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Financial Sector Benchmarking System High Level Financial Sector Overview Country Reports

What to Expect

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May19, 2011



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Overview

What are PFS High Level Financial Sector Overviews
(Country Reports)?

Findings from Selected Countries



Purpose of the Financial Sector Benchmarking System

- To periodically **measure progress** and **highlight vulnerabilities in the financial sector** in Southeast Europe and Eurasia and in the individual countries.
- To **identify common weaknesses or challenges** that can be addressed through regional activities (informing and ground-truthing PFS's regional initiatives).
- To provide useful data for USAID Missions in Europe and Eurasia to consider when **planning and defining economic growth programs and projects**.



The FSBS qualitatively and quantitatively analyzes a series of indicators drawn from multiple sources of publicly available data.



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FSBS Benchmarking Measures:

- Financial and Macroeconomic Stability
- Financial Sector Size
- Financial Sector Sophistication
- Access to Financial Services
- Financial Sector Enabling Environment



Regional Comparisons

CEE NORTHERN TIER

Czech Republic

Estonia

Hungary

Latvia

Lithuania

Poland

Slovakia

Slovenia

CEE SOUTHERN TIER

Albania

Bosnia and Herzegovina

Bulgaria

Croatia

FYR Macedonia

Kosovo

Montenegro

Romania

Serbia

EURASIA

Armenia

Azerbaijan

Belarus

Georgia

Kazakhstan

Kyrgyz Republic

Moldova

Russia

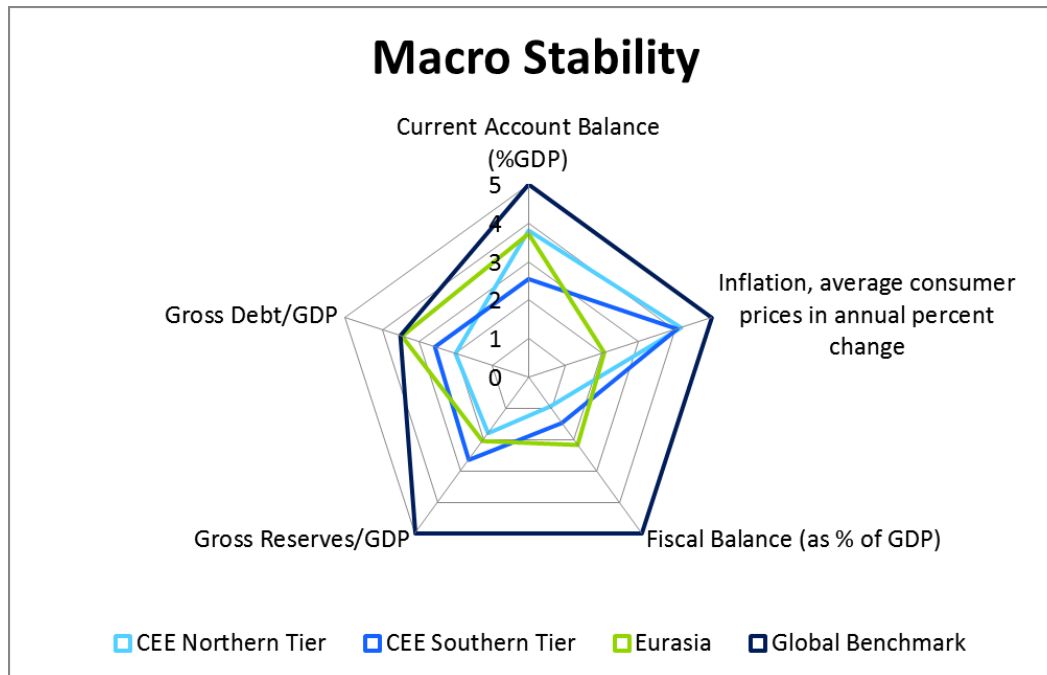
Tajikistan

Turkmenistan

Ukraine

Uzbekistan

Ranking System



The 'Global Benchmark' is either the Eurozone countries' average; Korea (as a proxy for advanced developing countries); or a best-practices standard selected by PFS.



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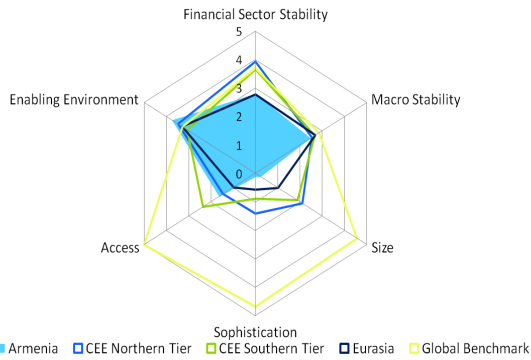
Overview of Findings

