

**EXECUTIVE
BOARD
MEETING**

EBS/20/117
Correction 1

June 25, 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:

The attached corrections to EBS/20/117 (6/17/20) have been provided by the staff:

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

Pages 2, 5, 11, 20, 24, 25, 29

Questions:

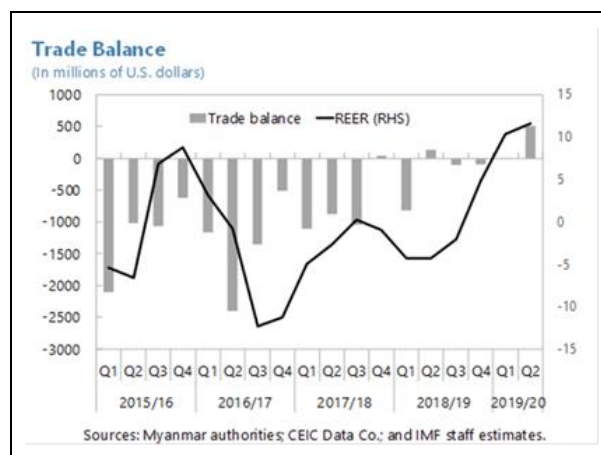
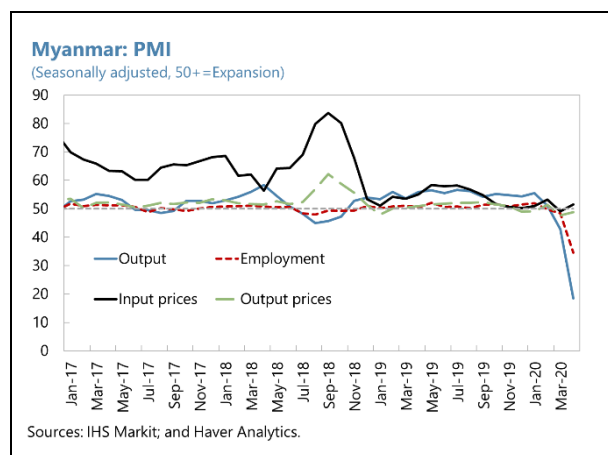
Mr. Peiris, APD (ext. 34761)
Mr. De, APD (ext. 34869)
Ms. Nadeem, APD (ext. 37091)

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) [and resident FX operations advisors](#) 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.

CONTENTS

CONTEXT	4
IMPACT OF THE PANDEMIC AND OUTLOOK	4
A. Initial Impact and Response	4
B. Outlook and Risks	5
POLICY ISSUES AND DISCUSSION	8
A. Fiscal Policy	8
B. Monetary and Exchange Rate Policy	11
C. Financial Sector Policies	12
MODALITIES OF IMF SUPPORT UNDER THE RCF/RFI	13
STAFF APPRAISAL	14
FIGURES	
1. Health Sector	16
2. Macroeconomic Developments	17
3. Macrofinancial Impact of COVID-19	18
4. Macro-Fiscal and Monetary Developments	19
TABLES	
1. Selected Economic Indicators, 2016/17–2020/21	20
2. Summary Operations of the Nonfinancial Public Sector, 2015/16–2020/21 (Consolidated account, in billions of kyats)	21
3. Summary Operations of Nonfinancial Public Sector, 2015/16–2020/21 (Consolidated account, in percent of GDP)	22
4. Balance of Payments, 2016/17–2023/24	23



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](#)).

- *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 up to end-September 2020, 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.

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

	2016/17	2017/18	2018/19	2019/20	2020/21
	Est.	Est.	Proj.	Proj.	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	1,360.0	1,560.0	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 5. Myanmar: Monetary Survey, 2016/17–2023/24 1/ 2/

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

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	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)	27.6	21.1	16.1	14.9	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 liabilities are valued at the reference rate (before: at official exchange rate).

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

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	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	1,360	1,560	1,533	...	...	...	...	...	...
Parallel rate	1,350	1,563	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	...	...	...	...	...	...
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 classification.

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

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

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 to 150 units free per month for month of April and May and up to 75 units free for June; 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