

## BURMA – PAVING THE ROAD TO A MODERN BANKING SYSTEM

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**S**ince embarking on economic and political reforms in April 2011, the Burmese government under President Thein Sein has introduced a series of policies to liberalize and modernize the economy. The government is undertaking legislative reforms for the banking and financial sectors. A modern banking and financial system is needed to support the country's economic development. At present, the Burmese banking sector is underdeveloped, exhibiting a high degree of state-control, low levels of public trust, limited financial inclusion, strict interest rate controls, and inadequate financial infrastructure. Given significant capacity constraints and operating environment weaknesses, how long it will take Burma's banking and financial sector to effectively evolve into a modern system remains to be seen.

This *Asia Focus* report provides a historical background of Burmese banking crises, analyzes recent and upcoming regulatory reforms, and evaluates hurdles to the development of a modern banking system.

### Historical Background – Demonetizations and Banking Turmoil

Economic and financial crises in Burma have historically coincided with political change, given the close ties of the government to the banking sector. The banking sector has experienced multiple financial crises, including three demonetizations of the Burmese kyat and the 2003 banking crisis. As a result, banking in Burma remains at an infant stage with little public trust in the kyat as a store of value or in the soundness of the formal banking sector. Currently, approximately 5 percent of the Burmese population uses formal banking services.

After the 1962 coup, the government installed a socialist economic system and nationalized all banks, including foreign banks. Subsequently, three major demonetizations occurred in 1964, 1985, and 1987. In the latest 1987 demonetization, the Ne Win military regime effectively declared about 75 percent<sup>1</sup> of the cash in circulation illegal and eliminated three banknote denominations without exchange or compensation.<sup>2,3</sup> The demonetization eroded most of the populace's savings and resulted in widespread protests and the 1988 coup. Demonetization coupled with rampant inflation in the 1990s has led to the retainment of little faith in the storage value of the kyat. As a result, the economy is partly dollarized<sup>4</sup>.

The succeeding military regime partially liberalized the banking sector in the 1990s, resulting in the re-emergence of private banks. However, the Burmese banking industry experienced a severe crisis in early 2003 triggered by the collapse of Ponzi schemes involving informal finance companies. The crisis involved a bank run and the freezing of all monetary transactions, which prevented businesses from continuing operations and paying employees. To obtain liquidity, banks recalled loans, sold properties, and froze bank accounts.<sup>5</sup> After the crisis subsided, the government issued stringent prudential measures, such as a high capital-to-deposit ratio and strict collateral requirements, which impeded credit growth for the next decade.

The 2003 crisis disproportionately damaged private sector banks, increasing the domination of state-owned banks. Sanctions and money laundering violations added another blow to the private banking sector. In 2005, the Burmese government revoked the licenses of Asia Wealth Bank (which was the largest private bank before the 2003 crisis), Myanmar Mayflower Bank, and Myanmar Universal Bank. Both Asia Wealth Bank and Myanmar Mayflower Bank were subject to U.S. sanctions earlier in April 2004. More recently, the largest private bank, Kanbawza Bank, experienced a minor bank run in October

2012 based on unfounded rumors relating to contraband. While the bank quickly stabilized, the run underscores the public distrust and risk of deposit flight facing private banks.

## Banking Sector Profile

In addition to low levels of public trust, the banking sector in Burma faces the challenges and opportunities of depositor preference to save in other foreign currencies and commodities, borrower preference for informal lending, domination of the market by state-owned banks, and the recent re-entry of foreign banks. Burma lacks most of the financial infrastructure needed for a modern banking system. This gap includes a modern payments system; a money market, including an interbank market, short-term bond market, and repurchase market; an electronic real-time data system link between the banks and central bank; and a credit rating system.<sup>6</sup> Burma also lacks human resources training critical for qualified bankers and bank supervisors.

The general populace in Burma is under-banked and cash-based. Less than 20 percent of the population has access to financial services, and only 5 percent uses formal banking services.<sup>7</sup> Due to the lack of trust in the currency and formal financial sector, consumers tend to save in the form of gold, gemstones, and U.S. dollars.<sup>8</sup> Many businesses also avoid the financial system, preferring to reinvest earnings rather than keep funds in a deposit account.<sup>9</sup> Preference for informal lending is also tied to the overly complex loan processes at banks, reinforcing consumer preference to borrow from family, friends, and pawnshops.<sup>10</sup>

### Local Banks

As of end-February 2014, four state-owned banks controlled 65 percent of total banking assets, which amounted to 26.7 trillion kyat (MMK) (USD 25.4 billion).<sup>11,12</sup> The remaining share is scattered among the 23 quasi-government and private banks. The quasi-government banks have shares owned by or receive support from the government, such as ministries, local government, or military. Many private banks are owned by business conglomerates, which prefer to provide credit to their related businesses.<sup>13</sup> Observers note that the total number of banks in Burma is high for its level of economic development, and therefore industry consolidation may be beneficial.

