MYANMAR ECONOMIC MONITOR

October 2013

THE WORLD BANK GROUP

Overview

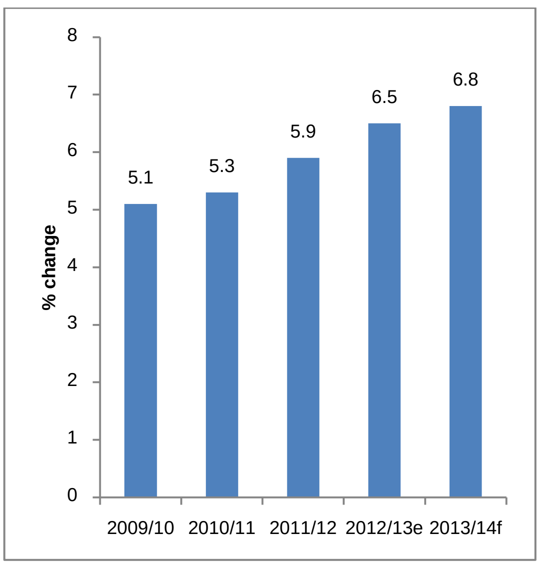
- The economy grew at 6.5 percent in 2012/13. The main drivers of growth were increased gas production, services, construction, foreign direct investment, and strong commodity exports. Inflation has been on the rise in recent months, reaching 7.3 percent in August 2013.
- The budget deficit declined to 3.7 percent of GDP in 2012/13, from 4.6 percent in 2011/12. The 2013/14 budget provides for increased spending on social sectors, although the defense budget remains high.
- The nominal exchange rate has been depreciating since the turn of the year, reaching K975 to one US dollar in July 2013 with some reversal of this trend between August and September. The current account deficit increased to 4.4 percent of GDP in 2012/13, up from 2.4 percent in 2011/12, due to import liberalization and lifting of some exchange restrictions.
- Gross international reserves reached US$4.6 billion at the end of 2012/13, equivalent to 3.7 months of imports, up from US$4.0 billion in 2011/12.
- The outlook is positive, with the economy projected to grow at 6.8 percent in 2013/14 and rising further to 6.9 percent in the medium-term. This will be on account of a continued increase in gas production, increased trade, and stronger performance in agriculture.
- Risks to the outlook include the challenge of maintaining the reform momentum. Externally, a slowdown in Chinese domestic investment and a decline in global commodity prices would hurt commodity exporting countries such as Myanmar.
- The Policy Watch section presents a number of planned or recently implemented policy reforms which reflect the country's continuing drive to improve the business environment.
- A Special Feature Article presents a summary of findings from a recent assessment of Myanmar's Public Financial Management (PFM).

A. MACROECONOMIC TRENDS AND DEVELOPMENTS[1]

Growth performance and key drivers

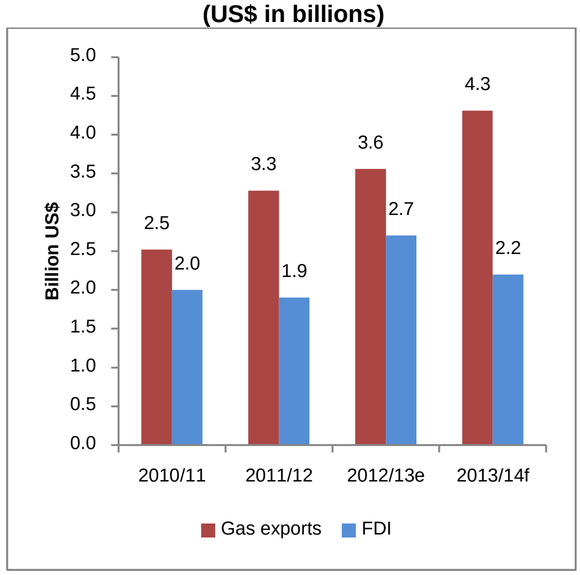
1. **The economy continued to accelerate in 2012/13.** Real GDP growth is estimated to have been 6.5 percent from 5.9 percent in 2011/12. The drivers were strong growth in gas production, services, construction, as well as foreign direct investment and exports of commodities. The boom in services and construction is in response to opportunities opening up as the country continues with political and economic reforms and in preparation for the South East Asia (SEA) games that Myanmar will be hosting in December 2013. Foreign direct investment grew from US$1.9 billion in 2011/12 to US$2.7 billion in 2012/13. Most of this investment was in the energy sector, garment industry, information technology, and food and beverages.

