

**KINGDOM OF CAMBODIA
NATIONAL RELIGION KING**



National Bank of Cambodia

ANNUAL REPORT 2005

FOREWORD BY THE GOVERNOR

According to data produced by the International Monetary Fund in its *World Economic Outlook*, global and regional economic growth remains solid and inflation pressure has subsided, i.e., global financial conditions are favorable. Global growth for 2005 is projected at 4.3%, as against 5.1% in 2004, and has been supported primarily by accommodative monetary and fiscal policies, improved corporate balance sheets and financial stability. In general, the global economic and financial environment is expected to continue to be strong despite the negative effects of high oil prices, natural disasters, and avian flu. However, two major economic blocs seem to be registering slower growth this year. Growth for the "euro area" is projected to slow down to 1.2% (from 2% in 2004), while the United States is expected to record a growth rate of 3.5% (4.2% in 2004). In contrast, China and India are projected to maintain high growth rates of 9% and 7.1%, respectively. GDP growth for the ASEAN and the "plus three" countries, on the other hand, is likely to average 6.5% in 2005 (6.8% in 2004) while GDP for the ASEAN 10 as a whole is expected to expand by 5.4%.

In the year 2005, despite the remaining obstacles and difficulties both at home and abroad, Cambodia enjoyed remarkable social and economic achievements and experienced a relatively high economic growth rate. Growth is expected to slow down to 7% in 2005, which is lower than last year's growth by just 0.7 percentage points.

The annual growth rate of garment exports is projected at 5% in 2005. The overall impact of the quota removal on the balance of payments, however, was modest as garment-related inputs, almost all of which are imported, and profit remittances stemming from investment in the textile sector recorded modest increases. Nevertheless, a small widening in current account deficit of the BOP of around 17% occurred, mainly as a result of the hike in oil prices in the global market. The deficit is expected to be offset by increased foreign financing, resulting in a small surplus of the overall external balance.

As always, the country's international reserves remain under careful and prudent management to ensure their safety. By the end of the reviewed year, net international reserves increased by 17.6% over the previous year's level and were sufficient to provide finance for about three months of imports.

With respect to monetary policy implementation, the Cambodian economy has enjoyed a low and stable price level for about five years in row since 1999, when the average annual inflation rate hovered around 1 %. Unfortunately, in the year 2004 and this year, the economy has been directly impacted by one of the country's chief economic concerns: the unprecedented level of fuel prices. High fuel prices are a burden on all sectors: consumers, producers, and the government as well. Higher petroleum prices and an increase in local food prices pushed inflation up to 6% in December 2005. The National Bank of Cambodia (NBC) has made various efforts to reduce inflation pressure, especially by controlling the superfluous expansion of money in circulation.

In the reviewed year, sharp fluctuations in global currency markets threw a shadow on the local foreign exchange market. In contrast to previous years, activity in the foreign exchange market during 2005 indicated a more volatile movement of the riel. While the Cambodian currency remained largely stable at around 4,030 riel per US dollar during the first quarter of 2005, it lost considerable ground against the greenback over the course of the subsequent quarters. As measured by the average market-buying rate, the riel-US dollar exchange rate depreciated in December 2005 by about 2% over the previous 12 months.

NBC is committed to performing financial intermediation. The financial sector has made satisfactory progress, although from an initial low base. Financial deepening has improved, reflecting financial stability, and increased financial services promoted through the institutional and legal reforms under the ten-year financial sector blueprint. Broad money supply (M2) to GDP has risen from 21.8% of GDP in 2004 to 26.8% of GDP in December 2005 - a major structural improvement. Credit to the private sector and banks' deposits have correspondingly risen from 10% and 16.9% of GDP at end of 2004 to an estimated 12.6% and 19.2% of GDP, respectively, a year later. All banks are now well-capitalized and relatively liquid.

A remarkable accomplishment during 2005 was the establishment of the legal framework for the development of an effective and reliable money and inter-bank market. Due to the importance of the money market and the need to ensure safety and the efficiency of the payment system in the country with the aim of promoting non-cash payments, the *Law on Negotiable Instruments and Payment Transactions*, has been recently promulgated.

Another important accomplishment was observed in the area of the internal restructuring of NBC. In the year 2005, reform in the Inspection General yielded noteworthy

progress with the establishment of the Internal Audit Department and the Inspection Department in accordance with the Sub-decree on Internal Audit issued by the Royal Government of Cambodia. Furthermore, a number of related legislative measures were prepared, including the *Code of Ethics for the Auditors* and the *Manual on Audit Procedures*.

In addition, based on the spirit of improving good governance and transparency as set out in the Rectangular Strategy of the government, NBC has continued to closely cooperate with related institutions in order to press forward with public finance reforms. In this context, various new accounts with NBC have been opened for public institutions and agencies with the objective of facilitating and improving revenue-expenditure management.

NBC continues its efforts to develop its existing supervisory body into an effective supervisory regime. To this end, the agenda of refining the supervisory framework continued to focus on updating the off-site surveillance system, while staff capacity to undertake on-site supervision has been upgraded. In addition, a comprehensive legal and institutional framework to combat money laundering and terrorism financing will soon be established.

The absence of reliable borrower information or enforceable financial contracts has been a significant impediment to financial intermediation, particularly for SMEs. Recognizing this shortcoming, most banks have recently agreed to participate in a voluntary credit information sharing system to be managed by NBC. Technical preparation for this pilot project has recently been finalized. Legal framework in the form of guidelines for the implementation of the system and the code of conduct are being developed. Furthermore, NBC is now preparing the introduction of legal framework for leasing activities in order to add another source of financing for small- and medium-sized businesses.

Regarding rural finance, with the aim of launching a National Summit on Microfinance in early 2006, various arrangements were made by NBC toward the end of 2005. The main objective of the gathering is to share information, experiences and the recent success in promoting the microfinance sector among national and international partners. Microfinance in Cambodia has been widely praised for having been developed in a precise and promising direction. Noticeable progress in this area has been observed so far in promoting the licensing and registration of MFIs with the aim of strengthening their status and resources, which would in turn enhance their operations. By the end of 2005, sixteen micro finance institutions were licensed and twenty-four institutions were registered as rural micro finance operators.

NBC will continue to press ahead with other important reforms in order to lay the

necessary steps for the implementation of the new program under the Poverty Reduction and Growth Strategy to be set out in collaboration with the Royal Government of Cambodia and the International Monetary Fund in the near future.

On the whole, with the wholehearted support of all NBC officials and staff, as well as the government and NBC's international development partners, the results of the 2005 operations of NBC have been very positive. Nevertheless, many things remain to be done within the framework of the Financial Sector Blueprint 2001-2010. We know that we must address many issues in order to ensure that we can have a strong, active and efficient banking intermediation mechanism in our economy. I am personally committed to working in this direction. The banking industry has served the country well these last few years. I am sure that by working together we can have more success in the future by addressing all of the points of common concern.

Governor

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Introduction

The Cambodian economy achieved a growth rate of 7 percent in 2005, as compared to the 7.7 percent growth in 2004. This economic expansion has been supported by a better than expected outcome in a number of important sectors, including the increases in the agricultural sector and the service sector of 4.5 percent and 6 percent, respectively. The contribution from the manufacturing industry, the largest export sector in Cambodia, has remained positive, though its growth rate is projected to slow down to around 5.3 percent, as against the rate of growth of 25 percent a year earlier.

Also in the reviewed year, higher oil prices and drought in the beginning of the year exerted some pressure on the consumer prices inflation, which has risen to 6.7 percent in contrast to an annual inflation rate of 5.6 percent in 2004. Money supply M2 reached a growth rate of 16.1 percent in 2005, a striking slowdown when compared to the 30 percent increase recorded in the year before.

Meanwhile, the exchange rates of the riel against the US dollar moved upward remarkably during the first half of the year. However, the upward trend slowed down toward year's end, and the riel traded at 4,117 riel per US dollar on the 31st of December 2005.

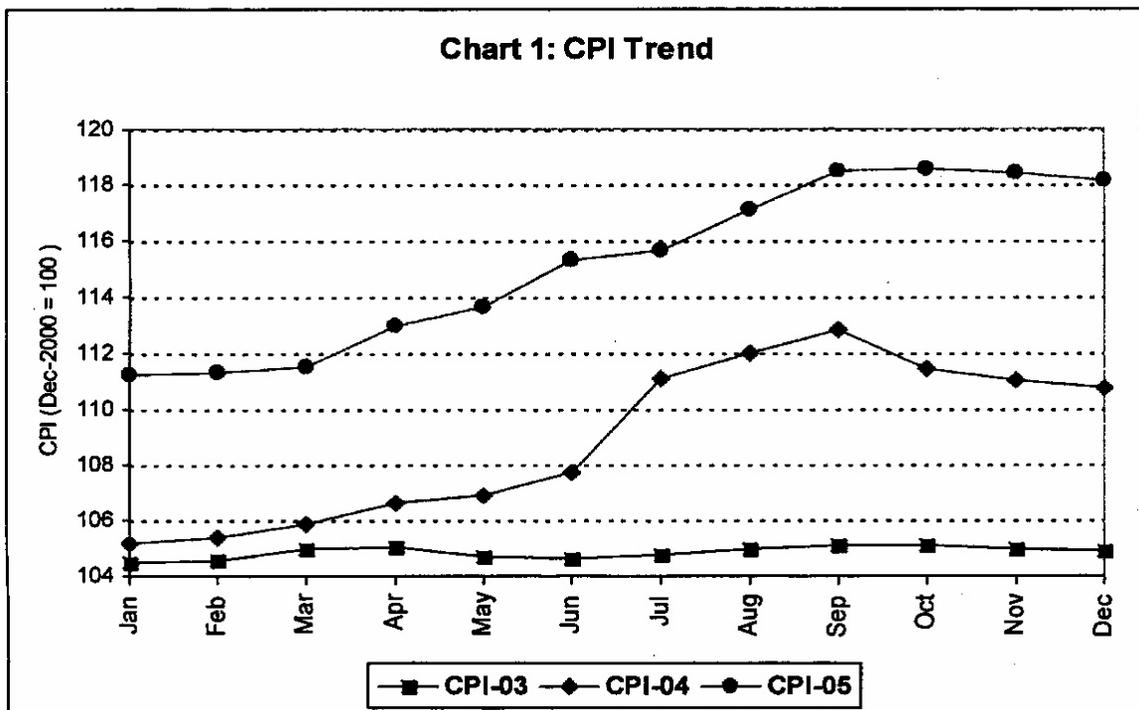
While maintaining its long-term course, during the reporting period the National Bank of Cambodia (NBC) continued to carefully conduct its monetary policy in a manner that is attuned to the fiscal policy of the Royal Government. This course of action is aimed toward providing macroeconomic stabilization, thereby strengthening and increasing the public's and investors' confidence in the country's economic policy framework. During the same time period, reforms in the banking sector showed remarkable progress in the development of the institutional and legal framework, as well as human resource capacity. NBC will continue to carry out further necessary reforms and by doing so will prepare itself for the implementation of the reform program as will be set out in the new Poverty Reduction and Growth Facility to be jointly formulated between the Royal Government of Cambodia and the International Monetary Fund in the near future.

I. Macroeconomic developments

1. Prices and exchange rate movements

1.1 Retail prices and inflation

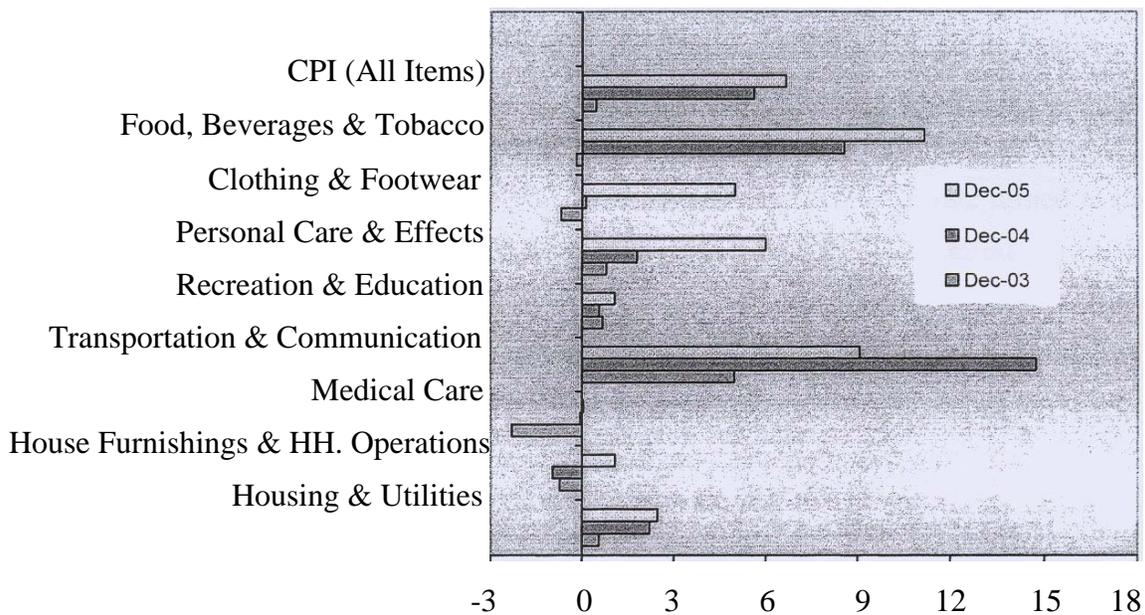
In 2005, movements in the consumer price indexes indicate a trend of an uninterrupted increase in the inflation rates from the beginning of the year until October, while the last two months of the year saw a slowdown in the pace of the general price increases. The rise in the annual inflation rate in the year under consideration was the highest-ever level in the last six years following the outbreak of the economic and financial crisis in Asia in 1997/1998. The jump is mainly attributable to a surge in local food prices but was also supported by the direct and indirect influence of consecutive growth in the price of imported fuel on locally sold consumer goods and services.