Burmese banks, particularly private banks, face liquidity restraints due to low deposit levels, largely a result of limited participation in the formal financial sector, and the strict liquidity requirements put into place after the 2003 crisis. Loan growth was hindered by those liquidity requirements, narrowly defined collateral lending, other lending restrictions, and consumer reliance on informal lenders. Private banks have limited loan portfolios given the high minimum lending rate, restrictions on short term loans for limited purposes, and stringent restrictions on household loans. Lending decisions and quality are also hampered by the lack of a credit rating agency or system to determine borrower creditworthiness.

### State-Owned Banks

The dominance and functions of four state-owned banks skew the playing field in the banking sector. Furthermore, the Central Bank of Myanmar (CBM) and state-owned banks have overlapping and unclear division of responsibilities. The state-owned banks are driven by a policy-mandate and carry out governmental functions. The Myanma Economic Bank, the largest bank in Burma, is closely controlled by the Ministry of Finance and plays a treasury role. It funds state-owned enterprises, including state-owned banks such as the Myanma Agriculture and Development Bank. The Myanma Foreign Trade Bank manages the official national foreign currency reserves, a role typically played by a central bank. With recent reforms, the CBM can now manage its own foreign reserves and most banks can access foreign reserves and operate foreign currency accounts.<sup>14</sup>

The government functions of the state-owned banks can create confusion with respect to the CBM's mandate to ensure banking safety and soundness and financial stability.<sup>15</sup> Most observers advocate for restructuring state-owned banks and returning state functions to the Ministry of Finance and CBM. This decoupling would remove potential conflicts of interest, unburden the banks from their quasi-fiscal role, and allow the state-owned banks to concentrate on improving their operations.

### Foreign Banks

The CBM is gradually allowing more participation of foreign banks in the Burmese financial sector. Currently, 43 foreign banks maintain a presence in Burma with representative offices.<sup>16</sup> These representative offices are allowed for informational and research purposes, but are prohibited from providing direct banking services to the public. Most foreign bank representative offices are Asian banks. In October 2014, the CBM granted preliminary approval for a “foreign bank license” to nine foreign banks for limited operations. The nine banks are from the Asia-Pacific region, reflecting the low number of Western bank applications due to the requirement that applicants have an existing representative office in Burma.<sup>17,18</sup> The foreign banks will be able to provide wholesale services to foreign companies and domestic banks but are barred from retail services and direct lending. They can lend to foreign companies in foreign currencies and can lend to local companies in kyat if partnered with a domestic bank.<sup>19</sup> The minimum capital requirement is USD 75 million, and the foreign bank is limited to opening only one branch.<sup>20</sup> The foreign banks have one year to fulfill the commitments made in the application, including branch openings, prior to final approval. Since then, five foreign banks have opened branches in Burma.<sup>21</sup>

Most analysts have cautioned the CBM to gradually liberalize the banking sector to foreign investment given the industry's early level of development in regards to both regulatory strength and local bank competitiveness. However, they also note the benefits of the transfer of knowledge in joint ventures, increased market competition, and the supporting of foreign investors or local companies with international operations.<sup>22</sup>

### Recent and Upcoming Regulatory Reforms

Since 2011, the Burmese government has made a strong ongoing effort to modernize its financial system by updating the legal framework for the central bank, financial institutions, foreign exchange, securities exchange, and foreign investment.

### Central Bank Law

In 2014, the CBM<sup>23</sup> became independent from the Burmese government for the first time since the 1960s. Prior to the revisions to the *Central Bank Law of 1990*, enacted in July 2013 and implemented in July 2014, the CBM operated as a department under the Ministry of Finance with no decision-making authority and financed the government's fiscal policies. The revised law authorizes the central bank to independently implement national monetary and exchange rate policy and sets the central bank's primary objectives as price stability and inflation control.<sup>24</sup>

Significant measures in the revised law include: (i) establishing a policy-setting board of directors, (ii) increasing the rank of the CBM Governor position to be on par with a cabinet minister, (iii) prohibiting the purchase of primary issues of long-term government bonds without Parliament approval, and (iv) requiring periodic publications of the CBM's activities for submission to Parliament.<sup>25</sup> As of early 2015, the government was still preparing rules and regulations to operationalize the central bank law, such as establishing five committees on monetary policy, financial stability, payments, foreign exchange management, and internal auditing.

Despite progress, many issues remain. Much of the country's foreign exchange reserves are held at the Ministry of Finance and state-owned banks, particularly the Myanmar Foreign Trade Bank and Myanmar Economic Bank. The IMF estimates that the low level of reserves held at the central bank will continue to grow.<sup>26</sup> The CBM relies on direct monetary policy instruments (*i.e.* reserve requirements and interest rate controls) instead of indirect monetary policy tools (*i.e.* open market operations) due to inadequate financial infrastructure, such as the absence of secondary securities markets.

