



Bond Market Development in Myanmar

Workshop on Bond Market Development in Emerging East Asia

Sule Shangri - La

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Contents

- (1) Introduction
- (2) Government Bond Market in Myanmar
 - (i) History and Functions
 - (ii) Implementation of Government Securities Auctions
 - (iii) Government Bonds Holding by Types
 - (iv) Providing Liquidity Support
 - (v) Changing Landscape of issuing Government Bond
- (3) Infrastructure of Bond Market
- (4) International Cooperation
- (5) Issues on Developing Bond Market
- (6) Conclusion

(1) Introduction

- Myanmar's economy shifted from a socialist regime to market oriented system in 1988.
- Central Bank of Myanmar (CBM) Law (1990), Financial Institution of Myanmar Law (1990) were enacted.
- In line with the Central Bank of Myanmar Law and Securities Act, on behalf of the government, the Central Bank of Myanmar, has issued 3-year and 5-year government treasury bonds since 1993
- Aims ---- to finance the budget deficit within the annual borrowing limit of the Government, to give more investment opportunities to the public, to develop capital market in Myanmar, and to introduce an indirect instrument for monetary policy.

(1) Introduction (Cont'd)

Overview of Government Securities

- ❖ There are two types of government securities:
 - ✓ **Treasury Bills (T-Bills)**
 - ✓ Myanmar Kyat denominated Bill issued on a discount from par basis. The Face Value of the Bill is paid on maturity.
 - ✓ **Treasury Bonds (T-Bonds)**
 - ✓ Myanmar Kyat denominated Bonds issued with a fixed coupon rate which is paid semi-annually in arrears. The Face Value of the Bond and final payment of Coupon Interest are paid on maturity.

(2) Government Bond Market in Myanmar

(i) History and Function

- 2-year Treasury Bond has been introduced, effective from January 1, 2010.
- Types of Treasury Bonds
 - ✓ 2-year Treasury Bond
 - ✓ 3-year Treasury Bond
 - ✓ 5-year Treasury Bond
- Treasury Bonds are issued at par and interests are paid semi-annually.
- They are freely tradable and need to be registered at CBM.
- **Interest Rate (starting from January 1, 2011)**
 - 8.75% per annum for 2-year treasury bond
 - 9% per annum for 3-year treasury bond
 - 9.5% per annum for 5-year treasury bond

(2) Government Bond Market in Myanmar (Cont'd)

(i) History and Function

Issuing Status of Government Bonds before Auction

Year	Types of T-Bond	Denomination (MMK)
1993	3-year T-Bond	10,000
	3-year T-Bond	100,000
	5-year T-Bond	10,000
	5-year T-Bond	100,000
1996	3-year T-Bond	1,000,000
1997	5-year T-Bond	1,000,000
2010	3-year T-Bond	10,000,000
	5-year T-Bond	10,000,000
	2-year T-Bond	10,000
	2-year T-Bond	100,000
	2-year T-Bond	1,000,000
	2-year T-Bond	10,000,000