Figure 1: Annual Real GDP Growth (% change)



Source: IMF

Figure 2: Gas Exports and Net Foreign Direct Investment (US$ in billions)



Source: IMF

[1] There is still a paucity of credible high frequency macroeconomic data in Myanmar. Credible macroeconomic aggregates are only available on an annual basis which makes regular economic monitoring a challenge. A summary of the latest available key macroeconomic indicators at annual basis is presented in Table 1.

Box 1: External Economic Environment: Implications for Myanmar

Global growth momentum has accelerated in recent months. The second quarter of 2013 marked the first time in 30 months that the economies of the Euro area, Japan, and the United States all posted positive growth. The Euro area exited from its long recession in the second quarter, registering a growth rate of 1.2 percent (quarter-on-quarter in seasonally adjusted terms). Recovery intensified in the United States, with its economy growing at 2.5 percent, while Japan's economy expanded by a solid 3.8 percent. Similarly, growth accelerated in several emerging markets including in Brazil, China, Malaysia, South Africa, and Turkey. Chinese quarterly GDP growth picked up sharply in Q3 to 9.3 percent, up from 7.3 percent in Q2, confirming an acceleration in industrial output and improving business sentiments. Leading indicators of economic activities also suggest that global production and trade cycles may have bottomed out in the third quarter.

Despite improved trade outlook, global commodity markets remain subdued— hurting the East Asia and Pacific (EAP) region's resource exporters. Metal and mineral prices have declined the most, nearly 30 percent from their post-crisis high in February 2011 to September this year. Agricultural food prices are down 24 percent and raw materials have declined by almost 37 percent. Only energy prices are up 8 percent partly due to continued political turbulence in the Middle East. Exports of ore and metal as well as agricultural exports, including rice and palm oil, from EAP countries have been declining since January 2012. Exports of coal, petroleum, and natural gas from EAP countries have also fallen into negative growth territory since mid-2012.

East Asia Pacific region is expected to grow at 7.1 percent and 7.2 percent in 2013 and 2014 respectively, slightly lower than the growth achieved in 2011 and 2012. Growth in China is expected to meet the official indicative target of 7.5 percent in 2013—0.8 percentage points lower than the World Bank's projected rate in April. Growth in developing East Asia (excluding China) is expected to decline from 6.2 percent in 2012 to 5.2 percent in 2013, before rebounding to 5.3 and 5.7 percent in 2014 and 2015, respectively (see below table). The recovery in ASEAN countries, which include some of the high-income countries in the region, will be more gradual, with expected growth of 5.1 percent (in 2013), 5.1 percent (in 2014), and 5.4 percent (in 2015).

A slowdown of investment in China may have particular significance for EAP countries including Myanmar. The EAP countries supplying industrial raw materials have benefited from China's industrial expansion, infrastructure spending, and real estate development. An abrupt reduction in investment in China would drag down growth. The slowdown in growth would have global consequences because China's investment boom has helped make up for part of the shortage in demand from advanced economies since the global financial crisis, benefiting both producers of capital goods and suppliers of industrial raw materials.

Progress in Japan's reflation efforts may provide an upside to our base case growth forecasts for the Region including through more Japanese FDI. Efforts to boost money supply and to expand government spending have helped to strengthen consumption and lifted growth in Japan in the first half of the year. The monetary expansion has weakened the yen 20 percent in real effective terms since September 2012. Gains by Japanese exporters in third-country markets are expected to benefit East Asian suppliers of parts and components in regional production networks. Japanese FDI to the region was 47 percent higher in 2012 than in 2005, despite a reversal of flows from Thailand because of the effects of the 2011 floods. In addition, FDI rose another 49 percent in January to June in 2013 over the same period a year ago. Expectations of an even weaker yen is encouraging Japanese companies to invest more, which should have positive spillover effects on EAP countries with strong trade and investment ties with Japan. The ability of the developing East Asian economies to gain from these developments will, in large measure, depend on their own structural reforms, which should solidify their FDI pull factors.

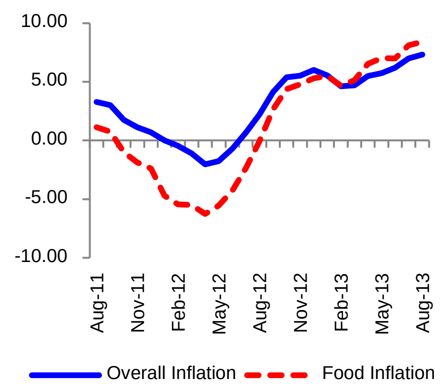
Source: East Asia and Pacific Economic Update, The World Bank, October 2013;
http://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update-october-2013

2. **In the export sector, growth was strong in gas, garments, and agriculture.** Gas exports are estimated to have reached US$3.6 billion in 2012/13, surpassing the 2011/12 record of US$3.3 billion. Similarly, garment exports are estimated to have reached US$1 billion at the end of 2012/13 fiscal year on account of higher production as well as prices. In agriculture, rice production declined slightly due to flooding in some areas and drought in others but exports in 2012/13 doubled to 1.5 million tons. This was on account of a significant increase in exports to China (estimated at 800,000 tons) where demand for imported rice surged. This follows a rise in the price of domestically produced rice in China in the wake of a government price support scheme that saw prices increase from $272 per ton in 2010 to $421 in 2013.

