

Reserve Requirements for Banks to Increase for Foreign Currencies

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An important feature of the regulatory landscape for banks in Cambodia is the requirement that they hold a certain amount of assets in reserve with the National Bank of Cambodia (the “NBC”). Similar requirements exist in a large number of other jurisdictions and serve a dual purpose, being:

- to ensure that the bank has sufficient funds to meet its deposit and borrowing liabilities (e.g. in the case of a “run on the banks”); and
- to act as a tool of monetary policy by which the regulator may either limit the supply of available credit by increasing the reserve requirement (a contractionary policy) or increase the supply of available credit by reducing the reserve requirement (an expansionary policy).

From the perspective of regulators, reserve requirements are useful tools for implementing monetary policy and reducing systemic risk in the banking sector. From the perspective of banks, reserve requirements reduce the amount they have to lend to customers and the profit they can make from doing so. A recent prakas (regulation) issued by the NBC has increased the reserve requirement for banks *only* in relation to foreign currencies.

In Cambodia, the regulatory regime regarding reserve requirements for banks¹ is set out in Prakas No. B7-09-075 on the Maintenance of Minimum Reserve Requirement in Banks and Financial Institutions issued by the NBC on 25 February 2009 (the “**Bank Reserves Prakas**”) which requires banks to hold “sufficient balances” of “eligible assets” with the NBC on a continual basis. These balances are determined separately for Khmer Riel and foreign currencies. As to what constitutes a “sufficient balance”, this is determined by reference to a percentage (set by the NBC from time to time, the “**Relevant Percentage**”) of the bank’s aggregate deposit and borrowing liabilities. Assets that constitute “eligible assets” are limited to amounts on deposit with the NBC.

On 9 January 2023, the National Bank of Cambodia (“NBC”) issued Prakas No. B7.023.005. Prokor on Reserve Requirement on Deposit and Borrowing for Banks and Financial Institutions (the “**2023 Prakas**”) which has increased the reserve requirement for banks *but only in relation to foreign currencies* as follows:

- From 1 January 2023 to 31 December 2023 - 9%
- From 1 January 2024 onwards - 12.5%

The reserve requirement for Khmer Riel will remain unchanged at its current level of 7%.

¹ The requirements applicable to microfinance institutions and microfinance deposit-taking institutions are set out in separate prakas referred to below.

It is notable that not so long before issuing the 2023 Prakas, the NBC issued two separate prakas setting the Relevant Percentage. The first of these was issued in 2018² and set the rate at 8% for Khmer Riel and 12.5% for foreign currencies.

In 2020, the NBC issued a prakas³ (the “2020 Prakas”) to reduce the percentage to 7% in order to stimulate more lending by the banks in the face of the Covid-19 Pandemic. The 2023 Prakas could therefore be seen as indicating a perception that we have returned to “business as usual”. This is further suggested by the fact that there has not been any corresponding increase (nor decrease) in the reserve requirement applicable to microfinance institutions (5%) and microfinance deposit-taking institutions (8%) since 2002⁴ and 2007⁵ respectively.

This publication is not intended to constitute legal advice nor may it be relied upon as legal advice. Please contact us should you have any queries or require assistance.

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² Prakas No. B7-018-282 on the Maintenance of Reserve Requirement Against Commercial Banks' Deposits and Borrowings issued by the NBC on 29 August 2018.

³ Prakas No. B7-020-230 on the Maintenance of Reserve Requirement Against Commercial Banks Deposits and Borrowings issued by the NBC on 18 March 2020.

⁴ Prakas No. B7-02-45 on the Maintenance of Minimum Reserve Requirement for Microfinance Institutions issued by the NBC on 25 February 2002.

⁵ Prakas No. B7-07-163 on Licensing of Microfinance Deposit Taking Institutions issued by the NBC on 13 December 2007.