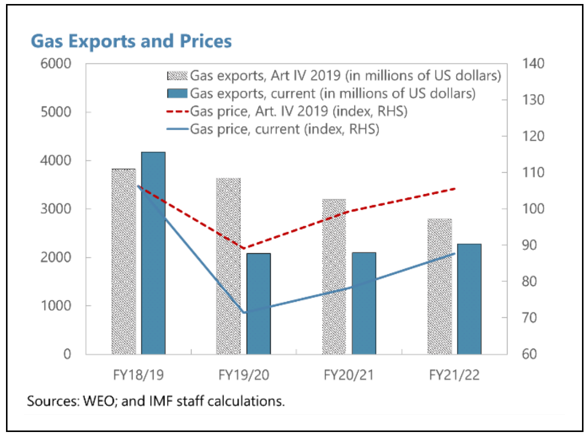
4. The authorities have responded with a COVID-19 Economic Relief Plan (CERP). The plan comprises several emergency fiscal, financial and monetary measures, including higher health spending. With the help of development partners, the plan is still being fully costed and sequenced and is expected to evolve as priorities are budgeted, funded and implemented. At the same time, to ease financial conditions, the CBM cut the policy interest rate by a cumulative 300 bps since mid-March, temporarily lowered the reserve requirement ratio and eased liquidity requirements, and paused deposit auctions.

B. Outlook and Risks

5. The economy is expected to weaken substantially as a result of the COVID-19 shock. Assuming a localized outbreak that is largely contained by Q3 FY2019/20, output growth is still expected to slow down to 1.4 percent, 5 percentage points below pre-COVID-19 estimates.[2] This is due, in large part, to the reduction in domestic production following the introduction of regional containment measures, and further weakened by the sharp contraction in global demand. The costs are likely to be disproportionality felt by SMEs and vulnerable groups with limited cash buffers as well as those in high conflict regions. Economic activity is expected to start recovering gradually from Q1 FY2020/21 (October-December 2020), led by a recovery in domestic demand and export-oriented production with growth reaching 6 percent by end-FY2020/21. However, in level terms, output will remain below that projected pre-COVID into the medium term. Inflation in FY2019/20 is expected to decline to 5.9 percent with the fall in commodity prices and subdued domestic demand.

[2] Pre-COVID-19 estimates are based on the data published in the recently concluded 2019 Article IV consultation (IMF Country Report No. 19/100).





6. The external position is projected to deteriorate. The current account deficit is expected to widen from 2.6 to 4.0 percent of GDP in FY2019/20. Exports (led by garments and gas) are projected to decline sharply due to supply chain disruptions, weak external demand and lower international gas prices. Import compression will result especially from lower intermediate imports, while COVID-related imports of medicines and medical equipment are expected to rise. Tourism receipts have collapsed and remittances are expected to weaken, with migrants in neighboring countries expected to return. On the financing side, FDI will slow as projects are delayed. As a result, an external financing gap amounting to US$1.7 billion is expected in FY2019/20 and US$0.8 billion in FY2020/21 (see Text Table 1).

7. The crisis environment calls for a strengthening of international reserves. Given the uncertain length of the pandemic, lack of market access, and heightened external and banking sector vulnerabilities, bringing reserves from the already low pre-COVID level of 3.4 months of imports to an adequate level—about 5 months of imports or 20 percent of broad money—will be critical to maintaining stability.[3] Although FX reserves have recently increased, in part due to the asymmetric FX intervention strategy, the increase in coverage largely reflects import compression, which is projected to unwind. Without additional external support, reserve coverage would fall to below 4 months of imports and 12 percent of broad money. Fund financing would help fill some of the gap in FY2019/20 and catalyze additional external financing in the near term, including support from the Debt Service Suspension Initiative (DSSI). Additional Fund financing may be required to fill in the external financing gap in FY2020/21 depending on the impact of the pandemic. Over the medium term, maintaining reserves at about 5 months of imports will depend on adhering to the post-crisis macroeconomic framework as per Table 6 (including efforts to rebuild revenue and slower growth of monetary aggregates) and continued concessional external borrowing of more than $1.5 billion each year.

[3] Staff estimate optimal reserve coverage for Myanmar to be around 5–6 months of import coverage based on past analysis (see IMF Board Paper and Country Report No. 17/30) as well as the Reserve Adequacy Metric for Credit Constrained Economies and LICs.

Text Table 1. Macroeconomic Developments: 2020 Article IV Consultation vs. Post COVID-19[1]

(In percent of GDP, unless otherwise indicated)

	Est.	Projections								
		FY2019/20			FY2020/21			FY2021/22		
	FY2018/19	Pre-COVID19	Current baseline	*diff.*	Pre-COVID19	Current baseline	*diff.*	Pre-COVID19	Current baseline	*diff.*
Real Sector										
Real GDP growth (in percent)	6.5	6.4	1.4	-5.1	6.0	6.0	-0.1	6.2	6.2	0.0
CPI inflation (in percent, period average)	8.6	7.9	5.9	-2.0	6.9	6.3	-0.6	6.4	6.3	-0.1
Consolidated Nonfinancial Public Sector										
Revenue and grants	16.0	18.1	14.8	-3.2	18.1	14.7	-3.4	18.4	15.2	-3.2
of which: grants	0.4	0.4	0.4	0.0	0.4	0.4	0.0	0.4	0.4	0.0
Expenditure	20.0	22.1	20.6	-1.5	22.5	20.5	-2.0	22.9	20.5	-2.4
of which: Expense	13.4	15.0	14.2	-0.8	15.1	14.1	-1.0	15.3	13.9	-1.3
of which: net acquisition of non-financial assets	6.6	7.2	6.4	-0.7	7.4	6.3	-1.0	7.6	6.5	-1.0
Overall fiscal balance	-4.0	-4.1	-5.8	-1.7	-4.4	-5.8	-1.4	-4.4	-5.3	-0.8
Total public and publicly guaranteed (PPG) debt	38.3	37.9	42.7	4.7	38.5	44.7	6.1	39.5	46.1	6.6
Balance of Payments										
Current account balance	-2.6	-3.2	-4.0	-0.8	-3.5	-4.2	-0.8	-4.0	-4.2	-0.2
Merchadise exports	15.3	15.5	13.1	-2.4	15.0	13.6	-1.4	15.1	14.1	-0.9
Merchadise imports	19.6	20.2	16.5	-3.7	20.0	17.4	-2.6	20.4	18.1	-2.3
Services (net)	1.1	1.0	0.1	-0.9	1.0	-0.2	-1.2	0.9	0.0	-0.9
Gross official reserves (US$ millions)[2]	5,667	5,936	6,840	905	6,376	7,733	1,357	7,040	8,217	1,177
(In months of next year's imports of GNFS)	4.5	3.4	5.0	1.5	3.3	5.0	1.7	3.3	4.8	1.5
Gross Reserves (without arrangement; US$ millions)	5,667	5,936	5,206	-730	6,376	5,772	-604	7,040	6,330	-710
(In months of next year's imports of GNFS)	4.5	3.4	3.8	0.3	3.3	3.8	0.4	3.3	3.7	0.4
Total financing gap (US$ millions)	-	-	1,676	1676	-	794	794	-	-	-
(In percent of GDP)	-	-	2.4	2.4	-	1.0	1.0	-	-	-

Sources: Authorities; and IMF staff estimates.

1/ 2019 Article IV Consultation took place in December 2019 and the Board meeting took place on February 28, 2020.

2/ Includes external financing support by multilateral, including IMF, bilateral donors and the DSSI to support policies to address impact of the global COVID-19 pandemic.

Text Table 2. Projected Financing Gap in FY2019/20

Balance of Payments: COVID-19 Impact (in Percent of GDP)

	2020		
	2019 Article IV	Current Projection	Change
Current Account	-3.2	-4.0	-0.8
Financial inflows	-3.6	-3.3	0.3
FDI	-3.1	-2.7	0.4
Portfolio investment, net	0.0	0.0	0.0
Other investment, net[1/]	-0.5	-0.6	-0.1
BOP financing gap	0.4	-0.7	-1.1
Change in reserves (- accumulation)	-0.4	-1.7	-1.3
Residual BOP financing gap	0.0	2.4	2.4
Identified financing		1.8	
IMF		0.5	
DSSI		0.5	
Other		0.8	
o/w World Bank		0.1	
o/w Asian Development Bank		0.2	
Unidentified financing		0.6	

Fiscal Accounts: COVID-19 Impact (in Percent of GDP)

	2020		
	2019 Article IV	Current Projection	Change
Revenues	18.1	14.8	-3.3
o/w COVID-19 response		0.1	
Recurrent expenditure	15.0	14.2	-0.8
o/w COVID-19 response		0.9	
Net Acquisition of nonfinancial assets	7.2	6.4	-0.8
Overall balance (net lending/borrowing)	-4.1	-5.8	-1.7
Pre-covid financing	4.1	3.6	-0.5
Net acquisition of financial assets	-0.2	-0.2	0.0
Net incurrence of liabilities	4.2	3.7	-0.5
Foreign borrowing	1.1	0.2	-0.9
Domestic borrowing	3.1	3.5	0.4
Residual fiscal financing gap	0.0	2.4	2.4
Identified financing		1.8	
IMF		0.5	
DSSI		0.5	
Other		0.8	
o/w World Bank		0.1	
o/w Asian Development Bank		0.2	
Unidentified financing		0.6	

1/ Excluding IFI loans for COVID-19 response.

8. **The fiscal impact of the pandemic, especially on the revenue side, will widen the deficit and thus give rise to additional financing needs**. Announced measures to bolster the capacity of the weak healthcare system and mitigate the economic impact of the pandemic to the most vulnerable households and firms is expected to raise expenditures by around 1 percent of GDP for the remainder of FY2019/20, and 1–2 percent of GDP in FY2020/21, although spending needs could increase significantly if the outbreak worsens. On the revenue side, weaker economic activity, targeted tax relief measures and falling gas prices will lower tax buoyancy and reduce revenues by nearly 1½ percent of GDP. This will widen the fiscal deficit by nearly 2 percent of GDP over the previous year to 5.8 percent of GDP in FY2019/20 and FY2020/21, opening up a fiscal financing gap of US$1.7 billion (2.4 percent of GDP) in FY2019/20 and US$0.8 billion (1 percent of GDP) in FY2020/21 (Text Table 2), which drives the external financing gap. IMF financing, together with additional external bilateral support and the

DSSI over the coming months, would alleviate the risks of a retrenchment in social spending and/or monetary financing, which could threaten price and external stability. The authorities are prepared to take contingency fiscal measures, including delays in lower priority capital spending, in case the unidentified financing needs could not be filled.

9. **Risks to debt sustainability remain contained**. Despite the increase in the budget and current account deficits and additional borrowing, external and public debt should remain robust to shocks. Relatively low starting levels would keep external and public debt below their respective risk thresholds and would hence keep the overall risk of debt distress low.

10. **The outbreak is expected to weigh on asset quality in the banking sector and stall progress on bank recapitalization**. Prior to the outbreak, banks had been making progress, though uneven, in addressing legacy loans and moving toward prudent loan classification, provisioning and capitalization. Now, the CBM has extended the phase-in period for compliance with prudential regulations by three years to end-August 2023 to support bank credit to curtail the impact of COVID-19—a policy that, if not shortened, could postpone critical banking sector reforms. The deterioration in the debt repayment capacity of households and corporates as the pandemic works its way through the economy coupled with extended regulatory forbearance, could further raise nonperforming loans (NPLs) and recapitalization costs while potentially limiting access to finance for vulnerable groups. Credit growth though slowing remains fairly robust at 13.9 percent y/y as of January 2019, and deposits have held up thus far, but increased cash demand could pose pressure on bank liquidity and market interest rates.

