September 19, 2022
Approval: 9/26/22

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/23-2

2:30 p.m., February 28, 2020

2. Myanmar—2019 Article IV Consultation

Documents: SM/20/42, and Cor. 1, and Cor. 2, and Cor. 3, and Sup. 1, and Sup. 2, and Sup. 2, Cor. 1

Staff: Peiris, APD; Wiegand, SPR

Length: 28 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	J. Essuvi (AE), Temporary
	E. Boukpessi (AF), Temporary
	J. Corvalan (AG), Temporary
	G. Khurelbaatar (AP), Temporary
	P. Fachada (BR)
	P. Sun (CC)
	A. Arevalo Arroyo (CE), Temporary
	P. Mooney (CO), Temporary
	S. Benk (EC)
	A. Sode (FF), Temporary
	K. Merk (GR)
	P. Dhillon (IN), Temporary
	L. Cerami (IT), Temporary
T. Tanaka (JA)	
	M. El Qorchi (MD)
	P. Al-Riffai (MI), Temporary
	Z. Zedginidze (NE), Temporary
	M. Bernatavicius (NO), Temporary
	S. Potapov (RU), Temporary
	W. Al Hafedh (SA), Temporary
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
	A. Clark (UK), Temporary
	R. Farber (US), Temporary

H. Al-Atrash, Acting Secretary
S. Kalra, Summing Up Officer
B. Zhao, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: R. Craig, T. Dao, J. De, K. Kang, S. Nadeem, S. Peiris, C. Rhee. Fiscal Affairs Department: Y. Xiao. Institute for Capacity Development: A. Bordon, N. Feerick. Legal Department: I. Luca. Monetary and Capital Markets Department: S. Iorgova. Strategy, Policy, and Review Department: J. Wiegand. Statistics Department: Y. Alemzadeh, S. Medina Cas. World Bank Group: D. Mishra, C. Pittalis. Alternate

Executive Director: K. Chikada (JA). Senior Advisors to Executive Directors: B. Lischinsky (AG), Z. Mahyuddin (ST). Advisors to Executive Directors: S. Belhaj (MD), K. Carvalho da Silveira (AF), H. Koh (GR), K. Kuretani (JA), A. Muradov (SZ), D. Susiandri (ST), A. Zaborovskiy (EC).

2. MYANMAR—2019 ARTICLE IV CONSULTATION

Ms. Mahasandana and Mr. Srisongkram submitted the following statement:

On behalf of the Myanmar authorities, we would like to thank the IMF Article IV mission team for the constructive and candid discussions centered on the priority actions to tackle imminent risks in the financial sector and to strengthen policy frameworks towards more sustainable growth. The authorities are fully committed to advance the comprehensive reform agenda under the Myanmar Sustainable Development Plan (MSDP) and are well-aware of the important challenges ahead. They are grateful for the Fund's partnership and continued support, including through extensive technical assistance which have proven highly valuable to their efforts. The authorities broadly concur with the staff's appraisal and policy recommendations, which they will duly take into consideration as they continue to advance the reform agenda.

Recent Economic Developments and Outlook

Myanmar is expected to record GDP growth of 6.8 percent in FY2018/19. This is mainly driven by a rebound in the agricultural sector from the floods in 2018 which would partly offset the slowdown in domestic demand. Headline inflation spiked in the second half of 2019 largely due to supply-side factors namely the one-off hike in electricity tariffs that took effect on July 1, 2019 and increase in food prices from poor harvest. For FY2019/2020, the authorities project a GDP growth of 7.0 percent supported by higher government spending and private investment, as well as continued strength in the manufacturing including MSMEs (Micro, small, and medium-sized enterprises) and garments, and the tourism sectors. The current account (CA) deficit is expected to widen to 2.0 percent of GDP arising from the pickup in investments following the resumption of FDI inflows and increased government spending ahead of the elections. Meanwhile, headline inflation is expected to average 8.8 percent.

The authorities agree with staff's assessment of the key challenges facing the Myanmar economy and the need to step up structural reform implementation. While external headwinds remain at large, domestic risks warrant close attention. Authorities are vigilant of the risks in the banking sector and are committed to follow through with the ongoing financial sector reforms and strengthen the supervisory framework to avoid negative spillovers to the broader economy. Steadfast implementation of reforms to strengthen domestic institutions and lay down necessary infrastructure are critical to underpin macroeconomic stability, foster sound business climate, and capitalize on the country's endowment to improve longer-term prospects.

Fiscal policy

Fiscal policy is expected to remain expansionary to support growth amidst waning domestic demand. Fiscal deficit was 3.5 percent of GDP in FY2018/19. This provided a modest stimulus as intended but were slightly smaller than the budget estimate of 4.5 percent and revised estimate of 5 percent in FY2018/19 with lower-than-expected capital expenditure due to constraints in spending execution. The FY2019/20 budget envisions a higher fiscal deficit of 5.6 percent of GDP, where higher revenues from the recent electricity tariff hike and new tax amnesty measures would accommodate increased spending on infrastructure investment and social pending.

The authorities remain committed to phase out CBM financing. CBM financing was largely non-existent during the six months transition period (April-September 2018) as borrowing through government bonds and bills were sufficient to finance the interim budget. In FY2018/19, CBM financing accounts for approximately 21 percent of domestic financing, and is below the statutory limit of MMK 1 trillion. The authorities see merit in staff's recommendation to target CBM financing as a share of reserve money so as to have a more direct handle on inflation but noted that the proposed target of 1 percent of reserve money may restrain needed spending. Nevertheless, they concur that CBM financing should be reduced further and agreed on the need to strengthen liquidity forecasting capabilities and cash management for more effective and better-planned treasury issuance to lessen reliance on CBM financing going forward.

The authorities will continue to work with the Fund and other development partners to advance ongoing fiscal reforms to build up fiscal buffer and ensure longer-term fiscal sustainability. The new Income Tax Law (ITL) will introduce a new rate structure and rationalize tax incentives for corporates, under the goal of strengthening the tax base with minimal impact on the broader population. The draft new ITL has completed the public consultation stage and is being submitted to the Union Attorney General's Office for their legal opinions. The authorities plan to table the draft new ITL to the Cabinet in June-July 2020 before it is proposed to the Parliament for approval. The ITL will complement progress made so far to improve tax administration by the Internal Revenue Department (IRD)'s tax administration capacity, including the new Tax Administration Law and upgraded computer systems.

On the expenditure side, the second phase of PFM reforms is underway and focuses on enhancing governance of State Economic Enterprises (SEE). The "Project Bank" has recently been operationalized. The Project Bank is a database of projects created to strengthen implementation of infrastructure investments by providing government agencies with better visibility and facilitating selection of projects and financing options. The PPP center has also been setup as a centralized body that would provide technical support for the PPP units of line ministries, conduct value-for-money assessments, and proposing PPP projects to the PPP Committee. Nevertheless, it is still early days for both the Project Bank and the PPP center. To effectively perform their intended functions, the former will require greater awareness and training for the users, while the latter needs to address its lack of personnel and continue working with the World Bank to build capacity.

Monetary and exchange rate policies

CBM will maintain a tight monetary policy stance with a focus on managing excess liquidity and ensuring external stability in order to anchor inflation expectations. CBM's current priority is improving its monetary policy operations by introducing an interest rate corridor to better guide short-term interest rates and improve monetary policy effectiveness. They are contemplating the introduction of interest on excess reserves (IOER), noting the importance of having a safeguard in place given significantly large excess reserves of some state-owned banks. CBM recognize the drawbacks of existing limits on deposit and lending rates and agree with the need to work on the appropriate policy to gradually liberalize interest rates. That said, an adjustment to the minimum deposit rates and maximum lending rates must consider the potential impact on well-being of depositors and be communicated with care.

On exchange rates, the asymmetric intervention strategy and rule-based one-way FX auction implemented since November 2019 has been an effective tool in smoothing exchange rate movements and accumulating reserves. This helped curb exchange rate volatility amidst recent appreciation pressure and build up international reserves which now covers 3.5 months of imports. The spread between the reference and informal market rates narrowed, and interbank FX transactions have increased markedly, paving way towards a deeper and more liquid FX market. The CBM is committed to the established FX auction rules and plans to increase transparency of the rules as the FX market becomes more developed.

Financial sector

The CBM is working closely with the banking sector to ensure that they are on track to meeting CBM prudential regulations (2017) by the August 2020 deadline. To date, most of the domestic banks have met the CAR requirements. The CBM will continue to oversee the recapitalization process closely. Actions taken by banks include cash contributions, fixed asset revaluation, reduction on related party loans, subordinated debt issuance, and temporary suspension of dividend payments. Efforts to convert overdraft loans to term loans is also progressing as planned. The share of overdraft loans has been declining and was within the 30 percent target for 2019. Most banks are on-track towards meeting the 20 percent target for 2020. The authorities currently do not plan to reduce the target further at least in the near term, viewing that the 20 percent cap would provide the needed flexibility given that overdrafts are used for working capital purposes. NPLs started to come down from recent efforts to step up debt collection through a debt-property swap arrangement. As most collateral from such arrangement are land and building, the authorities are cognizant of the risks associated with banks' increased exposure to the property market and will consider staff's recommendation on how to address such exposures.

Despite recent progress in the banking sector reforms, risks to Myanmar's financial stability remains. The authorities will continue to be vigilant and monitor risk developments closely and concur that further efforts are needed to effectively address the growing vulnerabilities. They broadly agree with the key priorities outlined in paragraph 17 of the Staff Report and will continue to work closely with the team in developing the necessary safeguards and contingency plans.

Structural reforms

The various policy and reforms underway across the different sectors will contribute to an improved investment climate, which is critical to realizing the MSDP's goal of more inclusive and private sector led growth.

The authorities are making headway in their efforts to fight corruption. The fourth amendment to the Anti-Corruption Law (2018) tightened anti-corruption rules and created greater public trust. As a result, the number of complaints filed, investigations and prosecutions, and disciplinary actions (e.g. suspension of pay increase, demotions, etc.) have also increased significantly in the past 3 years. The progress made on this front will be supplemented by the new anti-corruption rules. In 2019, Corruption Prevention Units have been established in the different ministries to detect and resolve corruption issues.

