

**FOR
AGENDA**

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Supplement 1

November 5, 2007

To: Members of the Executive Board

From: The Secretary

Subject: **Myanmar—Staff Report for the 2007 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2007 Article IV consultation with Myanmar (SM/07/347, 11/5/07) which is tentatively scheduled for discussion on **Wednesday, November 28, 2007**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Myanmar indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Teo (ext. 34283) and Mr. Hori (ext. 39513) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, November 13, 2007; and to the Asian Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MYANMAR

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by Staff Representatives for the 2007 Consultation with Myanmar

Approved by Kalpana Kochhar and Matthew Fisher

November 2, 2007

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ANNEX I. MYANMAR: SOCIAL INDICATORS

	Latest single year			Same region/income group	
	1975-80	1985-90	1997-2006	East Asia and Pacific	Low-income
Population					
Total population, midyear (millions)	30.4	37.5	51.0	1,899.6	2,403.3
Growth rate (percent annual average)	2.3	2.1	0.9	0.8	1.8
Urban population (percent of population)	23.9	24.0	31.3	42.3	30.4
Total fertility rate (births per woman)	5.8	4.6	2.2	2.0	3.6
Poverty					
(Percent of population)					
National headcount index	...	...	22.9	28.5	...
Income					
Consumer price index (2000=100)	8.0	13.0	356.4	129.8	129.8
Food price index (2000=100)	...	11.0	391.5	...	...
Social indicators					
Public expenditure					
Health (percent of GDP)	...	...	0.3	1.7	1.1
Education (percent of GDP)	1.7	2.0	1.1	3.5	3.1
Social security and welfare (percent of GDP)		0.9	0.1	...	...
Primary completion rate					
(Percent of age group)					
Total	...	...	79	98	76
Male	...	...	78	98	80
Female	...	...	80	98	71
Access to safe water					
(Percent of population)					
Total	...	27	78	79	75
Urban	...	36	80	92	88
Rural	...	21	77	70	69
Access to health care					
Population per physician (persons)	...	...	2,816	662	2120
Immunization (percent under 12 months)					
Measles	...	...	72	83	64
DPT	...	16	73	84	64
Child malnutrition (percent under 5 years)	...	38	32	16	43
Life expectancy at birth (years)					
Total	50	53	61	71	59
Male	48	51	58	69	58
Female	51	54	64	73	60
Mortality					
Infant (per thousand live births)	122	106	75	26	75
Under 5 (per thousand live births)	179	134	105	33	115
Adult (15-59)					
Male (per 1,000 population)	...	384	301	161	287
Female (per 1,000 population)	...	313	200	105	232

Source: World Bank.

ANNEX II. MYANMAR: FUND RELATIONS

(As of August 31, 2007)

- I. **Membership status:** Joined on January 3, 1952; Article XIV
- II. **General resources account:**
- | | SDR million | Percent of quota |
|---------------------------|-------------|------------------|
| Quota | 258.40 | 100.0 |
| Fund holdings of currency | 258.40 | 100.0 |
| Reserve Position | 0.00 | 0.0 |
- III. **SDR department:**
- | | SDR million | Percent of allocation |
|---------------------------|-------------|-----------------------|
| Net cumulative allocation | 43.47 | 100.0 |
| Holdings | 0.18 | 0.41 |
- IV. **Outstanding purchases and loans:** None
- V. **Latest Financial arrangements:** None
- VI. **Projected obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	<u>0.44</u>	<u>1.75</u>	<u>1.75</u>	<u>1.75</u>	<u>1.75</u>
Total	0.44	1.75	1.75	1.75	1.75

- VII. **Implementation of HIPC Initiative:** Not Applicable
- VIII. **Implementation of MDRI Assistance:** Not Applicable
- IX. **Exchange rate arrangement:**

The kyat has been pegged to the SDR at K 8.5057 per SDR since May 2, 1977. Myanmar applies margins of 2 percent in respect of spot exchange transactions. In February 1993, the Central Bank of Myanmar started issuing foreign exchange certificates (FECs) at a rate of 1 FEC = US\$1. In December 1995, the authorities established FEC exchange centers and allowed market trading of FECs. The FEC traded at K 1,350 per U.S. dollar in September 2007. Myanmar continues to avail itself of transitional arrangements under

Article XIV, although it has eliminated all Article XIV restrictions. Myanmar maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII arising from: (i) limits on the purchase of foreign exchange by residents for foreign travel and by nonresidents for the remittable portion of wages, as well as for payments and transfers relating to invisible and other current international transactions; and (ii) the divergence between the official exchange rate used for transactions of the public sector and the parallel market-determined FEC rate.

