



KINGDOM OF CAMBODIA
NATION RELIGION KING

NATIONAL BANK OF CAMBODIA

ANNUAL REPORT 2006

FOREWORD OF THE GOVERNOR

The year 2006 was characterized by the steady recovery of the world economy following the outbreak of the financial and monetary crisis in 1997, supported by robust private sector performance and favorable conditions in the international financial markets. Though the rapid rise in oil prices since the beginning of 2004 does bring back painful memories of the global economic consequences of the oil shocks during the 1970s, a recurrence of the crisis prompted by the current oil price hike is unlikely to materialize in our present economic environment. The growth of the world economy in 2006 is expected to have increased by 4.9 percent despite new highs for oil prices, rising geographical tensions and natural disasters. Growth in the United States and Europe is expected to have reached 3.4 percent in 2006; Japan, around 3 percent. Growth in China and India will be 8-9 percent and ASEAN economic growth is expected to be 5.5 percent. In fact, the underlying fundamentals of the world economy have more generally strengthened and a more sustainable pattern of growth has been created, whereas many countries, especially the emerging market economies, have successfully made the necessary structural adjustments and have thus been able to reap the benefits of a globalized world economy.

It is certain that Cambodia is also one of the countries that has benefitted from reforms and structural adjustment. The government of Cambodia is fully aware that moving forward with structural reform measures is key to enhancing the economy's competitiveness, achieving broad-based growth, and further advancing poverty reduction, along with the efforts to promote democracy, peace and stability. Recent economic development manifested such reform efforts.

Guided by prudent macroeconomic management, the economy has achieved remarkable progress, with 2005 expanding at a record high of about 13.5 percent. A cautious growth projection for 2006 was 10.4 percent, taking into account the risks related to continued higher oil prices and less favorable conditions for agricultural production. The overall inflation slowed down by 3.9 percentage points to 2.8 in December 2006, from 6.7% in the same period of last year. This decrease was attributable to the slowdown in food prices and to some extent, lower prices for transportation. During the reviewed year, the riel was broadly stable. The exchange rate of the riel against the US dollar even appreciated by 1.4 against a 2.3% depreciation recorded in the previous year. Given the openness of the Cambodian economy, the relative stability of the exchange rate of the riel against the US dollar is one of the key factors for the successful containment of domestic prices. On the external front, current developments showed that despite the removal of the quota system on Cambodia's garment exports, the country's external stability seems not to be at risk. The country's international reserves continue to expand, and provide adequate support to meet the need of increased imports. By the end of 2006, the country's international reserves were up by 181.5 million dollars to reach a level that is sufficient to cover about 2.9 months of imports. Meanwhile, foreign debts have been kept within a manageable level.

The situation in the banking and financial sector also showed encouraging signs. Banking performance has improved further while financial intermediation increased, reflecting financial stability and increased financial services promoted through the legal and institutional reforms implemented under Financial Sector Blueprint 2001-2010. The broad money supply (M2) to GDP has risen from 12.8 percent of GDP in 2000 to 24.3 percent of GDP in December 2006, whereas price stability was maintained—a major structural improvement. Credit to the private sector has correspondingly risen from 6.5 percent of GDP in 2000 to an estimated 12.7 percent of GDP in December 2006. In addition, on the basis of capital adequacy, non-performing loans, earnings performance and liquidity, the overall financial condition and performance of the banking industry during the period under review was satisfactory.

On the financial sector front, the National Bank of Cambodia has further advanced the necessary structural reforms in the banking and financial sector in order to enhance the soundness and viability of the financial system to underpin the efficient transmission of monetary policy and to expand the intermediation process.

In exercising its statutory responsibility for financial stability, NBC continued to monitor the domestic financial system to identify any structural weaknesses, while maintaining close contact with the banking service providers and related parties in the private sector with the aim of improving banks' efficiency and intermediation. In this context, bank supervision efforts continued to focus on ensuring a sound banking system. NBC's capacity in conducting both on-site and off-site bank supervision has been constantly upgraded. All banks are subject to at least one on-site examination every two years, but based on the assessment of the supervisor, banks can be subjected to more frequent assessments, if deemed prudent. Measures have also been taken to enhance banks' operational and credit risk management.

The establishment of the Credit Information Sharing System, which exchanges negative credit information related to bank borrowers among member banks, was completed as scheduled and began to operate on a pilot basis in August of this year. The benefits of this system are expected to be seen in expanding credit access, especially to small borrowers, in lowering the cost of borrowing for responsible borrowers, and in reducing the credit risk exposure of the banking system.

While working against poverty, the government also understands that the productive base must spread beyond the city to the countryside. In this context, an adequate supply of microfinancial services is seen as a crucial way to initiate and sustain rural development. The year 2006 was declared the Year of Microfinance in Cambodia and from the beginning of the year a number of microfinance seminars and workshops were conducted aiming at improving efficiency of MFIs, improving public awareness and thus enhancing the public's access to microfinance. The promoting

and strengthening of microfinance institutions will continue to receive full support from the authorities.

The need to improve regulatory framework in the banking and financial sector also received intense attention during 2006. Regulatory standards were gradually improved and additional banking regulations were issued to enhance the banking system, including measures on anti-money laundering and combatting the financing of terrorism in anticipation of the adoption of the AML/CFT law by the National Assembly. The draft law also envisages the establishment of the Financial Intelligence Unit (FIU).

Additional efforts have been made to further expand areas of banking and related business. Recently, the legal framework for leasing activities has been established, helping to bridge the gap of financial services in the market and add a new source of financing to those, especially the SMEs, who do not have adequate access to bank loans.

Crucial progress has also been achieved with respect to the development of a functioning payment and settlement system in Cambodia. Following the adoption of the Law on Negotiable Instruments and Payments Transactions, three implementing regulations have been drafted. In addition, public education has also been organized through a series of seminars to introduce the public and private sector to this new legislation.

Another remarkable achievement during 2006 was the update of the Financial Sector Blueprint 2001-2010 into the Financial Sector Development Strategy 2006-2015. Mirroring the long-term character of the Financial Sector Blueprint, the update has been seen as necessary to reflect recent progress, the changing environment, and the capacity of the implementing institutions, thereby giving a stronger impetus to banking and financial sector reforms in the years ahead.

Regarding its own internal organization, NBC moved ahead with the necessary structural reforms that were adopted based on the advice given by leading international financial institutions and a study of the experiences and best practices of other central banks. In this context, a number of NBC's core functions have been improved. The internal audit system has been enhanced, with particular attention being paid to the improvement of legislative documents related to internal audit policy and activities, the training of auditors and improvement of organizational capacity of the Inspection Directorate. Meanwhile, a legal office has been established to take care of legislative matters related to banking and finance. The structure and functions of branches have been improved in conformity with a policy based on regional development of central bank operations.

Looking ahead, many tasks and challenges are waiting to be done and solved. Among these, prudential supervision will be further enhanced to safeguard the soundness of the banking system. In this context, efforts will be made to tighten enforcement of the prudential framework and to strengthen NBC's supervisory credibility. In addition, NBC continues to systematically focus on

improving its staff's knowledge and professional skills in the headquarters and local branches to meet the needs of a more modern banking level. In the context of the National Strategic Development Plan, the development of human resources is seen as a basic means for sustainable socioeconomic development. NBC believes that by concentrating its efforts and measures in combination with the assistance of friendly countries and international financial institutions, we will be able to seize the opportunity of being part of the world community and surmount the challenges ahead.

In conclusion, as Governor of the National Bank of Cambodia, I would like to reiterate the strong willingness and commitment of NBC to working actively in partnership with the private sector, line ministries and international community to forge ahead with the outlined reform agenda toward achieving robustness in the banking and financial sector and monetary and financial stability, with the ultimate goal of bringing prosperity to Cambodian people.

Last but not least, the members of the Board join me in taking this opportunity to express our gratitude to all of NBC's officials and staff for their dedication and hard work. Without their contributions, the achievements described in more detail elsewhere in this report would not have been possible. I trust that they will continue to play an active role in ensuring the fulfillment of NBC's many and varied missions.

CHEA CHANTO

Governor of National Bank of Cambodia

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Introduction

With the prudent macroeconomic management pursued by the Royal Government of Cambodia and the careful implementation of the reform agenda in several important areas, the Cambodian economy continued to achieve a remarkable growth rate in 2006, despite the various challenges both abroad and at home. According to recent data, the economy is estimated to have expanded by 10.4 percent in 2006, a strong performance compared to the 13.4 percent growth rate in 2005, the year with the highest growth recorded since 1993.

The reviewed year was also characterized by a subdued inflation pressure, in spite of the fact that local oil prices continued to remain high. The increase in the overall Consumer Price Index reached a moderate level of 2.8 percent in contrast to a y-o-y inflation rate of 6.7 percent in 2005. Meanwhile, an appropriate coordination between monetary policy and fiscal policy also enabled the exchange rate of the riel to maintain its relative stability throughout the year, and even showed some strength toward the end of 2006.

While the political situation continued to be favorable and supportive to economic and social development, the financial sector in Cambodia also underwent constant expansion and strengthening, thus stimulating increased public confidence within and from outside the country. Together with the efforts to achieve progress in the banking sector, microfinance has been one of key sectors that received special attention from various national and international stakeholders. This sector has been a development priority in the reform agenda of the National Bank of Cambodia. The initiative to organize a National Conference on Microfinance and the official declaration of 2006 as the Year for Microfinance were seen as significant events contributing to this sector's momentum and success, as witnessed by the increased presence of microfinance throughout the country and the improved access of the population to microfinance services.

In addition, during 2006 the National Bank of Cambodia, with cooperation from other related institutions, worked on a new strategic plan to reform and restructure the banking and financial sector in Cambodia in accordance with the changes in the working conditions and environment through the updating of the "Financial Sector Blueprint 2001-2010 into "Financial Sector Development Strategy 2006-2015". This effort was aimed at increasing efficiency in the banking and financial sector and at promoting a financial stability in sustainable manner.

I. Macroeconomic developments

1. Prices and Exchange Rate Movements

1.1. Retail Prices and Inflation

Retail price inflation showed a clear downward trend during 2006, with all its measurements the year-on-year measure, the three-month moving average, and the three-month moving average measure heading down at a faster pace, especially since mid-year.

In statistical figures, the consumer price index increased from 118.1 in December 2005 to 121.5 in December 2006. As a result, the 12-month moving average inflation rate increased to 4.7 percent over the year to December 2006, from 5.8 percent a year earlier. Meanwhile, on a quarter-to-quarter basis, the annual inflation rate was only 3.4 percent in 2006, as compared to 6.6 percent and 5.8 percent in 2005 and 2004, respectively. However, on a year-on-year basis, the inflation rate increased to just 2.8 percent in December 2006, from 6.7 percent in 2005, indicating a high consumer price index in the same period of last year. The increase in the inflation rate in the reporting year represented, therefore, a decrease of 3.9 points from the previous year. Overall, the 2006 inflation rate was contained at a level within the definition of the Royal Government of Cambodia of price stability, which is aimed at a price level of below 5 percent.

Chart 1: Consumer prices

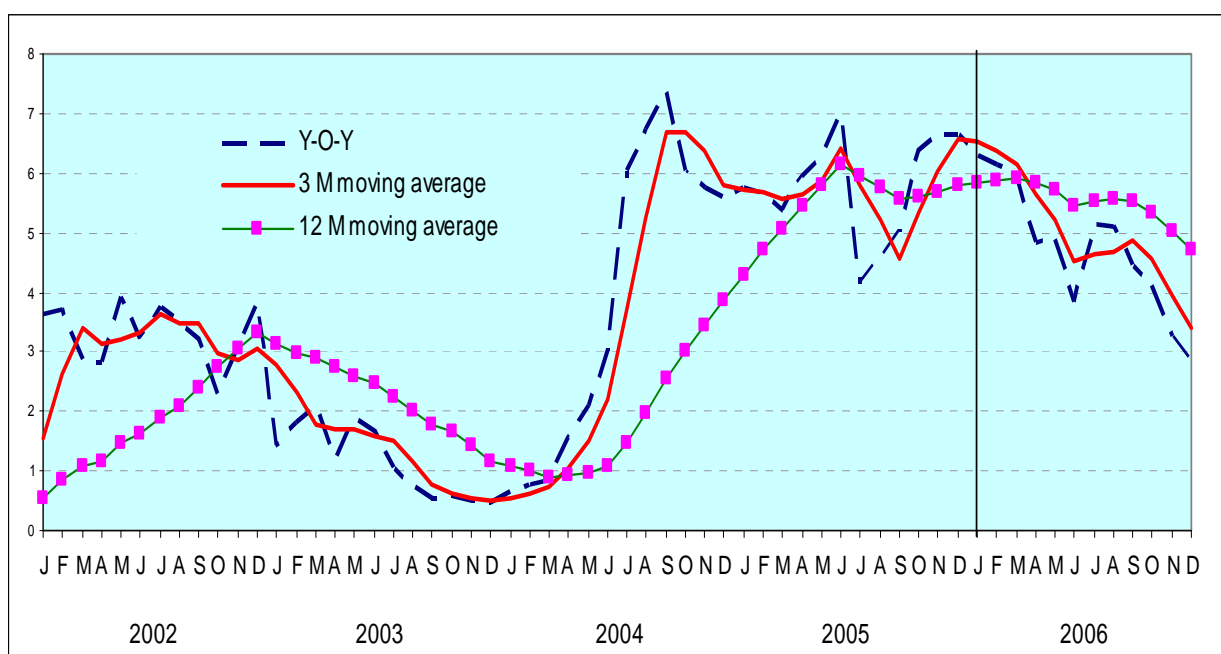
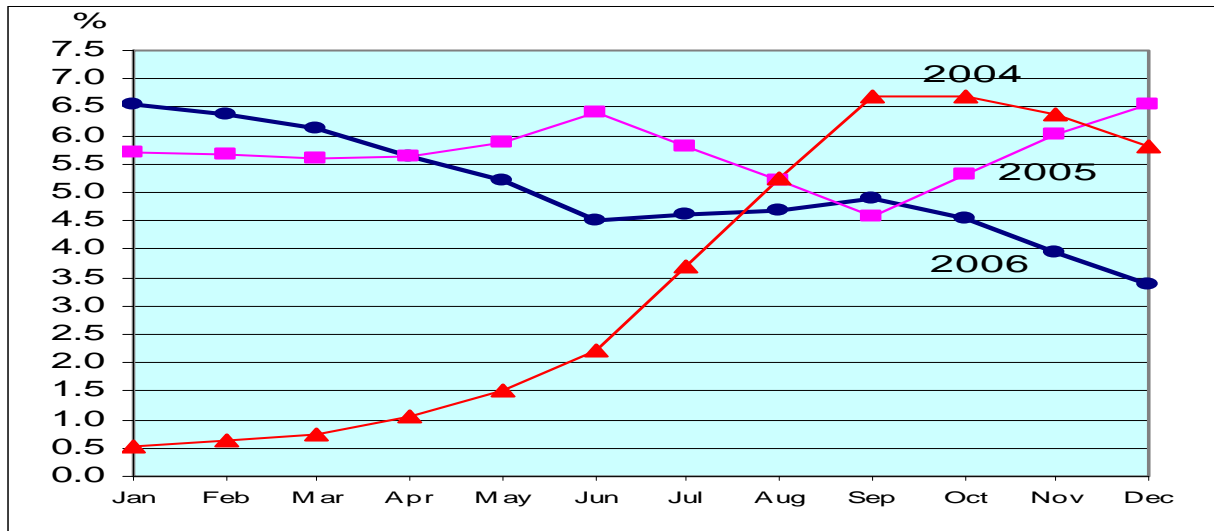


