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Statement by an IMF Staff Mission to Cambodia

An IMF staff mission led by Luis Valdivieso, visited Cambodia during May 28 to June 5, 2008 to hold discussions with senior officials of the Royal Government of Cambodia on recent macroeconomic developments and policies. The mission also met representatives from the business community and development partners.

At the conclusion of the visit, the mission issued the following statement:

"Economic activity in Cambodia remains robust, although the pace of growth is expected to ease to around 7 percent in 2008 from about 10¼ percent in 2007. The moderation mainly reflects slowing garment exports due to weaker external demand and heightened regional competition. Tourism continues to expand at a healthy pace. As a net rice exporter, Cambodia should continue to benefit from higher rice prices, although higher overall food prices will adversely affect the most vulnerable, in particular the urban poor and the landless.

"Inflation has increased sharply, the last published data indicate it rose to 18.7 percent in January 2008. The increase reflects both external shocks and domestic inflation pressures. External factors include higher international oil and food prices, and higher imported-goods prices due to the depreciation of the riel and dollar against the currencies of Cambodia's other major trading partners. Rapid domestic demand growth, fueled by very high growth in commercial bank lending, has also contributed to domestic inflation pressures. These factors have intensified since January. In particular, bank lending growth has increased to over 100 percent year-over-year in early 2008.

"The mission shared the authorities' concern with rising inflation and its adverse impact on the poor, and welcomed the initial package of policy measures to deal with the situation, announced by the Prime Minister on April 23, 2008. Discussions revealed that the policy package could usefully be strengthened to enhance its effectiveness and ensure the sustainability of the stabilization effort.

"The mission emphasized that maintaining a prudent fiscal stance is key to moderating inflation pressures. It recommended efforts be made to limit the overall budget deficit to around one percent of GDP in 2008, so as to continue building up government deposits of 2 percent of GDP in the National Bank to help contain inflation pressures. This would require ongoing strong revenue efforts, and ensuring that additional spending from announced measures is offset by restraining non-priority spending. The mission strongly agreed with the authorities on the importance of safeguarding priority spending, and welcomed their intention to make room for targeted measures to protect the poor within a prudent fiscal envelope.

"The mission supported the authorities' decision to tighten monetary policy as a compliment to fiscal prudence, including through raising reserve requirements, as an appropriate step to assist the effort to contain inflation pressures. This would help rein in very high credit growth and thus begin to reduce demand pressures that have contributed to inflation.

"The authorities emphasized their determination to continue strengthening bank supervision while improving standards for loan classification and collateral valuation. The mission commended ongoing efforts to safeguard the soundness of the financial system."