Executive Board Minutes 22/93-1

November 23, 2022–10:00 a.m.

Cambodia—2022 Article IV Consultation

Documents: SM/22/253, and Sup. 1, and Sup. 2; SM/22/254

Staff: Scott, APD; Schaechter, SPR

Length: 1 hour, 11 minutes

ISSUED: July 13, 2023
APPROVAL: July 20, 2023

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Cambodia's strong economic recovery from the pandemic supported by the country's strong economic buffers and robust crisis response. Directors agreed that the growth outlook is broadly favorable, notwithstanding downside risks from slower external demand and rising domestic vulnerabilities including elevated levels of private debt. In that context, they encouraged the authorities to calibrate fiscal policy to help support vulnerable households, without compromising price stability, while also taking steps to address financial sector risks and corruption vulnerabilities.

Directors encouraged the National Bank of Cambodia to rein in credit growth by gradually restoring monetary conditions to pre-crisis levels. They saw merit in normalizing prudential conditions to pre-pandemic settings with heightened supervision and readiness to raise provisioning requirements. Directors also underscored the importance of implementing corporate insolvency, debt and bank restructuring, and deposit protection frameworks.

Directors supported the authorities' current fiscal plans to provide insurance against downside risks to aggregate demand while maintaining steady reduction in fiscal deficits over the medium term. However, given wide external imbalances and strong credit growth, they emphasized that fiscal support should be well targeted. Social protection measures should continue to be used to protect the poor against the effects of inflation, coupled with offsetting cuts elsewhere.

Directors noted the importance of policy frameworks to ensure resilience over the longer term. They encouraged efforts to enhance spending efficiency and strengthen revenue mobilization, including by broadening the tax base and rationalizing exemptions. A debt anchor in nominal terms, combined with an overall deficit ceiling, would provide a credible framework, particularly as Cambodia seeks to develop a market for sovereign debt. The recent issuance of the first domestic government bond is a welcome development.

Directors underscored the importance of complementary structural policies to support strong, inclusive growth. They welcomed the progress made in implementing anti-corruption action plans and encouraged continued efforts to strengthen governance frameworks more broadly. Directors also emphasized the need for structural measures to boost productivity to help raise living standards and to durably restore external balances, given the pegged nominal exchange rate. They also underscored the importance of improving data quality through capacity development and encouraged the authorities to build on recent efforts to strengthen climate adaptation and mitigation.

It is expected that the next Article IV Consultation with Cambodia will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE[2]

K. Okamura, Acting Chair

Executive Directors	Alternate Executive Directors
	A. Ubisse (AE)
F. Sylla (AF)	
	C. Ramos Capaquira (AG), Temporary
R. Nicholl (AP)	
	B. Saraiva (BR)
	X. Bai (CC), Temporary
	P. De Ramon-Laca (CE)
	Z. Ahmed (CO), Temporary
	M. Mert (EC)
	C. Roman (FF)
	H. Koh (GR)
K. Subramanian (IN)	
	M. Massourakis (IT)
	M. Kashima (JA)
	M. El Qorchi (MD)
	A. Abdul Raheem (MI), Temporary
	V. Volociuc (NE), Temporary
	A. Marcussen (NO)
	S. Potapov (RU)
	M. Alrashed (SA)
R. Lim (ST)	
	P. Loszewski (SZ)
	K. Mason (UK), Temporary
	L. Sturm (US), Temporary

S. Bhatia, Acting Secretary
S. Maxwell, Summing Up Officer
N. Nakhle, Board Operations Officer
M. Eddy, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: R. Craig, A. De Stefani, J. Dutra Pessoa de Araujo, D. Furceri, A. Gulde, R. Okuma, S. Panth, A. Scott. Communications Department: H. Vu. Finance Department: C. Kadama. Institute for Capacity Development: D. Heng, L. Zanforlin. Legal

[2] For countries in each constituency, please see the Constituency Codes in the annex.

Department: C. Enciso, L. Pedersen. Monetary and Capital Markets Department: V. Prokopenko. Office of Executive Directors: A. Alaqla, O. Diakite. Strategy, Policy, and Review Department: A. Schaechter. World Bank Group: F. Hayati, C. Pittalis. Executive Director: B. Bijani (MD), A. BinZarah (SA), A. Guerra (CE), P. Jennings (CO), M. Mohieldin (MI). Alternate Executive Director: A. Alhosani (MI), C. Amarasekara (IN), R. Anwar (ST), J. Betancur Mora (CE), C. Just (EC), M. Mbuyamu (AF), R. N'Sonde (AF), F. O'Brolchain (CO). Senior Advisors to Executive Directors: M. Alle (AF), S. Chicas Cienfuegos (CE), M. Choueiri (MI), M. Dueñas (ST), S. Hansda (IN), O. Hendrick (AG), J. Rojas (CE), C. Sassanpour (MD), D. Shestakov (RU), M. Villeneuve (CO), S. Wongwaisiriwat (ST), B. Yoo (AP). Advisors to Executive Directors: N. Abu Bakar (ST), F. Al-Kohlany (MI), I. Allika (NO), P. Al-Riffai (MI), B. Boostani (MD), L. Cerami (IT), T. Cham (AE), R. Fayez (MI), D. Hamzah (MI), R. Jain (IN), V. Lankester Campos (CE), M. Merhi (MI), R. Moral Betere (CE), B. Piasecki (SZ), M. Pucnik (EC), Y. Watanabe (JA), O. Zubareva (RU), F. Lopez (CE).

DISCUSSION RECORD[3]

The Acting Chair (Mr. Okamura):

I had the fortunate opportunity to visit Cambodia in May. It was my first country visit as Deputy Managing Director, so today is a special opportunity for me to chair this Board meeting.

As with other member countries, the Cambodian economy has been affected in 2022 by deteriorating global conditions. The authorities have largely continued with crisis policy responses and have pressed on with policy reforms. Nonetheless, numerous challenges remain, as noted in the gray statements for today's meeting.

Ms. Lim:

On behalf of the Cambodian authorities, we thank Mr. Scott and his team for the constructive engagement during the mission and for the comprehensive report, which includes practical recommendations that will help Cambodia's structural reform agenda in this critical juncture. We are also grateful to Directors for their insightful gray statements, and I will relay their thoughtful suggestions as well as today's discussion to my authorities.

I will just highlight three points today. First, the macro picture, the Cambodian economy has been recovering steadily amid uncertainty caused by the external environment. Growth is projected to bounce back strongly from the pandemic years at about 5 percent in 2022 and 6 percent in 2023. Price stability remains intact and targeted support is in place to protect the vulnerable against the impact of inflation. On top of prudent fiscal management, the authorities are also committed to safeguarding fiscal sustainability by developing a medium-term fiscal framework and are thankful for ongoing technical assistance (TA) support from the Fund.

Second, the overall financial system remains sound and resilient. Nevertheless, the authorities are cognizant and remain watchful of the key risks to stability. On the external front, while Cambodia's sizable current account deficit warrants close monitoring amid the slowdown in the global economy, it continues to be offset by steady and broad-based foreign direct investment inflows, leading to a stable accumulation of international reserves.

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[3] Edited for clarity.

Cambodia's network of bilateral and multilateral free trade agreements and a new investment law will also boost the export outlook in the medium term.

On private debt, the authorities will continue to take necessary steps to safeguard financial stability, including normalizing prudential measures. At the same time, the National Bank of Cambodia has steadily implemented the Fund's advice in closing supervisory gaps and enhancing its macroprudential policy toolkit.

Finally, on the medium-term agenda, I highlight the authorities' continued efforts in two main areas. On governance, Cambodia has made significant progress on several fronts, namely the legal and institutional arrangements and interagency collaboration. We thank staff for the fruitful dialogue that helped the authorities prioritize work going forward, especially in closing the gaps in terms of institutional and human resources capacity.

On the green transition, Cambodia is a small country in terms of the contributions to greenhouse gas emissions. Nevertheless, it has been making progress steadily in implementing climate action in line with its multilateral strategy. It has launched a long-term strategy for carbon neutrality with a target of 2050. The strategy has been translated into mitigation targets and actions in six key sectors, reflecting the long-term commitment of all key areas of the government.

On climate adaptation, the authorities have mainstreamed the Adaptation International budget process and identified funding needs for climate adaptation projects by the 14 ministries. The authorities acknowledge that funding remains a challenge but will continue efforts to attract private-sector participation, including through tax incentives for investment in climate adaptation and mitigation.

Before I end, I would also like to update Directors that my authorities agreed to the publication of the report pending some requests for revisions.

The staff representative from the Asia and Pacific Department (Mr. Scott):

Staff has provided answers to questions in gray statements. Staff is still reviewing the authorities' request for corrections and deletions in line with the Transparency Policy.

Mr. De Ramon-Laca:

We provided a gray statement, so I will make a few brief points for emphasis.

The authorities are to be commended for the way they have navigated through recent bouts of volatility. As a result, the country is in a good position to address looming risks.

A strong vaccination effort has been deployed and fiscal and monetary policy have been used effectively to sustain demand and to protect vulnerable groups. Structural policies, like deepening trade ties and improving the investment climate, will help provide stimulus without depleting fiscal space. However, prospects are darkening further and with a longer horizon than initially foreseen as COVID-19 concerns persist among trading partners and as the impact of the war in Ukraine ripples across the globe. Growth in private-sector indebtedness could become a cause for concern. Historic experience shows that when growth slows and financial conditions tighten, the linkages and cross-dependencies between private and public debt tend to surface, especially in highly-dollarized economies. We therefore agree with staff that even if fiscal space thankfully exists, it should be used prudentially and in a targeted manner.

The country's longer-term plans will imply more spending on infrastructure and social inclusion. Achieving that will require a comprehensive fiscal framework and dependable sovereign debt market and improved governance and anticorruption frameworks.

Finally, we believe that improving financial sector resilience by returning to pre-pandemic prudential standards is worth foregoing some short-term profitability. Completing comprehensive regulatory reform of the crisis management framework, including the bank restructuring corporate insolvency regimes, will help to safeguard financial stability in this small, protracted phase of the crisis.

Mr. Massourakis:

We have issued a gray statement and today will provide a few additional remarks on two issues—social protection and climate policies.

First, I thank staff for the detailed overview of the social protection reform in Cambodia. We welcome and support the authorities' plan to leverage the experience during the pandemic to further develop social protection on a structural basis. Integrating the current multiple programs under the new family package framework to be gradually introduced in 2023 can lead indeed to improvements in spending efficiency as well as in the coverage of services.

We also appreciate the authorities' intention to introduce an employment and disability insurance in the future and to develop a roadmap to universal health coverage. These programs, when well-sequenced, can be instrumental in promoting social welfare. In this respect, data gaps are an important impediment to swift progress. It is remarkable that staff could not fully assess scarring in the labor market due to the lack of unemployment data.

My second point, we appreciate staff's update on the authorities' plan on mitigation and adaptation to climate change. While Cambodia is well-placed in meeting its commitment of climate neutrality by 2050 through investments in the forest and other land use sectors, more needs to be done for adaptation. Given that Cambodia is vulnerable to several climate-related risks, we encourage the authorities to develop a fully-fledged national adaptation plan as a key step to ensuring adequate financing.

Lastly, we note in the buff statement that the authorities expect more relocation of exporting firms from other neighboring countries, and we would appreciate staff's comment on any evidence to that effect as yet.

Mr. Alrashed:

We did not issue a gray statement, so I would like to take this opportunity to make the following points.

First, we commend the authorities for their effective policy, and we welcome staff's positive assessment of Cambodia's macroeconomic developments, as well as the steady recovery path.

Second, on the fiscal front, we encourage the authorities to continue providing targeted fiscal support in the near term to protect the most vulnerable. In this context, we are reassured by the indication by Ms. Lim in the buff statement that the authorities remain committed to using available fiscal space to mitigate the impact of the global challenges. Going forward, we agree with staff that the authorities need to introduce a comprehensive fiscal framework, given that demand for public spending on social protection, education, and healthcare will likely increase.

Finally, on the financial sector, we encourage the authorities to further strengthen the regulatory and supervisory framework, including for insolvency, restructuring, and deposit protection. These are important to address risks in financial sectors going forward. We thank staff for their detailed analysis and the useful insights in the selected issues papers on risks related to private-sector debt, and encourage staff to continue close engagement with the authorities on this front.

Ms. Marcussen:

We did not issue a gray statement, and I have a few points today, but broadly we do agree with staff's appraisal.

