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Introduction

Inflation in June accelerated from the previous month with an increase in the overall consumer price index of 1.4 %. 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 prolonged drought in some areas of the country as well as the short supply of fishes as a result of the temporary fishery ban during the high-water-season was the main reasons for local price increases. The depreciation of the riel continued at about the same pace observed in May. The riel weakened 0.9% against the US dollar, as compared to a depreciation of about 1 % a month earlier. Domestic credit dropped slightly, while the money supply went down modestly compared to the month before. This decline reflected in the decrease in the foreign currency deposits.

Consumer Price Index

In June 2005, the consumer price index (CPI) for all items continued to rise, up at a rate higher than that in a month before. The overall CPI went up from 113.67 in May to 115.29 in June, leading to a rise in the monthly inflation rate to 1.43% compared with 0.62% in the previous month.

Seven out of eight sub-indices that forming the consumer prices basket showed positive changes, except the medical care sub-index that remained unchanged. During the review period, food beverage and tobacco sub-index recorded the highest increases, rising by 2.88%. It should be recalled that food sub-index increased by 1.40% in the month before. The acceleration in the inflation rate in June was mainly due to higher prices of some important food items especially fishes, with price of mud fish large rose by 29.34%, mud fish small by 19.44%, cat fish by 13.66% and sea fish by 6.49%. Meanwhile, major vegetable items that contributed to the increased inflation were cabbage leaves (11.62%), tomatoes (9.64%), cauliflower (9.65%), ridge gourd (8.77%) etc. The next sub-component after food sub-index was the transportation & communication sub-index that increased by 1.63 % compared with 0.08% in the previous month. This increase was mainly due to a rise in gasoline price of 4.62% and price of diesel fuel of 6.12%. The remaining sub-indices went up slightly by around 0.05% and 0.37%.

Exchange Rate

The exchange rate of the riel against the US dollar continued to depreciate slightly in June 2005 following a sharp depreciation in the previous month.

The market-buying rate went up from 4,096 riels in May to 4,133 riels a US dollar in June, a depreciation of 37 riels or 0.90% compared to a depreciation of 41 riels a US dollar or 1.01 % in the preceding month. Looking at the trend of daily exchange rate in June 2005, during the first 10 days of the month, the exchange rate went up slowly from 4,099 to 4,115 riels per US dollar, then it went down slightly to 4,106 in the 11th and 12th. However, the riel lost some ground again toward the end of the review period and closed the month at 4,133 riels per US dollar.

Money Supply

In June 2005, liquidity of the banking sector decreased after increasing in six consecutive months. Liquidity (M2) fell by 48.9 billion riels (1 %) after having an increase of 90.8 billion riels (2%) in the previous month. The decline of liquidity (M2) was mainly due to the decline in quasi-money of 63.7 billion riels (1.8%) while Money (M1) went up by 14.7 billion riels (1.2%). A drop of quasi-money resulted from a large reduction in foreign currency deposits by 62.1 billion riels (1.9%) and time and saving deposits decrease slightly by 1.6 billion riels (1.4%). A growth of money (M1) was resulted of an increase in currency outside banks by 10.2 billion riels (0.9%), while demand deposits rose by 4.5 billion riels (10.4%).

Net domestic Assets of the Banking Sector

The net domestic assets of the banking sector in June 2005 declined by 95.8 billion riels (26.7%) following an increase of 16.5 billion riels (4.4%) in the previous month. This decrease was mainly due to a decrease in domestic credit of 5.4 billion riels (0.3%) while other items net declined by 90.4 billion riels (4.1 %). The decrease in domestic credit resulted from net claim on government went down by 43.5 billion riels (14.5%) while private sector credit grew by 38.0 billion riels (1.8%). The decline in other items net was mainly caused by the increase in restricted deposits and capital and reserve of 17.3 billion riels (15.6%) and 82.1 billion riels (3.6%) respectively.

Net Foreign Assets of the Banking Sector

In June 2005, net foreign assets of the banking system continued to increase by 46.8 billion riels (0.9%) from 5,036.8 billion riels in May to 5,083.6 billion riels in the month under review. This was a result of an increase in foreign assets of 50.2 billion riels (0.9%) in which foreign assets of the central bank rose by 13.8 billion riels (0.3%) and foreign assets of deposit money banks rose 36.5 billion riels (3.3%). While foreign liabilities increase less by 3.4 billion riels (0.5%). The growth in foreign assets of the central bank was mainly due to an increase in monetary gold price by 38.5 billion riels (5.7%), other credit to nonresident increased by 14.8 billion riels (0.9%) and account with foreign banks went up by 55.2 billion riels (2.8%) while foreign exchange holding declined by 93.8 billion riels (48.8%). The rise in foreign assets of deposit money banks caused by an increase of foreign bills of 5.7 billion riels and account with foreign bank increased by 71.9 billion riels (10.3%) while foreign exchange holding declined by 41.1 billion riels (10%).

Deposit Money Banks' Operation

As shown in Table 10, total operations of deposit money banks including provincial branches of the National Bank of Cambodia shrunk in June 2005. Total assets of deposit money banks declined by 37.0 billion riels (0.7%) compared to a rise of 119.0 billion riels (2.4%) a month earlier. This decrease was due to a decline in some assets components of deposit money banks. In fact, cash and deposit with central bank, and loan and advances to Government sector decreased by 107.2 billion riels (7.1%), and 3.9 billion riels (4.8%) respectively. While credit to private sector and foreign assets increased by 38 billion riels (1.8%) and 36.5 billion riels (3.3%) respectively.

On the liability side, deposits by residents, which are major sources of funds of deposit money banks, dropped by 59.7 billion riels (1.7%). This decline was mainly due to a decrease in foreign currency deposits by 62.1 billion riels (1.8%). Meanwhile, other domestic liabilities decreased by 3.4 billion riels (1.1%) while foreign liabilities and capital and reserves increased by 4.8 billion riels (1.6%) and 21.3 billion riels (2.2%) respectively.

Table 12 showed that total credit provided to the economy by all deposit money banks excluding central bank's branches recorded an increase of 34.3 billion riels (1.6%) in June 2005 compared to an increase of 47.5 billion riels (2.2%) in a month earlier. Figures on monthly changes indicated that four sectors registered increasing. Sector that showed the biggest increase in credit absorption in the month was other sector that grew by 100.1 billion riels (74%) following by an increase in credit to wholesale & retail sector of 23.8 billion riels (5.7%), construction sector of 13.9 billion riels (10.4%), and real estate & public utilities of 3.8 billion riels (3.1%). Whereas, finance sector, import sector, service sector, export sector, and agriculture sector declined by 90.1 billion riels (98.3%), 5.3 billion riels (3.8%), 5.6 billion riels (0.7%), 4.2 billion riels (7.6%), and 1.8 billion riels (2.5%) respectively.

Table 14 showed that deposit by residents and non-residents with deposit money banks excluding central bank's branches decreased by 68.2 billion riels (1.9%) after having an increase of 120.3 billion riels (3.4%) in the previous month. A drop of total deposits in the month resulted of decrease in foreign currency deposits of 71.9 billion riels (2.1%) while the riel deposit increased by 3.8 billion riels (2.4%). The drop of foreign currency deposits was mainly due to a decrease in demand deposits of 81.1 billion riels (9.3%), while saving deposits and fixed deposits increased by 5.5 billion riels (0.4%) and 5.3 billion riels (0.5%) respectively. The increase in riel deposits was caused by an increase in demand deposit of 6 billion riels (13.7%) and fixed deposits grew by 0.4 billion riels (0.8%) while saving deposits declined by 0.8 billion riels (1.4%).

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