The authorities agree with staff on the need to address deficiencies in the AML/CFT framework highlighted in the peer-review by the Asia Pacific Group (APG). The authorities have made a number of progress in addressing recommendations from the Mutual Evaluation Report in October 2018. These include (1) the completion and publication of the first National Risk Assessment Report as well as AML/CFT National Strategy;(2) the President Office order requiring all reporting organizations to comply with provisions related to CDD, EDD, BO, PEP related matters; (3) CBM's revised Customer Due Diligence Directive for banks and non-banks financial institutions to conduct customer due diligences measures and ML/TF risk management; (4) the new remittance business regulation to formalize informal money/valuetransfer services such as “hundi”; and (5) conducting on-site and off-site AML/CFT supervision on large- and medium-sized banks. As a result, the APG’s First Follow-up Report (2019) upgraded two recommendations from partially compliant and compliance to largely compliant, and one recommendation from non-compliant to largely compliant. To date, 6 and 12 recommendations are rated compliant and largely compliant, respectively.

The new AML/CFT law is in the works and will the strengthen role of the Myanmar Financial Intelligence Unit (FIU) in investigating and prosecuting money laundering cases. The draft bill is being prepared for submission to the Parliament soon.

Conclusion

The Myanmar authorities remain fully committed to preserving macroeconomic and financial stability and promoting sustainable and inclusive growth. Given the nascent stage of improving the policy framework and institutions and limited capacity, assistance from development partners are essential to realize the reform objectives while also sustaining the growth momentum in a more challenging global economic environment. The authorities would like to reiterate their sincere gratitude to the Fund, the World Bank, the Asian Development Bank, and bilateral partners for their continuing support as the country moves forward with the reform agenda.

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

We thank staff for the report and Ms. Mahasandana and Mr. Srisongkram for their informative statement. Although Myanmar’s long-term prospects remain favorable, the short-term outlook has been dampened by weaknesses in the banking system, a slowdown in neighboring China and limited progress in addressing the humanitarian crisis in Rakhine state. Against this background, we encourage the authorities to continue to implement prudent macroeconomic policies, safeguard financial stability and strengthen governance and transparency.

Strengthening financial sector regulations and supervision in line with international standards is necessary to preserve financial stability. We take note that the soundness of the banking system remains delicate with relatively low capital positions, high NPLs, inadequate provisioning and large exposures to the real estate sector. We concur with staff that banks should speed up the adjustment of their balance sheets by restructuring viable loans and engage in recapitalization exercises, where necessary. There is merit in adopting a comprehensive financial sector restructuring strategy and a contingency plan that can help maintain confidence in the banking system. Moreover, improved monitoring and enforcement of the regulatory framework to ensure banks’ compliance would help safeguard financial stability.

The monetary policy stance is appropriate and should continue to focus on reducing inflation. We agree with staff that the transition to a market-determined reference exchange rate and the adoption of a transparent FX intervention rule provides the basis to modernize the monetary policy framework. However, we take note of the recent spike in monetary financing of the budget and encourage the authorities to remain committed to phasing out fiscal dominance over the central bank.

Prudent fiscal policy is required to generate fiscal space to attain the Sustainable Development Goals (SDGs). Setting a sustainable path to meet SDGs-related spending requires strengthening domestic revenue mobilization including by modernizing the tax system and improving public financial management. We welcome the progress made in enhancing governance in state economic enterprises (SEEs) and urge the authorities to continue to take the necessary steps to improve their financial performance and efficiency. Further, like staff, we believe that a framework for managing public investment, including public-private partnerships (PPPs) should be established to monitor and control the associated risks. Could staff inform if the Fund has conducted or is considering a Public Investment Management Assessment (PIMA) in Myanmar? In this regard, we support Fund's Capacity Development in the fiscal area, including the call for technical assistance on the estimation and reporting of contingent liabilities, as this can have implications to Myanmar's public debt sustainability.

Strengthening governance and transparency would help improve the business environment and support growth. Addressing the AML/CFT weaknesses identified by the Asia/Pacific Group on Money Laundering is critically important to avoid a potential adverse listing. Improving fiscal transparency and governance, as well as strengthening anti-corruption efforts are steps in the right direction.

We remain concerned by the situation in Myanmar's Rakhine State. We take note that prospects for progress in addressing the refugee crisis has been stymied and tensions remain elevated. This prolonged crisis continues to pose significant risks to Myanmar's outlook with adverse impacts on foreign investment and donor financing. Accordingly, we urge the authorities to resolutely address this longstanding issue, which is essential to safeguard macroeconomic and financial stability.

Mr. Psalidopoulos and Ms. Cerami submitted the following statement:

We thank staff for a clear report and Ms. Mahasandana and Mr. Srisongkram for their candid Buff. Myanmar's long-term economic prospects remain favorable, but more efforts are needed to overcome structural weaknesses and achieve higher and more inclusive growth. To this end, we encourage the authorities to take advantage of the extensive technical assistance provided by the Fund and other development partners. We broadly concur with the thrust of the staff's appraisal and offer the following remarks for emphasis.

Weak prospects for resolving the refugee crisis in Rakhine State are a cause for concern. Slow progress in resolving the humanitarian crisis is weighing on FDI and external financing, that are vital for the implementation of the Myanmar Sustainable Development Plan. The standstill also raises the risk of broader economic sanctions, including the potential loss of trade preferences, as highlighted in the Risk Assessment Matrix (RAM). Delivering on the 2018 Memorandum of Understanding with the UN, improving security in border areas, as well as addressing governance and corruption weaknesses are paramount to attract funding for the large development needs.

Further efforts are urgently needed to address vulnerabilities in the banking sector. Banks have made progress converting overdraft into term loans; however, the re-underwriting has led to a rise in NPLs, which, coupled with inadequate provisions and large exposures, is likely to have significantly increased banks' recapitalization needs. These weaknesses pose risks to financial stability and to fiscal sustainability, through related contingent liabilities, as highlighted in the Debt Sustainability Analysis (DSA). We agree with staff on the urgent need of a comprehensive financial sector reform, including remedying the deficiencies in the AML/CFT framework identified by the FATF. We also support staff's plan for reprioritizing capacity development towards these goals, as detailed in Annex VII.

Building on the successful transition to a market-determined reference exchange rate mechanism, the monetary policy framework should be further strengthened. This would entail phasing out monetary financing of the budget as the highest priority. Furthermore, the authorities should specify the overall monetary policy objective and formulation, upgrade the implementation toolkit, and further liberalize interest rates to support monetary policy transmission. We welcome continued Fund capacity development in strengthening the monetary framework.

Fiscal policy should focus on reforming the tax system and improving public financial management. A comprehensive tax reform is needed to increase revenue and raise the resources for making progress towards the Sustainable Development Goals. Enhancing the governance of State Economics Enterprises and developing a robust framework for managing public investment, including public-private partnerships, are key to maximize the benefits from large projects and contain fiscal risks from contingent liabilities. We take positive note that Myanmar's risks of external and overall debt distress continue to be assessed as low. We appreciate the inclusion of the planned scaling up of infrastructure projects in the DSA and welcome the finding that under such scenario sustainability risks, although rising significantly, remain below the indicative thresholds. While we support staff's recommendation to increase fiscal and external buffers against natural disasters, we highlight that closing Myanmar's large infrastructure gaps provides a unique opportunity for strengthening resilience to natural disasters and climate change by prioritizing low-emission infrastructure.

Mr. Benk and Mr. Zaborovskiy submitted the following statement:

We thank staff for the well-written papers, and Ms. Mahasandana and Mr. Srisongkram for their helpful Buff statement. Structural vulnerabilities, systemic risks in the banking sector, as well as the lingering consequences of the Rohingya crisis hinder the economic growth in Myanmar. Risks to the economic outlook are tilted towards the downside, with the economy running below its potential. We concur with the thrust of the staff appraisal and encourage the authorities to step up the much-needed economic reforms, while making important strides towards restoring international investors' confidence in their policies.

Budget discipline should be underpinned by structural fiscal reforms to enshrine developmental spending while preserving debt sustainability. We note that the budget deficit turned out to be worse than expected, with central bank financing filling the gap. This reflects a notable reversal of the declining trend of net deficit monetization observed over the last few years. We encourage the authorities to pursue prudent fiscal policies, strengthen the budget planning and execution, implement public financial management reforms, and continue with the domestic revenue mobilization. We note staff's assessment that Myanmar's risks of external debt and overall debt distress continue to be assessed as low. However, given the authorities' ambitious infrastructure plans, including public-private partnerships, as well as possible contingent liabilities, further efforts are needed to strengthen debt management capacity and improve the monitoring of fiscal commitments.

The budget deficit monetization should be discontinued while strengthening the overall monetary policy framework. We support staff's recommendations on upgrading the monetary policy framework and interest rate liberalization. To succeed in this endeavor, a strong coordination between monetary and fiscal policies is critical. Could staff comment on how the ceiling on monetary financing of the fiscal deficit is established and whether any institutional improvements are warranted to avoid risks to macroeconomic stability? We encourage the authorities to strengthen central bank independence and enhance financial transparency, adhering to the new FX intervention rule and supporting FX market development. We welcome the authorities' expressed interest in accepting the obligations under Article VIII and call on staff to actively work with the authorities on this matter.

Financial sector reforms are urgently needed to address systemic risks to financial stability. Myanmar's banking system is fragile, with high non-performing loan (NPL) levels. The recent correction in the real estate market further weighs on banks' financial health. We note the staff's conclusion that rising NPLs and undercapitalization in some private banks could precipitate system-wide distress with large macrofinancial spillovers. We urge the authorities to confront these risks by phasing out the remaining forbearance, proceeding with an independent Asset Quality Review, preparing distressed banks for restructuring, strengthening the supervisory oversight, and establishing an operational framework for emergency liquidity assistance and bank resolution. Could staff comment further on whether there is any progress in contingency planning should financial stability risks materialize? How does staff assess the authorities' capacity to confront risks in the adverse scenario?

Structural reforms should be reinvigorated to unleash Myanmar's growth potential. As staff pointed out, the scaling up of infrastructure and human capital spending, as well as the full implementation of the Myanmar Sustainable Development Plan, present an upside risk to the economic outlook. These efforts should be underpinned by a broader set of structural reforms, including measures to strengthen governance, reduce corruption vulnerabilities, increase transparency, and improve natural resource management. We also encourage the authorities to enact amendments to the AML/CFT laws and rules to address outstanding compliance deficiencies.

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

We thank staff for their comprehensive report and Ms. Mahasandana and Mr. Srisongkram for their helpful Buff statement. Despite favorable long-term prospects, the economic outlook in Myanmar remains below potential. Progress has stalled in addressing the refugee crisis in Rakhine state, while ongoing fragilities in the banking sector and subdued credit growth in the private sector present risks to the downside. We broadly concur with staff's assessment and offer the following remarks for emphasis.