Eurasia

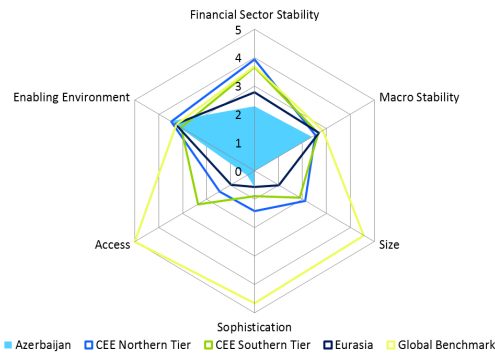


Overview – Eurasia

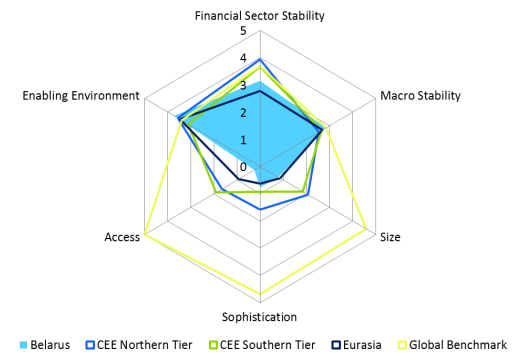
Armenia High Level Indicators



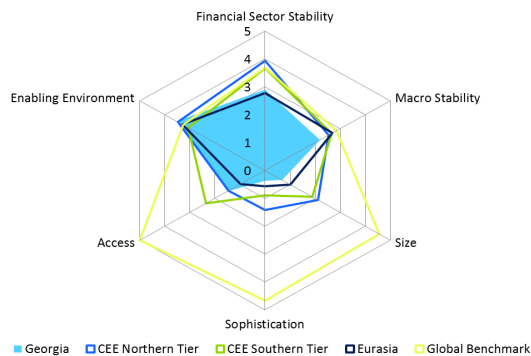
Azerbaijan High Level Indicators



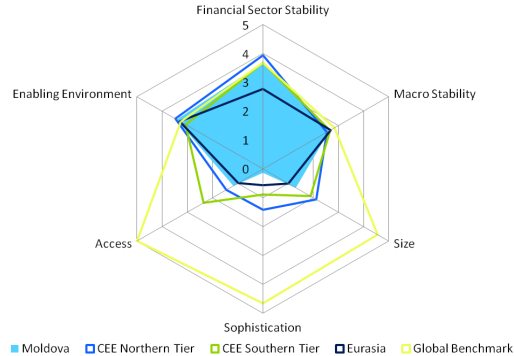
Belarus High Level Indicators



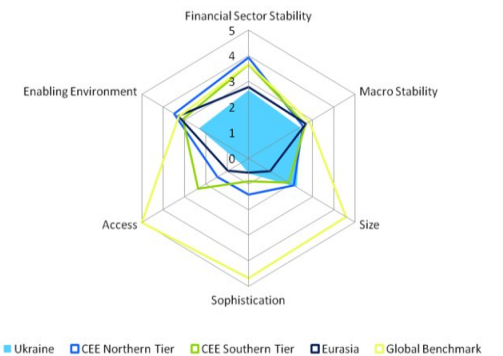
Georgia High Level Indicators



