THE GOVERNMENT OF THE REPUBLIC OF THE UNION OF MYANMAR
MINISTRY OF PLANNING AND FINANCE

CR 6066-MM

LETTER OF DEVELOPMENT POLICY

17 March 2017

Dr. Jim Yong Kim
President
The World Bank
1818 H Street, NW
Washington, D.C. 20433

Dear Dr. Kim,

On behalf of the Government of the Republic of the Union of Myanmar, I would like to sincerely express our gratitude to you, the World Bank, and development partners for continuous support since Myanmar began its political and economic transition in 2011. The World Bank has been supporting Myanmar's reforms and its development needs in the areas of rural development, financial inclusion, public finance management, energy, and telecommunications. The Government of Myanmar very much appreciates the World Bank's support on policy dialogues, technical and financial assistance tailored to the needs of our people and our country.

Myanmar's political transition continued in November 2015 with the national elections where National League for Democracy (NLD) won and the current administration took office in April 2016. Following the NLD's election manifesto published in October 2015, we released the 12 Economic Policy Priorities in July 2016 to provide the administration's planned economic agenda and reforms. We have made progress in restructuring of Ministries and State Economic Enterprises (SEEs), expanding auctions of treasury bills and bonds in the domestic debt market, maintaining exchange rate flexibility and introducing the new Investment Law. As we continue with implementation of the economic agenda, the Myanmar Economic Stability and Fiscal Resilience Development Policy Operation (SRDPO) will support the policy and institutional reforms outlined in our economic policy priorities.

Between fiscal years 2011-2012 and 2015-2016, Myanmar's economy grew at an average annual rate of 7.3 percent. In 2016-2017 FY, the first six month's data pointed to a 5.0 percent growth. Especially declining of yield of agricultural crops and export prices, slowing down in foreign direct investment, external pressures including general slowdown in the global economy, declining demand from our main trading partners and decrease in commodity prices contributed to this sluggish growth. Therefore the economy was expected in 2016-2017 with 5.7 percent growth. Despite pressures of face during 2016-2017 FY, we expect a favorable environment next year with plans to diversify export and increased potential for foreign direct investment. We also aim to promote private sector led growth through increased domestic saving and investment as well as availability of more financing options.

A key achievement I would like to highlight is the move towards policy based budgeting through the use of Medium Term Fiscal Framework (MTFF). The framework is based on macroeconomic indicators including real and nominal GDP growth, inflation, exchange rates and import growth. We are also expanding the domestic debt market so that there are more options to finance the budget deficit other than the Central Bank, which has now been limited to a maximum of 30 percent of financing needs for this fiscal year. For the first time, we have published the Executive Budget Proposal to the Parliament prior to approval, Financial Commission Comments on the Proposed Budget, Budget Execution Reports (quarterly and half yearly), Commercial Statements of the State Economic Enterprises Statements from 2015-16 provisional actuals to 2017-18 budget estimates.

Having mentioned our current economic situation, challenges, and some of the key achievements, I'd like to summarize the Government fiscal policy for 2017-18 which I presented to the Parliament in February 2017. Our priorities under the Tax Pillar of the Fiscal Policy include establishing a fair and equitable tax administration system in addition to increasing revenue mobilization efforts to finance Union Government's expenditures, controlling inflation, and balancing domestic consumption, investments and savings. The Expenditure Pillar emphasizes the need to continue increasing allocations for education, health and social protection, calls for assigning priority levels in implementation projects and suspend those not in urgent need, regulation of procurement practices, analysis of external loans and grants. Increased expenditure for rural development, electricity and water are also highlighted.

I would like to emphasize that the proposed SRDPO comes at a critical time for Myanmar as the country balances fiscal prudence with financing growing development needs amidst a challenging external environment. SRDPO is also poised to support the Government of Myanmar in implementing our Economic and Fiscal Policy Priorities through enhanced coordination with the key economic agencies. SRDPO will directly support the first point in the Economic Policy regarding transparency and strong public finance management under the program's objectives of "Policy-Based Budgeting" and "Effective Public Finance Management". Key actions within those objectives include policy based budgeting through the use of a rolling medium term fiscal framework with revenue and expenditure projections and adoption of updated Financial Rules and Regulations from 1986 to deliver efficient public services. The updated regulations will in turn have an impact on ensuring efficiency in delivering critical services especially in health and education sectors, the development of which we have indicated as one of our priorities.

Under the objective of "State Economic Enterprises' fiscal discipline", actions in SRDPO aim towards transparent operations of SEEs as well as limiting usage of Union's funds for profitable SEEs. These actions support the second point in our economic policy priorities to have more successful SEEs and privatization of some based on performance. Actions under the objective of "Enhancing revenue mobilization" in SRDPO are also in line with our policy priorities to develop a fair and effective tax system to increase revenue. Other key actions included in SRDPO are 1) adoption of the Public Debt Management Law to centralize public debt management functions at the Ministry of Planning and Finance, 2) application of market interest rates to the government debt, expansion of domestic debt market, and a borrowing plan to limit Central Bank financing of the deficit and 3) approval of financial viability plan for the electricity power sector so as the operating balance will have a positive balance in five years. These key actions are expected to curb inflation, reduce fiscal pressures, and create fiscal space for public services.

The proposed SRDPO will support our efforts in achieving continuous economic growth, to maintain economic stability and to ensure efficient public spending. Our government therefore requests the World Bank's assistance through this First Myanmar Economic Stability and Fiscal Resilience credit to help tackle challenges in implementing the country's economic agenda and developing buffers against increasing fiscal pressures. We hope that we can count on the support of the World Bank to address these challenges and to continue working together to make progress in policy and institutional reforms.

Yours Sincerely,

17.7.17

Kyaw Win
Union Minister