

## RESEARCH

**Bank Industry Risk Analysis: Cambodian Banks Poised For Growth, But Structural And Institutional Vulnerabilities Exist**

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**Major Rating Factors****Strengths:**

- Strong economic growth prospects providing opportunities to banks, and
- Central bank commitment to ongoing reform of the banking system.

**Weaknesses:**

- Relatively small banking system at a nascent stage of development,
- Poor transparency and disclosure standards leading to information asymmetry and prevalence of collateral-based lending, and
- Lack of track record on the effectiveness of the legal framework and commercial laws.

**Executive Summary**

Cambodia's economic prospects are good due to the country's political stability and liberal economic and trade policies that generated an average real GDP growth of 9% between 2000 and 2006. The environment is likely to improve and, as a result, banks in Cambodia are poised to benefit from strong growth opportunities as the industry gathers momentum.

Cambodia has been classified as a group 10 Banking Industry Country Risk Assessment (BICRA) (out of 10, with 1 being the strongest), reflecting its nascent stage of development with deficiencies in structural, institutional, and legal frameworks. The Cambodian banking system is fragmented and lacks financial depth with poor access to credit. There are a wide variety of structural distortions that prevent the optimization of financial intermediation by banks, including the untested nature of the legal framework for secured transactions and information asymmetry arising from poor disclosure standards. Banks are forced to impose high borrowing costs to compensate for lending uncertainties but that, in turn, makes available credit less attractive to potential borrowers. Commercial and bankruptcy laws remain untested, calling into question the banks' ability to enforce claims and magnifying their exposure to structural weaknesses in the economy. In addition, enforcement is an issue, with the regulator taking a gradualist approach with banks, preferring to give extensions or waivers rather than imposing penalties for failure to meet requirements.

Cambodia's central bank, the National Bank of Cambodia (NBC), has taken steps to restore confidence and implement improvements in the banking and business regulations in line with the Financial Sector Development Blueprint for 2001-2010. This was updated to the Financial Sector Development Strategy 2006–2015 to better reflect current challenges in the financial system. The main positive feature of the banking industry is its openness to foreign entrants; the law imposes no restrictions on foreign ownership of banks, and allows foreign banks to operate either as 100% foreign-owned subsidiaries or as branches. Following the entry of international players, which brought best practices and better service quality, public confidence in the banking system has improved. This has in turn spurred domestic banks to expand their range of products and segments to maintain market share.

Consequently, credit growth has picked up in recent years, supported by favorable economic conditions and the country's underbanked nature where domestic credit accounts for just below 10% of the GDP. This presents a risk considering the evolving banking environment in Cambodia, its developing legal infrastructure, lack of audited financial statements, and generally poor disclosure. In a high-impact but low-probability scenario, we estimate that gross problematic assets (GPAs)

in the Cambodian banking system could reach 35%-50%. That said, given its small size, the asset quality of the banking sector still poses a relatively minor contingent risk to the overall economy.

## Economic Risk

### Economic structure/Cycle

Cambodia is a low income economy with a per capita income of an estimated US\$470 (2006), the lowest among rated sovereigns in the Asia-Pacific region. Its economic profile is narrow and highly reliant on agriculture, which contributes 34% of GDP but employs more than 70% of the labor force, reflecting the overwhelmingly rural settlement patterns of the population and the low productivity and small-scale nature of the country's agriculture. With no investment in agricultural infrastructure and susceptibility to weather conditions, the sector's performance is volatile, affecting overall growth rates.

Industry, with a 29% share in national output, is centered on the low value-added garment and textile sector (75% of manufacturing output) and gemstone mining. The garment manufacturing sector, which produces almost exclusively for export, is a relatively new phenomenon and built primarily around Cambodia's exceedingly low labor cost base, coupled with a relative laissez-faire operating environment. The resources sector, hitherto mostly reliant on timber and gemstone mining, is poised for a significant expansion when, as expected, hydrocarbon extraction comes onstream, in two to three years' time. The country has sizable proven reserves of oil and natural gas (estimated at 700 million barrels and two trillion to three trillion cubic feet, respectively) and other, yet unquantified deposits in various stages of exploration and mapping in the Gulf of Thailand and onshore. (The World Bank estimates total possible reserves at two billion barrels of oil and 10 trillion cubic feet of natural gas). The mainstay of the services sector (39% of GDP) is tourism, which directly generates about 14% of GDP and supports numerous other industries in the services sector such as transport and restaurants. Visitor numbers have reached about 1.3 million per year, and tourism receipts have tripled from US\$304 million in 2000 to close to US\$1 billion currently.

