



Cambodia: Recent Macroeconomic Developments and Near-Term Outlook

Presentation by

Mr. John Nelmes, IMF Resident Representative in Cambodia

at a

Seminar for Parliamentarians on the National Budget and Financial Law for 2007

December 4, 2006¹

A Seminar for Parliamentarians on the National Budget and Financial Law for 2007 was held on December 4, 2006. The Seminar was opened by H.E. Nguon Nhel, First Vice President of the National Assembly and H.E. Dr. Cheam Yeap, Chairman, Commission on Economy, Finance, Banking and State Audit of the National Assembly. The aim of the seminar was to inform Parliamentarians of recent economic developments and the national budget and financial law for 2007. Participants included members of the National Assembly, Senate, NGOs, economic institutions and development partners.

Mr. John Nelmes, IMF Resident Representative in Cambodia, presented views on Cambodia's recent macroeconomic and fiscal developments, and the outlook for 2006 and 2007.

Economic growth, though narrowly based, has been robust in 2006, while inflation has eased. The banking sector continues to expand, and external developments have been positive recently. This provides a solid basis for the economy in 2007, and economic performance should continue to be very good. Fiscal developments in 2006 have also been positive, with the overall revenue target in the 2006 budget likely to be exceeded. Additional revenue collection efforts are needed in 2007 to raise the revenue to GDP ratio—which has historically been relatively unchanged at a low level, and remains below neighboring countries—in order to finance higher spending needed to help realize Cambodia's Millennium Development Goals and objectives under the National Strategic Development Plan.

A copy of the presentation is attached.

¹ The views expressed in this presentation are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its Management.

Cambodia: Macroeconomic Developments

- A. Recent Economic Developments
- B. Outlook for 2006 and 2007
- C. Fiscal Developments and 2007
Recommendations



John Nelmes
IMF Resident Representative in Cambodia



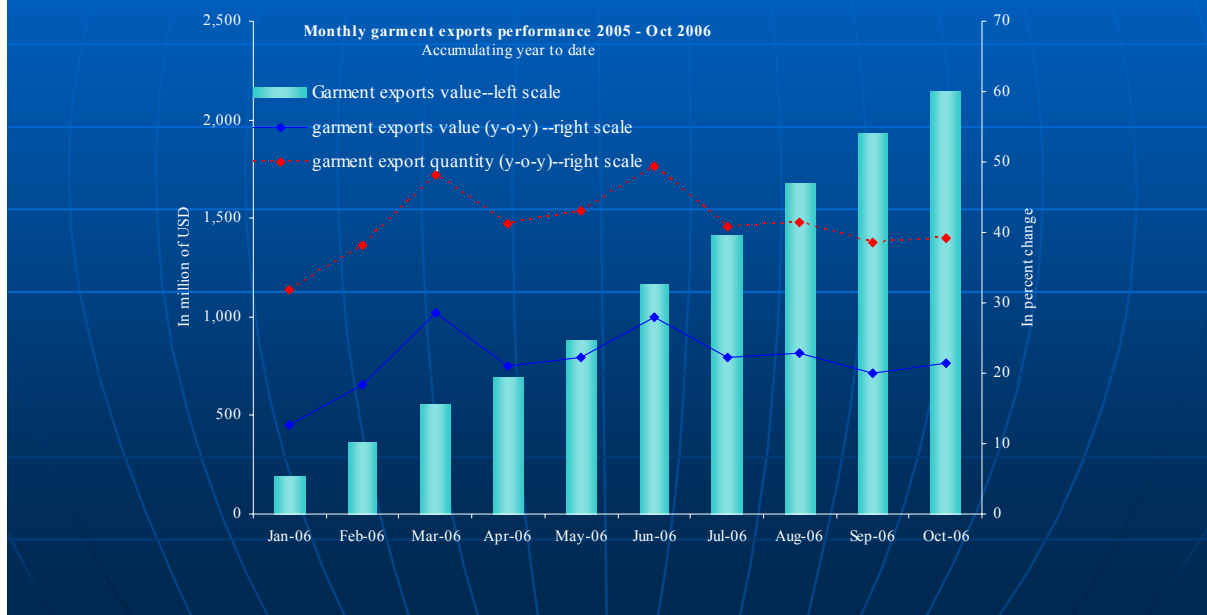
A. Recent Economic Developments

- Real growth remains robust
- Inflation has eased
- Banking system is expanding
- Positive external developments

