INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/307

CAMBODIA

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMBODIA

November 2015

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 2015 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 26, 2015 consideration of the staff report that concluded the Article IV consultation with Cambodia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 26, 2015, following discussions that ended on July 3, 2015, with the officials of Cambodia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 1, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Cambodia.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 15/518
FOR IMMEDIATE RELEASE
November 16, 2015

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

IMF Executive Board Concludes Article IV Consultation with Cambodia

On October 26, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia.

Cambodia's economic growth has been one of the fastest among Asia's developing economies in recent years. It averaged 7.0 percent in the last five years driven by robust garments exports, real estate, and construction. Economic activity remained strong with growth rate at 7 percent in 2014, notwithstanding appreciation of the real effective exchange rate following U.S. dollar strengthening and growing competition from other low-cost garment producers. Inflation fell in 2014 and through 2015 owing to strong external disinflationary pressures from lower food and oil prices.

The current account deficit (CAD) is estimated at around 12 percent of GDP in 2014, and is largely financed by FDI and official loans. Gross official reserves increased to US$4.7 billion by end-August 2015, nearly 4 months of prospective imports. The fiscal deficit narrowed in 2014 to 1.3 percent of GDP from 2.1 percent in 2013, supported by stronger revenues owing to improved enforcement in tax and customs administration as well as higher-than-planned grants.

Private sector credit has grown by nearly 30 percent (year-on-year) on average in the past three years, and rose to about 33 percent by the second quarter of 2015. The credit-to-GDP ratio doubled over this period to over 50 percent and the loan-to-deposit ratio reached over 100 percent in early 2015. This reflects new foreign bank entry, increased foreign funding of domestic banks and buoyant domestic activity. There is also evidence of increasing credit concentration in the real estate and construction sectors. The National Bank of Cambodia raised the reserve requirements in September 2012 by 0.5 percentage points to 12.5 percent and expanded reserve requirements to banks' foreign borrowings in March 2015.

[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.

The short-term outlook remains broadly favorable. Growth is projected to remain robust at 7 percent in 2015, while inflation is projected to rise gradually to about 2 percent by end-2015. The CAD is projected to narrow to around 11 percent in 2015 due to lower oil prices and some diversification in the exports industry. The fiscal deficit is projected to rise modestly to 2 percent in 2015 (below the budget, which targets a deficit of 4.2 percent) as a result of strong measures to improve revenue administration. However, the spending mix is deteriorating due a higher wage bill, while capital spending declined.

This outlook is subject to substantial downside risks, both domestic and external. Domestic risks include rising financial sector vulnerabilities stemming from rapid credit growth; fiscal pressures and erosion of competitiveness from wage increases and the uncertainty related to wage policy and labor disputes. External risks arise from a stronger U.S. dollar, growth slowdown in Europe constraining garments exports and weaker-than-expected growth in China having negative spillovers through the foreign direct investment, banking and tourism channels.

Executive Board Assessment[2]

Executive Directors welcomed Cambodia's robust economic performance, the noteworthy progress made in achieving the Millennium Development Goals, and the ongoing transition to lower middle-income country status. They saw Cambodia as being well placed to take advantage of the transformation of regional trade patterns to expand and diversify its export base and further integrate into global supply chains. At the same time, Directors noted that domestic risks and the evolving external environment underscore the need to act decisively to address financial sector vulnerabilities, safeguard policy buffers, and foster economic diversification.

Directors commended the authorities for the improvements in tax administration, as a result of adoption of the Revenue Mobilization Strategy, which have led to a large increase in revenues and the replenishment of government deposits. They emphasized that going forward continued efforts to mobilize higher revenues will be needed to create fiscal space for social spending and capital expenditure. They also recommended that future increases in public wages should be contingent on fiscal performance and be accompanied by civil service reforms. Directors emphasized that continuing to reform public financial management will be important to ensure spending effectiveness and enhance budget transparency, and underscored the need to continue to improve the monitoring of risks from contingent liabilities.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors advocated a pro-active approach to manage and mitigate risks to financial stability while still protecting growth. They welcomed the recent expansion in the coverage of reserve requirements to include banks' foreign borrowing, but saw a need for additional measures. Directors recommended raising reserve requirements and putting in place well-designed macroprudential measures to moderate the pace of credit growth and guard against excessive risk taking. They also considered that prudential regulations on large deposit-taking micro-finance institutions should be upgraded and aligned with those of banks, and that efforts should be made to better monitor developments in the real estate and construction sectors.

Directors welcomed the introduction of negotiable certificates of deposit and the increased activity in this market. They saw further progress in developing an interbank market as important for laying the groundwork for a more effective monetary framework, promoting de-dollarization and supporting a more flexible exchange rate policy over time.

Directors noted continued progress in implementing the 2010 FSAP recommendations, and encouraged the authorities to expedite the pace of implementation. They recommended, in particular, further efforts to strengthen the crisis management framework and the supervisory capacity of the National Bank of Cambodia, as well as considering a moratorium on offering new bank licenses until supervisory capacity improves.

Directors encouraged the authorities to continue their efforts to promote economic diversification and inclusive growth. Efforts to improve competitiveness should focus on upgrading infrastructure and boosting rural access, strengthening human capital, and improving the investment climate by reducing the overall cost of doing business.

Cambodia: Selected Economic Indicators, 2011–16

	2011	2012	2013	2014	2015	2016
				Est.	Proj.	
GDP in constant prices (annual percent change)	7.1	7.3	7.4	7.0	7.0	7.2
(Excluding agriculture)	8.6	8.4	9.4	9.2	8.6	8.4
Inflation (end-year)	4.9	2.5	4.7	1.0	1.9	2.8
(Annual average)	5.5	2.9	3.0	3.9	1.1	1.8
Saving and investment balance (in percent of GDP)						
Gross national saving	11.8	12.5	11.3	11.0	11.4	12.1
Gross fixed investment	22.0	23.5	23.5	23.2	22.5	22.7
Private investment 1/						
Money and credit (annual percent change)						
Broad money	21.4	20.9	14.6	29.9	23.9	23.1
Private sector credit	31.2	28.0	26.7	31.3	30.2	34.0
Public finance (in percent of GDP)						
Revenue	15.6	16.9	18.4	19.8	19.4	19.4
Expenditure	19.7	20.7	20.5	21.2	21.4	22.0
Net lending (+)/borrowing(-)	-4.1	-3.8	-2.1	-1.3	-2.0	-2.6
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	5,035	5,633	6,530	7,408	8,212	9,116
Imports, f.o.b. 1/	-7,730	-8,600	-9,744	-10,991	-11,869	-12,796
Current account (including official transfers)	-1,303	-1,547	-1,880	-2,027	-1,971	-2,031
(In percent of GDP)	-10.2	-11.0	-12.2	-12.2	-11.1	-10.6
Gross official reserves 2/	3,032	3,463	3,642	4,391	4,979	5,494
(In months of prospective imports)	3.6	3.6	3.4	3.8	4.0	4.0
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt 3/	3,833	4,474	5,037	5,483	5,949	6,400
(In percent of GDP)	29.7	31.5	32.5	33.4	33.9	33.6
Memorandum items:						
Nominal GDP (in billions of riels)	52,069	56,682	61,866	66,825	72,767	80,044
(In millions of U.S. dollars)	12,818	14,057	15,362	16,551	…	…
Exchange rate (riels per dollar; period average)	4,062	4,032	4,027	4,038	…	…

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

1/ From 2011, includes large 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.

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

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

October 1, 2015

KEY ISSUES

Context. Economic activity remained strong driven by garments exports, real estate, and construction. Inflation decelerated strongly in late 2014 due to the sharp decline in oil prices and REER appreciation. While the outlook remains broadly positive, it is subject to substantial domestic risks as a result of rapid credit growth. External risks include weaker-than-expected growth in the EU and China and continued appreciation of the U.S. dollar.

Safeguarding macro and financial stability. Rapid credit growth, increasingly financed by bank flows from abroad, and with greater exposure to the real estate and construction sectors, poses significant macro financial risks. Raising reserve requirements and introducing well-designed macroprudential policies would help to moderate the pace of credit growth. Better monitoring of real estate developments is needed to contain risks. Further strengthening banking supervision and the regulatory framework, and completing a broader crisis management framework would support macro-financial stability.

Securing a strong fiscal buffer while meeting development needs. Deficits have been reduced on strong revenue performance. Continued fiscal consolidation is necessary to maintain adequate government deposits in view of spending pressures from a higher wage bill and an expected fall in official assistance. Steadfast implementation of the Revenue Mobilization Strategy is needed to safeguard fiscal space, and provide resources for development. Future public wage increases should be contingent on fiscal performance, and be accompanied by broad civil service reform.

Promoting competitiveness, diversification, and inclusiveness. The changing patterns of China's trade and further regional integration through the ASEAN Economic Community provide opportunities for economic diversification. Greater investment in human capital and improving the business climate will help sustain robust growth and enhance competitiveness, foster economic diversification, and inclusiveness.

Approved By
Markus Rodlauer and Masato Miyazaki

Discussions took place during June 22–July 3, 2015. The staff team comprised S. Jain-Chandra (Head), Y. Zhou, A. Dizioli, S. Rafiq, M. Ishiguro (all APD), and F. Ahmed (Resident Representative). Ms. P. Tangcharoenmongkong and Mr. S. Chea (OED) joined the concluding meetings. Ms. R. Sirihorachai and Ms. Y. Deng assisted in this report's preparation.

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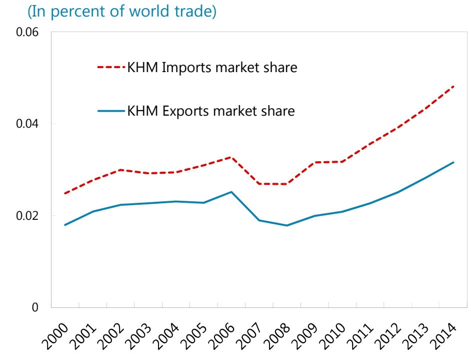
CONTEXT

1. Context. After a year-long political deadlock following the 2013 elections, the opposition joined the National Assembly in July 2014. Labor tensions eased following the 2014 minimum wage increase, which was negotiated between the government, factory owners and unions. Over the last two decades, Cambodia grew rapidly (on average 7.7 percent and sixth fastest in the world) and its integration with the global economy soared, substantially reducing poverty and inequality. It is poised to become a lower middle-income country next year. Looking ahead, further regional integration through the ASEAN Economic Community (AEC) and Cambodia's strategic location close to fast-growing major economies can provide tailwinds as Asia rebalances, regional wages rise, and production networks further integrate. However, to capitalize on these opportunities and achieve sustainable and inclusive growth, wide-ranging reforms need to be undertaken and vulnerabilities addressed.

Cambodia Market Share
(In percent of world trade)

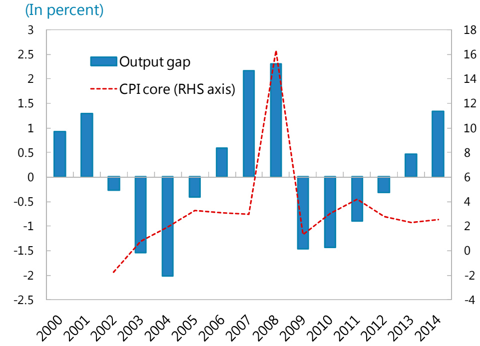


2. Past Fund advice. Policies are broadly in line with past Fund advice, but further reforms are needed to ensure macro-financial stability. The authorities are implementing the Revenue Mobilization Strategy (RMS), improving revenue collection, and strengthening public financial management. They introduced Negotiable Certificate Deposits (NCDs) to develop the interbank market and expanded reserve requirements to banks' foreign borrowing to contain credit growth. They have agreed on a Memorandum of Understanding (MoU) to establish a crisis management framework. As explained in this report, going forward, continuing efforts are needed to contain macro-financial risks to preserve financial stability, continue fiscal consolidation to secure a strong fiscal buffer, and promote competitiveness and inclusiveness.

DEVELOPMENTS, OUTLOOK, AND RISKS

3. Growth. Despite recent moderation, economic activity remained strong driven by garments exports, real estate, and construction. GDP growth is estimated at 7 percent in 2014. Notwithstanding labor tensions, appreciation of the real effective exchange rate (REER) following U.S. dollar strengthening, and growing competition from other low-cost producers, garment exports grew by 10.5 percent (y/y) in 2014, supported by preferential access to the EU. In 2015, while garment exports and tourism growth are projected to moderate

Output Gap and Core CPI
(In percent)

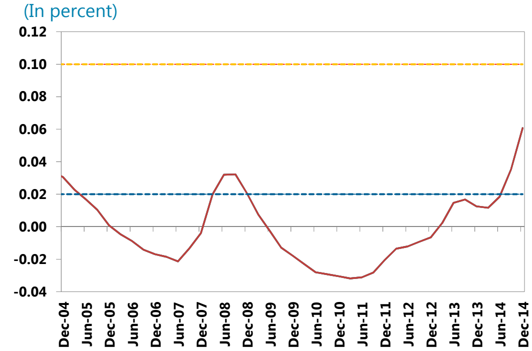


in line with weaker EU growth and further REER appreciation, robust real estate and construction activity, as well the reduction in oil prices, are projected to support growth.[1] Overall, growth is projected to remain steady at 7 percent in 2015 and rise modestly to 7.2 percent in 2016. Maintaining robust and sustainable growth over the medium term requires continued improvements in the business climate, infrastructure, and human capital.

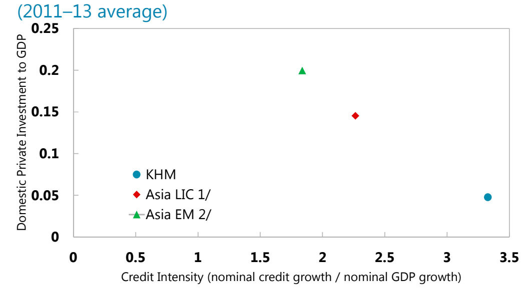
4. Inflation and output gap. While inflation decelerated strongly in the last few months of 2014 due to the sharp oil price decline and REER appreciation, average headline inflation in 2014 was 3.9 percent, about 1 percent higher than in 2013. The modest positive output gap (estimated at 0.7 percent) would have led to higher inflation in 2014 had external disinflationary pressures not been so strong.[2] Strong disinflation continued in the first half of 2015, with inflation falling to 1 percent in May. For the rest of the year, inflation is projected to rise gradually to around 2 percent by end-2015, reflecting the recovery in food prices and stabilization of global energy prices.

5. Credit developments. Rapid credit growth, which accelerated to 31 percent (y/y) by end-2014 (and remained on average around 33 percent in 2015 Q2), is posing an increasing risk. The credit-to-GDP ratio has doubled in three years to over 50 percent, exceeding the median emerging market (EM) and double the low-income country (LIC) levels. The speed of financial deepening has been striking, with credit growing much more rapidly than in peer Asian economies during their take-off. The loan-to-deposit (LTD) ratio breached 100 in February 2015.[3] This reflects both supply and demand factors:

Credit-to-GDP Gap, 2004-14
(In percent)

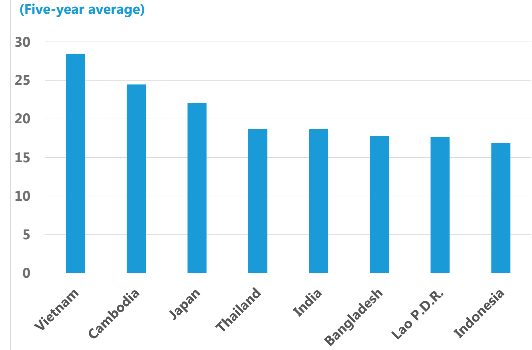


Credit Intensity and Domestic Private Investment
(2011–13 average)



Sources: Data from Cambodian authorities; and IMF staff caluclation.
1/ Include Bangladesh, Myanmar, Mongolia, Sri Lanka, and Vietnam.
2/ Include India, Indonesia, Malaysia, Philippines, and Thailand.

Credit Growth in Similar GDP per Capita (PPP) Levels
(Five-year average)



[1] Staff estimates show that lower oil prices would boost growth (by 0.3–0.7 percent) in 2015, improve the current account balance, and lower inflation. Most of the oil market is controlled by private companies. There is evidence of limited pass-through of international prices to domestic prices; therefore most of the windfall will be saved as higher profits.

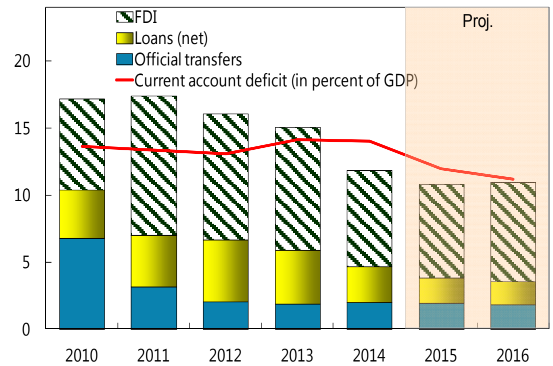
[2] Staff's calculation of a real-time coincident index based by pooling together high-frequency (monthly) economic indicators including imports, exports, and private sector credit, implies economic activity has been growing slightly above trend by about 0.5–1.0 percent.

[3] The average LTD ratio masks the distribution of risks: a number of banks have LTDs much higher than 100 percent. LTD ratios are significantly higher in microfinance institutions that collect deposits but rely heavily on external financing, with an average of 193 percent in 2014.

accommodative monetary policy, new foreign bank entry, and buoyant domestic activity. Real estate-related lending grew by 53 percent (y/y) on average in 2015 Q2, while real estate prices rose on average 10–20 percent y/y in 2014. Credit growth is projected to be around 30-34 percent in 2015–16, and the credit-to-GDP gap is expected to exceed 10 percent by early 2017.[4] Cambodia's GDP growth has been one of the most credit-intensive, however, it has not been accompanied by an increase in private investment.

6. External stability. The current account deficit (CAD) is estimated at around 12 percent of GDP in 2014, and largely financed by FDI and official loans. Moderating garment exports and tourism growth were offset by lower power projects-related imports. The CAD is projected to narrow to around 11 percent in 2015, primarily due to the fall in oil prices. The CAD is forecast to decline to 6.3 percent of GDP by 2020, as major power projects are completed and exports grow with some product diversification amid AEC integration. Gross official reserves increased to US$4.7 billion by end-August 2015, nearly 4 months of prospective imports. Even though reserves appear adequate according to traditional metrics, in light of high dollarization and financial fragilities, analysis customized to dollarized economies suggests that there are benefits to building additional reserves (Box 1). As of August 2015, the REER appreciated by 8 percent compared to a year ago and is estimated to be broadly aligned with fundamentals. While exchange rate targeting has supported price stability by providing a credible nominal anchor, further strengthening of the U.S. dollar, as well as higher wage pressures, may weigh on Cambodia's competitiveness.

Current Account Deficit and Financing Flows, 2010–16
(In percent of GDP)



1/ Current account balance excluding official transfers.

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[4] BIS analysis suggests that credit-to-GDP gap of 10 percent or more above trend indicates a high probability of serious banking strains in the following 2–3 years (Basel Committee on Banking Supervision 2010, Drehmann and others, 2010, etc.).

Box 1. Cambodia: External Sector Assessment[1]

The external position is relatively strong with the current account deficit predominantly financed by stable FDI and official inflows. The REER is estimated to be broadly in line with fundamentals. In view of high dollarization and financial fragilities, staff assesses that there is room to build additional reserves to increase resilience.

BOP Developments. The overall balance of payments (BOP) has averaged an annual surplus of 2.5 percent of GDP from 2004 to 2014. A widening current account deficit since 2011 corresponds to large FDI inflows to finance the construction of large power generation projects. Developments with the capital and financial account were dominated by the increase in direct investment from an average of 6½ percent of GDP for 2008–10 to 11¼ percent for 2011–13. While the surge in direct investment may not be maintained, imports would likely drop in line with the completion of the power projects.

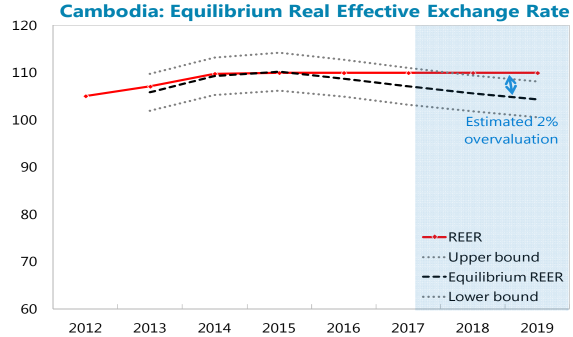
Exchange Rate Assessment

	Macroeconomic Balance	Equilibrium REER approach
Underlying current account balance (CA)	-9.9	...
Current account norm	-7.0	...
Required improvements in CA	2.9	...
Implied over(+)/under(-) valuation	6.7	2.0

Source: IMF staff estimates.
1/ NFA norm of -86 percent of GDP.

Exchange Rate Assessment. The results of the Fund's pilot External Balance Assessment (EBA-lite) exercise indicate a 6 percent overvaluation in the REER, which means that 6 percent depreciation would be necessary to close the gap between the underlying current account and the level consistent with fundamentals and desirable policies. The equilibrium REER approach indicates an overvaluation of 2 percent, following a 10 percent appreciation during 2010–14. These results have to be interpreted with caution given weak data, rapid structural change, and a high degree of dollarization. Taken together, the REER is assessed to be broadly in line with fundamentals. Nevertheless, in view of continued REER appreciation, efforts to improve the business climate should be accelerated to boost competitiveness (see section C for discussion of policy recommendations).

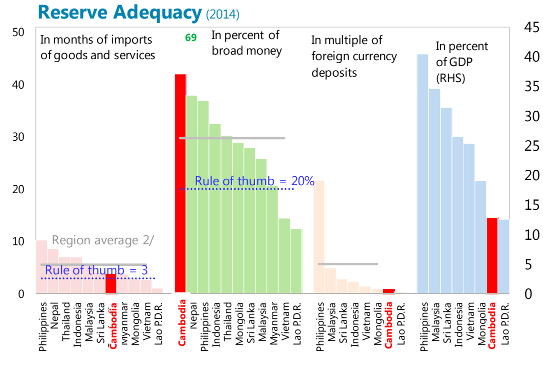
Cambodia: Equilibrium Real Effective Exchange Rate



Sources: IMF staff estimates.

Reserve Adequacy. Reserve coverage, in terms of FX deposits, has been declining. Measured against several traditional metrics, such as import reserve coverage, reserves as a percentage of broad money, Cambodia's gross international reserves (at 4 months of imports at end-2014) could be considered adequate, particularly given the long-term nature of most of Cambodia's external debt. Reserves are 10 percent higher than the 150 percent threshold of the IMF's EM ARA metric, which uses a customized risk-weighted approach and reflects the relative risk levels of different potential sources of balance of payments pressures.[2] However, these metrics do not take account of high dollarization and financial fragilities when assessing reserve adequacy. Thus, staff customized the Jeanne and Ranciere (2006) model to incorporate these features.[3] The results suggest that current reserve coverage might not be adequate. According to this model, the optimal level of reserves ranges from 27 to 30 percent of GDP, which is equivalent to additional reserves of US$200 to US$500 million. Moreover, the high level of foreign currency deposits, at more than 1½ times of gross official reserves, seriously limits the central bank's lender of last resort capacity, and is lower than regional comparators. Therefore, a higher level of reserves—than that suggested by the traditional reserve adequacy metrics—may be warranted.

Reserve Adequacy (2014)



Sources: IMF staff calculations.

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[1] Prepared by Allan Dizioli.

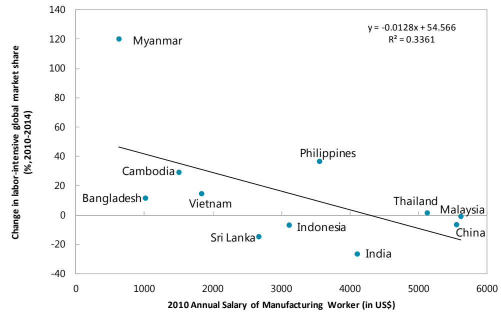
[2] For a comprehensive description of methodology and applications for LICs and EMs see "Assessing Reserve Adequacy, Specific Proposals," IMF 2015.