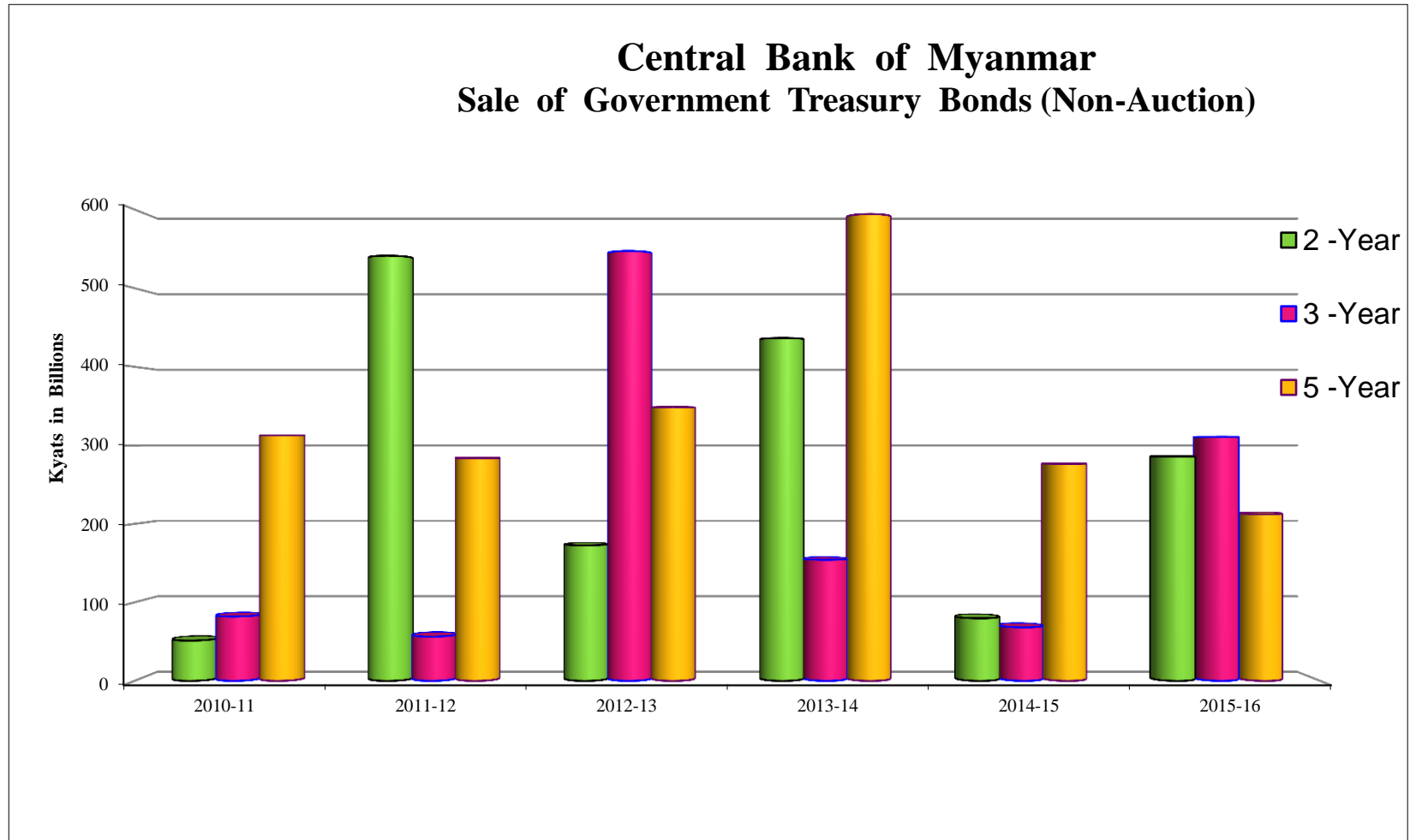
(2) Government Bond Market in Myanmar (Cont'd)

(i) History and Function

- The buyers of Treasury Bonds are state-owned banks, private banks, Securities companies and retail investors.
- The main investors are private banks to meet their reserve requirements (RR) and liquidity position for their daily settlement.
- Over 90% of the outstanding bonds are held by banks.
- The outstanding amount of Treasury Bonds are increasing year by year.
- Starting from 2015, CBM instructed all private commercial banks not to calculate the Treasury Bonds held at CBM in the required reserves.

(2) Government Bond market in Myanmar (Cont'd)

(i) History and Function



(2) Government Bond Market in Myanmar (Cont'd)

