



# The Future Direction of Myanmar's Banking Sector

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## Summary

Myanmar's banking sector lags far behind other nations when measured by such data as (1) the low level of banks' outstanding loans (proportion of GDP) and (2) the small share of people with bank accounts. However, the experience of other nations suggests that, should the economy continue to grow steadily, there is room for the banking sector to develop substantially in future years. It is reasonable to think that banks will fulfill an extremely important role in Myanmar's future.

## 1. Potential for the Growth of Financial Intermediation

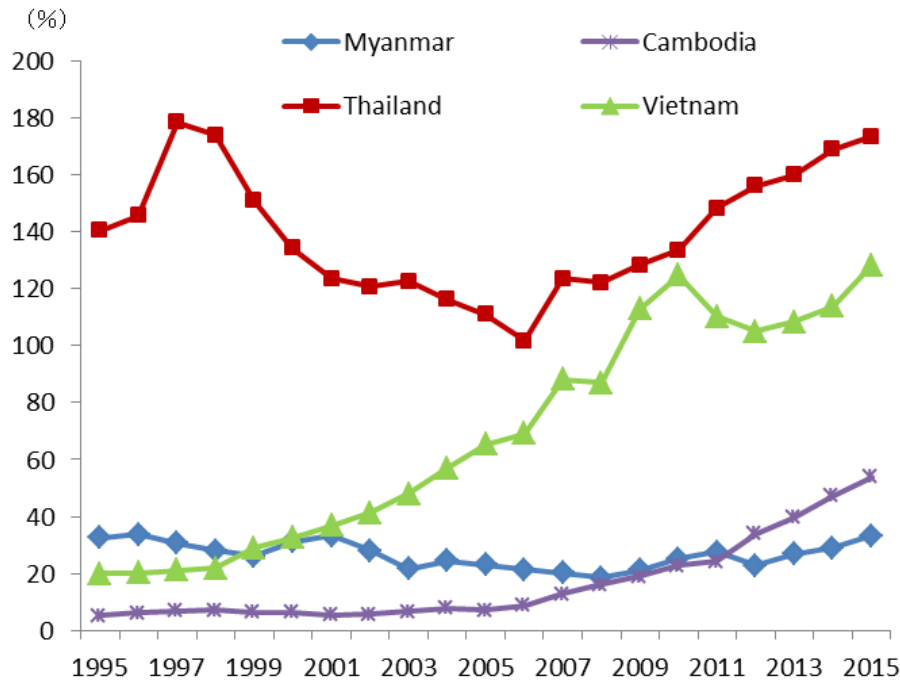
Economies grow when transactions in goods and services flourish. What supports such growth is financing. A system that supplies needed funds in a timely manner as growth proceeds generates a virtuous circle for the economy and gives rise to expectations for further growth. On the other hand, when this system is insufficient, it becomes an impediment that delays economic growth.

Currently, financial intermediation by banks is extremely limited in Myanmar, and the likelihood is high that this is hindering growth. While banks' outstanding loans to the private sector (proportion of GDP) are more than 100% for Thailand and Vietnam that are further along in economic development, outstanding loans are around 20% for Myanmar even as of 2016, an exceedingly low figure.

Factors contributing to this situation include (1) lack of trust in banks, (2) lack of credit assessment capabilities due to the shortage of bank personnel, and (3) companies' reluctance to supply information needed for credit assessments. Should the elimination of these factors progress going forward, banks' outstanding loans can be expected to increase steadily. Since Myanmar is continuing to grow at a rapid pace, it is reasonable to think that needs are strong for working capital and funds for capital expenditures.

In aiming for such a situation, banks should foster the development of their employees while incorporating foreign know-how. For companies thinking about raising funds to expand their business, they should develop internal procedures so they can properly provide such information as management policies, their asset situation, and their profit and loss situation.

**Chart 1: Outstanding Loans of Banks (Proportion of GDP)**



Source: Prepared by the author from World Bank materials.

