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CAMBODIA

2011 ARTICLE IV CONSULTATION

February 2012

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 2011 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 8, 2011, 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 January 18, 2012. 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.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the staff of the IMF, the World Bank, and the Asian Development Bank.
- **Public Information Notice** (PIN).

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 2011 ARTICLE IV CONSULTATION

January 18, 2012

KEY ISSUES

Context. Growth has been strong with signs of a broadening recovery, but severe floods constitute a temporary setback to agriculture and economic diversification. The precarious global outlook exposes Cambodia's narrow export base to significant downside risks. A high degree of dollarization and largely reduced fiscal space constrain the authorities' ability to cushion shocks. Against this background, discussions focused on fiscal and financial sector risk management strategies for the near term and ways to strengthen foundations for high and stable growth over the medium term. Past surveillance has been characterized by broad agreement on the direction of policies, notably safeguarding fiscal sustainability, while progress in implementing key 2010 FSAP recommendations has been mixed.

Fiscal space. Macroeconomic stability hinges on prudent fiscal policies. While some fiscal stimulus would be warranted in the event of a severe downturn, the mission cautioned that fiscal space is limited and that greater consolidation efforts are needed to strengthen revenue administration and prioritize spending. While the outlook for external debt sustainability has improved on Cambodia's prudent track record, potentially large contingent liabilities from public-private power sector projects need to be carefully managed.

Elements of greater monetary independence. Although the National Bank of Cambodia's (NBC) influence on monetary conditions is very limited, steps should be taken to normalize monetary conditions amid robust growth and rapid credit expansion. The pace of tightening can be recalibrated as risks to growth materialize. This would also signal a strong commitment to promoting the riel, along with progress to develop an interbank market and upgrade the NBC's liquidity monitoring.

Financial deepening. In line with ongoing technical assistance (TA) efforts and key recommendations from the 2010 FSAP, discussions focused on the merits of a moratorium on new bank licenses, initiatives to develop the foreign exchange market in conjunction with the recently created stock market, and ways to make financial system supervision more forward-looking and comprehensive, including by enhancing the quality of data reported by banks.

Foundations for stronger growth. Policy initiatives to improve the investment climate are beginning to bear fruit, and their steadfast implementation holds the promise of raising Cambodia's growth potential.

Approved By
Vivek Arora and Dominique Desruelle

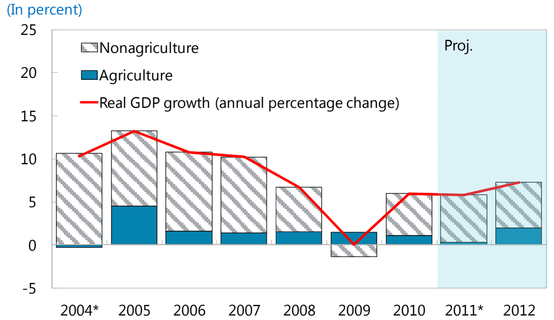
Discussions took place during November 28–December 8, 2011. The staff team comprised O. Unteroberdoerster (Head), J. Ree, P. Rungcharoenkitkul (APD), R. Maino (MCM), and F. Ahmed (Resident Representative). T. Feridhanusetyawan provided support from headquarters. Ms. Budiman and Mr. Kith (both OED) also participated. The team met with Deputy Prime Ministers Keath Chhon and Sok An, National Bank of Cambodia Governor Chea Chanto, and other senior officials.

CONTENTS

OUTLOOK AND RISKS

1. **Growth.** The economy has performed well in 2011, but recent floods add to uncertainty (Figure 1). Garment exports rose more than 30 percent, led by robust retail sales in the United States (still the main market) and improved access into the European Union (with exports up more than 60 percent from 2010). Tourist arrivals have continued to expand at a brisk pace, while various indicators, including rising imports of construction materials and a rapid increase in construction approvals point to a recovery of the battered real estate sector. Agriculture was also strong in the first three quarters—rice exports through September tripled under the new rice policy—but recent severe floods have reportedly destroyed 10 percent of the wet season harvest and could shave 1 percentage point off growth. Staff estimate overall growth at 5¾ percent in 2011, but nonagricultural growth at 7½ percent would be the highest in four years. In 2012, overall GDP growth could reach 6½ percent notwithstanding sluggish growth in advanced economies, boosted by the return of agricultural output to pre-flood trends, the ongoing recovery in the real estate sector and still robust garment exports as Cambodia continues to gain market shares from improving cost competitiveness and privileged access to key advanced economies (Table 1).

Contribution to Growth, 2004–12
(In percent)



*** Drought in 2004 and flood in 2011.**

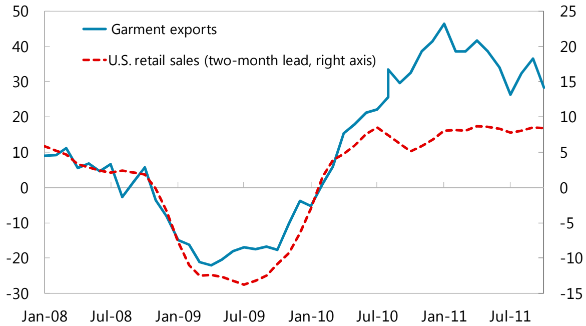
2. **Inflation and credit.** Inflationary pressures have steadily increased in 2011 and headline inflation peaked at 6.7 percent in September, driven by higher food and fuel prices and reinforced by strong credit growth, estimated to exceed 30 percent (y/y). Inflation is expected to level off in line with global commodity prices, and would average about 4½ percent in 2012.

3. **External position and stability.** The current account deficit (including official transfers) is projected at about 9½ percent of GDP in 2011–12, reflecting initially a higher petroleum import bill and strong imports related to private-public investment, notably large hydropower projects (Table 2). However, the current account deficit remains fully financed through broadening foreign direct investment (FDI) and official loans. Gross official reserves rose to US$3 billion in November (an increase of nearly US$300 million since the beginning of the year), equivalent to about 4¼ months of prospective imports. In the absence of signs of adverse pressures on external competitiveness, the riel has remained close to its post-2008 average in real effective

Figure 1. Cambodia: A Strong Recovery Amid Rising Inflation and Credit Growth

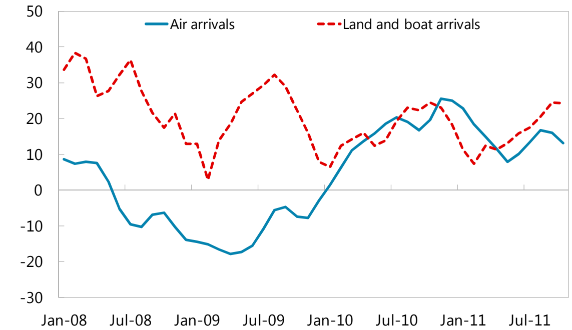
Garment exports have soared, buoyed by resilient U.S. demand and improved access quotas to the EU.

Garment Exports and U.S. Retail Sales Growth, 2008–11
(Year-on-year percent change, 3-month moving average)



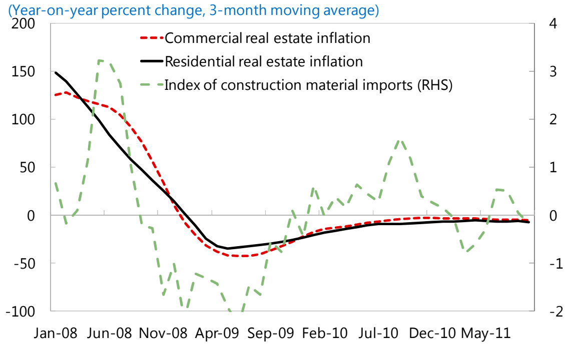
And tourist arrivals are increasing rapidly from all major sources.

Tourist Arrivals, 2008–11
(Year-on-year percent change, 3-month moving average)



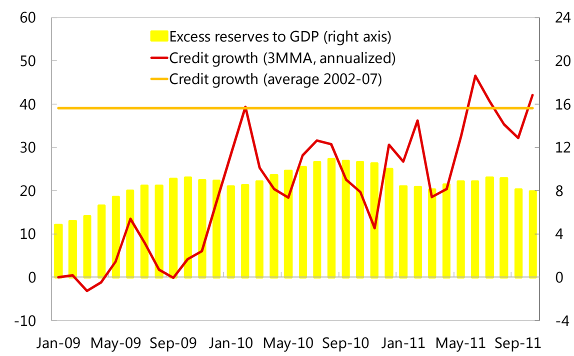
Meanwhile, the overhang from the real estate boom is unwinding.

Real Estate Prices and Construction Material Imports, 2008–11
(Year-on-year percent change, 3-month moving average)



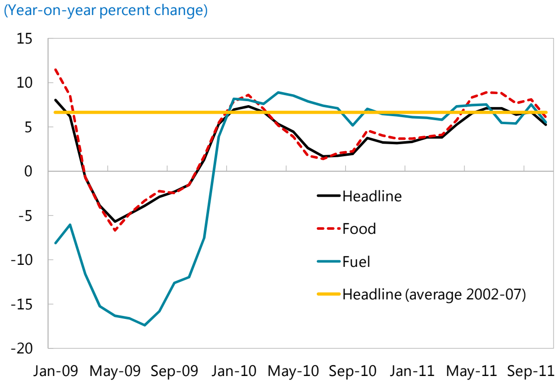
Consistent with the strong recovery, credit growth is accelerating and even pushing above levels during the pre-crisis boom.

Credit to the Economy and Excess Reserves, 2008–11
(In percent)



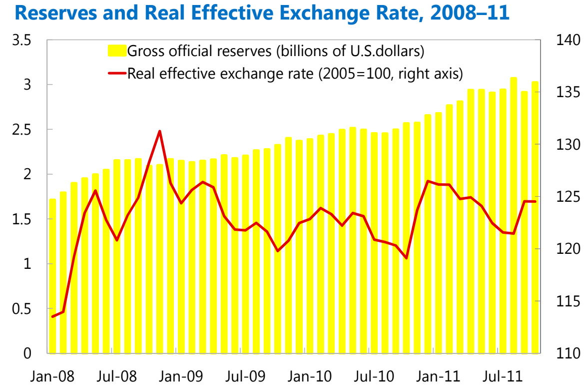
Headline inflation has risen steadily, in part driven by higher food prices, but shows signs of leveling off.

Inflation, 2009–11
(Year-on-year percent change)



The real effective exchange rate has remained broadly stable as official reserves have risen steadily.

Reserves and Real Effective Exchange Rate, 2008–11



Sources: Cambodian authorities; Bonna Realty Group; and IMF staff estimates.

terms and is judged to be broadly in line with fundamentals.[1]

4. Risks and spillovers. The authorities broadly agreed with the outlook, but were more optimistic on the resilience of agriculture. They concurred with staff that the fragility of the global recovery exposes Cambodia's narrow export base to significant downside risks.

- Cambodia is highly sensitive to economic activity in the U.S. and Europe, which account for 70 percent of its garment exports (60 percent of total exports) and the bulk of high-end tourist arrivals. Garment manufacturing and tourism together are forecast to contribute 3 percentage points, or more than one-third, to growth in 2012. On average, a 1 percentage point decline of growth in the United States and Europe would result in about a 1¼ percentage point drop of growth, making Cambodia a relatively "high beta" economy in the region. But the multiplier from a more severe shock could be substantially larger, as in 2009, mainly on account of adverse confidence effects.

- Financial spillovers are difficult to predict because of data limitations, but they would likely be limited given Cambodia's relatively underdeveloped financial system and low degree of financial integration. According to BIS data, claims of euro area banks on Cambodian residents amount to less than 0.8 percent of Cambodia's GDP, compared with an average exposure of about 5½ percent of GDP for Asian economies. Nevertheless, adverse spillovers from turmoil in major global markets could exacerbate domestic financial risks stemming from rapid credit growth and limited banking supervision.

- A high degree of dollarization—the ratio of foreign currency deposits to total deposits is 95 percent as of October 2011—constrains the effectiveness of monetary policy in cushioning such shocks, leaving fiscal policy as the main tool for safeguarding macroeconomic stability.

- Severe flooding in Cambodia and Thailand (the leading rice exporter), constitutes a major upside risk to rice prices and hence CPI inflation. A 10 percent increase in rice prices would push Cambodia's inflation up by 2 percentage points, more than anywhere else in the region.

- Under the baseline scenario, growth is expected to return to its potential of about 7½ percent over the medium term (Table 3), provided ongoing reforms to improve the business environment and upgrade physical infrastructure, and enhance public sector revenue and service delivery are steadfastly implemented.

- Cambodia's current account deficit (including official transfers) would gradually fall to about 5¾ percent of GDP

[1] Structural changes, the high degree of dollarization, and weaknesses in macroeconomic data mean that standard equilibrium exchange rate models do not yield statistically significant results in the case of Cambodia. For example, the macroeconomic balance approach is highly sensitive to the age-dependency ratio, which in Cambodia's case is extremely low due to the genocide under the Khmer Rouge (1975–79). Nevertheless, controlling for this factor, the current account norm is estimated to be about -5 percent of GDP, broadly in line with the medium-term current account projections.

by 2016, broadly in line with tentative estimates of its savings-investment norm, on the back of robust export growth, reflecting further diversification and improved competitiveness, and lower imports of petroleum and construction materials with the completion of large hydropower projects.

KEY ISSUES FOR THE CONSULTATION

A. Creating And Safeguarding Fiscal Space

5. Developments. Fiscal easing supported aggregate demand during the global crisis with the deficit (excluding grants) rising to over 8 percent of GDP in 2009 (Tables 4 and 5). In 2010, gains in fiscal consolidation were stronger-than-anticipated on buoyant revenue and more aggressive cutbacks in nonpriority current expenditure, and domestic financing was halved to 1 percent of GDP. However, strengthening the fiscal position in 2011 has proven more difficult than envisaged (Figure 2). Progress in enhancing revenue collection appears to have stalled and the revenue-to-GDP ratio stayed broadly at its 2010 level, with full year revenue expected to fall about ¼ percent of GDP short of the budget. Spending pressures related to the recent floods have been appropriately minimized by re-directing about CR200 billion from existing capital spending plans for reconstruction. Nevertheless, with the supplementary 2011 budget calling for additional spending of about CR250 billion, the government deficit (excluding grants) is expected to exceed 6 percent of GDP, ½ percent of GDP higher than implied by the initial budget, while the need for domestic financing will remain sizable (about 1 percent of GDP).

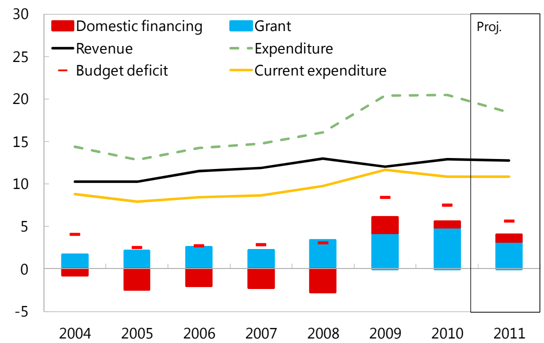
6. Discussion. With Cambodia's prospects for macroeconomic stability resting on prudent fiscal policies, discussions focused on: (i) the fiscal space available to address near-term downside risks and the budget for 2012; (ii) the need for rebuilding fiscal space over the medium-term through revenue measures and for safeguarding space by enhanced monitoring of contingent liabilities; and (iii) improvements under the public financial management reform program (PFMRP) in support of Cambodia's development needs and inclusive growth.

7. How much fiscal space is left to address downside risks? The staff team cautioned that the fiscal easing in 2009 already used up a substantial part of the fiscal space. In particular, government deposits in the banking system, which serve as an important anchor for stability given their role as a flexible source to finance fiscal stimulus in the absence of a market for government debt and as a backstop to potential financial system fragilities, are running low. In the event of a severe downturn in 2012, with a growth contraction comparable to 2009, automatic revenue stabilizers (and hence revenue shortfalls) mean that deposits would only be sufficient for a discretionary spending increase of 1 percent of GDP (Box 1). The team and the authorities agreed that in light of very limited fiscal space, any fiscal contingency plan will also need to pay particular attention to the

Figure 2. Cambodia: Gains in Fiscal Consolidation Prove More Difficult, Fiscal Space Is Limited

Fiscal consolidation is proceeding...

Fiscal Stance, 2004–11
(In percent of GDP)

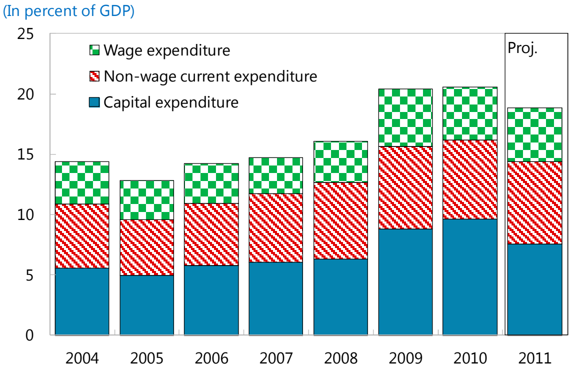


...although the revenue outturn in 2011, points to stagnant tax buoyancy.

Government Revenue, 2004–11
(In percent of GDP)

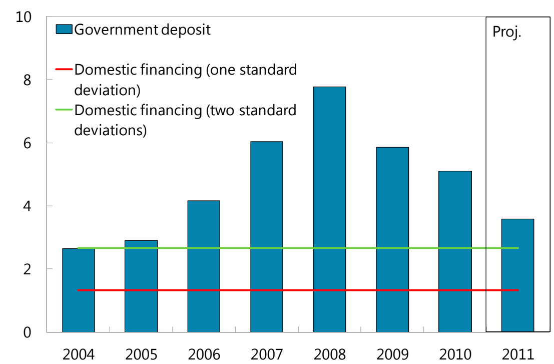
The budgeted restraint on wages appears to be holding, but recent floods have added to spending pressures.

Government Expenditure, 2004–11
(In percent of GDP)



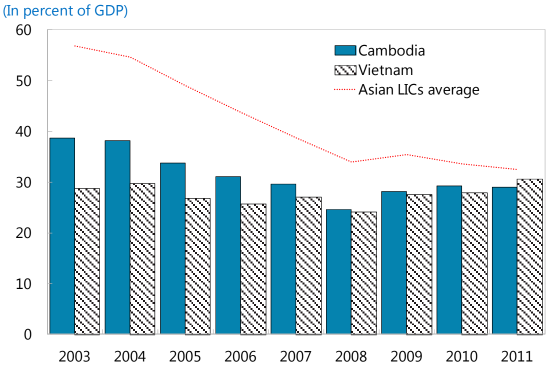
As a result, the government deposit buffer has been significantly reduced, curtailing fiscal space to guard against downside risks.

Government Deposit, 2004–11
(In percent of GDP)



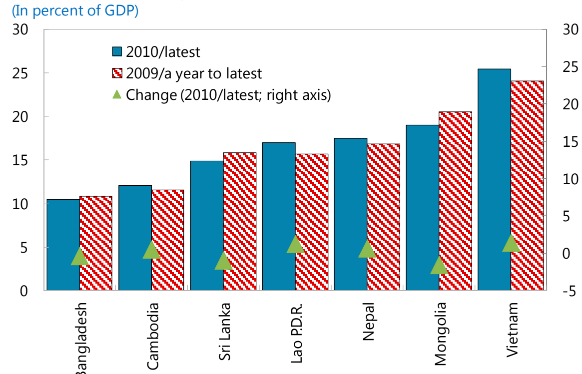
External debt, while lower than for peers, remains on an upward trend.

External Debt Comparison, 2003–11
(In percent of GDP)



Revenue enhancement continues to be the key medium term challenge.

Revenue Excluding Grants
(In percent of GDP)



Sources: Cambodian authorities; and IMF staff estimates.

Box 1. How Much Fiscal Space Does Cambodia Have?

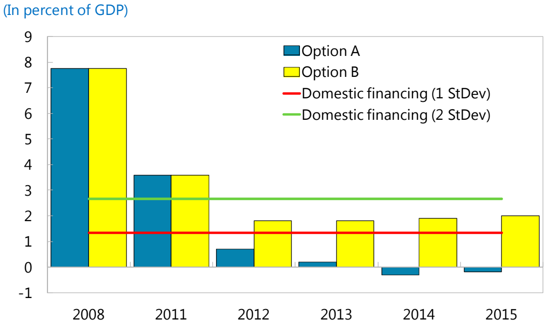
Fiscal stimulus in 2009 has substantially reduced Cambodia's fiscal space. While public and external debt-to-GDP ratios are elevated relative to pre-crisis levels, government deposits in the banking system have been drawn down substantially from about 8 percent of GDP in 2008 to 4 percent of GDP in 2011. The government deposit buffer is key to macroeconomic stability in Cambodia given the lack of the lender of last resort capacity of the central bank, still frail public confidence in the banking system implying a higher risk of a sudden stop in deposit flows, and its role as a flexible source of government finance in the absence of a market for government securities. The reduction of the fiscal space has very important bearings on Cambodia's vulnerability, at a juncture where tail risk scenarios continue to overshadow the precarious path of the global economic recovery. Moreover, Cambodia's high degree of dollarization implies that the scope for countercyclical use of exchange and interest rates as policy instruments is limited.

This box presents the staff's assessment of Cambodia's fiscal space. For the exercise, we consider a downside scenario where low real GDP and export growth in 2009–10 are replicated in 2012–13, resulting in a revenue shortfall (defined as a gap from trend) similar to that in 2009.[1] Under this scenario, we quantify what would happen to the fiscal space under different discretionary spending options.

- The government responds to the downside scenario by boosting discretionary spending by 1 percent of GDP in the year of the shock (2012); thereafter, consolidation is as gradual as after 2009, with the increase in domestic financing removed only in 2015.
- No discretionary spending stimulus, with only revenue-side automatic stabilizers at work.

We draw two main conclusions. First, with a growth contraction comparable to 2009, automatic revenue stabilizers (and hence revenue shortfalls) mean that a stimulus of more than 1 percent of GDP should be ruled out. Both options A and B will lead to the government deposit-to-GDP ratio sliding to less than two standard deviations of past domestic financing needs in 2012, assuming a revenue shortfall in 2012 of 1.3 percent of GDP.[2] A gradual withdrawal of stimulus under option A will exhaust government deposits by 2014. Second, downside risks would significantly worsen Cambodia's external debt sustainability with debt (in NPV terms) rising above 250 percent of revenue. Moreover, such a deterioration of Cambodia's external debt sustainability would likely coincide with a tightening of concessional funding supply from advanced economies severely hit in a global downside scenario, thereby placing an additional premium on the need to protect the government deposit buffer in the banking system.

Government Deposit in the Downside 1/
(In percent of GDP)



Sources: Authorities; and IMF staff estimates.
1/ A revenue shortfall is assumed at 1.3 percent of GDP.

[1] We first estimate trend revenue and then define the revenue shortfall as a gap between trend and actual. The estimated revenue shortfalls are in a range between 0.5 to 1.3 percent of GDP, depending on filtering methods.

[2] The standard deviation (over 1995–2010) represents a simple statistical measure of the level of deposits required to withstand financing shocks based on historical data.

effectiveness of spending. Efforts should focus on accelerating high-impact social priority and infrastructure outlays under medium-term development projects, and maximizing synergies with reconstruction of rural infrastructure after the floods.