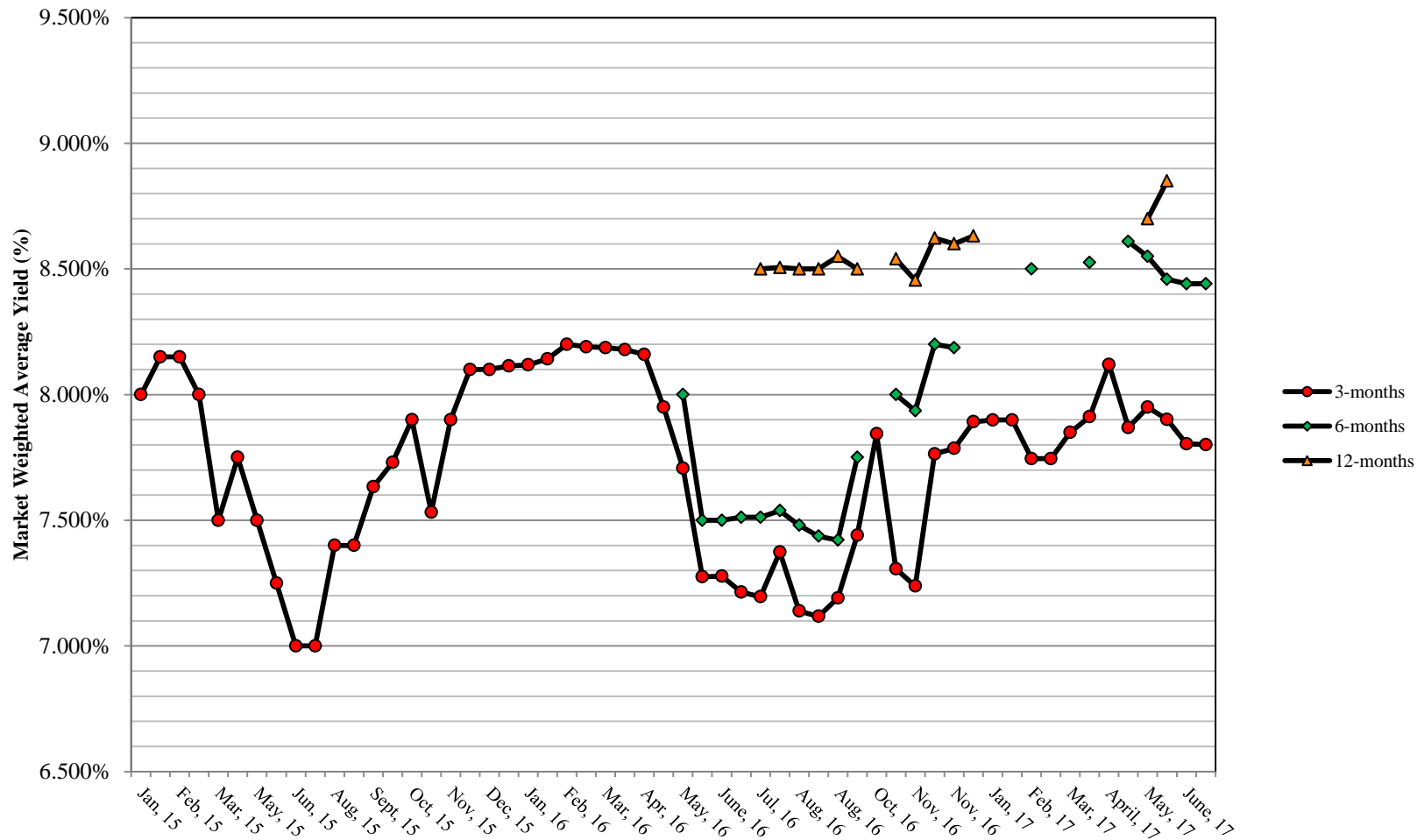
(ii) Implementation of Government Securities Auctions

Type of Auction	Date of Implementation	Numbers of Auction conducted until end of July, 2017	Discount Rate/ Yield
T-bill auction	28.1.2015	57	7.000 ~ 8.879
T-bond auction	20.9.2016	11	8.843 ~ 9.694

(2) Government Bond Market in Myanmar (Cont'd)