11. **Risks are tilted heavily to the downside** (Annex 1). A more prolonged outbreak with community spread that necessitates more severe lockdowns and slows the reopening of the economy would constrain activity further, leading to large economic and human costs. Such protracted economic disruptions could interact with banking system fragilities and further depress demand and credit growth, potentially requiring public recapitalization of one or more systemic banks. In such an adverse scenario, growth could fall by an additional 2½ percentage points in FY2019/20 as credit sharply declines based on the experience of other financially shallow countries that experienced credit booms (Figure 3) as well as compromise reserve coverage. The effects of such an interaction would be long-lasting, with a slow recovery of output relative to the baseline and other countries simulated in the April 2020 WEO scenario box. On the external front, a more prolonged global outbreak could keep external demand subdued with extended supply chain disruptions with weak FDI and tighter and more volatile financial conditions.

POLICY ISSUES AND DISCUSSIONS

A. Fiscal Policy

12. **In the near-term, fiscal spending should be focused on containing the spread of the virus, boosting healthcare, and providing transfers to affected and vulnerable groups**. It will be important to leverage development partner support, given the limited capacity to absorb and

implement the planned increase in health and social spending. As part of the CERP, the authorities have announced, among others:

- The reallocation of up to 10 percent of budgeted expenditures to COVID-19 related spending within line ministries and the COVID-19 Contingency Fund (in progress);

- Tax relief and deferments, duty suspensions on medical goods and supplies imports, and partial exemption of household electricity tariffs (implemented);

- Expansion of quarantine facilities, immediate import of required medical-related products for COVID-19 prevention, control and treatment, improving health sector human resources, and upgrading existing health facilities partly funded by emergency health financing projects by the ADB, UN and the World Bank (in progress);

- Establishing cash and/or in-kind transfer programs to affected and vulnerable households covering all possible regions of the country by various means, including informal workers through mobile payments, with the first phase based on the food rationing scheme database (in design stage);

- A MMK 500 billion fund to provide soft loans to the private sector for working capital through the state-owned Myanmar Economic Bank (MEB) (in progress);

- A credit guarantee scheme for SMEs and high growth sectors to be established conditional on maintaining employment (in design stage with ADB assistance); and

- Prioritizing ready, high impact public investments, and streamlining approvals for private investments and PPPs (in progress).

Text Table 3. Estimated Fiscal Costs of Major Action Plans of CERP

		2019/20		2020/21	
		US$ millions	% of GDP	US$ millions	% of GDP
Revenue	Tax waiver and credits, household electricity tariff relief	99	0.14	213	0.28
Expenditure		416	0.60	501	0.66
Health	Health facilities, medical products for COVID-19	115	0.16	109	0.14
Social assistance	Cash transfers, food, cash-for-work, pension support, health benefit extension	302	0.43	348	0.46
Other	Support for productivity enhancement in businesses	0	0.00	44	0.06
On lending	On lending to support SME, MFI, small farmers, trade financing	186	0.27	355	0.47
Total		701	1.00	1070	1.41

13. To fill the fiscal financing gap, the authorities intend to prioritize external concessional borrowing to limit the risks associated with excessive monetary financing. The scope for additional domestic financing is limited, given the small absorptive capacity of the banking sector and the potential crowding out of needed credit, as well as the destabilizing risks of excessive monetization, given Myanmar's experience. Gross CBM financing of the fiscal deficit for FY2019/20 is capped at MMK 1.3 trillion (under 7 percent of previous years' reserve money) based on the latest supplementary budget for FY2019/20 approved by Parliament. In staff's view, CBM financing should be limited to around 5 percent of previous year's reserve money in FY2020/21 and continue to be gradually phased out thereafter, to avoid the risk of an inflation and exchange rate spiral. These constraints on financing highlight the need for contingency planning to rationalize expenditures and mobilize revenues if the yet to be identified financing is not forthcoming or in case the adverse scenario materializes. It will also be important to carefully track spending execution.

14. The authorities also intend to avail of the DSSI. The DSSI is estimated to create savings of US$322 million and US$67 million in external debt service in FY2019/20 and FY2020/21 respectively, and will be NPV neutral. It would contribute 19 percent of the financing gap in FY2019/20. Staff's assessment is that the increase in gross financing needs following the expiration of the DSSI would be manageable. In accordance with the DSSI, the authorities commit to contract no new non-concessional debt during the suspension period while meeting reporting requirements (see ¶15 and Letter of Intent (LOI, Appendix 1)).

15. There is an urgent need to strengthen social safety nets and build on the good progress on public financial management (PFM) reforms. Social protection coverage is very limited according to the World Bank, and the authorities should explore fully operationalizing the 2012 Social Security Law. The 2020 public financial accountability assessment (PEFA) noted good progress and should be leveraged to effectively respond to COVID-19 by catalyzing development partner assistance and efficient budget execution.

16. Key fiscal-structural reforms should be accelerated to boost spending efficiency, support good governance, and manage fiscal risks.[4] To ensure that the additional funding is transferred quickly and efficiently for COVID-19 response and closely monitored, as well as meet transparency requirements of the DSSI, and in view of existing capacity constraints and governance and corruption vulnerabilities, the authorities plan to (see LOI, ¶11–12):

- Enact a FY2020/21 budget with greater appropriations to social sectors and COVID-19 relief.
- *Publish quarterly consolidated GFS accounts with economic classification, and quarterly budget monitoring reports* identifying CERP-related spending on the MOPFI website within 3 months of the end of each quarter with World Bank and Fund CD.
- *Improve cash management and coordination between Treasury and CBM*, which will support debt management and reduce the risk of surges in monetary financing, as seen in end-FY2018/19.
- *Strengthen procurement transparency.* The authorities commit to adhere to transparency practices in procuring and awarding contracts related to COVID-19 related spending, including publishing, within 3 months of being signed, on the MOPFI website information on procurement contracts above MMK 100 million, including the names of the awarded companies and their beneficial owners, the specific nature of the goods and services procured, their price per unit, and overall contract amount. The same website will also publish ex post delivery reports.
- *Enhancing auditing.* The Office of the Auditor General for Myanmar (OAGM) will conduct a targeted audit of COVID-19 related spending, and disseminate a report within 6 months of the end of the fiscal year. This will be supported by ADB and World Bank TA, and assisted by existing

[4] See *Myanmar—Staff Report for the 2019 Article IV Consultation*.

internal audit teams monitoring such expenditure through the implementation of the draft Internal Audit Manual with Fund CD.

- *Debt transparency.* The authorities will continue publishing comprehensive public debt data through their annual Government Debt Report in accordance with the Public Debt Management Law.
- *Managing fiscal risks*. The MOPFI should track government external loans and guarantees to understand its risk exposure, as well as strengthen fiscal risk management capacity. The authorities are committed to incorporating competitive bidding processes for the new project bank including by setting up a PPP unit in MOPFI, and will annually report performance via a fiscal risk report to Parliament beginning FY2020/21.

17. As the recovery sets in, efforts to enhance revenue mobilization and PFM reforms will continue. This includes the planned implementation of the recently enacted Tax Administration law and submitting the draft Income Tax Law (ITL) to Parliament in FY2020/21 to be effective in FY2021/22. The COVID tax relief measures should be considered as temporary and be safeguarded with a sunset clause as the economy begins to recover (end-FY2020/21). The MOPFI intends to move to the second phase of automation to unify budget and financial reporting, with Fund and World Bank assistance, including a unified chart of accounts by December 2020. The next phase of PFM reforms building on the findings of the PEFA is planned with development partner assistance.

B. Monetary and Exchange Rate Policy

18. CBM responded quickly to the COVID-19 shock, appropriately easing the monetary stance. The bank rate has been cut thrice by a cumulative 300 bps, also moving downward the deposit rate floor and lending rate caps proportionally. The CBM has also temporarily lowered the reserve requirement ratio for two years from 5 to 3.5 percent, paused deposit auctions, and raised the weight of long-term government securities in banks' liquidity ratio calculations to facilitate domestic debt issuance and liquidity.

19. Monetary policy and operations would need to be actively managed to anchor inflation expectations and avoid a liquidity squeeze. The current policy (bank) rate of 7 percent is sufficiently accommodative and further interest rate reductions should be assessed against macroeconomic developments and financial stability considerations. The FY2019/20 CBM financing ceiling of 6.7 percent of reserve money is above recent levels, but is unlikely to raise inflationary pressures given reserve money growth is relatively contained. To manage liquidity conditions, CBM should now clarify the operational framework for credit auction and discount window facilities and strengthen liquidity forecasting to guide interbank rates.

20. Exchange rate flexibility will help cushion against the external shock. The recently introduced FX intervention rules should continue to be adhered to help limit excessive exchange rate volatility in view of systemic risks in the banking system, while building reserves as the opportunity arises to strengthen external buffers over the medium term.

C. Financial Sector Policies

21. The authorities have announced various policies to support bank lending. Banks are now allowed to restructure and reschedule MSME loans without classifying these as NPLs, if interest and principal are received on a timely basis. The phase-in period for full compliance with prudential regulations—on capital adequacy, NPL provisioning, and large exposures—has been extended by three years to avoid triggering corrective supervisory actions. The CERP intends to partially guarantee new loans to SMEs and severely impacted sectors (see ¶12), and proposes an asset management company (AMC) to absorb banks' troubled assets.

22. The provision of funding to affected groups should be done mostly via public interventions. The emphasis should be on supporting businesses and individuals affected by the pandemic via well-designed public interventions, including via guarantees and publicly-funded loans. The establishment of a state guarantee agency, with the help of the ADB, is still at its infancy and more attention should be placed on operationalization and ensuring the soundness of the underwriting process.

23. The phase-in period for compliance with the CBM's prudential regulations should be aligned with the COVID-19 impact, and asset classification requirements upheld. In staff's view, while extending the compliance period is warranted under the current circumstances, it would likely raise the cleanup costs of NPLs and potential public recapitalization needs. The three-year extension appears excessive and could be shortened in line with the duration of the COVID-19 related economic slowdown. The CBM will closely monitor banks' progressive steps towards full compliance with all prudential regulations and, importantly, uphold the loan classification requirements in place prior to the COVID-19 and preclude the misuse of COVID-19 related restructuring provisions (LOI, ¶8). Banks will be provided incentives to fully comply with prudential regulations ahead of schedule.[5] Banks' loan portfolios should continue to be examined to avert further deterioration of asset quality and solvency positions. The adoption of any mechanisms for NPL clean-up and/or bank recapitalization should be undertaken in a manner consistent with reducing fiscal costs and in consultation with the World Bank and the Fund (see LOI, ¶10).

24. An AMC is only one alternative for restructuring problem portfolios, but potentially large fiscal costs make it less desirable than other options. To protect the public sector balance sheet, asset transfers and their subsequent management would require transparent market-based valuation and specialized expertise and tools, which Myanmar currently does not have. Timely and credible capital restoration plans from banks, and comprehensive asset quality reviews (AQRs) will first be required to assess banks' true condition and ascertain asset valuations. Once such assessments are complete, the comprehensive NPL resolution strategy should be considered.