8. 2012 budget. The mission welcomed the consolidation envisaged in the 2012 budget as an important step toward rebuilding fiscal space. The authorities are committed to expenditure restraint by keeping the ratio of current spending to GDP below 11½ percent of GDP and unchanged from 2011, and to plans for significant revenue administration enhancements yielding about ½ percent of GDP. As a result, domestic financing and thus the drain on government deposits will be substantially reduced, while the fiscal deficit (excluding grants) would be reduced to about 5¾ percent of GDP. In the event that revenue collection falls short of budget targets, the authorities indicated they would consider unwinding cuts in petroleum import duties in early 2011 to offset higher global fuel prices, raising "sin taxes," and speeding up collection of tax arrears.

9. Rebuilding fiscal space through revenue measures. Staff recommended a medium-term consolidation path that would avoid undue external and inflation pressures, and rebuild domestic and external fiscal buffers, which would enable Cambodia to bolster its low risk-of-debt distress rating, and strengthen its ability to absorb future shocks (Joint IMF/World Bank Debt Sustainability Analysis 2011). Under this path, a reduction in the deficit (excluding grants) to slightly under 4 percent of GDP in 2016, replenishment of government deposits in the banking system, and a reduction of public external debt to the pre-crisis level of 27 percent of GDP by 2016 would be achieved mainly by an increase in the ratio of tax revenue to GDP (on average by about ½ percent of GDP per year, consistent with commitments under the public financial management reform program). There was broad agreement that improving the productivity of Cambodia's tax system was key to this plan. Staff estimate that the gap to potential revenue that could be closed by strengthened tax administration amounts to about 3–5 percent of GDP (Country Report No. 11/45, Box 1). However, the team cautioned that strong and continued efforts will be required by revenue collecting agencies, including enforcement of measures adopted since the previous consultation to enhance taxpayer compliance and education, and improve governance within agencies. Trade liberalization commitments will create additional pressures to generate revenue from domestic taxes. While current plans to strengthen revenue administration are ambitious but realistic, consideration may therefore also need to be given to strengthen direct taxation and enhance buoyancy including by reducing incentives. The IMF stands ready to provide further TA both in the areas of revenue administration and tax policy design.

10. Safeguarding fiscal space through enhanced monitoring of contingent liabilities. The team noted that rapidly growing contingent liabilities, if not managed carefully, could set back efforts at creating fiscal space. The government's power generation expansion plan envisages completion of 35 projects under public-private partnerships (PPP) by 2020 with a total investment cost outside the government's capital budget of US$5.4 billion, or about 50 percent of 2011 GDP. Contracts covering about half of the investment plan have already been signed. The risks for the government by providing take-or-pay guarantees may seem small in light of existing electricity shortages and conservative demand forecasting scenarios underlying these projects. However, the sheer size of these projects, and the fact that risks for complex infrastructure projects are difficult to quantify *ex ante*, call for continuous and careful monitoring, as they could severely curtail the fiscal room for maneuver, in particular in the event of adverse economic shocks when contingent liabilities are also more likely to be triggered (Joint IMF/World Bank Debt Sustainability Analysis 2011). The authorities agreed with this assessment and noted significant progress in designing a public debt strategy and the creation of a high-level government committee on public debt management. They welcomed staff's suggestions to build on these new institutional arrangements to enhance the monitoring of risks related to PPP projects and close important gaps in the current framework: These include setting up a central PPP monitoring unit to evaluate all planned projects with "gateway powers" to ensure only sound projects and procurement options are chosen consistent with the public investment strategy, promoting greater transparency of contingent liabilities in the budget law, and strengthening the legal framework with respect to competitive bidding and dispute resolution mechanisms.

11. Using fiscal space effectively. There was broad agreement that further progress under the government's public financial management reform program (PFMRP) will also be important to ensure that greater fiscal space is used effectively. The team welcomed progress in the areas of cash management, budget classification, and technical preparations for the government's financial management information system (FMIS). Key challenges ahead include a commensurate capacity build-up, interdepartmental coordination, and the provision of adequate funding for the FMIS.

B. Taking Basic Steps Toward Greater Monetary Independence

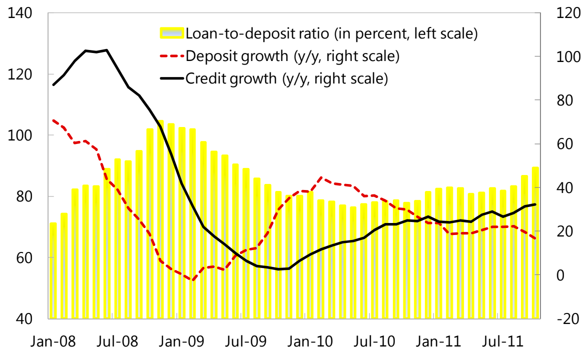
12. Developments. The NBC's influence on monetary conditions remains very limited. In the absence of a formal monetary framework, market-based instruments and an interbank market, the NBC continues to use the exchange rate vis-à-vis the U.S. dollar as an effective nominal anchor and has sporadically intervened over the past year, mainly to smooth seasonal demand and supply fluctuations. Official reserves have risen as banks have placed part of foreign currency returning to the system during the recovery with the NBC. But while dollarization has remained stubbornly high, the ratio of official reserves to foreign currency deposits has steadily declined, as credit growth has accelerated and the NBC kept reserve requirements at their post 2009 crisis lows (Table 6 and Figure 3).

13. Discussion: role of policy normalization. The staff team argued that steps should be taken now to normalize monetary conditions, consistent with the robust economic expansion. Gradually raising reserve requirements amid strong growth would strengthen perceptions about the NBC's commitment to price stability. Keeping reserve requirements low for too long could also pose financial risks in light of the still sizable liquidity overhang in the banking system by inducing banks to unwind excess liquidity faster and making adjustment more difficult when the stance is changed. In the event of an

Figure 3. Cambodia: A Rapidly Growing Financial System

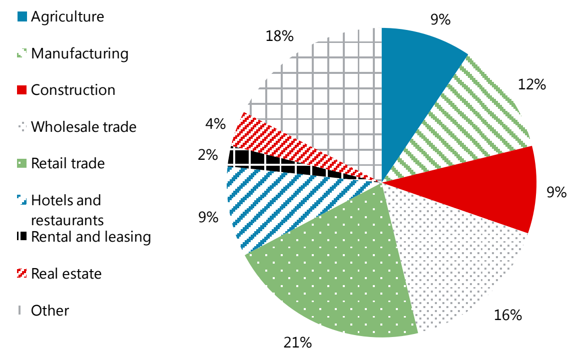
Amid rapidly growing intermediation, credit growth has begun to outpace deposit growth.

Deposit and Credit Growth, 2008–11



Although bank lending is diversified in the aggregate...

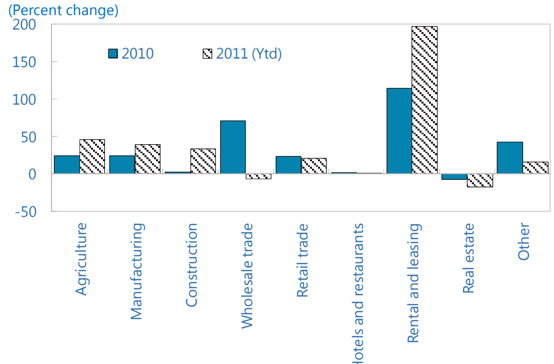
Share of Credit by Sector, August 2011



...credit growth has accelerated in particular in riskier segments, including construction and rental/leasing.

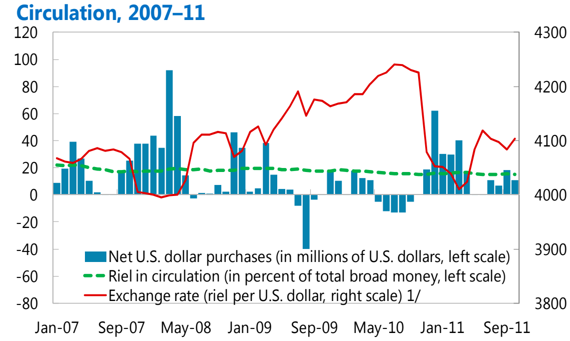
Credit by Sector

(Percent change)



The NBC has intervened sporadically in the relatively shallow foreign exchange market to maintain a stable exchange rate.

Net U.S. Dollar Purchases, Exchange Rates, and Riel in Circulation, 2007–11

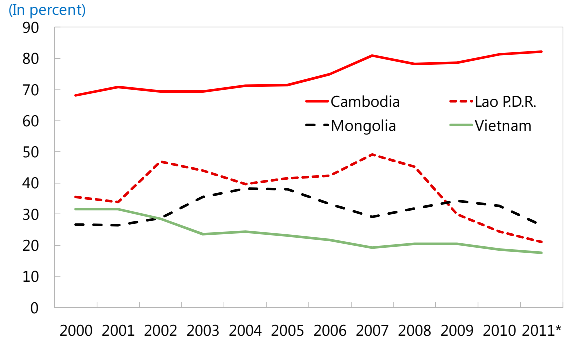


1/ Official mid-rate.

Nevertheless, Cambodia's dollarization ratio has remained stubbornly high...

Foreign Currency Deposits to Broad Money, 2000–11

(In percent)

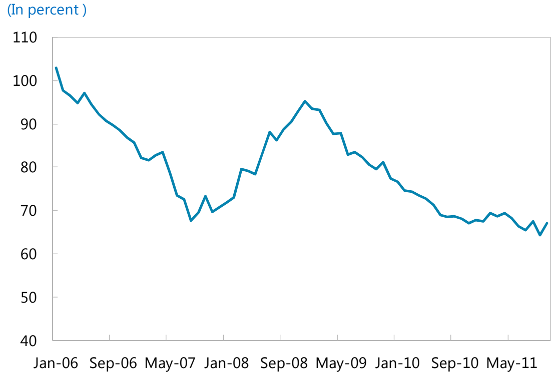


*** Latest**

...and the coverage of foreign currency deposits by official reserves has fallen to its lowest levels since 2007.

Official Reserves to Foreign Currency Deposits, 2006–11

(In percent)



Sources: Cambodian authorities; and IMF staff estimates.

adverse global economic shock, there is scope to recalibrate the pace and timing of monetary normalization. Reserve requirements on foreign currency deposits should be raised more than on riel deposits consistent with the long-term objective of promoting the use of the local currency. The authorities shared the teams' assessment of the monetary stance and reiterated their commitment to low inflation by noting that an interministerial working group had been set up earlier in 2011 to monitor inflation developments, but preferred to move more cautiously in normalizing monetary conditions. In the view, potential financial risks were tempered to the extent that rapid credit growth was fueled by lending to agriculture with attendant diversification benefits.

14. Role of enhancing the monetary framework. There was agreement, however, that heightened downside risks also required greater efforts at enhancing the monetary policy framework. In this regard, the team supported the swift completion of technical preparations of securitizing central bank deposits. Used as collateral, such securities could play a critical role in facilitating the creation of an interbank market, allowing banks to more easily manage both riel and dollar liquidity at a time when global financial uncertainty is on the rise. The team encouraged the NBC to publish more frequent and up-to-date data and analysis on monetary and credit developments on its website, which would contribute to better informed decisions by market participants. Regularly sharing information with the National Treasury on government cash flows would be critical for the NBC to enhance its liquidity monitoring. There was agreement that progress in all these areas would not only help reduce uncertainty, but also create space to pursue carefully sequenced steps to enhance Cambodia's monetary framework consistent with the national strategy of strengthening the free flow of the riel.

C. Managing Financial Deepening

15. Developments. Cambodia's financial system is rapidly changing, reinforcing old and creating new challenges to safeguarding financial stability. At the same time, progress in implementing high-priority 2010 FSAP recommendations is uneven (Table 7). A higher minimum capital requirement for banks was implemented as scheduled and noncompliant banks are being dealt with, and the NBC has continued to upgrade its supervisory capacity. At the same time, the launch of a credit bureau in early 2012 will enable banks to better manage credit risks. However, work on key elements of a crisis management framework remains to be initiated and agreements on the delineation of responsibilities among different supervisors are still pending. Coordination has become even more critical after the launch of the Cambodian stock exchange in July 2011. Although there are no listings yet and transactions are allowed to be settled in U.S. dollars for a transition period of three years, the stock market will eventually boost foreign exchange transactions and therefore also requires upgrading Cambodia's shallow foreign exchange market. Finally, based on recent onsite inspections, efforts at enforcing existing standards for reliable data, including for stricter asset classification and provisioning, will only gradually improve the accuracy of standard financial soundness indicators, which may still substantially underestimate credit and solvency risks (Table 8).

16. Discussion. In coordination with ongoing TA efforts and guided by the FSAP recommendations, discussions led to broad agreement in the way forward to address the key challenges of building a deeper financial system in support of Cambodia's development while safeguarding financial stability.

- **Moratorium on bank licenses.** While the 2010 FSAP recommended a moratorium on new bank licenses for as long as supervisory capacity remains relatively limited, Cambodia continues to witness a rapid influx of new banks (Box 2). In addition to stretching supervisory capacity too thin, the staff team argued that the proliferation of banks has made Cambodia "overbanked." The current degree of concentration and fragmentation poses risks to financial stability, while not delivering sufficient benefits from competition and innovation. Given the long shadow of Cambodia's financial history, even a small institution can have a large impact on public confidence in the wider system. The authorities saw merit in the staff's assessment and are considering ways to impose a moratorium consistent with their commitment to a sound banking system and stable growth.

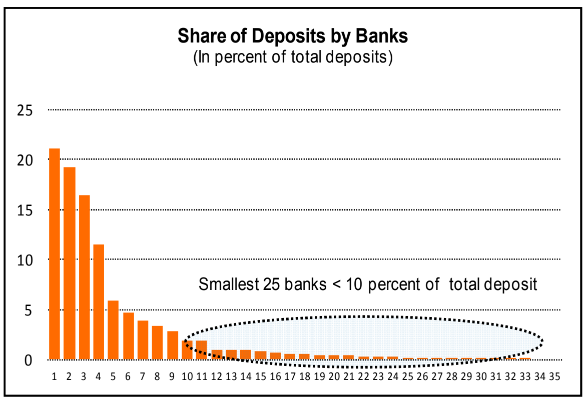
- **Developing a foreign exchange market.** The current foreign exchange market is thin, cash-based, and dominated by money-changers, and even small stock market transactions could lead to disruptive supply and demand imbalances. The transitory settlement option in U.S. dollars addresses this concern without foregoing Cambodia's long-term objective of de-dollarization. However, there was broad agreement on the need for a roadmap (supported by ongoing TA from the IMF) toward an effective wholesale foreign exchange market that is noncash based and open to banks and major nonbank financial institutions. Staff noted that consistent with enhancing the monetary policy framework, the NBC could gradually step back from the market by dealing less with retail money changers and more with banks, while also allowing some flexibility in the exchange rate to afford the market a chance of clearing itself.

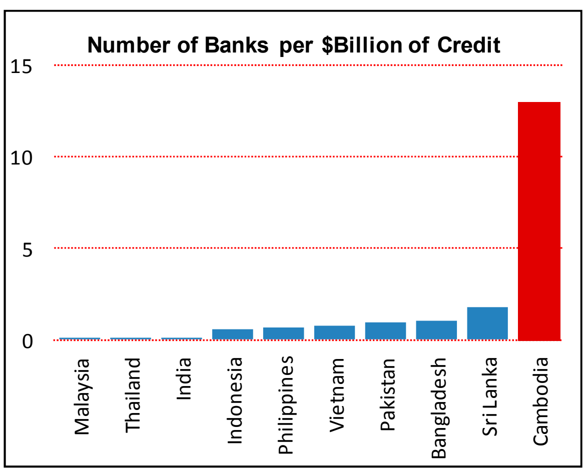
- **Making financial system supervision forward-looking and comprehensive.** Given the absence of financial safety nets and the fact that Cambodia's high degree of dollarization severely curtails the NBC's lender-of-last-resort capability, staff welcomed progress in enhancing the prompt corrective action framework. However, staff expressed concern about the lack of progress in agreeing on memoranda of understanding (MoUs) between the NBC, the Ministry of Economy and Finance (MEF) and the Securities and Exchange Commission of Cambodia (SECC) on shared responsibilities, and to establish procedures for information exchange and bank resolution. The authorities agreed with the team's recommendation and since the discussions have begun to set up working groups be established with representatives from all supervisory agencies to jointly prepare MoUs. They welcomed the offer of IMF TA to these working groups.

Box 2. Bank Competition and Financial Stability[1]

Cambodia's banking system is liberalized, dollarized, and bimodal—a few large banks and a large number of small banks. The financial system has a large presence of foreign banks, accounting for more than two-thirds of the banks and half of total deposits.

The number of banks in Cambodia has grown rapidly in recent years, doubling since 2005, which has implications for bank competition and financial stability. Notwithstanding the limited financial access, Cambodia appears to be "overbanked" compared to developmental peers and regional neighbors, including countries with substantially higher income levels and much larger and well-developed financial systems.





[1] The notion of "overbanking" here does not refer to financial penetration (i.e., financial access, currently at 10 percent, is low in Cambodia) but rather to the "density" of banks (i.e., the number of banks for a given level of credit, economic activity or population, as used in the literature, see Claessens and Laeven (2004)).

An "overbanked" financial system does not necessarily imply a competitive banking system. In Cambodia, for example, it does not seem to have led to any visible decline in interest spreads. The economic literature shows competition in the banking industry, unlike other industries, is less related to the number of banks but more to the quality of supervision and transparency in the banking system. In fact, the proliferation of banks can weaken financial stability, including through encouraging excessive risk-taking behavior by banks, limiting scope for diversification, and overburdening supervisory capacity. A higher number of banks, even after controlling for relevant variables, has been found to be negatively associated with measures of bank competition across countries (Claessens and Laeven, 2004).

Improving the efficiency of the banking sector needs to take account of the local conditions and risks. Since most of the banks in Cambodia operate in urban centers (mostly Phnom Penh) and offer a limited range of products, scope for diversification appears limited for the time being. The presence of a large number of small banks can also complicate the nascent monetary transmission channel in Cambodia, as is common in many developing countries. Any aggressive expansion plans by the large number of banks in an increasingly complex financial system can stretch the supervisory capacity, chiseling away the benefits from supervisory upgrades.

In light of the above, financial stability risk management in Cambodia would particularly benefit from addressing the following structural factors: (i) quality of banking regulation and supervision; (ii) absence of an interbank market, which hampers risk sharing and liquidity management; (iii) high level of dollarization (i.e., limited role of the central bank as a lender of last resort); (iv) limited foreign exchange reserves.

D. Building Foundations for Stronger Growth

17. Developments. After steadily rising for about 10 years from the mid-1990s, Cambodia's potential growth appears to be slowing, suggesting that early productivity gains and marginal returns to investment are diminishing (Figure 4). At the same time, Cambodia's economic base remains narrow. The textile sector dominates manufacturing and accounts for about 80 percent of all exports. Tourism, the second largest source of foreign exchange earnings, is still dominated by increasing visitor numbers to a single destination, Angkor Wat. Cambodia continues to rank low with regard to important determinants of private investment. But it is geographically close to the world's fastest growing markets, and economic rebalancing in Asia—including China—offers potential for future growth from exports to new markets and inward investment as Cambodia begins to integrate into the Asian supply chain. In fact, recent FDI trends and anecdotal evidence point to a nascent diversification of investors beyond the garment sector.

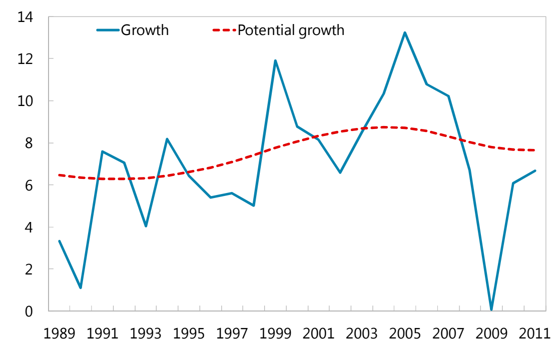
18. Discussion. Against this background, discussions focused on removing impediments to investment. The staff team noted that recent initiatives to improve the business environment and address infrastructure bottlenecks hold the promise of lifting Cambodia's relatively low investment rate, and diversifying the investor base (Box 3). However, it will be important that specific measures, such as the Anti Corruption Law and the government's rice policy to promote rural development be implemented. The authorities concurred that further budget prioritization, in support of critical infrastructure investment, will also be key in crowding in more private investment. They noted that such measures would also help reduce urban-rural imbalances, thus promoting more inclusive growth in line with the Millennium Development Goals (Table 9). Separately, staff emphasized the importance of timely, independent, and accurate economic statistics in improving the investment climate by facilitating informed business decisions and enhancing policy credibility. The authorities welcomed the IMF's continued TA in the area of national accounts statistics.

19. AML/CFT. There was broad agreement that enhancements to the AML/CFT framework can also support the broader fight against corruption and hence improve Cambodia's investment climate. In particular, the team welcomed the authorities' plans to address strategic deficiencies identified by the Financial Action Task Force and the 2010 FSAP, including the adequate criminalization of money laundering and terrorism financing offences, and the strengthening of the Financial Intelligence Unit's resources.

Figure 4. Cambodia: Drivers of Growth

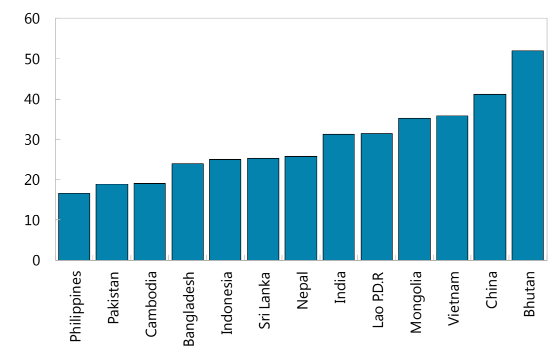
Potential growth appears to be settling after rising steadily until 2005…

Potential Growth Estimates, 1989–2011
(In percent)



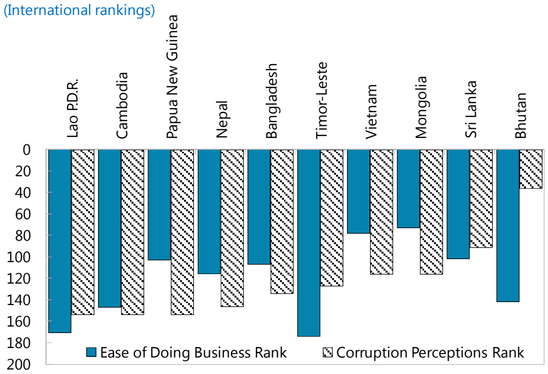
…as investment continues to fall short of the regional average.