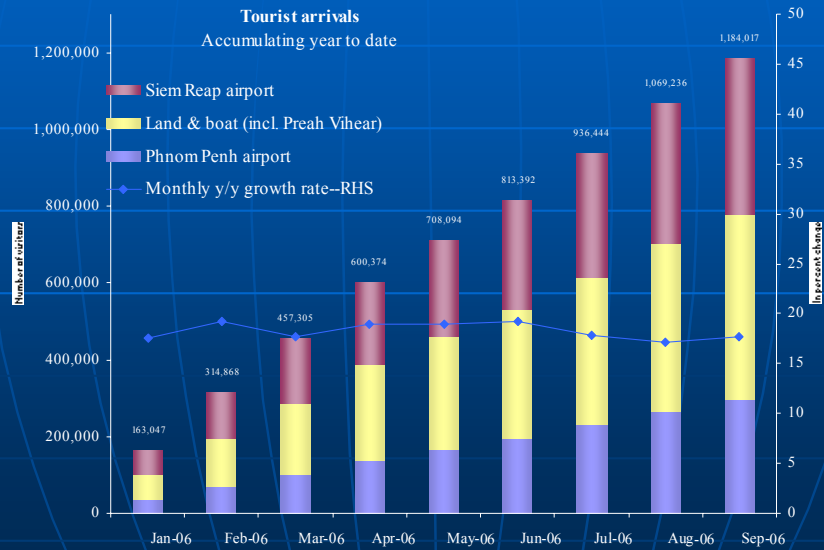
- Real growth remains robust
 - Historical growth base: tourism, garments, construction



- Real growth remains robust
 - Garment exports very strong



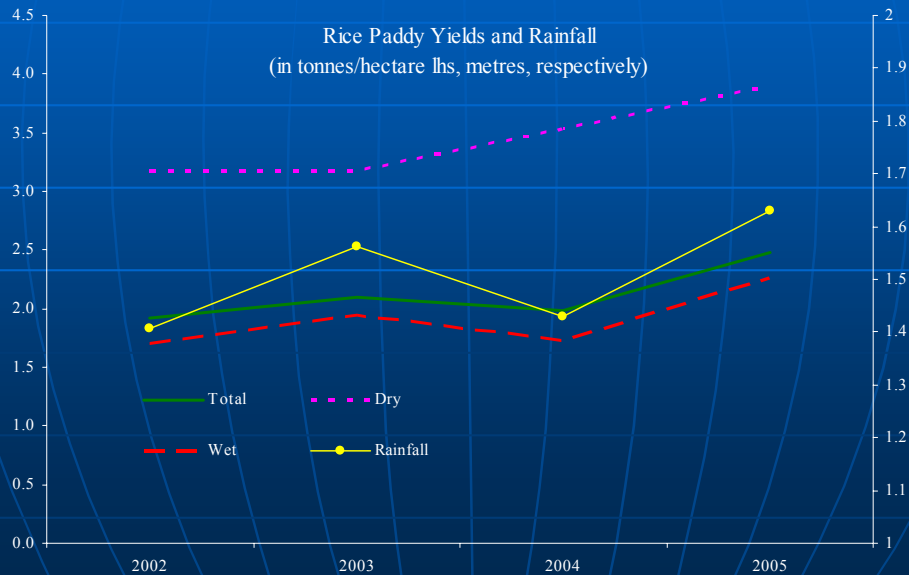
- Real growth remains robust
 - Tourism growth healthy



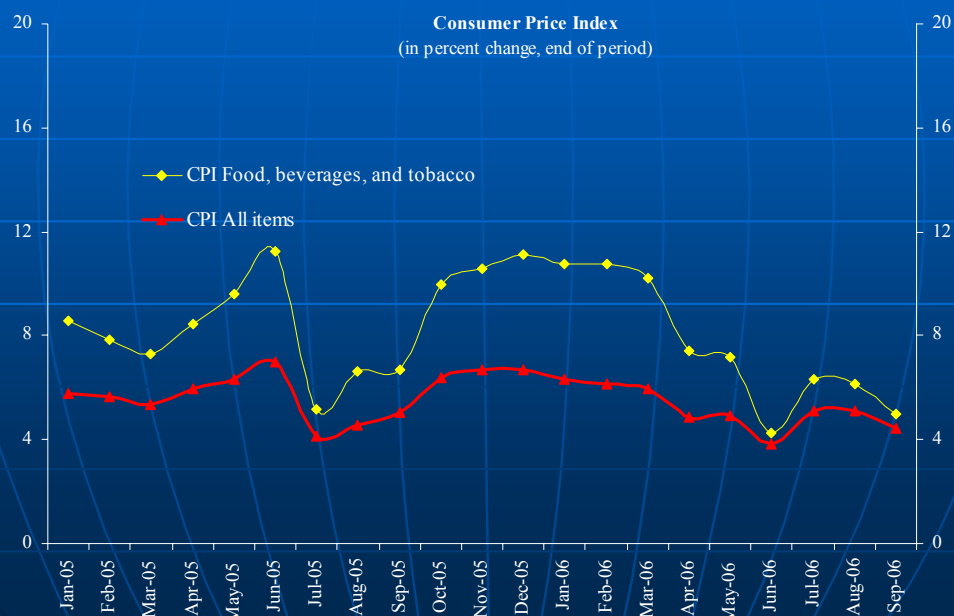
- Real growth remains robust
 - Construction at high level, growth moderating



- Real growth remains robust
 - Agriculture: rainfall and productivity gains helping



- Inflation has eased
 - Reflecting lower food price increases...