The broadly positive outlook for the Cambodian economy is definitely encouraging. However, uncertainty and risks are high, as they are elsewhere, and this requires vigilance, especially paying close attention to the external-sector risks, urgently dealing with governance weaknesses, corruption, as well as tackling financial vulnerabilities and providing surveillance to cope with further adverse shocks and achieve more progress on the sustainable development goal (SDG) targets. We find it very important to rebuild fiscal buffers while supporting vulnerable households impacted by rising prices.

Given the very high level of private debt, it would seem obvious that strengthening supervision and further policy steps are essential to safeguard financial stability and limit potential spillovers to the real economy, and we urge the authorities to develop and more actively implement the macroprudential toolkit, as well as expand data collection on borrowers' income and collateral. Additionally, to initiate deeper structural reforms, we concur with staff's advice on the need to strengthen corporate insolvency and restructuring frameworks, as well as to introduce deposit protection schemes.

We welcome that Cambodia has made good progress on the anti-money laundering and combating the financing of terrorism (AML/CFT) framework, addressing some of the deficiencies identified by the Financial Action Task Force (FATF), and we encourage the authorities to sustain their commitments and efforts and hope that the 2023 visit will lead to the successful exit of Cambodia from the grey list.

A point on governance—strengthening governance and anticorruption frameworks, as well as growth-enhancing structural reforms and improving climate resilience will be key to ensuring inclusive and sustainable economic growth. We do welcome Cambodia's efforts to diversify its economy and address climate change, including by facilitating sustainable investments in developing low carbon and climate resilient infrastructure. It would seem that the upcoming Climate-Public Investment Management Assessment (C-PIMA) would be a very useful contribution.

Considering important remaining data gaps, we also urge the authorities to make the best use of the Fund's TA on improving data and statistics. This leads me to my final point, which is on capacity development (CD). We thank staff for their efforts, providing wide-ranging CD support to Cambodia, which is the largest CD recipient in the region. Going forward, we would encourage staff to continue the close engagement with the authorities, hand in hand with other international financial institutions, and ensure strategic integration between CD and surveillance activities.

Ms. Kashima:

We commend the authorities for successfully hosting the East Asia Summit and related meetings.

The Cambodian economy has shown stronger signs of recovery since the second half of 2021 thanks to the authorities' policy response and large fiscal buffers. While the economy is now facing new challenges, such as weaker external demand, we positively note that the recovery is expected to continue, and historical high inflation would be subdued in 2023 and thereafter.

As for the risks, rising private-sector debt and the domestic impact of economic slowdown in key large economies warrant close monitoring. As we issued a comprehensive joint gray together with Mr. Loszewski, I will limit my comments to the following three points.

First, on fiscal policy, gradually shifting to a better-targeted system is paramount. In this regard, we commend the authorities' efforts, such as on introduction of the digital ID system and their overhaul of the social protection programs in close collaboration with international development partners.

Over the medium term, enhancing fiscal framework credibility and pursuing gradual fiscal consolidation are important. In particular, recalibrating fiscal rules, strengthening revenue mobilization, and developing a domestic sovereign bond market should be a priority.

Second, on the monetary and financial front, restoring monetary conditions to the pre-pandemic level is pivotal in curtailing credit growth and addressing inflation. We share staff's view on the strong credit growth and private-sector debt accumulation.

In this context, we encourage the authorities to continue withdrawing forbearance measures and to intensify bank supervision, such as through enhancing the macroprudential policy toolkit and updating the corporate insolvency regimes and bank resolution framework.

Also, we would be interested in hearing about recent developments of the digital currency Bakong in enhancing financial inclusion and expanding the use of the local currency in the country's efforts in de-dollarization.

Lastly, like Ms. Marcussen, our chair reiterates the importance of CD as a critical workhorse in steadily progressing on structural reforms and making Cambodia more sustainable and resilient. We welcome the staff's detailed descriptions of CD in the staff report, especially in Annex IV, including the multiyear surveillance strategy and CD metrics, which enables staff to prioritize CD areas and facilitates better strategic integration between CD and surveillance. This is critical to appropriately address the recipient country's CD needs and properly take into account the authorities' absorption capacity and ownership.

We expect that this Cambodian model will be horizontally diverged to other countries as a Fund-wide exercise.

Mr. Potapov:

We issued our gray statement and would like to focus on the following points.

First, we welcome Cambodia's firm economic recovery and the broadly favorable outlook. This reflects strong export performance, sound macroeconomic management, and resilience to external shocks. The authorities are well aware of the remaining downside risks in the economy and have implemented important measures to mitigate their impact.

Second, we note that public debt remains at low risk of debt distress. However, rising private-sector debt requires close attention. According to staff, the quality of the private loans has deteriorated and the amount of nonperforming loans is expected to increase further. In this regard, we encourage the authorities to continue their efforts to further strengthen macroprudential regulation and advance de-dollarization in the economy. Short-term structural reforms and economic diversification are critical for long-term growth. We highlight the importance of strengthening the educational sector and promoting job creation, including through the development of more capital-intensive industries.

Mr. Saraiva:

I will highlight some of the main points from our written statement.

First, we recognize that Cambodia has been recovering steadily from the pandemic but still faces, like many other countries in the region and elsewhere, compounding shocks and significant risks. While the authorities seem to be relatively optimistic about inflationary pressures, which we know mostly comes from import prices, we underscore the need to stay the course of monetary policy among those external risks and the potential persistence of price increases. We note that rising inflation threatens not only macroeconomic stability but weighs heavily on the poorest population and is a drag on growth over the medium term.

We also note that foreign exchange reserves are comfortable and have been sustained partly due to steady financial flows despite the very large current account deficit. We also note that the exchange rate regime and extensive dollarization somewhat constrains the monetary policy, even when the exchange rate is not coming under significant pressure on account of those substantial inflows. But as highlighted by many Directors, the issue of dollarization is a major problem for the economy. I would like to hear from staff what are the specific recommendations to facilitate de-dollarization of the Cambodian economy.

Also, we noted the shortcomings in balance of payments data. There is a box specifically about that. We would appreciate more information about IMF TA to cope with this issue in a timely manner.

The fiscal plans are appropriate. They balance some continued stimulus in the near term with steady reductions in the deficits over the medium term. We recognize that Cambodia has taken advantage of a track record of prudent policies, which have helped to build up buffers and resulted in important fiscal space that they used wisely.

That said, even as there are some risks on the horizon, the public and external debt remain sustainable with a low risk of distress, and we noticed that stress tests do not seem to pose any insurmountable difficulty, even in the case of materialization of financial market contingency liabilities.

Finally, due to the very high growth in outstanding credit, we believe that macroprudential measures are needed to strengthen the resilience of the banking system and to continue preserving financial stability, so we encourage the authorities to press ahead with the financial system stress testing and to strengthen banking resolution frameworks while introducing deposit protection schemes and mitigating risks to financial stability in this way.

Finally, we take positive note of the progress made on the AML/CFT agenda.

Mr. Bai:

To begin with, I want to congratulate the Cambodian authorities for successfully hosting the East Asia Summit and related meetings. We have issued a written gray statement, and I would like to limit myself to the following two points.

First, we positively note that the accelerated economic recovery allowed the authorities to channel fiscal resources to further support vulnerable households, especially those impacted by rising inflation and external shocks. We also welcome the recent progress on issuing domestic government bonds for the first time in local currency and look forward to the ongoing development of the sovereign bond market in Cambodia.

Second, we commend and appreciate the authorities' efforts to strengthen trade and economic cooperation with major trade partners, including establishing new free trade agreements and introducing the one-stop mechanism for investors.

Mr. Boostani:

We did not issue a gray statement, but we do broadly agree with staff's assessment. We just want to stress two or three issues.

The first one is to encourage the authorities to pursue gradual fiscal consolidation to reduce deficits and ensure fiscal sustainability in the medium term.

In the near term, we encourage the authorities to provide well-targeted support to vulnerable members of society and minimize the impact of the external shocks. Meanwhile, we encourage the authorities to revamp revenue mobilization measures, including rationalizing exemptions, simplifying the tax system, and enhancing compliance and fostering diversification.

Second, we welcome the high credit growth that is explicit in the report, and we urge the National Bank of Cambodia to restore minimum reserves requirements to manage the risks of rising credit growth and contain domestic inflationary pressures.

Further, we encourage the National Bank of Cambodia to strengthen supervision and stand ready to raise provisioning and capital requirements for those lenders facing sovereign problems given the high level of private debt and its impact on the economy should borrowers default.

Finally, we encourage the authorities to advance structural reforms to enhance the business environment, boost investment, and support inclusive growth. While significant progress has been made in the governance and anticorruption frameworks, we encourage the authorities to press on with the implementation of complementary legislation and invest in increased human and technological capacity, to resource monitoring agencies, and to digitalize the reporting and monitoring process.

Mr. Roman:

We did not issue a gray statement, but we broadly share staff's analysis and policy recommendations, and the set of reports is quite rich with annexes and a selected issues paper, so the authorities are well-equipped to benefit from staff's advice on the various set of issues. I want to make three points this morning.

First, some general considerations, we welcome the steady recovery path and the authorities' response to weather the new challenges coming from the deterioration of the external environment, the slowdown in China, and the global consequences of the war in Ukraine, and to mitigate the impact on the most vulnerable. We also welcome the authorities' efforts in various areas to develop a medium-term fiscal framework, improve social protection and safety nets with very detailed advice from staff in the report; to improve the sovereign bond market, the AML/CFT framework; and also their commitment to strengthen transparency, the rule of law, and anti-corruption. We encourage further progress to support private investment, continue structural reforms to increase competitiveness, and encourage them to diversify, expand inclusion, and reduce informality.

I have two more targeted points. First, on debt, like Mr. Alrashed and Ms. Marcussen, I think the staff report is very insightful on private corporate debt, especially the dedicated selected issues paper and the measures to tackle this challenge. Turning to public debt, we see that low level. I would appreciate to hear more from staff on their recommendations for a nominal debt anchor, what levels they would recommend and how it compares to the authorities' own rule of 40 percent plus 15 percent.

Third, we thank staff for their insightful information on the CD strategy, and we found that the multiyear surveillance strategy and CD metrics are very helpful. We welcome that Cambodia has been an extensive user of Fund CD and concur with staff on its crucial role in Cambodia's next phase of development. We encourage further analysis on gender and climate issues to improve traction and ownership.

Regarding climate, we welcome the progress in administrating climate adaptation into policy frameworks, the upcoming C-PIMA, mobilization of public-private partnerships, and the promotion of green finance.

One question, the annex on climate was quite clear, but we would appreciate to hear staff's opinion regarding the pace of implementation of the authorities' plan to reach carbon neutrality and if staff has discussed with the authorities options to implement carbon taxation or emission trading systems.

Finally, we welcome the recent improvements in trade data collection and encourage the authorities to further address the quality of economic statistics to improve macroeconomic analysis and recommendations. We strongly encourage publication of the Article IV report like all Article IV reports and to address the few remaining issues so the authorities can consent to the publication.

Ms. Mason:

We did not issue a gray statement and so I wanted to offer a few brief comments, many in line with other comments.

We welcome this analysis and agree with staff's assessment. It is good to see the positive recovery that Cambodia has been making and the strong working relationship between Cambodia and the Fund demonstrated through responsiveness to previous Fund recommendations and the extensive use of the Fund CD, as others have also noted.

We share staff's and others' concerns over the high levels of private debt. The scale of the problem is likely even worse when you take into account unsupervised lenders, including in the real estate sector. We welcome recent steps taken by the authorities, including ending regulatory forbearance, but urge a more conservative approach to supervision and stronger regulation in line with recommendations set out by the Fund and emphasized by others today.

We congratulate Cambodia on issuing its first bond. Developing a sovereign bond market is an important step for Cambodia, especially in funding future development. We encourage Cambodia to continue to drive this forward with high ambition. We also agree with recommendations for simplification and reform of the tax system to improve domestic resource mobilization.

We welcome the steps made so far and encourage the authorities to continue to improve governance arrangements to help tackle corruption, especially in enabling access to information and monitoring concessional agreements for the use of land, which is not only important for reducing corruption risks but is also critical for Cambodia's climate change goals.

The annex on climate risk is particularly helpful, and it is good to hear about the upcoming C-PIMA, as an increase in the analysis of climate risks is critical. We welcome the authorities' commitment to mitigation targets and encourage them to drive these forward. We encourage the authorities to move forward in adaptation efforts, including by adopting and implementing a full national adaptation plan.