(ii) Implementation of Government Securities Auctions

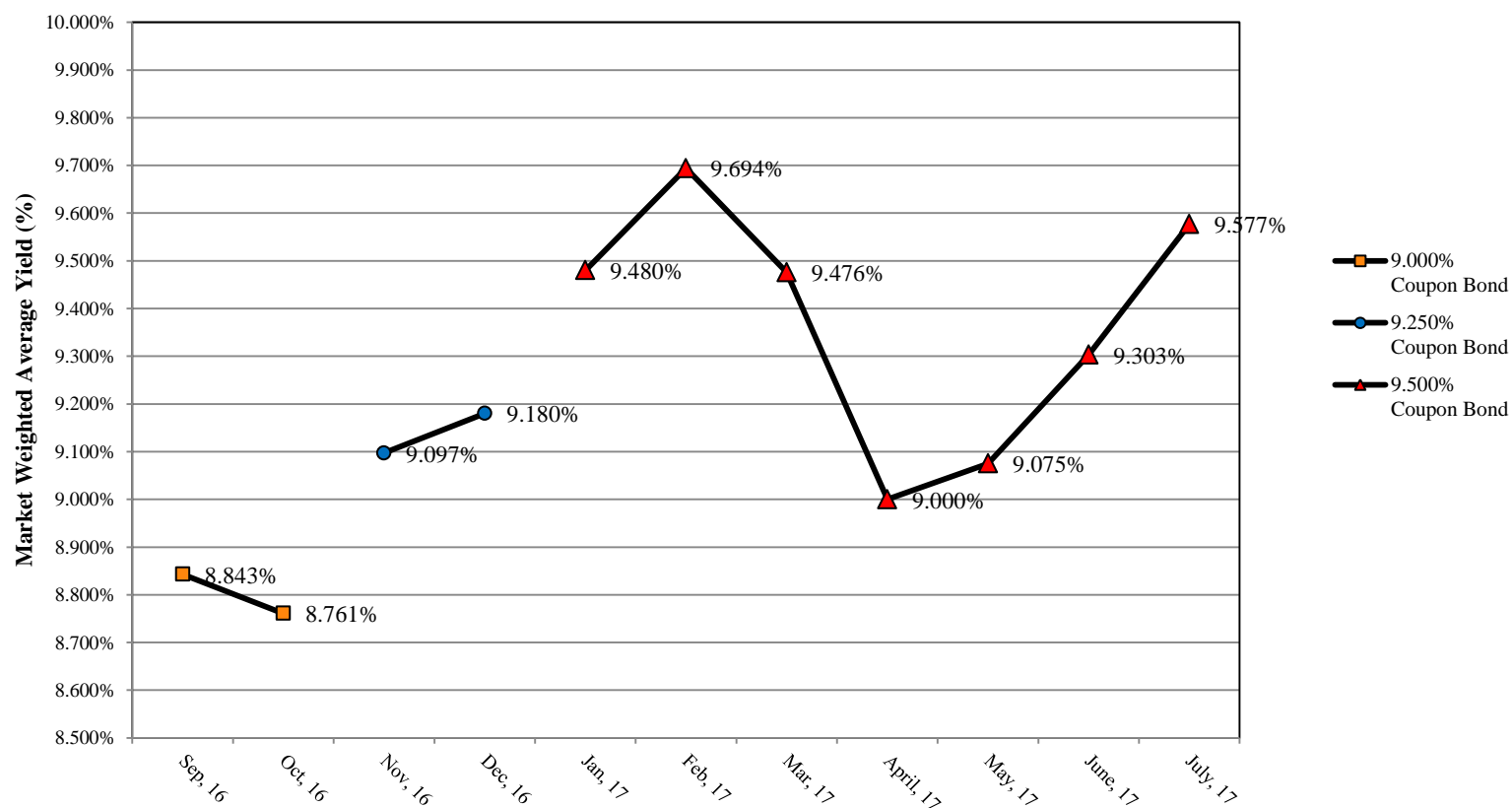
Market Discount Rates at the Government Treasury Bill Auction
January 2015 to July 2017



(2) Government Bond Market in Myanmar (Cont'd)

