INTERNATIONAL MONETARY FUND

IMF Country Report No.12/104

MYANMAR

2011 ARTICLE IV CONSULTATION

May 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Myanmar, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on January 25, 2012, with the officials of Myanmar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 2, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF.
- **Informational Annex** prepared by the staff of the IMF, the World Bank, and the Asian Development Bank
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its March 19, 2012 discussion of the staff report that concluded the ArticleIV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Washington, D.C.

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MYANMAR

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

March 2, 2012

KEY ISSUES

Context: Political reconciliation is gaining traction. The main opposition party, National League for Democracy will contest the April by-elections; many political prisoners have been freed; and several ceasefire agreements with ethnic minorities have been signed. The economic reform momentum is strong. Growth and inflation are expected to accelerate modestly.

Focus of the consultation: Consistent with past advice, the authorities are moving forward with reforms of the exchange rate system. Discussions centered on improving macroeconomic management to underpin these reforms, and on policies to foster broad-based economic growth.

Key policy issues and recommendations: Priorities are establishing the market infrastructure for the planned move to a managed float, and monetary and foreign exchange policy capacity to complement plans to unify the exchange rates. Financial sector modernization remains essential to support the reform process and improve financial intermediation. Fiscal policy priorities include ending deficit monetization, reprioritizing spending, and increasing nonresource revenues for development spending within a medium-term fiscal framework. Structural reforms should aim to increase agricultural productivity, and foster private sector development.

Exchange rate arrangement: Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII. The exchange rate regime is classified as *other managed arrangement*.

Approved By
Masato Miyazaki and Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon in January 10–25, 2012. The mission comprised Mses. Karasulu (Head), Dao, and Geng, (all APD), Mr. Lönnberg (MCM), Ms. Che and Mr. Elkjaer (all STA). Messrs. Barinshtein and Massara (STA) overlapped with the mission to provide technical assistance on monetary and banking statistics. Ms. Yeo (OECD) participated in key policy meetings. Staff from the Asian Development Bank and the World Bank joined the mission.

CONTENTS

INTRODUCTION

1. **Myanmar's new government faces a historic opportunity to jump-start development and lift living standards.** Myanmar could become the next economic frontier in Asia if, with appropriate reforms, it can turn its rich natural resources, young labor force, and proximity to some of the most dynamic economies, to its advantage. Delivering on these expectations with inclusive and sustainable growth should start with ensuring macroeconomic stability. This process is already under way with plans to unify the exchange rate and lift exchange restrictions, and should be supported by establishing a consistent monetary policy framework and improving public financial management.

2. **In the medium term, addressing long-standing distortions would require cross-cutting reforms.** Modernizing Myanmar's economy will be a process of removing impediments to growth by enhancing the business and investment climate, encouraging financial sector development, and further liberalizing trade and foreign direct investment (FDI). Economic development remains essential for reducing poverty and building human capital.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **Growth has stabilized in FY2010/11.** Driven by higher fiscal spending before the elections and buoyant commodity exports, real GDP growth is estimated to have picked up to 5.3 percent in FY2010/11. Inflation declined to 6.4 percent (y-o-y) in October 2011, from 8 percent a year earlier, mainly due to lower food prices and less deficit monetization. Gross international reserves rose to an estimated US$6.1 billion in FY2010/11 (about nine months of imports) due to natural gas exports and foreign direct investment (FDI) inflows primarily into the energy sector.

Staff's views

4. **The economic outlook is positive.** Real GDP growth is projected at 5½ percent in FY2011/12 and at 6 percent in FY2012/13 driven by commodity exports and higher investment, supported by robust credit growth and improved business confidence. Inflation, projected at 4.2 percent for FY2011/12, is expected to pick up to 5.8 percent in FY2012/13 as the recent drop in food prices phases out.

5. **Risks to this outlook are balanced.** On the downside, a drop in regional demand could negatively affect exports, although Myanmar remains largely insulated from the developments in advanced economies due to sanctions. However, a sustained appreciation of the currency (in the parallel markets used by the private sector) could further erode external competitiveness. On the upside, the recent easing of FDI restrictions, further increase in credit, and continued progress toward exchange rate unification could bolster growth.

Authorities' views

6. The authorities concur with staff on outlook and risks. They have estimated growth at double digits in the past decade, relying mostly on the five-year economic plans for the public sector. They have now initiated a statistical revision to better reflect private sector developments that account for about 90 percent of economic activity. They broadly agreed with staff projections and remain concerned with the impact of appreciation on external competitiveness.

POLICY DISCUSSIONS: ESTABLISHING A FRAMEWORK FOR MACROECONOMIC STABILITY

A. Exchange Rate Unification

7. The authorities plan to reform their complex exchange rate system. Since 1977, an official peg to the SDR at 8.50 kyats per SDR (5.35 kyats per U.S. dollar) has been in place. The official rate has never been part of a monetary policy framework. It is used only to allocate foreign currency from public export earnings to public import payments, and fiscal accounting. An "export-first" policy, enforced by complex exchange restrictions, permits private imports to the extent of available private export earnings, and has directed all private sector transactions to parallel markets to obtain foreign currency at multiple exchange rates in various segmented markets.[1] The exchange restrictions and multiple currency practices (MPC) are distortionary, increase transactions costs, discourage FDI and foreign trade, and are also exacerbating the exchange rate appreciation pressures. Since 1993, the Central Bank of Myanmar (CBM) has also issued U.S. dollar-equivalent Foreign Exchange Certificates (FECs) to limit the circulation of U.S. dollar banknotes. Over time, the FECs obtained other functions, including for certain domestic payments, and are also traded at an informal market exchange rate.

8. The combination of strong inflows and exchange restrictions is eroding external competitiveness. The parallel market exchange rate of the kyat has appreciated by 23 percent in nominal effective terms and about 29 percent in real effective terms since end-FY2009/10, driven by large inflows into the economy, which cannot find an outlet due to exchange restrictions on current international payments and transfers. The official exchange rate is clearly overvalued, and an analysis based on the framework of IMF's Consultative Group on Exchange Rates suggests that the informal market exchange rate is on average 19 percent overvalued in FY2010/11 and 40 percent so far in FY2011/12. In September 2011, the authorities eased some restrictions to address appreciation pressures by allowing foreign currency purchases for a car import program, and health and travel

[1] See Selected Issues Paper, Chapter II.

expenses abroad from recently established foreign exchange counters.

9. The authorities are preparing to replace the official peg with a managed float as a first step toward unifying the exchange rates. They also intend to announce a redemption plan for the FECs. Since the most immediate impact of this change will be on the public sector (the only user of the official rate), the new fiscal budget has already incorporated an exchange rate assumption in line with the prevailing parallel market exchange rate.

10. As an integral part of this plan, the CBM is taking steps to create a formal foreign exchange market. The initial steps focused on establishing a formal retail market by licensing 17 private banks in October 2011 to operate money changing counters at the Thein Phyu (TP) center. However, restrictions on TP counters exclude purchases for imports, besides the one-off car import program. In November, 11 banks were licensed as authorized foreign currency dealers (AD) to trade with each other and domestic customers; however, these licenses are yet to be activated. Currently, only three state banks are allowed to conduct foreign exchange business with the rest of the world. Private banks are seeking correspondent banking relations, beginning with remittance transfers.

Staff's views

11. Staff concurs with the authorities' plan to adopt a managed float well-anchored by necessary market infrastructure. The fundamental characteristics of the economy, as well as the need for exchange rate flexibility during the unification process point to a managed float, in line with other country experiences.[2] Establishing an interbank market to determine a market-based exchange rate is a prerequisite for a managed float.[3] To this end, the CBM should establish foreign currency auctions and a kyat deposit facility to conduct sterilized foreign currency operations, in line with recent IMF technical assistance (TA) recommendations. Activating the AD licenses should coincide with easing restrictions on usability of foreign currency for private imports to facilitate two-way flows between informal markets and the interbank market. This should include relaxing restrictions on TP counters to make these purchases and all foreign currency accounts at private banks usable for imports; and further liberalizing service payments and income transfers abroad (e.g., education-abroad, royalty payments).

12. The CBM should be granted a standing authorization to use and manage international reserves. Most of the foreign assets of Myanmar are held by three state banks. On current market trends, the CBM is expected to accumulate reserves at the foreign currency auctions. Nonetheless, to provide a reserve cushion, most of the foreign assets of the state banks should be transferred to the CBM before the auctions start. The CBM should adopt international best practices for reserve management.

13. The authorities should prepare a plan to end the 'export-first' policy to accept their Article VIII obligations. Although the removal of the official exchange rate and FECs will eliminate two of the many

[2] See Selected Issues Paper, Chapter III and Annex.

[3] See Selected Issues Paper, Chapter IV.

exchange rates, the unification of various informal market exchange rates requires elimination of the exchange restrictions that give rise to segmented markets, where these rates are determined. Ideally, the exchange restrictions should be removed gradually and across the board, to provide a level playing field to all imports and avoid introducing additional market distortions. This could be accomplished by exempting a gradually increasing portion of all private imports from the requirement to secure private 'export earnings' first, regardless of the source of foreign currency obtained. This would reduce market segmentation and help mitigate appreciation pressures. The plan to lift exchange rate restrictions should be coordinated with phasing out of trade licensing to eliminate nontariff barriers. The current macroeconomic conditions and expected FDI inflows provide comfort to start this process, but also underscore the importance of maintaining macroeconomic stability, including by establishing a proper monetary policy framework and improving public financial management.

Authorities' views

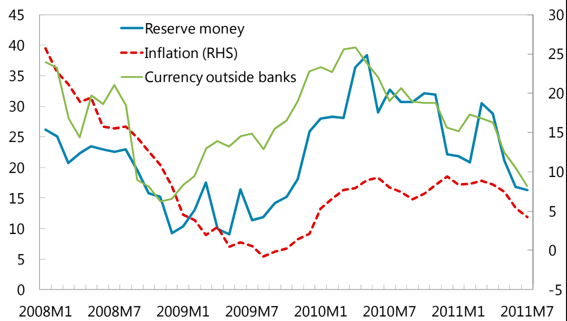
14. The authorities noted broad-based support and their strong commitment to exchange rate unification. They emphasized their priority for stability during the unification process. Accordingly, they planned ahead to assess the impact of the move to a managed float on the state economic enterprises (SEEs) and the fiscal budget. For the unification of informal market rates used by the private sector, they expect to have a plan ready by mid-2012 to gradually lift all remaining restrictions on current international payments and transfers. They target to complete the process before end-2013, when the South East Asian Games will be held in Myanmar. They began drafting a new foreign exchange law and welcomed the planned IMF TA in March to finalize the draft. They noted immediate plans to activate the AD licenses, and have relaxed the restrictions on TP counters. They plan to launch foreign currency auctions and interbank trading at the time of the announcement of the managed float.

B. Establishing a Monetary Policy Framework

15. The CBM does not have a monetary policy framework. The official peg was never used as a monetary anchor. Interest rates for all instruments are set administratively. The CBM is a department within the Ministry of Finance and Revenue (MoFR), with the primary function of monetizing the fiscal deficits. There is a nascent over-the-counter market for treasury securities, albeit at administratively-set rates. There is no formal interbank market, and the CBM does not conduct any monetary operations. Pervasive controls on banks impede the monetary transmission mechanism.

16. First interest cuts since 2007 made treasury bonds more attractive. Since September 2011, the deposit and lending rates were cut by a cumulative 4 percentage points to 8 and 13 percent, respectively. The September adjustment also placed the treasury bond rates above the minimum deposit rate, which provides an incentive for banks to hold treasury bonds, and helped reduce deficit monetization. The CBM also allowed banks some flexibility in setting the deposits rates within a band.

Reserve Money and Inflation
(Year-on-year percent change)



Sources: Authorities; and IMF staff calculations.

Staff's views

17. A consistent monetary policy framework is a necessary complement to reforms of the exchange rate regime. The CBM should be given full operational autonomy and proper accountability, with the clearly defined primary objective of domestic price stability. All central banking functions, including treasury agency and reserve management functions currently held by state banks, should be moved to the CBM. Consistent with the heavily cash-based nature of the economy, and its close link with inflation, the CBM should start monitoring reserve money to guide its future interest rate decisions. While planned deposit auctions would provide an interim tool to manage liquidity, developing the treasury securities market is needed to move to market-based monetary operations.

18. The level of interest rates appears appropriate in light of the economic outlook. Within the current regulatory constraints on financial intermediation and structural impediments on private sector, further interest rate cuts risk channeling domestic savings to potentially speculative assets, such as real estate. The onus of stimulating productive investment is now on structural policies to reduce barriers for private sector development.

Authorities' views

19. The authorities plan to grant the CBM operational autonomy. The CBM is in the process of drafting a new central bank law, and welcomed the planned IMF TA in March to benefit from international best practices. The authorities anticipate that the law will be adopted in 2012. They also plan to consolidate reserve management at the CBM before they announce the float, however, they saw transferring all treasury functions to the CBM as part of a broader reorganization of state banks that would take time and require TA. They noted capacity constraints in establishing a reserve money targeting framework and monetary operations and considered TA essential.

20. The authorities agreed with staff that the current level of interest rates is appropriate. They noted that the interest rate adjustment in September 2011 has increased bank purchases of treasury bonds substantially since then, but saw little room for further rate cuts in the near term.

C. Fiscal Management: Supporting Development and Ensuring Sustainability

21. The fiscal deficit in FY2011/12 has narrowed due to lower capital spending after the elections. With the construction of the new capital close to completion and moderation in defense spending after the elections, the deficit is expected to moderate to 5½ percent in FY2011/12, despite the recent increase in pensions and a temporary tax exemption on key agricultural exports to address deteriorating external competitiveness.

22. The adoption of a market-based exchange rate is expected to further reduce the budget deficit in FY2012/13. As a net exporter, the consolidated public sector budget is expected to benefit from the use of the market exchange rate by 1.2 percent of GDP.[4] This is primarily due to the net transfers from SEEs, notwithstanding the planned increase in social and infrastructure spending, reducing the projected deficit to a 4.6 percent of GDP.

23. Despite progress in bond financing, deficit monetization remains the main financing tool. Bond financing is estimated to reach 46 percent of the deficit in FY2011/12 helped by the recent adjustment in interest rates. However, weak public financial management leads to automatic monetization of the residual by the CBM. The planned fiscal decentralization could further undermine fiscal discipline. In particular, weak budgeting capacity, the separation of sub-national budgets from the State Fund Account (treasury account) and their interim financing by the Myanma Economic Bank, which handles the treasury functions, could increase deficit monetization.

Staff's views

24. Stopping deficit monetization remains essential to contain inflation pressures. Lifting restrictions on state banks' and Myanmar Insurance's holdings of government securities; and encouraging retail sales of treasury bonds would further increase bond financing. Moving to treasury bond auctions would help phase out deficit monetization and establish a market-determined interest rate. Establishing a treasury function within the MoFR is essential to strengthen public financial management and will require technical assistance. With planned decentralization, institutional arrangements to delineate fiscal responsibilities and improving regional capacity for fiscal management are also necessary.

25. The first budget discussion in the new parliament provides a historic opportunity to redefine fiscal priorities. Although the lower deficit target is appropriate, there is substantial room within the current budget envelope to focus fiscal policies on poverty reduction, and building human capital and infrastructure. Plans to shift spending to health and education could go further and should aim at narrowing large regional differences in social outcomes. Capital spending should support rural development

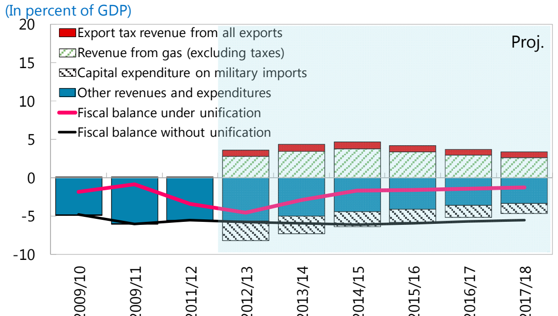
[4] See Selected Issues Paper, Chapter V.

and power generation, and be centered on result-based planning and evaluation.

26. Expanding tax bases would generate more revenues for development spending. Replacing the commercial tax with a general sales tax with a single tax rate, and at most one reduced (or zero) tax rate for basic food items, would be a first step to simplify tax structures, while raising the exemption threshold for income tax would make it easier to administer.