In statistical figures, the consumer price index increased from 110.8 in December 2004 to 118.1 in December 2005. As a result, the annual inflation rate represented by the consumer price index rose to 6.7 percent in 2005 as against the inflation rates of 5.6 percent and 0.5% in 2004 and 2003, respectively. The increase in the inflation rate in the reporting year represented, therefore, an increase of 1.1 points from the previous year and 6.2 points from 2003.

The increase in the overall consumer price index in 2005 reflected on one hand, the impressive increase in the sub-index of food, beverage and tobacco of 11.1 percent. It mirrored on the other hand, the rise in the sub-index of transportation and communication by 9.1 percent by the direct influence of growth in imported fuel. At the same time, all other remaining sub-indices registered moderate increases, moving up in a range between 0.04 percent and 6 percent.

Chart 2: Movements of the CPI sub-indices



1.2 Exchange rate movements

1.2.1 The exchange rates of riel against the US dollar

The exchange rate policy conducted by NBC since the introduction of the market economy in the early 90s aims to stimulate price stability, support an environment for economic sustainable growth, and decrease financial and business risk, by keeping a stable exchange rate.

In 2005, in the local foreign exchange market the nominal exchange rate of the riel against the US dollar as measured by the market purchase rate indicated a relatively large

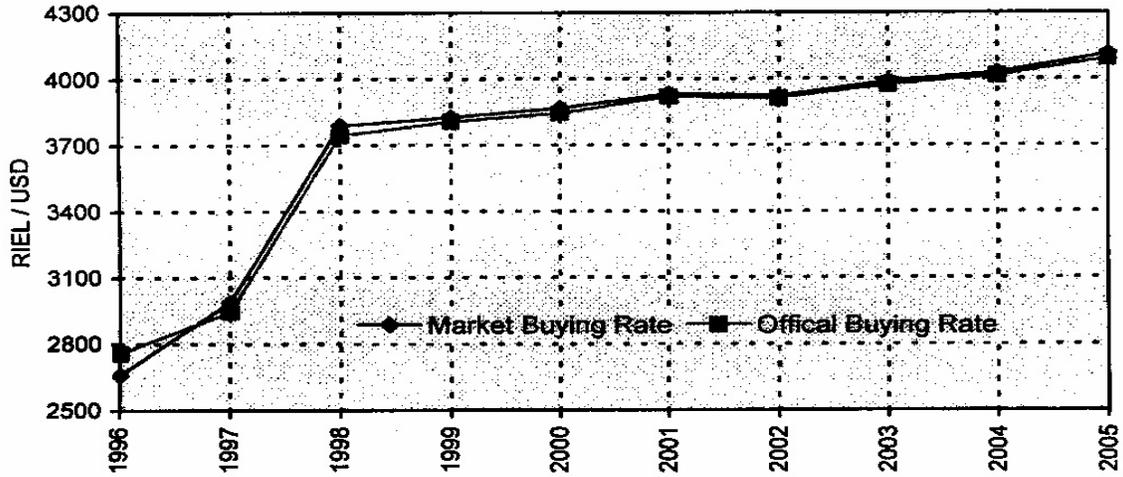
fluctuation compared with the previous year. The nominal exchange rate of the riel against US dollar rose by 82 riel, or 2.03 percent, from 4,035 riel per US dollar at the end of 2004 to 4,117 riel per US dollar at the end of 2005. By comparison, during the same period last year, the exchange rate of riel increased by 54 riel, or 1.4 percent relative to the US dollar. During 2004, the depreciation of the riel was between 5 and 97 riel per US dollar, but during 2005 the exchange rate movements had a comparatively higher deviation of 2 to 176 riel.

During the period from April to July 2005, on a month-to-month basis the riel market exchange rate rose in the range between 20 riel and 75 riel, whereas July saw the highest monthly depreciation of up to 72 riel per US dollar, with the average market buying rate of the month reaching 4,172 riel per US dollar. Facing this situation, in order to smooth market demand NBC subsequently conducted several US dollar auctions. As a result, during August the market exchange rate turned to drop gradually, and the riel valued on average 4,162 riel per US dollar during that month. After losing some ground again in October, the value of the local currency steadily gained back some strength toward the end of the reporting year. In December 2005, the market exchange rate of the riel against the US dollar dropped to 4,117 riel per US dollar.

NBC intervenes from time to time in the local foreign exchange market in order to reduce temporary pressure in the foreign exchange market caused by psychological factors or seasonal increases in local demand for the US dollar. NBC, however, refrains from intervening in the market to resist currency fluctuations triggered by changes in underlying internal economic fundamentals or currency adjustments that move in line with international foreign exchange markets.

In general, the movements of the exchange rate of the riel against the US dollar showed a trend similar to that observed during 2004 and years before. The value of the riel compared to the US dollar was largely stable during the first quarter of the year, then became weaker to some extent during the second and third quarter, and finally recovered gradually during the last quarter of the year. Therefore, it is likely that seasonal factors associated with the collection of agricultural products during the harvest season exert an impact on the pattern of the demand and supply of riel.

Chart 3: Trend of Yearly Average Exchange Rate



The table below points to the dual exchange rate system in Cambodia: the official rate and the market rate. Adjustments to the official exchange rate are made daily by NBC to limit the spread between the official and parallel market rates to less than 1 %. The official exchange rate applies mainly to external transactions conducted by the government and state-owned enterprises and is used by banks for recording all transactions in foreign currency.

**Table: Riel Exchange Rate Against the US Dollar
(Riel/Dollar)**

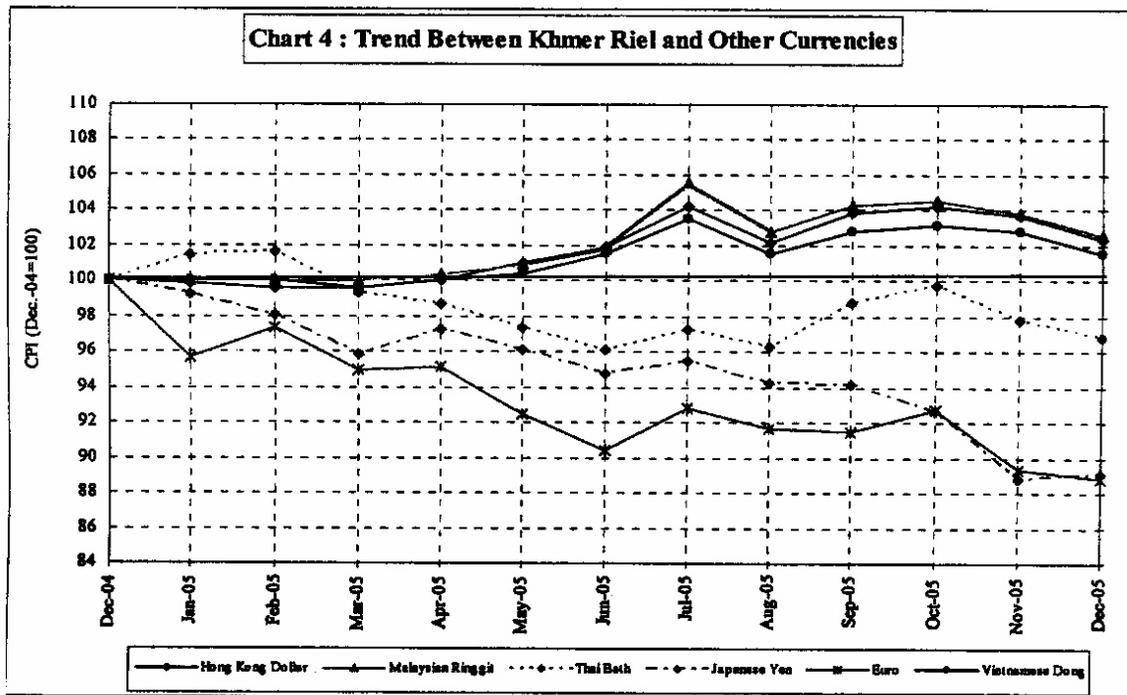
| | Monthly Exchange Rate (End month) | | | | | |
|--------|-----------------------------------|-------|----------|---------------|-------|----------|
| | Market Rate | | | Official Rate | | |
| | Purchase | Sale | Midpoint | Purchase | Sale | Midpoint |
| Dec-04 | 4,035 | 4,041 | 4,038 | 4,027 | 4,035 | 4,031 |
| Jan-05 | 4,035 | 4,041 | 4,038 | 4,030 | 4,038 | 4,034 |
| Feb-05 | 4,032 | 4,039 | 4,036 | 4,027 | 4,035 | 4,031 |
| Mar-05 | 4,034 | 4,040 | 4,037 | 4,027 | 4,035 | 4,031 |
| Apr-05 | 4,055 | 4,065 | 4,060 | 4,042 | 4,050 | 4,046 |
| May-05 | 4,096 | 4,105 | 4,101 | 4,067 | 4,075 | 4,071 |
| Jun-05 | 4,133 | 4,140 | 4,137 | 4,102 | 4,110 | 4,106 |
| Jul-05 | 4,205 | 4,224 | 4,215 | 4,197 | 4,205 | 4,201 |
| Aug-05 | 4,208 | 4,217 | 4,213 | 4,112 | 4,120 | 4,116 |
| Sep-05 | 4,198 | 4,207 | 4,203 | 4,171 | 4,179 | 4,175 |
| Oct-05 | 4,202 | 4,213 | 4,208 | 4,186 | 4,194 | 4,190 |
| Nov-05 | 4,178 | 4,185 | 4,182 | 4,166 | 4,174 | 4,170 |
| Dec-05 | 4,117 | 4,123 | 4,120 | 4,112 | 4,120 | 4,116 |

1.2.2 The exchange rate of riel against currencies other than US dollar

Movements of the riel in 2005 indicated a mixed trend against a number of foreign currencies other than the US dollar that are measured by their respective cross rates, especially with respect to Cambodia's main trading partners outside the USA. In the previous year, the value of the riel fell by 9 percent vis-a-vis the euro, but in 2005 the riel appreciated notably, by 11.2 percent against the euro. Apparently, wide interest rate differentials between the US and the "euro area" greatly supported the US dollar, leading to a further weakening of the euro relative to dollar.

Turning to Cambodia's neighboring currencies, as of the end of the reporting year the riel strengthened against the Thai baht and the Japanese yen by 3.2 percent and 10.9 percent, respectively. In the same time period, it posted a depreciation against the

Malaysian ringgit, Hong Kong dollar, and Vietnamese dong by 2.6 percent, 2.3 percent, and 1.6 percent, respectively.



The upward line shows the depreciation of the riel

2. Monetary development

In 2005, the total money supply as measured by the banking sector's liquidity M2 continued its increasing trend, albeit at a slower pace when compared to the previous year, while both components of its counterpart, the net foreign assets and net domestic assets of the banking sector, also recorded increases. Expansion in net domestic assets was mainly brought about by the steady rise in private sector credit, while net claims on the government continued to decline.

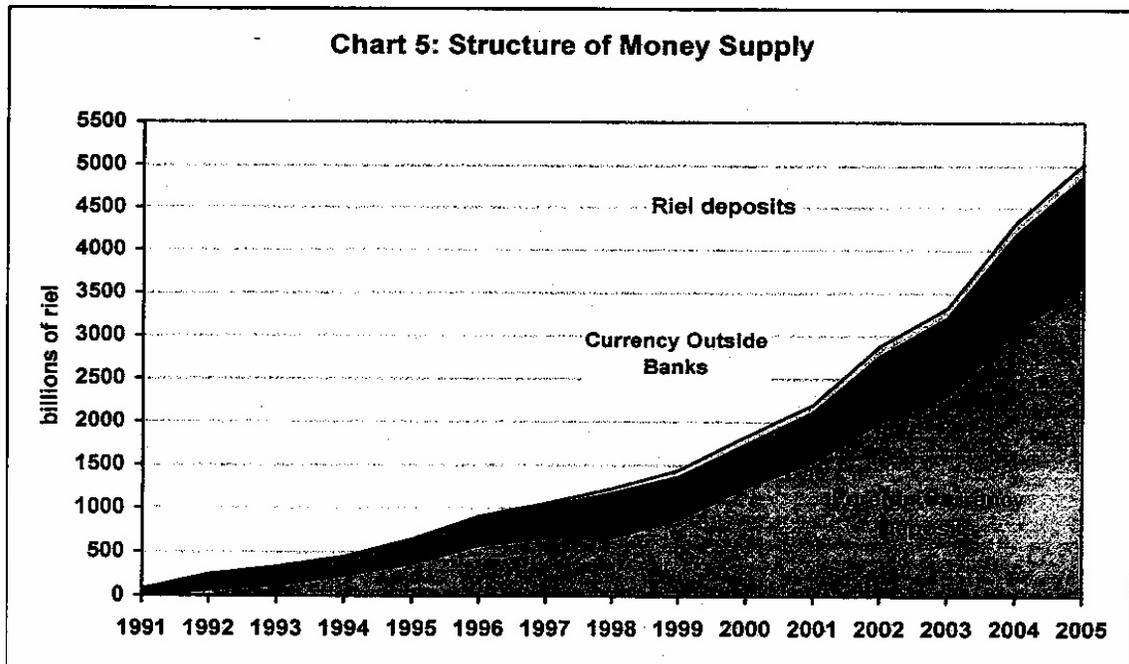
2.1 Monetary aggregates

After having risen by around 1000 billion riel the previous year, the aggregate money M2 increased by 695.6 billion riel - or by 16.1 percent from the level recorded at the end of December 2004 of 4,329.3 billion riel - and reached 5,024.9 billion riel at the end of December 2005.

