DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

0451

EBS/93/144

CONFIDENTIAL

August 26, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Cambodia - Staff Report for the 1993-94 Economic Program

Attached for consideration by the Executive Directors is the staff report for the 1993-94 economic program of Cambodia, together with the authorities' memorandum on economic and financial policies, which will be brought to the agenda for discussion only after Cambodia's overdue financial obligations to the Fund have been cleared. At that time, the authorities are expected to request a first purchase of SDR 6.25 million under the systemic transformation facility. A proposed decision will be circulated once the arrears have been cleared.

Mr. Goldsbrough (ext. 34735) or Mr. Iwasaki (ext. 38734) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

CAMBODIA

Staff Report for the 1993-94 Economic Program

Prepared by the Central Asia and Policy Development and Review Departments

(In consultation with other Departments)

Approved by Bijan B. Aghevli and Thomas Leddy

August 25, 1993

Contents

Contents

Page

I. Introduction

In a letter dated August 16, 1993 and accompanying letter and Memorandum of August 24, 1993, the Cambodian authorities have indicated their intention, once Cambodia's overdue obligations to the Fund are cleared, to request an initial purchase from the Fund under the Systemic Transformation Facility (STF) in an amount equivalent to SDR 6.25 million (25 percent of quota) in support of a 12-month economic and financial program starting July 1993. 1/ The authorities also intend to formulate a comprehensive medium-term adjustment program as early as possible in 1994. Provided understandings can be reached on a timely basis on such a program that could be supported by arrangements under the ESAF or its successor, it is the intention of the authorities not to request a second purchase under the STF; rather, they would request that the effects on the Cambodian economy of the collapse of the former Council for Mutual Economic Assistance (CMEA) be taken into account when determining the amount of access under these subsequent arrangements.

The eligibility of Cambodia to use the STF is discussed in Annex I. Fund relations are summarized in Annex II. Cambodia's relations with the World Bank and the Asian Development Bank are discussed in Annexes III and IV, respectively.

The Article IV consultation with Cambodia, the first since 1973, was concluded on May 5, 1993. Executive Directors commended the authorities for having initiated wide-ranging market-oriented reforms, which had helped cushion the economy against the impact of the loss of aid and trade arrangements with the former members of the CMEA. They welcomed the initial success of stabilization policies implemented in the final quarter of 1992, but emphasized the need to persevere with tight financial policies to sustain that success. It was also essential to stabilize the parallel market exchange rate and to proceed toward unification of the official and parallel

---

1/ The authorities' economic program is described in the Memorandum of Economic and Financial Policies contained in Attachment I. Discussions on the program were conducted in Phnom Penh during July 25-August 7, 1993. The Cambodian representatives included Mr. Keat Chhon, Deputy Prime Minister; Mr. Sam Rainsy, Minister of Finance; Mr. Cham Prasidh, Vice Minister of Finance; Mr. Chea Chanto, Minister of Planning; Mr. Thor Peng Leath, Governor of the National Bank of Cambodia; and Ms. Tioulong Saumura, Deputy Governor of the National Bank of Cambodia. The staff team comprised Messrs. Goldsbrough, Iwasaki, Gunjal, and Ms. Metzgen-Quemarez (all CTA), and Ms. Campbell (Administrative Assistant, PDR). Mr. Song (World Bank) and Ms. Alexander (AsDB) participated in some of the discussions. An MAE technical assistance mission, headed by Mr. Schiffman, was also in Phnom Penh during most of the policy discussions and provided advice on the financial reform agenda and the development of the foreign exchange market.

rates. They stressed the importance of advancing structural reforms, in particular, the improvement of tax administration, restructuring of state-owned enterprises, reform of financial institutions, development of the legal framework for private business, and rationalization of the exchange and trade system. Finally, they expressed the hope that Cambodia would soon qualify for the use of Fund resources under the STF.

Despite the ceasefire agreed under the Paris Accords of October 1991, incidents of inter-factional violence were common in the runup to the May elections. Moreover, the Democratic Kampuchea Party (Khmer Rouge), which controls about 10 percent of Cambodia's land area, did not fully participate in the peace process and threatened to disrupt the elections with violence. Nevertheless, the elections were declared free and fair by UNTAC and other international monitors and the turnout was high. No party gained an absolute majority in the Constituent Assembly. 1/ Following a period of post-election uncertainty, a National Provisional Government, representing a coalition of the four parties that won seats in the assembly, was formed on July 2. The assembly is expected to adopt a new Constitution in September 1993 and a new government is to be formed on the basis of that constitution. At that time, the transitional period, during which the Supreme National Council of Cambodia (SNC) functioned as the authority embodying the sovereignty of Cambodia, will end. Concurrently, the mandate of the United Nations Transitional Authority in Cambodia (UNTAC) will also cease. A phased withdrawal of UNTAC personnel has already begun and is scheduled to be completed by end-November. The repatriation of some 370,000 refugees has been achieved, although continued support will be needed until they are fully reintegrated into the Cambodian economy.

II. Developments in the First Half of 1993 2/

The Cambodian economy continues to suffer from the decades of war and internal strife that began in the 1970s and resulted in a massive loss of life and human capital as well as a serious deterioration in economic and social infrastructure. More recently, the economy was also significantly affected by the disruption to the previously close links with the former Soviet Union. Market-oriented reforms began in 1985-86 and have been accelerated in recent years, but have not yet yielded their full benefits because of political and macroeconomic instability and a lack of external financing in the period following the withdrawal of Soviet and CMEA assistance. A process of reintegrating the former opposition-controlled regions (with the exception of those areas controlled by the Khmer Rouge) into the national economy has begun, but is not yet complete. This history

---

1/ FUNCINPEC, the party headed by Prince Ranariddh (Prince Sihanouk's son) won 58 seats in the 120-seat assembly compared with 51 for the Cambodia People's Party (CPP), headed by Hun Sen.

2/ Earlier developments are discussed in the staff report for the 1993 Article IV consultation (SM/93/74, April 12, 1993).

and special circumstances need to be taken into account when interpreting trends in macroeconomic statistics.

Since October 1992, the authorities have been implementing a package of stabilization policies under an informal monitoring arrangement with the Fund staff. An additional package of measures was discussed with the staff in January 1993. The authorities implemented all key elements of this package, including additional revenue measures, expenditure restraint, increases in interest rates on riel-denominated deposits, and a market-linked exchange rate policy. Nevertheless, the macroeconomic situation remained highly unstable in the first half of the year, as economic and financial conditions were severely disrupted by events surrounding the May elections, while political uncertainties delayed the disbursement of external assistance. The political and security problems, compounded by unfounded rumors that a new Government would demonetize the riel, led to a flight from domestic currency into increased hoarding of rice and other necessities as well as into intensified currency substitution. In March alone, rice prices nearly tripled, while the value of the riel fell sharply on the parallel market (Chart 1). Although prices stabilized somewhat during the second quarter, and the riel regained some of its value, the price level rose by 93 percent during January-June 1993, triple the full-year target of 30 percent (Table 1).

While reliable data are lacking, the level of economic activity is known to have been adversely affected by the political developments. The slowdown was most notable in fisheries and (to a lesser extent) construction, where a large number of Vietnamese workers fled following the deterioration in security conditions, which also affected production in the forestry sector and in the rubber plantations.

Despite the additional tax measures, total revenues in the first six months were less than half of the targeted level as sluggish external trade dampened customs duty receipts and the outgoing Government lost the ability to enforce fully tax collection. In response to the sharp loss of revenues and the absence of external budgetary support, the Government scaled down current expenditures, by postponing a general wage increase and by curtailing transfers to state enterprises. These steps, together with some temporary emergency borrowing (equivalent to about 1/2 percent of GDP) from non-central bank sources (mainly a few large private business interests), helped limit central bank credit to the Government to about 1/2 percent of GDP in the first six months (although this was still 13 percent of the total money stock at the beginning of the year). 1/ However, because of a rundown in foreign reserves, total liquidity growth was only 6 percent in the first half-year.

1/ Performance under the quantitative benchmarks established as part of the informal monitoring arrangement is shown in Appendix Table 5.

Table 1. Cambodia: Key Macroeconomic Variables, 1992-94

(In percent, unless otherwise indicated)

	1992	1993				1994
		First Half		Second		Prog.
		Orig. Proj.	Est. Act.	Half Prog.	Full Year	
Real GDP growth	7.0	...	...	...	5.5	7.5
Inflation (end-period) 1/	177	26	93	6	98	9
Revenue/GDP 2/	6.2	3.7	1.9	3.1	5.0	6.6
Current expenditure/GDP 2/	9.5	4.5	2.8	4.8	7.6	8.2
Capital expenditure/GDP 2/	0.3	0.6	0.6	1.6	2.2	5.2
Foreign financing/GDP 2/	0.1	0.6	0.5	3.2	3.7	6.9
Domestic financing/GDP 2/	3.5	0.7	1.0	0.1	1.1	-0.1
Domestic liquidity growth (end-period) 1/	209	16	6	24	32	20
External current account deficit 3//GDP	2.2	...	...	...	7.0	9.6
Gross official external reserves 4/ (end-period; US$ million)	29.9	33.7	25.3	38.9	38.9	56.4

Sources: SM/93/74; data provided by the Cambodian authorities; and staff estimates.

