INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/2

CAMBODIA

2012 ARTICLE IV CONSULTATION

January 2013

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 2012 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 5, 2012, 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 November 16, 2012. 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.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its December 3, 2012 discussion of the staff report that concluded the Article IV consultation.
- **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 2012 ARTICLE IV CONSULTATION

November 16, 2012

KEY ISSUES

Context: Despite the global slowdown, Cambodia's economic performance has been holding up driven by resilient exports, robust tourism, and construction. However, a fragile global economic outlook, rapid credit growth, and potentially extreme weather conditions continue to pose significant risks. Discussions focused on fiscal and financial sector policies to address near-term risks and, supported by appropriate structural reforms, help reduce structural vulnerabilities and create more self-sustaining and inclusive growth. Notwithstanding mixed progress, the authorities have remained fully committed to implementing past surveillance recommendations, including rebuilding fiscal space, improving the credibility of monetary policy, and implementing key 2010 FSAP recommendations.

Creating more fiscal space: Rebuilding fiscal space, starting with the 2013 budget and continuing to mobilize revenue over the medium term, underpins prudent fiscal and public debt management, which form the bedrock of macroeconomic stability. The government's new revenue-mobilization strategy should fully leverage on simultaneous reforms in revenue administration, tax policies, and governance. Careful management of fiscal risks by monitoring contingent liabilities is the key to safeguarding fiscal space.

Improving monetary policy and financial supervision: While inflation is expected to remain low, private credit has continued to grow rapidly with limited availability and use of instruments of control. Given the robust economic expansion, the recent increase in the reserve requirement constitutes a critical step toward safeguarding financial stability, although further increases and additional measures may be needed to guard against excessive risk taking by banks. Developing an interbank market remains a necessary first step for a transition to more effective and market-based monetary policy operations. Main priorities in implementing 2010 FSAP recommendations are establishing an adequate and well-coordinated system of financial supervision, and further strengthening the supervisory capacity.

Promoting broad-based and inclusive growth: Improvements in macroeconomic management can enable a virtuous cycle of more self-sustaining and inclusive growth if they are supported by steadfast structural reforms to facilitate private sector-led economic diversification, improve public finance management, and ensure greater efficiency of public spending and budget transparency.

Approved By
David Cowen (APD) and Masato Miyazaki (SPR)

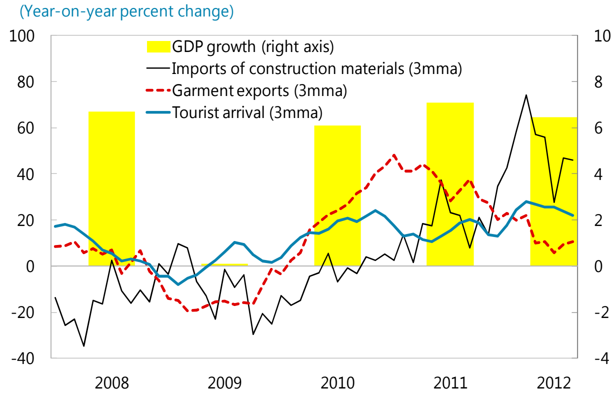
Discussions took place during September 25–October 5, 2012. The staff team comprised Messrs. Unteroberdoerster (head), Feridhanusetyawan, Rungcharoenkitkul (all APD), Ms. Wang (MCM), and Mr. Ahmed (Resident Representative). Messrs. Chia and Kith (both OED) also participated. The team met with Deputy Prime Minister and Minister of Finance Keat Chhon, Deputy Prime Minister Sok An, National Bank of Cambodia Governor Chea Chanto, and other senior officials.

CONTENTS

OUTLOOK AND RISK

1. **Growth and inflation:** Despite the global slowdown, Cambodia's economy has been holding up, driven by resilient exports and tourism and a strong real estate recovery (Figure 1 and Table 1). Although moderating, garment exports continued to expand by 10 percent (y/y) during the first three quarters of 2012, in part thanks to improved access to the European Union. Tourist arrivals have been particularly robust, benefitting from new flight routes. Construction activity is picking up thanks to the real estate rebound, in part fuelled by rapid credit growth, and the 2011 flood impact on agriculture has been much less severe than expected. Real GDP growth is projected at 6½ percent in 2012, a slight moderation from last year, and to reach its potential of about 7½ percent over the medium term (Table 2). This outlook depends on improvements in the global economy and continued reforms to upgrade infrastructure and promote economic diversification, as well as enhance public sector revenue and service delivery. Despite the recent increase in global food prices, headline inflation has decelerated and is expected to average 3–4 percent in 2012–13 amid stable domestic food prices.

Cambodia: Selected Activity Indicators
(Year-on-year percent change)



Sources: Cambodian authorities; and IMF staff estimates and projections.

2. **External stability:** Notwithstanding a widening current account deficit, Cambodia's overall external position has remained stable.

- ***The current account deficit*** (including official transfers) is projected to peak at 10 percent of GDP in 2012, reflecting moderating exports and temporarily higher imports related to large infrastructure projects, but the deficit remains fully financed by large foreign direct investment (FDI) and official loans (Figure 2). Over the medium term, the deficit would narrow to 5½ percent of GDP, broadly in line with estimates of Cambodia's savings-investment norm, driven by robust export growth on improved competitiveness and diversification, and slower import growth reflecting the completion of large projects (Table 3).[1]

- ***Gross official reserves*** have continued their steady rise to US$3.4 billion in September, about four months of prospective imports. This reserve coverage appears to be adequate considering

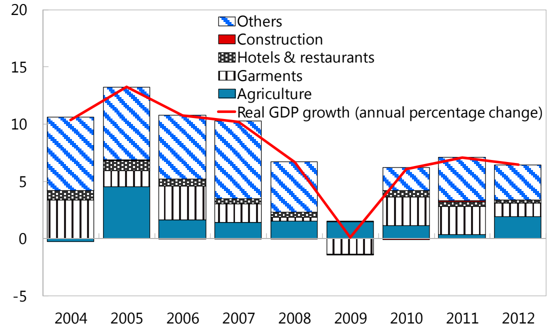
[1] In addition to the macroeconomic balance, the equilibrium exchange rate approach does not point to evidence of exchange rate misalignment either with medium-term estimates ranging between –½ percent to less than 4 percent of misalignment. However, firm conclusions from such models cannot be drawn, given Cambodia's weak data, rapid structural change, and high degree of dollarization.

Figure 1. Cambodia: Growth Is Holding Up, But Exposure to Risks Is Also High

Real GDP growth continues at postcrisis high, supported by garment, agriculture, and tourism.

Contribution to Growth, 2004–12

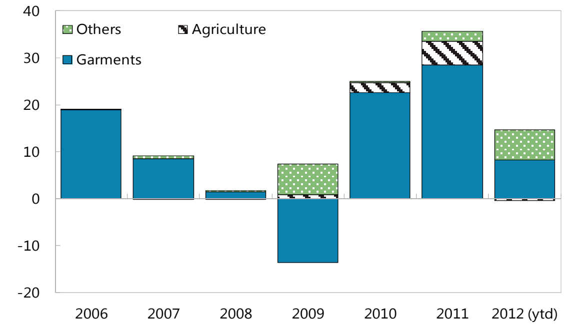
(In percent)



Export growth is moderating in line with lower external demand, but it remains at a double-digit rate.

Contribution to Export Growth

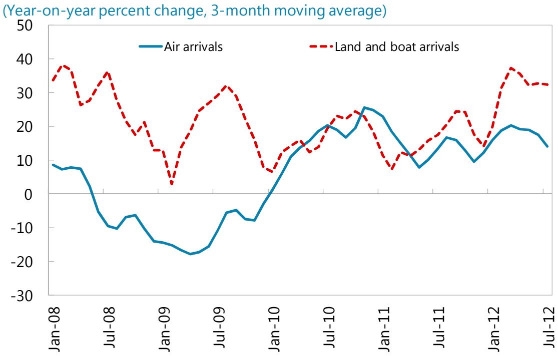
(In percent)



Tourist arrivals have been robust, in particular from Asia thanks to new direct flight routes.

Tourist Arrivals, 2008–12

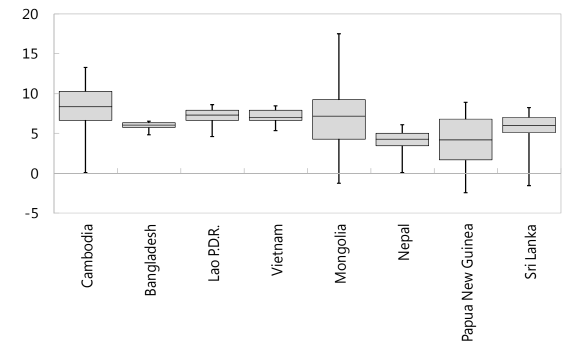
(Year-on-year percent change, 3-month moving average)



But growth as a whole has been volatile by relying on a few sectors that are vulnerable to external shocks and extreme weather.

Volatility of GDP Growth, 2000–11

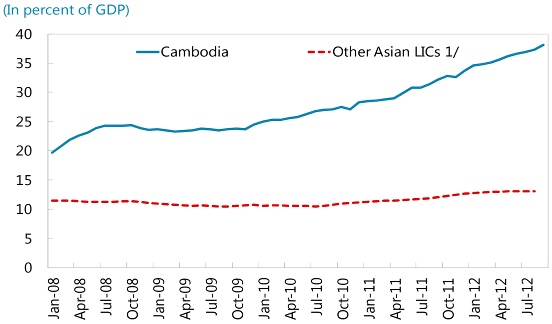
(In percent)



In addition, rapid credit growth in recent years points to growing financial stability risks…

Credit to Private Sector

(In percent of GDP)

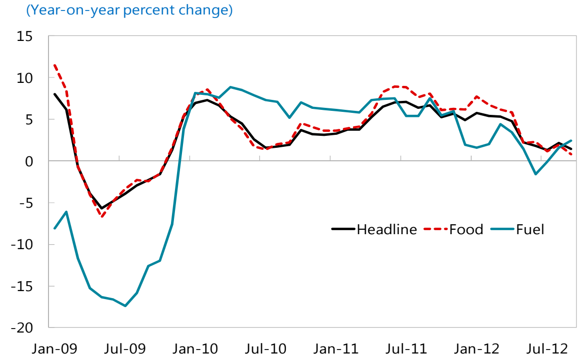


1/ Bangladesh, Lao P.D.R, Mongolia, Myanmar, Nepal, and Sri Lanka.

…while inflation remains benign, as domestic food and fuel prices stabilize.

Inflation, 2009–12

(Year-on-year percent change)

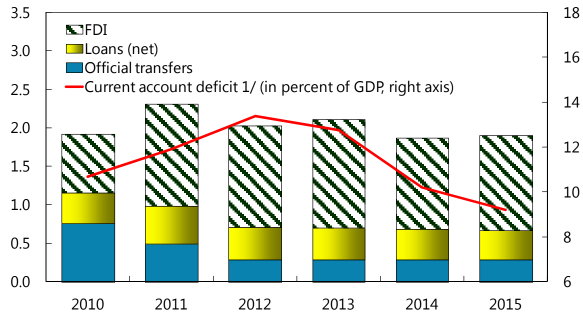


Sources: Cambodian authorities; IMF's *World Economic Outlook*; and IMF staff estimates.

Figure 2. Cambodia: A Stable External Position Despite a Widening Current Account Deficit

The current account deficit remains fully funded by FDI, official loans, and grants, and is projected to narrow over the medium term...

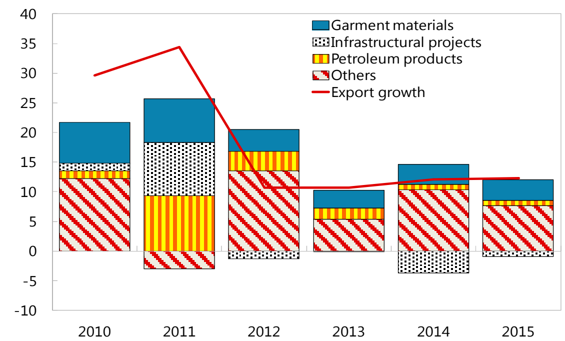
Current Account Deficit and Financing Flows, 2010–15
(In billions of U.S. dollars)



1/ Current account balance excluding official transfers.

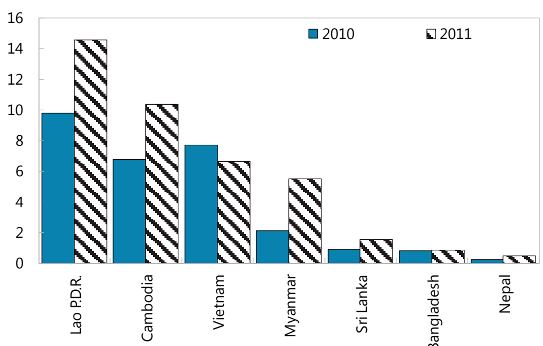
... partly because of lower imports related to infrastructure projects.

Contribution to Import Growth, 2010–15
(In percent)



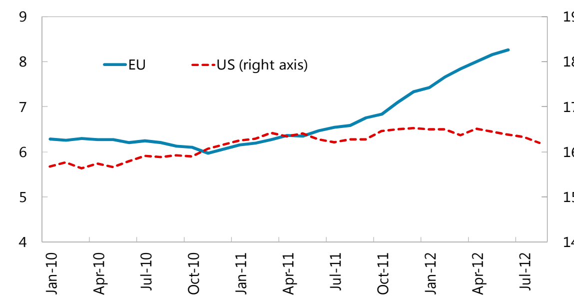
Cambodia has performed well in attracting FDI compared to other countries in the region

Foreign Direct Investment
(In percent of GDP)



Cambodia's share in the EU garment market also continues to edge up.

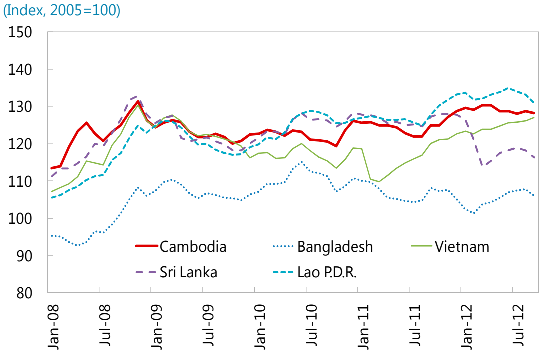
Garment Export Market Share, 2010–12 1/
(In percent, 12 mma)



1/ Share of Cambodia in Asian LICs' (Bangladesh, Cambodia, Sri Lanka, and Vietnam) garment exports.

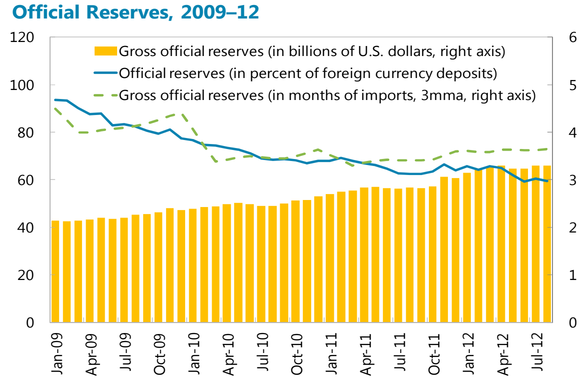
The real effective exchange rate has remained close to its postcrisis average and broadly in line with regional trends.

Real Effective Exchange Rate, 2008–12
(Index, 2005=100)



Official reserves continue to grow, covering more than four months of imports, but are falling behind the fast pace of financial intermediation.

Official Reserves, 2009–12



Sources: Cambodian authorities; Eurostat, IMF's *World Economic Outlook* database, and IMF staff estimates.

the high degree of dollarization, with privately held foreign currency deposits at about 1½ times of gross official reserve, and the long-term nature of most of Cambodia's external debt. On the other hand, the high degree of dollarization is severely limiting the central bank's lender-of-last-resort capability. Therefore, a higher level of optimal reserves may be warranted, even though the associated confidence effects are difficult to quantify.

- ***The real effective exchange rate (REER)*** has moved sideways since the 2008 global crisis consistent with this overall stable external position and offering little evidence of a fundamental misalignment.

3. Risks and policy responses: The outlook is subject to considerable risks, stemming from the fragility of the global economy and a range of domestic factors, including potential labor market instabilities and extreme weather. Spillovers from a deepening euro area crisis and severe global financial turbulence could be significant, but the impact so far has been relatively contained given Cambodia's special zero-tariff access to the European Union, and no signs of an adverse impact on the financial system. Should downside risks materialize, however, the policy space to cushion their impact would be limited. A high degree of dollarization constrains the effectiveness of monetary policy, leaving fiscal policy as the main tool to preserve macroeconomic stability. The slow pace of fiscal consolidation during the past two years means that the fiscal buffers are limited and the room for policy maneuver remains severely curtailed. The authorities shared the views on the main risk factors to the outlook and the limited policy space to address adverse shocks, but expected that this year's growth would be as strong as last year's owing to resilient domestic demand.

Cambodia: Risk Assessment Matrix (RAM)1/

Likelihood	Potential Impact
Intensification of the euro area crisis	
Medium	**High**
Economic recession in Europe and severe financial turbulence could lower Cambodia's exports, reduce the number of tourists from the European Union, and have contagion effects on the financial system.	Cambodia is vulnerable due to its high export dependence and narrow export base (80 percent garments, mostly for the U.S. and EU markets). The adverse impact has been mitigated by preferential access to the European Union, and the growing importance of Asian tourists. Direct financial exposures are small, but the effects are difficult to quantify.
World food price shock	
Medium	**Medium**
Rising global food prices could create inflationary pressure in Cambodia.	The impact is likely limited because rice prices have been stable and are affected primarily by domestic factors.
Labor disputes	
Medium	**Medium**
Intensified labor strikes could disrupt textile production.	Lower textile production could create a drag on growth in 2012–13. Prolonged labor disputes and strikes could erode Cambodia's competitiveness over the medium term.
Extreme weather	
Medium	**High**
Extreme weather conditions (drought or flood) could lower agricultural production.	The shortfall in agricultural production would have a severe impact on growth , and the social impact on farmers and rural population could be serious.
Fiscal risks	
Medium	**High**
Slowdown in the decision making process and weaker budgetary control during the election years could affect fiscal reforms.	Lack of progress in revenue mobilization and potential spending overrun during 2013 election year would hamper the efforts to rebuild fiscal space.
Financial sector risk	
Medium	**High**
Continued rapid credit growth could jeopardize macroeconomic and financial stability, and increase contingent fiscal liabilities.	Excessive risk taking by banks could result in a deterioration of asset quality and a decline in confidence during a downturn. High degree of dollarization limits the lender-of-last resort capacity of the central bank.

1/ It shows events that could materially alter the baseline path. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

KEY ISSUES FOR THE CONSULTATION

A. Creating More Fiscal Space Through Revenue Mobilization

4. Context: Rebuilding fiscal space over the past two years has fallen short of initial budget targets set during previous Article IV consultations.

- In 2011 revenue collection stayed flat in terms of GDP, compared to a ½ percentage point of GDP increase targeted by the Public Financial Management Reform Program (PFMRP). Although current spending remained under control, the overall fiscal balance deteriorated because foreign-financed capital spending was substantially larger than budgeted, indicating that control of donor-financed capital spending remains fragmented.

- In 2012, however, tax collection up to August rose by nearly 1 percentage point of GDP over the same period in 2011, thanks to improved revenue administration underpinned by the hiring of some 200 new tax auditors and buoyant domestic demand. Provided that current spending remains in check, the fiscal deficit including grants is projected to narrow to 3¼ percent of GDP while domestic financing would drop by ¾ percentage point of GDP and be nearly eliminated (Figure 3, and Tables 4 and 5).

- Nevertheless, the stock of government deposits, the only readily available fiscal buffer for Cambodia, is expected to decline to about 4 percent of GDP in 2012, about half its precrisis level and only 1¼ percentage points of GDP above the minimum threshold to sustain financing shocks (IMF CR 12/46, Box 1).

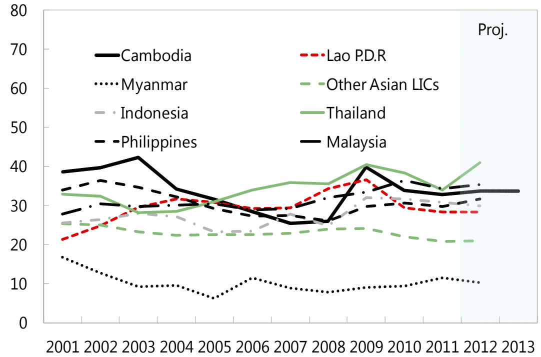
- Against this background, discussions focused on ensuring that the 2013 budget would lock in gains from improved revenue performance and pave the way for further fiscal consolidation, formulating a comprehensive medium-term revenue mobilization strategy (RMS), and minimizing fiscal risks from contingent liabilities.

5. Striking a careful balance in the 2013 budget: The staff and authorities agreed that in line with past staff's advise, fiscal policy should remain anchored in rebuilding government deposits and maintaining long-term fiscal debt sustainability, while providing adequate financing for Cambodia's vast development needs. In particular:

- Staff welcomed the intention in the 2013 budget proposal to begin rebuilding the deposit buffer by about riel 100 billion through further raising of revenue collection by ½ percentage point of GDP and restraining the overall current expenditures, despite an increase in the public wage bill of about ¼ percentage point of GDP.

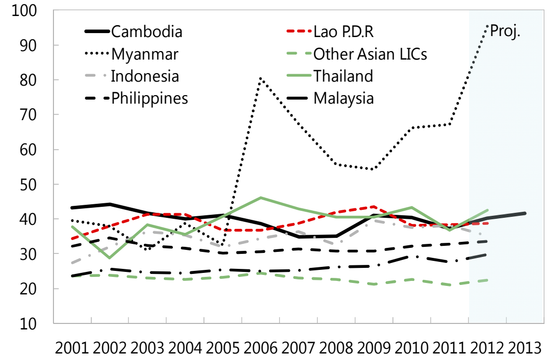
- The authorities concurred with staff on the need to resist further calls for public wage increases in the election year. From a cross-country perspective, Cambodia's wage bill at about 4¾ percent of GDP (after the increase) is comparable to that in other Asian low-income countries, but as a share of domestic revenue and current expenditure, its burden is higher than for most comparator countries.

Cambodia: Wage Spending
(In percent of domestic revenue)



Sources: Cambodian authorities; and IMF staff estimates and projections.

Cambodia: Wage Spending
(In percent of current expenditure)



Sources: Cambodian authorities; and IMF staff estimates and projections.

- There was also broad agreement that in light of the limited fiscal space, contingency planning for a potential economic downturn should focus on accelerating high-impact social and infrastructure outlays under existing medium-term development projects and ensuring the effectiveness of this spending.

