NATIONAL BANK OF CAMBODIA
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Opening Remarks
by
H.E. Dr. Chea Serey, Governor of the National Bank of Cambodia
at SEACEN-BIS High-Level Seminar on
"Tightening Monetary Policy and Financial Stability Implication in Asia"
Siem Reap, Cambodia 18-19 September 2023

- **Dr. Bo Li, Deputy Managing Director of the IMF**
- **Dr. Tao Zhang, Chief Representative for Asia-Pacific, BIS**
- **SEACEN EXCO members**
- **Dr. Mangal Goswami, Executive Director of the SEACEN Centre**
- **Distinguished Speakers and Delegates**

On behalf of the National Bank of Cambodia, I have great pleasure to warmly welcome you to the 16th SEACEN-BIS high-level seminar which is organized in a hybrid format in the ancient capital city of Angkor. I am delighted to thank the SEACEN Centre and the Bank for International Settlement in partnership with the IMF – Singapore Regional Training Institute (STI) for making today's seminar possible. I would also like to extend my sincere appreciation to our distinguished speakers and participants for availing their valuable time to attend this seminar.

The theme of the seminar is very important and relevant, given the ongoing challenges faced by the global economy due to the scarring effects from Covid-19 pandemic, the Russia-Ukraine conflict, tighter financial condition, and growing economic fragmentation. To tame high inflation, central banks have pursued the sharpest and most synchronized policy tightening in decades, which in turn has implications for financial stability. Earlier this year, the US banking system witnessed the most significant turmoil post-GFC amid the surge in interest rates. While this can also be attributed to the banks' own failure in risk management in addition to the fast-changing interest rate environment, the episode highlighted the dilemma that central banks face in ensuring price and financial stability.

The debate about the conflict of the two mandates has therefore recently been reignited amidst the collapse of Silicon Valley Bank as a result of the unintended consequences of the fastest policy rate hike in many decades. The US financial system which in the last decade has become accustomed to functioning in ultra-low yield environment is suddenly subjected to the fastest rate hike cycle in history as the Federal Reserve reacts to tame run-away inflation. There might have been some awareness of possible financial instability implications from such abrupt and steep actions to tame inflation however tough decision still has to be made between the two tradeoffs. This goes to show that central banks narrow mandate can sometimes compel them to act single mindedly while those with broader mandates, they can at times be conflicting.

The inter-connectedness of the global financial systems and economies also led to a synchronization of monetary policy response among central banks, with many emerging countries compelled to react in parallel to policy rate hikes in advanced economies. The tightening of monetary policy in emerging countries central banks are not done due purely to inflationary pressure but rather to also safeguard financial stability as capital outflows and currency depreciations as a result of higher interest rate in advanced countries could have adverse repercussions to the domestic financial market. The resulting higher domestic interest rates can sometime exacerbate financial stability concern as government, domestic borrowers, both households and firms, face increasing borrowing costs, affecting their payment capacity and in turn banks' asset quality, putting emerging market central banks in yet another predicament. With interest rates are likely to remain high for longer, interest rate burden could therefore accumulate further draining borrower's ability to pay. It is therefore necessary for authorities to remain vigilant of this and new emerging risks from prolonged period of high interest rate. Outside of financial stability concern, emerging market central banks mirroring policy response to those in advanced countries also put into question on the independence of monetary policy setting of emerging countries' central banks.

Distinguished Guests, Ladies and Gentleman

We are also witnessing rising geopolitical tensions among major economies which may aggravate global economic and financial fragmentation with implications for global financial stability. As the IMF's Global Financial Stability Report pointed out earlier this year, geopolitical tensions could hamper allocation of capital across borders, causing banks' funding costs to rise, profits to decline and private sector credit to drop. Amid tighter financial conditions and growing fragmentation, the World Investment Report have also highlighted that the outlook for global investment has remained subdued worldwide, particularly in emerging markets and developing economies.

Domestically, following the Covid-19 crisis, Cambodia's economy has showed considerable signs of recovery, owing to the government's and the National Bank of Cambodia's supportive actions. The banking industry is resilient and continues to support economic activities. However, like in many other economies, the prolonged tightening of monetary policy in major economies has resulted in slower capital inflows, exchange rate depreciation, and higher interest rates.

The National Bank of Cambodia has continued to pursue prudent policies by maintaining the exchange rate stability, ensuring adequate level of liquidity and implementing an exit strategy from temporary regulatory forbearance by phasing out the loan restructuring scheme, while increasing back reserve requirements and capital conservation buffer. These policies were implemented smoothly and gradually, thanks to the resilience of Cambodia's banking sector. The National Bank of Cambodia has also continuously supported financial innovation, promoted financial inclusion and literacy, enhanced cybersecurity and strengthened consumer protection amid the growing digitalization of the economy.

Distinguished Guests, Ladies and Gentleman

Having worked at the central bank for over two decades, I firmly believe that tailored economic policies are crucial in mitigating potential risks and avoiding unfavorable outcomes. It is important for each country to consider their unique financial and economic structures, and carefully select from a range of macroeconomic policy tools that best suit their specific circumstances. In this connection, I believe that the IMF's Integrated Policy Framework can provide useful direction and guidance in helping calibrate the best mix of policy response.

While monetary policy and financial stability are inherently interlinked, authorities should address policy dilemmas that arise from trade-offs resulting from potential conflicts between price and financial stability objectives. Additionally, increasing regional and global cooperation and integration will aid in reducing geopolitical tensions and financial market fragmentation, thereby reducing the potential risk that geopolitics poses to the stability of the international financial system.

Today, we are honored to have high-profile speakers and experts from various international organizations and central banks to share their insights. I hope this high-level seminar would serve as a forum to discuss and identify appropriate solutions to deal with challenges that we face today.

Finally, I wish this seminar a great success with fruitful outcomes. Thank you!

Next, I would like to invite ED Mangal to give a remark. The floor is yours.

Thank you, ED Mangal for your remarks. Next, I would like to invite Dr. Tao Zhang to deliver remarks. Please.

Thank you, Dr. Tao Zhang for your remarks.

Now, we proceed to our key note address.

Today we are pleased to have high-profile speakers from central banks, academia, industries and international organization, who will share different perspectives on Monetary Tightening and its implication on Financial Stability.

To begin, I would like to introduce our keynote speaker, Dr. Bo Li, Deputy Managing Director of the IMF who is joining with us virtually. As you already know him, Dr. Bo Li is in charge of a wide range of policy issues, covering about 90 countries. Dr. Bo Li, the floor is yours.

Thank you, Dr. Bo Li for sharing your thoughts.

I would now like to open the floor for comments and questions. Please!...

Thank you for your comments and questions. I would like to give the floor back to Dr. Bo Li to respond.

Once again, thank you Dr. Bo Li for joining us from DC.

Before I pass the floor to MC, on behalf of the National Bank of Cambodia, I would like to invite you to dinner this evening at the Templation Angkor. I look forward to welcoming you there.

Once again, I wish today's seminar to be productive and successful; and look forward to seeing you this evening. I would like to turn the floor to MC for housekeeping announcement.

Thank you.