

Cambodia: 2000 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility—Staff Report; Public Information Notice Following Consultation; Statement by Cambodia's Representative on IMF Executive Board

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **August 4, 2000**, with the officials of Cambodia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 31, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the September 15, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation;
- a statement by the authorities of Cambodia.

Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports and PINS allows for the deletion of market-sensitive information.

The Article IV staff report is published—both in hard copy and on the IMF's website (<http://www.imf.org>)—as part of a pilot project. To assist the IMF in evaluating the pilot project for release of Article IV staff reports, reader comments are invited and may be sent by e-mail to Pilotproject@imf.org.

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CAMBODIA

**Staff Report for the 2000 Article IV Consultation and
First Review Under the
Poverty Reduction and Growth Facility**

Prepared by the Asia and Pacific Department and
Policy Development and Review Department

(In collaboration with other Departments)

Approved by R. Anthony Elson and Mark Allen

August 31, 2000

- Staff teams visited Phnom Penh during April 19-May 3 and July 24-August 4 to conduct discussions for the 2000 Article IV consultation and the first review under the PRGF arrangement. The teams consisted of Ms. Puckahtikom (head), Messrs. Rumbaugh and Ishi (all APD), Ms. Liang (EP-APD), Mr. Masuda (PDR), and Miss Rosario (administrative assistant, APD). The mission was assisted by Mr. de Zamaroczy (resident representative) and worked jointly with World Bank and Asian Development Bank staff to launch the PRSP process.
- The mission met with H.E. Keat Chhon, Senior Minister and Minister of Economy and Finance; H.E. Sok An, Senior Minister in charge of the Council of Ministers; and H.E. Chea Chanto, Governor of the National Bank of Cambodia; as well as other senior officials and representatives of major bilateral and multilateral aid agencies.
- Pursuant to the authorities' decision to participate in the pilot project for the voluntary release of Article IV consultation staff reports and in accordance with Executive Board Decision No. 11973 (99/58), June 3, 1999, the attached report shall be published after the Executive Board completes its discussion of the report.
- Cambodia maintains an exchange system that is free from restrictions on payments and transfers for current international transactions, and has committed to unify the exchange market and accept the obligations of the Fund's Article VIII Sections 2, 3, and 4 during the PRGF program period. The 1999 Article IV consultation was concluded on March 17, 1999.
- The principal author of this report is Mr. Rumbaugh.

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EXECUTIVE SUMMARY

Background

- The political situation has stabilized since late 1998 when a coalition government was formed by Prime Minister Hun Sen of the Cambodia's People Party (CPP). Local elections are expected in 2001 and the next national elections are scheduled for 2003.
- Economic developments in 1999 and the first half of 2000 were positive, and broadly in line with PRGF program targets. All quantitative benchmarks and performance criteria through June 2000 were observed. Benchmarks in key structural areas were also largely observed, albeit with some delays.

Key policy issues

- **Fiscal policy:** Revenue performance slipped somewhat in the first four months of 2000 and remains a key concern. Based on early developments, a potential revenue gap of 0.4 percent of GDP was estimated for the year. Additional revenue measures are being implemented to protect PRGF financing targets, and revenue performance in recent months has improved. Measures will be taken to increase the implementation of social spending in line with budget targets, while locally financed development spending will be implemented cautiously to ensure that PRGF financing targets are observed.
- **Banking reform:** As a first step, all banks were required to reapply for a new license by end-May 2000. An initial review found a number of these banks to be nonviable and their licenses were revoked in early August. All application materials will be thoroughly evaluated by end-November 2000 and additional banks are expected to be closed.
- **Demobilization and civil service reform:** A pilot demobilization program has been implemented and the first phase of the full program is expected to be initiated in November. The success of demobilization remains essential for redirecting spending toward the social sectors. A civil service census was also completed, but the expected functional analysis of all government agencies has not taken place as envisaged. Accordingly, the 10 percent wage increase initially intended for 2000 has been postponed until the necessary studies are completed and a civil service reform strategy is adopted in consultation with the Bank, now envisaged by March 2001. In the meantime, monitoring and control of the civil service will be improved.

I. INTRODUCTION

1. **The government embarked on a reform program in early 1999** in a break from Cambodia's past record of inconsistent policy implementation and poor governance. Under the new government, cooperation between the coalition partners has facilitated the implementation of reforms, and strong actions have been taken in key areas such as fiscal reform, forestry policy, and military demobilization.
2. **A three-year PRGF program for the equivalent of SDR 58.5 million (67 percent of quota) was approved by the Executive Board on October 22, 1999.** At that time, Directors considered decisive fiscal reform to be central to the policy agenda, including revenue mobilization and a reorientation of government spending toward the social sectors. Directors also stressed the importance of continued improvement in governance, particularly with respect to the management of forest resources. A World Bank SAC of SDR 21.7 million was approved on February 29, 2000.
3. **Policy implementation in 1999 and through mid-2000 was consistent with the program.** Macroeconomic objectives for 1999 were achieved (Table 1), quantitative benchmarks for December 1999 and June 2000, and performance criteria for March 2000, were observed (Table 2), and structural performance criteria and benchmarks were also observed, albeit with some delays (Table 3). In the attached letter to the Managing Director, the Cambodian authorities have requested completion of the first review under the PRGF program to enable a disbursement from the Fund in an amount equivalent to SDR 8.357 million (9.6 percent of quota). A supplementary Memorandum of Economic and Financial Policies which updates the authorities' program is attached to the letter to the Managing Director.¹
4. **The government remains committed to the reform program, but much more remains to be done as the process of rebuilding basic institutions is still in the early stages.** The steadfast implementation of reform policies, including strong efforts to improve governance, will continue to press against vested interests.
5. **At the Consultative Group meeting (May 24-26, 2000 in Paris), donors were cautiously optimistic in view of the progress that had been made in the past year while noting that Cambodia still had a long way to go.** They urged the authorities to improve governance in key areas to provide the basis for sustainable economic growth and for reducing poverty over the medium term. Central to the authorities' governance action plan is a broad program of public administrative reform, within which donors stressed the need for short-term actions such as the regular publication of laws, improvements in customs administration, and better management of state assets and public procurement.

¹ The original program is described in the previous Memorandum of Economic and Financial Policies (EBS/99/188) and the Policy Framework Paper (PFP) for 1999-2002 (EBD/99/119).

II. ECONOMIC DEVELOPMENTS IN 1999 AND EARLY-2000

6. **Economic conditions improved considerably in 1999 and were broadly in line with program projections:**

- Real GDP growth is estimated to have risen to 5 percent, compared to the program target of 4 percent. Buoyant growth in several sectors, particularly garments, tourism, non-forestry agriculture, and construction, offset the impact of a significant reduction in logging activity.²
- Inflation fell to an annual average of 4 percent compared to the program target of 5 percent, reflecting falling food prices owing to the improved supply of rice and other crops, and restrained budgetary policy.
- The external current account deficit widened to 11½ percent of GDP (4 percent of GDP including grants), reflecting a recovery in imports and higher petroleum prices. Nonetheless, gross official reserves increased, as expected, to US\$422 million, equivalent to 3¼ months of imports of goods and services, reflecting increased capital inflows.

7. **The source of economic growth in 1999 was more broadly based than in previous years.** Improved weather conditions led to a recovery in agriculture (excluding forestry), which grew by nearly 8 percent. Manufacturing output grew by 9 percent, led by rapid increases in textile production for export, and the services sector by 6 percent primarily reflecting a recovery in tourism.

8. **Budgetary performance strengthened considerably.** Revenue increased by 2½ percentage points to 11½ percent of GDP in 1999 reflecting a structural improvement in tax collection, and some exceptional increases in nontax revenue. The value-added tax (VAT), introduced on January 1, 1999, performed strongly, leading to an increase in indirect tax collections by nearly 1½ percent of GDP, in excess of budget estimates (Table 4). Trade taxes remained, however, at about 3¾ percent of GDP, as the collection rate began to fall in the fourth quarter of the year reflecting increased smuggling and disruptions to re-export trade. Nontax revenue increased to 3 percent of GDP (from 2¼ percent in 1998) entirely due to exceptional revenue associated with the administration of garment quotas received from the United States.

² National income developments are based on new national accounts estimates prepared by the National Institute of Statistics as described in the Selected Issues Paper.

9. **Improvements were also made in budgetary implementation in 1999.** Current expenditure was kept within budgeted levels. More importantly, for the first time in several years, spending for defense and security was close to budgetary appropriations and social sector spending on a commitment basis slightly exceeded budgetary provisions.³

Development expenditure exceeded budget projections as the improved budgetary situation provided room for an expansion in locally financed development projects.

10. **Budgetary financing was in line with program targets.** The current budget surplus increased to 1.8 percent of GDP, as targeted, while the overall deficit declined to 4½ percent of GDP (1½ percent of GDP including grants). With substantial external financing (4½ percent of GDP), the government was able to significantly reduce its debt, built up during 1997-98, to the central bank.

11. **Monetary and exchange rate policies in 1999 were supportive of improved economic conditions.** The 17 percent increase in broad money was fully reflected in an increase in net foreign assets (Table 5). Net domestic assets declined (as programmed), reflecting a sharp reduction in credit to the government, while private sector credit increased by 17 percent. The exchange rate remained stable at around CR 3,800 per U.S. dollar throughout 1999, and was also stable in real and nominal effective terms. The National Bank of Cambodia (NBC) has adjusted the exchange rate as necessary to keep any difference with the parallel market rate at less than 1 percent, as agreed under the program (Chart 3).

12. **Good progress was made in the implementation of the structural reform agenda.** As called for in the program, the military census was completed in December 1999, and the civil service census in March 2000. Also, the AsDB financed review of forestry concessions was completed in May 2000; on that basis, the government took initial actions toward implementing a comprehensive reformulation of the concession management system by canceling several concessions and severely restraining the activities of others.⁴ Other structural reforms are described in Table 3. All structural benchmarks and conditions for the first review were observed with two exceptions. First, only one commercial law was presented to the National Assembly by end-1999, but drafts of several other important pieces of legislation were completed and are expected to be presented to the National Assembly during 2000. Second, the formulation of a medium-term reform strategy for the civil service has been delayed pending the completion of several ongoing initiatives in this area (see Section III). Contacts were also continued toward completing the two outstanding rescheduling agreements under the Paris Club framework with the United States and the Russian Federation.

³ Social sector spending targets for 1999 were achieved by a large additional appropriation in the last two months of the year, especially for the health sector. Much of this appropriation was executed in early 2000.

⁴ For details see the Selected Issues paper.

13. **The overall macroeconomic outlook for 2000 continues to be positive.** Economic activity has continued to be robust, especially for tourism-related services as tourist arrivals as of end-May increased by 50 percent from the previous year. Inflation remained in check with the average inflation rate continuing to decline. The outlook for the remainder of 2000 is for continued real GDP growth (of around 5½ percent) with relatively low inflation. Even allowing for some delayed impact of higher oil prices, the annual average inflation rate is expected to remain below 5 percent. Monetary policy has been restrained as net credit to the government continued to decline allowing for increased private credit in line with economic recovery. By end-July, the exchange rate has depreciated by 2 percent reflecting the strengthening of the U.S. dollar; in nominal and real effective terms the rate has been stable, and gross international reserves increased to \$466 million, or 3½ months of projected imports.⁵

III. POLICY DISCUSSIONS AND THE PROGRAM FOR 2000

A. Medium-Term Framework

14. **The policy discussions focused on macroeconomic and structural policies needed to achieve the key medium-term growth and poverty objectives under the PRGF-supported program.** The program aims at raising real GDP growth to 6 percent, keeping inflation to low single digits, containing the external current account deficit to a level consistent with available concessional financing and FDI flows, and increasing gross official reserves to the equivalent of four months of imports by the end of the three-year program period (Table 7). The projected increase in output growth is premised on rising levels of investment (both public and private) and savings. Broad-based development and poverty reduction will depend on sustained growth in the agricultural sector. Accordingly, advancing rural development and improving agricultural productivity are important elements of the government's poverty reduction strategy (see Section V).

B. Macroeconomic Policies

Fiscal policy for 2000

15. **The budget for 2000 was programmed to achieve a current surplus of 1.4 percent of GDP,** based on a further broadening of the tax base and a strengthening of customs and tax administration. An additional revenue effort (adjusted for the one-off impact of the auction of garment export quotas in 1999) of 1.0 percent of GDP is to be derived from expanding the VAT tax base, and from strengthening customs administration through the installation of preshipment inspection (PSI). On the expenditure side, the budget aims to

⁵ The increase in the international reserve position included foreign assets (\$14.5 million) associated with a former state-owned commercial bank in Cambodia, held in an account with a Swiss bank. Legal ownership of these funds by the NBC was confirmed in February 2000.

reduce spending for defense and security, contain the civil service wage bill to 1.8 percent of GDP, and to increase spending for the social sectors and for development projects. The overall deficit was budgeted to increase to 6 percent of GDP, primarily due to higher levels of foreign-financed development expenditure. Domestic financing would remain under tight control with projected budgetary support to be used in part to reduce the government's net debt position with the central bank.

16. **Revenue performance in early 2000 was lower than projected**, primarily on account of collections of tax revenue—particularly for customs, continuing the trend which emerged in late 1999. At the time of the discussions, the staff team estimated that, based on these early trends and current tax policy, revenue in 2000 would fall short of the program target by CR 50 billion (0.4 percent of GDP).

17. **In view of the revenue performance, the expenditure program in early 2000 had been implemented cautiously to keep domestic financing in line with program targets.** Both current and capital expenditures were contained below the indicative targets. As a result, central bank and overall domestic financing for the budget during this period were well within program targets. However, new commitments for social sector spending have lagged below indicative targets.

18. **The mission commended the authorities for their disciplined approach to the budget, and focused discussions on how to bring revenue performance back on track.** It was agreed that the revenue gap in 2000 should be filled through the following new measures: further broadening of the VAT base to include 500 additional large companies (beyond the largest 1,500 already registered in the VAT base), and increased royalty payments from tourist service providers and casinos, visa fees, and stepped up collection of arrears from telecommunications and the leasing of state assets (as described in paragraph 12 of the MEFP).⁶ As a result of these measures, by end-July, additional revenue of CR 20 billion has been collected. In total, the new revenue measures are estimated to substantially cover the estimated gap, and should raise revenue in 2000 to 11¾ percent of GDP which would be close to the original PRGF program target. Moreover, expenditure savings have been identified to fill the remaining gap. These include: (i) delaying further increases in civil service wages until an agreement has been reached on a civil service reform strategy; and (ii) postponing expenses related to local elections which have been delayed until 2001. The authorities also reiterated their commitment to disburse outlays for locally financed development projects cautiously and in line with revenue developments to protect the financing targets.

⁶ The staff also proposed the introduction of a 10 percent tax on hotel services (already provided for in the 1997 tax law), but the authorities felt that, while the recovery in tourist arrivals was strong, it was still too early to implement this tax in view of the weak competitiveness of tourism in Cambodia.

19. **Revenue performance in 2000 and beyond will depend critically on sustained efforts to improve customs and tax administration.** The recent conclusion of a new contract for preshipment inspection (PSI) will help in this regard, particularly concerning governance problems⁷. The mission shared the authorities' emphasis on the need for further technical assistance in these areas, including in the context of the proposed Technical Cooperation Action Plan (TCAP), currently being formulated. Also, it was agreed that, consistent with the program's medium-term revenue target of 13 percent of GDP by 2002, the 2001 budget will need to rely on new tax measures, including excises taxes, to compensate for any revenue losses associated with tariff reform.

20. **On the expenditure side, further efforts need to be directed at improving service delivery in the priority social sectors.** Various institutional initiatives are being introduced in 2000 (as described in the Selected Issues Paper), but most of these have had only limited effect thus far. The staff encouraged the authorities to enhance the effectiveness of these measures, including in the context of the World Bank SAC program. In particular, it was emphasized that, as the fiscal situation improved and given the risks from weak governance, it was important to ensure adequate provision for operation and maintenance spending for the public investment program, and that increased capital spending is well-directed to priority areas. Furthermore, competitive and transparent procurement procedures would be essential, in line with established priorities under the public investment program.

Medium-term fiscal framework

21. **The fiscal program will build on recent gains to secure a sustainable position over the medium term (Table 7).** In order to increase funding for priority social sectors and economic infrastructure, enhanced revenue mobilization will be required, and defense and security spending will need to be reduced from 4.2 percent of GDP in 1999 to 2.5 percent of GDP in 2002. Maintaining a current budget surplus of about 1-1½ percent of GDP would ensure sufficient funding for local development projects while sustaining the authorities' policy of not allowing any domestic financing of the budget. The mission stressed that meeting these budgetary aims will require further progress in the implementation of military and administrative reform.

22. **The discharge of soldiers under the pilot phase of the military demobilization program was completed in July, paving the way for launching the full program later this year.** As envisaged, a total of 1,500 soldiers were demobilized in four provinces (see Box 1); several donors expressed broad support for the program, subject to satisfactory assessment of the pilot. The authorities stressed that they were firmly committed to the implementation of the next phase of the program to begin demobilization of 10,000 soldiers in November 2000 and hoped that delays in securing the release of donor funding would not

⁷ The new contract includes a much broader coverage of imports subject to PSI than the previous one that was in effect until July 1999.

Box 1. Pilot Military Demobilization Program

In January 2000, the Cambodian government presented to the donor community the first draft of the pilot military demobilization program, in which it laid out the framework and methodology for the demobilization exercise and reconfirmed its aim to downsize the army from 133,817 (as of March 2000) to fewer than 100,000 soldiers. Based on results of the identification and registration process, completed in October 1999, 15,551 "ghost" soldiers have already been eliminated from the payroll, and care for 6,153 spouses of dead soldiers has been transferred to the Ministry of Women's and Veterans Affairs; there are an additional 3,275 widows waiting to be transferred during the program period. Under a pilot program, 1,500 soldiers in four provinces, have been discharged between May and July. This will be followed by a joint evaluation by the government and donors. The next phase of demobilization will commence later in 2000 affecting 10,000 additional soldiers, followed by 10,000 soldiers in 2001, and another 10,000 soldiers in 2002.

