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Cambodia: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Cambodia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 10, 2010, with the officials of Cambodia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 15, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint World Bank/IMF debt sustainability analysis.

- A staff statement of October 28, 2010, updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its October 29, 2010, discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Cambodia.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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CAMBODIA

Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Cambodia

Approved by Masahiko Takeda and Dominique Desruelle

October 15, 2010

Context: After a sharp slowdown in 2009, the economy shows signs of a recovery. However, the global crisis exposed Cambodia's longstanding structural vulnerabilities. Chief among them are limited room for fiscal policy maneuver and effectiveness, a nascent and highly dollarized financial system, a narrow export base, and a lagging rural sector.

Policy discussions: There was broad agreement that enhancing revenue administration and stepping up public financial management reform are essential to ensure fiscal sustainability while providing room for meeting medium-term development objectives. While achieving greater monetary independence will be a gradual process, in the near term, staff advised to closely monitor the current liquidity overhang and implement high-priority FSAP recommendations. The authorities are taking steps in both areas. Staff welcomed efforts to further improve the business environment and promote rural development as they could go a long way in broadening Cambodia's sources of growth and reduce poverty.

Meetings: Held in Phnom Penh August 30–September 10 with Deputy Prime Minister and Minister of Economy and Finance Keat Chhon, Deputy Prime Minister and Minister-in-Charge of the Office of the Council of Ministers Sok An, National Bank of Cambodia Governor Chea Chanto, Senior Minister of Commerce Cham Prasidh, and other ministers and senior officials, as well as donor and private sector representatives. The staff team comprised Mr. Unteroberdoerster (Head), Ms. Duma, Mr. Ree (all APD), Ms. Kim (SPR), and Ms. Ong (MCM, FSAP mission chief). Mr. Chea (World Bank) worked with the team on the debt sustainability analysis, in collaboration with Mr. Liu (Asian Development Bank). Ms. Vongpradhip and Mr. Phan (OED) participated in the discussions.

Exchange arrangement: The exchange regime is classified as stabilized arrangement.

Statistical issues: Some progress has been made in improving economic statistics, but weaknesses remain, in particular in the compilation of the balance of payments, external debt and disbursements, and national income accounts. Core economic data are adequate for surveillance purposes, but the delay in releasing 2009 GDP statistics is a setback.

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I. INTRODUCTION

1. **Prior to the global crisis, Cambodia enjoyed a decade of high growth and relative stability.** Real GDP growth averaged over 9 percent during 2000–07, the highest of any low-income country in Asia (and one of the best performances worldwide), enabling significant improvements in living standards and poverty reduction. Prudent fiscal policies underpinned macroeconomic stability with headline inflation well below Cambodia's peers (Figure 1). Past surveillance has been characterized by broad agreement on the direction of policies, in particular with regard to enhancing fiscal policy credibility and financial system soundness, although progress has been slow in some critical areas such as public financial management reform. In support of government efforts, the IMF has provided significant technical assistance in fiscal, money and banking, and statistical areas.

2. **However, as a result of the global crisis output collapsed, exposing longstanding structural vulnerabilities.** Preliminary estimates suggest that growth fell some 10 percentage points below its pre-crisis average in 2009. Cambodia was hit harder than comparator countries by the global recession, given vulnerabilities that are in part a legacy of a generation lost by civil strife. Fiscal revenues, that remain low regionally, limit the scope to fully address development priority needs, while a shallow and highly dollarized financial system undercuts broad-based growth and complicates macroeconomic management. Growth and exports have remained narrow-based, offering limited benefits to the rural poor, Cambodia's vast majority. As a result, there are indications that poverty increased after several years of steady declines,[1] setting back the momentum toward achieving the Millennium Development Goals (MDGs).

3. **The authorities' response to the crisis helped limit the hemorrhage and is supporting the recovery:**

- In an effort to provide stimulus, the government raised wages and accelerated development spending, allowing the overall fiscal deficit to increase to over 8 percent of GDP in 2009, up by more than 5 percentage points over 2008. While the deficit was mostly financed by concessional loans and grants, there was also significant recourse to domestic financing (nearly 2 percent of GDP) for the first time since 2003.

- In addition, the National Bank of Cambodia (NBC) took an accommodative stance by reducing reserve requirements (from 16 to 12 percent) and introducing an overdraft facility. However, as a result of banking system weaknesses, the main effect was to offer a cushion against a liquidity shock in addition to banks' own efforts, including by raising deposit rates, that contributed to a significant rise in liquidity in the banking system.

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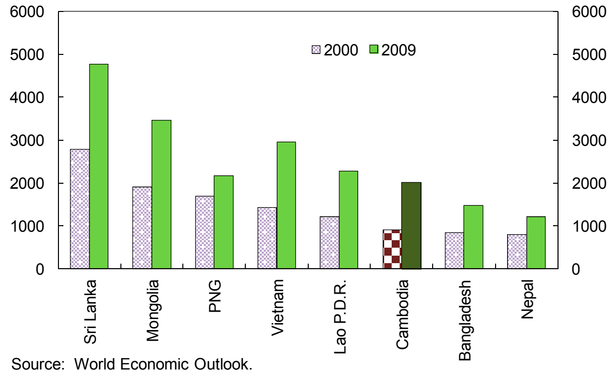
[1] World Bank estimates suggest that about 20 percent of households were directly exposed to the crisis through formal employment in the hardest hit sectors (garment, construction, and tourism).

Figure 1. Cambodia and Its Peers—Selected Indicators 1/

Cambodia has witnessed a fast rise in average living standards…

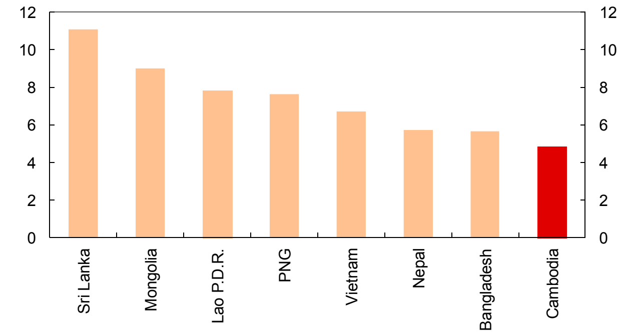
Per Capita GDP (PPP)
(In US dollar)



Source: World Economic Outlook.

… while inflation has been low by regional standards for low-income countries.

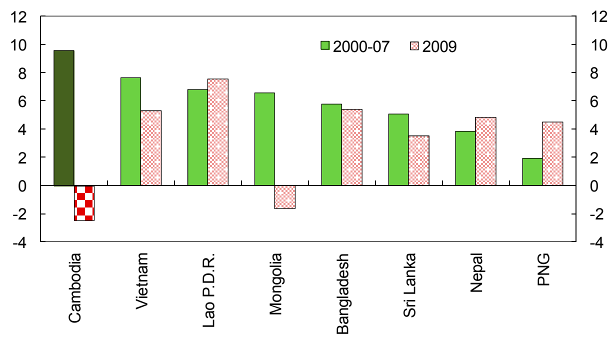
Average Annual Inflation, 2000–09
(Percent change)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.

Yet, rapid growth has been narrow based, and hence collapsed during the global recession.

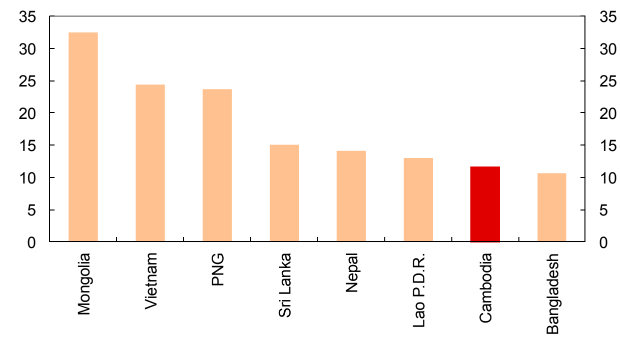
GDP Growth
(Percent change)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.

Revenue mobilization has remained weak…

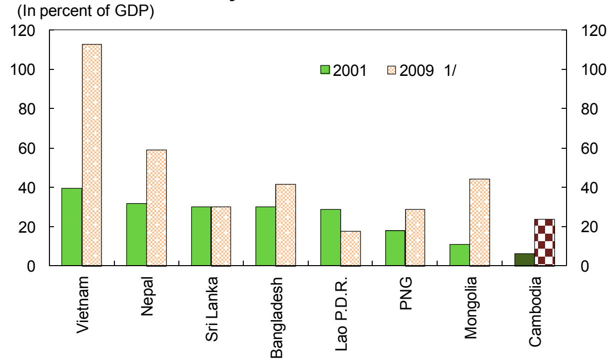
Government Revenue Excluding Grants, 2009
(In percent of GDP)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.

… as has bank intermediation, although starting conditions were arguably the worst in the region.

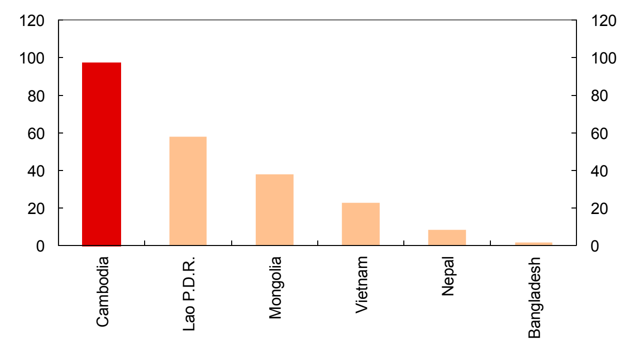
Credit to the Economy
(In percent of GDP)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.
1/ Lao P.D.R. and Sri Lanka use 2008 data instead.

In spite of macroeconomic stability, Cambodia has remained the most dollarized economy in Asia.

Foreign Currency Deposits, 2009
(In percent of total deposits)



Sources: Data provided by Cambodian authorities; and IMF staff estimates.

1/ PNG is the abbreviation of Papua New Guinea.

II. Outlook and Risks: Emerging from the Global Recession

4. **A broadening export-led recovery has been taking hold in 2010** (Figure 2, Table 1):

- ***Growth:*** Since the beginning of this year, signs of a recovery have emerged. Garment exports and tourist arrivals, notably by air, are bouncing back, both growing between 10 to 20 percent (y/y) in the second quarter of 2010. Construction activity, however, appears to remain sluggish with growth of most related imports still negative, while a late start of the rainy season may dent agricultural output growth.

- ***Inflation and credit:*** CPI inflation rose to an average 7 percent in the first quarter of 2010, from about -½ percent on average in 2009, on the back of firmer local food and global commodity prices. Credit growth has turned the corner, reaching 23 percent (y/y) in August, from 6½ percent at end 2009, amid ample liquidity in the banking system.

- ***External position:*** After narrowing somewhat in 2009, the current account deficit is likely to widen to about 7 percent of GDP (including official transfers) in 2010 on strengthening domestic demand (Table 2). Official reserves have risen modestly (to about 3½ months of import cover), while the riel has depreciated somewhat against the U.S. dollar in recent months.

- ***Exchange rate:*** Partly as a result of a pre-crisis surge in inflation, the riel appears to have remained somewhat overvalued in real effective terms, although standard exchange rate models are unreliable.[2] Yet, the rebound of key export sectors in line with the global recovery suggests that Cambodia's external competitiveness has remained intact.

5. **Near-term risks are tilted to the downside.** The fragility of the global recovery exposes Cambodia's narrow export base with its heavy reliance on the U.S. and European markets—garment exports to these destinations account for 40 percent of total goods and services exports— to significant downside risks, while limited fiscal policy space and

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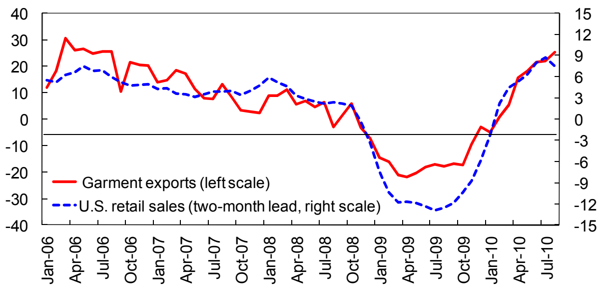
[2] Structural changes, the high degree of dollarization and weaknesses in macroeconomic data (for example, the current CPI measure only tracks prices in Phnom Penh) mean that firm conclusions from such models, such as the macroeconomic balance approach or the equilibrium REER approach, cannot be drawn. For example, the REER approach indicates an overvaluation of 14 percent, but parameters are not statistically significant. The macroeconomic balance approach is highly sensitive to the age-dependency ratio, which in Cambodia's case is extremely low due to the genocide under the Khmer Rouge (1975–79). Controlling for this factor, the current account norm is estimated to be about -5 percent of GDP, somewhat below the forecasted medium-term current account balance. Nevertheless, the current account deficit remains fully financed by foreign direct investment (FDI) and concessional aid flows.

Figure 2. Cambodia: Recent Developments

The economy is recovering as garment exports are bouncing back…

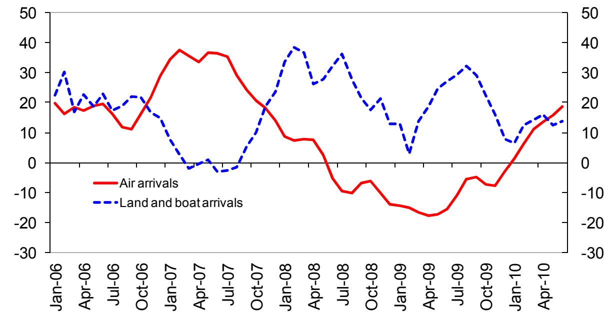
Garment Exports and U.S. Retail Sales Growth, 2006–10
(Year-on-year percent change, 3-month moving average)



Sources: Data provided by the Cambodian authorities; U.S. Federal Reserve Bank; and IMF staff estimates.

…and overseas tourism demand regains momentum.

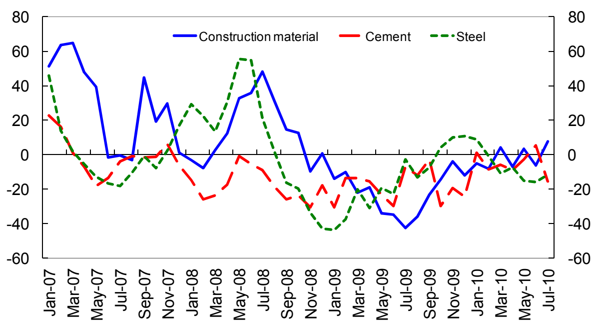
Tourist Arrivals, 2006–10
(Year-on-year percentage change, 3-month moving average)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

But construction indicators are still sluggish.

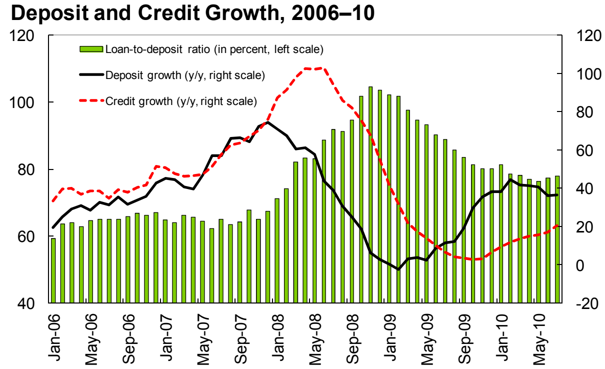
Imports of Construction-Related Materials, 2007–10
(Year-on-year percent change, 3-month moving average)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Confidence in the banking system has stabilized and credit growth is picking up.

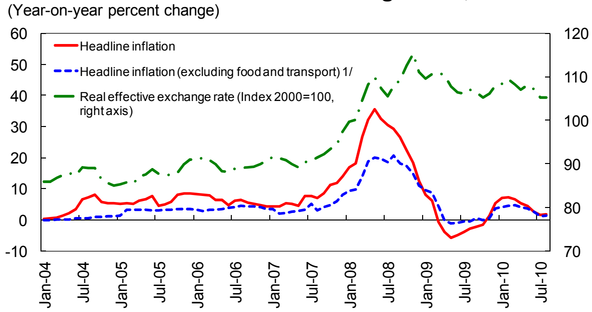
Deposit and Credit Growth, 2006–10



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Consistent with the recovery, deflation has ended. But the real effective exchange rate remains elevated as a result of the pre-crisis surge in inflation.

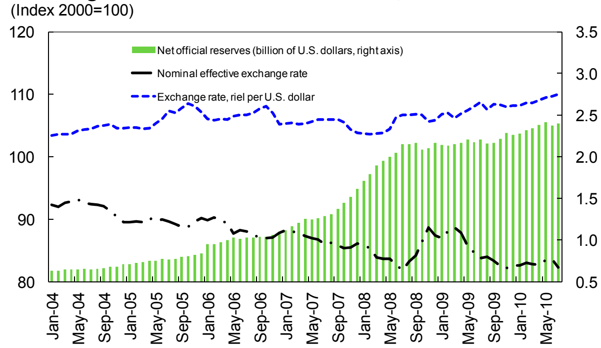
Inflation and Real Effective Exchange Rate, 2004–10
(Year-on-year percent change)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.
1/ Excludes food, beverages, and tobacco; and transportation and communication components of the consumer price index.

Nevertheless, with no apparent pressures on official reserves, the riel has remained stable against the U.S. dollar.

Exchange Rates and Official Reserves, 2006–10
(Index 2000=100)



Sources: National Bank of Cambodia; and IMF, *Information Notice System.*

financial system weaknesses further undercut the economy's resilience to shocks. As highlighted in the accompanying Financial System Stability Assessment (FSSA), the latter primarily arise from shortcomings in banking supervision, enforcement of regulations and uneven credit risk management and data reporting by banks, combined with a high degree of dollarization, severely constraining the central bank's ability to act as a lender of last resort. Staff projects growth to reach 4½–5 percent in 2010. Consistent with the recovery, staff projects the headline CPI index to rise 4 percent on average this year.

6. **Over the medium term, addressing longstanding structural weaknesses can improve the balance of risks** (Table 3). On the one hand, potential setbacks in efforts to strengthen the business environment and enhance public sector revenues and service delivery constitute major downside risks to growth. On the other hand, a better-than-expected return on medium-term investments in the power sector and rural infrastructure could offer significant upside potential. Under the baseline scenario, growth is expected to gradually return to potential of about 6–7 percent over the medium term. The current account deficit (excluding official transfers), after rising early in the recovery (to about 13½ percent of GDP in 2010) would gradually decline (to about 8½ percent of GDP in 2015), in part reflecting increasing domestic hydropower supply, and remain fully financed through grants, official external financing, and foreign direct investment.

III. POLICY DISCUSSIONS: RETURNING TO SUSTAINABLE GROWTH

7. **Discussions focused on the dual policy challenge to safeguard macroeconomic stability and policy credibility, and lay the foundations for broader-based and inclusive growth.** Key policies include: (i) expanding room for fiscal policy maneuver and effectiveness; (ii) strengthening monetary policy implementation and effectiveness in the context of a nascent and highly dollarized financial system; (iii) preserving financial system stability and mitigating systemic risks; and (iv) promoting private sector led economic diversification in the context of Asia rebalancing.

A. Fiscal Management: Providing Credibility and Change

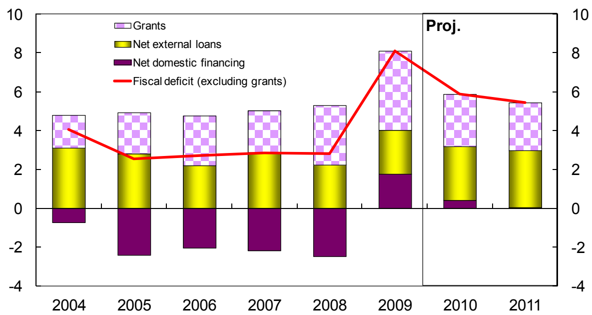
8. **Following the significant easing in 2009, the fiscal outturn through August suggests that the 2010 budget target of a gradual fiscal consolidation is on track** (Figure 3, Table 4):

- ***Revenues:*** The rebound in tax revenue is broadening, with both direct and indirect cumulative tax collection through the first eight months rising by 11 and 13 percent (y/y), respectively. In particular, profit tax collection has gained momentum and, since May has been consistently better than in 2009, supported by the ongoing economic

Figure 3. Cambodia: Fiscal Indicators

Fiscal consolidation is on track to meet the 2010 budget target…

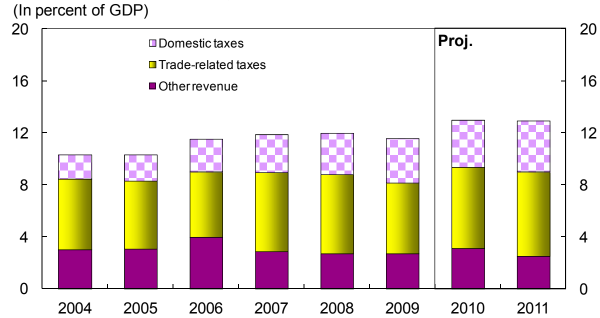
Fiscal Deficit and Financing, 2004–11



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

… on the back of buoyant revenue supported by the economic recovery.

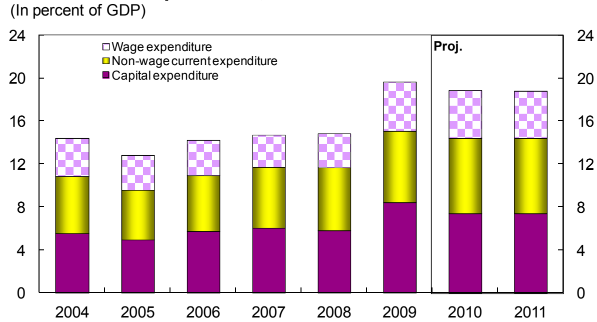
Government Revenue, 2004–11
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

Wage cuts and a normalization of capital spending remain in train.

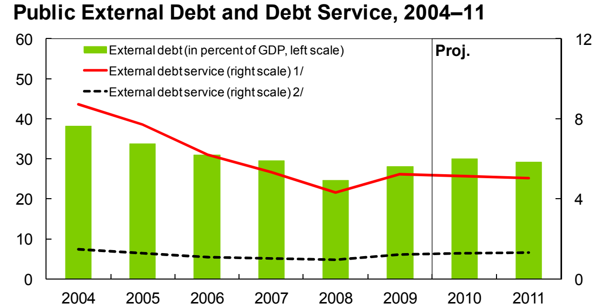
Government Expenditure, 2004–11
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

Although public debt has risen, the risk of debt distress is still moderate.

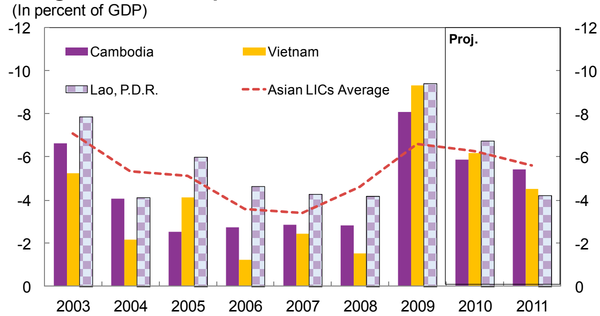
Public External Debt and Debt Service, 2004–11



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.
1/ In percent of government revenue.
2/ In percent of exports of goods and services.

Fiscal consolidation is broadly in line with regional trends…

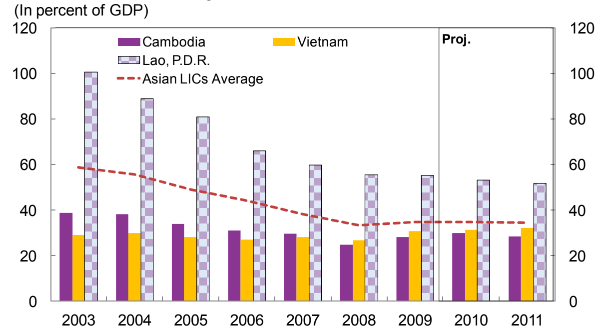
Budget Deficit Comparison, 2003–11
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.
1/ In percent of GDP.
2/ Excluding grants.

…as are debt dynamics.

External Debt Comparison, 2003–11
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.
1/ In percent of GDP.

recovery. In addition, continued efforts to strengthen revenue administration and reduced incentives for smuggling due to diminishing regional disparities in gasoline and diesel prices have helped contain tax evasion. As a result, staff estimates that revenue could exceed the budget target by about ½–1 percent of GDP.

