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The Banking Sector in Myanmar: An Assessment of Recent Progress

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INTRODUCTION

Contrary to some international expectations, the government that came to power in Myanmar after the 2010 elections began an aggressive reform agenda aimed at making the political process more democratic and the economy more open and market oriented. On the political front, the previously barred National League for Democracy (NLD), led by Nobel Peace Prize laureate Aung San Suu Kyi, was allowed to participate in the 2012 by-elections, and in 2015, the NLD won majorities in both houses of the Myanmar parliament.[1]

In parallel with opening up the political process, policymakers in Myanmar initiated a number of market-oriented reforms. The government reduced restrictions on imports, cut export taxes, and opened the country to foreign investment. The effects of these efforts have been promising, as Myanmar has sustained an average GDP growth of over 7 percent annually since 2011, with GDP per capita almost doubling over that period to about US$1,100.[2]

Despite recent progress, a number of challenges remain. The current government is balancing a range of priorities, from ambitious peace negotiations with multiple armed groups, to developing the public health infrastructure, to responding to the physical and economic destruction from Cyclones Komen and Mora (2015, 2017), to reorienting the economy to one of private-sector-led growth. In this last regard, however, Myanmar remains a difficult place to run a business, ranking 170th out of 190 countries in the World Bank's Doing Business Index and 131st out of 140 economies in the World Economic Forum's Competitiveness Index.

Among these initiatives, banking-sector development in particular has become a major focus of recent reforms, given the role that a well-functioning financial sector plays in enabling the growth of the private sector. Recent efforts to develop the banking sector have

[1] The NLD's Htin Kyaw became president and appointed Aung San Suu Kyi as the head of the government in the new Myanmar State Counsellor Office. The military, though, continues to indirectly and directly hold significant political influence.

[2] In local currency terms, GDP per capita has grown from 793,000 kyat in 2010 to 1.4 million kyat in 2016, a 44 percent increase.

included both policy reforms and investments in the payment infrastructure. On the legislative and regulatory front, the government has enacted several new laws, including the Foreign Exchange Management Law in 2012, the Central Bank of Myanmar Law in 2013, and the Financial Institutions Law in 2016. These laws ended Myanmar's system of dual exchange rates, established central bank independence, and set strong prudential standards for the banking sector. At the same time, the government has also taken tentative measures to enable foreign participation in the banking sector.

While these achievements lay the groundwork for further progress, policymakers remain concerned about financial fragility and the potential for crises. The memory of the 2003 banking crisis is still strong, and there is a lack of public trust in the banking system as a whole. For these reasons, banking regulation has remained somewhat heavy handed. However, rather than limiting systemic risk, some current regulations may in fact inhibit the deepening and strengthening of the banking sector.

This paper takes stock of the state of Myanmar's banking sector at its current stage of development.

The document begins with an overview of the banking sector, including its major institutions and the supervisory framework. The second section examines the core challenges for banking-sector development. Then, the document turns to the state of financial inclusion for businesses, households, and farms. The paper concludes with a discussion of the government bond market in Myanmar.

OVERVIEW OF THE BANKING SECTOR

There is a lack of public trust in the banking sector, and this is not surprising given Myanmar's financial history. In 1962, the Revolutionary Council government nationalized all privately owned banks in the country. Later, the military government merged all banking into a single entity that would later be dismantled into four separate state-owned banks. In the early 1990s, the market was opened again to privately owned banks, but the 1997 Asian financial crisis, Myanmar's 2003 domestic banking crisis, and international sanctions severely impaired the development of the sector.

Since 2011, policymakers have enacted a series of reforms meant to develop the financial sector as part of a wider agenda for accelerating economic growth. The section below looks at some of the key measures of recent progress and then provides a current landscape of the major institutions in the sector, including both private- and state-owned banks as well as their regulators. At the end of the document, Appendix 1 provides a current macroeconomic snapshot, and Appendix 2 summarizes recent legal changes and other reforms affecting the banking sector.

KEY INDICATORS

Two conclusions appear to emerge from the figures that are available for the banking sector.[3] On the one hand, the data show significant growth over the last few years. On the other hand, the information available also strongly suggests that the banking sector in Myanmar is still not adequately fulfilling its financial intermediation role for the economy.

Over the last four years, the Myanmar banking sector has seen assets grow by about 22 percent annually, so that in March 2016, the banking sector had 42,357 billion kyat in assets (or about US$31.6

[3] Frontier market data are often incomplete, inaccurate, and irregularly updated. Data for Myanmar are no exception. The figures presented in this document may only partially reflect on-the-ground developments in a fledgling financial market.

billion).[4] This figure comes to about 55 percent of GDP, with domestic banks managing over 95 percent of these assets.[5]

Much of the sector's growth has been driven by domestic privately owned banks, whose own balance sheets have expanded by over 1,000 percent since 2010. In a notable development, the percentage of assets managed by privately owned and semi-private banks now surpasses those managed by purely state-owned institutions. In early 2016, privately owned banks held approximately 52 percent of banking assets, compared to around 48 percent held by state-owned banks.[6] Privately owned banks, moreover, have much larger loan books than those managed by their state-owned counterparts. In early 2016, loans comprised an estimated 61 percent of assets held by privately owned banks, compared to 15 percent of assets for state-owned banks.[7]

On the liability side of the balance sheet, privately owned banks have similarly taken the lead on expanding the deposit base. In 2013, total deposits were split evenly between privately owned banks and state-owned banks, yet by 2016, 64 percent of total deposits were placed in privately owned banks.[8] System-wide, deposits have increased from 7,010 billion kyat (about US$8.2 billion) in 2011-2012 to 25,883 billion kyat in 2015-2016 (about US$19.2 billion). And this growth is expected to continue. The International Monetary Fund (IMF) projects that deposits will nearly double from current levels to 48,819 billion kyat by 2018-2019 (about US$36.4 billion at the present exchange rate).[9]

By most measures, however, and despite its recent growth, the financial sector in Myanmar remains underdeveloped compared to its regional peers in the Association of Southeast Asian Nations (ASEAN). For instance, domestic credit to Myanmar's private sector has grown from approximately 6 percent of GDP in 2011, to about 18 percent in 2016. By comparison, however, the domestic credit to the private sector is about 42 percent of GDP in the Philippines, 63 percent in Cambodia, and 151 percent in Thailand.[10] About 7 percent

[4] Kyat:USD conversions in this paper are based on the UN operational rates of exchange reported by the United Nations Treasury. As of the end of June 2017, the exchange rate was 1360 kyat to one U.S. dollar.

[5] Thomas Foerch et al., "Myanmar's Financial Sector: A Challenging Environment for Banks," Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), October 2016 (hereafter, GIZ 2016).

[6] Estimates vary slightly by source. See, for example, GIZ 2016 and also "Myanmar Banking Sector 2025: The Way Forward," Roland Berger, September 2016 (hereafter, Roland Berger 2016).

[7] Roland Berger 2016.

[8] Ibid.

[9] "Myanmar: Staff Report for the Article IV Consultation," International Monetary Fund, December 29, 2016.

[10] World Development Indicators, World Bank, 2017.

of Myanmar businesses have accessed bank loans to finance investments, while around 11 percent have put bank loans to use as working capital. Again, as shown in Table 1, along with additional indicators, businesses located in other ASEAN countries tend to access bank financing at higher rates, though there are some exceptions.

[11] As a percentage of GDP, this volume of cash outside of the banking system is larger than figures seen in Myanmar's ASEAN peers. The figure was under 10 percent, for instance, in Cambodia, Laos, Malaysia, and Thailand.

