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

STATEMENT BY THE GOVERNOR OF THE FUND FOR CAMBODIA

Cheah Chanto

It is a great pleasure and honor for me to address the 2003 Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund in this very nice city of the United Arab Emirates. On behalf of the Royal Government of Cambodia (RGC), I would like to take this opportunity to express our deep appreciation to the Bretton Woods institutions for assisting Cambodia in its efforts to reconstruct and develop its nation after the 1991 Paris Peace Agreement and for continuing to support the RGC's economic and administrative reforms that are crucial for a broad-based economic growth and sustainable development. I would like also to extend our sincere gratitude to the UAE government for the high quality of the arrangements that have been made for these meetings and the warm hospitality extended to our delegation during our stay in the UAE.

Cambodia has achieved a relatively high economic growth during the last several years, boosted by rapid growth in garment sector for export and tourist-related activities in the context of peace and political stability. Since the economy has relied significantly on garment export, tourism, and foreign direct investment, the strength of the global and regional economy is an important factor in achieving high economic growth for Cambodia. In this regard, we are pleased to note mounting expectations for a global economic recovery this year and beyond. It is good especially to know that the US economy at large begins to show some positive trends; economic recovery outlook for Japan has improved and the 2003 growth projection is higher than the previous year; other major economies in Asia also show improved performance. We hope to see improvement in Euro economy during the rest of the year as well. The prospects for continued economic growth in ASEAN countries look good – an optimistic view expressed by the delegates at the 35th ASEAN Economic Ministers Meeting in Phnom Penh, Cambodia on September 2, 2003 – despite the effects of severe acute respiratory syndrome and terrorism on the economy.

The economy of a developing country like Cambodia depends also on its successful integration into the global and regional system. Cambodia has made a lot of progress in this area. In 1998, the RGC reclaimed its official seat at the United Nations. Then, Cambodia's relations with the IMF, the World Bank and the Asian Development Bank were normalized. In April 1999, Cambodia became a full member of the regional grouping, the Association of South East Asian Nation (ASEAN). In addition, Cambodia is now a full member in many key international organizations including the UN System, World Customs Union, Multilateral Investment Guarantee Association, and the International Center Settlement of International Disputes. Recently, Cambodia hosted a large number of historic international events in the context of ASEAN, ASEAN+1, ASEAN+3, ASEAN+India, and the First Great Mekong Subregion Summit etc. Just this month, Cambodia's entry to the World Trade Organization (WTO) has been made official. Cambodia is the first least-developed country to be admitted into the WTO. Cambodia's successful accession to the world trade body has been hailed as a revolution in the history of the WTO as no poor country has ever gained such status. All current WTO members warmly welcome Cambodia's membership. They have commended the RGC for being able to meet the stringent and voluminous conditions for WTO

membership. In particular, they appreciate Cambodia's strong commitment to democracy, principled respect for human rights, transparent and predictable promotion of a market economy.

Cambodia has embarked on trade liberalization in the context of the ASEAN arrangements and the IMF supported-programs. Although this trade liberalization exercise brings some risks, the RGC finds it to be a necessary means to achieve economic growth and to facilitate its global economic integration. The global integration should offer an opportunity to developing countries to survive a harsh and fierce global competition through a package of concessions and commitments from more-developed members. To allow poor countries to fully benefit from globalization, industrialized countries should open more widely their economy to developing countries, especially those countries that have committed themselves to liberalizing their trade. In this respect, we would like to call on more-developed members to positively respond to the demand of developing countries for major concessions, including the slashing of subsidies and tariffs on farm products and to produce a more pro-poor treaty on liberalizing international trade.

