

BOARDS OF GOVERNORS•1999 ANNUAL MEETINGS•WASHINGTON, D.C.

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

INTERNATIONAL MONETARY FUND

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Press Release No. 60

September 28–30, 1999

Statement by the Hon. **KEAT CHHON**,
Governor of the Bank for **CAMBODIA**,
and by the Hon. **CHEA CHANTO**,
Governor of the Fund for **CAMBODIA**,
at the Joint Annual Discussion

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H.E Mr. Acharya, Chairman of the Boards of Governors
H.E Mr. James Wolfensohn, the President of the World Bank Group
H.E Mr. Michel Camdessus, Managing Director of the IMF
Colleague Governors
Ladies and Gentlemen,

It is indeed a great honor and privilege for us to address the 54th Annual Meetings of the World Bank and the International Monetary Fund. Let us take this opportunity to congratulate H.E Mr. James D. Wolfensohn and H.E Mr. Michel Camdessus for the tremendous efforts they are making through the World Bank and the IMF to deal with the serious financial cataclysm confronting Asia and the world economy in 1997 and 1998.

These Annual Meetings of the World Bank Group and the International Monetary Fund take place when the world economy has better prospects for resumption of speedy growth. Some of the Asian economies that have suffered from the financial crisis and experienced economic downturn, seem to have seen signs of restored confidence and recovery. Positive indicators include (i) the return of stability in the foreign exchange markets; (ii) rising current account surpluses and a build-up of reserves; (iii) the substantial decline in domestic interest rates; (iv) the easing of inflationary pressures; (v) the recovery in the stock markets; (vi) the improvement in consumer sentiment; and (vii) the positive growth of the real economy. This has happened because of the determination undertaken by these countries in pursuing decisively adequate policies and measures with the assistance of the international community and especially of the two Bretton Woods institutions. Both the Bank and the Fund have responded with commendable resolve to this crisis and help countries in the region to implement reform measures to address its causes and impact.

To prevent the recurrence of the crisis and to cope with the fast changing global environment caused by the force of globalization, Cambodia has expressed its full support for the "common ASEAN position in reforming the international financial architecture", which includes equal application of standards of transparency and disclosure to the public and private sectors, closer and more coordinated monitoring of short-term capital flows, closer collaboration and information-sharing among national and international regulators, an orderly and well-sequenced approach to capital account liberalization in tandem with the degree of development of the domestic financial sector and supervisory regime and sound, consistent and credible macroeconomic policies to support exchange rates. We have attached serious importance to the ASEAN Surveillance

Process, which is aimed at providing an early warning on a possible crisis to member countries.

On the front of economic integration, Cambodia is well prepared to take an active part in the ASEAN Free Trade Area (AFTA) and other ASEAN economic initiatives. Attention is given to the establishment in the next century of the ASEAN Economic Region in which there is a free flow of goods and services, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities. We are committed to ensuring close cooperation in strengthening the open, multilateral trading system, and reinforcing the role of the business sector as the engine of growth.

Let us take this opportunity to appraise this distinguished forum of the recent development in the Cambodia. A general election was organized in July 1998 on our own last year and was pronounced by the international community as free and fair. A new coalition government was established based on a common platform to serve the people of Cambodia. Peace, so elusive in the past many decades, now finally prevails all over the country. Cambodia has regained its seat at the UN, joined ASEAN and is determined to play its responsible role in the regional and international affairs.

The new Royal Government of Cambodia, established in November 1998, continues its reform policies with ultimate goal of accelerating economic growth and alleviating poverty. A landmark, wide-ranging reform measures were unveiled to build up a strong foundation for long-term economic growth and sustainable development. The key areas of the reforms include public sector restructuring aimed at strengthening democracy, improving and increasing the efficiency of the public administration; military and police demobilization; sustainable forestry management and fiscal, financial and banking reforms. We clearly recognize that the key to success of this reform program is Good Governance. For us, this means aiming at improving efficiency and effectiveness of the public sector, on one hand, and fighting corruption, on the other. We have asked the Bank for technical assistance for capacity building in this important endeavor.

