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## **Introduction**

In December 2005, the consumer price index (CPI) continued its downward trend, due to the decrease in food prices. With the largest weight in the consumer basket, the drop in food prices had a moderate impact on the change in the inflation rate. During the same period, the exchange rate of riels against the US dollar appreciated moderately, while money supply shrunk slightly. This decline reflected the decrease in the foreign currency deposits and domestic credit.

## **Consumer Price Index**

The consumer price index decreased from a level of 118.42 in November to 118.14 in December 2005. Consequently, the monthly deflation rate was 0.24%.

A drop in major group index - food, beverages, and tobacco - with the largest share in consumer basket, combined with a fall in transportation and communication major group index were the reason for the deceleration in the monthly inflation rate compared to that of the previous month.

In December 2005, two out of eight major group indexes recorded negative changes, in which transportation and communication group index experienced the largest decline, although the magnitude of the decline was slower than last month. The transportation and communication group index fell by 0.54% in the month under consideration, as against a fall of 0.85% in November. This decline was mainly due to a decrease in price of diesel fuel, tricycle fares and gasoline by 1.72%, 1.64%, and 1.33%, respectively. During the same period, the major group index for food, beverages, and tobacco decreased by 0.47%, following by a decrease of 0.18% in the previous month. This was due to a decrease in the index for the food sub-group of 0.51 % and the index for tobacco sub-group of 0.01 %, while the index for the beverages sub-group increased by 0.29%.

## **Exchange Rate**

The value of the riel against the US dollar in December 2005 appreciated notably, up by 1.46% when compared to the previous month. The end period market buying rate decreased from 4,178 riels at the end of November to 4,117 riels per US dollar at the end of December 2005.

Looking at the trend of daily exchange rate in December 2005 (Chart 3), we can see that the exchange rate of riels against the US dollar moved downward from the beginning to the end of the month. During the first ten days of the month, the exchange rate started to decrease from 4,174 riels on December 1 to 4,113 riels per US dollar on December 10. After that, it traded at around 4,117 riels per US dollar until the end of the month. On a year on year basis, the riel depreciation rate for the month under review was 2.03%.

## **Money Supply**

Broad money M2, which consists of currency outside banks and customers deposit with the banking system, went down by 8.6 billion riels (0.2%), from 5,033.5 billion riels in November to 5,024.9 billion riels in December 2005. The decrease in broad money M2 in the month under review was caused by a decrease in quasi-money of 53.5 billion riels (1.4%), while narrow money M1 rose by 44.8 billion riels (3.5%). The fall in quasi-money was due to the decline in foreign currency deposits of 58.5 billion riels (1.6%), while time and saving deposits increased of 5 billion riels (4.6%). The increase in narrow money M1 reflected an increase in currency outside banks of 48.3 billion riels (3.9%), when demand deposits decreased by 3.5 billion riels (7.8%).

Considering developments over the last twelve months, narrow money M1 experienced a higher growth rate compared with last year, up by 169.9 billion riels (14.7%). In particular, currency outside banks recorded a continuous positive change during the entire 2005, except in May and October. The increase in 2005 amounted to 167.4 billion riels (15%) largely reflecting an increase in currency issued. During the same period, demand deposits also posted an increase, up by 2.5 billion riels (6.6%). As for the two components of quasi-money, both experienced increases, although at a significant different pace. Time and saving deposits rose by 15.4 billion riels (15.8%), while foreign currency deposits increased by 510.3 billion riels (16.6%).

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

The net domestic assets of the banking sector moved up by 58.9 billion riels (11.6%) in December 2005, after having declined in the previous three consecutive months. The rise in net domestic assets of the banking sector was mainly due to an increase in other items net of 89.5 billion riels (3.7%), while domestic credit moved down by 30.6 billion riels (1.5%). The increase in other items net in the month under review

was due to increase in 'other' of 47.3 billion riels (16.1%). Capital and reserves and restricted deposits decreased 28.1 billion riels (1.1%) and 14.1 billion riels (10.3%), respectively. The drop in domestic credit during the month under review, reflected a sharp decline in credit to the private sector, moving down by 55.1 billion riels (2.3%), Net claim on government went up by 24.5 billion riels (5.5%), as the government deposits with the banking sector shrunk by 29.5 billion riels (3.8%), while claims on government declined 5 billion riels (1.5%).