Moldova High Level Indicators

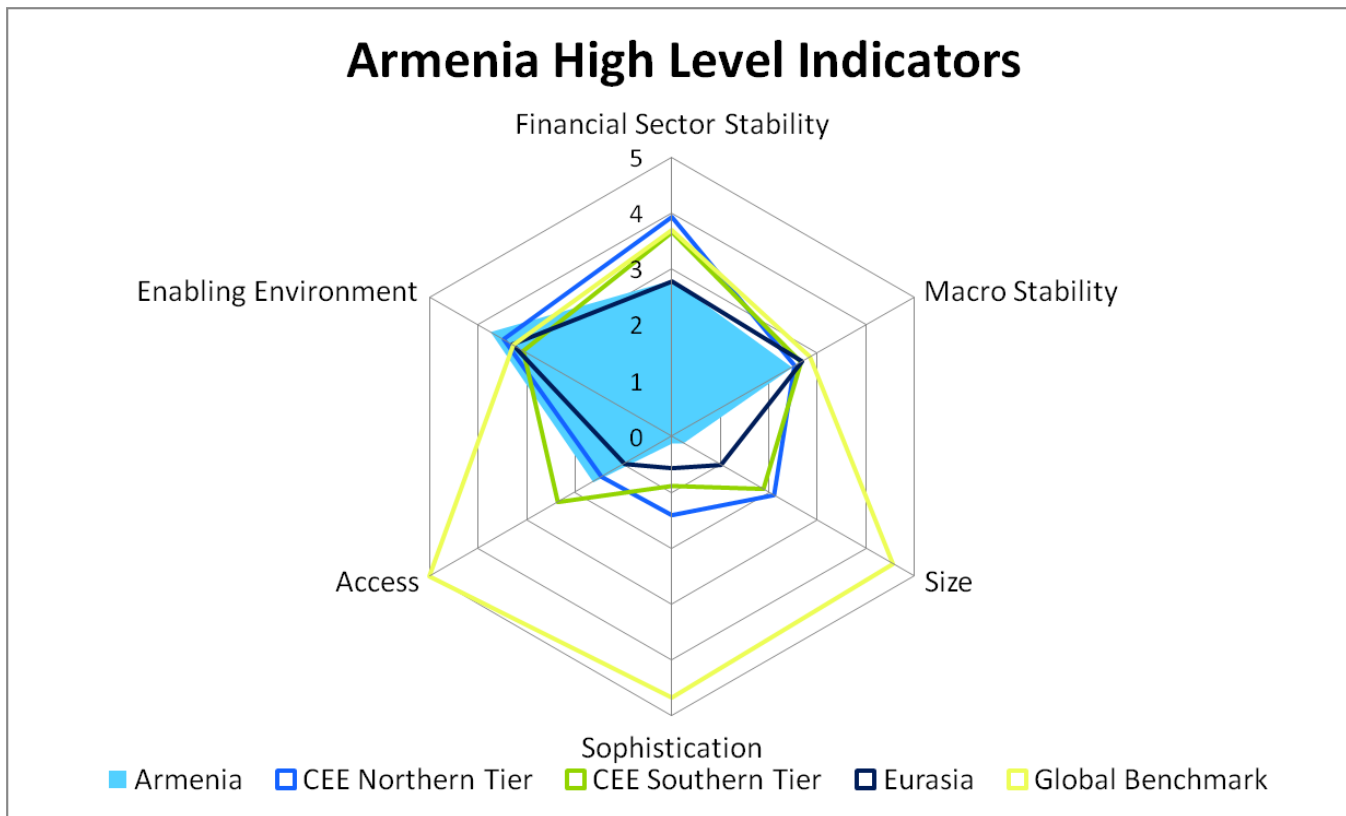


Ukraine High Level Indicators



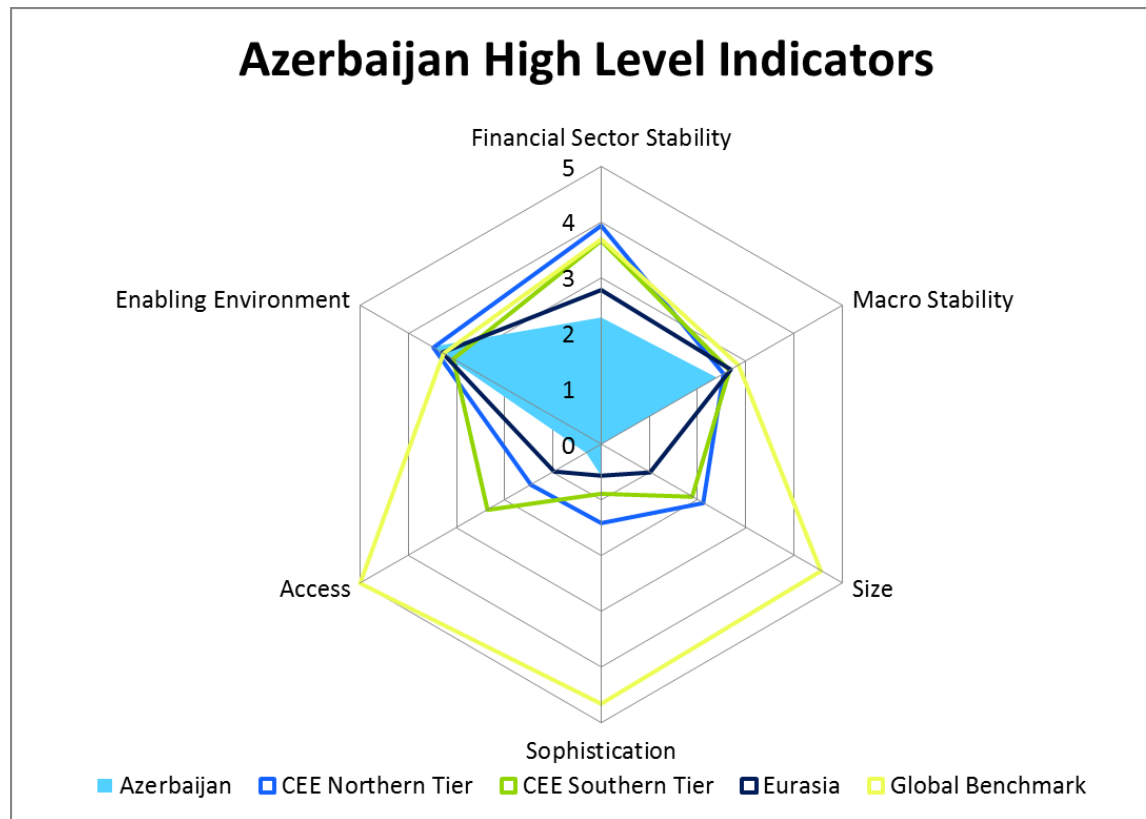


Overview - Armenia



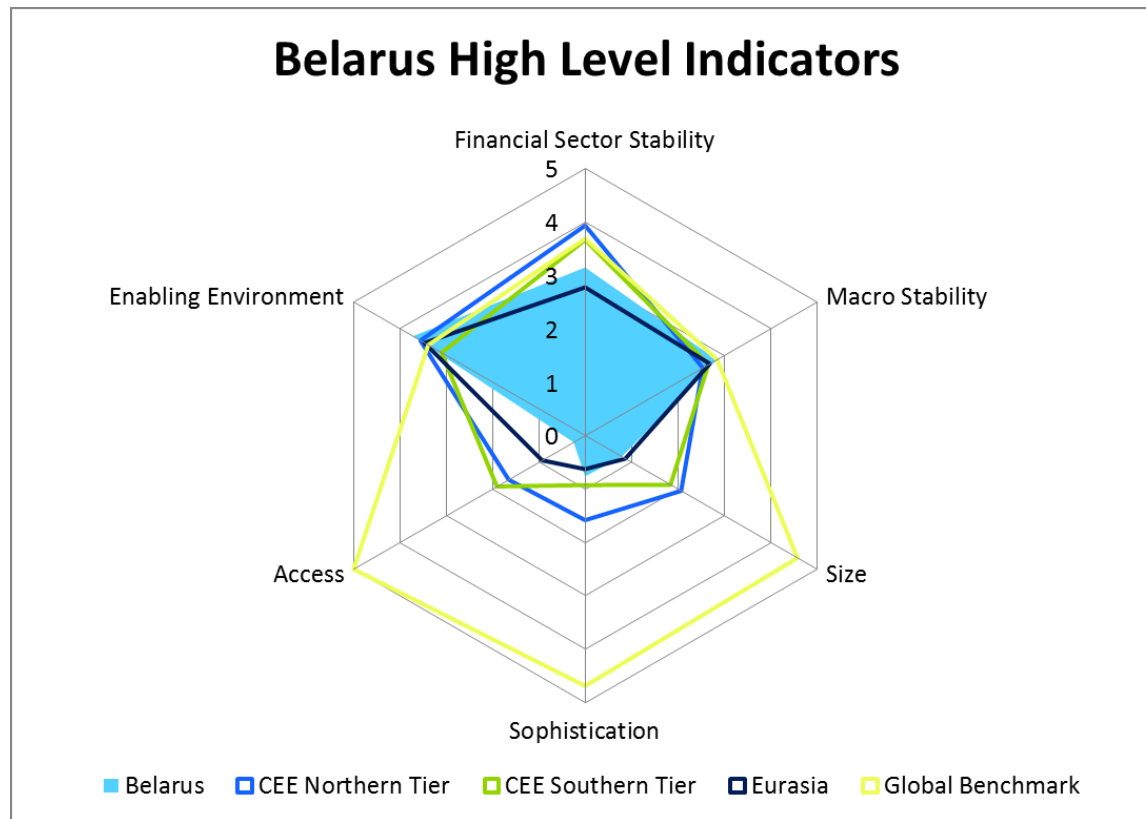


Overview - Azerbaijan



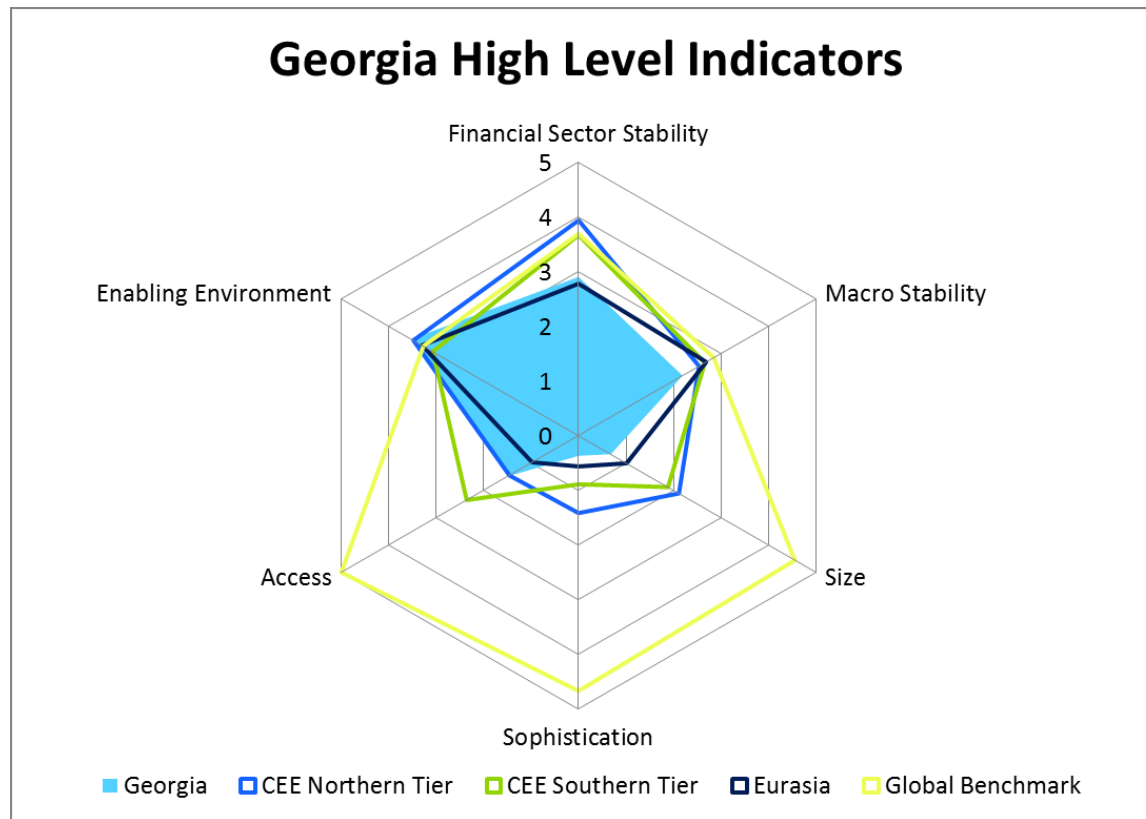


Overview - Belarus



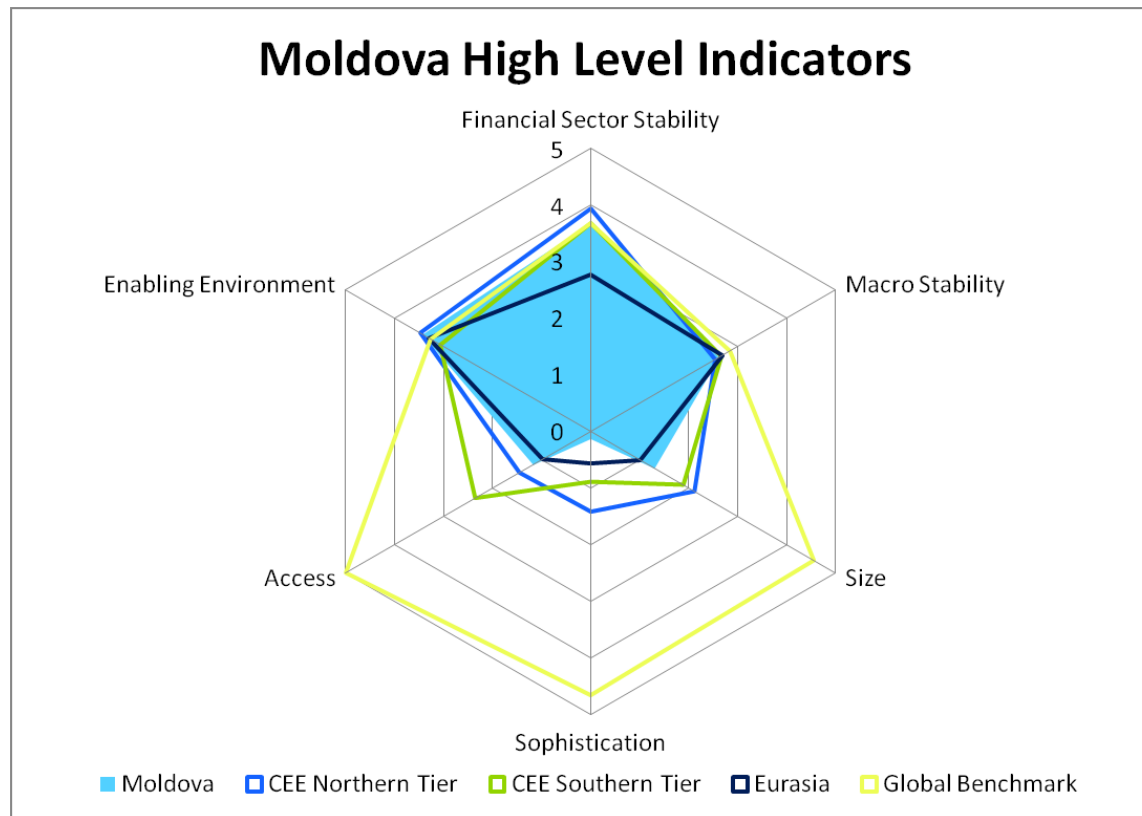


Overview - Georgia



