

Myanmar liberating its financial sector?

Myanmar has taken several steps over the past year to open up its economy. In one of the most dramatic and radical economic reforms to date, Myanmar has introduced a series of measures aimed at developing its inadequate financial system. The first significant step was a managed currency float which occurred on 2 April 2012.

New foreign exchange regime

Prior to 2 April 2012, Myanmar had two main exchange rates—a fixed rate of about six Myanmar kyat per dollar, and an unofficial domestic trading rate of around 800 kyat per dollar. The Central Bank of Myanmar set a reference rate of 818 kyat to the US dollar, bringing the official currency rate in line with its unofficial domestic trading rate.

Under the new system, selected private banks in Myanmar give bids to the Central Bank each morning, and the Central Bank then calculates an equilibrium price to set a daily reference rate. Financial institutions are permitted to buy and sell the currency within a narrow band which, it is hoped, will simplify business in the country and reduce foreign exchange risk. The Central Bank has stated that the float would allow market forces to determine the value of the kyat while leaving room for it to influence the unit's value.

It is no coincidence that since February 2012, when the US began sending signals of a likely relaxation of its sanctions on Myanmar, the IMF has been increasing the level of technical assistance it provides to the government of Myanmar. The IMF

has recently confirmed that it has been actively advising on changes in laws regarding the country's monetary and foreign exchange transactions and, in particular, in the currency float.

In order to facilitate the reforms, the currency float of the kyat was systematically preceded by other complementary measures to facilitate foreign currency exchange in Myanmar.

On 25 November 2011 the Central Bank issued authorised dealer licences to eleven domestic private banks to permit them to engage in foreign exchange dealings in Myanmar, namely:

- Kanbawza Bank;
- Cooperative Bank;
- Myanmar Industrial Development Bank;
- Myawdy Bank;
- Inwa Bank;
- Myanmar Oriental Bank;
- Asian Green Development Bank;
- Ayeyawady Bank;
- Myanmar Pioneer Bank;
- United Amara Bank; and
- Tun Foundation Bank.

Previously, only two state banks (the Myanmar Foreign Trade Bank and the Myanmar Investment and Commercial Bank) were permitted to do so. These eleven private banks can now trade three foreign currencies - the US

dollar, the Euro and the Singapore dollar.

Towards the end of 2011, the Central Bank allowed six private banks to operate money exchange counters in Yangon. These money exchange counters were installed at banks, shopping centres, airports, hotels and key tourist spots for the convenience of local citizens living in Myanmar and tourists visiting the country. In total, this service can now be provided by nineteen private banks and three state-owned banks.

What's next?

The Myanmar government is considering, among other things, letting foreign banks move in to the country's largely closed economy through joint ventures with local banks or opening fully-fledged branches. Currently, sixteen foreign banks have representative offices in Myanmar, but their activities are limited. There is speculation that foreign banks will be allowed to operate fully in Myanmar within the next two to three years, which given the current rate of liberalisation in Myanmar, seems to be eminently achievable.

If you have any questions in relation to any of the issues raised in this briefing please contact the authors below.

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