[3] Jeanne, Olivier, and Romain Ranciere (2006), "The Optimal Level of International Reserves in Emerging Market Countries: Formulas and Applications," IMF Working Paper 06/229 (Washington: International Monetary Fund).

7. Risks, spillovers, and policy response. The outlook is broadly positive but subject to substantial downside risks.

- *Domestic risks.* The main risk reflects the rising financial sector vulnerabilities from rapid credit growth. Other domestic risks include fiscal pressures and erosion of competitiveness from wage increases potentially outstripping revenues and productivity improvements. The uncertainty related to wage policy and labor disputes could disrupt garment production and weigh on investor sentiment.

Wage and Changes in Global Market Share: labor-intensive



- *External risks* stem from a stronger U.S. dollar and/or a protracted growth slowdown in Europe constraining garments exports, amid stiff competition from other low-cost producers and wage pressures. Weaker-than-expected growth in China would also have spillovers through the FDI, banking and tourism channels (Risk Assessment Matrix and Box 2). If financial market stress re-emerges across the Euro area due to the Greece crisis, it would affect Cambodia through the FDI, trade, tourism, and banking channels via its impact on its Asian neighbors. Specifically, funding costs for Cambodian banks and microfinance institutions (MFIs), which rely increasingly on external funding, would increase leading to liquidity pressures and a credit crunch.

- *Policy response*. The room for policies to support growth in the face of large external shocks is limited, in view of high dollarization and a lack of monetary control, as well as insufficient fiscal space over the medium term. Efforts to build policy buffers and resilience should be stepped up preemptively. Should downside risks materialize in the near term and prove not to be short-lived (e.g., prolonged slowdown in the EU), efforts to diversify the economy should be expedited. Given the indexation of wages to the U.S. dollar and dollarized balance sheets, exchange rate flexibility may not provide a boost to the CA balance in the near term. In case of limited financial instability, liquidity buffers should be utilized. However, in the event of severe financial stress, a more comprehensive approach will be required, underscoring the importance of preemptively strengthening the crisis management framework.

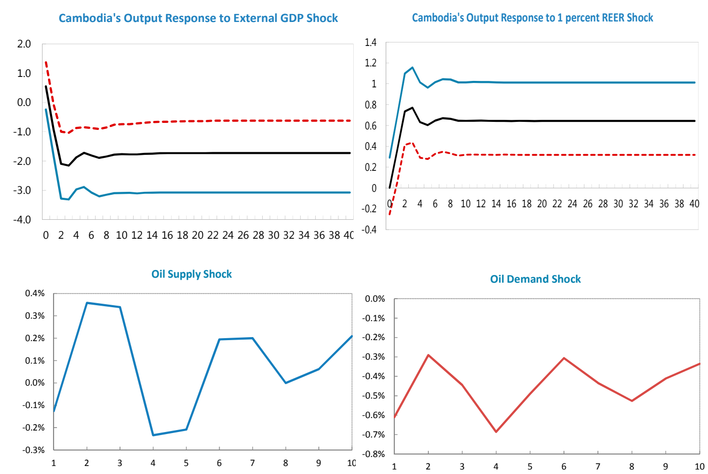
8. Authorities' views. There was broad agreement between staff and the authorities on the macroeconomic outlook and risks. The authorities have a similar assessment of the impact of recent oil price developments on the current account, and project a slowdown in exports for this year. They showed concerns regarding spillovers from Greece and EU growth on garment exports. They also noted risks related to the expected US interest rate hike. On the external sector assessment, while agreeing with staff on the medium-term assessment, authorities were more optimistic about the prospects for FDI this year.

Box 2. Cambodia: Analysis of External Spillovers into Cambodia[1]

Given its high degree of openness, Cambodia is particularly vulnerable to spillover effects from its major partners.[2] Cambodia receives large inflows of external income (official transfers, grants and FDI) that amounted to 22 percent of GDP in 2014. It is strategically located near some of the fastest growing economies in the world, and has close links through FDI, trade, tourism and banking channels. China, United States, Hong Kong SAR, the EU, and Thailand together correspond to almost half of all the external transfers received, over 65 percent of all trade, and about a quarter of all tourist arrivals in the country.

A long-run structural macro-econometric model was developed to evaluate the nature and strength of linkages with top trading partners, and to quantify inward spillovers of external shocks. Using quarterly data between 1996Q1 and 2013Q1 on core macroeconomic variables, we estimated a VARX* model.[3] Two long-run relationships were identified: 1) an augmented output equation, which postulates a relationship between domestic output, partners' GDP, the REER and external income; 2) an equation linking partner and domestic inflation rates.

The empirical results highlight the vulnerability of the Cambodian economy to external shocks. A negative shock of one percent to partner's GDP growth results in significant output losses in Cambodia, corresponding to around 1.3 percent after one year. A 1 percent negative output shock in China and the United States is associated with an output loss of 0.5 percent in Cambodia after one year, and the same shock to the EU corresponds to an output decline of 0.3 percent. It causes a decline in inflation as the foreign output gap widens and causes REER depreciation.



Empirical results also show the limited impact of the exchange rate in Cambodia. As expected by high dollarization, the long-run exchange rate growth elasticity is relatively low. A one-percent REER depreciation leads to about 0.3 percent increase in output growth, and the impact on inflation is only 0.2 percent and is not significant.

The reduction in oil prices can boost growth in the near term. Following Kilian (2009), a structural VAR model was estimated to disentangle the impact of oil supply and demand shocks to real GDP in Cambodia.[4] Using this estimation and the decomposition of the recent oil price shock in WEO (2015), the impact on Cambodia's GDP is estimated to be 0.7 percent of GDP if the pass-through of international oil prices to domestic prices is unchanged.[5]

Finally, this model also shows that external transfers have substantially driven Cambodia's growth in the past. Cambodia will face challenges after it graduates from low-income status and grants start to decline. In this context, structural reforms to increase potential growth will become even more important in the medium-term.

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[1] Prepared by Allan Dizioli.

[2] Cambodia's exports and imports are equivalent to 113 percent of GDP.

[3] The model has the following variables: real GDP, inflation, real exchange rate, external transfers, real GDP of partners and partner's CPI inflation. Annual data were linearly interpolated backward when quarterly observations were missing.

[4] Kilian, Lutz 2009, "Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market," American Economic Review 2009, 99:3, 1053–1069.

[5] International Monetary Fund, 2015, *World Economic Outlook*, chapter 1. (Washington: International Monetary Fund).

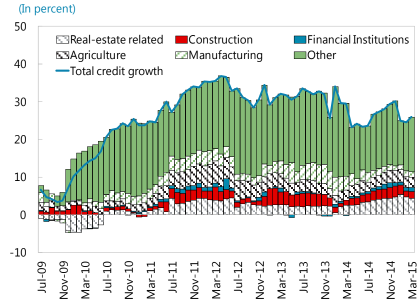
POLICY DISCUSSIONS

Discussions focused on containing macro financial risks and preserving financial sector stability; continued fiscal consolidation to rebuild and secure fiscal buffers; and policies to promote competitiveness and inclusive growth.

A. Safeguarding Macro-Financial Stability and Fostering Market Development

9. Developments. Credit growth has been rapid, broad-based (across domestic and foreign banks as well as MFIs) and accompanied by a real estate boom. This has contributed to growing financial stability risks, rendering economic growth more vulnerable.[5, 6] Already-high dollarization has increased, with the ratio of foreign currency deposits to broad money rising from 79 percent in 2008 to 83 percent in 2014. The coverage of foreign currency deposits by foreign exchange reserves has steadily fallen, further limiting the NBC's lender-of-last resort capacity. Rapid credit growth is increasingly being financed by foreign funding amid ample global liquidity (with the share of foreign funding in total FX funding doubling from 10 percent in 2008–11 to 20 percent by 2012–14). Micro-finance institutions (MFIs) are now playing a systemic role, with credit stock and flows from MFIs at 20 and 25 percent, respectively, of those in the banking system. On average, deposit-taking MFIs exhibit LTD ratios of more than 200 percent, and are predominantly funded through foreign borrowing.

Contribution to Credit growth
(In percent)



10. Past policy measures. Past monetary tightening (increase of reserve requirements (RR) by 50 basis points to 12½ percent in September 2012) did not dent credit growth momentum amid excess liquidity, strong deposit growth, reliance on foreign funding and the entry of new banks.[7] In August 2013, in line with past recommendations, the NBC issued NCDs, both in U.S. dollars and Khmer riel (KHR), to help develop the interbank market. After a slow start, in recent months, the primary NCD market has gained momentum and is expected to support banks' liquidity management and lay the groundwork for market-based monetary policy operations.[8] The expansion of reserve requirements to banks' foreign borrowing was instituted in March 2015, in line with previous Fund recommendations.

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[5] Construction and real estate-related lending constitute around 19 percent of total credit stock and grew by 44 percent (y/y) on average by 2015 Q2.

[6] Residential real estate prices in prime locations have increased by over 30 percent and commercial prices by over 20 percent (y/y) in December 2014. Loan-to-value ratios are reported to trend upward of 70–80 percent.

[7] RR for KHR is 8 percent, while RR for dollars and foreign borrowings are 12.5 percent.

[8] After NBC's policy change in pricing structure, the role of NCDs as liquidity absorbing instruments for the NBC has improved. The volume of outstanding NCDs has increased from US$2 million in November 2013 to over US$100 million in February (10 percent of fixed deposits) in 2015. NCDs are also an important step in fostering the emergence of a formal secured interbank market. Additionally they provide a simple and transparent form of collateral for use in the overdraft facility.

11. Supervision and regulation. Although core financial soundness indicators (FSIs) appear healthy, there is a trend decline in capital. Supervisory capacity remains heavily stretched given rapid growth of the financial system and large number of banks and MFIs. The NBC has been working on shifting to risk-based supervision consistent with FSAP recommendations and is also revising the current Liquidity Ratio in line with recent Fund technical assistance (TA) and previous Article IV recommendations.[9] To strengthen the crisis management framework, a Memorandum of Understanding (MoU) on establishing information sharing was signed with the MEF, the NBC and Securities Exchange Commission of Cambodia (SECC) in July 2014. The next step is to improve the quality of information, make progress on forming technical teams, and to provide robust resolution powers. While the NBC's current focus on liquidity risk and broader crisis management seems appropriate, with growing financial stability risks, the NBC should accelerate efforts to implement other FSAP recommendations (Table 8). These include strengthening supervision and upgrading regulation of the non-bank financial sector.

Selected Financial Soundness Indicators (FSIs), 2011–14

(In percent)

	2011	2012	2013	2014
Capital Adequacy				
Regulatory capital to risk-weighted assets	26.23	25.00	24.84	21.49
Asset Quality				
Nonperforming loans to total gross loans	2.13	2.01	2.27	1.84
Earnings and Profitability				
Return on equity 1/	9.74	10.25	8.80	9.89
Return on assets 1/	1.76	1.72	1.78	1.82
Interest margin to gross income	64.27	66.65	69.03	69.70
Liquidity				
Liquid assets to total assets	16.16	15.37	17.89	17.38
Liquid assets to short-term liabilities	22.96	21.21	25.46	24.55

Source: National Bank of Cambodia.

1/ Annualized.

12. Growing financial stability risks. The priority is to address growing financial stability risks by stabilizing and moderating the pace of credit growth to more reasonable levels, while closely monitoring the effect on growth. LTDs in banks have risen indicating a heavier reliance on noncore funding, with 20 banks having LTD ratios over 100 and 12 banks with LTD ratios over 200 percent. The rise in noncore liabilities reflects the increased reliance on short-term external borrowing, raising liquidity risks. In the event of a spike in global financial market volatility, a reversal of foreign funding could lead to tightening of domestic liquidity conditions, leading to potential liquidity stress and a credit crunch, with adverse spillovers to real economic activity. Furthermore, some MFIs are now larger than some mid-sized commercial banks, and competing with banks while being subject to looser regulation. Real estate developers are also reportedly offering loans to buyers and are financed by foreign funding, while not being subject to stringent regulatory and supervisory oversight. Credit is increasingly being channeled to the real estate sector, which is exhibiting pockets of vulnerability.

[9] Under the current LR, banks can satisfy the minimum LR requirement of 50 percent but have a shortfall of maturing assets over maturing liabilities in the next 30 days. Although a large portion of banks' balance sheet are invested in liquid assets, they may face a short-term liquidity risks. The NBC is working on upgrading regulations on Liquid Asset Ratio (LAR) and Liquidity Risk Management (expected to be implemented by early next year). The LAR encourages banks to hold a prudent amount of liquid assets to cover expected net cash outflows over a 30-day period and to better monitor true liquidity conditions.

13. Policy recommendations. The following policy measures would mitigate financial stability risks and foster market development:

- Monetary policy needs to be tightened in view of the positive output gap and rising financial stability concerns. Specifically, RR should be raised substantially to moderate the pace of credit growth and to curb aggregate demand.

- Given the growing systemic relevance of large MFIs, and to prevent regulatory arbitrage, prudential regulations should be upgraded/tightened to match those of banks.[10] Specifically, RR should also be expanded to include foreign funding of deposit-taking MFIs. Real estate developers, often providing supplier's credit and increasingly funded by foreign flows, should be brought under strict regulatory and supervisory control.

- To contain systemic risk, well-designed macroprudential tools should be introduced (Box 3). Fragility from high LTDs needs to be managed by a phased introduction (and tightening) of LTD limits. In order to enhance resilience and build buffers, imposing countercyclical capital requirements would be a good option. Given the growing exposure to real estate, higher capital requirements and risk weights linked to real estate, as well as sectoral concentration limits, are possible policy measures. Better monitoring of developments in the real estate sector is warranted, including by enhancing data collection on real estate sales and prices as well as construction activity. Limits on loan-to-value ratios could be imposed once sufficient progress is made on improving data availability.

- Enhancing the prompt corrective action framework, as well as instituting a broader crisis management framework, should be expedited to mitigate vulnerabilities. Building on the MoU, the crisis management framework should provide a sound institutional arrangement with explicit inter-agency coordination mechanisms, including the exchange of information, and improve inadequate resolution powers.

- In light of the rapid expansion of the banking system and the move to risk-based supervision, supervisory capacity remains stretched, especially in light of emerging risks. In view of this, the 2010 FSAP recommendation to impose a moratorium on offering new bank licenses remains valid. Also, in light of growing financial stability risks, the implementation of other FSAP recommendations should be expedited.

- To continue improving liquidity management, the NBC could offer shorter-term liquidity absorption facilities as well as increasing the usage of NCDs by improving their attractiveness through better pricing (as outlined in recent Fund TA). The progress of interbank market development needs to be properly managed and monitored since it may further increase risk of contagion, especially for banks that rely on short-term borrowing. Progress on upgrading the liquidity ratio to cover only truly usable liquid assets should continue.

[10] Currently, MFIs have lower RR requirement on deposits (8.5 percent) and can borrow externally without being subjected to RR.

Box 3. Cambodia: Supporting Macro-Financial Stability with Macroprudential Policies[1]

Well-designed macroprudential measures, along with risk-based supervision and enhanced micro-prudential policies are needed to moderate the ongoing risk buildup. Given the already-stretched supervisory capacity and limited data availability, measures should be well-tailored and implementation requirements need to be manageable.[2]

First, banks should be encouraged to be more reliant on internal sources of funding to reduce risks. Stable funding requirements, such as Loan to Deposit (LTD) ratio, ensure that banks hold stable liabilities to fund their assets. LTD ratio limits can also serve as a brake on excessive credit growth. Although there are no easy rules of thumb and large presence of foreign banks makes Cambodia unique among peers, the current LTD ratio in Cambodia far exceeds the level commonly observed in LICs and EMs (80 percent, IMF 2014). This highlights the need for tightening LTD ratios, especially for banks above a certain threshold.[3] Tightening requires gradual phase-in to take into account adjustment costs for financial institutions.

Second, enhancing resilience of the banking system would help minimize impact of systemic risk. Imposing a countercyclical capital buffer (CCB) would be an option. Although most banks have considerably higher capital than global standards, a widening credit-to GDP gap combined with the fact that the credit-to-GDP ratio is high compared with peers indicates that the CCB would help mitigate vulnerabilities.[4] The current practice that supervisors can advise banks to hold additional capital could help in the transition to the CCB.

Third, measures should be considered to limit banks' growing exposure to the booming real estate market and to ensure sound underwriting standards. The NBC could increase the risk weights associated with real estate lending. Although price-based limits are preferable to quantitative limits to minimize distortions, sectoral concentration limits can be useful in reducing credit supply and building banks' resilience by diversifying loan portfolios.[5, 6] Other measures that could be considered, include sectoral loan-to-value (LTV) limits and debt to income ratio (DTI). These can address the demand for credit and complement capital tools especially when a real estate boom accompanies a broader credit boom. However, without official housing prices and real-estate-related data, the priority is to accelerate improvements in data availability and data quality for successful implementation.

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[1] Prepared by Mari Ishiguro.

[2] Although recommendations contained in this box focus on the banking system, the microfinance sector needs to be included in the application of macroprudential measures in order to mitigate systemic risk. Data collection on and basic oversight of microfinance institutions will be an important first step.

[3] Among 35 commercial banks, 21 banks have LTD ratio above 100 and 12 banks have LTD ratio above 200 percent.

[4] Minimum capital requirement in Cambodia is 15 percent but most banks hold around 20 percent.

[5] Cambodia had imposed a lending cap on the property sector to 15 percent of banks' total loan portfolios in 2008.

[6] Regional countries experiences include: China put caps on overall credit growth for major banks. Hong Kong has introduced ceiling on the growth of mortgage lending set at 15 percent per annum in 1994 and banks' exposure to property limited to 40 percent. Malaysia introduced a limit on property lending equal to 20 percent of a bank's portfolio in 1997. Singapore has introduced caps on banks' loan exposures to the property sector at 35 percent of total non-bank exposure in 2009.

- Policies to reduce high dollarization include: (i) ensuring macroeconomic stability through prudent fiscal, monetary, and structural policies; (ii) further developing the NBC's ability to forecast and target short-term liquidity; (iii) introducing deposit insurance for local currency deposits; (iv) maintaining adequate international reserves; (v) market-based measures to promote the riel (e.g., lower-cost and convenient services for riel use, larger spread between foreign currency and riel RR).

- The stable exchange rate against the U.S. dollar continues to serve as an important nominal anchor, given limited monetary control.[11] Going forward, the development of money and foreign exchange markets is needed to promote de-dollarization and allow for the implementation of an effective monetary framework, including exchange rate flexibility to respond to external shocks.

14. Authorities' views. The authorities broadly agreed with the thrust of staff's recommendations, but were concerned about the growth implications. Specifically, the authorities noted that they would consider introducing macroprudential measures, but were concerned about the potential impact on growth, and viewed implementation capacity as a constraint. However, they were keen on identifying risks, improving data collection and creating a comprehensive risk assessment report.

B. Securing the Fiscal Buffer While Meeting Development Needs

15. Developments in 2014. The fiscal deficit narrowed in 2014 to 1.3 percent of GDP (from 2.1 percent in 2013, GFS 2001), supported by stronger revenues as well as higher-than-planned grants. Solid growth and improved tax and customs administration (particularly better auditing and enforcement) following the government's adoption of the Revenue Mobilization Strategy (RMS) drove up tax revenues sharply (by around 2.2 percentage points of GDP to 13.9 percent in 2014).[12] However, the spending mix deteriorated as current spending increased by 1.3 percent of GDP, mostly driven by a higher wage bill, while capital spending fell by 0.6 percent of GDP. The improvement in the fiscal balance resulted in the replenishment of government deposits to 7.1 percent of GDP.

16. 2015 Budget. The overall deficit is projected to widen to around 2 percent of GDP in 2015 (GFS 2001), imparting a modest positive fiscal impulse. The increase in the wage bill (0.7 percent of GDP) is expected to fully offset higher revenues. A smaller-than-budgeted

[11] Cambodia's de facto exchange rate regime was reclassified as "stabilized" from "other managed," effective January 2014.

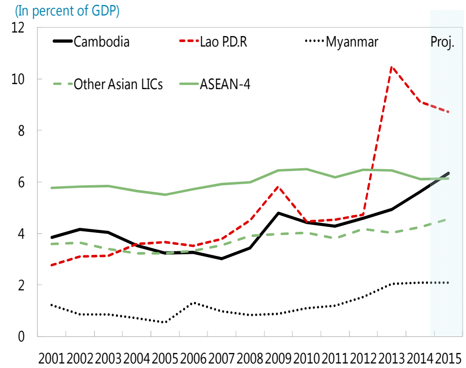
[12] Initiated in late 2012, the RMS focuses on strengthening revenue administration, revenue policy and the institutional framework in order to continue raising domestic revenue by at least ½ percent of GDP annually over the medium term. Improved tax administration includes enhanced taxpayer registration, filing support, auditing, and arrears management. For customs, the focus is on strengthening clearance processes (customs declaration, risk management, and audit) and cross border control (smuggling, valuation), On revenue policy, the RMS focuses on excises, VAT, widening tax base, rationalizing tax incentives and holidays, and imposing property taxes.

(4.2 percent of GDP) deficit, however, would be more consistent with the economy's cyclical position, and would boost government deposits further. Higher-than-expected revenues this year should be saved, and nonwage current expenditure contained.

17. Emerging fiscal pressures. In the near term, strong revenue efforts have temporarily eased fiscal pressures. However, pressures are expected to reemerge in the medium term as the wage bill is projected to continue rising due to electoral promises and an expected fall in official assistance with the attainment of LMIC status.[13] These pressures are especially challenging as fiscal policy plays the main countercyclical role, given high dollarization and weak monetary control. Additionally, in the absence of government bond markets, deposits serve as the only financing buffer against shocks, including financial system fragilities.[14] Therefore, consolidation is needed, even though the Debt Sustainability Analysis indicates a low risk of debt distress.

18. Wage increases. Cambodia's public wage bill is among the highest compared to peers. The planned wage increase will lead to compression of growth-critical capital expenditure and other priority spending. Also, it will become challenging to maintain an adequate fiscal buffer. Moreover, if revenue performance falls short of expectations and/or GDP growth moderates more than projected, the fiscal buffer will deplete rapidly. Large public wage increases may also spillover to elevated wage demands in the private sector, hurting competitiveness.

Wage Spending
(In percent of GDP)

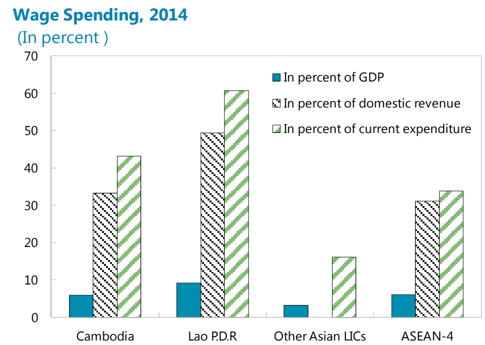


[13] In late 2014, the government pledged to raise the civil servants' minimum monthly wage to US$250 by 2018 from about US$100 in 2013/14, matching the opposition's campaign promises.

[14] Government deposits, with a target of 5½ percent of GDP, serves as the fiscal anchor in Cambodia. The minimum threshold of deposits to withstand financing shocks based on historical data is estimated at 2¾ percent of GDP (i.e., two standard deviations of domestic financing over 1995–2012) and deposits of 5½ percent of GDP would provide an additional fiscal space of 2¾ percent of GDP.

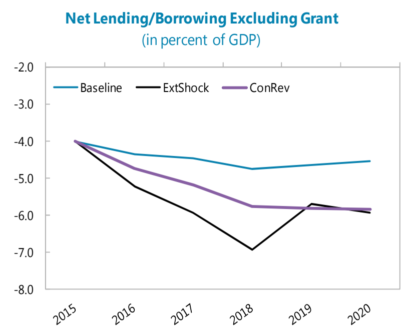
Box 4. Cambodia: Wage Increase and Fiscal Policy[1]

Regional comparisons show that Cambodia's public wage bill is among the largest.[2] The government wage bill has been steadily rising in recent years, from 4.4 percent of GDP in 2011 to 5.8 percent in 2014. Cambodia's public wage bill, now estimated at around 45 percent of total current government spending and at 35 percent of domestic revenue after the recent increase, is already the second highest in the region and surpassed only by Lao P.D.R. The 2015 budget reflected a 21 percent increase in public sector wage bill (after an estimated 27 percent increase in 2014) and the government has planned to raise the minimum wage to 100 million Riel by 2018.