The total cost of the pilot program on a per soldier basis is about \$1,500 consisting of cash payment (\$240), in-kind assistance such as rice allowance (\$741), expenses associated with the discharge centers (\$333), and administrative costs (\$122). This total cost per soldier is expected to apply as a ceiling for the entire demobilization exercise. Donor commitment to support the program was sought at the Consultative Group meeting in May. The staff estimates the program's total cost at around \$47.5 million (1.6 percent of GDP), to be covered mainly by donor financing on concessional terms.

adversely affect the implementation of the program. They agreed with the mission that successful demobilization was essential for achieving the desired reorientation of expenditure policy.

23. **Fundamental civil service and administrative reform is necessary for improving governance, but needs to be done in the context of the agreed medium-term fiscal framework.** The recently completed civil service census revealed a larger size than previously estimated, but after the removal of 6,091 irregular cases, the size of the civil service is close to previous estimates. Current pay levels are, however, extremely low (averaging about US\$25 per month), compared with a minimum wage of US\$45 per month in the garment sector, and have been identified as a key impediment to improving governance. While the completion of the census and ongoing finger-printing and computerization are significant steps that would improve monitoring and control of the civil service, little progress has been made toward developing a basic reform strategy, including how to implement downsizing.

24. **The mission emphasized that owing to the potential fiscal burden of salary increases (which could apply to the military as well), a strategy for rationalizing the civil service would be needed before the salary problem could be addressed in order to keep the fiscal program sustainable.** With these considerations, the authorities indicated they were developing (in consultation with the World Bank, UNDP and AsDB) an ambitious medium-term plan for administrative reform (see Box 2), but were reluctant to commit to any targets for downsizing before completing a number of studies and simulations concerning the civil service. Against this background, it was understood that no further wage increase would be granted until a reform strategy is formulated, in consultation with the World Bank, by March 2001, taking into account the results of these studies (MEFP paragraph 13).⁸

Monetary and exchange rate policies

25. **The return of confidence has led to a sharp increase in foreign currency deposits,** and broad money growth increased by 39 percent in the year ending June 2000. With respect to the objectives of the monetary program for 2000, the NBC agreed that inflation may increase from its existing low levels owing to the lagged impact of higher oil prices and the fact that further declines in food prices cannot be expected. Altogether, the 12-month inflation rate could increase to 5 percent by end-2000, but this would still be consistent with containing the average CPI inflation rate to 2 percent. Given expected real GDP growth of 5½ percent, broad money growth is targeted at 35 percent with a further decline in velocity associated with increasing monetization from a very low base currently (broad money accounts for 13 percent of GDP), and would be fully reflected in increased net foreign assets. The improved fiscal position (with net credit to government expected to decline by 3 percent of broad money) would provide room for further growth in private sector credit—also from a

⁸ A 30 percent wage increase was granted in April 1999.

Box 2. Civil Service Reform

The size of the civil service

The precise number and status of civil servants were not available when the PRGF program was approved in October 1999. At that time, the payroll of the Ministry of Economy and Finance (MEF) in 1998 (156,761) was used as an approximation for the size of the civil service. The census, which was completed in March 2000, revealed the size of the civil service to be 164,589, including 6,091 irregular cases. Although this number is higher than previously expected, with the removal of the irregular cases, the size (158,498) is close to that originally estimated by the MEF.

The reform program

Cambodia's civil service employment as a percentage of the labor force, as well as its associated wage bill as a percentage of GDP, are not high when compared with the average of selected low income countries. However, the payscale needs a major adjustment, as the average pay is well below the minimum wage in the private sector (e.g. the garment industry), with attendant problems of corruption and absenteeism. To contain the wage bill of the public sector within affordable levels, the current size of the civil administration will need to be trimmed to provide scope for new hiring and higher salaries for people with professional skills in priority sectors. The government's PRGF-supported program called for formulation of a medium-term strategy and civil service reform program by end-June 2000, following a complete census and a functional review of all ministries. However, there have been considerable delays in completing the functional review, as well as the computerization of the payroll system, partly due to technical difficulties and delays in external assistance.

The government presented a comprehensive plan on administrative reform at the Paris CG meeting in May, based on technical assistance provided by the World Bank, the UNDP, and the AsDB. The plan is directed at rationalizing the size of the civil service while improving management and worker incentives, and represents a key part of the authorities' governance action plan. The following steps are to be taken in the near- to medium-term: (i) completion of the finger printing operation currently being implemented; (ii) completion of the computerization of the payroll system to establish budgetary control; (iii) World Bank simulations on possible reform scenarios; (iv) UNDP-sponsored review of the remuneration system, safety nets, and re-employment options; (v) designing a strategy and implementation plan to establish priority groups; and (vi) conducting a functional analysis of the civil service. Based on steps (i)-(iv) and sufficient results from (v) and (vi), the government intends to define a plan for civil service reform by March 2001, aimed at rationalizing employment and remuneration. In the meantime, no wage increase will be granted until a reform strategy is formulated.

very low base (7 percent of GDP)—which is expected to grow by 22 percent, in line with buoyant activities in trade and services sectors.

26. **The riel has been broadly stable in nominal and real effective terms over the last 1½ years.** The staff team recommended that the current flexible exchange rate policy be continued and urged the authorities to unify the exchange rate by linking the official rate with the market rate. The authorities felt that the current system whereby the official exchange rate is set within a maximum margin of 1 percent from the market rate had given them the opportunity to provide a stabilizing signal to a thin foreign exchange market during times of turbulence. Since there are no restrictions on current transactions, the mission urged the authorities to accept the obligations of Article VIII sections, 2, 3, and 4. The authorities agreed with this objective, but requested further Fund technical assistance to ensure that current practices are fully in line with the obligations of Article VIII. The authorities are also committed to continue the policy of using any increased demand for national currency to bolster the international reserve position, but not to intervene to resist downward pressure on the exchange rate except in circumstances of disorderly market movements. It was also agreed that de-dollarization should be promoted through the maintenance of stable macroeconomic conditions and financial sector reforms to establish riel-denominated assets; no administrative controls would be used⁹. No external audits of the central bank have been conducted. The authorities, however, have agreed to provide annual financial statements, share all documentation regarding their internal procedures, and submit to an external audit by internationally accredited auditors in the future.

C. Key Structural Policies

Banking Sector Reform

27. **Steps have been taken toward restructuring the banking system.** Under the new Financial Institutions Law, all banks were required to apply for a new banking license by May 31, 2000. An initial review of these applications suggested that a significant number of banks were nonviable, and on this basis, NBC has already revoked the licenses of three banks. The process of finding administrators for these banks has been initiated and the licensing applications of remaining banks will be evaluated by end-November 2000. The next steps in the restructuring of the banking system, as well as for the reform of the Foreign Trade Bank (one of the two remaining state-owned commercial banks), and payments system development, have been defined with the help of MAE technical assistance (see Box 3). To address the risks of asset stripping, close monitoring of banks' balances in the NBC will be required, and NBC staff will be placed in banks as necessary. Under current indications, the fiscal cost of bank reforms is expected to be minimal in 2000.

⁹ Issues on dollarization in Cambodia are covered in the Selected Issues Paper.

Box 3. Banking System Reform

The Cambodia banking system is composed of 31 banks: 2 state-owned commercial banks, 22 privately owned commercial banks, and 7 foreign bank branches (as of June 2000). The banking system provides only limited banking services, and functioning interbank markets do not exist. As of end-June, the total asset size of all commercial banks is only 17 percent of GDP, and loans and deposits represent only 6-7 percent of GDP. The low level of intermediation mainly reflects lack of public confidence in the banking system and limited investment opportunities.

Under the new financial institutions law promulgated in November 1999, all 29 existing private commercial banks are required to be re-licensed by the end of November 2000. Re-licensing procedures have been designed with MAE technical assistance, providing the authorities with the opportunity to scrutinize the viability of every commercial bank and strengthen the whole banking system. The reform of the commercial banking system is also accompanied by the restructuring of the state-owned Foreign Trade Bank (FTB), which is the largest bank in Cambodia.

Bank re-licensing

All commercial banks except one have submitted re-licensing applications by the end of May. Based on an initial review, the National Bank of Cambodia (NBC) has already closed three banks, including the one that did not apply, and started liquidation of these banks. For the other banks, final decisions regarding re-licensing will be made by November 2000 and will be based on the following steps:

- External auditors will assist the NBC in reviewing financial statements to verify whether the statements are truthful, especially regarding information on loan classification and provisioning, and whether internal controls on risk and credit management are accurately reported.
- The NBC will classify the banks into three categories: (i) viable and fully capitalized banks without need for restructuring; (ii) potentially viable banks that require some time to implement reforms; and (iii) nonviable banks. The classification of banks will be made based on (i) the review of the financial statements of the banks, (ii) the business plan of the banks, which must clearly identify the core business and the clients of the banks and must be linked to the financial projections, and (iii) the quality of management (ensuring that the shareowners and managers are "fit and proper").
- The banks falling into the second category (potentially viable banks) will be required to submit a memorandum of understanding to be approved by the NBC. The memorandum will describe the details of the restructuring plan with a timetable of actions with specific targets, including a schedule of "phasing in" of minimum capital requirements.
- The banks falling into the third category (nonviable banks) will be liquidated. As soon as the decision is made, the NBC will place a temporary administrator in these banks to prevent asset stripping. Experienced international audit firms will assist the NBC in liquidation procedures, particularly with regard to asset valuation and disposal.

Foreign Trade Bank

Currently, the FTB is essentially operating a commercial banking business as a department of the NBC. The size of its assets and liabilities, particularly in local currency, are the largest among commercial banks. With effective restructuring, the FTB has the potential to play a key banking role in Cambodia. The NBC has already issued a regulation to define the FTB as an independent entity, and the Memorandum and Articles of Association have been prepared to define the new management and operational structure of the bank including its conversion to a corporate status.

The most critical next steps in the restructuring of the FTB include (i) the assessment of the balance sheet of the FTB to calculate its capital deficiency, (ii) its re-capitalization to satisfy the minimum capital requirements defined in the financial institutions law, and (iii) preparing a business plan. The International Finance Corporation and the Asian Development Bank are preparing technical assistance in the area of audit, portfolio valuation, and restructuring. By December 2000, it is expected that the FTB will be licensed under the same conditions as other commercial banks.

28. **The mission urged the authorities to take decisive and transparent action according to the envisaged timetable.** The authorities argued that they needed to move carefully in closing banks, and indicated that they were having difficulties in finding administrators and liquidators for banks that would need to be closed. The need for continued technical assistance throughout this process was also emphasized. The mission indicated that to maintain credibility, the authorities needed to avoid delays in the next steps of the process, including for the restructuring and eventual privatization of the Foreign Trade Bank.

Forestry policy

29. **A fundamental reorientation of forestry policy has taken place since January 1999, in close consultation with the World Bank and the AsDB.** Illegal activity has been reduced, a Forestry Crime Monitoring Unit (FCMU) was established with full participation of outside observers, national consultations with relevant stakeholders have been initiated on a new draft Forestry Law, and a review of the concession system was completed.¹⁰ On the basis of this review, the government has taken action to cancel three additional concessions, sharply curtail the activities of the remaining concessions, restrict logging activity in protected areas, and improve the overall system of concession management. Still, many important actions remain to be implemented to establish a viable and sustainable system of concession management. Together with the World Bank, the mission emphasized the importance of continuing to take transparent and credible actions in response to reports of illegal activities. The authorities reaffirmed their commitment to continue to improve the management of forest resources, but expressed some concern that no mechanisms were in place to police areas that had been taken out of the concession system with the potential of an increasing risk of illegal activities in those areas. For this reason, they pledged further efforts to improve the operations of the FCMU.

30. **A review of the forestry revenue system is underway.** The average royalty level was raised from US\$14 per cubic meter to US\$54 in the 1999 budget. Despite initial complaints by the industry that the new royalty was too high for current market conditions, concessionaires are now paying the higher royalty which has helped maintain budget revenues from forestry at ½ percent of GDP. The government has completed its own internal review and remains committed to the US\$54 level. However, the authorities have agreed to receive an industry-financed study of the revenue system to be carried out by external consultants. Any subsequent revisions would be taken in consultation with World Bank and Fund staff.

Other structural policies

31. **Cambodia has begun to reduce tariff rates in accordance with the requirements of the ASEAN Free-Trade Agreement (AFTA) and has started the process for WTO**

¹⁰ For further details on forestry reforms see the Selected Issues Paper.

accession. Multilateral negotiations are scheduled to begin in August, and the authorities are hoping to have Cambodia's membership approved in 2001.

32. Technical discussions have continued for the conclusion of rescheduling agreements with the United States and the Russian Federation.¹¹ The mission urged the authorities to continue to make best efforts toward completing these rescheduling arrangements, as well as those with other creditors where comparable action to the 1995 Paris Club rescheduling is needed. The mission also urged the authorities to carefully monitor all external borrowing to ensure observance of the program commitment to refrain from nonconcessional borrowing.¹²

33. Other key structural policies necessary for achieving macroeconomic objectives and supporting sustainable growth and development focus on developing a well-functioning legal framework and further state enterprise divestment. To make progress in economic and financial reform, a number of basic laws—particularly in the areas of private and commercial law—need to be adopted. Important priorities in the period ahead are the establishment of new legal regimes for corporate insolvency, secured transactions, and enforcement of contractual claims. Public enterprise reform efforts in the period ahead will continue to focus on the divestment of state-owned rubber plantations, with the first plantation expected to be privatized by end-2001.

D. Statistical Issues and Fiscal Transparency

34. The coverage and quality of economic statistics have gradually improved in recent years, and are generally adequate for the purpose of surveillance by the Fund. National accounts and consumer price statistics are available on a reasonably timely basis and have been improved with assistance from the AsDB. Improvements have also been made in the compilation of government finance, money and banking, and balance of payments statistics. However, there is a need for substantial further progress. The main priorities for the near term are to improve the coverage of government finance statistics, the statistical base

¹¹ Given the ongoing rescheduling discussions, the corresponding claims do not constitute arrears for program purposes.

¹² The authorities contracted on July 26, 2000 a medium-term loan from the EXIM Bank of China for onlending to a foreign investment project, for a maximum amount equivalent to \$12 million. The authorities considered that the discount rate for assessing concessionality which applied during the time of the 1994-96 ESAF arrangement was still relevant. However, using a current discount rate, the concessionality falls short of the 35 percent level specified for PRGF programs. The staff has clarified with the authorities the understanding to refrain from contracting nonconcessional loans. The performance criterion governing foreign borrowing was inadvertently omitted from the text of the PRGF arrangement, and the staff is now proposing to rectify this.

underlying national accounts estimates, compilation methodology in money and banking statistics, and balance of payments statistics in line with existing technical assistance recommendations. The authorities agreed that it would be desirable for Cambodia to participate in the General Data Dissemination System (GDSS) as a means of promoting statistical improvements over the medium term.

35. **Despite significant improvements in the conduct of fiscal policy, the preparation and execution of the budget still reflect a number of weaknesses in governance**, as well as an extreme shortage of qualified and competent public finance specialists and line managers. While significant progress has been made in recent years in bringing the aggregate fiscal position under control, the budget still falls well short of providing an effective instrument of government policy. Programs to raise social well-being through improved health, education and welfare services are among the least effective, as a result of major institutional problems in program design, resourcing, delivery, and evaluation. Considerable technical assistance (to be provided by the Bank, the ASDB and the Fund) will be required to make further improvements in budget preparation, execution, and reporting.

IV. EXTERNAL OUTLOOK AND POLICIES, AND CAPACITY TO REPAY THE FUND

36. **The projected external current account deficit should be sustainable over the medium term in view of prospective net official long-term borrowing and debt relief.** Given recent satisfactory macroeconomic performance in line with the program, the medium-term framework (Table 7) was judged to be essentially unchanged from October 1999 (EBS/99/188)¹³. The external current account deficit (excluding official transfers) is expected to stay in the range of 12-13 percent of GDP during 2000-2001, and then decline steadily to about 10 percent in 2004. Including official transfers, the deficit would decline from about 6 percent of GDP in 2000 to 5 percent of GDP in 2004. The medium-term outlook will continue to be vulnerable, and external viability needs to be enhanced through sustained implementation of sound macroeconomic policies and structural reform. The main risks to external sustainability are slower export growth, and reduced inflows of official or other capital owing to political instability. Failure to achieve the desired restructuring of public finances would lead to lower savings, lower levels of social sector development, and would ultimately undermine donor support for the program.

37. **Cambodia should have no difficulty in continuing to service its obligations to the Fund.** Cambodia has a good recent record in meeting scheduled payments, and the targeted level of international reserves under the current scenario provides sufficient room for future repayments. Cambodia's debt service payments, including on Fund credit, are projected to

¹³ One minor exception is the projected trajectory for velocity, where a slightly faster declining trend is now projected, taking into account the more recent experience of a relatively rapid monetization of the economy.

remain at 4 percent of gross current receipts in 2000-03, equivalent to 6 percent of gross official reserves (Tables 7 and 8).¹⁴

V. POVERTY REDUCTION STRATEGY

38. The Government has formed a High Level Committee headed by the Minister of Economy and Finance with broad inter-ministerial representation to take responsibility for producing an Interim Poverty Reduction Strategy Paper (I-PRSP). The I-PRSP is expected to elaborate on the following issues: (i) poverty diagnostics—the extent and nature of poverty, and trends over time; (ii) a work plan for preparing a full PRSP; (iii) a strategy for ensuring full participation of donors, NGOs and other stakeholders in the PRSP process; and (iv) a list of policy measures (matrix) supporting the achievement of poverty objectives (see Box 4). Good progress has been made since the launch of the I-PRSP process in May 2000. A workshop on the draft I-PRSP was held on August 9 involving line ministries, representatives from the Parliament, donors, NGO representatives, and private sector representatives. The I-PRSP is expected to be finalized by late 2000 and presented along with the second review of the program. The preparation of the full PRSP will be coordinated by the Ministry of Planning to ensure consistency with the authorities' second five-year socioeconomic development plan currently under preparation with assistance from the AsDB. The full PRSP is expected to be ready by late 2001.

VI. IMPLEMENTATION CAPACITY, TECHNICAL ASSISTANCE, AND PROGRAM MONITORING

39. **While there are risks to the program, as the implementation of key reforms will be politically difficult, the overall capacity for program implementation is being strengthened.** Government ownership and commitment to the program have been evidenced by the difficult reforms already initiated in the past year, especially with respect to banking, customs administration, forestry policy, and military demobilization. The authorities' efforts have been broadly endorsed by the donor community, and semi-annual donor's meetings in and outside Cambodia will continue to ensure effective monitoring of performance. Donor representatives have participated actively in the PRSP discussions and the design of a TCAP. Finally, the opening of the resident representative office in October 1999 has played a key role in monitoring program implementation.