- The 2013 budget would also pave the way for implementing the authorities' commitment to gradual fiscal consolidation over the medium term while maintaining an adequate level of capital spending. Reducing the fiscal deficit (excluding grants) from about 6 percent of GDP in 2012 to less than 3 percent in 2017 would reduce public external debt to the precrisis level of 27 percent of GDP by 2017 and help replenish government deposits to about 5–6 percent of GDP over the medium term. It would thus bolster Cambodia's low risk of debt distress rating and its ability to absorb future shocks.[2]

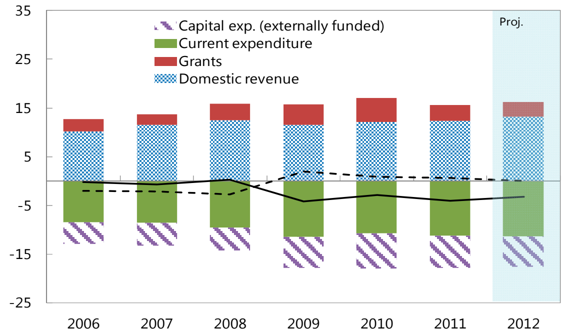
6. **Mobilizing revenue:** Greater mobilization of fiscal revenues is imperative to rebuild government deposits in order to avoid undesirable spending cuts in the near term, and to meet Cambodia's vast development needs and maintain fiscal sustainability in the long term. Staff strongly supported the government's plan of an RMS and provided inputs to a strategy that prioritized recommendations consistent with various IMF technical assistance (TA) efforts into a set of achievable and well-sequenced measures. To make greater revenue mobilization self sustaining, staff also emphasized that the strategy should rely on an integrated approach of improving revenue administration, implementing fair and efficient tax policies, and strengthening governance (Box 1 and Table 6). The authorities broadly agreed with the three-pronged approach and the policy priorities, and they plan to start with easy,

[2] The accompanying Debt Sustainability Analysis indicates that Cambodia's debt distress rating remains low. External debt disbursement is projected at about 2–3 percent of GDP per year with key funding parameters, including the degree of concessionality and the lack of a domestic debt market, broadly unchanged from past trends. Under an alternative scenario of limited reform progress, however, there would be less scope for absorbing risks (Supplement 1).

Figure 3. Cambodia: Creating Fiscal Space Through Revenue Mobilization

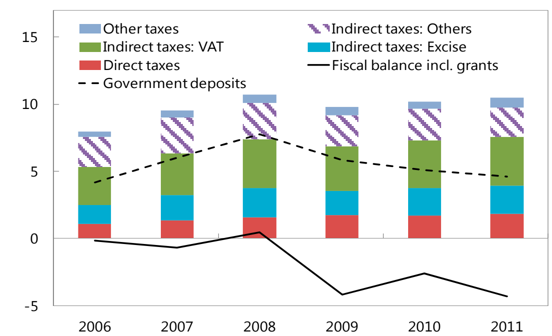
The fiscal position has improved since 2009, but progress in fiscal consolidation has been slower than expected.

Fiscal Balance
(In percent of GDP)



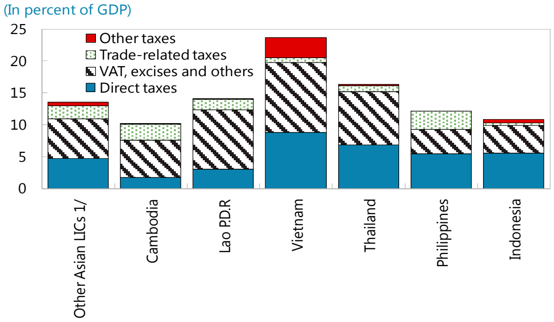
Revenue collection has not reached the precrisis level, and the fiscal space has continued to decline since then.

Cambodia: Fiscal Revenue and Government Deposits
(In percent of GDP, GFSM86)



Cambodia's tax collection remains low by regional standards, particularly the collection of income and profit taxes.

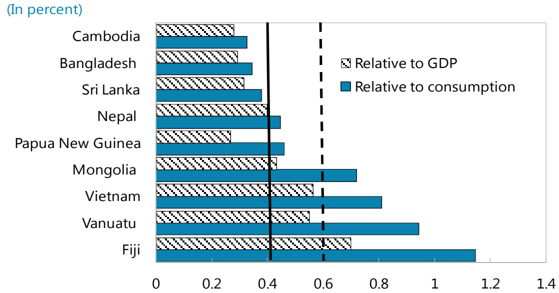
Revenue Composition: Tax Structure and Levels, 2010
(In percent of GDP)



1/ Average of Bangladesh, Bhutan, Mongolia, Nepal, and Sri Lanka. 2009 data for Bangladesh and Bhutan, 2008 for Mongolia, 2011 for Nepal and Vietnam.

Apart from tax policy, revenue mobilization also requires improvements in tax administration…

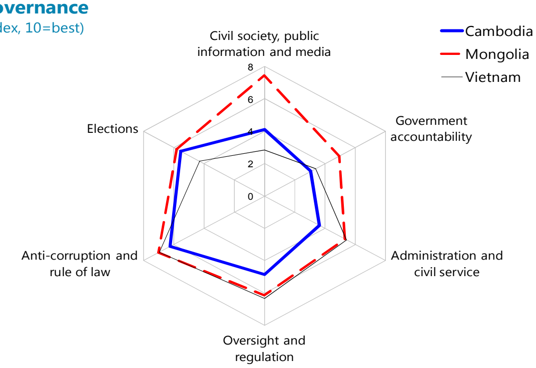
Asian LICs: VAT Productivity 1/ 2/
(In percent)



1/ Proportion of effective to nominal tax rate; effective tax rates are caculated as proportion of annual collection to consumption and GDP.
2/ Lines are averages, relative to GDP (solid), and consumption (dotted).

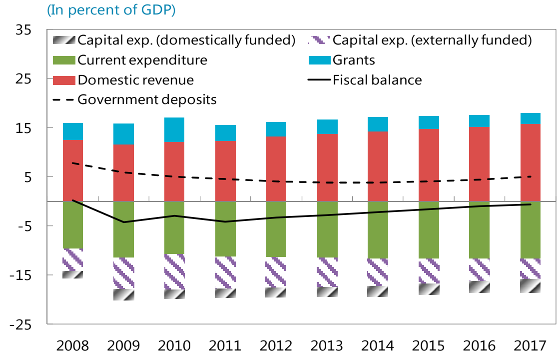
…and strengthening governance, including accountability and transparency.

Governance
(Index, 10=best)



Revenue mobilization is critical to rebuild fiscal buffers and maintain fiscal sustainability over the medium term.

Cambodia: Medium-term Fiscal Outlook
(In percent of GDP)

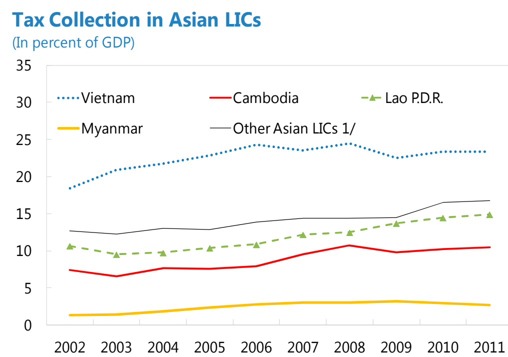


Sources: Cambodian authorities; IMF's Government Finance Statistics and World Economic Outlook; Globalintegrity.com; and IMF staff estimates.

Box 1. Revenue Mobilization: Challenges and Priorities

Cambodia has made progress in increasing revenue collection but challenges remain. Comprehensive tax policy and administration reforms took place during the past two decades, including the establishment of a Large Taxpayer Department (LTD) and the introduction of an automated customs clearance. As a result, domestic revenue increased from 6½ percent of GDP in 2003 to more than 10 percent in 2008. Since then, however, revenue has stayed flat in terms of GDP, although there have been signs of improvement in 2012.

Greater revenue mobilization will likely only become harder over time. Cambodia's tax-to-GDP ratio remains low by regional standards, mainly because of weak administration. Moreover, apart from domestic taxes, revenue growth may slow over time with the contribution of trade taxes in total revenue set to decline with ASEAN Free Trade Area implementation.



Sources: Cambodian authorities; and IMF staff estimates.
1/ Average of Bangladesh, Bhutan, Mongolia, Nepal, and Sri Lanka.

An integrated approach is needed to make greater revenue mobilization self sustaining. Cambodia's revenue mobilization should rely on a three-pronged strategy: improving revenue administration, implementing fair and efficient tax policies, and strengthening governance. Simultaneous reforms in these three areas are critical because good progress in one area would create positive feedback to the others, making revenue mobilization more effective and self sustaining. For example, reforming tax administration focusing on good taxpayer services and collecting tax arrears would make the tax system de facto more efficient and fairer while at the same time improve compliance and reduce the incentives for corruption and evasion. Successful tax reforms in many developing countries have relied on an integrated approach where strengthening revenue administration and reforming tax policy, supported by strong political will and technical capacity, play a critical role in enhancing revenue collection.

To prioritize policy actions, the focus should be on those measures that would generate substantial additional revenue, create strong positive externalities, and can be implemented with low or medium cost. These include:

- ***Revenue administration*****:** Collecting tax debt and improving the performance of the LTD would raise additional revenue in the near term. For example, total tax debt is estimated at 4 percent of GDP. Reprioritizing reform plans toward revenue-generating activities, establishing taxpayer services, developing human resources and information technology, and strengthening revenue forecasting would sustain revenue efforts going forward.

- ***Tax policy:*** Reforming value-added tax (VAT) and excise taxes would generate an immediate revenue impact. For example, bringing the VAT productivity to a level comparable with those in other Asian low-income countries would yield additional revenue of 1½ percent of GDP (IMF CR 11/45). Continued rationalization of tax exemptions and incentives, corporate and personal income taxes, and property taxes would help raise revenue over the medium term.

- ***Governance:*** Strengthening oversight and accountability of tax institutions and promoting transparency are critical to improve the performance and credibility of tax institutions.

implementable, and low-cost measures. They also plan to build consensus during a participatory process in the coming months and present the RMS to the new government after the 2013 general election.

7. Minimizing fiscal risk: As highlighted in the 2011 Article IV consultation, contingent liabilities related to the development of power generation and transmission projects under public-private partnership (PPP) constitute a substantial fiscal risk (IMF CR 12/46, DSA). The size of the projects (about 50 percent of 2011 GDP) and the difficulty to quantify the liabilities ex ante require continuous and careful monitoring. The authorities indicated that efforts are underway through a subdecree to the recently published public debt management strategy to strengthen the evaluation, contracting, and monitoring of contingent liabilities, including in the preparation for a review of the legal framework for PPPs and the development of a new guarantee policy. However, apparent information gaps remain between government agencies on the size and status of contracts and embedded government guarantees. Staff recommended improving information sharing with a view to setting up a central PPP-monitoring unit with "gateway powers" to evaluate and approve new PPP projects, enhancing fiscal transparency by adopting a ceiling on PPP guarantees, and listing all contingent liabilities and underlying guarantees in annual budget laws. The authorities are committed to further enhancing budget transparency and control and are seeking TA from various donors to bring practices closer in line with staff's recommendations.

B. Improving Effectiveness and Credibility of Monetary Policy

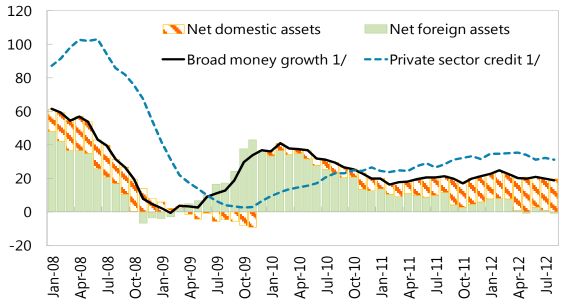
8. Context: Given a high degree of dollarization and absent an interbank market, the National Bank of Cambodia's (NBC) control over monetary conditions remains limited with the exchange rate against the U.S. dollar continuing to serve as an important nominal anchor.[3] Inflation has moderated and is expected to average about 4 percent in 2013, reflecting stable global commodity prices and domestic food supply, as well as alleviating supply constraints related to infrastructure improvements. However, recent developments suggest that the challenges to monetary policy are shifting. Private credit has continued to grow rapidly, fuelled by easy domestic and, to a lesser extent, global financial conditions (Figure 4 and Table 7). Private sector credit growth in Cambodia—at over 30 percent through September—is among the highest in Asia. At this rate of expansion, the size of private credit relative to GDP, which is already substantially higher than for comparator countries, is quickly deviating from Cambodia's past trend of financial deepening (Box 2). Meanwhile the coverage of foreign currency deposits by official reserves has steadily fallen, further limiting the NBC's capacity to act as a lender-of-last resort. In view of this, discussions focused on steps to further improve monetary policy effectiveness and credibility, in particular by addressing macrofinancial risk and developing the interbank market.

[3] The current IMF classification of the exchange rate regime is "stabilized."

Figure 4. Cambodia: Buoyant Credit Conditions amid Ample Liquidity

Growth in money supply is increasingly driven by expansion in net domestic assets…

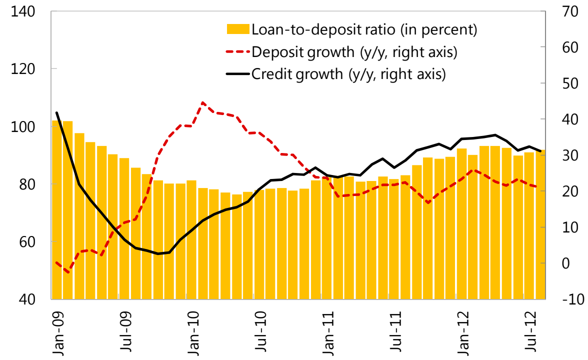
Monetary Developments, 2008–12
(Contribution to broad money growth, in percent)



1/ Year-on-year percent change.

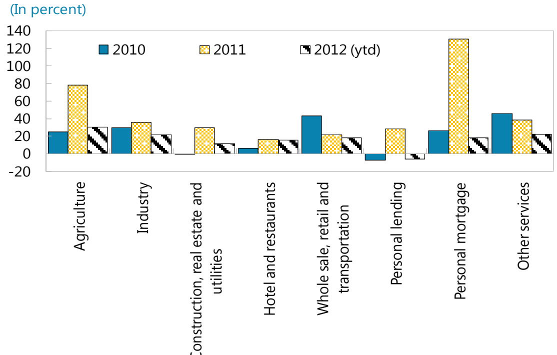
…as banks' risk appetite gathers strength, pushing up the amount of loans relative to the deposit base…

Deposit and Credit Growth, 2008–12



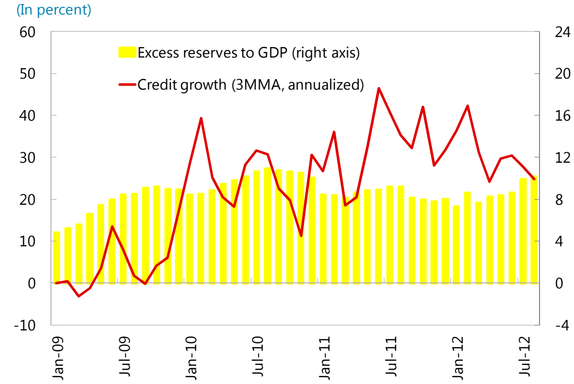
…meeting a broad-based pickup in credit demand.

Credit Growth by Sector
(In percent)



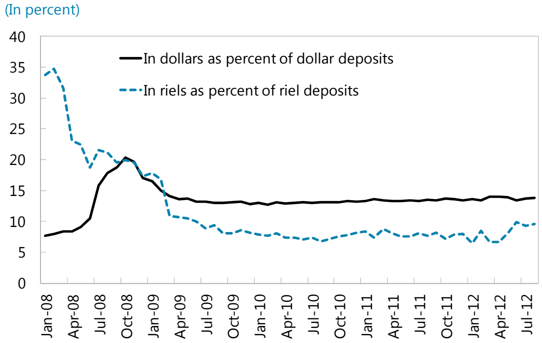
Liquidity remains ample and banks have plenty of room to further expand credit supply…

Credit to the Economy and Excess Reserves, 2008–12
(In percent)



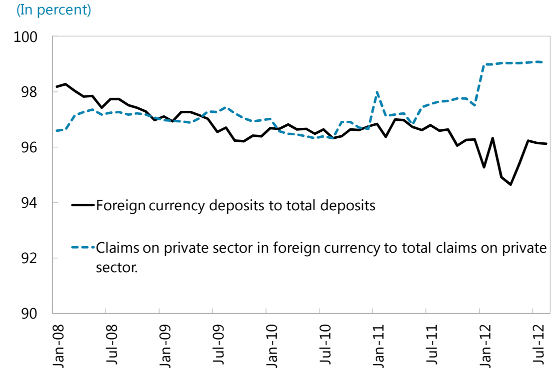
…notwithstanding the recent rise in reserve requirements.

Effective Required Reserves, 2008–12
(In percent)



The degree of financial dollarization is stubbornly high, even rising.

Dollarization, 2008–12
(In percent)



Sources: Cambodian authorities; and IMF staff estimates.

9. Addressing macrofinancial risk: Staff welcomed the recent rise in the reserve requirement for foreign currency deposits by 50 basis points from its postcrisis low of 12 percent, which is consistent with the robust economic expansion and constitutes a critical step towards safeguarding financial stability. Given rapid credit growth and the still-large excess liquidity in the banking system, further gradual increases may be warranted. At the same time, recent developments also suggest that the transmission from higher reserve requirements to interest rates and credit activity may have been weakened further. Therefore, staff also recommended to consider adopting complementary macroprudential measures that could help curb credit growth and increase banks' risk buffers, while minimizing any potential distortions (for a preliminary assessment see Box 2). The authorities broadly agreed with staff's assessment and the potential need for further increases of the reserve requirement. Given their uncertain impact, they prefer to move gradually, allowing continuous monitoring of changes in domestic financing conditions and for signaling effects to take hold. In addition, the authorities are also considering a range of complementary macroprudential measures to safeguard financial stability, without penalizing those banks with relatively strong lending standards. The IMF stands ready to provide TA as the NBC further evaluates its options by striking a careful balance between ease of implementation, effectiveness, and competitive distortions of such measures.[4]

10. Developing an interbank market: An interbank market is an important first step toward more effective and market-based monetary policy operations. Upon request by the NBC, staff provided a strategy note arguing that the introduction of negotiable riel and U.S. dollar-denominated certificates of deposits (NCDs), issued by the NBC and to be used as collateral to help kick-start an interbank market, should be at a controlled pace, carefully communicated, and accompanied, as needed, by the use of available tools to ensure consistency with the national strategy of promoting the riel.[5] The authorities agreed with staff's recommendations and asked for further TA to operationally launch NCDs, including setting up the auction mechanism and developing the secondary market for them. Staff welcomed the NBC's efforts to consult with the Bankers' Association to help ensure the success of the initiative. In addition, there was agreement that a well-functioning foreign exchange market would support the interbank market, with staff welcoming progress made by the NBC in line with IMF TA in encouraging private wholesalers' participation in the foreign exchange market.[6]

[4] Sectoral lending guidance, a tool used by the NBC in the past, has also been discussed, but, so far, credit growth has been broad based. While personal mortgages have expanded at a faster-than-average rate, growth has been from a small base and associated risks have been mitigated by the creation of the Cambodia Credit Bureau in March 2012.

[5] The NBC remains committed to this strategy (IMF CR/11/45) through a gradual approach with market-based incentives in favor of the local currency.

[6] Since mid-2011, the NBC has stopped buying riel directly from the Electricité du Cambodge (EDC), the state-owned electricity company, and instead has been facilitating transactions between EDC and money changers and to lesser extent commercial banks.

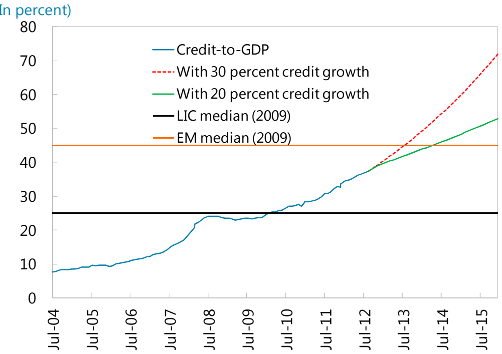
Box 2. When Is Credit Growth Too Fast and How To Deal With It?

Cambodia's financial system appears to be shifting from normal deepening to excessive credit growth

- Cambodia's financial system is expanding rapidly. With private credit growing at over 30 percent in the past 12 months, the credit-to-GDP ratio has reached 37 percent, well above the median for low-income economies (LICs). If credit growth were to continue at the current pace, by mid-2013 the ratio would exceed even the median for more advanced emerging market economies (EM). These benchmarks suggest that the size of Cambodia's financial system has already outstripped the level that can be justified by normal financial deepening. 1/

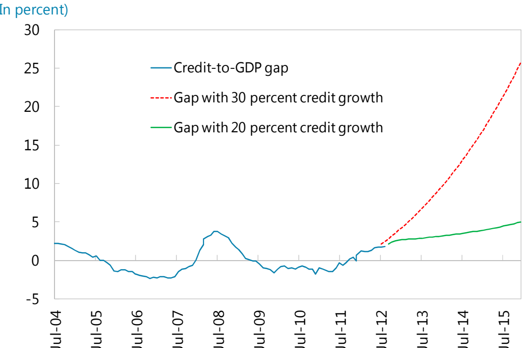
- Cambodia's past trend of credit-to-GDP is another simple proxy for the normal pace of financial deepening. To the extent that the actual ratio of credit-to-GDP deviates significantly from its trend, one might interpret it as a sign of overheating in the credit market. This 'credit gap' measure has indeed been empirically shown to be a good predictor of financial stress. /2 At 30 percent credit growth, the gap measure would rapidly widen and by early 2013 would surpass a level last seen in 2008, at the height of Cambodia's real estate boom, which ended in a bust. Projecting this expansion further shows that Cambodia's credit trajectory is clearly breaking away from the country's own long-term pace of financial deepening.

Credit to GDP Relative to Peers
(In percent)



Sources: Cambodian authorities; and IMF staff estimates and projections.

Credit Gap
(In percent)



Sources: Cambodian authorities; and IMF staff estimates and projections.

Macroprudential measures may be needed. In addition to raising the reserve requirement, currently the only tool at the disposal of the National Bank of Cambodia (NBC), consideration should be given to macroprudential measures. At present, the reserve requirement does not automatically mean tighter credit conditions as many Cambodian banks still have excess liquidity, a number of them are lowering interest rate spreads to compete for market share, and some increasingly rely on cheaper external funding from foreign banks. Commercial banks' foreign liabilities have more than doubled to US$1.2 billion in September 2012.

What measures and trade-offs? In considering macroprudential measures, the NBC must strike a balance between choosing an instrument that is simple to implement, effective in slowing credit growth, and causes the least distortions to the credit market. For example, adopting a capital surcharge would be relatively simple, create few distortions, but may be less effective in an already booming credit market where capital is boosted by profitability. Also, the capital-to-asset ratio of 29 percent reported by Cambodian banks is already much higher than the regional average. On the other hand, tightening the loan-to-value (LTV) cap, while potentially effective, may be less practical due to difficulties in asset valuations and the already low LTV (typically 35 percent) reportedly adopted by many banks. Capping the loan-to-deposit ratio, which has risen to 89 percent from 82 percent at end 2010, can also be effective, but would have a disproportionate impact on foreign bank branches that rely less on their deposit base, potentially causing distortions to competition.

1/ The benchmarks are taken from "Enhancing Financial Sector Surveillance in Low-Income Countries: Financial Deepening and Macro-Stability," IMF Policy Paper (2012), based on global samples of 35 low-income countries and 108 emerging economies.

2/ See C. Borio and M. Drehmann, *Assessing the Risk of Banking Crises—Revisited*, BIS Quarterly Review, March 2009.

C. Further Strengthening Financial Supervision

11. Context: Important challenges to financial stability remain, even if standard financial soundness indicators suggest some modest improvement in recent years (Table 8). Progress in implementing high-priority 2010 FSAP recommendations has been mixed (Table 9), reflecting in part capacity constraints and the need to forge consensus within the government. The NBC has taken a stricter stance on bank licensing, restructured its banking supervision, and addressed credit risks by introducing a new credit reporting system coinciding with the launching of a credit information bureau. However, a crisis management framework encompassing key financial supervisors is still lacking, while improving the capacity of banking supervision remains a challenge.