- ***Spending:*** If current spending remains under control and planned cuts in defense and security spending continue to be implemented, the current balance could turn positive (and reach about ¾ percent of GDP) and provide almost half of the funding for the budgeted locally financed capital spending.

- ***Financing:*** Higher-than-budgeted disbursements of concessional loans and grants imply that externally-financed capital spending could exceed the budget by about 1 percent of GDP. While this would result in a higher overall fiscal deficit (including grants) of 3¼ percent of GDP (compared with about 2¾ percent of GDP in budget), recourse to domestic financing would be kept well below the budget target (about 1 percent of GDP), and be significantly lower than in 2009.

9. **Staff emphasized the need for fiscal adjustment beyond 2010.** Cambodia's macroeconomic stability continues to critically depend on prudent fiscal policies.

- Staff indicated that as the economic recovery gains traction, the recourse to domestic financing, and thus the injection of significant additional riel liquidity, should be eliminated to avoid undue external and inflationary pressures.

- Staff's illustrative medium-term scenario envisages a deficit reduction (excluding grants) by about 2½ percent of GDP between 2010 and 2015. Under this path, a debt sustainability analysis indicates that Cambodia would retain its moderate risk-of-debt distress rating and regain an ability to absorb future shocks similar to pre-crisis levels (Supplement 1: Joint IMF/World Bank Debt Sustainability Analysis 2010). The public and external debt-to-GDP ratios would decline to about 26 percent of GDP in 2016, in line with the levels before the global financial crisis. At the same time, the government would fully replenish its deposits in the banking system, which serve both as an important reserve to finance fiscal stimulus in the absence of a market for government debt and as a backstop to financial system fragilities.

- Contingent liabilities, in particular those related to the growing number of build-operate-transfer (BOT) hydropower schemes or banking system weaknesses, constitute major, but difficult to quantify, risks to the debt outlook. Moreover, a sooner-than-anticipated shift of aid financing from grants to loans would also add to the debt burden.

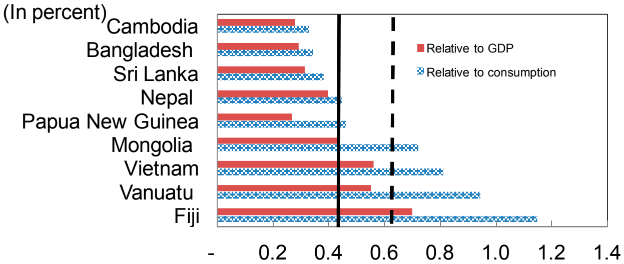
- The authorities welcomed the staff's analysis and reiterated their commitment to fiscal sustainability. They inquired about the implications of raising their ceiling on contracting external debt from SDR 200 million to SDR 400 million (financing by about an additional 2 percent of GDP). Staff cautioned that this would delay the pace of consolidation, and constrain the government's ability to respond effectively to further shocks without losing its current moderate risk-of-debt distress rating.

10. **The government is committed to further improving revenue administration.** The team and the authorities concurred that gains in tax collection offer the best hope for Cambodia to meet the dual objective of securing fiscal sustainability and mobilizing resources for its vast development needs. Specifically:

- There was agreement that the scope to improve the productivity of the tax system is significant (Box 1). Staff estimates based on experience in other low-income countries and controlling for country-specific fundamentals such as economic size and structure, level of development, and foreign direct investment suggest that Cambodia's tax revenue to GDP ratio is about 5–7 percent below its potential. Bringing the productivity of the VAT alone to a level comparable with other Asian low-income countries would yield an additional 1½ percent of GDP.

Asian LICs: VAT Productivity 1/ 2/

(In percent)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.
1/ Proportion of effective to nominal tax rate; effective tax rates are caculated as proportions of annual collection to consumption and GDP.
2/ Lines are Asian LICs averages, solid line is relative to GDP, while dotted is to consumption.

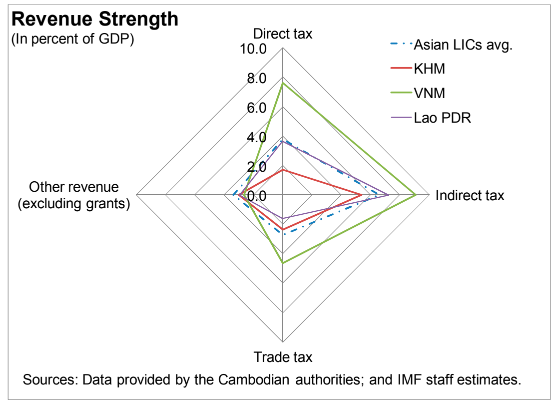
- The team supported the government's target of improving the tax revenue to GDP ratio through better administration by 0.5 percentage points per year, which means that about one-third to one-half of the revenue enhancing potential would be realized over the medium term.

- There was agreement that much will depend on following through with detailed action plans of the revenue collecting agencies, including: (i) to enhance taxpayer compliance through auditing; (ii) information sharing among revenue-collecting and law-enforcement agencies; (iii) taxpayer education; and (iv) improved governance within the agencies (notably through better protection of enforcement officers and disclosure requirements under the recently adopted Anti-Corruption Law). Staff recommended that a comprehensive strategy to enable a more aggressive collection of tax arrears, which rose 20 percent in the year ending July 2010, be put in place.

11. **Reducing the scope for evasion will also critically enhance the effectiveness of tax policy changes that are currently considered with a view to raise revenue.** For example, staff estimate that replacing the reference price for taxes on petroleum imports to the current

Box 1. Assessing the Scope for Revenue Enhancement

Cambodia's revenue mobilization is still among the weakest in the region, despite progress over the last decade. Since the mid-1990s, the tax revenue to GDP ratio has doubled, but at 12 percent, it is still the second lowest among Asian LICs (average 17 percent). The revenue base has also remained narrow, making it particularly vulnerable to external shocks. About one-half of the total revenues are collected from imported goods, with fuel and vehicle imports alone accounting for a combined 60 percent of total customs revenue. Smuggling continues to erode the base, given a stretched porous border. As for domestic taxes, revenue collection falls particularly short of that of peer countries—at 3½ percent of GDP it is at only 17 percent of Vietnam's level.

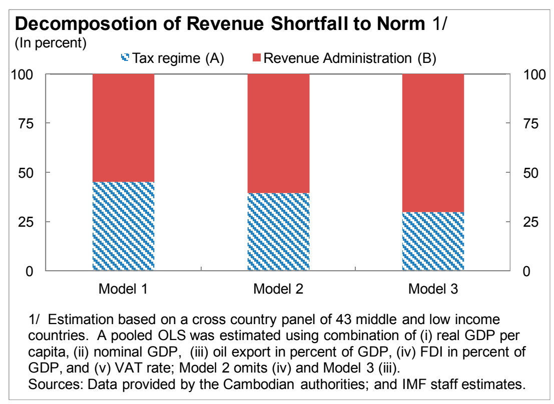


Weak revenue administration is the main factor for Cambodia's low fiscal revenue. Staff's estimates, based on a sample of 49 developing countries and controlling for economic fundamentals (such as level of development, economic structure, and FDI), show that Cambodia's revenue-to-GDP ratio is about 5–7 percent below its potential.[1] Estimates, controlling for country-specific differences in tax policies,[2] suggest that administrative improvements could make up at least one-half to three-quarters of Cambodia's underperformance. The bulk of this shortfall is attributable to weak administration, including risk-based tax audits to ensure taxpayer compliance.

Revenue Performance: Actual vs. Norm (Est.) 1/
(Revenue excluding grant, percent of GDP)

Country	Year	Actual	Est. (high)	Est. (low)
Cambodia	2001	10.0	17.8	15.9
	2005	10.3	18.3	16.5
	2009	11.6	18.6	16.8

1/ Estimation based on a cross country panel of 49 middle and low-income countries. A pooled OLS was estimated using combination of (i) real GDP per capita, (ii) nominal GDP, (iii) oil export in percent of GDP, and (iv) FDI in percent of GDP.
Sources: Data provided by the Cambodian authorities; and IMF staff estimates.



Against this background, the authorities have made improvements to revenue administration a high priority. The government's target of increasing the ratio of tax revenue to GDP by 0.5 percentage points every year (anchored in the PFMRP) is supported by comprehensive action plans that focus on enhancing compliance through tax payer audits and education, and better governance in the revenue collecting agencies.

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[1] For similar approaches in the literature see Abhijit S. Gupta (2007), "Determinants of Tax Revenue Efforts in Developing Countries," *Staff Papers,* IMF, Vol. 50, No. 1, pp. 245–295; or Dhaneshwar Ghura (1998); "Tax Revenues in Sub-Saharan Countries," IMF Working Paper 98/135.

[2] Based on proxies for indirect taxes (VAT rate) and direct taxes (corporate tax rate). However, the latter proved to be statistically insignificant, perhaps reflecting wide-spread exemptions and weak enforcement.

transactions price level would yield about 1 percent of GDP, and higher "sin" taxes on alcohol and tobacco could generate an additional 0.2 percent of GDP. However, these calculations assume that the resulting increase in domestic retail prices over those in neighboring countries does not erode the tax base. This requires that greater incentives for smuggling are effectively curbed by the envisaged improvements to customs control. From a strategic perspective, staff and authorities agreed that better information sharing and transfer of know-how in the fight against tax evasion from the General Customs and Excise Department to the General Tax Department will also be needed in light of trade liberalization commitments and the growing reliance on domestic taxes relative to trade taxes. The IMF stands ready to provide further technical assistance in customs and tax administration.

12. **Stepping up efforts under the public financial management reform program (PFMRP) will be critical to secure gains from enhanced revenue administration and improve the effectiveness of social priority spending.** Staff welcomed progress in cash management and budget formulation that has resulted in greater fiscal control through mid-year reviews and curbed supplementary expenditure credits, and eliminated expenditure arrears since 2007. However, budget execution and recording continue to be fragmented, especially with regard to donor-financed capital spending, hampering an assessment of fiscal and quasi-fiscal activities and effective budget planning. Moreover, payroll and procurement controls remain weak with over 60 percent of contracts above the competitive bidding threshold escaping competitive bidding through regulatory loopholes. Against this background, staff recommended a focus on those measures under Phase II of the PFMRP that are both achievable in the near term and of strategic importance. Specifically, the authorities should: (i) further deepen budget classification at the line ministry level as a precursor to the introduction of a financial management information system and the planned de-concentration of budget authority;[3] (ii) expedite the consolidation of all government deposit accounts; (iii) expedite the enactment of the procurement law and strengthen post procurement audit through increased staffing, funding, and training; and (iv) strengthen internal audit departments, another important precursor for de-concentration.

13. **Staff welcomed the recent disclosure of revenue information related to oil exploration.** In line with commitments under the PMFRP, staff encouraged the authorities to consider subscribing to the Extractive Industries Transparency Initiative (EITI) as a means to signal Cambodia's strong commitment to improve governance and strengthen fiscal management. The authorities intend to further strengthen the content and procedure of dissemination in line with international norms, such as EITI, but cautioned it would be premature to formally subscribe to the initiative at this stage.

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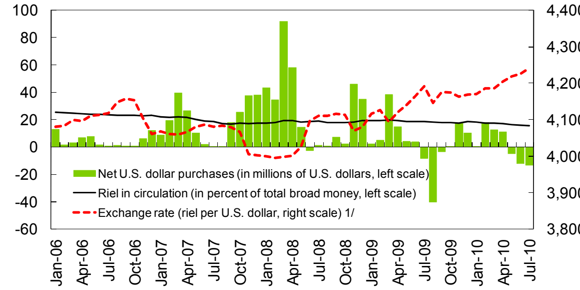
[3] Under the PFMRP, line ministries are to be given greater involvement at all stages of the budget process (from planning to execution) commensurate with their assigned government tasks and objectives.

B. Monetary and Exchange Rate Policy: Enhancing Policy Scope and Effectiveness

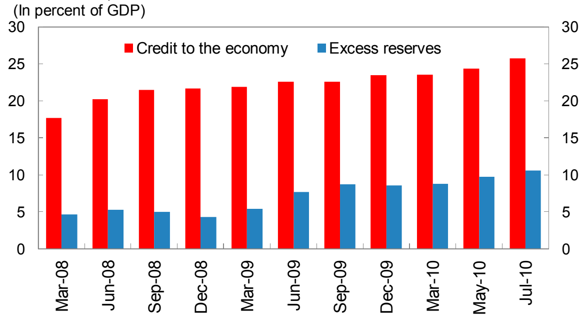
14. **The policies of the NBC have contributed to macroeconomic stability, but, from a longer-term perspective, this stability has not delivered the desired greater monetary independence.** In the absence of a formal monetary framework, the exchange rate vis-à-vis the U.S. dollar has been the effective nominal anchor for three decades, but low inflation has not been able to halt or reverse the trend increase in dollarization (Box 2).[4] Moreover, a relatively fixed exchange rate conflicts with the need to facilitate adjustment to external shocks as well as to protect official reserves (given the NBC's already limited lender-of-last resort capability under dollarization). During the recent crisis, the NBC responded by reducing the reserve requirement, but interest rates remained virtually unchanged while the main effect was a liquidity overhang as banks sought self-protection against a possibly severe liquidity shock (Table 5). At the same time the foreign currency deposits coverage ratio (in terms of gross official reserves) has steadily declined.

Cambodia: Net U.S. Dollar Purchases, Exchange Rates, and Riel Circulation, 2006–10



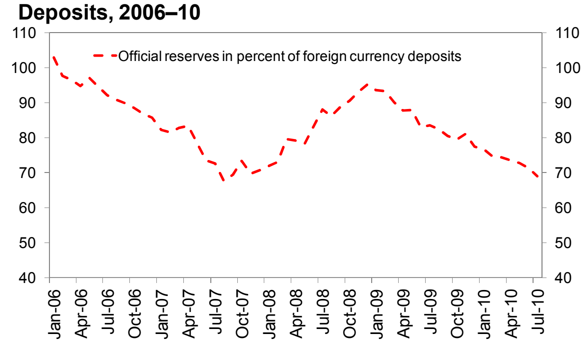
Sources: Data provided by the Cambodian authorities; and IMF staff estimates.
1/ Official mid-rate.

Cambodia: Credit to the Economy and Excess Reserves, 2008–10
(In percent of GDP)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Cambodia: Official Reserves and Foreign Currency Deposits, 2006–10



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

15. **The authorities and staff agreed that enhancing the monetary policy framework would need to be sequenced carefully.** Staff cautioned that basic steps are still required, such as implementing a comprehensive liquidity monitoring framework (in both U.S. dollar and riel, using daily data) and putting in place coordination and information-sharing

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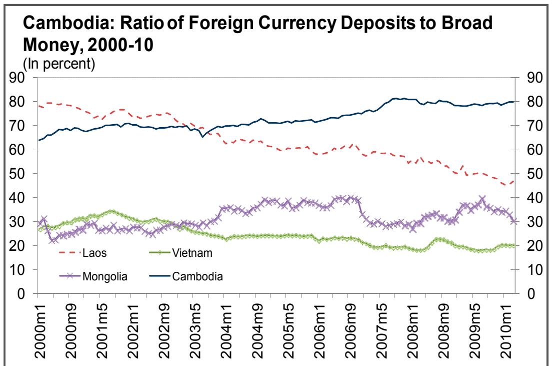
[4] Cambodia's foreign exchange market is shallow and the NBC's interventions (usually less than US$10 million a month) mainly address seasonal fluctuations in the demand for riel, related to tax payments and agricultural harvests.

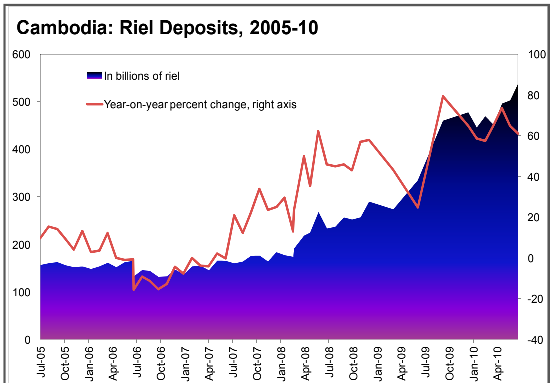
Box 2. Dollarization in Cambodia: Extent, Causes, and Strategies

Over the past decade, Cambodia has become Asia's most dollarized economy. Measured as the ratio of foreign currency deposits to broad money, dollarization in Cambodia has risen steadily from about 60 percent in the late 1990s to about 80 percent in 2010. This compares with 50 percent in Lao P.D.R., 30 percent in Mongolia, and 20 percent in Vietnam. Moreover, in these economies, dollarization has been on a declining trend or broadly stable.



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Dollarization has costs and risks: (i) the NBC loses the lender of last resort ability; (ii) seigniorage revenue is also lost. Based on a reserve money growth method, Cambodia is losing an estimated 5 percent of GDP in recent years. Based on estimates of currency in circulation in comparator low-income countries in Asia, seigniorage loss for Cambodia could range from about 5–19 percent of GDP; (iii) the banking system becomes more exposed to liquidity risk (as shown in the accompanying 2010 FSSA for Cambodia) where any sudden changes in investor and depositor perceptions about the health of the banking system can result in a deposit run. In fact, the ratio of official reserves to foreign currency deposits has declined to 70½ percent at end-September 2010 from 84 percent a year earlier.



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Somewhat paradoxically, growing dollarization in Cambodia has occurred against the backdrop of greater macroeconomic and political stability. The usual motive, currency substitution, does not appear to have been a factor. As the use of dollars increased over the years, the use of the riel, in volume, has also risen. Banking system riel deposits have grown fourfold since the mid 2000s. Dollarization resulted from a strong inward flow of dollars. Growth in Cambodia's dollar economy, that is largely urban, has far surpassed growth in the riel economy, which remains largely agricultural and rural. The dollar economy has benefited from the buoyant garments sector, tourism, foreign direct investment, and aid, contributing to robust growth in related sectors and a wider use of the dollar. The rural economy, however, has lagged behind. For example, during 2000–08 real annual GDP growth in the manufacturing and hotel and tourism sectors averaged 10½ percent, more than double the rate of growth for agriculture.

Therefore, de-dollarization will likely take time and needs to be managed carefully. International experience from successful cases of de-dollarization (e.g., Israel, Poland, Chile, and Egypt) shows that market-based policies toward de-dollarization work best. From these studies, several measures will be needed in Cambodia, including: (i) maintaining macroeconomic stability; (ii) promoting intermediation in the riel and building a liquidity line of defense, specifically by having a higher reserve requirement on foreign currency liabilities to make such liabilities more costly, and accumulating international reserves for liquidity support and help reduce the perception of a weak domestic currency; (iii) building monetary policy tools and establishing an interbank market; (iv) promoting the use of the riel as a unit of account possibly through regulation that requires all prices in the market to be denominated in riel, and that the riel be used for all accounting and financial reporting and official purposes; and (v) promoting the use of the Cambodia riel for payments by offering more convenient and lower-cost services for the riel than for foreign currency. For example, Peru introduced a 2 percent tax on checks denominated in foreign currency to discourage the use of foreign currency for payments.

mechanisms with the National Treasury and other agencies under the Ministry of Finance. Staff recommended that an independent in-house research unit for macroeconomic analysis and forecasts be established to help inform the recently established Monetary Policy Committee (MPC). The NBC should also strive to disseminate more frequent and up-to-date data and analysis on monetary and credit developments, including on its website, which would provide valuable experience for moving to more comprehensive communications with market participants, including on MPC decisions. Staff and the authorities agreed that the development of an interbank money market (in both U.S. dollar and riel) is important for reducing the vulnerabilities induced by a dollarized financial system, and for a more effective implementation of monetary policy. Staff emphasized that progress along these lines would, over time, create space for moving away from exchange rate-based stabilization.

16. **Staff cautioned the authorities to monitor closely the current liquidity overhang.** To avoid undue pressures on inflation and the exchange rate from resurgent credit growth as the recovery strengthens, the NBC should be prepared to increase the reserve requirement on foreign currency deposits. Gradually returning reserve requirements on U.S. dollar deposits to their pre-crisis level (of 16 percent) and beyond, if necessary, will serve as an important signaling device for banks while minimizing the risk of disrupting their operations. In order to do so, the authorities intend to step up daily liquidity monitoring of banks and, with IMF technical assistance, assess the impact of changes in the reserve requirement on banks' liquidity positions.

17. **The authorities recognized that greater monetary independence will also critically depend on a national strategy of de-dollarization.** To a large extent, dollarization reflects Cambodia's unbalanced and narrow growth over recent decades that was driven by the dollarized urban export and tourism centers (Box 2). Therefore, staff underscored the need for diversified development with greater emphasis on agriculture and rural areas, where the riel is commonly accepted, to help contribute toward a decline of dollarization. Staff further argued that based on international experience of countries with a successful de-dollarization strategy, the incentives for greater use of riel could be increased by: (i) a greater differential in reserve requirements in favor of riel deposits, which would make bank intermediation in riel more attractive and also mitigate bank's liquidity risks arising from a run on dollar deposits in the absence of a lender of last resort; (ii) a requirement for all retailers to list prices in riel; (iii) promoting the use of riel for payments by circulating bills of larger denomination and introducing a clearance tax for checks denominated in foreign currency. However, many cases of failed de-dollarization attempts show that going beyond incentives and taking administrative measures, such as prohibiting foreign currency deposits, is often counterproductive and undermines confidence in the local currency.

C. Financial Supervision: Mitigating Systemic Risks and Preserving Stability

18. **In addition to being highly dollarized, Cambodia's financial system is relatively shallow.** The legacy of civil strife and demonetization under the Khmer Rouge (1975–79) still casts a long shadow on public confidence. Bank credit to the private sector is low at about 26 percent of GDP. Over 95 percent of banking system deposits are denominated in U.S. dollar. While many new banks have been licensed in recent years, the system is dominated by five large banks (two of which are foreign owned) accounting for nearly 80 percent of credit. Rural areas are primarily served by micro-finance institutions, representing less than 10 percent of financial system assets.

19. **While the banking system emerged seemingly intact from the financial crisis, significant risks to stability remain.** The sharply slowing economy and collapse of the real estate market in 2009 likely weakened banks' balance sheets severely. The findings of onsite examinations of several banks by supervisors suggest that the reported aggregate NPL ratio for 2009 of around 4 percent may be substantially understated, largely due to uneven implementation and enforcement of the strengthened regulation on asset classification. Furthermore, the general lack of effective risk management by banks remains of concern (Table 6). Having said that, the ongoing recovery provides an opportunity to clean up bank balance sheets and reduce financial system vulnerabilities while maintaining confidence.

20. **Staff stressed that robust financial sector oversight is a precondition for a more resilient financial system that would enable Cambodia to meet its economic potential.** Staff welcomed the authorities' desire to make use of the findings and recommendations of the recent IMF/World Bank Financial Sector Assessment Program (Box 3). Specifically:

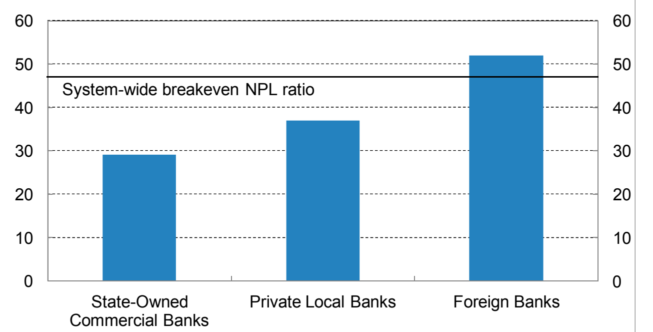
- Staff welcomed renewed hiring efforts to address the shortage of human resources and enhance technical capacity. However, staff strongly recommended that a moratorium on new bank licensing be formally placed as long as supervisory capacity and resources are inadequate. In light of the significant role of foreign controlled banks in Cambodia, staff welcomed the recent agreement with Malaysia's bank supervisors on enhanced supervisory collaboration as it represents a potential tool to ease capacity constraints and initiate cross-border supervision.

- While recognizing the authorities' efforts toward preparing a memorandum of understanding between relevant government agencies on crisis management, staff cautioned against further delays and urged that the most immediate requirement is to establish a mechanism for dealing with systemic and illiquid or insolvent banks. Moreover, the framework will need to be anchored in an explicit financial stability mandate for the NBC. Given the absence of financial safety nets, staff also urged that the Prompt Corrective Action (PCA) regulation be enhanced.