Inflation

3. **Inflation in 2012/13 averaged a low 2.8 percent but has risen noticeably in recent months.** During calendar year 2012, inflation was generally very low but the second half of the year saw a steady increase mainly due to rising food costs. Year-on-year inflation rose from 0.76 percent in June 2012 to 6.0 percent in December 2012. Since January 2013, inflation started declining again and reached 4.7 percent in March 2013. However, since April, inflation started rising again and reached 7.3 percent in August. Key drivers of recent inflation increases are food prices, housing rental costs, and fuel. Contributing to the rise in food costs is the increase in rice prices due to increased exports which have seen supplies available on the domestic market decline. This has prompted the Government to announce that it will sell its stocks of rice to the domestic market in order to stabilize prices.

Figure 3: Monthly inflation (year-on-year % change)



Monetary developments

4. **There have been significant increases in broad money and private sector credit.** In 2012/13, it is estimated that credit to the private sector grew by almost 50 percent, although this represents a decline from 60 percent growth recorded in 2011/12. The increase in credit to the private

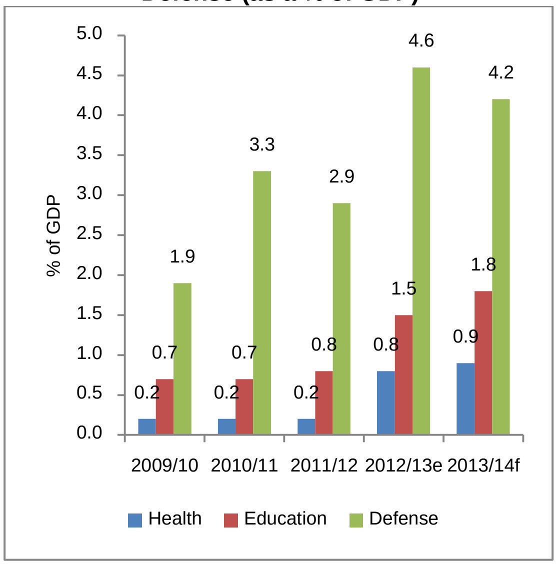
sector is in response to recent policy reforms. In particular, the licensing of new banks, expansion of branch networks, the broadening of eligible collateral to include key agricultural export goods, and doubling of the loan ceiling to farmers.

Fiscal developments

5. **The fiscal deficit in 2012/13 is estimated to have declined to 3.7 percent of GDP, down from 4.6 percent in 2011/12, due to strong revenue performance.** There were expenditure increases on account of increased civil service salaries and higher allocations to education and health. However, these were compensated for by higher gas and tax revenues. Tax revenues increased from 3.9 percent of GDP in 2011/12 to 6.4 percent in 2012/13 due to exchange rate revaluation following the introduction of a managed float exchange rate system on April 1, 2012, and also on account of improved tax administration.

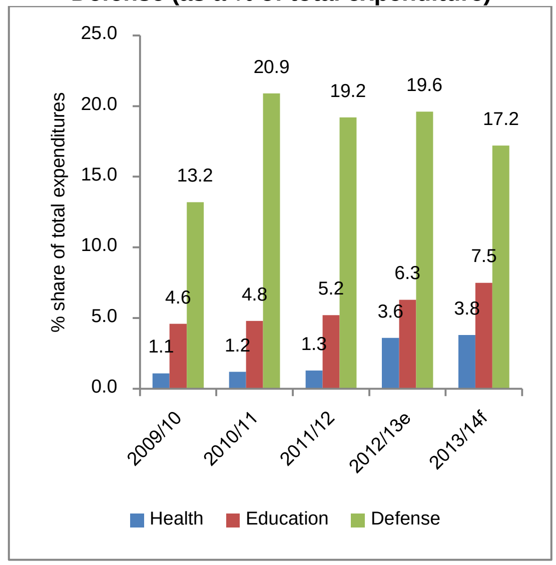
6. **The approved budget for 2013/14 shows a continued increase in the allocation of resources to health and education which have been significantly underfunded in Myanmar.** Although still very low, the allocation to education increased from 0.8 percent of GDP in 2011/12 to 1.5 percent in 2012/13 and to 1.8 percent in the 2013/14 budget approved in March 2013. On the other hand, the allocation to health increased from 0.2 percent in 2011/12 to 0.8 percent in 2012/13 and 0.9 percent in the 2013/14 budget. At the same time, the allocation to defense increased from 2.9 percent of GDP in 2011/12 to 4.6 percent in 2012/13, but has decreased to 4.2 percent of GDP in 2013/14. Expressed in terms of total expenditures, the expenditure share of health is expected to increase slightly from 3.6 percent in 2012/13 to 3.8 percent in 2013/14 while that of education is also expected to increase slightly from 6.3 percent in 2012/13 to 7.5 percent in 2013/14. On the other hand, the share of defense expenditure is expected to decline from 19.6 percent in 2012/13 to 17.2 percent in 2013/14.

