Chapter 8

MORTGAGE FINANCE AND CONSUMER CREDIT: IMPLICATIONS ON FINANCIAL STABILITY

By

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1. Introduction

Mortgage finance and consumer credit are closely linked to financial and macroeconomic stability. Since mortgage loans comprise a large portion of consumer credit, fluctuations in house price can affect the value of the collateral and hence the financial soundness of the lending institutions. Moreover, housing prices tend to have strong implications on household behaviour, and consequently macroeconomic stability.

The objective of this research is to review the current development of the Mortgage Finance and Consumer Credit in Myanmar identifying the factors influencing the increase in household debt as well as the emergence of asset price bubbles and determining their impact on financial stability. This paper is expected to provide a better understanding of the interaction between mortgage finance and consumer credit with respect to financial stability.

From the standpoint of the Central Bank of Myanmar (CBM), household debt, measured by loans for personal consumption, hitherto has not been important to the economy as a whole. Given the low rate of non-performing loans (NPLs) and the small proportion of loans for personal consumption to total loans, the household debt in Myanmar is not as serious an issue as compared to the regional

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countries. This paper looks at Myanmar’s mortgage finance and consumer credit situation and their implication to the country’s financial stability.

This paper is organised as follows. Section 2 describes mortgage finance and consumer credit: the development and trends in Myanmar. Section 3 is a review of the literature. Section 4 discusses the implications of mortgage finance and consumer credit on financial stability. Section 5 presents the policy recommendations, and Section 6 concludes this paper.

2. Mortgage Finance and Consumer Credit Development and Trend

The financial sector in Myanmar is small and developing. Access to financial services is limited as reflected by the low outstanding loans to GDP ratio of 8.25% and deposits to GDP ratio of 12.6% according to International Monetary Fund’s country report on January 2013. The financial sector consists of the banking sector and non-banking sector. The banking sector, which includes four state-owned banks and 20 private banks, dominates the financial sector. The non-banking sector includes one state-owned Insurance Enterprise, twelve Domestic Private-owned Insurance Companies, four Domestic Private Finance Company, One Foreign Finance Company, Myanmar Securities Exchange Centre Co., Ltd., and 154 Microfinance Institutions (MFIs). Since the banking sector is still underdeveloped with many constraints in their operation, only 10-20% of the population has access to formal financial services; the rest have to rely on the informal financial sector.

While the state-owned banks are given major emphasis in providing loans to agricultural-related economic activities, the private banks focus more on financing non-agricultural businesses. In fiscal year 2012-2013, the three state-owned banks, Myanmar Economic Bank, Myanmar Investment and Commercial Bank, and Myanmar Agriculture Development Bank made loans amounting to kyat 1,204,521.61 million, and 19 private banks extended loans up to kyat 4,130,732.78 million to their customers, including state-owned enterprises, co-operatives, private companies and households.

In Myanmar, most of the loans provided by both state-owned banks and private banks are one-year working capital loans. There are two major types of loans: commercial and consumption loans. The commercial loans go to various economic sectors such as agriculture, manufacturing and production, trade, transportation, construction and other services. At the end of FY 2012-2013, total loans outstanding stood at kyat 5,335,255 million, of which commercial loans account for 96.89% whereas consumption loans took up only 3.11%.
The mortgage credit market has not yet been developed in Myanmar. In 2011, under the new democratic government, the country has taken a series of reform measures including relaxation on banking restrictions, and allowance of new products including such consumer credit as hire-purchase system.

2.1 Commercial Loans

Lending principles must be beneficial to the clients, solve liquidity problems and increase profitability. The types of collateral for commercial loans are: landed property, gold and jewellery, some export items, fixed deposits, government securities, and guarantees. Interest on loan must be paid quarterly and principal at maturity.

The banking industry’s loans and advances showed an increasing trend, from kyat 775,457.85 million in FY2007-2008 to kyat 3,172,230.65 million in FY2011-2012 and to kyat 5,335,254.39 million in FY2012-2013. In other words, their growth has increased from 16.38% in 2007-2008 to 64.71% in 2011-2012 and to 66.73% in 2012-2013.

