



Monetary Policy Implementation and Exchange Rate Stabilization in Myanmar



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Aim and Objectives of the Central Bank of Myanmar

Aim: To preserve and maintain domestic price stability

- Objectives:
- (1) To promote monetary stability
 - (2) To maintain financial system stability
 - (3) To develop efficient payment and settlement system
 - (4) To support the general economic policy of the government conducive to the sustained economic development



Current Monetary Policy Framework

Monetary Policy Goal	: Domestic Price Stability
Monetary Policy Framework	: Reserve Money Targeting
Operation Target	: Reserve Money or Monetary Base
Intermediate Target	: Broad Money (M2)
Ultimate Objectives	: GDP, Price

Key reasons for adoption of “Monetary Targeting”

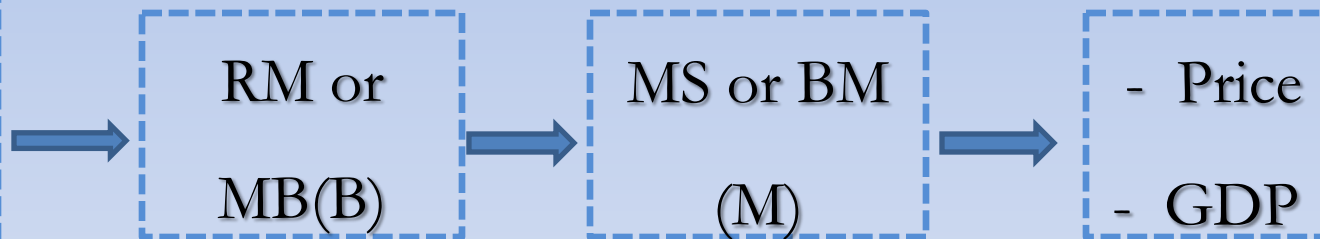
- Consistent with the heavily cash- based nature of the economy, and its close link with inflation and output, stable relationship between RM/MS and Inflation.



Monetary Policy Framework

MP Instruments → Operating Targets → Intermediate Targets → Ultimate Objectives

- Discount Rate
- MRR
- OMO
 - Discount Window Facilities
 - Buy/ Sale of Govt. Securities
 - Deposit/ Credit Auction
 - FX Auction
 - Interbank FX Market



$$M = mB$$

$$MV = PY$$



Monetary Tools

(1) Interest Rate

- Discount Rate (Central Bank Rate) 10%
- Minimum Deposit Rate 8%
- Maximum Lending Rate (for secured loan) 13%
- Maximum Lending Rate (for unsecured loan) 16%
- Maximum Interest Rate on Credit card 20%



Monetary Tools

(2) Reserve Requirement

- Minimum reserve requirement ratio is 5% of total customer deposit has been applied since 2015.
- Penalty for incompliance bank was applied in 2016.
- During the 1st half of 2018-2019, all banks (3 State Own Banks, 27 Private Banks and 13 Foreign Banks) were complied with R.R both MMK and FCY.



Monetary Tools

(3) Monetary Operation

- CBM introduced deposit/credit auction since 2012.
- Maturities for deposit auction: 14 days, 28 days, and 42 days were conducted throughout the period.
- During the 1st half of FY 2018-2019, there are 14 times deposit auction and average amount of MMK-207 billion (1% of RM Target) was absorbed from the economy.



Development of Government Securities Market

- CBM conducts T-bond and T-bill according to auction mechanism on behalf of Government.
- Main purposes:
 - To deficit financing of government by public
 - To develop the market determined yield curve

Cooperation with MOPF

- Central bank financing to government budget make gradual reduction to reach the minimal level.
- T-bill auction has started on January 2015 and 13 times auctions were conducted during the 1st half of FY 2018-19.
- T -Bond auction has introduced on September 2016 and there were 6 times of auction during the 1st half of FY 2018-19.

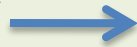


Implementation of Exchange Rate Stability

- CBM introduced new mechanism of reference exchange rate determination to reflect the market rate in February 2019.

Reference rate determination mechanism

Cut off rate at FX Auction



Weighted average of traded bid/ offer rates at I/B FX market
Rate

- Announce the daily reference rate on CBM website at 4 pm every working day.
- During the FY 2018-19 (up to July), MMK was stabled and appreciated by 3%. The gap between reference rates and market rates became narrowed and were within 2% band.
- Inflation : Annual Rate 8.08%, Year on Year 9.51% (as of June, 2019)
- GDP Growth Rate: 6.50% (as of September, 2018)
- Target GDP Growth Rate: 7.00% (2018-2019)



Implementation of Hedging Instruments

- CBM has already allowed to execute FX Forward and FX Swap Transaction in Interbank Market since April, 2016.
- CBM provides SWAP facility to local private banks to meet their USD demand and to stabilize exchange rate movement.
- Resident can take foreign loans from abroad or conduct other types of borrowing abroad with the prior approval of CBM and comply with the provisions of the CBM according to FEMR.



