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MYANMAR
REGULATORY UPDATE

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Another seven foreign banks awarded banking licenses

On 6 April 2020, **the Central Bank of Myanmar (CBM) announced a new round of banking sector liberalization by awarding preliminary licenses to both subsidiaries and branches of 7 foreign banks, all Asian (Table 1). The final licenses will be awarded within 9 months.** The CBM also granted approval to Kasikornbank (KBank) to buy 35-percent equity stake in Ayeyarwaddy Farmers Development Bank (A Bank), the maximum allowed for foreign participation. A Bank is a small bank with 0.48% of the total assets of the banking system (2018). A branch license would cost USD75mn as minimum paid-in capital, and a subsidiary license would cost USD100mn as minimum paid-in capital. Subsidiaries of foreign banks will be allowed to start retail banking activities in January 2021 with up to 10 branches, in addition to wholesale banking activities.

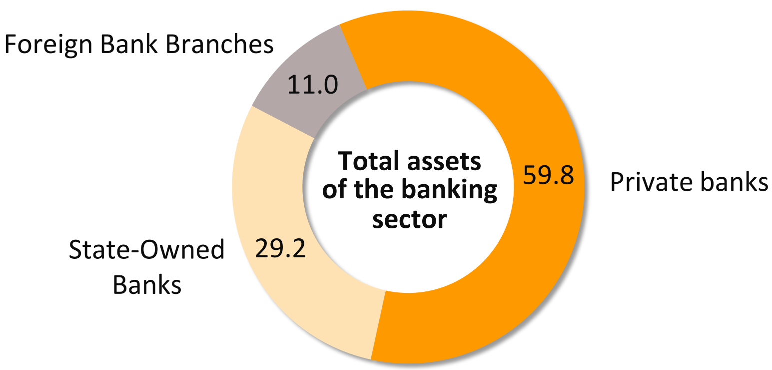
Table 1: Foreign banks in Myanmar (April 2020)

Awarded foreign banks	Type of License	Country of Origin
1. Industrial Bank of Korea	Subsidiary License	South Korea
2. KB Koomin Bank	Subsidiary License	South Korea
3. Siam Commercial Bank	Subsidiary License	Thailand
4. Bank of China Hong Kong	Branch License	Hong Kong
5. Cathay United Bank	Branch License	Taiwan
6. Korea Development Bank	Branch License	South Korea
7. Mega International Commercial Bank	Branch License	Taiwan

Table 2: Types of Financial Institutions in Myanmar

Type of financial institutions	As of September 2019		
	Headquarters	Branches	ATMS
1. State-owned Banks	4	518	92
2. Private Banks	**27**	**1,894**	**2,748**
3. Foreign Banks	**13**		
4. Finance Companies	29		
5. Foreign Bank Representative Offices	45		
6. Foreign Finance Company Representative Office	6		

Shares of total assets (%, June 2019)



Source: Central Bank of Myanmar (CBM), CBM: Quarterly Financial Statistics, and Local Media

Krungsri Research's View

- Liberalizing the banking sector would not only attract FDI amid the global Covid-19 pandemic and the uneven recovery of the global economy, but also complement the authorities' ongoing efforts to modernize the sector. A wider scope of permitted services would promote greater competition, which should help better serve the still-sizeable unbanked individuals and firms in the country.
- However, greater competition could also increase risk of financial instability in smaller banks with weak financial positions, especially given the stretched supervisory capacity of the CBM and the absence of a well-established financial sector safety net (see Slide 13).

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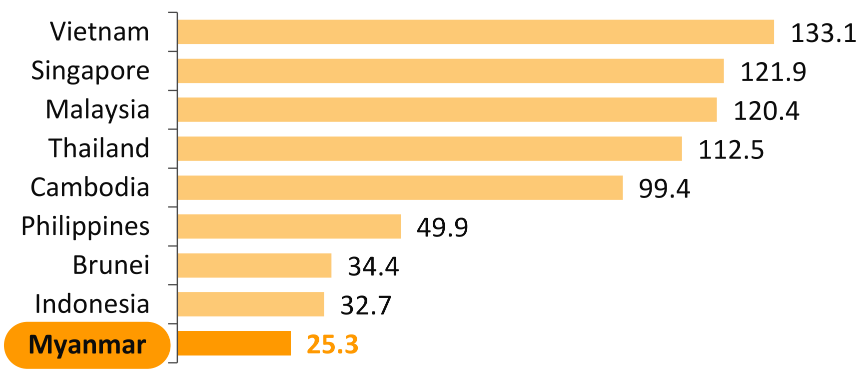
Foreign participation in the banking sector would expand credit to the economy and facilitate FDI inflows

With stiffer competition in the local market and more stringent capital requirements, the consolidation of smaller local commercial banks or greater foreign equity participation are critical for the survival of local banks.

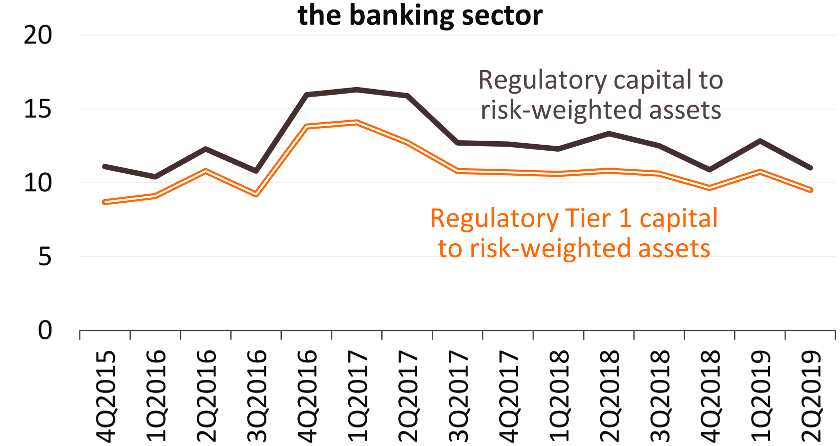
Domestic credit to private sector by bank (% of GDP, 2018)