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

The net foreign assets of the banking sector shrunk by 67.5 billion riels (1.2%) in December 2005, following an increase in the previous three consecutive months, due to a drop in total foreign assets of 44 billion riels (0.7%) Total foreign liabilities also rose by 23.5 billion riels (3.7%). The decrease in total foreign assets was due to a decrease in foreign assets of deposit money banks by 80 billion riels (5.5%). Foreign assets of the central bank increased by 35.9 billion riels (0.8%). The growth in total foreign liabilities was due to an increase in foreign liabilities of deposit money banks by 26.7 billion riels (8.7%), while foreign liabilities of the central bank declined by 3.2 billion riels (0.9%). The decrease in foreign assets of deposit money banks was due to decreases in all components of foreign assets. Foreign exchange holding decreased by 40.2 billion riels (9.4%), accounts with foreign banks decreased 36.1 billion riels (3.5%), and foreign bills decreased 3.7 billion riels (55.2%). The increase in foreign assets of the central bank reflected an increase in accounts with foreign banks and non bank institutions of 52.3 billion riels (2.3%) as well as monetary gold prices increased by 23.1 billion riels (2.8%), Other credits to nonresidents and foreign exchange holdings which decreases by 20.7 billion riels (1.4%) and 17.9 billion riels (13.6%), respectively.

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

As shown in Table 10, total operations of deposit money banks, which constitute of commercial banks and specialized banks, have been contracted in the month under consideration. Total assets of all deposit money banks declined by 73.1 billion riels (1.3%), from 5,652.2 billion riels in November to 5,579.2 billion riels in December 2005. This was due to a significant decrease in credit to private sector by 55.1 billion riels (2.3%) combined with a decrease in foreign assets by 80 billion riels (5.5%), mean while cash and deposits with central banks, and fixed and other domestic assets decrease by 72.1 billion riels (5.4%) and 5.4 billion riels (1.6%) respectively.

On the liability side, foreign liabilities rose by 26.7 billion riels (8.7%), due mainly to an increase in transfer payable accounts of non-residents. Deposits by residents, the major source of funds for deposit money banks, decreased by 53.5 billion riels (1.4%), while capital and reserve decreased by 41 billion riels (3.5%) and other domestic liabilities went down by 5.3 billion riels (1.4%).

As can be seen from Table 12, total credit provided to the economy by all deposit money banks, excluding central bank's branches, increased significantly by 102.9 billion riels (4.2%) after having a declined by 18.7 billion riels (0.7%) in the previous month. Figures on monthly changes indicate that eight sectors registered an increase in credit. The credit sector with the largest increase in the month under review was credit to exporters, up 31.3 billion riels (78.9%), followed by the growth of credit to services industry of 22.4 billion riels (2.6%), other industries of 17.5 billion riels (7.5%), manufacturing industry of 14.8 billion riels (5.3%), wholesale and retail trade of 11.8 billion riels (2.2%), real estate industry and public utilities of 10.4 billion riels (6.9%), agriculture sector 9.4 billion riels (13.7%), and construction industry of 8.5 billion riels (5.8%). During the same period, there was a decrease in credit to importers of 23.0 billion riels (13.2%) and finance industry of 0.06 billion riels (71.3%).

Table 14 shows deposit activities of the deposit money banks, excluding central banks branches. Total resident and non-resident deposits increased by 99.5 billion riels (2.5%), from 3,987.5 billion riels in November to 4,086.9 billion riels in December 2005. The increase in total deposits was due to the improvement in deposits in both currency denominations. Deposits in foreign currency grew by 87.2 billion riels (2.3%) whereas, that in local currency grew by 12.3 billion riels (8.0%). With a share of 95.9% in the total banks deposits as at the end of 2005, deposits in foreign currency continuous to be seen as an important indicator of polarization in Cambodia. The growth in foreign currency deposits was caused by increases in saving deposits of 77.8 billion riels (4.4%), other deposits of 12 billion riels (26.7%), and fixed deposits of 7.5 billion riels (0.7%). Demand deposits fell by 10.1 billion riels (1.0%). The growth in local currency deposits was due to increases in fixed deposits of 13.4 billion riels (32.1%), saving deposits of 4 billion riels (7.1%), and demand deposits of 1.5 billion riels (3.7%), while other deposits dropped by 6.6 billion riels (47.7%).

**\*For more information please contact the address above**