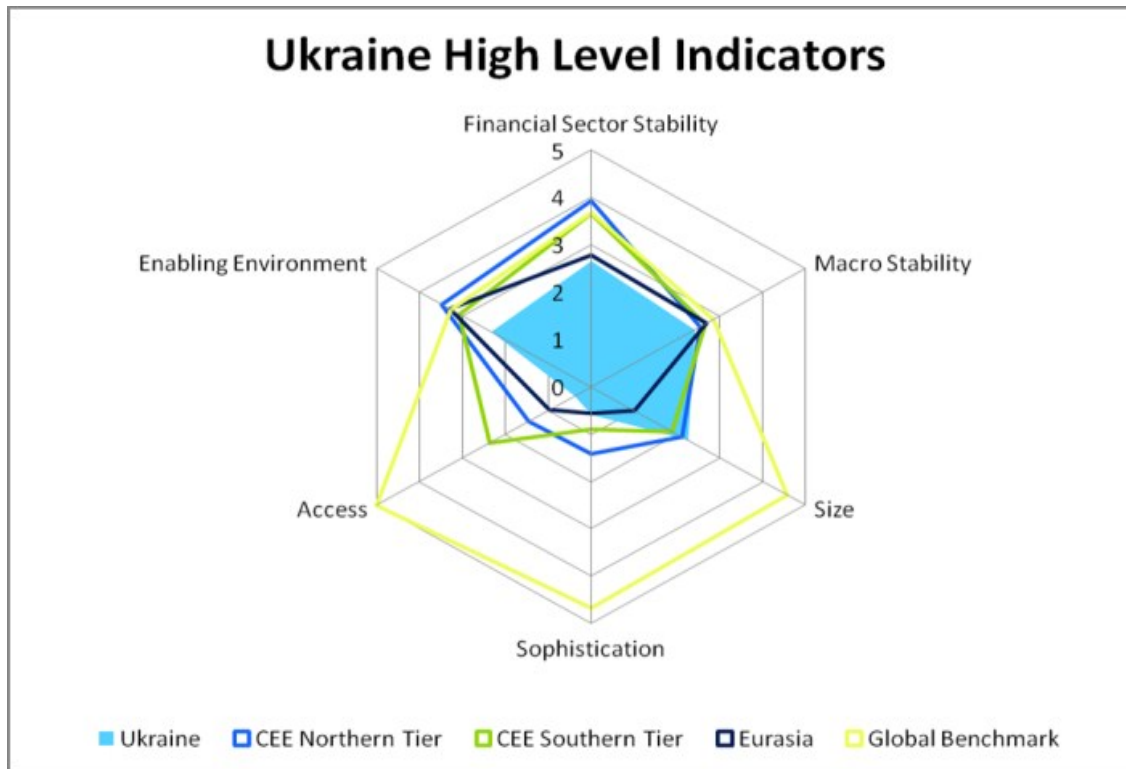


Overview - Moldova





Overview - Ukraine





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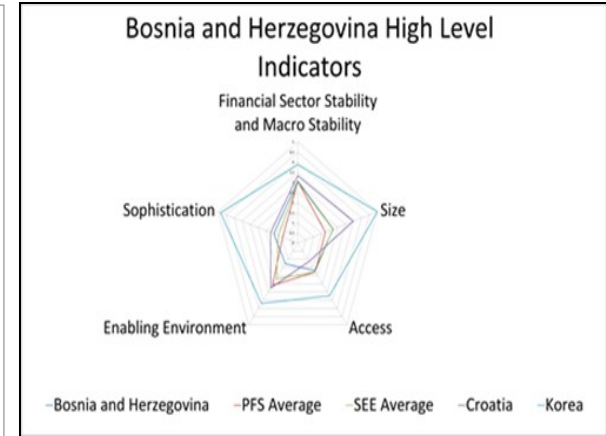
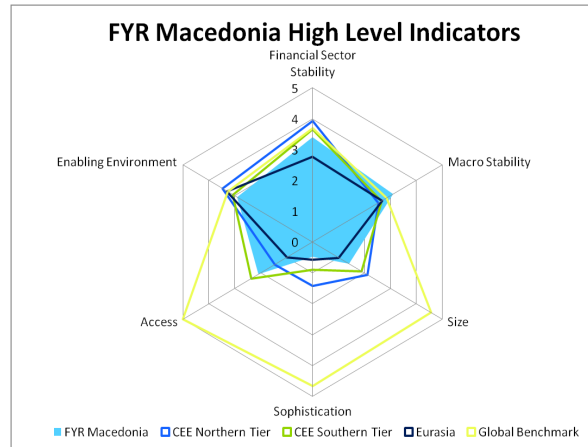
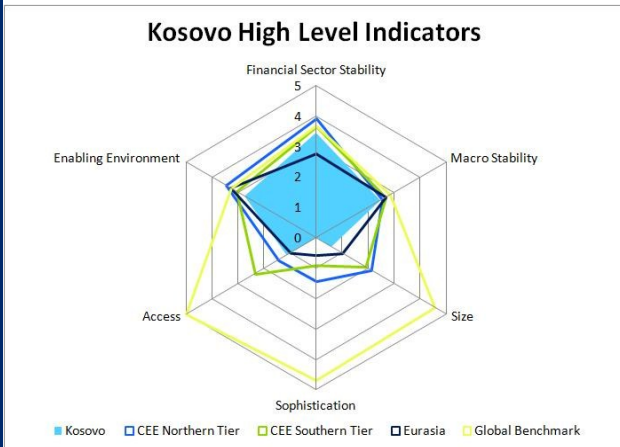
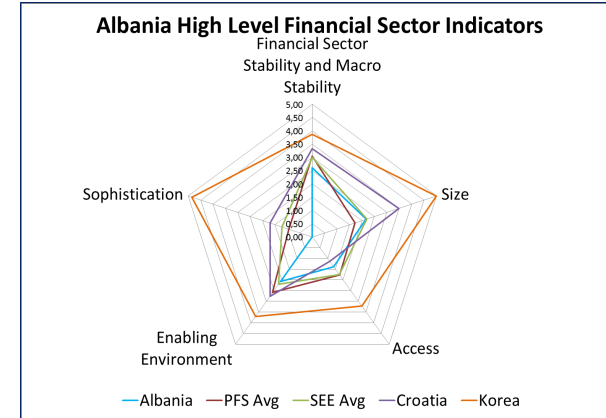
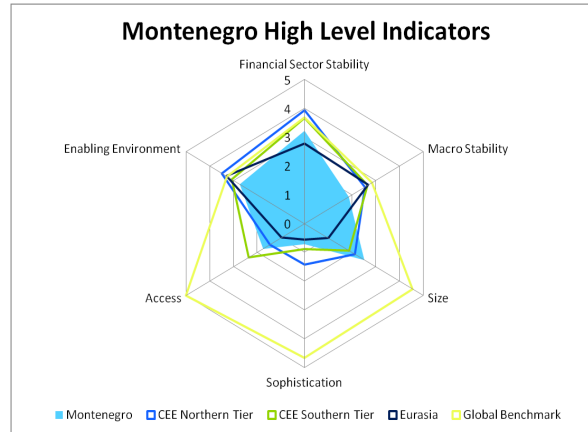
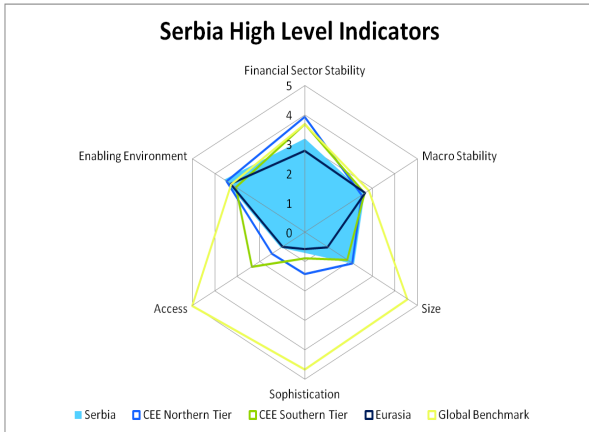