27. In light of increasing reliance on natural resource-based revenues, a broadly balanced medium-term budget appears appropriate. Under current policies, the deficit is expected to decline to around 1¼ percent in the medium term, primarily due to a substantial increase in gas revenues in mid-2013. This is appropriate in light of the large development needs of the current generations. However, these resource-based revenues should be used to increase Myanmar's growth potential by building infrastructure and human capital.

Myanmar: Impact of Adopting a Managed Float (in FY2010/13) on Fiscal Balance
(In percent of GDP)



Sources: Authorities; and IMF staff projections.

28. The adoption of a managed float would increase transparency of SEEs' performance and should guide their reform. This would reveal the implicit losses of importing SEEs, which were previously hidden by the use of the official exchange rate. Initially, these implicit subsidies should be replaced with explicit subsidies to all loss-making SEEs in the budget to prevent accumulation of domestic arrears and avoid sharp price adjustments, especially for public utilities. Going forward, any price adjustments should begin with gradual reduction in regressive subsides to protect the poor.

Authorities' Views

29. The authorities' target a deficit in the range of 4½ percent of GDP in FY2012/13 with more emphasis on social spending. They plan to reduce military spending to 14½ percent of total expenditures from 23½ percent, while social spending is expected to increase to about 7½ percent of expenditures, from 5.4 percent. They also plan to allocate more spending to transportation infrastructure. They await the new national economic plan to guide their medium-term fiscal targets, which is expected to allocate future gas revenues to poverty reduction, rural development, and industrialization.

30. The authorities recognize the need to improve tax policies and tax administration. In August 2011, they abolished the withholding tax on imports, and are considering simplifying soon the commercial tax on domestic sales, which contains more than nine tax rates. They also plan to introduce single tax payer identification and self-assessments to expand the tax bases, but expect that this would take time and would require broader tax education and improved tax administration.

31. The authorities are planning further privatization of SEEs. They noted progress in privatizing more than 700 SEEs since the late 1990s. To increase transparency and improve valuations, they plan to move to open tenders in FY2012/13, but expect slower privatization as most of the profitable SEEs have already been privatized. They also plan to liberalize SEE operations by allowing them to manage their costs of raw materials from their operating revenues, rather than through budgetary allocations, but will continue to cover their losses, including those emanating from the adoption of a managed float.

D. Financial Sector Policies: Facilitating Development

32. The financial sector is small and repressed with administrative controls on financial intermediation.[5] Key obstacles are the deposit-to-capital ratio,[6] onerous collateral requirements, administratively set interest rates, and segmented banking activities. These controls and the exchange restrictions led to a reportedly large unregulated shadow financial system. The regulatory treatment of state banks and private banks is uneven, bank governance is poor, and banking supervision does not follow the Basel Core Principles. There is no unified national electronic payments and settlement system, although plans are under way to develop the financial infrastructure.

33. Recently, the authorities eased some restrictions on the financial sector. Since March 2011, more than 40 new bank branches were allowed and the list of acceptable collateral was further expanded. These steps improved access to credit and led to acceleration in private sector credit growth, albeit from a very low base.

Staffs' views

34. Expediting financial sector modernization is essential to facilitate development and prepare the sector for the ASEAN Economic Community. While gradual liberalization of loan interest rates, as with deposit rates, should begin in tandem with reforms to the monetary policy framework, broader efforts are needed to improve financial intermediation. These include phasing out the deposit-to-capital ratio while strengthening capital requirements, further expanding the list of acceptable collateral, and easing administrative requirements on expanding branch networks. Joint ventures with foreign financial institutions would expedite the transfer of technology before the ASEAN financial integration in 2015.

35. Financial liberalization should be complemented with a stronger regulatory and supervisory framework. While there is a broad need to upgrade regulation and supervision, concurrent with financial liberalization the priority should be given to moving to internationally accepted definitions for loan classification and provisioning, strengthening conflict-of-interest requirements, and introducing a net open foreign currency position limit. Efforts to strengthen the AML/CFT regime should be guided by the action plan agreed with the Financial Action Task Force.

[5] There are 23 banks, of which 19 are private.

[6] The deposit-to-capital ratio limits deposit-taking by private banks up to 25 times of paid-up capital.

Authorities' views

36. The authorities broadly concurred with staff positions, but also noted capacity constraints. They noted limited human capacity at private banks as a constraint on branch expansions. They preferred a gradual liberalization indicating that many domestic banks are not ready for price competition, notwithstanding the need to prepare for ASEAN integration. Regarding state banks, they noted that it would take time to wean them off of their historic roles in carrying out many administrative functions of the state. Nonetheless, they noted plans to revise the financial institutions' law to modernize the sector.

E. Structural Policies: Lifting Impediments to Broad-based Growth

37. Growth is narrow-based. The economy largely depends on energy and agriculture. Agricultural development is suppressed by poor access to credit, lack of private land ownership, and inadequate infrastructure and inputs. The energy sector has surpassed agriculture as the main source of export revenues. However, its growth dividend is limited, as it is exclusively under state control and is largely isolated from the domestic economy. Despite the low wage advantage, the manufacturing sector remains stifled by poor infrastructure, inadequate know-how, and extensive administrative constraints. Myanmar has one of the highest costs in the world for starting a business.

38. There is momentum to promote rural growth and increase competition. The authorities doubled the size of harvest loans to farmers in 2011, while specialized rice companies have provided additional credit in certain areas. In January 2012, they also allowed agricultural land to be leased for up to 60 years to facilitate FDI. The recent liberalization of private imports of gasoline and palm oil helped reduce rationing and improved price competition. They are also considering a new land reform to grant private land ownership, which they expect to begin in 2012.

Staff's Views

39. Lifting agricultural productivity remains essential for rural development. Investment in productivity improvements requires long-term credit. The planned land reform provides a unique opportunity to grant land titles that can be used as collateral for borrowing, a key impediment for private bank lending to agriculture. Higher rates of broad-based rural growth are essential to reduce poverty, and require complementary public investment in roads, education, and health.

40. Recent efforts to support private sector development are welcome and should go further. The positive examples of gasoline and palm oil imports can easily be multiplied by moving away from nontransparent licensing practices that limit competition. Replicating the success of FDI in the energy sector in other sectors would help diversify the economy consistent with the authorities' plans to move toward industrialization. In this regard, the elimination of exchange restrictions is essential, besides gradually moving to a negative list for restricted FDI. However, the broader goal of promoting private sector development would require stronger efforts to improve the business climate by reducing administrative controls and the cost of doing business.

Authorities' Views

41. The authorities consider rural development essential for inclusive growth. They plan to further double harvest loans to farmers in 2012 and are considering jointly with the private sector to establish a rice purchase program to stabilize farm gate prices. They expect the planned land reform to facilitate productivity enhancements, including mechanization and use of improved inputs.

42. Industrialization is part of the authorities' new national economic plan. They target eliminating infrastructure bottlenecks, beginning with energy. To this end, they have opened up onshore exploration to international companies. They consider specialized economic zones as a focal point to attract FDI to focus on labor-intensive industries and view reforms of the exchange regime essential to facilitate this process.

F. Other Issues

Staff's Views

43. Capacity building is essential to improve data quality and coverage. Data remain grossly inadequate for surveillance due to capacity constraints and inadequate resources. Substantial TA is necessary to support the authorities' plans to upgrade their statistical practices.

44. Resolving external arrears would bolster the government's engagement with the international community. The recent reconciliation of Myanmar's outstanding obligations to Japan is a welcome first step and should be extended to all creditors. Myanmar remains in debt distress, primarily due to arrears, notwithstanding the improvement in debt indicators.[7]

Authorities' Views

45. The authorities included improving data quality as a priority in their new national economic plan. They plan to overhaul their statistical practices to eliminate the heritage of the past and see a great need for capacity building.

46. The authorities consider access to new funding essential to normalize arrears. They plan to extend the reconciliation exercise to all creditors, but noted the vast development needs as a constraint on payment capacity.

[7] See accompanying Debt Sustainability Analysis.

STAFF APPRAISAL

47. The new government has started the process of addressing Myanmar's development challenges. Unleashing Myanmar's high growth potential will require cross-cutting reforms and substantial technical assistance, both beginning with improvements to macroeconomic management. The authorities' top priority to reform the exchange rate system is well-placed and should be complemented by strengthening monetary and fiscal management to bolster the positive effects of planned exchange rate unification. In the medium term, modernizing the economy will be a process of removing impediments to growth by enhancing the business and investment climate, promoting agricultural productivity, modernizing the financial sector, and further liberalizing trade and FDI. Building human capital and poverty reduction are essential to benefit from these reforms.

48. The economic outlook is positive. Real GDP growth is expected to increase to 5½ percent in FY2011/12 and to 6 percent in FY2012/13, driven by commodity exports and higher investment. Inflation, projected at 4.2 percent for FY2011/12, is expected to rise to 5.8 percent in FY2012/13 as the recent decline in food prices phases out. Risks to this outlook are broadly balanced.

49. The planned adoption of a managed float is a welcome first step toward exchange rate unification. Steps to establish the necessary market infrastructure in line with IMF TA recommendations should continue, and require expeditious removal of some exchange restrictions to make a larger pool of foreign currency available for private imports and other transfers abroad.

50. The unification of the informal market exchange rates would require moving away from the 'export-first' policy. The authorities should prepare a plan to gradually remove all exchange restrictions on current international payments and transfers, and eliminate multiple currency practices (MPCs) by a target date. Pending such a plan, staff does not recommend the approval of the existing exchange restrictions and MPCs.

51. A monetary framework is a necessary complement to reforms of the exchange rate system. Plans to grant the CBM operational autonomy is a positive first step, and should include transferring all central banking functions from state banks to the CBM, and starting reserve money targeting. While the recent reduction in interest rates is welcome, there is no room for further interest rate cuts in light of economic outlook.

52. Further progress in reducing deficit monetization is needed to contain inflation pressures. Until treasury bond auctions can be established, expanding the retail sales of treasury bonds and lifting restrictions on state banks' and insurance company's holdings of treasury securities would further reduce deficit monetization. A treasury function is essential to improve public financial management, as well as better institutional arrangements to delineate fiscal responsibilities under fiscal decentralization.

53. The new government's first budget aims at redefining national spending priorities. Plans to increase social spending, while targeting a moderate fiscal deficit of 4½ percent of GDP in FY2012/13, are welcome, but there is further room to prioritize spending for poverty reduction and education.

54. In the medium term, a broadly balanced budget is appropriate. Increasing gas revenues should be used to expand Myanmar's growth potential by building human capital and infrastructure. More development spending would require lifting nonresource revenues by expanding tax bases through simplifying taxes and improving tax administration.

55. Reforms of SEEs should continue with improved transparency. The SEE losses that would be revealed with the adoption of a market-determined exchange rate should guide future SEE reforms. While explicit subsidies would avoid fast price hikes of utilities and essential inputs, a gradual reduction in regressive subsidies, which tend to benefit higher income groups, would contain their losses.

56. Financial sector modernization remains essential to facilitate development. Gradual liberalization of interest rates that began with deposit rates should be extended to loans, commissions, and fees. The recent efforts to improve financial intermediation should continue by lifting pervasive administrative controls on network expansions, phasing out the deposit-to-capital ratio, and expanding the list of allowable collateral. Liberalization should be complemented by strengthened supervision and regulation. Joint ventures with foreign banks would help prepare the sector for ASEAN financial integration in 2015.

57. Private sector development requires stronger efforts to improve the business climate. Eliminating nontransparent licensing practices and administrative controls would help provide a level playing field and reduce the cost of doing business. Gradually moving to a negative list for restricted FDI would reduce investor uncertainty.

58. Data remains grossly inadequate for surveillance. Substantial capacity building efforts are needed to improve coverage and quality of data.

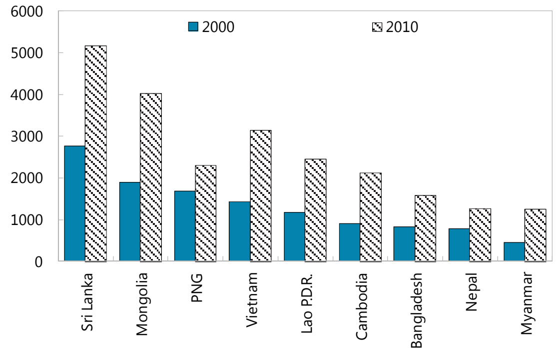
59. Resolving eternal arrears is essential to re-engage the international community. Recent efforts to reconcile arrears with Japan are welcome and should be extended to all creditors.

60. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Myanmar and Its Peers: Selected Indicators

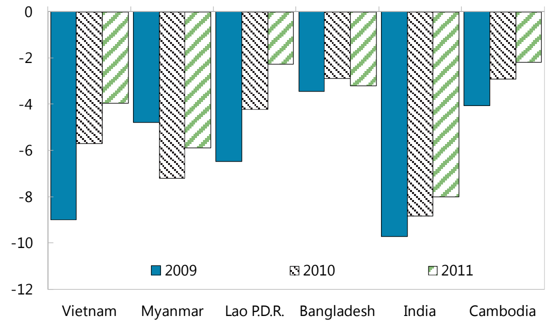
Living standards remain the lowest in the region.

Per Capita GDP (PPP)
(In U.S. dollars)



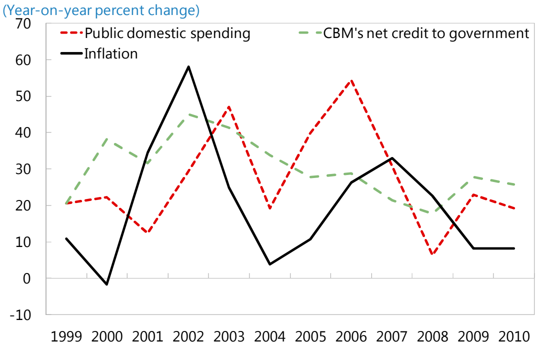
The fiscal deficits have not been excessive compared to Myanmar's peers....

General Government Balance
(In percent of GDP)



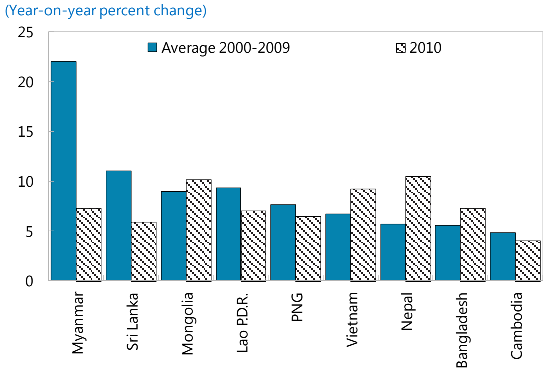
...but routine deficit monetization...

Public Domestic Spending, Credit to Government, and Inflation
(Year-on-year percent change)



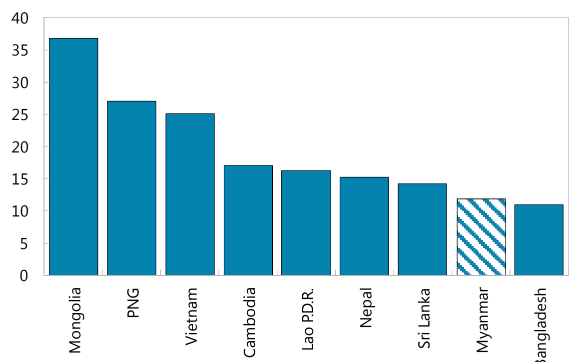
...led to episodes of high inflation.

Inflation
(Year-on-year percent change)



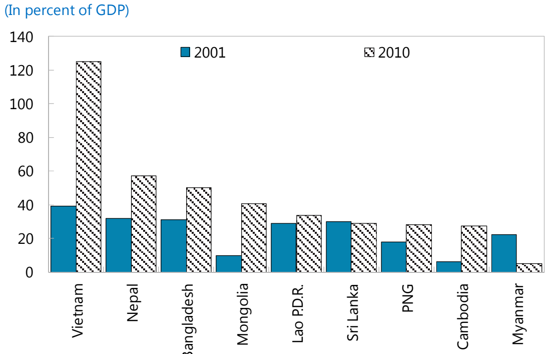
Low government revenues and poor privatization limit the scope for social expenditures.

Government Revenue Excluding Grants, 2010
(In percent of GDP)



Financial intermediation is depressed by pervasive controls on the banking sector.