Uncharacteristically for a very low income country with a narrow economic profile, the Cambodian economy displays a high degree of openness. Export of goods and services represents about 70% of GDP. Trade flow is facilitated by a number of institutional anchors, chief among which are the WTO membership since 2004, fully-liberalized current and capital accounts, and legislation for the equal treatment of foreign and domestic investors (except for land ownership). Significant undocumented trade on Cambodia's eastern and western borders means the actual trade is likely to be much larger. At the same time, however, growth and investment are hindered by bureaucracy, red tape, corruption, lack of institutional capacity, and limited access to credit. The World Bank's "Doing business survey" ranks Cambodia 143 out of the 175 countries surveyed, highlighting these factors as the biggest impediments.

**Table 1**

#### Selected Indicators

| As of Dec. 31   | 'B' | Median | 2007   | 2008f  | 2007f  | 2006f  | 2005   | 2004   | 2003   | 2002 |
|---|-----|--------|--------|--------|--------|--------|--------|--------|--------|------|
| Per capita income (US\$)                                  |     | 1,436  | 562    | 523    | 484    | 440    | 381    | 339    | 323    |      |
| Real GDP (% change)                                       |     | 5.1    | 7.8    | 8.5    | 10.6   | 13.4   | 10.0   | 8.6    | 6.2    |      |
| Real GDP per capita (% change)                            |     | 3.4    | 5.6    | 6.2    | 8.2    | 11.2   | 7.8    | 6.5    | 4.1    |      |
| General government balance (% of GDP)                     |     | (2.15) | (1.39) | (1.95) | (1.48) | (1.75) | (3.10) | (3.89) | (3.69) |      |
| Gross general government debt (% of GDP)                  |     | 43.6   | 32.5   | 33.1   | 49.4   | 51.3   | 56.5   | 59.7   | 58.1   |      |
| Net general government debt (% of GDP)                    |     | 40.1   | 28.1   | 28.7   | 45.2   | 48.1   | 53.7   | 57.0   | 55.6   |      |
| General government interest expenditure/Revenue (%)       |     | 5.9    | 3.7    | 3.8    | 3.2    | 1.8    | 1.9    | 1.6    | 1.3    |      |
| Domestic credit to private sector and NFPEs (% of GDP)    |     | 26.6   | 10.4   | 9.9    | 9.3    | 9.4    | 9.4    | 7.6    | 6.5    |      |
| CPI (average: % change)                                   |     | 5.0    | 3.3    | 3.4    | 2.7    | 5.7    | 4.0    | 1.2    | 3.2    |      |
| Narrow net external debt/Current account receipts (%)     |     | 64.1   | 7.0    | 9.2    | 33.2   | 40.5   | 44.3   | 53.4   | 51.0   |      |
| Gross external financing requirements/Usable reserves (%) |     | 126.3  | 31.5   | 33.5   | 33.8   | 36.1   | 23.9   | 31.2   | 22.2   |      |

NFPEs--Nonfinancial public enterprises. f--forecast.

### Economic growth prospects

Cambodia has a liberal trade regime that supports the country's growth prospects. Medium-term economic growth is projected at 7%-8% with continued export growth and rising private consumption. Gradual political consolidation during the 1990s elicited a steadily rising private consumption and foreign investment, sustaining strong growth in the Cambodian economy. Aided also by favorable weather, real GDP growth averaged 9% between 2000 and 2006, resulting in a 64% rise in per capita GDP. The medium-term outlook is similarly robust with growth prospects underpinned by foreign investment--including that from the migration of labor-intensive activities from neighboring Thailand and Vietnam as those countries move up the value chain. In the medium term, economic output growth is set to be boosted considerably by oil and gas

production, although the extent and value of this is subject to a number of variables.

**Table 2**

**Economic/Financial Indicators**

| As of Dec. 31 (% change)                    | 2008f | 2007f | 2006f | 2005 | 2004 | 2003 |
|---|-------|-------|-------|------|------|------|
| Real GDP                                    | 7.8   | 8.5   | 10.6  | 13.4 | 10.0 | 8.6  |
| Real investment                             | 11.2  | 12.6  | 17.2  | 15.4 | 9.0  | 4.7  |
| Real exports                                | 11.9  | 13.5  | 19.5  | 16.7 | 28.4 | 11.5 |
| CPI   | 3.3   | 3.4   | 2.7   | 5.7  | 4.0  | 1.2  |
| Domestic credit to private sector and NFPEs | 15.8  | 18.8  | 11.8  | 19.8 | 43.4 | 26.9 |
| Money supply                                | 10.0  | 11.1  | 44.2  | 8.9  | 28.6 | 15.1 |

NFPE--Nonfinancial public enterprises. f--Forecast.