Average Investment-to-GDP, 2000–09
(Percent)



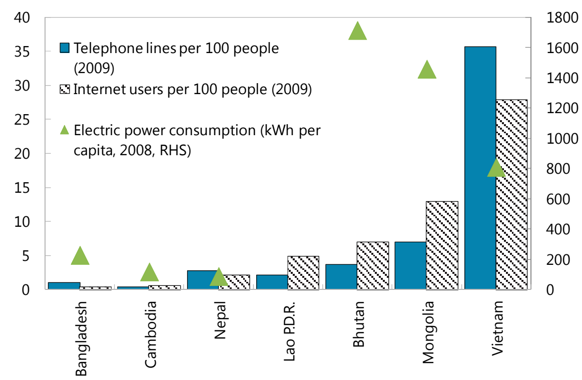
Cambodia's business environment remains very challenging for investors…

Hindrance to Investment
(International rankings)



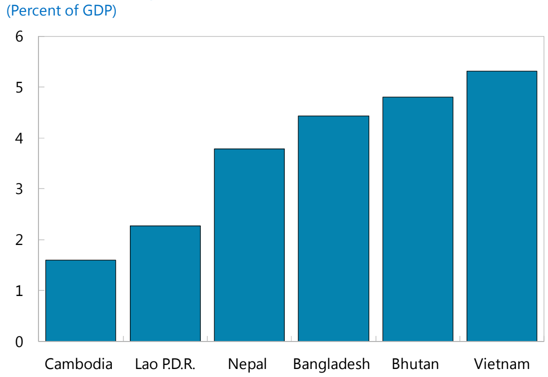
… while infrastructure gaps are huge, even compared with other LIC's in the region.

Infrastructure



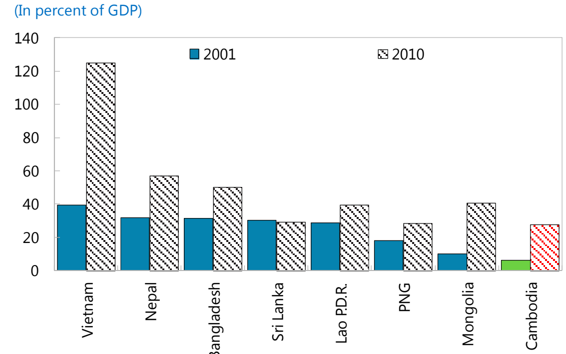
In addition to infrastructure, public investment in education is low.

Public Spending on Education
(Percent of GDP)



Access to finance is also a potential constraint, but Cambodia has been catching up fast.

Credit to the Economy
(In percent of GDP)

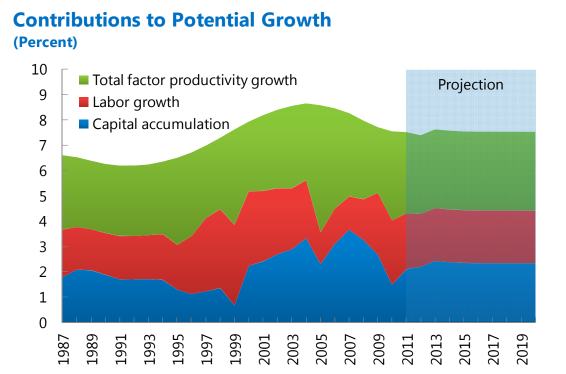


Sources: Authorities; and IMF staff calculation.

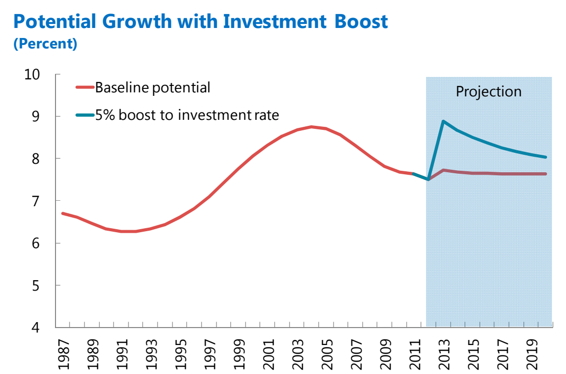
Sources: Cambodian authorities, International Transparency, UN COMTRADE, the World Bank WDI, and IMF staff estimates.

Box 3. Investment as a Driver of Potential Growth in Cambodia

Cambodia's near double-digit growth prior to the global financial crisis was a result of a confluence of favorable factors. In addition to the expansion of international trade, sustained investment and improvements in productivity drove potential growth to an estimated peak of 8.7 percent during 2004–2005.[1] However, it has declined since. Assuming a sustained investment-to-GDP ratio of 20 percent (close to 2000–10 average) and an absence of further shocks to productivity or labor supply, potential growth could reach 7.6 percent in the medium term. This outlook however will only materialize if a number of binding impediments to investment and total factor productivity are successfully removed.



Sources: The Cambodian authorities; and IMF staff estimates.



Sources: The Cambodian authorities; and IMF staff estimates.

[1] The potential growth is estimated from a dynamic stochastic growth model with a Phillips curve, which combines strengths from the traditional production function and the state space methods. See Rungcharoenkitkul, "Estimating Potential Growth in Cambodia" IMF Working Paper (forthcoming).

Investment returns in Cambodia are constrained by a lack of adequate basic infrastructure such as cheap electricity, and difficulties of doing business more generally. As a result, investment relative to GDP in Cambodia remains one of the lowest among low-income countries. Low investment can also inhibit the progress of economic diversification away from Cambodia's currently narrow export base, and in turn hinders overall manufacturing productivity, creating a vicious cycle of headwinds to growth.

The extent and quality of basic infrastructure in Cambodia at present is lagging behind many other lower income economies (Figure 4). Relatively high electricity cost curbs power consumption and economic activity. Roads and telephone lines are scarcer, while the ease-of-doing business rank is higher in Cambodia. The government is already addressing many of these gaps; for example, substantial investments in hydropower and coal-fired plants should materially lower the electricity costs. If these efforts succeed in bridging the infrastructural gaps relative to peers, Cambodia could lift its investment-to-GDP ratio by about 5 percent, with an associated boost to potential output growth of over 1 percent. A concerted effort by the government to improve the quality of basic infrastructure therefore holds the key to sustaining high potential growth in the years ahead.

Meanwhile, investment in human capital should continue to receive a high priority. Labor productivity remains an integral driver of Cambodia's long-term growth, and will grow in importance as the economy diversifies and climbs up the value chain of both the manufacturing and the service sectors. At present, public spending on education in Cambodia remains one of the lowest compared to peers. A sustained investment in human capital will ensure that long-term growth is more firmly based, as well as more inclusive.

STAFF APPRAISAL

20. Economic setting. Cambodia's economy has performed well in 2011 and recent severe floods constitute only a temporary setback to building stronger foundations for growth. Buoyant garment exports, a strong tourism sector, and an emerging recovery of the battered real estate sector mean that nonagricultural GDP growth likely reached the highest rate in four years. However, depending on replanting efforts and the impact on rice yields, the damage of floods to agriculture could visibly dent overall growth. On the back of strong economic activity, higher global food and fuel prices, and reinforced by strong credit growth, inflation rose through most of 2011 and is expected to ease only gradually. The real effective exchange rate appears to remain broadly in line with economic fundamentals.

21. Outlook and risks. Growth dynamics point to a favorable outlook for 2012, in part boosted by the return of agriculture to pre-flood trends. However, Cambodia's narrow economic base means that exposure to global downside risks is high while policy buffers are limited, mainly owing to the high degree of dollarization and largely reduced fiscal space after the 2009 global recession. Medium-term growth prospects critically depend on ongoing reforms to improve the business environment and upgrade physical infrastructure, and enhance public sector revenue and service delivery to provide for Cambodia's vast development needs while safeguarding fiscal sustainability.

22. Fiscal policy. With significantly less fiscal space to counter a potential severe global downturn than in 2009, any fiscal contingency plan would need to focus on accelerating and reprioritizing spending for existing high-impact social sector and infrastructure investment projects. The 2012 budget will help rebuild fiscal space by halving domestic financing, but further revenue mobilization over the medium term is key to strengthening policy buffers, and providing adequate resources for development. Better monitoring of sizable and growing contingent liabilities will be critical to safeguard fiscal space, while steadfast implementation of ongoing public financial management reforms will help to ensure spending effectiveness.

23. Monetary and exchange rate policy. Keeping reserve requirements, the NBC's main policy tool, at post-crisis lows is inconsistent with Cambodia's strong recovery and could undermine perceptions about the authorities' commitment to price stability. With credit growth accelerating, inaction could also contribute to macro-financial risks. There is scope, however, to recalibrate the pace and timing of monetary normalization in the event of an adverse global economic shock. Better liquidity monitoring and the creation of an interbank market are not only important steps to improve monetary operations consistent with Cambodia's longer-term development strategy, but would also help increase financial system resilience at the current juncture.

24. Financial sector policy. The main challenge ahead is building a deeper financial system while safeguarding financial stability. Amid a rapidly growing banking system, a moratorium on bank licenses would provide a critical window to build adequate supervisory capacity and improve the balance between the degree of competition and health of banks. Formalizing coordinated supervision and crisis management between relevant government agencies is essential to reduce systemic risks and limit potential fiscal costs. Upgrading Cambodia's shallow foreign exchange market will need to be carefully sequenced with Cambodia's international financial integration, the growth of the stock market, and the development of the overall monetary policy framework.

25. Investment. The authorities' medium-term structural policies appropriately focus on infrastructure bottlenecks and improving the investment climate, which would also help alleviate rural-urban imbalances. Further strengthening the AML/CFT framework and better and more timely economic statistics will also help improve Cambodia's competitiveness by reducing the cost of doing business and facilitating informed decision making.

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

Table 1. Cambodia: Selected Economic Indicators, 2008–12

	2008	2009	2010	2011	2012
			Prel. Est.	Proj.	
Output and prices (annual percent change)					
GDP in constant prices	6.7	0.1	6.0	5.8	6.5
(Excluding agriculture)	7.0	-1.8	6.7	7.6	6.2
Real agricultural output	5.7	5.4	4.0	1.2	7.5
GDP deflator	12.3	2.6	3.1	4.1	3.8
Inflation (end-year)	12.5	5.3	3.1	6.1	4.1
(Annual average)	25.0	-0.7	4.0	5.6	4.3
Saving and investment balance (in percent of GDP)					
Gross national saving	15.0	12.5	14.4	13.5	13.9
Government saving	2.8	-0.1	1.1	1.0	1.2
Private saving	12.2	12.6	13.3	12.5	12.8
Gross fixed investment	19.5	16.0	18.5	23.0	24.0
Government investment	6.3	8.8	9.6	7.6	7.6
Private investment 1/	13.2	7.2	8.9	15.4	16.4
Money and credit (annual percent change, unless otherwise indicated)					
Broad money	4.8	36.8	20.0	23.0	...
Net credit to the government 2/	-10.4	6.2	0.8	2.3	...
Private sector credit	55.0	6.5	26.6	33.0	...
Velocity of money 3/	3.4	3.1	2.6	2.6	...
Public finance (in percent of GDP)					
Revenue	15.9	15.8	17.0	15.6	15.6
Of which: Domestic revenue	12.5	11.5	12.1	12.4	12.7
Expenditure	15.7	20.0	20.0	18.4	18.7
Expense	9.6	11.5	10.8	11.3	11.4
Net acquisition of nonfinancial assets	6.1	8.5	9.2	7.1	7.3
Net lending (+)/borrowing(-)	0.2	-4.2	-3.0	-2.8	-3.0
Net acquisition of financial assets	2.7	-1.7	-0.3	-1.0	-0.4
Net incurrence of liabilities 4/	2.5	2.5	2.7	1.8	2.6
Of which: Domestic financing	-2.6	1.9	1.0	1.0	0.4
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	3,493	2,996	3,884	4,803	5,251
(Annual percent change)	7.6	-14.2	29.7	23.6	9.3
Imports, f.o.b. 5/	-5,076	-4,484	-5,515	-6,919	-7,463
(Annual percent change)	12.4	-11.7	23.0	25.5	7.9
Current account (including official transfers)	-468	-360	-458	-1,216	-1,428
(In percent of GDP)	-4.5	-3.5	-4.1	-9.5	-10.1
Gross official reserves 6/	2,164	2,367	2,653	3,080	3,449
(In months of prospective imports)	4.8	4.4	4.0	4.3	4.4
(In percent of foreign currency deposits)	95.2	77.4	67.9	63.5	...
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 7/	2,776	2,946	3,206	3,611	3,992
(In percent of GDP)	27.0	28.5	27.6	28.1	28.1
Public debt service	59	66	78	80	90
(In percent of exports of goods and services)	1.2	1.5	1.4	1.2	1.2
Memorandum items:					
Nominal GDP (in billions of riels)	41,968	43,108	47,102	51,867	57,370
(In millions of U.S. dollars)	10,352	10,414	11,255	...	...
Exchange rate (riels per dollar; period average)	4,054	4,139	4,185	...	...

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes FDI related to public-private power sector projects.
2/ Contribution to broad money growth.
3/ Ratio of nominal GDP to the average stock of broad money.
4/ Includes funds in transit and payment orders in excess of cash released.
5/ From 2011, includes imports related to public-private power sector projects.
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/ 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, 2008–16

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Est.				Proj.		
Current account (including official transfers)	-468	-360	-458	-1,216	-1,428	-1,451	-1,170	-1,214	-1,195
(Excluding official transfers)	-1,150	-1,059	-1,220	-1,709	-1,716	-1,739	-1,459	-1,502	-1,483
Trade balance	-1,583	-1,488	-1,630	-2,116	-2,212	-2,373	-2,245	-2,436	-2,645
Exports, f.o.b.	3,493	2,996	3,884	4,803	5,251	5,817	6,524	7,334	8,228
Of which: Garments	2,943	2,363	2,995	3,753	4,164	4,666	5,291	6,008	6,801
Imports, f.o.b. 1/	-5,076	-4,484	-5,515	-6,919	-7,463	-8,190	-8,770	-9,770	-10,872
Of which: Garments-related	-1,193	-1,050	-1,359	-1,726	-1,916	-2,147	-2,434	-2,764	-3,129
Petroleum	-421	-414	-466	-647	-658	-674	-691	-729	-773
Services and income (net)	153	138	168	138	169	244	324	386	514
Services (net)	627	616	697	685	776	904	1,038	1,157	1,292
Of which: Tourism (credit)	1,101	1,082	1,180	1,300	1,437	1,594	1,769	1,966	2,185
Income (net)	-475	-477	-530	-547	-608	-660	-714	-771	-778
Private transfers (net)	281	290	243	269	327	390	462	548	647
Official transfers (net)	682	699	762	493	288	288	288	288	288
Capital and financial account	983	457	601	1,627	1,781	1,773	1,639	1,631	1,811
Medium- and long-term loans (net)	175	200	278	384	362	317	458	393	393
Disbursements	212	236	322	434	418	389	553	408	441
Amortization	-37	-36	-44	-49	-56	-72	-96	-109	-159
Foreign direct investment 2/	795	525	762	1,332	1,319	1,407	1,181	1,238	1,418
Net foreign assets of deposit money banks 3/	695	-884	-332	61	100	50	0	0	0
Other short-term flows and errors and omissions	-681	615	-107	-150	0	0	0	0	0
Overall balance	515	96	143	411	353	322	468	417	616
Financing	-515	-96	-143	-411	-353	-322	-468	-417	-616
Change in gross official reserves 4/	-535	-116	-161	-427	-368	-339	-485	-429	-628
Use of IMF credit	0	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0	0
Accumulation of arrears	21	19	18	16	15	16	16	12	12
Memorandum items:									
Current account balance (in percent of GDP)									
Excluding official transfers	-11.1	-10.2	-10.8	-13.3	-12.1	-11.2	-8.5	-7.9	-7.1
Including official transfers	-4.5	-3.5	-4.1	-9.5	-10.1	-9.3	-6.8	-6.4	-5.7
Trade balance (in percent of GDP)	-15.3	-14.3	-14.5	-16.5	-15.6	-15.2	-13.1	-12.9	-12.7
Gross official reserves 5/	2,164	2,367	2,653	3,080	3,449	3,787	4,272	4,701	5,329
(In months of next year's imports)	4.8	4.4	4.0	4.3	4.4	4.5	4.5	4.5	4.5

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.
2/ From 2011, includes FDI related to public-private power sector projects.
3/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).
4/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.
5/ Excludes unrestricted FCDs held 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, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Est.			Proj.			
Output and prices (percent change)									
GDP at constant prices	6.7	0.1	6.0	5.8	6.5	6.4	6.8	7.4	7.4
GDP deflator	12.3	2.6	3.1	4.1	3.8	3.3	3.2	3.1	3.1
Consumer prices (end-year)	12.5	5.3	3.1	6.1	4.1	3.4	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)									
Gross national saving	15.0	12.5	14.4	13.5	13.9	14.2	14.7	15.6	16.8
Government saving	2.8	-0.1	1.1	1.0	1.2	1.6	2.1	2.4	2.7
Private saving	12.2	12.6	13.3	12.5	12.8	12.6	12.6	13.2	14.1
Gross fixed investment	19.5	16.0	18.5	23.0	24.0	23.5	21.5	22.0	22.5
Government investment	6.3	8.8	9.6	7.6	7.6	7.1	7.8	7.3	7.3
Private investment 1/	13.2	7.2	8.9	15.4	16.4	16.4	13.7	14.7	15.2
Public finance (in percent of GDP)									
Revenue	15.9	15.8	17.0	15.6	15.6	15.9	16.4	16.6	16.8
Of which: Non-grant	12.5	11.5	12.1	12.4	12.7	13.1	13.7	14.0	14.4
Total expenditure	15.7	20.0	20.0	18.4	18.7	17.9	18.5	18.1	18.2
Expense	9.6	11.5	10.8	11.3	11.4	11.6	11.5	11.6	11.6
Net acquisition of non-financial assets	6.1	8.5	9.2	7.1	7.3	6.3	7.0	6.5	6.5
Net lending (+)/borrowing(-)	0.2	-4.2	-3.0	-2.8	-3.0	-2.0	-2.2	-1.6	-1.3
Net lending (+)/borrowing(-) exluding grants	-3.2	-8.5	-7.9	-6.0	-6.0	-4.8	-4.9	-4.1	-3.8
Net acquisition of financial assets	2.7	-1.7	-0.3	-1.0	-0.4	0.1	0.5	0.5	0.5
Net incurrence of liabilities	2.5	2.5	2.7	1.8	2.6	2.1	2.7	2.1	1.9
Domestic financing, net	-2.6	1.9	1.0	1.0	0.4	-0.1	-0.5	-0.5	-0.5
Balance of payments (in percent of GDP, unless otherwise indicated)									
Exports (percent change) 2/	5.9	-16.0	32.4	24.4	9.8	11.3	12.7	12.9	12.7
Imports (percent change) 3/	11.6	-12.5	24.0	26.2	8.0	9.9	7.1	11.6	11.5
Current account balance (including transfers)	-4.5	-3.5	-4.1	-9.5	-10.1	-9.3	-6.8	-6.4	-5.7
(Excluding transfers)	-11.1	-10.2	-10.8	-13.3	-12.1	-11.2	-8.5	-7.9	-7.1
Foreign direct investment 4/	7.7	5.0	6.8	10.4	9.3	9.0	6.9	6.6	6.8
Net official capital flows 5/	7.6	9.2	9.2	6.5	4.3	3.5	4.2	3.4	3.2
Overall balance	4.6	0.9	1.2	-1.5	-0.2	3.4	4.2	3.0	2.4
Gross official reserves (in millions of U.S. dollars) 6/	2,164	2,367	2,653	3,080	3,449	3,787	4,272	4,701	5,329
(In months of next year's imports)	4.8	4.4	4.0	4.3	4.4	4.5	4.5	4.5	4.5
Public external debt (in millions of U.S. dollars) 7/	2,776	2,946	3,206	3,611	3,992	4,336	4,823	5,240	5,660
(In percent of GDP)	27.0	28.5	27.6	28.1	28.1	27.9	28.2	27.8	27.2
Public external debt service (in millions of U.S. dollars) 8/	59	66	78	80	90	110	141	165	220
(In percent of exports of goods and services)	1.2	1.5	1.4	1.2	1.2	1.4	1.6	1.6	2.0

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.
4/ From 2011, includes FDI related to public-private power sector projects.
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/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

Table 4. Cambodia: General Government Operations, 2008–12 (GFSM 1986)

	2008	2009		2010			2011			2012 1/	
		Budget	Actual	Budget	Jan.–Oct.	Actual	Budget 2/	Jan.–Oct. Est.	Staff Proj.	Prel. Budget	Staff Proj.
					(In billion of riels)						
Total revenue	5,463	5,182	5,179	5,837	4,799	6,160	6,752	5,174	6,792	7,642	7,729
Of which: Central government	5,188	5,030	4,897	5,686	4,567	5,892	6,491	4,884	6,453	7,309	7,314
Tax revenue	4,494	4,177	4,228	4,763	3,830	4,795	5,487	4,285	5,365	6,320	5,996
Direct taxes	654	746	744	968	682	800	1,044	805	988	1,278	1,206
Indirect taxes	3,582	3,300	3,218	3,663	2,931	3,745	4,204	3,206	4,056	4,732	4,398
Of which: Trade taxes	1,087	1,032	964	1,022	843	1,063	1,136	857	1,078	1,241	1,123
Provincial taxes	259	131	266	131	217	249	240	274	320	310	391
Nontax revenue	769	870	750	774	726	904	885	749	1,047	989	1,268
Capital revenue 3/	200	135	201	300	243	461	380	140	380	333	464
Total expenditure	6,751	7,422	8,805	8,366	7,726	9,695	9,887	7,314	9,887	10,577	10,959
Current expenditure	4,097	4,663	5,019	5,245	3,908	5,164	5,912	4,281	5,912	6,590	6,605
Wages	1,438	1,730	2,057	2,092	1,618	2,083	2,316	1,637	2,316	…	2,609
Nonwage	2,311	2,577	2,665	2,882	2,120	2,919	3,364	2,351	3,364	…	3,664
Provincial expenditure	347	357	297	271	170	161	232	293	232	332	332
Capital expenditure	2,654	2,759	3,787	3,121	3,818	4,531	3,955	2,978	3,955	3,987	4,354
Locally financed	711	1,059	1,037	1,121	856	1,111	1,355	733	1,355	1,127	1,127
Externally financed	1,943	1,700	2,749	2,000	2,962	3,420	2,600	2,245	2,600	2,860	3,226
Overall balance	-1,288	-2,239	-3,627	-2,529	-2,927	-3,535	-3,134	-2,140	-3,094	-2,936	-3,229
Financing	1,288	2,239	3,627	2,529	2,927	3,535	3,134	2,140	3,094	2,936	3,229
Foreign (net)	2,423	1,039	2,841	2,150	2,897	3,249	2,552	2,316	2,637	2,769	3,185
Grants	1,405	1,022	1,829	1,270	1,956	2,325	1,692	1,430	1,692	1,698	1,698
Loans	1,121	157	1,125	1,030	1,058	1,064	1,040	1,021	1,125	1,321	1,687
Amortization	-102	-140	-113	-150	-117	-140	-180	-135	-180	-250	-200
Domestic (net)	-1,135	1,200	786	379	30	286	582	-176	457	167	44
Bank financing (net)	-1,171	664	735	195	42	125	498	-176	457	…	44
					(In percent of GDP)						
Total revenue	12.7	12.0	12.0	12.4	10.2	13.1	13.0	10.0	13.1	13.3	13.5
Of which: Central government	12.4	11.7	11.4	12.1	9.7	12.5	12.5	9.4	12.4	12.7	12.7
Tax revenue	10.7	9.7	9.8	10.1	8.1	10.2	10.6	8.3	10.3	11.0	10.5
Direct taxes	1.6	1.7	1.7	2.1	1.4	1.7	2.0	1.6	1.9	2.2	2.1
Indirect taxes	8.5	7.7	7.5	7.8	6.2	8.0	8.1	6.2	7.8	8.2	7.7
Of which: Trade taxes	2.6	2.4	2.2	2.2	1.8	2.3	2.2	1.7	2.1	2.2	2.0
Provincial taxes	0.6	0.3	0.6	0.3	0.5	0.5	0.5	0.5	0.6	0.5	0.7
Nontax revenue	1.8	2.0	1.7	1.6	1.5	1.9	1.7	1.4	2.0	1.7	2.2
Capital revenue	0.5	0.3	0.5	0.6	0.5	1.0	0.7	0.3	0.7	0.6	0.8
Total expenditure and net lending	16.1	17.2	20.4	17.8	16.4	20.6	19.1	14.1	19.1	18.4	19.1
Current expenditure	9.8	10.8	11.6	11.1	8.3	11.0	11.4	8.3	11.4	11.5	11.5
Wages	3.4	4.0	4.8	4.4	3.4	4.4	4.5	3.2	4.5	…	4.5
Nonwage	5.5	6.0	6.2	6.1	4.5	6.2	6.5	4.5	6.5	…	6.4
Provincial expenditure	0.8	0.8	0.7	0.6	0.4	0.3	0.4	0.6	0.4	0.6	0.6
Capital expenditure	6.3	6.4	8.8	6.6	8.1	9.6	7.6	5.7	7.6	7.0	7.6
Locally financed	1.7	2.5	2.4	2.4	1.8	2.4	2.6	1.4	2.6	2.0	2.0
Externally financed	4.6	3.9	6.4	4.2	6.3	7.3	5.0	4.3	5.0	5.0	5.6
Overall balance	-3.1	-5.2	-8.4	-5.4	-6.2	-7.5	-6.0	-4.1	-6.0	-5.1	-5.6
Financing	3.1	5.2	8.4	5.4	6.2	7.5	6.0	4.1	6.0	5.1	5.6
Foreign (net)	5.8	2.4	6.6	4.6	6.2	6.9	4.9	4.5	5.1	4.8	5.6
Grants	3.3	2.4	4.2	2.7	4.2	4.9	3.3	2.8	3.3	3.0	3.0
Loans	2.7	0.4	2.6	2.2	2.2	2.3	2.0	2.0	2.2	2.3	2.9
Amortization	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.4	-0.3
Domestic (net) 4/	-2.7	2.8	1.8	0.8	0.1	0.6	1.1	-0.3	0.9	0.3	0.1
Bank financing (net) 4/	-2.8	1.5	1.7	0.4	0.1	0.3	1.0	-0.3	0.9	…	0.1
Memorandum item:											
GDP (in billions of riels)	41,968	43,108	43,108	47,102	47,102	47,102	51,867	51,867	51,867	57,370	57,370

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

1/ Revenue projection based on assumption of further enhancement of revenue collection (PFMRP); expenditure based on indicative 2012 budget plan.
2/ Including a supplementary budget set out by the 2012 budget law.
3/ Including privatization proceeds.
4/ The figure is different from the domestic financing figure in Table 5 (GFSM 2001) because of some difference in revenue coverage.

