

Preface

The global economy slowed down by a certain degree in 2002 compared to 2001. For the United States, which is the largest economy in the world, the economic growth declined sharply after the September 11, 2001 terrorist attack. Although the US economy showed some positive signs in late 2002, the United States continues to face a difficult situation in restoring its economy. The European economy also declined, but at a milder rate and its recovery depends partly on the recovery of the US economy. The declining demand and corporate profit and the falling stock prices in the United States have adverse impact on the European economy. Japan continues to face severe economic problems due to loss of domestic confidence, decrement of exports, and falling asset prices despite the fact that the Japanese economy posted a positive growth in the second quarter of 2002. The Asian economy as a whole was forecasted to post a moderate growth in 2002 based on the assumption that export would continue to slump. Singapore and Taiwan, which recorded negative growth in 2001, returned to positive growth in 2002.

Cambodian economy also depends partly on the performance of global economy. Besides agriculture, which is currently the major sector of Cambodian economy, export-oriented industry and tourism have largely contributed to promoting growth. These two sectors rely on the growth of the global economy and the global situation. The export of garments slowed down slightly after the September 11 attack on the United States. In contrast, the number of foreign tourist arrival in Cambodia continued to rise in 2002 compared to 2001. Foreign direct investment, which is an important factor stimulating the economic activities, failed to show any remarkable growth. Because of the low level of investment coupled with flooding in some areas and drought in others, Cambodian economy was estimated to grow by 4.5%-5% in 2002. Macroeconomic performance continued to be very good and 2002 is the fourth consecutive year in which Cambodia has achieved and maintained macroeconomic stability. In 2002, inflation rate stood at 3.8%, while the exchange rate remained stable with the riel value relative to the US dollar remained almost unchanged, based on yearly average rate. Low rate of inflation and stable exchange rate contributed to restoring people's confidence in the riel, which is now widely used. Within this stable macroeconomic framework, the National Bank of Cambodia (NBC) has continued to further strengthen the country's official international reserves.

To promote financial intermediation and to strengthen banking operations with the aim of supporting the economic growth, the NBC undertook a bank restructuring program and improved bank supervision, and these tasks have been largely successful. The liquidation of commercial banks that were closed went smoothly and relicensing of banks that met the regulatory requirements was successfully completed. The performance of relicensed banks has improved gradually and progress has been made, for example while the number of operating banks declined, the total amount of bank deposits and loans increased. At the beginning of 2003, the NBC will introduce a new chart of accounts for banks, which was prepared based on international standards. The implementation of this new chart of accounts will further facilitate bank supervisory activities. The restructuring of the Foreign Trade Bank was underway. Currently, the Ministry of Economy and Finance becomes its major shareholder and a new board of directors was appointed.

In performing the tasks as listed in the *Financial Sector Development Plan for 2001-2010* of the Royal Government, the NBC has received technical assistance from the Asian Development Bank in preparing and issuing regulations for banks, including Prakas on Anti-money Laundering, determination of various prudential ratios, and standard procedures for bank supervision. In addition, the supervision of micro-financial activities showed progress through licencing the major microfinance institutions and registering the small institutions.

In 2002, the riel circulation was further improved as the supply of riel cash in line with the demand of public expenditure throughout the country went smoothly, while the quality of bank notes in circulation was good. Tax payments and state revenues have been largely collected at the NBC's counters - the process that permits the removal of old and torn bank notes from circulation and the issue of good quality notes back into circulation. The centralization and reduction of the number of the Royal Government's accounts at the NBC contributed to further improving the management and implementation of the state budget. With close collaboration with the Ministry of Economy and Finance, the NBC will arrange for its provincial branches to open accounts for provincial treasuries in the near future in order to perform more effectively the issuing function and to facilitate the currency circulation.

The NBC completed the drafting of the Law on Negotiable Instruments and Payment Transactions and participated in the discussion on this draft law with other ministries before it was sent to the Council of Ministers for review and approval to forward it in early 2003 to the National Assembly for adoption. The implementation of this law would ensure safety and continuity of economic and financial transactions, promote inter-bank settlements,

mitigate risk, facilitate the establishment of a framework that is essential for payment system and strengthen the management capacity.

The above achievements were made possible by the concert efforts of the NBC's staff and management and the cooperation from the relevant public institutions as well as the strong support from the Royal Government. There are more works that need to be done by the NBC with the aim of developing a sound banking system in order to win the public confidence, maintain the stability and the purchasing power of the riel that would lead to price stability, thus contributing to a sustainable economic growth and successful implementation of the socio-economic development plan of the Royal Government.

CONTENTS

	Page
A. Annual Report 2002	
Introduction	1
<i>I. The Conduct of Monetary Policy and the Operations of the National Bank of Cambodia</i>	2
1. The Trend of the Riel Value	2
1.1. Consumer Price Index (CPI)	2
1.2. Exchange Rate Development	3
1.2.1. Movement of the Riel Against the US dollar	3
1.2.2. Movement of the Riel Against Selected Currencies	4
2. Monetary Development	5
2.1. Money Supply	6
2.2. Factors Affecting Money Supply	7
2.2.1. Net Domestic Assets and Net Foreign Assets of the National Bank of Cambodia	7
2.2.2. Net Domestic Assets and Net Foreign Assets of Commercial Banks	7
3. Balance of Payments	8
3.1. Current Account	8
3.2. Official Transfers	9
3.3. Financial Accounts	9
4. Foreign Reserves Management	9
4.1. Investment of Foreign Reserves	10
4.2. Sales and Purchases of USD	10
4.3. Flow of Fund	10
4.4. The Oversight Over Gold and Foreign Exchange Businesses	11
4.4.1. The Export-Import of Gold	11
4.4.2. The Issuance of Business Permits	11
5. Relations with Banking and Financial Institutions	12
5.1. Bank Supervision	12
5.1.1. Off-Site Examination	12
5.1.2. On-Site Inspection	12
5.2. The Supervision of Specialized Banks and Micro-Finance Institutions	13
5.3. Banking Reform	13

5.3.1. The Liquidation of Banks	13
5.3.2. The Restructuring of the Foreign Trade Bank	15
6. Provision of Central Banking Services	15
6.1. Accounting Services	15
6.1.1. Accounting Services to Government Institutions	15
6.1.1.1. Japanese Aids	15
6.1.1.2. Financial Assistance from the People's Republic of China	17
6.1.1.3. Concessional Loans from the Republic of Korea	17
6.1.2. Accounting Services to Commercial Banks	18
6.2. Clearing Services	18
6.2.1. Check Clearing in Riel	18
6.2.2. US dollar-denominated check clearing	19
6.3. Credit Services	19
7. Management of Banknotes in Circulation	19
<i>II. The Internal Management of the National Bank of Cambodia</i>	20
1. The Activities of the Board of Directors	20
2. Human Resource Development	21
2.1. Staff Statistics	21
2.2. Training Activity	21
2.3. Banking Institute	22
3. Internal Inspection	22
4. Work on Legislation	23
5. NBC's Financial Transactions	23
<i>III. International Relation</i>	25
1. Relation with the International Monetary Fund	25
2. Relation with Asian Development Bank	26
3. Relation with ASEAN	27
4. Bilateral Relation	28
B. Targets for 2003	30
1. Economic Growth and Monetary Operations	31
2. Internal Structure Strengthening Targets	32
3. Banking System Strengthening Targets	33
4. Legal Framework Establishment Targets	33
5. Currency Circulation Control Targets	34

APPENDIX

	Page
Appendix 1: Table 1 Consumer Price Index	35
Appendix 2: Table 2 Consumer Price Index Dec 1998-Dec 2002	36
Appendix 3: Table 3 Value of Riel vis-a-vis Other Foreign Currencies	37
Appendix 4: Table 4 Monetary Survey	38
Appendix 5: Table 5 Monetary Survey (Yearly Percent Change)	39
Appendix 6: Table 6 Balance sheet of Deposits Money Banks	40
Appendix 7: Table 7 Deposit Money Banks' Balance Sheet	41
Appendix 8: Table 8 Credit Granted by Commercial Banks Classified by Type of Business (Excluding Provincial Branches of NBC)	42
Appendix 9: Table 9 Summary of Deposits with Commercial Banks (Excluding Provincial Branches of NBC)	42
Appendix 10: Table 10 Cambodia's Balance of Payments During 2000-2002	43

A – Annual Report 2002

Introduction

Macroeconomic performance in 2002 indicates that Cambodian economy sustained a remarkable stability in view of the weak world economy and despite of the fact that the country has suffered a severe flooding and drought during a period of three consecutive years. According to the Ministry of Economy and Finance, the economy was estimated to grow by about 4.5%-5% in real terms compared with 6.3% and 7.7% in 2001 and 2000, respectively, due to the impact of adverse weather conditions on the agriculture, which represents a principal sector in output production. After inflation rate declined to about 0% in 2000 and 2001, prices of consumer goods increased only marginally in 2002. The annual rate of inflation was 3.8%, remaining thus within the government's determined target range of below 5%. Meanwhile, currency outside banks recorded a growth rate of 31.7%, compared with 16.8% and 1 % respectively in 2001 and 2000. The value of the Riel as measured by the average market exchange rate has been largely stable, remaining almost unchanged against the US dollar in 2002. This is a remarkable stability compared to the depreciation rate of 1.6% in 2001 and 1.1 % in 2000. Such small fluctuation in the exchange rate of the Riel since 1999 was attributable to the efforts of the government to promote political stability, improved budget management, combined with the restricted monetary policy pursued by the National Bank of Cambodia with the aim of creating favorable conditions for the development of the economy. This positive state of the economy has also been reflected in the steady increase in the international reserves, which grew by 21 % in 2002 as against a rate of growth of 13% in the preceding year.

