EXECUTIVE BOARD MEETING

EBS/20/195
Correction 1

January 7, 2021

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/20/195 (12/21/20) have been provided by the staff:
Evident Ambiguity	**Page 5**
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 6 and 31**
Typographical Errors	**Page 11**
Questions:	Mr. Peiris, APD (ext. 34761) Mr. Deb, APD (ext. 39577)

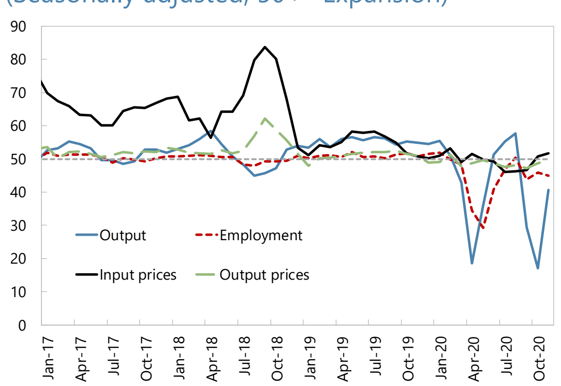
elections were not held due to security reasons resulted in disenfranchisement of certain groups. This, along with long-standing ethnic tensions and regional disparities, may necessitate a decisive and more inclusive policy response. As a fragile state facing internal conflict and continued international scrutiny over the ongoing humanitarian crisis in Rakhine State, execution of the needed policy agenda will be challenged by capacity and governance weaknesses.

IMPACT OF THE PANDEMIC AND OUTLOOK

A. Impact of the COVID-19 Outbreak and Response

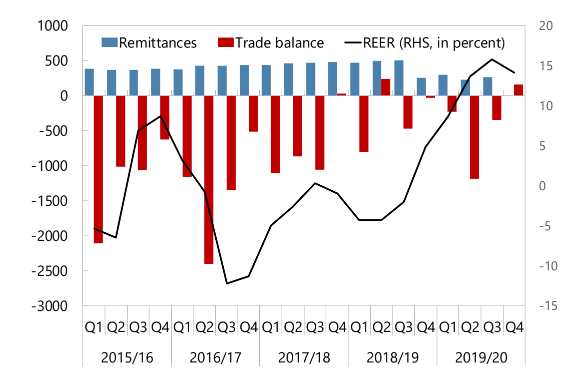
4. **The impact of the first COVID-19 outbreak was less severe than expected**. With the first wave of infections quickly contained, GDP growth in the first three quarters of FY2019/20 was stronger than expected. Preliminary estimates suggest that Q4 growth weakened bearing the impact of the September's second wave (Text chart 3). Overall, growth is projected at 3.2 percent for the year (relative to 1.4 percent at the first RCF/RFI request), a sharp decline from 6.8 percent in FY2018/19. Inflation continued to fall to 2 percent y/y in September on lower food and fuel prices. The current account deficit was lower than expected at 3.5 percent of GDP as gas exports and remittances held up better than expected. The REER has also continued to appreciate (10.4 percent ~~year~~ y/y to ~~date~~August), reflecting a contained trade balance and higher remittances. Remittances transferred through the banking system partly reflect a switch to formal channels due to reduced transfer costs as well as temporary factors (Text chart 4). The stronger than expected current account, the RCF/RFI disbursement, and the asymmetric FX intervention strategy helped raise gross international reserves to US$6.7 billion (4.7 months of imports) as of September 2020. However, reserves remained below the US$6.84 billion (5 months of imports) projected in IMF Country Report 20/215, as approved disbursements from ADB, JICA and the World Bank are now expected in FY2020/21.

Text Figure 3. Myanmar: PMI
(Seasonally adjusted, 50+=Expansion)



Sources: IHS Markit; and Haver Analytics.

Text Figure 4. Myanmar: Remittances, trade balance and kyat appreciation
(In millions of U.S. dollars)



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

5. **Credit growth is slowing while deposits have held up**. The extended phase-in period for compliance with prudential regulations to August 2023 and the temporary reduction in the reserve requirement ratio has eased pressure on banks. All banks unwound their reliance on the discount

window, which they tapped in response to tightened liquidity conditions during March-April 2021. Nevertheless, with the weak economy, private sector credit growth continues to slow, reaching 12.2 percent y/y as of end-July 2020 from 16.1 percent in September 2019 driven by a deceleration in construction and agriculture. Deposit growth has remained robust at about 19 percent as of end-August. Broad money growth has remained ~~below~~ in line with the 15 percent target ~~(15 vs. 20 percent targeted)~~ reflecting slowing private sector credit, while reserve money growth has been stronger than anticipated (16.2 vs. 9 percent targeted) driven by demand for cash.

