



NATIONAL BANK OF CAMBODIA
Riel Stability Development



Policy Implications

20th October 2016

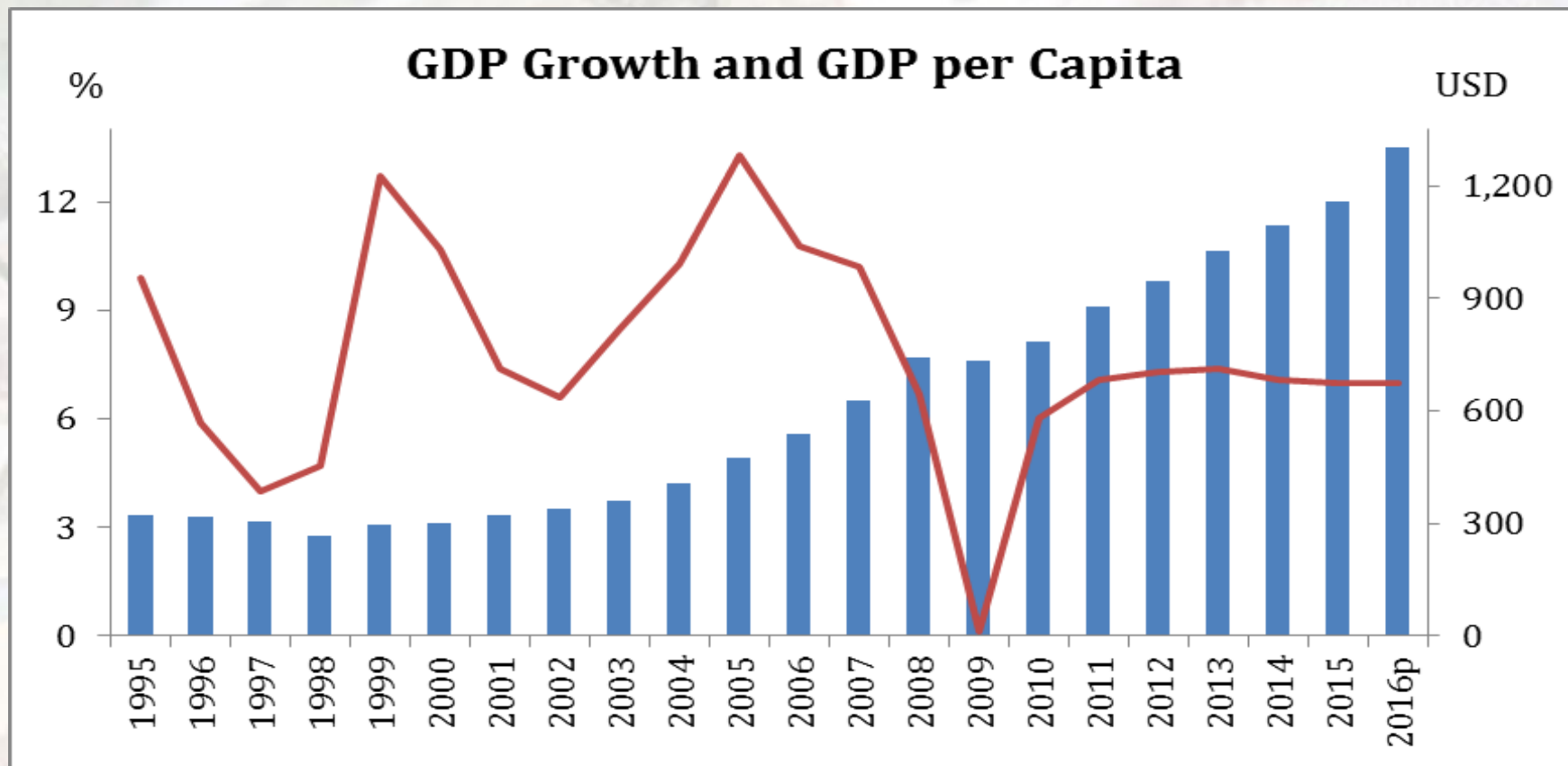
KHOU Vouthy (Ph.D)
**Director of Economic Research and
International Cooperation Department
National Bank of Cambodia**

The views expressed in this paper are those of the author and do not necessarily represent the views of the NBC.

