

Presentation
***Overview of Tajikistan's
Financial Sector***

at the round table organized by the National Bank of
Tajikistan and IMF Representative Office

Ari Aisen, IMF Resident Representative in Tajikistan,
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Overview of the Financial Sector

➤ Financial system (as of December 31, 2012) consists of:

- 16 Commercial Banks (with 304 branches)
- 1 Non-Bank Credit Organizations
- 35 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:

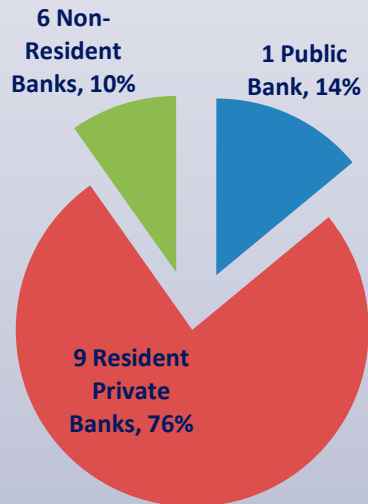
- Low level of integration into global financial markets and limited credit lines
- Shallow capital markets and constrained funding alternatives
- Deposits and funding mostly in foreign exchange
- Cash based economy with low confidence in the banking sector
- Financial intermediation role is not well 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 Shares (by assets, Dec-2012)

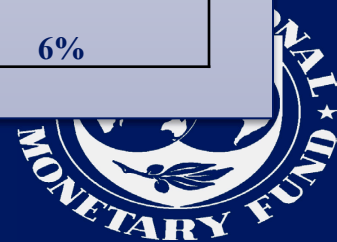


...and high concentration of assets and deposits.

Top 1 Asset Share	23%
Top 2 Asset Share	44%
Top 3 Asset Share	60%
Top 4 Asset Share	74%

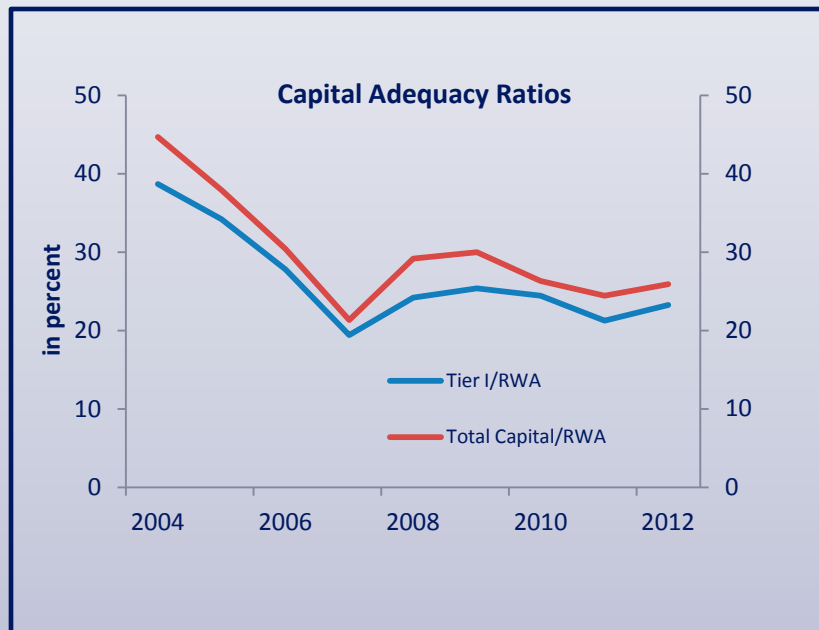
Top 1 Deposits Share	31%
Top 2 Deposits Share	47%
Top 3 Deposits Share	64%
Top 4 Deposits Share	81%

