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January 7, 2009

To: Members of the Executive Board
From: The Secretary
Subject: **Myanmar—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Myanmar, which is tentatively scheduled for discussion on **Wednesday, January 21, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Myanmar indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Salgado (ext. 34182) and Mr. Nyberg (ext. 35919) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 15, 2009; and to the Asian Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MYANMAR

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Myanmar

Approved by James Gordon and Dominique Desruelle

January 7, 2009

Previous consultation: On November 28, 2007, the Board concluded the 2007 Article IV consultation and recommended: (i) reducing the fiscal deficit; (ii) improving monetary operations; (iii) unifying the multiple exchange rate system; (iv) strengthening the banking sector; and (v) further liberalizing agriculture. Many Directors supported the provision of clearly targeted Fund technical assistance (TA), but several cautioned that it should be conditional on progress with implementation of previous Fund TA.

Policy issues: The main policy challenges—controlling inflation and stimulating growth—have become more urgent in the aftermath of Cyclone Nargis, especially given the need to manage aid inflows and the economic recovery. In recent years, the authorities have generally agreed with the Fund on the key areas for reform, but have preferred a more gradual approach to enact changes.

Mission details: Discussions were held in Yangon and Nay Pyi Taw during October 22–November 5, 2008. The team comprised Messrs. Salgado (Head), Feridhanusetyawan, Nyberg (all APD), and Lönnberg (MCM). Mr. Warjiyo (OED) participated in some of the discussions. As with previous consultations, World Bank and Asian Development Bank staff joined the mission.

Counterparts: Minister of Finance and Revenue Major-General Hla Tun, Minister of Agriculture and Irrigation Major-General Htay Oo, Central Bank of Myanmar Governor U Than Nyein, other senior government officials, private sector representatives, and officials from diplomatic missions, international organizations, and donors.

Exchange arrangement: Managed floating with no predetermined path. 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.

Statistics: Myanmar's statistical base is inadequate for effective surveillance. Published data are not timely, reliable, or consistent.

Publication: Myanmar has not previously agreed to publish staff reports and public information notices.

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EXECUTIVE SUMMARY

Recent economic developments have been mixed. Strong exports have contributed to moderate economic growth, improved balance of payments, and a comfortable level of international reserves. The economy has so far remained relatively insulated from the recent global financial turmoil. However, public sector deficits continue to be financed mostly by the central bank, leading to rapid inflation. Meanwhile, Cyclone Nargis has caused significant human suffering and economic damage.

Myanmar's efforts to coordinate Nargis relief are important in fostering economic recovery. The authorities have made progress in facilitating the flow of foreign aid and contributing domestic resources to the recovery effort, but need to improve transparency in foreign aid management so as to inspire confidence in the donor community.

Without substantial reforms, the medium-term outlook looks bleak. Weak economic policies, multiple exchange rates, widespread administrative controls, and an inadequate financial infrastructure continue to hamper economic development. Meanwhile, the main challenges—controlling inflation and stimulating growth—become more urgent in the wake of Nargis.

Comprehensive reforms are needed. The priorities are: (i) reducing inflation by narrowing the fiscal deficit and avoiding monetization; (ii) strengthening monetary operations and the role of the central bank; (iii) unifying the exchange rate; (iv) modernizing the banking and financial sector; (v) further liberalizing agriculture and trade; and (vi) improving the business and investment climate.

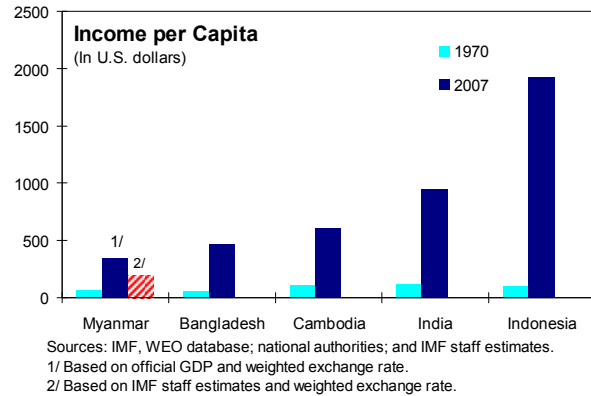
Progress has been made in several areas, including reducing the fiscal deficit as a share of GDP, reforming and privatizing some state-owned economic enterprises, and liberalizing agriculture and the trade regime. However, little progress has been made in reducing inflation, unifying the exchange rate, improving the business and investment climate, and enhancing financial sector development.

The authorities have generally agreed with staff on the key areas of reform. However, they have preferred a more gradual approach given the need to mitigate risks and gain approval from the governing State Peace and Development Council to enact changes. Meanwhile, capacity constraints continue to hinder the authorities' ability to provide data for surveillance.

The authorities expressed interest in further engagement with the Fund. Myanmar could benefit from additional technical assistance in areas of Fund expertise, but a track record of good implementation is important to ensure further support.

I. INTRODUCTION

1. **Myanmar continues to suffer from poor economic policies and performance.** Per capita GDP has stagnated for most of the past five decades, social development indicators are below regional standards, and poverty remains widespread. Very low levels of public expenditure on health and education limit progress on human capital development. Fiscal deficits have been financed through money creation, resulting in high inflation. The multiple exchange rate system hampers economic activity and distorts economic transactions. The business and investment climate has deteriorated, and foreign direct investment is mainly limited to gas and hydroelectric projects.



	Myanmar	Bangladesh	Cambodia	Lao P.D.R.	Vietnam
Public health expenditure (percent of GDP, 2005)	0.3	0.8	1.5	0.7	1.5
Infant mortality per 1000 live birth (2006)	74.4	51.6	64.8	59.0	14.6
HIV prevalence (percent of ages 15–49, 2007)	0.7	0.1	0.8	0.2	0.5
Public expenditure on education (percent of GDP, 2004–06)	1.3	2.7	1.7	3.0	4.7
School enrollment ratio, Primary (net, 2006–07)	84.7	88.9	89.9	83.7	94.5
Population below poverty line (percent of population, 2004–07)	32	45	35	31	15

Sources: CIA (World Fact Book); UNDP (Human Development Report); World Bank (WDI); Myanmar authorities; and IMF staff estimates.

2. **The State Peace and Development Council (SPDC) retains a tight grip on power.** Protests in September 2007 revealed widespread public dissatisfaction. The SPDC subsequently took strong actions to put down the protests, and political dissidents received lengthy sentences in November 2008.¹ Progress on UN-sponsored efforts to promote national reconciliation has been limited. International sanctions, including trade and investment restrictions, by the United States and European Union remain in place, but the impact is moderated by strong regional trade links.

3. **Economic management remains weak, although there is interest in reform in parts of the government.** The authorities have made some progress in implementing past Fund recommendations, including reducing the fiscal deficit, reforming and privatizing some

¹ The SPDC also went ahead with a referendum on a new constitution on May 10, 2008, a week after Cyclone Nargis, delaying voting by two weeks in the most-affected regions. The approved constitution—a further step in SPDCs “Road Map to Democracy” that was announced in 2003—sets the stage for multi-party elections in 2010, but reserves 25 percent of the seats in Parliament for the military, allows the military to take over the government during a state of emergency, and bars individuals with foreign relatives (parents, spouses, children, or their spouses) from becoming President.

state-owned economic enterprises (SEEs), and beginning to liberalize agriculture and the trade regime. In addition, the authorities have valued Fund technical assistance (TA) and recommendations for internal discussion. However, little progress has been made in reducing inflation, unifying the exchange rate, and improving the business and investment climate; transparency and governance indicators are among the worst globally.

4. **Data limitations make it difficult to assess economic developments.** The authorities report some monthly statistics to the Fund—albeit with a long lag—and provide more comprehensive data, including fiscal, international reserves, and external debt, during the Article IV consultation missions. These data are sufficient to give a broad understanding of macroeconomic developments, but data quality and long time lags hamper effective surveillance. Reasons for these difficulties include major capacity constraints, which are exacerbated by limited TA, and the nontransparent governing environment.

II. RECENT DEVELOPMENTS

5. **Cyclone Nargis struck Myanmar in May 2008 and caused significant human suffering, although the economic impact has been less severe than feared** (Box 1). In coordination with international organizations and donors since June 2008, the authorities have facilitated foreign and domestic assistance to the communities most affected by the cyclone, reducing its adverse impact, and have budgeted substantial fiscal resources for relief and recovery efforts. In particular, agricultural, livestock, and fisheries output was initially projected to contract by 10–15 percent in 2008/09,² but is now expected to record positive growth partly reflecting efforts to replant crops in the affected areas and to replace livestock, farm equipment, and fishing vessels, along with a robust harvest elsewhere in the country.

6. **The economy grew modestly on the back of strong exports prior to Nargis** (Table 1 and Figure 1). Staff estimates that real GDP grew by 5½ percent during 2007/08, moderately below that in 2006/07, reflecting some slowdown in exports and agriculture. Official GDP growth estimates are higher—averaging 13 percent annually since 2000—but these estimates are inconsistent with other indicators such as electricity consumption and capital good imports, along with public perception.³ Growth is expected to slow modestly in the aftermath of Nargis, as occurred in other countries after natural disasters (Box 2).

7. **The fiscal deficit declined by almost 1 percentage point in 2007/08 to 3.4 percent of GDP, but continued to be financed by the central bank** (Table 2 and Figure 2). Tax revenues and contributions to the budget from SEEs have each roughly doubled in nominal terms during the past two years. The former reflects improved tax administration and specific measures to raise revenues (such as changes in customs valuation), and the latter reflects reforms of the

² The fiscal year ends on March 31.

³ Since 2000, official GDP growth estimates have been much higher than those of independent observers and much higher than the earlier historical averages (7.2 percent annually during 1991–2000).

SEEs, including allowing them to charge prices closer to market rates.⁴ Current spending, particularly wages, has been contained, but capital spending has surged, partly to finance the development of Nay Pyi Taw, the new political capital, and the Yangon-Mandalay highway.

Box 1. Myanmar: Cyclone Nargis

Nargis, a category 3 cyclone, made landfall on May 2, 2008 and, in addition to the human toll, caused widespread destruction to farmland, homes, food supplies, and infrastructure. Overall, about 2.4 million people were severely affected, with more than 150,000 killed, injured, or missing, and an estimated 800,000 displaced. The devastation was most significant in the Ayeyarwady delta region, the country's rice bowl, although some industrial and commercial areas near Yangon, the former capital, also sustained major damage. Total damage (replacement values of damaged assets) and losses (changes in economic activities) were estimated in June 2008 at 4.5 trillion kyat (20 percent of GDP) or about \$4 billion (at the market exchange rate).