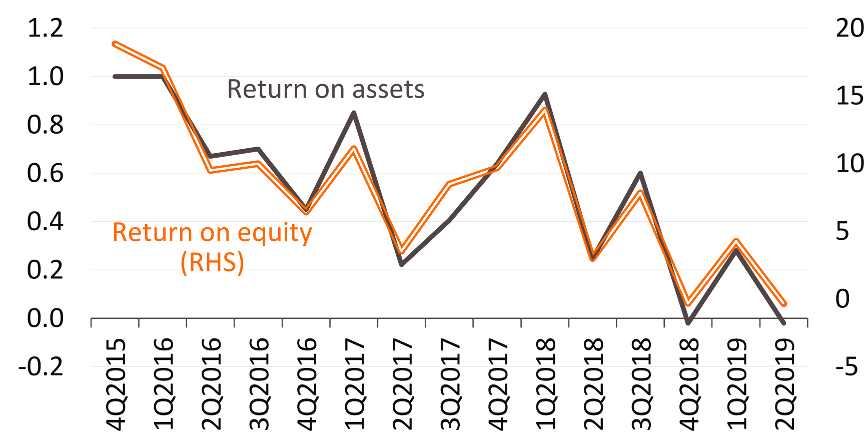
Outstanding bank loans by sector (June 2019)

Sector	State-owned Banks	Private Banks	Foreign Bank Branches
Agriculture	59.9	1.5	3.7
Production	4.7	12.2	28.6
Trading	13.0	25.4	9.7
Transportation	0.6	2.0	3.8
Construction	3.8	17.7	11.1
Services	5.0	15.9	31.5
General	12.4	16.0	0.0
Hire Purchase	0.0	3.4	0.0
Housing Loans	0.0	0.5	11.7
SME Loans	0.6	5.3	0.0
Total	**100**	**100**	**100**

Capital adequacy indicators in the banking sector



Profitability indicators for the banking sector



Source: Central Bank of Myanmar (CBM), CBM: Quarterly Financial Statistics, CEIC

Foreigners allowed to trade on Yangon Stock Exchange

On 6 March 2020, **the Securities and Exchange Commission of Myanmar (SECM) issued a directive that allows both resident and non-resident foreigners to trade in stocks on the Yangon Stock Exchange (YSX)** through Myanmar Kyat (MMK) current accounts with local brokers starting 20 March 2020. The main points of Directive No.1/2020 are as follows:

1

Securities companies are now allowed to accept applications from resident and non-resident foreign investors. Once the Know-Your-Customer (KYC) procedures are completed, securities firms should recommend foreign investors to open Myanmar kyat (MMK) current accounts for securities trading only with local banks. The Resident Kyat Account for Securities (R-KAS) is for foreign residents and the Non-Resident Kyat Account for Securities (N-KAS) and Non-Resident Foreign Currency Account for Securities (N-FAS) are for non-resident foreigners.

2

When the resident or non-resident foreign investor has opened an eligible account with the local bank, securities firms can open a securities account for the investor, either as a foreign individual or a corporate entity such as an overseas broker or bank. Each foreign investor can only open and operate one securities account. Joint accounts are not allowed.

3

A pre-determined limit on foreign ownership is set for each company listed on the YSX to control foreign ownership of local companies. Any stake above these limits will not have voting rights. According to Myanmar Companies Law (2017), foreign investors can own up to 35% equity stake in local firms. The YSX must report to the SECM the allowed foreign ownership for each company and supply a regular update on foreign ownership ratio. The YSX is also assigned to collect information from securities companies on gross trade performed by resident and non-resident foreign investors, and report to the SECM on a monthly basis.

Krungsri Research's View

- Foreign trading will support the development of capital markets and be a long-term source of funding for Myanmar's private sector which has been dependent on their financial resources and the banking sector. However, it would be at least in the medium term that the YSX could establish itself as an attractive destination for foreign investment since the corporate sector needs to be improved in several areas including corporate governance, professionalism, and accounting standards.

Source: Yangon Stock Exchange (YSX), Local Media

Yangon Stock Exchange (YSX): An Overview

Market Overview	
Myanmar Stock Price Index (MYANPIX) (As of 29 April 2020)	435.92 ▼ 9.00
Total Volume (shares)	20,291
Total value (MMK)	92mn
Listed Company	5
Market Cap. (MMK)	**596,912mn (USD421mn)**

Note: Reference exchange rate USD/MMK: 1,419 (as of 28 April 2020)

Trading activities (As of 29 April 2020)

Listed Companies	Code	Price	Change
First Myanmar Investment Public Co., Ltd. (FMI)	00001	10,000	▼ 500
Myanmar Thilawa SEZ Holdings Public Co., Ltd. (MTSH)	00002	3,800	0
Myanmar Citizens Bank Ltd. (MCB)	00003	8.300	0
First Private Bank Ltd. (FPB)	00004	22,500	▲ 500
TMH Telecom Public Co., Ltd. (TMH)	00005	2,800	0

Foreign Shareholding Status (As of 29 April 2020)

Name	FMI	MTSH	MCB	FPB	TMH
Issue Code	00001	00002	00003	00004	00005
Foreign Buy Order Limit (Upper limit for Foreign Shareholding)	1.80% (488,029 shares)	4.50% (1,751,812 shares)	0.00%	31.50% (778,697 shares)	0.00%
Foreign shareholding ratio (as of 28 April 2020)	**0.0096%**	**0.0173%**	**0.00%**	**0.00%**	**0.00%**
Status of buy orders on 29 April 2020	Accepted	Accepted	Suspended	Accepted for Block Trade only	Suspended

Source: Yangon Stock Exchange (YSX)

