

Business

Exchange Rates (June 11 close)

Currency	Buying	Selling
Euro	K1240	K1260
Malaysia Ringitt	K296	K310
Singapore Dollar	K811	K825
Thai Baht	K32.8	K36
US Dollar	K1112	K1114

Insiders to meet to discuss action on the kyat



JEREMY MULLINS

jeremymullins7@gmail.com



AYE THIDAR KYAW

ayethidarkyaw@gmail.com

THE Central Bank of Myanmar has called a meeting for today with public and private sector experts to discuss taming exchange rate volatility, according to several sources.

The kyat has steadily declined this year against the dollar, though the drop had been especially swift this month. It traded around K1137 on informal markets on June 1, but had reached near K1267 per dollar on June 10 around 1:30pm, before strengthening back to K1237 to close the day. Yesterday, the kyat continued to strengthen - as of deadline, it had appreciated past K1200.

The Central Bank is working to intervene in the market to prevent volatile swings.

"The discussion regarding the intervention has been going on," said one Central Bank of Myanmar official. "It is being implemented and the momentum will pick up next week."

The Central Bank has called a meeting scheduled for today of ministries, economists and bankers to discuss the situation at its Nay Pyi Taw head office. A number of proposals are to be considered to stem the rapid swings in the local currency.

There have already been separate discussions in the capital. Speaker Thura U Shwe Mann, related parliamentary committees and government officials met on June 10 to discuss the currency swings.

U Win Myint, secretary of parliament's Banks and Monetary Affairs Development Committee, said the different groups discussed their individual areas of responsibility, such as the Ministry of Commerce discussing car imports and the Ministry of Finance discussing budget spending.

"These discussions will not have an immediate effect, though we saw the exchange rate drop from K1280 to K1230 within the day [of June 10]. The government is focusing on this issue, and that threatens speculators," he said.

U Win Myint also said the Central Bank should be more transparent when taking action. "The Central Bank's activities seem very confidential sometimes," he said.

The meeting scheduled for today is expected to generate action to tackle volatility in the kyat.

Yangon Foreign Exchange Market Committee chair U Mya Than said on June 12 the Central Bank will discuss the industry and provide direction for its players.

"Not only will the Central Bank be giving instructions to us, but they will also be listening to our proposals and setting policies that are based on reality," he said.

The Central Bank also met with bankers and money changers last month to encourage them to follow exchange-rate rules and adhere to the daily reference rate. The Central Bank sets a reference rate each day, and it

is illegal to exchange currencies outside of plus or minus 0.8pc of this rate. However, the rate has not kept up with the market rate, meaning there has been a large difference between the official and market rates at some points this year.

While the kyat may have been overvalued somewhat, its swift depreciation in June is tough to explain.

The Central Bank has also moved to strengthen use of the kyat in response to fears the dollar is taking too great a hold on the economy. At the end of May, it issued a notice that domestic business and government are encouraged to use the local currency. It also formed a rule that no more than US\$5000 can be withdrawn from a bank account, twice a week, and announced new K10,000 notes.

A different Central Bank official said the kyat has depreciated on the international strength of the US dollar, obvious trade and budget deficit problems, and a lack of alternate investment opportunities leading to speculation.

"Our instructions at the end of May were intended to reduce dollarisation. They've been planned for six months, but people just blamed us for having ineffective policies," he said.

The official also claimed these instructions targeting dollarisation did not directly lead to immediate depreciation.

He added that the Central Bank's role is to stabilise the market. It has limited control over exchange rates as it does not print US dollars. The bank is looking at ways to intervene in the market to lessen the gap between the official and unofficial exchange rates and to provide banks with dollars to meet demand, though the initiatives cannot immediately go ahead.

"We will have to intervene if there is too much fluctuation in rates or if it is causing inflation," he said.

The rapid changes in exchange rates have caused trouble for exchange counters. If they follow the Central Bank of Myanmar's official reference rate, as they are legally supposed to, they have often been selling dollars far below their market value. Those that followed the legal route often severely limited the amount of dollars they would sell, often turning away currency buyers.

The alternative has been to sell at the market rate - and try to hide out from authorities.

U Mya Than, who is also the chair of Myanmar Oriental Bank, said exporters and importers have been finding ways to clear their accounts informally, as banks have been unable to offer attractive rates. This has weakened the formal exchange market.

