

**Cambodia: 2009 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2009 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- The staff report for the 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 23, 2009, 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 October 30, 2009. 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.
- A staff supplement of on the joint World Bank/IMF debt sustainability analysis.
- A staff statement of November 18, 2009, updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its November 18, 2009, discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Cambodia.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CAMBODIA

**Staff Report for the 2009 Article IV Consultation**

Prepared by the Staff Representatives for the 2009 Article IV Consultation  
with Cambodia

Approved by Kalpana Kochhar and Dominique Desruelle

October 30, 2009

- **Discussions:** Held in Phnom Penh September 9–23 with Deputy Prime Minister and Minister of Economy and Finance Keat Chhon, Deputy Prime Minister and Minister-in-Charge of the Office of the Council of Ministers Sok An, National Bank of Cambodia Governor Chea Chanto, Senior Minister of Commerce Cham Prasidh, and other ministers and senior officials, as well as donor and private sector representatives.
- **Team:** Mr. Cowen (Head), Mr. Yoshida, Ms. Baker, Ms. Duma (all APD), Mr. Shin (FAD), and Ms. Kim (SPR), assisted by Mr. Nelmes (Resident Representative). Mr. Gil Sander (World Bank) worked with the team on the debt sustainability analysis, in collaboration with Mr. Chang (AsDB). Ms. Vongpradhip and Mr. Nget (OED) participated in discussions.
- **Context of past surveillance:** Broad agreement on the direction of policies has been tempered by the need for more comprehensive reforms in critical areas, notably on public financial management and banking supervision. In support of the government’s reform agenda, extensive technical assistance has been provided in fiscal, money and banking, and statistical areas through long-term advisors, peripatetic experts, and staff visits. A follow up safeguards assessment mission was held in July 2009 and a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission is scheduled for March 2010.
- **Exchange arrangement:** Cambodia has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions (Annex I). The exchange regime is classified as floating.
- **Data:** Some progress has been made in improving economic statistics, but weaknesses remain, in particular in the compilation of the balance of payments, external debt and disbursements, and national income accounts. Core economic data are adequate for surveillance purposes, although regular provision of bank soundness data is needed to ensure timely monitoring of macro-financial risks (Annex IV).

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## Executive Summary

**Background:** Following a decade of high economic growth and significant poverty reduction, Cambodia's economy has been buffeted by the global recession. Three of the four main drivers of growth have registered sharp contractions since late 2008, and the property bubble has burst under the weight of weaker economic activity and foreign currency inflows. As a result, the economy is expected to contract in 2009, with only a modest yet still uncertain pickup in 2010. Under these conditions, banks' balance sheets have weakened considerably. At the same time, inflation has come down rapidly, and foreign reserves have remained broadly stable, as plunging imports offset sharply declining exports and foreign direct investment.

**Key policy issues:** Discussions focused on policies aimed at mitigating the impact of the global crisis while preserving macroeconomic stability, and on critical actions required to reinforce the banking system. Efforts to strengthen policy effectiveness, reduce vulnerabilities, and improve competitiveness also figured prominently in the discussions.

**Staff's views:** Given Cambodia's highly dollarized economy, fiscal policy should continue to anchor macroeconomic stability, remaining appropriately supportive while avoiding weakening the external position. A sizable domestic financing requirement resulting from the projected sharp widening of the fiscal deficit this year and next could exert pressure on inflation, the exchange rate, and foreign reserves, and should be eliminated through a combination of revenue and expenditure measures. In view of the recession, spending should be targeted at high-impact social and infrastructure outlays. The monetary stance is broadly appropriate, but allowing greater exchange rate flexibility would help facilitate adjustment and protect international reserves, especially in view of the accommodative fiscal stance. In light of the deterioration in banks' balance sheets and rising credit risks, the authorities should strictly enforce corrective actions plans and urge banks to bring forward compliance with new minimum capital requirements ahead of the end-2010 deadline.

**Authorities' views:** The authorities reiterated their commitment to returning to a more prudent fiscal stance, sharing similar concerns related to recent fiscal loosening. Selected revenue measures are under consideration, efforts to strengthen tax administration are ongoing, and expenditures—especially ballooning functional allowances—are being reviewed. On monetary policy, they agreed that the large liquidity overhang warranted increased vigilance as the recovery takes hold. However, in their view, staff's call for limiting foreign exchange intervention underplays seasonal demand and supply factors, as well as the important role of exchange rate stability in anchoring inflation expectations. Moreover, while the authorities agreed on the need to deal firmly with problem banks, they preferred a more gradual approach. Notwithstanding differences of views in some areas, they greatly appreciated past and present IMF technical assistance and the presence of the resident office, which have supported their continued efforts to strengthen capacity and improve policy effectiveness.

## I. INTRODUCTION

### 1. **Cambodia's economy has been buffeted by the global recession, following a decade of high economic growth with significant poverty reduction.**

- Growth averaged 8 percent over the period 2000–09, underpinned by favorable global conditions resulting in new productive opportunities and by generally prudent policies supporting macroeconomic stability. The poverty level fell to 30 percent of households in 2007 compared to about 50 percent in the mid-1990s, but with indications of rising inequality.<sup>1</sup> Measurable progress was made in strengthening public administration and undertaking growth-enhancing structural reforms, in collaboration with development partners.
- In the wake of the global recession, growth in Cambodia in 2009 has turned negative, as export receipts plunged, the tourism industry suffered, and construction activity contracted. By World Bank estimates, the crisis could lead to some reversal in poverty indicators.<sup>2</sup> Growth conditions are only expected to improve modestly in 2010, given uncertain global prospects. The sharp slowdown and now deflated property prices have led to heightened financial risk and weakened banks' balance sheets. Lower foreign currency inflows and a significant loosening of the fiscal stance are also putting pressure on the external position.

2. **Against this backdrop, discussions focused on policies aimed at mitigating the impact of the crisis, while preserving macroeconomic stability.** Key issues included balancing well-targeted support against avoiding excessive fiscal expansion, as well as strengthening monetary management, allowing greater exchange rate flexibility, and resolving banking sector weaknesses. The structural reform agenda was also revisited in view of the need to diversify growth and improve competitiveness.

## II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

### 3. **The global crisis is affecting large segments of Cambodia's economy and clouding prospects, with growth in 2009 now projected at negative 2¾ percent.** This

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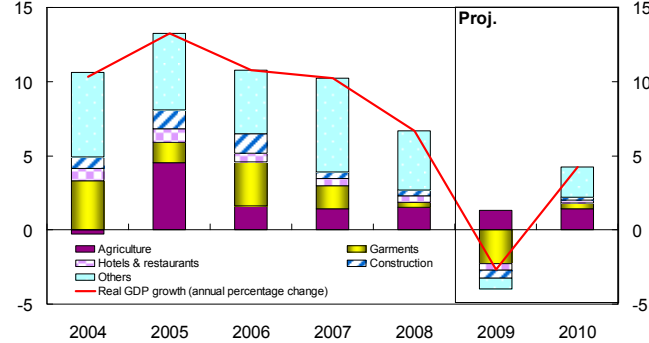
<sup>1</sup> Progress toward achieving the Millennium Development Goals (Table 7) remains on track in the areas of expanding primary education, reducing the incidence of communicable diseases, and promoting gender equality, but more efforts are needed to eradicate extreme poverty and reduce maternal mortality (<http://www.mdgmonitor.org>).

<sup>2</sup> The World Bank's *East Asia Update* (forthcoming in November 2009) reports that the current crisis could add 1–4 percentage points to the poverty headcount between 2007–10. The crisis's impact on Cambodia is compounded by high household indebtedness and the lingering wealth effect of soaring food prices in 2007–08. In contrast, strong growth in earlier years is estimated to have contributed to a decline in the poverty headcount by more than 1 percentage point per year during 2004–07.

**Figure 1. Cambodia: Real Sector and Inflation Developments**

**Cambodia: Sources of Growth, 2004–10**

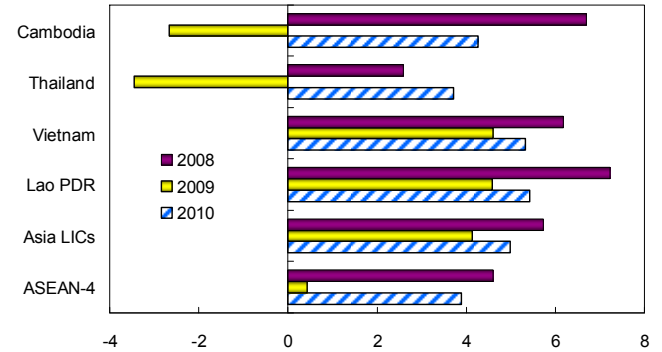
(Contribution to growth, in percentage points)



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

**Cambodia: Regional Growth Comparison, 2008–10**

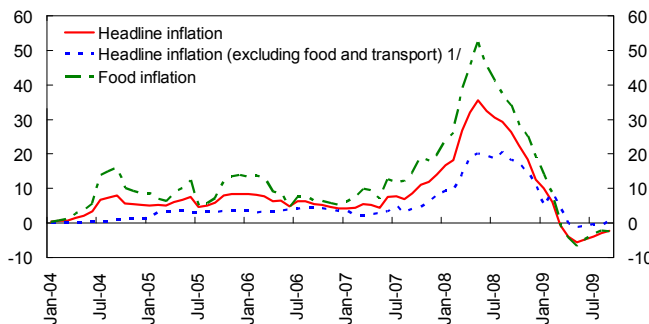
(Annual percent change)



Sources: World Economic Outlook database; and IMF staff estimates and projections.

**Cambodia: Inflation Developments, 2004–09**

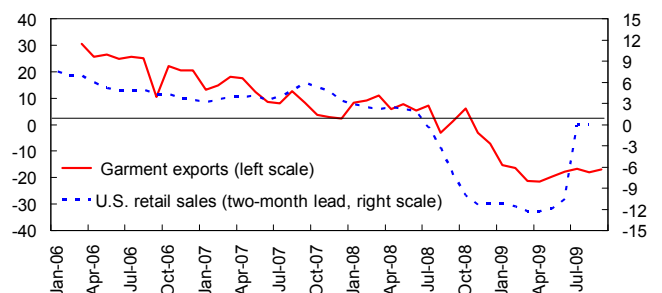
(Year-on-year percent change)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.  
1/ Excludes food, beverages, and tobacco; and transportation and communication components of the consumer price index.

**Cambodia: Garment Exports and U.S. Retail Sales Growth, 2006–09**

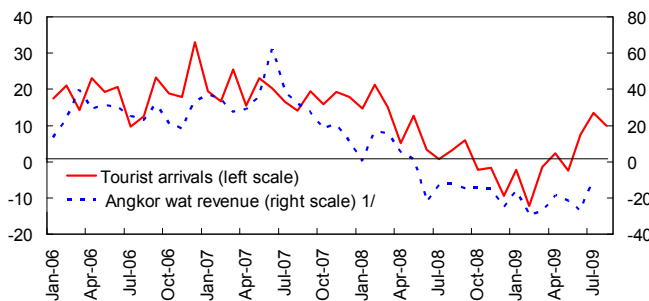
(Seasonally adjusted, 3-month moving average)



Sources: Data provided by the Cambodian authorities; U.S. Federal Reserve Bank; and IMF staff estimates.

**Cambodia: Total Tourist Arrivals and Angkor Wat Revenue, 2006–09**

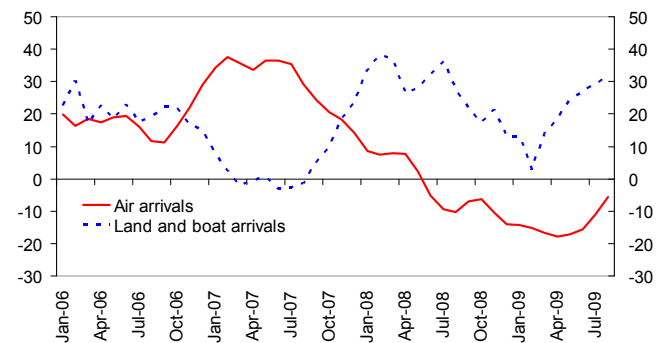
(Year-on-year growth, in percent)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.  
1/ Revenue from ticket sales.

**Cambodia: Tourist Arrivals, 2006–09**

(Year-on-year percentage change, 3-month moving average)



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

compares with the government’s preliminary estimate of positive 6¾ percent in 2008 and double-digit growth earlier in the decade (Figure 1 and Table 1). While signs of a bottoming out began emerging in mid-2009, three of the four main drivers of growth—garments, tourism, and construction—have registered significant contractions so far this year. Private investment has also been hit, with project implementation slowing, new project approvals

down significantly, and some foreign-funded construction activity on hold. In addition, retail trade is faltering, reflecting especially steep declines in automobile and motorcycle imports. Notwithstanding the moderate impact from Typhoon Ketsana, good harvests are expected this year, although rural incomes have been depressed by lower agricultural prices.

4. **Growth is projected to pick up to 4¼ percent in 2010, but risks are clearly tilted to the downside.** Export-related activity is particularly vulnerable given the narrow export base, the high concentration of garments destined for the U.S. market, and continued weak prospects for U.S. retail sales. Any

	2005–07 Average	2008 Est.	2009 Proj.	2010 Proj.
Total GDP	11.4	6.7	-2.7	4.3
Agriculture, fisheries, and forestry	8.7	5.7	5.0	5.0
Industry	13.1	4.0	-9.5	3.4
Of which: Garments	13.2	2.2	-15.0	3.0
Construction	16.3	5.8	-8.0	3.0
Services	11.1	9.0	-4.7	3.2
Of which: Tourism	15.4	9.8	-10.0	4.0

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

recovery in tourism, especially high-end arrivals, is likely to be muted, based on low forward bookings and threats from H1N1, while a pickup in construction depends on resumption of bank lending and foreign direct investment (FDI) inflows. On the upside, rising productivity in agriculture could lead growth higher.

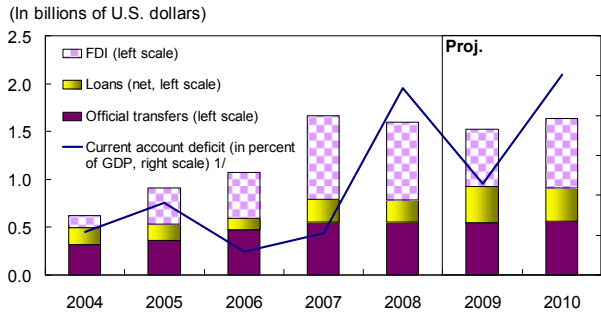
5. **Inflation has declined sharply, mainly due to lower food and fuel prices.** Headline inflation is expected be around 5 percent (y/y) by end-2009 (compared to negative 2¼ percent in September 2009), mainly as base effects from sharp declines in commodity prices fall out of the consumer price index (CPI). It should remain in the mid-single digits in 2010, although upside risk remains possibly stemming from a more expansionary fiscal stance, a sharper depreciation of the U.S. dollar vis-à-vis other major currencies, and/or higher oil prices than currently envisaged.

6. **The current account deficit (including transfers) is expected to narrow in 2009** to around 5½ percent of GDP (Figure 2 and Table 2) as lower import demand and fuel prices more than offset sharply smaller export and tourism receipts (garments account for 65 percent of merchandise exports). As the recovery starts to kick in, the deficit is projected to widen to more than 11 percent of GDP in 2010, owing principally to sluggish exports trailing rising imports and oil prices. Gross official reserves are expected to stay broadly stable, at around US\$2.2 billion (3.5 months of next year's imports) at end-2009 (including the recent SDR allocation).<sup>3</sup> However, a modest decline is projected for 2010, to around US\$2.1 billion by year end, as the widening current account deficit more than offsets an

<sup>3</sup> The IMF provided new general and specific SDR allocations to Cambodia totaling SDR 68 million in August and September 2009.

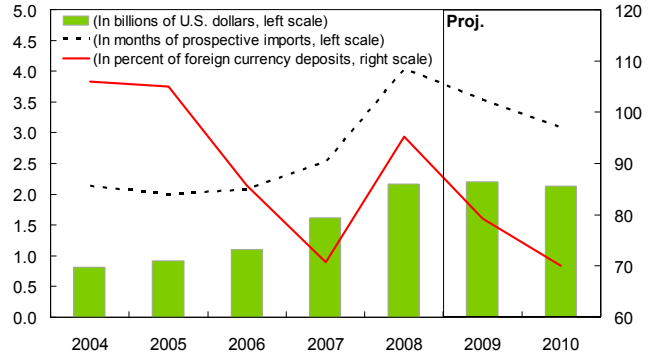
**Figure 2. Cambodia: External Developments**

**Cambodia: Current Account Deficit and Financing Flows, 2004–10**  
(In billions of U.S. dollars)



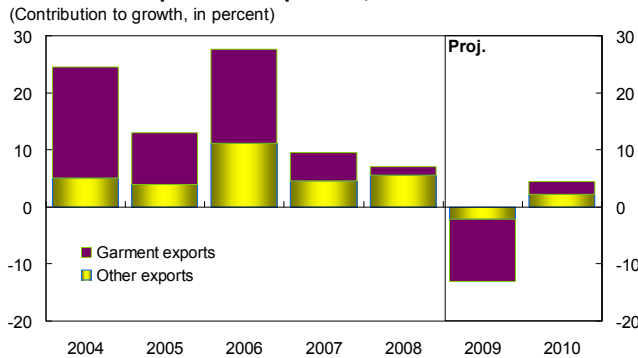
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.  
1/ Current account balance excluding official transfers.

**Cambodia: Gross Official Reserves, 2004–10**



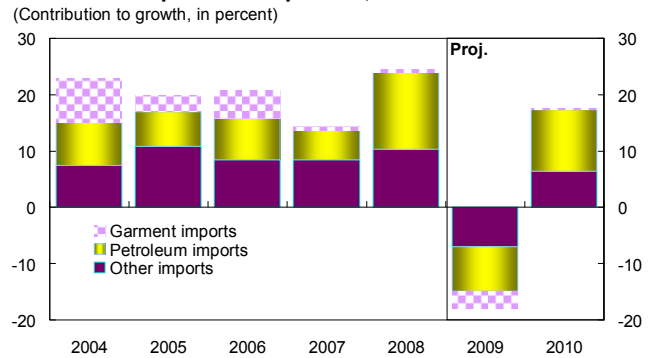
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

**Cambodia: Export Developments, 2004–10**



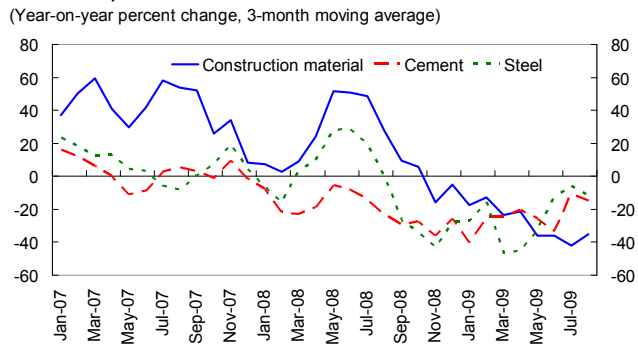
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

**Cambodia: Import Developments, 2004–10**



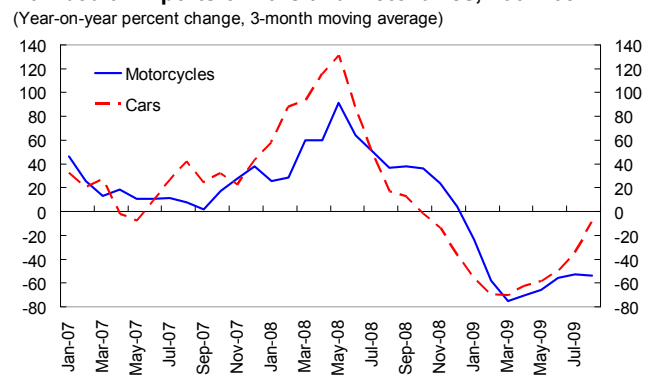
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

**Cambodia: Imports of Construction-Related Materials, 2007–09**



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

**Cambodia: Imports of Cars and Motorbikes, 2007–09**



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

expected pickup in FDI and banking inflows. In the event of an even looser fiscal stance, further pressure could be placed on reserves if the exchange rate is not allowed to adjust.

**7. Cambodia’s slowing economy has also weakened banks’ balance sheets and stalled new lending.** While banks reported no direct exposure to toxic assets abroad,



liquidity conditions tightened significantly at the onset of the global financial crisis. In addition to heightened liquidity risks, banks began facing greater credit risks, exacerbated by sharply lower property prices, which also called into question the adequacy of real estate as collateral.<sup>4</sup> Liquidity conditions began improving in early 2009, following policy action by the National Bank of Cambodia (NBC) and banks' own drive to build liquid balances (discussed below). As a result, banks' foreign currency deposits (FCDs) rose by 21 percent in the first eight months of 2009, in part due to high deposit interest rates as some banks sought to reduce loan-to-deposit ratios and others to maintain market share. However, credit growth has fallen sharply, from 55 percent (y/y) in 2008 to 4 percent in August, with banks increasingly risk averse.

8. **Moderate growth is expected over the medium term, but the external position would remain relatively weak.** In the context of a more subdued global outlook (compared to pre-crisis conditions), growth would stabilize at 6–6½ percent per year over the medium term (Table 3), driven by more supportive services activities, including tourism; a pickup in investment demand—notably in power sector infrastructure; and improved agricultural yields. Garment exports are expected to be muted by the productivity gap with other regional producers, high nonwage costs, and structural changes in the global market (Box 1). Other export sectors—namely in agribusiness and light manufacturing—face similar challenges. On the other hand, capital imports are expected to pick up as FDI resumes and new power generation and transmission projects are developed. Underpinning the medium-term outlook is moderate fiscal adjustment starting in 2010, as needed to ensure stable macroeconomic conditions. Improving growth prospects, reducing inequality, and strengthening the external position will also require a more diverse productive base, strengthened competitiveness, and sounder economic governance. To this end, the pace of implementation of the structural reform agenda will need to be stepped up, especially for those reforms aimed at improving basic infrastructure, enhancing labor skills, and strengthening the business climate.

### III. REPORT ON DISCUSSIONS

9. **Discussions focused mainly on the following:**

- **Fiscal:** Ensuring the current fiscal stance, as the main anchor to macroeconomic stability, is appropriately supportive, but does not exert undue external pressures, in light of heightened vulnerabilities;

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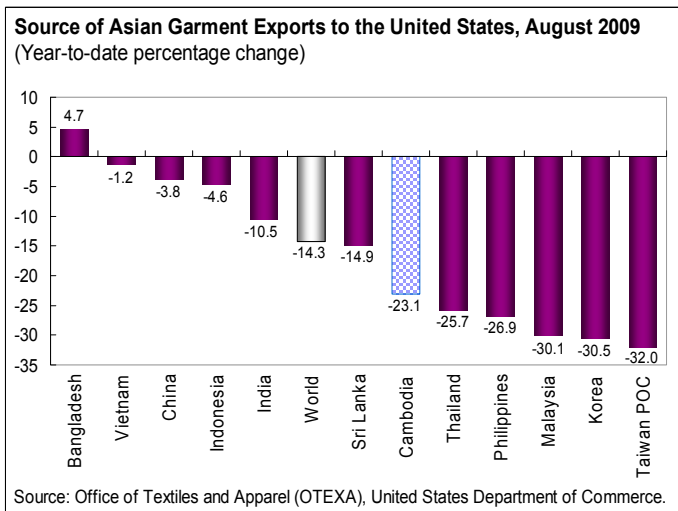
<sup>4</sup> No reliable index of property prices exists in Cambodia. However, property prices in Phnom Penh are reportedly down by 50 percent from their mid-2008 peak. Most loans are backed by real estate, while property-related loans account for 20–30 percent of total credit outstanding.