Yangon Stock Exchange (YSX): Background

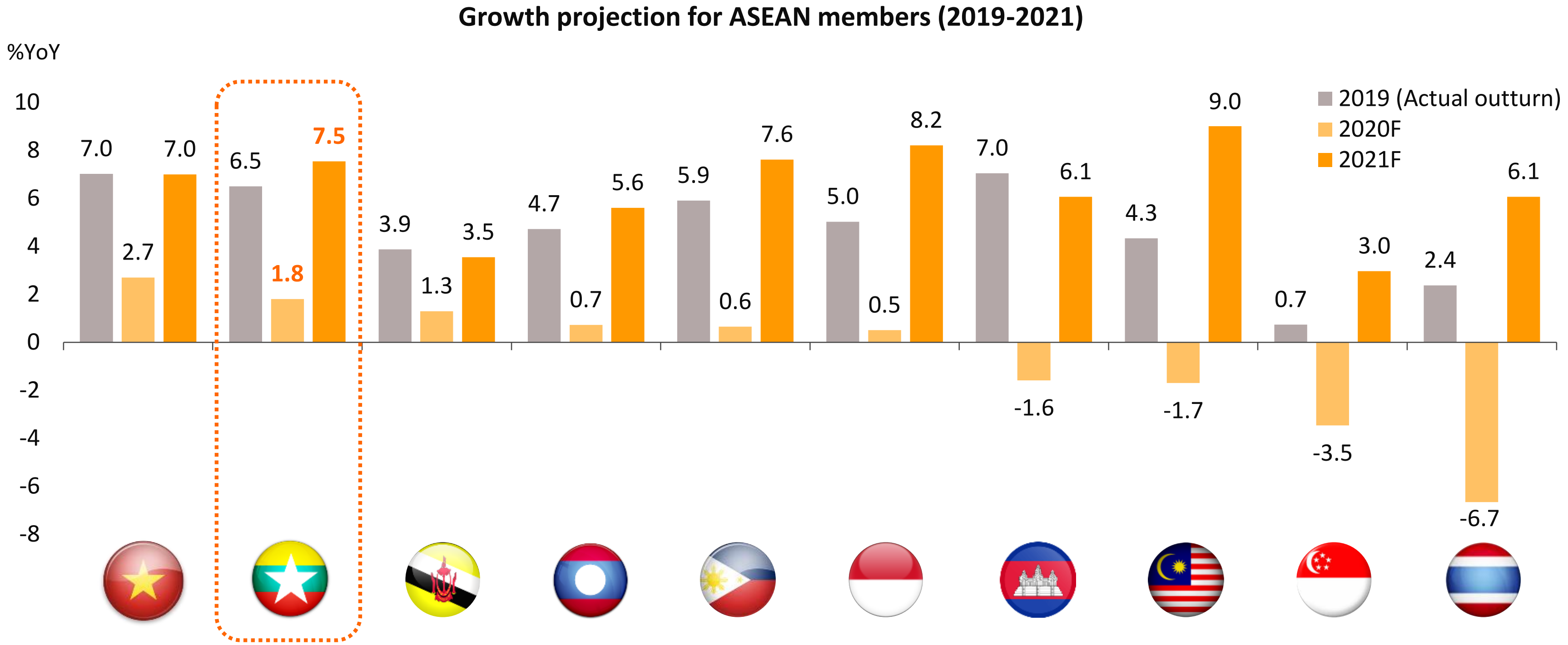
About YSX	• Yangon Stock Exchange (YSX) was officially launched on 9 December 2015 with the Myanmar Economic Bank holding 51% stake, Daiwa Institute of Research 30.25%, and Japan Exchange Group (JPX) holding 18.75%. • Trading on the YSX started with the listing of the first company FMI on 25 March 2016 and MTSH on 20 May 2016. For more information: Yangon Stock Exchange (YSX): https://ysx-mm.com/en/
Regulators	Securities and Exchange Commission of Myanmar (SECM)
Products & Services	Stock
Indices	Myanmar Stock Price Index (MYANPIX)
Number of listed companies	5 Companies (as of April, 2020) 1. First Myanmar Investment Co., Ltd. 2. Myanmar Thilawa SEZ Holdings Public Ltd. 3. Myanmar Citizens Bank Ltd. 4. First Private Bank Ltd. 5. TMH Telecom Public Co., Ltd
Trading Hours	09:30 to 13:00 hrs. YSX adopts periodic call auction mechanism, 7 matching a day (since 26 March 2020)
Number of members	6 Companies (as of April, 2020) 1. Myanmar Securities Exchange Centre Co., Ltd. 2. KBZ Stirling Coleman Securities Co., Ltd. 3. CB Securities Ltd. 4. AYA Trust Securities Co., Ltd. 5. KTZ Ruby Hill Securities Co., Ltd. 6. Amara Investment Securities Co., Ltd
Market Settlement Cycle	T+3
Depository	Yangon Stock Exchange

Source: Yangon Stock Exchange (YSX), The Stock Exchange of Thailand (SET): GMS Exchanges

UPDATE ON
MYANMAR
ECONOMIC OUTLOOK
FOR 2020

Growth is projected to slow to only +1.8% in 2020

We are in line with the IMF's growth projection for Myanmar. We now expect growth to decelerate to +1.8% in 2020 (instead of +6.8% at the beginning of the year), and there is still downside risk. Myanmar will return to its normal growth trajectory in 2021. The sharply slower growth in 2020 is due primarily to economic shocks triggered by the Covid-19 pandemic and the uneven recovery of the global economy. Given greater trade and investment links with China and the global economy, Myanmar's economy would be severely hurt by the pandemic through international trade, foreign direct investment (FDI), supply-chain disruptions, and tourism channels. Recently, the government launched relief measures to weather the impact, including an emergency low-interest rate loan program and the Central Bank of Myanmar (CBM) decision to cut policy interest rates twice in March 2020 by a total of 150 bps[1/].



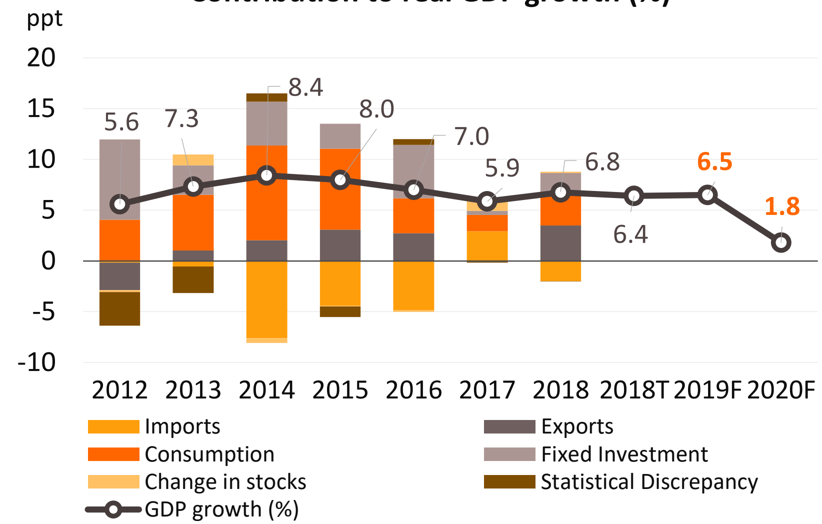
Note: 1/The minimum bank deposit rate is lowered from 7.5% to 6.5%, while the maximum lending rate is lowered from 12.5% to 11.5% for collateralized loans and from 15.5% to 14.5% for non-collateralized loans.