"There are many importers as our long-term customers, but we have had difficulty supplying them with currency," he said.



Customers sip beverages at a Pizza Hut in China. Photo: EPA

Yum! Brands and Jardines bring Pizza Hut to Myanmar



CLARE HAMMOND

clarehammo@gmail.com

FAST-FOOD lovers can rejoice again, as Yum! Brands Inc leads the charge against Myanmar's long-standing resistance to American food and beverage franchises.

Last year the US listed company announced plans to open a Kentucky Fried Chicken (KFC) in Myanmar. Now it has set its sights on introducing American restaurant chain Pizza Hut to Yangon's Golden Valley.

Yum! will partner with Jardine Restaurant Group, a subsidiary of Hong Kong headquartered conglomerate Jardine Matheson, and local retail company City Mart Holding to open its first Pizza Hut outlet in Myanmar.

The restaurant will be located in a standalone building beside City Mart's Marketplace supermarket on Dhammazedi Road. The site is currently being renovated, and

is scheduled to open in November this year.

Jardine Pacific operates over 600 Yum! franchises in Hong Kong, Taiwan, Vietnam and southern China. Elsewhere, it also represents KFC, but failed to secure the franchise in Myanmar. KFC instead partnered with Serge Pun-chaired Yoma Strategic Holdings.

"Yum! used to operate as a single franchise through a single office, which has recently been split into KFC and Pizza Hut. They want to distinguish one from the other, which means that proposals to represent both are no longer optimal," said a person with knowledge of the matter.

The news of Pizza Hut's imminent arrival will come as a blow to those who revel in Myanmar's freedom from global F&B franchises. Giants such as McDonalds and Starbucks have not yet entered the country: The only international food and beverage franchises in operation are South Korea's Lotteria and Malaysia's Marrybrown, both of which entered the market in 2013.

Yum! Brands also owns the Taco Bell franchise, but has not yet announced plans to establish it in Myanmar. Yum! is headquartered in Kentucky and has more than 41,000 restaurants in more than 125 countries and territories. It was formed as a spin-off of PepsiCo in 1997 and now has revenues of more than US\$13 billion.

Jardine Matheson was founded as a trading company in China in 1832. It has had a presence in Myanmar for several years. In 2013, elevator and escalator focused joint venture Jardine Schindler opened an office in Yangon. In the same year, Jardine Cycle & Carriage became Daimler's Myanmar distributor for Mercedes-Benz and Mitsubishi Fuso vehicles.

Jardine Engineering Corporation also has a presence in Myanmar, and insurance broking arm Jardine Lloyd Thompson has a licence to open a representative office for insurance and reinsurance services, according to a company spokesperson. Hongkong Land, the group's real estate division, is also reportedly looking for opportunities.

MoE to strengthen Thailand ties

AUNG SHIN

koshumgtha@gmail.com

THE Ministry of Energy will sign a memorandum of understanding with its Thai counterpart to strengthen energy cooperation, officials said at a Nay Pyi Taw press conference yesterday.

The agreement will be signed on June 15 in Nay Pyi Taw, aiming to further cooperation on exchange of information, technology and knowledge of oil and gas exploration and production," said a Ministry of Energy official. The two sides will also have a meeting of their joint working committee on energy cooperation the day of the memorandum signing.

"It will help develop Myanmar's energy sector, provide updated technology, more employment opportunities and domestic energy security," an official said.

This is the Ministry of Energy's first general memorandum of understanding with Thailand, though officials say the two countries have already been cooperating in energy.

Thai state-owned enterprise PTT has had a Myanmar presence for more than 25 years, with rights as the operator in seven on- and offshore oil and gas blocks. It is also the operator of Zawtika, one of the country's four offshore gas production platforms.

The official said there will also

be a scholarship program for students whose parents serve with government ministries.

"A total of 20 students will be dispatched to Thailand in July," he said.

Since 2003, the ministry has dispatched 32 staff members on various overseas scholarship programs, studying areas such as geology and engineering, while another 70 staff members have travelled abroad to improve vocational skills.

The Ministry of Energy previously signed memorandums of understanding on general cooperation in the energy sector with Vietnam in 2012 and with China in 2014.

