



NATIONAL BANK OF CAMBODIA

Riel. Stability. Development.

Session 3: Regional Cooperative Arrangements to Enhance the International Monetary System

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

Outline

- I. Regional Liquidity Support Arrangement
- II. Foreign Currency Funding Challenges
- III. Cambodia in Regional Financial Safety Net
- IV. The Promotion of Local Currency



I. Regional Liquidity Support Arrangement



The Chiang Mai Initiative Multilateralization

- The CMIM is undeniably an important step in the creation of regional Financial cooperation to address balance of payments (BOP) and/or short-term liquidity difficulties in the region and to supplement the existing international financial arrangements.
- The CMIM and the establishment of AMRO as an independent regional surveillance are the largest and the most concrete commitment of the ASEAN+3 member states to promote regional economic stability:
 - Regional safety net strengthen and resilience to shock
 - Region's self-help liquidity support mechanism and policy institutional infrastructures
 - Promoting regional economic cooperation and development
 - Promoting monetary and financial cooperation.



II. Foreign Currency Funding Challenges



- We have noted that foreign currency funding is widely used among the Japanese banks.
- After the Fed hike its rate, money flow out to the U.S in terms of portfolio investment.
- Amount of foreign currency funding via swaps and currency swaps by Japanese financial institutions including regional financial institutions are increasing.
- As the global economy is uncertain and international financial market is tighten, there is an increasing demand for local currency funding in the region.



III. Cambodia in Regional Financial Safety Net



In the CMIM

- Cambodia as a member state in the ASEAN+3 has been trying to enhance financial safety net both multilateral and bilateral for crisis prevention and resolution.
- There are two facilities for CMIM:
 - CMIM-Stability Facility (CMIM-SF): for emergent liquidity to maintain the balance of payment.
 - CMIM-Precautionary Line (CMIM-PL): for crisis prevention.
- For CMIM-PL, all member states need comply ex ante qualification and ex post conditionality in terms of: balance of payments and market entrant, fiscal policy, monetary policy, supervision and financial stability and data quality.



In the CMIM

- Currently, CMIM has its commitment of USD 240 Bil, of which Cambodia could possibly take up to USD 1.2 Bil, which:
 - IMF De-linked Portion: 30% of USD 1.2 Bil (USD 360 Mil)
 - IMF Linked Portion: 70% of USD 1.2 Bil (USD 840 Mil)
- Cambodia could obtain a higher commitment from regional liquidity than from the IMF's facility.



ASEAN Swaps Arrangement

- ASEAN Swaps Arrangement established since 1977 by only 5 ASEAN countries.
- Currently, ASA's commitment is now reached to USD 2 Billion, where Cambodia agreed to commit USD 30 M (1.5% of total commitment) and we are able to take up to twice of our commitment (USD 60 M).
- ASEAN Swap Arrangement (ASA) as well as CMIM are all about the commitment from members. Only if any member encounters crisis, each member will fulfill the commitment on account that the borrowing country meet all the conditionality in the agreement.



IV. The Promotion of Local Currency

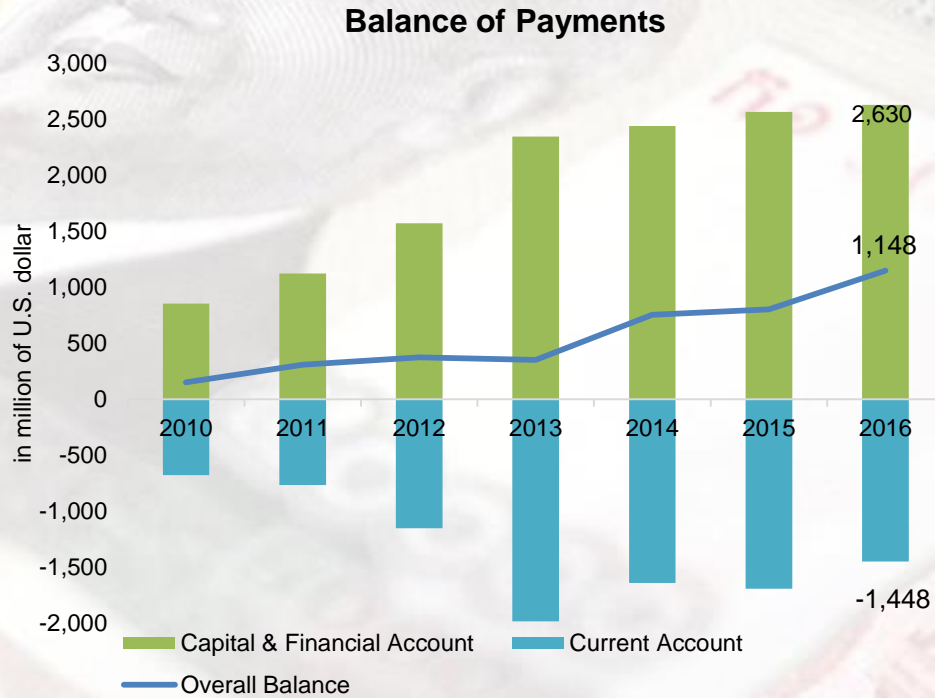


Balance of Payments

- Cambodia is a small-open economy with a high dollarization and capital account liberalization.
- Cambodia remains robust with the annual growth around 7%.
- Gross International Reserves reached USD 6.4 Bil and could finance 5.3 months of import.