Under intense international pressure and with regional involvement, the authorities' response to the devastation has improved. Initially, the SPDC refused to provide access to affected areas, causing widespread criticism. The ASEAN played a leading role in forming the Tripartite Core Group (TCG, comprising the ASEAN, the UN, and the Myanmar authorities) and encouraging greater access for international aid. The TCG has been effective in assessing the damage, coordinating aid-related activities, and reducing bottlenecks. Since June 2008, the authorities have been more open and aid flows have increased.

The humanitarian appeal, coordinated by the UN and ASEAN, has requested \$474 million for emergency relief and recovery efforts through April 2009. The total aid committed through November 2008 was \$285 million. Information on aid disbursements is not yet available.

Sources: Post Nargis Joint Assessment (PONJA) Report by the TCG, July 2008, and the UN Office for the Coordination of Humanitarian Affairs.

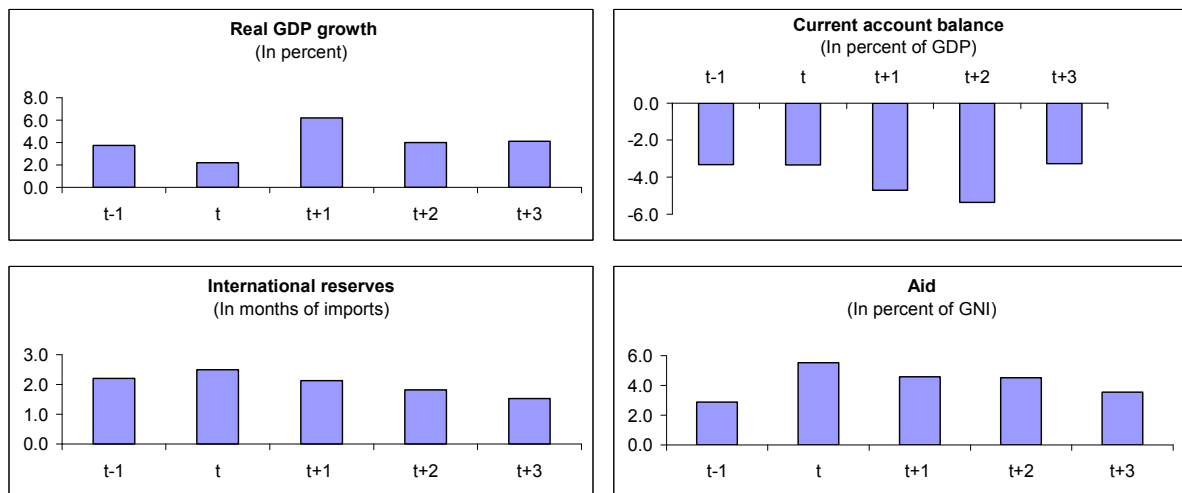
⁴ Revenues from natural gas exports are converted to local currency in the budget using the official exchange rate, which is substantially overvalued. Thus, these exports have only a small fiscal impact despite the large increase in foreign exchange revenues in recent years. Foreign exchange revenues, of which about 70 percent were from gas exports, contributed less than 1 percent of total budget revenue in 2007/08, but would have contributed about 57 percent if valued at the market exchange rate. These revenues result in a large surplus in the government's foreign exchange budget; the counterpart to this surplus is an increase in international reserves.

Box 2. Myanmar: Macroeconomic Impact of Natural Disasters

Previous studies have shown that natural disasters typically have severe macroeconomic effects: (i) an immediate contraction in economic output; (ii) a worsening of external balances; (iii) a deterioration in fiscal balances; and (iv) an increase in poverty.

This box analyzes the macroeconomic dynamics following relatively large natural disasters by using as case studies countries that requested emergency natural disaster assistance (ENDA) from the Fund.¹ Since 1962 (27 countries), median GDP growth declined by about 1.5 percentage points in the year the disaster took place (year t), followed by a strong rebound in the subsequent year. The current account deteriorated in the years following the disaster owing to damaged export capacity and import needs for reconstruction. Since ENDA purchases are aimed partly at preserving international reserves, it is not surprising to see that reserve levels were not significantly affected by the disasters. Finally, aid inflows increased in the year of the disaster and stayed strong in the following years, reflecting the protracted nature of rebuilding after the disaster.

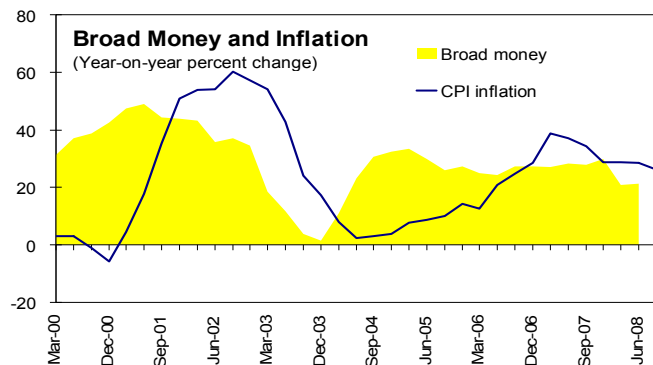
Natural Disasters: Median Impact Following ENDA Purchases



Source: World Development Indicators.

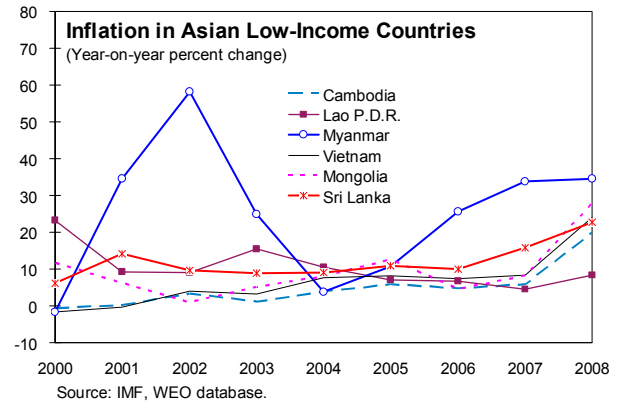
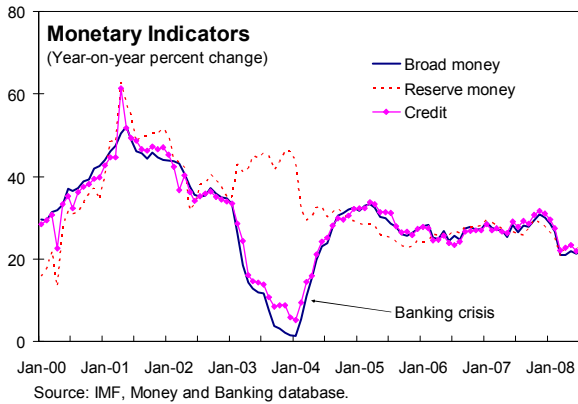
¹ ENDA is provided to Fund-member countries affected by adverse events such as earthquakes, floods, hurricanes, or droughts and aimed at meeting immediate balance of payments needs and avoiding a significant depletion of external reserves.

8. **Fiscal monetization has led to a rapid increase in inflation since 2006, with inflation currently among the highest in Asia.** Inflation has been hovering around 30 percent (y/y) during the past two years; it increased slightly after Nargis to 31 percent in May 2008 and declined subsequently, consistent with reserve and broad money growth of



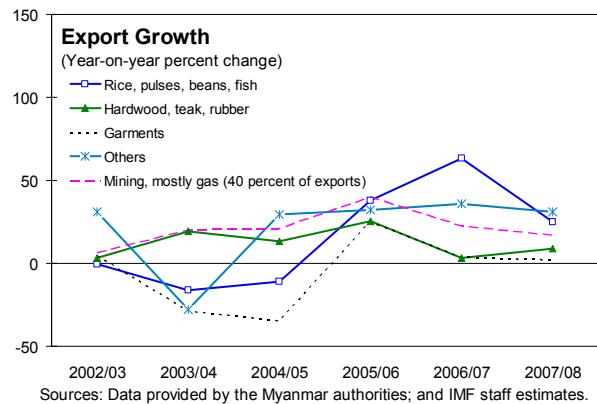
Sources: Data provided by the Myanmar authorities; and IMF staff estimates.

roughly 30 percent in recent years (Table 3). Higher food and administered prices, along with large civil servant wage increases in 2006/07, also contributed to inflation.⁵ However, with an improved fiscal balance in 2007/08, reserve and broad money growth both slowed to just over 20 percent by July 2008, and this slowdown has apparently helped minimize the inflationary impact of Nargis.



9. **The external sector continues to perform well** (Table 4 and Figure 3). The current account surplus reached 9 percent of GDP in 2007/08 reflecting strong gas exports.

Nonmining exports also continued to grow, albeit at a slower rate. In particular, growth in labor-intensive exports, such as garments, has been weak. Gross international reserves rose to an estimated \$3.6 billion, covering 13 months of imports. External debt was \$7.4 billion in March 2008, but has declined as a share of GDP due to real exchange rate appreciation. Progress in resolving external arrears, nearly half of total external debt, has been very limited.



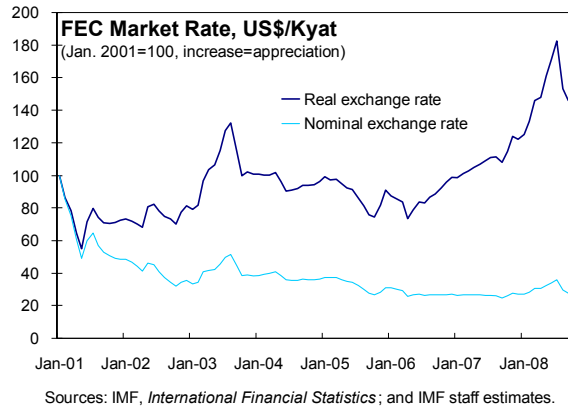
10. **The currency regime remains complex with multiple exchange rates.**⁶ Market-determined exchange rates were broadly stable in the two years through most of 2007 at

⁵ Food prices (68 percent weight in the CPI index) have risen significantly. Administered prices have been increased during recent years for fuel (including a 100 percent increase for diesel, 67 percent for gasoline, and 400 percent for natural gas canisters in August 2007), electricity, water usage, and telecommunications. To mitigate the impact of higher food prices, the government provided a limited and targeted distribution of low quality rice to the poor and imposed temporary export restrictions. At the local level, some price controls have also been implemented.