Source: IMF WEO (April 2020) compiled by Krungsri Research

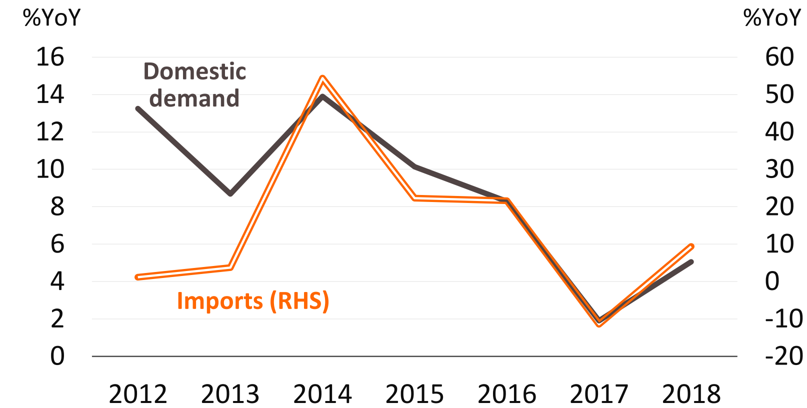
Stronger headwinds suggest further downside to growth

Myanmar's economy will experience stronger headwinds following the Covid-19 global pandemic. Growth would decelerate to +1.8% this year from its potential of 6.5% - 7.5% p.a. Growth would be supported by FDI inflows, which will also moderate, and government investment in several infrastructure projects and projects under the China-Myanmar Economic Corridor (CMEC).

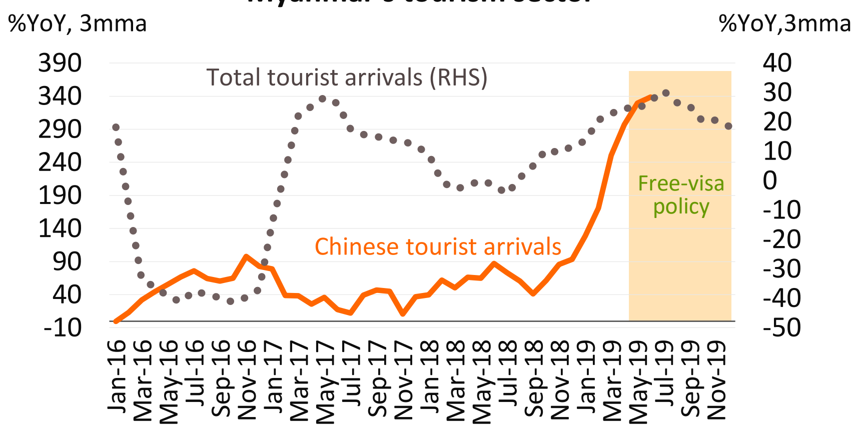
Contribution to real GDP growth (%)



Myanmar: Domestic demand growth



Myanmar's tourism sector



Source: CEIC, Krungsri Research

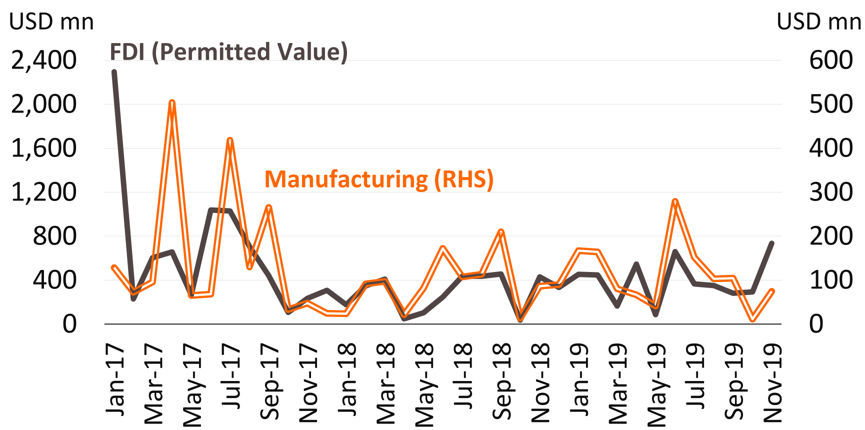
Krungsri Research's View

- The Covid-19 global pandemic has triggered synchronized economic shocks, and Myanmar has not been spared. Although FDI will continue to flow into the country, albeit at a slower rate, 2020 growth outlook is bleak. We revised down Myanmar's 2020 economic growth to +1.8%, in line with the IMF's projection.
- But there is still downside risk to growth. These include uncertain external conditions, fluid developments in Covid-19, an uneven global economic recovery, China's economic slowdown, lingering unrest in the border areas and Rakhine State, and a volatile political climate with the upcoming 2020 general election. These would hurt investment sentiment. In addition, mounting NPLs in the banking sector as banks continue to clean up their balance sheets might pose a risk to financial stability and the macroeconomy.

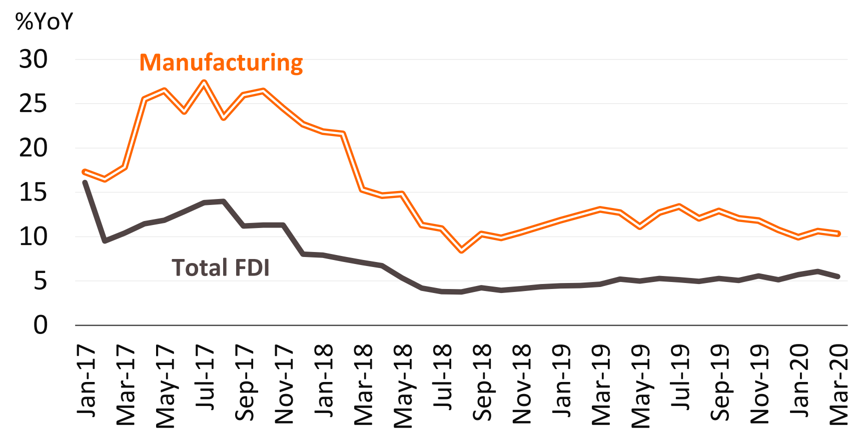
Ongoing structural reforms would make Myanmar an attractive FDI destination over the long term

Th Covid-19 pandemic would deter FDI inflows into Myanmar and make it more challenging for the government to meet its USD5.8bn FDI target for FY2019/20. However, we remain optimistic that ongoing structural reforms and liberalization of key industries including banking, insurance, retail and wholesale trade, education, and other priority sectors, coupled with fewer restrictions on FDI and improved ease of doing business, would continue to attract FDI into the country. FDI should continue to flow into the manufacturing sector, especially the garment and textile industry. Myanmar would also benefit from the relocation of labor-intensive production out of China, which has been accelerated by US-China trade tensions.