Figure 1

![Total Loans and Advances of Banking Industry](image_url)

Source: Central Bank of Myanmar.
In 2012-2013, of the commercial loans outstanding, 16.53% went to the agricultural sector, 16.72% to industry and production sectors, 32.83% to trade loans, 1.61% to transportation, 9.89% to construction, 10.97% to services and 11.45% to others.

The CBM has made the necessary adjustments in the interest rates. It has relaxed its restrictions on deposit-taking, loan extension, product innovation, and network expansion.

With a view to promoting competition among the local banks, the CBM stopped setting flat interest rates for all local banks but set ceilings for both loans and deposits. With effect from 1 January 2012, the CBM reduced its interest rate (Bank Rate) from 12 to 10% p.a. Accordingly, the interest rate on bank deposits can be set not less than 8% p.a., which is 2% lower than the bank rate, and interest rate on loans not more than 13% pa, which is 3% higher than bank rate, maintaining a spread of 5%. At the same time, the interest rates for government treasury bonds were adjusted to 8.75% for two-year tenor, 9.00% for three-year tenor and 9.50% for five-year tenor.

Of the commercial loans outstanding, state-own banks account for 22.58%, with the other 77.42% provided by the private banks. By the end of 2012-2013 FY, the outstanding commercial loans of the state-owned banks reached kyat 1,204,521.61 million, representing an average year-on-year growth rate of 30.01% over the last 2011-2012 FY. Meanwhile, the growth of commercial loans contributed by the private banks was about 40.85%.

The NPLs, an important indicator intended to identify problems with asset quality in the loan portfolio, have increased from kyat 11,418.37 million (2.24% of loan portfolio) in 2007-2008 FY to kyat 65,124.25 million (2.84% of loan portfolio) in 2012-2013 FY. After increasing to 2.88% in FY 2009-2010, the NPLs fell to 1.47% in 2010-2011 FY and increased slightly to 1.64% in 2011-2012 and fell to 1.57% in 2012-2013 FY. Figure 2 shows the aggregate position of NPLs in relation to commercial loans of the private banks.
Consumer loans are granted to individuals and households. The main lenders of consumer loans in Myanmar are pawnshops, money lenders, friends/relatives, MFIs and banks.

In order to promote the development of the consumer credit market for the households, the government of Myanmar has put in place a series of credit policies. These policies spell out the basic supporting and regulatory framework to facilitate the development of HP (consumer credit). Friends/relatives, pawnshops and MFIs offer only a small loans programme. In the meantime, private banks such as Kanbawza, Co-operative, Asia Green Development, Ayeyarwaddy, United Amara and Myanmar Apex banks provide larger loan size than other banks. The purpose of loans is varied depending on the supplier. The CBM has allowed the local banks to extend HP facilities to their customers starting on 21 October, 2011. It helps to stimulate domestic demand and effectively raises the peoples’ living standards.

Thus, Myanmar has initiated the development of consumer credit since the end of 2011. Since then, the amount of consumer loans has been steadily
increasing, reaching kyat 114,716.30 million in FY 2012-2013 and representing 3.11% of loans outstanding.

2.3 Consumer Credit Trend in Myanmar

Since 2011, consumer credit provided by the private banks has been increasing gradually. This type of credit covers loans for procuring electrical appliances, motor cars, phones/handset, jewellery, machinery and equipment. HP is the legal term for a contract, in which persons usually agree to pay for goods in parts or a percentage at a mutually agreed time.

The HP loan system is allowed for the convenience of household consumers and it raises the living standard of the consumers and also supports the development of the banking sector.

The HP loan system in Myanmar:

- Down payment: At least 30% of total amount
- Rental fees: 7% to 9% on loan amount
- Services/commission charges: 1% on loan amount
- Repayment period: 12 - 36 months

Myanmar’s outstanding consumer loan (HP) has increased four times since December 2011. By the end of 2012-2013 FY, hire-purchase loans accounted for 3.11% of total loans outstanding.

