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# Myanmar's Banking Sector in Transition

## Current Status and Challenges Ahead



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**On behalf of**

the German Federal Ministry for Economic Cooperation and Development (BMZ)

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2018 GIZ Banking Report

4<sup>th</sup> Edition, 2018



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### Reliability and Consistency of Data

Data in Myanmar is scarce, not always reliable, and inconsistent. This holds especially true for the financial sector. Most financial institutions do not publish their annual reports or disclose data. Transparency is, however, increasing, as are the efforts towards improving disclosure of financial data. The Central Bank of Myanmar (CBM), for instance, just recently started to publish key banking data in quarterly reports. Legal reforms that are being implemented are, furthermore, intended to help ensure a consistent application of international financial reporting standards.

This report uses data from official Myanmar sources, international organizations, and individual financial institutions. Additionally, the GIZ has conducted surveys and interviews with national and international finance experts and representatives of the Myanmar financial industry. Whenever data is presented, the source is clearly stated. The GIZ, nevertheless, cannot guarantee the accuracy of this data. Most data should be treated carefully.

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# The GIZ in Myanmar

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a German federal enterprise that supports the German government in international cooperation for sustainable development via technical advice and capacity development. The GIZ operates in more than 130 countries and employs approximately 20,000 staff members worldwide.

On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), GIZ has resumed its activities in Myanmar in 2012 in the area of sustainable economic development and rural economic development and infrastructure. GIZ activities include three complementing areas of sustainable economic development that include: a) Private Sector Development, b) Technical and Vocational Education and Training, and c) Banking and Financial Sector Development.

The GIZ Banking and Financial Sector Development (BFSD) Program in Myanmar started in autumn 2012 and the current project will continue until December 2019. It is based on four complementing pillars:

1. GIZ supports the Central Bank of Myanmar (CBM) in creating, enforcing and promoting stable framework conditions for banks. This includes the support of human capacity development within the CBM as well as offering it specific technical advice.
2. GIZ supports Myanmar key stakeholders in strengthening the legal framework and the enforcement of adequate standards in the area of financial reporting and auditing. This includes the support of human capacity development of the relevant stakeholders, such as the CBM, the Banks and Monetary Affairs Development Committee of the Lower House of the Myanmar Parliament, the Myanmar Accountancy Council (MAC), the Office of the Auditor General (OAG), and the Myanmar Institute of Certified Public Accountants (MICPA).
3. GIZ supports training providers for the banking sector in the development of human resources in the banking industry. In this context, the GIZ assists in the development of adequate and demand-oriented qualification and training measures at the Yangon University of Economics. Furthermore, the GIZ facilitates cooperation and the exchange of information concerning human capacity development among Myanmar banks.
4. GIZ supports the banking industry directly in developing adequate structures, processes, and products for SME finance and the application of International Financial Reporting Standards (IFRS). Two Myanmar partner banks are being supported by the GIZ in the development of tailor-made financial services for SMEs, with the goal of increasing their respective SME-loan portfolio, and three Myanmar partner banks are being supported to implement financial reporting standards.

For more information, please visit <https://www.giz.de/en/worldwide/17772.html>.

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This report, now in its fourth edition, was a joint and fruitful effort with valuable contributions from many experts and institutions. In particular, we would like to express our gratitude to the Central Bank of Myanmar, the Yangon University of Economics and the wider Myanmar banking community for their inputs and comments.

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To all of them and those who remain unnamed, working in the background on so many different tasks that must be completed to publish a sound report, we say a big THANK YOU!

ကျေးဇူးတင်ပါတယ်

Armin Hofmann, GIZ-BFSD Program Director

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# Foreword

Myanmar is in the middle of a democratic and economic transition; the country is moving from a centrally-directed economy to a market-oriented one. Both domestically and regionally high hopes are attached to this transition. The Myanmar people are anticipating that the wide-ranging economic reforms will increase their economic opportunities and raise their living standards.

The development of the private sector is essential for the sustainable development of Myanmar's economy. Small and Medium Sized Enterprises (SMEs) particularly have the potential for becoming the driving force behind economic growth and thus also for poverty alleviation and job creation.

Doing business in Myanmar is challenging. Limited access to financial services and credit presents a big hurdle for local companies. The Global Competitiveness Index (2018) of the World Economic Forum ranks Myanmar at 131 out of 140 countries and identifies access to finance as the crucial factor for its ranking at the bottom end.

Germany and Myanmar are working closely together in this area. On behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is supporting Myanmar to develop its economy in a sustainable way. Promoting sustainable access to finance for SMEs is a key constituent to achieving this goal.

This report, now in its fourth edition, focuses mainly on the banking sector. It provides an overview of the sector's statistics, regulatory framework, and status of regional integration based on data analysis from various sources. The report seeks to fill an important information gap. Data is precious and notoriously scarce in Myanmar and the financial sector particularly stands out for its discreetness.

We see this report as a foundation for improving disclosure of financial information. We are confident that the stakeholders in the financial sector will build on our findings and hope that proactive contributions to more transparency in the sector are on the horizon.



Dr. Petra Schill

Country Director, GIZ Myanmar

# Abbreviations and Acronyms

<b>AAT</b>	Association of Accounting Technicians	<b>FSI</b>	Financial Soundness Indicator
<b>ABIF</b>	ASEAN Banking Integration Framework	<b>GDP</b>	Gross Domestic Product
<b>ACCA</b>	Association of Chartered Certified Accountants	<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>AD</b>	Authorized Dealer	<b>IFC</b>	International Finance Corporation
<b>ADB</b>	Asian Development Bank	<b>IFRS</b>	International Financial Reporting Standards
<b>AEC</b>	ASEAN Economic Community	<b>IMF</b>	International Monetary Fund
<b>AFIF</b>	ASEAN Financial Integration Framework	<b>ISA</b>	International Standards on Auditing
<b>ALM</b>	Asset Liability Management	<b>IT</b>	Information Technology
<b>AML</b>	Anti-Money Laundering	<b>JICA</b>	Japan International Cooperation Agency
<b>AQAFHE</b>	ASEAN Quality Assurance Framework for Higher Education	<b>KBZ</b>	Kanbawza Bank
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>ATM</b>	Automated Teller Machine	<b>KYC</b>	Know Your Customer
<b>AYA</b>	Ayeyarwaddy Bank	<b>LCCI</b>	London Chamber of Commerce & Industry
<b>BFRIC</b>	Banking Sector Reporting Standards Implementation Committee	<b>LIFT</b>	Livelihoods and Food Security Trust Fund
<b>BFSI</b>	Banking and Financial Sector Development	<b>MAB</b>	Myanmar Apex Bank
<b>BMZ</b>	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)	<b>MAC</b>	Myanmar Accountancy Council
<b>CAR</b>	Capital Adequacy Ratio	<b>MADB</b>	Myanma Agricultural Development Bank
<b>CB</b>	Co-operative Bank	<b>MALI</b>	Ministry of Agriculture, Livestock and Irrigation
<b>CBM</b>	Central Bank of Myanmar	<b>MAP</b>	Making Access Possible
<b>CBML</b>	Central Bank of Myanmar Law	<b>MBA</b>	Myanmar Banks Association
<b>CDD</b>	Customer Due Diligence	<b>MBF</b>	Master of Banking and Finance
<b>CFA</b>	Chartered Financial Analyst	<b>MEB</b>	Myanma Economic Bank
<b>CFT</b>	Combating of the Financing of Terrorism	<b>MFRS</b>	Myanmar Financial Reporting Standards
<b>CGI</b>	Credit Guarantee Insurance	<b>MFS</b>	Mobile Financial Service
<b>CHDB</b>	Construction and Housing Development Bank	<b>MFSP</b>	Mobile Financial Service Provider
<b>CPA</b>	Chartered Public Accountant	<b>MFTB</b>	Myanma Foreign Trade Bank
<b>CSO</b>	Central Statistical Organization	<b>MI</b>	Myanmar Insurance
<b>EUR</b>	Euro	<b>MIB</b>	Myanmar Institute of Banking
<b>FATF</b>	Financial Action Task Force	<b>MICB</b>	Myanma Investment and Commercial Bank
<b>FIML</b>	Financial Institutions of Myanmar Law	<b>MICPA</b>	Myanmar Institute of Certified Public Accountants
<b>FIL</b>	Financial Institutions Law	<b>MMK</b>	Myanmar Kyat
<b>FISD</b>	Financial Institutions Supervision Department	<b>MNO</b>	Mobile Network Operator
<b>FIU</b>	Financial Intelligence Unit	<b>MOPF</b>	Ministry of Planning and Finance
<b>FOREX</b>	Foreign Exchange	<b>MPU</b>	Myanmar Payment Union
<b>FPB</b>	First Private Bank	<b>MSA</b>	Myanmar Standards on Auditing
<b>FRD</b>	Financial Regulatory Department	<b>MSME</b>	Micro, Small and Medium Enterprise
		<b>MSR</b>	Myanmar Survey Research
		<b>MWB</b>	Myawaddy Bank
		<b>NGO</b>	Non-Government Organization
		<b>NIM</b>	Net Interest Margin

<b>NLD</b>	National League for Democracy	<b>Sida</b>	Swedish International Development Cooperation Agency
<b>NOP</b>	Net Open Position	<b>SIM</b>	Singapore Institute of Management
<b>NPL</b>	Non-Performing Loans	<b>SLC</b>	ASEAN Senior Level Committee on Financial Integration
<b>OAG</b>	Office of Auditor General	<b>SME</b>	Small and Medium Enterprise
<b>PFIS</b>	Partnership Framework on Inclusive Growth and Sustainable Development	<b>SOB</b>	State-Owned Bank
<b>PIE</b>	Public Interest Entity	<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>POS</b>	Point Of Sale	<b>TFP</b>	Trade Finance Program
<b>QAB</b>	Qualified ASEAN Bank	<b>UAB</b>	United Amara Bank
<b>RoA</b>	Return on Assets	<b>UNCDF</b>	United Nations Capital Development Fund
<b>ROSC</b>	Report on Observance of Standards and Codes	<b>USD</b>	United States of America Dollar
<b>RTGS</b>	Real Time Gross Settlement	<b>YUE</b>	Yangon University of Economics
<b>SCPL</b>	Seasonal Crop Production Loans		
<b>SDR</b>	Special Drawing Right		



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# Executive Summary

## Regulatory and Supervisory Framework

The stability of the financial sector is of paramount importance for the well-being of a country and its people. It is the chief responsibility of a central bank to ensure this stability. Myanmar last experienced a severe banking crisis in 2003 when a bank run on private banks led to the collapse of three major financial institutions and resulted in economic hardships for the whole country. It is therefore with good reasons that the financial sector is one of the most heavily regulated sectors in the economy. Since the 2003 banking crisis, Myanmar's legal framework for regulating the financial sector has been undergoing heavy reforms to bring the country's banks closer to internationally accepted standards of operation and prepare the country for ASEAN integration.

The most formative laws for the contemporary banking sector of Myanmar are the Central Bank of Myanmar Law 2013, the Financial Institutions Law 2016, the Foreign Exchange Management Law 2015 and the Anti-Money Laundering Law 2014.

The Financial Institutions Law is the cornerstone of the current government's banking sector reform. It aims not only to develop and stabilize the financial sector but also to protect the depositor's interest. Moreover, it tries to meet international best practices in accordance with the Basel Core Principles issued by the Basel Committee on Banking Supervision. The law grants the Central Bank wide-ranging powers to supervise banks and non-bank financial institutions. It encourages the practice of good corporate governance in banks, and promotes transparency and accountability as well as the modernization of the national payment system. Furthermore, it offers clear exit strategies for banks, should they become non-viable. This law and its associated rules and regulations will profoundly re-shape the framework conditions under which banks operate, develop and innovate. In addition, the Financial Institutions Law was the basis for seminal regulation issued by the Central Bank on Mobile Financial Services.

Four important prudential regulations emanated from the Financial Institutions Law: Capital Adequacy Regulation, Asset Classification and Provisioning Regulation, Large Exposures Regulation, and Liquidity Ratio Requirement Regulation. In addition, Myanmar has adopted the International Financial Reporting Standards and the International Standards on Auditing in 2009. The new reporting standards will become fully applicable in reporting systems by the fiscal year 2022–23. The Banking Sector Financial Reporting Standards Implementation Committee (BFRIC) was founded in 2016 to oversee and guide the adoption and implementation of the new standards.

Management of foreign exchange is of particular concern for Myanmar's economy. The new Foreign Exchange Management Law liberalized the foreign exchange market and lifted all restrictions on transactions in the current account of the country's balance of payments. After the remarkable devaluation of the Myanmar Kyat in August 2018, the CBM initiated various measures to stabilize the exchange rate and revoked the instruction to conduct buying and selling within 0.8% of the CBM reference rate.

## The Banking Sector of Myanmar

For almost five decades the people of Myanmar and the country's economy lived through an era of harsh restrictions under the rule of a military regime. International sanctions led to the isolation of the country. Since 2010, reform efforts by the Myanmar government and the opening up of the economy have triggered economic

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growth and high hopes for millions of low income households. The banking sector is one focus of the new government's economic reforms.

Although private banks today are more prevalent, state-owned banks still play an important role in Myanmar, especially in terms of deposit mobilization and rural outreach. The four state-owned banks of the country currently go through a reform process to improve their financial performance and re-focus their business strategies.

Private banks have been banned by the military regime until 1992. Today there are 27 domestic private banks operating in Myanmar, which own about 67% of total bank assets. Private banks are the drivers for innovation and growth in Myanmar's banking sector. However, asset concentration is high and most private banks are struggling to meet the new regulatory requirements.

Foreign banks were re-admitted to operate in Myanmar in 1990. Today there are 13 foreign licensed banks and 49 representative offices of foreign banks in Myanmar. In view of Myanmar's integration into ASEAN, the pressure to open up the financial sector for foreign institutions is steadily increasing. The new Myanmar Companies Act announced in August 2018 allows foreign banks up to 35% stake in local banks, potentially facilitating knowledge transfer and capitalization of the domestic banking sector. However, there is a risk that domestic banks are not strong enough to withstand competition from foreign banks should they be allowed to operate freely.

Backed by the banks' strong demand as well as by political and economic liberalization, the supporting infrastructure for Myanmar banks is developing at a fast pace. This includes institutions like the Myanmar Banks Association, the Myanmar Payment Union and the emerging Myanmar Credit Bureau Limited, as well as numerous bank training and education providers. Several private training providers have been established to add to the rather low supply of university degree programs. However, the current supply of training is still not sufficient to meet the future needs of the sector. Moreover, ensuring the quality of offered programs remains a challenge as long as there are no national quality standards set by the respective authorities.

## Services of the Banking Sector

Due to the historically restrictive lending regulations of the Central Bank of Myanmar, there is a culture of overdraft lending and conservative practice using almost exclusively land and buildings for loan collateral. Among other unwanted repercussions, these practices resulted in low lending to small businesses and uncertain credit quality. As the Central Bank realised the growing risks it recently obligated banks to convert overdrafts to loans. Banks are also encouraged to develop sound risk management systems and new loan products assessing client creditworthiness through cash-flow and business cycle analysis.

Although the Small and Medium Enterprise (SME) sector has been identified as core aspect for development of Myanmar's economy, SME loans accounted for less than 0.2% of private bank loans in December 2017. Most entrepreneurs finance their businesses with own funds, informal borrowings and bank overdrafts. While it is still difficult for SMEs to access bank loans, there are more financing opportunities these days, especially through the help of international organizations. The emerging Myanmar Credit Bureau and a new register of moveable asset pledges will soon make it easier for banks to appraise the creditworthiness of potential borrowers.

The agricultural sector which employs around two third of the national labour force is also grossly under-supplied in terms of bank credit. As long as private banks shy away from this business the state-owned Myanmar Agricultural Development Bank will remain the largest agricultural lender in the country.

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The trade financing sector of Myanmar was monopolized by state-owned banks until private banks were allowed to provide trade finance in 2012. Today, local banks provide fee-based services such as letter of credits, bank guarantees, and interest-bearing services including import financing, and pre and post shipment export financing. In December 2017, the Central Bank of Myanmar started allowing foreign banks to conduct export financing, and in August 2018 foreign banks were permitted to start offering import trade financing services.

Today private banks dominate the Myanmar deposit market, holding approximately 66% of total bank deposits, while the market share of state-owned banks has decreased sharply over the past few years. Banks offer fixed deposits, call deposits and current accounts. Deposit accounts are often tailored to serve different customers' needs, for instance, minor deposit account, sailor account, wedding deposit account and foreign currency account. Due to Central Bank instructions and the shortage and volatility of foreign currency in local banks, foreign currency accounts are generally more restricted in terms of depositing and withdrawing than local currency accounts.

Domestic and international remittances play a crucial role for Myanmar's economy and poverty alleviation since people from poor rural areas are increasingly migrating either to big cities or neighbouring countries for work and send back money to their families. Approximately 3 million Myanmar nationals living abroad remitted around USD 3.5 billion in 2015, which was about 5.4% of Myanmar's GDP in that year. Myanmar banks and specialized remittance service providers offer a wide range of money transfer services. Recently, there have been significant improvements in domestic remittance services by local banks through their e-banking and mobile payment platforms. However, banks face fierce competition from Mobile Financial Service Providers which are only allowed to provide domestic remittance services to the public and from informal remittance channels called hundis which still play a large role.

Myanmar was first introduced to offline debit cards in 1996, but the expansion of debit cards and electronic payment services came to an abrupt end due to the 2003 banking crisis. It was not until 2012 that debit cards returned and three years later credit cards were introduced to the country. For many years the Myanmar Payment Union had a monopoly on issuing debit and credit cards, but in January 2017 the government removed restrictions on international payment companies and allowed banks to issue co-branded cards.

In recent years, mobile financial services have become an important means for financial inclusion in Myanmar. Currently, there are five major bank-led mobile banking services in Myanmar. Some banks also have their own branded e-banking platforms. In addition, there are three licensed Mobile Financial Services Providers in Myanmar.

## The Regional Perspective

Despite its rapid development, the Myanmar banking sector still remains the smallest market when compared with other Southeast Asian nations. The profitability of Myanmar banks is weak evidenced by low net interest margins and insufficient non-interest income. The fixed interest rate environment adds additional challenges such as the inability to price risk which results in shortfalls in interest income and very low loan-deposit ratios. Moreover, there is a lack of modern banking infrastructure and reporting transparency. This is particularly troublesome when considering the country's declarations to integrate into the Association of Southeast Asian Nations (ASEAN) community.

Myanmar joined ASEAN in 1997. Financial sector integration under the ASEAN Banking Integration Framework is scheduled to begin in 2020. In preparation, it is expected that the Central Bank of Myanmar will gradually adjust financial sector regulations. For Myanmar's local banks, this will herald a new era of tougher competition with foreign banks and probably a painful consolidation process, but at the same time, potential for improved access to capital, banking infrastructure and know-how.

# Introduction

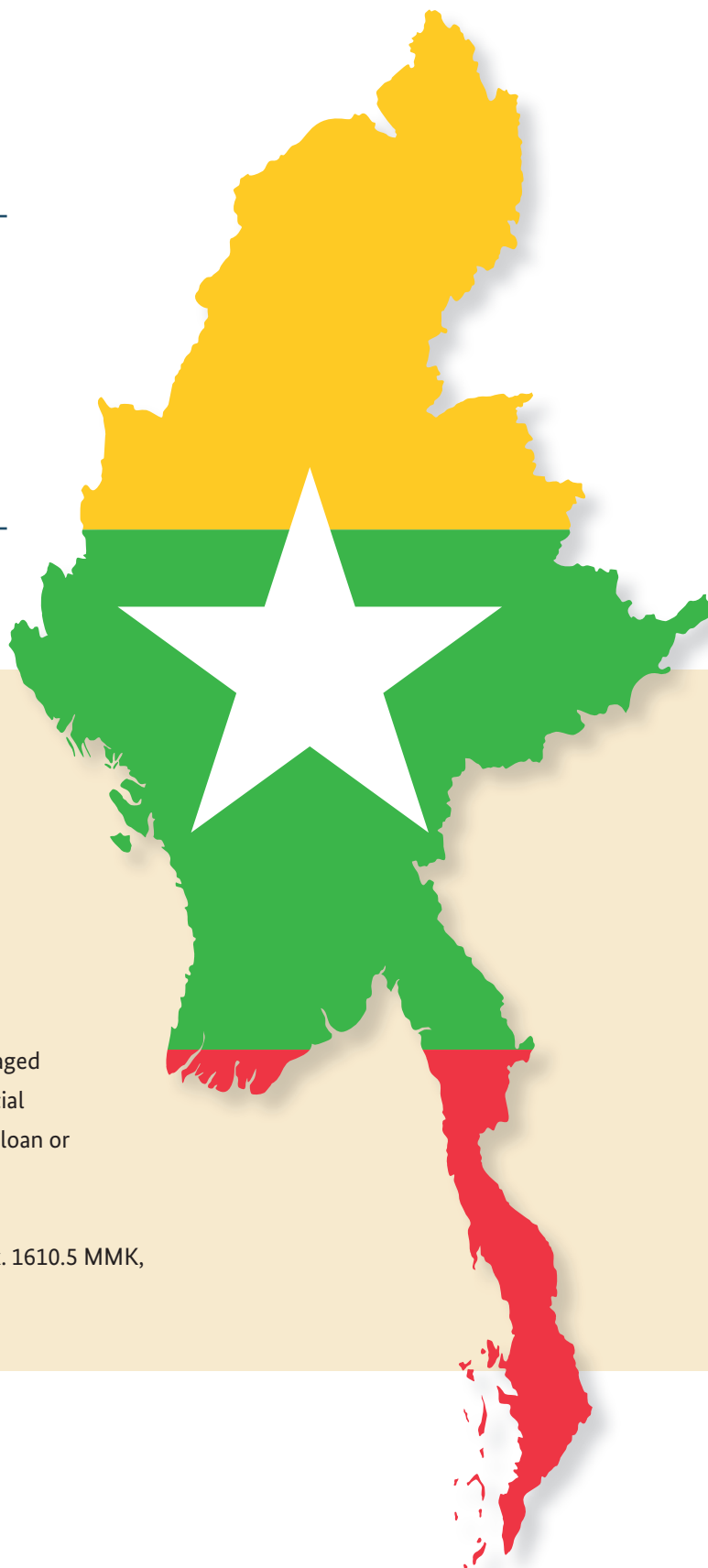
# 1

A sound financial system is essential for the health of an economy. The financial sector plays a crucial role for economic development, in particular by creating money, mobilising deposits, allocating capital, and providing modern payment and insurance services. An efficient and effective financial sector thereby reduces costs and risks in the real sector. Hence, the stability of the financial sector is of paramount importance for the well-being of a country and its people. And it is the chief responsibility of a central bank to ensure this very stability.



Myanmar is a lower middle income economy with a GDP per capita of 1,299 USD in 2017. Strong economic growth over many years translated into a substantial reduction in poverty. Nevertheless, still more than 32% of the population lived below the national poverty line in 2015, and the country is considered the poorest nation within the ASEAN region, with low Human Development Index and

financial inclusion indicators. Moreover, the economy remains vulnerable as illustrated by the rapid currency depreciation between April and August 2018 and the related rise in inflation. <sup>1</sup>



### Box 1: Myanmar in figures

**Population (2017)** <sup>2</sup> : 53,370,609

**Surface area:** 676,590 sq.km

**Population growth (2017):** 0.92%

**GDP per capita (current USD, 2017):** 1,299 USD

**GDP growth (2017):** 6.37%

**Human Development Index** <sup>3</sup> : 0.578 / Rank 148

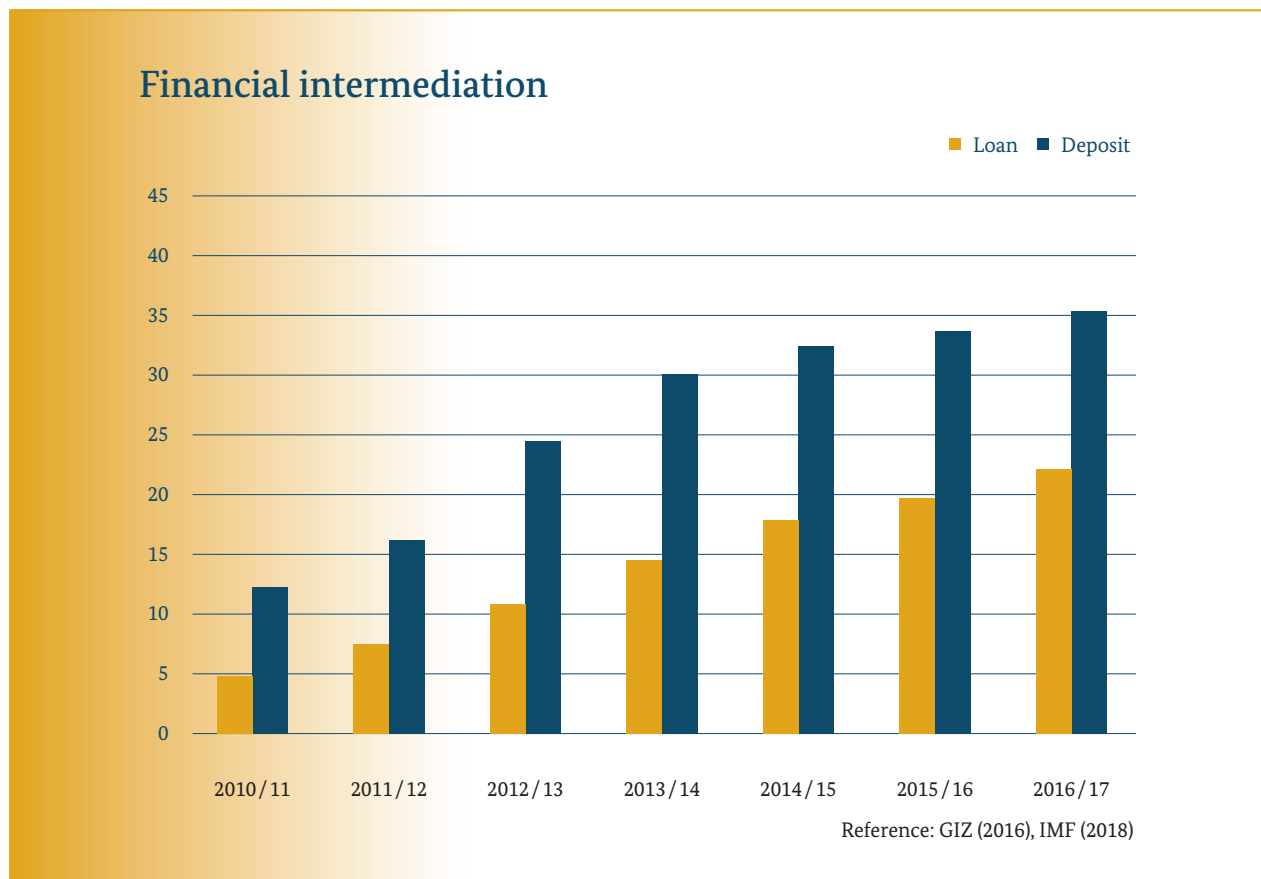
**Financial inclusion** <sup>4</sup> : 25.61% of the population aged 15 years or older had an account at a formal financial institution in 2017; 6.6% of small firms had a bank loan or line of credit in 2016

**Inflation (2018 forecast)** <sup>5</sup> : 6.2%

**Exchange rate (September 2018)** <sup>6</sup> : 1 USD = max. 1610.5 MMK, min. 1512.0 MMK

Due to its history the financial sector of Myanmar is dominated primarily by commercial banks. The sector struggles to fulfil its role as a fully-fledged financial intermediary. In March 2016 the banking sector still held 92% of total financial sector assets (about 42.4 trillion MMK). The remaining 8% was

comprised of Insurance, Securities, Finance Companies and Micro Finance Institutions. Banks have grown rapidly in size in the last decade; both deposit and loan as a ratio of GDP increased approximately 3 times within the last 6 years, however the momentum of growth is now slowing down.



**Figure 1** Financial intermediation (Loans and deposits in % of GDP)

## Historical Perspective

A brief look at the history of the Myanmar banking sector can help to explain the current situation. The modern banking sector of Myanmar went through five distinct phases: the British colonial era until 1948; the post-independence period from 1948 to 1962; the military-socialist regime from 1962 to 1988; the military regime after 1988 with far-reaching economic reforms starting in 2010; and finally, the reforms initiated under the new NLD government since November 2015. <sup>7</sup>

In the British colonial era from 1826 to 1942, the banking system of Burma, as the country was called then, was entirely shaped by the British rulers. The first central bank emerged in 1939 out of the Rangoon branch office of the Reserve Bank of India. By the end of the colonial era, a total of 20 banks operated in the country, most of them with headquarters overseas.

