



PRESS STATEMENT: IMF CONCLUDES MISSION TO CAMBODIA

Phnom Penh, February 21, 2007

An IMF mission from Washington, D.C. visited Cambodia during February 14- 21, 2007 to hold discussions with Prime Minister Hun Sen and senior officials of the Royal Government of Cambodia (RGC) on their macroeconomic and structural policies. The mission also met representatives from the business community and development partners.

Macroeconomic developments

Macroeconomic performance in 2006 was excellent. Real GDP growth of around 10½ percent was driven by continued robust activity in tourism, garment exports, and construction, while agricultural production expanded. Growth of around 9 percent is expected in 2007.

Inflation dropped to 2¾ percent at end-2006, reflecting the good agricultural harvest and an easing of international oil prices, and is expected to remain low through 2007. The external current account deficit (excluding grants) narrowed to around 7¾ percent of GDP. A sharp increase in foreign direct investment contributed to higher international reserves, which rose to \$1.1 billion at end-2006.

Government revenue grew strongly in 2006, reflecting vibrant economic activity and improved tax collection efforts, though the tax revenue-to-GDP ratio remains only 8 percent. Expenditures were restrained, particularly capital spending, and arrears declined. The overall government deficit fell to 1½ percent of GDP.

Fiscal policy discussions highlighted raising expenditures for poverty reduction and building the country's infrastructure, in line with the National Strategic Development Plan (NSDP). It was agreed that financing this spending should come from sustained efforts to raise government revenue collection, and the 2007 budget revenue targets would be exceeded through stronger enforcement measures.

The banking sector expanded significantly in 2006, with both deposits and lending rising sharply. The mission saw this as evidence of growing confidence in Cambodia's nascent financial system, and welcomed commitments to continue monitoring developments closely.

Structural reforms

Structural reforms are key for sustained growth and poverty reduction. Good progress under the Public Financial Management reform program has been made, and the mission welcomed plans to strengthen cash management and budget execution procedures. In particular, the new treasury accounting system will allow better reporting on poverty reducing spending. Continued strengthening of financial sector legislation and supervision is expected to reinforce and safeguard the soundness of the financial system.

IMF debt relief

Cambodia received debt relief equal to about US\$82 million in January 2006 under the IMF Multilateral Debt Relief Initiative (MDRI). The mission discussed implementation of RGC's new rural irrigation projects, and welcomed news that public bidding would soon commence.

PRGF status

The mission was informed that negotiations between Cambodia and its official creditors on outstanding debt arrears remain unresolved. This delays consideration by the Fund's Executive Board of the Government's request for financial support under the Poverty Reduction and Growth Facility.¹ In light of this, the mission agreed to the Government's request to maintain an intensive policy dialogue on their macroeconomic and structural policies, with the aim of supporting the NSDP. The dialogue focuses on maintaining macroeconomic stability, sustained and strengthened efforts to improve the level and structure of government revenue and expenditure, and structural reforms in public financial management and the financial sector.

¹ The Poverty Reduction and Growth Facility (PRGF) is the IMF's concessional lending facility for low income countries. IMF policy does not allow for lending to a member country when unresolved arrears to official creditors exist.