**Political risk**

Following more than a decade of internal conflict, U.N.-sponsored elections in 1993 delivered a coalition government and a new constitution, with the country officially becoming a multiparty democracy. The political landscape has undergone gradual consolidation and, as a result, the general security climate has improved considerably with democratic practices gradually taking root. The Cambodian People's Party, the party of former communists, has gradually increased its dominance of political life at the expense of the two main opposition parties. The party appeals to most of the country's overwhelmingly rural populace, while support of the two opposition parties is largely based in urban areas and holds more attraction among royalists and the more educated segment. That said, there appears to be no division among the major parties regarding the direction of economic policies, which emphasize export-led growth, and the increased role of the private sector. Thus, irrespective of the outcome of the elections scheduled for 2008, no changes are expected in economic policy or relations with donors--two of the key factors that underpin Cambodia's creditworthiness.

However, widespread corruption remains a significant investment deterrent and the main criticism leveled against the country by donors. Transparency International's corruption perception index listed Cambodia at 131st place in 2005. In 2006, the World Bank cancelled projects worth about US\$12 million and demanded the refund of a portion of already disbursed amounts alleging corrupt practices. Even incidents like this, however, are not likely to fundamentally affect Cambodia's positive relationship with the international donor community.

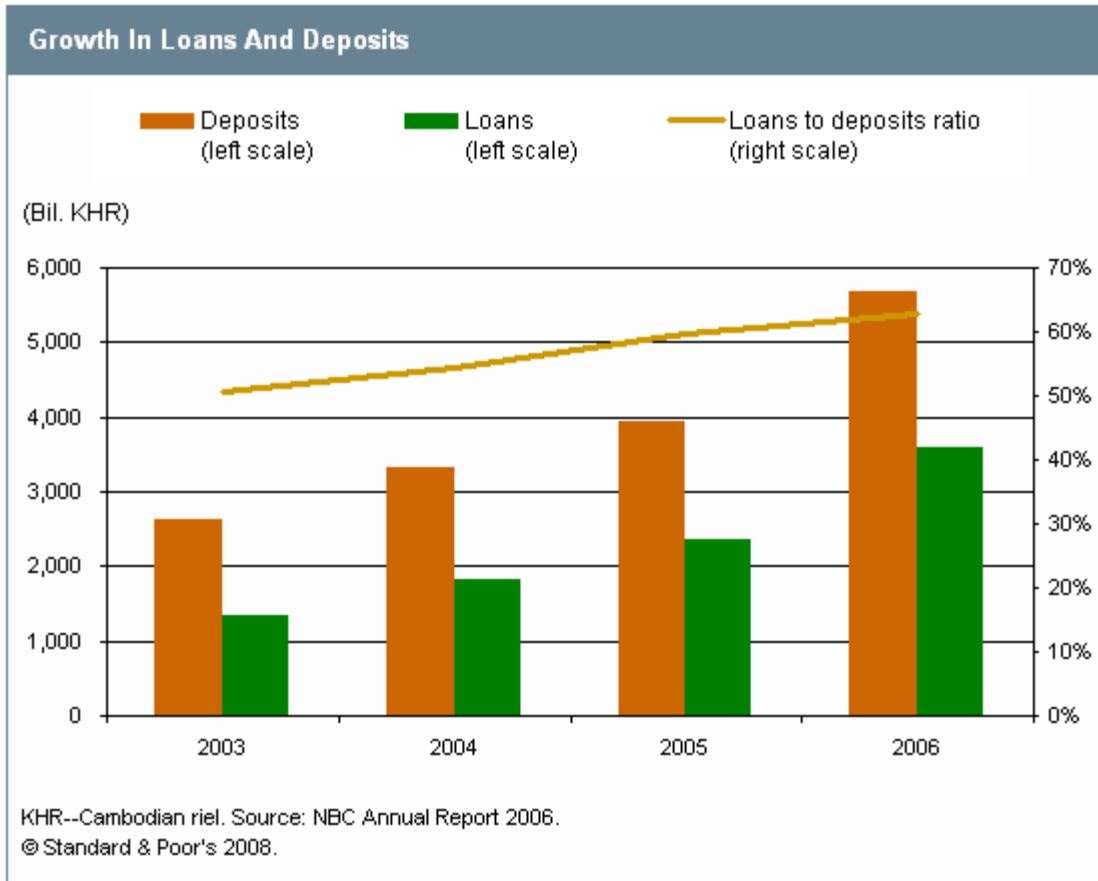
**Market and investment environment**

The institutional framework in Cambodia is getting stronger and provides a higher degree of predictability that has helped the market and the investment environment. The main distinguishing features of Cambodia's financial system are its high degree of dollarization, which limits monetary policy options but supports price stability and an open trade regime. Foreign currency deposits make up more than 70% of broad money, while the U.S. dollar and the Thai baht in certain parts of the country are used extensively in everyday cash transactions and interchangeably with the Cambodian riel. The extent of dollarization has served to keep inflation low at an average of 2.9% in the past six years, and also facilitates trade and foreign investment. However, this, and the very low level of bank intermediation, means that monetary policy in its conventional sense is nonexistent. The scope of the central bank's policy measures is effectively limited to varying the amount of local currency issued, which is aimed at maintaining a stable exchange rate, defined as being within a band of +/- 1% of the market rate. This regime accomplishes the NBC's official mandate, and, together with free capital and current account transactions, underpins the export-led growth model that Cambodia embraced. Dollarization also implies that there is no official policy rate and no credit growth target. Commercial banks are free to set rates based on U.S. federal fund rates--where high margins reflect the risk of weak legal enforcement and absence of documentation by borrowers.