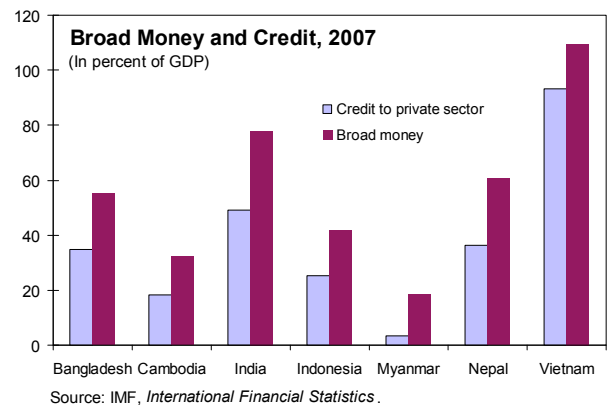
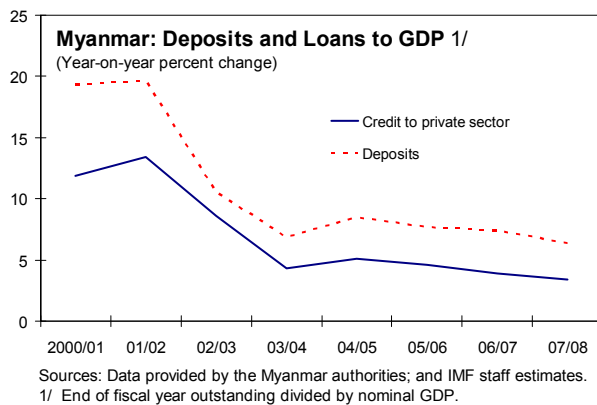
⁶ Since 1977, the official exchange rate has been pegged at 8.5 kyat per SDR (equivalent to about 5.6 kyat per dollar in November 2008). In addition, the Central Bank of Myanmar (CBM) has issued U.S. dollar-equivalent Foreign Exchange Certificates (FECs) since 1993. Currently, an FEC may be officially exchanged at 450 kyats per dollar in FEC exchange centers. There are also informal parallel markets for the kyat vis-à-vis both the dollar and the FEC. Transactions in FEC centers are limited because of the gap between the official FEC rate

(continued)

around 1200–1300 kyat per dollar, reflecting the improved balance of payments. The kyat appreciated in late 2007 and early 2008, with the premium between the dollar market rate (kyat per dollar) and the FEC market rate (kyat per FEC) temporarily widening in the aftermath of Nargis (Box 3). Because of rapid inflation, the real exchange rate has appreciated by about 40 percent during 2007/08, which could lead to concerns about export competitiveness.



11. Public confidence in the banking system has gradually recovered from the banking crisis in 2003/04. The authorities have relaxed some administrative measures put in place during the crisis, but the overall regulatory environment remains highly restrictive. Indicators of financial intermediation, such as broad money, deposits, and private sector credit have continued to decline as a share of GDP and are low compared with other countries in the region. There are, however, indications of a vast, but unmeasured, informal financial sector.

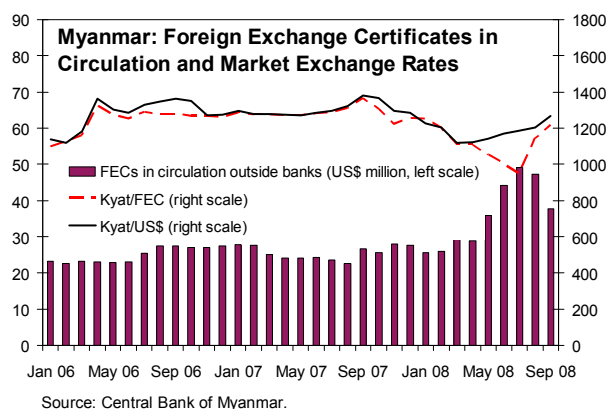


and parallel market rates. FECs are typically used by local residents or companies for large transactions or by international organizations to pay their local employees, vendors, and suppliers. Market segmentation in the multiple currency system is supported by foreign exchange controls, including restrictions on converting FECs back into dollars.

Box 3. Deviation of the Market Foreign Exchange Certificate Rate from the Dollar Rate

After Nargis, the premium of the dollar rate over the foreign exchange certificate (FEC) rate in the parallel markets increased substantially, from 2 percent on average in January 2006–April 2008 to 17 percent in May–July 2008, mostly due to a sharp depreciation of the FEC. The increased gap raised concerns among the donor community that aid was being “lost” since donors were required by foreign exchange regulations to convert dollars (at a rate of one FEC per dollar) into kyat through FECs.

With higher aid inflows, issuance of FECs surged, leading to a depreciation of the FEC relative to both kyat and dollar. FECs circulated outside banks were relatively flat during January 2006–April 2008, but almost doubled from April 2008 to July 2008. With such a sharp increase, the arbitrage mechanism that normally led to the convergence of the market rates did not work, likely reflecting limited demand for FECs owing to exchange market restrictions.



Source: Central Bank of Myanmar.

In August 2008, the authorities introduced measures to narrow the gap between the FEC rate and the dollar rate. International donors were allowed to pay local vendors by direct bank transfers, reducing the supply of FECs in the market. The government also permitted the use of FECs to purchase gasoline and diesel above the monthly quota limit, thus increasing FEC demand and also coincidentally facilitating the convergence of official and informal fuel prices. As a result, the amount of FECs in circulation declined in September and the gap between the two rates dropped to less than 4 percent.

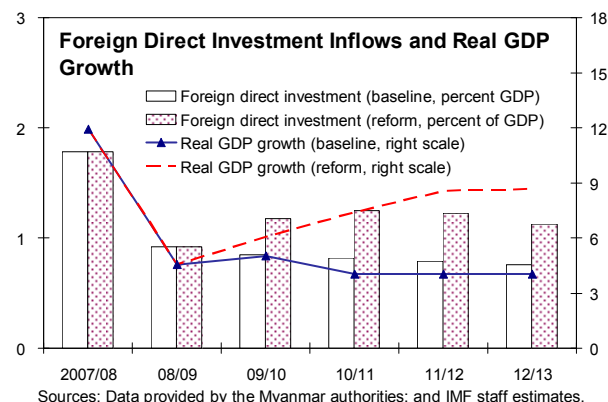
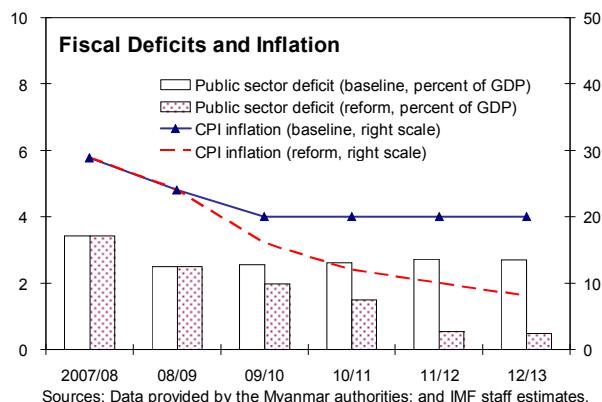
III. OUTLOOK AND RISKS

12. **Economic growth is expected to weaken modestly in 2008/09.** GDP growth is projected by staff to decline by 1 percentage point to 4.5 percent in the wake of Nargis. The authorities also expect growth to slow, albeit from a higher base, by 2 percentage points to 10 percent. Inflation is projected to ease somewhat due to lower international fuel and food prices and slower monetary growth. The balance of payments is projected to remain in surplus as natural gas production broadly escaped cyclone damage, and foreign aid and remittances have increased. Although the economy has so far remained relatively insulated from the recent global financial turmoil, it could be affected by weaker natural gas and other commodity prices and reduced demand for migrant workers in neighboring countries as global growth continues to decrease. Another risk is that aid inflows may not materialize, delaying the economic rebound beyond 2009/10.

13. **Without substantial reforms, the medium-term outlook looks bleak** (Table 5). The baseline scenario projects GDP growth at 4 percent in the medium term, lower than longer-term averages and insufficient to reduce poverty. A fiscal deficit of about 2½ percent

of GDP or higher, financed primarily by the central bank, will continue to contribute to inflation. Investment and productivity growth will be impeded by the multiple exchange rate system, widespread administrative controls, nontransparent rules and regulations, lack of financial intermediation, and poor infrastructure. The current account surplus will gradually revert to deficit, with gas prices assumed to decline over the medium term.⁷ While most debt indicators have recently improved, the country is expected to remain in debt distress owing to its significant external arrears (see Debt Sustainability Analysis). Thus, economic performance will remain vulnerable to adverse shocks, such as political turmoil, bad weather and/or a poor harvest, a new banking crisis, and weaker-than-expected natural gas prices or production. The authorities viewed the staff's projections as too pessimistic and believed that growth would remain above 10 percent over the medium term.

14. **Comprehensive reforms are needed to stimulate economic development.** The priorities are: (i) reducing inflation by narrowing the fiscal deficit and avoiding monetization; (ii) strengthening monetary operations and the role of the central bank; (iii) unifying the exchange rate; (iv) modernizing the banking and financial sector; (v) further liberalizing agriculture and trade; and (vi) improving the business and investment climate. Under this reform scenario, the prospect for longer-term development would improve significantly, as inflation declines to single digits, financial intermediation improves, foreign and domestic investments pick up, and GDP growth accelerates (Table 6).



IV. POLICY DISCUSSIONS

A. Fostering Economic Recovery along with Domestic and External Stability

15. **Myanmar's efforts to coordinate relief and recovery after Nargis are critical.** The authorities have facilitated foreign and domestic assistance to areas impacted by the cyclone and addressed the gap between the FEC and dollar market exchange rate. They have

⁷ Recent discoveries (Shwe offshore gas field) could lead to increased natural gas production and exports. The authorities indicated that production could begin as soon as 2011/12. The potential increase in gas production, however, is not included in the baseline projections as there is significant uncertainty about this timeframe.

also budgeted 82 billion kyat (roughly \$68 million at the FEC market rate or 5 percent of fiscal revenues in the 2008/09 budget) for relief and recovery efforts, including developing camps and housing, restoring food and drinking water supplies, renovating hospitals, rebuilding infrastructure, and reviving agriculture and industry. The authorities indicated that about a third of this allocation, mainly on social welfare and agriculture, has been spent as of September 2008 and the rest will be spent by fiscal year-end. There is now a need to ensure that these efforts continue, and that the authorities also address the factors that exacerbated vulnerability to natural disasters, including by strengthening livelihoods, health and education, and natural resources management.

16. **Apart from Nargis-related policies, steadily narrowing the fiscal deficit will be important.** The authorities concurred with the staff's near-term projection of the fiscal deficit, but viewed the medium-term fiscal projections as overly pessimistic. They noted that capital spending is likely to decline and highlighted that the SPDC planned to balance the budget within two years. At a minimum, they believed that a small budget deficit of around 300–400 billion kyat would be manageable and sustainable. Staff countered that the baseline projections already assumed a lower level of capital spending in terms of GDP than in previous years, but also assumed that government salaries would need to be adjusted for inflation over the medium term. While a balanced budget would be more optimal given the slow pace of other reforms, staff agreed that a small fiscal deficit (of about ½ percent of GDP) would not necessarily create inflationary pressures as long as fiscal expenditures were spent productively and central bank financing of the deficit avoided.

