



NATIONAL BANK OF CAMBODIA

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Remarks

By

**H.E. Chea Chanto, Governor of the National Bank of Cambodia
And Vice Chairman, the Economic and Financial Policy Committee on the
occasion of the Official Launch of “Financial Sector Development Strategy
2011-2020”**

Raffles Hotel Le Royal, Phnom Penh, 6 July 2012

- **H.E. Keat Chhon, Deputy Prime Minister, Minister of Ministry of Economy and Finance, the Highest Representative of Samdech Akka Moha Sena Padei Decho Hun Sen, Prime Minister of the Kingdom of Cambodia**
- **H.E. Kunio Senga, Director General, the South East Asia Department, Asian Development Bank**
- **Mr. Putu Kamayana, Country Director, Asian Development Bank to Cambodia**
- **Excellencies, Ladies and Gentlemen,**

Today, I have the great honor and pleasure to participate in the official launch of the Royal Government’s Financial Sector Development Strategy 2011-2020, under the highest presidency of His Excellency Keat Chhon, Deputy Prime Minister, Minister of Ministry of Economy and Finance and the highest representative of **Samdech Akka Moha Sena Padei Decho Hun Sen, Prime Minister of the Kingdom of Cambodia**. His Excellency Deputy Prime Minister, your highest presence honors us and marks our event much more solemn, delighted and meaningful.

Taking this opportunity, on behalf of the Economic and Financial Policy Committee and as the Chairman of the Steering Committee for the Financial Sector Development Strategy, I would like to express my profound gratitude to the management of the Asian Development Bank, H.E. Kunio Senga, Mr. Putu Kamayana, Mr. Samiule Tukuafu and colleagues for your continuous supports in developing financial sector in Cambodia. I would also like to thank all of the Inter-ministerial Technical Working Groups of the Royal Government of Cambodia for your active participations and contributions in updating this strategy successfully.

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**His Excellency Deputy Prime Minister
Excellencies, Ladies and Gentlemen,**

I would like to take this opportunity to brief you about the background, importance, and achievements of the financial sector development strategy implementation as follows:

1. Background of Updated Blueprint

Financial sector is now regarded as a necessary component in contributing to social and economic development. In fact, when the financial sector is sound and smoothly functioning, it would ensure the sustainability of financial intermediation—by mobilizing unutilized financial resources to finance the demand of production and to support sustainable economic growth.

By seeing above-said importance and technical assistance funded by the Asian Development Bank, in 2001, the Royal Government enacted the “Vision and Financial Sector Development Plan for 2001-2010” as a long-term strategic plan in order to determine the sequences, policy guidelines, and action plans in order to support a sound and safe financial sector development in Cambodia. The achievement made in phase I could be highlighted through significant progress in banking and insurance sectors, as well as the macroeconomic stability and sustainable economic growth.

Thence, in phase II in order to further strengthen and deepen the financial sector development, in 2006, the Royal Government updated the “Vision and Financial Sector Development Plan for 2001-2010” to the “Financial Sector Development Strategy 2006-2015” as a rolling plan to be more comprehensively covered, prioritized, well targeted, sequenced, and interconnected between other sectors and the financial sector. The achievements of this phase could be indicated through remarkable progress of the banking, microfinance and insurance sectors, stable exchange rate, sustainable macroeconomic performance, and strong economic growth.

Now, we are in phase III, by recognizing the importance of this strategy and prioritized sectors of the Royal Government in economic diversification and modernization in order to improve people’s living standards and to reduce poverty in Cambodia, in 2011, the Economic and Financial Policy Committee cooperated with the Asian Development Bank to update the “Financial Sector Development Strategy 2006-2015” to the “Financial Sector Development Strategy 2011-2020”, in line with the action plans of the “Royal Government’s Rectangular Strategy, Phase II” and the “National Strategic Development Plan Update 2009-2013” to continue developing a sound and market-based financial system, which helps mobilize and allocate financial resources to support sustainable economic growth.

I can say that our latest blueprint has been updated in accordance with three important contexts: 1) Recent progress of Cambodian economy under a favorable environment of political stability, peace, security and social order over a decade, 2) the changes of international financial architecture after the recent global financial crisis, and 3) demand for recent development norms to sustain a robust growth and inter-linkage of financial sector with other sectors in the economy which financial sector now plays a crucial role.

2) The Content of updated Blueprint

By seeing the necessity and importance of our strategy, the Royal Government has established a steering committee and technical working groups authorizing to conduct updating the Financial Sector Development Strategy 2011-2020. This committee and working groups comprise of inter-ministerial members from the Ministry of Economy and Finance; the National Bank of Cambodia; the Ministry of Commerce; the Ministry of Social Affairs, Veteran and Youth Rehabilitation; the Ministry of Labor and Vocational Training; the Ministry of Justice; the Council for the Development of Cambodia; and Securities and Exchange Commission of Cambodia, in collaboration with Asian Development Bank.

