Annexes: Selected Issues

Annex 1. Assessing US Dollar Liquidity Conditions in Cambodia's Banking System[44]

This Selected Issue analyzes Cambodian banks' US dollar liquidity buffers using a proxy measure based on liquidity held at the NBC. The analysis shows that, in recent quarters, commercial banks have reduced their US dollar liquidity placements at the central bank, while building sizable foreign asset holdings. As long as these assets remain highly liquid and banks can redirect part of their overseas assets to the domestic market when needed, they can serve as investment vehicles that generate higher returns while preserving a liquidity buffer for the domestic banking system. Policymakers should continue to monitor and safeguard US dollar liquidity conditions and address potential liquidity pressures proactively. The NBC's ongoing de-dollarization policy is an important long-term structural hedge against the vulnerabilities associated with US dollar liquidity dependence.

Introduction

1. Cambodian banks are prone to US dollar liquidity risk given the highly dollarized nature of the economy. Like commercial banks in other economies, those in Cambodia face many micro-prudential constraints, including capital adequacy, asset quality, and liquidity. However, they are also exposed to US dollar liquidity constraints during periods of domestic financial distress. As 83.4 percent of broad money (M2) was denominated in US dollars at end-2025, the National Bank of Cambodia's (NBC's) ability to act as lender of last resort (LOLR) is more constrained than that of most other central banks. The NBC effectively conducts local currency liquidity supply through Liquidity Providing Collateralized Operations (LPCO) and Marginal Lending Facility to promote KHR liquidity within the banking system. Furthermore, the NBC has reduced the reserve requirement rate for USD to align it with the reserve requirement applied to KHR deposits.

Decreasing US Dollar Liquidity at the Central Bank amid Heightened NPLs

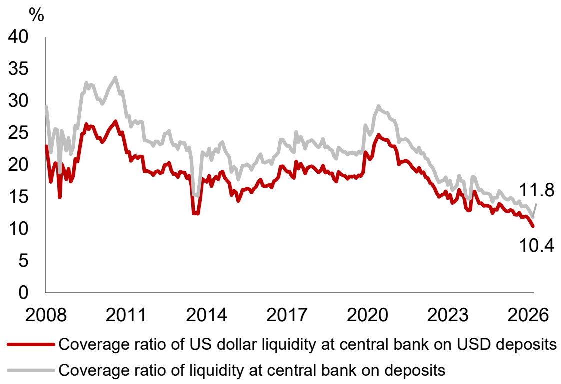
2. Commercial banks' US dollar liquidity held at the NBC has gradually declined since 2021. Commercial banks draw on three main sources of US dollar liquidity. The first is their dollar-denominated assets held at the central bank, including required reserves, excess reserves, and NCD investments denominated in USD. The second is their foreign asset holdings. The third comprises other sources, including liquidity asset holdings at other banks, and loans to be repaid in the short term. Although the last two are recognized under liquidity coverage ratio (LCR) regulations and some qualify as high-quality liquid assets (HQLA), it is difficult to estimate their level of liquidity based on public data. For simplicity, we introduce here the concept of "US dollar liquidity at the central bank"[45], defined as USD excess reserves[46] plus USD-denominated NCD holdings. Banks can use this liquidity without significant restrictions or approvals to meet their daily USD deposit drawdown needs. By the end of 2025, all commercial banks[47] in Cambodia had USD6.8 billion in such liquidity, only 12 percent of their total USD deposits. By March 2026, this share declined further to 10.4 percent by staff estimation, a historical low (Figure A1.1). Even if KHR is included in the estimation, the picture does not materially change. A decline in US dollar liquidity at the central bank does

[44] Prepared by Wenzhe Li, Senior Economist.
[45] This concept is proposed solely as an analytical measure for the purposes of this report to gauge USD liquidity risk as a supplement to established regulatory liquidity metrics.
[46] Excess reserves are the precautionary balances that banks and other deposit-taking financial institutions (BFIs) maintain with the NBC above and beyond the mandatory reserve requirement, held across the following accounts: current account at NBC (USD-denominated), settlement account at NBC (USD-denominated), and Bakong account (USD-denominated).
[47] In this note, commercial banks or banks refer to Other Depository Corporations as defined by the NBC.

not necessarily indicate US dollar liquidity tightening, as banks may instead have a strong appetite for overseas USD assets.

