

DEVELOPMENT PROBLEMS OF RETAIL FINANCIAL SERVICES IN UZBEKISTAN
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Abstract: *the paper aims to analyse the development of retail financial services in conditions of government intervention. It is argued that excessive state control of the market for retail financial services is needed in times of crisis but is not effective in the long term. The cause of which is moral hazard occurrence in financial sector. In the article, it is given with real discussion, which comes with critical review statistics date. Development in the financial service industry could be achieved by expanding of privatization in the banking sector and permitting the sector to function freely according to market rules.*

Keywords: *retail financial services, retail lending, interest rate.*

**ПРОБЛЕМЫ РАЗВИТИЯ РОЗНИЧНЫХ ФИНАНСОВЫХ УСЛУГ В
УЗБЕКИСТАНЕ**
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Аннотация: *статья нацелена на анализ развития розничных финансовых услуг в условиях государственного вмешательства. Утверждается, что чрезмерный государственный контроль над рынком розничных финансовых услуг необходим в период кризиса, но не является эффективным в долгосрочной перспективе. Причиной его является возникновение морального риска в финансовом секторе. Развитие может быть достигнуто за счет расширения приватизации в банковском секторе и разрешения данному сектору функционировать свободно в соответствии с рыночными правилами.*

Ключевые слова: *розничные финансовые услуги, розничное кредитование, процентная ставка.*

Introduction

Since independence Uzbekistan confidently engaged in the creation of the national banking system which has to date 22 year history. During this short period, there was created a unified system of management of the entire banking sector of the country headed by the Central Bank of the Republic of Uzbekistan. All other banks are specialized commercial banks that strictly follow the rules of the Central Bank, regardless of their form of ownership. To date, the country has 30 commercial banks, of which 3 - state-commercial, 13 joint-stock commercial, 9 private and 5 with private foreign capital. On the territorial coverage, the country's banks have a positive amount; particularly there are 822 branches and 1,450 mini-banks spread throughout the region. The last covers even the most remote villages of the country.

To date, the activities of the banking system rigidly conform to international standards and are one of the most stable systems. This is proven by the estimations of the international rating agencies such as «Standard & Poor's», «Moody's», «Fitch ratings» which confer a "stable" rating level in recent years. In particular, in 2010 the "stable" international ranking of «Moody's» was obtained by a total of 13 commercial banks in the country, in 2013 the number of such banks reached 28 [1].

Despite the stability of the banking sector in Uzbekistan, the problem of development of retail banking remains acute. According to the statistical figures in 2012 for retail lending by banks granted funds amounting to more than 1 trillion sums (national currency of Uzbekistan), while for investment purposes to legal entities - over 5.7 trillion sums. These data show that, the bulk of bank loans go to large business. But even this amount of investment credits,

according to the World Bank, does not exceed half of such loans in countries with economies in transition [2]. In other words, the volume of total loans is not high in the country and the share of retail loans in them even less.

Objectives, materials and methods

This paper aims to provide a critical analysis of the development of retail financial services in conditions of government intervention. It aims to do comparative analysis of retail financial market of Uzbekistan with other market-oriented economies. The basis for discussion will be a critical review of statistics data.

Analysis of the development of retail financial services

Under the conditions of the formation of civil society, it is important to create appropriate level of retail lending along with the development of industrial credit. Under the retail lending are implied the lending of consumers and entrepreneurs who are not a legal entity.

Although all commercial banks offer retail financial products, generally retail financial services in Uzbekistan is still at an early stage of its development. For the development of retail banking services it is not enough for commercial banks to simply "turn face" to customers. They need to develop a full-fledged strategy for promoting services in the financial market.