Our works of updating this strategy focused on the overview, objectives, targets, key priorities and sequence of necessary reform activities. The structure of this strategic document is as follows:

- Chapter 1: Background: reflects overview and key issues in financial sector;
- Chapter 2: Banking sector: includes banking system, anti-money laundering and combating the financing of terrorism, microfinance and leasing;
- Chapter 3: Non-banking sectors: includes insurance sector, pensions and capital market;
- Chapter 4: Governance and market infrastructure: includes legal and regulatory framework, accounting and auditing, payment system, collateral system and credit bureau;
- Chapter 5: Capacity building in financial system; and
- Chapter 6: Three-stage development action plan 2011-2020.

Overall, this strategic document is a rolling plan and highlight the development in markets, service network and new financial products in the system, as well as is a roadmap for financial system development to be more sound, safe and integrated in Cambodia to support the sustainable economic development in alignment with policies of the Royal Government.

- **Your Excellency Deputy Prime Minister**
- **Excellencies, Ladies and Gentlemen,**

The updating process of this strategy aims at reflecting the interconnectedness between banking sector, non-banking sector, and infrastructure supporting financial sector development. Currently, banking and microfinance sectors have been developed at most in the financial sector in providing financial intermediation to all sectors, including credits to small and medium enterprises and the rural poor. The development of domestic money and capital markets would provide: (1) new additional source of funds; (2) long-term investment financing in manufacturing, industrial sector, and infrastructure; and (3) source of funds for large enterprises. Likewise, the development of non-banking financial sector is another source of funds which would expand and make the financial intermediation more efficient. In the long term, the initiative to build infrastructure to support financial sector development and capacity building would foster the development of both banking and non-banking financial sectors.

In order to implement this strategy smoothly and successfully, we have prepared step-by-step action plans, divided into three phases accommodating with our priorities as follows:

First phase: Short term (2011-2014) mainly focuses on strengthening the implementation of institution's policies, such as legal framework reform, legal enforcement, capacity building of officers, regulators and supervisors, establishment of necessary working groups at the institution level, establishment of infrastructure, improvement of working efficiency and establishment of coordination and cooperation mechanism to address the challenges.

Second phase: Medium term (2014-2017) mainly focuses on pursuing short-term policy implementation which would yet be completed, especially policies related to inter-ministerial work and cooperation such as the establishment of the national committee for crisis management, legal enforcement, and consolidated supervision.

Third phase: Long term (2017-2020) focuses on strengthening the implementation of policies continuing from medium term, and introducing financial safety net and several supportive policies to maintain long-term financial stability and prevent crisis in financial sector.

To synthesize the above components, we have organized several consultative meetings between technical working groups and the Asian Development Bank. Notably, on 19 July 2011, we organized a national workshop presided over by His Excellency Keat Chhon, Deputy Prime Minister,

Minister of the Ministry of Economy and Finance and the Chairman of Economic and Financial Policy Committee so as to collect various views and inputs from private sector, development partners and other interested stakeholders. On 24 August 2011, the Economic and Finance Policy Committee held a meeting to review this strategy, and finally, on 25 November 2011, the Cabinet meeting under high presidency of **Samdech Akka Moha Sena Padei Decho Hun Sen, Prime Minister of the Kingdom of Cambodia**, officially approved this strategy as the long-term financial sector development strategy of the Royal Government.

3. Achievements of Implementing Financial Sector Development Strategies

After implementing of the first and second financial sector development strategies, the achievement and progresses have been made on several fronts, and positive and progressive reforms have been successfully implemented over the past decade. Major highlights are:

- The enactment of key commercial, banking, and financial laws to support a sound, market-driven, and competitive financial sector;
- The reform of banking infrastructure and strengthening of key financial institutions;
- The establishment of the supporting infrastructure to enhance financial market activities and improve outreach to the rural poor;
- The building of human capacity and technical know-how; and
- The expanding of the financial sector role in mobilizing domestic financial resources and support the interconnectedness between financial sector and other sectors to meet the demand of a growing economy.
- In recent years, implementing of the financial sector development strategies, financial sector in Cambodia has developed strongly, highly competitive and market based oriented, namely in banking sector, microfinance, insurance, pensions, securities and capital markets. Currently, banking sector today still plays a dominant role in the financial system of Cambodia and has been developing, largely integrating, and playing a core role in contributing role in social and economic development in accordance with the Royal Government's Rectangular Strategy.

