EXECUTIVE BOARD MEETING

EBS/20/195
Correction 2

January 22, 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**

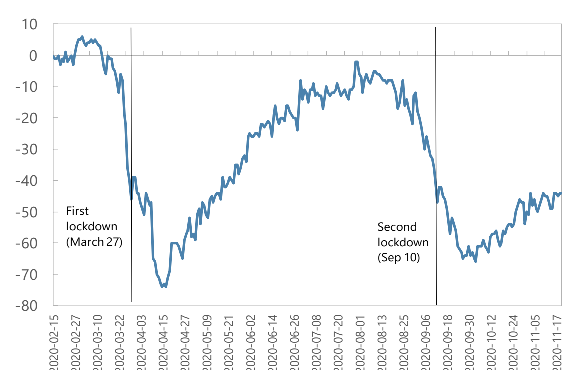
Board Action:	The attached corrections to EBS/20/195 (12/21/20) have been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Pages 4 and 8**
Questions:	Mr. Peiris, APD (ext. 34761) Mr. Deb, APD (ext. 39577) Mr. Rawat, APD (ext. 36589)

CONTEXT

1. **In response to the COVID-19 outbreak in March/April, the IMF Board approved Myanmar's RCF/RFI request on June 26, 2020 to meet urgent external and fiscal financing needs** (IMF Country Report 20/215). The first wave of infections in March prompted strict containment measures that were gradually relaxed as the spread of the virus abated (Text chart 1). Nevertheless, the resulting growth slowdown and policy response in FY2019/20 generated external and fiscal financing needs.[1] The RCF/RFI disbursement of 50 percent of quota (SDR 258.4 million) helped meet the financing gap while limiting excessive monetary financing, mobilized health and social spending, catalyzed external financing (including from ADB and Japan), and allowed Myanmar to avail of the DSSI.

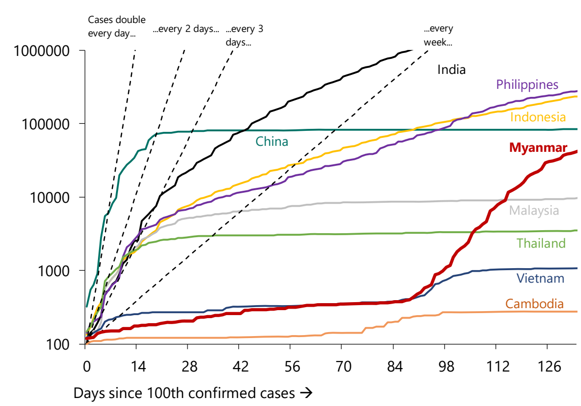
2. **Myanmar is now facing a more intense second wave**. As of December 2, Myanmar had reported 92,189 cases and 1,972 fatalities, as the caseload rose over tenfold since end-August (Text chart 2). The outbreak was concentrated in the commercial center Yangon, but has spread to other areas, stretching the limited testing and health system capacity (Figure 1). Containment measures included restrictions on factories (impacting the export-dependent garment sector) and intra- and inter-city movement, though some domestic mobility restrictions were eased prior to the November 8 elections (Text chart 1); restrictions on international flights continue to be in place (Figure 2).

Text Figure 1. Myanmar: Retail and Recreation Mobility
(Percentage change relative to baseline)



Sources: Google COVID Community Reports

Text Figure 2. Myanmar: Cumulative Confirmed Cases, Selected Asia
(Log scale)



Sources: Johns Hopkins University; and IMF staff calculations.
Note: As of 12/01/2020.

3. **The governing National League for Democracy (NLD) comfortably won the November general elections and policy continuity is expected**. A new ~~Cabinet and Parliament~~ Parliament and Cabinet are to be sworn in by March and April 2021, respectively, with limited changes expected to key positions. However, the growing impact of COVID-19 and continued discontent of ethnic groups in parts of the country where

[1] The 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.

a fiscal financing gap of 1.1 percent of GDP (US$1 billion). IMF financing, together with additional external support and the DSSI, would mitigate the risk of excessive monetary financing and finance needed social spending to respond to the second wave of infections.

12. Risks to debt sustainability remain contained. Despite the expected increase in the current account and budget deficits and additional borrowing, external and public debt should remain robust to shocks and the overall risk of debt distress low. In present value terms, the external debt to GDP ratio is expected to decline from 11.3 percent in FY2019/20 to 9.3 percent by FY2029/30, while the public debt to GDP ratio should stabilize after peaking in 2026, starting at 36.1 percent in FY2019/20 and ending at 35.3 percent in FY2029/30 (see DSA for more detail).

Text Table 1. Projected Financing Gap in FY2020/21

(In percent of GDP, unless otherwise indicated)

Balance of Payments	RCF/RFI	Current Projection	Change	Fiscal Accounts	RCF/RFI	Current Projection	Change
Current Account	-4.2	-4.4	-0.1	Revenues	14.7	15.1	0.4
				o/w COVID-19 response	-0.1	-0.3	-0.2
Financial inflows	-4.4	-4.8	-0.4	Recurrent expenditure	14.1	14.7	0.6
FDI	-2.9	-2.8	0.2	o/w COVID-19 response	0.9	1.3	0.5
Portfolio investment, net	0.0	0.0	0.0	Net Acquisition of nonfinancial assets	6.3	6.3	0.0
Other investment, net[1/]	-1.5	-2.0	-0.5	Overall balance (net lending/borrowing)	-5.8	-6.0	-0.2
BOP financing gap	0.2	0.4	0.2	Pre-covid financing	4.8	4.9	0.1
Change in reserves (- accumulation)	-1.2	-1.6	-0.4	Net acquisition of financial assets	0.1	0.1	0.0
				Net incurrence of liabilities	4.9	5.0	0.1
				Foreign borrowing	0.9	1.5	0.6
				Domestic borrowing	4.0	3.5	-0.5
Residual BOP financing gap	1.0	1.1	0.1	Residual fiscal financing gap	1.0	1.1	0.1
Identified financing	0.5	0.9	0.4	Identified financing	0.5	0.9	0.4
IMF	0.0	0.4	0.4	IMF	0.0	0.4	0.4
DSSI	0.1	0.4	0.3	DSSI	0.1	0.4	0.3
Other	0.4	0.0	-0.4	Other	0.4	0.0	-0.4
Unidentified financing	0.5	0.3	-0.2	Unidentified financing	0.5	0.3	-0.2

1/ Includes ADB, JICA, and World Bank loans (0.7 percent of GDP) approved in FY19/20 but to be disbursed in FY20/21.

13. The prolonged outbreak will further raise credit risks and recapitalization needs in the banking sector. The forbearance period on compliance with prudential regulations is too long and will ultimately raise recapitalization costs unless critical banking sector reforms are brought forward and sequenced appropriately depending on how the pandemic evolves. A healthy and well capitalized banking system is a pre-requisite to minimize scarring from the pandemic and support a sustained recovery over the medium term.

14. Risks remain tilted heavily to the downside (Annex 1). Prolonged prevalence of the virus that requires more frequent or severe lockdowns would bring the economic recovery to a standstill, raising economic and human costs and risks of social pressures. In such an adverse scenario, assuming lockdowns need to be maintained until March 2021, growth could fall by an additional 3½ percentage points in FY2020/21 (Text chart 5). Although the near-term growth impact is driven