12. Coordinated supervision: In the absence of financial safety nets and the lack of the NBC's lender-of-last-resort capability, strengthening the financial crisis-management framework remains key to reducing systemic risks. Cambodia's recent economic upswing offers an opportune window to agree on memoranda of understanding (MoUs) between the NBC, the Ministry of Economy and Finance, and the Stock Exchange Commission of Cambodia on establishing a coordinated supervision framework. To help expedite the process, staff proposed a two-step approach: (i) identify areas where cooperation, including information sharing, can be readily achieved for the signing of an initial MoU that focuses on coordinated surveillance and crisis prevention, and (ii) agree on a time-bound process toward a second MoU on crisis resolution in order to complete the crisis management framework. The roles and responsibilities of each supervisory agency would need to be clearly defined for the purpose of responsibility and cost sharing, and further TA could be provided to help review the existing laws and regulations. The authorities agreed in principle with this two-step approach and indicated that a working group has been set up to look into areas of cooperation in information sharing, joint analysis on risk factors, and exploring the introduction of a crisis-resolution framework.

13. Risk-based supervision: The NBC has made progress in transitioning from a compliance-based to risk-based supervision. With IMF TA support, the supervision department has started to conduct risk forecasting on individual banks and on a consolidated basis. Off-site examination teams have begun to compile risk profiles to be used for making on-site inspection plans. A working group was formed to review the compliance with Basel Core Principles and has concluded a detailed assessment.

14. Supervisory capacity: Rapid expansion of the financial system and the shift toward risk-based supervision have placed an additional burden on still-stretched supervisory capacity (Box 3). In this context, staff noted that the 2010 FSAP recommendation of a bank licensing moratorium remains appropriate. To bring policies effectively closer in line with this recommendation, staff supported the NBC's more cautious stance on bank licensing procedures, which encourages potential applicants to consider mergers with existing banks. Staff also recommended focusing resources on key examination functions and strengthening training for inexperienced supervisors. The authorities concurred with staff's views and agreed to continue efforts in building supervisory capacity.

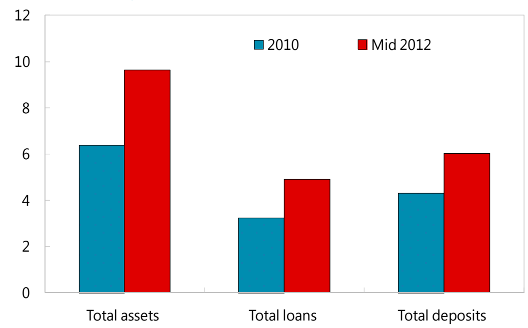
Box 3. Recent Trends in Supervisory Capacity

Ensuring adequate human resources in banking supervision has been a long-standing issue for the National Bank of Cambodia (NBC) that featured prominently in the 2010 FSAP. Notwithstanding improvements in the quality of supervision, including investments in training, data collection, and a greater focus on risk-based supervision, the relative shortage of staff, particularly the more experienced and qualified staff, has become a more binding constraint for several reasons.

First, Cambodia's banking sector has experienced rapid growth over the past years. The number of banks reached 39 by mid-2012, almost double from that in 2006, and seven more since the 2010 FSAP. The balance sheet of the banking sector has increased significantly. From 2010 to mid-2012, total bank assets and loans have both increased by more than 50 percent and total bank deposits by 40 percent.

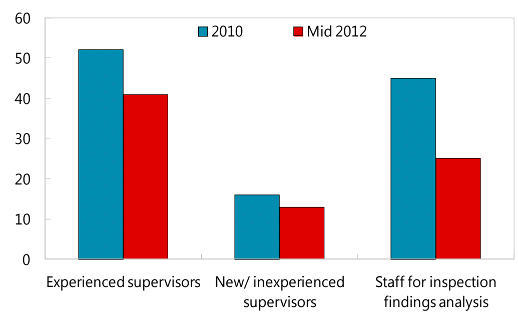
Second, in quantitative terms, banking supervisory capacity at the NBC has been stretched during the same period especially compared with the growth of the banking system. The total number of bank supervisors in the Banking Supervision General Directorate (BSD) decreased from 68 in 2010 to 54 in mid-2012.1/ Among them, experienced supervisors decreased from 52 to 41. Moreover, the transition from compliance-based supervision to risk-based and forward-looking supervision has increased the demand for experienced and qualified staff to conduct risk-profile assessments, on-site and off-site examinations, analysis of findings, and stress testing.

Development of Banking Sector
(In billions of U.S. dollars)



Source: National Bank of Cambodia.

Supervisory Capacity at the BSD 1/
(Persons)



Source: National Bank of Cambodia.
1/ BSD: Banking Supervision General Directorate of the NBC.

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1/ Even accounting for the NBC's reorganization of its supervision department and the creation of the BSD, whereby staffs on licensing and legal functions are no longer included in the BSD, the number of bank supervisors still recorded a slight decrease.

D. Promoting Diversification and Inclusive Growth

15. Context: Cambodia's economic base remains concentrated in a few sectors with growth being more volatile than in most other Asian low-income countries. Cambodia's rank of *Doing Business* indicators recently moved up five places to 133 in 2012 (between India at 132 and the Philippines at 138) out of 185 countries, thanks in part to easier credit access and better credit information with the opening of the Cambodian credit bureau in March 2012, while other indicators remained low. Infrastructure bottlenecks and skilled-labor shortages continue to hamper investment and rural development. On the other hand, relatively open trade and investment regimes and Cambodia's strategic location close to the world's fastest growing markets offer potential in terms of exports markets and inward investment. Recent FDI trends point to early signs of manufacturing diversification which is likely to be reinforced by the increased supply of cheaper electricity and efforts by multinational firms to further diversify their supply chains.[7] Meanwhile, Cambodia's progress in achieving the Millennium Development Goals (MDGs) is broadly comparable to that of neighboring countries. Cambodia is on track in reducing poverty, promoting gender equality, and combating HIV and tuberculosis, but continues to face challenges in other areas (see Table 10 for detailed indicators).

Millennium Development Goals (MDGs) Progress, 2011/12

Goal		Cambodia	Lao P.D.R	Myanmar	Vietnam	South Asia (Excl. India)
Poverty reduction	US$1.25 per day poverty	▶	▶		●	●
	Underweight children	▶	■	■	▶	▶
Education	Primary enrolment	■	■			■
	Reaching last grade	◀	■	■	▶	■
	Primary completion	▶	■	●		■
Gender equality	Gender primary	▶	▶	●		●
	Gender secondary	▶	■	●		●
	Gender tertiary	■	▶			●
Child mortality	Under-5 mortality	■	▶	■	■	■
	Infant mortaliy	■	■	■	■	■
Marternal health	Maternal nortality	■	■	■	▶	■
	Skilled birth attendance	■	■	■	▶	■
	Antenatal care (≥ 1 visit)	■	■	■	▶	■
Health	HIV prevalence	●	◀	●	●	●
	TB incidence	●	◀	▶	●	●
	TB prevalence	●	●	●	●	●
Environment	Forest cover	◀	◀	◀	●	◀
	Protected area	●	●	●	●	●
	CO_2 emissions	◀	◀	◀	◀	◀
	ODP substance consumption	●	●	●	●	●
	Safe drinking water	▶	■	■	●	▶
	Basic sanitation	■	▶	●	●	■

● Early achiever ▶ On-track ■ Slow ◀ Regressing/No progress

Source: Asia-Pacific MDG Report 2011/12.

16. Virtuous cycle of growth: Preserving macroeconomic stability and fiscal sustainability will enhance Cambodia's efforts in achieving the MDGs and long-term growth objectives. However, there was broad agreement that a sound macrofinancial management would stand a better chance of enabling a virtuous cycle of more self-sustaining and inclusive growth if it is complemented by the following structural reforms:

- ***Promoting diversification*:** The ongoing efforts in reducing infrastructure and skills bottlenecks, improving the investment climate by strengthening enforcement of the anti-corruption law and the anti-money laundering and combating the financing of terrorism (AML/CFT) regime, and promoting rural development remain important planks of reforms. The government's Rice Policy aimed at facilitating agricultural production, downstream processing, and trade, by raising productivity, enabling farmers to use land as collateral, and improving critical infrastructure, would help diversify the economy and achieve the MDGs. A better rural infrastructure would also provide better access to employment, health, and education services in rural areas, thus helping to alleviate Cambodia's rural-urban income divide and making growth more inclusive.

[7] Data from Japan International Cooperation Agency, for example, suggest that Japanese FDI in Cambodia is rising rapidly, from a commitment of about US$35 million in 2010 to some US$420 million in 2012, with the bulk of it comprising factories relocating from China.

- ***Strengthening public financial management*:** Improvements in public service delivery depend in part on progress under the PFMRP to ensure greater spending effectiveness and budget transparency. The composition of government spending including on social priority sectors is largely in line with other comparator countries, but, as indicated in a recent World Bank report, spending efficiency could be improved, including by reallocating resources towards agricultural research, scholarships and textbooks, and realizing savings in the provision of medical supplies.[8] Meanwhile, budget execution and recording of donor-financed capital spending continue to be fragmented and hamper the alignment of projects with policy priorities and medium-term budget planning. Against this background, staff called for improved coordination with donors and greater efforts by all stakeholders to adhere to new reporting procedures under the Budget Strategic Plans.

- ***Improving official data*:** Providing accurate and timely official economic and financial data would enhance policy formulation and credibility, and facilitate better and informed decisions by the private sector.

STAFF APPRAISAL

17. Economic setting: Despite the global slowdown, Cambodia's economic performance has been holding up thanks to resilient garment exports and robust domestic demand. The medium-term prospects for growth to reach its potential of about 7½ percent continue to hinge critically on the global economic recovery and ongoing reforms to upgrade the infrastructure and promote economic diversification, as well as enhance public sector revenue and service delivery. Inflation has decelerated despite the recent surge in global food prices, and is expected to remain low in 2012–13. Cambodia's external position remains stable with an adequate level of international reserves, and the REER appear to remain broadly in line with economic fundamentals.

18. Risks and policy response: Spillovers from a deepening euro area crisis and global financial turbulence continue to expose Cambodia's narrow economic base to considerable risks. On the domestic side, rapid credit growth and excessive risk taking by banks could threaten financial stability, labor market tensions could disrupt textile exports, and extreme weather conditions could affect agricultural production. Cambodia's high degree of dollarization leaves fiscal policy as the main tool to absorb shocks, but limited fiscal buffers mean that the room for policy maneuver remains severely curtailed.

19. Fiscal policy: Staff welcomes recent improvements in revenue collection and the 2013 draft budget's intention to begin replenishing government deposits. Greater revenue mobilization is imperative to rebuild fiscal buffers in the near term if difficult spending cuts are to be avoided, and to meet Cambodia's vast development needs and maintain fiscal sustainability in the long term. To make revenue mobilization self sustaining, the strategy should rely on an integrated approach of improving

[8] *Cambodia: More Efficient Government Spending for Strong and Inclusive Growth*, World Bank Report No. 61694-KH, November 2011.

revenue administration, implementing fair and efficient tax policies, and strengthening governance. Careful management of fiscal risk by better monitoring of contingent liabilities related to PPPs is also important to safeguarding fiscal space.

20. Monetary policy: Staff welcomes the recent rise in the reserve requirement, which is consistent with the robust economic expansion. The increase in the reserve requirement constitutes a critical step toward safeguarding financial stability, but further gradual increases may be warranted, and additional macroprudential measures may be needed to guard against potential excessive risk taking by banks. Staff also looks forward to the introduction of negotiable certificates of deposits (NCDs) to help develop an interbank market, which remains a necessary first step for a transition to more effective and market-based monetary policy operations.

21. Financial supervision: Progress continues to be made in implementing the 2010 FSAP recommendations, but more decisive actions are needed in establishing an adequate and well-coordinated system of financial supervision. Cambodia's recent economic upswing offers an opportune window to agree on MoUs between supervisory agencies on information exchange and crisis resolution. The NBC's overall supervisory capacity has improved, but is still stretched in view of the rapid expansion of the financial system and the shift toward risk-based supervision. In this context, the 2010 FSAP recommendation of a bank licensing moratorium remains appropriate. In addition, the AML/CFT regime needs to be strengthened.

22. Diversification and inclusive growth: A sound macrofinancial management can enable a virtuous cycle of more self-sustaining and inclusive growth if it is complemented by steadfast implementation of structural reforms to facilitate private sector-led diversification and strengthen public finance management, as well as the timely provision of economic data. The ongoing efforts in reducing infrastructure and skills bottlenecks, improving the investment climate by strengthening enforcement of the anti-corruption law, and promoting rural development remain important policy planks of making growth broader based and more inclusive. Continued progress under the PFMRP would improve public service delivery and ensure greater spending effectiveness and budget transparency.

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

Table 1. Cambodia: Selected Economic Indicators, 2009–13

	2009	2010	Est. 2011	Proj. 2012	Proj. 2013
Output and prices (annual percent change)					
GDP in constant prices	0.1	6.1	7.1	6.5	6.7
(Excluding agriculture)	-1.8	6.9	8.6	7.2	7.4
Real agricultural output	5.4	4.0	3.1	4.5	4.5
GDP deflator	2.6	3.0	3.4	3.6	3.3
Inflation (end-year)	5.3	3.1	4.9	3.4	4.6
(Annual average)	-0.7	4.0	5.5	3.1	3.8
Saving and investment balance (in percent of GDP)					
Gross national saving	11.5	14.6	14.8	13.9	13.5
Government saving	2.1	0.5	1.0	1.7	2.2
Private saving	9.4	14.1	13.8	12.2	11.3
Gross fixed investment	16.0	18.5	22.9	23.9	23.4
Government investment	8.8	9.6	8.7	8.3	8.3
Private investment 1/	7.2	8.9	14.2	15.6	15.0
Money and credit (annual percent change, unless otherwise indicated)					
Broad money	36.8	20.0	21.5	18.6	...
Net credit to the government 2/	6.2	0.8	0.0	0.2	...
Private sector credit	6.5	26.6	31.7	30.0	...
Velocity of money 3/	3.1	2.6	2.6	2.1	...
Public finance (in percent of GDP)					
Revenue	15.8	17.0	15.6	16.2	16.6
Domestic revenue	11.5	12.1	12.3	13.2	13.7
Grants	4.2	4.9	3.2	3.0	2.9
Expenditure	20.0	19.9	19.6	19.4	19.4
Expense	11.5	10.8	11.3	11.4	11.6
Net acquisition of nonfinancial assets	8.5	9.1	8.3	8.0	7.8
Net lending (+)/borrowing(-)	-4.2	-2.8	-4.1	-3.2	-2.7
Net acquisition of financial assets	-1.7	-0.3	0.0	0.0	0.1
Net incurrence of liabilities 4/	2.5	2.6	4.1	3.2	2.8
Of which: Domestic financing	1.9	0.9	0.7	0.0	-0.1
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	2,996	3,884	5,219	5,776	6,393
(Annual percent change)	-14.2	29.7	34.4	10.7	10.7
Imports, f.o.b. 5/	-4,490	-5,466	-7,260	-8,458	-9,262
(Annual percent change)	-11.5	21.7	32.8	16.5	9.5
Current account (including official transfers)	-473	-441	-1,040	-1,431	-1,548
(In percent of GDP)	-4.5	-3.9	-8.1	-10.0	-9.9
Gross official reserves 6/	2,367	2,653	3,032	3,563	3,845
(In months of prospective imports)	4.4	3.7	3.6	4.0	4.0
(In percent of foreign currency deposits)	77.4	67.9	64.0	62.1	...
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 7/	2,940	3,337	3,841	4,281	4,726
(In percent of GDP)	28.4	28.7	29.7	30.1	30.2
Public debt service	66	77	88	100	120
(In percent of exports of goods and services)	1.5	1.4	1.2	1.2	1.3
Memorandum items:					
Nominal GDP (in billions of riels)	43,108	47,102	52,154	57,520	63,395
(In millions of U.S. dollars)	10,414	11,255	12,890	...	...
Exchange rate (riels per dollar; period average)	4,139	4,185	4,046	...	...

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes FDI related to public-private power sector projects.
2/ Contribution to broad money growth.
3/ Ratio of nominal GDP to the average stock of broad money.
4/ Includes funds in transit and payment orders in excess of cash released.
5/ From 2011, includes imports related to public-private power sector projects.
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: Medium-Term Macroeconomic Framework, 2009–17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Est	Proj.					
Output and prices (percent change)									
GDP at constant prices	0.1	6.1	7.1	6.5	6.7	7.2	7.4	7.4	7.5
GDP deflator	2.6	3.0	3.4	3.6	3.3	3.2	3.2	3.1	3.1
Consumer prices (end-year)	5.3	3.1	4.9	3.4	4.6	4.0	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)									
Gross national saving	16.8	13.4	13.9	13.5	13.6	13.8	14.9	15.8	16.4
Government saving	2.1	0.5	1.0	1.7	2.2	2.6	3.1	3.6	4.2
Private saving	14.7	12.9	12.9	11.7	11.5	11.2	11.8	12.2	12.3
Gross fixed investment	21.3	17.3	22.0	23.5	23.5	21.5	22.0	22.0	22.0
Government investment	8.8	9.6	8.7	8.3	8.3	8.2	7.8	7.4	7.4
Private investment 1/	12.6	7.7	13.3	15.2	15.2	13.3	14.2	14.6	14.6
Public finance (in percent of GDP)									
Revenue	15.8	17.0	15.6	16.2	16.6	17.2	17.4	17.6	18.0
Domestic revenue	11.5	12.1	12.3	13.2	13.7	14.2	14.7	15.2	15.8
Grants	4.2	4.9	3.2	3.0	2.9	2.9	2.6	2.4	2.2
Total expenditure	20.0	19.9	19.6	19.4	19.4	19.4	18.9	18.6	18.6
Expense	11.5	10.8	11.3	11.4	11.6	11.6	11.6	11.6	11.6
Net acquisition of nonfinancial assets	8.5	9.1	8.3	8.0	7.8	7.8	7.3	7.0	7.0
Net lending (+)/borrowing(-)	-4.2	-2.8	-4.1	-3.2	-2.7	-2.2	-1.5	-1.0	-0.6
Net lending (+)/borrowing(-) excluding grants	-8.5	-7.8	-7.3	-6.2	-5.7	-5.1	-4.2	-3.3	-2.8
Net acquisition of financial assets	-1.7	-0.3	0.0	0.0	0.1	0.2	0.5	0.7	1.0
Net incurrence of liabilities	2.5	2.6	4.1	3.2	2.8	2.5	2.1	1.7	1.5
Domestic financing, net	1.9	0.9	0.7	0.0	-0.1	-0.2	-0.5	-0.7	-1.0
Balance of payments (in percent of GDP, unless otherwise indicated)									
Exports (percent change) 2/	-16.0	32.4	35.9	11.1	11.1	12.6	12.7	12.7	12.0
Imports (percent change) 3/	-12.3	22.7	33.9	16.9	9.6	7.0	10.3	9.7	10.4
Current account balance (including transfers)	-4.5	-3.9	-8.1	-10.0	-9.9	-7.7	-7.1	-6.2	-5.6
(Excluding transfers)	-11.3	-10.7	-11.9	-13.4	-12.7	-10.2	-9.2	-8.0	-7.1
Foreign direct investment 4/	5.0	6.8	11.5	10.5	10.2	7.9	7.3	7.2	7.2
Other flows 5/	0.5	-1.6	-1.3	3.2	1.4	2.3	2.0	1.6	1.5
Overall balance	0.9	1.3	2.2	3.6	1.7	2.5	2.2	2.7	3.1
Gross official reserves (in millions of U.S. dollars) 6/	2,367	2,653	3,032	3,563	3,845	4,293	4,721	5,303	6,044
(In months of next year's imports)	4.4	3.7	3.6	4.0	4.0	4.1	4.1	4.2	4.3
Public external debt (in millions of U.S. dollars) 7/	2,940	3,337	3,841	4,281	4,726	5,157	5,562	5,934	6,317
(In percent of GDP)	28.4	28.7	29.7	30.1	30.2	29.9	29.2	28.2	27.2
Public external debt service (in millions of U.S. dollars) 8/	66	77	88	100	120	150	165	218	232
(In percent of exports of goods and services)	1.5	1.4	1.2	1.2	1.3	1.5	1.5	1.7	1.7

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.
4/ From 2011, includes FDI related to public-private power sector projects.
5/ Net official disbursements, exceptional financing, and official transfers.
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.
7/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.
8/ Cash basis, excluding the accumulation of arrears on debt owed to the Russian Federation and the United States.

