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Report Name: Burma Restrictions on Export Earnings

Country: Burma - Union of

Post: Rangoon

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Report Highlights:

Over the last two years Burma's foreign exchange restrictions, and the repeated changes to them, have adversely affected the country's imports and exports.

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Background

Since April 2022, the Burmese military regime has repeatedly revised its trade policy and foreign currency management approach to reduce the trade deficit and stabilize its currency. This report focuses on foreign exchange management. (Please also see Burmese Government Tightens Enforcement of Import License Procedures.)

To restrict the use of the U.S. dollar, the regime established import prioritization categories, import quotas, and limits on import value per import license[1]. Consequently, Burmese importers have struggled to secure sufficient import licenses even for commodities high on the regime's priority list. On April 3, 2022, the Central Bank of Myanmar (CBM) released notification No.12/2022 and directive No. 4/2022 that required all individuals, companies, and other organizations in Burma (also known as Myanmar) to convert foreign-currency income received from abroad to Myanmar kyat (MMK) within one business day of receipt at the official exchange rate of 1,850 MMK to $1. On August 5, 2022, the CBM increased this official exchange rate to $1=2,100 MMK, yet the black-market value of the U.S. dollar exceeded this official rate by 30-35 percent. These requirements immediately had a chilling effect on all transfers and foreign currency balances already in the country.

In May 2022, Myanmar's State Administration Council (SAC) established the Foreign Exchange Supervisory Committee (FESC) to approve foreign currency conversion, make exemptions to foreign exchange restrictions, and permit overseas foreign currency transfers. The FESC is responsible for approving the use of foreign currency for imports, especially for the importation of (i) machinery, vehicles, equipment, and raw materials needed for foreign investment and manufacturing; (ii) fuels, medicines, cooking oils, fertilizers, insecticides, and construction materials not available on the domestic market, and (iii) general goods and various luxury products. The FESC can also perform other duties related to foreign exchange management as assigned by the SAC. FESC members include regime ministers, a SAC member, the Union Auditor-General and the CBM Chairperson.

On June 24, 2022, the Ministry of Commerce (MOC) shortened the validity of import licenses for Asian countries to 30 days and for other countries to 45 days and prohibited license extension. Previously these licenses were valid for 3 months for all supplying countries. On July 28, 2022, the MOC revoked the June 24 decision to shorten the validity of import licenses and began to issue import license for 3 months again regardless of the country of origin.

To reduce the trade deficit, from November 2022, the Department of Trade (DOT) has restricted imports by requiring a) the use of the Myanmar banking system to import goods across the border, and b) that export earnings be used to pay for imports. This approach, initially practiced along the Myanmar-Thailand border (Export/Import newsletter 10/2022), extended to the Myanmar-China border on August 1, 2023 (Burmese version: Export/Import newsletter 10/2023).

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[1] Burma does not allow arrival of imports without import licenses, except for goods to be stored in custom-bonded warehouses.

Restrictions on Export Earnings

In 2023, DOT and the CBM released a series of decisions regarding export revenue that further hindered Burma's agricultural exports.

From April 3, 2023, the regime began to restrict export earnings obtained from maritime exports of rice, pulses, and corn by requiring exporters to convert 65 percent of their total export foreign currency earnings at the official CBM exchange rate. Although the regime exempted exporters trading along Myanmar's borders from that restriction, it required that exporters conduct their transactions via designated banks with Thai baht or Chinese yuan, but not the U.S. dollar.

On August 5, 2023, the CBM imposed a uniform policy for both maritime and land border trade and directed exporters to exchange 65 percent of their total export earnings into Myanmar kyat at the CBM's fixed exchange rate of $1=2,100 MMK. At that time, the unofficial market rate was $1=3,500 MMK.

The DOT specified that export earnings had to enter the exporter's bank in 7 days (newsletter 11/2023 released on June 28, 2023) and 15 days (Burmese version only: newsletter 13/2023 released on July 6, 2023) after DOT's receipt of the export declaration form. On July 13, 2023, CBM slightly relaxed its export earning policy with Notification 15/2023, which required exporters to exchange 50 percent of export earnings into MMK at the official CBM exchange rate of $1=2,100 MMK. On December 6, 2023, CBM further loosened that requirement in Notification 26/2023 that instructed exporters to exchange 35 percent of their export earnings into Myanmar kyat at the official rate in the Central Bank's Notification No. 12/2022. The sale of the remaining 65 percent of export earnings in the foreign currency market (online trading platform) had to be completed within one month from the receipt of the export earnings.

