



## Cambodia's Macroeconomic Performance

Presentation by  
Mr. John Nelmes, IMF Resident Representative in Cambodia  
at the  
Cambodia Economics Association's Annual Conference:  
Youth and Employment  
June 14, 2007<sup>1</sup>

The Conference on Youth and Employment, organized by the Cambodian Economic Association, focused on Cambodia's macroeconomic performance, labor markets, employment prospects, and trade-related human developments.

Mr. John Nelmes, IMF Resident Representative in Cambodia, gave a presentation on macroeconomic performance, illustrating recent economic developments and the medium-term outlook.



### A. Recent Economic Developments

The presentation highlighted excellent economic growth, estimated at 10<sup>3</sup>/<sub>4</sub> percent in 2006, driven by an expansion of agricultural production and continued robust activity in tourism, garment exports, and construction. Services, in particular finance and telecommunications are increasingly contributing. With these trends continuing in early 2007, growth is projected to increase by around 9 percent this year, and inflation, anchored by dollarization, should remain in the low single digits in the near term.

<sup>1</sup> 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. A copy of the presentation is attached.



Cambodia's growth is above the regional average, facilitated by deepening financial intermediation and fueled by increasing foreign direct investment resulting from rising confidence.

Trade flows are growing and the deficit is narrowing, mainly due to strong export performance in the agriculture, garment, and tourism sectors. Aid

and rising foreign direct investment have more than financed the current account deficit.

Strong money demand has allowed for a gradual accumulation of international reserves, which rose to \$1.2 billion at end-April 2007, while the riel has remained broadly stable in bilateral and effective terms.

The overall government deficit is projected at 3¼ percent of GDP in 2007, financed by concessional foreign funds. Good revenue performance combined with constrained spending has led to lower overall deficits and a buildup in government bank deposits. However, the revenue base remains low despite recent gains, and the resulting constraint on spending, particularly in areas important for further poverty reduction such as infrastructure, and health and education, needs further attention.

## **B. Medium-term Outlook**

Growth is projected at around 7½ to 8 percent in the medium-term, supported by favorable global growth prospects. Potential oil revenue could increase national income and be used to finance higher spending on NSDP priorities. However, tax collection remains key to sustaining future spending, given the amount of oil—and thus potential revenue—is uncertain and will be depleted over time. External debt is sustainable and the risk of debt distress is moderate.



Risks to the outlook include competitive pressures in the garment sector due to the recent Vietnam's accession to the WTO, the lifting of safeguards on China's garment sector at end-2008, and possible adverse weather conditions affecting agriculture.

During the question and answer session, some participants raised concerns over the poverty rate, which remains high, and over rising inequality despite high economic growth. The Resident Representative shared these concerns, and noted that reform efforts need to continue to address poverty and inequality, taking advantage of strong economic growth as a foundation for improvements in the livelihoods of Cambodians. Key objectives include: further strengthening of the investment environment to broaden the base of growth; export diversification; job creation; and more and better spending on human development.