



**KINGDOM OF CAMBODIA  
NATION RELIGION KING**

**NATIONAL BANK OF CAMBODIA**

# **ANNUAL REPORT 2007**

## ***Foreword by the Governor***

The year 2007 has again been another very challenging year for the global economy, especially the international banking community. Faced with a sub-prime mortgage crisis and an associated global credit crunch, several major central banks were obliged to conduct monetary easing and to intervene in the markets to provide the needed liquidity. However, due to generally strong fundamentals in various economies, the effects of this are expected to be minimal. According to the IMF World Economic Outlook, world growth is estimated to moderate slightly to 4.9 percent in 2007, compared with 5.0 percent in 2006. While activities in the major advanced economies indicate a slowdown, the emerging and developing economies are expected to continue strong expansion and should thus become a major driving force of global growth. In fact, growth in the United States is estimated at 2.2 percent in the reporting year, while growth in the Euro area is expected to slow to 2.6 percent. Japan's economy, on the other hand, is projected to record moderate growth of 1.9 percent. The higher growth in emerging Asian economies is expected to be driven by improved growth prospects for the People's Republic of China and for India, with annual expansion in real GDP currently estimated to reach around 10-11 percent for both countries. As for ASEAN-10, their economic activities are expected to remain buoyant as growth is expected to be reach around 7 percent for 2007.

Turning to Cambodia, the 2007 economic performance is projected to record a very respectable outcome. GDP is estimated to reach 26,723.1 billion Riel (\$US 6.5 billion) in real terms, a growth of 9.6 percent. Agriculture is expected to expand steadily, supported by good weather and the government's attention to this important sector. Industry will maintain a positive, somewhat smaller, growth compared to the year before due to increased competition in the garment sector, which now requires improvement in production efficiency. The services sector is projected to expand at about the same pace as last year, with the value-added variable in the finance sector growing by 22.2 percent.

In recognition of the pivotal role macroeconomic stability plays in growth, the National Bank of Cambodia remains proactive and prudent in implementing its mandates. A cautious monetary policy combined with a managed floating exchange rate regime and a prudently managed fiscal position has proven successful so far in bringing broad macroeconomic stability to the country. However, inflationary pressure became more visible during 2007, a result of the combined effect of local supply-side shocks, higher prices in the import countries for Cambodia, and the second round effects of energy price adjustments. Annual average inflation rose to 5.8

percent in December 2007. Meanwhile, currency outside banks grew only moderately, confirming that the recent high inflation did not originate from a monetary cause. The Riel exchange rate has remained largely stable over the course of the year, while the accumulation of international reserves, US\$ 1.6 billion at end 2007, was largely in line with growth momentum and was kept at the equivalent of three months of imports.

The National Bank of Cambodia remains committed to the maintenance of price stability as the principal objective of its monetary policy. Given the high degree of dollarization and the still underdeveloped structure of the domestic financial sector, the current monetary policy framework, which relies on a well-defined monetary program and eventual intervention in the foreign exchange market, has been deemed broadly appropriate in achieving the determined policy objective. Despite the important role of exchange rate stability in maintaining price stability, the monetary authority is determined not to implement an exchange rate targeting framework, but only to limit volatility in the dollar exchange rate and in doing so not resist adjustments that reflect shifts in underlying fundamentals, thereby achieving a realistic exchange rate for the Riel.

In moving forward with the current prudent monetary policy stance, the National Bank of Cambodia will continue to make efforts to promote increased use of the local currency by enhancing public confidence in the Riel. That is to say, we will maintain our stance of not taking measures to restrict the use of foreign currency. Moreover, we will consider possible strategies and develop a framework to lay the ground for developing more effective monetary and exchange policy instruments in the medium term.

Turning now to the second major role of NBC: leveraging the banking system. The banking sector is gaining strength on the back of the banking sector reforms outlined in the government's Financial Sector Development Strategy 2001-2010, which has recently been updated and extended through 2015. On the basis of capital adequacy, asset quality, earnings performance and liquidity, the overall financial condition and performance of the banking industry during the year has been satisfactory. Financial deepening has improved further, reaching nearly 25 percent in December 2007 from 20 percent in 2006. The level of nonperforming assets has been fairly low at 5.01 percent, given the rapid increase in private sector loans.

The basic BIS principles for banking supervision have been achieved. This achievement was not unexpected, but is the outcome of a deliberate and carefully designed program of

structural reforms undertaken over the last several years, some of them still ongoing. In this context, the prudential standards set for the banking system will continue to rise as we are fully committed to financial sector stability. Our intention is to introduce more extensive supervision and a stricter enforcement of prudential regulations to facilitate sound banking intermediation and reduce payment system risks in the financial sector.

In recognition of the recent rapid growth in credit to the private sector, we will remain vigilant of the potential risks of such development, while at the same time we will ensure compliance with all relevant prudential regulations. The recent launch of a Credit Information Sharing System is another innovative avenue that is expected to go a long way toward imposing discipline in the credit market. As we move forward, this system will be extended to provide the MFIs the opportunity to benefit from such infrastructure. Also under consideration, once the time arrives, is upgrading to a full-fledged credit information bureau that will in the long term play a catalytic role in upgrading the quality of Cambodia's financial sector.

On the legal framework side, mindful of the serious adverse effects money laundering imposes on the economy and society if left unchecked, soon after the AML/CFT law was adopted earlier this year, NBC has embarked on the necessary preparation to ensure successful implementation of the new law. This includes among other measures the drafting of sub-decrees and regulations, the establishment of the Financial Intelligence Unit, and educating the public. The Law on Financial Leasing is also in the process of finalization.

NBC is also placing greater emphasis on the development of a national payment system, focusing primarily on the need to achieve an efficient, safe and reliable payments infrastructure. Following the adoption of the Law on Negotiable Instruments and Payment Transactions, an MOU was established between NBC and the commercial banks, effectively an official endorsement of the roadmap to modernize the payment and settlement system in Cambodia. Appropriate institutional infrastructure is being developed alongside the adoption of the necessary technology to achieve real time gross settlement in the future. Closely related to this endeavor is the IT architectural model that will computerize and integrate key operating functions of NBC, thus enhancing efficiency in central bank operations.

Another issue that I wish to highlight in this important report is that even as we have strived to forge an efficient and modern financial system, the access of the poor to the financial system has been our constant special priority. Indeed, the success of microfinance so far has been

the pride of the authorities. We will continue to enhance our supervision and regulation of MFIs, encourage best practices in their operations, further support their institutional capacity building, and promote links between banks and MFIs. Our vision remains to create a viable, pro-poor and effective microfinance system that will provide affordable financial services to enable the poor to enhance their incomes and reduce poverty.

Furthermore, developing human resources has been and will remain part of our commitment to improving overall efficiency in central bank operations.

To conclude, I would like to express my sincere thanks to the Royal Government of Cambodia, all ministries and institutions in the government for their valuable support to NBC so far, and to all development partners for their active contributions that allow our financial sector to benefit, especially technology transfer from abroad and expert technical assistance. We trust that we can continue to count on your kind assistance and involvement while we forge ahead with the implementation of the Financial Sector Development Plan 2016-2015.

Finally, I wish to take this opportunity to deliver my appreciation to the Board of Governors and NBC's staff for contributing to the achievements described above and elsewhere in this report. Without their commitment and hard work these achievements would not have been realized.

# CONTENTS

	Page
Introduction	1
I. Macroeconomic Development	2
1. Prices and Exchange Rate Movements	2
1.1. Retail Prices and Inflation	2
1.2. Exchange Rate Movements	4
1.2.1. The Exchange Rate of Riel against the US dollar	4
1.2.2. The Exchange Rate of Riel against Currencies other than US dollar	6
2. Monetary Development	7
2.1. Monetary Aggregates	8
2.2. Factors Affecting Money Supply	10
2.2.1. Financial Operations of NBC	10
2.2.2. Financial Operations of Deposit Money Banks	11
2.3. Interest Rates on Loans and Deposits of Deposit Money Banks	12
3. Balance of Payments	13
3.1. Current Account (excluding Official transfers)	13
3.2. Capital and Financial Account	15
4. Foreign Reserve Management	16
4.1. Investment of Foreign Reserves	16
4.2. Intervention in Foreign Exchange Market	17
4.3. Management of Gold and Foreign Exchange Business	17
5. Participation with Banking and Financial Institutions	18
5.1. Banking Supervision	18
5.1.1. Off-site Supervision	18
5.1.2. On-site Supervision	19
5.2. Microfinance Institutions' Supervision	19

5.3. Regulations	20
5.4. Licensing and Registration	20
5.5. Combating money laundering and financing of terrorism	21
5.5.1 APG membership and the Mutual Evaluation	21
5.5.2. Laws and Regulations	21
6. The Services of the Central Bank	22
6.1. Account Management	22
6.1.1. Government's Accounts management	22
6.1.2. Repository of accounts for bank and financial institutions	22
6.2. Clearing house activities	23
6.2.1. Clearing and settlement of Riel-denominated checks	23
6.2.2. Clearing and settlement of USD-denominated checks	23
6.3. Lending activities	23
7. Management of circulation of bank notes	24
II. Internal Management of NBC	25
1. The activities of the Board of Directors	25
2. Human Resource Development	26
2.1. Staff Statistics	26
2.2. Training	26
3. Internal Audit	27
4. Management of NBC Branches	28
III. International Relations	29
1. Multilateral Relations	29
1.1. Relations with International Monetary Fund	29
1.2. Relations with the Asian Development Bank	30
1.3. Relations with ASEAN	31
1.4. Relations with SEACEN	32
1.5. Relations with Asia-Pacific Group (APG)	33
1.6. Relations with APRACA	34
2. Bilateral Relation	34

Conclusion	35
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## List of Figures

Chart 1	Trend Consumer Price Index	2
Chart 2	Annual Inflation, twelve month basis	3
Chart 3	Comparisons of inflation movement	4
Chart 4	Movements of the major group index	4
Chart 5	Riel exchange rate against US dollar trend	5
Chart 6	Currency against KHR	7
Chart 7	Money Supply	8
Chart 8	Composition of Money Supply	9
Chart 9	Banks' Credit by type of business activity	12
Chart 10	Loan and Deposit Interest rates	13
Chart 11	Balance of Trade	14
Chart 12	Balance of Payments	15
Chart 13	Flow of Foreign Investments	16

## List of Appendixes

Appendix 1	Consumer Price Index (CPI)	37
Appendix 2	Consumer Price Index (CPI) 2003-2007	38
Appendix 3	Some ASEAN and European Currencies against Khmer Riel	39
Appendix 4	Monetary Survey (in million of riels)	40
Appendix 5	Monetary Survey (annual percentage change)	41
Appendix 6	Monetary Authority	42
Appendix 7	Deposit Money Banks	43
Appendix 8	Credit and Deposits Granted by Commercial Banks Classified by Type of Business	44
Appendix 9	Cambodia : Balance of Payments Statistics 2003-2007	45



## *Introduction*

As financial markets in major advanced economies were rocked by turbulence and the re-pricing of risks, giving rise to an eventual global slowdown, fears mounted that a possible export market contraction could devastate certain developing countries.

The good news, however, is that despite this and other serious challenges, Cambodia managed to maintain macroeconomic stability at a reasonable level in 2007. According to current available data, it is very likely that the Cambodian economy will attain a growth rate of 9.6 percent this year. The country's international reserves increased by nearly 33.3 percent. External transactions remained robust as domestic exports, imports and FDI grew significantly, and the balance of payments continued to record a surplus. Migrant worker remittances reached its highest-ever level of about US\$ 332 million and increasingly became one of the important sources of Cambodia's foreign exchange earnings. These achievements by any standard are quite significant, in the light of several major challenges faced by the country during 2007. The unfavorable supply situation in the domestic market, the imported inflation, and the unprecedented high international oil prices all left their mark on the economy in the reporting year. Facing these challenges, NBC has been prudent in its economic management, struggling to strike a proper balance between providing short-term economic stimuli by raising money and credit and maintaining price stability. Any stimulus provided by the central bank was, therefore, practiced cautiously and with due regard to its potential impact on price stability.

Meanwhile, the robustness of the macroeconomy coupled with sound supervision and oversight and the continuation of a safe though embryonic payment and settlement system contributed to the soundness of the financial sector in Cambodia. There are no imminent threats endangering its stability, though certain possible risks remain that are being attended to by the relevant authorities. Enhancing the supervisory framework and capacity is an ongoing task at NBC. In addition, banking institutions are also being encouraged to improve their compliance with laws and regulations, including the disclosure requirement, and to strengthen their risk management.

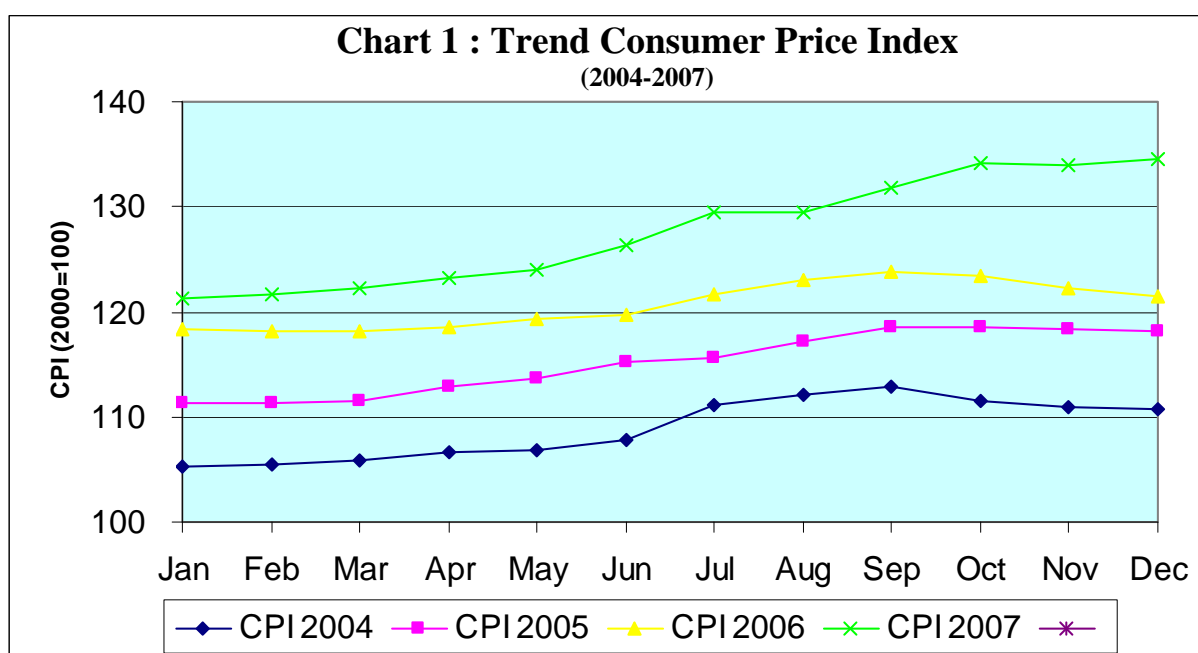
As the central bank, NBC remains deeply committed to contributing to the prosperity of our country and poverty alleviation. We will direct our full efforts toward these goals.