Business

ANALYSIS

President's Office steps in with forex role

CLARE HAMMOND
clarehammo@gmail.com
AYE THIDAR KYAW
ayethidarkyaw@gmail.com
JEREMY MULLINS
jeremymullins7@gmail.com

OVER the past few months, many believe the Central Bank of Myanmar's commitment to allow a floating exchange rate based on the market price has faltered. Concerns about the currency have resulted in extensive meetings and direct intervention from the President's Office.

Bankers, economists and traders are growing increasingly concerned that the Central Bank's policy is moving away from the managed floating exchange rate, which was established in 2012 with the help of the International Monetary Fund (IMF). It ended 35 years of a dual rate system, in which the official rate of around K6 to the US dollar was more than a hundred times stronger than the black market rate.

Many are also concerned that the Central Bank does not have sufficient US dollar reserves to support the kyat - the IMF Article IV Consultation report published last October said they were low, then covering less than three months of prospective imports. Central Bank officials have more recently said there are enough reserves for essential imports.

Furthermore, the black market for currency trading, which was on the way to being eliminated, is showing signs of reemergence. Depositors are withdrawing US dollars and money changers have all but stopped buying the local currency inside the Central Bank's official band.

The government has stepped in and the response to the currency crisis is now being managed in coordination with the President's Office, a senior Central Bank official confirmed.

"In many countries, if there is a situation where the economic stability is threatened or where significant amounts of foreign exchange reserves need to be utilised to control the situation, Central Banks cooperate with the relevant ministries," he said.

"In the case of Myanmar it is not abnormal that the Central Bank cooperates with the President's Office and other relevant ministries. In other countries, Central Banks need formal approval of either the finance minister or prime minister by law. However, in Myanmar, decisions [are made in] cooperation."

Last year, when the US dollar began to strengthen versus international currencies, the Central Bank of Myanmar's reference rate, which is supposed to reflect the market rate, began to diverge from the price offered by local banks and foreign exchange traders.

Over the past few weeks the gap has widened significantly - on June 10 the unofficial rate reached a high of K1280 to the US dollar, compared to the official rate of K1105, which has remained fixed since June 5, despite major volatility in the unofficial market. The market rate is now around K1200, according to industry website naungmoon.com.

Concerns are growing that the Central Bank has not taken an active enough response to the situation. "The big mistake they've made is to do nothing, which is actually one of the riskiest things you can do. They have confused inaction with conservatism," said a local banker.

Others ascribe the diverging exchange rates to speculation by the banks. The Central Bank holds daily foreign exchange auctions, which theoretically allow it to set the reference rate according to demand, but the amount auctioned each day is far too small to provide a fair representation, said bankers.

"The auctions are a joke - it changes each day, but is around \$200,000 per day compared to \$150 million dollars of demand. They are basically not giving out any currency at all. I'm not sure how much money the Central Bank even has to give," said one banker. Local banks have reportedly been playing the auction system, by bidding at the official rate of K1105, and selling the dollars on the unofficial market to make a profit.

To address the issue, meetings have been held in Nay Pyi Taw and Yangon during the past few weeks, attended by parliamentary committees, ministers and representatives from the Central Bank. If Myanmar is committed to defending the kyat, it would need significant US dollar reserves to buy up local currency from the market.

Bankers say that greater use could be made of the reserves held by the Ministry of Energy and other ministries that generate revenues from exports.

"The Central Bank is currently selling only around \$10,000 to each domestic bank through its daily auctions,

'[It would be] so much better to simply let the kyat find its own level in the market.'

Sean Turnell
Economist



The exchange rate has been under the microscope. Photo: Staff

which is not nearly enough," said U Mya Than, chair of the Yangon Foreign Exchange Market Committee and chairman of Myanmar Oriental Bank (MOB), adding that some banks are in short supply.

"Meanwhile, state banks such as Myanma Foreign Trade Bank and Myanma Investment and Commercial Bank, and some commercial banks are likely to have enough US dollars to sell to the public," he said, adding that the Central Bank has the authority to buy currency from these banks.

A senior Central Bank official confirmed previously that this is already happening. "We do have enough forex for the import of essential items. The Ministry of Finance and state-owned banks have reinforced the Central Bank. They have so far transferred hundreds of millions of dollars into the Central Bank and there is more to come," he said last week.

Furthermore, he said that measures will be taken to support the kyat, such as speeding up approvals for the \$1.8 billion backlog of offshore loans and encouraging foreign banks to lend more through the interbank market. The Central Bank also called a meeting in Nay Pyi Taw yesterday to discuss a plan for banks to offer US dollars to importers on the basis of need.