Figure 3

![Total Loans Outstanding of Consumer Loan](image)

Source: Central Bank of Myanmar.
Currently, the ratio of consumer credit (HP) loans to GDP is negligible. Auto loans make out the largest component. Besides HP loans from the private banks, another source of consumption finance available to households in Myanmar is friends/relatives, pawn shops and MFIs. Anecdotal evidence suggests that a large part of consumer credit is provided by moneylenders, friends and relatives, followed by pawn shops and the rest by MFIs. Normally the loan size is smaller than the commercial credit from the private banks. Since the banks’ HP system has started recently, the banks find no serious issues in extending these loans.

2.4 Potential Trend in Consumer Credit

In future, consumption credit in Myanmar tends to be driven by such possible factors as the revival of the property market, enactment of condominium law, demographic changes, and increasing urbanisation. The government has planned to develop and reactivate the housing market in Myanmar with provision of more housing loans. In this regard, the development of the housing market in Myanmar may be a driving force for the growth of consumer credit.

3. Literature Review

There are numerous international research studies on the linkage between household debts and financial vulnerability. A number of these studies identified how rising consumer loans pose risks to financial stability.

A research on the causes of the rise in US household debt since 1970 was done by Barnes and Young in 2003. Based on the calibrated partial equilibrium overlapping generation’s model, they analysed and reasoned that shock to real interest rate and income growth expectations, combined with demographic changes were the source for the rise in US household debts. The two researchers further identified financial liberalisation as an additional cause of borrowing growth between the 1970s and 1990s.

Making use of micro data, Persson (2009) finds that high income households in Sweden who own large real and financial asset, hold the majority of the housing loans, whereas the most vulnerable households are found to be largely debt-free.

Santoso and Sukada (2009) proved that Indonesian households pose a minimal threat to the financial sector. Constructing the households’ balance sheets of Indonesia, the authors assessed the households’ relationship with the financial sector. Their finding suggests that Indonesian households possess net worth of
a large share of fixed assets as opposed to financial assets. Hence, the total household assets suggest there is a considerable scope for financial institutions to engage in loan product expansion for the households in Indonesia.

As there is rapid rise in housing prices along with the doubling of the aggregated household debt between 2001 and 2008, Kida (2009) attempted to analyse the linkage between financial viability and mortgage-indebted households in New Zealand. Using the information from the Household Economic Survey for 2001, 2004 and 2007, Kida finds that fast increase in house prices was not having a strong impact on financial vulnerability in New Zealand. However, simultaneous large shocks in house value, interest rates and employment are contributing factors to increase vulnerability to some households.


The household sector has the power to influence the overall economy, not just because of its size but also for its significant exposure to the financial sector.

It also plays an important role in financial stability as the behaviour of households can have impact on market prices. Hence, in recent years, household (consumer) credit has grown in the emerging and industrialised countries along with progressive financial liberalisation and financial sector consolidation. An optimistic view of this type of credit is generally good for households reflecting a sounder economic and financial environment.

While consumer credit has facilitated smooth spending by consumers and improved profitability, it raises concern over its sustainability and becomes a new source of risk for the financial system and macroeconomy as a whole. The recent financial crisis occurred in association with the growth in consumer credit. The competitive banking system gives rise to competitive interest rate which motivated the expansion of credit coverage.

Meanwhile, market imperfections coupled with the effect of the moral hazard of lenders may boost household debt to excessive levels resulting in the growth of non-performing loans (NPLs), which consequently impacts negatively on the financial stability resulting in a financial crisis. Therefore, there is a growing need for attention to be paid to the household (consumer) credit, which is important for financial policy consideration.
4.1 Observed Trend of Consumer Credit

Until 2011, banks in Myanmar focused only on commercial finance, which include loans to agricultural and livestock & fishery sector, industry and production sector, trade sector, transportation sector, construction sector, services sector, and others. As of end-March 2013, loans to the agricultural and livestock & fishery sector amounted to kyat 882,002.17 million, industry and production sector received Kyat 892,272.04 million and trade sector loan amounted to kyat 1,751,754.84 million. In 2011, Myanmar banks turned to the household sector as a new area for loan growth and profits. The central bank encourages the financial institutions to extend consumer credit to households to boost domestic consumption and to reduce reliance on the informal markets.