Overview of Findings

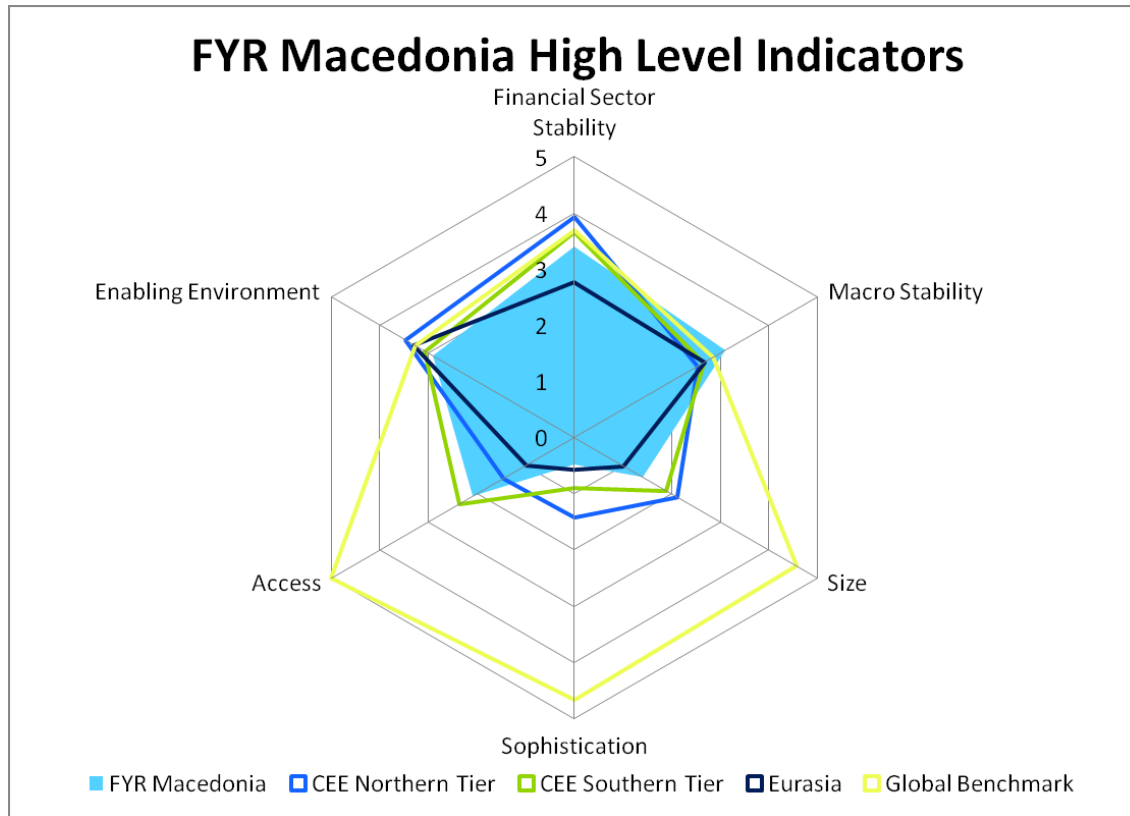
Southeast Europe



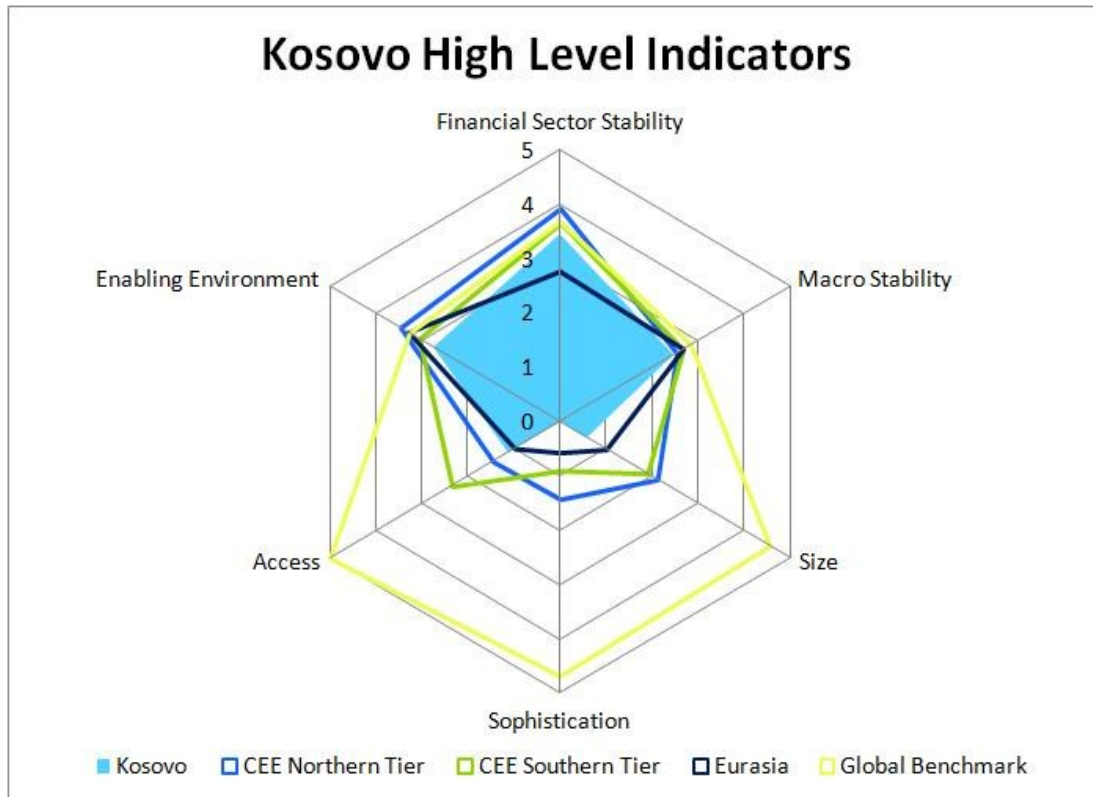
Overview – Southeast Europe



Overview of Findings - Macedonia



Overview of Findings - Kosovo



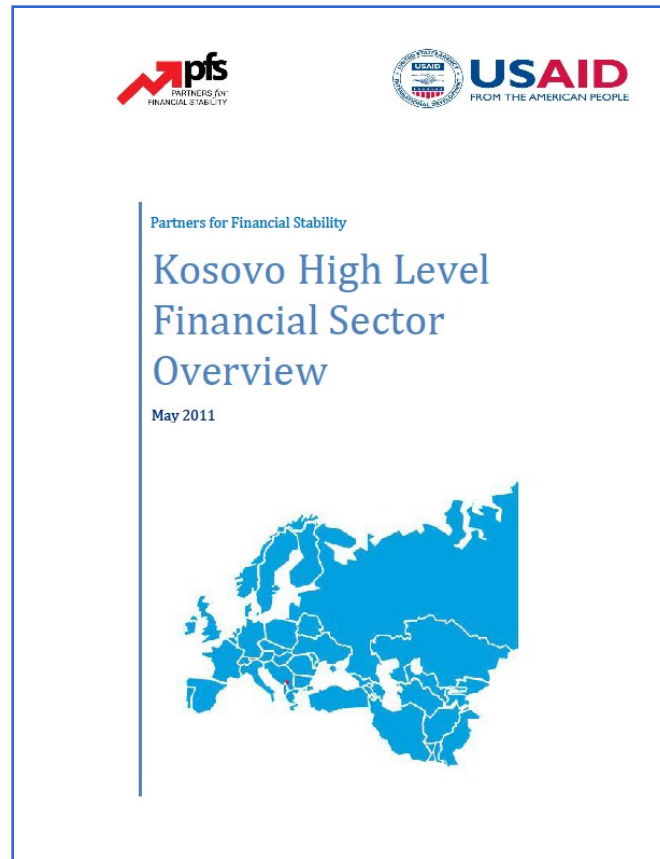
Kosovo is one of the poorest countries in Europe and the main challenge is ensuring more rapid and inclusive growth that will create employment and reduce poverty. The financial sector is small and unsophisticated but stable. The sector has good potential to grow through development of non-bank financial institutions and further broadening of the banking sector.