U Mya Than said that while he was not opposed to efforts to make dollars available immediately, the measures put forward so far are only short-term solutions. Instead of simply selling US dollars to the market, the Central Bank could be setting policies to encourage the inter-bank foreign exchange market to become more active, he said.

"It's important to do this immediately, to reduce the burden on the Central Bank," he said, adding that in meetings over the past week, bankers have suggested the Central Bank sets an official rate that is much closer to the market rate, to encourage an active market.

Sean Turnell, an expert on Myanmar's economy at Australia's Macquarie University agrees. "[It would be] so much better to simply let the kyat find its own level in the market, which more than likely will be at a rate that enhances the country's competitiveness. There is no reason there should be any sort of currency crisis in Myanmar," he said.



IN PICTURES

Yangon Heritage Trust installed its sixth blue plague on the current Myanmar Agricultural Development Bank yesterday, which was built in 1930.

Photo:
Naing Win Tun



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Moe Mynn Thu (LL.B; LL.M; M.Res)
Rouse Myanmar
For DEVGEN N.V.
Email: myanmar@rouse.com
Dated: 18th June, 2015

Business

Myanmar risks 'perfect storm' from overheating economy, IMF warns

GUY DINMORE
guydinmore@gmail.com

MYANMAR'S economy is overheating and risks hitting a "perfect storm" of a currency crisis particularly if the United States raises interest rates in the short term, the International Monetary Fund has warned. The bleak assessment, delivered in private briefings this week to senior government and Central Bank of Myanmar (CBM) officials, stands in stark contrast to IMF findings released last October at the conclusion of the annual Article IV consultation process when Myanmar's economic outlook was described as "favourable".

But in the nine months since then, the trade deficit, current account deficit and inflation have risen more than forecast, while bank lending has soared and confidence in the kyat has weakened along with commodity prices.

The private IMF analysis follows sharp gyrations in the value of the kyat over the past month, exacerbated by interventions to defend it by the CBM which has limited foreign exchange reserves at its disposal.

Sources close to the IMF said its report reflected concerns that the CBM has moved away from the managed floating rate system for the kyat which was introduced with IMF support three years ago and that, more broadly, Myanmar's economic reforms were being blown off course.

"The Myanmar economy is overheating," the IMF staff mission said in its closed-door briefing titled "How to stabilise the foreign exchange market".

The presentation, seen by *The*

Myanmar Times, says, "Overheating has led to a rising trade deficit and pressure on the kyat. Imports are growing too fast and capital inflows are not enough to meet demand for dollars."

Under the heading "Risks to the economy if actions are not taken", the IMF warns, "A perfect storm could hit Myanmar."

"If the US raises its interest rates soon, the US dollar will become stronger and the kyat will be under even greater pressure. This could be exacerbated by declines in world commodity prices. Without a flexible CBM reference rate, which likely means CBM keeps losing reserves, this could lead to a crisis," the analysis says.

A source close to the IMF said the "perfect storm" scenario also reflected concerns over the vulnerability of banks to a sudden cooling in the overheated property sector.

The briefing is particularly critical of recent measures taken by the Central Bank and the government to defend the kyat, which hit a low on the informal market of nearly K1300 to the dollar in early June, down over 25 percent since the start of the year.

"Myanmar simply does not have enough foreign reserves to resist kyat depreciation," the IMF warns, urging the Central Bank to allow a "steady" fall in its value to help make exports more competitive and reduce imports.

Commenting on the IMF's findings, Sean Turnell, economist at Australia's Macquarie University, said at the root of the problem was a state that commands too much of Myanmar's economic resources.

"This IMF [report] caps off a series of events revealing that,



Stacks of kyat sit ready for customers. Photo: AFP

behind the veneer of liberal economic reforms lie the old ways, the old mindset, the old irrationality, the old regime," he said.

"As with the response to the falling kyat, the reflex is toward command and control, denial, the avoidance of the policies and choices necessary to really get Myanmar

on track to transformational and sustainable growth. The IMF report reveals not an economy about to get into its stride, but an unsustainable and speculative bubble," he added.

The Central Bank yesterday allowed the kyat to drop by nearly 1pc against the dollar, moving its daily reference rate to K1120 from K1110. The local currency immediately slipped on the black market where licenced money changers, who are supposed to trade within 0.8pc of the reference rate, were selling the dollar at about K1185.