Figure 4: Expenditures in Health, Education, and Defense (as a % of GDP)



Sources: Ministry of Finance, World Bank, and IMF

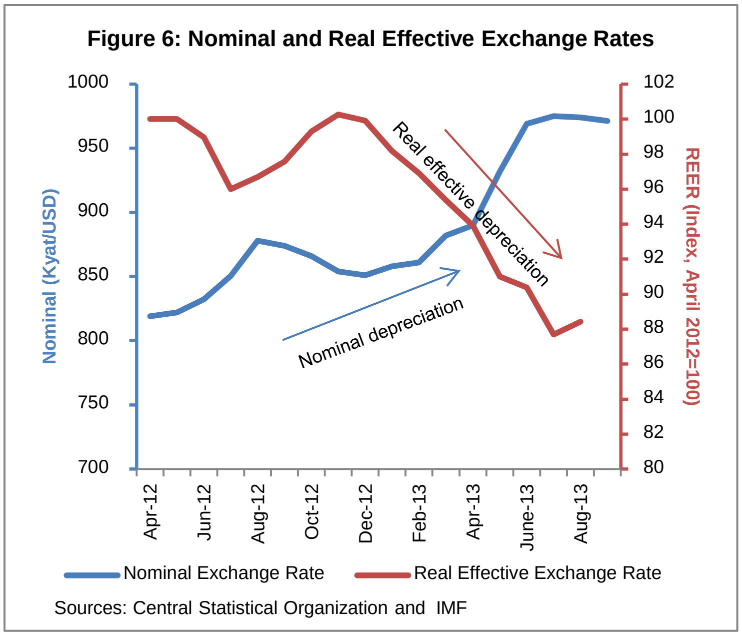
Figure 5: Expenditures in Health, Education, and Defense (as a % of total expenditure)



Sources: Ministry of Finance, World Bank, and IMF

Exchange rate movements

7. **Increased imports have driven a depreciation since early 2013 in the exchange rate that has now stabilized.** The nominal exchange rate between the Myanmar kyat and the US dollar appreciated by 3 percent between August and December 2012, which raised concerns about its negative impact on Myanmar's export competitiveness especially as inflation was also rising. However, the exchange rate depreciated by almost 14 percent in the first half of 2013, peaking at K975/US$1 as at July 2013 and then starting to decline in August-September. A number of factors seem to be behind the observed depreciation. First, the demand for imports, such as materials for construction, continue to increase in response to improving business opportunities that have opened up since the country embarked on the path of economic and political reforms. Second, consumption imports, such as for cars, have also increased following the relaxation of some import and exchange rate restrictions. Finally, another factor behind the significant depreciation of the nominal exchange rate seems to have been the decline in gold prices. With the price of gold falling in recent months and domestic inflation rising, most savers have tried to maintain value by purchasing US dollars.



8. **In real effective terms, the exchange rate has also been depreciating in spite of the increase in inflation.** This is because the nominal exchange rate depreciation has more than compensated for the increase in inflation. However, as figure 6 shows, the reversal in the trend of the nominal exchange rate during August-September with inflation continuing to rise has started driving the real effective exchange rate up again which may affect Myanmar's export competitiveness.

Other external sector developments

9. **The current account deficit is estimated to have widened to around 4.4 percent of GDP in 2012/13, up from 2.4 percent in 2011/12, but gross international reserves continued to accumulate.** The widening of the current account deficit is mainly due to a surge in imports following a relaxation of some import and foreign exchange restrictions. These include the abolition of the export first policy where previously, only those importers who had earned foreign exchange through exports could be allowed to buy foreign exchange for imports, and more recently, the removal of import (and export) licensing requirements. Gross international reserves are estimated to have reached US$4.6 billion in 2012/13, (equivalent to 3.7 months of imports), up from US$4.0 billion in 2011/12. The growing reserves indicate that the current account deficit is more than covered through capital account inflows.