On December 26, 2023, CBM released newsletter 142/2023, which shortened the required period to repatriate all export earnings in US dollars, Thai baht or Chinese yuan from (i) 45 to 30 days from the date of export for exports to Asian countries, and (ii) 90 days to 60 days from the date of export for exports to countries outside of Asia. The regime has required that all export earnings be deposited without fail in foreign currency into the exporter's bank account in Myanmar.

B. Summary of Burma's Requirements for Export Earnings

(a) For maritime trade: (Sea Freight)
(1) No exchange requirement before April 3, 2022
(2) April 3, 2022, to July 12, 2023: 65 percent in the Export Declaration (ED) to be exchanged at the CBM rate
(3) July 13 – December 5, 2023: 50 percent to be exchanged at the CBM rate (CMB Notification 15/2023)
(4) From December 6, 2023: 35 percent to be exchanged at the CBM rate (CMB Notification 26/2023)

(b) For land border trade:
(1) No exchange requirement prior to August 5, 2022.
(2) August 5, 2022 – July 12, 2023: 65 percent to be exchanged at the CBM rate (CMB Notification 36/2022)
(3) July 13, 2023 – December 5, 2023: 50 percent to be exchanged at the CBM rate (CMB Notification 15/2023)
(4) From December 6, 2023: 35 percent to be exchanged at the official CBM rate (CMB Notification 26/2023)

CMB directed the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and authorized dealer (AD) licensed banks (i.e., those licensed to exchange foreign currency) to alert exporters/importers about the regulations above. UMFCCI published things to know about export earnings on their official site and social media on December 13, 2023.

On December 20, 2023, to solve the foreign exchange demand crisis to import fuel, the Myanmar regime mandated that 70 percent of total earnings obtained from exports of rice, broken rice, pulses, and corn be used to import diesel[2] through the end of March 2024. On December 21, 2023, the UMFCCI published the required processes to import fuel with export earnings from rice, broken rice, pulses, and corn sales. The exporters could deposit 70 percent of their total export earning into their foreign currency accounts at AD banks. These export earnings would then be used to pay for fuel imports or be sold to fuel import companies at the rate of the CBM online market trading platform. The remaining 30 percent had to comply with the requirement that 35 percent of that be exchanged at the CBM reference exchange rate ($1=2,100MMK) within one business day, while the remaining 65 percent be exchanged at the CBM online market trading platform. From April 1, 2024, exporters of these agricultural commodities had to comply with the requirement to convert 35 percent of their total export earnings at the CBM rate ($1=2,100 MMK).

From February 14, 2024, if, as was frequently the case, grain exporters could not import fuel on their own, the policy reverted to the 35 percent policy (Figure 1).

Thus, within seven months, Myanmar exporters had to comply with four substantial policy changes (see Figures 1 and 2).

[2] Exporters had to deposit 70% of the export earnings into their foreign currency accounts to a) pay for fuel imports or b) sell/transfer these funds to other fuel importer's accounts.