If higher revenues from RMS implementation are used to finance rising public wages, capital spending will be squeezed. The Global Competitiveness Index shows that Cambodia has a large gap in infrastructure compared to neighboring countries. Crowding out growth-enhancing public investment, therefore, may lower growth potential. Thanks to the strong revenue performance in 2012–14, government deposits have been rebuilt and are estimated to rise temporarily to 8 percent of GDP in 2015. However, higher expenditure from promised wage hikes is expected to drag deposits down to around 4⅓ percent of GDP in the medium term, below the level of a comfortable fiscal buffer of 5½ percent of GDP.

Moreover, if revenue performance falls short of expectations and/or GDP growth moderates more than projected, the fiscal situation will deteriorate sharply. If the revenue-to-GDP ratio remains flat, rather than the targeted 0.5 percent of GDP increase, the fiscal deficit (excluding grants) will rise to 5.8 percent of GDP in 2018 while government deposits will decline by 2 percentage points of GDP. Another risk scenario in which an external demand shock reduces GDP growth by around 0.5 percent would result in tax revenues dropping by around 1 ppt to 12.2 percent of GDP and fiscal deficits increasing to around 7 percent of GDP by 2018.



Wage policy formulation would benefit from a more systematic approach and should be accompanied with efficiency-improving civil service reform. Wage increases should be based on key indicators (e.g. availability of resources, cost of living, productivity, fiscal performance, and priority objectives). Wage increases should also be part of a broader civil service reform to improve productivity of the civil service, strengthen its capacity and accountability by rationalizing allocation and size.

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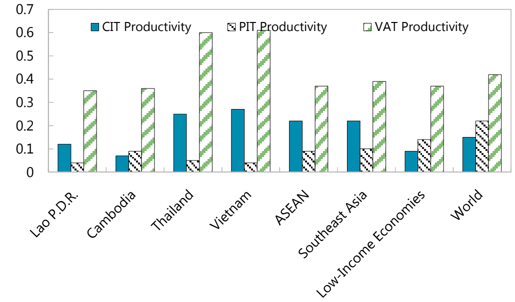
[1] Prepared by Yong Sarah Zhou.

[2] It is noteworthy that cross-country comparisons of wage expenditures are complicated by a variety of country specific conditions and ways of measuring wage costs.

19. Policy recommendations. To maintain adequate fiscal buffers while meeting development and infrastructure needs requires several policy actions:

- Given the spending pressures from higher wages, a sustainable and systematic implementation of the RMS is key to achieving the government target of raising domestic revenues by on average ½ percent of GDP annually. Furthermore, efforts should also focus on advancing other key elements of the RMS, including reviewing excises and VAT thresholds, rationalizing tax incentives and enhancing the institutional framework.

Revenue Productivity of Different taxes
(In percent of GDP)



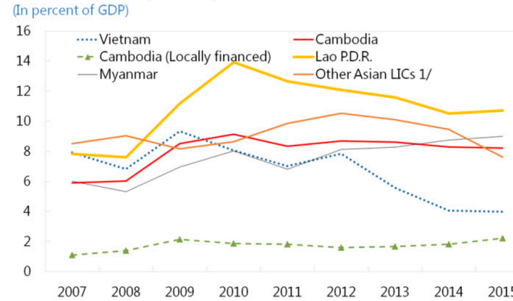
Source: IMF, Fiscal Area Department revenue performance database.

- Given Cambodia's high public wages compared to peers, future increases should be formulated contingent on projected fiscal performance (including meeting revenue targets and maintaining an adequate fiscal buffer) and be accompanied by deeper, efficiency-enhancing civil-service reforms.

- Social spending and capital expenditure, particularly on infrastructure, should be safeguarded to support diversification, boost competitiveness, and increase inclusiveness.

- Continued progress in monitoring the risks from contingent liabilities via the PPP unit in the MEF would be important. Also, fiscal risks can be mitigated by adopting a ceiling on PPP guarantees and listing all contingent liabilities in the annual budget law to enhance fiscal transparency.

Government Capital Expenditure Asian LICs
(In percent of GDP)



Sources: Cambodian authorities; and IMF staff estimates.
1/ Average of Bangladesh, Bhutan, Mongolia, and Nepal.

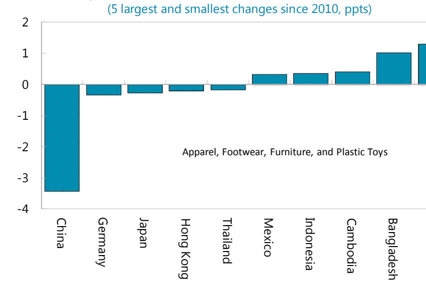
20. Authorities' views. The authorities broadly agreed with staff's assessment. They remained strongly committed to implementing the RMS and also agreed on the need to rationalize investment incentives and review other tax policies in the RMS in the medium term. Wage pressures remained an important concern, and the authorities were aiming to achieve a compression ratio of about three and limit the wage bill to less than 50 percent of current spending.[15] The authorities are continuing to work on improving monitoring contingent liabilities. The debt management committee has recently revised the debt policy framework, which now includes a ceiling on government guarantees at 4 percent of GDP and designates a contingency fund account for contingent liabilities related to enterprises in the power sector.

[15] The compression ratio is defined as the ratio between the salaries in the top and bottom scales in the government payroll.

C. Promoting Competitiveness, Diversification, and Inclusion

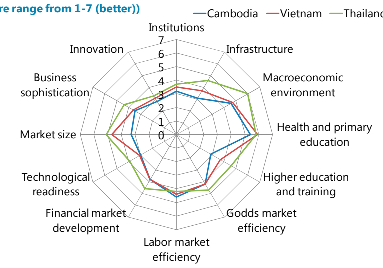
21. Diversification. Cambodia's growth performance has been impressive but has relied on a narrow base, rendering growth volatile.[16] While there are emerging signs of diversification across sectors and export destinations, the economy remains largely undiversified.[17] Cambodia has gained market share in labor-intensive products, such as garments, from China. Looking ahead, the ongoing transformation in China's trade patterns and regional factory relocation could offer a unique opportunity to diversify Cambodia's production and export base.[18] However, in order to take advantage of these opportunities, structural bottlenecks need to be addressed. Cambodia's rank has stalled in both the World Bank's Doing Business Report (2015) and the World Economic Forum (WEF)'s the Global Competitiveness Report (2014–15), as a result of concerns regarding governance, access to finance, institutional efficiency, education and skills, and inadequate infrastructure.[19, 20, 21]

Change in Market Share in Major Low End Goods
(5 largest and smallest changes since 2010, ppts)



Sources: Comtrade, Staff Estimates

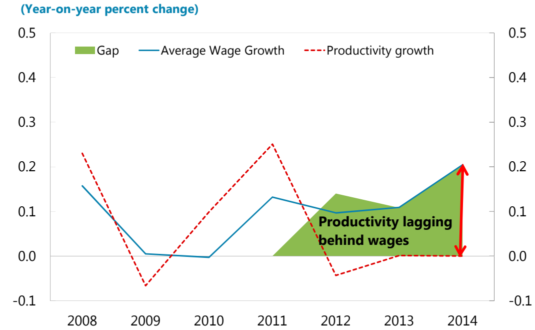
The Global Competitiveness Index
(Score range from 1-7 (better))



Source: World Economic Forum, Global Competitiveness Report 2014-15.

22. Competitiveness. Recent wage developments are weakening competitiveness. The comparative advantage from the large supply of low-skill labor allowed Cambodia to become one of the top recipients of FDI and exporters of garments in the world. However, recent trends suggest that average real wages are growing faster than in other countries and are outpacing gains in productivity. At the same time, the REER has appreciated, though not as much as competitor countries (Vietnam, Bangladesh, Lao PDR).

Garments Wages and Productivity
(Year-on-year percent change)



[16] Cambodia's growth volatility has been around 5.5 percent, higher than the average of Asian LICs (4.5 percent).

[17] There is evidence of FDI flows into nontextile manufacturing firms (e.g., electronics, automobile parts) from China, Korea, and Japan.

[18] For further analysis of the implications of changing Chinese trade patterns, please see forthcoming cluster report on 'China and the Mekong—Integration, Evolution, and Implications'.

[19] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

[20] Cambodia dropped its rank from 134 to 135 out of 189 countries in overall Doing Business Index and in Global Competitiveness Index, now ranking 95 out of 144 countries.

[21] Cambodia ranks poorly at 107, 123, and 119 out of 144 countries with regard to infrastructure, education and training, and institutions, respectively.

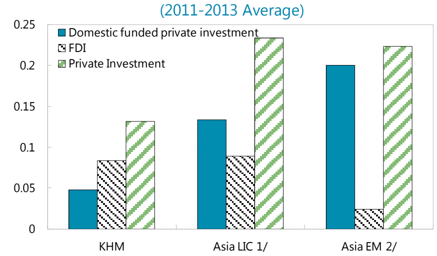
This deterioration in competitiveness is particularly challenging in a highly dollarized country. Therefore, maintaining competitiveness through improving the business climate and ensuring that wages do not outstrip productivity will be important.

23. Poverty and social indicators. Progress on poverty alleviation and improving social indicators has been encouraging. Strong gains in reducing poverty have been realized as the poverty rate declined from 50 percent in 2004 to 18 percent in 2012. Cambodia achieved the Millennium Development Goal (MDG) of halving poverty in 2009. Also, consumption of the bottom income quintile has increased sharply and ameliorated income inequality. While further efforts to improve health and education remain important development priorities, improvements in maternal health, early childcare and primary education programs in rural areas were achieved.[22] Financial inclusion has progressed, with the access to bank accounts rising rapidly, though remaining below peers.[23]

24. Policy recommendations. The priority should be lowering the overall cost of doing business by reducing transportation, energy, and logistics costs, improving the legal and regulatory environment, and upgrading public services.

- With higher electricity supply expected to materialize in future, the priority is to lower its price, improve supply, and boost rural access.
- Following major improvements in highways, secondary roads are needed for better market access and integration with regional supply chains.
- Improve the quality of education, building on impressive gains in access to elementary education. Vocational and industry-led training programs can address immediate skill gaps most efficiently.
- Streamlined government procedures and improved governance in doing business. More transparent and predictable customs procedures can expedite cross-border flows of goods and integration with regional supply chain network. In addition, strengthening the anti-corruption framework would help address governance concerns and ease constraints on doing business.

Private Investment to GDP
(2011-2013 Average)



1/ Include Bangladesh, Myanmar, Mongolia, Sri Lanka and Vietnam.
2/ Include India, Indonesia, Malaysia, Philippine, and Thailand.
Source: Authorities data and staff caluclation.

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[22] Cambodia also progressed in meeting the following MDGs: reducing the number of deaths per births, child mortality rate, boosting net primary school admission rate, and the prevention and treatment of HIV/AIDS.

[23] According to the World Bank's Global Findex database, the percentage of people having accounts increased from 3.7 percent in 2011 to 22.2 percent in 2014, and among the lower income segment (bottom 40 percent) the percentage of people having accounts increased from 0.8 percent to 17.9 percent over the same time period.

- Further gains in ameliorating inequality require improved public service delivery (especially in health and education), reducing skill gaps, and fostering a dynamic agricultural sector.

25. Authorities' views. The authorities emphasized their efforts to improve the business environment. They also showed concern with the recent deterioration in external competitiveness, and have prepared an Industrial Development Policy 2015–25 to provide a roadmap to boost investment and broaden the country's economic base.[24] The focus is in line with staff recommendations (i.e., reducing electricity costs, simplified registration and accounting standards for SMEs, etc.).

STAFF APPRAISAL

26. Economic setting. Growth remains strong and is projected to remain steady in 2015 and to rise modestly over the medium term. Inflation is projected to rise gradually over 2015, reflecting the recovery in food prices and stabilization of global energy prices. Rapid credit growth accelerated, reflecting both supply and demand factors. The external position is stable and the real effective exchange rate is assessed to be broadly in line with fundamentals.

27. Risks. The outlook is subject to substantial downside risks. External risks stem from a stronger U.S. dollar and/or a protracted growth slowdown in Europe constraining garments export and tourism growth. Weaker-than-expected growth in China would also have spillovers through the FDI, banking and tourism channels. Domestic risks include materialization of financial sector vulnerabilities from rapid credit growth, fiscal pressures and erosion of competitiveness from wage increases.

28. Monetary policy and prudential regulations need to be tightened further in order to contain financial sector vulnerabilities. Rapid credit growth, increasing bank flows from abroad, and greater exposure to the real estate and construction sectors pose macro-financial risks. Reserve requirements should be raised to moderate the pace of credit growth. Prudential regulations on large deposit-taking micro-finance institutions (MFIs) should be upgraded/ tightened to match those of banks to prevent regulatory arbitrage. Moreover, reserve requirements should also be expanded to include foreign funding of MFIs.

29. Macro financial policies. Given the increase in financial sector risks, well-designed macroprudential tools should be introduced. Fragility from high loan-to-deposit (LTD) ratios needs to be managed by a phased introduction (and tightening) of LTD limits. Imposing countercyclical capital requirements would help enhance resilience and build buffers. Given the growing exposure to real estate, higher capital requirements and risk weights linked to real

[24] The IDP has three goals: i) to increase the share of the industrial sector in GDP by 10 percentage points to 30 percent by 2025; ii) increase exports of non-garment exports (especially agricultural products) to 15 percent of GDP by 2025; iii) encourage formal registration of 80 percent of SMEs. The discussion focused on how to improve business climate (which specific actions broadly in line with staff's recommendations).

estate, as well as sectoral concentration limits are possible policy measures. Better monitoring of developments in the real estate sector is warranted, including by enhancing data collection.

30. Supervision and market development. Given that supervisory capacity is stretched, a moratorium on new bank licenses should be imposed. Strengthening the crisis management framework is critical to manage systemic risk and should be expedited. Also, to contain rising financial stability risks, the implementation of FSAP recommendations should be expedited. Going forward, developing money and foreign exchange markets is needed to promote de-dollarization and to implement an effective monetary framework, including exchange rate flexibility to help absorb external shocks.

31. Fiscal policy. While strong revenue growth has temporarily eased fiscal pressures, fiscal consolidation is necessary to maintain adequate government deposits in view of spending pressures from a higher wage bill. Steadfast implementation of the RMS is needed to sustain revenues. Wage increases should be formulated contingent on projected fiscal performance and be accompanied by deeper, efficiency enhancing civil-service reforms. Better managing contingent liabilities is critical to safeguard fiscal space. Continuing to reform public financial management will help to ensure spending effectiveness.

32. Diversification and inclusiveness. Greater investment in education and a reduction in the overall cost of doing business will enhance competitiveness, economic diversification, and promote inclusiveness. Upgrading infrastructure, in particular ensuring cheaper and more reliable electricity supply, also remains a key priority. Efforts to enhance the business climate should include removing regulatory impediments to expedite integration with regional supply chains.

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

Cambodia: Risk Assessment Matrix 1/

	Risk	Relative Likelihood	Impact if Realized	Potential Impact	Staff Advice on Policy Response
Domestic risks	The materialization of domestic financial vulnerabilities	M	H	Deterioration of asset quality including in the real estate sector, abrupt decline in credit growth, large deposits withdrawal, all accentuating liquidity risks and declining investor confidence	Increase reserve requirements to slow down credit growth, develop macro and micro-prudential measures and crisis management framework, ensure adequate emergency liquidity, strengthen supervision and regulation including for MFIs. Preemptively strengthen the crisis management framework.
	Recurrent political uncertainty and/or labor market disruptions	L	H	Large deposits withdrawal, drag in FDI and export growth and weaker investor confidence	Ensure continued macroeconomic stability to support confidence in the economy.
	Revenue shortfall	L	M	Fiscal position deteriorates -fiscal deficits widen and government deposits depletes sharply	Steadfast implementation of the RMS. Formulating wage increase contingent on projected fiscal performance.
	Extreme weather	M	M	Weaker agricultural production and exports, weaker tourism, and wider income inequality	Expedite structural reforms to accelerate diversification, improve infrastructure, and increase transfers to the rural poor.
External risks	Structurally weak growth in Euro area	H	H	Weaker garment export growth	Expedite structural reforms to accelerate diversification.
	Persistent US dollar strength	H	M	Weaker exports, tourism receipts, FDI, and bank lending from other partner countries	Maintain macroeconomic stability and develop interbank and foreign exchange markets to enhance monetary policy effectiveness and to reduce dollarization. Expedite structural reforms to boost non-price competitiveness.
	Euro area bond market contagion	M	M	Weaker exports, tourism receipts, FDI, and bank lending from other partner countries	Ensure continued macroeconomic stability through prudent fiscal, monetary, and structural policies to support confidence and FDI.
	Sharp China slowdown in 2015-16	L	H	Weaker tourism receipts and FDI, reduced foreign borrowing by banks resulting in liquidity risks and declining investor confidence	Expedite structural reforms to accelerate diversification. Ensure adequate emergency liquidity, strengthen supervision and regulation including to MFIs.

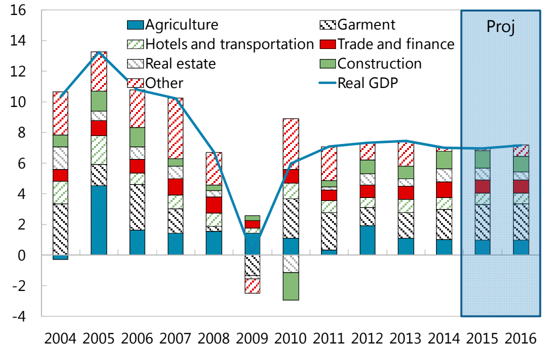
1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low (L)" is meant to indicate a probability below 10 percent, "medium (M)" a probability between 10 and 30 percent, and "high (H)" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Nonmutually exclusive risks may interact and materialize jointly.

Figure 1. Cambodia: Strong Growth with Substantial Risks

Economic growth remains strong supported by garment exports, tourism, and real estate.

Contribution to Growth

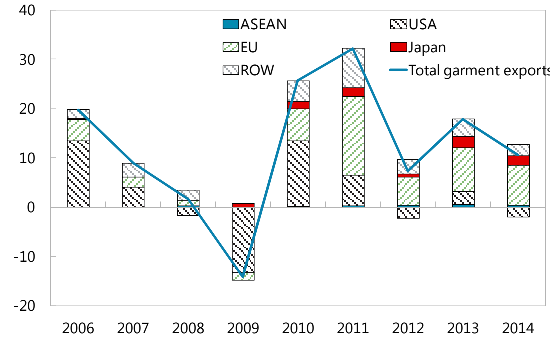
(In percent)



Garments exports to the EU have been an important driver of growth owing to preferential treatment.

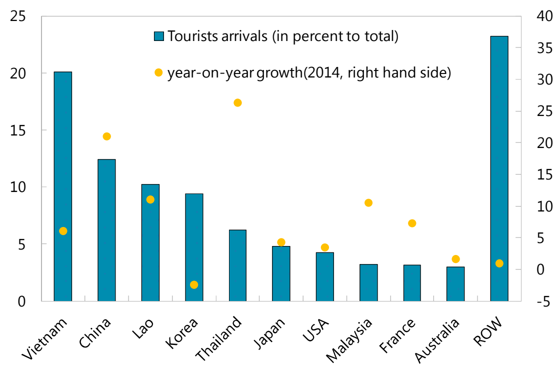
Garment export growth (contribution by destination)

(in percent)



Tourism remains strong, mainly due to the increase in the number of tourist arrivals from China.

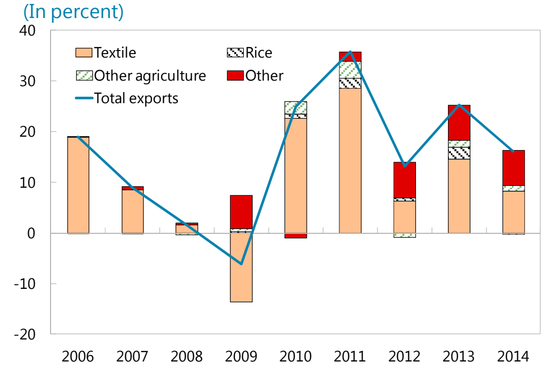
Tourists arrivals (top ten markets)



While export growth is moderating in line with external demand slowdown, it remains in double digits.

Export contribution to growth

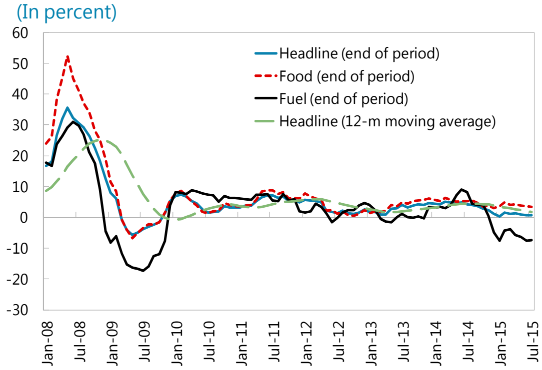
(In percent)



Inflation remains muted, thanks to a decline in food and global fuel prices.

Inflation

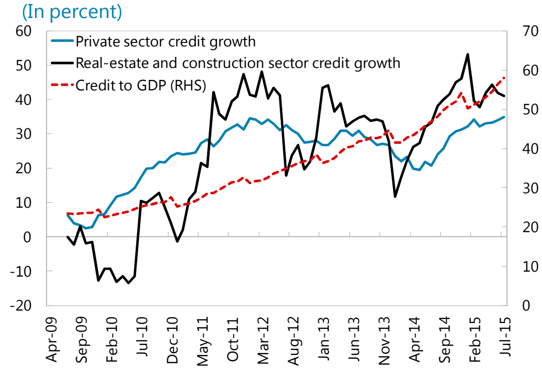
(In percent)



Rapid credit growth, particularly in construction and real estate, is increasing macro-financial stability risks.

Private credit growth

(In percent)



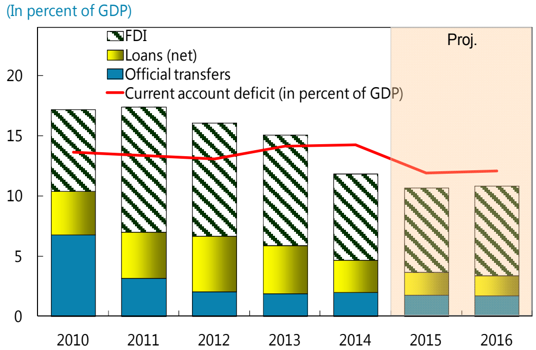
Sources: Cambodian authorities; IMF's World Economic Outlook; and IMF staff estimates.

Figure 2. Cambodia: Stable External Position

The current account deficit is largely funded by FDI, grants, and loans, and is projected to narrow over the medium term…

Current Account Deficit and Financing Flows

(In percent of GDP)

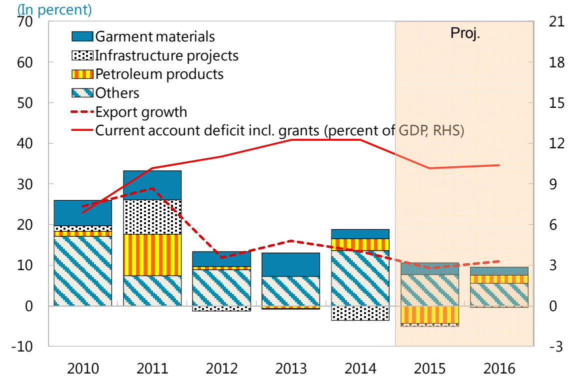


1/ Current account balance excluding official transfers.

…partly due to the expected completion of infrastructure projects and moderating overall imports.