(ii) Implementation of Government Securities Auctions

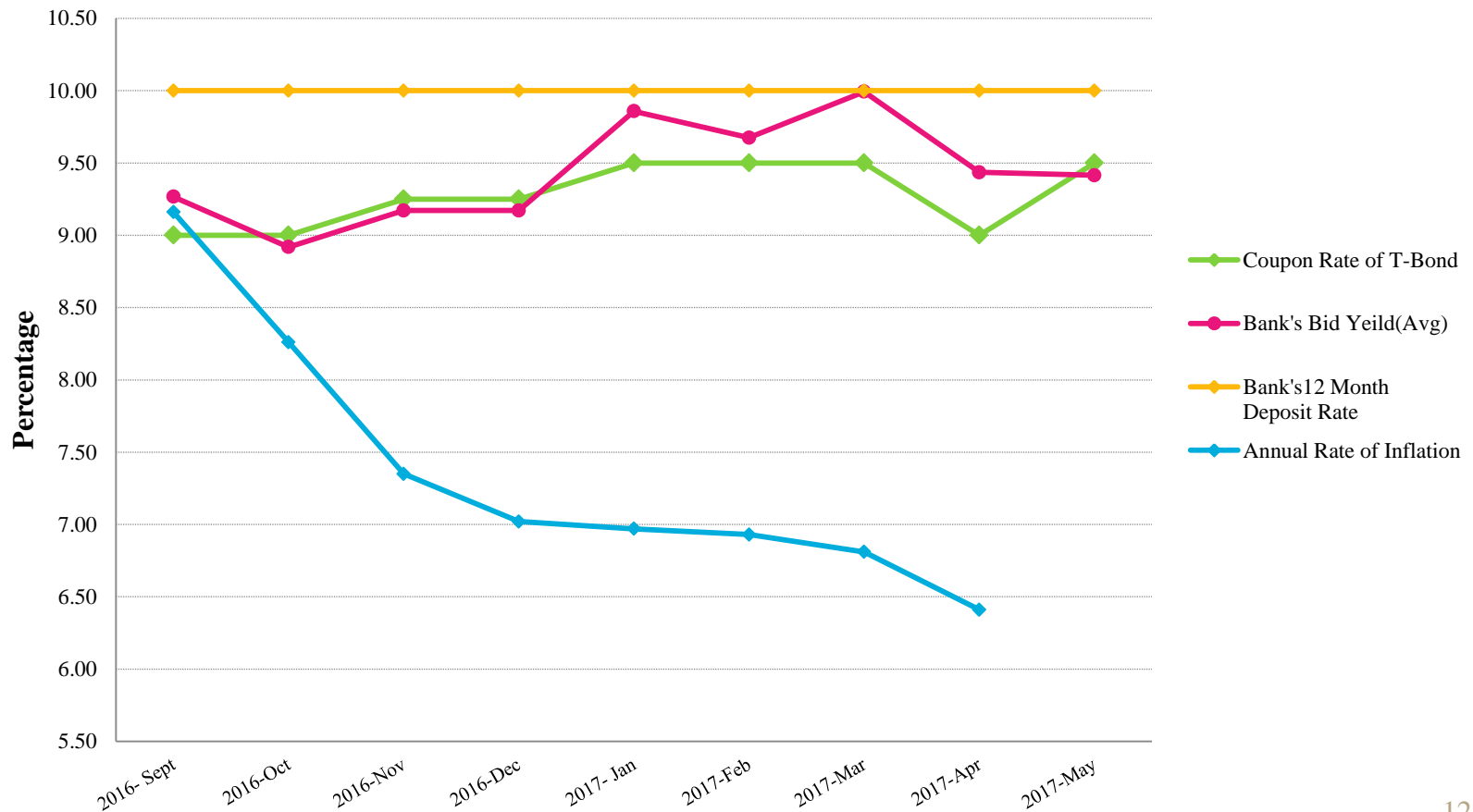
**Market Weighted Average Yields at the Government Treasury Bond Auction
September 2016 to July 2017**



(2) Government Bond Market in Myanmar (Cont'd)