17. **Continued efforts to improve revenue collection and to reform the SEEs will help maintain fiscal sustainability.** Revenue enhancement measures should include steps to simplify the tax system and reduce discretionary tax exemptions. There is also a need to improve fiscal transparency and accounting, including by reporting gas sector revenues at the market exchange rate and explicitly reporting other subsidies and taxes owing to the currency system. Modernizing the SEEs, including by allowing them to operate on a commercial basis, would also lead to improved profitability and higher contributions to the budget. The authorities reiterated their commitments to strengthen revenue collection including by registering and taxing illegal motorcycles and improving customs tax collections. They also indicated that privatization of loss-making SEEs will continue, with six textile factories expected to be privatized soon.

18. **Better management and prioritization of spending are also needed.** Large capital spending should be evaluated through systematic cost and benefit analysis to avoid unproductive projects, and some of the fiscal savings generated could be used for Nargis-related efforts and for increased spending on health and education (which is very low by regional standards) as well as well-targeted assistance for the poor. However, the authorities considered all projects and spending, including on health and education, to be carefully evaluated. Public sector wages were raised several-fold in 2006/07, but have fallen significantly in real terms since then. Staff emphasized that such large ad-hoc increases

complicated the budgeting process and suggested incremental adjustments to maintain roughly constant wages in real terms would be more appropriate.

19. Monetary policy operations need to be strengthened to help control inflation.

The central bank should be given greater autonomy and accountability, combined with freedom to manage monetary aggregates with the primary objective of price stability, as well as sole responsibility for standard central banking functions, including foreign reserve management and sterilization. Steps should also be taken to liberalize interest rates and further develop the bond market. In response, the authorities observed that the increase in interest rates that would follow liberalization seemed inappropriate at present given efforts to cut the budget deficit and in light of the global financial crisis. Nonetheless, the authorities agreed on the need to promote a government bond market and indicated that they had recently established the Capital Market Development Committee (CMDC) and drawn a roadmap for capital market development by 2015, consistent with Myanmar's commitments under the ASEAN Economic Community (AEC) Blueprint signed in November 2007.⁸ Staff welcomed this progress and urged the authorities to take appropriate steps to meet or exceed the envisaged timeframe.

20. Based on both qualitative and quantitative analysis, the weighted exchange rate appears to be broadly in line with fundamentals, although this assessment is hampered by data limitations, the complex currency regime, current and capital account transaction restrictions, and the recent sharp increase in natural gas exports.⁹ The official exchange rate, valued at 200 times the parallel market rate, is clearly overvalued, confirming the need to unify the exchange rate system. Most transactions, however, occur at the market exchange rate, which floats. While the market exchange rate has appreciated in real terms, this could reflect the positive terms-of-trade shock, consistent with the improved current account. International reserves have also increased substantially.¹⁰ Nonetheless, labor-intensive exports (e.g., garments) have slowed recently, resulting in a more concentrated export base and raising some concerns on competitiveness. CGER-type analysis using the weighted exchange rate produced mixed results. The macro-balance approach based on coefficients derived from a cross-country model and the external sustainability approach both indicated modest undervaluation, while the macro-balance approach using a single country model indicated overvaluation.¹¹

⁸ The Blueprint is available at <http://www.aseansec.org>.

⁹ The weighted exchange rate is the average of the market and official exchange rates, weighted by the estimated transactions volumes.

¹⁰ The build up in reserves primarily reflects profits from SEEs owing to high natural gas prices. These profits lead to a large surplus in the government's foreign exchange budget.

¹¹ The equilibrium real exchange rate approach could not be estimated owing to data limitations.

B. Stimulating Growth through Accelerated Reforms

21. **Laying the groundwork for exchange rate unification should remain a top priority.** Unification will remove large welfare losses, strengthen the fiscal balance, and enhance the business and investment climate. Resistance to reform could be overcome by phasing in over time explicit provisions in the budget for the implicit taxes and subsidies that currently exist. These provisions would be especially important for SEEs given their access to foreign exchange at the official rate. The authorities emphasized that they were giving serious consideration to the issue of exchange rate unification, but that the costs and benefits need to be better understood, and that the timing was not yet appropriate. Staff welcomed the authorities' willingness to permit a gradual increase in the use of the market exchange rate, but urged the authorities to prepare some important steps for unification. These include putting in place the legal framework and developing the infrastructure for a modern foreign exchange market. Once the unification is completed, the authorities should remove restrictions on current account transactions subject to prior approval of the Fund under Article VIII of the IMF's Articles of Agreement.¹²

22. **Early adoption of a banking and financial sector modernization plan is needed to improve financial intermediation and prudential regulation.** The financial sector has considerable potential to support economic growth and has been relatively stable since the 2003/04 crisis. Nonetheless, fundamental structural problems remain and the consequences of overly restrictive policies and obsolete legislation and regulation have hampered performance of the financial system and prevented banks from expanding deposit-taking and lending. Key measures include enhancing the regulatory and supervisory framework, bringing prudential requirements into line with international best practice, reducing administrative controls, improving risk management and governance, and applying equal regulatory and supervisory treatment for state and private banks. The authorities indicated that they have begun to set up a new national electronic payment system in addition to establishing the CMDC, both consistent with previous Fund advice and TA.

23. **Further liberalizing agriculture will promote growth, increase employment, and reduce poverty.**¹³ Progress in recent years includes removing some production and marketing controls, privatizing agricultural SEEs, relaxing export restrictions on rice and other products, and improving cost recovery for irrigation development by increasing the water tax. Looking forward, staff concurred with government's focus on supporting private sector-led agricultural growth by liberalizing input and output markets, enhancing access to improved seed and fertilizer inputs, and developing the country's abundant water resources. Nonetheless, staff indicated that the success of Myanmar's neighbors in achieving high rates of broad-based rural growth and poverty reduction was facilitated by more fundamental

¹² The AEC Blueprint indicates that ASEAN countries should adopt IMF Article VIII by 2011.

¹³ See FAO and UNDP (2004), "Myanmar Agricultural Sector Review and Investment Strategy."

changes. These would include improving land tenure security and land access, making complementary public investments in rural roads, irrigation, education, and health services, and ensuring that local officials consistently implement national policy reforms. The authorities were in broad agreement with staff and reiterated their commitments to continue reforming agriculture.

24. Maintaining open trade and investment regimes is crucial to promote growth.

The authorities noted that import tariffs for ASEAN partners have been reduced consistent with the ASEAN Common Effective Preferential Tariff (CEPT) scheme. Progress is being made in reducing nontariff barriers, including by streamlining trade licensing and reducing the number of products subject to export restrictions from 31 to 15 items. However, the trade regime remains restrictive with complex customs valuation and nontransparent regulations. Staff encouraged the authorities to remove nontariff barriers (for example, by eliminating trade licensing) and to move toward applying the CEPT tariff rates on a most-favored nation basis. The business and investment climate needs fundamental changes, such as by making policy decisions more predictable, relaxing administrative controls, implementing more transparent rules and regulations, and upgrading public infrastructure.

C. Other Issues

25. Little progress has been made in resolving external arrears.¹⁴ The authorities stressed that arrears to some commercial creditors have been reduced, and that the recent build up in foreign reserves increased the scope to further decrease these arrears. Regarding arrears to official bilateral creditors, the authorities noted that a few major creditors had indicated their intention to cancel most claims at the appropriate time. Regarding arrears to multilateral donors, however, the authorities would expect to see reasonable prospects for new financing before settling the outstanding claims.

26. Further efforts are needed to improve the quality, coverage, and timeliness of data. The authorities continue to publish some monthly data on the web, albeit with long lags.¹⁵ Staff encouraged the authorities to subscribe to the IMF General Data Dissemination System, which will facilitate the development of the statistical system and improve the dissemination of information on statistical practices and development plans. Staff agreed with the authorities that capacity constraints continue to hamper proper data submission under IMF Article VIII, Section 5.

27. The authorities have made some progress in implementing recommendations of past Fund TA, on AML/CFT, banking supervision, and statistics. On AML/CFT, the Asia

¹⁴ In 2007/08, about 75 percent of arrears were to bilateral creditors (Japan was the largest). Arrears to multilateral creditors (including the World Bank and Asian Development Bank) were 15 percent of the total, with the remaining to private creditors.

¹⁵ These are available at <http://www.csostat.gov.mm/>.

Pacific Group published its mutual evaluation report in July 2008, which indicated that Myanmar's AML/CFT regime was either noncompliant or only partially compliant with a majority of FATF recommendations. The authorities noted that recommendations of 2007 Fund TA mission on AML/CFT and banking sector supervision and regulation have largely been implemented, including an agreement to develop the financial analytical capacity of the Financial Intelligence Unit and the financial investigative capacity of the Myanmar police with assistance from the Australian Transaction Reports and Analysis Centre and the Australian police. The government has also taken steps to improve price statistics, such as progress in developing a producer price index and updating the CPI base year. The authorities requested further TA on national accounts, price statistics and financial sector modernization. The staff stressed that continued progress with TA implementation would assist evaluation of future support.

V. STAFF APPRAISAL

28. **Myanmar continues to face serious challenges in managing its transition from a centrally-planned to a market-based economy.** Although reforms have been made in some areas, economic performance is still constrained by high inflation, multiple exchange rates, limited financial intermediation, a pervasive system of regulations and controls, restrictive trade and transactions requirements, and a poor investment climate. Comprehensive reforms are needed to stimulate economic developments, improve living standards, and reduce poverty.

29. **Recent economic developments have been mixed.** Strong exports, especially of natural gas, have contributed to moderate economic growth, improved balance of payments, and a comfortable level of international reserves. However, public sector deficits continue to be financed mostly by the central bank, with inflation currently among the highest in Asia. Meanwhile, Cyclone Nargis has caused significant human suffering and economic damage.