Deposits Share in Non Resident Banks	6%
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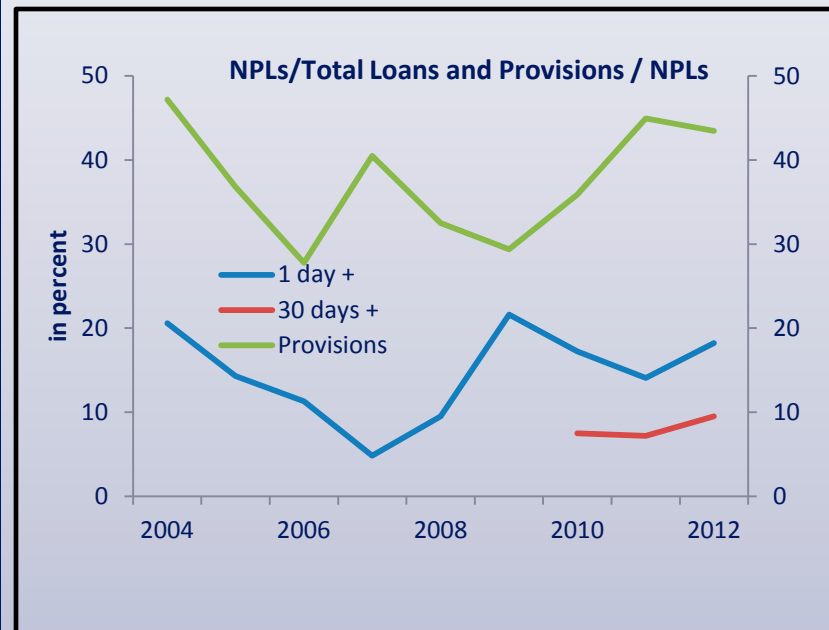
Overview of the Financial Sector

Well capitalized banking system...



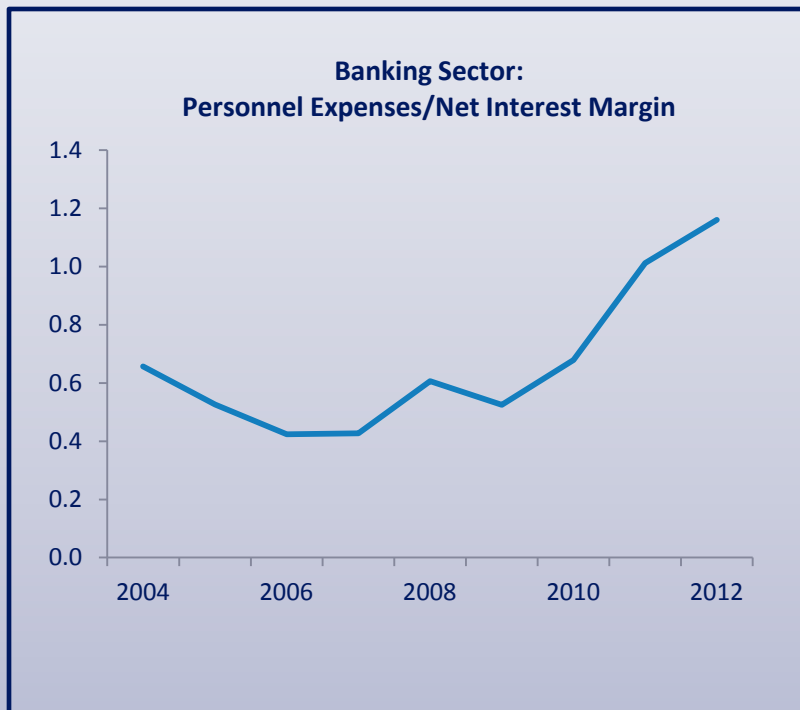
- Tier I/RWA: Basel Accords $\geq 6\%$
- Total Capital/RWA: Basel Accords/RWA $\geq 10\%$

...but poor asset quality.