Box 3. Key Challenges for Financial System Stability

The March 2010 FSAP identified a number of key challenges to financial system stability. At the core, the responsibilities of the NBC's Banking Supervision Department clearly outstrip its capacity and resources. Moreover, examinations remain compliant-based and do not adequately assess risk, and there is inadequate offsite monitoring, limited follow-up of onsite examination findings, and weak enforcement of laws. At the same time, core financial soundness indicators compiled by the NBC are based on unreliable data reported by banks. In particular, the credit and solvency risks of banks (as represented by their NPL and capital adequacy ratios, Table 6) may be substantially underestimated. Breakeven point analysis that gives little weight to assumptions on data and provides an estimate of the NPL ratio that would result in the risk-weighted capital-asset ratio (CAR) falling to the required 15 percent minimum, indicates that soundness varies significantly across different categories of banks. Moreover, data from recent onsite examinations suggest that the seemingly high breakeven NPL ratios may not be implausible and that some banks, even larger ones, may be closer to the 15 percent minimum required CAR than reported data suggest.

Breakeven NPL Ratios
(In percent of total loans; consistent with risk-weighted capital-asset ratio of 15 percent)



Source: IMF staff estimates.

Against this background, the highest-priority FSAP recommendations are:

- ***Human resources.*** Addressing the acute shortages of human resources and lack of technical capacity is of paramount importance and very high on the NBC's agenda. Operationalizing the memoranda of understanding with foreign supervisors may alleviate the burden on the NBC's limited resources.

- ***Crisis management framework.*** This will be critical to help maintain confidence in the financial system and minimize fiscal risks. The PCA regulation needs to be enhanced given the absence of financial safety nets. The framework will also need to establish a mechanism for dealing with systemic and illiquid or insolvent banks. An explicit financial stability mandate for the NBC is also recommended.

- ***Strict enforcement.*** In particular, the new regulations on asset classification and provisioning, and on minimum capital requirements will be an important litmus test for the NBC and the government and define the supervisor's credibility going forward. However, with the framework for bank resolution, liquidation, and mergers not well formed, the NBC will have to evaluate its options carefully when implementing the new minimum capital requirements to avoid damaging the confidence in the system.

- ***Legal framework.*** A strategic plan is needed to address gaps, conflicts, and overlaps in the financial sector legal and regulatory frameworks (e.g., between the banking and securities laws).

- Staff commended the authorities for intensifying their actions with banks toward meeting the new minimum capital requirement by end-2010. This together with strict enforcement of new regulations on asset classification and provisioning will define the supervisor's credibility.

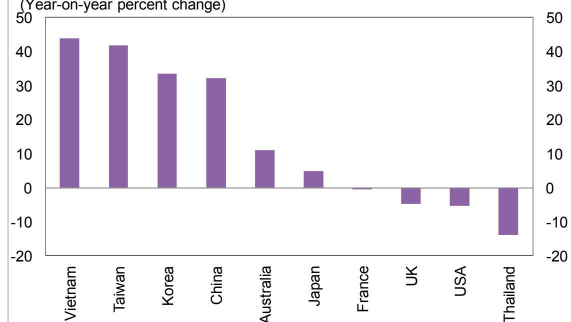
21. **Over the medium term, staff advised that the supervisory framework will need to keep pace with the development of a broader financial system.** Regulations for risk-based and forward-looking supervision should be implemented, and consolidated supervision at the bank level should be conducted by the NBC. Also, an adequate regulatory and supervisory framework for the securities market needs to be put in place. Modalities for enhanced cooperation and coordination between the NBC and other domestic supervisors must be clearly defined and agreed upon through memoranda of understanding.

D. Private Sector Growth: Promoting Diversification

22. **Global rebalancing and greater reliance in Asia on domestic sources of growth offer significant opportunities that Cambodia should seize.** With a rapidly growing middle class in emerging Asia, Cambodia is close to the world's fastest growing markets. Continued healthy growth rates of tourist arrivals from the region during the global recession underscore Cambodia's growth potential from exports to new markets. Moreover, emerging Asia's demand for agricultural products and raw materials is set to grow rapidly. With half the investor base in Cambodia's textile industry already from greater China, Cambodia could also become a primary beneficiary of Chinese outsourcing in the face of growing wages on the mainland.

Cambodia: Changes in Tourist Arrivals by Country of Origin, 2009

(Year-on-year percent change)



Sources: Ministry of Tourism of Cambodia; and IMF staff estimates.

23. **Against this background, staff and authorities agreed that recent initiatives to improve the business environment and address infrastructure bottlenecks are critical and timely.** Staff welcomed the recently promulgated Anti-Corruption Law, which could significantly reduce the cost of doing business— noting that Cambodia ranks low in a number of governance indicators—thereby improving Cambodia's international competitiveness.[5] Renewed emphasis on agricultural development and rural infrastructure investment, including by the recently adopted Rice Policy (Box 4), will broaden Cambodia's

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[5] Cambodia currently ranks 145th out of 183 under the World Bank's *Doing Business Index*, and 158th out of 180 under the Transparency International *Corruption Perception Index*.

Box 4. Cambodia's New Rice Policy

Under the motto, "Rice—White Gold," the government's new rice policy adopted in 2010 is a five-year plan that focuses on expanding the production and export of rice. Rice is Cambodia's main crop, accounting for about 50 percent of total crop production and some 7–8 percent of GDP. Production in 2010 could reach 7.3 million tons, of which an estimated 3.1 million tons is needed for local consumption. Factoring in seed and post-harvest losses, more than 3.3 million tons would be available for exports. However, according to official statistics, only about 30,000 tons (less than 1 percent) are exported, suggesting that owing to a lack of processing and warehousing capacity, as well as formal export arrangements, Cambodia's potential to tap world markets remains largely unrealized.

The policy looks at all aspects of the value-chain and has the following key objectives:

- ***Facilitating trade.*** Through reducing informal fees, eliminating illegal checkpoints, boosting warehousing and rice milling capacity, creating a one-stop service for export processing, and creating an independent body to certify and grade products according to standards of importing countries.

- ***Raising productivity.*** Paddy rice yield in Cambodia is low, only 2.6 tons per hectare compared with 4.9 tons per hectare in Vietnam. In the near term, using higher yield seeds, expanding irrigation systems, and facilitating quicker customs clearance for imports of inputs will help improve productivity. In the longer term, the policy aims at modernizing farming techniques. Through 2015 total rice production is targeted to increase by 24 percent to 9.1 million tons.

- ***Addressing land issues.*** Only about 10 percent of farmers have land titles. The policy plans to use zoning to clearly demarcate land for agriculture while improving land titling to enable farmers to use land as collateral for loans to finance critical investments and working capital.

- ***Improving the infrastructure including reducing energy costs.*** Energy costs account for about 25 percent of total production costs. Energy prices in Cambodia are generally double those in neighboring countries, primarily because of the heavy reliance on petroleum for electricity generation. Plans to build new hydropower plants with donor support over the medium term and use alternative sources of energy will help reduce costs.

sources of growth, make future development more inclusive, and help Cambodia maintain its good track record toward achieving the Millennium Development Goals (Table 7).

24. **Staff underscored the need for better and faster data for key economic statistics in order to further enhance policy credibility and better inform business decisions.** In addition to addressing weaknesses in fiscal and financial data mentioned in paragraphs 12 and 19, it will be important to further improve the accuracy and timeliness of national accounts statistics. Noting that the release of official 2009 GDP statistics was still subject to data revisions, staff recommended that the provisional estimates shared by the National Institute of Statistics be enhanced to fully incorporate available data on trade, the financial sector, and fiscal accounts.

IV. Staff Appraisal

25. ***Economic setting:*** After a decade of high growth and relative stability, the recent global crisis brought to the fore Cambodia's longstanding structural vulnerabilities. Output contracted in 2009, as Cambodia was hit harder than comparator countries by the global recession, given its narrow export base. As a result, the incidence of poverty likely rose after several years of steady progress toward achieving the Millennium Development Goals. A broadening export-led recovery, however, is under way.

26. ***Outlook and risks:*** The fragility of the global recovery exposes Cambodia's narrow export base with its heavy reliance on the U.S. and European markets to significant downside risks in the near term. Banking system weaknesses, a high degree of dollarization, and limited fiscal policy space further limit the economy's resilience to shocks. Addressing longstanding structural weaknesses can improve the balance of risks over the medium term. In this context, potential setbacks to strengthening the business environment and enhancing public sector revenues and service delivery constitute major downside risks to growth, while a better-than-expected return on medium-term investments in the power sector and rural infrastructure could offer significant upside potential.

27. ***Fiscal policy:*** Recent data indicate that fiscal consolidation is on track to meet the 2010 budget target. As the recovery gains traction, further fiscal consolidation and the elimination of domestic financing needs should be pursued. Revenue mobilization remains key to expanding fiscal space, while ensuring fiscal sustainability and progress toward development objectives. Stepping up public financial management reform and effectiveness of priority social and infrastructure spending will also be important.

28. ***Monetary and exchange rate policy:*** While policies of the NBC have contributed to macroeconomic stability, this stability has not delivered the desired greater monetary independence. Exchange rate based stabilization has tended to conflict with the need to facilitate adjustment to external shocks as well as to protect official reserves. To help move away from exchange rate-based stabilization over time, there is a need to: (i) implement a comprehensive liquidity monitoring framework and putting in place the required coordination and information-sharing mechanisms within the government; and (ii) develop an interbank money market. In light of the large liquidity overhang, the authorities should stand ready to remove the monetary easing bias to preempt potential undue pressures on reserves and a credit boom. Greater monetary independence will also critically depend on a national strategy of de-dollarization.

29. ***Financial sector policy:*** Implementation of high-priority FSAP recommendations will help address key challenges to financial system, stability including data inadequacies impairing financial system surveillance, and weak supervisory and regulatory frameworks, and safeguard the hard-won, but limited, confidence in the banking system. In particular, addressing the shortage of human resources and enhancing technical capacity; establishing

agreements with foreign supervisors; putting in place a crisis resolution framework; addressing gaps in banking sector laws and regulations and the shortcomings in the anti-money laundering, and combating of financing of terrorism (AML/CFT) area; and enforcing existing regulations that are essential to reduce systemic risks, and limit potential fiscal costs.

30. ***Economic diversification:*** Diversified private sector-led growth is important for raising Cambodia's growth potential. Strengthening the investment climate, expanding market access through trade commitments, and enhancing rural infrastructure are all important to help Cambodia tap new markets in the context of Asia rebalancing. In this regard, implementation of the recently promulgated Anti-Corruption Law could significantly reduce the cost of doing business and improve Cambodia's international competitiveness. The government's renewed emphasis on agricultural development and rural infrastructure investment could help broaden sources of growth and directly reduce poverty.

31. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Cambodia: Selected Economic Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
					Prel. Est.	Proj.
Output and prices (annual percent change)						
GDP in constant prices	13.3	10.8	10.2	6.7	-2.0	4.8
(Excluding agriculture)	8.1	17.3	12.2	7.0	-4.4	4.9
Real agricultural output	15.7	5.5	5.0	5.7	4.9	4.4
GDP deflator	6.1	4.6	6.5	21.9	0.3	0.8
Inflation (end-year)	8.4	4.2	14.0	12.5	5.3	4.5
(Annual average)	6.3	6.1	7.7	25.0	-0.7	4.0
Saving and investment balance (in percent of GDP)						
Gross national saving	14.6	19.9	18.3	13.3	10.8	11.5
Government saving	1.9	1.8	2.9	2.6	-0.1	0.8
Private saving	12.7	18.1	15.5	10.7	10.9	10.6
Gross fixed investment	18.5	20.6	20.8	19.5	16.0	18.5
Government investment	4.9	5.7	6.1	5.8	8.4	7.4
Nonbudgetary grant-financed investment	3.7	4.0	4.3	3.0	2.4	4.0
Private investment	9.9	10.8	10.5	10.7	5.2	7.1
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	16.1	38.2	62.9	4.8	36.8	22.7
Net credit to the government 1/	-4.9	-10.1	-12.4	-10.4	6.2	1.2
Private sector credit	31.8	51.6	76.0	55.0	6.5	28.5
Velocity of money 2/	5.4	4.9	3.9	3.7	3.2	2.6
Public finance (in percent of GDP)						
Revenue 3/	10.3	11.5	11.9	12.0	11.5	13.0
Of which: Tax revenue	7.6	7.9	9.5	9.9	9.4	10.3
Expenditure	12.8	14.2	14.7	14.8	19.6	18.8
Current expenditure	7.9	8.5	8.7	9.0	11.2	11.5
Capital expenditure 4/	4.9	5.7	6.1	5.8	8.4	7.4
Overall budget balance (excluding grants)	-2.5	-2.7	-2.9	-2.8	-8.1	-5.9
Foreign financing, net	4.9	4.8	5.0	5.3	6.3	5.5
Domestic financing, net 5/	-2.4	-2.0	-2.2	-2.5	1.8	0.4
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	2,910	3,694	4,083	4,708	4,137	4,563
(Annual percent change)	12.4	26.9	10.6	15.3	-12.1	10.3
Imports, f.o.b.	-3,904	-4,727	-5,474	-6,509	-5,831	-6,679
(Annual percent change)	19.4	21.1	15.8	18.9	-10.4	14.5
Current account (including official transfers)	-240	-47	-213	-700	-562	-828
(In percent of GDP)	-3.8	-0.6	-2.5	-6.2	-5.2	-7.0
Gross official reserves 6/	915	1,097	1,616	2,164	2,367	2,550
(In months of prospective imports)	2.0	2.1	2.6	3.8	3.7	3.6
(In percent of foreign currency deposits)	105.0	85.7	70.8	95.2	77.4	66.7
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt 7/	2,131	2,245	2,555	2,808	3,054	3,514
(In percent of GDP)	33.9	30.9	29.4	24.9	28.1	29.9
Public debt service	50	52	55	59	66	66
(In percent of exports of goods and services)	1.2	1.0	1.0	0.9	1.1	1.1
Memorandum items:						
Nominal GDP (in billions of riels)	25,754	29,849	35,042	45,583	44,841	47,362
(In millions of U.S. dollars)	6,286	7,264	8,691	11,277	10,871	...
Exchange rate (riels per dollar; period average)	4,097	4,109	4,032	4,042	4,125	...

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Contribution to broad money growth.

2/ Ratio of nominal GDP to the average stock of broad money.

3/ In 2006, includes transfer from the IMF of Multilateral Debt Relief Initiative proceeds as capital revenue.

4/ In 2005, includes repayment of arrears.

5/ Includes funds in transit and payment orders in excess of cash released.

6/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

7/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

Table 2. Cambodia: Balance of Payments, 2008–15
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015
		Est.			Proj.			
Current account (including official transfers)	-700	-562	-828	-1,179	-1,384	-1,285	-1,311	-1,306
(Excluding official transfers)	-1,382	-1,261	-1,590	-1,672	-1,673	-1,588	-1,629	-1,640
Trade balance	-1,801	-1,694	-2,115	-2,258	-2,408	-2,606	-2,795	-2,999
Exports, f.o.b.	4,708	4,137	4,563	4,990	5,446	5,954	6,494	7,080
Of which: Garments	3,006	2,501	2,806	3,077	3,374	3,702	4,050	4,431
Imports, f.o.b.	-6,509	-5,831	-6,679	-7,248	-7,855	-8,561	-9,289	-10,079
Of which: Garments-related	-1,404	-1,185	-1,291	-1,415	-1,552	-1,703	-1,863	-2,038
Petroleum	-1,924	-1,805	-2,147	-2,346	-2,475	-2,608	-2,709	-2,808
Services and income (net)	135	139	203	225	320	540	636	771
Services (net)	609	608	684	710	802	1,030	1,140	1,272
Of which: Tourism (credit)	1,219	1,185	1,249	1,346	1,467	1,610	1,764	1,950
Income (net)	-475	-468	-482	-485	-482	-489	-505	-501
Private transfers (net)	284	293	323	361	415	478	530	589
Official transfers (net)	682	699	762	493	288	303	318	334
Capital and financial account	1,215	659	943	1,452	1,404	1,403	1,609	1,472
Medium- and long-term loans (net)	175	302	308	346	323	251	403	323
Disbursements	212	338	351	395	378	323	501	408
Amortization	-37	-36	-43	-50	-55	-72	-98	-107
Foreign direct investment 1/	815	506	632	746	831	927	1,006	1,099
Net foreign assets of deposit money banks (+ decrease) 2/	692	-888	-346	310	250	225	200	50
Other short-term flows and errors and omissions	-467	739	349	50	0	0	0	0
Overall balance	515	96	114	273	19	118	298	165
Financing	-515	-96	-114	-273	-19	-118	-298	-165
Change in gross official reserves 3/	-535	-116	-132	-289	-34	-134	-314	-177
Use of IMF credit	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0
Accumulation of arrears	21	19	18	16	15	16	16	12
Memorandum items:								
Current account balance (in percent of GDP)								
Excluding official transfers	-12.3	-11.6	-13.5	-12.8	-11.5	-9.9	-9.2	-8.4
Including official transfers	-6.2	-5.2	-7.0	-9.0	-9.5	-8.0	-7.4	-6.7
Trade balance (in percent of GDP)	-16.0	-15.6	-18.0	-17.2	-16.5	-16.2	-15.8	-15.4
Gross official reserves 4/	2,164	2,367	2,550	2,839	2,874	3,007	3,322	3,499
(In months of next year's imports)	3.8	3.7	3.6	3.7	3.5	3.4	3.4	3.3

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Includes some debt-creating flows related to power sector projects.
2/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).
3/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.
4/ Excludes unrestricted FCDs held as reserves at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

Table 3. Cambodia: Medium-Term Macroeconomic Framework, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
		Est.	Proj.					
Output and prices (percent change)								
GDP at constant prices	6.7	-2.0	4.8	6.8	6.5	6.5	6.6	6.8
GDP deflator	21.9	0.3	0.8	6.6	4.4	3.8	3.0	3.6
Consumer prices (end-year)	12.5	5.3	4.5	4.0	3.7	3.4	3.0	3.0
Saving and investment balance (in percent of GDP)								
Gross national saving	13.3	10.8	11.5	10.0	10.5	12.5	14.1	15.3
Government saving	2.6	-0.1	0.8	1.3	1.7	2.0	2.3	2.5
Private saving	10.7	10.9	10.6	8.7	8.8	10.5	11.7	12.8
Gross fixed investment	19.5	16.0	18.5	19.0	20.0	20.5	21.5	22.0
Government investment	5.8	8.4	7.4	7.4	7.0	6.8	6.7	6.5
Private investment 1/	13.7	7.6	11.1	11.6	13.0	13.7	14.8	15.5
Public finance (in percent of GDP)								
Revenue	12.0	11.5	13.0	13.4	13.8	14.2	14.5	14.9
Of which: Tax revenue	9.9	9.4	10.3	10.9	11.3	11.6	11.9	12.3
Expenditure	14.8	19.6	18.8	18.8	18.4	18.3	18.3	18.2
Current	9.0	11.2	11.5	11.4	11.4	11.5	11.5	11.7
Capital	5.8	8.4	7.4	7.4	7.0	6.8	6.7	6.5
Current balance	2.6	-0.1	0.8	1.3	1.7	2.0	2.3	2.5
Primary balance (including grants)	0.4	-3.8	-2.9	-2.8	-2.0	-1.5	-1.2	-0.8
Overall balance (excluding grants)	-2.8	-8.1	-5.9	-5.4	-4.6	-4.1	-3.7	-3.4
(Including grants)	0.3	-4.0	-3.2	-3.0	-2.2	-1.8	-1.4	-1.1
External financing, net (including grants)	5.3	6.3	5.5	5.4	4.9	4.5	4.3	4.0
Domestic financing, net	-2.5	1.8	0.4	0.0	-0.2	-0.4	-0.5	-0.6
Balance of payments (in percent of GDP, unless otherwise indicated)								
Exports (percent change) 2/	14.4	-13.0	10.9	9.8	9.5	9.7	9.4	9.4
Imports (percent change) 3/	18.6	-11.2	15.0	8.7	8.7	9.3	8.8	8.8
Current account balance (including transfers)	-6.2	-5.2	-7.0	-9.0	-9.5	-8.0	-7.4	-6.7
(Excluding transfers)	-12.3	-11.6	-13.5	-12.8	-11.5	-9.9	-9.2	-8.4
Foreign direct investment	7.2	4.7	5.4	5.7	5.7	5.8	5.7	5.6
Capital account balance	580	581	583	584	585	586	587	588
Net official capital flows 4/	7.6	9.2	9.4	6.5	4.2	3.5	4.2	3.4
Overall balance	4.6	0.9	1.0	2.1	0.1	0.7	1.7	0.9
Gross official reserves (in millions of U.S. dollars) 5/	2,164	2,367	2,550	2,839	2,874	3,007	3,322	3,499
(In months of next year's imports)	3.8	3.7	3.6	3.7	3.5	3.4	3.4	3.3
Public external debt (in millions of U.S. dollars) 6/	2,808	3,054	3,514	3,813	4,176	4,460	4,904	5,268
(In percent of GDP)	24.9	28.1	29.9	29.1	28.6	27.7	27.8	27.0
Public external debt service (in millions of U.S. dollars) 7/	59	66	66	78	94	114	144	164
(In percent of exports of goods and services)	0.9	1.1	1.1	1.1	1.2	1.3	1.6	1.6

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export.
4/ Net official disbursements, exceptional financing, and official transfers.
5/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.
6/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.
7/ Cash basis, excluding the accumulation of arrears on debt owed to the Russian Federation and the United States.

Table 4. Cambodia: General Government Operations, 2007–11

	2007	2008	2009 Budget	2009 Est.	2010 Budget 6/	2010 Jan.–Aug. Est.	2010 Staff Proj.	2011
			(In billions of riels)					
Total revenue	4,165	5,463	5,182	5,179	5,837	3,817	6,139	7,219
Of which: Central government	3,962	5,188	5,030	4,897	5,686	3,663	5,920	6,951
Tax revenue	3,343	4,494	4,177	4,228	4,763	3,029	4,861	5,878
Direct taxes	480	654	746	744	968	570	881	…
Indirect taxes	2,676	3,433	3,300	3,218	3,663	2,318	3,777	…
Of which: Trade taxes	903	1,087	1,032	964	1,022	641	1,210	1,410
Provincial taxes	187	259	131	266	131	141	203	248
Nontax revenue	705	769	870	750	774	606	968	988
Capital revenue 1/	117	200	135	201	300	182	310	353
Of which: MDRI capital transfer 2/	0	0	0	0	0	0	0	0
Total expenditure	5,164	6,751	7,422	8,805	8,421	5,130	8,919	10,152
Current expenditure	3,043	4,097	4,663	5,019	5,300	3,166	5,429	6,163
Wages	1,058	1,438	1,730	2,057	2,092	1,293	2,092	2,381
Nonwage	1,766	2,311	2,577	2,665	2,882	1,658	2,893	3,307
Of which: Interest payments	70	79	100	86	120	72	120	120
Provincial expenditure	220	347	357	297	326	214	444	475
Capital expenditure	2,121	2,654	2,759	3,787	3,121	1,964	3,490	3,988
Locally financed	436	701	1,054	1,037	1,116	644	1,060	1,140
From MDRI capital transfer	2	10	5	0	5	0	5	75
Externally financed 3/	1,682	1,943	1,700	2,749	2,000	1,320	2,425	2,772
Current balance	1,005	1,166	384	-41	237	-693	400	703
Overall balance (excluding grants)	-999	-1,288	-2,239	-3,627	-2,584	-1,314	-2,779	-2,933
Financing	999	1,288	2,239	3,627	2,584	1,314	2,779	2,933
Foreign (net)	1,768	2,423	1,039	2,841	2,150	1,581	2,585	2,911
Disbursements	1,870	2,526	1,179	2,953	2,300	1,669	2,725	3,088
Grants	764	1,405	1,022	1,829	1,270	814	1,270	1,330
Loans	1,106	1,121	157	1,125	1,030	855	1,455	1,758
Amortization	-102	-102	-140	-113	-150	-88	-140	-177
Domestic (net)	-769	-1,135	1,200	786	434	-267	195	21
Of which: Bank financing (net)	-863	-1,171	0	735	195	-267	195	21
			(In percent of GDP)					
Total revenue	11.9	12.0	11.1	11.5	12.3	8.1	13.0	13.4
Of which: Central government	11.3	11.4	10.5	10.9	12.0	7.7	12.5	12.9
Tax revenue	9.5	9.9	9.0	9.4	10.1	6.4	10.3	10.9
Nontax revenue	2.0	1.7	1.8	1.7	1.6	1.3	2.0	1.8
Capital revenue 1/	0.3	0.4	0.4	0.4	0.6	0.4	0.7	0.7
Total expenditure	14.7	14.8	15.3	19.6	17.8	10.8	18.8	18.8
Current expenditure	8.7	9.0	9.6	11.2	11.2	6.7	11.5	11.4
Of which: Wages	3.0	3.2	3.6	4.6	4.4	2.7	4.4	4.4
Nonwage	5.0	5.1	5.3	5.9	6.1	3.5	6.1	6.1
Capital expenditure 3/	6.1	5.8	5.7	8.4	6.6	4.1	7.4	7.4
Of which: Locally financed	1.2	1.5	2.2	2.3	2.4	1.4	2.2	2.1
Current balance	2.9	2.6	1.1	-0.1	0.5	-1.5	0.8	1.3
Overall balance (excluding grants)	-2.9	-2.8	-4.2	-8.1	-5.5	-2.8	-5.9	-5.4
Overall balance (including grants)	-0.7	0.3	-2.0	-4.0	-2.8	-1.1	-3.2	-3.0
Financing (net)	2.9	2.8	4.2	8.1	5.5	2.8	5.9	5.4
Foreign	5.0	5.3	3.9	6.3	4.5	3.3	5.5	5.4
Disbursements	5.3	5.5	4.2	6.6	4.9	3.5	5.8	5.7
Grants	2.2	3.1	2.2	4.1	2.7	1.7	2.7	2.5
Loans	3.2	2.5	2.0	2.5	2.2	1.8	3.1	3.3
Amortization	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.3	-0.3
Domestic	-2.2	-2.5	0.3	1.8	0.9	-0.6	0.4	0.0
Of which: Bank financing (net)	-2.5	-2.6	0.3	1.6	0.4	-0.6	0.4	0.0
Memorandum items:								
Priority sector spending 4/	2.8	2.8	3.1	3.2	3.1	0.5	3.4	3.5
GDP (in billions of riels)	35,042	45,583	48,446	44,841	47,362	47,362	47,362	53,913

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Capital revenue includes privatization proceeds.

