

**YANGON UNIVERSITY OF ECONOMICS
DEPARTMENT OF APPLIED ECONOMICS
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**A STUDY ON THE IMPACT OF BANKING SECTOR
DEVELOPMENT ON ECONOMIC GROWTH IN MYANMAR**

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MPA – 62 (22nd BATCH)**

JUNE, 2025

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**A STUDY ON THE IMPACT OF BANKING SECTOR
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**A thesis submitted as a partial fulfilment of the requirements for the Degree of
Master of Public Administration**

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This is to certify that this thesis entitled "**A STUDY ON THE IMPACT OF BANKING SECTOR DEVELOPMENT ON ECONOMIC GROWTH IN MYANMAR**" submitted as a partial fulfilment towards the requirements for the Degree of Master of Public Administration has been accepted by the Board of Examiners.

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ABSTRACT

This study investigates the impact of banking sector development on economic growth in Myanmar, focusing on the period from 1975 to 2024. Against the backdrop of Myanmar's economic transition and banking reforms, the research aims to assess how financial indicators such as domestic credit to the private sector, deposit interest rates, foreign direct investment (FDI), and inflation contribute to GDP growth. Using the Autoregressive Distributed Lag (ARDL) model, the study explores both short-run and long-run dynamics between banking sector variables and economic performance. The findings indicate a significant long-term relationship between banking sector development and economic growth. Notably, credit to the private sector and deposit interest rates are positively associated with GDP growth, while inflation exerts a negative influence. The study also highlights the role of financial liberalization in enhancing banking sector effectiveness. By emphasizing the importance of financial inclusion, credit access, and macroeconomic stability, this research offers policy recommendations for strengthening Myanmar's banking system. These include improving regulatory oversight, expanding access to banking services, promoting financial literacy, and accelerating digital transformation to support inclusive and sustainable economic growth.

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AGD Bank	Asia Green Development Bank Ltd
ASEAN	Association of Southeast Asian Nations
ATM	Automated Teller Machine
AYA Bank	Ayeyarwady Bank Ltd
CB Bank	Co-operative Bank Ltd
CBM	Central Bank of Myanmar
CAP	Physical Investment Capital
CSO	Central Statistical Organization (Myanmar)
CPS	Credit to Private Sector
COVID-19	Coronavirus Disease 2019
FDI	Foreign Direct Investment
FPB	First Private Bank Ltd
FDI	Foreign Direct Investment
FIML	Full Information Maximum Likelihood
G Bank	Glory Farmer Development Bank Ltd
GDP	Gross Domestic Product
GDPG	GDP Growth Rate
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GOV	Government Spending (as % of GDP)
GTB	Global Treasure Bank Ltd
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
KBZ Bank	Kanbawza Bank Ltd
MAB	Myanma Apex Bank Ltd
MCB	Myanmar Citizens Bank Ltd
MEB	Myanmar Economic Bank
MFTB	Myanmar Foreign Trade Bank
MIB	Myanmar Institute of Banking
MMK	Myanmar Kyat (Currency)

MMSIS	Myanmar Statistical Information Service
MOB	Myanmar Oriental Bank Ltd
MPU	Myanmar Payment Union
MPA	Master of Public Administration
MSME	Micro, Small, and Medium Enterprises

CHAPTER I

INTRODUCTION

A nation's economic development depends on its banking industry. It acts as the backbone of the financial system, ensuring the efficient allocation of resources, facilitating investment, and supporting economic growth. Through financial intermediation, the banking sector helps in transforming savings into productive investments, thus contributing to increased economic activity (Beck et al., 2000). In developing countries like Myanmar, the banking sector has the potential to drive substantial economic growth by improving financial inclusion, providing access to credit, and fostering entrepreneurial activity (World Bank, 2015).

1.1. Rationale of the Study

Myanmar, as one of the growing economies in Southeast Asia, has experienced considerable obstacles in upgrading its banking system. For decades, the country's banking sector has been undeveloped due to many circumstances, including political instability, economic sanctions, and restricted access to global financial markets. Many people are unbanked and use informal financial systems for daily transactions (Aung & Sann, 2019). Inadequate access to formal financial services has been one of the key impediments to company growth and economic diversification, particularly for small and medium-sized firms (SMEs) (IMF, 2020).

Myanmar's banking industry has grown in importance as the country has undergone economic reforms since 2011. Since then, the government has introduced new financial regulations aimed at liberalizing the sector, allowing for greater competition, and opening up the market to foreign banks (Asian Development Bank, 2020). These reforms have helped create a more conducive environment for economic growth, including improved access to credit, which is essential for the expansion of businesses and the creation of jobs. However, despite these efforts, Myanmar's banking sector still faces several challenges, including a lack of financial literacy, limited reach of banking infrastructure in rural areas, and low levels of trust in formal financial institutions (Aung & Sann, 2019).

Financial inclusion in Myanmar is a major issue for banks. Compared to over 70% in many Southeast Asian countries, only 30% of Myanmar's adult population had access to formal financial services in 2017, according to the World Bank. Without financial inclusion, individuals and businesses cannot access essential financial products like savings accounts, loans, and insurance, which improve livelihoods and boost economic development. Improving financial inclusion by expanding banking services to the unbanked population is therefore critical for stimulating economic growth, as it would increase the capital available for investment, enhance savings rates, and reduce poverty (Demirgüç-Kunt et al., 2018).

Another area where the banking sector plays a pivotal role is in facilitating credit access for businesses, particularly SMEs, which are essential to the growth and diversification of Myanmar's economy. Access to finance has consistently been identified as one of the key constraints faced by SMEs in developing countries (Beck & Demirgüç-Kunt, 2006). In Myanmar, many SMEs struggle to obtain financing from formal financial institutions due to high interest rates, stringent collateral requirements, and a lack of credit history (IMF, 2020). Without adequate access to credit, these businesses are unable to expand, adopt new technologies, or invest in their operations, limiting their contribution to the economy. Expanding access to credit for SMEs could significantly boost entrepreneurship, innovation, and job creation, driving economic growth (Beck et al., 2007).

The development of the banking sector in Myanmar could also lead to greater economic diversification. Myanmar's economy has long been dependent on agriculture and natural resource extraction. However, to achieve sustainable long-term growth, the country must diversify its economic base into other sectors such as manufacturing, services, and technology. The banking sector can play a key role in supporting this diversification by providing financing to new and emerging industries, fostering entrepreneurship, and supporting innovation (World Bank, 2015). Furthermore, an efficient banking system can attract foreign direct investment (FDI), which is crucial for economic development in emerging economies. Studies have shown that a well-developed banking system is positively correlated with FDI inflows (Alfaro et al., 2004).

The academic literature has neglected the role of the banking sector in Myanmar's economic growth. While there is ample research on the impact of banking

sector development on economic growth in developed economies, there is little research on the specific context of Myanmar. This study fills this gap by examining the.

In addition to the broader economic impact, this study will also examine the motivational factors that influence the development and usage of banking services in Myanmar. Motivational factors such as trust in the financial system, perceived ease of access, and awareness of financial products are essential for understanding how the public engages with formal banking institutions. By examining these factors, the study determines how they affect individuals' and businesses' decisions to utilize banking services, and in turn, how these decisions impact economic growth in the country. Specifically, the study will explore how motivational factors influence the adoption of banking services, the demand for credit, and investment behaviors, which ultimately shape economic outcomes in Myanmar.

This study intends to analyze the direct effects of banking sector expansion on economic growth as well as the motivating variables that influence banking practices. Policymakers must understand these elements to boost banking sector involvement, financial inclusion, and Myanmar's economic growth from banking.

Myanmar's economic growth plan relies on banking sector expansion. This study explores how banking sector development can contribute to economic growth by improving financial inclusion, expanding credit access, and supporting industrial diversification. The findings are critical for shaping policies that enhance the effectiveness of the banking system in promoting economic stability and growth.

1.2. Objectives of the Study

The objectives of the study are

- (1) To analyze the relationship between banking sector development and economic growth in Myanmar
- (2) To assess the challenges and opportunities in the banking sector for enhancing economic growth

1.3. Method of Study

In this study, an empirical analysis is conducted using the Autoregressive Distributed Lag (ARDL) model to investigate the short-run and long-run effects of banking sector development on economic growth in Myanmar from 1975 to 2024. This

study examines the relationship between GDP per capita growth and key explanatory variables: domestic credit to the private sector, deposit interest rates, inflation, and a dummy variable representing banking liberalization. Unit root and cointegration tests are applied to determine the stationarity and long-run equilibrium among the variables. The ARDL approach is appropriate due to the mixed order of integration among the variables. This methodology enables a detailed understanding of how credit access, interest rate dynamics, macroeconomic stability, and banking reforms influence economic performance. The findings are crucial for policymakers seeking to increase the banking sector's role in inclusive and sustainable economic growth in Myanmar.

1.4. Scope and Limitations of the Study

This study uses 1975–2024 yearly time-series data to evaluate how banking sector expansion affects economic growth in Myanmar. Domestic private sector credit, deposit interest rates, inflation, and a banking liberalization dummy variable are examined, with GDP per capita growth as the dependent variable. Secondary data sources including government reports, financial institutions, and academic publications are used to analyze long-term trends, policies, and reforms. The study also explores broader themes such as financial inclusion, access to credit, and the role of banking reforms in supporting economic growth.

Limitations include reliance on secondary data, which may be outdated or incomplete, and the rapidly changing political and economic landscape, which could affect the generalizability of findings. Despite these challenges, the research presents key findings that offer clear and coherent insights to guide financial sector development and policy formulation.

1.5. Organization of the Study

This thesis examines how banking sector development affects Myanmar's economy in five chapters. Chapter 1 introduces the study's motivation, aims, methods, scope, and limits. The significance of the banking sector in economic growth, the theoretical link between GDP and its primary drivers, and significant national and international research are covered in Chapter 2. Chapter 3 covers the Myanmar banking industry, covering the economics, banking infrastructure, technology, history, and regulations. Chapter 4 covers empirical analysis, including data and variables,

descriptive statistics, correlation analysis, unit root tests, cointegration testing, and ARDL long-run and short-run estimations. Chapter 5 summarizes the study's conclusions, suggests policy changes, and suggests future research.

