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Introduction

Inflation in July 2005 continued to rise, but at a slower speed as compared to the previous month, with an increase in the overall consumer price index of 0.3%. This was due to increases in domestic retail prices, while the rise reflected at the same time continuous high oil price in the world market. The short supply of fishes as a result of the temporary fishery ban during the high-water-season was the main reason for local price increases. At the same time, the riel lost value continuously since March 2005. The depreciation of the riel in the month under review was the fastest one since 1999. Credit to private sector increased notably, while the money supply went up modestly after a drop in the month before.

Consumer Price Index

In July 2005, the consumer price index (CPI) for all items continued to rise but at a slower pace than that in the month before. The overall CPI went up from 115.29 in June to 115.65 in July, leading to a rise in the monthly inflation rate of 0.31 % compared with 1.43% in the previous month. The positive change of the inflation rate for July 2005 resulted mainly from the rise in prices of several consumer items such as fuel and foods, which in turn was due to an increase in petroleum price in the world market and rising prices of fishery products caused by temporary fishery ban during the high-water-season.

Seven of eight sub-indices forming the consumer prices basket showed positive changes, except the medical care sub-index that recorded a slight drop. During the review period, transportation & communication sub-index recorded the highest increase of 1.07% compared with 1.63% in the previous month. This increase was mainly due to a rise in gasoline price of 2.94% and diesel fuel of 3.85%. The next largest increases were posted for food beverage & tobacco and house furnishings & household operations sub-indices, which had approximately the same rate of increase of 0.46%. The rise in food beverage & tobacco sub-index was mainly due to higher prices of some food items such as catfish (1.05%), sea fish (1.86%), dressed chicken (2.91%), roasted pork (2.61%), lettuce spinach (3.87%), short green beans (3.56%), white gourd (2.13%), sweet potatoes (2.50%) etc. The increase of house furnishings & household operations sub-index was due to a rise in price of sofa set made of wood (2.06%), chairs made of wood (2.11%), liquid fuels (5.14%), blankets (1.11 %), mosquito net (1.10%) etc. The remaining sub-indices went up slightly by around 0.03 % and 0.16%.

Exchange Rate

In July 2005, the exchange rate of the riel against the US dollar recorded a remarkable weakness. On a month-on-month, basis the riel has depreciated continuously since March 2005 at accelerated pace. Moreover, the riel depreciation in the review month was the fastest one since 1999. In fact, the market-buying rate went up from 4,133 riels in June to 4,205 riels in July, a loss of 72 riels or 2.66% per US dollar.

The trend of daily exchange rate of the riel in July 2005 showed that the exchange rate went up steadily over the entire month under review. During the fist 29 days of the month, the exchange rate fluctuated between 4,135 and 4,265 riels per US dollar, then it went down slightly to 4,205 at month end.

The weakness of the riel against the US dollar in the month under review was the largest one ever recorded since 1999. This could be on one hand explained by the seasonal low demand for riel during the raining season. On the other hand, it could be also got pressure from the US dollar appreciation.

Money Supply

In July 2005, liquidity of the banking sector showed a sharp increase after a decrease in June. In the month under review, measured by M2, liquidity rose by 152.3 billion riels (3.3%) after a decrease of 48.9 billion riels (1%) in a month earlier. The growth of liquidity (M2) was mainly due to an increase of 144.7 billion riels (4.2%) in quasi-money and an increase of 7.6 billion riels (0.6%) in money (M1). The rise in quasi-money was a result of a significant expansion of 149.5 billion riels (4.5%) in foreign currency deposits, while time and saving deposits went down by 4.8 billion riels (4.1%). The increase of money (Ml) was caused by an increase of 12.6 billion riels (1.1 %) in currency outside banks, while demand deposits decreased by 5 billion riels (10.5%).

Net domestic assets of the banking sector in July 2005 rose by 69 billion riels (15.2%) after declining by 95.8

billion riels (26.7%) in the previous month. This increase was mainly due to an increase in domestic credit of 98.9 billion riels (5.4%), while other items net declined by 29.9 billion riels (1.3%). The increase in domestic credit was mainly due to the growth in private sector credit of 134.3 billion riels (6.2%), while net claim on government continued to decrease by 35.3 billion riels (10.3%). The decline in other item net was mainly caused by a growth in capital and reserves of92.7 billion riels (4%).