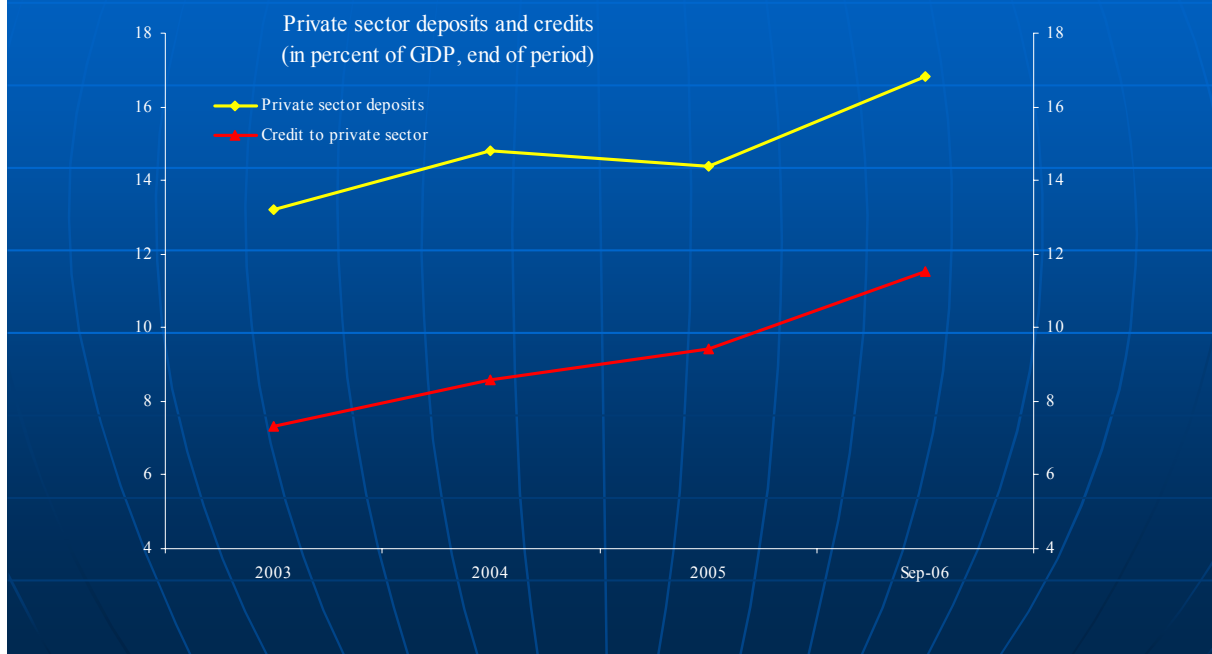
■ Inflation has eased

- ...and lower international oil prices



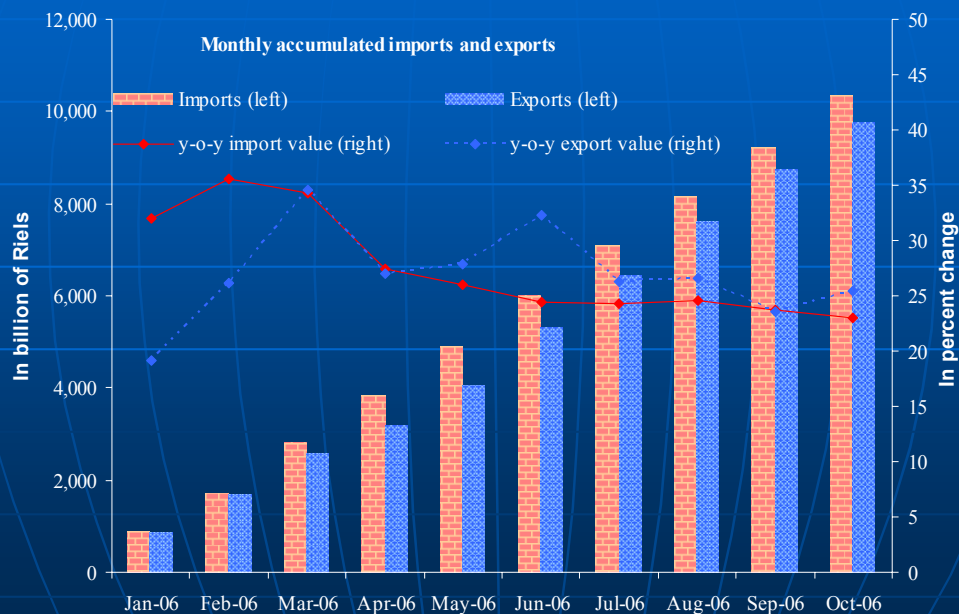
■ Banking system is expanding

- Financial intermediation, while growing, nevertheless remains low



■ Positive external developments

- Exports and imports are growing rapidly



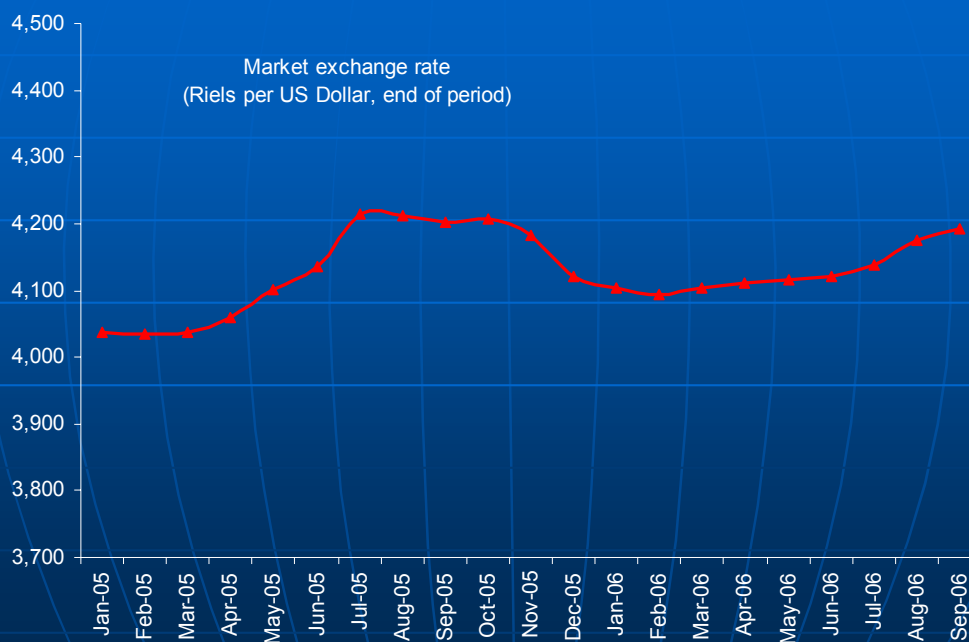
■ Positive external developments

- International reserves continue to rise...



■ Positive external developments

