

## **Foreign Banks Allowed to Operate in Myanmar**

*After more than 50 years of banning, the Central Bank of Myanmar has issued the first final licenses allowing four foreign banks to operate in Myanmar.*

The Foreign Bank Licensing Committee (“**FBLC**”) under the Central Bank of Myanmar (“**CBM**”) granted the final foreign bank licenses to three banks to commence operations from 22 April 2015. The Bank of Tokyo Mitsubishi UFJ Ltd., Sumitomo Mitsui Banking Corporation and Oversea-Chinese Banking Corporation Ltd. became the first foreign banks to operate in Myanmar since the nationalization of the banks in 1963. The United Overseas Bank Limited, Bangkok Bank and Industrial and Commercial Bank of China (ICBC) obtained their final licenses in the course of May.

The three remaining banks, namely Australia and New Zealand Banking Group Limited (ANZ), Malayan Banking Berhad (Maybank) and Mizuho Bank, may be granted their final licenses within the coming months according to the FBLC.

## **Reform of the Banking Sector**

The reform of the Myanmar banking law started with the approval of the Foreign Exchange Management Law on 10 August 2012 followed by enactment of the Central Bank of Myanmar Law (“**CBML**”) on 11 July 2013 and other banking regulations. The CBML has established the autonomy of the CBM as the licensing authority and regulator of all banks in Myanmar. The draft of the Banks and Financial Institutions Law which set rules under which the banking sector will operate in line with international standards is still under discussion.

Until recently, the banking sector was composed of four state owned banks and 20 private local banks lacking the resources to provide efficient banking services. Foreign banks could only establish a representative office in Myanmar and were prohibited from engaging in any substantial financial services activities in the country.

The government announced in June 2014 that foreign banks having a representative office in Myanmar would be eligible to apply for licenses for limited services. On 1 October 2014, the CBM granted a provisional license to nine successful bidders and specified that they would be allowed to open only one branch with a minimum capital requirement of US\$75 million providing that they respect the term of their engagements within one year.

## **The Foreign Bank License**

The exact scope of the license may vary from banks to banks at the discretion of the CBM depending on the initial proposal of each applicant. But, in any case the scope of the license remains restrictive. Foreign branch offices may provide loans to foreign entities in foreign currency but are prohibited from engaging in retail banking in the local market or lending to

local companies. It should be noted that foreign companies under the Myanmar Companies Act 1914 include a joint venture company in which a local partner holds at least one share.

Additionally, foreign branch offices will have to contribute to the development of the domestic banking sector notably by participating in the interbank market, by lending to domestic banks and providing banking services to local companies in partnership with local financial institutions.

### **What is Next?**

As of today, almost all major investments are sourced off-shore and the absence of proper collaterals in Myanmar is a limit to future growth. The operation of foreign banks in Myanmar is expected to boost the financing of major existing projects as well as new projects in offering an alternative to off-shore financing. Last but not least, foreign banks will allow the modernization of the Myanmar banking system in providing training to local employees and cooperation with local banks. It remains to be seen whether the CBM will extend the scope of the foreign bank license in the near future or will open up the capital of local banks to foreign investments.