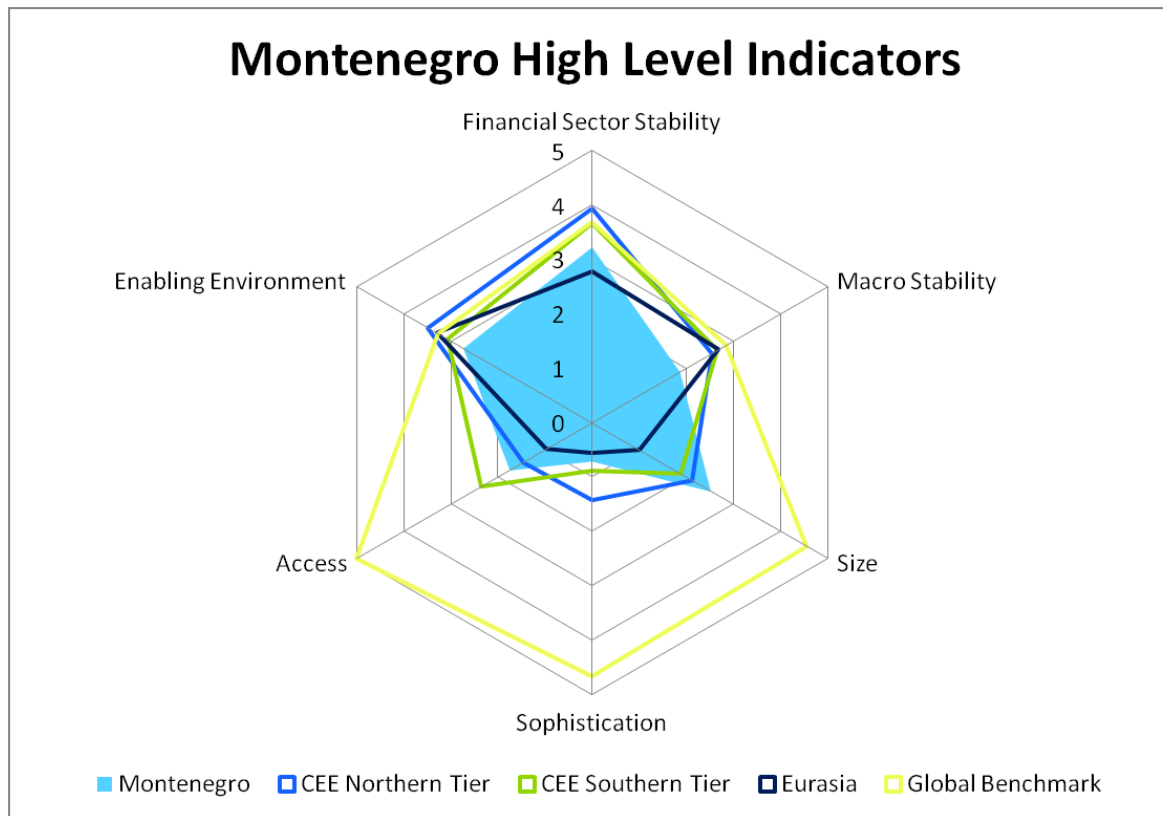
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Overview of Findings - Kosovo