10. **A recent joint World Bank-IMF Debt Sustainability Analysis assessed Myanmar as being at low risk of debt distress following the clearance of arrears.** In January 2013, arrears to multilateral institutions (World Bank and Asian Development Bank) amounting to US$932 million were cleared, while an agreement was reached on the resolution of the US$10.0 billion arrears to Paris Club creditors which

included a 50 percent write-off of arrears and restructuring of the remainder. This has resulted in a decline in Myanmar's total external debt, from 27.3 percent of GDP in 2011/12 to 24.8 percent in 2012/13. Further, a recent DSA conducted jointly by the World Bank and IMF concluded that Myanmar was at low risk of debt distress.

Short and medium-term outlook and risks

11. **The outlook remains positive in the short to medium-term.** The economy is projected to grow at 6.8 percent in 2013/14 and rising further to 6.9 percent in the medium-term. Continued strong growth will be on account of a continued increase in gas production, increased trade, and stronger performance in agriculture. Gas production is expected to increase significantly with new fields coming on stream in 2013/14. Further, opportunities for increased exports recently improved with the reinstatement of trade preferences to Myanmar under the EU's Generalized System for Preferences (GSP) for least-developed countries which will give Myanmar duty and quota free access to the EU market for all its exports, except arms and ammunition. However, downside risks also exist. In particular, one challenge could be maintaining the current momentum of reforms. Externally, risks include a continued decline in global commodity prices which would hurt commondity exporting countries such as Myanmar, and a slow-down of investment in China.

Table 1: Myanmar: Key Economic Indicators

	2010/11	2011/12	2012/13e	2013/14p	2014/15p	2015/16p
	Year	Year	Year	Year	Year	Year
Output, Employment and Prices						
Real GDP staff working estimates (% change y-y)1/	5.3	5.9	6.5	6.8	6.9	6.9
Industrial production index 2/						
(% change y-y)	6.3	6.5	..	..	..	..
Consumer price index (% change, period average)	8.2	2.8	2.8	5.6	6.3	6.0
Public Sector						
Government revenues (% GDP) 3/	11.4	12.0	23.0	23.4	23.9	24.5
Government expenditures (% GDP) 3/	16.9	16.6	26.6	28.4	28.7	29.3
Government balance, official (% GDP) 3/	-5.5	-4.6	-3.7	-5.0	-4.8	-4.8
Public sector debt (% GDP)	21.0	22.5	22.6	22.4	22.3	22.4
Foreign Trade, BOP and External Debt						
Trade balance (millions US$)	408	-369	-2,022	-1,700	-1,229	-1,668
Exports of goods (millions US$)	7,896	9,427	9,644	11,276	13,707	15,142
(% change y-y)	13.6	19.4	2.3	16.9	21.6	10.5
Imports of goods (millions US$)	-7,488	-9,795	-11,666	-12,919	-14,998	-16,810
(% change y-y)	18.6	30.8	19.1	10.7	16.1	12.1
Current account balance including grants (millions US$)	-862	-1,264	-2,281	-2,436	-2,766	-3,068
(% GDP)	-1.9	-2.4	-4.4	-4.3	-4.5	-4.6
Foreign direct investment (millions US$)	2,042	1,949	2,696	2,153	2,397	2,868
External debt arrears (billions US$) 4/	9.9	10.8	4.8	..	..	..
Total External debt including arrears (billions US$)	14.4	15.3	13.7	11.7	13.2	14.7
(% GDP)	29.0	27.3	24.8	19.7	20.3	20.6
Debt service ratio (% exports of g&s)	7.6	10.7	2.2	4.2	3.9	3.7
Foreign exchange reserves, gross (millions US$)	3,754	4,026	4,599	5,537	6,477	7,625
(months of imports of g&s)	3.9	3.5	3.7	3.9	4.0	4.1
Financial Markets						
Domestic credit (% change y-y)	34.4	25.1	6.2	29.2	24.5	18.4
Short-term interest rate (% p.a.)	..	..	..	..	..	..
Official exchange rate (Kyat/US$) 5/	5.4	5.6	880.0	..	..	..
Parallel effective exchange rate 5/	861.0	822.0	878.0	n.a.	n.a.	n.a.
(% change y-y)	-14.3	-4.3	6.8	n.a.	n.a.	n.a.
Memo: Nominal GDP (millions US$) 6/	45,380	52,663	51,849	56,661	61,468	66,706

Sources: Central Statistical Organization, Ministry of Finance, Central Bank of Myanmar, and IMF staff estimates.

e = estimate, p = projections

1/ Staff working estimates

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

3/ Consolidated public sector including Union Government and State Economic Enterprises.