Net Foreign Assets of the Banking Sector

In July 2005, net foreign assets of the banking system continued to increase by 83.3 billion riels (1.6%) from 5,083.6 billion riels in June to 5,166.9 billion riels in the month under review. This was a result of an increase in foreign assets of 103.8 billion riels (1.8%), while foreign liabilities increase only 20.6 billion riels (3.1%), in which, foreign assets of the central bank rose by 63.2 billion riels (1.4%) and foreign assets of deposit money banks rose by 40.6 billion riel (3.5%). The growth in central bank's foreign assets was mainly due to an increase in account with foreign banks and non bank institutions of 339.3 billion riels (16.7%) and slight rise in monetary gold price of 0.6 billion riels (0.1%), while other credit to non residents declined by 274.4 billion riels (15.8%) and foreign exchange holding declined by 2.4 billion riels (2.4%). The growth in foreign assets of deposit money banks was caused by an increase in account with foreign banks, foreign bills and foreign exchange holding of 32.4 billion riels (4.2%), 5.6 billion riels (71.6%) and 2.6 billion riels (0.7%) respectively.

Deposit Money Banks' Operation

As shown in Table 10, total operations of deposit money banks strongly expanded in July 2005. Total assets of deposit money banks recovered by 209 billion riels (4.1%) after a decline of 37 billion riels (0.7%) a month earlier. This increase was due to rises in all assets component of deposit money banks. In fact, loan and advance to residents, foreign assets, cash and deposits with central bank, and fixed and other domestic assets increased by 136.8 billion riels (6.1 %), 40.6 billion riels (3.5%), 27.9 billion riels (2%) and 6.2 billion riels (2.3%) respectively.

On the liability side, deposits by residents, which are major sources of funds of deposit money banks, rose by 13 9.7 billion riels (4%) mainly reflecting an increase in foreign currency deposits of 149.5 billion riels (4.5%), while demand deposits and time & saving deposits declined by 5 billion riels (11.8%) and 4.8 billion riels (4%) respectively. In the meantime, capital and reserves, foreign liabilities and other domestic liabilities increased by 45.8 billion riels (4.6%), 13.6 billion riels (4.5%) and 9.9 billion riels (3.2%) respectively.

Table 12 showed that total credit provided to the economy by all deposit money banks recorded an increase of 134.4 billion riels (6%) in July 2005 compared to an increase of 34.3 billion riels (1.6%) in a month earlier. Figures on monthly changes indicated that eight sectors registered an increase in credit. The sector, which absorbed most credit in the month under review, was service sector as increased by 44.7 billion riels (3.2%). This was followed by an increase in credit to wholesale & retail sector of 35.2 billion riels (8%), import sector of 20.6 billion riels (15.3%), construction sector of 12.8 billion riels (8.7%), real estate & public utilities sector of 12.8 billion riels (9.9%), other sector including personal consumption of 7.5 billion riels (3.2%), agriculture sector of 4. 9 billion riels (7%) and finance sector of 0.2 billion riels (1 %).

Table 14 showed that deposit by residents and non-residents with deposit money banks rose by 158 billion riels (4.4%) after having a decrease of 68.2 billion riels (1.9%) in the previous month. A rise in total deposits in the month under review mainly resulted from the growth in foreign currency deposits of 169.3 billion riels (4.9%), while domestic currency deposits declined by 11.3 billion riels (6.9%). The growth in foreign currency deposits was due to increases in saving deposits of 89.7 billion riels (5.7%), demand deposits of 59.5 billion riels (7.6%), fixed deposits by 19.4 billion riels (1.9%) and other deposits of 0.7 billion riels (1.6%). The decrease in domestic currency deposits was caused by a decrease in demand deposits, saving deposits and fixed deposits of 7.4 billion riels (15%), 3.8 billion riels (6.5%) and 1 billion riels (1. 8%) respectively. While other deposits increased by 0.9 billion riels (45.8%)

***For more information pleas contact the address above**