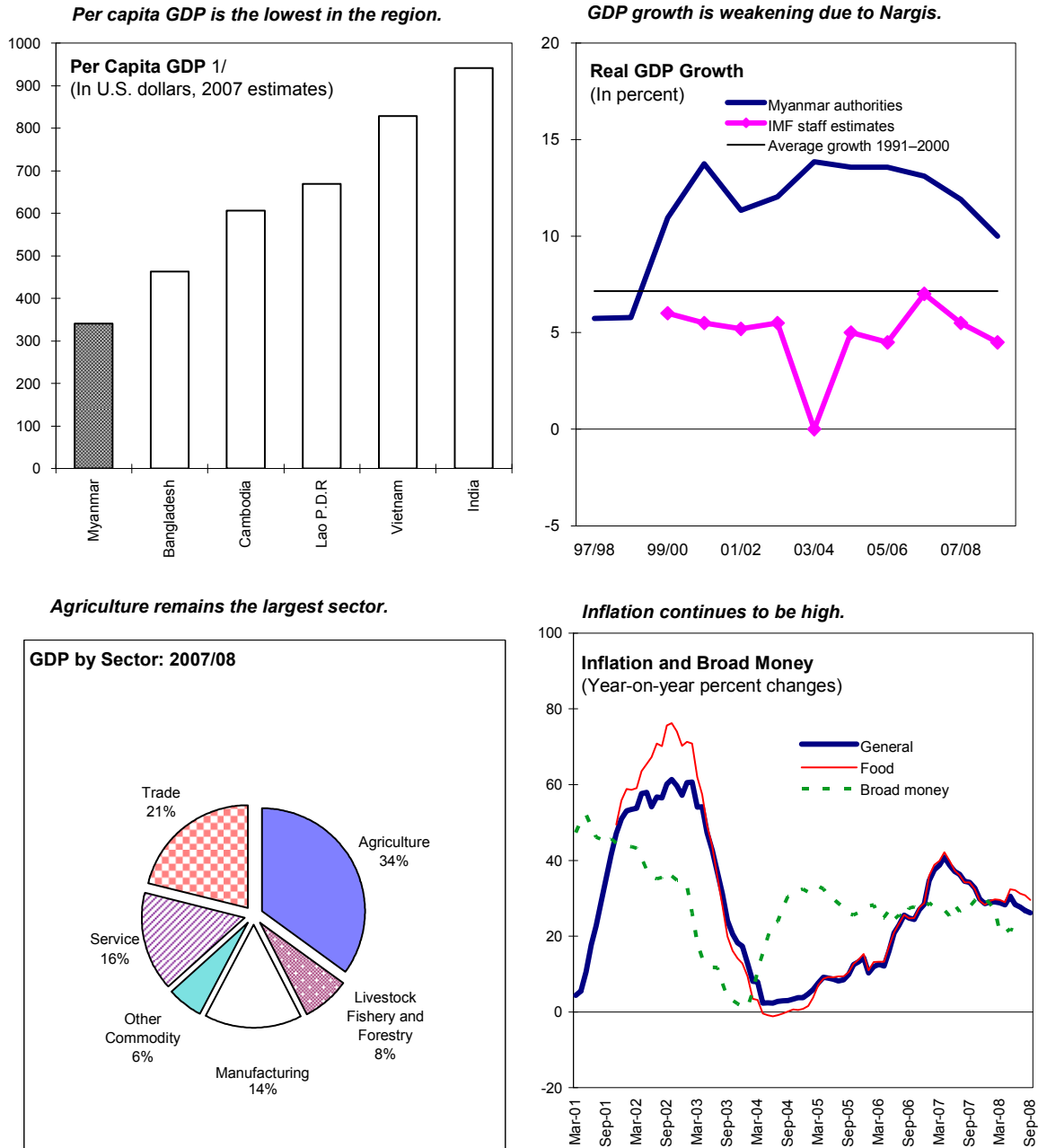
30. **Continued efforts to provide relief and foster economic recovery after Nargis are essential.** Staff supports measures taken by the authorities to narrow the gap between the FEC and dollar rates, which will help facilitate the flow of foreign aid. The authorities should continue to improve transparency in foreign aid management so as to inspire confidence in the donor community, and to contribute domestic resources to the relief and recovery process.

31. **Staff welcomes recent efforts by the authorities to reduce the fiscal deficit as a share of GDP and endorses the government's plan for further fiscal consolidation over the next two years.** Inflation pressures have already begun to abate with decreased central bank financing of the fiscal deficit, despite the cyclone-related food supply shock. The fiscal deficit should be further reduced until near-balance is achieved, including by continuing to improve revenue collections and by eliminating unproductive capital spending.

32. **Strengthening monetary policy operations is vital to keep inflation under control and to complement needed exchange rate reforms.** The CBM should be given greater autonomy and accountability, as well as sole responsibility for standard central banking functions, including foreign reserve management and sterilization.

33. **The transactions-weighted exchange rate appears to be broadly in line with fundamentals.** This assessment, however, is hampered by data limitations, the complex currency regime, current and capital account transactions restrictions, and the recent sharp increase in natural gas exports. However, the official exchange rate is clearly overvalued.
34. **The multiple exchange rate system continues to impede economic development and should be unified.** Staff urges the authorities to lay the groundwork for unification, as the stronger balance of payments position provides a valuable opportunity to begin the process. Staff does not recommend approval of the existing exchange restrictions and multiple currency practice as there is no timetable for their removal. These restrictions should be removed once currency unification is complete.
35. **The authorities should pursue an ambitious financial sector modernization program.** Key priorities include enhancing the regulatory and supervisory framework, bringing prudential requirements in line with international best practice, reducing administrative controls, improving risk management and governance, and treating equally state and private banks.
36. **Deeper liberalization of agriculture and the trade and investment regimes are needed.** Measures should include eliminating production and marketing restrictions, removing nontariff barriers, and improving the transparency of the business and investment climate.
37. **Staff encourages the authorities to resolve the remaining arrears to creditors.**
38. **Statistical data are inadequate for effective surveillance, and efforts are needed to improve data quality, coverage, and timeliness.**
39. **Myanmar could benefit from additional TA in areas of Fund expertise.** Progress in implementing previous recommendations on AML/CFT are welcome. However, a track record of good progress in all areas of Fund TA provision is important for further support.
40. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

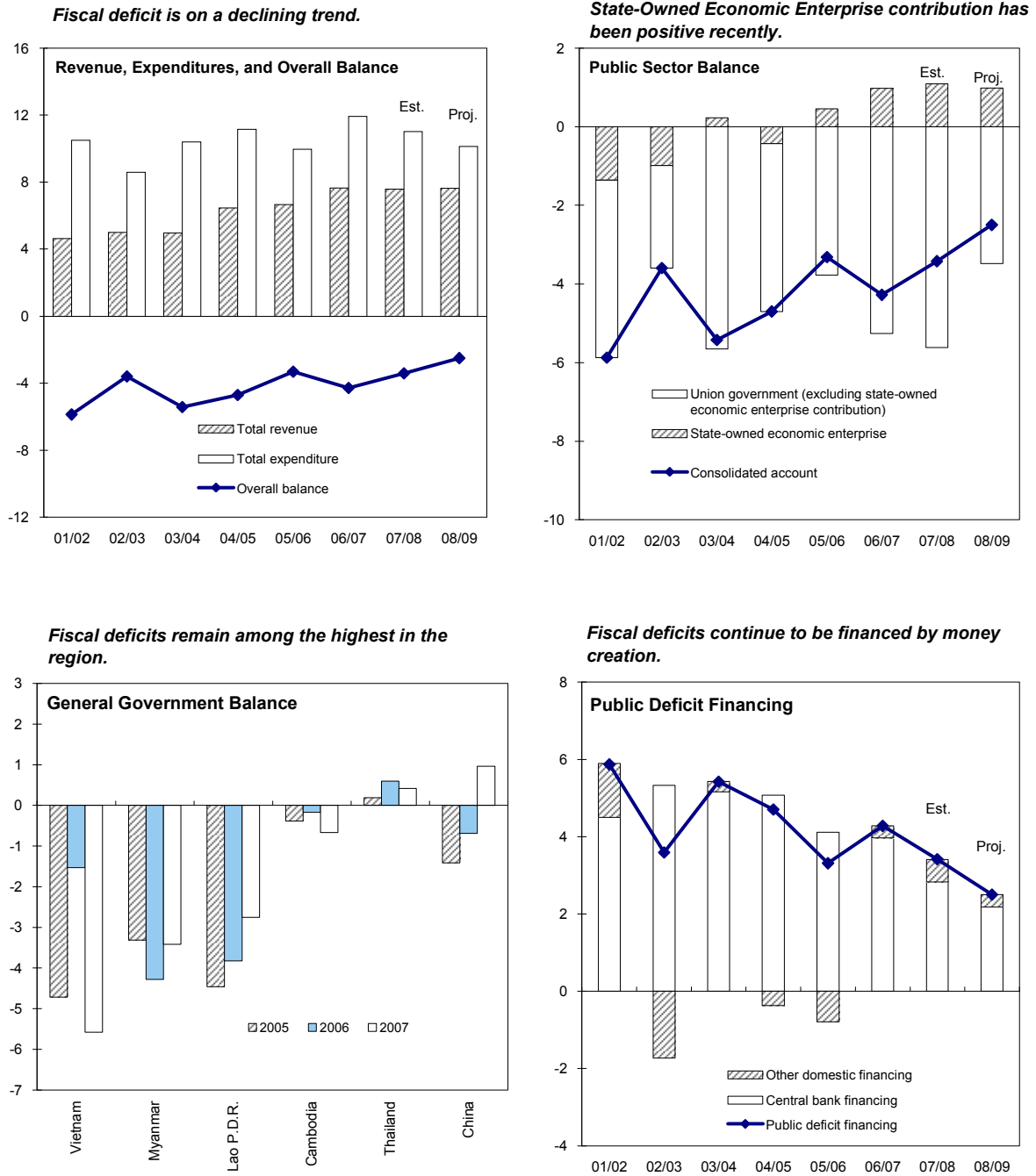
Figure 1. Myanmar: Selected Economic Indicators



Sources: Myanmar authorities; World Bank, *World Development Indicators*; IMF, *World Economic Outlook*; and IMF staff estimates.