2/ The full amount of Multilateral Debt Relief Initiative (MDRI) proceeds (CR 341 billion) was recorded as capital revenue in 2006. In subsequent years, spending under the MDRI has been recorded as capital expenditure.

3/ Capital expenditure (externally financed) includes a statistical discrepancy, reflecting the difference between actual and recorded disbursements.

4/ Current spending by the ministries of public health; education, youth, and sport; agriculture, forestry, and fishery; rural development; women's affairs; justice; and urbanization and construction.

Table 5. Cambodia: Monetary Survey, 2007–10

	2007	2008	2009				2010				
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Jul.	Aug.	Dec. Proj.
	(In billions of riels)										
Net foreign assets	10,735	10,346	11,222	12,611	13,869	14,655	15,515	16,482	16,674	16,720	16,881
National Bank of Cambodia	8,579	10,776	11,202	12,488	12,953	13,262	13,945	14,893	14,968	15,129	15,172
Foreign assets	8,579	10,776	11,202	12,488	13,406	13,710	14,380	15,321	15,409	15,567	15,613
Foreign liabilities	0	0	0	0	453	448	435	428	441	438	441
Deposit money banks	2,156	-431	20	123	916	1,393	1,570	1,589	1,706	1,591	1,709
Foreign assets	3,311	2,110	2,263	2,078	2,684	2,804	2,990	3,167	3,233	3,121	3,273
Foreign liabilities	1,156	2,540	2,243	1,955	1,768	1,411	1,420	1,578	1,527	1,530	1,563
Net domestic assets	576	1,513	1,266	1,249	1,042	1,573	1,720	1,785	1,837	1,955	3,037
Domestic credit	4,570	6,907	6,766	7,241	7,663	8,280	8,662	9,498	9,886	10,205	11,477
Government (net)	-1,816	-2,987	-3,048	-2,889	-2,464	-2,252	-2,485	-2,363	-2,303	-2,136	-2,057
Private sector	6,385	9,893	9,813	10,130	10,127	10,532	11,147	11,859	12,187	12,338	13,534
Other items (net)	-3,994	-5,394	-5,500	-5,992	-6,621	-6,707	-6,942	-7,713	-8,049	-8,249	-8,439
Broad money	11,311	11,859	12,488	13,860	14,912	16,228	17,235	18,267	18,511	18,675	19,919
Narrow money	2,052	2,400	2,545	2,695	2,773	3,120	3,148	3,115	3,035	3,084	3,444
Currency in circulation	1,990	2,295	2,465	2,604	2,658	3,002	3,028	2,942	2,897	2,909	3,302
Demand deposits	62	105	81	92	115	119	121	173	138	175	142
Quasi-money	9,259	9,459	9,942	11,164	12,139	13,108	14,086	15,152	15,476	15,590	16,475
Time deposits	121	185	193	243	345	359	330	365	389	405	538
Foreign currency deposits	9,138	9,274	9,749	10,922	11,794	12,749	13,756	14,787	15,087	15,185	15,937
	(12-month percentage change)										
Net foreign assets	48.6	-3.6	2.8	11.1	28.3	41.7	38.3	30.7	27.3	25.3	15.2
Private sector credit	76.0	55.0	21.9	10.0	3.5	6.5	13.6	17.1	20.6	23.1	28.5
Broad money	62.9	4.8	3.7	9.1	18.8	36.8	38.0	31.8	31.2	29.5	22.7
Of which: Currency in circulation	24.4	15.3	6.1	10.9	17.6	30.8	22.8	13.0	9.0	10.3	10.0
Foreign currency deposits	75.9	1.5	2.3	8.3	17.5	37.5	41.1	35.4	36.4	33.3	25.0
	(Contribution to year-on-year growth of broad money, in percentage points)										
Net foreign assets	50.6	-3.4	2.6	9.9	24.4	36.3	34.4	27.9	25.3	23.4	13.7
Net domestic assets	12.4	8.3	1.1	-0.8	-5.6	0.5	3.6	3.9	5.9	6.1	9.0
Domestic credit	-17.5	20.7	9.3	5.6	4.3	11.6	15.2	16.3	18.3	19.4	19.7
Government (net)	-12.4	-10.4	-5.4	-1.7	1.5	6.2	4.5	3.8	3.6	3.4	1.2
Private sector	39.7	31.0	14.6	7.3	2.8	5.4	10.7	12.5	14.7	16.0	18.5
Other items (net)	-14.9	-12.4	-8.2	-6.4	-9.9	-11.1	-11.5	-12.4	-12.5	-13.3	-10.7
Memorandum items:											
Foreign currency deposits (in millions of U.S. dollars)	2,283	2,273	2,382	2,623	2,844	3,073	3,286	3,499	3,557	3,582	3,823
(In percent of broad money)	80.8	78.2	78.1	78.8	79.1	78.6	79.8	80.9	81.5	81.3	80.0
Riel component of broad money	2,173	2,584	2,738	2,938	3,118	3,479	3,479	3,480	3,423	3,490	3,982
(In percent of broad money)	19.2	21.8	21.9	21.2	20.9	21.4	20.2	19.1	18.5	18.7	20.0
Credit to the private sector (in millions of U.S. dollars)	1,595	2,424	2,398	2,433	2,442	2,538	2,663	2,806	2,874	2,911	3,246
(In percent of GDP)	18.2	21.7	21.1	21.4	21.5	22.3	23.4	24.7	25.3	25.6	28.6
Loan-to-deposit ratio (in percent) 1/	67.4	103.5	97.6	90.2	83.5	80.1	78.2	77.2	77.9	78.3	81.8
Velocity 2/	3.9	3.7	3.9	3.7	3.6	3.4	2.8	2.7	2.7	2.7	2.6
Velocity 2/	3.9	3.7	3.7	3.6	3.4	3.2	2.8	2.7	2.7	2.7	2.6
Money multiplier (broad money/reserve money)	2.3	1.9	1.9	1.8	1.8	1.9	1.9	1.8	1.8	1.8	1.9
Reserve money (12-month percent change)	48.3	21.6	19.1	27.1	26.2	43.3	42.9	29.6	26.1	28.8	19.7

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Foreign currency loans and deposits only.

2/ The ratio of nominal GDP to the year-to-date average stock of broad money.

Table 6. Cambodia: Core Financial Soundness Indicators, 2009

(In billion of riels, unless otherwise indicated)

	2009			
	Mar.	Jun.	Sep.	Dec.
Capital-based core financial soundness indicators (FSIs)				
Regulatory capital to risk-weighted assets (in percent)	33.7	35.9	36.6	36.0
Total regulatory capital	3,694	4,107	4,435	4,639
Risk-weighted assets	10,963	11,443	12,113	12,876
Regulatory tier 1 capital to risk-weighted assets (in percent)	22.4	25.4	26.2	31.0
Tier 1 capital	2,459	2,908	3,170	3,997
Risk-weighted assets	10,963	11,443	12,113	12,876
Nonperforming loans net of provisions to capital (in percent)	9.2	8.3	9.2	4.8
Nonperforming loans less specific provisions	338	343	408	223
Total regulatory capital	3,694	4,107	4,435	4,639
Return on equity (in percent)	2.7	4.6	6.3	7.7
Net income	66	135	200	309
Tier 1 capital	2,459	2,908	3,170	3,997
Net open position in foreign exchange to capital (in percent)	0.8	0.7	1.1	1.4
Total net open position in foreign currency	31	29	49	67
Total regulatory capital	3,694	4,107	4,435	4,639
Asset-based FSIs				
Liquid assets (core) to total assets (in percent)	25.3	29.4	31.2	21.0
Liquid assets (core)	4,328	5,468	6,218	4,391
Total assets	17,111	18,594	19,955	20,863
Liquid assets (core) to short-term liabilities (in percent)	38.3	42.4	43.9	28.7
Liquid assets (core)	4,328	5,468	6,218	4,391
Short-term liabilities	11,287	12,894	14,153	15,282
Return on assets (in percent)	0.4	0.7	1.0	1.5
Net income	66	135	200	309
Balance sheet total	17,111	18,594	19,955	20,863
Nonperforming loans to total gross loans (in percent)	5.0	5.1	6.1	4.3
Nonperforming loans	494	519	620	457
Total gross loans	9,813	10,103	10,136	10,540
Sectoral distribution of loans to total gross loans (percent of total)				
Deposit takers Interbank loans resident *divided by* total gross loans	0.6	0.5	0.6	0.5
Central bank Loans central bank *divided by* total gross loans	0.0	0.0	0.0	0.0
Other financial corporations (OFCs) Loans OFCs *divided by* total gross loans	0.7	0.8	0.7	0.8
Nonfinancial corporations Loans nonfinancial corporations *divided by* total gross loans	84.1	84.5	87.0	87.2
Other domestic sectors Loans other domestic sectors *divided by* total gross loans	14.4	14.1	11.6	11.3
Government Loans government *divided by* total gross loans	0.0	0.0	0.0	0.0
Nonresident Loans nonresidents *divided by* total gross loans	0.2	0.2	0.2	0.2
Income- and expense-based FSIs				
Interest margin to gross income (in percent)	77.2	77.0	75.2	75.8
Net interest income	203	408	615	853
Gross income	262	530	818	1,126
Noninterest expenses to gross income (in percent)	56.4	56.2	53.8	54.6
Noninterest expenses	148	298	440	614
Gross income	262	530	818	1,126
Memorandum item:				
Dollarization 1/	78.1	78.8	79.1	78.6

Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

1/ Foreign currency deposits in percent of broad money.

Table 7. Cambodia: Millennium Development Goals Indicators

	1990	1995	2000	2005	2006	2007	2008	2009	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger									
Percentage share of income or consumption held by poorest 20 percent	...	8.5	...	...	...	6	...	...	11.0
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	...	20.5
Poverty headcount ratio at $1.25 per day (PPP, percent of population)	...	49	...	40	...	26	...	...	19.5
Prevalence of underweight in children (under five years of age)	...	43	40	28	...	...	29	...	26.2
Goal 2: Achieve universal primary education									
Net primary enrollment (percent of relevant age group)	67	...	87	90	...	90	89	...	100
Primary completion rate, total (percent of relevant age group)	...	42	47	85	...	86	85	...	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	55	54	54	...	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	83	...	86	87	...	100
Goal 3: Promote gender equality and empower women									
Proportion of seats held by women in national parliament (percent)	...	...	8	10	10	10	16	16	30
Ratio of girls to boys in primary and secondary education (percent)	73	..	82	..	89	90	..	..	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	90	...	...	90	..	100
Share of women employed in the nonagricultural sector (percent)	..	..	41	..	..	..	..	..	...
Goal 4: Reduce child mortality									
Immunization, measles (percent of children ages 12–23 months)	34	62	65	79	78	79	89	..	90
Infant mortality rate (per 1,000 live births)	87	87	80	73	72	71	69		50
Under 5 mortality rate (per 1,000)	119	119	107	96	93	91	90	..	38.3
Goal 5: Improve maternal health									
Births attended by skilled health staff (percent of total)	..	..	31.8	44	..	..	..	..	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	540	...	540	…	..	250
Goal 6: Combat HIV/AIDS, malaria, and other diseases									
Incidence of tuberculosis (per 100,000 people)	585	557	530	505	500	495	490	..	...
Prevalence of HIV, total (percent of population 15–49)	...	...	...	2	...	1	1	..	...
Goal 7: Ensure environmental sustainability									
Access to an improved water source (percent of population)	0	19	38	...	65	65	65	..	...
Access to improved sanitation (percent of population)	0	8	16	...	28	28	28	..	...
Nationally protected areas (percent of total land area)	...	...	...	24	...	...	24	..	...
Goal 8: Develop a global partnership for development									
Aid per capita (current U.S. dollars)	4	50	31	39	38	47	51	...	...
Fixed line and mobile phone subscribers (per 100 people)	0.03	0.2	1.27	8	12	18	29	...	...
Internet users (per 1,000 people)	0	...	0	3	5	5	5	...	...
Personal computers (per 1,000 people)	...	0	1	3	3	3	4	..	...
Total debt service (percent of exports of goods and services)	..	1	1	1	1	0	1	..	...
Goal 9: De-mining, UXO and assistance									
Annual numbers of civilian casualties recorded		1,691	...	797	...	...	…		0
Percentage of suspected contaminated areas cleared		10	...	50	...	...	…		100
Other									
Fertility rate, total (births per woman)	6	5	4	3	3	3	3	..	...
GNI per capita, Atlas method (current U.S. dollars)	..	280	280	450	500	560	640	..	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.2	3.6	6.2	7.0	8.0	9.2	..	...
Gross capital formation (percent of GDP)	8	14.6	17.5	18	21	21	..	..	...
Life expectancy at birth, total (years)	50	...	...	58	59	59	60	..	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	...	...	...	77	..	...
Population, total (millions)	9.7	11.4	12.8	13.9	14.1	14.3	14.6	..	...
Trade (percent of GDP)	19	77.8	112	137	145	138	..	..	...

Sources: World Bank database, *World Development Indicators,* and *Poverty Assessment* (2008); UN Human Development Indicators Report (2003); Cambodia MDG 2005 update; UN MDG Indicators 2009 (http://mdgs.un.org); and IMF staff estimates.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

CAMBODIA

Joint IMF/World Bank Debt Sustainability Analysis 2010[1]

Prepared by the staffs of the International Monetary Fund and
the International Development Association

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This document presents the joint IMF-World Bank debt sustainability analysis (DSA) for Cambodia using the Debt Sustainability Framework (DSF) for Low-Income Countries (LICs).[2] *It shows that Cambodia faces a moderate risk of debt distress. While external debt burden indicators do not breach the relevant policy-dependent indicative thresholds under the baseline scenario, the debt level is sensitive to shocks as indicated in standard bound tests.*[3] *There are also considerable downside risks related to the uncertainty about a sustained global recovery, and possible contingent liabilities from infrastructure projects and the banking system. Moreover, increased borrowing over the next three years, as currently considered by the authorities, would reduce the scope for absorbing additional risks. All this underscores the need for a prudent borrowing strategy, underpinned by continued fiscal consolidation over the medium term, careful selection of investment projects to ensure they are growth-enhancing, and improvements in debt management capacity.*

[1] This DSA was prepared jointly by the IMF and World Bank. Staffs also collaborated with the Asian Development Bank. Debt data for this exercise were provided by the Cambodian authorities and donor partners.

[2] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04), "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief," (www.imf.org/external/np/pp/eng/2006/110606.pdf and IDA/SecM2006–0564, 8/11/06), and "A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework" (IDA/SecM2009-49870, 8/23/09 and http://www.imf.org/external/np/pp/eng/2009/080509a.pdf).

[3] The low-income country debt sustainability framework (LIC DSF) recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels for debt indicators are policy dependent. Cambodia's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), averaged 3.26 over the past three years. Since this average exceeds the threshold of 3.25 for the first time only and the excess is marginal, the country remains classified as a "weak performer" for this fiscal year. The relevant indicative thresholds for this category are: 30 percent for the NPV of debt-to-GDP ratio, 100 percent for the NPV of debt-to-exports ratio, 200 percent for the NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio, and 25 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly-guaranteed external debt.

I. Introduction

1. **Cambodia's DSA indicates that the risk of debt distress is moderate.** Under the baseline scenario, external debt burden indicators do not breach the relevant indicative thresholds. However, in standard alternative scenarios and stress tests, two debt indicators (debt-to-GDP and debt-to-revenue ratio) breach indicative thresholds for several years (Figure 1).

2. **Staffs have analyzed an additional country-specific alternative scenario of increased bilateral external borrowing over 2011–13.** This scenario is mainly for information purposes as the authorities inquired about the implications for fiscal sustainability of temporarily increasing their legal limit on new borrowing to finance more development projects. The legal limit on the new borrowing of SDR 200 million per year was already once relaxed temporarily in 2009 to weather the impact of global crisis. The government returned to the original borrowing limit in 2010. The terms of borrowing are assumed to be less concessional than those from multilateral donors, similar to China's terms (20-year maturity, 7-year grace period at 2 percent interest). The analysis indicates that Cambodia's scope for absorbing additional risks would be significantly reduced.

II. Background and Assumptions

3. **At the end of 2009, Cambodia's external public and publicly-guaranteed (PPG) debt stock was around 28 percent of GDP in nominal terms and 22 percent in net present value (NPV) terms.**[4] Until 2008, strong economic growth and favorable external conditions contributed to a decline in debt ratios. However, since 2009, the external PPG debt ratios have risen, partly reflecting increased assistance from existing and emerging donors in the face of the global recession. As a result, the PV of debt to revenue was around 189 percent, approaching the 200 percent threshold. For 2010, the debt stock in PV terms as a share of GDP, as a share of exports of goods and nonfactor services, and of government revenues is projected at 23 percent, 42 percent and 178 percent, respectively.

Cambodia: External Public Debt Indicators at End-2009

	Indicative Thresholds	End-2009
NPV of debt, as a percent of:		
GDP	30	22
Exports	100	41
Revenue	200	189
Debt service, as a percent of:		
Exports	15	1
Revenue	25	5

Sources: Cambodian authorities; and IMF and World Bank staff estimates.

[4] Does not include debt of state-owned enterprises due to lack of data.

4. **Around half of Cambodia's external debt is held by multilateral creditors**, primarily the Asian Development Bank (28 percent) and the World Bank's International Development Association (17 percent). China is the largest emerging creditor, accounting for about 58 percent of total bilateral disbursements in 2010.

Cambodia: Stock of Public and Publicly-Guaranteed External Debt at End-2009

	As a Share of Total External Debt	In percent of GDP
Total	100	28
Multilateral	52	15
Bilateral	48	13
Of which: Nonrescheduled debt with the United States and Russian Federation	26	7

Sources: Cambodian authorities; and IMF and World Bank staffs' estimates.

5. **Government deposits with the domestic banking system exceed the stock of loans from the banks to the government.** At the end of 2009, the stock of recorded domestic public debt was equivalent to slightly less than 1 percent of GDP, while government deposits amounted to about 5 percent of GDP.

6. **Cambodia remains in arrears to the Russian Federation and the United States.** Following a Paris Club agreement in 1995, Cambodia concluded agreements with France, Germany, Italy, and Japan. Negotiations of outstanding debt obligations with the Russian Federation and the United States are ongoing, with their status effectively unchanged since the last DSA. Currently, Cambodia is not servicing its debt with either of these creditors, and efforts to conclude agreements with each under the framework of the Paris Club are required. In September 2010, the Cambodian government announced it would demand cancellation of its debt to the United States. Since prospects for resolution are unclear, the current DSA assumes no restructuring in its baseline, with arrears continuing to build up throughout the projection period. In measuring debt levels, the DSA incorporates the negotiated debt stock for the Russian Federation (US$457 million) and the agreed amount of the total principal owed to the United States (US$162 million).[5]

7. **The main underlying macroeconomic assumptions are presented in Box 1.** The baseline scenario assumes a deficit reduction (excluding grants) by about 2½ percent of GDP between 2010 and 2015.

[5] For this DSA, staffs continue to apply the standard 70 percent discount to the nominal value of debt owed to the Russian Federation.

Box 1: Main Assumptions for the Baseline Scenario (2010–30)

- **After a sharp slowdown in 2009, the Cambodian economy is expected to recover with real GDP growth at 4½–5 percent in 2010**, as garments exports, in particular to the U.S., and tourism activity normalize. However, construction is likely to remain sluggish given the ongoing need to repair balance sheets and unwind the excess from the pre-2008 local real estate boom. As a result, the economy will only gradually return to potential growth of about 6–7 percent. Important drivers of future growth will be new export opportunities in agri-business to markets in Asia as well as higher returns from tourism. Cambodia would continue to serve as a useful platform for China's textile industry. All this will depend on improvements in the investment climate and recovery of FDI. Over the longer term, FDI is expected to be sustained at around 5–6 percent of GDP per year. Improvements in the domestic banking system would also result in increased domestic private investment. Inflation is projected to decline gradually from 4.5 percent in 2010 to around 3 percent over the medium term.

- **The external current account deficit** (including official transfers) is projected to widen in 2010 to around 9 percent of GDP, compared to 7 percent in 2009, as the recovery in garment exports and the tourism sector is more than offset by higher imports and increases in commodity prices. The macroeconomic framework incorporates recent projects in the power sector (some of which are already underway), which increases imports and FDI in the near term. However, over the medium and long term, growth in the import of petroleum products would decline, reflecting increases in the domestic power supply from hydropower plants. Over the longer term, the current account deficit is expected to settle in the range of 4–5 percent of GDP a year. Official assistance (grants and loans) would decline gradually as a share of GDP, while FDI and other private inflows would rise. Gross official reserves, which are expected to be around US$2.6 billion (3.6 months of next year's imports) at end-2010, would stabilize at around three months of imports with more stable import demand over the longer term.

- **Macroeconomic stability** is underpinned by a gradual consolidation from a sharp rise in the overall fiscal deficit in 2009. For 2010, the overall deficit is expected to decline to around 5.9 percent (excluding grants) from 8.1 percent in 2009 and lower domestic financing needs. Thereafter, the deficit is projected to decline gradually to around 3.4 percent by 2015. Revenue (excluding grants) would rise to around 15 percent of GDP by 2015 as a consequence of a broadening of the tax base, further administrative improvements, and buoyancy from the projected recovery, with more moderate increases thereafter (see accompanying 2010 Article IV staff report). Expenditures would decline to 18.2 percent of GDP by 2015, down from 18.8 percent in 2010, with some slowing in the growth of recurrent spending and a return of capital spending to the range of 6½–7 percent of GDP under more normal growth conditions.

While an economic recovery is under way, the fragility of the global recovery exposes Cambodia's exports with their narrow base and heavy reliance on the U.S. and European markets to significant downside risks in the near term. Banking system weaknesses and a limited room for maneuver with regard to fiscal policy further undercut the economy's ability to absorb additional shocks. Addressing longstanding structural weaknesses, improving the business environment and public sector service delivery may positively affect the balance of risks over the medium term. The development of extractive industries is not factored into the baseline, given uncertainties about the timing and revenue impact of new oil, gas, and mineral production.