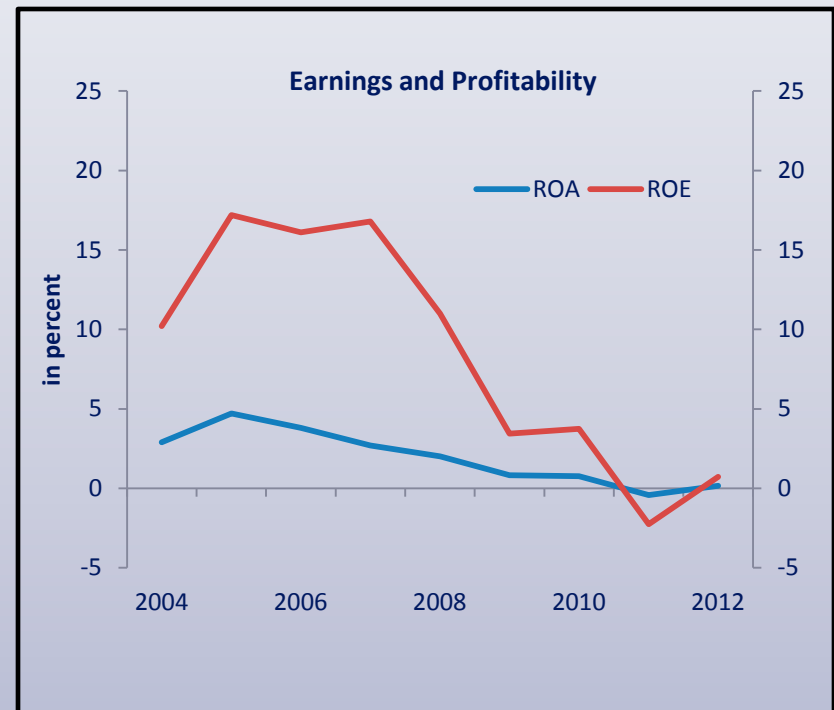


Overview of the Financial Sector

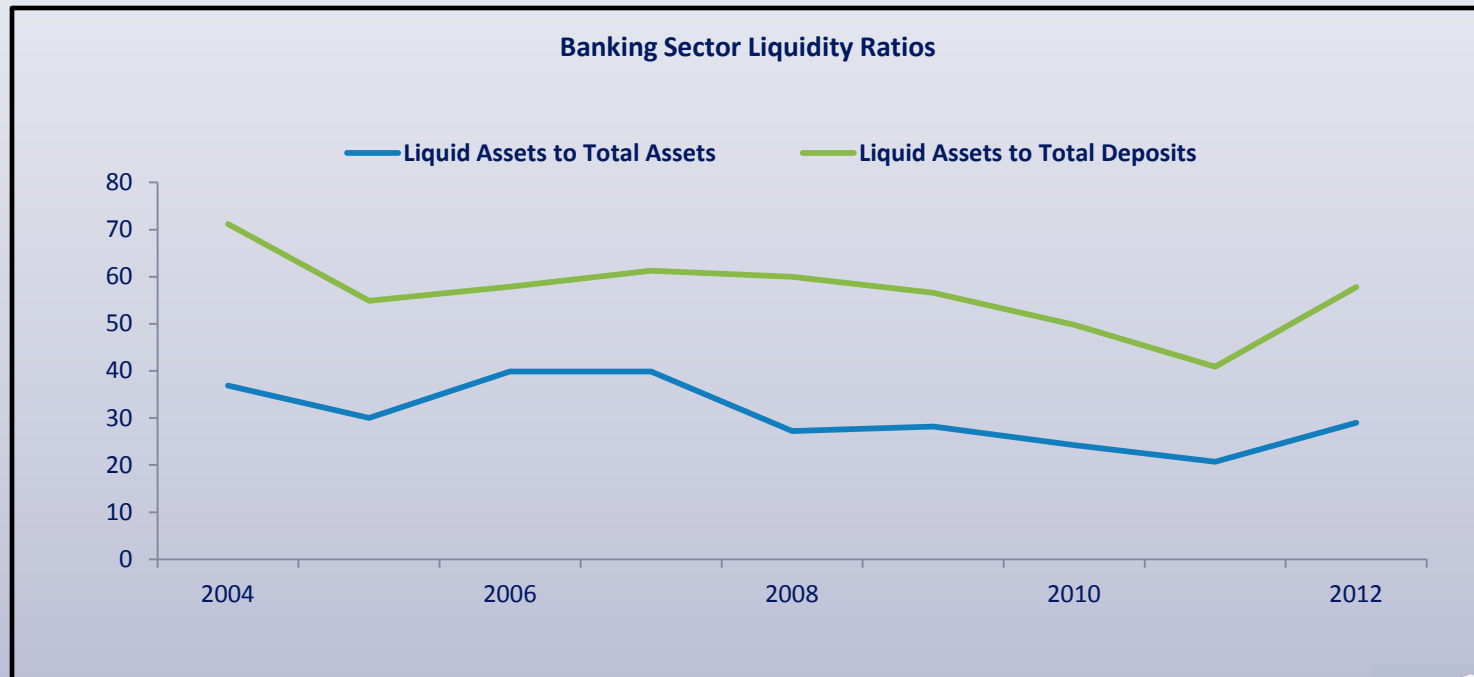
Deteriorating efficiency over time...



