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SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—STAFF REPORT AND PRESS RELEASE

This paper on the second review under Staff-Monitored Program for Myanmar was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on February 18, 2014. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Myanmar or the Executive Board of the IMF. The following documents have been released and are included in this package:

- The **Staff Report** for the second review under the Staff-Monitored Program, prepared by a staff team of the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release** summarizing the Staff Report.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Myanmar*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

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MYANMAR

February 18, 2014

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY

Context: The authorities are pursuing a wide-ranging economic reform program against a background of political liberalization. Challenges are formidable, however, as the authorities' capacity to design and implement far-reaching reforms and absorb international assistance is being stretched.

Macroeconomic situation and outlook: Growth has strengthened, led by services. However, international reserves remain low, and inflation pressures are significant. Notwithstanding these risks, the overall economic outlook is favorable. In 2013/14 and 2014/15, growth is projected to accelerate slightly, and inflation to remain elevated. The current account deficit is set to widen, but, from 2014/15 onward, be comfortably financed by FDI-related inflows and aid.

Staff-monitored program: The SMP has been successful, with macroeconomic stability preserved and all quantitative and structural benchmarks met. Progress in building the institutions for economic management has also been made, though much remains to be done.

IMF relations: The IMF's engagement after the expiration of the SMP will remain intensive. Staff will continue to provide close support in updating the macroeconomic framework and formulating policy goals, and stand ready to discuss options for a more formalized cooperation. IMF capacity building will further intensify.

Macroeconomic policies and further reforms: The Central Bank of Myanmar needs to focus on building international reserves and monetary policy tools, which will likely be needed in 2014/15 to sterilize significant foreign exchange inflows. Fiscal policy needs to continue balancing stability with development, while administrative reforms to boost revenue and public financial management need to be driven forward. Financial sector liberalization should proceed cautiously and in line with the development of supervisory capacity. Recently established policy banks should be supervised closely and managed transparently to minimize risks.

Approved By
Jerald Schiff and Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon during January 9–21, 2014. The staff team comprised Mr. Davies (head), Messrs. Kashiwase and Pitt (all APD), Mr. Eckhold (MCM), and Ms. Jahan (SPR). Ms. Creane (head of TAOLAM) joined the mission. The mission was assisted by Ms. Wong (Resident Representative).

CONTENTS

INTRODUCTION

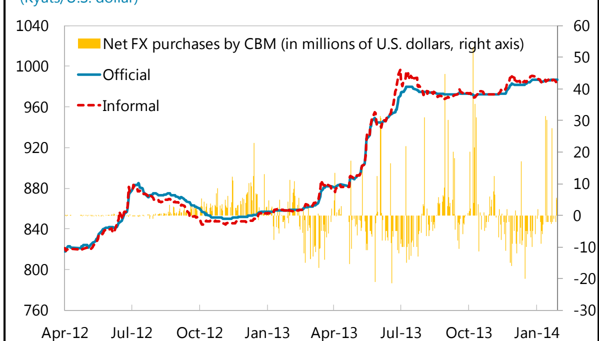
1. Economic and social reforms continue, but capacity constraints are a challenge. The authorities presented a progress report on the Framework for Economic and Social Reforms to a donor conference in January. Donors praised the commitment to reform and have pledged substantial financial support for infrastructure and social development. International investor interest is also high. Nonetheless, the scale of reforms is straining the bureaucracy's implementation capacity.

2. Successful political reforms ahead of the 2015 elections could further bolster confidence. Negotiations toward a comprehensive national ceasefire agreement are progressing, and a nationwide census is being prepared. However, sporadic ethnic and religious violence against the Muslim minority is continuing. Myanmar currently holds the chair of ASEAN.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. Growth has strengthened, but international reserves remain low. Estimates of output growth in 2012/13 have been revised upward to 7.3 percent, led by services which more than offset a weak agricultural sector. With a rapid feed-through of the earlier kyat depreciation, inflation rose to 7.3 percent (y/y) in August 2013, before declining again to 4.7 percent (y/y) in November. Reserve money growth decelerated to 17¾ percent (y/y) in October, even as credit to the private sector continued to grow apace, at 56 percent (y/y). The exchange rate, after stabilizing in summer, came under renewed pressure in November/December, prompting the Central Bank of Myanmar (CBM) to sell significant amounts of reserves. Overall reserves (owned by the state and held by the CBM and state-owned banks) stood at $4.7 billion (around 3.2 months of prospective imports) at end-2013.

Exchange Rate Development
(Kyats/U.S. dollar)



Sources: Myanmar authorities; and IMF staff calculations.

4. The short-term economic outlook remains favorable. Staff project growth to rise to 7¾ percent by 2014/15 as construction accelerates and services growth remains strong. However, inflation is forecast to reach 7 percent, fueled by electricity prices and demand pressures. The external current account deficit is set to widen further to 5 percent of GDP by 2014/15 due to rising imports, but is expected to be more than offset by rising FDI-related inflows, including receipts from the sale of telecommunications licenses in 2013, and aid. Provided these inflows are partially sterilized, reserve money growth is projected to be contained below 20 percent (y/y), and private sector credit growth to moderate to around 30 percent by 2014/15. The 2013/14 fiscal deficit is projected at around 5 percent of GDP, broadly as anticipated, with higher tax revenues offset by lower than expected receipts from SEEs. In 2014/15, it is forecast to fall to 4½ percent of GDP, due to the large one-off revenues from telecommunication licenses.

5. **Short-term risks to the outlook arise from possible further strain on the exchange rate and inflationary pressures.** Should anticipated foreign exchange inflows not materialize soon, or be kept outside the CBM, its thin reserve cushion would be insufficient to resist short-term exchange rate pressures. A resulting unmanaged depreciation would stoke inflation, particularly as monetary policy tools are underdeveloped. These are also needed to offset the impact of large-scale foreign exchange inflows once they occur. Risks also arise from speedy liberalization of the financial sector and rapid credit growth (albeit from a low base). Lower than expected investment could also pose risks to growth.

6. **Medium-term prospects are bright, if the pace and prioritization of reforms are well calibrated, and attuned to implementation capacity.** Further investment, both foreign and domestic, should sustain output growth at close to 8 percent, as agriculture picks up and special economic zones help boost manufacturing. The current account deficit is projected to stabilize below 5 percent of GDP, comfortably financed by inflows of FDI and aid. The debt sustainability analysis (see Supplement) indicates that the risk of debt distress remains low provided the debt restructuring with Paris Club creditors proceeds as envisaged. However, while broad reform efforts continue to be required, the authorities will need to carefully tailor reforms to be consistent with institutional capacity.

Authorities' Views

7. **The authorities broadly concurred with the staff's overall macroeconomic and risk assessment.** However, they expected higher growth in the short term, and were planning higher growth rates in 2014/15 and beyond. They were aware of the macroeconomic and institutional risks, and acknowledged the need for appropriate prioritization and sequencing. However, they also pointed to political imperatives to make rapid progress in reforms.

STAFF-MONITORED PROGRAM

8. **The SMP has been successful.** The authorities' commitment to the program and its benchmarks has been impressive, as outlined in their Letter of Intent (see Annex I).

- *Quantitative benchmarks.* The September 2013 target for international reserves accumulation by the CBM was met comfortably, even though further reserve accumulation since then has fallen slightly short of projections. The targets for fiscal deficit financing (both total financing and CBM financing) were met with significant margins; no external arrears were accumulated during the program period; and contracting of nonconcessional external debt was well below the ceiling.

- *Structural benchmarks.* Regulations to introduce treasury securities auctions have been prepared and are currently awaiting the Attorney General's comments; the large taxpayer office (LTO) has been established; staff and budget have been assigned; and a location to house it identified. The

LTO is currently finalizing its strategy to enable it to administer taxpayers from April 1, 2014. Also, regular small-scale deposit auctions have been conducted.

9. The SMP's broader aims are being achieved, though some steps remain to be completed. The program focused on maintaining macroeconomic stability, and developing the institutions and tools needed for macroeconomic management. The reforms outlined in the Letters of Intent and Memoranda of Economic and Financial Policies of December 28, 2012 and June 12, 2013 have been broadly advanced, though progress in some areas, notably in foreign exchange policy and development of monetary policy tools, has been slower than anticipated.

- *Foreign exchange policy.* The authorities' goal is acceptance of Myanmar's obligations under Article VIII of the IMF's Articles of Agreement, in line with their commitments under the ASEAN Economic Community. Consolidated regulations to implement the Foreign Exchange Management Law that seek to remove the remaining exchange restrictions with respect to invisibles have been prepared and are with the Attorney General.[1] [2] However, private banks still face difficulties in transferring foreign exchange obtained in Myanmar into their overseas nostro accounts, and this has led to banks sometimes charging a premium for transactions made from offshore accounts.[3] To address this, CBM's short-term plan is to allow banks to organize physical shipments of currency offshore.

- *Developing monetary policy tools.* The new CBM law, which separates the CBM from the Ministry of Finance and provides adequate autonomy, was enacted in July 2013. The CBM has since implemented net open foreign exchange position regulations, formed a monetary policy committee, adopted a reserve money target, and improved its liquidity forecasting capacity. However, key prerequisites for effective monetary operations have been delayed. Reserve requirements have not yet been recalibrated, and the lack of budgetary allocations to conduct deposit auctions on an effective scale implies that the CBM remains unable to influence monetary conditions in a market-based way. The authorities currently anticipate the CBM will only assume full budgetary autonomy in 2015/16.

[1] Myanmar currently maintains the following (unapproved) exchange restrictions subject to Article VIII, Section 2(a): (i) a tax certification requirement for authorizing transfers of investment income abroad, and (ii) the deduction for living expenses incurred for an individual and his/her family for transfers of income of foreign staff. Moreover, staff finds that the multiple currency practice arising from the formal foreign exchange certificate (FEC) rate has been removed, as FECs can now only be redeemed at the market exchange rate.

[2] Once the regulations are finalized, IMF staff will make a final determination as to the compliance of Myanmar's regime regulating invisible transactions with its obligations under Article VIII, Section 2(a), 3 and 4 of the IMF's Articles of Agreement.

[3] This premium has at times caused exchange rates to diverge by more than 2 percent. Staff's preliminary finding is that the fact that CBM has not put in place a mechanism to allow these transfers to occur, while providing approval for such transfers only on a discretionary basis, represents an exchange restriction and a multiple currency practice (MCP), both of which are subject to IMF approval under Article VIII, Section 1, 2(a) and 3 of the Articles of Agreement. Staff will continue to consult closely with the authorities on this issue in advance of the next Article IV consultation.

- *Financial sector modernization.* A new Banking and Financial Institutions Law to modernize the prudential framework is in the final stage of drafting. At the same time, preparations are being made for the entry of foreign banks, and options are being considered for the reform of state banks.

- *Improving revenues and financial management.* The draft 2014/15 taxation bill proposes moving from a positive list of taxable services to a negative list of exempt services to broaden the tax base, raising taxation of exports of natural resources, and supporting processing of raw materials. The public financial management (PFM) reform plan has been finalized and plans are well advanced to establish a treasury department at the Ministry of Finance.

10. Staff and the authorities agreed that intensive IMF engagement should continue after expiration of the SMP. The authorities stressed the importance of IMF technical assistance (TA) in key areas of macroeconomic management. They also intend to continue close consultations on economic policies and macroeconomic progress, and are considering next steps on the form of future engagement with the IMF. To facilitate IMF assistance, the exchange of data established under the SMP is expected to continue, and further TA to improve the quality of statistics will be provided.

POLICY DISCUSSIONS

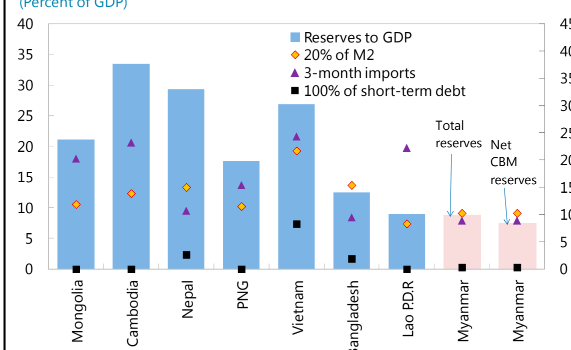
A. Monetary and Exchange Policies

Background

11. The external balance remains broadly stable, but monetary management tools remain underdeveloped. Significant foreign exchange inflows from the sale of telecommunications licenses are expected over the next three to nine months, as well as rising FDI and loan disbursements over the course of 2014/15. This should allow reserve accumulation to resume. The depreciation of the kyat during 2013—stemming largely from a widening current account deficit—has moved it towards alignment with longer-term fundamentals. At the same time, considerable inflation pressures imply that the new monetary policy tools will need to be employed soon.

Gross Reserve Coverage, 2013 1/

(Percent of GDP)



1/ The coverage for Myanmar is based on IMF staff projection for FY2013/14.

Staff Views

12. Measures are needed to accelerate the accumulation of the CBM's international reserves. The CBM's reserves have significantly increased since the start of the SMP and now amount to over 90 percent of total government reserves. However, they still fall significantly short of desirable levels.[4] Sufficient reserve buffers are critical for meeting potential risks in an environment of rapid change and significant uncertainty. To this end, several interrelated measures would need to be implemented, which would also increase the efficiency of the foreign exchange market and remove remaining obstacles to accepting the obligations of Article VIII:

- *Foreign exchange auctions.* The CBM's foreign exchange policy should put more emphasis on conserving and building international reserves and less on limiting exchange rate flexibility. If well managed, additional inflationary pressures would be contained and could be controlled through use of monetary policy tools (see below).