The new type of household sector loan comprises HP of electrical appliances, motor cars, phones/handset, jewellery, machinery and equipment. By the end of March 2012, total loan disbursement under HP system amounted to kyats 26,874.53 million constituting 0.72% of total loans disbursed in Myanmar. This type of loan is operated by commercial banks. Currently, 20 private banks and 4 state-owned banks offer such type of loans. Apart from HP loans, financial institutions in Myanmar have rather limited credit product diversification. As of March 31, 2013, consumer credit (HP loans) outstanding accounted for kyats 114,716.30 million out of total loans outstanding of kyat 5,335,254.39 million. However, the growth of consumer credit is much lower than that of other type of bank loans.

<table>
<thead>
<tr>
<th>No.</th>
<th>Types of loans</th>
<th>Percent</th>
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<tbody>
<tr>
<td>1</td>
<td>Short-term loans</td>
<td>8.20%</td>
</tr>
<tr>
<td>2</td>
<td>Overdrafts</td>
<td>88.69%</td>
</tr>
<tr>
<td>3</td>
<td>Hire purchase</td>
<td>3.11%</td>
</tr>
<tr>
<td>4</td>
<td>Credit card</td>
<td>0%</td>
</tr>
<tr>
<td>5</td>
<td>Housing loan</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Central Bank of Myanmar.
The annual growth of consumer credit is found to be quite low at 3.11% only. As shown in Table 1, the overdraft loans outstanding in Myanmar is increasing. However, compared to other neighboring economies, the credit market in Myanmar is relatively small. As banks have to maintain liquidity reserve of 20%, the focus of the financial institutions has shifted to serving the more profitable businesses of the larger trade and construction companies. This limits the amount of credit offered in the form of consumer credit and other small loans for business activities. At this early stage, consumer credit in Myanmar is doing well with nearly 100% recovery rate and thus non-performing loans (NPLs) for HP is found to be zero.

4.2 Consumer Credit Provided by Non-banks and Demand Analysis for Consumer Credit

As the consumer credit offered by the formal banking or financial institutions is quite limited, households turn to the informal sources for their financial needs. According to Livelihoods and Food Security Trust Fund (LIFT) study, only 16% of the households rely on the formal financial services. The most common sources of micro loans are family, friends, moneylenders and pawn shops. As these sources are the most convenient types to consumers, they can be easily available in both urban and rural areas. The purpose of loan access is found to be varied. For the people of lower income segments, they utilise the loan for consumption and health needs, whereas the higher income groups borrow for procuring inputs and business investment. As family and friends cannot offer sufficient amount of loan, households still need to rely on the moneylenders, who charge high interest rates of between 10-20% per month. UNCDF estimates that the demand for micro loans alone was close to US$1 billion in 2012. This clearly indicates that the demand for credit is so high that the formal financial institutions cannot meet it.

All in all, since the demand for consumption loans is in excess of its supply, they expose low risk for the financial sector. From a financial stability perspective, Myanmar households pose a minimal threat to the financial sector in the current state of consumer credit development. This suggests that there is considerable scope for formal financial institutions to make their products particularly consumer credits, such as credit cards, insurance related products and banking deposits products, available to households.
4.3 Future Growth in Consumer Credit and Mortgage Finance

Since 2011, Myanmar has carried out liberalisation measures in the financial sector. In 2012, the liberalisation gathered momentum and is expected to be accelerated in the coming years. Increase in demand- and supply-side factors will contribute to the market shift to consumer finance and will provide the financial institutions with a new range of profit opportunities. On the supply side, the financial institutions may turn to the household sector to meet the demand gap, boosting the role of domestic consumption. Innovation of financial products such as consumer credit and mortgage loans may lead to rapid growth in consumer credit. In addition, the government has introduced the Microfinance law in 2011 that allows different suppliers to participate in providing small loans to the households. Local/international NGOs, UNDP, cooperatives and private companies are beginning to provide loans for the households in order to fill the credit gaps. The government has planned to provide adequate and affordable housing loans through the Construction and Housing Development Bank established on July 15, 2013. The shifting of the attention of financial and non-financial institutions to the households is expected to spur rapid growth in consumer credit in terms of mortgage loans.