## I. Macroeconomic Developments

### 1. Prices and Exchange Rate Movements

#### 1.1. Retail Prices and Inflation

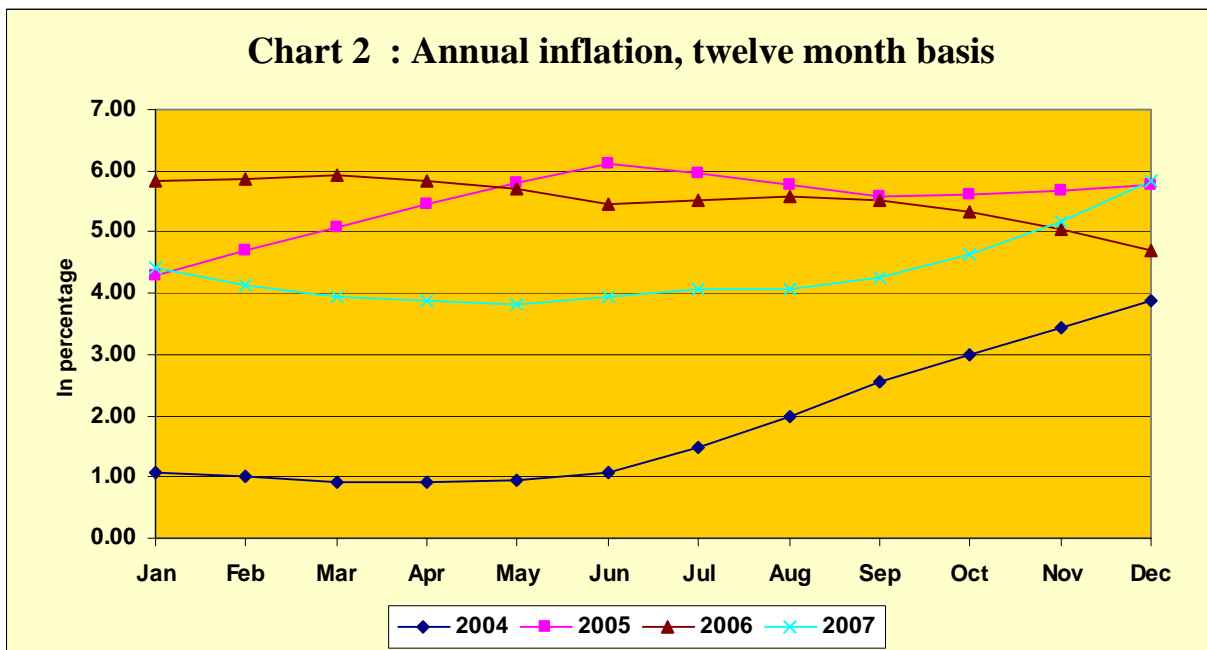
The movements of the monthly consumer price index showed a continuous upward trend throughout the entire year of 2007, except for January and November. In comparison with 2006, this year's consumer price index (CPI) accelerated rapidly, due mainly to the sharp increase in the major group index of Food, Beverages & Tobacco. The major group index of Transportation & Telecommunication contributed only slightly to the increase in the overall CPI. However the hike of world oil prices may have had a considerable secondary effect on the food sub-index.

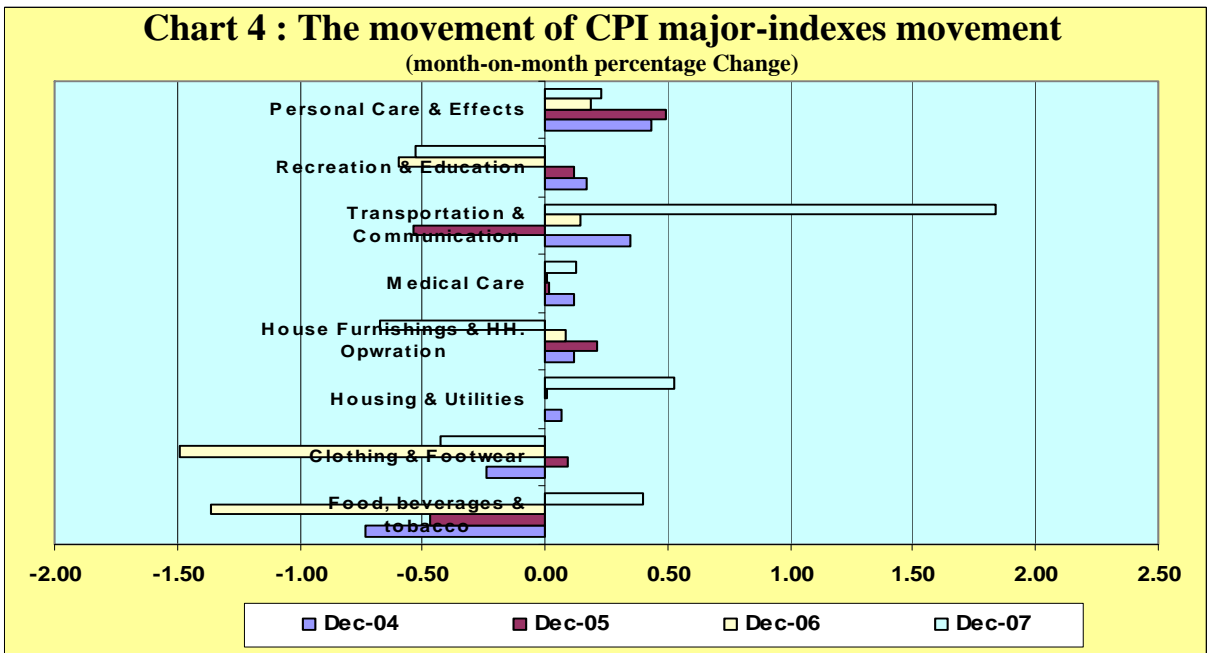
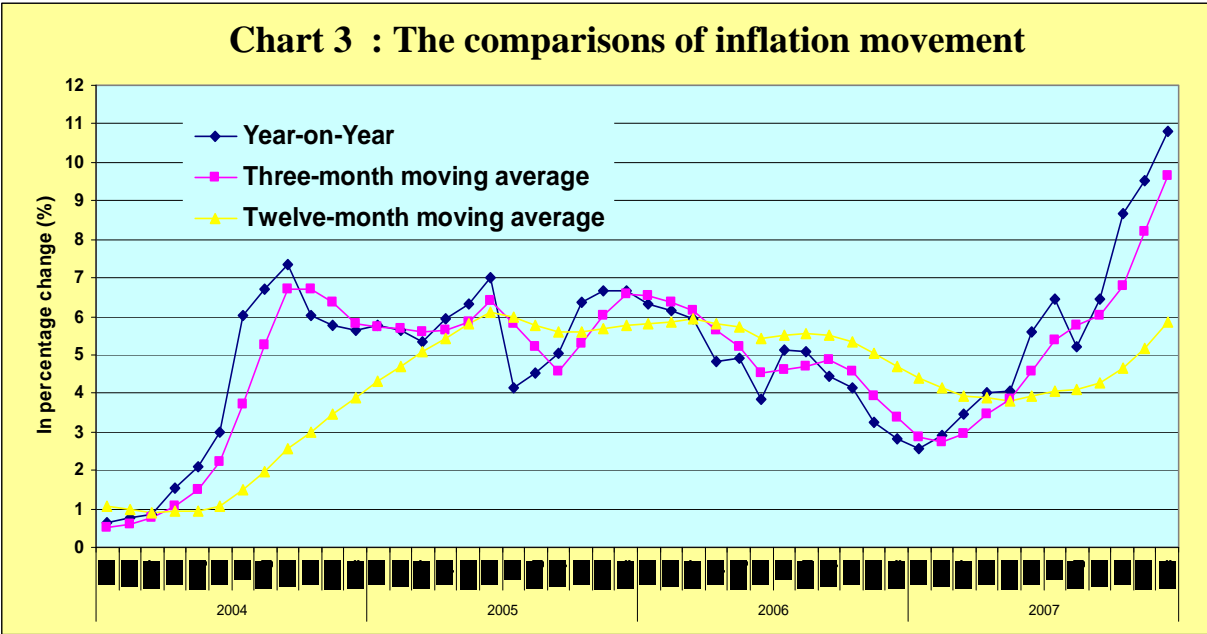


The consumer price index rose gradually from January to reach a year-on-year change of 10.8 percent in December, compared to the annual inflation rates of 2.8 percent and 6.7 percent recorded in 2006 and 2005, respectively. All eight major group indices recorded positive changes, with the major group index of Food, Beverages & Tobacco posting the largest surge (19.8 percent). This was followed by Transports and Telecommunication at 13.05 percent, Medical Care and House Furnishing at 5.5 percent, Households Operations at 5.4 percent, and Clothing & Footwear at 4.6 percent. The three remaining major group indices recorded moderate positive growth between 0.3-1.6 percent.

It should be noted that of the 10.7 percent year-on-year inflation rate for 2007, among others, Food, Beverages & Tobacco accounted for 8.4 percentage points; Transportation & Telecommunication 1.1 percentage points and Housing & Utilities 0.5 percentage point. The sharp rise in the price of food was due to a combination of high world oil and other commodity prices, imported inflation, the weak USD, and especially the tight domestic supply, which was intensified by the increase in local demand associated with rising property prices. During the year, pump prices for all kinds of fuels sold in the domestic market increased continuously, with the price of gasoline, diesel fuel, and motor oil up by 10.1 percent, 18.2 percent, and 26.9 percent, respectively.

Considering the twelve-month moving average CPI, the annual change for the months in 2007 appeared to point to a better performance than those months in 2006, since the annual change of each month CPI in 2007 fluctuated between 3.8 percent and 5.8 percent, while the inflation rate for the same period of the last year moved between 4.7 percent and 5.9 percent. The average annualized inflation for 2007 was thus 4.3 percent, against 5.5 percent a year earlier.



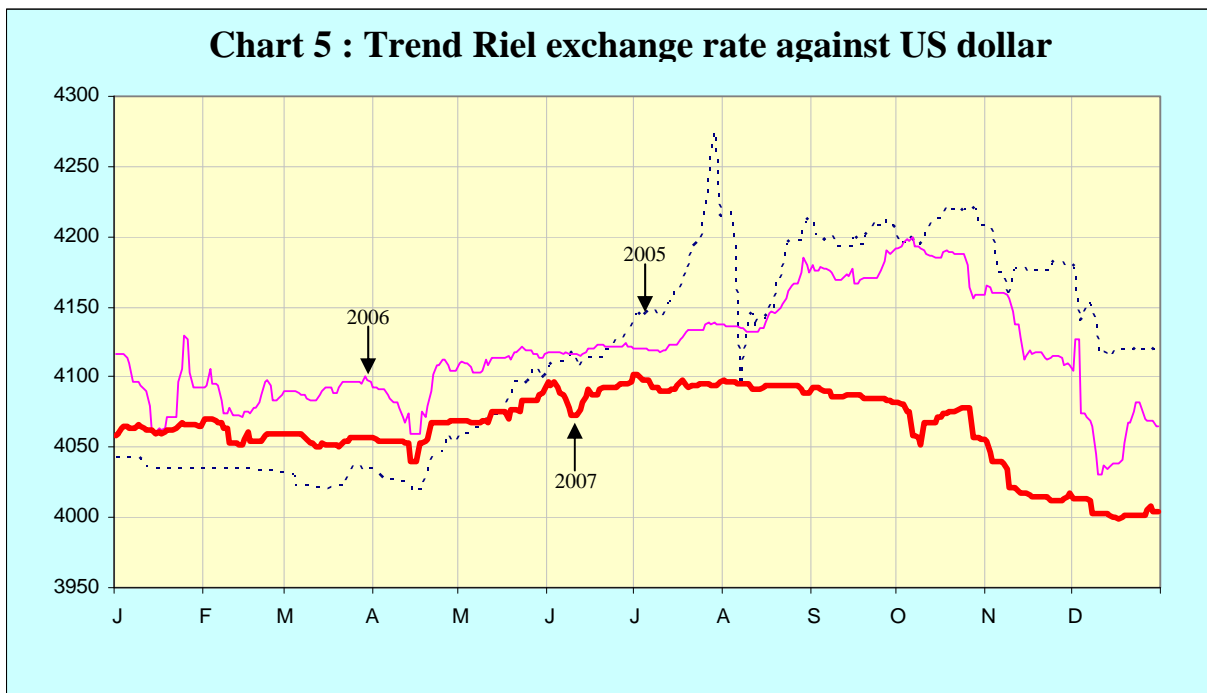


## 1.2. Exchange Rate Movements

### 1.2.1. The Exchange Rates of Riel against the US dollar

On the whole, the value of Riel measured by the market purchase rate remained broadly stable, moving within the range of 4,000 Riel and 4,096 Riel per US dollar. The Riel exchange rate even showed a slight appreciation in the period toward the end of the year. In the second half of 2007, the Riel was traded at the average rate of 4,053 Riel per US dollar, as compared to 4,134 Riel in the same period of the previous year. Based on a year on year basis,

the Riel gained value by 1.4 percent against the US dollar as the market exchange rate went down from 4,058 Riel per US dollar at the end of 2006 to 4,000 Riel per US dollar at the end of 2007. The appreciation of the Riel could be explained as a seasonal phenomenon because exporters and local traders usually needed the national currency in large amounts to purchase agricultural products from the farmers in the harvest season. The various traditional celebrations in the year-end period also represented another seasonal factor. Apart from this, private companies increased their demand for Riel for paying their tax obligations as well. In addition, it should also be noted that almost throughout 2007, the US dollar was under pressure, weakening against major foreign currencies in the world, including those of the Asian region.



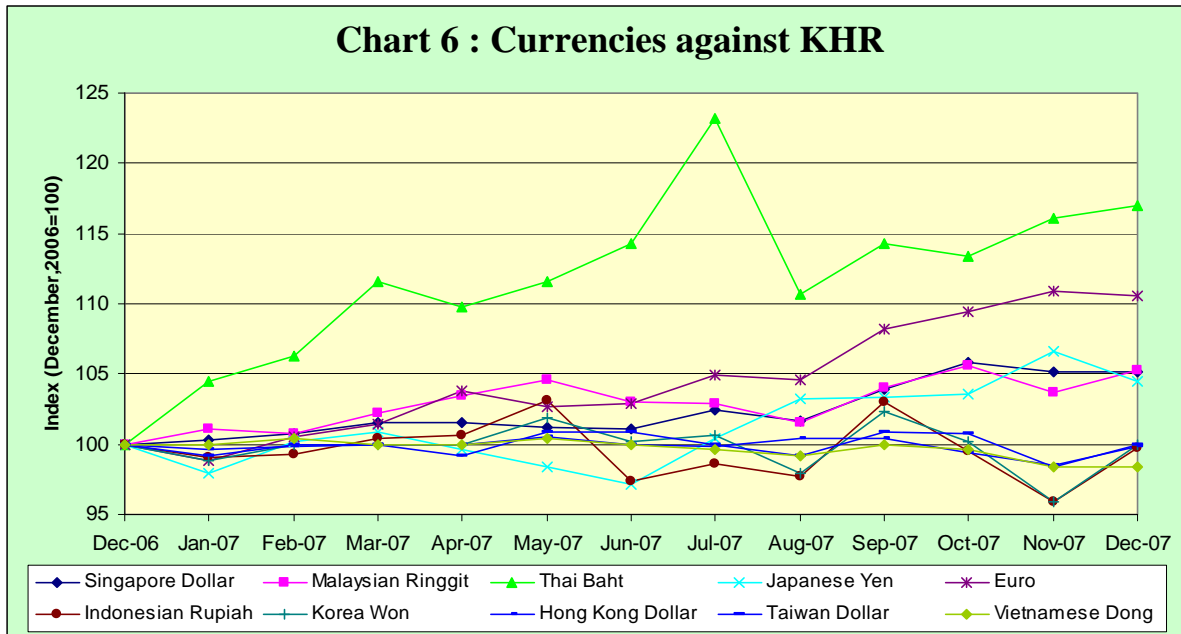
**Table 1 : Riel Exchange Rate against US Dollar**