#### Financial Institutions Law

The draft revisions to the *Financial Institutions Law* of 1990, which is pending enactment, aim to support a more efficient banking system. Analysts expect it to set licensing requirements for private banks, provide guidance on corporate governance, and allow for foreign investment and participation in the financial sector.<sup>27</sup> Foreign banks will be allowed to enter joint ventures with private banks; the joint venture banks will then be allowed to establish locally incorporated 100 percent-owned subsidiaries; and finally, foreign banks will be able to open bank branches in Burma.

#### Foreign Exchange Reforms and the Foreign Exchange Management Law

The CBM introduced a managed floating exchange rate system after a 35-year fixed exchange rate system in April 2012. The official and informal exchange rate have converged and normalized since the removal of the fixed rate. In April 2012, the kyat was officially pegged at 6.4 MMK/USD while the informal market traded at 820 MMK/USD. Studies report that the spread between official and informal trading rates is only 1 percent to 3 percent, and some analysts believe that the official CBM rate follows the informal trading rate as opposed to trying to guide the official rate.<sup>28,29</sup> In August 2013, the CBM also removed restrictions on trading in foreign exchange between local private banks, allowing for the creation of an interbank trading market in foreign exchange, which should facilitate market-based exchange rates.

The *Foreign Exchange Management Law*, enacted in August 2012, provides for the regulation of foreign currency activity and transactions in addition to designating the CBM as the responsible agency to determine the daily reference rate and facilitate foreign currency interbank transactions. Foreign exchange transactions that are subject to the law include domestic payments, other payments, international payments and transfers, including outward remittances, and purchase and sale of foreign currency.<sup>30</sup> While current account transactions, such as payments related to trade and loans, are not subject to restrictions, capital account transactions, such as repatriation related to foreign investment, are subject to CBM approval.<sup>31</sup> The laws implementing regulations, the *Foreign Exchange Management Regulations*, were issued much later in September 2014.<sup>32</sup>

#### Securities Exchange Law

Enacted in July 2013, the *Securities Exchange Law* provides for the establishment of a stock exchange, securities exchange companies, and over-the-counter (OTC) markets. The Yangon Stock Exchange is scheduled to open in October 2015. Currently, Burma only has a very small and inactive OTC exchange, the Myanmar Securities Exchange Center.<sup>33</sup> Most trading activities are on over-the-counter government treasury bonds.<sup>34</sup>

#### Foreign Investment Law and Sanctions

Burmese authorities have also taken actions to promote foreign investment. The *Foreign Investment Law* and removal of foreign sanctions in 2012 and 2013 have facilitated foreign participation in the Burmese financial sector. The *Foreign Investment Law*, enacted in November 2012, provides for the right to repatriate profits and capital brought into Burma, investor protection from nationalization actions, and

investment incentives such as a five-year tax holiday and reduction of various tax and customs duties.<sup>35</sup> One of the objectives of the *Foreign Investment Law* is to develop the banking sector according to international standards.<sup>36</sup> Although the law does not prescribe foreign ownership levels, it removed the prior 35 percent minimum requirement and does not place a maximum cap on foreign ownership. The government has drafted a new investment law, the *Investment Law of the Republic of the Union of Myanmar*, which combines the *Myanmar Citizens Investment Law*, dated July 2013, and the *Foreign Investment Law*, dated November 2012. These new laws have a greater focus on promoting governance, transparency, accountability, sanctity of contracts, and overall investment.<sup>37</sup>

The re-entry of foreign banks is possible due to the removal of foreign sanctions on the financial sector in 2012 and 2013. The U.S. Office of Foreign Assets Control has maintained sanctions on Burma since 1997. It began to ease sanctions in mid-2012 allowing the exportation of U.S. financial services to Burma and by early-2013 allowing U.S. financial institutions to enter direct correspondent relationships with most Burmese banks.<sup>38</sup> The European Union also lifted sanctions against Burma in April 2013, excluding the arms embargo.<sup>39</sup>

### Deposit Insurance

To combat the longstanding lack of public trust, the Burmese government recently established a deposit insurance scheme. However, deposit insurance in Burma is rudimentary by international standards.<sup>40</sup> The state-owned Myanmar Insurance Agency established a compulsory deposit-insurance scheme in October 2012 covering MMK 500,000 (USD 476) per depositor for which banks pay a premium of 0.25 percent on deposits.<sup>41</sup> Notably, the Myanmar Insurance Agency is the supervisor of all insurance products, which differs from international practice where deposit insurance regulators are specialized and independent.<sup>42</sup> Given the low level of coverage and early stages of the deposit insurance scheme, the public may have limited confidence in the Burmese banking sector based on the existing scheme alone.

## Challenges to Financial Sector Development

Financial sector development in Burma is limited by several factors, including interest rate controls, overly strict prudential measures, uneven treatment of state-owned and private banks, deficiencies in the country's financial infrastructure, a lack of human resources, underdeveloped enforcement of accounting standards, and a risky operating environment, particularly in regards to anti-money laundering concerns.