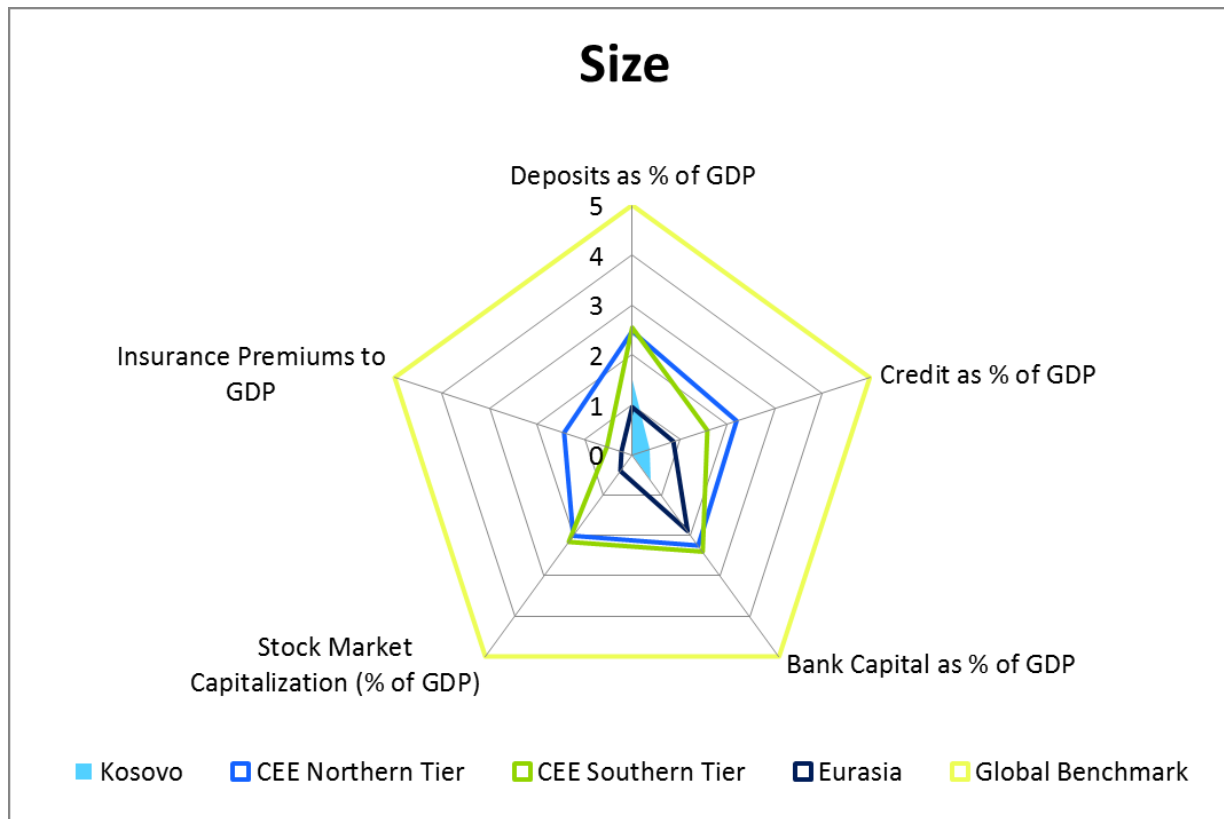


Overview of Findings - Montenegro



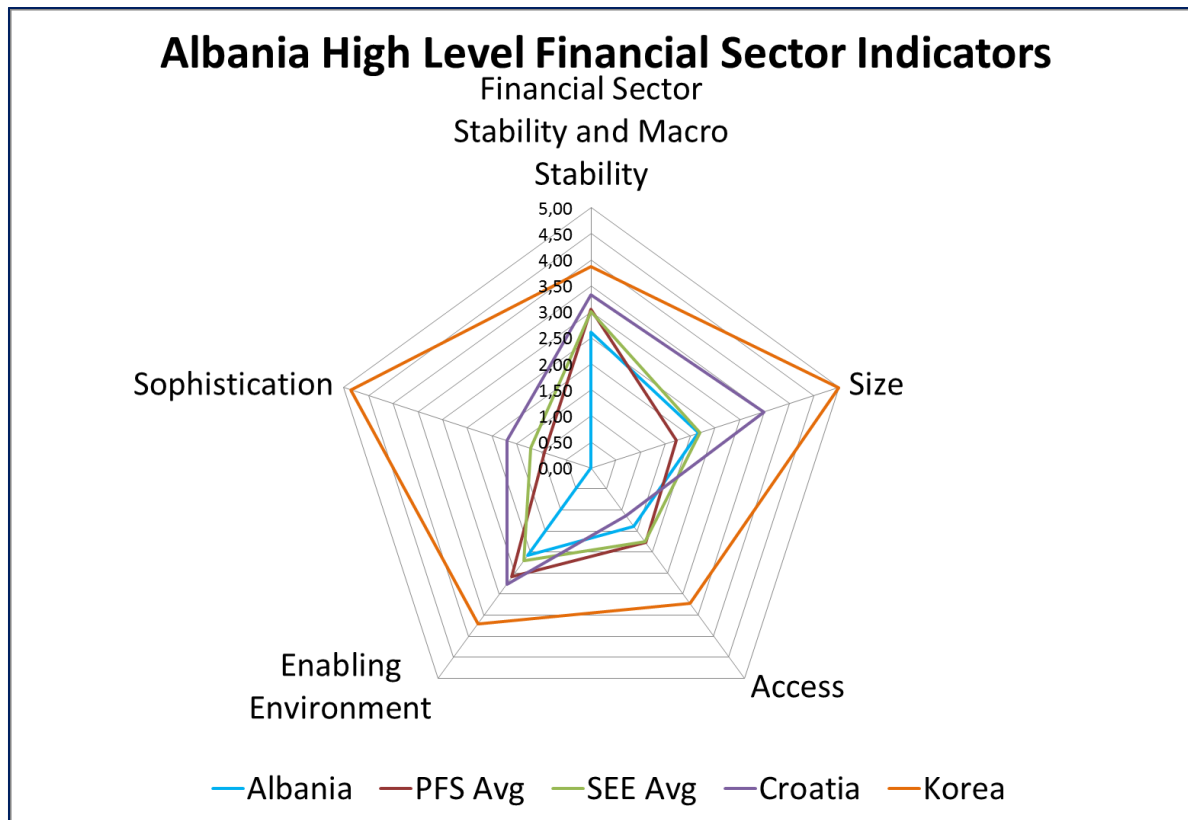


Overview of Findings - Kosovo





Overview of Findings - Albania



Overview of Findings - Albania



Albania High Level Financial Sector Overview

Summary

Albania weathered the global financial crisis relatively well and has a *generally stable macro-economy and financial sector*. Its better quantitative performance than many other PFS countries was due to a number of elements. Albania benefited from some positive factors - such as sound macroeconomic policies in previous years and strong actions taken by the Central Bank - but also some factors reflecting the small size and lack of sophistication of its underdeveloped financial sector and relatively low integration into the global economy. Challenges will continue to test Albania, mainly on the macroeconomic side, particularly relating to the country's weak fiscal position. However, current trends are moving in the right direction and gross debt is less than the 60 percent threshold generally associated with manageable levels of debt.

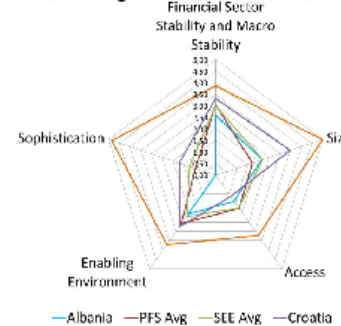
Albania remains one of the poorest countries in Europe and its financial sector remains small and unsophisticated. There is substantial potential for growth – not only to reinvigorate and broaden its more developed banking sector, but to establish a basic, but functioning debt and equity market to provide more investment in the private sector.

Albania was one of the few countries not to suffer a recession in 2009, and it continues to have one of the consistently lowest inflation rates in the region. The banking sector showed resilience, maintaining adequate levels of risk-based capital and stable earnings. While banks' non-performing loans have increased, problem loan levels are below the regional average. Lending growth dropped to near zero in 2009 but is expected to be positive again in 2010. The more subdued lending

environment should mean that the high current account deficit will continue to decline. However, if the economy is to return to more robust levels of growth needed to support job creation, some key financial sector challenges will need to be addressed.

The chart, right, indicates Albania's greatest financial sector weakness relates to *financial sophistication and the limited size of the sector*, while its scores in other areas are (i.e., stability, access, enabling environment) reflect moderate levels of performance for the region. Even in the case of financial sector size, this has more to do with relatively low levels of credit and capital (as a percentage of GDP) than with deposit mobilization, the latter of which has shown impressive growth in the last decade following the damaging pyramid schemes of 1997. Thus, Albania has potential to expand the financial sector, but this will take time. Commercial banks provide a limited number of products and services as well as little

Albania High Level Financial Sector Indicators

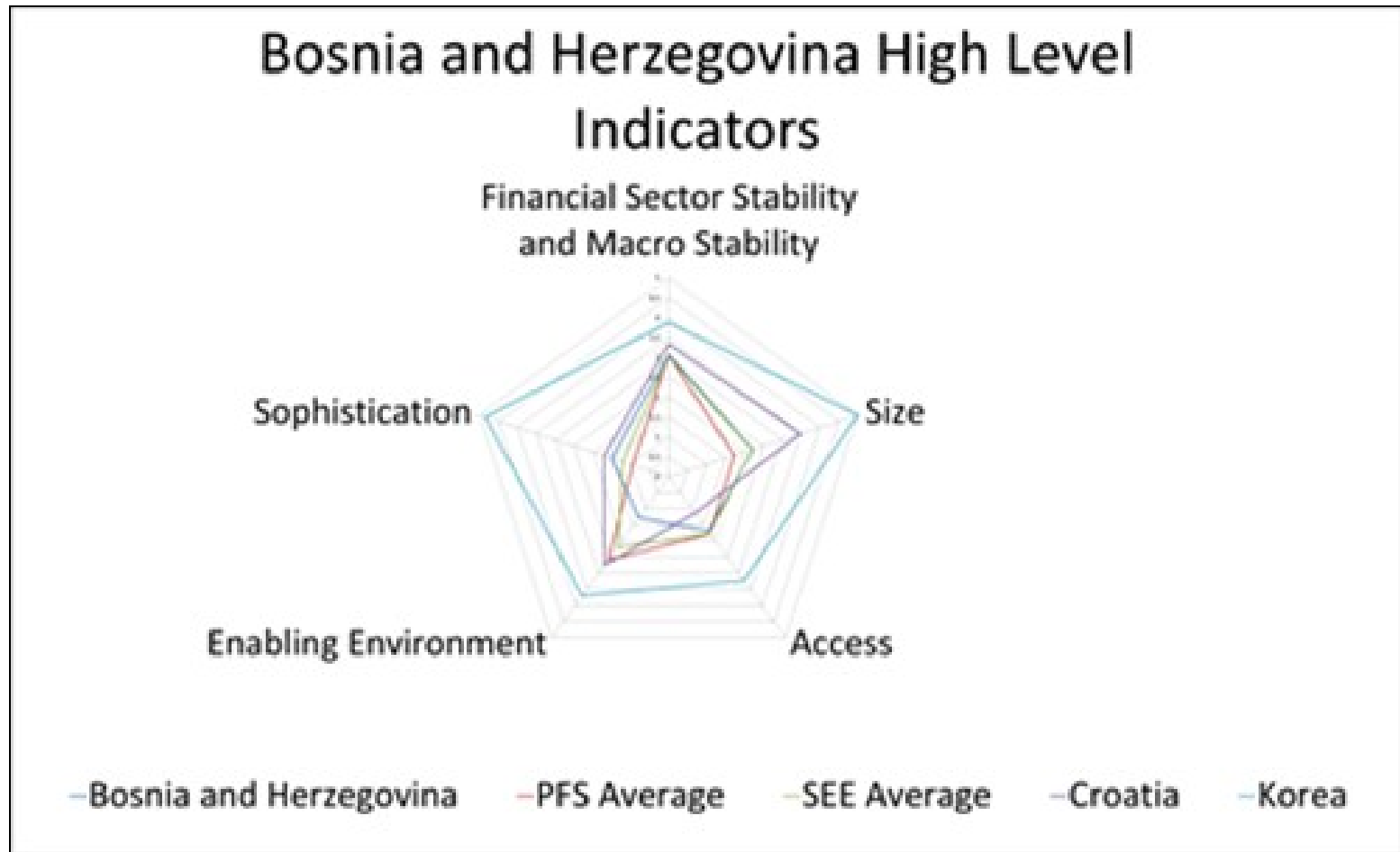




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Overview of Findings – Bosnia and Herzegovina





