# Exchange Rate Instability and Inflation Dynamics in Myanmar: Evidence from a Recursive SVAR Model

KYI KYI THAR

Okayama University, Phd Student

Abstract

This paper examines inflation dynamics in Myanmar by analyzing the relationships among fiscal financing, money supply, exchange rate movements, consumer prices, and real economic activity. Myanmar provides an important case because its monetary policy operates in a weak financial system where interest-rate transmission is limited and the exchange rate plays a major role in macroeconomic adjustment. The study uses quarterly data from 2013 to 2024 and estimates a recursive Structural Vector Autoregression (SVAR) model with the ordering NCG, M2, market exchange rate, CPI, and real GDP. A post-2021 dummy variable is also included to capture structural instability after 2021.

The empirical results show that the post-2021 dummy is statistically significant only in the exchange rate equation, indicating that the structural break after 2021 appeared most clearly in the foreign exchange market. The results also show that lagged exchange rate movements significantly affect CPI dynamics, suggesting that exchange rate instability is an important channel of inflation transmission in Myanmar. In contrast, shocks to net claims on government and broad money supply have weaker and less persistent effects on inflation and output. The impulse response functions further support this finding, as exchange rate shocks produce more visible responses in CPI and GDP than fiscal or monetary shocks.

Overall, the results suggest that Myanmar's inflation dynamics cannot be explained by money supply expansion or fiscal financing alone. Instead, inflation is strongly influenced by exchange rate instability, especially after 2021. These findings imply that stabilizing inflation in Myanmar requires not only controlling monetary aggregates but also reducing exchange rate volatility and improving foreign exchange market stability.