### Interest Rate Controls

Banks' earnings are constrained by interest rate controls, which limit profit margins and reduce the appeal of loans to borrowers given the high interest rates. Currently, the maximum deposit rate is 8 percent and minimum lending rate is 13 percent, creating a 5 percent interest rate spread.<sup>43</sup> The interest rate band is a recent development, as the deposit and lending rates were previously fixed.<sup>44</sup> While the CBM intends the interest spread to ensure bank profitability, maintaining fixed rates in an inflationary environment can discourage savings and bank lending if real interest rates turn negative.<sup>45</sup> Inflation in Burma is highly volatile. Although inflation has been subdued in recent years, with the 2013 figures at 5.5 percent, it ranged from 20 to 57 percent between 2001-2003 and 2006-2008, which was well above the fixed interest rates.<sup>46</sup> While liberalized interest rates would promote a more efficient allocation of financial resources and market competition, interest rate liberalization would need to proceed carefully in terms of the timing, pacing, and sequencing. Freer interest rates, given the inadequate financial infrastructure, lack of risk management, and underdeveloped banking supervision, could result in riskier bank behavior and heightened systemic risks.<sup>47,48</sup>

### Stringent Supervisory Requirements for Private Banks

In the wake of the 2003 crisis, the Burmese government implemented highly stringent prudential measures which have constrained the banking sector's growth. While some of these measures have recently relaxed, other measures could possibly withstand further easing. Some of the stricter requirements are listed as follows:

- **Capital-to-Deposit Ratio:** The capital-to-deposit ratio cap was lifted in 2012 in contrast to the peak 25 percent in 2011.<sup>49</sup> The high requirement had previously deterred deposit expansion, exacerbating problems in a market with low banking penetration and where savings are held in the form of gold and other commodities.<sup>50</sup>
- **Liquidity Ratio:** The liquidity ratio requirement is 20 percent of liquid assets to current liabilities, which is high relative to the single-digit ratios present in other Southeast Asia countries.<sup>51</sup> Most of private banks' assets are in treasury bonds with two, three, and five-year maturities, and are held to maturity given the lack of a secondary bond market.<sup>52</sup>
- **Collateral Requirements:** After the 2003 crisis, all loans must be backed by collateral, which was limited only to land and buildings, thereby limiting access to credit only to landowners. Permissible collateral was recently expanded to include bank deposits and other financial assets, gold, equipment, and certain agricultural goods (rice, beans and sesame).<sup>53</sup> However, pledged agricultural goods can only be sold once the loan is repaid in full, which limits its usefulness for farmers with little surplus crops.<sup>54</sup> Banks also do not accept pledged agricultural goods in practice due to the level of complexity.<sup>55</sup> In determining the loan amount, except for deposit accounts, collateral is valued at 40 percent of market value, and banks have an industry practice of a maximum loan-to-value ratio of 60-70 percent of the for-sale collateral value.<sup>56</sup>
- **Lending Limits:** Lending is limited to 80 percent of a bank's deposit base, which is constraining given the low level of deposits.<sup>57</sup>
- **Loan Purposes:** Private banks can only offer short-term loans, although long-term loans may be allowed in the future with higher interest rates. They can offer home financing only through hire-purchase agreements with a maturity of up to 36 months. Banks were also prohibited from lending to farmers until recently, because the state-owned Myanma Agriculture and Development Bank held a monopoly on the rural sector.
- **Interest Rate Controls:** As described in the previous section, the interest rate controls limit banks' earnings, deposit base, and loan portfolio.

### Supervisory Treatment of State-Owned Banks

Due to the dominance of state-owned banks, some observers note that the CBM implements uneven supervisory and regulatory treatment between state and private banks. For example, the CBM does not always apply the regulatory fines and penalties to state-owned banks that it would subject private banks to.<sup>58</sup> The application of strict prudential requirements to private banks and not state-owned banks creates a significant imbalance in market competition. Private banks were also previously subject to additional capital requirements to expand branches, of which requirements were lifted in 2012. As a result, the four major state-owned banks dominate the nationwide network of bank branches.<sup>59</sup> However, with the recent reforms, state-owned banks are facing increasing competition from private banks and potentially foreign banks.

## Technological Infrastructure and Financial Information Systems

Although the Burmese banking sector faces technological constraints, observers have discussed the possibilities of leapfrogging to use more advanced technologies that could leverage off limited or existing hardware. Most bank operations are largely manual, and many banks do not have an adequate banking technology infrastructure, if any, or appropriate risk management system.<sup>60</sup> The modernization of the Burmese banking technological infrastructure and capabilities also heavily relies on assistance, including the transfer of knowledge from multilateral development agencies and foreign governments and companies. Selected technological issues and developments are as follows:

- **Supervisory Reporting Systems:** Given the need for basic technological infrastructure<sup>61</sup>, the CBM unsurprisingly does not have an electronic real-time reporting system with its supervised banks.<sup>62</sup> Bank managers reportedly must phone in their book balances to the CBM at the close of each business day.<sup>63</sup> In regards to timely access to information, the lack of an adequate reporting system limits the CBM's supervisory ability, particularly for off-site supervisory monitoring, and reduces the agency's responsiveness in stabilizing the financial system during periods of volatility. Notably, the development of an electronic clearance and payments system may incorporate real-time electronic access to banks' accounts.<sup>64</sup>
- **Payments and Securities Settlement Systems:** The Japan International Cooperation Agency is assisting the CBM on establishing modern payments and securities settlement systems, covering fund settlement, government bond settlement, and collateral management.<sup>65, 66</sup> Without a payments system, payments are mainly on a cash basis and can involve physically transporting large amounts of money cross-country, such as in the case of transferring cash between a bank's office and its branches.<sup>67</sup> Interbank check clearance is still manual.<sup>68</sup> The lack of a payments system impinges on the level of liquidity management needed for a modern monetary system that supports financial system stability.
- **Credit Information System and Credit Rating Bureau:** The Burmese banking industry also needs the creation of a credit information system and a credit rating bureau. More accurate and timely information on borrowers would promote better risk-based lending that could rely less on exorbitant collateral requirements and other lending restrictions. A credit information system paves the way for greater access to credit in both bank loans and consumer lending, which could shift the credit culture away from informal loans to more formal products, including credit cards.
- **Credit Card Infrastructure:** Visa, Mastercard, and China UnionPay entered Burma in 2012 and are actively working with local banks to establish the necessary credit card infrastructure, such as ATMs and point-of-sale machines, and promoting merchant credit card acceptance.<sup>69</sup> While these efforts currently benefit foreign visitors, the payments system companies anticipate that the CBM will eventually allow local banks to issue credit cards, which was prohibited after the 2003 crisis due to the fear of unsecured lending.<sup>70</sup>
- **Mobile Banking:** Mobile banking is an area of potential growth given the pervasiveness of mobile phone ownership in the general population, which is highly underbanked. A CBM directive, issued in December 2013, provides for mobile financial services likely using a bank-led model. These services, which would be licensed by the CBM, include domestic and international remittances, and cash deposits and withdrawals in local currency through bank branches, agents, ATMs, and mobile network operators.<sup>71</sup> Private banks have expressed interest in mobile banking,<sup>72,73,74</sup> but are waiting for further regulatory clarification on mobile banking.

## Human Resources

The Burmese banking sector faces a significant constraint on qualified human resources both at the supervisory and bank levels. In 2014, CBM had less than 20 bank supervisors, who are equally divided between on-site and off-site supervision functions.<sup>75</sup> On-site supervision entails an annual, planned visit to a bank's headquarters to evaluate financial information, internal controls, anti-money laundering measures, and other areas. Off-site supervision involves regular reporting from the banks to the CBM.<sup>76</sup>

The banking sector also needs a talent pool of bank supervisors. While the Myanmar Institute of Banking provides a general banking education for entry- to middle management-level staff, it does not provide any specialized courses and cannot meet the need and demand for the classes. Applied vocational training in banking is also lacking. Furthermore, overall educational levels in Burma do not meet regional or international standards.<sup>77</sup>

## Accounting and Audit Environment

While Burma has adopted international accounting and audit standards, active enforcement is not practiced.<sup>78</sup> Myanmar Financial Reporting Standards (MFRS) are based on International Financial Reporting Standards (IFRS). The Myanmar Accountancy Council issued the MFRS in June 2010, and the standards took effect in January 2011.<sup>79</sup> The Council does not have an official adoption process for new accounting standards,<sup>80</sup> even though it has asserted its intent to adopt newer IFRS issued after 2011. IFRS Foundation also noted that accountants in Burma previously had difficulty applying international accounting standards due to the lack of guidance and training.<sup>81</sup> Accounting standards provide the baseline accuracy and uniformity of financial data across businesses. The lack of proper enforcement is a significant hurdle to banking supervision. Banks are not required to publicly release their audited financial statements<sup>82</sup> thereby impeding transparency and accountability.

## AML Issues

While Burma has made some improvements in anti-money laundering (AML) and counter-terrorist financing (CTF) efforts in the past decade, the Financial Action Task Force (FATF) still considers Burma a high-risk country. In its latest public statement, it noted Burma's "high-level political commitment to work with the FATF and APG (Asia/Pacific Group on Money Laundering)" on these issues but that the country "has not made sufficient progress in implementing its action plan." Strategic AML/CTF deficiencies identified by FATF include the need for stronger customer due diligence measures, an independent and effective financial intelligence unit, procedures to identify and freeze terrorist assets, and the criminalization of terrorist financing.<sup>83</sup>

## Conclusion

The Burmese economy is experiencing rapid growth.<sup>84</sup> According to some projections, its GDP could potentially quadruple in value to USD 200 billion by 2030 with successful broad-based reforms.<sup>85</sup> However, to achieve sustained growth, Burma faces the challenges of building the capacity and financial infrastructure needed to support credit needs for economic growth while managing inflationary pressures from high growth levels and capital flows. Burma's recent effort to modernize its banking sector is an important and necessary step towards improving its economy and a precondition to unlocking the country's potential for economic development.

## Endnotes

<sup>1</sup> Thomas Foerch, San Thein, and Sophie Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks,” Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, November 2013.