8. **Contingent liabilities exist in several areas that require close scrutiny because of the potential burden on external and public debt.** Cambodia has signed several build-operate-transfer (BOT) projects—mainly related to new projects in the power sector. Contingent

liabilities arising from these types of contracts are not incorporated in this DSA because of a lack of information on the total amounts and terms of these agreements. The authorities indicated that they are working to collect necessary details and should be able to provide this information by next year. Other contingent liabilities could arise if the mitigation of risks in the banking sector necessitated government guarantees. Moreover, a shift of aid financing from grants to loans could also add to the debt burden. In light of Cambodia's need for major infrastructure investment and given its limited scope for servicing larger levels of debt, the authorities should monitor these types of commitments closely and transparently, including by developing and maintaining an inventory of all concessions granted and building and improving capacity to analyze the impact of contingent liabilities on debt sustainability.

III. External Debt Sustainability

9. **All external debt indicators remain below the policy-dependent debt burden thresholds under the baseline scenario, but thresholds are breached under the standard bound tests.**[6] The main results of the external DSA are as follows (Figure 1):

- Under the baseline scenario, all external debt indicators remain below the threshold in 2010 and decline further over the medium and long term.

- In one bound test, two indicative thresholds are breached, in the case of the debt-to-revenues ratio for several years (Table 1b). Following a one-time 30 percent nominal depreciation of the Cambodian riel vis-à-vis the U.S. dollar relative to the baseline in 2011, the *NPV debt-to-revenue* ratio increases to about 235 percent in 2011 and then declines gradually below 200 percent by 2015. The *NPV debt-to-GDP* ratio also temporarily breaches the threshold and peaks at 31.4 percent in 2011 before falling under 30 percent in 2013.[7]

- The *debt service-to-exports* and *debt service-to-revenue ratios* stay well below the indicative threshold throughout the entire projection period due to concessionality of earlier debts.

10. **As an additional country-specific alternative scenario, this DSA considers the impact of increased bilateral borrowing.**

[6] Historical averages are generally inadequate as a basis for generating stress tests and alternative scenarios for Cambodia because the post-conflict period between 1995 and 2005 was characterized by rapid catch-up growth from a very low base.

[7] However, the relevance of this shock is questionable in Cambodia given the high degree of dollarization of the economy. For instance, the ratio of foreign currency deposits to broad money is about 80 percent and about half of tax revenues, although paid in local currency, are collected on imports. Assuming that 80 percent of GDP is effectively denominated in U.S. dollar in line with Cambodia's high degree of dollarization, the NPV of debt to GDP ratio would remain below the threshold under all standard stress tests.

- The authorities have inquired about the fiscal-sustainability implications of doubling their own legal ceiling of loan financing from SDR 200 million to SDR 400 million (about 2 percent of GDP) for the next few years to finance more capital projects. The terms of borrowings are assumed to be similar to those of bilateral loans from China (20-year maturity, 7-year grace period, 2 percent of interest), and the old ceiling would be reinstated in 2014.

- In the event, the debt level would rise and Cambodia's scope for absorbing additional risks would be significantly reduced (Figures 3 and 4, Tables 3a, 3b, 4a, 4b). In several bound tests, the indicative thresholds are breached for three years or more.

- With no information on the type of projects to be financed, it is difficult to project any positive impact of this additional borrowing on GDP growth and other parameters of Cambodia's overall capacity to absorb debt. Therefore, the calculations in the alternative scenario do not assume any "growth dividend". However, in order to return debt levels under this scenario by 2020 to those comparable to the baseline scenario, and thus achieve a similar capacity to absorb risks over the medium-to-long term, the growth dividend would need to be significant. On average, annual GDP growth would need to be 1.7 percentage points higher than in the baseline scenario (implying a 25 percent upward shift of potential output growth), while revenue growth would have to be increased even slightly more than that, suggesting additional efforts would be needed to boost the buoyancy of the tax system. Moreover, the still limited administrative capacity of the government in effectively managing capital spending and delays in the public management reform program would make achieving this growth dividend even more difficult.

11. **Staffs view that Cambodia faces a moderate risk of debt distress.** Although only two indicators appear sensitive to stress testing, risks are to the downside, given the uncertainty related to implicit contingent liabilities, including from a weak banking system, and possible delays in the operation of hydropower plants. Moreover, the debt dynamics could evolve rapidly, and should the government decide to increase external borrowings, its ability to withstand further shocks are significantly circumscribed. Under these circumstances, improved fiscal management, especially through revenue administration, would enable Cambodia to establish a sound footing for much needed development projects and provide greater room for external loan assistance.

IV. PUBLIC DEBT SUSTAINABILITY

12. **Given that most public debt is external, the dynamics of public debt behave similarly to those of external debt in the previous section.** The nominal stock of public debt, equivalent to 29 percent of GDP at the end of 2009, is expected to rise to 31 percent by end-2010 (Table 2a and Figure 2), reflecting the accommodative fiscal stance. Under the baseline, it would begin to decline as a share of GDP in 2011, as the DSA is based on current policies, which at present do not anticipate issuance of domestic debt.

- The *PV of public sector debt-to-GDP* ratio—23 percent for 2009—would rise to around 24 percent by 2010 before gradually declining to around 18 percent by 2020 (Table 2b).
- The *PV of public debt-to-revenue* ratio (inclusive of grants), which is estimated to be 144 percent in 2009, would rise to 153 in 2010 then decline to 97 percent by 2020.
- The *debt service-to-revenue* ratio remains low in most scenarios for the entire projection period under the baseline.

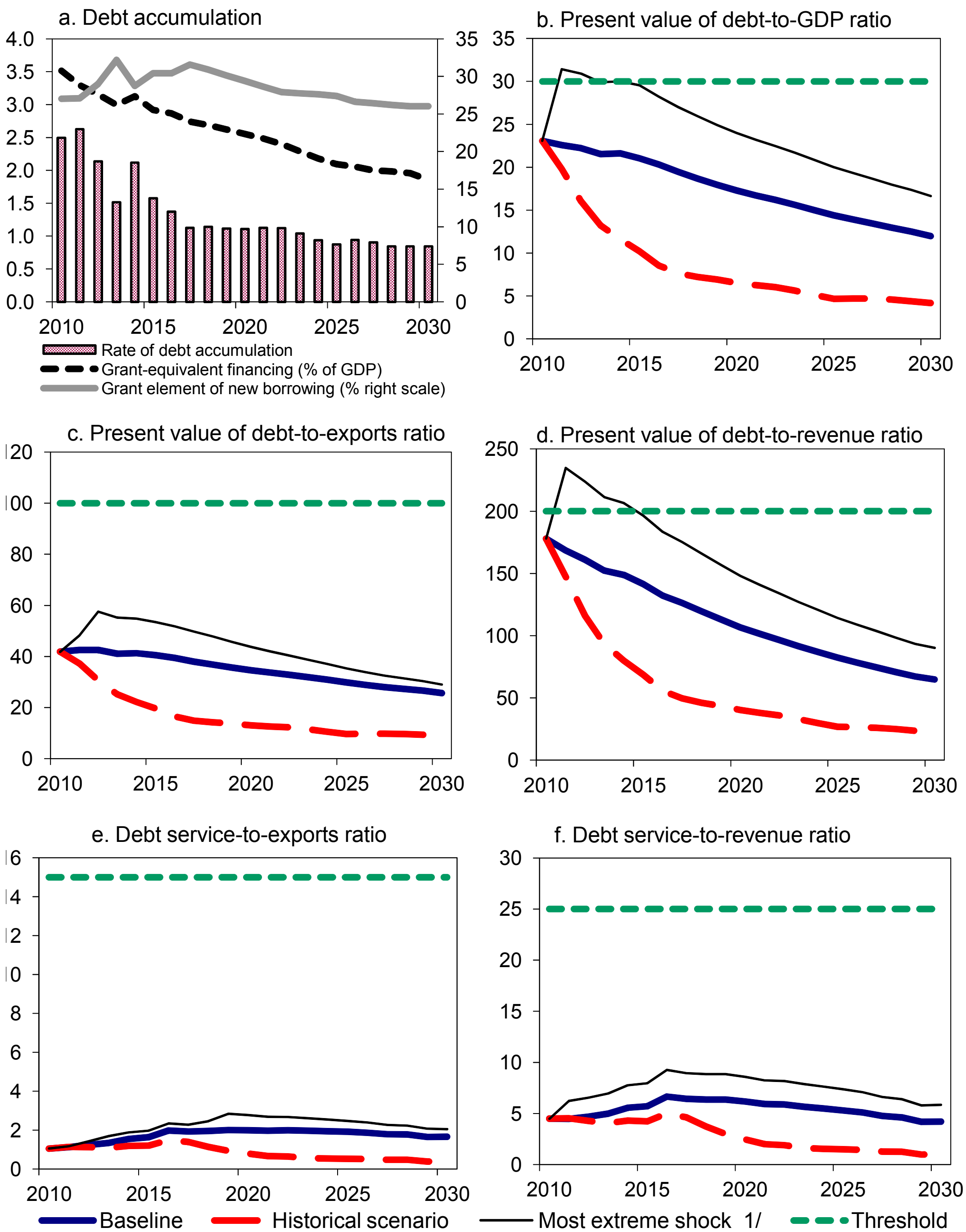
13. **Public debt ratios are sensitive to a continued accommodative fiscal stance and a permanent growth shock.** Under two of the alternative scenarios—an unchanged primary balance from 2010 or GDP growth permanently lower by one percentage point—the level of public debt (as a share of GDP) continues to rise over the projection period, reaching 44 percent and 39 percent, by 2030. Under these scenarios, the debt-to-revenue ratio would reach 222 percent and 191 percent, and the debt service-to-revenue ratio would reach 29 and 22 percent respectively by 2030. Bound tests also reveal a sensitivity of public debt ratios to a 10 percent increase in other debt creating flows (Table 2b). This is particularly relevant because of the potential risks posed by implicit contingent liabilities. Public debt ratios are also sensitive to a one-time 30 percent real depreciation, although, as noted above, this is a less relevant bound test for Cambodia.

V. Conclusion

14. **Staffs conclude that Cambodia faces a moderate risk of debt distress.** External debt burden indicators do not breach the thresholds under the baseline scenario. Only two thresholds are breached under the standard stress tests. However, this outlook could deteriorate in the event that actual liabilities arise from contingent obligations, mainly those related to hydropower plants, other major public infrastructure investments, and the banking sector. Any increased borrowing should be carefully contemplated, as it could significantly limit the government's ability to respond to any future crisis.

15. **Given the uncertainty about near- to medium-term prospects, staffs urge the Royal Government of Cambodia to continue pursuing a sound strategy for public debt management.** Careful consideration is needed in advance of possibly contracting less concessional loans and providing direct and indirect government guarantees, as they could impair sustainability, in particular if the revenue base remains low and institutions weak. Stronger capacity in debt management is an essential prerequisite for less concessional borrowing and other financing arrangements such as BOTs. Staffs also encourage the authorities to continue seeking agreements to resolve outstanding arrears.

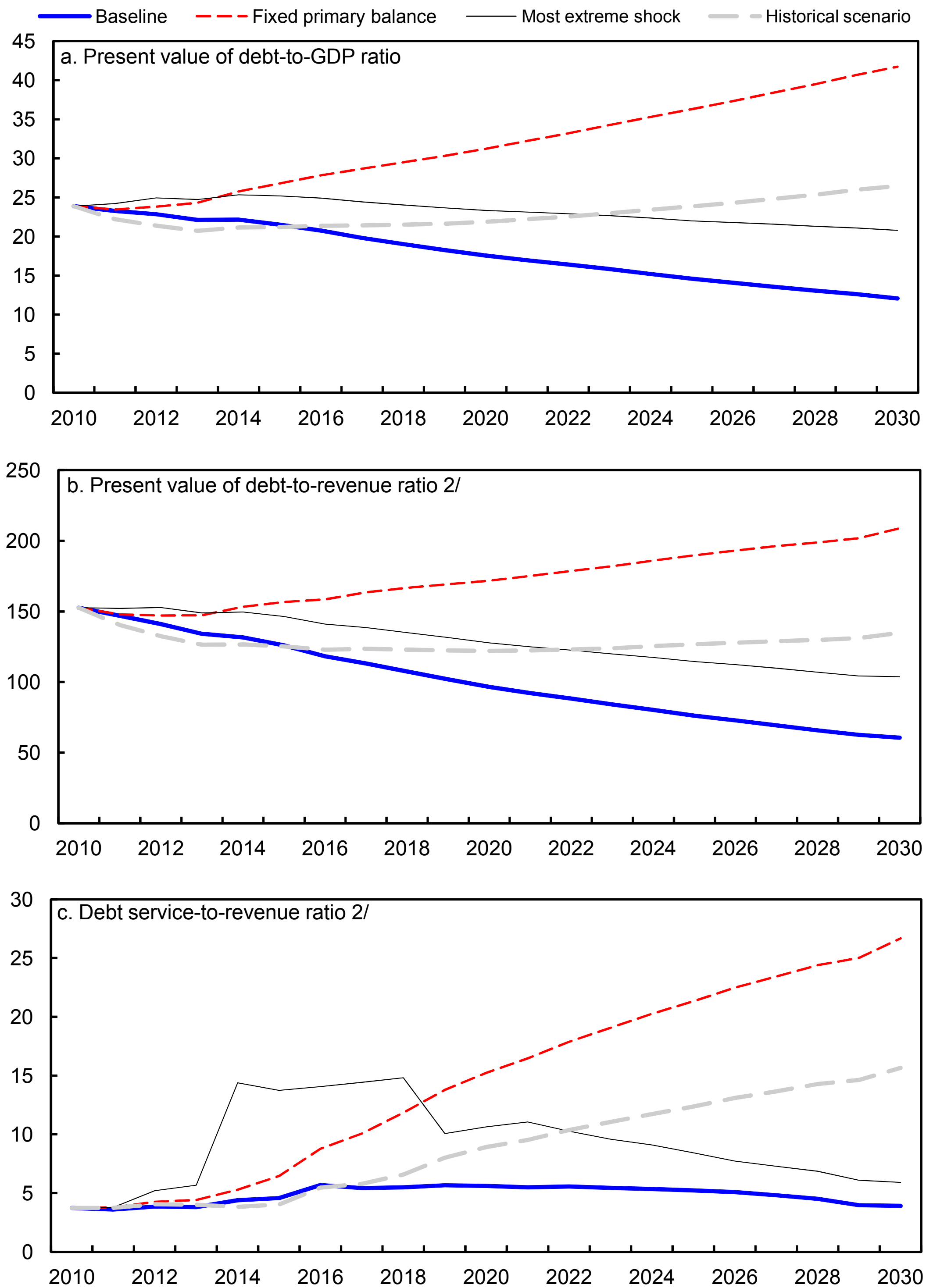
Figure 1. Cambodia: Indicators of External Debt Under Alternative Scenarios, 2010–30 1/



Sources: Cambodian authorities; and staff estimates and projections.

1/ The most extreme stress test is the bound test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to an Exports shock; in d. to a One-time depreciation shock; in e. to an Exports shock; and in figure f. to a One-time depreciation shock.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2010–30 1/

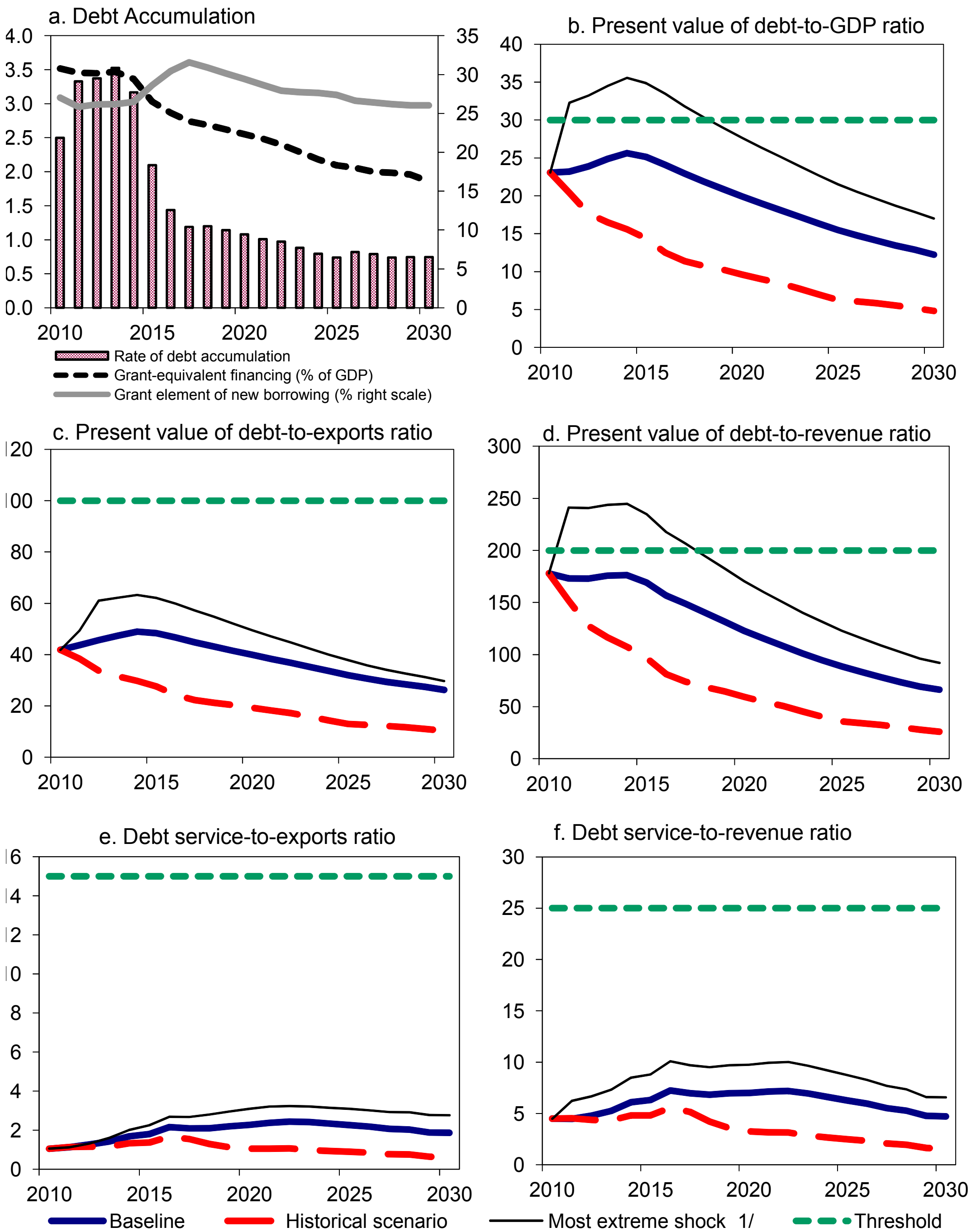


Sources: Cambodian authorities; and staff estimates and projections.

1/ The most extreme stress test is the bound test that yields the highest ratio in 2020. In figures a. and b., they correspond to Temporary shock to growth, and for c. it corresponds to a 10 percent of GDP increase non-debt creating flows in 2011.

2/ Revenues are defined inclusive of grants.

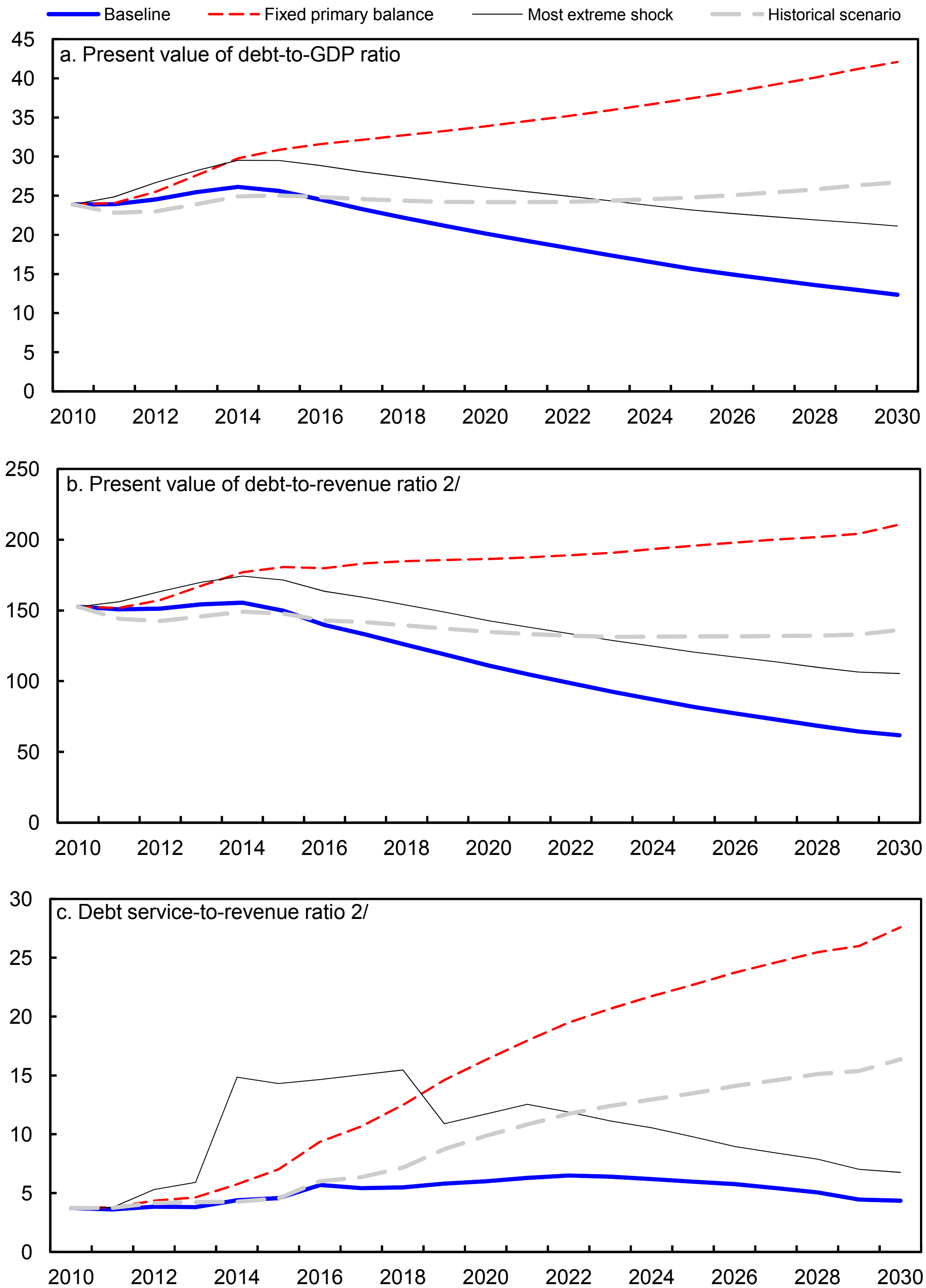
Figure 3. Alternative Scenario of Increasing Borrowing Limits during 2011–13: Indicators of External Debt, 2010–30 1/



Sources: Cambodian authorities; and staff estimates and projections.

1/ The most extreme stress test is the bound test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to an Export shock; in d. to a One-time depreciation shock; in e. to an Exports shock; and in figure f. to a One-time depreciation shock.

Figure 4. Alternative Scenario of Increasing Borrowing Limits during 2011–13
Indicators of Public Debt, 2010–30 1/



Sources: Cambodian authorities; and staff estimates and projections.

1/ The most extreme stress test is the bound test that yields the highest ratio in 2020. In figures a. and b., they correspond to temporary shock to growth, and for c. it corresponds to a 10 percent of GDP increase nondebt creating flows in 2011.

2/ Revenues are defined inclusive of grants.