While consumer credit is growing, there is the risk associated with the rapid growth of loans. The US mortgage crisis in 2007 gives a clear example of financial instability associated with the rapid growth in housing loans that led to a financial crisis. Too much borrowing with flawed financial modeling largely based on the assumption that home prices will go up were the main factors that dragged the US economy into the financial crisis. The credit card crisis on the financial system of Korea in 2003 is another example of credit risk in the household sector. Deteriorating asset quality, tight liquidity and solvency challenges were the culprits that exposed the banks and financial markets to systematic risks and which in turn severely affected the economy. Therefore, it is important that the necessary preparations be undertaken to have a sound financial system in place before introducing new financing products to the household sector.

4.4 Reviewing Soundness of Financial System and Other Factors in Myanmar

If the liberalisation of the consumer credit facilities is not backed up by effective supervision, serious flaws or problems may develop in the financial system. Therefore, financial soundness should be in place before innovation of new products. Financial soundness of the Myanmar financial institutions should
be on the basis of identifying specific sectors with credit share, liquidity status, portfolio quality, profitability of financial institutions and supervisory response. In addition to that, the government’s efforts in improving the credit system in Myanmar should also be reviewed in terms of credit information sharing.

4.5 High Credit Share in Corporate Sector

A high share of a specific sector can indicate susceptibility to changes in this sector’s position. In Myanmar, as indicated in Figure 4, the corporate sector receives 96.89% of total credit, whereas consumer credit receives (HP loans) only 3.11%.

Figure 4

This clearly indicates that the corporate sector receives a large share of loans compared to consumer credit, but when compared to other countries, the share is relatively low. Nevertheless, consumer credit is expected to grow in the near future along with financial liberalisation and the innovation of new consumer products. Hence, close monitoring of the specific household sectors which acquire large share of credit is required.
4.6 Sector-wise Loans by State-owned and by Private Banks

A major portion of the loans extended by the state-owned banks goes to the agricultural sector and the trade sector receives most of the loans from the private banks (Figures 5 and 6). Private Banks’ lending is based on collateral such as land and buildings, gold and gold ornaments, merchandise, fixed deposit, government securities and personal and corporate guarantee.

Figure 5
Sector-wise Loans by State-owned Banks (2012-2013)

Source: Central Bank of Myanmar.

Figure 6
Sector-wise Loans by Private-owned Banks (2012-2013)

Source: Central Bank of Myanmar.
4.7 Assets and Liabilities of Banks

Whereas cash, gold, cheques, bills, government securities and dues from banks are accepted as liquid assets, demand deposit, time deposits, cheques and bills can be used as liabilities in Myanmar. The Figure 7 below shows the liquidity position of the private banks for FY 2012-2013. The position has been strengthening in that year. At the same time the amount of banks’ liabilities has been amplified. However, the growth of both the indicators has not been increasing at the same rate.

**Figure 7**

According to Figure 8, the growth of liabilities is more rapid than that of liquid assets. That is mainly due to fact that the banks tend to invest in more secure and sound assets with low risk but with accompanying high return. Looking at this figure, the financial institutions in Myanmar require close supervision given the possibility of unexpected shortfall in investment in assets.
4.8 Portfolio Quality of Banks

A rise in the ratio of defaults to total lending is another indicator of deteriorating portfolio quality. As shown in Figure 9, the non-performing loans (NPLs) increased from kyat11.41 billion in FY 2008 kyat to 17.9 billion in FY 2009 and kyat 65.12 billion in FY 2013, while the share of NPLs to total loans, rose from 2.24% in FY 2008 to 2.85% in FY 2009 and fell to 1.57% in FY 2013. The rising amount of bad debts, its share to total loans and its share to total assets warn of unstable portfolio quality even at the early development stage of the credit market.
4.9 Profitability of Financial Institutions

The ability of the financial institutions to support their present and future operations is based on their strong earnings and profitability, which enable them to absorb losses and to finance their expansion. Generally, the banks’ profitability continued to increase in FY 2012-2013.