AGENDA OF PRESENTATION

- I- Macroeconomic Performance
- II- Dollarization in Cambodia
- III- Government Policies to Promote Riel
- IV- Policy Implications

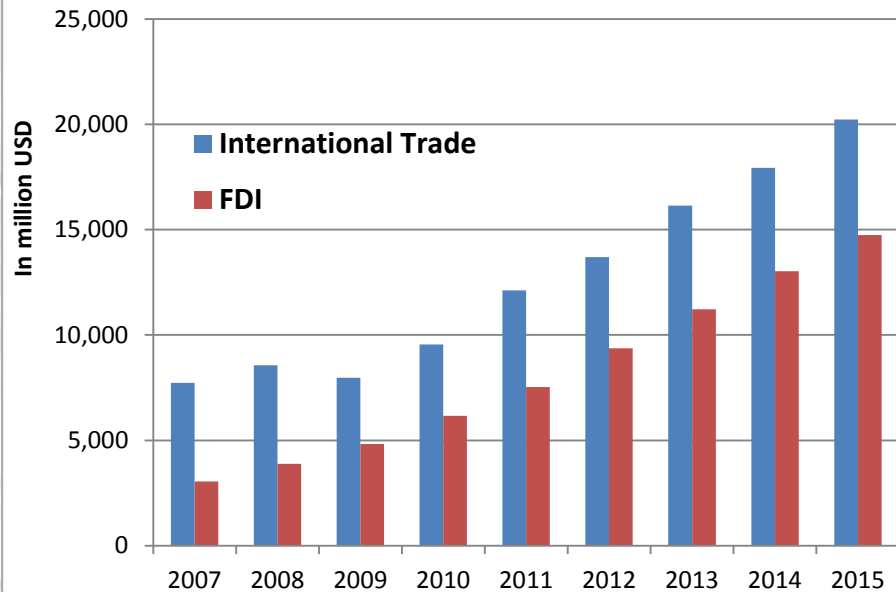
I- MACROECONOMIC PERFORMANCE



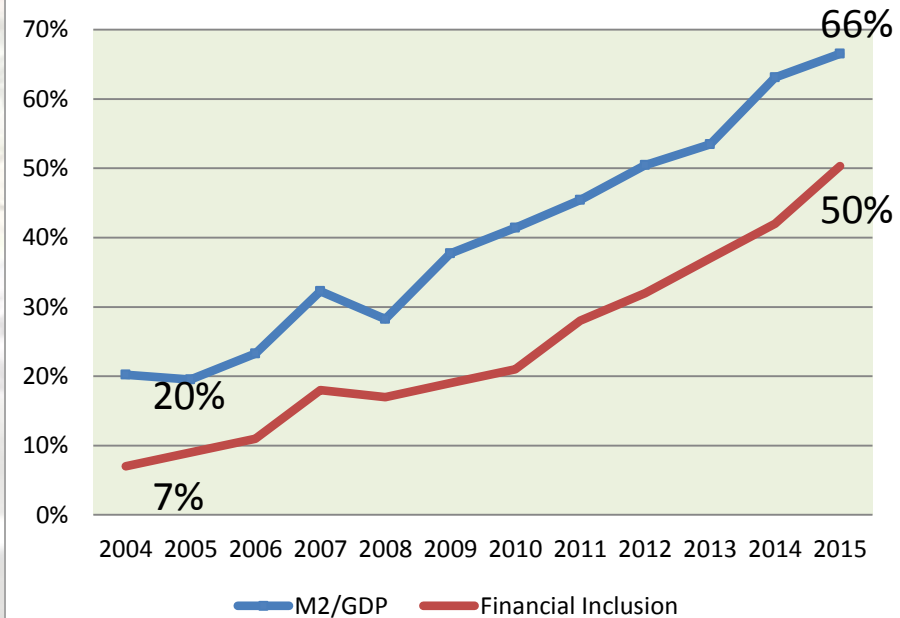
- Growth is robust averaging around 8% during the last two decades
- Sources of growth are concentrating on external sector