Table 5. Cambodia: General Government Operations, 2008–12 (GFSM 2001)

	2008	2009		2010			2011			2012 1/	
		Budget	Actual	Budget	Jan.–Oct.	Actual	Budget 2/	Jan.–Oct. Est.	Staff Proj.	Budget	Staff Proj.
						(In billion of riels)					
Revenue	6,668	6,069	6,806	6,807	6,512	8,023	8,064	5,383	8,104	9,007	8,962
Of which: Non-grant	5,263	5,047	4,978	5,537	4,556	5,698	6,372	5,034	6,412	7,309	7,264
Tax	4,417	4,262	4,156	4,824	3,785	4,751	5,462	4,180	5,271	6,264	5,875
Income, profits, and capital gains	654	746	744	968	682	800	1,044	805	988	1,278	1,206
Good and services	2,584	2,393	2,348	2,744	2,180	2,792	3,192	2,425	2,890	3,625	3,385
International trade and transactions	1,180	1,122	1,064	1,112	922	1,159	1,226	951	1,393	1,361	1,284
Grants	1,405	1,022	1,829	1,270	1,956	2,325	1,692	349	1,692	1,698	1,698
Other revenues 3/	845	786	822	713	771	947	910	853	1,141	1,045	1,389
Total expenditure	6,591	7,286	8,637	8,114	7,516	9,419	9,543	7,078	9,543	10,326	10,707
Expense	4,023	4,607	4,963	5,167	3,835	5,068	5,851	4,150	5,851	6,505	6,520
Compensation of employees	1,460	1,776	2,103	2,146	1,661	2,135	2,379	1,686	2,379	...	2,678
Purchase of Goods & Services	1,517	1,539	1,697	1,594	1,272	1,742	1,954	1,244	1,954	...	2,125
Interest	79	100	86	120	93	143	140	119	140	...	143
Expense not elsewhere classified	968	1,193	1,077	1,307	808	1,050	1,379	1,101	1,379	...	1,573
Net acquisition of non-financial assets	2,568	2,679	3,674	2,947	3,682	4,350	3,692	2,928	3,692	3,821	4,187
Of which: Externally-financed 4/	1,943	1,700	2,749	2,000	2,962	3,420	2,600	2,245	2,600	2,860	3,226
Net lending (+)/borrowing(-)	76	-1,217	-1,831	-1,307	-1,004	-1,396	-1,479	-1,695	-1,439	-1,319	-1,745
Net acquisition of financial assets	1,145	-664	-735	-195	-42	-125	-498	126	-494	-248	-258
Net incurrence of liabilities 5/	1,069	553	1,095	1,112	962	1,270	981	1,821	945	1,071	1,487
Of which: External	1,019	17	1,012	880	941	924	860	886	945	1,071	1,487
						(In percent of GDP)					
Revenue	15.9	14.1	15.8	14.5	13.8	17.0	15.5	10.4	15.6	15.7	15.6
Of which: Non-grant	12.5	11.7	11.5	11.8	9.7	12.1	12.3	9.7	12.4	12.7	12.7
Tax	10.5	9.9	9.6	10.2	8.0	10.1	10.5	8.1	10.2	10.9	10.2
Income, profits, and capital gains tax	1.6	1.7	1.7	2.1	1.4	1.7	2.0	1.6	1.9	2.2	2.1
Good and services tax	6.2	5.6	5.4	5.8	4.6	5.9	6.2	4.7	5.6	6.3	5.9
International trade and transactions tax	2.8	2.6	2.5	2.4	2.0	2.5	2.4	1.8	2.7	2.4	2.2
Grants	3.3	2.4	4.2	2.7	4.2	4.9	3.3	0.7	3.3	3.0	3.0
Other revenues 3/	2.0	1.8	1.9	1.5	1.6	2.0	1.8	1.6	2.2	1.8	2.4
Total expenditure	15.7	16.9	20.0	17.2	16.0	20.0	18.4	13.6	18.4	18.0	18.7
Expense	9.6	10.7	11.5	11.0	8.1	10.8	11.3	8.0	11.3	11.3	11.4
Compensation of employees	3.5	4.1	4.9	4.6	3.5	4.5	4.6	3.2	4.6	...	4.7
Purchase of Goods & Services	3.6	3.6	3.9	3.4	2.7	3.7	3.8	2.4	3.8	...	3.7
Interest	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.3	...	0.2
Expense not elsewhere classified	2.3	2.8	2.5	2.8	1.7	2.2	2.7	2.1	2.7	...	2.7
Of which: Provincial expenditure	0.8	0.8	0.7	0.6	0.4	0.3	0.4	0.6	0.4	...	0.5
Net acquisition of non-financial assets	6.1	6.2	8.5	6.3	7.8	9.2	7.1	5.6	7.1	6.7	7.3
Of which: Externally-financed 4/	4.6	3.9	6.4	4.2	6.3	7.3	5.0	4.3	5.0	5.0	5.6
Net lending (+)/borrowing(-)	0.2	-2.8	-4.2	-2.8	-2.1	-3.0	-2.9	-3.3	-2.8	-2.3	-3.0
Net acquisition of financial assets	2.7	-1.5	-1.7	-0.4	-0.1	-0.3	-1.0	0.2	-1.0	-0.4	-0.4
Net incurrence of liabilities 5/	2.5	1.3	2.5	2.4	2.0	2.7	1.9	3.5	1.8	1.9	2.6
Of which: External	2.4	0.0	2.3	1.9	2.0	2.0	1.7	1.7	1.8	1.9	2.6
Memorandum items:											
Priority sector spending 6/	3.1	3.4	3.3	3.7	2.7	3.7	3.8	2.4	3.8	...	3.8
Net lending (+)/borrowing(-) excluding grant	-3.2	-5.2	-8.5	-5.5	-6.3	-7.9	-6.1	-3.9	-6.0	-5.3	-6.0
Domestic financing 7/	-2.6	2.8	1.9	0.9	0.1	1.0	1.2	1.6	1.0	0.4	0.4
Government deposits	7.8	...	5.9	...	...	5.1	...	...	3.7	...	2.9
GDP (in billions of riels)	41,968	43,108	43,108	47,102	47,102	47,102	51,867	51,867	51,867	57,370	57,370

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

1/ Revenue projection based on assumption of further enhancement of revenue collection (PFMRP); expenditure based on indicative 2012 budget plan.
2/ Including a supplementary budget set out by the 2012 budget law.
3/ Including provincial tax and nontax revenue.
4/ Capital expenditure (externally financed) includes a statistical discrepancy arising from the difference between actual and recorded disbursements.
5/ Net incurrence of liability includes a statistical discrepancy arising from the difference between the financing need and the identified available funding.
6/ Current spending by the ministries of public health; education, youth and sport; agriculture, forestry and fishery; rural development; women's affairs; justice; urbanization and construction; labor and vocational training.
7/ The figure is different from the domestic financing figure in Table 4 (GFSM 1986) because of some difference in revenue coverage.

Table 6. Cambodia: Monetary Survey, 2008–11

	2008	2009	2010				2011			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec. Proj.
	(In billions of riels)									
Net foreign assets	10,346	14,655	15,515	16,482	16,903	16,698	17,079	18,100	17,695	18,045
National Bank of Cambodia	10,776	13,262	13,945	14,893	15,160	14,982	15,052	16,165	15,684	16,211
Foreign assets	10,776	13,710	14,380	15,321	15,611	15,410	15,488	16,616	16,121	16,656
Foreign liabilities	0	448	435	428	451	428	436	452	437	446
Deposit money banks	-431	1,393	1,570	1,589	1,743	1,715	2,027	1,935	2,011	1,835
Foreign assets	2,110	2,804	2,990	3,167	3,383	3,508	4,136	4,298	4,446	4,207
Foreign liabilities	2,540	1,411	1,420	1,578	1,641	1,792	2,109	2,363	2,435	2,373
Net domestic assets	1,513	1,573	1,720	1,785	1,985	2,779	3,199	3,908	4,962	5,904
Domestic credit	6,907	8,280	8,662	9,498	10,361	11,206	11,658	13,108	14,461	16,063
Government (net)	-2,987	-2,252	-2,485	-2,363	-2,120	-2,127	-2,253	-2,184	-1,926	-1,670
Private sector	9,893	10,532	11,147	11,859	12,480	13,331	13,909	15,291	16,386	17,731
Other items (net)	-5,394	-6,707	-6,942	-7,713	-8,377	-8,428	-8,459	-9,200	-9,500	-10,159
Broad money	11,859	16,228	17,235	18,267	18,888	19,477	20,278	22,008	22,657	23,949
Narrow money	2,400	3,120	3,148	3,115	3,062	3,221	3,497	3,540	3,681	3,794
Currency in circulation	2,295	3,002	3,028	2,942	2,917	3,099	3,383	3,338	3,531	3,643
Demand deposits	105	119	121	173	145	122	114	202	150	151
Quasi-money	9,459	13,108	14,086	15,152	15,826	16,256	16,781	18,468	18,976	20,155
Time deposits	185	359	330	365	431	408	392	430	493	572
Foreign currency deposits	9,274	12,749	13,756	14,787	15,395	15,848	16,390	18,038	18,482	19,583
	(12-month percentage change)									
Net foreign assets	-3.6	41.7	38.3	30.7	21.9	13.9	10.1	10.3	7.4	8.1
Private sector credit	55.0	6.5	13.6	17.1	23.2	26.6	24.8	28.9	31.3	33.0
Broad money	4.8	36.8	38.0	31.8	26.7	20.0	17.7	23.5	24.0	23.0
Of which: Currency in circulation	15.3	30.8	22.8	13.0	9.7	3.2	11.7	9.2	20.0	17.6
Foreign currency deposits	1.5	37.5	41.1	35.4	30.5	24.3	19.1	26.4	25.0	23.6
	(Contribution to year-on-year growth of broad money, in percentage points)									
Net foreign assets	-3.4	36.3	34.4	27.9	20.3	12.6	9.1	9.5	6.6	6.9
Net domestic assets	8.3	0.5	3.6	3.9	6.3	7.4	8.6	14.0	17.4	16.0
Domestic credit	20.7	11.6	15.2	16.3	18.1	18.0	17.4	23.8	27.2	24.9
Government (net)	-10.4	6.2	4.5	3.8	2.3	0.8	1.3	1.9	2.4	2.3
Private sector	31.0	5.4	10.7	12.5	15.8	17.2	16.0	21.9	24.8	22.6
Other items (net)	-12.4	-11.1	-11.5	-12.4	-11.8	-10.6	-8.8	-9.8	-9.8	-8.9
Memorandum items:										
Foreign currency deposits (in millions of U.S. dollars)	2,273	3,073	3,286	3,499	3,639	3,910	4,087	4,379	4,526	4,849
(In percent of broad money)	78.2	78.6	79.8	80.9	81.5	81.4	80.8	82.0	81.6	81.8
Riel component of broad money	2,584	3,479	3,479	3,480	3,492	3,629	3,889	3,970	4,174	4,366
(In percent of broad money)	21.8	21.4	20.2	19.1	18.5	18.6	19.2	18.0	18.4	18.2
Credit to the private sector (in millions of U.S. dollars)	2,424	2,538	2,663	2,806	2,950	3,289	3,469	3,712	4,012	4,390
(In percent of GDP)	23.6	19.8	20.7	21.9	23.0	25.6	27.0	28.9	31.2	34.2
Loan-to-deposit ratio (in percent) 1/	103.5	80.1	78.2	77.2	78.6	81.3	82.5	82.6	86.6	87.5
Velocity 2/	3.4	3.1	2.8	2.7	2.6	2.6	2.8	2.7	2.7	2.6
Money multiplier (broad money/reserve money)	1.9	1.9	1.9	1.8	1.8	1.9	2.0	2.0	2.1	2.2
Reserve money (12-month percent change)	21.6	43.3	42.9	29.6	22.8	17.2	10.0	8.4	3.5	7.5

Sources: 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 7. Cambodia: Key 2010 FSAP Recommendations

Recommendation	Timeframe 1/	Status
General Stability		
• Improve the quality of data to enable an appropriate assessment of risks, and to enhance the reliability of stress tests, including through strengthening supervision; and collecting additional credit-related information.	Short-term	In process
• Ensure that banks retain an appropriate level of liquid assets to be able to meet short-term obligations by enforcing existing regulations.	Short-term	In process
• Upgrade law to formalize delineation of responsibilities among supervisors, and establish procedures, through MOUs, for practical information exchange, coordination and accountability among domestic supervisors (NBC, MEF, SECC), and with foreign supervisors.	Short-term	Initiated but not concluded
• Upgrade both the number and capacity of staff in the areas of banking, insurance, securities and payment system supervision; develop training programs for financial institutions on accounting, corporate governance, risk management, and for the external audit profession.	Medium-term	In process
• Develop and implement a strategic plan to address the conflicts and overlaps in the financial sector legal and regulatory framework.	Medium-term	Not Initiated
Supervision and Regulation		
Banking		
• Develop supervisory strategy to deal with banks that cannot meet the new capital requirement.	Short-term	Done
• Conduct comprehensive upgrades to the legal framework.	Short-term	Not Initiated
• Reprioritize the work performed by the staff to facilitate forward-looking, risk-based supervision.	Short-term	In preparation
• Impose a moratorium on the issuance of new bank licenses as long as supervisory capacity and resources remain inadequate.	Short-term	Being considered
Non-Bank Financial Sector		
• Revise capital regulations in concert with liability, investment and accounting rules to better reflect the risks in a growing insurance market.	Short-term	Done
• Enhance powers for intervention, corrective measures and enforcement.	Short-term	In preparation
• Conduct a readiness study prior to the launch of the stock exchange.	Short-term	In preparation
Access to Finance		
• Enhance supervisory practices to keep pace with the development of microfinance deposit-taking institutions, and impose a moratorium as long as supervisory capacity and resources remain inadequate.	Medium-term	Not Initiated
Crisis Management Framework		
• Revise PCA framework by developing additional triggers for asset quality, liquidity, and earlier intervention based on the solvency ratio.	Medium-term	In process
• Introduce regulation allowing banks to use their fixed deposits at the NBC and any issue of government (including government bodies) or government-guaranteed securities as eligible collateral for interbank and NBC repos.	Short term	Not Implemented
• Develop a crisis management framework.	Medium-term	In preparation
Transparency of Monetary and Financial Policies		
• Introduce due process for the dismissal of NBC Board members and the Governor by specifying the legal grounds for doing so, and defining an appeal process.	Medium-term	Not Initiated
• Amend the law to reduce the government's representation on the Board of the NBC; and to reflect the practice of appointing two Deputy Governors.	Short-term	Not Initiated
Corporate governance of banks		
• Draft and/or implement banking regulations on internal audit and controls, risk management, and compliance functions at banks.	Short-term	In preparation
AML/CFT		
• Introduce new rules measures for conducting overall AML/CFT risk assessments and risk profiling of financial institutions.	Short-term	Not Initiated

Source: IMF staff.
1/ Short term: up to one year; medium term: one–three years.

Table 8. Cambodia: Core Financial Soundness Indicators (FSIs), 2008–11

(In percent)

	2008	2009				2010				2011		
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Capital-based FSIs												
Regulatory capital to risk-weighted assets	27.6	32.4	33.1	34.2	32.3	31.5	31.3	31.5	31.4	31.2	29.0	27.5
Regulatory tier 1 capital to risk-weighted assets	27.7	32.8	37.2	34.8	33.0	32.6	32.7	33.3	32.6	32.1	29.5	27.7
Nonperforming loans net of provisions to capital	5.9	7.9	7.7	9.1	4.7	4.8	5.0	5.3	3.4	3.6	4.2	4.7
Return on equity 1/	12.4	5.2	4.5	2.2	3.9	5.1	5.2	3.1	5.4	8.2	8.4	5.0
Net open position in foreign exchange to capital	0.9	0.9	0.9	4.2	1.3	2.9	4.6	4.4	2.0	2.9	2.7	3.4
Asset-based FSIs												
Nonperforming loans to total gross loans	2.9	4.3	4.9	5.7	3.9	4.1	4.2	4.2	2.9	2.9	3.0	3.0
Return on assets 1/	2.7	1.1	1.0	0.5	0.9	1.1	1.1	0.7	1.2	1.8	1.8	1.1
Liquid assets to total assets	14.2	15.4	16.2	19.8	19.4	16.1	18.0	17.6	18.0	17.9	17.9	19.0
Liquid assets to short-term liabilities	30.6	35.0	42.0	50.2	26.8	22.1	24.6	24.5	25.2	25.2	25.3	27.0
Sectoral distribution of loans to total gross loans												
Residents	94.4	95.1	97.8	94.7	95.0	91.7	92.1	91.8	91.8	91.0	90.8	91.1
Deposit-takers	3.8	3.5	4.5	5.9	6.5	6.6	6.1	4.0	4.4	3.9	4.7	4.9
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations	70.6	72.4	74.4	71.3	71.1	68.9	69.2	72.4	72.3	72.2	71.3	71.1
Other domestic sectors	20.1	19.3	18.9	17.5	17.5	16.2	16.8	15.4	15.1	14.9	14.8	15.1
Nonresidents	5.6	4.9	2.2	5.3	5.0	8.3	7.9	8.2	8.2	9.0	9.2	8.9
Income- and expense-based FSIs												
Interest margin to gross income	48.3	67.0	66.4	64.1	60.8	68.9	67.8	67.9	62.2	67.7	64.9	63.3
Noninterest expenses to gross income	64.2	65.4	66.9	65.4	64.2	65.3	62.9	61.2	63.2	56.8	57.5	55.8

Source: National Bank of Cambodia
1/ Annualized.

Table 9. Cambodia: Millennium Development Goals Indicators

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger										
Percentage share of income or consumption held by poorest 20 percent	...	8.5	...	...	...	6	...	...	...	11.0
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	...	...	20.5
Poverty headcount ratio at $1.25 per day (PPP, percent of population)	...	49	...	40	...	26	...	...	...	19.5
Prevalence of underweight in children (under five years of age)	...	43	40	28	...	...	29	...	...	26.2
Goal 2: Achieve universal primary education										
Net primary enrollment (percent of relevant age group)	67	...	87	90	...	90	89	95	...	100
Primary completion rate, total (percent of relevant age group)	...	42	47	85	...	86	85	83	...	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	55	54	54	...	...	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	83	...	86	87	...	...	100
Goal 3: Promote gender equality and empower women										
Proportion of seats held by women in national parliament (percent)	...	...	8	10	10	10	16	16	21	30
Ratio of girls to boys in primary and secondary education (percent)	73	..	82	..	89	90	..	...	...	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	90	...	...	90	...	...	100
Share of women employed in the nonagricultural sector (percent)	..	..	41	..	..	..	..	...	...	...
Goal 4: Reduce child mortality										
Immunization, measles (percent of children ages 12–23 months)	34	62	65	79	78	79	89	92	...	90
Infant mortality rate (per 1,000 live births)	87	87	80	73	72	71	69	68	...	50
Under 5 mortality rate (per 1,000)	119	119	107	96	93	91	90	88	...	38.3
Goal 5: Improve maternal health										
Births attended by skilled health staff (percent of total)	..	..	31.8	44	..	..	..	...	...	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	540	...	540	...	...	...	250
Goal 6: Combat HIV/AIDS, malaria, and other diseases										
Incidence of tuberculosis (per 100,000 people)	585	557	530	505	500	495	490	442	...	...
Prevalence of HIV, total (percent of population 15–49)	...	...	...	2	...	1	1	1	...	...
Goal 7: Ensure environmental sustainability										
Access to an improved water source (percent of population)	0	19	38	...	65	65	65	...	...	...
Access to improved sanitation (percent of population)	0	8	16	...	28	28	28	...	...	...
Nationally protected areas (percent of total land area)	...	...	...	24	...	...	24	24	...	...
Goal 8: Develop a global partnership for development										
Aid per capita (current U.S. dollars)	4	50	31	39	38	47	51	49	...	...
Fixed line and mobile phone subscribers (per 100 people)	0.03	0.2	1.27	8	12	18	29	38	...	...
Internet users (per 1,000 people)	0	...	0	3	5	5	5	1	...	...
Personal computers (per 1,000 people)	...	0	1	3	3	3	4	...	...	...
Total debt service (percent of exports of goods and services)	..	1	1	1	1	0	1	1	...	...
Goal 9: De-mining, UXO and assistance										
Annual numbers of civilian casualties recorded		1,691	...	797	...	...	...	...	...	0
Percentage of suspected contaminated areas cleared		10	...	50	...	...	...	...	...	100
Other										
Fertility rate, total (births per woman)	6	5	4	3	3	3	3	3	...	...
GNI per capita, Atlas method (current U.S. dollars)	..	280	280	450	500	560	640	650	...	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.2	3.6	6.2	7.0	8.0	9.2	10	...	...
Gross capital formation (percent of GDP)	8	14.6	17.5	18	21	21	19	21	...	...
Life expectancy at birth, total (years)	50	...	...	58	59	59	60	62	...	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	...	...	...	77	...	...	...
Population, total (millions)	9.7	11.4	12.8	13.9	14.1	14.3	14.6	15	...	...
Trade (percent of GDP)	19	77.8	112	137	145	138	133	122	...	...