Besides contributing to strengthening the macroeconomic stability through keeping inflation under control and maintaining the value of the riel, the National Bank of Cambodia also continued to pay high attention on reforming the banking sector and restructuring *its* internal organization. During 2002, the NBC acquired various new achievements such as the completion of bank relicensing program, the introduction of new regulations in order to meet the need to strengthen the banking sector, the preparation of the draft Law on Negotiable Instruments and Payment Transactions, the restructuring and strengthening of its provincial branches, the upgrading of its human resources, and the co-operation with the Ministry of Economy and Finance in issuing government bonds to recapitalize the Foreign Trade Bank. The implementation of the financial sector reform program, which *is* a part of the long-term strategy set out in the government paper called "The Financial Sector Development Plan for 2001-2010", has been smooth according to the plan for 2002.

Successful implementation of the measures, which were defined in a proper sequence in this strategy, will contribute to promoting a strong and efficient financial sector.

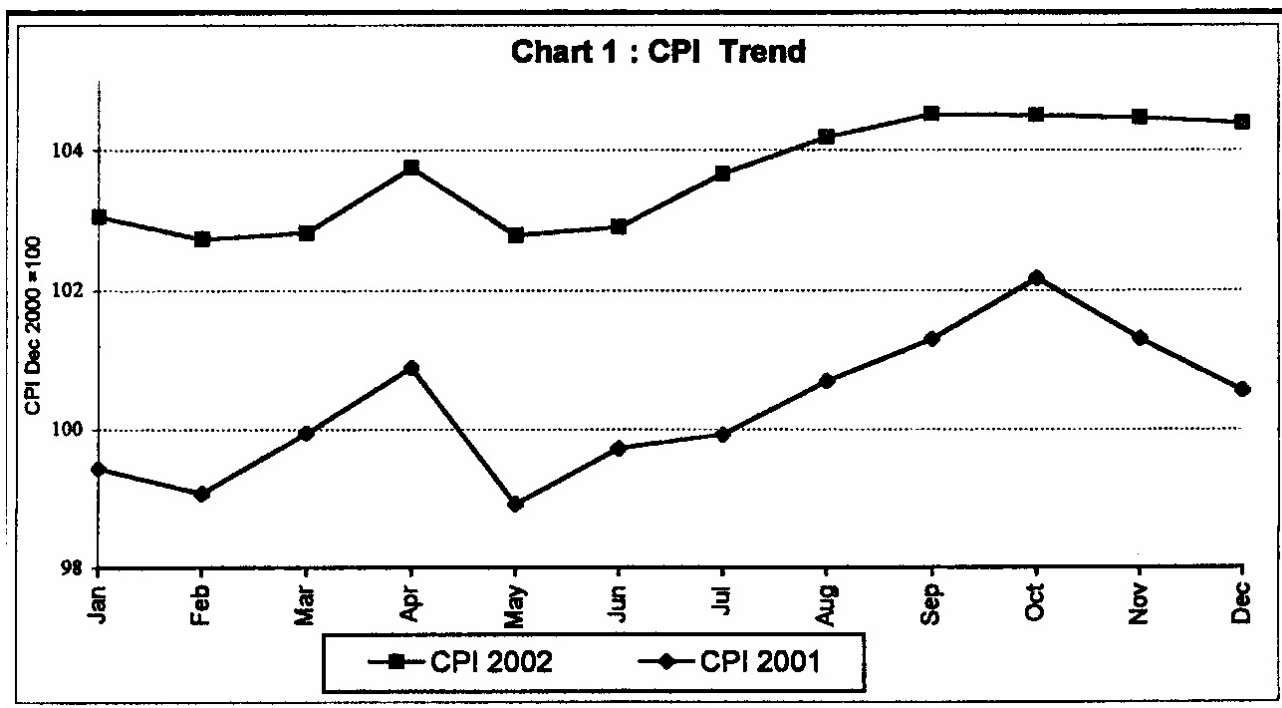
I. The Conduct of Monetary Policy and the Operations of the National Bank of Cambodia

1. The Trend of the Riel Value

1.1. Consumer Price Index (CPI)

Table 1 shows the movements of the consumer price index from January to December 2002. This table indicates a steady increasing trend of the CPI. The pace of the increase, however, was slow and the rate was manageably low.

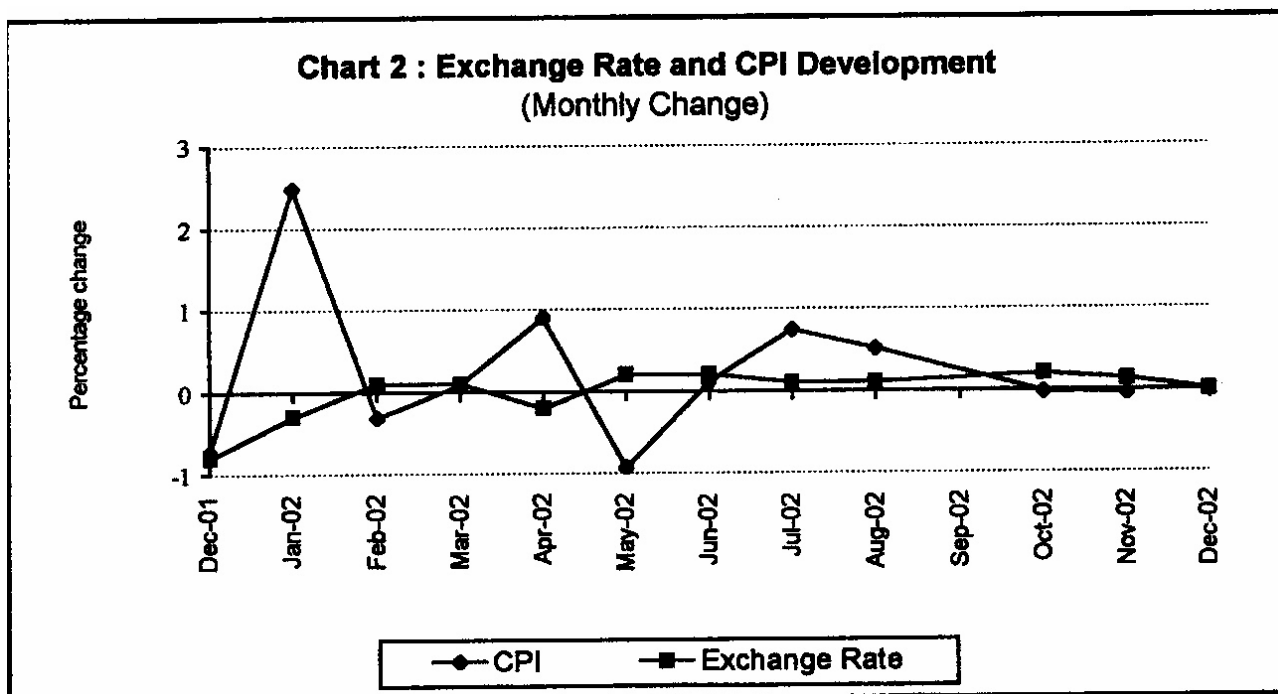
The CPI for all items was on a rise since the beginning of the year 2002. The CPI rose from 100.56 in December 2001 to 102.82 in March, 102.90 in June, 104.53 in September and 104.39 in December 2002. If compared with the CPI for the same period of last year, the movement of the CPI in 2002 followed largely the previous year pattern, but the CPI in 2002 was indeed on a bit higher level than in 2001 (chart 1).