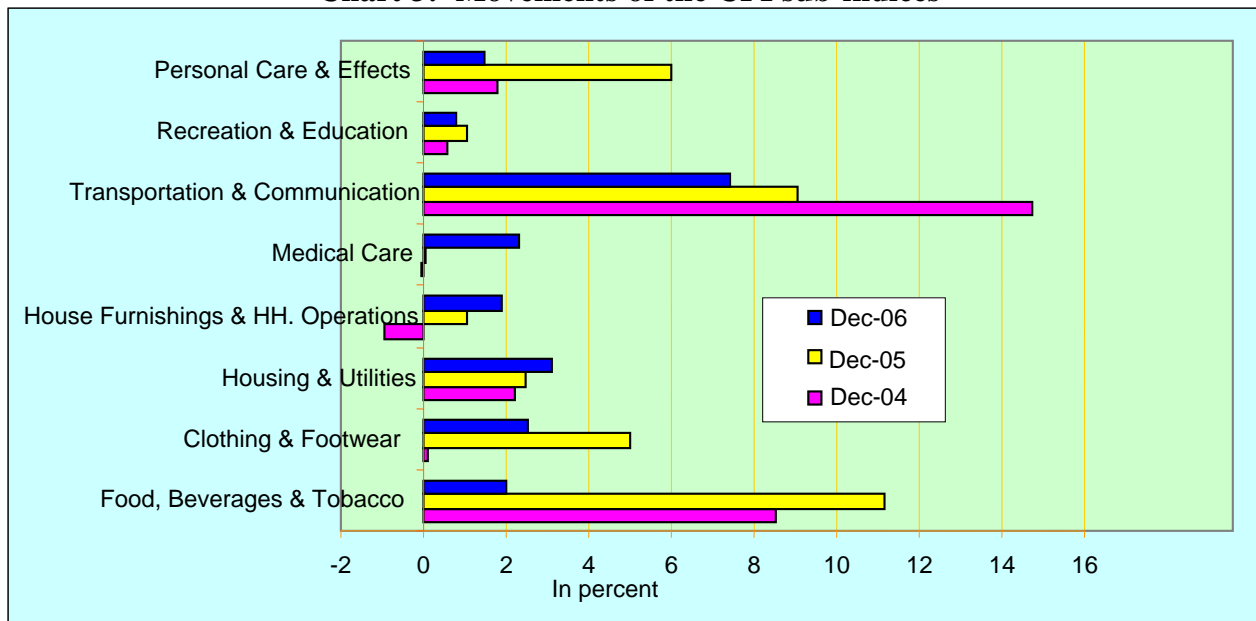
Chart 1 shows the comparison of price development during the period from 2004-2006. The annual inflation rates, as measured by annual positive changes in the three-month moving average CPI during 2006, were generally below that in 2004 and 2005 and were quite stable. Inflation started the year 2006 with a rate of 6.5 percent and ended the year at 3.4 percent.

Chart 2: Annual inflation, quarterly basis



The pattern of increase in the consumer price index in 2006 showed some difference from the previous year. While in 2005, the food price index was the major contributing factor to the increase in the overall consumer price index, in 2006 food prices remained suppressed to some extent, with the index rising to just around 2 percent in the year to December. By contrast, another component of the overall consumer price index, the Transportation & Communication sub-group, continued to show a substantial rise of 7.4 percent during the year. Though this was 1.6 percentage points below the increase recorded a year ago, the rise in this sub-group index represented the largest one in the year under consideration. The second contributing factor to the increase in the inflation rate in 2006 was the sub-group of Housing & Utilities, which rose by 3.1 percent, followed by a 2.6 percent increase in the sub-group of Clothing & Footwear. Furthermore, with a surge of 2.3 percent, the sub-group of Medical Care also contributed to the overall increase in the 2006 inflation rate. The remaining sub-group indices moved between 0.8 percent and 2.0 percent.

Chart 3: Movements of the CPI sub-indices



During the reviewed year, the prices of all petroleum products sold locally in the markets continued to show increases. The price of gasoline rose by 8.1 percent, while that of diesel fuel surged by 12.3 percent. Meanwhile, motor oil was sold at 14.8 percent higher than in December of last year. Fees related to transportation services rose by 7.7 percent from the level recorded a year ago. The rise in the sub-group of Housing & Utilities, on the other hand, was linked to the increase in the prices of imported construction materials and local paid labour. It should be noted that prices of various food items rose a little during 2006 or remained unchanged as compared to that in 2005. Fresh and processed fish, in particular, were traded at a price just about 3 percent higher than in the previous year, whereas last year's price increase for these consumer goods was recorded at 13 percent.

1.2. Exchange Rate Movements

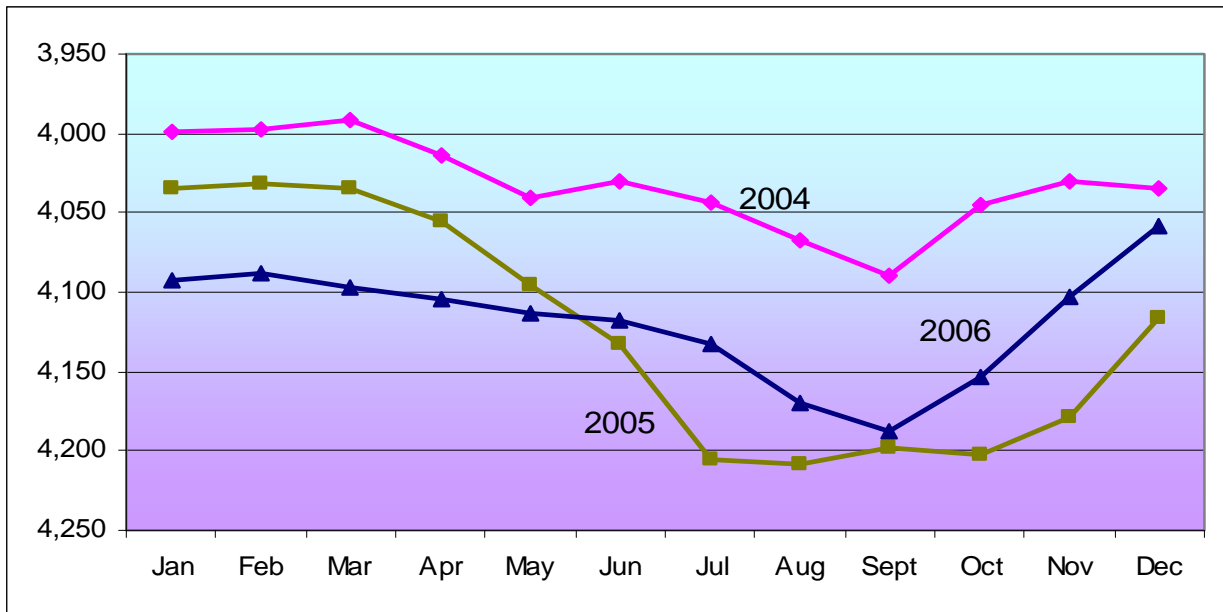
1.2.1. The Exchange Rates of Riel against the US dollar

The exchange rate policy conducted by NBC since the introduction of the market economy in the early 90s aims to stimulate price stability, support an environment for economic sustainable growth, and decrease financial and business risks by keeping a stable exchange rate. In an environment of high dollarisation, where there are limited instruments for the central bank to efficiently intervene in the markets, exchange rate stability is seen as a crucial vehicle for ensuring price stability. Therefore, during the reporting year NBC continued to prudently intervene in the foreign exchange markets as it deemed necessary through the purchase and sale of US dollars to smooth the eventual volatility in the exchange rate of the riel. For a small open economy, the foreign exchange interventions conducted so far by NBC had the intention neither of resisting the trend in the global currencies nor of working against internal economic fundamentals. It is thus important and necessary for NBC to operate a managed floating regime.

In general, the nominal exchange rate of the riel against the US dollar as measured by the market purchase rate remained broadly stable and showed even a tendency to gradually appreciate toward the end of the year. The value of the riel averaged 4,092 riels per US dollar in the first quarter of 2006. This represented a depreciation of about 1 percent from its value recorded for the same period of last year, but an appreciation of 2 percent compared with the fourth quarter of 2005. However, the shift in exchange rate parities was apparent from the beginning of the second quarter until the end of the third quarter 2006, where the riel gradually weakened, moving down from 4,097 riels per US dollar in March to 4,188 riels per US dollar at the end of September. The downward pressure against the US dollar in the second and the third quarter of 2006 could be explained by seasonal behaviour when there was no large demand for the riel during the raining season.

In the fourth quarter of 2006, as the demand for riel for the purchase of agricultural products in the harvest season and for making payments of various tax obligations by the private businesses at the end of the fiscal year increased, the value of the local currency steadily gained back some strength. In December 2006, the riel was trading at a rate of 4,058 riels per US dollar, an appreciation of 1.4 percent on its value in December 2005.

Chart 4: Exchange rate of the riel against the US dollar
(End-period)



The table below points to the dual exchange rate system in Cambodia: the official rate and the market rate. Adjustments to the official exchange rate are made daily by NBC to limit the spread between the official and parallel market rates to less than 1 percent. The official exchange rate applies mainly to foreign exchange transactions conducted by the government and state-owned enterprises and is used by banks for their account record of all transactions in foreign currency.

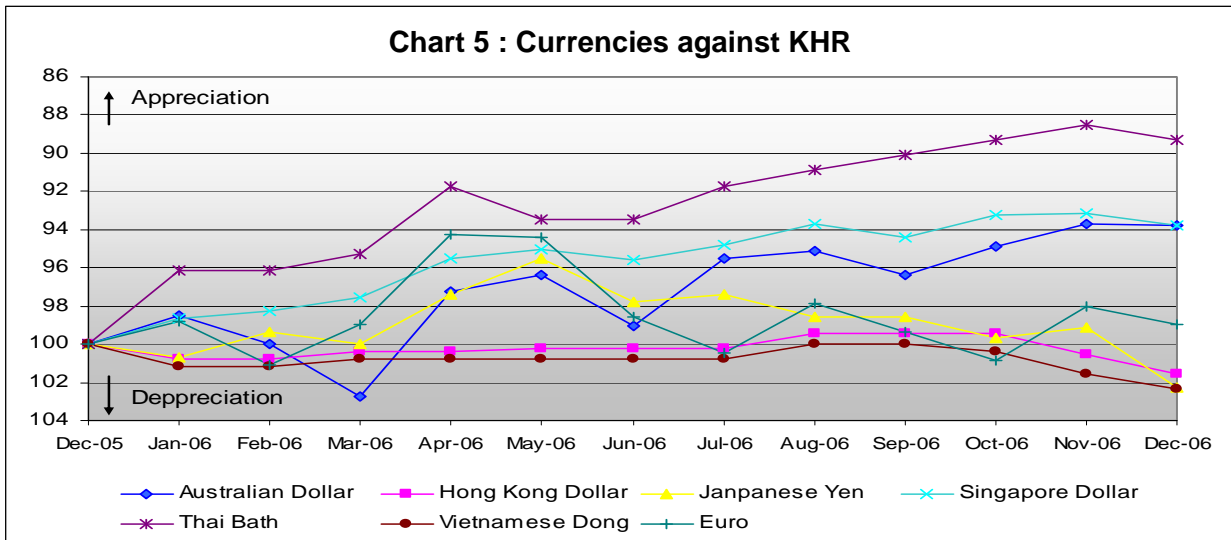
Table 1: Riel Exchange Rate Against the US Dollar
(Riel/Dollar)

	Monthly Exchange Rate (End month)					
	Market Rate			Official Rate		
	Purchase	Sale	Midpoint	Purchase	Sale	Midpoint
Dec-05	4,117	4,123	4,120	4,112	4,120	4,116
January	4,092	4,113	4,103	4,077	4,085	4,081
February	4,088	4,099	4,094	4,079	4,087	4,083
March	4,097	4,108	4,103	4,095	4,103	4,099
April	4,105	4,115	4,110	4,092	4,100	4,096
May	4,113	4,121	4,117	4,102	4,110	4,106
June	4,118	4,126	4,122	4,110	4,118	4,114
July	4,133	4,141	4,137	4,114	4,122	4,118
August	4,170	4,180	4,175	4,144	4,152	4,148
September	4,188	4,195	4,192	4,154	4,162	4,158
October	4,153	4,165	4,159	4,150	4,158	4,154
November	4,103	4,113	4,108	4,099	4,107	4,103
December	4,058	4,072	4,065	4,057	4,065	4,061

1.2.2. The Exchange Rate of Riel against Currencies other than the US dollar

Movements of the riel in 2006 indicated a mixed picture against various major foreign currencies in the foreign exchange markets. Despite the relative strength of the local unit vis-à-vis the US dollar as noticed above, the exchange rate of the riel as measured by its respective cross rate against a number of currencies in Europe and Asia pointed to some weaknesses, especially with respect to Cambodia's main trading partners within ASEAN and other countries besides the USA. In 2006, against the Euro the riel depreciated by 9.4 percent, reversing the gain of 11.2 percent recorded during the previous year.