[5] Banks with an NPL ratio above 5 percent are currently not allowed to distribute profits to shareholders; that provision should remain and potentially be supplemented by removing any existing tax disincentives through the adoption of the new ITL. Specifically, given asset quality problems and very low provisioning levels in the banking sector, the authorities should permit bank provisions to be tax deductible as an incentive for banks to build up adequate provisioning. Such a step, however, should be introduced in line with prudent fiscal considerations.

25. The authorities should closely monitor banks' liquidity situation and advance contingency arrangements to address potential banking sector stress. This will help support liquidity and keep the payment system stable, which is critical to ensure financial stability and support bank intermediation. The authorities should require banks to develop liquidity contingency plans, and set up an ELA to insolvent institutions on a secured basis.

26. The authorities have reaffirmed their commitment to addressing gaps in the AML/CFT framework in response to the Grey Listing by FATF. While the implementation period has been extended by four months due to COVID-19, the authorities have made progress on the time bound remedial Action Plan agreed with the Asia Pacific Group, and have been positively rerated on five technical compliance areas.

MODALITIES OF IMF SUPPORT UNDER THE RCF/RFI

27. Staff views the RCF/RFI as essential. The immediate and sizable balance of payments (BOP) needs caused by the sudden and exogenous shock of the COVID-19 pandemic qualifies Myanmar for emergency financing from the Fund. The RCF/RFI would support the authorities' efforts to contain the outbreak and mitigate the adverse socio-economic costs. An upper credit tranche (UCT) facility is not feasible at present, given the uncertain nature of the shock, and the focus on near-term stabilization relative to medium term policies. IMF support would catalyze additional financing from other multilateral institutions and bilateral creditors, and allow Myanmar to avail of the DSSI. Myanmar has no arrears to external bilateral, multilateral, or private creditors.

28. Staff considers an immediate access of 50 percent of quota under the RCF/RFI to be appropriate. Given the scale of the economic impact owing to the pandemic, access to the RCF/RFI in the amount of 50 percent of quota (SDR 258.4 million or about US$356.51 million) is appropriate at this stage. Of this, 16.67 percent of quota (SDR 86.13 million) would be drawn from PRGT resources and 33.33 percent of quota (SDR 172.27 million) from GRA resources. This would amount to 21.3 percent of Myanmar's external financing gap in FY2019/20. Fund financing is expected to unlock US$900 million in financing from other sources, including the DSSI, in FY2019/20. Staff assess the current access level to IMF resources as appropriate; if financing needs were to increase significantly in the next fiscal year, further assistance from the IMF may be sought.

29. Myanmar's is assessed as having a low risk of debt distress and an adequate capacity to repay the Fund. Myanmar's risks of external debt and overall debt distress continue to be assessed as low. While the overall debt outlook remains positive, rapidly evolving circumstances present several vulnerabilities. Under an alternative adverse scenario, which accounts for the downside risk of a prolonged pandemic that interact with banking sector fragilities, the risk of debt distress would rise to moderate. Staff assesses Myanmar's capacity to repay the Fund as adequate: at its peak, liabilities to the Fund would amount to 0.5 percent of GDP or about 5.6 percent of gross international reserves (Table 7).

30. The purchase and disbursement will be channeled to the CBM to be on-lent to the MOPFI for budget support. The authorities commit to undergoing a safeguards assessment of the

CBM, which would need to be completed before Executive Board approval of any subsequent arrangement, and to provide Fund staff with the most recent central bank external audit reports and authorize the external auditors of the CBM to hold discussions with staff. The authorities confirm that a Memorandum of Understanding between CBM and MOPFI related to the uses of the funds and their respective roles and responsibilities for servicing financial obligations to the Fund has been signed.

STAFF APPRAISAL

31. The COVID-19 outbreak presents large human and economic costs for Myanmar. Given weaknesses in the healthcare system, and already low international reserves and heightened financial sector vulnerabilities, additional policy measures are urgently required to contain the spread of the virus and mitigate its economic and social costs, particularly to vulnerable groups. The measures undertaken to contain the spread of the virus, in conjunction with subdued global demand, would result in Myanmar's growth contracting sharply to 1.4 percent in FY2019/20. As a result, the fiscal and current account deficits would widen, resulting in sizable BOP and fiscal financing needs over the next 18 months (about 2.4 percent of GDP in FY2019/20).

32. Staff supports the authorities' policy intentions as outlined in the LOI. In the near term, efforts should be focused on containing the spread of the virus, directing policies to boosting health and social spending and providing relief to affected sectors, while safeguarding external and financial stability over the medium term. The authorities' commitments on auditing, debt and procurement transparency, as well as consolidated GFS fiscal reporting, together with continued engagement with Fund CD and development partners, should enhance spending efficiency. Over the medium term, efforts should continue to address fragilities in the banking system, raise tax revenues, and strengthen reserve coverage while preparing contingency measures in the event of future stress.

33. Staff supports the authorities' request for a disbursement/purchase under a 1:2 blend of the RCF and RFI of SDR 258.4 million (50 percent of quota). Staff assesses the COVID-19 shock as having a severe impact on Myanmar's economy, creating actual and urgent BOP needs. Direct budget support would enable the government to quickly marshal resources towards the healthcare response and effectively target vulnerable groups. Fund financing would also catalyze additional external financing and allow Myanmar to avail of the DSSI. Despite significant uncertainty around the outlook, Myanmar's debt remains sustainable and its capacity to repay the Fund is adequate under the policies committed by the authorities in the LOI.

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board. Decision 2 is proposed for adoption only if Decision 1 is adopted by the Executive Board.

Decision 1—Rapid Financing Instrument

1. Myanmar has requested a purchase in an amount equivalent to SDR 172.27 million (33.33 percent of quota) under the Rapid Financing Instrument.

2. The Fund notes the intentions of Myanmar as set forth in the letter from the Union Minister of Planning, Finance and Industry and the Governor of the Central Bank of Myanmar, dated June 12, 2020, and approves the purchase in accordance with the request.

3. This Decision shall become effective only upon the adoption of Decision No. [ ] (Decision 2) by the Executive Board.

Decision 2—Rapid Credit Facility

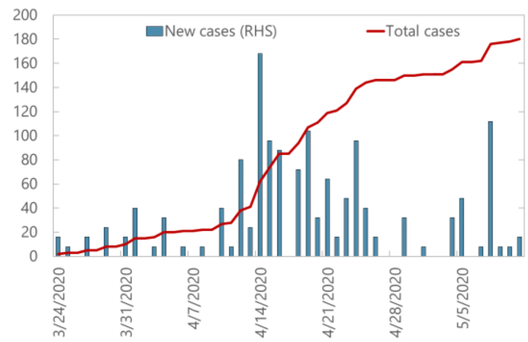
1. Myanmar has requested a loan disbursement in an amount equivalent to SDR 86.13 million (16.67 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of Myanmar as set forth in the letter from the Union Minister of Planning, Finance and Industry and the Governor of the Central Bank of Myanmar, dated June 12, 2020, and approves the disbursement in accordance with the request.

Figure 1. Myanmar: Health Sector

Myanmar's COVID-19 case count is relatively low…

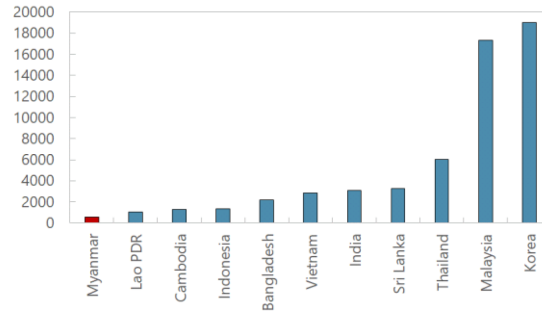
Myanmar: Total and New Cases of COVID-19
(Persons)



Sources: World Health Organization; and CEIC Data Co.

…although testing has been limited.

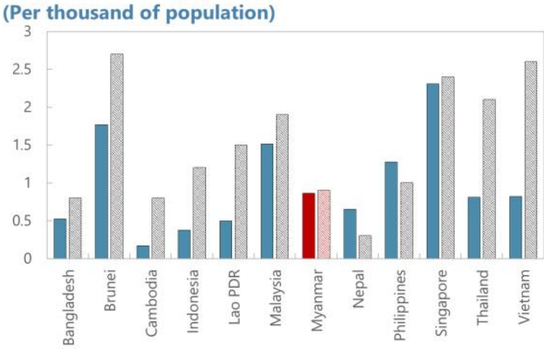
COVID-19: Testing Capacity
(Tests by million population)



Source: Worldometer.
As of June 4, 2020.

Health care provision is inadequate…

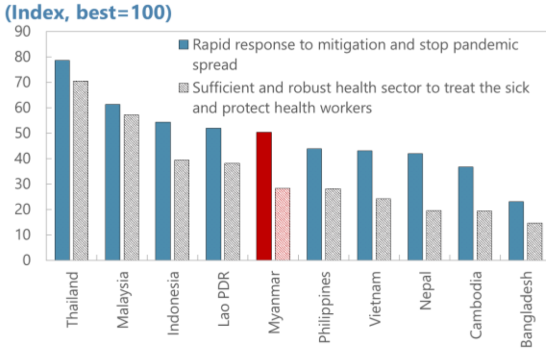
Hospital beds and physicians
(Per thousand of population)



Source: World Bank.

and the health care system preparedness is assessed as low.

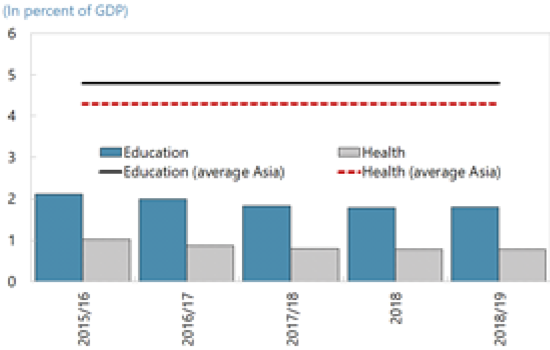
Myanmar: Health System Preparedness
(Index, best=100)



Source: John Hopkins' *Global Health Security Index*.

Health and social spending still lag behind peers…

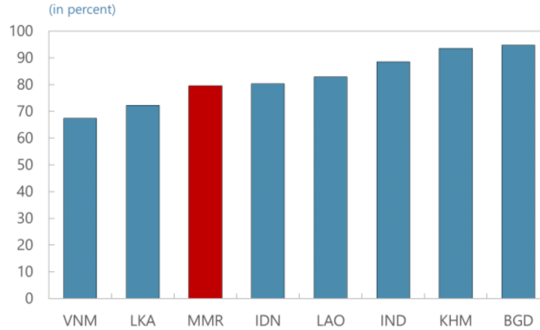
Union Government Spending on Education and Health
(In percent of GDP)



Source: Myanmar authorities.

…as the economy is characterized by a high degree of informality.