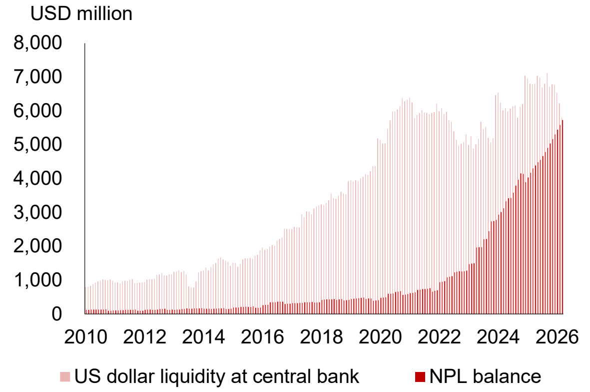
3. A high level of NPLs potentially complicates issues further. NPLs reduce banks' cash inflows through lower interest and principal payments. In this case, once additional buffers such as HQLA have been depleted, the central bank can provide temporary liquidity support through the LOLR function or a deposit insurance scheme. However, in a dollarized economy, with limited LOLR function in US dollars (Berg and Borensztein, 2000) and no deposit insurance scheme, liquidity shortage must be met partially or fully from the stressed bank's own US dollar holdings at the central bank. In the most extreme scenario, the cash outlay could deplete those holdings further. Even though there is no direct connection between NPLs and US dollar liquidity risk, herding behavior of depositors might still exacerbate the potential liquidity weakness of stressed banks through a long transmission channel. Since 2023, NPLs have risen sharply (Figure A1.2). The rapid accumulation of NPL could heighten strains on US dollar liquidity in the event of financial distress[48].

Figure A1.1. The Ratio of Banks' US Dollar Liquidity at the NBC to Deposits



Source: Haver; CEIC; NBC; AMRO calculation

Figure A1.2. NPL Balance and Banks' US Dollar Liquidity at the NBC



Source: Haver; CEIC; NBC; AMRO calculation
Note 1: Monthly US dollar liquidity is estimated by assuming same ratio of USD-denominated NCD in central bank's other liabilities to other depository corporations, as well as same ratio of USD-denominated excess reserves in total excess reserves as end of 2025.
Note 2: NPL after August 2025 are calculated by assuming a monthly growth rate that is the same as the average rate of previous seven months, which was 2.6 percent per month.

Banks' Growing Overseas Investments

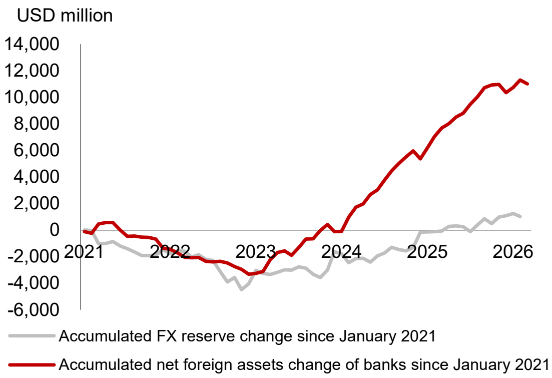
4. Banks are accumulating foreign assets overseas at the same time. Data show that Cambodian banks have significant sums of US dollars to invest. From 2024, banks have been accumulating net foreign assets at a much faster pace than the central bank's accumulation of FX reserves, pointing to dollar net outflows. In 2024-2025, banks' net foreign assets increased by USD10.5 billion, three times the FX reserve increase in the same period (Figure A1.3). This has not happened at this scale earlier. Figure A1.4 shows that banks have increased their overseas asset holdings sharply while simultaneously repaying foreign liabilities. The net effect is that banks are deploying their US dollar liquidity offshore. This behavior is individually rational: banks facing increasing domestic credit risk and limited domestic lending opportunities seek safer returns abroad. But it is collectively destabilizing, as it drains domestic US dollar liquidity. In an extreme situation, these assets might not be readily available to provide a liquidity lifeline for banks. However, some market participants

[48] Conceptually speaking, an NPL balance is not a claim payable in cash on demand, whereas the liquidity measure is intended as a buffer against deposit withdrawals, so the size of NPL itself does not correspond to the narrowly defined measure of dollar liquidity, and the role of this comparison in Figure A1.2 is limited.

are of the view that many of those foreign assets are now in the form of trade settlement funds and short-term deposits, which could be liquid and can serve as one additional liquidity back-up in addition to US dollar liquidity at the central bank.