We agree with staff that fiscal reforms are required to create fiscal space and that a medium-term revenue strategy should be adopted to meet spending needs in a sustainable way. We welcome the conclusion in the Debt Sustainability Analysis that the overall risk of debt distress is low. We acknowledge the progress made by the authorities in enhancing the governance of SEEs and agree with staff that a framework for managing public investment should be established to monitor and control the associated fiscal risks. We note staff's view that the main parameters of the pension reforms need to be carefully calibrated, and agree that these reforms should have a positive impact on the financial security of public sector retirees and the development of the domestic capital market.

We agree with staff that the development of a comprehensive financial sector reform strategy is urgently required to safeguard financial stability, and welcome the authorities' commitment to improving financial supervision and addressing systemic risks. We welcome staff's recommendation that an independent Asset Quality Review (AQR) of the top private banks should be prioritized in order for the authorities to make informed policy decisions on resolution options. In addition, the establishment of a dedicated restructuring group within the CBM should provide an operational framework for emergency liquidity assistance (ELA) and resolution. In terms of AML/CFT, implementation of the recommendations highlighted by the Asia Pacific Group (APG) should be prioritized, in addition to further relevant amendments to AML law in line with Fund TA.

We note that progress has been slow in terms of addressing deficiencies around governance and corruption, leading to Myanmar being placed on the FATF "gray list" this month. We agree with staff that more resources should be dedicated to strengthening the

anti-corruption framework, including further integration into the Myanmar Sustainable Development Plan (MSDP), and positively note the introduction of Corruption Prevention Units as outlined in the Buff statement. We welcome the analysis of capacity development as outlined in Annex VII. This illustrates the benefits of the integration of capacity development and surveillance. We agree with staff that further efforts to enhance the business environment, notably via more reliable power supply, contract enforcement, improved access to finance, and logistics are required. On the issue of gender, did staff do any analysis in relation to female labor force participation?

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

We thank staff for the comprehensive set of papers and Ms. Mahasandana and Mr. Srisongkram for the useful Buff statement. Facing weakened economic activity and risks further tilted to the downside, it is important for the authorities to continue to pursue prudent macroeconomic policies and maintain the reform momentum to meet development needs and achieve sustainable and inclusive growth. We broadly agree with the thrust of staff's appraisal and would like to confine our comments to the following.

To support sustainable development, it is necessary to create policy room for SDG-related investments and enhance spending efficiency. We are encouraged by the measures to enhance and modernize the tax system, including the procurement of the Integrated Tax Administration System and enactment of the Tax Administration Law, and look forward to the passage of the new Income Tax Law. On the expenditure side, continued strengthening of public financial management would be conducive to raising spending efficiency. Deficit financing by the Central Bank of Myanmar (CBM) should eventually be phased out, and we welcome the authorities' commitment to do so. Better coordination between the Treasury and CBM would contribute to efforts in this regard. Meanwhile, strong public investment management and planning are key to ensuring that investments, including large-scale infrastructure projects, can deliver their expected benefits. The establishment of the Project Bank and Public-Private Partnership (PPP) center is a welcome development that would help channel resources efficiently and mitigate fiscal risks.

We take positive note of the successful transition to the market-determined reference exchange rate mechanism. As staff pointed out, this appears to be an opportune time to take further steps to enhance the monetary policy framework, and we note that the CBM's plans to introduce an interest corridor. We believe further reforms should be implemented in a well-paced manner having due regard to the possible implications for markets and the broader economy. To this end, we take comfort from the Buff statement that the CBM is taking into account the potential impact on depositors and the need for careful communication when considering measures to liberalize interest rates.

Strong actions are needed to tackle vulnerabilities in the banking sector and mitigate financial stability risks. We welcome the CBM's vigilance and close engagement with banks to address the challenges faced, and continued constructive advice from staff would also be critical in this process. On the AML/CFT front, some progress has been made by the authorities in addressing the recommendations from the 2018 Mutual Evaluation Report. That said, additional steps are needed to further strengthen the AML/CFT framework, and the Fund plays a crucial role in supporting the authorities' capacity building.

Underpinned by favorable demographics and strategic location, Myanmar's long-term prospects remain positive. To fully reach potential and foster sustainable and inclusive development, it is important to press ahead with structural reforms to improve the business environment and enhance governance. Building on the important progress so far, we look forward to additional efforts to strengthen the anti-corruption framework.

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

Mr. Rashkovan and Mr. Zedginidze submitted the following statement:

We thank staff for the informative reports and Mr. Tan and Ms. Ong for their helpful Buff statement. We welcome the authorities' continued progress in the implementation of Myanmar's Sustainable Development Plan (SDP). However, security risks, governance and corruption challenges, and financial sector weaknesses remain. We agree with the staff assessment and would like to emphasize the following:

Fiscal reforms are key to foster sustainable growth. The recent decline in tax revenue relative to GDP shows a weakness in mobilizing revenue. We welcome the planned changes in tax and other laws to reduce corruption and strengthen tax collection. At the same time, continuing PFM and PPP reforms, improving cash management, and strengthening governance in SOEs will improve fiscal outcomes.

The authorities should prioritize lowering governance and corruption vulnerabilities. To attract FDI and tackle challenges that private sector development faces, the authorities should build public consensus and implement strong anti-corruption measures. We note that the implementation of the mutual evaluation report's recommendations on AML/CFT is delayed. Also, the implementation of IMF TA's recommendations on supervision fell through. Can staff explain the reasons behind the lagging progress on AML/CFT supervision and how do they assess the outlook?

Enhancing the financial sector regulation and monetary policy framework will reduce risks and improve efficiency. Adopting a market-based reference exchange rate and eliminating multiple currency practices are steps in the right direction. Moreover, we encourage the authorities to avoid monetary financing of the deficit, to liberalize interest rates and to strengthen the interbank market. On the financial sector policies, asset quality review - among other suggested measures- will lower spillover risks from the financial sector.

Making the best use of capacity building assistance should be high on the authorities' agenda. Development partners continued support via training and technical assistance is crucial for capacity building in Myanmar. However, we agree with staff that Myanmar's capacity development strategy should be updated reflecting the IMF objectives and the country's evolving needs while the authorities should step up efforts to implement the recommendations.

We wish the Myanmar people success in their endeavor.

Mr. Lischinsky and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the report and the selected issues paper on Myanmar and Ms. Mahasandana and Mr. Srisongkram for their comprehensive Buff statement.

Long-term prospects are positive as long as the medium-term challenges are tackled swiftly. Economic growth is robust at around 6 percent for 2020 and the coming years. The Myanmar Sustainable Development Plan (MSDP) proved to be successful and continued implementation efforts in this direction, added to the commitment to build institutional capacity, is paying-off. Socio-economic variables show improvements and the MSDP may lay the groundwork to promote a sustained and inclusive economic growth.

Revenue mobilization to finance the MSDP will be needed. Policy makers have a window of opportunity to secure domestic revenue through taxes and to improve its efficiency and equity. Annex V of the report makes a clear case of the gap between Myanmar and its peers on tax levels. It is striking to visualize the huge gap in the intake of potential revenues, when comparing regional and global averages of total tax and income tax revenues, as percent of GDP. The opportunity to establish a credible fiscal anchor at this juncture is important to boost credibility of the economic plan among domestic and foreign investors, as well as to finance the ambitious MSDP. By the same token, this policy action will help restrain the use of central bank financing of the fiscal deficit as the authorities had previously committed. Therefore, we encourage the authorities to move ahead with this agenda to improve personal income tax, corporate income tax, and restrain generous and distortionary tax incentives. The authorities' income tax law (ITL) draft, which is being considered, could raise revenues by 2-4 percent of GDP and, more importantly, will improve distribution over time. Staff's assessment of the ITL time frame for its implementation would be helpful.

We support the authorities' commitment to strengthen central bank policies and their willingness to minimize the monetization of the fiscal deficit. The successful adoption of a market-determined reference exchange rate made by the Central Bank of Myanmar in February 2019 is a positive step forward. This is relevant at the current juncture, given the still low reserve coverage of around 3.5 months of imports. More external buffers will be needed, given the fragility in the financial sector. These actions will allow the central bank to focus primarily on price stability and to strengthen the mechanisms and tools to deepen well-functioning market forces. The financial sector needs a quick fix.

There is an urgent need for policy action to restore financial sector stability and to strengthen its integrity. The financial sector was hit by real estate price corrections and the policy response of switching from overdraft into term loans is creating unintended consequences, like rising NPL's. These outcomes are stressing bank capital adequacy levels rapidly. We encourage the authorities to make progress on strengthening the AML/CFT framework to address identified weaknesses and, most of all, to set the regulation and supervision of the financial system following international best practices. We would appreciate staff's elaboration on potential fiscal costs arising from a disruption in the financial system.

Investing in physical and human capital could unlock the potential for inclusive economic growth. Acceleration on the policies' agenda, while preserving the hard-won macroeconomic stability, will send the right signals to domestic and foreign investors to support economic growth. We would appreciate a further elaboration from staff on the runup to the 2020 elections, possible expenditure increases, and the continuity of the MSDP.

With these comments, we wish the people of Myanmar success in their endeavors.

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

We thank staff for their well-written report and Ms. Mahasandana and Mr. Srisongkram for their informative Buff statement.

Myanmar's growth has subdued amidst weak demand, slow credit growth, a correction in real estate prices and declining investments. Downside risks to the growth outlook have intensified with the uncertainty on the prolonged humanitarian crisis in Rakhine state, banking system fragilities, global trade tensions and spillovers from a slowdown in China. Nonetheless, we are encouraged by the authorities' commitment to advance implementation of the Myanmar Sustainable Development Plan and a new wave of reforms to bolster confidence and thereby growth. We broadly concur with staff's assessment and recommendations and offer the following remarks for emphasis.

We agree with staff on Fiscal structural reforms for promoting SDG-related spending with the accompanying goals of revenue mobilization and vigilant budget planning. Staff has suggested that a framework for managing public investment including public-private partnerships should be established and we recognize that the project bank has been operationalized. This is would work well for upscaling infrastructure as well as investments in field of education and health. Could staff elaborate on the readiness levels including for debt management and the technical assistance being delivered in this area?

Monetary conditions should be kept tight and reliance on CBM financing should be phased out to manage inflation and reinforce confidence. Continued progress in strengthening monetary autonomy and modernizing the monetary framework is reassuring. We welcome the Central Banks current priority is improving its monetary policy operations by introducing an interest rate corridor to better guide short-term interest rates and improve monetary policy effectiveness. Beyond this, we would urge further refinements to FX auctions for facilitating reserve accumulation.