Table 3. Cambodia: Balance of Payments, 2009–17

(In millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
		Est.				Proj.			
Current account (including official transfers)	-473	-441	-1,040	-1,431	-1,548	-1,336	-1,355	-1,302	-1,298
(Excluding official transfers)	-1,172	-1,203	-1,533	-1,906	-1,998	-1,761	-1,755	-1,682	-1,658
Trade balance	-1,494	-1,582	-2,040	-2,682	-2,870	-2,740	-2,865	-2,933	-3,107
Exports, f.o.b.	2,996	3,884	5,219	5,776	6,393	7,166	8,045	9,025	10,074
Of which: Garments	2,363	2,995	3,928	4,457	4,987	5,654	6,422	7,269	8,172
Imports, f.o.b. 1/	-4,490	-5,466	-7,260	-8,458	-9,262	-9,906	-10,910	-11,958	-13,181
Of which: Garments-related	-1,050	-1,359	-1,757	-2,006	-2,244	-2,544	-2,890	-3,271	-3,677
Petroleum	-430	-485	-999	-1,220	-1,375	-1,450	-1,533	-1,625	-1,717
Services and income (net)	138	168	194	457	558	634	728	830	983
Services (net)	616	697	889	1,102	1,304	1,443	1,591	1,695	1,815
Of which: Tourism (credit)	1,082	1,180	1,616	1,937	2,104	2,271	2,450	2,643	2,869
Income (net)	-477	-530	-695	-645	-745	-809	-862	-865	-832
Private transfers (net)	184	212	313	319	313	346	382	422	466
Official transfers (net)	699	762	493	475	450	425	400	380	360
Capital and financial account	569	584	1,317	1,947	1,813	1,768	1,771	1,872	2,026
Medium- and long-term loans (net)	194	393	487	420	416	400	380	346	352
Disbursements	229	436	536	476	490	498	489	504	524
Amortization	-36	-43	-49	-56	-74	-97	-110	-158	-172
Foreign direct investment 2/	520	762	1,484	1,489	1,597	1,367	1,391	1,526	1,674
Net foreign assets of deposit money banks 3/	-884	-332	83	186	-200	0	0	0	0
Other short-term flows and errors and omissions	739	-239	-738	-148	0	0	0	0	0
Overall balance	96	143	277	516	265	432	416	570	729
Financing	-96	-143	-277	-516	-265	-432	-416	-570	-729
Change in gross official reserves 4/	-116	-161	-294	-531	-281	-449	-428	-582	-741
Use of IMF credit	0	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0	0
Accumulation of arrears	19	18	16	15	16	16	12	12	12
Memorandum items:									
Current account balance (in percent of GDP)									
Excluding official transfers	-11.3	-10.7	-11.9	-13.4	-12.7	-10.2	-9.2	-8.0	-7.1
Including official transfers	-4.5	-3.9	-8.1	-10.0	-9.9	-7.7	-7.1	-6.2	-5.6
Trade balance (in percent of GDP)	-14.3	-14.1	-15.8	-18.8	-18.3	-15.8	-15.0	-13.9	-13.3
Gross official reserves 5/	2,367	2,653	3,032	3,563	3,845	4,293	4,721	5,303	6,044
(In months of next year's imports)	4.4	3.7	3.6	4.0	4.0	4.1	4.1	4.2	4.3

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.
2/ From 2011, includes FDI related to public-private power sector projects.
3/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).
4/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.
5/ Excludes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

Table 4. Cambodia: General Government Operations, 2009–13 (GFSM 2001)

	2009		2010		2011			2012			2013
	Budget	Actual	Budget	Actual	Budget 1/	Jan-Aug Est.	Est.	Budget	Jan-Aug Prel. Est.	Proj.	Proj.
	(In billions of riels)										
Revenue	6,069	6,806	6,807	8,023	8,064	5,148	8,114	9,051	6,196	9,313	10,554
Of which: Nongrant	5,047	4,978	5,537	5,698	6,372	3,998	6,436	7,348	5,113	7,610	8,694
Tax	4,262	4,156	4,824	4,751	5,462	3,346	5,289	6,263	4,190	6,320	7,426
Income, profits, and capital gains	746	744	968	800	1,044	670	960	1,278	939	1,270	1,488
Good and services	2,393	2,348	2,744	2,792	3,192	1,922	3,123	3,624	2,396	3,610	4,294
International trade and transactions	1,122	1,064	1,112	1,159	1,226	754	1,206	1,361	855	1,440	1,645
Grants	1,022	1,829	1,270	2,325	1,692	1,151	1,678	1,703	1,083	1,703	1,860
Other revenues 2/	786	822	713	947	910	651	1,147	1,085	922	1,291	1,268
Total expenditure	7,286	8,634	8,114	9,363	9,543	5,850	10,236	10,459	6,180	11,167	12,297
Expense	4,607	4,963	5,167	5,068	5,851	3,292	5,888	6,545	4,038	6,542	7,325
Compensation of employees	1,776	2,103	2,146	2,135	2,379	1,400	2,290	2,742	1,739	2,742	3,126
Purchase of goods and services	1,539	1,697	1,594	1,742	1,954	912	1,962	2,038	1,153	2,038	2,252
Interest	100	86	120	143	140	91	160	171	107	171	180
Expense not elsewhere classified	1,193	1,077	1,307	1,050	1,379	889	1,476	1,594	1,040	1,592	1,767
Net acquisition of nonfinancial assets	2,679	3,671	2,947	4,295	3,692	2,558	4,348	3,913	2,141	4,625	4,972
Of which: Externally-financed	1,700	2,749	2,000	3,420	2,600	2,069	3,403	2,860	1,696	3,571	3,705
Net lending (+)/borrowing(-)	-1,217	-1,827	-1,307	-1,340	-1,479	-702	-2,122	-1,408	16	-1,854	-1,743
Net acquisition of financial assets	-664	-735	-195	-125	-498	-62	-3	-337	292	-25	40
Net incurrence of liabilities 3/	553	1,092	1,112	1,215	981	640	2,119	1,071	275	1,829	1,783
Of which: External	17	1,012	880	924	860	1,029	1,779	1,071	624	1,829	1,783
	(In percent of GDP)										
Revenue	14.1	15.8	14.5	17.0	15.5	9.9	15.6	15.7	10.8	16.2	16.6
Of which: Nongrant	11.7	11.5	11.8	12.1	12.2	7.7	12.3	12.8	8.9	13.2	13.7
Tax	9.9	9.6	10.2	10.1	10.5	6.4	10.1	10.9	7.3	11.0	11.7
Income, profits, and capital gains tax	1.7	1.7	2.1	1.7	2.0	1.3	1.8	2.2	1.6	2.2	2.3
Good and services tax	5.6	5.4	5.8	5.9	6.1	3.7	6.0	6.3	4.2	6.3	6.8
International trade and transactions tax	2.6	2.5	2.4	2.5	2.4	1.4	2.3	2.4	1.5	2.5	2.6
Grants	2.4	4.2	2.7	4.9	3.2	2.2	3.2	3.0	1.9	3.0	2.9
Other revenues 2/	1.8	1.9	1.5	2.0	1.7	1.2	2.2	1.9	1.6	2.2	2.0
Total expenditure	16.9	20.0	17.2	19.9	18.3	11.2	19.6	18.2	10.7	19.4	19.4
Expense	10.7	11.5	11.0	10.8	11.2	6.3	11.3	11.4	7.0	11.4	11.6
Compensation of employees	4.1	4.9	4.6	4.5	4.6	2.7	4.4	4.8	3.0	4.8	4.9
Purchase of goods and services	3.6	3.9	3.4	3.7	3.7	1.7	3.8	3.5	2.0	3.5	3.6
Interest	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3
Expense not elsewhere classified	2.8	2.5	2.8	2.2	2.6	1.7	2.8	2.8	1.8	2.8	2.8
Net acquisition of nonfinancial assets	6.2	8.5	6.3	9.1	7.1	4.9	8.3	6.8	3.7	8.0	7.8
Of which: Externally-financed	3.9	6.4	4.2	7.3	5.0	4.0	6.5	5.0	2.9	6.2	5.8
Net lending (+)/borrowing(-)	-2.8	-4.2	-2.8	-2.8	-2.8	-1.3	-4.1	-2.4	0.0	-3.2	-2.7
Net acquisition of financial assets	-1.5	-1.7	-0.4	-0.3	-1.0	-0.1	0.0	-0.6	0.5	0.0	0.1
Net incurrence of liabilities 3/	1.3	2.5	2.4	2.6	1.9	1.2	4.1	1.9	0.5	3.2	2.8
Of which: External	0.0	2.3	1.9	2.0	1.6	2.0	3.4	1.9	1.1	3.2	2.8
Memorandum items:											
Priority sector spending 4/	3.4	3.3	3.7	3.7	3.8	1.8	3.8	…	2.6	3.8	3.8
Net lending (+)/borrowing(-) excluding grant	-5.2	-8.5	-5.5	-7.8	-6.1	-3.6	-7.3	-5.4	-1.9	-6.2	-5.7
Domestic financing 5/	2.8	1.9	0.9	0.9	1.2	-0.6	0.7	0.6	-1.1	0.0	-0.1
Government deposits	…	5.9	…	5.1	…	4.5	4.6	…	4.7	4.1	3.9
GDP (in billions of riels)	43,108	43,108	47,102	47,102	52,154	52,154	52,154	57,520	57,520	57,520	63,395

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

1/ Includes supplementary budget.

2/ Includes provincial tax and nontax revenue.

3/ Includes statistical discrepancy.

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

5/ The figure is different from the domestic financing figure in Table 5 (GFSM 1986) because of differences in classification, in particular for capital revenue.

Table 5. Cambodia: General Government Operations, 2009–13 (GFSM 1986)

	2009		2010		2011			2012			2013	
	Budget	Actual	Budget	Actual	Budget 1/	Jan-Aug Est.	Est.	Budget	Jan-Aug Prel. Est.	Proj.	Prel. Budget	Proj.
					(In billions of riels)							
Total revenue	5,182	5,179	5,838	6,160	6,752	4,128	6,822	7,680	5,363	7,942	9,059	9,059
Of which: Central government	5,030	4,897	5,686	5,892	6,491	3,932	6,417	7,347	5,040	7,512	8,627	8,628
Tax revenue	4,177	4,228	4,763	4,795	5,487	3,391	5,476	6,359	4,345	6,482	7,680	7,595
Direct taxes	746	744	968	800	1,044	670	960	1,278	939	1,270	1,562	1,488
Indirect taxes	3,300	3,218	3,664	3,745	4,204	2,539	4,132	4,771	3,104	4,803	5,709	5,698
Of which: Trade taxes	1,032	964	1,022	1,063	1,136	677	1,093	1,241	781	1,246	1,426	1,423
Provincial taxes	131	266	131	249	240	182	385	310	303	409	409	409
Nontax revenue	870	750	774	904	885	606	959	989	767	1,129	1,018	1,099
Capital revenue 2/	135	201	300	461	380	131	386	332	250	332	362	365
Total expenditure	7,422	8,805	8,366	9,703	10,097	5,951	10,744	10,710	6,265	11,526	12,047	12,603
Current expenditure	4,663	5,019	5,245	5,164	5,912	3,326	5,997	6,630	4,069	6,627	7,328	7,325
Wages	1,730	2,057	2,092	2,083	2,316	1,364	2,233	2,673	1,703	2,673	3,050	3,050
Nonwage	2,577	2,665	2,882	2,919	3,364	1,835	3,521	3,625	2,220	3,623	3,893	3,890
Provincial expenditure	357	297	271	161	232	127	243	332	145	332	385	385
Capital expenditure	2,759	3,787	3,121	4,531	3,955	2,624	4,548	4,080	2,153	4,791	4,719	5,278
Locally financed	1,059	1,037	1,121	1,111	1,355	556	1,145	1,220	457	1,220	1,573	1,573
Externally financed	1,700	2,749	2,000	3,420	2,600	2,069	3,403	2,860	1,696	3,571	3,146	3,705
Net lending	0	0	0	8	230	0	198	107	43	107	0	0
Overall balance	-2,239	-3,627	-2,529	-3,543	-3,344	-1,822	-3,922	-3,031	-902	-3,584	-2,988	-3,543
Financing	2,239	3,627	2,529	3,543	3,344	1,822	3,922	3,031	902	3,584	2,988	3,543
Foreign (net)	1,039	2,841	2,150	3,249	2,552	2,180	3,457	2,773	1,707	3,532	3,088	3,643
Grants	1,022	1,829	1,270	2,325	1,692	1,151	1,678	1,703	1,083	1,703	1,862	1,860
Loans	157	1,125	1,030	1,064	1,040	1,131	1,943	1,321	739	2,032	1,506	2,055
Amortization	-140	-113	-150	-140	-180	-101	-164	-250	-115	-203	-280	-272
Domestic (net) 3/	1,200	786	379	295	792	-616	465	257	-805	52	-100	-100
					(In percent of GDP)							
Total revenue	12.0	12.0	12.4	13.1	12.9	7.9	13.1	13.4	9.3	13.8	14.3	14.3
Of which: Central government	11.7	11.4	12.1	12.5	12.4	7.5	12.3	12.8	8.8	13.1	13.6	13.6
Tax revenue	9.7	9.8	10.1	10.2	10.5	6.5	10.5	11.1	7.6	11.3	12.1	12.0
Direct taxes	1.7	1.7	2.1	1.7	2.0	1.3	1.8	2.2	1.6	2.2	2.5	2.3
Indirect taxes	7.7	7.5	7.8	8.0	8.1	4.9	7.9	8.3	5.4	8.3	9.0	9.0
Of which: Trade taxes	2.4	2.2	2.2	2.3	2.2	1.3	2.1	2.2	1.4	2.2	2.2	2.2
Nontax revenue	2.0	1.7	1.6	1.9	1.7	1.2	1.8	1.7	1.3	2.0	1.6	1.7
Capital revenue 2/	0.3	0.5	0.6	1.0	0.7	0.3	0.7	0.6	0.4	0.6	0.6	0.6
Total expenditure and net lending	17.2	20.4	17.8	20.6	19.4	11.4	20.6	18.6	10.9	20.0	19.0	19.9
Current expenditure	10.8	11.6	11.1	11.0	11.3	6.4	11.5	11.5	7.1	11.5	11.6	11.6
Wages	4.0	4.8	4.4	4.4	4.4	2.6	4.3	4.6	3.0	4.6	4.8	4.8
Nonwage	6.0	6.2	6.1	6.2	6.5	3.5	6.8	6.3	3.9	6.3	6.1	6.1
Provincial expenditure	0.8	0.7	0.6	0.3	0.4	0.2	0.5	0.6	0.3	0.6	0.6	0.6
Capital expenditure	6.4	8.8	6.6	9.6	7.6	5.0	8.7	7.1	3.7	8.3	7.4	8.3
Locally financed	2.5	2.4	2.4	2.4	2.6	1.1	2.2	2.1	0.8	2.1	2.5	2.5
Externally financed	3.9	6.4	4.2	7.3	5.0	4.0	6.5	5.0	2.9	6.2	5.0	5.8
Net lending	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.2	0.1	0.2	0.0	0.0
Overall balance	-5.2	-8.4	-5.4	-7.5	-6.4	-3.5	-7.5	-5.3	-1.6	-6.2	-4.7	-5.6
Financing	5.2	8.4	5.4	7.5	6.4	3.5	7.5	5.3	1.6	6.2	4.7	5.6
Foreign (net)	2.4	6.6	4.6	6.9	4.9	4.2	6.6	4.8	3.0	6.1	4.9	5.7
Grants	2.4	4.2	2.7	4.9	3.2	2.2	3.2	3.0	1.9	3.0	2.9	2.9
Loans	0.4	2.6	2.2	2.3	2.0	2.2	3.7	2.3	1.3	3.5	2.4	3.2
Amortization	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3	-0.4	-0.2	-0.4	-0.4	-0.4
Domestic (net) 3/	2.8	1.8	0.8	0.6	1.5	-1.2	0.9	0.4	-1.4	0.1	-0.2	-0.2
Memorandum item:												
GDP (in billions of riels)	43,108	43,108	47,102	47,102	52,154	52,154	52,154	57,520	57,520	57,520	63,395	63,395

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

1/ Includes supplementary budget.

2/ Includes privatization proceeds.

3/ Includes statistical discrepancy. The figure is different from the domestic financing figure in Table 5 (GFSM 2001) because of differences in classification, in particular for capital revenue.

Table 6. Cambodia: Priorities and Policies for Revenue Mobilization

Priority Areas	Policy Measures
	1. Revenue Administration
Debt collection: Start collecting large tax debt. Even a small proportion would generate significant additional revenue.	(1) Establish a task force to start addressing the most significant debt cases; (2) Develop protocols to delegate powers from Deputy Prime Minister; (3) Develop tax installment payment arrangements.
Large Taxpayer Department (LTD): It provides about 80 percent of tax collection, but its performance reached a plateau in recent years.	(1) Create a team within LTD to develop and maintain understanding of every large taxpayer including their behavior and risks; (2) Include the LTD arrears cases in the debt collection task force coverage; (3) Develop large taxpayer compliance strategy including service initiatives; (4) Locate all large taxpayer risk assessment and audit functions to LTD.
Taxpayer services: A comprehensive strategy is needed to pull together the various elements of service delivery in order to improve taxpayers' compliance.	(1) Draw up action plans to ensure the implementation of the Department for Tax Services and Tax Arrears (DTSTA) operational work plan; (2) Continue seeking development partners to design and roll out a comprehensive taxpayer service strategy and allocate sufficient resources to taxpayer services functions; (3) Provide public information about avenues of appeal available for taxpayers.
Planning: Tax institutions have limited planning capacity and limited progress has been made in implementing action plans.	(1) Review the operational plans to prioritize activities and tasks, identify the resource needs, and set realistic targets; (2) Establish central reform office to implement and monitor reform programs.
Human resource and information technology (IT): Staffs are skewed toward low value activities, while important functions like taxpayer services and debt collection are understaffed. The IT systems are inadequate.	(1) Reorganize staff allocation by prioritizing revenue mobilization functions; (2) Reform recruitment process to quickly fill vacancies; (3) Establish an IT reform program, including a dedicated full-time team and seek support from development partners.
Revenue forecasting: Weak revenue analysis partly due to limited human resources and absence of automated systems and an integrated database.	Strengthen revenue forecasting capacity at the Ministry of Economy and Finance (MEF), General Department of Taxation (GDT), and General Department of Customs and Excise (GDCE) and improve coordination between MEF, GDT, and GDCE in setting and monitoring revenue targets.
	2. Tax Policy
Value Added Tax (VAT): Revenue productivity is low due to narrow tax base, weak enforcement, and little information on taxpayers of the estimated regime because they are not registered.	(1) Apply one threshold to all types of tax payers; (2) Make registration with Tax ID mandatory for all tax payers; (3) Eliminate exemptions for electricity; (4) Adopt partial exemptions system for financial institutions by establishing rules to define the different kinds of financial services.
Excise tax: The overall level of excise taxation is low due to small amount of tax on standard excisable products. Restructuring the excise system would generate immediate revenue impact.	(1) Streamline the list of imported goods taxed; (2) Increase the number of petroleum products taxed; (3) Consolidate the ad valorem and additional taxes on fuels into one specific, indexed tax; (4) Increase excise tax and customs duty on diesel to equal tax on gasoline; (5) Tax tobacco with specific, indexed excise tax.
Direct tax: Continue tax policy reforms on tax incentives, corporate and personal income taxes, and property taxes.	(1) Remove or limit tax incentives, particularly on the Qualifying Investment Projects (QIP) because Cambodia's tax regime is already competitive; (2) Increase tax collection from the estimated regime by improving governance and transparency; (3) Continue the Personal Income Tax (PIT) reforms; (4) Review the implementation of property tax before expanding it across the country to ensure it works effectively.
	3. Governance
Oversight: Improve the oversight of the GDT's and GDCE's operations and performance.	Create the political will to strengthen oversight and accountability, both of the GDT and GDCE, and within the GDT and GDCE.
Transparency: Considerable officials' discretion in the application of tax laws remains, partly due to weaknesses of management systems, process, and controls, and limited information and assistance to taxpayers.	(1) Create systematic programs for taxpayer education, advice and interpretation of the laws; (2) Remove the complex system of tax negotiation, particularly in the estimated tax regime, and abolish informal taxpayer-facing activities; (3) Strengthen management and supervisory controls.

Source: *Revenue Mobilization in Cambodia: Challenges and Policy Priorities,* staff's policy paper provided to the Cambodian authorities during the 2012 Article IV Consultation.

Table 7. Cambodia: Monetary Survey, 2009–12

	2009	2010	2011				2012			
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec Proj.
						(In billions of riels)				
Net foreign assets	14,655	16,698	17,079	18,100	17,695	17,894	18,652	18,730	18,464	19,292
National Bank of Cambodia	13,262	14,982	15,052	16,165	15,684	16,010	17,127	17,675	18,226	19,090
Foreign assets	13,710	15,410	15,488	16,616	16,121	16,435	17,551	18,098	18,653	19,513
Foreign liabilities	448	428	436	452	437	425	424	423	427	423
Deposit money banks	1,393	1,715	2,027	1,935	2,011	1,884	1,526	1,055	238	202
Foreign assets	2,804	3,508	4,136	4,298	4,446	4,182	5,082	5,331	5,084	5,264
Foreign liabilities	1,411	1,792	2,109	2,363	2,435	2,298	3,556	4,277	4,846	5,062
Net domestic assets	1,573	2,779	3,199	3,908	4,962	5,761	6,211	7,922	8,400	8,751
Domestic credit	8,280	11,206	11,658	13,108	14,461	15,430	16,247	17,686	18,961	20,748
Government (net)	-2,252	-2,127	-2,253	-2,184	-1,926	-2,123	-2,542	-2,400	-2,441	-2,071
Private sector	10,532	13,331	13,909	15,291	16,386	17,553	18,789	20,081	21,398	22,819
Other items (net)	-6,707	-8,428	-8,459	-9,200	-9,500	-9,669	-10,035	-9,764	-10,561	-11,997
Broad money	16,228	19,477	20,278	22,008	22,657	23,655	24,864	26,652	26,864	28,043
Narrow money	3,120	3,221	3,497	3,540	3,681	3,956	3,985	3,872	3,818	4,112
Currency in circulation	3,002	3,099	3,383	3,338	3,531	3,772	3,811	3,632	3,591	3,847
Demand deposits	119	122	114	202	150	185	174	240	227	265
Quasi-money	13,108	16,256	16,781	18,468	18,976	19,698	20,879	22,780	23,046	23,930
Time deposits	359	408	392	430	493	557	896	625	683	771
Foreign currency deposits	12,749	15,848	16,390	18,038	18,482	19,141	19,983	22,155	22,363	23,159
					(12-month percentage change)					
Net foreign assets	41.7	13.9	10.1	10.3	7.4	7.2	9.2	3.5	4.3	7.8
Private sector credit	6.5	26.6	24.8	28.9	31.3	31.7	35.1	31.3	30.6	30.0
Broad money	36.8	20.0	17.7	23.5	24.0	21.5	22.6	21.1	18.6	18.6
Of which: Currency in circulation	30.8	3.2	11.7	9.2	20.0	21.7	12.7	8.8	1.7	2.0
Foreign currency deposits	37.5	24.3	19.1	26.4	25.0	20.8	21.9	22.8	21.0	21.0
				(Contribution to year-on-year growth of broad money, in percentage points)						
Net foreign assets	36.3	12.6	9.1	9.5	6.6	6.1	7.8	2.9	3.4	5.9
Net domestic assets	0.5	7.4	8.6	14.0	17.4	15.3	14.9	18.2	15.2	12.6
Domestic credit	11.6	18.0	17.4	23.8	27.2	21.7	22.6	20.8	19.9	22.5
Government (net)	6.2	0.8	1.3	1.9	2.4	0.0	-1.4	-1.0	-2.3	0.2
Private sector	5.4	17.2	16.0	21.9	24.8	21.7	24.1	21.8	22.1	22.3
Other items (net)	-11.1	-10.6	-8.8	-9.8	-9.8	-6.4	-7.8	-2.6	-4.7	-9.8
Memorandum items:										
Foreign currency deposits (in millions of U.S. dollars)	3,058	3,910	4,087	4,379	4,526	4,739	5,002	5,450	5,529	5,734
(In percent of broad money)	78.6	81.4	80.8	82.0	81.6	80.9	80.4	83.1	83.2	82.6
Riel component of broad money	3,479	3,629	3,889	3,970	4,174	4,513	4,881	4,497	4,501	4,883
(In percent of broad money)	21.4	18.6	19.2	18.0	18.4	19.1	19.6	16.9	16.8	17.4
Credit to the private sector (in millions of U.S. dollars)	2,526	3,289	3,469	3,712	4,012	4,346	4,703	4,940	5,290	5,650
(In percent of GDP)	19.6	25.5	26.9	28.7	31.1	33.7	33.0	34.7	37.1	39.7
Loan-to-deposit ratio (in percent) 1/	80.1	81.3	82.5	82.6	86.6	89.4	93.1	89.8	94.8	96.1
Velocity 2/	3.1	2.6	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.1
Money multiplier (broad money/reserve money)	1.9	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.2
Reserve money (12-month percent change)	43.3	17.2	10.0	8.4	3.5	7.7	15.5	15.6	17.7	17.7

Sources: 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 8. Cambodia: Core Financial Soundness Indicators (FSIs), 2008–12

(In percent)

	2008	2009	2010				2011				2012	
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Capital-based FSIs												
Regulatory capital to risk-weighted assets	27.6	32.3	31.5	31.3	31.5	31.4	31.2	29.0	27.5	26.2	29.1	28.8
Regulatory tier 1 capital to risk-weighted assets	27.7	33.0	32.7	33.3	32.6	32.1	29.5	27.7	26.3	26.3	29.3	28.9
Nonperforming loans net of provisions to capital	5.9	5.3	5.1	5.5	6.0	3.8	3.9	4.6	5.4	3.3	3.8	3.5
Return on equity 1/	12.4	4.9	5.9	6.2	6.6	6.5	9.0	9.6	10.5	9.7	11.2	11.0
Net open position in foreign exchange to capital	0.9	1.4	3.2	5.0	5.0	2.3	3.1	3.0	3.9	3.9	2.9	3.4
Asset-based FSIs												
Nonperforming loans to total gross loans	2.9	3.9	4.1	4.2	4.2	2.9	2.9	3.0	3.0	2.1	2.4	2.2
Return on assets 1/	2.7	1.0	1.2	1.2	1.3	1.3	1.9	1.8	2.0	1.8	2.3	2.1
Liquid assets to total assets	14.2	19.4	16.1	18.0	17.6	18.0	17.9	17.9	19.0	16.2	17.2	17.5
Liquid assets to short-term liabilities	30.6	26.8	22.4	24.8	24.5	25.2	25.2	25.3	27.0	23.0	24.3	24.4
Sectoral distribution of loans to total gross loans												
Residents	94.4	95.0	91.7	92.1	91.8	91.8	91.0	90.8	91.1	92.3	88.3	85.7
Deposit-takers	3.8	6.5	6.6	6.1	4.0	4.4	3.9	4.7	4.9	7.7	8.1	7.9
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations	70.6	71.1	68.9	69.2	72.4	72.3	72.2	71.3	71.1	69.5	65.8	63.8
Other domestic sectors	20.1	17.5	16.2	16.8	15.4	15.1	14.9	14.8	15.1	15.1	14.4	14.0
Nonresidents	5.6	5.0	8.3	7.9	8.2	8.2	9.0	9.2	8.9	7.7	11.7	14.3
Income- and expense-based FSIs												
Interest margin to gross income	48.3	60.8	68.9	67.8	67.9	62.2	67.7	65.3	63.6	64.3	63.1	65.6
Noninterest expenses to gross income	64.2	64.2	65.3	62.9	61.2	63.2	56.8	57.9	56.1	57.5	53.9	54.7

Source: National Bank of Cambodia.
1/ Annualized.