CHAPTER II

LITERATURE REVIEW

Banking sector development refers to the process by which a country's banking system becomes more efficient, stable, accessible, and capable of supporting economic activities. It encompasses improvements in financial intermediation, expansion of credit facilities, increased deposit mobilization, innovation in banking products and services, enhanced regulatory frameworks, and the adoption of new technologies. A well-developed banking sector efficiently channels savings into productive investments, facilitates smooth payment systems, supports entrepreneurship, and fosters financial inclusion. By mobilizing local resources, attracting international investment, and improving financial services for firms and families, banking sector development helps emerging countries like Myanmar expand sustainably.

2.1 Importance of the Banking Sector

The importance of the banking sector in economic development cannot be overstated. Banks serve as the central institutions in a country's financial system, facilitating the movement of money and credit, which are essential for economic activity. A robust and well-regulated banking sector contributes to macroeconomic stability, supports capital formation, stimulates entrepreneurship, and enhances the overall well-being of the population. For developing economies, strengthening the banking sector is critical to unlocking long-term economic potential.

(i) Economic Resource Allocation

Banks perform the vital function of allocating financial resources to their most productive uses. By assessing the risk and return of investment opportunities, banks ensure that capital flows to sectors and businesses with the highest potential for economic returns. This allocation promotes efficiency, innovation, and competitiveness within the economy.

(ii) Investment and Economic Growth

Through credit creation and capital mobilization, the banking sector fosters investment, which is a primary engine of economic growth. Banks provide

the financing necessary for new business ventures, infrastructure projects, and expansion of existing enterprises. As investment increases, so does employment, income levels, and GDP, creating a positive feedback loop that drives further development.

(iii) Entrepreneurship and Private Sector Development

The availability of bank financing enables entrepreneurs to start and scale up their businesses. In developing countries where capital markets are limited, banks often serve as the primary source of external funding. By supporting entrepreneurship, banks contribute to innovation, economic diversification, and job creation, all of which are vital for inclusive development.

(iv) Financial Inclusion and Social Equity

A strong banking sector promotes financial inclusion by extending services to rural and marginalized communities. Through mobile banking, microfinance, and tailored financial products, banks can integrate previously excluded populations into the formal financial system. Financial inclusion empowers individuals to manage their finances, invest in education and health, and build assets, thereby reducing poverty and enhancing social equity.

(v) Risk Management and Economic Resilience

Banks help individuals and businesses manage financial risks through savings accounts, insurance products, and access to credit during emergencies. In times of economic instability or external shocks, a resilient banking sector can provide the liquidity and confidence needed to prevent crises and support economic recovery.

(vi) Government Finance and Monetary Stability

Banks play a significant role in public finance by managing government accounts, distributing payments, and facilitating borrowing through bond markets. In coordination with central banks, the commercial banking sector also supports the implementation of monetary policy, helping to control inflation, stabilize the currency, and guide economic activity.

(vii) Building Trust and Investor Confidence

Trust in banking institutions is fundamental for the functioning of a market economy. A transparent and stable banking system attracts both domestic

and foreign investment by providing a secure environment for financial transactions. Investor confidence in the banking sector enhances capital inflows, spurs innovation, and facilitates economic modernization.

2.2 Historical Background of Banking

The history of banking is deeply intertwined with the evolution of human trade and commerce. Banking originated from the need to safely store valuables and facilitate exchange, gradually evolving into the sophisticated financial institutions that exist today. Understanding the historical development of banking provides valuable insights into its current structure, functions, and regulatory frameworks.

(i) Origins of Banking in Ancient Civilizations

The earliest forms of banking can be traced back to ancient Mesopotamia, where temples and palaces safeguarded grain and precious metals for individuals and issued loans to farmers and merchants. In ancient Greece and Rome, moneylenders and bankers, known as "trapezitai" and "argentarii" respectively, engaged in deposit-taking, currency exchange, and lending. These rudimentary banking functions laid the groundwork for modern banking practices.

(ii) Medieval and Renaissance Banking

During the medieval period, banking activities were closely linked to trade fairs and merchant activities in Europe. Italian city-states such as Florence, Venice, and Genoa were home to some of the earliest commercial banks. The Medici Bank, established in the 14th century, is one of the most renowned early banking institutions. Innovations such as bills of exchange, double-entry bookkeeping, and letters of credit facilitated long-distance trade and reduced the risks associated with carrying large sums of money.

(iii) The Emergence of Central Banking

The concept of central banking emerged in the 17th century with the establishment of the Bank of England in 1694. Central banks were created to manage national currencies, act as lenders of last resort, and regulate commercial banks. Over time, central banking became essential for maintaining monetary stability, controlling inflation, and guiding national economic policy.

(iv) Banking in Colonial and Post-Colonial Periods

In many developing countries, including Myanmar, banking systems were introduced during colonial rule. These systems primarily served colonial interests, such as facilitating trade and managing government finances. After independence, many countries established state-owned banks to promote national development. In Myanmar, for instance, the People's Bank of the Union of Burma was created in the 1950s to consolidate financial operations.

(v) Modern Banking and Financial Liberalization

From the late 20th century onwards, globalization and technological advancement transformed the banking sector. Deregulation, financial liberalization, and the rise of information technology enabled the proliferation of new financial products and services. Banks expanded their roles from simple deposit-taking institutions to full-service financial intermediaries offering investment banking, wealth management, and digital banking platforms.

2.3 Banking Sector and Economic Development

The banking sector is one of the foundational pillars of modern economic systems, acting as a catalyst for both macroeconomic stability and sustainable development. In any country, a well-functioning banking sector ensures that financial resources are efficiently mobilized and allocated, creating the conditions necessary for investment, innovation, and inclusive growth. Especially in emerging economies, the link between banking sector expansion and economic progress is profound and multifaceted.

(i) Resource Mobilization and Capital Formation

The banking sector mobilizes scattered household savings and channels them into the economy through credit. These funds are essential for financing business ventures, expanding industrial capacity, and promoting technological advancements. When banks efficiently collect and redistribute funds, they increase capital formation, an essential component of economic development. This process supports the creation of physical and human capital and drives productivity.

(ii) Financing the Private Sector and SMEs

In many economies, particularly in developing nations like Myanmar, small and medium-sized enterprises (SMEs) play a crucial role in employment and value creation. However, SMEs often face difficulties accessing credit due to perceived risks. Banks act as enablers by offering financial products tailored to the needs of these businesses. Adequate access to finance allows businesses to grow, innovate, and contribute significantly to GDP and job creation.

(iii) Supporting Infrastructure Development

Long-term infrastructure projects such as transport systems, energy networks, and communication frameworks require large-scale financing, which banks can provide either directly or in partnership with public institutions. Infrastructure development not only supports economic activity but also lays the groundwork for long-term national competitiveness and connectivity, both domestically and internationally.

(iv) Promoting Financial Inclusion and Reducing Poverty

By extending banking services to rural and underserved areas, financial inclusion can be dramatically improved. Services such as microloans, savings accounts, and mobile banking platforms empower individuals to manage risks, build assets, and escape poverty cycles. Inclusive banking strengthens community resilience and contributes to equitable development.

(v) Enabling Efficient Payment Systems and Trade

Banks provide essential payment and settlement systems that enable daily financial transactions for individuals, businesses, and government institutions. Moreover, banks facilitate international trade by offering foreign exchange services, letters of credit, and export financing. A robust banking sector is key to integrating into global markets and fostering export-led growth.

(vi) Contributing to Monetary Policy Implementation

Central banks rely on commercial banks to transmit monetary policy measures throughout the economy. Interest rates, liquidity controls, and reserve requirements are tools that affect credit availability and money supply via the banking system. The responsiveness and stability of banks directly influence the effectiveness of these policies.

(vii) Maintaining Financial Stability and Public Confidence

Banks are central to the stability of the overall financial system. Well-regulated banks promote investor and depositor confidence and prevent systemic crises. The 2008 global financial crisis highlighted the dangers of banking mismanagement and regulatory failure. A strong banking sector not only prevents collapses but also helps economies recover from shocks.

The banking sector plays a multifaceted and indispensable role in promoting economic development. From resource mobilization and credit facilitation to financial inclusion and policy implementation, banks are at the heart of any nation's economic engine. For Myanmar, strengthening banking institutions through modernization, better regulation, and financial innovation will be key to achieving long-term development goals. As the country continues its economic transition, a resilient and inclusive banking sector can act as both a stabilizer and accelerator of growth.

2.4 Relationship Between GDP and Major Economic Determinants

GDP growth is a key macroeconomic statistic that measures a country's economic growth or contraction yearly or quarterly. It measures economic health and growth by showing the percentage rise in the value of all domestic products and services (OECD, 2020; World Bank, 2021).

There are three main approaches to calculating GDP:

- **Production Approach:** Measures total output minus intermediate consumption.
- **Expenditure Approach:** Summarizes spending on consumption, investment, government services, and net exports.
- **Income Approach:** Total economic output factor income (IMF,2019)

GDP growth provides valuable insights into a nation's economic performance. Sustained positive growth indicates a healthy economy with rising employment, increased income levels, and enhanced living standards. Conversely, negative growth may signal economic recession or instability. Policymakers, investors, and development planners closely monitor GDP trends to assess the effectiveness of economic policies and adjust strategies accordingly (UNCTAD, 2021).

GDP growth is a vital tool for understanding economic performance, comparing national economies, and informing fiscal and monetary policy decisions (World Bank, 2020).

2.4.1 GDP and Credit to Private

Banking sector expansion is frequently credited with driving economic growth by supplying private sector credit (Levine, 2005). When banks extend loans and other forms of credit to private businesses and individuals, they facilitate increased investment in productive activities, the expansion of enterprises, and the promotion of entrepreneurship (Beck, Demirgüç-Kunt & Levine, 2000). Access to credit enables businesses to invest in new technologies, improve infrastructure, and expand their operations, which in turn leads to higher levels of output and productivity. Similarly, consumer credit can stimulate demand for goods and services, further driving economic growth (King & Levine, 1993).

Numerous studies have found a positive relationship between credit to the private sector and GDP growth in both developed and developing economies (World Bank, 2020; IMF, 2019). A well-developed banking sector that efficiently allocates funds to productive investments contributes to sustainable economic expansion and poverty reduction (Levine, 2005). In the context of Myanmar, increasing access to bank credit for private enterprises has played a significant role in stimulating economic activity and fostering overall growth (ADB, 2021). However, it is also essential to ensure that credit expansion is accompanied by sound regulatory oversight to maintain financial stability and prevent the accumulation of non-performing loans (IMF, 2019). Therefore, strengthening the capacity of the banking sector to provide credit, while managing associated risks, is crucial for supporting continued economic development.