### Box 1. Cambodia: Garments Sector—Impact of the Global Slowdown and Prospects

**The severe impact of the global slowdown on Cambodia's garment industry is a major driver of the recent contraction in economic activity.**

- In 2008, the garment sector accounted for about 15 percent of GDP and 65 percent of exports (nearly three-quarters of which were destined for the U.S. market), with total employment of about 350,000—the bulk of the manufacturing workforce. Volume growth averaged 11 percent per year over 2005–08.
- In contrast, over the first nine months of 2009, export volumes are down about 16 percent compared to the same period in 2008. According to industry representatives, forward orders also are very weak.
- According to the Garment Manufacturers Association of Cambodia (GMAC), around 40 factories (net) have closed so far this year, with another 25 or so remaining open, but operating under a suspension of activity. Small factories previously carrying out subcontracting of overflow orders have been most affected. Most large factories are operating at 60–70 percent capacity (130 percent previously), with less than 5 percent of factories on a 24-hour shift cycle. As of June, some 40,000 jobs had been lost, with retained workers earning about 20 percent less than in 2008 as a result of reduced overtime.

**In contrast to garment exporters in other Asian lower-income economies, Cambodia has not gained U.S. market share,** as a sizable fraction of its orders is overflow of large ones received by key buyers. Cambodian garment exports to the United States are down some 23 percent in value terms, in line with trends observed in more mature Asian economies where garments account for a far smaller share of exports. Large garment orders received by producers in major hubs such as Hong Kong Special Administrative Region or Taiwan Province of China (POC) are allocated to factories throughout the region starting with the most cost efficient. Declining orders have left fewer allocated to garment manufactures with relatively high unit costs and compress profit margins for all.



**Competitiveness in Cambodia is hampered by several factors,** mainly lower productivity, unreliable supply and high cost of electricity (about 15 percent of total cost), high transport costs and protracted time to market, and lack of vertical integration—factors that are increasingly important given weak demand. According to the GMAC, total manufacturing cost is about 20 percent higher than in neighboring Vietnam, despite lower hourly wages, with major factors being lower productivity, higher electricity costs (22 cents per kwh versus 7 cents in Vietnam), and less developed infrastructure such as ports and roads (getting a container to port reportedly costs about five times that of Vietnam).

**The outlook for Cambodian garment exports is clouded by structural changes in the market, in addition to lagging competitiveness.** The global recovery is not expected to be consumer-led, dimming prospects for 2010. Looking ahead, the long-anticipated consolidation of the garment industry as a result of the expiry of quotas and safeguards under China's WTO accession agreement appears to be in train, while free trade agreements between other low-income country (LIC) producers and the United States are increasingly putting Cambodia at a disadvantage. The United States has granted quota-free, duty-free access through various trade agreements to 30 of 49 non-Asian LICs. In contrast, Cambodia is subject to an average 16 percent tariff on garment imports.

**While new bilateral trade agreements could play a key role in expanding markets, negotiations will likely be protracted, whereas conclusion of the Doha Round would permanently reduce tariffs.** An ASEAN-USA or ASEAN-EU free trade agreement would benefit Cambodia as Rules of Origin would only require sourcing inputs from ASEAN, while passage of the U.S. Trade Act of 2009 would eliminate tariffs on garments and textiles from 14 LICs, including Cambodia. However, all are currently stalled due to political considerations. Sourcing by Japan has seen a shift away from Chinese garment imports and could reduce Cambodia's dependence on the U.S. market, but at a mere 1 percent of exports, scope is low.

- **Monetary:** Strengthening the monetary policy framework, in the context of helping banks better manage liquidity and eventually facilitating greater use of riel, as a precursor to a more independent policy;
- **Exchange rate:** Allowing greater exchange rate flexibility, as necessary, in view of the accommodative fiscal stance and to help facilitate external adjustment; and
- **Banking sector:** Reducing risks facing the banking sector to contain potential fiscal costs and improve conditions for banks to resume normal lending activities, in support of economic recovery.

#### A. Preserving Macroeconomic Stability in the Wake of the Global Crisis

##### Fiscal policy

10. **Moderate fiscal easing was broadly appropriate in 2009 given weak aggregate demand, but in staff's view the current stance is overly expansionary, which could undermine stability.** The 2009 budget deficit is projected to widen to 6¾ percent of GDP (Figure 3 and Table 4), against an original target of 4¼ percent (and up from 2¾ percent in 2008). Unlike recent budgets, this year's will likely require domestic financing (i.e., a drawdown in government deposits)—now projected at around 1¼ percent of GDP. Staff observed that revenue targets appear on track owing to strong administrative efforts, notwithstanding automatic stabilizers and selected tax relief (mainly customs exemptions on imported inputs for agriculture and small enterprises). However, expenditure levels have risen sharply, with large increases in wage and defense outlays and locally-financed capital spending.<sup>5</sup> Staff cautioned that any large injection of riel liquidity into the economy could put pressure on inflation, the exchange rate, and foreign reserves, absent effective monetary controls. With only a few months left in the current fiscal year, efforts should focus on maintaining strong revenue collection and reducing nonpriority spending, in order to ensure adequate space for high-impact social and infrastructure outlays and limit domestic financing.

11. **The staff strongly recommended that the 2010 budget target a reduction in the overall deficit and reallocate spending toward priority sectors.** Based on preliminary revenue and expenditure plans for 2010, staff noted the budget deficit could rise to 7½ percent of GDP, resulting in a domestic financing requirement of more than 1½ percent

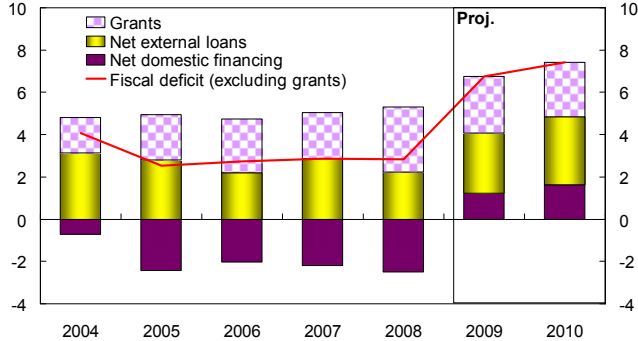
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<sup>5</sup> On the other hand, externally-financed capital spending was at a slower pace than expected (through August 2009) due to reported delays in project-related procurements, as well as continued problems in the timely recording of donor disbursements.

Figure 3. Fiscal Developments

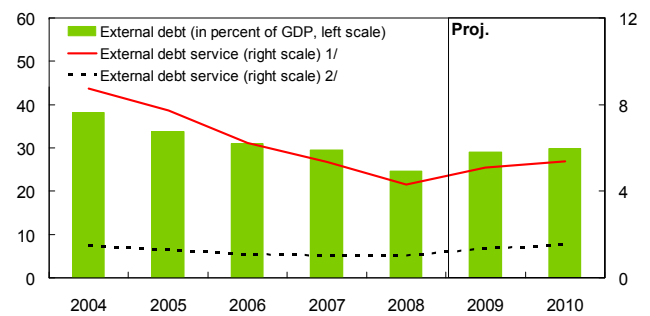
Cambodia: Fiscal Deficit and Financing, 2004–10

(In percent of GDP)



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

Cambodia: Public External Debt and Debt Service, 2004–10



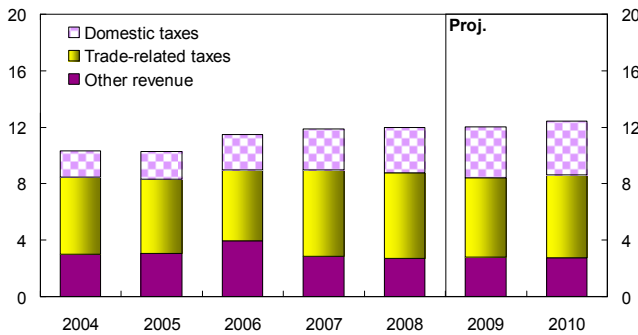
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ In percent of government revenue.

2/ In percent of exports of goods and services.

Cambodia: Government Revenue, 2004–10 1/

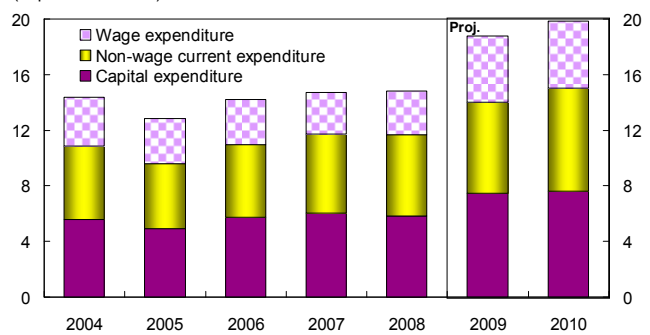
(In percent of GDP)



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

Cambodia: Government Expenditure, 2004–10

(In percent of GDP)



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

of GDP.<sup>6</sup> Pressure was seen as emerging from the large carry-over of spending on wages together with unspecified increases in nonwage current expenditure. Staff urged the budget deficit be limited to around 5¾ percent of GDP—still appropriately accommodative in providing adequate space for development objectives, but eliminating the domestic financing requirement and setting the stage for medium-term fiscal consolidation.

**12. The authorities noted staff's concern, indicating that with budget discussions ongoing, scope existed to adopt a more prudent fiscal stance.**

- *On the revenue side*, the authorities indicated specific revenue measures are being considered, such as raising excises on truck sales and imposing a value-added tax

<sup>6</sup> The drawdown in government deposits over 2009 and 2010 would amount to nearly 3 percentage points of GDP, almost half of the accumulated buildup over the preceding years.

(VAT) on electricity imports.<sup>7</sup> They also remain committed to further strengthening tax administration, including customs valuation procedures, anti-smuggling efforts, and tax arrears collection. Staff urged more upfront action be considered in light of fiscal risks, including such measures as increasing the reference price for taxing petroleum products and raising other selected excises (e.g., cigarettes, spirits, and diesel). In addition, staff recommended *ad hoc* import tariff reductions in 2009, tax holidays, and exemptions, and minimum presumptive taxes be reconsidered.<sup>8</sup>

- ***In expenditure areas***, the authorities suggested functional allowances would be reviewed, especially new ones for the military and security forces. Staff noted that containing wage bill growth would be key to ensuring sound fiscal management, urging tighter limits on increases in basic wages and allowances and possible freezes on new hires (focused on nonpriority sectors). These measures would need to be accompanied by comprehensive civil service reform, as part of broader efforts to strengthen public financial management and accountability. The authorities indicated in this context that remedies would be devised to control wage costs, recognizing political constraints but consistent with maintaining budget discipline. Staff also urged tighter limits on nonwage recurrent spending growth, apart from that in priority sectors and operations and maintenance, as well as a phasing out of remaining subsidies to Electricité du Cambodge, facilitated by allowing full cost recovery tariffs.

13. **There was broad agreement that sound fiscal management would continue to be underpinned by public financial management (PFM) reforms.** Aided by substantial technical assistance from the IMF, World Bank, and other development partners, staff noted the measured progress made under the PFM reform program, but urged in light of current circumstances that efforts be accelerated under the second phase (Box 2). Priorities include improving budget integration, especially as pertains to donor-financed capital spending; fully implementing *GFS*-consistent budget classification and a new chart of accounts; increasing transparency of governmental transactions (with Extractive Industries Transparency Initiative participation encouraged to promote sound development of the country's potential oil and mineral wealth); and establishing a Treasury single account. To increase government accountability and transparency, staff also urged publication of more timely and comprehensive information on budget formulation and outturns. The authorities noted challenges in implementing PFM reforms, including adhering to more stringent procurement procedures, strengthening internal coordination in the context of weak capacity, and undertaking politically sensitive measures aimed at enforcing greater budget discipline.

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<sup>7</sup> The authorities' plan to impose a VAT on electricity consumption starting in mid-2009 has been placed on hold, given risks to revenue collection posed by possibly large rebates to private energy producers and political challenges associated with already high end-use prices of electricity.

<sup>8</sup> The tax holiday to the garment sector has been extended by two years to 2011, with the rate on profit taxes capped at 9 percent until then. In addition, monthly prepayments of the tax have been suspended until 2012.

### **Box 2. Cambodia: Update on Public Financial Management Reform**

**Cambodia's Public Financial Management Reform Program (PFMRP) was launched nearly five years ago, with the main objective of bringing the PFM system in line with international standards by 2015.**

Under a donor-supported framework, the PFMRP adopted a "stage-by-stage" approach, with second stage of implementation beginning in 2009. Four platforms were established in order to prioritize the sequence of reforms.

**Under Stage 1, the main focus was on building budget credibility, with recognizable achievements in a number of areas.** Key objectives were to make the budget comprehensive, strengthen macro-fiscal forecasting, and streamline spending processes, along with some start-up work on later platforms (namely the government accounting system and medium-term expenditure framework (MTEF)). Major achievements were (i) introducing a new budget calendar (with an earlier start to the annual budget process); facilitating more inputs from line ministries; (ii) adopting Budget Strategic Plans and developing a strategy for introducing an MTEF; (iii) improving cash management—eliminating payment arrears and thus allowing smoother budget implementation; and (iv) extending the use of the banking system for government transactions.

**However, in some areas, progress under Stage 1 was slow due to capacity constraints and coordination problems within the Ministry of Economy and Finance (MEF) and other lead agencies.** Initial steps have been made to establish a Treasury single account. However, it has yet to become fully operational, with National Treasury automation lagging. Implementation of a new chart of accounts (COA) and budget classification has also been limited. As a result, timely and accurate monitoring of the budget remains a challenge. In particular, the current system of monthly fiscal reporting (TOFE) suffers from occasional delays, incompleteness, and inconsistencies. Finally, the public procurement process remains complicated.

**In Stage 2, the focus has shifted to achieving better financial transparency and accountability.** Main objectives are to improve the accountability of budget decision makers; implement new budget classification dimensions, bringing the COA in line with the IMF's *Government Finance Statistics* and UN's *Classification of the Functions of Government* standards; introduce an IT-based Financial Management Information System (FMIS); and further strengthen internal and external audit functions and decentralize service delivery.

**While the progress to date is commendable, there is a need to:**

- **Strengthen budget integration, especially in donor-financed capital spending.** Relevant departments in the MEF, the Ministry of Planning, and the Council for the Development of Cambodia are urged to have regular, frequent, and closer coordination in the areas of budget formulation, execution, and recording. Ultimately, a unified control and monitoring system closely linked to the budget is needed.
- **Improve fiscal monitoring and reporting.** Integrating the financial information produced by several agencies using different software systems and accounting codes within a standard framework is a top priority. To accelerate system computerization, strong leadership in preparation for full implementation of the FMIS is needed.
- **Reinforce controls over payroll and procurement.** In light of a rapid increase in the wage bill, a more systemic management of payrolls should be set up to guard against the risk of "ghost workers" and prevent the wage bill from crowding out other priority spending. Streamlining the overlapping procurement procedures, including approval processes, and strengthening monitoring through a better regulatory framework are also necessary.

### **Monetary and exchange rate policy**

14. **The monetary stance is broadly appropriate, but staff cautioned relatively loose conditions would require closer watch as economic recovery takes hold.** There was agreement that a further easing—specifically a reduction in the reserve requirement—was

neither warranted based on monetary conditions nor desirable from a prudential perspective.<sup>9</sup> Under these conditions and given the anticipated recovery, credit growth is expected to rebound in 2010 to 17 percent (y/y), compared to a projected 3½ percent in 2009 (Figure 4 and Table 5). Staff cautioned that as banks' excess reserve holdings at the NBC mounted (more than one-third of banks' total FCDs at end-August), the sizable liquidity overhang could pose macro-financial risks on a couple of fronts. First, a rapid reversal in the deposit buildup (including speculative inflows) could result in a spike in liquidity risk, and second, some banks could attempt to lend their way out of their problems, heightening credit risks. Staff also noted the need to maintain adequate vault cash at the NBC, including at local branches, as a safeguard against liquidity shocks in view of still-elevated risks.

15. **Progress continues to be made in improving liquidity management, but a number of actions are needed for an operational monetary framework.** The conduct of monetary policy is hampered by the lack of market-based instruments, weak interbank activity, and high level of dollarization, which limits the establishment of operating and intermediate targets.<sup>10</sup> With Fund technical assistance, the NBC is undertaking higher frequency liquidity monitoring, with weekly indicators now being compiled. Staff welcomed progress toward issuing negotiable U.S. dollar-denominated instruments that could be traded among institutions, as this would help strengthen banks' liquidity management and deepen interbank activity. To this end, the NBC seeks to finalize regulations on issuing securitized instruments and on a repo master agreement by end-2009. Given the absence of monetary instruments to control riel liquidity, the authorities also expressed interest in issuing riel-based securities. Staff noted that with few banks holding large riel balances, the effectiveness of such instruments might be limited for some time. However, issuance of new dollar-based instruments could provide collateral for more riel transactions between banks and ultimately pave the way for trading local currency securities.

16. **Staff noted that maintaining a relatively fixed exchange rate could undermine efforts to strengthen monetary management and heighten vulnerability to shocks.** In light of the government's riel injection and seasonal factors, the NBC took steps to stem downward pressure on the riel at mid year, becoming a net seller of foreign exchange to the market in three consecutive months (July–September) for the first time since mid-2005. Staff noted such intervention was potentially costly in terms of delaying adjustment and reducing reserve coverage—both as a share of imports and deposits. The authorities indicated their action was necessary to address possible overshooting and avoid an inflation spiral, but that

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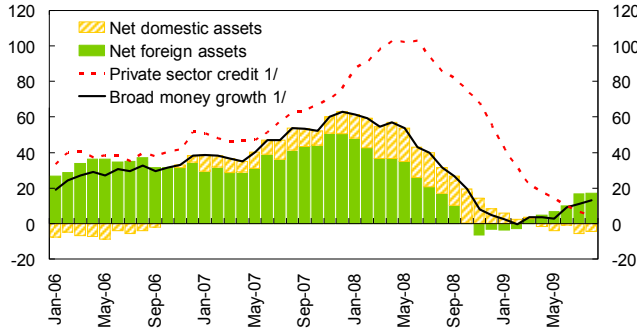
<sup>9</sup> In response to tightening liquidity conditions in late 2008, the NBC reduced the reserve requirement on FCDs in February 2009 from 16 percent to 12 percent and introduced a new reserve requirement system helping banks conserve liquid balances. An emergency overdraft facility was also put in place.

<sup>10</sup> Currently, net domestic assets of the NBC serves as a *de facto* operating target, in view of the impact of changes in net claims on government by the central bank on riel liquidity and the exchange rate.

Figure 4. Monetary Developments

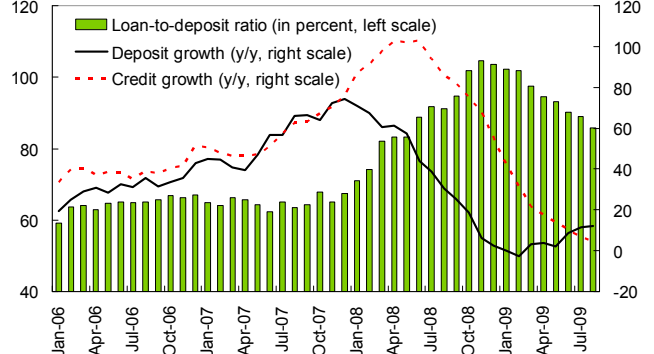
**Cambodia: Monetary Developments, 2006–09**

(Contribution to broad money growth, in percent)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.  
1/ Year-on-year percent change.

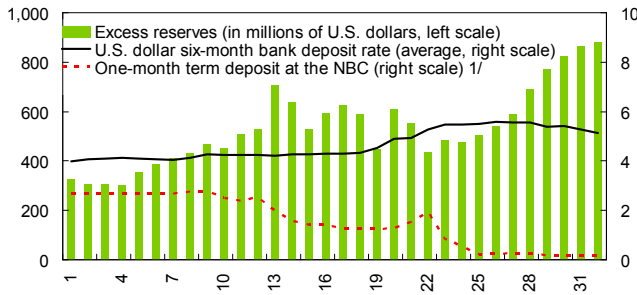
**Cambodia: Deposit and Credit Growth, 2006–09**



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

**Cambodia: Interest Rate Differential and Liquidity Conditions, 2007–09**

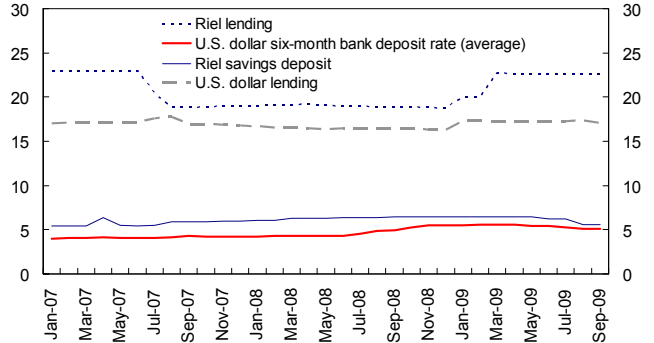
(In percent per annum)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.  
1/ Currently remunerated at one-half of Singapore Interbank Offer Rate (SIBOR).

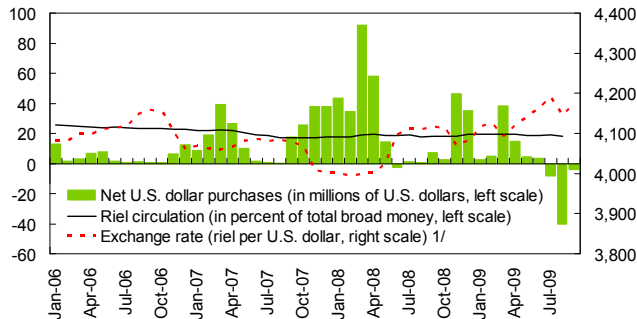
**Cambodia: Six-Month Interest Rates, 2007–09**

(Monthly averages, in percent per annum)



Source: Data provided by the Cambodian authorities.

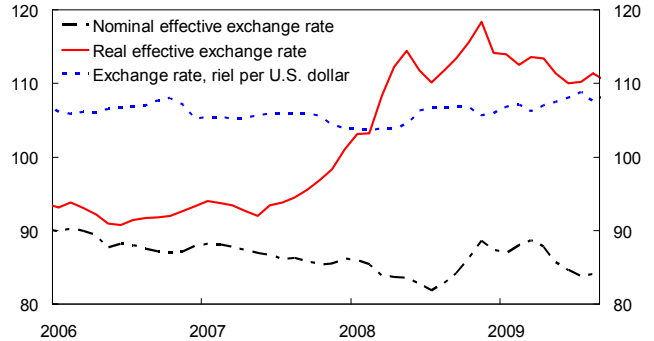
**Cambodia: Net U.S. Dollar Purchases, Exchange Rates, and Riel Circulation, 2006–09**



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.  
1/ Official mid-rate.