- ...and the exchange rate has been broadly stable



B. Outlook for 2006-2007

- Very good economic performance
- Growth is robust, inflation low
- Solid basis for the economy in 2007

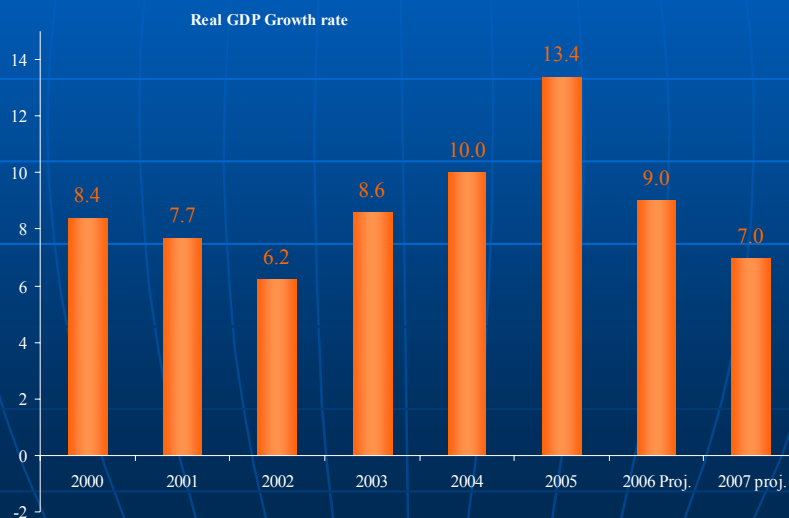
- Very good economic performance

- Real growth around 9% in 2006
- 7% growth projected for 2007

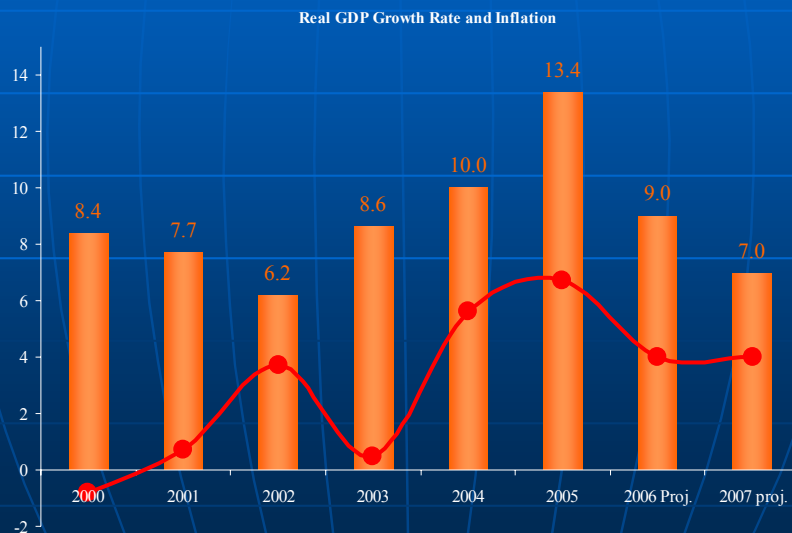


- Very good economic performance

- 2007--continued growth in garment exports, tourism, +ve agriculture
- Some easing in construction growth