I- MACROECONOMIC PERFORMANCE

International Trade and FDI in Cambodia



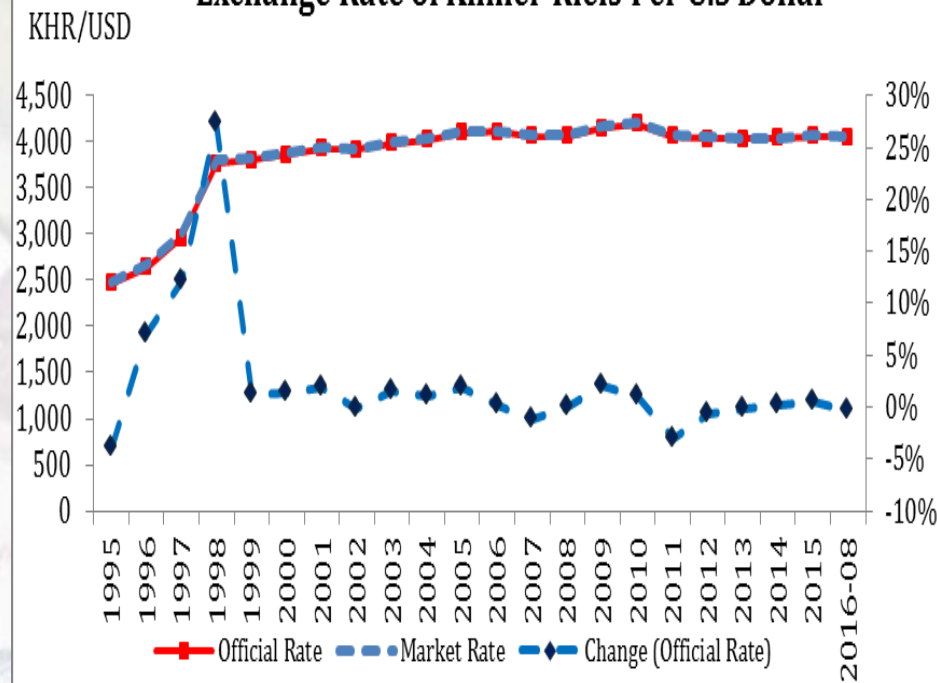
Financial Deepening and Financial Inclusion



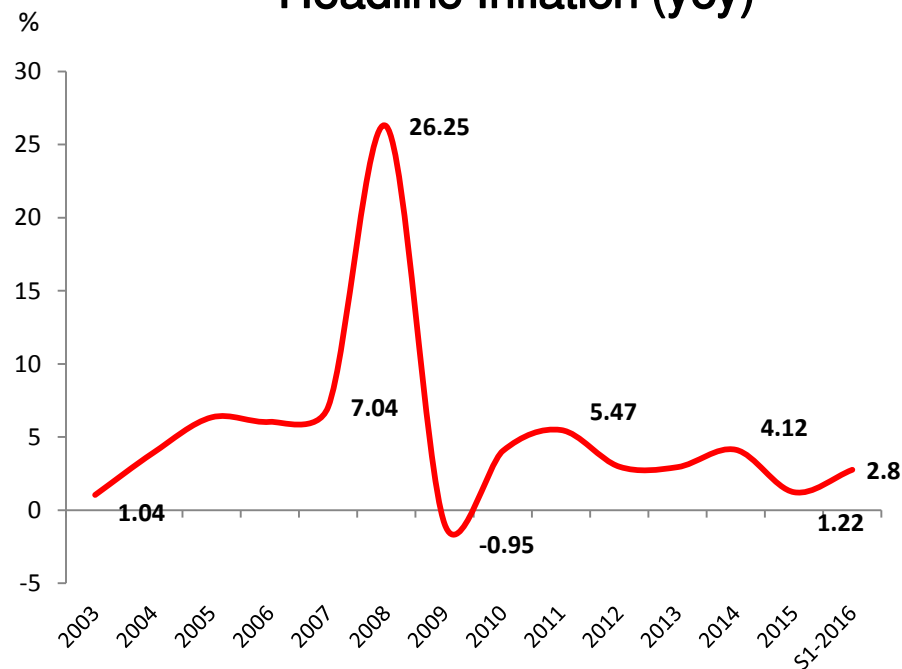
- International trade has significantly increased.
- The inflows of capital to the economy have been growing.
- Both, Financial deepening and inclusion have been improving.