Share of informal employment
(in percent)



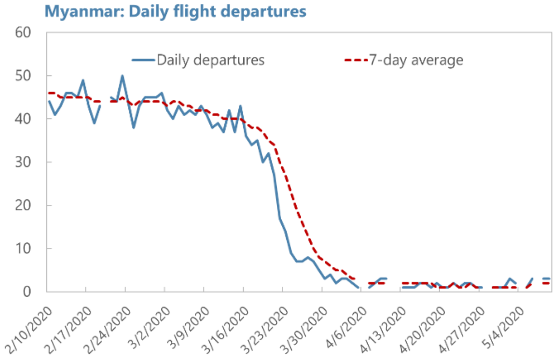
Note: Figures by latest year available: 2019 for IDN, VNM; 2018 for IND, MMR, THA; 2017 FOR BGD, LAO, LKA; 2012 FOR KHM.
Source: ILOSTAT

Figure 2. Myanmar: Macroeconomic Developments

With the outbreak of the pandemic, tourism inflows have come to a halt …

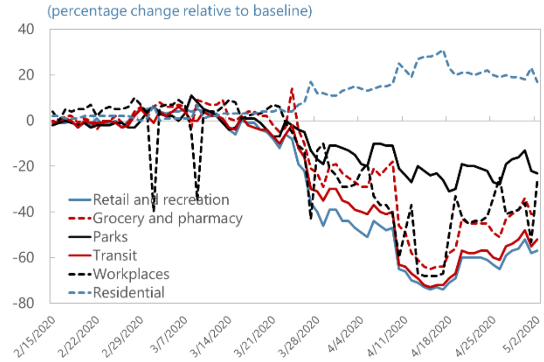
and domestic demand will slow as containment measures set in…

Myanmar: Daily flight departures



Source: ICAO.
Note: Departures for Yangon Airport; does not include relief and medical evacuation flights or other special flights approved by the Departmetn of Civil Aviation

Myanmar: Mobility changes
(percentage change relative to baseline)

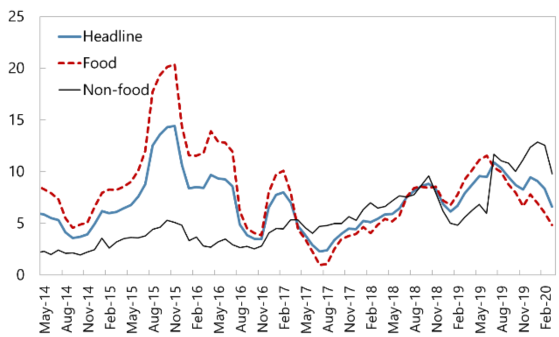


Sources: Google COVID Community Reports

which, along with declining global commodity prices, has led inflation to weaken.

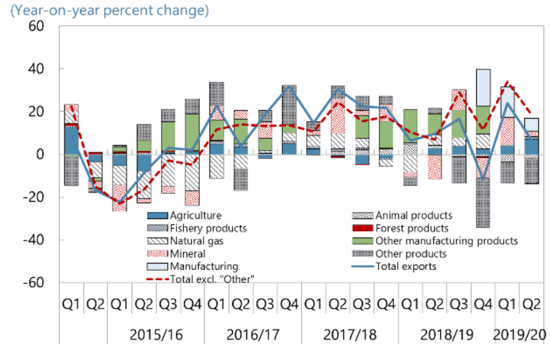
Exports had held up the first half of the fiscal year…

Inflation
(In percent change y/y)



Sources: Myanmar authorities; and IMF staff estimates.

Goods Exports
(Year-on-year percent change)

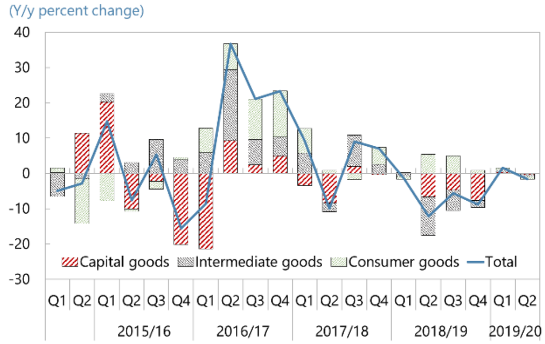


Sources: Myanmar authorities; CEIC Data Co.; and IMF staff calculations.

…but there is evidence of broad-based import compression

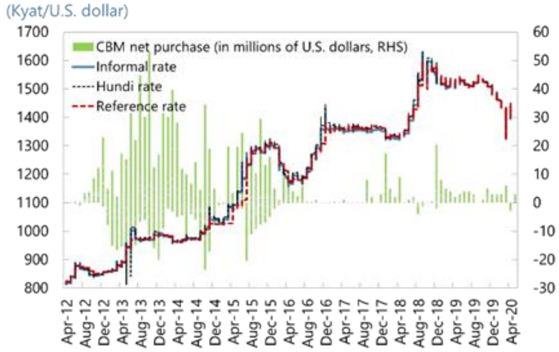
…as the kyat has appreciated, and reserves have held up.

Goods Imports
(Y/y percent change)



Sources: Myanmar authorities; CEIC Data Co.; and IMF staff estimates.

Foreign Exchange Intervention
(Kyat/U.S. dollar)

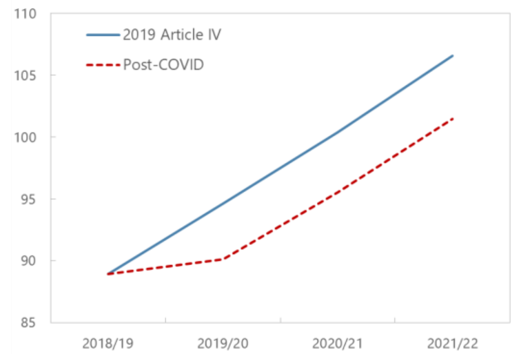


Source: Central Bank of Myanmar.

Figure 3. Myanmar: Macrofinancial Impact of COVID-19

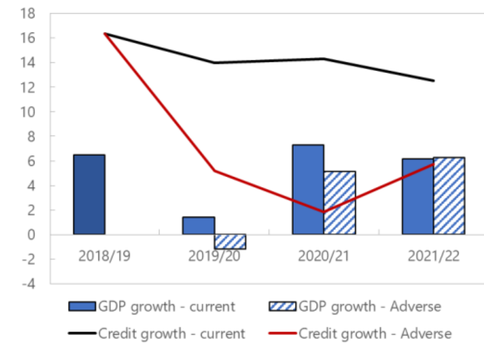
GDP growth is now expected to remain below the pre-COVID-19 baseline over the medium term…

Myanmar GDP
(Constant 2015/16 prices, in billions of kyats)



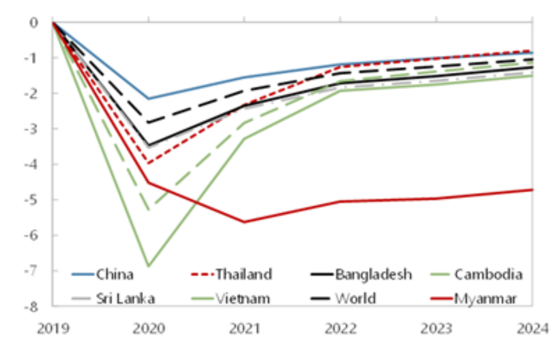
And could fall more sharply in an adverse scenario where banking sector fragilities crystalize.

GDP and Credit Growth: Baseline vs. Adverse Scenario
(In percent, credit growth on RHS)



A prolonged COVID-19 outbreak could affect Myanmar more severely than peers, given vulnerabilities.

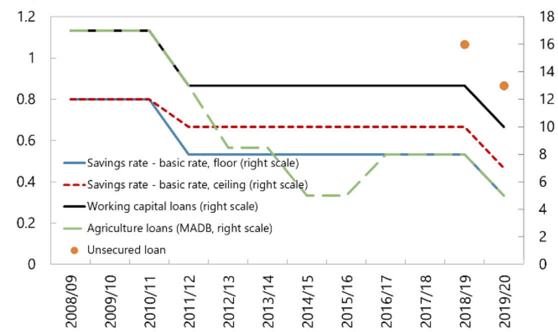
Real GDP in Adverse Scenarios: Myanmar vs April 2020 WEO
(Deviations from April 2020 WEO baseline; in percent)



Sources: IMF's World Economic Outlook; and IMF staff estimates.

Retail rates have declined as the CBM cut the policy rate…

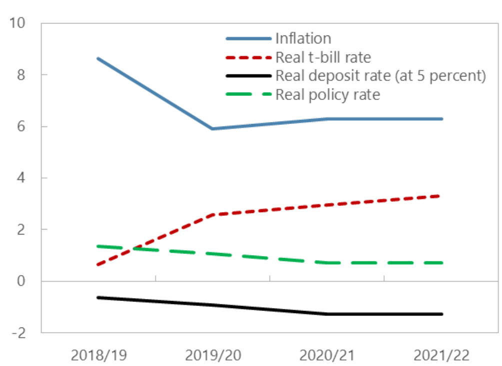
Retail Saving and Lending Interest Rates
(In percent)



Source: Central Bank of Myanmar.

…shifting real deposit and lending rates downward…

Inflation and Real Interest Rates
(in percent)



…while deposits and credit growth have remained somewhat robust.

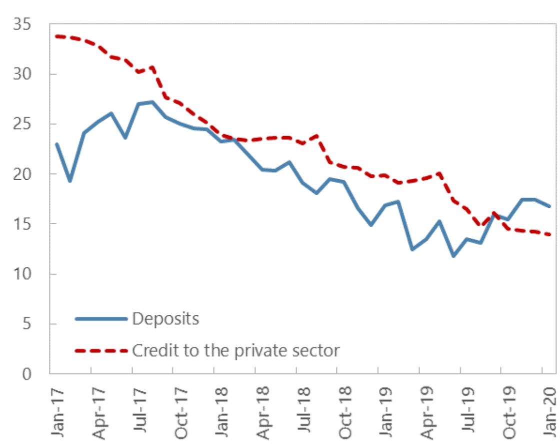
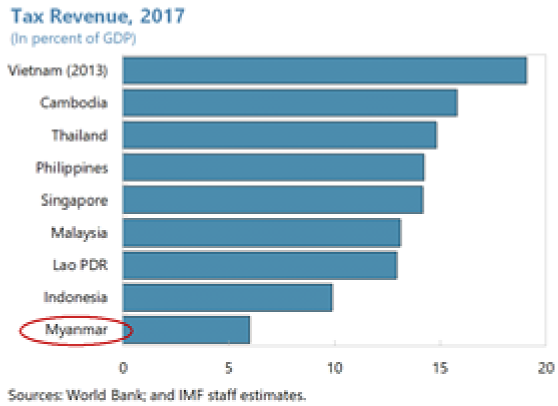
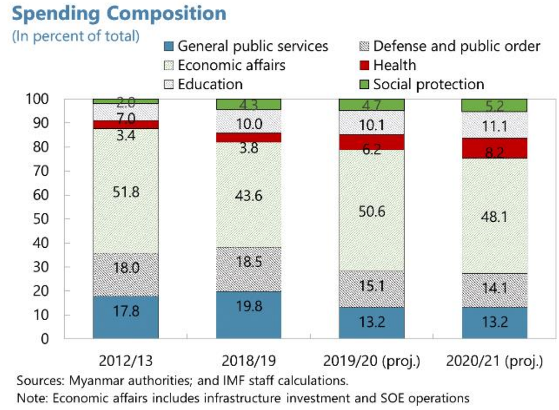


Figure 4. Myanmar: Macro-Fiscal and Monetary Developments

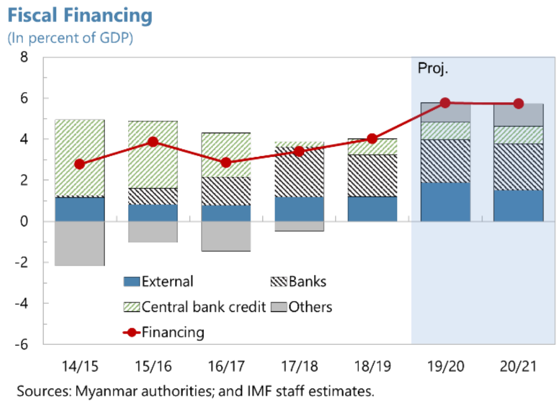
Tax revenue low is relative to peers…



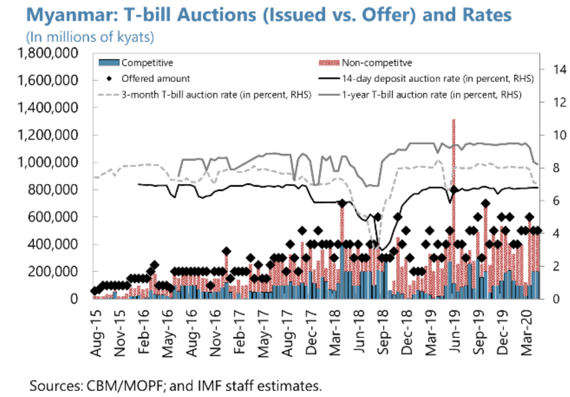
…while social spending has been limited.