During the Japanese occupation from 1942 to 1945 the previous financial system collapsed entirely. Instead, the Japanese created several financial institutions whose sole purpose was to extract resources from Burma. After the defeat of the Japanese, however, the foreign banks returned and the Union Bank of Burma took over the role of a central bank. In 1948, Burma became independent and the banking sector flourished under the new parliamentary democracy. At that time the banking industry contributed more than one third to Burma's gross domestic product and the Burmese banking sector was considered to be the most developed in the region.

In 1963, one year after the military seized control of the country, all banks were nationalised and soon amalgamated into the Peoples Bank of the Union of Burma. However, the economic policies of the

military-socialist regime failed badly and in 1988 the State Law and Order Restoration Council took over power. This military junta chose a more market oriented approach. With the Financial Institutions of Myanmar Law it started to liberalise the financial sector, resulting in the re-emergence of private banks in 1992. However, after a decade of rapid growth a serious banking crisis hit the country in 2003, resulting in an economic recession. Three major banks collapsed and the central bank introduced stringent prudential measures to reel in the crisis.

After the 2010 election, a quasi-civilian government embarked on a series of political and economic reforms. Prudential regulations were eased and the central bank was given full autonomy. In January 2016, the new Financial Institutions Law, based on international best practices, was enacted. Several new private banks were granted licenses.

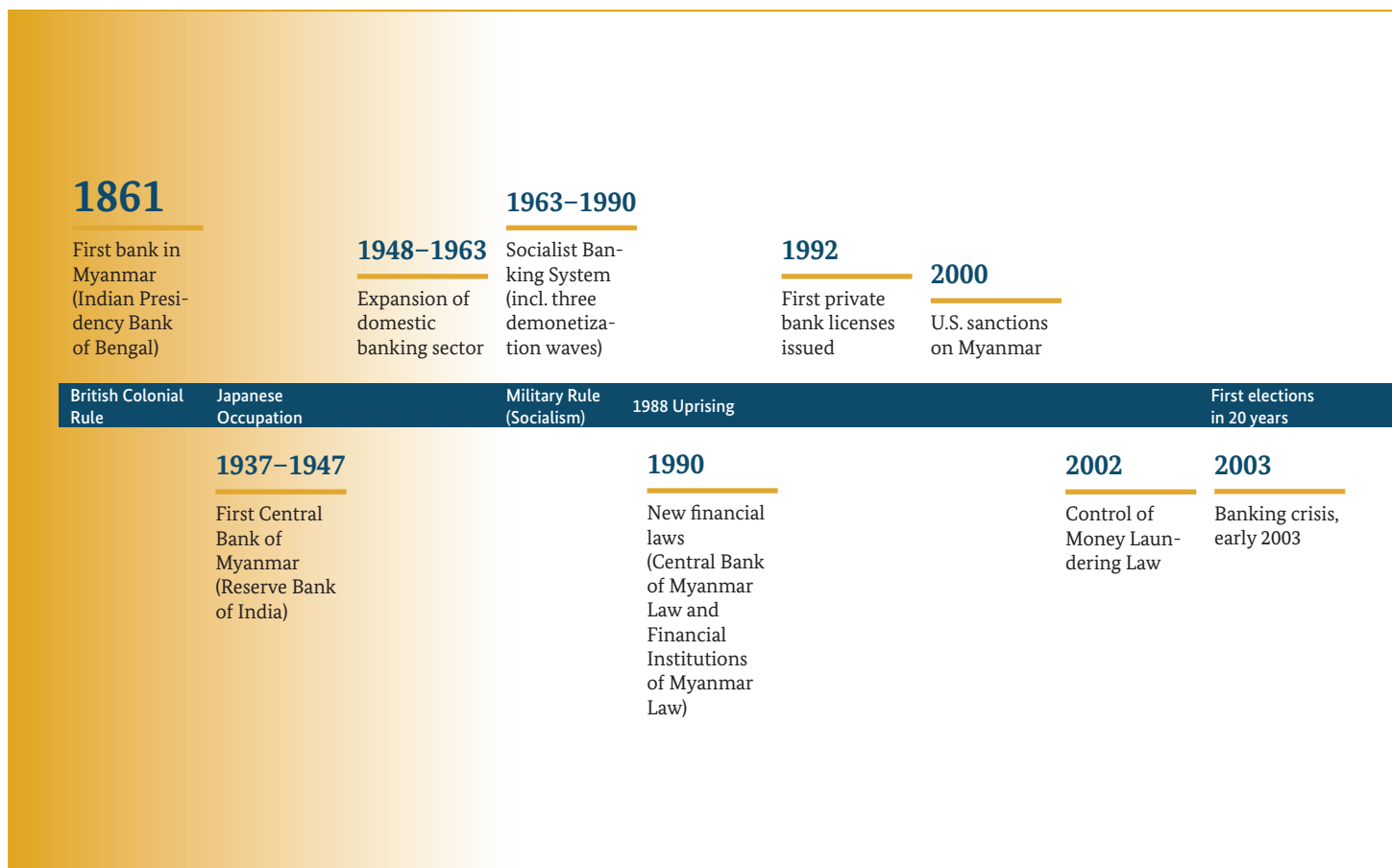


Figure 2 Major developments in the Myanmar Banking Sector (1861-2018)

The political reforms culminated in the free general elections of November 2015, which saw the opposition party NLD win a large majority in parliament. Since then, the new government accelerated the various reform projects of the previous government.

In summary, after almost five decades of harsh restrictions under military rule and stringent international sanctions the former granary of Southeast Asia has become the poorest country of the region. Furthermore, the banking sector of Myanmar, once a front runner during the 1950s, is today the least developed in the ASEAN region. However, the Myanmar government has started to reverse this negative trend. Since 2011, various ambitious financial sector reforms have been kicked off, in particular through the new Financial Institutions Law enacted in 2016.

Significant reforms can be found in the Myanmar’s banking sector in 2017. The necessary regulations known as the “four regulations” (capital adequacy, asset classification and provisioning, large exposure and liquidity ratio) were released by the CBM in July 2017. With this effort Myanmar’s Central Bank sets the stage for a Basel II Framework in the banking sector.

Myanmar’s currency (the Kyat) has depreciated remarkably since July 2018 due to external effects such as the US-China trade war and internal effects such as trade deficits. In August 2018, the Central Bank announced that it has removed a 0.8 percent trading band around the kyat, thus liberalizing the foreign exchange market. It also announced the liberalization of foreign banks to extend their banking services to local corporates which aims to improve access to funding for local businesses.

**2011**

Microfinance  
Business Law

**2013**

Central Bank  
of Myanmar  
Law &  
Securities and  
Exchange Law

**2015**

Yangon Stock  
Exchange

**2016**

AEC, Financial  
Institutions  
Law,  
Regulation on  
Mobile Finan-  
cial Services

**2018**

- Removing 0.8% trading band on Foreign Exchange Market
- CBM allows foreign banks to extend services to local companies

**2012**

Foreign  
Exchange  
Management  
Law (Managed Floating System)  
Myanmar  
Payment  
Union: first  
debit cards,  
ATMs)

**2014**

Anti-money  
Laundering Law,  
Counterterrorism Law, Foreign  
Exchange  
Management  
Regulations,  
Securities  
and Exchange  
Commission of  
Myanmar formed

**2017**

Four important  
regulations  
(Capital Adequacy Regulation,  
Asset Classification and Provisioning Regulation,  
Large Exposures  
Regulation,  
Liquidity Ratio  
Requirement  
Regulation)



# Regulatory and Supervisory Framework

## 2

Financial sector stability is of paramount importance to a country's economy. This insight was last experienced painfully during the 2008 global financial crisis. Myanmar last experienced a severe banking crisis in 2003 when a bank run on private banks led to the collapse of three major financial institutions and resulted in economic hardships for the whole country. It is therefore with good reasons that the financial sector is one of the most heavily regulated sectors in the economy. Since the 2003 banking crisis, Myanmar's legal framework for regulating the financial sector has been undergoing heavy reforms to bring the country's banks closer to internationally accepted standards of operation and prepare the country for ASEAN integration.



## Banking Law

Banking law is essentially a specialized branch of administrative law for banks and other financial institutions that lays out the state's requirements for running their businesses. <sup>8</sup> Since it is difficult to include all aspects of banking regulation in the primary legislation, government entities or banking regulators typically are given the authority to issue a variety of secondary legal instruments, such as regulations, by-laws, or directives to effectively implement the law.

The contemporary legal framework for Myanmar's financial sector consists of laws and amendments passed by the Union Parliament, and regulations, directives and instructions that are issued by the Central Bank of Myanmar (CBM).

Myanmar has a bi-cameral parliamentary system where the Pyidaungsu Hluttaw (Union Parliament) is made up of two Hluttaws (Houses). The Pyithu Hluttaw (Lower House) is formed by 440 members, of which 330 (75% of total seats) are elected, while the remaining 110 seats are reserved for military personnel nominated by the Commander-in-Chief of the Defence Services. The Amyotha Hluttaw (Upper House) has 220 representatives, of which 168 (75% of total seats) are elected in an equal number of 12 representatives from each Region or State, inclusive of relevant Union territories and including one representative from each Self-Administered Division or Self-Administered Zone, while the remaining 56 seats are reserved for military personnel nominated by the Commander-in-Chief of the Defence Services.

All legislative proposals must be brought before the Hluttaw in the form of Bills. There are two types of Bills which are called Government Bill (Public Bill) and Private Bill. Bills may be introduced in either Pyithu Hluttaw or Amyotha Hluttaw, subject to the provision of the Constitution. Under Section 100 (b) of the Constitution, the three kinds of Bills, namely national plans, annual budget and taxation, shall be submitted exclusively by the Union Government and discussed and resolved at the Pyidaungsu Hluttaw according to their respective procedures. <sup>9</sup>

During the first 30 months of the current administration, from January 2016 to July 2018, a total of 95 laws

were enacted (Patron of Pyidaungsu Hluttaw or joint parliament Mahn Win Khaing Than's speech, Mal 2.08.18). Laws affecting the financial sector are listed in Box 2.

### Box 2: Laws affecting the financial sector of Myanmar

- Auditor General of Union Law 2010
- Foreign Exchange Management Law 2012
- Amended Foreign Exchange Management Law 2015
- Central Bank of Myanmar Law 2013
- Anti-Money Laundering Law 2014
- Myanmar Accountancy Council law 2015
- Financial Institutions Law 2016
- Myanmar Companies Law 2017

The most formative laws for the contemporary banking sector are the Central Bank of Myanmar Law 2013, the Financial Institutions Law 2016, the Foreign Exchange Management Law 2015 and the Anti-Money Laundering Law 2014.

## Central Bank of Myanmar Law

The Central Bank of Myanmar Law (CBML), enacted on 11 July 2013, made the Central Bank an independent institution with its governor being at ministerial level. The CBM is given the responsibilities of implementation of the country's monetary and exchange rate policies as well as regulating and supervising the banking sector. The CBM has the authority to issue secondary legal instruments for banks and certain financial institutions. In Myanmar's financial sector, regulations and directives are the most common instruments. Regulations can be signed by the Governor of CBM or at Deputy Governor level and are typically announced by notifications, while directives are signed by the Director Generals in their

respective Departments on behalf of the Governor or the Deputy Governors. In Myanmar sometimes the Governor or the Deputy Governor also sign the directives in more urgent cases. <sup>10</sup>

## Financial Institutions Law

The Financial Institutions Law (FIL), which was passed by parliament on 25 January 2016, is the cornerstone of the current government's banking sector reform. It aims not only to develop and stabilize the financial sector but also to protect the depositor's interest. Moreover, it tries to meet best international practices in accordance with the Basel Core Principles issued by the Basel Committee on Banking Supervision. The law grants the CBM wide-ranging powers to supervise banks and non-bank financial institutions. It encourages the practice of good corporate governance in banks, and promotes transparency and accountability as well as the modernization of the national payment system. Furthermore, it offers clear exit strategies for banks, should they become non-viable. This law and its associated rules and regulations will profoundly re-shape the framework conditions under which banks operate, develop and innovate. In addition, the FIL was the basis for seminal regulation issued by the CBM on Mobile Financial Services.

Under the FIL, financial institutions are classified as Banks, Development Banks, Non-Bank Financial Institutions and Schedule Institutions (such as insurance companies and micro-finance institutions). While the CBM takes over the role as the regulator and supervisor of the banking sector, the Ministry of Planning and Finance (MOPF) has the responsibility to supervise state banks, and regulate and supervise insurance companies and microfinance service providers.

The FIL outlines various banking functions that have to be approved by the CBM before becoming effective. The following requirements highlighted in the FIL must be met by all banks, including foreign banks:

- **License** – To apply for a banking license under the FIL, the business entity must submit the necessary documents, including evidence of being a company or an entity incorporated under the laws of Myanmar (Myanmar Companies Law). Foreign banks can only apply for a license to conduct banking business through a subsidiary or a branch. They need to submit not only documents that are required for domestic banks but also other documents such as a credit rating report and a statement of their capital position. According to directive No. (2/2017), the license fees for domestic and foreign banks are 0.1% of their paid-up capital, and the fee for establishing one branch is MMK 500,000. The annual fee for a local bank is 0.1% of paid-up capital on the 2nd of April and that of a foreign bank is 0.1% of its minimum paid-up capital (USD 75 million). Banking license holders have to commence operations within one year of licensing, comply with all conditions and the restrictions imposed by the CBM and carry out the activities permitted under FIL.
- **Capital** – The minimum paid-up capital is set at MMK 20 billion for domestic banks and USD 75 million for foreign banks. The law defines Core capital or Tier 1 Capital and Supplementary capital or Tier 2 capital. Their minimum ratios are stipulated in various directives of the CBM on capital adequacy ratios, with regulatory capital adequacy ratio being 8% and the minimum Tier I capital ratio 4% (cf. Annex 2).
- **Reserves** – For maintenance of a reserve fund, 25% of a bank's net profits must be transferred to the reserve fund every year until it reaches 100% of the total paid-up capital.
- **Loan Loss Reserve** – Banks are required to maintain a general loan loss reserve up to 2% of outstanding loans and advances.
- **Banking Activities** – The activities that commercial banks are permitted to engage in are subject to any conditions and restrictions in the license. These activities include both, traditional activities like acceptance of deposits and lending, and other activities such as foreign exchange business, e-banking and mobile banking.
- **Restrictions** – The restrictions on large exposures and lending to related parties are outlined in the FIL, while the detail restrictions are shown in the

CBM's Large Exposures Regulation (Notification No. 18/2017). Further restrictions refer to a bank's acquiring or holding of shares of any company or enterprise; this shall not be more than 10% of the unimpaired capital funds of the bank, while the total ownership stake in another bank or non-bank financial institution is limited to 5% of that institution.

- **Accounting, Auditing and Financial Statements** – Every bank must maintain accounts and records, and prepare their financial statements to reflect its operations and financial condition, in accordance with internationally accepted accounting standards. Banks have to set up an audit committee for establishing appropriate accounting procedures and accounting controls, and appoint a suitable external auditor for auditing the bank's accounts.

## Foreign Exchange Management Law

The Foreign Exchange Management Law was enacted in 2012 and amended in 2015. This law liberalized the foreign exchange market and lifted all restrictions on transactions in the current account of the country's balance of payments. Moreover, private banks were allowed to open foreign exchange counters in October

2011, private non-bank money changers were legalized in December 2012, and an interbank foreign exchange market was opened in August 2013. <sup>11</sup>

Banks granted a license to carry out foreign exchange business according to FIL need to comply with the Foreign Exchange Management Law and the directives that are based on this law. The law charges the CBM with the power to make foreign exchange policies and to facilitate the money market between banks operating in Myanmar. In addition, the CBM has the power to issue prudential regulations related to foreign exchange operations and supervise institutions licensed to do foreign exchange business.

The Foreign Exchange Management Law empowers CBM to announce the daily reference rate on the basis of the market exchange rate. After the remarkable devaluation of the Myanmar Kyat in August 2018, the CBM revoked the instruction to conduct buying and selling within 0.8% of the CBM reference rate. <sup>12</sup> As the greater exchange rate flexibility is needed to absorb external shocks and strengthen the country's external position, on 13 August 2018, the CBM announced abolishment of exchange rate bands on its daily reference rates, which is a significant reform measure to move towards market determined floating exchange rates.

### Box 3: Myanmar's exchange rate issue

The exchange rate plays a vital role in an economy. It is the price of foreign currency in terms of domestic currency and vice-versa. The exchange rate links the domestic economy with the rest of the world through goods and assets markets. A stable and predictable rate regime facilitates a country's favourable performance in international trade and payments.

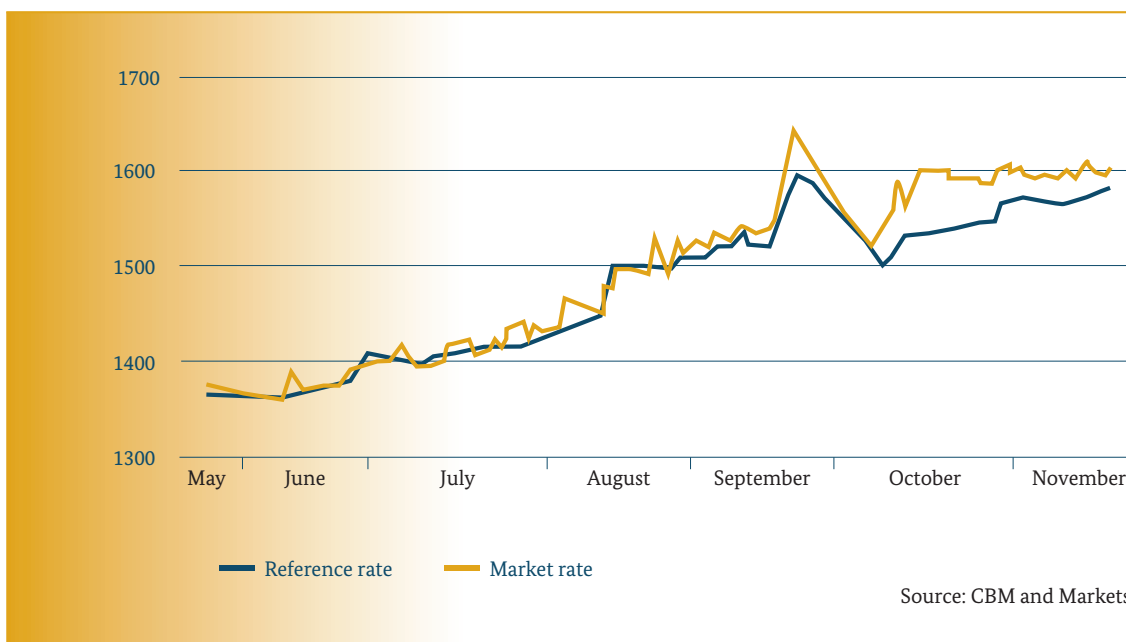
Since April 2012 Myanmar has a managed floating exchange rate system, replacing the previous peg to the IMF's special drawing right (SDR). Under the managed floating exchange rate system the Central Bank of Myanmar (CBM) tries to influence the exchange rates of the Myanmar Kyat (MMK) by setting reference exchange rates in terms of other currencies following

daily foreign exchange auctions conducted with local banks that possess foreign exchange authorized dealer licenses and by allowing all foreign exchange dealers to buy and sell within the prescribed bands. On 11 May 2015, CBM issued an instruction stating that all money-changers including local banks have to buy and sell foreign currencies within the bands of +/- 0.8% of its daily reference rate. In order to avoid liquidity shortage problem, the CBM has set a net open position (NOP) of 30%. If an excess of a bank's foreign exchange (forex) assets over its liabilities is more than 30% of its core capital, the bank is obliged to sell the excess forex to CBM. However, this is not strictly followed by the banks. Under the new Foreign Exchange Management

Law, there are no exchange restrictions on international payment transactions in the current account of the country's balance payments.

The US dollar (USD) dominates the Myanmar payment system. It is normally used to quote both, export and import prices. While the depreciation or appreciation of the local currency, MMK, against the USD does not change the external value of export and import goods and services, Myanmar's importers and exporters will feel the difference. For example, if the Kyat depreciates from MMK 1,000 per USD to MMK 1,500, the export value of a ton of beans priced at USD 100 will increase by MMK 50,000 for Myanmar exporters. On the other hand, Myanmar importers would have to spend more MMK to get the same amount of imported goods. As Myanmar is still a developing country, a large volume of its imports are capital goods and intermediate goods which are essential for its development.<sup>13</sup> Hence the importance of the exchange rate for Myanmar's development.

The figure below shows the exchange rate movement of the MMK against the USD. After having stabilized for the first six months of 2018 at around MMK 1350 per USD, the local currency started to depreciate in June 2018. It depreciated by 3.7% within one month, mainly due to a USD shortage in the country. Banks are reluctant to sell their USD. Import prices for essential goods such as pharmaceuticals, construction material and fuel rise, which in turn fuels production costs and has an impact on the general price level in the country. The CBM started to intervene in the market on July 26. On 13 August, the exchange rate bands mentioned before were removed. On 23 August, CBM announced measures to solve the exchange rate problem and on November 8, CBM allowed foreign banks in the country to do all banking businesses with local corporates. These are major steps taken by the monetary authority. The positive impact of these measures may be seen in the relatively stable exchange rates after 12 October 2018.



**Figure 3** Myanmar Kyat Exchange Rates in 2018 (MMK per USD)

Four major factors contributed to the recent decline of the value of the MMK against the USD:

- The USD became stronger in international markets against the background of a booming US economy and rising interest rates in the US. The comparatively high inflation rate in Myanmar reduced the purchasing power of the MMK even more than in other countries of the region.
- Myanmar's rising external trade deficits is one of the most cited reasons for the decline in the external value of the MMK. The trade deficit has increased sharply from USD 1.8 billion in the Financial Year 2014–2015 to over USD 5 billion in 2015–2016 and 2016–2017, but it lowered to USD 3.8 billion in 2017–2018. Since April 2012, when CBM dropped the “Export First” policy which required export earnings before issuing import permits by the Ministry of Commerce, import bills have surged to meet domestic demand. On the other hand, due to the supply inelasticity of Myanmar's exports, which mainly consists of agricultural and primary products, exporters' ability to take advantage of price incentives in the international markets is limited. The rising trade deficit is too large to be offset by net receipts from services and income, producing a high current account deficit of 4–5 per cent of GDP in the Financial Year 2016–2017 and 2017–2018 (IMF 2017).
- Another possible factor are the limited investment opportunities in the country. Myanmar's financial sector is underdeveloped and the Yangon Stock Exchange is still at its infancy stage. Since property and vehicle markets cooled down recently, investors and speculators turned to gold and the USD as a safe haven and hedge against rising inflation.
- The high dependency of Myanmar on the USD is another factor to be considered. The USD is not only important for external trade but also to express domestic prices, such as air fares or hotel charges. Moreover, it is the most promising store of value in the face of rising inflation and the most liquid profit-making asset for speculators.

The CBM, responsible for maintaining price and financial system stability in Myanmar, has responded to the exchange rate decline by implementing various measures. On 13 August 2018, it removed the +/- 0.8 percent trading band, in realization that the band cannot be maintained with limited foreign exchange reserves. Since then the Myanmar Kyat has been allowed to freely float in the market while other measures to stabilize the exchange rate were taken.

On 23 August 2018, CBM Deputy Governor U Soe Thein came up with a specific agenda for solving underlying problems, including a ban to purchase sugar and diesel from Thailand and Vietnam for re-exportation to China, stopping speculation in foreign currencies, solving structural problems causing external trade imbalances, injecting more USD from the country's foreign exchange reserves into the market, and introducing a currency swap program for local banks where CBM will provide short-term loans in USD to local banks by accepting their local currency as collateral.

In addition, on 8 November 2018 the CBM issued Instruction No. 6/2018 allowing foreign banks to provide all kinds of banking services to local corporations. Local business entities have now financial access to foreign banks and can borrow in USD and MMK. One of the main objectives behind this move is to ease the forex liquidity shortage in Myanmar through inflows from foreign banks. However, the detailed instructions for the foreign banks are still due to be elaborated by the CBM.

In conclusion, we see that the CBM is trying to stabilize the exchange rates by taking necessary reform measures in the exchange rate regime. Addressing the exchange issue should be a well-articulated, sustainable and consistent program for a long-term solution. Short-term measures using quick fixes such as administrative actions on money-changers would not produce the required long-term solution but create distortions in the on-going process towards a market-oriented economic system. It would undermine the financial system by driving the foreign exchange business into the black market. It is vitally important for the monetary authority to adopt a sound monetary policy which instils a stable exchange rate system to serve the common interest of the country in the long run.

## Anti-Money Laundering Law

Since June 2000, Myanmar had been placed on the list of non-cooperative countries and territories of the Financial Action Task Force (FATF), the world leading body to fight money laundering and combat financing terrorists. <sup>14</sup> In its effort to avoid international sanctions on its financial system, Myanmar enacted The Control of Money Laundering Law (the State Peace and Development Council Law No. 6/ 2002) on 17 June 2002. Although the law created a framework for anti-money laundering measures, there were many FATF’s standard requirements yet to be met.

Due to Myanmar’s failure to make adequate progress in implementing the Control of Money Laundering Law with the issuance of necessary by-laws, the FATF decided to apply counter-measures to Myanmar on 3 November 2003. <sup>15</sup> The purpose of these counter-measures is to reduce the vulnerability of the international financial system and to increase the effectiveness of anti-money laundering measures. During 2003–2005, the Myanmar banking sector faced serious money laundering problems with the US designation of Myanmar and its two local banks, Asia Wealth Bank and Myanmar Mayflower Bank to be of “primary money laundering concern” in November 2003. The consequence can be seen in the revocation of banking licenses from the two named banks in March 2005, and a few months later from the Myanmar Universal Bank.

On 14 March 2014, the new Anti-Money Laundering Law (Union Parliament Law No. 11/2014) was enacted in line with international standards (Recommendations of the FATF and Basel Core Principles for effective Banking Supervision). The main objectives are to effectively combat money laundering and terrorist financing in the country; to deter meddling in the country’s management, politics, and social affairs using the money and property obtained by illegal means; to take AML/CFT measures in accordance with the International Convention Agreement; to cooperate with other countries and organizations combating money laundering and terrorist financing; and to issue necessary instructions and directives on AML/CFT to financial institutions.

In its Section 68, under the caption of ‘Money laundering and the reporting of suspicious transactions’, the

Financial Institution Law of 2016 stipulates that the CBM shall make regulations prescribing the specific procedures including reporting requirements under the Anti-money Laundering Law, Counter Terrorism Law and other related laws.

As entrusted by Section 69 (C) of the Anti-Money Laundering Law and Section 40 of the Central Bank of Myanmar Law, the CBM has issued instructions on actions to be taken by financial institutions on money laundering and terrorist financing (CBM Directive No. 21/2015 dated October 2, 2015).

On January 27, 2015, the CBM issued AML/CFT Risk-based management guidelines. In its management guidance note, the CBM suggests all banks in the country to develop effective frameworks and procedures to manage their money laundering and terrorist financing risks.

## Financial Reporting and Supervision

Apart from the laws and their secondary instruments with regard to corporate financial reporting, the following laws play an important role in the legal and statutory framework: Auditor General of Union Law 2010; Myanmar Accountancy Council Law 2015; and the Myanmar Companies Law 2017.

To successfully implement the various laws directed at the banking sector, the CBM releases regulations and directives as secondary instruments. Some of these instruments define prudential requirements in the form of key ratios and limits that have to be met by all banks (cf. Annex 2).

The directives based on the FIL and released in 2017 are in line with the Basel I principles, such as capital requirements and risk weighted assets, and generally it can be accepted that Myanmar’s banking sector meets the Basel I principles. In addition, since the CBM has taken the supervisory role, it also fulfils the second pillar of Basel II referring to governance and supervision. However, the compliance of banks with laws and regulations regarding the reporting of data to the CBM has been sluggish due to the banks’ data collection

problems and inadequate accounting systems (Milken Institute, 2017).

The Financial Institutions Supervision Department (FISD) within the CBM is responsible for the supervision of local and foreign banks. It issues necessary instructions and conducts both, on-site examination and off-site monitoring. Off-site monitoring entails that the banks regularly report to the FISD (daily, weekly, monthly, quarterly and annually). On-site supervision is conducted at least once in two years and covers announced visits to the banks' headquarters and branches in order to assess their internal control systems, corporate governance, financial data, AML/CFT measures, and other compliances. If a bank is not in line with the CBM's prudential ratios and limits, a penalty of one-fifth of 1% of the shortfall amount can be charged. The FISD intends to improve its oversight function by transitioning from compliance based supervision to risk based supervision.