The IMF said it was "essential" that the government tighten monetary and fiscal policies, noting that inflation had increased to 8pc in May from about 6pc a year earlier and that inflationary expectations had been driven by a rise in the government budget deficit to an underlying estimated rate of 5.5pc of gross domestic product.

Public sector salary increases, widely seen as linked to the forthcoming general elections and funded by printing money, are seen as contributing to the rise in inflation.

The deficit could be reduced, the IMF said, by reducing tax incentives and improving tax collection. In its public statement released on July 1, the IMF mission also called for "expenditure re-prioritisation" which was seen by some analysts as meaning less spending on the military and more on other sectors like health and education.

The IMF privately warned that the government's decision last month to provide a preferential supply of dollars to some importers, such as fuel and food oils, "could deplete CBM foreign reserves very quickly".

Controls on dollar withdrawals from banks were said to have

"raised perception of dollar shortage and insufficient dollar reserves".

The IMF's private briefing, as well as its public statement released at the end of a two-week Article IV consultation mission, expressed concern over a 36pc increase in bank lending to the private sector over the 2014-15 fiscal year.

The IMF urged the CBM to "implement and enforce new reserve requirements on banks faster" and to prevent dollar hoarding by banks.

U Soe Thein, a banker and former deputy director general of Ministry of Finance, said the decline of the kyat reflected fundamental weaknesses in the economy, driven by the trade deficit and lower-than-expected inflows of foreign investment.

He criticised moves by the CBM to keep the kyat artificially low, noting that people would simply resort to the "parallel" market.

Lax monetary and fiscal policy had driven double-digit inflation for years, forcing people to invest in safer areas, such as property, to protect their savings, he said.

IMF and Central Bank officials declined to respond to questions about the IMF's warnings.

Analysts and sources close to the IMF, who declined to be named, said the IMF's analysis would fuel the policy struggle between reformists and conservatives within the government and CBM.

U Kyaw Kyaw Maung, the Central Bank governor appointed by President U Thein Sein two years ago, is widely seen as an arch-conservative. He previously ran the bank under the former military junta from 2000 until his retirement in 2007.

— Additional reporting by Aye Thidar Kyaw

Daewoo's Kyaukpyu compensation for damaged land nearly complete

SU PHYU WIN
suphyo1990@gmail.com

DAEWOO International has nearly finished compensating farmers close to Kyaukpyu for damaged land, according to a company spokesperson.

South Korean firm Daewoo is operator of the offshore Shwe Gas platform as well as nearby onshore facilities at Kyaukpyu in Rakhine State. The farmers receiving compensation are near Daewoo's onshore gas terminal.

The farmers say they were affected beginning in the 2011-12 fiscal year, as large amounts of clay soil ended up in the farmland due to the project. The farmers subsequently have received compensation, though some of them say it is not enough to cover both the loss of production and the costs of rejuvenating the land.

Company officials counter that they have paid adequate compensation. "Last year we paid compensation for 52.52 acres of 60 farmers, but now they want to add more acres for compensation," said U Arkar Aung, corporate social responsibility head

for Daewoo International in Myanmar. "We are now measuring the land [that was damaged] exactly with officials present."

U Arkar Aung said that on June 26 that after three days of measuring, the company found that it was paying out more compensation than there was land that was damaged.

U Tun Lwin, coordinator of the Kyaukpyu Social Network, a local civil society organisation, said more than 200 acres had been affected near the terminal. Some land had also been confiscated and other land damaged as the terminal was built near Mala and Lakekamaw villages close to the shore.

"Because of the terminal, lands have been destroyed and there is no more topsoil. It will take years to refill the topsoil," he said. U Tun Lwin added there had been protests to receive compensation.

Kyaukpyu Rural Development Association president U Maung Aye said 20 farmers out of a total of 61 had received compensation, at K1.5 million (US\$1300) per acre. The holdouts had called for K2 million per acre, to

which U Maung Aye said the farmers had agreed.

"Some farmers have not been on their land since 2011, but when they went to the village head for compensation, they were ignored," said U Maung Aye. "This time they've tried to return, but company officials think they are trying to cheat them for three years."

U Arkar Aung from Daewoo said the company has already paid compensation for 20 farmers. The remainder will receive K2.8 million per acre, with K2 million for lost production and K800,000 to rejuvenate the land.