- *Foreign exchange market.* While the CBM's plan to allow physical shipments of currency would be an improvement over current conditions, it may lead to lengthy and expensive processes, particularly given Myanmar's AML/CFT status, and thus undue delay. Instead, the CBM needs to settle its foreign exchange auctions using its foreign nostro account, which would pave the way for accepting the obligations of Article VIII, and unite the onshore and offshore foreign exchange markets. It should also improve confidence in the formal market, boosting supply of foreign exchange over time which would enhance the liquidity of the interbank market. This can also be assisted by encouraging the Myanma Industrial and Commercial Bank (MICB) to participate in the interbank market.

- *Public sector foreign exchange receipts.* Foreign exchange inflows to the government and state economic enterprises (SEEs) should be automatically channeled to the CBM. This would create a reliable source of foreign exchange inflows and cement the CBM's role as the holder of the government's reserves, but also implies that the CBM would need to provide the government foreign exchange in line with the budget. Remaining government- and SEE-owned foreign exchange balances at the state banks should also quickly be consolidated at the CBM.

13. Monetary policy tools need to be developed urgently to counter inflationary pressures. Achieving a reserve money target consistent with maintaining broad stability in inflation and the real exchange rate will likely require significant sterilization operations in 2014/15, and thus rapid deployment of effective monetary policy tools. This will lay the ground for the development of wholesale money and bond markets, and ultimately liberalization of retail interest rates. The near-term priorities to develop monetary policy tools and capacity are:

- *Removing the CBM's budget constraint on monetary policy operations.* The continued constraint, even in 2014/15, on the CBM's budget with regard to its policy operations deprives it of its key tool to manage credit conditions as well as limit depreciation. The currently planned allocation for the cost of monetary operations is likely to fall far short of required amounts. This constraint needs to be removed at the earliest opportunity—ideally at the beginning of 2014/15.

[4] For a discussion of reserve adequacy, see IMF Country Report No. 13/250.

- *Reforming reserve requirements*. The reform of reserve requirements in line with long-standing IMF TA advice is needed to ensure the effectiveness of open market operations. The CBM should implement this urgently, with a reasonable transition period.

- *Accelerating the reduction of CBM financing (see below).* To help reduce inflationary pressures, CBM financing of the fiscal deficit should be reduced more rapidly. The CBM and the new Ministry of Finance treasury department should work together to develop the processes required to use treasury bills auctions instead of CBM financing.

- *Further refining and developing liquidity forecasting capacity*. The CBM, with IMF TA, should continue to work closely with the Ministry of Finance to improve the quality and timeliness of data required for liquidity forecasting, as well as enhance forecasting techniques.

Authorities' Views

14. The authorities broadly agreed with the staff's assessment, but noted policy trade-offs. They were concerned about losing control over foreign exchange outflows if they settled auctions via overseas nostro accounts, and indicated that that there are external pressures to limit exchange rate depreciation and reduce regulated interest rates. They also observed that banks were resisting a change in the definition of reserve requirements, but they still planned to implement the reform. Lastly, they pointed to the transitional period under the CBM law, which led to budget constraints.

B. Financial Sector Modernization

Background

15. The opening of the financial sector is proceeding rapidly. The authorities place high priority on international financial integration, and are moving rapidly to issue licenses to foreign banks, while avoiding the creation of parallel joint-venture banks, in line with earlier staff advice. A Banking and Financial Institutions Law is expected to be introduced in 2014.

16. The authorities have created a number of policy banks to support specific development goals. Commercial banking licenses were issued to a new Housing and Construction Bank and a Microfinance Bank, which are joint ventures between government and private sector shareholders. However, they remain very small at the moment. Further regional development banks are also under consideration. Meanwhile, lending through the existing Myanma Agricultural Development Bank, financed by the Myanma Economic Bank (MEB), has increased significantly.

17. The Financial Action Task Force (FATF) has recently noted that notwithstanding some positive developments Myanmar had not made sufficient progress in strengthening its AML/CFT regime. In its February 2014 Public Statement, the FATF therefore encouraged Myanmar to address the remaining deficiencies.

Staff Views

18. Balancing modernization and expansion of the financial sector with development of the capacity to regulate and supervise it is critical to avoid a build-up of vulnerabilities. The authorities should therefore proceed cautiously, while building their regulatory and supervisory capacity (with IMF TA). At the same time, they also need to develop an overall strategy for financial sector development, including an indication of the total number of financial institutions that can be supervised and are needed for development.

- *Foreign bank entry.* Foreign banks can help transfer technology and know-how, accelerate integration with international financial markets, and increase resources available for development. However, the CBM will be hard-pressed to adequately supervise them. Therefore, the number of licenses awarded to foreign banks should be limited to 3–5 in the first instance; once supervisory capacity has improved, further licenses can be awarded.

- *Policy banks.* While policy banks can be useful tools to further development policy goals, they generate fiscal risks and could hamper broader financial sector development. To minimize risks, these banks need to operate transparently and on a commercial basis, be tightly supervised, and any impairment of the state banks' balance sheets be avoided. The issuance of further licenses should be reconsidered.

- *AML/CFT*. Enactment of the AML/CFT legislation is needed as soon as possible to achieve a greater degree of compliance with the FATF recommendations and to avoid a likely warning of possible countermeasures. The authorities also need to strengthen measures to ensure effective implementation of the legal framework. This includes the strengthening of institutional capacity at the CBM and the Financial Intelligence Unit.

19. MFTB reform should be accorded high priority. Financial sector reform will require redefining the role of state banks, and the MFTB is most affected by reforms to the foreign exchange market while shifting SEEs' foreign exchange earnings to the CBM (see above) would remove a part of its business. However, part of its staff and infrastructure could be absorbed by the CBM and the Ministry of Finance's treasury department, while the remainder could be transformed into a commercial bank.

Authorities' Views

20. The authorities broadly concurred with the staff's assessment and recommendations. They acknowledged the need for sequencing the liberalization of the financial sector and for strengthening supervision. However, they indicated that a larger number of foreign bank licenses than recommended by staff would likely be awarded to promote competition. The creation of additional policy banks was driven by political as well as economic considerations, though the authorities assured staff that no CBM lending to policy banks would take place. The authorities also explained that they were conscious of the urgency to pass AML/CFT legislation, but pointed to the parliament's crowded legislative calendar. With regard to state bank reform, the authorities explained that they were considering options for MICB and MEB.

C. Fiscal Policy and Reforms

Background

21. The deficit for 2014/15 is projected at 4½ percent of GDP. The budget is, however, yet to be approved by the Hluttaw. Staff's understanding of the executive's proposals imply that about half of the one-off revenues from the sale of telecommunications licenses (around 1¼ percent of GDP) is used for deficit reduction, while the remainder funds additional expenditure. However, care will need to be taken to avoid adding to structural spending, which could render the 5 percent deficit target difficult to achieve in 2015/16. In the medium term, the fiscal deficit path is projected to decline again to around 5 percent of GDP, as additional spending in 2014/15 and 2015/16 is unwound and revenues continue to increase. While a temporary deficit in excess of 5 percent can be accommodated, protracted deviations from this target should be avoided if low risk of debt distress and support to macroeconomic stability are to be maintained. The budget and accompanying legislation include steps to streamline tax laws, raise revenue (including through an increase of the tax on gas exports), and expand the tax base.

Composition of Revenue and Expenditure
(Percent of GDP)

	2012/13	2013/14	2014/15
	Prel. Act.	Proj.	Proj.
Revenue and grants	23.3	22.3	24.1
Tax revenue	7.1	7.1	7.2
Non tax Union Government revenue	2.5	2.3	4.1
SEEs revenue 1/	13.7	12.5	12.6
Grants	0.1	0.3	0.3
Expenditure	27.2	27.2	28.6
Expense	17.5	18.5	19.3
Net acquisition of nonfinancial assets	9.7	8.6	9.4
Net lending (+)/borrowing (-)	-3.8	-4.9	-4.5
Union Government	-4.9	-5.2	-3.9
SEEs	1.1	0.3	-0.6

Source: Ministry of Finance and Revenue; and staff projections.
1/ Net of transfers to Union Government

22. PFM reforms are centered on the establishment of a treasury department. The authorities' PFM reform plan sets out an appropriate sequence of reforms and has broad support from development partners. IMF TA is supporting implementation of the plan, with a focus on establishing a treasury department by April 2014 and on continued support to revenue administration. Fiscal decentralization and reforms to SEE financing are also being given priority by the authorities.

Staff Views

23. The draft 2014/15 budget broadly balances macroeconomic stability with development needs. The streamlining of taxation, broadening of the tax base, and revenue measures are welcome. To control money creation and thus inflationary pressures, the budget should use the opportunity presented by the windfall gains from the sale of telecommunications licenses to reduce CBM financing below the level currently envisaged in the budget.

24. Ensuring that the LTO assumes full responsibility for its taxpayers on April 1, 2014 is critical. With the LTO a key prerequisite for further tax administration reform steps, sustained revenue increases hinge on its success. In this regard, the authorities need to complete all remaining steps, in particular selection and notification of taxpayers to be covered by the office, within a tight timeline.

25. **Reforms with a direct bearing on the budget need to ensure that revenue keeps pace with spending.** Fiscal decentralization and SEE reform are important, but they, together with potential SEE underperformance, could reduce the availability of funds for the Union budget. Therefore, reforms in these areas need to proceed alongside revenue-boosting measures to avoid a sharp curtailing of spending or increase in the deficit. PFM reforms, notably the establishment of a treasury department, also need to be advanced to permit the timely introduction of treasury securities auctions in 2014/15.

Authorities' Views

26. **The authorities agreed with staff's assessment of the reform priorities, and noted staff's concerns with regard to CBM funding.** However, they were noncommittal on accelerating the reduction of CBM financing, and pointed to the mid-term revised budget as an opportunity to increase budget allocations for monetary operations. They were confident that the LTO would commence operations at the beginning of the next fiscal year.

STAFF APPRAISAL

27. **The SMP has been successfully implemented, supporting the ongoing transformation of the economy.** The program focused on maintaining macroeconomic stability, building international reserves, and developing the institutions and tools needed for macroeconomic management. Reforms in these areas have advanced significantly, and all benchmarks were achieved. Broader economic reforms also proceeded well, most notably in modernizing the financial sector and increasing social spending. However, reflecting capacity constraints, some reforms advanced slower than envisaged, notably in the foreign exchange market and development of monetary policy tools.

28. **Economic prospects remain good, though with risks.** Growth is gradually accelerating, and the external balance is set to improve. However, risks arise in the short term from low international reserves, elevated inflation, and undeveloped monetary policy tools. Macroeconomic policy should therefore focus on building on the successes achieved under the SMP.

29. **Further reforms are needed for the CBM to fulfill its new mandate.** Achieving budgetary independence as soon as possible is critical. At the same time, the CBM also needs to continue developing its policy tools, while building further international reserves is required to boost cushions in an environment of rapid economic change and significant uncertainty. This will require the completion of the transfer of existing reserves from state-owned banks, and establishing a mechanism to automatically channel government foreign exchange inflows to the CBM. It also implies a greater emphasis on reserve accumulation in the CBM's management of exchange rate auctions. Remaining steps to complete the liberalization of the current account should pave the way

for acceptance of the obligations under Article VIII and would also help accelerate the development of the foreign exchange market.

30. In developing the financial sector, it is important to avoid the build-up of unnecessary risks. Too rapid a pace of expansion and liberalization, coupled with the creation of new policy banks, risks overwhelming the nascent regulatory and supervisory capacity of the CBM. Therefore, a cautious and well-sequenced approach is needed, including on the number of foreign bank licenses. Reform of the MFTB is becoming increasingly important.

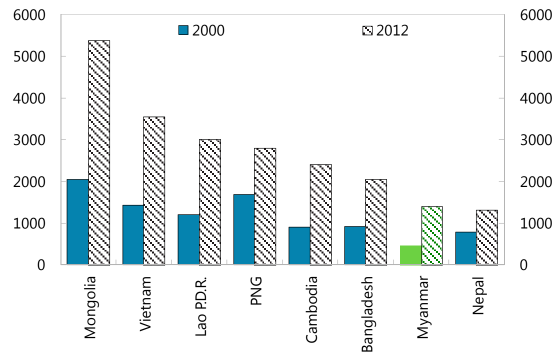
31. Fiscal policy needs to continue to balance macroeconomic stability with development needs. The 2014/15 budget is consistent with macroeconomic and debt sustainability. However, care will need to be taken to ensure that tax reforms deliver sufficient funding to allow development spending to increase and the deficit to remain within 5 percent of GDP through the medium term. CBM financing of the deficit should be aggressively reduced, assisted by windfall revenues in 2014/15 and the establishment of a treasury department and treasury securities auctions.