The growth rate of money supply decreased in comparison with the previous year by about 14 percentage points, a result of the decline in the growth rate of both narrow

money M1 and quasi-money. Fluctuations in narrow money in the course of the year highly correlated with movements in currency outside banks. In fact, following a noticeable increase of 206.5 billion riel in 2004, currency outside banks expanded by a more moderate pace of 167.4 billion riel, in 2005, even lower than the growth rate recorded in 2001. Resident demand deposits denominated in local currency remained marginal, reaching only 40 billion riel at the end of the reporting year, with an increase of just two billion riel over the whole of 2005.

During the same period, the foreign currency component of broad money expanded more rapidly than currency outside banks. Foreign currency deposits added 510.3 billion riel, or 16.6 percent, a decrease of 259.2 billion riel, or 16.7 percentage points on growth in the previous year. While foreign currency deposits continued to drive growth in broad money during the year, all of its components - foreign currency savings, time, and current deposits found favor with investors. These three items rose by 225.1 billion riel, - 190.2 billion riel, and 166.3 billion riel, respectively. Overall, foreign currency deposits recorded increases almost every month throughout the reporting year except for the period of June and August, in which a moderate decrease was observed for this type of deposit.



Percent Change in Monetary Statistics and Consumer Price Index

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------------------|---------|--------|-------|--------|---------|
| Net claims on government | -2345 % | -58.8% | -7.4% | -63.1% | -101.8% |
| Credit of private sector | 4.2% | 13.1% | 26.2% | 35.9% | 31.8% |
| Liquidity (M2) | 20.4% | 31.1% | 15.3% | 30.0% | 16.1% |
| Currency outside banks | 16.8% | 32.6% | 18.6% | 22.7% | 15% |
| Inflation rate (year on year) | 0.6% | 3.8% | 0.5% | 5.6% | 6.7% |

2.2 Factors affecting money supply

Up to December 2005, growth in money supply M2 slowed down to 16.1 percent, which was lower than last year's growth rate of 30 percent. The growth in broad money during the period under review mirrored increases in both components of its counterparts: the net foreign assets and the net domestic assets of the banking system.

The vigorous growth in net foreign assets of the banking system was the main contributor to monetary growth in the reporting year as this item increased by 678.6 billion riel, or 14.1 percent, on the level recorded in the previous year. The contribution of net foreign assets in the annual money supply growth of 16.1 percent in 2005 was 15.7 percent. By comparison, this item contributed 21.3 percent of the rate of growth of total banking sector liquidity of 30 percent observed in the previous year.

Meanwhile, the net domestic assets showed a far less rapid increase of just 17.1 billion riel, or 3.7 percent, compared to growth in net foreign assets. This increase was also in sharp contrast with the previous year's development when the net domestic assets rose by 231 billion riel, or 33 percent. The decline in the annual rate of growth of the net domestic assets was explained on one hand by a smaller increase in domestic credit as compared to the previous year change, while on the other hand net domestic assets were held back to some extent by a decrease in "other items (net)". In fact, in 2005, with a negative growth rate of about 16.8 percent, "other items

(net)" moved at about the same pace as in the year 2004 and thus continued to exert a significant dampening effect on monetary expansion.

In absolute terms, domestic credit registered the smallest increase recorded over the last three years, expanding by less than half the increase posted for 2004. It added 175.3 billion riel, or 10.9 percent, to 1783.1 billion riel at the end of 2005. A reduction in net claims on the government and a smaller increase in credit to the private sector relative to the previous year both contributed to the slowdown in domestic credit in the year under consideration. Net claims on the government fell by 212.5 billion riel, or nearly 102 percent, as government deposits with the banking sectors rapidly expanded, rising by 179 billion riel, or 31.5 percent. During the same period, claims on the government declined by 33.5 billion riel, or 9.3 percent.

Although net credit to the private sector continued to expand, accounting for the greater part of the increase in domestic credit, it did so at a somewhat slower pace than in 2004. In fact, this item contributed around 80 percent of the increase recorded during the previous year, adding 387.8 billion riel to 2,204 billion riel. Consequently, its annual growth rate decelerated, dropping from 35.9 percent in 2004 to 21.3 percent in 2005. The increase in overall credit to the private sector can largely be explained by the growth in credit to whole and retail trade of 169.4 billion riel, or 46.7 percent. This was followed by an increase in credit to the export sector of 99.4 billion riel, or 114.8 percent, to the manufacturing sector of 97.2 billion riel, or 193.2 percent, to the construction sector of 47 billion riel, or 48 percent, and to the agricultural sector of 4.5 billion riel, or 7 percent.

2.2.1 Financial operations of NBC

Development in the central bank's financial operations in 2005 was marked by a continuous increase in net foreign assets, a large drop in net domestic assets and a small decline in reserve money.

Net foreign assets of NBC continued to expand, up by 319.4 billion riel, or 7.8 percent, about half the pace of the year before. Foreign assets increased by 261.3 billion riel, or 5.8 percent, during 2005, while at the same time foreign liabilities declined by 58.1 billion riel, or 14.8 percent.

In 2005, reserve money recorded a small drop for the first time in many years. It

shrank by 27.4 billion riel, or 1 percent, from the previous year, as the rundown by banks of their deposits with the central bank was more than a currency issue.

The net domestic assets of NBC during the twelve-month period ending December 2005 posted a decline of 346.7 billion riel, or 23.9 percent, from -1,449.8 billion riel at the end of December 2004 to -1,796 billion riel at the end of 2005. This is a significant decline when compared with a fall of 105.4 billion riel, or 7.8 percent, recorded for the same period of last year. The net domestic assets were, therefore, the main driving force behind the decline in reserve money. The decrease in net domestic assets during the reviewed year was mainly a reflection of a reduction in net claims on government of 150.9 billion riel, or 59 percent, which coincided with a drop in "other items (net)" of 178.4 billion riel, or 16 percent. While credit to the government during the reporting year remained almost unchanged, government deposits rose by 151.5 billion riel, or 28.8 percent.

2.2.2 Operations of deposit money banks

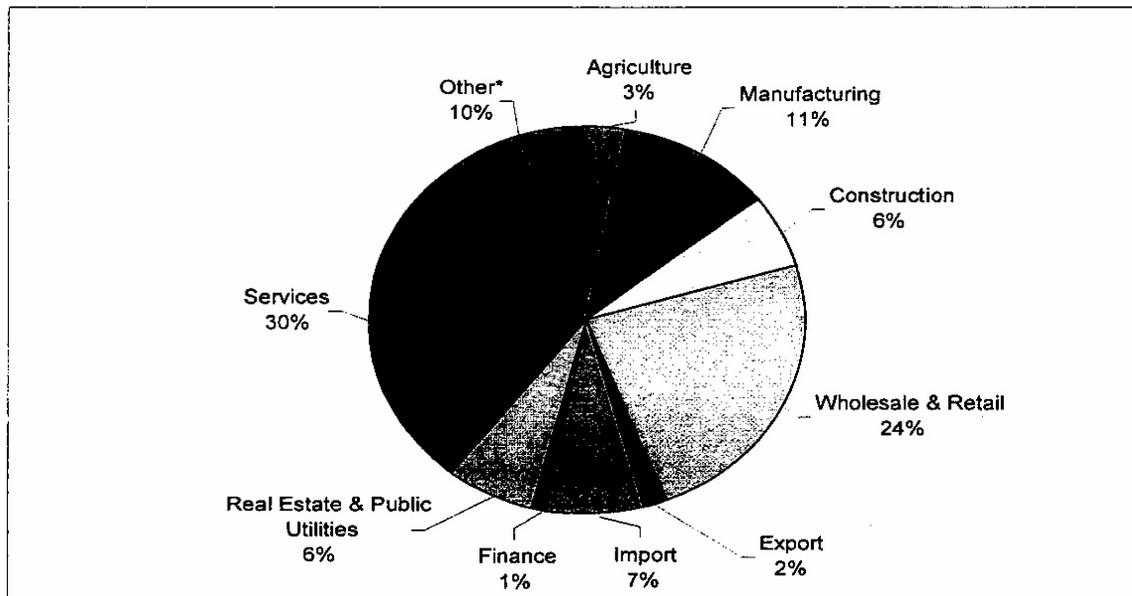
The aggregate balance sheet of deposit money banks during 2005 expanded by 873 billion riels, or 18.5 percent, as against an increase of 828.5 billion riels or 21.4 percent in 2004.

The deposit money banks' net foreign assets rose by 359.1 billion riels, or 52.6 percent, over the previous year. Banks' foreign assets increased by 399.3 billion riels, or 41 percent, to 1,374.4 billion riels, in particular on account of the increase in banks' claims on overseas banks. Meanwhile, their foreign liabilities rose moderately, up by 40.2 billion riels, or 13.7 percent.

During 2005, the banks' net domestic assets expanded by 317 billion riels, or 33.1 percent, from a stock position of 958.2 billion riels at the end of December 2004. This represented a deceleration from the growth of 71.7 percent in the previous year. The increase in the year under consideration was reflected in the expansion in deposit money banks' lending to the private sector of 577.2 billion riels, or 31.8 percent, while during the same period net claims on government were down by 61.6 billion riels, or 130.6 percent. By comparison, during 2004, credit to the private sector added 477.3 billion riels, or 35.7 percent.

Meanwhile, deposits of deposit money banks with NBC decreased by 149.9 billion riels, or 9.7 percent. "Other items (net)", on the other hand, posted a fall of 198.9 billion riels, or 21.8 percent, partly reflecting recent capital investment by a newly opened bank, ANZ Royal Bank Cambodia.

Chart 6: Banks' credit by type of business activity



Regarding the development in banks' domestic liabilities, following the sharp increase in deposit growth recorded in the previous year, the year 2005 saw a slower increase in these banks' financial resources. **In** fact, residents' deposits denominated in foreign currency, which is the largest item among all deposit categories, rose by 510.3 billion riels, or 16.6 percent, while during the same period, time and savings deposits and demand deposits surged by 15.4 billion riels and 1.3 billion riels, respectively.

3. Balance of Payments

The initial estimates on balance of payment transactions for Cambodia for the year 2005 showed that the overall balance continued to record a surplus, though a smaller one. In fact, the overall balance of payments registered a reduced surplus of US\$ 43.6 million, a decrease of US\$ 83.8 million compared to 2004. The decline

resulted mainly from an increase in the current account deficit (excluding official transfers) of 17.0% compared with last year's performance, while the inflow of the capital and financial accounts to offset the deficit increased by just 13.9 %.

3.1 Current Account (Excluding Official Transfers)

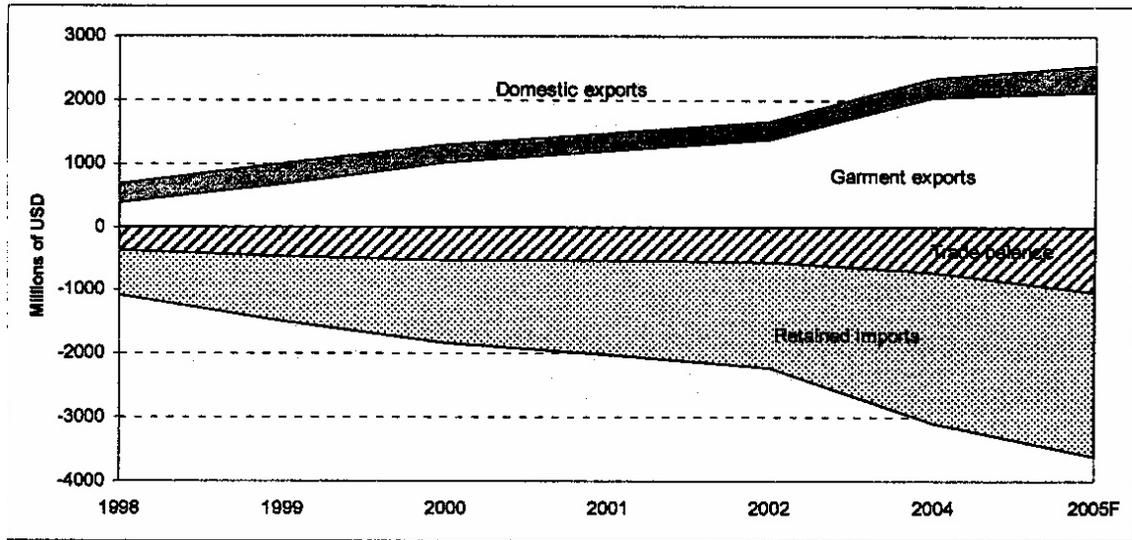
The current account deficit widened to an estimated value of US\$ 563.9 million during 2005, an increase of US\$81.7 million (17.0%) on the 2004 deficit. For 2005, the ratio of the current account deficit (excluding official transfers) to GDP was 10.5%.

Among the four sub-accounts of current account balance (the trade balance, services balance, income balance, and private transfers), the widening of the trade deficit in the year under review was the largest factor in the increase in the current account deficit. The pressure on current account was a bit more pronounced by the additional deficits recorded for income accounts. However, the impact of these two sub-accounts was partly offset by the surplus in the services account and net inflows in the form of private transfers.

The trade account recorded a deficit of US\$ 1,031 million, an increase of US\$ 313.4 million, or 43.7%, from the previous year's level. This surge was mainly due to an increase in retained imports of 17.2%, while the amount of domestic exports rose by only 9.1 % compared to 2004.

In 2005, domestic exports amounted to US\$ 2,553.5 million, an increase of US\$ 212.4 million (9.1%) compared to 2004. Nearly half of this increase is attributable to the value of garment exports under MFN and GSP, which rose by US\$ 108.7 million (5.3%) despite the fact that the quota system was removed by the end of 2004. Garment exports recorded a better performance than was expected at the beginning of the year. This positive outcome is likely the result of the introduction of safeguard measures by the United States and Europe on China which restricted access of Chinese garment imports to these two major garment markets. It should be noted that garment exports accounted for about 83.9% of Cambodia's domestic exports in 2005. Other domestic exports rose by 33.8% compared to the previous year; these were mainly agricultural produce such as rice, fishery products, and furniture and other wood products.