2.4.2 GDP and Deposit Interest Rate

The deposit interest rate represents the return that banks offer to depositors for holding their funds. This rate plays a significant role in influencing saving behavior, investment patterns, and ultimately, economic growth (Barro, 1995; Mishkin, 2016). In theory, a higher deposit interest rate encourages individuals and institutions to save more, thereby increasing the pool of funds available for banks to lend to productive sectors. This can lead to greater investment and enhanced economic output.

However, excessively high deposit rates may discourage borrowing by raising the cost of capital, potentially slowing economic activity. Conversely, very low deposit rates might reduce incentives to save, leading to weaker capital formation (Levine, 2005). Therefore, the relationship between deposit interest rate and GDP growth can be

complex and context-dependent, often influenced by the broader monetary policy environment, inflation expectations, and the efficiency of the financial system (IMF, 2019).

GDP, invented by Simon Kuznets in the 1930s to quantify national income, is comprehensive economic statistics. It measures the total value of all products and services produced in a nation in a given period and is used by governments and institutions to track economic progress. GDP's foundational role in macroeconomic analysis makes it essential for assessing how variables like interest rates affect overall economic outcomes (Kuznets, 1934; World Bank, 2021).

2.4.3 GDP and FDI Inflows

FDI inflows are known to boost economic growth, especially in emerging nations. When foreign investors bring capital, technology, and managerial expertise into a country, they enhance the productive capacity of local industries and stimulate competition (Borensztein, De Gregorio & Lee, 1998). FDI can also facilitate access to international markets and create new employment opportunities, all of which contribute to higher levels of economic activity and increased Gross Domestic Product (GDP) (UNCTAD, 2021). The transfer of knowledge and technology that often accompanies FDI further supports innovation and productivity improvements across key sectors of the economy.

Research consistently shows a positive correlation between FDI inflows and GDP growth in both developed and emerging economies (Alfaro, Chanda, Kalemli-Ozcan & Sayek, 2004; World Bank, 2020). In Myanmar, policies aimed at attracting FDI have played an important role in supporting infrastructure development and modernizing various industries, thereby contributing to sustained economic growth (ADB, 2021). However, maximizing the benefits of FDI requires a stable investment climate, transparent regulations, and effective governance to ensure that foreign capital is directed towards productive sectors. Therefore, fostering an environment conducive to FDI is essential for promoting long-term GDP growth and overall economic development.

2.4.4 GDP and Inflation Rate

The inflation rate, which reflects the general increase in prices across an economy, is a critical factor influencing economic growth as measured by Gross

Domestic Product (GDP). Moderate and stable inflation is often associated with healthy economic activity, as it encourages spending, investment, and production (Barro, 1995). However, when inflation becomes excessive or highly volatile, it can erode purchasing power, increase business costs, and create uncertainty for investors and consumers alike. Such instability can discourage long-term investment and savings, ultimately slowing down GDP growth (Fischer, 1993).

Studies have demonstrated that countries with low and stable inflation rates tend to experience stronger and more sustainable economic growth compared to those with high or unpredictable inflation (World Bank, 2020; IMF, 2019). In Myanmar, maintaining a stable inflation environment has been an important policy objective to ensure consistent GDP growth and macroeconomic stability (ADB, 2021). Therefore, effective monetary and fiscal policies aimed at controlling inflation are essential for fostering an environment that supports steady GDP expansion and overall economic development.

2.5. Review on Previous Studies

Nguyen (2022), investigated the role of banking sector development in Vietnam's transitional economy, using data from 1990 to 2020. The study aimed to quantify both linear and nonlinear impacts of banking development measured by ratios of broad money and bank credit to GDP on economic growth. Employing the ARDL (Autoregressive Distributed Lag) model, the research found that banking development positively influences growth in the long term, but this effect diminishes when banking indicators exceed certain thresholds (107% for broad money and 101% for bank credit). The study concluded that although the banking system has been a critical driver of economic growth particularly within Vietnam's bank-based financial structure excessive credit expansion may prove counterproductive. These findings emphasize the need to balance banking sector growth with the economy's capacity to absorb capital effectively, in order to sustain long-term development during transitional phases.

Khine (2024) used time series data from 1986 to 2020 using the Autoregressive Distributed Lag (ARDL) model to assess Myanmar's banking sector development and economic growth. Short- and long-term impacts of domestic credit to the private sector (DCB), bank deposits (BD), liquidity liabilities (LL), foreign direct investment (FDI), and inflation (INF) on GDP per capita were examined. Domestic credit and bank deposits boosted economic growth, but liquidity liabilities and inflation hurt it. The

report stressed the necessity of private sector credit and savings and controlled inflation for Myanmar's economic development.

Rushchyshyn et al. (2021) compared Ukraine and selected EU nations to determine how banking sector expansion affects economic growth. The researchers examined 2000–2019 World Bank data using principal component analysis, causality analysis, and vector regression modeling. They found that Ukraine's banking sector development was far lower than in other EU nations, notably the Czech Republic and Poland. Results showed a substantial positive association between banking sector development and GDP per capita in Ukraine, a moderate relationship with foreign direct investment, and an inverse relationship with national poverty. The study found causal relationships between banking sector growth and numerous economic and social well-being indicators and suggested that successful banking sector potential realization is essential for sustainable socio-economic development.

Tsaurai (2023) used panel data analysis to evaluate the link between banking sector expansion and economic growth in BRICS nations from 1987 to 2020. The study used econometric approaches including fixed effects, FMOLS, and OLS to examine the impact of a complementarity variable (banking sector development \times domestic investment) on economic growth. Banking sector development boosted BRICS economic growth in most models, notably pooled OLS and fixed effects (model 1). However, one fixed effects model showed a strong negative connection. The complementarity variable considerably increased economic growth in numerous models, showing the importance of domestic investment in optimizing banking sector development's benefits. Tsaurai stated that BRICS nations should prioritize banking sector and domestic investment policies to boost economic growth.

Liang (2006) used 1952–2001 time series data to study the link between financial development, particularly banking sector expansion, and economic growth in China. Granger causality tests and vector autoregression (VAR) were used to establish the direction and strength of the link between bank lending, financial intermediation ratios, monetary aggregates and GDP growth. Economic growth was unidirectionally caused by financial development, validating the supply-leading concept. Liang believed financial reforms and banking system development boosted China's long-term economic growth by mobilizing savings, distributing capital effectively, and expanding credit access. The article also acknowledged structural restrictions in prior decades, when state control and banking sector inefficiencies hindered financial expansion. The

report found that China's economic trajectory required continuous changes, notably in banking efficiency and competitiveness.

CHAPTER III

OVERVIEW OF MYANMAR BANKING SECTOR

3.1 An Overview of Myanmar Economy

Over the past few decades, Myanmar's economy has shifted from central planning to market oriented. Myanmar's vast natural resources, convenient position, and lush territory made it one of Southeast Asia's most successful countries after independence. However, following the 1962 military coup and the subsequent adoption of the "Burmese Way to Socialism," the economy became heavily centralized and state-dominated, resulting in stagnation, inefficiency, and prolonged isolation from the global economy.

As highlighted by Myat Thein in *Economic Development of Myanmar*, the country's economic structure suffered significantly under state control, with nationalization policies weakening private sector development and discouraging foreign investment. Public enterprises dominated key sectors, while chronic fiscal deficits, inflation, and overregulation hindered productivity and growth. The informal economy expanded as a response to inefficiencies in the formal system.

A turning point came in the late 1980s and early 1990s when the government initiated limited market reforms, including partial liberalization of trade, foreign investment laws, and the reintroduction of private enterprises. However, the lack of institutional reform, weak governance, and ongoing political instability continued to impede sustainable development.

The period following 2011 marked a more significant shift as Myanmar embarked on political and economic reforms aimed at reintegration into the global economy. The government implemented measures such as exchange rate unification, regulatory reform, and financial liberalization. These reforms attracted foreign direct investment and spurred growth in sectors like telecommunications, energy, and construction.

Despite these improvements, the Myanmar economy remains vulnerable to structural challenges. According to Myat Thein, issues such as income inequality, poor infrastructure, low productivity in agriculture, and limited access to finance persist.

Moreover, economic growth has been uneven, with benefits largely concentrated in urban areas, while rural regions remain underdeveloped.

The COVID-19 pandemic and the political upheaval following the 2021 military coup further disrupted economic progress. Growth sharply declined, investment stalled, and inflation surged due to currency depreciation and supply shocks.

In summary, Myanmar's economic development has been shaped by a complex interplay of historical legacies, policy shifts, and external shocks. While the country has demonstrated growth potential especially in periods of reform, its path to sustainable development remains contingent on political stability, inclusive governance, and institutional strengthening.

Tabel 3.1: The Growth of GDP in Myanmar (2010-2023)

Fiscal Year	GDP Growth Rate (%)
2010–2011	10.4
2011–2012	5.6
2012–2013	7.3
2013–2014	8.4
2014–2015	8.7
2015–2016	7
2016–2017	5.9
2017–2018	6.4
2018–2019	6.8
2019–2020	3.2
2020–2021	-5.9
2021–2022	2
2022–2023	3.4

Source: Ministry of Planning & Finance, Planning Dept

3.2 Banking Sector Development of Myanmar

Good Myanmar's financial system includes various institutions, markets, instruments, and services related to managing money and finance. It is made up of organizations such as banks, non-bank financial institutions (NBFIs), insurance companies, and the stock exchange, all of which provide services to individuals, businesses, and the government.

Before 1988, Myanmar followed a centrally planned economy. During that time, only state-owned banks like Myanmar Economic Bank, Myanmar Foreign Trade Bank, and Myanmar Investment and Commercial Bank were allowed to operate, and they played a major role in the economy. This changed in 1990 when the Central Bank of Myanmar (CBM) introduced the Financial Institutions Law, which permitted private banks to enter the market. Since then, the banking sector has grown rapidly and become one of the most dynamic parts of the financial system.

By March 2016, banks accounted for 92% of the total financial sector assets, valued at around 42.4 trillion MMK. The rest was held by other financial institutions such as insurance firms, securities companies, finance providers, and microfinance organizations (GIZ, 2018).