32. The IMF's engagement after the expiration of the SMP will remain intensive. While the authorities consider the options for IMF engagement, staff will continue to provide close support in updating the macroeconomic framework and formulating policy goals, and stand ready to discuss options for a more formalized cooperation. IMF capacity building will further intensify, including through the recently expanded Bangkok TA office, and will be closely coordinated with development partners.

Figure 1. Myanmar and Its Peers—Selected Indicators

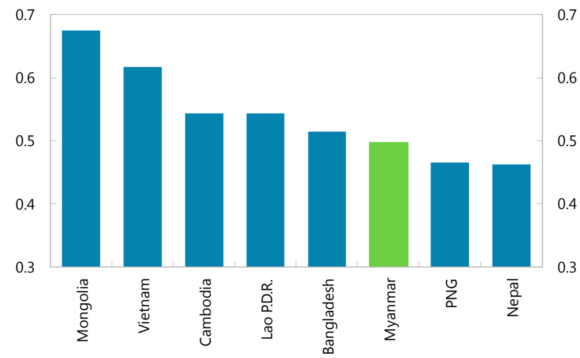
Living standards remain among the lowest in the region.

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



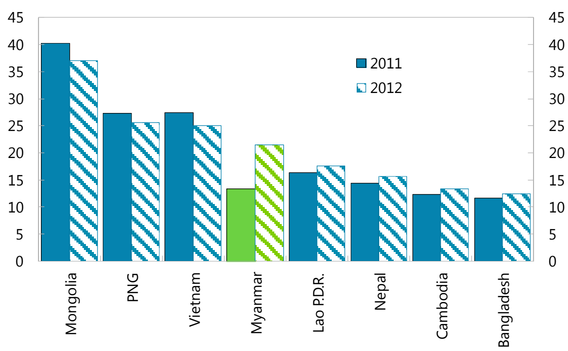
Social well-being is below those of regional peers, ranking 149 out of a total of 186 countries in human development.

Human Development Index, 2012
(Index)



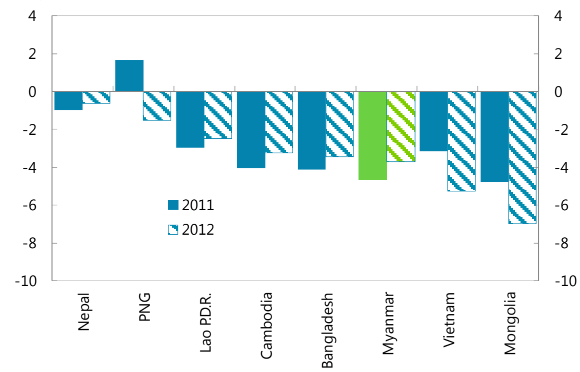
Recent increases in government revenue provide scope for expanding social expenditures…

Government Revenue Excluding Grants
(In percent of GDP)



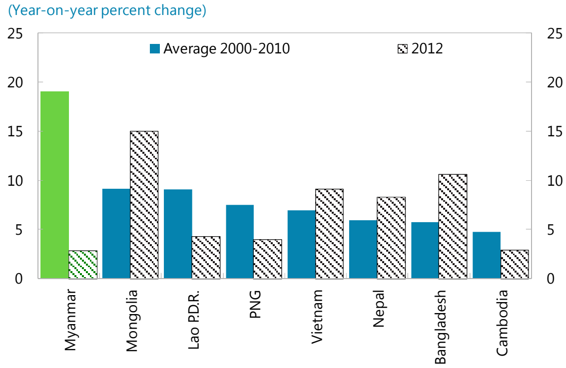
…and a decline in overall fiscal deficits.

General Government Balance
(In percent of GDP)



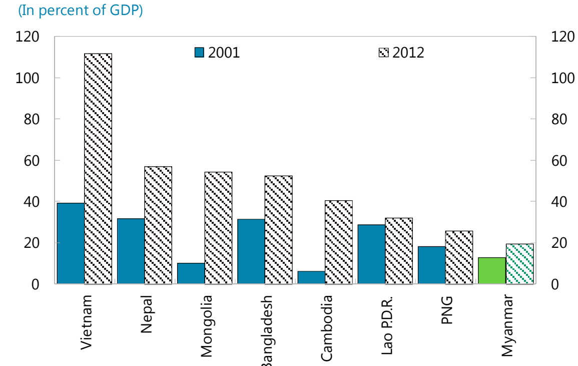
Reduced monetization of fiscal deficits has contributed to lower inflation…

Inflation
(Year-on-year percent change)



…while financial intermediation continues to be depressed by administrative controls.

Credit to the Economy
(In percent of GDP)

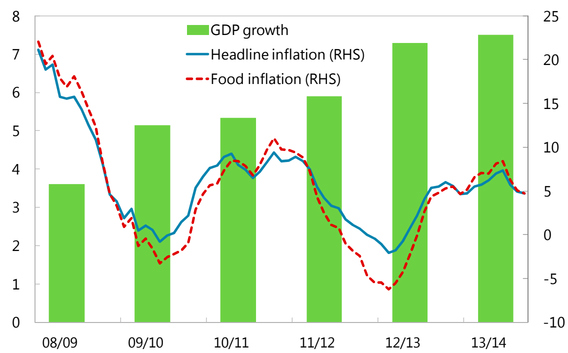


Sources: Data provided by the Myanmar authorities; Direction of Trade; IMF's World Economic Outlook; UNDP Human Development Report; and IMF staff calculations.

Figure 2. Myanmar—Macroeconomic Developments

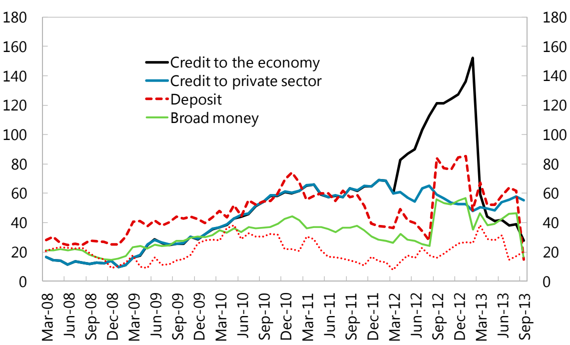
Growth is expected to pick up slightly, driven by services and construction…

Growth and Inflation
(Year-on-year percent change)



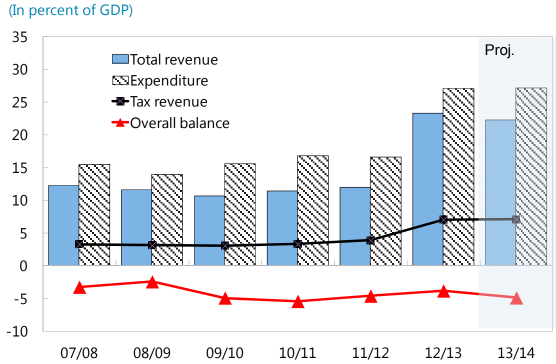
…and credit to the private sector is growing rapidly.

Monetary Indicators
(Year-on-year percent change)



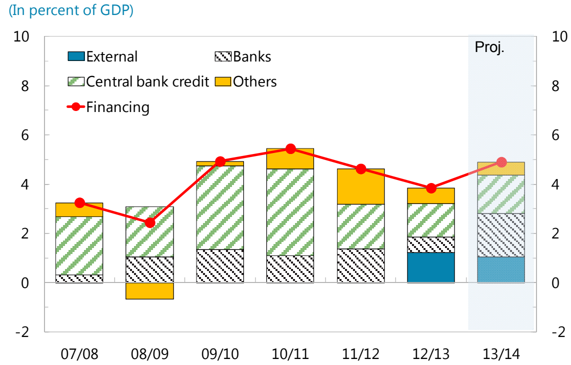
Expenditures and revenues have grown, but tax revenue remains very low…

Fiscal Revenue and Expenditure
(In percent of GDP)



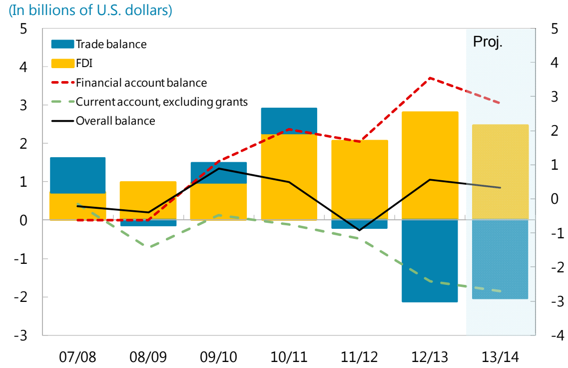
…while the narrowing fiscal deficit is financed less by monetization.

Fiscal Financing
(In percent of GDP)



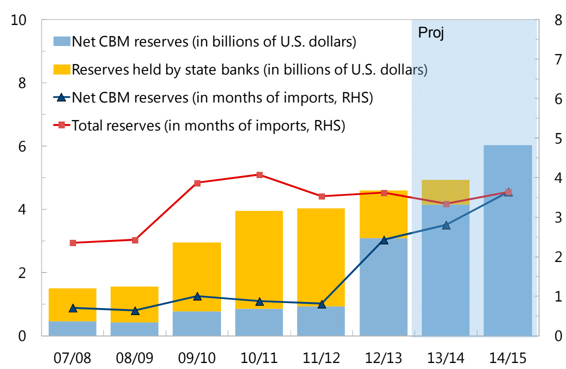
The current account deficit is largely financed by FDI inflows…

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



…and international reserves held by the CBM have increased rapidly.

Total and Net CBM Reserves



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

Table 1. Myanmar: Selected Economic Indicators, 2010/11–2015/16 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
			Est.		Projections	
Output and prices			(Percent change)			
Real GDP (authorities)	10.4	5.9	7.3	8.9	9.1	...
Real GDP (staff working estimates)	5.3	5.9	7.3	7.5	7.8	7.8
CPI (end-period)	8.9	-1.1	4.7	6.7	7.0	6.7
CPI (period average)	8.2	2.8	2.8	5.8	6.6	6.9
Consolidated Public Sector 2/			(Percent of GDP)			
Total revenue	11.4	12.0	23.3	22.3	24.1	23.0
Union government	6.3	6.5	9.5	9.4	11.3	10.1
o/w: Transfers from SEEs to Union government	2.0	2.3	1.6	1.5	2.1	2.1
SEE receipt	7.0	7.8	15.3	14.0	14.7	14.7
Grants	0.0	0.0	0.1	0.3	0.3	0.3
Total expenditure	16.9	16.6	27.2	27.2	28.6	28.8
Expense	8.8	9.8	17.5	18.5	19.3	19.5
Net acquisition of nonfinancial assets	8.0	6.8	9.7	8.6	9.4	9.3
Gross operating balance	2.6	2.2	5.9	3.7	4.9	3.6
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.8	-4.9	-4.5	-5.7
Domestic public debt	21.0	22.5	22.5	23.1	23.0	23.3
Money and Credit			(Percent change)			
Reserve money	30.5	7.9	34.2	16.7	19.0	17.2
Broad money	36.3	26.3	46.6	37.4	26.7	23.4
Domestic credit	34.4	25.1	5.1	33.5	23.2	23.6
Private sector	65.4	60.1	50.5	45.8	30.4	27.6
Balance of Payments			(Percent of GDP, unless otherwise indicated)			
Current account balance	-1.5	-2.1	-4.4	-4.8	-5.1	-4.8
Trade balance	1.3	-0.4	-3.8	-3.6	-2.7	-3.1
Exports	17.8	18.2	18.6	21.2	24.3	25.4
Imports	-16.5	-18.6	-22.4	-24.8	-27.1	-28.4
Financial account	4.8	3.6	6.2	5.4	6.9	6.9
Foreign direct investment, net	4.5	3.7	5.0	4.4	4.1	4.6
Overall balance	1.0	-1.6	1.0	0.6	1.8	2.2
Gross official reserves						
In millions of U.S. dollars	3,951	4,026	4,591	4,913	6,027	7,420
In months of total imports	4.1	3.5	3.6	3.3	3.6	4.0
CBM reserves						
In millions of U.S. dollars	850	922	3,086	4,132	6,027	7,420
In months of total imports	0.9	0.8	2.4	2.8	3.6	4.0
External debt						
Total external debt (billions of U.S. dollars)	14.4	15.3	13.5	10.7	11.7	13.2
(In percent of GDP)	29.0	27.3	24.2	19.0	19.4	20.4
of which: External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	...	...	...
Terms of trade (in percent change)	0.0	2.0	-2.0	-0.6	-1.0	0.3
Exchange rates (kyat/$, end of period)						
Official exchange rate	5.4	5.6	880	...	...	...
Parallel rate	861	822	878	...	...	...
Memorandum items						
GDP (billions of kyats) 4/	39,847	43,368	47,851	54,434	62,572	72,075
GDP (billions of US$)	49.6	56.2	55.8	56.4	60.3	64.8
GDP per capita (US$)	742	900	876	869	910	959

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In FY2012/13 and FY2013/14, the terms of bilateral arrears clearance agreements with Japan, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 2. Myanmar: Summary Operations of the Nonfinancial Public Sector, 2010/11–2015/16
Consolidated Accounts