Chart 7: Trade balance



In 2005, retained imports were estimated at US\$ 3,620.5 million, an increase of US\$ 530.5 million (17.2%) compared to 2004. The main contributor to the increase was petroleum imports, valued at US\$ 830.8 million, up USD 255.5 million (44.4%), reflecting both increases in volume and price compared to 2004. Fuel imports contributed 22.9% of retained imports. The other major contributors were raw material imports for the garment industry, up 6.0%, and other retained imports, up 14.2%.

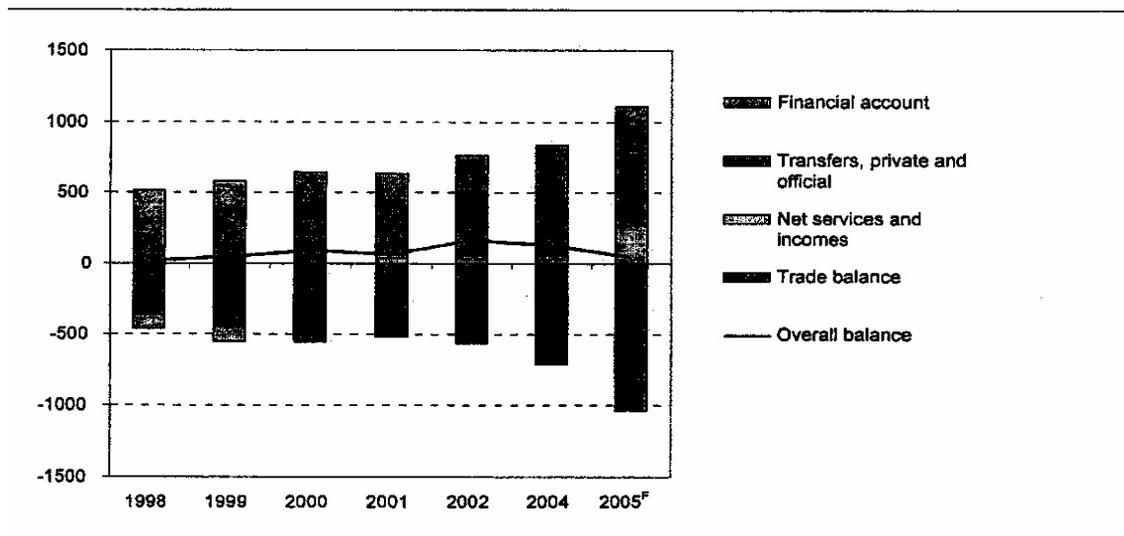
During this year, the net service account surplus was an estimated US\$500.8 million, an increase of US\$203 million (68.2%) compared to 2004. This increase was the result of service receipts exceeding service payments. Reaching a total of US\$839 million, tourism receipts were the main contributor to this increase, accounting for about 86% of total services receipts. Political stability, public service reform, infrastructure development and tourism service improvements all contributed to the large increase in the number of foreign visitor arrivals in Cambodia. A total of 1.3 million visitors arrived in 2005, compared to 948,125 visitors in 2004. Travel debits, on the other hand, remained modest at an estimated US\$50 million, reflecting the low level of per capita income of Cambodian people and their relative small purchasing power.

Net outflows on the income account, which during 2004 amounted to US\$239.2 million, shrank to US\$234.7 million during the year under review, a decrease of US\$4.6 million (1.9%). The reduction in deficit in the income account was attributable to a larger investment income, which exceeded increases in payments to non-residents working on short-term aid related projects in Cambodia.

3.2 The capital and financial accounts

The net flows of official transfers reached US\$300 million in 2005, an increase of US\$30.8 million, or 11.4%, on the previous year, and reflecting and inflows that the Royal Government obtained from both multilateral and bilateral sources. Of this aid, budget support was US\$2.6 million, food aid US\$26.8 million, project aid US\$120.0 million, and technical assistance US\$140A million. Net official borrowing (excluding loans from the IMF) amounted to US\$145.6 million, a decline of US\$8.8 million (5.7%) on the last year. In the reporting year, net inflow in the form of foreign direct investment was remarkable compared with its performance a year ago. This item recorded a net inflow of US\$240.6 million, which was more than double the net foreign direct investment in 2004 of US\$121 million. Private sector investment flows were estimated at US\$198.2 million, representing the largest sector of foreign investment in Cambodia. Private sector investment in the reviewed year involved 63 investment projects approved by the Council of Development for Cambodia, with major investment being made in the garment, hotel, packaging, and beverage sectors.

Chart 8: Cambodia's Balance of Payments



As a result of the above external transactions, the overall balance posted a surplus of US\$43.6 million in 2005. The gross official reserves level was sufficient to cover more than three months of imports.

4. Foreign exchange management

As defined in the central bank law, one of the main functions of NBC is to act as the advisor on money and financial matters to government. In this context, in consideration of the framework of the economic and financial policy of the country, NBC also has the responsibility of determining and implementing the country's exchange arrangements and policy. The foreign reserve management policy of NBC is to maintain the international reserve at a level adequate for the international transactions of the country while safeguarding the value of the reserves and generating income through an appropriate allocation of reserves. The parameters for the management of foreign reserves are set by the Foreign Reserves Investment Committee, which is chaired by the Governor and includes the Deputy Governor and other senior officials of NBC. Over the year, the committee reviewed the performance of NBC's portfolios, discussed investment policy and laid down guidelines for foreign reserve management. The reserve management principles set by the committee are: first, safety; second, liquidity; and third, profitability.

4.1 Investment of foreign reserves

NBC's foreign assets portfolio consists of overnight placement abroad, short and medium-term deposits with highly-rated financial institutions, and listed short-term foreign debt securities.

During 2005, the Fed Open Market Committee raised its target rate eight times, from 2.25% at end of 2004 to 4.25% at end of 2005, leading to a remarkable increase in the country's return on investment abroad. Overnight rates changed from 2.11 % to 4.19%, the interest rate on US Treasury bills from 2.32% to 4.15%, and the short-term deposit rate from 2.06% to 4.35%. Meanwhile, in the "euro area", the European Central Bank raised its policy rate by 25 percentage points to 2.25%. Consequently, money market rates in the "euro area" moved in the range of 1.99% and 2.06%.

4.2 Interventions in the foreign exchange market

With the aim of maintaining a stable exchange rate for the riel, over the year 2005 NBC sold US dollars thirty-one times through public auctions. The amount involved was US\$14.9 million, thereby absorbing 61.4 billion riel from the markets. During the same period, 24 purchases from foreign exchange dealers were made, totaling US\$ 16 million, and thereby injecting 65.4 billion riel into the economy.

4.3 Management of gold and foreign exchange business

During 2005, NBC issued business permits to 556 gold traders, 57 individual money changers, and permit to one medium-scale foreign exchange company operating in the capital city of Phnom Penh. Total permits issued during the year were, thus 614.

Apart from this, during 2005 the seventeen provincial branches of NBC in various provinces and cities of Cambodia issued 2,895 business permits for foreign exchange and gold trading activities. Out of the 2,895 business permits, 311 permits were for foreign exchange business; 2,412 permits were for gold trading.

5. Relationship with Banking and Financial Institutions

5.1 Commercial bank supervision

NBC continues to provide training to build up the capacity of off-site and onsite officers to enable them to conduct on-site inspection on banking and financial institutions to enforce the banking law and regulations. Meanwhile, NBC has issued new *prakas* and circulations to serve the purpose of strengthening and supervising banking efficiency.

5.1.1 Off-site supervision

NBC monitors banking operations monthly, quarterly and yearly. The main objective is to focus on law and regulation compliance such as capital adequacy, fixed asset ratio, net worth, liquidity ratio, provision on non-performing loan and large exposure. As a result, overall banking performance is good. However, a few banks failed to comply with prudential regulations such as net worth deficit, fixed asset limits, and the solvency ratio. To solve these problems, NBC required the noncompliant banks to take prompt corrective action.

Currently, NBC is implementing a local area network to allow for a more sophisticated banking supervision framework.

5.1.2 On-site supervision

In 2005, NBC planned to conduct full-scope on-site examinations on eight commercial banks and two specialized banks. At the end of 2005, ten commercial and specialized banks had been examined with full scope. In addition, two foreign branches were supervised without prior notification.

NBC continues to supervise and monitor uniform chart of account in accordance with national and international accounting standards. Since the previous on-site inspection, each banking institution has fully implemented the chart of account that was required by NBC.

On-site inspection work monitors banking operations in more detail and evaluates banking financial statements. The main objectives of on-site inspection are to focus on law and regulation enforcement and prudential regulation to detect risks. All errors and mistakes found during each inspection require prompt corrective action to be taken by the supervised bank.

5.2 Microfinance supervision

During 2005, micro finance activities expanded noticeably. Sixteen micro finance institutions were licensed by NBC, and 23 NGOs were licensed as rural microfinance operators. Financial statements for the year 2005 revealed that microfinance institutions lent 230,737 million riel, an increase of 40.28% compared to 2004, to 383,250 borrowers.

In 2005, NBC conducted on-site inspections on eight licensed MFIs and ten registered NGOs. The examinations revealed that these institutions are in good health. In general, they faced the problem of capital expansion, human resource shortfalls, infrastructure, and corporation of authority.

Most of these MFIs' clients are farmers and small-business owners in rural areas. Having interviewed these clients, MFIs confirmed that credit and savings services obtained from MFIs have been beneficial in improving their living standards. Moreover, they have a good understanding of the benefits of MFIs in providing financial services.

5.3 Banking Reform

5.3.1 Liquidation of non-viable banks

NBC continues to act as the plaintiff in referring cases involving a bank's shareholders to the court and claiming money from the bank's remaining debtors in order to pay its depositors. Recent examples are the cases involving First Oversea Bank Ltd, Cambodian Farmer Bank Ltd, Rich Nation Bank Ltd, Asia Pacific Ltd and Cambodia Agricultural and Commercial Bank Ltd. Among the five banks, the result of liquidation was good only for First Oversea Bank in recovering debts and seizing fixed assets to repay its creditors, which accounted for more than 60% of customer deposits and are expected to be fully covered in the near future. The result of liquidation was not good for the other four banks.

5.3.2 Privatization of FTB

The privatization of FTB has reached the final phase and the new shareholders of FTB are as follows:

- Canadia bank: 46% of capital;
- ING: 44% of capital; and
- Ministry of Economy and Finance: 10% of capital.

Following the course of the privatization of FTB, the bank's activities, name, place and number will not be changed; only the shareholders will change.

5.4 Regulation preparation

In the year 2005, NBC issued some additional *prakas* and circulars for banking and financial institutions to implement; these included *prakas* on Loan Policies and Procedures and Lending Authorization, Circular on Installment Loans Classification and Provision, Circular on Requirement for Bank and Finance Institutions to have a System of Checks and Balance, Circular on Multi-Currency Accounting following Implementation of Uniform Chart of Accounts, and Circular on the Selections of Independent Auditors by Bank and Financial Institutions. NBC has

also drafted a Law and *prakas* on Anti Money Laundering and Counter Terrorist Financing which has already been submitted to the government. Moreover, NBC has also drafted a Law on Leasing and *prakas* on Credit Information System (CIS). At the same time, NBC also set up a team to review a number of regulations and amend some *prakas*. The purpose of issuing *prakas*, regulations and Circulars is to strengthen banking and financial institutions by implementing laws and regulations properly and transparently.

6. Banking operations of NBC

6.1 Accounts 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 the 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 2005 there were 1,289 accounts denominated in both foreign and local currencies, under NBC's management. Total financial operations carried out through these accounts amounted to 182,553, an increase of 58% on the number of operations (115,254) conducted during 2004.

6.1.1 Government's account management

NBC has made continuous efforts in contributing to the implementation of the policy of the RGC toward increasing efficiency in budgetary management and boosting reforms in public finance. One of the main functions of NBC is to act as a bank for the government. As the fiscal agent of the government, NBC provides money transfer services to the government by transferring cash from the National Treasury to the provincial treasuries, and vice versa. This action of NBC has made the National Treasury's duty of supplying cash to its provincial offices no longer necessary, which until recently had involved physical transport and distribution of currency by National Treasury-owned means. Furthermore, NBC also provides payroll service to public institutions and military units.

In addition to maintaining riel accounts, NBC has lately also operated US dollar accounts for the provincial treasuries and provincial tax offices of the Ministry of Economy

and Finance with the aim of facilitating the collection of foreign currency payments of duties and taxes by private companies to the state. The direct payment of taxes through NBC proceeded smoothly over the year under consideration. Total government revenue collected through this mechanism amounted to 717,949 million riels at the end of 2005 (including both revenues in local currency and in US dollars).

6.1.2 Repository of accounts for banks and financial institutions

Commercial banks and other financial institutions have opened various accounts with NBC. These include current accounts, terms deposit accounts with several maturities, capital guarantee deposit accounts and reserve requirement accounts. Terms deposits of all maturities (one month, three months, and six months) and denominations totaled US\$ 228.2 million at the end of 2005.

6.2 Clearing house activities

NBC plays a central role in the management of the local payment and settlement system. Clearing activities through NBC's US dollar - and riel-denominated clearing houses have been efficient and are undertaken regularly on each working day.

The number of checks used for making payments has continued to increase over time, especially among commercial banks and public institutions.

The disciplinary measure imposed on dishonored checks has contributed to improving market discipline and compliance with rules and regulations related to the usage of checks.