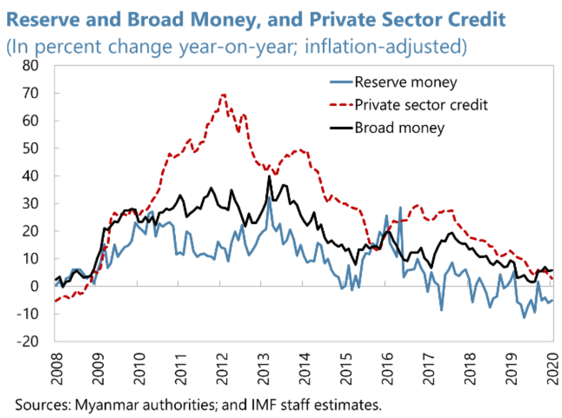
CBM financing had been declining over the last few years…



…with government securities auction volumes gradually increasing, as rates move in line with inflation.



Monetary aggregates have been declining.



Interbank liquidity has held up thus far.

Excess Reserves in the Banking System and Auction Rates
(in billions of kyats, and percent)

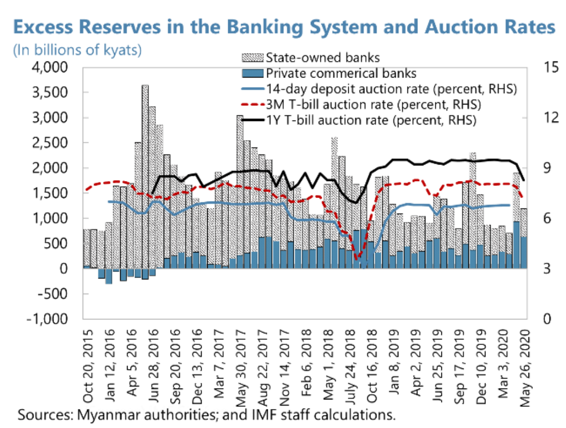


Table 1. Myanmar: Selected Economic Indicators, 2016/17–2020/21 1/

	2016/17 Est.	2017/18 Est.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.
Output and prices					
Real GDP [2]	5.8	6.4	6.5	1.4	6.0
CPI (end-period; base year from 2014/15=2012)	3.4	8.6	9.5	4.4	7.2
CPI (period average; base year from 2014/15=2012)	4.6	5.9	8.6	5.9	6.3
Consolidated public sector [3]			(In percent of GDP)		
Total revenue	17.9	17.6	16.0	14.8	14.7
Tax revenue	7.2	7.1	6.6	6.0	6.1
Social contributions	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.4	0.4	0.4
Other revenue	10.3	10.1	8.9	8.3	8.1
Total expenditure	20.8	21.0	20.0	20.6	20.5
Expense	14.3	13.9	13.4	14.2	14.1
Net acquisition of nonfinancial assets	6.4	7.1	6.6	6.4	6.3
Gross operating balance	3.6	3.7	2.6	0.7	0.6
Net lending (+)/borrowing (-)	-2.9	-3.4	-4.0	-5.8	-5.8
Total public and publicly guaranteed (PPG) debt	38.4	40.3	38.8	42.7	44.7
Money and credit			(Percent change)		
Reserve money	8.0	4.6	11.3	14.5	13.6
Broad money	21.4	18.6	15.4	14.1	15.1
Domestic credit	22.3	21.4	17.4	15.8	16.0
Private sector	27.4	21.2	16.4	14.4	13.2
Balance of payments [4]			(In percent of GDP)		
Current account balance	-6.8	-4.7	-2.6	-4.0	-4.2
Trade balance	-7.5	-5.2	-3.2	-3.3	-4.1
Financial account	-8.4	-5.9	-4.1	-4.7	-5.3
Foreign direct investment, net [5]	-5.8	-4.8	-3.1	-2.7	-2.9
Overall balance	0.5	0.5	0.3	0.7	1.1
CBM reserves (gross)					
In millions of U.S. dollars	5,141	5,462	5,667	6,840	7,733
In months of prospective GNFS imports	3.2	3.8	4.6	5.0	5.0
As a share of broad money	15.2	15.6	13.8	15.2	15.7
Total PPG external debt (billions of U.S. dollars)	9.1	9.8	10.1	11.5	12.9
Total PPG external debt (percent of GDP)	15.0	16.3	14.8	16.2	16.9
Exchange rates (kyat/$, end of period)					
Official exchange rate	1,357.7	1,551.5	1,533.0	…	…
Parallel rate	1,350.9	1,563.6	1,533.1	…	…
Memorandum items:					
GDP (billions of kyats)	82,700	92,789	105,012	112,999	128,239
GDP (billions of US$)	61.5	67.1	68.5	…	…
GDP per capita (US$)	1,267	1,279	1,242	1,321	1,440

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

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

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

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

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

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

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 1/

(Consolidated accounts, in billions of kyats)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Act.	Est.	Proj.	Proj.	Proj.	Proj.
			(In billions of kyats)			
Revenue	14,520	14,811	16,358	16,785	16,758	18,852
Taxes	5,294	5,913	6,604	6,912	6,794	7,774
On income, profits, and capital gains	1,772	1,888	1,938	2,198	1,921	2,180
On property	33	39	40	67	72	81
On goods and services	2,918	3,431	3,966	4,124	4,238	4,874
On international trade & transactions	474	495	588	464	499	566
Other taxes	98	60	71	59	64	72
Social contributions	63	78	110	130	140	159
Grants	346	332	277	368	452	513
Other revenue	8,817	8,487	9,366	9,375	9,372	10,406
Property income	1,045	1,222	1,735	1,317	1,417	1,608
Sales of goods and services 2/	7,772	7,265	7,631	8,058	7,955	8,797
Expenditure	17,391	17,174	19,512	21,011	23,300	26,283
Expense	11,890	11,846	12,913	14,029	16,012	18,141
Compensation of employees	2,555	3,014	3,598	2,790	3,115	3,535
Purchases/use of goods & services	6,058	6,227	6,579	8,685	9,685	10,734
Interest	967	1,135	1,684	1,588	1,834	2,179
External	214	235	460	235	193	314
Domestic	722	900	1,224	1,353	1,641	1,864
Subsidies and transfers	260	0	64	0	226	256
Social benefits	684	711	784	894	1,075	1,348
Other expense	1,366	759	205	72	78	88
Net acquisition of nonfinancial assets	5,501	5,328	6,599	6,982	7,287	8,142
Balances						
Gross operating balance	2,630	2,965	3,445	2,756	746	711
Net lending/borrowing	-2,871	-2,364	-3,154	-4,226	-6,542	-7,431
Net acquisition of financial assets	663	-203	-13,478	-527	180	131
Domestic	652	-212	-13,482	-536	176	125
Currency and deposits	421	-304	-13,494	-542	66	33
Central Bank	369	0	-327	-674	0	0
Commercial banks	52	-305	-13,168	132	66	33
Loans	125	-59	-41	-7	49	26
Equity	107	152	54	13	62	66
External	11	8	3	9	4	6
Equity	11	8	3	9	71	53
Net incurrence of liabilities	3,534	2,160	-10,324	3,699	6,721	7,562
Domestic	3,454	2,010	-10,758	3,100	3,976	5,186
Securities	2,961	2,000	1,993	3,106	3,976	5,186
Central bank	2,428	1,782	237	798	1,300	1,104
Commercial banks	590	1,132	2,263	2,144	2,676	4,082
Nonbanks	-57	-914	-507	164	…	…
Loans	494	10	-12,751	-6	…	…
External	79	150	434	599	2,746	2,376
Of which: Loans	608	648	1,107	1,264	3,068	2,584
Of which: Exceptional financing (RCF/RFI)	…	…	…	…	577	0
Of which: Exceptional financing (DSSI)	…	…	…	…	520	113

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

1/ Revised to reflect Government Finance Statistics Manual 2014 classification. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Includes proceeds from SEEs' commercial activities.

Table 3. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 1/

(Consolidated account, in percent of GDP)

	2015/16 Act.	2016/17 Est.	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.
			(In percent of GDP)			
Revenue	19.6	17.9	17.6	16.0	14.8	14.7
Taxes	7.1	7.2	7.1	6.6	6.0	6.1
On income, profits, and capital gains	2.4	2.3	2.1	2.1	1.7	1.7
On goods and services	3.9	4.1	4.3	3.9	3.8	3.8
On international trade & transactions	0.6	0.6	0.6	0.4	0.4	0.4
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.5	0.4	0.3	0.4	0.4	0.4
Other revenue	11.9	10.3	10.1	8.9	8.3	8.1
Property income	1.4	1.5	1.9	1.3	1.3	1.3
Sales of goods and services 2/	10.5	8.8	8.2	7.7	7.0	6.9
Expenditure	23.4	20.8	21.0	20.0	20.6	20.5
Expense	16.0	14.3	13.9	13.4	14.2	14.1
Compensation of employees	3.4	3.6	3.9	2.7	2.8	2.8
Purchases/use of goods & services	8.2	7.5	7.1	8.3	8.6	8.4
Interest	1.3	1.4	1.8	1.5	1.6	1.7
External	0.3	0.3	0.5	0.2	0.2	0.2
Domestic	1.0	1.1	1.3	1.3	1.5	1.5
Subsidies and transfers	0.4	0.0	0.1	0.0	0.2	0.2
Social benefits	0.9	0.9	0.8	0.9	1.0	1.1
Other expense	1.8	0.9	0.2	0.1	0.1	0.1
Net acquisition of nonfinancial assets	7.4	6.4	7.1	6.6	6.4	6.3
Balances						
Gross operating balance	3.5	3.6	3.7	2.6	0.7	0.6
Net lending/borrowing	-3.9	-2.9	-3.4	-4.0	-5.8	-5.8
Net acquisition of financial assets						
Domestic	0.9	-0.3	-14.5	-0.5	0.2	0.1
Currency and deposits	0.6	-0.4	-14.5	-0.5	0.1	0.0
Central Bank	0.5	0.0	-0.4	-0.6	0.0	0.0
Commercial banks	0.1	-0.4	-14.2	0.1	0.1	0.0
Loans	0.2	-0.1	0.0	0.0	0.0	0.0
Equity	0.1	0.2	0.1	0.0	0.1	0.1
External	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	0.0	0.0	0.0	0.1	0.0
Net incurrence of liabilities	4.8	2.6	-11.1	3.5	5.9	5.9
Domestic	4.7	2.4	-11.6	3.0	3.5	4.0
Securities	4.0	2.4	2.1	3.0	3.5	4.0
Central bank	3.3	2.2	0.3	0.8	1.2	0.9
Commercial banks	0.8	1.4	2.4	2.0	2.4	3.2
Nonbanks	-0.1	-1.1	-0.5	0.2	0.0	0.0
Loans	0.7	0.0	-13.7	0.0	0.0	0.0
External	0.1	0.2	0.5	0.6	2.4	1.9
Loans	0.8	0.8	1.2	1.2	2.7	2.0
Of which: Exceptional financing (RCF/RFI)	...	...	...	...	0.5	0.0
Of which: Exceptional financing (DSSI)	...	...	...	...	0.5	0.1
Memorandum items:						
Primary balance	-2.6	-1.5	-1.6	-2.5	-4.2	-4.1
Functional breakdown of public sector expenditure						
Economic affairs	11.0	9.7	9.6	8.8	10.4	9.9
Social services	5.0	4.5	4.9	4.7	5.5	6.2
Of which: education	2.1	2.0	2.0	2.0	2.1	2.3
Of which: health	1.0	0.9	1.0	0.8	1.3	1.7
Defense	4.1	3.7	3.7	3.1	2.6	2.4
Total public and publicly guaranteed (PPG) debt	38.0	38.4	40.3	38.8	42.7	44.7
Of which: held by CBM	16.1	15.8	16.5	14.4	15.0	14.1
Of which: other and external	21.9	22.6	23.8	24.4	27.6	30.6
Total domestic public debt	22.2	23.4	24.0	24.0	26.4	27.8
Total external PPG debt	15.7	15.0	16.3	14.8	16.2	16.9
Of which: Arrears						
GDP (in billions of kyat)	74,216	82,700	92,789	105,012	112,999	128,239
CBM financing (share of reserve money)	17.5	11.6	1.4	4.6	6.7	5.0
CBM financing (share of domestic financing)	70	89	-2	26	33	21