Turning to Cambodia's neighboring currencies, at the end of the reporting year the riel strengthened against the Vietnamese dong by 2.3 percent, the Japanese yen by 2.2 percent and the Hong Kong dollar by 1.5 percent. However, compared to the previous year, the riel came under downward pressure vis-à-vis the Thai baht, the Malaysian ringgit, the Korean won, and the Singapore dollar, showing a depreciation of 12 percent, 5.4 percent, 7.4 percent, and 6.6 percent, respectively.



* Upward movements indicate an appreciation of the currency against the KHM riel

2. Monetary Development

The banking sector's liquidity M2 continued to expand remarkably in 2006, up by more than double the previous year's growth rate. This was mainly driven by rapid growth in the net foreign assets of the banking system, while a somewhat lower growth in the net domestic assets also contributed to this large positive change of the money supply. In the meantime, credit extended to the private sector by deposit money banks recorded a faster growth compared to last year, whereas inflationary pressure eased and the exchange rate of the riel remained broadly stable, indicating an increased demand for the riel in the economy. This rise, however, did not exert substantial influence on the level of the net domestic assets of the banking sector because it was partly offset by a strong growth in government deposits within the banking system, which were associated with the debt cancellation by the IMF earlier in the year coupled with an increase in the capital base of banks operating in Cambodia. At the same time, the annual rate of growth of banks' foreign currency deposits also posted a much higher increase on the 2005 level, while the balance sheet of NBC showed a remarkable growth in foreign assets (see table 7).

2.1. Monetary Aggregates

In the reporting year 2006, broad money M2 increased by 1,917.3 billion riels (38.2%) from a stock position of 1,917.3 billion riels as recorded at the end of December 2005 to 6,942.3 billion riels as at the end December 2006. This represented acceleration from the growth of 16.1 percent in the previous reporting year. The acceleration of M2 growth in 2006 reflected the increase in M2 in all quarters. The largest upswing during the year was on account of the first quarter, followed by the increase in the fourth quarter.

In the reviewed year, money supply narrowly defined (M1), which accounted for just 24 percent of M2, rose by 10.6 percentage points to 25.3 percent on the previous year's level. The increase reflected the expansion in currency outside banks, whereas deposit withdrawals on

demand contributed a very negligible increase. In fact, the annual increase in M1 gathered speed, escalating to 25.3 percent (from 14.7 % in 2005), in large part because currency in circulation expanded more rapidly, adding 317.4 billion riels (24.8 %) compared with an increase of 167.4 billion riels (15 %) in the year before. On the other hand, growth in resident demand deposits denominated in local currency also accelerated, up by 43 percent. However, due to its very low base position, this item remained marginal, reaching only 58.1 billion riels by the end of the reporting year.

In contrast, quasi money, which comprises time & saving deposits in local currency and foreign currency deposits, increased by 1,582.4 billion riels (42.7 %), from 3,702.1 billion riels at the end of 2005. Both in absolute and relative terms, the expansion in the foreign currency deposits of residents was the major contributory factor to the increase in quasi money during the year, and thus also the driving force of M2 growth in 2006. It should be noted that the foreign currency component of broad money posted the highest growth ever recorded over the course of the previous 12 years. The monthly statistics indicated that this item experienced an increase starting January and continuing throughout the year to December. On a year-on-year basis, banks' foreign currency deposits rose by 1,606.6 billion riels (44.8 %) in December 2006.

While foreign currency deposits continued to drive growth in broad money during the year, all of its components—foreign currency savings, time, and current deposits—found favor with investors. These three items rose by 521.4 billion riels, 741.4 billion riels, and 434.7 billion riels, respectively.

Overall, the monetary development in 2006 shows evidence of a remarkable increase in the use of banking services by the public, following the entry of new banks in the system, the gradual modernization of the payment services by the major commercial banks, and the initiatives of the government to promote the use of the banking services under the reform program for public finance management.

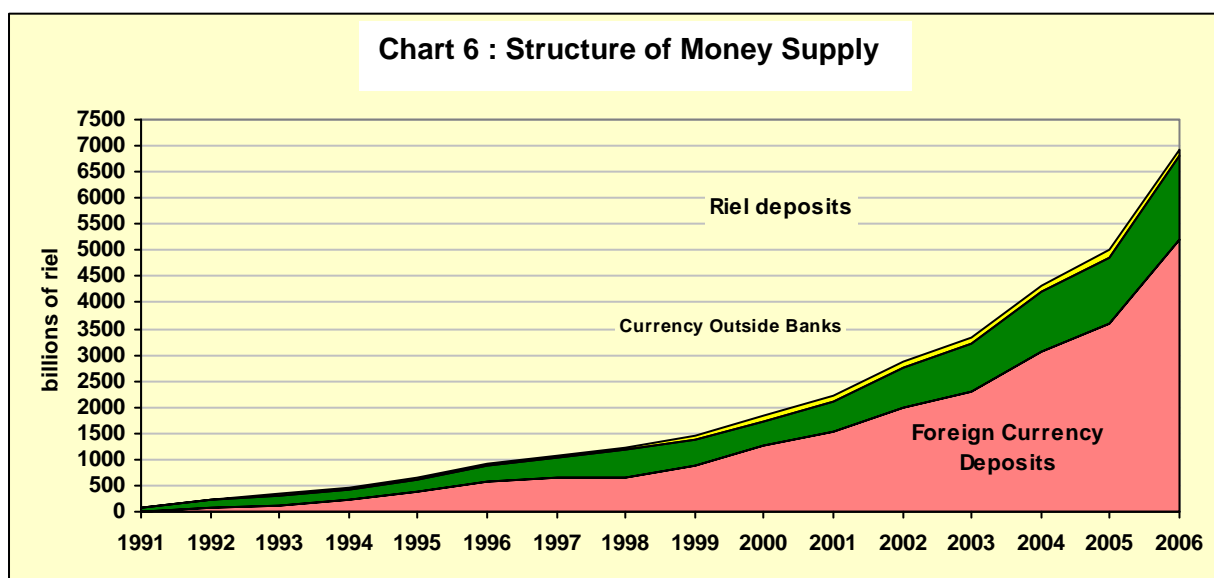


Table 2 : Percent Change in Monetary Statistics and Consumer Price Index

	2002	2003	2004	2005	2006
Net claims on government	-58.8%	-7.4%	-63.1%	-101.8%	-126.4%
Credit of private sector	13.1%	26.2%	35.9%	31.8%	51.6%
Liquidity (M2)	31.1%	15.3%	30.0%	16.1%	38.2%
Currency outside banks	32.6%	18.6%	22.7%	15%	24.8%
Inflation rate (y-o-y)	3.8%	0.5%	5.6%	6.7%	2.8%

2.1.1. Factors Affecting Money Supply

Monetary expansion during 2006 was matched by growth in both the net foreign assets and net domestic assets of the banking system.

Continuing the usual trend, the upswing in monetary growth during 2006 is mainly attributable to a more rapid expansion in the net foreign assets of the banking system, which had increased during the preceding year by less than half the speed of 2006. The net foreign assets of the banking system rose by 1,749.2 billion riels (31.9 %) from a stock of 7,224.3 billion riels. Apart from a substantial increase in the National Bank of Cambodia's net holdings of 1,295 billion riels, the rise in the overall net foreign assets was also boosted by an increase in the net foreign assets of the deposit money banks.

To a minimal extent, monetary growth also reflected a rise in the net domestic assets of the banking sector of 168.2 billion riels (37.4%), which was attributable to a sizeable expansion in domestic credit by 704 billion riels (35.7%) during 2006, a level which was significantly above the 117 billion riels (4.6%) growth of the previous year. This growth was, however, held back by an increase in "other items net" of 535.8 billion riels (22%).

The rise in domestic credit was driven entirely by higher lending to the non-bank private sector, with an annual growth reaching a 12-year high of 1,236.2 billion riels (51.6%), while being contained by a sizeable reduction in net claims on central government of 532.2 billion riels (126.4%).

During 2006, the increase in loans and advances to residents was mainly driven by lending to the service sector that added 334.7 billion riels (41.3%) to the previous year's stock. In addition, credit to wholesale and retail business activities also increased noticeably, up by 259 billion riels (49.4%). Meanwhile, loans extended for real estate and public utilities, manufacturing sector, and construction activities grew by 150.9 billion riels (101.9%), 143.5 billion riels (53.7%), and 125 billion riels (86.2%), respectively, during the reporting year. These

increases were, however, offset somewhat by drops in loans to the export-import sector and sectors classified as “others”.

2.1.2. Financial Operations of NBC

Reserve money is a measure of NBC’s monetary liabilities and consists of currency outside banks, currency in banks and banks’ deposits with it. In 2006, growth in reserve money accelerated remarkably, expanding by 745.6 billion riels (28.3%), after having contracted by 27.4 billion riels (1%) a year earlier. Currency outside banks rose by 317.4 billion riels (24.8%), extending the upward trend observed in recent years, whereas currency in banks recorded an insignificant increase of 2.9 billion riels. In contrast, banks’ deposits with NBC accounted for the largest increase in reserve money, expanding at a faster pace during 2006, thereby reversing the negative growth in the previous year. The latter rose by 414.3 billion riels (31.3%), which reflected changes in both required reserve deposits and other deposits with NBC.

Concerning the sources of changes in the reserve money, NBC’s net foreign assets which rose by 1,295 billion riels (29.2%), from 4,433.7 billion riels in 2005 to 5,728.7 billion riels at the end of 2006, were the main driving force behind the substantial growth in reserve money. On the assets side, this item was boosted partly by increased demand from the market for local currency during the beginning and the end of the year, where NBC could purchase foreign currency, and thus accumulate its external reserves. On the liabilities side, growth in the net foreign assets of NBC was also attributable to a substantial drop in the Bank’s foreign liabilities, due to a 100 percent reduction in Cambodia’s outstanding debts to the IMF under the Multilateral Debt Relieve Initiatives.

On the other hand, growth in reserve money was dampened by the reduction in net domestic assets, which mirrored both a fall in net claims on government and an increase in capital of NBC that in turn contributed to a drop in other assets items net. In fact, the net domestic assets of NBC declined by 549.4 billion riels (30.6%), from -1,796.6 billion riels in December 2005 to -2,345.9 billion riels a year later, after having decreased by 346.8 billion riels (23.9%) in 2005. Net claims on government experienced a reduction of 400.2 billion riels (98.4%), while NBC’s capital rose by 284.2 billion riels (18.8%), resulting mainly from a revaluation of assets.

2.1.3. Operations of Deposit Money Banks

The aggregate balance sheet of deposit money banks during 2006 recorded a sharp increase, expanding by 2,384 billion riels (42.7%) as against an increase of 873 billion riels (18.5%) in the previous year.