Contribution to Import Growth

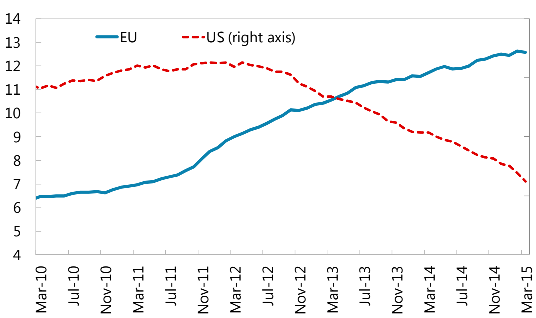
(In percent)



Cambodia's share in the EU garment market continues to increase…

Garment Export Market Share 1/

(In percent, 12mma)

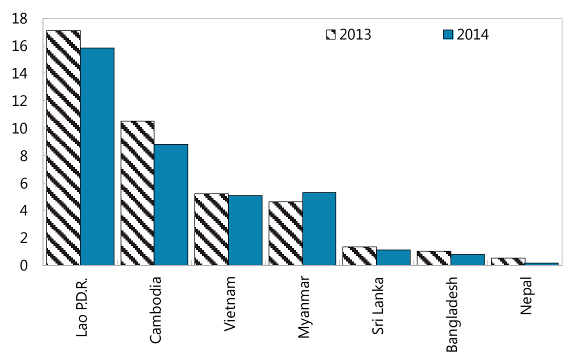


1/ Share of Cambodia in Asian LICs' (Bangladesh, Cambodia, Sri Lanka, and Vietnam) garment exports.

…while FDI flows have been strong compared to other countries in the region.

Foreign Direct Investment

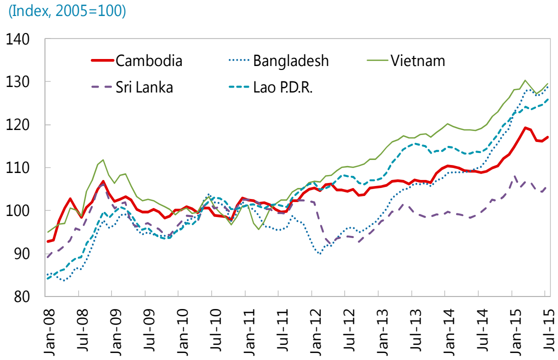
(In percent of GDP)



The real effective exchange rate has been on an appreciation trend.

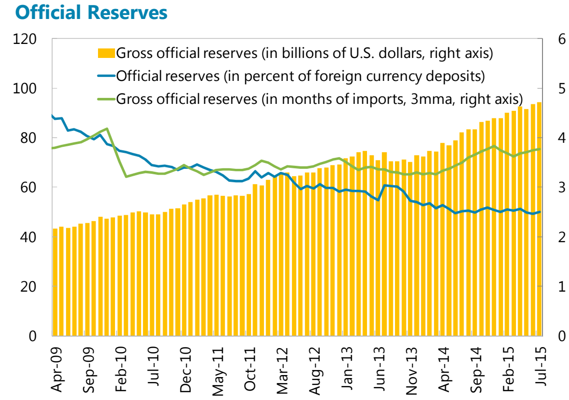
Real Effective Exchange Rate

(Index, 2005=100)



Official reserves continue to grow, though they cover a declining share of foreign currency deposits.

Official Reserves



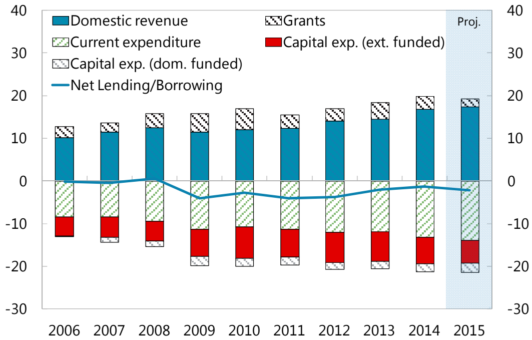
Sources: Cambodian authorities; IMF's Government Finance Statistics and World Economic Outlook; Globalintegrity.com; and IMF staff estimates.

Figure 3. Cambodia: Strong Revenues Amid Increasing Wage Pressures

Fiscal performance is strong on higher revenues and prudent expenditure.

Fiscal Balance

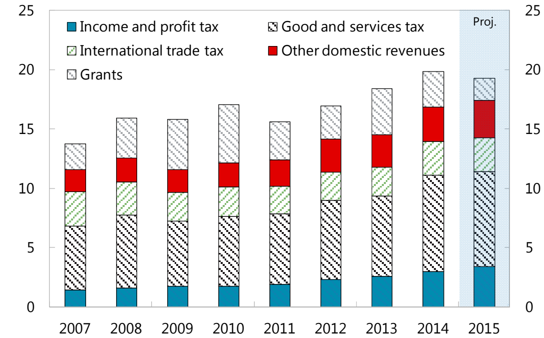
(In percent of GDP)



Revenues have increased on enhanced tax collection efforts.

Fiscal Revenues

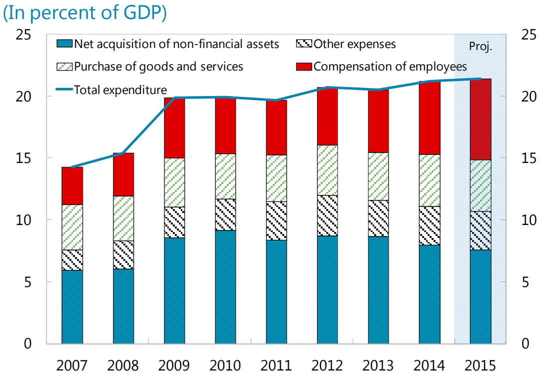
(In percent of GDP)



Meanwhile, nonwage spending has been contained, offsetting the impact from large wage increases.

Goverment Spending

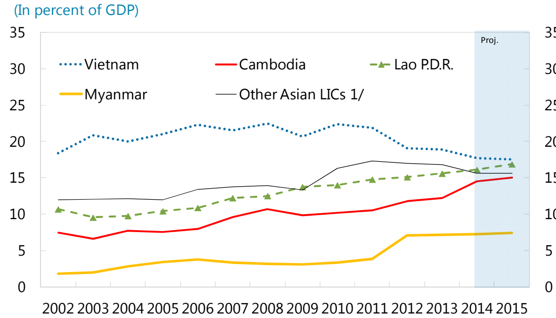
(In percent of GDP)



Tax collection, however, remains low compared to the regional level, implying room for further growth.

Tax Collection in Asian LICs

(In percent of GDP)

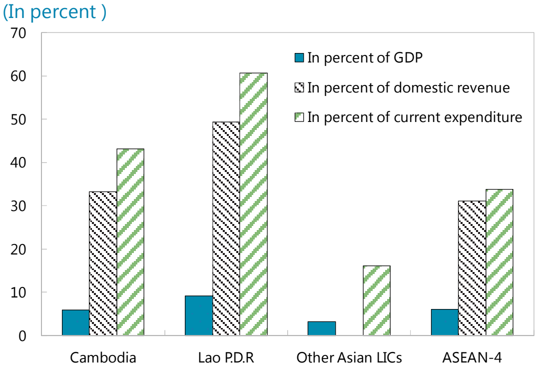


Sources: Cambodian authorities; and IMF staff estimates.
1/ Average of Bangladesh, Bhutan, Mongolia, and Nepal.

The wage bill is higher than that of other Asian LICs (except Lao P.D.R)

Wage Spending, 2014

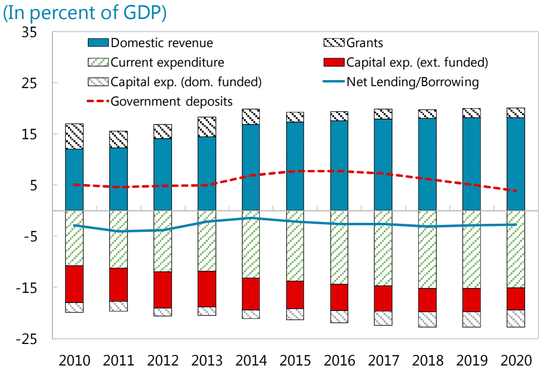
(In percent)



Implementing the RMS to sustain revenue increase and improve public expenditure efficiency is critical to secure fiscal buffers over the medium term.

Medium-term Fiscal Outlook

(In percent of GDP)

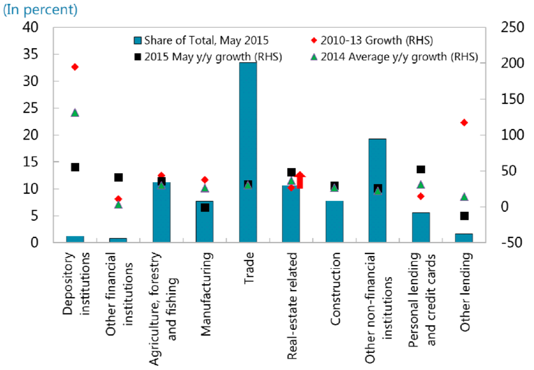


Sources: Cambodian authorities; IMF's Government Finance Statistics and World Economic Outlook; Globalintegrity.com; and IMF staff estimates.

Figure 4. Cambodia: Containing Rapid Credit Growth

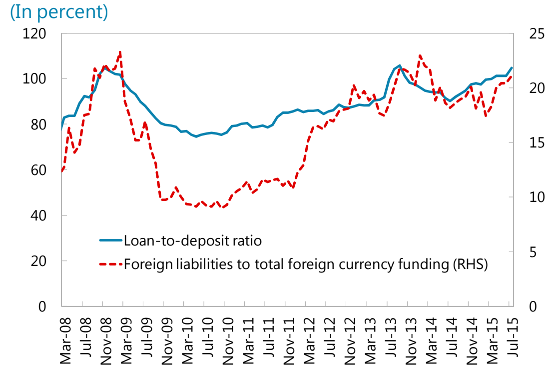
Credit growth has been persistently high, with real estate-related sector contributing rapidly last year.

Credit growth by Economic Sector
(In percent)



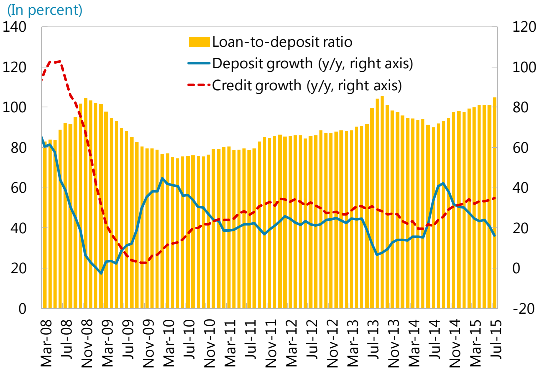
Reliance on external funding has been increasing.

Foreign Liabilities to Total Foreign Funding
(In percent)



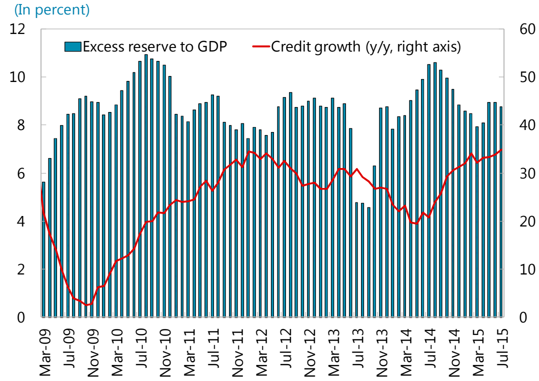
The loan-to-deposit ratio continued to increase, and is now more than 100 percent.

Deposit and Credit Growth
(In percent)



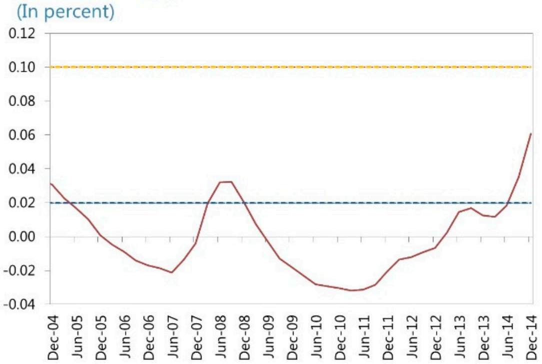
The banking system maintains a high level of excess reserves.

Credit to the Economy and Excess Reserves
(In percent)



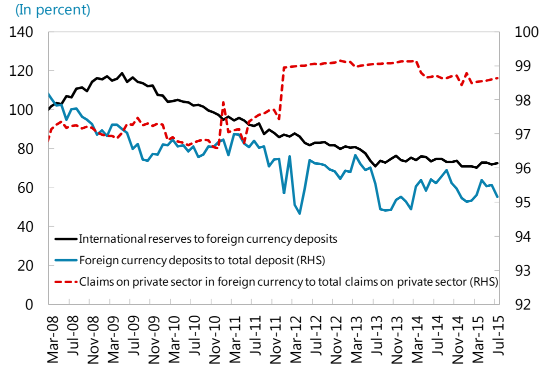
The credit-to-GDP gap has widened, surpassing the 2008 boom.

Credit to GDP gap
(In percent)



Meanwhile, the degree of financial dollarization remains persistently high.

Dollarization
(In percent)

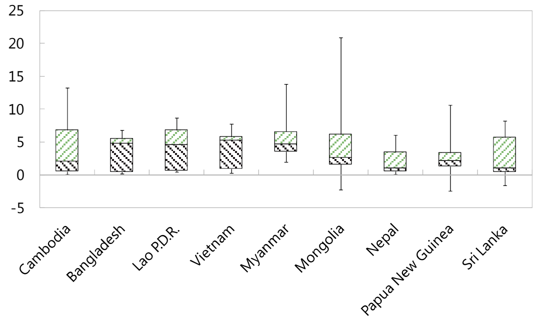


Sources: Cambodian authorities; and IMF staff estimates.

Figure 5. Cambodia: Promoting Competitiveness and Structural Diversification

Cambodia's growth has historically been very volatile compared to peers.

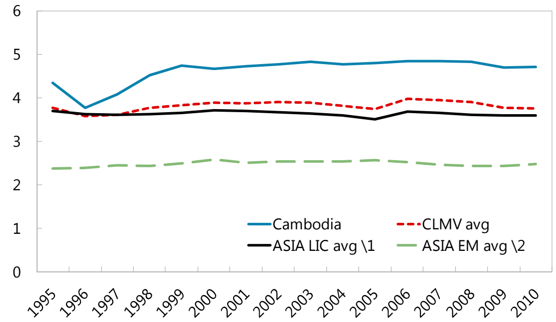
Volatility of growth 1/
(In percent)



1/ The chart reflects 2000-14 data.

The export diversification index indicates a low level of diversification and has remained relatively flat.

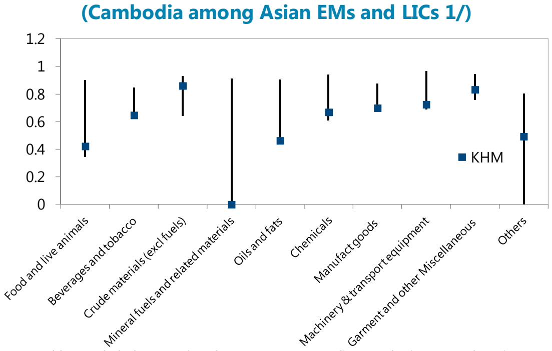
Export Diversification index
(Lower the number, more diversified)



\1 Inculde Bangladesh, Lao, Sri Lanka, Myanmar, Mongolia, Nepal, and Vietnam
\2 Include Indonesia, India, Malaysia, Philippine, and Thailand

There is much room to upgrade export quality, which in turn will boost potential growth.

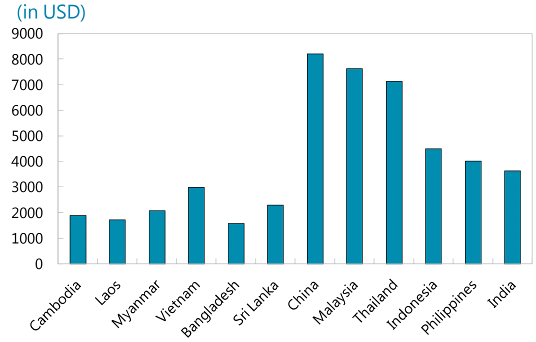
Export Quality Index
(Cambodia among Asian EMs and LICs 1/)



\1 Inculde Bangladesh, Lao, Sri Lanka, Myanmar, Mongolia, Nepal, Vietnam, Indonesia, India, Malaysia, Philippine, and Thailand

Wages are lower than in emerging economies but facing severe competition from neighboring lower income countries.

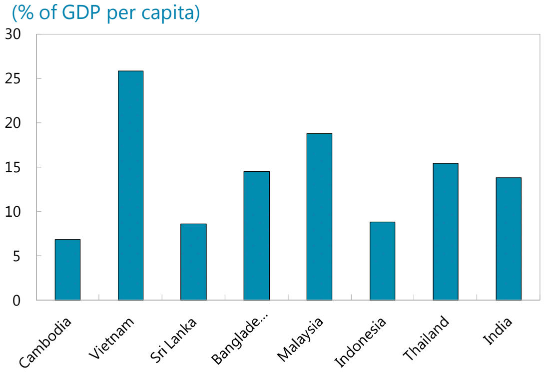
Annual salary of manufacturing workers in 2014
(in USD)



Source: JETRO Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey)

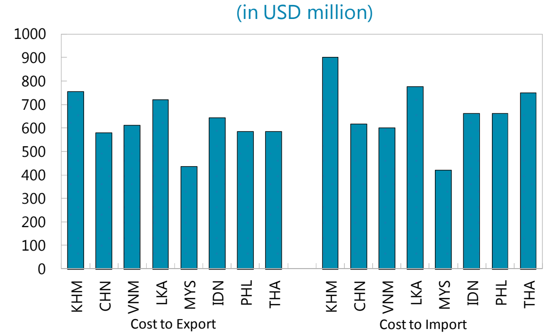
As a result of low expenditure on education, Cambodia faces serious skill mismatches.

Expenditure per student, secondary in 2010
(% of GDP per capita)



High logistics costs relative to peers remain a key challenge.

Cost to Export/Import per container 1/
(in USD million)



1/ All fees associated with completing the procedures (costs for documents, administrative fees for customs clearance, terminal handling charges, transport, etc.). Exclude tariffs/trade taxes.

Sources: Cambodian authorities; IMF's World Economic Outlook; and IMF staff estimates.

Table 1. Cambodia: Selected Economic Indicators, 2011–16

	2011	2012	2013	2014	2015	2016
				Est.	Proj.	
Output and prices (annual percent change)						
GDP in constant prices	7.1	7.3	7.4	7.0	7.0	7.2
(Excluding agriculture)	8.6	8.4	9.4	9.2	8.6	8.4
Real agricultural output	3.1	4.3	1.6	0.3	1.3	2.7
GDP deflator	3.4	1.4	1.6	0.9	1.8	2.6
Inflation (end-year)	4.9	2.5	4.7	1.0	1.9	2.8
(Annual average)	5.5	2.9	3.0	3.9	1.1	1.8
Saving and investment balance (in percent of GDP)						
Gross national saving	11.8	12.5	11.3	11.0	11.4	12.1
Government saving	0.8	1.9	2.1	3.4	3.7	3.2
Private saving	11.0	10.6	9.1	7.5	7.7	8.9
Gross fixed investment	22.0	23.5	23.5	23.2	22.5	22.7
Government investment	8.7	9.0	8.8	8.1	7.5	7.5
Private investment 1/	13.3	14.5	14.7	15.1	15.0	15.2
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	21.4	20.9	14.6	29.9	23.9	23.1
Net credit to the government 2/	0.0	-1.5	-1.1	-4.8	-4.8	0.0
Private sector credit	31.2	28.0	26.7	31.3	30.2	34.0
Velocity of money 3/	2.0	2.0	2.0	2.0	2.0	2.0
Public finance (in percent of GDP)						
Revenue	15.6	16.9	18.4	19.8	19.4	19.4
Domestic revenue	12.4	14.1	14.5	16.9	17.5	17.6
Of which : Tax revenue	10.2	11.3	11.7	13.9	14.4	14.5
Grants	3.2	2.8	3.9	3.0	1.9	1.8
Expenditure	19.7	20.7	20.5	21.2	21.4	22.0
Expense	11.3	12.0	11.9	13.2	13.9	14.4
Net acquisition of nonfinancial assets	8.4	8.7	8.6	8.0	7.5	7.5
Net lending (+)/borrowing(-)	-4.1	-3.8	-2.1	-1.3	-2.0	-2.6
Net lending (+)/borrowing(-) excluding grants	-7.3	-6.6	-6.0	-4.3	-3.8	-4.4
Net acquisition of financial assets	0.0	0.6	0.5	2.3	1.4	0.6
Net incurrence of liabilities 4/	4.1	4.4	2.6	3.7	3.4	3.1
Of which: Domestic financing	0.7	-0.4	-1.0	-1.4	-1.4	-0.6
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b. 5/	5,035	5,633	6,530	7,408	8,212	9,116
(Annual percent change)	28.9	11.9	15.9	13.4	10.9	11.0
Imports, f.o.b. 5/	-7,730	-8,600	-9,744	-10,991	-11,869	-12,796
(Annual percent change)	32.9	11.3	13.3	12.8	8.0	7.8
Current account (including official transfers)	-1,303	-1,547	-1,880	-2,027	-1,971	-2,031
(In percent of GDP)	-10.2	-11.0	-12.2	-12.2	-11.1	-10.6
Gross official reserves 6/	3,032	3,463	3,642	4,391	4,979	5,494
(In months of prospective imports)	3.6	3.6	3.4	3.8	4.0	4.0
(In percent of foreign currency deposits)	64.0	58.2	54.0	50.9	46.5	41.7
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	3,811	4,433	4,997	5,534	6,058	6,527
(In percent of GDP)	29.7	31.5	32.5	33.4	34.2	34.0
Public debt service	77	85	112	143	166	199
(In percent of exports of goods and services)	1.0	1.0	1.1	1.3	1.4	1.5
Memorandum items:						
Nominal GDP (in billions of riels) 7/	52,069	56,682	61,866	66,825	72,767	80,044
(In millions of U.S. dollars)	12,818	14,057	15,362	16,551	…	…
Exchange rate (riels per dollar; period average)	4,062	4,032	4,027	4,038	…	…

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

1/ From 2011, includes FDI related to public-private power sector projects.
2/ Net credit to the government refers to its contribution to broad money growth.
3/ Ratio of nominal GDP to the average stock of broad money.
4/ Includes statistical discrepancy.
5/ Trade data has been revised backward to 2008.
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/ GDP data have been revised backward to 2010.