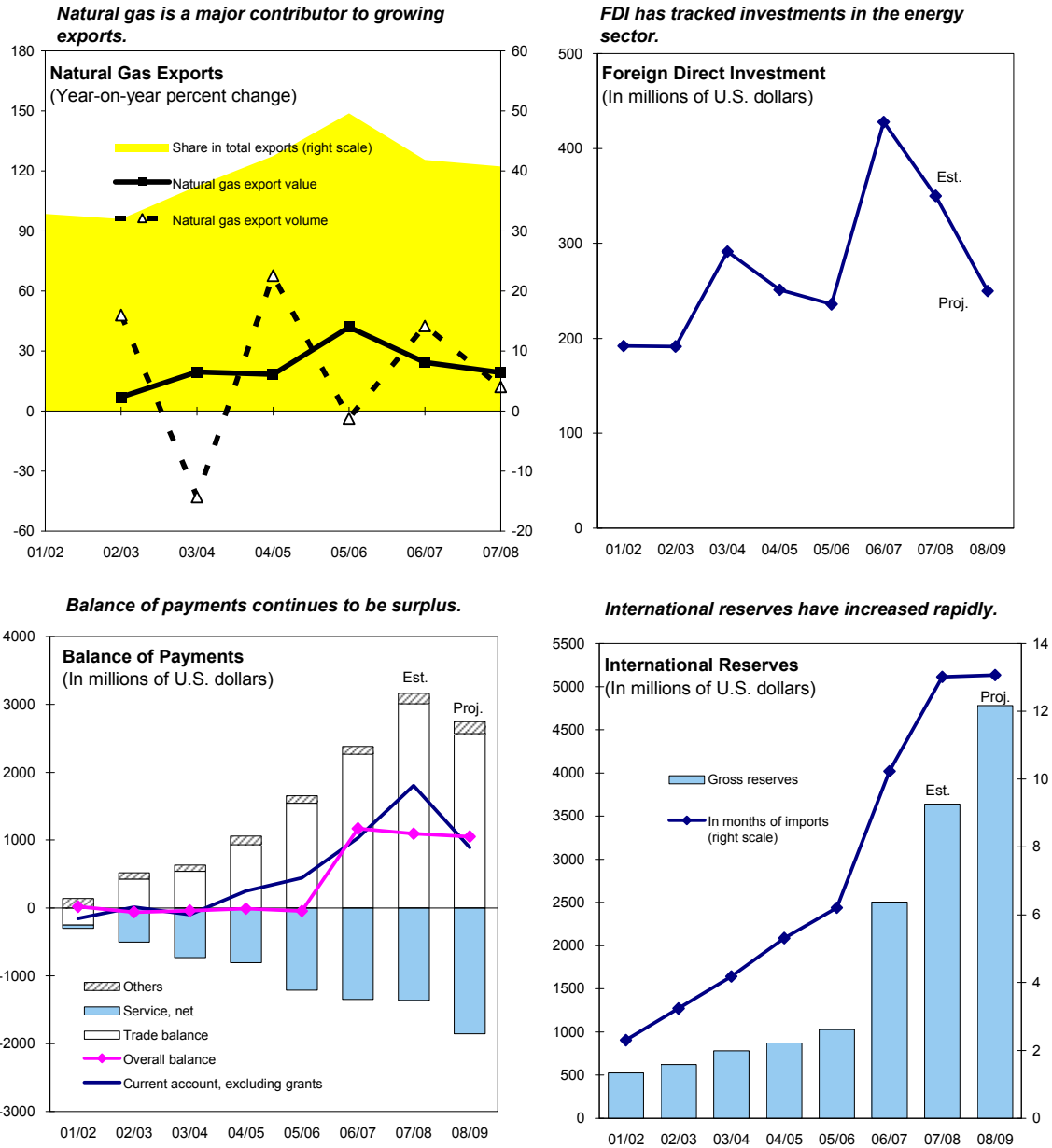
1/ Based on official GDP and weighted exchange rate for Myanmar.

Figure 2. Myanmar: Fiscal Developments, 2001/02–2008/09
 (In percent of GDP)



Sources: Myanmar authorities; IMF, *World Economic Outlook*; and IMF staff estimates.

Figure 3. Myanmar: External Sector Developments, 2001/02–2008/09



Sources: Myanmar authorities; IMF, *World Economic Outlook*; and IMF staff estimates.

Table 1. Myanmar: Selected Economic Indicators, 2002/03–2008/09 1/

GDP (2007/08): US\$19.6 billion 2/

Population (2005/06): 55.4 million

Quota: SDR 258.4 million

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Est.	2008/09 Proj.
(Percent change; unless otherwise indicated)							
Real GDP and prices							
Real GDP	12.0	13.8	13.6	13.6	13.1	11.9	4.5
Staff working estimates of real GDP	5.5	0.0	5.0	4.5	7.0	5.5	4.5
Agriculture 3/	6.0	11.7	11.0	12.1	9.7	8.0	2.0
Industrial production 4/	35.0	20.8	21.4	19.9	21.8	21.4	7.2
Services and trade	14.8	14.6	14.4	13.1	14.2	12.9	6.6
Consumer prices (period average)	58.1	24.9	3.8	10.7	26.3	32.9	26.4
Consumer prices (end of period)	54.0	8.0	7.7	12.6	38.7	28.8	24.0
(In percent of GDP)							
Public sector operations 5/							
Total revenue (including grants)	5.0	5.0	6.5	6.7	7.6	7.6	7.6
Total expenditure	8.6	10.4	11.2	10.0	11.9	11.0	10.1
Overall balance	-3.6	-5.4	-4.7	-3.3	-4.3	-3.4	-2.5
<i>Of which:</i> Net contribution of state economic enterprises	-1.0	0.2	-0.4	0.5	1.0	1.1	1.0
Domestic bank financing	5.3	4.9	5.2	3.9	4.3	3.2	2.5
Domestic public debt	19.5	19.1	21.3	19.6	18.6	17.0	15.4
(Annual percentage change)							
Money and credit							
Broad money	18.5	11.0	33.3	25.1	27.1	20.9	22.7
Domestic credit	24.4	14.5	33.8	24.5	27.4	22.0	20.0
Public sector (net)	38.5	34.8	32.6	25.0	30.0	23.1	19.4
Private sector	1.2	-30.9	39.0	22.2	16.4	16.7	22.9
(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments							
Trade balance	428	541	929	1,547	2,266	3,010	2,570
Exports	2,728	2,781	2,902	3,531	5,203	6,363	6,958
Imports	-2,300	-2,240	-1,973	-1,984	-2,937	-3,353	-4,388
Current account balance (excluding grants)	12	-100	251	444	1,032	1,803	892
Overall balance	-61	-40	-10	-47	1,171	1,096	1,052
Gross official reserves							
In millions of U.S. dollars	619	781	873	1,026	2,503	3,638	4,778
In months of total imports	3.2	4.2	5.3	6.2	10.2	13.0	13.1
External debt							
Total external debt (including arrears)	6,530	6,501	6,630	6,863	7,303	7,404	7,639
(In percent of GDP) 2/	96.3	62.1	62.7	57.3	50.4	37.7	28.1
External debt arrears	2,674	2,859	2,970	3,170	3,470	3,549	3,637
Terms of trade (in percent change)	-0.7	4.6	7.3	9.0	17.5	1.0	0.9
Exchange rates (end of period)							
Official exchange rate (kyat per U.S. dollar)	6.2	5.7	5.6	5.9	5.6	5.2	...
FEC (parallel) rate (kyat per U.S. dollar)	832	849	911	1,158	1,272	1,110	...
GDP in billion kyat	5,625	7,717	9,079	12,287	16,853	22,684	29,977
GDP in millions of U.S. dollars 2/	6,778	10,467	10,567	11,987	14,503	19,618	...

Sources: Data for the period 2002/03 to 2007/08 are provided by the Myanmar authorities, with some adjustments by IMF staff; data for 2008/09 are IMF staff estimates and projections.

1/ Fiscal year (April–March).

2/ GDP converted at a weighted exchange rate, and the weights on the official and FEC rates are about 8 and 92 percent, respectively, based on the shares of GDP by form of ownership.

3/ Including livestock, fishery, and forestry.

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

5/ Consolidated public sector; includes the Union Government and state economic enterprises.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2002/03–2008/09

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Budget	2007/08 Est.	2008/09 Budget	2008/09 Proj.
(In billions of kyats)									
Union government									
Revenue	281	383	586	818	1,289	1,092	1,722	1,675	2,284
Tax revenue	107	163	290	468	705	521	902	727	1,194
Transfers from state economic enterprises	75	169	210	281	498	501	686	853	910
Other nontax revenue	98	52	87	68	86	69	133	95	180
Foreign grants 1/	0	0	0	0	0	0	0	0	0
Expenditures	352	651	764	1,000	1,677	1,436	2,059	1,673	2,418
Current expenditures	191	235	328	336	726	784	798	886	1,037
Wages/salaries	55	76	73	75	254	271	273	275	289
Goods and services	29	40	36	37	65	71	87	89	114
Maintenance and repairs	32	35	38	31	46	38	37	50	75
Contributions	18	10	10	8	7	6	6	17	46
Interest payments:	43	54	70	87	112	113	147	163	173
Domestic	43	54	70	87	112	113	146	163	173
External (due) 1/	0	0	0	0	0	0	0	0	0
Other	14	20	101	99	242	284	248	292	340
Capital expenditures	161	416	437	664	951	652	1,261	787	1,381
Current balance	90	148	258	482	563	308	924	790	1,247
Overall balance	-71	-268	-178	-182	-388	-344	-337	2	-134
State economic enterprises									
Receipts	445	612	677	1,121	1,675	2,085	2,265	2,793	2,787
Expenditures	576	763	926	1,346	2,008	2,298	2,704	3,210	3,402
Current	524	666	778	1,224	1,847	2,071	2,436	2,881	2,999
Capital	52	98	148	121	162	227	268	329	404
Current balance	-79	-54	-101	-104	-171	13	-171	-88	-212
Overall balance	-131	-151	-249	-225	-333	-213	-439	-417	-616
Consolidated accounts									
Revenue	281	383	586	818	1,289	1,092	1,722	1,675	2,284
Tax	107	163	290	468	705	521	902	727	1,194
Nontax	173	220	296	350	584	571	819	948	1,090
Grants 1/	0	0	0	0	0	0	0	0	0
Expenditures	483	802	1,013	1,225	2,010	1,650	2,497	2,090	3,034
Current	270	289	428	440	898	770	969	974	1,249
Capital	213	514	585	785	1,112	879	1,529	1,117	1,785
Current balance	11	95	158	378	391	321	753	701	1,035
Overall balance	-202	-419	-427	-407	-721	-558	-776	-415	-750

**Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2002/03–2008/09
 (Concluded)**

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Budget	2007/08 Est.	2008/09 Budget	2008/09 Proj.
(In billions of kyats)									
Financing	202	419	427	407	721	558	776	415	750
Foreign financing	-0.4	-0.5	-0.1	-0.8	-0.5	1.0	1.0	0.0	0.0
Foreign loans (net on accrual basis) 1/	-1.6	-1.8	-1.1	-2.2	-2.2	0.6	0.6	-0.5	-0.5
Disbursements	0.2	0.1	0.7	0.2	0.5	1.9	1.9	1.1	1.1
Amortization due	-1.8	-2.0	-1.8	-2.4	-2.7	-1.3	-1.3	-1.6	-1.6
Change in external arrears 1/	1.2	1.3	1.0	1.4	1.7	0.4	0.4	0.5	0.5
Interest	0.3	0.3	0.3	0.2	0.3	0.1	0.1	0.1	0.1
Principal	0.9	1.1	0.6	1.2	1.4	0.3	0.3	0.4	0.4
Domestic financing	203	419	427	408	722	558	775	415	750
Bank financing	300	375	475	483	724	...	725	...	750
Central bank credit	300	398	461	506	669	...	642	...	653
Other 2/	0	-23	14	-23	56	...	84	...	97
Other 3/	-97	44	-48	-75	-2	...	49	...	0
(In percent of GDP) 4/									
Consolidated accounts									
Revenue	5.0	5.0	6.5	6.7	7.6	4.8	7.6	5.6	7.6
Of which: Tax revenue	1.9	2.1	3.2	3.8	4.2	2.3	4.0	2.4	4.0
Total expenditures	8.6	10.4	11.2	10.0	11.9	7.3	11.0	7.0	10.1
Current expenditures	4.8	3.7	4.7	3.6	5.3	3.4	4.3	3.2	4.2
Current account balance	0.2	1.2	1.7	3.1	2.3	1.4	3.3	2.3	3.5
Capital expenditures	3.8	6.7	6.4	6.4	6.6	3.9	6.7	3.7	6.0
Overall balance	-3.6	-5.4	-4.7	-3.3	-4.3	-2.5	-3.4	-1.4	-2.5
Of which: Bank financing	5.3	4.9	5.2	3.9	4.3	...	3.2	...	2.5
Defense expenditure	1.4	2.2	1.9	1.6	1.9	1.6	1.6	1.2	0.0
Social sector spending excluding pensions	1.3	2.0	1.4	0.8	1.4	1.1	1.2	0.8	...
(In percent of total Union Government expenditure)									
Defense expenditure	21.6	26.5	22.7	19.8	18.9	24.5	17.2	21.2	...
Social sector spending excluding pensions	20.3	23.5	17.0	9.3	14.1	17.9	13.0	14.9	...