Overview of Findings – Bosnia and Herzegovina

Bosnia and Herzegovina High Level Financial Sector Overview

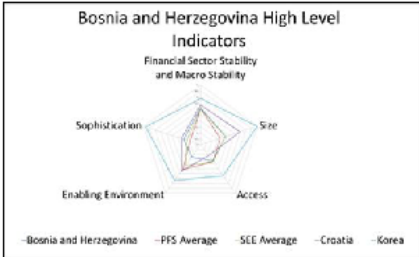
Summary

The Bosnian economy and financial sector were hit hard by the global economic crisis but are weathering the storm relatively well. The economy fell into recession and there was a sharp withdrawal of bank deposits in late 2008 as depositors panicked. Confidence returned to the foreign-dominated banking sector in 2009 as the authorities (with IMF support) took strong measures to ensure the economy and its financial system had adequate liquidity. Bosnia began to emerge from the recession in 2010 and the banking system is currently stable, although a growing level of problem loans remains a concern.

Bosnia has steadily developed a market-oriented financial sector over the last decade, but it remains *relatively small and unsophisticated*. The strong presence of foreign banks has provided numerous benefits in terms of new products, skills and technology transfer, as well as increased access to credit. Capital markets remain rudimentary. While stock exchanges exist in both entities born out of mass privatization, they do not as yet play a capital raising role. There is no real Government securities market due to strict limitations on government issuance under the currency board regime, which hampers growth of a corporate bond market. *In terms of access to financial services, there are limited alternatives for companies and households to obtain financing beyond the banks*, and lending is primarily short-term.

The small size and limited sophistication of the financial markets reflects: the lack of a single economic space in a country of less than 4 million people, a relatively large informal economy, and unfinished privatization and structural reform agendas. Bosnia has some of the region's worst rankings in the "Doing Business" and "WEF Global Competitiveness Indicators" reports. These reports reflect a *business environment suffering from excessive red tape and governed by weak legal and regulatory frameworks*.

Financial stability and macroeconomic stability are inter-related. To-date, Bosnia's currency board arrangement, which fixes the Bosnian KM to the euro, has been effective in promoting stability - controlling inflation and maintaining confidence in the local currency. The financial sector remains stable as the risks at the banks are adequately capitalized and reserved; however, cleaning up the increasing level of problem loans, restoring profitability and increasing lending to creditworthy borrowers presents challenges which need to be effectively addressed to facilitate more robust growth. Many borrowers became over-indebted in the pre-crisis era and orderly de-leveraging needs to continue.



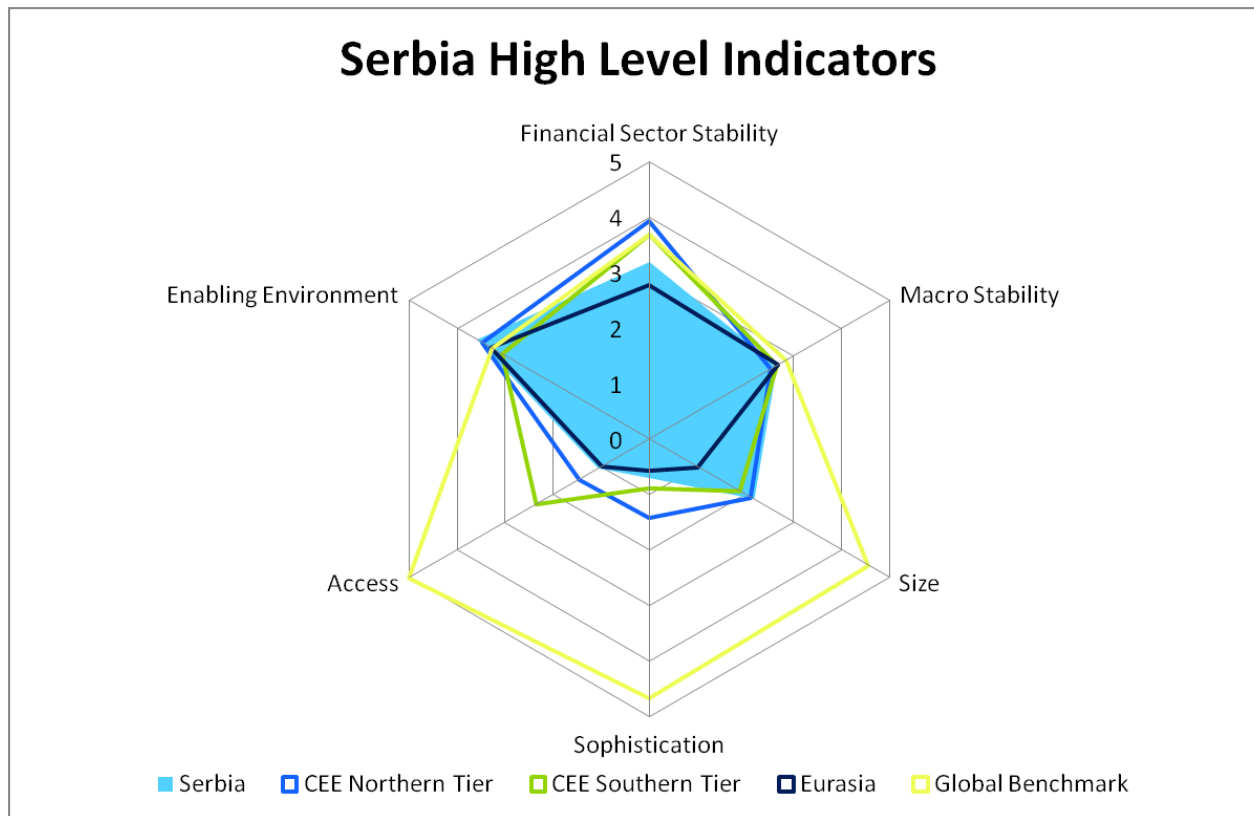
Bosnia and Herzegovina High Level Indicators
Financial Sector Stability and Macro Stability

Legend: -Bosnia and Herzegovina -PFS Average -SEE Average -Croatia -Korea

March 10, 2011 Prepared by the Partners for Financial Stability Program, Deloitte Consulting for USAID Page 1



Overview - Serbia





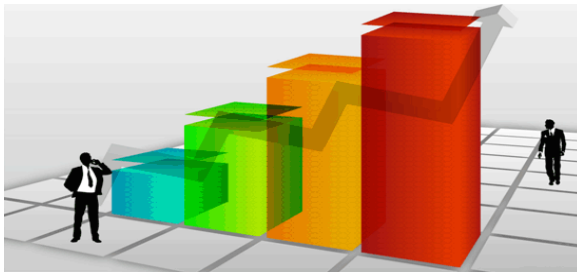
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What PFS Offers the Missions

Bilateral technical assistance for Missions through buy-ins

*To supplement, complement or take
the place of financial sector projects*



- Background / feasibility studies
- Laws & regulations
- Advisory services
- Etc.



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