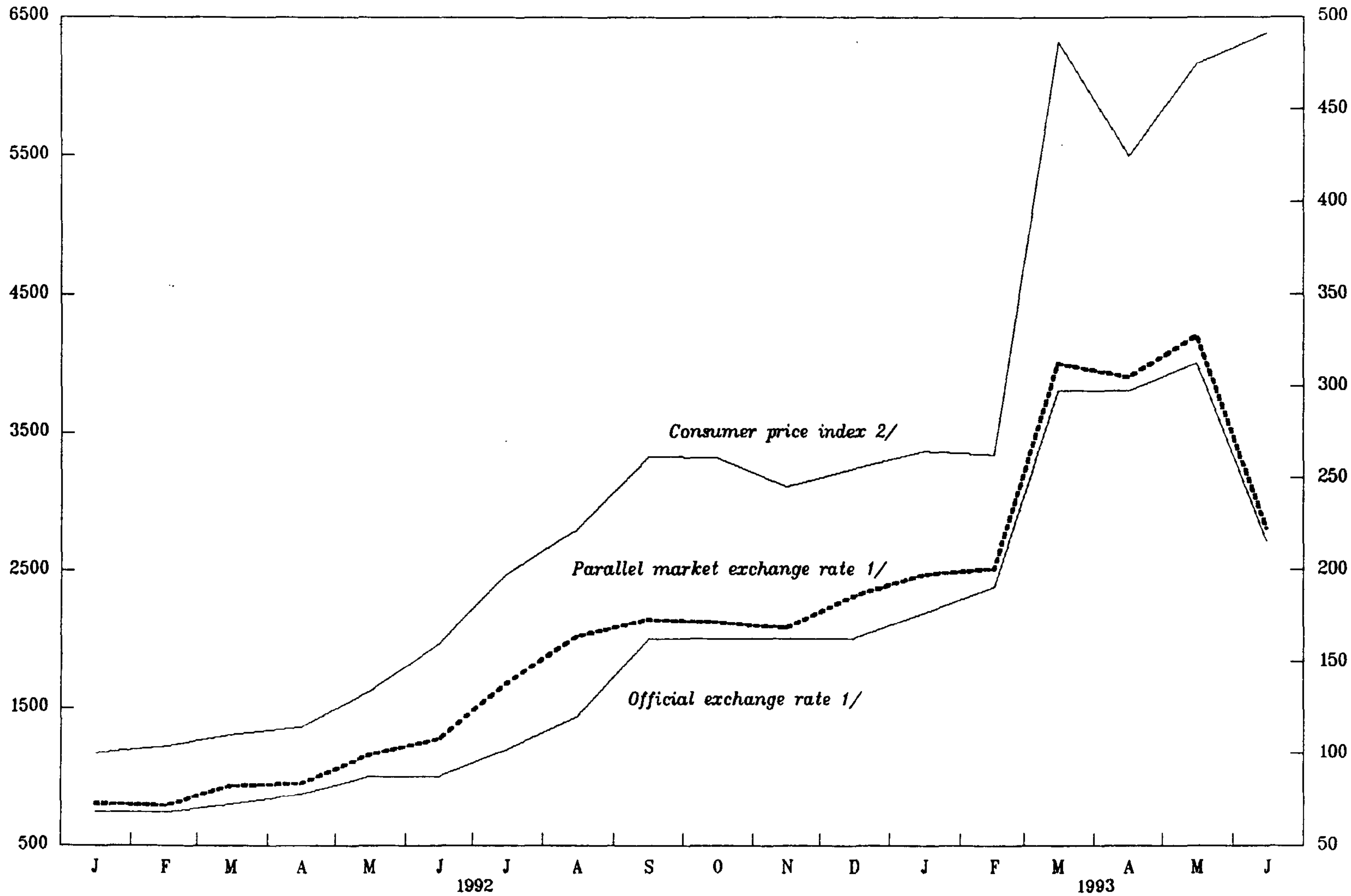
1/ Growth rates for half-years are not annualized.
2/ Ratios to GDP refer to full-year GDP.
3/ Excluding official transfers.
4/ Gross external assets of the National Bank of Cambodia and the Foreign Trade Bank of Cambodia.

CHART I

CAMBODIA

CONSUMER PRICES AND EXCHANGE RATES

JANUARY 1992 - JUNE 1993



Source: Data provided by the Cambodian authorities.

1/ Riels per US$; end-period buying rate (left scale).

2/ Consumer price index: January 1992=100 (right scale).

Provisional information on the balance of payments suggests both a poor export performance as well as weak import demand during the first half-year. To finance the current account deficit, in the virtual absence of external assistance, gross external reserves were drawn down from $30 million at end-December 1992 to about $25 million at end-June 1993, which would cover Cambodia's retained import needs for only about one and a half months.

III. Economic Policies for 1993-94

1. Strategy and objectives

The authorities intend the economic program set out in their Memorandum on Economic and Financial Policies as a transitional one, laying the foundations for a more comprehensive medium-term program that will be adopted as early as possible in 1994. The current policy strategy has three key elements: (1) an early restoration of macroeconomic stability through tighter fiscal and monetary policies; (2) the strengthening of the central institutions of macroeconomic management through a combination of specific systemic reforms supported by a comprehensive program of technical assistance; and (3) the preparation, by the end of 1993, of a detailed program of broader structural reforms, emphasizing a further shrinking of the state enterprise sector and a revamping of the legal framework to better accommodate the needs of a market economy. The most urgent tasks for rehabilitating economic and social infrastructure will be addressed during the next 12 months, and a more comprehensive public investment program will be formulated by mid-1994.

After taking account of the disruptions in the first half of 1993 and the effects of the ongoing withdrawal of UNTAC personnel, real GDP growth is projected to slow to about 5 1/2 percent in 1993, but to accelerate to 7-8 percent in 1994 as the rehabilitation programs yield results. Financial policies are designed to lower inflation quickly from the 200 percent annualized rate recorded over the first half of 1993 to under 10 percent in 1994 (on an end-period basis). An even faster return to price stability may be possible if there is a significant early return of confidence in domestic currency-denominated financial assets; therefore, the authorities intend to review their inflation objectives for 1994 in the light of developments during the next six months. External objectives include a moderate increase in gross external reserves to two and a half months of retained imports by end-1994, and progress toward the normalization of relations with all international creditors. 1/

1/ The external reserves data overstate the true official reserve cushion available to the authorities because total reserves, which are currently held at the Foreign Trade Bank of Cambodia, have not yet been divided into their government and non-government components.

Achievement of these objectives will require not only the financial and structural measures described below, but also significant external financial and technical assistance. The authorities intend to calibrate government spending to match the availability of external financing; the program provides for half of any shortfall in external budgetary (i.e., non-project, cash or commodity) support to be offset by additional fiscal action (primarily a postponement of much-needed nominal wage increases). The remaining shortfall (up to a maximum of $10 million) will be offset by a smaller buildup of external reserves; targeted liquidity growth would be unaffected by this adjustment. Any shortfall in external project financing will be matched fully by lower capital spending.

2. Domestic financial policies

The authorities recognize that a return to price stability will not be possible without an end to excessive monetization of the fiscal deficit. They intend to limit bank financing of the deficit to 0.1 percent of GDP in the second half of 1993 and a similar amount in the first half of 1994; thereafter, bank financing will be limited to temporary advances (Appendix Table 6).

The first priority will be to reverse the collapse of revenues that occurred during the election period. Action has already been taken to reassert more effective tax enforcement: an anti-smuggling task force has been established to enhance customs duty collection; and a survey of larger taxpayers has been conducted by the Ministry of Finance, with the assistance of UNTAC, to improve the accuracy of assessment of turnovers. Beyond this, a series of new tax measures are being implemented, including both the improved administration of existing taxes as well as the introduction of new taxes, with an expected yield of over 1 percent of GDP on a full-year basis (Table 2). To ensure speedy implementation, most of the measures will be enacted through decree-laws and are expected to be in place by September 1993. Even with these measures, total government revenues will only rise from a projected 5 percent of GDP in 1993 to 6 1/2 percent in 1994, because an expected decline in Cambodia's substantial re-export trade will dampen

Table 2. Cambodia: Estimated Impact of Tax Measures, 1993-94

	Expected timing of implementation	Revenue impact in 1993		Revenue impact in 1994	
		In billions of riels	In percent of GDP	In billions of riels	In percent of GDP
Customs reforms					
Consumption tax (net) 1/	Aug./Sept. 1993	1.9	0.03	6.4	0.09
Valuation by CIF 2/	Aug./Sept. 1993	1.4	0.03	4.8	0.07
New tariff structure 3/	Aug./Sept. 1993	4.8	0.09	15.9	0.23
Petroleum tariff of 20%	Aug./Sept. 1993	2.9	0.05	9.5	0.14
Import duty stickers 4/	Aug./Sept. 1993	6.4	0.11	17.5	0.25
Subtotal		17.4	0.31	54.0	0.77
Domestic tax reforms					
Hotel tax extension (net) 5/	Aug./Sept. 1993	0.4	0.01	1.3	0.01
Personal income tax 6/	Aug./Sept. 1993	1.0	0.02	3.2	0.05
Tax on construction	Aug./Sept. 1993	2.2	0.04	7.3	0.10
Extension of rental tax 7/	Aug./Sept. 1993	0.1	--	0.3	--
Vehicle registration fees 8/	January 1994	--	--	6.7	0.10
Turnover tax reform 9/	January 1994	--	--	4.8	0.07
Subtotal		3.7	0.07	23.5	0.34
Total impact of package (excluding impact of other tax administration measures)		21.1	0.38	77.6	1.11
Other measures to strengthen tax administration					
Survey of turnovers 10/	July 1993				
Anti-smuggling task force	July 1993				
Withholding of rental tax at source	Aug./Sept. 1993				

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

1/ A new consumption tax levied on imports at a uniform ad valorem rate of 4 percent, replacing the business tax.
2/ An invoice-based system for valuation of import duty.
3/ Rationalization of the tariffs into 5 major rates and elimination of the tariff differential for friendly countries.
4/ A system of duty stickers for high duty products (cars, motorcycles, cigarettes, etc.) to improve duty collection.
5/ Extension of the 10 percent hotel room tax to cover restaurants and other entertainment services.
6/ Progressive tax rates of 10-40 percent imposed on salaries above $200 per month.
7/ Tax on rents above $50 per month will be extended to include properties leased by Cambodians.
8/ Fees will be increased from $4 to $20 per year for cars and doubled for other means of transport.
9/ Turnover tax will be computed based on a simple accounting system. About 50 percent of the taxpayers are expected to be covered under the new system by mid-1994.
10/ A survey of turnovers of larger taxpayers in Phnom Penh has been conducted since the last quarter of 1992 with the assistance of UNTAC. The results are being used to improve the precision of assessment of turnover and profit taxes.

the growth in customs duty receipts and because of the stagnation in receipts from state-owned enterprises. 1/ 2/

Current expenditures in 1993 will be held below the nominal levels targeted under the original, informally monitored program and will decline substantially as a share of GDP, from 9 1/2 percent in 1992 to about 7 1/2 percent. Three major factors underlie this restraint. First, reflecting the severe resource constraints, only modest increases in civil service wages will be possible in the second half of the year, despite the severe erosion in real wage levels, to an unsustainably low level, that occurred in the first half-year. 3/ The authorities will decide on the exact magnitude of the increase only after they have assessed the initial yields from the new tax measures and the response to the appeal for emergency external budgetary support; however, the increase in 1993 is likely to be well below the inflation rate. Second, direct and indirect budgetary support to state-owned enterprises (including through government purchase and resale of imported goods) will be almost halved to 1 percent of GDP. Third, defense spending will be cut from 4.7 percent of GDP in 1992 to under 4 percent in 1993 through cuts in outlays on both wages and materials.