Table 1. Comparing the Myanmar Banking Sector to Its Regional Peers

	Myanmar	Cambodia	Laos	Malaysia	Thailand
Domestic credit to the private sector, % of GDP (2015)	18.1	63.1	N/A	125.2	151.3
Bank nonperforming loans, % of total gross loans (2016)	N/A	2.6	N/A	1.6	2.9
Depositors with commercial banks, per 1,000 adults (2015)	192.5	N/A	451.2	834.2	1,198.0
Borrowers from commercial banks, per 1,000 adults (2015)	3.3	N/A	28.2	390.2	319.4
% of firms using banks to finance investment (most recent year available)	7.1	2.5	15.9	35.3	15.3
% of firms using banks to finance working capital (most recent year available)	11.2	18.2	8.3	42.6	28.9
Private credit bureau coverage, % of adults (2016)	0.0	44.0	0.0	76.4	53.0
Public credit bureau coverage, % of adults (2016)	0.0	0.0	10.9	62.4	0.0

Source: World Development Indicators, World Bank; Enterprise Survey-Myanmar 2016, World Bank

As discussed further in Section 3 below, regional peers have also advanced further toward financial inclusion goals than Myanmar. Part of what holds Myanmar back on this front is the enduring informality of financial activity in the country. In 2016, the volume of cash held outside the banking system was about 15 percent of GDP, compared to the 30 percent placed in bank accounts. That is, individuals and businesses kept about a third of the currency in circulation in cash, not in deposit accounts.[11] Likewise, according to a 2014 study, 52 percent of lending to individuals was originated by unregulated providers.[12] These figures reflect a longstanding distrust of the banking sector in Myanmar, caused in part by the 2003 banking crisis as well as past rounds of demonetization in the 1960s

[12] Doubell Chamberlain et al., Myanmar Country Diagnostic Report: Demand, Supply, Policy and Regulation, Making Access Possible, 2014.

and 1980s when the government, seemingly arbitrarily, declared that bills in circulation would no longer be considered legal tender.

STRUCTURE OF THE DOMESTIC BANKING SECTOR

Today, there are 28 domestic banks operating in Myanmar. This number includes four state-owned banks, three banks owned by municipal governments, 10 semi-private banks that trade privately but are partially owned by, or closely associated with, government agencies, and 14 privately owned banks. Table 2 lists the country's banks by category, while Box A below provides brief descriptions of several major banks.

Among the privately owned banks, the so-called "Big Three" dominate the market. Combined, Kanbawza Bank (KBZ), Ayeyarwady Bank (AYA), and Co-operative Bank (CB) control about two-thirds of all loans, two-thirds of all deposits, and more than 50 percent of all bank branches in the country.[13] The Big Three are also expanding more rapidly than smaller banks, adding 60 new branches as a group between August 2014 and May 2016, compared to only seven new branches for the rest of the banking industry combined.[14] Although banking-sector concentration is typical in ASEAN, the limited absolute size of Myanmar's overall banking market makes it difficult for the country's smaller banks to become competitive.

The four state-owned banks are Myanmar Economic Bank, Myanmar Foreign Trade Bank, Myanmar Investment and Commercial Bank, and Myanmar Agricultural Development Bank. While distinct in their operational scope and policy mandates, these banks have several challenges in common.[15] First, they lack transparency and often fail to report financial performance data. Second, their policy mandates appear to be outdated or unclear. Additionally, as is also the case with their privately owned competitors, state-owned banks require major investments in information technology and human capital.

[13] Privately owned banks buy and invest in land, leading to a concentration of branches of the same bank in a single area.

[14] Roland Berger 2016.

[15] GIZ 2016.

Table 2. Domestic Banks in Myanmar

Government Banks (State-Owned)	Government Banks (Municipality-Owned)	Semi-Private Banks	Privately Owned Banks
Myanmar Agricultural Development Bank	Naypyitaw Sibin Bank Ltd.	Global Treasure Bank Ltd.	Asia Green Development Bank Ltd.
Myanmar Economic Bank	Yadanabon Bank Ltd.	Innwa Bank Ltd.*	Asia Yangon Bank Ltd.
Myanmar Foreign Trade Bank	Yangon City Bank Ltd.	Myanmar Citizens Bank Ltd.	Ayeyarwaddy Bank Ltd.
Myanmar Investment and Commercial Bank		Myanmar Microfinance Bank Limited	Ayeyarwaddy Farmers Development Bank Limited
		Myawaddy Bank Ltd.*	Co-operative Bank Ltd.
		Rural Development Bank Ltd.	Construction and Housing Development Bank Limited
		Small & Medium Industrial Development Bank Ltd.	First Private Bank Ltd.
			Kanbawza Bank Ltd.
			Myanma Apex Bank Ltd.
			Myanmar Oriental Bank Ltd.
			Shwe Rural and Urban Development Bank Limited
			Tun Foundation Bank Ltd.
			United Amara Bank Ltd.
			Yoma Bank Ltd.

Source: CBM, USAID 2016
**Denotes military ownership*

OVERVIEW OF THE BANKING SECTOR

Box A. Myanmar's State-Owned and Key Privately Owned Banks

The Four State-Owned Banks

Of the four state-owned banks, the **Myanmar Economic Bank (MEB)** has the widest potential reach to extend credit to the real economy, including in many rural communities. With around 9,000 staff across about 350 branches, the MEB provides a wide range of commercial banking services.[16] However, loans to the private sector account for less than 10 percent of the bank's total assets. The MEB mainly buys government treasuries and acts as a financier for state economic enterprises, including the Myanmar Agricultural Development Bank, often at discounted rates. A 2013 audit concluded unsurprisingly, but dramatically, that the MEB has been losing money since as early as 1990.

The **Myanmar Investment and Commercial Bank (MICB)** and **Myanmar Foreign Trade Bank (MFTB)** previously controlled much of the foreign exchange market by rationing forex supplies and playing a supervisory role in forex trading. The two banks now act mainly as vehicles for the foreign exchange deposits of government departments and state-owned enterprises. Both also, though, provide financial services to the private sector, including domestic commercial and investment banking services.

The **Myanmar Agricultural Development Bank (MADB)** serves rural areas through providing short- and long-term credit for agricultural, livestock, and other rural enterprises. Altogether, the bank has close to 2 million clients, served by about 2,500 staff across 230 branches.[17] However, the MADB has been described as being in "perhaps the worst shape of all the state-owned institutions," mainly due to its concentration in only a few crops and its artificially narrow interest rate margins.[18] The MADB's role in agricultural finance is explored further in Section 3 below.

The "Big Three" Privately Owned Banks (Plus One)

KBZ Bank, established in 1994, is the largest bank in Myanmar by far, with assets of around US$8 billion, three times larger than the next biggest bank, and with nearly twice the number of branches and employees as any private competitor. KBZ was also the first bank to issue its own branded credit card after the central bank authorized their reintroduction. AYA Bank is the second-largest private bank. It is the first to be compliant with International Financial Reporting Standards and is the first to be audited by one of the four major global accounting firms. The third largest bank, **CB Bank**, resulted from a merger of three state-owned cooperative banks, managed at the time by the Ministry of Cooperatives. There are no longer any formal ties between the government and CB Bank, but informal ties through leadership and staffing remain.

Although not comparable to "Big Three" banks in terms of size, **Yoma Bank** plays a key role in expanding access to finance in Myanmar. It was the second biggest private bank before the 2003 banking crisis, but after the crisis, Yoma's license was restricted such that the bank was only allowed to provide remittance services. In 2012, Yoma recovered its full banking license and is now seen as one of Myanmar's most internationally integrated financial institutions. Yoma focuses on serving small- and medium-sized enterprises (SMEs) and has worked with the International Finance Corporation to extend new loans to SMEs as well as partnered with Telenor, a Norwegian telecommunications company, to develop mobile money products.

Source: CBM, USAID 2016

BANKING-SECTOR REGULATORS

Under the 2013 Central Bank of Myanmar Law and the 2016 Financial Institutions Law (FIL), Myanmar established the independence of the Central Bank of Myanmar (CBM) as the banking-sector regulator, and has put into place a framework to meet international best practices in banking supervision, including those found in the Basel Core Principles. For semi-private and privately owned banks, the CBM now acts as the sole supervisory authority for licensing, regulating, and enforcing compliance in the banking sector. However, in terms

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6 Ibid.