<sup>2</sup> Soon after the retiring of the 25, 35 and 75 kyat banknotes, the government introduced 45 and 90 kyat banknotes, allegedly based on the auspicious number 9 determined by General Ne Win’s astrologer.

<sup>3</sup> Nehru, Vikram, “Banking on Myanmar: A Strategy for Financial Sector Reform,” Carnegie Endowment for International Peace, June 2014.

<sup>4</sup> According to a recent JETRO study, the amount of foreign currency deposits (FCD) to broad money was 41.8 percent and the FCD to total deposits was 66.5 percent. (See Kubo, Koji, “Deposit Dollarization in Myanmar,” *IDE Discussion Paper No. 473*, Institute of Developing Economies, August 2014.)

<sup>5</sup> Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”

<sup>6</sup> Ibid.

<sup>7</sup> KPMG, “The Banking & Financial Services Sector in Myanmar,” November 2013

<sup>8</sup> Kubo, Koji, “Deposit Dollarization in Myanmar,” *IDE Discussion Paper No. 473*, Institute of Developing Economies, August 2014.

<sup>9</sup> Alessandra Valenti, Tommy Galloway and Moe Pwint, “Cash in Context: Uncovering Financial Services in Myanmar,” MasterCard, February 24, 2014.

<sup>10</sup> Ibid.

<sup>11</sup> Asian Development Bank (ADB), Economics and Research Department, “Myanmar: Unlocking the Potential,” *Country Diagnostic Study*, August 2014.

<sup>12</sup> Unless otherwise noted, all exchange rates reflect the interbank exchange rate as of June 15, 2015 (1USD = MMK 1,050). (See: Central Bank of Myanmar website, [www.cbm.gov.mm](http://www.cbm.gov.mm).)

<sup>13</sup> *The Economist*, “Banking in Myanmar - Twinned with South Sudan,” October 14, 2014.

<sup>14</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>15</sup> Organization for Economic Co-operation and Development (OECD), “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2. In-depth Analysis and Recommendations, OECD Development Pathways*, 2014.

<sup>16</sup> Central Bank of Myanmar (CBM), “Private Banks,” Central Bank of Myanmar website, <http://www.cbm.gov.mm/content/private-banks> (last accessed March 31, 2015).

<sup>17</sup> The nine banks include Australia and New Zealand Banking Group Limited, Bangkok Bank, Bank of Tokyo-Mitsubishi UFJ, Industrial and Commercial Bank of China, Malayan Banking Berhad (Maybank), Mizuho Bank, Oversea-Chinese Banking Corporation, Sumitomo Mitsui Banking Corporation, and United Overseas Bank.

<sup>18</sup> BRED, a French bank, applied and Standard Chartered, a British bank, applied but later withdrew. Due to prior sanctions, the United States does not have any banking representation in Burma and U.S. banks cannot enter the application process.

<sup>19</sup> *The Nation*, “Licensing, a milestone in banking industry,” Myanmar section, October 27, 2014.

<sup>20</sup> Poon, Melvin, “Myanmar’s Banking Sector Liberalisation: A Win-win for All,” Navigating the Growth Markets Blog, Pricewaterhouse Coopers, October 23, 2014, [http://pwc.blogs.com/growth\\_markets/2014/10/myanmars-banking-sector-liberalisation-a-win-win-for-all.html](http://pwc.blogs.com/growth_markets/2014/10/myanmars-banking-sector-liberalisation-a-win-win-for-all.html) (last accessed March 31, 2015).

<sup>21</sup> The first three foreign banks to open branches approved by the CBM in April 2015: Overseas-Chinese Banking Corp from Singapore, Bank of Tokyo Mitsubishi UFJ and Sumitomo Mitsui Banking Corp. Subsequently, the CBM approved United Overseas Bank in May and Bangkok Bank in June. UOB offered the first onshore loan by a foreign bank in May to a French-Myanmar joint venture.

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<sup>22</sup> OECD, “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2*.

<sup>23</sup> Historically, the central bank was spun off from the Reserve Bank of India’s Yangon branch in 1948 after independence from British colonial rule. It gained full central bank functions in 1952.

<sup>24</sup> Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”

<sup>25</sup> Turnell, Sean, “Banking and Financial Regulation Reform in Myanmar,” *Journal of Southeast Asian Economics*, Vol. 31, No. 2, August 2014.

<sup>26</sup> International Monetary Fund, “Myanmar: 2014 Article IV Consultation—Staff Report; Press Release; and Statement by the Executive Director for Myanmar,” IMF Country Report No. 14/307, October 2014.

<sup>27</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>28</sup> KPMG, “The Banking & Financial Services Sector in Myanmar.”

<sup>29</sup> Kubo, Koji, “Foreign Exchange Market Reform in Myanmar: Achievements and Challenges,” *Journal of Southeast Asian Economics*, Vol. 31, No. 2, August 2014.

<sup>30</sup> KPMG, “The Banking & Financial Services Sector in Myanmar.”