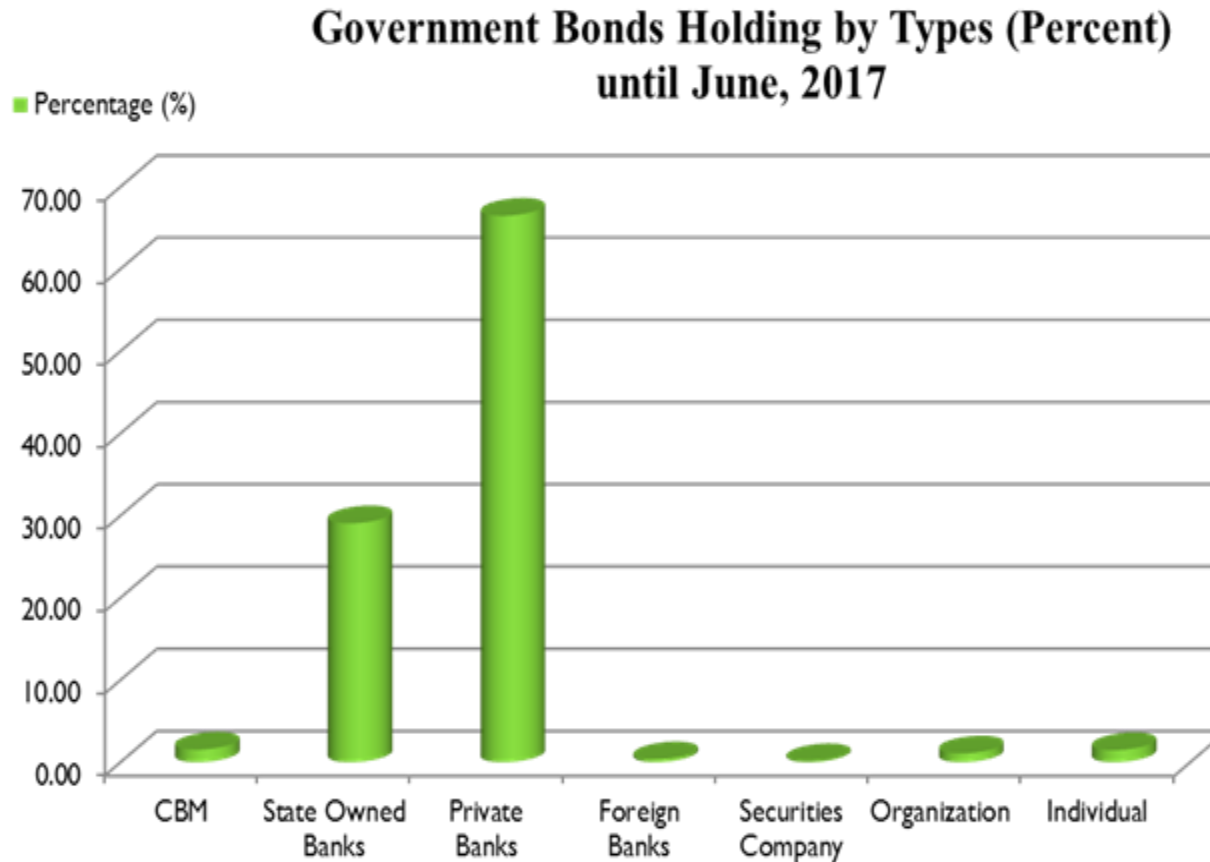
(ii) Implementation of Government Securities Auctions

Comparison of Coupon Rate of T-Bond with Banks, Bid Yield, Banks' Deposit Rate and Inflation Rate



(2) Government Bond Market in Myanmar (Cont'd)

(iii) Government Bonds Holding by Types until June, 2017



(2) Government Bond Market in Myanmar

(iv) Providing Liquidity Support

- ✓ According to the Central Bank Law, CBM may determine persons who have opened accounts at the Central Bank advances for periods not exceeding 92 days, in order to meet the liquidity requirement for daily settlement.
- ✓ Discount Window Facility - starting from 1995
- ✓ Borrowing Interest Rate – 10%
- ❖ After launching CBM-NET System, Overdraft facility is allowed for Financial Institutions (FIs) by the collateral of T-bond/T-bill .
 - ✓ All participants can access Intra-day Overdraft on a collateralized base.
 - ✓ Overnight facility shall be permitted for up to three consecutive days against the collateral held in the CBM.
 - ✓ Interest for intra-day overdraft shall not be charged.
 - ✓ Interest for overnight shall be charged at official central bank lending rate.

(2) Government Bond Market in Myanmar(Cont'd)

(v) Changing Landscape of issuing government bond

	1993-Nov 2015	2016 onwards	Remarks
Issuance	Physical Certificate	scripless (Electrically stored in CBM-NET)	CBM issues Treasury bonds on behalf of the government
Issue formula	Daily based on the market demand	Specific dates by auction	Auction was started in September 2016.
Codes (Specific names) ISIN	No codes	Codes	Useful for Treasury bond management and trading for market participants
Price	fixed	Not fixed (subject to auctions)	May deviate from par value
Coupon	Changed six times	Different each time	Semi-annually: 15 May and 15 Nov
Redemption date	After issue dates of 2/3/5-year bond	At specific dates	Treasury bonds and cash will be settled electronically on CBM-NET
Settlement date	Same date as the issuance date	Auction date (T) + 2	Treasury bonds and cash will be settled electronically on CBM-NET (DVP)

(2) Government Bond Market in Myanmar(Cont'd)