Table 2. Cambodia: Medium-Term Macroeconomic Framework, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.			
Output and prices (percent change)										
GDP at constant prices	7.1	7.3	7.4	7.0	7.0	7.2	7.2	7.3	7.3	7.3
GDP deflator	3.4	1.4	1.6	0.9	1.8	2.6	2.7	2.9	2.8	2.8
Consumer prices (end-year)	4.9	2.5	4.7	1.0	1.9	2.8	3.0	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)										
Gross national saving	11.8	12.5	11.3	11.0	11.4	12.1	12.7	14.3	15.1	16.7
Government saving	0.8	1.9	2.1	3.4	3.7	3.2	2.9	2.7	2.8	3.0
Private saving	11.0	10.6	9.1	7.5	7.7	8.9	9.8	11.6	12.3	13.8
Gross fixed investment	22.0	23.5	23.5	23.2	22.5	22.7	22.7	23.0	23.0	23.0
Government investment	8.7	9.0	8.8	8.1	7.5	7.5	7.7	7.7	7.7	7.7
Private investment 1/	13.3	14.5	14.7	15.1	15.0	15.2	15.0	15.3	15.3	15.3
Public finance (in percent of GDP)										
Revenue	15.6	16.9	18.4	19.8	19.4	19.4	19.6	19.6	19.8	19.9
Domestic revenue	12.4	14.1	14.5	16.9	17.5	17.6	17.8	17.9	18.0	18.1
Of which: Tax revenue	10.2	11.3	11.7	13.9	14.4	14.5	14.6	14.8	15.0	15.2
Grants	3.2	2.8	3.9	3.0	1.9	1.8	1.8	1.8	1.8	1.8
Total expenditure	19.7	20.7	20.5	21.2	21.4	22.0	22.5	22.8	22.8	22.8
Expense	11.3	12.0	11.9	13.2	13.9	14.4	14.8	15.2	15.2	15.2
Net acquisition of nonfinancial assets	8.4	8.7	8.6	8.0	7.5	7.5	7.7	7.6	7.6	7.6
Of which: Domestically-financed	1.8	1.6	1.7	1.8	2.2	2.5	2.8	3.0	3.1	3.4
Net lending (+)/borrowing(-)	-4.1	-3.8	-2.1	-1.3	-2.0	-2.6	-2.9	-3.2	-3.1	-2.9
Net lending (+)/borrowing(-) excluding grants	-7.3	-6.6	-6.0	-4.3	-3.8	-4.4	-4.7	-5.0	-4.8	-4.7
Net acquisition of financial assets	0.0	0.6	0.5	2.3	1.4	0.6	-0.2	-0.7	-0.9	-1.1
Net incurrence of liabilities	4.1	4.4	2.6	3.7	3.4	3.1	2.7	2.5	2.2	1.8
Domestic financing, net	0.7	-0.4	-1.0	-1.4	-1.4	-0.6	0.2	0.7	0.9	1.1
Government deposits	4.6	4.9	5.0	7.1	8.1	8.1	7.3	6.1	4.8	3.4
Balance of payments (in percent of GDP, unless otherwise indicated)										
Exports (percent change) 2/	28.9	11.9	15.9	13.4	10.9	11.0	10.8	11.0	11.3	12.0
Imports (percent change) 3/	33.9	11.4	13.5	13.0	8.1	7.9	8.9	9.1	10.1	9.9
Current account balance (including transfers)	-10.2	-11.0	-12.2	-12.2	-11.1	-10.6	-10.0	-8.7	-7.9	-6.3
(Excluding transfers)	-13.3	-13.1	-14.1	-14.2	-12.9	-12.3	-11.6	-10.2	-9.3	-7.7
Foreign direct investment 4/	11.6	12.1	11.9	10.1	9.8	9.6	9.6	9.5	9.6	9.6
Other flows 5/	2.0	1.9	1.4	6.5	4.6	3.6	3.0	2.6	2.3	1.3
Overall balance	3.4	3.0	1.1	4.4	3.3	2.6	2.7	3.4	4.0	4.7
Gross official reserves (in millions of U.S. dollars) 6/	3,032	3,463	3,642	4,391	4,979	5,494	6,065	6,854	7,864	9,145
(In months of next year's imports)	3.6	3.6	3.4	3.8	4.0	4.0	4.1	4.2	4.5	4.8
Public external debt (in millions of U.S. dollars)	3,811	4,433	4,997	5,534	6,058	6,527	6,967	7,421	7,871	8,262
(In percent of GDP)	29.7	31.5	32.5	33.4	34.2	34.0	33.4	32.6	31.7	30.5
Public external debt service (in millions of U.S. dollars)	77	85	112	143	166	199	251	299	336	415
(In percent of exports of goods and services)	1.0	1.0	1.1	1.3	1.4	1.5	1.7	1.8	1.9	2.1

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.

Table 3. Cambodia: Balance of Payments, 2011–20 (BPMS)

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.			
Current account (including official transfers)	-1,303	-1,547	-1,880	-2,027	-1,971	-2,031	-2,079	-1,979	-1,954	-1,699
(Excluding official transfers)	-1,711	-1,835	-2,171	-2,356	-2,286	-2,357	-2,418	-2,332	-2,321	-2,099
Trade balance	-2,695	-2,967	-3,214	-3,583	-3,657	-3,680	-3,828	-3,976	-4,228	-4,365
Exports, f.o.b.	5,035	5,633	6,530	7,408	8,212	9,116	10,102	11,209	12,473	13,972
Of which: Garments	3,937	4,245	4,911	5,334	5,781	6,337	6,893	7,492	8,154	8,887
Imports, f.o.b. 1/	-7,730	-8,600	-9,744	-10,991	-11,869	-12,796	-13,930	-15,184	-16,700	-18,337
Of which: Garments-related	-1,752	-2,012	-2,483	-2,694	-3,064	-3,295	-3,585	-3,821	-4,077	-4,355
Petroleum	-1,118	-1,179	-1,123	-1,397	-861	-925	-1,119	-1,329	-1,460	-1,604
Services and income (net)	812	1,008	954	963	1,010	1,093	1,202	1,348	1,535	1,860
Services (net)	1,410	1,658	1,735	1,813	1,997	2,084	2,224	2,364	2,601	2,987
Of which: Tourism (credit)	2,084	2,463	2,660	2,947	3,113	3,279	3,521	3,766	4,102	4,394
Income (net)	-598	-649	-781	-850	-988	-991	-1,022	-1,017	-1,067	-1,128
Private transfers (net)	172	124	89	264	362	230	209	296	372	406
Official transfers (net)	408	288	291	329	315	326	339	353	367	400
Capital and financial account	1,741	1,969	2,047	2,478	2,417	2,534	2,638	2,756	2,952	2,966
Medium- and long-term loans (net)	490	649	613	445	335	327	271	228	200	177
Disbursements	532	695	676	528	443	452	436	429	438	472
Amortization	-41	-47	-63	-83	-108	-126	-165	-201	-237	-296
Foreign direct investment 2/	1,484	1,698	1,826	1,677	1,732	1,850	2,004	2,157	2,372	2,610
Net foreign assets of deposit money banks 3/	40	-330	180	-209	350	357	364	371	379	180
Unrestricted foreign currency deposit at NBC	127	-256	-59	-95	150	153	156	159	162	80
Commercial banks	-87	-73	240	-114	200	204	208	212	216	100
Other short-term flows and errors and omissions	-273	-48	-571	564	0	0	0	0	0	0
Overall balance	438	423	168	729	576	503	559	777	998	1,267
Financing	-438	-423	-168	-729	-576	-503	-559	-777	-998	-1,267
Change in gross official reserves 4/	-454	-438	-184	-745	-588	-515	-571	-789	-1,011	-1,281
Use of IMF credit	0	0	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0	0	0
Accumulation of arrears	16	15	16	16	12	12	12	12	13	13
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-13.3	-13.1	-14.1	-14.2	-12.9	-12.3	-11.6	-10.2	-9.3	-7.7
Including official transfers	-10.2	-11.0	-12.2	-12.2	-11.1	-10.6	-10.0	-8.7	-7.9	-6.3
Trade balance (in percent of GDP)	-21.0	-21.1	-20.9	-21.6	-20.6	-19.2	-18.4	-17.5	-17.0	-16.1
Gross official reserves 5/	3,032	3,463	3,642	4,391	4,979	5,494	6,065	6,854	7,864	9,145
(In months of next year's imports)	3.6	3.6	3.4	3.8	4.0	4.0	4.1	4.2	4.5	4.8

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 4. Cambodia: General Government Operations, 2011–16 (GFSM 2001)

Table 4. Cambodia: General Government Operations, 2010–16 (GFSM 2001)

	2011		2012		2013	2014		2015		2016
	Budget 1/	Actual	Budget	Actual	Actual	Budget	Proj.	Budget	Proj.	Proj.
					(In billions of riels)					
Revenue	8,064	8,114	8,900	9,590	11,372	11,387	13,260	12,152	14,118	15,516
Of which: Nongrant	6,372	6,436	7,280	8,017	8,971	10,177	11,263	11,525	12,765	14,093
Tax	5,462	5,289	6,263	6,424	7,265	8,291	9,297	9,424	10,461	11,629
Income, profits, and capital gains	1,044	960	1,278	1,276	1,561	1,777	1,964	2,069	2,456	2,755
Good and services	3,192	3,123	3,624	3,815	4,210	4,750	5,450	5,395	5,920	6,695
International trade and transactions	1,226	1,206	1,361	1,333	1,493	1,764	1,883	1,961	2,085	2,179
Grants	1,692	1,678	1,620	1,572	2,401	1,210	1,997	627	1,354	1,422
Other revenues 1/	910	1,147	1,017	1,593	1,706	1,886	1,965	2,100	2,304	2,464
Total expenditure	9,543	10,236	10,431	11,740	12,685	13,468	14,160	15,231	15,565	17,583
Expense	5,851	5,888	6,518	6,818	7,351	8,582	8,838	9,939	10,082	11,541
Compensation of employees	2,379	2,290	2,735	2,660	3,118	3,864	3,952	4,768	4,768	5,917
Purchase of goods and services	1,954	1,962	2,045	2,310	2,400	2,300	2,798	2,941	3,047	3,399
Interest	140	160	171	305	439	231	232	276	276	307
Expense not elsewhere classified	1,379	1,476	1,566	1,543	1,394	2,187	1,857	1,954	1,991	1,918
Net acquisition of nonfinancial assets	3,692	4,348	3,913	4,922	5,334	4,886	5,322	5,291	5,483	6,043
Of which: Externally financed	2,600	3,403	2,860	4,023	4,306	3,460	4,147	3,687	3,879	4,069
Net lending (+)/borrowing(-)	-1,479	-2,122	-1,531	-2,150	-1,313	-2,080	-900	-3,079	-1,446	-2,067
Net acquisition of financial assets	-498	-3	-521	363	308	99	1,564	-156	1,004	442
Net incurrence of liabilities 2/	981	2,119	1,010	2,514	1,622	2,179	2,464	2,923	2,450	2,510
Of which: External	860	1,779	1,010	2,350	1,923	2,179	1,811	2,923	2,450	2,510
					(In percent of GDP)					
Revenue	15.5	15.6	15.7	16.9	18.4	17.0	19.8	16.7	19.4	19.4
Of which: Nongrant	12.2	12.4	12.8	14.1	14.5	15.2	16.9	15.8	17.5	17.6
Tax	10.5	10.2	11.0	11.3	11.7	12.4	13.9	13.0	14.4	14.5
Income, profits, and capital gains tax	2.0	1.8	2.3	2.3	2.5	2.7	2.9	2.8	3.4	3.4
Good and services tax	6.1	6.0	6.4	6.7	6.8	7.1	8.2	7.4	8.1	8.4
International trade and transactions tax	2.4	2.3	2.4	2.4	2.4	2.6	2.8	2.7	2.9	2.7
Grants	3.3	3.2	2.9	2.8	3.9	1.8	3.0	0.9	1.9	1.8
Other revenues 1/	1.7	2.2	1.8	2.8	2.8	2.8	2.9	2.9	3.2	3.1
Total expenditure	18.3	19.7	18.4	20.7	20.5	20.2	21.2	20.9	21.4	22.0
Expense	11.2	11.3	11.5	12.0	11.9	12.8	13.2	13.7	13.9	14.4
Compensation of employees	4.6	4.4	4.8	4.7	5.0	5.8	5.9	6.6	6.6	7.4
Purchase of goods and services	3.8	3.8	3.6	4.1	3.9	3.4	4.2	4.0	4.2	4.2
Interest	0.3	0.3	0.3	0.5	0.7	0.3	0.3	0.4	0.4	0.4
Expense not elsewhere classified	2.6	2.8	2.8	2.7	2.3	3.3	2.8	2.7	2.7	2.4
Net acquisition of nonfinancial assets	7.1	8.4	6.9	8.7	8.6	7.3	8.0	7.3	7.5	7.5
Of which: Externally-financed	5.0	6.5	5.0	7.1	7.0	5.2	6.2	5.1	5.3	5.1
Net lending (+)/borrowing(-)	-2.8	-4.1	-2.7	-3.8	-2.1	-3.1	-1.3	-4.2	-2.0	-2.6
Net acquisition of financial assets	-1.0	0.0	-0.9	0.6	0.5	0.1	2.3	-0.2	1.4	0.6
Net incurrence of liabilities 2/	1.9	4.1	1.8	4.4	2.6	3.3	3.7	4.0	3.4	3.1
Of which: External	1.7	3.4	1.8	4.1	3.1	3.3	2.7	4.0	3.4	3.1
Memorandum items:										
Net lending (+)/borrowing(-) excluding grant	-6.1	-7.3	-5.6	-6.6	-6.0	-4.9	-4.3	-5.1	-3.8	-4.4
Domestic financing 3/	1.2	0.7	0.9	-0.4	-1.0	-0.1	-1.4	0.2	-1.4	-0.6
Government deposits	...	4.6	...	4.9	5.0	...	7.1	...	8.1	8.1
GDP (in billions of riels)	52,069	52,069	56,682	56,682	61,866	66,825	66,825	72,767	72,767	80,044

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

1/ Includes provincial tax and nontax revenue.

2/ Includes statistical discrepancy.

3/ The figure is different from the domestic financing figure in Table 5 (GFSM 1986) because of differences in classification, in particular for capital revenue.

Table 5. Cambodia: General Government Operations, 2011–16 (GFSM 1986)

	2011	2012	2013	2014		2015		2016
	Actual	Actual	Actual	Budget	Est.	Budget	Proj.	Proj.
				(In billions of riels)				
Total revenue	6,822	8,596	9,264	10,516	11,627	11,658	12,899	14,240
Tax revenue	5,476	6,674	7,536	8,620	9,683	9,801	11,045	12,201
Direct taxes	960	1,276	1,561	1,777	1,964	2,069	2,456	2,755
Indirect taxes	4,132	4,932	5,474	6,300	7,128	7,100	7,910	8,699
Of which: Trade taxes	1,093	1,218	1,366	1,622	1,760	1,831	1,918	2,005
Provincial taxes	385	465	501	544	591	632	680	748
Nontax revenue	959	1,344	1,435	1,557	1,580	1,724	1,720	1,892
Capital revenue 2/	386	579	293	339	364	134	134	147
Total expenditure	10,744	12,176	13,213	13,577	14,416	15,231	15,565	17,583
Current expenditure	5,997	6,946	7,648	8,581	8,959	9,939	10,082	12,308
Wages	2,233	2,598	3,057	3,783	3,862	4,566	4,566	5,696
Nonwage	3,521	4,039	3,789 0	4,486	4,565	4,709	4,818	5,845
Provincial expenditure	243	308	401	312	532	664	698	767
Capital expenditure	4,548	5,122	5,475	4,921	5,384	5,291	5,483	6,043
Locally financed	1,145	1,100	1,169	1,461	1,237	1,604	1,604	1,973
Externally financed	3,403	4,023	4,306	3,460	4,147	3,687	3,879	4,069
Net lending	198	107	91	75	73	0	0	0
Overall balance	-3,922	-3,579	-3,949	-3,060	-2,789	-3,572	-2,666	-3,343
Financing	3,922	3,579	3,949 0	3,060	2,789	3,572	2,666	3,343
Foreign (net)	3,457	3,923	4,324	3,389	4,068	3,550	3,804	3,932
Grants	1,678	1,572	2,401	1,210	1,997	627	1,354	1,422
Loans	1,943	2,541	2,165 0	2,510	2,382	3,360	2,887	3,034
Amortization	-164	-190	-242	-331	-312	-437	-437	-524
Domestic (net) 3/	465	-344	-375 0	-329	-1,279	22	-1,138	-589
				(In percent of GDP)				
Total revenue	13.1	15.2	15.0	15.7	17.4	16.0	17.7	17.8
Of which: Central government	12.3	14.3	14.1	14.9	16.5	15.1	16.7	16.8
Tax revenue	10.5	11.8	12.2	12.9	14.5	13.5	15.2	15.2
Direct taxes	1.8	2.3	2.5	2.7	2.9	2.8	3.4	3.4
Indirect taxes	7.9	8.7	8.8	9.4	10.7	9.8	10.9	10.9
Of which: Trade taxes	2.1	2.1	2.2	2.4	2.6	2.5	2.6	2.5
Provincial taxes	0.7	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Nontax revenue	1.8	2.4	2.3	2.3	2.4	2.4	2.4	2.4
Capital revenue 2/	0.7	1.0	0.5	0.5	0.5	0.2	0.2	0.2
Total expenditure and net lending	20.6	21.5	21.4	20.3	21.6	20.9	21.4	22.0
Current expenditure	11.5	12.3	12.4	12.8	13.4	13.7	13.9	15.4
Wages	4.3	4.6	4.9	5.7	5.8	6.3	6.3	7.1
Nonwage	6.8	7.1	6.1	6.7	6.8	6.5	6.6	7.3
Provincial expenditure	0.5	0.5	0.6	0.5	0.8	0.9	1.0	1.0
Capital expenditure		9.0	8.8	7.4	8.1	7.3	7.5	7.5
Locally financed	2.2	1.9	1.9	2.2	1.9	2.2	2.2	2.5
Externally financed	6.5	7.1	7.0	5.2	6.2	5.1	5.3	5.1
Net lending	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Overall balance	-7.5	-6.3	-6.4	-4.6	-4.2	-4.9	-3.7	-4.2
Financing	7.5	6.3	6.4	4.6	4.2	4.9	3.7	4.2
Foreign (net)	6.6	6.9	7.0	5.1	6.1	4.9	5.2	4.9
Grants	3.2	2.8	3.9	1.8	3.0	0.9	1.9	1.8
Loans	3.7	4.5	3.5	3.8	3.6	4.6	4.0	3.8
Amortization	-0.3	-0.3	-0.4	-0.5	-0.5	-0.6	-0.6	-0.7
Domestic (net) 3/	0.9	-0.6	-0.6	-0.5	-1.9	0.0	-1.6	-0.7
Memorandum item:								
GDP (in billions of riels) #	52,069	56,682	61,866 0	66,825	66,825	72,767	72,767	80,044
Government deposits (percent of GDP)	4.6	4.9	5.0	…	7.1	…	8.1	8.1

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

1/ Includes supplementary budget.

2/ Includes privatization proceeds.

3/ Includes statistical discrepancy. The figure is different from the domestic financing figure in Table 4 (GFSM 2001) because of differences in classification, in particular for capital revenue.

Table 6. Cambodia: Monetary Survey, 2011–17

	2011	2012	2013				2014				2015	2016	2017
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Dec Proj.	Dec Proj.	Dec Proj.
	(In billions of riels)												
Net foreign assets	18,426	21,265	22,549	21,773	18,721	21,260	23,344	26,236	26,818	26,700	31,004	35,110	39,365
National Bank of Cambodia	16,010	18,583	20,026	19,019	16,868	19,535	20,975	23,151	24,544	24,476	27,870	31,160	34,751
Foreign assets	16,435	19,003	20,437	19,438	17,295	19,957	21,399	23,579	24,961	24,880	28,290	31,588	35,179
Foreign liabilities	425	421	410	418	427	421	425	427	416	404	420	428	428
Deposit money banks	2,416	2,682	2,523	2,754	1,852	1,725	2,370	3,084	2,273	2,224	3,133	3,950	4,614
Foreign assets	4,714	8,721	8,389	8,317	8,444	8,564	10,387	10,418	10,261	10,005	12,403	13,832	14,842
Foreign liabilities	2,298	6,038	5,866	5,563	6,592	6,839	8,017	7,334	7,987	7,782	9,270	9,882	10,228
Net domestic assets	5,215	7,327	7,932	9,886	10,635	11,508	11,817	12,024	13,950	15,860	21,738	29,794	39,356
Domestic credit	14,898	19,312	20,218	22,148	23,646	24,827	25,248	26,881	29,114	31,885	42,834	58,874	80,551
Government (net)	-2,123	-2,486	-2,992	-3,013	-2,808	-2,795	-3,349	-3,747	-4,113	-4,359	-4,369	-4,376	-4,366
Private sector	17,021	21,793	23,199	25,146	26,445	27,609	28,585	30,621	33,226	36,245	47,203	63,250	84,918
Other items (net)	-9,684	-11,985	-12,286	-12,262	-13,011	-13,318	-13,431	-14,857	-15,163	-16,026	-21,096	-29,080	-41,195
Broad money	23,640	28,592	30,481	31,659	29,356	32,768	35,162	38,260	40,768	42,560	52,742	64,904	78,721
Narrow money	3,956	4,046	4,501	4,586	4,721	4,878	5,376	5,231	5,583	6,308	7,185	8,216	9,397
Currency in circulation	3,772	3,756	4,223	4,237	4,319	4,454	4,841	4,745	5,133	5,593	6,393	7,333	8,403
Demand deposits	185	290	278	349	402	424	535	487	450	715	792	884	994
Quasi-money	19,684	24,546	25,980	27,073	24,635	27,890	29,786	33,029	35,185	36,251	45,557	56,688	69,324
Time deposits	557	780	671	745	911	945	840	966	994	1,090	1,254	1,442	1,658
Foreign currency deposits	19,127	23,766	25,309	26,328	23,723	26,945	28,946	32,063	34,191	35,161	44,303	55,246	67,666
	(12-month percentage change)												
Net foreign assets	8.0	15.4	16.3	5.1	-8.6	0.0	3.5	20.5	43.3	25.6	16.1	13.2	12.1
Private sector credit	31.2	28.0	28.5	29.4	28.3	26.7	23.2	21.8	25.6	31.3	30.2	34.0	34.3
Broad money	21.4	20.9	22.6	18.8	9.3	14.6	15.4	20.8	38.9	29.9	23.9	23.1	21.3
Of which: Currency in circulation	21.7	-0.4	10.8	16.7	20.3	18.6	14.6	12.0	18.9	25.6	14.3	14.7	14.6
Foreign currency deposits	20.7	24.3	26.7	18.8	6.1	13.4	14.4	21.8	44.1	30.5	26.0	24.7	22.5
	(Contribution to year-on-year growth of broad money, in percentage points)												
Net foreign assets	7.0	12.0	12.7	4.0	-9.5	0.0	2.6	14.1	27.6	16.6	10.1	7.8	6.6
Net domestic assets	14.3	8.9	9.9	14.8	12.3	14.6	12.7	6.8	11.3	13.3	13.8	15.3	14.7
Domestic credit 1/	20.8	18.7	18.9	19.1	16.1	19.3	16.5	15.0	18.6	21.5	25.7	30.4	33.4
Government (net)	0.0	-1.5	-1.8	-2.3	-1.2	-1.1	-1.2	-2.3	-4.4	-4.8	0.0	0.0	0.0
Private sector	20.8	20.2	20.7	21.4	17.3	20.3	17.7	17.3	23.1	26.4	25.7	30.4	33.4
Other items (net)	-6.4	-9.7	-9.1	-4.3	-3.8	-4.7	-3.8	-8.2	-7.3	-8.3	-11.9	-15.1	-18.7
Memorandum items:													
Foreign currency deposits (in millions of U.S. dollars)	4,736	5,949	6,335	6,590	5,938	6,745	7,103	7,868	8,390	8,628	10,699	13,160	15,924
(In percent of broad money)	80.9	83.1	83.0	83.2	80.8	82.2	82.3	83.8	83.9	82.6	84.0	85.1	86.0
Riel component of broad money	4,513	4,826	5,172	5,331	5,632	5,823	6,216	6,197	6,577	7,399	8,438	9,658	11,055
(In percent of broad money)	19.1	16.9	17.0	16.8	19.2	17.8	17.7	16.2	16.1	17.4	16.0	14.9	14.0
Credit to the private sector (in millions of U.S. dollars)	4,214	5,455	5,807	6,294	6,620	6,911	7,015	7,514	8,154	8,894	11,400	15,067	19,984
(In percent of GDP)	32.7	38.4	40.0	42.4	43.7	44.6	44.6	47.1	50.4	54.2	64.9	79.0	96.4
Foreign Currency Loans	16,583	21,609	22,959	24,902	26,201	27,368	28,341	30,218	32,776	35,677	46,464	62,261	83,589
Loan-to-deposit ratio (in percent) 2/	86.7	90.9	90.7	94.6	110.4	101.6	97.9	94.2	95.9	101.5	104.9	112.7	123.5
Velocity 3/	2.0	2.0	2.1	2.0	2.0	2.0	2.0	1.9	1.8	2.0	2.0	2.0	1.9
Money multiplier (broad money/reserve money)	2.1	2.2	2.1	2.3	2.5	2.2	2.3	2.2	2.2	2.3	2.3	2.5	2.6
Reserve money (12-month percent change)	7.7	19.0	22.8	11.5	-6.3	13.0	8.9	22.6	57.8	24.6	23.3	15.6	15.0

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

1/ Revisions of monetary survey to exclude banks' credits to nonresident.

2/ Foreign currency loans and deposits only.