4/ In 2012/13 and FY2013/14, the terms of bilateral arrears clearance agreement with Japan, the World Bank, and the ADB are incorporated.

5/ Authorities adopted a managed float on April 1, 2012.

6/ Real GDP is rebased to 2010/11 prices by the authorities.

B. POLICY WATCH

12. The economic reform process continues and is focused on removing further regulatory restrictions to trade and investment, improving the provision of essential backbone services, and reducing corruption in order to improve Myanmar's business environment.

Trade and investment

13. **The requirement for import and export license was recently removed on some 600 products.** The Government became cognizant of the fact that these licensing requirements were only making importantion and exportation of goods uncessarily cumbersome, and therefore, hampering international trade. The move is therefore aimed at ensuring that Myanmar takes full advantage of trading opportunities that are opening up, the latest being the expiration and non-renewal of the broader ban in July on imports from Myanmar to the United States, excluding jadeite and rubies, and articles of jewelry containing them. In addition, the recent reinstatement of trade preferences under the EU's Generalized System for Preferences (GSP) for least-developed countries will give Myanmar duty and quota free access to the EU market for all its exports, except arms and ammunition.

14. **Parliament approved new regulations on foreign investment.** The Foreign Direct Investment (FDI) law that was passed in November 2012 was general in most of its provisions and hence, difficult to implement in practice. Therefore the new regulations, which were passed on March 18, 2013, seek to supplement and operationalize the Foreign Direct Investment (FDI) Law. For example, the FDI Law restricted or prohibited foreign investment in a range of sectors such as agriculture, livestock, fisheries and manufacturing and services "which can be carried out by the citizens," while also limiting foreign investment in sectors that could affect the natural environment and public health. On the other hand, the regulations permit 20 percent foreign ownership in a firm in these sectors, if a citizen of Myanmar owns the remaining 80 percent.

15. **Myanmar is in the process of preparing consumer protection and competition laws and recently restructured some of the departments in the Ministry of Commerce.** As Myanmar continues on the path of economic liberalization, it becomes important to ensure that there is fair competition amongst companies and that the interests of consumers are protected. Although Myanmar has some laws with provisions on consumer protection (e.g. the 1992 National Drug Law, the 1996 Traditional Drug Law, the 1997 National Food Law and the 2004 Electronic Transaction), there is no dedicated law to consumer protection. Similarly, although the new constitution has a provision for fair competition, there is no comprehensive law on competition. It is for this reason that the Ministry of Commerce is leading the process of preparing the two laws. The consumer protection law will include matters related to foodstuff, drugs, as well other commodities such as refrigerators and cars. Meanwhile, the Ministry of Commerce also recently announced that its Department of Border Trade had been reconstituted as the Department of Commerce and Consumer Affairs, expanding its size and functions. The Commerce and Consumer Affairs Department would be formed with sub-departments of trade and trade flow, internal trade, trade coordination, competition policy, and consumer affairs. Similarly, the Ministry of Commerce also reconstituted its Myanmar Agricultural and Farm Produces Trading as the Trade Promotion Department. The Ministry announced that these initiatives were intended to streamline the department's procedures in preparation for the country's active participation in ASEAN Free Trade Agreements.

Financial sector

16. **The Central Bank of Myanmar Law was enacted by the Parliament on July 11, 2013, paving the way for a more autonomous Central Bank.** To date, the Central Bank of Myanmar has not been functioning as most central banks in other countries traditionally do. In particular, unlike in other countries, it has been operating as a department in the Ministry of Finance and has relied mostly on direct monetary policy instruments such as reserve requirements and interest rate controls instead of indirect monetary policy levers such as open market operations. The new law therefore provides for a Central Bank that is operationally independent in setting monetary policy but coordinates closely with the Ministry of Finance which is responsible for fiscal policy. A one year transition period has been provided for to establish

monetary policies. The Central Bank's management includes the board of directors which comprises the governor, three deputy governors, and five retired academics and professionals. Preparation of rules and regulations to operationalize the Central Bank of Myanmar Law is in progress. These will include administrative arrangements for the formation of five committees responsible for monetary policy, financial stability, payments, foreign exchange management, and internal auditing.