Source: Central Bank of Myanmar.
The profit before tax of the banking industry has steadily increased from kyat 23,554.84 million in FY 2007-2008 to kyat 31,293.59 million in FY 2008-2009 to kyat 190,773.85 million in FY 2012-2013. This was mainly due to the increase in interest on loans and high operating profits on remittances.

Figure 12

Return on Assets (ROA) and Return on Equity (ROE) are the two important indicators that measure earnings and profitability. The ROA shows how profitable a bank is relative to its total assets whereas the ROE indicates how much the equity of a bank is in terms of equity investment. Figure 12 above indicates a declining ROA with constantly low level of ROE reflecting increased risk of credit institutions. In sum, according to the financial soundness indicators, the financial institutions in Myanmar have not developed yet, requiring the financial institutions to be strengthened.

4.10 Credit Information Sharing

Inadequate information on the creditworthiness of households may cause over-borrowing by households and businesses and it increases the NPL portfolio. Hence, it is important for banks to have access to the financial position of borrowers. Although Myanmar still does not have any credit information sharing scheme, it plans to establish such a scheme in the near future. In 2013, the CBM initiated a legal framework for the establishment of a credit information.
bureau through which lenders can share information on borrowers. The establishment of this system is expected to promote a data-sharing culture that help lenders reduce their risks of loan default, while protecting consumers against over-indebtedness by allowing for responsible lending by the credit suppliers. Hence, the growing level of consumer credit can be managed under this system to help reduce the credit risk in the near future. In other words, the establishment of a Credit Bureau will promote access to credit information and responsible lending; it will strengthen the surveillance of consumer indebtedness and reduce credit losses.

At the moment, the consumer credit market is not yet developed in Myanmar. The HP system is the only type of credit that households can access. The development of this type of loan is in its early stage, and thus it is too insignificant to affect financial stability. However, along with financial liberalisation, the government’s new policy on housing loan programme and microfinance programme, the future will allow more credit suppliers to participate in the credit markets to service the needs of the households. Given the rapid growth of consumer credit, this study finds that the financial institutions should be prepared to encounter problems associated with consumer credit and mortgage finance in the near future.

5. Policy Recommendations

For a country to achieve sustainable economic growth and high employment, the stabilisation of financial institutions is an important precondition. In the absence of financial stability, the financial institutions will not be able to carry out their intermediary functions efficiently, which results in loss of confidence in the financial system leading to a financial crisis. For these reasons, the CBM has been making attempts to stabilise the financial sector.

Under the umbrella of the Ministry of Finance and Revenue, the CBM controls financial institutions by undertaking its two main responsibilities of managing monetary policy and bank supervision by institutionalising a proper regulatory framework. To maintain macroeconomic stability and to promote domestic savings, the CBM uses interest rate policy as its main monetary policy instrument while reserve requirements and moral suasion have also been used to a certain extent. In 2012, to promote the availability of bank loans, the CBM reduced its interest rate. Since then, the lending rate has been reduced from 15% to 13% and the deposit rate from 10% to 8%.
While monetary policy instruments are employed to achieve macroeconomic stability, the supervisory framework is anchored on off-site and on-site supervision so that a sustainable, stable financial system can be maintained in Myanmar. Off-site monitoring assesses the performance of financial institutions and examines their compliance with the legislation, regulations, directives and instructions issued by the Central Bank. To cross-check and verify the daily reports of off-site supervision, on-site supervision teams inspect HQ of banks and their branches by scrutinising their financial data whether they are in line with the supervisory ratios laid down by the central bank. Cases of non-compliance with CBM’s directives, regulations, and instructions will be subject to the appropriate actions by the central bank.