Now let me brief you on the recent economic development and economic issues in Cambodia. Economic performance was good during the last several years. The economy was estimated to grow by 5.5% in real term in 2002 compared with 6.3% and 7.7% in 2001 and 2000, respectively. This 2002 growth estimate was based on robust construction activities, strong performance of garment exports, and tourist-related activities. The agricultural sector, which accounted for more than one third of the total product, suffered from flooding and drought. During the first several months in 2003, the economy was adversely affected by the SARS outbreak. Garment export and agricultural sector are expected to be strong this year. Nevertheless, the 2003 growth is projected to be a little lower than the 2002 growth because of weaker tourist sector and lower level of investment.

The last five years were characterized by a remarkable macroeconomic stability due to a prudent monetary policy. The inflation rate was less than 1% between 1999 and 2001, and 3.1% in 2002 that was still within the government's determined target range of below 5%. For the first 7 months in 2003, CPI rose by 0.34% and the annualized inflation rate for July 2003, based on three-month CPI average, was 1.53%. The value of domestic currency was largely stable during these years, depreciating by less than 2% annually on average against the US dollar. This positive state of the economy was also reflected in the steady increase in the international reserves, which grew by more than double during the last 6 years. During the first 8 months, the riel depreciated by 2.5% in relation to the US dollar while the international reserves increased a little.

The macroeconomic stability was also underpinned by good fiscal performance. During this period of stability, fiscal balance was more or less maintained and bank financing of the government's budget was avoided. In 2002, domestic revenue and budget expenditure were more or less at the level stipulated in the 2002 budget law despite the conduct of the first commune election in the country during that year. However, revenue collection during the first 7 months in 2003 was weak and use of domestic bank financing was observed. The National Bank of Cambodia has monitored closely the bank financing of the government's budget to

ensure it is within the range permitted by law and has worked with the Ministry of Economy and Finance on an appropriate policy mix to mitigate any impact of this financing on the macroeconomic stability.

Despite the progress made in the last few years, the RGC is conscious of challenges associated with international trade and investment and the creation of foundation for a broad-based economic growth and sustainable development. To meet these challenges, the RGC has committed itself to accelerating and deepening a wide range of reforms aimed at strengthening government capacity, enhancing transparency in government interaction with the private sector, promoting private sector enabling environment, strengthening governance, promoting financial intermediation, and other reforms that are conducive to broad-based growth. Successful implementation of these reform measures will help develop not only a broad-based economy, but also enhance Cambodia's competitiveness in the world market, which is one of the biggest challenges as Cambodia is now a WTO member.

As you may know, Cambodian people have cast their vote in the country's third general election that took place just two months ago and that has been considered in general as free and fair. The political parties are now working to solve their differences and a new government will be formed soon according to the people's will and the Constitution of the Kingdom of Cambodia. The next government will need to continue to implement the reform measures with the aim of creating a solid foundation for a broad-based economic growth and sustainable development.

It is worth mentioning the valuable contribution of the Bretton Woods institutions to the stability and economic growth that Cambodia has achieved during the last several years. Cambodia has received technical assistance from the IMF in many areas as well as financial assistance in the context of ESAF and its successor PRGF arrangements. The first three-year PRGF arrangement for Cambodia was successfully concluded early this year. In the context of this PRGF arrangement, a wide range of government reforms have been implemented, thus improving the foundation for a sustainable development and facilitating the country's global and regional integration. The World Bank has actively assisted Cambodia from the outset in its reconstruction after the 1991 Paris Peace Agreement, in development of physical infrastructures as well as in implementing many important projects that have promoted economic growth and poverty reduction. We are sure that the IMF and the World Bank will continue to support Cambodia and other developing countries in their efforts to achieve a sustainable development and successful participation in the global and regional system.

Finally, I would like to express our deep gratitude and appreciation to the management and staff of the IMF, the World Bank, other international and regional institutions, and donor communities for their valuable assistance and support to Cambodia. Given our limited capacity and lack of human and financial resources, we continue to look forward and welcome technical and financial assistance in any form in any area from the international and regional financial institutions as well as from other donor communities. We thank you for your goodwill towards Cambodia, its people and its government.