6. The fiscal deficit for FY2019/20 was likely lower than expected and monetary financing was curtailed below target. Tax revenues held up better than anticipated, especially in the last quarter, despite the weak economic environment and relief measures. Gas revenues were also stronger than expected while spending underperformed due mainly to capital budget execution delays. As a result, the fiscal deficit is estimated to be about 1 percent of GDP lower than projected in the last RCF/RFI request. A supplementary budget introduced spending re-allocation to establish a COVID-19 Contingency Fund. As planned, the RCF/RFI first disbursement helped finance COVID-19 related expenditures (Text table 2). With the RCF/RFI disbursement and increased domestic bank financing, and notwithstanding lower external financing, preliminary estimates suggest that financing by the Central Bank of Myanmar (CBM) of the deficit was limited at about MMK 700 billion (3.6 percent of previous year's reserve money), below the MMK 1.3 trillion ceiling. In anticipation of the pickup in spending at the end of the fiscal year, the Treasury was successfully able to issue T-bills to banks, avoiding the spike in monetary financing that occurred in late FY2018/19. The estimated savings from the DSSI in FY2019/20 were lower than expected (US$114 million vs. US$322 million estimated), reflecting ongoing negotiations with creditors.[2]

7. As the economy faces the second wave, the authorities have announced the Myanmar Economic Resilience and Reform Plan (MERRP). The still evolving plan extends the CERP's main elements while adding broader policy priorities to complement the Myanmar Sustainable Development Plan (MSDP). Macrofinancial policies to secure stability and aid the recovery including further monetary easing if conditions require, advancing tax reforms, and leveraging mobile financial services and digital payments to facilitate the scaling up of cash transfers. Other measures undertaken include the extension of electricity tariff exemptions for households and continued tax deferrals for small businesses and vulnerable sectors.

B. Outlook and Risks

8. The latest outbreak will weigh heavily on FY2020/21 growth. The baseline assumes that, consistent with the experience of other similar Asian economies, the second wave is contained, and restrictions gradually eased, with a recovery in economic activity beginning by the end of 2020. However, given the importance of the first quarter in growth contributions and consistent with cross country models of the impact of lockdowns calibrated for Myanmar, growth is expected to fall to

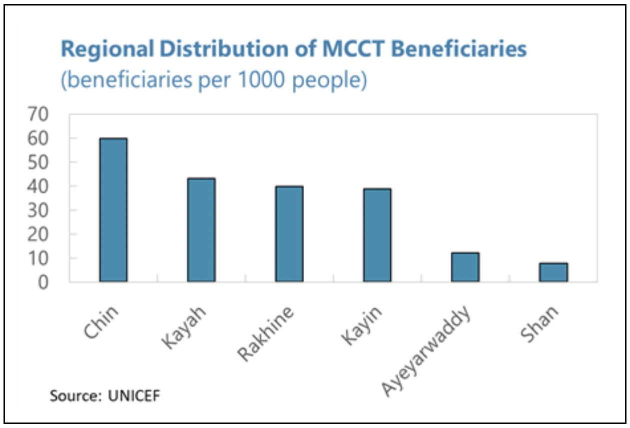
[2] The authorities continue to negotiate and sign bilateral debt suspension agreements with various Paris Club creditors. As of October, Germany has signed an agreement while Austria, Finland, France, Japan, Korea, Netherlands and the UK are in various stages of negotiations. The authorities are also in discussions with China and India. Debt suspension in FY2020/21 covers eligible debt service due from October 2020 to June 2021 and assumes comparability of treatment among creditors.

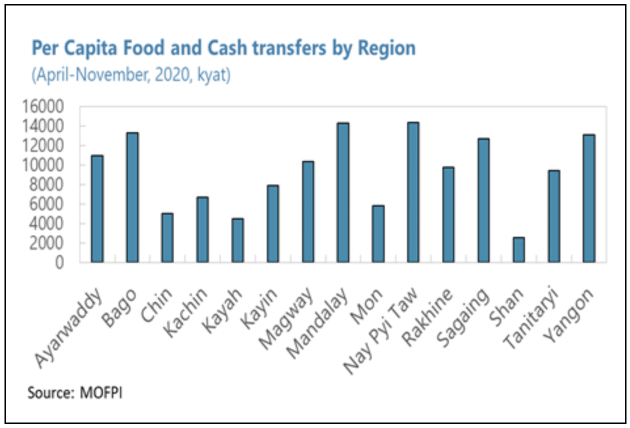
Box 1. Cash and In-Kind Transfers in Response to COVID-19 Crisis

To ease the impact of COVID-19, CERP envisages cash and in-kind transfers to the most vulnerable and affected households including internally displaced persons (IDPs). The authorities' capacity to reach targeted households is constrained: formal social safety nets are limited, a comprehensive database of potential beneficiaries in the informal sector is lacking, target households are geographically dispersed, a large share of households do not have access to bank accounts, and the government has limited experience in large scale cash transfers.