Along with the rapid development in the private banking sector, a number of measures have been taken to strengthen the regulatory and supervisory framework of the banks. The regulatory framework includes the following:

1. Single exposure: no customer’s borrowing should exceed 20% of capital and reserves.
2. Reserve requirement: minimum reserve requirements 10% of total deposits.
3. Liquidity ratio: liquid assets should be 20% of current liabilities.
   - Liquid assets:
     - Excess reserve, i.e., cash+ deposit with central bank + cheques
     - Bills receivables
     - Government securities
     - Due from banks
   - Current liabilities:
     - All deposit (net)
     - Bills payables
4. Capital adequacy ratio: total capital to be 10% of risk weighted assets
   - Core Capital (Paid-up capital, reserves, retained profits)
   - Weighted on loan categories:
     - Mortgage (title deeds of landed properties) 50%
     - Secured (pledge, gold, jewellery, trading goods, etc.) 50%
     - Unsecured (e.g., credit cards) 100%
     - Fixed Assets 20%
     - Other Assets (suspense, prepaid and accrued income, etc.) 100%
The reserve ratio and liquidity ratios are required to be submitted to the CBM weekly. If a bank falls short of the required limits, it is fined the amount equivalent to 1/5 of 1% of the shortfall.

5. Provision of 2% loan balance at each financial year must be made to cushion the impact of loan losses.

6. Non-performing loans and advances:

<table>
<thead>
<tr>
<th>Types of NPL</th>
<th>In Default of Principal &amp; Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Sub-standard</td>
<td>6 - under 12 months</td>
</tr>
<tr>
<td>(b) Doubtful</td>
<td>12 - under 24 months</td>
</tr>
<tr>
<td>(c) Bad</td>
<td>24 months and above</td>
</tr>
</tbody>
</table>

In addition, the banks are required to set aside 50% and 100% provisions for doubtful and bad loans, respectively.

In November 2011, the Government of Myanmar enacted a new Microfinance Law. This law allows local and foreign investors to establish fully private-owned microfinance institutions (MFIs). The objectives of the Law are to:

(a) Reduce poverty at the grass root level;
(b) Promote the social, educational, health and economic standards of these people;
(c) Create job opportunities;
(d) Promote saving habit among the people;
(e) Encourage establishment of new MFIs;
(f) Create and promote cottage industries;
(g) Help people at the grass root level to set up income generating business; and
(h) Disseminate knowledge and technology.

With the permission of the Microfinance Management Committee, a microfinance institution can conduct small loan extension, receive deposits, remit money, offer insurance services, borrow externally and internally and provide other financial services.
In the near future, along with progressive financial liberalisation, financial sector consolidation and technological advances will contribute to the growth in household credit. Since 2012, government new policy is to provide adequate and affordable housing to the local people in Myanmar, for which financing can be carried out through the mortgage loan system.

The growth of household debt can have a negative impact on household welfare, financial institutions and the economy as a whole. The increase in household debt may result insolvency of financial institutions and generate financial instability, which may in turn have a negative impact on the real economy. Hence, the adoption of the appropriate policies is important for the advancement of consumer credit and mortgage loans in Myanmar.

In preventing financial instability associated with consumer and mortgage loans, the Central Bank needs to make sure whether lenders have the proper risk management systems in place and whether consumers have sustainable debt burden. While carrying out various liberalisation measures, the prudential and supervisory framework of the CBM is also in need of upgrading. The following additional measures of risk management may need to be planned ahead of household credit expansion. The monetary authorities should draw up the “Best Practices for Consumer Credit”, which provides clear guidelines for marketing, lending criteria/approval process, credit risk management, and underwriting standards, including supervision. The underwriting standards need to take into account borrowers’ creditworthiness, verification of submitted information and sound appraisal. As discussed in the previous section, the establishment of a Credit Bureau is currently underway and is good preparation for future credit growth. The establishment of this system is expected to provide the financial institutions with accurate information on individual borrowers so as to be able to prevent households from over-borrowing.