Based on a month-to-month change, inflation in January 2002 recorded the highest rate in the year (2.48%), which was mainly impacted by drought in the previous year, as well as by increase in the rent, leading to a rise in the sub-index of housing and utilities by

6.4%. The rate of inflation was subdued to some extent in the following months with an average monthly growth rate of only 0.12% over the last eleven months of the year.

The determinants for the continuous increase in the general price level of goods and services in the year under consideration include seasonal factors such as the Khmer New Year festival and the seasonal ban on fishing activities. Furthermore, damages caused by floods and drought in some areas within the country also contributed to raising the prices of a number of items, in particular rice, fish, meat, and vegetable, followed by cloth and clothing, and transportation costs.



1.2. Exchange Rate Development

1.2.1. Movement of the Riel Against the US dollar

Although the continuous adverse weather conditions during the last three years led to increased burden of the government and caused difficulties in the economic development process, they fortunately did not have severe effects on the value of the Riel. In 2002 the value of the Riel against the US dollar has been stabilized to the extent that could be proud of, which was evidenced by a negligible change in the annual average exchange rate, as compared with the depreciation of 1.6% and 1.1 % in 2001 and 2000, respectively.

In the first half of 2002, the exchange rate (market purchase rate) recorded only a slight change, increasing from 3,904 riels to a USD to 3,921 riels per US dollar. During this period, the rate fluctuated a little, indicating a firm stability of the value of the riel. In the second half of the year, the rate of exchange started to move steadily upward from August, but recovered somewhat in October. In September, the monthly exchange rate rose to 3,966 riels to a US dollar, a record high in the year. The exchange rate was down to 3,939 riels to a US dollar at end of December 2002.

Riel Exchange Rate Against U.S dollar

(Riel/dollar)

Date	Monthly Exchange Rate					
	Market Rate			Official Rate		
	Purchase	Sale	Midpoint	Purchase	Sale	Midpoint
Dec-01	3902	3907	3904	3895	3905	3900
Jan-02	3904	3909	3907	3895	3905	3900
Feb-02	3916	3922	3919	3905	3915	3910
Mar-02	3900	3907	3904	3895	3905	3900
April-02	3921	3927	3924	3900	3910	3905
May-02	3915	3920	3918	3905	3915	3910
June-02	3921	3926	3923	3915	3925	3920
July-02	3920	3926	3923	3910	3920	3915
Aug-02	3932	3939	3936	3920	3930	3925
Sep-02	3966	3974	3970	3945	3955	3950
Oct-02	3956	3963	3960	3935	3945	3940
Nov-02	3940	3948	3944	3930	3940	3935
Dec-02	3939	3944	3942	3930	3940	3935

1.2.2. Movement of the Riel Against Selected Currencies

Table 3 shows a comparison of the riel with a number of selected foreign currencies from January to December 2002. This table indicates that the riel was somewhat weaker against various currencies, especially against the currencies of Cambodia's main trading partners. Based on the exchange rate against the US dollar, foreign currencies that experience a gain in value as compared with the riel during the period under consideration were the New Zealand dollar (27.8%), the Euro

(19.8%), the Indonesian rupee (17.6%), the Korean won (12.6%), the Japanese yen (11.9%), the English pound (11.7%), and the Australian dollar (11.6%).

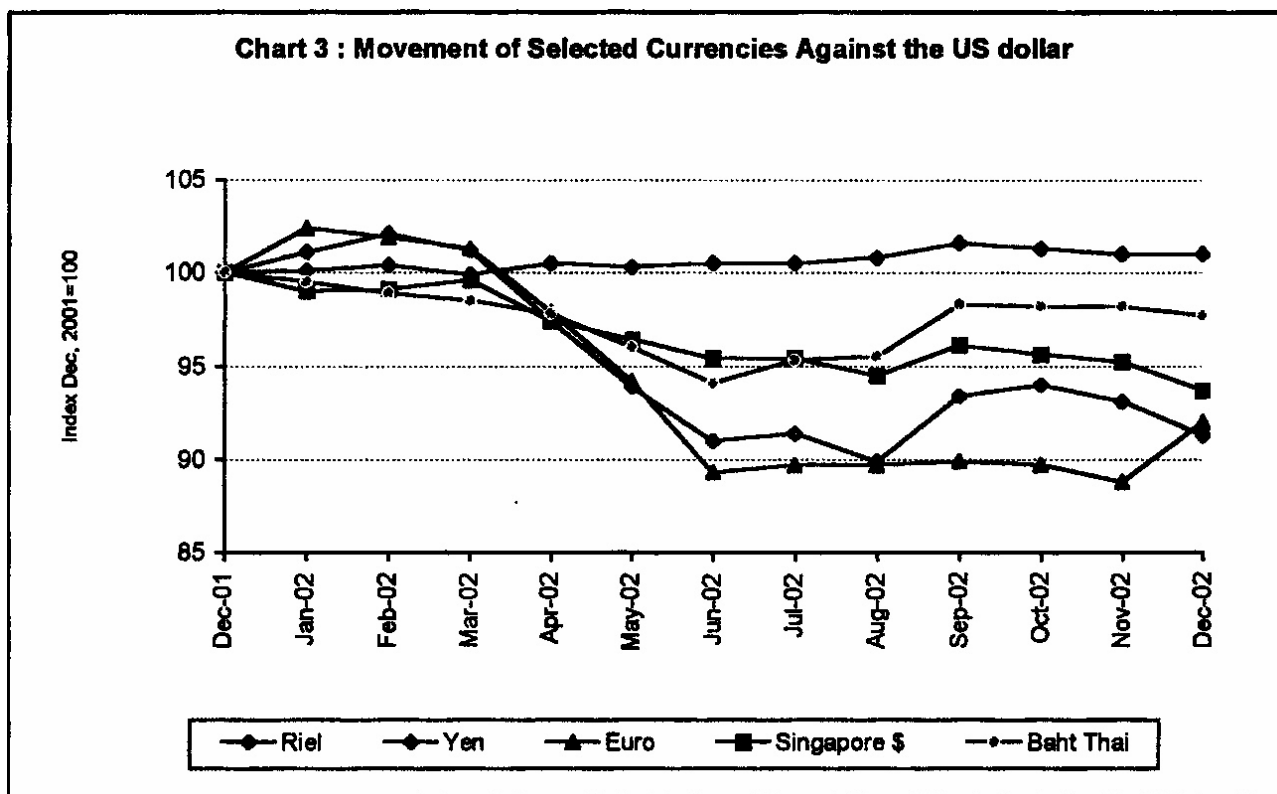


Chart 3 shows a movement of the riel, the Singapore dollar, the Japanese yen, the euro, and the Thai baht in relation to the US dollar. This chart indicates that the riel was stronger than the Japanese yen and the euro, but weaker than the Thai baht and the Singapore dollar during the first quarter - based on the exchange rates of these currencies against the US dollar. However, since March 2002 the Japanese yen, the euro, the Singapore dollar and the Thai baht gained back strength against the riel, as compared to the US dollar, while the riel depreciated slightly against the US dollar. Currency that appreciated most against the US dollar as at the end of 2002 was the euro, followed by the Japanese yen, the Singapore dollar and the Thai baht.

2. Monetary Development

Money supply and net foreign assets continued to increase at a relatively high rate in 2002, while domestic assets recorded a lower rate of growth. Increase in money supply was

largely attributable to the rise in foreign currency deposits. In addition, a part of the increase in liquidity was used to build up the country's international reserves.

2.1. Money Supply

During 2002 liquidity of the banking sector as measured by M2, rose by 662.7 billion riels (30.1 %) from 2,203 billion riels in December 2001 to 2,866 billion riels in December 2002, after having increased by 20.4% and 26.9% in 2001 and 2000, respectively.