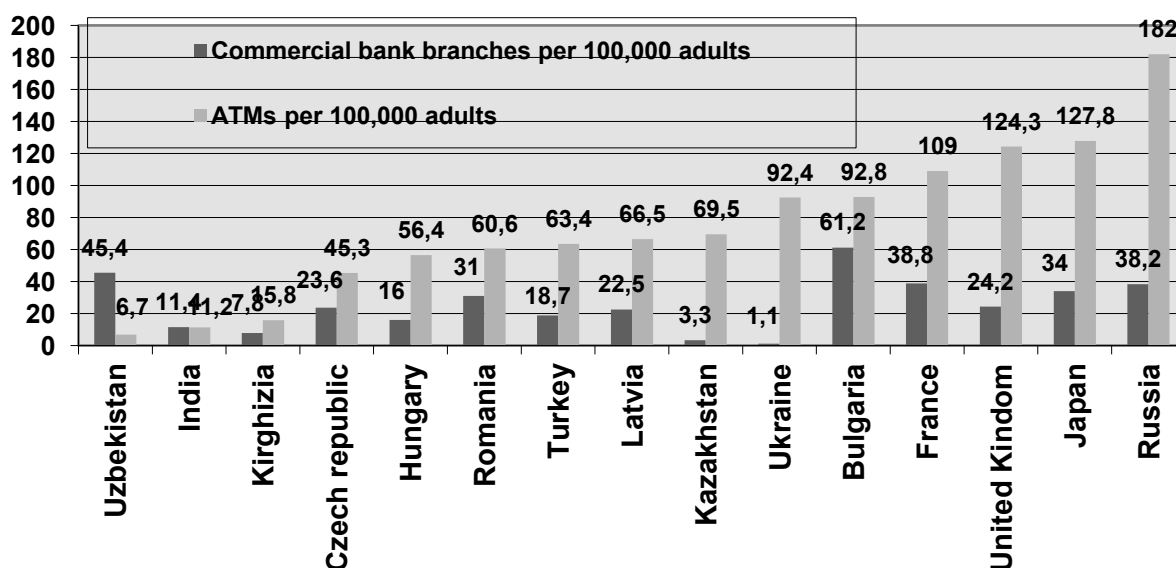


Fig. 1. Number of banks and ATM machines to 100,000 of the adult population in some countries of the world (on the results 2012)

Source: IMF: <http://fas.imf.org/>

Retail banking in Uzbekistan retains the traditional method of customer service - the only direct contact of the bank with the customer, granting loans only after documentary confirmation of customer credit worthiness and his compliance with numerous regulations. A ramified branch network of mini-banks and savings banks has been created for this purpose. The number of bank branches per 100,000 of the adult population in Uzbekistan is 45.4. This suggests a high level of physical access to banking services by international standards. For comparison, in Ukraine - 1.1, Kazakhstan - 3.3, Russia - 38.2, UK - 24.2, France - 38.8. But on the other hand Uzbek banks are sceptical of machines - the number of bank branches is higher than in the UK and France, but the number of ATMs is lower than in India (Fig. 1). Remote banking services in Uzbekistan covers less than 1% of the customer base of the banks. For comparison, in Russia - 4.2%, Italy - 12.7%, UK - 51, France - 56, Canada - 65 (on the results 2010) [3].

The current situation in the financial sector of developed countries shows that the traditional approach is not an obstacle, but it also does not accelerate growth.

It can be noted that retail lending in Uzbekistan grows at a significant pace. The global financial crisis has had a short-term impact on the retail lending market. If before 2008 the pace of retail lending increased, then in 2009 they decreased because of reducing consumer loans, and in 2010 - at the expense of loans to entrepreneurs without legal entity. There has been a recovery in the market in 2011 - consumer loans increased by almost 44%, loans to entrepreneurs without legal entity - by 27%, while the overall retail loans by 41.1% (Fig. 2).

Such accelerated growth recovery was not achieved by initiative of commercial banks, but with the government's efforts through the implementation of several major programs.