40. **Technical assistance in key reform areas will continue to be critical.** Given Cambodia's extremely limited administrative capacity, current technical assistance efforts by the Fund are being concentrated in financial sector reform, tax policy and administration, legal reform and statistics. To support program objectives, a comprehensive TCAP is being developed in consultation with other multilateral agencies and key bilateral donors (for details, see Annex V).

¹⁴ A full debt sustainability analysis is contained in EBS/99/188.

Box 4. Poverty in Cambodia

Cambodia is one of the poorest countries in the world, with GDP per capita estimated at only \$256 in 1999, and key social indicators lag behind other low-income countries (Table 9). The lack of consistent survey data, or a time series of monitorable indicators, makes poverty diagnostics particularly difficult. The first *Poverty Assessment*, prepared by the government in 1999, reports that about 36-50 percent of the population live below the poverty line, which is based on food consumption of 2,100 calories per capita per day plus a small allowance for non-food consumption.¹ Poverty is concentrated in rural areas, with rural households accounting for almost 90 percent of the poor. In addition, poverty is higher among households that are larger, have more children, headed by males or farmers, have less education, and have less access to public services in general.

The current relatively high poverty levels are a legacy of devastation and civil strife during the past three decades. Inadequate public services—especially insufficient education and health services—underdeveloped markets, poor communications and infrastructure, and lingering security concerns are all important factors that contribute to poverty. In particular, extremely low productivity in agriculture, lack of access to credit, and lack of a land law are the major constraints facing the rural poor.

Reducing poverty is the primary development objective stated by the government, as it is seen as an integral part of the national reconciliation process and the key to the maintenance of political stability. The overall thrust of the government's poverty reduction strategy is to create the conditions for broad-based and fast economic growth, while simultaneously reducing the barriers for the poor to participate in the growth process. Its main elements include prudent macroeconomic management, sustainable development of the agricultural sector, better governance, fostering investment in human resources and physical infrastructure, undertaking land reform, improving access to credit for the poor, and protecting the environment.

¹ Different estimates for poverty incidence arise from different survey results which have not yet been fully reconciled.

41. **Quantitative benchmarks and performance criteria** under the program are set out in Table 2 of the MEFP. Structural performance criteria and benchmarks cover bank restructuring, civil service reform, demobilization and tariff reforms. The next review under the PRGF-supported program is expected to be completed by end-December 2000 with the schedule for future disbursements listed in Table 10.

VII. STAFF APPRAISAL

42. **Under the PRGF-supported program, Cambodia has made significant progress, but reform efforts need to be sustained and strengthened in key areas.** Confidence has improved, and economic performance and prospects have strengthened considerably on the basis of a prudent fiscal policy, sound monetary management, and appropriate structural reforms. However, substantial further efforts are needed to raise and sustain economic growth in the context of macroeconomic stability, while making meaningful and lasting reductions in poverty.

43. **Revenue mobilization will continue to be the central element of the reform agenda.** Improved revenue performance in 1999 provides a strong start, and the staff urges the authorities to persevere with their efforts to further enhance revenue to achieve the 2000 budget targets, including through the introduction of new measures if necessary. Further revenue efforts will also be essential in the context of the 2001 budget to raise the revenue ratio to GDP, which is very low by international standards, and to remain on track with the medium-term fiscal targets. Achieving these targets will require sustained efforts to improve tax and customs administration, and effective use of technical assistance resources. Ad hoc tax exemptions must continue to be avoided, and the recent reinstatement of PSI will be critical in this regard.

44. **Achieving medium-term expenditure targets will also depend on successful military and administrative reform.** Following the implementation of the pilot demobilization program in the first half of 2000, the initiation of the full program—and associated donor support—will be essential to ensure the desired reduction in defense and security spending. Reforming the civil service will also be needed to keep the overall wage bill consistent with medium-term fiscal constraints, and to help improve governance. In this regard, the staff urges the authorities to continue to link any wage increase to the adoption, in consultation with key development partners, of an effective strategy for civil service reform in order to address the unsustainably low level of civil service wages. Overall budgetary control and the allocation of budgetary funds for the social sectors have been strengthened, but further improvements are required to ensure effectiveness of and appropriate priorities for increased spending. The staff urges the authorities to work closely with the World Bank to improve institutional procedures for social sector spending. To promote transparency and better governance, budgetary control and procedures will need to be enhanced, in particular, by introducing procedures for internal and external audit, and by implementing transparent and competitive procedures for public procurement.

45. **Cambodia's external position is expected to be manageable over the near to medium term.** The staff urges the authorities to maintain their current flexible exchange rate policy while moving toward exchange market unification and acceptance of the obligations of Article VIII, Sections 2, 3, and 4 during the PRGF-supported program period. The projected external current account deficit would be financed by higher aid inflows and foreign direct investment. Over the medium term, external viability will depend on the sustained implementation of policies and continued donor support and debt relief. In this regard, the staff strongly urges the authorities to continue to pursue a dialogue toward resolving outstanding bilateral rescheduling agreements.

46. **Continuing efforts with respect to key structural reforms will be critical for achieving program objectives and supporting development needs.** The staff urges the authorities to follow through with agreed actions regarding the re-licensing of commercial banks on a consistent and timely basis. The authorities will need to continue to strengthen the NBC's supervisory capacity and to actively prepare the Foreign Trade Bank for eventual privatization. The authorities should be commended for the significant actions taken in the forestry sector, especially with respect to the establishment of the FCMU and the requisite measures following completion of an external review of all forest concessions. For the period ahead, further decisive actions will be needed to implement a new system of concession management, revise forestry legislation, and strengthen the operations of the FCMU. The staff also urges the authorities to make further progress in the establishment of a basic legal framework for economic activity. Staff also welcomes the progress the authorities have made in the preparation of an I-PRSP.

47. **While the quality and timeliness of statistics have improved and are adequate for surveillance purposes, further improvements are needed.** Cambodia is encouraged to participate in the GDSS.

48. **Cambodia has made a strong effort in implementing its PRGF-supported program.** Reforms that have already been implemented—many in politically difficult areas—are an indication of the authorities' determination and commitment to the program. Nonetheless, risks to program implementation will continue in the period ahead, stemming from a fragile governance environment as reforms continue to push against entrenched interests, and from weaknesses in administrative capacity. To address these risks, close program monitoring will be continued, while enhanced technical assistance under the TCAP will support the limited administrative capacity. In view of these considerations, the staff recommends approval of the authorities' request for completion of the first review under the PRGF arrangement. Continued good performance under the PRGF-supported program will facilitate the flow of external assistance, on which much of the program's success depends.

49. It is proposed that the next Article IV consultation with Cambodia take place on the standard 12 month cycle.

VIII. PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Cambodia has consulted with the Fund in accordance with paragraph 2(d) of the three-year arrangement for Cambodia under the Poverty Reduction and Growth Facility (PRGF) (EBS/99/188, Supplement 1) and paragraph 3 of the letter dated September 29, 1999 from the Minister of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia, in order to review program implementation and reach understandings regarding the phasing and conditions for disbursements during the second year of the arrangement.

2. The letter from the Senior Minister of the Ministry of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia dated August 31, 2000 (“the August 2000 Letter”), with its attached Memorandum of Economic and Financial Policies (“the August 2000 Memorandum”), shall be attached to the three-year PRGF arrangement for Cambodia, and the letter dated September 29, 1999 from the Minister of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia, and the Memorandum attached thereto, shall be read as supplemented by the August 2000 Letter and the August 2000 Memorandum.

3. Accordingly, the PRGF arrangement for Cambodia shall be amended as follows:

(a) the following shall be added as a new paragraph 1(cc):

“During the second year of this arrangement:

(i) the third disbursement, in an amount equivalent to SDR 8.357 million, will be available on December 15, 2000, at the request of Cambodia and subject to paragraph 2 below; and

(ii) the fourth disbursement, in an amount equivalent to SDR 8.357 million, will be available on June 15, 2001, at the request of Cambodia and subject to paragraph 2 below.”;

(b) the following shall be added as a new paragraph 1(dd):

“The phasing of, and conditions for, disbursements during the third year of this arrangement shall be established during the third review. The timing of the third review shall be established during the second review contemplated in paragraph 2(dd) below.”;

(c) paragraph 2(a)(v) of the arrangement shall be amended to read as follows:

“(v) the ceiling and sub-ceilings on publicly contracted or guaranteed foreign currency loans;”

(d) paragraph 2(a)(vi) of the arrangement shall be deleted; and

(e) the following shall be added as new paragraphs 2(aa), 2(bb), 2(cc) and 2(dd):

“(aa) Cambodia will not request the third disbursement referred to in paragraph 1(cc)(i) above if the Managing Director of the Trustee finds that the data as of September 30, 2000 indicate that any of the ceilings and floors referred to in paragraphs 2(a)(i) to 2(a)(v) of this arrangement, as specified in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Senior Minister of the Ministry of Economy and Finance of Cambodia and the

Governor of the National Bank of Cambodia dated August 31, 2000, was not observed. Cambodia will not request the fourth disbursement referred to in paragraph 1(cc)(ii) above if the Managing Director of the Trustee finds that the data as of March 31, 2001 indicate that any of the ceilings and floors referred to in paragraphs 2(a)(i) to 2(a)(v) of this arrangement, as specified in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Senior Minister of the Ministry of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia dated August 31, 2000, was not observed.

“(bb) Cambodia will not request the third disbursement referred to in paragraph 1(cc)(i) above if the Managing Director of the Trustee finds that Cambodia has not carried out its intentions with respect to the structural performance criteria specified in Table 1 of the Memorandum of Economic and Financial Policies attached to the letter from the Senior Minister of the Ministry of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia dated August 31, 2000.

“(cc) Cambodia will not request the third and fourth disbursements referred to in paragraph 1(cc) above if it has taken any of the actions specified in paragraph 2(c) above.

“(dd) Cambodia will not request the third disbursement specified in paragraph 1(cc)(i) above until the Trustee has determined that the second review referred to in paragraph 4 of the letter from the Senior Minister of the Ministry of Economy and Finance of Cambodia and the Governor of the National Bank of Cambodia dated August 31, 2000, and paragraph 22 of the Memorandum of Economic and Financial Policies attached thereto, has been completed. Cambodia will not request the fourth disbursement specified in paragraph 1(cc)(ii) above until the Trustee has determined that the third review under this arrangement has been completed. The timing of the third review shall be established during the second review referred to above.”

4. The Fund decides that the first review contemplated in paragraph 2(d) of the PRGF arrangement for Cambodia is completed, on the condition that the information provided by Cambodia on the implementation of the measures specified in Section I of Table 1 of the August 2000 Memorandum is accurate.

Table 1. Cambodia: Selected Economic Indicators, 1996-2000

	1996	1997	1998	1999		Most recent	2000 Proj.
				PRGF prog.	Est.		
Nominal GDP (1999 est.)	\$ 3,008 million						
Population (1999 est.)	11.7 million						
GDP per capita (1999 est.)	\$ 256						
Fund Quota	SDR 87.5 million						
	(Percent change; unless otherwise indicated)						
Real economy							
Real GDP	5.5	3.7	1.8	4.0	5.0	.....	5.5
GDP deflator	4.6	6.0	13.1	6.7	3.8	.....	3.2
Consumer prices (final quarter-basis)	9.0	9.1	12.6	5.0	0.0	-3.3 1/	1.6
Money and credit							
Broad money (incl. foreign curren. deposit)	40.5	16.6	15.7	16.9	17.3	39.1 1/	35.5
of which: riels in circulation	19.5	18.8	43.0	9.8	-3.8	11.3 1/	4.1
Net credit to Government 2/	-3.1	-8.1	11.7	-4.4	-6.1	-2.9 1/	-3.2
Velocity of money 3/	10.7	9.7	9.5	8.6	8.5	.....	7.4
	(In percent of GDP)						
Government budget							
Revenue (incl. capital revenue)	9.0	9.6	9.0	11.6	11.5	11.2 4/	11.7
of which: tax revenue	6.4	6.5	6.5	8.3	8.3	8.3 4/	8.6
non-tax revenue	2.1	3.0	2.2	3.2	3.1	2.9 4/	3.1
Expenditure	16.1	13.8	14.9	15.0	15.9	14.3 4/	17.0
Current expenditure	9.8	8.8	8.9	9.8	9.6	8.1 4/	9.8
Capital expenditure	6.4	4.9	6.0	5.2	6.3	6.1 4/	7.2
Current budget balance	-1.2	0.7	-0.3	1.7	1.8	3.1 4/	1.8
Overall budget balance	-7.1	-4.1	-6.0	-3.4	-4.4	-3.0 4/	-5.3
Overall budget balance (incl. grants)	-0.3	-0.5	-2.7	-1.0	-1.5	0.6 4/	-1.7
Foreign financing	6.9	4.9	4.8	4.0	4.5	4.8 4/	6.0
Domestic financing	-0.3	-0.7	1.1	-0.6	-0.4	-1.1 4/	-0.4
Outstanding operation	0.5	-0.1	0.1	0.0	0.3	-0.6 4/	-0.3
Domestic investment	13.5	13.0	12.9	14.1	15.8	.....	17.5
Government investment 5/	5.9	4.8	5.7	5.1	6.2	6.1 4/	7.0
Non government investment	7.6	8.2	7.3	9.0	9.6	.....	10.5
National saving	7.4	11.7	11.6	8.4	11.7	.....	11.9
Government saving	-1.2	0.7	-0.3	1.7	1.8	3.1 4/	1.8
Non government saving	8.7	11.0	11.9	6.7	9.9	.....	10.1
	(In millions of U.S. dollars; unless otherwise indicated)						
Balance of payments							
Exports 6/	295	534	610	548	695	.....	730
Imports 6/	-771	-798	-803	-898	-990	.....	-1099
Current account (excl. off. transfers)	-493	-252	-230	-386	-346	.....	-428
(In percent of GDP)	-15.5	-8.1	-8.2	-12.3	-11.5	.....	-13.1
Current account (incl. off. transfers)	-193	-43	-36	-179	-126	.....	-185
(In percent of GDP)	-6.1	-1.4	-1.3	-5.7	-4.2	.....	-5.6
Capital account	413	-47	-69	77	28	.....	92
Overall balance	219	-90	-105	-102	-98	.....	-93
Gross official reserves	234	262	390	426	422	468 7/	494
(In months of imports of g & s)	2.1	2.4	3.6	3.5	3.3	3.4 8/	3.5
(In percent of broad money)	69.5	85.1	119.9	112.5	110.5	97.7 9/	97.8
Net official reserves	164	197	323	355	349	398 7/	408
Debt service	145	132	124	132	132	.....	37
(In percent of dom. exports of g&s)	29.5	17.8	15.9	17.7	14.7	.....	3.9
Memorandum items:							
Nominal GDP (in billions of riels)	8,325	9,149	10,531	11,470	11,470	.....	12,489
(in millions of U.S. dollars)	3,172	3,105	2,813	3,008	3,008	.....	3,267
Exchange rates (riels per dollar, end-of-period)	2713	3,452	3,780	3,800	3,775	3,900 10/	3,870
Terms of trade (percent change)	-5.1	0.1	3.1	0.4	15.5	.....	-4.6

Source: Data provided by the Cambodian authorities, and Fund staff estimates and projections.

1/ June 2000; 12-month percentage change.

2/ Contributions to 12-month percent change of broad money.

3/ Ratio of nominal GDP to average stock of broad money.

4/ June 2000; annualized totals relative to projected annual GDP.

5/ Includes externally financed technical assistance for implementation of capital projects.

6/ Excludes re-exports.

7/ August 18, 2000.

8/ Ratio of current reserves to 2000 projected imports of goods and services.

9/ June 2000.

10/ August 28, 2000.

Table 2. Cambodia: Quantitative Performance Criteria and Benchmarks, 1999-2000

	1998			1999			2000						
	Stock at		Act.	End-Dec.		Act.	End-March 1/			End-June			
	End -Dec.	End-Sep.		Prog.	Adj. Prog.		Prog.	Adj. Prog.	Act.	Prog.	Adj. Prog.	Act.	
		Proj.											
	(Maximum) cumulative change from beginning of year												
Net domestic assets of the banking system (in billions of riels) 2/3/	-498	-75	-106	-98	-62	-86	7	44	-50	1	33	-78	
Net credit to the government from the banking system (in billions of riels) 3/	179	-79	-85	-54	-18	-76	-19	18	-9	-49	-17	-62	
Net domestic financing of the budget (in billions of riels) 3/	...	-89	-122	-64	-28	-40	-19	18	-32	-49	-17	-70	
Publicly contracted or guaranteed foreign currency loans 4/													
Up to one-year maturity 5/	...	---	---	---	---	---	---	---	---	---	---	---	
1-5 year's maturity	...	---	---	---	---	---	---	---	---	---	---	---	
Medium- and long-term nonconcessional debt	...	---	---	---	---	---	---	---	---	---	---	---	
External payments arrears 6/	...	---	---	---	---	---	---	---	---	---	---	---	
	(Minimum) cumulative change from beginning of year												
Net official international reserves (in millions of US dollars) 7/ 8/	323	13	19	38	29	29	13	3	25	26	17	44	
<i>Memorandum items:</i>													
	Cumulative flows from beginning of year												
Nonproject budget support (in millions of US dollars)	...	...	...	10	...	1	10	...	0	20	...	11
	Stock at the end of period												
Net domestic assets of the banking system (in billions of riels)	-498	-573	-604	-596	-561	-584	-577	-540	-634	-583	-551	-662	
Net credit to the government from the banking system (in billions of riels)	179	100	94	125	160	103	84	121	94	54	86	41	
Net official international reserves (in millions of US dollars) 8/	323	336	342	361	352	352	362	352	375	375	367	393	
Exchange rate (riels per US dollar, end of period)	3,780	3,800	3,900	3,800	3,800	3,775	3,800	3,800	3,820	3,800	3,800	3,865	

Sources: Data provided by the Cambodian authorities; and Fund staff estimates.

1/ Performance criteria.