There are some overlapping responsibilities for the supervision and regulation of State-Owned Banks (SOBs) with the MoPF's Financial Regulatory Department (FRD). SOBs are licensed by the CBM, and are required to abide by all CBM regulations; theoretically this means they are also subject to the same level of supervision from FISD as other banks, however, in practice the FRD maintains a strong level of oversight over SOBs.

Adherence to accounting and auditing standards is a cornerstone of a sound and stable banking system. International Financial Reporting Standards (IFRS) are recognized as the global financial reporting standard, and Myanmar has adopted IFRS standards to advance the modernization and transparency of its banking sector. IFRS and International Standards on Auditing (ISA) were adopted in 2009.

The Myanmar Accountancy Council (MAC), the regulatory body for accounting and auditing standards in Myanmar, officially released a series of notifications on Myanmar Financial Reporting Standards (MFRS) and Myanmar Standards on Auditing (MSA). The MFRS for SMEs were released in 2009<sup>16</sup> and one year later for financial institutions, public companies and accountants.<sup>17</sup>

Regarding auditing, the MAC announced the Myanmar Standards on Auditing (MSA) in 2009,<sup>18</sup> followed by a second notification in 2010<sup>19</sup> legally requiring all Certified Public Accountants (CPA) to follow the stipulated standards. Hence, as of 2009, MFRS and MSA follow their international counterparts, International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA).

To fully implement IFRS principles, new instructions have been released by MAC in July 2018. According to the instructions, all Public Interest Entities (PIE) must adopt IFRS with the effective fiscal year of 2022–23, while adoption before 2022–23 fiscal year is encouraged. Moreover, any business can apply IFRS for their company reporting system. All auditors will need to follow the International Standard on Auditing (ISA) by the 2022–23 fiscal year.

Therefore, banks should be aware that IFRS will become fully applicable in reporting systems by the fiscal year 2022–23. While banks currently may have other challenges – such as meeting prudential requirements, high NPL ratios and low profitability – the advantages of a transition to IFRS promise tangible rewards. If the banks adopt recognized international standards their data will be reliable and transparent, and it can support management and directors to make the right decisions for their banks. Furthermore, banks will be better positioned to attract more investments, including international investors.

In 2017 the World Bank performed a Myanmar Report on Observance of Standards and Codes (ROSC) which stated there is a major compliance gap between the requirements of the accounting standards and actual practice across all types of enterprises.<sup>20</sup> In 2013, under the direction of the Office of the Auditor General of the Union (OAG), a multi-stakeholder committee was set up to strategically improve the implementation of a sound financial reporting framework for Myanmar's banking sector. In 2015, the Country Strategy and Action Plan<sup>21</sup> was published by the committee, and, following its dissemination, the Banking Sector Financial Reporting Standards Implementation Committee (BFRIC) was founded in 2016 to oversee and guide the IFRS and ISA adoption and implementation activities. Currently, BFRIC is encouraging and supporting the ongoing banking sector transition to implement IFRS.



# The Myanmar Banking Sector

# 3

## Sector Overview

For almost five decades the people of Myanmar and the country's economy lived through an era of harsh restrictions under the rule of a military regime. International sanctions led to the isolation of the country. Since 2010, reform efforts by the Myanmar government and the opening up of the economy have triggered economic growth and high hopes for millions of low income households. The banking sector is one focus of the new government's economic reforms.



Despite its fast growth, Myanmar's banking sector remains relatively small. Credit to the private sector was at 23.5% of GDP in 2017, one of the lowest values in the region (Fig. 2). The indicator fell remarkably during the banking crisis in 2003<sup>22</sup> and only reached its pre-crisis level in 2012 (Fig. 3). Credit growth was fast and peaked at 70% in 2009. An analysis conducted by the IMF<sup>23</sup> indicates the

prevalence of a “credit boom” between 2010 and 2014. More recently, year-on-year growth rates slowed down, but remained at a high level of 25.15% in December 2017.<sup>24</sup> The fast credit growth raises concerns regarding the stability of the sector, especially because the banks' risk management capabilities have not increased to the same extent as their credit exposure.

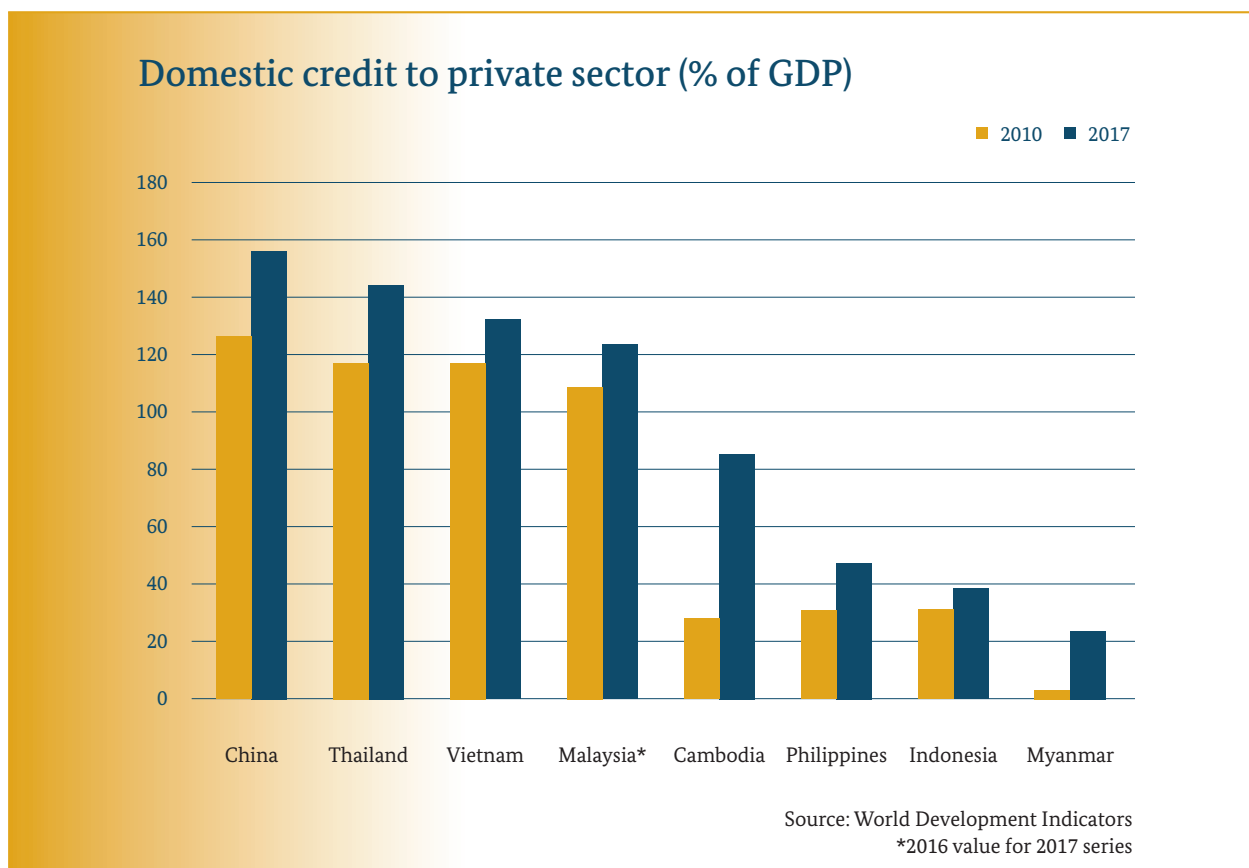


Figure 4 Domestic credit to private sector – regional comparison

Myanmar's banking sector today consists of four state-owned banks, 27 domestic private banks and 13 foreign bank branches. In addition, there are 49 representative offices of foreign banks listed on the website of the CBM. Figure 4 provides an overview about the banking market.

Between 1963 and 1990, the banking system was completely state-owned. For this reason, state-owned banks (SOBs) remained dominant in the banking

system until recently and they still offer most standard banking products. Private banks had been nationalized in 1963 and later amalgamated by the military regime. They only re-emerged after the enactment of the Financial Institutions of Myanmar Law (FIML) in 1990. The FIML also allowed foreign banks to maintain representative offices in Myanmar. The first licenses to nine foreign banks were granted in 2014.

As of December 2017, total bank assets amounted to 56.12 trillion MMK. The growth rates since 2012 are impressive but also very volatile, ranging between

176% in 2012-13 to 8% in 2014-15. The latest growth rate between March 2016 and 2017 was 23% (Fig. 5).

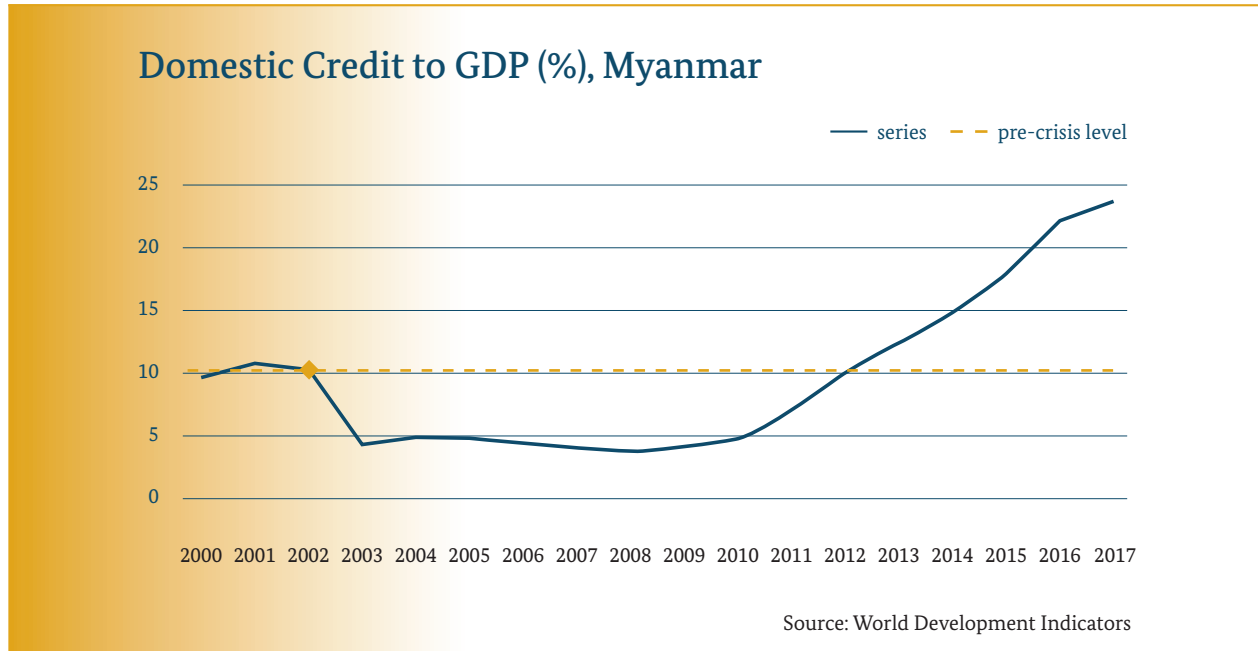
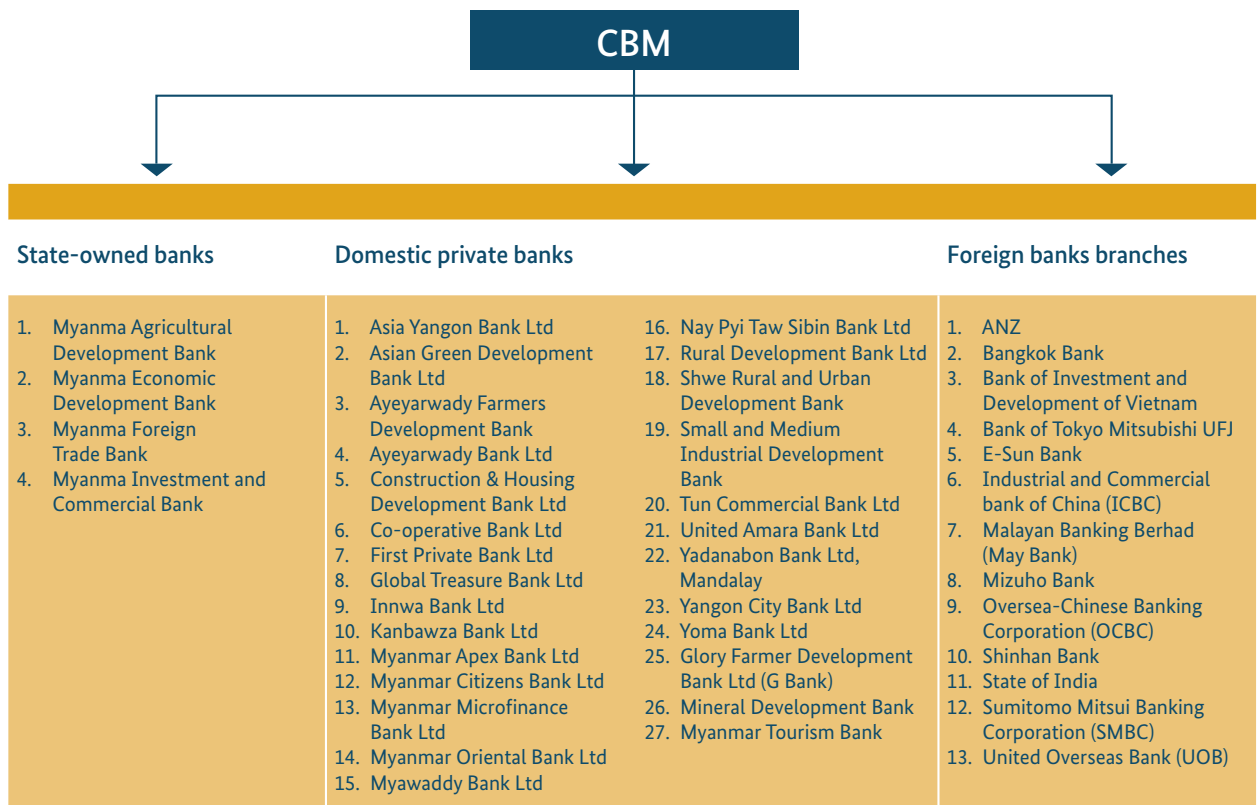


Figure 5 Domestic credit in Myanmar since 2000



Source: CBM

Figure 6 Banking market of Myanmar

Private banks accounted for roughly 55% of total bank assets, 66% of deposits and 82% of loans, reflecting their strong growth in recent years. The market share of SOBs has decreased sharply over the

past years. In terms of assets, it fell from 60% at the end of fiscal year 2015 to 44% in 2016 and only 34% as of December 2017 (Fig. 6).

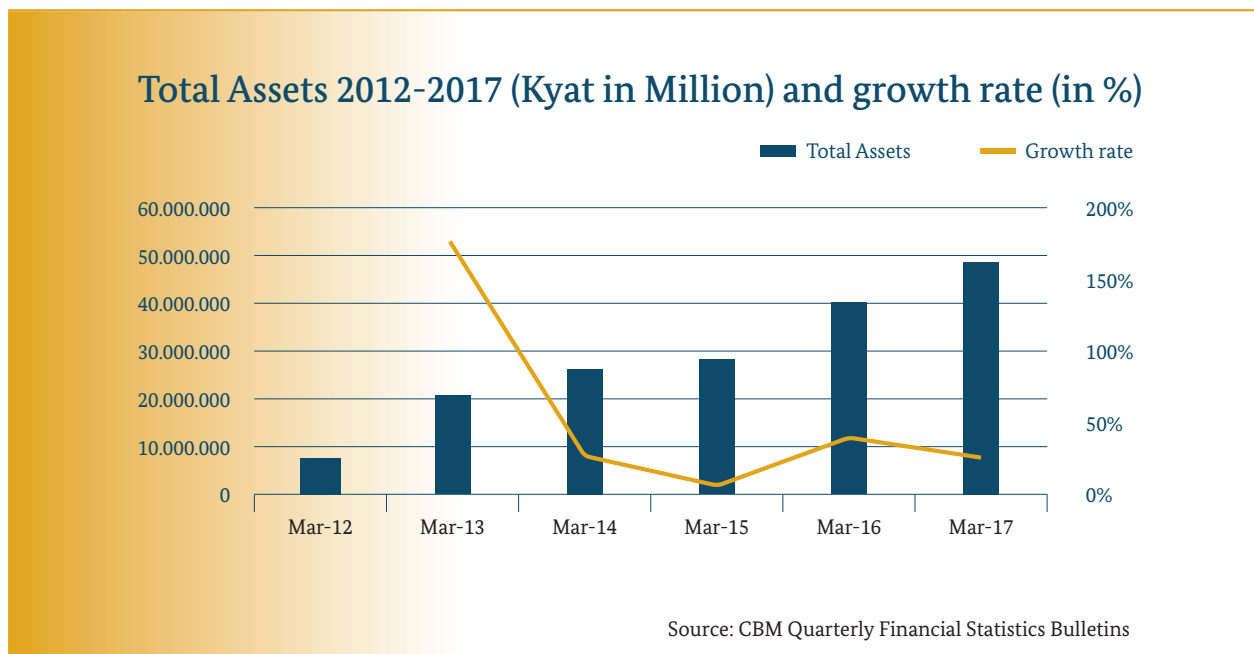


Figure 7 Growth of total bank assets (2012–2017)

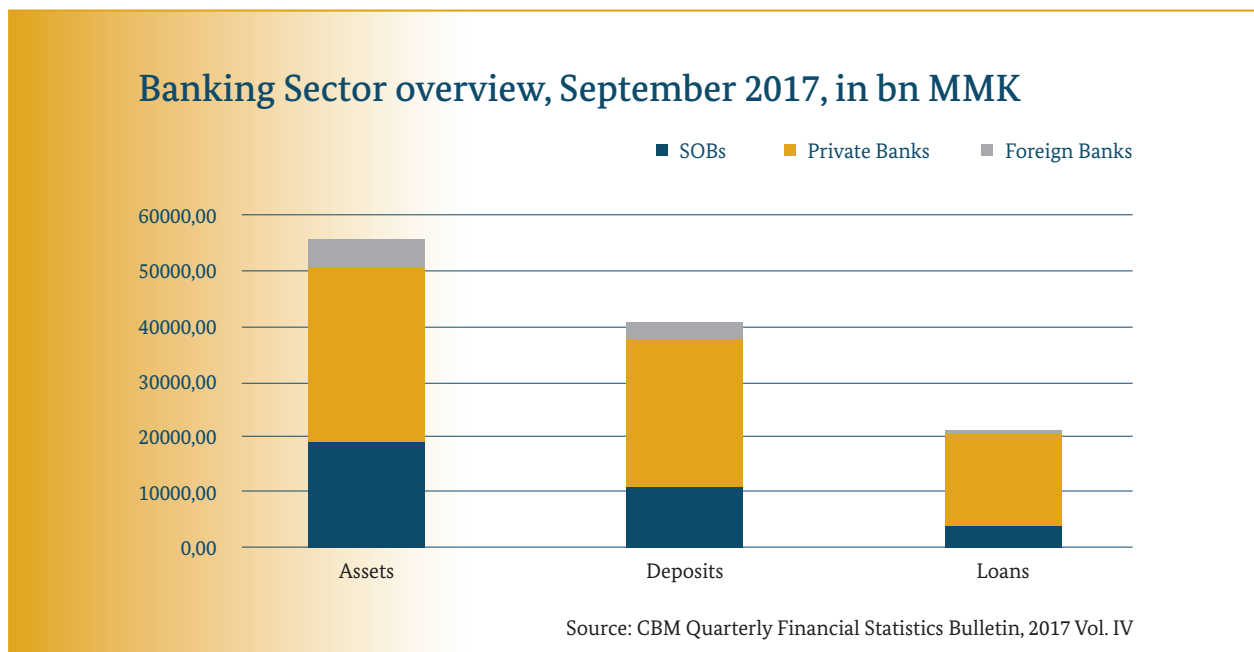


Figure 8 Banking sector assets, deposits and loans as of December 2017



မိန့်ဘောင်ပွင့်

22

ATM MONEY CHANGER  
MR. 005

WE BUY USD 001  
WE SELL USD 005

မြတ်  
ANTIQUE WATCHES, PARTS  
SALES & SERVICE CENTRE

20

Air T  
Highway Ex  
Availab  
မြတ်စွာ၊ မြတ်  
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## State-owned Banks

There are four state-owned banks in Myanmar: the Myanma Agricultural Development Bank (MADB), the Myanma Economic Bank (MEB), the Myanma Foreign Trade Bank (MFTB) and the Myanma Investment and Commercial Bank (MICB). Although private banks today are more prevalent state-owned banks still play an important role in Myanmar. However, they urgently need to be reformed to improve their financial performance.

After the nationalization of all banks in 1963, Myanmar's banking sector was completely state owned until 1990. This explains the important role state-owned banks (SOBs) still play in the market today.

For instance, in March 2017 the MEB was Myanmar's second largest bank in terms of assets and held approximately 16% of total bank deposits.

## Overview of SOBs

as of 28.02.2017, financial data in million MMK

	MADB	MEB*	MICB	MFTB
Total Assets	1,397,940.40	7,576,196.22	3,387,507.02	3,831,914.92
Total Deposits	12,843.52	5,552,789.61	563,386.30	2,893,793.94
Total Loans	1,311,012.96	2,426,834.72	28,278.15	240,361.48
Branches	208	308	2	1

Source: CBM, Financial Position of Banks, Finance Companies and Foreign Bank Branches (2017)  
\*at 31 March 2017

**Table 1** Key facts on state-owned banks

Yet, SOBs keep losing market share to strongly growing private and foreign banks. Their share in terms of assets has decreased sharply in recent years, from 60% in March 2015 to 34% according to the newest available figures (December 2017). SOBs used to benefit from a lack of public trust in private banks – especially after the bank crisis of 2003 – and

held 44% of total deposits in March 2015. However, this number has fallen to 26% as of December 2017. Although the market share of SOBs in Myanmar is still higher than the average in the region,<sup>25</sup> these figures depict a clear trend which is likely to continue with strong growing private banks and foreign banks entering the market.

## Box 4: Myanmar's state-owned banks

The **Myanma Economic Bank (MEB)** is Myanmar's second largest bank in terms of assets and holds a significant amount of total deposits. The bank was established in 1976 and operates under the Ministry of Planning and Finance (MOPF). MEB maintains 308 branches across the country. Founded when private banks were not yet allowed to operate, the bank still offers almost all classic banking products. It has the mandate to provide subsidized policy loans to other state-owned banks, cooperatives and state-owned enterprises. <sup>26</sup>

The **Myanma Agricultural Development Bank (MADB)** was established in 1953 as State Agricultural Bank and is the main provider of loans to farmers in Myanmar. It serves around 2 million customers and over 10,000 villages across the country. <sup>27</sup> The bank provides seasonal loans for crop cultivation and term loans for the acquisition of farm machinery and equipment. In addition, the bank runs several programs for savings mobilization in rural areas. Although the loan amount per acre has increased considerably during the last years, it is still insufficient to cover production costs and repayment procedures are often not feasible for borrowers. <sup>28</sup> In 2017, MADB was moved from the Ministry of Agriculture, Livestock and Irrigation (MALI) under the remit of the MOPF. The current interest rate for loans is 8%. On October 20, 2018, MADB announced that it will extend more seasonal loans to farmers in

2018/19: paddy loans from MMK 100,000 to 150,000 per acre and other crops from MMK 50,000 to 100,000 per acre. It will extend agricultural loans by taking Form 7, a certificate of possession of the farm plot, as collateral. The lending programs are as follow: (a) Winter Loan (from October 26 – December 31, 2018); (b) Pre-Monsoon Loan (January 1 – March 31, 2019); (c) Monsoon Loan (May 2 – September 30, 2019). <sup>29</sup>

The **Myanma Investment and Commercial Bank (MICB)** is a lot smaller than MEB and MADB, with 3.4 trillion MMK of assets as of February 2017. It was set up in 1990 to stimulate the growth of industry and production in the country. However, total loans of MICB amounted to only 28.3 billion MMK in February 2017, less than 0.2% of total bank loans. In addition to commercial banking services, MICB also provides international banking services like remittances in local and foreign currencies to its customers.

The **Myanma Foreign Trade Bank (MFTB)** was established under the FIML in 1990 and is the legal successor of the Foreign Department of the State Commercial Bank. MFTB specializes in international banking and has a worldwide network of over 263 correspondent banks in 54 countries. Both the government and private customers keep their foreign exchange accounts at MFTB.

Myanmar's four SOBs still offer most standard banking services, even long after the re-emergence of private banks in 1992. In general, there are two views on state ownership of banks. On the one hand, it can be beneficial in cases where SOBs undertake socially desirable investments and allocate resources to important sectors that would be otherwise underserved by the private sector. In the case of Myanmar, for example, the MADB is the main provider of loans to farmers who are rarely served by commercial banks. On the other hand, state ownership of banks can be inimical for competition and overall financial stability since misallocation of resources, operational inefficiencies and higher rates of defaults are often found within SOBs. <sup>30</sup>

SOBs in Myanmar offer highly subsidized loans to selected sectors, especially to the state and the agricultural sector. <sup>31</sup> The latter is of great importance for the economy and Myanmar's people, accounting for more than 25% of GDP <sup>32</sup> and 50% of employment in 2017. <sup>33</sup> Yet, concerns remain that SOBs distort competition and crowd out private banks' activities in these areas. <sup>34</sup> For instance, whereas only 14% of all outstanding loans in December 2017 were issued by state-owned banks, loans from SOBs accounted for over 90% of all loans to the agricultural sector, excluding foreign banks. <sup>35</sup>

In general, SOBs tend to have higher overhead costs and lower interest margins than their private counterparts, especially in developing countries. <sup>36</sup> Myanmar is no exception. The four SOBs struggle to keep pace with private banks. Common challenges include a lack of new technologies and modern IT infrastructure, operational inefficiencies, bad customer service, poor corporate governance, a lack of skills and unclear policy mandates. As of December 2017, the loan-deposit-ratio of SOBs was only 28.4%, compared to 67.4% at private banks. In addition, SOB lending to the private sector is disproportionately small compared to their overall market share.

The country's largest SOB, the MEB, for instance, has been making losses since 1988 <sup>37</sup> and continues to be a source of fiscal risk. High operating costs resulting from the bank's vast branch network and the low conversion of deposits into loans are the major reasons for the bank's lack of profitability. The MEB

lends only about 15% of its deposits to the private sector and has moved a large share of asset holdings to government securities. <sup>38</sup> This adds to the under-supply of the private sector with credit and creates further distortions in the banking sector as private banks directly compete with SOBs for deposits.

In addition, SOBs allegedly have high NPL ratios (accurate data are not available). This is a potential threat to the stability of the financial system. <sup>39</sup> Although SOBs officially have to follow the same regulations as their private sector peers and report to the CBM, supervision of SOBs is weak and their performance is often not known to their owner, the MOPF. <sup>40</sup> Strict controls of SOBs on requirements such as NPL and capital ratios would be necessary to track their performance, reduce fiscal risk and strengthen overall financial sector stability.

Despite the concerns raised above, SOBs remain important for the Myanmar banking system. They have a good public reputation (especially amongst the older generation), reflected by their large deposit base, and a vast branch network that is conducive to financial inclusion. Policymakers are therefore contemplating a more strategic role for SOBs contributing to the Myanmar development agenda. <sup>41</sup> This role should leverage SOBs' considerable non-financial assets (brand recognition, broad outreach, etc.) and must be based on prudent fiscal management and sound economic rationale so that SOBs will be able to compete profitably with private banks on a level playing field.