<sup>31</sup> Jones Lang LaSalle, “Foreign Exchange Controls – Myanmar,” 2015, <http://www.joneslanglasallesites.com/investmentguide/country/myanmar/foreignexchangecontrols>, (last accessed June 1, 2015).

<sup>32</sup> Allen & Overly LLP, “Myanmar three years on,” 2014, <http://www.allenoverly.com/SiteCollectionDocuments/Myanmar.PDF>, (last accessed February 17, 2015).

<sup>33</sup> World Bank, “Myanmar Economic Monitor,” October 2013.

<sup>34</sup> Shea, James, “2015 Investment Climate Statement – Burma,” US State Department, Bureau of Economic and Business Affairs, May 2015.

<sup>35</sup> Pricewaterhouse Coopers (PwC), “Myanmar Investment Guide,” February 2014.

<sup>36</sup> Burmese laws are incongruent on foreign participation in the banking sector. While the 2012 *Foreign Investment Law* lists the banking sector as an area for development, the 1989 *State-Owned Economic Enterprises Law* (SOEL) lists banking services as a restricted economic activity that is limited to state-owned enterprises participation. Under the SOEL, the Myanmar Investment Commission may grant exemptions with the approval of other relevant government agencies and has done so for domestic banks. Ultimately, foreign bank participation is provided under the 1990 *Financial Institutions Law*. (See Herbert Smith Freehills, *Myanmar Investment Guide – Legal Guide*, First Edition, 2012 and KPMG, “The Banking & Financial Services Sector in Myanmar.”)

<sup>37</sup> Achara Deboonme and Khine Kyaw, “Myanmar kicks off investment law modernisation”, *the Nation*, Myanmar Eleven, March 9, 2015.

<sup>38</sup> In July 2012, the U.S. government authorized the exportation of U.S. financial services to Burma, permitting the first new U.S. investment in Burma in nearly 15 years. In February 2013, it allowed U.S. financial institutions to enter direct correspondent relationships with Burmese banks. It also allowed some financial transactions but prohibits investments with four banks that are on the “specially designated nationals” list, which includes entities associated with the former military regime. These four banks are the Asia Green Development Bank, Ayeyarwady Bank, Myanma Economic Bank, and Myanma Investment and Commercial Bank. Three other banks on the SDN list include Innwa Bank, Myawaddy Bank, and Myanmar Foreign Trade Bank. Prohibited financial services to Myanmar include transfers to the Myanmar Ministry of Defense (MoD), any armed group in Myanmar, and any entity in which the MoD or any armed group holds an interest of 50 percent or more. (See Office of Foreign Assets Control (OFAC), “Specially Designated Nationals and Blocked Persons List,” January 27, 2015, <http://www.treasury.gov/ofac/downloads/t11sdn.pdf>; OFAC, “Burma Sanctions Program,” January 29, 2014, <http://www.treasury.gov/resource-center/sanctions/Documents/burma.pdf>; KPMG, “The Banking & Financial Services Sector in Myanmar;” and Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”)

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<sup>39</sup> Council of the European Union, “Council conclusions on Myanmar/Burma”, 3236th Foreign Affairs Council meeting, April 22, 2013. [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/EN/foraff/136918.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/136918.pdf) (last accessed February 12, 2015).

<sup>40</sup> OECD, “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2*.

<sup>41</sup> Turnell, “Banking and Financial Regulation Reform in Myanmar.”

<sup>42</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>43</sup> Central Bank of Myanmar homepage, [www.cbm.gov.mm](http://www.cbm.gov.mm) (Last accessed June 11, 2015).

<sup>44</sup> ADB, Economics and Research Department, “Myanmar: Unlocking the Potential.”

<sup>45</sup> Turnell, “Banking and Financial Regulation Reform in Myanmar.”

<sup>46</sup> World Bank, “World Development Indicators Database,” Last updated January 30, 2015, <http://data.worldbank.org/data-catalog/world-development-indicators> (last accessed April 3, 2015).

<sup>47</sup> ADB, Economics and Research Department, “Myanmar: Unlocking the Potential.”

<sup>48</sup> For more in-depth discussion on interest rate liberalization, please refer to the Asia Focus report on *China’s Interest Rate Liberalization Reform*. (See Li, Cindy, “China’s Interest Rate Liberalization Reform,” *Asia Focus*, Federal Reserve Bank of San Francisco, Country Analysis Unit, May 2014. <http://www.frbsf.org/banking-supervision/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/>)

<sup>49</sup> OECD, “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2*.

<sup>50</sup> Valenti, Galloway and Pwint, “Cash in Context: Uncovering Financial Services in Myanmar.”

<sup>51</sup> OECD, “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2*.

<sup>52</sup> OECD, “Structural Policy Country Notes: Myanmar,” Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap, 2013.

<sup>53</sup> OECD, “Chapter 4: Providing the Financial Resources to Support Development” in *Multi-dimensional Review of Myanmar: Volume 2*.

<sup>54</sup> Turnell, “Banking and Financial Regulation Reform in Myanmar.”