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

1/ Revised to reflect Government Finance Statistics Manual 2014 classification. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Includes proceeds from SEEs' commercial activities.

Table 4. Myanmar: Balance of Payments, 2016/17–2023/24 1/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In millions of U.S. dollars)				
Current Account	-4,164	-3,144	-1,776	-2,785	-3,218	-3,453	-3,670	-4,007
(In percent of GDP)	-6.8	-4.7	-2.6	-4.0	-4.2	-4.2	-4.1	-4.1
Trade balance	-4,644	-3,471	-2,219	-2,292	-3,098	-3,326	-3,667	-4,003
(In percent of GDP)	-7.5	-5.2	-3.2	-3.3	-4.1	-4.0	-4.1	-4.1
Balance on goods	-5,817	-4,362	-2,978	-2,395	-2,937	-3,317	-3,910	-4,498
(In percent of GDP)	-9.5	-6.5	-4.3	-3.4	-3.9	-4.0	-4.3	-4.6
Merchandise exports f.o.b.	9,475	11,226	10,463	9,165	10,302	11,728	13,199	14,402
Merchandise imports f.o.b.	15,291	15,587	13,440	11,560	13,239	15,045	17,109	18,900
Balance on services	1,173	890	759	103	-162	-9	243	495
(In percent of GDP)	1.9	1.3	1.1	0.1	-0.2	0.0	0.3	0.5
Exports of services, total	3,730	4,428	4,624	3,195	3,116	3,367	3,721	4,111
Imports of services, total	2,557	3,537	3,865	3,092	3,278	3,376	3,477	3,616
Primary income balance	-1,650	-1,960	-2,042	-2,156	-2,156	-2,275	-2,275	-2,400
(In percent of GDP)	-2.7	-2.9	-3.0	-3.1	-2.8	-2.7	-2.5	-2.4
Receipts	1,168	1,264	1,448	1,492	1,492	1,536	1,536	1,582
Expenditures	2,817	3,224	3,490	3,647	3,647	3,811	3,811	3,983
Secondary income balance	2,129	2,288	2,484	1,662	2,036	2,148	2,272	2,397
(In percent of GDP)	3.5	3.4	3.6	2.4	2.7	2.6	2.5	2.4
Capital and Financial Account	-5,189	-3,952	-2,804	-3,282	-4,046	-3,939	-4,571	-5,269
(In percent of GDP)	-8.4	-5.9	-4.1	-4.7	-5.3	-4.8	-5.1	-5.3
Capital account	1	1	0	0	0	0	0	0
Financial account (+ = net increase / - = net decrease)	-5,190	-3,952	-2,804	-3,282	-4,046	-3,939	-4,571	-5,269
(In percent of GDP)	-8.4	-5.9	-4.1	-4.7	-5.3	-4.8	-5.1	-5.3
Direct investment	-3,563	-3,230	-2,131	-1,865	-2,216	-2,821	-3,479	-4,296
(In percent of GDP)	-5.8	-4.8	-3.1	-2.7	-2.9	-3.4	-3.8	-4.4
Assets	0	0	0	0	0	0	0	0
Liabilities	3,563	3,230	2,131	1,865	2,216	2,821	3,479	4,296
Portfolio investment	5	-2	-30	0	0	0	0	0
(In percent of GDP)	0	0	0	0	0	0	0	0
Assets	36	-2	-30	0	0	0	0	0
Liabilities	31	0	0	0	0	0	0	0
Other investment	-1,631	-721	-642	-1,417	-1,830	-1,118	-1,092	-973
(In percent of GDP)	-2.7	-1.1	-0.9	-2.0	-2.4	-1.3	-1.2	-1.0
Assets	-986	-417	479	0	0	0	0	0
Liabilities	645	304	1,121	1,417	1,830	1,118	1,092	973
Of which: MLT debt disbursements	482	801	825	1,653	1,986	1,554	1,564	1,568
Of which: repayments due	-370	-487	-434	-632	-647	-805	-842	-967
Net errors and omissions	-719	-488	-822	0	0	0	0	0
(In percent of GDP)	-1.2	-0.7	-1.2	0	0	0	0	0
Overall balance with program	307	320	205	496	829	486	902	1,262
(In percent of GDP)	0.5	0.5	0.3	0.7	1.1	0.6	1.0	1.3
Financing	-307	-320	-205	-496	-829	-486	-902	-1,262
Change in Reserves (+ accumulation)	307	320	205	1,174	893	484	869	1,140
IMF disbursement (US$ million)[2]	…	…	…	357	…	…	…	…
IMF Repayments	…	…	…	-1	-3	-3	-33	-122
DSSI (US$ millions)[3]	…	…	…	322	67	…	…	…
Memorandum items:								
GDP (in millions of U.S. dollars)	61,504	67,145	68,538	…	…	…	…	…
Level of gross reserves (end of period)	5,141	5,462	5,667	6,840	7,733	8,217	9,086	10,226
Reserves (months of imports of G&S)	3.2	3.8	4.6	5.0	5.0	4.8	4.8	5.0
Reserves (in percent of broad money)	15.2	15.6	13.8	15.2	15.7	15.2	15.3	15.8
Total financing gap (US$ millions)	…	…	…	1,676	794	…	…	…

Source: Data provided by the authorities; and IMF staff estimates.

1/ Revised according to the BPM6 methodology. From 2018/19 onwards the fiscal year was changed to an October 1 to September 30 format. This table uses the new fiscal year definition for both historical data and projections.

2/ Accessed under the RCF/RFI at 50 percent of quota (SDR 258.4 million or about US$356 million).

3/ Debt service suspension under the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club has been requested. Given the duration of the initiative, it is estimated to create savings in external debt service in FY2019/20 and FY2020/21 respectively.

Table 5. Myanmar: Monetary Survey, 2016/17–2023/24 1/ 2/

(In billions of kyat at end-period, unless otherwise indicated)

	2016/17 Act.	2017/18 Act.	2018/19 Act.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.
Central Bank of Myanmar								
Net foreign assets	6,519	8,010	8,113	8,721	9,583	10,042	10,996	12,511
Foreign assets	6,999	8,544	8,659	9,834	10,728	11,213	12,083	13,224
Foreign liabilities	480	534	546	1,113	1,145	1,171	1,087	713
Net domestic assets	10,043	9,317	11,178	13,362	15,497	18,264	20,701	22,529
Net domestic credit	13,346	14,066	15,853	18,220	20,621	23,591	26,231	28,270
Net claims on central government	13,099	13,662	15,134	17,000	18,104	18,852	19,076	18,846
Net claims on deposit money banks	247	404	719	1,220	2,517	4,739	7,155	9,424
Other items net	-3,303	-4,749	-4,675	-4,859	-5,124	-5,328	-5,530	-5,742
Reserve Money	16,562	17,327	19,291	22,083	25,080	28,306	31,697	35,040
Currency in circulation	12,227	13,652	15,491	17,733	20,140	22,730	25,453	28,138
ODC liabilities	4,335	3,675	3,800	4,350	4,940	5,576	6,244	6,902
Transferrable deposits	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Monetary survey								
Net foreign assets	8,908	10,841	11,353	12,169	13,539	14,488	16,087	18,218
Foreign assets	12,737	14,702	15,351	17,333	18,900	20,883	22,599	25,637
Foreign liabilities	3,829	3,861	3,999	5,164	5,361	6,394	6,512	7,419
Net domestic assets	37,030	43,640	51,531	59,575	69,029	80,208	91,642	103,441
Net domestic credit	36,324	44,081	51,761	59,914	69,487	80,784	92,240	104,062
Net claims on government	15,730	19,115	22,711	26,687	31,873	38,331	45,100	52,718
CBM	13,099	13,662	15,134	17,000	18,104	18,852	19,076	18,846
Deposit money banks	2,631	5,453	7,578	9,687	13,769	19,478	26,024	33,872
Net credit to the economy	20,594	24,966	29,050	33,227	37,614	42,453	47,140	51,344
Other items net	706	-441	-230	-339	-458	-576	-598	-621
Broad money	45,938	54,480	62,883	71,744	82,569	94,696	107,729	121,659
Narrow money	14,641	17,192	19,608.7	22,371.7	25,747.2	29,528.8	33,592.9	37,936.7
Currency in circulation	9,973	11,504	13,063.4	14,904.1	17,152.8	19,672.2	22,379.6	25,273.5
Transferrable Deposits	4,668	5,688	6,545.4	7,467.6	8,594.4	9,856.7	11,213.2	12,663.2
Other deposits	31,297	37,288	43,275	49,372	56,822	65,167	74,136	83,723
Memorandum items:								
Money multiplier	2.8	3.1	3.3	3.2	3.3	3.3	3.4	3.5
Velocity	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.5
Reserve money (y/y percent change)	8.0	4.6	11.3	14.5	13.6	12.9	12.0	10.5
Broad money (y/y percent change)	21.4	18.6	15.4	14.1	15.1	14.7	13.8	12.9
Credit to private sector (y/y percent change)	27.4	21.2	16.4	14.4	13.2	12.9	11.0	8.9
Net credit to central govt. (y/y percent change)	15.6	21.5	18.8	17.5	19.4	20.3	17.7	16.9
Credit growth (y/y percent change)	22.3	21.4	17.4	15.8	16.0	16.3	14.2	12.8
Deposits (y/y percent change)	25.7	19.5	15.9	14.1	15.1	14.7	13.8	12.9
Reserve money (in percent of GDP)	20.0	18.7	18.4	19.5	19.6	19.4	19.2	18.7
Broad money (in percent of GDP)	55.5	58.7	59.9	63.5	64.4	65.0	65.3	65.0
Credit to private sector (in percent of GDP)	24.9	26.9	27.7	29.4	29.3	29.1	28.6	27.5
Credit to central government (in percent of GDP)	19.0	20.6	21.6	23.6	24.9	26.3	27.3	28.2
Deposits (in percent of GDP)	43.5	46.3	47.4	50.3	51.0	51.5	51.7	51.5
Credit to economy/deposits (in percent)	57.3	58.1	58.3	…	…	…	…	…
Nominal GDP (in billions of kyat)	82,700	92,789	105,012	112,999	128,239	145,709	165,018	187,036

Sources: Central Bank of Myanmar; and IMF staff estimates and projections.