Mr. Mert:

We thank staff for their responses to our questions and Ms. Lim for the buff statement and introductory remarks. We issued a gray statement, and I will limit myself to the following two points for emphasis.

First, the current global pressures stalled Cambodia's economic recovery while inflation is surging, which calls for the authorities' action on the monetary policy front. While we note the initiatives for de-dollarization, we concur with staff, Ms. Kashima, and Mr. Saraiva that more progress on this long-standing issue is needed to make monetary policy more effective.

Second, on climate change, we acknowledge the authorities' mitigation efforts but also note that Cambodia's potential for substantial renewable energy has not been fully exploited yet. We are encouraged by the authorities' commitment to transition to a low carbon economy and encourage them to set the incentives for public and private financing.

Mr. Nicholl:

We did issue a gray statement, but I want to highlight a couple of points that came through in that.

First of all, we encourage the authorities in their recovery and reform efforts, but we note that vulnerabilities remain elevated for Cambodia. On the external assessment, there is the need for greater data. There is a concern that there is a lack of data, which will impede the assessment of the potential for further deterioration. The other thing we would note is that it is concerning that the current account deficit is being financed largely by unidentified short-term inflows. Without knowing more about the nature of those short-term inflows, there is an impending and immediate vulnerability should those flows cease.

On the issue of debt, there is high private debt and a significant amount of restructuring loans underway. While reintroducing a provisioning requirement on restructured loans is a welcome step, the authorities need to normalize monetary and prudential conditions to pre-pandemic standards to better prepare Cambodia for the potential for future shocks.

We encourage the authorities to improve corporate insolvency regimes and debt restructuring procedures, as well as to complete bank restructuring and the deposit insurance legal frameworks.

On the issue of reforms, the sustained policy efforts are required to not only enhance education and infrastructure but also to meet the challenge for the transition to a more private-sector-driven economy. We also welcome the efforts made by the authorities to strengthen governance and anticorruption frameworks and encourage the authorities to adopt measures to improve transparency and access to information but also importantly to secure sufficient resources for investigative and monitoring agencies.

Mr. Sylla:

We have issued a gray statement, so I will limit my intervention to one point.

I would like to comment on staff's monetary policy recommendations. In the report, they say that the central bank should complement prudential measures by gradually restoring minimum reserve requirements to the pre-crisis level to help rein in credit growth and mitigate the risk of domestic inflation. In the current inflation context, Cambodia registers 2.9 percent in 2021 and 5.8 percent in 2022 and inflation is projected to be 3.5 percent in 2023. Does staff think this is the right time to take measures that could hamper the growth?

The staff representative from the Asia and Pacific Department (Mr. Scott):

Thank you for the feedback and the good set of questions. I count eight of them, which I will take in turn. There were two speakers who asked about de-dollarization, so I will attempt to answer both questions at the same time.

Mr. Massourakis asked a question about whether we are seeing evidence of relocation of firms. Broadly, yes. Stepping back a bit, Cambodia is experiencing quite a rapid transition from a largely agricultural economy to expand more into manufacturing. That has been happening at pace. Cambodia is now the third-largest exporter of bicycles to the European Union. It is going down a conventional path of moving from agriculture to light manufacturing. We now see evidence that it is moving to more sophisticated, value-added manufacturing. Indeed, the Acting Chair was with us to visit one of the factories for automobile components in May, and there are some indications, although this is confidential, that there are manufacturers talking about moving for final assembly. That would be excellent progress in terms of raising the value-added for exports.

The authorities are well aware, however, that to proceed, they need to make progress on infrastructure and logistics, which is a high priority for them.

Ms. Kashima asked a question about *Bakong* inclusion and de-dollarization, as did Ms. Marcussen, and Mr. Saraiva. This is a huge topic. It has received attention in the Appendix. I will note that there are several specific recommendations in Table 1 of the Appendix. I will not attempt to repeat them all here, but just to set some context on what a reasonable expectation is: Cambodia went through a civil war that only ended in the early 1990s. At that point it had no central bank. It had no currency. The U.S. dollar was introduced while it was a protectorate of the United Nations. Structurally, in terms of the economy, it has a large tourist industry. Tourists like to be able to use dollars. There is the manufacturing industry, where contracts are expressed in dollars, for both inputs and outputs (that is, garments as well as the more sophisticated manufacturing). There is a long legacy of using the dollar, and there are structural reasons that the dollar has been used and it is likely to stay that way.

In terms of the immediate things to encourage de-dollarization, which is a priority of the central bank, the Cambodian authorities have achieved an environment of low inflation. They have adequate foreign exchange reserves, and they have a conservative approach to fiscal policy, as you have seen in terms of the debt assessment. In other words, the components that are there, that would be potential risks for calling into question the ability of the government to back the domestic currency—those have been achieved. Those are the most important things.

But from here it falls to incremental progress on a number of small issues. I would highlight two aspects. There is policy around de-dollarization that is about ensuring that the financial system is safe, and people do not have any kind of fear for using the currency. That is yet another reason why we are encouraging that reserve requirements be raised, particularly in foreign currency. Also, with regard to our recommendations on the prudential side, the banking system is quite dependent on dollar deposits, so the supervisors need to be assured that the supply of dollar deposits is safe, and therefore there would not be some flight of deposits for fear of lacking backing for deposits.

The second set of issues that I wanted to highlight—and this is where the *Bakong* comes in—is on transaction costs. Obviously, if you have to take a large wheelbarrow of cash to buy a car, it is not very convenient. So, the authorities are trying to pursue measures—such as e-government tax payments, digital payments and so on—that allow and encourage payments in domestic currency. They have high hopes that the *Bakong*, which is a payment system that can be done via mobile phone, will address the dollarization issue by achieving greater financial inclusion. This is something that can be done on a smartphone by somebody in the countryside who does not even have a bank account. Also, because it is all digital, transactions can be done just as easily in the domestic currency.

To step back, the authorities are well aware, and we have had extensive TA going on for many years to try to guide them through this, but the progress is likely to be slow for those structural reasons that I pointed out.

Turning to the next question, which I believe was from Mr. Roman, about recommendations on the fiscal rule, the authorities have not had an entirely consistent approach internally to the fiscal rule and the communication therefore has not been entirely consistent. The Debt Management Office prefers to view things in terms of a 55 percent *limit* in *net present value* terms to public debt-to-GDP. Our recommendations are that they have a fiscal *anchor* expressed in *nominal* terms, just an outright debt-to-GDP ratio, principally because external markets will find expressions in net present value terms confusing and potentially misleading, and it would be much clearer and, therefore, safer to have a nominal target.

We have provided extensive TA this year that has led to some simulations to show that to avoid breaches of a debt limit, a good nominal anchor would be about 40 percent of gross domestic product (GDP). Those recommendations are before the authorities. They are preferring to consider them once the new GDP data are in place and they can assess the changes in not just the debt ratio but things like the fiscal tax revenue ratios as well.

Mr. Roman had another question on the pace of implementation of carbon neutrality. This will be a challenge. The authorities have set a carbon neutral target within quite a short period of time. I would not go into details here, and I welcome bilateral conversation, but it is worth knowing that the structural transformation that I just alluded to also indicates an increase in carbon intensity, which is quite low, all other things being equal. At present, the potential for providing energy, satisfying energy demands through non-fossil fuels, is quite low. There is hydro available from neighboring countries, but that is going to be a big challenge.

Then on external statistics, from Mr. Saraiva: there has been extensive technical assistance. We have a full-time advisor on external statistics based in the Capacity Development Office in Thailand, which is spending a large amount of time advising. We have sent several TA reports, which go into great technical detail. Those reports have not been published by the authorities, but the authorities certainly have a wide range of recommendations on how they can do better. The challenge is that the potential for trade and financial flows that are not formal is quite high, just owing to geography and history.

Finally, Mr. Sylla asked whether this was the right time to tighten. We believe, yes. We base that on the fact that we are quite confident that there is still a robust recovery that would ensue, and that raising policy reserve requirements would not damage the recovery. Secondly, as you noted, we have targeted that recommendation as not against inflation or overheating the economy but the level of private debt. Private credit has been growing at levels far above the normal of economy growth and just arithmetically, this is leading to an increase in the ratio of debt stock to GDP that at some time would be called into question. We want them to avoid the fate of a private-debt-induced crisis.

Mr. Sylla:

Thank you for your answers, but then we need to change the content. The way it is expressed in the report, it is like your measures of tightening monetary policy is targeting inflation, not the debt issues.

Mr. Saraiva:

I have a very specific question because I noticed this large swing in the current account. I guess there was a deficit of about 48 percent. To what extent is that large deficit due to statistical issues?

The staff representative from the Asia and Pacific Department (Mr. Scott):

Mechanically the increase in the deficit this year is largely explained by a sudden reversal of gold flows, where they had been a net exporter and now are a substantial net importer. The reason for the gold flows and the scale of the gold flows is difficult to explain. It is not easy to relate it to demands by industry or the jewelry industry. It is beyond the scale that one can see in other countries for a safe store of value. That is one underlying question of what the reason for the gold flows is.

As for the second part of the question on the statistics, we think the statistics are improving, so they give the *appearance* potentially of a sudden increase in gold flows, but it may actually have been that previous gold flows have not been reported properly. It is actually quite a complicated issue that we are still investigating.

Mr. Potapov:

Thank you, Mr. Scott, for the comprehensive response to the questions on a de-dollarization strategy. Indeed, we welcome the authorities' efforts in this field while understanding the structural nature and historical background behind this issue.

Could staff elaborate on whether the new free trade agreements mentioned by Mr. Bai could potentially benefit the country in terms of reducing excessive dollarization?

The staff representative from the Asia and Pacific Department (Mr. Scott):

I will speculate on an answer, and I underline that my answer is very speculative. Generally, the implication of increased trade has been greater incidence of dollarized contracts or foreign currency contracts. It may actually be that more integration into a trade system has further increased the use of dollar or Baht or other foreign currency contracts. That would be my initial supposition, but it is a very speculative answer at this stage, and I would say that it is much too early to tell. At this stage, it is just worth noting that the trade agreements are recent, and in the case of the Regional Comprehensive Economic Partnership, not yet fully complete in terms of participation by all intended members. They essentially cement existing bilateral agreements rather than make a lot of progress on broader agreements. It is just very early to say yet.

Ms. Lim:

On behalf of the Cambodian authorities, I would like to express my gratitude to Directors for all their comments. My authorities are encouraged by the Board's interest in Cambodia's development agenda and policy priorities and by the acknowledgment of our authorities' efforts to uplift the growth potential, as Cambodia is striving to achieve its vision of being an upper-middle country by 2030.

Mr. Scott eloquently addressed the questions on de-dollarization, but let me say that the authorities acknowledge the merits of de-dollarization in allowing for more policy options to respond to shocks. However, they have taken a gradual and measured approach to ensure a smooth transition that does not disrupt growth and business sentiment. Over the past years, they have continued to implement past Article IV consultation advice in developing the necessary preconditions and the National Bank of Cambodia has been working to improve the monetary policy framework with the support from IMF TA. While the government issued local currency government bonds for the first time in September, as noted by a couple of Directors, enhancements to the payment system such as Bakong—which taps blockchain technology to make digital payment easier and more efficient—as well as to promoting financial inclusion will also go a way toward providing the options to make payments in U.S. dollars or domestic currency. Together they are paving the way toward more developed domestic financial markets and enhanced credibility of the public institutions.

In conclusion, I thank Mr. Scott and his team once again for their work during and beyond the mission. The analysis and comprehensive recommendations are highly valued by the authorities, and we look forward to continuing the constructive engagement with the team leading up to the next mission.

Last but not least, we would like to express our appreciation to the Acting Chair and Management for their support for Cambodia. My authorities were honored to welcome you to Cambodia for your first official visit in May and a candid round of engagement and meetings, and also most recently the Managing Director for the East Asia Summit.

The Acting Chair (Mr. Okamura):

Cambodia is an Article VIII member and no decision is proposed. The 2022 Article IV Consultation with Cambodia is hereby concluded.

The Acting Chair (Mr. Okamura) adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

Statement by Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat on Cambodia
Executive Board Meeting 22/93
November 23, 2022

1. On behalf of the Cambodian authorities, we would like to thank the IMF mission team for the constructive policy discussions during the 2022 Article IV consultation. The authorities are encouraged by staff's positive assessment on Cambodia's macroeconomic developments, and broadly share staff's view on medium-term structural challenges. The authorities are in broad agreement with staff's recommendations and will carefully take them into consideration when formulating policies.