Meanwhile, the general response to NBC's request to use checks for making tax, customs duties and other payments owed to the state also contributed to the increase in the use of checks in Cambodia.

6.2.1 Clearing and settlement of riel-denominated checks

During 2005, the clearing house for riel-denominated checks had 16 members consisting of commercial banks, the National Treasury, and NBC itself (Banking

Operations Department). Throughout the reporting year, there were 236 days in which checks issued were cleared and settled through the clearing house. The number of checks cleared reached 18,082 by the end of the year, with a total value of 502.8 billion riels. Based on the clearing and settlement figures during 2005, the number of checks cleared during the year was down by 19%, from 22,443 in December 2004 to 16,078. at end of 2005. However, over the same period the value of all checks denominated in local currency going through the clearing house showed a substantial increase, up by 62%, to attain 502.8 billion riels by the end of 2005, compared with 33.2 billion riels in 2004.

6.2.2 Clearing and settlement of USD-denominated checks

There were 18 institutional members in 2005 participating in the clearing house for USD-denominated checks. Those members comprised 15 commercial banks, two specialized banks, and NBC (represented by the Banking Operations Department).

Over the year, clearing activities took place during 236 days. Reflecting an increase in the volume and value of transactions, both the number and value of USDdenominated checks accelerated. The number of checks cleared expanded by 20%, from 165,543 in 2004 to 199,847 at the end of the year 2005. During the same period, the value involved rose from US\$1.3 billion to US\$1.8 million, with an annual growth rate of 40%. On average, 867 checks were settled daily through this clearing house.

6.3 Credit activities

Reflecting NBC's operational independence from the government as well as the commitment of the government to maintaining macroeconomic stability over the reporting year there was no new credit provided by NBC to finance government operations presented by the Ministry of Economy and Finance. During the same period there was also no record of NBC's granting credit to commercial banks. However, in 2005 NBC issued new credit to a few microfinance institutions. 17.9

billion riel was issued, and the collected amount owed to it was 12.1 billion riel. The balance outstanding was valued at 10.5 billion riel.

.7. Currency management

The major functions of currency management relate to note design, issue and distribution of fresh notes and coins, inventory management and accounting, withdrawal of soiled notes from circulation and their eco- friendly destruction, note exchange facilities and anti-counterfeit measures. These activities are performed by NBC through the Issue Department at the headquarters and through its 17 provincial branches spread across the country. Note design and issue, however, are carried out solely by the Issue Department.

The withdrawal from, augmentation to, and maintenance of the stock of currency notes in both denominations, US dollar and riel, for the purpose of providing a secured supply to the economy in general, and in particular to the teller desks, as well as to ensure timely delivery of notes to the provincial branches of NBC have been well managed.

Under the government's public finance reform policy, the physical movements of riel notes through the banking system, and in particular through the teller desks of NBC, increased dramatically in the recent period. In fact, during 2005, cash inflow through NBC's teller desks amounted to 1,081 billion riels, representing an increase of 64% on 2004. Out of this total, taxes and customs duties valued 371 billion riel, which was a substantial rise (93%) on the level collected through NBC's teller desks in 2004.

Disbursements through NBC's teller desks totaled 1,240 billion riel during the reporting year, an increase of 40% on the previous year disbursement operations. Of this total amount, disbursement to the National Treasury and payroll for the public institutions and commune budget amounted to 397 billion riel, which was equivalent to a 119% increase compared to the amount recorded in 2004.

In addition to the efforts toward smoothing the cash transactions through the teller desks, NBC also encouraged its provincial branches to collect and single out old, worn and tom local currency notes from circulation and replace them with new

ones. For this purpose, NBC staffs were present on spot at the major marketplaces in the capital city to conduct the exchange of soiled notes for new ones. Supplying the markets with fresh bank notes by replacing the soiled with new and clean ones was carried out with the objective of increasing public preference in the local currency, which in turn will contribute to its use nationwide.

With regard to the supply of currency to the economy to support the payments for goods and services throughout the country, NBC continues to make efforts to ensure that the provision of banknotes to its provincial branches is carried out prudently and in a timely manner. It is an important objective of NBC that its provincial branches have sufficient currency cash balances to adequately meet requests for cash withdrawal on time, at the correct volume, and in the proper currency denominations.

NBC continued to examine cases of counterfeit currency throughout 2005, analyzing local and foreign banknotes suspected of being counterfeit. According to the statistics related to this issue, counterfeit notes found during the year 2005 dropped significantly when compared to the previous year's figures. Counterfeit notes found in 2005 were copied notes caught going through NBC's teller desks.

Among other measures enacted to combat currency counterfeiting, NBC further strengthened its public education efforts, raising public awareness on the different features of counterfeit and real banknotes. NBC also worked closely with all competent authorities to locate persons involved with counterfeit currency in order to bring them to justice. In addition, NBC regularly sent staff to the markets to conduct spot inspections on counterfeit money, while taking great care to avoid surprise or create any unpleasant impacts on the business environment visited.

8. Securities management

In April 2003, the Ministry of Economy started to issue for the first time government debt-treasury bills on current account with a maturity of 91 days-with the objective of weakening seasonal and monthly fluctuations in tax revenue and expenditure. The role of NBC in this respect is to manage government securities and to effect the payments and settlements related to this debt. It maintains a book-entry

system for treasury bills issued by the Ministry of Economy and Finance and organizes auctions to float the treasury bills on its behalf.

To fulfill this mission, NBC signed an arrangement on auction rules and procedure with commercial banks intending to participate in such auctions. It also has an arrangement with the Ministry of Economy and Finance on the management of the treasury bills on current account.

Based on instructions issued by the Ministry of Economy and Finance and the auction schedule for 2005, NBC organized eleven auctions. As at the beginning of 2005, the outstanding balance of the debt amounted to 49,900 million riel. However, pursuant to the instruction of the Ministry of Economy and Finance dated 8 July 2005, the outstanding balance of the treasury bills must be fully reduced by the end of July' 2006. The total value of securities outstanding at the end of 2005 was 15,900 million riel.

II. Internal management of NBC

1. The activities of the Board of Directors

The present composition of Board of Directors of NBC is as follows:

| | | |
|-------------------------|---|----------|
| . H.E. Chea Chanto | NBC Governor | Chairman |
| . H.E. Neav Chanthana | NBC Deputy Governor | Member |
| . H.E. Aun Pornmoniroth | Representative of the Head of the Royal Government | Member |
| . RE. 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 2005 the Board held seven meetings, during which important matters related to NBC's activities were brought forward for discussion. A number of issues were adopted as follows:

- Draft on the Annual Report of NBC for 2004;

- Draft on the Decision to Establish a Committee to Examine NBC's Accounting Book for the financial year 2004;
- Draft on the report on NBC's budget outturn for the financial year 2004 and the budget for 2005;
- Draft on the First Semi-annual Report of NBC for 2005;
- Draft on NBC's budget outcome for the first semester of 2005 and budget plan for the second semester of 2005;
- Draft of NBC's regulations on:
 - . The organization, missions and duties of the General Inspection of NBC;
 - . The organization, missions and duties of the Internal Audit of NBC ;
 - . The organization, missions and duties of the Inspection Department of NBC;
 - . The adoption of the status of the Assistant Governor of NBC;
- Draft on the Annual Report of NBC for 2005.

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 2005 stood at 712, of which 394 were male and 318 female. In addition there were 14 adjunct staff outside NBC's official staff status, of which thirteen were male and one female.

In addition, the number of staff working at the provincial branches of NBC was 269, of which 169 were male and 100 female.

Therefore, the total staff number of NBC at the end of 2005 amounted to 985 (565 male and 420 female employees). By comparison, at the end of 2004 there were 940 employees (565 male and 420 female employees). The following changes to the staff structure were observed:

- the number of staff at headquarters increased by 49 (65 new recruits and 16 resigned or retired).
- the number of staff at the provincial branches declined by four (five new recruits and nine resigned or retired).

2.2 Training and development

In the spirit of promoting human resource capacity, as in the previous year, NBC continued to provide its staff with extensive training opportunities both through in-house programs and external courses organized by local and foreign institutions. In 2005, NBC organized a perfection course aimed at upgrading the knowledge of NBC staff members. Forty-seven staff of both headquarters and the official branches benefited from this course. Moreover, there were also nine short-term special seminars organized at NBC's headquarters, benefiting 317 NBC staff.

The training of the trainers program was launched with the assistance of the Asian Development Bank for the first time in 2005. Sixteen NBC staff working as part-time instructors at the Banking Institute participated. This programme was aimed at strengthening the capacity of the trainers at the Banking Institute in the field of banking and finance.

A number of staff attended training programmes organized by local institutions other than NBC, such as the Council of Ministers and the Ministry of Economy and Finance. During 2005, two NBC staff attended a perfection course at the Royal Administration School.

With regard to training at the Banking Institute, 82 students successfully completed their studies during 2005 and received their respective degrees. The number of students still continuing in their studies at the Banking Institute was 222, of which 34 were NBC staff.

Meanwhile, NBC also encouraged its staff to pursue self-development opportunities to absorb new knowledge, both technical know-how and English skills, to better respond to new challenges and recent developments in the banking and financial environment, namely Cambodia's integration into the global economy.

Concerning external courses, various central banks and financial institutions, as well as universities, offered opportunities to NBC staff to attend short-term

seminars and workshops abroad. These included the UNDP, the Deutsche Bundesbank, the IMF, the ADB, the Asia-Pacific Rural and Agricultural Credit Association (APRACA), the Bank of Korea, the Community Credit Union (CCU), the Development Bank of Japan (DBJ), the Japan International Cooperation Agency (JICA), ASEAN secretariat, Cambodian Community Savings Federation (CCSF), the State Bank of Vietnam, the Australian National University (ANU) and the People's Bank of China.

3. Internal audit

During 2005, NBC continued its efforts to reorganize the General Inspection with the aim to improve its internal control and internal auditing arrangements. A Board meeting of 28 November 2005 approved a new Audit Charter with scope and authority over all NBC operations. Furthermore, the Board of Governors approved the strategic action plan for development of a staffing plan that establishes minimum professional hiring requirements and a mandatory training program for existing staff in June 2005.

Subsequently, a four-phase training program was adopted and technical assistance from the IMF followed to implement the program. During 2005, three phases were completed. The technical assistance assisted NBC with developing audit and internal control policies, the internal audit mandate, organization structure, internal auditing standards, position descriptions and the Board Audit Committee constitution. Audit procedures manuals for the Internal Audit Department and for NBC branches were also developed for undertaking audits of foreign exchange operations, banking activities, cash management, branches, expenditures, procurement, salaries and Information Technology. Training was also conducted on the methodologies and techniques outlined in the audit procedures manuals.

During the year, the Internal Audit Department carried out twelve audit examinations on NBC's provincial branches.

4. The National Bank of Cambodia branch management

NBC's provincial branches have contributed greatly to fulfilling NBC's mission as banker to the government and to the rest of the domestic banking system. The branches have increasingly improved their banking services in the area of payment services to the public sector, commercial banks, microfinance institutions and other organizations.

NBC's branches played an important role in helping implement the public finance reforms recently launched by the government. These reforms involved measures to begin the processing of various payments through the banking system, including salaries for civil servants and military units, taxes, customs. Eventually many other government payments will be included.

During 2005, NBC branches opened 638 new accounts for their customers, of which 462 belonged to public institutions.

With the growing number of accounts, customer demand for making payment and other transfers through banks also increased rapidly. NBC's branches have so far made their best efforts to ensure that payment and money transmission services for banks and other financial institutions are carried out in a safe, efficient, and timely manner. For the purpose of improving the payment system in the provincial areas, NBC recently opened a new clearing house in Sihanoukville. Other preparations have been made to set up clearing houses in Siem Reap and Battambang provinces in the near future.

III. International relations

1. Relations with International Monetary Fund

Following the completion of the first three-year arrangement on Poverty Reduction and Growth Facility in 2003, IMF missions visited Cambodia two times during 2005. In general, the objectives of the missions are to: (1) monitor and assess the overall economic performance and policy of Cambodia; (2) update the progress of the restructuring efforts in the banking sector through consideration of the

possibilities of providing technical assistance to strengthen banking operations, especially the operations of the central bank as the monetary and supervisory authority of the country.

This past year's mission looked at the possibility of establishing an economic program under a new PRGF. During these visits, the mission discussed with relevant officials of NBC the recent macroeconomic performance and development, as well as the progress made in the banking reforms. Jointly, the two sides tried to formulate a program and establish a set of benchmark parameters for the implementation of the reforms.

During the last mission in December 2005, the leader of the mission, Mr. Jeremy Carter of the Asia Pacific Department, expressed his high appreciation of the recent progress in Cambodia. He stated that the macroeconomic performance of Cambodia in 2005 was better than originally anticipated, with GDP estimated to increase by 7% in the real term, while the inflation rate remained within a manageable range and the country's international reserves continued to rise.

Currently, the approval of the second PRGF arrangement by the Fund Executive Board has faced a serious challenge, namely the lack of a suitable resolution on Cambodia's arrears, which is an inheritance of debt agreements made by previous administrative regimes with the United States and the former Soviet Union. If there were an approval, Cambodia would have a reform program supported by the PRGF amounting to SDR 39.4 million (45% of Cambodia's quota).

On December 21, 2005, the Executive Board of the IMF approved Cambodia's qualification under the Multilateral Debt Relief Initiative for forgiveness of debt owed to the IMF. Consequently, Cambodia will receive debt relief for all debts that were outstanding to the Fund as of December 31, 2004: approximately US\$ 82 million.

During 2005, the Fund also provided technical assistance to NBC on a number of areas, including technical assistance for the improvement of balance of payments statistics, strengthening NBC's internal audit capacity and the capacity of the Banking Operations Department.