"But farmers need to fix the land. It is not good to accept compensation every year from the company and not cultivate and prepare the land for farming," he said.

U Arkar Aung said this compensation round will be the last time Daewoo gives out money, and it will try to be equal with all the farmers.

He added that farmers had initially called for K4.5 million in compensation, but later compromised with the firm that compensation would be K2.8 million.

Business

Exchange Rates (July 9 close)		
Currency	Buying	Selling
Euro	K1236	K1256
Malaysia Ringitt	K296	K310
Singapore Dollar	K825	K839
Thai Baht	K33	K38
US Dollar	K1131	K1134

Central Bank's autonomy questioned with recent currency actions



AYE THIDAR KYAW

ayethidarkyaw@gmail.com

THE Central Bank of Myanmar's intervention in the exchange rate bears the stamp of senior government officials, raising questions about its independence, according to experts.

The Central Bank was separated from the Ministry of Finance and declared an autonomous body in mid-2013, in theory allowing it to independently dictate monetary policy, such as determining how much currency to print and rules around currency use.

Yet government officials have stepped in. The President's Office has been coordinating the policy toward kyat-dollar exchange, which has been heavily criticised by businesspeople, economists and even some government officials.

The recent events have certainly demonstrated the limits of Central Bank independence in Myanmar, and also expose the Central Bank's lack of policy-making and regulatory capacity, said Sean Turnell, an economist at Australia's Macquarie University.

"It has some truly exceptional people, especially at the vice governor level," he said.

"But it lacks leadership at the top, as well as knowledge of modern financial markets and banking at the level of implementation."

It seems, unfortunately, that senior figures in the government remain beholden to old ideas about the currency and of the economy broadly, he said.

It is not only the Central Bank that faces problems building capacity.

U Tin Maung Than, director and senior research fellow at the Myanmar Development Resources Institute, said there is a shortage of experts in economics, including at the Central Bank. He added the bank's decision-making seems to be guided variously by the government side, or institutions like the International Monetary Fund and the World Bank.

Politics has heavily influenced the



Pedestrians walk past the Central Bank of Myanmar building in Yangon yesterday. Photo: Naing Wynn Htoon

government bureaucracy for years, where there has been a lack of following proper rules and regulations. Tycoons and businesspeople are often able to influence senior officials to steer certain policy decisions, he said.

"The Central Bank needs to resist the pressures of politics and media if it is going to be independent," said U Tin Maung Than.

Mr Turnell said that some officials in the government seem to have notions of the exchange rate as a sort of simplistic barometer of national economic success that means they think a high kyat is good but low is bad.

An orderly reduction in the value of the kyat in keeping with market supply and demand would be a good thing for Myanmar. It would make its exports more competitive, increase the income of farmers and other commodity producers, and

compensate for Myanmar's relatively high inflation rates and costly infrastructure.

"On top of this are apparent hankerings for direct controls, orders, restrictions - all of the things that have been rolled out in recent weeks and days to tighten access to foreign exchange," he said.

Many people also do not have access to official rates. They have had to live with informal markets, which, to all intents and purposes, are markets in which the kyat "floats" according to supply and demand, he said.

"Maybe it's time to unify the rates by simply allowing the formal exchange rate to be fully market determined too," he said.

The Central Bank could still intervene from time to time if matters become disorderly. It could even buy foreign currency to keep the

kyat down if it rises too high and damages competitiveness.

Moving to a market-based rate would remove the obligation to expend capacity in deciding and defending a set rate, and in establishing a rate that

'The Central Bank needs to resist the pressures of politics and media if it is going to be independent.'

U Tin Maung Than MDRI

is too often the target of speculators.

A team from the International Monetary Fund led by Yongzheng Yang visited Myanmar earlier this month. At a press conference held at the end of the mission, he said that the prime function of the Central Bank is to set monetary policy and the exchange rate, and added the Central Bank needs to more closely coordinate with the Ministry of Finance to be more effective.

U Soe Thein, former deputy director general of the Ministry of Finance, said the Central Bank struggles to be independent, and should take steps in that direction during the weak economic situation.

"The Central Bank has a low degree of autonomy at present," he said. "Hopefully it gradually retreats from some functions that are not related to its monetary instruments."