Credit to the Economy
(In percent of GDP)

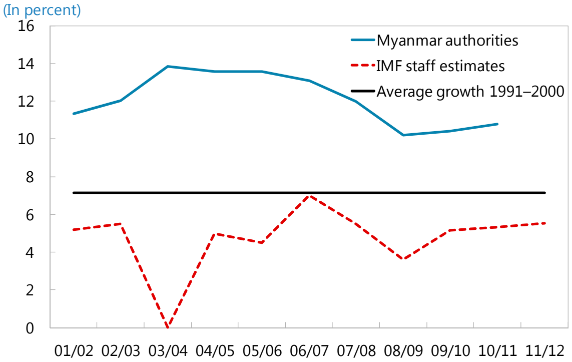


Sources: Authorities; Direction of Trade; IMF's *World Economic Outlook*; and IMF staff calculations.

Figure 2. Myanmar: Macroeconomic Developments

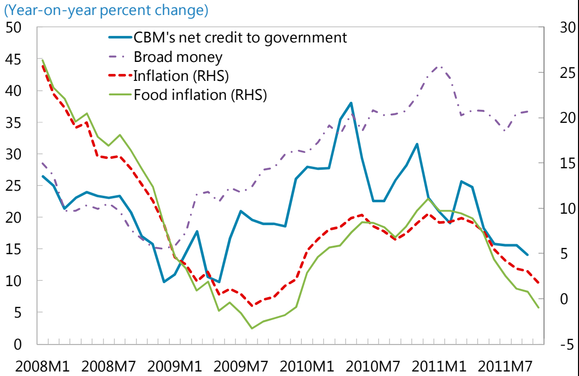
Growth is expected to pick up slightly, driven by commodity exports and improved business confidence due to reform momentum.

Real GDP Growth
(In percent)



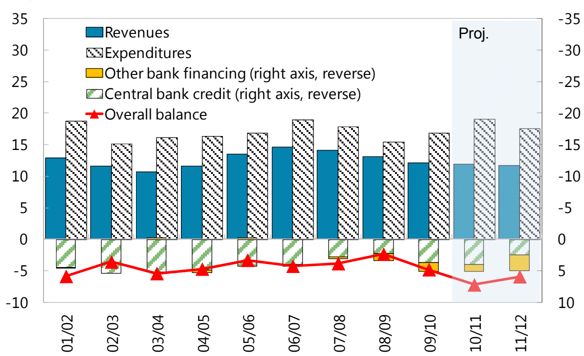
Inflation pressures are easing as global food prices moderate and deficit monetization is reduced.

Monetary Aggregates and Inflation
(Year-on-year percent change)



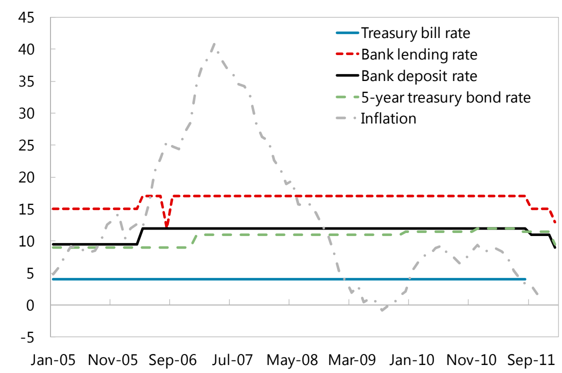
The fiscal deficit is narrowing, with a larger share financed by bonds...

Fiscal Overall Balance and Financing
(In percent of GDP)



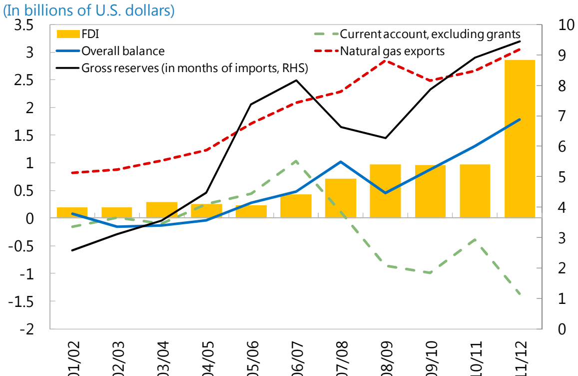
...helped by the recent interest rate adjustment.

Interest Rate and Inflation, 2005–11
(Percent)



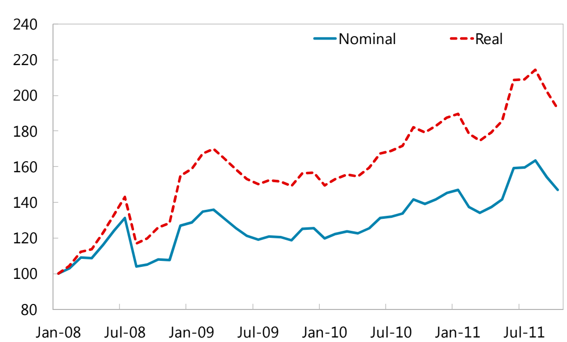
International reserves remain strong driven by gas exports and FDI inflows...

Balance of Payments
(In billions of U.S. dollars)



...notwithstanding strong appreciation of the kyat.

Real Effective Exchange Rate, 2008–11
(Index, Jan 2008=100)



Sources: Authorities; Direction of Trade; IMF's *World Economic Outlook*; and IMF staff calculations.

Table 1. Myanmar: Selected Economic Indicators, 2007/08–2012/13 1/

GDP (2010/11): US$45.4 billion 2/
Population (2007/08): 57.5 million
Quota: SDR 258.4 million

	2007/08	2008/09	2009/10	2010/11 Est.	2011/12 Proj.	2012/13 Proj. 3/
	(Percent change; unless otherwise indicated)					
Real GDP and prices						
Real GDP	12.0	10.3	10.6	10.4	...	...
Staff working estimates of real GDP	5.5	3.6	5.1	5.3	5.5	6.0
Agriculture 4/	8.0	3.4	4.7	4.4	4.4	4.5
Industrial production 5/	21.8	3.0	5.0	6.3	6.5	7.5
Services and trade	12.9	4.2	5.8	6.1	6.3	7.1
Consumer prices (period average)	32.9	22.5	8.2	8.2	4.2	5.8
Consumer prices (end of period)	28.8	9.2	7.1	8.9	5.0	5.4
	(In percent of GDP)					
Public sector operations 6/						
Total revenue (including grants)	14.1	13.1	12.1	11.9	11.4	21.6
Total expenditure 7/	17.9	15.5	16.9	17.9	16.9	26.1
Overall balance	-3.8	-2.4	-4.8	-6.0	-5.5	-4.6
Central bank financing	2.7	2.2	3.7	4.0	2.5	1.1
Domestic public debt	16.5	16.8	20.0	22.8	25.9	26.7
	(Annual percentage change)					
Money and credit						
Broad money	21.0	23.4	34.8	36.3	33.3	24.6
Domestic credit	22.1	24.0	34.8	34.4	32.5	26.8
Public sector (net)	23.3	25.6	34.4	28.5	23.8	15.7
Private sector	16.7	16.2	36.9	65.4	68.0	60.0
	(In millions of U.S. dollars, unless otherwise indicated)					
Balance of payments						
Trade balance	924	302	72	799	-238	-1,779
Exports	6,446	7,241	7,139	8,980	9,889	10,491
Imports	-5,522	-6,938	-7,067	-8,181	-10,127	-12,270
Current account balance (excluding grants)	89	-920	-947	-365	-1,385	-2,379
Overall balance	799	112	619	808	1,729	1,842
Gross official reserves						
In millions of U.S. dollars	3,054	3,629	4,638	6,070	7,903	9,889
In months of total imports	6.6	6.3	7.9	8.9	9.4	9.7
External debt						
Total external debt (including arrears)	8,082	9,101	9,970	11,240	11,841	12,419
(In percent of GDP) 2/	40.0	29.0	28.3	24.8	22.8	22.8
External debt arrears	3,858	4,359	4,781	5,405	5,510	5,654
Terms of trade (in percent change)	1.7	6.2	0.5	0.3	6.6	-2.8
Exchange rates (end of period)						
Official exchange rate (kyat per U.S. dollar)	5.2	5.8	5.7	5.4	5.2	...
FEC (parallel) rate (kyat per U.S. dollar) 8/	1,110	992	1,004	861	810	...
GDP in billions of kyats	23,336	28,778	32,351	36,436	39,805	44,621
GDP in millions of U.S. dollars 2/	20,182	31,367	35,225	45,380	51,925	54,416

Sources: Until FY2009/10 the authorities, with some adjustments by IMF staff; from FY2010/11 IMF staff estimations and projections.

1/ Fiscal year (April–March).
2/ Before FY2012/13, GDP converted at a weighted exchange rate, where the official and FEC market rates are weighted with about 8 and 92 percent, based on the respective shares of public and private sectors in GDP.
3/ The authorities plan to adopt a managed float in FY2012/13.
4/ Including livestock, fishery, and forestry.
5/ Including manufacturing, power, energy, construction, and mining.
6/ Consolidated public sector; includes the Union government and state economic enterprises.
7/ The SPDC (the political organization of the military) budget has been reduced by about 75 percent in FY2011/12 (about 2.6 percent of GDP).
8/ The foreign exchange rate for FY2011/12 is as of January 2012.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2007/08–2017/18

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 1/	2013/14	2014/15	2015/16	2016/17	2017/18
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
						(In billons of kyats)					
Consolidated accounts											
Revenue 2/	3,283	3,772	3,909	4,337	4,551	9,622	10,975	12,071	12,645	13,430	14,338
Of which: Revenue from gas exports	7	9	8	10	10	1,646	2,110	2,467	2,440	2,425	2,425
Tax	875	1,045	1,077	1,083	1,064	1,459	1,638	1,831	1,990	2,187	2,416
Grants 3/	0.2	0.3	0.5	0.4	0.4	55.4	55.6	55.7	55.8	55.9	55.9
Other revenue	2,409	2,727	2,832	3,253	3,487	8,107	9,281	10,185	10,599	11,187	11,865
Expenditure	4,177	4,450	5,463	6,513	6,747	11,662	12,420	12,991	13,628	14,369	15,296
Expense 2/	2,557	2,767	3,035	3,522	4,390	6,680	7,032	7,246	7,546	7,927	8,335
Net acquisition of non-financial assets	1,620	1,683	2,428	2,991	2,357	4,982	5,388	5,745	6,083	6,441	6,962
Gross operating balance (current balance)	726	1,005	874	815	162	2,942	3,943	4,825	5,099	5,503	6,003
Net lending/borrowing (overall balance)	-894	-678	-1,554	-2,176	-2,195	-2,040	-1,446	-920	-983	-939	-958
Net acquisition of financial assets	-1.4	-49.8	-76.7	-120	-217	-177	-137	-87	-72	-37	-27
Net receipts from privatization of SEEs (shares and other equities)	-1.4	-49.8	-76.7	-120	-217	-177	-137	-87	-72	-37	-27
Net incurrence of liabilities	892	628	1,477	2,056	1,978	1,863	1,309	833	911	902	931
Domestic	724	980	1,656	1,844	1,977	1,621	1,056	545	623	601	610
Securities other than shares	83	323	461	435	972	1,129	786	443	569	596	609
Treasury bonds	56	122	245	766	1,013	1,155	805	443	569	596	609
Treasury bills	27	201	216	-331	-41	-26	-19	0	0	0	0
Loans (central bank credit)	641	657	1,195	1,409	1,005	492	270	102	55	4	0
Bank financing	724	980	1,656	1,844	1,977	1,621	1,056	545	623	601	610
Foreign	1.1	2.0	0.8	1.1	1.4	242.4	252.9	288.4	287.9	300.9	321.8
Loans (net on accrual basis) 3/	-0.4	-0.9	-1.6	-2.3	0.8	137.8	160.6	181.8	187.6	199.0	218.8
Disbursements	1.9	2.3	1.7	2.0	2.1	320.3	348.9	370.8	387.8	410.5	430.3
Amortization due	-2.3	-3.3	-3.3	-4.2	-1.3	-182.5	-188.3	-189.0	-200.2	-211.5	-211.5
Change in external arrears 3/	1.5	2.9	2.5	3.4	0.5	104.5	92.3	106.7	100.3	101.9	103.0
Interest	0.2	0.6	0.0	0.0	0.2	18.9	16.3	17.5	8.4	6.4	5.2
Principal	1.3	2.2	2.5	3.4	0.3	85.6	76.0	89.2	91.9	95.5	97.8
Statisical discrepancy	167	-354	-180	211	0	0	0	0	0	0	0
						(In percent of GDP)					
Consolidated accounts											
Revenue	14.1	13.1	12.1	11.9	11.4	21.6	22.0	21.9	20.7	19.8	19.0
Of which: Gross revenue from gas exports	0.0	0.0	0.0	0.0	0.0	3.7	4.2	4.5	4.0	3.6	3.2
Of which: Tax revenue	3.7	3.6	3.3	3.0	2.7	3.3	3.3	3.3	3.3	3.2	3.2
Of which: Net transfers from SEEs	2.9	2.8	2.5	2.5	2.5	5.4	6.8	7.9	7.7	7.4	7.2
Expenditure	17.9	15.5	16.9	17.9	16.9	26.1	24.9	23.6	22.3	21.2	20.3
Expense	11.0	9.6	9.4	9.7	11.0	15.0	14.1	13.1	12.3	11.7	11.0
Net acquisition of nonfinancial assets 4/	6.9	5.8	7.5	8.2	5.9	11.2	10.8	10.4	9.9	9.5	9.2
Gross operating balance (current balance)	3.1	3.5	2.7	2.2	0.4	6.6	7.9	8.8	8.3	8.1	7.9
Net lending/borrowing (overall balance)	-3.8	-2.4	-4.8	-6.0	-5.5	-4.6	-2.9	-1.7	-1.6	-1.4	-1.3
Of which: Bank financing	3.1	3.4	5.1	5.1	5.0	3.6	2.1	1.0	1.0	0.9	0.8

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2007/08–2017/18 (Detailed & Concluded)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 1/	2013/14	2014/15	2015/16	2016/17	2017/18
		Prel.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
						(In billons of kyats)					
General government											
Revenue	1,701	2,097	2,160	2,430	2,452	4,304	5,507	6,699	7,196	7,748	8,425
Taxes 5/	875	1,045	1,077	1,083	1,064	1,459	1,638	1,831	1,990	2,187	2,416
Grants 3/	0.2	0.3	0.5	0.4	0.4	55.4	55.6	55.7	55.8	55.9	55.9
Other revenues	827	1,052	1,083	1,346	1,388	2,789	3,814	4,813	5,151	5,504	5,953
Transfers from state economic enterprises	686	807	793	899	990	2,387	3,396	4,377	4,698	5,036	5,469
Other nontax revenue 6/	141	244	289	447	398	402	418	435	452	469	483
Expenditure	2,161	2,269	3,175	4,078	4,123	5,800	6,373	6,905	7,387	7,852	8,506
Expense	812	937	1,159	1,445	2,178	2,515	2,756	2,955	3,143	3,360	3,609
Conpensation to employees	268	308	372	464	605	691	773	836	898	964	1,027
Wages and salaries	262	263	310	389	519	594	670	727	783	843	900
Contributions	6	46	61	76	87	97	104	109	115	121	127
Use of goods and services	126	175	169	181	457	503	561	621	689	765	851
Goods and services	84	99	102	111	284	310	346	383	424	471	524
Maintenance and repairs	42	76	67	70	172	193	216	239	265	294	327
Interest	147	181	263	415	513	644	675	676	651	632	628
Domestic	146	181	263	415	512	610	646	638	632	617	615
External (due) 3/	0.2	0.2	0.4	0.4	0.6	34.2	28.9	37.7	19.0	15.2	12.6
Social benefits	27	27	27	34	269	386	386	386	386	386	386
Other 7/	244	245	300	317	335	290	361	435	519	612	717
Net acquisition of nonfinancial assets	1,349	1,332	2,016	2,633	1,945	3,285	3,617	3,950	4,244	4,492	4,896
Gross operating balance (current balance)	889	1,160	1,001	985	274	1,789	2,751	3,744	4,053	4,387	4,816
Net lending/borrowing (overall balance)	-460	-172	-1,015	-1,648	-1,671	-1,496	-866	-206	-190	-104	-80
State economic enterprises											
Revenue	2,268	2,482	2,542	2,806	3,089	7,706	8,863	9,749	10,147	10,718	11,382
Expenditure	2,702	2,988	3,081	3,334	3,613	8,250	9,443	10,464	10,940	11,553	12,260
Expense	2,431	2,637	2,669	2,976	3,201	6,553	7,671	8,668	9,101	9,603	10,195
Net acquisition of nonfinancial assets	270	351	412	358	412	1,697	1,772	1,796	1,839	1,950	2,065
Gross operating balance (current balance)	-163	-155	-127	-170	-112	1,153	1,192	1,081	1,046	1,115	1,187
Net lending/borrowing (overall balance)	-434	-506	-539	-528	-524	-544	-580	-715	-793	-835	-878

Sources: Budget Department, Ministry of Finance and Revenue; and IMF staff estimates and projections.