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

Table 7. Cambodia: Core Financial Soundness Indicators (FSIs), 2008–14

(In percent)

	2008	2009				2010				2011				2012				2013				2014			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
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	26.2	29.1	28.8	27.2	25.0	25.6	25.6	25.9	24.8	25.3	24.0	22.7	21.5
Nonperforming loans net of provisions to capital	5.9	8.2	8.3	9.7	5.3	5.1	5.5	6.0	3.8	3.9	4.6	5.4	3.3	3.8	3.5	4.3	3.5	3.4	3.6	3.5	3.6	3.7	3.9	4.0	3.3
Return on equity 1/	12.4	5.8	5.0	4.7	4.9	5.9	6.2	6.6	6.5	9.0	9.6	10.5	9.7	11.2	11.0	10.5	10.3	12.9	11.6	5.7	8.8	10.7	10.8	6.0	9.9
Net open position in foreign exchange to capital	0.9	0.9	1.0	4.5	1.4	3.2	5.0	5.0	2.3	3.1	3.0	3.9	3.9	2.9	3.4	1.8	2.0	1.6	1.2	0.6	1.0	1.7	1.9	1.9	1.6
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	2.1	2.4	2.2	2.5	2.0	1.9	2.1	2.2	2.3	2.2	2.2	2.1	1.8
Return on assets 1/	2.7	1.2	1.1	1.0	1.0	1.2	1.2	1.3	1.3	1.9	1.8	2.0	1.8	2.3	2.1	1.9	1.7	2.3	2.1	1.2	1.8	2.1	2.1	1.1	1.8
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	16.2	17.2	17.5	16.1	15.4	16.2	16.0	16.8	17.9	16.4	19.0	18.8	17.4
Liquid assets to short-term liabilities	30.6	20.8	22.4	27.3	26.8	22.4	24.8	24.5	25.2	25.2	25.3	27.0	23.0	24.3	24.4	22.5	21.2	22.4	22.2	24.6	25.5	23.0	26.3	26.0	24.5
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	92.3	88.3	85.7	87.1	84.0	86.6	87.2	88.1	89.3	86.2	89.0	89.9	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	7.7	8.1	7.9	8.4	7.7	8.1	7.9	7.2	8.8	9.1	10.0	11.6	11.6
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	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
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	0.0	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	69.5	65.8	63.8	64.1	62.0	63.8	63.8	64.6	63.3	61.2	62.6	61.7	62.4
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	15.1	14.4	14.0	14.6	14.3	14.7	15.6	16.3	17.1	15.8	16.3	16.5	16.9
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	7.7	11.7	14.3	12.9	16.0	13.5	12.8	11.9	10.7	13.8	11.0	10.1	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	65.3	63.6	64.3	63.1	65.6	66.7	66.7	69.9	68.2	69.7	69.0	69.1	69.8	69.5	69.7
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	57.9	56.1	57.5	53.9	54.7	53.6	53.9	49.5	51.1	50.8	52.4	53.0	51.3	51.2	51.5

Source: National Bank of Cambodia

1/ Annualized.

Table 8. Cambodia: Key 2010 FSAP Recommendations of High Priority

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 upgrading regulations.	Short term	In process
· Establish procedures, through MOUs, for practical information exchange, coordination and accountability among domestic supervisors (NBC, MEF, SECC), and with foreign supervisors.	Short term	In process
· 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
Supervision and Regulation		
Banking		
· Develop supervisory strategy to deal with banks that cannot meet the new capital requirement.	Short term	Done
· Impose a moratorium on new bank licenses as long as supervisory capacity and resources remain inadequate.	Short term	In process
· Upgrade legal framework and enforce banks to report legal requirments on internal control and strenghthen on-site supervision to ensure quality of loan classification and provisioning by banks.	Short term	In process
Nonbank 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
· Conduct a readiness study prior to the launch of the stock exchange.	Short term	Done
· Upgarde regulations of microfinance deposit-taking institutions to those of banks	Short term	Under NBC's consideration
· Enhance powers for intervention, corrective measures and enforcement.	Medium term	Under NBC's consideration
Crisis Management Framework		
· 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	Done
· Develop a crisis management framework.	Short term	In process
· Revise PCA framework by developing additional triggers for asset quality, liquidity, and earlier intervention based on the solvency ratio.	Short term	Under NBC's consideration
Transparency of Monetary and Financial Policies		
· 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	In preparation
· 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	In preparation
Corporate governance of banks		
· Draft and/or implement banking regulations on internal audit and controls, risk management, and compliance functions at banks.	Short term	Done
AML/CFT 2/		
· Introduce new measures for conducting overall AML/CFT risk assessments and risk profiling of financial institutions.	Short term	In preparation

1/ Short term: up to one year; medium term: one to three years.
2/ Since the 2010 FSAP, Cambodia has made progress in adressing deficiencies in its legal and regulatory framework, resulting in its removal from the FATF's On-Going Global AML/CFT Compliance Process in February 2015. The authorities are encouraged to continue to address the full range of issues identified in its mutual evaluation report and to effectively implement the AML/CFT framework.

Table 9. Cambodia: Millennium Development Goals (MDG) Indicators, 1990–2015

	1990	1995	2000	2005	2009	2010	2011	2012	2013	2014	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger											
Percentage share of income or consumption held by poorest 20 percent	...	8.5	...	...	8	...	...	...	...	...	11
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	...			21
Poverty headcount ratio at $1.25 per day (PPP, percent of population)	...	49	...	40	13	11	10	...	...	...	20
Poverty headcount ratio at national poverty line (percent of population)	...	...	...	50	24	22	21	18	...	...	
Prevalence of underweight in children (under five years of age)	...	43	40	28	...	29	...	...	...	...	26
Goal 2: Achieve universal primary education											
Net primary enrollment (percent of relevant age group)	67	...	87	90	...	98	98	98	...	...	100
Primary completion rate, total (percent of relevant age group)	...	42	47	85	88	91	93	98	...	...	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	55	...	85	66	...	...	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	83	87	...	...	...	...	...	100
Goal 3: Promote gender equality and empower women											
Proportion of seats held by women in national parliament (percent)	...	...	8	10	21	21	20	20	20	20	30
Ratio of girls to boys in primary and secondary education (percent)	73	..	82	..	...	...	...	...	...	...	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	90	97	...	...	...	...	...	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	92	93	93	93	90	...	90
Infant mortality rate (per 1,000 live births)	87	87	80	73	39	37	36	34	33	...	50
Under five mortality rate (per 1,000)	119	119	107	96	46	44	42	40	38	...	38
Goal 5: Improve maternal health											
Births attended by skilled health staff (percent of total)	..	..	32	44	...	71	...	74	...	...	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	540	...	206	...	...	170	...	250
Goal 6: Combat HIV/AIDS, malaria, and other diseases											
Incidence of tuberculosis (per 100,000 people)	585	557	530	505	451	437	424	411	400	...	...
Prevalence of HIV, total (percent of population 15–49)	...	...	...	2	1	1	1	1	1	...	...
Goal 7: Ensure environmental sustainability											
Access to an improved water source (percent of population)	0	19	38	...	64	66	69	71	...	...	...
Access to improved sanitation (percent of population)	0	8	16	...	32	33	35	37	...	...	...
Nationally protected areas (percent of total land area)	...	...	...	24	26	26	...	26	...	...	...
Goal 8: Develop a global partnership for development											
Aid per capita (current U.S. dollars)	4	50	31	39	51	51	54	54	...	...	...
Fixed line and mobile phone subscribers (per 100 people)	0	0	1	8	45	59	98	132	137	...	...
Internet users (per 1,000 people)	0	...	0	3	1	1	3	5	6	...	...
Personal computers (per 1,000 people)	...	0	1	3	...	...	...	...	...	...	...
Total debt service (percent of exports of goods and services)	..	1	1	1	1	1	1	1	2	...	...
Goal 9: De-mining, UXO and assistance											
Annual numbers of civilian casualties recorded	...	1,691	...	797	244	286	240	240	...	...	0
Percentage of suspected contaminated areas cleared	...	10	...	50	53	59	56	56	...	...	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	690	740	810	880	950	...	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.2	3.6	6.2	10	11	12	13	14	...	...
Gross capital formation (percent of GDP)	8	15	18	18	21	17	17	...	19	...	...
Life expectancy at birth, total (years)	50	...	...	58	70	71	71	71	...	...	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	...	74	...	...	...	...	...	...
Population, total (millions)	10	11	13	14	14	14	15	15	15	...	...
Trade (percent of GDP)	19	78	112	137	105	114	114	...	140	...	...

Sources: World Bank database, *World Development Indicators,* and *Poverty Assessment* (2009); UN Human Development Indicators Report (2003); Cambodia MDG 2011 update; UN MDG Indicators 2011 (http://mdgs.un.org); and IMF staff estimates.

INTERNATIONAL MONETARY FUND

CAMBODIA

October 1, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of August 31, 2015)

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	100.0
Fund holdings of currency (Exchange Rate)	87.50	100.0
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	83.92	100.00
Holdings	68.34	81.44

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Oct. 22, 1999	Feb. 28, 2003	58.50	58.50
ECF [1/]	May 06, 1994	Aug. 31, 1997	84.00	42.00

[1/] Formerly PRGF

Projected Payments to the Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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, which updated the previous March 2004 voluntary assessment. The update assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework; however, important recommendations proposed in 2004 were still outstanding, and some new risks had emerged in the area of external audit.

Exchange Rate Arrangement and Payments System

Cambodia's exchange regime is classified as *stabilized*. The *de jure* regime is a *managed float*. 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 November 4–15, 2013. The Executive Board approved the staff report (IMF Country Report 14/33) on January 27, 2014.

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, tax and customs administration, macro-fiscal and revenue forecasting, 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 IMF Resident Representative in Phnom Penh (Ms. Yong Sarah Zhou) was appointed in July 2015. Mr. Faisal Ahmed, former Resident Representative, assumed the post for the Cambodian IMF office from July 2011 to July 2015.

IMF-WORLD BANK COLLABORATION

(July 2015)

The Bank and the IMF country teams for Cambodia, led by Mr. Mathew Verghis (Practice Manager GMFDR) and Ms. Jain-Chandra (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. Bank staff share and discuss the review of macroeconomic developments and country pages. IMF staff share policy notes and analytical background notes related to Article IV consultation missions.

- **Financial sector reform and FSAP.** The World Bank and the IMF teams have worked closely together while undertaking the 2010 FSAP. In line with the FSAP recommendations, technical assistance missions are now ongoing and close coordination between the IMF and the World Bank continues.

- **Public financial management and tax and customs administration reform.** Both institutions are working closely together under the Public Financial Management Reform Program (PFMRP) including 2014-18 revenue mobilization strategy as well as tax and customs administration reform. Both teams are members of the Development Partner Committee (DPC) of the PFMRP, a coordination mechanism for all Development Partners' support for the PFMRP under a Sector Wide Approach, and share information as much as possible on the work done in this area. The partial launch of the FMIS on July 20, 2015 marks a major milestone towards the full implementation of a comprehensive transaction processing, improved financial control, and more transparent and timely financial report generation facility.

- **Trade Facilitation and private sector development**. Both institutions are providing technical supports to GDCE/MEF on customs and border reform, regulatory reform, and streamlined import and export procedures. Under WBG Trade Related-Assistance in Cambodia program (TRAC) contributed to better logistics, non-tariff measure (NTM), trade repository, investment incentive policy, and making it easier for exporters to integrate into regional production networks. Under the WBG Trade Facilitation Facility (TFF) supported the GDCE/MEF to develop Cambodia National Single Window (CNSW) blueprint. Trade Development Support Program (TDSP) continues to support the expansion of ASYCUDA to 51 customs checkpoints in different geography, MAFF on SPS automation system, and MOC on certification of country origin automation, trade-marks registration system, and business registration automation system. Cambodia gained ranking 46 places in the Logistics Performance Indicators (LPI) between 2010–14 and abolished unnecessary certificates of origin (CO) required by the importing countries.

- **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. World Bank staff are also invited to and do participate in some of the key meetings. The IMF also participated in some of the WB capacity building TA missions on contingent liabilities. Both institutions are considering using the TA mission findings to further strengthen the DSA analysis.

- **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 improving investment climate, economic diversification, customs modernization, and rural development.

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

- **Sustaining growth.** Growth remains robust although there are signs of deceleration. While decelerating, the garment sector together with construction, and services, in particular finance and real estate, continues to propel growth. Overall macroeconomic management remains appropriate but there are signs of weaknesses in the areas of productivity and competitiveness. Fiscal consolidation continues with further improvements in revenue collection resulting from enhanced administration. Sustaining growth would require continued fiscal consolidation and prudent management of the banking sector risks. Improving the business climate, reducing infrastructure, energy, and skills bottlenecks, promoting private sector development and economic diversification, improving governance and the delivery of public services and supporting rural development continue to be essential to promote self-sustaining and inclusive growth.
- **Managing public finances and debt.** Fiscal policy remains the main instrument for macroeconomic management given high dollarization. Prudent fiscal management is, therefore, critical and needs to be underpinned by improved revenue collection, prioritized spending, and better monitoring of contingent liabilities, including through the budgetary and public debt management framework and further progress in budgetary transparency.
- **Safeguarding financial system stability and improving the effectiveness of monetary policy.** Implementing the key recommendations of the 2010 FSAP remains critical to safeguarding financial stability. These include implementing a moratorium on new bank licenses, strengthening coordinated supervision, developing the foreign exchange market, and improving the supervisory capacity. Financial stability risks from the buoyant real estate markets need to be managed through strengthened supervision and improved data collection. Developing an interbank market remains a necessary step for a transition to more effective and market based monetary policy operations.
- **Improving governance.** Both the World Bank and IMF have stressed the critical role of governance in improving the quality of service delivery and fostering private sector development, which is the engine of growth.

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, 2015–16

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 • Cambodia Economic Update	Ongoing	Once every six months: tentatively in April and Oct
	Financial sector • FSAP follow-up technical assistance to implement IFRS roadmap for accounting and auditing practices in financial institutions. FSAP follow-up technical assistance to implement crisis management framework. • FSAP follow-up technical assistance on regulatory framework with the main focus on Prakas and related regulations • FSAP follow up technical assistance on development in financial sector to promote financial inclusion agenda in Cambodia.	Ongoing	Two or three missions a year.
	Public sector management • Public Financial Management Reform Program (PFMRP) • Public administration reform (PAR) potential technical assistance support envisioned. • Public Expenditure Review (PER) is being planned to cover key social sectors such as health and education.	Ongoing	Public Financial Management Modernization Project (PFMMP)
	Trade and Private Sector Development • Trade Related Assistance in Cambodia (TRAC under Bank Execution) • Trade Dev. Support Program (TDSP under Recipient Execution) • Trade Logistic Blueprint and Connectivity • Customs modernization and reform • Non-tariff measure (NTR) and trade repository, • Investment incentive policy • SPS automation system, • Certification of country origin automation, • Trade mark registration and Intellectual Property Rights • Business registration automation system. .	On going	
The IMF's Work Program in the next 12 Months	**Macroeconomic policy analysis and advice** • 2015 Article IV consultation • Policy notes on request	June 2015 Ongoing	October 2015
	Technical assistance • Fiscal sector: Tax administration, macro-fiscal capacity building, PFM • Financial sector: FSAP follow-up work, resident banking supervision advisor, consolidated supervision, foreign exchange market, liquidity management, data improvement • 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	2015 Article IV consultations	During Article IV consultations

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(July 2015)

As of December 31, 2014, Cambodia has received $2.11 billion in Asian Development Bank (AsDB) lending, grants, and technical assistance including 77 loan projects and programs of $1,798.26 million with low interest, and 21 Asian Development Fund (ADF) grants of $255.71 million. Cumulative disbursements to Cambodia as of 17 April 2015 for active sovereign lending and grants are $476.80 million.

The sector composition of active lending, grants, and technical assistance as of 17 April 2015 is: (i) agriculture, natural resources and rural development, $359.81 million; (ii) education $106.77 million; (iii) energy, $76.58 million; (iv) finance, $15.44 million; (v) health, $10.00 million; (vi) industry and trade, $11.95 million; (vii) public sector management (PSM), $28.14 million; (viii) transport, $407.25 million; and (ix) water and other urban infrastructure and services, $97.70 million.

The AsDB Cambodia Country Partnership Strategy (CPS), 2014–2018, endorsed by the Board on November 28, 2014, aligns with Cambodia's strategic planning cycle and the priorities reflected in the Rectangular Strategy for Growth, Employment, Equity and Efficiency, Phase III (RSIII) and the National Strategic Development Plan (NSDP, 2014–2018). Consistent with the government's economic reform priorities, the impact of the CPS will be reduction in poverty and vulnerability. The CPS embeds the three strategic agendas of the Midterm Review of Strategy 2020 into all AsDB operations: (i) inclusive economic growth; (ii) environmentally sustainable growth; and (iii) regional cooperation and integration (RCI).

The 2014–18 CPS builds on two strategic pillars for AsDB's activities in Cambodia: (i) rural-urban-regional links, and (ii) human and social development, and one facilitating pillar: PSM. Expanding rural-urban-regional connectivity is an integrated approach to developing those areas where most poor people live and focuses on transport and economic corridor development to link national value chains with the region and the world. This pillar develops rural-urban-regional infrastructure (including irrigation and water management, rural electrification, rural roads, rural water supply, urban infrastructure, road maintenance, and trade facilitation) and supports the commercialization of farms and competitiveness of agribusiness through improved connectivity. The second pillar, targeted human and social development, supports access to, and the quality of, secondary education, and targeted skills development through technical and vocational education and training linked to evolving demands of the labor market. PSM covers decentralization and deconcentration and public financial management reforms and acts as facilitating pillar to improve country and sector governance and mitigate project-level fiduciary risks.

AsDB has been a leading development partner of the finance sector in Cambodia since 1999. A comprehensive approach was required to rebuild the financial system in a devastated economy that had no finance sector. The Third Financial Sector Program (TFSP) has been operating since 2011 and supported implementation of recommendations of the 2010 Financial Sector Assessment Program

(FSAP) and initial stages of the government's updated Financial Sector Development Strategy, 2011–2020. After successfully rebuilding the basic foundation of the banking industry under the First and Second Financial Sector Programs, the TFSP supports the sector's expansion to cover the important subsectors of nonbanking services and capital markets, and to boost investor's and beneficiaries' confidence in the system with a stronger legal and regulatory framework, necessary infrastructure, and better quality of services, including consumer protection. Beyond this, AsDB will support improved access to formal sources of finance, especially in rural areas, both through related AsDB initiatives, such as those to support growth of commercial farms and rural enterprises, and through private sector operations, which will focus on finance sector development, including private equity, transport, agribusiness, water supply and sanitation, and trade and supply chain finance for SMEs.

AsDB has provided policy and advisory technical assistance for public private partnerships (PPPs) in Cambodia. AsDB has assisted the government to review existing policies, laws, regulations, and institutional arrangements; develop a strategic framework for PPPs; and proposed changes to the law on concessions in order to make the PPP process effective. A capacity development technical assistance project for PPPs is currently implemented to help build the institutional capacity of government's agencies involved in PPPs.

Asian Development Bank: Loans/Grants Commitment and Disbursements to Cambodia 1992–2014

(In millions of U.S. dollars, as of December 31, 2014)

No.	Year	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	67.2
16	2007[3]	64.1	82.5	62.1
17	2008[4]	84.1	140.7	137.7
18	2009[5]	144.5	59.8	82.7
19	2010[6]	160.8	64.3	71.4
20	2011[7]	70.0	128.6	122.3
21	2012 [8]	312.6	79.5	60.5
22	2013 [9]	98.2	149.6	163.6
23	2014 [10]	247.3	104.1	98.7
	TOTAL:	**2,142.0**	**1,465.3**	**1,430.5**

[1] US$10 million loans and US$42 million grants.
[2] US$62 million loans and US$7.8 million grants.
[3] US$27.1 million loans and US$37 million grants.
[4] US$53.8 million loans and US$30.3 million grants.
[5] US$71.7 million loans and US$72.8 million grants.
[6] US$95.0 million loans and US$65.8 million grants.
[7] US$67.0 million loans and US$11.9 million grants.
[8] US$275.46 million loans and $37.16 grants.
[9] US$70.0 million loans and US$28.21 million grants.
[10] US$226.0 million loans and US$21.25 million grants.
Source: Asian Development Bank.

STATISTICAL ISSUES

(September 2015)

Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the IMF, United Nations Development Programme, Asian Development Bank (AsDB), and World Bank, as well as by bilateral partners, leading to substantial capacity improvements. Currently, Cambodia is participating in Statistics Department's (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. Despite the progress made in improving data statistics, several shortcomings in macroeconomic data still hamper timely and comprehensive analysis.

National accounts. Despite improvements in recent years, weaknesses remain in the quality and timeliness of national accounts data. The quality of GDP estimates remains hampered by the lack of comprehensive and reliable source data on a production and expenditure basis, in part due to resource constraints and weak data collection techniques. In November 2011, a TA mission assessed current methodologies used to compile national accounts estimates and provided support with the development of the quarterly national accounts estimates. In 2014 February, another TA mission was conducted mainly to assist the National Institute of Statistics (NIS) processing the results of Cambodia's first ever 2011 Economic Census of Cambodia (EC2011) for improving GDP estimates. The purpose of the EC2011 was not particularly focused on national accounts, hence TA concluded further improvements are needed to convert EC 2011 data into national accounts data following the System of National Accounts (SNA) concepts and definitions. The TA mission also assessed the implementation of the previous mission recommendations and found that progress has stalled partly due to resource constraints. Statistics Sweden has been assisting the NIS for improving the national accounts compilation.

Price statistics. The compilation of the consumer price index (CPI) suffers from insufficient coverage. An updated CPI series was introduced starting in April 2012. Geographic coverage of the series has been expanded to include Phnom Penh plus five provinces. A STA TA mission visited Phnom Penh in April 2012 to assist with updating/improving the CPI. 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 (GFS). 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 the assistance of the IMF. In addition, several STA missions have assisted with GFS compilation procedures within the GSFM 2001 framework. In 2011, Cambodia agreed to participate in the GFS project funded by the Government of Japan. As a result, authorities have benefited from three TA missions in 2012, 2013, and October 2014 to assist them in the compilation and implementation of GFS. The objectives of latest TA were (i) finalizing the Charts of Accounts (CoA) mapping into GFS, which will allow integration into the new Financial Management Information System (FMIS) and use of the FMIS to produce GFS tables; and (ii) addressing questions related to the compilation of below-the-line data based on the GFSM 2001 and its update, the GFSM 2014. The new CoA is implemented starting January 2015. Despite improvements, further actions are needed in areas such as integrating the coverage of GFS to broader public sectors and local governments, develop and implement the functional classification of expenditure, reconciling data with monetary and financial statistics and external sector statistics data.

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. Some data inconsistencies continue to pose a challenge to the interpretation of FSIs. STA's TA mission focused on the methodology of compilation of FSIs is scheduled in September 2015.

External sector statistics. Cambodia is part of the Asian module of the Project on the Improvement of External Sector Statistics (ESS) in the Asia Pacific Region, (funded by the government of Japan launched in October 2012), which aims to improve the accuracy, availability, comparability and timeliness of ESS in the region. The project consists mainly of short-term TA missions in three years. Third TA mission in September 2014 reviewed progress in the implementation of the action plan agreed during first TA mission in April 2013 and second TA mission in November 2013. Additionally, mission focused on improving direct investment statistics and strengthening interagency cooperation in data sharing for balance of payments purposes. The NBC has made progress in improving the compilation system following the 2013 TA missions. The most significant accomplishments include: (i) conducting a series of training sessions with commercial banks to enhance their understanding of the international transactions reporting system (ITRS); (ii) initiating the work for establishing the business register in cooperation with other government institutions; and (iii) preparing the draft direct investment survey questionnaire. However, further actions are needed in the following areas: (i) improving inter-institutional cooperation among government institutions; and (ii) improving coverage and address methodological inconsistencies. 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. It is welcomed that the NBC is launching survey on foreign direct investment. The NBC receives monthly data from the General Department of Customs and Excise (GDCE) broken down into main commodities, which it uses to generate quarterly BOP figures as well as for internal analysis purposes. The quarterly trade figures, which are much more robust because they include updated monthly figures, needs to be provided to the NBC in timelier and more systemically manner. A significant improvement of Cambodia's external sector statistics can be achieved if compilers strive to enhance and increase the use of the existing ITRS, which can serve as a cost-efficient and comprehensive data source to capture BOP transactions. Gaps also exist in public external debt and official transfers (e.g. grants), 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 September 2015)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	9/21/ 2015	9/21/ 2015	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	8/2015	9/2015	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	7/2015	9/2015	M	M, 4–6 week delay	M
Broad Money	7/2015	9/2015	M	M, 4–6 week delay	M
Central Bank Balance Sheet	7/2015	9/2015	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	7/2015	9/2015	M	M, 4–6 week delay	M
Interest Rates[3]	7/2015	9/2015	M	M, 3 month lag	M
Consumer Price Index	7/2015	9/2015	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General	5/2015	8/2015	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—Central	5/2015	8/2015	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	5/2015	8/2015	M	M, 3 month lag	A
External Current Account Balance	3/2015	8/2015	Q	Q, 3-5 month lag	Q
Exports and Imports of Goods and Services	7/2015	9/2015	M	M, 4 week lag	M
GDP/GNP	2014	6/2015	A	A, 6 month lag	A
Gross External Debt	6/2015	8/2015	M	M, 4 week lag	A
International Investment Position[7]	3/2015	8/2015	Q	Q, 3-5 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.