(v) Changing Landscape of issuing government bond

	1993-Nov 2015	2016 onwards	Remarks
Accrued interest (AI)	Not practice	Practice	As the buyer receives semi-annual coupon in full, the buyer pays accrued interest to the seller (issuer).
Central Securities Depository (CSD)	CBM	CBM-NET	CSD undertakes the settlement of securities via DVP.
<u>Participants</u> Financial Institutions	<ul style="list-style-type: none"> ➤ Open Fund A/ C with CBM ➤ Buy account transfer from A/C with CBM 	<ul style="list-style-type: none"> ➤ Need to apply for CBM-NET members ➤ Open Fund A/ C and Securities A/C with CBM 	Securities accounts for each participant The proprietary account The customer account The pledged account (used to manage securities that are pledge by a participant to the CBM as collateral for the Intraday Facility and pledge by the participant to other participants as collateral)
Individual/ institutions	<ul style="list-style-type: none"> ➤ Through sales agents 	<ul style="list-style-type: none"> ➤ Through direct participants 	

(3) Infrastructure of Bond Market

Legal Infrastructure

- **The Securities Exchange Law** was enacted in July 2013.
- Chapter 1 “ Title and Definition” Article 2 (a): Securities include “treasury bills, treasury bonds, bonds and debentures issued or arranged to issue by the Government or any Government organization”.

(3) Infrastructure of Bond Market (Cont'd)

Financial Infrastructure

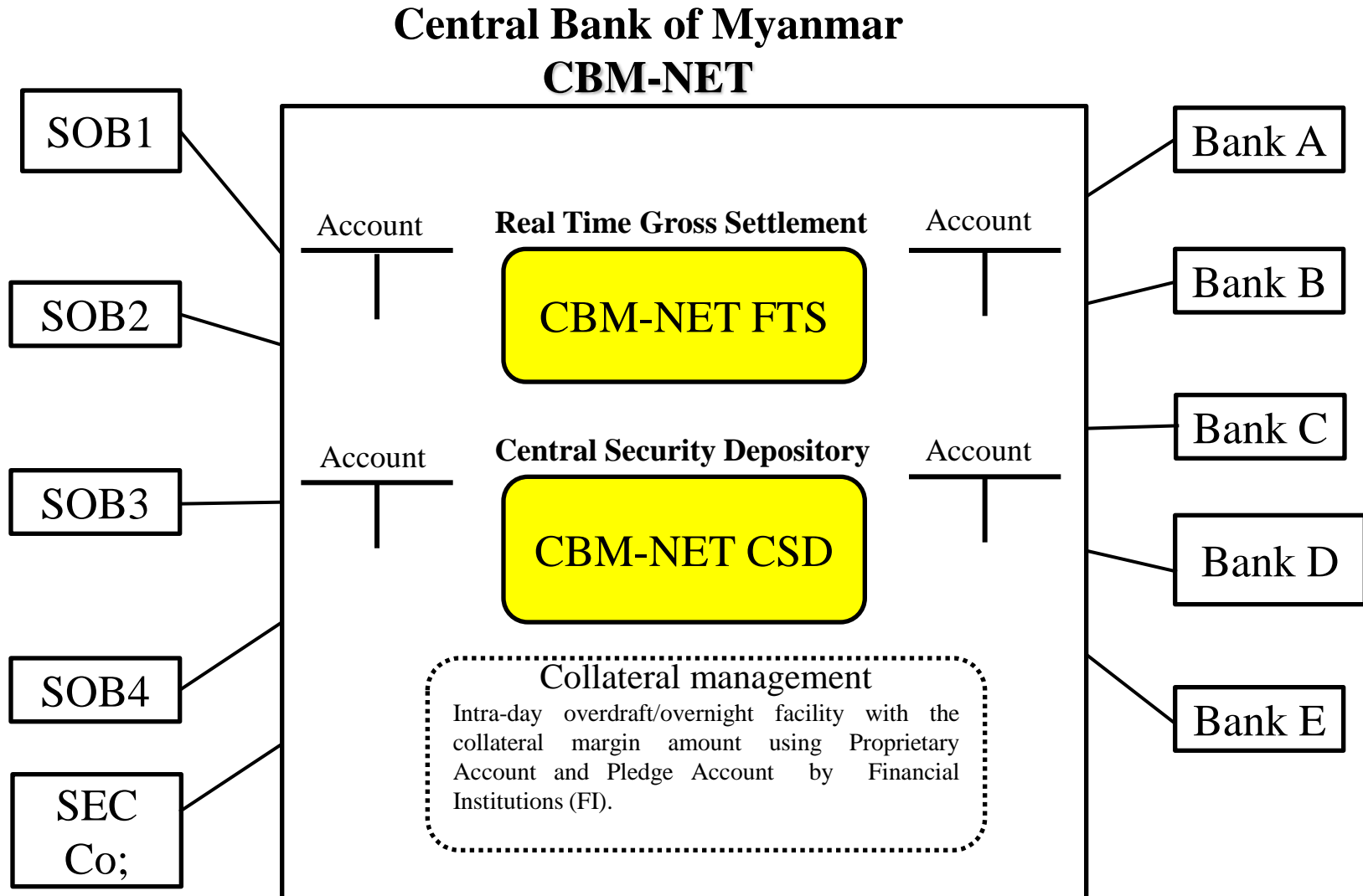
- CBM is implementing the "**Modernizing the Funds, Payment and Securities Settlement Systems**" project with the assistance of JICA to develop the payment system.
- **CBM-NET** started in January, 2016.
 - It comprises two systems:
 - a real time gross settlement (RTGS) system for funds transfer (The CBM-NET Funds Transfer Service (FTS)) and;
 - a system for the a central securities depository (CBM-NET CSD). CBM-NET CSD provides securities settlement services. These settlement are processed on a Delivery versus Payment (DVP), through the linkage between the CBM-NET CSD and CBM-NET FTS.
 - Transfer instructions for both securities and funds are settled with finality on a trade-by-trade basis and neither leg of the transaction can be executed until both counterparties have sufficient funds and securities respectively.

