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### **Statement of an IMF Mission at the Conclusion of the Staff Visit to Cambodia**

The following statement was issued today in Phnom Penh after the conclusion of an International Monetary Fund (IMF) staff mission to Cambodia:

“An IMF mission from Washington, D.C. visited Cambodia February 25 to March 4, 2009 to review recent economic and financial developments. The mission met with ministers and senior officials of the Royal Government of Cambodia and representatives from the business community and development partners.

“The global economic contraction and financial crisis are increasingly affecting Cambodia’s economy. Negative incoming data from all regions of the world, coupled with a further erosion in investor and consumer confidence and continued turmoil in global financial markets, point to an extremely challenging growth environment in 2009 and 2010. As a result, prospects for Cambodia’s economy for this and next year are expected to be considerably less favorable than envisaged at the time of the IMF’s 2008 Article IV Consultation discussions late last year.

“Garment exports are under pressure due to sharply lower retail demand in the United States and European Union. Tourist arrival growth has turned negative as the economic downturn in key tourist-source countries cuts into discretionary spending. Moreover, last year’s high inflation combined with the recent appreciation of the U.S. dollar and riel has reduced Cambodia’s competitiveness. Construction activity and foreign investment are also slowing rapidly as external investors cut back and financing conditions tighten. Agriculture performed better than anticipated last year, however the fall in global agricultural prices may limit further gains this year.

“Based on these considerations, real GDP is now projected to fall by about ½ percent in 2009. Given the rapidly evolving global situation, a larger-than-usual degree of uncertainty exists around this projection, and risks remain tilted to the downside. The outlook for 2010 is also highly uncertain, hinging critically on global and regional growth prospects. On a

positive note, inflation has declined in line with lower oil and food prices and easing domestic demand pressures. These factors should continue to push inflation down well into single digits this year.

“Policy discussions centered on the appropriate response to the projected decline in economic activity. The mission and the authorities agreed that a larger fiscal stimulus, beyond that envisaged in the 2009 budget, now appears warranted. In this context, the overall government budget deficit could be allowed to rise to around 4¾ percent of GDP without jeopardizing recent gains in fiscal performance or increasing external vulnerability. The mission recommended most of the additional stimulus should come from higher spending, as this would provide more effective support to growth. The focus should be on pro-poor social outlays and safety nets and high-quality infrastructure projects that would strengthen competitiveness. The mission strongly urged the government to avoid backsliding in tax administration efforts at risk of further eroding an already-low revenue base.

“The mission and authorities also agreed that some scope remained for further monetary easing in 2009 as inflation pressures ease, but overall liquidity conditions are expected to remain tight this year given slowing external inflows. The National Bank of Cambodia (NBC) has taken substantive actions in response to strains on the banking system from tighter liquidity conditions and the downturn in growth. In particular, the mission welcomed the creation of an overdraft facility to manage very short-term liquidity risk, adoption of a new regulation that strengthens the classification system for non-performing loans, and improvements to the reserve requirement system.

“The mission welcomed the NBC’s strong commitment to continue strengthening bank supervision while improving the regulatory regime, and agreed that firm enforcement of prudential regulations would help to safeguard Cambodia’s banking system.”