BUILDING A Viable Financial Sector

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US-Myanmar Trade and Investment Relations:
The Path Forward

25 February 2013
OUTLINE OF PRESENTATION

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Existing Myanmar Financial And Banking Structure

Ministry of Finance & Revenue

Bank Supervision Committee

Central Bank of Myanmar

Myanmar Agriculture Development Bank (MADB)
  | Head Office
  | Regional Offices
  | Township Branches
  | Village Banks
  | Agency Offices

Myanmar Economic Bank (319)
  | Small Loan Enterprise
  | Myanmar Small Loan Enterprise
  | Head Office
  | State/Division
  | District
  | Township Br.
  | Sub-Treasury
  | Saving Agency Offices

Myanmar Foreign Trade Bank
  | Head Office

Myanmar Investment & Commercial Bank
  | Head Office
  | Branch

Domestic Private Banks (19)
  | Head Office
  | Branch (452)

Non-Bank Financial Institutions
  | Myanmar Insurance Enterprise
  | Private Insurance Enterprises (12)

International Insurance Corporation

Rep. Offices of Foreign Banks (29)

13 February 2013 (Wed)
<table>
<thead>
<tr>
<th>Deposits</th>
<th>Private Banks (452 branches)</th>
<th>State-Owned Banks (319 branches)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>644070 (62.5%)</td>
<td>385977 (37.5%)</td>
</tr>
<tr>
<td>Savings deposits</td>
<td>4291090 (68.3%)</td>
<td>1993017 (31.7%)</td>
</tr>
<tr>
<td>Saving Certificates</td>
<td>-</td>
<td>29157 -</td>
</tr>
<tr>
<td>Time Deposits</td>
<td>77648 (73.9%)</td>
<td>27376 (26.1%)</td>
</tr>
<tr>
<td>Total</td>
<td>50,12,808</td>
<td>24,35,527</td>
</tr>
<tr>
<td>Loans</td>
<td>34,86,590</td>
<td>N.A</td>
</tr>
</tbody>
</table>
BUILDING A Viable Financial (Banking) Sector

Introduction

Key Issues

Myanmar is still a cash society, people have limited access to banks. Financial sector needs broadening and deepening. Financial infrastructure needs further development. Banks need to improve in terms of scope, skills and scale. Banking technology, capital and risk management are crucial areas, where urgent improvement is needed. In short, Myanmar Banking Sector is still under developed.
Direct controls are imposed by the Central Bank of Myanmar (CBM). Deposit and lending rates are still fixed by the Central Bank. Bank rate remains at 10%, savings deposit at (8%) and lending rate at (13%) respectively. Buying and selling rates of foreign currencies of banks and money changers are also controlled by the Central Bank. Central Bank fixes a cut-off rate (reference rate) daily. Banks are allowed a margin of ±0.8% on their buying and selling rates. Last but not the least in importance is lack of fair competition and treatment between private banks and state-owned banks.
Let me now come to the main topic of my presentation “financial and banking sector reforms”. At present, financial and banking sector is underdeveloped. It needs to be deepened and broadened. Qualified banking professionals are in short supply. Financial products including debit and credit cards need to be diversified. Some private banks have introduced ATM and debit cards. Myanmar is still a cash-based society. It is obvious that a proper mix of fiscal, monetary, banking and financial policies must be adopted and implemented to support the plan objectives and financial reform process.
It is encouraging that recently major financial laws were enacted, namely, (1) Foreign Investment Law, 2\textsuperscript{nd} November 2012, (2) Foreign Exchange Management Law, 10\textsuperscript{th} August 2012 and (3) Securities and Exchange Law. CBM Law is under discussion by the two chambers of parliament.
This revised foreign investment law is more liberal than the previous law. It is a compromise between the demands of domestic business community and the requirements of potential foreign investors. Let me highlight important features.

1. Allows 100% foreign owned investment
2. Liberal land lease up to 70 years (50+10+10)
3. No restriction in the ratio of participation in JVs.
4. Guaranteed repatriation of profits
5. Guarantee against nationalization.

Rights and responsibilities of investors are spelled out in detail under chapter 8, sections 17 and 18. Foreign Investment Commission has been reconstituted to implement the law.
Rules and Regulations

The Ministry National Planning and Economic Development issued Rules under the Foreign Investment on 31 January 2013 (order No. 11/2013). The Investment Commission also issued order No.1/2013 prescribing various types of economic activities. These two orders were approved by the Government of the Union of Myanmar.