(3) Infrastructure of Bond Market (Cont'd)

Financial Infrastructure

- Participation in the CBM-NET CSD can be direct or indirect. Direct participants are allowed to initiate securities transactions on their own behalf and on behalf of their customers and indirect participants.
- Financial institutions are eligible to apply for the CBM-NET CSD participants.
- CBM-NET CSD participants must i) have a settlement account with CBM and ii) be a participant in the RTGS or utilize the services of RTGS participant as a settlement agent in respect of all securities transactions.

(3) Infrastructure of Bond Market (Cont'd)



(4) International Cooperation

- ❖ To develop the development of bond market, the Daiwa Institute of Research (DIR) was assigned for the Technical Assistance (TA) for Myanmar under the ASEAN Bond Market Initiative (ABMI) Program, with the assistance of Japan ASEAN fund.
- ❖ The TA were implemented with Three phases as follows:
 - ✓ The first phase of TA program started in June, 2011 and finished in May, 2012.
 - ✓ TA Phase II started in June 2013 and ended in June, 2014.
 - ✓ TA Phase III started in June, 2015 and finished in November, 2016 .
- ❖ The other international and regional organizations (e.g ADB, JICA) supported trainings, seminars and workshops to develop the bond market in Myanmar.

(5) Issues on Developing Bond Market

- ❖ Myanmar is trying to develop bond market as well as capital market.
- ❖ To develop the government bond market, the followings are allowed;
 - ✓ Securities companies are allowed as auction members in Primary Market and allowed secondary market trading on OTC which is a buyer and a seller are matched by a securities company.
 - ✓ Insurance companies are also allowed to participate in the auction, as non-competitive bidders via Myanma Economic Bank.

(5) Issues on Developing Bond Market (Cont'd)

- ❖ Nevertheless, there are still facing some below major issues associated with the development of bond market in Myanmar;
 - There is still needed further improvement of auctions.
 - There is also a need to enhance the liquidity in the secondary market for Government bonds.
 - As the banks are the large investors, it is needed to enhance the institutional investors.
 - It is also important to encourage the knowledge of the public, business entrepreneurs and institutions to attract the investment of bonds.
 - It is needed to introduce corporate bonds to raise money in order to expand its business as Myanmar has only Government Bond Market.

(6) Conclusion

- ❖ The development of primary market relies on an active secondary market.
- ❖ Auction members will have confidence to invest more T-bonds if there is an active secondary market.
- ❖ Therefore, developing securities companies is a key to develop the secondary market.
- ❖ CBM is also taking Repurchase Agreement (Repo) into consideration to develop the financial markets and to facilitate management of the liquidity in the market.
- ❖ CBM will also be a player in the markets with Repo in the future.



Thank you.