<sup>55</sup> Foerch, Thein, and Waldschmidt, *Myanmar’s Financial Sector: A Challenging Environment for Banks*.

<sup>56</sup> OECD, “Structural Policy Country Notes: Myanmar.”

<sup>57</sup> KPMG, “The Banking & Financial Services Sector in Myanmar.”

<sup>58</sup> Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”

<sup>59</sup> OECD, “Developing Myanmar’s financial sector,” *OECD Investment Policy Reviews: Myanmar 2014*, March 1, 2014.

<sup>60</sup> Ibid.

<sup>61</sup> In late 2012, three Japanese companies helped install a cloud computing system for and provided the hardware to the CBM that allows for the use of a limited number of computer terminals with cloud access, which at that time amounted to 150 computer terminals and reduced the need of every staff to have a computer. (See KPMG, “The Banking & Financial Services Sector in Myanmar”; and Koh, Yoree, “Myanmar’s Central Bank Heads for the Cloud”, Wall Street Journal, December 26, 2012.)

<sup>62</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>63</sup> Stevens, Andrew, “Can Myanmar fix its outdated banking system?,” CNN, June 6, 2013, <http://www.cnn.com/2013/06/06/business/myanmar-banking/> last accessed March 27, 2015.

<sup>64</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

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<sup>65</sup> Japan International Cooperation Agency (JICA), “Myanmar-Technical Cooperation Projects (On-going and Planned (R/D signed, as of Jan 2015)),” <http://www.jica.go.jp/myanmar/english/office/about/cooperation.html> (last accessed March 27, 2015).

<sup>66</sup> NTT DATA Corporation, “NTT DATA to Develop Core Banking System for Central Bank of Myanmar Supporting to construct the country’s financial infrastructure,” May 1, 2014, <http://www.nttdata.com/global/en/news-center/others/2014/050100.html> (last accessed March 27, 2015).

<sup>67</sup> *The Economist*, “Banking in Myanmar - Twinned with South Sudan.”

<sup>68</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>69</sup> Valenti, Galloway and Pwint, “Cash in Context: Uncovering Financial Services in Myanmar.”

<sup>70</sup> Ibid.

<sup>71</sup> Allen & Overy, “Myanmar three years on,” Allen & Overy LLP, 2014, <http://www.allenovery.com/SiteCollectionDocuments/Myanmar.PDF>, (last accessed February 17, 2015).

<sup>72</sup> Recently, Yoma Bank announced a partnership with Telenor, a Norwegian telecommunications group, on mobile banking in late 2014 and the bank plans to upgrade its core banking system using Misys in early 2015. (See: Misys, “Myanmar’s Yoma Bank selects Misys for complete banking transformation,” March 17, 2015.)

<sup>73</sup> Jeremy Mullins and Aye Thida Kyaw, “‘Stay tuned’ for mobile banking services from Yoma and Telenor, say CEOs”, *Myanmar Times*, November 24, 2014.

<sup>74</sup> For more in-depth discussion on mobile banking, please refer to the Asia Focus report on *Mobile Payments in Asia*. (See Husain, Samia, “Mobile Payments in Asia,” *Asia Focus*, Federal Reserve Bank of San Francisco, Country Analysis Unit, November 2013. <http://www.frbsf.org/banking-supervision/publications/asia-focus/2013/november/mobile-payments-asia/> )

<sup>75</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>76</sup> Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”

<sup>77</sup> Ibid.

<sup>78</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>79</sup> IFRS Foundation, “IFRS Around the World - Jurisdiction Profile: Myanmar,” March 17, 2015, <http://www.ifrs.org/Use-around-the-world/Documents/Jurisdiction-profiles/Myanmar-IFRS-Profile.pdf>, (last accessed March 31, 2015).

<sup>80</sup> Foerch, Thein, and Waldschmidt, “Myanmar’s Financial Sector: A Challenging Environment for Banks.”

<sup>81</sup> IFRS Foundation, “IFRS Around the World - Jurisdiction Profile: Myanmar.”

<sup>82</sup> Nehru, “Banking on Myanmar: A Strategy for Financial Sector Reform.”

<sup>83</sup> Financial Action Task Force, “Myanmar- FATF Public Statement - 27 February 2015,” February 27, 2015, <http://www.fatf-gafi.org/countries/j-m/myanmar/documents/public-statement-february-2015.html> (last accessed March 31, 2015).

<sup>84</sup> The Asian Development Bank estimated that the economy expanded by 7.7 percent in Fiscal Year 2014 and has the highest projected growth rate in East Asia for FY 2015 at 8.3 percent. The Burmese fiscal year for 2014 ends in March 2015. (See: ADB, “Asian Development Outlook 2015: Financing Asia’s Future Growth,” March 2015.)

<sup>85</sup> Heang Chhor, Richard Dobbs, Doan Nguyen Hansen, Fraser Thompson, Nancy Shah, and Lukas Streiff, “Myanmar’s moment: Unique opportunities, major challenges,” McKinsey Global Institute, June 2013.