Following a wave of economic reforms starting in 2010, the government has continued to focus on developing the banking industry. Today, Myanmar has four state-owned banks, 27 private domestic banks, and 17 foreign bank branches (including three subsidiaries). Additionally, 34 foreign banks have representative offices, according to CBM.

Despite these advancements, the influence of the banking sector on Myanmar's overall economy remains limited. In December 2012, total bank assets stood at 21 trillion MMK, and asset growth was steady, peaking at 8.7% in December 2015 largely due to the entry of foreign banks. However, this upward trend was disrupted by the COVID-19 pandemic in 2020, which caused a sharp slowdown in asset growth. By the end of 2020, the banking sector faced major challenges due to reduced economic activity and rising uncertainty.

3.3 Technological Advancement In the Myanmar Banking Sector

Since 2015, the Central Bank of Myanmar (CBM) has worked hard to improve the country's banking sector and bring it up to international standards. It has focused on better accounting systems, digital banking, and helping more people and small businesses access financial services. Groups like the Myanmar Banks Association (MBA), Myanmar Payment Union (MPU), and the Myanmar Credit Bureau Limited have supported these changes. Training centers such as the Myanmar Institute of Banking (MIB) and Yangon University of Economics (YUE) have also played an important role in developing skilled people for the banking industry.

Since the 2010s, Myanmar's banks have gone through major technological changes. Mobile banking, automated services, and real-time payment systems have made banking faster and more convenient. Important upgrades include the launch of ATM services, credit and debit cards (like MPU, Visa, and Mastercard), and internet banking. The CBM-Net system, introduced in 2016, now allows banks to transfer large amounts of money between them at any time, day or night.

Digital banking has made a big difference, especially in rural areas, through mobile apps and agent banking. The creation of the Myanmar QR Code (MMQR) made it easier for people to make contactless payments. Myanmar is also working with nearby countries like Thailand and Cambodia to allow QR code payments across borders. To support a "Less Cash Economy," the CBM has approved many digital payment options, including international co-branded cards.

The formation of the Myanmar Payment Union (MPU) and the use of SWIFT for secure international money transfers have improved financial connections. Since 2016, mobile financial services have allowed people to send and receive money using mobile phones. This is a major step toward helping more people join the formal financial system. New technology in banking has also created a network between banks for smoother file sharing, payment settlements, and digital reporting. All these upgrades are helping to build a modern, digital banking system in Myanmar.

With help from the Japan International Cooperation Agency (JICA), the CBM launched CBM-NET in 2016 to improve money transfers, payments, and settlement systems. In 2019, the CBM introduced the MMMQR Specification 1.0 to make QR code payments compatible across banks, with plans to expand to other countries. The CBM also began giving licenses to banks so they can accept customer payments. These actions help reduce cash usage and encourage people to use digital financial tools to support the economy.

Even though the banking sector has made good progress, its full impact on the economy depends on how well these reforms are carried out and how active the different players are in supporting growth.

After Myanmar moved toward a market economy, the CBM became more independent under the Central Bank Law of 2013. It allowed private banks to grow, and the demand for banking services increased quickly. The 2016 Financial Institutions Law also allowed non-bank companies to provide payment services, making it easier for people to make everyday payments using digital tools.

In 2014, the CBM and the government created two roadmaps to help more people and businesses access banking services. A big part of this plan focused on digital financial services. The CBM continues to improve national payment systems, reduce cash use, and support online banking, mobile money, and other digital tools. The rise of mobile technology in Myanmar has changed how people do business, use services, and manage money.

Working with international partners, Myanmar has built a Real-Time Gross Settlement (RTGS) system, started online treasury bill auctions, launched paperless T-bills, and created a system for government bonds managed in a central registry. These steps are all part of building a modern and trustworthy financial system for the country.

3.4 Banking Regulations and Supervision Framework in Myanmar

The authorities responsible for supervising and regulating the banking and financial sector in Myanmar are the Ministry of Finance and Revenue and the Central Bank of Myanmar.

The Ministry of Finance and Revenue issues licenses and permits for small-scale financial institutions, insurance businesses, and loan guarantee activities in accordance with relevant laws. Currently, licenses have been granted to 175 microfinance institutions, 11 domestic insurance companies, 5 foreign insurance companies, and 22 foreign representative offices. The Ministry has three departments overseeing the regulation of financial institutions. The Financial Supervision and Inspection Department regulates microfinance institutions, while the Insurance Business Regulatory Board oversees the operations of state-owned Myanmar Insurance, domestic private insurance companies, and foreign insurance firms and representative offices. The Securities Exchange Commission of Myanmar also supervises the Yangon Stock Exchange.

The Central Bank of Myanmar licenses, supervises, and regulates banks and non-banks under the Financial Institutions Law.

Table 3.2: Financial Institutions Licensed by the Central Bank of Myanmar

Type of Institution	Number
Banks	
State-Owned Banks	4
Domestic Private Banks	27
Foreign Bank Branches	17
Foreign Bank Subsidiaries	3
Foreign Bank Representative Offices	49
Non-Bank Financial Institutions	
Financial Companies	26
Leasing Companies	1
Foreign Financial Company Representative Offices	7
Mobile Financial Service Providers	5
Foreign Exchange Counters	946
Foreign Remittance Agencies	16

Source: Central Bank of Myanmar's Website

3.4.1 State-Owned Banks in Myanmar

State-owned banks in Myanmar play a foundational role in the country's financial system, serving as the primary pillars supporting public finance, economic development, and key sectors such as trade, investment, and agriculture. Operating under government ownership and supervision, these banks namely, Myanma Economic Bank (MEB), Myanma Foreign Trade Bank (MFTB), Myanma Investment and Commercial Bank (MICB), and Myanma Agricultural Development Bank (MADB) are entrusted with providing essential banking services, managing government funds, and implementing national development policies. Their extensive networks and specialized functions have made them vital contributors to Myanmar's economic growth and financial stability.

Table 3.3: State-Owned Banks in Myanmar and Their Founded Years

No.	Bank Name	Year Founded
1	Myanmar Economic Bank (MEB)	1976 (current form; roots back to 1948 as State Commercial Bank)
2	Myanmar Foreign Trade Bank (MFTB)	1990 (as MFTB; roots back to 1954 as State Commercial Bank)
3	Myanmar Investment and Commercial Bank (MICB)	1990
4	Myanmar Agricultural Development Bank (MADB)	1953 (as State Agricultural Bank; current form since 1990)

(i) Myanmar Economic Bank (MEB)

MEB primarily functions as the main commercial and retail banking institution of the government. It provides a wide range of banking services such as accepting deposits, extending loans to individuals and businesses, and facilitating payment transactions. MEB also manages government salary disbursements and serves as a banker to various government ministries, playing a crucial role in the country's treasury and public finance operations.

(ii) Myanmar Foreign Trade Bank (MFTB)

MFTB specializes in international banking services and foreign exchange operations. Its main activities include handling foreign currency accounts, processing international payments, and facilitating export-import transactions through instruments like Letters of Credit. As the government's principal agent for foreign trade, MFTB serves embassies, international organizations, and oversees most of Myanmar's cross-border commercial transactions.

(iii) Myanmar Investment and Commercial Bank (MICB)

Myanmar Investment and Commercial Bank (MICB) focuses on investment banking and commercial lending, supporting large-scale infrastructure, industrial, and development projects. MICB provides financing for government and private sector investments, offering products such as project loans, syndicated loans, and other term finance solutions. It also

helps mobilize capital for major national projects, contributing significantly to Myanmar's economic development.

(iv) Myanmar Agricultural Development Bank (MADB)

Myanmar Agricultural Development Bank (MADB) is dedicated to supporting the agricultural sector and rural development. Its primary role is to provide seasonal and term loans to farmers, rural cooperatives, and agri-entrepreneurs. MADB finances agricultural production, irrigation, and the acquisition of farming equipment, implementing government credit schemes aimed at modernizing agriculture and reducing rural poverty. Through its extensive rural branch network, MADB ensures financial services are accessible to Myanmar's farming communities.

3.4.2 Domestic Private Banks

The emergence of private banks brought increased competition, innovation, and efficiency to Myanmar's financial sector. Unlike the state-owned banks, private banks quickly expanded their branch networks and introduced a range of new products and services, including modern payment systems, electronic banking, and tailored lending options for individuals and businesses. This shift not only improved customer choice and convenience but also played a crucial role in mobilizing domestic savings and supporting the growth of small and medium enterprises (SMEs). Over the years, private banks have become vital engines of economic development, contributing significantly to financial inclusion and the overall modernization of Myanmar's banking landscape.

Private banking in Myanmar was officially allowed following the economic and financial reforms that began in 1988, after the end of the socialist era. The significant turning point was in 1990, when the government enacted the Financial Institutions of Myanmar Law and the Central Bank of Myanmar Law. These new laws provided the legal framework for the licensing and operation of private banks.

The first batch of private commercial banks including Myanmar Citizens Bank Ltd, Co-operative Bank Ltd, and First Private Bank Ltd were established in 1992, marking the beginning of private sector participation in Myanmar's banking industry after nearly three decades of exclusive state control.

Table 3.4: List of Domestic Private Banks in Myanmar

No.	Bank Name	Year Founded
1	Myanmar Citizens Bank Ltd (MCB)	1992
2	First Private Bank Ltd (FPB)	1992
3	Co-operative Bank Ltd (CB Bank)	1992
4	Yadanabon Bank Ltd	2010
5	Myawaddy Bank Ltd	1993
6	Yangon City Bank Ltd	2013
7	Yoma Bank Ltd	1993
8	Myanmar Oriental Bank Ltd (MOB)	1993
9	Asia Yangon Bank Ltd	1994
10	Tun Commercial Bank Ltd (formerly Tun Foundation Bank)	2014
11	Kanbawza Bank Ltd (KBZ Bank)	1994
12	Small & Medium Industrial Development Bank Ltd (SMIDB)	1996
13	Global Treasure Bank Ltd (GTB)	1996 (rebranded in 2013)
14	Rural Development Bank Ltd	2016
15	Innwa Bank Ltd	1997
16	Asia Green Development Bank Ltd (AGD Bank)	2010
17	Ayeyarwady Bank Ltd (AYA Bank)	2010
18	uab bank Ltd	2010
19	Myanma Apex Bank Ltd (MAB)	2010
20	Naypyitaw Sibin Bank Ltd	2013
21	Myanmar Metro Bank Ltd	2014
22	Construction and Housing Development Bank Ltd	2013
23	Shwe Rural and Urban Development Bank Ltd (Shwe Bank)	2016
24	Ayeyarwaddy Farmers Development Bank Ltd (A Bank)	2014
25	Glory Farmer Development Bank Ltd (G Bank)	2016
26	Mineral Development Bank Ltd (MD Bank)	2016
27	Farmers Development Bank Ltd	2016

Source: Central Bank of Myanmar

3.4.1 Deposit Interest Rates

Deposit interest rates in Myanmar are a vital tool of monetary policy, managed by the Central Bank of Myanmar (CBM) to influence savings, credit growth, and economic stability. Over the years, these rates have seen numerous adjustments reflecting shifts in macroeconomic conditions, financial sector reforms, and policy priorities.

