



Cambodia

CAMBODIA

Cambodia is a constitutional monarchy: the Kingdom of Cambodia. It is a small open economy in the southwestern part of the Indochina peninsula. It has a total land area of 181,035 sq km. International borders are shared with Thailand and the Lao PDR on the west and on the north and the SR Vietnam on the east and the southeast. The Gulf of Thailand forms the natural border on the southwest. The country's capital city is Phnom Penh. The population of Cambodia (2008 estimate) is 14 million, giving a national average population density of 72 persons per sq km. The official monetary unit is the KHM riel. The average riel/US dollar exchange rate was 4,169 per US dollar on 30 December 2009.

THE NATIONAL BANK OF CAMBODIA (NBC)

Primary Objective and Responsibility

The missions, powers, and responsibilities of the Bank are specified in the Law on the Organization and Conduct of the National Bank of Cambodia promulgated in January 1996.

The principal mission of the central bank is to determine and direct the monetary policy aimed at maintaining price stability in order to facilitate economic development within the framework of the economy and financial policy. The main functions and duties of the NBC are as follows:

- to formulate, implement and monitor monetary and exchange policies aimed at the determined objectives ;
- To oversee payments systems in the country, and to enhance inter bank payments;
- To act as the sole issuer of national currency of the country;
- To participate in the management of external debt and claims ;
- To participate in the formation and supervision of the money and financial markets and
- To license, withdraw license, regulate and supervise all those operating in the securities and foreign exchange markets.

Policy-Making Body

The Policy Committee of the NBC is responsible for the formulation of the country's monetary policy. It is chaired by the Governor and consists of Bank's senior officials at directorate level. The Economics Research Department assists the decision making process of the Committee by monitoring and analyzing the performance of various key economic variables, including in particular the movements of the exchange rate of the national currency vis-à-vis the US dollar and makes assessment of their impact on inflation and the country's international reserves and submitting to it the necessary reports.

The managing body of the NBC is the NBC Board, which comprises of the Governor, the Deputy Governor and 5 other members, one being a representative of the head of the Royal Government, one a representative of the Ministry of Economy and Finance, one a member from the real economy, one an academic and one the representative of the National Bank

staff. The Board is mainly responsible for :

- establishing the policies for the operation of the Central Bank;
- issuing decisions, regulations, circulars and other directives to govern the business of the Central Bank and
- establishing internal rules and regulations.

Frequency of Meeting

The Policy Committee meets every two weeks, while the Board meetings are held monthly.

Release of Policy Information

Monetary policy stance is published in the NBC Semi-Annual and Annual Report. The governor's statement related to change in monetary policy is also posted on the NBC's website at <http://www.nbc.org.kh>

MONETARY POLICY IMPLEMENTATION

Cambodia's monetary system is characterised by a high degree of dollarisation and cash transactions, limiting significantly the NBC's capability to run an active and efficient monetary policy. Exchange rate policy has been proved to be more appropriate in achieving the monetary objective under present circumstance.

Policy Instruments

The primary instrument for conducting monetary policy under the conditions described above is central bank's interventions in the foreign exchange market. Exchange rate stability is seen as a very important component to achieve price stability. In addition, limitations on monetary financing of the budget deficit are also employed to control the creation of base money. Though reserve requirement and refinancing facilities have been introduced, they are not used actively.

FINANCIAL STABILITY

Authorities Responsible for Financial Stability

The Banking Supervision Department of the NBC is responsible for on-site and off-site examination of banks, while the Economic Research Department is in charge of conducting macro and financial sector stability monitoring and operates the EWS.

Institutional Coverage of Financial Supervisory Authorities

The Banking Supervision Department is a supervisory body under the NBC, taking charge of the examination and regulation of banks. Insurance and securities companies are under the supervision of Ministry of Economy and Finance.

Strategy for Supervision and Monitoring of Financial Stability

The Banking Supervision Department of the NBC consists of four main divisions namely onsite inspection, offsite inspection, microfinance supervision, and regulatory division. The onsite inspection adopts the CAMELS framework to assess soundness of banks. The inspectors conduct in-depth investigation of each component of the framework to judge the risk of banks in order to respond with prompt corrective actions if necessary. The offsite inspection, on the other hand, uses the CAEL approach combined with the newly established COBRA system. This latter system requires input from each bank's financial data which are generated into useful financial indicators for supervisors to assess banks' financial position.

The system highlights area of weaknesses in light of prudential regulations, providing early warning signals for supervisors to take preventive and/or corrective measures. The microfinance supervision also adopts the rule of the CAMELS and CAEL framework in its examination. However, as the scope of operation and financial products offered by microfinance institutions are limited, there is less coverage in the extent of examination. The Regulatory Division is in charge of updating existing regulations and issuing new regulations consistent with the development of the banking industry. The Division tries its best to align the regulation with the Basel Core Principle and if necessary Basel II.

Plan and Progress for the Implementation of Basel II

According to an informal assessment by the International Monetary Fund (IMF), several concerns raised in the 25 core principles were not covered by the Law and Regulations, mainly because of its relevance in the current banking system. This is no doubt one of the obstacles towards a successful implementation of the Basel Accord. Another barrier is the level of development of the banking system. The banking system in Cambodia is still at a developmental stage (in terms of public confidence, regulatory and legal frameworks) and still lacks sophistication (in terms of products offered, information system and human resource). The NBC in response, has set a higher capital adequacy ratio for banks than that set by Basel I. Far from the full implementation of Basel I and even less concerned by its weaknesses, the NBC is now focused on compliance with the 25 Core Principles, the foundation of effective bank supervision. As for Basel II, Cambodia would need time as the financial market is still developing and financial products offered by banks are very simple, essentially consisting of short term credit accompanied with actual collaterals. As a result, markets risks (stock exchange risks, interest rate risks) are quasi absent. Coupled with this, the techniques required by the New Accord are not available in Cambodia. The lack of statistical data and human resources make it difficult for the NBC to implement Basel II.

Despite these obstacles, many efforts have been undertaken to overcome certain challenges of Basel II - which serve as important steps towards implementation of the New Accord in the future. These include:

- The calculation of solvency ratio, the NBC risk weighs sovereign and inter-bank credits according to rating of the counterparties by international ratings agencies.
- Many efforts, be it national or regional (ASEAN financial cooperation) have been undertaken to put in place a financial market.
- The presence of international active banks which are obliged by the parent banks to provide statistical indicators to supervisors for pertinent information
- To cultivate market discipline, banks and financial institutions are required to publish their annual audited reports.
- The NBC is working closely with supervisors in the region to foster a close working relationship through bilateral agreements.

**CURRENT
MONETARY
OFFICIALS**
(as of December 2009)

Governor	H.E. Dr. Chea Chanto
Deputy Governor	H.E. Ms. Neav Chanthana H.E. Ms Ouk Maly
Chief Managers	H.E. Dr. Sum Sannisith H.E. Ms. Tal Nay Im
Advisor to Governors	Mr. Thierry Bangratz
Bank Secretary	H.E. Dr. Sum Sannisith

MINISTRY OF FINANCE

Minister for Economy and Finance	H.E. Mr. Keat Chhun
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