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

2/ From 2012/13, foreign assets and liabilites are valued at the reference rate (before: at official exchange rate).

Table 6. Myanmar: Medium-Term Projections 2016/17–2024/25 1/

	2016/17 Act.	2017/18 Act.	2018/19 Est.	2019/20 Proj.	2020/21 Proj.	2021/22 Proj.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.
Output and prices					(Percent change)				
Real GDP (staff working estimates) 2/	5.8	6.4	6.5	1.4	6.0	6.2	6.3	6.4	6.5
CPI (end-period; base year=2012)	3.4	8.6	9.5	4.4	7.2	6.2	6.1	6.1	6.1
CPI (period average; base year=2012)	4.6	5.9	8.6	5.9	6.3	6.3	6.1	6.1	6.1
Consolidated public sector 3/					(In percent of GDP)				
Total revenue	17.9	17.6	16.0	14.8	14.7	15.2	16.0	16.3	16.6
Tax revenue	7.2	7.1	6.6	6.0	6.1	6.6	7.0	7.3	7.6
Social contributions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other revenue	10.3	10.1	8.9	8.3	8.1	8.1	8.5	8.5	8.5
Total expenditure	20.8	21.0	20.0	20.6	20.5	20.5	20.9	20.9	20.8
Expense	14.3	13.9	13.4	14.2	14.1	13.9	14.2	14.3	14.1
Net acquisition of nonfinancial assets	6.4	7.1	6.6	6.4	6.3	6.5	6.6	6.6	6.7
Gross operating balance	3.6	3.7	2.6	0.7	0.6	1.3	1.8	2.0	2.5
Net lending (+)/borrowing (-)	-2.9	-3.4	-4.0	-5.8	-5.8	-5.3	-4.9	-4.6	-4.2
Total public and publicly guaranteed (PPG) debt	38.4	40.3	38.8	42.7	44.7	46.1	47.4	48.6	49.4
Money and credit					(Percent change)				
Reserve money	8.0	4.6	11.3	14.5	13.6	12.9	12.0	10.5	9.5
Broad money	21.4	18.6	15.4	14.1	15.1	14.7	13.8	12.9	11.1
Domestic credit	22.3	21.4	17.4	15.8	16.0	16.3	14.2	12.8	11.5
Private sector	27.4	21.2	16.4	14.4	13.2	12.9	11.0	8.9	8.5
Balance of payments 4/					(In percent of GDP, unless otherwise indicated)				
Current account balance	-6.8	-4.7	-2.6	-4.0	-4.2	-4.2	-4.1	-4.1	-4.1
Trade balance	-7.5	-5.2	-3.2	-3.3	-4.1	-4.0	-4.1	-4.1	-4.2
Exports	15.4	16.7	15.3	13.1	13.6	14.1	14.6	14.6	14.6
Gas exports	5.1	5.2	6.1	3.0	2.8	2.8	3.5	3.2	2.7
Imports	24.9	23.2	19.6	16.5	17.4	18.1	18.9	19.2	19.4
Financial account	-8.4	-5.9	-4.1	-4.7	-5.3	-4.8	-5.1	-5.3	-5.2
Foreign direct investment, net 5/	-5.8	-4.8	-3.1	-2.7	-2.9	-3.4	-3.8	-4.4	-4.5
Overall balance	0.5	0.5	0.3	0.7	1.1	0.6	1.0	1.3	1.1
CBM reserves (gross)									
In millions of U.S. dollars	5,141	5,462	5,667	6,840	7,733	8,217	9,086	10,226	11,326
In months of total imports	3.2	3.8	4.6	5.0	5.0	4.8	4.8	5.0	5.0
External debt									
Total external PPG debt (billions of U.S. dollars)	9.1	9.8	10.1	11.5	12.9	13.6	14.3	14.9	15.7
(In percent of GDP)	15.0	16.3	14.8	16.2	16.9	16.3	15.7	15.0	14.4
Exchange rates (kyat/$, end of period)									
Official exchange rate	1,226	1,358	1,552	1,533	…	…	…	…	…
Parallel rate	1,238	1,351	1,564	1,533	…	…	…	…	…
Memorandum items:									
GDP (billions of kyats)	82,700	92,789	105,012	112,999	128,239	145,709	165,018	187,036	212,268
GDP (billions of US$)	61.5	67.1	68.5	69.9	…	…	…	…	…
GDP per capita (US$)	1,267	1,279	1,242	1,321	1,440	1,593	1,718	1,807	1,901

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

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

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

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

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

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

Table 7. Myanmar: Indicators of Capacity to Repay the Fund

(in millions of SDRs, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Repayment based on prospective credit											
(In millions of SDRs)											
Total Principal	**0.0**	**0.0**	**0.0**	**21.5**	**86.1**	**64.6**	**17.2**	**17.2**	**17.2**	**17.2**	**17.2**
Of which: Rapid Credit Facility	0.0	0.0	0.0	0.0	0.0	0.0	17.2	17.2	17.2	17.2	17.2
Of which: Emergency Assistance	0.0	0.0	0.0	21.5	86.1	64.6	0.0	0.0	0.0	0.0	0.0
Total Charges and interest	**1.0**	**1.8**	**1.8**	**1.8**	**1.4**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Of which: Rapid Credit Facility	0.2	1.8	1.8	1.8	1.4	0.5	0.0	0.0	0.0	0.0	0.0
Of which: Emergency Assistance	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Principal and Charges and interest											
In percent of government revenue	0.0	0.0	0.0	0.2	0.5	0.4	0.1	0.1	0.1	0.1	0.1
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.5	0.3	0.1	0.1	0.1	0.1	0.1
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Outstanding Fund obligations based on existing and prospective credit											
In millions of SDRs	258.4	258.4	258.4	236.9	150.7	86.1	68.9	51.7	34.4	17.2	0.0
In millions of U.S. dollar	356.9	358.5	359.8	330.7	211.0	121.0	96.8	72.6	48.4	24.2	0.0
In percent of government revenue	3.4	3.2	2.9	2.3	1.3	0.7	0.5	0.3	0.2	0.1	0.0
In percent of exports of goods and services	2.9	2.7	2.4	2.0	1.1	0.6	0.4	0.3	0.2	0.1	0.0
In percent of GDP	0.5	0.5	0.4	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0
In percent of IMF quota	50.0	50.0	50.0	45.8	29.2	16.7	13.3	10.0	6.7	3.3	0.0
Memorandum items:											
Exports of goods and services (in millions of US$)	12,360.2	13,418.3	15,095.3	16,920.0	18,513.0	20,235.4	22,084.4	24,163.7	26,436.5	30,218.6	33,192.5
Government revenue (in millions of US$)	10,372.3	11,155.8	12,601.3	14,463.9	16,077.3	17,888.0	19,889.4	22,019.6	24,509.1	26,806.5	29,619.2
Gross international reserves (in millions of US$)	6,840.4	7,733.4	8,217.0	9,086.0	10,225.9	11,326.4	12,563.9	13,807.3	15,330.1	16,789.2	18,197.9
IMF quota (in millions of SDR)	516.8	516.8	516.8	516.8	516.8	516.8	516.8	516.8	516.8	516.8	516.8

Source: IMF staff estimates and projections based on an October to September fiscal year.

Annex I. Risk Assessment Matrix 1/

	Shocks and Likelihood *(Red= high likelihood; green = low likelihood)*	Potential Impact *(Red= high; green=low)*	Policy Response
	Prolonged Covid-19 outbreak	A prolonged outbreak, including from large numbers of returning migrant workers, could accelerate the spread of the outbreak. Weaker export, tourism, remittances and FDI flows. Weakened domestic demand due to containment measures.	In the near term, efforts should be focused in boosting health and social spending, targeted toward the most vulberable groups, while mitigating against the economic costs of the pandemic. Tap external concessional borrowing to preserve external and fiscal buffers. Accelerate banking sector contingency plans.
	Macro-financial spillovers in the event of banking sector distress and delayed recapitalization.	Fears of bank fragility could lead to bank runs/collateral fire sales; Likely credit crunch, if weak banks cut back on lending while adjusting to new regulations; Contingent fiscal liabilities related to recapitalization and/or possible liquidity support; Pressure for further exchange rate depreciation and FX reserve depletion.	Implement contingency plans and encourage timely recapitalization; Move down the resolution ladder for non systemic banks; Continue to strengthen financial regulations and supervision to ensure financial stability and deepening while improving credit risk management of banks; Strengthen macroeconomic policy frameworks to increase responsiveness to shocks. A flexible market-determined rate will help limit reserve losses and incentive to convert to FX, but an external financing backstop would also be important to anchor expectations and respond to disorderly market conditions. Under a deeper systemic crisis a tighter macro policy stance alongside a resort to partial deposit freezes or guarantees may be needed.
	Slow progress in resolving the Rakhine state humanitarian crisis.	FDI and external financing could be strained. The risk of broader economic sanctions including potential loss of trade preferences. Delays overall economic reforms.	If development partner financial assistance is disrupted, rationalize public expenditures while preserving humanitarian spending and social sector spending; Resist monetization of fiscal deficit; Allow the exchange rate to adjust to any external financing shortfalls and actively build up reserves where circumstances allow.
	Increased monetary financing of fiscal deficit if there is shortfall in financing.	Sharp and persistent increases in monetary financing could put pressures on inflation, lead to a loss of monetary control, and reduce credibility in the monetary regime.	Tap external concessional borrowing, followed by gradually increased issuance of Treasury bills and bonds domestically with due regard to crowding out risks. Consider reallocating nonessential expenditure to preserve social spending until financing is secured.
	Slippages in implementing needed reforms from limited institutional capacity.	The public sector is unable to cope with speed of reform, leading to slippages; Growth effects compounded by weaker business confidence. A listing of Myanmar by the Financial Action Task Force (FATF) could create financial stability risks.	Well-tailored TA programs that focus on staff training to raise institutional capacity; Coordinate TA programs with international donors and streamline and adjust the scope of the programs, if necessary; Further promote operational autonomy of the CBM.
External	More protectionism.	Weaker export growth and lower investor confidence, which could significantly reduce GDP growth and contribute to kyat depreciation.	Allow greater exchange rate flexibility to absorb external shocks; Continue with structural reforms to diversify exports and trading partners; Improve business environment to attract more FDI from other sources.
External	Oversupply in energy markets.	Low energy prices and high price volatility could affect gas revenues (X percent of government revenues, Y of exports); this could be somewhat offset by the fuel import bill (28 percent of imports)	Allow greater exchange rate flexibility to absorb external shocks. Continue with revenue mobilization efforts.
External	Higher frequency and severity of natural disasters	It is estimated that natural disasters in Myanmar have generated a direct economic loss of 1.82 percent of GDP every year (2006–15) on average. In addition human costs, natural disasters effect debt sustainability through damaging long-term growth and increasing borrowing for reconstruction needs from damage to infrastructure and capital.[1]	Identify and explicitly integrate risks into fiscal frameworks and budget planning; Build policy and financial buffers to enhance resilience to shocks; Enhance preparedness and invest in infrastructure that can better cope with natural hazards.