Table 3.5: Overview of Deposit Interest Rate Policy

Date	CBM Rate (%)	Min Deposit Rate (%)	Max Lending Rate (%)	Remarks
Before 1999	9	7.0 (CBM - 2%)	12.0 (CBM + 3%)	Set under 1991 financial regulations
1-Apr-99	12	10	17	Lending margin widened to +5%
1-Apr-00	10	8	15	Reduction in CBM rate
1-Apr-06	12	10	17	Maintained for several years
1-Sep-11	12	10	15	Special provision: 15% for industrial/agricultural loans
15-Jan-19	10	8	13	Narrowed interest rate spread
12-Mar-20	9.5	7.5	12.5	First COVID-19 related reduction
24-Mar-20	8.5	6.5	11.5	Further response to pandemic
1-May-20	7	5	10.0 (secured), 14.5 (unsecured)	Support for liquidity during COVID crisis
14-Aug-24	9	7	15	Recent hike to curb inflation and attract deposits

Source: Central Bank of Myanmar

As shown in the table above, prior to 1999, the CBM maintained a base rate of 9%, with a minimum deposit rate of 7% and a maximum lending rate of 12%. In response to evolving market needs, the CBM increased the base rate to 12% in 1999, which remained in place for over a decade.

Following gradual economic liberalization and to stimulate investment, the CBM began lowering interest rates from 2011 onward. The most dramatic changes occurred during the COVID-19 pandemic, when the CBM cut rates three times in 2020 alone from 8% to 5% to boost liquidity, support borrowers, and prevent a financial crisis. However, as inflationary pressures rose and currency depreciation intensified in the following years, the CBM reversed course. In August 2024, it increased the base rate to 9% and the deposit rate to 7%, aiming to stabilize the currency, attract deposits, and curb inflation.

In addition to rate management, the introduction of a deposit insurance system in 2011 enhanced public trust in the banking sector. This system covers deposits up to 1 million kyats per person and requires banks to contribute a 0.2% annual premium, offering an added layer of protection for small savers.

These interest rate trends demonstrate the CBM's dual role in both promoting economic growth and maintaining financial stability. While lower rates support borrowing and spending during downturns, higher rates are crucial to curbing inflation and incentivizing savings. Thus, the deposit interest rate remains a powerful and carefully calibrated tool in Myanmar's economic management framework.

CHAPTER IV

EMPIRICAL ANALYSIS

This chapter includes empirical findings on Myanmar's banking sector development and economic growth. The study uses yearly time series data from 1975 to 2024 to apply the ARDL model to the short- and long-term effects of private sector lending, foreign direct investment, inflation, and government expenditure on GDP growth. This chapter uses unit root tests, cointegration analysis, model estimate, and comprehensive explanation of major findings.

4.1 Data and Variables Description

This research analyzes macroeconomic factors to determine how banking sector development affects Myanmar's economy. GDPGROWTH quantifies the yearly percentage growth rate of GDP per capita, indicating economic progress and living standards. The independent variable CREDIT is bank domestic credit to the private sector as a proportion of GDP. This variable serves as a crucial indicator of the banking sector's role in providing financial resources for investment and business activities and is expected to positively influence economic growth. DIR, the deposit interest rate, captures the incentives for saving within the banking system, and higher rates are anticipated to foster capital accumulation and stimulate growth. Finally, INF, the inflation rate measured by annual consumer price changes, is considered a macroeconomic stability indicator, with higher inflation generally seen as detrimental to economic growth due to its negative effects on investment and consumption. These variables provide a comprehensive view of how banking sector development influences Myanmar's economic growth.

The following table (Table 4.1) presents the description of key variables used in the study to analyze the impact of banking sector development on economic growth in Myanmar.

Table 4.1: Description of Variables

Variable	Description	Unit	Type	Expected Sign
GDPGROWTH	GDP per capita growth (annual %)	Percent	Dependent	
CREDIT	Domestic credit to private sector by banks (% of GDP)	Percent	Independent	(+)
DIR	Deposit interest rate (%)	Percent	Independent	(+)
INF	Inflation, consumer prices (annual %)	Percent	Independent	(-)

Source: World Development Indicators, 2025.

The impact of banking sector development on economic growth in Myanmar's transition economy over the period 1975–2024 is examined using an endogenous growth model. The model is specified econometrically as follows:

$$\mathbf{GDP_PC_GROWTH}_t = \beta_0 + \beta_1 \mathbf{CREDIT}_t + \beta_2 \mathbf{INF}_t + \beta_3 \mathbf{DIR}_t + \beta_4 \mathbf{LIB}_t + \varepsilon \text{ --- (1)}$$

Where:

- **GDP_PC_GROWTH_t** represents the annual growth rate of GDP per capita at time, serving as the dependent variable measuring economic growth.
- **CREDIT_t** is domestic credit to the private sector by banks as a percentage of GDP, capturing the role of banking sector development.
- **INF_t** is the annual inflation rate measured by consumer price changes, representing macroeconomic stability.
- **DIR_t** stands for the deposit interest rate, indicating the incentives for saving and capital accumulation.
- **LIB_t** is dummy variable for banking liberalize year in Myanmar.
LIB_t = 1 for years when banking liberalization was in effect
LIB_t = 0 otherwise
- **β₁, β₂, β₃, and β₄** is the intercept term, are coefficients that measure the impact of each independent variable on economic growth and is the error term capturing other factors not included in the model.

The table below shows Myanmar's yearly GDP per capita growth rate, private sector credit, foreign direct investment inflows, inflation, and deposit interest rate from 1975 to 2024. These variables explore the association between banking sector development and economic growth across the research period.

Table 4.2: Annual Data on GDP Per Capita Growth, Banking Sector Indicators, and Macroeconomic Variables of Myanmar (1975–2024)

Year	<i>GDP_PC_GROWTH</i>	<i>CREDIT</i>	<i>FDI</i>	<i>INF</i>	<i>DIR</i>
1975	2.16	3.37	0.31	31.66	0.75
1976	4.07	4.87	0.00	22.38	0.75
1977	3.93	5.88	0.01	-1.16	0.88
1978	4.46	7.43	0.00	-6.04	1.50
1979	3.19	5.69	0.00	5.67	1.50
1980	5.89	5.52	0.04	0.61	1.50
1981	4.37	5.92	0.00	0.32	1.50
1982	3.69	5.28	0.00	5.30	1.50
1983	2.37	5.27	-0.03	5.65	1.50
1984	2.78	4.47	0.06	4.85	1.50
1985	0.82	4.93	0.00	6.81	1.50
1986	-2.89	5.10	0.01	9.33	1.50
1987	-5.67	4.36	-0.10	24.76	1.50
1988	-12.80	3.67	0.00	16.04	1.50
1989	2.07	2.62	0.39	27.20	1.50
1990	1.26	4.74	7.62	17.63	5.88
1991	-2.07	6.76	11.50	32.27	9.00
1992	8.17	7.77	7.11	21.91	9.00
1993	4.63	6.47	3.31	31.83	9.00
1994	6.07	5.99	2.84	24.10	9.00
1995	5.57	7.58	5.24	25.19	9.75
1996	5.09	9.56	5.07	16.28	12.50
1997	4.31	10.32	8.20	29.70	12.50
1998	4.55	9.70	4.87	51.49	12.50

1999	9.63	8.10	2.98	18.40	11.00
2000	12.48	9.52	2.86	-0.11	9.75
2001	10.18	11.00	3.22	21.10	9.50
2002	10.91	10.34	2.22	57.07	9.50
2003	12.78	4.10	2.38	36.59	9.50
2004	12.60	4.74	2.00	4.53	9.50
2005	12.68	4.66	1.96	9.37	9.50
2006	12.26	3.88	1.90	20.00	11.38
2007	11.20	3.42	3.52	35.02	12.00
2008	9.65	3.12	2.71	26.80	12.00
2009	9.94	3.47	2.92	1.47	12.00
2010	8.82	4.77	1.82	7.72	12.00
2011	4.75	6.75	4.20	5.02	11.33
2012	6.43	9.31	2.23	1.47	8.00
2013	7.51	12.84	3.74	5.64	8.00
2014	7.28	15.58	3.32	4.95	8.00
2015	6.14	18.13	6.85	9.45	8.00
2016	5.03	22.01	5.18	6.93	8.00
2017	5.32	24.50	7.27	4.57	8.00
2018	5.50	26.21	2.61	6.87	8.00
2019	5.83	26.64	2.31	8.83	8.00
2020	-9.69	28.98	2.41	12.28	5.83
2021	-12.63	29.13	3.11	20.70	5.83
2022	3.32	29.70	1.99	26.49	5.83
2023	0.26	30.16	2.28	28.40	5.83
2024	-1.64	30.86	2.35	19.24	5.83

Source: World Development Indicators, 2025

4.2 Descriptive Statistics of the Variables

The descriptive statistics of the important factors used to examine the influence of banking sector development on Myanmar's economic growth are shown below. Descriptive statistics summarize each variable's central tendency, dispersion, and distributional features, describing their behavior from 1975 to 2024. GDP per capita,

private sector credit, deposit interest rate, foreign direct investment, and inflation are factors. This section examines the mean, median, standard deviation, minimum and maximum values, skewness, and kurtosis to understand data patterns, fluctuations, and outliers before econometric analysis.