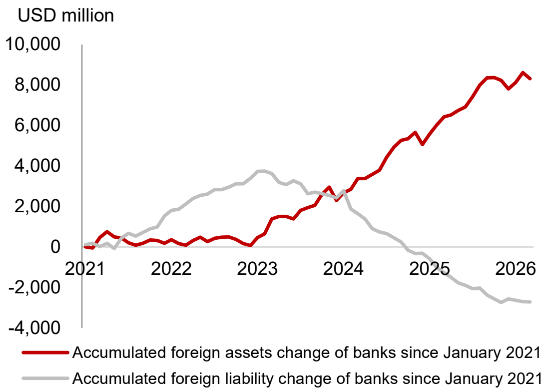
5. Another way to look at this issue is that if banks redirected even a fraction of these overseas assets to the domestic market, the domestic US dollar liquidity picture would improve substantially. Figure A1.5 illustrates a scenario in which one quarter of banks' net foreign assets is added to US dollar liquidity (we call this new measure "liquidity plus"). Under this assumption, the coverage ratio of "liquidity plus" to total US dollar deposits would have bottomed out in 2023 and begun recovering, signaling to depositors that the system's dollar liquidity is improving robustly, which would strengthen depositors' confidence and provide additional buffer against elevated NPLs.

Figure A1.3. Banks' Net Foreign Assets and FX Reserves



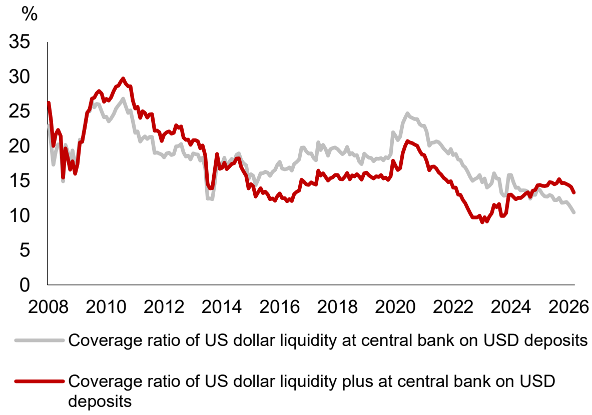
Source: Haver; CEIC; NBC; AMRO calculation

Figure A1.4. Banks' Foreign Assets and Liabilities



Source: Haver; CEIC; NBC; AMRO calculation.

Figure A1.5. Coverage Ratios of Banks' US Dollar Liquidity and "Liquidity Plus" at the NBC



Source: Haver; CEIC; NBC; AMRO calculation
Note: "Liquidity plus" adds one-quarter of banks' net foreign assets to US dollar liquidity (for illustrative purposes).

Policy Implications

6. Policymakers have several options to retain US dollar liquidity in Cambodia and preempt USD liquidity risk. The first is to build a vibrant interbank market (e.g. interbank lending, FX swap), which will allow banks to manage their US dollar liquidity more effectively by borrowing from and lending to one another. A complementary approach would be to expand the supply of domestic dollar-denominated assets—such as USD government bonds issued by the central government—that banks could hold as an alternative to offshore investments[49]. This would provide banks with a liquid, low-risk instrument. Besides, a deposit insurance scheme is also essential to provide another line of defense against liquidity risk in the banking system. The NBC could also consider currency swap arrangements with other economies, including participation in CMIM to address short-term dollar liquidity risk. The NBC's ongoing de-dollarization policy—promoting KHR adoption, expanding the KHR payment ecosystem—is a structural long-run hedge against the US dollar liquidity vulnerability documented in this analysis.

References

Berg, A., and E. Borensztein (2000) "The Pros and Cons of Full Dollarization" *IMF Working Paper.* WP/00/50. https://www.imf.org/external/pubs/ft/wp/2000/wp0050.pdf

[49] However, the government might need to balance the trade-off between issuing dollar assets and its de-dollarization policy.