Percent Change in Monetary Statistics and Inflation Rate

	Dee-98	Dec-99	Dee-00	Dec-01	Dec-02
Net Claims on Government	231.6%	-42.3%	-96.8%	23-fold decline	-58.9%
Credit to Private Sector	2.8%	16.6%	17.7%	4.2%	13.5%
Liquidity (M2)	15.7%	17.3%	26.9%	20.4%	30.1%
Currency Outside Banks	43%	-3.8%	1%	16.8%	31.7%
Inflation Rate (year on year)	13.29%	-0.54%	-0.81%	0.56%	3.81%

The major sources of increase in liquidity in 2002 were increase in foreign currency deposits of residents by 447 billion riels (29.1 %) and growth in currency outside banks by 182 billion riels (31.7%). These figures point out that the operations of commercial banks kept strengthening after banks have been relicenced: In fact, while the number of banks significantly reduced, residents' deposits with the banking sector continued to rise. Indeed, in the process of bank restructuring, which started in 2000, the number of commercial banks declined from 30 at the end of 2000 to 17 as at the end of December 2002, of which four banks are classified as specialized banks. During the same period, growth in currency in circulation signified an encouraging development. This was due to the fact that while currency in circulation maintained a growth rate as high as in the previous years, the exchange rate of the riel remained largely stable. Increases in currency outside banks contributed, in addition, to building up the country's international reserves. This development signified an increasing demand for national currency, which created a conducive condition for moving toward de-dollarizing the Cambodian economy.

2.2. Factors Affecting Money Supply

In general, the volume of money supply changes according to movements of net assets of the banking system; this means that the operations of the National Bank of Cambodia, the commercial banks and the specialized banks, which are reflected in the net domestic assets and net foreign assets, are factors affecting liquidity growth.

In 2002, net domestic assets of the banking sector posted a small increase of 11 billion riels (1.3%), following a decline of 117 billion riels (15.5%) a year earlier. This negligible rise in net domestic assets in the period under consideration was due to the steady decline in credit to the government by the banking sector of 44.2 billion riels (58.9%), while credit to the private sector grew by 126 billion riels (13.5%).

2.2.1. Net Domestic Assets and Net Foreign Assets of the National Bank of Cambodia

In 2002, net domestic assets of the National Bank of Cambodia shrunk by 169 billion riels (16%) after having declined by 127 billion riels (13%) in 2001. This fall was largely a result of declines in net claims on government and claims on the commercial banks.

Net foreign assets had an opposite trend as compared with net domestic assets, continuing to increase by 790 billion riels (33%) in 2002. The increase in foreign assets of 858 billion riels (31 %) represented the major source of growth in net foreign assets, whereas foreign liabilities also rose, but by a small amount, which reflected the increase in liability to the International Monetary Fund.

In sum, after offsetting against the decline in net domestic assets, the rise in net foreign assets of 621 billion riels represented the main contributing factor to liquidity growth.

2.2.2. Net Domestic Assets and Net Foreign Assets of Commercial Banks

During 2002, total assets of commercial banks rose by 402.1 billion riels (13.7%). This increase in total assets was attributable to increase in banks reserves (cash and deposits with the National Bank of Cambodia) and a rise in loans and advances to residents. In short, this increase represented the use of customers deposits, which also grew during the period.

Net domestic assets went up by 618.7 billion riel (63.5%), resulting mainly from the issuance of government bond of 40 billion riels to recapitalize the Foreign Trade Bank, as well as from the increase in credit to the private sector of 126.7 billion riels (13.5%), while net claims on the National Bank of Cambodia declined by 41.6 billion riels (97%). Meanwhile, deposits of commercial banks with the National Bank of Cambodia, which is the main component of banks reserves, grew by 375.8 billion riels (43.4%). Other items net declined by 121.1 billion riels (13.8%).

Net foreign assets of the banking system recorded a drop in 2002, falling from 651.3 billion riels in December 2001 to 512.6 billion riels at the end of 2002, representing a decline of 138.8 billion riels. It should be noted that foreign assets declined by 168.7 billion riels, while foreign liabilities posted a decrease of 30 billion riels. Based on this analysis, the operations of commercial banks contributed to liquidity growth in an amount equaling 479.9 billion riels, which represents the increase in net domestic assets after being netted against the decline in net foreign assets. This amount represented mainly foreign currency deposits of residents.

3. Balance of Payments

Provisional data on balance of payments transactions for Cambodia for the year 2002 show an improvement in the overall balance that recorded a surplus of USD144 million, an increase by USD 73 million on the surplus in 2001. This surplus was reflected in the increase in reserve assets, which was sufficient to cover more than three months of imports.

3.1 Current Account

Based on the preliminary figures, the current account transactions (excluding official transfers) recorded a deficit of USD 322.2 million, a better performance compared with the deficit of USD 335.3 million in 2001. This better result was due to a decline in the balance of trade of USD17 million combined with a fall in net income accounts of USD15.5 million.

Trade deficit was estimated at USD 440.4 million, a decline of 4% compared with 2001. Factor contributing to this decline was the expansion in total exports of USD104 million (7%), specifically led by increase in export of garments under the Generalised System of Preferences (GSP) of USD143.7 million. Since the second quarter 2002, export of garments experienced a remarkable increase, especially to European markets and other markets besides the US, while export to the latter posted a smaller rise.

The figures mirrored thus a recovery in export under GSP after a sluggish period on the international markets.

Meanwhile, the income account (net) deficit also declined compared to 2001 by 10%, mainly because of a decline in payments to non-residents working in Cambodia. Service accounts (net) fell substantially in 2002, however, revenue from tourism continued to rise. At the same time, private transfers were estimated to increase by USD 10 million in 2002.

3.2. Official Transfers

Official transfers were estimated at USD 268 million, reflecting aid inflows that the Royal Government obtained from both sources, multilateral and bilateral. Of which, estimate for budget support was USD 30 million, food aid USD 26.8 million, project aid USD 102 million, and technical assistance USD 108.8 million. Estimates on official transfers in 2002 did not differ much from the previous year.

3.3. Financial Accounts

With regard to financial assistance in the form of loans, net inflow of official loans was more than in the previous years. It was estimated at USD 95 million, whereas amortization of debt amounted to USD 6 million, excluding repayment to the IMF. Estimate for nonofficial investment (net) was USD 59.3 million, which was higher than in the previous years. However, foreign direct investment flow did not show any remarkable growth.

4. Foreign Reserves Management

Gross international reserves (excluding gold holdings of 12.4 tones and SDR holdings of SDR 382,461) rose to USD 740 million at the end of 2002, an increase of 31.08% on the level at the end of 2001. The sources of this increase were loan disbursements from the IMF under the PRGF, government borrowings from the World Bank and the Asian Development Bank, the recapitalization of commercial banks, and the accumulation of income from investment activities, as well as the purchases of the US dollar by the National Bank of Cambodia.

4.1. Investment of Foreign Reserves

The National Bank of Cambodia continued to place the foreign reserves with international financial institutions such as the Bank for International Settlements (BIS), foreign central banks (the Federal Reserve Bank of New York, the Bank of France) and with some commercial banks with high credit rating (Credit Swiss, Standard Chartered Bank, HSBC, and UBS). The investments were in the form of short-term deposits (overnight, one week, one month, two months, and three months) and investments in short term US treasury bills (three months and six months). Furthermore, the National Bank of Cambodia maintained an account in SDR with the IMF to be used for the repayment of debt to this international financial institution. The return from foreign reserve investments was affected by several cuts in the interest rates by the Federal Open Market Committee (FOMC) since mid 2001. The interest rate on overnight lending declined from 1.62% to 0.95%, whereas interest rate on US-treasury bills declined from 1.748% to 1.191% and interest rate on short-term deposit fell from 2.22% to 1.06%. Total return from investments in foreign exchange and gold holdings amounted to USD 12.5 million in 2002, a decline of 44.46% compared with the income in 2001.

4.2. Sales and Purchases of USD

During 2002, the National Bank of Cambodia purchased the US dollar 39 times from the foreign exchange dealers as its customers, totaling USD 26.2 million, equivalent to 102.7 billion riels, and bought from the government institution (the Ministry of Economy and Finance) 155 times totaling USD 73.2 million, for which 286.3 billion riels was spent. Also in 2002, the National Bank of Cambodia sold the US dollar to the Ministry of Economy and Finance and the Electricite du Cambodge, amounting to USD 39.8 million and collected 156.3 billion riels in return. In total, net purchase of USD by the National Bank of Cambodia amounted to about USD 60 million.

4.3. Flow of Fund

During 2002, the inflows and outflows of fund to and from accounts of the National Bank of Cambodia held with the Federal Reserve Bank of New York were detailed as follows:

- Inflows: USD 470.9 million and
- Outflows: USD 304.9 million.

The largest part of the inflows was denominated in US dollar. It represented fund that the National Bank of Cambodia sent to the Federal Reserve Bank for deposit, as well as funds, which were loan disbursements for the government from multilateral and bilateral sources etc. On the other hand, outward transfers of the Ministry of Economy and Finance and the commercial banks originated fund outflows during 2002.