17 Ibid.

18 See pp. 31, 57-59, Sean Turnell, "Banking and Finance in Myanmar: Present Realities, Future Possibilities," United States Agency for International Development, January 2016 (hereafter, USAID 2016).

of mandate and policy direction, though, the four state-owned banks still fall under the purview of the Ministry of Planning and Finance (MOPF).[19]

In July 2017, 18 months after the passage of the FIL, the CBM issued new regulations to implement several Basel II standards. In particular, the CBM established a minimum liquidity ratio of 20 percent and required banks to calculate liquidity daily and report figures weekly to the CBM. The new regulations also mandated that banks maintain a capital adequacy ratio of 8 percent, with a minimum Tier 1 ratio of 4 percent. The CBM also set the limit on lending exposure to any single counterparty at 20 percent of capital and reserves, though state-owned banks remain exempt from this requirement when lending to government entities.[20] The degree to which Myanmar should adhere to all Basel standards—and the implications of partial adoption—remain an area of discussion for the banking sector, its regulators, and international observers.

[19] The MADB only recently moved under the jurisdiction of the MOPF. It had previously been part of the Ministry of Agriculture, Livestock, and Irrigation.

[20] CBM notifications issued on July 7, 2017.

CHALLENGES TO BANKING-SECTOR DEVELOPMENT

Recent reforms have advanced financial-sector development in Myanmar, but aspects of the regulatory environment still do not conform to international best practices. This is particularly the case in regards to a number of administrative controls on bank lending. This section discusses those regulatory constraints and examines three other priorities for banking-sector development in Myanmar: improving the payment infrastructure, developing the money and interbank markets, and determining the right pace for the further expansion of foreign banks.

CONSTRAINTS ON BANK LENDING

A number of current administrative controls likely impede the banking sector from expanding access to credit and other financial services in Myanmar, while doing little to reduce the banking system's vulnerability to shocks. The most prominent of these restrictions is the current interest rate policy, whereby the CBM sets a fixed bandwidth for deposit and lending rates based on the CBM reference rate. Other important past constraints have included a limit on lending set at 80 percent of a bank's deposit base, strict collateral demands on borrowers, and the requirement that lending terms do not exceed one year.

At present, the CBM sets a cap on lending rates at +3 percent of the CBM reference rate and puts a floor on deposit rates at -2 percent of the reference rate.[21] Such non-market-based rates raise several potential challenges. The first is that both depositors and lenders may experience losses in real terms during periods of high inflation, as has occurred many times in Myanmar's past, including recently for depositors in 2015 (see Figure 1).[22] Second, interest rate controls limit the degree to which banks can compete on the basis of the rates they offer. As one report from the German governmental think

[21] The policy was even stricter in the past. The CBM previously mandated specific rates, then loosened to a two percentage point band in 2011, before adopting the current policy in 2012.

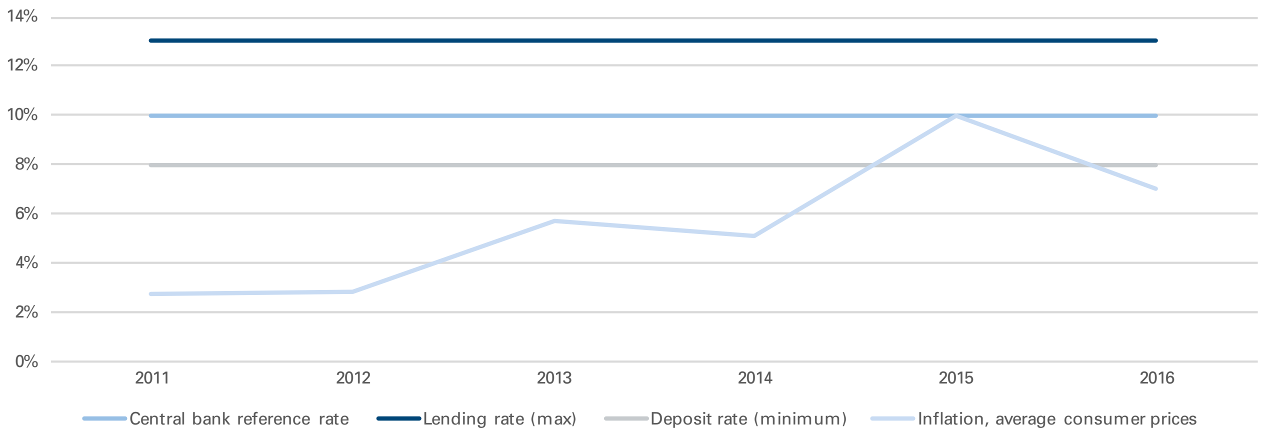
[22] Consumer prices rose significantly as a result of extreme flooding caused by Cyclone Komen in July 2015.

tank GIZ concluded, "currently banks mainly compete by means of their service provision and their physical presence in the market."[23] However, these same restrictions may inhibit banks from expanding services and lending down-market, particularly to rural populations where operational costs are likely to be higher.

[23] GIZ 2016.

[24] See pp. 5-6, Roger Thomas Moyes and Kenneth Shwedel, "Myths and Maths: The Impact of Financial Regulations on Agriculture in Myanmar," Mekong Business Initiative, May 1, 2017.

Figure 1. Fixed Interest Rates and Inflation, 2011 to 2016



Source: CBM, IMF

Up until 2013, Myanmar banks also operated with a cap on aggregate bank lending. Banks could only make loans with an aggregate value of up to 80 percent of their deposit base. The result was that banks tended to concentrate their lending among larger corporations. In addition to the lending limit, deposits were not allowed to exceed the amount of 25 times paid-up capital. This requirement impeded banks from mobilizing savings from a larger number of households to fund their loan portfolios

Lending in Myanmar generally follows strict collateral requirements that also impede credit creation. Until 2013, land was the only acceptable form of collateral, but the CBM has expanded this to include gold, diamonds, machinery, some agricultural crops, fixed deposit accounts, and government bonds. In practice, however, there is widespread confusion on this point,[24] and banks often continue to demand land as the sole acceptable collateral. Moreover, the banking sector has tended to demand an extraordinary amount of overcollateralization by international standards—often exceeding 200 percent of loan value.

Finally, as result of past legal requirements (now lifted), banks frequently limit loan terms to one year, so that businesses have no way to finance longer-term investments in their growth and/or expansion. While only a minority of Myanmar firms have received a bank loan, one study found that around 80 percent of corporate borrowers would prefer to have access to loans for terms of between one and five years.[25]

THE NATIONAL ELECTRONIC PAYMENT INFRASTRUCTURE

One of the fundamental obstacles to financial-sector development in Myanmar is the country's heavy reliance on cash as the basis for financial transactions. As in any country, the dominance of cash can hold back economic development by slowing the pace of financial transactions, increasing transactions costs, and creating opportunities for corruption. In Myanmar, as recently as 2014, virtually all salary payments, utility payments, and government transfers were made in cash.[26] Until recently, bank transfers, even between branches of the same bank, frequently involved physically transporting sacks of cash from one location to another.[27] Checks also cleared manually, increasing the risk of errors and delays.

The past few years, though, have been a period of reform and progress. The government has worked closely with the Japanese International Cooperation Agency to implement an automated clearance system for the CBM. The resulting CBM-Net, the country's first real-time gross settlement (RTGS) system, became operational on January 6, 2016. At around the same time, the government passed the Financial Institutions Law, which empowers the CBM to issue regulations for an electronic payment system and to give the banking sector instructions for installing electronic payment infrastructure. Currently, CBM-Net facilitates large transactions

[25] See pp. 47-48, Miriam Amine and Reinhard Stockmann, Small and Medium Enterprise Survey, Myanmar 2015, German Institute for Development Evaluation (DEval), August 2015.

[26] According to the World Bank's Global Findex, only 0.4 percent of Myanmar citizens over 15 years of age had used a bank account to receive wages and government transfers, a figure that falls below the 3.2 percent and 1.0 percent global averages for these measures among low-income countries. No Myanmar citizens, according to the same source, had used a financial institution to make utility payments, compared to a 0.9 percent average for low-income countries.