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

1/ Valued at the official exchange rate.

2/ Includes purchase of treasury bonds by commercial banks.

3/ Includes privatization and statistical discrepancy.

4/ Official GDP until 2007/08.

Table 3. Myanmar: Monetary Authorities' Accounts and Monetary Survey, 2002–08 1/

	2002	2003	2004	2005	2006	2007	2008 Est.
Monetary authorities' accounts							
	(In millions of kyats, end of period)						
Net foreign assets 1/	567	493	744	1,090	4,085	8,229	13,245
Foreign assets 1/	4,073	3,756	3,908	4,163	7,269	11,360	15,989
Foreign liabilities	3,506	3,263	3,164	3,073	3,184	3,131	2,744
Domestic credit (net)	729,257	1,100,461	1,454,534	1,872,734	2,350,488	3,013,354	3,652,711
Claims on central government (net)	666,519	966,223	1,364,703	1,825,259	2,330,826	2,999,399	3,640,954
Claims on deposit money banks	62,738	134,238	89,831	47,475	19,662	13,955	11,757
Other items (net)	73,614	22,273	-8,194	-22,006	-22,932	-40,748	-68,170
Of which: Capital accounts	-10,083	-18,911	-19,683	-35,933	-38,882	-60,382	-91,716
Reserve money	779,673	1,099,681	1,423,074	1,827,593	2,304,391	2,949,539	3,561,869
Other (nonreserve) liabilities to deposit money banks	23,765	23,546	24,010	24,225	27,250	31,296	35,917
Monetary survey							
Net foreign assets	-9,806	-10,465	-10,632	-10,820	-7,789	-4,117	-439
Domestic credit	1,254,992	1,560,609	1,787,192	2,391,701	2,977,351	3,794,226	4,629,487
Claims on public sector (net)	778,792	1,078,834	1,454,332	1,929,048	2,411,891	3,135,977	3,861,447
Claims on private sector	476,200	481,775	332,860	462,653	565,460	658,249	768,040
Other items (net)	59,595	-4,556	-60,590	-93,509	-108,562	-152,957	-231,540
Broad money (at official exchange rate)	1,304,781	1,545,588	1,715,970	2,287,372	2,861,000	3,637,152	4,397,509
Narrow money	839,174	1,129,700	1,301,765	1,686,101	2,136,272	2,681,626	3,136,177
Quasi-money	465,607	415,888	414,205	601,271	724,728	955,526	1,261,332
Broad money (at market exchange rate) 2/	1,455,669	1,690,525	1,833,207	2,436,882	3,096,873	4,003,077	4,805,580
Total deposits	696,945	592,938	526,821	768,840	939,415	1,242,394	1,587,076
	(Annual percentage change)						
Domestic credit	36.6	24.4	14.5	33.8	24.5	27.4	22.0
Claims on public sector (net)	26.6	38.5	34.8	32.6	25.0	30.0	23.1
Claims on private sector	57.0	1.2	-30.9	39.0	22.2	16.4	16.7
Broad money (at official exchange rate)	43.2	18.5	11.0	33.3	25.1	27.1	20.9
Narrow money	50.1	34.6	15.2	29.5	26.7	25.5	17.0
Quasi-money	32.3	-10.7	-0.4	45.2	20.5	31.8	32.0
Broad money (at market exchange rate) 2/	48.2	16.1	8.4	32.9	27.1	29.3	20.0
Reserve money	43.3	41.0	29.4	28.4	26.1	28.0	20.8
Total deposits	41.8	-14.9	-11.2	45.9	22.2	32.3	27.7
	(Contribution to annual growth of broad money, in percent)						
Broad money (at official exchange rate)							
Net foreign assets	0.2	-0.1	0.0	0.0	0.1	0.1	0.1
Domestic credit	36.9	23.4	14.7	35.2	25.6	28.6	23.0
Other items (net)	6.1	-4.9	-3.6	-1.9	-0.7	-1.6	-2.2
Broad money (at market exchange rate) 2/							
Net foreign assets	-32.1	-21.0	-9.8	-9.8	9.1	19.3	20.9
Domestic credit	34.2	21.0	13.4	33.0	24.0	26.4	20.9
Other items (net)	46.1	16.2	4.8	9.8	-6.1	-16.4	-21.7

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

1/ Figures represent the end of fiscal year in March.

2/ Comprises accounts of the Central Bank of Myanmar and the short-term foreign assets of the Myanmar Foreign Trade Bank, Myanmar Investment and Commercial Bank, and Myanmar Economic Bank with a contra-entry in other (nonreserve) liabilities to deposit money banks.

3/ Valued at FEC market exchange rate.

Table 4. Myanmar: Balance of Payments, 2002/03–2012/13

(In millions of U.S. dollars)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
							Proj.				
Trade balance	428	541	929	1,547	2,266	3,010	2,570	2,080	1,653	1,430	1,307
Exports, mainly f.o.b.	2,728	2,781	2,902	3,531	5,203	6,363	6,958	6,999	7,064	7,155	7,361
Imports, mainly c.i.f.	2,300	2,240	1,973	1,984	2,937	3,353	4,388	4,919	5,411	5,725	6,054
Services, net	-504	-732	-808	-1,212	-1,347	-1,361	-1,855	-1,857	-1,772	-1,784	-1,883
Receipts	384	270	294	320	436	494	461	462	465	469	475
Payments	889	1,002	1,102	1,532	1,783	1,855	2,316	2,319	2,237	2,254	2,357
<i>Of which:</i> Interest due	74	73	96	71	103	56	53	54	49	46	41
Private transfers, net	89	91	130	109	113	154	177	163	168	173	178
Current account, excluding grants	12	-100	251	444	1,032	1,803	892	385	49	-181	-398
Official grants	55	24	30	55	25	39	55	50	50	50	50
Nonmonetary capital movements	-65	-28	60	-131	60	467	105	134	201	189	193
Long-term, net	-262	-321	-194	-379	-389	119	-95	-66	1	-11	-7
Disbursements	34	22	127	35	90	374	198	231	267	232	243
Repayments due	296	343	322	414	478	255	292	297	267	243	250
Foreign direct investment	191	291	251	236	428	350	250	250	250	250	250
Other capital, net	6	2	4	12	21	-3	-50	-50	-50	-50	-50
Errors and omissions, net 1/	-64	64	-351	-414	54	-1,213	0	0	0	0	0
Overall balance	-61	-40	-10	-47	1,171	1,096	1,052	569	300	58	-155
Financing	61	40	10	47	-1,171	-1,096	-1,052	-569	-300	-58	155
Net international reserves (- increase)	-88	-145	-101	-154	-1,470	-1,175	-1,140	-659	-380	-132	81
Gross reserves (- increase)	-95	-162	-92	-153	-1,477	-1,135	-1,140	-659	-380	-132	81
Short-term liabilities	7	17	-9	-1	7	-41	0	0	0	0	0
Net increase in arrears	150	184	111	201	300	79	88	90	81	74	74
Memorandum items:											
Current account balance (in percent of GDP 2/ 3/)	0.2	-1.0	2.4	3.7	7.1	9.2	3.3	1.3	0.2	-0.6	-1.2
Gross reserves, end-period	619	781	873	1,026	2,503	3,638	4,778	5,437	5,817	5,949	5,868
(In months of imports)	3.2	4.2	5.3	6.2	10.2	13.0	13.1	13.3	12.9	12.5	11.6
Net reserves, end-period	312	456	558	712	2,182	3,357	4,497	5,156	5,536	5,668	5,587
Total external debt	6,530	6,501	6,630	6,863	7,303	7,404	7,639	7,979	8,255	8,510	8,748
(In percent of GDP 2/)	96.3	62.1	62.7	57.3	50.4	37.7	28.1	27.1	27.0	26.7	26.4
Ratio of external debt to exports of goods and nonfactor services	2.1	2.2	2.1	1.8	1.3	1.1	1.1	1.1	1.1	1.1	1.1
External debt arrears 4/	2,674	2,859	2,970	3,170	3,470	3,549	3,637	3,727	3,808	3,882	3,956
External debt service (in percent of goods and nonfactor service exports)	10.8	12.2	11.4	11.8	10.6	4.6	4.8	4.8	4.3	3.9	3.8
Ratio of broad money (M2) to gross reserves	3.0	2.6	2.9	2.4	1.1	1.1	0.9	0.8	0.7	0.7	0.8
Terms of trade (percent change)	-0.7	4.6	7.3	9.0	17.5	1.0	0.9	-9.3	-5.0	-1.3	-1.4

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

1/ The authorities estimated that about half of errors and omissions in 2007/08 is due to unrecorded imports.

2/ Based on officially recorded GDP, converted at weighted exchange rate at year end.

3/ Excluding grants.

4/ Includes valuation adjustments.