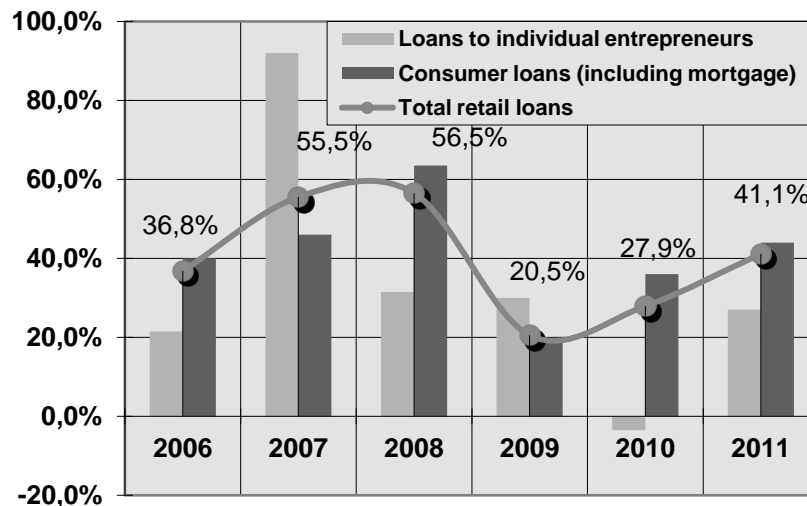


Fig. 2. The rate of growth in retail lending in Uzbekistan

Source: *Finance retail*. 2013: Report of "Financial liberalization: the conditions of development of retail banking business in Uzbekistan". CER. Economic Review, № 5 (162). Tashkent. Pp. 33.

First, the anti-crisis program for 2009-2012 has included measures to expand consumer and mortgage lending.

Secondly, adopted in 2012, the state program "Year of the Family" has been providing large-scale preferential interest rates of mortgage and consumer loans to young families, loans to support handicrafts and family businesses, as well as microloans to small farmers.

Such rigidly-controlled approach to banking system development is particularly effective in time of crisis since in a pure market economy or in economy with low government control market relations between subjects (people) have speculative character. It is important to recall here the views of Professor Robert Sheller of Yale University, about imperfection of the market: "In the U.S. we are just beginning join discussions on topics of morality and human values, treating them as an integral part of business life. The process is not fast. When I started working at the university, the most common opinion was the idea that the market is perfect, though I did not want really believe in it then. I looked through all the old books in search of the chapter about speculative "bubbles", but nothing in them on this topic I found. Then I began to look for the chapter about fraud. And again, to no avail. If we take modern textbooks, from this point of view, yet something has changed." The same opinion has the legendary George Soros, who at the World Economic Forum in Davos said that during the crisis earlier functioned market theory "irreversibly collapsed" [4].

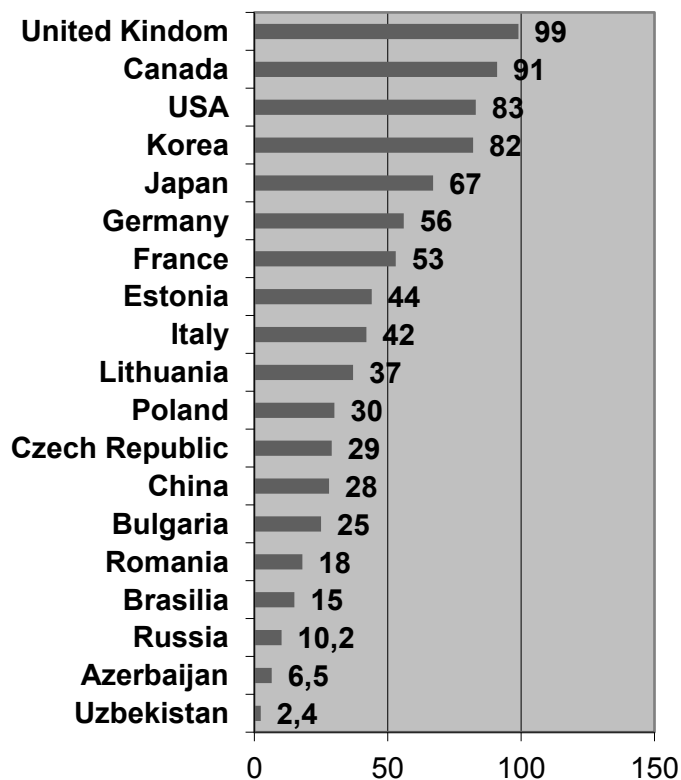


Fig. 3. The volume of retail loans in relation to GDP in some countries, on results of 2011, in percentage

Source: Finance retail. 2013: Report of "financial liberalization: the conditions of development of retail banking business in Uzbekistan", CER. Economic Review № 5 (162). Tashkent. Pp. 33.