Based on the macroeconomic performance in the first half of 1999, we are confident that the Cambodian economy has rebounded and real GDP growth would be 4 percent as forecast. Therefore, 1999 is the year of a return to economic growth and macroeconomic stability. The annual inflation is expected to decrease from 12.6 percent in 1998 to 6.5 percent in 1999 and the exchange rate will be kept under control. Net foreign assets and liquidity of the banking sector, in particular the foreign currency deposits, continued to grow, compared to end 1998. This is the testimony to the confidence by the public and investors alike in Cambodia's economy and its banking system. The gross foreign reserves of the banking system are projected to increase by 9 percent in 1999.

The objectives of macroeconomic and structural policies are to raise economic growth and per capital income, and reduce poverty. The key elements of the strategy are

stepped-up efforts to strengthen revenue collections and enhance the transparency of fiscal operations, combined with reforms of the civil service and military.

Cambodia is strongly determined to continue the implementation of the fiscal reform programs with a view to enhancing revenue and improving the management of public expenditure. We are committed to vigorously implement new measures aimed at improving the tax and budget system – strict implementation of VAT, policy of avoiding tax exemptions, tightening incentives granted to investment projects, enhancing the collection of non tax revenue and direct transfer of revenue to the Treasury, recovery of arrears from the private sector. The fiscal agenda aims at strengthening the role of the budget for economic management, and generating the resources needed to fund increased spending in priority areas. The main goals are to raise government saving to finance the public investment program and to avoid bank financing. The main focus of revenue mobilisation is on the strengthening of tax and customs administration, and on full collection of non-tax revenues, including arrears. Administration and enforcement of tax compliance will be enhanced through the exchange of taxpayer information between government departments and intensified on-site tax audits.

Efforts are being undertaken to strengthen Cambodia's banking system. The banking supervision capacity of the National Bank of Cambodia has been already to a certain extent upgraded and is being further strengthened, notably with the IMF technical assistance. Further improvements are being made to overhaul the prudential regulations and to better assess bank's assets quality. A new modern financial institution law expects to be approved by the National Assembly and the Senate by mid-October this year that would provide a better legal basis both for regulation and supervision. Moreover, so as to create a true market discipline, the National Bank of Cambodia is firmly promoting internationally accepted standards in the areas of accounting and public disclosures for both of the NBC and commercial banks. Under the above mention legal framework, many micro-financial institutions are to be established to provide savings and credit facilities in the rural areas.

Investment in human capital is another priority of our policy platform. We believe that highly educated labor force is one of the most crucial factors contributing to the country's economic growth in the next century. Therefore, the Royal Government of Cambodia has begun shifting budgetary resources from Defense-Security to Health and Education, as well as other economic sectors, such as Agriculture and Rural Development.

We are in the process of finalizing the negotiation with the IMF to resume the Enhanced Structural Adjustment Facility (ESAF). We also recently held discussions with the World Bank on the Structural Adjustment Credit (SAC). We would like to inform you that we achieved a positive result in these endeavors and am optimistic that we will be able to conclude the programs both with the IMF and the World Bank in the future. There is no doubt that these programs will contribute to the furtherance of our reform process and ensure a sound foundation for our future growth.

We welcome the coalition between the Bank and the Fund which have departed from the traditional macro-economic framework to the combination of efforts in linking structural adjustments with poverty reduction agenda. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through new HIPC initiatives that link debt relief to the efforts in eradicating poverty. While supporting the Bank policy on focusing the investment in social sector, we however still believe that in a least developed country like Cambodia, the investment in economic and physical infrastructure is crucial to economic growth, with only which poverty could be alleviated on a sustainable basis.

In conclusion, we would like to take this opportunity to express our sincere gratitude to the World Bank and the International Monetary Fund, as well as other international financial institutions and Cambodia's bilateral partners for their support and assistance in our endeavors to engineer economic development and alleviate poverty of our people. We are looking forward to enhancing our cooperation with the Fund/Bank in the pursuit of ameliorating the social and economic conditions in Cambodia.