Reforming SOBs is stated a priority of the current Myanmar government. The improvement of the operations of state-owned enterprises and their privatization is part of the Economic Policy of the Union of Myanmar published in 2016. The World Bank supports the CBM and the MOPF in developing a policy framework for SOBs and also accompanies the development of restructuring plans for each of the four banks. However, advancement has been slow and much work lies ahead to improve profitability and transparency of SOBs. <sup>42</sup> This reform process will be critical to increase competition in the banking sector, reduce fiscal risk and ensure financial sector stability. <sup>43</sup>

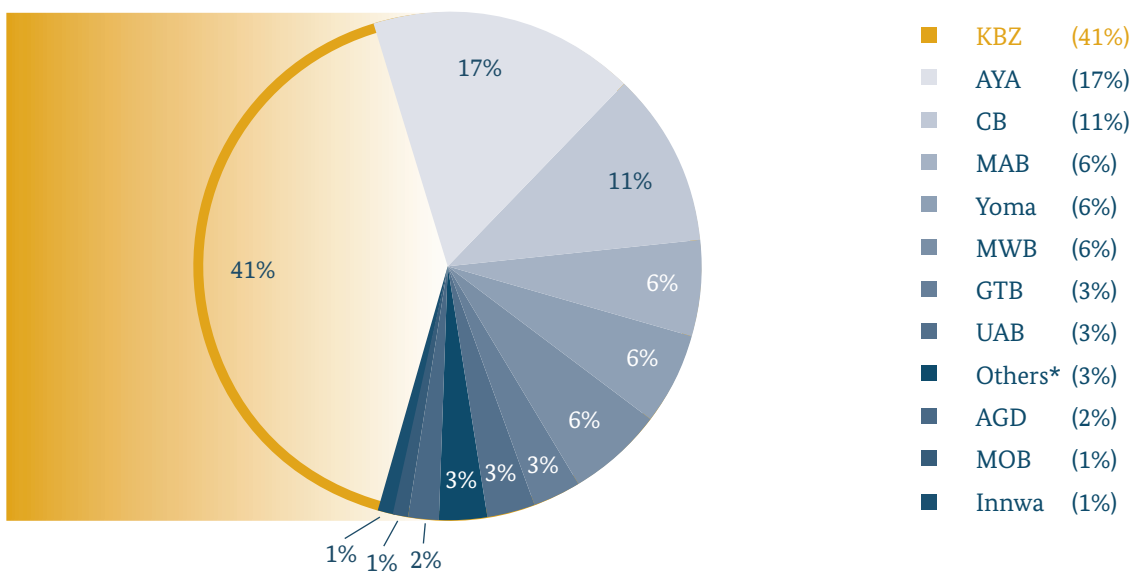


## Private Banks

Private banks have been banned by the military regime until 1992. As of November 2018, there are 27 domestic private banks operating in Myanmar. In September 2017, these banks held assets worth 48.5 trillion MMK (approximately 35.6 billion USD), about 67% of total bank assets. Private banks are the drivers for innovation and growth in Myanmar's banking sector. However, asset concentration is high and most private banks are struggling to meet the new regulatory requirements.

Growth in the private banking sector is impressive. Between March 2012 and March 2017, its assets increased more than six-fold, and between financial year 2015/16 and 2016/17 private bank assets grew by 32%, whereas the amount of assets of SOBs stayed almost the same during that period. Yet, asset concentration is high, with the three largest banks

holding almost two thirds of total private banks' assets, and the six largest banks of the country account for 82% of assets. Figure 7 shows the market share in terms of deposits of Myanmar's domestic private banks. This picture changes only slightly when looking at assets or loans.



Source: CBM

\*Including all banks with less than 1% market share: Myanmar Citizens Bank Ltd., First Private Bank Ltd., Small and Medium Industry Development Bank Ltd., Tun Commercial Bank Ltd., Shwe Rural and Urban Development Bank, Ayeyarwaddy Farmer Development Bank, Yangon City Bank Ltd., Rural Development Bank Ltd., Myanmar Microfinance bank Ltd., Yadanabon Bank Ltd. Mandalay, Asia Yangon Bank Ltd.

Figure 9 Market share (deposits) of private banks in 2017

As of March 2017, private banks in Myanmar operated 1,513 branches, of which 819 were owned by the top three banks. The amount of bank branches in relation to the population is still low in Myanmar,

reflecting the low access of people to formal financial services. In 2016, there were 3.41 bank branches per 100,000 people, compared to 3.9 in Vietnam, 8.8 in the Philippines and 11.5 in Malaysia.<sup>44</sup> In addition,

branch coverage is very uneven across regions, leaving especially rural populations widely unserved by private banks, although they keep increasing their branch numbers. Yet, new branches often operate at a loss, contributing to the low performance of Myanmar banks that will be discussed later in this report.

Moreover, whereas the number of branches is still considered an important factor favouring financial inclusion, it might become less important in the future when mobile money eventually takes off in Myanmar.

Name of Bank	Assets (in million MMK)	No. of branches
Kanbawza (KBZ)	11,309,440.96	430
Ayeyarwady Bank Ltd. (AYA)	4,173,888.62	206
Co-operation Bank Ltd. (CB)	2,713,104.21	183
Myawaddy Bank Ltd. (MWB)	1,664,990.68	49
Myanmar Apex Bank Ltd. (MAB)	1,592,427.20	86
Yoma Bank Ltd.	1,535,028.55	69
United Amara Bank Ltd.	866,604.46	74
Global Treasure Bank Ltd.	706,194.06	130
Asia Green Development Bank Ltd.	560,216.38	56
Nay Pyi Taw Sinbin Bank Ltd.	445,487.32	6

**Table 2** Assets and number of branches of 10 largest domestic private banks (as of fiscal year-end 2017)

Apart from the top 10 banks, there are several banks of very small size. Eleven private banks currently operating have a market share below 1%. These banks will likely find it difficult to survive in the market since they usually bear disproportionately high costs to be compliant with regulations and rarely can compete with bigger banks, unless they find a niche market. In a recently published report, international consultancy Roland Berger concludes that only the top three to

five banks will shape the market in the short and medium term, together with foreign banks. <sup>45</sup>

Total loans of private banks amounted to 18.5 trillion MMK (approx. 13.48 billion USD) in December 2017. Between March 2012 and March 2017, the amount increased almost sevenfold. The trading sector accounts for the largest share of loans from private banks, followed by construction and services (Fig. 8).

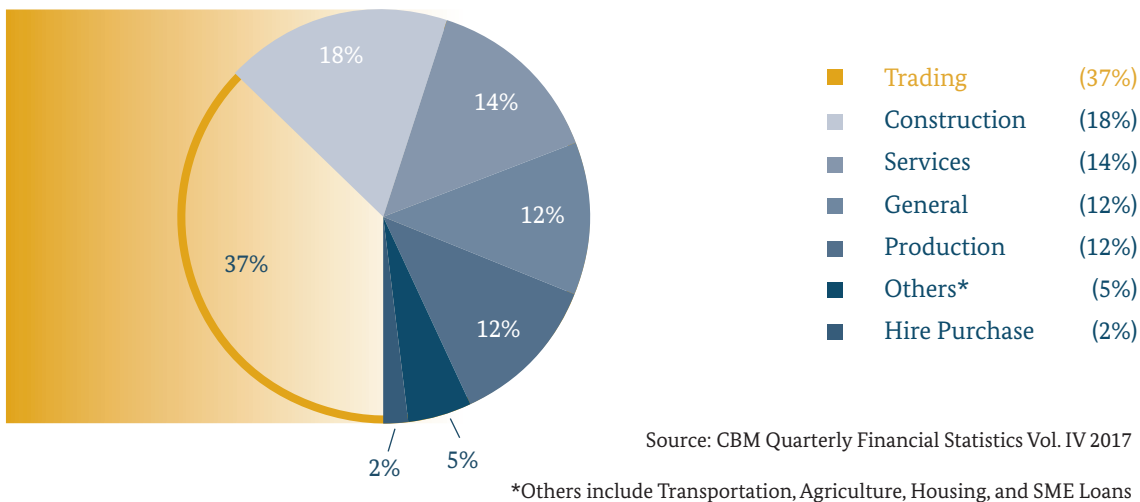


Figure 10 Private bank loans by sector, December 2017

Since the opening up of the economy in 2010, private banks took advantage of a booming private sector. In 2015, advances to the private sector by private banks accounted for 14% of GDP, while SOBs only contributed 2.5%. <sup>46</sup> However, a number of restrictions still hinder banks to increase their lending activities. Usually, it is a bank’s task to appraise the risk of potential clients and set the prices accordingly. In a fixed interest rate environment, however, banks cannot price in their risk and hence tend to over-rely on collateral or generally restrict their lending. <sup>47</sup> In December 2017, 88% of collateral used to secure loans

in Myanmar were land and buildings. <sup>48</sup> There are two direct consequences resulting from this over-reliance on collateral. Firstly, it makes banks vulnerable to large losses in values of these properties. As banks tend to only lend a maximum amount of 50 to 70 percent of the collateral value, this may however not be a major concern in the short and medium term. Secondly, high collateral requirements make it especially hard for smaller borrowers that do not own adequate collateral – such as SMEs and private households – to access bank loans.

The background of the page is a close-up, slightly blurred image of a stack of US dollar bills. The bills are fanned out, showing the top of one bill and the bottom of the one below it. The focus is on the texture and details of the paper, including the 'ONE HUNDRED DOLLARS' text and the '100' denomination. A decorative graphic consisting of multiple horizontal yellow lines of varying lengths is overlaid on the left side of the page, creating a stylized arrow or brushstroke effect that points towards the right.

## Foreign Banks

After the nationalization of the banking sector in 1963, foreign banks were not allowed to operate in Myanmar. It was only in 1990 that the government of Myanmar re-admitted foreign banks into the country. The number of licensed foreign banks has steadily grown, particularly over the last 5 years. As of November 2018, there are 13 foreign licensed banks and 49 representative offices of foreign banks in Myanmar.

As of December 2017, foreign banks' market share in terms of assets was about 10%. The Industrial and Commercial Bank of China is the largest foreign bank with almost one fourth of foreign banks' assets (as of March 2017).

To receive a license foreign banks have to deposit a USD 45 million reserve at the CBM, money for which they do not receive any interest. Banking functions of foreign banks are limited. In the past they were not allowed to lend to local businesses unless they partnered with a local bank. However, reform measures are under way.

Currently foreign banks are restricted to one branch, but the CBM has indicated that by 2019 they will allow foreign banks to expand their branch network.<sup>49</sup> In the past, foreign banks were only allowed to lend to foreign enterprises in foreign currency, but the recently passed CBM Directive No. (6/2018, November 8) permits foreign banks to lend to domestic businesses in Kyat and foreign currency. Interest rates for Kyat loans by foreign banks must abide by the maximum bank lending rate of 13%, however foreign currency loans may be priced at market rates.

Other restrictions on foreign banks are in force, such as not being allowed to accept immovable property such as land and buildings as collateral. They are also not allowed to offer retail banking services such as personal savings accounts, money transfers and card services.<sup>50</sup>

Foreign banks are still not allowed to offer Kyat fixed deposit accounts but they may accept foreign currency deposits. There is still no decision on whether or not interest may be paid on foreign deposit accounts.

In general, foreign banks are found to be more efficient than local banks<sup>51</sup> and could contribute significantly to the development of the Myanmar banking sector. For instance, they could improve access to capital for undercapitalized local banks. Already, foreign banks account for a disproportionate share of the banking system's capital. As of September 2017, they held 44% of total equity capital. The new Myanmar Companies Act announced in August 2018<sup>52</sup> theoretically allows foreign banks up to 35% stake in local banks, potentially facilitating knowledge transfer and international best practices to the domestic banking sector. However, there is a potential risk that domestic banks are not strong enough to withstand competition from foreign banks should they be allowed to operate freely.<sup>53</sup>

In view of Myanmar's integration into ASEAN, the pressure to open up the financial sector for foreign institutions will only increase. Possible effects on the banking industry and implications for individual local banks are discussed later in this report (refer to the last chapter of this report for more information).



## Capacity Building and Supporting Institutions

Backed by the banks' strong demand as well as by political and economic liberalization, the supporting infrastructure for Myanmar banks is developing at a fast pace. This includes institutions like the Myanmar Banks Association, the Myanmar Payment Union and the emerging Myanmar Credit Bureau Limited, as well as numerous bank training and education providers such as the Myanmar Institute of Banking and the Yangon University of Economics. The fast growth of the banking sector translates into a huge demand for finance education and bank training. Several private training providers have been established to add to the rather low supply of university degree programs. However, the current supply of training is still not sufficient to meet the future needs of the sector. Moreover, ensuring the quality of offered programs remains a challenge as long as there are no national quality standards set by the respective authorities.

The Myanmar banking sector is developing fast and requires an increasing number of qualified staff to ensure its long-term viability. A recent report by the international consultancy Roland Berger estimates that 120,000 new jobs will be created in the sector until 2025. <sup>54</sup> This figure projects a huge increase in demand for education and training of bank employees. In addition, as banks begin to offer more sophisticated products and services, the range of skills needed will diversify and international best practices will become more and more relevant.

The government acknowledges the need for improvements in education to meet the demands of the fast-growing economy. Together with international partners, including GIZ, it developed the National Education Strategic Plan 2016-2021 and initiated a number of educational reforms. Public spending on education has increased steadily over the past years.

While these efforts will hopefully pay off in the longer term, banks already struggle to fill vacancies with adequately qualified employees. A market research conducted by the Myanmar Survey Research (MSR) on behalf of the GIZ finds that both, individuals and banks name very generic skills, like English and IT knowledge, when asked about skills most needed in the banking sector. <sup>55</sup> This indicates a rather low prevailing level of qualifications. Interestingly, banks consider leadership skills as the most important qualification for the current situation and the future. As for technical skills, respondents emphasize the importance of risk management and financial analysis in the context of lending, including SME lending. <sup>56</sup> Other technical skills considered important by banks and individuals in the study include accounting and financial reporting. Figure 9 summarises the results of the market research conducted by MSR.

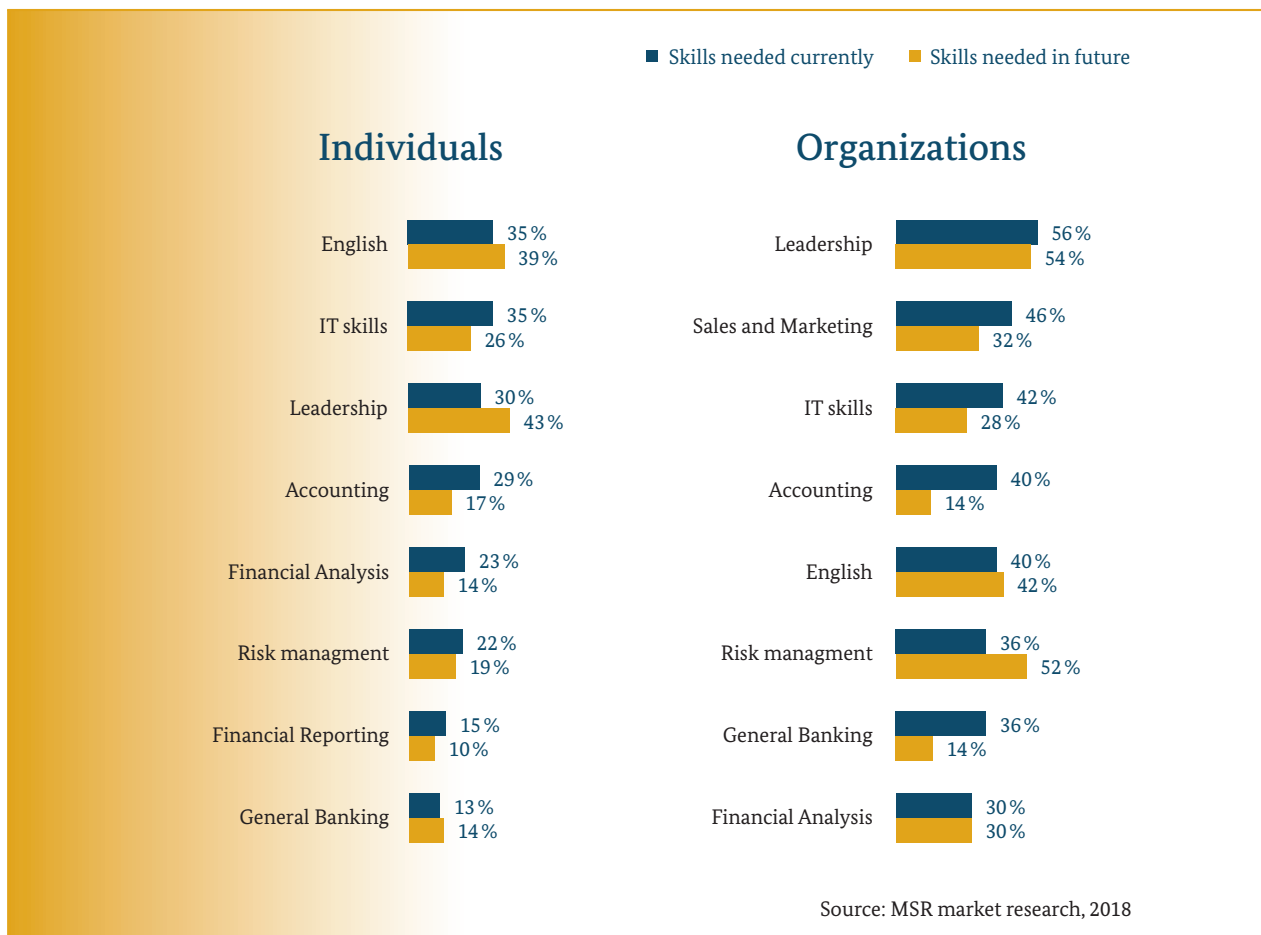


Figure 11 Top five perceived skills

The results of an internal gap analysis based on the MSR market research and conducted by the Frankfurt School of Finance and Management, a globally recognized educational institution specializing in banking and finance, show that the existing supply of education and training for the Myanmar banking sector, both in terms of higher education as well as in the form of technical and vocational training, is not sufficient to meet current or future needs of the sector. <sup>57</sup> Only three higher education institutions – viz. Yangon University of Economics, Meiktila University of Economics, and Monywa University of Economics – offer degrees in Business Administration, Commerce, Economics, Statistics and Public Administration, and only the Yangon University of Economics runs a Master of Banking and Finance program. Furthermore, the content taught at higher education institutions is often unrelated to practical work and teaching quality is far below the standards of the ASEAN Quality Assurance Framework for Higher Education (AQAFHE).

The state-owned Yangon University of Economics (YUE) has been offering a three-year part-time Master of Banking and Finance (MBF) program since December 2012. Many local bank professionals have attended the MBF program and the demand for the courses far exceeds the available spaces. The GIZ provides support in developing the MBF curriculum and for training courses to MBF lecturers and students through integrated experts from Germany's Deutsche Bank. In addition, GIZ supports YUE regarding their cooperation with Frankfurt School of Finance and Management to set up a Banking Education Program which will offer certificate courses on various topics, including Leadership, SME finance and IFRS-based accounting. <sup>58</sup>

To close the skill gap and take advantage of a growing market opportunity, numerous private providers have emerged that offer training courses as well as undergraduate and graduate degrees through partner organizations. <sup>59</sup> Private training institutions such as the Myanmar Institute of Finance, PS Business School, the Myanmar Institute of Business and the Strategy First Institute are offering general business training courses also attended by bankers. John Partner Academy is a private banking training

institution and consultancy founded in 2016. Its faculties comprise experienced local bankers and international banking experts offering banking related seminars, technical trainings such as IFRS, risk management, and corporate banking, professional development and soft skill training, and courses such as diploma in banking and diploma in business management. <sup>60</sup>

Some of the private training providers offer internationally recognized certifications such as AAT (Association of Accounting Technicians), ACCA (Association of Chartered Certified Accountants), CFA (Chartered Financial Analyst), and LCCI (London Chamber of Commerce & Industry) through their affiliations with accredited international institutions. For local providers, assessing the quality of their courses and certification programs is difficult; the absence of clear national quality standards and quality assurance mechanisms remains a challenge that influences the reputation of these programs.

As a result, the response by banks is also ambiguous. Some banks have doubts that the training courses offered by private providers actually convey practical knowledge, and prefer in-house training; others are willing to send their employees to external training courses, and a few have even invested in the creation of private business schools. For instance, the Bank of Tokyo-Mitsubishi UFJ Ltd funded a learning centre at the Myanmar Institute of Banking and the Siam Commercial Bank launched, together with Thammasat University, a Bankers Academy (“Myanmar Banker Leadership Program”) for young and senior executives.

The **Myanmar Institute of Banking** (MIB) was established in 2002 and is a quasi-department within the Myanmar Banks Association. The MIB provides banking training, particularly for entry to mid-level management. Various training courses on general banking topics are being conducted at the MIB centre in Yangon. Courses include Diploma in Banking, Certificate Level of English for Banking and Finance, Principles of Practice of Bank Auditing, Certificate in International Trade and Finance and other banking related training courses.

The **Myanmar Banks Association (MBA)** was established in April 1999 to provide a dialogue and lobbying platform for the domestic banking industry. MBA also cooperates with associations and banks on an international level. It currently has 31 member banks, including all four state-owned banks. Until early 2013, the MBA was chaired by the CBM Governor, while representatives of local banks assumed vice-chairman and secretary functions. In September 2013, for the first time since its inception, the MBA elected a Board of Directors that is independent from the CBM. The current chairman of MBA is also the chairman of CB Bank.

The **Myanmar Payment Union (MPU)** was established by Myanmar banks in the year 2011 to stand as a National Payment Switch for Myanmar, i.e., a system supporting non-cash payments originating from electronic channels such as ATMs, POS terminals, mobile banking, etc. Since 2013, banks and other stakeholders have been working together on expanding payment services, including internet and mobile banking. In January 2016, CBM-Net, Myanmar's first real-time gross settlement (RTGS) was implemented. Large payment transactions can be made through CBM-Net, while the MPU provides the facilities for retail payments. <sup>61</sup>

The **Myanmar Credit Bureau Limited** was granted a license by CBM in May 2018 to become the first credit agency in Myanmar and is expected to begin its operation within one year. It is established as a joint venture between MB Investment Limited, a proxy company for MBA, and Asia Credit Bureau Holding Limited formally known as NSP Holdings Pte Ltd from Singapore, sharing 60:40 stakes respectively. The Credit Bureau will collect credit information of individuals and companies to provide credit ratings. It will sell this data to financial institutions for sound lending decisions. The International Finance Corporation (IFC) has been supporting the bureau's data collection on credit history and taxation and is assisting to build the required regulatory capacity at CBM. With recent relaxation of collateral requirements by CBM and banks stepping towards cash-flow based lending, the Myanmar Credit Bureau will help increase access to finance and reduce credit risk to lenders.

# Services of the Banking Sector

## 4

### Credit

In response to restrictive lending regulations of the CBM, the Myanmar banking sector largely relies on overdrafts and land or buildings as loan security. Among other unwanted repercussions, this practice resulted in low lending to small businesses and uncertain credit quality. As CBM realised the associated risks it recently obligated banks to reduce the share of overdrafts in their portfolios by converting overdrafts to loans.

Information



Counter

## Overdrafts

Fearing a recurrence of the 2003 Myanmar banking crisis, the Central Bank of Myanmar (CBM) started imposing various restrictions on the banking sector in 2005, the most severe being Directive No. (1/2005), a requirement for loans to be secured by “strong” collateral and limiting term loan maturity to one year. At the same time, the deposits banks accepted, including fixed deposits, were mostly short-term. Though CBM’s restriction on loan maturity could prevent any maturity mismatch between short-term deposits and long-term loans, it failed to consider local businesses’ needs for long-term financing.

To circumvent CBM’s one-year maturity restriction, borrowers and banks found overdrafts to be the most convenient way to extend credit for more than one year. Overdrafts in other countries are interest-bearing or fee-based short-term lending facilities linked with current accounts, and customers can borrow beyond the available fund in their current accounts up to an allowed limit. In Myanmar, however, overdrafts became open-ended credit facilities usually offered together with term-loans at the same annual interest rate. They get rolled over year by year, and in many cases without the banks even getting interest payments on the facility. As of today, the total outstanding number of overdrafts is estimated to be around 75 percent of the total banks’ loan portfolio in Myanmar. Such a large stock of overdrafts rolled over without maturity date could lead to underreporting of non-performing loans (NPL) on the bank books and carries potential risks for the stability of the entire banking sector.

As CBM realised the risk associated with overdrafts, it mandated in the July 2017 Notification that starting from January 2018 banks are required to clear the overdraft facilities for two consecutive weeks annually, and overdrafts that cannot be cleared would be classified in accordance with classification of loans under CBM Notification No. (17/2017). However, due to the newly mandated capital requirements and banks’ difficulty in clearing a huge number of overdrafts in such a short time, banks negotiated with CBM to relieve the overdraft requirements. As a result, CBM issued a follow-up Directive No. (7/2017) in November 2017, requiring banks to convert overdrafts to maximum three-year term loans and to

reduce the share of overdrafts in the whole portfolio of individual banks by 50% in July 2018, another 30% in July 2019 and a final 20% in July 2020. This new regulation on overdrafts will put a stop to the practice of rolling over loans and will highlight the accurate amount of NPL that Myanmar banks hold; thereby, the regulation may also encourage banks to comply with CBM Directive No. (5/2017) which stipulates a prudential NPL ratio of less than 5%. <sup>62</sup>

## Collateral

Apart from the described overdraft culture, Myanmar banks also have a history of heavily relying on land and buildings to secure loans. From 2005 to 2011, banks were required by CBM regulation to take loan collateral and the only type of collateral they usually took from customers were immovable assets such as land and buildings. From 2011, the list of permitted collateral assets was expanded to include gold and jewellery, bank deposits, treasury bonds, machinery and some exportable crops. In November 2017, CBM even allowed banks to offer unsecured and partially-secured credit facilities based on the expected cash-flow of a borrower, with the condition that banks establish proper credit risk management systems.

However, despite support from international organisations, including the GIZ, and some progress towards more unsecured SME loans, banks still largely prefer conventional collateral for various types of loans. Land and buildings still account for almost 90% of collateral applied to private bank lending, as shown in the figure below.

Banks first access the forced-sale value of the collateral, and usually offer loans up to 50% of the forced-sale value of collaterals for land and buildings. They are reluctant to accept movable assets as loan security because there is still no relevant law or registry to track movable assets in Myanmar and these assets are not as liquid as immovable assets.

The banks’ preference for land and buildings as collateral restricts access to financing, especially for

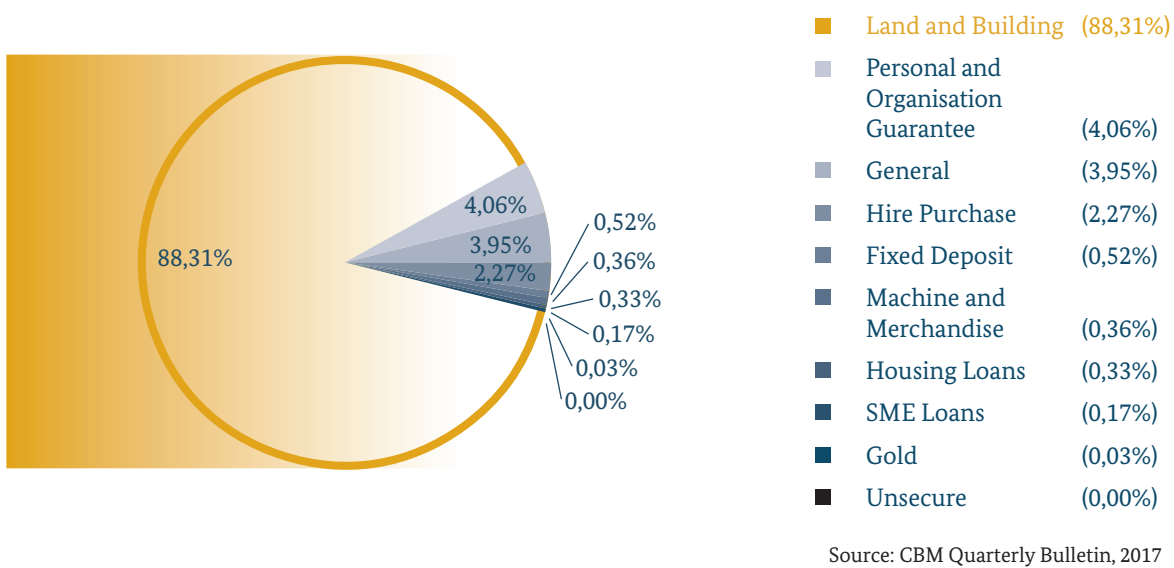


Figure 12 Private bank loans by collateral types (December, 2017)

SMEs because most of their capital stock is in moveable assets such as receivables, machinery and equipment. To improve movable-asset based lending, IFC is providing support to Myanmar's government to develop a secured-transactions framework that will encourage banks to accept more immovable assets as collaterals. <sup>63</sup>

## Loan Product Development

A directive issued by CBM in November 2017 stated that banks are encouraged to develop new loan products assessing client creditworthiness through cash-flow and business cycle analysis. Banks are required to submit the proposed loan products along with the corresponding credit risk analysis to CBM on a no-objection basis. However, CBM procedures for new product approvals are not standardized and the approval period is not yet clearly defined. In addition, banks face limitations on developing new loan products based on a borrower's cash-flow since CBM has capped annual effective lending interest rates at 13%, which is lower than the perceived market lending interest rate based on credit risks associated with most businesses. Regardless, local banks price regular term-loans at up to 13% annual

interest rate and other refinancing and subsidized loans at around 8.5%.