1/ The official exchange rate is assumed to be abolished with the adoption of a market-based exchange rate in FY2012/13.
2/ Revised to reflect the nonzero balance of SEEs. Consolidated revenue includes all revenue receipts of SEEs instead of only net SEE transfers. Consolidated current expenditure includes current expenditure of Union government and SEEs, net of net SEEs transfers to the union budget.
3/ Converted at the official exchange rate before FY2012/13, when the official exchange rate is replaced by a market-determined exchange rate.
4/ The SPDC (the political organization of the military) budget has been reduced by about 75 percent in FY2011/12 (about 2.6 percent of GDP).
5/ From FY2011/12, includes property and wheel tax. From FY2009/10, includes state lottery revenues, which had been in other nontax revenue.
6/ From FY2011/12, other nontax revenue include certain local development councils (e.g., Yangon, Mandalay, etc), which were not included earlier.
7/ Includes current expenditures of the Ministry of Defense and pension and gratuities.

Table 3. Myanmar: Monetary Survey, 2007/08–2012/13 1/

	2007/08	2008/09	2009/10	2010/11	2011/12		2012/13
					Jun	Est.	Proj.
	(In billions of kyats, end of period)						
Monetary authorities' accounts							
Net foreign assets 2/ 3/	12.9	17.9	21.4	26.0	29.6	33.7	6,677.7
Foreign assets 2/	16.0	20.9	25.9	30.4	34.0	40.0	7,631.0
Foreign liabilities 2/	3.1	3.0	4.5	4.5	4.4	6.3	953.3
Domestic credit (net)	3,652.7	4,301.5	5,517.6	7,162.1	6,773.5	8,400.3	9,199.9
Claims on central government (net)	3,641.0	4,287.3	5,475.9	6,882.8	6,712.7	7,887.9	8,380.1
Claims on deposit money banks	11.8	14.2	41.7	279.4	60.8	512.4	819.8
Other items (net)	-67.8	-91.4	-131.8	-159.3	-236.3	54.4	-6,281.0
Valuation gains/losses 4/							-6,633.6
Reserve money	3,561.9	4,187.1	5,363.0	7,001.2	6,535.3	8,488.4	9,596.7
Monetary survey							
Net foreign assets 2/	-1.6	2.0	4.2	6.3	10.1	15.9	3,977.4
Net domestic assets	4,390.2	5,414.5	7,299.6	9,949.0	10,462.3	13,252.6	12,548.9
Domestic credit	4,607.2	5,712.3	7,699.9	10,348.2	11,037.0	13,708.0	17,378.2
Claims on public sector (net)	3,834.7	4,814.5	6,470.6	8,314.9	8,755.6	10,292.0	11,912.7
Claims on private sector (net)	772.6	897.8	1,229.3	2,033.3	2,281.4	3,416.0	5,465.6
Other items (net)	-217.0	-297.8	-400.3	-399.3	-574.7	-455.4	-4,829.3
Valuation gains/losses 4/							-3,951.1
Broad money 2/	4,392.5	5,420.7	7,304.9	9,957.4	10,474.4	13,268.5	16,526.3
Narrow money	3,081.6	3,589.7	4,660.4	5,901.6	5,859.6	7,484.0	8,604.6
Of which: Currency	2,810.4	3,194.1	4,008.4	4,824.9	4,688.4	5,725.9	6,308.9
Quasi-money	1,310.8	1,831.0	2,644.5	4,055.8	4,614.9	6,264.7	9,303.5
	(Annual percentage change)						
Domestic credit	22.1	24.0	34.8	34.4	31.8	32.5	26.8
Claims on public sector	23.3	25.6	34.4	28.5	26.5	23.8	15.7
Claims on private sector	16.7	16.2	36.9	65.4	57.5	68.0	60.0
Broad money 2/	21.0	23.4	34.8	36.3	35.8	33.3	24.6
Narrow money	16.8	16.5	29.8	26.6	23.1	26.8	15.0
Of which: C urrency in circulation	17.4	13.7	25.5	20.4	14.5	18.7	10.2
Quasi-money	32.3	39.7	44.4	53.4	56.2	54.5	48.5
Reserve money	20.8	17.6	28.1	30.5	16.8	21.2	13.1
	(Contribution to annual growth of broad money, in percent)						
Broad money 2/							
Net foreign assets	0.0	0.1	0.0	0.0	0.1	0.1	29.9
Domestic credit	23.0	25.2	36.7	36.3	34.6	33.7	27.7
Other items (net)	-2.1	-1.8	-1.9	0.0	1.1	-0.6	-33.0
Memorandum items:							
Velocity	5.3	5.3	4.4	3.7	3.8	3.0	2.7
Money multiplier (broad money/reserve money)	1.2	1.3	1.4	1.4	1.6	1.6	1.7
Gross official reserves (in billions of U.S. dollars) 5/	3.1	3.6	4.6	6.1	6.1	7.9	9.9
Private sector credit (in percent of GDP)	3.3	3.1	3.8	5.6	6.3	8.6	12.2

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

1/ Figures represent the end of fiscal year in March.
2/ Converted at the official exchange rate before FY2012/13, when the official exchange rate is replaced by a market-determined exchange rate.
3/ Holdings of foreign assets by banking and financial agencies of the government.
4/ Due to adoption of a market-determined exchange rate.
5/ Reserve holdings by state-owned resident banks.

Table 4. Myanmar: Balance of Payments, 2007/08–2017/18

(In millions of U.S. dollars, unless otherwise indicated)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
					Est.			Proj.			
Trade balance	924	302	72	799	-238	-1,779	-833	824	-366	-1,194	-1,984
Exports, mainly f.o.b.	6,446	7,241	7,139	8,980	9,889	10,491	11,996	13,827	14,151	15,047	16,252
Public exports	4,061	4,562	4,105	5,388	5,439	5,660	6,892	7,950	8,207	8,667	9,248
Of which: Gas	2,282	2,849	2,480	2,657	3,047	3,022	4,039	4,843	4,795	4,658	4,628
Private exports	2,256	2,607	2,963	3,502	4,450	4,831	5,104	5,876	5,943	6,380	7,005
Imports, mainly c.i.f.	5,522	6,938	7,067	8,181	10,127	12,270	12,829	13,003	14,517	16,241	18,236
Private imports	4,031	5,551	4,947	5,891	6,582	7,853	8,467	8,842	10,307	11,775	13,495
Services, net	-1,062	-1,556	-1,289	-1,413	-1,413	-892	-1,589	-2,297	-2,420	-2,536	-2,383
Receipts	478	487	487	543	588	639	701	775	861	968	1,101
Payments	1,540	2,043	1,776	1,956	2,000	1,531	2,289	3,072	3,281	3,505	3,485
Private transfers, net	227	334	270	250	265	292	335	362	391	422	456
Current account, excluding grants	89	-920	-947	-365	-1,385	-2,379	-2,086	-1,111	-2,396	-3,308	-3,911
Official grants	42	60	246	70	70	70	70	70	70	70	70
Nonmonetary capital movements	676	816	993	576	3,044	4,151	2,531	1,725	1,765	1,664	1,745
Long term, net	-73	-162	-292	-414	156	131	189	225	120	-147	-255
Disbursements	374	406	299	360	405	405	440	466	487	514	539
Repayments due	448	567	591	774	249	274	250	241	366	661	794
Foreign direct investment	715	976	963	969	2,863	3,995	2,317	1,475	1,620	1,786	1,975
Other capital, net 1/	34	2	322	21	25	25	25	25	25	25	25
Errors and omissions, net	-8	156	326	526	0	0	0	0	0	0	0
Overall balance	799	112	619	808	1,729	1,842	516	685	-560	-1,574	-2,096
Financing	-799	-112	-619	-808	-1,729	-1,842	-516	-685	560	1,574	2,096
Net international reserves (- increase)	-1,094	-613	-1,041	-1,432	-1,833	-1,986	-676	-860	355	1,296	1,791
Gross reserves (- increase)	-1,053	-575	-1,009	-1,432	-1,833	-1,986	-676	-860	355	1,296	1,791
Of which: SDR allocation	...	...	320	...	...	...	...	...	...	...	...
Short-term liabilities	-41	-39	-32	0	0	0	0	0	0	0	0
Net increase in arrears	295	501	422	624	105	145	160	176	205	278	305
Memorandum items:											
Current account balance (in percent of GDP 2/ 3/)	0.4	-2.9	-2.7	-0.8	-2.7	-4.4	-3.5	-1.8	-3.5	-4.6	-5.1
Export volumes (percent change)	...	-6.1	3.2	18.3	-2.9	6.8	21.2	18.9	2.8	4.7	6.5
Import volumes (percent change)	...	28.1	6.8	9.0	9.5	8.9	11.2	11.4	11.7	11.9	12.3
Gross reserves, end-period	3,054	3,629	4,638	6,070	7,903	9,889	10,565	11,426	11,071	9,775	7,984
(In months of imports)	6.6	6.3	7.9	8.9	9.4	9.7	9.9	10.5	9.2	7.2	5.3
Net reserves, end-period	3,357	3,800	5,023	5,860	7,693	9,679	10,355	11,216	10,861	9,565	7,774
Total external debt	8,082	9,101	9,970	11,240	11,841	12,419	12,921	13,409	13,859	14,159	14,426
(In percent of GDP2/ 3/)	40.0	29.0	28.3	24.8	22.8	22.8	21.9	21.2	20.4	19.6	18.9
Ratio of external debt to exports of goods and nonfactor services	1.2	1.2	1.3	1.2	1.1	1.1	1.0	0.9	0.9	0.9	0.9
External debt arrears 4/	3,858	4,359	4,781	5,405	5,510	5,654	5,815	5,991	6,196	6,474	6,779
External debt service (in percent of goods and nonfactor service exports)	7.7	5.9	4.3	3.1	3.9	5.1	5.0	4.8	5.4	6.9	7.3
Ratio of broad money (M2) to gross reserves	1.3	1.5	1.6	1.9	2.1	2.0	2.2	2.3	2.6	3.1	4.1
Terms of trade (percent change)	1.7	6.2	0.5	0.3	6.6	-2.8	-5.6	-3.2	-0.8	1.3	1.1

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

1/ Includes the 2009 general SDR allocation of SDR 191.6 million and the 2009 special one-time allocation of SDR 10.7 million.

2/ Converted at the official exchange rate before FY2012/13, when the official exchange rate is replaced by a market-determined exchange rate.

3/ Excluding grants.

4/ Increases in arrears from existing loans coming due and accrued interest not paid.

Table 5. Myanmar: Medium-Term Projections, 2007/08–2017/18

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
				Est.				Proj. 1/			
					(Percentage change)						
GDP (in constant prices)	12.0	10.3	10.6	10.4	...	...	...	...	...	...	...
Staff working estimates of real GDP	5.5	3.6	5.1	5.3	5.5	6.0	5.9	6.0	6.2	6.3	6.5
Agriculture 2/	8.0	3.4	4.7	4.4	4.4	4.5	4.9	5.0	5.3	5.4	5.6
Industrial production 3/	21.8	3.0	5.0	6.3	6.5	7.5	6.7	6.5	6.6	6.7	7.1
Services and trade	12.9	4.2	5.8	6.1	6.3	7.1	6.8	6.9	7.0	7.1	7.2
Inflation (CPI, end of period)	28.8	9.2	7.1	8.9	5.0	5.4	5.3	5.3	5.3	5.3	5.3
					(In percent of GDP)						
Public finances											
Total revenue (including grants)	14.1	13.1	12.1	11.9	11.4	21.6	22.0	21.9	20.7	19.8	19.0
Total expenditure	17.9	15.5	16.9	17.9	16.9	26.1	24.9	23.6	22.3	21.2	20.3
Of which: Capital expenditure	6.9	5.8	7.5	8.2	5.9	11.2	10.8	10.4	9.9	9.5	9.2
Overall balance	-3.8	-2.4	-4.8	-6.0	-5.5	-4.6	-2.9	-1.7	-1.6	-1.4	-1.3
Estimated domestic public debt	16.5	16.8	20.0	22.8	25.9	26.7	26.1	24.5	23.1	21.7	20.3
Estimated total public debt	56.5	45.8	48.3	47.6	48.7	49.5	48.0	45.7	43.5	41.3	39.2
					(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments											
Exports (in percentage change)	23.9	12.3	-1.4	25.8	10.1	6.1	14.3	15.3	2.3	6.3	8.0
Imports (in percentage change)	88.0	25.6	1.8	15.8	23.8	21.2	4.6	1.4	11.6	11.9	12.3
Trade balance	924	302	72	799	-238	-1,779	-833	824	-366	-1,194	-1,984
(In percent of GDP) 4/	4.6	1.0	0.2	1.8	-0.5	-3.3	-1.4	1.3	-0.5	-1.7	-2.6
Current account (excluding grants)	89	-920	-947	-365	-1,385	-2,379	-2,086	-1,111	-2,396	-3,308	-3,911
(In percent of GDP) 4/	0.4	-2.9	-2.7	-0.8	-2.7	-4.4	-3.5	-1.8	-3.5	-4.6	-5.1
Grants	42	60	246	70	70	70	70	70	70	70	70
Capital account	676	816	993	576	3,044	4,151	2,531	1,725	1,765	1,664	1,745
Of which: FDI	715	976	963	969	2,863	3,995	2,317	1,475	1,620	1,786	1,975
Errors and omissions	-8	156	326	526	0	0	0	0	0	0	0
Overall balance	799	112	619	808	1,729	1,842	516	685	-560	-1,574	-2,096
					(In millions of U.S. dollars, unless otherwise indicated)						
External debt and reserves											
Total external debt (including arrears)	8,082	9,101	9,970	11,240	11,841	12,419	12,921	13,409	13,859	14,159	14,426
(In percent of GDP) 4/	40.0	29.0	28.3	24.8	22.8	22.8	21.9	21.2	20.4	19.6	18.9
External debt arrears	3,858	4,359	4,781	5,405	5,510	5,654	5,815	5,991	6,196	6,474	6,779
Gross official reserves	3,054	3,629	4,638	6,070	7,903	9,889	10,565	11,426	11,071	9,775	7,984
(In months of total imports)	6.6	6.3	7.9	8.9	9.4	9.7	9.9	10.5	9.2	7.2	5.3

Sources: Data provided by the Myanmar authorities, with adjustments made by IMF staff; and IMF staff projections.

1/ The authorities plan to adopt a managed float in FY2012/13.

2/ Including livestock, fishery, and forestry.

3/ Including manufacturing, power, energy, construction, and mining.

4/ Before FY2012/13, GDP converted at a weighted exchange rate, where the official and FEC market rates are weighted about 8 and 92 percent,based on the public and private sectors' respective shares in GDP.

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

March 2, 2012

Approved By
Masato Miyazaki and Dhaneshwar Ghura (IMF)

Prepared By
International Monetary Fund

Although the debt indicators show a moderate risk of debt distress based on a forward-looking analysis, the presence of substantial arrears and uncertainty about timing and modality of their resolution pose substantial risks to the debt outlook. Thus, Myanmar remains classified as in debt distress.[2] *The projected path of Myanmar's external and public debt burden indicators improves significantly in the medium and long term compared to last year's DSA, primarily due to increasing fiscal revenues with the planned adoption of a market-determined exchange rate and a better outlook for the economy. While external debt burden indicators do not breach the relevant indicative thresholds under the baseline scenario, the debt level is sensitive to shocks such as shortfalls in exports as indicated in standard bound tests. Myanmar's overall public sector debt indicators are high in the short term, but are expected to show a decreasing trend over the longer term. Under an alternative scenario with a fixed higher primary deficit or permanently lower growth over the medium and long term, Myanmar's public debt sustainability would deteriorate. These vulnerabilities underscore the importance of sound macroeconomic policies to improve Myanmar's growth potential on a sustained basis, including by strengthening public financial management and export diversification.*

[1] This DSA has been prepared by IMF staff only, since IDA has suspended its financial relationship with Myanmar due to arrears.