I- MACROECONOMIC PERFORMANCE

Exchange Rate of Khmer Riels Per U.S Dollar



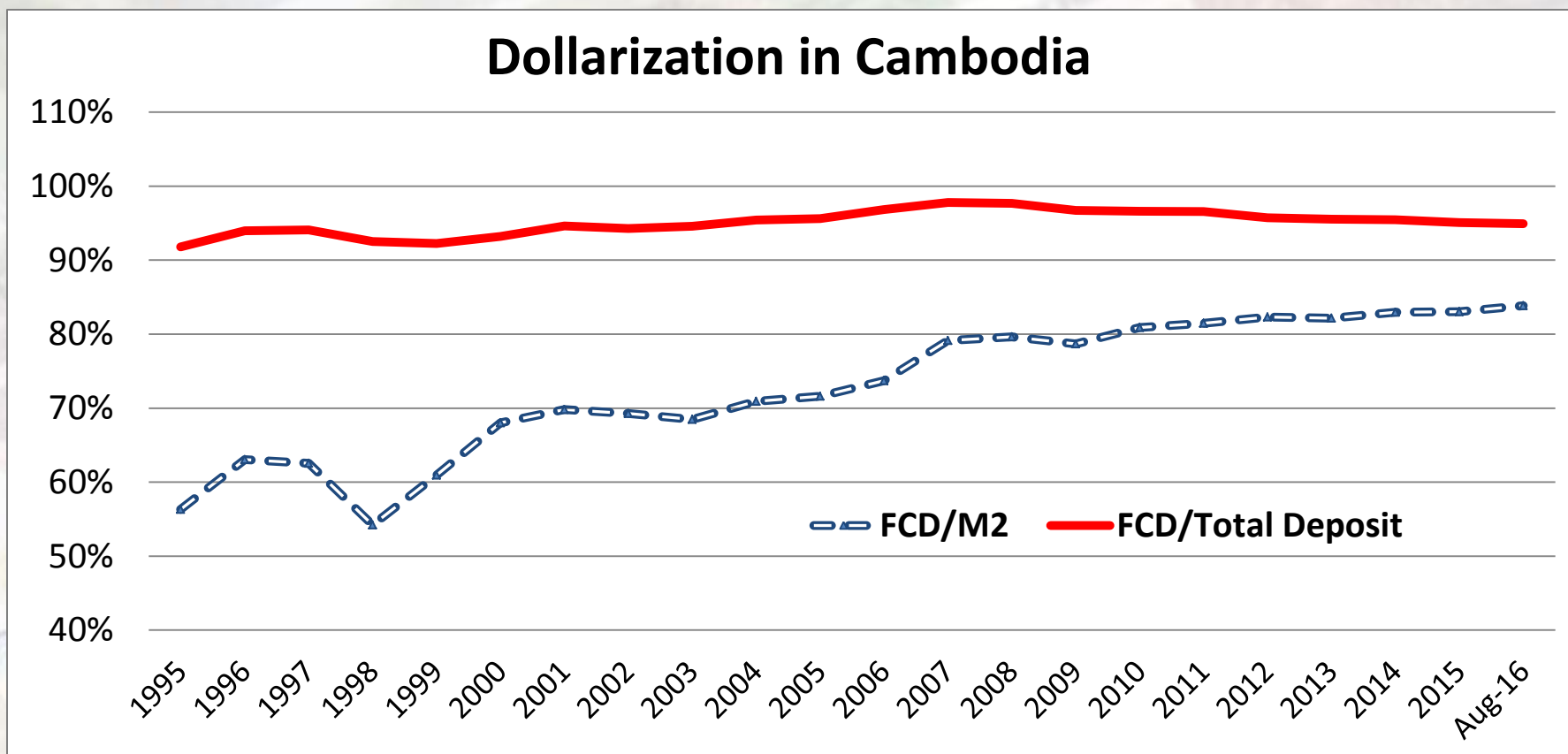
Headline Inflation (yoy)



- The inflation rate remains at a low level, averaging less than 5%.
- The exchange rate is stable, hovering around 4050 Riels/USD.

II- DOLLARIZATION IN CAMBODIA

Dollarization in Cambodia



- FCD/M2 increased from just 36% in early 1990s to 68% in the 2000s, and now standing at 84%.
- FCD/total deposit is around 90%.

III- GOVERNMENT POLICIES TO PROMOTE RIEL

Dollarization posed constraints and limits on central bank to conduct monetary policy, exposed the economy to shocks. It also limits central bank's capability to fulfill other important roles to achieve macroeconomic policy objectives.

Mainly, the constraints and limits are:

- Could not effectively fix the policy rate to influence the market interest rate
- Loss exchange rate policy
- Loss seignorage
- Limit role of lender of last resort and
- Limit on the development of monetary policy instruments

III- GOVERNMENT POLICIES TO PROMOTE RIEL

In the government policies (Rectangular strategy Phase II, 2008- 2013, Phase III, 2013-2018, National Strategic Development Plan, 2014-2018, and the Financial Sector Development Strategy (2001-2010, 2006-2015, 2011-2020): promotion of the use of riel is one of the priorities.

- Dollarization is considered as a major challenge for the economy.
- De-dollarization is a long term policy. In the short and medium term, the government promotes the use of Riel.