	2010/11	2011/12	2012/13	2013/14		2014/15	2015/16
		Prel. Act.	Est.	Budget	Proj.	Proj.	Proj.
			(In billions of kyat)				
Revenue and grants	4,551	5,201	11,152	11,191	12,125	15,106	16,608
Tax revenue	1,318	1,678	3,375	2,609	3,858	4,523	5,314
Transfers from SEEs to Union Government	783	988	774	949	811	1,343	1,499
SEE receipts net of transfers to Union Government	2,022	2,376	6,560	7,180	6,816	7,855	9,096
Other nontax revenue 1/	427	158	418	361	462	1,197	483
Grants	0.36	0.22	26	92	178	187	216
Expenditure	6,722	7,208	12,993	14,492	14,793	17,916	20,743
Expense	3,519	4,259	8,351	9,989	10,086	12,059	14,040
Union government	1,548	1,945	3,610	4,941	4,899	5,932	6,933
SEEs net of transfers to Union Government	1,971	2,314	4,741	5,047	5,187	6,128	7,106
Net acquisition of nonfinancial assets	3,203	2,949	4,642	4,504	4,707	5,857	6,703
Union government	2,831	2,572	3,339	2,993	3,220	3,754	4,252
SEEs	372	377	1,303	1,511	1,487	2,102	2,451
Gross operating balance	1,033	942	2,801	1,203	2,038	3,046	2,569
Union government	982	879	982	-930	410	1,319	579
SEEs net of transfers to Union Government	51	62	1,819	2,133	1,628	1,727	1,990
Net lending (+)/borrowing (-)	-2,171	-2,007	-1,840	-3,301	-2,669	-2,810	-4,134
Union government	-1,850	-1,692	-2,357	-3,923	-2,810	-2,435	-3,673
SEEs net of transfers to Union Government	-321	-315	517	622	141	-375	-461
Financing	2,171	2,007	1,840	...	2,669	2,810	4,134
External (net) 2/	3	6	583	...	573	1,001	1,693
Domestic (net)	2,167	2,002	1,257	...	2,095	1,809	2,442
CBM	1,407	790	645	...	849	724	610
Commercial banks	437	588	310	...	956	1,085	1,831
Other 3/	323	623	302	...	290	0	0
			(In percent of GDP)				
Revenue and grants	11.4	12.0	23.3	18.9	22.3	24.1	23.0
Tax revenue	3.3	3.9	7.1	4.4	7.1	7.2	7.4
Transfers from SEEs to Union Government	2.0	2.3	1.6	1.6	1.5	2.1	2.1
SEE receipts net of transfers to Union Government	5.1	5.5	13.7	12.1	12.5	12.6	12.6
Other nontax revenue	1.1	0.4	0.9	0.6	0.8	1.9	0.7
Grants	0.0	0.0	0.1	0.2	0.3	0.3	0.3
Expenditure	16.9	16.6	27.2	24.5	27.2	28.6	28.8
Expense	8.8	9.8	17.5	16.9	18.5	19.3	19.5
Union Government	3.9	4.5	7.5	8.3	9.0	9.5	9.6
SEEs net of transfers to Union Government	4.9	5.3	9.9	8.5	9.5	9.8	9.9
Net acquisition of nonfinancial assets	8.0	6.8	9.7	7.6	8.6	9.4	9.3
Union Government	7.1	5.9	7.0	5.1	5.9	6.0	5.9
SEEs	0.9	0.9	2.7	2.5	2.7	3.4	3.4
Gross operating balance	2.6	2.2	5.9	2.0	3.7	4.9	3.6
Union Government	2.5	2.0	2.1	-1.6	0.8	2.1	0.8
SEEs net of transfers to Union Government	0.1	0.1	3.8	3.6	3.0	2.8	2.8
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.8	-5.6	-4.9	-4.5	-5.7
Union Government	-4.6	-3.9	-4.9	-6.6	-5.2	-3.9	-5.1
SEEs net of transfers to Union Government	-0.8	-0.7	1.1	1.0	0.3	-0.6	-0.6
Financing	5.4	4.6	3.8	...	4.9	4.5	5.7
External (net) 2/	0.0	0.0	1.2	...	1.1	1.6	2.3
Domestic (net)	5.4	4.6	2.6	...	3.8	2.9	3.4
CBM	3.5	1.8	1.3	...	1.6	1.2	0.8
Commercial banks	1.1	1.4	0.6	...	1.8	1.7	2.5
Other 3/	0.8	1.4	0.6	...	0.5	0.0	0.0
Memorandum items:			(In percent of GDP, unless otherwise indicated)				
Wages and salaries 4/	1.1	1.2	1.9	1.9	2.1	2.1	2.2
Education expenditure	0.8	0.8	1.6	1.7	1.8	2.0	2.1
Recurrent	0.7	0.7	1.2	1.2	1.3	1.4	1.4
Investment	0.1	0.1	0.5	0.5	0.5	0.6	0.7
Health expenditure	0.2	0.2	1.5	1.1	1.1	1.3	1.5
Recurrent	0.1	0.2	0.4	0.6	0.6	0.7	0.8
Investment	0.1	0.1	1.1	0.5	0.5	0.6	0.7
Defense expenditure	3.3	2.9	4.4	3.8	4.1	3.8	3.5
Recurrent	1.0	1.0	1.9	2.0	2.2	2.0	1.8
Investment	2.2	2.0	2.4	1.8	2.0	1.8	1.7
Public debt	50	50	47	...	42	42	44
External	29	27	24	...	19	19	20
Of which: Arrears	20	19	9	...	0	0	0
Domestic	21	22	22	...	23	23	23
GDP (in billions of kyat)	39,847	43,368	47,851	59,249	54,434	62,572	72,075

Sources: Myanmar authorities, and IMF staff estimates and projections.

1/ FY2014/15 includes proceeds from sales of two telecom licenses awarded in June 2013.
2/ Converted at the official exchange rate before FY2012/13, when the official exchange rate was replaced by a market-determined exchange rate.
3/ Includes domestic non-bank financing, privatization receipts, sales of government assets, and the statistical discrepancy.
4/ Additional allowances and regional allowances are included for FY2012/13 onward.

Table 3. Myanmar: Balance of Payments, 2010/11–2015/16

(In millions of US$, unless otherwise indicated)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
			Est.	Projections		
Current account	-752	-1,175	-2,429	-2,713	-3,051	-3,078
Trade balance	645	-208	-2,120	-2,045	-1,654	-2,004
Exports, fob	8,829	10,228	10,345	11,947	14,678	16,428
Of which: Gas	2,523	3,503	3,666	4,311	5,805	6,037
Imports, mostly cif	-8,184	-10,437	-12,464	-13,992	-16,332	-18,431
Nonfactor services, net	-482	-432	-74	-75	-80	-21
Income, net	-1,145	-1,024	-744	-1,153	-1,999	-1,854
Of which: Interest due	-306	-560	-94	-170	-189	-204
Transfers, net	231	490	509	559	682	800
Official	64	41	28	40	121	194
Private	167	449	481	519	561	606
Capital and financial account	2,361	2,043	3,458	3,035	4,165	4,472
Direct investment, net	2,249	2,057	2,800	2,461	2,450	2,950
Other investment	114	4	680	594	965	1,522
MLT debt disbursements	500	605	839	800	1,200	1,765
Repayments due	-386	-600	-159	-206	-235	-244
Other flows 1/	-2	-19	-22	-20	750	0
Errors and omissions	-1,122	-1,790	-464	0	0	0
Overall balance	488	-922	565	322	1,114	1,393
Financing	-488	922	-565	-322	-1,114	-1,393
Gross official reserves (increase: -)	-1,015	-75	-565	-322	-1,114	-1,393
Change in arrears (increase: +)	528	997	-6,056	-4,792	0	0
Exceptional financing (positive: +)	0	0	6,056	4,792	0	0
Memorandum items						
Gross Official Reserves (incl. held by state banks, in million US$)	3,951	4,026	4,591	4,913	6,027	7,420
In months of prospective GNFS imports	4.1	3.5	3.6	3.3	3.6	4.0
CBM reserves (in million US$)	850	922	3,086	4,132	6,027	7,420
In months of prospective GNFS imports	0.9	0.8	2.4	2.8	3.6	4.0
Current account (in percent of GDP)	-1.5	-2.1	-4.4	-4.8	-5.1	-4.8
Trade balance (in percent of GDP)	1.3	-0.4	-3.8	-3.6	-2.7	-3.1
Gas export volume (percent change)	-22.9	8.2	-2.2	21.1	35.5	3.9
Other exports volume (percent change)	26.5	0.0	-1.5	15.0	16.0	17.0
Import volume (percent change)	11.7	21.9	20.2	12.1	16.8	12.7
Foreign direct investment (in percent of GDP)	4.5	3.7	5.0	4.4	4.1	4.6
Public external debt (in percent of GDP)	29	27	24	19	19	20
Of which: Arrears	20	19	9	0	0	0
Market exchange rate (kyat/US$, eop)	790	754	880	...	...	
GDP	49,628	56,170	55,759	56,408	60,294	64,802

Sources: Authorities and Fund staff estimates and projections.

1/ The US $750 million of other flows in 2014/15 denotes the inflows from one time telecom business licenses.

Table 4. Myanmar: Monetary Survey, 2010/11–2015/16 1/ 2/
(In billions of kyat at end-period, unless otherwise indicated)

	2010/11	2011/12	2012/13	Oct-13	2013/14	2014/15	2015/16
						Projections	
CENTRAL BANK OF MYANMAR (CBM)							
Net foreign assets	**-1.6**	**-1.4**	**1,878**	**3,047.2**	**3,433**	**5,776**	**7,708**
Foreign assets	2.9	3.0	2,515	3,677	3,911	6,295	8,258
Foreign liabilities	4.5	4.4	637	630	478	519	549
Net domestic assets	**7,003**	**7,552**	**8,257**	**6,059**	**8,398**	**8,298**	**8,792**
Domestic credit	7,162	7,851	9,017	7,919	10,068	10,191	11,002
Claims on central government (net)	6,883	7,673	8,318	7,148	9,168	9,891	10,502
Claims on deposit money banks	279	178	699	771	900	300	500
Other	0	0	0	0	0	0	0
Other items net	-159	-299	-760	-1,860	-1,670	-1,894	-2,210
Reserve money	**7,001**	**7,551**	**10,134**	**9,106**	**11,831**	**14,074**	**16,501**
Currency in circulation	5,227	6,070	7,426	7,841	8,755	10,415	12,210
Deposits	1,774	1,481	2,709	1,266	3,076	3,659	4,290
MONETARY SURVEY							
Net foreign assets	**6**	**25**	**5,831**	**7,590**	**8,783**	**11,576**	**14,008**
Foreign assets	30	49	7,218	9,518	10,661	13,095	15,658
Foreign liabilities	24	24	1,387	1,928	1,878	1,519	1,649
Net domestic assets	**9,951**	**12,548**	**12,597**	**13,533**	**16,535**	**20,512**	**25,593**
Domestic credit	10,348	12,948	13,610	15,184	18,168	22,389	27,683
Net claims on government	8,310	9,688	8,427	7,090	10,232	12,041	14,483
CBM	6,883	7,673	8,318	7,148	9,168	9,891	10,502
Deposit money banks	1,427	2,015	109	-58	1,065	2,150	3,981
Credit to the economy	2,038	3,260	5,183	8,094	7,935	10,348	13,200
Private sector	2,033	3,255	4,899	6,912	7,142	9,313	11,880
Other	5	5	284	1,182	794	1,035	1,320
Other items net	-397	-400	-1,013	-1,651	-1,633	-1,877	-2,090
Broad money	**9,957**	**12,573**	**18,428**	**21,123**	**25,318**	**32,088**	**39,601**
Currency outside banks	4,825	5,563	6,695	6,772	7,595	8,985	10,296
Deposits	5,132	7,010	11,733	14,352	17,723	23,104	29,305
MEMORANDUM ITEMS							
Money multiplier	1.4	1.7	1.8	2.3	2.1	2.3	2.4
Velocity	4.0	3.4	2.6	2.4	2.2	2.0	1.8
Reserve money (y/y percent change)	30.5	7.9	34.2	17.7	16.7	19.0	17.2
Broad money (y/y percent change)	36.3	26.3	46.6	38.9	37.4	26.7	23.4
Broad money (in percent of GDP)	25.0	29.0	38.5	...	46.5	51.3	54.9
Credit to private sector (in percent of GDP)	5.1	7.5	10.2	...	13.1	14.9	16.5
Credit to private sector (y/y percent change)	65.4	60.1	50.5	55.7	45.8	30.4	27.6
Deposits (in percent of GDP)	12.9	16.2	24.5	...	32.6	36.9	40.7
Credit to economy/deposits (in percent)	39.7	46.5	44.2	56.4	44.8	44.8	45.0
Exchange rate (kyat/$, end of period)	5.44	5.56	880	971	...	...	...
Nominal GDP (in billions of kyat)	39,847	43,368	47,851	...	54,434	62,572	72,075

Sources: Central Bank of Myanmar, and IMF staff estimates and projections.

1/ The fiscal year ends on March 31.
2/ From 2012/13, foreign assets and liabilites are valued at the reference rate (before: at official exchange rate).