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MAIN WEBSITES OF DATA

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

Exchange rates
Balance of payments

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

Government budget
Fiscal revenue, expenditure, and financing

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

CAMBODIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

October 1, 2015

Approved By
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International Monetary Fund
International Development Association

This Debt Sustainability Analysis (DSA) shows that Cambodia's debt distress rating remains low with all debt burden indicators projected to remain below the respective thresholds. In line with last year's DSA, the results also indicate that debt sustainability continues to be vulnerable to growth, exports, fiscal shocks, and the materialization of contingent liabilities, calling for continued structural reforms to increase the economy's resilience against external shocks, and to mobilize fiscal revenues.

1. This DSA continues to assess the risk of debt distress as low. The indicative debt distress thresholds remain unchanged from the 2013 Article IV DSA. Under the baseline scenario, the external and the public debt distress indicators never breach the policy-dependent indicative thresholds, and the PV of external debt follows a downward trend in the medium term. Downside risks to the baseline scenario include external arrears, and the materialization of contingent liabilities. The macroeconomic assumptions underlying the baseline scenario remain broadly similar to last year's DSA, with Cambodia assumed to issue domestic debt (e.g., government bonds) over the long term. The debt-to-GDP ratio at end-2014 was slightly higher than the previous estimate due to larger disbursement of bilateral debts, especially from China.[1] Cambodia's Country Policy and Institutional Assessment (CPIA) rating remained unchanged at "medium performer."

[1] Eighty percent of outstanding debt is owed to China.

Cambodia's Public Debt

Cambodia: External Public Debt

	U.S. dollar (millions)	Share of total External Debt	In percent of GDP
Total	5,483.5	100.0	33.1
Multilateral	1,696.8	30.9	10.3
Bilateral	3,786.6	69.1	22.9

Sources: Cambodia authorities; and World Bank estimates.

2. **At end-2014, the stock of Cambodia's external public debt, including arrears, stood at around US$5.5 billion or 33 percent of GDP** (23.3 percent in NPV terms). The debt-to-GDP ratio has been steadily increasing since 2008, when it was 27 percent of GDP. Since 2010, the increase in external debt has been driven largely by disbursement of bilateral loans. The corresponding net present value (PV) of the external debt is 23.3 percent of GDP at end 2014, a significant increase from 19.0 percent of GDP at end-2012, primarily because the amortization schedule of existing debt assumes larger principal repayments in more recent years compared to the last DSA.

3. **With greater disbursement of bilateral debt over the past five years, the share of multilateral creditor debt has continued to decline.** The share of bilateral debt, including arrears, in total external public debt has increased from 50 percent in 2009 to 69 percent in 2014. China remains the largest bilateral creditor, contributing to 62 percent of the total bilateral debt stock and about 90 percent of bilateral debt disbursement during the past three years. Cambodia remains in arrears to the Russian Federation and the U.S. (nearly 15 percent of total debt or 5 percent of GDP), and the status of negotiations of these arrears has remained unchanged since the last DSA. Cambodia is not servicing its debt with these two creditors. The Cambodian authorities have been in contact with the Russian and U.S. authorities at least on an annual basis, but further efforts are needed to conclude agreements under the Paris Club framework. Since prospects for resolution remain unclear, this DSA continues to assume no debt restructuring, with arrears continuing to build up over the projection period.

4. **The negligible level of domestic debt remains unchanged.** Cambodia has virtually no domestic public debt at present. There is a small amount of bonds (US$4 million) issued in the early 2000s and some old claims on the government (the total equal to half percent of GDP, with no interest) that were carried over from the 1990s and remain to be recorded in the monetary survey.

5. **While the authorities have made progress on the monitoring of contingent liabilities and debt management, the fiscal risks from contingent liabilities need continuous monitoring.** The development of the debt management strategy and its submission to the parliament in conjunction with the budget and the establishment of the public private partnership (PPP) unit in the MEF to monitor future PPP approvals are welcome. Progress in measuring already assumed contingent liabilities is underway and receives technical assistance from the World Bank. Further strengthening the capacity of the MEF to deal with PPPs contracts, particularly on legal issues, would be recommended. Other recommendations include the adoption of an annual ceiling on PPP guarantees and the listing of all contingent liabilities in the

annual budget law to enhance fiscal transparency. Although debt remains sustainable with a low risk of distress, closer monitoring of fiscal risks from contingent liabilities and further strengthening of capacity to analyze these risks is needed to safeguard the fiscal space.

Macroeconomic Framework

6. The macroeconomic framework underlying the baseline scenario remains broadly in line with the previous DSA.

- **Growth and inflation:** Economic activity remains strong driven by robust exports, real estate, and construction. GDP growth is expected at 7.0 percent in 2015 and is projected to gradually increase to 7.3 percent by 2018 assuming continued improvements in business climate, physical infrastructure, and human capital. Over the long term, growth is projected to moderate to 7 percent. Inflation dropped to 1.1 percent in 2014 led by lower energy and commodity prices. In the medium term, it is expected to average 3 percent, in line with the authorities' informal target and partner countries' medium-term inflation.

- **External stability:** Despite lower garment export and tourism receipts, the current account deficit, including official transfers, is expected to stay flat at around 12 percent of GDP in 2014, partially due to the moderation in imports related to near completion of large power projects and lower garment materials imports, and to remain fully financed by FDI and official loans. For the medium-term, the current account deficit is projected to decline to 7 percent of GDP, as a result of further moderation in imports after the completion of large power generation projects and improved competitiveness and diversification spurred by the participation in the ASEAN Economic Community (AEC), which should support robust export growth. Gross official reserves are projected to remain at around 4 months of prospective imports through 2020. External debt disbursement is projected to average about US$550 million annually during 2015–20 (about 2½ percent of GDP on average), and with this, the debt to GDP ratio is projected to gradually decline to 30 percent by 2020.

- **Fiscal sustainability:** Buoyant revenue collection efforts have improved revenue performance significantly in 2014 and stringent procurement measures have slowed the execution of non-wage current expenditure and locally financed capital expenditure, more than offsetting the continuous increase in the wage expenditure. As a result, the 2014 fiscal deficit narrowed to 1.3 percent of GDP (GFS 2001), compared to 3.1 percent implied by the budget, and government deposits are expected to increase temporarily to 7.1 percent of GDP, before declining to around 4 percent of GDP in the medium term. Effective implementation of the list of tax administration measures contained in the Revenue Mobilization Strategy (RMS) should continue to generate revenue gains, raising domestic revenue by ½ percent of GDP on average over the medium term, in line with the authorities' goal under the Public Financial Management Reform Program. Budget pressure in recent years eased due to strong revenue collection, but large wage increases have limited space to enhance growth critical social and infrastructure spending. In this context, it is important to ensure that the domestic revenue expansion is used most efficiently and effectively. Medium-term fiscal consolidation is therefore anchored to safeguarding government deposits and ensuring long-term fiscal debt sustainability, while striking a careful balance to provide resources for Cambodia's vast development needs against rising wage pressures and an expected gradual decline of concessional external funds. In view of this, domestically funded capital spending is projected to increase from 1.8 percent GDP in 2014 to 3.4 percent in 2020 to cushion the decline in externally funded capital spending, thereby ensuring that the overall capital spending is maintained at around 8 percent of GDP. With continued efforts to increase efficiency of public investment program and by containing the nonwage current spending in terms of GDP, the fiscal deficit, excluding grants, is projected to decline from about 6 percent of GDP in 2013 to 4.6 percent in 2020. Compared to the 2013 DSA, loans from the non-Paris Club official bilateral donors are assumed to be on less concessional terms. This difference in the loan terms increases external debt by 3 percent of GDP by 2033.

- **Domestic debt:** As Cambodia's financial sector continues to develop, it is expected that the government will start issuing domestic government bonds to provide additional fiscal financing. By issuing debt starting from ¼ ppt of GDP annually in 2021 and gradually increasing to about ½ ppt of GDP in 2035, the total stock of domestic debt would reach about 3.7 percent of GDP by 2035. This remains low compared to the average domestic debt in low-income countries (LICs) of about 15 percent of GDP. However, this conservative estimate is in line with the authorities' intention of not issuing domestic debt over the medium term and to focus more on mobilizing domestic revenue and raising government deposits (i.e., savings, not borrowings).

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

7. Under the baseline scenario, the external DSA shows that Cambodia's risk of debt distress is low (Figure 1, Tables 1a and 1b). The PV of debt-to-GDP, debt-to-exports, and debt-to-revenue ratios never breach their respective policy-dependent indicative thresholds and are projected to decline over the projection period. Moreover, the debt service-to-exports and debt service-to-revenue ratios remain well below the thresholds throughout the projection period, partly due to the concessional nature of the debt.

8. Even though standard debt stress tests do not indicate any major vulnerability, they highlight that large exchange rate or export shocks could potentially have a major impact on the debt dynamics. Change in export value growth remains the most important risk to sustainability. As shown in Figure 1, this shock would bring the PV of debt-to-GDP to 36 percent, just 4 percent under the indicative threshold. Similarly, a large one-off depreciation would bring the PV of debt-to-GDP to about 35 percent. While this highlights the importance of continuous monitoring of debt dynamics, the PV of external debt declines over the projection period and does not currently indicate any major vulnerability.

9. Given the minor role played by domestic debt, the public sector DSA closely tracks the external debt sustainability (Figure 2 and Tables 2a and 2b). In particular, the PV of public debt-to-GDP and the public debt service-to-revenue ratios would decline gradually over time, and the debt service-to-revenue ratio would remain low in most scenarios for the entire projection period. It is assumed that, with the development of the domestic bond market, the domestic financing sources will increase after 2020 and the domestic debt will reach about 3.7 percent of GDP over the long run.

10. Public debt is vulnerable to a large exchange rate depreciation shock and to a loose fiscal policy. Under a one-off real depreciation shock, the PV of public debt-to-GDP would reach 35 percent in the short-run, and then would decline over time. If the primary balance remains unchanged at the 2014 level, the PV of public debt-to-GDP would increase to about 27 percent in the medium term. However, public debt is projected to decline over the projection period under all scenarios and do not present any major vulnerability.

11. Potential contingent liabilities might threaten debt sustainability if they materialize. The investment in power generation and distribution projects under PPPs is large, and if for any reason problems arose potentially leading to a total loss of investment costs, substantial liabilities could be added to the debt stock. The World Bank has provided technical assistance to determine the size of contingent liabilities. Other potential contingent liabilities include the fiscal cost to support the financial sector during a banking crisis. Staff calculations suggest that support in the form of bank recapitalization and backstopping demand deposits would amount to around 15 percent of GDP.[2]

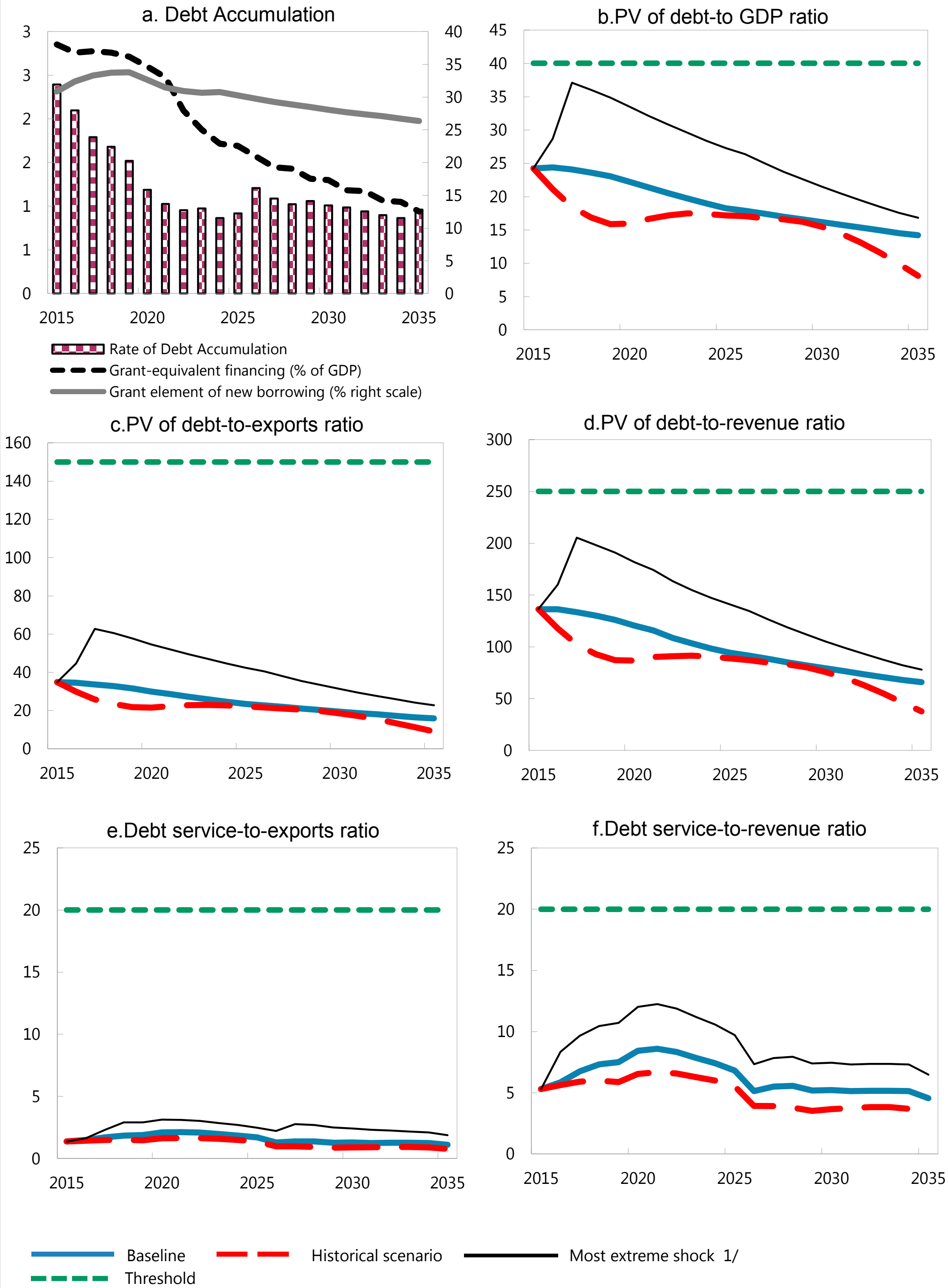
12. The authorities broadly agreed with the overall results of the DSA. The debt management unit at the Ministry of Economy and Finance conducts annual DSA analysis as part of their budget process. They use results of these analyses to propose annual ceilings of new net disbursements, which so far have been only external disbursements. The authorities use for their exercise the same terms for new loans, current account deficits, projected loans disbursement, but are more conservative than staff on the medium-term real GDP growth assumption. More generally, they reach the same conclusion of low risk of debt distress. The MEF showed concerned about the accumulation of contingent liabilities from PPPs and have imposed annual ceilings on PPP guarantees.

CONCLUSION

13. Cambodia remains at low risk of debt distress under the baseline scenario. The baseline projections and the standard stress tests show limited risk to external debt given that none of the indicators breach their thresholds. Downside risks to the baseline scenario include the materialization of contingent liabilities and issues arising from the external arrears. The most extreme stress tests indicate that Cambodia's debt sustainability remains vulnerable to shocks to the exchange rate, growth, exports, and fiscal position. This suggests the importance of preserving macroeconomic stability and diversifying the economy and exports to increase the economy's resilience to external shocks, and the necessity of the successful implementation of the revenue mobilization strategy.

[2] The median direct fiscal cost of banking crisis in emerging market countries is estimated at 11.5 percent of GDP (Laeven and Valencia (2010), IMF Working Paper 10/146).

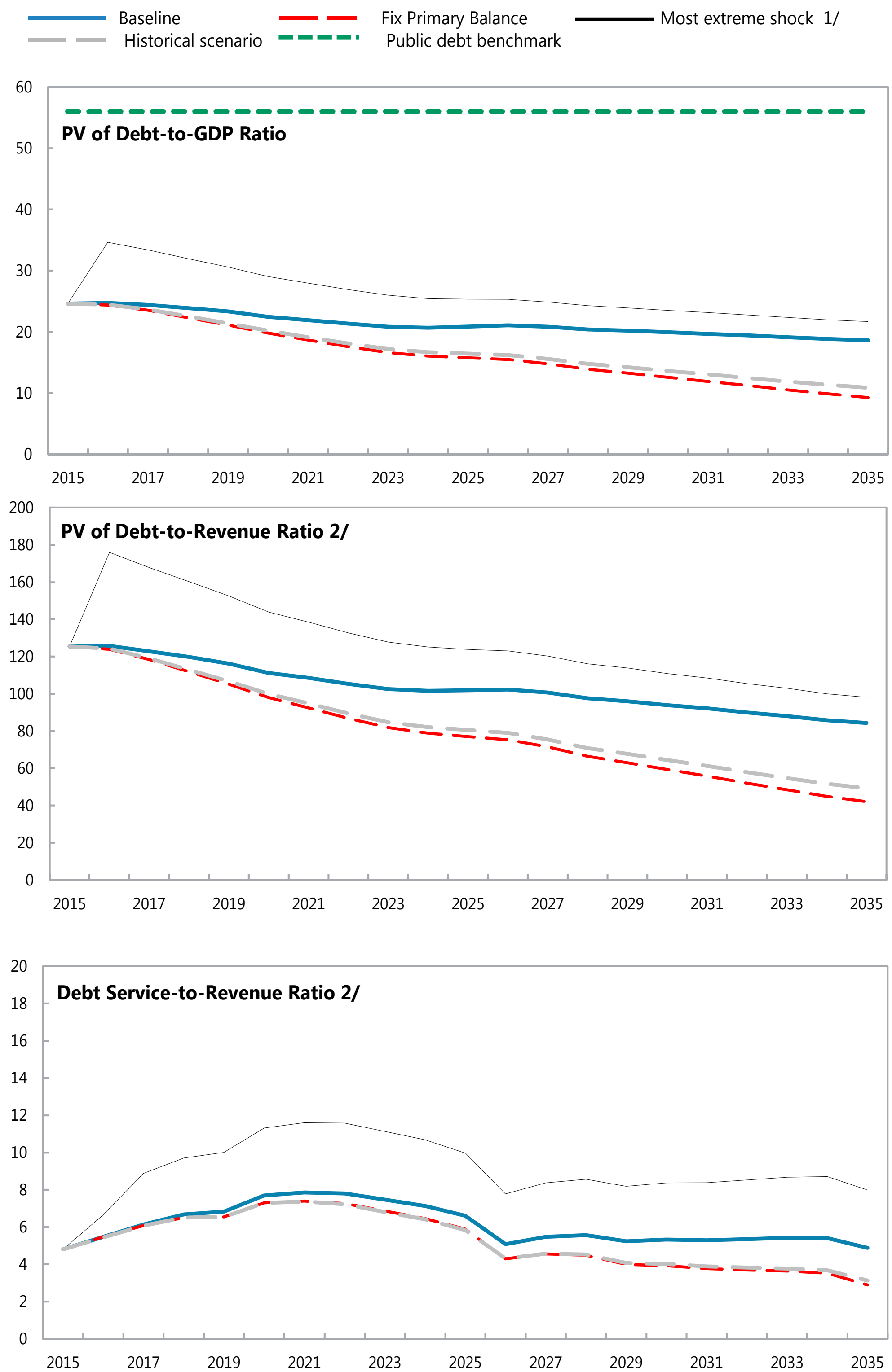
Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015-2035 1/



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

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 2.Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 1/