Recent Economic Developments and Outlook

2. **Cambodia's economy has experienced a relatively slow growth in 2021 due to the pandemic, but has since recovered steadily.** Rapid vaccination efforts and the reduction of COVID-19 infection rates enabled Cambodia to fully reopen to foreign tourists since November 2021. This allowed the authorities to roll back some of the support measures and gradually build up the fiscal space for future shocks.

3. **The authorities welcome staff's assessment that growth outlook is broadly positive, underpinned by both domestic and external stability.** Despite emerging headwinds from external shocks, from the conflict in Ukraine and slowdown in key trading partners' economies (China, Europe and the US) in the second half of 2022, the momentum of economic recovery is expected to continue with growth projections, at around 5% in 2022 and around 6% in 2023. This is supported by a solid recovery in tourism sector and a bright prospect of exports. As a result, Cambodia's external sector has improved, as primarily reflected in the narrowing of current account (CA) deficit. Tourism and FDI are expected to have larger contributions to CA in 2023. Supported by abundant labor force and stable macroeconomic environment, the authorities expect more relocations of exporting firms from other neighboring countries to Cambodia – contributing to its medium-term growth.

4. **Despite the recent surge in inflation, its effects have been manageable with limited risk of second-round effects and de-anchoring of inflation expectation.** Faster recovery from the pandemic allowed the government to channel its funds to mitigate the impact of rising prices on vulnerable households in the form of extended cash transfers.

Fiscal Policy

5. **The authorities remain committed to using available fiscal space to mitigate the impacts of the global economic slowdown and the conflict in Ukraine on growth and inflation, with a view to maintaining debt sustainability.** Cambodia's fiscal position has been improving steadily on the back of the resumption of economic

activities. This is driven by a broad-based recovery in tax revenue and a partial rollback of Covid-related spending. Meanwhile, measures to mitigate the impact of rising prices have been well-targeted using the government's ID Poor database to identify poor and vulnerable individuals. The Debt Sustainability Analysis (DSA) indicates that Cambodia has fiscal space to cope with further adverse shocks; nevertheless, authorities will continue to use fiscal measures in a targeted manner and embark on initiatives to improve the efficiency of targeting different types of vulnerable households.

6. **As part of the effort to ensure debt sustainability, the government continues to develop domestic financial markets in line with the recommendation in previous Article IV reports.** Significant progress was made in 2022 by issuing domestic government bonds for the first time in local currency. The auction was well-received by financial institutions, due primarily to close market consultations and clear communication by the Ministry of Finance. The authorities will continue to work on long-term policy framework for market development in line with staff's recommendations. Efforts to develop a comprehensive framework for bond issuance up until 2028 are already underway.

Monetary and Financial Sector Policies

7. **Monetary policy continued to be accommodative to support the recovery at the early stage.** However, as the recovery gathered momentum in 2022, the National Bank of Cambodia (NBC) has started to normalize its policy primarily by ending regulatory forbearance on new restructured loans in June 2022 and considering gradually raising reserve requirements to pre-pandemic levels. The share of non-performing loans (NPLs) in banks' loan portfolios has naturally risen after the end of forbearance but should gradually decline in line with improving debt servicing ability of borrowers.

8. **Credit growth has been robust, reflecting positive sentiments for medium-term economic prospects and sound fundamentals of Cambodia. Nevertheless, the authorities note staff's concerns on the high level of growth and will closely monitor the developments.** According to staff's assessment, Cambodia's economic growth is projected to converge to a potential rate of about 6.5 percent – higher than most countries in ASEAN. Thanks to several trade agreements and continued efforts in economic diversification, Cambodia has seen broad-based increase in investment, not only in garments and footwears but also in agro-processing, automotives, as well as electronics and electrical appliances. A recent increase in credit growth largely reflects funding given to these productive sectors. Nevertheless, the NBC will continue to ensure that banks maintain adequate capital buffers, and, amid high uncertainty, will closely monitor developments in the banking system with preemptive measures to safeguard financial stability.

9. **Overall financial stability remains sound, but amid high uncertainty in the global economy, authorities will carefully monitor associated risks**, including staff's concerns on the buildup of private debt and potential risks in the real estate

sector. On the latter however, the authorities are of the view that the potential risks should have limited impacts on consumption as they remain concentrated in some provinces and only certain segments of the housing market.

Structural Policies

Over the past years, the authorities have made significant progress in enhancing economic diversification and addressing weaknesses in governance framework, and have placed both issues among Cambodia's top reform priorities in the medium term.

10. **In promoting further diversification and productivity, new investment law has been introduced to allow for more targeted tax incentives to high-potential sectors and firms.** The current Industrial Development Policy (2015-2025) has undergone a mid-term review and has produced a roadmap to promote investment in higher value-add manufacturing sectors such as automotive, electronics and machinery. Moreover, the new investment law provides incentives for qualified investment projects in climate adaptation and mitigation. An advisory council has also been established as a channel for authorities to gain feedbacks and have regular dialogues with firms in these key sectors.

11. **The authorities remain committed to strengthening governance and anti-corruption frameworks, and will continue work to implement the necessary measures.** Interagency cooperation among agencies charged with the anti-corruption and AML/CFT mandates – the Anti-Corruption Unit (ACU) directly tasked with anti-corruption mandates, the National Council Against Corruption (NCAC) that oversees the operations of the ACU, the National Coordination Committee (NCC) on AML/CFT/CPF[1] and the Financial Intelligence Unit (FIU) – has improved over the past years. They have also collaborated with other ministries to, for instance, identify sectors most prone to corruption risks. With joint efforts made by interagency cooperation and coordination, Cambodia has completed all the action plan items imposed by the FATF and is expected to undergo an exit onsite visit in January 2023. In relation to the pending laws on whistleblower and transparency, the draft legislation on whistleblower protection has been submitted to the Ministry of Justice for review. The authorities have also sought further IMF technical assistance to enhance capacity in human and technological resources.

[1] Anti-Money Laundering / Countering the Financing of Terrorism / Countering the Financing of Proliferation of weapons of mass destruction.

Statement by Mr. Massourakis and Ms. Cerami on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for producing a well-written set of papers and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their helpful Buff statement. We welcome the strong rebound of the Cambodian economy from the pandemic but steadfast action to mitigate rising external risks and address domestic vulnerabilities will be critical to buttress growth and sustainability. We agree with staff's appraisal and key policy recommendations and offer a few remarks:

- **Fiscal policy should contribute more to contain inflation and mitigate external risks.** Social support to protect living standards affected by food and fuel prices hikes should be better targeted and accommodated by a careful reprioritization of spending and further improvements in revenue mobilization. Going forward, a clear and simple medium-term fiscal framework built around a debt-to-GDP anchor can help address the large spending required to make progress towards achieving the UN's Sustainable Development Goals, while safeguarding debt sustainability. We also underscore the importance of developing a sovereign debt market in view of the expected gradual reduction in concessional financing, which is a key step for building corporate bond markets as well. The recent successful issuance of the first government bonds in local currency, as highlighted in the Buff, is encouraging.
- **Central Bank policies should be tightened to ensure monetary and financial stability.** Higher reserve requirements and tighter prudential measures can support a more sustainable credit growth and contain inflation. In the medium term, we encourage the authorities to pursue de-dollarization more resolutely, with the aim of strengthening monetary policy transmission and paving the way for a floating exchange rate regime. We underscore that a flexible exchange rate can be quite effective as an external shock absorber in Cambodia, given its large export sector. We concur with staff that the prolonged credit growth above that of nominal GDP and the elevated private debt, particularly in the corporate sector, are concerning and need to be urgently addressed by tightening prudential regulations, intensifying supervisory scrutiny, and strengthening the bank restructuring and corporate insolvency frameworks.
- **Further improving governance and anti-corruption frameworks is paramount.** We appreciate staff's follow up assessment in the enhanced Fund engagement on governance issues approved by the Board in 2018. We welcome the significant progress achieved and encourage further action to close remaining gaps, including in the judicial sector and in the extractive industry, as a matter of highest priority.
- **Closing data gaps and improving data quality remain priorities.** We note that despite extensive Fund's TA on statistics, there remain important data gaps, including in the external sector and employment, which hinder a comprehensive policies staff's assessment and, importantly, effective policy making by the authorities. In this

respect, we welcome the fact that statistics remains a priority area for Fund's planned capacity development.

Statement by Mr. Nicholl and Mr. Yoo on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for their comprehensive reports and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their informative Buff statement. The Cambodian economy has weathered the pandemic, supported by substantial international reserves and large fiscal buffers, and has been on a steady recovery path after a contraction in 2020. We agree with the thrust of the staff's appraisal and make the following comments for emphasis.

We positively note that the recovery of Cambodian economy is expected to continue despite multiple challenges. Strong exports and the fade-out of Covid-19 contributed to the recovery. The macroeconomic and financial system remains broadly sound. However, risks to the outlook are tilted to the downside. The slowdown and lockdowns in China, shrinking demand in Europe, and higher prices of fuel and fertilizer could weigh on GDP growth in Cambodia. The authorities need to gradually normalize their policies and to step up efforts to advance the country for a robust and resilient economy.

External sector vulnerabilities warrant close monitoring and policy responses with the assistance of the Fund. We take a cautious note of the significant deterioration in current account balance in 2021 and the substantial uncertainty in external sector assessment due to lack of data. Cambodia's external position has been weaker than the level implied by fundamentals and desirable policies and the assessment would remain the same even excluding exceptional gold imports in 2021. It is concerning that the current account deficit is being financed largely by unidentified short-term inflows. *How does staff assess the risk of sudden stop or reversal of capital flows to the economy and financial markets?* While we welcome the improved coverage in trade data, we encourage the Fund to continue to provide technical assistance to further improve external sector statistics. *In the CD strategy for Cambodia in Annex IV, Fund's planned activities in this area are unclear. Staff's elaboration would be welcome.*

Large outstanding amounts of restructuring loans combined with high private debt levels warrant close monitoring. While reintroducing provisioning requirement on restructured loans is a welcome step, the authorities need to normalize monetary and prudential conditions to pre-pandemic standards to be better prepared for future shocks. We encourage the authorities to improve corporate insolvency regimes and debt restructuring procedures as well as to complete bank restructuring and the deposit insurance legal frameworks. De-dollarization would lead to greater exchange rate flexibility and independent monetary policy, but it must go in tandem with deeper FX market and domestic financial market development to avoid financial instability and excessive volatility. We also see merit in collecting data on income and collateral of borrowers and developing macroprudential tools, given an increasing importance of real estate market.

The authorities should continue to provide targeted fiscal support in the near term while enhancing fiscal consolidation and improving fiscal policy framework over the medium term. It is important to strike a balance between normalizing exceptional government spending in crisis and providing necessary fiscal support for social protection. We support the authorities' plan to strengthen social protection across life cycles and vulnerable groups. We consider staff's recommendation of revenue mobilization and diversification with more reliance on property and corrective taxes is reasonable. Staff's proposal for fiscal rules with numerical targets – nominal debt-to-GDP ceiling combined with overall deficit ceiling – is in line with international best practice and we look forward to further discussions between the authorities and staff to produce constructive and country tailored outcomes.

Structural reforms are essential for stronger competitiveness, diversification, and inclusive growth. Robust near-term economic performance provides a momentum to resume necessary structural reforms. The authorities' ongoing reforms such as one-stop mechanism for investors and more targeted tax incentives are welcome steps. Sustained policy efforts are required to enhance education and infrastructure as well as the challenging transition to a more private sector driven and greener economy. Addressing governance and corruption weaknesses will not only help improve investment environment but also contribute to inclusive growth. In this respect, we welcome the efforts made by the authorities to strengthen governance and anti-corruption frameworks and encourage the authorities to adopt measures to improve transparency and access to information and to secure sufficient human and technological resources for investigative and monitoring agencies. Fund's technical assistance in this area is also encouraged.

Statement by Mr. De Ramon-Laca Clausen and Mr. Lopez on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for their well-written report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their candid Buff statement. We broadly share staff's appraisal on the Cambodian economy and policy recommendations, and we would like to offer some specific comments for emphasis.

Despite the recent slowdown in the economic recovery, growth is expected to sustain a good pace during the projection period. A strong crisis policy response, and a sustained vaccination effort, have been instrumental to support the recovery of domestic demand and to contain the negative impact of the global commodity shock on the economy, especially on the most vulnerable groups. Whereas the recent slowdown of economic activity in the country's main trade partners is restraining exports in critical sectors such as garments and tourism, the signing of free trade agreements, combined with the new investment law, will provide a significant push on trade and investment flows in the medium term. Downside risks dominate, including a harder slowdown in the residential sector and potential stability concerns linked to the high private sector indebtedness and the monetary policy tightening cycle.

