

Presentation  
***Tajikistan's Financial Sector***  
at the conference  
***Getting Prepared For Competitive Financial Services:  
International Regulations And Practices***  
organized by the Government of Tajikistan, SECO and  
the International Trade Center

Ari Aisen

Dushanbe, October 17, 2012



# Overview of the Financial Sector

- Financial system mainly consists of:
  - 16 Commercial Banks (branches around 300)
  - 2 Non-Bank Credit Organizations
  - 34 Micro-Credit Depository Organizations
  - 44 Micro-Credit Organizations
  - 46 Micro-Credit Funds
  - 1 Deposit Insurance Fund

Other financial agents such as insurance companies, pension funds, investment banks, securities and stock exchange markets are either small or virtually non-existent.

- Commercial banks cover over 80% of total assets



# Overview of the Financial Sector

## Background and Common Practices:

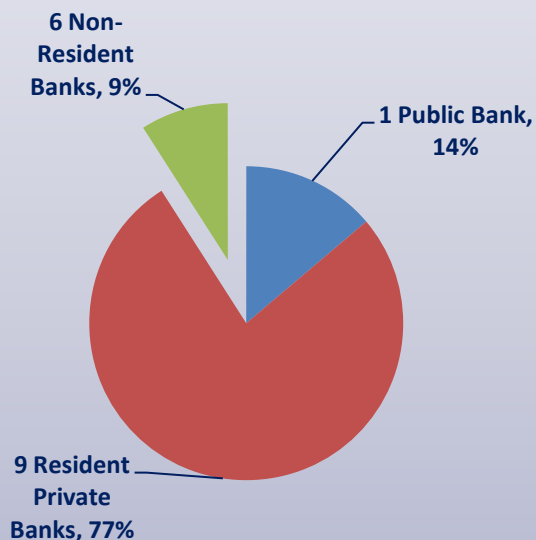
- Low level of integration into global financial markets and limited credit lines
- Shallow capital markets and constrained funding alternatives
- Deposits and funding mostly in foreign exchange
- Cash based economy with low confidence in the banking sector
- Financial intermediation role is not well developed
- Weak loan repayment culture
- Directed lending, government interference and preferential lending
- Poor corporate governance and accountability
- Moral Hazard and uneven playing field
- Reliance on Central Bank liquidity



# Overview of the Financial Sector

Low penetration of foreign capital...

Tajikistan: Market Share (by assets, June 2012)



...and high concentration of assets and deposits.

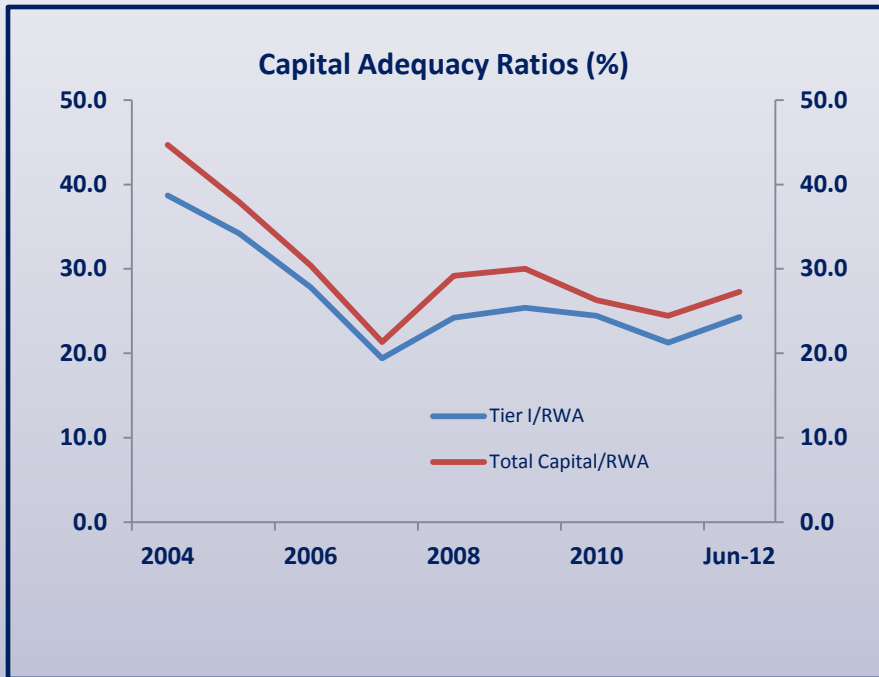
Top 1 Asset Share	23%
Top 2 Asset Share	43%
Top 3 Asset Share	61%
Top 4 Asset Share	75%