Sources: World Bank database, *World Development Indicators,* and *Poverty Assessment* (2008); UN Human Development Indicators Report (2003); Cambodia MDG 2005 update; UN MDG Indicators 2009 (http://mdgs.un.org); and IMF staff estimates.

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

January 18, 2012

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Cambodia has been upgraded to a "medium performer" based on the World Bank's Country Policy and Institutional Assessment (CPIA) and now faces a low risk of debt distress (from moderate last year). While external debt burden indicators do not breach the relevant indicative thresholds under the baseline scenario, the debt level is sensitive to shocks as indicated in standard bound tests.[2] Under an alternative scenario with a higher level of borrowing over the medium and long term, Cambodia may lose its low debt distress rating. In particular, the scope for absorbing additional risk, including from contingent liabilities related to the rapid growth of infrastructure projects outside the budget and the banking system, would be substantially smaller. All this underscores the need for a prudent borrowing strategy, underpinned by continued fiscal consolidation over the medium term, and improvements in debt and contingent liability management, which should be incorporated in the authorities' upcoming debt strategy document.

[1] This DSA has been prepared jointly by IMF and World Bank staffs and in consultation with the Asian Development Bank (AsDB), using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

[2] 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 are policy-dependent. Cambodia's policies and institutions, as measured by the World Bank's CPIA, place it as a "medium performer," reflecting the 2010 CPIA upgrade. The relevant indicative thresholds for this category are: 40 percent for the NPV of debt-to-GDP ratio, 150 percent for the NPV of debt-to-exports ratio, 250 percent for the NPV of debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 30 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt.

1. Cambodia's DSA indicates that the risk of debt distress is low. Under the baseline macroeconomic outlook (Box 1), including assumptions on growth and fiscal consolidation, external debt burden indicators do not breach the relevant indicative thresholds. These thresholds are higher than in the 2010 DSA, given Cambodia's recent upgrade as a medium performer based on the World Bank's CPIA measure of institutional capacity.

2. Staffs have analyzed an additional country-specific alternative scenario of increased bilateral external borrowing. Assuming a doubling of external borrowing from the baseline over 2011–21 on less concessional terms than those from multilateral donors, this scenario indicates that the scope for absorbing risks would be significantly reduced and Cambodia would lose its low debt distress rating.

3. At the end of 2010, Cambodia's external public and publicly guaranteed (PPG) debt stock was 28 percent of GDP in nominal terms and 20 percent in net present value (NPV) terms. Until 2008, strong economic growth and favorable external conditions contributed to a decline in debt ratios. However, in 2009, the external PPG debt ratios rose, partly reflecting an increase in the overall fiscal deficit against the backdrop of the global recession. For 2011, the debt stock in PV terms as a share of GDP, as a share of exports of goods and nonfactor services, and of government revenues is projected at 20 percent, 39 percent and 154 percent, respectively. The past DSA (2010) baseline macroeconomic scenario broadly matches the macroeconomic developments, with slightly higher-than-projected growth outcome in recent years, but no tangible impact on debt dynamics.

Cambodia: External Public Debt Indicators at end-2010

	Indicative Thresholds	End-2010
NPV of debt, as a percent of:		
GDP	40	20
Exports	150	40
Revenue	250	149
Debt service, as a percent of:		
Exports	20	1
Revenue	30	5

Sources: IMF and World Bank.

4. Around half of Cambodia's external debt is held by multilateral creditors, primarily the AsDB (27 percent) and the World Bank's IDA (18 percent). China is the largest emerging creditor, accounting for about 66 percent of total bilateral disbursements in 2010. 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. The status of negotiations of outstanding debt obligations with the Russian Federation and the United States has effectively remained unchanged since the last DSA. Currently, Cambodia is not servicing its debt with either of these creditors, and efforts to conclude

Cambodia: Stock of Public and Publicly Guaranteed External Debt at End-2010

	As a Share of External Total Debt	In percent of GDP
Total	100	28
Multilateral	49	14
Bilateral	51	14
Of which: Non-rescheduled debt with the U.S. and Russian Federation	24	7

Sources: Cambodian authorities; IMF and World Bank estimates.

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.

Box 1. Cambodia: Macroeconomic Assumptions Underlying the DSA (2011–31)

The Cambodian economy has performed well in 2011 with overall growth at slightly below 6 percent, on the back of robust garment exports, rising tourism income, and a recovering real estate sector. The recent severe flood is a temporary setback, but agricultural activity should revert back to trend by 2012, pushing GDP growth to 6½ percent.

Inflation is projected to average 5.6 percent in 2011, before gradually declining toward 3 percent in the medium term.

The **potential growth rate** of Cambodia in the medium and longer terms has been upgraded to 7–8 percent, on the assumption that Cambodia will continue implementing necessary reforms in a steadfast and evenhanded manner (for detailed analysis of the drivers of potential growth see Box 3 in the accompanying staff report). There has been some encouraging progress, such as a rising global market share in garment exports, large investments in hydropower projects that soon will substantially lower the cost of electricity in Cambodia which remains three times as high as in neighboring countries, and an emerging diversification of FDI beyond the garment manufacturing sector.

The **external current account deficit** (including official transfers) is projected to be above 9 percent of GDP during 2011–13, before trending toward 5 percent of GDP in the longer term. A higher current account deficit in the short term reflects high import contents of the build-operate-transfer (BOT) hydropower projects, which are incorporated in the macroeconomic framework from 2011 onward. These imports are fully financed by corresponding FDI flows. As the construction of these power plants is completed, FDI as a share of GDP should stabilize at around 6 percent, while imports of construction materials and petroleum for electricity production should also level off. Official transfers including loans and grants are programmed to continuously decline as a percentage of GDP in line with rising per capita income. With a positive outlook for export competiveness and FDI, and a narrowing current account deficit in the longer term, gross official reserves in months of next year's imports are expected to gradually rise from 4.3 months in 2011 toward 5 months in the long run.

Projected **fiscal consolidation** is an important anchor of macroeconomic stability in the medium term and beyond. The overall fiscal deficit in terms of GDP (excluding grants) is expected to narrow from about 6 percent in 2011 to less than 4 percent in 2016, before gradually falling to 2½ percent by 2031. Revenue would be the main driver of consolidation and is expected to rise to over 14 percent of GDP (excluding grants) by 2016 from about 12 percent of GDP in 2011 in line with targets adopted in the PFM reform program. Revenue (excluding grants) is assumed to increase to 16½ percent of GDP over the long term, implying that gaps in the productivity of Cambodia's tax system vis-à-vis regional peers would gradually be closed. Public expenditure would remain mostly at around 18 percent through the medium term, and kept below 19 percent up to 2031

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

5. All external debt indicators remain below the policy-dependent debt burden thresholds under the baseline scenario, and no thresholds are breached under standardized stress test. The main results of the external DSA are as follows:

- **All debt indicators in the baseline scenario are expected to decline over the 20-year projection period** (Table 1a). During the projection period, the PV of the debt-to-GDP ratio decreases from 20 percent in 2011 to about 14 percent in 2031 (compared to an indicative threshold of 40 percent), while the PV of the debt-to-exports ratio decreases from 39 percent in 2011 to 27 percent in 2031 (compared to an indicative threshold of 150 percent). The PV of the-debt-to-revenue ratio declines from 154 percent in 2011 to 80 percent in 2031 (indicative threshold: 250 percent). The debt service-to-exports and debt service-to-revenue ratios stay well below the indicative thresholds throughout the entire projection period due to concessionality of previous debts.

- **The standard stress tests do not reveal any serious vulnerability** (Table 1b and Figure 1). A one-time 30 percent depreciation and the shock to exports push the NPV of debt-to-revenue ratio to 212 and 219 percent respectively, highlighting the need for improved revenue performance.

6. An additional country-specific alternative scenario considers the impact of increased borrowing (Tables 3a and 4a)**.** This scenario illustrates how increased borrowing (US$880 million during 2011–21, about double the amount envisaged under the baseline scenario) under consideration by the authorities can affect debt sustainability.[3] The terms for most of this additional borrowing are assumed to be comparable to bilateral loans from emerging donors: 60 percent of the loans are at 2 percent interest rate with grace period and maturity of 7 and 20 years.[4] With no information on the nature or the type of projects to be financed in the higher borrowing scenario and the fact the potential growth has already been upgraded since the last DSA to 7–8 percent, the alternative scenario does not assume any "growth dividends." Limited administrative capacity of the government to manage debt-financed capital investment and challenges in public financial management would further reduce the likelihood of any growth dividend. The main results under this borrowing scenario are as follows:

- There would be a significant accumulation of external debt, with the total debt stock rising to 38 percent of GDP (NPV of debt-to-GDP at 29 percent) over the medium term.
- In several bound tests, the indicative thresholds are breached for a prolonged period of time (Figures 3 and 4). The increased borrowing would therefore push the debt distress rating from low to moderate.
- Moreover, the return to sustainable debt levels would become more difficult if contingent liabilities, which tend to correlate with shocks under the bound tests, were triggered. Given the large exposure to BOT projects as noted in the accompanying staff report, if problems in only 1 out 10 BOT projects arose potentially leading to a total loss of investment costs, an additional 5 percent of GDP would be added to the debt stock. Similarly, based on international experience, a banking crisis for a country with a financial depth as in Cambodia during the DSA projection period could add about 10 percent of GDP to public debt.[5]
- Apart from impairing Cambodia's ability to absorb shocks, the scenario also underscores the need to raise tax revenue as planned. If the revenue-to-GDP ratio stagnates, higher fiscal deficits would push public debt close to the sustainability threshold.

[3] Based on a borrowing scenario in the authorities' preliminary debt strategy, which is yet to be finalized and, therefore, is not in the 2012 budget, adopted in December 2011.

[4] Another 20 percent at 1 percent interest rate with a grace period and maturity of 12 and 40 years; the remaining loans are assumed to be from multilateral agencies.

[5] Based on the pace of financial deepening (e.g., credit-to-GDP ratio) during the last decade, over the DSA projection period, Cambodia's credit-to-GDP is expected to reach or exceed that of the median emerging market (EM) economy (Rishi et al., 2010). Empirical studies show that the median direct fiscal cost of banking crises in EMs is 11.5 percent of GDP (Laeven and Valencia, 2010).

PUBLIC DEBT SUSTAINABILITY ANALYSIS

7. **Given the predominance of external debt, public debt dynamics closely track that of the external debt.** Cambodia does not have, and is not expected to have in the foreseeable future, a market for domestic government debt securities.

8. **The nominal stock would increase modestly to 29 percent of GDP (21 percent of GDP in NPV terms) by end-2011 and then gradually decline after 2012**, reflecting the fiscal consolidation envisaged under the baseline over the medium term (Table 2a). The PV of public debt-to-GDP ratio and the public debt service-to-revenue ratio would decline gradually over the long term to 14 percent and 64 percent respectively. The debt service-to-revenue ratio remains low in most scenarios for the entire projection period under the baseline.

9. **Public debt dynamics are adversely affected by a permanent growth shock and accommodative fiscal stance.** Under a permanent growth shock, the level of public debt (as a share of GDP) continues to rise to over 35 percent of GDP (in PV terms). If the primary balance remains unchanged at 2011 level, the PV of public debt-to-GDP continues to rise to 28 percent increase by 2025 and then declines gradually (Table 2b).

DEBT MANAGEMENT

10. **The authorities are close to finalizing their formal debt strategy.** Staffs welcomed the significant progress in designing a public debt strategy and the creation of a high-level (seven-member) government committee on public debt management, chaired by the Minister of Economy and Finance and co-chaired by the Governor of the National Bank of Cambodia. The debt strategy considers alternative borrowing plans and assesses associated risks. The debt unit at the MEF is also building its capacity, including through TA provided by the AsDB, for analyzing contingent liabilities from the BOT projects and the financial sector. The authorities also acknowledge the importance of a comprehensive approach to debt management, a transparent and objective management of investment projects, and the need to maintain concessionality of new borrowing. Once finalized, the debt strategy is expected to be published in early 2012.

VIEWS OF THE AUTHORITIES

11. **The authorities were in broad agreement with the DSA.** They underscored that government borrowing would be undertaken only for investment in a few critical sectors (e.g., infrastructure such power, roads, ports, irrigation) and that they would strengthen capacity to assess the budgetary, debt, and growth implications of investment projects. They also welcomed suggestions to strengthen monitoring BOT projects with a view to minimizing fiscal risks. Regarding the alternative scenario with higher borrowing, the authorities concurred that elevated borrowing would lead to Cambodia's losing the low distress rating.

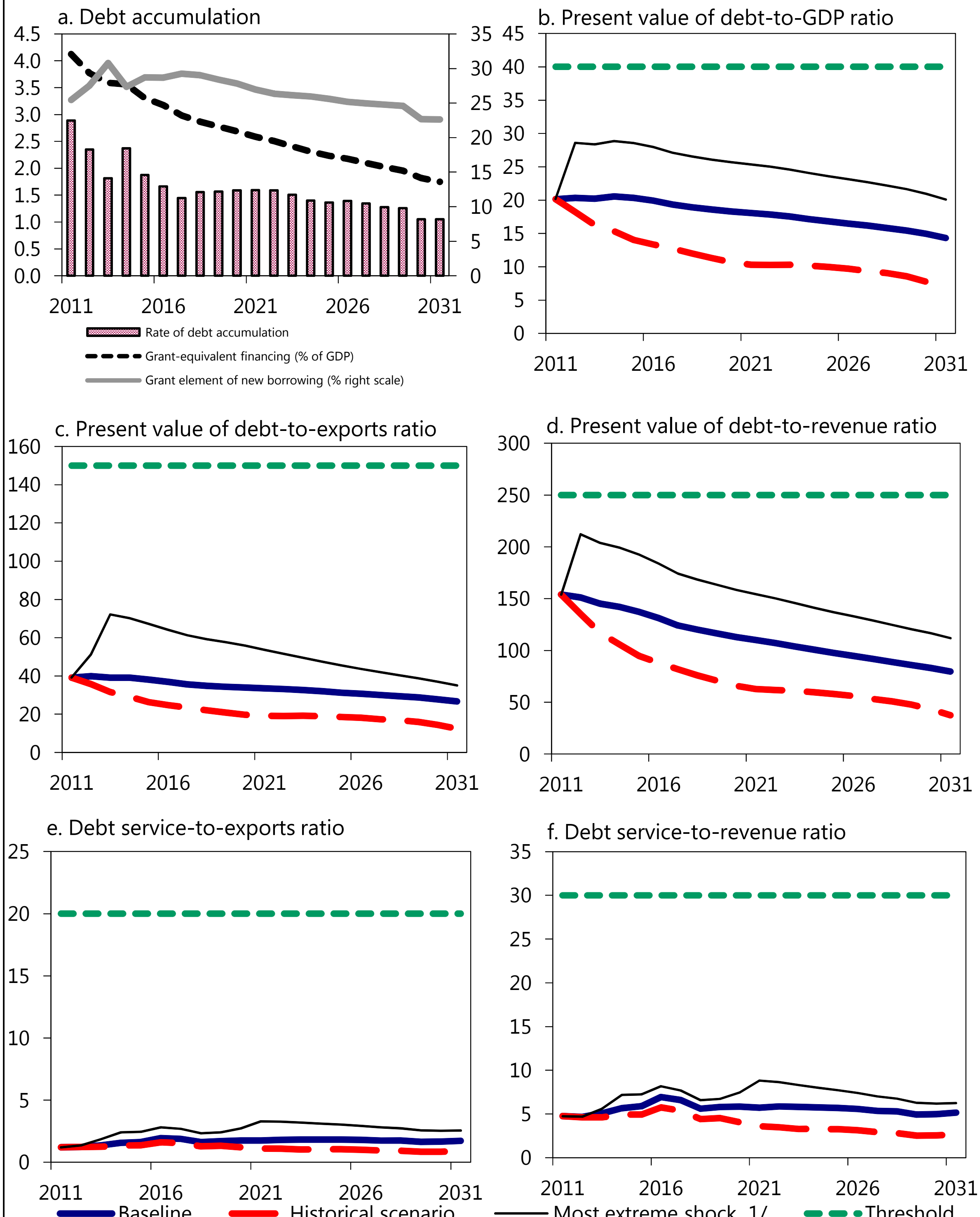
CONCLUSION

12. **In the staffs' view, Cambodia is at low risk of debt distress based on external indicators under the baseline scenario and the higher thresholds as a medium performer.** The baseline projections and the associated standard stress tests show limited risk related to external debt given that none of the indicators breaches the indicative debt burden thresholds. However, in view of Cambodia's low domestic revenue base, risks to total debt and debt service need to be managed through further strengthening revenue efforts over the medium term.

13. **The increase in debt ratios under an alternative scenario with a higher borrowing path highlights the need for a prudent borrowing strategy and careful management of public debt.** This exercise also underscores the importance of effective management of new debt accumulation and any contingent liabilities from the rapidly growing BOT projects and the financial sector. Increased borrowing will significantly reduce the government's ability to tackle any future crises within the sustainability thresholds.

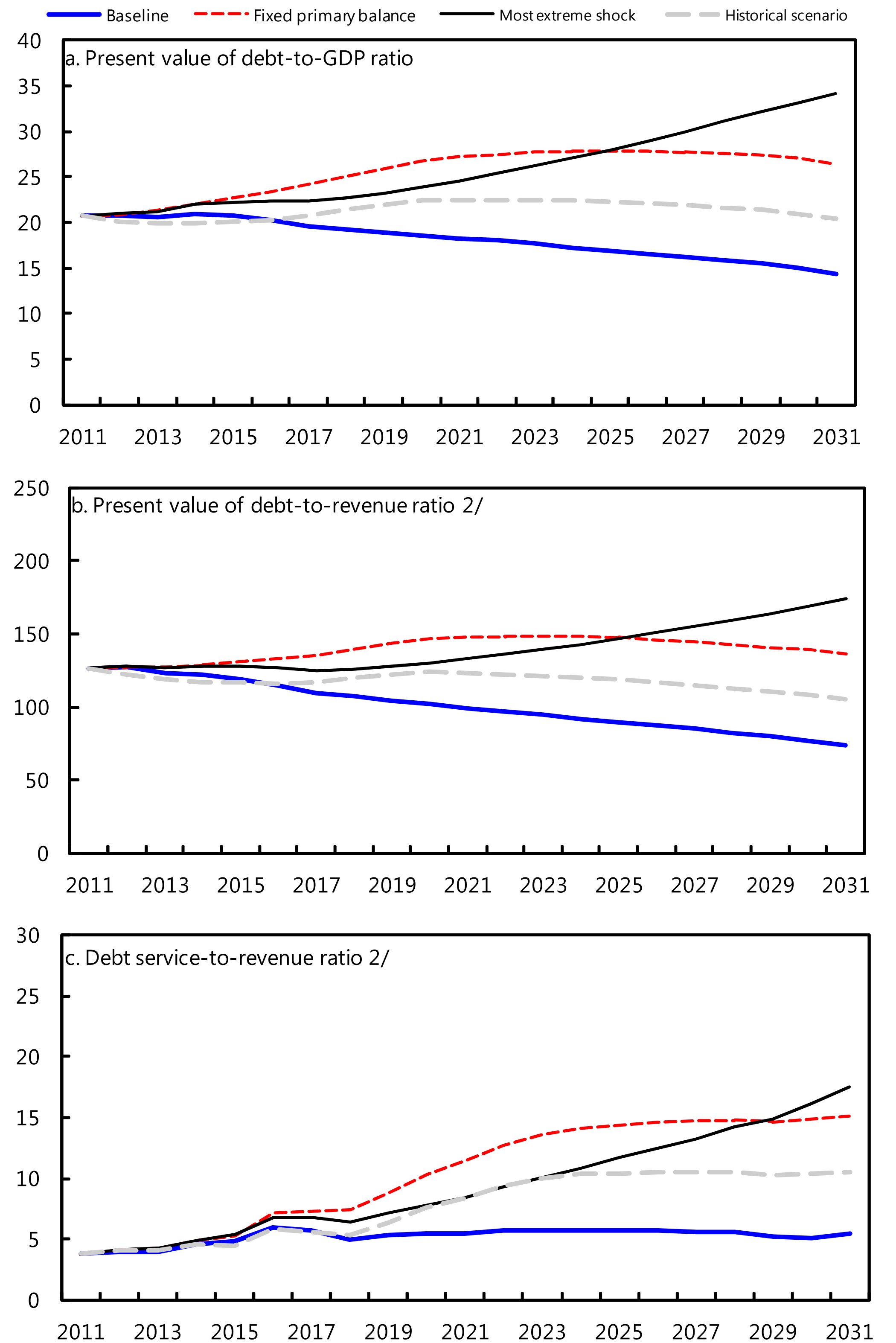
14. **The staffs encourage the authorities to build on recent steps and move forward as quickly as possible to strengthen debt management capacity.** In this regard, it will be important to continue the work under way to develop and implement a comprehensive debt management strategy and to closely monitor the contingent liabilities from the BOT projects and the financial sector.