Systemic risks in the banking system need a strategic solution to enforce financial stability. We welcome the actions by the authorities for this and urge an enhanced focus on financial sector surveillance, especially for addressing the asset quality weakness on bank capital, large exposures, liquidity and overall financial stability. Cleanup of banks' balance sheets, rebuilding of capital cushions should be priorotised. Moving ahead, we join staff on the need to close governance gaps in the AML/CFT framework recommended by the Asia and Pacific Group. Here we recognize that capacity development remains vital to support the reforms and support the efforts of the Fund in this direction. However, we do note that staff has expressed concerns in the context of Technical Assistance from Fund on the failure to update and use most of the supervisory tools. We would like to hear in more detail staff experience on the capacity building in the area of AML/ CFT and the proposed roadmap? Separately, is an independent asset quality review of banks being planned?

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

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

We thank staff for the informative set of reports and Ms. Mahasandana and Mr. Srisongkram for their helpful Buff statement. Further efforts will be needed to complete Myanmar's transition to a market-based economy. This will include improving the quality of institutions and strengthening the financial sector. There is an urgent need to close SDG-related spending gaps through higher domestic revenue mobilization. We generally concur with the staff appraisal and would like to provide a few additional points for emphasis.

Public spending on education and health lags peers in the region, and the quality of infrastructure remains inadequate. We agree on the need to adopt a robust medium-term revenue strategy to avoid recurrent monetary financing, preserve fiscal discipline and meet SDG-related spending needs. There appears to be ample room to reduce various tax exemptions, as the current PIT system excludes 98 percent of taxpayers and CIT exemptions costs around ¼ of total CIT revenue.

A recent increase in net monetary financing presented a sharp reversal of the declining trend observed over the last few years. We encourage the authorities to stick to their commitment to eliminate the Central Bank monetary financing of the budget in FY2020/21, as was originally communicated to Parliament. This would help to anchor inflation expectations at more moderate levels. On a related subject, we also encourage the authorities to strengthen the operational independence of the central bank.

Asset quality issues in the financial sector should be tackled head-on. While some progress has been made on addressing legacy asset quality problems, the case can be made for an independent AQR of the banks by international experts, in light of the substantial recapitalization needs, as indicated by staff. We also recommend developing a comprehensive financial sector reform strategy and gradually liberalizing deposit and lending rates to strengthen the role of the market and improve the monetary policy transmission mechanism. Financial reporting by banks should be enhanced without further delay, in line with international standards.

Weak public institutions, corruption, gaps in the AML/CFT framework, and limited progress in addressing the refugee crisis have dampened investors' confidence. We agree with staff's recommendation to develop a comprehensive and ambitious anti-corruption strategy. We note, with some concern, that Myanmar was placed on the FATF grey list earlier this month. We encourage the authorities to improve the effectiveness of its AML/CFT framework in line with the Asia and Pacific Group (APG) recommendations.

We encourage the authorities to consent to the publication of the set of reports.

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

We thank staff for the set of reports and Ms. Mahasandana and Mr. Srisongkram for the helpful Buff statement. Myanmar continues to envisage positive economic prospects in the long term albeit increasingly stronger domestic and external headwinds. Continued commitment to the Myanmar Sustainable Development Plan (MSDP) in the second wave of reforms, in hand with measures to secure macroeconomic and financial stability, will be fundamental to sustain growth.

Fiscal reforms should be aimed towards increasing tax revenues and improving budget execution in the medium term. We take positive note that the DSA risk of external and overall debt distress remains low. However, to meet spending needs for boosting development the authorities should continue the reform efforts. These include modernization of the tax system to increase revenues, a comprehensive tax reform in the medium term, continued PFM reforms and careful implementation of the planned pension reform. We note the authorities' commitment to reducing central bank financing to the government and encourage them to resolutely phase it out in FY2020/21, as envisaged.

Fiscal risks of PPS and selected bilateral projects should be carefully assessed and properly managed. Scaling of infrastructure spending is necessary in order to achieve the medium-term economic objectives. In this regard, while PPPs and bilateral projects can be useful vehicles, contingent fiscal liabilities should be thoroughly assessed and managed in a transparent way following international best practices. We take note of the launch of the "Project Bank" and we agree with staff that it should be used as a tool to consolidate information, facilitate appraisal and contribute to the prioritization of projects.

We welcome the successful transition to the market-determined reference exchange rate mechanism and the authorities' plans to further upgrade and strengthen the monetary policy framework. We thank staff for the useful Annex IV outlining the key priorities and related technical assistance provided by the Fund. We agree that enhancement in the monetary policy formulation and communication should be pursued, including by clearly articulating an overall inflation objective, and establishing a Monetary Policy Committee. Moreover, we agree with the priorities to establish an interest rate corridor to guide short-term interest rates and gradually liberalize retail bank interest rates.

There is an urgent need for a comprehensive financial sector restructuring strategy. In this regard, and in order to address the fragilities in the banking system, we agree with staff that the CBM should encourage banks to restructure loans and recapitalize. We take note of the authorities' commitment, as presented in the Buff, to continue to be vigilant and monitor risk developments closely to effectively address the growing vulnerabilities. Going forward, the authorities should keep working in close coordination with the IMF to build contingency plans and put in place the necessary safeguards.

Aligning capacity development to the MSDP goals and economic and institutional reforms will contribute to fully harness the potential of the reform efforts. We thank and congratulate staff for the very constructive Annex VII. This is an outstanding example of a comprehensive assessment of what has been done as well as a candid discussion on reprioritization given changes in the Fund's CD engagement. Moreover, the table outlining the alignment of the MSDP and CD is extremely useful.

Mr. Ray and Mr. Khurelbaatar submitted the following statement:

We thank staff and Ms. Mahasandana and Mr. Srisongkram for their Buff statement. While Myanmar's long-term prospects remain strong, risks to the outlook are on the downside and spillovers from the refugee crisis in Rakhine state and from the banking sector could negatively affect the growth. We take a positive note of the authorities' aim to continue with structural reforms and implementation of the Sustainable Development Plan.

The tax revenue to GDP ratio remains low. Considering substantial capacity constraints to capably implement tax policies, the staff suggested personal and corporate income tax measures in the annex is the right approach to increase revenues in the short term. Going forward, with a projected decrease in the revenue from the natural resources sector, strengthening the tax administration and broadening of the tax base will be key to sustainable fiscal revenues. We agree with the staff that the authorities need to adopt a medium-term revenue strategy and that considerable efforts are required to substantially increase the share of tax revenue in the economy. In this context, we would be interested in hearing staff views on what could be the main elements of a medium-term revenue strategy for Myanmar?

We welcome the well aligned capacity development efforts by the Fund and other donors. We take positive note that staff is reprioritizing the capacity development efforts based on absorptive capacity and immediate reform needs. Reprioritization and streamlining of technical assistance is important to address the reform needs with limited resources. Nonetheless, considering Myanmar's broad and large capacity development needs, we would like to highlight the importance of longer-term experts who support the authorities on a daily basis and provide a valuable support for institution building. It is critically important that the authorities build a capacity to efficiently absorb technical assistance efforts from the donors. In this regard, could staff elaborate about a strategy of using long term experts in Myanmar?

The authorities need to step up its efforts to address the deficiencies identified by AML/CFT assessment. It would be unfortunate if Myanmar were to be grey listed under the FATF initiative. We encourage the authorities to make a strong commitment and undertake necessary governance reforms to address AML/CFT framework deficiencies. Finally, we stress the importance of the Fund's continued assistance on AML/CFT framework.

Mr. Farber and Ms. Crane submitted the following statement:

We thank staff for the informative papers and Ms. Mahasandana and Mr. Srisongkram for the helpful Buff statement. Myanmar has made important progress across a range of economic reforms, such as moving to a market-based exchange rate, cost-recovery adjustment to electricity tariffs and initial steps to modernize the tax regime in support of the Myanmar Sustainable Development Plan. Nonetheless, the country continues to face significant capacity constraints and needs to carefully monitor the risks identified by staff. These include systemic risks from financial sector fragility and stalled efforts to resolve the refugee crisis in Rakhine. We also note the upside potential if Myanmar is able to attract FDI and carefully manage its external borrowing in support of high-quality infrastructure projects, with competitive bidding and transparent reporting of contingent liabilities. Structural reforms will be key to lifting potential growth over the longer term. We agree with the thrust of the staff appraisal and would like to highlight several points.

Financial Sector. We urge the authorities to strengthen their focus on comprehensive financial sector reforms. Contingency planning needs to be a key part of the effort, as NPLs could rise rapidly as more overdrafts are restructured. We are concerned that overdrafts have been converted to three-year term loans with a bullet payment at the end, which may kick the can down the road without resolving the underlying weakness. Independent asset quality reviews can help the central bank understand the true magnitude of the financial vulnerabilities, and will aid in contingency planning. We note that the central bank has extended the deadline to meet capital adequacy and large exposure limits to August 2020. Can staff comment on the feasibility of meeting this deadline, especially with respect to large systemic banks? We welcome staff's intention to prioritize capacity development on financial sector issues, as part of the streamlining and reprioritization process described in Annex VII, and dependent on the authorities showing ownership of reforms in this area. We encourage staff to apply lessons learned from its extensive capacity development work in Myanmar.

AML/CFT Concerted efforts are needed to address the deficiencies that are the focus of Myanmar's FATF Action Plan. We appreciate the authorities' efforts over the last year to adopt the national strategy and strengthen the AML/CFT framework, as described in the Buff statement. High level political commitment and coordination will be key to effective implementation of the Action Plan.

Monetary Policy. We welcome the steps taken toward a market-based exchange rate and encourage the authorities to further develop the monetary framework, as recommended by staff. We encourage the authorities to phase out monetary financing of the deficit and further develop money and foreign exchange markets. We agree with staff's assessment that the time is ripe to upgrade the monetary policy framework and urge the authorities to take the appropriately sequenced steps to liberalize interest rates that will enable banks to better price risks and build capital, and will strengthen monetary transmission. We welcome the elimination of the multiple currency practice.

Refugee Crisis. We urge the authorities to make further progress in addressing the refugee crisis in Rakhine state. Enabling a safe, secure environment for returning refugees is key to resolving this humanitarian crisis. Stalled efforts are also clouding the economic outlook and investor sentiment, as reflected in tepid FDI flows.