**Leverage in economy/Credit risk**

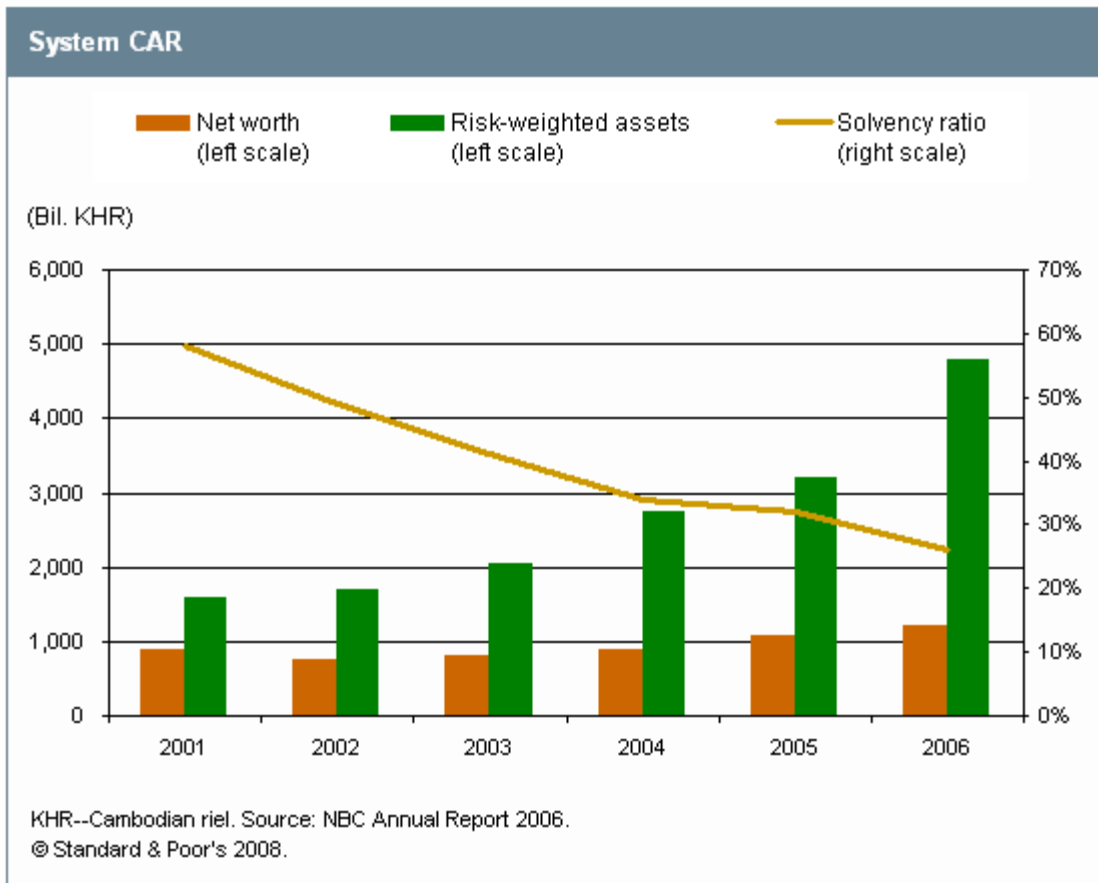
**Credit growth.** The banking system in Cambodia is relatively small and at a nascent stage of development. Despite the small loan base, the average growth prior to 2006 was relatively muted at about 20% (see chart 1). Reflecting the increased confidence following the entry of international players, total loans recorded a significantly higher growth of 45% in 2006 to US\$1.4 billion. Unlike some other developing economies, Cambodia distinguishes itself by the absence of directed lending by state banks and credit growth is driven by market forces.