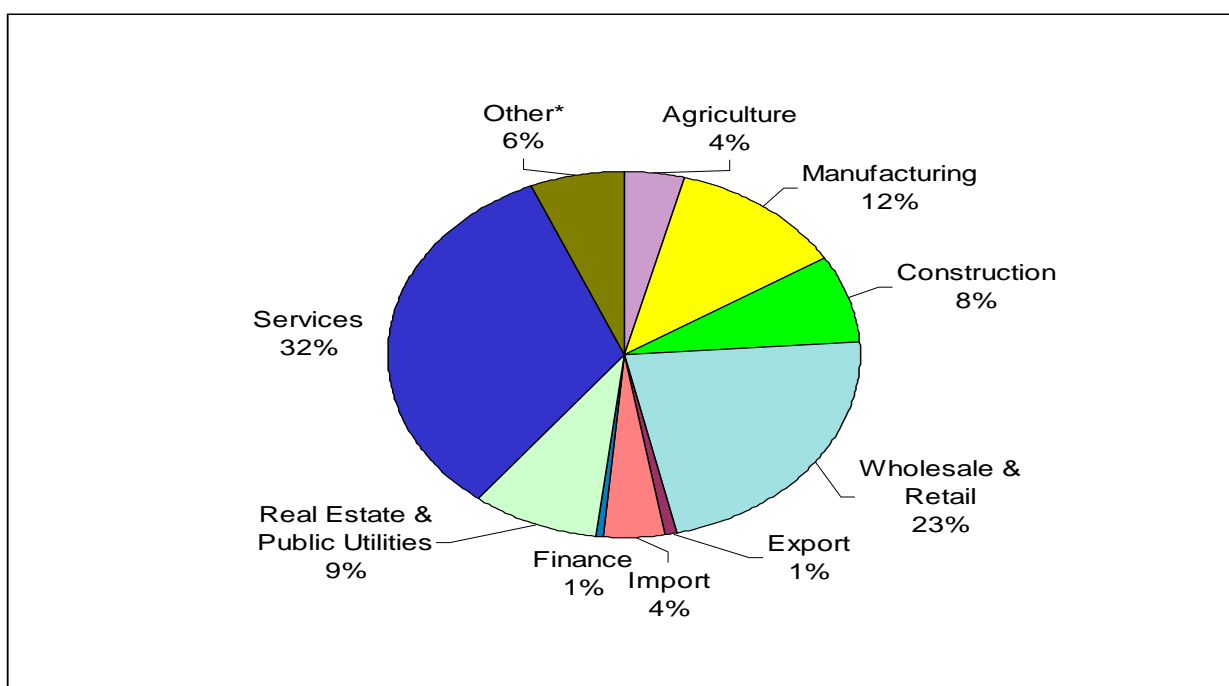
Banks’ domestic liabilities in the form of customer deposits accelerated remarkably, posting a growth that was triple of what had been achieved during 2005. This contributed

substantially to the surge of banks' credit over the reporting year and increased investment activities in the economy.

Net domestic assets of deposit money banks expanded by 687.1 billion riels (53.9%), which was mainly attributable to a significant surge in banks' loans to the private sector. The latter rose by 1,234.4 billion riels (51.6%), more than double the increase observed in the previous year. Meanwhile, claims on the central government by the deposit money banks dropped by 132 billion riels as the government reduced its debts owed to commercial banks while increasing on the other hand its deposits with some of them. "Other items net" fell more rapidly compared to the previous year, down by 417.2 billion riels (37.6%), largely on account of the rise in capital of a number of commercial banks, and a result of the establishment of two new specialized banks during the year. While banks' capital grew by 316.7 billion riels (28%), banks' capital guarantee deposits with the central bank rose by 8.2 billion riels. Meanwhile, the unrestricted account balances of deposit money banks with NBC increased by 444.7 billion riels (31.9%).

The deposit money banks' net foreign assets rose by 454.2 billion riels (43.6%) on the previous year, from 1,041.4 billion riels in December 2005 to 1,495.6 billion riels a year later. This reflected an increase in banks' foreign assets of 546.9 billion riels (39.8%), in particular on account of the increase in banks' claims on overseas banks. Meanwhile, their foreign liabilities rose moderately, up by just 92.7 billion riels (27.8%).

Chart 7 : Banks' credit by type of business activity



3. Balance of Payments

The provisional estimate for the balance of payments of Cambodia for the year 2006 showed an overall balance of US\$175.6 million, an increase of US\$101.5 million compared to 2005. The increase mainly resulted from a decrease in the current account deficit (excluding official transfers) of 2.7 percent compared with last year's performance. The inflow of the capital and financial accounts, which was offset by this deficit, increased 15.4 percent. For 2006, the ratio of the current account deficit (excluding official transfers) to GDP was 8.5 percent.

3.1. Current Account (Excluding Official Transfers)

The current account deficit was an estimated US\$575.5 million in 2006, a decrease of US\$15.8 million (2.7%) on the 2005 deficit. The increase in the net services surplus and net private transfers were the main contributors to the decrease in the current account deficit, while the trade and net income deficits both increased 12 percent.

In 2006, domestic exports amounted to US\$3,450.1 million, an increase of US\$677.3 (24.4%) compared to 2005. The value of garment exports under the Generalized System of Preferences (GSP) was the main contributor to this increase of US\$425.4 million (18.8%). This positive outcome was the result of two factors: (1) restricted access of Chinese garment imports to United States and European markets, under the safety protection of the World Trade Organization; (2) the prices of Cambodian garments remained competitive with other developing countries. Garment exports accounted for 70.3 percent of Cambodia's domestic exports in 2006. In the same period, other domestic exports rose by US\$251.9 million (49.2%) compared to 2005, due mainly to the increased exports of rice, fish products, rubber products, furniture and other agriculture products, respectively.

In 2006, retained imports were estimated of US\$4,616.4 million, an increase of US\$806.6 (21.2%) compared to 2005. The main contributors to the increase were petroleum imports valued at US\$1,176.5 million, up by US\$334.9 million (39.8%); the volume of petroleum imports increased 9 percent compared to last year. The value of fuel imports accounted for 25.5 percent of retained imports. The world market price for crude oil was estimated at US\$69.2 per barrel, an increase of 29.7 percent on 2005. The second contributor was raw material imports for the garment industry, up by 15.9 percent, and other retained imports, up by 15.9 percent.

Chart 8: Total exports & GSP exports

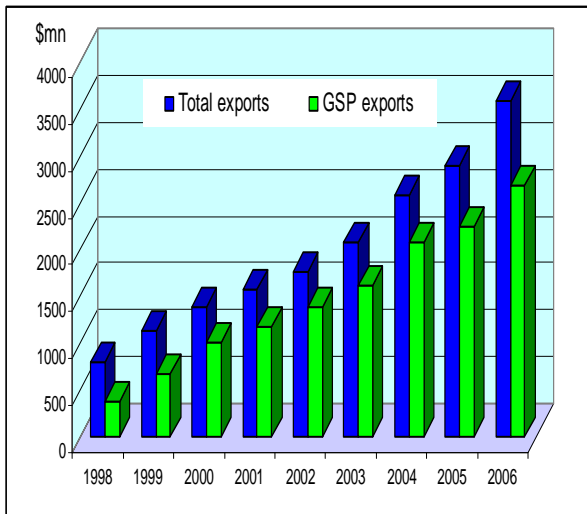
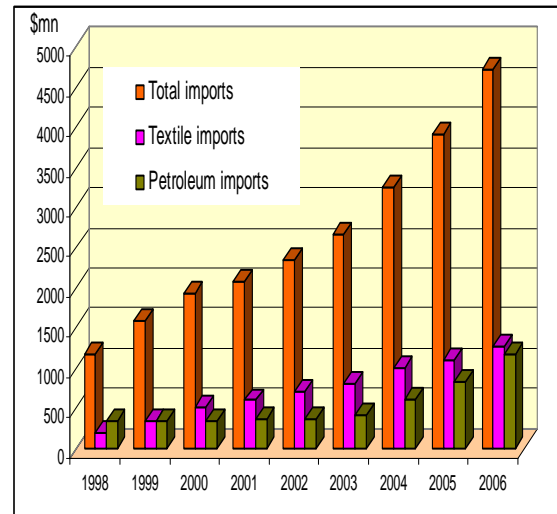


Chart 9: Total imports, textiles & petroleum imports



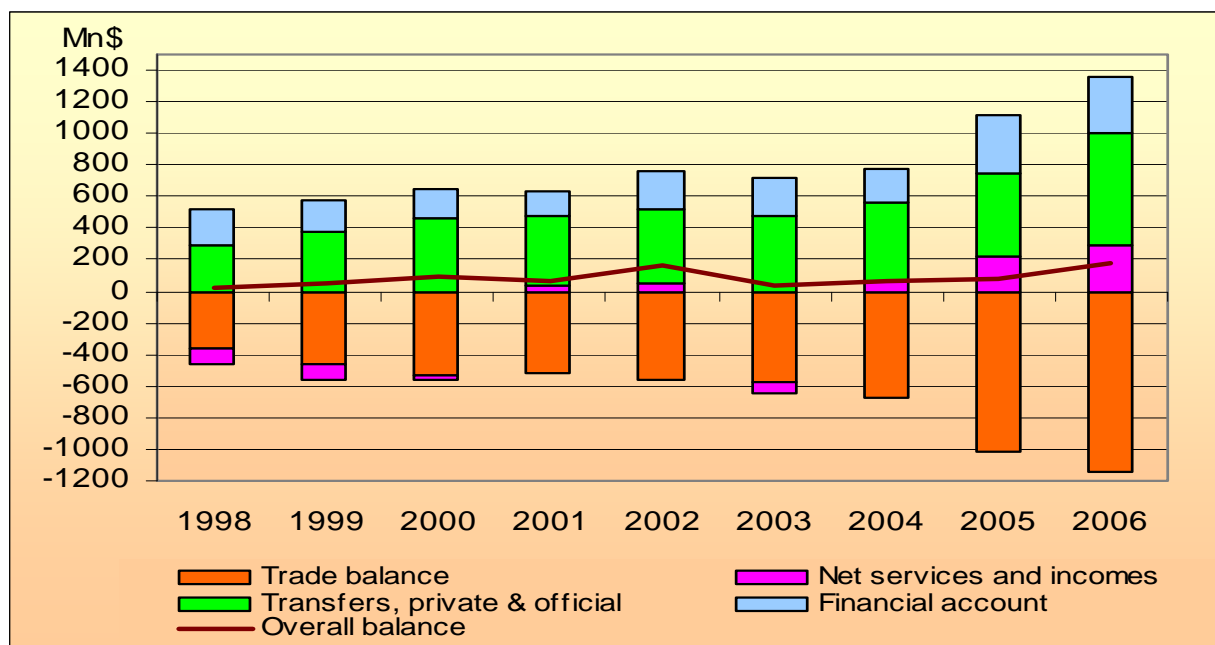
During 2006, the net services account surplus reached US\$578.3 million, a rise of US\$107.3 million (22.8%) compared to 2005. This increase was the result of service receipts exceeding service payments. Tourism receipts and transportation services were the main contributors to this increase. Public service reforms, hotels and restaurants development, and an international exhibition all contributed to a large increase in number of foreign visitor arrivals in Cambodia, to 1.7 million compared to 1.3 million in 2005. The estimated deficit on the income account was US\$286.2 million, an increase of US\$32.1 (12.6%) compared to 2005. This increase was due to a large increase in income outflows which was only partly offset by the rise in income inflows. The net private transfers surplus was US\$62.2 million, up 29.7 percent, of which a major contributor was family remittances from abroad.

3.2. Capital and Financial Account

The balance on the current and capital accounts was a deficit of US\$135.3 in 2006 compared to a deficit of \$265.6 million in 2005. The inflow of net official transfers was an estimated US\$440.2 million, an increase of US\$114.5 million (35.2%) on the previous year, reflecting the financing that the Royal Government obtained from both multilateral and bilateral development partners. Of the official development assistance, the estimate for budget support was US\$3 million, food aid US\$25 million, project aid US\$252.6 million and technical assistance US\$159.9 million. Net official loan inflows (excluding loans from the IMF) were an estimated US\$168.8 million, an increase of 17.2 percent on the previous year. In 2006, net foreign direct investment increased to US\$403.8 million, of which private investment inflows were US\$350.1 million, reflecting 36 investment projects approved by the Council of Development for Cambodia including garment factories, hotels and land development projects.

The increases in capital and financial accounts were offset by the current account deficit. As a result, the overall balance was a surplus of US\$175.6 million in 2006. The gross official reserves level was sufficient to cover 2.9 months of imports.

Chart 10: Cambodia's Balance of Payments



4. Foreign Reserve Management

4.1 Investment of Foreign Reserves

The country's international foreign reserves were invested carefully with central banks of developed countries, foreign commercial banks with high credit ratings, and international financial institutions. At the end of 2006, the gross foreign reserves, excluding gold and SDR, had increased by 22.4 percent compared to 2005.

Since the first half of 2006, the National Bank of Cambodia has no longer been under an obligation to repay outstanding loans to the IMF, because on January 6, 2006, the IMF extended the PRGF debt relief amounted to SDR 56.8 million. In addition, the National Bank of Cambodia has fully paid the obligation on net charge of SDR and SDR allocation in the amount of SDR 540.918 to the IMF.

In 2006, the Federal Open Market Committee raised its target rate four times, leading the Fed fund rate to increase from 4.25 percent to 5.25 percent; and it has remained at this level since the beginning of the third quarter. At the same time, the European Central Bank has raised the Euro interest rate five times, from 2.25 percent to 3.5 percent, and the Bank of England has also raised the pound sterling interest rate two times from 4.5 percent to 5 percent. The Reserve Bank of Australia raised its own interest rate three times, from 5.5 percent to 6.25 percent. These events triggered the return on overnight interest rate at the Fed, which varied within the

range from 4.11 percent to 5.26 percent, and on US treasury Bills from 3.87 percent to 5.12 percent. The interest rate on short-term USD deposits changed from 4.09 percent to 5.44 percent; the interest rate on Euro changed from 2.2 percent to 3.31 percent; the interest rate on pound sterling from 4.38 percent to 5.12 percent; and the interest rate on short term AUD deposit change from 5.75 percent to 6.33 percent; The increase in the interest rate of several central banks provided a better result of NBC's foreign reserve investment compared to the same period of previous year in 2005.