[2] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the Low-Income Country Debt Sustainability Analysis (LIC-DSA) framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy-dependent. The quality of a country's policies and institutions are normally measured by the World Bank's Country Policy and Institutional Assessment (CPIA). Since Myanmar does not currently have a CPIA rating, the most conservative thresholds are applied for the purposes of this DSA. The thresholds, which apply to external PPG debt, are: 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, 200 percent for the NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 25 percent for the debt service-to-revenue ratio.

BACKGROUND

1. The external and public debt sustainability analyses are based on the standard LIC DSA framework. The DSA framework presents the projected path of Myanmar's external and public sector debt burden indicators, and draws some conclusions on the forward-looking sustainability of debt.

2. Myanmar's DSA builds on the baseline scenario assumptions presented in Box 1. Compared to last year's DSA (2010) baseline macroeconomic scenario, the economic outlook under the baseline has improved due to planned economic reforms and improved business confidence (Box 1). In particular, the current DSA assumes going forward that the planned adoption of a market-based exchange rate would result in a smaller fiscal deficit in the medium term, and broadly balanced budget in the long term as opposed to a deficit of 3½ percent of GDP in the previous DSA.

3. Myanmar's total public sector debt stock is high at over 45 percent of GDP. Total public debt is estimated at 47½ percent of GDP in 2010—of which more than half was foreign currency denominated (Table 1a)—slightly lower from 48½ percent of GDP in 2009. However, the outlook on debt indicators improved primarily owing to projected smaller deficits and robust real GDP growth.

4. Accelerating economic growth and real exchange rate appreciation have contributed to a decline in debt ratios over the past years. At the end of 2010, Myanmar's external public and publicly guaranteed (PPG) debt stock was 24½ percent of GDP in nominal terms and 17¾ percent in net present value (NPV) terms. For 2011, the debt stock in PV terms as a share of GDP, as a share of exports of goods and nonfactor services, and of government revenues is projected to further decline to 15½ percent, 77½ percent and 138½ percent, respectively. Myanmar's net nonconcessional new borrowings started to increase from FY2008/09, reaching 5 percent of total external debt in FY2010/11. China is the largest emerging creditor accounting for about 30 percent of the net increase in nonconcessional loans in 2010.

Myanmar: External PPG Debt Indicators at end-2010

	Indicative Thresholds	End-2010
NPV of debt, as a percent of:		
GDP	30	17.8
Exports	100	84.8
Revenue	200	151.5
Debt service, as a percent of:		
Exports	15	3.1
Revenue	25	5.6

Sources: IMF and World Bank.

Myanmar: Net Nonconcessional New External Borrowings 2007/08–2010/11
(In millions of U.S. dollars)

	2007/08	2008/09	2009/10	2010/11
Nonconcessional New Borrowings	-30.9	315.8	288.4	645.8
(in percent of total external debt)	-0.3	2.8	2.4	5.0

Sources: Myanmar authorities and IMF staff estimates.

5. Myanmar has accumulated substantial external arrears over many years. At the end of 2010, external arrears stood at US$5.4 billion, accounting for 48 percent of total PPG external

Box 1. Myanmar: Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (2011–31)

- **Real GDP growth** is assumed at 6 percent, driven by commodity exports and higher investment supported by robust credit growth and improved business confidence.
- **Inflation**, projected on average at 5.5 percent y/y in the medium term, is expected to continue trending down and stabilize around 3.5 percent in the long term. This is based on the assumption of smaller fiscal deficits and substituting deficit monetization with bond financing.
- The overall fiscal deficit in terms of GDP is expected to narrow from about 5½ percent in 2011 to 1¼ percent in 2017, before gradually reaching a broadly balanced budget by 2031. **Revenue** would be the main driver of consolidation and is expected to rise to over 20 percent of GDP in the medium term owing to the positive budgetary impact of exchange rate unification and substantial increase in gas export revenues with the completion of Shwe and Zawtika projects. Revenue is expected to stay over 19½ percent of GDP over the long term, implying modest improvement in non-resource based tax revenues. Compared with previous DSAs, revenue, defined as consolidated nonfinancial public sector revenue, is revised to reflect the non-zero balance of SEEs and include all revenue receipts of SEEs instead of only net SEE transfers. Correspondingly, consolidated current expenditure includes current expenditure of union government and SEEs after netting out the net transfers to the union budget. **Public expenditure** would remain mostly at around 20 percent through the medium term, and be kept below 19½ percent up to 2031.
- The growth of **exports** averages around 9 percent, in the medium term reflecting new natural gas projects coming on stream. Over the longer term, export growth remains robust, averaging around 11 percent, driven by export diversification beyond commodity exports supported by higher investment, including foreign direct investment.
- The growth of **imports** averages around 10¼ percent in the medium term given the authorities' plan to gradually remove exchange restrictions on current international payments and transfers. Over the longer term, import growth would stay around 10 percent, reflecting the need for imported capital goods to support development.
- The **current account** (including official transfers), which in 2011 was in deficit, is expected to remain in deficit over the medium and longer term.
- As of end-FY2010/11, around 20 percent of **public domestic debt** is in the form of treasury bonds, with the rest in the form of treasury bills (bearing a nominal interest rate of 4 percent). Treasury bonds are issued in maturities of two, three, and five years, bearing nominal interest at rates of 8.75, 9, and 9.5 percent, respectively. **Average real interest rates** on domestic public debt was negative in 2010 due to rising inflation and fixed low nominal interest rates on treasury bills, the majority of debt. However, they turned positive in 2011 due to subsiding inflation and increasing share of deficit financing through higher interest-paying treasury bonds. They are projected to remain positive in the medium and longer term in line with government's plan to totally shift toward bond financing of the deficit.
- The new **financing** needs are assumed to be met in half by foreign exchange debt with the remainder financed by domestic medium and long-term debt. The new external debt is assumed to be 20 year loans with five-year grace period and 4 percent interest rate in line with recent actual borrowing. Average maturity of three years is assumed for new domestic borrowings.
- **Arrears** to foreign creditors constitute a significant part of the stock of foreign debt (Table 3). Given the very early stage of reconciling arrears with creditors, the DSA, as in the past, assumes no rescheduling of arrears or resumption on repayments. For similar reasons, aid flows are also assumed to remain at their current levels. Given the suspension of financial relationship between Myanmar and its Paris Club and multilateral creditors, debt numbers reported by authorities may be lower than the numbers on creditors' books, which imposes an **upside risk** on Myanmar's debt burden indicators.

Box 1. Myanmar: Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (2011–31) (concluded)

Myanmar: Key Macroeconomic Assumptions

	2011 DSA Baseline		Historical	2010 DSA Baseline		Historical
	2011/12–2016/17	2017/18–2031/32	Average	2010/11–2015/16	2016/17–2029/30	Average
Real GDP growth	5.9	6.0	10.4	5.5	5.7	11.2
Inflation (GDP deflator growth; in U.S. dollar terms)	4.6	3.2	9.4	7.8	7.6	6.3
Overall fiscal deficit (in percent of GDP)	-2.9	-0.3	-4.4	-4.2	-4.0	-4.7
Exchange rate, end of period	796.8	919.0	889.5	935.0	2571.0	845.0
Non-interest current account	-2.6	-2.8	1.0	-0.4	6.9	1.3
Revenue (nonfinancial public sector; in percent of GDP)	19.6	19.6	12.6	6.9	6.9	6.1

Source: IMF staff estimates.

debt.[3] About 80 percent of external debt in arrears is owed to bilateral creditors with the remainder split between multilateral and private creditors (Table 3). Recently, the authorities began the reconciliation of their arrears number with Japan and expect to extend this process to other creditors.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

6. All external debt indicators remain below the debt burden thresholds under the baseline scenario, and are expected to decline further over the projection period (Figure 1 and Table 1a). During the projection period, the PV of the debt-to-GDP ratio decreases from about 16 percent in 2011 to about 6 percent in 2031 (compared to an indicative threshold of 30 percent), while the PV of the debt-to-exports ratio decreases from about 78 percent in 2011 to about 24 percent in 2031 (compared to an indicative threshold of 100 percent). The PV of the-debt-to-revenue ratio declines from about 139 percent in 2011 to about 32 percent in 2031 (indicative threshold: 200 percent). The debt service-to-exports and debt service-to-revenue ratios stay below the indicative thresholds throughout the entire projection period despite the projected high debt service burden during 2011–21.

7. The standard stress tests do not reveal any significant vulnerability with the exception of NPV of debt-to-exports ratio (Figure 1 and Table 2b). A one-standard-deviation shortfall in export growth in 2012–13 compared with historical average would push the NPV of debt-to-exports ratio to 109 percent, highlighting the need for export diversification and addressing structural impediments to external competitiveness.

[3] Data on external debt and arrears are provided by the Myanmar authorities and may be different from those reported by individual creditors.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

8. The nominal debt stock would increase modestly to 47.9 percent of GDP (42½ percent of GDP in NPV terms) by end-2012 before it declines steadily thereafter. This reflects the smaller fiscal deficits and better economic outlook envisaged under the baseline over the medium term (Table 2a). The PV of public debt-to-GDP ratio and the PV of public debt-to-revenue ratio would decline gradually over the long term to 12½ percent and 64¼ percent, respectively. The debt service-to-revenue ratio remains low for the entire projection period and will reach 3¼ percent by 2031 under the baseline.

9. Stress tests indicate that vulnerabilities remain throughout the projection period. Under a permanent growth shock, the level of public debt (as a share of GDP) stays high and would be at 43 percent of GDP (in PV terms) in 2031. If the primary balance remains unchanged at its 2011 level, the PV of public debt-to-GDP continues to rise to 71 percent by 2031 (Table 2b).

STAFF ASSESSMENT

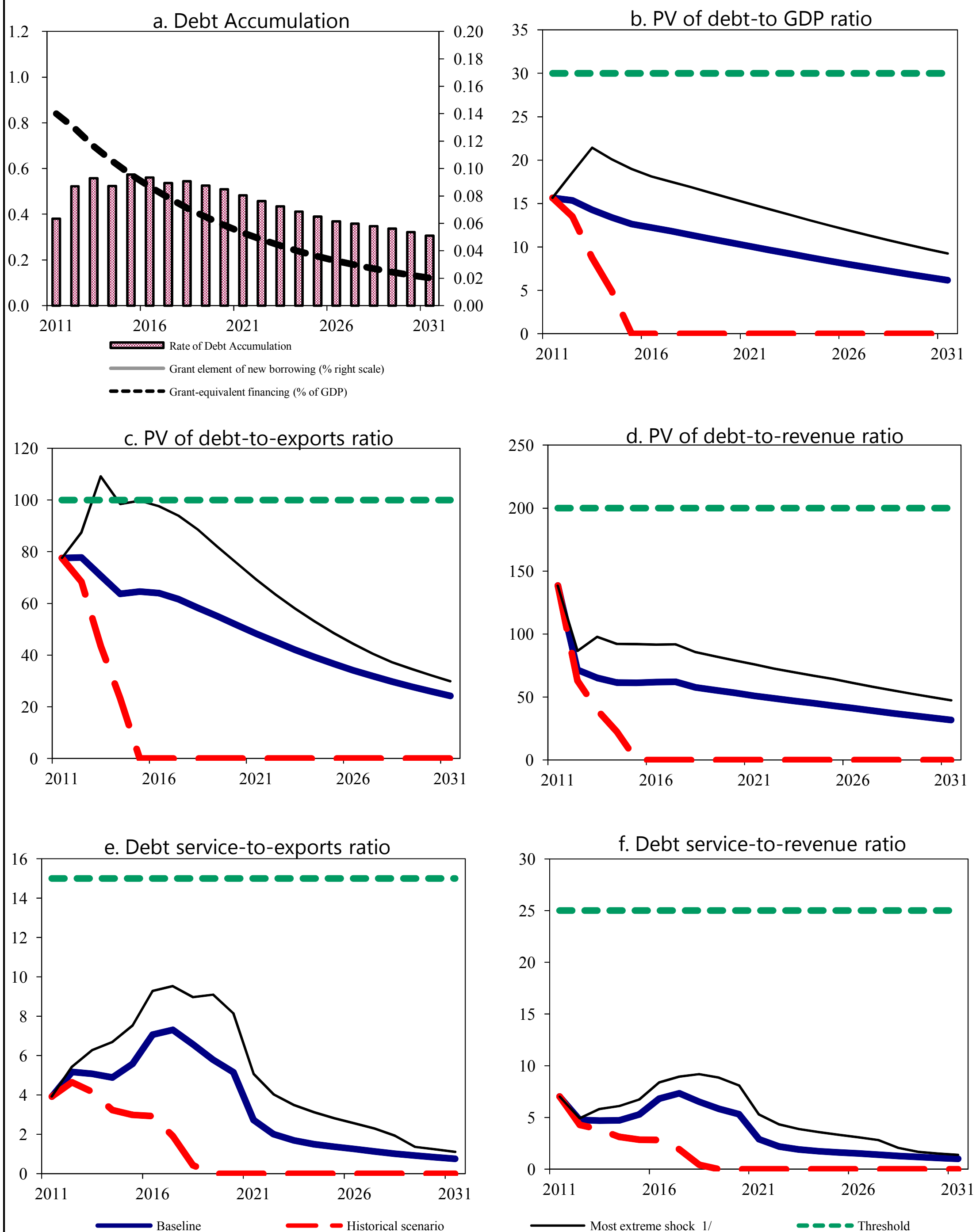
10. Although the debt indicators show a moderate risk of debt distress based on a forward-looking analysis, the presence of substantial arrears and uncertainty about their resolution pose substantial risks to the debt outlook. Compared to last year's DSA, the projected paths of external and public debt burden indicators improve significantly over the medium and long term owing to the projected smaller fiscal deficits due to increasing gas revenues with the use of a market-determined exchange rate in budgetary operations,[4] and a better economic outlook. In previous DSAs, the former impact could not be captured due to the absence of any credible plans to unify the exchange rate. Notwithstanding the improvement in debt indicators, the presence of arrears and uncertainty about the timing and modality of their resolution indicate debt distress. Thus, Myanmar remains classified as in debt distress.

11. The baseline projections and the associated standard stress tests show moderate risk related to external debt. Only one of the indicators would breach the indicative debt burden thresholds under stress tests**.** However, there is great need for sound macroeconomic policies, including in public fiscal management, to safeguard fiscal sustainability, and to improve Myanmar's growth potential and increase export diversification to manage risks to external debt sustainability. External arrears constitute a large portion of external PPG debt, and it will be important for the authorities to resolve them to improve the overall debt profile.

12. The improving debt indicators depend on increasing revenues from nonrenewable natural resources. Maintaining the primary balance at its 2011 level would put public debt sustainability under significant risk. This underscores the importance of reducing reliance on nonrenewable revenue sources by improved tax policies and public financial management.