	Monthly Exchange Rate (End month)					
	Market Rate			Official Rate		
	Purchase	Sale	Midpoint	Purchase	Sale	Midpoint
Dec-06	4,058	4,072	4,065	4,057	4,065	4,061
Jan-07	4,065	4,075	4,070	4,064	4,072	4,068
Feb-07	4,059	4,068	4,064	4,057	4,065	4,061
Mar-07	4,057	4,065	4,061	4,055	4,063	4,059
Apr-07	4,069	4,077	4,073	4,062	4,070	4,066
May-07	4,091	4,099	4,095	4,077	4,085	4,081
Jun-07	4,096	4,107	4,102	4,082	4,090	4,086
Jul-07	4,092	4,101	4,097	4,077	4,085	4,081
Aug-07	4,084	4,093	4,089	4,080	4,088	4,084
Sep-07	4,078	4,086	4,082	4,075	4,083	4,079
Oct-07	4,052	4,054	4,056	4,048	4,056	4,052
Nov-07	4,013	4,022	4,018	4,002	4,010	4,006
Dec-07	4,000	4,008	4,004	3,999	4,007	4,003

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

Based on the cross-exchange rate, the comparison of the Riel exchange rate with a number of selected foreign currencies, especially the currencies of Cambodia's trading partner countries, showed that in 2007 the Riel depreciated by 16.9 percent, 10.6 percent, 5.23 percent, 5.13 percent, 4.5 percent against Thai baht, Euro, Malaysian Ringgit, Singapore dollar, and Japanese Yen, respectively. In the meantime, the Riel appreciated by 5.4 percent, 2.0 percent, 1.7 percent, 1.6 percent, and 0.8 percent against Indonesia Rupiah, Korean Won, Hong Kong dollar, Vietnamese dong, and Taiwan dollar, respectively. This movement was not surprising in view of the high degree of dollarization in the Cambodian economy and the weakness of the US dollar in the international foreign exchange market. In particular, toward the end of the reporting year, the US dollar was under greater pressure against the Euro and experienced a large depreciation against the Thai baht, Australian Dollar, Chinese Yuan,

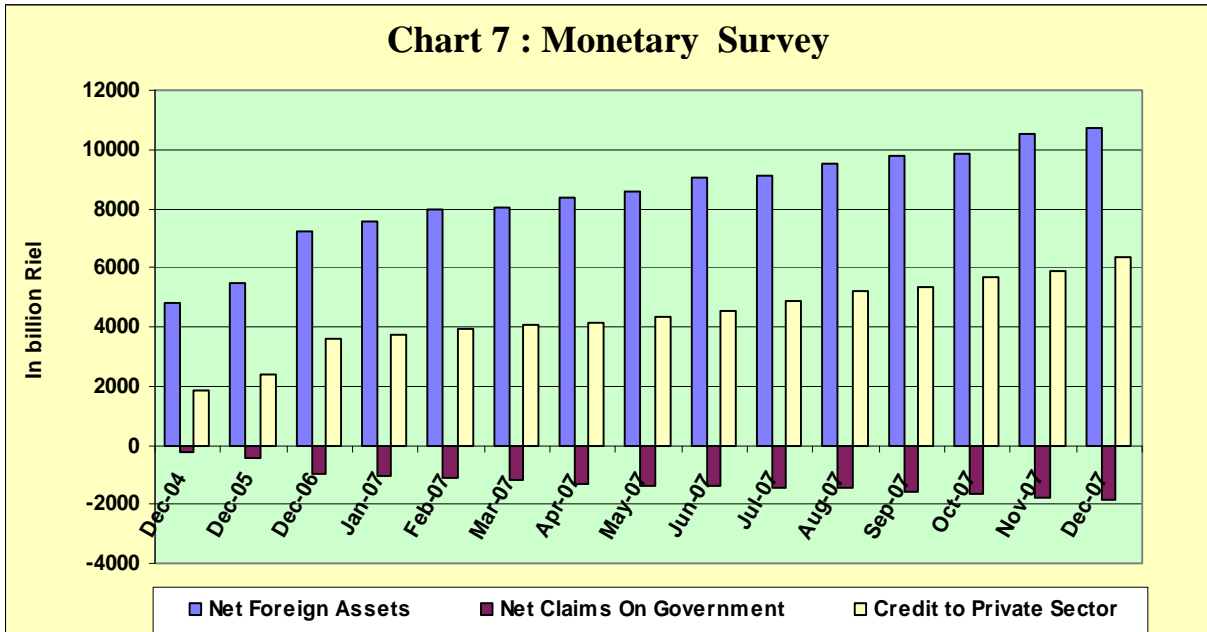
Singapore dollar, and Hong Kong Dollar despite the fact that a number of central banks have actively intervened in the foreign exchange markets in order to slow down the appreciating pressure on their currencies.



## 2. Monetary Development

The pace of monetary growth quickened during the reporting year as the net foreign assets of the banking system and net domestic assets both increased. The level of net domestic assets, a negative sign for many years, reversed its trend in 2007. The positive position of net domestic assets was mainly attributable to a remarkable surge in domestic credit, particularly loans to the non-bank private sector. Such growth was in turn accompanied by an increase at approximately the same pace as foreign currency deposits. Meanwhile, local currency outside banks recorded a steady growth compared to the previous year.

On the whole, this year's monetary development was characterized by a further increase in public, local business, and foreign investor confidence in the Cambodian economy and the banking sector. It also mirrored the increasing use of banking services and the deepening of financial intermediation within the economy with the rising number of financial services providers, the continuous modernization of the payment services in several large commercial banks, and the encouragement by the government to use the banking services under the public finance management reform.



## 2.1. Monetary Aggregates

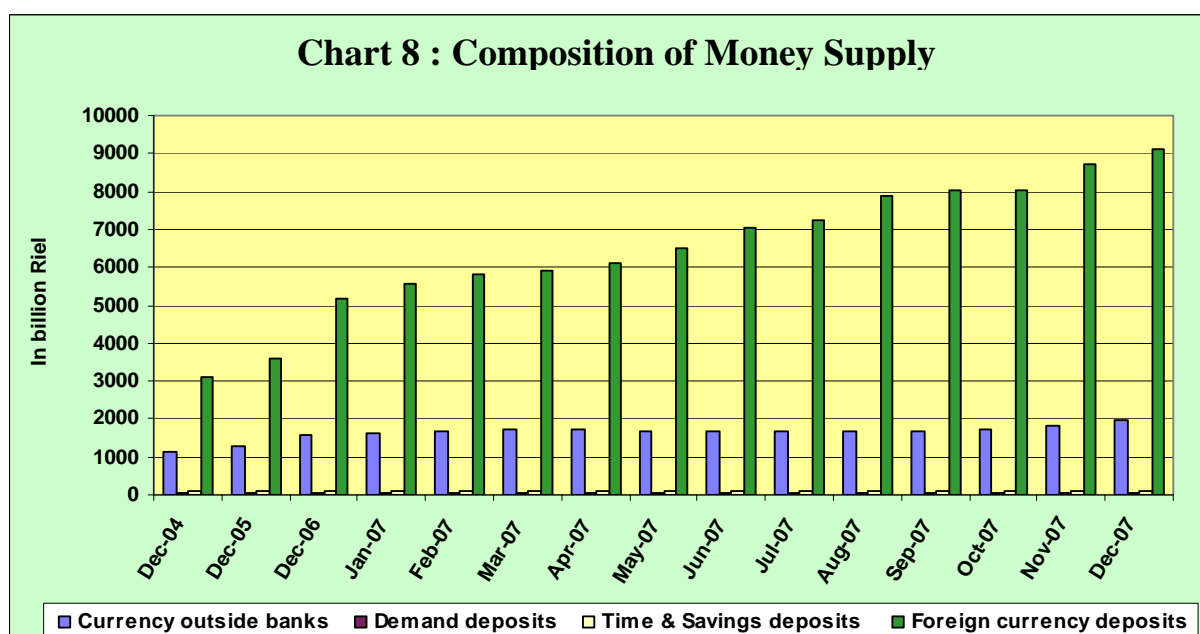
After gaining 38.2 percent in the preceding year, broad money (M2) expanded at a faster pace during the reviewed year, rising by 4,368.4 billion Riel (62.9 percent) from 6,942.3 billion Riel in December 2006 to 11,310.7 billion Riel in December 2007. This increase reflected expansions in both narrow money (M1) and quasi money.

Narrow money (M1), which accounted for about 18 percent of M2, grew by 23.8 percent during 2007. Currency outside the banking system rose by 390.2 billion Riel (24.4 percent) compared to the growth of 317.4 billion Riel (24.8 percent) recorded a year ago. It should be noted that the increase in the currency outside banks during the year under consideration occurred at a time when the exchange rate of the national currency remained broadly stable, reflecting the growing demand for local currency for transactions during 2007. Meanwhile, deposits denominated in local currency and withdrawable on demand accelerated only slightly, up by 7.1 percent as against a 43 percent increase in the preceding year, which may be explained by the enhanced public awareness of the opportunity cost of maintaining this type of savings.

Quasi-money, which constitutes local currency in fixed & savings deposits and foreign currency deposits, recorded a sharp increase to reach more than 1.7 times the level recorded at the end of 2006. Local currency in fixed & savings deposits contributed to this change with a growth of 32.4 billion Riel (36.6 percent). However, for the most part the rise in quasi-money was attributable to the growth in residents' foreign currency deposits. This



item was up by 3,941.7 billion Riel (75.9 percent), the highest growth rate in more than a decade. The considerable pick-up in the growth of this latter item reflected the growth of 2.293,7 billion Riel (103.1 percent), 949.8 billion Riel (52.4 percent), 919.2 billion Riel (66 percent) in savings, fixed, and demand deposits denominated in foreign currency, respectively. The monthly data for 2007 showed that foreign currency deposits posted a positive growth for almost every month, except for October, where a slight decrease was observed.



**Table 2 : Percent Change & CPI**

	2002	2003	2004	2005	2006	2007
Net claims on government	-58.8%	-7.4%	-63.1%	-101.8%	-126.4%	-90.5%
Credit of private sector	13.1%	26.2%	35.9%	31.8%	51.6%	76%
Liquidity (M2)	31.1%	15.3%	30%	16.1%	38.2%	62.9%
Currency outside banks	32.6%	18.6%	22.7%	15%	24.8%	24.4%
Inflation rate (y-o-y)	3.31%	1.15%	3.87%	5.78%	4.71%	5.84%

## **2.2. Factors affecting Money Supply**

The strong monetary expansion during 2007 reflected a substantial increase in the net foreign assets of the banking system coupled with a large rise in net domestic assets, which rose by 3,510.4 billion Riel (48.6 percent) and 858 billion Riel (304.2 percent), respectively. The high growth in net domestic assets was driven entirely by an increase in net domestic credit, which was partly offset by a decline in other items (net) as a result of a surge in banks' capital amounting to 1,070.6 billion Riel (33 percent).

Net domestic credit expanded considerably in 2007, with credit demand rising as economic growth continued and future economic prospects continued to look promising. The annual rate of net domestic credit growth accelerated to 70.7 percent, from 35.7 percent in 2006. This rise was solely attributable to strong growth in claims on private sector, which went up by 76 percent on a year-on-year basis and thus represented the highest-ever rate observed in recent years. In contrast, a 90.5 percent drop in net claims on the central government had a dampening effect on domestic credit growth.

With regard to the distribution of credit, this year's credit growth was fuelled mainly by further lending to a number of promising sectors, which showed the following growth on the outstanding balance in 2006 : services, 657.2 billion Riel (57.4 percent); wholesale and retail, 587.8 billion Riel (75 percent); personal consumption, 573.9 billion Riel (407.7 percent); construction, 370.8 billion Riel (137.4 percent); manufacturing, 214.9 billion Riel (52.4 percent); real estate & public utilities, 196.6 billion Riel (65.8 percent); and agriculture, 156.6 billion Riel (105 percent).

### **2.2.1. Financial Operations of NBC**

The monetary base (M0) expanded by 1635.4 billion Riel, or 48.3 percent, during 2007, driven largely by bank deposits placed with NBC. The latter increased by 1232.2 billion Riel, or 71.3 percent, mainly because rising customer deposits drove an increase in the minimum reserve requirement and other deposits with the central bank, while at the same time four new banks entered the system. In parallel, currency outside banks added 390.2 billion Riel, or 24.4 percent.

This year's increase in the monetary base could be traced to rises in NBC's net assets. The expansion in M0 stemmed mainly from a sharp increase in NBC's net foreign assets, while growth in government deposits exercised a dampening effect on M0. In fact, the net

domestic assets of NBC in 2007 decreased by 1,214.9 billion Riel (51.8 percent) from -2,345.9 billion Riel in December 2006 to -3,560.9 billion Riel in December 2007 after having declined by 549.4 billion Riel (30.6 percent) in 2006. The drop in net domestic assets resulted mainly from the reductions in net claims on government of 825.1 billion Riel (102.2 percent), coupled with a fall in other items(net) of 330.4 billion Riel (22.8 percent). The reduction in net claims on government was due to a rise in government deposits of 835.4 billion Riel (76.4 percent), whereas claims on government rose only by 10.3 billion Riel (3.6 percent).

During 2007, the net foreign assets of NBC recorded a significant rise of 2,850.4 billion Riel (49.8 percent), reflecting the central bank's active interventions in the domestic foreign exchange market. The rise in the price of gold also contributed to the increase in the market value of NBC's foreign assets.

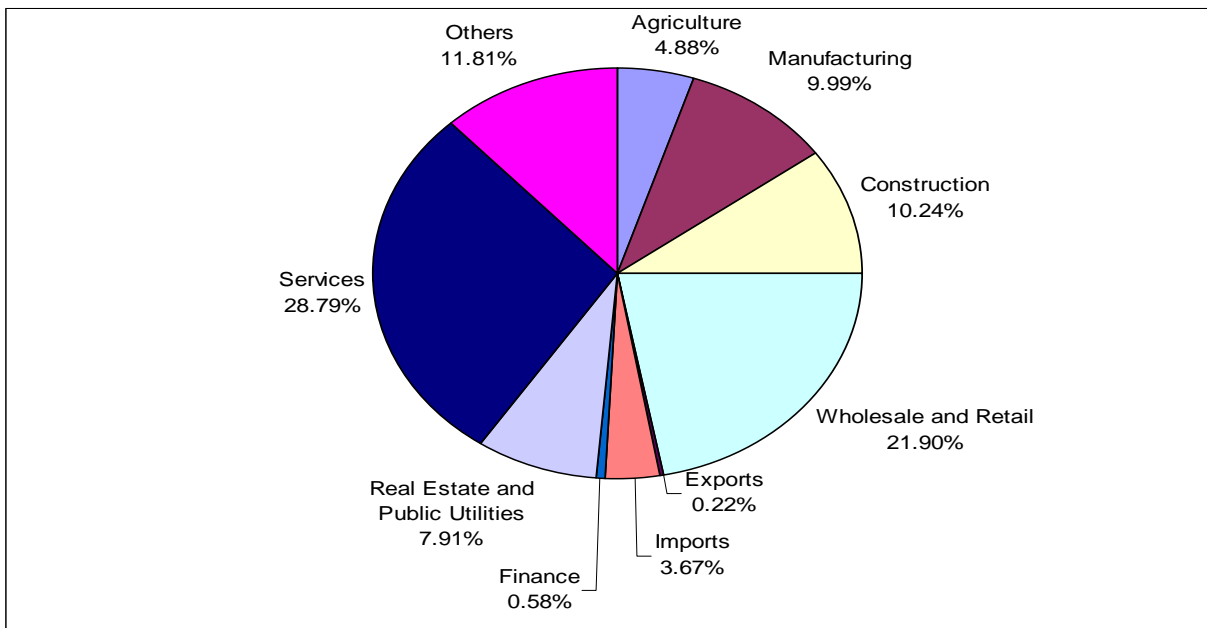
### **2.2.2. Financial Operations of Deposit Money Banks**

In 2007, the total assets of deposit money banks grew by 5,579.4 billion Riel (70.1 percent). Net domestic assets grew by 2,058 billion Riel (104.9 percent), mirroring an increase of 2,757.1 billion Riel (76 percent) in credit to the private sector – which more than offset the increase in banks' capital and the decline in net claims of government of 679 billion Riel (46.9 percent) and 37.5 billion Riel (25.6 percent), respectively. The increase in banks' capital was mainly a result of the expansion of the banking community as four new banks recently started their operations in Cambodia. These banks were Cambodian Development Specialized Bank, Prosperity Investment Specialized Bank, Camko Bank and Shinhan Khmer Bank.

