



Table of Contents

1. History of NBC

The Role of NBC

2. Banking Sector Development

Growth of banking sector

3. Financial Sector Development Strategy 2006-2015

NBC challenges for a sound financial system to support sustainable economic growth

History of NBC

- The National Bank of Cambodia (NBC) was established in December 1954
- From January 01, 1955 NBC became fully operational.
- April 17, 1975 the NBC was closed, money and markets were abolished.
- October 10, 1979 the Central Bank was re-opened and named The People's Bank of Cambodia in mono-banking system
- 1980 the national currency, the “Riel” was introduced



National Bank of Cambodia (1975-1979)





National Bank of Cambodia (2004-Present)



Dual Role of The National Bank of Cambodia



Legal basis: Law on the Organization and Function of the National Bank of Cambodia (Jan. 26, 1996).

- The principle Mission is to maintain price stability.
- To formulate and implement monetary and exchange policies;
- To license, delicense, regulate and supervise banks, financial institutions, liquidators and auditors;
- To oversee payment systems and to enhance interbank payments;
- To issue the national currency and Manage International Reserve



Monetary policy of the NBC

The NBC adopts a tight monetary policy.

- **Exchange Rate policy:** Managed float, occasionally NBC intervenes on the market to maintain the exchange rate stability.
- **Foreign exchange policy:** Liberal free to transfer money abroad; no restriction on the exchange market. (Foreign Exchange Law; Aug. 22, 1997)
- **Interest rate :** Liberal
- **As a lender of last resort** the NBC offers credit to commercial banks in Riels only; Interest rate is at 0.50% per month or 6% per annum.
- **Payment System:** the economy is highly cash based; check is the main payment instrument NBC runs the clearing house in both USD and Riels.

Second Major Role of NBC : financial sector development and stability of the financial system:



Objectives: to support

- Economic stability
- Resource mobilization
- Private sector development
- Employment
- Foreign direct investment

Therefore the government is committed to conduct banking sector reforms and adopted financial sector

Development Plan I and II to foster efficiency, solvency and sound functioning of the financial system

2 - The Banking Sector Development



Legal Framework : To support the reforms, legislative framework has been improved. New Laws and regulations were issued in anticipating the banking restructuring.

- ❑ The Law on Banking and Financial Institutions, November 1999, promoting a sound financial system and providing a framework for the licensing, organization, operations and supervision of financial services and Prakas/regulations issued since 2000 for the enforcement of the laws
- ❑ Law on Negotiable Instruments and Payments Transaction (24 Oct. 2005).
- ❑ Law on Anti-Money Laundering and Combating Financing of Terrorism (24 Jun. 2007).
- ❑ Law on Financial Lease (draft)

Progress in banking: New entries



- ❑ As more and more players enter into the industry, and competition become intensify causing banks to upgrade themselves to stay in business.
- ❑ Both credits and deposits grow rapidly showing an increase of public confident in the sector .
- ❑ Banks are now more profitable as the interest rate spread remained high.
- ❑ Despite prudential ratio dropped gradually the overall enforcement is improved.

3. Financial Sector Development Strategy 2006-2015



Recent financial sector reforms that geared toward enhancing the role of financial sector in private sector development

- ❑ Strengthening Banking system through bank restructuring
- ❑ Strengthening bank supervision capacity
- ❑ Capacity building for both NBC and bank staffs – CBS,
- ❑ Modernization of NBC operation (IT, a reliable payment system, and clearing house for USD and Riels checks),
- ❑ Institutional development ABC (2001),MFA (2005), CBS (2002) and CIS (2006),
- ❑ Rural finance – MFI licensing and registration, strengthen institutional development, upgrading supervision and regulations for their sustainability,
- ❑ Development of Fundamental legal basis for money markets and capital market establishment are now exist (Law on NIPT, Law on Government securities and non government securities)
- ❑ Development of legal infrastructure to underpin the development of capital market: law on commercial enterprise, the secured transaction law , Law on arbitration, law on corporate accounts, auditing and accounting profession .
- ❑ Drafting Law on financial lease to allow SME access finance to expand their business.



Continue Reforms

- ❑ In 2001, the Royal Government adopted Financial Sector Blue print for 2001-2010 to develop the financial sector.
- ❑ Since then, much progress has been made during the past five years, however there is a lot remained to be done toward a sound, market financial system (competitive, integrated and efficient).
- ❑ To support the growth and to address the issues, on June 2006, a revised blueprint for 2006-2015 was launched
 - ❑ to reflect changes in circumstances,
 - ❑ to address priorities, and
 - ❑ sequencing for financial sector development.



The remaining issues and risks

- Highly dollarized economy which limit the ability to conduct monetary policy
- Poor collateral registration and valuation;
- High credit risk (NPL, LE, and real estate collateral and personal guarantees which could lead to systemic risk);
- Huge expansion of risk weighted assets;
- High operating cost and low competition as a result of significant market segmentation
- Low access to formal finance
- Weak institutional framework for private sector activity
- Slow progress of money market development
- Lack of reliable information in lending environment- business credit worthiness
- Lack of legal framework to enforce commercial contracts



- The challenges for the NBC :
 - Improving confidence and financial intermediation;
 - maintaining stability in the financial sector;
 - promoting good governance, and
 - enhancing efficiency.

Improving confidence and financial intermediation



- ❑ Automate the payment, clearance and settlement system by using check standard and moving to a RTGS,
- ❑ Enhance consumer access to credit – expanding branch network and speed up the development of Law on financial lease
- ❑ Encouraging product and service innovation (CR card, debit card and ATM in USD and Riels);
- ❑ To improve disclosure and transparency in the financial reports – bank financial audited to make available on its own website as well as NBC website www.nbc.org.kh
- ❑ To enhance Credit Information Sharing System (CIS). Linking MFI. In future, is to transfer the CIS to function as a credit bureau to private sector ownership.
- ❑ To promote sound credit assessment and risk management within the banking system (regulation on internal control)²³



Maintaining stability in the financial sector

- To continue strengthen financial institutions and prudential capacity for both banks and MFIs
- To strengthen prudential supervision, surveillance and enforcement of infringements banks
 - The recent establishment of Supervision Consultative Committee
- To enhance the regulatory framework to strengthen enforcement – new prakas to be issued:
 - Penalty,
 - Good governance,
 - MFI deposit taken,
 - Development trust fund in banking and financial institutions
- To enhance good governance by strengthening fit and proper test for manager of banks;

Enhancing efficiency



- ❑ Enhance the legal foundation to support financial and commercial transactions including exit procedures for nonviable banks.
- ❑ Review laws and regulations especially the Law on Banking and Financial Institutions of 1999 to align with current development.
- ❑ Strengthen and upgrade its own capacity (IT) to tackle new risks emerge from the increase in number of Financial Institutions, new products and services tandem the development.

Conclusion



- ❑ Financial sector development is important to the speed and direction of economic growth, since a strong and well functioning financial sector can mobilize idle financial resources for productive investment needs.
- ❑ To link up saving, investment, and economic growth, the financial sector development must go hand in hand with private sector development and governance reform to support the Government policy of generating growth to reduce poverty which is the ultimate goal of the Government's economic policy.



Thank You !

3