Fiscal credibility should be maintained, balancing the need for short-term targeted support and medium-term consolidation, without losing sight of long-term structural challenges. We agree with staff that, given existing risks, fiscal space should be used flexibly, responding to new potential shocks, but prudently and efficiently with targeted measures to preserve fiscal space. From a longer-term perspective, the authorities' plans to espouse the Sustainable Development Goals —especially in education, health care and social protection— will require deep structural reforms to enhance spending capacity and efficiency, revenue collection mobilization, and institutional governance. We also agree with staff that a credible fiscal framework is needed to implement both spending and revenue strategies and to promote the development of a sovereign debt market.

We welcome the authorities' measures to address financial risks and preserve a sound financial system, although regulatory reforms are needed to underpin its resilience. We agree with staff that the reintroduction of provisioning requirements on restructured loans is a welcome step, but a complete return to pre-pandemic prudential standards would be ideal. Like staff, we also see financial stability risks implicit in the current pace of credit growth, especially given the high level of sectoral concentration and related-party lending. The NBC should ensure banks maintain adequate buffers and provisioning levels given the downside risks, while the development of a corporate insolvency regime and debt restructuring procedures will help banks to manage a future deterioration of loan portfolios. In the same line, further efforts are needed to upgrade regulation and supervision of the financial sector, both from a micro- and a macro-prudential perspective. The country could also benefit from the development of a comprehensive crisis management framework, including the bank restructuring and deposit insurance legal frameworks, with a careful consideration of the economy's strongly dollarized nature.

Statement by Mr. Rashkovan and Ms. Volociuc on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the informative report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their helpful Buff statement. We positively note the gradual recovery of the Cambodian economy from the economic slowdown caused by the COVID-19 pandemic, thanks mainly to the authorities' preparedness and robust crisis policy response. However, the new external shocks, including the slowdown in China and weaker demand in Europe generated by Russia's war on Ukraine, pushed a surge in inflation and will leave the economic growth well below pre-COVID-19 levels. Against this background, the policy responses should be well-calibrated to manage near-term challenges and build a framework for a robust and resilient economy. We **broadly agree with staff's appraisal and recommendations** and focus on the issues below.

Growing challenges and demand on public spending require a recalibration of fiscal plans and framework. We note that the current fiscal plans are appropriately balanced under the baseline scenario. However, if risks materialize, pressure on expenditure might intensify which will require a recalibration of fiscal plans. We agree on the importance to continue the implementation of social protection measures to protect the most vulnerable. *Can staff elaborate on the support provided to the most vulnerable from the perspectives of targeted, temporary, and transparent principles?* Going forward, as demand on public spending will likely increase to support growing social protection, educational and healthcare spending, and the climate agenda, we concur with staff that the authorities should gradually step up their efforts for revenue mobilization and spending efficiency, but also for the introduction of a comprehensive fiscal framework.

A solid and inclusive financial system will be paramount to withstand potential future headwinds. Although the banking sector looks resilient in terms of capitalization and liquidity levels, the prudential conditions are yet to revert to pre-pandemic requirements. We call on the authorities to intensify supervision including the loan portfolio review. We believe that proactive measures toward building capital buffers should be taken, as the withdrawal of forbearance on all restructured loans might bring significant losses. We also encourage the authorities to stay on track with their commitment to further improve the AML/CFT regime and implement the recommendations under the FATF monitoring.

Rising private sector indebtedness represents a concern. We agree that the strong credit growth underpinned Cambodia's economic growth. However, the private sector indebtedness reached a risky level which raises concerns about private debt accumulation and potential repercussions on the economy. The risks to lenders are also mounting given the significant level of already restructured private debt in recent years. Moreover, the expected decline of the domestic real estate market might add to these risks as the share of real estate and construction in the corporate debt is noteworthy. We welcome the discussions on the risks of private sector debt in the Selected Issues Paper and support staff's recommendations on enhancing corporate insolvency regimes and bank resolution frameworks, but also improving data collection which would enable the authorities to introduce prudential policy measures. *Can staff elaborate on the authorities' strategies to implement these recommendations? Additionally, what are the authorities' plans to address related-party lending risks,* *enhance cross-border supervision, and risk-based supervision?* We also note that in the authorities' view, with a rebased GDP, the private debt ratio would look more benign. *Staff's comments are welcome.*

Accelerating structural reforms remains a key priority to achieve sustainable and inclusive growth. Despite the improved anti-corruption framework, we note substantial weaknesses across the governance and anti-corruption framework including the implementation challenges. We agree with staff that more efforts and resources, including human and digital, should be allocated to tackling corruption and strengthening the rule of law to improve the business climate and long-run productivity.

Statement by Mr. Hendrick and Ms. Ramos Capaquira on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the comprehensive report and the relevant topics addressed in the Selected Issues papers, and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their insightful Buff statement.

1. **We welcome the strength and positive outlook of the Cambodian economy despite the pandemic and further external shocks in 2022.** Cambodia's economy experienced a fast recovery since the second half of 2021, returning to estimates of high growth rates in 2022, mainly on the back of strong supportive policies and the country's important buffers. International reserve levels are above thresholds, fiscal indicators are recovering, and debt remains low and sustainable. The external scenario of increasing commodity prices has raised inflation; nevertheless, it has been falling after the peak reached in June 2022, with limited second-round effects and without de-anchoring of inflation expectations. While risks persist, the economic outlook is highly encouraging, supported by the authorities' ongoing and expected actions to address other structural challenges.

2. **Regarding fiscal policy, we support the authorities' decision to maintain the stimulus in the near term to protect the economic recovery and the population's welfare.** We see merit in the authorities' actions to defend the most vulnerable against rising food and fuel prices in a targeted mode. Furthermore, we agree with staff on recognizing the authorities' plan on expanding the social safety net through the integration of current programs into a holistic social protection system with a life-cycle approach and coverage of other vulnerable groups. Investment in education, health, and infrastructure remains critical for inclusive and resilient growth prospects in the long term. Moreover, we welcome the authorities' commitment to restore fiscal buffers and work towards the Public Finance System Law, which will help the country be prepared for future shocks.

3. **Efforts to de-dollarize the economy are essential to improve the monetary policy efficiency and restore the correspondence that would be expected between economic stability and confidence in the local currency.** We concur with staff that the high dollarization in the country is puzzling and a matter of research, as it has occurred amid a scenario of exchange rate and price stability, and an overall positive

performance of the Cambodian economy. We welcome staff's analysis of this issue in Annex VI. The authorities have already implemented relevant measures to reduce dollarization and we encourage them to continue working on it. We see merit in the efforts to develop the local bond market and commend the first issuance of bonds in local currency in 2022, which supports the de-dollarization process of the economy. An intensive awareness campaign on the importance of increasing the use of local currency among the population, and the evaluation of impact of the adopted measures would also help in this direction.

4. **The financial system shows positive indicators, and the authorities are committed to close monitoring to safeguard financial stability.** We agree with the authorities on the important role that robust credit growth is playing in the Cambodian economy, and even more so that it is distributed across different sectors, and especially in productive sectors, including electronics, electrical appliances, automotives and agro-processing. Further strengthening credit access for micro, small, and medium-sized companies will be essential to continue promoting financial inclusion and diversification of the economy. Moreover, improving the regulatory and supervisory framework and restoring the pre-pandemic macroprudential requirements is key to safeguard the financial system; we welcome the authorities' commitment on this issue.

5. **Cambodia's efforts to diversify the economy and address climate change are noteworthy on the path to reduce its vulnerability to exogenous shocks.** We welcome the new investment law that it is not only allowing for more targeted tax incentives to high potential sectors and firms, but it is also providing incentives for qualified investment projects in climate adaptation and mitigation. One of the variables of concern on the external front is the high level of the current account deficit; better prospects for the economy and the relevant diversification measures will help limit this risk in the medium to long term. In addition, we take positive note of the progress on enhancing the governance and anti-corruption framework; we encourage the authorities to continue working on this. Since Cambodia has a large share of youth population, *we would like to ask staff if they have analyzed the impact of demographic factors on current and prospective long-term growth*.

With these comments, we wish the Cambodian authorities and people success in their endeavors in these challenging times.

Statement by Ms. Medearis and Mr. Sturm on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their helpful Buff statement. We welcome the economic recovery from the pandemic in Cambodia, and the authorities' steps to improve social protection. The authorities will now need to carefully calibrate fiscal policies to ensure external and price stability while also taking steps to tackle financial sector risks and corruption vulnerabilities. **We broadly agree with the staff appraisal and recommendations and offer the following comments for emphasis.**

We agree with staff that the authorities will need to unwind pandemic support while improving targeting of support to the most vulnerable. We encourage the authorities to consider staff recommendations to protect fiscal space for social protection, while continuing fiscal consolidation through other measures, including revenue mobilization. As outlined in Annex V, we welcome the improvements in social protection in Cambodia and we encourage continued progress to improve social outcomes and to reduce poverty. We note the improvements in fiscal transparency, but urge the authorities to take further steps in this area in line with staff advice and to work to reduce corruption risks in revenue administration, PFM, and procurement.

Staff make a convincing case for the authorities to normalize prudential conditions in the financial sector to contain risks from elevated credit growth and private debt. We agree that the authorities should upgrade financial sector oversight, including through expeditiously reinstating prudential norms and proactively stepping up supervision. *Could staff comment on the timeframe and progress to date for putting in place a bank resolution regime?* We also underscore staff's views on the importance of corporate insolvency and debt restructuring frameworks.

We encourage staff and the authorities to pay close attention to external sector risks. We agree with staff's assessment that the external position is weaker than warranted. While large current account deficits were largely financed by FDI through 2020, the wider current account deficit in 2021 was primarily financed by other investment flows (alongside errors and omissions), implying a riskier external financing picture if the current account deficit remains elevated. *Could staff further elaborate on key structural reforms that would help contain external imbalances and reduce real exchange rate misalignment?*

Governance in Cambodia is macrocritical and therefore we strongly encourage the authorities to step up their efforts to reduce corruption. Corruption is playing a key role in the macro-financial risks facing the economy and is likely contributing to external imbalances with excess activity in high-risk sectors like real estate and construction. We welcome staff's analysis in Annex VIII and appreciate the clear assessment of corruption vulnerabilities and rule of law weaknesses. We encourage the authorities to move swiftly on staff recommendations, including whistleblower and transparency laws as well as asset declarations. We encourage staff to continue to closely monitor the nexus between corruption and macro-financial linkages and to fully integrate corruption into their analysis and recommendations going forward.

We encourage the authorities to continue to improve data and statistics to enhance surveillance. We welcome Fund technical assistance to improve statistics and encourage continued efforts by the Fund to support the authorities in this regard.

Joint Statement by Ms. Kashima, Mr. Loszewski, Mr. Piasecki, and Mr. Watanabe on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We broadly concur with the thrust of the staff's appraisal and policy advice. The Cambodian economy rebounded in the second half of 2021 thanks to the authorities' response measures and buffers built up prior to the pandemic. While the economy is now facing new challenges due to weaker external demand, we positively note that the recovery is expected to continue and inflation to decline. Going forward, rising private sector debt and the domestic impact of economic slowdown in key large economies warrant close monitoring. We share the staff's view that continuing targeted fiscal policy support to the vulnerable and normalizing financial conditions are a priority, while also pursuing efforts to strengthen fiscal and monetary policy frameworks.

In light of the increase in poverty levels, broad support to households should gradually shift to a better targeted system which appropriately tackles the rise in poverty. In this context, we commend the authorities for the introduction of the digital ID system that allows for cash transfers to the most vulnerable. We also note - in Annex V - the technical challenges in integrating the existing four social protection programs into one new scheme as well as those related to expanding universal health coverage. *Is there any TA support provided by international partners including the Fund to support the authorities' efforts? Does staff see any political or social setback against these reform measures?*

Over the medium term, enhancing credibility of the fiscal framework and pursuing fiscal consolidation are of paramount importance. We concur with the staff of the importance of reducing fiscal deficits over the medium-term and to recalibrate existing fiscal rules in order to create fiscal space for the increasing spending needs in education, health, climate adaptation and other SDG areas. Strengthening revenue mobilization including through modernizing excise taxes, property taxes and tax incentives is another priority, and we welcome the staff's detailed analysis in the Selected Issues Papers (SIPs). Bolstering the fiscal policy framework will also be critical in developing a domestic sovereign bond market, which is urgently needed, as access to grant and concessional financing will likely be subdued over the medium-term.