The global financial crisis which stemmed from consumer credit/mortgage finance has shown that active government involvement in the financial sector can help maintain economic stability, drive growth, and create jobs. The government new policy on housing loans programme and microfinance programme will allow more credit suppliers to participate in the credit market to provide for credit needs of the households. However, household credit boom followed by bust should be protected with state intervention at least in the short run. The state has a very important role to play in a number of ways, especially in providing supervision, ensuring healthy competition, and strengthening the financial infrastructure (Demirgüç-Kunt and Ëihák, 2013).
In regulation and supervision, the development of solid and transparent institutional frameworks and strengthening of supervisory capacity by the government are essential. In addition to that, the state needs to encourage competition through healthy entry of well-capitalised institutions and timely exit of insolvent ones. With good regulation and supervision, bank competition can help improve efficiency and enhance access to financial services (Demirgüç-Kunt and Êihák, 2013). Finally, lessons of experience point to the important role of government in supporting the financial infrastructure in a transparent manner. More specifically, the government can facilitate the inclusion of a broader set of lenders in the credit reporting systems and promote the provision of high-quality credit information.

<table>
<thead>
<tr>
<th>Policy Taken</th>
<th>Policy Gap</th>
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<tbody>
<tr>
<td>Monetary policy</td>
<td></td>
</tr>
<tr>
<td>● Reducing lending/deposit rate to promote credit accessibility</td>
<td>● Introduction of “Best Practices for Consumer Credit” to provide clear guidelines for marketing, lending criteria/approval process, credit risk management and underwriting standards, including supervision.</td>
</tr>
<tr>
<td>Central Bank monitoring and supervision</td>
<td></td>
</tr>
<tr>
<td>● Carry out both off-site and on-site monitoring of financial performance to verify compliance with the legislation, regulations, directives and instructions issued by the Central Bank</td>
<td>● Establishment of Credit Bureau system in Myanmar.</td>
</tr>
<tr>
<td>Regulator framework</td>
<td></td>
</tr>
<tr>
<td>● Strengthen regulatory framework and supervision of the banks supported by new Microfinance Law</td>
<td>● Establishment of Credit Bureau system in Myanmar.</td>
</tr>
<tr>
<td>Government policy</td>
<td></td>
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<td>● Financial liberalisation</td>
<td>Supervision, ensuring healthy competition, and strengthening financial infrastructure.</td>
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<tr>
<td>● Approval of Microfinance law</td>
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<td>● Consideration of housing loan programme</td>
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<td>● Initiation/planning for Credit Bureau system</td>
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6. Conclusion

The mortgage loan and consumer credit are very closely associated with the financial system, as they play the dual role of savers and borrowers of funds, with the financial sector serving as an intermediary. On the other hand, consumer credit accumulation and spending is influenced by the cost and accessibility of financing from the financial system. On the other hand, the stability of the financial system is affected by the soundness and financial health of the household sector as bank loans to the latter form an important part of the balance sheet of the former.

In Myanmar, consumer credit markets have been initiated since 2011 and are still at a rudimentary stage. HP which is the only type of credit offered by the financial institutions is said to be too small to affect financial stability. Moving forward, along with financial liberalisation, government new policy on housing loans and microfinance, the way is open for more credit suppliers to participate in the credit market to cater for the needs of the households. Accordingly, rapid growth of consumer credit can be expected in the near future in line with the strengthening of the financial institutions to avoid the credit risk and over-borrowing problems, which can have a negative impact on the financial stability. Currently, the financial institutions are weak and underdeveloped. The Central Bank has to ensure that lenders have proper risk management systems and consumers have sustainable debt burdens. On the other hand, the monetary authority should promote the role of supervision, encourage healthy competition, and strengthen the financial infrastructure.

Playing a leading role in the shaping and promotion of the economy, the CBM is responsible for financial stability and for managing the country’s financial system to effectively mobilise domestic financial resources. Recently, the new Central Bank of Myanmar Law has been enacted dated on 11th, July 2013. The Law gives the CBM the authority and responsibility to carry out all the central banking functions, including the implementation of the country’s monetary policy and exchange rate policy independently. So, in the near future, CBM will be in a good position to pursue the credit policy for mortgage and consumer loan to improve household welfare and provide better business opportunities for the financial institutions. At present, Myanmar households’ debt remains manageable, and is not expected to pose any significant threat to the overall stability of the country’s financial system.
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