Table 1a. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 1/	Standard Deviation 1/	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2030	2016–30 Average
External debt (nominal) 2/	**29.4**	**24.9**	**28.1**			**29.9**	**30.7**	**30.7**	**28.2**	**27.8**	**27.3**		**22.3**	**15.5**	
Of which: Public and publicly-guaranteed (PPG)	29.4	24.9	28.1			29.9	29.1	28.6	27.7	27.8	27.0		22.3	15.5	
Change in external debt	-1.3	-4.5	3.5			1.5	0.7	0.0	-2.5	-0.4	-0.5		-0.8	-0.7	
Identified net debt-creating flows	-12.6	-7.8	1.4			0.4	1.6	2.1	0.5	0.1	-0.6		-1.2	-1.1	
Noninterest current account deficit	**2.2**	**6.0**	**4.9**	**2.7**	**1.8**	**7.0**	**8.9**	**9.3**	**7.8**	**7.2**	**6.5**		**5.3**	**4.2**	4.9
Deficit in balance of goods and services	8.9	10.6	10.0			12.6	12.0	11.2	9.9	9.5	9.0		8.3	7.1	
Exports	64.8	56.3	53.0			55.2	53.1	52.3	52.5	52.4	52.0		49.9	46.7	
Imports	73.7	66.9	63.0			67.8	65.0	63.5	62.4	61.9	61.0		58.3	53.7	
Net current transfers (negative = inflow)	-10.8	-8.6	-9.1	-10.2	1.2	-9.5	-6.6	-4.9	-4.9	-4.9	-4.8		-4.6	-4.1	-4.5
Of which: Official	-6.4	-6.0	-6.4			-6.7	-3.8	-2.0	-1.9	-1.8	-1.7		-1.4	-0.8	
Other current account flows (negative = net inflow)	4.1	4.0	4.0			4.0	3.5	3.1	2.8	2.6	2.3		1.6	1.3	
Net FDI (negative = inflow)	**-10.0**	**-7.2**	**-4.7**	**-3.7**	**3.7**	**-5.6**	**-5.8**	**-5.8**	**-5.8**	**-5.8**	**-5.7**		**-5.4**	**-4.6**	-5.0
Endogenous debt dynamics 3/	**-4.8**	**-6.5**	**1.2**			**-1.0**	**-1.5**	**-1.5**	**-1.5**	**-1.4**	**-1.4**		**-1.1**	**-0.7**	
Contribution from nominal interest rate	0.3	0.2	0.3			0.3	0.2	0.3	0.3	0.3	0.3		0.3	0.2	
Contribution from real GDP growth	-2.6	-1.5	0.5			-1.3	-1.8	-1.8	-1.8	-1.7	-1.7		-1.4	-1.0	
Contribution from price and exchange rate changes	-2.4	-5.2	0.4			…	…	…	…	…	…		…	…	
Residual (3–4) 4/	**11.3**	**3.2**	**2.1**			**1.1**	**-0.8**	**-2.1**	**-3.0**	**-0.5**	**0.1**		**0.4**	**0.4**	
Of which: Exceptional financing	-0.2	0.0	-0.2			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Present value (PV) of external debt 5/	...	...	21.8			23.1	22.6	22.2	21.5	21.6	21.3		17.3	12.0	
PV of external debt (in percent of exports) 5/	...	...	41.2			41.8	42.5	42.5	41.1	41.3	41.0		34.6	25.7	
PV of PPG external debt	**...**	**...**	**21.8**			**23.1**	**22.6**	**22.2**	**21.5**	**21.6**	**21.0**		**17.3**	**12.0**	
In percent of exports	**...**	**...**	**41.2**			**41.8**	**42.5**	**42.5**	**41.1**	**41.3**	**40.5**		**34.6**	**25.7**	
In percent of government revenues	**...**	**...**	**189.2**			**178.0**	**168.6**	**161.0**	**152.2**	**148.8**	**141.6**		**106.6**	**64.9**	
Debt service-to-exports ratio (in percent)	**1.0**	**0.9**	**1.1**			**1.1**	**1.1**	**1.2**	**1.3**	**1.5**	**1.6**		**2.0**	**1.7**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**0.9**	**1.1**			**1.1**	**1.1**	**1.2**	**1.3**	**1.5**	**1.6**		**2.0**	**1.7**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**4.3**	**5.2**			**4.5**	**4.5**	**4.7**	**5.0**	**5.6**	**5.7**		**6.2**	**4.2**	
Total gross financing need (in billions of U.S. dollars)	-0.6	-0.1	0.1			0.2	0.5	0.6	0.4	0.4	0.3		0.3	0.4	
Noninterest current account deficit that stabilizes debt ratio	3.5	10.5	1.4			5.5	8.1	9.4	10.3	7.6	7.0		6.2	4.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	10.2	6.7	-2.0	8.1	4.1	4.8	6.8	6.5	6.5	6.6	6.8	6.3	6.8	6.7	6.7
GDP deflator in U.S. dollar terms (change in percent)	8.6	21.6	-1.7	3.8	7.2	-0.2	6.6	4.4	3.6	2.7	3.3	3.4	3.3	3.4	3.3
Effective interest rate (percent) 6/	1.1	0.8	1.1	1.1	0.1	0.9	0.9	1.1	1.2	1.3	1.4	1.2	1.4	1.6	1.5
Growth of exports of G&S (U.S. dollar terms, in percent)	12.8	12.8	-9.3	15.5	10.9	8.7	9.6	9.6	10.7	9.3	9.4	9.5	9.3	9.7	9.5
Growth of imports of G&S (U.S. dollar terms, in percent)	16.3	17.8	-9.2	14.2	9.4	12.4	9.3	8.5	8.5	8.6	8.6	9.3	10.0	9.5	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.0	27.1	29.0	32.2	28.7	30.4	29.1	29.4	26.0	28.2
Government revenues (excluding grants, in percent of GDP)	11.9	12.0	11.5			13.0	13.4	13.8	14.2	14.5	14.9		16.2	18.5	17.0
Aid flows (in billions of U.S. dollars) 7/	0.4	0.6	0.4			0.4	0.5	0.5	0.5	0.6	0.6		0.9	1.3	
Of which: Grants	0.2	0.3	0.4			0.3	0.3	0.3	0.4	0.4	0.4		0.6	1.3	
Of which: Concessional loans	0.2	0.2	0.0			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.5	3.3	3.2	3.0	3.1	2.9		2.6	1.9	2.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.9	59.7	62.8	68.5	60.3	65.2		64.6	65.1	64.0
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	8.7	11.3	10.9			11.4	12.9	14.4	15.9	17.4	19.2		31.2	83.1	
Nominal dollar GDP growth	19.6	29.8	-3.6			4.5	13.8	11.2	10.4	9.5	10.3	9.9	10.3	10.3	10.3
PV of PPG external debt (in billions of U.S. dollars)			2.4			2.6	2.9	3.2	3.4	3.8	4.0		5.4	9.9	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	2.6	2.1	1.5	2.1	1.6	2.1	1.1	0.8	1.0
Gross remittances (in billions of U.S. dollars)	0.4	0.3	0.3			0.3	0.4	0.4	0.5	0.5	0.6		1.0	2.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.3			22.4	22.0	21.6	20.9	21.0	20.4		16.7	11.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.2			39.8	40.4	40.3	38.8	39.0	38.2		32.5	24.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.1			1.0	1.1	1.2	1.3	1.5	1.5		1.9	1.6	

Sources: Cambodian authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Includes both public and private sector external debt. The years in the table refer to calendar years.

3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections, also includes contribution from price and exchange rate changes.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of External Debt, 2010–30

(In percent)

		Projections						
	2010	2011	2012	2013	2014	2015	**2020**	2030
Present value of debt-to-GDP ratio								
Baseline	23	23	22	22	22	21	**17**	12
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	23	20	16	13	12	10	**7**	4
A2. New public sector loans on less favorable terms in 2010–30 2/	23	23	24	23	24	24	**22**	17
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	23	23	23	23	23	22	**18**	13
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	23	24	27	26	26	25	**20**	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	23	25	26	26	26	25	**21**	14
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	23	25	26	25	25	24	**19**	12
B5. Combination of B1–B4 using one-half standard deviation shocks	23	25	26	25	25	24	**20**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	23	31	31	30	30	30	24	17
Present value of debt-to-exports ratio								
Baseline	42	43	42	41	41	40	**35**	26
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	42	37	31	25	22	20	**13**	9
A2. New public sector loans on less favorable terms in 2010–30 2/	42	44	45	45	46	46	**43**	37
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	42	43	42	41	41	40	**35**	26
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	42	48	58	55	55	53	**44**	29
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	42	43	42	41	41	40	**35**	26
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	42	47	49	48	47	46	**38**	26
B5. Combination of B1–B4 using one-half standard deviation shocks	42	44	44	42	42	42	**35**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	42	43	42	41	41	40	**35**	26
Present value of debt-to-revenue ratio								
Baseline	178	169	161	152	149	142	**107**	65
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	178	148	116	93	80	69	**40**	23
A2. New public sector loans on less favorable terms in 2010–30 2/	178	174	171	165	166	161	**134**	95
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	178	173	169	159	156	148	**112**	68
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	178	182	199	186	180	170	**123**	67
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	178	186	192	181	177	168	**127**	77
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	178	188	187	176	171	162	**118**	66
B5. Combination of B1–B4 using one-half standard deviation shocks	178	189	188	177	173	164	**122**	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	178	235	224	211	206	196	**148**	90

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of External Debt, 2010–30 (concluded)

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports ratio								
Baseline	1	1	1	1	2	2	**2**	2
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	1	1	1	1	1	1	**1**	0
A2. New public sector loans on less favorable terms in 2010–30 2/	1	1	1	1	2	2	**3**	2
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	1	1	1	1	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	1	1	1	2	2	2	**3**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	1	1	1	1	2	2	**2**	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	1	1	1	1	2	2	**2**	2
B5. Combination of B1–B4 using one-half standard deviation shocks	1	1	1	1	2	2	**2**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	1	1	2	2	**2**	2
Debt service-to-revenue ratio								
Baseline	4	4	5	5	6	6	**6**	4
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	4	5	4	4	4	4	**2**	1
A2. New public sector loans on less favorable terms in 2010–30 2/	4	4	5	5	6	7	**8**	6
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	4	5	5	5	6	6	**6**	4
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	4	4	5	6	6	6	**8**	5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	4	5	6	6	7	7	**7**	5
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	4	4	5	5	6	6	**7**	5
B5. Combination of B1–B4 using one-half standard deviation shocks	4	5	5	6	6	7	**7**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	6	7	7	8	8	**9**	6
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Cambodian authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2007	2008	2009	Average 1/	Standard Deviation 1/	2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2030	2016–30 Average
Public sector debt 2/	30.5	25.6	29.0			30.8	29.8	29.2	28.3	28.3	27.5		22.6	15.6	
Of which: Foreign-currency denominated	29.6	24.9	28.4			29.9	29.1	28.6	27.7	27.8	27.0		22.3	15.5	
Change in public sector debt	-2.3	-5.0	3.5			1.7	-0.9	-0.6	-0.9	0.0	-0.8		-0.9	-0.7	
Identified debt-creating flows	-4.5	-6.8	5.1			1.6	-0.7	-0.7	-0.9	-0.9	-1.4		-1.7	-2.4	
Primary deficit	0.5	-0.4	3.8	1.8	1.7	2.9	2.8	2.0	1.5	1.2	0.8	1.9	0.2	-1.1	-0.2
Revenue and grants	14.1	15.1	15.6			15.6	15.9	16.2	16.5	16.8	17.1		18.2	20.0	
Of which: Grants	2.2	3.1	4.1			2.7	2.5	2.4	2.3	2.3	2.2		2.0	1.5	
Primary (noninterest) expenditure	14.5	14.6	19.4			18.6	18.6	18.2	18.0	18.0	17.9		18.4	18.8	
Automatic debt dynamics	-5.0	-6.4	1.3			-1.3	-3.5	-2.7	-2.4	-2.1	-2.3		-1.9	-1.3	
Contribution from interest rate/growth differential	-3.4	-2.4	0.8			-1.4	-2.1	-1.9	-1.9	-1.9	-1.9		-1.6	-1.1	
Of which: Contribution from average real interest rate	-0.4	-0.5	0.3			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Of which: Contribution from real GDP growth	-3.0	-1.9	0.5			-1.3	-2.0	-1.8	-1.8	-1.8	-1.8		-1.5	-1.0	
Contribution from real exchange rate depreciation	-1.5	-4.0	0.4			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	1.9	-1.6			0.1	-0.2	0.1	-0.1	1.0	0.6		0.8	1.7	
Other sustainability indicators	…	…	22.5			23.9	23.3	22.9	22.1	22.1	21.5		17.6	12.1	
Of which: Foreign-currency denominated	…	…	21.8			23.1	22.6	22.2	21.5	21.6	21.0		17.3	12.0	
Of which: External	...	...	21.8			23.1	22.6	22.2	21.5	21.6	21.0		17.3	12.0	
Of which: External	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	2.7	0.9	4.9			4.1	4.0	3.2	2.7	2.4	2.1		1.5	-0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	144.0			152.7	146.9	141.1	134.1	131.6	125.8		96.6	60.5	
PV of public sector debt-to-revenue ratio (in percent)	…	…	194.8			184.2	173.9	165.6	156.2	152.4	144.8		108.3	65.4	
Of which: External 4/	…	…	189.2			178.0	168.6	161.0	152.2	148.8	141.6		106.6	64.9	
Debt service-to-revenue and grants ratio (in percent) 5/	3.9	4.1	3.3			3.7	3.6	3.8	3.8	4.4	4.6		5.6	3.9	
Debt service-to-revenue ratio (in percent) 5/	4.6	5.1	4.5			4.5	4.3	4.5	4.4	5.1	5.3		6.3	4.2	
Primary deficit that stabilizes the debt-to-GDP ratio	2.8	4.5	0.3			1.2	3.7	2.6	2.5	1.1	1.7		1.0	-0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	10.2	6.7	-2.0	8.1	4.1	4.8	6.8	6.5	6.5	6.6	6.8	6.3	6.8	6.7	6.7
Average nominal interest rate on forex debt (in percent)	1.1	0.8	1.1	1.1	0.1	0.9	0.9	1.1	1.2	1.3	1.4	1.2	1.4	1.6	1.5
Average real interest rate on domestic debt (in percent)	-5.9	-17.6	0.1	-5.6	5.7	-0.6	-6.0	-4.1	-3.5	-2.7	-3.3	-3.4	...	...	-3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.5	-14.6	1.6	-1.7	6.0	0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.5	21.9	0.3	4.6	6.8	0.8	6.6	4.4	3.8	3.0	3.6	3.7	3.6	3.7	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	14.0	7.4	30.2	5.2	10.0	0.1	7.0	4.2	5.4	6.5	6.5	4.9	7.4	5.4	
Grant element of new external borrowing (in percent)	...	...	...	…	…	27.0	27.1	29.0	32.2	28.7	30.4	29.1	29.4	26.0	...

Sources: Cambodian authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ The public sector debt represents general government gross debt.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

Table 2b. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt, 2010–30

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Present value of debt-to-GDP ratio								
Baseline	24	23	23	22	22	22	18	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	22	21	21	21	21	22	26
A2. Primary balance is unchanged from 2010	24	23	24	24	26	27	31	42
A3. Permanently lower GDP growth 1/	24	24	24	23	24	24	25	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	24	24	25	25	25	25	23	21
B2. Primary balance is at historical average minus one standard deviations in 2011–12	24	24	25	24	24	23	19	13
B3. Combination of B1–B2 using one half standard deviation shocks	24	23	24	23	23	23	19	14
B4. One-time 30 percent real depreciation in 2011	24	32	31	29	28	27	21	14
B5. 10 percent of GDP increase in other debt-creating flows in 2011	24	32	31	30	29	28	22	14
Present value of debt-to-revenue ratio 2/								
Baseline	153	147	141	134	132	126	97	61
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	153	140	132	126	127	125	122	135
A2. Primary balance is unchanged from 2010	153	148	147	147	153	157	172	209
A3. Permanently lower GDP growth 1/	153	149	145	141	141	139	134	171
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	153	152	153	149	150	146	128	104
B2. Primary balance is at historical average minus one standard deviations in 2011–12	153	151	153	145	142	135	103	63
B3. Combination of B1–B2 using one half standard deviation shocks	153	147	145	139	137	132	104	70
B4. One-time 30 percent real depreciation in 2011	153	201	188	176	169	159	116	69
B5. 10 percent of GDP increase in other debt-creating flows in 2011	153	203	193	182	175	165	121	71
Debt service-to-revenue ratio 2/								
Baseline	4	4	4	4	4	5	6	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	4	4	4	9	16
A2. Primary balance is unchanged from 2010	4	4	4	4	5	6	15	27
A3. Permanently lower GDP growth 1/	4	4	4	4	5	6	9	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	4	4	4	5	6	6	10	11
B2. Primary balance is at historical average minus one standard deviations in 2011–12	4	4	4	5	6	7	7	4
B3. Combination of B1–B2 using one half standard deviation shocks	4	4	4	4	5	6	7	5
B4. One-time 30 percent real depreciation in 2011	4	5	6	6	7	8	10	9
B5. 10 percent of GDP increase in other debt-creating flows in 2011	4	4	5	6	14	14	11	6

Sources: Cambodian authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3a. Alternative Scenario of Increasing Borrowing Limits during 2011–13, External Debt Sustainability Framework 2007–30 1/

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2007	2008	2009	Historical Average 1/	Standard Deviation 1/	2010	2011	2012	2013	2014	2015	2010–15 Average	2020	2030	2016–30 Average
External debt (nominal) 2/	**29.4**	**24.9**	**28.1**			**29.9**	**31.5**	**32.7**	**32.2**	**32.7**	**32.0**		**25.3**	**15.7**	
Of which: Public and publicly-guaranteed (PPG)	29.4	24.9	28.1			29.9	29.9	30.7	31.9	32.7	32.0		25.3	15.7	
Change in external debt	-1.3	-4.5	3.5			1.5	1.5	1.3	-0.5	0.5	-0.7		-1.2	-0.8	
Identified net debt-creating flows	-12.6	-7.8	1.4			0.4	1.6	2.0	0.4	-0.2	-1.0		-1.6	-1.1	
Noninterest current account deficit	**2.2**	**6.0**	**4.9**	**2.7**	**1.8**	**7.0**	**8.9**	**9.3**	**7.8**	**7.1**	**6.3**		**5.1**	**4.2**	4.8
Deficit in balance of goods and services	8.9	10.6	10.0			12.6	12.0	11.2	9.9	9.5	9.0		8.3	7.1	
Exports	64.8	56.3	53.0			55.2	53.1	52.3	52.5	52.4	52.0		49.9	46.7	
Imports	73.7	66.9	63.0			67.8	65.0	63.5	62.4	61.9	61.0		58.3	53.7	
Net current transfers (negative = inflow)	-10.8	-8.6	-9.1	-10.2	1.2	-9.5	-6.6	-4.9	-4.9	-4.9	-4.8		-4.6	-4.1	-4.5
Of which: Official	-6.4	-6.0	-6.4			-6.7	-3.8	-2.0	-1.9	-1.8	-1.7		-1.4	-0.8	
Other current account flows (negative = net inflow)	4.1	4.0	4.0			4.0	3.5	3.1	2.7	2.4	2.1		1.5	1.3	
Net FDI (negative = inflow)	**-10.0**	**-7.2**	**-4.7**	**-3.7**	**3.7**	**-5.6**	**-5.8**	**-5.8**	**-5.8**	**-5.8**	**-5.7**		**-5.4**	**-4.6**	-5.0
Endogenous debt dynamics 3/	**-4.8**	**-6.5**	**1.2**			**-1.0**	**-1.5**	**-1.5**	**-1.5**	**-1.5**	**-1.6**		**-1.3**	**-0.8**	
Contribution from nominal interest rate	0.3	0.2	0.3			0.3	0.2	0.3	0.4	0.4	0.4		0.4	0.2	
Contribution from real GDP growth	-2.6	-1.5	0.5			-1.3	-1.8	-1.8	-1.9	-2.0	-2.0		-1.6	-1.0	
Contribution from price and exchange rate changes	-2.4	-5.2	0.4			…	…	…	…	…	…		…	…	
Residual (3–4) 4/	**11.3**	**3.2**	**2.1**			**1.1**	**0.0**	**-0.8**	**-0.9**	**0.8**	**0.3**		**0.3**	**0.3**	
Of which: Exceptional financing	-0.2	0.0	-0.2			-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Present value (PV) of external debt 5/	...	...	21.8			23.1	23.2	23.9	24.9	25.6	25.1		19.9	12.2	
PV of external debt (in percent of exports) 5/	...	...	41.2			41.8	43.7	45.7	47.4	48.9	48.4		39.9	26.2	
PV of PPG external debt	**...**	**...**	**21.8**			**23.1**	**23.2**	**23.9**	**24.9**	**25.6**	**25.1**		**19.9**	**12.2**	
In percent of exports	**...**	**...**	**41.2**			**41.8**	**43.7**	**45.7**	**47.4**	**48.9**	**48.4**		**39.9**	**26.2**	
In percent of government revenues	**...**	**...**	**189.2**			**178.0**	**173.2**	**173.0**	**175.7**	**176.3**	**169.2**		**122.8**	**66.3**	
Debt service-to-exports ratio (in percent)	**1.0**	**0.9**	**1.1**			**1.1**	**1.1**	**1.3**	**1.4**	**1.7**	**1.8**		**2.3**	**1.9**	
PPG debt service-to-exports ratio (in percent)	**1.0**	**0.9**	**1.1**			**1.1**	**1.1**	**1.3**	**1.4**	**1.7**	**1.8**		**2.3**	**1.9**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**4.3**	**5.2**			**4.5**	**4.5**	**4.8**	**5.3**	**6.1**	**6.3**		**7.0**	**4.7**	
Total gross financing need (in billions of U.S. dollars)	-0.6	-0.1	0.1			0.2	0.5	0.6	0.4	0.4	0.3		0.3	0.4	
Noninterest current account deficit that stabilizes debt ratio	3.5	10.5	1.4			5.5	7.4	8.1	8.2	6.6	7.0		6.4	5.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	10.2	6.7	-2.0	8.1	4.1	4.8	6.8	6.5	6.5	6.6	6.8	6.3	6.8	6.7	6.7
GDP deflator in U.S. dollar terms (change in percent)	8.6	21.6	-1.7	3.8	7.2	-0.2	6.6	4.4	3.6	2.7	3.3	3.4	3.3	3.4	3.3
Effective interest rate (percent) 6/	1.1	0.8	1.1	1.1	0.1	0.9	0.9	1.1	1.3	1.4	1.5	1.2	1.5	1.6	1.5
Growth of exports of G&S (U.S. dollar terms, in percent)	12.8	12.8	-9.3	15.5	10.9	8.7	9.6	9.6	10.7	9.3	9.4	9.5	9.3	9.7	9.5
Growth of imports of G&S (U.S. dollar terms, in percent)	16.3	17.8	-9.2	14.2	9.4	12.4	9.3	8.5	8.5	8.6	8.6	9.3	10.0	9.5	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.0	25.8	26.2	26.2	26.5	28.6	26.7	29.4	26.0	28.2
Government revenues (excluding grants, in percent of GDP)	11.9	12.0	11.5			13.0	13.4	13.8	14.2	14.5	14.9		16.2	18.5	17.0
Aid flows (in billions of U.S. dollars) 7/	0.4	0.6	0.4			0.4	0.5	0.5	0.5	0.6	0.6		0.9	1.3	
Of which: Grants	0.2	0.3	0.4			0.3	0.3	0.3	0.4	0.4	0.4		0.6	1.3	
Of which: Concessional loans	0.2	0.2	0.0			0.1	0.1	0.2	0.2	0.2	0.2		0.3	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.5	3.5	3.4	3.5	3.4	3.0		2.6	1.9	2.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			60.9	54.9	53.7	52.2	53.1	60.5		64.6	65.1	64.0
Memorandum items:															
Nominal GDP (in billions of U.S. dollars)	8.7	11.3	10.9			11.4	12.9	14.4	15.9	17.4	19.2		31.2	83.1	
Nominal dollar GDP growth	19.6	29.8	-3.6			4.5	13.8	11.2	10.4	9.5	10.3	9.9	10.3	10.3	10.3
PV of PPG external debt (in billions of U.S. dollars)			2.4			2.6	3.0	3.4	3.9	4.4	4.8		6.2	10.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.5	3.3	3.4	3.5	3.2	2.1	3.0	1.1	0.7	1.0
Gross remittances (in billions of U.S. dollars)	0.4	0.3	0.3			0.3	0.4	0.4	0.5	0.5	0.6		1.0	2.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.3			22.4	22.6	23.2	24.1	24.9	24.4		19.3	11.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	39.2			39.8	41.5	43.3	44.8	46.2	45.7		37.4	24.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.1			1.0	1.1	1.2	1.3	1.6	1.7		2.1	1.7	

Sources: Cambodian authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Includes both public and private sector external debt. The years in the table refer to calendar years.