**Chart 1**



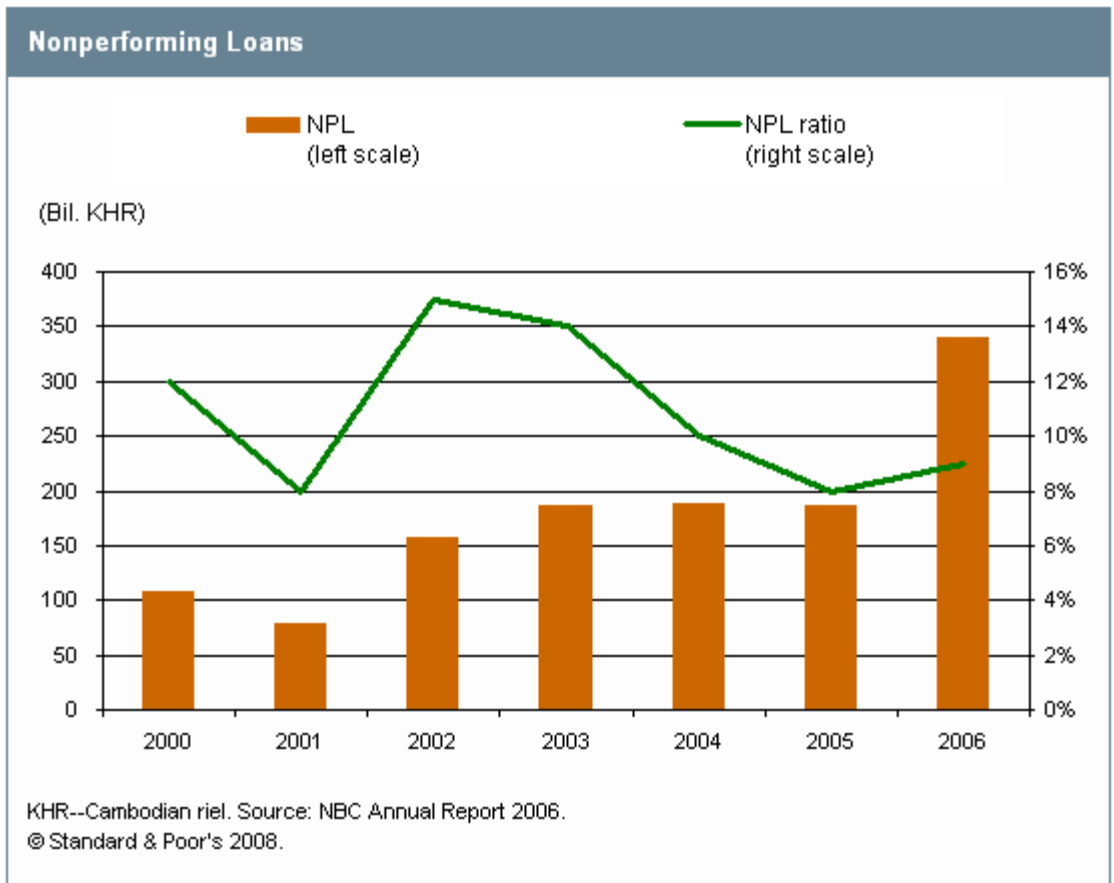
The potential for sustained loans growth under favorable economic conditions is high given the country's underbanked nature where domestic credit accounts for just below 10% of GDP. Further, the capitalization of the banking system—with a reported equity to asset ratio of 20.0% and capital adequacy ratio (CAR) of 26% at Dec. 31, 2006--suggests it has capacity for further balance sheet growth (see chart 2). Although capitalization is high, compared with global norms, some buffer is desirable considering the evolving banking environment in Cambodia, its developing legal infrastructure, uncertainty of collateral recovery, lack of audited financial statements, and generally poor disclosure. Further, capital levels have declined since 2001 due to increased lending. In response to public consultation, the regulatory requirements on CAR were amended and reduced to 15% in 2005, from 20%, (but remained above the Basel recommendation of 8%) to allow banks more leeway for balance sheet expansion. In Standard & Poor's view, further easing of capital requirements should be accompanied by structural improvements in line with more developed and mature systems in the region.

**Chart 2**



**Credit quality.** Credit risk indicators are high in comparison with regional peers' and have been fluctuating due to rapid loans growth in a still-evolving environment. However, the NPL ratio trended upward to 9.5% in 2006, from 7.5% in 2005 (see chart 3), following the central bank's implementation of more stringent criteria based on a qualitative assessment of borrowers instead of merely based on a formulaic past due basis. Overall, NPL ratio is in line with the 8%-10% reported by other less developed nations.

**Chart 3**



Notably, the largest commercial bank in the system accounts for two-thirds of the country's NPLs, emanating from its longer operating history during which it accumulated a significant legacy of impaired assets. In contrast, newer entrants have been reporting low to zero delinquencies although this might increase with portfolio seasoning depending on their credit risk management and underwriting standards. Assessment of a borrower's financial condition is often constrained by difficulties in obtaining financial statements amid the prevailing poor disclosure standards, forcing banks to rely on subjective historical experiences with particular customers for loan classification. A Credit Information Sharing System was launched in August 2006 but it is only expected to facilitate credit decisions once it is fully implemented.