Top 1 Deposit Share	32%
Top 2 Deposit Share	53%
Top 3 Deposit Share	71%
Top 4 Deposit Share	84%
Deposit Share in Non-resident Banks	4%



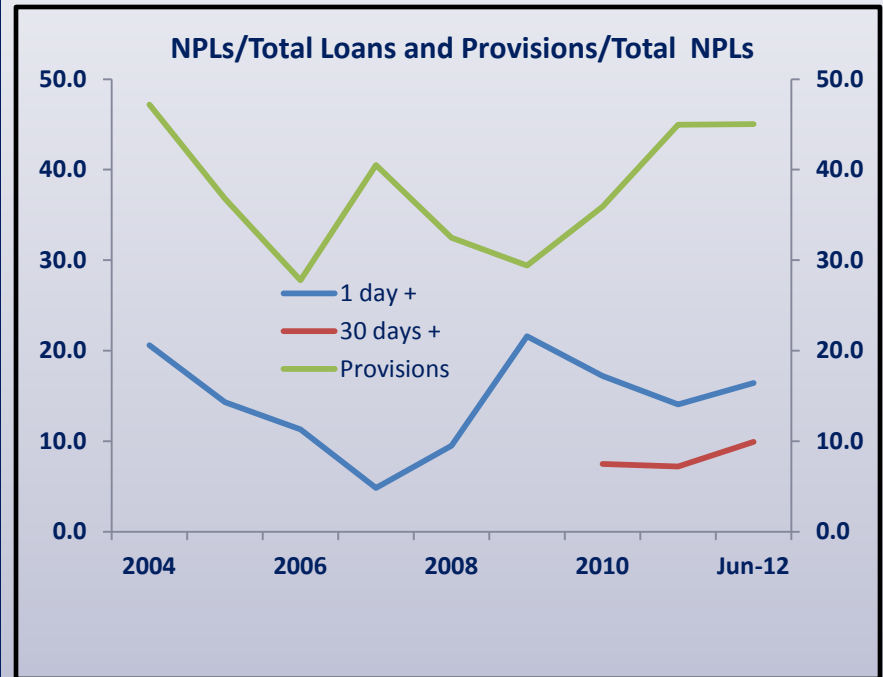
# Overview of the Financial Sector

## Well capitalized banking system...



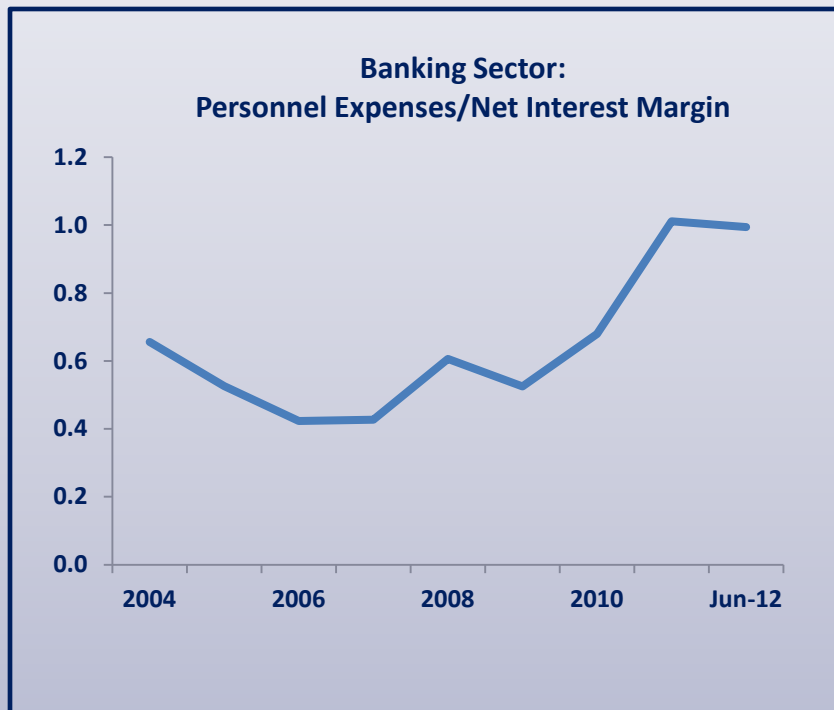
- Tier I/RWA: Basel Accords  $\geq 6\%$
- Total Capital/RWA: Basel Accords/RWA  $\geq 10\%$