...also affecting profitability.

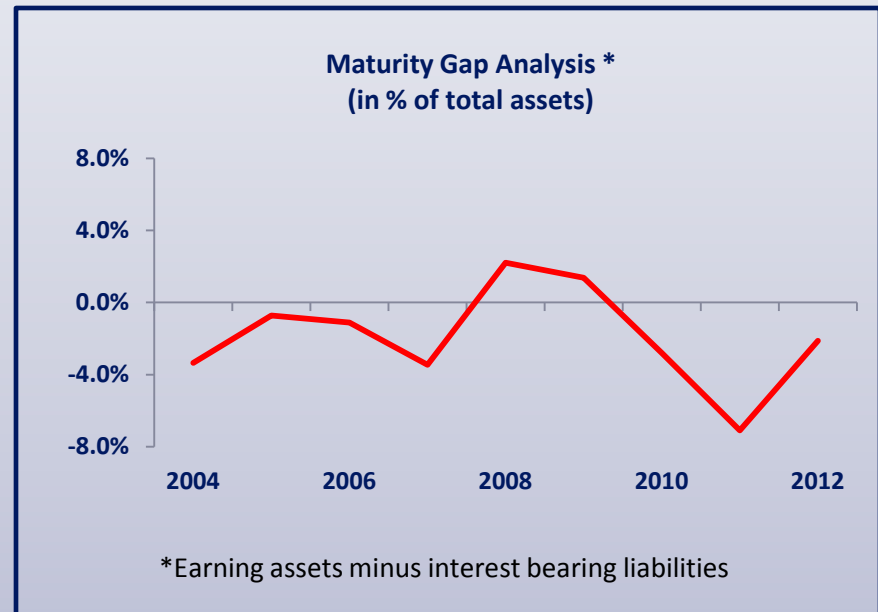
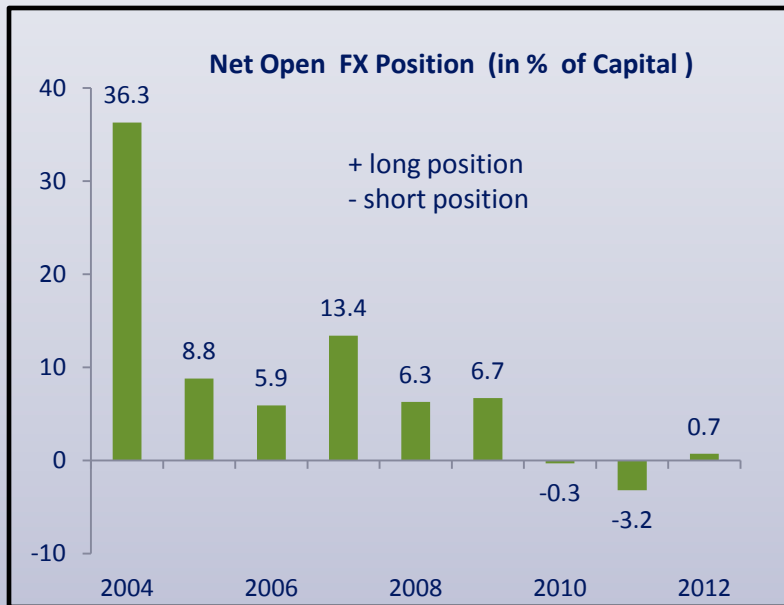