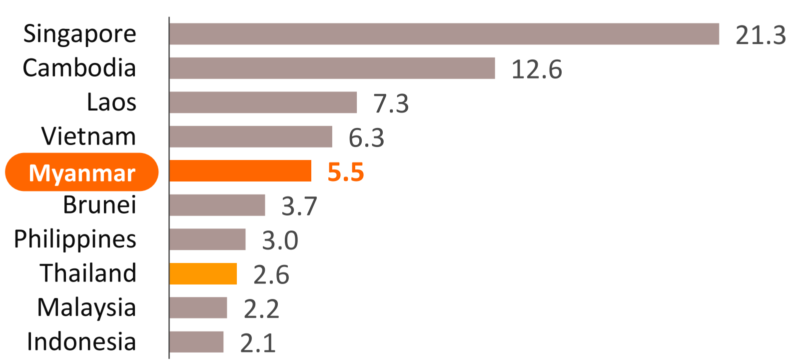
Committed FDI inflows (permitted value)



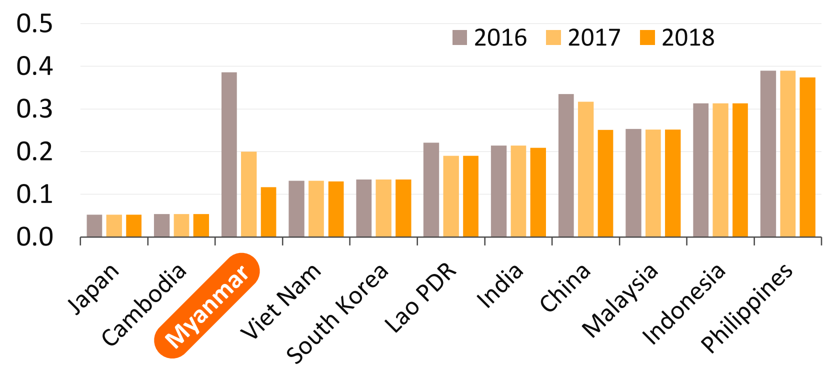
Growth of Cumulative FDI (approved value)



FDI-to-GDP ratio (%, as of 2018)



OECD FDI Regulatory Restrictiveness Index (FDI Index)[1/]



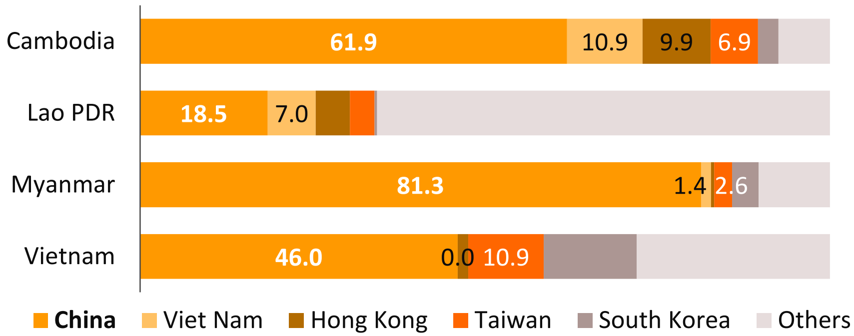
Source: CEIC, ASEAN Stat, OECD, Myanmar DICA, Krungsri Research

Note: [1/]The lower the index, the less restrictive for FDI

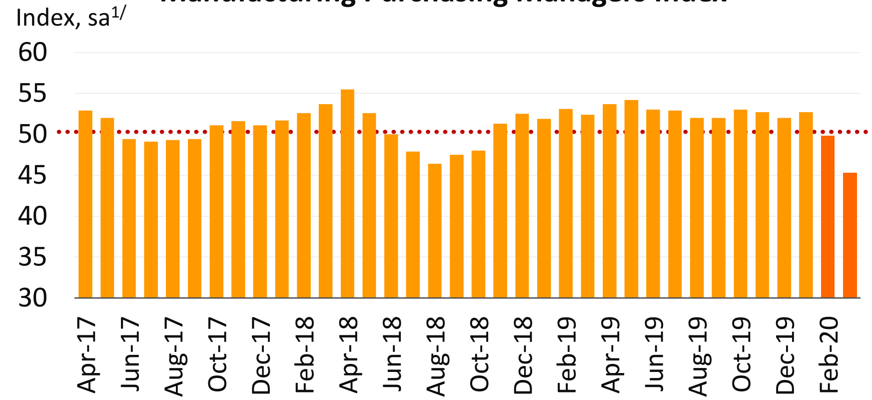
Manufacturing activity has been disrupted by pandemic

Manufacturing activity in Myanmar has been disrupted because China, its main source of imported raw material, has temporarily suspended production of raw materials and intermediate inputs after the government ordered lockdowns to contain the coronavirus outbreak. Manufacturers in Myanmar, especially in the garment industry, depend heavily on inputs imported from China. This is partly reflected by the drop in Manufacturing PMI data to a record low in March. But we are optimistic the manufacturing sector will resume production activity in 2H20.

Sources of raw material supply for garment industry in the CLMV economies (% share, 2018)