## ...but poor asset quality.

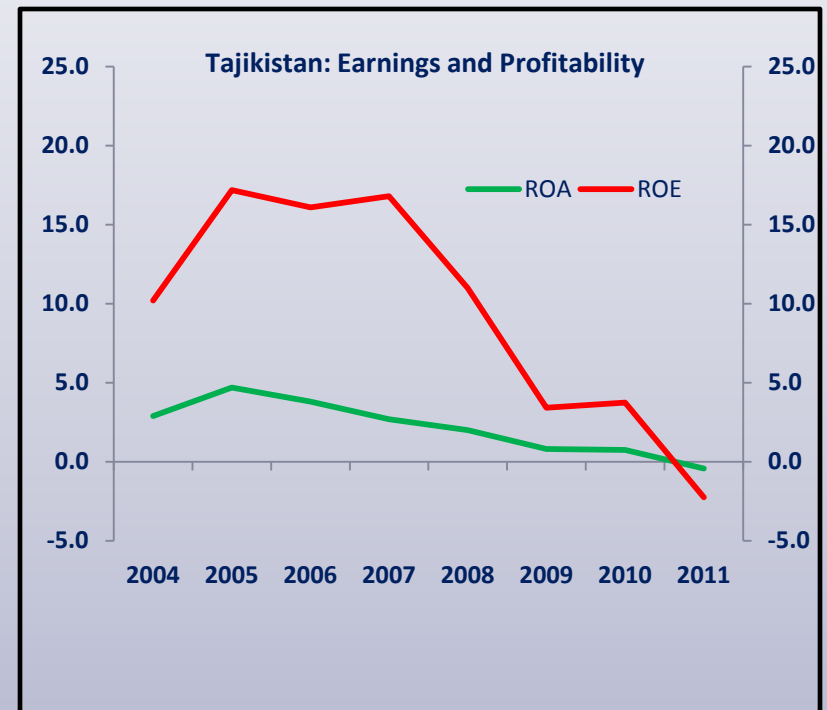


# Overview of the Financial Sector

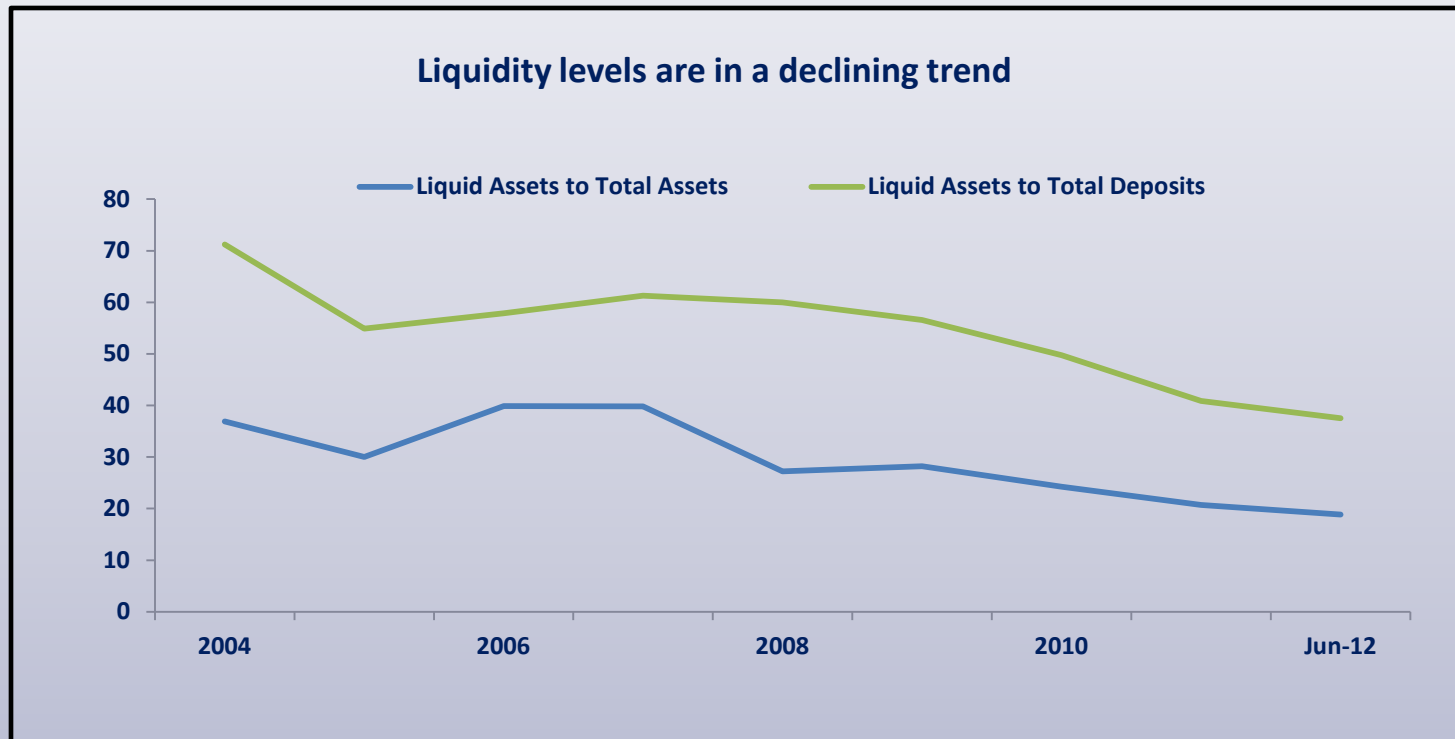
Deteriorating efficiency over time...