Overview of the Financial Sector



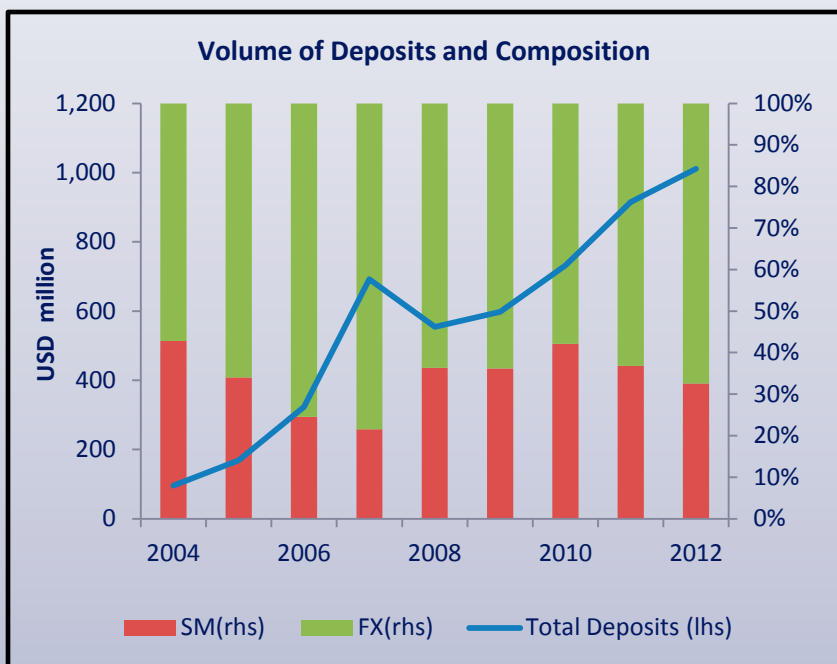
Overview of the Financial Sector

Risks arising from currency mismatches contained... ...while maturity mismatches are more concerning

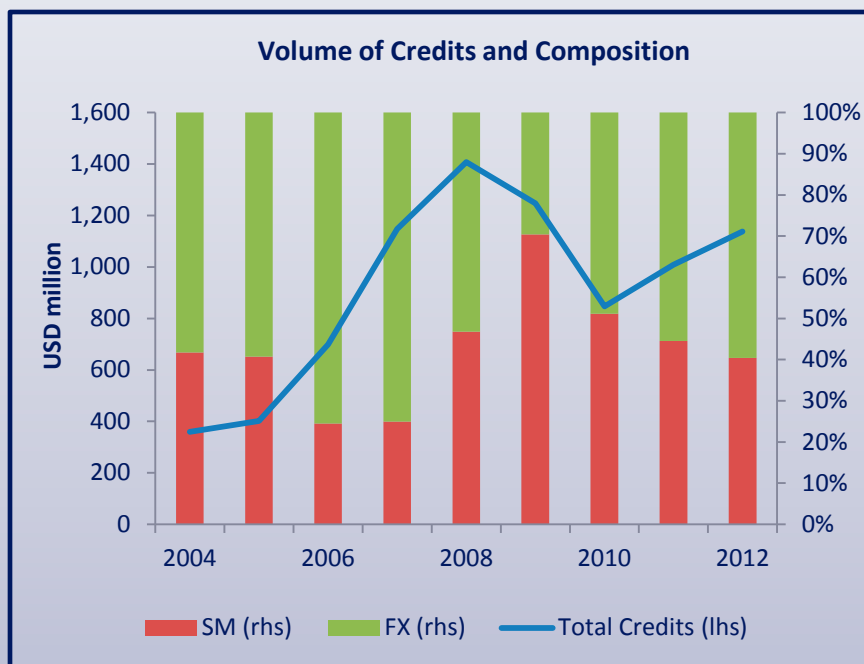


Overview of the Financial Sector

Most deposits are in foreign exchange...

