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Dollarization in Cambodia: What, Why, and How?

Author: Mr. Kosalthanan Neth and Mr. Khunmunie Sivin*

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** Kosalthanan Neth is a research fellow at China-ASEAN Studies Centre, CamTech University.*

Khunmunie Sivin is an independent researcher and an alumnus of RMIT University.

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Dollarization in Cambodia: What, Why, and How?

It's an undeniable fact in Cambodia that the US dollar has more prevalence than the national currency, the riel; its usage ranges from QR transactions in dollars and display of dollar costs on menus to mentally using the US dollar as a reference to gauge prices when transacting in riel.

We have become so accustomed to it that we think it's just a convenient way to conduct transactions, but it has deeper implications.

What is dollarization? Why did it happen in Cambodia? How does it affect us?

What is dollarization?

Dollarization occurs when a country uses the US dollar alongside or instead of its local currency to serve three key functions: as a medium of exchange for transactions, a unit of account for displaying prices, and a store of value.

Cambodia is one of the most highly dollarized economies globally, with foreign currency deposits accounting for over 89% of all deposits as of August 2025, and it's unique among other dollarized economies because of the persistence of dollar usage even after achieving economic stability.

It's not a coincidence that Cambodia adopted the US dollar as the de facto currency; it stems mainly from both historical and contemporary factors.

Why did it happen in Cambodia?

One major factor is history itself (where it's psychologically difficult to switch back to the riel due to remnants of the past), such as the demolition of all institutions, including the central bank, during the Khmer Rouge regime, which left no choice but to rebuild the entire banking system. This resulted in underdeveloped banking operations, eroding public confidence in the riel.

In addition, the continued civil war turbulence in the 1990s didn't help development, as this led to hyperinflation amounting to 180% in 1992 and a significant depreciation of the riel, adding to the already fragile public trust.

On top of that, the massive post-conflict spending by United Nations Transitional Authority in Cambodia (UNTAC) during the 1990s, which injected around $1.6 billion into a fragile domestic financial system, prompted the public to prefer the US dollar as the de facto currency.

Historical factors aside, contemporary reasons for persistence boil down to the structural preferences of Cambodia's economy.

It has opted for an open economy with a trade-to-GDP ratio of around 120% in 2024, where its top destination is the United States, accounting for about 37% of exports, highlighting the massive inflow of US dollars into the economy.

Furthermore, the riel has a higher lending rate than the dollar (around 10.2% vs. 9.59% as of August 2025), making it more expensive to take on riel loans.

However, it's worth pointing out that Cambodia is a unique case where dollarization actually increased even after stabilization of inflation and the exchange rate of the domestic currency, in contrast to other countries' experiences, because stabilization gained investors' confidence and prompted more foreign direct investment (FDI).

How does it affect us?

It's a double-edged sword, with both benefits and drawbacks. But does one outweigh the other?

The National Bank of Cambodia (NBC) has stated clearly its goal to de-dollarize, indicating that it believes the costs outweigh the benefits.

Benefits

The main reason for dollarization is the perceived stability it provides to investors, safeguarding against uncertainties such as exchange rate and inflation risks, which can hinder business if they occur.

Furthermore, it facilitates international payments, which can encourage tourism and investment as they enable easy repatriation.

Lastly, US dollars can be used for other financial purposes that local institutions aren't able to provide, such as investment or storing wealth in global markets, hedging, and access to fintech like bitcoin.

It's also worth noting that dollarization plays a crucial role in Cambodia's key growth engines: tourism, manufacturing, and FDI.

Drawbacks

Having the dollar as the de facto currency limits the monetary policy options of the central bank, making it harder to control the money supply in the economy, which is used to counter inflation or inject liquidity to facilitate economic growth and manage crises (limited role as a lender of last resort).

Moreover, the financial sector is more prone to external shocks; funding is dependent on US conditions rather than the country's domestic conditions, in addition to the pass-through effects from US credit cycles, economic health, and exchange rate cycles onto Cambodia.