4.4. The Oversight Over Gold and Foreign Exchange Businesses

4.4.1. The Export-Import of Gold

In 2002, declaration requirements were applied only to gold export-import companies. Import of gold took place 5 times, of which import declaration amounted to 4,500 kilograms of gold and reports on gold import amounted to 1,765 kilograms. During the same period, gold was exported three times, of which the declaration recorded 2,200 kilograms and the reports on gold export posted 1,840 kilograms.

4.4.2. The Issuance of Business Permits

In the capital city of Phnom Penh in 2002, the number of business people who have permit to conduct transactions in precious metal and stone and foreign exchange declined compared with 2001. With the aim of strengthening and improving the oversight over this sector, the National Bank of Cambodia has requested the local authorities to assist in taking appropriate measures and to strengthen cooperation in the oversight over such business activities. In cities and provinces, the provincial-city branches of the National Bank of Cambodia assigned their staff to provide guidance and make public the relevant laws and regulations relating to gold and foreign exchange business to the concerned parties. The outcome was promising, as the number of business people requesting business permit increased compared with 2001. Seventeen provinces and cities issued 1,895 business permits, 16 permits more than in 2001.

In Phnom Penh, the following business permits have been issued:

- Foreign exchange dealing: 32 permits

- Gold trading	:	231 permits
Total	:	263 permits

In the provinces and cities, the following business permits have been issued:

- Foreign exchange dealing	:	171 permits
- Gold trading	:	1,724 permits

5. Relations with Banking and Financial Institutions

5.1. Bank Supervision

5.1.1 Off-Site Examination

The National Bank of Cambodia continued to conduct off-site inspection through the receipt and examination of the reports submitted by commercial banks, specialized banks, and micro-finance institutions. In addition, the National Bank of Cambodia also used the annual report of the independent auditor on bank examination in order to develop a synthesis, analyze, supervise and assess banks' activities. The off-site inspection during 2002 pointed to several shortcomings in the implementation of regulations issued by the National Bank of Cambodia on the part of a number of commercial banks, which have been timely corrected based on the instructions issued by the National Bank of Cambodia.

Also during 2002, the National Bank of Cambodia continued to upgrade staff capacity on off-site inspection through a cooperation with the IMF in order to improve the monthly assets-liabilities report for the monetary survey statistics and to facilitate off-site inspection activities. Through several trainings, supervisory staffs are able to conduct analysis on the annual audit report of banks for the year 2001 based on CAEL methodology and make recommendations for conducting on-site inspection of banks with low rating.

5.1.2. On-Site Inspection

During 2002, on-site inspection capacity has been strengthened through technical assistance from the ADB. The National Bank of Cambodia conducted on-site inspection of three commercial banks: First Commercial Bank, Singapore Banking Corporation, and Cambodia Public Bank. The supervision of these banks focused mainly on the credit

portfolios, cash in vault, and customer deposits. Among the three banks, one underwent a general supervision.

5.2. The Supervision of Specialized Banks and Micro-Finance Institutions

During 2002, in collaboration with the ADB, the National Bank of Cambodia has conducted off-site and on-site inspection of specialized banks, micro-finance institutions and a number of NGOs, which have been licensed or registered as rural credit operators with the National Bank of Cambodia. This was done with the aim of overseeing their operations and entering the record in the computer system. In 2002, specialized banks issued credit amounting to 122,777 million riel to 81,800 customers. Micro-finance institutions provided loans totaling 27,465 million riel to 93,100 customers. For the coming 2003, the specialized banks aim at achieving credit extension of 166,481 million riel, while micro-finance institutions plan to lend 34,289 million riels to their customers.

5.3. Banking Reform

Bank restructuring process has been successfully completed in the first quarter 2002 with a smooth liquidation of non-viable banks, and a continuous improvement in the operations of banks that have been relicensed. The number of banks was reduced from 21 at the beginning of 2002 to 17 at the end of the year, of which three are foreign bank branches, nine locally incorporated banks, and four specialized banks. Aside from this, currently there are also 29 NGOs that provide micro-finance services and have been registered with the National Bank of Cambodia. Deposit taking and credit issuing were on the increase, which reflected the fact that banking intermediation and public confidence in the banking sector has been improved. Recently, the National Bank of Cambodia is making efforts to strengthen bank supervision and plans to introduce a new chart of accounts for commercial banks, specialized banks and micro-finance institutions soon.

5.3.1. The Liquidation of Banks

The liquidation of ten banks that could not comply with the minimum capital requirement has been smoothly completed and the deposit that wasn't claimed by anyone has been placed under the custody of the National Bank of Cambodia. Meanwhile, four insolvent banks are being under the liquidation process by order of the court and with court decision and another one is now under liquidation without the court decision. The liquidators made the initial 2 million riels payment to each depositor in line with the law and

subsequent payment was made based on the pro rata basis, whereas holders of riel accounts were paid in full, except accounts with the First Overseas Bank and Pacific Commercial Bank. The liquidators have already filed law suits against the executive directors and shareholders of the five insolvent banks. The liquidation through the court has proceeded for one year already, and could not be concluded by now due the delay in opening the court proceeding to collect and sell the banks' assets in order to pay to depositors. The liquidators received in principal the permission to complete the liquidation of the five banks, with three banks (the Agricultural Commercial Bank, the Cambodia Farmers Bank, and Rich Nations Bank) were fully liquidated and the two other banks (the Pacific Commercial Bank and the First Overseas Bank) were put under supervision. This was due to the fact that these two banks have some asset problems to be resolved and that waiting for the court decision has faced several difficulties; it is time consuming and costly. The Banque Credit Agricole Indosuez, a foreign bank branch that asked to be closed, has been put under liquidation since September 2002.

Result of the Liquidation of Insolvent Banks

(US dollar)

Bank	Total available fund	Total deposit based on claims	Total Expenses			Unpaid Deposits
			Payment to depositors	Liquidation cost	Legal and other fees	
ACB	1.047.682	2.104.54	655.542	99.800	292.340	1.448.998
RNB	398.653	1.853.62	262.298	122.400	13.955	1.591.325
CFB	339.752	4.463.91	177.431	98.631	63.690	4.286.480
Pacific B	363.580	1.509.91	8.691	292.658	33.424	1.501.226
FOB	936.996	2.500.00	827.571	90.000	19.425	1.672.429

Notice: ACB: Agriculture Commercial Bank, RNB: Rich Nation Bank. CFB: Cambodia Farmer Bank, Pacific B: Pacific Commercial Bank, FOB: First Commercial Bank

5.3.2. The Restructuring of the Foreign Trade Bank

The process of restructuring the Foreign Trade Bank achieved a very good result, as evidenced by the improvement and modernization of the bank operations that better serve its clientele.

The Ministry of Economy and Finance becomes now the major shareholder of the Bank through the issuance of bonds with maturity of two years to replace the capital provided by the National Bank of Cambodia that reduced its share to 20% of the total bank equity. A new board of directors has been appointed which reflected this new ownership structure. The board consists of eight members (five from the Ministry of Finance, one from the National Bank of Cambodia and two from the Foreign Trade Bank). At the same time, the bank's articles of association has been reviewed.

6. Provision of Central Banking Services

6.1 Accounting Services

6.1.1. Accounting Services to Government Institutions

The NBC participated in the implementation of the Royal Government's policy on improving the effectiveness of the economic and public finance management and reforms through opening accounts for central government institutions. The NBC opened 160 current accounts for the Ministry of Economy and Finance (MEF) and 137 accounts for other government ministries. Besides, the MEF also has accounts at the NBC for recording aids and loans from the international financial institutions and several countries, such as Japan, China, and Korea.

6.1.1.1 Japanese Aids

Japan has provided several types of aids to Cambodia, such as project aids and non-project aids. In addition, Japan has also provided Cambodia with concessional loans. The use of aids has been executed through a banking arrangement between the NBC and Bank of Tokyo Mitsub, Ltd. The total disbursement of aids in 2002 is as follows:

A.1- Project Aids

Project aids have been provided through exchange of notes for 8 projects totaling 6,816.4 million yens, of which:

1. Project on flood prevention and drainage improvement in Phnom Penh amounting to 66 million yens,
2. Project on increasing power supply capacity in Seam Reap town amounting to 2,131 million yens,
3. Project on supplying technical materials to support mine clearing operations in the third phase amounting to 798 million yens,
4. Clean wear supplying project in the Phnom Penh suburbs amounting to 784 million yens,
5. Project to support Cambodia's national television broadcast amounting to 38.4 million yens,
6. Project on flood prevention and drainage improvement in Phnom Penh in the second phase amounting to 2,056 million yens,
7. Projection providing scholarships for human resource development amounting to 366 million yens,
8. Project on construction of primary schools in Phnom Penh amounting to 577 million yens.