- Very good economic performance
 - Inflation should remain around 4 %

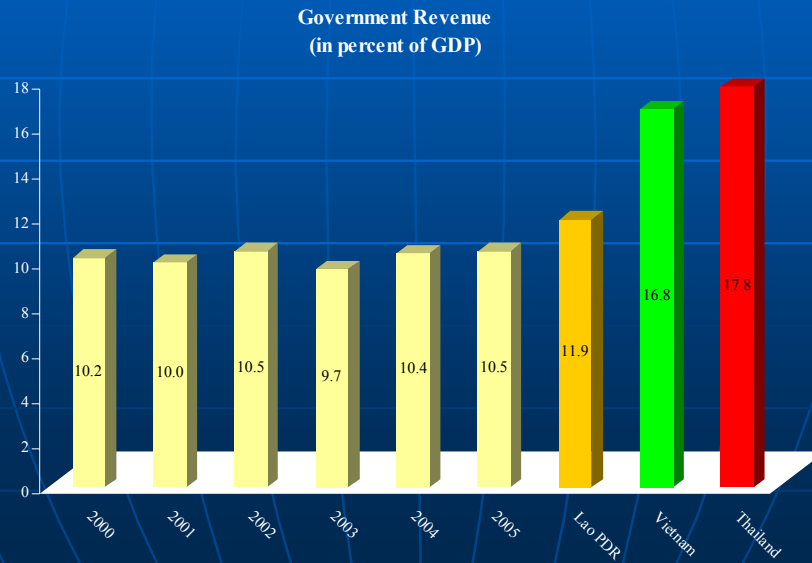


C. Fiscal Developments and 2007 Recommendations

- Historical Context
- 2006 Revenue and Expenditures
- 2007 Policy Recommendations

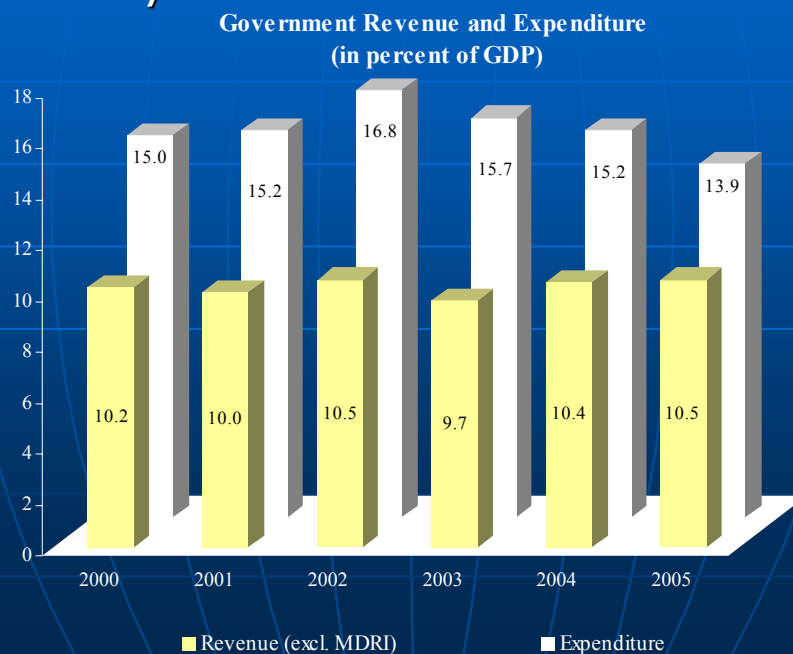
■ Historical Context

- Revenues largely unchanged as a percent of GDP since 2000
- Significantly lower than neighbours



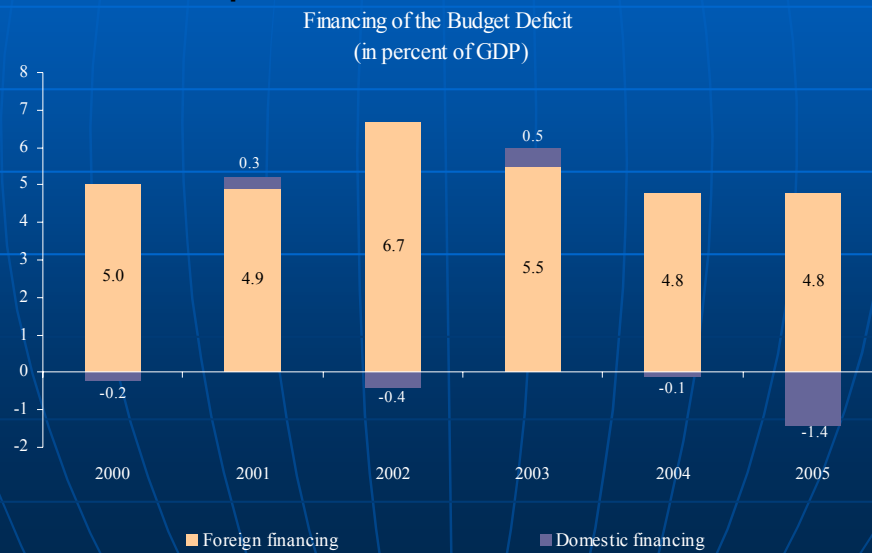
■ Historical Context

- Low revenues constrain spending for poverty reduction



■ Historical Context

- Budget deficit mainly financed by development partners
- Gov't deposits increased in 2005