Liberalization of the Financial Sector

- Foreign branches: (9) Foreign branches in 2015, (4) Foreign branches in 2016.
- Certain number of Foreign branches or Subsidiaries are to be allowed at the end of 2019.
- Banking services provided by Foreign branches has been extended to local corporate.
- Foreign bank Subsidiaries will be allowed retail banking in the near future.
- 35% of Foreign participation (Banks or Financial Institutions) are allowed.
- Other Relaxations: Overdrafts (Maximum limit 1 year), Term loans (Maximum limit 3 years),etc.



Credit Bureau in Myanmar

- CBM has issued a license to Myanmar Credit Bureau Limited in May, 2018.
- It will collect information on loan repayment histories and other information on borrowers and distribute the profiles to lenders.
- The agreement was signed between Myanmar Credit Bureau Limited and Equifax New Zealand Information Services and Solution Limited to provide loan data service.
- It will be available at the end of 2019.

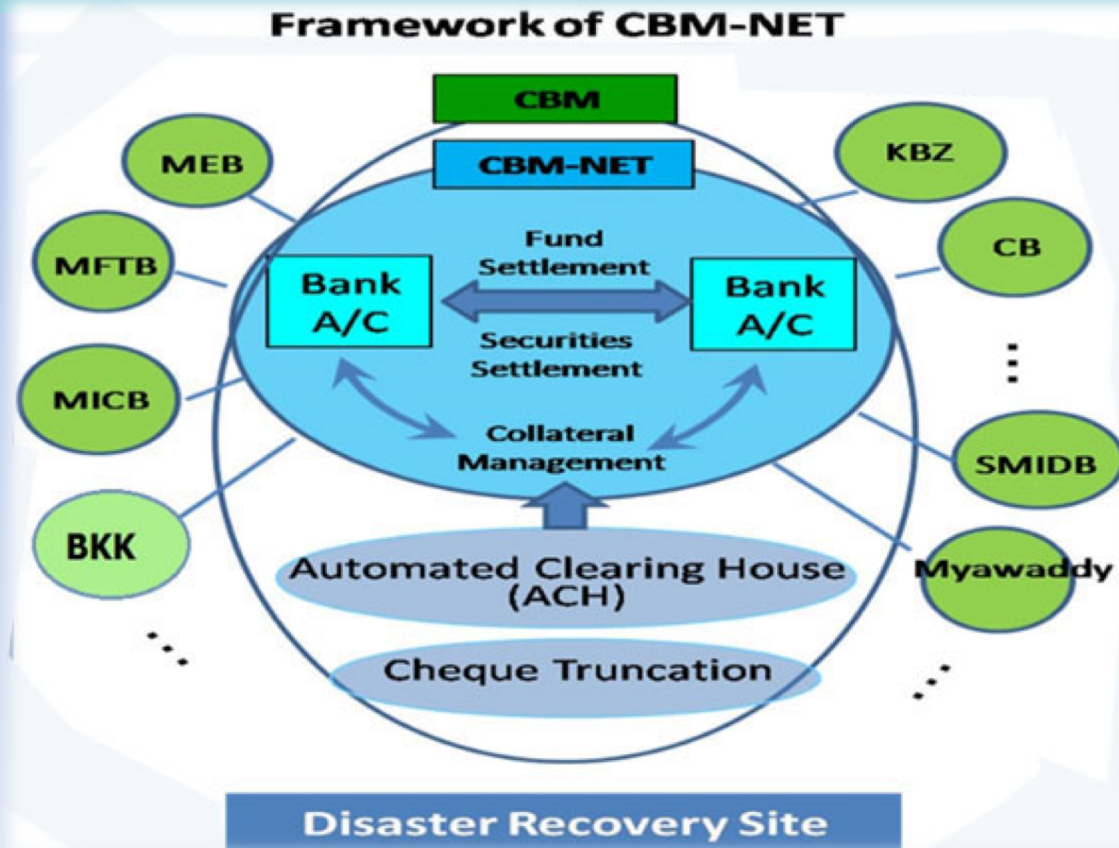


Cross Border Remittance

- 14 AD banks service personal remittances by 10 partner remittance companies such as Western Union, Money Gram, etc.,
- Most of the formal personal remittance comes through this channel.
- Since largest number of remittances are from workers who working at Myanmar - Thailand border area, 3 AD banks have agreements with Thailand banks for faster sending money into Myanmar
- CBM has the authority to regulate international payments and transfers of foreign exchange. Residents may request unilateral transfers within the limit of US\$10,000 per year, as gifts or maintenance payments.
- To reduce informal cross-border remittances, CBM is trying to extend strong regulatory framework for Banks/ Agents/ MNO with the assistance of US Treasury and IMF, awaiting FEML amendment for addressing some Legal issues.



Develop the Payment Infrastructure Supporting





Some Challenges

- Money market and capital market need to develop.
- Limited indirect monetary policy instruments.
- Getting reliable and timely monetary, financial and macro-economic data.
- Requirement of FX reserve buffer for facility of FX outflow and resilience of shocks.
- Capacity constraint.
- Strong Legal Framework needs to implement.

Thank you for Kind Attention!

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