[27] Steve Gilomore, "CBM brings real-time settlement to banks," Myanmar Times, January 12, 2016.

between banks, but there are plans to expand its use to interbank foreign exchange auctions and for trading government bonds.[28] Parallel to these developments, three-quarters of Myanmar banks had, as of 2016, joined the global SWIFT messaging system.

All of this activity signifies real progress, but not all banks have implemented electronic payments. Most, in fact, operate with a mix of ad hoc electronic and cash-based systems. Furthermore, about a quarter of banks still do not have a SWIFT code.

On the retail side, the number of ATMs in the country has grown rapidly, from several hundred in 2013 to near 1,700 by early 2016.[29] During the same time, the number of point-of-sale (POS) terminals has quadrupled, from about 700 in 2014 to over 2,800 in 2016.[30] The Myanmar Payment Union (MPU) can claim much of the credit for these advances. The business association, which has 23 out of 28 Myanmar banks as members, has also been successful in implementing a national payment switch to facilitate non-cash payments and transfers. The MPU has also spearheaded the expanded use of debit and credit cards, with MPU members issuing 1.1 million debit cards between 2012 and 2015.[31] Mastercard and Visa are both partnering with MPU members to issue co-branded credit cards, with CB Bank leading much of this engagement.[32]

Again, comparisons with other ASEAN countries help put these developments in context. Myanmar remains behind its regional peers on a number of important indicators, with about two ATMs per 100,000 people, for example, compared to 32 in Laos or 114 in Thailand.[33] Naturally, the use of debit and credit cards requires having a bank account in the first place, which is a service that the vast majority of Myanmar's citizens—more so than in neighboring Laos or Thailand, for example—still do not have (as discussed in Section 3). As a further matter, Myanmar still has not established a credit bureau, an issue discussed in greater detail in Box B.

[28] GIZ 2016.

[29] Doubell Chamberlain et al., Myanmar Country Diagnostic Report: Demand, Supply, Policy and Regulation, Making Access Possible, 2014; GIZ 2016.

[30] Ibid.

[31] Zaw Lin Htut, "Retail Payment: Current Status and Beyond," in Collection of Papers on Myanmar's Financial Sector, GIZ-Myanmar and Thura Swiss, January 2016.

[32] Motokazu Matsui, "Myanmar lures Visa, other foreign credit card issuers," Nikkei Asian Review, February 8, 2017.

[33] World Development Indicators, World Bank, 2017.

Box B. Establishing a Credit Bureau in Myanmar

A credit information bureau contributes to expanding financial access for individuals by allowing banks and other financial institutions to make credit decisions based on past repayment performance, not solely on the collateral a borrower can put up. Though Myanmar has not done so to date, most ASEAN countries have established either a private or public credit bureau that collects information from various creditors, including banks and microfinance institutions. In Laos, for example, a private credit bureau covers around 11 percent of the population, while the credit bureau in Cambodia maintains credit histories for about 44 percent of the population there.

Myanmar, working closely with the World Bank Group and the International Finance Corporation, is in the process of establishing its own private credit bureau. This institution will be run as a joint venture between the Myanmar Bankers Association and a Singaporean firm. The launch of the bureau has been delayed repeatedly in the absence of regulations from the central bank, but in March 2017, the CBM finally issued the Regulation on Credit Information Reporting System. These guidelines should allow the credit bureau operators to apply for a license and finally establish the country's first credit bureau in the next few months, though further delays are possible. Once accomplished, the establishment of a credit bureau will be a significant development for Myanmar, and is likely to expand financial inclusion in the country, at least over time.

THE MONEY AND INTERBANK MARKETS

Well-functioning money and interbank markets enable liquidity in the banking system, allow for more effective monetary policy, and set the foundation for establishing longer-term debt markets. In Myanmar, these markets are still in a nascent stage of development.

At present, banks borrow actively from CBM through the discount window, impeding its ability to conduct open market operations. In addition, because Myanmar does not have a primary dealer system in place, there is no active secondary market for treasuries. Cheap access to the CBM discount window reduces the incentives for interbank lending, and banks tend to use this facility instead of engaging in active interbank transactions. As one study from the U.S. Agency for International Development concluded, "making access to the CBM's discount window more expensive than is currently the case" is likely to be a prerequisite for increasing interbank liquidity management.[34]

CBM auctions have mostly been undersubscribed (often by as much as 50 percent) given issuance at below-market rates.[35] One of the most important reasons why CBM rates are not market based is that the MOPF continues to depend on the CBM to fund government

[34] USAID 2016.

[35] Ibid.

deficits. As the IMF notes, the MOPF "has seemed reluctant to pay the T-bill rates required to induce larger purchases by banks."[36] Still, there has been some progress on this front in recent years. Up until the beginning of 2015, the MOPF issued its own bills at a 4 percent annual interest rate, with the CBM as the only buyer. This practice, at least, has stopped.

Myanmar does not have a liquid interbank lending market, and trades are conducted over-the-counter on a one-off basis. Banks, moreover, are currently prevented from setting their own maturities for interbank liquidity management.[37] Also, as might be expected, Myanmar lacks a market for repurchase agreements (repos) due to a combination of poor market infrastructure and the absence of a solid underlying legal structure. As a result, banks currently manage excess liquidity via 14-day deposits at the CBM or through the purchase of treasuries.

THE FURTHER EXPANSION OF FOREIGN BANKS

After over half a century of excluding foreign banks, Myanmar has recently given licenses to 13 foreign banks. Their entry since 2014 has almost doubled the equity available in the banking sector, and foreign banks currently hold 47 percent of the total banking equity in Myanmar, or about US$1.3 billion. The profile of these banks also offers a sense of how regional plays for influence are evolving in Myanmar: three of Japan's largest banks, two Singaporean banks, and one bank each from Thailand, Malaysia, and China were in the first set of foreign banks to receive licenses in 2014.[38] On the other hand, some foreign banks have been wary to enter the Myanmar market due to lingering reputational issues as a result of past international sanctions (see Box C).

The domestic banking sector has largely resisted the greater expansion of foreign competition and has pushed the CBM to impose a number of restrictions on foreign banking activity.[39] As a result, foreign banks must maintain a minimum paid-up capital of

[36] Myanmar: Selected Issues," IMF, December 29, 2016.

[37] The IMF has recommended that by 2019 the CBM should allow banks to determine the maturities for interbank lending based on their own liquidity needs. See p. 11, "Myanmar: Selected Issues," IMF, December 29, 2016.

[38] Ibid.

[39] Foreign banks were active in Myanmar during the first half of the 20th century, until the military regime seized control of the assets of all privately owned banks operating in Myanmar in 1962 and then blocked foreign reentry for decades.

US$75 million (compared to around US$15 million for domestic banks) and can only operate one branch. They also remain barred from taking deposits from Myanmar nationals, from lending to local individuals or businesses (with the exception of domestic banks), and from accepting land as collateral. In effect, foreign banks mainly serve foreign companies doing business in Myanmar and only have exposure to the domestic economy through lending to domestic banks.

Of course, there are theoretical concerns and historical examples of the dangers of opening an underdeveloped financial sector too quickly to foreign competition. The entry of foreign banks can be disruptive, particularly in markets with weak institutions, an underdeveloped regulatory framework, and poor market infrastructure—conditions which are all present in Myanmar. When attempting to compete with the better capitalized and more efficient foreign entrants, domestic banks may take excessive lending risks. New competition may also lead depositors to transfer savings from domestic to foreign banks, potentially creating a liquidity crisis for the domestic banking system.[40] On the other hand, the entry of foreign banks can benefit developing markets through transferring technology, improving professional skills in the labor force, introducing and reinforcing best practices, increasing lobbying for market-based reforms, and creating new products that enable domestic borrowers to improve their financial performance. Foreign banks may also serve as a more stable source of funding for corporate borrowers, including domestic banks.