2/ Net domestic assets are defined as broad money minus net foreign assets of the banking system adjusted for the valuation changes arising from the difference between the program and actual exchange rates. The original quantitative benchmark for December 1999 was adjusted downwards by CR 31 billion due to an excess in the September 1999 outcome relative to the program estimates.

3/ For purposes of verifying compliance with the program, the ceiling for net domestic assets, net credit to the government from the banking system, and net domestic financing of the budget were adjusted upwards by CR 35.6 billion in December 1999, by CR 37.0 billion in March 2000, and by CR 32.2 billion in June 2000 due to shortfalls in external nonproject budget support.

4/ Maturity based on original contract.

5/ Ceiling applies to amount outstanding. Excludes normal import-related credit.

6/ Continuous performance criterion.

7/ The original quantitative benchmark for December 1999 was adjusted upward by US\$6 million to US\$38 million due to an excess in the September 1999 outcome relative to the program estimates. For purposes of verifying compliance with the program, the floor on net official international reserves was adjusted downward by US\$9.4 million in December 1999, by US\$9.7 million in March 2000, and by US\$8.7 million in June 2000 due to shortfalls in external nonproject budget support.

8/ Net official international reserves for December 1999 are evaluated at the end-September 1999 gold price, and those for 2000 are evaluated at the end-December 1999 gold price.

Table 3. Cambodia: Structural Performance Criteria and Benchmarks, 1999-2000

Policy Action	Status as of end-July 2000
<p>1. Structural Performance Criteria</p> <p>a. Completion of census to ascertain the precise number and status of civil servants and military personnel. (end-March 2000)</p>	<p>Military census was completed in December 1999 and civil service census in March 2000.</p>
<p>2. Structural Benchmarks:</p> <p>a. Complete review of concession contracts and cancel additional concessions in violation of contract terms or Cambodian law. (end-June 2000)¹</p> <p>b. No ad hoc tax exemptions to be granted any time during the program period. (continuous)</p> <p>c. Complete on-site inspections of the remaining commercial banks. (end-December 1999)</p> <p>d. Following the adoption of the Financial Institutions Law, subject all banks to relicensing and move to close insolvent or noncomplying banks accordingly. (end-June 2000)</p> <p>e. Submit two commercial laws (as part of a comprehensive commercial code) to the National Assembly. (end-December 1999)</p> <p>f. Formulate a medium-term strategy and reform program for the civil service entailing annual phasing for downsizing. (end-June 2000)</p>	<p>The AsDB-sponsored concession review was completed in May 2000. On the basis of this review, the government has canceled 3 concessions and severely restricted logging activity of other concessions.</p> <p>Remaining exemptions are limited to those specified under the Law on Investment and a few duty-free shops in border regions.</p> <p>Remaining on-site inspections were completed in November 1999.</p> <p>The re-licensing process has been initiated with MAE technical assistance. Initial steps have been taken to close 3 banks in early August. Decisions on remaining banks will be taken by end-November 2000.</p> <p>First drafts of five laws have been completed. One law was submitted to the National Assembly in November 1999 and several others are close to being finalized. Technical assistance is being provided by the World Bank and LEG.</p> <p>With the completion of the civil service census, 6,091 irregular cases will be removed from the payroll. Specification of a reform strategy will be made in March 2001 based on on-going studies and technical assistance from the World Bank, the UNDP, and the AsDB.</p>
<p>3. Conditions for Review</p> <p>a. Complete review of timber revenue mechanism, in consultation with the Bank and the Fund.</p> <p>b. Initiate preshipment inspection for imports (PSI), based on FAD technical assistance recommendations.</p> <p>c. Initiate national consultations on revised forestry legislation.</p> <p>d. Formulation of a medium-term strategy and reform program for the military, entailing annual phasing.</p> <p>e. Review of forestry policy and budget management.</p>	<p>Preliminary studies have been carried out by the Bank and the Department of Forestry and Wildlife. The government has decided to keep the existing royalty level of \$54 per cubic meter pending a broader consultative process, including input expected to be received from the industry association by end-December 2000.</p> <p>Negotiations were completed, and a new contract signed on August 14, 2000.</p> <p>Draft legislation has been prepared and the consultation process was initiated in June 2000.</p> <p>1,500 soldiers have been discharged under the pilot demobilization program, and the first stage of the full demobilization program is expected to be initiated by November 2000.</p> <p>Significant progress has been made and additional measures agreed as described in the updated MEFP.</p>
<p>¹ The authorities intended for this measure to be an end-June 2000 structural performance criterion for the availability of the second disbursement. However, because it was envisaged, at the time the arrangement was approved, that the second disbursement would take place before end-June 2000, this measure was accordingly not set as a performance criterion.</p>	

Table 4. Cambodia: Central Government Operations, 1998-2000

	1998		1999				2000				Rev. Projection			
	Actual		Budget		PRGF prog.		Actual		Budget		PRGF prog.		Rev. Projection	
	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP	Billions of riels	Percent of GDP
Total revenue	943	9.0	1,245	10.9	1,331	11.6	1,316	11.5	1,475	11.8	1,466	11.7	1,460	11.7
1. Tax revenue	679	6.5	853	7.4	954	8.3	948	8.3	1,035	8.3	1,093	8.8	1,068	8.6
Direct taxes	56	0.5	81	0.7	66	0.6	83	0.7	104	0.8	83	0.7	115	0.9
Indirect taxes	248	2.4	332	2.9	438	3.8	432	3.8	439	3.5	495	4.0	501	4.0
o.w. Excise taxes (incl. on imports)	76	0.7	80	0.7	100	0.9	92	0.8	94	0.8	106	0.8	121	1.0
VAT (incl. on imports) 1/	...	...	231	2.0	314	2.7	315	2.7	329	2.6	355	2.8	365	2.9
Trade taxes	376	3.6	441	3.8	450	3.9	433	3.8	492	3.9	515	4.1	452	3.6
2. Nontax revenue	230	2.2	367	3.2	362	3.2	355	3.1	420	3.4	348	2.8	381	3.1
o.w. Timber Royalties	23	0.2	73	0.6	30	0.3	36	0.3	52	0.4	61	0.5	48	0.4
PTT	87	0.8	161	1.4	120	1.0	109	0.9	150	1.2	110	0.9	120	1.0
Quota Auction	...	...	0	0.0	80	0.7	87	0.8	10	0.1	10	0.1	18	0.1
Garment licenses	...	...	0	0.0	18	0.2	21	0.2	36	0.3	22	0.2	46	0.4
3. Capital revenue	33	0.3	25	0.2	15	0.1	14	0.1	20	0.2	25	0.2	10	0.1
Total expenditure 2/	1,571	14.9	1,480	12.9	1,725	15.0	1,825	15.9	2,242	18.0	2,037	16.3	2,125	17.0
1. Current expenditure	941	8.9	1,100	9.6	1,125	9.8	1,097	9.6	1,285	10.3	1,267	10.1	1,228	9.8
Wages	451	4.3	482	4.2	529	4.6	525	4.6	527	4.2	535	4.3	527	4.2
Civil administration	154	1.5	167	1.5	199	1.7	194	1.7	218	1.7	220	1.8	218	1.7
Defense and security	297	2.8	315	2.7	330	2.9	331	2.9	309	2.5	315	2.5	309	2.5
Non-wage	490	4.7	618	5.4	597	5.2	572	5.0	758	6.1	732	5.9	701	5.6
Operating expenditures	372	3.5	396	3.5	395	3.4	410	3.6	505	4.0	501	4.0	511	4.1
Civil administration	220	2.1	265	2.3	264	2.3	276	2.4	376	3.0	370	3.0	382	3.1
Defense and security	152	1.4	131	1.1	131	1.1	134	1.2	129	1.0	131	1.0	129	1.0
Economic transfers	14	0.1	44	0.4	44	0.4	12	0.1	46	0.4	17	0.1	11	0.1
Social transfers	71	0.7	94	0.8	101	0.9	104	0.9	117	0.9	114	0.9	117	0.9
Civil administration	63	0.6	85	0.7	92	0.8	95	0.8	100	0.8	105	0.8	100	0.8
Defense and security	8	0.1	9	0.1	9	0.1	9	0.1	17	0.1	9	0.1	17	0.1
Interest	15	0.1	13	0.1	24	0.2	22	0.2	25	0.2	25	0.2	25	0.2
Other non-wage	18	0.2	22	0.2	2	0.0	21	0.2	25	0.2	50	0.4	15	0.1
Reserve funds	0	0.0	44	0.4	25	0.2	0	0.0	36	0.3	25	0.2	20	0.2
Election	0	0.0	6	0.1	6	0.1	2	0.0	5	0.0	0	0.0	2	0.0
2. Capital expenditure	630	6.0	380	3.3	600	5.2	728	6.3	957	7.7	770	6.2	897	7.2
Locally financed	120	1.1	180	1.6	180	1.6	224	1.9	257	2.1	273	2.2	262	2.1
Externally financed	510	4.8	200	1.7	420	3.7	504	4.4	700	5.6	496	4.0	635	5.1
CURRENT BALANCE	-32	-0.3	120	1.0	191	1.7	205	1.8	170	1.4	174	1.4	222	1.8
OVERALL BALANCE	-628	-6.0	-235	-2.0	-394	-3.4	-509	-4.4	-767	-6.1	-571	-4.6	-666	-5.3
OVERALL BALANCE (incl. grants)	-286	-2.7	-185	-1.6	-119	-1.0	-167	-1.5	-217	-1.7	-134	-1.1	-209	-1.7
FINANCING	628	6.0	235	2.0	394	3.4	509	4.4	767	6.1	571	4.6	666	5.3
1. Foreign financing (net)	505	4.8	248	2.2	458	4.0	515	4.5	843	6.8	647	5.2	750	6.0
o.w. Project aid	504	4.8	200	1.7	420	3.7	511	4.5	700	5.6	496	4.0	635	5.1
Budget support (grant)	2	0.0	50	0.4	40	0.3	4	0.0	150	1.2	153	1.2	122	1.0
2. Domestic financing	117	1.1	-13	-0.1	-64	-0.6	-45	-0.4	-76	-0.6	-76	-0.6	-46	-0.4
Central bank financing	120	1.1	-13	0.0	-54	-0.5	-70	-0.6	-76	-0.6	-76	-0.6	-46	-0.4
Non bank financing	-4	0.0	0	0.0	-10	-0.1	26	0.2	0	0.0	0	0.0	0	0.0
3. Outstanding operations 3/	6	0.1	0	0.0	0	0.0	38	0.3	0	0.0	0	0.0	-38	-0.3
<i>Memorandum items:</i>														
Defense and security outlays	457	4.3	455	4.0	470	4.1	477	4.2	455	3.6	455	3.6	455	3.6
Revenue from forestry	25	0.2	78	0.7	35	0.3	49	0.4	52	0.4	61	0.5	48	0.4
Total revenue (excl. garment quotas)	943	9.0	1,245	10.9	1,251	10.9	1,229	10.7	1,465	11.7	1,456	11.7	1,442	11.5
Health, Education, Rural dev. (commitment)	149	1.4	208	1.8	208	1.8	232	2.0	312	2.5	267	2.1	312	2.5
Customs department revenue	527	5.0	668	5.8	...	...	796	6.9	850	6.8	...	...	862	6.9
GDP	10,531		11,470		11,470		11,470		12,489		12,489		12,489	

Source: Data provided by Cambodian authorities, and Fund staff estimates and projections.

1/ VAT refunds are adjusted.

2/ Total expenditure is based on a mixture of cash and accrual data.

3/ Includes expenditure committed but not yet allocated to the accounts of the government agencies that execute the budget.

Table 5. Cambodia: Monetary Survey, 1998-2000

	1998	1999			2000				
	Dec.	Jun	Sept.	Dec.	Mar.	June		Sept.	Dec.
						Proj.	Act.	Proj.	Proj.
(In billions of riels)									
Net foreign assets	1,728	1,909	2,043	2,019	2,373	2,404	2,514	2,520	2,566
National Bank	1,425	1,544	1,627	1,649	2,006	2,037	2,119	2,127	2,174
Deposit money banks (DMBs)	304	365	416	370	367	367	395	393	392
Net domestic assets	-498	-593	-637	-576	-640	-617	-683	-626	-611
Domestic credit	839	804	867	876	883	908	909	949	996
Government (net)	179	80	94	103	94	110	41	45	57
Public enterprises	6	5	12	10	9	9	8	9	9
Private sector	655	719	762	763	779	789	860	895	930
Other items (net)	-1,337	-1,397	-1,504	-1,453	-1,523	-1,525	-1,592	-1,576	-1,607
Of which: capital	-1,530	-1,600	-1,703	-1,638	-1,679	...	-1,747	...	...
Broad money	1,230	1,316	1,406	1,443	1,733	1,787	1,831	1,893	1,955
Narrow money	543	500	501	532	550	563	545	549	552
Currency in circulation	509	454	461	490	505	518	505	508	510
Demand deposits	34	46	41	42	45	45	41	41	42
Quasi-money	687	817	904	911	1,183	1,224	1,286	1,344	1,403
Time deposits	20	24	25	32	37	37	33	34	35
Foreign currency deposits	667	793	879	879	1,146	1,186	1,253	1,310	1,368
(12 month percent change)									
Net foreign assets	47.5	16.0	21.2	16.8	26.4	25.9	31.7	23.4	27.1
Net domestic assets	425.7	5.0	5.1	15.6	13.9	4.1	15.2	-1.7	6.1
Domestic credit	20.5	-7.6	-1.2	4.4	3.6	12.9	13.0	9.5	13.7
Government (net)	231.7	-38.3	-46.5	-42.3	-43.1	37.7	-48.2	-51.5	-44.3
Private sector	2.8	-2.1	9.4	16.6	14.5	9.7	19.5	17.5	21.9
Other items (net)	69.0	-2.6	1.4	8.6	7.7	9.2	13.9	4.8	10.7
Broad money	15.7	21.7	30.1	17.3	31.8	35.8	39.1	34.7	35.5
(Contribution to 12 month percent change of broad money)									
Net foreign assets	52.4	24.3	33.0	23.6	37.7	37.6	46.0	33.9	37.9
Net domestic assets	-38.0	-2.6	-2.9	-6.3	-5.9	-1.8	-6.9	0.7	-2.4
Domestic credit	13.4	-6.1	-1.0	3.0	2.3	7.9	8.0	5.9	8.3
Government (net)	11.7	-4.6	-7.5	-6.1	-5.4	2.3	-2.9	-3.4	-3.2
Private sector	1.7	-1.4	6.0	8.8	7.5	5.3	10.7	9.5	11.6
Other items (net)	-51.4	3.5	-1.9	-9.4	-8.3	-9.7	-14.8	-5.1	-10.7
Memorandum items:									
Foreign currency deposits									
In millions of US dollars	176	208	225	233	300	312	324	339	353
In percent of broad money	54	60	63	61	66	66	68	69	70
Credit to private sector (millions of US dollars)	173	189	195	202	204	208	222	231	240
Net official reserves (millions of US dollars)	323	328	342	349	375	380	393	398	405
Velocity 1/	9.5	...	...	8.5	...	...	...	...	7.4
Exchange rate (riels per U.S. dollar)	3,780	3,805	3,900	3,775	3,820	3,800	3,865	3,870	3,870

Source: Data provided by the Cambodian authorities; and Fund staff projections.

1/ Nominal GDP divided by average stock of broad money.

Table 6. Cambodia: Balance of Payments, 1996-2000
(In millions of U.S. dollars)

	1996	1997	1998	1999		2000	
				Prog.	Est.	Prog.	Proj.
Current account excluding official transfers	-493	-252	-230	-386	-346	-448	-428
Current account including official transfers	-193	-43	-36	-179	-126	-231	-185
Trade balance	-476	-263	-193	-350	-294	-398	-370
Exports	618	786	854	821	933	913	942
Domestic exports	295	534	610	548	695	608	730
Of which: Garments	102	279	392	434	536	473	589
Forestry 1/	148	224	178	78	105	89	67
Re-exports	322	252	245	273	238	305	212
Imports, f.o.b.	-1,093	-1,050	-1,048	-1,171	-1,227	-1,311	-1,311
Retained imports, f.o.b.	-771	-798	-803	-898	-990	-1,005	-1,099
Of which: Garments sector	-71	-195	-275	-304	-375	-331	-412
Petroleum	-128	-91	-111	-150	-153	-166	-219
Other		-511	-417	-443	-461	-508	-469
Services (net)	-63	-49	-97	-106	-122	-123	-131
Receipts	198	205	171	198	202	229	229
Of which: Tourism	82	68	45	63	63	80	80
Payments	-261	-254	-268	-304	-324	-352	-359
Of which: Interest	-14	-17	-18	-17	-17	-38	-38
Private transfers	46	60	60	70	70	72	72
Official transfers	299	210	194	207	220	217	243
Capital account	123	-47	-69	77	28	95	92
Medium- and long-term loans	-56	-81	-69	-61	-68	-35	-28
Disbursements	75	35	46	60	52	86	93
Amortization	-131	-115	-115	-121	-121	-121	-121
Foreign direct investment	294	168	120	120	120	130	120
Short-term flows and errors and omissions	-115	-135	-120	18	-24	0	0
Overall balance	-70	-90	-105	-102	-98	-136	-93
Financing	70	90	105	102	98	136	93
Change in gross official reserves	-52	-28	-11	-36	-32	-60	-72
Use of Fund credit	0	0	-1	8	8	15	16
Debt rescheduling 2/	0	0	0	1,190	0	117	1,320
Change in arrears (- = reduction)	122	118	117	-1,083	122	0	-1,206
Financing Gap	0	0	0	23	0	64	35
Memorandum items:							
Trade balance (in percent of GDP)	-15.0	-8.5	-6.9	-11.1	-9.8	-11.6	-11.2
Current account balance							
Excluding official transfers (in percent of GDP)	-15.5	-8.1	-8.2	-12.3	-11.5	-13.1	-13.0
Including official transfers (in percent of GDP)	-6.1	-1.4	-1.3	-5.7	-4.2	-6.8	-5.6
Gross official reserves 3/	234	262	390	426	422	486	494
In months of imports of goods and services	2.1	2.4	3.6	3.5	3.3	3.5	3.5
Net international reserves	164	197	323	361	349	399	405

Sources: Data provided by the Cambodian authorities; and staff estimates and projections.

1/ Includes estimates for unrecorded forestry exports.

2/ Assumes the stock of debt rescheduling of pre-cutoff date debt to Russia, United States and non-Paris Club creditors on Naples terms.