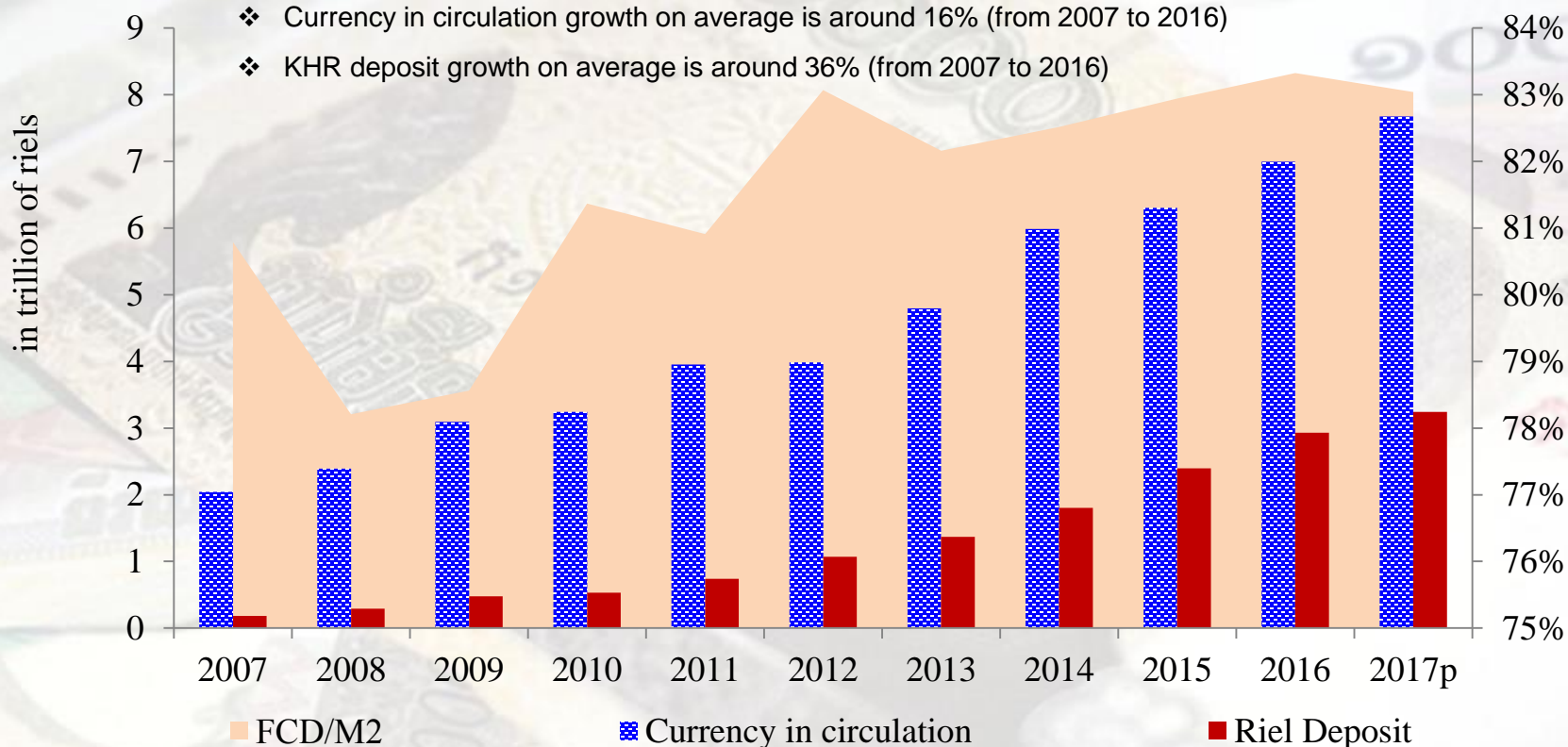
■ Foreign reserves
—●— Months of imports of goods and services (RHS)



■ Capital & Financial Account
■ Current Account
— Overall Balance

Demand of Riel & Dollarization

- ❖ FCD/M2 is 83% in 2016
- ❖ Currency in circulation growth on average is around 16% (from 2007 to 2016)
- ❖ KHR deposit growth on average is around 36% (from 2007 to 2016)



- While the economy is highly dollarized, the demand for KHR is increasing, as reflected by the growth of local currency in circulation and KHR deposits.



Bilateral Agreement

- In the context of regional cooperation enhancement, Cambodia has been in bilateral agreement on local currency for cross-border trade settlement and remittance with:
 - China:
 - ✓ There are two agent banks assigned for clearing and settlement Renminbi in Cambodia: Bank of China and ICBC.
 - Thailand and Vietnam
- There is a tendency to promote regional local currencies for cross-border trade settlement and remittance, which is in line with the ASEAN's initiative to reduce reliance on USD.



Conclusion

- With the global imbalance and tighten international financial market, regional financial cooperation is a supplement to IMF and other international funding partners.
- There is an increasing demand for local currencies among some countries in the region. Thus, there should be more efforts to look at exchange rate policy in depth.
- The CMIM has the potential to make significant contributions to the region's self-help liquidity support mechanism and policy institutional infrastructures.
- AMRO shall now taking on a more active role in Chiang Mai Initiative Multilateralization (CMIM) implementation for conducting a comprehensive macroeconomic surveillance to safeguard regional economic and financial stability.



Thanks for your attention