4.2 Intervention in Foreign Exchange Market

In 2006, due to the stability in the exchange rate, intervention through USD auction was not implemented. However, in 2006 the National Bank of Cambodia bought USD 33 times from the market, with a total amount of USD 46.62 million in exchange for 190.76 million riel.

4.3 Management of Gold and Foreign Exchange Business

In 2006, the National Bank of Cambodia issued 552 licenses to gold and foreign exchange dealers in Phnom Penh, 53 of those licenses were licenses to conduct foreign exchange business. Apart from this, in other provinces and cities, a total of 3,738 licenses for gold and foreign exchange businesses were issued.

5. Participation with Banking and Financial Institutions

5.1. Banking Supervision

The National Bank of Cambodia continued to build and develop the capacity of supervisors to enhance work efficiently for both on-site examination and off-site monitoring and to review the enforcement of prudential regulations and circulars issued for implementation by banks and financial institutions.

The National Bank of Cambodia also published "Annual Report of Banking Supervision 2005" showing the latest developments in the banking system in Cambodia to the public and also informing the public of the functions of the National of Cambodia in maintaining stability and soundness of the banking system to promote banking sector development in the country and especially protecting depositor interest.

5.1.1. Off-site Monitoring

Monitoring banking operations is an ongoing process to determine if banks are in compliance with laws and regulations. Through a review of financial statements, irregularities and infringements were determined, prompt corrective actions, warnings, and sanctions can be

imposed. The monitoring actions are focused on banks' adequacy of capital, solvency ratio, credit risk, provisioning, assets quality, profit, liquidity, and fixed assets.

In line with this, the National Bank of Cambodia introduced a network monitoring system called Cambodia Off-site Bank Reporting for Prompt Corrective Actions (COBRA); however, the new system is still being tested. Temporary outcomes showed that the COBRA system proved to be effective since it relaxed the burden of supervisors in terms of data installation, thus leaving more time for inspectors to analyze a bank's situation.

5.1.2. On-site Inspection

In 2006, National Bank of Cambodia (NBC) planned full scope on-site examinations for ten commercial banks and two specialized banks through CAMELS method.

NBC successfully completed its examination on ten commercial banks, including two foreign commercial branches and two specialized banks as planned. In addition, NBC carried out immediate and necessary work on the target examinations of seven specialized banks, and special inspection on two commercial banks as well. The examination is also focused on the monitoring and follows up of the Chart of Account in order to be consistent with the National Accounting Standards and International Accounting Standards. Moreover, anti-money laundering and counter terrorist financing efforts are also aimed at commercial banks.

The work of on-site inspection aims at supervising in depth all the business activities of the institutions in terms of the reality and accuracy of an institution's reports through focusing on compliance with the laws and regulations in order to prevent other risk exposures. Necessary measures are provided for the under performing banks in order to take immediate corrective actions.

5.2. Microfinance Institution Supervision

In 2006, there was a prominent event for the microfinance sector in Cambodia. During the National Summit on "Microfinance in Cambodia" held from 11 to 13 January 2006, organized by the National Bank of Cambodia in collaboration with UNDP, Samdech Hun Sen, Prime Minister, officially declared the Year 2006 as the "Year of Microfinance in Cambodia". The summit was held with the aim of recognizing and saluting the great achievements in the microfinance sector for its role in poverty alleviation, and increasing the awareness of the challenges, and the importance of microfinance institution, in economic development. After organizing the National Summit, the National Bank of Cambodia organized three consecutive regional conferences in three provinces – Battambang, Kampot, and Kampong Cham Province,

which gathered around 2,000 representatives of provincial departments, province-city local authorities, bank and microfinance institutions, microfinance clients, and other stakeholders. The regional conferences were organized in order to disseminate to the public and the local authorities the role of the National Bank of Cambodia in microfinance institution supervision, the progress of microfinance institutions, and the role of microfinance in poverty alleviation. An additional aim was to attract the participation of local and international NGOs in microfinance development through providing finance and technical assistance, and to ensure that the recommendations of Samdech Prime Minister in the National Summit will be carried out.

In 2006, microfinance activities grew extensively. Microfinance institutions had total loan outstanding of KHR 356.5 billion provided to 464,122 clients, and mobilized a total saving of KHR 12.24 billion from 117,000 clients. Compared to 2005, the total loan outstanding, the number of borrowers, and total saving increased by 81 percent, 27 percent, and 54 percent respectively; and the number of depositors decreased by 16 percent. The decrease of the number of depositors was due to the shifting of some microfinance institutions from providing solidarity group loan to individual loan.

From 2000, the interest rate also decreased progressively; it decreased from 6 percent per month to 2.5 percent per month on average in 2006.

During 2006, the National Bank of Cambodia conducted on-site inspections of 12 licensed microfinance institutions and two associations which applied for registration as rural credit operators. Generally, the off-site and on-site supervision showed that the microfinance institutions were satisfactory because they could find investors from abroad; though some were encouraged to improve their skills in credit analysis, book entry, and risk analysis.

Gradually, the local authorities and citizens are becoming more aware of the microfinance sector is role and the advantages of microfinance institutions' and NGOs' financing in developing and expanding businesses or establishing small enterprises to increase general income and create more jobs.

5.3. Regulations

In 2006, NBC have drafted a Law on Leasing, and issued Prakas on credit sharing information.

In 2006, some regulations were implemented and/or amended:

- PRAKAS on Amendment to Prakas on Licensing of Commercial Banks
- PRAKAS on Amendment to Prakas on Licensing of Specialized Banks

- PRAKAS on Amendment to of Prakas on Licensing of microfinance Institutions
- PRAKAS on Reporting date for Commercial Banks and Specialized Banks
- PRAKAS on Reporting date for microfinance Institutions
- PRAKAS on Amendment to Prakas on Fee for Increase of Capital of Banks and Financial Institutions
- PRAKAS on Controlling Banking and Financial Institutions' Large Exposures

6- The Services of the Central Bank

6.1. Payment Services

NBC has managed the accounts of government institutions, the central administration, banks and financial institutions authorized to operate commercially, and international institutions. There are 1,091 accounts, dominated in USD and KHR, held with NBC. In 2006, 197,745 transactions were transacted, while in 2005 there were 182,861 transactions transacted, increased 8percent in 2006.

6.1.1. Services for Government

NBC has contributed its services for supporting policy of government (The Public Financial Management Reform Program), the services have sustained the effectiveness of the policy by facilitating new accounts for Central Administration Institution, cash management and distribution cash from the National Treasury to the municipal and provincial treasuries. These transactions have replaced the transaction of transferring cash and salary payment for government departments and military forces.

Tax payment has been performed at the NBC by taxpayers. These transactions have smoothly operated with the amount of KHR 6,689,000 million (including tax in USD).

6.1.2. Government Financing and Loan

Among all of the government's external debts, only Japanese loans have been executed through the National Bank of Cambodia.

In 2006, the Japanese government extended grants for eight projects to the Royal Government of Cambodia, including one non-project grant. These were : the project for research and development on mine clearance related equipment, the project for human resources development scholarship, the project for the rural electrification on micro-hydropower, the project for improvement of national road No. 1, the project for rural drinking water supply in Kampong Cham province and the project for the improvement of Security Facilities and

Equipment in main International Ports in Sihanoukville. The grants for the above projects and non-project are in the amount of Yen 9,082 million, of which Yen 2,293 million has been executed. The remaining will be executed by 2010.

Also in 2006, the Japanese government granted further additional concessional loans of Yen 318 million for the development of the main International Ports in Sihanoukville.

6.1.3. Service for Banks and Financial Institutions

Banks' accounts held with NBC consist of current accounts, term deposit accounts capital guarantee accounts and reserved requirement accounts.

Term deposits with maturities of 1 month, 3 months and 6 months have an outstanding balance of USD 2,419 million.

6.2. Clearing Service

Normally, clearing house activities have processed effectively, operate every working day and settle both checks dominated in USD and KHR.

The transaction payment by checks tends to be steadily increased, especially through government payment and inter-bank payment.

6.2.1. Clearing Checks Dominated in KHR

Clearing House in KHR consists of sixteen members of which thirteen are Commercial Banks, one is the National Treasury and one is NBC itself.

In 2006, the Clearing House operated clearing payments for 239 days with 20,050 checks in value of KHR 682,000 million. Compared with 2005, payment by check increased from 18,076 notes to 20,050 notes, with a total rise of value KHR 5,083 million to KHR 682,000 million.

6.2.2. Clearing Checks Dominated in USD

Clearing House in USD consist of nineteen members of which fifteen are Commercial Banks, three are Specialized Banks and one is NBC.

In 2006, the Clearing House operated for 239 days, with 20,050 checks, valued at KHR 682,000 million. Compared to 2005, payment by check increased from 199,847 notes to 260,327 notes (increased 30%), with value from KHR 5,083 million and KHR 682,000 million (increased 59%).

Checks dominated in USD were cleared at an average rate of 1,089 check notes per day, a value of USD 12 million, and checks dominated in KHR are cleared of an average rate of 84 checks, with KHR 2,855 million per day.

6.3. Lending

In 2006, NBC granted loans and collected debts as below:

- Aceda Bank:
 - Total Loans Granted: KHR 40 billion
 - Loan Repayment: KHR 16 billion
 - Outstanding: KHR 24 billion
- Amret MFI : Total Loans Granted: KHR 10.5 billion
 - Beginning Balance: 10.5 billion
 - Loan Repayment KHR 29.5 billion
 - Outstanding: KHR 19.5 billion
- Ministry of Economy and Finance

Loans granted: Japanese Yen 472.5 million. The loans granted to pay back (ODA Japanese debt prior to 1970).

The total interest revenue from the loan was KHR 1,841 million (USD 35,110).

7. Currency Management

The major functions of currency management relate to note design, issue and distribution of fresh notes and coins, inventory management and accounting, withdrawal of soiled notes from circulation and their eco-friendly destruction, note exchange facilities and anti-counterfeit measures. These activities are performed by NBC through the Issue Department at the headquarters and through its 17 provincial branches spread across the country. Note design and issue, however, are carried out solely by the Issue Department.

During 2006, NBC continued to strengthen its currency management to properly service the local currency needs of the banking sector and the local economy. It took in currency notes surplus to requirements and issued them in line with the demand from the markets. It also carried out a regular examination of notes to ensure that a high quality standard was maintained.

Over 2006, cash withdrawals and deposits with NBC that were carried out through NBC's teller desks, increased remarkably. In fact, during 2006, cash inflow through NBC's teller desks amounted to 1,730.2 billion riel, representing an increase of 60 percent on inflow in 2005. Out of this total, deposits into the current accounts of the banking and finance institutions

and that of some government ministries and public institutions were valued at 503.6 billion riel, an annual increase of 34 percent. Meanwhile, inflow in the form of taxes and customs duties amounted to 695.6 billion riel, a substantial rise (88%) on the level collected through NBC's teller desks in 2005.

During the reviewed year, cash disbursements through NBC's teller desks totaled 1.998,6 billion riel, an increase of 61 percent on the previous year disbursement operations. Of this total amount, disbursement to the National Treasury and payroll for the public institutions and communes' budget amounted to 717, 5 billion riel, which was equivalent to an 81 percent increase when compared to the amount recorded in 2005.

In addition to the efforts toward smoothing the cash transactions through the teller desks, NBC also encouraged its provincial branches to collect and single out old, worn and torn local currency notes from circulation and replace them with new ones. Such practices were especially carried out on the occasions of the Khmer New Year and the religious ceremony for the ancestors (Pchum Ben) at various large local markets in the capital city Phnom Penh. The supply to the markets with fresh bank notes by replacing the soiled with new and clean ones was initiated with the objective of increasing public preference in the local currency, which in turn will contribute to its use nationwide.

Related to anti-counterfeit measures, NBC continued to examine cases of counterfeit currency throughout the reporting year, analysing local and foreign banknotes suspected not to be genuine. According to the statistics related to this issue, counterfeit notes found during the year 2006 dropped significantly when compared to the previous year's figures. Counterfeit notes found over recent years were colored copied notes caught while going through NBC's teller desks.

Among other measures enacted to combat currency counterfeiting, NBC further strengthened its public education efforts, raising public awareness on the different features of counterfeit and genuine banknotes. NBC also worked closely with all competent authorities to locate persons involved with counterfeit currency in order to bring them to justice. In addition, NBC regularly sent staff to the markets to conduct spot inspections on counterfeit money, while taking great care to avoid surprise or create any unpleasant impacts on the business environment visited.

8. Securities Management

Based on instructions issued by the Ministry of Economy and Finance, NBC organized two sale auctions for treasury bills with a maturity of 91 days, and total worth of 9.8 billion riel. During the year, three redemptions were also made with total value of 13.8 billion riel. By the end

of 2006 all outstanding treasury bills were fully repaid. It should be noted that the Ministry of Economic and Finance began reducing its outstanding balance of treasury bills debt in April 2005.

From the beginning of the first auction on April 4, 2003 to the end of 2006, there were thirty three issues and redemptions of treasury bills, totaling 472, 9 billion riel.