Assumes also a nonconcessional deferral of post-cutoff date arrears and maturities falling due in 2000 on the debt to Russia.

Debt figures are based on the Cambodian authorities' records.

3/ Includes \$117 million associated with the return of Cambodian gold holdings by the BIS in 1998.

Table 7. Cambodia: Medium-Term Macroeconomic Framework, 1997-2004
(in percent of GDP, unless otherwise indicated) 1/

	1997	1998	1999	2000	2001	2002	2003	2004
			Est.	Projections				
BASELINE SCENARIO								
Real Sector								
Real GDP (percent change)	3.7	1.8	5.0	5.5	6.0	6.0	6.0	6.0
CPI Inflation (e.o.p.; percent change)	9.2	13.3	-0.5	5.0	3.7	3.7	3.7	3.7
GDP deflator (percent change)	6.0	13.1	3.8	3.2	5.0	3.7	3.5	3.5
Per capita GDP (U.S. dollars)	282	249	257	272	292	313	336	363
National saving	11.7	11.6	11.7	11.9	10.1	12.1	11.6	13.9
Of which: Government saving	0.6	-0.3	1.8	1.8	1.4	1.3	1.2	1.1
Domestic investment	13.0	12.9	15.8	17.5	17.5	18.0	18.0	18.5
Fiscal Sector								
Revenue	9.6	9.0	11.5	11.7	12.1	13.0	13.5	13.5
o/w: tax revenue	6.5	6.5	8.3	8.6	9.1	9.7	10.1	10.1
o/w: nontax revenue	3.0	2.2	3.1	3.1	2.9	3.1	3.3	3.3
Expenditure	13.8	14.9	15.9	17.0	17.8	18.1	18.2	18.4
Current	8.9	8.9	9.6	9.8	10.6	11.6	12.2	12.3
Capital	4.9	6.0	6.3	7.2	7.2	6.5	6.0	6.1
Current balance	0.6	-0.3	1.8	1.8	1.4	1.3	1.2	1.1
Overall balance	-4.2	-6.0	-4.4	-5.3	-5.6	-5.0	-4.7	-4.9
Domestic financing (cash)	-0.5	1.1	-0.4	-0.4	-0.1	-0.1	0.0	0.0
Monetary Sector								
Broad money (percent change)	16.6	15.7	17.3	35.5	20.0	20.0	20.0	20.0
Velocity (GDP/M2)	9.7	9.5	8.5	7.4	6.5	5.9	5.4	4.9
External Sector								
Domestic exports (percent change) 2/	81.0	14.2	13.9	5.0	17.2	12.7	11.9	10.1
Retained imports (percent change)	3.5	0.7	23.2	11.1	13.8	9.4	8.5	6.9
Current account balance (excl. transfers)	-8.1	-8.2	-11.5	-13.1	-12.8	-11.9	-11.1	-10.0
Current account balance (incl. transfers)	-1.4	-1.3	-4.2	-5.6	-7.4	-5.4	-6.4	-4.6
Overall balance	-2.9	-3.7	-3.3	-2.8	-1.0	-0.1	-0.7	0.1
Financing gap	...	...	...	35	61	27	77	54
Gross official reserves (millions of US\$)	262	390	422	494	564	634	705	787
(in months of imports)	2.4	3.6	3.3	3.5	3.6	3.8	3.9	4.1
External debt 3/	66	73	70	35	37	38	39	39
External debt (NPV) 4/	...	259	223	77	78	78	77	76
Debt service ratio 5/	17.8	15.9	14.7	3.9	4.1	3.8	3.7	4.3

Sources: Data provided by Cambodian authorities; and staff estimates and projections.

1/ Ratios to GDP are based on a revised set of national accounts statistics for 1993-98 released by the National Institute of Statistics. The revised series estimates nominal GDP in 1998 about 5 percent lower than the series used in EBS/99/188, thus affecting the ratios to GDP calculated under the program.

2/ Includes estimates for unrecorded forestry exports. Beginning in 1999 exports are estimated to have returned to a sustainable level with a sharp reduction in illegal timber exports.

3/ Figures include bilateral debt with former CMEA countries and the United States that is assumed to be rescheduled in 2000.

4/ In percent of 3-year moving average of total exports of goods and services. The NPV of debt is computed from projected yearly debt service payments, including interest payments.

5/ In percent of domestic exports of goods and services. Figures for 1997-99 are based on scheduled debt service.

Table 8. Cambodia: Indicators of Fund Credit, 1998-2011

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Act.		Prog.											
	(In millions of SDRs)													
Outstanding Fund Credit	47.2	53.1	64.6	71.9	79.1	69.7	62.7	56.0	50.2	41.0	29.3	17.6	8.4	2.6
GRA	5.2	4.2	3.1	2.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF/PRGF	42.0	49.0	61.5	69.8	78.1	69.7	62.7	56.0	50.2	41.0	29.3	17.6	8.4	2.6
PRGF loan disbursements	0.0	8.4	16.7	16.7	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service to the Fund	1.5	2.9	5.8	9.9	9.9	9.9	7.4	7.0	6.1	9.4	11.9	11.8	9.3	5.9
Repurchases of GRA	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments of SAF/PRGF	0.0	1.4	4.2	8.4	8.4	8.4	7.0	6.7	5.8	9.2	11.7	11.7	9.2	5.9
Charges	0.5	0.4	0.6	0.4	0.4	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0
	(In percent)													
Fund credit outstanding														
In percent of total public external debt	3.1	3.4	7.7	7.6	7.5	6.0	4.9	4.0	3.3	2.4	1.6	0.9	0.4	0.1
In percent of quota	72.6	60.7	73.8	82.1	90.4	79.7	71.7	64.0	57.4	46.9	33.5	20.1	9.6	2.9
Debt service to the Fund														
In percent of total public external debt service	1.7	2.9	21.2	30.0	29.3	27.7	16.1	12.1	10.3	14.5	16.5	14.6	10.1	5.6
In percent of exports of g & s	0.2	0.4	0.6	0.9	0.9	0.9	0.6	0.6	0.5	0.7	0.8	0.8	0.6	0.3
	(In millions of SDRs; unless otherwise indicated)													
Memorandum items:														
Cambodia's quota in the Fund	65.0	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5
Total public external debt	1507	1544	834	943	1053	1157	1274	1409	1544	1689	1844	2003	2162	2341
Total public external debt service	91	97	27	33	34	36	46	58	59	65	72	81	92	105
Total exports of goods and services	733	799	973	1073	1104	1148	1194	1242	1308	1379	1453	1534	1619	1702
Total debt service ratio in percent of exports of g & s	12.5	12.1	2.8	3.1	3.1	3.1	3.8	4.7	4.5	4.7	5.0	5.3	5.7	6.1

Source: IMF Treasurer's Department; and Fund staff estimates and projections.

Table 9. Cambodia: Social and Demographic Indicators

	Year	Unit of measure	Cambodia	Same region / Income group	
				East Asia & Pacific /1	Low Income /1
Population	1998	millions	11.5	1,817.1	3,536.0
Of which : male	1998	percent	48.4	51.2	50.8
female	1998	percent	51.6	48.8	49.2
Population growth rate	1998	percent	2.3	1.2	1.7
GDP per capita	1998	U. S. dollars	262	990	520
Life expectancy at birth	1998	years	53.8	68.6	63.0
Crude birth rate	1998	per 1,000 persons	33.3	18.9	32.1
Crude death rate	1998	per 1,000 persons	12.3	7.5	10.8
Mortality					
Infant mortality rate	1998	per 1,000 live birth	101.6	35.3	67.6
Under 5 mortality rate	1998	per 1,000 live birth	143.0	42.5	92.1
Access to safe water	1/	percent of population	12.9	83.9	73.0
Urban	1/	percent of population	20.0	89.1	79.7
Rural	1/	percent of population	12.0	81.7	74.3
Population per physician	1994	per 1,000 persons	0.1	1.4	...
Adult illiteracy rate	1998	percent	62.6	15.0	31.0
male	1998	percent	42.6	8.7	34.1
female	1998	percent	80.1	22.7	57.4
Primary school enrollment ratio	1997	percent, gross	113.3	119.0	107.0
male	1997	percent, gross	122.9	121.0	112.0
female	1997	percent, gross	103.5	121.0	102.0

Source: 2000 World Development Indicators CD-ROM, World Bank.

1/ Most recent estimate.

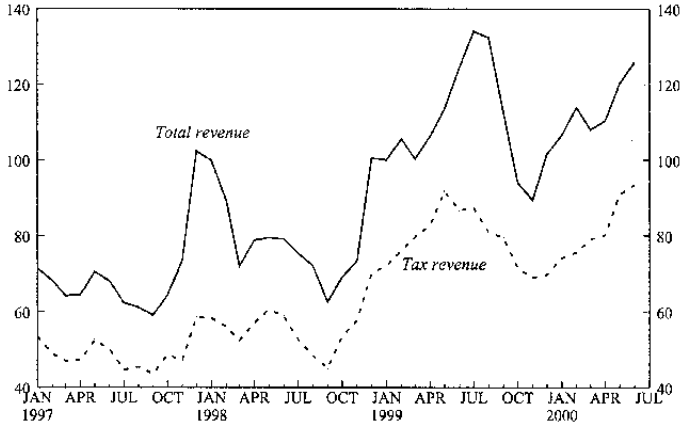
Table 10. Cambodia: Proposed Schedule of Remaining Disbursements
Under the PRGF Arrangement, 2000-2002

Amount	Available Date	Conditions for Disbursement
SDR 8,357,000 (9.6 percent of quota)	September 15, 2000	Observance of the end-March 2000 performance criteria and completion of the first review.
SDR 8,357,000 (9.6 percent of quota)	December 15, 2000	Observance of the end-Sept. 2000 performance criteria and completion of the second review.
SDR 8,357,000 (9.6 percent of quota)	June 15, 2001	Observance of the end-March 2001 performance criteria and completion of the third review.
SDR 8,357,000 (9.6 percent of quota)	December 15, 2001	Observance of the end-Sept. 2001 performance criteria and completion of the fourth review.
SDR 8,357,000 (9.6 percent of quota)	June 15, 2002	Observance of the end-March 2002 performance criteria and completion of the fifth review.
SDR 8,358,000 (9.6 percent of quota)	December 15, 2002	Observance of the end-Sept. 2002 performance criteria and completion of the sixth review.

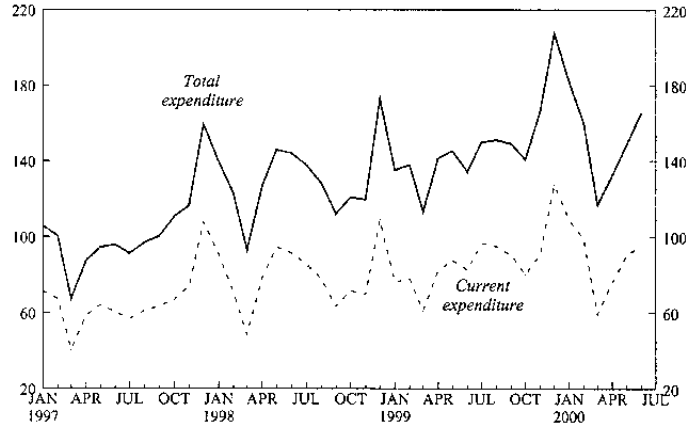
CAMBODIA

SELECTED ECONOMIC INDICATORS, 1997-2000

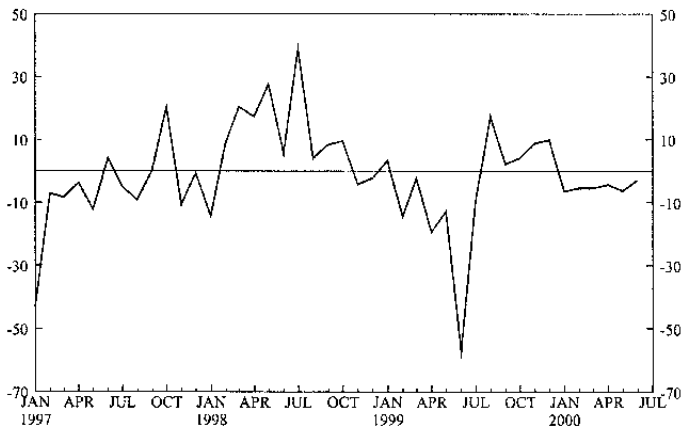
Government Revenue
(3-month moving average, in billions of riel)



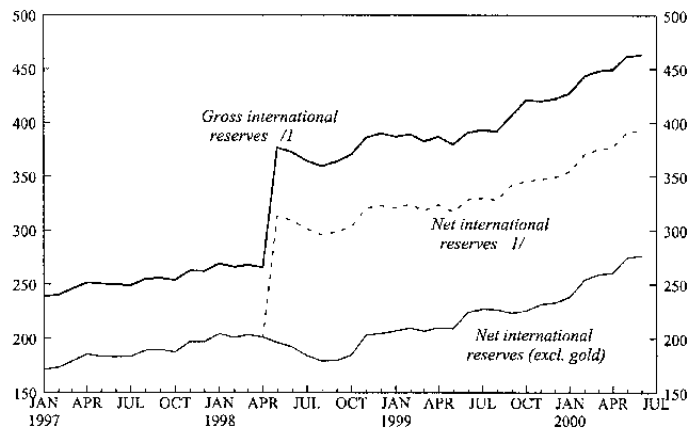
Government Expenditure
(3-month moving average, in billions of riel)



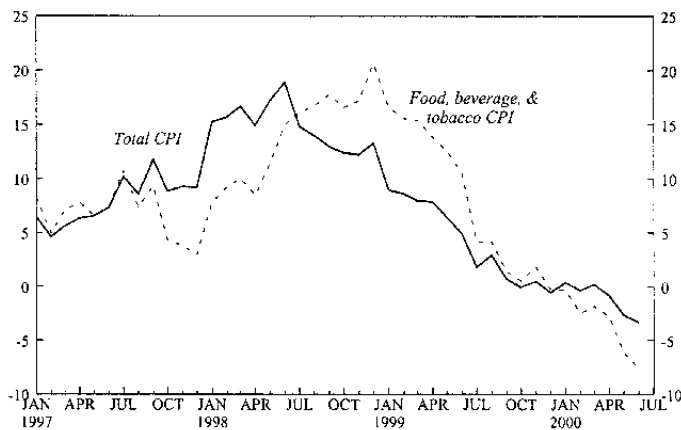
Bank Financing of the Budget
(Monthly flow, in billions of riel)



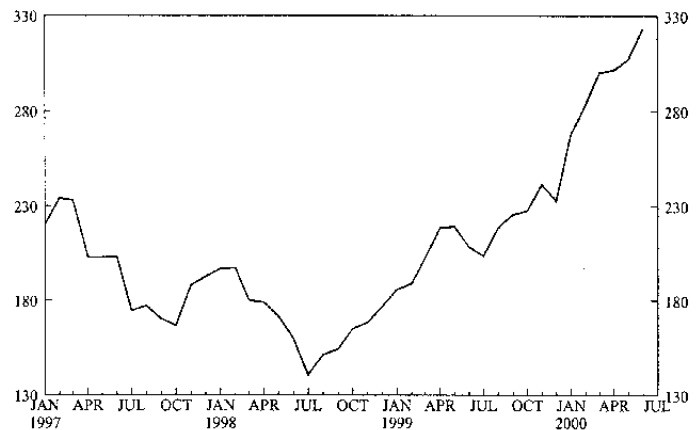
International Reserves
(In millions of U.S. dollars)



Consumer Price Index
(12-month percent change)



Foreign Currency Deposits
(End of period stock, in millions of U.S. dollars)

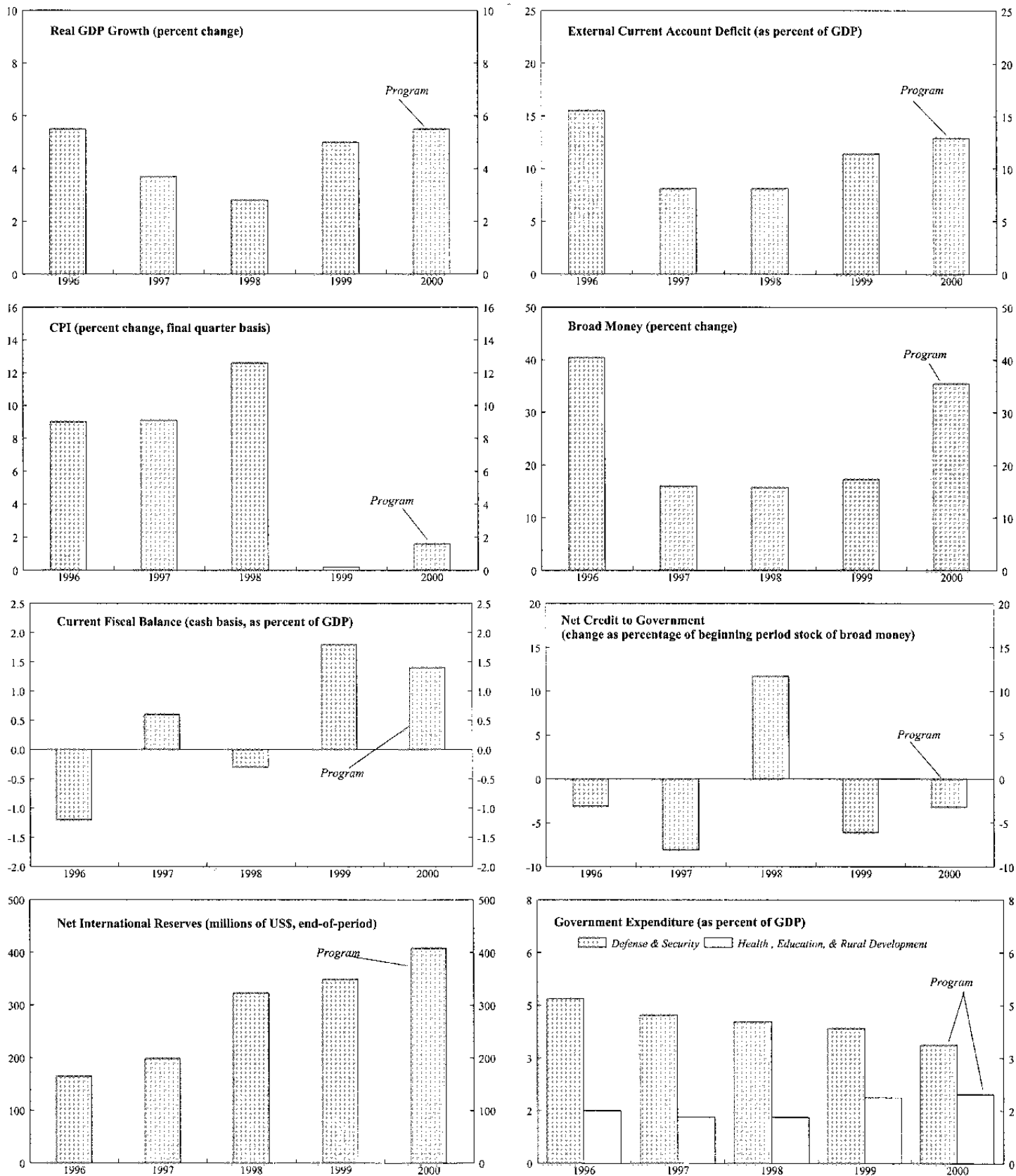


Source: Data provided by the Cambodian authorities.