During the review year, commercial bank deposits at NBC rose by 1,247.2 billion Riel (67.9 percent) to reach 3,085.1 billion Riel at the end of the year. Meanwhile, residents' foreign currency deposits, a key component of banks' domestic liabilities, went up by 3,941.7 billion Riel (75.9 percent), whereas fixed & savings and demand deposits rose by 32.4 billion Riel (36.6 percent) and 8.6 billion Riel (21 percent), respectively.

Net foreign assets of deposit money banks surged by 660 billion Riel (44.1 percent), from 1,495.6 billion in December 2006 to 2,155.6 billion Riel in December 2007. This growth could be explained by an increase of 1,389.9 billion (72.3 percent) in foreign assets, which was partly offset by a rise in foreign liabilities of 729.9 billion (171.5 percent).

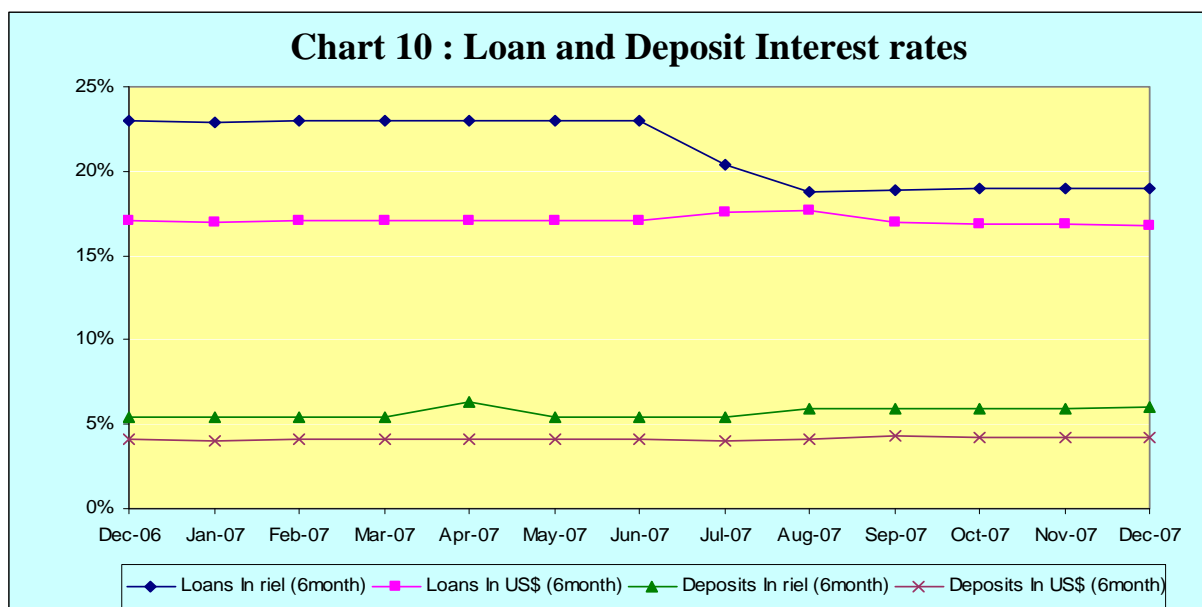
**Chart 9 : Banks' credit by type of business activity**



### **2.3. Interest Rates on Loans and Deposits of Deposit Money Banks**

In line with the government policy of promoting a market-oriented economy, NBC has not taken any administrative measures to control interest rates that involved the operations of commercial banks, specialized banks or microfinance operators. There is thus no floor or ceiling on a bank's interest rates. NBC has not exercised a direct influence on the price of bank loans or deposits, nor on the distribution of credit within the Cambodian economy. Therefore, banking institutions are free to decide on their loan portfolios in accordance with each bank's own credit and risk management policies.

The year 2007 saw a downward trend in the spread between the weighted average interest rates on loans and deposits denominated in domestic currency as well as in foreign currencies. As for loans and deposits with a maturity of six months, the interest rate on US dollar loans dropped by 17.03 percent in December 2006 to 16.77 percent in December 2007, whereas the interest rate on loans in Cambodian Riel went down appreciably from 23.04 percent at the end of 2006 to 19.01 percent at the end of the reporting year. In the meantime, interest rates on deposits in US dollars and in Cambodian Riel rose to 4.23 percent and 6 percent in December 2007, from 4.13 percent and 5.4 percent, respectively, at the end of the preceding year.



### 3. Balance of Payments

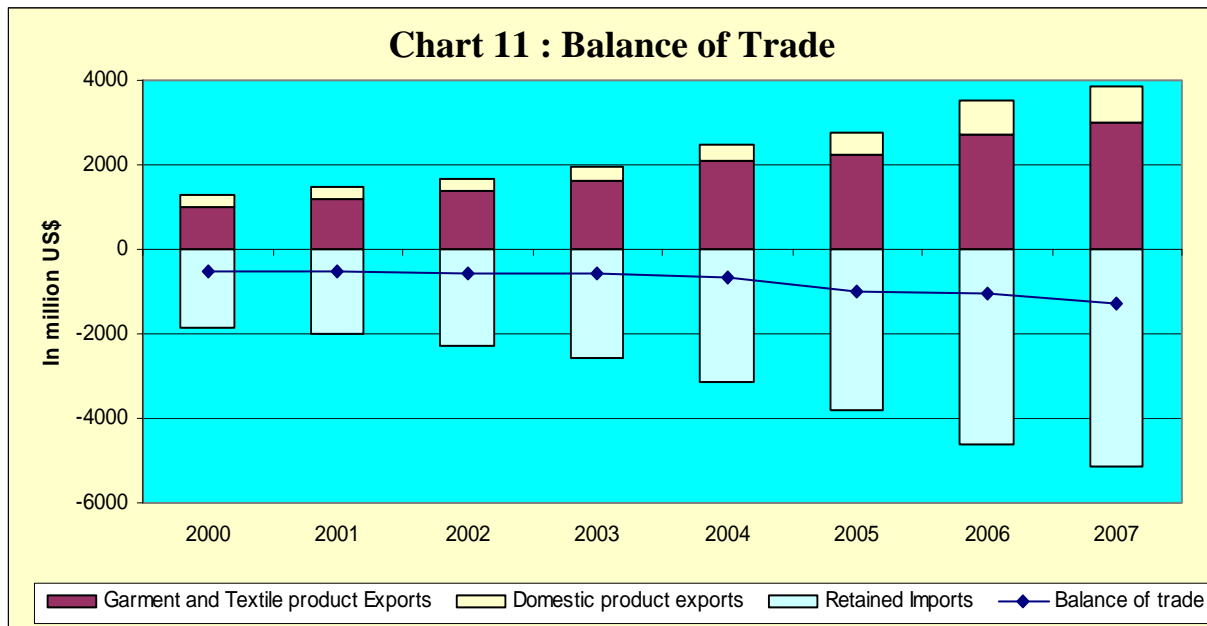
The preliminary estimates of the balance of payments of Cambodia for the year 2007 showed an overall balance of US\$ 290 million, an increase of US\$ 88 million compared to 2006. The increased surplus resulted mainly from an increase in the capital and financial account balance of US\$ 93.9 million (12 percent), coupled with a decrease in the current account deficit (excluding official transfers) of US\$ 46.2 million (8.8 percent). Consequently, the ratio of the current account deficit (excluding official transfers) to GDP went down to 7.2 percent in 2007, against 9.4 percent in the preceding year.

#### 3.1. Current Account (excluding official transfers)

The current account deficit was estimated at US\$ 571.2 million in 2007, an increase of 8.8 percent on the 2006 deficit. The increase in the trade deficit of 20.3 percent was the main factor explaining the escalation in the current account deficit. At the same time, the increase in net service surplus of 27.1 percent and the decrease in net income deficit of 4.7 percent caused a dampening effect on the rise in the current account deficit.

In 2007, domestic exports amounted to US\$ 3,856.8 million, an increase of US\$ 319.6 (9 percent) compared to 2006. This increase was mainly driven by the upsurge in the value of garment exports of US\$ 287.8 million (10.6 percent), which was higher than 2005's growth, but 1.6 times less than growth in 2006. Cambodia's compliance with global standards on labor conditions and the relatively low wages in the garment sector continued to be supportive for the industry. However, in order to successfully confront the challenges arising

from global and regional competition, including those posed by China and Vietnam, Cambodia will need to further improve the industry's efficiency. It should be noted that garment exports remained the leading component, accounting for 78.2 percent of Cambodia's domestic exports in 2007. In the same period, other domestic exports rose by US\$ 31.8 million (4 percent) compared to 2006, reflecting the increased exportation of rice, furniture and other agricultural products.



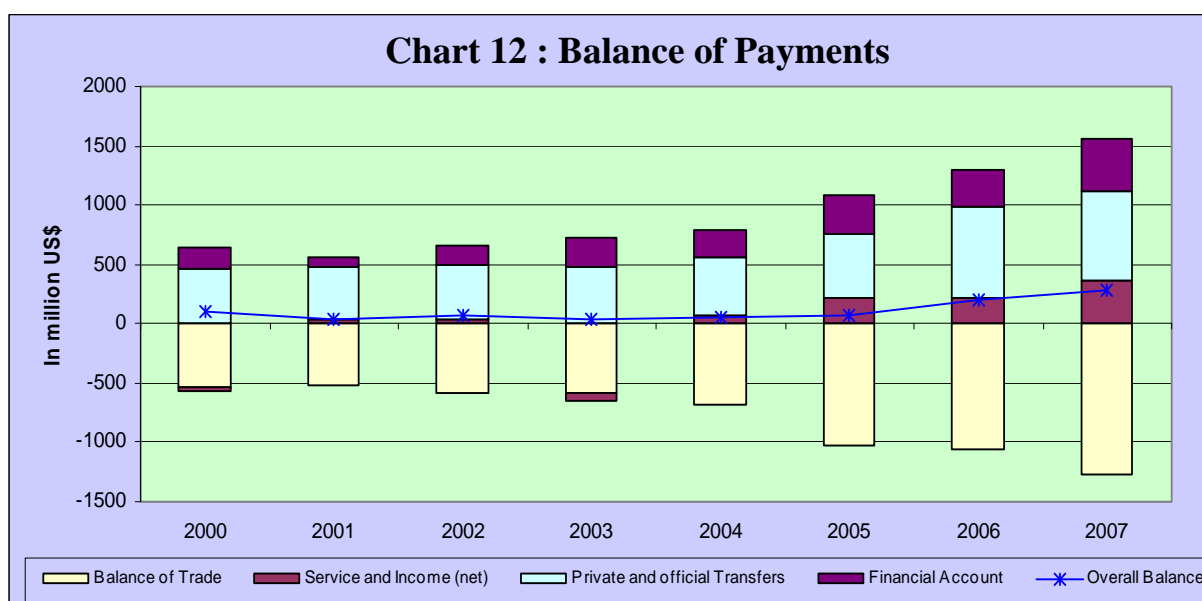
In 2007, retained imports were estimated at US\$ 5,143 million, an increase of US\$ 529.4 million (11.5 percent) compared to 2006. The main contributor to this increase was a rise in the value of petroleum imports of US\$ 132.9 million (11.8 percent). The value of fuel imports accounted for 24.4 percent of retained imports. In addition, the importation of raw materials for the garment industry grew by 8.5 percent, while other retained imports were up by 13 percent.

During the same period, the net services account surplus reached US\$ 643.9 million, a rise of US\$ 137.5million (27.1 percent) on the surplus in 2006. This increase was the result of service receipts exceeding service payments to non-residents. Tourism receipts and proceeds from transportation services were the main contributors to this increase. This reporting year saw the number of foreign visitor arrivals in Cambodia increasing to 2,032,754 compared to 1,700,041 in 2006, reflecting the growing popularity of Cambodia as a tourist destination. The estimated deficit on the income account was US\$ 276.7 million, a decrease of US\$ 13.7 (4.7 percent) from the deficit in 2006. This fall was mainly attributable to a decrease in

income remittances to non-residents' shareholders. Meanwhile, net private transfers were estimated to be a surplus of US\$ 332 million, up by US\$ 16.9 million (5.4 percent) on 2006, mirroring remittances from Cambodian workers abroad.

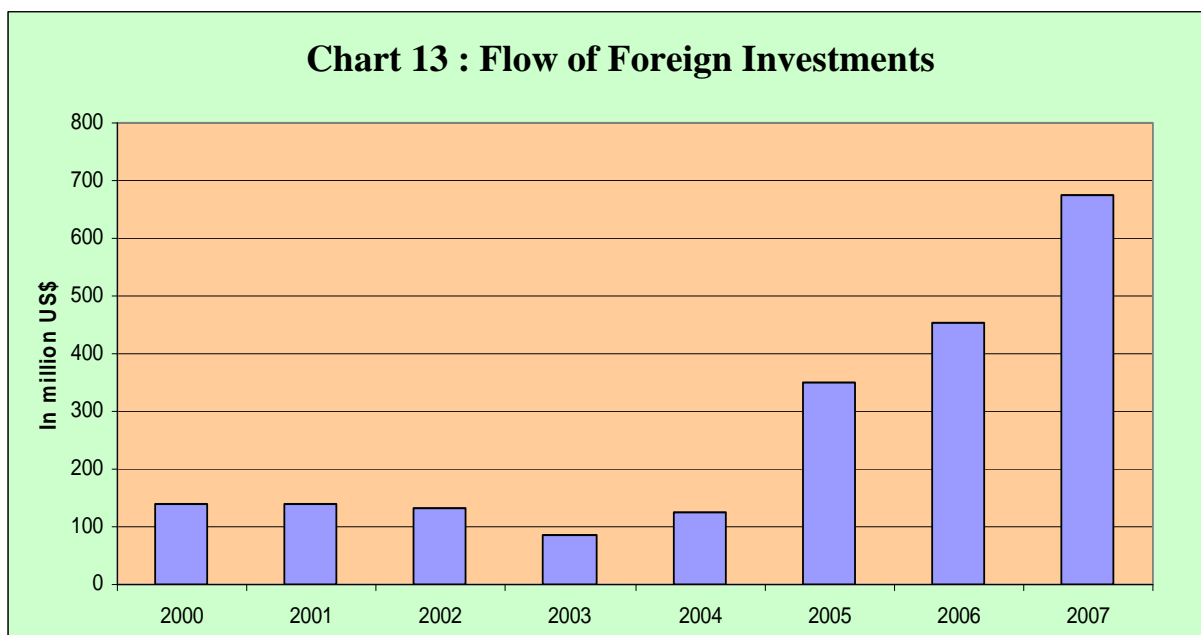
### 3.2. Capital and Financial Account

The balance on the current and capital accounts was a deficit of US\$ 155.3 in 2007, compared to the deficit of US\$ 75.8 million recorded in 2006. The inflow of net official transfers was estimated at US\$416 million, a decrease of US\$ 33.2 million (7.4 percent) on the previous year. This inflow reflected the financial assistance that the Royal Government of Cambodia obtained from both multilateral and bilateral development partners; this included budget support of US\$ 21.3 million, food aid of US\$ 29.4 million, project aid of US\$ 186.6 million and a financing of technical assistance totaling US\$ 179 million. At the same time, net official borrowings (excluding loans from the IMF) were estimated at US\$ 173 million, an increase of 41 percent on the preceding year. In 2007, capital inflow in the form of net foreign direct investment was remarkable, reaching US\$ 711.2 million. Out of this total, investment in sectors other than the banking sector amounted to US\$ 618.1 million, largely reflecting investment in the telecommunication sector, followed by garments and agriculture. Some additional investments were observed in the hotels and resorts, beverages, packaging, hospital, and shoe production sectors.