Table 5. Myanmar: Medium-Term Projections, 2010/11–2018/19 1/

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
			Est.			Projections			
Output and prices					(Percent change)				
Real GDP (authorities)	10.4	5.9	7.3	8.9	9.1	...	...	...	...
Real GDP (staff working estimates)	5.3	5.9	7.3	7.5	7.8	7.8	7.8	7.8	7.8
CPI (end-period)	8.9	-1.1	4.7	6.7	7.0	6.7	6.3	6.0	4.7
CPI (period average)	8.2	2.8	2.8	5.8	6.6	6.9	6.5	6.1	5.3
Consolidated Public Sector 2/					(Percent of GDP)				
Total revenue	11.4	12.0	23.3	22.3	24.1	23.0	23.3	23.5	23.8
Union government	6.3	6.5	9.5	9.4	11.3	10.1	10.1	10.2	10.2
o/w: Transfers from SEEs to Union government	2.0	2.3	1.6	1.5	2.1	2.1	2.0	1.8	1.7
SEE receipt	7.0	7.8	15.3	14.0	14.7	14.7	14.7	14.7	14.7
Grants	0.0	0.0	0.1	0.3	0.3	0.3	0.4	0.5	0.6
Total expenditure	16.9	16.6	27.2	27.2	28.6	28.8	28.0	28.0	28.3
Expense	8.8	9.8	17.5	18.5	19.3	19.5	19.4	19.4	19.7
Net acquisition of nonfinancial assets	8.0	6.8	9.7	8.6	9.4	9.3	8.6	8.6	8.6
Gross operating balance	2.6	2.2	5.9	3.7	4.9	3.6	3.9	4.1	4.1
Net lending (+)/borrowing (-)	-5.4	-4.6	-3.8	-4.9	-4.5	-5.7	-4.7	-4.5	-4.5
Domestic public debt	21.0	22.5	22.5	23.1	23.0	23.3	22.9	22.4	22.1
Money and Credit					(Percent change)				
Reserve Money	30.5	7.9	34.2	16.7	19.0	17.2	22.5	17.9	16.5
Broad money	36.3	26.3	46.6	37.4	26.7	23.4	12.3	19.6	17.5
Domestic credit	34.4	25.1	5.1	33.5	23.2	23.6	8.6	24.5	16.2
Private sector	65.4	60.1	50.5	45.8	30.4	27.6	2.2	37.8	32.5
Balance of Payments					(Percent of GDP, unless otherwise indicated)				
Current account balance	-1.5	-2.1	-4.4	-4.8	-5.1	-4.8	-4.7	-4.6	-4.7
Trade balance	1.3	-0.4	-3.8	-3.6	-2.7	-3.1	-3.1	-3.0	-4.2
Exports	17.8	18.2	18.6	21.2	24.3	25.4	26.1	26.9	28.1
Imports	-16.5	-18.6	-22.4	-24.8	-27.1	-28.4	-29.2	-29.9	-32.2
Financial account	4.8	3.6	6.2	5.4	6.9	6.9	7.1	7.0	7.1
Foreign direct investment, net	4.5	3.7	5.0	4.4	4.1	4.6	4.9	4.9	5.0
Overall balance	1.0	-1.6	1.0	0.6	1.8	2.2	2.4	2.4	2.4
Gross official reserves									
In millions of U.S. dollars	3,951	4,026	4,591	4,913	6,027	7,420	9,087	10,986	13,052
In months of total imports	4.1	3.5	3.6	3.3	3.6	4.0	4.3	4.4	4.5
CBM reserves									
In millions of U.S. dollars	850	922	3,086	4,132	6,027	7,420	9,087	10,986	13,052
In months of total imports	0.9	0.8	2.4	2.8	3.6	4.0	4.3	4.4	4.5
External debt									
Total external debt (billions of U.S. dollars)	14.4	15.3	13.5	10.7	11.7	13.2	14.7	16.4	18.3
(In percent of GDP)	29.0	27.3	24.2	19.0	19.4	20.4	20.8	21.0	21.0
of which: External debt arrears (billions of U.S. dollars) 3/	9.9	10.8	4.8	...	...	...	...	...	...
Terms of trade (in percent change)	0.0	2.0	-2.0	-0.6	-1.0	0.3	-0.8	-0.5	-0.4
Exchange rates (kyat/$, end of period)									
Official exchange rate	5.4	5.6	880	...	...	...	...	...	...
Parallel rate	861	822	878	...	...	...	...	...	...
Memorandum items									
GDP (billions of kyats) 4/	39,847	43,368	47,851	54,434	62,572	72,075	82,740	94,663	107,482
GDP (billions of US$)	49.6	56.2	55.8	56.4	60.3	64.8	70.8	78.3	87.1
GDP per capita (US$)	742	900	876	869	910	959	1,028	1,114	1,215

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

1/ Fiscal year from April 1 to March 31.
2/ Union and state/region governments and state economic enterprises.
3/ In FY2012/13 and FY2013/14, the terms of bilateral arrears clearance agreements with Japan, the World Bank and the AsDB are incorporated.
4/ Real GDP series is rebased to 2010/11 prices by the authorities.

Table 6. Myanmar: Quantitative Benchmarks 1/

	Sep 2012	Dec 2012	**Mar 2013 Target**	Jun 2013 Proj.	**Sep 2013 Target**	Dec 2013 Proj.	Mar 2014 Proj.
Net international reserves of the CBM (floor) 2/ (cumulative flow from end-September 2012; in millions of US$)							
Target/Projection 3/	...	...	**705**	1,300	**1,504**	1,916	2,125
Actual	...	1,140	**1,097**	1,083	**1,617**	1,816	...
Net domestic financing of the NFPS deficit (ceiling) 4/ (cumulative flow from the beginning of the fiscal year to end-period; in billions of kyat)							
Target/Projection 3/	...	...	**1,921**	343	**1,053**	1,523	1,815
Actual	-346	-390	**1,008**	-145	**-340**	...	...
Net CBM financing of the NFPS deficit (ceiling) 4/ (cumulative flow from the beginning of the fiscal year to end-period; in billions of kyat)							
Target/Projection 3/	...	...	**960**	31	**191**	314	794
Actual	-453	-914	**645**	-521	**-1,018**	...	...
Accumulation of new external payment arrears by the non-financial public sector (ceiling) 5/ (ceiling on stock at end-period; in millions of US$)							
Target/Projection 3/	0	0	**0**	0	**0**	0	0
Actual			**0**	0	**0**	...	...
Contracting or guaranteeing of nonconcessional external debt (ceiling) (cumulative flow from the beginning of the fiscal year to end-period; in millions of US$)							
Target/Projection 3/	...	...	**2,000**	2,000	**2,000**	2,000	2,000
Actual			**0**	15	**15**	561	...

1/ Fiscal year begins April 1.
2/ Includes SDRs and gold. Valued at program exchange rate of US$/euro=1.27 and a gold price of US$1,750 per troy ounce.
3/ Targets are set for September 2013.
4/ The nonfinancial public sector (NFPS) comprises the Union government and state economic enterprises. A program exchange rate of 850 kyat/US$ applies. The target will be adjusted downward by the amount of proceeds from the auctioning of telecommunications licenses.
5/ Excludes accumulation of new arrears on debt already in arrears.

Table 7. Myanmar: Structural Benchmarks

Actions	Macroeconomic Objective	Date	Status
For first review			
Eliminate exchange restrictions on payments and transfers for invisibles (MEFP ¶6)	To eliminate Article VIII restrictions	March 2013	Met
Announce plan for phasing out Foreign Exchange Certificates (MEFP ¶6)	To eliminate a multiple currency practice	March 2013	Met
Remove restrictions that prevent private banks from conducting foreign exchange operations at par with state banks (MEFP ¶6)	To help unify informal exchange	March 2013	Met
For second review			
Conduct bi-weekly deposit auctions (MEFP ¶10)	To help establish control over monetary aggregates	Continuous from June 2013	Met
Prepare regulations to introduce treasury securities auctions (MEFP ¶11)	To facilitate market-based deficit financing	September 2013	Met
Establish an operational large taxpayer unit (MEFP ¶17)	To improve tax administration and increase tax revenues	September 2013	Met

Appendix I. Letter of Intent

Nay Pyi Taw, February 18, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde,

The outlook for Myanmar's economy continues to improve. Our economic reforms have focused on safeguarding macroeconomic stability while investing in physical and social infrastructure to promote growth and improve the livelihoods of all of Myanmar's people. As a result, international and domestic investment has increased, growth has strengthened and poverty is falling. Nonetheless, the liberalization of the economy and the anticipated inflows of capital will pose challenges, and so we continue to place high priority on building our macroeconomic management tools.

We remain strongly committed to the program of reforms detailed in our Letters of Intent (LOI) of December 28, 2012 and June 12, 2013 and accompanying Memoranda of Economic and Financial Policies. This letter reports on the outcome of the second and final review of progress against the objectives of our economic and financial program—called a Staff-Monitored Program (SMP) by the IMF—for 2013.

We met all the benchmarks of our program. All SMP quantitative and structural benchmarks for end-September 2013 were met. Reserve accumulation of the Central Bank of Myanmar (CBM) met the benchmark as targeted and fiscal targets were met with significant margins. We have also developed institutions and facilities that will underpin improved macroeconomic management in the future. In particular we have established a Large Taxpayers Office, prepared regulations for auctions of treasury securities, and the CBM has been regularly conducting deposit auctions.

We have also made good progress on the priorities outlined in our Memoranda of Economic and Financial Policies. In particular we have established an autonomous CBM and developed its monetary policy framework through forming a monetary policy committee and adopting an internal reserve money target. Almost all current account payment restrictions have been lifted and a consolidated set of regulations for the Foreign Exchange Management Law has been prepared. In the fiscal area, we have developed and disseminated a comprehensive public financial management reform plan and will soon establish a treasury department within the Ministry of Finance. We have also made strides in establishing the framework for sustainable growth and poverty reduction through continuing to increase spending on social services and by attracting private investment to develop infrastructure, most notably in telecommunications.

Looking forward, we will continue building on the successes achieved under the SMP. The CBM's international reserves have grown significantly under the SMP but remain low. We expect them to increase to over 3 months of imports during 2014/15 and will seek to increase them further to further safeguard external stability. We will also continue strengthening the CBM's monetary and exchange policy framework and tools, which will be required to keep inflation in check and manage foreign inflows. The CBM will also continue to enhance the foreign exchange market; we intend to remove final exchange restrictions soon which will enable us to accept our Article VIII obligations in the first half of 2014. The 2014/15 budget will include tax policy measures to allow us to further expand development spending while keeping the deficit below 5 percent of GDP. We believe this target will remain appropriate through the medium term and will continue actively pursuing public financial management reforms to enhance revenue and improve the efficiency and effectiveness of public expenditure.

We will continue working closely with IMF staff. We are extremely grateful for the support of IMF staff during our implementation of the 2013 SMP and intend to continue our close consultations on economic policies and macroeconomic progress. We will reflect on the next steps on the form of future engagements with the IMF, which will be based on our own development strategy.

Our government authorizes the IMF to publish this Letter of Intent.

Sincerely yours,

/s/	/s/
U Win Shein	U Kyaw Kyaw Maung
Union Minister of Finance and Revenue	Governor, Central Bank of Myanmar

INTERNATIONAL MONETARY FUND

MYANMAR

SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

February 18, 2014

Approved By
Jerald Schiff and Dhaneshwar Ghura (IMF)
Sudarshan Gooptu and Sudhir Shetty (IDA)

Prepared By
International Monetary Fund
International Development Association

Myanmar is assessed to be at low risk of debt distress following the clearance of its external arrears.[1,2] *The baseline scenario assumes the planned resolution of Myanmar's external arrears will be completed in 2013/14 as agreed with the Paris Club creditors. The baseline scenario also assumes a gradual reduction in Myanmar's reliance on nonconcessional financing, as more concessional resources become available after the resolution of arrears. Under the baseline scenario, public and publicly guaranteed (PPG) external debt burden indicators remain well below their indicative thresholds. Similarly, under the baseline scenario total public debt will also be below the benchmark and will continue to decline over the medium and long term. However, shocks lead to the indicative benchmark for the present value of total public debt being exceeded. While Myanmar's risk of debt distress can be characterized as low, it requires close monitoring, in particular because of the relatively high level of domestic debt. Maintaining the low-risk categorization will require continuation of the current prudent fiscal policy, improvements in tax policy and public financial management and increasing use of concessional finance while limiting nonconcessional borrowing to only viable and growth-enhancing projects.*

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[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the LICDSA 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 current DSA framework uses the 5 percent discount rate specified in the new guidance note.

[2] The DSA was jointly prepared by the IMF and the World Bank in consultation with the Asian Development Bank.

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 revised macroeconomic assumptions presented in Box 1.** Compared to the previous DSA, the assumptions take into account recent developments. In particular, the medium-term GDP growth rate has been revised upward to 7.8 percent from an average of about 7 percent in the previous DSA reflecting robust FDI and related investment in productive sectors, as well as in public investment.[3] The growth outlook has strengthened due to better than expected performance of the services sector and construction which is forecast to continue over the medium-term. In addition, special export zones are expected to start operations which should boost manufacturing and lead to robust growth over the medium term. The overall fiscal deficit remains the same as in the previous DSA in the medium term, although revenue collection is expected to improve. Long-term growth and inflation, however, are expected to be approximately the same as in the previous DSA.