3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections, also includes contribution from price and exchange rate changes.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Alternative Scenario of Increasing Borrowing Limits during 2011–13: Sensitivity Analysis for Key Indicators of External Debt

(2010–30, in percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
Present value of debt-to-GDP ratio								
Baseline	23	23	24	25	26	25	**20**	12
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	23	20	18	16	16	14	**10**	5
A2. New public sector loans on less favorable terms in 2010–30 2/	23	24	26	28	29	29	**25**	18
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	23	24	25	26	27	26	**21**	13
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	23	25	29	30	30	29	**23**	13
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	23	26	28	30	30	30	**24**	15
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	23	26	28	28	29	28	**22**	12
B5. Combination of B1–B4 using one-half standard deviation shocks	23	26	28	29	30	29	**23**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	23	32	33	35	36	35	28	17
Present value of debt-to-exports ratio								
Baseline	42	44	46	47	49	48	**40**	26
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	42	38	34	31	30	28	**19**	10
A2. New public sector loans on less favorable terms in 2010–30 2/	42	45	49	53	56	56	**50**	39
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	42	44	46	47	49	48	**40**	26
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	42	49	61	62	63	62	**50**	30
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	42	44	46	47	49	48	**40**	26
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	42	49	53	54	55	54	**43**	27
B5. Combination of B1–B4 using one-half standard deviation shocks	42	46	47	49	50	49	**40**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	42	44	46	47	49	48	**40**	26
Present value of debt-to-revenue ratio								
Baseline	178	173	173	176	176	169	**123**	66
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	178	152	128	116	107	97	**59**	26
A2. New public sector loans on less favorable terms in 2010–30 2/	178	180	186	195	201	196	**155**	98
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	178	178	182	184	185	177	**129**	69
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	178	187	211	210	208	198	**139**	68
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	178	191	206	209	210	201	**146**	79
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	178	192	200	200	198	189	**134**	68
B5. Combination of B1–B4 using one-half standard deviation shocks	178	194	202	204	204	195	**140**	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	178	241	241	244	245	235	**170**	92

Table 3b. Alternative Scenario of Increasing Borrowing Limits during 2011–13: Sensitivity Analysis for Key Indicators of External Debt (concluded)
(2010–30, in percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports ratio								
Baseline	1	1	1	1	2	2	**2**	2
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	1	1	1	1	1	1	**1**	1
A2. New public sector loans on less favorable terms in 2010–30 2/	1	1	1	2	2	2	**3**	3
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	1	1	1	1	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	1	1	1	2	2	2	**3**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	1	1	1	1	2	2	**2**	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	1	1	1	2	2	2	**3**	2
B5. Combination of B1–B4 using one-half standard deviation shocks	1	1	1	1	2	2	**2**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	1	1	1	2	2	**2**	2
Debt service-to-revenue ratio								
Baseline	4	4	5	5	6	6	**7**	5
A. Alternative scenarios								
A1. Key variables at their historical averages in 2010–30 1/	4	5	4	4	5	5	**3**	2
A2. New public sector loans on less favorable terms in 2010–30 2/	4	4	5	6	7	8	**10**	7
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011–12	4	5	5	6	6	7	**7**	5
B2. Export value growth at historical average minus one standard deviation in 2011–12 3/	4	4	5	6	7	7	**9**	5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2011–12	4	5	6	6	7	8	**8**	6
B4. Net nondebt creating flows at historical average minus one standard deviation in 2011–12 4/	4	4	5	6	7	7	**8**	5
B5. Combination of B1–B4 using one-half standard deviation shocks	4	5	6	6	7	7	**8**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	6	7	7	8	9	**10**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Cambodian authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4a. Alternative Scenario of Increasing Borrowing Limits during 2011–13: Public Sector Debt Sustainability Framework, 2007–30

(In percent of GDP, unless otherwise indicated)

	Actual				Standard	Projections									
												2010–15			2016–30
	2007	2008	2009	Average 1/	Deviation 1/	2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
Public sector debt 2/	30.5	25.6	29.0			30.8	30.6	31.3	32.4	33.3	32.5		25.6	15.8	
Of which: Foreign-currency denominated	29.6	24.9	28.4			29.9	29.9	30.7	31.9	32.7	32.0		25.3	15.7	
Change in public sector debt	-2.3	-5.0	3.5			1.7	-0.1	0.7	1.1	0.8	-0.8		-1.3	-0.8	
Identified debt-creating flows	-4.5	-6.8	5.1			1.6	-0.7	-0.8	-1.0	-1.2	-1.8		-2.0	-2.5	
Primary deficit	0.5	-0.4	3.8	1.8	1.7	2.9	2.8	2.0	1.5	1.2	0.8	1.9	0.2	-1.1	-0.2
Revenue and grants	14.1	15.1	15.6			15.6	15.9	16.2	16.5	16.8	17.1		18.2	20.0	
Of which: Grants	2.2	3.1	4.1			2.7	2.5	2.4	2.3	2.3	2.2		2.0	1.5	
Primary (noninterest) expenditure	14.5	14.6	19.4			18.6	18.6	18.2	18.0	18.0	17.9		18.4	18.8	
Automatic debt dynamics	-5.0	-6.4	1.3			-1.3	-3.5	-2.8	-2.5	-2.4	-2.7		-2.1	-1.3	
Contribution from interest rate/growth differential	-3.4	-2.4	0.8			-1.4	-2.1	-2.0	-2.0	-2.1	-2.2		-1.8	-1.1	
Of which: Contribution from average real interest rate	-0.4	-0.5	0.3			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Of which: Contribution from real GDP growth	-3.0	-1.9	0.5			-1.3	-2.0	-1.9	-1.9	-2.0	-2.1		-1.7	-1.0	
Contribution from real exchange rate depreciation	-1.5	-4.0	0.4			...	...	...	...	...	...		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	1.9	-1.6			0.1	0.6	1.5	2.1	2.0	1.0		0.7	1.6	
Other sustainability indicators	…	…	22.5			23.9	23.9	24.5	25.5	26.1	25.6		20.2	12.3	
Of which: Foreign-currency denominated	…	…	21.8			23.1	23.2	23.9	24.9	25.6	25.1		19.9	12.2	
Of which: External	...	...	21.8			23.1	23.2	23.9	24.9	25.6	25.1		19.9	12.2	
Of which: External	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	2.7	0.9	4.9			4.1	4.0	3.2	2.7	2.4	2.1		1.5	-0.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	144.0			152.7	150.7	151.3	154.3	155.4	149.8		111.0	61.8	
PV of public sector debt-to-revenue ratio (in percent)	…	…	194.8			184.2	178.5	177.6	179.7	179.9	172.3		124.5	66.8	
Of which: External 4/	…	…	189.2			178.0	173.2	173.0	175.7	176.3	169.2		122.8	66.3	
Debt service-to-revenue and grants ratio (in percent) 5/	3.9	4.1	3.3			3.7	3.6	3.8	3.8	4.4	4.6		6.0	4.4	
Debt service-to-revenue ratio (in percent) 5/	4.6	5.1	4.5			4.5	4.3	4.5	4.4	5.1	5.3		6.7	4.7	
Primary deficit that stabilizes the debt-to-GDP ratio	2.8	4.5	0.3			1.2	2.9	1.3	0.4	0.4	1.6		1.4	-0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	10.2	6.7	-2.0	8.1	4.1	4.8	6.8	6.5	6.5	6.6	6.8	6.3	6.8	6.7	6.7
Average nominal interest rate on forex debt (in percent)	1.1	0.8	1.1	1.1	0.1	0.9	0.9	1.1	1.3	1.4	1.5	1.2	1.5	1.6	1.5
Average real interest rate on domestic debt (in percent)	-5.9	-17.6	0.1	-5.6	5.7	-0.6	-6.0	-4.1	-3.5	-2.7	-3.3	-3.4	...	...	-3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.5	-14.6	1.6	-1.7	6.0	0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.5	21.9	0.3	4.6	6.8	0.8	6.6	4.4	3.8	3.0	3.6	3.7	3.6	3.7	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	14.0	7.4	30.2	5.2	10.0	0.1	7.0	4.2	5.4	6.5	6.5	4.9	7.4	5.4	
Grant element of new external borrowing (in percent)	...	...	...	…	…	27.0	25.8	26.2	26.2	26.5	28.6	26.7	29.4	26.0	...

Sources: Cambodian authorities; and staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ The public sector debt represents general government gross debt.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium- and long-term debt.

Table 4b. Alternative Scenario of Increasing Borrowing Limits during 2011–13: Key Indicators of Public Debt

(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Present value of debt-to-GDP ratio								
Baseline	24	24	25	25	26	26	20	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	23	23	24	25	25	24	27
A2. Primary balance is unchanged from 2010	24	24	25	28	30	31	34	42
A3. Permanently lower GDP growth 1/	24	24	25	27	28	28	28	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	24	25	27	28	30	29	26	21
B2. Primary balance is at historical average minus one standard deviations in 2011–12	24	25	27	27	28	27	21	13
B3. Combination of B1–B2 using one half standard deviation shocks	24	24	25	26	27	27	22	14
B4. One-time 30 percent real depreciation in 2011	24	32	32	32	32	31	24	14
B5. 10 percent of GDP increase in other debt-creating flows in 2011	24	33	33	33	33	32	25	14
Present value of debt-to-revenue ratio 2/								
Baseline	153	151	151	154	155	150	111	62
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	153	144	142	146	149	148	135	136
A2. Primary balance is unchanged from 2010	153	152	157	167	177	181	186	211
A3. Permanently lower GDP growth 1/	153	152	155	161	166	164	150	173
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	153	156	163	170	174	171	143	105
B2. Primary balance is at historical average minus one standard deviations in 2011–12	153	155	164	166	166	159	117	64
B3. Combination of B1–B2 using one half standard deviation shocks	153	151	156	159	161	156	119	71
B4. One-time 30 percent real depreciation in 2011	153	205	198	194	190	181	130	71
B5. 10 percent of GDP increase in other debt-creating flows in 2011	153	207	203	202	199	189	136	72
Debt service-to-revenue ratio 2/								
Baseline	4	4	4	4	4	5	6	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	4	4	4	5	10	16
A2. Primary balance is unchanged from 2010	4	4	4	5	6	7	16	28
A3. Permanently lower GDP growth 1/	4	4	4	5	6	6	11	20
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011–12	4	4	5	5	6	7	11	11
B2. Primary balance is at historical average minus one standard deviations in 2011–12	4	4	4	5	6	8	8	5
B3. Combination of B1–B2 using one half standard deviation shocks	4	4	4	5	5	6	8	6
B4. One-time 30 percent real depreciation in 2011	4	5	6	7	8	8	12	10
B5. 10 percent of GDP increase in other debt-creating flows in 2011	4	4	5	6	15	14	12	7

Sources: Cambodian authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CAMBODIA

Staff Report for the 2010 Article IV Consultation—Informational Annex

Prepared by the Asia and Pacific Department
(In Consultation with Other Departments)

October 15, 2010

Contents Page

ANNEX I. CAMBODIA: FUND RELATIONS

As of September 30, 2010

I. **Membership Status:** Joined: 12/31/1969; Article VIII

II.	**General Resources Account:**	**SDR Million**	**Percent Quota**
	Quota	87.50	100.00
	Fund Holdings of Currency	87.50	100.00

III.	**SDR Department:**	**SDR Million**	**Percent Allocation**
	Net cumulative allocation	83.92	100.00
	Holdings	68.48	81.60

IV.	**Outstanding Purchases and Loans:**	**SDR Million**	**Percent Quota**
	PRGF arrangements	0.00	0.00

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	10/22/1999	03/05/2003	58.50	58.50
ESAF	05/06/1994	08/31/1997	84.00	42.00

VI. **Projected Obligations to Fund:** (SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					
Charges/Interest	0.01	0.05	0.05	0.05	0.05
Total	0.01	0.05	0.05	0.05	0.05

VII. **Multilateral Debt Relief Initiative:**

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006 approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia’s outstanding debt to the IMF, a total of SDR 56.8 million (about US$82 million). The authorities intend to spend the resources over a number of years, initially on rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

VIII. **Safeguards Assessment:**

A voluntary safeguards assessment of the National Bank of Cambodia (NBC) was completed in January 2010, at the request of the authorities. The assessment updated the previous voluntary assessment completed in March 2004. It found that the NBC had taken steps to strengthen aspects of its safeguards framework, although important measures proposed in 2004 are still outstanding or in progress. Some new risks have emerged in the area of external audit. The assessment made appropriate recommendations.

IX. **Exchange Rate Arrangement and Payments System:**

Cambodia's exchange regime is classified as stabilized. The official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises, and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 1, 2002. Cambodia maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

X. **Article IV Consultation:**

Cambodia is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Phnom Penh during September 9–23, 2009. The Executive Board discussed the staff report (IMF Country Report 09/325) and concluded the consultation on November 18, 2009.

XI. **Technical Assistance:**

Technical assistance is currently focused on bank supervision, monetary operations, public financial management, customs administration, and macro-financial statistics. Delivery is through a resident advisor at the NBC, peripatetic experts, and short-term visits from headquarters.

XII. **Resident Representative:**

The resident representative office was closed in October 1997 and re-opened in October 1999, headed by an IMF Resident Representative until June 2010. Since then, the IMF's Resident Representative for Indonesia, Mr. Milan Zavadjil has also assumed the responsibilities for the Cambodian IMF office.

ANNEX II. CAMBODIA: WORLD BANK-IMF COLLABORATION

1. **The Bank and the IMF country teams for Cambodia, led by Mr. Mathew Verghis (Lead Economist, EASPR) and Mr. Olaf Unteroberdoerster (IMF Mission Chief for Cambodia)**, maintain a close working relationship and have an active dialogue on a range of macroeconomic and structural issues.

2. **Recent key areas of cooperation and coordination includes:**

(i) **Macroeconomic policy advice to the authorities:** The IMF and the World Bank staff have consulted each other on key macroeconomic policy messages to the authorities and avoid sending conflicting messages. We have adopted a joint stance on the complex question of the 2009 national accounts (for which our best estimates suggest a contraction of GDP, while the Cambodia National Institute of Statistics suggests a slightly positive growth of 0.1 percent). The two teams also regularly share information outside missions and discuss and exchange institutional views on key macroeconomic developments. Bank staff share and discuss the monthly fiscal monitor and the quarterly review of macroeconomic developments. IMF staff share policy notes and other mission preparatory documents.

(ii) **Financial Sector Reform/TA and FSAP:** World Bank and IMF teams have worked closely while undertaking the March 2010 FSAP. The two teams sent respective representatives jointly in 2009 to appraise the authorities about the purpose, structure, output, and requirements of an FSAP. The two teams also regularly communicated on financial sector developments throughout the assessment. Following the recommendations advanced by the FSAP team, it is expected that technical assistance will be deployed in subject areas akin to the FSAP, which will assume close coordination between the IMF and the World Bank.

(iii) **Public Financial Management and Tax and Customs Administration Reform:** Both institutions are working to strengthen coordination of work on public financial management, and tax and customs administration reform. Both teams share as much as possible the work done in this area.

(iv) **Article IV Consultations:** IMF Article IV consultations regularly share their macroeconomic data with the World Bank and hold working sessions to try and reconcile macroeconomic data sets. The collaboration is closest on the Debt Sustainability Analysis, a joint product, but extends more broadly into other areas of the Consultation as well. This is extremely important for both institutions in Cambodia's data scarce context. World Bank staff are also invited to and do participate in some of the key meetings.

(v) **Structural reforms:** The IMF staff and the World Bank teams have worked together to share views on a range of other issues, including structural reforms for a better investment climate (and competitiveness issues), rural development, and de-dollarization.

3. **It is recognized that the modality of the partnership will be tested by the departure of the resident representative at the end of June 2010.** While the IMF maintains an office in Phnom Penh, with local staff, the Resident Representative (Mr. Milan Zavadjil) is now based in Indonesia and visits Cambodia every six to eight weeks. Collaboration has continued to be excellent so far, but will inevitably require adjustments to these new circumstances. This is in particular the case for the IMF's involvement on the Public Financial Management Reform Program, for which the previous resident representative had played a very active role.

4. **Based on the above intensive partnership, the World Bank and the IMF share a common view about Cambodia's macroeconomic and structural reform priorities.** These include:

- **Promoting long-term growth and diversification:** While Cambodia has been very successful at achieving sustained rapid growth since the late 1990s, the global crisis has highlighted some of the vulnerabilities of this performance. In particular, the lack of diversification and the weaker progress in rural development are key challenges.
- **Sustaining the recovery:** As of September 2010 (the IMF just concluded its Article IV consultation mission), the recovery is well under way. However it needs to be sustained with appropriate fiscal consolidation and continued management of the banking sector risks.
- **Increasing fiscal space:** Increase fiscal space—better enforcement of revenue policy should be a priority of fiscal policy. Additional fiscal space should be well targeted to areas that would increase growth potential (e.g., infrastructure related constraints) or target the most vulnerable (e.g., to implement the recently developed Social Safety Net strategy). We also agree on the importance of public sector compensation reform, if planned in a coherent fiscal framework and accompanied with necessary human resource reforms.
- **Strengthening the banking system:** The joint World Bank/IMF FSAP includes a number of recommendations to tighten bank supervision and develop a crisis resolution framework, in order to safeguard the stability of the banking system and facilitate its continued development in support of economic growth.
- **Improving governance:** Both the World Bank and IMF have stressed the critical role of governance in improving the quality of service delivery and the business environment. For instance, in the Article IV consultations, the role of EITI and the recently-adopted Anti-Corruption Law were stressed.

5. **The teams are committed to continue the close cooperation going forward.** Appendix I details the specific activities planned by the two country teams over the period September 2010–August 2011 along with their expected deliveries.

Appendix 1. Cambodia: Joint Managerial Action Plan, September 2010–August 2011

Title	Products	Provisional and actual timing of missions	Expected and actual delivery date
A. Mutual information on relevant work programs			
The World Bank's work program in the next 12 months	**Macroeconomic monitoring**		
	Semi-annual updates (regional)		October 2010; April 2011
	Recent economic developments (slides)		Approx once per quarter
	Growth and diversification Policy notes on "growth beyond the crisis," "tax incentives," "special economic zones," and "social and poverty impact of the crisis"		October / November 2010
	Financial sector		
	Risk sharing facility (joint IDA / IFC)		December 2010
	FSAP follow up	September 2010	
	Public sector management		
	PFM reform program	September 2010	
	Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER)		December 2010
	Options for compensation reform (background papers)		March 2011
	Trade Trade Facilitation and Competitiveness Program (including customs automation) and Trade Development Support Program	November 2010	
The IMF's work program in the next 12 months	**Macroeconomic policy analysis and advice**		
	• **Article IV consultation and staff visits**		Third quarter 2011
	• **Policy notes on request**		Ongoing
	Technical assistance • **Fiscal** Cash Management Government accounting Customs reform • **Financial sector** Ongoing work for FSAP Resident banking supervision advisor Technical Assistance		
B. Agreement on joint products and missions			
Joint products in the next 12 months	• Debt sustainability analysis	2010 Article IV Consultation	During Article IV Consultations
	• FSAP	Ongoing until the Board in late October 2010	

ANNEX III. CAMBODIA: RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of August 31, 2010)

From 1992 through August 31, 2010, the Asian Development Bank (AsDB) approved funding of $1,254.7 million including 49 loan projects of $1,064.8 million with low interest, and 13 Asian Development Fund (ADF) grants of $189.9 million ($42.0 million in 2005; $7.8 million in 2006; $37.0 million in 2007; $30.3 million in 2008; and $72.8 million in 2009) to Cambodia for structural reform programs. To date, 33 loan projects for a total of $732.9 million and two ADF grants of $14.5 million have been completed.

The sector composition and loan/grant amount of the remaining active portfolio as of August 31, 2010 are: (i) agriculture and natural resources $123.4 million; (ii) education $76.6 million; (iii) energy $64.3 million; (iv) finance $10.0 million; (v) health, nutrition, and social protection $9.0 million; (vi) industry and trade $15.6 million; (vi) law, economic management, and public policy $6.1 million; (viii) transport and communication $163.3 million; and (ix) water supply, sanitation, and waste management $39.0 million.

The AsDB's overarching goal in Cambodia is sustainable poverty reduction. The AsDB's Country Strategy and Program (CSP 2005–09) midterm review, finalized in August 2007, concluded that the strategic thrust of the AsDB in Cambodia remains appropriately targeted on poverty reduction through broad-based private sector-led growth, inclusive social development, and stronger governance for sustainable development. The new Country Partnership Strategy (CPS 2010–13) is under preparation and guided by the AsDB's long-term strategic framework (Strategy 2020[1]) to support implementation of the government's updated National Strategic Development Plan 2009–13 (NSDP Update[2]). The AsDB's Country Operations Business Plan (COBP 2009–12) strongly focuses on the priority areas of agricultural and rural development, private sector development, governance and capacity development, and regional economic integration in the Greater Mekong Sub-region (GMS).

Interventions in agricultural and rural development focus around the Tonle Sap basin area and are geared to improving livelihoods of the poor through management of water resources and irrigation assets, as well as agriculture extension services and crop diversification; expanding the connectivity internally between rural roads and the provincial and national network, and externally with emerging subregional transport corridors; fostering the development of smallholder agricultural producers; and widening access for the poorest to rural water supply and sanitation while strengthening local community management capacity.

[1] The Asian Development Bank's Strategy 2020 available at: www.adb.org/strategy2020.

[2] The National Statistic Development Plan (NSDP) update available is available at: http://www.mop.gov.kh/Home/NSDP/NSDPUPDATE20092013/tabid/206/Default.aspx.

In the area of private sector development, the AsDB assists the government's effort in improving competition policy and regulatory efficiency; strengthening the investment climate and innovation; and continuing trade policy reforms and trade facilitation (customs and sanitary and phytosanitary standards for food safety). Assistance has also been provided to help the Government improve its competitiveness at the GMS level through reducing border-related costs and distortions; improving physical infrastructure; enhancing transport and trade facilitation, including promoting compliance with SPS standards. Later interventions would be more focused on improving the trade facilitation and logistical links to the subregion as systems and procedures become more developed and integrated. The AsDB assistance in the financial sector has helped the government in improving financial intermediation; enhancing the resilience of the financial sector; promoting good governance; and improving financial sector efficiency. Education-related interventions help to promote equitable access to quality secondary education and technical and vocational education and training to achieve the Cambodia Millennium Development Goals and sustainable growth. There is also a gradual increase in the AsDB private sector operations such as an intervention to expand trade finance. Other infrastructure loans and investment opportunities are being sought, including in the areas of (i) energy, (ii) transport, (iii) agribusiness, and (iv) water and sanitation.

With respect to governance and capacity building, the COBP includes a programmatic approach to public financial management (PFM) reform with interventions to underpin rolling out of PFM to rural development line ministries (support for budget preparation and execution, financial management and reporting, procurement and development of internal audit capacities in these ministries) and strengthen the capacity of the National Audit Authority. At the same time, the AsDB will also promote good governance through assistance to the government led-decentralization and de-concentration reform, namely support to functional assignments and fiscal decentralization and decentralized services deliveries. The assistance in PFM for rural development together with sector interventions will reinforce decentralization and de-concentration reforms, particularly in functional assignments and expenditures responsibilities. Assistance is also planned to support the implementation of the anti-corruption law passed in April 2010.

AsDB: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2010

(In millions of U.S. dollars, as of August 31, 2010)

		Loan/Grant Approvals	Contract Awards/ Commitment	Disbursements
1	1992	67.7	0.0	0.0
2	1993	0.0	4.4	5.4
3	1994	28.2	35.9	12.2
4	1995	45.1	28.1	35.9
5	1996	105.0	15.3	32.1
6	1997	0.0	41.5	10.7
7	1998	40.0	29.1	29.3
8	1999	88.0	17.0	26.2
9	2000	109.6	114.4	50.8
10	2001	75.2	40.7	48.3
11	2002	116.5	64.4	78.9
12	2003	98.3	61.9	73.3
13	2004	65.0	62.4	76.7
14	2005[1]	52.0	96.4	84.5
15	2006[2]	69.8	44.7	55.8
16	2007[3]	72.1	85.8	62.1
17	2008[4]	84.1	141.3	138.9
18	2009[5]	144.5	52.3	84.6
19	2010 (Projected)[6]	156.8	90.2	86.0
	TOTAL:	1,417.9	1,025.8	991.7

[1] $10 million loans and $42 million grants approved in 2005.