Sources: Cambodia authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1a .Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**31.5**	**32.5**	**33.4**			**34.2**	**34.0**	**33.4**	**32.6**	**31.7**	**30.5**		**24.8**	**18.8**	
Of which: public and publicly guaranteed (PPG)	31.5	32.5	33.4			34.2	34.0	33.4	32.6	31.7	30.5		24.8	18.8	
Change in external debt	1.8	1.0	0.9			0.7	-0.2	-0.6	-0.8	-0.9	-1.2		-1.0	-0.4	
Identified net debt-creating flows	-3.7	-2.3	-0.2			-0.4	-0.4	-1.1	-2.3	-3.1	-4.7		-4.1	-0.7	
Non-interest current account deficit	**10.7**	**11.9**	**11.9**	**7.0**	**4.1**	**11.3**	**11.2**	**10.5**	**9.1**	**8.4**	**6.7**		**6.8**	**9.9**	7.6
Deficit in balance of goods and services	9.3	9.6	10.7			9.9	9.3	8.6	7.9	7.3	5.8		5.3	8.1	
Exports	62.8	65.3	67.9			69.4	70.5	71.4	72.0	73.0	74.1		77.7	89.2	
Imports	72.1	74.9	78.6			79.2	79.8	80.0	79.8	80.3	80.0		83.0	97.2	
Net current transfers (negative = inflow)	-2.9	-2.5	-3.6	-6.9	3.1	-3.8	-2.9	-2.6	-2.9	-3.0	-3.0		-2.6	-2.3	-2.5
Of which: official	-2.0	-1.9	-2.0			-1.8	-1.7	-1.6	-1.6	-1.5	-1.5		-0.6	-0.3	
Other current account flows (negative = net inflow)	4.3	4.8	4.8			5.3	4.8	4.6	4.1	4.0	3.9		4.1	4.1	
Net FDI (negative = inflow)	**-12.1**	**-11.9**	**-10.1**	**-8.8**	**2.7**	**-9.8**	**-9.7**	**-9.7**	**-9.6**	**-9.7**	**-9.8**		**-9.7**	**-9.8**	-9.7
Endogenous debt dynamics 2/	**-2.3**	**-2.4**	**-2.0**			**-1.8**	**-1.9**	**-1.8**	**-1.8**	**-1.8**	**-1.7**		**-1.2**	**-0.8**	
Contribution from nominal interest rate	0.3	0.3	0.4			0.3	0.4	0.4	0.4	0.4	0.5		0.4	0.4	
Contribution from real GDP growth	-2.0	-2.1	-2.1			-2.2	-2.3	-2.3	-2.2	-2.2	-2.1		-1.6	-1.2	
Contribution from price and exchange rate changes	-0.6	-0.5	-0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**5.5**	**3.3**	**1.1**			**1.1**	**0.3**	**0.4**	**1.5**	**2.2**	**3.5**		**3.1**	**0.3**	
Of which: Exceptional financing	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	0.0		0.0	0.0	
PV of external debt 4/	...	...	23.3			24.2	24.4	24.1	23.6	23.0	22.2		18.3	14.2	
In percent of exports	...	...	34.3			34.9	34.6	33.7	32.8	31.6	30.0		23.5	16.0	
PV of PPG external debt	**...**	**...**	**23.3**			**24.2**	**24.4**	**24.1**	**23.6**	**23.0**	**22.2**		**18.3**	**14.2**	
In percent of exports	**...**	**...**	**34.3**			**34.9**	**34.6**	**33.7**	**32.8**	**31.6**	**30.0**		**23.5**	**16.0**	
In percent of government revenues	**...**	**...**	**133.9**			**136.4**	**136.3**	**133.5**	**130.0**	**126.2**	**120.6**		**94.3**	**65.8**	
Debt service-to-exports ratio (in percent)	**1.0**	**1.1**	**1.3**			**1.4**	**1.5**	**1.7**	**1.8**	**1.9**	**2.1**		**1.7**	**1.1**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**1.1**	**1.3**			**1.4**	**1.5**	**1.7**	**1.8**	**1.9**	**2.1**		**1.7**	**1.1**	
PPG debt service-to-revenue ratio (in percent)	**4.0**	**4.9**	**4.9**			**5.3**	**5.9**	**6.8**	**7.3**	**7.5**	**8.4**		**6.8**	**4.5**	
Total gross financing need (Billions of U.S. dollars)	-0.1	0.1	0.4			0.4	0.5	0.4	0.2	0.0	-0.4		-0.6	1.0	
Non-interest current account deficit that stabilizes debt ratio	8.9	10.9	11.0			10.6	11.4	11.1	9.9	9.3	7.9		7.7	10.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.3	7.4	7.0	7.6	3.5	7.0	7.2	7.2	7.3	7.3	7.3	7.2	7.0	6.9	6.9
GDP deflator in U.S. dollar terms (change in percent)	2.2	1.7	0.7	4.2	3.7	-0.4	0.5	1.2	1.7	1.7	1.7	1.0	1.7	1.9	1.8
Effective interest rate (percent) 5/	1.0	1.1	1.2	0.9	0.2	1.1	1.2	1.3	1.4	1.4	1.6	1.3	1.8	2.4	2.0
Growth of exports of G&S (U.S. dollar terms, in percent)	13.7	13.6	12.1	13.5	13.7	8.8	9.5	9.8	9.9	10.6	10.8	9.9	10.1	10.6	10.2
Growth of imports of G&S (U.S. dollar terms, in percent)	12.0	13.5	13.1	13.6	11.2	7.4	8.5	8.7	8.9	9.8	8.6	8.6	10.0	10.7	10.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.9	32.4	33.3	33.7	33.8	32.6	32.8	30.3	26.4	28.9
Government revenues (excluding grants, in percent of GDP)	15.2	15.0	17.4			17.8	17.9	18.0	18.2	18.3	18.4		19.4	21.6	20.0
Aid flows (in Billions of US dollars) 7/	1.1	1.2	1.0			0.5	0.6	0.6	0.7	0.7	0.7		0.7	0.7	
Of which: Grants	0.4	0.6	0.5			0.3	0.3	0.4	0.4	0.4	0.5		0.4	0.5	
Of which: Concessional loans	0.7	0.6	0.5			0.2	0.2	0.3	0.3	0.3	0.3		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.9	2.8	2.8	2.8	2.7	2.6		1.7	0.9	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			56.4	57.9	59.7	59.4	60.3	60.7		55.4	43.3	51.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.1	15.4	16.6			17.6	19.0	20.6	22.5	24.5	26.7		40.8	95.1	
Nominal dollar GDP growth	9.7	9.3	7.7			6.5	7.7	8.4	9.1	9.1	9.1	8.3	8.8	8.9	8.8
PV of PPG external debt (in Billions of US dollars)			3.8			4.2	4.6	4.9	5.3	5.6	5.9		7.4	13.5	
(PVt-PVt-1)/GDPt-1 (in percent)						2.4	2.1	1.8	1.7	1.5	1.2	1.8	0.9	1.0	1.0
Gross workers' remittances (Billions of US dollars)	0.1	0.1	0.3			0.4	0.2	0.2	0.3	0.4	0.4		0.8	1.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	22.9			23.7	24.1	23.9	23.3	22.7	21.9		17.9	13.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	33.5			33.9	34.0	33.3	32.2	30.9	29.4		22.9	15.6	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	1.2			1.3	1.5	1.7	1.8	1.8	2.1		1.7	1.1	

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

1/ Includes both public and private sector external debt.

2/ 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.

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

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

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

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

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

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

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	24	24	24	24	23	22	**18**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	24	22	20	19	18	19	**22**	15
A2. New public sector loans on less favorable terms in 2015-2035 2/	24	25	25	26	26	25	**23**	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	24	25	25	25	24	23	**19**	15
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	24	29	37	36	35	33	**27**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	24	24	24	24	23	22	**18**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	24	26	28	27	26	25	**21**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	24	25	28	27	26	25	**21**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	24	35	34	33	33	31	**26**	20
PV of debt-to-exports ratio								
Baseline	35	35	34	33	32	30	**24**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	35	32	28	26	25	25	**28**	16
A2. New public sector loans on less favorable terms in 2015-2035 2/	35	36	36	36	36	35	**30**	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	35	35	34	33	32	30	**24**	16
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	35	45	63	61	58	55	**43**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	35	35	34	33	32	30	**24**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	35	38	39	38	36	34	**27**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	35	37	41	40	38	36	**29**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	35	35	34	33	32	30	**24**	16
PV of debt-to-revenue ratio								
Baseline	138	138	135	131	127	122	**95**	66
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	138	124	111	104	100	102	**112**	68
A2. New public sector loans on less favorable terms in 2015-2035 2/	138	141	142	142	141	138	**120**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	138	141	142	138	134	128	**100**	69
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	138	162	206	199	192	182	**142**	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	138	137	136	132	129	123	**96**	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	138	147	154	149	144	138	**107**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	138	143	154	150	145	138	**108**	69
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	138	194	190	185	180	172	**135**	93

Table 1c. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	1	1	2	2	2	2	**2**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	1	1	2	2	2	2	**2**	1
A2. New public sector loans on less favorable terms in 2015-2035 2/	1	1	2	2	2	2	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	1	1	2	2	2	2	**2**	1
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	1	2	2	3	3	3	**2**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	1	1	2	2	2	2	**2**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	1	1	2	2	2	2	**2**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	2	2	2	2	**2**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	1	1	2	2	2	2	**2**	1
Debt service-to-revenue ratio								
Baseline	5	6	7	7	7	8	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	6	6	6	6	7	**6**	5
A2. New public sector loans on less favorable terms in 2015-2035 2/	5	6	7	7	8	9	**8**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	6	7	8	8	9	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	6	7	10	10	10	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	6	7	7	8	9	**7**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	6	7	8	8	9	**7**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	7	8	8	9	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	8	10	10	11	12	**10**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

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

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	32.1	33.0	33.9			34.6	34.4	33.7	32.9	31.9	30.7		27.4	23.2	
of which: foreign-currency denominated	31.5	32.5	33.4			34.2	34.0	33.4	32.6	31.7	30.5		24.8	18.8	
Change in public sector debt	1.8	1.0	0.9			0.7	-0.2	-0.7	-0.8	-0.9	-1.2		-0.1	-0.3	
Identified debt-creating flows	0.8	-0.2	-0.7			-0.2	-0.2	-0.1	0.1	0.1	0.0		0.6	1.2	
Primary deficit	3.3	2.2	0.8	1.7	1.7	1.4	2.0	2.2	2.5	2.4	2.2	2.1	2.4	2.6	2.5
Revenue and grants	17.9	18.9	20.4			19.6	19.7	19.9	20.0	20.1	20.2		20.5	22.1	
of which: grants	2.8	3.9	3.0			1.9	1.8	1.8	1.8	1.8	1.8		1.1	0.5	
Primary (noninterest) expenditure	21.2	21.0	21.2			21.1	21.6	22.1	22.5	22.5	22.4		22.9	24.7	
Automatic debt dynamics	-2.5	-2.4	-1.5			-1.6	-2.2	-2.3	-2.4	-2.3	-2.2		-1.8	-1.5	
Contribution from interest rate/growth differential	-2.7	-2.8	-2.6			-2.4	-2.5	-2.5	-2.4	-2.4	-2.3		-1.8	-1.5	
of which: contribution from average real interest rate	-0.6	-0.6	-0.4			-0.2	-0.2	-0.2	-0.1	-0.2	-0.1		0.0	0.1	
of which: contribution from real GDP growth	-2.1	-2.2	-2.2			-2.2	-2.3	-2.3	-2.3	-2.2	-2.2		-1.8	-1.5	
Contribution from real exchange rate depreciation	0.2	0.4	1.1			0.7	0.3	0.1	0.0	0.1	0.1		...	...	
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	1.0	1.1	1.5			0.9	0.0	-0.6	-0.9	-1.0	-1.2		-0.7	-1.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	23.7			24.6	24.7	24.4	23.9	23.3	22.5		20.9	18.6	
of which: foreign-currency denominated	...	...	23.3			24.2	24.4	24.1	23.6	23.0	22.2		18.3	14.2	
of which: external	...	...	23.3			24.2	24.4	24.1	23.6	23.0	22.2		18.3	14.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.4	3.3	2.1			2.8	3.4	3.7	4.1	4.1	4.0		4.2	4.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	116.4			125.4	125.7	122.8	119.8	116.2	111.2		101.9	84.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	136.4			138.6	138.4	135.3	131.7	127.7	121.9		107.7	86.2	
of which: external 3/	...	...	133.9			136.4	136.3	133.5	130.0	126.2	120.6		94.3	65.8	
Debt service-to-revenue and grants ratio (in percent) 4/	3.6	3.9	4.2			4.8	5.5	6.1	6.7	6.8	7.7		6.6	4.9	
Debt service-to-revenue ratio (in percent) 4/	4.3	4.9	5.0			5.3	6.0	6.8	7.3	7.5	8.4		7.0	5.0	
Primary deficit that stabilizes the debt-to-GDP ratio	1.5	1.2	-0.1			0.8	2.2	2.9	3.3	3.4	3.4		2.5	3.0	
Key macroeconomic and fiscal assumptions															
Nominal GDP (local currency)	56681.6	61866.1	66825.1			72767.4	80043.5	88108.2	97273.4	107275.4	118333.3		190740.3	496328.0	
Real GDP growth (in percent)	7.3	7.4	7.0	7.6	3.5	7.0	7.2	7.2	7.3	7.3	7.3	7.2	7.0	6.9	6.9
Average nominal interest rate on forex debt (in percent)	1.0	1.1	1.2	0.9	0.2	1.1	1.2	1.3	1.4	1.4	1.6	1.3	1.8	2.4	2.0
Average real interest rate on domestic debt (in percent)	-1.2	-1.3	-0.7	-3.7	3.0	-1.6	-2.3	-2.4	-2.5	-2.5	-2.5	-2.3	-0.8	-0.5	-0.9
Real exchange rate depreciation (in percent, + indicates depreciation	0.7	1.5	3.6	-1.7	3.5	2.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.4	1.6	0.9	4.2	3.4	1.8	2.6	2.7	2.9	2.8	2.8	2.6	2.9	3.0	2.9
Growth of real primary spending (deflated by GDP deflator, in percer	11.7	6.6	7.9	2.7	4.3	6.3	10.0	9.5	9.1	7.4	7.0	8.2	8.0	8.0	7.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	30.9	32.4	33.3	33.7	33.8	32.6	32.8	30.3	26.4	...

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

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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

3/ Revenues excluding grants.

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

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

Table 2b. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt 2015-2035

							Projections										
	2015	2016	2017	2018	2019	2020	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio																	
Baseline	25	25	24	24	23	22	21	21	21	20	20	20	20	19	19	19	19
A. Alternative scenarios																	
A1. Real GDP growth and primary balance are at historical averages	25	24	24	23	21	20	16	16	16	15	14	14	13	12	12	11	11
A2. Primary balance is unchanged from 2015	25	24	24	22	21	20	16	15	15	14	13	13	12	11	11	10	9
A3. Permanently lower GDP growth 1/	25	25	25	25	25	25	27	29	29	30	31	33	34	35	36	38	40
B. Bound tests																	
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	25	26	27	27	27	27	28	29	29	29	30	30	30	30	30	31	31
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	25	26	26	26	25	24	22	22	22	21	21	21	21	20	20	20	19
B3. Combination of B1-B2 using one half standard deviation shocks	25	25	26	25	25	24	24	25	25	24	24	24	24	24	24	24	24
B4. One-time 30 percent real depreciation in 2016	25	35	33	32	31	29	25	25	25	24	24	24	23	23	22	22	22
B5. 10 percent of GDP increase in other debt-creating flows in 2016	25	32	31	30	29	28	26	26	25	24	24	23	23	23	22	22	21
PV of Debt-to-Revenue Ratio 2/																	
Baseline	125	126	123	120	116	111	102	102	101	98	96	94	92	90	88	86	84
A. Alternative scenarios																	
A1. Real GDP growth and primary balance are at historical averages	125	124	119	113	107	100	81	79	75	71	68	64	61	58	55	52	49
A2. Primary balance is unchanged from 2015	125	124	118	112	105	98	77	75	71	66	63	59	56	52	48	45	42
A3. Permanently lower GDP growth 1/	125	127	126	125	124	121	132	138	142	144	149	153	158	162	167	172	178
B. Bound tests																	
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	125	131	135	136	135	133	138	141	142	141	141	141	141	140	140	139	139
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	125	131	132	128	124	119	108	108	106	103	101	98	96	94	92	89	87
B3. Combination of B1-B2 using one half standard deviation shocks	125	129	128	127	124	121	117	119	118	116	115	114	113	111	110	108	108
B4. One-time 30 percent real depreciation in 2016	125	176	168	160	152	144	124	123	120	116	114	111	108	106	103	100	98
B5. 10 percent of GDP increase in other debt-creating flows in 2016	125	162	157	152	147	140	125	124	121	117	114	110	108	104	101	98	96
Debt Service-to-Revenue Ratio 2/																	
Baseline	5	5	6	7	7	8	7	5	5	6	5	5	5	5	5	5	5
A. Alternative scenarios																	
A1. Real GDP growth and primary balance are at historical averages	5	5	6	7	7	7	6	4	5	5	4	4	4	4	4	4	3
A2. Primary balance is unchanged from 2015	5	5	6	7	7	7	6	4	5	4	4	4	4	4	4	4	3
A3. Permanently lower GDP growth 1/	5	6	6	7	7	8	8	6	7	7	7	7	8	8	9	9	9
B. Bound tests																	
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	5	6	7	7	8	9	8	6	7	7	7	7	7	8	8	8	8
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	5	5	6	7	7	8	7	5	6	6	6	6	6	6	6	6	5
B3. Combination of B1-B2 using one half standard deviation shocks	5	6	6	7	7	8	7	6	6	6	6	6	6	6	6	7	6
B4. One-time 30 percent real depreciation in 2016	5	7	9	10	10	11	10	8	8	9	8	8	8	9	9	9	8
B5. 10 percent of GDP increase in other debt-creating flows in 2016	5	5	7	8	8	9	7	6	7	7	7	7	7	7	7	7	6

Sources: Cambodia authorities; and IMF 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.

Statement by Mr. Marzunisham Omar, Executive Director;
Ms. Pornvipa Tangcharoenmonkong, Alternate Executive Director; and
Mr. Suasdey Chea, Advisor to the Executive Director on Cambodia

1. On behalf of the Cambodian authorities, we would like to express our gratitude to the IMF mission team for the constructive discussions and exchange of views on macroeconomic developments and policy recommendations for the Cambodian economy. In particular, the authorities appreciate the discussions on the need for reinforcing fiscal buffers, strengthening monetary policy instruments and the transmission mechanism, as well as enhancing supervisory practices, which would all contribute towards a more sustainable economic growth for Cambodia. The authorities are in broad agreement with staff's assessment and would take staff's policy recommendations into consideration when formulating future policies.

Recent Economic Development and Outlook

2. Cambodia has achieved a remarkable average annual growth rate of 7.7 percent in the last two decades. The 2014 World Bank Economic Update acknowledged that "Cambodia has joined the Olympians of growth" and is the sixth fastest growing economy in the world. Cambodia is also one of the largest recipients of foreign direct investment (FDI) and a top exporter of textiles. This strong growth has been accompanied by a significant decline in poverty from around 53 percent in 2004 to 18 percent of population in 2013. Cambodia is also one of a few countries that have outperformed the United Nations' Millennium Development Goals (MDGs) on poverty reduction and other social indicators before its 2015 deadline. The authorities are determined to transform Cambodia from a low income country to a low-middle income country by 2016 and a middle income country by 2030.

3. In recent years, Cambodia's economic growth has been one of the fastest among Asia's developing economies. After recording an annual average growth rate of 7.2 percent over the last five years, the growth momentum is expected to remain strong at 7 percent and 7.3 percent in 2015 and 2016, respectively. This solid growth will continue to be underpinned by strong exports and tourism, as well as robust real estate and construction activities. Strong FDI flows are also expected to be sustained. The return of domestic political stability after a year-long political deadlock and the easing of labor tensions following the 2014 minimum wage increase are also expected to support growth.

4. Headline inflation is low and has decelerated by nearly half of what it was in 2014, from 3.9 percent to 2.6 percent in 2015, due mainly to the sharp decline of global oil prices and appreciation of the real effective exchange rate (REER). Over the medium-term, headline inflation is projected to average around 3 percent.

5. On the external front, the current account deficit is expected to gradually narrow, falling to 10 percent of GDP in 2015 from 12 percent of GDP in 2014, mainly due to the decline in oil prices. Despite the US dollar appreciation, the REER has remained relatively stable and as assessed by staff, is in line with fundamentals. Gross official reserves remain ample at to US$4.7 billion at end-August 2015, covering four months of prospective imports. Although this

level of reserves is considered sufficient, the authorities agree on the merits of building more reserves buffer. The authorities also share a similar assessment on the impact of recent oil price developments on the current account and the slowdown in garment exports. However, over the medium-term, the authorities are optimistic on sustained FDI flows and are committed to prioritizing public investment, diversifying the economy through structural reform, enhancing the business environment and competitiveness, and fostering a more inclusive growth.

6. The authorities share the staff's view that the outlook is broadly positive but subject to downside risks, particularly on the external front. The slow recovery in Europe and the appreciation of the US dollar have contributed to a moderate growth in the tourism sector and stronger competition in garment exports, while the weaker-than-expected growth in China has created spillovers through FDI, banking and tourism channels. These developments warrant further reforms to ensure economic diversification and macro-financial stability.

Monetary Policy

7. The stable exchange rate against the US dollar continues to serve as an important nominal anchor, keeping inflation low and stable. Nevertheless, the authorities are fully committed to developing the interbank and money markets as well as foreign exchange markets to promote the use of the local currency (Khmer Riel) and allow for a more effective and flexible monetary framework. In managing dollarization, the National Bank of Cambodia (NBC) and the authorities have recently developed policies and action plans to support market-based monetary policy, promote the greater use of the local currency, and reduce dollarization in the long term.

8. The authorities have tightened monetary policy by increasing the reserve requirements (RR) by 50 basis points to 12.5 percent in 2012. In 2013, in line with the Fund's past recommendations, the NBC issued negotiable certificate of deposits (NCDs), both in US dollar and Khmer Riel (KHR), to help develop the interbank market. This has also helped to facilitate banks' liquidity management and market-based monetary policy operations. In addition, the expansion of reserve requirements to cover banks' foreign borrowing was instituted in March 2015, in line with the Fund's recommendation.

Financial Stability

9. The authorities concurred that Cambodia has experienced an increase in financial deepening, with credit growing more rapidly than in peer Asian economies during their take-off period. Credit growth remains in line with Cambodia's level of development and the required diversification of the economic base. Moreover, despite the strong credit growth, it is important to note that the core financial soundness indicators are healthy and credit quality remains sound. Credit has also been to a large extent directed to productive sectors to support the country's development and facilitate economic growth. Nevertheless, the authorities recognize that this rapid credit growth and the growing exposure to real estate and construction sectors represent a potential pocket of vulnerability to financial stability. Mindful of these risks, the authorities have introduced several measures to reign in credit growth, including increasing in the reserve requirements. Going forward, the authorities will continue to closely monitor the developments on this front and remain committed to implement prudent policies to stabilize credit growth and

maintain a strong financial system. The authorities are, however, mindful of the impact of these measures on growth.

10. The supervision framework has been strengthened and data collection has improved in recent years, with technical assistance from the Fund. The authorities are aware that Micro-finance institutions (MFIs) are becoming more systemic and have stepped-up efforts to enhance the supervision framework for MFIs and stand ready to implement prudential measures if necessary. In strengthening the supervision and regulation of MFIs, the NBC remains committed to a risk-based approach that is consistent with the FSAP recommendations. The recent revision of the liquidity ratio requirements also remain in line with the recent Fund technical assistance advice and previous Article IV recommendations. In strengthening collaboration and crisis management frameworks, a Memorandum of Understanding (MoU) on establishing information sharing was signed between the Ministry of Finance, the NBC and Securities Exchange Commission of Cambodia (SECC) in 2014. The NBC continues to provide internal and external training for its staff in order to enhance capacity and quality of bank supervision. However, given its limited capacity, the NBC welcomes further technical assistance from the Fund to strengthen capacity building.

11. Overall, the NBC continues to closely monitor the financial system for any signs of emerging risks that may arise from the rapid credit growth and stands ready to strengthen the prudential and supervisory measures on banks, MFIs and other credit intermediaries. The authorities recognize the importance of safeguarding the financial system from the potential impact of slower global growth and are committed to working closely with the Fund on identifying risks, improving data collection and enhancing the crisis resolution frameworks for the financial sector.

Fiscal Policy

12. The fiscal deficit has been reduced to 1.3 percent of GDP in 2014 from 2.1 percent in 2013, supported by stronger revenues and lower capital spending. Tax revenues have increased robustly by 2.2 percentage points of GDP to 13.9 percent in 2014, due mainly to the authorities' recent adoption and enforcement of the Revenue Mobilization Strategy (RMS) as well as improved tax and customs administration. Further, in order to strengthen fiscal buffers, the authorities are determined to prioritize expenditure and strengthen revenue mobilization and governance.

13. In the near term, the budget deficit is projected to moderate further, consistent with the economy's cyclical position. The authorities have committed to the wage bill increase equivalent to 0.7 percent of GDP by 2016, to be supported by the higher-than-expected revenues collection and expenditure prioritization. Nevertheless, the authorities aim to limit the wage bill to less than 50 percent of current expenditure in order to allow for more capital expenditure for infrastructure investment. The authorities will also expedite civil service reforms in order to increase efficiency and productivity.

14. The authorities have been continuously working on improving the monitoring of contingent liabilities. In addition, the debt management committee has recently revised the debt

policy framework, which now includes a ceiling on government guarantees at 4 percent of GDP. The authorities have also designated a contingency fund account for contingent liabilities related to enterprises in the power sector. The authorities remain strongly committed to the implementation of the RMS, and recognize the need to rationalize investment incentives and review other tax policies over the medium term.

15. The Debt Sustainability Analysis indicates that Cambodia's risk of debt distress is low, while public debt continues to decline. The authorities remain committed to reducing the fiscal deficit and maintaining the debt-to-GDP ratio below 30 percent over the medium term to ensure debt sustainability and to secure stronger fiscal buffer over the longer term.

Continuing the Reform Agenda

16. Cambodia's strong growth performance has significantly improved income distribution and the consumption-spending by the bottom income quartile continues to increase. In addressing structural bottlenecks, the authorities remain committed to implementing public investments on roads, railways, bridges and irrigation to further promote rural and inclusive growth. Public investment in these infrastructure projects will also help crowd in private investment. The recent completion of the 1,300 megawatt hydropower projects will provide affordable electricity to the general population and enhance Cambodia's business climate and competitiveness. Encourage by the improvements in maternal health, early childcare and primary education in the rural areas, the authorities will continue to prioritize the development of education and healthcare, especially in the rural areas.

Closing Remarks

17. Over the medium term, robust economic growth supported by exports, tourism and construction activities have worked in favor for Cambodia's economic prospect. However, lingering global uncertainty and the planned slowdown in China's economic growth could pose downside risks to Cambodia's growth outlook. The authorities are committed to preserve macroeconomic and financial stability in order to ensure sustainable growth and stand ready to implement any available measures as deemed appropriate.

18. Finally, the authorities would like to express their appreciation to the Fund for its continuing support in providing high-quality technical assistance which has resulted in a broad base strengthening in capacity across the Cambodian government. The authorities will continue its efforts to further improve the macroeconomic framework in line with the Fund's policy recommendations and look forward to continuing support from the Fund.