For 1994, policies on current spending will continue to emphasize the shift from military to civil priorities, although the pace of this reallocation will obviously depend on developments in the security situation. The authorities also plan to begin a major downsizing of the civil service in 1994, along with a restructuring of administrative functions. Further wage increases will be calibrated in line with retrenchment in the civil service, in order to maintain the overall wage bill broadly unchanged. Nevertheless, the program provides for a modest recovery in total current spending (to 8 1/4 percent of GDP) in order to make room for new expenditures on social safety net activities. While the authorities are still formulating the details of their proposals in this area (in conjunction with their plans for

---

1/ Customs duties on re-exports to neighboring countries (primarily Viet Nam) have yielded up to 3 percent of GDP annually in recent years, but re-exports are now expected to decline significantly as a result of a combination of trade liberalization and more effective customs control in Viet Nam.

2/ Estimating the growth in nominal GDP is especially difficult at the present time because wide month-to-month fluctuations in consumer price inflation (which is measured by a rather narrow basket of goods for Pnomh Penh only) greatly complicate the measurement of the GDP deflator. For example, there have been very large short-term deviations between movements in the CPI and in the parallel market exchange rate. Therefore, trends in ratios expressed as a share of GDP should be interpreted with caution. The authorities are in the process of developing better price indices.

3/ The average wage of a civil servant in June 1993 was equivalent to under US$12 per month (converted at the parallel market exchange rate), down from a US$22 average during 1992. Most civil servants now engage in second jobs in order to survive, and absenteeism is rife.

restructuring the civil service and state-owned enterprises), they expect to increase spending on retraining, special programs to reabsorb demobilized soldiers into the economy, and other social action.

A major expansion in spending on the rehabilitation of economic and social infrastructure is planned, beginning in the second half of 1993 and reaching a projected 5 percent of GDP in 1994. Specific proposals for action in all major sectors are being prepared, with the assistance of the UNDP, UNTAC, as well as multilateral and bilateral donors. The rehabilitation program will aim at preventing a further deterioration of basic public services and restoring key infrastructure. A wide range of activities will be covered, including demining, support for resettled refugees, retraining of demobilized soldiers, the repair of irrigation and flood control schemes, improvements in the basic delivery systems for health and education, as well as the restoration of core facilities for public utilities, telecommunications, and transport. 1/ In addition, a large number of rehabilitation and resettlement projects are being implemented by various nongovernment organizations, although most of these are not recorded in the fiscal or balance of payments statistics.

A sharp expansion in total foreign financing of the budget is projected, beginning in the second half of 1993 and reaching almost 7 percent of GDP in 1994, compared with negligible levels in 1992. 2/ However, expenditures will be tailored to the actual availability of financing, as described in Section III.1. The fiscal targets for 1994 allow for the repayment of part of the temporary non-central-bank borrowing incurred in the first half of 1993 and the repayment of some of the arrears expected to be identified as a result of a ministry-by-ministry survey that is to be completed by December 1993. 3/ The authorities plan to convert any remaining outstanding obligations into a medium-term claim and to clear all arrears by mid-1994; in the interim, they aim to avoid any new arrears.

The revised monetary program for 1993 targets liquidity growth of about 32 percent, with the major part of the expansion taking place in the second half-year as velocity is assumed to decline moderately following the sharp increase in the first half of the year (Appendix Table 7). The recent appreciation in the value of the riel on the parallel exchange market

---

1/ A list of project needs has been drawn up by the UNDP in preparation for the ICORC meeting scheduled for September 1993.

2/ Differences in estimates of foreign financing between the balance of payments and the budget reflect lags in the generation of counterpart funds from the sale of commodity aid.

3/ The authorities indicated that, as of June 1993, arrears on wages had been largely eliminated, but there was an unknown backlog of arrears on other expenditure categories. Most of these arrears probably consisted of a chain of arrears within the public sector (i.e., between government agencies and state-owned enterprises) and they expected the net amount of arrears to the private sector to be relatively small.

suggests that a shift back into riel-denominated assets has already begun. There are also some indications that prices have begun to fall in recent weeks. Reflecting the tight limits on bank credit to government and a continuation of the policy of not disbursing new net credit to the state-owned enterprise sector, the bulk of credit growth will be channelled to the private sector. Private credit (which is largely denominated in foreign currency) is projected to increase by over 30 percent in dollar terms during 1993, albeit from a small base. This projected growth takes into account new opportunities for investment created by reforms, likely expansion in lending from the recently established banks, and prospective intermediation through formal banking channels of transactions previously conducted in the informal credit market. The authorities have targeted a slowdown in liquidity growth to 20 percent in 1994, which is consistent with their output and inflation objectives on the assumption of little further decline in velocity. They will review their inflation objectives and monetary targets for 1994 in light of developments in money demand during the remainder of 1993. Private sector credit growth will again account for most of the liquidity expansion. Until more indirect policy instruments are in place, the authorities will rely upon bank-specific credit guidelines as a means of monetary control.

The "dollarization" of the banking system has proceeded to such an extent that virtually all credit and most deposits are now denominated in foreign currency. Therefore, for the moment, riel-denominated interest rates have only a limited effect on resource allocation. This is expected to change as macroeconomic stability is restored. Reflecting the slowing of inflation in the last few months, interest rates on riel-denominated deposits were recently reduced. 1/ However, the authorities do not intend any further reduction until there is clear evidence that inflation is firmly under control. They intend to keep interest rates on riel deposits above prevailing inflation rates in order to promote a return to domestic-currency-denominated financial assets.

3. The strengthening of macroeconomic institutions

The authorities have prepared a detailed timetable of systemic reforms to strengthen the central institutions of macroeconomic management (Table 3). A comprehensive program of technical assistance has been developed to support these efforts (Appendix Table 8); part of this assistance is already in place, but much more will have to be provided, in a timely manner, during the next 12 months. In the fiscal area, the emphasis will be on

---

1/ The rate on the three-month riel deposit facility (the principal vehicle for riel-denominated deposits) was reduced from 6 percent per month to 3 percent on July 1, and further to 2 1/2 percent on August 1. The lagged inflation rate during the last three months for which data are available (April through June) averaged under 2 percent per month. Details of the riel deposit scheme were described in SM/93/74.

Table 3. Cambodia: Key Structural Actions to Strengthen Macroeconomic Institutions 1/

Sector	Measure	Timing 2/
Budget management	*Introduction of new budget nomenclature and accounting procedures, providing for the consolidation of foreign currency transactions with the local currency budget and a clear distinction between revenue and financing items.	December 1993
	Introduction of a two-stage expenditure control system under which expenditures are controlled initially at the commitment stage by the Ministry of Finance and subsequently at the payments stage by the Treasury.	December 1993
	Introduction of external debt monitoring and management system in Ministry of Finance.	December 1993
	Completion of ministry-by ministry survey to identify all arrears	December 1993
	Clearance of all domestic payments arrears	June 1994
Financial sector	*Maintenance of the interest rate on riel deposits positive in real terms	During program period
	Amendment to central bank law to restore the independence of the central bank	June 1994
	*Introduction of a system of reserve requirements	December 1993
	*Centralization of official foreign assets and liabilities in the National Bank of Cambodia	June 1994
	Development of an effective bank supervision system	During program period
	Ongoing divestiture of National Bank interests in commercial banks	During program period
	Tightening of bank licensing procedures	During program period
Exchange and trade system	*Limiting the spread between official and parallel market rates within 5 percent through December 1993 and within 3 percent through June 1994	During program period
	Unification of official and parallel market rates	June 1994
	Elimination of most licensing restrictions	December 1993
	Review of ban on rice and log exports and quota for sawn timber exports	December 1993
	Elimination of ban on rice exports	December 1994
Other areas	Preparation of a detailed program for the restructuring of the state enterprises sector	December 1993
	Elimination of public sector subsidies, including for fertilizer	December 1993
	Preparation of a draft code of commerce for legislative approval	First half of 1994

* Indicates structural benchmarks under the program.
1/ Actions to strengthen the tax system are described in Table 2.
2/ Timing indicates the final dates by which action is expected.

(1) adoption of new budget nomenclature and accounting procedures to improve expenditure control and the overall formation of fiscal policy; (2) development of treasury cash management and debt management functions; and (3) implementation of the tax reform and tax administration measures discussed above. Key priorities for systemic reforms in the financial sector are: (1) development of the National Bank of Cambodia (NBC) into a more independent central bank, with responsibility for external reserve management; (2) introduction of new instruments of monetary management; (3) strengthened bank supervision and an end to the recent excessive granting of new bank licenses--in some cases, licenses may be rescinded 1/; and (4) completion of the division of banking functions into a two-tier system as the NBC gradually divests itself from direct involvement in commercial banks.

4. External policies

The authorities intend to unify the official and parallel market exchange rates by mid-1994; in the interim, the spread between the two rates will be kept to no more than 5 percent through December 1993 and will be narrowed to 3 percent thereafter. The staff had urged a faster pace of unification. However, given the volatility that had been observed in the parallel market during the first half of the year, the authorities wished to retain some greater flexibility in adjusting the official rate until they were sure that stable conditions had been restored. They recognize that the most important factor contributing to a deeper, more stable and more efficient foreign exchange market will be the pursuit of sound financial policies to restore confidence in domestic financial assets and reverse the pervasive dollarization of the economy. Beyond this, they intend to dismantle progressively most of the existing foreign exchange restrictions, many of which are not enforced in practice, and introduce a more liberal foreign exchange law during 1994. 2/ Moreover, most licensing restrictions on foreign trade, with the important exception of the ban on rice exports, will be eliminated by the end of 1993. 3/

1/ New bank licenses have been issued to 39 new groups, including subsidiaries of foreign banks; however, many have not yet begun operations.

