



# **CAPITAL MARKET DEVELOPMENT IN MYANMAR**

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## Part one

- **What is Capital (Securities) Market**
  - **Capital Market** is a main part of the **Financial Market**
  - Another main part is **Money Market** which provides **Short term Capital (one year or less)** such as
    - **Borrowing, Lending**
    - **Buying, Selling of Commercial papers**
  - **Others below called Financial market as well**
    - **Commodity Market**
    - **Foreign Exchange Market**
    - **Future Market**
    - **Option Market, etc**



- **What is capital market (Contd)**
  - **Capital Market** provides **Long Term Debt (Bonds)** and **Equity Finance (Shares)** for the government and Corporate sector
  - **Securities** means **Bonds and/or Shares**
  - **Capital Market** can be classified into **Primary and secondary Markets**
  - **Primary Market** is a market for **New Securities offering**
  - **Secondary Market** is a market for **Existing Securities Trading**



- **Stock and shares**
  - The Capital Stock (**Stock**) of a business entity represents the **Original Capital Paid into**
  - **The stock** of a business is divided into **multiple shares**
  - **Stock** typically takes the **form of the shares**
  - Ownership of Shares is documented by issuance of a **stock certificate**
  - Used in the plural **Stocks** is often used as a synonym for **shares**



- **Market Structure**
  - **Stock exchange**
    - Trade **Listed Securities**
    - Set **Listing Criteria**
    - Mostly trade **shares**
    - Rarely trade **Bonds**
  - **Over the Counter market**
    - Trade **Unlisted Securities**
    - Trade **Shares** as well as **Bonds**



- **Market Participants**
  - **Issuers**
    - Governments
      - Central Government
      - Local Governments
      - Municipals Organizations
    - Public companies
  - **Investors**
    - Governments
    - Institutions
    - Individuals



## – **Intermediaries**

- Investment banks
- Brokers/dealers
- Underwriters
- Advisory Services

## • **Infrastructure**

- Trading system
- Clearance and settlement
- Depository and custody



- **What have we done**

- **General**

- Started since 1996, impressively functioned to 1998
    - Passive wayward then from 1997 to 2007
    - Revitalization of efforts again from 2008 to now
    - CMDC and six Sub-Committees were formed in 2008
    - A Road map of (3) Phases was set up aiming to establish Yangon Stock exchange by 2015





## – Legal framework

- Securities and Exchange law was started drafting since 1996 but not be able to promulgate until now by many reasons
- The final Draft law was approved by Amyotha Hluttaw on 22.8.2012
- It needs to get approved again by Pyithu Hluttaw in the next session of Hluttaw probably in October/November of this year
- Hopefully the Law might be in place in the end of this year
- By-law, rules and regulations are worked out in the next two years
- Other related Laws, Rules and regulations are also needed to revise, amend or supplement to meet the needs of the market



## – Bond market

- (2) year new T. Bond issued on 1.1. 2010 added to existing (3) year and (5) year Bonds issued since 1993 with a view to encourage T. bond Market
- New T. Bond selling system was also introduced appointing MSEC and MEB as Selling Agents
- MSEC and MEB were allowed as Trading Floor for Secondary Market
- Interest Rates reformed in 1.9.2011 and 1.1.2012
- T. Bonds are allowed as mortgage in taking loans up to 80% of its value from Commercial banks
- Consideration to allow Inter bank Bond Trading are in the final stage of the process



## – Equity (share) market

- Two Public Companies listed at MSEC, one in 1996 and other in 2005
- A few transactions of Trading happened rather often
- Demand has been too high but Supply was in severely short
- Even though more than (22) Public Companies are registered only a few Public companies are thought to be qualify trading shares in the market
- The emergence of qualify public companies is a real challenge ahead (Refer to slides 20 to30 for detail)



- **Others**

- Education programs like training, seminars and workshops have been provided continuously
- Technical assistance for development of bond market was provided by AESAN Secretariat funded by JAFTA and undertaken by DIR
- A MOU was signed on 29.5.2012 between Central Bank of Myanmar and DIR and Tokyo Stock Exchange with a view to assist developing Yangon Stock Exchange by 2015
- Another MOU was signed on 14. 8.2012 between Central Bank of Myanmar enabling Policy Research Institute of Ministry of Finance of Japan to provide assistance on development of Securities and Exchange Law and Rules and Regulations of Myanmar



- **What we are going to do**
  - After enacting Securities and Exchange law, Securities Exchange Commission (SEC) is to be formed
  - This body will be a focal organization focusing for development of Securities Market in all rounds before regulating the Securities Market
  - By-Laws, Rules and Regulations will be developed within the context of Securities and Exchange Law to be in place at the end of this year by ourselves and with the help of Policy Research Institute
  - Working Group of Myanmar will be formed to undertake the implementation plan of the MOU between CBM and DIR, TSE



**– The emergence of qualify Public Companies will be encouraged such as –**

- Forming of new Public Companies
- Encouraging going Public Companies
- Urging potential business groups to form Public Companies by some parts of their business
- Urging the Public sector to transform some of the potential SEEs as Public Companies or Joint Venture Companies
- Encouraging Private Sector and Public Sector to form joint venture companies in form of Private partnership (PP) or Public Private Partnership (PPP)



