

PIC Dialogue on Financial Sector Reforms

June, 2006



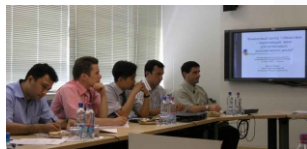
A PIC dialogue on financial sector reforms was held on 15 June, 2006 in the World Bank Country Office. The roundtable brought together representatives of the Central Bank, foreign and commercial banks, research institutes, the Banking and Finance Academy, the Tashkent Financial Institute other government agencies and the International Financial Institutions.



“The Government has declared its intention to deepen financial sector reforms today's discussion is intended to assist in this process and to emphasize how important it is to get reforms right”, said Martin

Raiser, the Country Manager of the World Bank, in his opening remarks.

The topic of the discussion was focused on taking stock of the level of current financial intermediation and the quality of financial services provided in Uzbekistan and examining opportunities for reform. Participants heard two introductory presentations, on the current status of Uzbekistan's financial sector, and on international experience with the reform of state-owned banks, followed by an open discussion.



In the first presentation Martin Raiser noted that Uzbekistan's financial depth remains low in international comparison, but emphasized that other CIS countries had recently experienced rapid financial deepening following macroeconomic stabilization and financial sector reforms. There were some signs that Uzbekistan might follow this trend, but this would require accelerating financial sector reforms. Martin Raiser noted in particular that banks in Uzbekistan were presently not a main source of investment capital, and that banking sector profitability was low, reflecting poor risk management in the past, distortions in the market for commercial loans, and remaining government regulations of the sector. Mr Raiser also noted the recent strong growth of private banks, albeit from a very low level,



and argued that these presented both an opportunity for strengthening banking sector competition and increasing financial intermediation, but also a challenge for regulators, since some of these banks were still engaged in heavy related party lending. Other opportunities for greater financial deepening in the short run were identified in the growth of the leasing market, and the establishment of new microfinance institutions.

In the second presentation, Mr. James Lacey, an experienced international banking consultant, focused on the challenge of restructuring and then privatizing Uzbekistan's still dominant state-owned banks. He examined lessons of experience from international case studies, emphasizing the importance of doing a proper analysis of state bank portfolios and options for restructuring state banks, before embarking on bank privatization. He noted that international experience suggested that the process inevitably imposed some costs on the state budget as a result of restructuring loan portfolios, but that these costs only grew if restructuring was delayed.



The presentations were followed by intensive discussion. Participants expressed gratefulness to the World Bank for having initiated the dialogue, while many noted that a much more detailed analysis was required to understand fully the functioning of Uzbekistan's financial sector and the challenges going forward. The representative from the Central Bank noted that the financial sector was already providing important impulses for economic growth in Uzbekistan, and outlined further reform measures planned over the coming year.

“This is just the beginning of an important dialogue. Ultimately, we all agree that Uzbekistan should have a strong, privately owned and operated financial sector. Our task is to examine how to get there and for this ongoing dialogue is required”, said Martin Raiser closing the discussion.