Returning to pre-pandemic monetary conditions will help curtail credit growth and address the current heightened inflation under the *de facto* stabilized peg regime. In this sense, as staff indicated, raising minimum reserve requirements, in particular the minimum reserve ratio for foreign currency, is one promising direction. At the same time, we agree with staff that efforts should continue to promote the use of local currency and to modernize the monetary policy frameworks in order to strengthen monetary transmission and enhance the central bank's policy options.

Strong credit growth and private sector debt accumulation raise concerns. We note that only 10% of total restructured loans are classified as non-performing, although most of them would have been classified as non-performing before the pandemic, and that capital conservation have buffers remained halved since May 2020. We encourage the authorities to continue the withdrawal of forbearance measures and to intensify bank supervision. Further enhancing the macroprudential policy toolkit and effectively utilizing such tools will also be essential. *Can staff elaborate on the authorities' stance and capacity for further enhancing and utilizing macroprudential tools?* Strengthening corporate insolvency regimes and bank resolution frameworks are also needed. In this context, we note in Annex III that the Deposit Protection and Bank Resolution Unit at the NBC has been working on drafting legislation for a deposit insurance scheme and a bank resolution framework. *Can staff elaborate on the prospects and timeframe for establishing these frameworks?*

Steady progress on structural reforms is essential to boost the business environment and to make Cambodia more resilient against future shocks. Continued efforts to strengthen governance and anti-corruption frameworks are a key priority. In this sense, we commend the authorities' progress such as the adoption of a renewed anti-corruption action plan, creating the Anti-Corruption Institution (ACI), and improving legal frameworks. However, further efforts are necessary to mitigate remaining vulnerabilities. Strengthening the rule of law through enhancing judicial institutions and institutional capacity is paramount. Such efforts will lead to a better business climate and contribute to attracting more private and foreign investments.

Addressing climate change is another important structural challenge for Cambodia. Cambodia ranks 14th in the global climate risk index 2021, and natural disaster vulnerabilities such as floods, droughts, and storms are imminent risks. In this regard, we commend the authorities' efforts such as the adoption of Cambodia Climate Change Strategic Plan (CCCSP) and Climate Public Expenditure Review (CPER). We encourage the authorities to pursue further efforts including the adoption of a full National Adaptation Plan (NAP) and securing financing for the identified climate adaptation projects. We positively note that the authorities are envisaging to take further policy steps, including the upcoming Climate-Public Investment Management Assessment (C-PIMA) and to facilitate sustainable finance, green finance, and environmentally-friendly investments. *Does staff see any difficulties in implementing these measures due to capacity constraints? Have the authorities shown interest for requesting support under the Resilience and Sustainability Facility (RSF)?*

Capacity development (CD) remains a critical workhorse. We note that Cambodia is the largest CD recipient in FY2022 within the APD countries, and welcome the staff's detailed description in Annex IV. Effectively utilizing the evolving multi-year surveillance strategy and CD matrix to prioritize CD areas is key to achieving better strategic integration between CD and surveillance. This is also pivotal in light of properly taking into account the authorities' absorption capacity and ownership, which are critical factors to deliver meaningful CD and obtain actual gains. We expect that this "Cambodia model" will be horizontally leveraged to other country cases, and encourage staff to continue close engagement with the authorities in their capacity building efforts going forward.

Statement by Mr. Alhosani and Mr. Abdul Raheem on Cambodia
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November 23, 2022

We thank staff for the well-written report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for the helpful Buff statement. We are in broad agreement with the assessment and recommendations in the report and would like to make the following points.

1. **Cambodia has recovered robustly from the pandemic recession and weathered subsequent shocks in large part due to the strong buffers that the country had going into the crisis**, built over decades of strong growth and prudent macroeconomic management. Strong fiscal buffers enabled the government to build health capacity and to support employment and households, in cushioning the impact of the Covid-19 pandemic on growth and poverty. The recovery is projected to continue despite downside risks. A sustained emphasis on prudent macroeconomic management, in addition to growth enhancing structural reforms, poverty reduction, improvement of governance can be key ingredients in the future growth of the country. We commend recent efforts by authorities on trade and investment promotion, and on strengthening governance and anti-corruption framework.

2. **We support the authorities' fiscal stance, although more can be done to wind down the pandemic related fiscal measures and to rebuild fiscal buffers**, as the demand on public spending is expected to grow as the country seeks to attain higher levels of development. We commend the authorities on the rapid roll out of social protection measures during the pandemic, which proved highly effective in ameliorating the impact of the pandemic on poverty. We welcome the authorities' steps to transition the Covid-19 related benefits to a formalized and structured social security framework, yet echo staff's call to exercise caution in preserving fiscal space by offsetting cuts elsewhere. On the revenue side, as grant revenue is expected to decline as the country graduates from the least developed country status in the coming years, diversifying revenue instruments and rationalizing exemptions is important. We agree with staff's recommendation to further enhance fiscal credibility through firm deficit and debt anchors. Given the high dollarization of the economy, a prudent fiscal stance is also critical for external sector stability as well as managing inflationary pressures.

3. **The current account deficit has widened significantly and requires attention.** We positively noted that Cambodia maintains healthy foreign exchange reserves, which will

support exchange rate stability, despite the large current account deficit. As mentioned above, the high dollarization of the economy means that the burden of external adjustment falls largely onto gradual fiscal consolidation. We acknowledge the measures taken by the authorities to promote the use of local currency and de-dollarize the economy, with a special note of the first domestic government bond issuance, this year. The development of the local financial market is critical to improve the monetary transmission mechanism, to enhance the macroeconomic management capacity in the future.

4. **We encourage the authorities to be vigilant for emergent risks in the financial markets, particularly from the high level of private indebtedness and the potential spillovers into the real economy.** We support the staff recommendation to normalize prudential conditions to pre-pandemic settings, complemented with a gradual restoration of the minimum reserve requirement to pre-crisis levels, to reign in credit growth. Deeper structural reforms including insolvency and restructuring frameworks, as well as deposit protection schemes are also important to address risks in the financial sector going forward.

With these remarks, we wish the authorities all the success in their future endeavors.

Statement by Mr. Mert and Mr. Pucnik on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the well-written and comprehensive reports, and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their helpful Buff statement. The Cambodian authorities responded early and comprehensively to the COVID-19 pandemic, paving the way for a steady recovery path. Nonetheless, Cambodia still faces vulnerabilities, such as a worsened external position, narrow revenue base, high dollarization, fixed exchange rate, and weak governance. Against this backdrop, we strongly support the authorities' continued efforts to implement crisis policy responses, and reforms to address external vulnerabilities and structural impediments. **We broadly concur with staff's assessment and policy advice, and limit our comments to the following points for emphasis.**

We welcome the authorities' efforts to develop a Medium-Term Fiscal Framework, which will strengthen Cambodia's economic position. A strong commitment to implement a rules-based fiscal framework would increase revenues, improve spending efficiency, limit the need to rely on borrowing, and attract foreign direct investment (FDI). We positively note from the Buff statement that, after being widened substantially to an estimated 48 percent of GDP in 2021, tourism and FDI are expected to narrow the current account deficit in 2023. *Could staff elaborate on the targets in the Medium-Term Fiscal Framework?*

Maintaining financial sector stability remains crucial to supporting the economic recovery. Although public debt is assessed sustainable, we note that private debt vulnerabilities remain at high risk of distress. Private debt is a concern, as indebted households and enterprises can cut consumption and investment spending, which can reflect in a deceleration of the economic recovery. Additionally, high private borrowing contributes to financial vulnerabilities due to the possible increase of non-interest-bearing assets in banks' balance sheets during times of crisis. Increased levels of non-performing loans are a source of systemic risks and hamper economic recovery. The authorities are well-advised to monitor private debt developments and implement macroprudential measures to mitigate risks emerging from high debt levels. Safeguarding debt sustainability could help preserve investor confidence.

The high level of dollarization and maintained exchange rate peg policy are reasons for concern, as they limit the room for monetary policy to counteract high inflation. Under such circumstances, improving the monetary policy framework's efficiency is crucial to mitigate inflation risks and respond to future economic cycles. We encourage the authorities to gradually embrace a more flexible exchange rate and allow it to act as a shock absorber. While the monetary policy is focused on currency stability, fiscal measures to protect the most vulnerable from inflation pressures are warranted. *Could staff share the current estimation of Cambodia's dollarization rate? Additionally, we would welcome information whether dollarization continues to be accepted across the political spectrum.*

Making progress on governance by continuing to improve transparency and strengthening the anti-corruption framework is important. Continued governance weaknesses present risks in many areas of the economy and more needs to be done in order to spur FDI, develop state-owned enterprises, and ensure sustainable and inclusive growth. Comprehensive governance reforms can help to reduce Cambodia's fragilities in the long-term. We note and welcome the work underway to improve the quality and dissemination of statistical data, which is crucial for proper economic diagnostics. We also support the government's adoption of a renewed anti-corruption action plan (2020-2025), and the creation of Anti-Corruption Institution, as well as other steps to improve its legal anticorruption framework.

Cambodia is susceptible to natural disasters and enhancing resilience to climate change is vital. Climate change in the medium- to long-term might adversely impact several sectors and aggravate poverty. We share staff's concern on the impact of climate change and encourage authorities to focus more on tackling climate change. In this respect, we positively note Cambodia's implementation of a national Climate Change Strategic Plan 2014-23 and the ratification of the 2015 Paris Accord.

With these remarks, we wish the authorities every success in their future endeavors.

Statement by Mr. Subramanian and Mr. Jain on Cambodia
Executive Board Meeting 22/93
November 23, 2022

1. We thank Staff for the informative Report on Cambodia and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their buff statement.

2. The Report has aptly captured recent developments in the Cambodian economy. We note that the economy is facing fresh headwinds from external factors as is the case with most other economies. We appreciate that buffers built before the onset of the pandemic helped the policymakers respond appropriately during the crisis and mitigate the adverse impact on the economy. **While the Staff expects that the economy will continue to recover from the pandemic, its GDP growth projections at 5.0 per cent for 2022 and 5.4 per cent for 2023 are lower than other multilateral agencies. For instance, the Asian Development Bank, in its September 2022 update, projected Cambodia's GDP growth at 5.3 per cent for 2022 and 6.2 per cent for 2023. Staff may also like to clarify whether its growth projections for next two years are subject to change after the new GDP series is released in early 2023.**

3. We also take note of the fact that Cambodia is dependent on imports for its needs relating to fuel, food and fertilizers. Amid rise in international prices of these commodities, inflation rose in first quarters of 2022 before easing in Q3. **Staff may like to highlight the pass-through effects of increase in international prices of fuel, food and fertilizers.**

4. As per Staff's assessment, Cambodia's external position in 2021 was substantially weaker than the level implied by medium-term fundamentals and desirable policies. However, the current account deficit (CAD) is projected to narrow from 47.5 percent of GDP in 2021 to 30.0 per cent and 14.1 per cent in 2022 and 2023, respectively on the back of services exports (mainly due to tourism activity) and other exports. **However, we are not sure whether CAD would fall to the desired extent, as weak demand in the US and EU, two major destinations for Cambodia's exports, may impact export growth, going forward**. Similarly, Cambodia's imports are projected to decline in next

two years. **Staff could have briefly discussed the assumptions on international prices of key commodities imported by Cambodia.**

5. On exchange rate, the staff has noted that local currency remained steady against US dollar, with some intervention in late 2021, but none in 2022 to September. **As Cambodia follows a managed peg exchange rate, no intervention by central bank in 2022 appears to be exception as most other emerging market and developing economies had to drawdown foreign exchange reserves to ensure orderly conditions in their foreign exchange markets.**

6. The Staff finds that steady financial inflows have been crucial for the stability of the exchange rate and foreign exchange reserves; and a large part is accounted for by a surge in short-term unidentified inflows. **If authorities do not have an idea about the source and nature of short-term unidentified inflows, it is not clear as to how these inflows are recorded in Cambodia's balance of payments statistics.** Given the vast scope for improvement in balance of payments data, **we appreciate that the IMF will continue to provide technical assistance to improve country's external sector statistics.**

7. As regards Cambodia's public finances, staff projects the fiscal deficit to narrow to 4.1 per cent of GDP in 2022 and increase to 5.0 per cent in 2023, before falling thereafter to 3 per cent in the long-run. We also note that reasons for a modest increase in fiscal deficit in 2023 are appropriately provided. **We agree with staff's assessment and recommendation that Cambodia should carefully target fiscal support and provide sufficient guidance for medium-term fiscal policy to ensure fiscal credibility is maintained, notwithstanding that the country has fiscal space to cope with further adverse shocks.**

8. Given the high level of private debt as a concern for potential debt overhang, **we also endorse staff's recommendation that there is a need for strengthening corporate insolvency regimes and bank resolution frameworks, and introduce deposit protection schemes.**

9. We also appreciate authorities' efforts towards reforms in several policy areas (e.g., the investment law aiming to create a single contact point for

investors) and new trade agreements with other regional economies which shall augur well for growth, inward investment and exports. **It is also encouraging to note that country authorities have made adequate efforts to implement Staff's past advice on various policy issues**, *e.g.*, targeting of support measures and restoring revenues, reducing supervisory gaps, strengthening the financial safety net, reducing dollarization, addressing deficiencies in the AML/CFT regime, and addressing lack of diversification and low value added.

