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## Introduction

The evolution of some indicators made a push for a smooth performance of macro-economy in Cambodia. In February 2005, the consumer price index (CPI) remained stable, although it was affected by a growth in price of electricity, it did not have a serious impact on the economy. At the same time, the riel exchange rate was strong remarkable against the US dollar while the money supply grew up modestly in accord with the money demand in the economy was progressive.

## Consumer Price Index

In February 2005, the consumer price index for all items (CPI) went up slightly after having a modest increase in the previous month. The CPI went up from a level of 111.24 at the end of January to 111.30 at the end of February; the monthly inflation rate was 0.05% compared with 0.43% in the previous month. The year on year basis, the inflation rate for the month under review was 5.63%.

The upward movement of the CPI in the month under review resulted from a combination of five slight increase sub-indices while the two sub-indices decreased and the only one remained unchanged. The highest growth in the month was 0.69% as in housing and utility sub-index; next was 0.24% as in clothing and footwear sub-index and the remaining sub-indices increased in a range of 0.02% to 0.10%. The growth in housing and utility sub-index in the month was mainly due to an increase in price of electricity of 13.40%. This rise was not an increase in the market price; in fact, it was only an adjustment from low level to medium level among the three existent prices of electricity. The price of electricity changed from an old price of 485 riels/Kwh to a new price of 550 riels/Kwh. Whereas, the growth in clothing and footwear sub-index was due to an increase in price of fabrics, clothing and footwear for men, women and children in which cotton fabric 1.25%, scarf 1.46%, men's shirts long-sleeved 1.31%, T-shirts 1.13% and vinyl shoes 1.02%.

## Exchange Rate

The riel against the US dollar showed a notable strength in consecutive two months at the beginning of 2005. In fact, the end-period market-buying rate in both months traded at 4,035 riels at the end of January and 4,032 riels to a US dollar at the end of February, the riel appreciated by 0.07% to a US dollar in February 2005. If compared to the exchange rate in the same period of last year, the riel depreciated only by 0.88% against the US dollar.

Taking a closer look at the movement of the daily exchange rate in February 2005 (chart 3), we can see that the riel against the US dollar remained stable over the whole month, although the trend of exchange rate in the month under review had a slight different level between the first half and the second half. In fact, during the first 18 days the market-buying rate was at a level of 4,035 riels, during the 19<sup>th</sup> to 25<sup>th</sup> the market buying rate was 4,033 riels per US dollar and from the 26<sup>th</sup> to the end of month the market-buying rate dropped to 4,032 riels to a US dollar.

## Money Supply

Liquidity (M2) of the banking sector increased modestly in February 2005, following a faster increase in the last two months. Liquidity expanded from 4,415.7 billion riels in January 2005 to 4,436.8 billion riels in February 2005, with an increase of 21.1 billion riels or 0.5% compared with an increase of 86.4 billion riels or 2% a month earlier. A rise in liquidity resulted mainly from an increase in quasi-money of 18.9 billion riels or 0.6% and a rise in narrow money (M1) of 2.2 billion riels or 0.2%. The increase in quasi-money was primarily due to a growth in foreign currency deposits of 16.6 billion riels or 0.5%.

## Net domestic Assets of the Banking Sector

The net domestic assets of the banking sector in February 2005 declined by 39.6 billion riels or 9.3%. This decline was mainly compiled by movements in items classified as other items net that rose by 45.5 billion riels or 2.2%. Capital and reserves, an important component of other items net increased by 44.8 billion riels or 2%. This was mainly due to an increase in valuation adjustments made by National Bank of Cambodia of 19.5 billion riels or 5% and provisions, profit and losses of deposit money banks of 17.2 billion riels or 24%. Meanwhile net claims on government decreased by 33.9 billion riels or 16.3%. The decline in net claims on government was due to a spread of 33.9 billion riels or 6% in government deposits while claims on government went up slightly by 0.1

billion riels or 0.02%. Credit to private sector increased by 39.8 billion riels or 2.1%.