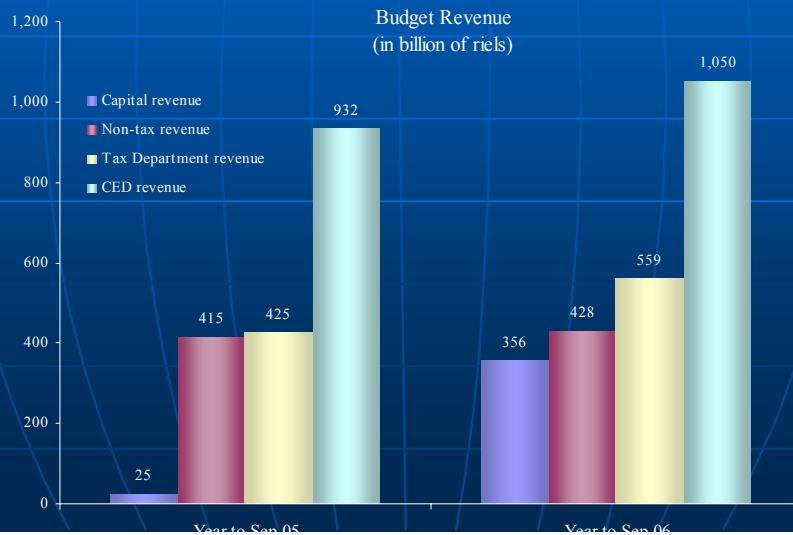
■ 2006 Revenue

- Overall revenue performing well
- 15% growth in year to September



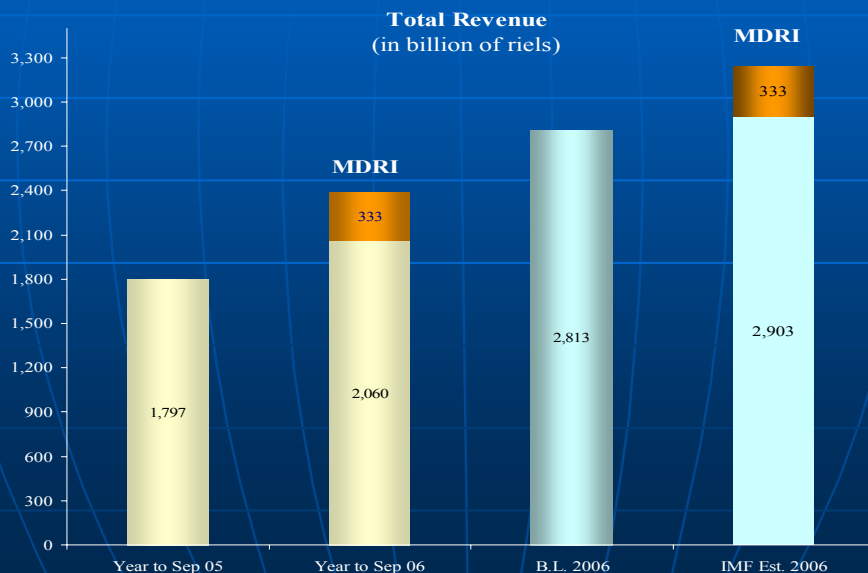
■ 2006 Revenue

- Tax dept +31%
- CED +13%
- Non tax +3%
- IMF debt relief boosted capital revenue



