



Number.....

**Opening Remarks by
H.E. Neav Chanthana, Deputy Governor of the National Bank of Cambodia
at the 2nd Annual NBC Macroeconomic Conference on
“Leveraging Financial Market Development to Promote the Use of Riel”
Sofitel Phnom Penh Phokeethra Hotel
Phnom Penh, 29th September 2015**

្រ្រ្រ * ្រ្រ្រ

- Excellencies, Distinguished Guests, Ladies and Gentlemen

A very good morning!

Today, I am pleased and honored to attend the second Annual Macroeconomic Conference of the National Bank of Cambodia. I would like to express my sincere thanks to Excellencies, Distinguished Guests, and Ladies and Gentlemen, who are representatives from governmental ministries, development partners, chambers of commerce, universities, research institutes and banking and financial institutions for taking your valuable time to participate in this event.

This is the second time that this macroeconomic conference is taking place. The objective of this event is to foster national research capacity development as well as provide a platform for policymakers, economists, researchers and graduates to discuss and share views and experiences on macroeconomic trends and financial sector development issues in Cambodia. Moreover, it is also an important opportunity for researchers to provide input and solutions to formulate economic policies, thereby contributing to sustainable economic development of the country.

Last year, the topic for our conference was “Promoting Access to Finance and Maintaining Financial Stability.” I really appreciate the contribution of the researchers in providing their knowledge on this important topic. The results from that conference have been used as inputs for the preparation and implementation of the financial sector development policy to be more resilient and deeper for every stakeholder in both public and private sector in compliance with the government’s policy.

This year, the National Bank of Cambodia chose the theme “Leveraging Financial Market Development to Promote the Use of Riel.” This theme enables researchers to help improve our knowledge on the roles of the financial market, challenges and solutions in promoting the use of the riel, and the importance of using the riel to promote sustainable, equitable and inclusive economic development. This topic is chosen amidst the increased effort of the government in promoting the use of riel in the economy, as stated in the “Rectangular Strategy, Phase III” and the “Financial Sector Development Strategy 2011-2020.” Moreover, the government and the National Bank of Cambodia have prepared policies and action plans on the “Promotion of the Use of Riel” to encourage and promote the use of riel across the country to reduce dollarization in the long-term. These action plans will be implemented soon.

Excellencies, Ladies and Gentlemen

Regarding the topic today, I would like to brief, Excellencies, Ladies and Gentlemen about the history and situation of the use of foreign currency in Cambodia.

Dollarization in Cambodia was not the decision of the government but by historical circumstances. As we all know, the country was embroiled in civil war for over three decades. The pinnacle of turmoil was during the Pol Pot regime when the financial market, national currency, and everything that belonged to the Cambodian people, were completely destroyed. This left our country in ruins, and diminished the trust of the people in our national currency. The riel was severely weakened as a result. Though the riel was re-issued in 1980, there was still a wide lack of confidence of the currency in the 1990s.

As Cambodia worked towards reconciliation in the 90’s, U.S. dollars flooded into the Cambodian economy through the intervention of UNTAC in their peace operations in Cambodia. However, the economy was still too small and too vulnerable to absorb the large amounts of U.S. dollars needed for UNTAC’s operational expenses. As a result, U.S. dollars were spent directly into the economy without much exchange for the national currency. In addition, Cambodia at that time transitioned to a free market economy (from a planned economy) as the market opened up with more liberal economic policies. Investment and trade then increased the degree of dollarization in Cambodia, particularly via foreign direct investments, export revenues, official development assistance, tourism revenues, and remittances from overseas.

Dollarization in Cambodia measured by the ratio of foreign currency deposit to broad money (FCD/M2) augmented from 36% in 1993 to 70% in 2003 and continued to increase to, and remains at around 80% since 2013.

Thus far, the Cambodian economy has reaped many benefits of dollarization by attracting more foreign investors, developing the financial sector, enhancing the Cambodian economic integration regionally and globally as well as protecting the economy from the Asian financial crisis in 1997-1998. However, dollarization also presents risks and vulnerabilities, since the speed and size of the economy and the financial sector has grown remarkably. Our conference will also discuss this topic.

Although dollarization is a key challenge for the Cambodian economy, immediate de-dollarization by conducting administrative measures is not an optimal choice since Cambodia's economy operates as a free market economy and still depends on foreign capital inflows. Implementing these measures too soon and all at once would cause the capital outflow and a black market which circulates foreign currency. Thus, the result of vigorous administrative measures would lead to the imbalance of macroeconomic growth.

Recognizing that impediment, the government has been implementing policies to promote the use of riel gradually based on market mechanisms. This is the same as what Samdech Techo our Prime Minister raised: *“When a weaponry bomb explodes, it kills just a small group of people. However, if a macroeconomic bomb explodes, it affects people all over the country”*.

Based on the IMF studies, financial sector plays a very important role in promoting the use of local currency, especially through strengthening the financial infrastructure and financial market development including; foreign exchange market, interbank and money market, capital market, and debt market, etc. The experiences of some countries such as Paraguay, Bolivia, Peru, Uruguay, and Israel have demonstrated that development of local currency capital and debt market has helped to create local currency financial instruments, while also inducing higher demands for local currency which resulted in the reduction of dollarization over time.

On the other hand, the experiences from Lao P.D.R, Poland, and Turkey showed that foreign exchange market development has contributed to the promotion of the use of local currency, especially through the facilitation of local currency circulation, proper demand and supply of money targets, and exchange rate stability as well as effective exchange rate policy management.

These will enhance the public's confidence of the monetary authority, while local currency savings and other payment transactions in local currency will increase along with that. Meanwhile, the establishment of local currency deposit insurance was also found to increase the public's confidence on the banking system and encourage local currency deposits.

Excellencies, Ladies and Gentlemen

Through today's macroeconomic conference, I believe that you will be enriched with a better understanding of the role of the financial market in promoting the use of riel. It is an especially good opportunity for you all to discuss amongst each other best practices and policies that are effective to promote the use of riel which represents the political, economic and financial strength of our nation, as well as the monetary sovereignty for Cambodia. I strongly hope that the results from this discussion will serve as crucial inputs for devising realistic approaches to promote the use of riel and fully cover all aspects of policies contributing to sustainable economic development.

Taking this opportunity, I would like to conclude by saying that the riel banknotes belongs to us all. Therefore, we all ought to use riel for the betterment of our nation, society, economy and other benefits alike.

Finally, I wish Excellencies, Ladies and Gentlemen good health and successes in all future endeavors.

The conference is now officially open.

Thank you.