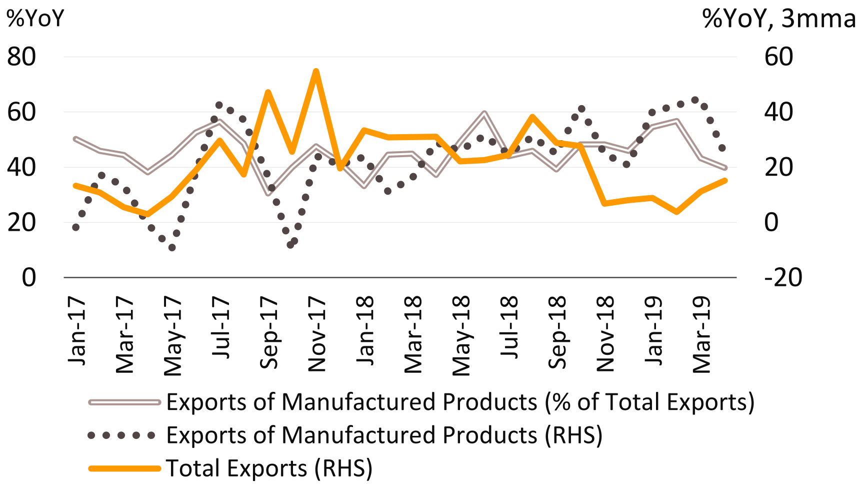


Manufacturing Purchasing Managers Index

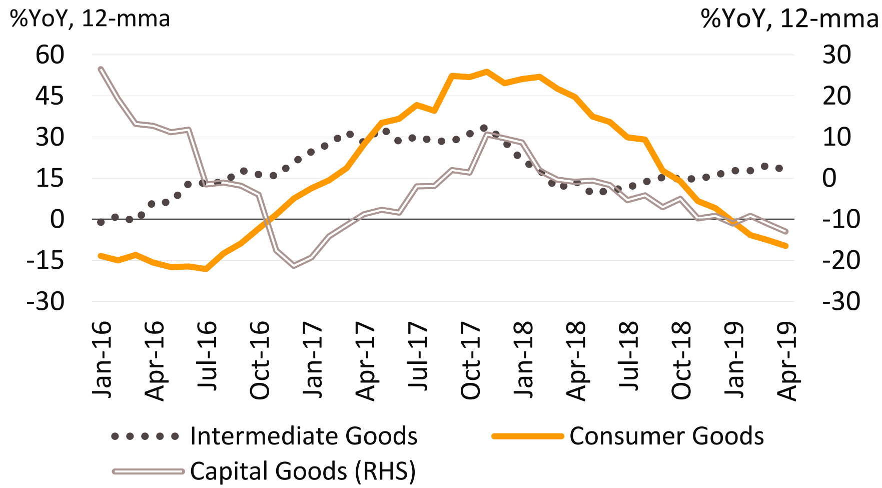


Note: [1/]The index greater than50 means improvement since previous month

Growth of Myanmar's export of manufactured products



Growth of Myanmar's imports by major item

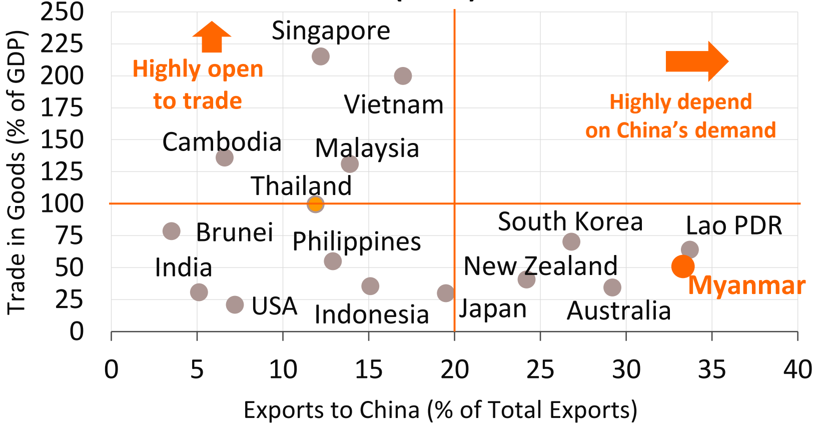


Source: World Bank, CEIC, Krungsri Research

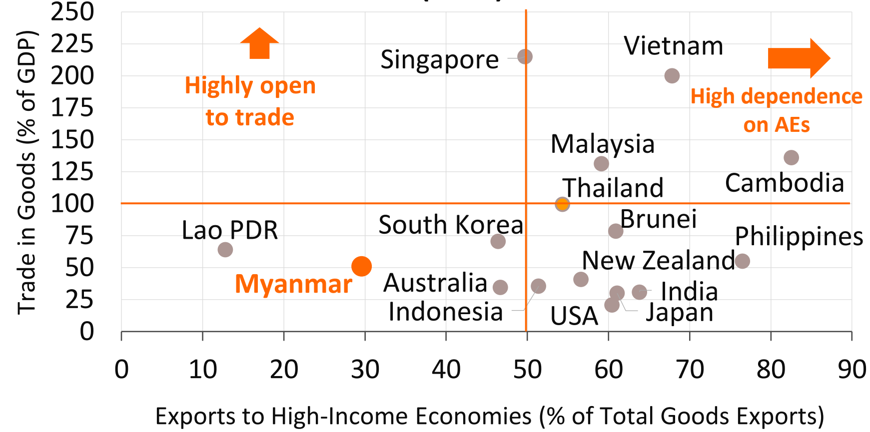
Less-open economy should insulate Myanmar from trade tensions, but not weak global demand

Low openness to trade and connectivity to China's supply chains would insulate Myanmar from trade uncertainties. However, economic shocks triggered by the Covid-19 pandemic coupled with weak global demand would hurt its exports, despite its relatively small exposure in AEs compared to regional peers. A structural slowdown in China could also reduce imports from Myanmar, especially basic metals. Nevertheless, exports of garment, textile, and footwear (GTF) products should continue to expand and drive Myanmar's total exports in 2H20.

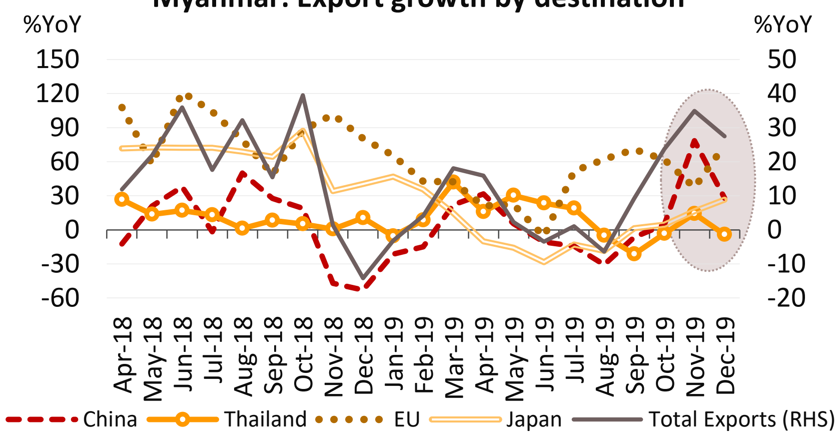
Selected Countries: Export dependence on China (2018)