1/ Myanmar Selected Issues 2018; IMF Country Report No. 18/91.

Source: IMF staff.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Appendix I. Letter of Intent

June 12, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

The novel coronavirus COVID-19 global pandemic has impacted the Myanmar economy and its people. Our economy is being affected through a sharp decline in tourist arrivals and remittances and supply chain disruptions, which have resulted in layoffs and factory shutdowns. Demand for our exports will remain weak, as Europe and other Asian economies that have been deeply affected will recover only gradually. On the domestic front, we have taken measures to contain the spread of the virus. Nevertheless, we anticipate that the disruptions will hit hard households and businesses, including in the agriculture sector, which comprises a fifth of our economy and over half of employment. We also face the impact of the sharp decline in gas prices on our government revenues and exports. Altogether, GDP growth in FY2019/20 is uncertain and could fall significantly, with a slow recovery thereafter. The outlook is subject to sizable downside risks, depending on the duration and severity of the pandemic.

Due to the sudden COVID-19 pandemic, we are experiencing an urgent balance of payments (BOP) and fiscal financing needs over the next 18 months. Exports, particularly of our garments sector (cut, make, pack) (28 percent of exports) and gas (23 percent of exports), are expected to decline sharply, due to supply chain disruptions and weak external demand on one hand, and low international gas prices on the other. Imports of medical goods and equipment will rise as we mobilize to strengthen our healthcare provisions. Tourism has come to a standstill with no clarity on its normalization, and remittance flows are expected to fall (by 10 percent) as overseas workers abroad face uncertain prospects. Altogether, our current account deficit will widen significantly. On the financing side, FDI investment will slow as projects are delayed. Accordingly, we expect a BOP financing gap of US$2−3 billion over FY2019/20 and FY2020/21.

We also expect a deterioration in our fiscal position. Prior to the outbreak we were undertaking reforms to modernize our tax system and improve public financial management (PFM) to support the goals of the Myanmar Sustainable Development Plan (MSDP), while preserving debt sustainability. We were also expanding our still nascent government securities market. However, with the COVID-19 pandemic, we expect a shortfall in revenues as households and firms are hit by the growth slowdown, and gas revenues decline due to the global energy price shock. At the same time, we will need to urgently increase spending to support our intended policy measures, including on social spending targeted to the most vulnerable groups. This will widen the fiscal deficit by about 2 percentage points of GDP over the next 2 years, and we will face a financing gap of US$2−3 billion over FY2019/20 and FY2020/21.

External financing will be critical to meeting these financing needs. We cannot expect domestic banks to finance a much larger amount of the budget deficit than last year, as we are careful not to crowd out credit which is needed to support the economy. We would also like to guard against the risks of excessive monetization, and preserve the progress made over the last few years. Thus, we aim to limit central bank financing to about MMK 1.3 trillion in FY 2019/20 consistent with our broader monetary targets, and continue to gradually phase out monetary financing thereafter as the economy begins to recover. In light of these considerations, IMF RCF/RFI financing would help finance part of the temporary increased budget and current account deficit, while catalyzing support from other multilateral and bilateral creditors and reducing the risk of inflationary and external pressures monetization may bring.

Our priority is to urgently increase fiscal spending to boost health and social spending, and help mitigate against the economic effects of the pandemic, particularly to affected groups in all regions. Furthermore, we aim to support priority sectors and vulnerable households and SMEs with limited cash flows that are susceptible to a fall in demand and a credit squeeze in this uncertain economic environment. To this end, on April 27, the Ministry of Planning, Finance and Industry (MOPFI) announced the COVID-19 Economic Relief Plan (CERP), comprising key measures to alleviate the economic impact of the pandemic as well as set the foundations for a quick and robust recovery:

- A Supplementary Budget for FY2019/20 and directive reallocates up to 10 percent of 2019/20 Budget Estimate (except of loans and grants) to COVID-related spending within line ministries' and the COVID-19 Contingency Fund;
- The immediate waiver of specific goods tax, customs duty and commercial tax on critical medical supplies and products related to the prevention, control and treatment of COVID-19;
- Income and commercial tax payments due in the second and third quarters of FY2019/20 have been made extendable to end of the fiscal year, and an exemption for the 2 percent advance income tax on exports to the end of the fiscal year has been announced;
- Low interest loans of up to MMK 500 billion is being channeled to the private sector through the state-owned Myanmar Economic Bank, and a credit guarantee scheme for loans extended to SMEs and high growth sectors, contingent on retaining employment, is being established;
- Electricity bills for up to150 units free per months for month of April and May; and
- Establish cash and/or in-kind transfer programs for affected and vulnerable households covering all possible regions of the country as practically as possible by various means that include mobile payments, with the first phase based on the food ration database and next benefiting from new targeting approaches.

Additional measures include exemption of license renewal fees in the tourism sector, reduced customs duties for COVID-19 Medical Supplies operating with the Myanmar Automated Cargo Clearance System and Manual Processes, providing 40 percent of the social security fees for about

1.3 million insured workers from factories and workshops that had to temporarily suspended for health inspections; and strengthening the National Food Reserve by MMK 38 billion.

At the same time the Central Bank of Myanmar (CBM) is working to ease financial conditions to provide credit to support the economy. The measures implemented thus far include reducing the bank policy rate by a cumulative 300 basis points; a temporary reduction in banks' statutory reserve requirement ratio from 5 percent to 3.5 percent until September 2020; a temporary change in weights of longer-term government securities in the liquidity ratio; and ceasing deposit auctions to encourage liquidity in the interbank market. The kyat has been allowed to adjust with limited intervention, in line with the FX intervention rule to build adequate FX reserves. We plan to clarify the framework for credit auctions, the discount window, and emergency liquidity assistance. We will continue to upgrade the monetary policy framework, including the introduction of interest on excess reserves, with technical assistance from the IMF.

Before the COVID-19 outbreak, we had been making progress in the conversion of overdrafts to term loans and increasing capitalization by most banks.. We have extended the phase in period for full compliance with 2017 prudential regulations—including on capital adequacy requirement, full provisioning of NPLs, and meeting large exposure limits—by three years to end-August 2023. While banks have a three-year period to become fully compliant, the CBM will benchmark performance against those standards (including those for Loan classification) to measure the compliance gap and prevent any backsliding from what has been already achieved in terms of compliance. In addition, banks will be given incentives to comply fully with the prudential regulations in a shorter time span and those banks with high NPLs will not be allowed to make dividend payments to shareholders. Banks will be allowed to restructure or reschedule loans and assets impaired by the consequences of COVID-19 and be asked to separate those COVID-19 impaired loans from other loans in order to be given a different treatment.

As we undertake these policies in response to the pandemic and to stabilize the economy in the near term, we recognize this could be an opportunity to set the foundations for a robust recovery that can help us achieve the goals of the MSDP, while ensuring that debt sustainability is preserved, and fiscal risks are carefully managed and reported. We must put in place robust debt management strategies and sound risk management practices in order to protect the financial condition of our government. We intend to continue with reforms, benefitting from capacity development and technical assistance provided by the IMF and other development partners, on strengthening tax administration, enacting the draft income tax law and rationalizing the tax code, and moving to the next phase of PFM reforms. We are also committed to continue developing the government securities market, improve cash management and coordination between the Treasury and CBM, reducing reliance on monetary financing, and further liberalizing interest rates and strengthening the monetary transmission mechanism.

We will ensure that banks continue reporting their loan portfolios according to loan classification requirements in place prior to the COVID-19 to facilitate the assessment of asset quality and government interventions to support credit provision. Credit guarantee schemes to SMEs not exceeding MMK 1 million will be transparently provided through a new government guarantee agency with the support of the Asian Development Bank (ADB) and with due regard to bank credit risk management practices and reporting. At the same time, we are committed to accelerating the preparation of contingency plans to better manage banking sector stress, should it materialize. Any decision and mechanisms to absorb NPLs and/or recapitalize banks will be undertaken in a manner consistent with reducing fiscal costs and in consultation with the World Bank and the Fund. Regarding Anti Money Laundering and Combatting the Financing of Terrorism, we will continue to work with the Asia Pacific Group on the agreed time bound remedial Action Plan to remove Myanmar from its enhanced monitoring list.

Against this background, the Union Government of Myanmar requests emergency financing from the IMF in the equivalent of SDR 258.4 million, equivalent to 50 percent of quota, with a 1:2 blending ratio, under the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) with 16.67 percent of quota, SDR 86.13 million, from PRGT resources and 33.33 percent of quota, SDR 172.27 million, from GRA resources. The IMF assistance, to be used as budget support, will help us meet the urgent BOP needs from lost exports, remittances, tourism income, and investment flows as a result of the COVID-19 pandemic and mitigate the near-term pressure on balance of payments and on the budget. The IMF's assistance is also expected to catalyze additional financial assistance in the form of concessional loans from the World Bank, the ADB, and bilateral partners to meet current and future needs. We intend to request additional RCF/RFI financing up to 100 percent of quota (SDR 516.8 million or about US$700 million) to fill in the potential external financing gap in FY2019/20 and FY2020/21 as the impact of the pandemic and financing needs becomes clearer.

We also intend to avail of the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club. We commit to spend the freed resources on health and economic relief spending identified in the CERP and monitor and report such expenditures. We will continue to publish quarterly consolidated GFS reports including a breakdown of health and social spending. We will also publish quarterly budget monitoring reports identifying CERP-related spending, with a lag of no more than three months at the end of each quarter. We will disclose all government and government guaranteed debt contracted by the consolidated public sector to the IMF and World Bank Group and will continue to submit to Parliament and publish online the Annual Debt Report in accordance with the Public Debt Management Law. We also commit to contract no new non-concessional debt during the suspension period, other than agreements under this initiative or in compliance with limits agreed under the IMF Debt Limit Policy (DLP) or WBG policy on non-concessional borrowing.

The MOPFI and CBM have finalized a Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the IMF. Myanmar commits to undergo a safeguard assessment, provide IMF staff with access to CBM's most recently completed external audit reports, and authorize its external auditors to hold discussions with IMF staff. In addition to our continuous efforts to strengthen the effectiveness of the anti-corruption and governance frameworks, we are committed to ensuring that crisis resources are used transparently and effectively. Toward that end, we will publish on the MOPFI website (i) quarterly reports on all

COVID-19 related expenditure; (ii) the results of a targeted audit of COVID-19 related expenditures by the Office of the Auditor General for Myanmar (OAGM) within 6 months of the end of the fiscal year; (iii) information on procurement contracts on COVID-19 related expenditure within 3 months of being signed above Kyat 100 million, including the names of the companies awarded and their beneficial owners, the specific nature of the goods or services procured, price per unit, and the overall contract amount; and, (iv) reports of ex post validation of delivery related to (iii). The ADB will also assist us in publishing CERP progress reports.

CBM affirms that it will support the recovery efforts by maintaining an accommodative monetary stance while safeguarding domestic and external stability, with periodic reviews of its monetary stance. In its capacity as the counterparty for IMF lending to Myanmar, the resources provided under the RCF/RFI will be lent to the MOPFI. Furthermore, on June 9, 2020, we notified the Fund of our acceptance of the obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement. The Union Government does not intend to introduce measures or policies that would exacerbate balance of payments difficulties, including not to introduce exchange and trade restrictions that would compound these difficulties.

We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF/RFI.

Sincerely yours,

/s/	/s/
Soe Win Union Minister of Planning, Finance, and Industry	Kyaw Kyaw Maung Governor, Central Bank of Myanmar