Despite general local opposition, many observers, including some domestic banking executives, see the further expansion of foreign banks as an essential catalyst for modernizing the banking sector.[41] Planning and Finance Minister U Kyaw Win recently said, "Protecting local banks can limit development. The local bank services have been protected for many years."[42] On the private sector side, Serge Pun, the chairman of Yoma Bank, has suggested foreign and local banks work towards different objectives, with foreign

[40] Vikram Nehru, "Developing Myanmar's Finance Sector to Support Rapid, Inclusive, and Sustainable Economic Growth," ABD Economics Working Paper Series, No. 430, Asian Development Bank, April 2015.

[41] USAID 2016.

[42] Quoted in Htin Lynn Aung , "Govt. will assist, not protect, local banks," Myanmar Times, March 28, 2017.

banks addressing the top end of the market and local banks moving down market to address the needs of small and medium-sized enterprises (SMEs).

At present, the CBM has the authority to permit joint ventures between foreign and domestic banks, with the foreign partner able to own up to 80 percent of the equity stake. In practice, however, it has not allowed any joint venture to form to date. The CBM has signaled, though, that it will likely expand the range of activities permitted for foreign banks in the near future. Foreign banks, for example, may soon be able to open branches in Myanmar's three special economic zones. More importantly, though, the CBM is considering allowing foreign banks to lend to local enterprises, as long as they do so in partnership with local banks. This development would have the potential of significantly expanding access to credit for Myanmar's private sector.

Box C. International Anti-Money Laundering Compliance and U.S. Sanctions[43]

In June 2001, the international, inter-governmental Financial Action Task Force (FATF) identified Myanmar (then commonly referred to as Burma) as a non-cooperative jurisdiction, which forced FATF member nations to enforce special measures against financial transactions with entities in Myanmar. The reason Myanmar was cited as non-cooperative was due to several systemic money-laundering (ML) problems, including lacking the most basic anti-money laundering (AML) provisions such that ML was not a criminal offense (unless linked to drug trafficking) and banks did not have to maintain transaction and accounts records.[44]

In May 2002, Myanmar reacted by instituting the Law to Control Money and Property Obtained by Illegal Means. A month later, however, the government issued press releases that indicated the law would not be seriously implemented. Consequently, FATF established even stricter measures against Myanmar in November 2003 due to its ongoing failure to work towards a robust AML regime.

Following this FATF announcement, the U.S. Treasury also singled out the Asian Wealth Bank (AWB) and the Myanmar Mayflower Bank because of "primary ML concern," especially with regards to financing narcotics trafficking organizations in Southeast Asia. In December 2003, both banks had their operations formally suspended, and their licenses were revoked two years later. Another bank that particularly suffered was the Myanmar Foreign Trade Bank (MFTB), which had the largest correspondent banking business in the country. The sanctions suspended all of its correspondent accounts with U.S. banks, pushing MFTB to diversify away from its core business.

While FATF removed Myanmar from its blacklist in October 2006 due to its improved AML efforts, the organization continued extensive monitoring in the country. U.S. sanctions, though, lasted for another decade until they were lifted in 2016. Since then, the U.S. Treasury has worked to support Myanmar's effort towards a robust anti-money laundering regime that protects the security of its financial system. At the same time, Section 311 of the USA Patriot Act, which enables the U.S. Treasury to impose additional requirements on U.S. financial institutions that wish to conduct business in jurisdictions known for ML and terrorism financing, continues to affect U.S. banks considering entering Myanmar.

[43] This box was prepared by Ash Das of the Milken Institute Center for Financial Markets.

[44] For more details, see pp. 306-309 in Sean Turnell, Fiery Dragons: Banks Moneylenders, and Microfinance in Burma, Nordic Institute of Asian Studies, 2009.

THE STATE OF FINANCIAL INCLUSION IN MYANMAR

As previously mentioned, a large amount of financial activity takes place outside of the reach of formal financial institutions. Two factors contribute to the current state of affairs. First, the country's turbulent financial history has left many Myanmar citizens distrustful of bank deposits and cash to the extent that businesses and households often keep savings in gold and precious stones. Second, as a result of many of the regulatory constraints discussed above, the business case for banks expanding lending to small businesses and communities beyond the major urban centers is often difficult to make. What follows is a brief stocktaking of the combined effect these factors have on access to finance for businesses, households, and the agricultural sector.

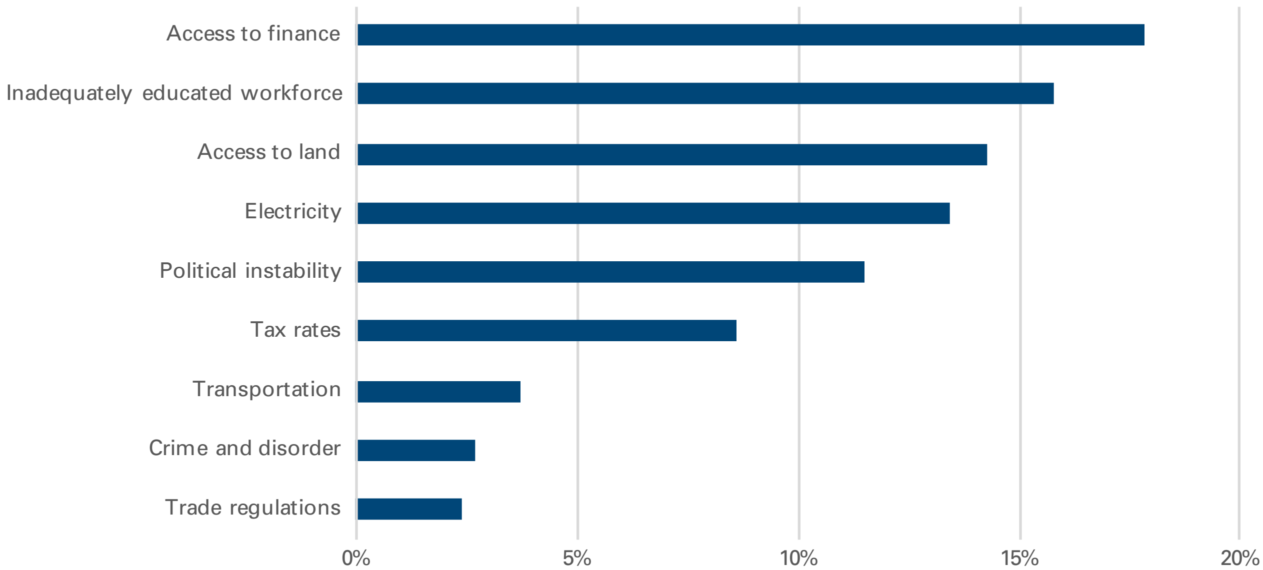
ACCESS TO CREDIT FOR BUSINESSES

Over the last several years, a number of studies have collected large-sample datasets from Myanmar businesses as an empirical basis for policymaking and further economic research. These surveys uniformly find that access to finance is one of the most serious challenges for the private sector in Myanmar. It ranks, for instance, as the most commonly cited top constraint according to the World Bank Enterprise Survey (see Figure 2). A United Nations study likewise found that over 60 percent of businesses identified access to finance as an obstacle, with 34 percent classifying it a "severe obstacle."[45]

[45] See p. 24, Aaron Soans and Masato Abe, "Myanmar Business Survey: Data Analysis and Policy Implications," United Nations Economic and Social Commission for Asia and the Pacific and the Mekong Institute, 2015 (hereafter, UN-ESCAP 2015). This study also found that about 60 percent of businesses believe that banks do not understand their financing needs. However, almost exactly the same number said that they did not have a strong understanding of banking services.