### **Net Foreign Assets of the Banking Sector**

The net foreign assets of the banking sector, a major determinant of monetary growth, expanded further during the month under review. After having an increase of 43.8 billion riels or 0.9% in January 2005, the net foreign assets of the banking sector rose by 60.7 billion riels or 1.3%, reaching 4,901.1 billion riels at the end of February 2005. This change in net foreign assets mainly resulted from an increase in total foreign assets of 54.3 billion riels or 1 % that was because of a growth in accounts- with foreign banks and non-bank institutions of National Bank of Cambodia of 34.3 billion riels or 1.8%, followed by a build up in market price of monetary assets in a form of gold holdings of 19.5 billion riels or 2.8%. During the same period total foreign liabilities of the banking sector declined by 6.4 billion riels or 1 %.

### **Deposit Money Banks' Operation**

As shown in Table 10 total operations of deposit money banks including provincial branches of National Bank of Cambodia continued to expand in February 2005. Total assets of deposit money banks expanded by 4,815.9 to 4,859.8 billion riels, representing an increase of 43.9 billion riels or 0.9% compared with an increase of 109.7 billion riels or 2.3% in the previous month. All components of the deposit money banks' assets registered a positive change except cash and deposits with central bank dropped by 17.3 billion riels or 1.1%. The component of assets that showed the largest growth in the month under reviewed was loans and advances to residents of 39.9 billion riels or 2%, followed by foreign assets of 14.1 billion riels or 1.4% and fixed and other domestic assets of 7.2 billion riels or 2.6%.

On the liability side, deposits by residents, a major source of funds of deposit money banks, rose by 20.1 billion riels or 0.6% mainly resulted from an increase in foreign currency deposits of 16.6 billion riels or 0.5%. Capital and reserves and other domestic liabilities increased by 24.8 billion riels or 2.7% and 6.8 billion riels or 2.2% while foreign liabilities declined by 7.9 billion riels or 2.6%. The increase in capital and reserves was mainly due to an increase of provisions, profit and losses of 17.2 billion riels or 23.9%.

Table 12 shown that total credit provided to the economy by all deposit money banks excluding central bank's branches rose by 39.2 billions riels or 2% compared with an increase of 48.4 billions riels or 2.5% a month before. Figures on monthly changes indicated that five sectors registered an increase in credit. Credit sector that showed a leading increase in the month under review was credit to real estate and public utilities sector of 29.5 billion riels or 51.4%. After that, credit to import, wholesale and retail, construction and finance sector went up by 17.9 billion riels or 12.5%, 11.9 billion riels or 3.2%, 2.7 billion riels or 2.8% and 0.1 billion riels or 0.1 % respectively. During the same time, there was a decrease in credit to service sector of 7.3 billion riels or 1.1 %, agriculture sector of 6.2 billion riels or 8.4%, other sector of 5.6 billion riels or 5%, export sector of 3.6 billion riels or 5.8% and manufacturing sector of 0.3 billion riels or 0.1 %.

With regard to deposit operations of the deposit money banks excluding central bank's branches, the total of residents and non-residents deposits expanded by 17.8 billion riels or 0.5% after having an increase of 77.2 billion riels or 2.3% in the previous month. A rise in total deposits in the month under review resulted from a growth both in riel deposits and foreign currency deposits, showing an increase of 11.2 billion riels or 8.1 % and 6.7 billion riels or 0.2% respectively. The growth in riel deposits was due to an increase in demand deposits of 8.6 billion riels or 22.6% saving deposits of 2.7 billion riels or 5.4% and fixed deposits of 0.3 billion riels or 0.7% while other deposits declined by 0.5 billion riels or 16.5%. The rise in foreign currency deposits caused by an increase in fixed deposits of 20.9 billion riels or 2.3%, other deposits by 3.9 billion riels or 8.3% and demand deposits by 3.7 billion riels or 0.5% while saving deposits declined by 21.9 billion riels or 1.4%.

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