Overall, the increase in capital and financial accounts was exceeded the amount needed to offset the current account deficit. As a result, the overall balance was a surplus of

US\$ 290 million in 2007. The gross official reserves level was sufficient to cover 3 months of imports.



Estimated Data

#### **4. Foreign Reserve Management**

##### **4.1. Investment of Foreign Reserves**

According to the Law on the Organization and Conduct of the National Bank of Cambodia, NBC is responsible for maintaining and managing the country's external reserves. This is consistent with its role in ensuring internal and external equilibrium in the economy. The reserves were held in various forms, including overnight investment, short and medium term deposits, and investment grade securities issued by highly rated non-resident institutions.

In 2007, investment funds increased significantly, up by 56.4 percent year-on-year from the level recorded at the end of 2006. In managing its portfolio, NBC seeks, in order of priority, to ensure adequate liquidity to meet domestic demand, to safeguard the value of its foreign assets and to maximize return within the established risk parameters. The parameters for the management of the country's foreign exchange reserves are set by the Investment Committee.

In 2007, the Federal Reserve further tightened its policy stance, cutting the federal funds rate target three times from 5.25 percent down to 4.25 percent; there was a projection of a further rate cut in 2008. Meanwhile, the European Central Bank raised its key interest



rate from 3.50 percent to 4.00 percent; the Bank of England also increased its benchmark rate from 5.00 percent to 5.50 percent, whereas the Reserve Bank of Australia lifted the official interest rate from 6.25 percent to 6.75 percent.

During the reviewed year, the rate of return of a number of portfolios shifted in the following range: the rate on overnight investment from 2.14 percent to 5.29 percent; the return on US treasury bills from 4.06 percent to 5.98 percent; the interest rate on short-term USD deposits from 3.94 percent to 5.63 percent; the interest rate on Euro investment from 3.46 percent to 4.65 percent; the interest rate on pounds sterling from 5.32 percent to 6.18 percent; and the interest rate on AUD deposits from 6.18 percent to 7.00 percent.

On the whole, despite the cut in the Fed's fund rate, the proceeds from international placement over the year 2007 were better than in the previous year. This result was supported by the rate cut that occurred in the period close to the end of Cambodia's financial year; the investment fund in 2007 was also larger than a year ago.

#### **4.2. Intervention in the foreign exchange market**

In 2007, to maintain the stability of the national currency exchange rate and to align the exchange rate movement in accordance with prevailing economic development, NBC continued to intervene in the domestic foreign exchange market as circumstances required. Over the year, NBC bought USD on 107 occasions, with a total amount of USD 210.58 million in exchange for 853.16 billion Riel. This undertaking contributed to a substantial increase in the country's foreign exchange reserves when compared to the previous years.

During the same period under consideration, NBC sold USD on only one occasion, at a rate of 4,087 Riel per USD, thereby injecting USD 500,000 into the market and absorbing 2,043.5 million Riel from circulation.

#### **4.3. Management of gold and foreign exchange business**

In 2007, NBC issued 302 business licenses, 277 of which were issued to gold merchants, 24 to foreign exchange dealers, and one to a registered company, thereby allowing them to conduct foreign exchange business in Phnom Penh. Apart from this, at the provincial branches of NBC, a total of 3,685 licenses for gold and foreign exchange businesses were issued, of which 2,963 licenses were given to gold merchants and the remaining 722 to foreign exchange dealers.

## **5. Relations with Banking and Financial Institutions**

### **5.1. Banking Supervision**

Training and developing the capacity of supervisors continued to be one of NBC's priorities in establishing an adequate foundation for staff to effectively carry out their tasks with respect to both on-site inspection and off-site examination as well as the monitoring of banks' compliance with prudential regulations, and other instructions circulars.

The banking sector in Cambodia is now at a crucial juncture: many changes have taken place in the recent period, including the increasing depth of the banking system, the rapid expansion of the bank network through the establishment of new provincial and local branches and the growth of banking services through the introduction of ATMs, credit cards, debit cards, e-banking and telephone banking. All these developments required regular strengthening of supervision skills and capacity in order to prevent risks in the overall system. Currently, there are 86 ATMs in Phnom Penh and a few provinces. It is expected that this number will increase rapidly in the coming years.

During 2007, the total credit of banks and financial institutions to the private sector rose from KHR 3,472 billion at end of 2006 to KHR 6,260 billion as at end of 2007, an increase of 80 percent, while total customer deposits increased from KHR 5,687 billion to KHR 9,922 (74 percent). The number of customer deposits accounts increased from 285,639 to 457,148. Banks' solvency ratio reached 25 percent, exceeding the benchmark of 15 percent. Meanwhile, non-performing loans decreased from 9.45 percent to 5.01 percent when compared to 2006.

In 2007, the microfinance institutions issued loans totaling KHR 695,674 million as compared to KHR 374,021 million in 2006, an increase of 86 percent. 676,913 customers benefited as compared to 471,009 customers in 2006 (an increase of 44 percent). Compared to 2006, total deposits with MFIs increased from KHR 11,954 million to KHR 22,645 million (89 percent), with a total rise of the number of depositors from 113,317 to 152,876 (35 percent).

#### **5.1.1. Off-site supervision**

In 2007, NBC finally completed the installation of an automatic system for the Bank Performance Report (BPR) and the Cambodian Off-site Bank Reporting for Prompt

Corrective Action (COBRA). The COBRA system is expected to improve efficiency and facilitate the supervision and analysis of each bank's financial performance by providing detailed information about the situation of each individual bank, including its prudential ratios, net-worth position, and its profit & loss condition, each of which facilitates the bank's rating exercise.

### **5.1.2. On-site supervision**

During 2007, NBC carried out full scope on-site inspection for twelve commercial banks and two specialized banks and conducted targeted inspection for two commercial banks and two specialized banks. The full scope inspection was carried out in line with the annual supervision plan, whereas targeted inspection was performed based on the results of the off-site examination. Any irregularities observed during the examination were noted and recommendations were issued for the relevant institutions to take necessary corrective actions.

Overall, off-site monitoring and on-site inspection are supervisory tools that complement each other; together they allow a reasonable reflection of each bank's circumstance. As a result of enhanced bank supervision in 2007, the incidence of banks' compliance with law and regulations increased, and banks' profitability improved, reflecting better management and business operations.

### **5.2. Microfinance Institutions' Supervision**

During 2007, NBC conducted on-site inspections of nine licensed MFIs, seven registered organizations and four other organizations that applied for registration as rural credit operators. In general, the off-site and on-site supervision results showed that the performance of MFIs was adequate with respect to management issues, operations and profitability. A number of institutions were able to attract investors and borrow from abroad in order to expand their operations. Meanwhile, MFIs continued to need further capacity building to be able to effectively cope with an increased demand for microfinance services.

During 2007, with technical assistance from the ADB, NBC prepared a draft *Prakas* to allow MFIs that meet certain criteria imposed by NBC to accept public deposits. MFIs' chart of account was reviewed to make it in line with commercial banks' chart of account.

Moreover, during the reporting year, NBC organized two microfinance conferences. One was held in Kampong Cham province with the cooperation of APRACA. the other was held in Phnom Penh with the cooperation of the UNDP, IFC, ANZ Royal, and the Bankers Association. The two conferences were attended by around 1,000 people, including representatives from international MFIs. The purpose of these conferences was to enhance the understanding of the public, government authorities, and microfinance operators of the operations of MFIs about the benefits of using rural financial services provided by authorized MFIs. The conferences provided a platform to discuss and exchange ideas between microfinance operators, shareholders, investors and donors in order to draw a consensus on best practices for various microfinance issues. Discussions included exploring a mechanism to establish relations between MFIs and commercial banks with regard to securing financial resources.

### **5.3. Regulations**

During 2007, two new *Prakas* were issued, including:

- *Prakas* on the Calculation of a Microfinance Institution's Net Worth
- *Prakas* on a Microfinance Institution's Solvency Ratio.

Two existing *Prakas* were reviewed and amended as follows :

- *Prakas* on the Calculation of a Bank's Net Worth
- *Prakas* on Net Open Position of Foreign Currencies for Banks and Financial Institutions.

### **5.4. Licensing and Registration**

At the end of 2007, the banking system in Cambodia comprised 17 commercial banks, 7 specialized banks, 17 microfinance institutions and 25 registered rural credit operators.

Meanwhile, a number of new licenses for the opening of local branches were issued for the following commercial banks:

- Canadia Bank Plc. : 4 branches
- Cambodian Public Bank : 4 branches
- ANZ Royal Bank : 4 branches
- Singapore Bank Corporation : 2 branches.

## **5.5. Combating money laundering and financing of terrorism**

### **5.5.1. APG membership and the Mutual Evaluation**

Cambodia became a full member of the Asia Pacific Group (APG) in June 2005 after participating as an observer since February 1997. As a member of the APG, Cambodia has an obligation to adopt the 40 recommendations on anti-money laundering and 9 special recommendations related to counter-financing of terrorism (the 40+9 recommendations of the Financial Action Task Force (FATF)). Like other members of the APG, Cambodia also has to participate in the Mutual Evaluation by the World Bank and APG.

The Mutual Evaluation of Cambodia was undertaken by the World Bank and APG during the period from 26 February to 14 March 2007, and focused on Cambodia's implementation of the 40+9 recommendations. The result of the Mutual Evaluation was adopted in the 10<sup>th</sup> APG's Annual Meeting held from 23-26 July 2007, endorsing that Cambodia was partially compliant with 13 recommendations out of the 40+9 recommendation of the FATF. Despite Cambodia's current limitations in the implementation of the FATF recommendations, the Conference applauded Cambodia's commitments and efforts so far, and encouraged Cambodia to establish the necessary legal framework to deal with money laundering and the financing of terrorism.

### **5.5.2. Laws and Regulations**

The Law on Anti-Money Laundering and Counter-financing of Terrorism (AML/CFT) was promulgated on 24 June 2007. Among other important issues, the law spelled out the obligations of the reporting entities with respect to anti-money laundering and counter-financing of terrorism. This involved specific measures and practices such as Know-Your-Customer, record keeping, inspecting transaction(s), reporting of suspicious transaction(s) and cash transactions, and enhancing internal audit. This law also required the establishment of the Financial Intelligence Unit, stipulated the need for examination and inspection, and provided a legal basis for internal and external cooperation on AML/CFT.

In order to effectively implement the law, NBC has started to review and improve *Prakas* on Anti-Money Laundering and Combating the Financing of Terrorism. These *Prakas* will replace *Prakas* on Standardized Procedure for Identification of Money Laundering at the Banking and Financial Institution and the circulars on Suspicious Transactions, and on Know-Your-Customer, currently applied by banks. At the same time,

NBC started to make necessary preparations to establish the Financial Intelligence Unit, which will become the core body responsible for analyzing and assessing suspicious transactions or cash transactions, and other information provided by the reporting entities.

## **6. The Services of the Central Bank**

### **6.1. Account Management**

NBC is responsible for maintaining and managing the accounts for public institutions, central administrative bodies, banks and financial institutions holding licenses to operate in Cambodia, as well as for international financial institutions. These accounts include the current accounts, the capital guarantee accounts, the reserve requirement accounts, and terms deposits accounts. At the end of 2007 there were in total 1,164 accounts, dominated in USD and KHR, held with NBC. During the year under review, 158,096 transactions were posted, an increase of 6 percent compared with the 148,755 transactions of recorded in 2006.

#### **6.1.1. Government's accounts management**

NBC has actively contributed to implementing the government's reform policy aiming at enhancing the efficiency of public financial management. To this end, new accounts have been opened for central administration institution; the process of cash supply has been further improved through the provision of transfer services on behalf of the National Treasury, and the provision of payroll services to a number of local government departments, ministries and military forces.

The process of making payment of taxes by taxpayers directly at NBC has been smooth. For 2007, tax payments with NBC amounted to KHR 1,267,000 million (including both, KHR and USD payments).

#### **6.1.2. Repository of accounts for banks and financial institutions**

In general, banks held various accounts with NBC, including current accounts, terms deposit accounts, capital guarantee accounts and reserved requirement accounts. At the end of 2007, the outstanding balance of terms deposits accounts of all maturities (1 month, 3 months, and 6 months) totaled USD 339 million.

## **6.2. Clearing house activities**

### **6.2.1. Clearing and settlement of Riel-denominated checks**

In 2007, there were eighteen members participating in the clearing house for Riel-denominated checks. Those included fifteen commercial banks, the National Treasury, a specialized bank, and NBC itself.

During the reporting year, the Clearing House had 240 operation days, and processed 23,160 checks, valued KHR 845,130 million. Clearing activities were thus expanded, both in terms of volume and value, compared to 2006. In number, the amount of checks cleared increased by 17 percent, from 19,870 in 2006 to 23,160 in one year. Their value increased by 26 percent, from KHR 672,000 million to KHR 845,130 million in 2007.

### **6.2.2. Clearing and settlement of USD-denominated checks**

The Clearing House for USD-denominated checks consists of twenty-one members, of whom seventeen are commercial banks; three are specialized banks; and NBC itself is a member.

As for the Clearing House for Riel-denominated checks, in 2007 clearing activities were carried out during 240 working days. Compared to 2006, an increase in both volume and value was observed. In terms of volume, 322,240 checks with a total value of USD 4,660 million were cleared in 2007. In comparison with the amount of checks cleared in 2006 of 255,500, this represented an increase of 26 percent. In terms of value, the increase was more pronounced, rising by 63 percent from USD 2,860 million in 2006 to USD 4,660 million in 2007.

## **6.3. Lending activities**

Over the course of the year under review, the following records were made relating to the issuance and collection of loans made by NBC:

- <u>Banks and Microfinance Institutions:</u>	
Beginning Balance:	KHR 47,120 million
Loans granted during the period:	KHR 128,320 million
Collection of debt owed:	KHR 105,040 million
Outstanding balance:	KHR 66,800 million

- Ministry of Economy and Finance (MEF): NBC advances to MEF to repay Japanese ODA-debt :

Loans granted:	Yen 472.5 million
Repayment:	Yen 94.5 million
Outstanding balance:	Yen 378 million.

## **7. Management of circulation of bank notes**

Local currency cash withdrawals and deposits with NBC carried out through NBC's teller desk increased remarkably. In fact, during 2007 cash receipts through NBC's teller desks amounted to KHR 4,309.14 billion, representing an increase of 53.36 percent on the receipts in 2006. The overall increase in cash receipts during the reporting year reflected the following movements: the increase in receipts in the form of taxes and customs duties of 19.30 percent, a rise in cash deposits into the current accounts of 143.63 percent, the increase in cash payments for electricity charges of 21.41 percent, and the increase in other cash receipts of 39.25 percent.

Meanwhile, cash disbursements through NBC's teller desks totaled KHR 4,308.29 billion, an increase of 53.81 percent on the previous year's disbursements. Of this total amount, cash withdrawal by the National Treasury increased 41.53 percent; the sale of Riel (to buy USD) increased 274.79 percent; the withdrawal from various Riel deposits accounts rose by 57.58 percent, and cash disbursement by Electricite du Cambodge increased 20.3 percent. However, cash withdrawal for other purposes decreased 21.02 percent.

As for USD cash operations, cash receipts through the teller desks amounted to USD 1,324.45 million, representing an increase of 26.67 percent when compared to the amount recorded in 2006. During the same period under review, cash disbursement through the teller desks amounted to USD 1,324.30 million, recording thus an increase of 26.67 percent when compared to the amount recorded in 2006.