Foreign Exchange Management Law (FEML) was enacted on 10 August 2012. This law replaced the Foreign Exchange Regulation Act of 1947. The main objective of this law is to remove the trade and current account restrictions in order to qualify for Article VIII status of the International Monetary Fund (IMF). IMF is also helping the Central Bank to unify the exchange rate. This process is ongoing.

The new FEML needs to be fleshed out by updating and rewriting the old and no longer relevant rules and regulations.
Securities and Exchange Law (SEL)

The main objectives are to bring about money market, bond market and capital market. The draft law has been approved with some amendments by the Amyotha Hluttaw and remains to be approved by the Pyithu Hluttaw. It is expected that the lower house would approve it during the current session. Rules and regulations are being drafted with the help of the Ministry of Finance of Japan.

To implement SEL successfully, when it is enacted, we would need, (1) an independent regulatory body (2) viable and profitable public companies that would meet listing criteria, (3) a full array of professionals (dealers, brokers, rating agencies, etc.,) and (4) good corporate governance, as a minimum.

Insurance Law was revised to open up the insurance market to both domestic and foreign investors. The state-owned Myanmar Insurance Corporation (MIC) has the monopoly until the new insurance law was reactivated in July 2012. MIC approved two kinds of insurance and raised capital requirements, namely, general insurance (K 46 billion) and life insurance (K 6 billion).
Twelve new Private Insurance Companies have been approved. They are instructed to begin operations not later than June 2013. Out of 12 new private insurance companies, eight are “Life Insurance” and four are “General Insurance” Companies.

<table>
<thead>
<tr>
<th>Life Insurance</th>
<th>General Insurance</th>
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<tbody>
<tr>
<td>2. Young Insurance Global</td>
<td>2. Global World Insurance</td>
</tr>
<tr>
<td>3. Capital life Insurance</td>
<td>3. လူငယ်သင်ခသား ကျွန်ုပ်များ</td>
</tr>
<tr>
<td>5. Excellent Fortune Insurance</td>
<td></td>
</tr>
<tr>
<td>6. Pillar of Truth Insurance</td>
<td></td>
</tr>
<tr>
<td>7. မြန်မာသင်ခသားကျွန်ုပ်များ</td>
<td></td>
</tr>
<tr>
<td>8. စိန်ကင်္ကလော်ကျွန်ုပ်များ</td>
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Two Major Bank Laws

Two important laws, Central Bank of Myanmar Law and Financial institutions of Myanmar Law remain to be revised. CBM has redrafted the CBM Law. Private Banks and the Banking and Financial Affairs Committee of the Pyithu Hluttaw have suggested to CBM to consult the banking community in revising these two important laws.

The CBM Law(DRAFT) is under discussion by the PYITHU HLUTTAW and AMYOTHA HLUTTAW.
Banking Sector Reforms

IMF is providing technical assistance to the Central Bank of Myanmar (CBM) to unify various exchange rates into one single unified rate. CBM has introduced a “managed float” regime and prescribes daily the “reference rate” for private banks. Private Banks are allowed to buy and sell on the basis of “reference rate” within a narrow band of ±0.8%. Banks that have received “Authorized Dealer License” can participate in the bidding process to sell the US dollars they have bought to CBM at the reference rate.
From April to January 2013 CBM has bought US$ 357.73 million and sold US$ 46.92 million to private banks. The amount of CBM operation ranges from USD 0.1 million to USD 5.0 million per day of auction. The USD / Kyat rate seems to be stable around USD 1= K 860 (monthly certified average rate). It is estimated that market transaction in USD is easily five times CBM transactions.
It remains to be seen whether and when CBM would allow market rate to prevail or adopt a “policy” rate. CBM is under pressure by the export business lobby to depreciate the Kyat. CBM should avoid “politicizing” the interest rates, and move closer to market rates.
CBM has also introduced two other auctions, viz., deposit auction and credit auction. Suffice it to say that CBM charges more for its credit to banks than it pays deposits from banks which is fixed at 1.5% per annum. Private Banks pay 8% on its saving deposits. Banks are required to keep 10% their deposits as non-interest bearing reserves at the CBM.