It is obvious that to build the model of financial and banking system without taking account a permanent aspiration of market participants one way or another, to cheat - it is, of course, pure idealism that has nothing to do with the real economic relations.

But on the other hand, limitation just with government's efforts and configuration of the banking system as an executive institution will provide lowly moderate level of development of the system. In the consequence, this leads to moral hazard in the banking system itself that makes it quite vulnerable and inadequate to market conditions of doing business [5]. Despite the fact that the volume of retail lending in Uzbekistan is growing rapidly, the total retail loans in relation to GDP is only 2.4% (in 2008 - 2.5%), which is relatively lower than in a number of developing countries (Fig. 3).

Consumer loans, which in Uzbekistan comprise also mortgage loans, are 6% of the total assets of the banking system. For comparison, in the number of countries in Eastern Europe, despite the slowdown in retail lending, the ratio of consumer loans (excluding mortgages) to the total assets of banks remains relatively high: in Romania - 16%, Hungary and Bulgaria - 11, Poland - 9.

It can be concluded that the state initiative of banking sector development is very much needed and brings good results but only in terms of support for the sector. In other words, along with state support essential value has independent development of the banking sector, which must operate according to market rules.

At this stage of development of the banking system of Uzbekistan it is necessary to increase circulation of money through the banking system. The more money will circulate through the banks the more financial resources will be available to the banks that will affect positively on the volume of lending.

By initiative of the head of state a series of measures were adopted to attract idle funds of the population. In particular:

- established a "Fund for reconstruction and development", which guarantees 100 percent refund of deposits of citizens in case of insolvency of banks;

- found that the banks will not require from depositors information about the origin of their invested funds and will keep confidential all information about their deposits;
- established the administrative and, in some cases, criminal liability of the authorized persons of banks in case of rejection to return deposits to citizens at their first demand.

As a result of these measures, deposits per capita increased 8 times from 14.5 U.S. dollars in 2005 to 116.8 dollars in 2011. But despite this, the potential of attracting free cash deposits of the population remains enormous. Index thrift industry (the level of deposits per capita) in Uzbekistan is only 5.2. That is only 5.2% of the income of the population are kept in banks in the form of deposits, and this figure is, at least, should be increased to the level of 20-30% typical to developing countries [3].

Interest rates, which are paid by banks on term deposits, are quite high in Uzbekistan. They reach up to 25% a year, while the inflation rate of 7-8% and the interest on business lending is an average of 13%. It is obvious from the fact that banks can't effectively use these deposits for lending they are unable to infinitely accept deposits from the public on such high interest and return them at the first demand of depositors. Of course, there are lower interest rates (12-18%) on which banks are able to take deposits, but they are less acceptable to the public, because there are more attractive investment options, such as buying a car, real estate, jewellery, prices of which are rising on a higher rate.

Conclusions

Заключение

It can be concluded that the state initiative of banking sector development is important and gives good results but only in terms of support for the sector. In other words, along with state support essential value has independent development of the banking sector, which must operate according to market rules. Results show that, at this stage of development of the banking system of Uzbekistan it is necessary to increase circulation of money through the banking system. As the Index thrift industry (the level of deposits per capita) in Uzbekistan is only 5.2. as well as Uzbek banks are sceptical of machines - the number of bank branches is higher than in the UK and France, but the number of ATMs is lower than in India.

We can also conclude that the development of retail banking services is provided mainly by the government's efforts. In turn, this leads to moral hazard in the banking system itself that makes it quite vulnerable and inadequate to market conditions of doing business. Development could be achieved by expanding of privatization in the banking sector and permitting the sector to function freely according to market rules.

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