1/ Includes US\$117 million associated with the return in 1998 of Cambodian gold previously held by the BIS.

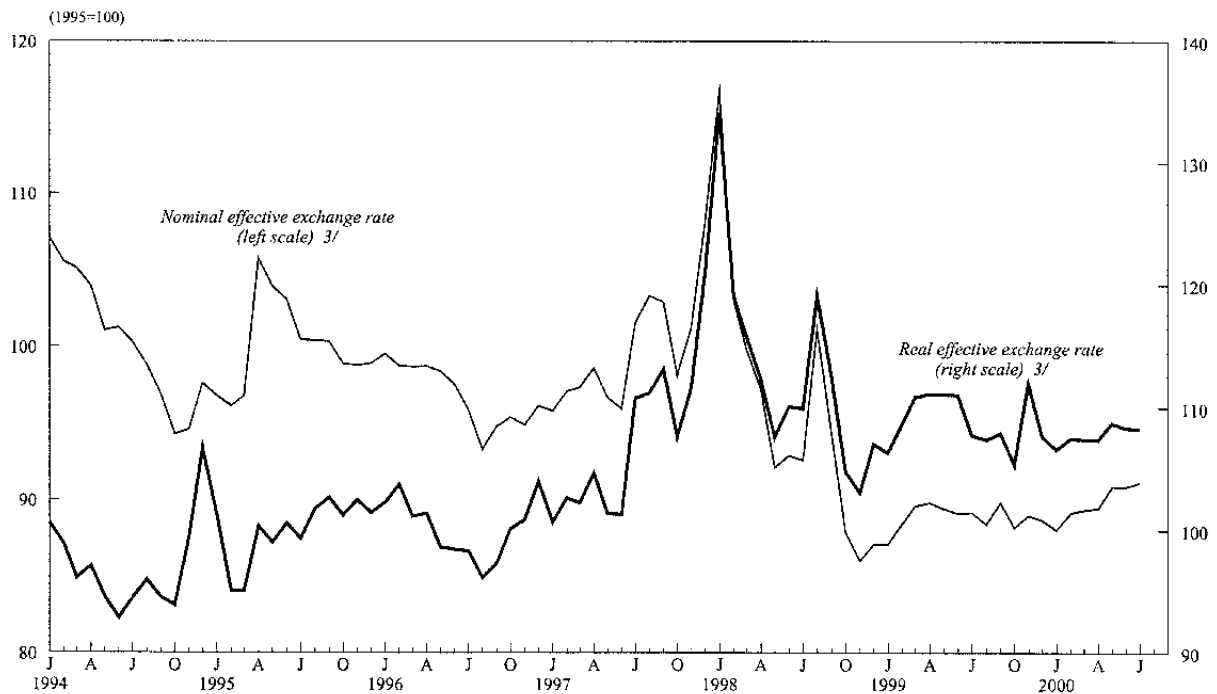
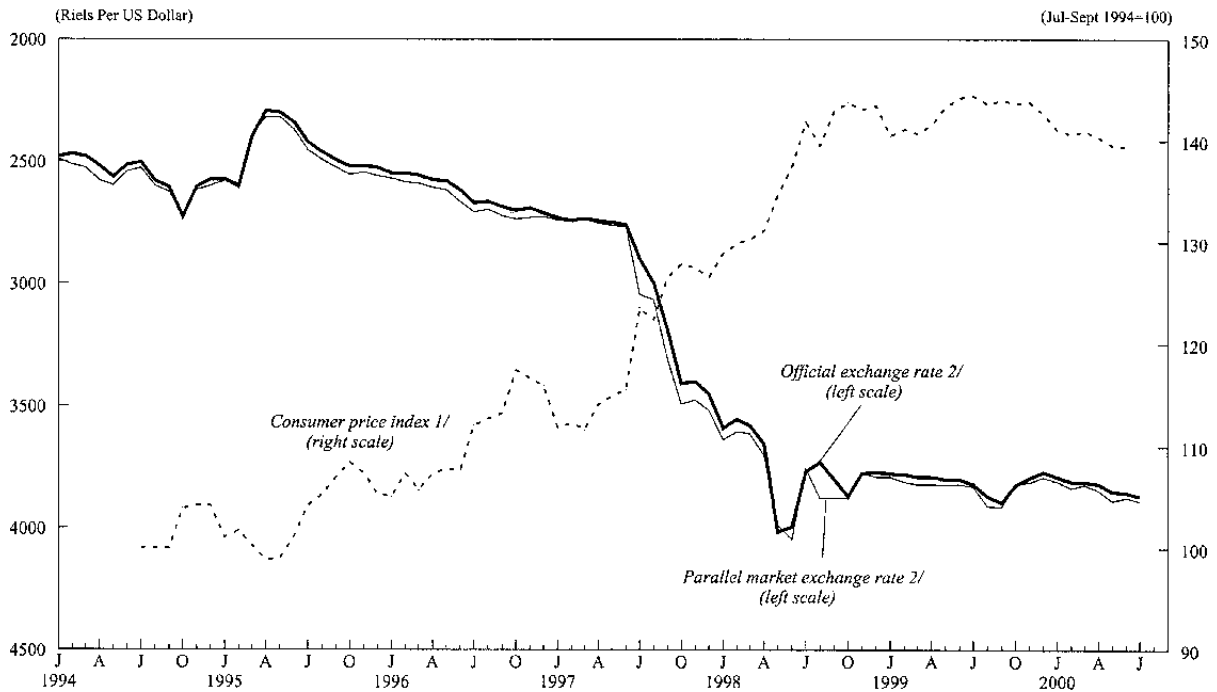
CHART 2

CAMBODIA INDICATORS OF PROGRAM PERFORMANCE, 1996-2000



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

CAMBODIA CONSUMER PRICES AND EXCHANGE RATE DEVELOPMENTS, 1994-2000



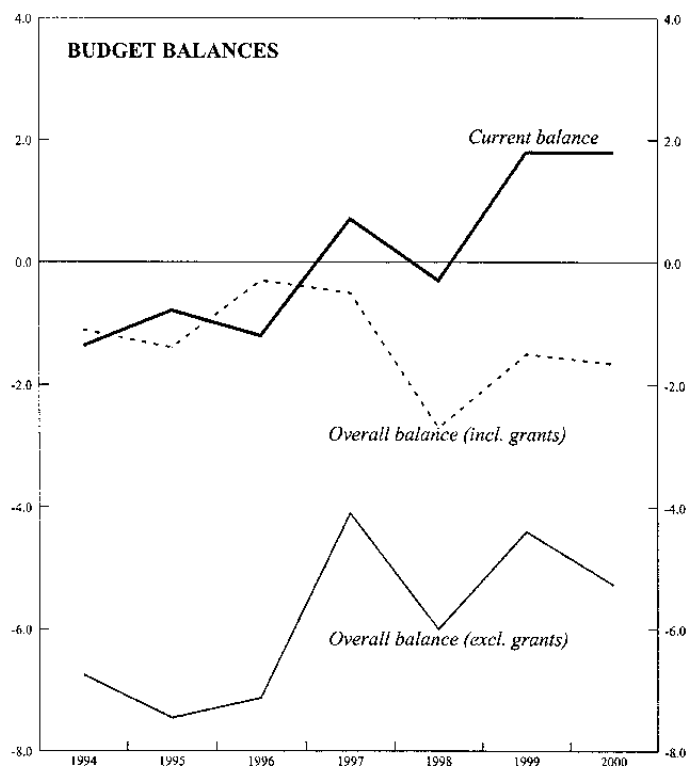
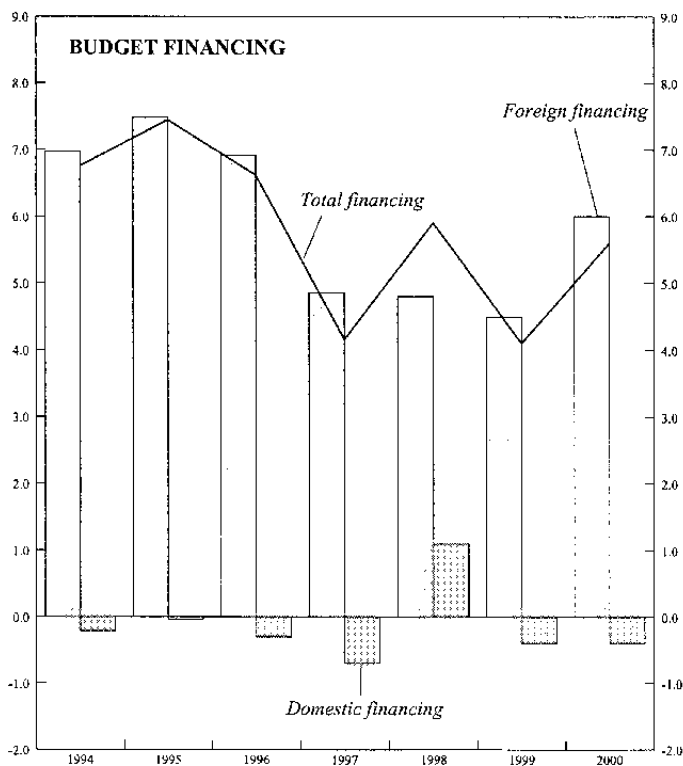
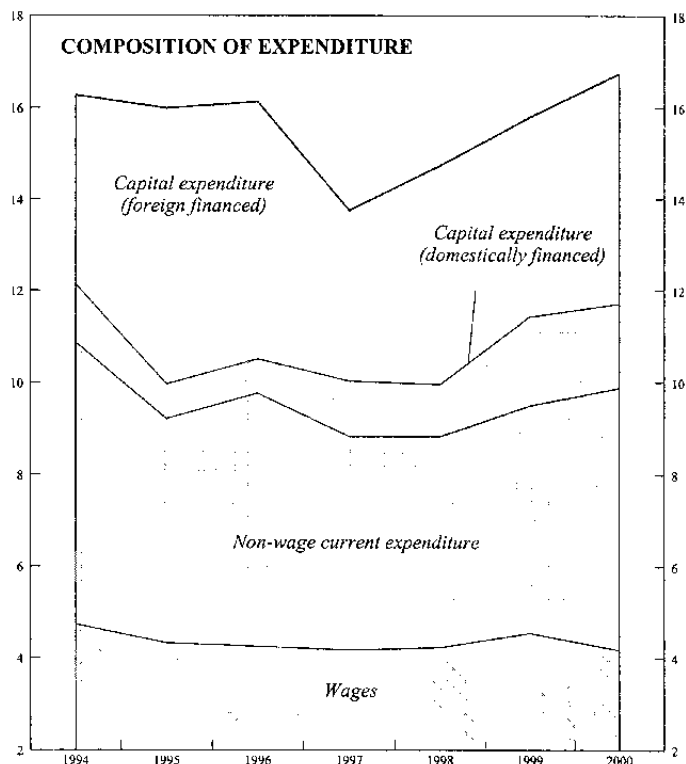
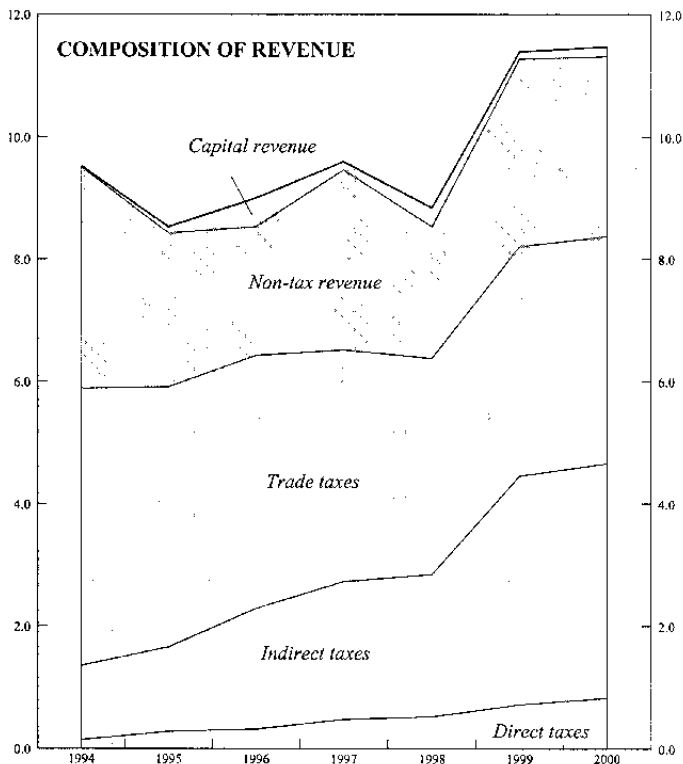
Sources: Data provided by the Cambodian authorities, and Fund staff estimates.

1/ National Bank consumer price index through December 1995; thereafter, NBC index based on change in CPI of National Institute of Statistics, which has been adopted as the official consumer price index.

2/ Riels per US Dollar, end-period buying rate.

3/ Based on the official exchange rate; an upward movement indicates appreciation of the exchange rate.

CAMBODIA
FISCAL DEVELOPMENTS, 1994 - 2000
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and staff estimates.

Cambodia: Fund Relations

As of July 31, 2000

I. **Membership Status:** Joined: 12/31/1969; Article XIV

II. **General Resources Account:**

	SDR Million	Percent Quota
Quota	87.50	100.0
Fund Holdings of Currency	91.15	104.2

III. **SDR Department:**

	SDR Million	Percent Allocation
Net cumulative allocation	15.42	100.0
Holdings	1.41	9.1

IV. **Outstanding Purchases and Loans:**

	SDR Million	Percent Quota
Systemic Transformation	3.65	4.2
PRGF arrangements	47.56	54.4

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF/PRGF	10/22/1999	10/21/2002	58.50	8.36
ESAF	05/06/1994	08/31/1997	84.00	42.00

VI. **Projected Obligations to Fund:** (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	<u>2/29/2000</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Principal	---	3.3	9.4	9.4	9.4	7.0
Charges/Interest	---	0.5	1.0	0.9	0.8	0.7
Total	---	3.8	10.4	10.3	10.2	7.7

VII. **Exchange Rate Arrangement:**

Since November 8, 1992, the exchange rates of the riel for currencies of all countries have consisted of the following two rates. First, the official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the government and state enterprises. Second, the parallel market rate, which is determined freely through interactions of foreign exchange traders in the private sector, applies to all other transactions. The official exchange rate is adjusted so as to limit the spread between the official rate and the riel-U.S. dollar rate prevailing in the parallel market. From the beginning of 1994, the spread between the official and parallel market exchange rates was limited to no more than 2 percent on a daily basis and, from March 1994, to no more than 1 percent on a daily basis,

thus de facto unifying the dual exchange rate system.¹ On July 31, 2000, the official exchange rate was CR 3,880 per U.S. dollar and the private market rate CR 3,893 per U.S. dollar.

VII. Article IV Consultation:

Cambodia is on a 12-month consultation cycle. The Executive Board concluded the last Article IV consultation on March 17, 1999 (SM/99/47, 2/23/99). The 2000 Article IV consultation took place during April 19-May 3.

IX. Technical Assistance:

STA missions on balance of payments compilation visited Phnom Penh in December 1998, and in February 2000. An FAD mission on tax policy and customs administration took place in September 1999. A TCAP mission was conducted in July, based on inputs developed by missions of FAD and MAE in March 2000 and of LEG in April.

The principal advisor post (MAE) at the National Bank of Cambodia has been extended for another year. Further requests for Fund technical assistance will be considered on a case-by-case basis. A resident custom advisor was installed at the MEF in early February 2000, but due to personal reasons he resigned in early March. His replacement is scheduled to be installed in July.

X. Resident Representative:

The resident representative office was closed in October 1997, but it was re-opened at end-October 1999. Mr. de Zamaroczy is currently the resident representative.

¹The spread exceeded 4 percent on a few occasions in August 1998 as the authorities supported the official rate through intervention when the parallel market depreciated.

Cambodia—Statistical Issues

At the start of Cambodia's reform program in 1993, its statistical base was largely nonexistent. Substantial improvements have been made since then, and an *IFS* page for Cambodia was published in April 1996. Nevertheless, significant problems remain, even though a considerable amount of technical assistance has been provided by the Fund, the UNDP, the AsDB, and the World Bank. Core data are generally provided on a timely basis (see Table), although there have been occasional delays.

National accounts

The National Institute of Statistics (NIS) of the Ministry of Planning provides official estimates of the components of GDP. The available statistical base on which the national accounts are estimated is extremely weak and fragmentary, and data for most sectors are not collected on a systematic basis.

GDP deflators are estimated mainly from CPI data, as most other price data are not available. For several years, the Asian Development Bank has been providing technical assistance and financial support to improve the quality of the national accounts. Surveys of the main economic sectors need to be strengthened, and significant improvement of the national accounts database will take a number of years. The latest edition of the national accounts cover transactions between 1993 and 1999, with the estimates for 1999 highly preliminary.