MPPE announces JV tender for petroleum business

AUNG SHIN koshumgtha@gmail.com

MYANMA Petroleum Products Enterprise (MPPE) has invited private companies to form a joint venture for a project in the petroleum industry, through a tender published in a state-run newspaper.

The state-owned enterprise has been preparing the tender documents for the past few months, with a view to re-entering the petroleum distribution market in partnership with a foreign firm. MPPE announced last year that it would issue a tender, and has already allowed foreign companies to study state-owned petroleum storage facilities.

The joint venture project will include the importation, storage, distribution and sale of all petroleum

products except liquefied petroleum gas (LPG) and liquefied natural gas (LNG). Additionally, the tender states that the joint venture company under MPPE will rehabilitate existing facilities and expand the business.

The joint venture company will be formed according to the Foreign Investment Law and Special Companies

260

The number of petrol stations MPPE had before privatisation in 2010. It now has 12

Act of 1950. The contract will be valid for 30 years, with the option to extend the agreement twice, by 20 years each time.

"This invitation to tender has been issued directly to private companies. There was no invitation for expressions of interest because we have already allowed interested companies to see our facilities," said an MPPE official. These companies include JX Nippon and Sumitomo from Japan, Singapore's Puma Energy, and PTT from Thailand.

Interested parties should buy the tender documentation, which costs US\$10,000 and is non-refundable. In addition, companies should pay a bid bond of \$4 million to MPPE.

Eligible companies must have at least 10 consecutive years of experience in petroleum trading, storage

and distribution and at least three years' trade volume of 2.7 million cubic metres of petroleum products per year or more, said yesterday's announcement.

MPPE is one of the largest downstream players in the country. Parts of it have been privatised and in 2010 all but 12 of its 260 petrol stations were sold. Since then, its monopoly on fuel imports has also been broken - around 70 private companies have now been licenced to import and distribute petroleum products.

Currently, MPPE handles the government's supply of petroleum products and sells the surplus products to private companies.

"We want to extend our facilities and capabilities to an international standard, and exercise quality control over the domestic market in a

competitive market through this joint venture project," said the MPPE official.

The private petroleum distribution market is overseen by the Myanmar Petroleum Trade Association (MPTA) which is chaired by prominent businessperson U Tay Za.

Following a separate invitation from MPPE for foreign involvement in a joint venture jet fuel business at Yangon International Airport, Singapore-based Puma Energy has been selected to become the first overseas company to run a private jet-fuelling business in Myanmar.

MPPE owns four main fuel terminals, 24 sub-fuel terminals and 12 petrol stations. Around 70 private companies run the country's 1163 petrol stations, but few have storage facilities or an import licence.

Chinese assertiveness in the South China Sea complicates business

BUSINESS 11

Greece, creditors negotiate another bailout in marathon talks

BUSINESS 12

Exchange Rates (July 13 close)		
Currency	Buying	Selling
Euro	K1331	K1347
Malaysia Ringitt	K307	K308
Singapore Dollar	K879	K895
Thai Baht	K33	K35
US Dollar	K1200	K1210

Central Bank's kyat rate jumps

CLARE HAMMOND

clarehammo@gmail.com

AYE THIDAR KYAW

ayethidarkyaw@gmail.com

JEREMY MULLINS

jeremymullins7@gmail.com

THE official Central Bank of Myanmar currency reference rate jumped to meet the market rate yesterday for the first time in months, appeasing fears that a dual rate system could destabilise the economy.

The Central Bank reference rate moved to K1200, from July 12's rate of K1125. On the same day, the unofficial market rate was between K1210 and K1215 at foreign exchange (FX) vendors across Yangon.

"The Central Bank of Myanmar amended the reference rate to be in line with the market price on July 13, in order not to have multiple exchange rates for foreign currency," said a Central Bank statement seen by *The Myanmar Times*.

Between April 2012, when Myanmar adopted a managed floating exchange rate and October 2014, the gap between the reference rate and the market rate was just 0.1 percent, according to the Central Bank note, issued yesterday. "But due to strength in the US dollar and other factors within Myanmar, the average gap between the reference rate and the market rate from January to June 2015 was 3.1pc," it said.

At certain points, the difference had grown even larger. On July 11, for instance, the midday exchange rate was around K1267, though the official rate was K1105 – a difference of 15pc. Since it is illegal to trade outside a band of plus or minus 0.8pc of the official rate, many businesses were stuck with attempting to obtain FX from the parallel market, as banks were reluctant to openly contravene the law.