Table 9. Cambodia: Key 2010 FSAP Recommendations of High Priority

Recommendation	Timeframe 1/	Status
General Stability		
· Improve the quality of data to enable an appropriate assessment of risks, and to enhance the reliability of stress tests, including through strengthening supervision; and collecting additional credit-related information.	Short term	In process
· Ensure that banks retain an appropriate level of liquid assets to be able to meet short-term obligations by enforcing existing regulations.	Short term	In process
· Upgrade law to formalize delineation of responsibilities among supervisors, and establish procedures, through MOUs, for practical information exchange, coordination and accountability among domestic supervisors (NBC, MEF, SECC), and with foreign supervisors.	Short term	Initiated, limited progress
· Upgrade both the number and capacity of staff in the areas of banking, insurance, securities and payment system supervision; develop training programs for financial institutions on accounting, corporate governance, risk management, and for the external audit profession.	Medium term	In process
· Develop and implement a strategic plan to address the conflicts and overlaps in the financial sector legal and regulatory framework.	Medium term	In process
Supervision and Regulation		
Banking		
· Develop supervisory strategy to deal with banks that cannot meet the new capital requirement.	Short term	Done
· Conduct comprehensive upgrades to the legal framework.	Short term	In process
· Reprioritize the work performed by the staff to facilitate forward-looking, risk-based supervision.	Short term	In process
· Impose a moratorium on the issuance of new bank licenses as long as supervisory capacity and resources remain inadequate.	Short term	Under NBC review
Nonbank Financial Sector		
· Revise capital regulations in concert with liability, investment and accounting rules to better reflect the risks in a growing insurance market.	Short term	Done
· Enhance powers for intervention, corrective measures and enforcement.	Short term	In process
· Conduct a readiness study prior to the launch of the stock exchange.	Short term	Done
Access to Finance		
· Enhance supervisory practices to keep pace with the development of microfinance deposit-taking institutions, and impose a moratorium as long as supervisory capacity and resources remain inadequate.	Medium term	In process
Crisis Management Framework		
· Revise PCA framework by developing additional triggers for asset quality, liquidity, and earlier intervention based on the solvency ratio.	Medium term	In preparation
· Introduce regulation allowing banks to use their fixed deposits at the NBC and any issue of government (including government bodies) or government-guaranteed securities as eligible collateral for interbank and NBC repos.	Short term	In process
· Develop a crisis management framework.	Medium term	In preparation
Transparency of Monetary and Financial Policies		
· Introduce due process for the dismissal of NBC Board members and the Governor by specifying the legal grounds for doing so, and defining an appeal process.	Medium term	Not Initiated
· Amend the law to reduce the government's representation on the Board of the NBC; and to reflect the practice of appointing two Deputy Governors.	Short term	Not Initiated
Corporate governance of banks		
· Draft and/or implement banking regulations on internal audit and controls, risk management, and compliance functions at banks.	Short-term	Done
AML/CFT		
· Introduce new rules measures for conducting overall AML/CFT risk assessments and risk profiling of financial institutions.	Short-term	Not Initiated

1/ Short term: up to one year; medium term: one to three years.

Table 10. Cambodia: Millennium Development Goals (MDG) Indicators

	1990	1995	2000	2005	2009	2010	2011	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger								
Percentage share of income or consumption held by poorest 20 percent	...	8.5	...	...	8	...	...	11
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	21
Poverty headcount ratio at $1.25 per day (PPP, percent of population)	...	49	...	40	...	26	...	20
Prevalence of underweight in children (under five years of age)	...	43	40	28	...	...	29	26
Goal 2: Achieve universal primary education								
Net primary enrollment (percent of relevant age group)	67	...	87	90	...	96	...	100
Primary completion rate, total (percent of relevant age group)	...	42	47	85	84	87	...	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	55	...	85	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	83	...	...	...	100
Goal 3: Promote gender equality and empower women								
Proportion of seats held by women in national parliament (percent)	...	...	8	10	16	21	21	30
Ratio of girls to boys in primary and secondary education (percent)	73	..	82	..	...	94	...	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	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	92	93	...	90
Infant mortality rate (per 1,000 live births)	87	87	80	73	46	43	...	50
Under five mortality rate (per 1,000)	119	119	107	96	55	51	...	38
Goal 5: Improve maternal health								
Births attended by skilled health staff (percent of total)	..	..	32	44	...	71	...	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	540	...	206	...	250
Goal 6: Combat HIV/AIDS, malaria, and other diseases								
Incidence of tuberculosis (per 100,000 people)	585	557	530	505	442	437	...	...
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	...	62	64	...	...
Access to improved sanitation (percent of population)	0	8	16	...	29	31	...	...
Nationally protected areas (percent of total land area)	...	...	...	24	26	26	...	...
Goal 8: Develop a global partnership for development								
Aid per capita (current U.S. dollars)	4	50	31	39	52	52	...	...
Fixed line and mobile phone subscribers (per 100 people)	0	0	1	8	45	60	...	...
Internet users (per 1,000 people)	0	...	0	3	1	1	...	...
Personal computers (per 1,000 people)	...	0	1	3	...	...	...	...
Total debt service (percent of exports of goods and services)	..	1	1	1	1	...	...	...
Goal 9: De-mining, UXO and assistance								
Annual numbers of civilian casualties recorded	...	1,691	...	797	244	286	240	0
Percentage of suspected contaminated areas cleared	...	10	...	50	53	59	56	100
Other								
Fertility rate, total (births per woman)	6	5	4	3	3	3	...	...
GNI per capita, Atlas method (current U.S. dollars)	..	280	280	450	700	750	830	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.2	3.6	6.2	10	11	12	...
Gross capital formation (percent of GDP)	8	15	18	18	21	17	...	...
Life expectancy at birth, total (years)	50	...	...	58	62	63	...	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	...	...	...	...	...
Population, total (millions)	10	11	13	14	14	14	14	...
Trade (percent of GDP)	19	78	112	137	105	114	...	...

Sources: World Bank database, *World Development Indicators,* and *Poverty Assessment* (2009); UN Human Development Indicators Report (2003); Cambodia MDG 2011 update; UN MDG Indicators 2011 (http://mdgs.un.org); and IMF staff estimates.

INTERNATIONAL MONETARY FUND

CAMBODIA

November 16, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2012)

Membership Status

Joined December 31, 1969; accepted the obligations under Article VIII, Sections 2, 3, and 4 on January 1, 2002.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	87.50	100.0
Fund holdings of currency (Exchange Rate)	87.50	100.0
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	83.92	100.00
Holdings	68.38	81.48

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Oct. 22, 1999	Mar. 05, 2003	58.50	58.50
ECF [1/]	May 06, 1994	Aug. 31, 1997	84.00	42.00

[1/] Formerly PRGF

Projected Payments to the Fund [2/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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.

Safeguards Assessment

A voluntary safeguards assessment of the NBC was completed in January 2010 at the request of the authorities, which updated the previous March 2004 voluntary assessment. The update assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework; however, important recommendations proposed in 2004 were still outstanding, and some new risks had emerged in the area of external audit.

Exchange Rate Arrangement and Payments System

Cambodia's exchange regime is classified as *stabilized*. The *de jure* regime is a *managed float*. 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.

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 November 24–December 8, 2011. The Executive Board approved the staff report (IMF Country Report 12/46) on a lapse of time basis on February 3, 2012.

Financial Sector Assessment Program (FSAP)

The joint IMF-World Bank FSAP mission took place in March 2010 and the assessment was completed in October 2010.

Technical Assistance

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

Resident Representative

The IMF Resident Representative in Phnom Penh (Mr. Faisal Ahmed) was appointed in July 2011. From July 2010 to June 2011, the IMF's Resident Representative for Indonesia (Mr. Milan Zavadjil) also assumed the responsibilities for the Cambodian IMF office.

IMF-WORLD BANK COLLABORATION

(October 2012)

The Bank and the IMF country teams for Cambodia, led by Mr. Mathew Verghis (Sector Manager, 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.

Recent key areas of cooperation and coordination include:

- **Macroeconomic policy advice to the authorities.** The IMF and the World Bank staffs have consulted each other on key macroeconomic policy messages to the authorities to avoid sending conflicting messages. 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 quarterly fiscal monitor and review of macroeconomic developments. IMF staff share policy notes and analytical background notes related to Article IV consultation missions.

- **Financial sector reform and FSAP.** World Bank and IMF teams have worked closely together while undertaking the 2010 FSAP, which was completed in October 2010. Following the recommendations by the FSAP, technical assistance missions are now ongoing and close coordination between the IMF and the World Bank continues.

- **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.

- **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 scarce data context. World Bank staff are also invited to and do participate in some of the key meetings.

- **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, economic diversification, , customs modernization, and rural development.

The presence of a locally-based IMF resident representative (Mr. Faisal Ahmed) has further deepened collaboration on economic and debt sustainability analysis and the IMF's involvement on the Public Financial Management Reform Program.

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

- **Sustaining growth.** Real GDP growth is holding up despite the global slowdown. However, it needs to be sustained with appropriate fiscal consolidation and continued management of the banking sector risks, against the backdrop of global uncertainty. Removing impediments to investments, reducing infrastructure and skills bottlenecks, promoting diversification, and supporting rural development continue to be the key to promote self-sustaining and inclusive growth.

- **Rebuilding fiscal space.** Macroeconomic stability critically depends on prudent fiscal policies. Fiscal space to address near-term downside risk is limited and greater fiscal consolidation efforts are needed to rebuild fiscal buffers, including through improving revenue collection, prioritizing spending, rebuilding government deposits, and better monitoring of contingent liabilities. Greater mobilization of fiscal revenues is imperative if Cambodia is to meet its vast development needs and maintain fiscal sustainability in the long run.

- **Improving effectiveness and credibility of monetary policy.** Gradually raising the reserve requirement is consistent with the robust economic expansion and constitutes critical step towards safeguarding financial stability in light of rapid credit expansion. Developing an interbank market remains a necessary step for a transition to a more effective and market based monetary policy operations.

- **Safeguarding financial system stability.** Implementing the key recommendations of the 2010 FSAP remains critical to safeguard financial stability. These include implementing a moratorium on new bank licenses, strengthening coordinated supervision, developing the foreign exchange market, and improving the supervisory capacity.

- **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.

The teams are committed to continue the close cooperation going forward. The table below details the specific activities planned by the two country teams over the next 12-month period along with their expected deliveries.

Cambodia: Joint Managerial Action Plan, 2012–13

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) • Recent economic developments (slides)	Ongoing	Approx. once every six months
	Financial sector • FSAP follow-up technical assistance to improve accounting and auditing of banks, strengthen financial crisis preparedness, and enhance financial sector legal framework.	Ongoing	The missions are tentatively scheduled in the first quarter of 2013.
	Public sector management • Public Financial Management Reform Program (PFMRP)	Ongoing	Project closing date is Jan. 15, 2013. Extension is considered.
	Trade • Trade Facilitation and Competitiveness Project (where customs automation is the biggest component)	Project closed in July 2012.	Project Completion Report is being prepared.
	• Trade Development Support Program	Sept. 25–Oct. 2, 2012	Closing date is Jan. 31, 2014
The IMF's Work Program in the next 12 Months	**Macroeconomic policy analysis and advice**		
	• 2013 Article IV consultation • Policy notes on request	3rd Quarter 2013 Ongoing	December 2013
	Technical assistance • Fiscal: Cash management, government accounting, budget classification, tax policy, tax administration, macrofiscal capacity building • Financial sector: FSAP follow-up work, resident banking supervision advisor, consolidated supervision, foreign exchange market, liquidity management • Statistics: National accounts, price, balance of payments	Ongoing	
	B. AGREEMENT ON JOINT PRODUCTS AND MISSIONS		
Joint Products in the next 12 Months	• **Debt sustainability analysis**	2013 Article IV consultations	During Article IV consultations

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(October 2012)

From 1992 through September 2012, the Asian Development Bank (AsDB) approved funding of US$1,615.9 million including 63 loan projects and programs of US$1,360.26 million with low interest, and 21 Asian Development Fund (ADF) grants of US$255.71 million to Cambodia for structural reform programs and development projects. To date, 43 loan projects for a total of US$927.54 million and 8 ADF grants of US$80.51 million have been completed.

The sector composition and loan/grant amount of the active portfolio is US$628.44 as of September 2012 for (i) agriculture and natural resources, US$151.31 million; (ii) education, US$81.93 million; (iii) energy, US$20.81 million; (iv) finance, US$14.74; (v) health, nutrition, and social protection, US$19.0 million; (vi) industry and trade, US$11.02 million; (vii) multi-sector, US$54.41 million; (viii) public sector management, US$54.09 million; (ix) transport and communication, US$200.12 million; and (x) water supply, sanitation, and waste management, US$21.0 million.

The AsDB’s overarching goal in Cambodia is inclusive and diversified economic growth and poverty reduction. The AsDB’s Country Partnership Strategy ((CPS) 2011–13), endorsed in July 2011, supports implementation of the government’s updated National Strategic Development Plan 2009–13 (NSDP Update)[1] and focuses on poverty reduction and inclusive growth with an integrated approach to rural development; on the promotion of urban-rural linkages (including connectivity); and the enhancement of human capital by improving rural water supply and sanitation, and access to quality general education and industry-relevant technical and vocational education and training (TVET). The CPS 2011–13 prioritizes five sectors: (i) transport; (ii) water supply, sanitation, and urban development; (iii) agricultural and natural resources; (iv) education and training; and (v) finance, as well as a facilitating sector, public sector management. The CPS also identifies four critical country challenges of climate change, decentralization, rural-urban linkages, and regional cooperation. The CPS incorporates five key cross-cutting themes into all activities—private sector development, governance, gender equity, knowledge solutions, and partnerships.

The AsDB’s geographical focus remains the Tonle Sap basin where the CPS supports sustainable natural resource use and management; stimulates the growth of competitive farms and rural enterprises; builds sustainable rural infrastructure, including irrigation, to strengthen productivity, market connectivity, and competitiveness; and improves food security and climate resilience in agricultural production. AsDB interventions on transport will focus on expanding the provincial and rural roads network to promote connectivity and trade and tourism activities in Cambodia and the Greater Mekong Sub-region (GMS).

The AsDB will continue its support for the Cambodia Millennium Development Goal targets for improved water supply and sanitation for the large number of people without access in urban and

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

rural areas. In urban areas, we will work to manage the challenges of rapid urbanization and provide basic services and infrastructure to meet the needs of the poor and stimulate the growth of value chains. The AsDB will develop urban environmental infrastructure (drainage, water supply, and sanitation, as well as selective infrastructure to improve the business environment) in border towns and secondary growth centers around the Tonle Sap basin. In education and training, the AsDB will concentrate on the completion of nine years of basic education, leading to further education and training by promoting equitable access and quality and focus on formal and informal TVET for men and women to respond to labor market needs and the demands of business, and to improve rural incomes.

In finance, the AsDB will continue its leading role in the financial sector to (i) consolidate the banking reforms achieved to date, upgrade financial infrastructure, and strengthen the regulatory capability of the National Bank of Cambodia; (ii) support microfinance expansion through regulatory and institutional reforms, and consider appropriate reforms to stimulate SME finance; and (iii) support ongoing reforms to develop the insurance industry. The AsDB will support implementation of the recently updated Financial Sector Development Strategy (2011–20). The CPS also includes support for government measures to deepen public sector management reform and strengthen anticorruption measures. For decentralization and deconcentration, the AsDB will support the program-based approach under the three-year implementation plan (2011–13) in functional assignments, fiscal decentralization (including public financial management capacity development), and sub-national financing mechanisms such as the Sub-National Investment Facility.

In the area of private sector development, the AsDB assists the government's efforts in improving competition policy and regulatory efficiency; strengthening the investment climate and innovation; continuing trade policy reforms and trade facilitation (customs and sanitary and phytosanitary standards for food safety); and leverage public-private partnership opportunities. 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 sub-region as systems and procedures become more developed and integrated.

Asian Development Bank: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2012

(In millions of U.S. dollars, as of September 30, 2012)

		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]	64.1	85.8	62.1
17	2008[4]	84.1	128.3	138.9
18	2009[5]	144.5	62.3	84.6
19	2010[6]	160.8	66.0	73.5
20	2011[7]	70.0	143.8	128.6
21	2012 (Projected)[8]	275.5	142.5	106.1
	TOTAL:	1,759.4	1,284.9	1,213.9

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

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

[3] US$27.1 million loans and US$37 million grants approved in 2007.

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

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

[6] US$95.0 million loans and US$65.8 million grants approved in 2010.

[7] US$67.0 million loans and US$3.0 million grants approved in 2011.

[8] US$66.0 million loans approved in 2012. Actual contract awards and disbursements are US$91.6 and US$61.9 million respectively.

STATISTICAL ISSUES

(November 2012)

Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance. Extensive TA has been provided by the IMF, United Nations Development Programme, AsDB, and World Bank, as well as from bilateral partners, leading to substantial capacity improvements. Currently, Cambodia is participating in STA's project on the Implementation of the System of National Accounts and International Comparison Program, funded by the government of Japan. This project will provide TA to build statistical capacity and improve both national accounts and price statistics. However, various shortcomings in macroeconomic data still hamper timely and comprehensive analysis.

National accounts. Although major improvements have been implemented in recent years, weaknesses remain in the quality and timeliness of data. With IMF assistance, the National Institute of Statistics (NIS) continues working to improve the quality of national accounts statistics in accordance with the System of National Accounts 1993, to expand the scope of annual national account aggregates, and to produce a quarterly national accounts series beginning with June 2005. 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 recently published the 2011 national accounts; however, a TA mission that visited Cambodia in November 2011 noted inconsistencies in the 2009 data that should be addressed. The November 2011 mission assessed current methodologies used to compile national accounts estimates and provided support with the development of the quarterly national accounts estimates. A mission to assess progress implementing improvements is planned for January 2013. Follow up TA missions within the three-year STA project will focus on improving the accuracy of the annual and quarterly GDP and expanding the scope of the national accounts. Statistics Sweden is also providing support and technical assistance with improving the national accounts for Cambodia.

Price statistics. The compilation of the consumer price index (CPI) suffers from insufficient coverage. An updated CPI series was introduced starting in April 2012. Geographic coverage of the series has been expanded to include Phnom Penh plus five provinces. Statistics Sweden continues to provide assistance with the household budget survey and the CPI; however, the project with Sweden will end in December 2013. An STA TA mission visited Phnom Penh in April 2012 to assist with updating/improving the CPI. The authorities indicated a need for assistance with developing a producer price index (PPI), but no funds have been allocated to support the compilation of an ongoing PPI.

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.

Monetary and financial statistics. The 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. Some data inconsistencies continue to pose a challenge to the interpretation of FSIs.

External sector statistics. Despite recent improvements, more work is needed to improve balance of payments statistics. The NBC announced in April 2012 to make funds and resources available to the Statistics Department for conducting three surveys, namely, on direct investment, travel, and transport. However, compilers need to conduct sample surveys of largest direct investment enterprises *on a continuous basis* to permanently close the gap for direct investment position and transaction data. Foreign direct investment, which is believed to be large, relies excessively on approvals, and gaps exist with respect to large build-operate-transfer projects in the energy sector. Compilers should take full ownership and responsibility for collecting data, rather than continued reliance on technical assistance and the use of numerous assumptions and estimations. Customs data have substantial coverage and valuation problems arising from the use of reference prices and limited recording of nondutiable imports, underreporting of re-exports, and weaknesses in customs controls. The NBC receives monthly data from the General Department of Customs and Excise (GDCE) broken down into main commodities, which it uses to generate quarterly BOP figures as well as for internal analysis purposes. The quarterly trade figures, which are much more robust because they include updated monthly figures, are seldom used because they are not timely available, and presented in a different format. These figures also differ from the aggregated monthly figures, and compilers tend to use the latter ones because they are timely and in the preferred format. The compilers also added rather large estimates of 'unrecorded (shuttle trade)' and 'non-declared (smuggling)' trade. Enterprise transactions, such as payment for imported services, income payments, and portfolio investment abroad are excluded or underreported. A significant improvement of Cambodia's external sector statistics can be achieved if compilers strive to enhance and increase the use of the existing International Transactions Reporting System, which can serve as a cost-efficient and comprehensive data source to capture BOP transactions. Gaps also exist in public external debt and official transfers (e.g., grants), and no data are available for private external debts.

Cambodia is part of the Asian module of the Project on the Improvement of External Sector Statistics in the Asia Pacific Region, (JSA –funded), starting this year in October 2012 with a workshop in Thailand launching the project. The project will use a modular approach for providing heightened TA in implementing BPM6, and inviting countries to participate in the IMF's Coordinated Direct Investment Survey and Coordinated Portfolio Investment Survey. The project will consist mainly of short-term TA within the next three years.

Data Standards and Quality

Cambodia participates in the IMF's General Data Dissemination System. No data ROSC are available.

Cambodia: Table of Common Indicators Required for Surveillance

(As of November 2012)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	11/9/ 2012	11/12/ 2012	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	10/ 2012	11/2012	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	9/2012	11/2012	M	M, 4–6 week delay	M
Broad Money	9/2012	11/2012	M	M, 4–6 week delay	M
Central Bank Balance Sheet	9/2012	11/2012	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	9/2012	11/2012	M	M, 4–6 week delay	M
Interest Rates[3]	9/2012	11/2012	M	M, 4–6 week lag	M
Consumer Price Index	9/2012	10/2012	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General	8/2012	10/2012	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—Central	8/2012	10/2012	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	6/2012	9/2012	M	M, 3 month lag	A
External Current Account Balance	6/2012	9/2012	Q	Q, 3 month lag	Q
Exports and Imports of Goods and Services	6/2012	9/2012	Q	Q, 3 month lag	Q
GDP/GNP	2011	9/2012	A	A, 6 month lag	A
Gross External Debt	6/2012	9/2012	M	M, 3 month lag	A
International Investment Position[7]	06/2012	9/2012	Q	Q, 3 month lag	Q

[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.

MAIN WEBSITES OF DATA

National Bank of Cambodia (www.nbc.org.kh)

Exchange rates
Balance of payments
Interest rates
Monetary survey
Credit granted by deposit money banks and nonbank financial institutions

Ministry of Economic and Finance (www.mef.gov.kh)

Government budget
Fiscal revenue, expenditure, and financing

National Institute of Statistics (www.nis.gov.kh)

Consumer Price Index
National accounts
Population census
Labor force survey
Socioeconomic survey
Household survey

INTERNATIONAL MONETARY FUND

CAMBODIA

November 16, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
David Cowen and Masato Miyazaki (IMF)
Jeffrey D. Lewis and Sudhir Shetty (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).

This Debt Sustainability Analysis (DSA) shows that Cambodia's debt distress rating remains low under the baseline scenario. However, under an alternative scenario of limited reform progress, the scope for absorbing risk is substantially reduced. This underscores the need for sustaining strong growth, pursuing fiscal consolidation and mobilizing revenue, and improving debt and contingent liability management.