Private Banks are not interested to participate in deposit/credit auction because of low interest rate and excess liquidity.
Yangon Foreign Exchange Market

CBM has formed a Yangon Foreign Exchange Market Committee (YFEC) and the Committee is considering a Code of Conduct for YFEC.

Banking sector issues still remain to be resolved. Necessary reform measures need to be taken in line with other reform measures. Main issues are; regulation Vs deregulation, macro-prudential supervision Vs micro-management, repression of interest rates (deposit and lending rates) and encouragement of free and fair competition.
Private Banks

On the banks part, private banks need to raise their capital and liquidity requirements to be consistent with Basel guidelines. They need to upgrade bank application of IT and modernize their banking operations including increasing the skill level of bank staff and risk management.

On the banks part, they have to upgrade and update their banking technology, raise capital, acquire human resources and risk management skills.

Central Bank

CBM and private banks need to cooperate to upgrade and modernize the financial and banking sector to face future competition from foreign banks. Right now the gap between Myanmar banks and regional (ASEAN) banks in respect of banking technology (IT), skill and scope of operations is too wide.

One approach to catch up is to form JVs with suitable foreign banks, if they are willing. IFIs could also help by providing technical assistance. ADB provided technical assistance to one ASEAN country.
RECOMMENDATIONS FOR BUILDING A Viable Financial Sector

Banking sector reform must go hand in hand with financial, monetary, fiscal and economic reforms. It requires commitment of the government to economic reform.

The Central Bank (CBM) must play a central role and that depends on the independence, capacity and leadership of the Central Bank, because it has to do with issues of financial and monetary policy and regulation. At present, monetary policy is inactive. CBM has not applied all the monetary policy instruments and tools. i.e. open market operation, countercyclical interest rate policies, control over money supply and credit expansions, etc.,
The three main actors Government, CBM and Banks need to cooperate and coordinate their respective activities. It is going to be a gradual process. Reform need to be carried out at three levels, policy, institutional and technical.
1. **Price Stability**: A sound banking system needs price stability. Economic growth with price stability should be given priority. Unsustainable budget deficits and monetary/credit expansion causes inflation. Both CPI inflation and asset inflation are the twin dangers for banks. Inflation must be brought under control. An inflation target needs to be adopted.

2. **Transparency of policies**: Macro-economic policies need to be coordinated with fiscal and monetary policies and should be transparent and predictable. Transparency, credibility and capacity of the Central Bank must be improved.
3. **Exchange Rates/ Market Signals:** Over- and under-valuation of the exchange rate must be avoided. Market signals should be the guiding principle instead of central bank manipulation. Unification of exchange rate is in process under the guidance and advice of IMF. Fortunately, Central Bank and IMF is now cooperating to achieve a unified rate.

4. **Financial infrastructure:** A sound financial infrastructure including money markets, equity and bond markets should be systematically developed in line with AEC time frame. A short-term money market especially treasury bills markets should be implemented to meet the liquidity needs of banks.
5. **Macro-prudential management**: Macro-prudential regulation and oversight should be exercised instead of micro-management and detailed direct regulation and controls.

6. **Basel III guidelines**: Banks should follow Basel III guidelines regarding Capital and Liquidity requirements.

7. **Risk Management**: Banks should apply risk management tools both qualitative and quantitative to avoid losses and non-performing loans. Risk management skills need to be upgraded.

8. **Inter-bank market**: An inter-bank market should be actively encouraged which was closed after 2003 crisis.

9. **Flexible Interest Rate**: A consistent and flexible short – and long-term interest rate policy should be adopted based on prevailing economic conditions.

10. **Free and fair competition**: The central bank should promote free and fair competition and avoid preferential treatment among banks. Laws, rules and regulations should be applied uniformly. I have always recommended operational independence of the central bank to prevent political interference.
Conclusion

Reform process must continue. I am encouraged by the emergence of leaders on both sides of the political spectrum who have the vision and political maturity to work together to modernize our country. To ensure success of reforms, we must strive continuously to promote peace and political stability all over the country, reinforce our commitment to democratic ideals based on our political, social and cultural heritage, and strengthen unity among our leaders.

We must also root out corruption and cronyism which are destroying our body politic like cancers. Let’s bring about good governance and clean government. Let me conclude with a positive note.

LET’S COOPERATE AND WORK TOGETHER FOR MUTUAL BENEFIT!
Thank you.