II. Internal management of NBC

1. The Activities of the Board of Directors

The present composition of the Board of Directors of NBC is as follows:

• H.E. Chea Chanto	NBC Governor	Chairman
• H.E. Neav Chanthana	NBC Deputy Governor	Member
• H.E. Aun Pornmoniroth	Representative of the Head of the Royal Government	Member
• H.E. Iv Thong	Representative of the academics	Member
• H.E. Chou Kimleng	Representative of the MEF	Member
• Mr. Lay Mengsun	Representative of the private sector	Member
• Mrs. Mao Son	Representative of NBC staff	Member

Over the year 2006, the Board held six meetings, during which important matters related to NBC's activities were brought forward for discussion. A number of issues were adopted as follows:

- Draft of the decision to establish a committee to examine NBC's accounting book for the financial year 2006;
- Draft of the report on NBC's budget outturn for the financial year 2006 and the budget plan for 2007;
- NBC's discussions on:
 - Government debts ;
 - The organization and missions of NBC;
 - The organization of the Board of Directors.
- Draft of the first semi-annual Report of NBC for 2007;
- Draft of NBC's budget outcome for the first semester of 2006 and budget plan for the second semester of 2006;
- Draft of the Annual Report of NBC for 2006.

2. Human Resource Development

2.1. Staff Statistics

The full-time staff under NBC's official staff status working at NBC's headquarters at the end of 2006 stood at 706, of which 392 were male and 314 female. In addition there was three adjunct staff outside NBC's official staff status, of which two were male and one female.

Moreover, the number of staff working at the provincial branches of NBC was 326, of which 195 were male and 131 were female.

Therefore, the total staff number of NBC at the end of 2006 amounted to 1033 including 587 male and 446 female. By comparison, at the end of 2005 there were 987 employees including 565 male and 419 female. The following measures taken to the staff structure were observed:

- the number of staff at headquarters decreased by 9 (19 new recruits and 28 resigned or retired)
- the number of staff at the provincial branches increased by 58 (68 e new recruits and 10 resigned or retired).

2.2. Training and Development

In the spirit of promoting human resource capacity in 2006, NBC organized a perfection course aimed at upgrading the knowledge of NBC staff members. Seventy-three staff of both headquarters and the provincial branches benefited from this course. Moreover, there were also three short-term special seminars organized at NBC's headquarters and designed for the provincial branches to improve staff capacity, benefitting ninety staff, both in headquarters and branches. During 2006, two NBC staff attended a perfection course at the Royal Administration School, one in senior officials' perfection course and another one in associated officers' perfection course. 372 staff attended 11 seminars at NBC.

Eight staff attended training programs organized by local institutions other than NBC, such as the Council of Ministers, the Ministry of Economy and Finance and other ministries a total of five times. There were seven seminars organized by those ministries, in which eighty staff of NBC participated.

Meanwhile, NBC also encouraged its staff to pursue self-development opportunities to absorb new knowledge, both technical know-how and English skills, to better respond to new challenges and recent developments in the banking and financial environment, namely Cambodia's integration into the global economy.

Concerning external courses, various central banks and financial institutions, as well as universities, offered opportunities to NBC staff to attend short-term seminars and workshops abroad. These included the Deutsche Bundesbank, the IMF, the ADB, the Asia-Pacific Rural

and Agricultural Credit Association (APRACA), European Union, the Bank of Korea, the Australian Community (AUSTRAC), Ministry of Finance of People Republic of China (MOF, China), the Japan International Cooperation Agency (JICA), Gerzensee Bank, German Company Iwent, JOHS RIECKERMANN (JR), Ministry of Economic and Finance of South-Korea Republic (MEF, Korea), Gold Quest Ltd., KADO, People Republic of China, Bank for International Settlements (BIS), United States Aid (USAID), Association Francaise pour le Development (AFD), Asia-Pacific Finance and Development Center (AFDC), the South East Asian Central Banks Research and Training Centre (SEACEN), Bank Indonesia, National Bank of Thailand, Bank Negara Malaysia, Indian government, Monetary Authority of Singapore (MAS), and Asia Pacific Group (APG).

3. Internal Audit

During 2006, NBC continued its efforts to reorganize the Inspection General with the aim of improving internal audit and internal inspection arrangements. Important legal documents were developed, such as audit procedures manuals for departments in headquarters, branches and offices being under control of NBC.

Furthermore, the Board of Governors approved a strategic action plan for the development of a recruitment plan establishing minimum professional hiring requirements, a mandatory training program, as well as short-term seminars and workshops abroad.

Audit procedures manuals for the Banking Department, Issue and Printing House Department and NBC branches were also enhanced. The procedures have in fact to reflect the current situation, and allowed the departments and the organizations operate in an effective and smooth manner.

Moreover, operational procedure manuals for the Exchange Management Department, and other departments were progressively improved and modified to response to the legislation and regulation related to the internal audit.

Concerning the auditing measures, the first departments that were audited through the pilot and on-the-job training program were the Banking Department, the Issue and Printing House Department, cash division of the Accounting Department, plus the branch in Siem Reap. After auditing, reports and some recommendations were introduced for improvement.

The inspection of Siem Reap Branch was focused on cash management and the safety of the strong room.

4. National Bank of Cambodia Branch Management

In 2006, the activities of provincial branches improved remarkably, especially in terms of capacity in the cash management area, the responsibility on the collaborative implementation

of the reform on the public finance management, and the Royal Government's decentralized policy by opening 1,220 accounts for the public, an increase of 8 percent, compared to the previous year, in which 462 public organizations accounts were included. Branches are responsible in providing central bank services to banking and finance institutions, microfinance institutions, and local and international non-governmental organizations located within their respective territory. In particular branches help to facilitate payments by check and cash transfers within and across various cities in the country.

III. International relations

1. Multilateral Relations

1.1. Relations with International Monetary Fund

Technical assistance provided by the International Monetary Fund (IMF) during 2006 covered several key priority areas of capacity building aimed at strengthening internal audit, improving the official statistics especially with respect to sources and coverage of the balance of payments data, efficiency of central banking operations, the NBC's clearing house, improving NBC staff's capacity related to development of payment system, and the assistance to prepare four draft regulations to implement the *Law on Negotiable Instruments and Payment Transactions*.

Meanwhile, NBC also worked closely with the IMF during the visit of the Article IV Consultation Mission and the Executive Director of the SEA-Group to Cambodia to discuss (i) the latest economic developments and progress in structural reform in Cambodia, and (ii) the possibility of establishing a new PRGF arrangement. Currently, the approval of the new PRGF arrangement by the Fund Executive Board has faced a serious challenge, namely the lack of a suitable resolution on Cambodia's arrears, which is an inheritance of debt agreements made by previous administrative regimes with the former Soviet Union. Despite the absence of the new program, it is expected that the needed technical assistance will continued to be provided by the Fund.

On January 6, 2006, the Executive Board of the IMF approved a 100 percent debt cancellation for Cambodia under the Multilateral Debt Relief Initiative, totaling SDR 56.8 million (approximately US\$ 82 million), for debts owed to the Fund before January 1, 2005. At present, Cambodia has no debt outstanding to the Fund.

1.2. Relations with the Asian Development Bank

The Asian Development Bank (ADB) has so far provided various forms of support to reform efforts addressing the institutional and legal framework of the banking and financial sector in Cambodia.

Following approval by the National Assembly of the Law on Negotiable Instruments and Payment Translations in September 2005, NBC, in collaboration with the ADB, the organized public dissemination seminars for NBC's staff, Centre for Banking Study staff, and related institutions. In the mean time, three related Prakas were issued in 2006. The draft law on Anti-money Laundering and Counter Financing of Terrorism was finalized and submitted to the National Assembly for approval. NBC is currently reviewing the existing Prakas and regulations to reflect the new draft law.

With regard to the program on the development of small and medium enterprises, on August 9, 2006, after the necessary legal framework was established, NBC in collaboration with ADB, officially launched the credit information sharing system.

In the meantime, with technical assistance from the ADB, a first draft of the Law on Financial Leasing was prepared. The draft is now under review by all stakeholders and is expected to be finalized soon.

During 2006, in a joint effort between NBC, Ministry of Economy and Finance, Ministry of Commerce, and other concerned institutions, and with the support from the ADB, the "Financial Sector Blueprint 2001-2010" was updated into "Financial Sector Development Strategy 2006-2015", which is a crucial step to reflect changes in recent economic and financial development in Cambodia and the future requirements.

1.3. Relations with ASEAN

In the framework of financial cooperation among ASEAN member countries and ASEAN+3 (China, Japan and Korea) NBC collaborated with the Ministry of Economy and Finance in hosting the 10th Annual Meeting of ASEAN Finance Ministers, the 14th ASEAN Central Bank Forum, the Finance and Central Bank Deputies meeting of ASEAN and ASEAN+3, and several related working group meetings, such as the meeting of the Working Group on Bond Market Development, on Capital Account Liberalization, on Finance Services Liberalization, and the Chaing Mai Initiatives (CMI).

To push forward the financial cooperation between ASEAN members' central banks, NBC initiated an informal ASEAN Central Bank Governors Meeting that was held in Singapore in September 2006, back to back with the IMF Annual Meetings. Among other things, the meeting discussed the possible linkage of the ASEAN Central Bank Governors Meeting with the ASEAN Finance Minister Meeting with a view to strengthening the existing institutional set up of the ASEAN Finance cooperation.

One of the important aspect of cooperation in the banking and financial sector is the opportunity offered by the advanced ASEAN countries to the new ASEAN members to assist in their capacity building efforts. The ADB also contributed to such ASEAN initiative. During 2006, technical assistance was provided by the ADB to improve NBC staff's capacity on

economic and financial analyses, and especially on the implementation of an Early Warning System which has been recently established and is now running on a testing basis.

1.4. Relations with SEACEN

One of 2006's major developments related to NBC's international relations was its new inaugurated official membership in the forum of the South-East Asia Central Bank (SEACEN), approved by the Board of Directors of NBC on April 1, 2006, making Cambodia the fifteenth member of SEACEN. Membership in SEACEN not only reinforces good relations with other central banks in the region, it brings various benefits to Cambodia through of opportunities for staff training, learning from good experiences and best practices in central banking, i.e., monetary policy implementation, banking sector development and finally, by giving the chance to benefit from several line of research and studies related to the fields of financial, monetary, banking and economic development matters and related matters.

In an attempt to actively contribute to attain SEACEN training objectives, on November 15, 2006, NBC hosted the 28th Annual Meeting of SEACEN Center for Research and Training in Siem Reap, with the participation of central bank delegations from 15 member countries. During the meeting, participants learned and exchanged experiences on issues of central banks interest, including human resource management, the conduct of monetary policy, and the country's practices on macroeconomic surveillance. The meeting discussed and approved a number of subjects for the next year's research and training activities in the banking and finance domains.

1.5. Relations with Asia-Pacific Group (APG)

The Asia-Pacific Group on Anti-Money Laundering was created in February 1997 at the 4th Asia Pacific Conference related to anti-money laundering in Bangkok, which was a response of the regional joint efforts to the threat of money laundering around the world. NBC became a member of the APG in 2004 with a view to strengthen its long-term cooperation with other countries on this issue and to enhance its battle against corruption and money laundering, which represents a significant concern for the Asia-pacific region and the world. Currently, money laundering is not only a concern for the legal system, but also a macroeconomic concern due to its capacity to make Cambodia's financial system and financial institutions unstable.

NBC obtained technical assistance from international organizations and APG members to train its human resource and to step up its capability in applying international standards on anti-money laundering and counter financing of terrorism. At the beginning of 2007, a mission of the APG visited Cambodia to undertake the Mutual Evaluation. Cambodia also received technical assistance from the United Nations Office on Drugs and Crime (UNODC).

1.6. Relations with APRACA

With the objective of strengthening the cooperation in the region as well as promoting the exchange of experiences and knowledge with other members on matters related to rural agricultural credit and microfinance supervision, NBC joined APRACA in 2000. As a member, NBC participated in various training activities organized by APRACA that addressed issues related to economic development and poverty reduction.

During 2006, senior officials of NBC attended the 51st Meeting of the Executive Committee of APRACA that was held in Jakarta in November 28, 2006. A number of NBC staff also participated in the training on the Management of Problem Loan in Selangor, Malaysia; other officials joined the Evaluation of Agricultural Credit Risk in Bangkok, Thailand.

2. Bilateral Relation

NBC continued to pay great attention to the maintenance of close cooperation with other central banks as partners and friends, in particular for the purpose of exchanging relevant information related to central banks and for human resource capacity building.

During 2006, there was an exchange of delegations and study tours organized under a mutual assistance and friendship understanding between NBC and partners such as the Bank of China, Bank of Thailand and Deutsche Bundes Bank. Furthermore, NBC promoted cooperation with State Bank of Vietnam, especially with the Agricultural and Rural Development Bank of Vietnam, with the purpose of enhancing banking cooperation and developing cross-border payments between the two neighboring countries. During the year, NBC had the opportunity to welcome the visit of the Governor of Banque de France, The government of National Bank of Belgium and the Government of Bank of Luxembourg. A cooperation memorandum was signed between NBC and Banque de France during the visit.

Conclusion

The year 2006 was characterized by moderate global growth and a number of specific challenges to the world economy which exerted influence on Cambodia's economy, especially through the impact of the increase in the global oil price. Nevertheless, Cambodia's real GDP growth rate remained outstanding, outpacing the average growth recorded for the period over the past ten years. In response to the need to promote economic growth and to achieve price stability, NBC has placed great attention on maintaining the stability of the exchange rate of the riel, which is considered an important instrument for the effective implementation of Cambodia's monetary policy and for the promotion of a greater use of the riel. As a consequence of the adoption of a prudent and flexible monetary and exchange rate policy, the local foreign exchange market was able to operate smoothly, while the inflation rate attained a level that was compatible with the target set in the National Strategy Development Plan. The provision of funds to support the expansion of the economy was greatly enhanced. In addition, other several macroeconomic indicators also showed sound improvement; in particular, the country's export performance and inflow of foreign direct investment continued to maintain their increasing trend, which in turn contributed an important foundation for the country's economic development.