1. **This DSA incorporates the following updates relative to the previous one:** The macroeconomic assumptions for the baseline scenario are broadly similar to those in last year's DSA, while debt-to-GDP ratio at end-2011 was slightly higher due to larger disbursement of bilateral debt. The rating of Cambodia's policies and institutions remains unchanged at "medium performer," but the discount rate is revised to 3 percent from 4 percent last year, reflecting the decline of long-term Commercial Interest Reference Rates over the past few years.[2]

2. **The results show that Cambodia's risk of debt distress remains low** as debt burden indicators under the baseline scenario do not breach their relevant thresholds. Under an alternative scenario of a limited reform progress, however, the indicator would breach the threshold, showing a lower scope for absorbing risks.

[1] This DSA has been prepared jointly by IMF and World Bank staffs and in consultation with the Asian Development Bank (AsDB), using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

[2] Cambodia's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment, continue to be classified as "medium performer." The relevant indicative thresholds, applicable to public and publicly guaranteed external debt, for this category are 40 percent for the net present value (NPV) of debt-to-GDP ratio, 150 percent for the NPV of debt-to-exports ratio, 250 percent for the NPV of debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 30 percent for the debt service-to-revenue ratio.

CAMBODIA'S PUBLIC DEBT

3. At end-2011, the stock of Cambodia's external public debt, including arrears, stood at around US$3.8 billion or 30 percent of GDP (24 percent in NPV terms). The debt-to-GDP ratio has increased from 27 percent in 2008, partly reflecting greater external fiscal financing during the economic slowdown in 2009 and a continuation of donor-financed development spending above precrisis levels in 2010 and 2011.

4. Multilateral creditors continue to hold a substantial amount of Cambodia's external debt. However, their share in total debt has declined from 50 percent in 2009 to 40 percent in 2011 as a result of larger disbursement of bilateral debt during 2010–11. China remains the largest bilateral creditor, contributing to 40 percent of the total bilateral debt stock and 80 percent of bilateral debt disbursement during the past two years. In 1995, Cambodia concluded Paris Club agreements with France, Germany, Italy, and Japan. However, Cambodia remains in arrears to the Russian Federation and the United States (about 20 percent of total debt or 6 percent of GDP), and the status of negotiations of these arrears has remained unchanged since the last DSA. Cambodia is not servicing its debt with these two creditors, with efforts needed to conclude agreements under the Paris Club framework. Since prospects for resolution remain unclear, this DSA assumes no debt restructuring, with arrears continuing to build up over the projection period.

5. Cambodia has virtually no domestic public debt. There is a small amount of bonds (US$4 million) issued in the early 2000s and some old claims on the government (half percent of GDP, with no interest) that were carried over from the 1990s and continue to be recorded in the monetary survey.

6. In early 2012, Cambodia adopted a new debt management strategy, aimed at managing debt risks, coordinating and implementing debt management policies, and developing debt management capacity. It also includes a DSA that considers two potential higher borrowing scenarios in order to highlight the sustainability implications of deviating from the government's commitment to medium-term fiscal consolidation as outlined in the accompanying staff report. The first scenario assumes new concessional loan disbursement of SDR 400–700 million annually during 2011–18, and as a result, the debt distress would rise to medium risk. The second scenario assumes an annual disbursement of SDR 400–800 million and the debt distress would further increase to high risk.[3] The results of these two scenarios are consistent with the alternative scenario in last year's joint IMF-World Bank DSA, which showed that larger borrowing (up to US$880 million annually, twice that under the baseline) would lower the debt distress rating to medium risk. The authorities' debt strategy also emphasizes the importance of monitoring contingent liabilities, including those related to power generation and distribution projects that are being developed under the public-private partnership (PPP).

[3] The scenarios do not assume a break in past trends of funding parameters, including degree of concessionality, duration, currency composition and type of official lender.

MACROECONOMIC FRAMEWORK

7. The macroeconomic framework underlying the baseline scenario remains broadly in line with the previous DSA.

- **Growth and inflation:** Despite the global slowdown, growth has been holding up, driven by robust garment exports, particularly to the European Union, strong tourism activities, and a recovering real estate sector. Real GDP is projected to grow 6½ percent in 2012, a slight moderation from last year, but would reach its potential of about 7½ percent by 2017.[4] Apart from a gradual improvement in the global economy, this critically depends on reforms to upgrade infrastructure and promote economic diversification, as well as enhance public sector revenue and service delivery. Despite the recent increase in global food prices, inflation would stay at 3–4 percent during 2012–13. It is expected to average 3 percent over the medium term, in line with the authorities' informal target and partner countries' medium-term inflation performance.

- **External stability:** The current account deficit including official transfers is projected to peak at 10 percent of GDP in 2012, reflecting moderating exports and large imports related to the power generation projects, but the deficit remains fully financed by FDI and official loans. Over the medium term, the deficit is projected to narrow to 5½ percent of GDP, driven by robust export growth and slower import growth after the completion of large power-generation projects. Gross official reserves are projected to stay comfortably at more than four months of prospective imports. In line with staffs' recommendation of gradual medium-term fiscal consolidation, external debt disbursement is projected to average US$500 million (2½ percent of GDP) annually during 2012–17, mostly concessional, although the grant elements of some bilateral debts are slightly less than 35 percent.

Cambodia: Macroeconomic Framework, 2011–32, Baseline Scenario

	2011	2012	2013	2014	2015	2016	2017	2013–17	2018–22	2023–32
	Est.	Proj.								
Output and prices (percent change)										
GDP growth	7.1	6.5	6.7	7.2	7.4	7.4	7.5	7.2	7.5	7.5
Consumer prices (end-year)	4.9	3.4	4.6	4.0	3.0	3.0	3.0	3.5	3.0	3.0
Public finance (GFSM 2001 presentation, in percent of GDP)										
Revenue	15.6	16.2	16.6	17.2	17.4	17.6	18.0	17.4	18.1	18.6
Domestic revenue	12.3	13.2	13.7	14.2	14.7	15.2	15.8	14.7	16.7	17.9
Grants	3.2	3.0	2.9	2.9	2.6	2.4	2.2	2.6	1.5	0.7
Total expenditure	19.6	19.4	19.4	19.4	18.9	18.6	18.6	19.0	18.9	19.2
Net lending (+)/borrowing(-)	-4.1	-3.2	-2.7	-2.2	-1.5	-1.0	-0.6	-1.6	-0.7	-0.6
Balance of payments (in percent of GDP, unless otherwise indicated)										
Current account balance (including transfers)	-8.1	-10.0	-9.9	-7.7	-7.1	-6.2	-5.6	-7.3	-6.2	-5.7
Foreign direct investment	11.5	10.5	10.2	7.9	7.3	7.2	7.2	8.0	7.0	7.0
External loans	4.2	3.3	3.1	2.9	2.6	2.4	2.2	2.6	2.3	1.9
Gross official reserves (in months of next year's imports)	3.6	4.0	4.0	4.1	4.1	4.2	4.3	4.1	4.2	4.1

Sources: Cambodian authorities; and IMF staff estimates and projections.

- **Fiscal sustainability:** Revenue performance has improved in 2012 and the progress of fiscal consolidation is on track, although the government fiscal buffers remain limited. Domestic revenue is projected to increase by ½ percent of GDP annually over the medium term in line with the authorities' goal under the Public Financial Management Reform Program. Medium-term fiscal

[4] The assumption on potential growth is based on Rungcharoenkitkul (2011), "Modeling with Limited Data: Estimating Potential Growth in Cambodia," IMF Working Paper 12/96, that was also used in last year's DSA.

consolidation is anchored by a rebuilding of government deposits and maintenance of long-term fiscal debt sustainability, while striking a careful balance with providing resources for Cambodia's vast development needs against an expected gradual decline of concessional external funds.

8. The alternative scenario assumes limited progress in structural and fiscal reforms. Slow progress in improving the business and investment climate would reduce FDI and lower export growth, and as a result, real GDP growth would stay flat at around 6 percent. However, the overall impact on the current account and the balance of payment is minimal as import growth would also be lower. At the same time, efforts at greater revenue mobilization would remain limited or suffer delays, and domestic revenue collection would stay flat in terms of GDP over the medium term before gradually improving in the long run. Lower revenue collection would imply a greater reliance on foreign-financed capital spending, in which case external debt disbursement would average around 3¾ percent of GDP annually over the medium term, compared to slightly more than 2½ percent of GDP in the baseline scenario.

Cambodia: Macroeconomic Framework 2013-32, Limited Reform Progress Scenario

	2013–17	2018–22	2023–32
GDP growth	6.2	5.9	6.0
Public finance (GFSM 2001, percent of GDP)			
Revenue	16.3	16.6	17.6
Expenditure	19.1	19.1	19.0
Net lending (+)/borrowing(-)	-2.8	-2.6	-1.3
Balance of payments (percent of GDP)			
Current account balance (including transfers)	-8.3	-7.2	-4.2
Foreign direct investment	7.3	5.2	3.9
External loans	3.8	3.8	2.2

Sources: Cambodian authorities; and IMF staff estimates and projections.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

9. The external DSA under the baseline macroeconomic outlook indicates that Cambodia's risk of debt distress remains low (Figure 1, Tables 1a and 1b). The PV of debt-to-GDP, debt-to-exports, and debt-to-revenue ratios are expected to decline over the 20-year projection period and remain below the respective indicative thresholds. The debt service-to-exports and debt service-to-revenue ratios would also stay well below the thresholds throughout the projection period partly due to the concessionality of debts. The standard stress tests also do not reveal any serious vulnerability, although the debt-to-revenue ratio appears sensitive to exchange rate and export shocks, highlighting the importance of raising revenue collections.

10. The public DSA closely tracts the external debt sustainability given the small amount of domestic public debt (Figure 2 and Tables 2a and 2b). The PV of public debt-to-GDP ratio and the public debt service-to-revenue ratio would decline gradually over the long term, and the debt service-to-revenue ratio would remain low in most scenarios for the entire projection period. Consistent with the medium-term fiscal objective of building government fiscal buffers, Cambodia is not expected to develop a market for domestic government debt securities in the foreseeable future.

11. Public debt sustainability continues to be vulnerable to a lack of fiscal consolidation and a permanent growth shock. If the primary balance remains unchanged at the 2012 level, the PV of public debt-to-GDP and debt-to-revenue ratios would continue to increase, reaching about 35 percent and 180 percent, respectively, in the long run. Under a permanent growth shock, if real GDP growth is one standard deviation lower than the baseline, the ratios of public debt to GDP and revenue would also continue to increase.

12. Under the alternative scenario of limited reform progress, Cambodia could lose its low debt distress rating (Figures 3 and 4 and Tables 3a and 3b). The PV of debt in terms of GDP, revenue, and exports would increase slightly over the next decade as a result of greater disbursement of debt to provide adequate financing for development needs. The standard tests reveal that the PV of debt-to-revenue and debt-to-GDP ratios would breach the relevant thresholds as a result of exchange rate shocks. Apart from reducing Cambodia's ability to absorb shocks, the scenario underscores the importance of mobilizing domestic revenue as planned. While the breach would seem minimal, it should be noted that tougher financing conditions with a lower grant element, albeit difficult to quantify ex ante, would likely ensue, which would erode debt sustainability further. Moreover, the alternative scenario does not assume any contingent liability materializing. However, the return to sustainable debt levels would become more difficult if the following contingent liabilities, which tend to correlate with shocks under the bound tests, were triggered:

- First, total investment of the power generation and distribution projects under PPPs is estimated at about 50 percent of GDP, and if for any reason problems arose potentially leading to a total loss of investment costs, substantial liabilities would be added to the debt stock.[5]

- Second, a banking crisis that could result from a growth slowdown, for a country with Cambodia's financial depths could typically add about 10 percent of GDP to public debt.[6]

THE AUTHORITIES' VIEW

13. The authorities broadly agreed with the overall results of the DSA. They indicated that they have used more conservative assumptions on economic growth and fiscal revenue in their debt analysis to ensure prudent management and disbursement of new debt. The authorities also reiterated that new borrowing would be prioritized for investment sectors with a high growth and social impact (e.g., roads, bridges, ports, and irrigation), and that they would continue to monitor the concessionality of new loans. The authorities reported that they are making progress in monitoring the contingent liability related to power generation and distribution projects by improving information sharing between agencies.

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[5] For example, if only one in ten projects fails, an average 5 percent of GDP would be added to the debt stock. Given network externalities, one failure could trigger further failures and hamper growth, thus setting in motion a vicious cycle of eroding debt sustainability.

[6] See for example Laeven and Valencia (2010) who show that the median direct fiscal cost of banking crisis in emerging market economies is 11.5 percent of GDP.

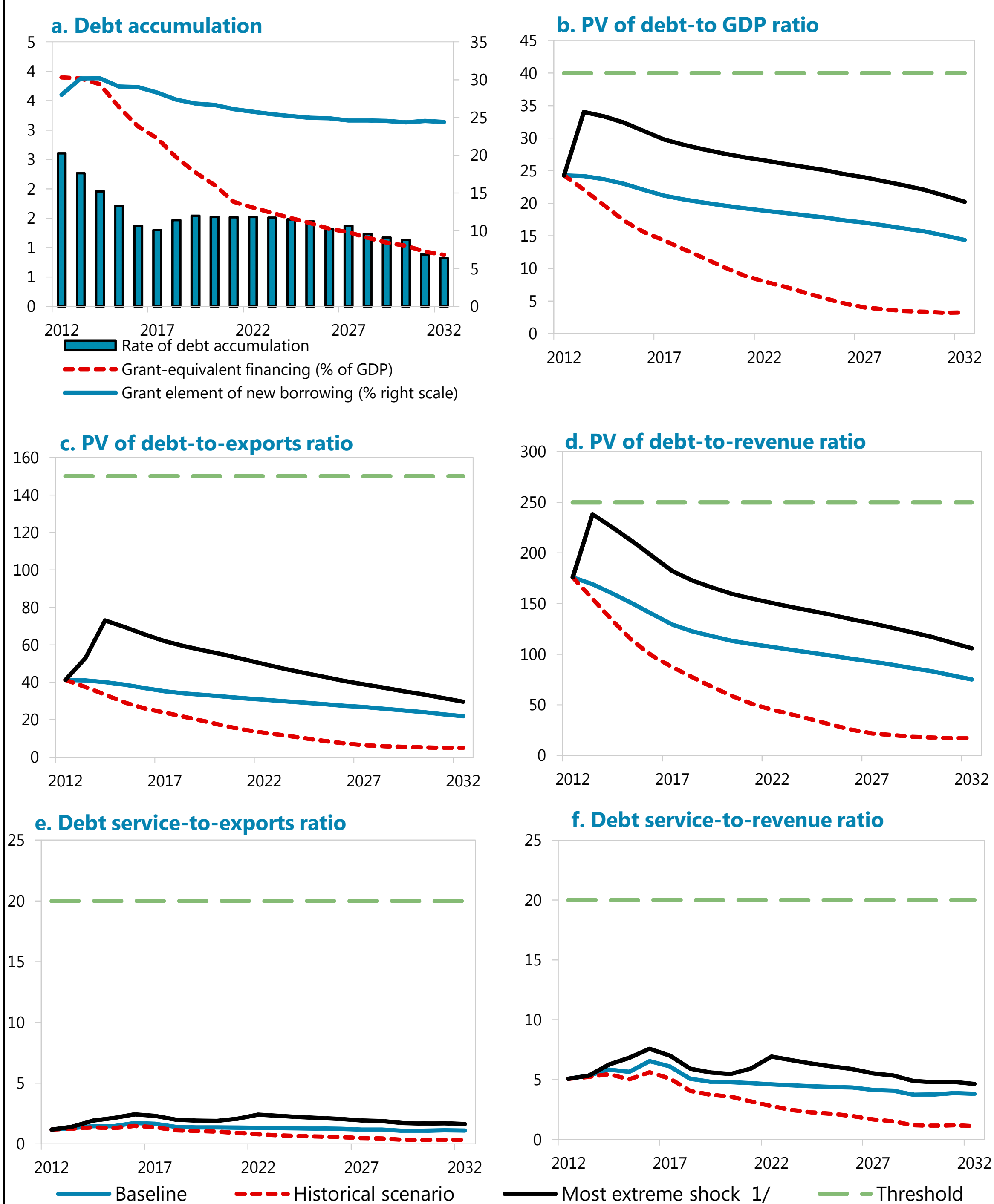
CONCLUSION

14. Cambodia remains at low risk of debt distress under the baseline scenario. The baseline projections and the standard stress tests show limited risk to external debt given that none of the indicators breach their thresholds.

15. However, the alternative scenario of limited reform progress shows that promoting structural reforms and mobilizing revenue are imperative to ensure long-term debt sustainability. This exercise also emphasizes the importance of maintaining macroeconomic stability, managing new debt accumulation effectively, and monitoring and managing any potential contingent liabilities arising from the power-generation projects and the financial sector.

16. Staffs welcome progress made in adopting the new debt management strategy and strengthening debt management capacity. The authorities should move forward to implement the comprehensive debt management strategy and to assess and monitor the risks and potential contingent liabilities. In this context, staffs recommend to continue improving information sharing with a view to setting up a central monitoring unit with "gateway powers" to evaluate and approve new PPP projects, enhancing fiscal transparency by adopting a ceiling on PPP guarantees, and listing all contingent liabilities and government guarantees in annual budget laws.

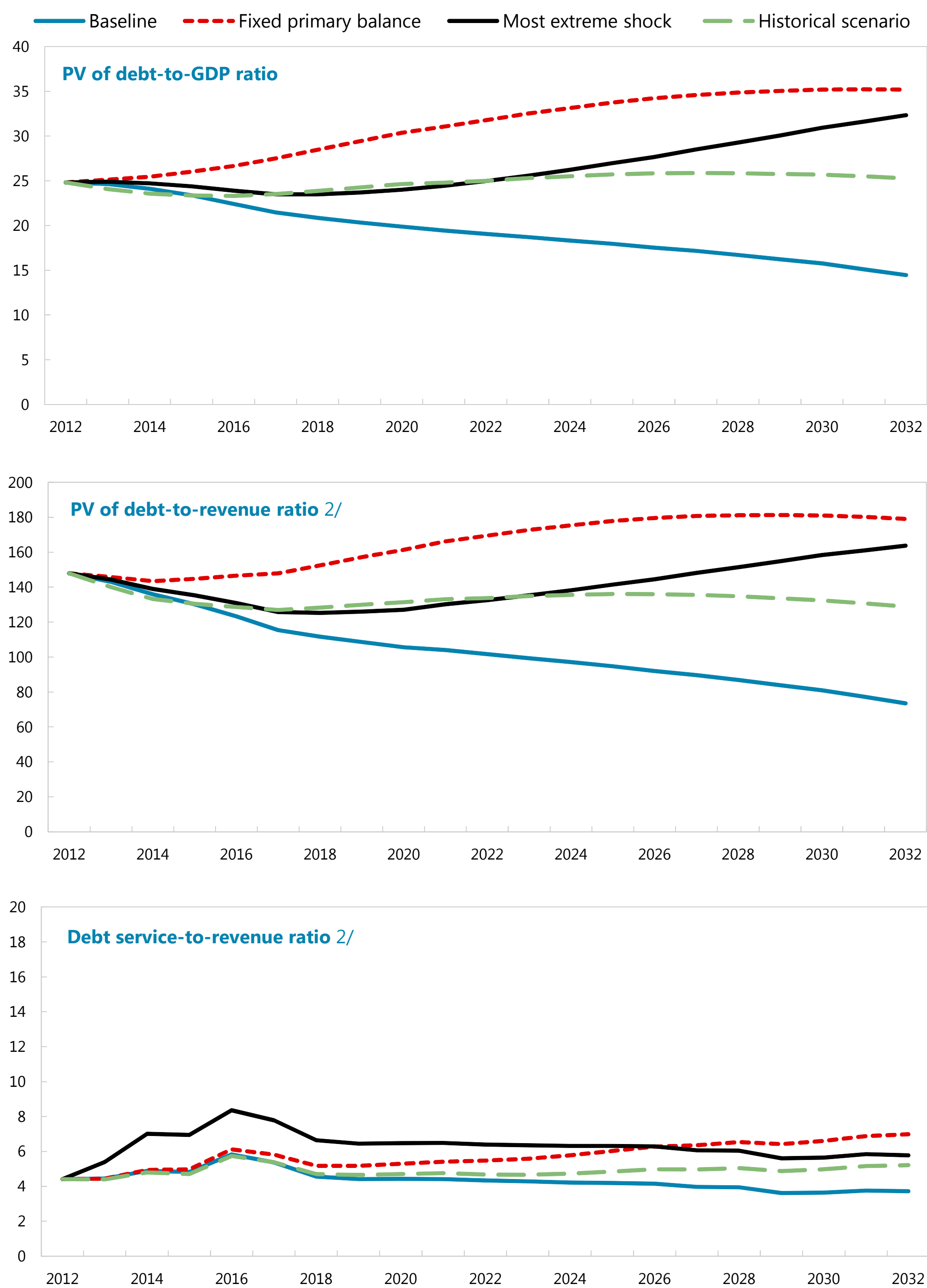
Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2012–32 1/



Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. 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 an exports shock.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2012–32 1/

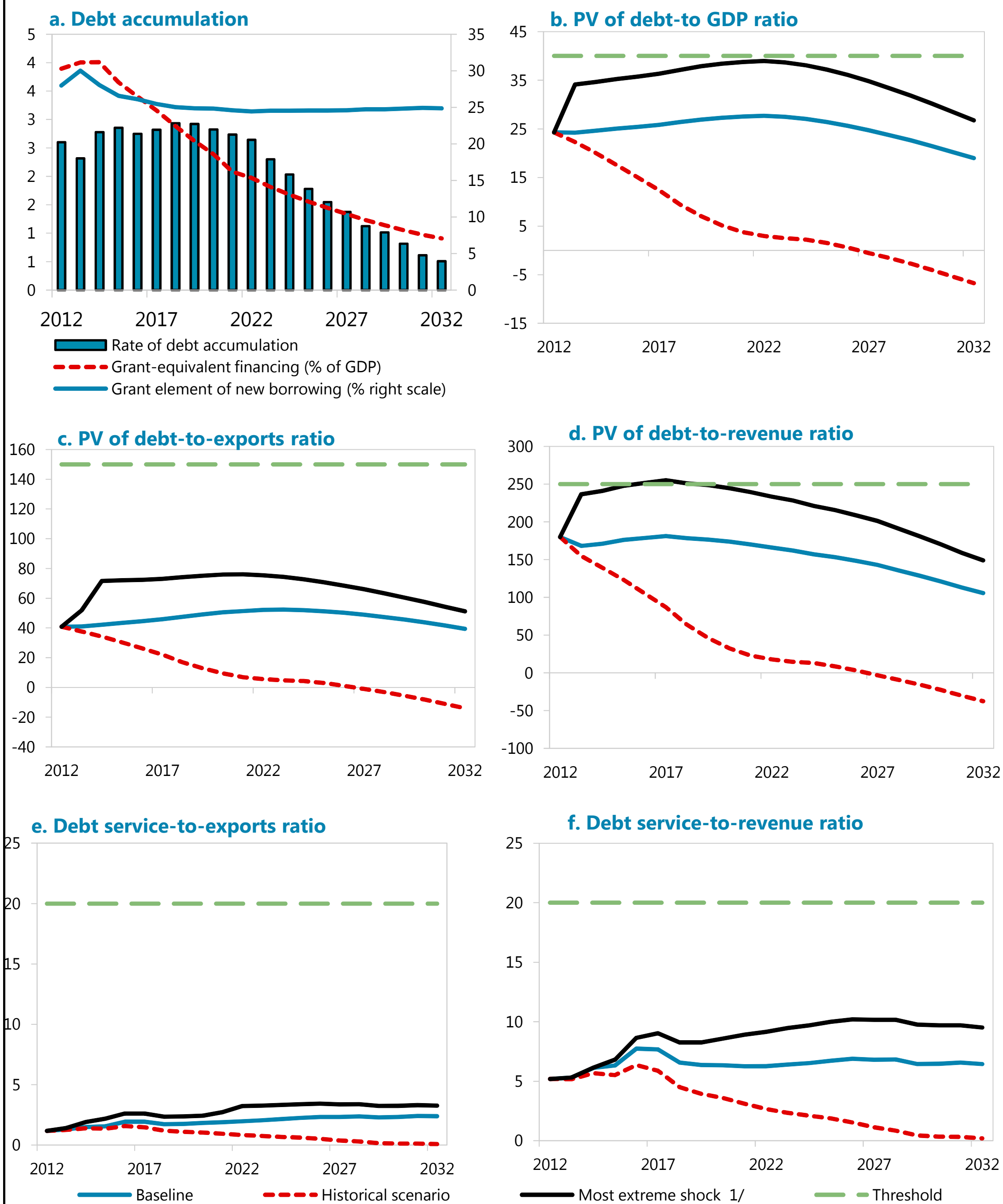


Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in all figures, this corresponds to a permanent growth shock in 2022.