3. **The current DSA incorporates the agreed resolution of Myanmar's arrears with its multilateral and bilateral creditors**. In April 2012, Myanmar agreed with Japan, its largest creditor, on a debt restructuring plan to resolve its arrears through a bridge loan operation and cancelation of principal payments and overdue charges.[4] Furthermore, Myanmar resolved its arrears to the World Bank and the Asian Development Bank in January 2013, with the help of a bridge financing operation from Japan. In late-January 2013, the Paris Club reached an agreement with the Myanmar authorities on a debt treatment to be completed in early 2014. Paris Club members agreed to write off 50% of all arrears and reschedule the remaining arrears over 15 years with a 7 year grace period. The treatment will be phased, with 25% of the written-off occurring immediately and 75% on a successful completion of the SMP. Japan signed the minute but will continue with the more generous treatment that it had previously announced. Norway and Denmark, also provided a more generous treatment by writing off 100% of their outstanding debt. Similarly, Italy signed a bi-lateral agreement with Myanmar to cancel 50% percent of all arrears and conduct a debt-for development swap of the remaining arrears. As of end-January 2014, nine of the eleven Paris Club creditors had signed bilateral agreements with Myanmar and the signing of the remaining two agreements is imminent.

4. **Myanmar is expected to gradually reduce its reliance on external nonconcessional financing**. With the expected resolution of its arrears and the re-engagement of the international community,

[3] The staff of the World Bank and the IMF, while strong supporters of the overall reform effort, reserve some caution given the newness of the reform program.

[4] In FY2012/13 Japan cancelled arrears on payments due after 2003. Principal and interest arrears on pre-2003 payments due were rescheduled on very concessional terms also before the end of FY2012/13. Before the end of FY2013/14, Japan also cancelled late interest charges on pre-2003 arrears. The implementation of this agreement was done in the context of the Paris Club framework.

Box 1. Myanmar: Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2013/14–33/34)

- Real GDP growth rate is assumed to average about 7.8 percent over the medium term driven by commodity exports and higher investment due to the implementation of Myanmar's structural reform plans, with the support of the international community, and suspension of sanctions. Over the long term, real GDP growth rate is expected to average 7.4 percent supported by prudent macroeconomic policies and robust FDI and related investments.
- Inflation is projected on average at 6.2 percent (y/y) in the medium term and expected to continue trending down and reach around 3 percent in FY2033/34. This is based on the assumption that deficit monetization will be replaced with bond financing, as well as having a consistent monetary policy framework in place.
- The primary fiscal deficit is expected to average at 2.8 percent of GDP over the medium term. Revenues are expected to increase significantly over the medium term, primarily due to a substantial increase in gas export revenues expected with the completion of Shwe and Zawtika projects as well as planned improvements to tax administration and efforts to broaden the tax bases. Expenditures are also expected to increase, reflecting Myanmar's significant development needs.
- Exports as a percentage of GDP is assumed to average around 27.5 percent, in the medium term reflecting mainly new natural gas projects coming on stream. Over the longer term, export growth remains robust, averaging around 34.5 percent during FY2019/20–FY2033/34, driven by export diversification beyond commodity exports supported by higher investment, including foreign direct investment.
- Imports as a percentage of GDP is assumed to average around 30.9 percent in the medium term given the authorities' plan to remove exchange restrictions on current international payments and transfers and the import content of higher investment including FDI. Over the longer term, imports as a percentage of GDP will average around 39.6 percent during FY2019/20–FY2033/34, reflecting the need for imported capital goods to support growth.
- The noninterest current account (including official grants), is expected to remain in deficit in the medium term at an average of 4.5 percent of GDP. Over the long term, the noninterest current account deficit is expected to stabilize at around 4.6 percent of GDP.
- As of end-FY2012/13, around 35 percent of public domestic debt was 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 fixed interest rates of 8.75, 9, and 9.5 percent, respectively. Average real interest rates on domestic public debt turned positive in FY2011/12 as inflation subsided but are projected to narrow in FY2013/14, due to rising inflation and fixed nominal interest rates. Real interest rates are expected remain positive in the short term, in line with government's plan to further shift toward bond financing of the deficit and moderate inflation, and widen in the medium term, as the government moves toward a market based deficit financing.
- Financing of the deficit is expected to be met by a combination of domestic public borrowing and foreign loans, including from bilateral and multilateral creditors. In the short term, deficit financing will rely on non-concessional external financing and increasingly on the issuance of Treasury bonds (instead of Treasury bills in order to reduce deficit monetization). Over the medium term, the share of external financing is expected to increase, especially from concessional sources. Nonetheless, Treasury bond issuance is expected to continue over the medium term (despite the higher cost relative to external financing) consistent with the goal to develop a domestic Treasury bond market. This will also facilitate the liberalization of interest rates with the planned move to treasury security auctions.

Myanmar is expected to gradually regain access to concessional resources. As donors re-engage with Myanmar, and gradually identify suitable projects, the share of nonconcessional financing is expected to decline. The authorities aim to use nonconcessional external borrowing only to finance economically viable projects in priority sectors such as energy and infrastructure, at levels consistent with low risk of debt distress. In order to limit the use of nonconcessional financing, the authorities also aim to keep the fiscal deficit in FY2013/14 as well as over the medium term at 5 percent of GDP.

Key Macroeconomic Assumptions Underlying the DSA for the Baseline Scenario (FY2013/14–33/34)

	DSA Update Baseline		2013 DSA Baseline	
	2013/14–2018/19	2019/20–2033/34	2013/14–2018/19	2019/20–2033/34
Real GDP Growth (in percent)	7.8	7.4	7.0	7.4
Inflation (in percent)	6.2	3.8	5.6	3.8
Overall fiscal balance (in percent of GDP)	-4.8	-4.2	-4.9	-4.2
Noninterest current account (in percent of GDP)	-4.5	-4.6	-4.2	-4.7
Revenue (nonfinancial public sector; in percent of GDP)	23	24.3	24.7	26.7

Source: IMF staff estimates

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

5. **Successful completion of the resolution of the remaining arrears in 2013/14 will ensure that all external debt indicators are below their indicative thresholds in 2013/14.** Under the baseline scenario, which assumes the completion of the second phase of the resolution of Myanmar's arrears, all external debt indicators will be below their indicative thresholds at end-FY2013/14. The impact of the debt rescheduling is evident in the decline in the debt burden indicators between FY2012/13 and FY2013/14 (Table 1a). For example, the PV of the debt-to-GDP ratio decreases from 18.9 percent in FY2012/13 to 12.8 percent in FY2013/14.

Myanmar: External PPG Debt Indicators

	Indicative Thresholds	End 2012/13	End 2013/14
NPV of debt as a percent of:			
GDP	30	18.9	12.8
Exports	100	91.6	55.2
Revenue	200	81.1	58.4
Debt Service, as a percentage of:			
Exports	15	2.2	4.1
Revenue	18	2.0	4.4

Sources: IMF staff estimates

6. **Standard stress tests indicate that Myanmar's external debt sustainability may be vulnerable to export shocks, but remains in a low risk of debt distress.** Although no thresholds are breached, the export shock leads external debt to come close to the PV of debt-to-export indicative threshold temporarily (Figure 1 and Table 1b).[5] However, this shock is introduced at the time of the projected increase in exports due to the completion of the Shwe and Zawtika gas projects. Myanmar's good track record of

[5] The typical historical scenario is not shown in this analysis. In the case of Myanmar, the historical scenario would imply an unlikely return to pre-reform policies: low noninterest current account deficits (consistent with binding international sanctions) and sustained real exchange rate pressures.

implementing natural gas sector projects (e.g. the Yadana and Yetagun projects are fully operational) and contractual purchasing commitments by project partners (projects partners have agreed to purchase most of the production from these projects), mitigate some of the risks of this particular shock i.e. a significant slowdown in exports compared to the baseline scenario.[6] Accordingly, Myanmar can be classified as at low risk of debt distress.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

7. **Public debt burden indicators (including domestic public debt) are expected to improve initially, reflecting the impact of the planned external arrears resolution**. The nominal debt stock would decrease from 46.3 percent in 2012/13 to 41.1 percent in 2013/14 mainly due to the clearance of the arrears. Thereafter, the public debt is expected to slightly decline (Figure 2 and Table 1c). This reflects the significant development needs of Myanmar and the associated overall fiscal deficits assumed in the baseline scenario.

8. **Although total public sector debt is relatively high, it remains below the indicative benchmark under the baseline scenario.** The PV of total public debt as a percentage of GDP remains below the indicative benchmark and continues to fall over the medium to long-term. This trajectory of total public debt underscores the need to limit the share of nonconcessional financing as is assumed in the baseline scenario. It should also be noted that this level of debt can give rise to vulnerabilities including the burden of high debt service. It is also susceptible to shocks (see the paragraph below for implications of shocks). Risks are somewhat mitigated as the authorities aim to use their borrowing to only finance economically viable projects in priority sectors, which will be crucial to growth.

9. **Stress tests indicate the presence of vulnerabilities**. In particular, public debt sustainability is vulnerable to lower real GDP growth, and large and persistent primary fiscal deficits (Table 1d). The stabilization of the debt-to-GDP ratio at a relatively high level under the baseline scenario and the vulnerabilities indicated by the stress tests highlight the need for a prudent fiscal policy, through improvements in tax policy and public financial management including strengthening of debt management functions, and project assessment (i.e. ability to identify projects with good economic returns) and capacity to obtain more concessional financing.

STAFF ASSESSMENT

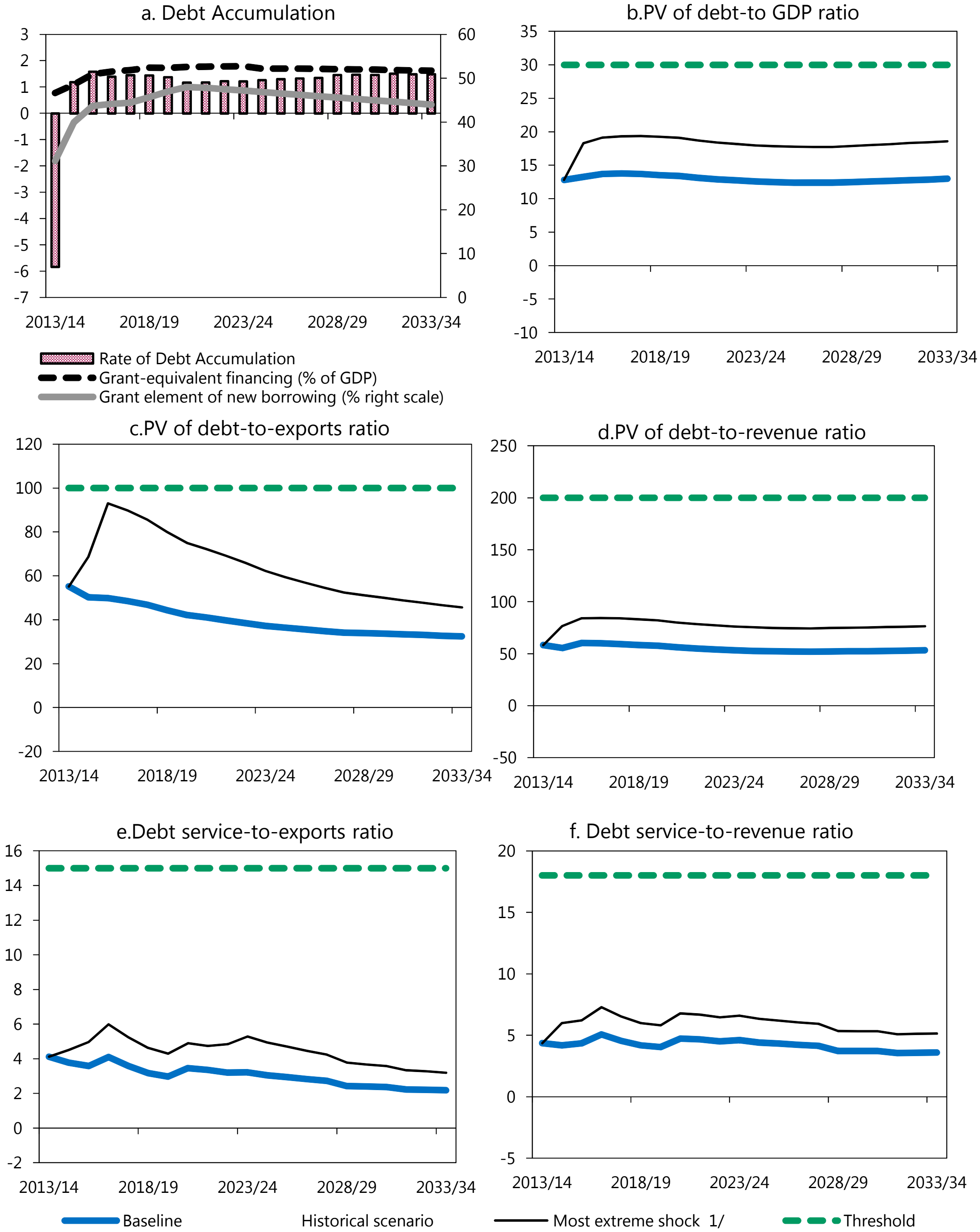
10. **Myanmar is assessed to be at low risk of debt distress given its planned resolution of external arrears.** Under the baseline scenario, which assumes a resolution of the remaining arrears in 2013/14 as agreed with the Paris Club, all indicators are below their indicative thresholds with the PV of debt-to-export ratio temporarily coming close to the threshold under the export shock. As explained above, the risks associated with this shock are mitigated by the good track record of Myanmar in terms of

[6] There is a growing likelihood that decreases in global gas prices could accelerate as a result of market reaction to upcoming U.S. exports. However, the possible drop in prices in mitigated by the potential increase in the volume of gas exports as exploration of gas fields in a significant number of block will start at the end of this year.

implementation of large natural gas projects as well as contractual purchase commitments of project partners. However, it also underscores the importance of diversifying Myanmar's export base. Under the baseline scenario, the total public debt remains below the benchmark and continues to fall over the projection period. But caution must be exercised as stress test shows that the benchmark can be breached. Overall public debt sustainability is vulnerable to fiscal slippages and low real GDP growth. This highlights the need for prudent fiscal policy, as well as improvements in tax policy to reduce reliance on nontax revenues from nonrenewable sources and public financial and debt management.