III- GOVERNMENT POLICIES TO PROMOTE RIEL

So far, the policies to promote the Riel that the government and the National Bank of Cambodia have implemented policies are as follow:

- Enhanced public confidence in KHR through stabilization of the exchange rate against the USD.
- Differentiated between the reserve requirement rate in KHR and USD deposits to promote financial intermediation in the Riel.
- Provided liquidity instruments in KHR to financial institutions by issuing Negotiable Certificate of Deposits in Riel.
- Introduced Liquidity-Providing Collateralized Operation to provide Riel liquidity with lower interest rate to banks and financial institutions.
- Required all taxes and utility costs to be paid only in KHR.
- Salary of public sector employees are paid in Riel.
- Opened Riel-based payroll bank accounts for public sector employees.

III- GOVERNMENT POLICIES TO PROMOTE RIEL

- Improved the awareness on the importance of the Riel through various campaigns, films, and documentaries.
- Required price tag to be set in Riel (Regulation by the Ministry of Commerce).
- Launched campaign on exchanging of old Riel banknotes to new notes.
- Introduced Fast system – a Riel-based retail electronic payment which allow customers to receive the transferred funds immediately.

IV- POLICY IMPLICATIONS

Households:

- The government should gradually encourage firms and sellers to quote the price and payments of goods and services in KHR,
- Promote the payments of salaries and wages in KHR to make household not to suffer from losses in exchange operation.
 - Salary/wage is the most dollarized type of income compared to other source of income.
 - Only a small proportion of their expenditures are in USD.
 - Survey affirmed that households exchange quite frequently from USD to KHR because they need KHR for their spending.

IV- POLICY IMPLICATIONS

Households (continued):

- Increase the number of bank accounts opening in KHR and encourage the payment of salaries in KHR through the account, as well as overall usage of KHR through bank account (financial inclusion via KHR account).
 - Majority of Cambodian adult population has not had bank account yet and even less for bank account in KHR.
- Issue larger denomination banknotes corresponding to the demand for higher value transaction.
 - Survey confirmed the complain for inconvenience of use of KHR notes for large transaction.
 - They start using USD for larger transaction (USD 50 or 100 equivalent) while only a small number of population uses two largest KHR denomination notes (USD 12.5 or 25 equivalent)..

IV- POLICY IMPLICATIONS

Enterprises

- Require prices to be quoted in KHR and promote payment in KHR
 - More than 50% of enterprises' revenues and expenditures are in foreign currencies. They are highly dollarized.
 - Wide gap in currency composition of revenues and expenditures of enterprises
- Promote loans in KHR to enterprises
 - There is growing demand for local currency borrowing
 - Reduce currency mismatch of enterprises

IV- POLICY IMPLICATIONS

Banking Sector:

- It is important to facilitate internal fund allocation of KHR, especially for commercial banks.
 - Even though commercial banks have excess KHR deposits, they do not allocate them to rural areas.
- Financial inclusion also helps promote KHR deposits and loans.
 - Recent increase of KHR deposits in rural areas might reflect the progress in financial inclusion.
 - Besides, KHR loans are more common in rural areas.
 - Further improvements in outreach would lead to increases in KHR loans and deposits.
- Introducing risk-hedging instruments to provide KHR loans would be effective, especially for MDIs .
 - Recent rapid increase in FX loans of MDIs might be the consequence of risk-hedging against the large shares of FX deposits in total deposits.

IV- POLICY IMPLICATIONS

Banking Sector (continued):

- Further improve financial literacy and develop financial market
 - CBs and MDIs might pass the exchange rate risks onto borrowers.
 - In the perception survey, 74 % of bank managers answered that banks set higher interest rates on KHR loans because of exchange rate risks.
 - Customers with local currency income might be exposed to exchange rate risks.
 - Should reduce the risks by providing customers with some hedging instruments.
 - Another possible strategies might be to educate the customers and to encourage them to be aware of exchange rate risks.

IV- POLICY IMPLICATIONS

Money Changers

- Enhance the supervision on large money changers
 - Large money changers are price makers of exchange rate for small and medium ones.
 - As large money changers dominate FX market.
- Develop a wholesale foreign exchange market
 - FX market in Cambodia tend to dominated by few money changers.
 - Encourage commercial banks to participate in the exchange business.

The background of the slide is a collage of various Cambodian banknotes, including 100,000, 50,000, and 20,000 Riel notes, with a portrait of King Norodom Ranariddh visible on one of the larger notes.

Your inputs are precious!

Q&A Session



THANK YOU FOR YOUR ATTENTION!
www.nbc.org.kh