**Cambodia: Effective Exchange Rates, 2006–09**

(Index 2000=100)



Sources: National Bank of Cambodia; and IMF, *Information Notice System*.

as market conditions had now stabilized, they did not anticipate further intervention. Staff continued to urge limiting intervention to smoothing volatility to help protect international reserves, deepen the foreign exchange market, and allow the exchange rate a greater role in facilitating external adjustment. In this context, both the staff and the authorities agreed the new SDR allocation should be retained to build up foreign reserves, given current vulnerabilities.



17. **The real effective exchange rate appears to be somewhat overvalued relative to its equilibrium level.** However, this assessment is subject to considerable uncertainty.<sup>11</sup> Much of the increase in the current account deficit over the near to medium term is accounted for by imports associated with large FDI and donor-related projects, which are fully financed. Nevertheless, a continued strengthening of the exchange rate could weaken export prospects and increase external pressures.

### **B. Strengthening the Financial Sector**

18. **While banks' liquidity has improved, staff noted that bank balance sheets have further weakened and credit risks have risen sharply over the past year.** Contributing factors center on weak risk management, earlier supervisory lapses, and excessive credit growth, the effects of which have been exacerbated by the growth slowdown and property price collapse. Nonperforming loans (NPLs) are rising, but the figures officially reported by banks likely fail to capture the true extent of the problem. Sensitivity analysis informed by other countries experiencing similar property cycles to Cambodia points to potentially larger loan losses and capital deficiencies, raising the risk of bank insolvencies (Box 3). Negative interest carry and low demand for credit appears to be squeezing profits, making it difficult for banks to grow out of these problems. Given current circumstances, staff cautioned that sustained competition for deposits as a cushion against liquidity shocks could further undercut banks' profitability and hamper their ability to write off NPLs. Under such a scenario, banks could face difficulty resuming normal lending activities, with a potential for adverse feedback between weak growth and further credit losses.

19. **So far, the NBC has taken measured steps to deal with problem banks, with much more forceful action needed to reduce systemic risks.** Since early 2009, the NBC has conducted a set of prioritized onsite inspections (with assistance from the IMF and AsDB), resulting in the issuance of supervisory letters to noncompliant banks and development of corrective action plans to address a range of operational and financial deficiencies. Banks are also being urged to advance compliance with new minimum capital requirements ahead of the end-2010 deadline. In addition, their related party activities are being more closely scrutinized and internal governance is being strengthened, including through the introduction of credit committees and use of more independent directors. Staff urged strict enforcement of newly-introduced loan classification and provisioning standards and recognition of loan losses, with recapitalization where needed, to ensure banks' solvency and minimize fiscal risks. To these ends, the authorities were urged to develop a

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<sup>11</sup> Results of the exchange rate assessment are mixed. The macroeconomic balance approach indicates an overvaluation of around 25 percent, while the equilibrium real exchange rate approach points to an undervaluation of about 2 percent. Neither is statistically significant. Extreme caution is warranted when assessing the equilibrium exchange rate for Cambodia, given structural changes and weaknesses in macroeconomic data.

### Box 3. Cambodia: Banking Sector Vulnerabilities

**Cambodia's banking sector continues to face heightened risks, despite the slowdown in credit growth and easing of liquidity pressures observed so far in 2009.**

**Most notably, credit quality has deteriorated significantly, although official reports may belie the true extent of the problem.** Banks reported that NPLs rose to 5¼ percent at June 2009 from 3¾ percent in December 2008 (Table 6). However, the actual level of NPLs is likely much higher. In particular, a number of banks continue to report few or no NPLs, suggesting incomplete adherence with the new loan classification and provisioning regulation. Moreover, the evergreening of loans and capitalization of interest still take place to avoid loan loss recognition and provisioning and possible capital writedowns. These practices appear particularly acute for overdraft loans used to finance land purchases during the recent property boom.

**Sensitivity analysis of the banking system, using a range of NPL ratios that have materialized in other countries experiencing similar property price busts, suggests a potentially large capital deficiency.** Using a top-down approach, if average system-wide NPLs were to rise to around 15 percent (Scenario 1) and require full provisioning, the risk-weighted capital to asset (RWKA) ratio would decline to 20 percent. At this level, NPLs would amount to around 37 percent of the banking system's capital at end-June 2009.

**Even as liquidity pressures ease, risks remain in the current environment.** To

protect themselves, some banks are self-insuring and reducing loan-deposit ratios by raising new deposits, but at considerable cost, which may eventually undermine stability. Interest rates on six-month term deposits in U.S. dollars averaged over 5 percent throughout 2009, leading to a significant increase in bank deposits. Along with slower lending growth, the loan-deposit ratio declined from over 100 percent in late-2008 to around 80 percent. Banks have placed most new deposits at the NBC as excess reserves, where they are remunerated at most at one-half of SIBOR (close to zero percent), generating a negative interest spread and driving down banking sector profits, with return on equity and return on assets both declining. The profit squeeze has adversely affected banks' ability to absorb loan losses and resume lending growth. Proper provisioning against NPLs would further reduce profits.

**In the event recent deposit inflows were to reverse, banks could come under heightened pressures, requiring close monitoring.** Moreover, excessive use of overdrafts represents contingent calls on liquidity (i.e., if customers draw overdrafts down quickly). Staff sensitivity analysis suggests that a 15 percent deposit reduction (Scenario 1 in the text table) would reduce the ratio of liquid assets to deposits (LAD) to around 28 percent, well below the level prevailing during the period of liquidity stress in late 2008. A 20 percent deposit reduction would result in a system-wide LAD ratio of 24 percent, which is very low for a highly dollarized financial system lacking a functioning interbank market and central bank facilities.

**The results of these sensitivity analyses are preliminary.** The upcoming Financial Sector Assessment Program (FSAP), scheduled for 2010, will examine the soundness of the banking sector in greater depth, including through comprehensive stress tests using both a top-down and bottom-up approach and assess banks' vulnerabilities to a range of tail risk shocks.

	Credit Risk 2/			Liquidity Risk 3/
	NPLs	RWKA	NPL to Capital	LAD Ratio
Baseline	5	28	13	39
Scenario 1	15	20	37	28
Scenario 2	25	13	61	24
Scenario 3	35	5	86	18
Assumptions for Risk Scenarios				
	Assumed NPLs (percent of loans, by sector)			Deposit Reduction (percent change)
	Real Estate	Tourism	Other	
Scenario 1	30	15	10	15
Scenario 2	40	25	20	20
Scenario 3	50	35	30	25

Sources: National Bank of Cambodia (NBC); and IMF staff estimates.

1/ Top-down simulations using consolidated banking system from data provided by the NBC.

2/ Based on end-June 2009 data (baseline). Assumes 100 percent provisioning against assumed NPLs and a 100 percent risk weight for affected assets.

3/ Based on end-September 2009 data (baseline). Liquid assets include vault cash, excess reserves at the NBC, and deposits held abroad.

comprehensive bank resolution framework, including procedures to assume administrative control of intervened banks, resolve failed institutions, and provide public financial assistance as necessary under a transparent regime. Going forward, the authorities agreed on the need to deal more firmly with troubled banks, as staff cautioned a gradual approach could potentially entail even greater risks for the banking sector and become more costly.

**20. Staff noted further capacity building was needed to safeguard the financial system and limit regulatory arbitrage, given growth and diversification of the sector.**

The NBC's supervisory and oversight capacity is already stretched by rapid growth in the number of banks and could be further burdened by bank restructurings. The development of a stock market and impending consolidated supervision of securities firms will place additional strains on resources. The recently established Financial Intelligence Unit is still in the process of sourcing much-needed technical resources for processing a large quantity of cash transaction reports. The authorities were urged to increase qualified staff in banking supervision—notably for onsite inspection teams, continuing to concentrate their activities on the larger banks. A temporary moratorium on the granting of new bank licenses was also urged until supervisory capacity could be appropriately expanded. Here, however, the authorities noted the important role that new entrants could play, notably those from abroad, in raising operating standards and reducing risk concentration in the banking system.<sup>12</sup> Finally, there was agreement on the need for closer collaboration between the NBC and Securities and Exchange Commission of Cambodia (SECC) to avoid opportunities for regulatory arbitrage, with guidelines for establishing securities firms and broker operations now issued in anticipation of a new stock exchange to be rolled out next year.<sup>13</sup>

**C. Reducing Vulnerabilities and Fostering Competitiveness**

**21. The resumption of sustained high growth requires more concerted actions aimed at strengthening competitiveness and improving the business climate.** The authorities noted that efforts toward full WTO compliance and lowering the cost of doing business were ongoing. However, the number of required laws, amendments, and regulations is extensive, and great care must be taken to address wide-ranging inconsistencies among laws and regulations under various ministries. Given the limited number of staff and capacity, priority has been given to those areas that will most benefit business. At present, focus is on the finalization of the Commercial Contract Law, including the chapter on Commercial Agency, and establishment of the National Arbitration Council, which should be in place by year-end. Moreover, implementation of post-clearance audits and simplified valuation and cargo processing procedures have reduced time required for customs clearance.

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<sup>12</sup> Over the past year, an additional 5 bank licenses have been issued, bringing the total number of banks to 32.

<sup>13</sup> In all, some 30 regulations are under preparation by the SECC.

22. **Cambodia is assessed to be at a moderate risk of debt distress, and rising contingent liabilities warrant increased vigilance.** At end-2008, total public debt was equivalent to around 25 percent of GDP, with nearly all external. The joint IMF-World Bank Debt Sustainability Analysis highlights Cambodia's dependence on nondebt creating flows from abroad and risks posed by higher fiscal deficits (Appendix I). A failure to significantly rein in the deficit or the realization of possible contingent liabilities resulting from dislocations in the banking system, government guarantees on build-operate-transfer schemes, and/or large hydropower-related investments could negatively affect debt sustainability and jeopardize poverty reduction efforts. The staff urged the authorities to thoroughly review existing contracts for potential liabilities, and exercise caution when evaluating new investment projects that carry an explicit or implicit government guarantee.

#### IV. STAFF APPRAISAL

23. **Over the past decade Cambodia has made considerable strides, achieving sustained growth and poverty reduction, aided in part by the global upcycle.** Generally prudent policies have supported macroeconomic stability and enhanced credibility, while collaboration with development partners has helped address capacity constraints, which at times has held back reform efforts.

24. **However, over the past year, the economy has been buffeted by the global recession, with contracting activity further weakening the banking sector.** As the main anchor to stability, a cautious fiscal policy response is required, since excessive spending, larger deficits, and domestic financing could place downward pressure on the exchange rate, raise inflation concerns, and weaken the external position in the context of high dollarization. Given uncertain global prospects, policies should aim to protect vulnerable groups while preserving macroeconomic stability and address the urgent need to strengthen the banking sector.

25. **The current fiscal easing appears overly expansionary and insufficiently targeted.** Large increases in the wage bill will be difficult to roll back to make space for needed expenditure in priority social sectors as well as operations and maintenance. The domestic financing requirement should be eliminated in 2010 through a combination of revenue and expenditure measures, spending should be re-prioritized, and the deficit placed on a clear consolidation path over the medium term to safeguard debt sustainability in light of potentially rising contingent liabilities. In the absence of policy tightening, the exchange rate would need to be allowed to depreciate to protect international reserves. Continued gains in PFM would improve policy effectiveness, while publication of comprehensive budget data would increase accountability and transparency.

26. **The monetary stance is broadly appropriate, but conditions bear close watch in view of the liquidity overhang and recovery prospects.** Banks' excess reserves, fueled by rapid deposit growth but also reflecting weak credit demand, could reverse quickly and/or

invite weakened credit standards—each potentially elevating risks. Under current conditions, a reduction in the reserve requirement is neither warranted nor desirable on monetary or prudential grounds in light of relatively loose liquidity conditions and banks' weak balance sheets. Further efforts to strengthen liquidity monitoring and introduce new tradable instruments should help deepen interbank activity and improve banks' liquidity management. However, effective monetary controls will require greater confidence in and use of the riel, as well as a more flexible exchange rate arrangement. To this end, exchange market intervention should be limited to smoothing volatility, which would help protect foreign reserves, deepen the foreign exchange market, and facilitate external adjustment.

27. **The economic downturn and bursting of the property bubble have weakened banks' balance sheets and increased credit risks.** While the NBC has taken commendable actions, conducting prioritized onsite inspections and issuing supervisory letters to noncompliant banks, NPLs continue to mount and profitability is being squeezed by the combination of high funding costs and few lending opportunities. Strict enforcement of the new asset classification regime, implementation of corrective action plans, and development of a comprehensive bank restructuring framework are critical to strengthening banking system solvency. Supervision capacity, including staffing, should be increased, complemented by a temporary moratorium on new bank licensing, while care should be taken to ensure new securities regulations are consistent with those governing other segments of the financial system.

28. **A return to a path of high growth will require strong efforts to diversify the production base, strengthen competitiveness, and improve the business climate,** especially in light of the more subdued global outlook and challenges from low-cost regional producers. Reforms should aim at improving basic infrastructure and enhancing labor skills, as well as expanding market access through trade commitments and reducing the cost of doing business, including through streamlining investment approvals and customs procedures.

29. **In view of the uncertain external environment, macroeconomic imbalances, and systemic financial risks, staff will continue to monitor developments closely.** Given the lack of progress in resolving outstanding arrears to the Russian Federation and the United States remains a major hurdle to formal program engagement, staff urge all parties to demonstrate flexibility. Under any circumstances, the authorities should further carry out their reform efforts, which the IMF will continue to support through intensive technical assistance and policy dialogue.

30. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

**Table 1. Cambodia: Selected Economic Indicators, 2005–10**

	2005	2006	2007	2008	2009 1/	2009	2010
				Est.	Latest	Proj.	
<b>Output and prices (annual percent change)</b>							
GDP in constant prices	13.3	10.8	10.2	6.7	...	-2.7	4.3
(Excluding agriculture)	8.1	17.3	12.2	7.0	...	-5.4	3.9
Real agricultural output	15.7	5.5	5.0	5.7	...	5.0	5.0
GDP deflator	6.1	4.6	6.5	21.9	...	0.7	4.8
Inflation (end-year)	8.4	4.2	14.0	12.5	-2.3	5.3	6.0
(Annual average)	6.3	6.1	7.7	25.0	3.0	-0.6	5.5
<b>Saving and investment balance (in percent of GDP)</b>							
Gross national saving	-2.8	19.9	19.0	9.1	...	10.5	5.8
Government saving	1.9	1.8	2.9	2.6	...	0.2	-0.2
Private saving	-4.7	18.1	16.2	6.5	...	10.3	6.0
Gross fixed investment	1.0	20.6	20.8	19.5	...	16.0	17.0
Government investment	4.9	5.7	6.1	5.8	...	7.5	7.6
Private investment 2/	-3.9	14.8	14.7	13.7	...	8.5	9.4
<b>Money and credit (annual percent change, unless otherwise indicated)</b>							
Broad money	16.1	38.2	62.9	4.8	12.9	23.5	12.9
Net credit to the government 3/	-4.9	-10.6	-12.4	-11.1	0.8	4.9	5.6
Private sector credit	31.8	51.6	76.0	55.0	4.1	3.5	17.0
Velocity of money 4/	5.4	4.9	3.9	3.7	3.4	3.4	3.1
<b>Public finance (in percent of GDP)</b>							
Revenue 5/	10.3	11.5	11.9	12.0	7.5	12.0	12.4
Of which: Tax revenue	7.6	7.9	9.5	9.9	6.2	9.8	10.3
Expenditure	12.8	14.2	14.7	14.8	10.5	18.8	19.9
Current expenditure	7.9	8.5	8.7	9.0	6.5	11.3	12.3
Capital expenditure 6/	4.9	5.7	6.1	5.8	4.0	7.5	7.6
Overall budget balance (excluding grants)	-2.5	-2.7	-2.9	-2.8	-3.0	-6.7	-7.4
Foreign financing, net	4.9	4.8	5.0	5.3	2.6	5.5	5.8
Domestic financing, net 7/	-2.4	-2.0	-2.2	-2.5	0.4	1.2	1.6
<b>Balance of payments (in millions of dollars, unless otherwise indicated)</b>							
Exports, f.o.b.	2,910	3,694	4,089	4,433	...	3,892	4,059
(Annual percent change)	12.4	26.9	10.7	8.4	-9.6	-12.2	4.3
Imports, f.o.b.	-3,904	-4,727	-5,432	-6,679	...	-5,501	-6,446
(Annual percent change)	19.4	21.1	14.9	22.9	-7.3	-17.6	17.2
Current account (including official transfers)	-240	-47	-151	-1,175	...	-597	-1,319
(In percent of GDP)	-3.8	-0.6	-1.7	-10.4	...	-5.5	-11.2
Gross official reserves 8/	915	1,097	1,616	2,164	2,272	2,199	2,137
(In months of prospective imports)	2.0	2.1	2.5	4.0	3.6	3.5	3.1
(In percent of foreign currency deposits)	105.0	85.7	70.8	95.2	...	79.3	70.1
<b>External debt (in millions of dollars, unless otherwise indicated)</b>							
Public external debt 9/	2,120	2,254	2,571	2,773	...	3,170	3,531
(In percent of GDP)	33.7	31.0	29.6	24.6	...	29.2	30.1
Public debt service (cash basis)	28	28	35	38	...	47	61
(In percent of exports of goods and services)	0.7	0.6	0.6	0.6	...	0.9	1.1
<b>Memorandum items:</b>							
Nominal GDP (in billions of riels)	25,754	29,849	35,042	45,583	...	44,696	48,843
(In millions of U.S. dollars)	6,286	7,264	8,691	11,277	...	...	...
Exchange rate (riels per dollar; period average)	4,097	4,109	4,032	4,042	4,159	...	...

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

1/ Data as of the following dates: public finance and monetary (August); exports and imports (August); CPI (September); gross official reserves (September 30); and the exchange rate (as of October 26). Latest trade data based on reported figures from the Customs and Excise Department.

2/ Includes nonbudgetary grant-financed investment.

3/ Contribution to broad money growth.

4/ Ratio of nominal GDP to the average stock of broad money.

5/ In 2006, includes transfer from the IMF of Multilateral Debt Relief Initiative (MDRI) proceeds as capital revenue.

6/ In 2005, includes repayment of arrears.

7/ Includes funds in transit and payment orders in excess of cash released.

8/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

9/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

**Table 2. Cambodia: Balance of Payments, 2007–14**

(In millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014
		Est.			Proj.			
Current account (including official transfers)	-151	-1,175	-597	-1,319	-1,585	-1,547	-1,455	-1,452
(Excluding official transfers)	-705	-1,733	-1,147	-1,880	-2,157	-2,130	-2,051	-2,059
Trade balance	-1,343	-2,246	-1,608	-2,387	-2,722	-2,902	-3,085	-3,234
Exports, f.o.b.	4,089	4,433	3,892	4,059	4,424	4,739	5,102	5,496
<i>Of which:</i> Garments	2,840	2,899	2,445	2,522	2,743	2,905	3,080	3,263
Imports, f.o.b.	-5,432	-6,679	-5,501	-6,446	-7,146	-7,641	-8,187	-8,730
<i>Of which:</i> Garments-related	-1,326	-1,355	-1,147	-1,160	-1,262	-1,316	-1,374	-1,434
Petroleum	-1,362	-2,075	-1,559	-2,145	-2,374	-2,544	-2,746	-2,963
Services and income (net)	261	148	169	147	165	224	405	475
Services (net)	643	616	478	499	535	634	851	954
<i>Of which:</i> Tourism (credit)	1,135	1,221	998	1,090	1,212	1,340	1,472	1,613
Income (net)	-381	-468	-309	-352	-370	-410	-446	-479
Private transfers (net)	377	365	292	360	400	548	630	700
Official transfers (net)	554	558	550	561	572	584	595	607
Capital and financial account	567	1,690	575	1,240	1,445	1,414	1,484	1,553
Medium- and long-term loans (net)	240	223	377	352	342	320	336	337
Disbursements	259	260	413	395	390	373	407	432
Amortization	-19	-37	-36	-42	-48	-53	-71	-94
Foreign direct investment 1/	867	815	593	723	803	894	997	1,115
Net foreign assets of deposit money banks (+ decrease) 2/	-384	692	-716	77	250	200	150	100
Other short term flows and errors and omissions	-156	-41	321	88	50	0	0	0
Overall balance	416	515	-23	-79	-140	-133	28	100
Financing	-416	-515	23	79	140	133	-28	-100
Change in gross official reserves 3/	-436	-535	3	61	124	118	-44	-117
Use of IMF credit	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0
Accumulation of arrears	20	21	19	18	16	15	16	16
Memorandum items:								
Current account balance (in percent of GDP)								
Excluding official transfers	-8.1	-15.4	-10.6	-16.0	-16.5	-14.6	-12.8	-11.7
Including official transfers	-1.7	-10.4	-5.5	-11.2	-12.1	-10.6	-9.1	-8.2
Trade balance (in percent of GDP)	-15.5	-19.9	-14.8	-20.4	-20.8	-19.9	-19.2	-18.4
Exports, f.o.b. (annual percent change)	10.7	8.4	-12.2	4.3	9.0	7.1	7.7	7.7
<i>Of which:</i> Garments	6.6	2.1	-15.7	3.2	8.7	5.9	6.0	6.0
Nongarments	21.3	22.8	-5.6	6.2	9.4	9.0	10.3	10.4
Imports, f.o.b. (annual percent change)	14.9	22.9	-17.6	17.2	10.9	6.9	7.2	6.6
<i>Of which:</i> Garment-related	2.2	2.2	-15.4	1.2	8.7	4.3	4.4	4.3
Petroleum	21.2	52.4	-24.9	37.6	10.7	7.2	7.9	7.9
Nongarment, nonpetroleum imports	18.0	21.2	-14.0	12.4	11.8	7.7	7.6	6.5
Gross official reserves 4/	1,616	2,164	2,199	2,137	2,013	1,896	1,940	2,056
(In months of next year's imports)	2.5	4.0	3.5	3.1	2.7	2.4	2.3	2.3

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

1/ Includes some debt creating flows related to power sector projects.

2/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the NBC.

3/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.