## Commercial and Consumer Loans

All banks in Myanmar offer similar commercial loans which can be generally categorized into three types.

- a Term loans with mostly full principal payment at the end of the loan term (usually 1-3 years) and quarterly interest payments with up to 13% annual interest rate;
- b Hire-purchase loans for the financing of vehicles, heavy machineries, etc., where the wholesaler carries major part of the repayment risk; and
- c One-year overdraft facilities where interest is only payable on the actually outstanding loan amount.

Commercial loan products usually come with additional services such as cash and liquidity management and business advisory services. Businesses and

corporations are required to pledge collateral to obtain commercial loans from banks.

Though commercial loans such as term loans and overdraft facilities offered to businesses are restricted to 3-year and 1-year maturity respectively, banks are allowed to structure the maturity of consumer loan products offered to individuals based on the customers' needs and market demands. Since 2015, banks started developing more consumer loan products catering to specific customer needs, such as education loans, home loans and auto loans, as well as small-scale personal hire purchase, for instance, for mobile phones and laptop computers.

**Education Loans** – SMID, CB and AYA banks started offering non-collateralized education loans around 2016 to graduate level students attending local private academic institutions. Education loans can cover up to 90% of the tuition fees with 13% interest rate per annum. In applying for such loans, students will have to prove that they have income or need a guarantor to sign the loan agreement for them. In July 2018, CB bank signed a memorandum of understanding with the Singapore Institute of Management (SIM) to provide overseas education loans to Myanmar students studying at SIM.

Domestic banks do not offer education loans to students from government universities, arguing that the tuition fees of government universities are significantly lower than those of private institutions; however, financial need is probably more prevalent among low-income students at government universities, especially those from rural areas who can't afford to pay accommodation and tuition fees.

**Car Loans** – Most banks offer personal auto loans under their hire purchase product scheme. In November 2016, the Myanmar government has imposed restrictions on the import of right-handed vehicles and old model cars; since then, vehicle prices have been rising steadily.<sup>64</sup> However, demand for cars has not yet subsided. The market for new passenger cars has grown recently and several foreign car companies have opened assembly plants in Myanmar to produce latest-model cars. To fulfil the growing demand for cars, local banks have been

offering auto loans with minimum down payments of 30% of vehicle value and loan tenure up to 5 years for new cars and 2 years for used cars. Auto loans can only be applied for cars purchased at a bank's authorized dealers with flat interest rates around 8.5% and amortized interest rates around 13% per annum.

**Home Loans** – Various banks currently offer home loans to retail customers, for example, Construction and Housing Development Bank (CHDB), KBZ, AYA, MCB and YOMA. Borrowers are required to contribute 30 to 50% down payment; loans are charged at 13% net interest rate and the loan duration is up to 15 years for apartments, and 25 years for land, buildings and condominiums.

In addition, the Japan International Cooperation Agency (JICA) signed an agreement with the Myanmar government in March 2018 to supply 15 billion Yen worth of funding under JICA's Housing Finance Development Project for providing housing loans to low and middle income households.<sup>65</sup> JICA first lent the funds to MEB at 0.01% interest rate, 10-year grace period and 30-year repayment period. CHDB, followed by other selected banks, in turn, will provide these loans to the buyers of low and affordable housing developed by the fund of the Department of Urban and Housing Development with 8.5% annual interest rate, 20% down payment and loan tenure up to 15 years.

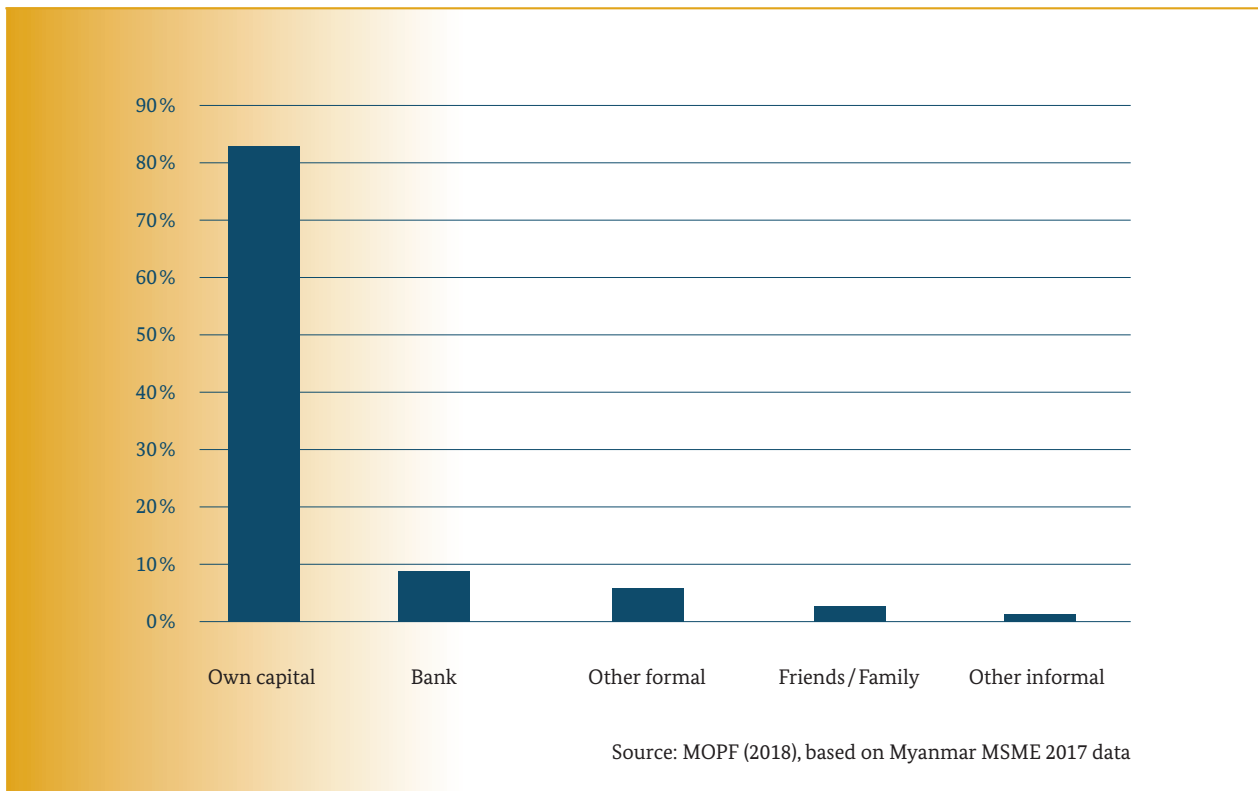
Although there is a growing demand for home loans in Myanmar, some banks are reluctant to launch home loan programs. One serious challenge is the lending interest rate cap at 13% that deters the banks from pricing long-term home loans in accordance with the higher risk associated with long-term lending. In addition, banks also find it difficult to structure products of 10 to 15 years maturity due to maturity mismatches.<sup>66</sup>

## SME Finance

The SME sector is the backbone of the Myanmar economy and the crucial driving force behind the country's economic development, as the approxi-

mately 120,000 SMEs account for more than 90% of all companies in the country.<sup>67</sup> The Myanmar government already acknowledged the importance of SMEs for the national economy and issued a SME Development Law in April 2015.<sup>68</sup>

Despite of this importance, SME loans accounted for less than 0.2% of private bank loans in December 2017.<sup>69</sup> This restricts small enterprises' ability to grow and most of them have to rely chiefly on their own funds to undertake investments (cf. figure below).



**Figure 13** Source of financing for SME investments

SME loans are much smaller in value than normal business loans. To qualify for SME loans, businesses are required to provide a SME recommendation letter and the SME member card from the SME Development Department under the Industrial Supervision and Inspection Department, along with all other necessary financial documents.

Previously, SME registration took up to 6 months depending on whether a firm could provide the required documents, but as of August 2018, firms can register for SME smart cards online, which reduces the processing time to three weeks. SME smart cards are useful for trading within the region as they are

certified in ASEAN countries. Business owners with SME smart cards can also have access to technical assistance, business courses, loan and marketing plans, and other facilities.<sup>70</sup>

Although it is still difficult for SMEs to access bank loans, there are more financing opportunities these days, especially through the help of international organizations.

The Japan International Cooperation Agency (JICA) has been supporting SME lending in Myanmar for several years. During the first phase of its “Two-Step Loan Program” from 2015 until 2017, JICA provided

loans valued up to 4.7 billion yen to 269 local SMEs.

<sup>71</sup> Funds were provided to MEB at 0.01% annual interest rate, which in turn on-lent to six selected private banks (KBZ, CB, MCB, MAB, SMIDB and AYA) at 4% annual interest rate. These retail banks then offer one-year loans to SMEs at 8.5% interest rate. In the second phase, starting in 2018, JICA lends 14.949 billion yen to MEB at 0.01% annual interest rate, 10-year grace period and 30-year repayment period. MCB, KBZ, AYA, CB, UAB, FPB and MEB are selected as partner banks to disburse loans to SMEs and borrowers that cannot provide collateral and can get loans under the Credit Guarantee Insurance (CGI) loan scheme.

In April 2018, the Ministry of Planning and Finance signed an agreement with the German KfW Development Bank to grant funds of EUR 10.85 million for SME lending through the CB bank and the Myanmar Apex Bank. This is already the second phase of financing provided by KfW; the first phase started in 2016 with EUR 4.45 million for the CB bank. <sup>72</sup>

With Myanmar Economic Bank (MEB) serving as a paying agent, KfW lends to the two banks at 3.5% annual interest rate, 5-year grace period and 10-year repayment period. SMEs can borrow KfW loans at 8.5% annual interest rate, with loan amounts up to 100 million Kyats and loan duration up to 5 years. Collateral is required for KfW loans and fixed assets purchased with the loan money can be pledged as collateral.

In addition to the SME finance schemes of international organizations, the state-owned MEB has its own SME loan program, providing loans at 9% annual interest rate for a duration of 3 to 5 years. SMEs that can provide collateral can borrow up to 300 million Kyats, while those without collateral can borrow up to 20 million Kyats under the CGI loan scheme. <sup>73</sup>

CB, KBZ and SMID banks use the Credit Guarantee Insurance (CGI) provided by Myanmar Insurance (MI) to provide secured and unsecured loans to SMEs. Under the CGI loan scheme, SMEs pay the required annual interest rate of 13% to the bank and an additional 2 or 3 percent insurance premium to MI,

depending on whether they have pledged collateral or not. SMEs can get collateral free loans up to 20 million Kyats with a repayment period of one year. If CGI loans get defaulted, MI will cover 60% of the loan value for the lender. As of May 2017, a total of 84 CGI loans have been offered to SMEs (80 from CB bank, 3 from KBZ bank and 1 from SMID bank).

SMEs loans from most private banks require collateral, but some banks are trying to expand their SME financing towards unsecured cash-flow based lending. In June 2018, SMID bank launched its first-ever unsecured cash-flow based SME loan program that does not require collateral and credit guarantee insurance. SMEs can apply for three-year term loans up to 50 Million Kyat with an annual interest rate of 12% and 1% administrative fee.

Banks face several challenges in expanding SME lending. They complain that at the current interest rate cap of 13% it is most often not viable to lend to SMEs. At the same time, they attest the willingness of their smaller borrowers to pay higher interest rates to get a bank loan and thereby not rely any longer on their own capital, or worse, informal money-lenders. Domestic banks hence urge the CBM to liberalize interest rates so that they reflect actual market conditions. The CBM, in turn, considers a sound risk management within the banks as a precondition for interest rate easing and is rather doubtful whether banks are ready for such a step.

In fact, local banks do encounter problems with appraising the creditworthiness of potential borrowers. The credit information infrastructure of Myanmar is highly underdeveloped. Although the CBM granted a license to the Myanmar Credit Bureau in May 2018, it will take time until its database becomes relevant for banks. Company and land registries also exist but are not available online, making it difficult for lenders to check whether a certain collateral is already used to take out another loan or otherwise impaired. A register of moveable asset pledges is currently under development. Last but not least, financial statements provided by companies are often not reliable and international auditing firms are not allowed to operate in Myanmar under current regulations.

## Box 5: SME sector development by GIZ

To support local banks in better SME financing, GIZ has been providing selected partner banks with technical assistance, training and capacity building under the Banking and Financial Sector Development Program (BFSD). During the first phase from 2014 to 2016, KBZ, YOMA and SMID bank were selected as pilot banks that were provided technical assistance by GIZ to establish adequate structures, procedures and strategies for SME finance. Several SME finance training modules were developed and more than 100 training sessions with over 2,200 participants were conducted in different SME finance related topics, including financial literacy training for SME owners. The collaboration between the three pilot banks and GIZ in the first phase has resulted in an increase of the combined SME loan portfolios of the pilot banks by a factor of three (in total over 13,000 SMEs were served).

In the second phase (2017–2019), GIZ continued cooperation with YOMA and KBZ bank to provide more technical support in their SME financing development, while SMID bank continued unsecured cash-flow based lending to SMEs on its own.

Within the framework to promote sustainability of the achievements from the previous phase, GIZ is focusing on areas such as improving SME credit risk management processes and control mechanisms, maintaining SME loan portfolio quality of the pilot banks and training of bank-internal trainers. To close the gap

between clients and banks, GIZ will also provide training of trainers to more bank employees so that they can, in turn, conduct entrepreneurship and financial literacy training programs to their SME clients.

As of August 2018, YOMA bank has established standardized SME lending procedures which are made available to the branches. Dedicated specialist SME staff are being trained and will be located in every branch by the end of 2019. The bank also launched its SME Express Loan, which significantly shortens the loan application process.

An innovative unsecured loan product has been developed by YOMA bank, which allows SMEs to use business contracts as alternative security for working capital loans.

In collaboration with Wave Money – a joint venture between Telenor and Yoma Bank to provide mobile financial services via a nationwide agent network – YOMA bank is also offering unsecured loans to SMEs who are agents of Wave Money.

KBZ bank has recently opened the One-Stop SME Banking Centres (OSBC) that provide comprehensive solutions to SMEs ranging from issuing SME certificates, advisory and cash management services to capacity building such as financial literacy and business plan trainings.

While these issues hamper banks to widely fulfil their role as financial intermediary, the CBM is willing to remove barriers for SME finance and engages in dialogue with domestic banks. In June 2018, the CBM hosted the first SME Forum in Nay Pyi Taw, co-organized by GIZ, where representatives of the Myanmar parliament, the banking industry and SMEs jointly elaborated on different ways to improve SMEs' access to finance, including adjusted risk weights, improved data collection, lending targets for SME lending and the establishment of an institutionalized mode for regular stakeholder consultations.

## Agricultural Finance

About 70 percent of the population of Myanmar are living in rural areas and most of them depend on the agricultural sector. This sector contributes 35 to 40 percent of the national GDP and employs around two third of the labour force. Crops such as rice, beans and pulses constitute major exports. However, the agricultural sector remains largely underdeveloped due to the lack of technical know-how and insufficient investment. Private banks are reluctant to offer agricultural financing because of the unpredictability of natural disasters and commodity price fluctuations. Crop and livestock insurance schemes are still in the experimental stage. Therefore, farmers' credit access is very limited and most agriculture financing is offered by government institutions as subsidiary loans.

The Myanmar Agricultural Development Bank (MADB) is the largest agricultural lender in the country. MADB offers two types of loans: seasonal crop production loans (SCPL) and term loans. SCPLs cover the working capital needs of farmers at the beginning of the agricultural season and are divided into three categories: pre-monsoon, monsoon and

winter loans, with monsoon loans constituting the biggest number of loans offered to farmers. SCPLs generally have one-year maturity and farmers are expected to repay the full amount at harvest time. Term loans, on the other hand, are categorized into short-term loans, farm machinery loans and special project loans. Farm machinery loans are offered with three-year maturity and require compulsory saving by the farmers. Special project loans are offered to rubber plantations under the government's border area development projects. Most MADB loans, except for farm machinery loans, do not require collateral. Instead, farmers have to join a group of three to collectively guarantee each individual loan. MADB recently announced that starting from 2018 it will disburse loans on individual basis without farmers having to join groups for loan guarantees. The Japanese development agency JICA is providing 15,135 million yen worth of funds to support MADB lending facilities for farmers and agribusinesses; in addition, the agency provides capacity building assistance to MADB under JICA's Agriculture and Rural Development Two-step Loan project. <sup>74</sup>

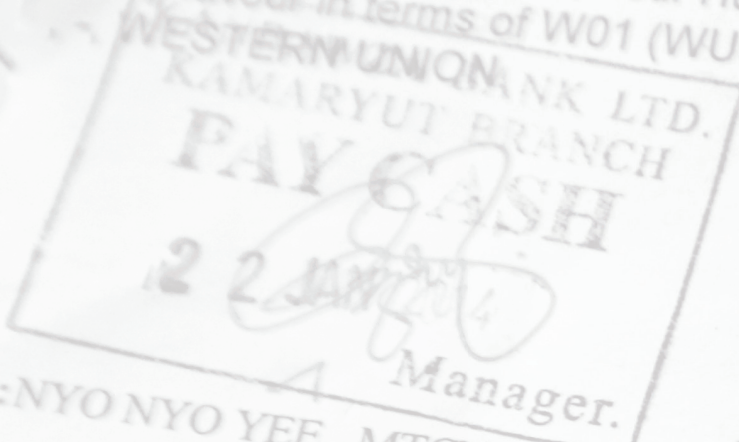
The Myanmar Apex Bank (MAB) is leading agriculture financing among private commercial banks. It is also the first private commercial bank which extends loans to farmers for a period of up to three years. MAB allows farmers to have access to its loans by taking their certificate of ownership of farmland (Form-7) as collateral. The Form-7 certificate has been created with the enactment of the Farmland Law in 2012 by the Ministry of Agriculture and Irrigation. A pilot project between MAB and the Myanmar Rice Federation has provided a total of 1.6 billion MMK lent to 690 farmers for the current harvesting season. <sup>75</sup> While MADB offers loans up to 150,000 MMK per acre and charges 8% annual interest rate, MAB is offering loans to paddy farmers up to 400,000 MMK per acre at 13% annual interest rate.



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in my favour in terms of W01 (WU01) Drawing No. 15W01IBL3554



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## Trade Finance

Prior to 2012 trade financing was monopolized by state-owned banks. Today, local banks provide fee-based services such as letter of credits, bank guarantees, and interest-bearing services including import financing, and pre and post shipment export financing. In December 2017, the Central Bank of Myanmar started allowing foreign banks to conduct export financing, and in August 2018 foreign banks were permitted to start offering import trade financing services.

Trade finance liberalization can provide more financing opportunities for Myanmar traders. However, there are still some limitations for both, foreign and local banks. Although foreign banks with their expansive network, experience, capital and technology could easily facilitate Myanmar's external trade, they face difficulties in accessing local trade firms as many firms lack reliable and standardized financial records and statements that foreign banks are accustomed to. Moreover, the lack of credit bureau information makes it difficult for foreign banks to assess the creditworthiness of local traders. This issue is also the reason why local banks only extend trade financing facilities to their long-term corporate customers.

Therefore, local exporters and importers, especially small and medium sized trading firms, find it hard to get local bank financing to promote their businesses in a sustainable way. A few local lenders have established trade connections with other foreign financial institutions, but low credit ratings of local banks generally limit the amount of business they can underwrite, and many foreign banks still do not accept letter of credits from Myanmar banks. In addition, trade finance facilities are new to the local

bankers and their limited expertise in trade finance, low IT capacities, scarcity of foreign exchange and poor risk management further impede external trade financing to local trade firms. Furthermore, exchange rate risks and the lack of modern hedging instruments, such as swaps and forward contracts, make it often unattractive for local banks to enter the trade financing business.

To support local banks in trade finance, the Asian Development Bank (ADB) launched its Trade Finance Program (TFP) in Myanmar. ADB pledged up to USD 12 million in annual guarantees and signed a first agreement with the CB bank in October 2015. In 2016, two more banks – the United Amara Bank (UAB) and YOMA bank – joined the TFP. The UAB receives guarantees worth up to USD 4 million each year for international letters of credit, while YOMA is provided with guarantees of at least 10 million USD annually to support trade, especially for local SMEs. Since ADB has an AAA credit rating, local banks participating in the TFP will be able to finance larger trade transactions. They will also be provided with capacity development support in risk management, trade finance products and operations, and fraud prevention.

A man in a white shirt and face mask is holding up a large white sheet in a bank setting. The background shows other people and bank counters. The image is overlaid with a decorative orange and white striped pattern.

## Deposits

Myanmar banks offer fixed deposits, call deposits and current accounts. Deposit accounts are often tailored to serve different customers' needs, for instance banks can provide, minor deposit accounts, sailor accounts, wedding deposit account and foreign currency deposit accounts.

Terms for fixed deposit accounts range from 1 month to 3 years, with annual interest rates offered between 8 and 10 percent, while current accounts and foreign currency accounts generally do not bear any interest payments. Call deposit account interest rates are usually calculated based on the account's day-end balance. The annual interest rate on call deposits was around 8%, like the rate for fixed deposits. However, in January 2018 it was lowered to 2% by the Myanmar Bank Association as a coordinated measure among its member banks - although some banks deviate and still offer call deposits at 4% or 6% annual interest rate.

Due to CBM instructions and the shortage and volatility of foreign currency in local banks, foreign currency accounts are generally more restricted in terms of depositing and withdrawing than local

currency accounts. Foreign currency account holders are required to pay fees up to 2% of the foreign currency deposit amount, and do not have an opportunity to earn interest in accordance with CBM rules. Local banks also have exchange rates higher than regular market rates if the deposit to the foreign currency account is in local currency. Withdrawal fees for foreign currency accounts are either USD 1 or MMK 1000 depending on the bank. According to CBM Directive No. (16/2015), foreign account holders can withdraw USD 5,000 twice a week; government organizations, embassies, international organizations and foreign investment companies may withdraw more than the permitted amounts upon presenting an official management letter with explanation for intended use and approval from the bank branch manager.



A man in a blue button-down shirt and dark trousers stands next to a wooden cart filled with white sacks. He is smiling slightly and looking towards the camera. The background shows a building with a window and a decorative banner. The image is overlaid with a semi-transparent orange and white striped graphic.

## Remittances

Approximately 3 million Myanmar nationals living abroad remitted around USD 3.5 billion in 2015, which was about 5.4% of Myanmar's GDP in that year. <sup>76</sup>

Although the exact figures for remittances into and out of Myanmar are difficult to estimate as a large proportion is transferred through informal channels, domestic and international remittances play a crucial role for Myanmar's economy and poverty alleviation since people from poor rural areas are increasingly migrating either to big cities or neighbouring countries for work and send back money to their families.

Myanmar banks offer domestic inter-branch and inter-bank remittance services, telegraphic transfer and international fund transfer by SWIFT Code through corresponding banks, and international transfer through third party remittance service providers such as Moneygram, Western Union, Xpress Money, International Money Express, etc. Recently, there have been significant improvements in domestic remittance services by local banks through their e-banking and mobile payment platforms.

However, banks face fierce competition from Mobile Financial Service Providers (MFSPs) such as OK Dollar, Wave Money and M-Pitesan, which, under the 2016 Mobile Financial Service Regulations, are only allowed to provide domestic remittance services to the public. MFSP accounts can be easily opened with MFSPs mobile applications without the need to open bank accounts, and retail customers can send up to MMK 500,000 per day between accounts from the same MFSP with no remittance fees charged. Although banks have been recently expanding their own networks through agent banking, convenience store chains and other means for their mobile payment platforms, it still is difficult to compete with

the established expansive networks of MFSPs' agents, ranging from 24/7 convenience stores, mobile phone service shops to various types of retail stores.

For international remittances, 21 Myanmar banks have joined the Society for Worldwide Interbank Financial Telecommunication system (SWIFT). Through SWIFT, local banks can make secure, efficient and reliable financial transactions with their foreign correspondent banks. Recent years have also seen some relaxations on outbound remittance restrictions, especially with third party remittance providers. After 4 years of being active in Myanmar and providing only inward remittances, Western Union, for example, has launched outbound money remittance services in June 2016 – although with a transaction limitation of USD 3,000 per day and maximum USD 10,000 per year and customer. <sup>77</sup>

While there are more options for international remittances in Myanmar these days, people still heavily rely on informal channels called *hundi* because migrant workers are often reluctant to go through official remittance channels due to their lack of legal immigration documents; *hundi* also is relatively cheaper and faster than official remittance channels.





## Card Services

Myanmar was first introduced to offline debit cards in 1996 by the Asia Wealth Bank, and by 2002, the Myanmar Mayflower Bank had installed 11 offline ATMs. The expansion of these cards and electronic payment services came to an abrupt end due to the 2003 banking crisis. It was not until 2012 that debit cards returned and three years later credit cards were introduced to the country. The Myanmar Payment Union (MPU) had a monopoly for issuing debit and credit cards for many years, but in January 2017, the government removed restrictions on international payment companies and allowed banks to issue co-branded cards with Visa, JCB, MasterCard and UnionPay International.

Today, local banks offer prepaid cards, debit cards and credit cards to the public. Credit cards are usually issued only to customers who meet certain monthly income requirements. Since the Credit Bureau is still in the process of establishment, credit information on new customers is not available and most banks

tend to issue credit cards only to their existing customers. Interest rates on credit cards are capped at 13% per year (as per CBM Directive No. 11/2011) and additional service charges, such as joining fees and annual fees, are imposed.





## Mobile Financial Services

Myanmar has the highest mobile phone penetration in the region with close to 95% penetration rate. <sup>78</sup> Considering the huge unbanked population in Myanmar, with bank branches and services inaccessible in most rural areas, mobile financial services have become an important means for financial inclusion.

Financial exclusion still is a big challenge for the development of Myanmar, especially in rural areas. In 2017, less than 26% of the Myanmar population aged 15 years or older had an account at a formal financial institution.<sup>79</sup> However, due to the advancement of mobile financial services financial inclusion is increasing.

According to the directives and regulations issued by the CBM, there are two models for operating mobile financial services in Myanmar: Bank-led Mobile Banking Services and Mobile Financial Service Providers.

**Bank-led Mobile Banking Services** – CBM directive (No.4/2013) allows banks to operate mobile banking services under a bank-led model. Under this model, banks are required to obtain permission from CBM to operate mobile-banking services, either on their own or in partnership with a mobile money business, using technological support from Mobile Network Operators (MNOs) and mobile banking solution providers to develop mobile banking products and platforms. Banks may engage with Non-Government Organizations (NGOs), government post offices and MNOs as their cash points, agents or business partners. CBM allowed banks the following mobile banking services:

- a Domestic remittances and international inward remittances;
- b Debiting and crediting of cash in local currency via agents, bank branches, ATMs and mobile operator branches;
- c Payments from individuals to business and vice versa;
- d Payments from government to individuals and vice versa;
- e Payments between individuals; and
- f Repayment of microfinance loans and other small scale payments like insurance premium payments.

For bank-led mobile banking services, the transaction limit is MMK 500,000 per transaction and MMK 1 million per day, with no more than three transactions in a day.


Currently, there are five major bank-led mobile banking services in Myanmar, as shown in the following figure.


Some banks also have their own branded e-banking platforms, as shown in the following figure: AGD Pay (Asia Green Development Bank), CB Pay (Cooperative Bank), KBZ Pay (Kanbawza Bank), AYA mBanking (Ayerwaddy Bank) and MAB Mobile Banking (Myanmar Apex Bank). These platforms are linked with the respective bank accounts and can provide remittance services, cash in and out services, within bank person-to-person payments, mobile top-up and bill payment services.

**Mobile Financial Service Providers (MFSPs)** – The Regulation on Mobile Financial Services issued by CBM in 2016 laid out the foundation for the licensing and supervision of Mobile Financial Services Providers (MFSPs), which includes non-bank financial institutions and Mobile Network Operators (MNOs). MFSPs are required to directly apply for a Mobile Financial Service License from CBM, while in this model banks only serve as deposit taking institutions with additional cash and liquidity management services for MFSPs. To apply for a MFSP license, the applicant needs to fulfil certain requirements, such as the provision of minimum capital of 3 billion MMK.<sup>80</sup> In December 2017, the CBM raised the maximum amount of a single transaction by level 2 customers from 200,000 Kyats to 500,000 Kyats and changed the cumulative transaction limits per month from 5 million Kyats to 12.5 million Kyats.