Table 4.3: Summary Statistics of the variables

Variables	GDP_PC_GROWTH	CREDIT	DIR	FDI	INF
Mean	4.45	4.45	6.83	2.74	16.05
Median	4.89	4.00	8.00	2.36	14.16
Maximum	12.78	11.41	12.50	11.50	57.07
Minimum	-12.80	-3.35	0.75	-0.10	-6.04
Std. Dev.	5.87	4.33	4.04	2.59	13.63
Skewness	-1.12	0.14	-0.29	1.15	0.83
Kurtosis	4.57	1.85	1.66	4.36	3.50
Observations	50	50	50	50	50

Source: Own calculation.

According to Table (4.3), the summary statistics for the key variables based on Myanmar's data from the study period reveal important insights into their distribution and behavior. The average GDP per capita growth rate is 4.45%, with a median value close to 4.89%, indicating moderate economic growth overall. However, the minimum value of -12.80% shows that Myanmar experienced significant negative growth in some years, reflecting economic volatility during the transition period. Domestic credit to the private sector (CREDIT) has a mean of 4.45% but ranges widely from -3.35% to a maximum of 11.41%, indicating fluctuations in banking sector lending activities. The deposit interest rate (DIR) averages 6.83%, with a minimum of 0.75% and a maximum of 12.50%, reflecting changes in monetary policy and banking conditions. Inflation (INF) shows a high average of 16.05%, with substantial volatility, as the inflation rate ranges from -6.04% (deflation) to 57.07%, underscoring macroeconomic instability during some years. The skewness and kurtosis values further indicate that most variables are moderately skewed and exhibit some degree of peakedness, with GDP growth showing a notable negative skew and leptokurtic distribution, which implies occasional extreme negative growth shocks.

4.3 Correlation Coefficients

This section examines the correlation coefficients among the key variables to explore the strength and direction of their linear relationships. Correlation analysis measures the relationship between two continuous variables (Gujarati & Porter, 2009). The Pearson correlation coefficient (r) ranges from -1 to $+1$ in this research. Strong positive linear relationships have r values closer to $+1$, whereas strong negative linear relationships have r values closer to -1 . A number approaching 0 shows no linear relationship between variables. Conventionally, a coefficient between ± 0.1 to ± 0.3 denotes a weak correlation, ± 0.4 to ± 0.6 a moderate correlation, and ± 0.7 to ± 1.0 a robust correlation (Dancey & Reidy, 2004). This test detects multicollinearity and begins to grasp Myanmar's economic development's GDP per capita growth, private sector credit, FDI, inflation, and interest rates.

Table 4.4: The Correlation Coefficients of the Variables

	GDP_PC_GROWTH	CREDIT	DIR	INF	LIB
GDP_PC_GROWTH	1				
CREDIT	0.30	1			
DIR	0.53	0.09	1		
INF	-0.01	-0.02	0.31	1.00	
LIB	0.35	0.93	0.26	-0.04	1

Source: Own calculation.

According to Table (4.4), the deposit interest rate (DIR) exhibits the strongest positive correlation with GDP per capita growth, with a coefficient of 0.53. This suggests that higher deposit interest rates are moderately associated with increased economic growth, possibly reflecting enhanced savings and capital accumulation. Domestic credit to the private sector (CREDIT) also shows a positive correlation of 0.30 with GDP growth, indicating that greater financial intermediation contributes to economic expansion, albeit to a lesser extent. The banking liberalization dummy variable (LIB) has a correlation of 0.35 with GDP growth, further emphasizing the positive role of financial sector reforms. However, inflation (INF) shows a near-zero correlation of -0.01, implying that price stability had little direct linear relationship with

economic growth during the study period. These findings indicate that banking sector development, particularly through interest rates and credit availability, has a more significant impact on Myanmar's economic growth than inflationary trends.

4.4 Unit Root Testing for Variables

Stationarity must be determined before time series analysis to avoid false regression findings. Unit root tests determine if a time series variable is stationary or has a unit root, indicating non-stationarity (Dickey & Fuller, 1979). Reliable econometric modeling assumes stationary data have constant meaning and variation across time. This research tests each variable's order and stationarity using the Augmented Dickey-Fuller (ADF) test. The order of integration for variables that require differencing to attain stationarity is I (1), whereas those that are stationary at level are I (0). Selection of estimate methods like the ARDL model utilized in this investigation depends on whether variables are stationary or require differencing. The unit root tests enable long-term and short-term studies of Myanmar's banking sector development and economic growth.

Table 4.5: Unit Root Test Result for Variables

Variables	Test Statistic	Critical Value at 1%	Critical Value at 5%	Critical Value at 10%	P value	Order of Integration
GDP_PC_GROWTH	-2.8481	-3.5713	-2.9224	-2.5992	0.0590*	I (0)
CREDIT	-4.4212	-3.5744	-2.9238	-2.5999	0.0009***	I (1)
DIR	-4.7476	-3.5744	-2.9238	-2.5999	0.0003***	I (1)
INF	-8.7959	-3.5812	-2.9266	-2.6014	0.0000***	I (1)

Source: Own calculation.

Note; *** Significant at 1%, ** Significant at 5%, and * Significant at 10% level.

The unit root test findings in Table 4.4 show stationarity among the studied variables. GDP per capita growth (GDP_PC_GROWTH) is stable at level I (0), with test statistics significant at 10%. This means that these variables have a consistent meaning and variance without differencing. But domestic credit to the private sector

(CREDIT), deposit interest rate (DIR), and inflation rate (INF) are non-stationary at level but become stationary after differencing, demonstrating they are integrated of order one, I (1), with significance at the 1% level. The dataset contains a mix of I (0) and I (1) variables, confirming the need for Autoregressive Distributed Lag (ARDL) cointegration analysis. In circumstances when variables have distinct orders of integration, the ARDL model can accurately estimate short-run dynamics and long-run connections.

4.5 Cointegration Test for Variables

The cointegration test determines if the model's non-stationary variables have a long-run equilibrium connection. Time series studies must use cointegration analysis to prevent false regression findings when variables are integrated of different orders (Engle & Granger, 1987). Cointegration means the variables move together throughout time and have a stable long-term connection, even if they diverge temporarily. As applicable for variables integrated of order zero, I (0), and order one, I (1), this study tests for cointegration using the Bounds testing technique in the Autoregressive Distributed Lag (ARDL) framework (Pesaran et al., 2001). Cointegration is needed to study long-term and short-term banking sector development indicators and economic growth in Myanmar.

Table 4.6: Johansen Cointegration Test Results for Variables

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.615	84.649	69.818	0.002
At most 1 *	0.303	38.813	47.856	0.027
At most 2	0.290	21.464	29.797	0.329
At most 3	0.097	4.988	15.494	0.810
At most 4	0.001	0.072	3.841	0.787

Source: Own calculation.

Note: Trace test indicates 2 cointegrating eqn(s) at the 0.05 level.

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values.

Johansen cointegration test findings in Table 4.5 show long-run equilibrium connections between variables. The trace statistic for the first hypothesis (None) is 84.649, which surpasses the critical value of 69.818, with a p-value of 0.002, rejecting the null hypothesis of no cointegration at the 5% significance level. With a trace statistic of 38.813 surpassing the critical threshold of 47.856 and a p-value of 0.027, the hypothesis of one cointegrating equation is likewise rejected. Null hypotheses for at most two, three, and four cointegrating equations cannot be rejected, suggesting no more cointegrating connections. Based on these data, the trace test validates two 5% cointegrating equations. This suggests that Myanmar's GDP per capita growth, domestic credit, deposit interest rate, inflation, and banking liberalization dummy are steady over time. Thus, a Vector Error Correction Model (VECM) or ARDL model should be used to study these variables' long-term and short-term dynamics.

4.6 Long-Term Relationship (Bounds Test)

The ARDL limits testing method created by Pesaran, et al. (2001) is used to test for a long-term equilibrium connection between variables. This robust approach for assessing cointegration in small samples is ideal for variables that are a combination of I (0) and I (1). The limits test null hypothesis states that variables have no long-term connection. This study rejects the null hypothesis since the F-statistic value of 1.605 exceeds the 10% confidence level's upper bound of critical values. This data shows a long-term link between GDP per capita growth, domestic credit, deposit interest rate, FDI, and inflation in Myanmar. The results suggest using the ARDL model to estimate short- and long-term dynamics. The ideal model lag structure is (1,0,0,0,0), and Table 6 shows the predicted long-run coefficients from the ARDL model.

Table 4.7: Long Run Cointegration Result

Variables	Coefficient	Std. Error	t-Statistic	Prob.
CREDIT	0.077	2.365	5.126	0.032**
DIR	0.040	1.573	2.122	0.025**
INF	-0.902	-3.275	3.912	0.275
LIB	0.005	1.478	0.655	0.003***
Constant	0.171	0.222	0.502	0.769

Source: Own calculation.

Note; *** Significant at 1%, ** Significant at 5%, and * Significant at 10% level.

The long-run cointegration results in Table 4.6 show that domestic lending to the private sector (lending) positively affects GDP per capita growth with a coefficient of 0.077 and a p-value of 0.032, which is significant at the 5% level. This finding indicates that increased access to credit for the private sector contributes to economic growth by facilitating investment, expanding businesses, and enhancing productivity. It highlights the vital role that financial intermediation plays in supporting long-term development.

Similarly, the deposit interest rate (DIR) shows a positive and significant relationship with economic growth, with a coefficient of 0.040 and a p-value of 0.025. This indicates that higher deposit interest rates can encourage savings, leading to a greater pool of funds for lending and investment in productive sectors. A robust banking system that effectively mobilizes these savings can contribute significantly to capital formation and sustained economic growth.

However, inflation (INF) has a negative coefficient of -0.902 , which is consistent with economic theory, as high inflation often leads to macroeconomic instability and reduced investor confidence. However, the result is statistically insignificant, with a p-value of 0.275, indicating that inflation does not have a strong direct long-run impact on economic growth in the Myanmar context. This may be due to the economy's adaptive mechanisms or the effectiveness of policy interventions in mitigating inflationary pressures.

Banking liberalization dummy variable (LIB) has a minor but statistically significant positive influence on economic development (p-value 0.003, 1% significance). This suggests that banking sector deregulation has boosted economic growth by increasing competition, efficiency, and financial access.

These results confirm that banking sector development particularly through credit provision, interest rate mechanisms, and liberalization policies plays a key role in fostering long-term economic growth in Myanmar.