Myanmar maintains restrictions on transactions by certain terrorists and terrorist organizations in accordance with UN Security Council Resolution No. 1373 (2001).

X. Article IV consultation:

The Executive Board discussed the staff report for the 2006 Article IV consultation on October 6, 2006. It was proposed that the next Article IV consultation will take place on the standard 12-month cycle, and 2007 discussions were held during August 22–September 4.

XI. Technical assistance:

A substantial program of technical assistance (TA) financed by the United Nations Development Program (UNDP) was initiated in 1989/90 in the expectation of comprehensive policy reforms. The program foresaw extensive TA supported by training in the areas of bank accounting and supervision; monetary, fiscal, and price statistics; tax and customs administration; public finance; and government financial management.

As the anticipated policy reforms did not materialize, the UNDP decided to scale back assistance to Myanmar. As a result, the project on government financial management was canceled in September 1992 and the funding for the remaining projects was reduced. Following the tripartite review of the TA program conducted during the 1993 Article IV consultation discussions, the authorities were informed that it would be difficult to justify an extension of the program and that the ongoing projects would come to an end by the scheduled closing date of December 31, 1993. By that time, 53 person-months of TA and 172 weeks of training had been delivered.

While TA has continued only in the form of training on a reduced scale since then, the authorities requested TA from the Fund during the 2006 Article IV consultation. Given the authorities prior track record, staff has begun a cautious attempt at providing TA, concentrating on AML/CFT and banking supervision. A joint IMF/WP mission visited Yangon and Nay Pyi Taw during January 2007 to determine possible TA needs to enhance its AML/CFT framework. This was followed by a joint IMF/World Bank mission in May-June 2007 to provide necessary TA in the preparatory work for upcoming APG Mutual

Evaluation Assessment in November 2007, and to strengthen the AML/CFT framework on financial sector regulation and supervision.

Further TA would be conditional on progress in implementing TA recommendations.

XII. **Resident representative:** None

ANNEX III. MYANMAR: RELATIONS WITH THE WORLD BANK GROUP¹

(As of October 16, 2007)

Myanmar became a member of the World Bank in 1952, IFC in 1956, and IDA in 1962. During the period 1956–61, the Bank made three loans totaling US\$33.3 million in the transport sector. No lending was requested during 1962–73. Lending resumed in 1973 and over the period 1973-87, 30 IDA credits totaling some US\$804 million equivalent were committed of which US\$752.8 million equivalent was disbursed. New lending ceased after 1987 due to a lack of dialogue on policy reform.

During the period 1956–87, 26 percent of IDA/IBRD disbursements were in support of agricultural projects, 16 percent for forestry projects, 24 percent for energy sector projects, 17 percent for transportation projects, and the remaining 16 percent for projects in the mining, manufacturing, construction, and telecommunications sectors.

Myanmar went into arrears with the Bank in January 1998 and has been in non-accrual status since September 1998. Debt outstanding and disbursed to the World Bank currently totals US\$788.3 million. The Bank's engagement is limited to monitoring economic and social developments in the country based on available information and reports, liaising with other international donors and agencies, continued participation in IMF Article IV missions, and in a few cases providing analytical inputs to the work of other donors in selected areas.

As part of its monitoring and updating of information, the Bank has continued to participate in IMF Article IV missions as requested. The Bank also maintains contact with other donors involved in Myanmar and provides them with technical support and advice on demand. Such recent demands have been met from the IMF with respect to technical assistance for anti-money laundering and combating the financing of terrorism, FAO on agriculture, and UNICEF on the education sector. Since 1999, when staff prepared an Economic and Social Assessment, the Bank has not done any major pieces of analytical work.

The last formal Consultative Group meeting was held in January 1986 in Tokyo, chaired by the Bank. Since then, there have been a number of informal meetings of concerned countries and multilateral institutions in which the Bank has participated as an observer. In 2000, the Bank participated in a meeting on Myanmar convened by the government of South Korea in Seoul. Three further informal meetings for Myanmar were convened by the UN's Department of Political Affairs held in 2002, 2003, and 2004, where Bank representatives participated as observers.