[2] $62 million loans and $7.8 million grants approved in 2006.

[3] $35.1 million loans (including $8 million ordinary capital resources (OCR) loans to private sector) and $37 million grants approved in 2007.

[4] $53.8 million loans and $30.3 million grants approved in 2008.

[5] $71.7 million loans and $72.8 million grants approved in 2009.

[6] $95.0 million loans and $61.8 million grants are expected to be approved during third and fourth quarters of 2010.

ANNEX IV. CAMBODIA: STATISTICAL ISSUES

As of September 30, 2010

<table>
<tr><th colspan="2">I. Assessment of Data Adequacy for Surveillance</th></tr>
<tr><td colspan="2">General: Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the IMF, UNDP, Asian Development Bank, and World Bank, as well as from bilateral partners (namely Japan and Sweden), leading to substantial capacity improvements in compiling and reporting macroeconomic statistics. However, various shortcomings in macroeconomic data still hamper timely and comprehensive analysis.</td></tr>
<tr><td colspan="2">National Accounts: The National Institute of Statistics is leading efforts to improve the consistency of national accounts statistics with the United Nations' System of National Accounts 1993, to expand the range of annual national account aggregates, and to produce a quarterly national accounts series since June 2005, with IMF technical assistance. However, the quality of GDP estimates remains hampered by the lack of comprehensive and reliable source data on a production and expenditure basis, in part stemming from the need to address resource constraints and improve data collection techniques. The authorities have not yet published the 2009 national accounts.

Price statistics: A new consumer price index series was introduced starting in January 2009. However, geographical coverage of the series is limited to Phnom Penh. Statistics Sweden is currently providing TA on price statistics, including on compiling a production price index.</td></tr>
<tr><td colspan="2">Government finance statistics: The Ministry of Finance and Economy began implementing reforms to the government accounting system and budgetary nomenclature in 2007 based on the Government Finance Statistics Manual (GFSM) 2001, with IMF TA. In addition, several STA missions have assisted with GFS compilation procedures within the GSFM 2001 framework. IMF TA in April 2008 assisted with establishing a bridge between the government's new chart of accounts (COA) and the GSFM 2001 classifications so that accounting records can be used as source data in compiling GFS. However, use and coverage of the COA has been limited and not fully integrated to activities such as the disbursement of external loans and grants, the government's budget reserve fund, and capital expenditures.</td></tr>
<tr><td colspan="2">Monetary and financial statistics: The National Bank of Cambodia (NBC) compiles the balance sheet and survey for the central bank and other depository institutions in accordance with the IMF's Monetary and Financial Statistics Manual. Since August 2005, the NBC has reported monthly monetary and financial statistics to STA using the Standardized Report Forms. The NBC received TA during the FSAP on the compilation of financial soundness indicators (FSIs). The NBC now compiles monthly core FSIs and shares them with IMF staff irregularly. The non reliability and inconsistency of data reported by banks still poses a challenge to the interpretation of FSIs.</td></tr>
<tr><td colspan="2">External sector statistics: Despite recent improvements, more work is needed to improve balance of payments statistics. Customs data have substantial coverage and valuation problems arising from the use of reference prices and limited recording of non dutiable imports, underreporting of re-exports, and weaknesses in customs controls. Enterprise transactions, such as payment for imported services, income payments, and portfolio investment abroad are excluded or underreported. Foreign direct investment, which is believed to be large, relies excessively on approvals. Gaps exist in external debt statistics, in particular, on the stock of public and publicly-guaranteed debt by maturity, on bilateral donor disbursements, and on external debt service. Gaps exist in official transfers (e.g., grants) and in external statistics, and no data are available for private external debts.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Cambodia participates in the IMF's General Data Dissemination System</td><td>No data ROSC are available</td></tr>
<tr><th colspan="2">III. Reporting to STA (Optional)</th></tr>
<tr><td colspan="2">Cambodia sends regular data reports to STA for publication</td></tr>
</table>

Cambodia: Table of Common Indicators Required for Surveillance
(As of September 30, 2010)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Sept. 2010	Sept. 2010	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Sep. 2010	Sep. 2010	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	Aug. 2010	Sep. 2010	M	M, 4–6 week delay	M
Broad Money	Aug. 2010	Sep. 2010	M	M, 4–6 week delay	M
Central Bank Balance Sheet	Aug. 2010	Sep. 2010	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	Aug. 2010	Sep. 2010	M	M, 4–6 week delay	M
Interest Rates[3]	Aug. 2010	Sep. 2010	M	M, 4–6 week lag	M
Consumer Price Index	Aug. 2010	Sep. 2010	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	Aug. 2010	Sep. 2010	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4] —Central Government	Aug. 2010	Sep. 2010	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec. 2009	Sep. 2010	A	A, 6 month lag	A
External Current Account Balance	Q2, 2010	Sep. 2010	Q	Q, 2 month lag	Q
Exports and Imports of Goods and Services	Q2, 2010	Sep. 2010	Q	Q, 2 month lag	Q
GDP/GNP	Dec. 2008	Jun. 2009	A	A, 6 month lag	A
Gross External Debt	Jun. 2010	Sep. 2010	M	M, 4– 6 month lag	A
International Investment Position[7]	Aug. 2010	Sep. 2010	M	Q, 2 month lag	M

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), and Not Available (N/A).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Statement by the IMF Staff Representative
October 28, 2010

This statement provides information on macroeconomic and policy developments that has become available since the circulation of the staff report. The information does not alter the thrust of the staff appraisal.

Economic recovery and trade. The pick-up in economic activity has continued through September and is evident in the real growth of exports of garments and of key imports including cars, gasoline, and motorcycles. However, construction-related imports remain weak. Tourist arrivals through August are up 16 percent (y/y), on the back of continued strong inflows from neighboring countries and a rebound in air arrivals (up 14 percent). In line with the recovery, credit growth in September remained robust at 23 percent (y/y). Both gross official reserves and the exchange rate have remained virtually unchanged.

Cambodia: Volume of Trade to September
(Year on year percent change)

	2009	2010
Exports		
Garments	-8.0	27.9
Imports		
Cigarettes	2.6	7.6
Construction material	-27.6	1.9
Cement	-16.3	-8.8
Steel	-19.9	11.3
Motorcycles	-60.5	85.0
Cars	-41.1	16.7
Gasoline	1.3	17.2

Sources: Data provided by the Cambodian authorities; and IMF staff estimates.

Inflation. Headline inflation eased in the third quarter of 2010 (to about 2 percent y/y), driven by lower food prices, in part reflecting seasonal factors.

2011 draft budget. A draft 2011 budget was approved by the Council of Ministers on October 15, 2010. Final parliamentary approval is expected in mid-December. The budget proposal is broadly in line with staff's projection and advice, but there are some differences. In particular:

- To support fiscal consolidation, overall spending would be kept at ¼ percent of GDP below the staff projection. However, with a more conservative revenue forecast (½ percent of GDP below staff projection), the overall deficit would decline by only ¼ percent of GDP (½ percent in the staff projection).

- In spite of the compression of overall spending (relative to the staff projection), the budget contains larger-than-expected capital spending and social priority outlays (each ¼ percent of GDP above staff projection). This implies a larger compression of nonpriority current spending than staff considered likely.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
December 14, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Cambodia

On October 29, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cambodia.[1]

Background

Cambodia enjoyed a decade of high growth and relative stability prior to the crisis. Real GDP growth averaged over 9 percent during 2000–07, the highest of any low-income country in Asia, enabling significant improvements in living standards and poverty reduction. Prudent fiscal policies underpinned macroeconomic stability with headline inflation well below Cambodia's peers.

However, the global crisis resulted in a growth collapse, exposing longstanding structural vulnerabilities. Preliminary estimates suggest that growth fell some 10 percentage points below its pre-crisis average in 2009. Cambodia was hit harder than comparator countries by the global recession, given vulnerabilities that are in part a legacy of a generation lost by civil strife. Fiscal revenues, that remain low regionally, limit the scope to fully address development priority needs, while a shallow and highly dollarized financial system undercuts broad-based growth and complicates macroeconomic management. Growth and exports have remained narrow-based, offering limited benefits to the rural poor, Cambodia's vast majority. As a result, there are indications that poverty increased after several years of steady declines, setting back the momentum toward achieving the Millennium Development Goals (MDGs).

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The authorities' policy response to the crisis helped limit the impact. The government raised wages and accelerated development spending, allowing the overall fiscal deficit to increase to over 8 percent of GDP in 2009, up by more than 5 percentage points over 2008. While the deficit was mostly financed by concessional loans and grants, there was also significant recourse to domestic financing (nearly 2 percent of GDP) for the first time since 2003. In addition, the National Bank of Cambodia (NBC) took an accommodative stance by reducing reserve requirements (from 16 to 12 percent) and introducing an overdraft facility. However, as a result of banking system weaknesses, the main effect was to offer a cushion against a liquidity shock in addition to banks' own efforts, including by raising deposit rates that contributed to a significant rise in liquidity in the banking system.

A broadening export-led recovery is under way. Garment exports and tourist arrivals, notably by air, are bouncing back, both growing between 10 to 20 percent (y/y) in the second quarter of 2010. Construction activity, however, appears to remain sluggish with growth of most related imports still negative, while a late start of the rainy season may dent agricultural output growth. Consumer price inflation rose to an average 7 percent in the first quarter of 2010, from about -½ percent on average in 2009, on the back of firmer local food and global commodity prices. Credit growth has turned the corner, reaching 23 percent (y/y) in August, from 6½ percent at end 2009, amid ample liquidity in the banking system. After narrowing somewhat in 2009, the current account deficit is likely to widen to about 7 percent of GDP (including official transfers) in 2010 on strengthening domestic demand. Official reserves have risen modestly (to about 3½ months of import cover), while the riel has depreciated somewhat against the U.S. dollar in recent months.

Near-term risks are tilted to the downside. The fragility of the global recovery exposes Cambodia's narrow export base with its heavy reliance on the U.S. and European markets—garment exports to these destinations account for 40 percent of total goods and services exports—to significant downside risks, while limited fiscal policy space and financial system weaknesses further undercut the economy's resilience to shocks. These weaknesses arise from shortcomings in banking supervision, enforcement of regulations and uneven credit risk management and data reporting by banks, combined with a high degree of dollarization, severely constraining the central bank's ability to act as a lender of last resort. Staff projects growth to reach 4½–5 percent in 2010. Consistent with the recovery, staff projects the headline CPI index to rise 4 percent on average this year.

Over the medium term, addressing longstanding structural weaknesses can improve the balance of risks. Potential setbacks in efforts to strengthen the business environment and enhance public sector revenues and service delivery constitute major downside risks to growth. However, a better-than-expected return on medium-term investments in the power sector and rural infrastructure could offer significant upside potential. Growth is expected to gradually return to potential of about 6–7 percent over the medium term. The current account deficit (excluding official transfers), after rising early in the recovery (to about 13½ percent of GDP in 2010) would gradually decline (to about 8½ percent of GDP in 2015), in part reflecting increasing domestic hydro-power supply, and remain fully financed through grants, official external financing, and foreign direct investment.

Executive Board Assessment

Directors commended the authorities for their timely policy response, which had helped mitigate the impact of the global crisis and supported the nascent recovery. Directors noted, however, that to achieve sustainable broad-based growth, it will be necessary to address the economy's long-standing structural weaknesses which were exposed by the global crisis. This includes expanding the limited fiscal space; strengthening monetary policy, especially in light of high degree of dollarization; preserving financial system stability; and promoting private sector-led economic diversification.

Directors concurred that prudent fiscal policy remains critical for maintaining macroeconomic stability. They were encouraged that fiscal consolidation was on track to meet the 2010 budget target, and called for further progress to increase fiscal space to address shocks over the medium term. Directors noted that stepped-up efforts on revenue mobilization, including tax administration and prudent borrowing policy, are crucial for achieving fiscal sustainability, while providing resources to meet pressing development needs. At the same time, efforts should also continue to strengthen public financial management to ensure effectiveness of priority social and infrastructure spending.

In light of the large liquidity overhang in the banking system, Directors encouraged the authorities to stand ready to remove the monetary easing bias to preempt potential pressures on financial stability. They agreed that, in the medium term, greater monetary independence will hinge critically on a market-based strategy of de-dollarization and require carefully sequenced measures to strengthen the monetary framework, including through the development of an interbank money market.

Directors considered the findings of a recent Financial Sector Assessment Program (FSAP), including risks to the financial system stability in the absence of significant reforms. They encouraged the authorities to implement high-priority FSAP recommendations, with appropriate technical assistance, to enhance financial system surveillance, improve supervisory and regulatory frameworks, and thus safeguard the hard-won confidence in the banking system. Directors welcomed the steps taken by the authorities to address data weaknesses and acute shortage of human resources, and to enhance technical capacity. They emphasized that upgrading and enforcing the legal framework and developing a safety net are essential to addressing systemic risk and limiting potential fiscal costs.

Directors noted that the authorities' renewed emphasis on agricultural development and rural infrastructure investment is critical and timely. Greater efforts in this area should help broaden sources of growth and reduce poverty. Strengthening the environment for private-sector led investment and expanding market access will also play an important role in improving Cambodia's international competitiveness.

Cambodia: Selected Economic Indicators, 2006–10

(Annual percent change, unless otherwise indicated)

	2006	2007	2008	2009 Est.	2010 Proj.
GDP at constant prices	10.8	10.2	6.7	-2.0	4.8
Inflation (CPI) (annual average)	6.1	7.7	25.0	-0.7	4.0
(End-year)	4.2	14.0	12.5	5.3	4.5
Saving and investment (in percent of GDP)					
Gross national saving	19.9	18.3	13.3	10.8	11.5
Gross fixed investment	20.6	20.8	19.5	16.0	18.5
Of which: Government investment	5.7	6.1	5.8	8.4	7.4
Public finances (in percent of GDP)					
Revenue 1/	11.5	11.9	12.0	11.5	13.0
Expenditure	14.2	14.7	14.8	19.6	18.8
Overall budget balance (- deficit)	-2.7	-2.9	-2.8	-8.1	-5.9
Foreign financing (net)	4.8	5.0	5.3	6.3	5.5
Domestic financing (net) 2/	-2.0	-2.2	-2.5	1.8	0.4
Broad money	38.2	62.9	4.8	36.8	22.7
Private sector credit	51.6	76.0	55.0	6.5	28.5
Balance of payments					
Exports (in millions of U.S. dollars)	3,694	4,083	4,708	4,137	4,563
Imports (in millions of U.S. dollars)	-4,727	-5,474	-6,509	-5,831	-6,679
Current account balance (in percent of GDP)	-0.6	-2.5	-6.2	-5.2	-7.0
Gross official reserves (in millions of U.S. dollars) 3/	1,097	1,616	2,164	2,367	2,550
(In months of months of prospective imports)	2.1	2.6	3.8	3.7	3.6
Public external debt (in millions of U.S. dollars) 4/	2,245	2,555	2,808	3,054	3,514
(In percent of GDP)	30.9	29.4	24.9	28.1	29.9
Memorandum items:					
Nominal GDP (in billions of riels)	29,849	35,042	45,583	44,841	47,362
(In millions of U.S. dollars)	7,264	8,691	11,277	10,871	…
Exchange rate (riels per dollar, period average)	4,109	4,032	4,042	4,125	…

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ In 2006, includes transfer of the Multilateral Debt Relief Initiative (MDRI) proceeds as capital revenue.
2/ Includes funds in transit and payment orders in excess of cash released.
3/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.
4/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

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Statement by Duangmanee Vongpradhip, Executive Director for Cambodia, and Pijeivibol Phan, Senior Advisor to Executive Director
October 29, 2010

1. On behalf of the Cambodian authorities, we would like to thank the IMF mission and the FSAP team for visiting Phnom Penh and engaging in the fruitful dialogue with the authorities during a crucial time when the country has been undergoing reforms to underpin macroeconomic stability after the crisis. The authorities also wish to thank staff for their thoughtful recommendations. The exchange of views during the mission was candid. The authorities are in broad agreement with the general thrusts of staff's assessment and policy recommendations.

Recent Economic Developments and Outlook

2. Having been hit hard by the external sector last year, Cambodia's macroeconomic performance and outlook has regained strength as the recovery has picked up quickly since the last quarter of 2009 owing to the authorities' prompt policy response to boost the economic activities. The recovery is supported by strong rebound in garment exports, tourism and to a lesser extent agriculture. The authorities are in broad agreement with staff's growth projection for this year within the range of 4.5 – 5 percent. The growth will soar close to its pre-crisis level in the medium term. The strong rebound in the garment sector reflects the improved productivity in terms of quantity and quality, the lower domestic production costs, and the increase in offshore demand for Cambodia's product. The number of tourist arrivals, especially by air, is increasing owing to the government's policies to promote tourism and the strength of regional economies. Agriculture is expected to grow at a moderate rate due to late rain. The authorities share staff's view that downside risks remain on the fragile global recovery.

3. The external position has deteriorated somewhat due to stronger rebound of imports to support the reviving domestic demand. The current account deficit (including official transfers) is projected to increase to 7 percent of GDP in 2010 from 5.2 percent the previous year. This was mainly due to the increase in trade deficit to 18 percent of GDP. Exchange rates remain relatively stable. The inflation pressure has eased markedly. The following low growth of domestic retail oil prices and the earlier anticipation of good harvest in the second half of the year have also helped ease the pressure on inflation. The authorities agree with staff that the inflation will remain below 5 percent at the end of this year. Renewed increase in food and commodities prices in the international market following natural calamities experienced in the region and in the country would be a near term risk to price stability and economic developments.

Fiscal policies

4. On the fiscal sector, the stimulus package had helped boost the economy. Prudent fiscal policy also serves the country well in sustaining fiscal credibility. The overall

performance this year has been strong with the expectation of meeting the expenditure and revenue targets envisaged in the 2010 Budget Law. Going forward, given the limited room for fiscal maneuver, the authorities agree with staff to continue implementing fiscal consolidation in order to strengthen fiscal sustainability. While believing that much of the necessary consolidation will have to come mainly from the revenue side, the authorities view that it is difficult to cut expenditures especially those related to social spending and public investment projects already in the pipeline.

5. On the revenue side, collection is expected to exceed the target. However, the authorities recognize that realizing the full potential of revenue collection from a narrow base is challenging and required years of reforms. They are requesting technical assistance from the Fund for improvement in this area. They are committed to improve revenue collection through: 1) improvement of tax administration and enlargement of the tax base, 2) closer coordination and data sharing among revenue agencies, and 3) enforcement of the newly enacted Anti-Corruption Law. On the expenditure side, the authorities are committed to prudent fiscal expenditure to strengthen fiscal management and credibility. The planned cuts in wage bill are on track with the budget. In the medium term, the current expenditure will be kept at the same rate as a percentage of GDP. Expenses related to agriculture, education, and health will be increased by about 10 percent each. The capital expenditure will also increase by about 15 percent in 2011, with expected funding comes primarily from external sources.

6. In the authorities' view, long-term fiscal consolidation efforts require long-term commitment toward improving revenue collection, prudent expenditure and cautious borrowing. Great care will be given to new concessional borrowings to finance necessary infrastructure and growth-enhancing projects, with the objectives to progress toward achieving the MDGs by 2015. Assistance and grant from development partners will help contribute significantly to these objectives.

Monetary and exchange rate policies

7. The characteristic of the economy this year is shown by slowly depreciating exchange rates, smoothly declining interest rates in the credit market, and easing inflationary pressure. The authorities believe that in a highly dollarized economy like Cambodia, exchange rate stability serves the country well and help anchor inflation expectation. Since May this year the National Bank of Cambodia (NBC) has injected over US$ 40 million into the economy to stabilize the foreign exchange market. The depreciation of the riel was a result of the increased government's spending in local currency associated with the stimulus package implemented since last year.

8. The monetary policy easing had been withdrawn and policies going forward will remain unchanged although closer attention is paid to the credit quality and the banking system liquidity overhang. The NBC are monitoring the system liquidity on a daily basis

to avoid undue pressures on inflation and the exchange rate. They plan to set up less-costly money market instruments such as certificate of deposits and monetary stabilization bonds to promote interbank markets and improve the efficiency of monetary policy. They reiterate their stand to leave the reserve requirement ratio unchanged at 12 percent on foreign currency denominated deposits and 8 percent for domestic currency denominated deposits. As deposit increases, broad money and credit to the private sector are expected to increase at a similar annualized rate of over 20 percent. The foreign exchange reserve has also increased to a more comfortable level.

Financial and banking issues

9. The financial sector is growing rapidly. The banking sector total assets currently stand at about half of the size of GDP. Cambodia is expected to set up its money and capital markets in the near future, as outlined in the Financial Sector Development Strategy 2006-2015. However, much of the prerequisite works remain to be done for the groundbreaking. The requested FSAP diagnostic on the financial system earlier in the year has produced welcoming results. The authorities are committed to implementing the FSAP recommendations as highlighted in the FSSA report. Preparation is under way with assistance from the MCM to lay out a plan to implement the FSAP recommendations with short-term priority given to enhancing capacity in bank supervision, strengthening liquidity forecasting and monitoring framework, and preparing legal base for harmonizing coordination among supervisory agencies, and with medium-term priority given to developing crisis management framework and improving laws and regulations. These developments present serious challenges to the authorities' limited capacity and they have requested the Fund's technical assistances in these areas.

10. The banking system remains sound as banks are adequately capitalized. Customer confidence in the system remains strong despite sudden withdrawals by depositors following the unrest at the border last year. The run on deposits only occurred at a few branches located near the border and on a very small scale. The effect on customer confidence was very minimal as deposits kept increasing afterwards. During the crisis, non-performing loans (NPLs) were rising and banks' balance sheet provisions were made appropriately. However, as the economy started to recover, business profits have resumed, NPLs have fallen, and banks' capital adequacy ratios have remained well above regulatory threshold. The stress test result conducted by the FSAP team was very helpful. The NBC will monitor closely the level of NPLs and ensure that the unlikely breaking-point NPL ratio for each bank will not materialize.

11. The NBC's efforts to reform the banking sector, especially the current recapitalization reform, have made remarkable results. So far, over 90% of banks are well recapitalized. The authorities are enforcing the remainder to fully comply with the regulation. On the AML/CFT, the AML/CFT Law was promulgated in 2008 and the Financial Intelligence Unit (FIU) was formed and housed under the central bank umbrella

with the Board of Directors consisting of representatives from the Council of Minister, the Ministry of Justice, the Ministry of Interior, the Ministry of Economy and Finance and the NBC. The body is responsible for receiving, analyzing, and disseminating reports on suspicious transactions and other information regarding AML/CFT.

Structural Reforms

12. The authorities have stepped up efforts to improve business climate and create an environment conducive to promote private sector-led growth. They have put in place measures to develop agriculture, agro-processing industry and SMEs and to diversify export base. One of the main challenges to the initiatives is the lack of capital investment. They invite the private sector to help contribute in this area. Cambodia also faces other challenges such as the lack of skilled workforces (especially middle management level) and institutional capacity, and the need for improved competitiveness, trade facilitation, border efficiency and infrastructure development. They have expressed commitment to overcome these challenges. They welcome participation from all development partners and private sector in this regard.

13. One of the good news is that domestic hydro energy production will come on stream by 2012. This will help reduce the production costs and improve Cambodia's price competitiveness. However, in terms of human resources, the objective is to produce the right people for the right jobs for the economy. To produce skilled workforces, vocational trainings are needed. We also need to strengthen institutional capacity. These objectives however will not be realized without assistance from development partners. The authorities are committed to improving trade facilitation and border efficiency. Further efforts are needed to develop infrastructure especially in the rural areas. A new Anti-corruption Law has been passed by the National Assembly and an Anti-Corruption Body has been set up to implement and enforce the Law.

Conclusion

14. The authorities have learned from the recent crisis experience and transformed it to an opportunity to identify their own weaknesses and to take steps to scale up reforms aimed at addressing those weaknesses and develop a framework for sustainable medium- to long-term growth. However, due to the country's limited resources and policy spaces at the current juncture, joint participations among all stakeholders including the government, private sector and development partners are much needed. The authorities would like to underscore their commitment to reforms supported by technical assistance from all development partners including the Fund and the Bank.