With the efforts to ensure that currency in circulation was fit for use, which should contribute to increasing the public preference in the Riel, during the reviewed year, NBC collected old, worn and torn local currency notes from the circulation and replaced them with new ones. Concerning the old and soiled notes, NBC cautiously recounted and sorted these notes after their removal from circulation. Banknotes deemed unfit to remain in circulation were duly destroyed.



Related to anti-counterfeit efforts, NBC continued to work closely with all competent authorities in order to prevent the circulation of counterfeit currency.

## 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	Chair
• 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 2007, the Board held six meetings during which important matters related to NBC's activities were brought forward for discussion and approval. Those meetings were as follows:

- The 60<sup>th</sup> Meeting held on January 22, 2007: Review and adoption of the draft decision to establish a committee to examine NBC's accounting book for the financial year 2006;
- The 61<sup>st</sup> Meeting held on February 14, 2007: Review and adoption of the draft report on NBC's budget implementation for the financial year 2006 and the budget plan for 2007;
- The 62<sup>nd</sup> Meeting held on July 17, 2007: Review and adoption of the draft report of First Semi-annual Report of NBC for 2007;
- The 63<sup>rd</sup> Meeting held on August 09, 2007: Review and adoption of the draft report on NBC's budget implementation for the first semester of 2007;
- The 64<sup>th</sup> Meeting held on September 10, 2007: Review and adoption of the draft Prakas on the Organization and Functions of the Banking Department;
- The 65<sup>th</sup> Meeting held on December 27, 2007: Review and adoption of the draft Annual Report of NBC for 2007.

## **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 2007 totaled 762, of which 430 were male and 332 female. There were, in addition, 15 people working on a contractual basis, of which 14 were male and one female;
- 3 staff under NBC's official staff status remained as attachments outside NBC, of which two were male and one female.
- The number of staff working at the provincial branches of NBC was 362, of which 209 were male and 153 were female.

Therefore, the total staff number of NBC at the end of 2007 amounted to 1,127 (641 male and 486 female). When compared with the number of NBC employees of 1,032 at the end of 2006 (587 male and 445 female) the following changes were observed:

- The number of staff at headquarters increased by 59 (80 new recruits; 21 resigned or retired)
- The number of staff at the provincial branches increased by 35 (48 new recruits; 13 resigned or retired).

### **2.2. Training**

NBC has systematically focused on improving its staff skills and capability, both at the headquarters and in provincial branches. During the reporting year, NBC organized various in-house programs, including three explanatory workshops for 69 staff, a perfection course for 82 staff, eight English classes and a Thai language class for 115 staff, and eight seminars on different topics relevant to central bankers, attended by 364 staff.

NBC also sent 55 staff to attend six different seminars organized by line ministries and several local institutions in the countries. In addition, eight staff attended three long-term training programs and 41 staff joined training programs at the Australian Center for Education (ACE).

As for training at the Center for Banking Studies in 2007, students of the 15<sup>th</sup> graduating year, of which 15 are staff of NBC, have successfully completed the program and

received the associate degree in banking. In the meantime, students of the 17<sup>th</sup> graduating year have been selected, of which 21 are staff of NBC.

Parallel to training within the country, NBC also provided staff with development opportunities through participation in various training events organized by foreign institutions. Following invitations from various partner central banks, international financial institutions and a number of countries in the region, 6 NBC staff joined 5 training courses abroad, another 147 staff attended 106 foreign seminars and workshops, and a total of 21 staff were involved in five study tours.

Besides short-term training programs, in 2007 NBC also sent eight staff abroad to pursue master's degrees at foreign universities. Their programs of study were supported by four scholarship programs under Japan-IMF, IMF-Australia, Ausaid and JICA.

### **3. Internal Audit**

During 2007, NBC continued its efforts to strengthen the Inspection General through focusing on improving efficiency in the internal audit and internal inspection. Important legislative documents related to NBC's internal audit continued to develop, including *Prakas* on the Board Audit Committee Constitution of NBC, *Prakas* on the Functions of the Officers/Staff of the Inspection General of NBC, and the Audit Manuals for departments in the headquarters, branches and offices under NBC. At the end of 2007, NBC issued two more *Prakas*, the *Prakas* on the Policy on Internal Control of NBC and the *Prakas* on the Code of Conduct for Officer/Staff of the Inspection General of NBC.

Meanwhile, particular attention was paid to the regular training of auditors in order to improve their audit and inspection capacity, solicit their understanding on audit theories and improve their practices through on-the-job training or attendance at seminars and workshops abroad.

Concerning implementation, departments that were first audited during 2006 under the pilot and on-the-job training program included the Banking Department (Accounting Management Office), the Issue and Printing House (Cash Division and Accounting Assistance Office), and the Accounting Department. Furthermore, in 2007 inspections were conducted on some provincial branches such as those in Siem Reap, Battambang, Sihanouk Ville, Stung Treng and Kampot. Following the conclusion of the audit activities, a report and some recommendations were issued to improve the respective operations.

Based on the implemented pilot audit program for some departments and NBC branches as described above, audit procedure manuals for the two above-mentioned departments, as well as for branches, were consequently improved to bring them into line with the current practices and therefore allowed the relevant departments and branches to operate in a more effective and smooth manner. Operational procedure manuals for the Exchange Management Department and other departments and offices will be consecutively prepared so that a proper audit can be implemented under a comprehensive and concrete procedures.

As far as the inspection is concerned, during the year several inspection activities were undertaken, including 14 inspections without prior announcement of 19 NBC's provincial branches, of which some branches underwent two inspections and some others only one. On one hand, the inspections focused mainly on currency management and the safety of the strong room; on the other hand, examinations of other important technical operations were also conducted to improve the performance of officials and staff at the branch offices. In addition, the Inspection General, in cooperation with technical departments, reviewed the existing operational guidelines and issued three new instructions that centered mainly on governance issues such as the enhancement of the safety of the strong room and the improvement of bookkeeping and the recording of cash movements with the purpose of ensuring transparency and the consistency of the records across branches.

#### **4. Management of NBC Branches**

During 2007, important tasks related to branch management were integrated in NBC's efforts to increase the efficiency of the central banks' operations and to improve the quality of services performed by all provincial branches for the benefit of the public administration and the commune councils. To support the Public Financial Management Reform Program of the government and to effectively implement it, a number of new staff were selected, recruited and trained. The issuance of instructions related to good governance, the regular inspection and the pilot audit program were all pivotal in ensuring transparency and operational adequacy in accordance with international technical standards. Moreover, an instruction had already been issued to allow NBC's branches in Banteay Meanchey, Battambang, Siem Reap, Sihanouk Ville and Svay Rieng to open accounts for the provincial post offices in order to provide for the deposit services initiated by international postal money orders.

### **III. International relations**

#### **1. Multilateral Relations**

##### **1.1. Relations with International Monetary Fund**

During 2007, there were three visits made by the Article IV Consultation Missions of the International Monetary Fund (IMF) to Cambodia. The first visit was from 14-21 February. The second visit took place from 22 May to 5 June. The third visit was made from 12-18 September 2007. The visits aimed at discussing the latest developments in Cambodia with the relevant authorities. On the whole, the mission showed its great appreciation of the strong and broad-based growth performance in Cambodia in recent years and acknowledged that the current reform efforts of the Royal Government of Cambodia, including reforms in the banking and financial sector, remained on the right track. And in view of that, the Fund will be content to continue to provide further support to the authorities through technical assistance despite the fact that a new program under the “Poverty Reduction and Growth Facility” cannot be instituted at this point in time.

In this reporting year, a high-level NBC delegation participated in the 2007 Annual Meetings of the IMF/WB. These meetings are organized annually with the aim of providing a forum for discussion on issues related to recent global economic developments and the situation in the global financial sector to ensure broad macroeconomic and financial stability in the world, as well as to discuss relevant activities of the IMF/WB concerning their support for the development of their member countries. This year’s agenda also covered matters such as the quota and voice reform, the co-operation issues of the two Breton Wood systems and the directions and priorities of the poverty alleviation efforts.

On the front of the Fund’s technical assistance, the 2007 technical assistance program provided support to NBC in the following areas: the internal audit, the on-site supervision of commercial banks, the improvement of the quality of the balance of payment statistics through the expansion of the data sources, and the establishment of several surveys such as the foreign direct investment survey in Cambodia, the survey of tourist spending in Cambodia, and the spending of Cambodian residents abroad.

As far as the financial transactions between the Fund and Cambodia are concerned, there were a number of receipts and payment transactions as follows:

- Interest receipts from Cambodia’s SDR holdings of SDR153,495 equivalent to USD 235,248.
- Payment of fees related to SDR allocation of SDR482,972, equivalent to USD 733,023.

## **1.2. Relations with the Asian Development Bank**

Reform activities under the program loan cluster agreed to by the Royal Government of Cambodia and the Asian Development Bank (ADB) to support development in the banking and financial sector has, in 2007, entered a new phase, after NBC and the relevant government institutions satisfactorily completed Sub-program Three of Financial Sector program Loan I.

**“The Financial Sector Blueprint for 2001-2010”** was reviewed and updated into **“Financial Sector Development Strategy for 2006-2015”** and was officially launched by **Samdech Akeak Mohasena Techo Hun Sen** on June 7, 2007. Furthermore, NBC, in cooperation with the Ministry of Finance and the Ministry of Commerce, successfully concluded the negotiations with the ADB for Financial Sector Program Loan II (FSPL II), paving the way for the recent signing of the loan agreement. The second program loan under the program loan cluster involved USD 40 million and was divided into four sub-programs. Sub-program I occupied USD 10 million, of which USD 3 million is earmarked for the development of the information management system within NBC.

Reform agenda under Sub-program I of FSPL II is aimed at continuing to strengthen the legal and institutional foundation for the banking and financial sector, which includes, among others, the following activities:

- Concluding an MOU between NBC and the commercial banks to endorse a roadmap to modernize the payment and settlement system in Cambodia
- Ensuring the compliance and usefulness of the Credit Information Sharing System for banks
- Promoting cooperation with NBC in terms of the monitoring and assessment of the performance of the financial sector
- Introducing revised regulations on large exposures of banks and financial institutions

- Introducing regulations to amend the *Prakas* on Licensing of Commercial and Specialized Banks and the *Prakas* on Licensing of Microfinance Institutions
- Assessing and identifying capacity building needs for banking supervision
- Strengthening surveillance and undertaking prompt corrective measures on banks that are not conforming to the laws and regulations, and
- Submitting the draft Law on Non-Government Securities to the National Assembly.

### **1.3. Relations with ASEAN**

As the monetary authority for the country, NBC has participated and will continue to actively take part in banking and financial cooperation programs within ASEAN and ASEAN+3 (China, Japan, and Korea). Over 2007, NBC attended three important ASEAN meetings, namely: an ASEAN Central Bank Forum and two Finance and Central Banks Deputies' Meetings of the ASEAN+3.

During the reporting year, the cooperation among ASEAN-10 members specifically focused on the preparation of a blueprint for the creation of an ASEAN economic community, by which ASEAN will be transformed into a an integrated region with freer flows of goods, services, labors and capital by 2015. The Blueprint was endorsed at the 13<sup>th</sup> ASEAN Leaders Summit held in November this year in Singapore. As far as financial cooperation is concerned, the Blueprint covers key cooperation issues such as strengthening ASEAN capital market development and integration, liberalization of capital movements, and financial services liberalization. In parallel to such efforts, central banks and ministries of finance of ASEAN-10 also agreed to initiate a study to find a mechanism to finance the needed physical infrastructure in member countries in the region.

On the front of cooperation within the framework of ASEAN+3, attention centered on preparing the Multilateralization of the Chiang Mai Initiatives aimed at providing access to members to financial resources, in addition to other existing facilities, when faced with a financial crisis. In addition, another important task within ASEAN+3 cooperation has been the implementation of the ASEAN Bond Market Initiatives. Such initiatives intend to support financial market development in new ASEAN member countries, while seeking to promote

integration between financial markets in the rest of the ASEAN+3 countries, whose financial sector and markets have already reached a higher level of development.

#### **1.4. Relations with SEACEN**

The membership of NBC in the forum of the South-East Asia Central Banks (SEACEN) officially announced in April 2006, has brought various benefits to NBC. It provides opportunities for human resource capacity building, and a forum for sharing experiences among member central bank staff, SEACEN was further expanded in late 2006 with the addition of the State Bank of Vietnam in SEACEN.

Over the course of the reviewed year, NBC was actively involved in SEACEN's activities and participated in various SEACEN programs, including policy meetings, technical meetings, seminars, workshops and several training courses. Among the important meetings were:

- SEACEN Governors Conference, during which a workshop on “Foreign Exchange Management and Capital Flows” was held;
- The 5<sup>th</sup> SEACEN Executive Committee Meeting, discussing operational issues such as the operations of SEACEN Training and Research Center for the operating year 2006-07, SEACEN budget for 2007-08, and other matters relevant to the SEACEN Training and Research Center;
- The 29<sup>th</sup> Meeting of the Directors of Research and Training, focusing on the SEACEN research activities and challenges in capacity building in member countries, and
- The 6<sup>th</sup> Meeting of the Directors of Payment and Settlement Systems of Asia-Pacific Central Banks.

In addition, during 2007 NBC successfully collaborated with SEACEN to organize two seminars in Siem Reap. The topic of the first seminar was “Payment and Settlement Systems for Developing Countries”. The second seminar dealt with issues of “Foreign Exchange Management”. The two seminars were attended by various participants from 16 central banks and monetary authorities.

Besides meetings and training programs, other areas of cooperation included the exchange of economic and financial information among members. In this context, on a



quarterly basis, NBC submits brief reports on recent macroeconomic and financial development to the SEACEN Training and Research Center for regular publication and dissemination.

### **1.5. Relations with Asia-Pacific Group (APG)**

NBC became a member of the APG in 2005. As the monetary authority of the country, NBC was and continues to be a primary contact point between APG, the government ministries and the relevant institutions within Cambodia, especially with respect to the coordination of technical assistance from APG, which includes capacity building and the support to establish the Financial Intelligent Unit (FIU). In March 2007, a mission of the APG visited Cambodia to undertake the Mutual Evaluation of the system for anti-money laundering and counter-financing of terrorism in Cambodia. Through this evaluation, the Cambodian authorities were able to identify the shortcomings in the current system and recognize the need for further improvements in order to comply with the 40 general recommendations and the 9 specific recommendations of FATF related to anti-money laundering and counter-financing of terrorism.

During 2007, NBC also received support from the United Nations Office on Drugs and Crime (UNODC) and the World Bank in the form of technical assistance in various areas such as training, preparing documents related to anti-money laundering and counter-financing of terrorism activities, and consultations on such issues. In addition, NBC and the Australian Reporting and Analysis Center (AUSTRAC) collaboratively organized several seminars covering a number of important subjects, including the obligations toward anti-money laundering and counter-financing of terrorism in the casino and real estate sectors, issues relevant to non-profit organizations, and a seminar on suspicious transactions in the banking sector. Furthermore, with assistance from Banque de France another seminar on anti-money laundering was organized for officials of NBC and the staff of all commercial banks and specialized banks.

With regard to the legal framework, the Law on Anti-money Laundering and Counter-financing of Terrorism was promulgated on 24 June 2007. This law spelled out the obligations of all relevant authorities and institutions toward anti-money laundering and counter-financing of terrorism and the establishment of Financial Intelligence Unit. To implement the Law, with the assistance from UNODC and the World Bank, NBC reviewed

the draft *Prakas* related to anti-money laundering and counter-financing of terrorism for the banking and financial institutions and made necessary preparations for the establishment of the Financial Intelligence Unit, starting with the creation of Board of Directors who will be responsible for providing advice to the FIU.

## **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 the Asia-Pacific Rural Agriculture and Credit Association (APRACA) in 2000. As a member, NBC has participated in various training activities organized by APRACA that have contributed to the supervisory capacity of the microfinance institution supervisors.

