International Monetary Fund

Statement at the End of an IMF Staff Visit to Myanmar

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End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

An International Monetary Fund (IMF) team led by Yongzheng Yang visited Myanmar during January 28 to February 5. The staff visit mission met with Union Minister of President's Office U Soe Thane, Central Bank of Myanmar (CBM) Governor U Kyaw Kyaw Maung, Union Minister of National Planning and Economic Development Dr. Kan Zaw, Deputy Minister of Finance Dr. Maung Maung Thein, and other senior officials. The mission also held discussions with parliamentarians and representatives from the private sector. At the conclusion of the visit, Mr. Yang made the following statement:

"Real GDP growth is expected to decelerate slightly to 7.8 percent in fiscal year (FY) 2014/15 (year ending March) from 8.3 percent in FY2013/14 due to slower growth in the agricultural sector. Inflation is expected to pick up to around 6 percent year on year (y/y) in FY2014/15 from 5.8 percent in FY2013/14. The recent kyat depreciation is primary driven by the global strengthening of the U.S. dollar and a widening external current account deficit. The trade deficit increased to 5.5 percent of GDP in December 2014 as imports grew by 25 percent y/y for the period April-December 2014 while exports growth remained flat. Against this background, the CBM's net international reserves fell to US$4.5 billion at end-December. Credit to the private sector continued to grow rapidly at 36 percent y/y in November.

"The growth outlook of the Myanmar economy remains favorable over the medium term, but downside risks for the near term have increased. Fiscal risks stem from spending pressures, including a potential large increase in public sector wages, which will raise inflation expectations. The external current account deficit could widen further, and shortfalls in foreign direct investments and other capital inflows could result in slower reserve accumulation.

"Prioritizing spending and increasing tax revenues will be imperative to contain the FY2015/16 budget within the authorities' target of 5 percent-of-GDP deficit. The large proposed increase in public sector wage bill could crowd out the much needed increases in health, education and infrastructure that are essential for increasing Myanmar's growth potential. To mitigate this risk, the government will need to increase its efforts to broaden the tax base, improve tax compliance and minimize exemptions. Wage increases in the public sector should be in line with revenue and productivity growth.

"Fiscal decentralization should refrain from allocating more funds to sub-national governments without a corresponding devolution of responsibilities. It is also important to strengthen management of natural resource revenues.

"The introduction of treasury securities auctions on January 28 was a major step forward in establishing a non-inflationary alternative to CBM deficit financing and helps develop the financial market. Maintaining a flexible exchange rate is critical for Myanmar to absorb external shocks and build up its international reserve buffer. State-owned banks should also be encouraged to participate in the foreign exchange auction and interbank trading, which would increase the depth of the market. The CBM should actively deploy its monetary policy tools, including introducing recalibrated reserve requirements as soon as possible and continuing with deposit auctions to mop up excess liquidity.

"Modernization of the financial sector is making headway. The staff team welcomes the progress made in strengthening supervision. Implementing modernized prudential regulations that apply to all banks is particularly important given the expected entry of foreign banks. The CBM should employ measures that would prevent excessive capital flows and implement rules on foreign exchange lending that avoid excessive risk-taking. The issuance of new domestic licenses for policy banks should be carefully controlled to minimize risks.

"The IMF will continue to work closely with the authorities on macroeconomic policies and reforms, as well as deliver technical assistance and capacity building, in close coordination with other development partners.

"The team thanks the authorities and other counterparts for the candid exchange of views, and their warm hospitality."

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