As of August 2018, there are three licensed MFSPs in Myanmar, namely Wave Money, OK Dollar and M-Pitesan. In October 2016, Wave Money became the first MFSP to acquire a license under the non-bank financial institution licensing regime. As of August 2018, it is owned by four shareholders: Telenor (51%), Yoma Strategic Holdings (34%), First Myanmar Investment (10%) and Yoma bank (5%). Wave Money expanded its agent network from 5,000 in early 2017

## Major Bank-led Mobile Banking Services

Myanmar Oriental Bank 

Myanmar Citizen Bank 

AGD Bank 

First Private Bank 

Innwa Bank 

Figure 14 Major bank-led mobile banking services in Myanmar

## Bank-branded e-banking platforms

AGD Pay 

CB Pay 

KBZ Pay 

AYA mBanking 


MAB Mobile Bank 

Figure 15 Bank-branded e-banking platforms in Myanmar

to approximately 33,000 by September 2018. With over 2 million customers it holds the biggest market share among the three MFSPs. OK Dollar, owned by Internet Wallet Limited, operated without a license for more than a year and made headlines in the news for violating initial terms and conditions. However, there was no penalty from the regulators and OK Dollar was finally granted a MFSP license in August 2017. OK dollar currently has approximately 1 million registered users, making it the second largest MFSP out of three. M-Pitesan was launched by Ooredoo in September 2017. Within the first four months of its operation, the platform has already signed up 5,000 agents. MPT, the state-owned Telecom is also in the process of getting a MFSP license and will be launching its own products very soon.

MFSPs have proven to be very innovative and rapidly expanded their networks and customer bases. Wave Money garnered a monthly revenue growth of 22% from January 2017 to January 2018, with 30% growth in transfer volume in the same period.<sup>81</sup> It introduced payment services for “Grab” drivers (online call taxis) who can take out their commission fees at Wave Money outlets. It has also partnered up with the World Food Programme of the United Nations to distribute monthly stipends to refugee families from the Kachin State border. OK Dollar has recently launched OK Taxi, where customers can request taxis through the OK Taxi app and pay the driver directly from their OK Dollar account. The drivers don’t need to pay any commission fees unlike other Taxi services, such as Grab and Oway.

In addition, Myanmar government agencies are also planning to partner with MFSPs to improve their payment services. With such rapid developments, it is expected that MFSPs will soon be expanding their products to international remittances, loan payments and other forms of fin-tech services. However, until now CBM only allows MFSPs to operate the products listed in the 2016 MFSP regulations, and unlike other countries, Myanmar does not run a regulatory sandbox to test the risks and viability of new fin-tech products before going to market. Moreover, financial inclusion is impeded by a lack of interoperability that would allow transactions between accounts from different MFSPs, although it promotes fierce competition between MFSPs.

A new roadmap for financial inclusion (2018–2022) by Making Access Possible (MAP)<sup>82</sup> will be submitted to the Myanmar cabinet by the end of 2018. Amongst others, it will propose to create a digital services working group managed by CBM and the Financial Regulatory Department (FRD). This working group will include representatives of private financial institutions, and screen and approve digital financial products case by case.



# The Regional Perspective

## Performance of the Myanmar Banking Sector in a Regional Comparison

5

Despite its rapid development, the Myanmar banking sector still remains the smallest market when compared with other Southeast Asian nations. The profitability of Myanmar banks is weak, evidenced by low net interest margins and insufficient non-interest income. The fixed interest rate environment adds additional challenges such as the inability to price risk which results in shortfalls in interest income and very low loan-deposit ratios. Moreover, there is a lack of modern banking infrastructure and reporting transparency. This is particularly troublesome when considering the country's declarations to integrate into the ASEAN community.



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The Net Interest Margin (NIM) depicts the difference between interest income and interest expenses of a bank, relative to the average of its interest-earning assets. It is considered a good indicator for the effectiveness of a bank's investment decisions. The figure below shows the average net interest margins

for banks in selected countries of the region in 2016. The NIM in Myanmar is notably low when compared to other countries in the region as well as to the average NIM of other lower middle income countries around the world (dashed red line).

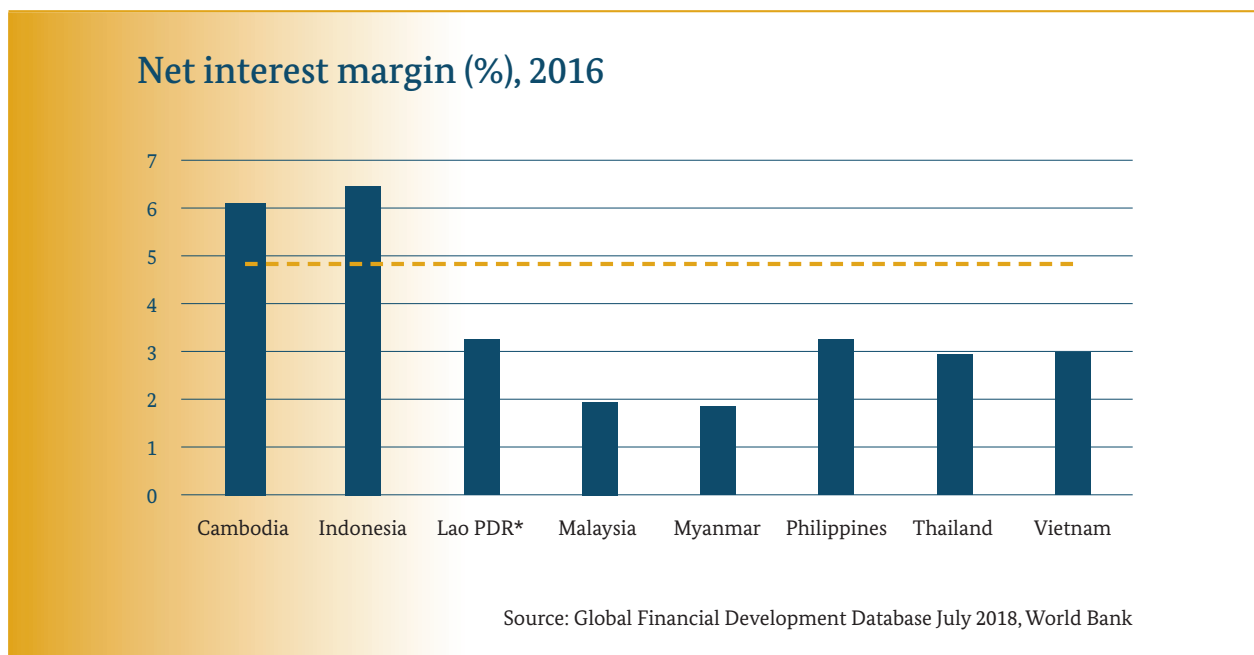


Figure 16 Net interest margins of selected countries

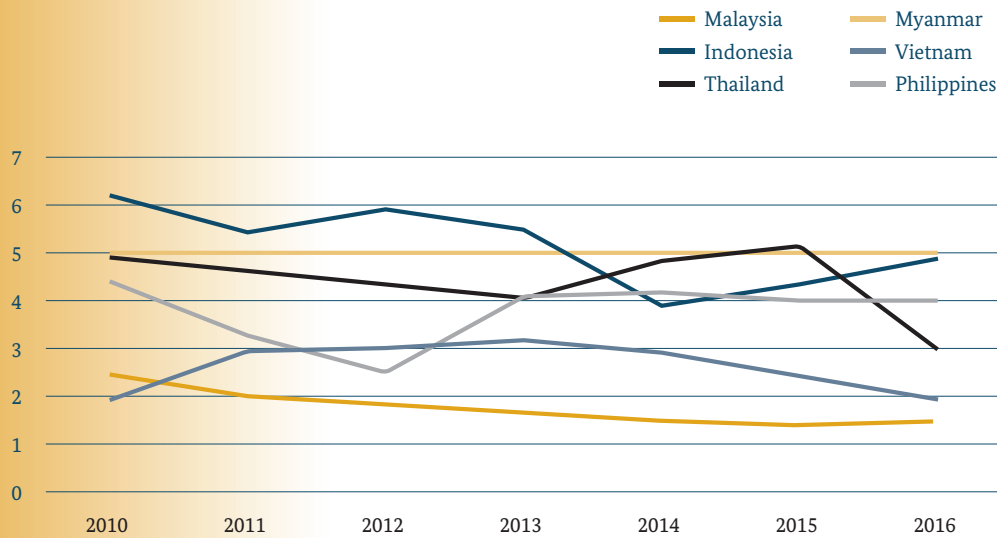
As the NIM only reflects a bank's interest income, it is not identical with profitability which is also determined by non-interest income as well as expenses other than interest payments. Yet, non-interest income in Myanmar accounts only for 8% of banks' income, compared to roughly 19% amongst lower middle income countries.<sup>83</sup> The figure hence indicates a rather low profitability of Myanmar banks.

The fixed interest rate environment and a low spread between lending and deposit rates are often stated by Myanmar bank representatives as major obstacles for profitability and reasons for low net interest margins in the banking sector. Indeed, a higher spread between lending and deposit rates would increase the potential profit margins and very likely improve their

NIM – ignoring for a moment the other important positive impacts a liberalized interest rate would have, e.g., allowing banks to price their own risks. The spread between the lending and deposit rate is fixed at 5% by CBM regulations. Although this value is lower than the average of 7.56% among lower middle income countries worldwide, it is not particularly low compared to other countries in the region (Fig. 17).

The real reasons for the notably low NIM in Myanmar are likely to be low actually received interest payments and very low loan-deposit ratios. Since the majority of bank loans in Myanmar are still overdrafts and banks often do not collect interest payments on these overdrafts, the actual received interest payments are low. Furthermore, defaults on

## Lending-deposit spread (%), 2010–2016



Source: Global Financial Development Database July 2018, World Bank

**Figure 17** Lending-deposit spread (%) in selected countries between 2010 and 2016

interest payments directly decrease banks' net interest incomes and therefore also make NIM volatile because banks in Myanmar still rely on cash based accounting, as opposed to accrual based accounting.

The loan-deposit-ratio of Myanmar is at a comparatively low value (below 60%, cf. figure 18), showing the banks' difficulties or unwillingness to convert deposits into loans. Obviously, a low loan-deposit ratio does not only affect a bank's profitability but also the opportunity for growth in the private sector as it translates into less funds available for the private sector as long as domestic banks struggle to increase lending.

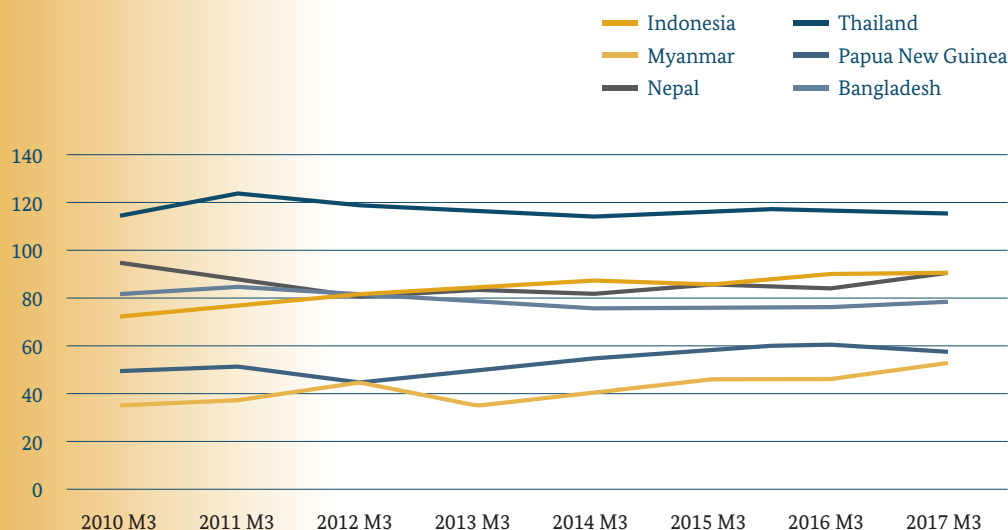
Reliable data on non-performing loans (NPL) in Myanmar is extremely difficult to obtain. Banks are typically under-reporting their NPLs due to the culture of using overdrafts. The nature of overdraft

usage in Myanmar means that non-performing assets often don't get classified according to the CBM's rules for provisioning (hence prompting the recent CBM directive on overdraft conversion). The status of the banking sector overdraft conversion is also not publicly available, although the first conversion deadline has passed. Large-exposure loans (often also related party loans) are one of the big challenges facing the banking sector in Myanmar. Recovering from these NPLs will be as much a political challenge as a technical one.

A decrease in loan default rates and an increase in loan-deposit-ratios would increase the profitability of Myanmar banks. So would potentially also the liberalization of interest rates. In a country where a credit bureau is not yet in operation and financial figures provided by potential borrowers are often inaccurate, lending is per se very risky for banks and the potential profit margins can quickly vanish due

## Loan to Deposit Ratios

(In percent, ratio of banks' loan assets to total deposits)



Source: IMF's Monetary and Financial Statistics.

Figure 18 Loan-deposit ratios (%) in selected countries between 2010 and 2017

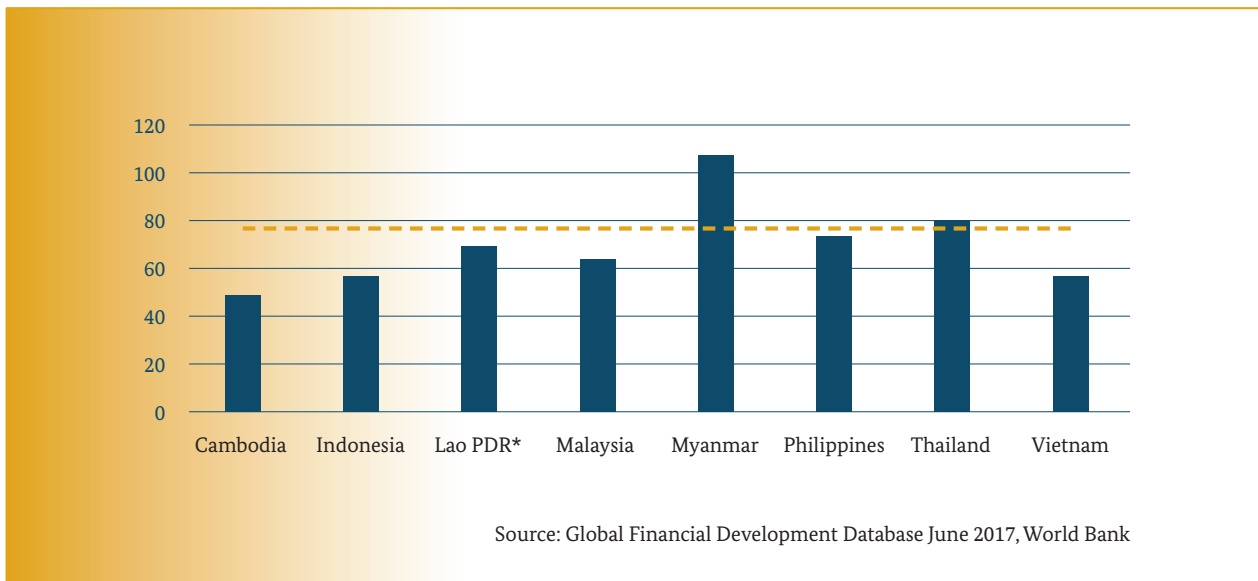
to a higher percentage of defaults on interest payments. From this perspective, it seems crucial to allow banks to appraise their own risk and charge higher interest rates for higher-risk borrowers.

Yet, as the low NIM of Myanmar banks likely reflects large amounts of loans outstanding to customers who are not willing or able to pay due interest, there seem to be issues with respect to the banks' risk management also. In fact, an improvement in the risk management of banks and the processes for loan appraisals might be a precondition for a liberalization of interest rates to be viable, rather than the other way around.

The above picture does not change when including non-interest income in the comparison. The Return on Assets (RoA) of Myanmar banks was 0.4% in September 2017, <sup>84</sup> one of the lowest ratios in the

whole Southeast Asian region. And among lower middle income countries, RoA was 1.15% in 2015.

All the issues mentioned above are also reflected in a very high cost-income ratio of Myanmar banks of more than 100% (indicating some banks must be loss making) compared to approximately 77% for other lower middle income countries (the red dashed line in the figure below). In addition to problems on the income side, both with respect to interest and non-interest income, this high value directly reflects the immense operating costs that result from an often vast network of branches which adds to the cost of funds, further dragging on the profitability of Myanmar banks.



**Figure 19** Cost-Income ratios (%) for selected countries in 2015

To conclude, the performance of Myanmar banks is weak, both compared to other countries in the region as well as to other lower middle income countries in the world. A fixed interest environment limits the banks' potential profit margins and hinders them from increasing their lending activities, the latter being further impeded by the focus on collateral for loan securitization. The notably low NIM is also likely the result of high rates of defaults on interest payments which directly reduce net interest income. Under-reporting of NPL is also a significant factor to

consider regarding the stability of the overall banking system. Improvements in banks' risk identification and management might therefore be a precondition for interest rate liberalizations to be viable. In general, the banks' assets are not efficiently used to generate profit, as reflected by a comparably low RoA. Apart from a non-optimal use of deposits to create interest-income, the low profitability of Myanmar banks also stems from high operational costs, primarily caused by the banks' vast networks of inefficient branches.

# Integration of Myanmar's Banking Sector into the ASEAN Framework

The Association of Southeast Asian Nations (ASEAN) is an intergovernmental organisation established in 1967. Today it comprises ten Southeast Asian countries.<sup>85</sup> Myanmar joined the association in 1997. Within the context of the ASEAN Economic Community (AEC) the flow of goods, services, capital, and skilled labour between the member states is gradually being liberalised. Financial sector integration under the ASEAN Banking Integration Framework (ABIF) is scheduled to begin in 2020. In preparation, it is expected that the CBM will gradually adjust financial sector regulations. For Myanmar's local banks, this will herald a new era of tougher competition with foreign banks and probably a painful consolidation process, but at the same time, potential for improved access to capital, banking infrastructure and know-how.

The push for financial integration within the ASEAN framework has been on the political agenda since the Asian financial crisis in 1997. However it took six years until the finance ministers of the ASEAN member states made a first concrete step by agreeing on The Roadmap for Monetary and Financial Integration in ASEAN. <sup>86</sup>

Four years later, in 2007, the leaders of the ASEAN countries declared their intention to establish the ASEAN Economic Community (AEC) by 2015 in order to facilitate greater trade and investment flows in the region. For this purpose, they agreed on the AEC Blueprint, which outlines the liberalisation of trade and services at a regional scale, including financial services. Specific goals set out under the AEC Blueprint include the progressive removal of restrictions on intra-regional provision of financial services, harmonisation of regional capital market standards and capacity development support for ASEAN capital markets, mutual recognition of qualifications of financial sector professionals, liberalization of capital accounts through the dismantling of account restrictions, and harmonisation of payments and settlements systems. <sup>87</sup>

In 2011, the ASEAN Financial Integration Framework (AFIF) was agreed upon as a general approach to the financial sector liberalisation and integration initiatives under the AEC. This framework aims at having a semi-integrated financial region by 2020, in which each member state would be allowed to define its own milestones to achieve the common end goal of financial integration. <sup>88</sup>

As part of the AFIF, central bank governors of ASEAN member states created the ASEAN Banking Integration Framework (ABIF) in December of 2014. <sup>89</sup> The ABIF aims at providing greater financial stability in the region and achieving multilateral liberalisation in the banking sector by 2020. <sup>90</sup> In this context, ASEAN member countries have adopted the scheme of Qualified ASEAN Banks (QAB), in which a bank qualified in one jurisdiction will receive equal treatment in the others. To recognize the different levels of readiness among member states, the ABIF process specifies two stages: a multilateral stage and a bilateral one. The multilateral stage will establish

ASEAN-wide guidelines, while the bilateral stage involves negotiations between individual countries with regard to the admission of QABs in each other's jurisdictions. Moreover, ABIF will be implemented at two speeds: first among the five larger ASEAN economies (Singapore, Thailand, Malaysia, Indonesia, and Philippines, which are dubbed ASEAN-5), and later including the other five member countries. <sup>91</sup> In this connection, the ASEAN-5 should each have at least one QAB deal with bilateral agreement by 2018, and all other ASEAN countries should have one deal near completion by 2020. <sup>92</sup>

Due to the disparity of economic and financial sector development between the ten ASEAN countries, there are some difficulties in the implementation of ABIF, especially in establishing the necessary preconditions for integration. Therefore, a high level committee (the ASEAN Senior Level Committee on Financial Integration, SLC) was established by the central bank governors of the member states to supervise the financial integration implementation plan and the implementation process itself. The SLC agreed on important issues, including the need to form a group of banking experts, comprising the ASEAN Banking/Prudential Directors. This banking expert group serves as a task force which prepares the financial integration goals and undertakes the specific and highly technical works, like setting priority actions and negotiating standard criteria for QABs. <sup>93</sup>

For successful implementation of the ABIF, the central banks of the ASEAN member states have already made an agreement on four preconditions: (i) harmonising domestic regulations, (ii) building infrastructure to stabilise the financial sectors, (iii) developing the banking capabilities of the so called BCLMV states (Brunei, Cambodia, Laos, Myanmar and Vietnam), and (iv) determining the criteria of QABs allowed to operate in all ASEAN member countries. <sup>94</sup>

While financial sector integration within the ABIF context promises obvious advantages for individual banks, customers and national economies – e.g., improved access to foreign markets, more foreign direct investment, stimulation of economic growth,

more customer choice and better financial inclusion – there are also many related challenges and risks, such as: greater competition and unavoidable consolidation of the banking sectors to create economies of scale, and higher risk of cross-boundary financial instability spill-over effects. Therefore, ASEAN member states have committed to complement the implementation of the ABIF with stronger regulatory and supervisory cooperation arrangements to ensure proper supervision of the QABs. <sup>95</sup>

However, the varying pace of liberalisation and divergent regulatory frameworks among ASEAN countries may complicate cross-border mergers and therefore the necessary consolidation of the region's banking industry. Moreover, since banks in the ASEAN region are mostly small by global standards they may not be able to compete with large multinational financial institutions. Therefore, reforms will probably be slow to materialise as national regulators proceed cautiously to ensure that domestic banks are strong enough to compete before they allow for full liberalisation. <sup>96</sup>

There are unavoidable difficulties for ASEAN member states in their efforts to integrate their banking industries. While the most successful financial integration of independent states arguably is that of the European Union (or rather the Euro member states), ASEAN countries will have to take more time to achieve similar success because the economic and financial development of the ten member states is significantly diverse – despite ongoing efforts to reduce economic disparity in the ASEAN region in line with the AEC implementation. <sup>97</sup>

In order to facilitate the implementation of banking integration, the ABIF Task Force was set up in 2011 with the goal to formulate milestones and timelines for financial liberalisation within the ASEAN banking sector. ASEAN-5 and BCMLV states have to take the role of co-chairs in a two-year rotation. <sup>98</sup> An ABIF Working Group with representatives of all ASEAN member states' respective financial regulatory authorities has been organized to promote the banking integration under ASEAN financial integrated framework. The Data and Surveillance Taskforce under the Working Group is currently

chaired by the Central Bank of Myanmar and the Monetary Authority of Singapore.

The CBM is charged with implementing the following activities in Myanmar for domestic preparation of the AEC 2025 goals: <sup>99</sup>

- a** Financial Integration
  - Capital Account Liberalization
  - Payment and Settlement System development
  - Capital Market Development
- b** Financial Inclusion
  - Carrying out the national financial inclusion roadmap
  - Fostering financial services via mobile banking and fin-tech
  - Training and education programs are arranged to obtain knowledge of financial inclusion and payment settlement systems.
  - Credit reporting system regulation has been issued to support capital for SMEs.
- c** Financial Stability
  - Upgrading of on-site examinations and inspections, and off-site monitoring.
  - Transformation from rules-based to risk-based banking supervision
  - Development of IMF Financial Soundness Indicators (FSIs)

Myanmar has also committed to working on bilateral reciprocity programs, in line with the ABIF. Currently, Myanmar is implementing bilateral programs with Thailand which is Myanmar's largest trade partner and the second largest source of foreign direct investment amongst ASEAN countries. In 2016, the CBM and the Bank of Thailand signed a Letter of Intent (LOI) regarding a bilateral program in Nay Pyi Taw. This agreement intends to implement Qualified ASEAN Banks (QABs). The first bilateral meeting was held at the CBM in Nay Pyi Taw on the 6th of February 2017. In that meeting, both countries explored which banks could qualify as a QAB, they also tried to determine the type of banks which could be operating in both countries and discussed the minimum capital and prudential requirements. The minutes of

these meetings are not publicly available; however, it can be inferred that based on Thailand's regulatory requirements there is a large capital adequacy gap between Myanmar and Thai banks. Until Myanmar banks can achieve the more conservative Thai prudential requirements, it is unlikely that Myanmar banks will be able to operate in Thailand.

To penetrate the regional or international markets, the country's current Basel Framework and level of IFRS compliance become crucial benchmarks for banks. The CBM has been implementing the Basel core principles and capital ratios that are partially in line with Basel II, whereas some ASEAN countries like Indonesia, Singapore, Thailand, Malaysia, and Philippines have fully implemented the Basel II

framework and are focusing on Basel III implementation.<sup>100</sup>

The financial reporting framework in Myanmar's banking sector is also in a slow transition. Although the Myanmar Accountancy Council has mandated IFRS compliance by 2022 accounting practices are not consistently applied in the banking sector. There are significant differences between prevailing accounting and prudential regulations in Myanmar's banking sector and current IFRS.<sup>101</sup> This presents a huge barrier for Myanmar banks to get the QAB status.



# Outlook

# 6

by Prof. Dr. Dr. hc. Udo Steffens  
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and Management  
CEO of Frankfurt Institute of Risk Management  
and Regulation



This 4<sup>th</sup> report by GIZ on Myanmar's Financial Sector Development presents the situation, latest achievements and the challenges of banks in Myanmar. The banks operate in a national, regional and global financial system which continuously undergoes dynamic changes. The report presents a very important source of information for the public at large, policy makers, central bankers, supervisory institutions, bank managers, investors, international financial institutions and development agencies. The GIZ has to be commended for this continued effort. The report provides an holistic overview of the recent developments, the current situation, the strengths and weaknesses as well as the future potential of the banking sector in Myanmar.

The stated facts and figures highlight the required patience and the indispensable strategic guidance, both on the system level and the bank level, to convert a "simple" banking system into a configuration where the potential of a steadily developing financial system is unfolded to serve clients, employees, bank owners and society in multifold dimensions:

- social integration,
- financial inclusion,
- investments of short term deposits and mid to long term savings,
- financing infrastructure,
- providing credit in the demanded forms, terms and maturities,
- financing trade,
- connect the country financially to the world,
- financing innovation, and
- providing services.

As far as supervisory policy and supervisory reporting to the Central Bank of Myanmar (CBM) is concerned the report highlights the progress which has

been made so far. On the basis of the regulatory framework, reporting on compliance issues like anti-money laundering, anti-terrorism financing, capital requirements and risk management as well as the status of non-performing loans have been improved significantly.

However, the CBM together with the Bankers Association should work on harmonizing and modernizing the reporting taxonomy. This will send clear signals to the banks and give less possibilities to work around the intended full transparency of the banking sector, especially with regards to non-performing loans. This would be a consequent next step after the introduction of International Financial Reporting Standards (IFRS).

The Myanmar banking industry is in the early stages of ASEAN integration and deploys resources in order to better meet international best practices. Reporting standards on the basis of a modernized taxonomy serve the needs of the CBM, inform the top management of banks to support decisions and will be the basis for information to the public about the situation of the banks to enhance confidence and sustainability.

Moving forward will also require a technological transformation; cloud computing and cloud based databases should be considered. Inherent data security issues can be solved with innovative solutions. In a later stage reporting may also be supported and secured by blockchain technology. In this important field of the development the Myanmar banking system has the chance to leap-frog and to accelerate the journey towards a modern banking system which may not necessarily go through all the steps of development other banking system have gone through. The technology is available and it is far from being rocket science. In my opinion this is the way to go!

The CBM should try to make the indispensable supervision of banks as efficient as possible in order to let banks concentrate on their business. To support future progress it should also think about the establishment of systems which are able to resolve a bank crisis. Bank failures happened in the past and

will happen again in the future. In order to protect the overall stability of Myanmar's banking system and to avoid contagion rule based measures should be employed to ring-fence any idiosyncratic risk case.