Lending in Cambodia is predominantly backed by fixed asset collateral. Recoverability is uncertain and frequently based on moral persuasion and existing relationship with the borrower. Laws on secured transactions have been developed only recently to coincide with the pickup in lending. However, enforcement of timely foreclosure by the courts has yet to be adequately tested.

**Gross problematic assets range: 35%-50%**

In a high-impact but low-probability scenario, we estimate that GPAs in the Cambodian banking system could reach 35%-50%. Comparable countries in that range are Indonesia, Thailand, China, and Argentina (see "Banking Industry Country Risk: These Are The Good Old Days," published June 6, 2006). We believe that reported problem loans understate potential problems, being masked by high growth rates and a relatively unseasoned portfolio, which could deteriorate rapidly in an economic downturn. This is exacerbated by generally weak supervision by the central bank. In addition, commercial and bankruptcy laws remain untested, calling into question the banks' ability to enforce claims and magnifying their exposure to structural weaknesses of the economy. That said, with outstanding credit to private sector and nonfinancial public enterprises at less than 10% of GDP, the banking sector's asset quality poses a relatively minor contingent risk to the overall economy.

(Problematic assets include overdue loans, restructured assets, foreclosed real estate and other assets recovered in loan workouts, and nonperforming assets sold to special-purpose vehicles. The GPA estimate is expressed as a percentage of domestic credit to private sector and nonfinancial public enterprises.)

**Industry Risk**

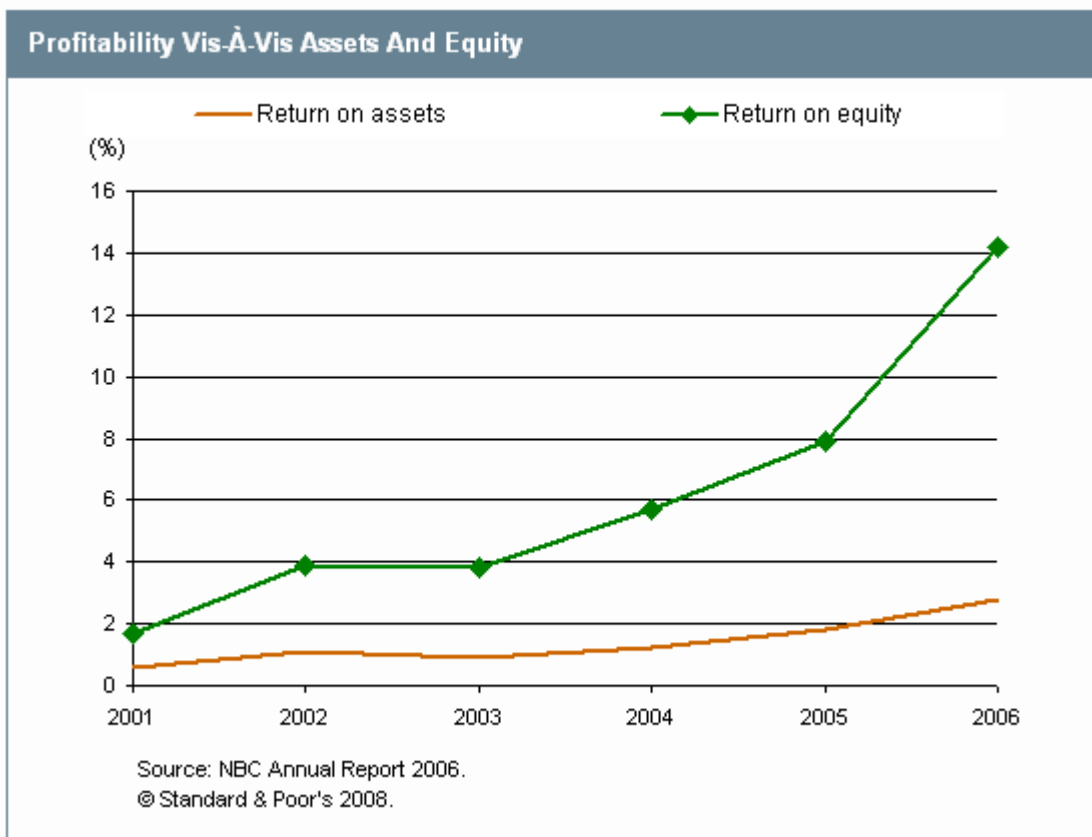
**Business dynamics**

The Cambodian banking system's turbulent history and short track record are key risks for the industry. Following the country's transition to a market economy in 1993, there was a proliferation of banks operating under minimal regulatory supervision. Many of the smaller commercial banks were financially weak and were plagued with significant asset quality problems due to weak management, poor underwriting standards, and insufficient borrower information. The numerous bank closures that ensued lead to significant erosion in public confidence. To strengthen the banking system, the NBC embarked on a phase of consolidation by instituting higher capital requirements in November 2000.