Figure 2. The Obstacles Facing Myanmar Businesses

% of respondents citing factor as their top obstacle



Source: World Bank Enterprise Survey, Myanmar 2016

In general, bank financing makes up only a small fraction of the funding available to businesses. Recent surveys indicate that between 11 and 16 percent of businesses in Myanmar have received a bank loan or have access to a line of credit, whereas in Cambodia the number is almost 20 percent and in the Philippines 30 percent of firms could access bank credit.[46] In Myanmar, as elsewhere, smaller firms tend to have the least access to bank financing, as shown in Figure 3 below. According to the Asian Development Bank, outstanding SME bank loans in Myanmar amount to well below 1 percent of GDP. In other ASEAN economies, this number is higher. In the Philippines, for example, outstanding loans to SMEs come to more than 3 percent of GDP, while in Indonesia the figure is nearly 7 percent.[47]

On average, only about 3 percent of a company's financing comes from privately owned banks, with an additional 1 percent coming from state-owned development banks.[48] Personal savings account for the large majority of business funding for the typical firm—about 71 percent, on average—with loans from friends and family and

[46] According to the 2016 World Bank Enterprise Survey, 11 percent of firms had received bank loans or had access to a line of credit; this is an improvement from the 7 percent figure recorded by the same survey in 2014. Two other surveys had slightly higher figures, though they were still relatively low; the UN-ESCAP study found that 14 percent of firms had received a loan from a private or state-owned bank, while about 16 percent of firms surveyed by DEval had received a loan from a commercial bank. Combining all lending sources, both formal and informal, the DEval report found that 20 percent of SMEs had a loan outstanding, compared to 35 percent of the firms that UN-ESCAP surveyed.

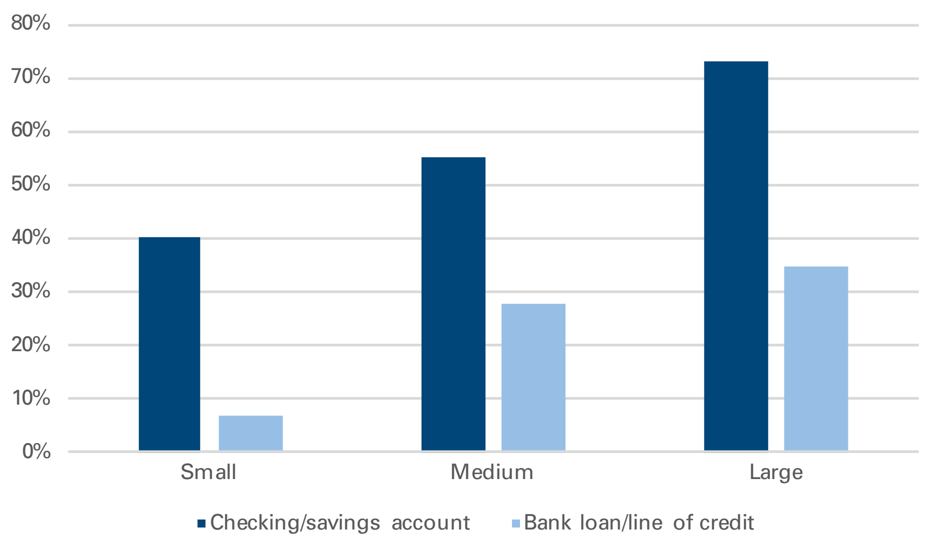
[47] *Asia SME Finance Monitor*, Asian Development Bank, 2014.

[48] UN-ESCAP 2015.

retained earnings each representing an additional 10 percent, on average, of a firm's financial resources. Furthermore, while almost half of Myanmar's companies have invested in fixed assets, these investments were overwhelmingly financed through personal funds, with bank loans covering less than 3 percent of the value of these assets.[49]

As might be expected from the discussion in Section 2, the large majority of businesses in Myanmar find collateral requirements overly burdensome, particularly when borrowing from formal sources. Over 70 percent of firms that borrowed from either banks or microfinance institutions had to provide either land or buildings as collateral.[50] On average, according to the 2016 World Bank Enterprise Survey, Myanmar firms are required to put up collateral valued at over 400 percent of the amount of the loans received. This is a dramatic increase from the 224 percent average collateral value recorded by the same survey in 2014. High collateral values are common in Southeast Asia, ranging from an average of about 156 percent in the Philippines up to 320 percent of the loan value on average in Thailand, but if the recent figure is accurate, Myanmar tops them all.[51]

Figure 3. Use of Banking Services Among Myanmar Businesses



Source: World Bank Enterprise Survey, Myanmar 2016

[49] "Myanmar Enterprise Survey," World Bank, 2016.

[50] UN-ESCAP 2015.

[51] See World Bank Enterprise Surveys, Philippines (2015) and Thailand (2016).

Interest rates were also an area of concern for corporate borrowers in Myanmar. About seven out of 10 firms believe that interest rates were too high.[52] Banks typically charge corporate borrowers around 13 percent on loans, the upper limit of the band set by the CBM (compared to annual consumer-price inflation that has hovered between 5 and 10 percent over the last three years). But as mentioned above, most firms do not have access to bank loans. On average, informal lenders set interest rates at around 9 percent monthly, which translates to an annual rate of about 170 percent.[53]

In addition to traditional lending, several Myanmar banks, including KBZ Bank, Cooperative Bank, and Yoma Bank, have started to explore offering trade finance to local businesses. Recent economic reforms and the lifting of international sanctions have expanded the importance of trade for economic development in Myanmar, but importers and exporters encounter a number of financial constraints to doing business. Cash dependence is a particular challenge, requiring importers, for instance, to make payments through remittance channels in many cases, while until recently, letters of credit, which are the main instruments of trade finance, were only offered in person and on a cash-only basis. Furthermore, unlike some of Myanmar's larger industrial companies, SMEs typically do not have sufficient credit histories to open letters of credit with offshore banks, and domestic banks can charge up to US$1,500 for these services, with a 30 percent collateral requirement.[54]

The Asian Development Bank (ADB) has been working with domestic banks in Myanmar to build trade finance capacity through seminars and workshops. The ADB also issued its first trade-finance guarantee in February 2017, guaranteeing a payment from Myanmar's United Amara Bank to an Italian bank as part of fertilizer import deal. Otherwise, uptake of guarantees has been slow. The CBM has recently announced that it will consider allowing foreign banks to offer trade finance to local businesses if domestic banks do not expand these services.[55]

[52] UN-ESCAP 2015.

[53] See both UN-ESCAP 2015 as well as Miriam Amine and Reinhard Stockmann, Small and Medium Enterprise Survey, Myanmar, German Institute for Development Evaluation (DEval), August 2015.

[54] See the box on p. 19 in "Trade finance and SMEs: Bridging the gaps in provision," World Trade Organization, 2016.

[55] Chan Mya Htwe, "Central Bank may liberalise trade financing for foreign banks," Myanmar Times, February 20, 2017.

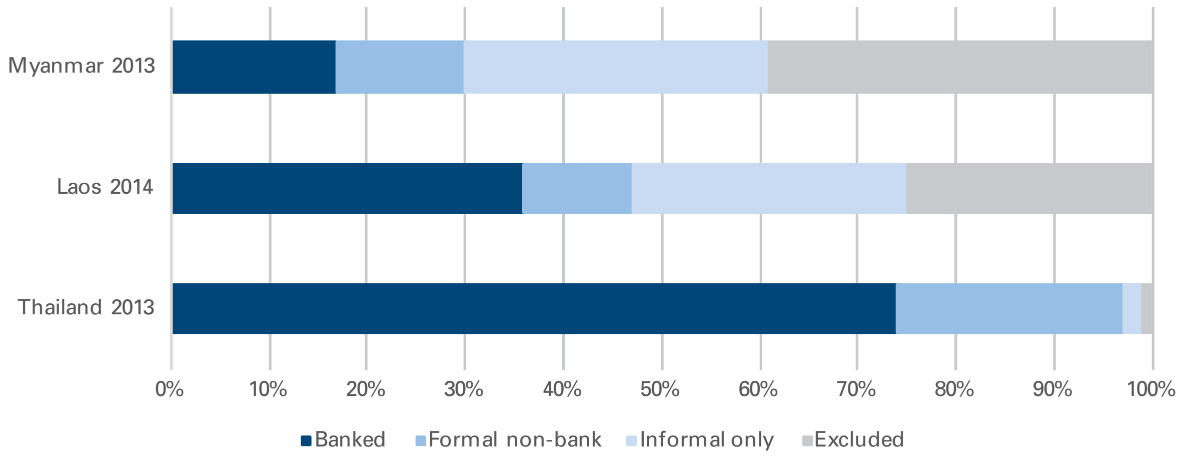
FINANCIAL INCLUSION FOR HOUSEHOLDS IN MYANMAR

According to the FinScope study, a survey tool used internationally to measure levels of financial inclusion, only 17 percent of the Myanmar population reported having a bank account in 2013, while nearly four out of 10 Myanmar citizens are entirely excluded from using financial products. Here, as elsewhere, Myanmar remains behind other economies in the region. In Laos, for example, 36 percent of the population had formal access to banking services. In Thailand, which has a much more developed banking sector, the figure was 74 percent. Figure 4 below shows these comparisons.

