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Introduction

The return of the bird flu outbreak in the region and the influence of the increase in the petroleum price on the world market as well as a prolonged drought in some areas of the country have impacted agricultural production and domestic food supply. This development resulted in the soaring price of some food items and a successive increase in overall CPI since the beginning of 2005. The rise in CPI in May was, however, at a lower rate than in the previous month. Meanwhile, the exchange rate of the riel against the US dollar depreciated sharply and this depreciation was the largest one since October 2004. Domestic credit rose by half of the growth rate in the previous month, while the money supply went up at the same pace as in the month before. This increase reflected the acceleration in the rate of growth of foreign currency deposits.

Consumer Price Index

In May 2005, the CPI for all items continued to increase, but at a lower speed than the previous month. The overall CPI increased from 112.97 in April to 113.67 in May, resulting in an increase in the monthly inflation rate of 0.62% compared with 1.30% in the month before.

Five out of eight sub-indices forming the consumer price basket showed increase except sub index of clothing & footwear and furnishings & household operations that moved down slightly while recreation & education sub index remained unchanged. However, growth in the CPI in the month consideration was mainly due to a rise in food, beverage and tobacco sub-index, which went up by 1.40% compared to a rise of 2.84% in the previous month. This increase was due to a rise in the prices of some food items such as beef (5.35%), fish (5.37%), pork (2.48%), vegetable (4.97%), rice (1.49%), etc (see table 2). Meanwhile, the others sub-indices increased slightly around 0.01 % and 0.12%. Transportation & communication sub-index, which recorded a high growth rate of 1.19% and 1.03% in March and April 2005, respectively, slowed somewhat in the month under review, with an increase down to 0.08%.

The rise in prices of food items in the reviewed month could be explained by the return of the bird flu outbreak in the region and the prolonged drought in some areas that effected negatively on agricultural production, and fishery production leading to a shortage of domestic food supply.

Exchange Rate

In May 2005, the value of the riel against the US dollar depreciated strongly compared to the previous month reaching a new high as compared to the exchange rate observed for the previous months since October 2004. The market-buying rate went up from 4,055 riels in April to 4,096 riels a US dollar in May, depreciating by 41 riels or 1.01 % compared with 0.52% in the preceding month.

Considering the trend of daily exchange rate in May 2005, one can see that during the first 5 days of the month, the exchange rate traded at around 4,055 riels per US dollar. After that, it started to increase from 4,059 riels on the 6th to a peak of 4,104 riels on the 28th, and then it went down slightly to 4,096 riels per US dollar at the end of the month.

Money Supply

In May 2005, liquidity of the banking sector continued to increase at the same rate observed in April. In the month under review, liquidity as measured by (M2) rose by 90.8 billion riels (2%) following an increase of 88.5 billion riels (2%) in the previous month. The growth of liquidity (M2) was mainly due to an increase in quasi-money by 96.2 billion riels (2.9%) while Money (M1) went down by 5.4 billion riels (0.55%). A rise in quasi-money was a result of a significant expansion of foreign currency deposits of 88.6 billion riels (2.7%) and time and saving deposits of 7.4 billion riels (6.6%). A drop of money (M1) was caused by a decrease in currency outside banks of 9.9 billion riels (0.8%), while demand deposits rose by 4.4 billion riels (11.5%).

Net domestic Assets of the Banking Sector

The net domestic assets of the banking sector in May 2005 rose by 16.5 billion riels (4.4%) following an increase of 9.1 billion riels (2.4%) in the previous month. This increase was mainly due to an increase in domestic credit of 33.1 billion riels (1.8%) while other items net declined by 16.6 billion riels(0.8%). An increase in domestic credit was due to the growth in private sector credit of 51.3 billion riels (2.5%) while net claim on government went down by 18.2 billion riels (6.5%). The decline in other item net was mainly caused by growth in restricted deposits by 10.4 billion riels (10.5%).

Net Foreign Assets of the Banking Sector

In May 2005, net foreign assets of the banking system continued to increase by 74.3 billion riels (1.5%) from 4,962.5 billion riels in April to 5,036.8 billion riels in the month under review. This was a result of an increase in foreign assets of 74.1 billion riels (1.3%) and a decrease in foreign liabilities of 0.2 billion riels (0.03%), in which, foreign assets of the central bank rose by 40.8 billion riels (0.9%) and foreign assets of deposit money banks rose by 33.3 billion riel (3.1 %). The growth in foreign assets of the central bank was mainly due to an increase in foreign exchange holding of 82 billion riels (74.3%) and other credit to nonresidents increase by 11.3 billion riels (0.7%) while monetary gold price declined by 19 billion riels (2.7%) and account with foreign banks and non bank institutions declined by 32.8 billion riels (2%). Te growth in foreign assets of deposit money banks was caused by an increase of foreign exchange holding by 50.2 billion riels (13.8%) and account with foreign banks increased by 3.3 billion riels (0.5%) while foreign bills increased by 20.2 billion riels (90.6%).

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 May 2005. Total assets of deposit money banks raised by 119.7 billion riels (2.4%) as compared to a rise of 100.7 billion riels (2.1%) a month earlier. This increase was due to a rise 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 47.5 billion riels (2.2%), 33.3 billion riels (3.1%), 27.4 billion riels (1.8%) and 10.9 billion riels (4.2%) respectively.

On the liability side, deposits by residents, which are major sources offunds of deposit money banks, rose by 100.1 billion riel (2.9%) mainly reflecting to an increase in foreign currency deposits of 88.8 billion riels (2.7%). In the meantime, other domestic liabilities and foreign liabilities increased by 12.6 billion riels (4.2%) and 7.6 billion riels (2.6%) respectively while capital and reserves decreased by 1.2 billion riel (0.1%).

Table 12 showed that total credit provided to the economy by all deposit money banks excluding central bank's branches recorded an increase of 47.5 billions riel (2.2%) in May 2005 compared to an increase of 88.9 billion riel (4.3%) in a month earlier. Figures on monthly changes indicated that eight sectors registered an increase in credit. Sector that showed the biggest increase in credit absorption in the month under review was manufacturing sector of 16.8 billion riels (6.8%). This was followed by an increase in credit to construction sector by 15.1 billion riels (12.8%), wholesale & retail by 10.9 billion riels (2.7%), service sector by 9.9 billion riel (1.3%), other sector including personal consumption by 7.4 billion riels (5.8%), real estate & public utilities by 4.1 billion riels (3.4%) and agriculture sector by 0.1 billion riels (0.2%). Whereas, import sector declined by 13.6 billion riels (8.8%) and finance sector 3.8 billion riels (4%).

Table 14 showed that deposit by residents and non-residents with deposit money banks excluding central bank's branches rose by 120.3 billion riels (3.4%) after having increased by 92.4 billion riels (2.7%) in the previous month. A rise in total deposits in the month under review resulted from both of growth in riel and foreign currency deposits by 8.1 billion riels (5.4%) and 112.2 billion riels (3.3%), respectively. The growth in riel deposits was mainly due to increase in fixed deposits by 4.3 billion riels (8.8%), followed by saving deposits, other deposits and demand deposits increased by 1.8 billion riel (3.2%), 1.3 billion riel (56.9%), and 0.7 billion riel (1.6%), respectively. The increase in foreign currency deposits was jointly caused by an increase in saving deposits by 65.6 billion riel (4.3%), demand deposits by 40.6 billion riels (4.9%) and fixed deposits by 6.6 billion riels (0.7%), while other deposits declined by 0.7 billion riels (1.4%).

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