2/ Cambodia's foreign exchange law provides for a Government foreign exchange budget, the full surrender of foreign exchange at the official rate, and limits on foreign exchange for travel, repatriation of profits, and the transfer of factor service incomes. Domestic residents must also obtain approval from the Government to borrow abroad. Most of these regulations are not enforced in practice.

3/ Quantitative restrictions on imports cover automobile tires, concentrated milk, soft drinks, and wheat flour (in addition to items banned for health and security reasons, etc.). Exports of rice and (temporarily) logs and gems are banned, and there is an export quota on timber.

5. Other structural reforms

Market-oriented reforms have been introduced in Cambodia in several stages since 1985 and have made considerable progress. Agriculture was decollectivized at an early stage, and individual property rights have been restored. Most prices are now free of controls, with the exception of a few key inputs--petroleum, cement, electricity, steel, and fertilizer; controls and subsidies on fertilizers are to be phased out by December 1993. Of the others, only electricity tariffs (which cover only about one third of generation costs) deviate significantly from underlying costs. Substantial tariff hikes and improved collection efforts will have to be a central component of the rehabilitation of the power sector.

Many state-owned enterprises, including virtually all small industrial and service sector units, have been sold or leased to the private sector or have been closed. However, restrictions on laying off excess workers in the leased units have reduced their viability, and several lessees have recently returned their enterprises to the Government. A number of enterprises have been closed, but the former workers continue to receive some minimum wage payments from the budget. Moreover, state-owned enterprises still dominate the provision of utilities, marine and river transportation, and the rubber plantations.

The authorities intend to formulate a detailed program for the restructuring and downsizing of the remaining state enterprise sector by December 1993. The program will include specific proposals for all major enterprises and will allow greater flexibility in dismissing surplus or redundant workers, along with provisions for compensation and retraining. It will also emphasize the outright sale of industrial units to the private sector wherever possible. For the major utilities, long-term management contracts or leases, involving foreign partners, are being explored. In addition, the authorities aim to improve the legal framework for private sector activity by submitting a commercial law, including provisions for bankruptcy, for legislative approval in the first half of 1994.

IV. Balance of Payments and Capacity to Repay

The balance of payments projections for 1993-94 assume implementation of the tighter financial policies and structural reforms described in the authorities' policy memorandum. They also assume initiation of a major rehabilitation effort in the second half of 1993 as well as the maintenance of a stable political situation and a gradual improvement in national security. Within this framework, the external current account deficit (excluding official transfers) is projected to widen to 7 percent of GDP in 1993 and to 9 1/2 percent in 1994 (Appendix Table 9). Exports (excluding re-exports) are expected to show little growth in 1993, reflecting the disruptions in the first half-year, but to rise by 14 percent (in dollar terms) in 1994 because of a rebound in rubber and timber exports and the coming-on-stream of several foreign investment projects oriented toward nontraditional exports. Retained imports (imports less re-exports) are expected to surge--almost doubling in dollar terms between 1992 and 1994--as a result of the rehabilitation program and a continued recovery in private investment. The withdrawal of UNTAC from Cambodia will reduce substantially service receipts in 1994. In the capital account, a further increase is projected for foreign direct investment inflows, which have been remarkably buoyant during the last two years; even faster growth in these inflows may be possible in the context of a more stable political and economic environment, since it is the authorities' intention to encourage the involvement of foreign private capital in the rebuilding of many parts of the economy.

After taking account of a targeted moderate increase in total external reserves (to two and a half months of retained imports by end-1994) and the repayment of overdue obligations to the Fund, total financing requirements are projected at about $119 million in the second half of 1993 and about $177 million in 1994. 1/ 2/ Of these amounts, about $99 million for 1993 and $152 million for 1994 have already been tentatively identified from the Asian Development Bank, the World Bank, 3/ the United Nations, and bilateral official donors. These amounts do not take into account any purchases from the Fund. 4/ Based on preliminary discussions with donors, the staff is reasonably confident that the remaining financing will be forthcoming. A meeting of the donors' group, the International Committee on the Reconstruction of Cambodia, is scheduled for September 8-9, 1993. The balance of payments projections do not include any debt service payments on external debt incurred by Cambodia under previous regimes. As part of their efforts to normalize relations with the international financial community, the authorities have approached creditors in respect of the pre-1975 debt in order to clarify the extent of debt and arrears and to seek the creditors'

1/ Total overdue obligations to the Fund will amount to about $51 1/2 million at end-August 1993. At the January 1993 meeting of the Support Group for Cambodia, bilateral donors made preliminary pledges of grants equivalent to about $48 million (at current exchange rates) to clear the arrears, contingent upon a judgement that an effective working relationship between the Fund and the governmental structure in Cambodia would be in place and that the situation would allow economic measures to be implemented. Some other countries indicated that they might also be able to make a contribution, in the context of an improved political situation in Cambodia.

2/ Total disbursements of external financing in the first half amount to only $8 million. Therefore, the total financing requirement for 1993 is about $127 million.

3/ See Annexes III and IV, respectively, for details of the initial support planned by the Asian Development Bank and the World Bank.

4/ The financing requirement for 1993 also excludes a reserve tranche of SDR 5.5 million that will be established for Cambodia, once its overdue obligations to the Fund are cleared, in connection with the 1978 replacement of the gold tranche (see Appendix Table 9).

views on the appropriate treatment of these debts. 1/ Bilateral discussions are underway concerning the appropriate valuation and treatment of the ruble debt to the former Soviet Union (FSU).

The medium-term outlook beyond 1994, remains broadly the same as that presented in the staff report for the 1993 Article IV consultation. 2/ Substantial additional fiscal efforts, including a strengthened revenue performance and limits on the growth of current expenditures, will be required in order to generate public sector savings. A significant expansion in nontraditional exports should be possible as a result of the improved policy environment, better trade incentives, and export-oriented direct foreign investment. With such a policy framework, the external current account deficit could be expected to decline gradually over the medium term, to 6-7 percent of GDP in the late 1990s. However, Cambodia's total external assistance needs would still be considerable; preliminary estimates suggest they could average about $130 million per year. More exact estimates will be possible once the authorities have prepared their medium-term adjustment program, including their priorities for public investment beyond the initial rehabilitation stage. At this stage, the size of capital inflows over the medium term cannot be predicted with any precision. Therefore, one risk to the medium-term outlook would be lower-than-envisaged private capital and foreign aid flows, including the possibility of a regularization of Cambodia's external debt that fell short of complete debt relief and still left a significant debt servicing burden. In these less favorable circumstances, Cambodia would have no choice but to adopt a slower, and much less desirable, pace of economic reconstruction.

Following the clearance of Cambodia's overdue obligations, and taking account of the initial purchase under the STF, Cambodia's outstanding obligations to the Fund would equal 25 percent of quota at the end of 1993, when they would be equivalent to 23 percent of projected gross foreign exchange reserves. Fund charges and repurchases would rise to 8.1 percent of quota in 1999, but would remain low in relation to exports of goods and services (Appendix Table 10). Renewed Fund support to Cambodia after the clearance of arrears does entail a degree of risk for the Fund, but this risk is justified in light of the substantial adjustment efforts, including the significant prior actions in the area of taxation, being implemented by the authorities during the transitional phase and their intention to move quickly to a more comprehensive, medium-term adjustment program. The authorities have indicated that they intend to request that part of Cambodia's purchase under the STF be provided in SDRs. They intend to retain those SDRs in Cambodia's account in order to discharge forthcoming obligations to the Fund.

1/ Based on the OECD's creditor reporting system, debt outstanding to bilateral official credits (excluding arrears and any penalty interest) was about $248 million at end-1991. Total debt outstanding to the former CMEA countries (mainly the FSU) amounted to about rub 840 million at end-1991.

2/ SM/93/74 of April 12, 1993.

V. Staff Appraisal

Cambodia's economy still suffers from the effects of decades of war and the collapse of the previously close economic links with the former Soviet Union and other former members of the CMEA. Economic and social infrastructure has severely deteriorated; there is a great shortage of trained personnel, reflecting the tragedies of the 1970s; and public administration remains weak at a time when it must shoulder new burdens following the withdrawal of UNTAC personnel. Moreover, confidence in domestic financial institutions remains very low, as demonstrated by the flight from domestic currency that led to the resurgence of inflation in the first half of 1993.

Despite these enormous problems, there are good grounds for believing that a sustained economic recovery, combined with an early return to macroeconomic stability, is now possible. Considerable progress toward a market economy has already been made: agriculture has largely returned to family-based farming with private property rights; most prices are decontrolled; a significant portion of the state-owned enterprise sector has been privatized or closed; and policies toward foreign investment are liberal. Building upon this foundation, the Cambodian authorities have now formulated a transitional economic program that emphasizes prudent financial policies along with completion of the most urgent rehabilitation tasks. In the macroeconomic sphere, the immediate priorities established by the authorities are clearly correct: an early elimination of the excessive monetization of the deficit that has been the root cause of Cambodia's massive inflation, together with systemic reforms that emphasize the strengthening of fiscal and monetary institutions. Substantial external technical assistance will be needed in support of the latter efforts.

In the fiscal area, the measures to strengthen tax administration and broaden the tax base represent an important beginning and will need to be implemented vigorously in the coming months. Even with this package, however, Cambodia's revenue base--at some 6-7 percent of GDP--will remain among the lowest in the world, and substantial additional revenue mobilization will be required over the medium term. Now that transfers to state-owned enterprises have been cut sharply, defense spending and the civil service wage bill account for the bulk of total current expenditures. In these circumstances, the authorities have no choice but to adjust the pace of nominal wage increases to match resource availability. However, real wage rates are now unsustainably low, thereby threatening the cohesion of the military as well as undermining the most basic administrative functions. The authorities have begun the fundamental solutions to these problems--better resource mobilization and sharp cuts in the excessive government labor force--but external budgetary support will still be needed in the intervening months until these measures have their full effect.

The fiscal consolidation must be supported by appropriate interest and exchange rate policies in order to reverse the extensive "dollarization" of the financial system. As inflation declines, further reductions in interest rates on riel deposits should be possible, but should not be introduced until there is clear evidence that inflation is firmly and sustainably under control. Indeed, the authorities should stand ready to raise interest rates, if necessary to protect the inflation target, should the anticipated switch back into riel-denominated financial assets be slow to appear. Moreover, the authorities should seek to unify the official and parallel exchange rates even more rapidly than their current schedule. This would be especially appropriate if the prudent fiscal and monetary policies established under the program lead to a rapid return of confidence in domestic currency and a consequent early restoration of price and exchange rate stability. Among the various systemic measures planned for the financial sector, the staff would underscore the importance of an effective system of bank supervision and a halt to the excessive licensing of new banks if Cambodia is to avoid the problems of bank failures encountered in a number of other economies in transition.