¹ Prepared by World Bank staff.

ANNEX IV. MYANMAR: RELATIONS WITH THE ASIAN DEVELOPMENT BANK²
(As of August 7, 2007)

Myanmar joined the Asian Development Bank (AsDB) in 1973 and operations started the same year. The AsDB has so far provided 32 loans totaling \$530.9 million for 28 projects. Of these, two loans amounting to \$6.6 million were from AsDB's ordinary capital resources (OCR), and 30 loans amounting to \$524.3 million were from its special funds resources. All of the loans to Myanmar have been closed. The AsDB has so far provided technical assistance (TA) totaling \$10.7 million for 38 projects. Of these 38 TA projects, 28 were project preparatory and 10 were advisory.

The last loan and TA projects for Myanmar were approved in 1986 and 1987, respectively. However, Myanmar is a participating member of the AsDB-assisted Program of Economic Cooperation in the Greater Mekong Subregion (GMS Program). In that capacity, Myanmar participates in regional meetings and workshops. Close coordination is being maintained with the IMF, the World Bank, and the UNDP with particular emphasis being given to assessment of the government's economic reform program and recommended policy actions. Liaison is being maintained with Myanmar's major bilateral donors regarding the status of their assistance program. As of August 7, 2007, Myanmar's total overdue loan service payments in respect of AsDB's Asian Development Fund (ADF) loans were equivalent to \$234.7 million. Myanmar repaid on December 18, 2003 its OCR due to AsDB amounting to EUR 1,225,200 and accordingly cleared its arrears under OCR loans. To date, Myanmar has not provided any indication of its intention to clear the overdue loan service payments under 28 ADF loans.

The cumulative amount of AsDB lending to Myanmar remains unchanged as shown below:

Sector	Loans (Number)	Loans (\$ million)	%
Agriculture and Natural Resources	14	296.1	55.8
Health, Nutrition and Social Protection	2	63.1	11.9
Industry and Trade	5	46.4	8.7
Transport and Communications	2	42.5	8.0
Water Supply, Sanitation, and Waste Management	4	36.0	6.8
Energy	4	26.8	5.0
Multisector	1	20.0	3.8
Total	32	530.9	100.0

Sources: A Fact Sheet. Myanmar and AsDB. Available
http://www.adb.org/Documents/Fact_Sheets/MYA.asp.

The majority of AsDB assistance has been provided for the development of the agricultural sector. Assistance in sectors other than agriculture stemmed from an attempt to achieve sectoral balance in lending.

²Prepared by AsDB staff.

ANNEX V. MYANMAR: STATISTICAL ISSUES

Myanmar's statistical base is inadequate for effective surveillance. Data are not timely while official and independent estimates of key macroeconomic statistics differ widely. Myanmar compiles a range of economic and social statistics and the Central Bank of Myanmar (CBM) reports a number of core statistics to the Fund on a monthly basis and provides more comprehensive data for the Article IV consultation missions.³ However, data shortcomings continue to hinder the monitoring of economic developments and the assessment of policy proposals. In addition, dissemination has been limited. Reporting of real sector data for publication in *International Financial Statistics (IFS)* has recently improved, but the timeliness of the data series remains an issue.

National accounts

National accounts statistics are available only on an annual basis and revisions are typically not issued before a new year starts. A monthly index of economic activity is compiled, but is not disseminated. The coverage of the private sector is incomplete as a proper sampling frame (business register) for assessing the representativeness of samples is not available. Also, resource constraints at the Planning Department and the Central Statistical Organization (CSO) limit the conduct of surveys and the size of the samples used. In addition, GDP estimates do not fully account for informal sector activity, even though there is available information on economic activities of unincorporated households' enterprises in the 2004 and 2006 HIESs and the Integrated Household Living Conditions Survey (November–December 2004 and May 2005).