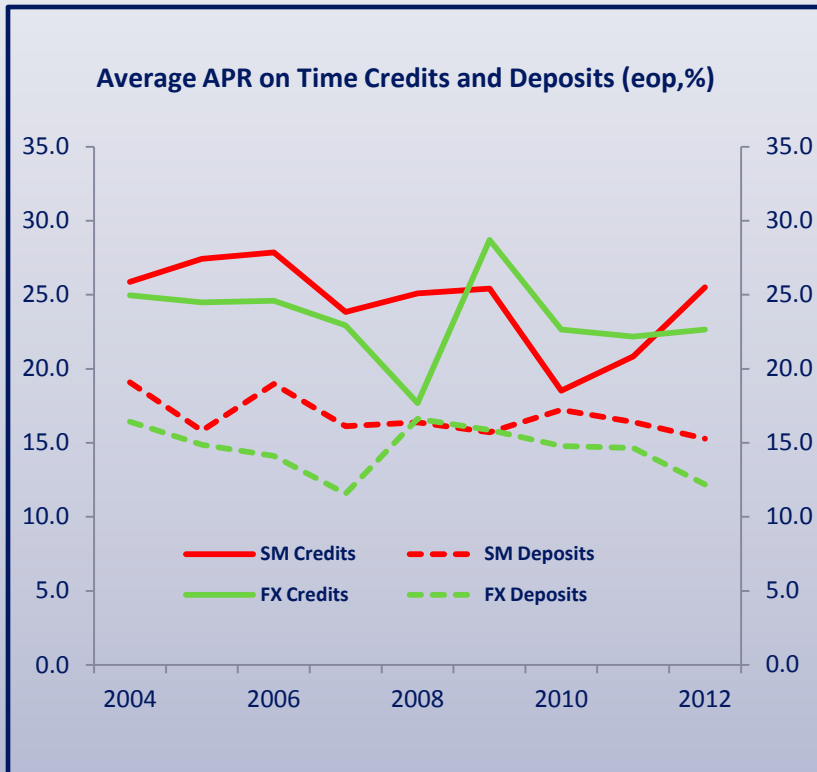


...and credit growth is also skewed towards foreign exchange

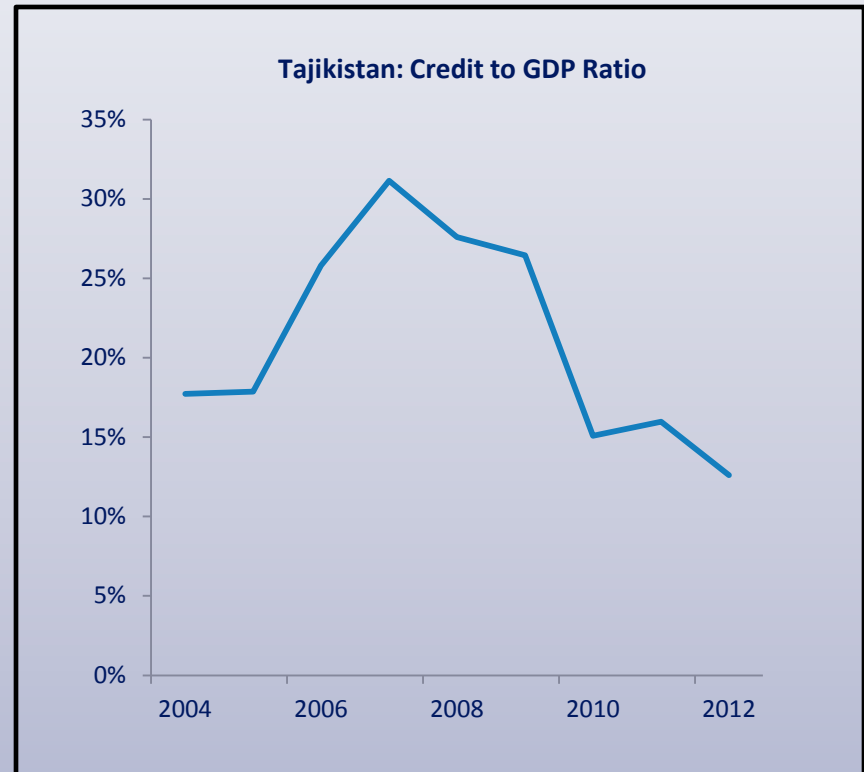


Overview of the Financial Sector

Interest rates and spreads remain high...