17. **Meanwhile, a Securities Exchange Law has been passed while the process is underway to amend the Financial Institutions Law (FI Law) and to prepare rules and regulations to govern joint ventures in the Banking Sector.** Currently, Myanmar has a small over-the-counter stock exchange known as the Myanmar Securities Exchange Centre (MSEC), established in 1996 and located in Yangon. The MSEC is a 50-50 joint venture between the state-owned Myanma Economic Bank and the Daiwa Securities Group, and currently lists only two securities, both of which are rarely traded. The two listed companies are Forest Products Joint Venture Corporation and Myanmar Citizens Bank. Therefore, the passage of the Securities Exchange Law will facilitate the establishment of a full fledged modern stock exchange by 2015. The proposed new FI Law which replaces the one last enacted in 1990 takes into account gaps in structure and contents that arise from having a minimalistic approach in the current law. It also aims to provide a sound legal framework and has comprehensive provisions in regard to the regulatory landscape. Meanwhile, the process is underway to define rules and regulations for joint ventures between foreign and local banks. To date, foreign banks have only been allowed to open representative offices in Myanmar for purposes of conducting research but not to carry out any banking operations.

18. **Restrictions have been removed on trading in foreign exchange amongst local private banks while some of the restrictions on the withdrawal of foreign exchange by foreign nationals have also been relaxed.** The introduction of interbank trading in foreign exchange is a significant step towards the establishment of an international foreign exchange market. Recently, the Central Bank constituted a Yangon Foreign Exchange Market Committee as part of the process towards the establishment of a fully operational international foreign exchange market. At the customer level, some of

the restrictions on foreign exchange transactions by foreign nationals have been relaxed. In particular, foreign nationals can now withdraw from their foreign-currency bank accounts every week-day, instead of only two days a week. With the withdrawal limit still set at US$10,000, this means that foreign nationals can now withdraw up to US$50,000 a week (in five installments), up from US$20,000. However, foreign nationals are still not allowed to open savings accounts at state-owned or private banks.

19. **Insurance licenses have been issued to private providers for the first time in 50 years.** Since 1963, the insurance sector has been serviced only by the state-owned company Myanma Insurance. However, in September 2012, 12 private companies were shortlisted and on May 25, licenses were issued to five companies after they fulfilled the final requirements. Four more companies were recently issued licenses and altogether there are nine private companies offering insurance in Myanmar.

Telecommunications

20. **A new Telecommunications Law was recently enacted.** The approval of the Act paves the way for the issuance of operating licenses within 2013, to two foreign companies, Telenor from Norway, and Ooreedoo from Qatar to provide telecommunication services in Myanmar. The two companies were selected on June 27, 2013, after a competitive tender process widely recognized as being transparent. Currently, provision of telecommunications services is dominated by the state-owned Myanmar Post and Telecommunications (MPT) agency. One of the key provisions in the new law is the establishment of an independent regulator, the Myanmar Telecommunications Commission (MTC), by 2015.

Mining

21. **A mining law is currently under preparation.** Although Myanmar has vast mineral resources including gold, copper, nickel, tungsten, nickel, tin, lithium, and precious stones, there has been limited involvement by foreign investors. Their lack of interest in the sector has been due to a number of factors, including a weak legal and regulatory system. For example, one of the biggest stumbling blocks for potential foreign miners is Myanmar’s production sharing contract (PSC) between the private party and the Ministry of Mines. Under the current Mines Law, the Ministry of Mines acts as a non-equity partner but

is still entitled to around 30 percent of minerals extracted, plus the relevant income tax and royalties owed. Another area of concern for foreign investors is the prohibition of exports of ore, coal and gold, a protectionist measure meant to ensure that processing is done in-country. Foreign investors are also concerned about the requirement for separate contracts during each phase of a mining operation, from exploration to development.Therefore the new law, which will replace the existing 1994 mining law is aimed at addressing some of these issues.

Anti-corruption

22. **A new Anti-corruption Law was recently enacted.** It came into effect on September 17, 2013, replacing the 1948 Suppression of Corruption Act. Myanmar has had a reputation of being one of the most corrupt countries in the world. The new administration therefore recognizes that such an image is a threat to the reform process and to growth and development, hence the move to strengthen the legal framework for fighting corruption. The new Law provides for the formation of a 15-member Anti-Corruption Commission to lead the process of fighting corruption in the country. It also requires all officials in the executive, judicial and legislative branches of the government to declare their asset and provides for various penalties for those found to have broken the law under the Act.

C. SPECIAL FEATURE: MYANMAR PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) ASSESSMENT

23. **The Public Expenditure and Financial Accountability (PEFA) assessment for Myanmar provides the first-ever comprehensive review of public financial management (PFM) systems in the Republic of the Union of Myanmar.** It is an international framework that evaluates a country's PFM system in six dimensions. Details of the framework can be found at www.pefa.org. The review of Myanmar's PFM system was conducted jointly by the Ministry of Finance and the World Bank with the aim of identifying the strengths and weaknesses of the PFM system in order to articulate a reform strategy that would build on the strengths and address the weaknesses in a prioritized manner, so that over time Myanmar's PFM system is able to: (i) maintain aggregate fiscal discipline; (ii) allocate public

resources to policy priorities of the government effectively; and (iii) promote value for money in public spending.