2. Relations with the Asian Development Bank

Since the adoption by the Royal Government of Cambodia in October 2001 of the Blueprint 2001-2010 as a strategic plan to develop the country's nascent and fragile banking and financial sector, NBC has made tremendous efforts to implement reforms attached to the reform program, which was largely supported by the ADB's program loan cluster.

In line with the Government's Development Policy Letter of 4 October 2001, "Subprogram I" was approved by the ADB's Board in November 2001 and was successfully completed by the end of 2002. "Subprogram II" was approved in November 2002 and was completed by August 2005. In order to steadily move forward with the necessary reforms in the banking and financial sector, the ADB Board approved "Subprogram III" on 29 September 2005 and the loan agreement was signed between representatives of the government and the ADB in November 2005.

Loans made under "Subprogram III" amount to SDR 6,763,000, equivalent to about US\$1 0 million, with an interest rate of 1 % per annum during the grace period, and 1.5% per annum thereafter.

During 2005, NBC also actively participated in the drafting of a roadmap for the development of small and medium enterprises. The roadmap was then prepared under the responsibility of the Ministry of Mines and Energy with support from the ADB.

Under that framework, NBC's duties were to establish a credit information sharing system and to promote leasing activities which would help small and medium enterprises have better access to bank financing. The first step in these efforts involved the preparation of the legal framework for these two projects.

3. Relations with ASEAN

Throughout the year NBC continued to cooperate actively with other ASEAN member countries and the "plus three" (China, Japan and Korea) in order to push forward the ASEAN finance cooperation process. Within this framework, NBC attended various meetings of ASEAN+3 that were organized during the year as follows:

- The 9th Annual Meeting of the ASEAN Finance Ministers in Vientiane, Lao People's Democratic Republic and the 13th ASEAN Central Bank Forum;

- Working Group meetings related to financial sector liberalization, capital account liberalization, Asian bond market development, and strengthening of the regional self-help mechanism by examining the possibility of increasing member countries' commitments to assist each other in the period of crisis.

In a discussion of issues concerning monetary and financial policies, the Finance Ministers of ASEAN+ 3 agreed to commission a number of studies by various research institutes with the support from the ADB.

Financial cooperation among ASEAN+ 3 has now reached a deeper dimension and has been very dynamic, especially in the area of bond market development in Asia and ASEAN swap arrangements, as well as swap arrangements between ASEAN countries and the "plus three". A number of working groups were set up involving representatives from all concerned countries in order to discuss new initiatives that would bring benefits for the whole region and for each individual country. The cooperation among ASEAN+3 is based on the spirit of mutual benefit, equity and assistance provided by the advanced economies to less advanced ones, especially in the area of human resource capacity building related to economic surveillance and analysis.

Closely related to the economic surveillance process, technical assistance was provided by the ADB to NBC to establish an Early Warning System. Training for NBC staff to enable them to make use of the system was conducted in November 2005. The system is expected to be operational in 2006.

With the agreement of the Prime Minister, NBC cooperated with the Ministry of Economy and Finance to make the necessary arrangements for the hosting of the 10th Annual Meeting of ASEAN Finance Ministers, the 14th ASEAN Central Bank Forum, and other meetings related to the cooperation process among ASEAN and between ASEAN and the "plus three". The meetings were held in April 2006 in Siem Reap province.

4. Bilateral relations

NBC continued to pay great attention to the maintenance of close cooperation with other central banks as partners and friends, in particular for the purpose of information exchange and human resource capacity building.

The participation of NBC in various international forums such as the meetings of the central banks' governors of French-speaking countries and the meetings of the board of governors of the Southeast Asian Central Banks (SEACEN) contributed to enhancing international co-operation, while at the same time promoting an extensive exchange of experiences and know-how among the concerned institutions.

During 2005, in the spirit of promoting friendship and contributing to the strengthening of NBC staff capacity, several central banks provided technical assistance to NBC on a bilateral basis in the area of human resource development. Bilateral relations with the Deutsche Bundes Bank, Banque de France, Bank of China, Monetary Authorities of Singapore, Bank of Korea, State Bank of Vietnam, Bank of Thailand, and Japan Development Bank were further strengthened.

Cooperation with the Bank of Thailand was expanded in various areas. Very recently, the two central banks conducted a joint survey on cross-border trade and investment with the purpose of helping facilitate cross-border payment, thereby contributing to the promotion of trade and investment between the two neighboring countries.

Meanwhile, a similar survey was also carried out jointly between NBC and the Agricultural and Rural Development Bank of Vietnam with the support of the State Bank of Vietnam. This survey was aimed at promoting bilateral payment between the two countries.

Conclusion

Over the last decade, in its responsibility as the monetary and supervisory authority of the country, NBC gave considerable attention to close cooperation with all national and international partners in the reform process. Its efforts have always been geared toward developing a sound and strong banking system, enhancing banking and financial stability, as well as restoring, maintaining, and strengthening macroeconomic stability.

As always, the principal mission of NBC is to implement a monetary and financial policy designed to maintain low and stable prices and to create an environment that is conducive to sustainable economic growth.

During 2005, with the aim of easing the volatility of the exchange rates of the riel in the local currency markets, NBC continued to adopt a tight monetary policy, while at the same time buying foreign currency on occasion from the market in order to actively respond to changes in the market environment.

Regarding matters related to structural reforms, since the adoption by the government of the Financial Sector Blueprint 2001-2010 as the long-term strategic plan to develop the financial sector in Cambodia, NBC has made various efforts to implement necessary reforms as set out in the reform agenda.

The reform agenda represented a substantial body of work. Useful progress has been noted so far in a number of areas, despite some difficulties met during its implementation.

Overall, the banking system has been strengthened through the improvement of regulatory framework, the enhancement of on-site and off-site inspection, and the establishment of an environment for fair competition and smooth and efficient banking operations.

These gains are the result of having a proper strategy. However, NBC also recognizes the difficulties we faced while conducting the reform program with a relatively inexperienced younger generation.

On the basis of our far-reaching strategy to develop the banking and financial sector of Cambodia, we will continue to establish a legal and institutional framework, as well as any other necessary infrastructure to support the smooth functioning of the banking and

financial sector in our country. At the same time, we will also focus on upgrading our human resources in this field.

Microfinance will maintain its important place in future reform agendas. This sector is seen as an efficient development instrument in contributing to reducing rural poverty due to the simple reason that financial services allow low-income households to benefit from economic opportunities, create wealth, and reduce their vulnerability to external risks that may negatively affect their living standards.

The work ahead will not be easy. It will require time and patience from all stakeholders, despite our strong commitment to undertake policy actions, since many reform activities involve issues, concepts and mechanisms that are new to Cambodia and therefore require special consideration and management.

Therefore, NBC will continue to strengthen its relationship with all development partners in order to efficiently meet the various challenges in the financial sector development. Through combined efforts, the National Bank of Cambodia trusts that Cambodia will have a modern banking and financial sector capable of supporting economic growth and reducing poverty – the ultimate goal of the Royal Government of Cambodia.

Table 1: Consumer Price Index (CPI)

| | 2005 | | | | | | | | | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Price Index | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
| CPI(All Items) | 111.2 | 111.3 | 111.5 | 113.0 | 113.7 | 115.3 | 115.7 | 117.1 | 118.5 | 118.5 | 118.4 | 118.1 |
| Food, Beverages & Tobacco | 109.7 | 109.2 | 109.4 | 112.5 | 114.0 | 117.3 | 117.9 | 120.5 | 122.9 | 122.5 | 122.3 | 121.7 |
| Clothing & Footwear | 88.3 | 88.5 | 88.8 | 89.0 | 89.0 | 89.1 | 89.1 | 90.0 | 91.5 | 91.7 | 91.3 | 91.4 |
| Housing & Utilities | 115.2 | 116.0 | 116.1 | 116.1 | 116.1 | 116.2 | 116.3 | 116.5 | 116.6 | 117.0 | 117.0 | 117.0 |
| House Furnishings & HH. Operations | 94.0 | 94.0 | 94.0 | 94.1 | 94.0 | 94.1 | 94.5 | 94.4 | 94.8 | 94.9 | 95.2 | 95.4 |
| Medical Care | 102.2 | 102.2 | 102.2 | 102.2 | 102.2 | 102.2 | 101.9 | 102.2 | 102.6 | 102.2 | 102.2 | 102.2 |
| Transportation & Communication | 117.0 | 117.1 | 118.5 | 119.7 | 119.8 | 121.8 | 123.1 | 125.2 | 128.3 | 129.4 | 128.3 | 127.6 |
| Recreation & Education | 109.7 | 109.7 | 110.0 | 110.0 | 110.0 | 110.4 | 110.4 | 110.4 | 110.8 | 110.8 | 110.8 | 110.9 |
| Personal Care & Effects | 105.8 | 105.9 | 106.7 | 106.7 | 106.9 | 107.0 | 107.2 | 107.5 | 108.0 | 108.3 | 111.6 | 112.1 |
| Month to Month Change (%) | | | | | | | | | | | | |
| CPI (All Items) | 0.43 | 0.05 | 0.20 | 1.30 | 0.62 | 1.43 | 0.31 | 1.26 | 1.18 | 0.04 | ..0.10 | ..0.24 |
| Food, Beverages & Tobacco | 0.18 | -0.47 | 0.12 | 2.84 | 1.40 | 2.88 | 0.46 | 2.27 | 1.96 | -0.29 | ..0.18 | -0.47 |
| Clothing & Footwear | 1.49 | 0.24 | 0.26 | 0.29 | -0.08 | 0.16 | 0.03 | 1.00 | 1.67 | 0.22 | -0.47 | 0.09 |
| Housing & Utilities | 0.95 | 0.69 | 0.03 | 0.03 | 0.02 | 0.05 | 0.07 | 0.23 | 0.07 | 0.29 | 0.02 | 0.00 |
| House Furnishings & HH. Operations | -0.41 | -0.03 | 0.00 | 0.10 | -0.09 | 0.10 | 0.49 | -0.12 | 0.41 | 0.12 | 0.28 | 0.21 |
| Medical Care | 0.00 | 0.02 | -0.01 | 0.00 | 0.01 | 0.00 | -0.34 | 0.33 | 0.43 | -0.43 | 0.01 | 0.02 |
| Transportation & Communication | 0.00 | 0.10 | 1.19 | 1.03 | 0.08 | 1.63 | 1.07 | 1.72 | 2.47 | 0.87 | -0.85 | -0.54 |
| Recreation & Education | 0.01 | 0.00 | 0.20 | 0.00 | 0.00 | 0.37 | 0.06 | 0.00 | 0.29 | 0.00 | 0.00 | 0.12 |
| Personal Care & Effects | -0.01 | 0.09 | 0.80 | 0.04 | 0.12 | 0.15 | 0.16 | 0.31 | 0.39 | 0.36 | 2.96 | 0.49 |
| Year on Year Change (%) | | | | | | | | | | | | |
| CPI (All Items) | 5.76 | 5.63 | 5.36 | 5.94 | 6.31 | 7.01 | 4.12 | 4.54 | .5.04 | 6.37 | 6.67 | 6.66 |
| Food Beverages & Tobacco | 8.59 | 7.84 | 7.30 | 8.44 | 9.63 | 11.22 | 5.19 | 6.03 | 6.66 | 9.98 | 10.84 | 11.14 |
| Clothing & Footwear | 1.42 | 1.74 | 1.84 | 3.64 | 3.79 | 3.67 | 3.87 | 4.81 | 5.18 | 4.80 | 4.64 | 4.99 |
| Housing & Utilities | 2.93 | 3.59 | 3.54 | 3.55 | 3.56 | 3.51 | 2.10 | 2.27 | 2.30 | 2.56 | 2.55 | 2.48 |
| House Furnishings & HH. Operations | -1.69 | -1.67 | -1.91 | -1.60 | -1.79 | -1.69 | 0.07 | 0.00 | 0.58 | 0.67 | 0.97 | 1.06 |
| Medical Care | -0.06 | -0.04 | -0.09 | -0.25 | -0.23 | -0.08 | -0.41 | 0.30 | 0.54 | -0.08 | 0.14 | 0.04 |
| Transportation & Communication | 13.14 | 12.33 | 11.58 | 12.25 | 10.52 | 10.64 | 11.88 | 10.98 | 12.86 | 11.39 | 10.04 | 9.06 |
| Recreation & Education | 0.48 | 0.48 | 0.61 | 0.61 | 0.61 | 0.72 | 0.90 | 0.90 | 1.11 | 1.11 | 1.11 | 1.06 |
| Personal Care & Effects | 1.63 | 1.76 | 2.26 | 2.15 | 2.36 | 2.38 | 2.57 | 2.97 | 2.84 | 2.98 | 5.93 | 5.99 |
| Three- month moving average | | | | | | | | | | | | |
| All items | 111.01 | 111.10 | 111.35 | 111.93 | 112.72 | 113.98 | 114.87 | 116.02 | 117.08 | 118.05 | 118.48 | 118.37 |
| Annual percentage change | 5.71 | 5.67 | 5.58 | 5.64 | 5.87 | 6.42 | 5.80 | 5.21 | 4.57 | 5.31 | 6.02 | 6.57 |
| Twelve- month moving average | | | | | | | | | | | | |
| All Items | 109.41 | 109.90 | 110.37 | 110.90 | 111.46 | 112.09 | 112.47 | 112.90 | 113.37 | 113.96 | 114.58 | 115.20 |

| | | | | | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Annual percentage change | 4.30 | 4.70 | 5.08 | 5.44 | 5.79 | 6.13 | 5.96 | 5.77 | 5.58 | 5.61 | 5.69 | 5.78 |
|--------------------------|------|------|------|------|------|------|------|------|------|------|------|------|