Statement by Mr. Potapov and Ms. Zubareva on Cambodia
Executive Board Meeting 22/93
November 23, 2022

1. We thank staff for the comprehensive report on Cambodia and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their insightful Buff statement. **We broadly agree with staff's appraisal and would limit our comments to the following points.**

2. **The growth outlook remains broadly favorable, supported by the strong export performance, successful vaccination campaign, and a gradual recovery in tourism.** Despite the complex external developments, growth is expected to gradually converge to a potential rate over the medium term. We agree with staff that the main risks to the economy include slowdown in major trade partners, inflationary pressure, challenges in the real estate market, and high private sector indebtedness. According to the report, large inflows of gold have deteriorated the current account deficit and weakened the country's external position. *Could staff elaborate on the consequences of highly volatile flows of gold for Cambodia's international reserves?*

3. **Fiscal policy is well-balanced but should be adjusted in case risks materialize.** We note that Cambodia has additional fiscal space to overcome possible external shocks. The planned fiscal consolidation is expected to strengthen public finances and support debt sustainability. According to the DSA, despite debt carrying capacity vulnerability and an increase in debt servicing, Cambodia remains at a low risk of external and overall debt distress. We acknowledge the authorities' plans to gradually phase out the COVID-19 support measures and implement social protection reforms, which address health and pension issues, human capital development, and vulnerable population support. The introduction of a comprehensive fiscal framework, which includes an operational fiscal rule to provide guidance on spending and revenue strategy, is welcomed.

4. **Rising private sector indebtedness poses risks to the financial system.** The level of restructured loans, a sharp increase in NPLs since 2019, and policy constraints due to the exchange rate peg and dollarization may cause adverse financial events. *Could staff elaborate on the quality of the private loans and the possible risks for the banking sector?* The authorities are well aware of these risks and undertake important steps to improve financial regulation and promote de-dollarization in the economy. In this regard, we welcome the recommendations to update legislation on the bank resolution mechanisms and insolvency regimes, as well as to improve data on borrowers' income and collateral. We also welcome the measures taken by the authorities so far to promote the use of local currency.

5. **Structural reforms and governance improvement would be critical to foster economic growth.** We welcome the authorities' efforts to improve the business environment and implement the anti-corruption action plan (2020-2025). Additional efforts are still needed to strengthen education and improve the healthcare sector. *Could staff elaborate on how Cambodia's competitive wages and availability of skilled labor can further support the development of labor-intensive manufacturing?*

6. With these remarks, we wish the authorities and the people of Cambodia every success.

Statement by Mr. Sylla and Mr. Alle on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for a concise and informative report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their insightful Buff statement.

The COVID-19 pandemic has severely impacted Cambodia's economy, but the authorities' good policy response aided by buffers built up before the crisis have contributed to support a steady recovery. Starting in mid-2021, the economy emerged from the recession, posting an estimated growth rate of 3 percent at year-end. Exports of goods, including garments, electronics, and vehicle parts were the main drivers of this performance. A good vaccination coverage and commendable support programs to households also accompanied the authorities' policies and reforms. The economy is still facing headwinds as shown in early 2022 indicators. Rising world fuel prices and the country's high dependency on fuel imports have caused inflation to reach 7.8 percent y/y in June 2022, albeit falling to 4.4 percent y/y in September. The current account deficit is still large following its substantial widening in 2021. We encourage the authorities to step up their efforts to address these challenges to firm up the recovery and enhance resilience. Emphasis should be put on strengthening domestic revenue mobilization to further reduce the fiscal deficit and maintain the good debt profile. The financial system should be monitored to prevent the negative effects of credit concentration. Strengthening the governance and anti-corruption framework should be on the authorities' priority list. We broadly concur with the main policy recommendations in this regard and provide the following comments for emphasis.

We take comfort in the reassuring projections signaling that the recovery is still continuing despite external pressures. Growth is projected to stand at 5 percent in 2022 and $5^{1/2}$ in 2023. We also commend the authorities for maintaining policy support to speed up the rebound and mitigate the effects of the crises on populations. Going forward, the authorities are encouraged to remain vigilant about areas of vulnerabilities, including potential further shocks to exports and growth which may affect even more the debt-carrying capacity. In the same vein, actions should be taken to shield the economy against risks stemming from the high private debt. When the crises subside, the private sector should be encouraged to address debt as firms regain momentum.

In the fiscal area, we note positively the expected narrowing of the deficit to 4.1 percent of GDP in 2022; while the government is still maintaining high levels of spending to address the effects of the pandemic and rising fuel and food prices in the face of falling revenue. As well, the low public debt-to-GDP ratio, at 40 percent is commendable. Raising additional revenue is critical, and we encourage the authorities to step up their efforts to broaden the tax base.

As regards the monetary and financial sectors, we take good note that the peg system has served Cambodia well. The exchange rate has remained steady and the country enjoys a comfortable level of around 8 months of projected imports. It is reassuring that Cambodia's financial system relies more on domestic deposit funding and has hence been preserved for its limited exposure to current conflict zones. Still, the high credit growth prompts some concerns. While we welcome a strong level of credit to the economy, we see some signs of credit concentration here, which doesn't favor a diversified economy, but even increases risks to the financial system being exposed to a few firms. We encourage the authorities to make good use of supervisory tools to enlarge the private borrowers' base to reduce risks to the financial sector.

On structural reforms, we welcome the steps taken by the authorities to combat corruption and strengthen the rule of law. The renewal of the anti-corruption action plan (2020-2025) goes in the right direction. In the same vein, the authorities should take additional measures for an effective implementation of their plan, including allocating sufficient human and technological resources for investigative and monitoring agencies.

With these remarks, we wish the Cambodian authorities, success in their challenging endeavors.

Statement by Mr. Zhang and Mr. Bai on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the comprehensive set of reports and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for the insightful and inspiring Buff statement. We also commend and congratulate the Cambodian authorities for successfully hosting the 17th East Asia Summit and related meetings. Thanks to the authorities' effective policy response and rapid vaccination efforts, the Cambodian economy has steadily recovered with a positive outlook. We broadly concur with the staff appraisal and would like to limit ourselves to the following points.

On the fiscal front, we concur with staff that the authorities' current fiscal plans appropriately balance continued stimulus in the near term with steady reductions in the deficit over the medium term. We also positively note that accelerated economic recovery allowed the authorities to channel fiscal resources to support vulnerable households, especially those impacted by the rising inflation and external shocks. We welcome the recent progress of issuing domestic government bonds for the first time in local currency, and look forward to the comprehensive framework for bond issuance in the medium term.

On the monetary and financial front, we welcome the authorities' recent efforts to end regulatory forbearance on new restructured loans, and consider gradually raising reserve requirements to pre-pandemic levels. We note staff's concerns about the high level of credit growth, and commend the authorities' commitment to closely monitoring related developments. We also positively note the authorities' view that the recent increase in credit growth largely reflects funding to some new productive sectors, such as agro-processing, automotives, and electronics. *Regarding spillovers of tightening global financial conditions, the staff report mentions that demand in advanced countries might be negatively impacted. Could staff elaborate more on potential spillovers of global monetary tightening through the financial channel? We also encourage the IMF to provide tailored advice and TA on this front if needed.*

On the external sector front, we concur with staff that geo-economic fragmentation could adversely affect Cambodia's trade-dependent economy. Against this backdrop, we commend and appreciate the authorities' efforts to strengthen trade and economic cooperation with major trade partners, including establishing new free trade agreements and introducing a "One-Stop" mechanism for investors.

We note that the staff report mentions, "further lockdowns in China could lead Cambodian manufacturers to suspend production for want of supplies." We would like to reiterate that

China is one of the reliable pillows of a stable global and regional supply chain, which has been proved once again by recent trade data. Therefore, the risk of supply-side impact from China should not be overemphasized.

On the structural front, we are encouraged to see the authorities' continued efforts in economic diversification, as well as in climate adaptation and mitigation. We concur with staff that to further increase productivity, policy priorities include improving transport and communications infrastructure and raising human capital. We also welcome the authorities' commitment to strengthening governance and anti-corruption frameworks.

With these remarks, we wish the authorities and people all the best in these challenging times.

Statement by Mr. Saraiva and Mr. Cayemitte on Cambodia
Executive Board Meeting 22/93
November 23, 2022

We thank staff for the report and Ms. Lim, Mr. Anwar, and Ms. Wongwaisiriwat for their useful statement.

Cambodia has been recovering steadily from the pandemic but still faces compounding shocks and significant risks. The Cambodian economy rebound on the back of relaxing entry restrictions and rapid vaccination combined with declining Covid-19 cases. Nevertheless, surging fuel and food prices, the tightening of global financial conditions and disruptions in supply chains remain challenging, particularly given Cambodia's strong integration to international markets. While the authorities seem to be optimistic about inflationary pressures, mostly stemming from imported prices, we underscore the need to stay the course of monetary policy amongst external risks and potential persistence of price increases. Rising inflation threaten macroeconomic stability, weigh heavily on the poorest population and is a drag on growth over the medium term.

Additional efforts are needed to adjust the monetary stance on the face of large dollarization and possible adverse external developments. The Cambodian foreign exchange reserves cover around 8 months of projected imports and has been sustained partly by steady financial inflows and continued growth in dollar deposits at local banks, despite a very large current account deficit. Such inflows have contributed to maintaining the exchange rate steady in the past few years, notwithstanding the collapse in tourism revenues and remittances during the pandemic. The exchange rate regime and extensive dollarization limit the ability of monetary policy to respond to inflation whereas the exchange rate did not come under significant pressure on account of substantial inflows and reserves. *In this regard, what is staff's recommendation to facilitate the transition to de-dollarization considering the exchange rate regime and financial depth of the Cambodian economy?* Moreover, shortcomings in balance of payments data must be addressed promptly. *While we appreciate the information that the IMF continues to provide technical assistance to improve external sector statistics, we would like to have more information on the concrete plan to close such critical data gap.*

Current fiscal plans appropriately balance some continued stimulus in the near term with steady reductions in the deficit over the medium term. Cambodia has taken advantage of a track record of prudent policies, which helped build up buffers and resulted in important availability of fiscal space. Moving forward, we believe that revenue mobilization and diversification as well as simplification of the tax system are critical steps to strengthen the fiscal context. The public finances are expected to gradually improve whereas debt-carrying capacity remains vulnerable to further shocks. That said, public and external debt remain sustainable and with a low risk of distress, and the stress tests don't seem to pose any unsurmountable difficulty, even in the case of materialization of financial market contingent liabilities. Furthermore, staff expects the fiscal deficit to fall to 3 percent of GDP in the long run, consistent with public debt at 40 percent of GDP. With the new national accounts data rebased to 2014, the fiscal accounts will post even sounder ratios.

Efforts to develop market-based monetary policy tools should be supported by comprehensive fiscal framework among other underlying conditions. We concur with staff that the development of such tools should support the NBC's policy agenda aimed at modernizing monetary policy framework and enhancing local currency usage. In this regard, we note that stabilizing short-term money market rates would more easily preserve an interest rate spread that supports the demand for local currency while an improved liquidity management framework would also facilitate de-dollarization. We commend the authorities for issuing in local currency their domestic bonds in 2022 while already developing a comprehensive framework for the upcoming bond issuance until 2028.