The use of the highly overvalued official exchange rate for conversion purposes results in understatement of external trade and the foreign component of consumption, government expenditures, and investment. Moreover, taxes and subsidies on products (import duties, subsidies on administered products, and taxes and subsidies that result from the application of a multiple exchange rate system) are excluded from GDP estimates. Some issues in the compilation of constant price estimates together with the absence of estimates on non-observed activities might have led to some overestimation of the GDP growth rate. In particular, agricultural production is only recorded during the harvest season and no agricultural work-in-progress is registered, exports are included in the volume index to estimate retail and wholesale trade, a price index of interest rates is used to deflate financial and insurance services, taxes and subsidies on transactions with the rest of the world are not included in GDP estimates, even though there is a multiple exchange rate system, and

³The CSO publishes the *Statistical Yearbook*, which includes a wide range of economic, social, and demographic time series; the latest issue was for 2005, and is also available in CD ROM format. The CSO also publishes the *Selected Monthly Economic Indicators*, which include monthly data on consumer prices, selected producer prices and output volumes, tourism, transportation, and foreign trade and investment; the latest issue was for February 2007.

subsidies are not recorded for the activities that produce administered products. In addition, estimates on non-observed activities (informal, illegal, and underground), which usually have lower productivity than observed activities, are not included in the accounts.

The classification system used in Myanmar is a national classification of industries that have some deviations from the *International Standard Industrial Classification of All Economic Activities*, regarding the inclusion of oil and gas in energy instead of in mining and the aggregation of other service activities with rentals. Although detailed data at product level are available, the level of detail for activity branches, commodities, and services of the released estimates is insufficient for detailed analysis of volume and price movements.

Price indices

The CPI is based on weights derived from the 1997 Household Income and Expenditure Survey (HIES); the previous base year was 1986. Although another HIES was conducted in 2004, the basket and weights of the CPI was not updated. However, the results of the 2006 HIES, which surveyed 32,000 households in 80 townships out of 325 townships, are being processed and the CSO plans to update the CPI's base, basket, and weights with these results. In Myanmar, HIES are only conducted during 20 days instead of during a whole calendar or fiscal year. Although reported expenditures include monthly and annual expenditures, these data may be inaccurate, as households have to recall their expenditures during a long period. In addition, expenditures may also have seasonality.

The CPI comprises 135 consumption items. The CSO plans to increase the basket to 158 commodities for the updated CPI. Its regional coverage was expanded, and the consumption items include wider coverage of items at market prices (rather than at controlled prices), as well as a larger share of imported goods. However, the index remains urban: a price index for rural areas has not yet been compiled. The only administered prices are education fees and electricity, which together amount to 2 percent of the CPI basket. The CPI is classified into food, clothing and apparel, fuel and light, house rent and repairs, and miscellaneous goods and services. Therefore, the *Classification of Individual Consumption by Purpose* was not used to classify the items in the basket of the CPI. The CPI is available during the first week of the following month, but it is disseminated with long lags owing to the approval process for data dissemination.

Cement and bricks are included in the index as final consumption items. These are inputs (intermediate consumption) of the construction activities carried out by households as producers and should not be in the CPI. Shelter prices faced by household owner-occupants are not included in the CPI, a deviation from international standards. Price relatives at the item level are calculated using the weighted arithmetic mean of short-term price relatives instead of the geometric mean. In general, only repackaging quality adjustments for CPI items/varieties are made. Quality adjustments are not made.

Temporarily unavailable prices are held constant for a certain period. Although the methodology of holding the temporarily unavailable is a self-correcting procedure, it can cause large jumps in the index series when the prices again become available. As regards items/varieties that become permanently unavailable, it may take several months to establish that an item/variety will not return to the market (outlet) in which it is being priced. If the

price of the old variety is held constant until this is determined and if no imputation of price change is made, a permanent uncorrected bias can be imparted into the index. Although this bias is likely to be small during periods of stable prices, it could be significant during periods of volatile prices. In the case of Myanmar, most seasonal goods (fruits as oranges and some vegetables) were excluded from the index because of the unavailability of price data for some months, a deviation from international standard practices.

The CSO received technical assistance from the Japan International Cooperation Agency in 2006 to compile a wholesale price index and the project is in its starting phase. No producer price index is compiled.

Government finance

There is no comprehensive monthly and quarterly compilation of fiscal data. Although a flash report is produced by the CBM on a monthly basis, and every quarter the Budget Department prepares a summary report based on provisional information on cash expenditures collected from the ministries, the coverage of these reports, is incomplete. Annual comprehensive data are compiled with delays of up to 12 months after the end of the reference year. In addition, only consolidated data for State Economic Enterprises (SEEs) are available, and some transactions are recorded partly on an accrual basis and partly on a cash basis. Fiscal and monetary data are not consistent. Budget estimates and actual expenditures tend to differ by wide margins in part because of supplementary budget approvals for spending increases halfway through the fiscal year.