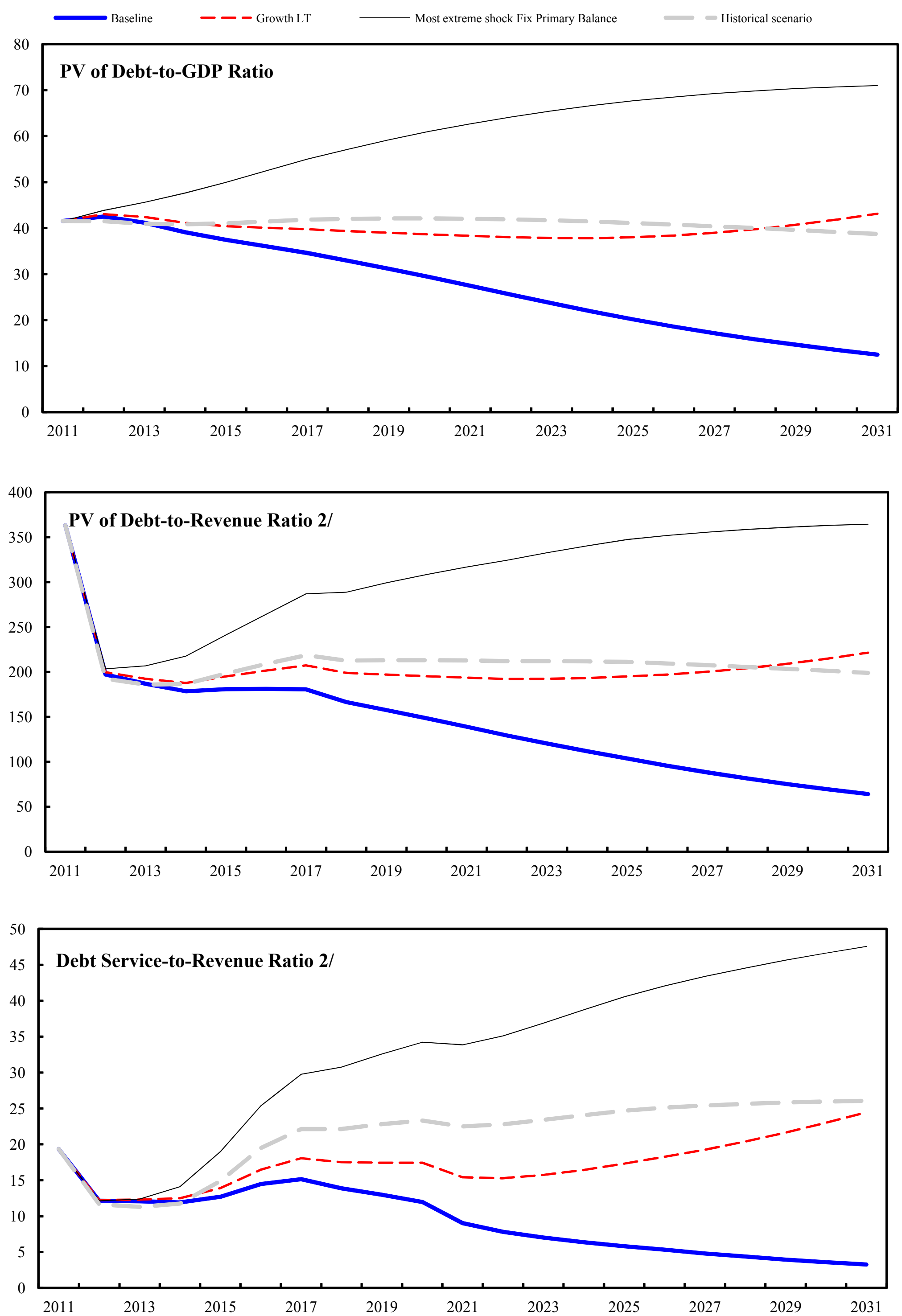
[4] See accompanying Selected Issues Paper, Chapter V.

Figure 1. Myanmar: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011–2031 1/



Sources: Myanmar authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a GDP deflator shock; in c. to a Exports shock; in d. to a GDP deflator shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2011–2031 1/



Sources: Myanmar authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined as consolidated revenue of nonfinancial public sector, which is inclusive of grants and all revenue receipts of SEEs.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2008–2031 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011–2016 Average	2021	2031	2017–2031 Average
External debt (nominal) 1/	**28.8**	**28.4**	**24.4**			**21.4**	**20.7**	**19.0**	**17.7**	**16.3**	**15.0**		**9.7**	**6.1**	
o/w public and publicly guaranteed (PPG)	28.8	28.4	24.4			21.4	20.7	19.0	17.7	16.3	15.0		9.7	6.1	
Change in external debt	-6.5	-0.4	-4.0			-3.0	-0.7	-1.7	-1.4	-1.4	-1.3		-0.5	-0.3	
Identified net debt-creating flows	-12.8	-3.2	-7.7			-4.0	-4.1	-1.5	-1.6	0.1	0.9		2.2	-0.4	
Non-interest current account deficit	**2.5**	**2.6**	**0.7**	**-1.0**	**3.3**	**2.4**	**3.7**	**2.7**	**0.9**	**2.5**	**3.4**		**4.0**	**0.5**	2.8
Deficit in balance of goods and services	4.0	3.5	1.4			3.2	4.7	3.9	2.1	3.6	4.5		4.7	0.7	
Exports	24.6	21.6	21.0			20.2	19.8	20.2	21.1	19.6	19.1		20.8	25.5	
Imports	28.6	25.1	22.3			23.4	24.5	24.1	23.2	23.2	23.6		25.5	26.2	
Net current transfers (negative = inflow)	-1.3	-1.5	-0.7	-1.5	0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6		-0.4	-0.2	-0.3
o/w official	-0.2	-0.7	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	0.0	
Other current account flows (negative = net inflow)	-0.3	0.6	0.0			-0.2	-0.4	-0.5	-0.6	-0.5	-0.5		-0.2	-0.1	
Net FDI (negative = inflow)	**-3.1**	**-2.7**	**-2.1**	**-2.7**	**0.5**	**-5.5**	**-7.1**	**-3.7**	**-2.1**	**-2.1**	**-2.1**		**-1.6**	**-0.6**	-1.3
Endogenous debt dynamics 3/	**-12.2**	**-3.0**	**-6.2**			**-0.9**	**-0.7**	**-0.5**	**-0.3**	**-0.3**	**-0.3**		**-0.3**	**-0.3**	
Contribution from nominal interest rate	0.4	0.1	0.1			0.3	0.5	0.6	0.7	0.6	0.6		0.3	0.1	
Contribution from real GDP growth	-0.8	-1.3	-1.2			-1.2	-1.2	-1.1	-1.0	-1.0	-0.9		-0.6	-0.4	
Contribution from price and exchange rate changes	-11.8	-1.8	-5.2			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**6.3**	**2.8**	**3.7**			**1.0**	**3.4**	**-0.2**	**0.2**	**-1.5**	**-2.2**		**-2.7**	**0.1**	
o/w exceptional financing	-1.6	-1.2	-1.4			-0.2	-0.3	-0.3	-0.3	-0.3	-0.3		-0.2	-0.1	
PV of external debt 5/	...	...	17.8			15.6	15.4	14.3	13.4	12.7	12.2		10.1	6.2	
In percent of exports	...	...	84.8			77.6	77.7	70.6	63.7	64.6	64.0		48.3	24.2	
PV of PPG external debt	**...**	**...**	**17.8**			**15.6**	**15.4**	**14.3**	**13.4**	**12.7**	**12.2**		**10.1**	**6.2**	
In percent of exports	**...**	**...**	**84.8**			**77.6**	**77.7**	**70.6**	**63.7**	**64.6**	**64.0**		**48.3**	**24.2**	
In percent of government revenues	**...**	**...**	**151.5**			**138.5**	**71.6**	**65.2**	**61.5**	**61.3**	**61.8**		**51.0**	**31.8**	
Debt service-to-exports ratio (in percent)	**5.9**	**4.4**	**3.1**			**3.9**	**5.2**	**5.1**	**4.9**	**5.6**	**7.1**		**2.7**	**0.8**	
PPG debt service-to-exports ratio (in percent)	**5.9**	**4.4**	**3.1**			**3.9**	**5.2**	**5.1**	**4.9**	**5.6**	**7.1**		**2.7**	**0.8**	
PPG debt service-to-revenue ratio (in percent)	**11.2**	**8.4**	**5.6**			**7.0**	**4.8**	**4.7**	**4.7**	**5.3**	**6.8**		**2.9**	**1.0**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.3	-0.4			-1.2	-1.3	0.0	-0.1	1.1	2.2		3.9	0.1	
Non-interest current account deficit that stabilizes debt ratio	9.0	2.9	4.7			5.3	4.4	4.4	2.3	3.9	4.7		4.6	0.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.6	5.1	5.3	10.4	4.0	5.5	6.0	5.9	6.0	6.0	6.0	5.9	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	50.0	6.8	22.3	9.4	24.6	8.5	2.4	5.1	4.3	4.3	3.2	4.6	3.0	4.1	3.2
Effective interest rate (percent) 6/	1.8	0.5	0.5	1.1	0.4	1.4	2.6	3.4	4.0	3.8	3.8	3.2	3.2	1.5	2.6
Growth of exports of G&S (US dollar terms, in percent)	11.6	-1.3	24.9	15.9	15.1	10.0	6.2	14.1	15.0	2.8	6.7	9.1	11.9	12.0	11.5
Growth of imports of G&S (US dollar terms, in percent)	27.2	-1.5	14.6	15.7	18.1	19.6	13.8	9.5	6.3	10.7	10.9	11.8	10.5	10.0	10.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Government revenues (excluding grants, in percent of GDP)	12.9	11.4	11.7			11.3	21.4	21.9	21.8	20.6	19.8		19.7	19.5	19.5
Aid flows (in Billions of US dollars) 7/	0.1	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Grants	0.1	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.0	0.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			26.9	26.0	25.1	24.2	23.4	22.4		17.3	11.0	15.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	31.4	35.2	45.4			51.9	56.3	62.7	69.3	76.6	83.8		126.9	320.4	
Nominal dollar GDP growth	55.4	12.3	28.8			14.4	8.5	11.3	10.5	10.5	9.3	10.8	9.1	10.3	9.4
PV of PPG external debt (in Billions of US dollars)			8.2			8.4	8.7	9.0	9.3	9.7	10.1		12.7	19.8	
(PVt-PVt-1)/GDPt-1 (in percent)						0.4	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.3	0.4
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	17.8			15.6	15.4	14.3	13.4	12.7	12.2		10.1	6.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	84.8			77.6	77.7	70.6	63.7	64.6	64.0		48.3	24.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.1			3.9	5.2	5.1	4.9	5.6	7.1		2.7	0.8	

Sources: Myanmar authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–2031

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	16	15	14	13	13	12	**10**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	16	14	9	5	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2011-2031 2/	16	15	14	14	13	12	**10**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	16	15	14	13	13	12	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	16	16	19	17	16	16	**12**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	16	19	21	20	19	18	**15**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	16	20	20	19	18	17	**13**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	21	20	19	18	**14**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	16	22	20	19	18	17	**14**	9
PV of debt-to-exports ratio								
Baseline	78	78	71	64	65	64	**48**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	78	68	43	23	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2011-2031 2/	78	78	71	64	66	64	**50**	26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	78	78	71	64	65	63	**48**	24
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	78	87	109	98	100	98	**69**	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	78	78	71	64	65	63	**48**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	78	101	98	88	90	88	**60**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	78	95	99	90	91	89	**62**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	78	78	71	64	65	63	**48**	24
PV of debt-to-revenue ratio								
Baseline	139	72	65	62	61	62	**51**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	139	63	40	23	0	0	**0**	0
A2. New public sector loans on less favorable terms in 2011-2031 2/	139	72	66	62	62	62	**53**	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	139	71	65	61	61	61	**50**	31
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	139	76	84	80	79	79	**61**	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	139	87	98	92	92	92	**76**	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	139	93	90	85	85	85	**64**	33
B5. Combination of B1-B4 using one-half standard deviation shocks	139	92	97	92	91	91	**69**	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	139	101	92	87	87	86	**72**	45

Table 1b.Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011–2031 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	4	5	5	5	6	7	**3**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	4	5	4	3	3	3	**0**	0
A2. New public sector loans on less favorable terms in 2011-2031 2/	4	5	5	5	6	7	**3**	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	4	5	5	5	6	7	**3**	1
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	4	5	6	7	8	9	**5**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	4	5	5	5	6	7	**3**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	4	5	6	6	7	8	**5**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	4	5	6	6	7	8	**5**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	4	5	5	5	6	7	**3**	1
Debt service-to-revenue ratio								
Baseline	7	5	5	5	5	7	**3**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	7	4	4	3	3	3	**0**	0
A2. New public sector loans on less favorable terms in 2011-2031 2/	7	5	5	5	5	7	**3**	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	7	5	5	5	5	7	**3**	1
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	7	5	5	5	6	8	**4**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	7	6	7	7	8	10	**4**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	7	5	5	6	6	8	**5**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	7	5	6	6	7	8	**5**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	7	7	7	7	8	10	**4**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	**0**	0

Sources: Myanmar authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–2031

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2008	2009	2010	Average 1/	Standard Deviation 1/	2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 2/	45.5	48.4	47.2			47.3	47.9	45.9	43.3	41.1	38.8		27.1	12.4	
o/w foreign-currency denominated	28.8	28.4	24.4			21.4	20.7	19.0	17.7	16.3	15.0		9.7	6.1	
Change in public sector debt	-6.2	2.9	-1.2			0.1	0.6	-2.0	-2.6	-2.3	-2.3		-2.0	-1.0	
Identified debt-creating flows	-10.6	-0.1	-3.4			-0.4	0.2	-2.5	-3.2	-3.0	-2.6		-2.4	-1.3	
Primary deficit	1.3	3.9	4.7	3.0	1.1	3.8	2.4	0.6	-0.6	-0.5	-0.7	0.8	-1.1	-0.5	-0.9
Revenue and grants	13.1	12.1	11.9			11.4	21.6	22.0	21.9	20.7	19.9		19.8	19.5	
of which: grants	0.2	0.7	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
Primary (noninterest) expenditure	14.4	15.9	16.6			15.2	24.0	22.7	21.3	20.2	19.2		18.6	18.9	
Automatic debt dynamics	-11.7	-3.8	-7.8			-3.6	-1.7	-2.7	-2.1	-2.0	-1.5		-1.2	-0.8	
Contribution from interest rate/growth differential	-4.2	-3.1	-3.0			-1.7	-2.1	-2.0	-1.7	-1.6	-1.5		-1.1	-0.6	
of which: contribution from average real interest rate	-2.4	-0.8	-0.5			0.7	0.5	0.7	0.9	0.8	0.8		0.6	0.1	
of which: contribution from real GDP growth	-1.8	-2.2	-2.5			-2.4	-2.7	-2.7	-2.6	-2.4	-2.3		-1.6	-0.8	
Contribution from real exchange rate depreciation	-7.5	-0.7	-4.8			-1.9	0.4	-0.7	-0.4	-0.4	0.0		...	...	
Other identified debt-creating flows	-0.2	-0.2	-0.3			-0.5	-0.5	-0.5	-0.5	-0.4	-0.4		-0.1	0.0	
Privatization receipts (negative)	-0.2	-0.2	-0.3			-0.5	-0.5	-0.5	-0.5	-0.4	-0.4		-0.1	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.4	3.0	2.2			0.4	0.4	0.5	0.6	0.7	0.3		0.4	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	40.6			41.5	42.5	41.2	39.1	37.4	36.0		27.5	12.5	
o/w foreign-currency denominated	...	...	17.8			15.6	15.4	14.3	13.4	12.7	12.2		10.1	6.2	
o/w external	...	...	17.8			15.6	15.4	14.3	13.4	12.7	12.2		10.1	6.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.3	5.6	6.5			6.0	5.1	3.3	2.0	2.1	2.2		0.7	0.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	341.5			363.2	197.2	186.8	178.5	180.7	181.2		139.0	64.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	346.0			367.6	198.3	187.7	179.3	181.6	182.0		139.3	64.2	
o/w external 4/	...	...	151.5			138.5	71.6	65.2	61.5	61.3	61.8		51.0	31.8	
Debt service-to-revenue and grants ratio (in percent) 5/	15.8	14.7	15.2			19.3	12.1	12.1	11.9	12.7	14.5		9.0	3.3	
Debt service-to-revenue ratio (in percent) 5/	16.1	15.6	15.4			19.6	12.2	12.1	12.0	12.8	14.5		9.1	3.3	
Primary deficit that stabilizes the debt-to-GDP ratio	7.5	1.0	5.9			3.7	1.8	2.6	2.0	1.7	1.6		0.8	0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.6	5.1	5.3	10.4	4.0	5.5	6.0	5.9	6.0	6.0	6.0	5.9	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	1.8	0.5	0.5	1.1	0.4	1.4	2.6	3.4	4.0	3.8	3.8	3.2	3.2	1.5	2.6
Average real interest rate on domestic debt (in percent)	-12.0	-1.4	-0.4	-10.8	8.3	3.1	1.1	1.3	2.0	2.1	2.2	2.0	2.6	2.4	2.5
Real exchange rate depreciation (in percent, + indicates depreciation) 6/	-22.5	-2.6	-18.1	-4.0	22.3	-8.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.0	6.9	6.9	18.7	11.0	3.6	5.8	5.3	4.5	4.5	4.5	4.7	4.5	4.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.1	0.2	0.1	0.1	0.2	0.0	0.7	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	...