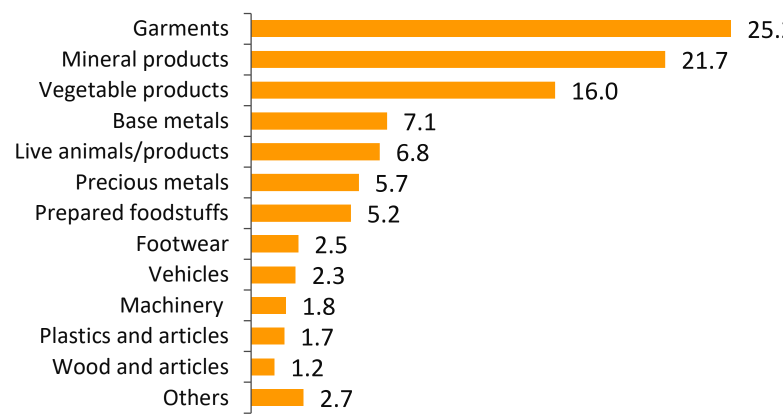
Selected Countries: Export dependence on advanced economies (2018)



Myanmar: Export growth by destination



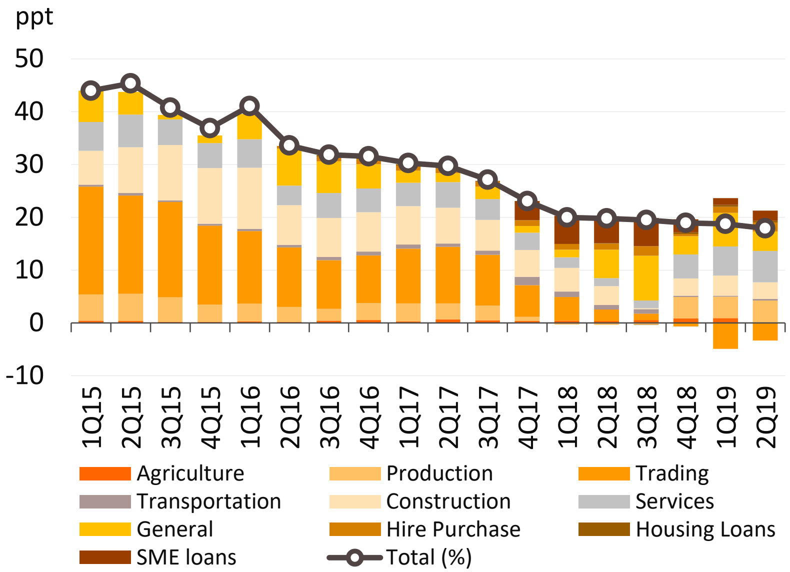
Myanmar: Major export items (% share, 2018)



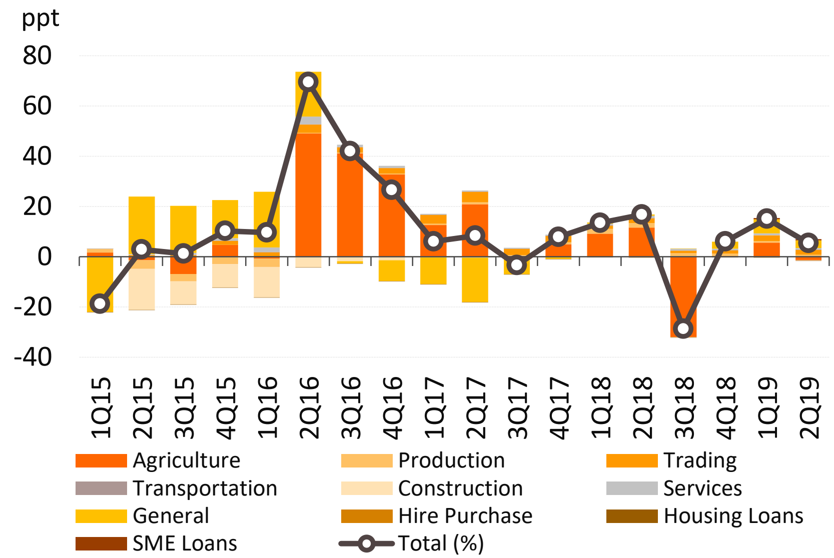
Source: CEIC, Trademap, Krungsri Research

Vulnerabilities emerging in the banking sector with the adoption of more stringent regulations

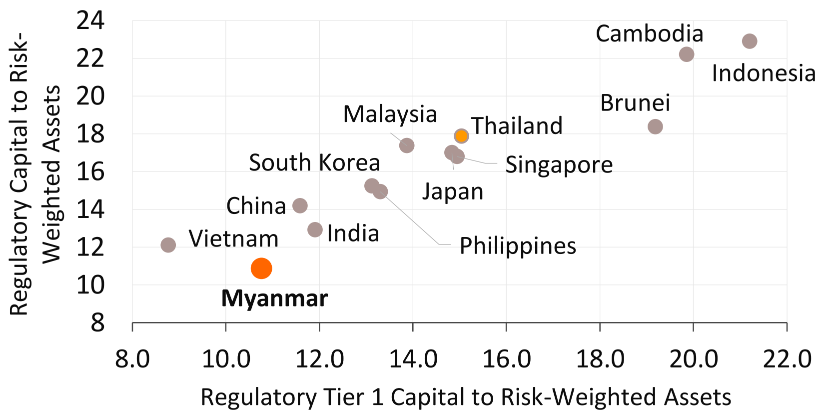
Private Banks' contribution to sectoral loan growth



State-owned Banks' contribution to sectoral loan growth



Capital Adequacy of the banking system in ASEAN+3 (2018)



Source: CEIC, Krungsri Research

Krungsri Research's View

- The key risk to macroeconomic stability in the near-term is emerging vulnerabilities in the private banking industry which is required to comply with more stringent regulations under Basel II. Banks are cleaning up their balance sheets and restructuring loan portfolios by converting non-NPL overdrafts to term loans by July 2020. Against a backdrop of low capital buffers, private banks have been deleveraging and this is reflected by shrinking credit to the economy. If this happens too fast, it could harm growth. In addition, some private banks could become insolvent as NPLs rise while some are struggling to meet higher capital adequacy requirements. This create risks to financial stability and could subsequently hurt growth through macro-financial links.