...also affecting profitability.

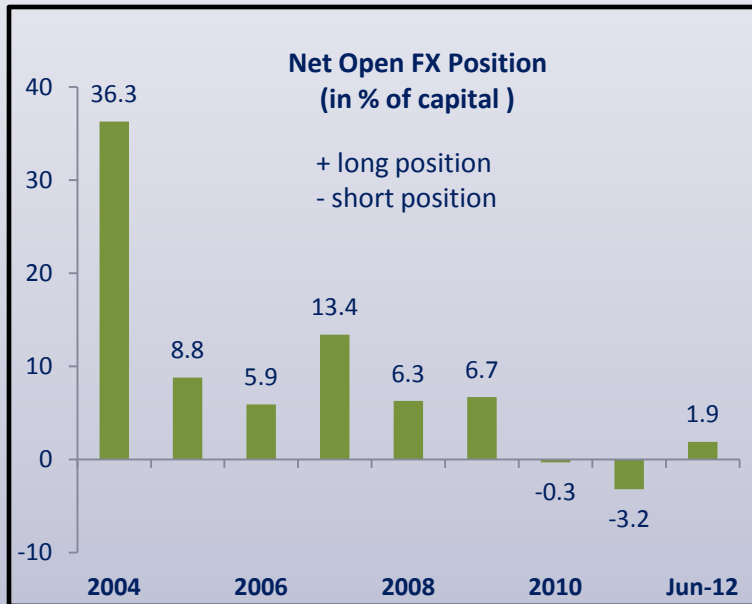


# Overview of the Financial Sector

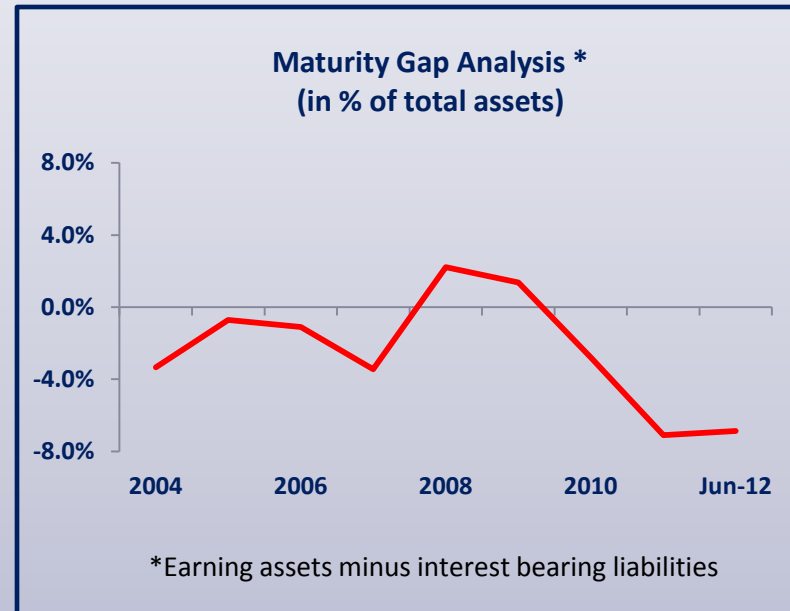


# Overview of the Financial Sector

Risks arising from currency mismatches contained...