Appendix 2

**Table 2: Consumer Price Index (CPI) December 2001 - December 2005
July-December, 2000=100**

| 1. Consumer Price Index (CPI) and Component Indices | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|--|---------------|---------------|---------------|---------------|---------------|
| CPI (all items) | 100.56 | 104.39 | 104.87 | 110.76 | 118.14 |
| Food, Beverage & Tobacco | 97.71 | 101.10 | 100.91 | 109.54 | 121.74 |
| Clothing & Footwear | 91.88 | 87.52 | 86.91 | 87.02 | 91.36 |
| Housing & Utilities | 103.97 | 111.05 | 111.67 | 114.15 | 116.98 |
| House Furnishings & HH. Operations | 97.36 | 96.03 | 95.31 | 94.39 | 95.39 |
| Medical Care | 106.09 | 104.67 | 102.25 | 102.19 | 102.23 |
| Transportation & Communication | 93.47 | 97.14 | 101.96 | 116.98 | 127.58 |
| Recreation & Education | 112.12 | 108.40 | 109.12 | 109.73 | 110.89 |
| Personal Care & Effects | 103.43 | 103.09 | 103.90 | 105.76 | 112.10 |
| 2. Percentage Change in the CPI and its Components: | | | | | |
| 2.1 Month to Month Change (%) | | | | | |
| CPI (all items) | -0.73 | -0.08 | -0.10 | -0.23 | -0.24 |
| Food, Beverage & Tobacco | -1.56 | -0.21 | -0.25 | -0.73 | -0.47 |
| Clothing & Footwear | -0.52 | -0.17 | 0.03 | -0.24 | 0.09 |
| Housing & Utilities | 0.00 | 0.01 | 0.03 | 0.07 | 0.00 |
| House Furnishings & HH. Operations | -0.35 | -0.16 | 0.09 | 0.12 | 0.21 |
| Medical Care | 1.00 | -0.40 | -0.38 | 0.12 | 0.02 |
| Transportation & Communication | -1.09 | 0.39 | -0.17 | 0.35 | -0.54 |
| Recreation & Education | 1.02 | -0.07 | 0.13 | 0.17 | 0.12 |
| Personal Care & Effects | 0.49 | -0.10 | 0.46 | 0.43 | 0.49 |
| 2.2 Year on Year Change (%) | | | | | |
| CPI (all items) | 0.56 | 3.81 | 0.46 | 5.62 | 6.66 |
| Food, Beverage & Tobacco | -2.29 | 3.47 | -0.19 | 8.55 | 11.14 |
| Clothing & Footwear | -8.12 | -4.75 | -0.70 | 0.13 | 4.99 |
| Housing & Utilities | 3.97 | 6.81 | 0.56 | 2.22 | 2.48 |
| House Furnishings & HH. Operations | -2.64 | -1.37 | -0.75 | -0.97 | 1.06 |
| Medical Care | 6.09 | -1.34 | -2.31 | -0.06 | 0.04 |
| Transportation & Communication | -6.53 | 3.93 | 4.96 | 14.73 | 9.06 |
| Recreation & Education | 12.12 | -3.32 | 0.66 | 0.56 | 1.06 |
| Personal Care & Effects | 3.43 | -0.33 | 0.79 | 1.79 | 5.99 |
| 3.Three-month moving average CPI (all items) | 101.34 | 104.46 | 104.98 | 111.07 | 118.37 |
| Year on Year Change (%) | -0.49 | 3.07 | 0.5 | 5.80 | 6.57 |
| 4.Twelve-month moving average CPI (all items) | 100.33 | 103.65 | 104.84 | 108.90 | 115.20 |
| Year on Year Change (%) | 0.21 | 3.31 | 1.15 | 3.87 | 5.78 |

Source: National Institute of Statistics

Table 3: Some Asean And European Currencies Against Khmer Riel (End Period Buying Rate)

| Currencies | Dec-04 | Jan-05 | Feb-05 | Mar-05 | Apr-05 | May-05 | Jun-05 | Jul-05 | Aug-05 | Sep-05 | Oct-05 | Nov-05 | Dec-05 | % Change Dec.05- Dec.04 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------------------|
| Special Drawing Right | 6,239 | 6,135 | 6,122 | 6,082 | 6,133 | 6,046 | 5,991 | 6,092 | 6,010 | 6,056 | 6,081 | 5,948 | 5,882 | -5.72 |
| ASIA | | | | | | | | | | | | | | |
| Australian Dollar | 3,139 | 3,122 | 3,175 | 3,106 | 3,147 | 3,090 | 3,132 | 3,186 | 3,072 | 3,170 | 3,168 | 3,072 | 3,008 | -4.17 |
| Hong Kong Dollar | 518 | 517 | 516 | 516 | 518 | 523 | 528 | 540 | 529 | 538 | 540 | 537 | 530 | 2.32 |
| Japanese Yen | 39.17 | 38.87 | 38.4 | 37.53 | 38.11 | 37.65 | 37.13 | 37.39 | 36.9 | 36.87 | 36.29 | 34.79 | 34.88 | -10.95 |
| Korea Won | 3.89 | 3.93 | 4.01 | 3.95 | 4.02 | 4.05 | 3.98 | 4.09 | 3.96 | 4.01 | 4.01 | 4.01 | 4.06 | 4.37 |
| New Zealand Dollar | 2,895 | 2,864 | 2,910 | 2,854 | 2,941 | 2,886 | 2,873 | 2,867 | 2,829 | 2,882 | 2,959 | 2,919 | 2,809 | -2.97 |
| Taiwan Dollar | 126 | 127 | 129 | 127 | 128 | 131 | 130 | 131 | 126 | 125 | 124 | 124 | 125 | -0.79 |
| ASEAN | | | | | | | | | | | | | | |
| Indonesian Rupiah | 0.432 | 0.44 | 0.434 | 0.423 | 0.422 | 0.429 | 0.422 | 0.427 | 0.388 | 0.404 | 0.417 | 0.415 | 0.418 | -3.24 |
| Malaysian Ringgit | 1,060 | 1,060 | 1,060 | 1,060 | 1,064 | 1,070 | 1,079 | 1,119 | 1,090 | 1,106 | 1,108 | 1,101 | 1,088 | 2.64 |
| Philippine Peso | 71.65 | 73.06 | 73.58 | 73.57 | 74.27 | 74.76 | 73.25 | 74.77 | 73.04 | 74.48 | 75.94 | 77.22 | 77.50 | 8.16 |
| Singapore Dollar | 2,461 | 2,463 | 2,472 | 2,442 | 2,454 | 2,449 | 2,433 | 2,526 | 2,439 | 2,468 | 2,481 | 2,458 | 2,469 | 0.33 |
| Thai Bath | 103.28 | 104.77 | 104.98 | 102.56 | 101.97 | 100.59 | 99.23 | 100.43 | 99.4 | 102 | 103 | 101 | 100 | -3.18 |
| Vietnamese Dong | 0.255 | 0.255 | 0.255 | 0.254 | 0.255 | 0.256 | 0.259 | 0.264 | 0.259 | 0.262 | 0.263 | 0.262 | 0.259 | 1.57 |
| EUROPE | | | | | | | | | | | | | | |
| Euro | 5,483 | 5,247 | 5,337 | 5,205 | 5,216 | 5,070 | 4,959 | 5,091 | 5,027 | 5,018 | 5,083 | 4,900 | 4,871 | -11.16 |
| Other | | | | | | | | | | | | | | |
| Great Britain Pound | 7,750 | 7,599 | 7,729 | 7,572 | 7,710 | 7,410 | 7,409 | 7,368 | 7,341 | 7,341 | 7,462 | 7,151 | 7,089 | -8.53 |

Table 4: Monetary Survey
(in millions of riels)

| | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|---------------------------------|------------|------------|------------|------------|------------|
| NET FOREIGN ASSETS | 3,080,504 | 3,737,111 | 4,027,224 | 4,796,561 | 5,475,120 |
| Foreign assets | 3,587,210 | 4,279,326 | 4,740,790 | 5,481,527 | 6,142,115 |
| Foreign liabilities | -506,706 | -542,214 | -713,566 | -684,966 | -666,996 |
| NET DOMESTIC ASSETS | -876,850 | -848,687 | -698,266 | -467,264 | -450,206 |
| Domestic Credit | 867,643 | 941,814 | 1,208,714 | 1,607,813 | 1,972,489 |
| Net claims on government | -75,017 | -119,126 | -127,916 | -208,689 | -421,162 |
| Claims | 271,153 | 309,963 | 360,198 | 359,974 | 326,509 |
| Deposits | -346,169 | -429,089 | -488,113 | -568,663 | -747,671 |
| Non government | 942,659 | 1,060,940 | 1,336,630 | 1,816,502 | 2,393,651 |
| State enterprises | 6,551 | 2,029 | 14 | 0 | 0 |
| Private sector | 936,108 | 1,058,911 | 1,336,616 | 1,816,502 | 2,393,651 |
| Of which in foreign currency | 882,540 | 995,312 | 1,213,594 | 1,697,418 | 2,275,495 |
| Other items (net) | -1,744,493 | -1,790,501 | -1,906,980 | -2,075,077 | -2,422,694 |
| Restricted deposits | -99,691 | -95,542 | -108,904 | -101,629 | -122,975 |
| Capital and reserves | -1,958,688 | -1,943,059 | -2,089,075 | -2,191,906 | -2,640,353 |
| Others | 313,885 | 248,100 | 290,999 | 218,458 | 340,633 |
| LIQUIDITY | 2,203,654 | 2,888,424 | 3,328,958 | 4,329,298 | 5,024,914 |
| Money | 609,502 | 813,280 | 937,470 | 1,152,876 | 1,322,788 |
| Currency outside banks | 577,565 | 765,980 | 908,223 | 1,114,750 | 1,282,144 |
| Demand deposit | 31,937 | 47,301 | 29,247 | 38,126 | 40,645 |
| Quasi-money | 1,594,152 | 2,075,144 | 2,391,488 | 3,176,422 | 3,702,126 |
| Time and saving deposits | 55,503 | 74,310 | 81,852 | 97,328 | 112,709 |
| Foreign currency deposits | 1,538,648 | 2,000,834 | 2,309,636 | 3,079,093 | 3,589,417 |

**Table 5: Monetary Survey
(Annual percentage change)**

| | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| NET FOREIGN ASSETS | 19.0 | 21.3 | 7.8 | 19.1 | 14.1 |
| Foreign assets | 17.7 | 19.3 | 10.8 | 15.6 | 12.1 |
| Foreign liabilities | 10.7 | 7.0 | 31.6 | -4.0 | -2.6 |
| NET DOMESTIC ASSETS | -15.5 | 3.2 | 17.7 | 33.1 | 3.7 |
| Domestic Credit | -4.1 | 8.5 | 28.3 | 33.0 | 22.7 |
| Net claims on government | | -58.8 | -7.4 | -63.1 | -101.8 |
| Claims | -0.4 | 14.3 | 16.2 | -0.1 | -9.3 |
| Deposits | 28.8 | 24.0 | 13.8 | 16.5 | 31.5 |
| Non government | 4.6 | 12.5 | 26.0 | 35.9 | 31.8 |
| State enterprises | 147.5 | -69.0 | -99.3 | -100.0 | |
| Private sector | 4.2 | 13.1 | 26.2 | 35.9 | 31.8 |
| Of which in foreign currency | 2.7 | 12.8 | 21.9 | 39.9 | 34.1 |
| Other items (net) | -4.9 | -2.6 | -6.5 | -8.8 | -16.8 |
| Restricted deposits | 15.6 | -4.2 | 14.0 | -6.7 | 21.0 |
| Capital and reserves | 9.4 | -0.8 | 7.5 | 4.9 | 20.5 |
| Others | 46.7 | -21.0 | 17.3 | -24.9 | 55.9 |
| LIQUIDITY | 20.4 | 31.1 | 15.3 | 30.0 | 16.1 |
| Money | 12.9 | 33.4 | 15.3 | 23.0 | 14.7 |
| Currency outside banks | 16.8 | 32.6 | 18.6 | 22.7 | 15.0 |
| Demand deposit | -29.1 | 48.1 | -38.2 | 30.4 | 6.6! |
| Quasi-money | 23.5 | 30.2 | 15.2 | 32.8 | 16.6 |
| Time and saving deposits | 20.9 | 33.9 | 10.2 | 18.9 | 15.8 |
| Foreign currency deposits | 23.6 | 30.0 | 15.4 | 33.3 | 16.6 |

