

## **Bullet points from IMF Article IV mission briefing, Sept 4 2007**

### General

- In general the cooperation from the technical counterparts was very good, even better than last year.
- Continuing concerns about Govt capacity. Counterparts are suffering from lack of opportunity to interact with outside world, seen both in technical skills & morale. IMF will try to increase engagement at the technical level.
- Macroeconomic picture is hard to judge given questions about Govt numbers. The economy is definitely growing, but only about 5%, not the 13% range as claimed.
- Growth benefits are not accruing in a broad way; price increases and inflation will hurt a substantial proportion of the population, so the average person will feel worse off this year despite economic improvements. The problem is not growth but resource allocation, which is biased towards the rich. Education & health sectors are thus basically privatized because public services are so bad.
- To improve the social sectors and meet the MDG goals, Govt must reallocate expenditure and improve efficiency. They also must take into account targeted measures to help the poor as they make price adjustments.
- The residual socialist structures here combined with lack of technical capacity make the transition to a market economy more difficult than in some neighbouring countries.
- There are improvements at the policy level, including liberalization of markets, but the implementation at the ground level is most important.
- The exchange rate policy is a practical solution while avoiding political problems: the official rate remains in place but almost all transactions quietly take place at the market rate.
- Govt interlocutors complained that the BankIADB did not give as much support to Myanmar as they would to another country with similar economic problems.

### Fiscal Sector

- Drastic improvement in revenue collection but Govt is also still spending a lot, especially on capital expenditure. This seems not to be controlled by the Ministry of Finance but by the highest levels. Therefore the budget development is very unpredictable even if you have the budget numbers.
- The deficit in relation to GDP is stabilized at about 3-4%.
- Inflation rate is about 30-40%, which is relatively under control.
- Reserves are at about 8 months' worth, as opposed to 6 months' worth last year.
- Export growth is strong. The external trade balance continues to be good. Natural gas accounts for about 40% of all exports. Imports are under-reported.
- Foreign direct investment amounts to about \$250m, mainly in the energy sector. In future the level is expected to remain about the same.

### Technical Assistance

- There were fruitful discussions on the method for determining the GDP.
- Governance of private sector is problematic due partly to resource constraints that hamper data collection from the private sector, as well as information dissemination.
- Myanmar is encouraged to participate in the IMF information dissemination system.
- Regarding the consumer price index, the Govt just conducted a household income/expenditure survey in 2006 and will update its outdated basket figures.
- The IMF may return early next year on a technical assistance mission.

### Banking Sector

- Private banking sector has nearly recovered from 2004-5 crisis. Reported bank data is very strong, although the numbers are not perfect.
- The bad news is more structural; measures taken by Govt in response to the

banking crisis created an environment unfavourable to banking.

- There is not a real banking system in place, which means there will be no private sector-led economic growth.
- Access to banking is very restricted.
- Non-banking financial institutions are basically nonexistent.
- State-owned commercial banks are not really banks, and have an unsupportable competitive advantage.
- The whole Govt approach is not conducive to a market economy based on competition; state banks say they don't want competition.
- Bond markets are in their infancy; there are only two companies on the stock exchange and one was not traded at all last year, the other only traded 22 shares.
- Capital markets could improve. The IMF is working on a working paper covering current issues in the financial sector, including future alternatives, which could serve as a blueprint for the future.

#### Agriculture

- The real issue is not the policy but the impact at the local level. There is tremendous inconsistency in policy formulation and transmission.
- The mission recommended the Govt do impact analyses of its policy changes and to get a better understanding of market functioning, for example the interaction between change in rice prices and peoples' food security.

#### Special Economic Zones (SEZs)

- A draft act and supporting regulations for the SEZs have been waiting for final approval, after 10 drafts, for over a year. China's Shenzhen area is understood to be the model, with 5-year tax exemptions and big tax incentives thereafter.
- There are 5 planned SEZ industrial parks in border areas, including a contract farming project. Govt has talked to the industrial estate authority in Thailand.
- The biggest project will be outside Yangon with Chinese assistance, in 2015.
- Seems to be a lack of understanding that predictability of policy and implementation is what leads to a good investment climate, not just building SEZs. A bit of a "if we build it, they will come" mentality.