Macroprudential measures are needed to strengthen the resilience of the banking system and to continue preserving financial stability. Credit growth has been consistently high, raising concerns about excessive private debt levels and large outstanding amounts of restructured loans. We encourage the authorities to press ahead with financial system stress testing and strengthen bank resolution frameworks while introducing deposit protection schemes, mitigating risks to financial stability. In this regard, we agree with staff's views to continue normalizing prudential conditions, taking a highly conservative approach to supervision, and being prepared to further raise provisioning requirements. We applaud the NBC's commitment to ensure that banks maintain adequate capital buffers and to adopt preemptive measures to safeguard system financial stability. Finally, we take positive note that the authorities are committed to strengthening governance and anti-corruption frameworks by improving the AML/CFT framework under increased monitoring by the Financial Action Task Force (FATF).

We wish the Cambodian authorities success in their endeavors.

Cambodia

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/22/93—November 23, 2022

Staff's responses to technical questions are below.

Outlook, risks, and growth

1. **While the Staff expects that the economy will continue to recover from the pandemic, its GDP growth projections at 5.0 per cent for 2022 and 5.4 per cent for 2023 are lower than other multilateral agencies. For instance, the Asian Development Bank, in its September 2022 update, projected Cambodia's GDP growth at 5.3 per cent for 2022 and 6.2 per cent for 2023. Staff may also like to clarify whether its growth projections for next two years are subject to change after the new GDP series is released in early 2023.**

- Staff projections for 2022, at 5 percent, are currently aligned with projections by the authorities. Staff's 2023 projections are indeed slightly below MoF (and some other agencies). Staff assumes a worsening external environment, which will affect manufacturing exports (as per WEO forecasts for the US and the EU) as well as a significant slowdown in the Cambodian property market, the effects of which are in fact already noticeable in several indicators on property prices and investment approvals. The slowdown in property markets will likely spillover into 2024 and 2025. GDP rebasing will affect GDP levels, but not growth projections.

2. **Staff may like to highlight the pass-through effects of increase in international prices of fuel, food and fertilizers.**

- The spike in inflation observed in 2022 is mostly considered to be from rising food, fuel and fertilizer prices. Staff does not assume that any second-round effects are taking place; as global commodity prices recede, inflation is expected to subdue to 3.5 percent in 2023 and stabilize around 3 percent in the medium term.

3. **Since Cambodia has a large share of youth population, we would like to ask staff if they have analyzed the impact of demographic factors on current and prospective long-term growth.**

- Staff indeed takes Cambodia's demographic perspectives into account in its long-run growth projections. Long-run growth potential is estimated to stabilize around 6.5-7 percent, a rate consistent with the historical growth rates observed in neighboring countries with similar economies and demographics, which have now achieved higher levels of economic development.

4. **Additional efforts are still needed to strengthen education and improve the healthcare sector. Could staff elaborate on how Cambodia's competitive wages and availability of skilled labor can further support the development of labor-intensive manufacturing?**

- Cambodia employs a relatively large share of its working age population in the garments industry, which has historically been one of the main engines of growth (together with the construction sector). There are some encouraging signs that Cambodian manufacturing is beginning to move up the value chain. The development of more capital-intensive manufacturing is likely to foster the demand for a more skilled labor force and support long-run productivity gains, hence growth.

Fiscal Policy

5. **Can staff elaborate on the support provided to the most vulnerable from the perspectives of targeted, temporary, and transparent principles?**

- From June 2020 to May 2022, the government has spent around US$ 684 million on the implementation of the cash transfer program, targeting 687,372 families in both urban and rural areas across the country. Staff simulations show that cash transfers were overall well targeted and have significantly helped reduce extreme poverty, especially in rural areas. While the transfers were initially meant to be temporary and a gradual phase-out is expected to begin in mid-2023, the government is planning to expand social protection programs in the future, for example by developing a roadmap for universal health coverage and examine the feasibility of expanding the Health Equity Fund and social security schemes to citizens living near the poverty line and working in the informal economy.

6. **We also note - in Annex V - the technical challenges in integrating the existing four social protection programs into one new scheme as well as those related to expanding universal health coverage. Is there any TA support provided by international partners including the Fund to support the authorities' efforts?**

- The Fund does not provide TA support for this area, but development partners (DPs) have assisted the authorities to improve social protection programs. For instance, the design of the family package framework is mainly supported by the EU and UNICEF. The draft of the Universal Health Coverage concept note and roadmap for Cambodia is mainly supported by the WHO. The modernization of identification system for the poor and vulnerable households (ID Poor) is mainly supported by GIZ and UNDP Cambodia. To coordinate the work across different social protection programs supported by DPs, the General Secretariat for the National Social Protection Council (GS-NSPC), together with relevant line ministries and DPs, established "The Coordination Mechanism between the Government of the Kingdom of Cambodia and Development Partners in the Social Protection System," composed of four working groups (WGs): (i) Policy Input WG; (ii) Social Assistance WG; (iii) Employment-based Social Security WG; and (iv) Social Health Protection WG.

7. **We welcome the authorities' efforts to develop a Medium-Term Fiscal Framework, which will strengthen Cambodia's economic position. A strong commitment to implement a rules-based fiscal framework would increase revenues, improve spending efficiency, limit the need to rely on borrowing, and attract foreign direct**

investment (FDI). Could staff elaborate on the targets in the Medium-Term Fiscal Framework?

- The MTFF should include an explicit fiscal anchor. IMF TA has recommended that the anchor be expressed as a nominal debt ratio and has provided simulations designed to the show the probability of missing the target value under various assumptions. The authorities are currently considering these results. The preparation of the draft MTFF 2023-25 has been postponed to next year, mainly due to (i) current high uncertainties, especially around the Ukraine crisis; and (ii) the GDP rebasing exercise, which has significant implications for the fiscal position. IMF TA has highlighted that the GDP rebasing expected in the coming months will require a review of the calibration of the fiscal rules proposed, noting that it could also affect the structure and composition of debt.

External balances

8. How does staff assess the risk of sudden stop or reversal of capital flows to the economy and financial markets?

- Historically, Cambodia has had a high share of FDI inflows (which we usually think of as relatively stable). But a significant amount of construction and real estate is funded by foreign capital inflows, and currently the BoP statistics show a large share of unidentified short-term inflows. This indicates a vulnerability of the economy to weakening inflows, which would put pressure on exchange rate/FX reserves.

- Foreign portfolio inflows in the banking sector are not evident from banks' published accounts. However, banks have been benefiting from a steady inflow of FX-denominated deposits. Given Cambodia's high level of dollarization, the impact of a sudden withdrawal of FX-denominated funding sources would be very high.

9. Could staff further elaborate on key structural reforms that would help contain external imbalances and reduce real exchange rate misalignment?

- Given high investment needs, reducing external imbalances will require raising national savings. Fiscal policy can contribute by keeping public debt in check. For the private sector, structural reforms to boost productivity are needed. Some recent reforms (e.g., the investment law) address frictions; further improvements in logistics infrastructure would boost export capacity. Over the long term, improving productivity will require boosting human capital.

10. According to the report, large inflows of gold have deteriorated the current account deficit and weakened the country's external position. Could staff elaborate on the consequences of highly volatile flows of gold for Cambodia's international reserves?

- The flows are of non-monetary gold. They imply trade deficits that have continued to be offset by financial inflows, to leave reserves stable.

Monetary, financial and macroprudential policies

11. Regarding spillovers of tightening global financial conditions, the staff report mentions that demand in advanced countries might be negatively impacted. Could staff elaborate more on potential spillovers of global monetary tightening through the financial channel? We also encourage the IMF to provide tailored advice and TA on this front if needed.

- Cambodian banks are mainly funded through deposits, so their direct exposures to a reversal of portfolios flows appears to be limited. However, their recent operations have been dependent on a steady inflow of FX-denominated deposits, which suggests that some liquidity pressures may arise should such flows dwindle. So far, the transmission of global monetary tightening to the Cambodian financial system has been limited, but there some signs of rising competition for deposits in FX, as evidenced by a slight rise on offered interest rates.

- The property market is likely to be another channel of transmission of changes in financial conditions abroad—property developers obtain at least 30 percent of their funding from banks; furthermore, rising interest rates on safe assets are likely to reduce appetite for investment in Cambodian real estate. (Approval rates for investment projects have been steadily declining in recent months and there are signs of a slowdown in property prices, especially in the commercial and high-end residential sector.)

- The IMF is providing ongoing TA on macroeconomic forecasting and policy analysis, which includes analysis of external pressures and their spillovers effects on the domestic economy.

12. The level of restructured loans, a sharp increase in NPLs since 2019, and policy constraints due to the exchange rate peg and dollarization may cause adverse financial events. Could staff elaborate on the quality of the private loans and the possible risks for the banking sector?

- Based on the limited indicators available, credit quality has been deteriorating sharply during the pandemic. NPLs are increasing as a share of the banks' loans and large amounts of loans that benefitted from COVID-19 support restructuring terms are still outstanding, a portion of which is likely to migrate into the NPL category. Some large banks have significant exposure to real estate and construction, sectors that are expected to slow down considerably in the near term.

13. We welcome the discussions on the risks of private sector debt in the Selected Issues Paper and support staff's recommendations on enhancing corporate insolvency regimes and bank resolution frameworks, but also improving data collection which would enable the authorities to introduce prudential policy measures. Can staff elaborate on the authorities' strategies to implement these recommendations?

- Currently, the authorities do not have a clear timeline for the introduction of a bank resolution framework, nor for the introduction of a deposit insurance scheme. They have received IMF TA on both topics and are working on drafts of legislation.
- The implementation of the Credit Bureau in recent years has improved data availability; however, the NBC is still developing its processes to compile and analyze borrower information to enable the introduction of borrower-based macroprudential measures, in addition to assessing banks' own credit-risk management practices.

14. We also note that in the authorities' view, with a rebased GDP, the private debt ratio would look more benign. Staff's comments are welcome.

- Even with rebased GDP, the private debt-to-output ratio would remain above 130 percent, a level above those observed in richer countries in the region.

15. Additionally, what are the authorities' plans to address related-party lending risks, enhance cross-border supervision, and risk-based supervision?

- IMF TA on risk-based supervision will cover these points and related regulatory reforms.

16. Could staff comment on the timeframe and progress to date for putting in place a bank resolution regime? In this context, we note in Annex III that the Deposit Protection and Bank Resolution Unit at the NBC has been working on drafting legislation for a deposit insurance scheme and a bank resolution framework. Can staff elaborate on the prospects and timeframe for establishing these frameworks?

- A comprehensive deposit insurance framework, which would also provide support to the bank resolution regime, is still under discussion.

17. Further enhancing the macroprudential policy toolkit and effectively utilizing such tools will also be essential. Can staff elaborate on the authorities' stance and capacity for further enhancing and utilizing macroprudential tools?

- Authorities have been receiving IMF TA on macroprudential policies and tools, including from a resident advisor. The introduction of a credit bureau has increased data availability; however NBC is still developing its systems to compile and analyze system data.

18. Could staff share the current estimation of Cambodia's dollarization rate?

- As of August 2022, dollarization in Cambodia remained high: the ratio of FCD (Foreign Currency Deposit)/M2 is 84 percent and FCD/Total Deposits is 91 percent.

Climate policies

19. We positively note that the authorities are envisaging to take further policy steps, including the upcoming Climate-Public Investment Management Assessment (C-PIMA) and to facilitate sustainable finance, green finance, and environmentally friendly investments. Does staff see any difficulties in implementing these measures due to capacity constraints?

- An IMF TA mission on Public Investment Management Assessment (PIMA) including its climate change module (C-PIMA), is ongoing. Staff is working to identify strengths and weaknesses in Cambodia's public investment management, while ensuring that climate-related risks are appropriately addressed in the public investment cycle, and to provide recommendations and a sequenced action plan to inform the new public investment management system reform strategy.

Capacity Development

20. In the CD strategy for Cambodia in Annex IV, Fund's planned activities in this area are unclear. Staff's elaboration would be welcome.

- Relevant TA activities to safeguard the Cambodian economy are listed in Table 2. Those include: (i) TA on market-based monetary and FX operations, including through improving liquidity management and forecasting; (ii) TA on systematic financial stability analysis; and (iii) TA on macro-financial linkages, to build a macro-framework with linkages from the financial to real, fiscal and external sectors. TA on external sector statistics would also lay solid foundation to gauge capital flows into and out of Cambodia.

IMF Facilities

21. Have the authorities shown interest for requesting support under the Resilience and Sustainability Facility (RSF)?

- The authorities have not expressed interest in support under the Resilience and Sustainability Facility, as their COVID-19 Recovery Strategy is supposed to be financed mainly by domestic revenue and government saving.

CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, Somalia, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States