Sources: Myanmar authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Public sector is defined as nonfinancial public sector.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

6/ Based on market exchange rate from 2012.

Table 2b.Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2011–2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	42	43	41	39	37	36	27	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	41	41	41	41	41	42	39
A2. Primary balance is unchanged from 2011	42	44	46	48	50	53	63	71
A3. Permanently lower GDP growth 1/	42	43	42	41	40	40	38	43
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	42	42	41	38	37	35	26	11
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	42	44	46	44	42	40	31	15
B3. Combination of B1-B2 using one half standard deviation shocks	42	43	43	40	38	35	23	3
B4. One-time 30 percent real depreciation in 2012	42	50	48	46	44	43	34	17
B5. 10 percent of GDP increase in other debt-creating flows in 2012	42	53	51	48	46	44	34	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	363	197	187	178	181	181	139	64
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	363	192	186	187	198	209	213	199
A2. Primary balance is unchanged from 2011	363	203	207	218	241	264	317	364
A3. Permanently lower GDP growth 1/	363	200	192	188	195	201	194	221
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	363	196	184	175	177	177	132	54
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	363	205	210	200	203	203	157	75
B3. Combination of B1-B2 using one half standard deviation shocks	363	198	197	184	182	178	117	0
B4. One-time 30 percent real depreciation in 2012	363	232	219	209	212	215	173	86
B5. 10 percent of GDP increase in other debt-creating flows in 2012	363	244	230	220	222	223	173	85
Debt Service-to-Revenue Ratio 2/								
Baseline	19	12	12	12	13	14	9	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	12	11	12	15	19	22	26
A2. Primary balance is unchanged from 2011	19	12	12	14	19	25	34	48
A3. Permanently lower GDP growth 1/	19	12	12	13	14	16	15	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	19	12	12	12	12	14	8	2
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	19	12	12	15	19	19	12	5
B3. Combination of B1-B2 using one half standard deviation shocks	19	12	12	13	17	16	6	0
B4. One-time 30 percent real depreciation in 2012	19	13	14	14	16	19	14	6
B5. 10 percent of GDP increase in other debt-creating flows in 2012	19	12	14	23	24	19	14	7

Sources: Myanmar authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined as consolidated revenue of nonfinancial public sector, which is inclusive of grants and all revenue receipts of SEEs.

Table 3. Myanmar: External Arrears by Creditor, 2006/07–2010/11
(In millions of U.S. dollars)

	2006/07			2010/11		
	Principal	Interest	Total	Principal	Interest	Total
Bilateral loans	**2,145.1**	**527.3**	**2,672.4**	**3,584.0**	**761.3**	**4,345.3**
People's Republic of China	27.3	0.2	27.6	…	…	0.0
Czech	15.6	…	15.6	…	…	0.0
Demark	25.9	…	25.9	42.7	…	42.7
Germany	183.8	78.9	262.7	209.7	79.1	288.8
Japan	1,785.0	405.4	2,190.4	3,276.1	672.5	3,948.6
Others	107.4	42.7	150.2	55.5	9.7	65.2
Multilateral loans	**311.8**	**141.4**	**453.2**	**649.8**	**108.0**	**757.8**
Asian Development Bank	138.7	88.3	227.0	375.5	31.6	407.1
International Development Association	172.7	53.0	225.6	274.3	76.4	350.7
Others	0.4	0.1	0.5	…	…	0.0
Supplier's credits	**46.5**	**2.0**	**48.5**	**0.0**	**0.0**	**0.0**
Japan	31.8	1.2	33.0	…	…	0.0
Germany	…	…	0.0	…	…	0.0
Yugoslavia	1.9	0.1	2.0	…	…	0.0
Others	12.8	0.7	13.5	…	…	0.0
Financial institutions	**228.6**	**160.2**	**388.8**	**214.8**	**87.6**	**302.4**
Austria	30.2	6.8	37.0	30.2	6.8	37.0
France	54.8	24.9	79.6	52.2	21.5	73.7
United Kingdom	28.1	6.8	35.0	29.0	7.6	36.6
Germany	103.0	117.6	220.6	103.0	51.7	154.7
Japan	5.5	2.3	7.9	…	…	0.0
Netherlands	6.9	1.8	8.7	0.4	…	0.4

Sources: Data provided by the Myanmar authorities. The differences between the numbers in this table and those in Table 5 of the 2010 DSA report are due to the revaluation of debt using updated exchange rate done by the authorities in 2011.

INTERNATIONAL MONETARY FUND

MYANMAR

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 2, 2012

Prepared By

Asia and Pacific Department
(In Consultations with Other Departments)

CONTENTS

ANNEX I. MYANMAR: SOCIAL INDICATORS

	Latest Single Year			Same Region/Income Group 1/	
	1975–80	1985–90	1997–2009	East Asia and Pacific	Low Income
Population					
Total population, midyear (millions)	33.6	40.8	57.5	1944	846
Growth rate (percent annual average)	2.3	1.59	2.2	0.7	2.2
Urban population (percent of population)	24.0	24.9	33.2	44.1	28.3
Total fertility rate (births per woman)	5.4	4.2	2.3	1.9	4.2
Income					
Consumer price index (2005=100)	1	14	208	126	141
Food price index (2005=100)	...	...	191	...	...
Social indicators					
Public expenditure					
Health (percent of GDP)	...	...	0.2	4.2	5.3
Education (percent of GDP)	1.5	1.8	1.3	3.3	3.5
Social security and welfare (percent of GDI	...	...	0.1	...	...
Access to safe water					
(Percent of population)					
Total	...	57	71	88	64
Urban	...	87	75	96	85
Rural	...	47	...	81	56
Access to health care					
Population per physician (persons)	...	12,755	2,778	855	5,464
Immunization (percent under 12 months)					
Measles	...	...	87	91	78
DPT	...	88	90	93	80
Child malnutrition (percent under 5 years)	...	...	30	9	28
Life expectancy at birth (years)					
Total	57	59	62	72	57
Male	55	57	60	74	56
Female	60	61	64	71	59
Mortality					
Infant (per thousand live births)	94	84	54	21	76
Under 5 (per thousand live births)	135	118	71	26	118
Adult (15–59)					
Male (per 1,000 population)	...	384	250	158	312
Female (per 1,000 population)	...	313	188	99	275

Sources: *World Development Indicators* , World Bank; and Myanmar authorities.

1/ Latest single year.

ANNEX II. MYANMAR: FUND RELATIONS

(As of January 31, 2012)

Membership Status

Joined on January 3, 1952; Article XIV.

General Resources Account

	SDR Million	Percent Quota
Quota	258.40	100.00
Fund holdings of currency	258.40	100.00
Reserve position	0.00	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	245.76	100.00
Holdings	0.62	0.25

Outstanding Purchases and Loans:

None

Latest Financial Arrangements

None

Projected Payments to the Fund

In millions of SDRs (based on existing use of resources and present holdings of SDRs)

	2012	2013	2014	2015	2016
Principal					
Charges/Interest	0.36	0.35	0.35	0.35	0.35
Total	0.36	0.35	0.35	0.35	0.35

Implementation of HIPC Initiative:

Not Applicable

Implementation of Multilateral Debt Relief Initiative Assistance:

Not Applicable

Exchange Rate Arrangement

The kyat has been pegged to the SDR at K 8.5057 per SDR since May 2, 1977. Myanmar applies margins of 2 percent in respect of spot exchange transactions. In February 1993, the Central Bank of Myanmar (CBM) started issuing foreign exchange certificates (FEC) at a rate of 1 FEC=US$1. In December 1995, the authorities established FEC exchange centers where the FEC could be traded at K 450 per FEC, but also allowed the FEC to be traded in parallel markets. The FEC counters were closed in April 2010, and in September 2011, FEC transactions close to market rates were allowed at the recently allowed retail counters at the Thein Phyu center.

Myanmar continues to avail itself of transitional arrangements under Article XIV, although it has eliminated all Article XIV restrictions. Myanmar maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII. Exchange restrictions subject to Fund jurisdiction arise from (i) advance import deposit requirements; (ii) 100 percent margin requirements; (iii) general restrictions on the availability and use of foreign exchange as such; (iv) general restrictions on the making of payments and transfers related to invisibles; (v) the extra burden caused by official action imposing additional costs for exchange transactions; (vi) official action that gives rise to multiple effective exchange rates in the markets (as well as potential deviations absent a mechanism to prevent spreads) with respect to the official exchange rate as compared to all other exchange rates, the FEC rate, and the

"Thein Phyu counter rate"; and (vii) broken cross rates. The exchange rate regime is classified as *other managed arrangement*.

Article IV Consultation

Myanmar is on the standard 12-month Article IV consultation circle. The last Article IV consultation discussions were conducted on January 12–26, 2011 in Yangon and Nay Pyi Taw. The Executive Board approved the staff report of the 2010 Article IV consultation on March 16, 2011 on lapse-of-time basis.

Technical Assistance

Previously the Fund's technical assistance to Myanmar was limited partly due to lack of ownership and poor implementation of past advice. Starting in FY 2011/12, technical assistance is prioritized to focus on the authorities' plans to unify the exchange rate and lift exchange restrictions toward accepting their Article VIII obligations, Sections 2(a), 3, and 4. Following an Article VIII mission in October 2011, an MCM technical assistance (TA) mission was conducted in January 2012 on foreign exchange and monetary operations. Two missions are scheduled to provide TA on (i) central bank organization and drafting of a new central bank law; and (ii) drafting a new foreign exchange law.

Resident Representative

None.

ANNEX III. WORLD BANK-IMF COLLABORATION

(January 2012)

The Fund and the Bank country teams for Myanmar, led by Ms. Karasulu (IMF) and by Ms. Dixon (World Bank), maintain excellent working relations and dialogue on macroeconomic and structural issues.

The level of cooperation and coordination is excellent but limited, given the relatively limited activities of both institutions in Myanmar, especially the World Bank (WB). Myanmar is in arrears to the WB, which limits the WB's level of engagement in the country. The WB selectively provides support to donors in implementing activities including during the IMF's annual Article IV consultations. The staff routinely shares country documents prepared by the respective institutions for their respective Executive Boards.

Recent key areas of cooperation and coordination include:

- **Macroeconomic policy advice to the authorities.** Representatives from the WB participate as active members of the team in every IMF Article IV mission to Myanmar. In this context, staffs from both institutions discuss macroeconomic policies and the main messages to the authorities.

- **Structural reforms.** Fund and WB teams have worked together and have shared views on a range of other issues, including structural reforms for a better investment climate and private sector development, and social development. World Bank staff actively contribute to the work of IMF Article IV missions through notes on important structural issues that are incorporated in the IMF staff reports.

Based on the above partnership, the WB and the Fund share a common view about Myanmar's macroeconomic and structural reform priorities. Important reform priorities include:

- **Unifying the exchange rate.** The authorities are preparing to adopt a managed float in FY2012/13, as an initial step in the process toward exchange rate unification. Staff has urged the authorities to continue liberalizing the trade regime, which is a key component of the exchange rate unification process, and prepare a plan to gradually lift all remaining restrictions on current international payments and transfers by a target date.

- **Promoting long-term growth and diversification.** Modernizing Myanmar's economy will require removing impediments to growth by enhancing business and investment climate, encouraging financial sector development, and further liberalizing trade and foreign direct investment (FDI). The new government's recent efforts go in the right direction and would benefit from coordination across government agencies, broader consultation with stakeholders, and using best international practices distilled from other countries' experiences through substantial capacity building efforts.

- **Monetary policy and deficit financing.** The recent adjustments of the fixed interest rate structure have appropriately placed deposit rates below Treasury bond rates, helping reduce projected deficit monetization. Pending the introduction of treasury bond auctions to fully bond finance the deficit, expanding retail sales of treasury bonds, and lifting restrictions on state banks' and insurance companies' bond holding would be essential to reduce deficit monetization.

- **Further liberalization of financial intermediation and strengthening regulatory and supervisory framework.** Allowing the expansion of private bank branch networks and further expanding the list of collateral are welcome steps that have improved access to credit. However, expediting the removal of administrative controls on financial intermediation remains essential to facilitate growth. Liberalization of the financial sector should be complemented with a stronger regulatory and supervisory framework to maintain financial stability.

- **Fiscal discipline and transparency.** Prudent fiscal policy is essential to maintain macroeconomic stability, especially during the transition to a unified exchange rate. Staff emphasizes an urgent need to improve the quality, timeliness, and transparency of government financial statistics, including those of the state economic enterprises (SEEs). Strengthening pubic financial management, including by establishing a treasury function, and defining institutional arrangements to delineate fiscal responsibilities under planned decentralization, are essential to safeguard financial discipline.

- **Prioritizing fiscal policies toward social and infrastructure spending.** Staff welcomes the authorities' plans to shift some spending to health and education in the first budget of the new government, but sees further room to reorient spending to social spending.

The teams are committed to continue their close cooperation going forward. The table below details the specific activities planned by the two country teams over the period February 2012–January 2013.

Myanmar: Joint Managerial Action Plan February 2012–January 2013			
Title	**Products**	**Provisional and Actual Timing of Missions**	**Expected and Actual Delivery Date**
MUTUAL INFORMATION ON RELEVANT WORK PROGRAMS			
The World Bank's work program in the next 12 months	**Support to donors**		
	• Participation in IMF Article IV consultations	During the Article IV consultations	Ongoing
	• Support to multi-donor Livelihoods and Food Security Trust Fund	Ongoing	Ongoing
	• Support to multi-country Avian Influenza project	Ongoing	Ongoing
The Fund's work program in the next 12 months	**Macroeconomic policy analysis and advice**		
	• Staff visit		Mid-2012
	• Article IV consultation		Late-2012
	Technical assistance		
	• **Financial sector** Ongoing work on financial sector modernization	Mainly during the Article IV consultations	Ongoing
	• **Exchange rate unification and Article VIII issues**	Article VIII and TA missions	Ongoing
	• **Monetary and financial statistics** Ongoing work on improving the accounting of the monetary and banking statistics	Mainly during the Article IV consultation	Ongoing

ANNEX IV. MYANMAR: RELATIONS WITH THE WORLD BANK GROUP[1]

(January 2012)

Myanmar became a member of the World Bank in 1952, IFC in 1956, and IDA in 1962. During the period 1956–61, the Bank made three loans totaling US$33.3 million in the transport sector. No lending was requested during 1962–73. Lending resumed in 1973 and over the period 1973–87, 30 IDA credits totaling some US$804 million equivalent were committed, of which US$752.8 million equivalent was disbursed. New lending ceased after 1987 due to a lack of dialogue on policy reform. The last formal Consultative Group meeting was held in January 1986 in Tokyo, chaired by the Bank. Since then, there have been occasional contacts between the government and the Bank on the sidelines of the Annual Meetings.

Myanmar went into arrears with the Bank in January 1998 and has been in nonaccrual status since September 1998. As of January 2012, Myanmar's obligation to IDA was US$782.8 million, of which US$391 million was in arrears.

The Bank's engagement in past years has been limited to monitoring economic and social developments in the country based on available information and reports, liaising with other international donors and agencies, continued participation in IMF Article IV missions, and providing support to the work of other donors in selected areas.

As part of its monitoring and updating of information, the Bank has continued to participate in IMF Article IV missions. Support to partners has included an avian influenza project implemented by FAO, and the provision of technical expertise to ASEAN following Cyclone Nargis in 2008 for damage assessment and recovery planning. Following on this work, the Bank has provided technical support for impact monitoring to the multi-donor livelihoods trust fund (LIFT). The Bank expects to expand its support to donors in Myanmar through further analytical work in the coming months.

[1] Prepared by the World Bank Group's staff.

ANNEX V. MYANMAR: RELATIONS WITH THE ASIAN DEVELOPMENT BANK[1]

(February 2012)

Myanmar joined the Asian Development Bank (AsDB) in 1973 and operations started the same year. The AsDB has so far provided 32 loans totaling US$530.9 million for 28 projects. Of these, two loans amounting to US$6.6 million were from the AsDB's ordinary capital resources (OCR), and 30 loans amounting to US$524.3 million were from its special funds resources. All of the loans to Myanmar have been closed. The AsDB has so far provided technical assistance (TA) totaling US$10.7 million for 38 projects. Of these 38 TA projects, 28 were project preparatory and 10 were advisory.