In Myanmar, the most common reason people gave for not having a bank account was simply not needing one given their level of income, as cited by 62 percent of survey respondents. Still, even among those who had savings, very few entrusted their money to banks. Only 4 percent of savers kept their savings in banks, while about 7 percent kept an account at a microfinance institution or in a savings cooperative. Informal savings methods were far more common. Over half of Myanmar citizens with savings reported keeping their money in their homes, while 29 percent held savings in the form of jewelry or gold, and 19 percent used savings to purchase livestock.[56]

[56] "Survey Highlights: Finscope Myanmar," Finmark Trust, 2013.

Figure 4. Financial Access for Individuals in Myanmar, Laos, and Thailand



Source: FinScope surveys, Finmark Trust

In terms of borrowing, 40 percent of the population had borrowed money in the last year, mostly to meet short-term living expenses or farming costs. A relatively large number—13 percent—of Myanmar citizens were able to access credit through the Myanmar Agricultural Development Bank (discussed more below). Another 3 percent received a loan from a microfinance organization, while less than half of 1 percent of FinScope respondents had received a loan from a commercial bank. As might be expected, informal arrangements were more prevalent, with 16 percent borrowing from family or friends and 15 percent borrowing from money lenders.

As the figures above suggest, financial access is limited in Myanmar, but beyond this, it is also "thin." A 2014 study by Making Access Possible (MAP) found that while about a third of the country had access to at least one formal financial product, only 6 percent could claim to use two or more.[57] The MAP authors believed that this figure could increase to 15 percent by 2020, but only if the government and other stakeholders pursue a number of interventions, including making investments in the financial sector's market infrastructure and creating programs to improve financial access among SMEs and low-income households. In addition to these measures, the roadmap highlighted the need to develop computer skills and risk assessment capacity in microfinance institutions, savings cooperatives, and commercial banks.

ACCESS TO CREDIT FOR FARMS AND CULTIVATORS: THE ROLE OF THE MADB

Over 70 percent of Myanmar's population is engaged in agricultural production, which accounts for about two-thirds of employment and 30 percent of GDP. However, bank credit to farmers is strained, with the sector receiving less than 3 percent of total loans.[58] In the regional context, this figure is low. In Cambodia, where agricultural production also makes up about a third of national GDP, the sector receives nearly 8 percent of total bank credit.[59] Meanwhile, the agricultural sector in Thailand receives a comparable 2 percent of

[57] "Myanmar: Financial Inclusion Roadmap, 2014-2020," Making Access Possible, 2014.

[58] USAID 2016.

[59] Reuben Jessop et al., "Creating Access to Agricultural Finance", French Development Agency, July 2012.

total bank credit, but unlike in Myanmar, this sector only accounts for 10 percent of Thailand's economic production.

The Myanmar Agricultural Development Bank (MADB) is the main provider of credit to the rural population, with nearly 2 million customers and around 230 branches throughout the country. Loans are made at a subsidized annual interest rate of 5 percent, compared to the typical commercial lending rate of 13 percent. As noted above, about 13 percent of the population has turned to the MADB for credit.

The MADB's lending practices, however, are highly restrictive with regards to the types of loans available and the narrow eligible purposes admissible for loan applications. Seasonal loans are only available for four specific crops (rice, sesame, peanuts, and beans), and no financing is provided for producing other fruits and vegetables, raising livestock, or other agricultural activities. Even for these four crops, financing needs are typically only partially met. For example, loans for the cultivation of rice, the dominant crop, only cover around 25 to 50 percent of production costs.

In addition, much of MADB lending is short term, and so it does not fund the long-term investments many cultivators would like to make (a challenge faced by agricultural finance in many parts of the world). Seasonal loans make up nearly all of the MADB's loan book, whereas term loans for longer-maturing crops account for only around 2 percent of lending and loans for farm machinery account for a very small fraction of 1 percent.[60] The MADB also does not provide other types of rural financial instruments that are offered by other countries, such as leasing and warehouse receipt financing.

The MADB's credit assessment and repayment processes are also restrictive. A particularly striking example is that the MADB will withhold lending to entire townships if anyone who lives there has defaulted on a loan. The MADB also requires borrowers to have

[60] USAID 2016.

formal use titles over their land, leaving a gap of approximately 3.5 million farmers who are ineligible for loans. Also, because the MADB requires full repayment at harvest, farmers must sell their crops immediately, creating a supply glut that lowers the prices that farmers can expect to receive for their crops. Initiatives beyond the MADB, including private sector efforts, have begun addressing some of these restrictions. For example, an Indian agri-logistics firm has started giving farmers advances against their stored crops as collateral, allowing farmers to bring their crops to the market at a time when they have greater command over prices.[61]

[61] Ibid.

THE BOND MARKET

At present, Myanmar has a nascent government bond market. In addition to its role in financing long-term government spending, a more developed public debt market will be an important component to deepening the financial sector and developing a corporate bond market in the future, as corporate bond markets depend, as a prerequisite, on a well-functioning government debt market to serve as a reference for investors pricing securities at various tenors. Moreover, bond markets can complement and strengthen the growth of the banking sector, especially as banks are often early users of capital markets, both as investors and issuers.

Table 3. Monthly Government Bond Issuance, September 2016 Through May 2017

Auction Date	Maturity Date	Coupon Rate (% per annum)	Market Weighted Discount Rate (% per annum)	Face Value of Offer (millions kyat)	Value Issued (millions kyat)
9/20/16	5/15/18	9.000	8.843	200,000	200,431
10/18/16	5/15/18	9.00	8.761	200,000	120,399
11/15/16	5/15/19	9.25	9.097	445,800	423,708
12/20/16	5/15/19	9.25	9.180	400,000	297,759
1/17/17	5/15/20	9.50	9.480	200,000	19,806
2/21/17	5/15/20	9.50	9.694	364,800	119,335
3/21/17	5/15/20	9.50	9.476	149,200	20,208
4/25/17	5/15/20	9.50	9.000	139,200	105,148
5/16/17	5/15/20	9.50	9.075	300,000	184,590

Source: CBM

Treasury bond issuance began in 1993. In the years that followed, the government sold two-year, three-year, and five-year bonds on the primary market. These treasuries offered fixed yields on a discounted basis to the central bank reference rate. Under this system, as of March 2016, treasury bonds outstanding totaled 2,615 billion kyat (about US$2.0 billion), with state-owned banks as the most active buyers. In a major recent development, however, the

CBM introduced an auction system in September 2016. Since then, as shown in Table 3 above, the government has held monthly auctions and sold bonds at market-determined interest rates. Still, many offers go undersubscribed.[62] The auction system is a step in the right direction, but similar reforms will be required to enable market-determined rates in the money market system.

Finally, there is currently almost no secondary market for government bonds, even though secondary trading has been formally allowed since April 2013. The absence of a primary dealership system and the narrow margins between bond yields and the fixed deposit rate have stalled the development of a secondary market. Still, the auction program and the establishment of RTGS, as described above, should lay the groundwork for more secondary trading in government securities in the future.