Figure 1. Cambodia: Indicators of External Debt Under Alternative Scenarios, 2011–31 1/



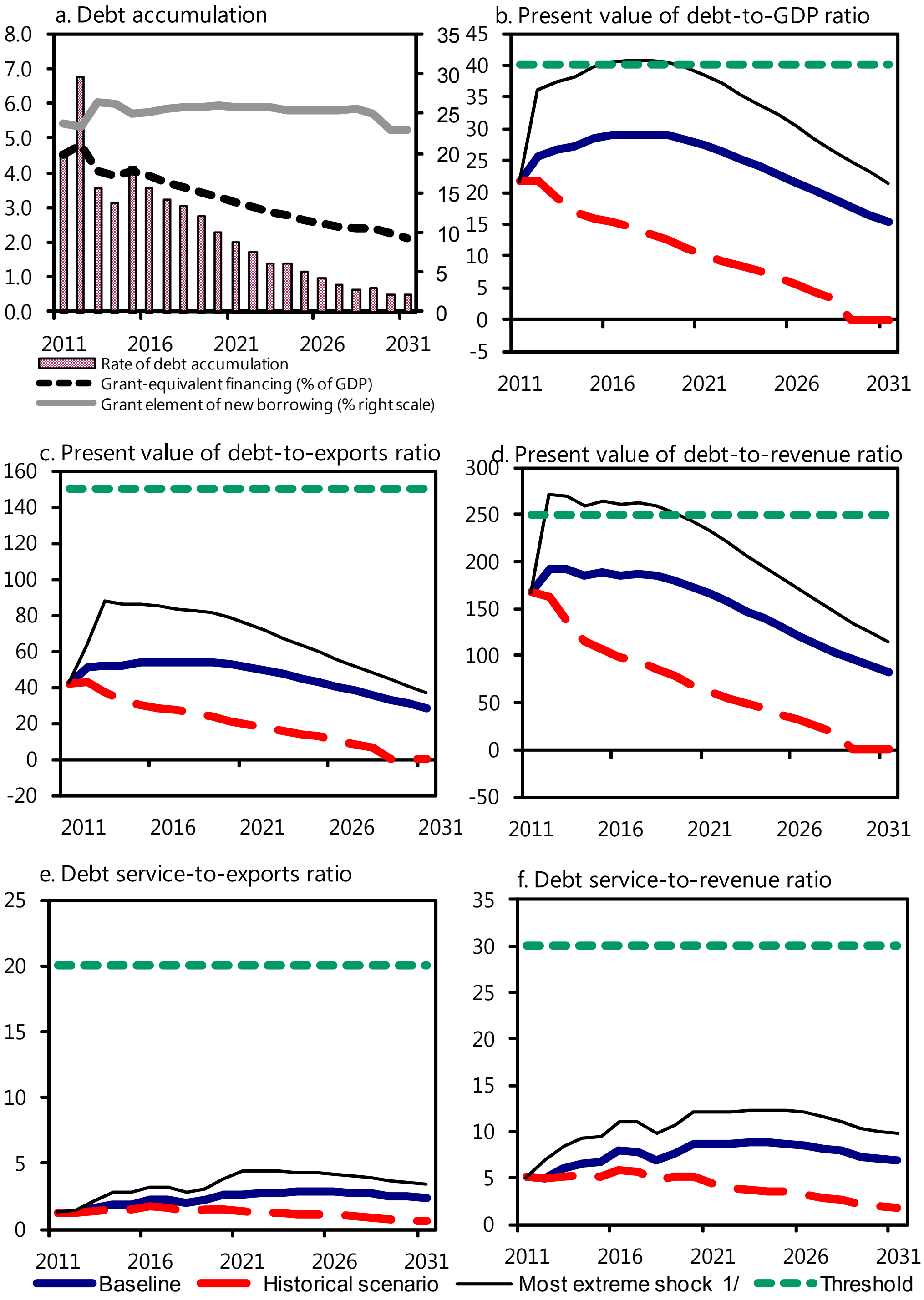
Sources: Cambodian authorities; and staff estimates and projections.
1/ The most extreme stress test is the bound test that yields the highest ratio in 2021. In figure b. it corresponds to a one-time depreciation shock; in c. to an export shock; in d. to a one-time depreciation shock; in e. and f. to an exports shock.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2011–31 1/



Sources: Cambodian authorities; and staff estimates and projections.
1/ The most extreme stress test is the bound test that yields the highest ratio in the outer years. In figures a., b., and c., they correspond to permanent shock to growth
2/ Revenues are defined inclusive of grants.

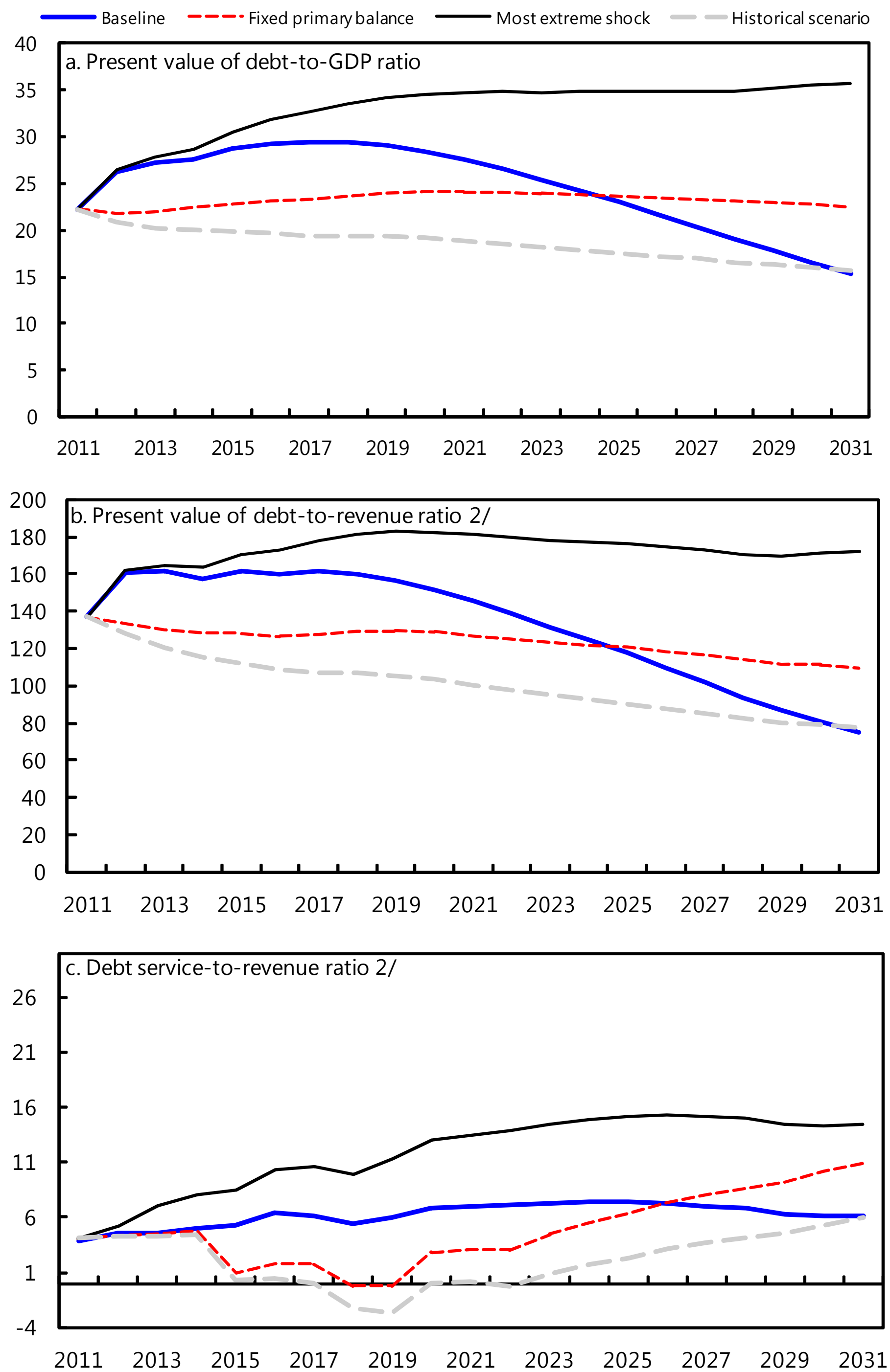
Figure 3. Alternative Scenario of Increasing Borrowing Limits, Indicators of External Debt, 2011–31 1/



Sources: Cambodian authorities; and staff estimates and projections.

1/ The most extreme stress test is the bound test that yields the highest ratio in 2021. In figure b. it corresponds to a one-time depreciation shock; in c. to an export shock; in d. to a one-time depreciation shock; in e. to an exports shock; and in figure f. to a one-time depreciation shock.

Figure 4. Alternative Scenario of Increasing Borrowing Limits, Indicators of Public Debt, 2011–31 1/



Sources: Cambodian authorities; and staff estimates and projections.
1/ The most extreme stress test is the bound test that yields the highest ratio in 2021. In figures a. and b., they correspond to permanent shock to growth, and for c. it corresponds to a one time depreciation in 2011.
2/ Revenues are defined inclusive of grants.

Table 1a. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2008–31 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical	Standard	Projections									
	2008	2009	2010	Average 1/	Deviation 1/	2011	2012	2013	2014	2015	2016	2011–16 Average	2021	2031	2017–31 Average
External debt (nominal) 2/	**27.0**	**28.5**	**27.6**			**28.1**	**28.1**	**27.9**	**28.2**	**27.8**	**27.2**		**24.3**	**18.4**	
Of which: Public and publicly guaranteed (PPG)	27.0	28.5	27.6			28.1	28.1	27.9	28.2	27.8	27.2		24.3	18.4	
Change in external debt	-2.4	1.5	-0.9			0.5	0.0	-0.2	0.3	-0.4	-0.6		-0.4	-0.9	
Identified net debt-creating flows	-8.0	-1.7	-4.8			-2.3	-0.9	-1.4	-1.8	-2.0	-2.9		-2.7	-1.9	
Noninterest current account deficit	**4.3**	**3.2**	**3.8**	**2.3**	**1.4**	**9.2**	**9.8**	**9.0**	**6.5**	**6.1**	**5.4**		**5.1**	**5.5**	5.0
Deficit in balance of goods and services	9.2	8.4	8.3			11.2	10.1	9.4	7.0	6.8	6.5		7.1	6.7	
Exports	48.5	43.4	49.3			51.5	51.0	51.6	52.5	53.3	54.1		53.9	53.8	
Imports	57.7	51.8	57.6			62.7	61.1	61.0	59.6	60.1	60.6		61.0	60.5	
Net current transfers (negative = inflow)	-9.3	-9.5	-8.9	-10.0	0.8	-5.9	-4.3	-4.3	-4.4	-4.4	-4.5		-4.1	-3.6	-4.0
Of which: Official	-6.6	-6.7	-6.8			-3.8	-2.0	-1.8	-1.7	-1.5	-1.4		-0.8	-0.3	
Other current account flows (negative = net inflow)	4.4	4.3	4.4			4.0	4.0	3.9	3.8	3.7	3.4		2.2	2.4	
Net FDI (negative = inflow)	**-7.7**	**-5.0**	**-6.8**	**-4.4**	**3.6**	**-10.4**	**-9.3**	**-9.0**	**-6.9**	**-6.6**	**-6.8**		**-6.5**	**-6.3**	-6.4
Endogenous debt dynamics 3/	**-4.7**	**0.1**	**-1.8**			**-1.2**	**-1.4**	**-1.3**	**-1.4**	**-1.5**	**-1.5**		**-1.4**	**-1.1**	
Contribution from nominal interest rate	0.2	0.3	0.3			0.3	0.3	0.3	0.3	0.4	0.4		0.3	0.3	
Contribution from real GDP growth	-1.6	0.0	-1.6			-1.4	-1.7	-1.6	-1.7	-1.9	-1.9		-1.7	-1.4	
Contribution from price and exchange rate changes	-3.2	-0.1	-0.6			...	...	...	...	...	...		...	...	
Residual (3–4) 4/	**5.6**	**3.2**	**3.9**			**2.8**	**0.9**	**1.1**	**2.1**	**1.6**	**2.3**		**2.3**	**1.0**	
Of which: Exceptional financing	0.0	-0.2	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Present value (PV) of external debt 5/	...	...	19.5			20.2	20.4	20.2	20.6	20.3	19.9		18.1	14.3	
PV of external debt (in percent of exports) 5/	...	...	39.5			39.2	39.9	39.2	39.2	38.1	36.9		33.5	26.7	
PV of PPG external debt	**...**	**...**	**19.5**			**20.2**	**20.4**	**20.2**	**20.6**	**20.3**	**19.9**		**18.1**	**14.3**	
In percent of exports	**...**	**...**	**39.5**			**39.2**	**39.9**	**39.2**	**39.2**	**38.1**	**36.9**		**33.5**	**26.7**	
In percent of government revenues	**...**	**...**	**149.0**			**154.0**	**151.1**	**145.2**	**142.0**	**137.2**	**131.2**		**110.0**	**79.7**	
Debt service-to-exports ratio (in percent)	**1.2**	**1.5**	**1.4**			**1.2**	**1.2**	**1.4**	**1.6**	**1.6**	**2.0**		**1.7**	**1.7**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**1.5**	**1.4**			**1.2**	**1.2**	**1.4**	**1.6**	**1.6**	**2.0**		**1.7**	**1.7**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**5.3**	**5.3**			**4.8**	**4.7**	**5.1**	**5.7**	**5.9**	**7.0**		**5.7**	**5.2**	
Total gross financing need (in billions of U.S. dollars)	-0.3	-0.1	-0.3			-0.1	0.2	0.1	0.1	0.1	-0.1		-0.1	0.1	
Noninterest current account deficit that stabilizes debt ratio	6.7	1.7	4.7			8.7	9.8	9.2	6.2	6.5	6.0		5.6	6.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	0.1	6.0	8.1	3.6	5.8	6.5	6.4	6.8	7.4	7.4	6.7	7.6	7.8	7.7
GDP deflator in U.S. dollar terms (change in percent)	12.3	0.5	2.0	3.7	3.8	7.6	4.0	3.1	2.9	2.7	2.8	3.9	2.4	2.5	2.5
Effective interest rate (percent) 6/	0.8	1.1	1.1	1.1	0.1	1.1	1.1	1.2	1.3	1.4	1.5	1.3	1.5	1.6	1.5
Growth of exports of G&S (U.S. dollar terms, in percent)	7.3	-10.0	22.8	12.4	12.6	18.9	9.6	11.2	11.8	12.1	11.9	12.6	10.0	10.6	10.3
Growth of imports of G&S (U.S. dollar terms, in percent)	12.1	-9.8	20.3	11.6	10.7	23.8	8.0	9.7	7.3	11.3	11.2	11.9	9.7	10.8	10.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	25.5	27.5	30.8	27.3	28.7	28.7	28.1	27.0	22.6	26.0
Government revenues (excluding grants, in percent of GDP)	13.0	12.0	13.1			13.1	13.5	13.9	14.5	14.8	15.2		16.4	18.0	17.0
Aid flows (in billions of U.S. dollars) 7/	0.6	0.7	0.6			0.5	0.6	0.6	0.6	0.7	0.7		0.9	1.4	
Of which: Grants	0.3	0.4	0.6			0.4	0.4	0.4	0.5	0.5	0.5		0.7	1.3	
Of which: Concessional loans	0.2	0.2	0.0			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.1	3.8	3.6	3.6	3.3	3.2		2.6	1.7	2.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			62.0	63.9	67.5	60.3	63.6	62.7		59.4	58.8	59.1
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	10.4	10.4	11.3			12.8	14.2	15.6	17.1	18.9	20.9		34.1	91.5	
Nominal dollar GDP growth	19.8	0.6	8.1			13.9	10.8	9.7	9.9	10.4	10.4	10.8	10.2	10.4	10.4
PV of PPG external debt (in billions of U.S. dollars)			2.3			2.6	2.9	3.1	3.5	3.8	4.2		6.2	13.1	
(PVt-PVt-1)/GDPt-1 (in percent)						2.9	2.3	1.8	2.4	1.9	1.7	2.2	1.6	1.1	1.4
Gross remittances (in billions of U.S. dollars)	0.3	0.3	0.2			0.3	0.3	0.4	0.5	0.5	0.6		1.1	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	19.1			19.8	19.9	19.7	20.0	19.8	19.3		17.5	14.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	37.8			37.6	38.2	37.4	37.3	36.2	34.9		31.6	26.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.3			1.2	1.2	1.3	1.5	1.6	1.8		1.6	1.7	

Sources: Cambodian authorities; and staff estimates and projections.

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

2/ Includes both public and private sector external debt. The years in the table refer to calendar years.

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

4/ 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.

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

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

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 External Debt, 2011–31

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Present value of debt-to-GDP ratio								
Baseline	20	20	20	21	20	20	**18**	14
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	20	18	16	15	14	13	**10**	7
A2. New public sector loans on less favorable terms in 2011–31 2/	20	21	22	23	23	23	**23**	21
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	20	21	21	21	21	21	**19**	15
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	20	24	30	30	29	28	**24**	15
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	20	21	22	22	22	21	**19**	15
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	20	23	25	25	25	24	**21**	15
B5. Combination of B1–B4 using one-half standard deviation shocks	20	23	28	28	27	26	**22**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	20	29	28	29	29	28	**25**	20
Present value of debt-to-exports ratio								
Baseline	39	40	39	39	38	37	**34**	27
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	39	36	32	29	26	25	**19**	13
A2. New public sector loans on less favorable terms in 2011–31 2/	39	41	42	43	43	43	**43**	38
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	39	40	39	39	38	37	**33**	27
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	39	51	72	70	67	64	**54**	35
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	39	40	39	39	38	37	**33**	27
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	39	45	49	48	47	45	**39**	28
B5. Combination of B1–B4 using one-half standard deviation shocks	39	46	56	55	53	51	**43**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	39	40	39	39	38	37	**33**	27
Present value of debt-to-revenue ratio								
Baseline	154	151	145	142	137	131	**110**	80
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	154	135	117	106	95	88	**63**	37
A2. New public sector loans on less favorable terms in 2011–31 2/	154	157	155	156	155	152	**140**	114
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	154	154	151	147	142	136	**114**	83
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	154	176	219	208	198	187	**144**	86
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	154	157	156	153	147	141	**118**	86
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	154	171	182	175	168	159	**127**	82
B5. Combination of B1–B4 using one-half standard deviation shocks	154	174	200	192	183	173	**137**	87
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	154	212	204	199	193	184	**154**	112

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of External Debt, 2011–31 (concluded)

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	1	1	1	2	2	2	**2**	2
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	1	1	1	1	1	2	**1**	1
A2. New public sector loans on less favorable terms in 2011–31 2/	1	1	1	2	2	2	**2**	3
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	1	1	1	2	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	1	1	2	2	2	3	**3**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	1	1	1	2	2	2	**2**	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	1	1	1	2	2	2	**2**	2
B5. Combination of B1–B4 using one-half standard deviation shocks	1	1	2	2	2	2	**3**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1	1	1	2	2	2	**2**	2
Debt service-to-revenue ratio								
Baseline	5	5	5	6	6	7	**6**	5
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	5	5	5	5	5	6	**4**	3
A2. New public sector loans on less favorable terms in 2011–31 2/	5	5	5	6	7	8	**8**	8
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	5	5	5	6	6	7	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	5	5	6	7	7	8	**9**	6
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	5	5	5	6	6	7	**6**	6
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	5	5	6	6	7	8	**7**	6
B5. Combination of B1–B4 using one-half standard deviation shocks	5	5	6	7	7	8	**8**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5	7	7	8	8	10	**8**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	**25**	25

Sources: Cambodian authorities; and staff 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.

Table 2a. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008–31

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
					Standard							2011–16			2017–31
	2008	2009	2010	Average 1/	Deviation 1/	2011	2012	2013	2014	2015	2016	Average	2021	2031	Average
Public sector debt 2/	27.8	29.2	28.2			28.7	28.6	28.3	28.6	28.1	27.5		24.5	18.5	
Of which: Foreign-currency denominated	27.0	28.5	27.6			28.1	28.1	27.9	28.2	27.8	27.2		24.3	18.4	
Change in public sector debt	-2.8	1.4	-1.0			0.5	-0.1	-0.3	0.3	-0.5	-0.6		-0.4	-0.9	
Identified debt-creating flows	-4.8	4.1	-0.6			0.0	-0.1	-0.6	-0.2	-1.0	-1.2		-0.9	-0.2	
Primary deficit	-0.5	4.0	2.3	1.9	1.7	2.4	2.4	1.6	2.0	1.3	1.1	1.8	1.1	1.4	1.0
Revenue and grants	16.4	16.3	18.0			16.4	16.4	16.8	17.2	17.4	17.6		18.4	19.4	
Of which: Grants	3.3	4.2	4.9			3.3	3.0	2.8	2.7	2.5	2.4		1.9	1.4	
Primary (noninterest) expenditure	15.9	20.2	20.3			18.8	18.9	18.4	19.1	18.7	18.7		19.4	20.8	
Automatic debt dynamics	-4.3	0.1	-2.9			-2.4	-2.5	-2.2	-2.2	-2.3	-2.3		-2.0	-1.5	
Contribution from interest rate/growth differential	-2.4	0.3	-1.7			-1.6	-1.9	-1.8	-1.9	-2.1	-2.1		-1.9	-1.5	
Of which: Contribution from average real interest rate	-0.5	0.3	0.0			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Of which: Contribution from real GDP growth	-1.9	0.0	-1.6			-1.6	-1.8	-1.7	-1.8	-2.0	-1.9		-1.8	-1.4	
Contribution from real exchange rate depreciation	-2.0	-0.2	-1.3			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	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)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	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	2.0	-2.7	-0.3			0.4	0.0	0.3	0.5	0.5	0.5		0.4	-0.7	
Other sustainability indicators	...	...	20.1			20.7	20.9	20.7	21.0	20.7	20.3		18.3	14.4	
Of which: Foreign-currency denominated	...	...	19.5			20.2	20.4	20.2	20.6	20.3	19.9		18.1	14.3	
Of which: External	...	...	19.5			20.2	20.4	20.2	20.6	20.3	19.9		18.1	14.3	
Of which: External	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	1.0	5.1	3.5			3.6	3.5	2.7	3.1	2.5	2.5		2.3	2.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	111.6			126.7	126.9	123.5	122.3	119.3	115.2		99.5	74.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	153.7			158.3	154.8	148.6	144.9	139.8	133.5		111.2	80.1	
Of which: External 4/	...	...	149.0			154.0	151.1	145.2	142.0	137.2	131.2		110.0	79.7	
Debt service-to-revenue and grants ratio (in percent) 5/	4.1	3.3	3.9			3.8	3.9	3.9	4.5	4.8	6.0		5.5	5.5	
Debt service-to-revenue ratio (in percent) 5/	5.1	4.5	5.3			4.8	4.8	4.7	5.4	5.6	7.0		6.1	5.9	
Primary deficit that stabilizes the debt-to-GDP ratio	2.3	2.6	3.2			2.0	2.5	1.9	1.7	1.8	1.7		1.5	2.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	0.1	6.0	8.1	3.6	5.8	6.5	6.4	6.8	7.4	7.4	6.7	7.6	7.8	7.7
Average nominal interest rate on forex debt (in percent)	0.8	1.1	1.1	1.1	0.1	1.1	1.1	1.2	1.3	1.4	1.5	1.3	1.5	1.6	1.5
Average real interest rate on domestic debt (in percent)	-10.5	-2.1	-2.8	-4.6	2.8	-3.7	-3.5	-3.0	-2.8	-2.7	-2.8	-3.1	-2.4	-2.5	-2.5
Real exchange rate depreciation (in percent, + indicates depreciatior	-7.2	-0.6	-4.7	-2.5	2.8	-3.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.3	2.6	3.1	4.5	3.3	4.1	3.8	3.3	3.2	3.1	3.1	3.4	2.7	2.8	2.8
Growth of real primary spending (deflated by GDP deflator, in percei	16.7	27.3	6.2	5.1	9.5	-1.9	6.9	3.7	11.3	4.9	7.6	5.4	10.9	8.4	
Grant element of new external borrowing (in percent)	...	...	...	...	...	25.5	27.5	30.8	27.3	28.7	28.7	28.1	27.0	22.6	...