Figure 1. Burma's Restriction on Export Earnings on December 6, 2023

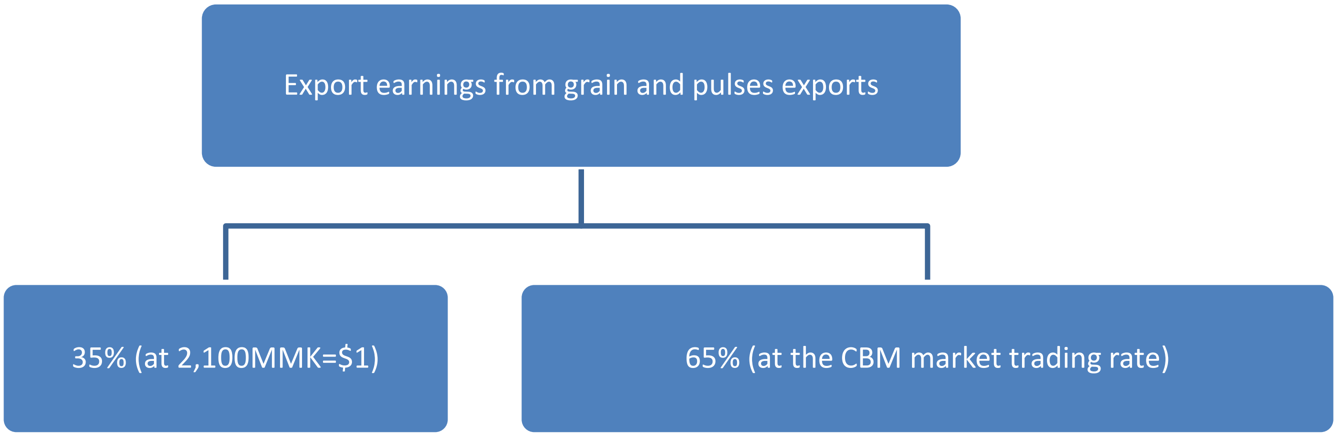
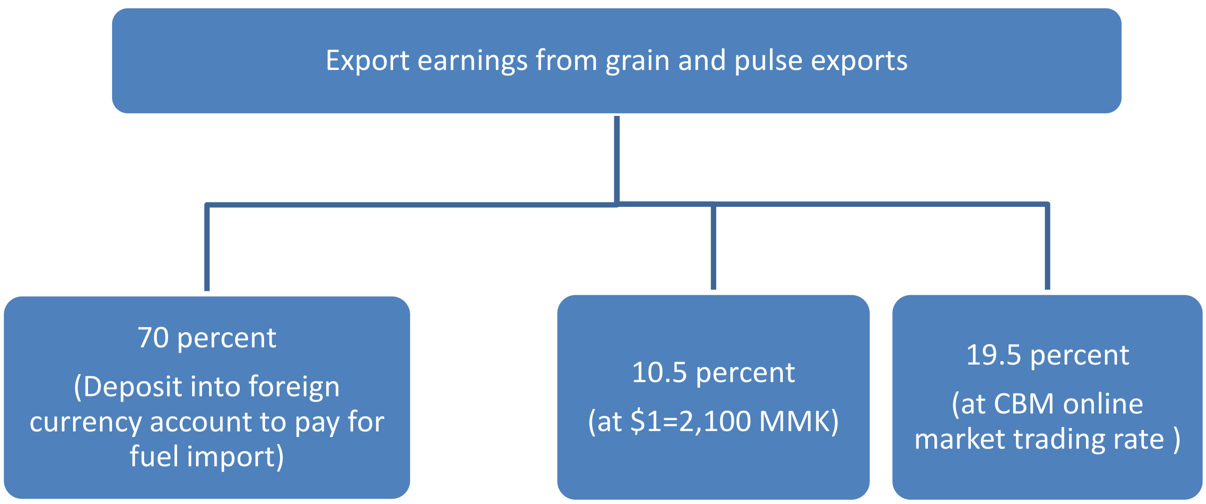


Figure 2. Burma's Restriction on Export Earnings Utilization to Import Fuel (from December 20, 2023, to February 13, 2024)



Impact on U.S. Exports to Myanmar

Due to the regime's frequent changes in trade policies and the large gap between the CBM reference exchange rate and the market exchange rate, Myanmar exporters have struggled to maintain steady trade flows. In addition to restrictions on export earnings, the Myanmar regime has delayed or even suspended the issuance of import licenses to reduce the utilization of the U.S. dollar. This unpredictable trade policy environment has impacted even imports of commodities listed in the priority category by Myanmar. Currently, importers estimate that approximately 400 containers of U.S. soybean meal, as well as some shipments of consumer-oriented goods, are stuck at port awaiting import licenses. Industry sources indicate that the outcome of the recent import license applications is hard to assess, and it may take 2-5 months to receive an import license. The delays with import licenses cause importers to incur extra demurrage and detention fees.

Attachments:

No Attachments.