The last loan and TA projects for Myanmar were approved in 1986 and 1987, respectively. However, Myanmar is a participating member of the AsDB-assisted Program of Economic Cooperation in the Greater Mekong Subregion (GMS Program). In that capacity, Myanmar participates in regional meetings and workshops. The AsDB, along with the World Bank, facilitated damage assessment following Cyclone Nargis in 2008. Close coordination is being maintained with the IMF, the World Bank, and the UNDP with particular emphasis being given to assessment of the government's economic reform program and recommended policy actions. Liaison is being maintained with Myanmar's major bilateral donors regarding the status of their assistance program. As of February 9, 2012, Myanmar's total overdue loan service payments in respect of the AsDB's Asian Development Fund (ADF) loans were equivalent to US$493.3million. Myanmar repaid on December 18, 2003 its OCR due to the AsDB amounting to EUR 1,225,200 and accordingly cleared its arrears under OCR loans. To date, Myanmar has not provided any indication of its intention to clear the overdue loan service payments under 28 ADF loans. Myanmar has subscribed to additional shares of AsDB's fifth general capital increase. Each AsDB member is entitled to a 200 percent increase in its allocated shares. Myanmar's additional subscription became effective on August 12, 2010 and its share of total subscribed capital is 0.545 percent as of February 9, 2012.

The majority of AsDB assistance has been provided for the development of the agricultural sector. Assistance in sectors other than agriculture stemmed from an attempt to achieve sectoral balance in lending. The cumulative amount of AsDB lending to Myanmar remains unchanged as shown below:

[1] Prepared by the Asian Development Bank's staff

Myanmar: Asian Development Lending

Sector	Loans (Number)	Loans (US$ million)	Percent
Agriculture and natural resources	14	296.1	55.8
Health, nutrition, and social protection	2	63.1	11.9
Industry and trade	5	46.4	8.7
Transport and communications	2	42.5	8.0
Water supply, sanitation, and waste management	4	36.0	6.8
Energy	4	26.8	5.0
Multisector	1	20.0	3.8
Total	32	530.9	100.0

Sources: *Fact Sheet: Myanmar and AsDB*. Available at http://www.adb.org/Documents/Fact_Sheets/MYA.asp.

ANNEX VI. MYANMAR: STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance

General. Data provision continues to have serious shortcomings that hamper effective surveillance even though a number of indicators are now disseminated on the internet. Data are not provided in a timely manner, while official and independent estimates of key macroeconomic variables differ widely.

National accounts. National accounts statistics are available only on an annual basis with considerable delay. Coverage of the private sector is incomplete as a proper business directory for sampling is not available yet. Resource constraints, primarily at the Planning Department and the Central Statistical Organization limit the conduct of surveys. GDP estimates do not completely account for informal sector activity. Agricultural work-in-progress is not included; construction is recorded on the basis of construction permits; and taxes and subsidies on products are excluded. Estimates of goods for processing and deflators of financial and insurance services need improvement. However, progress has been made in updating the base year to FY 2005/06 and surveys are being conducted on agricultural costs, manufacturing, and the informal sector, including a plan to include data from the Chamber of Commerce's survey on private sector in GDP estimation starting April 2012.

Price statistics. The base, basket, and weights of the CPI were updated following previous STA TA and derived from the Household Income and Expenditure Survey of 2006. Weaknesses remain as weights only represent urban households even though rural areas were also surveyed; some construction inputs are included; rentals of owner-occupied housing are excluded; missing prices are not imputed; and the classification of items is outdated.

Government finance statistics. There is no comprehensive monthly or quarterly compilation of fiscal data. Annual comprehensive data are compiled with delays of up to 12 months after the end of the reference year. In addition, only consolidated data for state economic enterprises are available, and some transactions are recorded partly on an accrual basis and partly on a cash basis. Fiscal and monetary data are not consistent. Budget estimates and actual expenditures tend to differ by wide margins. Annual data on the operations of the consolidated central government were last reported for 2005 to STA for publication in the *Government Finance Statistics Yearbook,* but do not include an economic classification of expenditure. In addition, recording of debt statistics are not comprehensive.

Monetary and financial statistics. The monetary survey compiled by the CBM covers the central bank and all commercial banks (public and private). Reporting of monetary data in the Standardized Report Forms, which accord with the *MFSM* classification principles, was established in January 2012. The quality of monetary statistics could be improved by: (i) using the market exchange rate, rather than the overvalued official exchange rate, for valuing foreign currency-denominated balance sheet accounts; (ii) monitoring the consistency of interbank accounts that show positions between the CBM and the commercial banks; and (iii) using electronic means to capture and share data to minimize mistakes. In January 2012, the CBM authorities were recommended that (i) on the date of adopting a managed float (and also for that end-month), the CBM and all commercial banks should prepare their balance sheets using the previously in effect exchange rate and the new exchange rate prevailing on the date of unification (and at that end-month); (ii) amounts contra to the revaluation of foreign currency denominated positions (at the CBM and all commercial banks) should be posted to the valuation adjustment account rather than to the profit and loss account; (iii) in due course, adopt market or fair value-based valuation of financial instruments; and (iv) review the accuracy of recording the IMF Accounts in the CBM's balance sheet for consistency with FIN recommendations and make revisions as called for.

External sector statistics. The coverage and reliability of the balance of payments could be improved. Merchandise imports are underestimated as military imports and other official imports, including imports linked to FDI under joint venture agreements with exemptions from custom duties, are generally excluded, and an overvalued official exchange rate is still used to convert some private sector transactions. Detailed data on services transactions and financial flows are generally not available and transactions that are not undertaken through the official banking system are usually not estimated. Evaluation of external debts, which are not nominated in U.S. dollars, is conducted irregularly; historical data are distorted by applying the exchange rate at the evaluation point. Trade data are recorded at the time of entries by customs, causing serious volatility in values and incorrect time records. Many of the recommendations of the STA TA missions conducted in 1999 and 2000 have not been implemented.

Data Standards and Quality

Myanmar does not participate in the IMF's General Data Dissemination System. No data ROSC available.

Reporting to STA (optional)

Myanmar submits data reports to STA with a lag of two to six months. However, balance of payments statistics have not been reported to STA for publication since 2007.

Myanmar: Table of Common Indicators Required for Surveillance
(As of January 2012)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	12/11	01/12	M	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	07/11	11/11	M	I	I
Reserve/Base Money	09/11	01/12	M	I	M
Broad Money	09/11	01/12	M	I	M
Central Bank Balance Sheet	09/11	01/12	M	I	M
Consolidated Balance Sheet of the Banking System	09/11	01/12	M	I	M
Interest Rates[3]	01/12	01/12	M	I	M
Consumer Price Index	10/11	01/12	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] - General Government[5]	FY 10/11	01/12	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing[4] - Central Government	FY 10/11	01/12	A	I	NA
Stocks of Central Government and Central Government - Guaranteed Debt[6]	FY 10/11	01/12	A	I	NA
External Current Account Balance	FY 10/11	01/12	A	I	I
Exports and Imports of Goods	FY 10/11	01/12	M	M	M
GDP/GNP	FY 10/11	01/12	A	I	I
Gross External Debt	FY 10/11	01/12	A	I	I
International Investment Position[7]	Q1 2007	08/08	Q	I	I

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[3] Officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/44
FOR IMMEDIATE RELEASE
May 7, 2012

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2011 Article IV Consultation with Myanmar

On March 19, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Myanmar.[1]

Background

Against the background of economic and political reform momentum, growth is picking up modestly. Real GDP growth is estimated to have increased to 5.3 percent in FY2010/11 (April-March) helped by fiscal spending in the election year and buoyant commodity exports. Growth is projected at 5½ percent in FY2011/12 and is expected to increase to 6 percent in FY2012/13, driven by commodity exports and higher investment, supported by improved business confidence. CPI inflation, at 6.4 percent (year-on-year) in October 2011, is projected to decline to 4.2 percent in FY2011/12 from 8.9 percent in FY2010/11, mainly due to lower food prices and less deficit monetization. Inflation is expected to pick up in FY2012/13 to 5.8 percent as the recent drop in food prices phases out.

The parallel market exchange rate of the kyat has appreciated by 29 percent in nominal effective terms since end-FY2009/10, primarily due to large inflows, which cannot find an outlet

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

due to the ‘export-first’ policy that restricts private imports to the availability of private export earnings.

Risks to this outlook are balanced. On the downside, a drop in regional demand could negatively affect exports, although Myanmar remains largely insulated from the developments in advanced economies due to sanctions. However, a sustained appreciation of the currency could further erode external competitiveness and constrain household incomes. On the upside, the recent easing of foreign direct investment (FDI) restrictions on private land use and repatriation of profits, further increase in credit, and continued progress toward exchange rate unification could bolster growth.

The new government of Myanmar has embarked on a series of economic reforms beginning with the exchange rate regime. The economy has been burdened with complex exchange restrictions that give rise to multiple currency practices in informal but tolerated markets.

As a first step toward unification of multiple exchange rates, the authorities plan to adopt a managed float as their new exchange rate regime and end the official peg to the SDR that has been used primarily in public sector operations since 1977. They are taking steps to establish the necessary market infrastructure, including by establishing an interbank market and foreign currency operations at the Central Bank of Myanmar (CBM). To address immediate appreciation pressures, the authorities have recently eased some of the exchange restrictions by allowing foreign currency purchases for car imports under a special program, and health and travel expenses abroad. They have also temporarily reduced taxes on key agricultural exports to address declining external competitiveness.

The new government’s first budget targets a smaller deficit, notwithstanding a planned increase in much needed social spending. The consolidated nonfinancial public sector deficit is projected to decline from 5½ percent of GDP in FY2011/12 to 4.6 percent of GDP in FY2012/13. This is primarily due to higher net transfers from state economic enterprises (SEEs), primarily from gas exports, as the budget, for the first time, would apply market-based exchange rates for SEEs’ exports and imports. Spending on education and health is expected to increase to 7½ percent of total expenditures, up from 5.4 percent. The CBM cut the administratively-set interest rates by a cumulative four percentage points since September 2011, the first cuts since 2007. They have also revised the fixed interest rate structure to provide financial incentives for banks to hold treasury bonds, and as a consequence, deficit monetization is projected to decline to about half of the fiscal deficit in FY2011/12.

The external position remains comfortable even though the current account is projected to deteriorate. The current account deficit is projected to widen to 2.7 percent of GDP in FY2011/12, from 0.8 percent of GDP in FY2010/11, as export growth falls short of fast import growth linked to large FDI projects in the energy sector. Gross official reserves rose to

US$7.1 billion in September 2011, and are expected to remain comfortable at about 9.4 months of imports in FY2011/12.

Formal financial intermediation remains repressed due to pervasive controls on banks. The authorities relaxed the requirements on deposit taking, expanded the administratively-set collateral list, eased controls on extending branch networks, and allowed some flexibility in setting the deposit rates as part of the recent interest rate cuts. As a result private sector credit growth has accelerated, albeit from a very low base.

The authorities have also taken some steps to promote rural growth and increase competition. Harvest loans to farmers have been doubled, FDI rules have been relaxed, and imports of gasoline and palm oil have been liberalized.

Executive Board Assessment

Executive Directors noted the considerable economic potential of Myanmar, and welcomed the authorities' renewed commitment to address the country's development challenges through far reaching reforms. Improved policy frameworks and a carefully sequenced implementation of reforms remain key to the success of the authorities' strategy.

Directors concurred that reforming the exchange rate system is the top priority, and saw the planned adoption of a managed float as the first step toward exchange rate unification. They agreed that further steps are urgently needed to establish the necessary market infrastructure and move away from the present inefficient system for allocating foreign exchange. In this context, Directors encouraged the authorities to remove remaining exchange restrictions and eliminate multiple currency practices as soon as circumstances permit.

Directors viewed the current stance of monetary policy as broadly appropriate. They welcomed the authorities' plans to grant the Central Bank of Myanmar operational autonomy to pursue domestic price stability, and recommended transferring to it all central banking functions. Directors welcomed progress in reducing deficit monetization, but considered that more needs to be done. They encouraged the authorities to expand retail sales of government securities and lift restrictions on their holdings by state-owned financial institutions, pending the establishment of treasury bond auctions.

Directors welcomed plans to reduce the fiscal deficit while increasing social spending. They agreed that a broadly balanced budget for the central government is an appropriate medium-term target. Over time, growing revenues from natural resources and improved tax structures will provide the resources to finance needed social spending and infrastructure. Directors also agreed that strengthening public financial management is necessary to support the reorientation of monetary policy and minimize fiscal risks, including those associated with fiscal decentralization and the adoption of the managed float. Directors welcomed the authorities' efforts to reconcile some external arrears, and encouraged them to extend these efforts to all creditors with a view to eventually clear the arrears.

Directors stressed that modernizing the financial system is essential to promote growth. They welcomed the steps already taken to ease administrative controls on banks, and called for further liberalization of bank operations and interest rates. Directors underscored that financial reforms must be complemented by strengthened supervision and regulation.

Directors noted that broad-based sustainable growth and poverty reduction require structural reforms to remove barriers to trade and foreign investment, enhance the business climate, and improve agricultural productivity. Strengthening the statistical base is also crucial for policy evaluation and design and should remain an important objective for policymakers. Underscoring Myanmar's significant needs for further capacity building, Directors welcomed the increased involvement of International Financial Institutions (IFIs) and other donors in providing technical assistance in a variety of areas, and stressed the importance of coordination among the providers to avoid duplication of efforts or inefficient delivery.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2011 Article IV Consultation with Myanmar is also available.

Myanmar: Selected Economic Indicators, 2007/08–2012/13 1/

GDP (2010/11): US$45.4 billion 2/
Population (2007/08): 57.5 million
Quota: SDR 258.4 million

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
				Est.	Proj.	Proj. 3/
Real GDP and prices (annual percent change)						
Real GDP	12.0	10.3	10.6	10.4	…	…
Staff working estimates of real GDP	5.5	3.6	5.1	5.3	5.5	6.0
Agriculture 4/	8.0	3.4	4.7	4.4	4.4	4.5
Inflation (period average)	32.9	22.5	8.2	8.2	4.2	5.8
(End of period)	28.8	9.2	7.1	8.9	5.0	5.4
Public finance (in percent of GDP) 5/						
Total revenue (including grants)	14.1	13.1	12.1	11.9	11.4	21.6
Total expenditure	17.9	15.5	16.9	17.9	16.9	26.1
Overall balance	-3.8	-2.4	-4.8	-6.0	-5.5	-4.6
Money and credit (annual percent change)						
Broad money	21.0	23.4	34.8	36.3	33.3	24.6
Domestic credit	22.1	24.0	34.8	34.4	32.5	26.8
Balance of payments (in million of dollars, unless otherwise indicated)						
Trade balance	924	302	72	799	-238	-1,779
Exports	6,446	7,241	7,139	8,980	9,889	10,491
Imports	-5,522	-6,938	-7,067	-8,181	-10,127	-12,270
Current account balance (excluding grants)	89	-920	-947	-365	-1,385	-2,379
Gross official reserves	3,054	3,629	4,638	6,070	7,903	9,889
(In months of total imports)	6.6	6.3	7.9	8.9	9.4	9.7
External debt (in million of dollars, unless otherwise indicated)						
Total external debt (including arrears)	8,082	9,101	9,970	11,240	11,841	12,419
(In percent of GDP) 2/	40.0	29.0	28.3	24.8	22.8	22.8
External debt arrears	3,858	4,359	4,781	5,405	5,510	5,654
Memorendum items:						
Exchange rates (end of period)						
Official exchange rate (kyat per U.S. dollar)	5.2	5.8	5.7	5.4	5.2	…
FEC (parallel) rate (kyat per U.S. dollar) 6/	1,110	992	1,004	861	810	…
GDP in billions of kyats	23,336	28,778	32,351	36,436	39,805	44,621
GDP in millions of U.S. dollars 2/	20,182	31,367	35,225	45,380	51,925	54,416

Sources: Until FY2009/10 the authorities, with some adjustments by IMF staff; from FY2010/11 IMF staff estimations and projections.
1/ Fiscal year (April–March).
2/ Before FY2012/13, GDP converted at a weighted exchange rate, where the official and FEC market rates are weighted with about 8 and 92 percent, based on the respective shares of public and private sectors in GDP.
3/ The authorities plan to adopt a managed float in FY2012/13.
4/ Including livestock, fishery, and forestry.
5/ Consolidated public sector; includes the Union government and state economic enterprises.
6/ The foreign exchange rate for FY2011/12 is as of January 2012.