Myanmar appears close to attaining a status symbol valued by investors around the world—an independent central bank.

Khin Saw Oo, deputy director of the central bank's regulation and anti-money-laundering department, said in an interview that she was sure the country's president, Thein Sein, would sign a new law to create an autonomous central bank before the next parliamentary session concludes at the end of July. In a later email, she stepped back from that time frame, saying only that she believed it would be signed "very soon." At the moment, the central bank is a department of the Finance Ministry, which can influence monetary policy and instructs the bank to print money to pay off its debts—considered an inflationary no-no among monetary-policy experts.

The new law will potentially stop all of that. Ms. Khin Saw Oo said the central bank will gradually reduce the proportion of the government's deficit that it directly finances to zero from around 40% and gain the power to set interest rates independently. It also will bring in executives from outside its own ranks. "I would say that an autonomous central bank is just around the corner," she said in a meeting at the Myanmar central bank's headquarters on an empty highway in the capital Naypyitaw.

Having an independent central bank is regarded by analysts as an important way of improving a country's economic performance. It helps prevent politicians from making decisions that could bolster their immediate popularity but be harmful to the economy in the longer run. For investors, an independent central bank is like a seal of good housekeeping; among emerging markets, countries with independent central banks, such as the Philippines and Thailand, often have more stable economic policies than those that don't, such as Vietnam.

But while welcoming the proposed changes, some experts expressed concerns about whether Myanmar's leaders would stick to their timeline for passing the law despite making a host of other changes and, last week, further burnishing their credentials by hosting the World Economic Forum in Naypyitaw.
Sean Turnell, an economist at Sydney's Macquarie University, noted that the deadline had slipped before. Additionally, "stopping the Central Bank of Myanmar from effectively printing money to finance the budget deficit is the Holy Grail here, but there is no time frame for this," he said.

Successful passage of the law would represent a major step in bolstering confidence in Myanmar's institutions, in turn supporting its economic development, said Cornell University Professor Eswar Prasad, who was formerly a senior official at the International Monetary Fund.

"Central-bank independence is a very good place to start in the long and arduous process of institution building that lies ahead in Myanmar," he said.

After passage of the law, the government will dissolve the central bank's current leadership structure and replace it with a nine-member board headed by the central-bank governor, with three internal deputy governors and five members from outside the bank. Board members will be nominated by the president's office, but parliamentary approval will be required for their appointment.

Under the board, there will be four committees in charge of monetary policy, financial stability, payment systems and foreign-exchange management. The monetary-policy committee will be headed by one of the deputy governors and staffed by other members of that department.

The central bank is collaborating with the IMF to develop monetary-policy instruments that will bring its operations more into line with central banks internationally, Ms. Khin Saw Oo said.

In August, the central bank will commence deposit auctions, which it can use to withdraw liquidity from the system, and in September Myanmar's authorities plan to issue regulation for the setting up of a treasury-bill market, with the help of the IMF. The central bank will continue to target money-supply growth rather than inflation, she added. The IMF forecasts inflation of around 5.5% and economic growth of 6.75% in Myanmar in the fiscal year ending March 2014.

IMF Deputy Managing Director Naoyuki Shinohara said in an interview that while inflation in Myanmar seemed under control, it was natural to expect price pressures to increase, with wages and housing costs already rising, and a growing number of international players looking at investing in the country.

"Inflation is the worst enemy for confidence in the local currency....That is why we think the introduction of appropriate monetary-policy tools is important to maintain confidence in the local currency," he said.

Some experts suggest inflation could accelerate in the coming months as the economy begins to feel the effect of a 10% decline in the value of Myanmar's currency, the kyat, since the beginning of the year. But Ms. Khin Saw Oo said she wasn't concerned by the currency's decline, noting that the central bank was criticized for setting the value of the kyat too high when it unified the former official and unofficial exchange rates in April last year.

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