



MONETARY POLICY OPERATIONS IN MYANMAR

Central Bank of Myanmar

3-5, November 2014, Bangkok , Thailand

Outlines



- ❖ Objectives of Monetary Policy
- ❖ Monetary Policy Framework and Implementation
- ❖ Challenges and Future Plan

Autonomous Central Bank of Myanmar

- Myanmar is going through a period of rapid change.
- Since July 2013, the CBM has been an autonomous central bank.
- The CBM has been actively engaged as an independent central bank, advising and support legislative changes related to Myanmar's financial system.

Three pillars of the CBM



The CBM promotes:

- price stability through the proper conduct of monetary policy;
- financial stability through prudent banking supervision and regulation; and
- an efficient payments and settlements system.

Objectives of CBM

- ❖ Under the 2013 Central Bank Act, the aim of the CBM is to:
 - “preserve and maintain the domestic price stability.”
(§5, Central Bank of Myanmar Act, 2013)
- ❖ In accordance with this aim , its primary objective is to:
 - “promote monetary stability”. *(§6(a), Central Bank of Myanmar Act, 2013)*

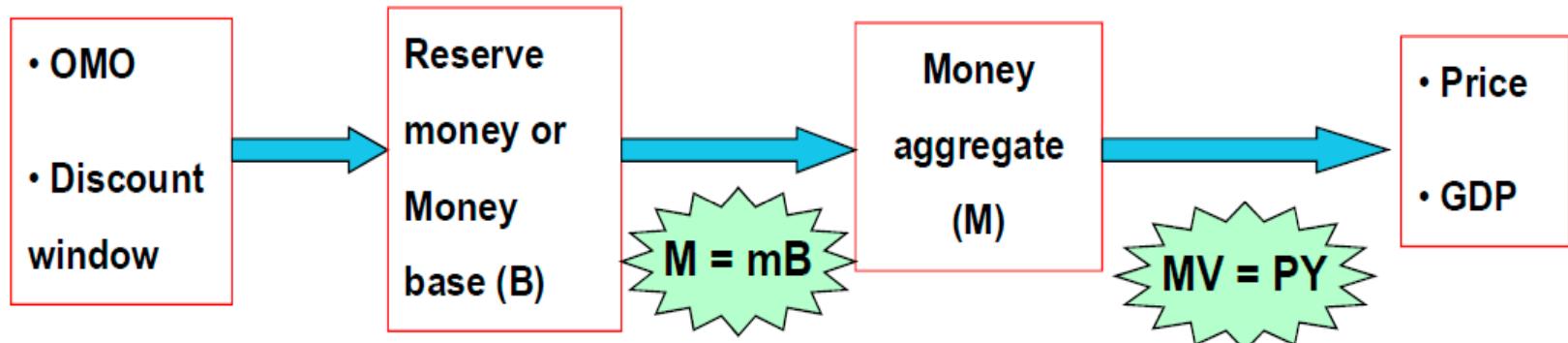
Monetary Policy regime

- ❖ Central Bank of Myanmar has adopted “Monetary Targeting Monetary Policy Framework” since 2012.
- ❖ Key reasons for adoption of “Monetary Targeting”
 - Central bank has ultimate control of the target
 - Consistent with the heavily cash- based nature of the economy, and its close link with inflation and output.
 - At present no financial market instruments available.

Monetary Policy Implementation

- ❖ Under monetary targeting regime, the central bank sets money supply target as intermediate target and reserve money as operating target in order to ensure macroeconomic consistency as well as to reach the ultimate objective of price stability.

Instruments → Operating targets → Intermediate targets → Ultimate objectives



Monetary Policy Implementation

- ❖ Central Bank makes decision how much liquidity need to inject or absorb by using liquidity forecasting framework
- ❖ Liquidity forecasting involves forecasting factors that affect bank reserves
 - forecast demand for bank reserves (CAB)
 - forecast exogenous factors affecting reserve balances
 - currency in circulation/ net Foreign asset/Government Debt/ Central bank credit to the Financial institutions

Monetary Policy Instruments

- ❖ Interest Rate
 - Discount rate- 10%
- ❖ Reserve Requirements
 - 10% of total deposit
- ❖ Open Market Operations (OMOs)
 - Discount window facilities
 - Sale of Government securities
 - Deposit / Credit Auction
 - Fx Auction/ Interbank Fx market

Exchange Rate Policy under the Monetary Targeting Monetary Policy Framework

- ❖ CBM has introduced Managed Floating Exchange Rate Regime since April 2012.
- ❖ The reference exchange rate with US Dollar is determined based on the Auction mechanism which reflect the market demand and supply. No particular exchange level is targeted, exchange rate is market determined and intervention is to avoid redundant volatility.
- ❖ CBM has conducted daily FX Auction on every business day since April 2012.
- ❖ Interbank Fx market has been conducted on every business day since August , 2013.
- ❖ CBM has allowed the AD Banks to be settled Fx sold/purchased at Fx Auction to their nostro A/C since May , 2014.

Challenges

- ❖ Money market and capital market are initial stage
- ❖ Lack of market determined interest rate
- ❖ Limited indirect monetary policy instruments
- ❖ Weak monetary policy transmission mechanism.
- ❖ Getting reliable and timely monetary, financial and macro-economic data.
- ❖ Undeveloped payment and settlement systems
- ❖ Foreign Banks entry to Myanmar Banking System

Current Situation

Key tasks-

- Improve liquidity forecasting framework;
- Infrastructure:
 - ▣ RTGS payment system;
 - ▣ DvP settlement system;
- Developing market mechanisms:
 - ▣ for Government securities, OMO's; and
 - ▣ fostering the interbank market.

Developments

In Near Future:

- Implementation of new Monetary Policy Reserve Ratio Requirement;
- Treasury Bill Auctions – January 2015;

In long-term (>5 years),

- subject to financial market development, monetary policy framework may evolve towards Inflation Targeting.

Thank you