Sources: Cambodian authorities; and staff estimates and projections.
1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ The public sector debt represents general government gross debt.
3/ 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.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

Table 2b. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt, 2011–31

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
Present value of debt-to-GDP ratio								
Baseline	21	21	21	21	21	20	18	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	21	20	20	20	20	20	22	20
A2. Primary balance is unchanged from 2011	21	21	21	22	23	23	27	26
A3. Permanently lower GDP growth 1/	21	21	21	22	22	22	25	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	21	22	22	23	23	23	23	21
B2. Primary balance is at historical average minus one standard deviations in 2012–13	21	22	23	24	23	23	20	15
B3. Combination of B1–B2 using one half standard deviation shocks	21	21	22	22	22	22	19	15
B4. One-time 30 percent real depreciation in 2012	21	29	28	27	26	25	21	16
B5. 10 percent of GDP increase in other debt-creating flows in 2012	21	30	29	29	28	27	23	16
Present value of debt-to-revenue ratio 2/								
Baseline	127	127	124	122	119	115	100	74
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	127	123	119	117	117	116	123	106
A2. Primary balance is unchanged from 2011	127	127	128	129	131	133	148	136
A3. Permanently lower GDP growth 1/	127	128	127	128	128	127	133	174
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	127	130	132	133	132	130	124	109
B2. Primary balance is at historical average minus one standard deviations in 2012–13	127	133	140	138	133	128	108	78
B3. Combination of B1–B2 using one half standard deviation shocks	127	129	131	130	127	122	105	79
B4. One-time 30 percent real depreciation in 2012	127	174	165	158	151	143	116	82
B5. 10 percent of GDP increase in other debt-creating flows in 2012	127	182	175	169	162	154	125	85
Debt service-to-revenue ratio 2/								
Baseline	4	4	4	5	5	6	5	5
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	5	4	6	8	11
A2. Primary balance is unchanged from 2011	4	4	4	5	5	7	11	15
A3. Permanently lower GDP growth 1/	4	4	4	5	5	7	8	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	4	4	4	5	6	7	8	10
B2. Primary balance is at historical average minus one standard deviations in 2012–13	4	4	4	5	6	9	7	5
B3. Combination of B1–B2 using one half standard deviation shocks	4	4	4	5	6	8	6	5
B4. One-time 30 percent real depreciation in 2012	4	5	6	7	7	9	9	10
B5. 10 percent of GDP increase in other debt-creating flows in 2012	4	4	5	6	14	15	10	7

Sources: Cambodian authorities; and staff 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.

Table 3a. Alternative Scenario of Increasing Borrowing Limits, External Sustainability Framework, 2008–31 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation 1/	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011–16 Average	2021	2031	2017–31 Average
External debt (nominal) 2/	**27.0**	**28.5**	**27.6**			**30.0**	**34.8**	**35.9**	**36.2**	**37.6**	**38.1**		**35.2**	**19.3**	
Of which: Public and publicly guaranteed (PPG)	27.0	28.5	27.6			30.0	34.8	35.9	36.2	37.6	38.1		35.2	19.3	
Change in external debt	-2.4	1.5	-0.9			2.4	4.8	1.1	0.4	1.3	0.5		-1.2	-1.6	
Identified net debt-creating flows	-8.0	-1.7	-4.8			0.1	1.5	0.6	-0.1	-0.5	-1.7		-2.1	-1.1	
Noninterest current account deficit	**4.3**	**3.2**	**3.8**	**2.4**	**1.4**	**11.6**	**12.2**	**11.2**	**8.5**	**8.0**	**7.1**		**6.3**	**6.3**	6.1
Deficit in balance of goods and services	9.2	8.4	8.3			13.6	12.5	11.6	9.1	8.7	8.3		8.4	7.4	
Exports	48.5	43.4	49.3			51.5	51.0	51.6	52.5	53.3	54.1		53.9	53.8	
Imports	57.7	51.8	57.6			65.1	63.4	63.3	61.7	62.1	62.4		62.3	61.2	
Net current transfers (negative = inflow)	-9.3	-9.5	-8.9	-10.0	0.8	-5.9	-4.3	-4.3	-4.4	-4.4	-4.5		-4.1	-3.6	-4.0
Of which: Official	-6.6	-6.7	-6.8			-3.8	-2.0	-1.8	-1.7	-1.5	-1.4		-0.8	-0.3	
Other current account flows (negative = net inflow)	4.4	4.3	4.4			4.0	4.1	3.9	3.8	3.7	3.3		2.0	2.5	
Net FDI (negative = inflow)	**-7.7**	**-5.0**	**-6.8**	**-4.4**	**3.6**	**-10.4**	**-9.3**	**-9.0**	**-6.9**	**-6.6**	**-6.8**		**-6.5**	**-6.3**	-6.4
Endogenous debt dynamics 3/	**-4.7**	**0.1**	**-1.8**			**-1.1**	**-1.5**	**-1.6**	**-1.7**	**-1.9**	**-2.0**		**-2.0**	**-1.2**	
Contribution from nominal interest rate	0.2	0.3	0.3			0.3	0.3	0.4	0.5	0.5	0.5		0.6	0.3	
Contribution from real GDP growth	-1.6	0.0	-1.6			-1.4	-1.8	-2.0	-2.2	-2.4	-2.5		-2.5	-1.5	
Contribution from price and exchange rate changes	-3.2	-0.1	-0.6			...	...	...	...	...	...		...	...	
Residual (3–4) 4/	**5.6**	**3.2**	**3.9**			**2.3**	**3.3**	**0.5**	**0.5**	**1.8**	**2.2**		**0.9**	**-0.5**	
Of which: Exceptional financing	0.0	-0.2	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Present value (PV) of external debt 5/	...	...	19.6			21.7	25.7	26.7	27.2	28.4	28.9		27.5	15.2	
PV of external debt (in percent of exports) 5/	...	...	39.7			42.2	50.5	51.8	51.7	53.2	53.5		50.9	28.3	
PV of PPG external debt	**...**	**...**	**19.6**			**21.7**	**25.7**	**26.7**	**27.2**	**28.4**	**28.9**		**27.5**	**15.2**	
In percent of exports	**...**	**...**	**39.7**			**42.2**	**50.5**	**51.8**	**51.7**	**53.2**	**53.5**		**50.9**	**28.3**	
In percent of government revenues	**...**	**...**	**149.7**			**167.4**	**192.6**	**191.9**	**185.2**	**188.7**	**185.9**		**165.4**	**81.8**	
Debt service-to-exports ratio (in percent)	**1.2**	**1.5**	**1.4**			**1.3**	**1.3**	**1.6**	**1.8**	**1.9**	**2.3**		**2.7**	**2.4**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**1.5**	**1.4**			**1.3**	**1.3**	**1.6**	**1.8**	**1.9**	**2.3**		**2.7**	**2.4**	
PPG debt service-to-revenue ratio (in percent)	**4.3**	**5.3**	**5.3**			**5.1**	**5.0**	**6.0**	**6.6**	**6.8**	**7.9**		**8.6**	**7.0**	
Total gross financing need (in billions of U.S. dollars)	-0.3	-0.1	-0.3			0.2	0.5	0.5	0.4	0.5	0.3		0.4	1.2	
Noninterest current account deficit that stabilizes debt ratio	6.7	1.7	4.7			9.2	7.4	10.1	8.2	6.7	6.6		7.5	7.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.7	0.1	6.0	8.1	3.6	5.8	6.5	6.4	6.8	7.4	7.4	6.7	7.6	7.8	7.7
GDP deflator in U.S. dollar terms (change in percent)	12.3	0.5	2.0	3.7	3.8	7.6	4.0	3.1	2.9	2.7	2.8	3.9	2.4	2.5	2.5
Effective interest rate (percent) 6/	0.8	1.1	1.1	1.1	0.1	1.2	1.1	1.4	1.5	1.6	1.6	1.4	1.7	1.7	1.7
Growth of exports of G&S (U.S. dollar terms, in percent)	7.3	-10.0	22.8	12.4	12.6	18.9	9.6	11.2	11.8	12.1	11.9	12.6	10.0	10.6	10.3
Growth of imports of G&S (U.S. dollar terms, in percent)	12.1	-9.8	20.3	11.6	10.8	28.6	8.0	9.5	7.1	11.1	11.0	12.5	9.5	10.7	10.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.8	23.3	26.5	26.1	24.9	25.3	25.0	25.7	23.0	25.2
Government revenues (excluding grants, in percent of GDP)	13.0	12.0	13.1			13.0	13.4	13.9	14.7	15.0	15.6		16.6	18.6	17.3
Aid flows (in billions of U.S. dollars) 7/	0.6	0.7	0.6			0.5	0.6	0.6	0.7	0.7	0.8		1.1	1.8	
Of which: Grants	0.3	0.4	0.6			0.4	0.4	0.5	0.5	0.5	0.6		0.8	1.7	
Of which: Concessional loans	0.2	0.2	0.0			0.1	0.1	0.2	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.5	4.8	4.1	3.9	4.1	3.9		3.2	2.1	2.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			53.0	44.1	55.9	56.9	51.2	52.7		58.7	67.4	60.7
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	10.4	10.4	11.3			12.8	14.2	15.6	17.1	18.9	20.9		34.1	91.5	
Nominal dollar GDP growth	19.8	0.6	8.1			13.9	10.8	9.7	9.9	10.4	10.4	10.8	10.2	10.4	10.4
PV of PPG external debt (in billions of U.S. dollars)			2.3			2.8	3.7	4.2	4.6	5.4	6.0		9.4	13.9	
(PVt-PVt-1)/GDPt-1 (in percent)						4.6	6.8	3.5	3.1	4.2	3.6	4.3	2.0	0.5	1.5
Gross remittances (in billions of U.S. dollars)	0.3	0.3	0.2			0.3	0.3	0.4	0.5	0.5	0.6		1.1	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	19.2			21.3	25.2	26.1	26.4	27.6	28.1		26.6	15.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	38.0			40.5	48.3	49.4	49.2	50.5	50.6		48.0	27.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.3			1.2	1.2	1.5	1.8	1.8	2.2		2.5	2.4	

Sources: Cambodian authorities; and staff estimates and projections.

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

2/ Includes both public and private sector external debt. The years in the table refer to calendar years.

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

4/ 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.

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

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

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 3b. Alternative Scenario with Increasing Borrowing Limits: Sensitivity Analysis for Key Indicators of External Debt, 2011–31
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Present value of debt-to-GDP ratio								
Baseline	22	26	27	27	28	29	**27**	15
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	22	22	19	17	16	15	**10**	0
A2. New public sector loans on less favorable terms in 2011–31 2/	22	28	29	31	33	34	**35**	23
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	22	26	28	28	29	30	**28**	16
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	22	29	37	37	37	37	**33**	16
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	22	27	29	29	31	31	**30**	16
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	22	29	32	32	33	33	**30**	16
B5. Combination of B1–B4 using one-half standard deviation shocks	22	29	35	35	36	36	**32**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	22	36	37	38	40	41	**39**	21
Present value of debt-to-exports ratio								
Baseline	42	51	52	52	53	54	**51**	28
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	42	43	37	32	30	28	**19**	0
A2. New public sector loans on less favorable terms in 2011–31 2/	42	54	57	58	62	63	**65**	43
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	42	51	52	52	53	53	**51**	28
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	42	63	88	86	86	85	**75**	37
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	42	51	52	52	53	53	**51**	28
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	42	56	62	61	62	61	**56**	29
B5. Combination of B1–B4 using one-half standard deviation shocks	42	57	70	69	69	69	**62**	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	42	51	52	52	53	53	**51**	28
Present value of debt-to-revenue ratio								
Baseline	167	193	192	185	189	186	**165**	82
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	167	163	138	116	106	98	**61**	0
A2. New public sector loans on less favorable terms in 2011–31 2/	167	206	212	209	219	220	**212**	123
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	167	196	199	192	196	193	**172**	85
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	167	218	266	251	249	241	**199**	88
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	167	201	206	199	203	200	**178**	88
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	167	213	229	218	219	213	**182**	85
B5. Combination of B1–B4 using one-half standard deviation shocks	167	217	249	236	236	229	**194**	89
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	167	271	269	260	265	261	**232**	115

Table 3b. Alternative Scenario with Increasing Borrowing Limits: Sensitivity Analysis for Key Indicators of External Debt, 2011–31 (concluded)

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	1	1	2	2	2	2	**3**	2
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	1	1	1	1	1	2	**1**	1
A2. New public sector loans on less favorable terms in 2011–31 2/	1	1	2	2	2	3	**4**	3
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	1	1	2	2	2	2	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	1	1	2	3	3	3	**4**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	1	1	2	2	2	2	**3**	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	1	1	2	2	2	2	**3**	3
B5. Combination of B1–B4 using one-half standard deviation shocks	1	1	2	2	2	3	**4**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	1	1	2	2	2	2	**3**	2
Debt service-to-revenue ratio								
Baseline	5	5	6	7	7	8	**9**	7
A. Alternative scenarios								
A1. Key variables at their historical averages in 2011–31 1/	5	5	5	5	5	6	**4**	2
A2. New public sector loans on less favorable terms in 2011–31 2/	5	5	6	8	8	10	**12**	10
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012–13	5	5	6	7	7	8	**9**	7
B2. Export value growth at historical average minus one standard deviation in 2012–13 3/	5	5	7	8	8	9	**12**	8
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2012–13	5	5	6	7	7	9	**9**	8
B4. Net nondebt creating flows at historical average minus one standard deviation in 2012–13 4/	5	5	6	7	7	9	**10**	8
B5. Combination of B1–B4 using one-half standard deviation shocks	5	5	7	8	8	9	**11**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	5	7	8	9	10	11	**12**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Cambodian authorities; and staff 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 4a. Alternative Scenario of Increasing Borrowing Limits: Public Sector Debt Sustainability Framework, 2008–31

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
												2011–16			2017–31
	2008	2009	2010	Average 1/	Standard Deviation 1/	2011	2012	2013	2014	2015	2016	Average	2021	2031	Average
Public sector debt 2/	27.8	29.2	28.2			30.5	35.3	36.3	36.7	37.9	38.4		35.4	19.4	
Of which: Foreign-currency denominated	27.0	28.5	27.6			30.0	34.8	35.9	36.2	37.6	38.1		35.2	19.3	
Change in public sector debt	-2.8	1.4	-1.0			2.3	4.8	1.0	0.3	1.3	0.5		-1.2	-1.6	
Identified debt-creating flows	-4.8	4.1	-0.6			0.2	4.9	1.0	-0.1	1.0	0.2		-0.7	-0.6	
Primary deficit	-0.5	4.0	2.3	1.9	1.7	2.6	7.5	3.6	2.7	3.9	3.3	3.9	2.1	1.1	1.7
Revenue and grants	16.4	16.3	18.0			16.2	16.3	16.8	17.5	17.8	18.3		19.0	20.5	
Of which: Grants	3.3	4.2	4.9			3.3	3.0	2.9	2.9	2.8	2.7		2.4	1.8	
Primary (noninterest) expenditure	15.9	20.2	20.3			18.8	23.8	20.4	20.2	21.7	21.6		21.1	21.5	
Automatic debt dynamics	-4.3	0.1	-2.9			-2.4	-2.6	-2.6	-2.8	-2.9	-3.0		-2.8	-1.7	
Contribution from interest rate/growth differential	-2.4	0.3	-1.7			-1.6	-2.0	-2.2	-2.4	-2.6	-2.8		-2.7	-1.6	
Of which: Contribution from average real interest rate	-0.5	0.3	0.0			0.0	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Of which: Contribution from real GDP growth	-1.9	0.0	-1.6			-1.6	-1.9	-2.1	-2.3	-2.5	-2.6		-2.6	-1.5	
Contribution from real exchange rate depreciation	-2.0	-0.2	-1.3			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	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)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	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	2.0	-2.7	-0.3			2.1	-0.1	0.1	0.4	0.3	0.2		-0.5	-1.0	
Other sustainability indicators	...	...	20.2			22.3	26.2	27.2	27.6	28.8	29.3		27.7	15.3	
Of which: Foreign-currency denominated	...	...	19.6			21.7	25.7	26.7	27.2	28.4	28.9		27.5	15.2	
Of which: External	...	...	19.6			21.7	25.7	26.7	27.2	28.4	28.9		27.5	15.2	
Of which: External	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	1.0	5.1	3.5			3.7	8.7	4.8	4.0	5.2	4.8		3.6	2.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	112.1			137.2	160.8	161.4	157.4	161.3	160.2		145.6	74.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	154.4			171.7	196.4	195.2	188.1	191.2	188.1		166.7	82.2	
Of which: External 4/	...	...	149.7			167.4	192.6	191.9	185.2	188.7	185.9		165.4	81.8	
Debt service-to-revenue and grants ratio (in percent) 5/	4.1	3.3	3.9			3.8	4.6	4.6	5.0	5.3	6.4		7.0	6.1	
Debt service-to-revenue ratio (in percent) 5/	5.1	4.5	5.3			4.8	5.6	5.6	6.0	6.3	7.5		8.0	6.7	
Primary deficit that stabilizes the debt-to-GDP ratio	2.3	2.6	3.2			0.2	2.8	2.6	2.4	2.6	2.8		3.3	2.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	0.1	6.0	8.1	3.6	5.8	6.5	6.4	6.8	7.4	7.4	6.7	7.6	7.8	7.7
Average nominal interest rate on forex debt (in percent)	0.8	1.1	1.1	1.1	0.1	1.2	1.1	1.4	1.5	1.6	1.6	1.4	1.7	1.7	1.7
Average real interest rate on domestic debt (in percent)	-10.5	-2.1	-2.8	-4.6	2.8	-3.7	-3.5	-3.0	-2.8	-2.7	-2.8	-3.1	-2.4	-2.5	-2.5
Real exchange rate depreciation (in percent, + indicates depreciatio	-7.2	-0.6	-4.7	-2.5	2.8	-3.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.3	2.6	3.1	4.5	3.3	4.1	3.8	3.3	3.2	3.1	3.1	3.4	2.7	2.8	2.8
Growth of real primary spending (deflated by GDP deflator, in perc	16.7	27.3	6.2	5.1	9.5	-1.9	35.1	-8.8	5.8	15.3	6.5	8.7	8.8	8.3	
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.8	23.3	26.5	26.1	24.9	25.3	25.0	25.7	23.0	...

Sources: Cambodian authorities; and staff estimates and projections.

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

2/ The public sector debt represents general government gross debt.

3/ 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.

4/ Revenues excluding grants.

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

Table 4b. Alternative Scenario of Increasing Borrwing Limits: Sensitivity Analysis for Key Indicators of Public Debt, 2011–31

(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
Present value of debt-to-GDP ratio								
Baseline	22	26	27	28	29	29	28	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	21	20	20	20	20	19	16
A2. Primary balance is unchanged from 2011	22	22	22	22	23	23	24	22
A3. Permanently lower GDP growth 1/	22	27	28	29	31	32	35	36
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	22	27	29	30	32	32	33	22
B2. Primary balance is at historical average minus one standard deviations in 2012–13	22	23	24	24	26	27	26	15
B3. Combination of B1–B2 using one half standard deviation shocks	22	22	22	23	25	26	25	15
B4. One-time 30 percent real depreciation in 2012	22	34	34	34	34	34	31	18
B5. 10 percent of GDP increase in other debt-creating flows in 2012	22	35	36	36	36	36	32	17
Present value of debt-to-revenue ratio 2/								
Baseline	137	161	161	157	161	160	146	75
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	137	128	121	115	112	108	100	77
A2. Primary balance is unchanged from 2011	137	133	130	128	128	127	127	110
A3. Permanently lower GDP growth 1/	137	162	165	163	171	173	181	172
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	137	165	171	169	176	177	171	109
B2. Primary balance is at historical average minus one standard deviations in 2012–13	137	139	141	139	145	145	136	71
B3. Combination of B1–B2 using one half standard deviation shocks	137	135	133	132	138	140	134	73
B4. One-time 30 percent real depreciation in 2012	137	209	203	193	192	187	162	86
B5. 10 percent of GDP increase in other debt-creating flows in 2012	137	216	212	204	203	198	170	85
Debt service-to-revenue ratio 2/								
Baseline	4	5	5	5	5	6	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	4	0	1	0	6
A2. Primary balance is unchanged from 2011	4	4	4	5	1	2	3	11
A3. Permanently lower GDP growth 1/	4	4	5	6	6	8	11	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012–13	4	4	5	6	6	8	11	12
B2. Primary balance is at historical average minus one standard deviations in 2012–13	4	4	5	5	2	4	6	6
B3. Combination of B1–B2 using one half standard deviation shocks	4	4	4	5	1	2	6	6
B4. One-time 30 percent real depreciation in 2012	4	5	7	8	8	10	13	14
B5. 10 percent of GDP increase in other debt-creating flows in 2012	4	4	6	7	15	15	13	9

Sources: Cambodian authorities; and staff 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 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 18, 2012

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

ANNEX I. CAMBODIA: FUND RELATIONS

(As of December 31, 2011)

Membership Status

Joined December 31, 1969; accepted the obligations under Article VIII, Sections 2, 3, and 4 on January 1, 2002.

General Resources Account

	SDR Million	Percent Quota
Quota	87.50	100.00
Fund holdings of currency	87.50	100.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	83.92	100.00
Holdings	68.39	81.50

Outstanding Purchases and Loans

	SDR Million	Percent Quota
None		

Latest Financial Arrangements

In millions of SDRs (mm/dd/yyyy)

Type	Arrangement	Date	Amount Approved	Amount Drawn
ECF[1]	10/22/1999	03/05/2003	58.50	58.50
ECF[1]	05/06/1994	08/31/1997	84.00	42.00

[1] Extended Credit Facility (ECF); formerly PRGF.

Projected Payments to the Fund

In millions of SDRs (based on existing use of resources and present holdings of SDRs)

	2012	2013	2014	2015	2016
Principal					
Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02	0.02

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.

Safeguards Assessment

A voluntary safeguards assessment of the NBC was completed in January 2010 at the request of the authorities. The assessment updated the previous voluntary assessment completed in March 2004. The assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework, although important measures proposed in 2004 are still outstanding or in progress. Some new risks have emerged in the area of external audit. The assessment made appropriate recommendations.

Exchange Rate Arrangement and Payments System

Cambodia's exchange regime is classified as stabilized. 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.

Article IV Consultation

Cambodia is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Phnom Penh during August 30–September 10, 2010. The Executive Board discussed the staff report (IMF Country Report 11/45) and concluded the consultation on October 29, 2010.

Financial Sector Assessment Program (FSAP)

The joint IMF-World Bank FSAP mission took place in March 2010 and the assessment was completed in October 2010.

Technical Assistance

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

Resident Representative

The new IMF Resident Representative in Phnom Penh (Mr. Faisal Ahmed) was appointed in July 2011. From July 2010 to June 2011, the IMF’s Resident Representative for Indonesia (Mr. Milan Zavadjil) also assumed the responsibilities for the Cambodian IMF office.

ANNEX II. CAMBODIA: IMF-WORLD BANK COLLABORATION

(December 2011)

The Bank and the IMF country teams for Cambodia, led by Mr. Mathew Verghis (Lead Economist, EASPR) and Mr. Olaf Unteroberdoerster (IMF Mission Chief for Cambodia), maintain a close working relationship and have an active dialogue on a range of macroeconomic and structural issues.