This report provides details about the current banking structure in Myanmar. Large and systemically important state own banks, a few large commercial banks, and numerous small private banks are the main pillars of the system. Due to first steps of liberalization a growing number of foreign banks with strong equity bases but restricted scope of operations and a rather small share of total banking assets have entered the market.

The total asset to GDP ratio of the Myanmar banking sector is still low, growth is strong though. The domestic credit to GDP ratio is correspondingly very low and additionally indicates that banks hold a high proportion of their assets in cash, especially the state owned banks. These findings correlate with the very low loan to deposit ratio of the banking system.

This may indicate uncertainty aspects – banks prefer to have a large share of assets in cash in order to be liquid in a volatile environment and due to the lack of attractive lending opportunities. The strict interest rate regime imposed by the CBM and other non-market oriented restrictions on the credit market still prevail and prevent banks to unfold their full lending potential. Also, worries about inflation and the outside value of the national currency (mainly against the US dollar) induce caution in growing the credit portfolio. However, the overall volume of credit is growing faster than the GDP, showing that banks increasingly fulfill their economic role. Risk adjusted growth and capacity oriented expansion of bank services, especially the provision of credit should have priority above a fast and non-risk adjusted expansion.

Globally, after the financial crisis in 2008 banks have been going through a period of adjustment. In mature economies, many financial institutions face low profitability and a decrease of their market capitalization, accompanied by lower employment and decreasing salaries. In Myanmar, the economic and regulatory environment remains challenging.

Profitability of banks is low as well. Reasons highlighted in this report are:

- very low deposit into credit conversion rate,
- high non-performing loan ratios,
- regulated interest rate and overall credit regime resulting in a relatively low net income margin,
- poor efficiency, especially in state owned banks, and
- very high dependency on interest related business (credits) and subsequently a very small revenue stream coming from service fees.

All of these factors lead to a cost-income ratio of more than 100%.

For several years a global trend in the banking industry is obvious: the post crisis overall low interest rate environment of the leading currencies (US dollar and Euro) has increased the dependency on interest related businesses. Still the level of interest based incomes is under pressure. Other sources of revenue shape the capital markets (e.g., issuing and trading of financial products, mergers and acquisitions, and corporate finance) and provision based services like payments, credit cards or other additional services could not compensate this downturn.

Myanmar cannot be an exemption to these global trends, even if its banking industry is only partially integrated in the global finance industry. However, a cost-income ratio of more than 100% is certainly not sustainable and action must be taken to bring that important indicator down. A few private banks already prove that it is possible and may be used as benchmarks for other banks.

The resulting better profitability of banks would allow for a rise of the equity base and prepare the banks better for national or international shocks from whatever angle they may come. Strong growth of the banking industry as a result of the growing economy of Myanmar and a comparatively low net income margin (measured against the Myanmar risk

and legal framework) concerning the credit business may have seen vulnerabilities built up in the system.

The phased introduction of IFRS, especially IFRS 9, focusing on financial services, will surely lead to great challenges underscored in this report (e.g., provisioning for expected losses, transparent reporting on the status of non-performing loans). Nevertheless the introduction of IFRS provides enormous opportunities. Adhering to internationally expected accounting standards is a prerequisite for embracing successfully the expected competition from foreign banks expanding their activities in the Myanmar market – as soon as the market will be more open, which is in turn a condition to be better integrated in the Asian (and global) market.

The status and the prospected developments of the banking system detailed in this report will demand well-educated and trained employees. A sound and dynamic human resources strategy is indispensable. Human resources is one of the most important functional areas of a bank. Only well-educated and trained employees can face the supposedly higher competition in the future. Therefore, knowledge and skills of bank employees must be upgraded. New hires should be graduates from universities that try hard to have the most promising talents in their courses.

As banking today is to some extent “applied informatics”, banks should encourage universities to train more IT specialists to support the modernization of

banks. Also, the unavoidable further invasion of FinTechs will need more IT specialists to face those challenges and to take a fair share of these new services.

The entrance of telecommunication companies into the banking market – using their networks to make banking transactions easily accessible and more affordable – heralds a new era of banking in Myanmar.

This report gives a very good overview and ample details to portray the status quo of the development of the banking and overall financial system in Myanmar. The report may serve as a starting point for discussions on further strategic directions – both, on the individual bank and on the system level. It is of utmost importance to set the right incentives, advance adequate regulation and to develop effective risk management tools in order to support the stability of the system. Stability and accountability of banks will directly contribute to higher confidence in banks. Higher confidence will attract more clients and thus propel financial inclusion.

A sound financial system remains one of the prerequisites for the improvement of a society in order to contribute to the global Sustainable Development Goals.



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# Annexes

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## Annex 1: The legislative process in Myanmar

### The process of Government Bills (Public Bills)

#### Step 1

Under Section 100 (a) of the Constitution, the Union level organizations or line ministries have the right to submit the Bills relating to matters they administered. The line ministry initiates a Bill by obtaining opinions of legal and technical experts. As a first step, the ministry prepares the proposed legislation in Burmese and sends the draft bill to the Union Attorney General's Office for opinions and recommendations.

#### Step 2

The Union Attorney General's Office reviews the draft Bill prepared by the line ministry and checks its format, wording and usage of legal and technical terms in the draft. Then the draft Bill is sent back to the line ministry with the recommendations of Union Attorney General's Office. The line ministry rewrites the Bill. Sometimes, the draft Bill has to be rewritten again and again by taking into consideration all relevant facts and recommendations of respective stakeholders. After the draft Bill has been finalized, the Ministry concerned submits it to the Cabinet for its consideration and approval. The Cabinet considers it carefully and submits it to the Pyidaungsu Hluttaw (Union Parliament).

#### Step 3

The Speaker of Union Parliament (Pyidaungsu Hluttaw) receives the Bill from the government and decides which house (either Lower House or Upper House) to start debating the draft. If the Pyithu Hluttaw (Lower House) receives the Bill from the Speaker, the Bill Committee of the Lower House makes necessary preparations for submitting the Bill to the plenary session of the parliamentary assembly. First, it organizes meetings of discussion with relevant authorities and stakeholders including international non-government organizations (INGOS) and civil society organizations to consolidate different opinions on the Draft Bill. At this stage, public opinion is sought through public media. The Bill Committee prepares a report on the draft Bill by consolidating different opinion and views from different sectors.

#### Step 4

On a fixed date, the report of the Bill Committee together with the original Bill is submitted to the Pyithu Hluttaw (Lower House). One of the committee members submits the Bill before the parliamentary session. After submitting the Bill, Members of Parliament, who are willing to make suggestions on the Bill are invited by the Speaker. The Speaker fixes the date for discussion of the Bill. At the scheduled session, the Bill is thoroughly discussed and resolutions are made on the discussions.

#### Step 5

The Bill passed by the Pyithu Hluttaw (Lower House) is sent to the Amyotha Hluttaw (Upper House) for discussion and resolution. At this stage, the Amyotha Hluttaw may agree or disagree with amendments in accord with the resolution of the Pyithu Hluttaw. The Amyotha Hluttaw can make amendments in the Bill. The Bill shall be sent back to the Pyithu Hluttaw with the resolution of the Amyotha Hluttaw. If the Pyithu Hluttaw accepts the amendments of the Amyotha Hluttaw or if both Houses agree on all points in the Bill, the Bill is deemed to be approved by the Pyidaungsu Hluttaw (Union Parliament), which represents both Houses. The Bill is submitted to the Speaker of the Pyidaungsu Hluttaw for further process.

### Step 6

If both Houses do not agree with each other, the next step is to be discussed at the Pyidaungsu Hluttaw. The Joint Bill Committee reviews the differences and submits a report of its findings and recommendations on the Bill to Pyidaungsu Hluttaw for further discussion and resolution. The Pyidaungsu Hluttaw is the final authority where resolution is taken by a vote.

### Step 7

After a Bill has been passed by both Houses or the Pyidaungsu Hluttaw, it is submitted to the President for approval. If it is approved, the President shall sign the Bill into Law; if it is not approved, the President shall send back the Bill to the Pyidaungsu Hluttaw with comments. It is up to the Pyidaungsu Hluttaw whether to accept the President's comments. After discussion of the President's comments, the Pyidaungsu Hluttaw shall make its final resolution and send it back to the President to sign it into Law within seven days. If it is not signed by the President within the prescribed period of fourteen days after receiving the Bill, it shall automatically become law as if it is signed by the President on the last day of the prescribed period.

### The process of Private Bills

The same procedure as for Public Bills applies to Private Bills, except that a Private Bill is initiated by a Member of Parliament (or a Committee). Examples of Private Bills are: the Law relating to overseas employment (The State Peace and Development Council Law No 3/99), or the Law relating to shops and business centers (2016 Pyidaungsu Hlaw Law No. 18).

When the draft Bill is submitted to the Speaker (Patron) of the Pyidaungsu Hluttaw, she/he decides which house to start debating the draft. Any House assigned for debating the Bill shall accept or reject the Bill by a vote. If it is not accepted, it is ceased to become a law. If it starts with the Pyithu Hluttaw and if it is accepted, it is the responsibility of the Bill Committee of the Lower House to start rolling the ball according to the procedure mentioned above.

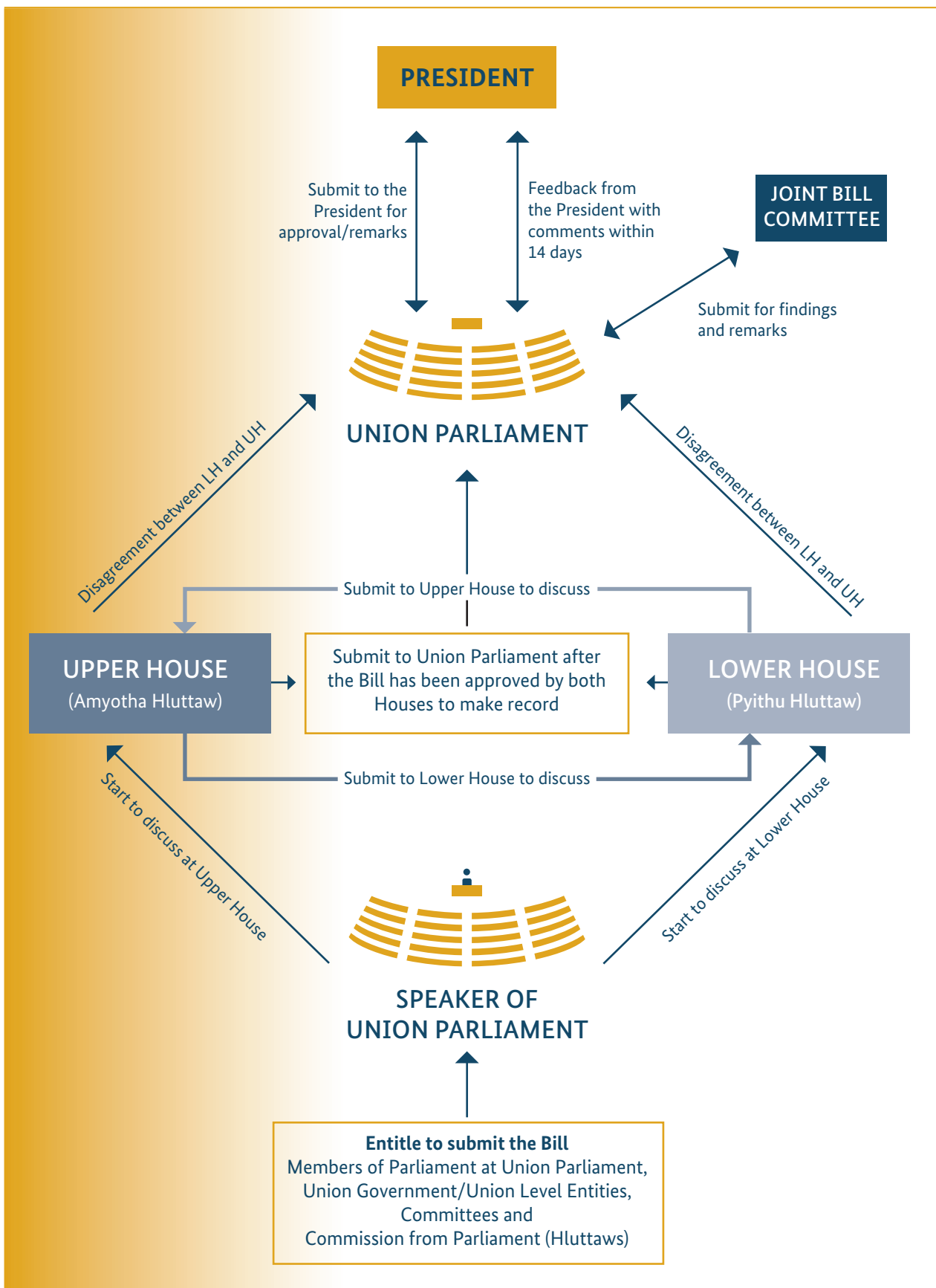


Figure 20 The legislative process in Myanmar

## Annex 2: Prudential requirements for banks in Myanmar

### Capital adequacy (percentage of risk-weighted assets)

Item	Requirement	Reference
Regulatory capital adequacy ratio	≥ 8%	Notification No. (16/2017)
Tier 1 capital adequacy ratio	≥ 4%	

### Paid-up capital (MMK)

Item	Requirement	Reference
Paid-up capital (MMK)	≥ 20 billion	FIL – 34(a)

### Credit risk concentration

Item	Requirement	Reference
Individual or group financial exposure	≤ 20% of core capital	Notification No. (18/2017), FIL 59(a)
Aggregate of large exposure limit	Not more than 8 times of core capital	Notification No. (18/2017)
Unsecured exposure to another bank	≤ 100% of core capital	Notification No. (18/2017)
Staff loans	≤ 5.0% of paid-up capital	FIL 63(c)

### Market risk

Item	Requirement	Reference
Net open position (% of tier 1 capital)	Not more than +30, not less than -30	Directive No. (14/2016)
Restriction on Investment	≤ 10% of capital of bank	FIL 60 (b)
Total ownership stake in another bank or NBFI	≤ 5% of that institution's equity	FIL 61 (a)
NPL	< 5%	Directive No. (5/2017)

## Liquidity

Item	Requirement	Reference
Minimum reserve requirement	≥ 5% of total deposit	Directive No. (10/2015)
Liquidity ratio (net liquid assets, % of volatile liabilities)	≥ 20%	Notification No. (19/2017)
Loan-to-deposit ratio	70%–80% of total deposit	Directive No. (1/2008)
Statutory reserve	25% of net profit, up to equal to 100% of the paid-up capital	FIL 35(a) and Directive No. (1/2008)
General provision	2% of outstanding loans and advances	Notification No. (17/2017)
Specific provision	Standard (30 days past due) 0% Watch (31 to 60 days past due) 5% Substandard (61 to 90 days past due) 25% Doubtful (91 to 180 days past due) 50% Loss (over 180 days past due) 100%	Notification No. (17/2017)
Overdraft ratio	Not more than 50% (6-7-2018) Not more than 30% (6-7-2019) Not more than 20% (6-7-2020)	Directive No. (7/2017)

## Interest rate

Item	Requirement	Reference
CBM reference rate	10% p.a.	Directive No. 10/2011
Minimum Deposit rate	8% p.a.	Directive No. 11/2011
Minimum lending rate	13% p.a.	
Call deposit interest	Within 2% and 6% p.a.	(MBA, 2017)*

## Type of collateral

Item	Requirement	Reference
Land & Building	maximum 50% of forced sale value**	-
Treasure bond	maximum 80% of the assessed value	Directive No. (27/2012)
Saving and Fixed deposit	maximum 80% of outstanding savings	Directive No. (24/2011)
Gold	maximum 75% of assessed value for only 1-year term	Directive No. (22/2011)
Machines and Crops	maximum 60% of the assessed value	Directive No. (25/2011)

Source: GIZ -BFSD collection

\* this rate was determined by a discussion of the stakeholders of the Myanmar Bank of Association (MBA).  
\*\* the banks have already been instructed to make loans with collaterals since 2008 so that land and buildings are taken as securities, and the loan amount may vary among the banks.

## Annex 3: Summary of Instructions for Commercial Banks

Year	Instructions	Particular	Commentary
2018	Directive No. 1/2018 January 8, 2018	Term Loan conversion plan	<ul style="list-style-type: none"> <li>Interest rate shall be repaid quarterly basis. For principal repayment, up to one-year Grace period can be set.</li> </ul>
	Directive No. 2/2018 January 8, 2018	To report Large Exposures	<ul style="list-style-type: none"> <li>3 -year term loan reducing plan for large exposures shall be submitted to CBM by 31-3-18</li> </ul>
	Directive No.3/2018 March 8, 2018	Conditions for Branch extension	<ul style="list-style-type: none"> <li>Banks have to complete the conditions such as contributions to its location, comments on security from local authority, approval for characteristic and strengheness of bank, feasibility study, total branches of bank, security measures, when applying for opening branches.</li> </ul>
	FE 1/452 August 13, 2018	Canceling CBM reference rate +/- 0.8% limit	<ul style="list-style-type: none"> <li>Canceling CBM reference rate +/- 0.8% limit in forex trading</li> </ul>
	Memorandum MaBaBha-1/111(FEMD)/1/2018 August 7, 2018	To use Myanmar Kyats for Domestic Payment Settlement	<ul style="list-style-type: none"> <li>Related ministries, Region/State Governments, Naypyitaw Council, Yangon City Development Council, and Mandalay City Development Council including private entities are instructed to deal with Myanmar Kyats for Domestic settlements.</li> </ul>
	Memorandum FE-1/483 August 20, 2018	Information to apply Thomson Reuters Real-Time Reporting Solution	<ul style="list-style-type: none"> <li>Thomson Reuters is authorized to report currency trading at AD banks in the Interbank FX market, with the application of Real-Time Reporting Solution.</li> </ul>
	Directive No. 4/2018 September 4, 2018	Amendment on direction of Dividend allotment	<ul style="list-style-type: none"> <li>Dividend can be made by way of cash as well as issue of share including bonus share.</li> <li>Bonus share can be made only from the retained profit.</li> <li>Dividend should not be paid from share premium.</li> </ul>
	Directive No. 5/2018 October 18,2018	Reminder for Money Changer and Authorized dealer License holders	<ul style="list-style-type: none"> <li>License holders are reminded to avoid the performances that harm the stability of economy or distrust the currency mechanism or destabilize the exchange rate by speculation, etc.</li> </ul>
	Directive No. 6/2018 November 8, 2018	Foreign banks are allowed to lend to local cooperates.	<ul style="list-style-type: none"> <li>Foreign banks are allowed to perform any financing and other banking services to local corporate.</li> </ul>

2017	Directive No. 2/2017 January 26, 2017	License fee, charges and annual fee	<ul style="list-style-type: none"> <li>• License fee - 0.1% of the paid-up capital</li> <li>• Charges for opening branch 500,000 MMK</li> <li>• Annual fees for Local Banks - 0.1% of paid-up capital as at 2nd of April</li> <li>• Annual fees for Foreign Banks - 0.1% of paid-up capital (US\$ 75 million)</li> </ul>
	Memorandum Mababa-1/111(FIS)/216/2017 February 20, 2017	Instruction on Loan Interest Rate Collection	<ul style="list-style-type: none"> <li>• Maximum loan interest rate must be 13% p.a. including services charges</li> </ul>
	Directive No. 4/2017 March 7, 2017	Instruction on Credit Risk Management	<ul style="list-style-type: none"> <li>• To make the Credit Risk Management Framework covering identification, measuring, assessing, monitoring, reporting and controlling or mitigation</li> <li>• To report policies and procedures of credit risk management to CBM</li> </ul>
	Directive No. 5/2017 March 7, 2017	Dividend Payment	<ul style="list-style-type: none"> <li>• A bank shall only pay dividends if <ul style="list-style-type: none"> <li>- CAR is maintained 8% in current financial year and last two years</li> <li>- NPL/total loan ratio is less than 5%</li> <li>- meet general provision and specific provision</li> </ul> </li> </ul>
	Directive No.6/2017 March 7, 2017	Revaluation of Assets	<ul style="list-style-type: none"> <li>• To revalue the Bank's Assets: <ul style="list-style-type: none"> <li>- the assets to be revalued should be under the name of the Bank</li> <li>- revaluation can be done by professionals from internationally recognized valuation firm</li> <li>- revaluation of assets may be done once in five-year term</li> </ul> </li> </ul>
	Notification 5/2017 March 31, 2017	Regulation on establishment of Credit Bureau and Credit Reporting System	<ul style="list-style-type: none"> <li>• Regulation on establishment of Credit Bureau and Credit Reporting System</li> </ul>
	Notification No. 16/2017 July 7, 2017	Capital Adequacy Ratio (CAR) Regulation	<ul style="list-style-type: none"> <li>• Regulatory CAR ratio 8%</li> <li>• Tire 1 (Core Capital) <math>\geq</math> 4%</li> <li>• Tire 2 (Supplementary Capital) <math>\leq</math> 4%</li> </ul>

2017	Notification No. 17/2017 July 7, 2017	Asset Classification and Provisioning Regulation	<ul style="list-style-type: none"> <li>Adequate provision for impairment of loans, advances and other assets are to be made against all outstanding balance (principal and interest) of the loans and advances, not just the past due portion</li> <li>Specific Provision for loans and advances</li> </ul> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th></th> <th style="text-align: right;">Prov. On shortfall</th> </tr> </thead> <tbody> <tr> <td>Std.</td> <td>30 Days past due</td> <td style="text-align: right;">0%</td> </tr> <tr> <td>Watch</td> <td>31–60</td> <td style="text-align: right;">5%</td> </tr> <tr> <td>Sub-Std.</td> <td>61–90</td> <td style="text-align: right;">25%</td> </tr> <tr> <td>Doubtful</td> <td>91–180</td> <td style="text-align: right;">50%</td> </tr> <tr> <td>Loss</td> <td>over 180</td> <td style="text-align: right;">100%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Banks are required to maintain general provisions up to 2% of total outstanding loans and advances.</li> <li>Interest earned on loans and advances which are classified as doubtful or loss shall only be recognized as income when the interest has been collected by the bank.</li> </ul>			Prov. On shortfall	Std.	30 Days past due	0%	Watch	31–60	5%	Sub-Std.	61–90	25%	Doubtful	91–180	50%	Loss	over 180	100%
			Prov. On shortfall																		
	Std.	30 Days past due	0%																		
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Loss	over 180	100%																			
Notification No.18/2017 July 7, 2017	Large Exposures Regulation	<ul style="list-style-type: none"> <li>Lending to an individual or a single counterparty or group of connected counterparties shall be not more than 20% of the core capital.</li> <li>Unsecured transactions are limited to 100% of core capital of the bank.</li> <li>The aggregate of all large exposure of a bank shall not exceed 8 times of core capital.</li> </ul>																			
Notification No.19/2017 July 7, 2017	Liquidity Ratio Requirement Regulation	A bank shall maintain a minimum liquidity ratio of 20%.																			

2017	Directive No. 7/2017 November 24 2017	Implementation of Asset Classification and Provisioning Regulation	<ul style="list-style-type: none"> <li>Banks can extend overdrafts and loans with maximum maturity of 1 year and 3 years respectively. Additionally, banks are encouraged to develop new lending products that consider the business cycle and cash pattern of the borrowers.</li> <li>Banks are allowed to convert the outstanding overdrafts into term loans maximum maturity of 3 years. However, they are not allowed to convert non-performing overdrafts into term loans</li> <li>Overdraft reducing schedule is as follows:               <ol style="list-style-type: none"> <li>as of July 6, 2018 50% of total outstanding loan</li> <li>as of July 6, 2019 30% of total outstanding loan</li> <li>as of July 6, 2020 20% of total outstanding loan</li> </ol> </li> </ul>
	Directive no. 8/2017 November 30, 2017	Amendment on Para 17 (c) of Mobile Financial Services Regulation	<ul style="list-style-type: none"> <li>Operating limit amount amendment in daily and monthly.</li> </ul>
	Directive No. 10/2017 December 8, 2017	Amendment of Liquidity Ratio Calculation	<ul style="list-style-type: none"> <li>50% of total value of Treasury Bonds with more than one year maturity shall be included in calculation.</li> </ul>
	Directive No. 9/2017 December 8, 2017	Permission to foreign banks to expand related banking services for export financing	<ul style="list-style-type: none"> <li>Foreign banks are allowed to expand related banking services for export financing</li> </ul>
2016	Directive 2/2016 March 18, 2016	To perform Foreign Exchange Account Opening in accordance with Law	<ul style="list-style-type: none"> <li>If individual and company of the customers of the bank have overseas FE account, bank statements and balance are needed to report CBM in accordance with Section 14 and 15 for Foreign Exchange Management Law.</li> </ul>
	Regulation 01/03-2016 March 30, 2016	Mobile Financial Services Regulation	<ul style="list-style-type: none"> <li>See in Mobile Financial Services regulation</li> </ul>
	Directive 3/2016 April 8, 2016	Permission to perform Bilateral Interbank FX transactions	<ul style="list-style-type: none"> <li>Bilateral interbank FX transactions such as FX forward and FX SWAP transactions are permitted to perform with 3 currencies up to 1 year.</li> <li>Settlement can be made through CBM-NET for Myanmar currency transaction and CBM NET or correspondent banks for foreign transaction.</li> </ul>



2016	Directive No.4/2016 April 8, 2016	Permission on Bilateral Interbank Lending	<ul style="list-style-type: none"> <li>• Bilateral interbank lending can be made with Myanmar Kyats in the initial phase.</li> <li>• Interest rate is agreed by both parties.</li> <li>• Disburse with loan system</li> <li>• Disburse with or without collateral</li> <li>• T-bonds/bills or USD deposits are accepted as collateral</li> <li>• Exposure limit for uncollateralized interbank lending can be performed <math>\leq</math> 100% of core capital</li> <li>• Loan transaction shall be performed in accordance with IAD 32 and IFRS 9.</li> </ul>
	Directive No.12/2016 September 29, 2016	Penalty for Shortfall on Minimum Reserve Requirement	<ul style="list-style-type: none"> <li>• Calculation on amount of penalty, Currency and percentage of penalty for shortfall on Minimum Reserve Requirement</li> </ul>
	Memorandum No. FE 1/1077 December 5, 2016	Investment in abroad	<ul style="list-style-type: none"> <li>• To invest in abroad in line with laws</li> </ul>
	Memorandum No. FE 1/1078 December 5, 2016	Foreign Currency Account Opening in foreign countries	<ul style="list-style-type: none"> <li>• For Banks – to submit foreign currency account information and balance sheet of bank</li> <li>• For bank's customer (individual and companies) – to report foreign currency account and balance sheet</li> </ul>
	Memorandum FE 1/1076 December 5, 2016	Export proceeds is to be recorded at Exporters' A/C officially	<ul style="list-style-type: none"> <li>• Foreign Exchange Authorized Dealer License holders need to check all export proceeds during the set period as well as exporters are needed to inform to follow strictly.</li> </ul>
	Directive No.14 December 27, 2016	Net Open Position (NOP)	<ul style="list-style-type: none"> <li>• To maintain not occurring short position for any currencies</li> <li>• To maintain not more than 30% of core capital of long/short position</li> <li>• To report the corrective action if the long/short position exceeds the CBM's limit two consecutive days</li> <li>• To sell in Foreign Exchange Auction if NOP is over 30%</li> <li>• To report daily NOP update</li> </ul>
2015	Memorandum January 27,2015	Guidelines on Risk Management of AML/CFT	<ul style="list-style-type: none"> <li>• See in guidelines on Risk Management of AML/CFT</li> </ul>
	Directive No.10 February 17, 2015	Minimum Reserve Requirement	<ul style="list-style-type: none"> <li>• Minimum reserve requirement shall be 5% of total deposits.</li> </ul>
	Directive No. 14/2015 March 9, 2015	Cash and worksite security of the bank	<ul style="list-style-type: none"> <li>• Instructions on vault, cash-in transit and worksite security of the bank.</li> </ul>