2/ Revenues are defined inclusive of grants.

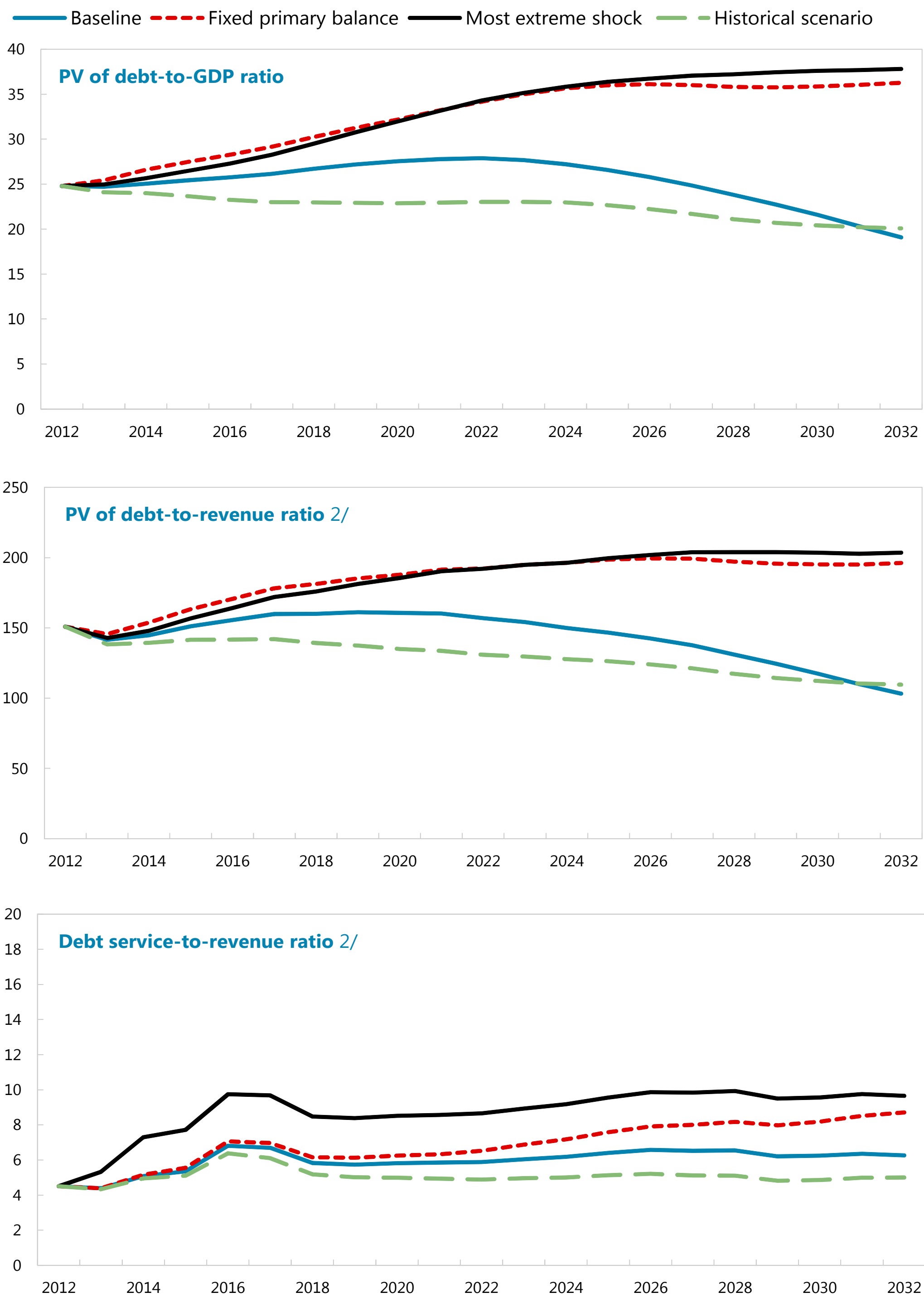
Figure 3. Cambodia: Indicators of External Debt, Alternative Scenario of Limited Reform Progress, 2012–32 1/



Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. 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 terms-of-trade shock.

Figure 4. Cambodia: Indicators of Public Debt, Alternative Scenario of Limited Reform Progress, 2012–32 1/



Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in all figures, this corresponds to a permanent growth shock in 2022.

2/ Revenues are defined inclusive of grants.

Table 1a. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2009–32 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012–17 Average	2022	2032	2018–22 Average
External debt (nominal) 1/	**28.4**	**28.7**	**29.7**			**30.1**	**30.2**	**29.9**	**29.2**	**28.2**	**27.2**		**24.5**	**18.4**	
Of which: Public and publicly guaranteed (PPG)	28.4	28.7	29.7			30.1	30.2	29.9	29.2	28.2	27.2		24.5	18.4	
Change in external debt	1.4	0.3	1.0			0.3	0.1	-0.3	-0.7	-1.0	-1.0		-0.5	-0.8	
Identified net debt-creating flows	-0.6	-5.0	-7.1			-2.1	-2.1	-2.2	-2.2	-3.0	-3.5		-2.5	-3.4	
Noninterest current account deficit	**4.3**	**3.6**	**7.8**	**3.4**	**2.1**	**9.7**	**9.5**	**7.3**	**6.7**	**5.8**	**5.2**	**7.4**	**5.9**	**4.6**	5.6
Deficit in balance of goods and services	8.4	7.9	8.9			11.1	10.0	7.5	6.7	5.9	5.5		5.7	3.9	
Exports	43.4	49.3	57.7			58.9	58.9	59.1	59.6	60.0	60.2		61.7	65.9	
Imports	51.8	57.2	66.6			70.0	68.9	66.6	66.2	65.9	65.8		67.4	69.8	
Net current transfers (negative = inflow)	-8.5	-8.6	-6.3	-9.1	1.4	-5.6	-4.9	-4.5	-4.1	-3.8	-3.5	-4.4	-2.6	-2.2	-2.5
Of which: Official	-6.7	-6.8	-3.8			-3.3	-2.9	-2.5	-2.1	-1.8	-1.5		-0.6	-0.2	
Other current account flows (negative = net inflow)	4.3	4.4	5.1			4.2	4.4	4.3	4.2	3.8	3.2		2.7	3.0	
Net FDI (negative = inflow)	**-5.0**	**-6.8**	**-11.5**	**-6.1**	**3.2**	**-10.5**	**-10.2**	**-7.9**	**-7.3**	**-7.2**	**-7.2**	**-8.4**	**-7.0**	**-6.9**	-7.0
Endogenous debt dynamics 3/	**0.1**	**-1.8**	**-3.4**			**-1.4**	**-1.5**	**-1.6**	**-1.6**	**-1.6**	**-1.6**		**-1.4**	**-1.1**	
Contribution from nominal interest rate	0.3	0.3	0.3			0.3	0.4	0.4	0.4	0.4	0.3		0.3	0.2	
Contribution from real GDP growth	0.0	-1.6	-1.8			-1.7	-1.8	-2.0	-2.0	-2.0	-1.9		-1.7	-1.3	
Contribution from price and exchange rate changes	-0.1	-0.5	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**2.1**	**5.3**	**8.1**			**2.5**	**2.3**	**1.8**	**1.5**	**2.0**	**2.5**		**2.1**	**2.6**	
Of which: Exceptional financing	-0.2	-0.2	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
PV of external debt 5/	...	...	24.2			24.3	24.2	23.7	23.0	22.1	21.2		18.9	14.4	
In percent of exports	...	...	42.0			41.2	41.0	40.1	38.6	36.8	35.1		30.6	21.8	
PV of PPG external debt	**...**	**...**	**24.2**			**24.3**	**24.2**	**23.7**	**23.0**	**22.1**	**21.2**		**18.9**	**14.4**	
In percent of exports	**...**	**...**	**42.0**			**41.2**	**41.0**	**40.1**	**38.6**	**36.8**	**35.1**		**30.6**	**21.8**	
In percent of government revenues	**...**	**...**	**185.0**			**176.0**	**169.2**	**159.9**	**150.2**	**139.6**	**129.3**		**107.0**	**75.2**	
Debt service-to-exports ratio (in percent)	**1.5**	**1.4**	**1.2**			**1.2**	**1.3**	**1.5**	**1.5**	**1.7**	**1.7**		**1.3**	**1.1**	
PPG debt service-to-exports ratio (in percent)	**1.5**	**1.4**	**1.2**			**1.2**	**1.3**	**1.5**	**1.5**	**1.7**	**1.7**		**1.3**	**1.1**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**5.2**	**5.2**			**5.1**	**5.3**	**5.8**	**5.7**	**6.5**	**6.1**		**4.6**	**3.8**	
Total gross financing need (billions of U.S. dollars)	0.0	-0.3	-0.4			0.0	0.0	0.1	0.1	-0.1	-0.2		-0.1	-1.6	
Noninterest current account deficit that stabilizes debt ratio	2.8	3.3	6.7			9.4	9.4	7.7	7.4	6.8	6.3		6.3	5.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.1	6.1	7.1	8.0	3.6	6.5	6.7	7.2	7.4	7.4	7.5	7.1	7.4	7.5	7.5
GDP deflator in U.S. dollar terms (change in percent)	0.5	1.9	7.0	4.3	3.8	3.8	3.2	2.9	2.8	2.8	2.8	3.0	2.4	2.5	2.4
Effective interest rate (percent) 6/	1.1	1.1	1.2	1.1	0.1	1.3	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.3
Growth of exports of G&S (U.S. dollar terms, in percent)	-10.0	22.8	33.8	14.3	14.3	12.9	10.1	10.7	11.2	11.2	10.9	11.2	10.8	10.9	10.8
Growth of imports of G&S (U.S. dollar terms, in percent)	-9.6	19.2	33.3	14.1	12.5	16.2	8.3	6.7	9.7	9.8	10.4	10.2	10.5	10.5	10.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.0	30.2	30.2	29.1	29.0	28.3	29.1	25.8	24.4	25.4
Government revenues (excluding grants, in percent of GDP)	12.0	13.1	13.1			13.8	14.3	14.8	15.3	15.8	16.4		17.6	19.1	18.1
Aid flows (in billions of U.S. dollars) 7/	0.6	0.8	0.7			0.7	0.8	0.8	0.8	0.8	0.9		0.9	1.2	
Of which: Grants	0.4	0.6	0.4			0.4	0.5	0.5	0.5	0.5	0.5		0.4	0.5	
Of which: Concessional loans	0.2	0.2	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.5	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.9	3.9	3.8	3.4	3.1	2.9		1.7	0.9	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			61.8	64.0	65.3	65.1	64.3	63.9		49.8	45.0	48.9
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	10.4	11.3	12.9			14.2	15.7	17.3	19.1	21.1	23.3		37.5	98.4	
Nominal dollar GDP growth	0.6	8.1	14.5			10.5	10.0	10.3	10.4	10.4	10.5	10.4	10.0	10.2	10.1
PV of PPG external debt (in billions of U.S. dollars)			3.1			3.5	3.8	4.1	4.4	4.6	4.9		7.1	14.1	
(PVt-PVt-1)/GDPt-1 (in percent)						2.6	2.3	2.0	1.7	1.4	1.3	1.9	1.5	0.8	1.3
Gross workers' remittances (billions of U.S. dollars)	0.2	0.2	0.3			0.3	0.3	0.3	0.4	0.4	0.5		0.8	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	23.6			23.8	23.7	23.2	22.6	21.6	20.7		18.5	14.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	40.3			39.7	39.7	38.7	37.4	35.6	34.0		29.6	21.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.1			1.1	1.3	1.4	1.4	1.7	1.6		1.3	1.1	

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
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 Public and Publicly Guaranteed External Debt, 2012–32
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	24	24	24	23	22	21	**19**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	24	22	20	17	16	14	**8**	3
A2. New public sector loans on less favorable terms in 2012–32 /2	24	25	26	25	25	25	**25**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	24	25	25	24	23	22	**20**	15
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	24	28	35	34	32	31	**25**	16
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	24	25	25	24	23	22	**20**	15
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	24	27	28	27	26	25	**21**	15
B5. Combination of B1-B4 using one-half standard deviation shocks	24	27	30	28	27	26	**22**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	24	34	33	32	31	30	**27**	20
PV of debt-to-exports ratio								
Baseline	41	41	40	39	37	35	**31**	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	41	37	33	29	26	24	**13**	5
A2. New public sector loans on less favorable terms in 2012–32 /2	41	43	43	43	42	41	**40**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	41	41	40	39	37	35	**31**	22
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	41	53	73	69	66	62	**50**	30
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	41	41	40	39	37	35	**31**	22
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	41	47	47	45	43	41	**34**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	41	47	52	49	47	44	**37**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	41	41	40	39	37	35	**31**	22
PV of debt-to-revenue ratio								
Baseline	176	169	160	150	140	129	**107**	75
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	176	155	133	113	98	87	**45**	17
A2. New public sector loans on less favorable terms in 2012–32 /2	176	176	172	166	159	151	**139**	112
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	176	173	168	158	146	136	**112**	79
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	176	197	240	222	204	187	**142**	84
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	176	173	168	158	147	136	**112**	79
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	176	192	189	177	164	151	**120**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	176	192	200	186	172	158	**125**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	176	238	225	211	197	182	**151**	106

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–32 (concluded)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
Debt service-to-exports ratio								
Baseline	1	1	1	1	2	2	**1**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	1	1	1	1	1	1	**1**	0
A2. New public sector loans on less favorable terms in 2012–32 /2	1	1	1	2	2	2	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	1	1	1	1	2	2	**1**	1
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	1	1	2	2	2	2	**2**	2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	1	1	1	1	2	2	**1**	1
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	1	1	2	2	2	2	**2**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	2	2	2	2	**2**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1	1	1	1	2	2	**1**	1
Debt service-to-revenue ratio								
Baseline	5	5	6	6	7	6	**5**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	5	5	5	5	6	5	**3**	1
A2. New public sector loans on less favorable terms in 2012–32 /2	5	5	6	6	7	7	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	5	5	6	6	7	6	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	5	5	6	7	8	7	**7**	5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	5	5	6	6	7	6	**5**	4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	5	5	6	6	7	6	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	6	7	7	**6**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	8	8	8	9	9	**6**	5
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 IMF 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, 2009–32

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 1/	Standard Deviation 1/	2012	2013	2014	2015	2016	2017	2012–17 Average	2022	2032	2018–32 Average
Public sector debt 2/	29.1	29.3	30.3			30.6	30.7	30.3	29.6	28.5	27.5		24.6	18.4	
Of which: Foreign-currency denominated	28.4	28.7	29.7			30.1	30.2	29.9	29.2	28.2	27.2		24.5	18.4	
Change in public sector debt	1.4	0.2	1.0			0.3	0.1	-0.4	-0.7	-1.0	-1.1		-0.5	-0.8	
Identified debt-creating flows	4.0	-0.6	1.4			0.4	-0.1	-0.7	-1.4	-1.9	-2.2		-1.5	-1.4	
Primary deficit	3.9	2.3	4.0	1.9	1.9	2.9	2.3	1.8	1.1	0.5	0.1	1.5	0.4	0.2	0.3
Revenue and grants	16.3	18.0	16.3			16.8	17.2	17.7	18.0	18.2	18.6		18.7	19.7	
Of which: Grants	4.2	4.9	3.2			3.0	2.9	2.9	2.6	2.4	2.2		1.1	0.5	
Primary (noninterest) expenditure	20.1	20.3	20.3			19.7	19.5	19.5	19.0	18.7	18.7		19.2	19.8	
Automatic debt dynamics	0.1	-2.9	-2.6			-2.5	-2.4	-2.5	-2.5	-2.4	-2.4		-2.0	-1.5	
Contribution from interest rate/growth differential	0.3	-1.7	-2.0			-1.9	-2.0	-2.2	-2.2	-2.2	-2.2		-1.9	-1.4	
Of which: Contribution from average real interest rate	0.3	0.0	0.0			-0.1	-0.1	-0.1	-0.1	-0.2	-0.2		-0.2	-0.1	
Of which: Contribution from real GDP growth	0.0	-1.7	-1.9			-1.8	-1.9	-2.1	-2.1	-2.0	-2.0		-1.7	-1.3	
Contribution from real exchange rate depreciation	-0.2	-1.2	-0.7			-0.6	-0.4	-0.3	-0.3	-0.2	-0.2		...	...	
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	-2.7	0.8	-0.4			-0.2	0.2	0.4	0.7	0.9	1.2		1.1	0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	24.8			24.8	24.6	24.1	23.4	22.4	21.5		19.1	14.5	
Of which: Foreign-currency denominated	...	...	24.2			24.3	24.2	23.7	23.0	22.1	21.2		18.9	14.4	
Of which: External	...	...	24.2			24.3	24.2	23.7	23.0	22.1	21.2		18.9	14.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	5.1	3.5	5.2			4.1	3.5	3.0	2.3	1.9	1.4		1.4	0.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	152.0			147.9	143.0	136.0	130.2	123.3	115.5		101.7	73.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	189.3			179.7	172.4	162.7	152.7	141.8	131.2		108.1	75.5	
Of which: External 4/	...	...	185.0			176.0	169.2	159.9	150.2	139.6	129.3		107.0	75.2	
Debt service-to-revenue and grants ratio (in percent) 5/	3.9	3.8	4.2			4.4	4.4	4.9	4.8	5.8	5.4		4.3	3.7	
Debt service-to-revenue ratio (in percent) 5/	5.3	5.2	5.2			5.4	5.4	5.9	5.7	6.7	6.1		4.6	3.8	
Primary deficit that stabilizes the debt-to-GDP ratio	2.5	2.1	3.0			2.7	2.2	2.1	1.8	1.6	1.2		0.9	1.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.1	6.1	7.1	8.0	3.6	6.5	6.7	7.2	7.4	7.4	7.5	7.1	7.4	7.5	7.5
Average nominal interest rate on forex debt (in percent)	1.1	1.1	1.2	1.1	0.1	1.3	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.3
Average real interest rate on domestic debt (in percent)	-2.1	-2.4	-3.1	-4.8	2.7	-3.3	-3.0	-2.9	-2.8	-2.8	-2.794	-2.9	-2.404	-2.516	-2.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.6	-4.5	-2.5	-2.6	2.8	-2.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.6	3.0	3.4	4.6	3.3	3.6	3.3	3.2	3.2	3.1	3.1136	3.2	2.7013	2.81919	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.0757	0.1	0.0749	0.08218	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	28.0	30.2	30.2	29.1	29.0	28.287	29.1	25.772	24.4042	...

Sources: Cambodian authorities; and IMF 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, 2012–32
(In percent)

		Projections						
	2012	2013	2014	2015	2016	2017	2022	2032
PV of debt-to-GDP ratio								
Baseline	25	25	24	23	22	21	19	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	24	24	23	23	24	25	25
A2. Primary balance is unchanged from 2012	25	25	25	26	27	27	32	35
A3. Permanently lower GDP growth 1/	25	25	25	24	24	23	25	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013–14	25	25	26	26	25	25	25	22
B2. Primary balance is at historical average minus one standard deviations in 2013–14	25	26	27	26	25	24	21	15
B3. Combination of B1-B2 using one half standard deviation shocks	25	25	26	25	24	23	21	17
B4. One-time 30 percent real depreciation in 2013	25	34	32	31	29	27	22	16
B5. 10 percent of GDP increase in other debt-creating flows in 2013	25	32	31	30	28	27	23	16
PV of debt-to-revenue ratio 2/								
Baseline	148	143	136	130	123	115	102	74
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	148	140	133	131	129	127	134	129
A2. Primary balance is unchanged from 2012	148	146	144	145	147	148	169	179
A3. Permanently lower GDP growth 1/	148	144	139	135	131	126	133	164
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013–14	148	147	146	143	139	133	130	114
B2. Primary balance is at historical average minus one standard deviations in 2013–14	148	150	150	143	135	127	109	77
B3. Combination of B1-B2 using one half standard deviation shocks	148	146	144	139	132	125	113	87
B4. One-time 30 percent real depreciation in 2013	148	198	183	171	159	146	119	79
B5. 10 percent of GDP increase in other debt-creating flows in 2013	148	187	175	166	156	146	123	82
Debt service-to-revenue ratio 2/								
Baseline	4	4	5	5	6	5	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	5	5	6	5	5	5
A2. Primary balance is unchanged from 2012	4	4	5	5	6	6	5	7
A3. Permanently lower GDP growth 1/	4	4	5	5	6	6	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013–14	4	5	5	5	6	6	5	5
B2. Primary balance is at historical average minus one standard deviations in 2013–14	4	4	5	5	6	6	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	4	4	5	5	6	6	5	4
B4. One-time 30 percent real depreciation in 2013	4	5	7	7	8	8	6	6
B5. 10 percent of GDP increase in other debt-creating flows in 2013	4	4	6	6	6	6	6	4