Prices

Prior to 1996, three consumer price indices were compiled separately by the National Bank of Cambodia (NBC), the MEF, and the NIS. All three indices measured inflation in Phnom Penh only, and substantial discrepancies arose between them owing to differences in coverage and weighting systems. A STA technical assistance mission on consumer price indices in 1995 concluded that the NIS index provides the most reliable measure of inflation in Cambodia. The Cambodian authorities subsequently agreed to adopt the NIS index as the official CPI and ceased the publication of the NBC and the MEF indices from January 1996. However, the February 1997 STA mission found that, although the timeliness of the CPI had been improved significantly since the 1995 mission, issues relating to the price collection procedures and the treatment of specific problems encountered in the compilation of consumer price indices were still to be resolved. No producer or wholesale price indices are available.

Government finance statistics

Fiscal data, compiled on the basis of GFS methodology, have improved during the last three years through substantial technical assistance financed in large by the World Bank, but the authorities have not yet provided fiscal data for publication in *IFS* and *GFS Yearbook*. There are still weaknesses as regards the coverage and the economic classification of expenditures. Information on external financing of the budget has improved significantly, but detailed donor-specific data on investments financed by project aid are available only with considerable lags.

Monetary statistics

Data on the monetary authorities and deposit money banks are reported by the National Bank of Cambodia on a monthly basis, with a lag of one to two months. Substantial improvements have been made in the past few years, particularly with the shift to the new plan of accounts by the National Bank in January 1996, and the introduction of an *IFS* page for Cambodia in April 1996. Monetary statistics in Cambodia cover riels in circulation and domestic bank deposits in riel and foreign currencies. However, data on the large amount of foreign currency in circulation in Cambodia are not available. As a result, the effective money stock in Cambodia is underestimated by the amount of foreign currency in circulation, which leads to overestimates of the income velocity of money.

Mr. Khay Phousnith, Deputy Director of the Economic Research Department of the National Bank of Cambodia, is scheduled to come to STA as a Special Appointee for one year, beginning in November 1999.

External statistics

While significant improvement has been made by the Research Department of the National Bank of Cambodia in the compilation of balance of payments statistics, aided in large part by a previous long-term advisor, weaknesses remain in several areas. Customs data have substantial coverage and valuation problems arising from the non-recording of non-dutiable imports and tax-exempt exports and the weakness of customs controls. Also, the bulk of re-exports to neighboring countries are included under customs' import data but are under-reported in total exports. Estimates of the trade balance are therefore subject to considerable uncertainty. While efforts have been made to compile better data on foreign direct investment, private capital flows are likely to be large and not fully captured by official data. A range of international transactions by enterprises, such as payments for imported services, income payments, and portfolio investment abroad are not included in the data. An STA mission which visited Phnom Penh in February 2000 made recommendations to address these issues. The February 2000 mission worked out an arrangement for a stronger collaboration between the National Bank of Cambodia and the Cambodia Customs Directorate to ensure a timely submission of foreign trade statistics. By contrast, it noted that lack of expertise and logistical difficulties has hampered success in direct investment surveys.

Cambodia: Core Statistical Indicators as of August 14, 2000

	Exchange Rate	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt/Debt Service
Date of Latest Observation	August 14 2000	August 8 2000	June 2000	June 2000	June 2000	June 2000	June 2000	December 1999	1999	June 2000	1999	1999 (preliminary)
Date Received	August 14 2000	August 11 2000	July 25 2000	July 25 2000	July 25 2000	August 11 2000	July 14 2000	April 2000	April 2000	July 14 2000	April 2000	April 2000
Frequency of Data	Daily	Daily	Monthly	Weekly	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Annual	Annually
Frequency of Reporting	Daily	Weekly with one week lag	Monthly with five weeks lag	Weekly with one week lag	Monthly with five weeks lag	Monthly with five weeks lag	Monthly with five weeks lag	During missions	During missions	Monthly with one month lag	Annual	Annually
Source of Data	NBC	NBC	NBC	NBC	NBC	NBC	National Institute of Statistics	NBC and Customs Office	NBC	Ministry of Economy and Finance	National Institute of Statistics	NBC
Mode of Reporting	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	During missions	During missions	Fax	During missions	During missions
Confidentiality	No	Yes	No	No	No	No	No	No	No	No	No	Yes
Frequency of publication	Daily	N/A	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	N/A

Cambodia: Relations with the World Bank Group¹

Cambodia became a member of the World Bank on July 22, 1970 but did not borrow from the Bank until 1993. Relations between Cambodia and the Bank were interrupted between 1975 and 1992. In September 1992, Cambodia decided to resume active participation in the Bank, appointing a representative on the Bank Board of Governors and designating the National Bank of Cambodia as the depository institution for Bank assets in Cambodia. In February 2000, the World Bank approved a Country Assistance Strategy for fiscal years 2000-2003, focusing on alleviation of poverty, enhancing governance, and advocating stronger partnership with other donors and nongovernmental organizations in the delivery of projects, policy advice and services. At the same time, the Bank Board also approved a Structural Adjustment Credit for US\$30 million which focuses on fiscal and governance issues. In January 1997, an office was opened in Phnom Penh to assist in the implementation of the Bank's assistance program and facilitate communication with the government and other donors.

To date, 14 projects have been approved for Cambodia (\$383 million). Recent projects have focused in the following areas:

- In 1996, a Disease Control and Health Development Project was approved to support rehabilitation and expansion of the public health system, with a focus on control of communicable diseases, tuberculosis, malaria and HIV/AIDS.
- In 1997, an Agricultural Productivity Improvement Project was approved, focusing on institutional development at the Ministry of Agriculture, including rehabilitation of training facilities, retraining of staff, and sponsoring pilot field activities.
- In 1998, an Urban Water Supply Project was approved to improve water facilities in both Phnom Penh and Sihanoukville.
- In 1999, four IDA projects were approved: a Social Fund II Project to finance small scale social-infrastructure projects at the local level, basically inheriting and extending the objectives from the previous Social Fund Project, a Road Rehabilitation Project to improve accesses to rural areas, a North East Rural Development Project, and an Education Quality Improvement Project.
- In the first half of 2000, a Biodiversity and Protected Areas Project, Structural Adjustment Credit and a Forest Concession Management and Control Pilot Project were approved.

Cambodia became a member of the IFC in March 1997. The IFC is expected to provide entrepreneur training and business services for small and medium enterprises under the Mekong Project Development Facility. In addition, the IFC has approved an investment in a

¹Prepared by the Fund staff based on information provided by the World Bank, as of end-June 2000.

Cambodian power project. The IFC is also providing technical assistance to transform a Cambodian microfinance NGO into a commercial bank.

With regard to recent analytical work, the Bank prepared a Forest Policy Assessment report in June 1996 jointly with the UNDP and the FAO, a Public Expenditure Review in February 1999, and more recently a poverty assessment and strategy report, and a power sector strategy. A diagnostic study on governance and corruption was also prepared.

IDA: Commitments and Disbursements to Cambodia, 1993-2000
(In millions of U.S. dollars, as of June 30, 2000)

Project	Date of approval	Committee	Disbursed
Emergency Rehabilitation	Oct.26, 1993	62.70	64.86
Technical Assistance	Dec.6, 1994	17.00	13.40
Social Fund	Jun.8, 1995	20.00	18.42
Economic Rehabilitation Credit	Sep.28, 1995	40.00	36.91
Phnom Penh Power Rehabilitation	Sep.28, 1995	40.00	32.02
Disease Control and Health	Dec.24, 1996	30.40	6.65
Agricultural Productivity Improvement	Feb.28, 1997	27.00	1.17
Urban Water Supply	Feb. 17, 1998	30.96	3.75
Social Fund II	Mar.23, 1999	25.00	1.33
Road Rehabilitation	Mar.23,1999	45.31	0.00
North East Village	May 18, 1999	5.00	0.00
Education Quality Improvement	Aug. 31, 1999	5.00	0.00
Biodiversity and Protected Areas LIL	Feb. 8, 2000	1.90	0.20
Structural Adjustment Credit	Feb. 29, 2000	30.00	9.61
Forest Concession Management and Control LIL	Jun. 5, 2000	4.80	0.00
Total		385.07	188.32

Cambodia: Relations with the Asian Development Bank

From 1992 through June 30, 2000, the AsDB approved \$394 million in low-interest loans from the Asian Development Fund to Cambodia to finance twelve projects and one structural reform program. Only the first project (the \$68 million Special Rehabilitation Assistance Project, approved in 1992) is completed. Of the remaining project and program loans, \$151 million is in economic infrastructure, \$100 million in social infrastructure, and \$75 million in agriculture. Because of events in July 1997, no loans were approved in 1997. Normal operations were resumed in December 1998 with the approval of the \$40 million loan for the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway Project, a regional project under which the AsDB extended loans to both Cambodia and Viet Nam.

The AsDB also designed and administered 70 technical assistance projects during this period. These were financed through \$51 million in grants from the AsDB (\$19 million), the Japanese Special Fund (\$23 million), UNDP (\$2 million), Sweden (\$6 million), Denmark (\$1 million) and Australia (\$1 million), and the Netherlands (\$0.3 million). The distribution of these projects by value is: 44.5 percent in macroeconomic management and project implementation; 16.7 percent in agriculture; 20.9 percent in social infrastructure; 11.5 percent in transport; and 6.5 percent in finance, industry, and energy.

The AsDB completed a new Country Operational Strategy in July 2000 that emphasizes poverty reduction through interventions in four areas—rural economic development, social development, governance, and improvement of the conditions for private investment. The AsDB will place particular emphasis on facilitating Government leadership of sector development initiatives in water resource management, education and transportation. This will be accomplished through efforts to coordinate the activities of aid agencies, build local capacity to finance and manage development programs, and fund priority investments.

AsDB: Loan Commitments and Disbursements to Cambodia
(In millions of U.S. dollars)
(as of June 30, 2000)

	Loan Approvals	Contract Awards/ Commitments	Disbursements
1994	28.2	35.9	12.2
1995	45.1	28.1	35.9
1996	105.0	15.3	32.1
1997	0.0	41.5	10.7
1998	40.0	29.1	29.3
1999	88.4	17.0	26.2
2000 (through June)	20.0	31.8	16.2

Cambodia: Technical Assistance and Technical Cooperation Action Plan (TCAP)

In view of Cambodia's extremely limited implementation capacity, the Government would require a substantial amount of technical assistance to meet reform objectives. To this end, the Government of Cambodia has requested the IMF's assistance in designing a comprehensive program of technical assistance covering principle areas of reform related to macroeconomic policy including fiscal reform (tax administration and policy, customs administration, and budget management), banking reform, statistics, and the legal framework. Following discussions between the Government, the IMF, UNDP, and other interested multilateral and bilateral donors a comprehensive Technical Cooperation Action Plan (TCAP) is being prepared. The full TCAP document is expected to be finalized before the end of this year.

A comprehensive program of technical assistance was previously provided during 1994-97 (see table attached). Assistance provided during this period achieved notable successes, including the preparation of the 1997 tax law, setting up a legislative framework for the banking system, and improvements in economic statistics. This broad success was undermined, however, by a serious deterioration in governance, and the expected benefits of improved administrative capacity—for example, with respect to enhanced revenue mobilization—did not materialize. The failure to build local capacity led to some further slippage in progress in all of these areas during 1997-99.

A comprehensive review of this assistance was conducted in early 1997 and concluded that crucial factors behind the progress that was achieved were well-defined and limited goals, and strong commitment by the authorities at the highest levels (at least in the initial stages). Shortfalls from the program's original objectives largely stemmed from: (i) overly ambitious objectives in the original project; and (ii) less than full collaboration between local staff and project advisors, including with respect to training. The Cambodian government has agreed with this assessment and emphasized that the two main impediments to successful implementation of previous technical assistance were: (i) the inability of the government to coordinate external assistance; and (ii) a lack of commitment to ensure sustainability of projects through the designation of counterparts and appropriate use of trained staff.

In response to this past experience, the current TCAP program has set realistic and specific objectives in the context of strong government ownership. In addition, inter-ministerial coordination of the program will be carried out by a Government Steering Committee, chaired by the Ministry of Economy and Finance, consisting of senior officials of the National Bank of Cambodia, government agencies and departments involved in the implementation of the Program as well as representatives of other concerned ministries. The program is divided into four main areas each of which is further divided into operative components:

1. **Fiscal Sector Reform:** To improve capacity in tax policy and administration, customs administration, and overall budget management.

2. **Banking System Reform:** To strengthen the banking system by supporting the following objectives: (i) relicensing of commercial banks; (ii) strengthening NBC supervision capacity; (iii) restructuring the Foreign Trade Bank; and (iv) reform of the payments system.

3. **Economic Statistics:** To strengthen the government's capacity to collect, compile, analyze, and disseminate broad economic statistics through reform of the statistical institutional framework.

4. **Legal Framework:** This program, as part of the overall legal reform program for Cambodia, will strengthen the government's capacity to improve the overall legal framework, a precondition for further private sector development, by contributing to the formulation and implementation of a comprehensive legal reform strategy, with specific follow-up technical assistance from the Fund in the areas of corporate insolvency, secured transactions and enforcement of contractual claims.

Cambodia: Summary of Technical Assistance Provided by the Fund, 1994-2000

Purpose	Assistance and timing (person-months)	Funding Sources
Tax Policy and Tax Administration		
<ul style="list-style-type: none"> Establish economic forecasting unit, including medium-term programming and flash reporting 	24, from January 1994	IMF/UNDP
<ul style="list-style-type: none"> Reform of tax administration (advisor) 	24, from March 1994	IMF/UNDP
<ul style="list-style-type: none"> Tax policy mission 	2, September 1994	IMF
<ul style="list-style-type: none"> Long-term fiscal advisor 	24, from July 1995	IMF
<ul style="list-style-type: none"> Inspection mission 	½, June 1996	IMF
<ul style="list-style-type: none"> Reform of tax administration 	1½, January 1997	IMF
<ul style="list-style-type: none"> Tax policy and customs administration 	2, September 1999	IMF
<ul style="list-style-type: none"> Technical cooperation action plan (TCAP) mission 	3 ¾, March-April 2000	IMF
<ul style="list-style-type: none"> Customs Administration (advisor) 	1, February 2000	IMF
Monetary Policy and Central Bank Operation		
<ul style="list-style-type: none"> Cash management and currency reform 	4, from October 1994	IMF/UNDP
<ul style="list-style-type: none"> Implement accounting system for the NBC 	44, from November 1994	IMF/UNDP
<ul style="list-style-type: none"> Develop NBC's bank inspection and supervisory capacity 	32, from November 1994	IMF/UNDP
<ul style="list-style-type: none"> Foreign exchange management 	20, from November 1994	IMF/UNDP
<ul style="list-style-type: none"> Development of research and analysis capability 	24, from February 1994	IMF/AsDB/UNDP
<ul style="list-style-type: none"> Reform of financial institutions legislation 	6, from March 1994	IMF/AsDB/UNDP
<ul style="list-style-type: none"> Assist the NBC in implementing monetary policy 	12, from February 1995	IMF
<ul style="list-style-type: none"> Monetary operations and banking supervision 	1, May 1996	IMF
<ul style="list-style-type: none"> Central bank operations 	12, January 1997	IMF
<ul style="list-style-type: none"> Long-term advisor 	28, from January 1998	IMF
<ul style="list-style-type: none"> Banking system reform 	3, March 2000 and 3 June 2000	IMF
Statistics		
<ul style="list-style-type: none"> Establishment of reporting procedures and format for GFS 	18, from April 1994	MF/UNDP
<ul style="list-style-type: none"> Development of balance of payments statistics 	24, from May 1995	IMF/UNDP
<ul style="list-style-type: none"> Development of monetary statistics 	2, from May 1995	IMF/UNDP
<ul style="list-style-type: none"> Improvement of consumer price indices 	2, from June 1995	IMF
<ul style="list-style-type: none"> Balance of payments compilation 	1/2, December 1998	IMF
<ul style="list-style-type: none"> Balance of payments compilation 	1/2, February 2000	IMF
Legal		
<ul style="list-style-type: none"> Review of Technical Assistance Needs 	1/2, April 2000	IMF



INTERNATIONAL MONETARY FUND

Public Information Notice

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Cambodia

On September 15, 2000, the Executive Board concluded the Article IV consultation with Cambodia.¹

Background

The government embarked on a reform program in early 1999 to revive the momentum and policy measures which had been interrupted in 1997 and 1998 due to the regional financial crisis and internal political turmoil. Under the new government, cooperation between the coalition partners has facilitated the implementation of reforms, and strong actions have been taken in key areas such as fiscal reform, bank restructuring, forestry policy, and military demobilization.

In support of the government's reform program, a three-year PRGF arrangement for SDR 58.5 million (67 percent of quota) was approved by the Executive Board of the Fund on October 22, 1999, and a World Bank SAC of SDR 21.7 million was approved on February 29, 2000. At the May 2000 Consultative Group meeting in Paris, donors were cautiously optimistic in view of the progress that had been made in the past year while noting that Cambodia still had a long way to go. The authorities have reaffirmed their commitment to improve governance in key areas to provide the basis for sustainable economic growth and for reducing poverty over the medium term.

Policy implementation in 1999 was consistent with the macroeconomic objectives of the PRGF-supported program. Real GDP growth is estimated to have risen to 5 percent, with

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

strong growth in garment production, tourism, non-forestry agriculture, and construction. Inflation fell to an annual average of 4 percent compared to the program target of 5 percent, reflecting falling food prices. While the external current account deficit widened to 11½ percent of GDP (4 percent of GDP including grants) reflecting a recovery in imports and higher petroleum prices, gross official reserves still increased, as expected, to US\$422 million, equivalent to 3 1/3 months of imports of goods and services.

Budgetary performance strengthened considerably in 1999. Revenue increased by 2½ percentage points to 11½ percent of GDP reflecting a structural improvement in tax collection, and some exceptional increases in nontax revenue related to the administration of garment quotas received from the United States. Improvements were also made in budgetary implementation. Current expenditure was kept within budgeted levels, and, for the first time in several years, spending for defense and security was close to budgetary appropriations, while social sector spending on a commitment basis slightly exceeded budgetary provisions. The current budget surplus increased to 1.8 percent of GDP, while the overall deficit declined to 4½ percent of GDP (1½ percent of GDP including grants). With substantial external financing (4½ percent of GDP), the government was able to significantly reduce its debt to the central bank that had increased substantially during 1997-98.

Monetary and exchange rate policies in 1999 were also supportive of improved economic conditions. The 17 percent increase in broad money was fully reflected in an increase in net foreign assets. Net domestic assets declined, reflecting a sharp reduction in credit to the government, while private sector credit increased by 17 percent. The exchange rate remained stable at around CR 3,800 per U.S. dollar throughout 1999, and was also stable in real and nominal effective terms.