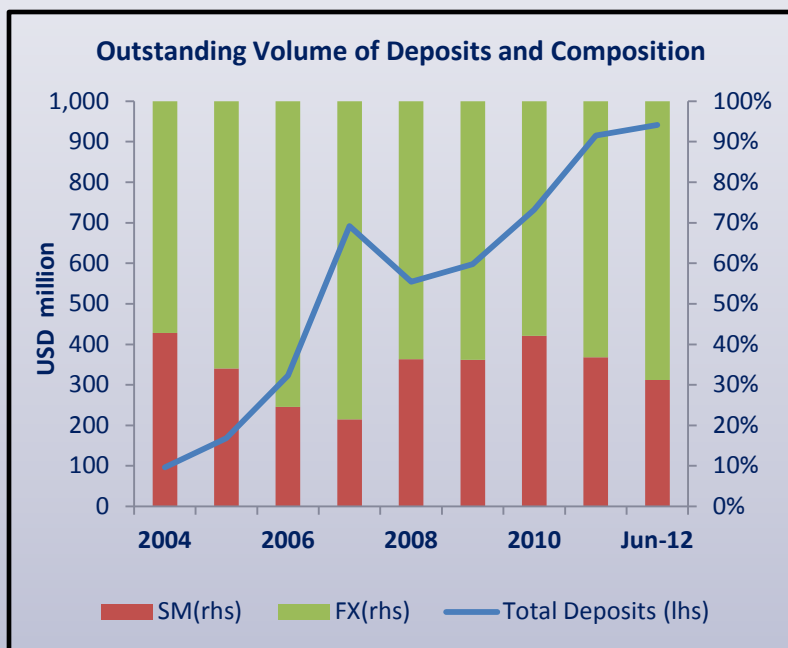
...while maturity mismatches are more concerning



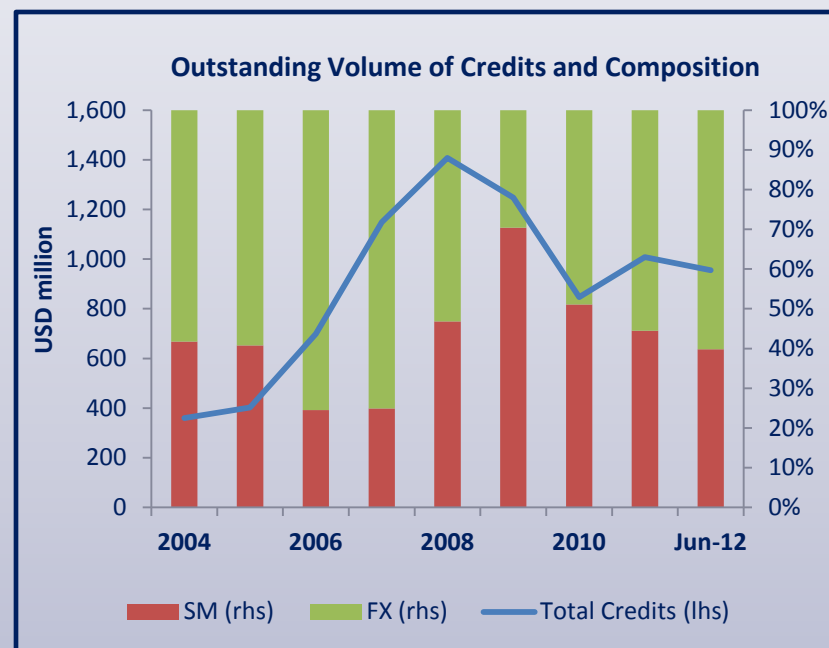


# Overview of the Financial Sector

Most deposits are in foreign exchange...