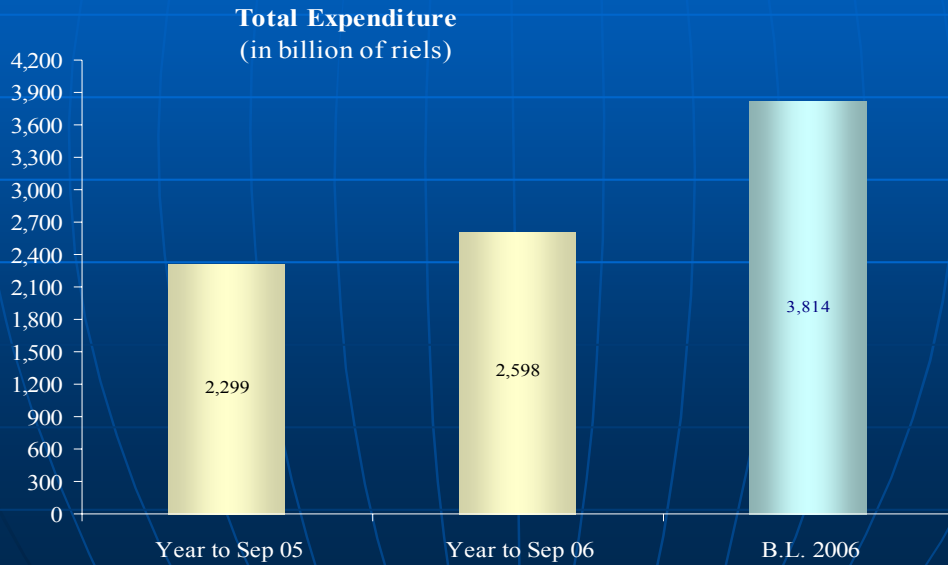
■ 2006 Revenue

- 2006 budget target should be exceeded
- Strong base for 2007 revenues



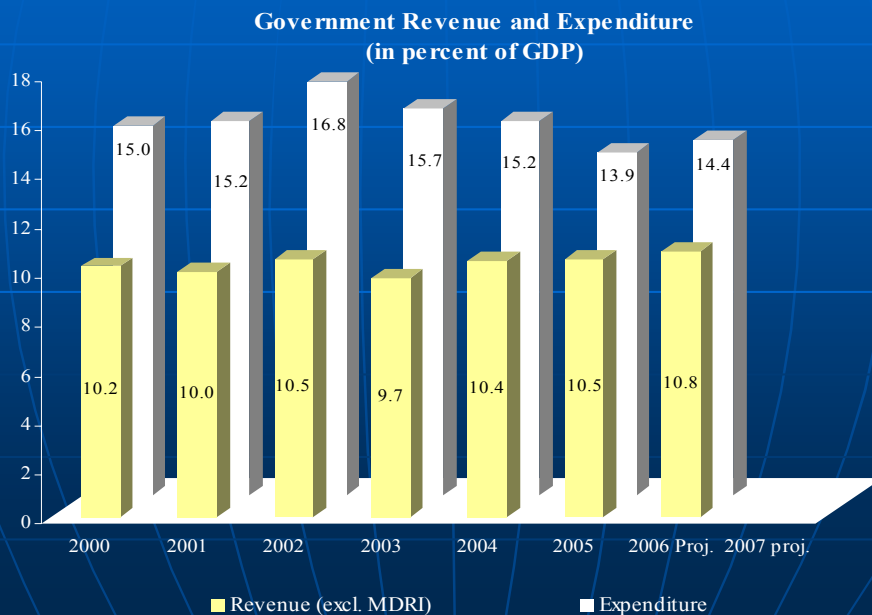
■ 2006 Expenditures

- Up 13% in year to September
- Budget target likely to be met due to late-year spending

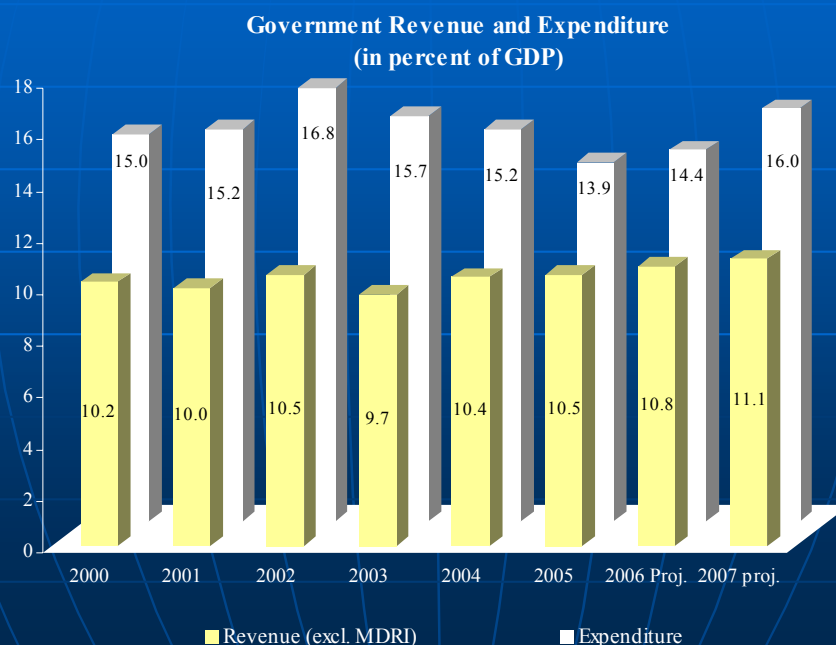


■ 2006 Revenue and Expenditures

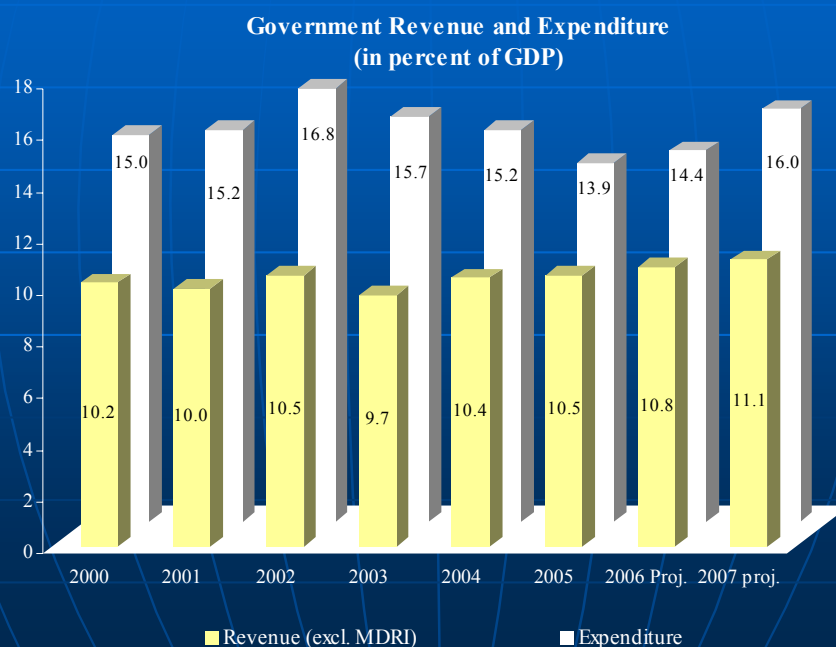
- Up slightly as percent of GDP
- A good basis for 2007