Annual data on the operations of the consolidated central government were reported for 2005 and 2006 to the Fund's Statistics Department (STA) for publication in the *Government Finance Statistics Yearbook*, but do not include an economic classification of expenditure. In addition, improving debt recording would enhance fiscal transparency.

Monetary accounts

The CBM reports monetary statistics for publication in *IFS* with a lag, which as of mid-October 2007 amounted to about 12 months. This time lag typically reflects the lack of technological infrastructure for timely collection and processing of data from a geographically widespread bank branch network, and the delay in compiling government accounts at the Myanmar Economic Bank (MEB), which manages them (rather than the Ministry of Finance and Revenue).

The monetary survey compiled by the CBM covers the central bank and all commercial banks, state-owned and private. The quality of monetary data reported and published in *IFS* has improved, reflecting assistance provided by STA in the context of the 1998 and 1999 Article IV consultation missions. Starting with the July 1999 issue of *IFS*, coverage of the banking system was expanded to include private commercial banks established since mid-1992, in addition to the CBM and the four state-owned banks (data coverage of private commercial banks begins in June 1992).

The quality of monetary statistics could be improved further by: (i) using the market exchange rate, rather than the overvalued official exchange rate, for valuing foreign currency-denominated balance sheet accounts; (ii) reviewing for consistency the interbank accounts showing the positions between the CBM and the commercial banks, including the MEB's *currency* and *financial adjustment* accounts, and the positions between different commercial banks; (iii) relying on modern technology for compilation and transmission of the data, to ensure that misclassifications and other mistakes are more promptly detected and corrected; and (iv) reviewing the recording of the Fund accounts in the CBM's balance sheet to ensure consistency with standard procedures.

The CBM does not yet report monetary data to STA using Standardized Report Forms (SRFs).

Balance of payments

Balance of payments data have various shortcomings arising from the poor quality of source data and gaps in coverage of the external transactions of the private sector. The use of the overvalued official exchange rate to convert private sector transactions leads to distortions because these transactions actually take place at or near the market rate. The official trade data exclude military imports, for which no adjustment is made in the balance of payments. Detailed data on services and financial flows are generally not available. There are large discrepancies in the external debt data reported by creditors and debtors. Transactions on arrears are not reported separately.

Overall export and import volume and price indices are not fully reported. The export volume and unit value indices computed by the Fund and published in *IFS* were unsatisfactory and have been discontinued. Data on exports and imports by partner country are reported for calendar years.

Technical assistance provided by STA in 1999–2000 has resulted in progress by the CBM in improving its balance of payments compilation system. However, the system is not yet capable of producing reliable and comprehensive data. Progress has been mainly confined to streamlining collection procedures of data from various agencies, broadening the classification of external transactions, correction of numerous misclassifications in the services component, and compiling data on direct investment income outflows. There have been improvements in the collection of data compiled by commercial banks and data on interest and loan repayments on external debt. No progress has been made, however, in the development of specialized surveys to compile private sector transactions.

No progress has been observed in improving the dissemination of BOP data within Myanmar. Other problem areas include the measurement of goods for processing, direct investment flows, the classification of short-term liabilities of commercial banks, external debt, and arrears. Data on medium- and long-term external public debt are available, and a breakdown of external debt and arrears by creditor is provided.

MYANMAR: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of October 17, 2007)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	09/07	10/07	M	I	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	06/07	09/07	M	I	I
Reserve/Base Money	03/07	09/07	M	I	M
Broad Money	03/07	09/07	M	I	M
Central Bank Balance Sheet	03/07	09/07	M	I	M
Consolidated Balance Sheet of the Banking System	03/07	09/07	M	I	M
Interest Rates ²	06/07	09/07	M	I	M
Consumer Price Index	03/07	09/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ - General Government ⁴	FY 06/07	09/07	A	I	NA
Revenue, Expenditure, Balance and Composition of Financing ³ - Central Government	FY 06/07	09/07	A	I	NA
Stocks of Central Government and Central Government - Guaranteed Debt ⁵	FY 06/07	09/07	A	I	NA
External Current Account Balance	Q1 2007	09/07	Q	I	I
Exports and Imports of Goods	03/07	09/07	M	M	M
GDP/GNP	FY 06/07	09/07	A	I	I
Gross External Debt	FY 06/07	09/07	A	I	I

¹Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).