Against this background, the authorities aimed to first to provide immediate in-kind transfers to the most vulnerable households and then provide cash transfers through mobile financial services with as wide a coverage as possible in small amounts, in line with international best practice. To screen for eligibility, the General Administration Department (GAD) conducted questionnaire-based means-tests to assess household vulnerabilities based on socioeconomic status. For eligible households, cash transfers were implemented through electronic payment system (mobile app), where beneficiaries could collect payments at nearby agents, as well as direct cash payments.

Since April, the government has spent over 400 billion kyat (⅓ percent of GDP) in transfers, reaching 5.6 million households, about half of total households in Myanmar. The programs have reached all regions —experience of the Maternity and Child Cash Transfer (MCCT) program indicates the capacity to reach the conflict regions such as Chin, Rakhine and Shan states, as well as the population affected the most by COVID-19 infections and restrictions (such as in the Yangon area). An independent survey by the International Food Policy Research Institute indicates that poverty has risen sharply due to COVID-19, and that cash and food transfers have reached both the rural areas and poor households, albeit with limited progressivity.





- In Myanmar New Year holidays lockdown period (April 10-20), in-kind assistance of five basic foods (rice, edible oil, salt, onion and peas) worth 71.1 billion kyat was provided to 5.3 million households.
- During June-July 2020, GAD provided two cash transfers for households without regular income totaling 218.1 billion kyat of 20,000 kyat ($15) per household, reaching 5.4 million households, followed by another cash such transfer in September worth 113.5 billion kyat for 5.6 million households.
- The Ministry of Social Welfare, Relief and Resettlement provided cash assistance of 30,000 kyat ($20) each to pregnant women and children under age 2 at IDP camps in Kachin and Shan states, senior citizens aged 85 and above, and 457,000 pregnant women. The cash for works program started in June in some regions for small farmer families.

A new round of cash transfer has started in mid-November with an allocation of 164 billion kyat. These transfers have targeted those regions most affected by the second wave of the virus spread. Going forward, larger scale transfers would make a greater dent in mitigating poverty while a further expansion of ~~MCTT~~MCCT would reach the most vulnerable. The eligibility criteria for such programs should be further refined with the support of development partners such as ADB and the World Bank to better target the poor only and reach all regions of the country including conflict areas.

Appendix I. Letter of Intent

December 18, 2020

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

Dear Ms. Georgieva,

We would like to thank the IMF for their swift disbursement of our request for emergency financing under the Rapid Credit Facility/Rapid Financing Instrument (RCF/RFI) in June 2020. This disbursement has been critical in allowing us to respond to the pandemic in FY2019/20. Under our COVID-19 Economic Relief Plan (CERP), we have undertaken several measures, such as a cash and in-kind transfers to vulnerable groups to most regions of the country including internally displaced camps, instituted tax payment deferrals and moratoriums on utility payments for households, and provided soft loans for MSMEs and affected sectors as outlined in the Letter of Intent (LOI), dated June 12, 2020. The Central Bank of Myanmar (CBM) has maintained its measures to ease financial conditions to support the economy as outlined in our previous LOI. The RCF/RFI has also catalyzed additional financing from other external donors including the Asian Development Bank, the World Bank, and Japan.

However, Myanmar is currently experiencing a second, more intense wave of COVID-19 infections with large impacts on human health and the economy. We have undertaken strict containment measures to curb the spread of the virus, which will hit hard processing and manufacturing sector and services sector including cut-make-pack (CMP), domestic tourism, transportation, and trading in perishable goods. On the external side, global demand remains weak and uncertain, and tourism has come to a standstill. This economic shock will exacerbate the heavy burden already being borne by lower income households, vulnerable groups and small businesses, risking even wider layoffs and business closures, while our limited healthcare system is being stretched.

As mentioned in our LOI, we had expected a balance of payments (BOP) and fiscal financing gap in FY2020/21, particularly if the outbreak intensifies. Unfortunately, domestic and global conditions have worsened since June, there remains considerable uncertainty around the length of the pandemic, and the road to our domestic economic recovery seems to be longer. We need to continue implementing the CERP, and its follow up plan, the Myanmar Economic Resilience and ~~Recovery~~ Reform Plan (MERRP) to respond to immediate needs through the next fiscal year FY2020/21 and beyond. Further financing to strengthen our external buffers will be critical to maintaining macrofinancial stability. Accordingly, we expect a BOP financing gap of US$1 billion in FY2020/21.

We also expect a further deterioration in our fiscal position in 2020/21. We expect revenues to remain weak due to adverse economic conditions, while our expenditures will rise to support our policies to mitigate the impact of the virus on the most vulnerable groups and building up our