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

We thank staff for the informative report on Myanmar and Ms. Mahasandana and Mr. Srisongkram for their helpful Buff statement. We generally agree with the thrust of the staff appraisal and would like to highlight several points.

There is room for looser fiscal policy in the near term against the background of cyclical weakness. The economy operates below its potential and, thus, mildly expansionary fiscal policy would seem to be appropriate. At the same time, we are concerned that the revenue-to-GDP ratio remains on a declining trend whilst the authorities need to create fiscal space for SDG-related spending and possible materialization of contingent liabilities. In this regard, we look forward to parliament's approval of the new Income Tax Law. It is striking to learn that the current personal income tax structure de facto excludes 98 percent of taxpayers, resulting in a very low base.

The stability of the financial sector is of paramount importance for the well-being of Myanmar. We take a positive note that NPLs started to come down and banks appear to be on track to meet CBM prudential regulations by the August 2020 deadline. Nevertheless, the banking sector remains fragile, representing an elevated systematic risk. Local banks still do not adhere to international accounting standards, which complicates sector surveillance and supervisory oversight. We support staff's proposal to urgently develop a comprehensive financial sector reform to safeguard financial stability. A good starting point could be an independent asset quality review of the top banks to allow the authorities to make an informed decision on resolution options. We also see merit in limiting banks' exposure to real estate and developing constringency planning for the case financial risks materialize.

Monetary policy remains appropriately tight. We commend the CBM for the successful transition to the market-determined reference exchange rate mechanism. (Could staff elaborate on the current role of the informal FX market?) This move creates ground for further upgrade of the monetary policy framework, including establishment of an interest rate corridor to guide short-term interest rates and help enhance monetary policy formulation and communication. We also agree that the current deposit rate floor for term deposits is high by regional standards and encourage the CBM to gradually liberalize commercial banks' deposit and lending rates.

On the structural front, we acknowledge the authorities' recent efforts to open foreign investments to new sectors. Nonetheless, the country's approach to liberalizing foreign investments remains opaque and selective, and provincial governments occasionally pursue protectionist measures. More robust governance and the implementation of the anti-corruption legislation are required to enhance attractiveness for foreign private investments. The new insolvency law, passed in December, clarifies the legal procedures governing bankruptcy and allows for the possibility of debt restructuring. Yet, the actual insolvency and bankruptcy processes could be slow as local courts suffer from a chronic lack of resources and expertise.

With these remarks, we wish the authorities success in facing challenges ahead.

Mr. Raghani and Mrs. Boukpessi submitted the following statement:

We thank staff for the well-written reports and Ms. Mahasandana and Mr. Srisongkram for their informative Buff statement.

Myanmar's macroeconomic performance has been broadly positive with growth estimated to have reached 6.5 percent in FY2018/2019, and to remain above 6 percent over the medium-term. Although favorable, the economic outlook is subject to significant downside risks, including delays in implementing reforms, slow progress in resolving the humanitarian crisis in the Rakhine state as well as increased financing of the fiscal deficit by the central bank. Furthermore, global trade tensions, possible spillovers from the economic slowdown in China, and the impact of the novel coronavirus will also weigh on the outlook. Against this backdrop, we urge the Myanmar authorities to press ahead with the necessary measures to preserve macroeconomic stability, tackle the financial sector systemics risks and strengthen further the monetary policy framework. Pursuing the implementation of structural reforms under the Myanmar Sustainable Development Plan (MSDP) will also be critical to unlock the country's growth potential.

Fiscal space is needed to address the country's social and infrastructure gaps and achieve fiscal sustainability over the long-term. In this regard, we encourage the authorities to steadfastly implement a comprehensive medium-term revenue strategy to anchor their revenue mobilization efforts, increase revenue for higher resources towards the attainment of the Sustainable Development Goals. The needed tax reforms, consistent with the Fund's TA recommendations, and that include the enactment of the new income tax law aiming at rationalizing tax incentives should be implemented. Further efforts to improve spending efficiency, cash management as well as enhancing public financial management are essential. Containing fiscal risks by strengthening the public-private partnerships' framework and increasing efficiency in the state economic enterprises are also important to achieve fiscal sustainability. Staff's comments on a possible public investment management assessment (PIMA) for Myanmar would be appreciated. We welcome the authorities' commitment to phase out the monetary financing of the fiscal deficit with the view to ensure fiscal sustainability and develop domestic markets.

Tight monetary stance is needed to ensure low inflation and further efforts will be necessary to strengthen the monetary policy framework. We welcome the key findings in the Annex IV of the report on upgrading the monetary policy framework notably the need to strengthen policy formulation, develop an interest rate corridor and gradually liberalize interest rates. We commend the authorities for the successful transition to a market-determined reference exchange rate mechanism which has helped to better anchor market expectations and reduce the informal market spread. We take positive note of the ongoing dialogue between the authorities and staff towards Myanmar's acceptance of the Article VIII's obligations. In addition, the authorities' commitment to gradually eliminate monetary financing of the fiscal deficit will be essential in their efforts to contain inflation. Further advances in encouraging the operational autonomy of the CBM should also be considered.

Vulnerabilities in the banking system need to be swiftly addressed to promote financial sector stability and development. We encourage the authorities to pursue with the ongoing reform of the financial sector, notably the cleaning-up of banks' balance sheets and the urgent banks' recapitalization. There is also a need to enhance the sector's regulation and supervision in line with international standards. We see merit in measures highlighted in the report including the conduct of asset quality reviews and limiting bank's exposures to real estate and large private companies. Establishing an operational framework for an emergency liquidity assistance and resolution while developing contingency plans to address systemic risks, as recommended by staff, is warranted. We call on the authorities to ensure proper coordination mechanism between the monetary and the fiscal authorities in order to garner public support and market confidence in implementing these reforms.

Keeping the reform momentum in the context of the MSDP is critical to ensure a strong and inclusive growth. Addressing the country gaps in human capital and infrastructure - notably the power supply - will bring the country growth close to its potential while leveraging on Myanmar growing working age population and its strategic location between strong Asian economies. We encourage the authorities to also step up their efforts to strengthen governance and transparency which would require additional resources. Urgent actions to tackle the deficiencies identified in the 2018 Mutual Evaluation Report by the Asia Pacific Group are critically required to improve the effectiveness of the AML/CFT regime, especially given the recent Financial Action Task Force's decision to include Myanmar on its "grey list". Further progress is needed to resolve the humanitarian crisis in the Rakhine state which weigh on FDI inflows and external financing, critical for the implementation of the MSDP.

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

Mr. Inderbinen and Mr. Muradov submitted the following statement:

We thank staff for the informative set of papers and Ms. Mahasandana and Mr. Srisongkram for their helpful Buff statement.

Despite the long-term favorable prospects, Myanmar faces near and mid-term challenges to growth in the context of domestic and external headwinds. Systemic risks in the financial sector, weak domestic demand, low investor sentiment, price correction in the real estate market and upcoming election uncertainties have resulted in a weakened economic outlook, and downside risks have intensified. This requires a second wave of reforms, as envisaged in the Sustainable Development Plan, to realize Myanmar's growth potential. We broadly concur with staff's assessment and would like to offer the following remarks:

Fiscal reforms are called for. While the fiscal deficit was in line with staff estimates, the revenue-to-GDP ratio is declining, and recently there was an increase in monetary financing. This requires adoption of a medium-term revenue strategy to increase domestic revenues, as well as reforms in cash management to ensure market-based financing. In this regard, we welcome the authorities' initiative on the new Income Tax Law, as well as their commitment to gradually phase out monetary financing. We also call for strengthening the fiscal risk management framework, including identification and reporting of the contingent liabilities stemming from PPP projects.

We welcome the authorities' commitment to a market-determined exchange rate. We agree with the staff that this has created favorable conditions to move to a more effective monetary policy framework and interest rate liberalization. In this regard, establishing an interest rate corridor to guide short term interest rates and gradually liberalizing commercial banks' deposit and lending rates would help to develop deeper and more liquid FX and money markets. This would also enable CBM to better respond to future shocks.

There is a need for a comprehensive financial sector stability strategy. The latter would help address asset quality issues, strengthen financial supervision, and establish an operational framework for emergency liquidity assistance. The legacy of asset quality problems in the banking sector in particular, needs to be addressed promptly. While recent recapitalization by a few systemic private banks is encouraging, we note staff's assessment that the recapitalization needs could be larger. In this regard, we welcome CBM's continued commitment to liberalize the banking sector to create level playing field between international and local institutions. Furthermore, the recent setting up of a credit bureau should enable banks to make better loan decisions and strengthen risk management.

Structural and governance reforms should continue in order to achieve inclusive and sustainable growth. According to the latest global competitiveness ranking, Myanmar has gained six ranks and now ranks 165th out of 190 listed countries. While this is encouraging, there is still room for improvement considering the procedurally complex nature of business transactions in Myanmar. In addition, while we welcome the progress made in addressing recommendations from the Mutual Evaluation Report of APG, we urge authorities to align AML/CFT legislation with international standards, with potential Fund TA, given the recent listing by FATF.

Mr. Buisse, Mr. Rozan and Mr. Sode submitted the following statement:

We thank staff for their set of documents as well as Ms. Mahasandana and Mr. Srisongkram for their insightful Buff statement. While Myanmar has achieved considerable economic progress over the last few years, the country remains fragile and highly vulnerable to shocks. To progress further on the income ladder, economic reforms should continue and a greater attention should be paid to inclusiveness, as well as to governance and corruption vulnerabilities. We agree with the thrust of staff analysis and recommendations, we would like to highlight several points:

We support staff's recommendations to implement fiscal structural reforms to create the fiscal space for SDG-related spending. A medium-term revenue strategy should be designed to identify key reforms that will increase public revenues. Public financial management reforms will also be essential to improve the budget process. Improving the governance and restructuring of state-owned enterprises will also help to improve public expenditure efficiency and reduce contingent liability risks. Implementing the pension reform that has been designed with the help of the World Bank will help ensure long term sustainability. While we are reassured by the authorities' commitment to phase out the CBM financing of the deficit, we encourage the authorities to undertake this reform without further delay, accompanied by enhanced treasury management. On the composition of public expenditures, could staff elaborate on the social spending needs of the country, notably their adequacy and efficiency, and comment on the authorities' current strategy in this area?

We strongly support staff's recommendations concerning the evaluation of fiscal risk and the management of PPP. We fully agree with staff that a framework for managing, controlling and reporting fiscal risks of PPP should be instituted expeditiously. More broadly efforts to increase public debt transparency should be pursued and we encourage staff to remain proactive in this domain. Could staff elaborate on the quality of debt reporting in Myanmar?