24. **The authorities are using the PEFA assessment report in a number of ways.** First, they are openly sharing and discussing results with stakeholders across government, civil society and development partners to foster a shared understanding of the current PFM system, the issues faced, and the areas that require improvement. Second, the authorities have used the PEFA assessment and other analytical inputs to develop a sequenced and prioritized PFM Reform Strategy for Myanmar. Given the long list of issues to be addressed, a key focus of this work is ensuring that reforms are appropriately prioritized, sequenced and coordinated. Over the short term, the authorities are focusing on maintaining business continuity as Myanmar navigates a series of challenging transitions, while simultaneously strengthening controls over use of public resources, and laying the foundation for future PFM reforms to improve government's ability to deliver quality public services in an efficient manner. The full PEFA report can be viewed at www.pefa.org.

25. **The PEFA assessment shows that there are strengths in the current PFM system.** The report finds that the manual ledger system is largely up to date and data quality is relatively good. Furthermore, institutions of budgeting and planning are well established and undergoing significant change as the country goes through the economic and social reform program. Myanmar has a simple and unified budget classification system that is able to report on actual expenditures properly. And the government bank account system is unified and controlled to a large extent by the Myanmar Economic Bank.

There are six broad areas for improvement. These are as follows:

Enhancing credibility of the budget

26. **Currently, Myanmar has a practice of issuing revised or supplemental budgets mid-year, that lead to significant differences between budgeted and actual spending.** There are also

significant differences in composition of budget (the share received by ministries relative to the whole budget) and actual spending. However, on the revenue side, budgeted and actual revenues show less variation. Nonetheless, the overall practice of issuing supplemental budgets mid-year weakens the credibility of the original annual budget.

Increasing comprehensiveness and transparency

27. **While progress has been made in making the Union Budget Law public contributing to transparency, the budget is not comprehensive**. In particular, there are significant unreported government operations which make it difficult to develop a comprehensive picture of government spending and revenues. Additionally, such budgetary information as prior year's budget out-turns or an explanation of fiscal implications of policy changes are not included in the published budget law.

Making policy-based budgeting stronger

28. **There is insufficient policy guidance for the preparation of the budget.** Budget preparation in Myanmar is currently not being done within a framework of available resources. This makes effective prioritization of expenditure choices, and hence, alignment between the budget and policies difficult. Additionally, capital and recurrent budgeting functions are divided between separate planning and finance ministries, creating potential for not adequately provisioning for maintaining assets.

Strengthening predictability and control in spending

29. **Spending bodies have a reasonable degree of predictability about the resources available to them while control in budget execution seems to be somewhat varied across ministries.** Myanmar currently operates under a highly delegated system where spending agencies have a significant ability to manage finances. This is good practice. Similarly, spending agencies have reasonable predictability in the resources they receive. However, the financial management and procurement rules and regulations governing how agencies should spend the money and be accountable for results are outdated and have lagged the current actual practice. As such, control arrangements and procurement processes are thus somewhat ad hoc, differing from ministry to ministry. Moreover, the regulations are

open to interpretation by financial management officials and it is not clear the regulations are well understood throughout ministries and states/regions. A need therefore exists for the government to update the financial rules and regulations so that they are in line with current practices.

Accounting, recording and reporting

30. **Myanmar employs a simple cash-based double entry accounting system, with reasonable integrity of spending records.** Reporting on spending happens monthly and at the end of the fiscal year – but may not be completed in a timely fashion because of outdated manual systems. Further, it is currently more oriented towards discipline and consolidation than providing a basis for active fiscal management.

External audit and oversight

31. **Institutions of audit and external scrutiny have been established and strengthened, although follow-up on issues remains limited.** Myanmar has recently established a number of institutions to support accountability, including a Public Accounts Committee (bipartisan committee which vets the budget) and an Auditor General's Office, both of which have had a positive impact on management of public finances. However, mechanisms for following up issues which have been identified are still developing.

The *Myanmar Economic Monitor* is available at www.worldbank.org/myanmar.

For further information, please contact the World Bank Office in Yangon:

Khwima Nthara:	Senior Country Economist	knthara@worldbank.org
May Thet Zin	Country Economist	mzin2@worldbank.org
Kyaw Soe Lynn:	Communications Officer	klynn@worldbank.org