11. The authorities broadly agreed with these conclusions and with the thrust of the analysis. They concurred with staff on the need to be cautious on nonconcessional borrowing. They acknowledged the importance of maintaining high exports and also financing only viable projects that would enhance growth.

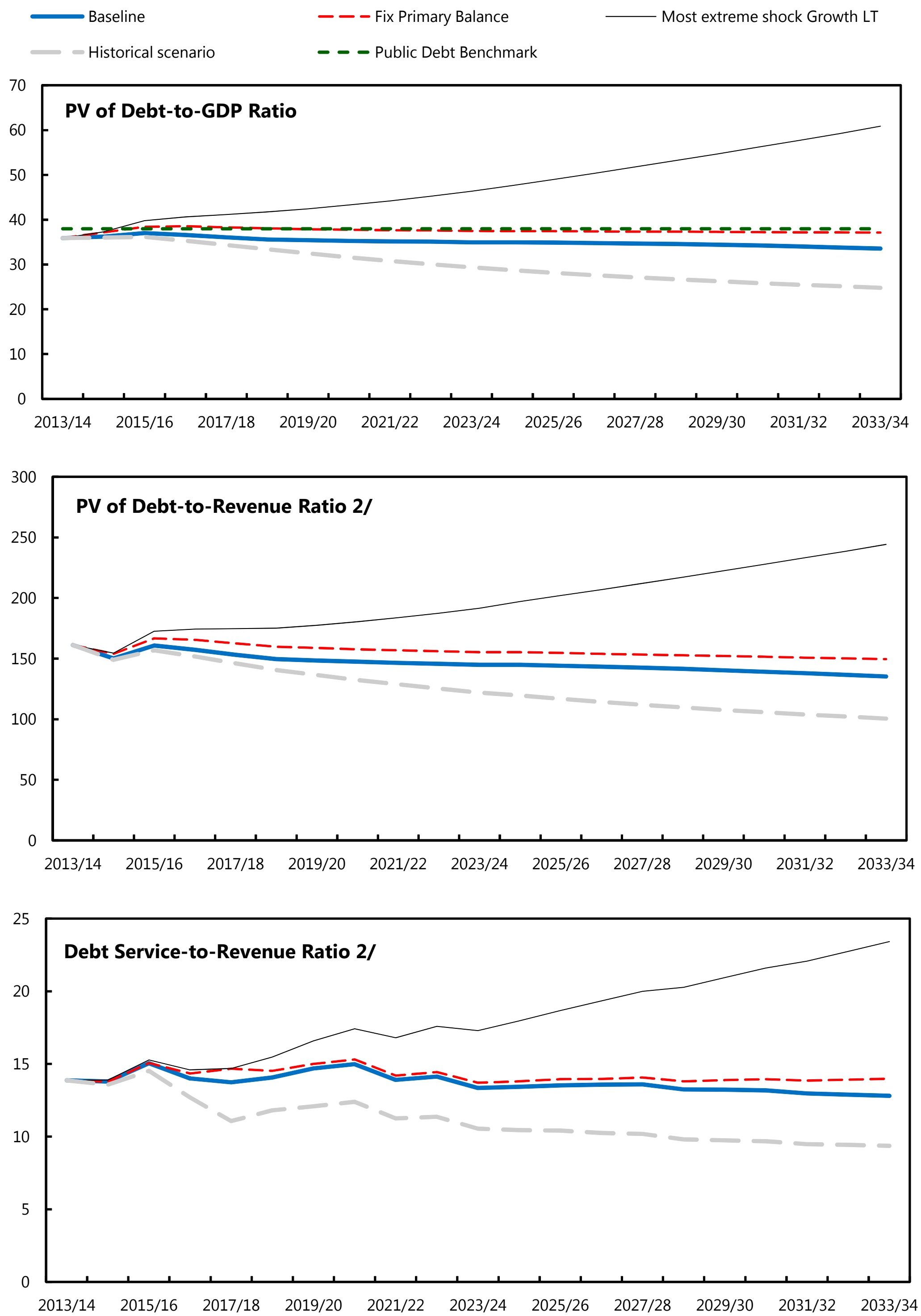
Figure 1. Myanmar: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios. 2013/14–2033/34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Myanmar: Indicators of Public Debt Under Alternative Scenarios, 2013/14–2033/34 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 1a. Myanmar: External Debt Sustainability Framework, Baseline Scenario, 2010/11–2033/34 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections									
	2010/11	2011/12	2012/13			2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2013/14–2018/19 Average	2023/24	2033/34	2019/20–2033/34 Average
External debt (nominal) 1/	**29.0**	**27.3**	**24.2**			**18.3**	**18.7**	**19.8**	**20.3**	**20.5**	**20.5**		**20.2**	**21.2**	
of which: Public and publicly guaranteed (PPG)	29.0	27.3	24.2			18.3	18.7	19.8	20.3	20.5	20.5		20.2	21.2	
Change in external debt	-7.3	-1.6	-3.1			-5.9	0.4	1.1	0.5	0.2	0.1		0.0	0.1	
Identified net debt-creating flows	-11.5	-4.9	-0.5			-1.3	-0.3	-1.2	-1.6	-1.7	-1.7		-2.1	-1.6	
Non-interest current account deficit	**0.9**	**1.1**	**4.2**	**-1.1**	**4.1**	**4.5**	**4.7**	**4.4**	**4.4**	**4.3**	**4.4**		**4.5**	**4.6**	4.6
Deficit in balance of goods and services	-0.3	1.1	3.9			3.8	2.9	3.1	3.2	3.1	4.2		4.8	4.8	
Exports	18.7	19.6	20.6			23.2	26.4	27.5	28.3	29.2	30.5		33.7	40.0	
Imports	18.4	20.7	24.5			27.0	29.3	30.6	31.5	32.3	34.7		38.5	44.8	
Net current transfers (negative = inflow)	-0.5	-0.9	-0.9	-0.9	0.2	-1.0	-1.1	-1.2	-1.3	-1.4	-1.5		-1.4	-1.1	-1.2
of which: Official	-0.1	-0.1	-0.1			-0.1	-0.2	-0.3	-0.4	-0.5	-0.6		-0.6	-0.5	
Other current account flows (negative = net inflow)	1.7	0.8	1.2			1.7	3.0	2.5	2.6	2.6	1.7		1.1	0.9	
Net FDI (negative = inflow)	**-4.5**	**-3.7**	**-5.0**	**-3.0**	**1.1**	**-4.4**	**-4.1**	**-4.6**	**-4.9**	**-4.9**	**-5.0**		**-5.5**	**-5.0**	-5.4
Endogenous debt dynamics 3/	**-7.8**	**-2.4**	**0.4**			**-1.5**	**-1.0**	**-1.0**	**-1.1**	**-1.1**	**-1.1**		**-1.1**	**-1.2**	
Contribution from nominal interest rate	0.6	1.0	0.2			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-1.5	-1.5	-2.0			-1.8	-1.3	-1.4	-1.4	-1.4	-1.4		-1.4	-1.4	
Contribution from price and exchange rate changes	-7.0	-1.9	2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**4.2**	**3.3**	**-2.7**			**-4.6**	**0.8**	**2.2**	**2.1**	**1.9**	**1.8**		**2.0**	**1.7**	
of which: Resolution of arrears	0.0	0.0	-10.9			-8.5	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	18.9			12.8	13.3	13.7	13.8	13.7	13.5		12.6	13.0	
In percent of exports	...	...	91.6			55.2	50.3	49.9	48.6	46.8	44.3		37.3	32.4	
PV of PPG external debt	**...**	**...**	**18.9**			**12.8**	**13.3**	**13.7**	**13.8**	**13.7**	**13.5**		**12.6**	**13.0**	
In percent of exports	**...**	**...**	**91.6**			**55.2**	**50.3**	**49.9**	**48.6**	**46.8**	**44.3**		**37.3**	**32.4**	
In percent of government revenues	**...**	**...**	**81.1**			**58.4**	**55.7**	**60.3**	**60.1**	**59.4**	**58.3**		**53.4**	**53.4**	
Debt service-to-exports ratio (in percent)	**7.5**	**10.6**	**2.2**			**4.1**	**3.8**	**3.6**	**4.1**	**3.6**	**3.2**		**3.2**	**2.2**	
PPG debt service-to-exports ratio (in percent)	**7.5**	**10.6**	**2.2**			**4.1**	**3.8**	**3.6**	**4.1**	**3.6**	**3.2**		**3.2**	**2.2**	
PPG debt service-to-revenue ratio (in percent)	**12.2**	**17.2**	**2.0**			**4.4**	**4.2**	**4.3**	**5.1**	**4.6**	**4.2**		**4.6**	**3.6**	
Total gross financing need (Billions of U.S. dollars)	-0.9	-0.1	-0.1			0.8	1.2	0.8	0.6	0.6	0.6		0.5	2.7	
Non-interest current account deficit that stabilizes debt ratio	8.2	2.7	7.3			10.4	4.3	3.4	3.9	4.1	4.4		4.5	4.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.3	5.9	7.3	9.3	4.2	7.5	7.8	7.8	7.8	7.8	7.8	7.8	7.4	7.4	7.4
GDP deflator in U.S. dollar terms (change in percent)	23.8	6.9	-7.5	12.7	18.2	-5.9	-0.8	-0.3	1.4	2.6	3.2	0.0	3.3	3.0	3.2
Effective interest rate (percent) 6/	2.2	3.9	0.6	1.7	1.0	1.3	1.8	1.8	1.8	1.7	1.7	1.7	1.5	1.4	1.4
Growth of exports of G&S (U.S. dollar terms, in percent)	16.1	18.6	4.5	14.9	13.3	14.1	21.4	12.0	12.5	14.1	16.2	15.1	13.1	12.9	12.9
Growth of imports of G&S (U.S. dollar terms, in percent)	18.6	27.7	17.6	19.7	23.9	11.3	15.9	12.5	12.3	13.4	19.7	14.2	12.9	12.4	12.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.1	40.0	43.7	44.1	44.4	45.7	41.5	47.2	44.0	46.1
Government revenues (excluding grants, in percent of GDP)	11.4	12.0	23.3			21.9	23.8	22.7	22.9	23.0	23.2		23.6	24.3	23.8
Aid flows (in Billions of U.S. dollars) 7/	0.0	0.0	0.0			0.2	0.6	1.0	1.2	1.4	1.8		3.3	7.7	
of which: Grants	0.0	0.0	0.0			0.2	0.2	0.2	0.3	0.4	0.5		0.9	2.1	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.4	0.8	0.9	1.0	1.2		2.4	5.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.8	1.1	1.5	1.6	1.6	1.7		1.8	1.6	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			44.0	47.8	49.3	51.4	53.5	56.3		57.3	53.2	55.5
Memorandum items:															
Nominal GDP (Billions of U.S. dollars)	49.6	56.2	55.8			56.4	60.3	64.8	70.8	78.3	87.1		146.9	412.3	
Nominal dollar GDP growth	30.4	13.2	-0.7			1.2	6.9	7.5	9.3	10.6	11.3	7.8	10.9	10.6	10.9
PV of PPG external debt (in Billions of U.S. dollars)			10.3			7.0	7.7	8.6	9.5	10.6	11.7		18.4	53.4	
(PVt-PVt-1)/GDPt-1 (in percent)						-5.8	1.2	1.6	1.4	1.5	1.4	0.2	1.2	1.5	1.4
Gross workers' remittances (Billions of U.S. dollars)	0.2	0.4	0.5			0.5	0.6	0.6	0.7	0.7	0.8		1.1	2.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	18.7			12.7	13.1	13.6	13.6	13.6	13.4		12.5	12.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	87.9			53.1	48.6	48.2	47.0	45.4	43.1		36.4	32.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			4.0	3.6	3.5	4.0	3.5	3.1		3.1	2.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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.
4/ 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.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
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, 2013/14–2033/34

(In percent)