The Central Bank rate is officially set each day following an auction of US dollars to domestic banks. The average bidding rate is used as the official reference rate for the market. Bankers say that they were told during yesterday morning's auction that the market rate was K1200 and that their bids should reflect this.

"Now we have decided to let the FX auction discover the market price so that our reference rate will reflect the market prevailing rate," said a senior Central Bank official. "Today, we have allowed the banks to bid at the rate around the market rate and have sold the entirety of the amount bid."

High level meetings were reportedly held yesterday between the Central Bank and domestic banks, with the Central Bank saying it would supply



Converting currency is a headache at the best of times, and had been more difficult as the unofficial and official rates diverged this year. Photo: Kaung Htet

whatever US dollars were needed, according to bankers.

The Central Bank official confirmed that sufficient US dollars would be provided, at least for essential imports. "The amount of foreign currency bid by the banks is required by importers of all products and for other currency transactions. We will keep on selling the foreign currency required by importers of fuel and palm oil importers to the banks," he said.

In late June, the Central Bank began to sell US dollars through domestic banks to businesses importing two essential items – fuel and palm oil – after fears escalated that the supply of foreign currency was drying up. Some believed this created an unequal playing field, as giant fuel and palm oil import businesses were able to access US dollars at the official rate, which was stronger than the informal rate.

"We had to buy our imports at K1200 to the US dollar, but now it seems as if it will be equal again for all of us," said the chair of the Myanmar

Automobile Manufacturers and Distributors Association, U Soe Tun.

The next step for the Central Bank is to start tightening monetary policy in order to suck up some of the kyat liquidity from the market, according to the senior Central Bank official. "Furthermore, we will soon come up with instructions for banks to abide by strict prudential Basel requirements to control credit growth, improve credit quality and enhance financial stability," he said.

Basel requirements are a set of international banking regulations developed by the Bank of International Settlements, which help to promote stability in domestic and international financial markets.

The decision to amend the reference rate in line with the market rate coincided with a celebration of the second anniversary of the Central Bank of Myanmar Law, which was held in Nay Pyi Taw at the weekend, according to sources. They said the decision to amend the reference rate was

made in collaboration between the President's Office and Central Bank officials.

The announcement has been welcomed by businesspeople and bankers alike. U Mya Than, chair of Yangon Foreign Exchange Market Committee, said that an official rate that reflects market demand will help to boost the foreign exchange market, which will no longer have to rely on Central Bank supply.

"Now even exporters and banking customers can become involved again in the official market, and it will help bank-to-bank transactions as well," he said, adding that a unified rate will also help to deepen the foreign exchange interbank market.

"The important thing is to control speculators who take advantage of policy changes," he said, adding that the Central Bank could check daily statements filed by banks and monitor bidding activities during the auctions, to prevent undue speculation. Others say the policy decision will help support the kyat.

"We're likely to see more stability in the kyat and perhaps even a slight strengthening," said Joe Barker-Bennett, consultant at Tun Foundation Bank. "As people realise that business is back to normal, they will stop hoarding US dollars, which will reduce the downward pressure." It remains to be seen whether a unified rate will help to ease the recent inflation of basic commodities prices, he said.

For the past few weeks, pressure has been building for the Central Bank to set a more flexible reference rate that reflects market conditions, he added. The International Monetary Fund (IMF), for example, recommended a more flexible reference rate, in a July 1 statement following its annual Article IV Consultation Mission to Myanmar.

"A more flexible Central Bank reference rate that reflects market conditions and closes the gap between the reference rate and parallel market rates would help contain demand and bring back the supply of foreign exchange to the market," said the statement. "Central Bank FX sales to importers should occur at competitively determined market rates to reduce risks of excessive drains on international reserves."

U Soe Tun said that most importers welcome the change in policy, except for crony businesspeople. "The rates set previously were ridiculous, as importers were unable to buy at the same value as they could sell," he said.

U Ko Ko Lay, executive director of Three Friends Company, which imports construction materials, said that companies have been trading at the unofficial rate. "The price of construction materials went up 20pc because of the exchange rate instability and a shortage in US dollar supply, so we hope the government will try to stabilise the currency," he said.



Those that need forex, such as edible oil importers and distributors, faced concerns of foreign exchange drying up. Photo: Ko Taik