These financial aids were settled through the authorization to pay by the NBC amounting to***** million yens, thus 5,908.7 million yens remained.

A.2- Non Project Aids

In order to ease the burden on budget of the Royal Government of Cambodia, at the end of 2002 Japan provided non-project aids of 2 billion yens through the exchange of note dated 2002 November 2002 and the banking arrangement of 11 December 2002.

B. Japanese Concessional Loans

Japanese Government provided concessional loans of 4,124 million yens for upgrading Sihanouk Ville seaport based on an agreement between the Overseas Economic Cooperation Fund and the Royal Government of Cambodia dated 24 September 1999 and the banking arrangement between the NBC and Bank of Tokyo Mitsubishi, Ltd dated 22 December 1999. Until the end of 2002, the amount of 1,128,426,063 yens equivalent to US\$ 9,123,044.02 (27.25% of the total amount) were used.

6.1.1.2. Financial Assistance from the People's Republic of China

A. Aids

The People's Republic of China (PRC) provided aids amounting to 50 million yuans to the Royal Government of Cambodia through the agreement signed on 13 November 2000 and the banking arrangement dated 8 November 2001 between Bank of China and the NBC. As at the end of 2002, the Royal Government used 45 million yuans to build 48 steel bridges and 5 million yuans remained.

B. Concessional Loans

PRC provided non-interest bearing loan of 50 million yuans based on the agreement dated 13 November 2000 and the banking arrangement dated 8 November 2001. As at the end of 2002, the Royal Government used the above amount for the purpose of the Royal Arm Forces. Of another concessional non-interest bearing loan amounting to 80 million yuans based on the agreement dated 24 December 2001 and the banking arrangement of 28 June 2002, 24 million yuans is used for repairing Mao Tse Toung boulevard and 56 million yuans remained.

6.1.1.3. Concessional Loans from the Republic of Korea

The Republic of Korea provided an interest-bearing loan amounting to USD 20 million based on the agreement signed on 8 December 2001 and the banking arrangement between the Korea Exchange Bank and the Foreign Trade Bank of Cambodia. As at the end of 2002, the NBC did not yet obtain any information on the use of this loan.

6.1.2. Accounting Services to Commercial Banks

The NBC opened four types of accounts for the commercial banks: current account, fixed term deposit account, capital guarantee deposit account, and required reserve deposit account. These four types of account are opened in riel and in US dollar.

The current deposit accounts were opened for cash transactions, settlement through the clearing house, and for transferring fund abroad. The fixed term deposit accounts were opened by commercial banks for interest-earning deposits when their liquidity exceeds their need. This account offers interest at a rate equal to $7/8$ of SIBOR that is obtained from Reuters. There were 301 fixed term deposit accounts opened for commercial banks as at the end of 2002. The capital guarantee deposit account is also interest-bearing. Interest on this deposit is equal to $3/4$ of SIBOR and is computed every 6 months and paid to the current account of each bank. The fourth type of account is required reserve deposit account where its balance should equal 8% of customers' deposits at the commercial banks.

6.2 Clearing Services

Payment transactions through the clearing house were effective and conducted on a daily basis for checks denominated in both US dollar and in riel. The use of checks gained momentum, in particular among commercial banks and public organizations. The Ministry of Commerce contributed to promoting the use of checks by requiring the quota payments be made in checks and some tax payments were also made in checks, thus increasing the clearing activities. Imposition of penalty on return checks led to more attention be paid to and compliance with all conditions relating to the use of checks.

6.2.1 Check Clearing in Riel

The riel-denominated check clearing house has 14 members, including commercial banks, National Treasury, and the NBC (Banking Department). The number of members declined by 3 in 2002 compared with 2001 due to the voluntary closure or the NBC's delicensing of commercial banks.

In 2002, the clearing house operated 237 days, during which it received and cleared 17.4 thousand checks amounting to 199.9 billion riels. The clearing activities increased remarkably as the number of cleared checks rose 12 times and the cleared amount rose by 13 % in 2002 compared with 2001.

6.2.2. US dollar-denominated Check Clearing

The US dollar-denominated check clearing house has 18 members, of which 14 are commercial banks, 3 specialized banks, and the NBC (Banking Department). Like the riel-denominated check clearing house, the number of members declined by 3 in 2002 compared with 2001.

In 2002, the clearing house operated 238 days, during which it received and cleared 115,360 checks amounting to US dollar 858.6 million. Compared with 2001, the number of cleared checks rose by 36% and the cleared amount rose by 34% in 2002.

6.3. Credit Services

In 2002, no financing was provided to the Royal Government represented by the MEF. The riel arrear in the amount of 2,520 million riels was collected. Collected interest on arrears in riel amounted to 3,926 million riels and in US dollar amounted to US dollar 58,000. In 2002, the NBC did not extend loans to banking and financial institutions.

7. Management of Banknotes in Circulation

Circulation of riel banknotes has performed well because the NBC has regulated the note denomination to be consistent with market demand. Also, in order to facilitate the payment for small transactions, the Royal Government issued a sub-decree no. 90 ah.n.kr. dated 26 August 2002, permitting the NBC to issue 50-riel denominated note into circulation and the NBC announced the use of this banknote be effective from 29 August 2002.

Currently, since the payment system through banks has not been widely used, the supply of riel cash to meet the payment demand has risen year by year. At the same time, cash inflow to the NBC has been slow. This process has increased the circulation of banknotes among the general public and led to having old and torn banknotes remained in circulation. Because of the people's increased understanding and confidence in national currency, banknotes have been used smoothly to pay for goods and services despite some poor quality. The NBC has made efforts to collect and destroy old banknotes in accordance with its function. In 2002, the NBC collected and withdrawn from circulation poor quality notes amounting to 21.282 million riels, of which 9,407 million riels in Phnom Penh and 11,876 million riels in various towns and provinces.

The NBC has collaborated with the competent authorities to timely prevent the act of producing and issuing counterfeit notes into circulation, which mostly took place in the markets of border provinces and in remote markets. In 2002, the counterfeit notes of 4,621,000 riels were found and seized, of which 462 notes were 10000-riel denomination and one note was 1000-riel denomination.

For counterfeit foreign banknotes, the NBC has received good cooperation from foreign embassies based in Cambodia in order to timely and effectively address any issues in this area.

II. The Internal Management of the National Bank of Cambodia

1. The Activities of the Board of Directors

The NBC's Board of Directors currently consists of the following:

- H.E. Chea Chanto	NBC's Governor	Chairman
- H. E. Eng Thaysan	NBC's Deputy Governor	Member
- H.E. Aun Pornmoniroth	Representative of the Head of The Royal Government	Member
- H.E. Iv Thong	Representative of the academics	Member
- Mr. Chou Kimleng	Representative of the Ministry of Economy and Finance	Member
- Mr. Lay Mengsun	Representative of the real economic sector	Member
- Mrs. Mao Son	Representative of the NBC's staff	Member

In 2002, the NBC's Board of Directors convened six times to discuss major issues relating to the NBC's activities and approved the following:

- Decision to set up a committee in charge of auditing the NBC's accounting records,
- Adjustment to the salary indices of the NBC's officials and staff members,
- NBC's budget report for 2001 and budget plan for 2002,

- Prakas on the Organizational Structures of the Accounting and Exchange Management departments, and the functions and duties of their divisions,
- NBC's first semi-annual report and second semi-annual targets for 2002,
- Report on the NBC's budget status for the first six months of 2002,
- Prakas on the establishment of the NBC's branches in Svay Reang, Battambang, and Kam Pot provinces,
- Principles to establish a department in charge of managing the NBC's provincial-city branches.

2. Human Resource Development

2.1. Staff Statistics

As at the end of 2002, the number of the official staff in the NBC's head office was 611 (344 male, 267 female). In addition, there were 16 unofficial staff members in the head office (12 male, 4 female). The NBC's provincial-city branches had 260 official staff members (162 male, 98 female). In total, the number of the official staff for the NBC throughout the country at the end of 2002 was 875 (508 male, 367 female). Compared with the 861 official staff members at the end of 2001 (501 male, 360 female), the changes are as follows:

- The number of the official staff in the NBC's head office rose by 15 (24 newly recruited, 9 retired or resigned),
- The number of the official staff of the NBC's provincial-city branches rose by 1 (5 newly recruited, 4 retired or resigned),
- The number of the unofficial staff declined by 2, i.e. 16 unofficial staff members remained (12 male, 4 female).