4/ Excludes unrestricted FCDs held as reserves at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

**Table 3. Cambodia: Medium-Term Macroeconomic Framework, 2007–14**

	2007	2008	2009	2010	2011	2012	2013	2014
	Est.		Proj.					
<b>Output and prices (percent change)</b>								
GDP at constant prices	10.2	6.7	-2.7	4.3	6.8	6.2	6.0	6.2
GDP deflator	6.5	21.9	0.7	4.8	4.4	4.9	4.1	3.5
Consumer prices (end-year)	14.0	12.5	5.3	6.0	4.9	4.0	3.4	3.0
<b>Saving and investment balance (in percent of GDP)</b>								
Gross national saving	19.0	9.1	10.5	5.8	6.9	9.4	12.4	14.3
Government saving	2.9	2.6	0.2	-0.2	1.8	2.1	2.4	2.5
Private saving	16.2	6.5	10.3	6.0	5.1	7.3	10.0	11.7
Gross fixed investment	20.8	19.5	16.0	17.0	19.0	20.0	21.5	22.5
Government investment	6.1	5.8	7.5	7.6	7.0	6.5	6.4	6.3
Private investment 1/	14.7	13.7	8.5	9.4	12.0	13.5	15.1	16.2
<b>Public finance (in percent of GDP) 2/</b>								
Revenue	11.9	12.0	12.0	13.2	13.7	14.0	14.4	14.5
<i>Of which:</i> Tax revenue	9.5	9.9	9.8	11.1	11.5	11.8	12.2	12.3
Expenditure	14.7	14.8	18.8	19.0	18.5	18.0	18.0	17.9
Current	8.7	9.0	11.3	11.4	11.5	11.5	11.6	11.6
Capital	6.1	5.8	7.5	7.6	7.0	6.5	6.4	6.3
Current balance	2.9	2.6	0.2	1.4	1.8	2.1	2.4	2.5
Primary balance (including grants)	-0.5	0.4	-3.9	-3.0	-2.1	-1.3	-1.0	-0.9
Overall balance (excluding grants)	-2.9	-2.8	-6.7	-5.8	-4.8	-3.9	-3.6	-3.4
(Including grants)	-0.7	0.3	-4.1	-3.2	-2.4	-1.6	-1.3	-1.1
External financing, net (including grants)	5.0	5.3	5.5	5.8	5.2	4.7	4.6	4.3
Domestic financing, net	-2.2	-2.5	1.2	0.0	-0.5	-0.8	-1.0	-0.9
<b>Balance of payments (in percent of GDP, unless otherwise indicated)</b>								
Exports (percent change) 3/	9.5	7.1	-13.0	4.4	9.4	7.4	8.0	8.1
Imports (percent change) 4/	14.3	24.5	-18.0	17.6	11.1	7.1	7.3	6.8
Current account balance (including transfers)	-1.7	-10.4	-5.5	-11.2	-12.1	-10.6	-9.1	-8.2
(Excluding transfers)	-8.1	-15.4	-10.6	-16.0	-16.5	-14.6	-12.8	-11.7
Foreign direct investment (in millions of U.S. dollars)	867	815	593	723	803	894	997	1,115
Net official capital flows 5/	9.1	6.9	8.6	7.8	7.0	6.2	5.8	5.4
Overall balance	4.8	4.6	-0.2	-0.7	-1.1	-0.9	0.2	0.6
<b>Gross official reserves (in millions of U.S. dollars) 6/</b>								
(In months of next year's imports)	2.5	4.0	3.5	3.1	2.7	2.4	2.3	2.3
<b>Public external debt (in millions of U.S. dollars) 7/ 8/</b>								
(In percent of GDP)	29.6	24.6	29.2	30.1	29.7	28.9	28.4	27.9
<b>Public external debt service (in millions of U.S. dollars) 9/</b>								
(In percent of exports of goods and services, cash basis)	0.6	0.6	0.9	1.1	1.2	1.3	1.5	1.8
(In percent of exports of goods and services, accrual basis)	1.0	1.0	1.3	1.5	1.5	1.6	1.8	2.0

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

1/ Includes nonbudgetary grant-financed investment.

2/ For 2010, includes additional revenue and expenditure measures equivalent to overall deficit reduction of 1.6 percent of GDP.

3/ Excludes re-exported goods.

4/ Excludes imported goods for re-export.

5/ Net official disbursements, exceptional financing, and official transfers.

6/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

7/ From 2006, includes the impact of debt forgiveness from the IMF under the MDRI.

8/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

9/ Cash basis, excluding the accumulation of arrears on debt owed to the Russian Federation and the United States.



Table 4. Cambodia: General Government Operations, 2006–10

	2006	2007	2008		2009		2010	
			Budget	Est.	Budget	Jan.–Aug. Est.	Staff Proj.	Staff Proj.
	(In billions of riels)							
Total revenue	3,431	4,165	4,109	5,463	5,397	3,332	5,380	6,068
<i>Of which:</i> Central government	3,240	3,962	3,957	5,188	5,105	3,137	5,102	5,760
Tax revenue	2,372	3,343	3,241	4,494	4,342	2,751	4,386	5,009
Direct taxes	331	480	486	654	746	512	751	833
Indirect taxes	1,920	2,676	2,624	3,433	3,324	1,459	3,377	3,889
<i>Of which:</i> Trade taxes	644	903	858	1,087	1,032	594	1,005	1,144
Provincial taxes	121	187	131	259	272	185	258	287
Nontax revenue	681	705	710	769	871	449	755	859
Capital revenue 1/	377	117	157	200	183	132	238	200
<i>Of which:</i> MDRI capital transfer 2/	341	0	0	0	0	0	0	0
Total expenditure	4,244	5,164	5,680	6,751	7,417	4,676	8,390	9,697
Current expenditure	2,527	3,043	3,569	4,097	4,658	2,898	5,054	5,983
Wages	975	1,058	1,242	1,438	1,730	1,202	2,137	2,366
Nonwage	1,372	1,766	2,120	2,311	2,572	1,542	2,559	3,246
<i>Of which:</i> Interest payments	50	70	75	79	100	54	100	120
Provincial expenditure	180	220	207	347	357	154	357	371
Capital expenditure	1,716	2,121	2,111	2,654	2,759	1,778	3,337	3,713
Locally financed	381	436	709	701	966	677	966	982
From MDRI capital transfer	0	2	2	10	93	0	93	126
Externally financed 3/	1,336	1,682	1,400	1,943	1,700	1,101	2,278	2,605
Current balance	526	1,005	383	1,166	555	13	88	-115
Overall balance (excluding grants)	-813	-999	-1,571	-1,288	-2,020	-1,344	-3,010	-3,628
Additional measures	...	...	...	...	...	...	...	802
Overall balance (including additional measures)	-813	-999	-1,571	-1,288	-2,020	-1,344	-3,010	-2,826
Financing	813	999	1,571	1,288	2,020	1,344	3,010	3,628
Foreign (net)	1,418	1,768	1,501	2,423	1,895	1,152	2,460	2,826
Disbursements	1,474	1,870	1,621	2,526	2,035	1,223	2,600	2,965
Grants	761	764	883	1,405	1,078	648	1,184	1,260
Loans	712	1,106	738	1,121	957	574	1,416	1,705
Amortization	-55	-102	-120	-102	-140	-71	-140	-139
Domestic (net)	-606	-769	70	-1,135	125	192	551	802
<i>Of which:</i> Bank financing (net)	-532	-863	120	-1,171	155	364	581	817
	(In percent of GDP)							
Total revenue	11.5	11.9	10.9	12.0	11.1	7.5	12.0	12.4
<i>Of which:</i> Central government	10.9	11.3	10.5	11.4	10.5	7.0	11.4	11.8
Tax revenue	7.9	9.5	8.6	9.9	9.0	6.2	9.8	10.3
Nontax revenue	2.3	2.0	1.9	1.7	1.8	1.0	1.7	1.8
Capital revenue 1/	1.3	0.3	0.4	0.4	0.4	0.3	0.5	0.4
Total expenditure	14.2	14.7	15.1	14.8	15.3	10.5	18.8	19.9
Current expenditure	8.5	8.7	9.5	9.0	9.6	6.5	11.3	12.3
<i>Of which:</i> Wages	3.3	3.0	3.3	3.2	3.6	2.7	4.8	4.8
Nonwage	4.6	5.0	5.6	5.1	5.3	3.5	5.7	6.6
Capital expenditure 3/	5.7	6.1	5.6	5.8	5.7	4.0	7.5	7.6
<i>Of which:</i> Locally financed	1.3	1.2	1.9	1.5	2.0	1.5	2.2	2.0
Current balance	1.8	2.9	1.0	2.6	1.1	0.0	0.2	-0.2
Overall balance (excluding grants)	-2.7	-2.9	-4.2	-2.8	-4.2	-3.0	-6.7	-7.4
Additional measures 4/	...	...	...	...	...	...	...	1.6
Overall balance (including additional measures)	-2.7	-2.9	-4.2	-2.8	-4.2	-3.0	-6.7	-5.8
Financing (net)	2.7	2.9	4.2	2.8	4.2	3.0	6.7	7.4
Foreign	4.8	5.0	4.0	5.3	3.9	2.6	5.5	5.8
Disbursements	4.9	5.3	4.3	5.5	4.2	2.7	5.8	6.1
Grants	2.5	2.2	2.3	3.1	2.2	1.5	2.6	2.6
Loans	2.4	3.2	2.0	2.5	2.0	1.3	3.2	3.5
Amortization	-0.2	-0.3	-0.3	-0.2	-0.3	-0.2	-0.3	-0.3
Domestic	-2.0	-2.2	0.2	-2.5	0.3	0.4	1.2	1.6
<i>Of which:</i> Bank financing (net)	-1.8	-2.5	0.3	-2.6	0.3	0.8	1.3	1.7
Memorandum items:								
Tax Department revenue	2.6	3.1	2.9	3.3	3.5	2.4	3.7	3.9
Customs Department revenue	5.0	6.1	5.4	6.1	5.0	3.4	5.6	5.9
Priority sector spending 5/	3.0	2.8	3.1	2.8	3.1	1.9	...	...
GDP (in billions of riels)	29,849	35,042	37,694	45,583	48,446	44,696	44,696	48,843

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

1/ Capital revenue includes privatization proceeds.

2/ The full amount of MDRI proceeds (CR 341 billion) was recorded as capital revenue in 2006. In subsequent years, spending under the MDRI has been recorded as capital expenditure.

3/ Capital expenditure (externally financed) includes a statistical discrepancy, reflecting the difference between actual and recorded disbursements.

4/ Additional measures to reduce the domestic financing requirement to zero in 2010.

5/ Current spending by the ministries of public health; education, youth and sport; agriculture, forestry and fishery; rural development; woman affairs; justice; and urbanization and construction.

Table 5. Cambodia: Monetary Survey, 2006–10

	2006	2007	2008	2009				2010	
	Dec.	Dec.	Dec.	Mar.	Jun.	Jul.	Aug.	Dec. Proj.	Dec. Proj.
	(In billions of riels)								
Net foreign assets	7,224	10,735	10,346	11,222	12,611	13,103	13,346	13,251	12,684
National Bank of Cambodia	5,729	8,579	10,776	11,202	12,488	12,863	12,608	12,314	11,497
Foreign assets	5,729	8,579	10,776	11,202	12,488	12,863	13,029	12,736	11,918
Foreign liabilities	0	0	0	0	0	0	421	421	421
Deposit money banks	1,496	2,156	-431	20	123	239	738	937	1,187
Foreign assets	1,921	3,311	2,110	2,263	2,078	2,491	2,653	2,818	2,818
Foreign liabilities	426	1,156	2,540	2,243	1,955	2,252	1,914	1,881	1,631
Net domestic assets	-282	576	1,513	1,266	1,249	1,008	1,070	1,397	3,853
Domestic credit	2,676	4,570	6,907	6,766	7,241	7,299	7,404	7,834	10,393
Government (net)	-953	-1,816	-2,987	-3,048	-2,889	-2,807	-2,623	-2,406	-1,589
Private sector	3,628	6,385	9,893	9,813	10,130	10,106	10,027	10,240	11,981
Other items (net)	-2,959	-3,994	-5,394	-5,500	-5,992	-6,291	-6,333	-6,437	-6,539
Broad money	6,942	11,311	11,859	12,488	13,860	14,111	14,417	14,648	16,537
Narrow money	1,658	2,052	2,400	2,545	2,695	2,770	2,735	2,808	3,453
Currency in circulation	1,600	1,990	2,295	2,465	2,604	2,659	2,637	2,685	3,302
Demand deposits	58	62	105	81	92	112	98	123	150
Quasi-money	5,285	9,259	9,459	9,942	11,164	11,340	11,681	11,841	13,084
Time deposits	89	121	185	193	243	282	289	296	384
Foreign currency deposits	5,196	9,138	9,274	9,749	10,922	11,058	11,392	11,545	12,700
	(12-month percentage change)								
Net foreign assets	31.9	48.6	-3.6	2.8	11.1	19.4	19.8	28.1	-4.3
Private sector credit	51.6	76.0	55.0	21.9	10.0	6.5	4.1	3.5	17.0
Broad money	38.2	62.9	4.8	3.7	9.1	11.0	12.9	23.5	12.9
Of which: Currency in circulation	24.8	24.4	15.3	6.1	10.9	9.7	16.3	17.0	23.0
Foreign currency deposits	44.8	75.9	1.5	2.3	8.3	10.0	11.0	24.5	10.0
	(Contribution to year-on-year growth of broad money, in percentage points)								
Net foreign assets	34.8	50.6	-3.4	2.6	9.9	16.7	17.2	24.5	-3.9
Net domestic assets	25.8	12.4	8.3	1.1	-0.8	-5.7	-4.3	-1.0	16.8
Domestic credit	14.0	-17.5	20.7	9.3	5.6	3.2	4.0	7.8	17.5
Government (net)	-10.6	-12.4	-10.4	-5.4	-1.7	-1.6	0.8	4.9	5.6
Private sector	24.6	39.7	31.0	14.6	7.3	4.8	3.1	2.9	11.9
Other items (net)	-10.7	-14.9	-12.4	-8.2	-6.4	-8.9	-8.3	-8.8	-0.7
Memorandum items:									
Foreign currency deposits (in millions of U.S. dollars)	1,279	2,283	2,273	2,382	2,623	2,639	2,748	2,773	3,050
(In percent of broad money)	74.8	80.8	78.2	78.1	78.8	78.4	79.0	78.8	76.8
Riel component of broad money	1,746	2,173	2,584	2,738	2,938	3,052	3,025	3,103	3,837
(In percent of broad money)	25.2	19.2	21.8	21.9	21.2	21.6	21.0	21.2	23.2
Credit to the private sector (in millions of U.S. dollars)	893	1,595	2,424	2,398	2,433	2,411	2,418	2,459	2,877
(In percent of GDP)	12.2	18.2	21.7	22.3	22.7	22.5	22.5	22.9	24.5
Loan-to-deposit ratio (in percent) 1/	67.1	67.4	103.5	97.6	90.2	88.9	85.8	76.5	69.5
Velocity 2/	4.9	3.9	3.7	3.7	3.5	3.4	3.4	3.4	3.1
Money multiplier (broad money/reserve money)	2.1	2.3	1.9	1.9	1.8	1.7	1.8	1.8	2.0
Reserve money (12-month percent change)	28.3	48.3	21.6	19.1	27.1	32.9	18.4	30.3	2.9

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

1/ Foreign currency loans and deposits only.

2/ The ratio of nominal GDP to the year-to-date average stock of broad money.

**Table 6. Cambodia: Financial Soundness Indicators, 2006–09**

	2006	2007	2008			2009		
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
Number of banks	20	24	24	25	28	30	30	32
Commercial banks	15	17	17	20	22	24	24	26
<i>Of which</i> : State-owned banks	1	1	1	1	1	1	1	1
Specialized banks 1/	5	7	7	5	6	6	6	6
Bank concentration—number of banks accounting for:								
25 percent of banks' total assets	2	2	2	2	2	2	2	2
75 percent of banks' total assets	7	6	6	7	6	6	6	6
Capital adequacy (in percent)								
Regulatory capital to risk-weighted assets	26.5	23.6	24.1	25.6	25.6	27.8	27.8	27.8
Capital to assets	20.0	17.0	17.9	19.4	19.5	22.0	22.1	22.1
Nonperforming loans net of provisions to capital	19.4	8.2	5.5	5.3	4.9	7.5	9.2	8.7
Asset quality (in percent)								
Nonperforming loans to regulatory total loans	9.9	3.4	2.5	2.6	2.7	3.7	5.1	5.2
Large exposures to capital	60.4	7.3	53.0	43.4	38.7	42.3	37.3	36.5
Sectoral distribution of loans (in percent of total loans)								
Real estate	8.6	7.9	9.4	7.0	7.6	7.5	7.1	6.6
Construction	7.7	10.2	9.1	7.0	6.8	7.9	7.9	8.0
Consumer	10.2	19.7	19.7	20.3	21.5	21.8	20.4	19.8
Earnings and profitability (in percent)								
Return on assets	2.8	2.8	4.0	3.4	3.1	2.9	1.3	1.3
Return on equity	14.2	16.6	22.2	17.6	15.8	13.1	6.1	5.7
Liquidity (in percent)								
Liquid assets ratio 2/	41.7	48.4	39.7	37.7	38.6	35.9	37.3	39.6
Liquid assets to total deposits	56.6	65.6	55.5	55.0	60.9	59.3	59.8	61.0
Liquid assets ratio net of short-term liabilities	49.4	43.5	33.9	30.4	27.8	24.3	27.7	32.8
Loan-to-deposit ratio 3/	60.5	62.7	76.1	82.4	85.5	94.0	88.5	81.4
Foreign exchange exposure (in percent)								
Foreign currency loans to total loans	97.2	97.7	98.0	98.2	98.2	98.0	97.9	98.1
Foreign currency deposits to total deposits	96.7	97.6	97.6	97.1	96.9	96.3	96.6	96.6
Memorandum item:								
Banks' assets (in percent of GDP)	26.0	38.4	38.3	39.6	41.1	37.3	37.7	40.5

Sources: National Bank of Cambodia; and IMF staff estimates.

1/ Specialized banks are lending institutions that do not take deposits and are subject to lower capital requirements than commercial banks.

2/ Net of gross interbank transactions with resident banks.

3/ Commercial banks only.

Table 7. Cambodia: Millennium Development Goals Indicators

	1990	1995	2000	2002	2003	2004	2005	2006	2007	2015 MDG Target
<b>Goal 1: Eradicate extreme poverty and hunger</b>										
Percentage share of income or consumption held by poorest 20 percent	...	9	...	...	...	...	7	...	...	11
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	...	...	21
Poverty headcount, national (percent of population)	...	47	...	...	...	...	35	...	...	20
Prevalence of underweight in children (under five years of age)	...	...	45	...	...	...	...	...	...	26
<b>Goal 2: Achieve universal primary education</b>										
Net primary enrollment (percent of relevant age group)	67	...	85	93	...	...	91	...	96	100
Primary completion rate, total (percent of relevant age group)	...	...	55	55	54	57	55	...	87	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	61	60	63	62	...	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	80	...	83	...	...	...	100
<b>Goal 3: Promote gender equality and empower women</b>										
Proportion of seats held by women in national parliament (percent)	...	...	8	7	7	10	10	10	10	30
Ratio of girls to boys in primary and secondary education (percent)	73	...	82	85	86	87	90	89	93	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	90	...	90	90	...	...	100
Share of women employed in the nonagricultural sector (percent)	41	46	52	53	...	53	...	...	...	...
<b>Goal 4: Reduce child mortality</b>										
Immunization, measles (percent of children ages 12–23 months)	34	62	65	52	65	80	79	78	78	90
Infant mortality rate (per 1,000 live births)	84	89	78	...	...	...	67	65	65	50
Under 5 mortality rate (per 1,000)	116	123	104	...	...	...	85	82	82	38
<b>Goal 5: Improve maternal health</b>										
Births attended by skilled health staff (percent of total)	...	...	32	...	...	...	44	...	44	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	...	...	...	540	...	540	250
<b>Goal 6: Combat HIV/AIDS, malaria, and other diseases</b>										
Incidence of tuberculosis (per 100,000 people)	577	549	530	520	515	510	505	500	500	...
Prevalence of HIV, total (percent of population 15–49)	...	...	...	...	3	3	2	...	1	...
<b>Goal 7: Ensure environmental sustainability</b>										
Access to an improved water source (percent of population)	...	...	...	34	...	...	...	65	65	...
Access to improved sanitation (percent of population)	...	...	...	16	...	...	...	28	28	...
Nationally protected areas (percent of total land area)	...	...	...	...	19	24	...	...	...	...
<b>Goal 8: Develop a global partnership for development</b>										
Aid per capita (current U.S. dollars)	4	50	31	37	38	35	39	37	37	...
Fixed line and mobile phone subscribers (per 100 people)	0	2	1	3	4	7	8	12	18	...
Internet users (per 1,000 people)	...	...	6	30	35	41	44	66	70	...
Personal computers (per 1,000 people)	...	0	1	2	2	2	...	...	...	...
Total debt service (percent of exports of goods and services)	...	1	2	1	1	1	1	1	1	...
<b>Goal 9: De-mining, UXO, and assistance</b>										
Annual numbers of civilian casualties recorded	...	1,691	...	...	...	...	797	...	...	0
Percentage of suspected contaminated areas cleared	...	10	...	...	...	...	50	...	...	100
<b>Other</b>										
Fertility rate, total (births per woman)	6	...	4	4	4	3	3	3	3	...
GNI per capita, Atlas method (current U.S. dollars)	...	280	280	300	340	380	440	490	540	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.1	3.6	4.0	4.5	5.3	6.2	7.0	7.9	...
Gross capital formation (percent of GDP)	8	15	17	20	22	18	20	21	22	...
Life expectancy at birth, total (years)	50	...	...	54	54	54	58	59	59	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	69	...	74	...	...	...	...
Population, total (millions)	9.6	11.2	12.7	13.2	13.4	13.6	14.0	14.2	13.4	...
Trade (percent of GDP)	19	80	114	127	133	146	137	134	145	...

Sources: World Bank database, *World Development Indicators*, and *Poverty Assessment* (2006); *UN Human Development Indicators Report* (2003); Cambodia MDG 2005 update; and IMF staff estimates.

INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMBODIA

**Joint IMF/World Bank Debt Sustainability Analysis 2009<sup>1</sup>**

Prepared by the staffs of the International Monetary Fund and  
the International Development Association

Approved by Kalpana Kochhar and Dominique Desruelle (IMF)  
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October 30, 2009

*This document presents the joint IMF-World Bank debt sustainability analysis (DSA) for Cambodia using the Debt Sustainability Framework (DSF) for Low-Income Countries (LICs).<sup>2</sup> It shows that external debt burden indicators do not breach the relevant policy-dependent indicative thresholds under the baseline scenario. However, the debt level is sensitive to a number of standard bound tests.<sup>3</sup> There are considerable downside risks to the baseline scenario, given a continued building of external pressures in the face of weak export performance and an expansionary fiscal stance, with possible reserve losses over the medium term. An assessment of the impact of a continued expansionary fiscal stance on external debt sustainability underscores the importance of fiscal adjustment over the near to medium term. The results show Cambodia faces a moderate risk of debt distress.*

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<sup>1</sup> This DSA was prepared jointly by the IMF and World Bank. Staffs also collaborated with the Asian Development Bank. Debt data for this exercise were provided by the Cambodian authorities and donor partners.

<sup>2</sup> See “Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications” (<http://www.imf.org/external/np/pdr/sustain/2004/020304.htm> and IDA/SECM2004/0035, 2/3/04) and “Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications” (<http://www.imf.org/external/np/pdr/sustain/2004/091004.htm> and IDA/SECM2004/0629, 9/10/04), “Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief,” ([www.imf.org/external/np/pp/eng/2006/110606.pdf](http://www.imf.org/external/np/pp/eng/2006/110606.pdf) and IDA/SecM2006-0564, 8/11/06), and “A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework” (IDA/SecM2009-49870, 8/23/09 and <http://www.imf.org/external/np/pp/eng/2009/080509a.pdf>).

<sup>3</sup> The low-income country debt sustainability framework (LIC DSF) recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels for debt indicators are policy dependent. Cambodia’s policies and institutions, as measured by the World Bank’s Country Policy and Institutional Assessment (CPIA), averaged 3.22 over the past three years, placing it as a “weak performer.” The relevant indicative thresholds for this category are: 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, 200 percent for the NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 25 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly-guaranteed external debt.