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**2023/24**	2033/34
PV of debt-to GDP ratio								
Baseline	13	13	14	14	14	14	**13**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	13	8	6	4	2	1	**-3**	-5
A2. New public sector loans on less favorable terms in 2013–2033 2/	13	13	15	15	16	16	**17**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	13	13	14	14	14	14	**13**	14
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	13	15	19	19	19	19	**16**	14
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	13	13	15	15	15	15	**14**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	13	14	16	16	16	16	**14**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	13	15	18	18	18	17	**15**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	13	18	19	19	19	19	**18**	19
PV of debt-to-exports ratio								
Baseline	55	50	50	49	47	44	**37**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	55	32	21	14	7	2	**-9**	-14
A2. New public sector loans on less favorable terms in 2013–2033 2/	55	50	53	54	55	54	**52**	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	55	48	48	48	46	44	**37**	32
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	55	69	93	90	86	80	**62**	46
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	55	48	48	48	46	44	**37**	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	55	54	60	58	56	53	**42**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	55	65	81	78	75	70	**55**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	55	48	48	48	46	44	**37**	32
PV of debt-to-revenue ratio								
Baseline	58	56	60	60	59	58	**53**	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	58	35	26	17	9	3	**-13**	-22
A2. New public sector loans on less favorable terms in 2013–2033 2/	58	56	64	67	69	71	**74**	84
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	58	55	62	62	62	61	**56**	56
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	58	64	85	84	82	80	**68**	57
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	58	56	65	65	65	64	**59**	59
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	58	59	72	72	71	69	**61**	55
B5. Combination of B1-B4 using one-half standard deviation shocks	58	62	79	78	76	74	**63**	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	58	77	84	84	84	83	**76**	76

Table 1b. Myanmar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013/14–2033/34 (concluded)

(In percent)

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	**2023/24**	2033/34
Debt service-to-exports ratio								
Baseline	4	4	4	4	4	3	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	4	3	3	2	2	1	**1**	0
A2. New public sector loans on less favorable terms in 2013–2033 2/	4	4	4	4	4	4	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	4	4	4	4	4	3	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	4	5	5	6	5	5	**5**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	4	4	4	4	4	3	**3**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	4	4	4	4	4	3	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	5	4	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	4	4	4	4	3	**3**	2
Debt service-to-revenue ratio								
Baseline	4	4	4	5	5	4	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–2033 1/	4	4	3	3	2	2	**1**	0
A2. New public sector loans on less favorable terms in 2013–2033 2/	4	4	4	5	5	5	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–2015	4	4	5	5	5	4	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2014–2015 3/	4	4	5	6	5	5	**6**	4
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–2015	4	4	5	6	5	5	**5**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014–2015 4/	4	4	4	5	5	4	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	5	4	**5**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	6	6	7	7	6	**7**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	44	44	44	44	44	44	**44**	44

Sources: Country 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 1c. Myanmar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010/11–2033/34

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2010/11	2011/12	2012/13	Average 1/	Standard Deviation 1/	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2013/14–18/19 Avg.	2023/24	2033/34	2019/20–33/34 Avg.
Public sector debt 2/	50.3	50.3	46.1			40.7	40.8	42.5	42.7	42.5	42.4		42.5	41.8	
of which: Foreign-currency denominated	29.0	27.3	24.2			18.3	18.7	19.8	20.3	20.5	20.5		20.2	21.2	
Change in public sector debt	-4.6	0.0	-4.2			-5.5	0.1	1.7	0.2	-0.1	-0.1		0.0	-0.3	
Identified debt-creating flows	-7.0	-1.4	2.1			1.0	-0.5	0.5	-0.6	-0.8	-0.5		-0.1	-0.2	
Primary deficit	4.2	2.9	2.0	2.4	1.0	2.6	1.9	3.4	2.8	2.9	3.0	2.8	3.0	2.5	2.9
Revenue and grants 3/	11.4	12.0	23.3			22.3	24.1	23.0	23.3	23.5	23.8		24.2	24.8	
of which: Grants	0.0	0.0	0.1			0.3	0.3	0.3	0.4	0.5	0.6		0.6	0.5	
Primary (noninterest) expenditure 3/	15.6	14.9	25.3			24.9	26.0	26.5	26.1	26.5	26.8		27.1	27.4	
Automatic debt dynamics	-9.8	-3.2	0.7			-1.3	-2.4	-2.9	-3.5	-3.7	-3.6		-3.1	-2.8	
Contribution from interest rate/growth differential	-3.5	-1.9	-3.2			-3.3	-3.0	-3.1	-3.4	-3.4	-3.2		-2.8	-2.3	
of which: Contribution from average real interest rate	-0.7	0.9	0.3			-0.1	-0.1	-0.1	-0.4	-0.3	-0.1		0.1	0.7	
of which: Contribution from real GDP growth	-2.8	-2.8	-3.4			-3.2	-2.9	-3.0	-3.1	-3.1	-3.1		-2.9	-2.9	
Contribution from real exchange rate depreciation	-6.2	-1.3	3.8			2.0	0.6	0.2	0.0	-0.3	-0.4		... ..	...	
Other identified debt-creating flows	-1.4	-1.1	-0.5			-0.4	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.4	-1.1	-0.5			-0.4	0.0	0.0	0.0	0.0	0.0		0.0	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	2.3	1.4	-6.3			-6.4	0.7	1.2	0.8	0.6	0.4		0.1	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	41.4			35.9	36.2	37.0	36.6	36.0	35.6		35.0	33.6	
of which: Foreign-currency denominated	...	...	18.9			12.8	13.3	13.7	13.8	13.7	13.5		12.6	13.0	
of which: External	...	...	18.9			12.8	13.3	13.7	13.8	13.7	13.5		12.6	13.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		... ..	...	
Gross financing need 4/	7.2	6.7	5.3			6.7	6.6	7.9	6.9	6.8	6.8		6.6	5.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	177.4			161.2	150.1	160.8	157.2	153.1	149.6		144.8	135.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	177.8			163.5	151.9	162.8	159.9	156.4	153.4		148.5	138.1	
of which: External 5/	...	...	81.1			58.4	55.6	60.3	60.1	59.3	58.3		53.3	53.4	
Debt service-to-revenue and grants ratio (in percent) 6/	24.8	32.1	10.3			13.9	13.8	15.0	14.0	13.7	14.1		13.4	12.8	
Debt service-to-revenue ratio (in percent) 6/	24.8	32.1	10.3			14.1	14.0	15.2	14.2	14.0	14.4		13.7	13.1	
Primary deficit that stabilizes the debt-to-GDP ratio	8.8	2.9	6.2			8.1	1.7	1.7	2.7	3.0	3.1		3.0	2.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.3	5.9	7.3	9.3	4.2	7.5	7.8	7.8	7.8	7.8	7.8	7.8	7.4	7.4	7.4
Average nominal interest rate on forex debt (in percent)	2.3	4.0	0.6	1.7	1.0	1.3	1.9	1.8	1.8	1.8	1.7	1.7	1.5	1.4	1.5
Average nominal interest rate on domestic debt (in percent)	5.5	5.6	5.3	4.9	0.5	6.3	6.2	6.2	4.7	4.5	4.8	5.4	5.0	5.0	5.0
Average real interest rate (in percent)	-1.4	2.0	0.6	-1.3	1.7	-0.1	-0.2	-0.3	-0.9	-0.9	-0.3	-0.5	0.2	1.7	0.4
Average real interest rate on foreign-currency debt (in percent)	-3.0	-2.4	-1.5	-2.2	0.6	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	0.1	-1.8
Average real interest rate on domestic debt (in percent)	-2.5	2.8	2.4	-5.9	7.4	0.4	-0.4	-0.6	-1.7	-1.5	-0.5	-0.7	0.8	2.0	1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-18.3	-4.7	15.2	-6.1	14.0	9.0	...	...	...	...	...	...	... ..	...	...
Inflation rate (GDP deflator, in percent)	8.2	2.8	2.8	12.1	8.5	5.8	6.6	6.9	6.5	6.1	5.3	6.2	4.2	3.0	3.8
Growth of real primary spending (deflated by GDP deflator, in percent) 3/	14.6	0.2	91.4	20.8	27.4	6.4	13.8	8.4	5.6	8.4	8.5	8.5	7.5	7.4	7.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	31.1	40.0	43.7	44.1	44.4	45.7	41.5	47.2	44.0	...

Sources: Country 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/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

3/ The valuation effect raised revenues and expenditures in FY2012/13 due to the exchange rate unification on April 1, 2012.

4/ 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.

5/ Revenues excluding grants.

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

Table 1d. Myanmar: Sensitivity Analysis for Key Indicators of Public Debt 2013/14–2033/34

	Projections							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2023/24	2033/34
PV of Debt-to-GDP Ratio								
Baseline	36	36	37	37	36	36	35	34
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	36	36	36	35	34	33	29	25
A2. Primary balance is unchanged from 2013	36	37	38	39	38	38	38	37
A3. Permanently lower GDP growth 1/	36	37	40	41	41	42	46	61
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	36	38	42	43	43	43	44	44
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	36	37	39	39	38	38	37	34
B3. Combination of B1-B2 using one half standard deviation shocks	36	37	38	39	39	38	38	36
B4. One-time 30 percent real depreciation in 2014	36	43	44	43	42	41	37	32
B5. 10 percent of GDP increase in other debt-creating flows in 2014	36	44	45	44	43	43	40	36
PV of Debt-to-Revenue Ratio 2/								
Baseline	161	150	161	157	153	150	145	135
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	161	149	157	152	146	141	122	101
A2. Primary balance is unchanged from 2013	161	154	167	165	163	160	155	150
A3. Permanently lower GDP growth 1/	161	154	173	174	175	175	192	244
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	161	158	182	183	183	181	183	178
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	161	154	167	166	163	160	153	139
B3. Combination of B1-B2 using one half standard deviation shocks	161	153	166	166	164	162	157	146
B4. One-time 30 percent real depreciation in 2014	161	177	189	184	178	172	153	129
B5. 10 percent of GDP increase in other debt-creating flows in 2014	161	181	196	189	185	179	166	144
Debt Service-to-Revenue Ratio 2/								
Baseline	14	14	15	14	14	14	13	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	14	15	13	11	12	11	9
A2. Primary balance is unchanged from 2013	14	14	15	14	15	15	14	14
A3. Permanently lower GDP growth 1/	14	14	15	15	15	15	17	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–2015	14	14	16	15	16	16	16	17
B2. Primary balance is at historical average minus one standard deviations in 2014–2015	14	14	15	14	13	14	13	13
B3. Combination of B1-B2 using one half standard deviation shocks	14	14	15	14	12	14	14	13
B4. One-time 30 percent real depreciation in 2014	14	15	17	17	16	17	16	16
B5. 10 percent of GDP increase in other debt-creating flows in 2014	14	14	16	25	15	17	14	13

Sources: Country 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 inclusive of grants.

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Myanmar—IMF Completes Second Review of Staff-Monitored Program

On February 19, 2014, the staff of International Monetary Fund completed the second and final review of the Staff-Monitored Program (SMP) with Myanmar.[1]

Myanmar is undergoing a far-reaching economic transition. Key recent economic reforms include adopting a floating exchange rate and removing exchange restrictions; establishing an autonomous central bank; and significantly increasing spending on health and education.

The current economic outlook is favorable. Real GDP growth in fiscal year (FY) 2012/13 (year ending in March) reached 7.3 percent, led by services, and is expected to rise further to 7½ percent in FY2013/14 and 7¾ percent in 2014/15. Growth of credit to the private sector is projected to moderate from current high levels but remain rapid at around 30 percent. The fiscal deficit in FY2013/14 is expected to be broadly in line with the budget target of 5 percent of GDP, but should fall to 4½ percent in FY2014/15, as a result of one-off revenues from telecommunications licenses.

However, inflation is expected to exceed 6 percent by end FY2013/14 and remain elevated in FY2014/15. The external current account deficit is projected to widen further to about 5 percent of GDP in this period. As a result, the Central Bank of Myanmar (CBM)'s accumulation of international reserves during FY2013/14 has been slower than projected, but should pick up in FY2014/15 as foreign direct investment and other inflows outweigh the current account deficit.

Risks to the outlook arise largely from limited macroeconomic management capacity and thin international reserve cushions. Inflation remains elevated and there are pressures from rapid money and credit growth, kyat depreciation and possible electricity price hikes. International reserves are still low and vulnerable to shocks.

The SMP has been successfully implemented, supporting the ongoing transformation of the economy. The program focused on maintaining macroeconomic stability, building

[1] A staff-monitored program is an informal and flexible instrument for dialogue between the Fund staff and a member country on its economic policies. It is not accompanied by financial support. In Myanmar's case, it involved joint monitoring of progress on the government's own reform plans for 12 months through end-2013.

international reserves, and developing the institutions and tools needed for macroeconomic management.

Reforms in these areas have advanced significantly, and all quantitative and structural benchmarks were achieved. They included building the CBM's reserves, maintaining an appropriate fiscal deficit, liberalizing the foreign exchange market, and building monetary and fiscal policy tools and institutions.

Broader economic reforms also proceeded well, most notably in modernizing the financial sector and increasing social spending. Capacity constraints moderated achievements in some areas but progress continues to be made.

The staff of IMF is pleased to have assisted the authorities achieve a successful outcome to the 2013 SMP and stands ready to continue to support the government implement its ambitious economic reform agenda. The staff is prepared to assist the authorities in a range of ways, including policy advice, monitoring of reform progress and through intensive and tailored technical assistance (TA) delivered in close coordination with other donors.