While the new Government will naturally require some time to formulate its medium-term strategy, the aim should be to move beyond the current transitional phase to a comprehensive program of adjustment and structural reform as quickly as possible. The restructuring of the remaining public enterprises and improvements to the legal framework for private business will be important components of that program, and preparatory work should begin now in order to ensure their early implementation. In the interim, the authorities' plans for an early rationalization of the exchange and trade system, based on an outward-oriented approach toward foreign trade and investment, are especially welcome. A concrete timetable to eliminate all exchange restrictions on current account transactions should be developed as a matter of priority, along with an early completion of the trade liberalization process. In one important area--the rice trade--the authorities have not yet decided to remove quantitative export restrictions, because of concerns over the likely effects on domestic prices. If the experience of other countries in the region is a guide, an early liberalization of rice exports could eventually result in a significant output response.

The staff's balance of payments projections indicate substantial external financing needs in 1993 and 1994. However, following the signing of the peace accords, the international community made substantial pledges of external support for Cambodia's reconstruction. Now that a national reconciliation is underway and the conditions exist for the implementation of an economic program incorporating substantial adjustment measures, these earlier pledges need to be translated into concrete commitments. An early regularization of Cambodia's relations with all international creditors will also be needed. There are obviously risks to the authorities' program, notably from the still uncertain security situation and the weak administrative capacity that could delay implementation of key measures. However, the latter risk can be reduced by the timely provision of the comprehensive technical assistance package that has been identified. A strong track record on the implementation of both the macroeconomic and structural policies contained in the present transitional program will be needed to help pave the way for the early adoption of a more comprehensive, medium-term adjustment program.

On the basis of the foregoing, the staff will be in a position to recommend approval of the authorities' request for the first purchase under the STF once Cambodia has cleared its arrears to the Fund.

Table 4. Cambodia: Basic Data, 1990-94 1/

	1990	1991	1992 Informal monitoring arrangement	1992 Est.	1993 Informal monitoring arrangement	1993 Prog.	1994 Prog.
Growth (percent change)							
Real GDP	1.2	7.6	6.5	7.0	7.5	5.5	7.5
Agriculture	1.2	6.7	2.6	1.9	4.6	3.2	...
Industry	-2.1	8.9	16.2	15.6	14.8	12.4	...
Services	2.7	8.4	8.2	11.2	8.2	5.4	...
Prices (percent change)							
Consumer prices (period average)	141.8	197.0	81.7	75.0	110.0	152.5	16.4
Consumer prices (end of period)	152.3	87.9	213.2	176.8	30.0	98.4	9.0
Government budget (percent of GDP)							
General government revenue	3.9	4.4	5.1	6.2	7.2	5.0	6.6
Tax revenue	2.2	2.3	3.7	4.4	5.5	3.9	5.3
Nontax revenue	1.7	2.1	1.4	1.9	1.7	1.0	1.3
General government expenditure	8.4	7.8	10.3	9.8	13.0	9.7	13.4
Current expenditure	7.2	7.4	9.6	9.5	9.8	7.6	8.2
Defense	3.1	3.5	4.6	4.7	3.9	3.8	3.4
Other	4.1	3.9	5.1	4.8	5.9	3.8	4.8
Capital expenditure	1.2	0.4	0.7	0.3	3.3	2.2	5.2
Current balance on cash basis	-3.3	-1.2	-4.6	-4.3	-2.6	-2.6	-1.7
General government balance on cash basis	-4.5	-1.5	-5.2	-4.6	-5.8	-4.8	-6.8
General government balance on accrual basis	-4.5	-3.4	-5.2	-3.6	-5.8	-4.8	-6.8
Foreign financing	1.2	0.5	0.5	0.1	5.6	3.7	6.9
Domestic financing	3.3	2.9	4.8	3.5	0.2	1.1	-0.1
Money and credit (percent change, end of period)							
Domestic liquidity	240.5	28.6	244.3	209.0	38.1	31.7	19.7
Bank financing of budget	407.4	35.3	273.0	200.9	5.2	26.4	3.3
Velocity (GDP/liquidity)	15.1	19.0	14.3	16.3	17.0	20.5	20.0
External trade (percent change)							
Export value (in US$) 2/ 3/	-21.3	116.7	7.5	-28.1	5.4	3.9	14.0
Import value (in US$) 2/ 3/	-20.1	-6.1	27.7	27.6	56.8	58.7	25.3
Terms of trade 4/	-12.6	1.5	0.2	0.2	2.5	2.8	3.5
Balance of payments (in mn of US$)							
Exports 3/	32.9	71.3	76.6	51.3	78.0	53.3	60.9
Imports 3/	-110.6	-103.8	-132.6	-132.4	-239.0	-210.1	-263.2
Trade balance	-77.7	-32.5	-56.0	-81.1	-161.1	-156.8	-202.3
Current account balance 2/							
Including official transfers	-49.7	-25.2	-17.0	-39.5	-85.3	-68.9	-134.3
Excluding official transfers	-91.3	-27.7	-28.5	-44.5	-138.6	-134.9	-211.5
Capital account 5/	59.4	15.2	24.0	31.9	99.2	72.3	126.8
Overall balance	9.7	-10.0	7.0	-7.6	13.9	3.4	-7.5
Current account balance (in percent of GDP) 2/							
Including official transfers	-3.4	-1.3	-0.8	-2.0	-4.4	-3.6	-6.1
Excluding official transfers	-6.2	-1.5	-1.4	-2.2	-7.2	-7.0	-9.6
Gross official reserves 6/	...	...	23.7	29.9	39.7	38.9	56.4
In months of imports 3/	...	...	...	2.7	2.0	2.2	2.6
Official exchange (riels per US$, end of period)	600	520	2,000	2,000	2,574 7/	2,574 7/	...

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

1/ Budget and balance of payments do not include the debt service payments or arrears to bilateral official creditors. Because of the poor statistical base and the difficulties of estimating GDP data during periods of massive fluctuations in inflation, trends in variables expressed as a ratio to GDP should be interpreted with caution.

2/ Prior to 1991, nonconvertible currency values are converted into U.S. dollars at rub 1.1 per U.S. dollar. The change to convertible currency in 1991 makes it difficult to compare meaningfully balance of payments aggregates between 1990 and 1991.

3/ Excludes re-exports.

4/ Excludes trade in nonconvertible currencies.

5/ Includes errors and omissions.

6/ Gross official reserves are the gross foreign assets of the National Bank of Cambodia and the Foreign Trade Bank of Cambodia.

7/ As of mid-August 1993.

Table 5. Cambodia: Performance Under Quantitative Benchmarks of the Informal Monitoring Arrangement, March and June 1993

	Stock at the End of December 1992		1993	
	Orig. Est.	Rev. Actual	March	June
			(Maximum cumulative change from end-December 1992)	
Net domestic assets of the banking system 1/ (in billions of riel)	247.9	257.0		
Benchmark			25.9	61.7 2/
Actual			-9.7	5.9
Net bank credit to finance budget (in billions of riel)	168.4	167.3		
Benchmark			19.5	43.0 2/
Actual			1.0	31.9
Contracting of nonconcessional public sector or public sector-guaranteed external debt 2/ (in millions of US$)	...	...		
Benchmark			5.0	5.0
Actual			--	--
			(Minimum cumulative change from end-December 1992)	
Gross official foreign reserves 4/ (in millions of US$)	23.7	29.9		
Benchmark			0.1	-3.3 5/
Actual			-14.9	-4.6

1/ Net domestic assets are defined as total domestic liquidity minus net foreign assets of the banking system, excluding valuation adjustments associated with exchange rate changes.
2/ Adjusted upward by 80 percent of the shortfall in external budget support from the program estimate.
3/ Nonconcessional debt contracted or guaranteed by the public sector with maturities of 15 years or less, excluding short-term trade credits.
4/ Gross external assets of the National Bank of Cambodia and the Foreign Trade Bank of Cambodia.
5/ Adjusted downward by 80 percent of the shortfall in external budget support from the program estimate.

Table 6. Cambodia: Summary of Budgetary Operations, 1990-94 1/

	1990	1991	1992 Informal monitoring arrangement 2/	1992 Est.	1993 Informal monitoring arrangement 2/	1993 Prog.	1994 Prog.
			(In billions of riels)				
Revenue 3/	23.3	58.8	131.7	156.1	336.0	276.5	457.6
Tax revenue	13.3	31.1	94.6	109.7	255.7	219.0	366.6
Of which: State enterprises 4/	--	--	8.2	7.6	14.3	14.6	15.4
Custom duties	8.8	22.0	62.7	79.3	177.5	166.0	245.1
Additional measures	--	--	--	--	--	21.1	77.6
Nontax revenue	10.0	27.8	37.1	46.3	80.3	57.6	91.0
Of which: State enterprise transfers	7.8	25.8	33.9	42.3	73.0	55.6	84.6
Expenditure 3/	50.2	104.1	266.8	245.6	606.1	544.1	934.7
Current expenditure	43.3	98.9	249.5	238.6	454.7	423.5	573.0
Defense	18.7	46.8	118.5	118.6	180.0	211.2	236.1
Other	24.6	52.2	131.0	119.9	274.7	212.3	336.9
Capital expenditure	6.9	5.2	17.3	7.1	151.4	120.6	361.7
Current deficit on cash basis (-)	-20.0	-15.4	-117.7	-107.2	-118.7	-147.0	-115.4
Overall deficit on cash basis (-)	-26.9	-20.6	-135.0	-114.3	-270.1	-267.6	-477.1
Overall deficit on accrual basis (-)	-26.9	-45.3	-135.0	-89.6	-270.1	-267.6	-477.1
Financing	26.9	45.3	135.0	89.6	270.1	267.6	477.1
Foreign financing	7.2	6.1	12.0	1.5	261.4	205.8	481.0
Domestic financing	19.7	39.2	123.0	88.1	8.7	61.7	-3.9
Bank financing	19.7	14.5	123.0	112.8	8.7	44.1	7.1
Arrears 5/	--	24.7	--	-24.7	--	--	...
Private sector	--	--	--	--	--	17.6	-11.0
			(In percent of GDP)				
Revenue	3.9	4.4	5.1	6.2	7.2	5.0	6.6
Tax revenue	2.2	2.3	3.7	4.4	5.5	3.9	5.3
Nontax revenue	1.7	2.1	1.4	1.9	1.7	1.0	1.3
Expenditure	8.4	7.8	10.3	9.8	13.0	9.7	13.4
Current expenditure	7.2	7.4	9.6	9.5	9.8	7.6	8.2
Defense	3.1	3.5	4.6	4.7	3.9	3.8	3.4
Other	4.1	3.9	5.1	4.8	5.9	3.8	4.8
Capital expenditure	1.2	0.4	0.7	0.3	3.3	2.2	5.2
Current deficit on cash basis (-)	-3.3	-1.2	-4.6	-4.3	-2.6	-2.6	-1.7
Overall deficit on cash basis (-)	-4.5	-1.5	-5.2	-4.6	-5.8	-4.8	-6.8
Overall deficit on accrual basis (-)	-4.5	-3.4	-5.2	-3.6	-5.8	-4.8	-6.8
Foreign financing	1.2	0.5	0.5	0.1	5.6	3.7	6.9
Domestic financing	3.3	2.9	4.8	3.5	0.2	1.1	-0.1
Bank financing	3.3	1.1	4.8	4.5	0.2	0.8	0.1
Arrears	--	1.8	--	-1.0	--	--	...
Private sector	--	--	--	--	--	0.3	-0.2