Sources: Cambodian authorities; and IMF 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. Cambodia: External Debt Sustainability Framework, Alternative Scenario of Limited Reform Progress, 2009–32 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 2/ Average	Standard 2/ Deviation	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012–17 Average	2022	2032	2018–32 Average
External debt (nominal) 1/	**28.4**	**28.7**	**29.7**			**30.1**	**30.3**	**31.1**	**31.8**	**32.4**	**33.1**		**35.5**	**24.1**	
Of which: Public and publicly guaranteed (PPG)	28.4	28.7	29.7			30.1	30.3	31.1	31.8	32.4	33.1		35.5	24.1	
Change in external debt	1.4	0.3	1.0			0.3	0.2	0.8	0.7	0.6	0.7		0.1	-1.5	
Identified net debt-creating flows	-0.6	-5.0	-7.1			-4.1	-2.3	-1.1	-0.5	-0.2	0.2		-1.2	-0.8	
Noninterest current account deficit	**4.3**	**3.6**	**7.8**	**3.4**	**2.1**	**7.7**	**9.1**	**7.7**	**7.5**	**7.4**	**7.6**	**7.8**	**5.2**	**3.5**	4.8
Deficit in balance of goods and services	8.4	7.9	8.9			9.1	9.6	7.8	7.5	7.6	8.0		5.2	3.6	
Exports	43.4	49.3	57.7			59.5	59.2	58.5	57.7	57.0	56.3		53.1	48.2	
Imports	51.8	57.2	66.6			68.6	68.8	66.4	65.2	64.7	64.3		58.2	51.8	
Net current transfers (negative = inflow)	-8.5	-8.6	-6.3	-9.1	1.4	-5.6	-4.9	-4.5	-4.1	-3.8	-3.6	-4.4	-2.6	-2.3	-2.6
Of which: Official	-6.7	-6.8	-3.8			-3.3	-2.9	-2.5	-2.1	-1.8	-1.6		-0.6	-0.3	
Other current account flows (negative = net inflow)	4.3	4.4	5.1			4.2	4.4	4.3	4.1	3.6	3.1		2.6	2.2	
Net FDI (negative = inflow)	**-5.0**	**-6.8**	**-11.5**	**-6.1**	**3.2**	**-10.5**	**-10.0**	**-7.5**	**-6.6**	**-6.3**	**-6.0**	**-7.8**	**-4.9**	**-3.3**	-4.4
Endogenous debt dynamics 3/	**0.1**	**-1.8**	**-3.4**			**-1.4**	**-1.4**	**-1.4**	**-1.4**	**-1.3**	**-1.3**		**-1.5**	**-1.1**	
Contribution from nominal interest rate	0.3	0.3	0.3			0.3	0.4	0.4	0.4	0.4	0.4		0.4	0.3	
Contribution from real GDP growth	0.0	-1.6	-1.8			-1.7	-1.8	-1.8	-1.8	-1.7	-1.7		-1.9	-1.4	
Contribution from price and exchange rate changes	-0.1	-0.5	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**2.1**	**5.3**	**8.1**			**4.4**	**2.6**	**1.9**	**1.2**	**0.8**	**0.4**		**1.3**	**-0.7**	
Of which: Exceptional financing	-0.2	-0.2	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
PV of external debt 5/	...	...	24.2			24.3	24.2	24.6	25.1	25.4	25.8		27.7	19.0	
In percent of exports	...	...	42.0			40.8	40.9	42.1	43.4	44.6	45.9		52.2	39.4	
PV of PPG external debt	**...**	**...**	**24.2**			**24.3**	**24.2**	**24.6**	**25.1**	**25.4**	**25.8**		**27.7**	**19.0**	
In percent of exports	**...**	**...**	**42.0**			**40.8**	**40.9**	**42.1**	**43.4**	**44.6**	**45.9**		**52.2**	**39.4**	
In percent of government revenues	**...**	**...**	**185.0**			**180.2**	**168.1**	**171.3**	**176.2**	**178.9**	**181.4**		**166.0**	**106.0**	
Debt service-to-exports ratio (in percent)	**1.5**	**1.4**	**1.2**			**1.2**	**1.3**	**1.5**	**1.6**	**1.9**	**1.9**		**2.0**	**2.4**	
PPG debt service-to-exports ratio (in percent)	**1.5**	**1.4**	**1.2**			**1.2**	**1.3**	**1.5**	**1.6**	**1.9**	**1.9**		**2.0**	**2.4**	
PPG debt service-to-revenue ratio (in percent)	**5.3**	**5.2**	**5.2**			**5.2**	**5.3**	**6.1**	**6.3**	**7.7**	**7.7**		**6.3**	**6.4**	
Total gross financing need (billions of U.S. dollars)	0.0	-0.3	-0.4			-0.3	0.0	0.2	0.3	0.5	0.6		0.5	1.2	
Noninterest current account deficit that stabilizes debt ratio	2.8	3.3	6.7			7.4	8.8	6.9	6.7	6.8	6.9		5.0	5.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.1	6.1	7.1	8.0	3.6	6.5	6.5	6.4	6.2	6.0	5.8	6.2	6.0	6.0	6.0
GDP deflator in U.S. dollar terms (change in percent)	0.5	1.9	7.0	4.3	3.8	3.8	3.2	3.1	3.2	3.2	3.3	3.3	2.9	3.0	3.0
Effective interest rate (percent) 6/	1.1	1.1	1.2	1.1	0.1	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3
Growth of exports of G&S (U.S. dollar terms, in percent)	-10.0	22.8	33.8	14.3	14.3	14.0	9.5	8.5	8.2	8.1	7.9	9.4	8.0	8.1	8.0
Growth of imports of G&S (U.S. dollar terms, in percent)	-9.6	19.2	33.3	14.1	12.5	13.8	10.3	5.9	7.8	8.5	8.7	9.2	6.6	8.1	7.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.0	30.0	28.1	26.6	26.1	25.4	27.4	24.4	24.9	24.7
Government revenues (excluding grants, in percent of GDP)	12.0	13.1	13.1			13.5	14.4	14.4	14.2	14.2	14.2		16.7	17.9	16.9
Aid flows (in billions of U.S. dollars) 7/	0.6	0.8	0.7			0.7	0.8	0.9	0.9	1.0	1.0		1.0	1.1	
Of which: Grants	0.4	0.6	0.4			0.4	0.5	0.5	0.5	0.5	0.5		0.4	0.5	
Of which: Concessional loans	0.2	0.2	0.3			0.3	0.3	0.4	0.4	0.5	0.5		0.6	0.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.9	4.0	4.0	3.7	3.4	3.2		2.0	0.9	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			61.8	64.2	59.1	55.9	53.4	51.1		41.9	45.8	44.4
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	10.4	11.3	12.9			14.2	15.7	17.2	18.9	20.6	22.6		34.7	83.3	
Nominal dollar GDP growth	0.6	8.1	14.5			10.5	9.9	9.8	9.7	9.4	9.3	9.8	9.1	9.2	9.1
PV of PPG external debt (in billions of U.S. dollars)			3.1			3.5	3.8	4.2	4.7	5.2	5.8		9.6	15.8	
(PVt-PVt-1)/GDPt-1 (in percent)						2.6	2.3	2.8	2.9	2.7	2.8	2.7	2.6	0.5	1.8
Gross workers' remittances (billions of U.S. dollars)	0.2	0.2	0.3			0.3	0.3	0.3	0.4	0.4	0.5		0.7	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	23.6			23.8	23.8	24.1	24.6	24.9	25.3		27.1	19.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	40.3			39.4	39.6	40.7	42.0	43.0	44.3		50.3	39.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.1			1.1	1.2	1.5	1.5	1.9	1.9		1.9	2.4	

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Alternative Scenario of Limited Reform Progress, 2012–32

(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	24	24	25	25	25	26	**28**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	24	22	20	18	15	12	**3**	-7
A2. New public sector loans on less favorable terms in 2012–32 2/	24	25	27	28	30	31	**37**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	24	25	26	26	26	27	**29**	20
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	24	28	35	35	35	35	**34**	21
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	24	25	26	26	27	27	**29**	20
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	24	27	29	29	29	29	**30**	20
B5. Combination of B1-B4 using one-half standard deviation shocks	24	27	28	29	29	29	**30**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	24	34	35	35	36	36	**39**	27
PV of debt-to-exports ratio								
Baseline	41	41	42	43	45	46	**52**	39
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	41	38	34	30	26	22	**6**	-14
A2. New public sector loans on less favorable terms in 2012–32 2/	41	43	46	49	52	55	**69**	61
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	41	41	42	43	44	46	**52**	39
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	41	52	72	72	72	73	**76**	51
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	41	41	42	43	44	46	**52**	39
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	41	46	49	50	51	52	**56**	41
B5. Combination of B1-B4 using one-half standard deviation shocks	41	46	49	50	51	52	**57**	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	41	41	42	43	44	46	**52**	39
PV of debt-to-revenue ratio								
Baseline	180	168	171	176	179	181	**166**	106
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	180	155	139	123	105	87	**18**	-37
A2. New public sector loans on less favorable terms in 2012–32 2/	180	175	186	198	208	217	**220**	163
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	180	171	178	183	186	189	**172**	110
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	180	195	246	246	245	243	**202**	116
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	180	173	180	186	188	191	**175**	112
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	180	190	199	202	203	204	**179**	109
B5. Combination of B1-B4 using one-half standard deviation shocks	180	188	198	202	203	205	**181**	111
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	180	237	241	248	252	255	**234**	149

Table 3b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Alternative Scenario of Limited Reform Progress, 2012-32 (concluded)

(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
Debt service-to-exports ratio								
Baseline	1	1	2	2	2	2	**2**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	1	1	1	1	2	1	**1**	0
A2. New public sector loans on less favorable terms in 2012–32 2/	1	1	2	2	2	2	**3**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	1	1	2	2	2	2	**2**	2
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	1	1	2	2	3	3	**3**	3
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	1	1	2	2	2	2	**2**	2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	1	1	2	2	2	2	**2**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	2	2	2	2	**2**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1	1	2	2	2	2	**2**	2
Debt service-to-revenue ratio								
Baseline	5	5	6	6	8	8	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012–32 1/	5	5	6	6	6	6	**3**	0
A2. New public sector loans on less favorable terms in 2012–32 2/	5	5	6	7	9	9	**9**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013–14	5	5	6	7	8	8	**7**	7
B2. Export value growth at historical average minus one standard deviation in 2013–14 3/	5	5	7	8	9	9	**9**	7
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2013–14	5	5	6	7	8	8	**7**	7
B4. Net nondebt creating flows at historical average minus one standard deviation in 2013–14 4/	5	5	6	7	8	8	**7**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	7	7	8	8	**7**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	7	9	9	11	11	**9**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	23	23	23	23	23	23	**23**	23

Sources: Cambodian authorities; and IMF 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.

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IMF Executive Board Concludes 2012 Article IV Consultation with Cambodia

On December 3, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Cambodia.[1]

Background

Despite the global slowdown, Cambodia's economy has been holding up, driven by resilient exports and tourism, and a strong real estate recovery. Although moderating, exports continued to grow at double digit during the first three quarters of the year, in part thanks to improved access of garments exports to the European Union. Tourism has been particularly robust benefitting from new flight routes and construction activity is picking up owing to the real estate rebound. Real GDP growth is projected at 6½ percent in 2012, a slight moderation from last year. Headline inflation has decelerated and is expected to average 3–4 percent in 2012–13 amid stable domestic food prices. Private sector credit continued to grow at more than 30 percent (year-on-year) during the first eight months on the back of broad-based credit demand and easy financial conditions.

The current account deficit (including official transfers) is projected to peak at 10 percent of GDP in 2012, reflecting moderating exports and temporarily higher imports related to large infrastructure projects, but the deficit remains fully financed by large foreign direct investment

[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.

and official loans. Gross official reserves have continued their steady rise to US$3.4 billion in September, about four months of prospective imports.

Over the medium term, economic growth is projected to reach the potential of about 7½ percent, but this depends on improvements in the global economy and continued reforms to upgrade infrastructure, promote economic diversification, and enhance public sector revenue and service delivery. The current account deficit would narrow to 5½ percent of GDP, broadly in line with estimates of Cambodia’s savings-investment norm, driven by robust export growth, improved competitiveness and diversification, and lower imports after the completion of large projects.

This outlook is subject to considerable risks, stemming from the fragility of the global economy and domestic factors, including potential labor market instabilities and extreme weather. Spillovers from a deepening euro area crisis and severe global financial turbulence could be significant, but the impact has so far been relatively contained. Should any of these downside risks materialize, the policy space to cushion their impact would be limited. A high degree of dollarization constrains the effectiveness of monetary policy, leaving fiscal policy as the main tool to preserve macroeconomic stability. The slow pace of fiscal consolidation during the past two years means that the fiscal buffers are limited and the room for policy maneuver remains severely curtailed.

Executive Board Assessment

Executive Directors commended Cambodia’s resilient economic performance and the authorities’ prudent policies. They agreed that the outlook is favorable but stressed the importance of rebuilding policy buffers to guard against risks, including from external spillovers and high domestic credit growth. Over the medium term, further efforts are needed to diversify the economy and achieve stronger, broad-based growth.

Directors welcomed the recent improvements in revenue collection and the plan to begin replenishing government deposits in the 2013 budget. They emphasized that greater revenue mobilization is required to meet Cambodia’s large development needs and achieve long-term fiscal sustainability. They recommended an integrated approach of improving revenue administration, implementing fair and efficient tax policies, and strengthening governance.

More broadly, Directors encouraged continued efforts in strengthening public financial management. This will help improve public service delivery and ensure greater spending effectiveness and budget transparency. They also stressed the importance of strengthening the monitoring of contingent fiscal liabilities.

Directors noted that the high degree of dollarization limits the central bank’s control over monetary conditions. While the recent increase in the reserve requirement for foreign currency deposits is welcome, they considered that further gradual increases may be needed to guard against excessive risk-taking by banks. These could be complemented by appropriately designed macroprudential measures. Directors looked forward to the introduction of negotiable certificates of deposits to help develop an interbank market, which is key to more effective and market-based monetary policy operations.

Directors emphasized the need to continue to make progress in implementing key 2010 FSAP recommendations. They noted the authorities' firm commitment to strengthening the central bank's supervisory capacity and urged more decisive action in establishing an adequate and well-coordinated system of financial supervision. They looked forward to progress in adopting memoranda of understanding between supervisory agencies on information exchange and crisis resolution. They welcomed the authorities' more prudent approach toward issuing new bank licenses.

Directors encouraged the authorities to continue their efforts to broaden the economic base and promote inclusive growth. They agreed that reducing infrastructure and skills bottlenecks, improving the investment climate, and promoting rural development remain important policy priorities.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2012 Article IV Consultation with Cambodia is also available.

Cambodia: Selected Economic Indicators, 2009–13

	2009	2010	2011	2012	2013
			Est.	Proj.	
GDP in constant prices (annual percent change)	0.1	6.1	7.1	6.5	6.7
(Excluding agriculture)	-1.8	6.9	8.6	7.2	7.4
Inflation (end-year)	5.3	3.1	4.9	3.4	4.6
(Annual average)	-0.7	4.0	5.5	3.1	3.8
Saving and investment balance (in percent of GDP)					
Gross national saving	11.5	14.6	14.8	13.9	13.5
Gross fixed investment	16.0	18.5	22.9	23.9	23.4
Private investment 1/					
Money and credit (annual percent change)					
Broad money	36.8	20.0	21.5	18.6	...
Private sector credit	6.5	26.6	31.7	30.0	...
Public finance (in percent of GDP)					
Revenue	15.8	17.0	15.6	16.2	16.6
Expenditure	20.0	19.9	19.6	19.4	19.4
Net lending (+)/borrowing(-)	-4.2	-2.8	-4.1	-3.2	-2.7
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	2,996	3,884	5,219	5,776	6,393
Imports, f.o.b. 1/	-4,490	-5,466	-7,260	-8,458	-9,262
Current account (including official transfers)	-473	-441	-1,040	-1,431	-1,548
(In percent of GDP)	-4.5	-3.9	-8.1	-10.0	-9.9
Gross official reserves 2/	2,367	2,653	3,032	3,563	3,845
(In months of prospective imports)	4.4	3.7	3.6	4.0	4.0
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 3/	2,940	3,337	3,841	4,281	4,726
(In percent of GDP)	28.4	28.7	29.7	30.1	30.2
Memorandum items:					
Nominal GDP (in billions of riels)	43,108	47,102	52,154	57,520	63,395
(In millions of U.S. dollars)	10,414	11,255	12,890	...	...
Exchange rate (riels per dollar; period average)	4,139	4,185	4,046	...	...

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes large power sector projects.

2/ 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.

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

Statement by Der Jiun Chia, Executive Director for Cambodia and Sovannarith Kith, Advisor to Executive Director December 3, 2012

On behalf of our Cambodian authorities, we would like to thank the IMF Article IV Consultation team for a set of focused recommendations. Our authorities appreciated the constructive discussion around the need to build fiscal policy buffers, strengthen monetary policy instruments and transmission, improve supervision, and create a more self-sustaining economic growth. Generally, our authorities are in broad agreement with the thrust of the staff's appraisal and would give it due consideration when formulating policies.

Recent development and economic outlook

The UN's assessment suggests that Cambodia is one of the top five countries that have made significant progress toward meeting its MDGs by 2015. The poverty rate has dropped dramatically from 47.50 percent in 1993-94 to 34.70 percent in 2004 and to 23.00 percent in 2011, due to ongoing reforms that promote inclusive growth and employment creation. The recently published *Doing Business 2013* also shows an improvement in the business climate as Cambodia moves to rank number 133 in 2013, up from 141 in 2012. Reasons cited include easier access to credit for investors, better credit information with the creation of the Cambodia Credit Bureau, and better enforcement of contract.

The Cambodian economy has been recovering strongly from the global crisis, with growth averaging around 6.7 percent per year from 2010 to 2012, underpinned by exports and tourism growth and a strong recovery in the construction sector. The authorities expect the economy to continue to grow at close to its medium-term potential of 7.5 percent.

Despite the recent surge in global food and fuel prices, headline inflation has moderated to 2.2 percent in August 2012 from an average of 4.5 percent in 2011, and is expected to average around 3-4 percent during 2012-13. Over the medium-term, the headline inflation is projected to average around 3 percent.

The external position has remained stable despite a marginal widening of the deficit in the current account deficit (including official transfers) to accommodate a large increase in foreign direct investment funded imports related to power generation and infrastructure projects. The real effective exchange rate remains relatively stable while the level of foreign reserves has gradually increased to more than four months of prospective imports. In addition, the Debt Sustainability Analysis indicates that Cambodia's debt distress rating remains low. Our authorities are committed to maintain external debt at around 20 to 40 percent of GDP and only borrow on concessional terms for investments in macro-critical projects, as reflected in the recently approved 2011-2018 Public Debt Management Strategy.[1]

Notwithstanding the favorable outlook, infrastructure bottlenecks and less favorable business climate have been restraining private investment, which is the essential to release potential

[1] The 2011-2018 Public Debt Management Strategy approved in February 2012.

growth.[2] Externally, the lingering debt crisis in Europe and the sluggish growth in the U. S. economy continue to affect the Cambodian garment exports, which mainly go to Europe and the U.S. The moderation of growth momentum in the Asia region would also weigh on growth prospect.

Going forward, our authorities are fully committed to implement prudent policies to reduce the fiscal deficit to a more sustainable level of around 3 percent of GDP, and restore government deposits in the banking system to the pre-crisis level. Public investment would be prioritized to remove infrastructure bottlenecks which would help lift the investment rate and promote economic diversification. Structural reforms would also be continued and would be targeted at improving the business environment and fostering inclusive growth.

Fiscal policy

The implementation of the 2012 Budget Law has been strong with the fiscal deficit projected to drop from 8.16 percent of GDP in 2011 to 5.79 percent of GDP in 2012, due to a 3.20 percent increase in revenue collection and a 1.86 percent decrease in expenditures. Furthermore, the draft 2013 Budget Law[3] envisages an increase in government deposits in the banking system by Riel 100 billion and a reduction in the fiscal deficit from 5.79 percent of GDP in 2012 to 5.60 percent of GDP in 2013 through further raising of revenue collection and rationalizing of expenditures. Our authorities are determined to prioritise expenditures and keep current spending under control, including by limiting the wage bill to around 4 percent of GDP, while strengthening revenue mobilization.

Despite the improvement in revenue collection, the Public Financial Management Reform Program targeted a 0.50 percentage point of GDP increase in revenue collection annually to accommodate additional priority spending. In this regard, a comprehensive revenue mobilization strategy is being drafted based on the integrated three-pronged approach recommended by Fund staff, namely to improve revenue administration, implement fair and efficient tax policies, and strengthen governance. The implementation of this strategy will start with easily implementable and low cost measures. Further efforts will focus on strengthening the capacity of tax collectors and auditors.

While mindful of the fiscal risk from the contingent liabilities related to the development of power generation and transmission projects, our authorities view that these projects are critical in reducing the high cost of electricity, which would in turn have a beneficial effect on investment and potential growth. The viability of these projects are also underpinned by strong demand for electricity as only about 35 percent of households have access to reliable electricity. In addition, sub-decrees were issued to implement the 2011-2018 Public Debt Management Strategy including the policy and risk management framework for government

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[2] During 2011 Article IV Consultation, staff simulation based on the macro-model suggested that a 10 percent increase in investment, which currently stands at 20 percent of GDP, can raise potential growth immediately by as much as 2 percent and the positive growth effect can persist even after a decade.

[3] The Draft 2013 Budget Law has passed the Council of Minister on October 26, 2012 and is currently with the National Assembly for upcoming discussion.

guarantee, which are being drafted with Technical Assistance from the Asian Development Bank. The Strategy is aimed at strengthening the management of contingent liabilities.

Monetary policy

The National Bank of Cambodia (NBC) has also adopted a stricter policy on bank licensing, which strikes a balance between allowing competition to work in the banking market and avoiding excessive and destabilizing competition. Commercial banks and microfinance institutions are well-capitalized. To improve risk management in the industry, the NBC helped to create the Cambodia Credit Bureau to provide the platform to share both positive and negative credit information.

Our authorities continue to have a dedollarization objective, and are studying policy options to promote the greater use of the Riel.

Addressing macrofinancial risk

The NBC is closely monitoring for incipient signs of risk stemming from rapid credit growth and has recently increased the reserve requirement for foreign currency deposits by 50 basis points to provide a cautionary signal to the banks. The NBC continues to monitor the effect of the rise on credit growth and is considering taking further measures including a range of complementary marcoprudential tools.

Nevertheless our authorities pointed out that credit growth has been broad-based and comes from a small base. Credit growth does not appear to be out of line with the vast development needs in Cambodia nor with the need to diversify the economic base. In addition, domestic deposits have mainly funded the credit growth, and non-performing loans are stable at 2.51 percent. Credit quality has been good and banks are generally prudent and maintain high lending standards.

Developing an interbank market

In line with the recently updated 2011-2020 Financial Sector Development Strategy, the NBC has been working closely with Bankers' Association on the introduction of negotiable certificate of deposits (NCDs) evidencing commercial banks' surplus deposits with the central bank to develop an interbank market and strengthen monetary policy operation. In this regard, the NBC would appreciate further TA from the Fund to ensure the success of launching NCDs and support policy credibility.

Strengthening supervision capacity

The NBC has also taken concrete steps to strengthen supervision. Bank supervision is moving from a compliance-based approach to a risk-based and forward looking approach. The quality of supervision has improved considerably, underpinned by the hiring of new supervisors and the ongoing internal and external training. In addition, supervisors are now more focused on the specialized tasks. New recruits often come in with financial sector or audit experience, which improves the skills and experience profile of supervisors at the NBC. The NBC remains firmly committed to strengthen its supervisory capacity through recruitment and training.

Continuing reform agenda

Structural reforms on various fronts will help remove bottlenecks, improve business environment and foster inclusive growth. A total of 1,015 megawatt of electricity generation capacity would be added in 2012/13 from the operation of six different hydropower projects. This would provide affordable electricity to the population and increase export growth especially in the manufacturing and garment sectors. The implementation of the Rice Policy together with ongoing public investment on road, bridges and irrigation has helped to promote rural development and inclusive growth. Recent efforts to provide land titles to people in rural areas will enable them to use their land as collateral to obtain financing. Our authorities actively engage with the private sector to foster a conducive business climate and promote a private sector led-growth. In this regard, the Prime Minister chairs the semi-annual Government-Private Sector Forum to dialogue with the business community on investment-related issues, including draft policies and regulations.

Closing remarks

The Cambodian economy continues to perform well in 2012, supported by the robust export and tourism growth, and a rebound in construction activity. While the medium-term outlook is favorable, more needs to be done to ensure the achievement of MDGs by 2015 and the improvement the standard of living of the people. Lingering global uncertainty and a spike in global food and fuel prices could also pose downside risks to growth prospect. Going forward, our authorities are committed to implement sound and prudent policies to preserve macroeconomic stability, generate high sustainable growth, and maintain a sound and stable financial system. Structural reforms are aimed at removing infrastructure bottlenecks, improving the business climate, and fostering economic diversification. Our authorities also appreciate the high quality of Technical Assistance provided by the Fund in various areas. Continuation of the Technical Assistance would help to ensure the success of the reform agenda.