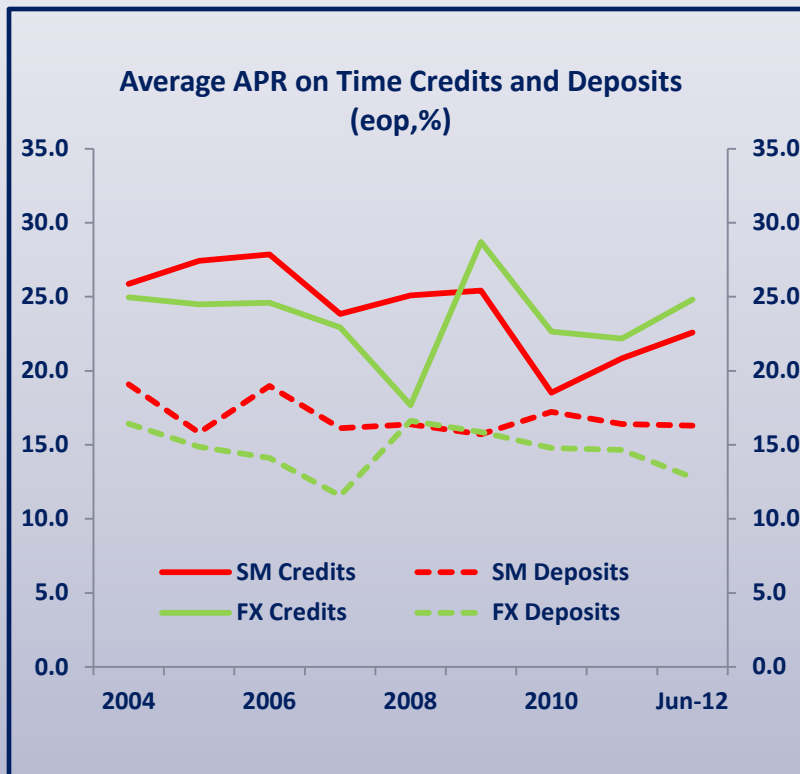


...and credit growth is also skewed towards foreign exchange

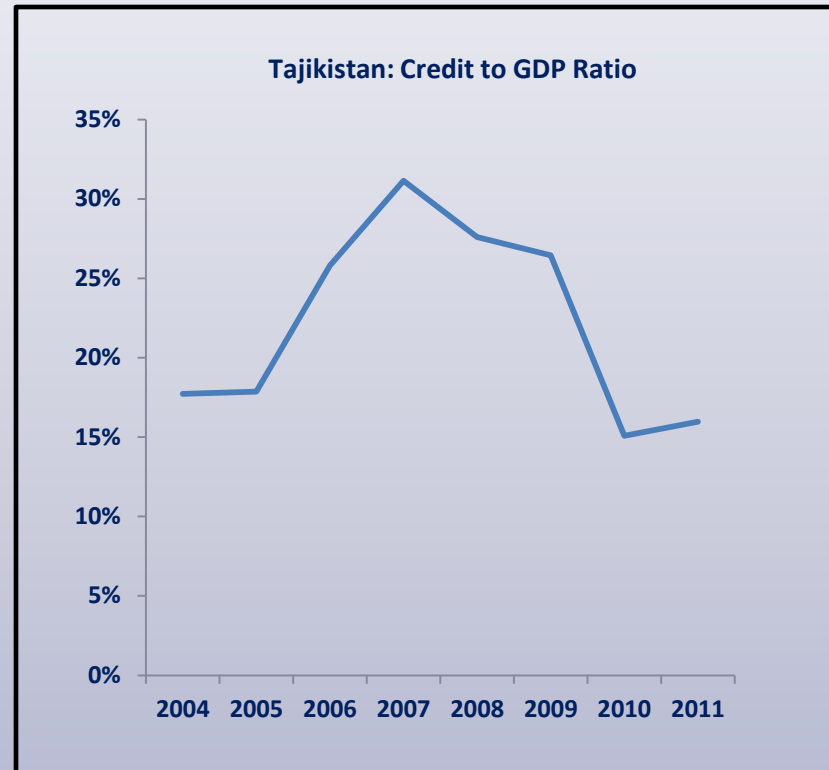


# Overview of the Financial Sector

Interest rates and spreads remain high...



... and the financial sector is shallow



# Conclusions

- Local banking practices have overtime significantly weakened the health of the banking system.
  - directed lending and government interference
  - weak loan repayment culture
  - poor corporate governance and accountability
  - moral hazard and uneven playing field
- High volume of NPLs, liquidity problems and low profitability.
- Low confidence in the banking system and the Tajik Somoni (Dollarization) leading to low intermediation and high interest rates (e.g. remittances are not effectively channeled to investment).
- Financial sector is not contributing to GDP growth according to its potential.

# Policy Recommendations

- Stop directed lending and political interference allowing for commercial-based lending in the banking system.
- Strengthen supervision and ensure application of prudential requirements by the Supervision Department of the NBT, effectively stopping forbearance.
- Stimulate mechanisms to ensure proper corporate governance by both banks' boards and management (e.g. strict fit and proper policies for selecting managers).
- Stimulate creation of funding alternatives for banks, deepening capital markets by, for example, developing an interbank market and primary markets for government securities.

# Thank you for your attention

.....Questions and Comments.....

For additional information please visit our IMF Resident Representative website at:

<http://www.imf.org/external/country/tjk/rr/index.htm>