With these favorable macroeconomic conditions in place, NBC also paid great attention to the reform of the legal and institutional framework. The banking system was strengthened and further developed, bringing about remarkable progress in various areas, including the improvement of the existing payment and settlement system, the establishment of the Credit Information Sharing System, the adoption of the Law on Negotiable Instruments and Payment Transactions, and the introduction of new regulations and prudential requirements for banks, that also covered measures related to the prevention of money laundry and the financing of terrorism. In the meantime, efforts were also made to improve the public's access to microfinance services.

Moreover, the update of the "Financial Sector Blueprint 2001-2010" into the "Financial Sector Blueprint 2006-2015" that was recently concluded also represented another achievement in NBC's close collaboration with partner institutions in the government and the private sector to develop the banking and financial sector in Cambodia.

In the spirit of promoting the efficiency, soundness and sustainability of the banking and financial system, the strengthening of the operations of NBC as the monetary and supervisory authority of the banking sector represented one of the priorities of the reform. NBC's focus was placed on the continued development of its staff capacity, the strengthening of banking supervision and work related to other central banks' operations, as well as the re-organization

and strengthening of provincial branches' structure and the enhancement of their missions and responsibilities.

Furthermore, NBC continued to maintain active cooperation and relationship with various ministries, and national and international financial institutions in the region and around the world. It has, on the whole, moved progressively ahead with the necessary reform agenda set under the framework of the financial sector blueprint.

As identified in "Financial Sector Blueprint 2006-2015", despite achievements so far, various projects await completion. In this respect, the achievements recorded during 2006 will provide a new impetus for the efforts in the coming year. In order to attain Cambodia's Millennium Development Goal, the government is fully aware of the need to promote a broad-based sustainable economic growth, the crucial foundation for poverty reduction and greater in Cambodian society.

* * * * *

Table 1 : Consumer Price Index (CPI)

Price Index	2006											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
CPI (All Items)	118.3	118.2	118.1	118.4	119.3	119.7	121.6	123.1	123.8	123.4	122.3	121.5
Food, Beverages & Tobacco	121.6	121.0	120.5	120.8	122.2	122.3	125.3	127.9	129.0	128.5	125.9	124.2
Clothing & Footwear	91.5	91.4	92.0	92.6	92.7	92.9	93.2	93.6	95.1	95.5	95.1	93.7
Housing & Utilities	117.1	117.7	118.0	118.0	118.2	118.7	119.7	120.5	120.6	120.7	120.6	120.6
House Furnishings & HH. Operations	95.6	95.4	95.7	95.9	96.0	96.1	96.7	97.0	97.2	97.1	97.1	97.2
Medical Care	102.2	102.2	102.3	102.4	102.2	104.4	104.4	104.2	104.2	104.2	104.6	104.6
Transportation & Communication	128.9	128.8	129.0	131.1	132.4	134.0	136.9	138.3	139.3	137.4	136.8	137.0
Recreation & Education	111.0	111.0	111.3	111.3	111.3	111.3	111.4	111.4	112.4	112.4	112.4	111.8
Personal Care & Effects	112.3	112.2	113.1	113.0	113.1	113.4	113.3	113.2	113.2	113.4	113.5	113.8
Month to Month Change (%)												
CPI (All Items)	0.09	-0.08	-0.03	0.26	0.68	0.38	1.58	1.22	0.55	-0.26	-0.96	-0.65
Food, Beverages & Tobacco	-0.16	-0.49	-0.35	0.21	1.19	0.10	2.44	2.06	0.86	-0.38	-2.06	-1.36
Clothing & Footwear	0.16	-0.14	0.67	0.66	0.12	0.20	0.29	0.44	1.58	0.45	-0.40	-1.49
Housing & Utilities	0.14	0.45	0.25	0.00	0.21	0.37	0.91	0.64	0.06	0.12	-0.09	0.01
House Furnishings & HH. Operations	0.20	-0.20	0.28	0.24	0.14	0.04	0.68	0.34	0.20	-0.12	0.01	0.08
Medical Care	0.00	0.00	0.03	0.11	-0.13	2.14	0.01	-0.21	0.00	0.00	0.37	0.01
Transportation & Communication	1.03	-0.12	0.19	1.64	0.99	1.19	2.15	1.04	0.73	-1.39	-0.39	0.14
Recreation & Education	0.13	0.00	0.20	0.00	0.00	0.08	0.03	0.00	0.95	0.00	0.00	-0.60
Personal Care & Effects	0.18	-0.09	0.76	-0.08	0.12	0.23	-0.05	-0.11	-0.01	0.19	0.13	0.19
Year on Year Change (%)												
CPI (All Items)	6.30	6.16	5.93	4.84	4.96	3.83	5.14	5.09	4.44	4.13	3.23	2.81
Food, Beverages & Tobacco	10.76	10.75	10.22	7.40	7.17	4.28	6.34	6.12	4.98	4.89	2.91	1.99
Clothing & Footwear	3.61	3.22	3.64	4.02	4.23	4.28	4.54	3.97	3.88	4.12	4.20	2.55
Housing & Utilities	1.65	1.40	1.62	1.59	1.79	2.12	2.98	3.40	3.39	3.21	3.09	3.00
House Furnishings & HH. Operations	1.68	1.51	1.80	1.95	2.17	2.12	2.31	2.77	2.55	2.31	2.03	1.90
Medical Care	0.04	0.01	0.06	0.17	0.03	2.17	2.53	1.98	1.54	1.98	2.35	2.34
Transportation & Communication	10.19	9.95	8.87	9.52	10.53	10.05	11.23	10.49	8.62	6.18	6.68	7.41
Recreation & Education	1.18	1.18	1.17	1.17	1.17	0.88	0.84	0.84	1.51	1.51	1.51	0.78
Personal Care & Effects	6.19	6.00	4.08	5.83	5.83	5.91	5.69	5.25	4.84	4.66	1.78	1.48
Three- month moving average												
All items	118.27	118.18	118.18	118.24	118.61	119.13	120.18	121.45	122.80	123.42	123.14	122.38
Annual percentage change	6.54	6.38	6.13	5.64	5.22	4.52	4.62	4.69	4.89	4.55	3.93	3.39
Twelve- month moving average												
All items	115.78	116.35	116.90	117.36	117.82	118.19	118.69	119.18	119.62	120.03	120.35	120.62
Annual percentage change	5.82	5.87	5.91	5.82	5.71	5.44	5.52	5.57	5.51	5.32	5.03	4.71

Table 2 : Consumer Price Index (CPI) December 2002 - December 2006
July-December, 2000=100

1. Consumer Price Index (CPI) and Component Indices					
	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
CPI (all items)	104.39	104.87	110.76	118.14	121.50
Food, Beverage & Tobacco	101.10	100.91	109.54	121.74	124.20
Clothing & Footwear	87.52	86.91	87.02	91.36	93.70
Housing & Utilities	111.05	111.67	114.15	116.98	120.60
House Furnishings & HH. Operations	96.03	95.31	94.39	95.39	97.20
Medical Care	104.67	102.25	102.19	102.23	104.20
Transportation & Communication	97.14	101.96	116.98	127.58	137.00
Recreation & Education	108.40	109.12	109.73	110.89	111.80
Personal Care & Effects	103.09	103.90	105.76	112.10	113.80
2. Percentage Change in the CPI and its Components:					
2.1 Month to Month Change (%)					
CPI (all items)	-0.08	-0.10	-0.23	-0.24	-0.70
Food, Beverage & Tobacco	-0.21	-0.25	-0.73	-0.47	-1.40
Clothing & Footwear	-0.17	0.03	-0.24	0.09	-1.50
Housing & Utilities	0.01	0.03	0.07	0.00	0.00
House Furnishings & HH. Operations	-0.16	0.09	0.12	0.21	0.10
Medical Care	-0.40	-0.38	0.12	0.02	0.00
Transportation & Communication	0.39	-0.17	0.35	-0.54	0.10
Recreation & Education	-0.07	0.13	0.17	0.12	-0.60
Personal Care & Effects	-0.10	0.46	0.43	0.49	0.20
2.2 Year on Year Change (%)					
CPI (all items)	3.81	0.46	5.62	6.66	2.80
Food, Beverage & Tobacco	3.47	-0.19	8.55	11.14	2.00
Clothing & Footwear	-4.75	-0.70	0.13	4.99	2.60
Housing & Utilities	6.81	0.56	2.22	2.48	3.10
House Furnishings & HH. Operations	-1.37	-0.75	-0.97	1.06	1.90
Medical Care	-1.34	-2.31	-0.06	0.04	2.30
Transportation & Communication	3.93	4.96	14.73	9.06	7.40
Recreation & Education	-3.32	0.66	0.56	1.06	0.80
Personal Care & Effects	-0.33	0.79	1.79	5.99	1.50
3. Three-month moving average CPI (all items)					
	104.46	104.98	111.07	118.37	122.40
Year on Year Change (%)	3.07	0.5	5.8009208	6.57	3.40
4. Twelve-month moving average CPI (all items)					
	103.65	104.84	108.90	115.20	120.60
Year on Year Change (%)	3.31	1.15	3.87	5.78	4.70

Source: National Institute of Statistics

Table 3: **Some Asean And European Currencies Against Khmer Riel (End Period Buying Rate)**

Currencies	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	% Change Dec.05- Dec.04
Special Drawing Right	5,882	5,891	5,853	5,905	5,994	6,133	6,036	6,088	6,166	6,152	6,130	6,179	6,115	3.96
ASIA														
Australian Dollar	3,008	3,053	3,009	2,927	3,094	3,122	3,037	3,149	3,162	3,103	3,170	3,210	3,207	6.62
Hong Kong Dollar	530	526	526	528	528	529	529	529	533	533	533	527	522	-1.51
Janpanese Yen	34.88	34.64	3511	34.89	35.8	36.52	35.68	35.82	35.37	35.34	35.00	35.20	34.10	-2.24
Korea Won	4.06	4.20	4.21	4.2	4.34	4.34	4.30	4.31	4.31	4.40	4.38	4.40	4.36	7.39
New Zealand Dollar	2,809	2,779	2,693	2,508	2,591	2,621	2,489	2,541	2,700	2,708	2,730	2,777	2,859	1.78
Taiwan Dollar	125	127	126	126	128	128	126	125	126	126	125	126	124	-0.80
ASEAN														
Indonesian Rupiah	0.418	0.434	0.442	0.449	0.465	0.446	0.439	0.452	0.454	0.449	0.456	0.447	0.449	7.42
Malaysian Ringgit	1,088	1,086	1,098	1,109	1,129	1,131	1,118	1,125	1,125	1,127	1,134	1,128	1,147	5.42
Philippine Peso	77.50	77.95	78.55	79.89	78.92	77.91	76.72	79.81	81.53	82.85	83.27	82.43	82.64	6.63
Singapore Dollar	2,469	2,503	2,531	2,531	2,584	2,598	2,583	2,604	2,634	2,618	2,649	2,651	2,633	6.64
Thai Bath	100	104	104.00	105	109	107	107	109	110	111	112	113	112	12.00
Vietnamese Dong	0.259	0.256	0.256	0.257	0.257	0.257	0.257	0.257	0.259	0.259	0.258	0.255	0.253	-2.32
EUROPE														
Euro	4,871	4,928	4,834	4,980	5,128	5,273	5,204	5,248	5,318	5,278	5,274	5,389	5,330	9.42
Other														
Great Britain Pound	7,089	7,208	7,096	7,150	7,371	7,715	7,510	7,663	7,894	7,796	7,848	7,975	7,956	12.23

Table 4: Monetary Survey

(in millions of riel)

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
NET FOREIGN ASSETS	3,737,111	4,027,224	4,796,561	5,475,120	7,224,305
Foreign assets	4,279,326	4,740,790	5,481,527	6,142,115	7,649,997
Foreign liabilities	-542,214	-713,566	-684,966	-666,996	-425,693
NET DOMESTIC ASSETS	-848,687	-698,266	-467,264	-450,206	-282,043
Domestic Credit	941,814	1,208,714	1,607,813	1,972,489	2,676,869
Net claims on government	-119,126	-127,916	-208,689	-421,162	-953,340
Claims	309,963	360,198	359,974	326,509	286,645
Deposits	-429,089	-488,113	-568,663	-747,671	-1,239,985
Non government	1,060,940	1,336,630	1,816,502	2,393,651	3,629,809
State enterprises	2,029	14	0	0	2,085
Private sector	1,058,911	1,336,616	1,816,502	2,393,651	3,627,724
Of which in foreign currency	995,312	1,213,594	1,697,418	2,275,495	3,475,881
Other items (net)	-1,790,501	-1,906,980	-2,075,077	-2,422,694	-2,958,512
Restricted deposits	-95,542	-108,904	-101,629	-122,975	-155,020
Capital and reserves	-1,943,059	-2,089,075	-2,191,906	-2,640,353	-3,241,220
Others	248,100	290,999	218,458	340,633	437,728
LIQUIDITY	2,888,424	3,328,958	4,329,298	5,024,914	6,942,262
Money	813,280	937,470	1,152,876	1,322,788	1,657,686
Currency outside banks	765,980	908,223	1,114,750	1,282,144	1,599,550
Demand deposit	47,301	29,247	38,126	40,645	58,136
Quasi-money	2,075,144	2,391,488	3,176,422	3,702,126	5,284,576
Time and saving deposits	74,310	81,852	97,328	112,709	88,604
Foreign currency deposits	2,000,834	2,309,636	3,079,093	3,589,417	5,195,972