Table 5. Myanmar: Medium-Term Projections: Baseline Scenario, 2002/03–2012/13 1/

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
						Est.			Proj.		
	(Percentage change)										
GDP (in constant prices)	12.0	13.8	13.6	13.6	13.1	11.9	4.5	5.0	4.0	4.0	4.0
Agriculture 2/	6.0	11.7	11.0	12.1	9.7	8.0	2.0	4.1	3.0	3.0	3.0
Industrial production 3/	35.0	20.8	21.4	19.9	21.8	21.4	7.2	6.2	6.0	6.0	6.0
Services and trade	14.8	14.6	14.4	13.1	14.2	12.9	6.6	5.6	4.3	4.3	4.3
Staff working estimates of real GDP	5.5	0.0	5.0	4.5	7.0	5.5	4.5	5.0	4.0	4.0	4.0
Inflation (CPI, end of period)	54.0	8.0	7.7	12.6	38.7	28.8	24.0	20.0	20.0	20.0	20.0
	(In percent of GDP)										
Public finances											
Total revenue (including grants)	5.0	5.0	6.5	6.7	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Total expenditure	8.6	10.4	11.2	10.0	11.9	11.0	10.1	10.1	10.2	10.3	10.3
Overall balance	-3.6	-5.4	-4.7	-3.3	-4.3	-3.4	-2.5	-2.5	-2.6	-2.7	-2.7
Estimated domestic public debt	19.5	19.1	21.3	19.6	18.6	17.0	15.4	14.5	14.3	14.1	14.0
Estimated total public debt	115.9	81.2	84.1	76.9	69.0	54.8	43.5	41.7	41.3	40.9	40.4
	(Percent change)										
Money and credit											
Broad money	18.5	11.0	33.3	25.1	27.1	20.9	22.7	22.0	22.5	23.8	24.0
Public sector credit (net)	38.5	34.8	32.6	25.0	30.0	23.1	19.4	21.2	22.5	23.7	23.8
Private sector credit	1.2	-30.9	39.0	22.2	16.4	16.7	22.9	21.7	22.3	24.8	24.9
	(In millions of U.S. dollars, unless otherwise indicated)										
Balance of payments											
Exports (in percentage change)	9.8	2.0	4.4	21.7	47.3	22.3	9.3	0.6	0.9	1.3	2.9
Imports (in percentage change)	-15.9	-2.6	-11.9	0.6	48.0	14.2	30.9	12.1	10.0	5.8	5.8
Trade balance	428	541	929	1,547	2,266	3,010	2,570	2,080	1,653	1,430	1,307
(In percent of GDP) 4/	6.3	5.2	8.8	12.9	15.6	15.3	9.5	7.1	5.4	4.5	3.9
Current account (excluding grants)	12	-100	251	444	1,032	1,803	892	385	49	-181	-398
(In percent of GDP) 4/	0.2	-1.0	2.4	3.7	7.1	9.2	3.3	1.3	0.2	-0.6	-1.2
Grants	55	24	30	55	25	39	55	50	50	50	50
Capital account	-65	-28	60	-131	60	467	105	134	201	189	193
Of which: FDI	191	291	251	236	428	350	250	250	250	250	250
Errors and omissions 5/	-64	64	-351	-414	54	-1,213	0	0	0	0	0
Overall balance	-61	-40	-10	-47	1,171	1,096	1,052	569	300	58	-155
	(In millions of U.S. dollars, unless otherwise indicated)										
External debt and reserves											
Total external debt (including arrears)	6,530	6,501	6,630	6,863	7,303	7,404	7,639	7,979	8,255	8,510	8,748
(In percent of GDP) 4/	96.3	62.1	62.7	57.3	50.4	37.7	28.1	27.1	27.0	26.7	26.4
External debt arrears	2,674	2,859	2,970	3,170	3,470	3,549	3,637	3,727	3,808	3,882	3,956
Gross official reserves	619	781	873	1,026	2,503	3,638	4,778	5,437	5,817	5,949	5,868
(In months of total imports)	3.2	4.2	5.3	6.2	10.2	13.0	13.1	13.3	12.9	12.5	11.6

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

1/ The medium-term scenario was projected based on the following exchange rate assumption: the official exchange rate was assumed fixed at current levels, the parallel market rate moved such that the real parallel market exchange rate was constant, and the weights for the official and FEC rates are as reported in Footnote 4.

2/ Including livestock, fishery, and forestry.

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

4/ GDP converted at a weighted exchange rate, and the weights on the official and FEC rates are about 8 and 92 percent respectively, based on the shares of GDP by form of ownership.

5/ The authorities estimated that about half of errors and omissions in 2007/08 is due to unrecorded imports.



INTERNATIONAL MONETARY FUND

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EXTERNAL
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APPENDIX I

Public Information Notice (PIN) No. 09/xx
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[January xx, 2009]

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

IMF Executive Board Concludes 2008 Article IV Consultation with Myanmar

On [January 21, 2009], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Myanmar.¹

Background

Cyclone Nargis struck Myanmar in May 2008 and caused significant human suffering, although the economic impact has been less severe than feared. In coordination with international organizations and donors since June, the authorities have facilitated foreign and domestic assistance to communities most affected by the cyclone, reducing its adverse impact and helping foster economic recovery. Agriculture, livestock, and fisheries output was initially projected to contract, but is now expected to record positive growth.

Recent economic developments have been mixed. During the fiscal year 2007/08, the economy grew modestly on the back of strong exports, and the fiscal deficit declined by almost 1 percentage point to 3.4 percent of GDP, reflecting continued improvement in tax collections and contributions from state-owned economic enterprises to the budget, as well as contained current spending. However, capital spending grew rapidly and the fiscal deficit continued to be financed by the central bank. Inflation has been hovering around 30 percent (y/y) in recent years, consistent with rapid growth in monetary aggregates, higher food and administrative prices, and the large civil service wage increase in 2006/07.

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.

The external sector has continued to perform well. The current account surplus reached 9 percent of GDP in 2007/08 reflecting strong natural gas exports, and gross international reserves reached a comfortable level. External debt was broadly stable in nominal terms, but declined as a share of GDP due to real exchange rate appreciation.

The currency regime remains complex with multiple exchange rates. Market-determined exchange rates were broadly stable for the past two years reflecting the improved balance of payments, with a slight appreciation of the kyat during late 2007 and early 2008. The premium between the dollar market rate (kyat per dollar) and the Foreign Exchange Certificate (FEC) market rate (kyat per FEC) temporarily widened in the aftermath of Nargis, mostly reflecting the surge of aid inflows that were converted to kyat through FECs. Because of rapid inflation, the real exchange rate has appreciated by about 40 percent during 2007/08.

Public confidence in the banking system has gradually recovered from the banking crisis in 2003/04, but formal financial intermediation remains low. Despite the relaxation of some administrative measures put in place during the crisis, the overall regulatory environment remains restrictive.

The economy has so far remained relatively insulated from the recent global financial turmoil, but without substantial reforms, the outlook remains bleak. In the short term, economic growth is expected to weaken modestly in 2008/09 due to Nargis, inflation is projected to decline somewhat owing to lower international food and fuel prices and slower monetary growth, and the current account is expected to remain in surplus. In the medium term, investment and productivity growth will be impeded by the multiple exchange rate system, widespread administrative controls, nontransparent rules and regulations, lack of financial intermediation, and poor infrastructure. As a result, the economy will remain vulnerable to adverse shocks, including political turmoil, bad weather and/or poor harvest, a new banking crisis, and weaker-than-expected natural gas prices or production.

Executive Board Assessment

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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.

Table 1. Myanmar: Selected Economic Indicators, 2002/03–2008/09 1/

GDP (2007/08): US\$19.6 billion 2/

Population (2005/06): 55.4 million

Quota: SDR 258.4 million

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Est.	2008/09 Proj.
	(Percent change; unless otherwise indicated)						
Real GDP and prices							
Real GDP	12.0	13.8	13.6	13.6	13.1	11.9	4.5
Staff working estimates of real GDP	5.5	0.0	5.0	4.5	7.0	5.5	4.5
Agriculture 3/	6.0	11.7	11.0	12.1	9.7	8.0	2.0
Industrial production 4/	35.0	20.8	21.4	19.9	21.8	21.4	7.2
Services and trade	14.8	14.6	14.4	13.1	14.2	12.9	6.6
Consumer prices (period average)	58.1	24.9	3.8	10.7	26.3	32.9	26.4
Consumer prices (end of period)	54.0	8.0	7.7	12.6	38.7	28.8	24.0
	(In percent of GDP)						
Public sector operations 5/							
Total revenue (including grants)	5.0	5.0	6.5	6.7	7.6	7.6	7.6
Total expenditure	8.6	10.4	11.2	10.0	11.9	11.0	10.1
Overall balance	-3.6	-5.4	-4.7	-3.3	-4.3	-3.4	-2.5
<i>Of which:</i> Net contribution of state economic enterprises	-1.0	0.2	-0.4	0.5	1.0	1.1	1.0
Domestic bank financing	5.3	4.9	5.2	3.9	4.3	3.2	2.5
Domestic public debt	19.5	19.1	21.3	19.6	18.6	17.0	15.4
	(Annual percentage change)						
Money and credit							
Broad money	18.5	11.0	33.3	25.1	27.1	20.9	22.7
Domestic credit	24.4	14.5	33.8	24.5	27.4	22.0	20.0
Public sector (net)	38.5	34.8	32.6	25.0	30.0	23.1	19.4
Private sector	1.2	-30.9	39.0	22.2	16.4	16.7	22.9
	(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments							
Trade balance	428	541	929	1,547	2,266	3,010	2,570
Exports	2,728	2,781	2,902	3,531	5,203	6,363	6,958
Imports	-2,300	-2,240	-1,973	-1,984	-2,937	-3,353	-4,388
Current account balance (excluding grants)	12	-100	251	444	1,032	1,803	892
Overall balance	-61	-40	-10	-47	1,171	1,096	1,052
Gross official reserves							
In millions of U.S. dollars	619	781	873	1,026	2,503	3,638	4,778
In months of total imports	3.2	4.2	5.3	6.2	10.2	13.0	13.1
External debt							
Total external debt (including arrears)	6,530	6,501	6,630	6,863	7,303	7,404	7,639
(In percent of GDP) 2/	96.3	62.1	62.7	57.3	50.4	37.7	28.1
External debt arrears	2,674	2,859	2,970	3,170	3,470	3,549	3,637
Terms of trade (in percent change)	-0.7	4.6	7.3	9.0	17.5	1.0	0.9
Exchange rates (end of period)							
Official exchange rate (kyat per U.S. dollar)	6.2	5.7	5.6	5.9	5.6	5.2	...
FEC (parallel) rate (kyat per U.S. dollar)	832	849	911	1,158	1,272	1,110	...
GDP in billion kyat	5,625	7,717	9,079	12,287	16,853	22,684	29,977
GDP in millions of U.S. dollars 2/	6,778	10,467	10,567	11,987	14,503	19,618	...

Sources: Data for the period 2002/03 to 2007/08 are provided by the Myanmar authorities, with some adjustments by IMF staff; data for 2008/09 are IMF staff estimates and projections.

1/ Fiscal year (April–March).

2/ GDP converted at a weighted exchange rate, and the weights on the official and FEC rates are about 8 and 92 percent respectively, based on the shares of GDP by form of ownership.

3/ Including livestock, fishery, and forestry.

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

5/ Consolidated public sector; includes the Union Government and state economic enterprises.