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

1/ The government budget does not incorporate external debt service payments or arrears to bilateral official creditors.

2/ The informal monitoring arrangement was prepared and began to be implemented in October 1992 (see EBS/92/188). The program was revised in January 1993 (see SM/93/74).

3/ Revenue and expenditure entries are on accrual basis.

4/ State enterprise taxes were included in the state enterprise transfers until 1992.

5/ Mostly arrears in salaries of civil servants.

Table 7. Cambodia: Monetary Survey, 1990-94

	1990 Dec.	1991 Dec.	1992 Dec.	1993 June Informal Monitoring Arrangement	1993 June Prov. Actual	1993 Dec. Proj.	1994 Dec. Proj.
	(In billions of riels; end of period)						
Net foreign assets	3.1	-1.7	-13.0	-19.4	-35.8	-7.0	-30.4
Foreign assets	18.4	16.1	203.2	...	205.8	...	...
Foreign liabilities	-15.3	-17.8	-216.2	...	-241.6	...	...
Net domestic assets	58.3	80.7	257.0	301.4	294.4	328.5	415.3
Net domestic credit	59.1	87.6	279.4	314.5	344.2	379.0	465.6
Government (net)	41.1	55.6	167.3	203.2	199.2	211.4	218.4
Claims	42.2	55.6	169.4	...	201.5	...	...
Deposits	-1.1	--	-2.1	...	-2.3	...	...
Public enterprises	12.9	22.1	13.3	10.5	10.6	10.6	10.6
Private sector	5.1	9.9	98.8	100.8	134.4	157.0	236.7
Other items (net)	-0.8	-6.9	-22.4	-13.1	-49.8	-50.5	-50.3
Total liquidity	61.4	79.0	244.1	282.0	258.6	321.5	385.0
Narrow money	60.9	77.6	187.5	...	196.5	...	...
Currency in circulation	45.7	64.8	162.2	...	167.6	...	...
Demand deposits	15.2	12.8	25.3	...	28.9	...	...
Quasi-money	0.5	1.4	56.6	...	62.1	...	...
Time deposits	0.1	0.7	10.9	...	11.5	...	...
Foreign currency time deposits	0.4	0.7	45.7	...	50.6	...	...
	(Percentage contribution to liquidity growth over the 12-month period)						
Net foreign assets	13.1	-27.3	-6.8	-12.1	-27.7	7.8	-36.9
Credit to Government (net)	76.1	82.5	67.7	65.5	74.7	57.0	11.0
Credit to public enterprises	2.8	52.4	-5.3	-1.4	-1.6	-3.5	--
Credit to private sector	3.0	27.3	53.8	48.4	84.8	75.2	125.5
Memorandum items:							
Total liquidity (annual percentage change)	240.5	28.6	209.0	108.9	91.6	31.7	19.7
Narrow money (annual percentage change)	240.2	27.4	141.6	...	58.6	...	...
Velocity 1/	15.1	19.0	16.3	...	22.2	20.5	20.0

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

1/ Nominal GDP divided by the average stock of total liquidity during the period.

Table 8. Cambodia: Technical Assistance Requirements in the Macroeconomic Area 1/

Purpose	Required timing	Provider	Comments
1. Tax policy and administration 2/			
a. Senior fiscal advisor	In place since April 1993; one-year extension needed.	IMF (Under AsDB/ UNDP Project)	
b. Strengthening of tax administration	A short-term expert (4 months) needed from 3rd quarter 1993	IMF (Under AsDB/ UNDP Project)	
c. Tax policy advisor	A short-term expert (6 months) needed from 4th quarter 1993	IMF (Under AsDB/ UNDP Project)	To help implement the tax reform proposals.
2. Budgetary and expenditure control 2/			
a. Budgeting and expenditure control	In place since July 1992.	World Bank	A new budget nomenclature has been developed and proposed for adoption beginning with 1994 budget.
b. Treasury operations	In place since July 1992.	World Bank	Strengthening of cash spending control by the Treasury has been recommended for implementation by end-1993.
c. Public accounting	A short-term expert (4 months) needed from 4th quarter 1993.	IMF (Under AsDB/ UNDP Project)	
d. Budget law	A short-term expert (1 month) needed in 1st quarter 1994.	IMF (Under AsDB/ UNDP Project)	
3. Money and banking 3/			
a. Central bank operations advisor	In place since August 1992.	SIDA/CDRI	To assist the NBC to implement various institutional strengthening measures.
b. Monetary policy advisor	Beginning late 1993	IMF (Under AsDB/ UNDP Project)	Necessary for assisting the NBC to implement monetary policy.
c. Research and analysis advisor	Late 1993; for a 6-month period	IMF (Under AsDB/ UNDP Project)	Development of a research and analysis capability in the NBC.
d. Accounting advisor	Late 1993; for a 6-month period	IMF (Under AsDB/ UNDP Project)	"
e. Banking legislation advisor	Late 1993; for a 6-month period	IMF (Under AsDB/ UNDP Project)	To assist with revamping of the central bank law and other financial legislation.
f. Bank supervision	In place for the period July-October 1993; but a 4-month extension will be needed.	IMF (Under AsDB/ UNDP Project)	A pre-requisite for ensuring financial sector soundness in view of the rapid proliferation of banks.

Table 8. Cambodia: Technical Assistance Requirements in the Macroeconomic Area 1/ (Concluded)

Purpose	Required timing	Provider	Comments
4. Exchange market			
a. Advice on further development of the foreign exchange market and revamping of foreign exchange law	Four-six months beginning in the 4th quarter 1993.	IMF (Possibly under AsDB/UNDP Project)	In association with the proposed merging of the official and parallel exchange markets.
5. Statistics 4/			
a. Balance of payments statistics	A short-term expert (6 months) needed beginning late 1993.	IMF 5/	Necessary to establish the capability within the NBC to compile balance of payments statistics.
b. Monetary statistics	Follow-up missions in 1994.	IMF	To assist with implementation of recommendations of earlier missions.
6. Training			
a. Financial programming course	October	IMF	
b. Seminar for senior officials	October	IMF	

1/ This table covers only technical assistance that is directly related to the strengthening of the central macroeconomic institutions. Considerable technical assistance will also be required in conjunction with the broader structural reforms including the reform of the state enterprise sector and the establishment of an appropriate legal framework for a market economy.

2/ An initial diagnostic mission from FAD visited Cambodia in June 1992 and identified the key technical assistance requirements in the fiscal area. Some of the proposed timing has been revised, reflecting slippages from earlier targets.

3/ An initial technical assistance mission from MAE visited Cambodia in June 1992--with a follow-up mission in August 1993--and identified technical assistance requirements in the monetary area. Some of the proposed timing has had to be revised, reflecting slippages from earlier targets.

4/ Technical assistance missions from STA in March and June 1992 assisted NBC in establishing capability to compile monetary and financial statistics. A multitopic statistical mission visited Cambodia in September 1992 and identified priority areas for technical assistance in statistics.

5/ To be funded by a grant from the Japanese authorities.