2.2. Training Activity

With the view to strengthen human resource capacity, in 2002 the NBC conducted a knowledge upgrading training course for improving the knowledge of the NBC's staff members and a number of other training courses in technical know-how with the technical assistance from the Asian Development Bank (ADB) and International Monetary Fund (IMF). Meanwhile, the NBC

encouraged its staff members to make efforts to further absorb new knowledge by themselves, both the technical know-how and English skills, in response to the recent developments and the regional and global integration of the national economy.

In addition to the training within the NBC; a number of the staff members have benefited from the training programs offered by local training institutions, such as training in economics and English language provided by the Economics and Finance Institute and short and long-term English classes offered by the Australian Center for Education. Also in 2002, 55 staff members of the NBC studied at the Banking Institute. Besides the training in the country, the NBC also sent its staff members to participate in overseas long and short term training courses, seminars, and to conduct study visits, at invitation of the international financial institutions, such as IMF, JICA, JCIF, AFD, APRACA, as well as central banks, including Deutsche Bundesbank, Bank of France, National Bank of Belgium, Bank of Thailand, State Bank of Vietnam, and the People's Bank of China.

2.3. Banking Institute

The Banking Institute was established by the NBC's *Prakas* No. th 802-205 pr.k dated 18 October, 2002 based on the existing training institution, which is the Center for Banking Study officially recognized by the Ministry of Education, Youth, and Sport with *Prakas* No. 69 ah.y.k pr.k dated 9 February 1999. In 2002, 192 students studied at the Banking Institute, of which 87 are male and 105 are female, at three levels from the second level to fourth level (10th and 11th promotions). Students from the NBC numbered 55 (29 male, 26 female) and students from outside of the banking system numbered 137 (58 male, 79 female).

3. Internal Inspection

In 2002, the NBC continued to conduct the inspection of its provincial-city branches and provincial specialized banks and received good results although the number of 2002 inspections was less than that during 2001.

The NBC examined, followed up, and directed the provincial-city branches and provincial specialized banks to make efforts to collect the remaining debts through the issue of notifications to all provincial-city branches, asking them to prepare the annual debt-collection plan with breakdown into monthly and quarterly plans. In addition, the NBC assisted in completely resolving problems relating to old debtors of several provincial banks, as a result, the 2002 old debt collection achieved

97% of the previous year result despite the fact that these settled debts were difficult to collect and mostly involved court proceedings.

Also in 2002, the NBC conducted inspection of the properties and activities of the provincial specialized banks in Battambang, Svay Rieng and Kampot, and reported the result to the NBC' Board of Directors with the aim of issuing *Prakas* to establish branches. The NBC also inspected and strengthened the functioning of its branch in Seam Reap, specialized banks in Pursath and Udoh Meanchey.

4. Work on Legislation

In addition to relatively effective legal actions taken to collect old credit arrears and good cooperation provided to judicial institutions requiring clarification of cases relating to banking laws and regulations, the NBC actively participated in drafting various laws and procedural papers that were prepared by the government's ministries and institutions. Since late August 2001, under the process towards improving the legal framework and with the view to strengthen the legal base for financial sector in Cambodia, the NBC initiated the drafting of the law on negotiable instruments and payment transactions. This draft law is part of the framework for developing the banking sector at the current stage that is included in the paper "**Vision and Financial Sector Development Plan for 2001-2010**" of the Royal Government. The draft law was derived from the Uniform Law of the 1930 Geneva Convention, which consists of four separate laws: law on checks, law on bills of exchange and promissory notes, law on cashing and check settlement, and law on payment transactions. The draft law was submitted to the office of the Council of Ministers on 4 June, 2002 for review and improvement before it is sent to the National Assembly for approval.

5. NBC's Financial Transactions

In response to the tendency towards good governance and transparency in operations, the NBC had its financial reports and balance sheet audited by an independent auditor and several shortcomings stated in the report were resolved. The independent auditor's 2001 conclusion was that the NBC's financial report was accurate and appropriate.

In late 2002, all documents relating to the 2002 financial report were being prepared for submission to the independent auditor for review.

NBC Balance Sheet

ASSETS

(In millions of Riels)

Description	Dec-2001	29 Oct. 2002
Domestic and foreign-currency cash	159,038	168,760
Foreign-currency deposits with banks abroad	592,074	544,856
Loans and advances	-	-
- to resident banks	53,949	13,192
- to Government	271,143	269,341
SDR holdings	1,983	10,717
Subscriptions to IMF	434,168	433,160
Investments in securities	1,345,500	2,068,500
Gold deposits abroad	434,776	499,936
Fixed Asset	147,303	163,199
Others	1,192,975	1,405,987
TOTAL	4,632,909	5,577,648

LIABILITIES

	Dec-2001	29 Oct. 2002
Currency issue	682,351	888,336
Commercial Banks' deposits	875,223	1,193,572
Liabilities to IMF	826,360	894,502
Government's deposits	343,606	435,120
Capital	100,000	100,000
Reserves	740,421	822,613
Accounts to be settled	-1,126	-
Accumulated Depreciation	45,276	48,093
Provisions	84,172	94,277
Others	936,626	1,101,135
TOTAL	4,632,909	6,677,648

Cambodia's Obligations to the IMF

(In millions of dollar)

	STF Loans	ESAF and PRGF Loans
Balance as of December, 2001	2,738	87.746
Repayments in 2002	1.345	10.850
Disbursement in 2002		21.473
Balance as of December, 2002	1.393	98.368
Interest paid in 2002	0.069	0.318

Notice: **STF:** Systematic Transformation Facility, **ESAF:** Enhance Structural Adjustment Facility
PROF: Poverty Reduction and Growth Facility

2. Relation with Asian Development Bank

After the paper "Vision and Financial Sector Development Plan for 2001-2010" has been adopted by the Royal Government on 24 August 2001, the document on US\$10 million loan under US\$30 million program loan cluster was signed by the Royal Government and ADB in Manila on 10 October 2001.

Meanwhile, the ADS delegation in charge of the program loan cluster for development of financial sector visited Cambodia from 15 to 24 October 2002. The purpose of the visit was two fold: one was to review the status of compliance with the second tranche release conditions of subprogram I and another purpose was to negotiate with the Royal Government on credit subprogram II.

The NBC and the relevant institutions complied with the second tranche release conditions of subprogram I as scheduled. The conditions that related to the NBC include adoption of surveillance and inspection procedures, establishment of a prompt corrective action system, adoption of an anti-money-laundering regulation, establishment of a banking institute as an NBC subsidiary, and the Foreign Trade Bank's adoption of training program for its staff.

After the completion of loan subprogram I, subprogram II is to be implemented and was signed on 11 December 2002. Subprogram II also amounts to US\$ 10 million and its conditions are divided into two groups like subprogram I that are to be implemented for a period of about 12 months. During 2002, ADB also provided the Royal Government with technical assistance in building capacity to supervise banking and financial institutions starting from mid-April 2002. The objective of the technical assistance was to assist the Royal Government in implementing the policy recommendations under the loan program for financial sector development with emphasis on four major areas: banking, insurance, inter-bank market, and accounting system.

3. Relation with ASEAN

In 2002, the NBC's participation in the cooperation within the ASEAN framework was well under way since Cambodia became an ASEAN member in April 1999. Among central banks or monetary authorities of ASEAN members, the conduct of and participation in ASEAN Central Bank Forum has become a tradition and the ninth and tenth Forums were conducted in 2002. Moreover, all members agreed to initiate and hold ASEAN Central Bank Forum, First Governor's Meeting, in Indonesia in July 2002 and decided to convene such meeting once a year.

Cooperation among ASEAN central banks focused on a number of issues including:

- . Staff training in economic surveillance,

- . Mutual support in the area of balance of payments by jointly signing a SWAP arrangement with the amount of US\$ 1 billion,

- . Joint preparation of financial program and appointment of each central bank to lead the work of the program, such as programs on promotion of the use of ASEAN currency, development of stock market, short-term capital flow surveillance, and liberalization of financial services,

- . Study and research on how to improve the surveillance and consultation on economic policies among the ASEAN members and ASEAN plus China, Japan, and Korea.