Table 6: Monetary Authority

| | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| (In millions of riels) | | | | | |
| Net Foreign Assets | 2,429,181 | 3,219,664 | 3,494,352 | 4,114,315 | 4,433,729 |
| Foreign assets | 2,740,067 | 3,598,336 | 3,906,155 | 4,506,439 | 4,767,720 |
| Foreign liabilities | -310,886 | -378,672 | -411,803 | -392,124 | -333,991 |
| Net Domestic Assets | -1,069,571 | -1,239,003 | -1,344,399 | -1,449,811 | -1,796,580 |
| Claims on central government (net) | -75,015 | -160,034 | -218,656 | -255,829 | -406,738 |
| Claims | 271,144 | 269,054 | 269,389 | 269,777 | 270,409 |
| Deposits | -346,159 | -429,088 | -488,045 | -525,605 | -677,147 |
| Claims on deposit money banks (net) | -45,015 | -80,935 | -90,383 | -83,904 | -101,242 |
| Claims on private sector (net) | 0 | 0 | 0 | 2,536 | 2,404 |
| Other items (net) | -949,542 | -998,033 | -1,035,360 | -1,112,614 | -1,291,004 |
| Reserve money | 1,359,610 | 1,980,661 | 2,149,953 | 2,664,504 | 2,637,149 |
| Currency outside banks | 577,782 | 765,980 | 908,223 | 1,114,750 | 1,282,144 |
| Currency in banks | 35,578 | 33,136 | 59,578 | 26,032 | 26,868 |
| Bank deposits | 746,250 | 1,181,545 | 1,182,153 | 1,518,713 | 1,321,941 |
| Reserve deposits | 131,944 | 168,800 | 193,363 | 244,197 | 302,256 |
| Other deposits | 614,305 | 1,012,745 | 988,790 | 1,274,516 | 1,019,686 |
| Others | | | | 5,009 | 6,196 |
| (Annual percentage change) | | | | | |
| Net Foreign Assets | 15.5 | 32.5 | 8.5 | 17.7 | 7.8 |
| Foreign assets | 14.7 | 31.3 | 8.6 | 15.4 | 5.8 |
| Foreign liabilities | 9.1 | 21.8 | 8.7 | -4.8 | -14.8 |
| Net Domestic Assets | -13.5 | -15.8 | -8.5 | -7.8 | -23.9 |
| Claims on central government (net) | 0 | -113.3 | -36.6 | -17.0 | -59.0 |
| Claims | -0.3 | -0.8 | 0.1 | 0.1 | 0.2 |
| Deposits | 29.1 | 24.0 | 13.7 | 7.7 | 28.8 |
| Claims on deposit money banks (net) | -34.4 | 79.8 | 11.7 | -7.2 | 20.7 |
| Claims on private sector (net) | | | | | |
| Other items (net) | -8.2 | -5.1 | -3.7 | -7.5 | -16.0 |
| Reserve money | 17.1 | 45.7 | 8.5 | 23.9 | -1.0 |
| Currency outside banks | 16.8 | 32.6 | 18.6 | 22.7 | 15.0 |
| Currency in banks | 5.6 | -6.9 | 79.8 | -56.3 | 3.2 |
| Bank deposits | 17.9 | 58.3 | 0.1 | 28.5 | -13.0 |
| Reserve deposits | 21.4 | 27.9 | 14.6 | 26.3 | 23.8 |
| Other deposits | 17.2 | 64.9 | -2.4 | 28.9 | -20.0 |
| Others | 0 | 0 | 0 | 0 | 23.7 |

Table 7: Deposit Money Banks

| | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|---|----------------------------|------------------|------------------|------------------|-------------------|
| | (in million riels) | | | | |
| Net Foreign Assets | 651,323 | 517,448 | 532,872 | 682,246 | 1,041,390 |
| Foreign assets | 847,143 | 680,990 | 834,636 | 975,088 | 1,374,395 |
| Foreign liabilities | -195.820 | -163.542 | -301,764 | -292,842 | -333.005 |
| Net Domestic Assets | 107,917 | 334,152 | 558,134 | 958,154 | 1,275,133 |
| Domestic credit | 985,523 | 1,103,133 | 1,369,110 | 1,869,383 | 2,385,275 |
| Claims on central government (net) | -2 | 40.908 | 90,740 | 47,140 | -14,424 |
| Claims on public enterprises | 6,551 | 2,029 | 14 | 0 | |
| Claims on private sector | 936,108 | 1,058,911 | 1,336,616 | 1,813,966 | 2,391.247 |
| Claims on MA (net) | 42,866 | 1,285 | -58,260 | 8,278 | 8.452 |
| Other items (net) | -877,606 | -768,981 | -810,976 | -911,229 | -1,110,143 |
| Reserves | 866,848 | 1,270,845 | 1,329,729 | 1,569,138 | 1,420,051 |
| Cash | 35.795 | 33.136 | 59.578 | 26.032 | 26,868 |
| Deposits at the NBC | 831,053 | 1,237,709 | 1,270,151 | 1,543,106 | 1,393,183 |
| Domestic liabilities | 1,626,088 | 2,122,445 | 2,420,735 | 3,209,538 | 3,736,574 |
| Demand deposits | 31,937 | 47,301 | 29.247 | 33,116 | 34.449 |
| Time and savings deposits | 55,503 | 74,310 | 81.852 | 97,328 | 112,709 |
| Foreign currency deposits | 1,538.648 | 2,000,834 | 2,309,636 | 3,079,093 | 3,589,417 |
| Total assets = Total liabilities | 2,929,768 | 3,358,188 | 3,877,688 | 4,706,202 | 5,579,164 |
| | (Annual percentage change) | | | | |
| Net Foreign Assets | 34.1 | -20.6 | 3.0 | 28.0 | 52.6 |
| Foreign assets | 28.6 | -19.6 | 22.6 | 16.8 | 41.0 |
| Foreign liabilities | 13.4 | -16.5 | 84.5 | -3.0 | 13.7 |
| Net Domestic Assets | -4.4 | 209.6 | 67.0 | 71.7 | 33.1 |
| Domestic credit | 8.4 | 11.9 | 24.1 | 36.5 | 27.6 |
| Claims on central government (net) | 99.5 | | 121.8 | -48.0 | -130.6 |
| Claims on public enterprises | 147.5 | -69.0 | -99.3 | -100.0 | |
| Claims on private sector | 4.2 | 13.1 | 26.2 | 35.7 | 31.8 |
| Claims on MA (net) | 429.9 | -97.0 | (-) | -114.2 | 2.1 |
| Other items (net) | -10.3 | 12.4 | -5.5 | -12.4 | -21.8 |
| Reserves | 17.6 | 46.6 | 4.6 | 18.0 | -9.5 |
| Cash | 6.3 | -7.4 | 79.8 | -56.3 | 3.2 |
| Deposits at the NBC | 18.1 | 48.9 | 2.6 | 21.5 | -9.7 |
| Domestic liabilities | 21.7 | 30.5 | 14.1 | 32.6 | 16.4 |
| Demand deposits | -29.1 | 48.1 | -38.2 | 13.2 | 4.0 |
| Time and savings deposits | 20.9 | 33.9 | 10.1 | 18.9 | 15.8 |
| Foreign currency deposits | 23.6 | 30.0 | 15.4 | 33.3 | 16.6 |
| Total assets = Total liabilities | 16.3 | 14.6 | 15.5 | 21.4 | 18.5 |

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

| | Dec-00 | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|--------------------------------|------------------|----------------|------------------|------------------|------------------|------------------|
| Agriculture | 39,042 | 35,597 | 35,976 | 43,947 | 64,774 | 69,287 |
| Manufacturing | 195,353 | 227,345 | 158,504 | 187,563 | 269,187 | 258,756 |
| Construction | 21,215 | 24,507 | 59,886 | 83,154 | 97,972 | 144,957 |
| Wholesale & Retail | 295,270 | 198,547 | 158,632 | 225,564 | 363,049 | 532,450 |
| Export | 47,674 | 60,172 | 59,598 | 117,471 | 77,615 | 37,507 |
| Import | 58,616 | 43,805 | 111,310 | 81,356 | 110,973 | 168,046 |
| Finance | 15,127 | 12,695 | 51,352 | 102,148 | 100,068 | 26,485 |
| Real Estate & Public Utilities | 57,980 | 62,066 | 105,606 | 66,392 | 50,329 | 147,555 |
| Services | 228,768 | 271,402 | 342,881 | 478,440 | 675,634 | 667,473 |
| Other | 46,519 | 16,193 | 9,886 | 34,569 | 102,568 | 239,925 |
| TOTAL | 1,005,562 | 952,330 | 1,093,631 | 1,420,604 | 1,912,169 | 2,292,442 |

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

| | Dec-00 | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Deposits in Riel | | | | | | |
| Demand deposits | 47,651 | 31,146 | 48,451 | 30,799 | 37,891 | 40,712 |
| Savings deposits | 6,006 | 16,590 | 25,736 | 41,119 | 49,169 | 62,797 |
| Fixed deposits | 40,893 | 37,786 | 48,561 | 40,818 | 40,373 | 41,643 |
| Others | 16 | 0 | 0 | 0 | 2,421 | 2,438 |
| Total | 94,566 | 85,523 | 122,748 | 112,736 | 129,855 | 147,590 |
| Deposits in Foreign Currency | | | | | | |
| Demand deposits | 450,270 | 495,011 | 525,444 | 687,230 | 792,466 | 958,804 |
| Savings deposits | 511,158 | 646,179 | 894,114 | 1,067,329 | 1,478,007 | 1,703,153 |
| Fixed deposits | 428,586 | 562,388 | 695,438 | 740,115 | 881,644 | 1,071,863 |
| Others | 1,141 | 308 | 3,712 | 2,386 | 45,816 | 45,811 |
| Total | 1,391,155 | 1,703,886 | 2,118,708 | 2,497,061 | 3,197,933 | 3,779,631 |
| GRAND TOTAL | 1,485,721 | 1,789,409 | 2,241,457 | 2,609,796 | 3,327,788 | 3,927,221 |

Table 10: Cambodia: Balance of Payments
Financing analysis, 2002-2005 (US\$ million)

| | 2001 | 2002 | 2003 | 2004 | 2005F |
|---|---------|---------|---------|---------|---------|
| Balance of trade | -522.8 | -562.9 | -532.7 | -717.7 | -1031.2 |
| Exports fob | 1571.2 | 1755.1 | 2027.2 | 2475.5 | 2707.1 |
| Domestic exports | 1462.0 | 1644.2 | 1910.4 | 2341.1 | 2553.5 |
| GSP exports (mainly garments) | 1188.1 | 1391.6 | 1627.9 | 2034.1 | 2142.7 |
| Other domestic exports | 273.9 | 252.5 | 282.6 | 307.0 | 410.8 |
| Re-exports (including profit and transportation cost) | 109.1 | 110.9 | 116.8 | 134.4 | 153.6 |
| Imports fob | -2094.0 | -2318.0 | -2559.9 | -3193.3 | -3738.3 |
| Retained imports | -2010.3 | -2232.9 | -2470.3 | -3090.0 | -3620.5 |
| Garment sector | -601.3 | -701.3 | -812.4 | -1007.9 | -1068.6 |
| Petroleum | -372.5 | -352.6 | -412.6 | -575.3 | -830.8 |
| Other retained imports | -1036.6 | -1178.9 | -1245.2 | -1506.8 | -1721.2 |
| Imports for re-exports | -83.7 | -85.1 | -89.6 | -103.3 | -117.8 |
| Net services | 177.3 | 229.9 | 135.7 | 297.7 | 500.8 |
| Receipts | 524.6 | 604.2 | 526.1 | 767.1 | 1038.1 |
| Transportation services | 86.9 | 88.9 | 83.0 | 103.8 | 125.0 |
| Travel services | 380.4 | 453.5 | 389.0 | 603.5 | 839.1 |
| Other services | 57.3 | 61.7 | 54.1 | 59.9 | 74.0 |
| Payments | -347.3 | -374.3 | -390.4 | -469.3 | -537.4 |
| Transportation services | -187.1 | -213.9 | -230.9 | -289.7 | -338.6 |
| Travel services | -37.0 | -38.2 | -36.2 | -47.6 | -50.1 |
| Other services | -123.2 | -122.1 | -123.4 | -132.1 | -148.7 |
| Net income | -137.9 | -177.0 | -206.6 | -239.2 | -234.7 |
| Receipts | 57.5 | 50.6 | 43.7 | 48.6 | 68.6 |
| Payments | -195.4 | -227.6 | -250.3 | -287.8 | -303.3 |
| Private transfers, net | 137.3 | 148.8 | 162.8 | 177.1 | 201.2 |
| BALANCE ON CURRENT ACCOUNT | | | | | |
| (excluding official transfers) | -346.1 | -361.3 | -440.9 | -482.1 | -563.9 |
| Official transfers | 303.1 | 311.8 | 312.4 | 268.9 | 299.7 |
| Receipts | 303.4 | 312.0 | 312.7 | 269.2 | 300.0 |
| Of which: Grants | 18.4 | 21.6 | 2.8 | 1.4 | 2.6 |
| Food aid | 33.6 | 43.3 | 27.4 | 21.9 | 37.0 |
| Project aid | 118.8 | 85.7 | 61.7 | 55.5 | 120.0 |
| TA salaries | 132.6 | 161.4 | 220.9 | 190.4 | 140.4 |
| Payments | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| BALANCE ON CURRENT ACCOUNT & CAPITAL TRANSFERS | -43.0 | -49.5 | -128.4 | -213.2 | -264.2 |
| FINANCIAL ACCOUNT | 148.7 | 247.3 | 166.8 | 332.2 | 340.6 |
| Official sector loans (excluding IMF), net | 78.1 | 124.2 | 148.6 | 154.4 | 145.6 |
| Drawings | 85.3 | 132.2 | 156.4 | 162.7 | 155.1 |
| Repayments | -7.2 | -8.0 | -7.8 | -8.3 | -9.5 |
| Non-official sector investment | 70.6 | 123.1 | 18.2 | 177.8 | 195.0 |
| Direct Investment, net | 142.1 | 139.1 | 74.3 | 121.2 | 240.6 |
| Portfolio Investment Assets | -7.7 | -7.5 | -7.7 | -8.0 | -7.2 |
| Other Investment, net | -63.8 | -8.5 | -48.4 | 64.6 | -38.4 |
| Net errors and omissions | -39.1 | -32.8 | -7.8 | 8.5 | -32.8 |
| OVERALL BALANCE | 66.6 | 165.0 | 30.6 | 127.4 | 43.6 |
| FINANCING | -66.6 | -165.0 | -30.6 | -127.4 | -43.6 |
| Net foreign assets of the NBC (excluding monetary gold) | -79.3 | -177.7 | -43.3 | -140.2 | -56.4 |
| Change in Reserve Assets | -88.6 | -187.0 | -41.6 | -127.8 | -47.3 |
| Use of IMF credit | 9.3 | 9.3 | -1.8 | -12.4 | -9.1 |
| Exceptional financing | 12.8 | 12.8 | 12.8 | 12.8 | 12.8 |

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

Notes: - Provisional data for 2002-2005, subject to change. - F = Forecast.