Table 9. Cambodia: Balance of Payments and Financing Needs, 1990-94 1/

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

	1990	1991	1992 Informal Monitoring Arrangement	1992 Est.	1993 Informal Monitoring Arrangement	1993 Prog.	1994 Prog.
Trade balance	-77.7	-32.5	-56.0	-81.1	-161.1	-156.8	-202.3
Total exports	85.8	252.6	269.3	264.5	269.8	234.7	223.3
Exports	32.9	71.3	76.6	51.3	78.0	53.3	60.9
Re-exports	53.0	181.3	192.7	213.2	191.9	181.4	162.4
Total imports	-163.5	-285.1	-325.3	-345.6	-430.9	-391.5	-425.6
Of which: Retained imports 2/	(-110.6)	(-103.8)	(-132.6)	(-132.4)	(-239.0)	(-210.1)	(-263.2)
Services balance	-16.5	1.3	19.5	27.6	7.5	44.1	-15.2
Receipts	2.0	14.0	40.0	49.7	45.5	68.8	22.5
Payments 3/	-18.5	-12.7	-20.5	-22.1	-38.0	-24.7	-37.7
Of which: Interest 4/	(-5.2)	(-5.0)	(-6.5)	(-4.5)	(-4.5)	(-4.1)	(-4.9)
Private transfers	3.0	3.5	8.0	9.0	15.0	-22.2	6.0
Current account (excluding official transfers)	-91.3	-27.7	-28.5	-44.5	-138.6	-134.9	-211.5
Capital account (excluding aid inflows)	59.3	15.2	24.0	31.9	50.0	63.0	52.0
Official amortization 3/	-14.6	--	-2.3	-2.1	--	--	--
Private (net)	...	20.0	26.3	34.0	50.0	63.0	52.0
Of which: Foreign direct investment	(...)	(20.0)	(25.0)	(33.0)	(48.0)	(50.0)	(54.0)
Other 5/	73.9	-4.8	--	--	--	--	--
Targeted official reserve increase (+) 6/	9.7	-10.0	7.0	-7.6	16.0	9.0 7/	17.5
Repayment of IMF arrears	--	--	--	11.2	49.0	51.5	--
Total financing need	41.7	2.5	11.5	5.0	153.6	126.8	177.0
IMF purchases	--	--	--	--	...	8.8	--
Support Group for repayment of IMF 8/	--	--	--	--	...	51.5	--
Identified	--	--	--	--	...	48.2	--
Unidentified	--	--	--	--	...	3.3	--
Grants and commodity aid	41.7	2.5	11.5	5.0	...	57.2	102.2
Identified	41.7	2.5	11.5	5.0	...	41.0	77.2
Unidentified	--	--	--	--	...	16.2	25.0
Concessional loans	--	--	--	--	...	9.3	74.8
Of which: Identified	(--)	(--)	(--)	(--)	(...)	(9.3)	(74.8)
Memorandum items:							
Total unidentified financing	--	--	--	--	...	28.3	25.0
Current account deficit/GDP (percent)							
Including official transfers	-3.4	-1.3	-0.8	-2.0	-4.4	-3.6	-6.1
Excluding official transfers	-6.2	-1.5	-1.4	-2.2	-7.2	-7.0	-9.6
Gross official reserves 6/							
In millions of U.S. dollars	...	...	...	29.9	39.7	38.9	56.4
In months of retained imports	...	...	...	2.7	2.0	2.2	2.6

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

1/ Nonconvertible currency values are translated into dollars at an exchange rate of rub 1.1=US$1. From 1991, all trade is on a convertible currency basis. The change to convertible currency in 1991 makes it difficult to compare meaningfully balance of payments aggregates between 1990 and 1991.

2/ Retained imports are total imports less re-exports and include project aid imports and estimated unrecorded imports.

3/ The budget and the balance of payments do not include the debt service payments or arrears to bilateral official creditors. Cambodia has initiated approaches to creditor countries to clarify the extent of the arrears and views of the creditors on the appropriate treatment of these debts.

4/ Including new concessional loans.

5/ Errors and omissions and CMEA trade credit (1990).

6/ Under the informal monitoring arrangement for 1992, gross official reserves are the gross foreign assets of the National Bank of Cambodia. For 1992 "estimate" and 1993, gross official reserves are the gross foreign assets of the National Bank of Cambodia and the Foreign Trade Bank.

7/ In 1993 about $6 million of the official reserve increase reflects establishment of Cambodia's reserve tranche that is not included in the financing need.

8/ Financing for arrears clearance (including February-August 1993 charges) is assumed to be provided by the donor Support Group for Cambodia. For transparency, the clearance of arrears is being treated as exceptional financing in the balance of payments without affecting net foreign assets. Historically, Cambodia's foreign assets and liabilities have been net of liabilities to the Fund.

Table 10. Cambodia: Indicators of Fund Credit, 1992-99 1/

			Projections					
	1992	1993	1994	1995	1996	1997	1998	1999
Outstanding Fund credit (end of period)								
In millions of SDRs	35.5	6.3	6.3	6.3	6.3	6.3	5.3	4.3
In percent of quota	142.0	25.0	25.0	25.0	25.0	25.0	21.0	17.0
In percent of GDP	2.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2
In percent of exports of goods and services	49.5	7.2	10.6	9.5	8.5	9.8	5.6	4.0
	(In millions of U.S. dollars)							
Baseline scenario								
Debt service due to the Fund	50.0	51.6	1.5	1.5	1.4	1.4	2.8	2.8
Of which: Repurchases	15.2	15.1	--	--	--	--	1.4	1.4
Charges and interest	34.8	36.5	1.5	1.5	1.4	1.4	1.4	1.4
In percent of quota	142.0	147.3	4.4	4.4	4.0	4.0	8.0	8.1
In percent of domestic exports of goods and services	49.5	42.3	1.9	1.7	1.4	1.2	2.1	1.9
In percent of debt service due	92.3	92.7	32.1	33.4	20.6	15.9	43.5	42.9
In percent of official gross reserves 2/	167.2	132.7	2.8	2.6	2.0	1.7	2.9	2.6
Gross Fund financing								
In millions of U.S. dollars	--	8.8	--	--	--	--	--	--
In percent of Cambodia's gross financing needs	--	6.9	--	--	--	--	--	--

Sources: Cambodian authorities; and Fund staff estimates.

1/ Assumes purchase of SDR 6.25 million under the STF in October 1993; overdue obligations are assumed to be settled in September 1993.

2/ Official reserves are defined as the combined foreign reserves of the National Bank of Cambodia and the Foreign Trade Bank.

Cambodia: Eligibility and Access Under the STF

The Cambodian economy experienced a major systemic shock in 1989-91 as it moved from significant reliance on a system of state trading with CMEA members conducted essentially on barter terms through annual trade protocols to a situation in which, by 1991, most trade took place in convertible currencies at world market prices. Prior to 1991, trade with CMEA countries accounted for the bulk of trade--in 1990, an estimated 56 percent of exports and 85 percent of imports (Table 1). This trade took place at nonmarket prices involving, in particular, substantial subsidies to imports.

Cambodia's eligibility for use of the STF is based on an increase in net import costs owing to the transition to market-based trade. 1/ Deficiencies in data on prices prohibit direct measurement of the effects on Cambodia's net import costs resulting from the dissolution of the former CMEA. 2/ However, the size of the shock resulting from higher import costs can be approximated by measuring the difference between Cambodia's trade balance with the former CMEA countries valued at nonmarket prices and the trade balance measured at world market prices. Much of Cambodia's trade was in homogeneous products for which prices can be approximated by world market prices. Based on information on the volumes of Cambodia's imports and exports for 1990, the year prior to the dissolution of the CMEA, the staff has estimated the value of imports and exports at world market prices (Tables 2 and 3). No data are available on the prices at which trade with CMEA countries actually took place; however, the authorities have provided data on Cambodia's aggregate trade flows measured in rubles valued at rub 1.1 per U.S. dollar for the purpose of bilateral clearing arrangements with CMEA countries. 3/ The ruble trade balance for 1990 converted into U.S. dollars provides a measure of the trade balance at nonmarket prices. The difference between the trade balance measured at nonmarket prices and the trade balance measured at market prices is the estimated increase in net import costs resulting from the shift to trade at market prices (Table 4). This estimated increase is $30.5 million, which is equivalent to nearly 90 percent of quota and is sufficient to establish Cambodia's eligibility.

In view of the data deficiencies, a number of strong assumptions have had to be made to derive an estimate of the increased cost of net imports, and the calculations may be sensitive to changes in these assumptions. For

---

1/ From January 1991, Cambodia's trade with the former CMEA countries shifted to a convertible currency system based on world market prices.

2/ Neither the trade agreement for 1986-90 between Cambodia and former CMEA countries nor the annual protocols for these years include information on individual commodity prices.

3/ These data were reported in the paper on recent economic developments (SM/93/88, Table 16) and are shown in Table 1.

example, only about 50 percent of imports were homogeneous goods for which it was possible to find a comparable world market price, and the value of total imports from CMEA countries had to be extrapolated from this base. The coverage for exports was substantially higher (about 85 percent), but exports are much smaller than imports. Different assumptions could lead to a smaller value of the trade balance measured in world market prices. Against this, converting the trade balance measured in rubles into dollars at the clearing rate of rub 1.1 per dollar most likely overestimates the value of net imports measured at nonmarket prices. Considering the data problems and giving the member the benefit of the doubt, it is the staff's view that the methods used provide a reasonable basis for assessing Cambodia's eligibility.

The remaining question to be clarified in order to assess the level of access to Fund resources under the STF is the lingering effect of the systemic shock on Cambodia's economy. In this regard, it should be noted that, although Cambodia's external current account deficit narrowed in 1991 and 1992 compared with 1990 (Table 1), this was simply the reflection of a near-total absence of external financing, which resulted in a severe compression of imports that had a serious adverse impact on the economy and caused a substantial fall in private consumption. The sharp increase in the U.S. dollar value of imports in 1992, following a decline in 1991, in large part reflected the phased arrival of the UNTAC personnel (22,000 persons) beginning in March of that year. In these circumstances, the lingering effect of the adverse shift in the terms of trade has shown up in a substantial worsening in the budgetary position, financed by money creation and accompanied by a surge in inflation.

Therefore, although there are considerable statistical difficulties, staff is of the view that the disruptions described above continue to give rise to balance of payments difficulties in an amount equivalent to at least 50 percent of quota.

Table 1. Cambodia: External Trade, 1990-92 1/

(In millions of U.S. dollars)

	1990	1991	1992 Est.
Exports	32.9	71.3	51.3
Convertible area	14.6	...	...
CMEA 2/	18.3	...	...
(In percent of total exports)	55.6	...	...
Imports	-110.6	-103.8	-132.4
Convertible area	-16.7	...	...
CMEA 2/	-93.9	...	...
(In percent of total imports)	84.9	...	...
Trade balance	-77.7	-32.5	-81.1
Convertible area	-2.1	...	...
CMEA 2/	-75.6	...	...
Current account 3/	-91.3	-27.7	-44.5

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

1/ Excludes re-exports.
2/ Ruble values are converted into dollars at an exchange rate of rub 1.1 per dollar. From 1991, all trade is conducted on a convertible currency basis.
3/ Excludes official transfers.

Table 2. Cambodia: Imports from CMEA Valued at International Prices, 1990

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

	1990
Petroleum products	51.0
Quantity 1/	205.9
Of which:	
Former Soviet Union	199.6
Prices 2/	255.4
Chemical fertilizer	0.9
Quantity 1/	3.9
Former Soviet Union	3.9
Price 2/	236.6
Cement	1.0
Quantity 1/	17.3
Former Soviet Union	8.5
Viet Nam	8.8
Price 2/	59.5
Textiles	14.2
Quantity 3/	13.3
Former Soviet Union	11.9
Bulgaria	0.1
Viet Nam	1.2
Hungary	0.0
Other	0.1
Price 2/ 4/	1.1
Import value of the above commodities	67.1
Estimated total imports from CMEA 5/	122.1

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

1/ In thousands of metric tons.
2/ Staff estimates based on WEO and other sources; in dollars per specified unit.
3/ In millions of meters.
4/ For low quality cotton cloth with a width of 90 cm.
5/ Based on an estimated share of these commodities in imports from CMEA of 55 percent. Other major imports from CMEA included steel, trucks, bulldozers, tractors, and various vehicles.