As a result of the first phase of this procedure, the NBC closed four banks in July 2000, and, after evaluating the viability of the remaining institutions, closed another seven in December 2000. In March 2001, one bank elected for voluntary liquidation. Six banks were fully relicensed and 13 were relicensed conditionally. The latter were required to take corrective actions and had to fulfill a number of prudential requirements, including the injection of capital to meet the minimum capital requirements. Out of the 31 banks operating at the start of this exercise, 12 banks were de-licensed and put under liquidation, and 19 were allowed to continue operating.

It was not until 2005, with the entry of international players, that public confidence improved significantly. Notably, foreign players brought best practices in risk management and processes, which raised the general level of service and competition in the domestic banking sector. As at March 31, 2007, the system comprised 21 banks (15 commercial banks and five specialized banks), 16 licensed microfinance institutions, and 24 registered rural credit operators. Commercial banks have minimum capital requirements of Cambodian riel (KHR) 50 billion and are allowed to provide a full range of financial services. Specialized banks have lower capital requirements (KHR10 billion) but have retail deposit-taking restrictions. Meanwhile, microfinance institutions play a key role in poverty reduction by providing microloans to generate economic activity among the rural population; most receive funds from international organizations although they are also allowed to take deposits in their operating provinces.

**Chart 4**



Nevertheless, Cambodia lacks financial depth with poor accessibility to credit. The system is fragmented and significantly concentrated, with the top three banks accounting for about 50% of total deposits and 60% of total loans. In Standard & Poor's opinion, there are a wide variety of structural distortions that prevent the optimization of financial intermediation by banks in Cambodia. These include the untested nature of the legal framework for secured transactions and information asymmetry arising from poor disclosure standards. Banks are forced to impose high borrowing costs to compensate for

lending uncertainties that, in turn, make available credit less attractive to potential borrowers. There is also a lack of track record on the effectiveness of the legal framework and commercial laws on secured transactions that have been recently promulgated.

### **Operating environment: Flexibility**

The Cambodian economy has gone through several challenging times, which saw some smaller banks sell or wind down their operations. Banks that survived the transition period have refocused their efforts on business diversification and reducing operating inefficiencies, both of which require further improvement. In particular, profitability (system's returns on assets was 2.9% at Dec. 31, 2006) is modest compared with emerging market peers', despite high interest rate margins (see chart 4). This is attributable to high operating expenses in Cambodia. Manpower costs are high due to inefficient bank processes at the operating level, and a limited talent pool at the management level due to years of civil war (notably the Khmer Rouge regime from 1975 to 1979 that isolated the country from foreign influence, closing schools, hospitals, and factories, and abolished banking, finance, and currency). At the management level, banks employ foreign bankers, which are expensive by domestic standards. Brick and mortar costs are also significant given the large branch network relative to the banks' small asset base. Further, alternative banking channels such as ATMs and internet banking have not gained widespread acceptance in Cambodia. Lack of an interbank market has resulted in banks keeping high liquid assets, particularly cash in hand, which results in a lower stock of earning assets. Margins are likely to decline slowly from their current very high levels, assuming ongoing economic improvement and increase in competitive pressure. This is expected to be offset by increased market penetration and volume growth in the more price-sensitive corporate segment, while attempting to cross-sell financial services such as cash management and trade finance to boost overall returns. However, this is a relatively new area for local players (compared with foreign banks) and their revenue structure is expected to remain highly reliant on interest income in the short to medium term.

### **Operating environment: Franchise**

Cambodia's banking system has significant room for growth given the low banking penetration with less than 6% of the population having access to the formal banking system. Cambodia is also characterized by a structurally low level of financial intermediation with credit to GDP at just 10%. The majority of investments and purchases are financed by self funding and not by borrowing. The cultural norm of keeping money at home can be attributed to low trust in the banking system from memories of past bank failures.

A notable feature of the Cambodian economy is its high level of dollarization stemming from sizable international assistance, private transfers, and export earnings, in addition to a lack of confidence in the domestic currency. Consequently, banks end up with large dollar liabilities, although currency mismatches are not a major concern due to the dollar denomination of almost all loans. However, by granting dollar loans to local currency earners, banks are effectively transferring their currency risk to unhedged clients and retaining the resulting credit risk.

The main positive feature of the banking industry is its openness to foreign entrants; the law imposes no restrictions on foreign ownership of banks, and allows foreign banks to operate either as 100% foreign-owned subsidiaries or as branches. The 1999 Law on Banking and Financial Institutions and subsequent regulations guarantee foreign banks rights and obligations equal to local banks. Following the entry of international players that brought with them best practices and better service quality, public confidence in the banking system has improved. This, in turn, has urged domestic banks to expand their range of products and segments to maintain market share, and should be beneficial for the system.