## I. INTRODUCTION

1. **Cambodia's DSA indicates that the risk of debt distress remains moderate.**

Under the baseline scenario, external debt burden indicators do not breach the relevant indicative thresholds. However, in alternative scenarios and stress tests, the debt indicators breach several indicative thresholds.

2. **Staffs have analyzed an additional scenario of a delay in fiscal adjustment in a partial equilibrium setting.**

In the face of weak export performance and uncertain growth prospects, the government could possibly maintain an accommodative fiscal stance. However, given limits to domestic financing and to avoid pressure on reserves, this could result in a large external financing requirement. In the event, external debt burden indicators would breach several indicative thresholds.

## II. BACKGROUND AND ASSUMPTIONS

3. **Cambodia's external public and publicly-guaranteed (PPG) debt stock was around 25 percent of GDP in nominal terms and 20 percent in net present value (NPV) terms at end-2008.**<sup>4</sup> Until last year, strong economic growth and favorable external conditions contributed to a decline in debt ratios. With an expected contraction in Cambodia's economy and increased assistance from donors in the face of global recession in 2009, the stock of external PPG is projected to rise to 29 percent of GDP by year end. Cambodia's debt stock and debt service indicators are below the policy-based indicative thresholds. The nominal debt stock in PV terms as a share of exports of goods and nonfactor services and of government revenues is projected at 49 percent and 197 percent in 2009, respectively.

<b>Cambodia: External Public Debt Indicators at End-2008</b>		
	Indicative Thresholds	End-2008
NPV of debt, as a percent of:		
GDP	30	19.8
Exports	100	36.7
Revenue	200	164.9
Debt service, as a percent of:		
Exports	15	0.9
Revenue	25	4.2
Sources: Cambodian authorities; and IMF and World Bank staff estimates.		

4. **Around half of external debt in Cambodia is held by multilateral creditors,** mainly the Asian Development Bank (30 percent) and the World Bank's International

<sup>4</sup> Comprises general government debt excluding state-owned enterprises.

Development Association (20 percent). China is currently the largest bilateral creditor, accounting for about 63 percent of total bilateral disbursement in 2009. As new creditors emerge and increase their presence in Cambodia, the government should ensure appropriate concessionality from these lenders, given Cambodia's development needs and its capacity to service new debt. This further underscores the need for the authorities to strengthen the capacity in debt management and ensure that new debt is contracted on a sustainable basis.

<b>Cambodia: Stock of Public and Publicly-Guaranteed External Debt at End-2008</b>		
	As a Share of Total External Debt	In percent of GDP
Total	100	25
Multilateral	49	13
Bilateral	51	12
<i>Of which: Nonrescheduled debt with the United States and Russian Federation</i>	28	7
Sources: Cambodian authorities; and IMF and World Bank staffs' estimates.		

5. **The size of domestic public debt is currently small and negative on a net basis due to government deposits.** At end-2008, the stock of recorded domestic public debt was equivalent to slightly less than 1 percent of GDP, while government deposits amounted to about 6 percent of GDP. The relatively large fiscal deficit projected in 2009 is expected to be financed, in part, by a significant drawdown in government deposits. Over the medium term, assuming a return to a path of fiscal consolidation, government's net domestic financing requirement would be eliminated. The baseline scenario assumes that the authorities take adjustment measures to reduce the deficit starting in 2010, which would lead to a stabilization of the debt stock in the medium and long term.

6. **Cambodia remains in arrears to the Russian Federation and the United States.** Following a Paris Club agreement in 1995, Cambodia concluded agreements with France, Germany, Italy, and Japan. Negotiations of outstanding debt obligations with the Russian Federation and the United States are ongoing, with their status unchanged since the last DSA. Currently, Cambodia is not servicing its debt with either of these creditors, and efforts to conclude agreements with each under the framework of the Paris Club are required. Since prospects for resolution are unclear, the current DSA assumes no restructuring in its baseline, with arrears continuing to build up throughout the projection period. In measuring debt levels, the DSA incorporates the negotiated debt stock for the Russian Federation (US\$457 million) and the agreed amount of total principal due for the United States (US\$162 million).<sup>5</sup>

<sup>5</sup> For this DSA, staffs continue to apply the standard 70 percent discount to the nominal value of debt owed to the Russian Federation.

7. **The main underlying macroeconomic assumptions are presented in Box 1.** They reflect the impact of the global recession and weakened economy, marked in Cambodia by

**Box 1: Main Assumptions for the Baseline Scenario (2009–29)**

- **Real GDP growth** is projected at minus 2.7 percent in 2009, reflecting the impact of global recession, with a sharp contraction in garment exports, construction activities, and tourism. Given uncertain prospects for a global recovery and heavy export concentration in garments (nearly two-thirds of which go to the United States), growth is expected to rebound modestly to 4.3 percent in 2010—far below the 9 percent annual average during 2006–09. Growth is projected to rise to around 7 percent in 2011 as global and domestic conditions improve, before stabilizing at 6–7 percent over the medium and longer term. Important drivers of future growth will be new export opportunities in light manufactures and agribusiness, as well as more expansive tourism activity. This in turn will depend on an improved investment climate as well as a recovery in foreign direct investment (FDI) starting in 2010, following a sharp projected reduction in 2009 by nearly 30 percent from the previous year’s level owing to global financial conditions. Over the longer term, FDI is expected to be sustained at around 5–6 percent of GDP a year, leading to stronger export growth and supported by stable macroeconomic conditions.
- **The external current account deficit** (including official transfers) is projected to improve in 2009 to 5½ percent of GDP, compared to 10½ percent in 2008, as sharp declines in garment exports and tourism receipts are more than offset by falling import demand and lower oil prices. The trade deficit is expected to widen in 2010 and 2011 as garment export demand remains sluggish initially, but with construction- and consumer-related imports rising sharply and higher oil prices also affecting import levels. The macroeconomic framework incorporates recent projects in the power sector (some of which are already underway), which increases imports and FDI in the near term. Over the longer term, the current account deficit is expected to settle in the range of 5–6 percent of GDP a year. Official assistance (grants and loans) would decline gradually as a share of GDP, while FDI and other private inflows would rise gradually. The baseline scenario also assumes that an increasing but moderate level of external borrowing would be on less concessional terms, including from some bilateral creditors (the average grant element is assumed to be some 20 percentage points lower starting in the medium term than in the previous DSA, mostly reflecting a lower discount rate). Gross official reserves, which are expected to be around US\$2.2 billion (3.5 months of next year’s imports) at end-2009, would decline slowly through 2012 to US\$1.9 billion (2.4 months of imports) before gradually increasing with more stable import demand to the equivalent of around three months over the longer term.
- **Macroeconomic stability** is underpinned by resumption of a more prudent fiscal stance from 2010 onward. While fiscal easing was an appropriate policy response to the slowdown in 2009, very large increases in wage and allowances are expected to contribute to a widening of the overall fiscal deficit (excluding grants) to around 6.7 percent of GDP in 2009, compared to 2.8 percent in 2008. Thereafter, the deficit is projected to decline gradually to around 3.4 percent by 2014. Revenue would rise to around 14½ percent of GDP by 2014 from a broadening of the tax base, further administrative improvements, and buoyancy from the projected recovery, with more moderate increases thereafter. Grants are projected to decline as a share of GDP from around 3 percent in recent years to 2 percent by 2020. Expenditure would decline to slightly below 18 percent by 2014, from nearly 19 percent in 2009, with some slowing in the growth of recurrent spending and a return of capital spending to the range of 6–6½ percent of GDP under more normal growth conditions.



a significant reduction in garment export, construction, and tourism activities in 2009. Prospects for a rapid recovery are uncertain, with only a modest growth rebound expected over the near term. Inflation is expected to remain moderately low, predicated on relatively stable commodity prices. The development of extractive industries is not factored into the baseline, given uncertainties about the timing and impact of new oil, gas, and mineral production. Additional resources from the IMF's new SDR allocations made in 2009 are presumed to remain locked in, reflecting the need for Cambodia to build its reserve position and protect against vulnerabilities arising from the global financial crisis.

8. **Large contingent liabilities exist in several areas that bear close watch, given the potential burden on external and public debt.** Cambodia has signed several build-operate-transfer (BOT) projects—mainly related to new projects in the power sector. Possible contingent liabilities arising from these types of contracts are not incorporated in this DSA due to lack of detailed information on the scope and terms of these agreements. While assurances have been given that no explicit government guarantees have been provided, greater transparency is needed in this area to facilitate the monitoring of these potential quasi-fiscal liabilities and mitigation of any associated fiscal risks. In view of Cambodia's need for major infrastructure investment and given limited debt service capacity, the authorities should monitor these types of commitments closely and transparently, including developing and maintaining an inventory of all concessions granted and building and improving capacity to analyze the impact of contingent liabilities on debt sustainability, should they arise. Other contingent liabilities could arise if the mitigation of risks in the banking sector necessitated government guarantees.

### III. EXTERNAL DEBT SUSTAINABILITY

9. **All external debt indicators remain below the policy-dependent debt burden thresholds under the baseline scenario, but thresholds are breached under some of the standard bound tests.**<sup>6</sup> The main results of the external DSA are as follows:

- Under the baseline scenario, which assumes a return to a path of fiscal consolidation in 2010, the *NPV of external debt-to-GDP* ratio is expected to remain below the 30 percent indicative threshold through 2029 (Table 1a) under the baseline scenario. However, in two bound tests, the indicative thresholds are breached for five years or more before declining for the rest of the projection period, specifically for (i) net nondebt creating flows at the historical average minus one standard deviation in

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<sup>6</sup> Historical averages are generally inadequate as a basis for generating stress tests and alternative scenarios for Cambodia because the post-conflict period between 1995 and 2005 was characterized by rapid catch-up growth from a very low base. Therefore, staffs have adjusted the historical averages to exclude data prior to 2000 but to include those in 2009, which results in a set of more severe but realistic stress tests.

2010–11, and (ii) a one-time 30 percent nominal depreciation of the Cambodian riel vis-à-vis the U.S. dollar relative to the baseline in 2010 (Table 1b and Figure 1).

- The *NPV of external debt-to-revenue* ratio remains below the threshold for all years in the baseline scenario, declining from 197 percent in 2009 to 164 percent by 2014, and further decreasing over the long term. However, thresholds are breached in five out of six standard bound tests. Under the two above-mentioned bound tests, the NPV of debt-to-revenue ratio exceeds the 200 percent threshold for more than five years. The thresholds are also breached for five years or longer under the combination of bound tests using one-half standard deviation shocks.
- The *debt service-to-exports* and *debt service-to-revenue ratios* stay well below the indicative threshold throughout the entire projection period, as existing debts are highly concessional.

10. **However, the assumed fiscal consolidation is far from assured, with failure to undertake adjustment posing significant risks to macroeconomic stability.** In recent years, Cambodia has maintained a prudent fiscal stance, characterized by relatively low fiscal deficits financed largely through external resources. Under these conditions, the exchange rate has remained stable vis-à-vis the U.S. dollar. Starting in 2009 and in response to effects of the global recession, the government adopted a more accommodative fiscal stance, which is in part expected to be financed domestically, mainly through a drawdown in government deposits. Such a sizable injection of riel liquidity could put pressure on both domestic prices and the exchange rate, which could lead to possible reserve losses, increasing Cambodia's vulnerability. The baseline assumes a return to a more prudent fiscal stance by 2010, characterized by a moderate reduction in the overall fiscal deficit and no net domestic financing requirement.

11. **As an additional alternative scenario, this DSA considers the impact on debt sustainability of a delay in fiscal adjustment in a partial equilibrium setting.** Under this scenario, the level of primary balance is assumed to remain at the projected level in 2009 (minus 4 percent of GDP) for the period 2010–12 (i.e., no fiscal adjustment), and then gradually return to the baseline level by 2017. Owing to a limited amount of government deposits and lack of capacity to issue domestic debt, the government would be expected to rely largely on additional external financing. In the event, the NPV of debt-to-GDP ratio would exceed the indicative threshold for five years, and the debt-to-revenue ratio would breach the threshold for six years (see Table 1b).

12. **In staffs' view, Cambodia faces a moderate risk of debt distress.** This assessment is based not only on the bound tests and an additional scenario of delayed fiscal consolidation, but also on the uncertainty related to implicit contingent liabilities. Moreover, the impact of delaying policy adjustment could be much more severe if possible exchange rate and inflationary pressures resulting from higher government spending and larger fiscal

deficits are fully taken into account. Under these circumstances, the potential loss in competitiveness would point to the need for greater exchange rate flexibility.

#### IV. PUBLIC DEBT SUSTAINABILITY

13. **Given that most public debt is external, the dynamics of public debt behave similarly to those of external debt in the DSF.** The nominal stock of public debt, equivalent to 26 percent of GDP at end-2008, is expected to rise to 30 percent by end-2009 (Table 2a and Figure 2), reflecting the accommodative fiscal stance. Under the baseline, it would begin to decline as a share of GDP in 2011, as the DSA is based on current policies, which at present do not anticipate issuance of domestic debt.

- The *NPV of public sector debt-to-GDP* ratio—21 percent at end-2008—would rise to around 25 percent by 2009 and further in 2010, before gradually declining to 14 percent by 2029 (Table 2b).
- The *NPV of public debt-to-revenue* ratio (inclusive of grants), which is estimated to be 138 percent in 2008, would decline to 74 percent by 2029.
- The *debt service-to-revenue* ratio remains low in most scenarios for the entire projection period under the baseline.

14. **Public debt ratios are sensitive to continued accommodative fiscal stance and a permanent growth shock.** Under two of the alternative scenarios—the primary balance unchanged from 2009 and the GDP growth permanently lower by one percentage point—the level of public debt (as a share of GDP) continues to rise over the projection period, reaching 54 percent and 39 percent, by 2029. Under the latter scenario, the debt service-to-revenue ratio would reach nearly 30 percent by 2029. Bound tests also reveal sensitivity of public debt ratios to permanently lower growth, a one-time 30 percent real depreciation, and a 10 percent increase in other debt creating flows. The last is particularly relevant given the potential risks posed by implicit contingent liabilities.

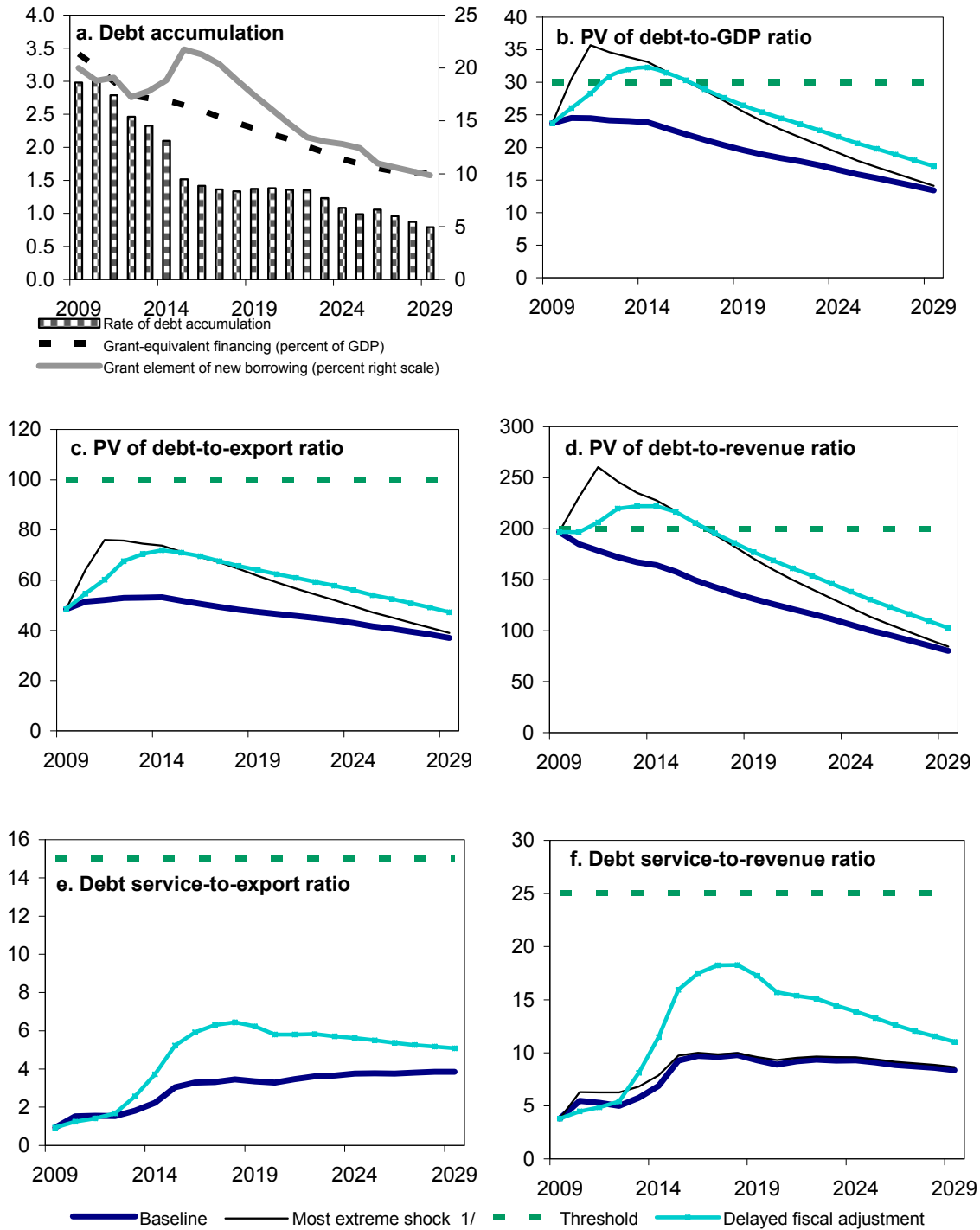
#### V. CONCLUSION

15. **Staffs conclude that Cambodia faces a moderate risk of debt distress.** While no thresholds are breached under the baseline scenario, some are breached under the standard stress tests and alternative scenarios. Moreover, an additional scenario reflecting delayed fiscal adjustment indicates that external debt indicators could exceed indicative thresholds. This outlook could be further weakened in the event actual liabilities arise from contingent obligations, mainly those related to infrastructure development, which further underscores the rationale for the current classification of risk.

16. **Given the uncertainty about near-to medium-term prospects, staffs urge the Royal Government of Cambodia to continue pursuing a sound strategy for public debt**

**management.** Careful consideration is needed in advance of possibly contracting less concessional loans and providing direct and indirect government guarantees, as they could impair sustainability, in particular if the revenue base remains low and institutions weak. Stronger capacity in debt management is an essential prerequisite for less concessional borrowing. To this end, a full accounting of all commitments, including from newly emerging creditors, and better monitoring of contingent liabilities will be necessary to ensure debt sustainability. Moreover, given the high dollarization of economy and lack of domestic debt instruments, the DSA points to the need for an exchange rate policy that is consistent with the fiscal stance. Staffs also encourage the authorities to continue seeking agreements to resolve outstanding arrears.

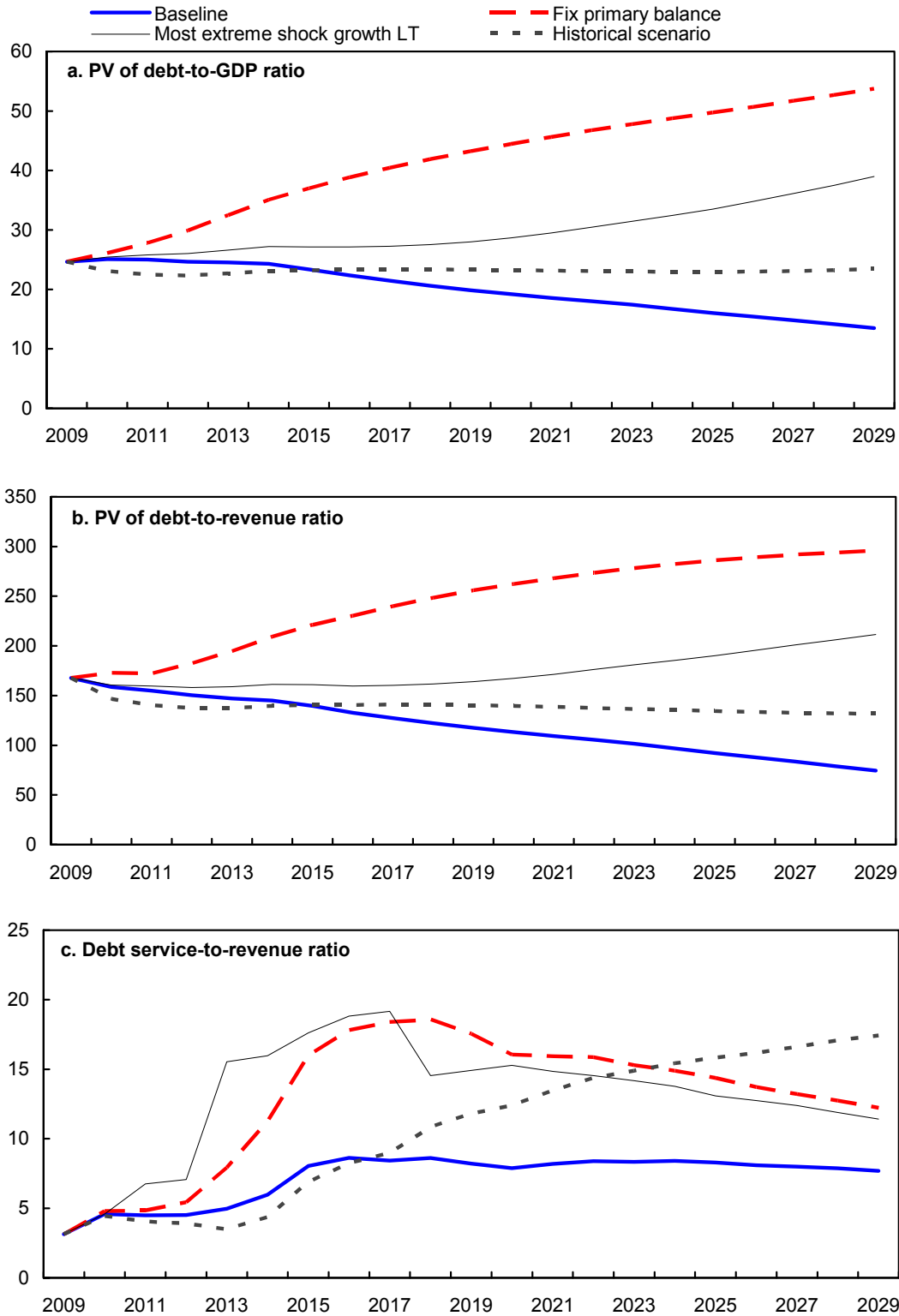
**Figure 1. Cambodia: Indicators of Public and Publicly-Guaranteed External Debt under Alternatives Scenarios, 2009–29 1/**



Sources: Cambodian authorities; and staffs' estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2011. In figures b to e, it corresponds to net non-debt creating flows at historical average minus one standard deviation in 2010–11; in figure f, a one time 30 percent nominal depreciation relative to baseline in 2010.

**Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2009–29**



Sources: Cambodian authorities; and staffs' estimates and projections.  
 1/ The most extreme stress test is the test that yields the highest ratio in 2019.  
 2/ Revenues are defined inclusive of grants.