We share staff's concerns about financial stability risks in the banking sector. Reforms in this area have clearly been insufficient since last year Article IV. A proper asset quality review of the biggest banks done by international specialists is indeed a top priority. We encourage the authorities to improve the balance sheet data collection framework, better assess NPL and prepare appropriate recapitalization plans.

While we note some progress, we concur with staff's assessment on the criticality of improving governance and anticorruption policies. We strongly value the Fund work in this area both through its analytical work and its capacity development activities. The recent decision of the FATF to put Myanmar on its grey list reinforces the imperative of implementing the recommendations of the APG focusing on improving the effectiveness of the AML/CFT regime.

As a final comment to our gray, we want to stress that we are deeply concerned by the situation in Myanmar's Rakhine State. Along with the international community, we call on the authorities to restore law and order to ensure the protection of all people residing in Myanmar, to create the conditions for the voluntary, safe and dignified return of refugees and displaced persons. We notably highlight the downside risk of losing the access to the Everything but Arms scheme if the authorities' efforts are insufficient.

Mr. Tanaka, Mr. Chikada and Mr. Kuretani submitted the following statement:

We thank staff for informative reports and Ms. Mahasandana and Mr. Srisongkram for their Buff statement. We welcome the fact that Myanmar's long-term outlook remains favorable, however also acknowledge downside risks and challenges persist, including uncertainty due to the 2020 elections, its banking sector's possible vulnerability and subdued FDI. We encourage the authorities to further strengthen their efforts for necessary reforms and closely work with development partners including the Fund's policy advices for capacity development. As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

Fiscal reforms, including revenue mobilization, are needed to create fiscal space to increase necessary investments in education and infrastructure. This in turn will encourage more FDI to Myanmar and help realize its growth potential. We note that tax revenue is lower than other peer countries and could be increased by tax mobilization (Figure 3). Considering the current mild expansional fiscal stance and the fiscal deficit at about 4% of GDP, we encourage the authorities to further implement the fiscal structural reforms, especially in modernizing the tax system, to create enough fiscal space for the

SDG-related spending. We encourage the authorities to implement further social investments especially in education and healthcare, which are at quite lower levels compared to other Asian countries.

We commend the authorities' careful stance toward the large infrastructure projects to ensure the debt sustainability. We strongly encourage the authorities to implement these projects with clear debt transparency and sustainability. Also, while the authorities try to implement public-private partnerships (PPP)s projects, we urge the authorities to build enough capacity with other development partners.

Monetary Policy and External Environment

We welcome the authorities' commitment to phasing out the Central Bank of Myanmar (CBM) financing of fiscal deficit. We welcome the authorities' reiteration to commit phasing out CBM financing of the budget. However, the actual number of CBM financing has significantly picked up in 2019. We encourage the authorities to continue their efforts to phase out the CBM financing, and to maintain vigilance of price development.

Regarding the exchange rate, we concur with staff that CBM should continue to follow a market-determined reference exchange rate. We note with regret that FDI to Myanmar continues to decline although the FDI restrictions were significantly eased in 2018 (Figure 3).

Financial Sector Policy

We welcome the authorities' commitment to improve financial supervision and address systemic risks, but emphasize well-sequenced and comprehensive initiatives are needed to reboot the financial system and support the economy. We note that a rise in NPLs due to the re-underwriting has stressed bank capital and led to increase systemic risks. It is welcoming that the CBM is working closely with the banking sector to ensure that they are on track to meet CBM prudential regulations by August 2020. On this point, we caution stringent AQRs and strengthening supervisory oversight will be perquisite for addressing NPLs and effective recapitalization. On this point, we wonder whether the authorities have resolve to conduct AQRs soon, if not is it feasible to have effective recapitalization (by August 2020)?

Capacity Development (CD)

Fund TA is crucial for Structural reforms, including AML/CFT framework. We welcome progresses in areas including national account statistics and treasury operations, thanks to the Fund TA and other development partners. We encourage the authorities to keep enhancing their capacities with these TA. On the other hand, we have concern that the country has been recently placed on the "gray list" by FATF. We concur with staff that it is crucial to address AML/CFT deficiencies with the Fund TA and keep making progress in this area. In this context, we encourage staff to continue to provide effective TA, with JSA, working closely with the authorities. In addition, we welcome that the authorities are making progress in fighting corruption under the Anti-Corruption Law.

Ms. Riach and Mr. Clark submitted the following statement:

We thank staff for the good papers and the very informative annexes, especially the assessment of risks and opportunities and key priority reform areas for Myanmar. We also thank Ms. Mahasandana and Mr. Srisongkram for their comprehensive buff statement. We share staff's assessment that despite ongoing positive trends in medium and long-term growth brought about by the first wave of reforms, the economy remains below potential and existing vulnerability and risks will need to be addressed and actively managed going forward. We strongly encourage the authorities to make every effort to resolve the ongoing refugee crisis in the Rakhine State over the short to medium term.

We welcome the authorities' commitment to ongoing financial sector reform and agree with the need to focus on the banking sector and on AML/CFT. Although there has been progress in some banks in addressing asset quality, overall progress remains slow and we note that financial reporting by banks does not adhere to international standards yet. A comprehensive financial sector reform strategy is required to safeguard financial stability including a focus on: reducing large exposures; asset quality reviews and risk monitoring; strengthening supervisory oversight; and limiting bank exposure to real estate and large corporate borrowers. We note some progress in addressing deficiencies highlighted by the Mutual Evaluation Report. However, given that Myanmar was identified by FATF as a jurisdiction with strategic deficiencies at the recent FATF plenary, we strongly encourage the authorities to undertake all necessary actions to be removed from the FATF list of countries with serious AML/CFT deficiencies. Have staff done an assessment of the potential impact of Myanmar being placed on the 'grey list'?

We agree that a modest fiscal stimulus is appropriate in response to weak cyclical conditions, although any expenditure should be focused on service delivery. Wider fiscal reforms as well as implementing the new Income Tax Law should be a priority to help reverse the decline in tax to GDP ratios. Over the longer-term, modernizing the tax system will be important to improve budget execution and efficiency, and to reform discretionary tax incentives.

Over the medium term implementing a set of second wave of reforms and addressing corruption and governance issues will enhance growth potential. Implementing the medium-term economic road map and prudent management of extractive industries should remain key priorities. In addition, Myanmar will need to invest in physical and human capital, improve energy access, reform the business environment as well as strengthen the Anti-Corruption framework. Finally, we welcome the assessment of capacity development needs based on the ongoing support of all development partners and welcome its reorientation to the emerging and existing challenges.

The Acting Chair (Mr. Furusawa) made the following statement:

We turn to today's agenda item on Myanmar, 2019 Article IV consultation. Bank staff is attending this meeting. Eighteen grays have been issued by Directors. In your grays, you note that the economic activity remains below potential, and risks have intensified even as longer-term growth prospects are favorable.

You recommended that the second wave of fiscal and structural reforms should focus on peace, stability, and good governance to boost the growth and help achieve their Sustainable Development Goals (SDGs). You note with concern the slow progress in addressing the humanitarian crisis in the Rakhine states. With this broad picture, we could focus our discussion on some key issues, including comprehensive financial sector reforms to address the banking system fragilities, governance shortfalls, and policies and structural reforms to maintain the stability and enhance growth prospects.

The staff representative from the Asia and Pacific Department (Mr. Peiris), in response to questions and comments from Executive Directors, made the following statement: [1]

Let me begin by updating you on some recent developments while also addressing some of the questions that have been raised in the Directors' gray statements.

First, Myanmar was placed on the gray list of the FATF last week, and an immediate action plan that has been agreed to sets out a time-bound set of actions that would be required by 2021 for Myanmar to get off the gray list. The key issues include further amending the AML/CFT law and demonstrating effectiveness in a number of areas which will require stepped-up efforts by the authorities. The Fund stands ready to provide further

[1]Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

capacity development with other development partners to support the implementation of the action plan.

The gray listing was widely anticipated, and at the margin may deter cross-border and investment flows, especially for multinational companies given the higher compliance codes. However, the macro impact is expected to be manageable based on the limited financial linkages and Myanmar's experience of its gray listing in the past.

Moving on to the financial sector, as noted in the staff report, financial reporting by banks in Myanmar do not adhere to international standards yet, and big banks are still in a transition from mainly overdraft loans to term loans, like in any other country. Given this transition and the legacy of bad loans from the past, there is a high degree of uncertainty on the NPLs and the potential recapitalization needs of the system. Hence, the team discussed with the authorities the importance of carrying out asset quality reviews (AQRs) of the systemic banks as a priority to gauge the potential scope of the banking problems, a recommendation that we understand the authorities are currently considering very seriously.

The Fund, in general, stands ready to provide further assistance in collaboration with the Bank to move forward on AQRs or any other resolution options the authorities decide on. Equally importantly, the Article IV discussions stressed the need for contingency planning, preparing an adequate set of tools; for example, emergency liquidity assistance would enable the authorities to effectively minimize the cost of financial disruptions should they emerge. While the regulatory framework provides such tools, operational capacity is still lacking. Overall, the development of a comprehensive financial sector strategy and sequencing of measures is very important. Taking steps as early as feasible is certainly the preferred course of action to minimize the cleanup costs that could come later on.

That said, the authorities are cautious of taking actions, particularly before the elections coming up in November 2020. So the authorities currently are very much focused on preparing for restructuring strategies and options and contingency planning, and we remain closely engaged to see how they would like to proceed on these areas.

Finally, on the potential impact of COVID-19 on Myanmar, it is too early to tell given the high degree of uncertainty and limiting of mission. There are no confirmed cases yet, although 40 people are under investigation, and Myanmar just received some recent testing kits to move forward with the help of development partners. Clearly, Myanmar is quite vulnerable given the low capacity of the health systems and also the neighboring countries with a higher incidence, especially given the porous and long border the country has with the number of seasonal workers going up and down. The Health

Ministry, of course, is drawing up a contingency plan just in case of a pandemic episode.

Mr. Tanaka made the following statement:

We welcome that Myanmar's long-term growth prospects remain favorable, although we also acknowledge downside risks and challenges that persist. As we issued a gray statement, we would like to offer a few comments for emphasis.

First, considering the fiscal deficit in the medium term, we encourage the authorities to implement necessary fiscal structural reforms to create enough fiscal space through such measures as modernizing tax system. In turn, this possible fiscal space should be spent further for the SDG-related spending associated with education and healthcare.