### **Banking supervision and regulatory environment**

The NBC was established in 1980, but only became an autonomous central bank in 1996 when it was vested powers and responsibility for licensing and supervising banks. The Law on Banking and Financial Institutions was promulgated in late 1999 and the NBC became fully operational in 2001. Since its inception, the NBC has taken steps to restore confidence and improve banking and business regulations in line with the Financial Sector Development Blueprint for 2001-2010, updated to the Financial Sector Development Strategy 2006-2015 to better reflect current challenges in the financial system. Key priorities include:

- Completing Cambodia's legal framework through the enactment of important laws on Secured Transactions, Leasing Laws, Commercial Contract Law, Commercial Court Law, and the Civil Code. Notably, these laws have been in the pipeline, in some cases for years, and are now beginning to be promulgated.
- Developing a safe and efficient payment and settlement system through the creation of a national electronic payment system for supporting interbank market processes.
- Deepening the microfinance sector to establish a sustainable and efficient system that can provide financial services at an acceptable price for the country's rural poor.
- Improving fiscal, macroeconomic, and monetary policy implementation.

At the operational level, bank supervision is conducted using the CAMEL framework via a combination of constant off-site

monitoring and periodic on-site inspections. Reflecting the central bank's noninterventionist approach, interest rates are determined based on market forces and state banks are not subject to directed lending. Rather than focusing on convergence with international norms such as Basel I and International Accounting Standards, banks are given time to build up their internal controls and risk management systems. While Cambodia's assimilation in the international community is a desirable long term goal, fundamental and structural issues are rightfully given higher priority given the nascent stage of the country's banking system. However, enforcement is an issue with the regulator taking a gradualist approach with banks, preferring to give extensions or waivers rather than imposing penalties for failure to meet requirements. According to the IMF Cambodia Country Report (August 2007), although the enforcement of prudential regulations is improving, compliance remains patchy. For example, several banks do not publish their annual audited report although this requirement has been in place since 2006. Additionally, the true state of asset impairment in some banks is suspicious. With confidence returning and loans growth picking up, close supervision and timely enforcement are required to ensure that potential weaknesses are detected and addressed in a timely manner.

### **Accounting and transparency**

Transparency and disclosure standards in Cambodia are poor. According to the World Bank Report on the Observance of Standards and Codes 2006, financial reporting is unreliable with institutional weaknesses in regulation, compliance, and enforcement of standards. The National Accounting Council was established in 2003 as the official standard-setting body. Although it has issued Cambodian Accounting Standards based on the 2002 version of IAS, there are gaps in comparison with its international equivalents. In addition, although the International Auditing and Assurance Standards Board has promulgated several IAS since 2002, no equivalent updates have been made in Cambodia. Meanwhile, the NBC issued prudential regulations that it asserts will prevail over Cambodian Accounting Standards in cases of contradiction in the preparation of financial statements. The differences between these two accounting frameworks present a contradictory reporting framework for the banking sector. Finally, the public accountancy profession in Cambodia is at an early stage of development, primarily due to its lack of technical capability, and might not have adequate capacity to prepare IAS-based financial statements.

Few borrowers produce financial statements and those that do are often not subject to audits and do not follow common accounting standards. Faced with inadequate borrower information for banks to perform their financial intermediation roles, access to finance is limited and collateral-based lending became a feature of the system. However, this too was compounded by a lack of legislation for secured transactions. To cultivate market discipline, central bank regulation requires, since 2006, that banks and financial intuitions publish annual audited reports; nevertheless, many banks are not fully compliant and much has to be done with regards to information accuracy. Further, enforcement has been lenient. That said, a few proactive banks are disclosing additional information through their websites, and larger players are beginning to share information with the public. In a further attempt to narrow the information asymmetry, the NBC launched a Credit Information Sharing System in August 2006 under the Financial Sector Blueprint Development program. Participation is limited to commercial and specialized banks although microfinance institutions will be included when the system is established. Meanwhile, the immediate challenge is to populate the database with a comprehensive set of positive and negative borrower information through more stringent enforcement and participation. The effective operation of the system is envisaged to promote lending through proper credit analysis vis-à-vis the current focus on collateral.

### **Propensity To Rescue Banks: Cambodia Classified As "Support Uncertain"**

The Cambodian government has historically allowed weaker banks to fail. Assistance provided to troubled banks has been restricted to promoting their restructuring or encouraging them to be taken over by foreign players. As lender of last resort, the central bank is also allowed to provide short-term liquidity assistance to financial institutions, in the form of short and medium term credit facilities backed by real collateral, to prevent problems from spreading throughout the system. However, its usefulness in a highly dollarized economy is limited. In the main, the determination of the government in closing problem banks is reducing the risk of moral hazard in the system. Given the low level of financial intermediation and the generally small size of the banks, we classify the system as "support uncertain" from the point of view of support to banks in distress.

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