**Table 1a. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2006–29 1/**

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–14		2015–29	
												Average	Average		
<b>External debt (nominal) 1/</b>	<b>31.0</b>	<b>29.6</b>	<b>24.6</b>			<b>29.2</b>	<b>30.1</b>	<b>29.7</b>	<b>28.9</b>	<b>28.4</b>	<b>27.9</b>		<b>22.3</b>	<b>14.5</b>	
<i>Of which: Public and publicly-guaranteed (PPG)</i>	31.0	29.6	24.6			29.2	30.1	29.7	28.9	28.4	27.9		22.3	14.5	
Change in external debt	-3.9	-1.3	-5.1			4.6	0.9	-0.4	-0.8	-0.5	-0.5		-1.0	-0.8	
Identified net debt-creating flows	-10.7	-13.3	-3.6			0.7	3.9	4.1	2.8	1.3	0.3		-1.3	-0.8	
<b>Noninterest current account deficit</b>	<b>0.3</b>	<b>1.5</b>	<b>10.2</b>	<b>2.6</b>	<b>3.1</b>	<b>5.3</b>	<b>10.9</b>	<b>11.8</b>	<b>10.3</b>	<b>8.6</b>	<b>7.7</b>		<b>5.2</b>	<b>4.6</b>	
Deficit in balance of goods and services	7.1	8.1	14.5			10.4	16.1	16.7	15.6	13.9	12.9		10.1	8.8	
Exports	68.7	64.9	53.8			48.9	47.6	47.0	45.7	45.4	44.9		41.4	36.2	
Imports	75.8	72.9	68.3			59.3	63.7	63.7	61.2	59.3	57.8		51.5	45.0	
Net current transfers (negative = inflow)	-10.9	-10.7	-8.2	-8.9	3.5	-7.8	-7.9	-7.4	-7.8	-7.6	-7.4		-6.3	-4.9	
<i>Of which: Official</i>	-6.5	-6.4	-4.9			-5.1	-4.8	-4.4	-4.0	-3.7	-3.4		-2.3	-1.0	
Other current account flows (negative = net inflow)	4.0	4.1	4.0			2.6	2.6	2.5	2.5	2.4	2.2		1.3	0.7	
<b>Net FDI (negative = inflow)</b>	<b>-6.7</b>	<b>-10.0</b>	<b>-7.2</b>	<b>-4.5</b>	<b>3.2</b>	<b>-5.5</b>	<b>-6.2</b>	<b>-6.1</b>	<b>-6.1</b>	<b>-6.2</b>	<b>-6.3</b>		<b>-5.7</b>	<b>-5.2</b>	
<b>Endogenous debt dynamics 2/</b>	<b>-4.3</b>	<b>-4.8</b>	<b>-6.6</b>			<b>0.9</b>	<b>-0.8</b>	<b>-1.5</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-1.1</b>		<b>-0.7</b>	<b>-0.2</b>	
Contribution from nominal interest rate	0.4	0.3	0.2			0.2	0.4	0.4	0.4	0.4	0.5		0.7	0.7	
Contribution from real GDP growth	-3.2	-2.6	-1.5			0.7	-1.2	-1.8	-1.7	-1.6	-1.6		-1.4	-0.9	
Contribution from price and exchange rate changes	-1.4	-2.4	-5.3			...	...	...	...	...	...		...	...	
<b>Residual (3–4) 3/</b>	<b>6.8</b>	<b>12.0</b>	<b>-1.4</b>			<b>3.9</b>	<b>-3.1</b>	<b>-4.6</b>	<b>-3.6</b>	<b>-1.8</b>	<b>-0.8</b>		<b>0.4</b>	<b>0.0</b>	
<i>Of which: Exceptional financing</i>	1.1	-0.2	0.0			-0.2	-0.2	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Present value (PV) of external debt 4/	...	...	19.8			23.7	24.5	24.5	24.2	24.1	23.9		19.6	13.4	
In percent of exports	...	...	36.7			48.5	51.4	52.1	52.9	53.0	53.2		47.3	36.9	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>19.8</b>			<b>23.7</b>	<b>24.5</b>	<b>24.5</b>	<b>24.2</b>	<b>24.1</b>	<b>23.9</b>		<b>19.6</b>	<b>13.4</b>	
In percent of exports	...	...	36.7			48.5	51.4	52.1	52.9	53.0	53.2		47.3	37.0	
In percent of government revenues	...	...	164.9			196.9	184.9	178.4	172.0	167.2	164.3		131.1	80.4	
<b>Debt service-to-exports ratio (in percent)</b>	<b>1.1</b>	<b>1.1</b>	<b>0.9</b>			<b>0.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.8</b>	<b>2.2</b>		<b>3.4</b>	<b>3.9</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>1.1</b>	<b>1.1</b>	<b>0.9</b>			<b>0.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.8</b>	<b>2.2</b>		<b>3.4</b>	<b>3.9</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>6.7</b>	<b>5.9</b>	<b>4.2</b>			<b>3.8</b>	<b>5.5</b>	<b>5.3</b>	<b>5.0</b>	<b>5.7</b>	<b>6.9</b>		<b>9.3</b>	<b>8.4</b>	
Total gross financing need (billions of U.S. dollars)	-0.4	-0.7	0.4			0.0	0.6	0.8	0.7	0.5	0.4		0.2	0.7	
Noninterest current account deficit that stabilizes debt ratio	4.2	2.8	15.3			0.6	10.0	12.2	11.0	9.2	8.2		6.1	5.3	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	10.8	10.2	6.7	9.5	2.2	-2.7	4.3	6.8	6.2	6.0	6.2	4.5	6.8	6.7	
GDP deflator in U.S. dollar terms (change in percent)	4.3	8.6	21.6	5.5	7.0	-1.2	3.8	4.4	4.9	4.0	3.2	3.2	3.6	3.7	
Effective interest rate (percent) 5/	1.2	1.1	0.8	1.1	0.1	0.9	1.3	1.3	1.3	1.6	1.9	1.4	3.3	5.1	
Growth of exports of goods and services (G&S) (U.S. dollar terms, in percent)	23.9	13.0	7.7	16.6	7.5	-12.7	5.4	9.9	8.4	9.6	8.3	4.8	8.8	9.4	
Growth of imports of G&S (U.S. dollar terms, in percent)	21.3	15.1	21.5	17.9	4.3	-16.5	16.2	11.4	7.2	6.8	6.9	5.3	8.6	9.5	
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	20.0	18.8	19.1	17.2	17.8	18.8	18.6	17.4	9.9	
Government revenues (excluding grants, in percent of GDP)	11.5	11.9	12.0			12.0	13.2	13.7	14.0	14.4	14.5		15.0	16.7	
Aid flows (in billions of U.S. dollars) 7/	0.3	0.4	0.6			0.3	0.3	0.3	0.3	0.4	0.4		0.6	1.2	
<i>Of which: Grants</i>	0.2	0.2	0.3			0.3	0.3	0.3	0.3	0.4	0.4		0.6	1.2	
<i>Of which: Concessional loans</i>	0.1	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	3.2	3.0	2.8	2.7	2.7		2.3	1.6	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			52.8	54.0	55.4	56.8	56.9	57.7		58.6	55.8	
<b>Memorandum items:</b>															
Nominal GDP (billions of U.S. dollars)	7.3	8.7	11.3			10.8	11.7	13.1	14.6	16.1	17.6		29.2	80.3	
Nominal dollar GDP growth	15.6	19.6	29.8			-3.9	8.2	11.5	11.5	10.3	9.6	7.9	10.7	10.7	
PV of PPG external debt (in billions of U.S. dollars)	...	...	2.2			2.5	2.9	3.2	3.5	3.9	4.2		5.7	10.8	
(PVT-PVT-1)/GDPt-1 (in percent)	...	...	...			3.0	3.0	2.8	2.5	2.3	2.1	2.6	1.4	0.8	

Sources: Cambodian authorities; and staffs' estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - \rho(1+g)] / (1+g+\rho+g\rho)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $\rho$  = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections, also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

**Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2009–29**  
(In percent)

	Projections								
	2009	2010	2011	2012	2013	2014	2015	2019	2029
<b>PV of Debt-to GDP Ratio</b>									
<b>Baseline</b>	24	24	24	24	24	24	23	<b>20</b>	13
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2009–29 1/	24	18	12	7	4	2	0	<b>-2</b>	0
A2. New public sector loans on less favorable terms in 2009–29 2/	24	25	26	26	26	27	26	<b>24</b>	19
A3. Alternative Scenario: Delayed fiscal adjustment	24	26	28	31	32	32	31	<b>26</b>	17
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	24	25	25	25	25	25	24	<b>20</b>	14
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	24	26	31	31	30	30	28	<b>23</b>	14
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2010–11	24	26	28	27	27	27	26	<b>22</b>	15
B4. Net nondebt creating flows at historical average minus one standard deviation in 2010–11 4/	24	31	36	35	34	33	32	<b>26</b>	14
B5. Combination of B1–B4 using one-half standard deviation shocks	24	28	33	32	31	31	29	<b>24</b>	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	24	34	34	34	34	34	32	<b>28</b>	19
<b>PV of Debt-to-Exports Ratio</b>									
<b>Baseline</b>	48	51	52	53	53	53	52	<b>47</b>	37
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2009–29 1/	48	38	25	15	9	5	1	<b>-6</b>	1
A2. New public sector loans on less favorable terms in 2009–29 2/	48	53	55	57	58	59	59	<b>57</b>	51
A3. Alternative scenario: Delayed fiscal adjustment	48	55	60	68	70	72	71	<b>64</b>	47
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	48	51	52	53	53	53	52	<b>47</b>	37
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	48	58	77	77	76	76	73	<b>65</b>	44
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2010–11	48	51	52	53	53	53	52	<b>47</b>	37
B4. Net nondebt creating flows at historical average minus one standard deviation in 2010–11 4/	48	64	76	76	75	74	71	<b>62</b>	39
B5. Combination of B1–B4 using one-half standard deviation shocks	48	57	67	68	67	66	64	<b>57</b>	39
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	48	51	52	53	53	53	52	<b>47</b>	37
<b>PV of Debt-to-Revenue Ratio</b>									
<b>Baseline</b>	197	185	178	172	167	164	158	<b>131</b>	80
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2009–29 1/	197	135	85	50	29	15	2	<b>-16</b>	2
A2. New public sector loans on less favorable terms in 2009–29 2/	197	190	188	185	183	184	180	<b>159</b>	111
A3. Alternative scenario: Delayed fiscal adjustment	197	197	206	220	222	222	216	<b>177</b>	103
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	197	186	184	178	173	170	163	<b>135</b>	83
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	197	199	230	219	210	204	195	<b>156</b>	83
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2010–11	197	196	202	195	189	186	178	<b>148</b>	91
B4. Net nondebt creating flows at historical average minus one standard deviation in 2010–11 4/	197	230	260	246	235	228	217	<b>171</b>	85
B5. Combination of B1–B4 using one-half standard deviation shocks	197	208	238	226	217	211	202	<b>162</b>	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	197	260	251	242	235	231	222	<b>184</b>	113



**Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2009–29** (concluded)  
(In percent)

	Projections								
	2009	2010	2011	2012	2013	2014	2015	2019	2029
<b>Debt Service-to-Exports Ratio</b>									
<b>Baseline</b>	1	2	2	2	2	2	3	<b>3</b>	4
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2009–29 1/	1	1	1	1	0	1	1	<b>0</b>	0
A2. New public sector loans on less favorable terms in 2009–29 2/	1	1	1	1	2	2	2	<b>3</b>	4
A3. Alternative scenario: Delayed fiscal adjustment	1	1	1	2	3	4	5	<b>6</b>	5
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	1	1	1	1	2	2	2	<b>2</b>	3
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	1	1	2	2	2	3	3	<b>4</b>	4
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2010–11	1	1	1	1	2	2	2	<b>2</b>	3
B4. Net nondebt creating flows at historical average minus one standard deviation in 2010–11 4/	1	1	2	2	2	2	3	<b>4</b>	4
B5. Combination of B1–B4 using one-half standard deviation shocks	1	1	1	2	2	2	3	<b>3</b>	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	1	1	1	1	2	2	2	<b>2</b>	3
<b>Debt Service-to-Revenue Ratio</b>									
<b>Baseline</b>	4	5	5	5	6	7	9	<b>9</b>	8
<b>A. Alternative Scenarios</b>									
A1. Key variables at their historical averages in 2009–29 1/	4	4	3	2	1	2	2	<b>-1</b>	-1
A2. New public sector loans on less favorable terms in 2009–29 2/	4	4	4	5	5	6	7	<b>8</b>	9
A3. Alternative scenario: Delayed fiscal adjustment	4	4	5	5	8	11	16	<b>17</b>	11
<b>B. Bound Tests</b>									
B1. Real GDP growth at historical average minus one standard deviation in 2010–11	4	4	5	5	5	6	7	<b>7</b>	6
B2. Export value growth at historical average minus one standard deviation in 2010–11 3/	4	4	5	6	6	7	8	<b>10</b>	7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2010–11	4	5	5	5	5	6	8	<b>8</b>	7
B4. Net nondebt creating flows at historical average minus one standard deviation in 2010–11 4/	4	4	6	7	7	7	9	<b>11</b>	8
B5. Combination of B1–B4 using one-half standard deviation shocks	4	5	5	6	6	7	8	<b>10</b>	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	4	6	6	6	7	8	10	<b>10</b>	9
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	13	13	13	13	13	13	13	<b>13</b>	13

Sources: Cambodian authorities; and staffs' estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

**Table 2a. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006–29**

(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate		Projections							
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009–14 Average	2019	2029	2015–29 Average
<b>Public sector debt 1/</b>	32.8	30.5	25.5			30.2	30.7	30.2	29.4	28.9	28.3		22.6	14.6	
<i>Of which:</i> Foreign-currency denominated	31.0	29.6	24.6			29.2	30.1	29.7	28.9	28.4	27.9		22.3	14.5	
Change in public sector debt	-4.4	-2.3	-5.0			4.7	0.5	-0.5	-0.8	-0.5	-0.5		-1.0	-0.8	
Identified debt-creating flows	-6.3	-4.5	-6.8			5.1	0.6	-0.8	-1.5	-1.4	-1.4		-1.1	-1.0	
Primary deficit	0.0	0.5	-0.4	1.6	1.6	3.9	2.8	2.0	1.2	0.9	0.6	1.9	0.5	-0.2	0.3
Revenue and grants	14.0	14.1	15.1			14.7	15.8	16.1	16.4	16.7	16.8		16.9	18.2	
<i>Of which:</i> Grants	2.5	2.2	3.1			2.6	2.6	2.4	2.3	2.3	2.2		1.9	1.5	
Primary (noninterest) expenditure	14.0	14.5	14.6			18.5	18.7	18.1	17.6	17.5	17.4		17.4	18.0	
Automatic debt dynamics	-5.2	-5.0	-6.4			1.2	-2.2	-2.8	-2.8	-2.3	-2.0		-1.6	-0.8	
Contribution from interest rate/growth differential	-4.3	-3.6	-2.4			0.7	-1.0	-1.8	-1.8	-1.8	-1.7		-1.2	-0.5	
<i>Of which:</i> Contribution from average real interest rate	-0.7	-0.5	-0.5			0.0	0.2	0.2	-0.1	-0.1	0.0		0.3	0.4	
<i>Of which:</i> Contribution from real GDP growth	-3.6	-3.0	-1.9			0.7	-1.2	-2.0	-1.8	-1.7	-1.7		-1.5	-1.0	
Contribution from real exchange rate depreciation	-0.8	-1.4	-4.0			0.6	-1.2	-1.0	-0.9	-0.5	-0.3		...	...	
Other identified debt-creating flows	-1.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-1.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.9	2.2	1.9			-0.4	-0.1	0.3	0.7	0.9	0.9		0.1	0.2	
<b>Other sustainability indicators</b>															
<b>PV of public sector debt</b>	24.8	23.7	20.7			24.6	25.1	25.0	24.6	24.5	24.3		19.9	13.5	
<i>Of which:</i> Foreign-currency denominated	22.6	22.7	19.8			23.7	24.5	24.5	24.2	24.1	23.9		19.6	13.4	
<i>Of which:</i> External	22.6	22.7	19.8			23.7	24.5	24.5	24.2	24.1	23.9		19.6	13.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.3	2.8	0.9			4.9	4.1	3.2	2.4	2.1	2.0		2.1	1.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	176.6	168.5	137.5			167.9	158.6	155.0	150.4	147.1	144.9		117.5	74.4	
PV of public sector debt-to-revenue ratio (in percent)	215.7	199.4	172.8			204.8	189.5	182.4	175.5	170.5	167.3		132.8	81.0	
<i>Of which:</i> External 3/	196.6	191.0	164.9			196.9	184.9	178.4	172.0	167.2	164.3		131.1	80.4	
Debt service-to-revenue and grants ratio (in percent) 4/	4.2	4.4	4.0			3.1	4.6	4.5	4.5	5.0	6.0		8.2	7.7	
Debt service-to-revenue ratio (in percent) 4/	5.1	5.2	5.0			3.8	5.5	5.3	5.3	5.8	6.9		9.3	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	4.4	2.8	4.5			-0.8	2.3	2.5	2.1	1.4	1.2		1.5	0.6	
<b>Key macroeconomic and fiscal assumptions</b>															
Real GDP growth (in percent)	10.8	10.2	6.7	9.5	2.2	-2.7	4.3	6.8	6.2	6.0	6.2	4.5	6.8	6.7	6.8
Average nominal interest rate on forex debt (in percent)	1.2	1.1	0.8	1.1	0.1	0.9	1.3	1.3	1.3	1.6	1.9	1.4	3.3	5.1	3.8
Average real interest rate on domestic debt (in percent)	-4.2	-5.9	-17.6	-6.5	5.6	-0.2	-4.4	-4.0	-4.5	-3.8	-3.2	-3.3	...	...	-3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.7	-5.0	-14.6	-2.6	5.3	2.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.6	6.5	21.9	6.1	6.7	0.7	4.8	4.4	4.9	4.1	3.5	3.8	3.9	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.1	0.1	0.1	0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	20.0	18.8	19.1	17.2	17.8	18.8	18.6	17.4	9.9	...

Sources: Cambodian authorities; and staffs' estimates and projections.

1/ Comprises general government debt excluding state-owned enterprises.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table 2b. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt 2009–29**

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	25	25	25	25	25	24	20	14
<b>A. Alternative Scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	25	23	23	22	23	23	23	23
A2. Primary balance is unchanged from 2009	25	26	28	30	32	35	43	54
A3. Permanently lower GDP growth 1/	25	25	26	26	27	27	28	39
<b>B. Bound Tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	25	25	26	26	27	27	24	20
B2. Primary balance is at historical average minus one standard deviations in 2010–11	25	26	27	26	26	26	21	14
B3. Combination of B1–B2 using one half standard deviation shocks	25	24	25	24	24	24	19	12
B4. One-time 30 percent real depreciation in 2010	25	34	33	32	32	31	26	19
B5. 10 percent of GDP increase in other debt-creating flows in 2010	25	35	34	33	33	32	26	17
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	168	159	155	150	147	145	117	74
<b>A. Alternative Scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	168	147	140	137	137	140	140	132
A2. Primary balance is unchanged from 2009	168	173	172	182	195	209	256	296
A3. Permanently lower GDP growth 1/	168	161	160	158	159	161	164	212
<b>B. Bound Tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	168	160	163	161	160	160	142	110
B2. Primary balance is at historical average minus one standard deviations in 2010–11	168	161	165	160	156	153	123	77
B3. Combination of B1–B2 using one half standard deviation shocks	168	154	155	149	145	143	113	67
B4. One-time 30 percent real depreciation in 2010	168	218	207	197	190	186	151	105
B5. 10 percent of GDP increase in other debt-creating flows in 2010	168	222	213	204	196	192	151	92
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	3	5	4	5	5	6	8	8
<b>A. Alternative Scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	3	4	4	4	3	4	12	17
A2. Primary balance is unchanged from 2009	3	5	5	5	8	11	18	12
A3. Permanently lower GDP growth 1/	3	5	5	5	5	7	13	28
<b>B. Bound Tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2010–11	3	5	5	5	5	7	11	14
B2. Primary balance is at historical average minus one standard deviations in 2010–11	3	5	5	5	6	8	9	8
B3. Combination of B1–B2 using one half standard deviation shocks	3	5	4	4	5	6	8	6
B4. One-time 30 percent real depreciation in 2010	3	6	6	6	7	9	15	17
B5. 10 percent of GDP increase in other debt-creating flows in 2010	3	5	7	7	16	16	15	11

Sources: Cambodian authorities; and staffs' estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CAMBODIA

**Staff Report for the 2009 Article IV Consultation—Informational Annex**

Prepared by the Asia and Pacific Department  
(In Consultation with Other Departments)

October 30, 2009

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**ANNEX I. CAMBODIA: FUND RELATIONS**  
As of September 30, 2009

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

II. <b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	87.50	100.00
Fund Holdings of Currency	87.50	100.00
III. <b>SDR Department:</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	83.92	100.00
Holdings	68.52	81.64
IV. <b>Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
PRGF arrangements	0	0

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	03/05/2003	58.50	58.50
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)

	<u>Forthcoming</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	<u>0.01</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>	<u>0.04</u>
Total	0.01	0.04	0.04	0.04	0.04

VII. **Multilateral Debt Relief Initiative:**

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006 approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia's outstanding debt to the IMF, a total of SDR 56.8 million (about US\$82 million). The authorities intend to spend the resources over a number of years, initially on rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

**VIII. Safeguards Assessment:**

Under the IMF's safeguards assessment policy, the NBC was subject to a full safeguards assessment with respect to a possible successor PRGF arrangement. The assessment was completed in March 2004; it identified certain weaknesses, mostly in the area of internal audit and control and made appropriate recommendations. A 2009 voluntary update assessment is in progress.

**IX. Exchange Rate Arrangement and Payments System:**

Cambodia's exchange regime is classified as floating. The official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 1, 2002. Cambodia maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

**X. Article IV Consultation:**

Cambodia is subject to the provisions on consultation cycles approved on July 15, 2002. The last Article IV consultation discussions were held in Phnom Penh during October 23–November 7, 2008. The Executive Board discussed the staff report (CR/09/47) and concluded the consultation on January 16, 2009.

**XI. Technical Assistance:**

Technical assistance is currently focused on bank supervision, monetary operations, public financial management, customs administration, and macro-financial statistics. Delivery is through a resident advisor at the NBC, peripatetic experts, and short-term visits from headquarters.

**XI. Resident Representative:**

The resident representative office was closed in October 1997 and re-opened in October 1999. Mr. John Nelmes, the current Resident Representative, assumed the post in November 2005.

**ANNEX II. CAMBODIA: RELATIONS WITH THE WORLD BANK GROUP<sup>1</sup>**  
(As of October 2009)

**I. OVERVIEW**

The World Bank Group's 2005–08 Country Assistance Strategy (CAS) stresses the need to improve governance in order to maximize the impact of development efforts. The CAS activities are intended to contribute to six objectives, which are clustered under two over-arching pillars. In May 2008, the CAS period was extended until 2011 so that the World Bank and other development partners could better align their support around the next National Strategic Development Plan (NSDP). The approach and objectives of the original CAS will be maintained throughout the extended CAS period.