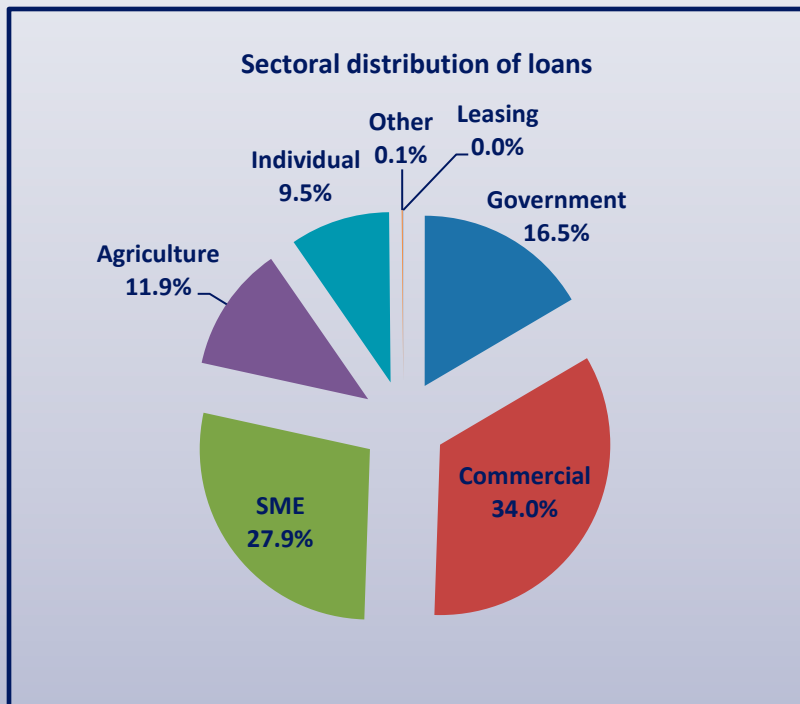


... and the financial sector is shallow

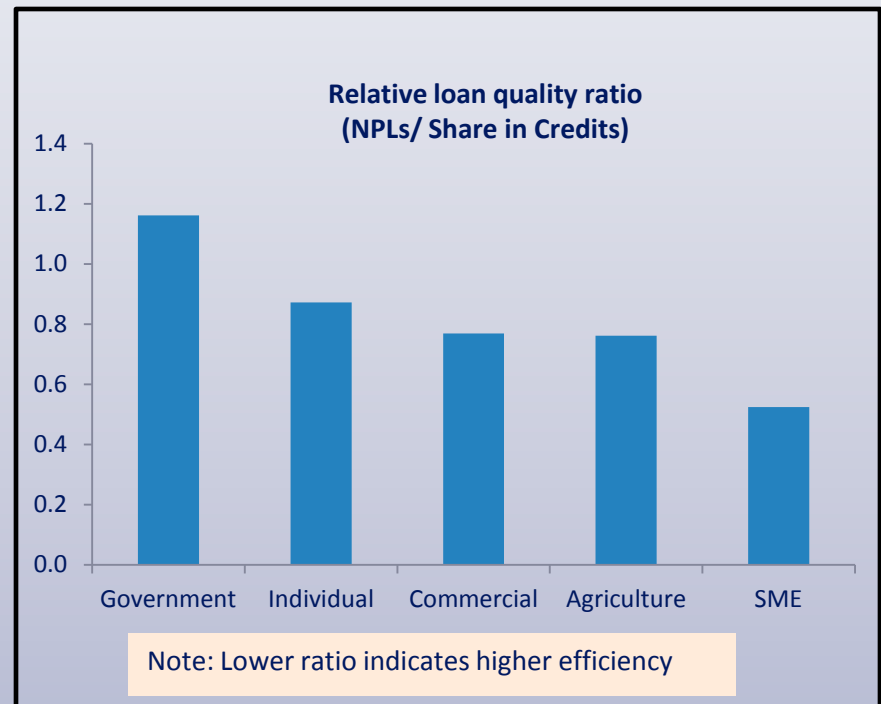


Overview of the Financial Sector

Credit portfolio is well diversified...



...while SMEs performing better



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.....

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

