MYANMAR—MACROECONOMIC OVERVIEW

2nd Myanmar Development Cooperation Forum

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I. RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **Myanmar is undergoing a profound transition**. 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 authorities made good progress in 2013 on their macroeconomic reform priorities. The aim now is to build on these gains and achieve sustained, strong, and inclusive growth.

2. **The current economic outlook is favorable.** Real GDP growth in fiscal year (FY) 2012/13 (year ending March) reached 7.3 percent, led by services and manufacturing. We expect it to rise further to 7½ percent in FY2013/14 and 7¾ percent in FY2014/15 Credit to the private sector is expected to decline 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.

3. **However, inflation remains elevated**. Inflation is expected to exceed 6 percent by end FY2013/14 and remain elevated in FY2014/15. Also, the external current account deficit is expected to widen further to about 5 percent of GDP in this period. As a result, the government's accumulation of international reserves during FY2013/14 was slower than projected. Overall reserves still remain above 3 months of imports and accumulation should pick up in FY2014/15 as foreign direct investment and other inflows outweigh the current account deficit.

4. **Risks to the outlook arise largely from limited macroeconomic management capacity and narrow 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.

II. STAFF-MONITORED PROGRAM (SMP) [1]

5. **The SMP has been successful**. The IMF has been supporting the authorities to monitor progress through the SMP. They were focused on ensuring macroeconomic stability and building a

[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.

framework and institutions for effective macro-economic management. The second and final review of the SMP for 2013 was conducted during January 9–21, 2014. Quantitative and structural benchmarks for end-September were met, and economic reforms are proceeding broadly as anticipated.

III. Policy Prospects and Challenges

The IMF is delighted to have assisted the authorities achieve a successful outcome to the 2013 SMP. Looking forward, it is important to continue building on the progress made on the priority areas under the SMP.

6. **Boosting the CBM's international reserves and building their monetary policy capacity remain the key short-term macroeconomic policy challenges**. The CBM's reserves grew rapidly in 2013 through transfers from state banks and it now holds most of the government's international reserves, as envisaged in the CBM law. This progress needs to be consolidated and made automatic so that CBM can accumulate further reserves to provide a larger cushion against external shocks. CBM also requires full budgetary autonomy and a strengthened market framework in order to implement effective monetary policy.

7. **The authorities remain committed to a fiscal deficit target of 5 percent of GDP, which strikes an appropriate balance between financing development and maintaining stability**. However, while monetary policy tools are still being developed fiscal policy has to bear the burden of macroeconomic stabilization. Monetization of the deficit should therefore be quickly reduced to moderate inflation pressures. Tax revenue is growing quickly but remains low; to enable increased spending it should be boosted though broadening the tax base and improving compliance.

8. **Financial sector modernization will require sustained reform efforts over several years**. The banking sector is growing and modernizing rapidly and will require updated regulations and improved supervision capacity. Foreign bank participation can play a useful role in accelerating financial sector development but a gradual process is needed to minimize risks and to limit additional strain on supervisory resources. Supervisors also need to focus on the new policy banks established by government to ensure they are managed soundly and to minimize fiscal risks.

9. **The IMF will maintain an intensive form of engagement useful to the authorities**. With the SMP completed, we will continue to provide ongoing support in updating the macroeconomic framework, providing policy advice, and monitoring progress. If the authorities wish to formalize the process further, we stand ready to discuss a range of options. We will also continue to provide intensive and tailored technical assistance (TA) through experts and resident advisors in fiscal, monetary, exchange market and financial sector reforms and on statistical improvement, delivered in close coordination with other donors to support capacity building.