[62] As the ADB has noted, "Bond market development could also benefit from foreign participation enlarging the investor base." See p. 12, Bandid Nijathaworn et al., "Monetary Policy and Foreign Exchange Management: Reforming Central Bank Functions in Myanmar," ADB Economics Working Paper Series No. 431, Asian Development Bank, ay 2015.

APPENDICES

APPENDIX 1. MACROECONOMIC SNAPSHOT

Myanmar is home to about 55 million people and has an annual GDP of about US$65 billion. In 2016, Myanmar experienced GDP growth of 6.4 percent, the lowest rate of growth over the past five years. The slowdown was largely due to a weak global economy, a weather-induced supply shock, and uncertainty about the newly elected government. Inflation rose to above 10 percent in 2015 and stayed elevated for the first half of 2016 due to supply constraints following both droughts and severe flooding. In the second half of 2016, despite high international commodity prices and kyat depreciation, inflation dropped below 7 percent.[63]

Myanmar's main export, natural gas, and its trade in jade have been sluggish due to worsening market conditions and the slowing demand from China. This export slowdown, alongside increases in demand for imported petroleum products and construction materials, have worsened the current account deficit to about 7 percent of GDP. The widening trade deficit, accompanied by the recent U.S. interest rate rise, raises concerns about the value of the kyat, which fell 17 percent against the U.S. dollar in the first nine months of 2016, despite strengthening immediately after the current government took office.[64]

Partly as the result of uncertainty about the newly elected government, foreign direct investment (FDI) into Myanmar declined by about 30 percent in 2016 compared to 2015 figures. Still, FDI inflows in 2016 exceeded US$3.5 billion.[65] Singapore, Vietnam, China, and Thailand represent the main sources of investment.[66] Surprisingly, despite the lifting of U.S. sanctions at the end of 2016, no U.S. companies have invested in the Myanmar to date.

[63] "Asian Development Outlook 2017," Asian Development Bank, 2017.

[64] Ibid.

[65] The Myanmar Investment Commission, which holds the authority to approve FDI applications, disbanded temporarily in March 2016 as the government changed hands, creating a three-month backlog of applications.

[66] "Foreign Investment by Country," Directorate of Investment and Company Administration (DICA), May 2017.

Myanmar is projected to moderately recover from its slowing growth beginning next year, with growth forecasted to continue over the next three years at over 7 percent annually. The World Bank estimates that growth will recover due to the easing of inflationary pressures and a recovery in private investment, particularly in infrastructure services and non-commodity sectors.[67] Recent activity in the telecommunications sector should also encourage growth in the services sector. Moreover, with the passage of the 2016 Myanmar Investment Law, effective April 2017, more foreign investment is expected, particularly in the transportation, telecommunications, and energy sectors, as well as into Myanmar's special economic zones.

[67] "Myanmar Economic Monitor," World Bank, December 2016.

APPENDIX 2. RECENT FINANCIAL-SECTOR LEGISLATION AND REFORMS

<table>
<tr><th>Year</th><th colspan="3">Legislation/Reform and Main Changes</th></tr>
<tr><td>2011</td><td colspan="2">Microfinance Business Law, November 2011
- Authorized microfinance institutions (MFIs) to carry out range of activities, including accepting deposits, accepting remittances, and carrying out insurance business;
- Established MOPF as regulator and supervisor of microfinance;
- Introduced interest rate caps;
- Allowed domestic and foreign investors to establish fully privately owned MFIs.</td><td rowspan="4">Regulatory reforms under Thein Sein Government, March 2011-March 2016
- Eliminated requirement for bank branches to raise stand-alone capital and seek approval for opening of each new bank branch;
- Reduced capital-to-deposits ratio requirement on banks from 1:10 to 1:25;
- Permitted ATMs, debit cards, purchases through POS terminals, and credit cards (September 2012: first debit cards issued by Myanmar Payment Union);
- Expanded list of allowable loan collateral to include gold and some agricultural commodities;
- Created national deposit insurance program;
- Allowed global card-issue firms like Visa and Mastercard to enter market;
- Established interbank market for foreign exchange (2013).</td></tr>
<tr><td>2012</td><td>Foreign Exchange Management Law, August 2012
- Introduced managed float system, shifting away from fixed peg;
- Eliminated exchange rate restrictions and removed multi-currency practices.

Foreign Investment Law, November 2012
- Allowed foreign firms to establish wholly owned subsidiaries;
- Offered tax holiday for first five years, land leases up to 70 years, and other tax breaks;
- Guaranteed enterprises will not be nationalized or suspended.</td><td rowspan="2">Partial Lifting of U.S. Sanctions

April 2012
- Allowed U.S. firms to provide financial services for nonprofit activities.

July 2012
- Allowed U.S. firms to export financial services and make investments.

February 2013
- Allowed U.S. financial institutions to conduct business with four banks on U.S. Treasury's Specially Designated Nationals (SDN) list.</td></tr>
<tr><td>2013</td><td>Central Bank of Myanmar Law, July 2013
- Established independence of CBM from MOPF;
- Gave CBM autonomous power to implement monetary and foreign exchange policies;
- Established CBM Governor at minister-level.

Securities and Exchange Law, July 2013
- Established necessary legal framework for stock exchange, including procedure to obtain securities trading license;
- Established Securities and Exchange Commission, the main regulatory body for securities markets;
- Allowed over-the-counter market.</td></tr>
<tr><td>2014</td><td colspan="2">Anti-Money Laundering Law, March 2014
- Provided legal and regulatory framework for anti-money laundering activities, including minimum prison sentencing and empowerment of Customs Department.</td></tr>
<tr><td>2015</td><td colspan="3"></td></tr>
</table>

Source: CBM, USAID 2016

<table>
<tr><th>Year</th><th colspan="2">Legislation/Reform and Main Changes</th></tr>
<tr><td>2016</td><td>Public Debt Management Law, January 2016
- Established new set of rules for government debt instruments;
- Assigned financing of government debt to MOPF.

Financial Institutions Law, January 2016
- Aimed to establish stable and modern banking system by strengthening legal, regulatory, and supervisory framework;
- Introduced non-bank financial institutions;
- Established capital requirement of 20 billion kyat, meaning almost one-third of privately owned banks will need to raise capital levels (by CBM estimates);
- Required all bank owners and executives to meet “fit and proper person” test;
- Provided provisions for consumer protection in e-money activities;
- Encouraged establishment of credit bureau; Continued to restrict foreign non-bank financial institutions from offering financial services.

Myanmar Investment Law, October 2016
- Streamlined foreign investment procedures;
- Provided corporate tax reductions for foreign businesses;
- Eased conditions for long-term real estate leases;
- Expanded number of sectors open to foreign investment.</td><td>Further Lifting of U.S. Sanctions, October 2016
- Allowed U.S. citizens to financially deal with individuals previously on SDN list;
- Allowed U.S. citizens to export financial services to Ministry of Defense;
- Allowed U.S. citizens to invest in banks previously on SDN list.</td></tr>
<tr><td>2017</td><td colspan="2">Myanmar Companies Law, Pending
- Allows foreign ownership up to 35% before companies are classified as “foreign;”
- Reduces director and shareholder requirements to one each for incorporated companies;
- Removes requirement to define objectives of company in memorandum of association, broadening companies’ incorporation powers;
- Establishes provisions to improve standards of corporate governance and provide greater shareholder protection.</td></tr>
</table>

Adapted from:
Thomas Foerch et al., “Myanmar’s Financial Sector: A Challenging Environment for Banks,” Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), October 2016.

Sean Turnell, “Banking and Finance in Myanmar: Present Realities, Future Possibilities,” United States Agency for International Development, January 2016.

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ABOUT US

This paper was prepared to inform the discussion during the strategic planning roundtable for financial-sector development in Myanmar hosted jointly by the Myanmar Development Institute and the Milken Institute on July 26, 2017, in Yangon, Myanmar.

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ABOUT THE MILKEN INSTITUTE

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