1. The Government of Burma has consulted the Fund under Article XIV; Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. The gross domestic product in real terms surpassed the prewar level in 1958-59 for the first time in postwar years. In 1959-60 the monsoon was once again favorable and this, together with a further improvement in law and order, helped expand farm output; the rice crop reached a new postwar high but was still below the prewar average. Forest output showed a marked improvement almost reaching the prewar level; mineral production, however, was still far below the prewar level. Gross domestic product in real terms rose by 5 per cent in 1959-60 as compared with the previous year, but real per capita income was still below the prewar level.

3. An important development in recent years affecting the domestic economic situation has been the persistence of a deficit in the public sector. For 1959-60, however, as a result of the substantial improvement in revenues, mainly from customs duties and earnings from rice exports, and of lower capital expenditures, it is expected that the public sector will be able to show a modest surplus. The budget estimates of the Union Government for 1960-61 provide for total receipts of K 1,201 million and expenditure of K 1,310 million, leaving a deficit of K 109 million. In view of the new Four Year Plan under consideration and the possible need for resources for development purposes, the Fund believes that Government should explore the means of raising non-inflationary finance so as to maintain fiscal stability.

4. The money supply in Burma declined by 4 per cent in 1959-60 due mainly to a substantial improvement in public finances. There was, however, a marked rise in bank advances, after the restraint of credit expansion in the preceding two years. This expansion was occasioned by a change in the method of financing rice movements and by larger imports. However, considering the liquidity of the banking system and existing demand pressures generated by the increases in money supply during 1958-59 and the first half of 1959-60, the Fund is glad to note that the Union Bank of Burma is keeping a careful watch on the situation.

5. The balance of payments position of Burma showed an overall surplus of K 122 million in 1959. Both exports and imports rose substantially. Export of rice reached 2.1 million tons in 1959-60, a postwar record high. As a result of the favorable development in the balance of payments position, the foreign exchange reserves of Burma showed significant gains in 1959-60, although in September 1960 they dropped somewhat on account of the year-end payments. For calendar 1960, it is reported that the overall balance of payments was in deficit.

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6. The Burmese restrictive system continues to be stringent and there was very little relaxation during 1960. Some further simplification and relaxation of restrictions should be feasible. The Fund welcomes the progress made in reducing the use of payments arrangements and suggests that Burma should reconsider the need for the remaining bilateralism.

7. In concluding the 1960 consultations, the Fund has no other comments on the transitional arrangements maintained by Burma.