4. Bilateral Relation

The second bilateral meeting between the NBC and Bank of Thailand in Phnom Penh from 14-17 June 2002 was conducted successfully. In October of the same year, the Governor of the Central Bank of Luxembourg visited Cambodia at the NBC's invitation. Through this visit, the bilateral relation between the two central banks was built on the basis of cooperation with mutual interest.

The NBC continued to strengthen the bilateral cooperation with central banks of several countries, including the People's Bank of China, Bank of France, National Bank of Belgium, Deutsche Bundesbank, and central banks of the countries in Southeast Asia, with the aim of exchanging information, experience, and in order to receive human resource training in the form of sending staff to study overseas, inviting experts from other central banks to conduct seminars for the NBC's staff, requesting consultants and long-term training.

In addition, the NBC participated in the central bank club of the French-speaking countries that has more than 30 member countries and convenes the meeting once a year. This forum provides an opportunity for member countries to discuss the current monetary issues in the various regions in the world and makes recommendations as guides for directing monetary policy of central banks. Cambodia hosted this forum in 1996.

Conclusion

The NBC has accomplished with great success its principal mission, which is to determine and direct the monetary policy aimed at maintaining price stability in order to facilitate economic development. Inflation rate has been low during the last four years; the value of the riel relative to the US dollar has been remarkably stable, while the country's international reserves have gradually increased. These great achievements contributed to creating an environment conducive to economic growth, which is essential for poverty reduction. With the view of this importance, the NBC will continue to implement its monetary policy in a prudent manner in order to ensure price stability, to raise the value and the use of riel with collaboration from the relevant government institutions and wide support from the general public.

While the Royal Government continued the economic reforms with the aim of strengthening the basic foundation, which is essential to promote economic growth and in line with the development of globalization, the NBC, which is the monetary authority, has also made efforts to

establish the basic foundation for modernization of Cambodia's financial sector. In recent years, the NBC has made a lot of progress and has been highly appreciated by international financial institutions, such as IMF, ADB as well as monetary authorities of a number of countries. So far, the NBC's main focus has been on the strengthening of the banking system, preparation of an effective payment system, strengthening of legal framework, effectiveness of operations of the NBC's branches and microfinance institutions. After smooth completion of relicensing commercial banks, the effectiveness of the banking system has been elevated and will continue to be strengthened through further improvement of the supervisory mechanism.

All the achievements reflect the piece of work and efforts of all contributors, including the NBC's own staff and the support from the Royal Government and the international organizations through technical assistance that is very beneficial to the process of elevating the quality of the financial sector.

The received outcomes were also in part due to the NBC's appropriate action plans that are clearly defined in the paper "**Vision and Financial Sector Development Plan for 2001-2010**". The reform measures have been taken systematically in an appropriate sequence with the aim of developing a firm basic foundation for financial sector development.

**B- TARGETS FOR
2003**

Facing the uncertainty of the global growth projection with complicated and unusual scenarios, both the IMF and ADB have adjusted the world and regional economic growth to be in line with the recent developments. The expectation that the attack on Iraq is likely to take place, the terrorist attack in Indonesia, the Middle Eastern crises, and the terrorist threats etc. have influenced the projection that lowered overall economic growth to less than the previous projections for 2002 and 2003. Because of these developments, Cambodian authorities also reviewed the targets that have been previously determined.

1. Economic Growth and Monetary Operations

The economic objective of the Royal Government is to alleviate poverty. In this context, both the donor international community and the Royal Government have recognized that only fast and sustainable economic growth can be an effective means to meet this end. With this idea, the main target of the Royal Government is to maintain the momentum of the economic reforms with the aim of raising the productivity, promoting good governance, improving environment conducive to private sector growth and to foreign direct investment etc.

With the implementation of reform measures that are correctly defined in the *Second Socio-economic Development Plan 2001-2005* and with the expectation that the global economy will perform smoothly, the Royal Government has projected the real GDP growth of 5% for 2003. To support this growth, inflation rate is to be maintained at lower rate than 5%, while international reserves are expected to amount to 3.25 months of imports.

Based on these targets, the NBC, which is the monetary authority, will implement monetary policy and monitor monetary development to ensure that the monetary trend is in line with demand of the real economy. The growth of money supply will be maintained at an appropriate pace taking into account the declining money velocity that reflects the increasing confidence of the general public in the banking sector. The restricted monetary policy with respect to credit to the Royal Government will be continued to ensure price stability. The NBC's 2003 projection for main monetary aggregates is as follows:

-	Money supply (M2)	20.5%
-	Currency in currency deposit	22%
-	Foreign currency deposits	20%
-	Net foreign assets	11.5%

- Net domestic assets -14.5%

2. Internal Structure Strengthening Targets

Improved working environment and procedures for the staff members is the basis for enforcing discipline and ensuring staff's well-being with the aim of raising productivity in performing their tasks. Improving the quality of the internal administration in the NBC's head office as well as in its branches has to be taken into consideration in accordance with the process of reactivating the NBC's branches in order to perform the duties of managing currency circulation and to provide central banking services to support the operations of public finance in each region. To meet this goal, the NBC will continue:

- . Review and study the possibility of expanding branch network in the regions that require cash counters to provide central banking services and to control the quality of banknotes in circulation,

- . Provide necessary logistics and human resource to perform the above tasks and set up a network to collect information for security and accounting purposes and for timely economic analysis,

- . Inspect the operations relating to property control and the implementation of directives and take effective measures to address any shortcoming,

- . Push the collection of old longish debts.

In addition, the NBC will review the structure and duties of a number of its departments, such as the Exchange Management Department, Economic Research Department, balance of payments statistics compiling unit etc, that require changes in order to be consistent with the development of operations and technology.

The Banking Institute that has recently obtained the autonomy in its management will do a lot of works during 2003, including:

- . Appoint a board of directors,
- . Prepare its statute and accounting guides for its management and transactions,
- . Seek external assistance in finding a location and premises as well as technical assistance in its management and improvement in the curriculum.

3. Banking System Strengthening Targets

The commercial bank restructuring program has successfully completed, but more works remain to be done to further strengthen the banking system, including specialized banks and micro-finance institutions. They include:

- . Preparation of prudential regulations based on international standards to be implemented uniformly by banks and monitoring of noncompliance and imposing penalty thereon,

- . Conduct of on-site inspections of six banks that are scheduled for 2003. The outcome will be used to evaluate the implementation of the IMF's financial assistance program,

- . Technical assistance from the IMF and ADB will help to improve the possibility of introduction of the uniform chart of accounts that is to be implemented by banks starting from January 2003; also, it will help to train supervisory staff and improve their understanding capacity as well as to further facilitate supervisory activities,

- . Study of the possibility of establishing a deposit insurance system,

- . Based on the target to increase credit provided by micro-finance institutions, the NBC will take measures to increase the frequency of on-site inspections of the licensed financial institutions and encourage the other micro-finance institutions to apply for license or registration.

4. Legal Framework Establishment Targets

To push for a modern payment system in Cambodia, the urgent task is to establish a legal basis that is suitable to the current process of economic development and that will also support the future development.

The NBC prepared the draft Law on Negotiable Instruments and Payment Transactions, which is expected to be passed by the National Assembly in 2003. After this law has become effective, the NBC will prepare and issue some more directives and guidelines for a smooth enforcement of the law and create a basis for development of financial transactions that contributes to promoting economic activities.

5. Currency Circulation Control Targets

The action plan to provide logistics, information network, human resource, and work procedures etc. has been prepared with the aim of reactivating the NBC's provincial city branches. This is a plan for expanding branch network throughout the country in order to facilitate the safe and sound transportation and supply of cash in response to the economic development in each region. Through these cash counters, all public revenues and expenditures can be executed using central banking services and the NBC can select and withdraw from circulation the banknotes that are no longer suitable for circulation.

In tandem with the above actions, the NBC will continue to strengthen the cooperation with the local authorities in monitoring and preventing the production and use of counterfeit banknotes.

The above mentions are the plans that the NBC will implement in 2003. In addition, the long term strategic targets remain the center of attention and to be considered taking into account the country's situation and based on the objectives that are stated in the paper "**Vision and Financial Sector Development Plan for 2001-2010**". Dollarization of Cambodian economy has become a permanent concern of the NBC, which has adopted a prudent policy stance to address this issue to raise step by step the public confidence in riel. The NBC believes that the administrative measures to dedollarize the economy will incur heavy losses for the country. In order to succeed in dedollarizing the economy, the government institutions and other public entities must take the lead in the use of riel.