- **Our strength**

- The population (about 60 million)
- The size of the country (one of the biggest in South East Asia)
- Rich of natural resources
- Fertile land area
- Favourable climate
- Relatively English speaking society
- Potentially good labour force



- **Our weaknesses**
  - **Education, particularly low financial literacy**
  - **Isolation**
  - **Infrastructure**
    - Electricity
    - Communication
    - Transportation
    - Information technology (IT)
  - **Financial sector as a whole is still weak**





- **Opportunities**

- Huge potential to develop the market because of the size of country and population
- International Community is eager to participate in the Development process
- Experience and lessons of other countries can be obtained as a late comer
- Latest modern technique and technology can be appropriately chosen
- Eventual participation of Foreign Banks and Securities Institutions can accelerate the development of the market in the future



- **Threats**

- Lack of knowledge in securities Business at all levels
- Weak in corporate culture and corporate governance
- Comprehensive Legal Framework is a little bit far away
- Infrastructure that securities Market could be built on is still poor



- **Lessons learned**

- Capital market can only be developed on fundamentals
- The more Fundamentals are in place the smooth and proper functioned market will appear
- At least (5) years of hard efforts are needed to have reasonable fundamentals
- Impossible to wait completing all Fundamentals given its complex nature
- But focusing on some of the fundamentals that matters is needed, such as
  - Legal framework, Forming of SEC, Development of qualify Public Companies



- Capital Market alone can not be nurtured
- All round of Financial Sector Development is much important
- Favourable Fiscal position is also mattered
- Economic growth based on manufacturing and services sectors which the public companies can be developed on is also important



## Part two

- **Basic consideration on forming of public companies**
  - **Clear vision** of Going Public
  - Should have a **Stable Business nature**
  - Should be a **Profitable Business**
  - Should have **Long Term goal**
  - Must have **better management**
  - Must have **better Accounting Standard**
  - Must have **Transparency**
  - Must comply **Disclosure Standards**
  - Must understand the important role of **the Prospectus**
  - **Free transfer** of Shares



- **Advantages of Public Companies (Going Public)**
  - Access to Capital
  - Improved financial Status
  - Higher Visibility
  - Increased Employees' Motivation and Retention
  - Enhanced Wealth and Liquidity for the Owner



- **Disadvantages of the Public company (Going Public)**
  - Increased Scrutiny and Accountability
  - Increased demands on Time and Resources
  - Reduced Flexibility in Decision Making
  - Lost of control
  - Cost



## Part three

- **Investment opportunity relating to Capital Market**
  - Provide long term financing for the Governments and Corporate Sector for various activities facilitating resource raising from domestically or internationally
  - Eventual participation of productive (goods and services) firms as well as securities industries from abroad is important for development
  - To attract the firms improving the investment climates is crucial





- **The Role of the Investment Climates**

- The Investment Climate plays a central role in Growth and Poverty Reduction
- Improving the Investment Climates of their Societies should be a top priority for the Governments
- The Governments influence the Investment Climates
- the Investment Climates drives growth and reduces poverty



- **The Investment Climates, Growth and Poverty**
  - A good Investment Climate fosters **productive private investment**
  - It creates **opportunities and jobs** for people
  - It expands the varieties of **goods and services** available and **reduces their cost** to the benefit of the consumers
  - It supports a sustainable source of **tax revenues** to fund other important **social goals**



- **What the Governments can influence on improving Investment Climates**
  - They may have limited influence over factors such as-
    - Geography, Natural Climates, Market size and etc,
  - But they have much more influence over such as-
    - The security of property rights
    - The approaches to regulation and Taxation
    - The adequacy of Infrastructure
    - The functioning of financial markets and labour markets
    - Broader features of good governance such as-  
fare treatments, corruption



- **How the government's policies and behaviors matter**
  - The Investment Climate is a set of specific factors shaping the opportunities and incentives for firms to invest
  - Government policies and behaviors exerts a strong influence over costs, risks and barriers to competition
  - But firms do not respond to formal policies alone
  - They make judgments about how those policies will be implemented in practice
  - Firms will try to influence policies in ways favourable to them
  - Thus issues of government behavior and governance, in the broader sense, are paramount



- **What is Good Investment Climate**

- Firms come to the decision with different capabilities and strategies
- The decision is motivated by the quest of profits
- The profitability is influenced by the costs, risks and barriers to the competition associated with the opportunity
- The volume and productivity of the resulting investment contribute to growth and poverty reduction
- But a good investment climate is not just about profits for firms
- It is about improving outcomes for the society



- **What is Good Investment Climate (contd)**
  - The benefits of productivity improvements should be ensured sharing with workers and consumers
  - A good investment climate is one that benefits everyone in two dimensions
    - First, it serves society as a whole rather than just firms including through its impacts on job creation, lower prices and broadening the tax base
    - It embraces all firms not just large or influential firms



- **Conclusion**

- Undoubtedly, Myanmar needs Capital market to foster economic growth
- Developing capital market is not a substitution of the commercial banking sector
- It is a compliment to commercial banking sector
- Developing capital market is a complicated and time consuming process demanding hard efforts
- Macro-economic stability enhances the development of Capital market
- Eventual participation of foreign firms is crucial
- But how, when and what extent to let them participate is a tough decision to be taken



**Thank for your attention**