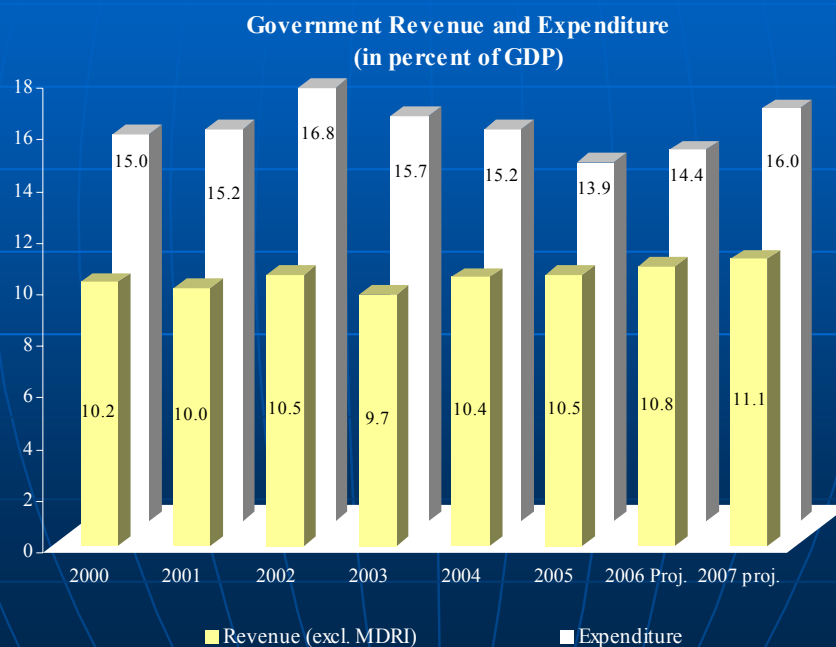
- 2007 Policy Recommendations
 - More revenue effort



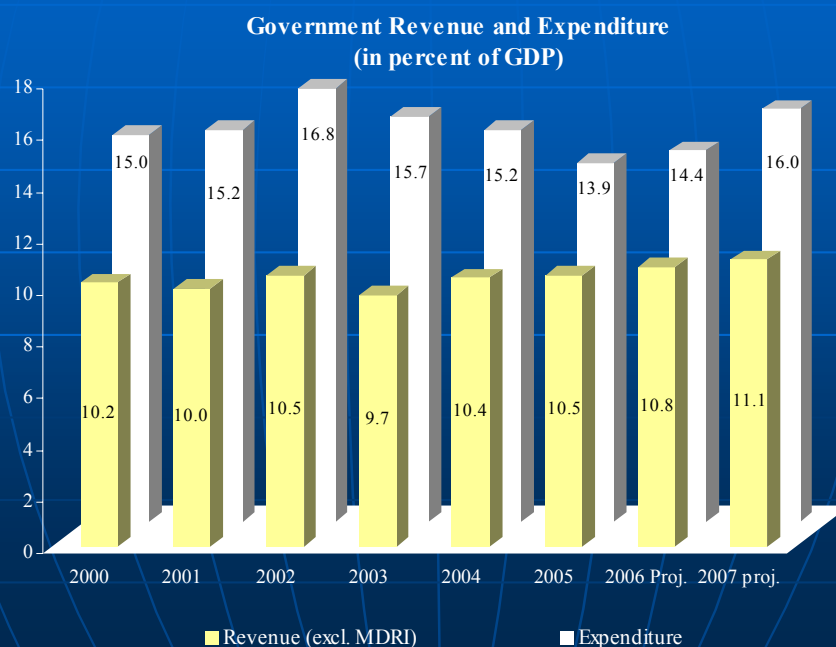
- 2007 Policy Recommendations
 - Target over 11% of GDP in 2007



- 2007 Policy Recommendations
 - Raise capital and social spending



- 2007 Policy Recommendations
 - Avoid domestic borrowing



- 2007 Policy Recommendations
 - 11% revenues in comparison to neighbours



D. Conclusion

- Macroeconomic developments and prospects are solid
- 2006 revenue will likely exceed budget targets
- Strong revenue effort in 2007 is needed—over 11% of GDP
- Additional increases in poverty-reducing spending

Thank you
for your attention!



John Nelmes
IMF Resident Representative in Cambodia