Recent key areas of cooperation and coordination include:

- **Macroeconomic policy advice to the authorities.** The IMF and the World Bank staffs have consulted each other on key macroeconomic policy messages to the authorities to avoid sending conflicting messages. The staffs adopted a joint stance on the complex question of the 2009 national accounts. The two teams also regularly share information outside missions, and discuss and exchange institutional views on key macroeconomic developments. Bank staff share and discuss the monthly fiscal monitor, translated Budget Law (English version) and the quarterly review of macroeconomic developments. IMF staff share policy notes and other mission preparatory documents.

- **Financial sector reform/TA and FSAP.** World Bank and IMF teams have worked closely together while undertaking the March 2010 FSAP. The two teams sent respective representatives jointly in 2009 to appraise the authorities about the purpose, structure, output, and requirements of an FSAP. The two teams also regularly communicated on financial sector developments throughout the assessment. The FSAP was completed in October 2010. Following the recommendations by the FSAP, it is expected that technical assistance (TA) will be deployed in subject areas akin to the FSAP and close coordination between the IMF and the World Bank will continue.

- **Public financial management and tax and customs administration reform.** Both institutions are working to strengthen coordination of work on public financial management, and tax and customs administration reform. Both teams share as much as possible the work done in this area.

- **Article IV consultations.** IMF Article IV consultations regularly share their macroeconomic data with the World Bank and hold working sessions to try and reconcile macroeconomic data sets. The collaboration is closest on the debt sustainability analysis, a joint product, but extends more broadly into other areas of the consultation as well. This is extremely important for both institutions in Cambodia's scarce data context. World Bank staff are also invited to and do participate in some of the key meetings.

- **Structural reforms.** The IMF staff and the World Bank teams have worked together to share views on a range of other issues, including structural reforms for a better investment climate (and competitiveness issues), customs modernization, rural development, and de-dollarization.

The new Resident Representative (Mr. Faisal Ahmed) was appointed in July 2011. The presence of a locally-based representative has further deepened collaboration on economic and debt sustainability analysis and the IMF's involvement on the Public Financial Management Reform Program.

Based on the above intensive partnership, the World Bank and the IMF share a common view about Cambodia's macroeconomic and structural reform priorities. These include:

- **Sustaining the recovery.** As of December 2011, a broad-based recovery is well under way. However, it needs to be sustained with appropriate fiscal consolidation and continued management of the banking sector risks, against the backdrop of global uncertainty.
- **Building foundation for stronger growth.** After steadily rising from the mid-1990s, potential growth appears to be slowing. Removing impediments to investments would be the key to promote stronger growth.
- **Creating fiscal space.** Macroeconomic stability critically depends on prudent fiscal policies. Fiscal space to address near-term downside risk is limited and greater fiscal consolidation efforts are needed to rebuild space, including through improving revenue administration, prioritizing spending, and better monitoring of contingent liabilities.
- **Building credibility for greater monetary independence.** Normalizing monetary conditions would guard against macro-financial risks and signal a strong commitment to de-dollarization, along with progress to develop an interbank market and upgrade the NBC's liquidity monitoring.
- **Managing financial deepening.** Implementing the key recommendations of the 2010 FSAP would be critical to safeguard financial stability. These include implementing a moratorium on new bank licenses, developing the foreign exchange market in conjunction with the recently created stock market, and strengthening the financial system supervision.
- **Improving governance.** Both the World Bank and IMF have stressed the critical role of governance in improving the quality of service delivery and the business environment.

The teams are committed to continue the close cooperation going forward. The table below details the specific activities planned by the two country teams over the next 12-month period along with their expected deliveries.

Cambodia: Joint Managerial Action Plan, December 2011–December 2012

Title	Products	Provisional and Actual Timing of Missions	Expected and Actual Delivery Date
	A. Mutual Information on Relevant Work Programs		
The World Bank's Work program in the next 12 Months	**Macroeconomic monitoring** • Semi-annual updates (regional) • Recent economic developments (slides)		Approx. once every six months
	Financial sector • FSAP follow up		Ongoing
	Public sector management • Public Financial Management Reform Program (PFMRP)		Project closing date is Jan. 15, 2013
	Trade • Trade Facilitation and Competitiveness Program (where customs automation is the biggest component)	Dec. 2011	Project closing date is June 1, 2012
	• Trade Development Support Program		March 2013 and likely to be extended to March 15
The IMF's Work Program in the next 12 Months	**Macroeconomic policy analysis and advice** • 2011 Article IV consultation	3rd Quarter 2011	December 2011
	• 2012 Article IV consultation	4th Quarter 2012	
	• Policy notes on request		Ongoing
	Technical assistance • Fiscal: Cash management, government accounting, budget classification, macro-fiscal capacity building • Financial sector: FSAP follow-up work, resident banking supervision advisor, consolidated supervision • Statistics: National accounts, price, balance of payments		Ongoing
	B. Agreement on Joint Products and Missions		
Joint Products in the next 12 Months	• **Debt sustainability analysis**	2011 and 2012 Article IV consultations	During Article IV consultations
	• **FSAP**	The FSAP was completed in October 2010. Follow-up work and TA are ongoing.	

ANNEX III. CAMBODIA: RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(December 2011)

From 1992 through December 2011, the Asian Development Bank (AsDB) approved funding of US$1,433.51 million including 56 loan projects of US$1,174.8 million with low interest, and 22 Asian Development Fund (ADF) grants of US$258.71 million to Cambodia for structural reform programs and development projects. To date, 39 loan projects for a total of US$882.54 million and 5 ADF grants of US$56.51 million have been completed.

The sector composition and loan/grant amount of the remaining active portfolio as of December 2011 is as follows: (i) agriculture and natural resources, US$158.5 million; (ii) education, US$51.6 million; (iii) energy, US$20.0 million; (iv) finance, US$30.0 million; (v) health, nutrition, and social protection, US$10.0 million; (vi) public sector management, US$55.1 million; (vii) transport and communication, US$148.26 million; and (viii) water supply, sanitation, and waste management, US$21.0 million.

The AsDB's overarching goal in Cambodia is inclusive and diversified economic growth and poverty reduction. The AsDB's Country Partnership Strategy ((CPS) 2011–13), endorsed in July 2011, supports implementation of the government's updated National Strategic Development Plan 2009–13 (NSDP Update)[1] and focuses on poverty reduction and inclusive growth with an integrated approach to rural development; on the promotion of urban-rural linkages (including connectivity); and the enhancement of human capital by improving rural water supply and sanitation, and access to quality general education and industry-relevant technical and vocational education and training (TVET). The CPS 2011–13 prioritizes five sectors: (i) transport; (ii) water supply, sanitation, and urban development; (iii) agricultural and natural resources; (iv) education and training; and (v) finance, as well as a facilitating sector, public sector management. The CPS also identifies four critical country challenges of climate change, decentralization, rural-urban linkages, and regional cooperation. The CPS incorporates five key cross-cutting themes into all activities—private sector development, governance, gender equity, knowledge solutions, and partnerships.

The AsDB's geographical focus remains the Tonle Sap basin where the CPS supports sustainable natural resource use and management; stimulates the growth of competitive farms and rural enterprises; builds sustainable rural infrastructure, including irrigation, to strengthen productivity, market connectivity, and competitiveness; and improves food security and climate resilience in agricultural production. AsDB interventions on transport will focus on expanding the provincial and rural roads network to promote connectivity and trade and tourism activities in Cambodia and the Greater Mekong Sub-region (GMS).

[1] The National Strategic Development Plan (NSDP) update is available at: http://www.mop.gov.kh/Home/NSDP/NSDPUPDATE20092013/tabid/206/Default.aspx.

The AsDB will continue its support for the Cambodia Millennium Development Goal targets for improved water supply and sanitation for the large number of people without access in urban and rural areas. In urban areas, we will work to manage the challenges of rapid urbanization and provide basic services and infrastructure to meet the needs of the poor and stimulate the growth of value chains. The AsDB will develop urban environmental infrastructure (drainage, water supply, and sanitation, as well as selective infrastructure to improve the business environment) in border towns and secondary growth centers around the Tonle Sap basin. In education and training, the AsDB will concentrate on the completion of nine years of basic education, leading to further education and training by promoting equitable access and quality and focus on formal and informal TVET for men and women to respond to labor market needs and the demands of business, and to improve rural incomes.

In finance, the AsDB will continue its leading role in the financial sector to (i) consolidate the banking reforms achieved to date, upgrade financial infrastructure, and strengthen the regulatory capability of the National Bank of Cambodia; (ii) support microfinance expansion through regulatory and institutional reforms, and consider appropriate reforms to stimulate SME finance; and (iii) support ongoing reforms to develop the insurance industry. The AsDB will support implementation of the recently updated Financial Sector Development Strategy (2011–20). The CPS also includes support for government measures to deepen public sector management reform and strengthen anticorruption measures. For decentralization and deconcentration, the AsDB will support the program-based approach under the three-year implementation plan (2011–13) in functional assignments, fiscal decentralization (including public financial management capacity development), and subnational financing mechanisms such as the Sub-National Investment Facility.

In the area of private sector development, the AsDB assists the government's efforts in improving competition policy and regulatory efficiency; strengthening the investment climate and innovation; continuing trade policy reforms and trade facilitation (customs and sanitary and phytosanitary standards for food safety); and leverage public-private partnership opportunities. Assistance has also been provided to help the government improve its competitiveness at the GMS level through reducing border-related costs and distortions; improving physical infrastructure; enhancing transport and trade facilitation, including promoting compliance with SPS standards. Later interventions would be more focused on improving the trade facilitation and logistical links to the subregion as systems and procedures become more developed and integrated.

Asian Development Bank: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2011

(In millions of U.S. dollars, as of December 5, 2011)

		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[1]	52.0	96.4	84.5
15	2006[2]	69.8	44.7	55.8
16	2007[3]	64.1	85.8	62.1
17	2008[4]	84.1	141.3	138.9
18	2009[5]	144.5	52.3	84.6
19	2010[6]	160.8	66.0	73.5
20	2011 (Projected)[7]	70.0	133.7	122.6
	TOTAL:	1,488.9	1,135.3	1,101.8

[1] US$10 million loans and US$42 million grants approved in 2005.
[2] US$62 million loans and US$7.8 million grants approved in 2006.
[3] US$27.1 million loans and US$37 million grants approved in 2007.
[4] US$53.8 million loans and US$30.3 million grants approved in 2008.
[5] US$71.7 million loans and US$72.8 million grants approved in 2009.
[6] US$95.0 million loans and US$65.8 million grants approved in 2010.
[7] US$67.0 million loans and US$3.0 million grants are expected to be approved in 2011.

ANNEX IV. CAMBODIA: STATISTICAL ISSUES

(December 2011)

Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance. Extensive TA has been provided by the IMF, UNDP, AsDB, and World Bank, as well as from bilateral partners (namely, Japan and Sweden), leading to substantial capacity improvements in compiling and reporting macroeconomic statistics. Currently, Cambodia is participating in STA's Project on the Implementation of the System of National Accounts and International Comparison Program, funded by the government of Japan. This project will provide TA to build statistical capacity and improve both national accounts and price statistics. However, various shortcomings in macroeconomic data still hamper timely and comprehensive analysis.

National accounts. Though major improvements have been implemented in recent years, weaknesses remain in the quality and timeliness of data. With IMF assistance, the National Institute of Statistics (NIS) continues working to improve the quality of national accounts statistics in accordance with the System of National Accounts 1993, to expand the scope of annual national account aggregates, and to produce a quarterly national accounts series beginning with June 2005. 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. The authorities have published the 2009 and 2010 national accounts; however, a TA mission that visited Cambodia in November 2011 noted inconsistencies in the 2009 data that should be addressed. The November 2011 mission assessed current methodologies used to compile national accounts estimates and provided support with the development of the quarterly national accounts estimates. Follow up TA missions within the three-year STA project will focus on improving the accuracy of the annual and quarterly GDP and expanding the scope of the national accounts.

Price statistics. The compilation of the consumer price index (CPI) suffers from insufficient coverage. A CPI series was introduced starting in January 2009. Geographic coverage of the series is limited to urban households in Phnom Penh. Statistics Sweden is currently providing assistance with the household budget survey and, on an intermittent basis, the CPI. An STA TA mission visited Phnom Penh in August/September 2011 to assist with updating/improving the CPI. Pending the approval of additional budgetary resources, it is planned that the updated CPI will include expanded geographic coverage. The authorities indicated a need for assistance with developing a producer price index (PPI), but no funds have been allocated to support the compilation of an ongoing PPI.

Government finance statistics. The Ministry of Finance and Economy began implementing reforms to the government accounting system and budgetary nomenclature in 2007, based on the *Government Finance Statistics Manual (GFSM) 2001*, with IMF TA. In addition, several STA missions have assisted with GFS compilation procedures within the *GSFM 2001* framework. IMF TA in April 2008 assisted with establishing a bridge between the government's new chart of accounts (COA) and the *GSFM 2001* 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.

Monetary and financial statistics. The NBC compiles the balance sheet and survey for the central bank and other depository institutions in accordance with the IMF's *Monetary and Financial Statistics Manual*. Since August 2005, the NBC has reported monthly monetary and financial statistics to STA using the Standardized Report Forms. The NBC received TA during the FSAP on the compilation of financial soundness indicators (FSIs). The NBC now compiles monthly core FSIs and shares them with IMF staff irregularly. The nonreliability and inconsistency of data reported by banks still poses a challenge to the interpretation of FSIs.

External sector statistics. 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, and gaps exist with respect to large build-operate-transfer projects in the energy sector. Gaps also 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. Gaps exist in official transfers (e.g., grants) and in external statistics, and no data are available for private external debts.

Data Standards and Quality

Cambodia participates in the IMF's General Data Dissemination System. No data ROSC are available.

Cambodia: Table of Common Indicators Required for Surveillance

(As of December 2011)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	12/23/ 2011	12/30/ 2011	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	11/ 2011	12/2011	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	11/2011	12/2011	M	M, 4–6 week delay	M
Broad Money	11/2011	12/2011	M	M, 4–6 week delay	M
Central Bank Balance Sheet	11/2011	12/2011	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	11/2011	12/2011	M	M, 4–6 week delay	M
Interest Rates[3]	11/2011	12/2011	M	M, 4–6 week lag	M
Consumer Price Index	11/2011	12/2011	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General	10/2011	12/2011	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—Central	10/2011	12/2011	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2010	09/2011	A	A, 6 month lag	A
External Current Account Balance	06/2011	09/2011	Q	Q, 3 month lag	Q
Exports and Imports of Goods and Services	06/2011	09/2011	Q	Q, 3 month lag	Q
GDP/GNP	2010	09/2011	A	A, 6 month lag	A
Gross External Debt	11/2011	12/2011	M	M, 4–6 month lag	A
International Investment Position[7]	06/2011	09/2011	Q	Q, 3 month lag	Q

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), and Not Available (N/A).

[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[6] Including currency and maturity composition.

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

ANNEX V. CAMBODIA: MAIN WEBSITES OF DATA

National Bank of Cambodia (www.nbc.org.kh)

Exchange rates
Consumer Price Index
Interest rates
Monetary Survey
Credit granted by deposit money banks and nonbank financial institutions
Balance of payments
Exports and imports
Visitor arrivals

Ministry of Economic and Finance (www.mef.gov.kh)

Government budget
Fiscal revenue, expenditure, and financing
Investment
Employment

National Institute of Statistics (www.nis.gov.kh)

Consumer Price Index
National accounts
Population census
Labor force survey
Socioeconomic survey
Household survey

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 12/19
FOR IMMEDIATE RELEASE
February 27, 2012

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

IMF Executive Board Concludes 2011 Article IV Consultation with Cambodia

On February 3, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia on a lapse of time basis. Under the IMF's lapse of time procedures, the Executive Board completes Article IV consultations without convening formal discussions.

Background

The economy has performed well in 2011, but recent floods add to uncertainty. Buoyant garments exports, increasing tourist arrivals, and a gradually-improving real estate sector have supported a broadening recovery. Agriculture was also strong in the first three quarters—rice exports through September tripled under the new rice policy—but recent severe floods are expected to exert a transient setback. Staff estimates overall GDP growth at 5¾ percent, but nonagricultural growth is forecast to exceed 7½ percent, the highest in four years. Assuming agriculture will return to pre-flood trends, overall GDP growth is forecast to reach 6½ percent in 2012.

Inflationary pressures increased in 2011, driven by higher food and fuel prices and reinforced by strong credit growth estimated to exceed 30 percent (y/y). Headline inflation is expected to average 5¾ percent in 2011 and to ease only gradually in 2012, in part reflecting a moderation in global commodity prices.

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

The current account deficit (including official transfers) is projected at about 9½ percent of GDP in 2011–12, reflecting a higher petroleum import bill and strong imports related to large hydropower projects. However, the current account deficit remains fully financed through broadening foreign direct investment and official loans. Gross official reserves rose to US$3 billion in October, equivalent to about 4¼ months of prospective imports. In the absence of signs of pressures on external competitiveness, the riel has remained close to its post-2008 average in real effective terms and is broadly in line with fundamentals.

Economic growth is expected to return to its potential of about 7½ percent in the medium term, provided reforms to improve the business climate and upgrade physical infrastructure, and enhance public sector revenue and service delivery are steadfastly implemented. Cambodia's current account deficit would gradually fall to about 5 percent of GDP by 2016, in line with estimates of its savings-investment norm, on the back of robust export growth, reflecting further diversification and improved competitiveness, and lower imports of petroleum and construction materials with the completion of hydropower projects.

The fragility of the global recovery exposes Cambodia's narrow export base to significant downside risks. Cambodia is highly sensitive to economic activity in the U.S. and Europe, which account for about two thirds of its total exports and the bulk of high-end tourist arrivals. Any immediate financial spillovers, however, would likely be limited and mostly indirect. A high degree of dollarization constrains the effectiveness of monetary policy in cushioning such shocks, leaving fiscal policy as the main tool for safeguarding macroeconomic stability. However, a largely reduced fiscal space from the previous crisis and the need to preserve financial stability limit the scope to cushion such shocks. On the other hand, upside potential could stem from better-than-expected returns on investments in the power sector and rural infrastructure areas, against the backdrop of positive spillovers from Asia's economic rebalancing.

Executive Board Assessment

In concluding the 2011 Article IV consultation with Cambodia, Executive Directors endorsed staff's appraisal, as follows:

Cambodia's economy has performed well in 2011 and recent severe floods constitute only a temporary setback to building stronger foundations for growth. Buoyant garment exports, a strong tourism sector, and an emerging recovery of the battered real estate sector mean that nonagricultural GDP growth likely reached the highest rate in four years. However, depending on replanting efforts and the impact on rice yields, the damage of floods to agriculture could visibly dent overall growth. On the back of strong economic activity, higher global food and fuel prices, and reinforced by strong credit growth, inflation rose through most of 2011 and is expected to ease only gradually. The real effective exchange rate appears to remain broadly in line with economic fundamentals.

Growth dynamics point to a favorable outlook for 2012, in part boosted by the return of agriculture to pre-flood trends. However, Cambodia's narrow economic base means that exposure to global downside risks is high while policy buffers are limited, mainly owing to the high degree of dollarization and largely reduced fiscal space after the 2009 global recession. Medium-term growth prospects critically depend on ongoing reforms to improve the business environment and upgrade physical infrastructure, and enhance public sector revenue and service delivery to provide for Cambodia's vast development needs while safeguarding fiscal sustainability.

With significantly less fiscal space to counter a potential severe global downturn than in 2009, any fiscal contingency plan would need to focus on accelerating and reprioritizing spending for existing high-impact social sector and infrastructure investment projects. The 2012 budget will help rebuild fiscal space by halving domestic financing, but further revenue mobilization over the medium term is key to strengthening policy buffers, and providing adequate resources for development. Better monitoring of sizable and growing contingent liabilities will be critical to safeguard fiscal space, while steadfast implementation of ongoing public financial management reforms will help to ensure spending effectiveness.

Keeping reserve requirements, the National Bank of Cambodia (NBC)'s main policy tool, at post-crisis lows is inconsistent with Cambodia's strong recovery and could undermine perceptions about the authorities' commitment to price stability. With credit growth accelerating, inaction could also contribute to macro-financial risks. There is scope, however, to recalibrate the pace and timing of monetary normalization in the event of an adverse global economic shock. Better liquidity monitoring and the creation of an interbank market are not only important steps to improve monetary operations consistent with Cambodia's longer-term development strategy, but would also help increase financial system resilience at the current juncture.

The main challenge ahead is building a deeper financial system while safeguarding financial stability. Amid a rapidly growing banking system, a moratorium on bank licenses would provide a critical window to build adequate supervisory capacity and improve the balance between the degree of competition and health of banks. Formalizing coordinated supervision and crisis management between relevant government agencies is essential to reduce systemic risks and limit potential fiscal costs. Upgrading Cambodia's shallow foreign exchange market will need to be carefully sequenced with Cambodia's international financial integration, the growth of the stock market, and the development of the overall monetary policy framework.

The authorities' medium-term structural policies appropriately focus on infrastructure bottlenecks and improving the investment climate, which would also help alleviate rural-urban imbalances. Further strengthening the Antil-Money Laundering/Counter-Financing of Terrorism (AML/CFT) framework and better and more timely economic statistics will also help improve Cambodia's competitiveness by reducing the cost of doing business and facilitating informed decision making.

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 2011 Article IV Consultation with Cambodia is also available.

Cambodia: Selected Economic Indicators, 2008–12

	2008	2009	2010	2011	2012
			Prel. Est.	Proj.	
GDP in constant prices (annual percent change)	6.7	0.1	6.0	5.8	6.5
(Excluding agriculture)	7.0	-1.8	6.7	7.6	6.2
Inflation (end-year)	12.5	5.3	3.1	6.1	4.1
(Annual average)	25.0	-0.7	4.0	5.6	4.3
Saving and investment balance (in percent of GDP)					
Gross national saving	15.0	12.5	14.4	13.5	13.9
Gross fixed investment	19.5	16.0	18.5	23.0	24.0
Money and credit (annual percent change)					
Broad money	4.8	36.8	20.0	23.0	…
Private sector credit	55.0	6.5	26.6	33.0	…
Public finance (in percent of GDP)					
Revenue	15.9	15.8	17.0	15.6	15.6
Expenditure	15.7	20.0	20.0	18.4	18.7
Net lending (+)/borrowing(-)	0.2	-4.2	-3.0	-2.8	-3.0
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	3,493	2,996	3,884	4,803	5,251
Imports, f.o.b. 1/	-5,076	-4,484	-5,515	-6,919	-7,463
Current account (including official transfers)	-468	-360	-458	-1,216	-1,428
(In percent of GDP)	-4.5	-3.5	-4.1	-9.5	-10.1
Gross official reserves 2/	2,164	2,367	2,653	3,080	3,449
(In months of prospective imports)	4.8	4.4	4.0	4.3	4.4
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 3/	2,776	2,946	3,206	3,611	3,992
(In percent of GDP)	27.0	28.5	27.6	28.1	28.1
Memorandum items:					
Nominal GDP (in billions of riels)	41,968	43,108	47,102	51,867	57,370
(In millions of U.S. dollars)	10,352	10,414	11,255	…	…
Exchange rate (riels per dollar; period average)	4,054	4,139	4,185	…	…

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.

2/ 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.

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