Activities under Pillar 1 are intended to help implement improvements in governance that are needed if Cambodia is to meet the Cambodia Millennium Development Goals (CMDGs). To this end, the CAS establishes four objectives: (i) promote private sector development for poverty reduction; (ii) improve natural resources management; (iii) improve service delivery and public financial management; and (iv) support decentralization and promote citizens' partnerships for better governance. These four objectives were chosen because of their importance for growth and poverty reduction and the strong ownership and leadership from the Royal Government of Cambodia (RGC). The selection was also informed by lessons from successes and failures in past strategies, and by the comparative advantage of development partners.

Pillar 2 of the CAS allocates World Bank resources to supporting the strategy development and investments needed to attain the CMDGs. To these ends, the CAS has two other objectives. First, the Bank Group will encourage the emergence of poverty-focused approaches in the formulation and implementation of public policy by supporting the NSDP 2006–10. Second, where there are clear gaps in critical infrastructure and human development sub-sectors, the Bank Group will support the emergence of a nationally-owned vision and strategy through the provision of analytical and investment services.

**II. PILLAR 1: REMOVING THE GOVERNANCE CONSTRAINTS TO ATTAINING THE CMDGS**

**A. Private Sector Development (PSD)**

*Country Progress:* Progress in this area has been mixed. On the trade facilitation front, there has been steady movement toward a customs automation program (ASYCUDA), with adoption of the Single Administrative Document (SAD) import/export declaration format and a pilot test

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<sup>1</sup> Prepared by World Bank staff.

of the automated customs procedures, which commenced in Sihanoukville in May 2008 (with nationwide roll-out scheduled in 2009). The Law on Customs, which is instrumental to customs reforms and to the implementation of ASYCUDA, was passed by the National Assembly in 2007. A risk management strategy has been adopted and is being implemented. Some progress has also been made on developing Special Economic Zones. With respect to improving the legal framework for investment and PSD, the Law on Commercial Arbitration and the Law on Concessions were passed by the National Assembly in March 2006 and September 2007, respectively, but implementation of these laws has lagged.

*Role of the World Bank Group:* The focus of the Bank Group's PSD program in Cambodia is on supporting investment climate development through trade facilitation and improving the legal framework for investment. Policy reforms in both of these areas have been supported through the first in the series of Poverty Reduction and Growth Operations (PRGO) approved in July 2007. The 2005 Trade Facilitation and Competitiveness Project is helping improve Cambodia's competitiveness by streamlining import/export formalities and reducing the costs of trade-related activities. The IFC's Mekong PSD Facility (MPDF) prepared the Cambodian Provincial Business Environment Scorecards in 10 provinces, and the Bank Group has recently started a new Investment Climate Assessment (ICA) to monitor results since the 2004 ICA, identify new issues, and design future support. The Bank Group has also led the Technical Working Group (TWG) on PSD, supported the Government/Private Sector Forum, and participated actively in the dialogue on private sector issues among the RGC, donors, and private sector.

## **B. Natural Resources Management (NRM)**

*Country Progress:* Progress in this area has been satisfactory, but a number of concerns remain. Subdecrees on State Land Management and on Economic Land Concessions (ELCs) have been adopted, including provisions for reviewing and canceling nonperforming economic land concessions and assigning the land for use as social land concessions for the poor. The RGC has distributed more than 800,000 titles and has also started a dialogue on titling of communally-owned land by indigenous people. Actions were also taken to strengthen systems for forestry management, including community-based forest activities, with the RGC recently issuing a new Protected Areas Law to provide greater clarity on institutional roles, responsibilities, and obligations. However, transparency in the issuance of ELCs still needs to be improved, and the social land concessions program needs to be accelerated. Implementation of the laws governing access and title to natural resources has also been slow, and governance weaknesses in the forestry sector are still a major concern to all stakeholders.

*Role of the World Bank Group:* To better integrate its efforts across land, forestry, and biodiversity conservation, the World Bank has developed an NRM framework that seeks to summarize the main challenges and required actions to move the overall agenda forward.



This framework has been used in the Bank's engagement with the TWGs on land, agriculture, poverty, environment, and water. Policy reforms in NRM are being supported through additional analytical and advisory activities (AAA) (including an agrarian structures study and an environment monitor), the PRGOs, and a range of investment and technical support operations. A Japan Social Development Fund Grant has been mobilized to foster NGO, local community, and RGC capacity to expand community forestry activities. Finally, in 2008, the Land Allocation for Social and Economic Development project was adopted to support the implementation of the RGC's Social Land Concession strategy.

### **C. Public Financial Management (PFM)**

*Country Progress:* Progress in this area has been satisfactory. Good progress has been made in implementing improved arrangements for budget formulation, budget classification, cash and bank account management, financial control, and transaction management. Procurement responsibility has been increasingly deconcentrated to line agencies, and an improved procurement subdecree and the supporting implementing rules and regulations have been adopted, incorporating numerous measures for increasing competition, transparency, and accountability in the procurement process. This has contributed to a strengthening of the overall PFM system, with the latest indicators showing aggregate actual expenditures to be within 5 percent of the budget, revenues continuing to grow (from 10 percent in FY2009 to an estimated 12 percent of GDP in FY2008), and arrears being largely eliminated. An innovative merit-based pay initiative (MBPI) was implemented in the Ministry of Economy and Finance to tackle the issues of civil service incentives, performance, and capacity. This system is now being extended progressively to all development partner-financed strategic reforms with a view to eliminating current distortionary salary supplement schemes, harmonizing RGC and partner approaches to incentives, and beginning to address the broader needs for civil service reform.

*Role of World Bank Group:* The World Bank has worked closely with the RGC and helped coordinate the 13 development partners in the TWG on PFM in the design and implementation of the RGC's PFM Reform Program (PFMRP). The Bank has also supported the program through the PRGO as well as the PFM Accountability Project. The PFMRP is the first operation to support a sector-wide approach in Cambodia and has been recognized as a model of aid effectiveness globally. The Bank has also initiated a dialogue on oil revenue management, engaged civil society in the dialogue on PFM, and assisted the RGC in adopting and extending the MBPI. Additional analytical and advisory activities on public expenditure tracking surveys (PETS) in education and health sectors as well as civil service reform for teachers have been completed, and grants from trust funds are supporting strengthened National Assembly oversight of the budget.

## **D. Decentralization and Accountability**

*Country Progress:* Progress in this area has been considerable. In line with the goal of decentralizing resources to local government units, average funds to communes/sangkat are projected to double by 2010. A second round of commune/sangkat council elections in 2007 has strengthened the foundation for enhanced accountability at the local level. The Ministry of Interior has successfully piloted “One Window Service” and a District Ombudsman’s office to enhance local governance. After some delay, the National Assembly adopted the Organic Laws on Decentralization and Deconcentration in April 2008. However, progress on improving access to information, including drafting of an access to information law, has been delayed, and civil society involvement in policy-making processes is developing slowly, as there is still insufficient constructive engagement with the RGC.

*Role of the World Bank Group:* The Bank has provided substantial support for decentralization through the Rural Investment and Local Governance Project. The Bank has also conducted a series of studies on justice for the poor, as well as a village level and dispute resolution study. In addition, it has provided advice through the TWG on the RGC’s Decentralization Policy and Strategy and mobilized grant finance to support government-civil society consultations on the decentralization strategy as well as to build the capacity of civil society on social accountability.

### **III. PILLAR 2: SUPPORTING STRATEGY AND INVESTMENTS TO ATTAIN THE CMDGS**

#### **A. Formulation and Implementation of the NSDP, 2006–10**

*Country Progress:* Progress toward this objective has been impressive. The RGC adopted the NSDP in 2006, replacing previous donor-driven plans with a single national development strategy. The TWG for Planning and Poverty Reduction provides a forum for regular dialogue between the RGC, development partners, and civil society on the implementation of the NSDP. Over the last two years, the Ministry of Planning (MoP) has developed (with support from the TWG) a strategic plan to refocus the ministry and help build its capacity to coordinate the implementation, monitoring, and evaluation of the NSDP. The TWG has also provided the forum for shifting external support toward a Ministry-wide, program-based approach, by which development partners supporting the MoP will coordinate their assistance behind the NSDP. On gender equality, there have also been improvements, including an increase in female representation in Commune Councils from 8 percent to 15 percent following the 2007 elections.

*Role of the World Bank Group:* The Bank, together with other development partners, has provided technical and financial support to the MoP for the formulation and implementation of the NSDP, with the Bank and UNDP serving as development partner co-facilitators of the TWG. In addition to direct support to RGC institutions and processes related to the NSDP, the Bank has helped to improve the knowledge base for policymakers and other stakeholders

through the *2006 Poverty Assessment* and the *2007 Sharing Growth: Equity and Development Report*. The Bank has also provided support to the Ministry of Women's and Veterans' Affairs through an Institutional Development Fund grant, which funded a Gender Budgeting Project, as well as a number of smaller stand-alone grants for various outreach, training, and advocacy activities, including study tours for women in leadership, a regional workshop on mainstreaming gender in aid effectiveness, and local level dissemination activities.

### **B. Analytical and Investment Support for Achieving the CMDGs–Human Development and Infrastructure**

*Country Progress:* Progress toward CAS outcomes has been impressive. In both the social and infrastructure sectors, significant progress has been made toward government-owned strategies around which donors can coordinate their financial and technical support. Improvements have also been made in most human development outcomes such as infant mortality rate, fertility rate, HIV prevalence rates, and school enrollment rates. There has been greater access to and utilization of health, education, and infrastructure services, and better targeting of health and education subsidies. More resources have been allocated to interventions in priority sectors, such as to reducing child and maternal mortality. Access to education and health, including by disadvantaged/vulnerable communities, has expanded, and the perception of service delivery in health and education among users of these services has improved. Nevertheless, other indicators such as maternal mortality or drop-out rates are lagging.

*Role of the World Bank Group:* The World Bank has continued to provide support for the development and implementation of effective strategies in the social sectors through the ongoing Health Sector Support and Education Sector Support Projects, as well as through participation in the TWGs. In the health sector, a major step toward a sector-wide approach was taken in 2008 to support the new RGC health sector strategy in partnership with AusAid, DFID, France, UNFPA, and UNICEF. In the education sector, support from the Education For All Fast Track Initiative Catalytic Fund was approved in 2008. As mentioned previously, the Bank has also undertaken PETS in health and education to promote PFM reforms in these sectors, and has supported additional analytical work in education.

In infrastructure, the Bank has helped in the development of sub-sector strategies through a range of AAA (Energy Sector Strategy Review, Transport Sector Update, Implementation Strategy for Urban Water Supply Policy, and briefing notes on oil and gas sector policy issues) as well as through participation in the TWG. The Bank has also engaged in a number of investment projects that have had a high development impact for the intended beneficiaries.

#### IV. LENDING OPERATIONS AND NON-LENDING INSTRUMENTS

Proactive portfolio management continues to be a very high priority for the Bank Group. Following the 2004–05 Fiduciary Review (carried out in partnership with the RGC), the World Bank's Institutional Integrity Department (INT) undertook separate investigations in 2005–06. The INT investigations substantiated allegations of corruption, collusion, and fraudulent practices on several contracts under seven projects for which “misprocurement” was declared in June 2006. As a result, the Bank temporarily suspended disbursements under three projects and established action plans for the concerned government agencies to execute in order to lift the suspensions.<sup>2</sup> These action plans were completed in January 2007, and the Bank lifted the suspensions on all three projects in February 2007.

The RGC and the Bank have established a number of preventive and oversight measures to mitigate fiduciary risks in Bank-financed projects. One important measure has been the use of anti-corruption action plans knowing Good Governance Frameworks (GGFs). The GGFs—adopted for all ongoing and future Bank-financed projects—include measures to strengthen procurement procedures, financial management processes, staff conduct, complaint mechanisms, disclosure, and internal controls. Early implementation reviews of the GGFs indicate an increasing level of implementation during this initial period. Another important measure is the use of an International Procurement Agent (IPA) since December 2007 for all Bank-financed projects. Finally, the Bank is also providing technical support to the RGC to reinforce its own ability to identify and remedy fraud and corruption problems.

The disbursement ratio in FY09—at 16.1 percent—was low mainly due to procurement delays as a result of the IPA.

Nonlending instruments and operations (credits and grants) are described in Tables 1 and 2.

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<sup>2</sup> Suspension is a remedial measure available under all World Bank legal agreements. It can be exercised by the Bank in a number of situations, including when the Borrower is not fulfilling its obligations under the legal agreement. Suspension entails a temporary freeze on the Bank's financing of implementation, but does not mean that the Bank withdraws from the project. Rather, the Bank steps up its supervision, dialogue, and other activities to help the government in its efforts to meet the conditions for lifting the suspension.

**Table 1. Cambodia: Active IDA Projects**  
(As of October 5, 2009)

<b>Project</b>	<b>Committed (USD)</b>	<b>Approval Date</b>	<b>Undisbursed Balance (USD)</b>
Road Asset Management Project	30,000,000.00	20-May-08	28,817,013.52
Cambodia Second Health Sector Support Program	30,000,000.00	19-Jun-08	27,563,123.25
Land Allocation for Social and Economic Development	11,500,000.00	20-May-08	9,738,909.31
Avian and Human Influenza Control and Preparedness Emergency Project	6,000,000.00	24-Mar-08	5,244,364.51
GMS Power Trade (Cambodia) Project	18,500,000.00	05-Jun-07	18,608,165.85
Cambodia Public Financial Management and Accountability	14,000,000.00	27-Jun-06	11,602,267.46
Cambodia Trade Facilitation and Competitiveness	10,000,000.00	02-Jun-05	6,178,449.75
Cambodia Education Sector Support	28,000,000.00	12-May-05	8,582,303.75
Rural Electrification and Transmission Project	40,000,000.00	16-Dec-03	23,083,111.90
Provincial and Rural Infrastructure Project	20,000,000.00	11-Sep-03	6,520,703.49
Provincial and Peri-Urban Water and Sanitation Project	19,900,000.00	22-Apr-03	9,045,791.00
Rural Investment And Local Governance Project	36,250,000.00	26-Jul-07	19,289,320.91
Health Sector Support Project	27,000,000.00	19-Dec-02	6,571,386.50
Demand for Good Governance	20,000,000	02-Dec-08	19,602,554.45
Land Management and Administration Project	24,300,000.00	26-Feb-02	8,930,990.59

**Table 2. Cambodia: World Bank's Main Non-Lending Services**  
(Recently completed and ongoing)

Issue	Instruments
Environment	Cambodia Environment Monitor (2008), Natural Resource Management and Forestry (2008).
Gender	Cambodia Gender Assessment (2008), Gender Mainstreaming (2009).
Human Development	Demand Side Incentives in Education Impact Evaluation (ongoing), Civil Service Reform for Teachers, Social Protection Policy Note (2006), Child Labor Study (2006), Health Sector Study, Education Fast Track Initiative (2008), Scholarship Program (2009).
Infrastructure	Urban Water and Sanitation Strategy (2006); Oil and Gas Sector Policy Notes (2009).
Legal and Judicial Reform	Justice for the Poor Phase One Study (2006); Justice for the Poor Phase Two (2008).
Poverty Reduction and Economics	Poverty Reduction Strategy Trust Funds (ongoing), Moving Out of Poverty Study (2007), National Poverty Assessment (2006), Cambodia Equity Report (2007), and Sources of Growth (2008), Poverty Profile (2009).
Private Sector Development and Trade	PPIAF Grant to develop an interim regulatory framework (ongoing). FIAS report on FDI (2001), Integration and Competitiveness Study (2002), Investment Climate Assessment (2008).
Public Financial Management	Grant to assist the National Audit Authority (ongoing), Country Procurement Assessment Report (2004), Fiduciary Review (2005), Public Expenditure Tracking Survey—Education (2005), Public Expenditure Tracking Survey—Health (2007), ROSC on private sector accounting (2007).
Rural and Agriculture	PSIA on Social Land Concessions (2004), Rural Sector Strategy Note (2005), Land Taxation and Valuation Study (2005), and Land Policy and Strategy (2007), Cambodia Agrarian Structure (2008).

**ANNEX III. CAMBODIA: RELATIONS WITH THE ASIAN DEVELOPMENT BANK**  
(As of September 2009)

From 1992 through September 30, 2009, the Asian Development Bank (AsDB) approved \$1,145.8 million including 45 loan projects of \$1,007.7 million with low interest, and 11 Asian Development Fund (ADF) grants of \$138.1 million (\$42 million in 2005; \$7.8 million in 2006; \$37 million in 2007; \$30 million in 2008; and \$21 million in 2009) to Cambodia for structural reform programs. To date, 31 loan projects for a total of \$711.3 million have been completed.

The sector composition and loan/grant amounts of the remaining active portfolio as of September 30, 2009 are: (i) agriculture and natural resources \$72.7 million; (ii) education \$52.1 million; (iii) energy \$64.3 million; (iv) health, nutrition, and social protection \$29.0 million; (v) industry and trade \$15.6 million; (vi) law, economic management, and public policy \$20.6 million; (vii) multi-sector \$20.0 million; (viii) transport and communication \$121.3 million; and (ix) water supply, sanitation, and waste management \$39.0 million.

The AsDB's overarching goal in Cambodia is sustainable poverty reduction. The AsDB's Country Strategy and Program (CSP 2005–09) mid-term review (MTR), finalized in August 2007, concluded that the strategic thrust of the AsDB in Cambodia remains appropriately targeted on poverty reduction through broad-based private sector-led growth, inclusive social development, and stronger governance for sustainable development. The AsDB's proposed Country Operations Business Plan 2008–10 (COBP) strongly focuses on the priority areas of agricultural and rural development, private sector development, governance and capacity development, and the Greater Mekong Subregion (GMS). Interventions in agricultural and rural development focus around the Tonle Sap basin area and are geared to improving livelihoods of the poor through management of water resources and irrigation assets, as well as agriculture extension services and crop diversification; expanding the connectivity internally between rural roads and the provincial and national network, and externally with emerging subregional transport corridors; fostering the development of smallholder agricultural producers; and widening access for the poorest to rural water supply and sanitation while strengthening local community management capacity.

In the area of private sector development, the AsDB supports improvements in competitiveness by helping reduce border-related costs and distortions; enhancing domestic and external trade facilitation, including through promoting compliance with sanitary and phytosanitary standards; and fostering improved and cheaper access to information and communication technology (ICT). Later interventions would be more focused on improving the trade facilitation and logistics links to the subregion as systems and procedures become more developed and integrated. Supporting financial sector interventions are aimed at

improving financial intermediation, including the outreach of microfinance institutions (MFIs) and reducing the cost of finance in rural areas; enhancing the resilience of the financial sector; promoting good governance; and improving financial sector efficiency. Education-related interventions are aimed at enhancing technical and vocational education training to achieve a closer match between the skills of a rapidly growing and young rural labor force and emerging employment opportunities. There is also a gradual increase in private sector operations, beginning with interventions to expand trade and access to rural finance, including proposed nonrecourse interventions by the AsDB's Private Sector Department to guarantee trade financing, equity investment in one or more private funds to help finance them with committed capital, and extended MFI reach in rural areas. Other infrastructure loans or investment opportunities are being sought, including in the areas of power transmission.

With respect to governance and capacity building, the COBP includes a long-term programmatic approach to public financial management (PFM) reform with interventions to underpin the rolling out of PFM to rural development line ministries (support to financial management and reporting and development of internal audit capacities in these ministries) and to strengthen of the audit capacity of the National Audit Authority. At the same time, the AsDB will also promote good governance through support to the government-led decentralization and deconcentration reform, namely through support to functional assignments linked to fiscal needs, capacity development for decentralized institutions, and a provision for decentralized infrastructure services deliveries. AsDB interventions in PFM for rural development and AsDB sector interventions will reinforce decentralization and deconcentration reform particularly in functional assignments and expenditures responsibilities.



**AsDB: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2009**

(In millions of U.S. dollars, as of end-September 2009)

		Loan/Grant Approvals	Contract Awards/ Commitment	Disbursements
1	1992	67.7	0.0	0.0
2	1993	0.0	4.4	5.4
3	1994	28.2	35.9	12.2
4	1995	45.1	28.1	35.9
5	1996	105.0	15.3	32.1
6	1997	0.0	41.5	10.7
7	1998	40.0	29.1	29.3
8	1999	88.0	17.0	26.2
9	2000	109.6	114.4	50.8
10	2001	75.2	40.7	48.3
11	2002	116.5	64.4	78.9
12	2003	98.3	61.9	73.3
13	2004	65.0	62.4	76.7
14	2005 <sup>1</sup>	52.0	96.4	84.5
15	2006 <sup>2</sup>	69.8	44.7	55.8
16	2007 <sup>3</sup>	72.1	85.7	62.1
17	2008 <sup>4</sup>	84.1	107.7	96.3
18	2009 (Projected) <sup>5</sup>	154.5	55.4	94.7
19	2010 (Projected) <sup>6</sup>	157.8		
	TOTAL:	1,428.8	905.0	873.2

<sup>1</sup> \$10 million loans and \$42 million grants approved in 2005.

<sup>2</sup> \$62 million loans and \$7.8 million grants approved in 2006.

<sup>3</sup> \$35 million loans (including \$8 million to private sector) and \$37 million grants approved in 2007.

<sup>4</sup> \$53.8 million loans, and \$30.3 million grants approved in 2008.

<sup>5</sup> Loan amount to \$16.3 million and grant amount to \$21 million were approved on August 24, 2009 and September 15, 2009, respectively. In addition, loans amount to \$55.4 million, grants amount to \$51.8 million, and one ordinary capital resources (OCR) loan amount to \$10 million are expected to be approved before end-2009.

<sup>6</sup> Loans amount to \$97.8 million, and grants amount to \$60 million are expected to be approved in 2010.