On debt issues, we urge the authorities to ensure debt transparency and sustainability for any large infrastructure projects. Japan has contributed to strengthen the country's public fiscal management (PFM) together with the IMF to achieve sustainable development.

Concerning the relations between fiscal and monetary policy, we commend and further encourage the authorities to continue their efforts to phase out the Central Bank of Myanmar (CBM) financing and to maintain vigilance on price developments.

Second, on the financial sector, we share the staff's view that the authorities should develop well-sequenced and comprehensive initiatives to strengthen the financial system. We would stress the importance that the authorities and CBM work closely with the banking sector to ensure prudential regulations, stringent AQRs, and strengthening supervisory oversight for addressing non-performing loans (NPLs) and effective recapitalization. To this end, our authorities have contributed and will contribute to strengthen financial supervision and regulation, in addition to supporting modernized CBM systems in collaboration with IMF.

Third, as to the AML/CFT, as the mission chief mentioned, Myanmar was listed as a gray list country at the FATF plenary last week. Myanmar authorities have made a high-level political commitment to strengthen the effectiveness of the AML/CFT regime and proactively made progress on a number of FATF recommended actions. We urge the authorities to address capacity development in this AML/CFT field through Fund TA or bilateral communication.

Lastly, on the capacity development in several areas, including building fiscal and monetary institutions and strengthening the financial sector, we appreciate that the Fund staff has made significant and substantial contributions so far.

Mr. Inderbinen made the following statement:

We thank staff for the documentation and the responses to the questions that were asked in the gray statements and also Ms. Mahasandana and Mr. Srisongkram for their informative buff statement in which we particularly noted that there is broad agreement between the assessment of the authorities and that of the staff. In the gray statement we put out, we noted the long-term favorable prospects for Myanmar despite the challenges over the medium term. We called for fiscal reforms and also the need for comprehensive financial sector strategy to maintain stability, and also called on structural reforms, including the need to make progress on the AML/CFT. And here we thank Ms. Mahasandana for the elaborations provided in the buff statement on the recent progress in this area, including the new legislation that is in train. As the staff has just mentioned, it is more the effectiveness aspect of the AML rather than the technical compliance, so we join others in encouraging the authorities to work on that leg.

We also, like others, would like to touch on foreign direct investment (FDI), and I think in many of the gray statements, the tepid growth of FDI is mentioned, despite the easing of restrictions. One element might be—and we did not touch upon this in our gray statement—the role of the military in the economy, which continues to be quite important. It could lead to additional safeguards or compliance measures that prospective foreign investors might have to go through. So this is one aspect, in particular since the UN report that came out last year documenting this.

We encourage further structural reforms. We also note the latest increase in advancement in the ranks in the global competitiveness ranking and would encourage the authorities to continue along this track to increase competitiveness and attract FDI going forward. With this, we wish the authorities much success.

Mr. Farber made the following statement:

First, regarding financial sector stability, we urge the authorities to carefully monitor financial sector risks and not put off steps needed to improve financial stability, such as carrying out asset quality reviews and undertaking contingency planning. We welcome IMF staff's intentions to refocus technical assistance on helping the authorities with a comprehensive financial sector reform plan.

Regarding public debt and investment management on debt, we welcome the progress made so far in debt management described by staff in the answer to question 7. It will be important to focus more attention on improving systems and practices around non-guaranteed debt and contingent liabilities. We are glad that staff intends to make that a priority for technical assistance.

Third, making room for more social and development expenditure. We encourage the authorities to follow through in developing and implementing a medium-term revenue strategy. Stronger domestic revenues are needed to better support investments in human capital and Sustainable Development Goals. Such investments are ultimately what is needed to provide a brighter future for the people of Myanmar.

We also recognize that no two countries are exactly alike, and Myanmar is no exception to that rule. In fact, their combination of competitive advantages and also competitive disadvantages are quite unique, and in addition to their recent timeline of events, which do not neatly fit into any model that we are aware of. So we would also like to highlight the importance of technical assistance and capacity development in their expected brighter future going forward.

Ms. Mahasandana made the following concluding statement:

Myanmar is at a pivotal stage of development with many ongoing reforms. The authorities are working hard to upgrade policy frameworks, strengthen and modernize institutions, develop infrastructures, and much more. This effort will lay the foundation for higher, more sustainable, and more inclusive growth. At the same time, there are many important challenges to overcome, including external and domestic risks and capacity constraints. The Myanmar authorities broadly agree with staff assessment and recommendations. The staff reports and our buff statement already provide assessments and policy priority in detail, so today I will focus my remarks on some key issues highlighted in the gray statements and oral interventions.

Firstly, Myanmar authorities will continue to pursue prudent fiscal policy, balancing the need to support growth and to create space for infrastructure and social spending needs. Tax revenue in Myanmar is relatively low; budget execution remains an issue, and the projects need to be carefully assessed for contingent liabilities. The Myanmar authorities are committed to follow through on various fiscal reform efforts, such as new income tax law, the PFM reform, the project bank, and the PPP center, to lay the groundwork for better fiscal sustainability. They are working closely with the Fund and other development partners on related capacity building to ensure effective implementation of these projects.

Second, as many Directors have noted, phasing out central bank financing of fiscal deficit will be key in stemming inflation pressures and fostering good governance. The authorities agree and are committed to phase this out eventually. The target for CBM finance has been reduced over the past few years from an amount about 40 percent of domestic financing in 2017, to 30 percent in 2018, and then to 20 percent in 2019. The share of market-based financing has increased.

The plan is to reduce this further in a gradual manner, given the large spending needs and the fact that Myanmar liquidity for cash and cash management capability need to be developed further.

I would also note that while the authorities' target is different from staff, the fundamental agreement on phasing out is still there.

Third, on monetary and exchange rate policy, as noted in the report and many gray statements, Myanmar has now transitioned to a market-determined exchange rate. Exchange restriction will be lifted in 2018, and multiple currency practices have been eliminated by the new one-way rule bid for FX auctions. This was a major development which paved the way for Myanmar to accept Article VIII of the Articles of Agreement in the future.

The current priority for monetary policy is to establish an interest rate corridor to improve policy transmission and then pursue further interest and liberalization. The CBM is contemplating the way to achieve this goal, including introduction of interest on excess reserves and relaxing interest rate floor and ceiling. However, the latter must also be carefully planned and communicated, given the potential impact on depositors and implication for broader economy.

Fourth, the Myanmar authorities agree that vulnerabilities in the banking sector need to be addressed urgently and consider this a matter of high priority. The Central Bank of Myanmar is working closely with the private banks to ensure a smooth transition to comply with the new prudential requirements. They are also keeping a close eye on banks' increased exposure to property markets. The authorities agree a comprehensive reform strategy, including contingency plan and independent AQR, are needed, and they look forward to working closely with the Fund on this going forward.

Lastly, the authorities remain committed to fighting corruption and improving governance. There is, indeed, political behind this course, and the authorities are making progress with the implementation of anti-corruption law, the corruption-prevention units, and upcoming anti-corruption rules. The authorities will also continue to strengthen the AML/CFT framework and work with the Fund and development partners to address remaining deficiencies, including those highlighted by the Asia Pacific Group (APG) mutual evaluation and FATF action plan.

Let me conclude by reiterating that the Myanmar Sustainable Development Plan reform journey is a multiyear effort. The authorities are fully committed to the progress and see the Fund as a vital partner in this endeavor. Myanmar has a lot on their plate, and technical assistance provided by the Fund and other development partners have been and will continue to be instrumental in realizing their reform goals.

To this end, on behalf of Myanmar authorities, I would like to thank Mr. Peiris and his team for the hard work and constructive discussion during the mission. Their engagement with the authorities, along with the support from the management, have proven invaluable and helped support many policy undertakings throughout the years. The authorities look forward to continued building on this ongoing dialogue going forward.

The Acting Chair (Mr. Furusawa) noted that Myanmar is an Article XIV member and maintains no exchange restrictions or multiple currency practices. No decision is therefore proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They noted that economic activity remains below potential in the face of stronger domestic and external headwinds. In the near-term growth is likely to remain subdued due to the correction in the real estate market, weaker donor financing and investor sentiment, in part related to the ongoing humanitarian crisis in Rakhine, and macro financial spillovers from bank deleveraging. Directors agreed that a second wave of fiscal and structural reforms should focus on peace, stability and good governance to boost growth, help achieve the Sustainable Development Goals (SDGs) and realize Myanmar's favorable long-term prospects.

Directors emphasized the elevated systemic risks and the urgent need to address fragilities in the banking system. They noted that the extension granted by the Central Bank of Myanmar (CBM) for banks to comply with capital adequacy and large exposure limit requirements should be used to enhance monitoring and diagnostics. The CBM should also encourage banks to restructure viable loans, recapitalize and prepare a comprehensive financial sector restructuring strategy, including contingency plans in the event of further distress. In addition, Directors urged the authorities to fully implement international reporting standards to allow a more comprehensive assessment of the banks' financial situation.

Directors noted that the current monetary policy stance helps keep market rates at positive real levels and broad money growth on a declining trend. They commended the successful transition to a market determined reference exchange rate mechanism and plans to introduce interest payments on excess reserves. Directors believed that further upgrades in the monetary framework and interest rate liberalization would help enhance the transmission mechanism.

Directors agreed that a mildly expansionary fiscal stance in the near term was appropriate. They also noted that it would be critical to enhance revenue mobilization along with public financial management reforms to scale up SDG related spending in a sustainable manner. Directors regretted the spike in central bank financing towards the end of last fiscal year. They encouraged the authorities to improve cash management and undertake proactive debt issuances to avoid a repetition in this fiscal year, and to phase out CBM financing in next fiscal year as originally envisaged. Over the medium term, the planned scaling up of infrastructure investment needs to be well managed with due regard to fiscal risks.

Directors agreed that capacity development will be crucial to support the ambitious structural and policy reforms, with some reprioritization to account for absorptive capacity constraints and rapidly evolving needs. They also noted that governance and corruption vulnerabilities need to be addressed, along with gaps in the AML/CFT framework identified by the Asia and Pacific Group.

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

APPROVAL: September 26, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***We would appreciate a further elaboration from staff on the runup to the 2020 elections, possible expenditure increases, and the continuity of the MSDP.***

- The 2019/20 budget includes a fiscal stimulus, largely driven by capital spending. However, given that historically there has been significant under-execution of the budget due to capacity constraints, it is expected the fiscal deficit will increase moderately to around 4 percent of GDP in 2019/20. Populous measures, such as pre-election wage increases, have not been announced or observed thus far.

