

# Banking Sector in Cambodia

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Cambodia banking sector was established in 1954 after Cambodia got independence from France; unfortunately, the whole banking system was totally destroyed during Khmer Rouges regime in 1975. However, the bank was reformed again by late 1979 and named it as the People Bank of Kampuchea. After a decade later the bank was changed its name to National Bank of Cambodia and there were also some foreign and local banks entering to Cambodian banking industry. Banking system eventually started to recover since the public confidence on banking industry started to be trusted again. By 2014 the numbers of bank and microfinance have increased noticeably; there are 36 commercial banks, 11 specialized banks, 34 microfinance institutions and 7 microfinance deposit taking institutions. This essay is going to discuss about the significant role of banking in Cambodia and the challenges in banking market.

Banking now is an important sector for economic development. Banking industry provides various kinds of service to fulfill Cambodian people's needs and those services and products are including deposit, loan, money transfer services, credit cards etc. According to annual report 2014 of National Bank of Cambodia, banks offer loan to different sectors such as trades, agriculture, manufacturing, construction and other non-financial services which present 34%, 10%, 9%, 8%, and 9% respectively. This report shows the vital part of the bank that encourages the important sectors mainly agriculture and industries (garment factories) by giving loans to foster export in Cambodia. At the same time, microfinance institutions provide loan to SME that can help to increase the numbers of small and medium enterprises in Cambodian markets. Additionally, banks and microfinance deposit taking in Cambodia offer high interest rate for term deposit to savers; for instance, I deposited \$5,000 to my term deposit in Prasac MFI for 1 year, and I get offered interest rate 7% per annual. More importantly, banking sector gives the job opportunities for Cambodian people with better paid. By 2014, there were 20,273 staff employed to work in banks and 19,590 staff hired to work in microfinance institutions which are the numerous amount to reduce unemployment rate. Banking industry contributes the trend of economic growth going upward.

Looking at the other side, even though banking industry is growing fast during last several years, at the same time there are some challenges associated with. Cambodia is one of the high rate of dollarization countries which causes to limit the central bank's ability to guide interest rates; as a result, the interest rate in lending in Cambodia still

remains high. Moreover bank sector faces with exchange rate risk especially microfinance sector because the institutions mostly rely on external sources of funds from abroad and loans usually disburse in riel which result in currency mismatch. Another challenge is that the number of banks and microfinance institutions keep increasing leads to more competitions in the small market, so that the only big and strong firms can stand in the market and small firms somehow need to merge with the big ones. Finally credit risk is also one of the big challenges in banking system. As the numbers of competitor in the market are increasing, the credit assessment staff want to reach their target, so they are careless on reviewing the criteria proper then it leads to loan lost or suspend.

In conclusion, without banking industry, Cambodia's economic cannot grow smoothly since banking is supporting almost every sector especially the trades, agriculture and manufacturing which are main sectors of export that create the most income for the country. However some obstacles in running the bank and risks cannot be avoided. Government should strongly encourage and subsidize this industry to stand firmly so that it can promote all sectors and lead economic growth well. Moreover National Bank of Cambodia should monitor and advise properly to make stability in banking industry.

## References

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