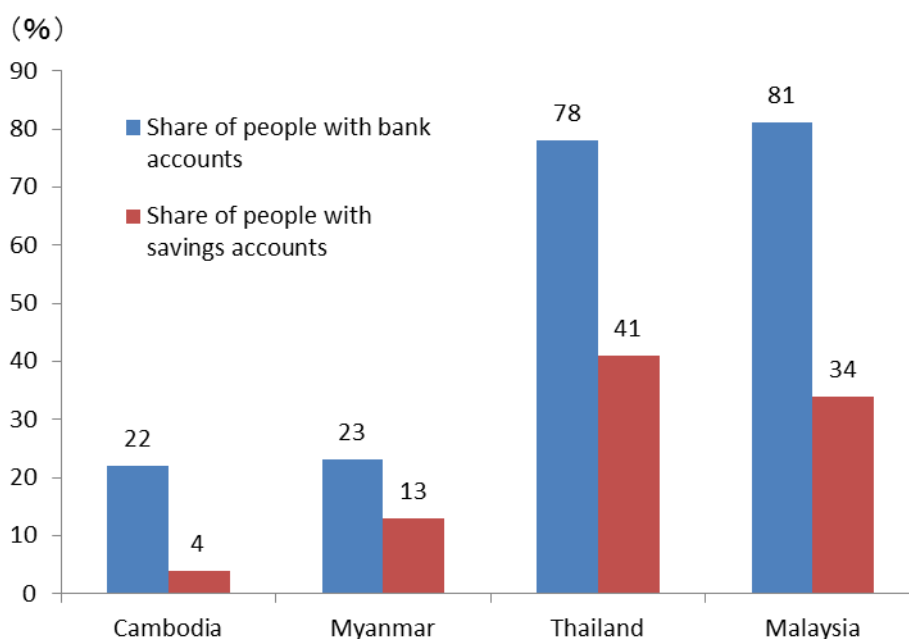
## 2. Potential of Developing toward an Economy where All People Can Access Financing

One way of understanding the place of banks in the lives of citizens is the degree to which they lend to companies. Another important consideration is financial inclusion, or the degree to which people can access financial services. Financial inclusion proposes that, when all people from wealthy to poor can access financing, this will contribute to the development of the nation through the reduction of poverty. Specifically, financial inclusion seeks to understand the degree of access to financial services through such data as how many people have bank accounts or savings accounts.

When we examine Myanmar from the perspective of financial inclusion, we find that 23% of people 15 years or older have bank accounts (as of 2014), a figure that is quite low. Clearly, Myanmar is still far from a situation where all people have access to financial services. Cambodia is a nation in a similar position as Myanmar, where the share of people with bank accounts is 22% (as of 2014). In Thailand and Malaysia, which are further along in their economic development, the shares of people with bank accounts are respectively 78% and 81%, indicating that people are making use of banks in these nations. The same trend is seen in the share of people with savings accounts, with these shares being quite low for Myanmar and Cambodia.

These figures suggest that the share of people with bank accounts and savings accounts will increase as Myanmar’s economy steadily develops. Banks will fulfill an extremely important role in this process, and large expectations are being placed on the banking sector.

**Chart 2: Financial Inclusion (as of 2014)**



Note: The shares of people with accounts are for people 15 years or older.  
 Source: Prepared by the author from World Bank materials.

### 3. Situation for Myanmar’s Commercial Banks

One of the distinguishing features of Myanmar’s commercial banks is the position of Kanbawza Bank, which ranks first in asset size and claims 42% of total bank assets. Since second-place Ayeyawaddy Bank has 14% of total bank assets, we can see how large Kanbawza Bank is in terms of its size. Given that asset size closely corresponds to lending capacity, it is safe to say that Kanbawza Bank also dominates in the profits it records.

Another notable feature is the jump in asset size between the third- and fourth-place banks and the sixth- and seventh-place banks. There is a 4 percentage point difference in asset size between third-place Co-operative Bank and fourth-place Myawaddy Bank and a 3 point difference in asset size between sixth-place Yoma Bank and seventh-place United Amara Bank. This suggests that it may be possible to divide Myanmar’s top 10 commercial banks into the top three, the middle three, and the bottom four according to asset size.

When determining whether a bank is a quality operation or not, an important consideration along with asset size is how the bank generates earnings. In other words, the questions that need answering are how the bank acquires deposits of quality funds, how it lends such funds to companies with growth potential and little risk of bankruptcy, and whether it properly manages costs in the execution of its business.

For banks to securely implement these matters, it will be imperative to expand branch networks based on a proper strategy, to increase credit assessment capabilities through the hiring of foreign consultants and through employee education, and, with respect to the increase of work accompanying the growth of business, to invest in computerization to improve business efficiency and to reduce labor costs. Hence, to determine whether banks have earnings power, assessing such matters as branch strategies, credit assessment capabilities, and the level of computerization investments will become important.

**Chart 3: Share of Total Bank Assets of the Top 10 Banks (as of March 31, 2016; %)**

1	Kanbawza Bank	42
2	Ayeyarwaddy Bank	14
3	Co-operative Bank	10
4	Myawaddy Bank	6
5	Myanmar Apex Bank	6
6	Yoma Bank	6
7	United Amara Bank	3
8	Global Treasure Bank	3
9	Asia Green Development Bank	2
10	Myanmar Oriental Bank	2

Source: giz

#### 4. Conclusion

Myanmar's banking sector is still at the initial stage of development. As noted above, bank loans to private-sector companies are limited, and conditions that would enable all people to have access to financial services do not exist. The volume of business is not all that large, and investments in computerization are not occurring at a sufficient level. These factors indicate that there is room for the banking sector to develop substantially in future years in a range of aspects. Hence, banks can be expected to have an extremely important role in the development of Myanmar's economy going forward.