2015	Directive No.16/2015 May 27, 2015	Foreign Exchange Withdrawal Limit	<ul style="list-style-type: none"> <li>• Instead of withdrawal once in USD 10,000, it is substituted with once in USD 5,000 twice a week. For &gt; 5,000 withdrawal, transfer method can be applied.</li> <li>• For Govt, embassies, UN, NGO, any withdrawal can be made with strong evidence.</li> </ul>
	Directive No. 17/2015 May 27, 2015	Permission to trade foreign currency	<ul style="list-style-type: none"> <li>• Allow to sell and buy two foreign currencies – Ringgit and Baht</li> </ul>
	Mababa-1/111 (FEMD)/ (904/2015) May 28, 2015	To use Myanmar Kyat for Domestic Payments/ settlement	<ul style="list-style-type: none"> <li>• To use Myanmar Kyat for buying and selling goods and services of respective Ministries, the governments of States/ Regions</li> </ul>
	Directive No. 18/2015 June 17, 2015	To sell Foreign Currency for imports via banks	<ul style="list-style-type: none"> <li>• To sell foreign currency for imports especially oil and edible oil via banks</li> </ul>
	Directive 21/2015 October 2, 2015	Directives on Due Diligence on Anti-Money Laundering and Counter Financing on Terrorist	<ul style="list-style-type: none"> <li>• See in Directives on Due Diligence on Anti-Money Laundering and Counter Financing on Terrorist</li> </ul>
	Directive No. 22/2015 December 22, 2015	To transact Foreign currency for all imported commodities via Foreign Exchange Auction and Interbank Foreign Exchange Market	<ul style="list-style-type: none"> <li>• To transact foreign currency for all imported commodities including oil and edible oil via FE Auction and Interbank FE market</li> </ul>
2014	Regulation No. 1/2014 January 2, 2014	MFI Development Bank Regulations	<ul style="list-style-type: none"> <li>• See in MFI Development Bank regulations</li> </ul>
	FEMD 1/2014 February 7, 2014	Currency Shipment	<ul style="list-style-type: none"> <li>• Authorized dealer (AD) banks are permitted to make currency shipment individually or collectively upon approval from the CBM.</li> </ul>
	Regulation No. 2/2014 February 18, 2014	Construction and Housing Development Bank Regulation	<ul style="list-style-type: none"> <li>• See in Regulation on Construction and Housing Development Bank Regulation</li> </ul>
	CBM February 28, 2014	Appointment of Foreign Professionals	<ul style="list-style-type: none"> <li>• Foreigner may be appointed as Advisor or Consultants</li> <li>• As to a permanent staff, foreigner shall be appointed as General Manager, the highest</li> </ul>
	BS: March 10, 2014	Issuance of Bank Guarantee, Bid Bond, etc.	<ul style="list-style-type: none"> <li>• AD banks may issue the bank guarantee, bid bond, etc. for loan and business.</li> </ul>
	BS: April 2, 2014	Margin taken for L/C	<ul style="list-style-type: none"> <li>• AD banks may not take 100% margin for L/C opening. It is negotiable with the customer</li> </ul>
	Notification 3/2014 July 30, 2014	Regulation relating to set up Farmer Development Bank	<ul style="list-style-type: none"> <li>• Seen in regulation relating to setup Farmer Development Bank</li> </ul>
	Notification No. 7/2014 September 30, 2014	Foreign Exchange Management Regulation	<ul style="list-style-type: none"> <li>• Regulations on Foreign Exchange Management</li> </ul>

2014	BS: October 2, 2014	Capital Brought-in	<ul style="list-style-type: none"> <li>Foreign company or Joint Venture Company shall inform and apply to the CBM with documents through AD bank for permission to bring the capital into the country or the repatriation of these funds may be rejected</li> </ul>
	Memorandum November 11, 2014	To manage smooth and 24-hour cash withdraw from ATM	<ul style="list-style-type: none"> <li>Banks are instructed to provide effective ATM services.</li> </ul>
	FE 1/535 December 12, 2014	Instruction to AD banks related to overseas financing	<ul style="list-style-type: none"> <li>AD bank needs to get approval from CBM for getting overseas financing.</li> <li>If FDI, either MIC permit or Certificate of incorporation from DICA shall be submitted with loan agreement, repayment schedule and purpose of loan.</li> <li>AD shall keep the fund or borrowing brought in without approval from the CBM in the sundry account</li> <li>Authorized dealer bank shall send the fund or borrowing which was not permitted by the CBM back to the sender bank</li> </ul>
2013	Directive No. 1/2013 May 8, 2013	Relaxation on restriction of Bank operations	<ul style="list-style-type: none"> <li>Private banks are allowed to accept long-term deposit other than current 3,6,9, 12 months period term</li> <li>Loans can be extended without collateral if ministries and department issue guarantee</li> <li>To keep minimum 50% of Paid-up capital as Free capital</li> <li>To accept deposit maximum 10 times of paid-up capital</li> <li>To accept 3-month, 6-month, 9-month and 12-month term fixed deposit.</li> <li>Interbank borrowing is not allowed</li> <li>Do not disburse loans with diamond, gold and pledge.</li> <li>If banks lend out without collateral, 2% of net profit will be changed as fine.</li> </ul>

2013	Directive No. 2/2013 August 2, 2013	Disbursement of short, medium and long-term loans	<ul style="list-style-type: none"> <li>Authorized deal banks may engage in borrowing or raising of money and extent the long-term loan with these fund</li> <li>If AD banks receive long-term deposits, long-term loan can be extended accordingly</li> <li>For extending the long-term loans, AD banks shall obtain the prior permission from the CBM</li> <li>Financial Institutions shall perform borrowing and raising of money. Based on that, long-term loan can be extended.</li> <li>If FI receives long-term deposits, long-term loan can be extended accordingly.</li> <li>Approval from CBM is needed for disbursement of long-term loan.</li> </ul>
	Memorandum Mababha -1/111(953/2013) December 4, 2013	To follow the minimum and maximum interest rate limit	<ul style="list-style-type: none"> <li>The maximum lending interest rate shall not exceed 13% per annum including all service charges.</li> </ul>
2012	Registration No. 4380/1469-KaKa/2011-2012 January 13, 2012	Loan disbursement against Land & Building	<ul style="list-style-type: none"> <li>Bank should not disburse loans against prosecuted or disputed land and buildings</li> </ul>
	BS: 26/2012 March 22, 2012	Interbank Borrowing	<p>Borrower Bank</p> <ul style="list-style-type: none"> <li>To address the minimum reserve requirement and liquidity short fall</li> </ul> <p>Lender Bank</p> <ul style="list-style-type: none"> <li>Interest rate is negotiable between lending and borrowing bank but not more than the CBM prime rate</li> <li>Treat as loan</li> <li>If loan period is more than 14 days, the CBM to be informed</li> <li>More than 90 days loan period is not allowed</li> <li>Loan should not be more than 20% of core capital</li> <li>With collateral or without collateral is depend on BOD's decision</li> </ul>
	Directive No.16/2012 April 3, 2012	CBM Reference rate	<ul style="list-style-type: none"> <li>To conduct buying and selling foreign exchange within plus or minus 0.3% of CBM reference rate</li> </ul>
	FEMD: 3/2012 May 17, 2012	Holding Foreign Exchange	<ul style="list-style-type: none"> <li>Nationals are allowed to hold legal FE earning maximum US\$ 10,000 or equivalent currencies for 3 months. After 3 months the balance shall be deposited with banks</li> </ul>

2012	Directive No.27/2012 June 8, 2012	Loan secured by Treasury Bond	<ul style="list-style-type: none"> <li>Treasury bonds can be accepted as collateral.</li> <li>Maximum 80% of Treasury Bond can be lent out.</li> <li>Credit term shall not exceed maturity date.</li> </ul>
	Directive No. 13/2012 July 4, 2012	Authorization for Foreign banking to Authorized Dealer Licensed Banks	<ul style="list-style-type: none"> <li>For opening demand deposit account (with foreign currency)</li> </ul>
	1604/1251-KaKA/2012 –2013 August 9, 2012	Fees for Domestic Remittance	<p>Remittance fee</p> <ul style="list-style-type: none"> <li>15 Pyar for 1000 MMK</li> <li>12.5 Pyar for &gt; 1000 MMK</li> <li>Fax one time – 500 MMK</li> <li>Online one time – 500 MMK</li> <li>For remoted area – 50 Pyar for 1000 MMK</li> </ul>
	FEMD: 3/2012 December 11, 2012	Account Opening for Foreigner	<ul style="list-style-type: none"> <li>AD banks are authorized to open “current FE account” and “non-resident kyat account” for foreign embassies, diplomats and staff</li> </ul>
2011	Directive No. 25 January 25, 2011	Pledge (machineries, commodities and crops)	<ul style="list-style-type: none"> <li>Machine, commodities and crops can be accepted as pledge</li> <li>Loan can be extended up to 60% of appraised value.</li> <li>The maturity is based on the durability of the commodities and crops and decided by BOD.</li> </ul>
	Directive No.22 September 8, 2011	Loan secured by Gold	<ul style="list-style-type: none"> <li>Gold, Goldware (excluding jewelries) and Bullion can be accepted as collateral.</li> <li>Loan can be extended up to 75% of appraised value with maximum one year maturity.</li> </ul>
	Directive No. 6/2011 September 29, 2011	Approval on Foreign Currencies Trading	<ul style="list-style-type: none"> <li>Money Changer License holder banks are permitted to trade USD, EURO and Singapore Dollar out of 12 currencies.</li> <li>Supporting documents will be required over or under the threshold of USD 2,000/- in every exchange transaction.</li> </ul>
	Directive No.7/2011 October 6, 2011	AML/CFT guidelines for Authorized Dealer Licensed Banks	<ul style="list-style-type: none"> <li>Currying out Customer Due Diligence -CDD</li> <li>Reporting</li> <li>Record keeping</li> </ul>
	Memorandum November, 11, 2011	To manage withdrawal from ATM	<ul style="list-style-type: none"> <li>To withdraw money from ATM without difficulties shall be managed.</li> </ul>
	Directive No. 10/2011 December 8, 2011	Permission for trading foreign currency	<ul style="list-style-type: none"> <li>USD, EURO, SGD</li> </ul>

2011	Directive No. 8/2011 December 14, 2011	Paid-up capital with Foreign Exchange	<ul style="list-style-type: none"> <li>In addition to original paid-up capital in Myanmar Kyat for ADL, USD 5 Mil is set as additional paid-up capital</li> </ul>
	Directive No. 9/2011 December 14, 2011	Directions for Domestic Account Transfer for Foreign Exchange	<ul style="list-style-type: none"> <li>Directions for internal accounting process with regards to Foreign Exchange</li> </ul>
	Directive No. 10/2011 December 27, 2011	Setting CBM bank rate	10% p.a.is capped as bank rate of CBM
	Directive No. 11/2011 December 27, 2011	Amendment to deposit and lending interest rates	<ul style="list-style-type: none"> <li>Savings interest should not be less than 2% of the capped rate. Lending interest should not be more than 13% p.a.</li> </ul>
	Directive No. 24/2011 December 27,2011	Loan secured by saving deposits	<ul style="list-style-type: none"> <li>Savings, saving certificates and fixed deposits can be accepted as collateral and loan can be extended up to 80% of the deposit balance.</li> </ul>
2010	Directive No. 7/2010 May 20,2010	Guidelines on AML/CFT	<ul style="list-style-type: none"> <li>See in guidelines on AML/CFT</li> </ul>
2009	Directive No. 4/2009 June 3,2009	Additional criteria for STR, Suspicious Transaction Report, check list	<ul style="list-style-type: none"> <li>Additional 15 criteria for STR Check list where the former 21 check criteria were under directives number 6/2006</li> </ul>
	Memorandum June 3, 2009	Guideline on Due Diligence on Anti-Money Laundering and Counter Financing on Terrorist	<ul style="list-style-type: none"> <li>See the guideline</li> </ul>
2008	Directive No. 1/2008 December 30,2008	Banking operation instructions for private banks	<ul style="list-style-type: none"> <li>General reserve – 25% of the net profits and until it reaches to 100% of the total paid-up capital</li> <li>General provision – 2% of total outstanding loans</li> <li>Loan to deposit ratio – 70% – 80%</li> </ul>
2005	Directive No.1/2005 May 26, 2005	Instruction on issuing loans	<ul style="list-style-type: none"> <li>See in the instruction on issuing loans</li> </ul>
2004	Memorandum January 30, 2004	To record comprehensive information of customers	<ul style="list-style-type: none"> <li>See in memorandum</li> </ul>

Source: CBM



## Annex 4: Mobile Financial Services Regulations

- (a) A minimum capital of MMK 3 billion
- (b) Application fee of 0.1% of minimum capital
- (c) Minimum three-year business plan and description of proposed types of mobile financial services to be offered
- (d) Details of the board of directors and management, including compliance with the fit and proper requirements
- (e) In case of MNOs, a letter of no objection from the Ministry of Communication and Information Technology, and in case of non-bank financial institutions, a no-objection letter from the primary regulator of that entity and other requirements CBM deems necessary.

In addition to proper risk management standards, compliance to the Anti-Money Laundering Law and Counter Terrorism Laws and other internal controls, MFSPs are required to keep 100% of their float in a trust account at a bank, which consists of liquid assets and shall be separated from any other funds of the MFSP. Every MFSP shall reconcile the balance in the trust account against the float not later than 4 p.m. each day.

Once the license is granted, MFSPs can engage with agents such as mobile network operators, partner banks, non-government entities and other partner businesses with nationwide networks. MFSPs are allowed to conduct the following services:

- (a) Opening and maintaining MFS accounts
- (b) Cash-in/ cash-out transactions to/from MFS accounts
- (c) Money transfer between MFS accounts
- (d) Domestic payments between business, individuals and government, and
- (e) Transactions between MFSP account and linked bank accounts.

The limits on daily and monthly transactions as well as Know Your Customer (KYC) and Customer Due Diligence (CDD) requirements are also mandated by the CBM, as shown in the table below.

Tier	KYC/CDD	Cumulative Transaction Limits Per Day	Cumulative Transaction Limits Per Month	Maximum Balance Limit
Level 1 (individuals only)	presentation of ID (the national ID is first priority, driving license is second priority or passport) is required if and when necessary	50,000 Kyat	1 million Kyat	200,000 Kyat
Level 2 (individuals only)	SIM registration or ((the national ID is first priority, driving license is second priority or passport) is required to submit	200,000 Kyat	5 million Kyat	1 million Kyat
Level 3 (for registered businesses only)	Business registration certificate, identification requirements for opening bank accounts	1 million Kyat	50 million Kyat	10 million Kyat

Source: Regulations on Mobile Financial Services (CBM, 2016)

## Annex 5: CBM regulations on loan loss provisioning and loan classification

Myanmar banks are required by CBM regulation to make two types of loan loss provisioning: general provisioning and specific provisioning.

As per CBM instruction No. 17/2017, banks have to set aside general provisions for loan losses at the value of 2% of total outstanding loans and advances at the end of a reporting period. The banks charge the general provision in other comprehensive income statements (net profit after tax) and maintain it in equity under reserves.

In addition to general reserve provisioning, the banks have to classify loans and make specific provisions as follows:

Sr. No.	Classification of loans/advances	Days past due	Provisions on short-fall in security value
(a)	Standard	30 days past due	0%
(b)	Watch	31 to 60 days past due	5%
(c)	Substandard	61 to 90 days past due	25%
(d)	Doubtful	91 to 180 days past due	50%
(e)	Loss	Over 180 days past due	100%

Specific provisions are calculated on the shortfall amount of past due loans where the current forced sales value of the collateral is lower than the outstanding loan amount.

CBM Directive No. 7/2017 follows up the asset classification and provisioning regulations. It is a significant departure from collateral-based to risk-based lending, the beginning of the end of using overdraft as an open-ended facility and the first time in the banking sector officially allowance of up to three-year term-loan based on business cycle and related cash-flow pattern. Significant features of the Directive can be seen below:

- Banks can lend overdrafts and loans subject to a maximum maturity of one year and three years respectively, with interest payments at least on a quarterly basis and subject to reasonable amortizations (for loans), payable at least every three months in order to develop new lending products with repayment terms.
- Converting banks' outstanding overdraft facilities as at July 7, 2017, into term loans with up to a maximum maturity of three years on condition is allowed, if the banks shall satisfy all requirements as follows:
  - The bank submits an Asset-Liability Risk Management Framework
  - All overdrafts shall be in accordance with the Large Exposures Regulations
  - All overdrafts shall continue to be deducted from capital in accordance with the Capital Adequacy Regulation
  - All non-performing overdrafts (as verified by external auditors as at March 31, 2017, financial audit or as reported to the CBM as at June 30, 2017, whichever is greater) shall not be converted into loans

- The bank submits to the CBM a list of all overdraft facilities (amounting to at least MMK 5 billion or 10% of core capital, whichever is lower) indicating whether it is NPL or not. If NPL, indicate number of days past due and whether it is a related party lending or not; if related party indicate relationship
- The bank submits the loan amortization schedule and a brief assessment of the borrower's credit worthiness.

- All banks are required to submit a copy of their Asset-Liability Management Framework and a list of large overdraft facilities.
- Quarterly progress reports on converted overdrafts shall be submitted to CBM not later than ten days after the end of each reference quarter.
- Volume of bank's overdraft facilities in percent of total outstanding loan portfolio shall be reduced in accordance with the following schedule.

<b>Deadline</b>	<b>as % of total outstanding loan portfolio</b>
(a) as of July 6, 2018	50%
(b) as of July 6, 2019	30%
(c) as of July 6, 2020	20%

- All loans and overdrafts granted after July 7, 2017, shall strictly follow the Asset Classification and Provisioning Regulation.
- By issuing the Directive, the monetary authority encourages local banks to develop new lending products with repayment terms that consider the business cycle and cash flow pattern of the borrower.



## Annex 6: Institutions offering graduate degree programs

Name of Institution	Type of Institution	Degree offered
Yangon University of Economics	Public	Master of Banking and Finance MBA Bachelor & Master Economics, Statistics, and Accounting, Administration and Finance
Mandalay University	Public	MBA
Meiktila University of Economics	Public	MBA Bachelor & Master Economics, Statistics, and Accounting, Administration and Finance
Monywa University of Economics	Public	MBA Bachelor & Master Economics, Statistics, and Accounting, Administration and Finance
Myanmar Institute of Business (affiliated with Oxford Brookes University & London School of Business and Finance)	Private	Master of Finance & CFA preparation BSc Applied Accounting MSc Professional Accountancy
EEC Business School	Private	Executive MBA
Strategy First Institute (partnered with Edinburgh Business School)	Private	MBA
STI Myanmar University	Private	Bachelor Business Admin. MBA BA Accounting

Source: Inception Report, Frankfurt School of Finance & Management, 2018

## Annex 7: Institutions offering diploma and certified programs

Name of Institution	Courses offered
Myanmar Institute of Banking	Diploma in Banking
Myanmar Financial Centre (affiliated with the Retail Banking Academy, UK & Project Management Institute)	Bridging Program for recent graduates (4 months theory + 3 months internship) Modules include: Ethics in banking, principles of banking, products & channels, bank accounting, central bank regulation and customer service. Certified Retail Banker Certified Cards and Payments Professional Certified Wealth Manager Certified Branch Manager Credit Performance Certified Professional Several individual courses on (SME) lending, marketing, financial analysis and management
Strategy First Institute (Affiliated with the Association of Accounting Technicians (AAT), UK)	Financial Management Accounting Auditing & Taxation
Myanmar Institute of Business (Affiliated with Oxford Brookes University & London School of Business and Finance)	Financial Analysis Diploma in (advanced) Accounting and Business
STI Myanmar University	(Advanced) Diploma in Finance and Banking
Career Core Institute (Partnered with Reading College, UK)	Diploma in Banking Operation Management Diploma in Financial & Management Accounting
Myanmar International Business Academy (Affiliated with Chartered Institute for Securities & Investment, CISI, UK and City of Oxford College)	Fundamentals of Financial Services International Introduction to Securities Investment Diploma in Banking & Financial Services
Matrix Institute of Professionals (Affiliated with Chartered Institute for Securities & Investment, CISI, UK and ICAEW, UK)	CFA Level 1 Certificate in International Trade and Finance Diploma in Corporate Finance
Myanmar Institute of Finance (MIF) (Securities & Investment Commission of Myanmar certified; CISI accredited)	Certificate in Credit Analysis Certificate in Modern Corporate Finance Certificate in Accounting Certificate Risk in Financial services
Nay Lin Aung – Finance and Accountancy Academy (Offers Pearson LCCI and ACCA qualifications)	Certificate in Book-keeping and Accounts Diploma in Accounting & Finance (Advanced) Diploma in Accounting & Business

Source: Inception Report, Frankfurt School of Finance & Management, 2018

## Annex 8: SME Development Law of Myanmar

The SME Development Law was enacted on April 9, 2015 with the objective of supporting the development of SMEs in the country. The law classifies business enterprises as (1) manufacturing, (2) Labor intensive, (3) Wholesale, (4) Retail, (5) Services (6) Other business. The law defines SMEs in terms of number of workers and capital or turnover.

### Definition of SMEs:

SME	No. of Workers (Small/Medium)	PCapital (C)/Income (MMK million) (Small/Medium)
1. Manufacture	50/300	500/500–1,000 (C)
2. Labor intensive	300/600	500/500–1,000 (C)
3. Wholesale	30/60	100/100–300 (I)
4. Retail	30/60	50/50–100 (I)
5. Services	30/60	100/100–200 (I)
6. Other business	30/60	50/50–100 (I)

### Institutional infrastructure:

1. Central Committee of SME, previously headed by president, was reformed on June 07, 2016 headed by the State Counsellor.
2. Working committee sphere headed by Vice President was formed including focal minister, relevant ministries, chief ministers of regions/states/Nay Pyi Taw council, government officials, local organizations, economists, technicians, professionals on November 29, 2017.
3. Evaluating and Reporting Body, SME Agency and Fund Management Body was formed successively on January 2, 2018 headed by Union Minister for Ministry of Industry, Deputy Minister for Ministry of Commerce and Union Minister for Planning and Finance respectively.

### SME Development Fund

With the approval of the Central Committee, the Working Committee shall form a fund management body for SME development. The fund management body has the responsibility to accumulate funds for SME development from both within and outside the country.

### Tax incentives

Agency is responsible for advising respective departments to give tax incentives to private entrepreneurs who:

- (a) produce new and innovative products
- (b) run essential SMEs in the areas of least development
- (c) produce commodities using by-products and wastes
- (d) modify the factory to be able to produce energy and make effective use of it; and
- (e) engage in the refurbishments of SMEs destroyed by a natural disaster.

Incentives: tax relief, allowance to lease plots of land at reduced rates, advice on the establishment of business and solving related problems, and assistance in setting up manufacturing JVs.

# Endnotes

- 1 cf. Myanmar country profiles on the websites of World Bank and Asian Development Bank
- 2 All data in this box, unless otherwise quoted, are based on the World Development Indicators 2017 (downloaded from World Bank website)
- 3 <http://hdr.undp.org/en/countries/profiles/MMR>
- 4 Global Financial Development Database (World Bank)
- 5 <https://www.adb.org/countries/myanmar/economy#tabs-1-2>
- 6 <https://freecurrencyrates.com/en/exchange-rate-history/USD-MMK/2018>
- 7 GIZ, 2016
- 8 IMF, 2015
- 9 For more information on the legislative process refer to Annex 1
- 10 Information provided by CBM
- 11 GIZ, 2015
- 12 Directive No. FE1/452 (August 13, 2018)
- 13 Capital goods and intermediate goods constituted more than two thirds of the total imports in the financial year 2016–2017 (CSO, 2017)
- 14 FATF on Money Laundering, 22 June 2001
- 15 FATF, 2004, p. 11
- 16 MAC notification 2/2009
- 17 MAC notification 1/2010
- 18 MAC Notification 1/2009
- 19 MAC Notification 3/2010
- 20 World Bank, 2017
- 21 OAG, 2016
- 22 The February 2003 banking crisis was a major bank run on private banks, triggered by the collapse of small financial enterprises and rumours about liquidity shortages of major private banks. It led to the collapse of three major banks, economic recession and hardship for many people.
- 23 IMF, 2018
- 24 CBM Quarterly Financial Statistics, Vol. IV 2017
- 25 IMF, 2017
- 26 GIZ, 2016
- 27 Thant, 2017
- 28 Milken Institute, 2017
- 29 Myanma Alin, 20.10.2018
- 30 IMF, 2017
- 31 IMF, 2018
- 32 CBM, 2018
- 33 World Bank, 2018
- 34 World Bank, 2016a
- 35 CBM, 2018
- 36 cf. Micco et al., 2007
- 37 Htut, 2016
- 38 IMF, 2015
- 39 Kyaw, 2015a; Kyaw, 2015b



- 40 World Bank, 2018b
- 41 World Bank, 2018b, p. 62
- 42 World Bank, 2018c
- 43 World Bank, 2018a
- 44 World Bank, 2018
- 45 Roland Berger, 2017
- 46 IMF, 2015
- 47 World Bank, 2018b
- 48 Bank loans per collateral type in Quarterly Financial Statistics Bulletin Vol. IV
- 49 Information provided by CBM
- 50 Myanmar Times interview with CBM Deputy Governors U Soe Thein and U Bo Bo Nge, 15th Nov, 2018
- 51 IMF, 2017
- 52 Myanmar Companies Law section 1(b) on 1st August 2018
- 53 IMF, 2018
- 54 Roland Berger, 2016
- 55 MSR, 2018
- 56 As the government and the CBM have stressed the importance of SMEs for Myanmar's economy and show the will to create a supportive regulatory and legislative environment for the country's SMEs, the need for these skills will likely increase further.
- 57 Annex 6 lists public and private universities in Myanmar offering graduate degree programs related to finance and accounting.
- 58 MSR, 2018
- 59 Annex 7 lists institutions in Myanmar offering diploma and certificate programs related to finance.
- 60 MSR, 2018
- 61 GIZ, 2016
- 62 cf. annex 3
- 63 IFC, 2016
- 64 Naing, 2017
- 65 JICA, 2018
- 66 According to a CBM Directive of July 2017, banks are required to submit Asset Liability Management (ALM) frameworks, i.e., a tool to manage maturity mismatches between assets and liabilities to reduce any liquidity risk; yet, CBM provides banks with very limited guidance on developing ALM frameworks. Only with proper ALM systems established in the banks and longer-term deposits, banks will be able to circumvent any liquidity risk associated with long-term home loans.
- 67 JICA, 2017
- 68 cf. annex 8
- 69 CBM, 2018. – Editor's note: Banks define SME loans as unsecured or partly secured loans to enterprises. However, many SMEs finance their operations through overdraft facilities. Therefore, effective lending to SMEs is certainly higher than the 0.2% reported officially.
- 70 The Global New Light of Myanmar, 2018
- 71 JICA, 2018
- 72 The Global New Light of Myanmar, 2018
- 73 Myanma Alin Daily, 2018
- 74 JICA, 2017

- <sup>75</sup> Myanmar Times, July 2018
- <sup>76</sup> World Bank, 2016b
- <sup>77</sup> Tun, 2016
- <sup>78</sup> Tanner, 2018
- <sup>79</sup> Global Financial Development Database (World Bank website)
- <sup>80</sup> cf. annex 4
- <sup>81</sup> Lynn, 2018
- <sup>82</sup> In Myanmar, MAP was jointly funded by the United Nations Capital Development Fund (UNCDF) and the Livelihoods and Food Security Trust Fund (LIFT). Globally, MAP also receives funds from the Partnership Framework on Inclusive Growth and Sustainable Development (PFIS), a partnership framework agreement with the Swedish International Development Cooperation Agency (Sida).
- <sup>83</sup> <https://datamarket.com/data/set/28lu/bank-noninterest-income-to-total-income#!ds=28lu!2rqv=p&display=line>
- <sup>84</sup> CBM Financial Bulletin, 2017
- <sup>85</sup> This includes the five founders, namely Indonesia, Malaysia, the Philippines, Singapore, and Thailand, and five additional members: Brunei, Vietnam, Cambodia, Laos and Myanmar.
- <sup>86</sup> ADB, 2013
- <sup>87</sup> ibid
- <sup>88</sup> ibid
- <sup>89</sup> Bank of Indonesia, 2016
- <sup>90</sup> Wihardja, 2013
- <sup>91</sup> [https://www.bis.org/publ/qtrpdf/r\\_qt1509z.htm](https://www.bis.org/publ/qtrpdf/r_qt1509z.htm)
- <sup>92</sup> DBS research, 2016; Cuaresma, 2017
- <sup>93</sup> Wihardja, 2013
- <sup>94</sup> Yamanaka, 2013
- <sup>95</sup> Standard & Poor's, 2015
- <sup>96</sup> ibid
- <sup>97</sup> IMF, 2015
- <sup>98</sup> ASEAN Finance Ministers and Central Bank Governors meeting, March 21, 2015
- <sup>99</sup> Internal CBM discussions, 2017
- <sup>100</sup> Bank of Indonesia, 2016
- <sup>101</sup> OAG, 2016







