



## International Monetary Fund

### **IMF Concludes Article IV Consultation with Myanmar and the First Review of Staff-Monitored Program**

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An International Monetary Fund (IMF) team led by Mr. Matt Davies visited Yangon and Nay Pyi Taw during May 8–22, 2013, for the 2013 Article IV Consultation and first review of the Staff-Monitored Program (SMP)<sup>1</sup>. The mission met with Union Minister of Finance and Revenue U Win Shein, Deputy Minister U Maung Maung Thein, Central Bank of Myanmar Governor U Than Nyein, and other senior officials, representatives from think tanks, private sector and donor community. At the conclusion of the mission, Mr. Davies made the following statement:

"The authorities' ambitious reform program is bearing fruit, with macroeconomic stability and high investor interest. Growth in fiscal year (FY) 2012/13 (year ending March) is estimated at around 6½ percent and is expected to accelerate slightly to 6¾ percent in FY 2013/14, led by gas production and investment. Inflation should be contained at around 5½ percent in FY 2013/14.

International reserves will continue rising as foreign direct investment inflows outweigh a widening current account deficit. There are, however, risks to the outlook notably from the limited macroeconomic management capacity, which will be strained by the rapid, broad-based economic transition.

"Myanmar has made great strides in liberalizing its foreign exchange regime. A year after reforms began, private commercial banks, complemented by money changers, are conducting foreign exchange operations. The formal exchange rate is closely aligned with the informal market rates and volumes traded in the daily central bank auctions are increasing. The Central Bank of Myanmar (CBM) is smoothing exchange rate fluctuations without targeting a specific rate and has been able to supplement its international reserves over the previous year, including from transfers from state-owned banks. This needs to continue so that CBM's reserves can provide a better buffer against external shocks.

"Equipping the CBM with the instruments to conduct domestic monetary policy is important for delivering the stability necessary for sustained economic growth. Inflation remains moderate at present but there are pressures, including from money growth, real estate prices and wage increases. The new CBM law, which is expected in mid-2013, will provide the CBM with the budgetary and operational autonomy to counter these pressures if

necessary. In the meantime, CBM should build its capacity to conduct open market operations.

"A modern, well-regulated financial sector is needed to finance the private sector, reduce fiscal deficit monetization, and transmit the CBM's monetary policy. The banking sector is growing and modernizing rapidly and therefore needs to be carefully managed and supervised. This will require updating regulations and building supervision capacity.

"Budget policy has managed to balance the twin goals of addressing Myanmar's large development needs and maintaining macroeconomic stability. Significant increases in tax collections in FY 2012/13 enabled a deficit below the medium-term target of 5 percent of GDP. The FY 2013/14 budget deficit is expected to be around 5 percent and includes further increases in health and education expenditures. Over the medium term, the authorities should aim to build-up fiscal buffers including by saving the proceeds of asset and license sales.

"Sustained increases in tax revenues are crucial to boost expenditure and reduce dependence on natural resources. This requires broadening the tax base and improving compliance, including through the planned establishment of a large taxpayer office. Limiting tax incentives will be important to prevent further erosion of the tax base. A more attractive investment environment could instead be fostered through providing key infrastructure and streamlining bureaucracy. Improved public financial management is needed to ensure that spending is cost effective and in line with development priorities.

"The government made good progress in meeting the benchmarks set for the program, including building the international reserves of CBM and improving the functioning of the foreign exchange market. Further progress is expected during the year toward the program's objectives. This will support macroeconomic stability and debt sustainability and further develop the institutions and instruments necessary for effective macroeconomic management.

"The IMF will continue to support the government implement its ambitious economic reform agenda. This will include continued program monitoring and intensive technical assistance (TA) on monetary, fiscal, and financial sector reforms and on statistical improvement, in close coordination with other international financial institutions and bilateral donors. A resident representative office will soon be opened in Myanmar which will complement stepped up operations by the Bangkok-based TA Office for Myanmar and Lao P.D.R.

"The mission would like to thank the authorities for the open and constructive discussions, and their generous hospitality during the visit."



<sup>1</sup> 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 will involve joint monitoring of progress on the government's own reform plans through end-2013.

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