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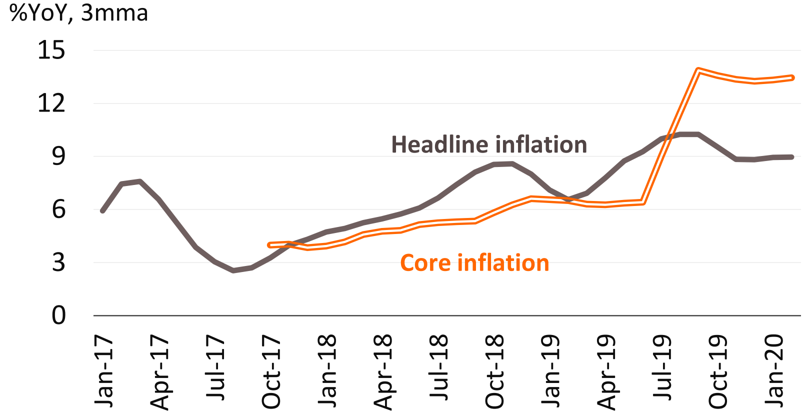
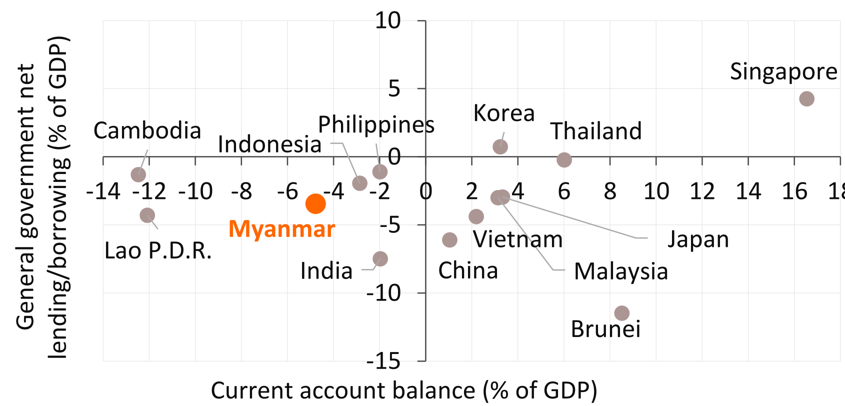
Macroeconomic stability remains broadly weak

Maintaining macroeconomic stability while implementing structural reforms is challenging. It is challenging to maintain price stability when strong inflationary pressure, rising electricity tariffs, and supply-side shocks including food prices, pose upside risks to inflation. Twin deficits are threatening external stability. The current account deficit is sufficiently financed by FDI inflows, but looking ahead, the growing export-oriented manufacturing sector, more FDI-driven investments, and the implementation of several infrastructure projects, would widen the current account deficit. This would in turn, put downward pressure on the MMK, which is stable currently. The effect of a weaker MMK is normally passed through relatively quickly to domestic prices because Myanmar relies substantially on imports.

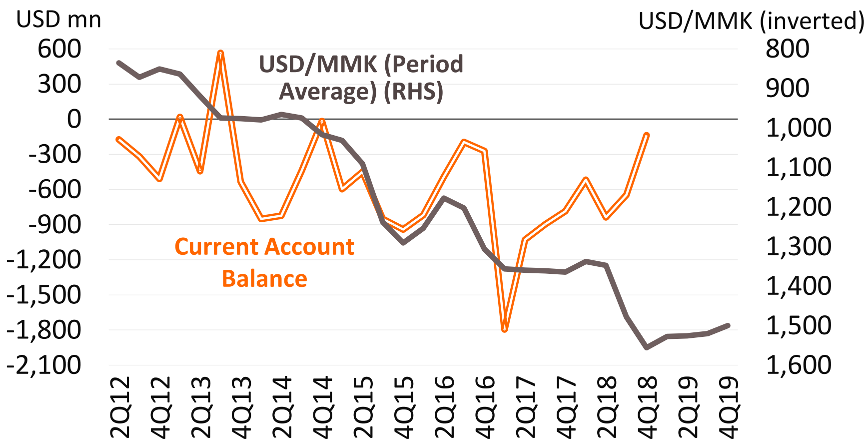
Inflation Trends



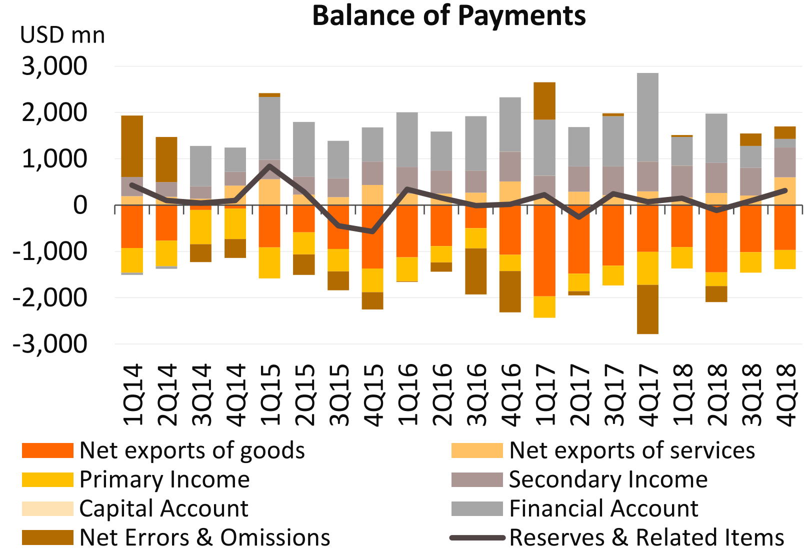
Current account balance (CAB) and government budget balance



USD/MMK exchange rate and CAB



Balance of Payments



Source: CEIC, Krungsri Research

Key takeaways: Myanmar's 2020 economic growth outlook

- **Growth is expected to moderate substantially to only +1.8% in 2020**, and resume potential growth trajectory in 2021 with growth expected to recover to +7.5%.
- **Risks to growth is tilted to the downside.** The major risks are uncertainties surrounding the global economic recovery, growth slowdown in China, and fluid developments in the Covid-19 global pandemic.

Tailwinds to support growth

(+) **Implementing structural reforms**

(+) **Pursuing economic liberalization and opening up key sectors for foreign participation,** including the financial sector

(+) **Long-term FDI inflows driven** by the relocation of foreign investment out of China

(+) **Investment in infrastructure** by the government and other projects through the China-Myanmar Economic Corridor (CMEC)

Headwinds to cap growth

(-) **Uneven global economic recovery**

(-) **China's economic slowdown**

(-) **Fluid development in Covid-19 pandemic**

(-) **Uncertainties surrounding upcoming general election** which is scheduled for November 2020

(-) **Unrest in Rakhine State and border areas** is hurting foreign investor sentiment and tourist arrivals from the West

(-) **Delays in structural reforms** could affect FDI inflows and prompt foreign investors to remain sidelined

(-) **Suspensions of trade preferences** by the EU owing to unrest in Rakhine State

KRUNGSRI RESEARCH

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