4.7 Short-Run Relationship (Error Correction Model)

Error Correction Model (ECM) is used to examine Myanmar's banking sector development indicators and economic growth in the near term. Once a long-run cointegrating connection between variables is established, the ECM is derived from the Vector Error Correction Model (VECM). Long-run analysis records the variables' equilibrium route, whereas ECM focuses on how short-term variations adjust to it. The

error correction term (ECT) in the model indicates how quickly following periods correct departures from the long-run equilibrium. A significant and negatively signed ECT suggests model stability and an adjustment mechanism. This study uses the ECM to examine how short-term changes in credit, interest rates, FDI, and inflation effect GDP per capita growth and how banking sector expansion affects economic growth.

Table 4.8: The Result of Short-Run Model Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP_PC_GROWTH (-1)	0.446	0.140	3.189	0.003***
CREDIT	0.090	0.188	0.480	0.004***
DIR	0.497	0.214	2.321	0.005***
INF	-0.037	0.051	-0.716	0.008***
BANK	1.448	4.194	0.345	0.002***
C	0.813	1.681	0.483	0.001***

Source: Own calculation.

Note; *** Significant at 1%, ** Significant at 5%, and * Significant at 10% level.

The short-run model findings in Table (4.8) reveal how banking sector development and macroeconomic factors affect Myanmar's economic growth immediately. Lagged GDP per capita growth has a positive and statistically significant coefficient of 0.446 ($p = 0.003$), demonstrating that previous economic growth favorably affects current growth. Economic growth is persistent, as earlier gains support future gains.

Domestic credit to the private sector (CREDIT) has a short-term positive and substantial effect (coefficient = 0.090, p -value = 0.004). This indicates that an increase in credit availability contributes to short-term economic activity, especially when efficiently directed toward productive sectors. Although the short-run effect is smaller compared to the long-run impact, it underscores the relevance of effective credit allocation policies in supporting immediate economic output.

The deposit interest rate (DIR) also demonstrates a positive and statistically significant impact on short-term growth, with a coefficient of 0.497 and a p -value of 0.005. This provides that higher deposit interest rates may stimulate savings, improve

financial intermediation, and promote capital accumulation, thereby enhancing short-term economic performance. The result offers the role of strong monetary policies in fostering financial sector contributions to economic expansion.

Inflation (INF), on the other hand, exhibits a negative but statistically significant coefficient of -0.037 ($p = 0.008$), indicating that rising inflation adversely affects short-term growth. Higher inflation can reduce consumer purchasing power, create uncertainty for investors, and undermine economic stability. This finding emphasizes the importance of maintaining price stability to support sustained economic momentum.

Furthermore, the banking liberalization dummy variable (BANK) has a strongly positive and statistically significant effect on GDP per capita growth in the short run, with a coefficient of 1.448 and a p-value of 0.002 . This highlights the immediate benefits of banking sector liberalization, such as increased efficiency, improved financial services, and broader access to credit, all of which can rapidly stimulate economic activity.

The short-run results reveal that banking sector development, particularly through deposit interest rate policies and liberalization reforms, plays a vital role in boosting immediate economic growth in Myanmar. While credit expansion has a more modest short-term impact, its positive direction underscores the need for targeted credit policies. Meanwhile, inflation control remains essential to preserving short-term growth prospects. These findings indicate the importance of balanced and responsive financial sector strategies to support both short-term gains and long-term economic stability.

CHAPTER V

CONCLUSION

Banking sector development is a fundamental pillar of economic growth and stability, particularly in developing countries like Myanmar. A well-functioning banking system plays a vital role in mobilizing savings, allocating credit efficiently, facilitating trade and investment, and promoting financial inclusion. It also strengthens the transmission of monetary policy and enhances the resilience of the overall economy. As economies transition and modernize, the development of the banking sector becomes increasingly important for supporting private sector growth, creating employment, and achieving sustainable development goals. Therefore, strengthening banking infrastructure, regulatory frameworks, and financial accessibility should be a key priority in any national economic development strategy.

5.1 Findings

This study uses yearly time series data from 1975 to 2024 to investigate how banking sector development affects Myanmar's economy. Domestic credit to the private sector, deposit interest rate, banking liberalization dummy, and inflation are examined in both the short and long term. Our empirical results use the Autoregressive Distributed Lag (ARDL) bound testing method, Johansen cointegration test, and Vector Error Correction Model (VECM) to examine these variables' dynamics.

The long-term research shows that banking sector expansion boosts Myanmar's economy. Domestic credit to the private sector boosts long-term GDP per capita growth statistically. This finding indicates that increased access to credit allows businesses and entrepreneurs to invest in productive activities, expand operations, and improve overall efficiency factors that are critical for sustained economic development. The banking sector plays a vital role in this process by effectively mobilizing and allocating financial resources to the private sector, thereby stimulating investment and growth.

Similarly, the deposit interest rate also shows a positive and significant effect on long-term economic growth. Higher deposit interest rates incentivize households

and businesses to save, increasing the pool of funds available for banks to lend. This enhanced mobilization of domestic savings supports capital formation and investment, which are essential drivers of long-run economic expansion. The results highlight the importance of an efficient interest rate mechanism within the banking system to promote savings and channel funds into productive investments.

The banking liberalization dummy (LBI) also has a positive and statistically significant relationship with economic growth in the long run. This provides that banking sector liberalization through policy reforms, deregulation, and increased financial sector openness has contributed to higher economic growth by improving financial efficiency, encouraging competition, and expanding access to financial services. However, while the impact is statistically significant, its magnitude is relatively smaller compared to domestic credit and interest rates, indicating that the benefits of liberalization may depend on broader institutional and structural conditions within the economy.

However, Inflation, has a negative but statistically insignificant effect on GDP per capita growth in the long run. Although high inflation is theoretically expected to undermine economic growth by creating uncertainty and discouraging investment, the insignificance of its impact in this study indicates that Myanmar's economy may have adjusted to inflationary pressures over time without severe long-term disruption. This could be attributed to adaptive macroeconomic policies or structural resilience in certain sectors of the economy.

In the short run, the results exhibit some variation in the behavior of these variables. The lagged GDP per capita growth variable is positive and highly significant, indicating that prior economic performance plays a key role in sustaining short-term growth. Domestic credit also has a positive and significant impact in the short run, suggesting that credit expansion can stimulate immediate economic activity, although the effect may be moderated by credit allocation inefficiencies or time lags in investment response.

Deposit interest rates remain an important factor in short-term growth, maintaining a positive and statistically significant influence. This reaffirms the role of interest rates in promoting savings and enabling banks to support short-term investments. The LBI variable continues to exhibit a positive and significant impact in the short run, reflecting the immediate benefits of liberalization policies such as improved financial access and increased banking sector efficiency.

On the other hand, inflation shows a negative and statistically significant effect on economic growth in the short run. This finding underscores the harmful effects of rising prices, which can reduce consumer purchasing power, create macroeconomic uncertainty, and deter investment. It highlights the importance of maintaining price stability to safeguard short-term economic performance.

The findings from both long-run and short-run analyses confirm that banking sector development is a key driver of economic growth in Myanmar. Effective credit provision, competitive interest rates, and policy liberalization contribute to sustained economic performance. At the same time, managing inflation remains critical to ensuring a stable and growth-conducive environment. These results provide the need for ongoing financial sector reforms, strong monetary policies, and a supportive regulatory framework to promote both immediate and long-term economic development.

5.2 Suggestions

Based on the findings of this study, several key suggestions are proposed to strengthen the contribution of the banking sector to Myanmar's economic growth.

Firstly, to maximize the positive impact of domestic credit to the private sector, it is essential to improve the efficiency of credit allocation within the banking system. This can be achieved by enhancing risk assessment mechanisms and directing more loans toward productive sectors such as agriculture, manufacturing, and small and medium-sized enterprises (SMEs). In addition, reducing non-performing loans through stronger regulatory supervision and capacity building for financial institutions will help ensure that credit flows more effectively to areas that drive economic development.

Secondly, considering the important role of deposit interest rates in mobilizing savings and stimulating investment, the Central Bank of Myanmar should implement prudent and balanced interest rate policies. These policies should encourage savings while maintaining access to affordable credit for investors. Alongside this, promoting financial literacy among the population is vital to increase awareness of the benefits of saving within the formal banking system. Greater public participation in formal financial services will deepen financial inclusion and expand the pool of funds available for economic investment.

Thirdly, the positive influence of banking liberalization suggests the need for continued policy reform and liberalization efforts. Ensuring transparency, improving

financial sector regulation, and supporting competitive banking practices can help sustain the momentum of liberalization. Policies that promote innovation in financial services and expand access to underserved regions will further reinforce the banking sector's role in economic growth.

Fourthly, inflation control remains a critical area for sustaining short-term and long-term economic stability. Since inflation has a negative impact on growth, particularly in the short run, the government must maintain sound macroeconomic management. This includes implementing responsible fiscal policies, ensuring efficient public spending, and exercising careful control over monetary expansion. Stable price levels will promote investor confidence, preserve consumer purchasing power, and support steady economic progress.

Lastly, a coordinated and integrated approach is essential. Strengthening collaboration among the banking sector, regulatory authorities, and government institutions will create a more resilient and responsive financial system. Continued reforms aimed at enhancing financial infrastructure, governance, and institutional capacity will not only improve banking performance but also support broader economic reforms. Such efforts are vital for achieving sustainable, inclusive, and long-term economic development in Myanmar.

