



OPENING REMARKS

**H.E. CHEA CHANTO, Governor of the National Bank of Cambodia
on the occasion of the 3rd SEACEN High Level Seminar for Deputy
Governors**

“Rethinking Financial Stability Framework”

Siem Reap, 27th of August 2012

**Dear Excellencies,
Distinguished Guests,
Honorable speakers,
Ladies and Gentlemen,**

Good morning!

On behalf of the National Bank of Cambodia, I have the great honor and the real pleasure to host the 3rd SEACEN High Level Seminar for Deputy Governors on “Rethinking Financial Stability Framework”, as well as the 3rd Meeting of SEACEN Deputy Governors on “Financial Stability and Supervision”, to be held today and tomorrow.

I would like to warmly welcome all of you in Siem Reap, the ancient capital city of Cambodia. I sincerely hope that all of you had a safe trip from your countries and that you will enjoy a pleasant journey!

First, let me express my deepest thanks to Mr. Hoo-Kyu Rhu, Executive Director of the SEACEN Centre, for his kind greetings and for having invited me to open the seminar.

I would like to thank him, the staff of the SEACEN Centre and all those who have taken part into the excellent organization of the Seminar and the Meeting, in the spirit of close cooperation between the State Members. Also, I would like to congratulate the honorable speakers for their outstanding contribution.

**Dear Excellencies,
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As I already mentioned, the theme of the seminar is “Rethinking Financial Stability Framework”. In the current context, this is a key-issue for all international policy makers, especially for the banking and financial sectors. But it is also one of the most challenging and difficult questions for all of us, Central Bankers from the SEACEN’ countries, considering our own specificities and needs.

To this respect, I observe that we will have five sessions, devoted to the Financial Stability Framework in Emerging and Developing Economies, to the Macro-prudential Supervision in Asia, to Systemic Risks, to the Role of the Central Banks and finally to the Agenda for Regional Collaboration and Coordination in this area.

This is a very ambitious program. However, there is no doubt that all of these issues will be carefully analyzed and debated, in a positive approach and with a spirit of cooperation, in order to preserve and to achieve our development process.

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Of course, we are in a hurry to listen to the coming presentations and to launch our discussion, but, please, let me have a few words on the topic that we will address today and tomorrow, and let me share some of my personal views.

As a foreword, focusing on our economies, I would like to highlight that banking and financial systems are far from being homogeneous. Divergences may be considerable, in terms of structure, legal framework, activities or risks. Some Member States have financial centers and mature economies, while other ones are still emerging, with low or middle incomes. However, it is possible to find common features that we have to consider when addressing financial stability.

Firstly, in most of our Emerging and Developing Economies, banks generally remain the key-component of local financial sectors, despite the increased

significance of the domestic capital markets as well as the development of the insurance industry, like in Cambodia.

Secondly, the structure of a number of our banking systems has been deeply transformed, through privatization, by consolidation and with international investors, allowing market forces to enhance efficiency and productivity, although the concentration process is not yet finished.

In particular, the role of foreign-owned banks has been and is still important. Cambodia is an illustration of such attractive market! But these institutions raise specific concerns and are difficult to supervise because parent banks' global goals and information flows did not always coincide with the needs of host supervisors.

Thirdly, an increasing number of our banking groups are becoming systemically important. For instance, some ASEAN banks are shifting their strategy to play a greater role in the regional expansion. As an illustration, the largest Cambodian bank is currently opening subsidiaries abroad. Therefore, global or domestic systemically important banks can be identified and should be adequately regulated.

Fourthly, banks' governance and transparency have been globally improved. Sound corporate governance concerns have led the authorities to take measures to ensure that banks have appropriate ownership structures and are better managed. In parallel, banks' operations are becoming more transparent.

Fifthly, the activities of our financial and banking systems are progressively catching up with the international standards, even though our markets are less deep and mature than in most developed countries and despite operations are less developed and sophisticated. Also, innovative products arrive at all economies. This is obviously encouraging, even if, for us, this is especially challenging since our population still needs to be better educated and skilled.

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Clearly, as regulators and supervisors, we should support the constructive evolutions in our banking and financial sectors as much as possible. Unfortunately, some other current features or developments are less positive. Definitely, they should draw our attention in the context of our works on rethinking

the financial stability framework. Now, I would like to mention some of my main concerns.

Above all, I believe that credit risk still needs to be more carefully assessed, monitored and controlled, particularly in some fast-growing economies and when the expansion in credit is outstripping GDP growth, or when it is running beyond levels that can be readily attributable to financial development and deepening.

This is well-known: the materialization of such credit risk may have serious impacts, in addition to a slowdown in the banking activity or financial losses. These consequences might be exacerbated by the fact that economies are sensitive to exchange rate volatility, to commodity shock or to a disruption of international capital flows.

This is the reason why the efforts made by the authorities and the bankers in order to instill greater rigor into risk management should continue to be enhanced. To this regard, the implementation of Basel II and of the Basel Core Principles for an Effective Banking Supervision has been really helpful. Notably, banks' lending decisions are increasingly based on risk assessment procedures.

Nevertheless, there are still a lot of challenges related to the completion of the best practices or of the international standards. Among them, reliable data on loan histories over many years for estimating default probabilities, as well as other financial data, are too often lacking, despite the creation of credit bureaus.

More generally, Emerging and Developing Economies are worrying about the implementation of quite sophisticated regulation, like Basel II and Basel III, while their financial sector is still facing relative weaknesses, like shallow domestic capital markets and supervisory capacity constraints. This should be primarily taken into account when designing the financial stability framework.

To this regard, I could also refer to the regulation over the largest banks, "too big to fail" or systemically important, which definitely should be adequately adapted to the profile and to the activity of our banking systems.

Anyway, these reforms on systemically important banks, such as Basel II and Basel III, are only components of the whole regulation, and hence must not be viewed in isolation. Indeed, all the current proposed reforms, whatever their micro-prudential or macro-prudential nature, should be regarded as complementary in the perspective of preserving the financial stability.

I understand that such global approach has been usefully adopted for organizing and conducting this Seminar, with the view to design an appropriate financial stability framework for the Emerging and Developed Economies.

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I am convinced that the 3rd SEACEN High Level Seminar on “Rethinking Financial Stability Framework” will be very helpful and fruitful, especially since it comes at a very opportune time.

I am sure that you will come to interesting findings and conclusions. Be aware that your recommendations and your proposals will be taken into consideration at the highest level and should be, once finalized and agreed by all Member States, implemented.

Now, thanks to the presentations, and through your rich exchange of experiences, I wish all of you a stimulating and productive discussion, hopefully with some additional and cultural enjoyment in our magnificent and historical city of Angkor!

I thank you very much for your kind attention and I now give back the floor to Mr. Hoo-Kyu Rhu.

Thank you!