## **2. Bilateral Relations**

NBC continued to work closely on a bilateral basis with other central banks in Asia and Europe on enhancing cooperation on technical central banking issues such as conducting a joint-survey, exchange of information, human resource capacity building, and other matters of mutual interest.

Over the course of the year, bilateral relations were expanded further to include the Bank of Korea, witnessed by the signing of an “MOU on Cooperation and Technical Assistance between the Bank of Korea and the National Bank of Cambodia” in a ceremony held in Siem Reap on September 28, 2007.

During 2007, NBC conducted a joint-survey with the Bank of Thailand on “Cross-border Trade and Investment and Road Transportation in Cambodia”. This survey was carried out in several provinces and a number of special economic zones within Cambodia. Meanwhile, officials from NBC in return made in return a study tour at Khorkean provincial branch of Bank of Thailand in order to learn another central bank’s experiences with regard to branch management, and the clearing house activities at the provincial level.

Moreover, cooperation with the People’s Bank of China, Bank of Lao PDR and State Bank of Vietnam was further enhanced and sealed by an official visit made by the Governor of the State Bank of Vietnam, the visit made by the Deputy Governors of the People Bank of China, and the visit of officials from the Bank of Lao PDR to Cambodia.

## *Conclusion*

The Cambodian economy is developing relatively fast, due in particular to the government's determination, the contributions of the private sector, and rigorous support from the international community. The interconnection between economic growth, poverty reduction, structural reforms and improved governance is fairly strong. Macroeconomic stability and the consequent rapid economic growth are reducing poverty in conjunction with increased investment in social sectors. Structural reforms in various sectors, including the banking and financial sector, are ongoing projects to strengthen the underpinning of macroeconomic policies and to remove microeconomic distortions affecting key sectors of the economy, thus paving the way for even greater economic growth and sustainability.

Reflecting the stance of NBC's policies over the past year, the growth rate of the economy has remained strong, interest rates have fallen, inflation has been kept at a manageable level, the Riel has remained relatively stable against the currencies of our major trading partners, and the country's international reserves have expanded at a remarkable pace.

Financial system development and stability, the other core objective of NBC, has been achieved through efforts to enhance legal, institutional and human resource capacity. In this context, the regulation and supervision of financial institutions, the development of the financial infrastructure which includes the establishment of the national payment and settlement system, the overseeing of the Information Sharing System, as well as keeping a close watch on the financial markets as a whole, all fall under the immediate attention of the NBC.

With a liberal entry policy, supported by a transparent regulatory system and a proper financial policy, competitiveness in the banking sector has been actively promoted. Consequently, commercial banking services are now more diversified and can better meet the diverse needs of savers and investors.

Notwithstanding all NBC's current efforts, heavy work remains at the top of the NBC's agenda to achieve the visions outlined in the Financial Sector Development Plan 2006-2015. This plan provides an update of the Financial Sector Blueprint 2001-2010 while taking into account the rapidly changing conditions in the market and the resulting changes in the concrete priorities of the country, which in turn require a better sequencing of the reform program.

Nevertheless, what has had been achieved and can be clearly seen so far points to the enormous growth potential in the banking and financial sector in Cambodia. The central bank is now at a very important juncture: realizing the strength of the market and grasping the opportunity while challenging the obstacles lying in creating a strong and dynamic financial system. Financial sector development is not an end in itself; certainly the final goals are to support resource mobilization, private sector development, employment creation, and foreign direct investment, thereby sustaining economic growth and poverty reduction.

As has always been the case in the past, NBC trusts that the continuous support of the various stakeholders and the international community will help in meeting these challenging objectives.



Table 2 : **Consumer Price Index (CPI) 2003- 2007**  
**July-December, 2000=100**

<b>Consumer Price Index</b>	<b>Dec-03</b>	<b>Dec-04</b>	<b>Dec-05</b>	<b>Dec-06</b>	<b>Dec-07</b>
<b>All items</b>	104.87	110.76	118.14	121.46	134.57
<b>Food, Beverages &amp; Tobacco</b>	100.91	109.54	121.74	124.16	148.71
<b>Clothing &amp; Footwear</b>	86.91	87.02	91.36	93.69	98.01
<b>Housing &amp; Utilities</b>	111.67	114.15	116.98	120.61	122.58
<b>House Furnishings &amp; HH. Operations</b>	95.31	94.34	95.39	97.20	102.48
<b>Medical Care</b>	102.25	102.19	102.23	104.62	110.40
<b>Transportation &amp; Communication</b>	101.96	116.98	127.58	137.03	154.91
<b>Recreation &amp; Education</b>	109.12	109.73	110.89	111.75	112.71
<b>Personal Care &amp; Effects</b>	103.90	105.76	112.10	113.76	114.18
<b>Month to month change (%)</b>					
<b>All items</b>	-0.10	-0.23	-0.24	-0.65	0.50
<b>Food, Beverages &amp; Tobacco</b>	-0.25	-0.73	-0.47	-1.36	0.40
<b>Clothing &amp; Footwear</b>	0.03	-0.24	0.09	-1.49	-0.43
<b>Housing &amp; Utilities</b>	0.03	0.07	0.00	0.01	0.53
<b>House Furnishings &amp; HH. Operations</b>	0.09	0.12	0.21	0.08	-0.67
<b>Medical Care</b>	-0.38	0.12	0.02	0.01	0.13
<b>Transportation &amp; Communication</b>	-0.17	0.35	-0.54	0.14	1.84
<b>Recreation &amp; Education</b>	0.13	0.17	0.12	-0.60	-0.53
<b>Personal Care &amp; Effects</b>	0.46	0.43	0.49	0.19	0.23
<b>Year on year change (%)</b>					
<b>All items</b>	0.46	5.62	6.66	2.81	10.79
<b>Food, Beverages &amp; Tobacco</b>	-0.19	8.55	11.14	1.99	19.77
<b>Clothing &amp; Footwear</b>	-0.70	0.13	4.99	2.55	4.61
<b>Housing &amp; Utilities</b>	0.56	2.22	2.48	3.10	1.63
<b>House Furnishings &amp; HH. Operations</b>	-0.75	-0.97	1.06	1.90	5.43
<b>Medical Care</b>	-2.31	-0.06	0.04	2.34	4.52
<b>Transportation &amp; Communication</b>	4.96	14.73	9.06	7.41	13.05
<b>Recreation &amp; Education</b>	0.66	0.56	1.06	0.78	0.86
<b>Personal Care &amp; Effects</b>	0.79	1.79	5.99	1.48	0.37
<b>Three-month moving average</b>					
<b>All items</b>	104.98	111.07	118.37	122.38	134.20
<b>Annual percentage change</b>	0.50	5.80	6.57	3.39	9.66
<b>Twelve-month moving average</b>					
<b>All items</b>	104.84	108.90	115.20	120.62	127.67
<b>Annual percentage change</b>	1.15	3.87	5.78	4.71	5.84

Table 2 : Consumer Price Index (CPI) December 2003 - December 2007  
July-December, 2000=100

<u>1. Consumer Price Index (CPI) and Component Indices</u>	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
<b>CPI (all items)</b>	<b>104.87</b>	<b>110.76</b>	<b>118.14</b>	<b>121.50</b>	<b>134.57</b>
Food, Beverage & Tobacco	100.91	109.54	121.74	124.20	148.71
Clothing & Footwear	86.91	87.02	91.36	93.69	98.01
Housing & Utilities	111.67	114.15	116.98	120.60	122.58
House Furnishings & HH. Operations	95.31	94.39	95.39	97.20	102.48
Medical Care	102.25	102.19	102.23	104.20	110.40
Transportation & Communication	101.96	116.98	127.58	137.00	154.91
Recreation & Education	109.12	109.73	110.89	111.80	112.71
Personal Care & Effects	103.90	105.76	112.10	113.80	114.18
<b><u>2. Percentage Change in the CPI and its Components:</u></b>					
<b><u>2.1 Month to Month Change (%)</u></b>					
<b>CPI (all items)</b>	<b>-0.10</b>	<b>-0.23</b>	<b>-0.24</b>	<b>-0.70</b>	<b>0.50</b>
Food, Beverage & Tobacco	-0.25	-0.73	-0.47	-1.40	0.40
Clothing & Footwear	0.03	-0.24	0.09	-1.50	-0.43
Housing & Utilities	0.03	0.07	0.00	0.00	0.53
House Furnishings & HH. Operations	0.09	0.12	0.21	0.10	-0.67
Medical Care	-0.38	0.12	0.02	0.00	0.13
Transportation & Communication	-0.17	0.35	-0.54	0.10	1.84
Recreation & Education	0.13	0.17	0.12	-0.60	-0.53
Personal Care & Effects	0.46	0.43	0.49	0.20	0.23
<b><u>2.2 Year on Year Change (%)</u></b>					
<b>CPI (all items)</b>	<b>0.46</b>	<b>5.62</b>	<b>6.66</b>	<b>2.80</b>	<b>10.79</b>
Food, Beverage & Tobacco	-0.19	8.55	11.14	2.00	19.77
Clothing & Footwear	-0.70	0.13	4.99	2.60	4.61
Housing & Utilities	0.56	2.22	2.48	3.10	1.63
House Furnishings & HH. Operations	-0.75	-0.97	1.06	1.90	5.43
Medical Care	-2.31	-0.06	0.04	2.30	5.52
Transportation & Communication	4.96	14.73	9.06	7.40	13.05
Recreation & Education	0.66	0.56	1.06	0.80	0.86
Personal Care & Effects	0.79	1.79	5.99	1.50	0.37
<b><u>3. Three-month moving average CPI (all items)</u></b>					
<b>Year on Year Change (%)</b>	<b>0.5</b>	<b>5.80</b>	<b>6.57</b>	<b>3.40</b>	<b>9.66</b>
<b><u>4. Twelve-month moving average CPI (all items)</u></b>					
<b>Year on Year Change (%)</b>	<b>1.15</b>	<b>3.87</b>	<b>5.78</b>	<b>4.70</b>	<b>5.84</b>

Table 3: Some Asean And European Currencies Against Khmer Riel

(End Period Buying Rate)

Currencies	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	% Change Dec.07-Dec.06
Special Drawing Right	6,115	6,068	6,113	6,142	6,204	6,170	6,188	6,247	6,251	6,340	6,359	6,369	6,319	3.34
<b>ASIA</b>														
Australian Dollar	3,207	3,137	3,192	3,276	3,357	3,354	3,459	3,507	3,330	3,590	3,731	3,543	3,518	9.70
Hong Kong Dollar	522	520	519	519	519	522	522	521	523	525	522	514	513	-1.72
Janpanese Yen	34.10	33.40	34.18	34.40	33.97	33.53	33.14	34.25	35.22	35.26	35.31	36.36	35.63	4.49
Korea Won	4.36	4.31	4.31	4.31	4.36	4.39	4.40	4.43	4.34	4.44	4.45	4.31	4.27	-2.06
<b>New Zealand Dollar</b>	2,859	2,793	2,841	2,892	2,995	2,974	3,138	3,143	2,861	3,077	3,119	3,088	3,103	8.53
<b>Taiwan Dollar</b>	124	123	123	123	122	123	124	124	123	124	125	124	123	-0.81
<b>ASEAN</b>														
<b>Indonesian Rupiah</b>	0.449	0.445	0.442	0.444	0.447	0.461	0.449	0.443	0.433	0.446	0.444	0.426	0.425	-5.35
<b>Malaysian Ringgit</b>	1,147	1,160	1,156	1,173	1,187	1,200	1,181	1,180	1,165	1,193	1,211	1,189	1,207	5.23
<b>Philippine Peso</b>	82.64	82.72	83.44	84.16	85.57	87.94	88.05	89.60	87.09	90.11	92.36	94.05	96.83	17.17
<b>Singapore Dollar</b>	2,633	2,642	2,653	2,673	2,674	2,666	2,663	2,697	2,678	2,735	2,786	2,768	2,768	5.13
<b>Thai Bath</b>	112	117	119	125	123	125	128	138	124	128	127	130	131	16.96
<b>Vietnamese Dong</b>	0.253	0.253	0.254	0.253	0.253	0.254	0.253	0.252	0.251	0.253	0.252	0.249	0.249	-1.58
<b>EUROPE</b>														
<b>Euro</b>	5,330	5,267	5,361	5,404	5,535	5,475	5,487	5,592	5,575	5,767	5,833	5,911	5,893	10.56
<b>Other</b>														
<b>Great Britain Pound</b>	7,956	7,972	7,960	7,960	8,099	8,065	8,172	8,279	8,214	8,262	8,340	8,265	7,986	0.38

Table 4: **Monetary Survey**  
( in millions of riels)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
<b>NET FOREIGN ASSETS</b>	4,027,224	4,796,561	5,475,120	7,224,305	10,734,703
<b>Foreign assets</b>	4,740,790	5,481,527	6,142,115	7,649,997	11,890,303
<b>Foreign liabilities</b>	-713,566	-684,966	-666,996	-425,693	-1,155,600
<b>NET DOMESTIC ASSETS</b>	-698,266	-467,264	-450,206	-281,643	575,977
<b>Domestic Credit</b>	1,208,714	1,607,813	1,972,489	2,676,869	4,570,053
<b>Net claims on government</b>	-127,916	-208,689	-421,162	-953,340	-1,815,897
Claims	360,198	359,974	326,509	286,645	296,960
Deposits	-488,113	-568,663	-747,671	1,239,985	-2,112,857
<b>Non government</b>	1,336,630	1,816,502	2,393,651	3,629,809	6,385,950
State enterprises	14	0	0	2,085	1,177
Private sector	1,336,616	1,816,502	2,393,651	3,627,724	6,384,773
Of which in foreign currency	1,213,594	1,697,418	2,275,495	3,475,881	6,161,296
<b>Other items (net)</b>	1,906,980	-2,075,077	2,422,694	2,958,512	-3,994,076
Restricted deposits	-108,904	-101,629	-122,975	-155,020	-254,596
Capital and reserves	2,089,075	-2,191,906	2,640,353	3,241,220	-4,311,835
Others	290,999	218,458	340,633	437,728	572,355
<b>LIQUIDITY</b>	3,328,958	4,329,298	5,024,914	6,942,262	11,310,681
<b>Money</b>	937,470	1,152,876	1,322,788	1,657,686	2,052,008
Currency outside banks	908,223	1,114,750	1,282,144	1,599,550	1,989,737



Demand deposit	29,247	38,126	40,645	58,136	62,271
<b>Quasi-money</b>	<b>2,391,488</b>	<b>3,176,422</b>	<b>3,702,126</b>	<b>5,284,576</b>	<b>9,258,673</b>
Time and saving deposits	81,852	97,328	112,709	88,604	121,023
Foreign currency deposits	2,309,636	3,079,093	3,589,417	5,195,972	9,137,650