Fiscal policy and debt sustainability

2. ***Could staff comment on how the ceiling on monetary financing of the fiscal deficit is established and whether any institutional improvements are warranted to avoid risks to macroeconomic stability?***

- The authorities use CBM financing (in gross terms, i.e. CBM holdings of government securities) as a share of total domestic financing as the basis of their target. The target share is predetermined on an annual basis by the MOPFI, based on the total budget deficit, expected financing needs, and external financing. The objective is to reduce this share over time towards zero; the target share started at 40 percent in 2016/17 and was intended to be reduced by 10 percent FY to FY until it reached zero percent by 2020/21. For 2019/20, CBM financing is targeted at 20 percent instead of the ten percent originally envisaged due to lower external financing and anticipated higher spending.

- Staff recommends as a target the ratio of CBM financing (net) as a ratio of reserve money. This would better control the nominal reserve money growth and its inflationary impact.

- To avoid risks to financing and inflation, better cash and expenditure management by MOPFI and coordination between the MOPFI and CBM, including on liquidity and debt issuances, is required to avoid year end bunching and funding shortfalls.

- Fund CD on cash and treasury management is underway to support capacity in MOPFI. The ADB and Japan are providing assistance on debt management.

3. ***The authorities' income tax law (ITL) draft, which is being considered, could raise revenues by 2-4 percent of GDP and, more importantly, will improve distribution over time. Staff's assessment of the ITL time frame for its implementation would be helpful.***

- With Fund TA, a draft of the revised ITL has already been prepared and is currently under review by the Myanmar attorney general's office. The government needs to make a few remaining policy decisions to complete the new income tax regime. In this regard, a September 2019 FAD TA mission had assisted the authorities on these remaining issues and had provided them with recommendations (such as on the income tax rate structure and thresholds). The authorities are currently deliberating these policy options and the ITL is expected to be submitted to parliament after the November 2020 elections.

4. ***We agree with the staff that the authorities need to adopt a medium-term revenue strategy and that considerable efforts are required to substantially increase the share of tax revenue in the economy. In this context, we would be interested in hearing staff views on what could be the main elements of a medium-term revenue strategy for Myanmar?***

- The main elements of the MTRS comprises four interdependent components: (1) a broad-based consensus within the country on the medium term revenue goals that will help finance needed public expenditures; (2) a comprehensive tax system reform—covering policy, administration, and the legal framework—to achieve the revenue goals; (3) steady and sustained political commitment and support (government-led and whole-of government) over the duration of the strategy; and, (4) coordinated external support including finance and technical assistance—to support the implementation. In 2018, the Fund had provided TA related to the MTRS, however, implementation remains at an early stage.

5. ***Staff's comments on a possible public investment management assessment (PIMA) for Myanmar would be appreciated.***

- Please refer to question 17.

6. ***On the composition of public expenditures, could staff elaborate on the social spending needs of the country, notably their adequacy and efficiency, and comment on the authorities' current strategy in this area?***

- The authorities have committed to reaching the SDGs in their 2018–2030 Myanmar Sustainable Development Plan (MSDP). Key development objectives are mapped with the SDGs, and the 251 action plans are fully aligned with SDGs indicators. Ten sector coordination groups are monitoring the MSDP implementation and progress towards reaching the SDGs. The MSDP calls for a step up in social spending and its efficiency as spending on health, education and social welfare is low in absolute and GDP terms. The 2018 Article IV Staff Report provides estimates on SDG spending gaps on education and health—the government's additional spending needs are estimated at about 8 percent of GDP in the social sectors. At the same time, the government is working on greater revenue mobilization which is required to help finance the social spending needs.

7. ***Could staff elaborate on the quality of debt reporting in Myanmar?***

- Debt reporting has improved supported by ongoing TA in debt management and reporting including granular loan by loan information and related loan terms. The Public Debt Management Law, enacted in 2016, requires all external loans with sovereign guarantees be approved by the Parliament. The law has helped strengthen public debt management as it requires the Ministry of Finance to prepare annually the Medium-term Debt Management Strategy and report all external liabilities in debt report. However, more TA is needed on debt management practices/systems and improving the reporting of all non-sovereign guaranteed debt and contingent liabilities. The Fund and various development partners (e.g., ADB, World Bank and Japan) are working with the authorities in these areas.

Monetary and exchange rate policies

8. ***Could staff elaborate on the current role of the informal FX market?***

- The informal FX market, centered around the *hundi* system, was developed to support the dual exchange rate regime era prior to unification in 2011, as well as to avoid FX restrictions following the 1997 Asian Financial Crisis and the 2003 banking crisis. With the adoption of a unified exchange rate, easing of restrictions, and the move towards the market determined reference rate, the formal FX market has expanded rapidly, but the informal market remains sizable. This is partially due to the limited access to formal finance, remaining capital flow management measures, and weak enforcement capacity, including at the large porous border with neighboring countries. However, the spread between the formal and informal market rates has narrowed substantially; as of February 27, 2020, it was about 0.2 percent.

Financial sector

9. ***Could staff comment further on whether there is any progress in contingency planning should financial stability risks materialize? How does staff assess the authorities' capacity to confront risks in the adverse scenario?***

- An oral response will be provided at the time of the Board discussion.

10. ***Can staff explain the reasons behind the lagging progress on AML/CFT supervision and how do they assess the outlook?***

- First, it is important to recognize that the authorities have made progress on addressing the recommendations of the 2018 Mutual Evaluation Report, including conducting a National Risk Assessment and establishing an inter-agency task force on AML/CFT reforms under the Vice President. The Financial Intelligence Unit being under the Ministry of Home Affairs ministry lacked the necessary power and coordination mechanism, however, the new inter-agency task force should improve traction and coordination. However, the most recent APG evaluation has identified weak levels of effectiveness across Myanmar's entire AML/CFT regime. To resolve this will require high levels of political commitment from the authorities. A remedial Action Plan has been agreed that sets out a time bound set of measures that would be required by 2021 for Myanmar to get off the list.

11. *Have staff done an assessment of the potential impact of Myanmar being placed on the 'greylist'?*

- The Grey listing was widely anticipated and, at the margin, may deter cross border banking and investment flows, especially by multinationals, given higher compliance costs. However, the macro impact is expected to be manageable based on limited financial linkages and Myanmar's experience with its earlier greylisting (in 2010-2016).

12. *We would appreciate staff's elaboration on potential fiscal costs arising from a disruption in the financial system.*

- An oral response will be provided at the time of the Board discussion.

13. *We note that the central bank has extended the deadline to meet capital adequacy and large exposure limits to August 2020. Can staff comment on the feasibility of meeting this deadline, especially with respect to large systemic banks?*

- An oral response will be provided at the time of the Board discussion.

14. *Is an independent asset quality review of banks being planned?*

- An oral response will be provided at the time of the Board discussion.

15. *We wonder whether the authorities have resolve to conduct AQRs soon, if not is it feasible to have effective recapitalization (by August 2020)?*

- An oral response will be provided at the time of the Board discussion.

Structural reforms

16. *On the issue of gender, did staff do any analysis in relation to female labor force participation?*

- Myanmar's growing demographic dividend is just taking off with an expanding working-age population that is expected to persist much longer than its neighbors. The female labor force participation, at around 50 percent, is lagging compared to males. While strong growth has helped increase GDP per capita, the country still lags in the areas of health and education attainment – two important factors that have shown to improve female labor force participation rates. The World Bank has been taking the lead on social sector policies and assessments including strategies to raise female labor force participation, which have been reflected in joint papers with the Fund such as the 2018 selected issues paper on poverty dynamics and SDGs (Myanmar Selected Issues, Country Report No. 18/91, March 28, 2018)

Fund engagement

17. ***Could staff inform if the Fund has conducted or is considering a Public Investment Management Assessment (PIMA) in Myanmar?***

- A full PIMA assessment mission has not been conducted for Myanmar yet, but the Fund has been providing technical assistance in related areas that cover various elements of PIM. Notably there has been recent TA missions on budget planning as well as on PPP fiscal risks, which made recommendations on the public investment management framework and PPP process. The first public investment program in Myanmar, the "Project Bank", was launched in December 2019 with supporting regulations and assistance various development partners including the World Bank. Although still at its infancy, the Project Bank aims to eventually become the hub to identify and screen infrastructure projects and account for the fiscal liabilities from PPPs. A Public Expenditure and Financial Accountability (PEFA) assessment is also ongoing. The need for a PIMA will be considered following the outcomes of these two initiatives in discussion with the World Bank.

18. ***Could staff elaborate on the readiness levels including for debt management and the technical assistance being delivered in this area?***

- To fully benefit from the scaling up of public investment, the authorities need to implement a sound public investment management framework and build capacity to manage the associated fiscal risks. Given their intent to scale up infrastructure the authorities have introduced the "Project Bank" which aims to be an apparatus to centralize decision making related to all public investment projects, including PPPs. The legal framework now includes the debt management law (see Question 7) but a broader PFM law and framework for managing and reporting fiscal risks of PPPs is needed. The government is planning to enhance their capacity by developing a PPP center and produce a fiscal risk report in 2021 with support from development partners including the World Bank. The Fund has provided TA on managing the PPP process, and further TA on estimating PPP risks in specific sectors is planned in coordination with development partners.

19. ***We would like to hear in more detail staff experience on the capacity building in the area of AML/ CFT and the proposed roadmap?***

- The recently established inter-agency task force on AML/CFT reforms under the Vice President is expected to improve traction and coordination. The Fund along with other development partners will continue to work on developing capacity and thereby improving the AML/CFT framework and its effectiveness. As part of the roadmap towards exiting the FATF Grey list, staff have recommended that the authorities prioritize addressing gaps in the AML/CFT framework which includes amending the AML/CFT Law as early as feasible in line with Fund TA. Importantly, they should closely follow the remedial Action Plan agreed with FATF, which contains timebound actions over the next year, and focus on demonstrating effectiveness across areas.

20. ***It is critically important that the authorities build a capacity to efficiently absorb technical assistance efforts from the donors. In this regard, could staff elaborate about a strategy of using long term experts in Myanmar?***

- Long term and intensive capacity development including through long term experts and training is critical in overcoming deep capacity constraints and giving staff the confidence to move ahead with agreed reforms. While a regional resident advisor in customs has been reallocated elsewhere due to limited traction in this area and engagement by other development partners, the other resident advisors are expected to remain in place the next few years until the institutional reforms mature.