Table 5: Monetary Survey
(Annual percentage change)

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
NET FOREIGN ASSETS	44.3	7.8	19.1	14.1	31.9
Foreign assets	40.4	10.8	15.6	12.1	24.5
Foreign liabilities	18.4	31.6	-4.0	-2.6	-36.2
NET DOMESTIC ASSETS	-11.8	17.7	33.1	3.7	37.4
Domestic Credit	4.1	28.3	33.0	22.7	35.7
Net claims on government	3,666.0	-7.4	-63.1	-101.8	-126.4
Claims	13.9	16.2	-0.1	-9.3	-12.2
Deposits	59.6	13.8	16.5	31.5	65.8
Non government	17.7	26.0	35.9	31.8	51.6
State enterprises	-23.3	-99.3	-100.0		
Private sector	17.9	26.2	35.9	31.8	51.6
Of which in foreign currency	15.9	21.9	39.9	34.1	52.8
Other items (net)	-7.6	-6.5	-8.8	-16.8	-22.1
Restricted deposits	10.8	14.0	-6.7	21.0	26.1
Capital and reserves	8.5	7.5	4.9	20.5	22.8
Others	15.9	17.3	-24.9	55.9	28.5
LIQUIDITY	57.8	15.3	30.0	16.1	38.2
Money	50.7	15.3	23.0	14.7	25.3
Currency outside banks	54.9	18.6	22.7	15.0	24.8
Demand deposit	5.0	-38.2	30.4	6.6	43.0
Quasi-money	60.8	15.2	32.8	16.6	42.7
Time and saving deposits	61.9	10.2	18.9	15.8	-21.4
Foreign currency deposits	60.7	15.4	33.3	16.6	44.8

Table 6: Monetary Authority

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
	(in millions of riels)				
Net Foreign Assets	3,219,664	3,494,352	4,114,315	4,433,729	5,728,720
Foreign assets	3,598,336	3,906,155	4,506,439	4,767,720	5,728,720
Foreign liabilities	-378,672	-411,803	-392,124	-333,991	-
Net Domestic Assets	-1,239,003	-1,344,399	-1,449,811	-1,796,580	-2,345,933
Claims on central government (net)	-160,034	-218,656	-255,829	-406,738	-806,937
Claims	269,054	269,389	269,777	270,409	286,445
Deposits	-429,088	-488,045	-525,605	-677,147	-1,093,382
Claims on deposit money banks (net)	-80,935	-90,383	-83,904	-101,242	-92,060
Claims on private sector (net)	0	0	2,536	2,404	2,119
Other items (net)	-998,033	-1,035,360	-1,112,614	-1,291,004	-1,449,056
Reserve money	1,980,661	2,149,953	2,664,504	2,637,149	3,382,787
Currency outside banks	765,980	908,223	1,114,750	1,282,144	1,599,550
Currency in banks	33,136	59,578	26,032	26,868	29,718
Bank deposits	1,181,545	1,182,153	1,518,713	1,321,941	1,736,254
Reserve deposits	168,800	193,363	244,197	302,256	427,961
Other deposits	1,012,745	988,790	1,274,516	1,019,686	1,308,293
Others			5,009	6,196	17,264
	(Annual percentage change)				
Net Foreign Assets	53.1	8.5	17.7	7.8	29.2
Foreign assets	50.6	8.6	15.4	5.8	20.2
Foreign liabilities	32.9	8.7	-4.8	-14.8	-100.0
Net Domestic Assets	-31.5	-8.5	-7.8	-23.9	-30.6
Claims on central government (net)	4,369.9	-36.6	-17.0	-59.0	-98.4
Claims	-1.0	0.1	0.1	0.2	5.9
Deposits	60.1	13.7	7.7	28.8	61.5
Claims on deposit money banks (net)	18.0	11.7	-7.2	20.7	-9.1
Claims on private sector (net)				-5.2	-11.8
Other items (net)	-13.7	-3.7	-7.5	-16.0	-12.2
Reserve money	70.6	8.5	23.9	-1.0	28.3
Currency outside banks	54.9	18.6	22.7	15.0	24.8
Currency in banks	-1.6	79.8	-56.3	3.2	10.6
Bank deposits	86.7	0.1	28.5	-13.0	31.3
Reserve deposits	55.2	14.6	26.3	23.8	41.6
Other deposits	93.3	-2.4	28.9	-20.0	28.3
Others				24	178.6

Table 7: Deposit Money Banks

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
	(in milliom riels)				
Net Foreign Assets	517,448	532,872	682,246	1,041,390	1,495,584
Foreign assets	680,990	834,636	975,088	1,374,395	1,921,277
Foreign liabilities	-163,542	-301,764	-292,842	-333,005	-425,693
Net Domestic Assets	334,152	558,134	958,154	1,275,133	1,962,246
Domestic credit	1,103,133	1,369,110	1,869,383	2,385,275	3,489,626
Claims on central government (net)	40,908	90,740	47,140	-14,424	-146,403
Claims on public enterprises	2,029	14	0	0	2,085
Claims on private sector	1,058,911	1,336,616	1,813,966	2,391,247	3,625,605
Claims on MA (net)	1,285	-58,260	8,278	8,452	8,339
Other items (net)	-768,981	-810,976	-911,229	-1,110,143	-1,527,380
Reserves	1,270,845	1,329,729	1,569,138	1,420,051	1,867,616
Cash	33,136	59,578	26,032	26,868	29,718
Deposits at the NBC	1,237,709	1,270,151	1,543,106	1,393,183	1,837,898
Domestic liabilities	2,122,445	2,420,735	3,209,538	3,736,574	4,325,447
Demand deposits	47,301	29,247	33,116	34,449	40,871
Time and savings deposits	74,310	81,852	97,328	112,709	88,604
Foreign currency deposits	2,000,834	2,309,636	3,079,093	3,589,417	5,195,972
Total assets = Total liabilities	3,358,188	3,877,688	4,706,202	5,579,164	7,963,132
	(Annual percentage change)				
Net Foreign Assets	6.5	3.0	28.0	52.6	43.6
Foreign assets	3.4	22.6	16.8	41.0	39.8
Foreign liabilities	-5.3	84.5	-3.0	13.7	27.8
Net Domestic Assets	195.9	67.0	71.7	33.1	53.9
Domestic credit	21.4	24.1	36.5	27.6	46.3
Claims on central government (net)	-	121.8	-48.0	-130.6	915.0
Claims on public enterprises	-23.3	-99.3	-100.0		
Claims on private sector	17.9	26.2	35.7	31.8	51.6
Claims on MA (net)	-84.1 (-)		-114.2	2.1	-1.3
Other items (net)	3.4	-5.5	-12.4	-21.8	-37.6
Reserves	72.4	4.6	18.0	-9.5	31.5
Cash	-1.6	79.8	-56.3	3.2	10.6
Deposits at the NBC	75.9	2.6	21.5	-9.7	31.9
Domestic liabilities	58.9	14.1	32.6	16.4	15.8
Demand deposits	5.0	-38.2	13.2	4.0	18.6
Time and savings deposits	61.9	10.1	18.9	15.8	-21.4
Foreign currency deposits	60.7	15.4	33.3	16.6	44.8
Total assets = Total liabilities	33.4	15.5	21.4	18.5	42.7

Table 8: Credit Granted Classified by Type of Business

(Excluding Provincial Branches of NBC)

(In Million Riel)

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Agriculture	35,597	35,976	43,947	64,774	69,287	148,616
Manufacturing	227,345	158,504	187,563	269,187	258,756	410,598
Construction	24,507	59,886	83,154	97,972	144,957	269,910
Wholesale & Retail	198,547	158,632	225,564	363,049	532,450	783,286
Export	60,172	59,598	117,471	77,615	37,507	26,209
Import	43,805	111,310	81,356	110,973	168,046	142,680
Finance	12,695	51,352	102,148	100,068	26,485	24,002
Real Estate & Public Utilities	62,066	105,606	66,392	50,329	147,555	298,891
Services	271,402	342,881	478,440	675,634	667,473	1,145,131
Other	16,193	9,886	34,569	102,568	239,925	222,261
TOTAL	952,330	1,093,631	1,420,604	1,912,169	2,292,442	3,471,584

Table 9: Deposits with Deposit Money Banks

(Excluding Provincial Branches of NBC)

(In Million Riel)

	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06
Deposits in Riel						
Demand deposits	31,146	48,451	30,799	37,891	40,712	49,991
Savings deposits	16,590	25,736	41,119	49,169	62,797	91,688
Fixed deposits	37,786	48,561	40,818	40,373	41,643	42,679
Others	0	0	0	2,421	2,438	1,360
Total	85,523	122,748	112,736	129,855	147,590	185,719
Deposits in Foreign Currency						
Demand deposits	495,011	525,444	687,230	792,466	958,804	1,393,533
Savings deposits	646,179	894,114	1,067,329	1,478,007	1,703,153	2,224,594
Fixed deposits	562,388	695,438	740,115	881,644	1,071,863	1,813,279
Others	308	3,712	2,386	45,816	45,811	69,910
Total	1,703,886	2,118,708	2,497,061	3,197,933	3,779,631	5,501,316
GRAND TOTAL	1,789,409	2,241,457	2,609,796	3,327,788	3,927,221	5,687,035

Table 10: Cambodia: Balance of Payments
Financing analysis, 2002-2005 (US\$ million)

	2002	2003	2004	2005	2006F
Balance of trade	-562.9	-532.7	-680.6	-1017.6	-1031.2
Exports fob	1755.1	2027.2	2588.9	2910.3	2707.1
Domestic exports	1644.2	1910.4	2454.5	2772.8	2553.5
GSP exports (mainly garments)	1391.6	1627.9	2078.5	2260.7	2142.7
Other domestic exports	252.5	282.6	375.9	512.2	410.8
Re-exports (including profit and transportation cost)	110.9	116.8	134.4	137.4	153.6
Imports fob	-2318.0	-2559.9	-3269.5	-3927.8	-3738.3
Retained imports	-2232.9	-2470.3	-3166.2	-3809.9	-3620.5
Garment sector	-701.3	-812.4	-1010.1	-1102.3	-1068.6
Petroleum	-352.6	-412.6	-609.9	-841.6	-830.8
Other retained imports	-1178.9	-1245.2	-1546.2	-1866.1	-1721.2
Imports for re-exports	-85.1	-89.6	-103.3	-117.9	-117.8
Net services	229.9	135.7	290.5	471.1	500.8
Receipts	604.2	526.1	804.9	1118.1	1038.1
Transportation services	88.9	83.0	104.7	126.9	125.0
Travel services	453.5	389.0	603.5	839.5	839.1
Other services	61.7	54.1	96.7	151.6	74.0
Payments	-374.3	-390.4	-514.4	-647.1	-537.4
Transportation services	-213.9	-230.9	-298.4	-360.3	-338.6
Travel services	-38.2	-36.2	-47.6	-96.9	-50.1
Other services	-122.1	-123.4	-168.4	-189.9	-148.7
Net income	-177.0	-206.6	-221.0	-254.0	-234.7
Receipts	50.6	43.7	48.6	67.7	68.6
Payments	-227.6	-250.3	-269.6	-321.8	-303.3
Private transfers, net	148.8	162.8	175.8	209.3	201.2
BALANCE ON CURRENT ACCOUNT (excluding official transfers)	-361.3	-440.9	-835.3	-591.3	-563.9
Official transfers	311.8	312.4	320.5	325.7	299.7
Receipts	312.0	312.7	320.8	326.0	300.0
Of which Grants	21.6	2.8	1.4	2.7	2.6
Food aid	43.3	27.4	21.9	17.1	37.0
Project aid	85.7	61.7	55.5	163.4	120.0
TA salaries	161.4	220.9	190.4	142.8	140.4
Payments	-0.3	-0.3	-0.3	-0.3	-0.3
BALANCE ON CURRENT ACCOUNT & CAPITAL TRANSFERS	-49.5	-128.4	-213.2	-265.6	-264.2
FINANCIAL ACCOUNT	247.3	166.8	332.2	368.9	340.6
Official sector loans (excluding IMF), net	124.2	148.6	154.4	144.0	145.6
Drawings	132.2	156.4	162.7	153.3	155.1
Repayments	-8.0	-7.8	-8.3	-9.3	-9.5
Non-official sector investment	123.1	18.2	177.8	220.9	195.0
Direct Investment, net	139.1	74.3	121.2	374.9	240.6
Portfolio Investment Assets	-7.5	-7.7	-8.0	-7.2	-7.2
Other Investment, net	-8.5	-48.4	64.6	-146.8	-38.4
Net errors and omissions	-32.8	-7.8	8.5	-25.2	-32.8
OVERALL BALANCE	165.0	30.6	127.4	78.1	43.6
FINANCING	-165.0	-30.6	-127.4	-78.1	-43.6
Net foreign assets of the NBC (excluding monetary gold)	-177.7	-43.3	-140.2	-86.9	-56.4
Change in Reserve Assets	-187.0	-41.6	-127.8	-78.1	-47.3
Use of IMF credit	9.3	-1.8	-12.4	-8.8	-9.1
Exceptional financing	12.8	12.8	12.8	12.8	12.8

Sources: Data provided by Cambodian authorities, and NBC staff estimates.

Notes: - Provisional data for 2002-2005, subject to change.

- F = Forecast.