Overall economic developments in the first seven months of 2000 continued to be positive. Economic activity has remained robust, especially for tourism-related services. The outlook for the remainder of 2000 is for continued real GDP growth with low inflation. Net credit to the government has decreased allowing for increased private credit to support economic recovery. By end-July, the exchange rate has depreciated by 2 percent reflecting the strengthening of the U.S. dollar; but in nominal and real effective terms the rate has been stable, and gross international reserves increased to \$466 million, or 3½ months of projected imports.

Good progress was also made in the implementation of the structural reform agenda. A military census and the first stage of the civil service census have been completed, and on the basis of the AsDB-financed review of forestry concessions, the government has taken initial actions toward implementing a comprehensive reformulation of the concession management system. However, the formulation of a medium-term reform strategy for the civil service has been delayed pending the completion of several ongoing initiatives; this is now expected by March 2001. With respect to external debt, preliminary contacts were resumed regarding completing the two outstanding rescheduling agreements under the Paris Club framework with the United States and the Russian Federation.

In a letter to the Managing Director dated August 31, the Cambodian authorities have requested completion of the first review under the PRGF arrangement to enable the next disbursement from the Fund in an amount equivalent to SDR 8.36 million. A supplementary

Memorandum of Economic and Financial Policies which updates the authorities' program will be made publicly available.

Executive Board Assessment

Executive Directors welcomed Cambodia's improved macroeconomic performance and progress with structural reforms, which had helped increase confidence considerably. Nevertheless, reform efforts need to be deepened in key areas for Cambodia to achieve sustainable economic growth and lasting reductions in poverty.

Directors supported the authorities' strategy of raising budgetary revenue, reducing military and other non-essential expenditure, and increasing the level and effectiveness of other expenditures so as to meet the country's pressing needs for poverty reduction and reconstruction.

Directors welcomed the authorities' success in 1999 in raising revenues. Noting the signs of a possible shortfall in revenue, they encouraged the authorities to strive for a further increase in 2000 to meet budget targets, including through the introduction of recently agreed measures. Measures that Directors considered important in raising revenue include: broadening the coverage of the VAT, improving collection from the tourism sector, and stepping up efforts to collect arrears on telecommunications services and leases of state assets. Further efforts to raise the revenue-to-GDP ratio in 2001 and beyond will be critical. The tax base should be broadened further, including through strict avoidance of ad hoc tax exemptions, and tax and customs administration should be improved. Directors noted that pre-shipment inspection for imports could be important in this regard.

Directors stressed the vital importance of further military and administrative reforms in meeting medium-term expenditure targets. Following completion of the pilot demobilization program, and to ensure the desired reduction in defense spending, Directors considered it essential to initiate the first phase of the full demobilization program by the end of 2000 as targeted. They also emphasized the need to proceed urgently with reform of the civil service so as to contain the overall wage bill, while creating a better remunerated but smaller civil service. This would assist greatly in improving the quality of public administration and the effectiveness of the government's social expenditures.

Directors encouraged the authorities to build on their efforts so as to improve the transparency and effectiveness of budget controls. They welcomed ongoing initiatives to streamline procedures for social sector spending, which are being implemented with the assistance of the World Bank and other donors. To improve governance, Directors stressed the need for effective audits of budgetary operations, and for transparent and competitive procedures for public procurement.

Directors welcomed the maintenance of a flexible exchange rate policy, and encouraged the authorities to move toward exchange market unification and acceptance of the obligations of Article VIII, Section 2, 3, and 4 during the PRGF program period. While noting the authorities' intention to reverse the dollarization of the economy, Directors observed that foreign currency deposits with local banks had continued to grow rapidly. They stressed the importance of preserving adequate foreign exchange reserve cover against these liabilities. Noting the importance of donor support and debt relief in Cambodia's external financing situation, Directors encouraged the authorities to continue their efforts to resolve outstanding issues under bilateral rescheduling agreements.

As regards the banking sector, Directors underscored the importance of completing the re-licensing of commercial banks according to the agreed schedule, and preparing the Foreign Trade Bank for eventual privatization as targeted.

In the area of forestry policy, Directors welcomed the significant progress that had been made, notably the establishment of a Forestry Crime Monitoring Unit (FCMU) and the sizable reduction in the annual allowable cuts based on the results of the concession review. They considered, however, that further decisive actions would be needed to implement a new system of concession management, revise forestry legislation, and strengthen the operations of the FCMU to ensure sustainable logging.

Directors noted the risks to the authorities' economic program stemming from administrative weaknesses in an environment of fragile governance. They emphasized the importance of sustained efforts to further improve policy implementation capacity, to promote effective public administration, and to strengthen the legal system, thereby providing a transparent framework for economic activity. Directors looked to the Fund technical assistance envisaged under the Technical Cooperation Action Plan to help in improving administrative capacity.

Directors encouraged the authorities to further improve the quality and timeliness of statistics and to participate in the Fund's general data dissemination standard.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Cambodia: Selected Economic Indicators, 1996-2000

	1996	1997	1998	1999 Est.	2000 Proj.
Output and prices 1/					
	(Annual percentage change)				
Real GDP	5.5	3.7	1.8	5.0	5.5
GDP Deflator	4.6	6.0	13.1	3.8	3.2
CPI (final quarter basis)	9.0	9.1	12.6	0.0	1.6
Government budget					
	(In percent of GDP)				
Total revenue	9.0	9.6	9.0	11.5	11.7
Total expenditure	16.1	13.8	14.9	15.9	17.0
Of which: current expenditure	9.8	8.8	8.9	9.6	9.8
Current fiscal balance	-1.2	0.7	-0.3	1.8	1.8
Overall fiscal balance (excluding grants)	-7.1	-4.1	-6.0	-4.4	-5.3
Money and credit (end of period)					
	(Annual percentage change)				
Broad money	40.5	16.6	15.7	17.3	35.5
Private sector credit	48.5	46.4	2.8	16.6	21.9
External sector					
	(U.S. dollars)				
Current account balance (excluding official transfers)	-493	-252	-230	-346	-428
(in percent of GDP)	-15.5	-8.1	-8.2	-11.5	-13.1
Domestic exports	295	534	610	695	730
Retained imports	771	798	803	990	1099
Gross official reserves	234	262	390	422	494
(in months of imports of goods and services)	2.1	2.4	3.6	3.3	3.5
	(In percent of GDP)				
External debt 2/	21	66	73	70	35
Exchange rate (end of period)					
Riels per U.S. dollar	2,713	3,452	3,780	3,775	...

Sources: Data provided by the authorities; and staff estimates and projections.

1/ Based on data compiled and maintained by the National Institute of Statistics.

2/ Starting in 1997, includes debt owed to former *Council of Mutual Economic Assistance*.

**Statement by Kleo-Thong Hetrakul, Executive Director
for Cambodia
September 14, 2000**

At the outset, my Cambodian authorities would like to express their appreciation to the staff and management for their assistance and strong support given to the Cambodian government and people in their efforts to implement the reform program under the Poverty Reduction and Growth Facility (PRGF) extended by the Fund over the past year. With their own efforts and financial support and technical assistance from the international donor community including the Fund, Cambodia has made encouraging progress in all domains. Since late 1998, the political and social situation has been stabilized with the establishment of a new coalition government headed by Prime Minister Hun Sen. This important factor has enabled the economic developments in 1999 and the first half of 2000 to be positive and broadly in line with PRGF program targets. As a result, all quantitative benchmarks and performance criteria through June 2000 were observed and benchmarks in key structural areas were also largely observed, albeit with some delays. Building on the progress achieved, Cambodia remains committed to the reform program under the PRGF with the hope of receiving stronger financial support and advisory assistance from the international donor community, especially from the Fund.

I. Economic developments in 1999 and early 2000

Real sector: With the implementation of the program under the PRGF, the economic conditions have improved considerably in 1999 and were broadly in line with program targets. Real GDP growth is estimated to have risen to 5 percent, compared to the program target of 4 percent. Buoyant growth is achieved in several sectors, particularly in garments, tourism, non-forestry agriculture, and construction. Inflation fell to an annual average of 4 percent compared to the program target of 5 percent. The external current account deficit widened to 11 ½ percent of GDP (4 percent of GDP including grants), reflecting a recovery in import and higher petroleum prices. Nonetheless, gross official reserves increased, as expected, to US\$ 422 million, equivalent to 3 1/3 months of imports of goods and services, reflecting increased capital inflows. Meanwhile, agriculture output (excluding forestry) grew by 8 percent, manufacturing output, led by rapid increases in textile production for export, grew by 9 percent and services sector grew by 6 percent primarily reflecting a recovery in tourism.

In the fiscal and monetary areas, much progress has been made. Budgetary performance has strengthened considerably. Revenue increased by 2 1/2 percentage points to 11 ½ percent of GDP in 1999, reflecting a structural improvement in tax collection, and some exceptional increases in nontax revenue. In particular, the value-added tax (VAT), introduced on January 1, 1999, performed strongly, leading to an increase in indirect tax collections by nearly 1 1/2 percent of GDP, in excess of budget estimates. Improvements were also made in budgetary implementation in 1999. Current expenditure was kept within budgeted levels. More importantly, for the first time in several years, spending for defense

and security was in line with the budget and social sector spending on a commitment basis slightly exceeded budgetary provisions. Development expenditure exceeded budget projections as the improved budgetary situation provided room for an expansion in locally financed development projects. With the improvements made in the budgetary performance and implementation, the budget financing was in line with program targets. The current budget surplus increased to 1.8 percent of GDP while the overall deficit declined to 4 ½ percent of GDP and with substantial external financing, the government was able to significantly reduce its debt, built up during 1997-98, to the central bank.

Meanwhile, monetary and exchange rate policies in 1999 were supportive of improved economic conditions. The 17 percent increase in broad money was fully reflected in an increase in net foreign assets. Net domestic assets declined reflecting a sharp reduction in credit to the government while private sector credit increased by 17 percent. The exchange rate remained stable at around CR 38,000 per U.S dollar throughout 1999, and was also stable in real and nominal effective terms. The National Bank of Cambodia (NBC) has pursued a flexible exchange rate policy by adjusting the exchange rate as necessary to keep any difference with the parallel market rate at less than 1 percent, as agreed under the program.

II. Key structural reforms

In the banking sector, steps have been taken toward restructuring the system. Under the new Financial Institutions Law, all banks were required to apply for a new banking license by May 31, 2000. On this basis, NBC has already revoked the licenses of three banks. The process of finding administrators for these banks has been initiated and the licensing applications of the remaining banks will be evaluated by end-November 2000. The next step in the restructuring of the banking system, as well as for the reform of the Foreign Trade Bank and payments system development, have been defined with the help of the Fund. The restructuring of the banking system is critical to the economic development in Cambodia but it should be carried out with great caution and this process needs continued and strong technical assistance from the international donor community, especially from the Fund.

In the forestry sector, a fundamental reorientation of forestry policy has taken place since January 1999. Illegal activities has been reduced greatly. A Forestry Crime Monitoring Unit (FCMU) was established with full participation of outside observers, national consultations with relevant stakeholders have been initiated on a new draft of Forestry Law, and a review of the concession system was completed. On the basis of the review, the government has taken action to cancel three additional concessions, sharply curtail the activities of the remaining concessions, restrict logging activities in protected areas, and improve the overall system of concession management. The authorities reaffirmed their commitment to continue to improve the management of forest resources.

As for the military demobilization program, and the civil service and administrative reform, the military census was completed in December 1999 and the civil census in March 2000. The discharge of soldiers under the pilot phase of the military

demobilization program was completed in July, paving the way for launching the full program later this year. As envisaged, a total of 1,500 soldiers were demobilized in four provinces. Building on the experiences of this pilot program, the authorities were firmly committed to the implementation of the next phase of the program to begin demobilization of 10,000 soldiers in November 2000 with the hope that delays in securing the release of donor funding would not adversely affect the implementation of the program. The authorities are aware that successful demobilization is essential for achieving the desired reorientation of expenditure policy. Regarding the civil service and administrative reform, the authorities have completed a pilot civil service census and removed 6,091 irregular cases in August. They are to complete the finger-printing process and computerization of the civil service to improve the monitoring and control of the civil service and will take steps in consultation with UNDP and AsDB to develop a medium-term plan for administrative reform.

In the trade area, Cambodia has begun to reduce tariff rates in accordance with the requirements of the ASEAN Free-Trade Agreement (AFTA) and has started the process for WTO accession. The preparation for multilateral discussions have actively been made and the discussions are scheduled to be held late this year. The authorities are hoping to have Cambodia's membership approved in 2001.

Progress has been made in the implementation of the structural reform agenda. All structural benchmarks and conditions for the first review were observed with two exceptions. First, only one commercial law was presented to the National Assembly by end-1999, but drafts of several other important legislations were completed and are expected to be presented to the National Assembly during 2000. Secondly, the formulation of a medium-term strategy for civil service reform has been delayed pending the completion of several initiatives in this area.

III. Poverty reduction strategy

Cambodia is one of the poorest countries in the world, with GDP per capita estimated at only \$ 256 in 1999, and key social indicators lag behind other low-income countries. The first report on poverty assessment, prepared by the government in 1999, indicated that about 36-50 percent of the population live below the poverty line, based on food consumption of 2,100 calories per capita per day plus a small allowance for non-food consumption. Poverty is concentrated in rural areas, with rural households accounting for 90 percent of the poor. Reducing poverty is the primary development objective stated by the government, as it is seen as an integral part of the national reconciliation process and the key to the maintainance of political stability. The overall thrust of the government's poverty reduction strategy is to create the conditions for broad-based and fast economic growth, while simultaneously reducing the barriers for the poor to participate in the growth process. Its main elements include prudent macroeconomic management, sustainable development of the agricultural sector, better governance, fostering investment in human resources and physical infrastructure, undertaking land reform, improving access to credit for the poor, and protecting the environment. For the development of the poverty reduction strategy, the government has formed a High Level Committee headed by the Minister of Economy and

Finance with broad inter-ministerial representation. Good progress has been made since the launch of the I-PRSP process in May 2000. A workshop on the draft I-PRSP was held on August 9 involving the representatives from line ministries, Parliament, donors, NGO, and private sector. The I-PRSP is expected to be finalized by late 2000 and presented to the Executive Board along with the second year program. The full PRSP is expected to be ready by late 2001.

IV. Medium-term framework

Under the PRGF-supported program, over the last year, Cambodia has achieved initial results, both in the macroeconomic field as well as in the structural area. However, my authorities are fully aware that to obtain the objectives set out in the three-year program supported by the PRGF there are still many things to be done in the coming years, while facing many difficulties and challenges. The government will take additional macroeconomic policies and measures aimed at raising real GDP growth to 6 percent, keeping inflation to low single digit, containing the external current account deficit to a level consistent with available concessional financing and FDI flows, and increasing gross official reserves to an equivalent of four months of imports by end of the three-year program period. At the same time, reform efforts need to be sustained and strengthened in key areas.

The budget for 2000 was programmed to achieve a current surplus of 1.4 percent of GDP, based on further broadening of the tax base and a strengthening of customs and tax administration. An additional revenue effort of one percent of GDP is to be derived from expanding the VAT tax base, and from strengthening customs administration through the installation of pre-shipment inspection. On the expenditure side, the budget aims to reduce spending for defense and security, to contain the civil service wage bill to 1.8 percent of GDP, and to increase spending for social sectors and development projects. The overall deficit was budgeted to increase to 6 percent of GDP. Domestic financing would remain under tight control with projected budgetary support to be used, in part, to reduce the government's net debt position with the central bank. Revenue performance in early 2000 was lower than projected, therefore, the expenditure program in early 2000 had been implemented cautiously to keep domestic financing in line with program targets. The government will make further efforts to improve service delivery in the priority social sectors. In order to increase funding for priority social sectors and economic infrastructure, government will enhance revenue mobilization and reduce spending for defense and security.

With respect to the objectives of the monetary program for 2000, the NBC set the target for the 12-month inflation at 5 percent by end-2000. Given expected real GDP growth of 5 ½ percent, broad money growth is targetted at 35 percent with a further decline in velocity associated with increasing monetization from a very low base currently and would be fully reflected in increased net foreign assets. The improved fiscal position would provide room for further growth in private sector credit which is expected to grow by 22 percent, in line with buoyant activities in trade and service sectors. As the riel has been broadly stable in nominal and real effective terms over the last 1 ½ years, the NBC will continue the current

flexible exchange rate policy and take measures to unify the exchange rate by linking the official rate with the market rate.

Under the PRGF program, great reform efforts have been made and some initial results have been achieved and the government remains fully committed to the reform program. Further measures will be introduced regarding the administrative, fiscal, legal and other areas. In the administrative area, central to the authorities' governance action plan is a broad program of public administrative reform within which stress will be put on short-term actions such as the regular publication of laws, and better management of state assets and public procurement. In the fiscal area, further efforts will be made to improve tax and customs administration. In the legal area, a number of basic laws - particularly in the areas of private and commercial law - are expected to be adopted. Important priorities in the period ahead are the establishment of new legal regimes for corporative insolvency, secured transactions, and enforcement of contractual claims. Public reform efforts in the period ahead will continue to focus on the divestment of state-owned rubber plantations, with the first plantations expected to be privatized by end-2001.

V. Conclusion

Under the PRGF-supported program, Cambodia has made significant progress but reform efforts need to be sustained and strengthened in key areas. Confidence has improved and economic performance and prospects have strengthened considerably on the basis of a prudent fiscal policy, sound monetary management, and appropriate structural reforms. Macroeconomic objectives for 1999 were achieved, quantitative benchmarks for December 1999 and June 2000, and performance criteria for March 2000, were observed and benchmarks in key structural areas were also largely observed, albeit with some delays. All prior actions for completion of first PRGF review have been completed. However, substantial further efforts are needed to raise and sustain economic growth in the context of macroeconomic stability, while making meaningful and lasting reductions in poverty. Based on these achievements and medium-term framework agenda for reform, the Cambodian authorities request completion of the first review under the PRGF program to enable a disbursement from the Fund in an amount equivalent to SDR 8.357 million.

Once again, on behalf of my Cambodian authorities, I would like to express their sincere thanks to the staff, management and the Board for their strong support of the reform program under the PRGF as well as their great assistance given to Cambodia.