Moreover, the central bank incurs a loss of seigniorage revenue (the profit received from issuing one's own currency), which, if estimated at 0.1% of GDP, amounts to a loss of around $46.35 million yearly based on Cambodia's 2024 GDP of $46.35 billion.

Lastly, central banks and financial institutions are required to build more capital buffers to safeguard against external shocks, which could otherwise be used for injecting more liquidity and growing the economy.

International Experiences

From international experiences, it is observed that countries that successfully de-dollarized adopted gradual and market-friendly policies and stabilization programs to contain inflation, reduce exchange-rate risk, and importantly, build trust and confidence in the domestic financial system.

In contrast, forced de-dollarization is prevalent in unsuccessful case studies, where it just led to more uncertainty and volatility in the economy, prompting capital flight, hyperinflation, and ironically, more dollarization.

Successful De-Dollarization

Israel reduced its dollar-denominated deposits from 39% in 1984 to 17% in 2002. It implemented a disinflation program and introduced a domestic dollar-indexed deposit known as Patzams — shekels deposits that are fully indexed to the US dollar exchange rate — which eliminated exchange-rate risk while keeping funds in the local currency and banking system, thereby restoring trust and confidence in the shekel.

Moreover, it introduced hedging instruments for investors to protect against exchange rate risk without holding dollars directly. In macroprudential policies, the authorities implemented higher reserve rates on foreign currency deposits (FCD) and favored high interest rates for Patzam deposits, making dollar deposits less attractive.

As inflation returned to its targeted rate and the public grew more confident in the local currency, the government started deepening the local debt market through nominalizing the indexed instruments and lengthening the maturity of public debt to establish the local bond market.

Similarly to Israel, Chile adopted an inflation-indexed unit as a unit of account for financial instruments along with macro-stabilization in order to regain trust and confidence in the domestic financial system.

Unsuccessful De-Dollarization

In contrast to the successes, there have been many unsuccessful attempts, such as Peru's and Bolivia's de-dollarization efforts, which led to counterproductive results. Both countries attempted forced conversion; the outcome led to increasing cross-border deposits, capital flight, and a reduction in financial intermediation, which ultimately increased FCDs to over 70-80% in the 1990s.

The consequences led to less government credibility, investors losing confidence in the country, and ironically, more foreign deposit holdings as investors sought stable instruments.

Policy Implications

The National Bank of Cambodia (NBC) has displayed considerable effort in promoting de-dollarization, highlighting its commitment to achieving monetary policy independence and building resilience against global uncertainty.

We can see this in the growth of KHR payment volumes, with Bakong KHR transactions reaching 229.3 million in 2024 alone, a 334% increase compared to 2023, evidently showing NBC’s efforts in promoting digital usage of the riel through Bakong.

Furthermore, NBC increased the supply of banknotes to local bank institutions, strengthened open-market operations and facilities to manage liquidity in KHR, promoted the importance of the riel, and urged the private sector to pay wages in riel.

From international experiences, the NBC has avoided forced de-dollarization and adopted a gradual and market-friendly approach to de-dollarization to prevent any economic instability.

However, more work can be done; the central bank must continue building credibility in the financial system to instill solid trust, which is the inherent driver for de-dollarization.

This can be achieved through financial deepening of riel-denominated instruments, maintaining stable inflation and exchange rates (Cambodia could go an extra step to adopt an inflation-targeting framework, as in the case of Israel), increasing prudential measures such as higher provisions on foreign-currency loans, and continuing to increase banking access in rural areas.

There is no need for NBC to follow an indexed instrument since Cambodia has already achieved stable inflation and exchange rates.

Forced de-dollarization should continue to be avoided; based on Peru's and Bolivia's experiences, it will ultimately deter investors' confidence and trust in the country, leading to capital flight, hyperinflation, and depreciation of the local currency.

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