Why Don't Myanmar Firms Use Banks for Currency Exchange?: Evidence from a Survey of Exporters and Importers

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We address the puzzle why the black market for foreign exchange thrives in Myanmar despite the successful unification of multiple exchange rates. In the pre-reform period, banks did not trade foreign exchange with private exporters and importers, which gave rise to bilateral trading of foreign exchange in the black market. While banks are now available for currency exchange, the black market still persists.

Using a firm level survey, we examine how private exporters and importers choose currency exchange modes in the post-reform period. Our findings are as follows; first, exporters' choice of currency exchange modes might not be path-dependent, but they might be rather responsive to prices offered. Second, for importers' access to foreign exchange, it would be banks who ration foreign exchange based on their relationship with importers. Given the empirical results, there are two possible policy interventions for expansion of the formal bank-based foreign exchange market. One is to raise the transaction costs of the black market. The other is to sell more foreign exchange of the government sector to banks.