Table 5: **Monetary Survey**

( Annual percentage change)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
- - - -					
-					
<b>NET FOREIGN ASSETS</b>	<b>7.76</b>	<b>19.10</b>	<b>14.15</b>	<b>31.95</b>	<b>48.59</b>
Foreign assets	10.78	15.62	12.05	24.55	55.43
Foreign liabilities	31.60	-4.01	-2.62	-36.18	171.46
<b>NET DOMESTIC ASSETS</b>	<b>17.72</b>	<b>33.08</b>	<b>3.65</b>	<b>37.44</b>	<b>304.51</b>
<b>Domestic Credit</b>	<b>28.34</b>	<b>33.02</b>	<b>22.68</b>	<b>35.71</b>	<b>70.72</b>
<b>Net claims on government</b>	<b>-7.38</b>	<b>-63.15</b>	<b>-101.81</b>	<b>-126.36</b>	<b>-90.48</b>
Claims	16.21	-0.06	-9.30	-12.21	3.60
Deposits	13.76	16.50	31.48	65.85	70.39
<b>Non government</b>	<b>25.99</b>	<b>35.90</b>	<b>31.77</b>	<b>51.64</b>	<b>75.93</b>
State enterprises	-99.31	-100.00	0.00	0.00	-43.55
Private sector	26.23	35.90	31.77	51.56	76.00
Of which in foreign currency	21.93	39.87	34.06	52.75	77.26
<b>Other items (net)</b>	<b>-6.51</b>	<b>-8.81</b>	<b>-16.75</b>	<b>-22.12</b>	<b>-35.00</b>
Restricted deposits	13.99	-6.68	21.00	26.06	64.23
Capital and reserves	7.51	4.92	20.46	22.76	33.03
Others	17.29	-24.93	55.93	28.50	30.76
<b>LIQUIDITY</b>	<b>15.25</b>	<b>30.05</b>	<b>16.07</b>	<b>38.16</b>	<b>62.93</b>
<b>Money</b>	<b>15.27</b>	<b>22.98</b>	<b>14.74</b>	<b>25.32</b>	<b>23.79</b>
Currency outside banks	18.57	22.74	15.02	24.76	24.39
Demand deposit	-38.17	30.36	6.61	43.04	7.11

<b>Quasi-money</b>	<b>15.24</b>	<b>32.82</b>	<b>16.55</b>	<b>42.74</b>	<b>75.20</b>
Time and saving deposits	10.15	18.91	15.80	-21.39	36.59
Foreign currency deposits	15.43	33.32	16.57	44.76	75.86

Table 6: Monetary Authority

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	
	(in millions of riels)					
<b>Net Foreign Assets</b>	<b>3,494,352</b>	<b>4,114,315</b>	<b>4,433,729</b>	<b>5,728,720</b>	<b>8,579,119</b>	
Foreign assets	3,906,155	4,506,439	4,767,720	5,728,720	8,579,119	
Foreign liabilities	-411,803	-392,124	-333,991	-	-	
<b>Net Domestic Assets</b>	<b>1,344,399</b>	<b>1,449,811</b>	<b>1,796,580</b>	<b>-2,345,933</b>	<b>-3,560,928</b>	
Claims on central government (net)	<b>-218,656</b>	<b>-255,829</b>	<b>-406,738</b>	<b>-806,937</b>	<b>-1,631,996</b>	
Claims	269,389	269,777	270,409	286,445	296,760	
Deposits	-488,045	-525,605	-677,147	-1,093,382	-1,928,756	
Claims on deposit money banks (net)	-90,383	-83,904	-101,242	-92,060	-151,491	
Claims on private sector (net)	0	2,536	2,404	2,119	2,045	
Other items (net)	1,035,360	1,112,614	1,291,004	-1,449,056	-1,779,486	
<b>Reserve money</b>	<b>2,149,953</b>	<b>2,664,504</b>	<b>2,637,149</b>	<b>3,382,787</b>	<b>5,018,190</b>	
Currency outside banks	908,223	1,114,750	1,282,144	1,599,550	1,989,737	
Currency in banks	59,578	26,032	26,868	29,718	47,179	
Bank deposits	1,182,153	1,518,713	1,321,941	1,736,254	2,968,466	
Reserve deposits	193,363	244,197	302,256	427,961	777,660	
Other deposits	988,790	1,274,516	1,019,686	1,308,293	2,190,806	
Others		5,009	6,196	17,264	12,808	
	(Annual percentage change)					
<b>Net Foreign Assets</b>	<b>8.53</b>	<b>17.74</b>	<b>7.76</b>	<b>29.21</b>	<b>49.76</b>	
Foreign assets	8.55	15.37	5.80	20.16	49.76	
Foreign liabilities	8.75	-4.78	-14.83	-100.00	0.00	
<b>Net Domestic Assets</b>	<b>-8.51</b>	<b>-7.84</b>	<b>-23.92</b>	<b>-30.58</b>	<b>-51.79</b>	
Claims on central government (net)		-36.63	-17.00	-58.99	-98.39	102.25
Claims	0.12	0.14	0.23	5.93	3.60	
Deposits	13.74	7.70	28.83	61.47	76.40	
Claims on deposit money banks (net)		11.67	-7.17	20.66	-9.07	64.56
Claims on private sector (net)			-5.23	-11.84	-14.92	
Other items (net)	-3.74	-7.46	-16.03	-12.24	-22.80	
<b>Reserve money</b>	<b>8.55</b>	<b>23.93</b>	<b>-1.03</b>	<b>28.27</b>	<b>48.34</b>	

Currency outside banks	18.57	22.74	15.02	24.76	24.39
Currency in banks	79.80	-56.31	3.21	10.61	58.76
Bank deposits	0.05	28.47	-12.96	31.34	70.97
Reserve deposits	14.55	26.29	23.78	41.59	81.71
Other deposits	-2.37	28.90	-19.99	28.30	67.46
Others	0.00	0.00	23.69	178.63	-25.81

Table 7: Deposit Money Banks

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
	(in milliom riels)				
<b>Net Foreign Assets</b>	<b>532,872</b>	<b>682,246</b>	<b>1,041,390</b>	<b>1,495,584</b>	<b>2,155,584</b>
Foreign assets	834,636	975,088	1,374,395	1,921,277	3,311,184
Foreign liabilities	-301,764	-292,842	-333,005	-425,693	-1,155,600
<b>Net Domestic Assets</b>	<b>558,134</b>	<b>958,154</b>	<b>1,275,133</b>	<b>1,962,246</b>	<b>4,020,278</b>
<b>Domestic credit</b>	<b>1,369,110</b>	<b>1,869,383</b>	<b>2,385,275</b>	<b>3,489,626</b>	<b>6,160,004</b>
Claims on central government (net)	90,740	47,140	-14,424	-146,403	-183,900
Claims on public enterprises	14	0	0	2,085	1,177
Claims on private sector	1,336,616	1,813,966	2,391,247	3,625,605	6,382,727
Claims on MA (net)	-58,260	8,278	8,452	8,339	-40,000
<b>Other items (net)</b>	<b>-810,976</b>	<b>-911,229</b>	<b>-1,110,143</b>	<b>-1,527,380</b>	<b>-2,139,726</b>
<b>Reserves</b>	<b>1,329,729</b>	<b>1,569,138</b>	<b>1,420,051</b>	<b>1,867,616</b>	<b>3,132,273</b>
Cash	59,578	26,032	26,868	29,718	47,179
Deposits at the NBC	1,270,151	1,543,106	1,393,183	1,837,898	3,085,094
<b>Domestic liabilities</b>	<b>2,420,735</b>	<b>3,209,538</b>	<b>3,736,574</b>	<b>5,325,447</b>	<b>9,308,135</b>
Demand deposits	29,247	33,116	34,449	40,871	49,462
Time and savings deposits	81,852	97,328	112,709	88,604	121,023
Foreign currency deposits	2,309,636	3,079,093	3,589,417	5,195,972	9,137,650
<b>Total assets = Total liabilities</b>	<b>3,877,688</b>	<b>4,706,202</b>	<b>5,579,164</b>	<b>7,963,132</b>	<b>13,542,536</b>
	(Annual percentage change)				
<b>Net Foreign Assets</b>	<b>2.98</b>	<b>28.03</b>	<b>52.64</b>	<b>43.61</b>	<b>44.13</b>
Foreign assets	22.56	16.83	40.95	39.79	72.34
Foreign liabilities	84.52	-2.96	13.71	27.83	171.46
<b>Net Domestic Assets</b>	<b>67.03</b>	<b>71.67</b>	<b>33.08</b>	<b>53.89</b>	<b>104.88</b>
<b>Domestic credit</b>	<b>24.11</b>	<b>36.54</b>	<b>27.60</b>	<b>46.30</b>	<b>76.52</b>
Claims on central government (net)	121.81	-48.05	-130.60	915.00	25.61
Claims on public enterprises	-99.33	-100.00	0.00	100.00	-43.55
Claims on private sector	26.23	35.71	31.82	51.62	76.05
Claims on MA (net)	(-)	-114.21	2.11	-1.34	-579.67
<b>Other items (net)</b>	<b>-5.46</b>	<b>-12.36</b>	<b>-21.83</b>	<b>-37.58</b>	<b>-40.09</b>

<b>Reserves</b>	<b>4.63</b>	<b>18.00</b>	<b>-9.50</b>	<b>31.52</b>	<b>67.72</b>
Cash	79.80	-56.31	3.21	10.61	58.76
Deposits at the NBC	2.62	21.49	-9.72	31.92	67.86
<b>Domestic liabilities</b>	<b>14.05</b>	<b>32.59</b>	<b>16.42</b>	<b>42.52</b>	<b>74.79</b>
Demand deposits	-38.17	13.23	4.02	18.64	21.02
Time and savings deposits	10.15	18.91	15.80	-21.39	36.59
Foreign currency deposits	15.43	33.32	16.57	44.76	75.86
<b>Total assets = Total liabilities</b>	<b>15.47</b>	<b>21.37</b>	<b>18.55</b>	<b>42.73</b>	<b>70.07</b>

**Table 8: Credit Granted Classified by Type of Business**  
**(Excluding Provincial Branches of NBC)**  
(In Million Riel)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Agriculture	43,947	64,774	69,287	148,717	305,245
Manufacturing	187,563	269,187	258,756	410,579	625,585
Construction	83,154	97,972	144,957	269,067	640,685
Wholesale & Retail	225,564	363,049	532,450	783,479	1,371,077
Export	117,471	77,615	37,507	26,209	13,728
Import	81,356	110,973	168,046	142,642	229,663
Finance	102,148	100,068	26,485	24,004	36,495
Real Estate & Public Utilities	66,392	50,329	147,555	298,886	495,447
Services	478,440	675,634	667,473	1,146,160	1,802,350
Other	34,569	102,568	239,925	222,388	739,422
<b>TOTAL</b>	<b>1,420,604</b>	<b>1,912,169</b>	<b>2,292,442</b>	<b>3,472,130</b>	<b>6,259,697</b>

**Table 9: Deposits with Deposit Money Banks**  
**(Excluding Provincial Branches of NBC)**  
(In Million Riel)

	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
<b>Deposits in Riel</b>					
Demand deposits	30,799	37,891	40,712	49,991	53,560
Savings deposits	41,119	49,169	62,797	91,688	135,087
Fixed deposits	40,818	40,373	41,643	42,679	49,649
Others	0	2,421	2,438	1,360	1,221
<b>Total</b>	<b>112,736</b>	<b>129,855</b>	<b>147,590</b>	<b>185,719</b>	<b>239,517</b>
<b>Deposits in Foreign Currency</b>					
Demand deposits	687,230	792,466	958,804	1,393,533	2,312,742
Savings deposits	1,067,329	1,478,007	1,703,153	2,224,594	4,518,257
Fixed deposits	740,115	881,644	1,071,863	1,813,279	2,763,061
Others	2,386	45,816	45,811	69,910	88,894
<b>Total</b>	<b>2,497,061</b>	<b>3,197,933</b>	<b>3,779,631</b>	<b>5,501,316</b>	<b>9,682,955</b>
<b>GRAND TOTAL</b>	<b>2,609,796</b>	<b>3,327,788</b>	<b>3,927,221</b>	<b>5,687,035</b>	<b>9,922,472</b>



# Cambodia: Balance of Payments

Financing analysis, 2004-2007 (US\$ million)

	2004	2005	2006	2007 <sup>F</sup>
<b>Balance of trade</b>	<b>-680.6</b>	<b>-1,017.6</b>	<b>-1,056.1</b>	<b>-1,270.4</b>
Exports fob	2,588.9	2,910.3	3,693.1	4,041.2
Domestic exports	2,454.5	2,772.8	3,537.2	3,856.8
GSP exports (mainly garments)	2,078.5	2,260.7	2,726.8	3,014.5
Other domestic exports	375.9	512.2	810.5	842.3
Re-exports (including profit and transportation cost)	134.4	137.4	155.8	184.4
Imports fob	-3,269.5	-3,927.8	-4,749.2	-5,311.5
Retained imports	-3,166.2	-3,809.9	-4,613.6	-5,143.0
Garment sector	-1,010.1	-1,102.3	-1,297.7	-1,408.6
Petroleum	-609.9	-841.6	-1,123.4	-1,256.2
Other retained imports	-1,546.2	-1,866.1	-2,192.5	-2,478.1
Imports for re-exports	-103.3	-117.9	-135.6	-168.6
<b>Net services</b>	<b>290.5</b>	<b>471.1</b>	<b>506.5</b>	<b>643.9</b>
Receipts	804.9	1,118.1	1,296.3	1,546.5
Transportation services	104.8	126.9	166.8	201.2
Travel services	603.5	839.5	963.2	1,149.4
Other services	96.7	151.6	166.3	195.9
Payments	-514.4	-647.1	-789.8	-902.6
Transportation services	-298.4	-360.3	-436.0	-496.1
Travel services	-47.6	-96.9	-122.2	-136.1
Other services	-168.4	-189.9	-231.7	-270.5
<b>Net income</b>	<b>-221.0</b>	<b>-254.0</b>	<b>-290.4</b>	<b>-276.7</b>
Receipts	48.6	67.7	90.0	111.1
Payments	-269.6	-321.8	-380.4	-387.8
<b>Private transfers, net</b>	<b>175.8</b>	<b>209.3</b>	<b>315.1</b>	<b>332.0</b>
<b>BALANCE ON CURRENT ACCOUNT</b> (excluding official transfers)	<b>-435.3</b>	<b>-591.3</b>	<b>-525.0</b>	<b>-571.2</b>
<b>Official transfers</b>	<b>320.5</b>	<b>325.7</b>	<b>449.1</b>	<b>415.9</b>
Receipts	320.8	326.0	449.4	416.2
Of which: Grants	6.4	2.7	7.0	21.3
Food aid	20.2	17.1	20.1	29.4
Project aid	158.9	163.4	254.5	186.6
TA salaries	135.3	142.8	167.8	178.9
Payments	-0.3	-0.3	-0.3	-0.3
<b>BALANCE ON CURRENT ACCOUNT &amp; CAPITAL TRANSFERS</b>	<b>-114.8</b>	<b>-265.6</b>	<b>-75.8</b>	<b>-155.3</b>
<b>FINANCIAL ACCOUNT</b>	<b>219.1</b>	<b>334.9</b>	<b>323.8</b>	<b>450.9</b>
<b>Official sector loans</b> (excluding IMF), net	<b>154.4</b>	<b>144.0</b>	<b>122.7</b>	<b>173.0</b>
Drawings	162.7	153.3	131.7	184.0
Repayments	-8.3	-9.3	-9.0	-11.1
<b>Non-official sector investment</b>	<b>64.7</b>	<b>190.9</b>	<b>201.1</b>	<b>277.9</b>
Direct Investment, net	121.2	374.9	474.8	711.2
Portfolio Investment, net	-8.0	-7.2	-12.1	-12.4
Other Investment, net	-48.5	-176.8	-261.6	-420.9
<b>Net errors and omissions</b>	<b>-45.8</b>	<b>-5.1</b>	<b>-46.1</b>	<b>-5.7</b>
<b>OVERALL BALANCE</b>	<b>58.5</b>	<b>74.4</b>	<b>201.9</b>	<b>289.9</b>
<b>FINANCING</b>	<b>-58.5</b>	<b>-74.4</b>	<b>-201.9</b>	<b>-289.9</b>
Net foreign assets of the NBC (excluding monetary gold)	-71.3	-87.1	-220.7	-302.7
Change in Reserve Assets	-61.0	-78.4	-138.6	-302.7
Use of IMF credit	-10.3	-8.8	-82.1	0.0
Exceptional financing	12.8	12.8	18.8	12.8

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

Notes: - Provisional data for 2003-2006, subject to change.

- F = Forecast.