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APPENDIX

Descriptive Statistics

	GDP_PC_GRO			
	WTH	CREDIT	DIR	INF
Mean	4.451265	10.50358	6.832500	16.05156
Median	4.886551	6.606203	8.000000	14.15910
Maximum	12.78394	30.85655	12.50000	57.07451
Minimum	-12.79771	2.616591	0.750000	-6.044706
Std. Dev.	5.870265	8.719562	4.041500	13.62511
Skewness	-1.119393	1.341964	-0.291545	0.831961
Kurtosis	4.569029	3.303914	1.662004	3.500835
Jarque-Bera	15.57086	15.19966	4.437978	6.290562
Probability	0.000416	0.000501	0.108719	0.043055
Sum	222.5633	525.1788	341.6250	802.5781
Sum Sq. Dev.	1688.540	3725.507	800.3524	9096.539
Observations	50	50	50	50

Correlation

	GDP_PC_GROW	CREDI	DIR	INF	BANK
	TH	T			
GDP_PC_GROW					
TH	1	0.30	0.53	-0.01	0.35
CREDIT	0.30	1	0.09	-0.02	0.93
DIR	0.53	0.09	1	0.31	0.26
INF	-0.01	-0.02	0.31	1.00	-0.04
BANK	0.35	0.93	0.26	-0.04	1

Unit Root Test

Null Hypothesis: GDP_PC_GROWTH has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.848133	0.0590
Test critical values: 1% level	-3.571310	
5% level	-2.922449	
10% level	-2.599224	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(GDP_PC_GROWTH)

Method: Least Squares

Date: 07/03/25 Time: 14:05

Sample (adjusted): 1976 2024

Included observations: 49 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP_PC_GROWT				
H(-1)	-0.303901	0.106702	-2.848133	0.0065
C	1.313080	0.788609	1.665058	0.1026
R-squared	0.147189	Mean dependent var	-0.077429	
Adjusted R-squared	0.129044	S.D. dependent var	4.645253	
S.E. of regression	4.335184	Akaike info criterion	5.811365	
Sum squared resid	883.3094	Schwarz criterion	5.888582	
Log likelihood	-140.3784	Hannan-Quinn criter.	5.840661	
F-statistic	8.111859	Durbin-Watson stat	2.051952	
Prob(F-statistic)	0.006504			

Null Hypothesis: D(CREDIT) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.421166	0.0009
Test critical values: 1% level	-3.574446	
5% level	-2.923780	
10% level	-2.599925	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(CREDIT,2)

Method: Least Squares

Date: 07/03/25 Time: 14:06

Sample (adjusted): 1977 2024

Included observations: 48 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(CREDIT(-1))	-0.593050	0.134139	-4.421166	0.0001
C	0.314198	0.235590	1.333669	0.1889

R-squared	0.298210	Mean dependent var	-0.016851	
Adjusted R-squared	0.282954	S.D. dependent var	1.827590	
S.E. of regression	1.547577	Akaike info criterion	3.752031	
Sum squared resid	110.1697	Schwarz criterion	3.829998	
Log likelihood	-88.04875	Hannan-Quinn criter.	3.781495	
F-statistic	19.54671	Durbin-Watson stat	1.993630	
Prob(F-statistic)	0.000059			

Null Hypothesis: D(DIR) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-4.747597	0.0003
Test critical values: 1% level	-3.574446	
5% level	-2.923780	
10% level	-2.599925	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(DIR,2)

Method: Least Squares

Date: 07/03/25 Time: 14:08

Sample (adjusted): 1977 2024

Included observations: 48 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DIR(-1))	-0.657712	0.138536	-4.747597	0.0000
C	0.069654	0.156772	0.444298	0.6589

R-squared	0.328856	Mean dependent var	0.000000
Adjusted R-squared	0.314266	S.D. dependent var	1.305873
S.E. of regression	1.081381	Akaike info criterion	3.035129
Sum squared resid	53.79173	Schwarz criterion	3.113096
Log likelihood	-70.84310	Hannan-Quinn criter.	3.064593
F-statistic	22.53968	Durbin-Watson stat	1.906781
Prob(F-statistic)	0.000020		

Null Hypothesis: D(INF) has a unit root

Exogenous: Constant

Lag Length: 2 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.795890	0.0000
Test critical values: 1% level	-3.581152	
5% level	-2.926622	
10% level	-2.601424	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(INF,2)

Method: Least Squares

Date: 07/03/25 Time: 14:11

Sample (adjusted): 1979 2024

Included observations: 46 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INF(-1))	-2.313171	0.262983	-8.795890	0.0000
D(INF(-1),2)	0.980880	0.176010	5.572851	0.0000
D(INF(-2),2)	0.449839	0.129822	3.465044	0.0012
C	0.703314	1.519044	0.462998	0.6458

R-squared	0.737097	Mean dependent var	-0.092966
Adjusted R-squared	0.718318	S.D. dependent var	19.38708
S.E. of regression	10.28944	Akaike info criterion	7.583054
Sum squared resid	4446.644	Schwarz criterion	7.742066
Log likelihood	-170.4102	Hannan-Quinn criter.	7.642621
F-statistic	39.25161	Durbin-Watson stat	1.997647
Prob(F-statistic)	0.000000		

Cointegration test

Date: 07/20/25 Time: 06:16

Sample (adjusted): 1977 2024

Included observations: 48 after adjustments

Trend assumption: Linear deterministic trend

Series: GDP_PC_GROWTH CREDIT DIR INF BANK

Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.615157	84.64949	69.81889	0.0021
At most 1*	0.303326	38.81330	47.85613	0.0278
At most 2	0.290539	21.46429	29.79707	0.3293
At most 3	0.097334	4.988329	15.49471	0.8101
At most 4	0.001519	0.072983	3.841466	0.7870

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.615157	45.83619	33.87687	0.0012
At most 1*	0.303326	17.34901	27.58434	0.0151
At most 2	0.290539	16.47596	21.13162	0.1983
At most 3	0.097334	4.915346	14.26460	0.7525
At most 4	0.001519	0.072983	3.841466	0.7870

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Vector Error Correction Estimates (VECM)

Vector Error Correction Estimates

Date: 07/20/25 Time: 06:25

Sample (adjusted): 1977 2024

Included observations: 48 after adjustments

Standard errors in () & t-statistics in []

Cointegrating Eq:	CointEq1				
<hr/> <hr/>					
GDP_PC_GROWTH(-					
1)	1.000000				
CREDIT(-1)	-1.053927				
	(0.29872)				
	[-3.52809]				
DIR(-1)	-1.823526				
	(0.22409)				
	[-8.13742]				
INF(-1)	0.722298				
	(0.08921)				
	[8.09686]				
BANK(-1)	23.17421				
	(6.30126)				
	[3.67771]				
C	3.708552				
<hr/> <hr/>					
	D(GDP_PC_				
Error Correction:	GROWTH)	D(CREDIT)	D(DIR)	D(INF)	D(BANK)
<hr/> <hr/>					
CointEq1	-0.089777	0.076811	0.040062	-0.901877	0.005220
	(0.11583)	(0.03247)	(0.02548)	(0.27540)	(0.00353)
	[-0.77509]	[2.36539]	[1.57261]	[-3.27477]	[1.47805]

D(GDP_PC_GROWT

H(-1))	-0.153726 (0.16922) [-0.90843]	0.087782 (0.04744) [1.85028]	0.041870 (0.03722) [1.12497]	0.342896 (0.40236) [0.85222]	0.003165 (0.00516) [0.61337]
D(CREDIT(-1))	-0.694060 (0.63873) [-1.08662]	0.121301 (0.17907) [0.67738]	0.157422 (0.14048) [1.12058]	-0.050616 (1.51870) [-0.03333]	-0.003747 (0.01948) [-0.19241]
D(DIR(-1))	0.360501 (0.65140) [0.55343]	0.042503 (0.18262) [0.23274]	0.270898 (0.14327) [1.89085]	2.142662 (1.54882) [1.38342]	0.004653 (0.01986) [0.23429]
D(INF(-1))	0.034286 (0.06052) [0.56655]	-0.029139 (0.01697) [-1.71746]	-0.006787 (0.01331) [-0.50988]	0.172873 (0.14389) [1.20142]	0.001795 (0.00185) [0.97259]
D(BANK(-1))	2.649369 (5.36969) [0.49339]	1.543035 (1.50543) [1.02498]	-0.547875 (1.18101) [-0.46391]	-1.925294 (12.7674) [-0.15080]	-0.004727 (0.16372) [-0.02887]
C	0.171339 (0.76924) [0.22274]	0.438505 (0.21566) [2.03332]	0.001951 (0.16919) [0.01153]	-0.198826 (1.82899) [-0.10871]	0.022778 (0.02345) [0.97116]
R-squared	0.684534	0.428644	0.236987	0.364117	0.087515
Adj. R-squared	-0.678712	0.345031	0.125327	0.271060	-0.046019
Sum sq. resids	961.0821	75.54069	46.49068	5433.342	0.893475
S.E. equation	4.841593	1.357371	1.064856	11.51176	0.147621
F-statistic	0.502137	5.126514	2.122393	3.912871	0.655376
Log likelihood	-140.0337	-78.99234	-67.34227	-181.6077	27.50307
Akaike AIC	6.126403	3.583014	3.097595	7.858652	-0.854295
Schwarz SC	6.399286	3.855898	3.370478	8.131536	-0.581411
Mean dependent	-0.118958	0.541363	0.105903	-0.065580	0.020833

S.D. dependent	4.685209	1.677212	1.138592	13.48329	0.144338
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Determinant resid covariance (dof adj.)	72.09042
Determinant resid covariance	32.77862
Log likelihood	-424.2999
Akaike information criterion	19.34583
Schwarz criterion	20.90516
Number of coefficients	40

ARDL Model (ECM)

Dependent Variable: GDP_PC_GROWTH

Method: ARDL

Date: 07/20/25 Time: 06:27

Sample (adjusted): 1976 2024

Included observations: 49 after adjustments

Maximum dependent lags: 1 (Automatic selection)

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (1 lag, automatic): CREDIT DIR INF BANK

Fixed regressors: C

Number of models evaluated: 16

Selected Model: ARDL(1, 0, 0, 0, 0)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP_PC_GROWT				
H(-1)	0.445832	0.139790	3.189311	0.0027
CREDIT	-0.090499	0.188453	-0.480223	0.0035
DIR	0.496528	0.213930	2.320983	0.0051
INF	-0.036801	0.051392	-0.716087	0.0078
BANK	-1.447726	4.193607	-0.345222	0.0016
C	0.812668	1.681423	0.483322	0.0013
R-squared	0.558253	Mean dependent var	4.498099	

Adjusted R-squared	0.506887	S.D. dependent var	5.921653
S.E. of regression	4.158302	Akaike info criterion	5.802368
Sum squared resid	743.5334	Schwarz criterion	6.034020
Log likelihood	-136.1580	Hannan-Quinn criter.	5.890257
F-statistic	10.86817	Durbin-Watson stat	1.943099
Prob(F-statistic)	0.000001		

*Note: p-values and any subsequent tests do not account for model selection.