Obviously, in 2000, when the first financial sector development strategy was prepared, financial sector in Cambodia was still like a fetus at the rudimentary stage. While Monetary aggregates

(M2) to GDP ratio was 12.5% but in 2006 when the second financial sector development strategy (2006-2007) was updated, M2-to-GDP ratio has increased to 20.5%. Today, M2-to-GDP ratio has increased to 43.4% in the first semester of 2012, a triple of that in 2000. The continuous increase in deposits and credits in the banking system highlights the increasing public confidence on banks, the development of financial system as a whole, and the deepening of the financial services in Cambodia's economy in the present.

Overall, over last years, macroeconomic stability has been well maintained; the value of Riel against USD has been stable; at the same time, and inflation rate has been at a single digit under control. This stability has contributed in bolstering public confidence on Riel, as the amount of Riel in circulation in the first semester of 2012 increased to 3,700 billion Riel, 9 times of that in 2000 which was only 400 billion Riel.

Recently, structural changes have also taken place in the form of the emergence of new entities; the increasing presence of new international players and more diversified financial services and products. The Cambodian Securities Exchange was opened with several members providing securities services. The securities trading started with the selling of the first IPO securities of Phnom Penh Water Supply Authority. Meanwhile, Insurance sector has been continuously developing, providing life insurance and other insurance services including mandatory insurance and small-sized insurance. Besides, Pension system has been under the preparation process. Furthermore, appropriate implementation of financial liberalization policy with adequate attention to the health and soundness of the financial sector, has increased competition, which has in turn resulted in further new business opportunities. Within the context of these developments, the banking sector has become an important pillar of strength of our economy and remains at present a dominant sector within the domestic financial system.

Total bank assets represented about 66% of GDP at the end of May 2012 compared to 19% in 2001 – a marked improvement in public confidence in the banking system. Banking sector health and soundness has been maintained during the recent global financial crisis. Latest performance indicators suggest that the banking system is reasonably profitable, efficient, has adequate liquidity, and is well capitalized. On average, banks have maintained overall solvency at around 25% since 2001 compared to the minimum prudential requirement of 15%. The non-performing loan ratio of banks has declined from 4.4% in December 2009 to 2.5% at present. With the

increased number of banks, competition has picked up, as the average annual interest rate spread declined from 15% in 2003 to 10% in recent period.

To improve access to finance, development of banking and financial infrastructure has also received great attention. Payments and clearing and credit reporting systems have been steadily modernized. Check clearing system has been upgraded and expanded to several large provinces. Payment system in term of using payment order for credit transfer is being developed. Competition in the banking sector has also improved the delivery of payment services. Services such as electronic banking and payment of some utility charges have taken advantage of the impressive take-up by the population of the mobile telephone services. The authorization to bank to use Third Party Processor has led to extending payment services to the unbanked and underserved segment of the population. This will compliment the growth of microfinance services in making a positive contribution to providing banking services to our rural population. Meanwhile, a credit bureau has also been established.

The main objective is to develop a competitive, integrated, efficient, and well regulated and supervised financial system that can efficiently mobilize savings to support the private sector development and fulfill the need of the economy.

The development of financial sector has contributed to the economic growth which attains roughly 7% on annual average. Obviously, per capita GDP increased to \$909 in 2011, and potentially to \$988 in 2012. This contributes to a regular reduction of poverty rate by 1 percentage point a year, thereby lowering the poverty rate to about 26% in 2011, in line with the Royal Government's rectangular strategy.

- **Your Excellency Deputy Prime Minister**
- **Excellencies, Ladies and Gentlemen,**

In conclusion, our Financial Sector Development Strategy 2011-2020 today is very crucial for Cambodia and the common achievement for all and particularly for developing a diversified, competitive, interconnected, healthy and efficient financial tools to support economic development. Moreover, this Blueprint is also the key document to get concessional loan from the Asian Development Bank to develop financial system in Cambodia and also a tool to facilitate the financial aids with other development partners.

The special feature of strategy is flexibility that the government can adjust some policy challenges to reflect the recent development and some conditions, particularly, to create resolution mechanism to address challenges in the financial system. The development of the financial sector should be harmonized with the development of the private sector and good governance. Moreover, the more efforts must be made to bolster the banking and financial sector in order to boost economic growth contributing to the Royal Government's ultimate goal of poverty reduction in Cambodia.

Once again, I would like to express my sincere thanks to the Asian Development Bank, H.E. Kunio Senga, Mr. Putu Kamayana, Mr. Samiule Tukuafu and all colleagues who helped update this strategic document successfully. I deeply thank all relevant ministries and other development partners for close cooperation to bring the successful and effective implementation of this strategy. It is our success and pride

Lastly, I would like to express my highest appreciation to H.E. Keat Chhon, Deputy Prime Minister, Minister of the Ministry of Economy and Finance, for presiding over to grace this event and I would like to wish His Excellency Deputy Prime Minister with four kinds of Buddhist benediction: Longevity, beauty, health and strength. I would also like to wish Excellencies, Ladies and Gentlemen great success in every endeavor of yours.

Thank You!