## ANNEX IV. CAMBODIA: STATISTICAL ISSUES

As of October 26, 2009

<b>I. Assessment of Data Adequacy for Surveillance</b>	
<p><b>General:</b> Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the IMF, UNDP, Asian Development Bank, and World Bank, as well as from bilateral partners (namely Japan and Sweden), leading to substantial capacity improvements in compiling and reporting macroeconomic statistics. However, various shortcomings in macroeconomic data still hamper timely and comprehensive analysis.</p>	
<p><b>National Accounts:</b> The National Institute of Statistics is leading efforts to improve the consistency of national accounts statistics with the United Nations' <i>System of National Accounts 1993</i>, to expand the range of annual national account aggregates, and to produce a quarterly national accounts series since June 2005, with IMF TA. However, the quality of GDP estimates remains hampered by the lack of comprehensive and reliable source data on a production and expenditure basis, in part stemming from the need to address resource constraints and improve data collection techniques.</p> <p><b>Price statistics:</b> A new consumer price index (CPI) series was introduced starting in January 2009. However, geographical coverage of the series is limited to Phnom Penh. Statistics Sweden is currently providing TA on price statistics, including on compiling a production price index (PPI).</p>	
<p><b>Government finance statistics:</b> The Ministry of Finance and Economy began implementing reforms to the government accounting system and budgetary nomenclature in 2007 based on the <i>Government Finance Statistics Manual (GFSM) 2001</i>, with IMF TA. In addition, several STA missions have assisted with GFS compilation procedures within the <i>GFSM 2001</i> framework. IMF TA in April 2008 assisted with establishing a bridge between the government's new chart of accounts (COA) and the <i>GFSM 2001</i> classifications so that accounting records can be used as source data in compiling GFS. However, use and coverage of the COA has been limited and not fully integrated to activities such as the disbursement of external loans and grants, the government's budget reserve fund, and capital expenditures.</p>	
<p><b>Monetary and financial statistics:</b> The National Bank of Cambodia (NBC) compiles the sectoral balance sheet and survey for the central bank and other depository institutions in accordance with the IMF's <i>Monetary and Financial Statistics Manual</i>. Since August 2005, the NBC has reported monthly monetary and financial statistics to STA using the Standardized Report Forms. The NBC compiles monthly financial soundness indicators, but data are published irregularly.</p>	
<p><b>External sector statistics:</b> Despite recent improvements, more work is needed to improve balance of payments statistics. Customs data have substantial coverage and valuation problems arising from the use of reference prices and limited recording of nondutiable imports, underreporting of re-exports, and weaknesses in customs controls. Enterprise transactions, such as payment for imported services, income payments, and portfolio investment abroad are excluded or underreported. Foreign direct investment, which is believed to be large, relies excessively on approvals. Gaps exist in external debt statistics, in particular on the stock of public and publicly-guaranteed debt by maturity, on bilateral donor disbursements, and on external debt service.</p>	
<b>II. Data Standards and Quality</b>	
<p>Cambodia participates in the IMF's General Data Dissemination System (GDDS).</p>	<p>No data ROSC are available.</p>
<b>III. Reporting to STA (Optional)</b>	
<p>Cambodia sends regular data reports to STA for publication.</p>	

**Cambodia: Table of Common Indicators Required for Surveillance**  
(As of October 26, 2009)

	Date of latest Observation	Date Received	Frequency of Data <sup>1</sup>	Frequency of Reporting <sup>1</sup>	Frequency of Publication <sup>1</sup>
Exchange Rates	Oct. 2009	Oct. 2009	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>2</sup>	Sep. 2009	Sep. 2009	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	Aug. 2009	Sep. 2009	M	M, 4–6 week delay	M
Broad Money	Aug. 2009	Sep. 2009	M	M, 4–6 week delay	M
Central Bank Balance Sheet	Aug. 2009	Sep. 2009	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	Aug. 2009	Sep. 2009	M	M, 4–6 week delay	M
Interest Rates <sup>3</sup>	Sep. 2009	Oct. 2009	M	M, 4–6 week lag	M
Consumer Price Index	Sep. 2009	Oct. 2009	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —General Government <sup>5</sup>	Aug. 2009	Oct. 2009	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> —Central Government	Aug. 2009	Oct. 2009	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>	Dec. 2008	Sep. 2009	A	A, 6 month lag	A
External Current Account Balance	Q2, 2009	Sep. 2009	Q	Q, 2 month lag	Q
Exports and Imports of Goods and Services	Q2, 2009	Sep. 2009	Q	Q, 2 month lag	Q
GDP/GNP	Dec. 2008	Jun. 2009	A	A, 6 month lag	A
Gross External Debt	Jun. 2009	Sep. 2009	M	M, 4–6 month lag	A
International Investment Position <sup>7</sup>	Aug. 2009	Sep. 2009	M	Q, 2 month lag	M

<sup>1</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); and Not Available (N/A).

<sup>2</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>3</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>5</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>6</sup> Including currency and maturity composition.

<sup>7</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

**Statement by the IMF Staff Representative**  
**November 18, 2009**

1. This statement provides information on macroeconomic and policy developments that has become available since the staff report was circulated to the Executive Board on November 2, 2009. This information does not alter the thrust of the staff appraisal.

**Macroeconomic developments**

2. **Inflation performance is in line with staff's outlook**, with the headline rate at 6 percent (year-to-date) in October. Food prices—a main driver—declined slightly last month due to seasonal factors.

3. **Gross foreign reserves rose slightly in October to around US\$2.2 billion at end-month** (3.6 months of next year's imports), due mainly to gold valuation effects. Reversing the recent trend, the National Bank of Cambodia (NBC) was a small net purchaser of foreign exchange in October (latest available data), with the riel-U.S. dollar exchange rate stable.

4. **Fiscal performance through September 2009 suggests the primary and current balances could be slightly less favorable than anticipated for the year as a whole.** On revenue, value-added tax collections show signs of lagging, although seasonal demand toward year-end could provide a lift. On expenditure, externally-financed capital spending also is running below expectations, but much of this is likely due to reporting lags.

5. **Monetary conditions remain lax, but the pace of credit expansion continues to slow, as expected.** Broad money growth reached about 19 percent (y/y) in September, driven by a nearly US\$100 million increase that month in foreign currency deposits. Credit growth was 3½ percent (y/y) in September, with banks continuing to accumulate excess reserves at the NBC—now equivalent to one-third of the deposit base.

**2010 budget**

6. **A draft 2010 budget was approved on October 28 by the Council of Ministers, with an overall deficit target equivalent to 5.3 percent of GDP.** Final approval is expected by the National Assembly in December. Under the draft budget, the domestic financing requirement is around 0.7 percent of GDP—larger than recommended (see table below). While few budget details have been published with regard to new revenue and expenditure measures, summary highlights are as follows:

- **Total revenue is targeted at 12.3 percent of GDP, below staff's baseline outlook** and compared to an expected outturn of 12.0 percent in 2009. Leading the way are increases in direct taxes, with budgeted collections about 0.3 percent of GDP higher than this year's expected outcome. Indirect taxes are unchanged (as a share of GDP),

despite recent administrative improvements to customs procedures and collections and staff's projected recovery in import demand.

- **Total expenditure stands at 17.6 percent of GDP, significantly lower than staff's baseline**, and compared to 18.8 percent projected for 2009. Externally-financed capital spending is about one percentage point of GDP lower than the expected outturn in 2009. However, the budget outlook may not fully reflect new donor commitments, including recently announced plans by China and Korea to increase project loans. Current spending is about 0.2 percentage points of GDP lower; the reduction is concentrated on wages and allowances, including limits on hiring, promotions, and pay incentive schemes.

**Cambodia: Summary of General Government Operations, 2008–10**  
(In percent of GDP)

	2008 Est.	2009		2010	
		Budget	Staff Proj.	Draft Budget	Staff Proj. 1/
Total revenue	12.0	11.1	12.0	12.3	13.2
Tax revenue	9.9	9.0	9.8	10.0	11.1
Nontax revenue	1.7	1.8	1.7	1.6	1.8
Capital revenue 2/	0.4	0.4	0.5	0.6	0.4
Total expenditure	14.8	15.3	18.8	17.6	19.0
Current expenditure	9.0	9.6	11.3	11.1	11.4
<i>Of which: Wages</i>	3.2	3.6	4.8	4.3	...
Capital expenditure 3/	5.8	5.7	7.5	6.5	7.6
Current balance	2.6	1.1	0.2	0.6	1.4
Overall balance	-2.8	-4.2	-6.7	-5.3	-5.8
Financing	2.8	4.2	6.7	5.3	5.8
Foreign financing (net)	5.3	3.9	5.5	4.6	5.8
Domestic (net)	-2.5	0.3	1.2	0.7	0.0

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

1/ Baseline scenario inclusive of revenue and expenditure measures needed to eliminate the domestic financing requirement.

2/ Capital revenue includes privatization proceeds.

3/ Capital expenditure (externally financed) includes a statistical discrepancy, reflecting the difference between actual and recorded disbursements.



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## **IMF Executive Board Concludes 2009 Article IV Consultation with Cambodia**

On November 18, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cambodia.<sup>1</sup>

### **Background**

Following a decade of high economic growth (8 percent per year on average) and significant poverty reduction, Cambodia's economy has been hard hit by the global crisis. Real GDP is contracting as key sectors falter—export and tourism receipts have fallen off sharply, reflecting a narrow production base, high concentration of exports, and softening external demand, while lower foreign inflows have contributed to a contraction in construction activity. Falling agricultural commodity prices have depressed rural incomes. On the other hand, plunging imports have led to a narrowing of the current account deficit, and inflation has declined sharply.

Despite banks having no direct exposure to toxic assets abroad, the slowdown has taken a toll on Cambodia's banking sector. Contracting economic activity and declining property prices have exacerbated strains caused by weak risk management, earlier supervisory lapses, and excessive credit growth. As in other countries, credit risks and nonperforming loans at banks are rising, while profits are being compressed by a lack of lending opportunities.

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<sup>1</sup> 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. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

In response to the slowdown, policies have been eased significantly. Based on performance to date, the overall fiscal deficit is on path to widen sharply to around 6¾ percent of GDP in 2009, against an official target of 4¼ percent and an estimated outturn of 2¾ percent in 2008, despite revenues remaining on target. On the monetary front, a reduction in the reserve requirement early in the year and strong deposit growth has eased liquidity pressures. However, higher fiscal spending and reduced foreign currency inflows in the context of high dollarization has resulted in downward pressure on the riel.

Despite these measures, growth in 2009 is expected to be negative 2¾ percent, with only a modest bounce back in 2010 to positive 4¼ percent as garment exports, tourism, and construction stage a modest rebound. Notwithstanding a moderate impact from Typhoon Ketsana, good harvests are expected this year. Inflation is expected to rise to around 5 percent (year-on-year) by end-2009 as base effects dissipate, ticking up to about 6 percent by end-2010, due to a mix of higher oil prices and relatively accommodative policies.

The current account deficit is expected to narrow in 2009 to around 5½ percent of GDP as lower import demand and fuel prices more than offset sharply smaller export (led by garments) and tourism receipts. As the recovery starts to kick in, these trends would reverse, raising the deficit to around 11 percent of GDP in 2010 as a recovery in export lags. Gross official reserves (inclusive of the IMF's allocations of special drawing rights of SDR 68.5 million—about US\$109 million) are expected to stay broadly stable in 2009 (around US\$2.1 billion, 3.5 months of imports), falling modestly in 2010, as loose fiscal policy and the widening current account deficit more than offset an expected pickup in official and foreign direct investment inflows.

### **Executive Board Assessment**

Executive Directors noted that the global recession has contributed to a sizable contraction in economic activity, after nearly a decade of strong growth and poverty reduction. Together with the sharp decline in property prices, the recession has further weakened bank balance sheets. As the economy recovers, immediate priorities include safeguarding macroeconomic stability and reinforcing the banking system.

Directors noted that, owing to high dollarization, fiscal policy should continue to anchor macroeconomic stability, backed by appropriately supportive monetary conditions. Tightening fiscal policy will be necessary to avoid exerting undue pressure on inflation and the exchange rate. Most directors noted that greater exchange rate flexibility would help facilitate external adjustment and safeguard international reserves. A few Directors noted that, under current conditions, the existing exchange rate arrangements were appropriate for anchoring inflation expectations.

Directors emphasized the need to reduce the domestic financing component of the fiscal deficit, while reprioritizing expenditure to protect vulnerable groups. They praised ongoing efforts to improve revenue performance, and noted that expenditure restraint would also be needed, especially in wage and defense outlays. Directors welcomed the direction of the draft 2010 budget, which should be underpinned by well-identified revenue and expenditure measures.

Noting the progress in improving public financial management, they encouraged the authorities to continue their efforts, especially in the areas of budget integration and transparency, as well as the establishment of a Treasury single account.

Directors praised progress in improving liquidity management and noted that monetary conditions remain broadly appropriate. They encouraged the National Bank of Cambodia to monitor closely the large buildup of banks' excess reserves and be prepared to tighten policy as conditions improve. Directors saw room to strengthen the effectiveness of monetary policy, focusing on developing indirect instruments and fostering an interbank market, which could also contribute to reducing dollarization.

Directors expressed concern over the deterioration in the health of the banking sector and the continued rise of nonperforming loans. They commended the authorities for responding with prioritized onsite inspections and supervisory noncompliance letters, and encouraged them to continue strengthening banking supervision. Immediate priorities should include strict enforcement of the new asset classification regime, prompt implementation of corrective action plans, development of a comprehensive bank restructuring framework, and increased supervision capacity.

Directors noted that a diversified production base and improved competitiveness are key to sustained high growth, with particular focus on improving basic infrastructure, labor skills, and the business climate, as well as expanding market access through trade commitments. Directors encouraged the authorities to continue engaging external creditors to find a solution to the arrears problem.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The [staff report](#) (use the free [Adobe Acrobat Reader](#) to view this pdf file) for the 2009 Article IV Consultation with Cambodia is also available.



### Cambodia: Selected Economic Indicators, 2006–10

(Annual percent change, unless otherwise indicated)

	2006	2007	2008	<u>2009</u> Proj.	<u>2010</u> Proj.
GDP at constant prices	10.8	10.2	6.7	-2.7	4.3
Inflation (CPI) (annual average)	6.1	7.7	25.0	-0.5	5.4
(end-year)	4.2	14.0	12.5	5.3	6.0
Saving and investment (in percent of GDP)					
Gross national saving	19.9	19.0	9.1	10.5	5.8
Gross fixed investment	20.6	20.8	19.5	16.0	17.0
<i>Of which:</i> Government investment	5.7	6.1	5.8	7.5	7.6
Public finances (in percent of GDP)					
Revenue 1/	11.5	11.9	12.0	12.0	12.4
Expenditure	14.2	14.7	14.8	18.8	19.9
Overall budget balance (- deficit)	-2.7	-2.9	-2.8	-6.7	-7.4
Foreign financing (net)	4.8	5.0	5.3	5.5	5.8
Domestic financing (net) 2/	-2.0	-2.2	-2.5	1.2	1.6
Broad money	38.2	62.9	4.8	23.5	12.9
Private sector credit	51.6	76.0	55.0	3.5	17.0
Balance of payments					
Exports (in millions of U.S. dollars)	3,694	4,089	4,433	3,892	4,059
Imports (in millions of U.S. dollars)	-4,727	-5,432	-6,679	-5,501	-6,446
Current account balance (in percent of GDP)	-0.6	-1.7	-10.4	-5.5	-11.2
Gross official reserves (in millions of U.S. dollars) 3/	1,097	1,616	2,164	2,199	2,137
(in months of months of prospective imports)	2.1	2.5	4.0	3.5	3.1
Public external debt (in millions of U.S. dollars) 4/	2,254	2,571	2,773	3,170	3,531
(in percent of GDP)	31.0	29.6	24.6	29.2	30.1
Memorandum items:					
Nominal GDP (in billions of riels)	29,849	35,042	45,583	44,696	48,843
(in millions of U.S. dollars)	7,264	8,691	11,277	...	...
Exchange rate (riels per dollar, period average)	4,109	4,032	4,042	...	...

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

1/ In 2006, includes transfer of the Multilateral Debt Relief Initiative (MDRI) proceeds as capital revenue.

2/ Includes funds in transit and payment orders in excess of cash released.

3/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

4/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

**Statement by Adrian Chua, Alternate Executive Director for Cambodia, and Pijeivibol Phan, Senior Advisor to Executive Director  
November 18, 2009**

1. On behalf of the Cambodian authorities, we would like to thank the IMF staff team for the fruitful policy dialogue and thoughtful recommendations during the Article IV consultations. The exchange of views during the mission was candid. The authorities are in broad agreement with the general thrusts of staff's assessment and policy recommendations. They will give these recommendations due consideration.

**Recent Economic Developments and Outlook**

2. After many years of strong economic growth, the global economic crisis has hit Cambodia hard in light of its high level of openness and highly concentrated growth base. Garments, construction and tourism, which had been main economic driving forces, have been adversely affected by the global crisis. Agriculture remains supportive of economic growth in 2009. We expect, however, that the economic contraction has bottomed out in mid 2009 and growth will bounce back in 2010. The authorities project that economic growth will be positive at around 2 percent in 2009, taking into account of growth in agriculture of 4.3 percent and growth in services of 3.2 percent. Despite contraction in tourism, services sector has maintained its growth momentum. The garment and construction industries, however, are expected to contract by 3.9 percent and 2.6 percent, respectively.

3. Inflation has declined sharply from 12.5 percent at end-2008, and is expected to stay under 5 percent per annum in 2009. Prices of food and beverage, property, water, gas and electricity, transportation, and entertainment and culture have contributed to the downward trend. The riel has depreciated slightly against the US dollar during the first eight months of 2009. However, a relatively large fluctuation occurred in August due to both seasonal and external factors. The lower demand for the riel after the harvest season and for tax payments, continued injection of the riel into the market and the slowdown of foreign inflow have contributed to the depreciation of the riel. The current account deficit has shrunk since the imports decelerated faster than exports in the first half of 2009. The level of international reserves has been somewhat stable in light of challenging external situation.

4. Going forward, economic prospects remain positive on the back of entrenched peace and stability, appropriate macroeconomic management, and the authorities' strong commitments to reforms to shore up investments and attract international investors. For 2010, economic growth is expected to expand modestly about 4.3 percent given the positive signs of recovery in the country's main economic drivers.

**Fiscal policy**

5. As also stated by staff, the authorities demonstrated strong commitment in adopting a prudent fiscal position to maintain macroeconomic stability and sustainability. Following high

oil and food prices in 2008 and the global economic downturn in 2009, the loosening of the fiscal stance was appropriate and warranted to sustain economic growth and protect the most vulnerable groups to maintain social stability. The authorities expect overall fiscal deficits to increase to 6.08 percent of GDP in 2009 and about 5.3 percent in 2010. Domestic financing of the 2009's deficits will increase to 2.88 percent of GDP (47.52 percent higher compared to 2008) and external financing will decrease to 4.18 percent (2.2 percent lower compared to last year). A modest fiscal stimulus initiated since 2008 has had some positive effects, particularly in the area of capital spending including on infrastructure. The authorities have made efforts to compress the wage bill going forward to safeguard its fiscal position so as to underpin macroeconomic stability.

6. On the revenue side, collection could meet the overall target despite the challenging external environment. Customs and excises taxes will be slightly higher than the target. Revenue mobilization remains crucial. The authorities are stepping up efforts to strengthen tax administration and collection, and broaden the tax base.

7. Expenditures have increased in 2009 due to the authorities efforts to mitigate the impact of the global economic downturn as well as of high oil and food prices. Considering fiscal stability and sustainability, the authorities are making efforts to compress and prioritize expenditures. The authorities are committed to pulling back the intervention where there is room for the private sector to operate. They are also committed to mobilize development partners' financial assistance. The authorities have worked to strengthen public financial management. In particular, they have worked to implement the Public Finance Management Reform Program (PFMRP), as part of a step-by-step approach. Progress has been made in tax administration and mobilization as well as in budget formulation, execution and reporting.

### **Monetary and exchange rate policies**

8. The National Bank of Cambodia (NBC) continues to pursue prudent monetary policy. The authorities concurred with the staff's recommendation to maintain the current level of reserve requirement given the large excess of reserves in the banking system and efforts to safeguard the soundness of the banking system. In light of inflationary pressures and high credit risk in the second half of 2008, the authorities implemented policies to curb rapid credit growth. Credit growth has declined sharply in 2009 to 5.0 percent from 55.0 percent in 2008 and 76.0 percent in 2007. The authorities put in place the overdraft facility to address the risk of liquidity shortage. Broad money as of September 2009 was 30.6 percent of GDP, slightly higher than that of the same period in 2008. The authorities are keeping a close watch on liquidity situation and stand ready to mitigate liquidity risk.

9. The authorities concurred with staff that improvement in liquidity management is crucial in preparing the ground for a well functioning inter-bank and money market. Efforts have been taken to implement an operational liquidity monitoring framework aimed at mitigating the risks associated with a reversal of the currently large liquidity overhang. The authorities are working on securitization of fixed deposits. A draft of Repo Master Agreement has been finalized and

communicated with the public for consultation. These are steps of diversifying arrays of financial products that could also be used as collateral in the banking sector in particular for the money market operations. Fund technical assistance on liquidity monitoring has been essential for the NBC in terms of operational assistance and capacity building.

10. While committing to maintaining exchange rate stability which serves Cambodia well as a nominal anchor, the authority agreeably noted staff's view that "allowing greater exchange rate flexibility would help facilitate adjustment and protect international reserves, especially in view of the accommodative fiscal stance". Gross international reserves, as of October 2009, have remained somewhat stable at around USD 2.2 billion. The authorities are committed to safeguarding adequacy of international reserves given the high level of dollarization in the economy.

### **Financial and banking issues**

11. The authorities thank the staff for the banking sector vulnerabilities analysis in Box 3 of the staff report. The authorities would like to stress, however, that the results of the sensitivity analyses are not forecasts of the likely outcome. In fact, the results are based on staff's assumptions to give the authorities a picture of possible scenarios. Notably, the stress tests did not give any consideration to collateral value and do not consider the impact of retained earnings as of August 2009. We wish to highlight that the authorities have taken steps to ensure that the outcomes of the analyses will be precluded. The authorities welcome the FSAP scheduled for early 2010 which will examine the soundness of the banking sector in greater depth.

12. Financial and banking sectors have seen unprecedented expansion in the country. Bright prospects of the Cambodian economy have attracted foreign investors to enter the banking system. While welcoming the expansion of the banking sector, the authorities maintain a close watch on financial stability. The authorities have strengthened their regulatory and supervisory framework and enforcement. They have implemented the following measures to strengthen the banking system; first, maintaining the current level of reserve requirement ratio of 12 percent; second, continuing to play its role as lender of last resort to provide overdraft facilities to banks; third, classifying banks' assets and loans into different sectors and maintaining appropriate provisions; fourth, continuing to encourage banks to increase their minimum capital and to comply with prudential measures; fifth, strengthening bank supervision capacity; and sixth, monitoring liquidity condition of the banking system.

13. The authorities concurred with staff of the need to move swiftly to strengthen regulatory enforcement, particularly in the areas of corrective actions and banks' compliance with the new capital requirements. As part of its onsite inspections, the NBC is focusing on prompt corrective actions, for many cases, on appropriate provisioning, loan appraisal and disbursement, and good governance. The NBC is encouraging banks to adhere strictly to the regulation on new loan classification and provisioning. Progress has been made on the draft of MOU between NBC and the Ministry of Economy and Finance as part of bank resolution plan.

14. Maintaining financial stability remains a key objective of the NBC. In light of growth and diversification of the financial sector, NBC is strengthening its supervision and oversight capacity, and working on improving operating standards and reducing risk concentration in the banking system. The NBC and Securities and Exchange Commission of Cambodia (SECC) are closely collaborating to prepare appropriate legal and regulatory frameworks for a new stock exchange to avoid opportunities for regulatory arbitrage.

### **Structural Reforms**

15. The authorities are of the view that the economy's resiliency to exogenous shocks needs to be addressed. The authorities continue to develop agricultural sector and they are well aware of the need to diversify production, especially in increasing agricultural productivity and value added, promoting agro-industry and SME development, strengthening microfinance activities, and developing rural physical infrastructure. The authorities have made continued progress to improve private sector led businesses and to shore up investors' confidence. Improving the business climate and private sector development remains a priority for the authorities. They are improving and finalizing regulatory and institutional frameworks related to the WTO's requirements in order to promote further integration into the regional and the world economy.

### **Conclusion**

16. Although significant progress has been made following decades of political instability, institutional and infrastructural frameworks remain challenging for the authorities to implement effectively. As such, peace and political stability remain essential for the country to strive toward more in-depth reforms. High food and fuel prices and unfolding global economic downturn have required adjustments to the pace of reform. Having said that, the authorities would like to underscore their commitment to reforms supported by technical assistance from all development partners.