Table 3. Cambodia: Exports to CMEA Valued at International Prices, 1990

(In millions of U.S. dollars)

	1990
Rubber	100.0
Quantity 1/	16.2
Price 2/	618.4
Timber	2.2
Quantity 3/	30.1
Price 2/	71.9
Soybeans	1.4
Quantity 1/	5.8
Price 2/	241.0
Maize	0.3
Quantity 1/	2.5
Price 2/	100.0
Other 4/	2.1
Total exports	16.0

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

1/ In thousands of metric tons.
2/ The unit value of exports to the convertible currency area.
3/ In thousands of cubic meters.
4/ Other items include green beans, sesame and kapok fiber, etc. For items for which volumes are not available, the ruble amounts are converted into U.S. dollars at the official exchange rate of rub 1.1 per dollar.

Table 4. Cambodia: Estimated Increase in Net Import Costs, 1990

(In millions of U.S. dollars)

	1990
1. Trade balance at nonmarket prices	-75.6
Exports at nonmarket prices	18.3
Imports at nonmarket prices	93.9
2. Trade balance at market prices	-106.1
Exports at market prices	16.0
Imports at market prices	122.1
3. Estimated increase in net import costs (1)-(2)	30.5
In percent of quota	87.1

Sources: Tables 1, 2, and 3.

Cambodia--Fund Relations
(As of July 30, 1993)

I. Membership Status: Joined 12/31/69; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	25.00	100.0
Fund holdings of currency	30.32	121.3
Reserve position in Fund	0.93	3.7

III. SDR Department:	SDR Million	% Quota
Net cumulative allocation	15.42	61.7

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
CCFF	6.25	25.0
GT	4.58	18.3

V. Financial Arrangements:

None

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

	Overdue	Forthcoming				
	7/31/93	1993	1994	1995	1996	1997
Principal	10.8					
Charges/interest	25.7	0.7	0.7	0.7	0.7	0.7
Total	36.5	0.7	0.7	0.7	0.7	0.7

VII. Exchange Rate Arrangement:

Since November 8, 1992, the exchange rates of the riel for currencies of all countries have consisted of the following two rates. First, the official exchange rate, which is expressed in riels per U.S. dollars, applies to all official external transactions conducted by the Government and the state enterprises. The official exchange rate is adjusted so as to maintain the spread between the official rate and the riel-U.S. dollar rate which prevails in the parallel market within 5 percent when averaged over a two-week period. Second, the parallel market rate, which is determined freely through interactions of foreign exchange traders in the private sector, applies to all other transactions. On August 5, 1993, the official rate was CR 2,574 per dollar and the parallel rate was CR 2,616 per dollar.

VIII. Article IV Consultation:

The Executive Board concluded the last Article IV consultation on May 5, 1993 (EBM/93/65, 5/5/93). It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

IX. Technical Assistance:

The Fund has provided significant technical assistance to Cambodia since the resumption of contacts in 1991. 1/ The Fiscal Affairs Department provided recommendations for overall fiscal reform. In addition technical assistance was provided on tax policy and administration and, in conjunction with the Central Asia Department, on the preparation of the 1993 Budget. The Statistics Department has provided technical assistance on monetary, government finance, balance of payments and consumer price statistics. The Monetary and Exchange Affairs Department provided technical assistance to assess the institutional framework for financial institutions and current operations of the central bank of Cambodia, including specific policy recommendations to enable the National Bank of Cambodia to become a modern central Bank.

X. Resident Representative:

None

1/ A comprehensive list of technical assistance missions to Cambodia since 1991 was provided in Annex V of SM/93/74 (April 12, 1993).

Cambodia: Relations with the World Bank Group 1/

Cambodia became a member of the World Bank on July 22, 1970 and never borrowed from the Bank. The relations between Cambodia and the Bank were interrupted between 1975 and 1992. In September 1992, Cambodia decided to resume active participation in the Bank, appointing a representative on the Bank Board of Governors and designating the National Bank of Cambodia as the depository institution for Bank assets in Cambodia.

Following an economic mission in March-April 1992 under the aegis of the UN Secretary-General's Special Representative for Cambodia, the Bank prepared an economic assessment that was released in June 1992 at the ministerial meeting in Tokyo, under the title Cambodia--Agenda for Rehabilitation and Reconstruction. Bank staff also contributed to the AsDB-IMF-UNDP-World Bank report entitled "Cambodia--Socio-Economic Situtіon and Immediate Needs," which served as background material at that conference. Bank staff have also contributed to a similar document for the first International Committee for Reconstruction of Cambodia to be held in September 1993.

Starting in July-August 1992, the Bank fielded two public finance experts with bilateral financing. This technical assistance to UNTAC and the administration for strengthening expenditure programming and public finance control is being expanded with two grant sources (Japan Grant Facility and Institutional Development Fund) for a total of $1.25 million. At the sectoral level, two UNDP projects executed by the Bank, one for water and another for power rehabilitation, amounting to $4.1 million and $3.8 million, respectively, were approved in November 1992 and implementation has begun.

Negotiations on an Emergency Rehabiliation Credit from IDA (amounting to $63 million) were suspended late February 1993 at the request of the Cambodian authorities. IDA has now received a request from Cambodia to renew the negotiations; a resumption is expected in September. Following the approval of this project, the Bank plans a comprehensive multi-sectoral assessment of reconstruction needs, as well as prepartion of a country economic memorandum. This will provide a basis for future Bank lending, including a possible adjustment operation. The latter will be developed within the framework of the Government's medium-term program to be formulated in 1994, and will be closely coordinated with the IMF.

1/ Prepared by the staff based on information provided by the World Bank.

Cambodia: Relations with the Asian Development Bank 1/

Cambodia re-established relations with the Asian Development Bank (AsDB) immediately after the signing of the Paris Accords in October 1991. In November 1991, an AsDB Country Consultation Mission visited Cambodia at the request of the Supreme National Council, at which time the Ministry of Planning was designated as the official channel of communication for the AsDB. Cambodia's arrears to the AsDB, which amounted to about $2 million, were cleared in November 1992.

Several other AsDB missions, including those undertaken jointly with the Fund and the World Bank, visited Cambodia in 1992 to assess the economy and its sectoral requirements as well as to determine a legal basis for multilateral lending to Cambodia during the transitional period. These missions also formulated an operational strategy for the AsDB assistance. The provision of AsDB assistance has been envisaged within the guidelines established under the emergency Rehabilitation Program for Cambodia (RPC), set up by the UN Secretary-General in April 1992 and elaborated in the Declaration on Rehabilitation and Reconstruction of Cambodia which was issued at the Tokyo Ministerial Conference in June 1992.

The AsDB's operational strategy is designed to support: (i) Cambodia's macroeconomic management capability; (ii) the emergency rehabilitation of key infrastructural facilities; (iii) sector work to develop strategies, policies, and programs for future development; and (iv) institution-building and human resources development. Of these objectives, the first is being addressed through the Technical Assistance for Strengthening Macroeconomic Management, a project of about $4 million funded by the AsDB and the UNDP and being implemented in collaboration with the Fund. Emergency rehabilitation is being addressed through a Special Rehabilitation Assistance Project (SRAP) of $67.7 million, which was approved in February 1993 and which began to be disbursed in July 1993, under which technical assistance in an amount of $7.4 million is also being provided. Finally, the AsDB's project pipeline includes additional technical assistance for sector work in agriculture, transport, energy, and education. In total, the AsDB's contribution to the RPC, including co-financing, is expected to reach $75-80 million by the end of the rehabilitation period.

1/ Prepared by the staff based on information provided by the Asian Development Bank.

August 16, 1993

Dear Mr. Camdessus,

In our letter of 28 January 1993, we forwarded to you a Memorandum of Economic and Financial Policies for 1993. We also expressed the hope that you could report favorably to the Co-Chairs of the Support Group for Cambodia with a view to mobilizing the necessary resources for prompt clearance of Cambodia's overdue obligations to the Fund. We further conveyed to you Cambodia's wish to make use of the resources of the Fund, once arrears were fully cleared.

Because of unforeseen events, it was not then possible for you to go forward along the above lines. We are now pleased to forward to you the Memorandum of Economic and Financial Policies for 1993 and 1994, and attached letter from the Minister of Finance and the Governor of the National Bank of Cambodia. On this basis, we convey to you Cambodia's request to use the resources of the Fund in an amount equivalent to SDR 6.25 million.

Please be assured of our highest consideration.

Sincerely yours,

/s/ Samdech Preah Norodom Sihanouk
Chief of State
President
Supreme National Council of
Cambodia

/s/ Yasushi Akashi
Special Representative of the
Secretary General
United Nations Transitional
Authority in Cambodia

Attachments

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

August 24, 1993

Dear Mr. Camdessus:

As you know, the Cambodian economy is in the process of transformation to a market-based system, although this transformation has been complicated by the difficulties of maintaining macroeconomic stability during a period of political transition. The National Provisional Government of Cambodia, under the authority of Prince Sihanouk as Head of State, has now formulated a program of stabilization and systemic reforms that emphasizes fiscal consolidation and the strengthening of the key institutions of macroeconomic management. We expect to finalize a more comprehensive medium-term adjustment program early in 1994 and intend to request Fund support for this program through arrangements under the ESAF or its successor.

In the interim, on the basis of the policies in the attached Memorandum, we intend to request an initial purchase under the STF in an amount equivalent to SDR 6.25 million (25 percent of quota). Assuming that understandings are reached on a timely basis on a program that could be supported by arrangements under the ESAF or its successor, Cambodia would not intend to request the second purchase under the STF, but rather would request that its remaining balance of payments needs stemming from the systemic disruptions be taken into account in determining the level and phasing of access under those arrangements.

Yours sincerely,

/s/ Sam Rainsy
Minister of Finance

/s/ Thor Peng Leath
Governor
National Bank of Cambodia

Phnom Penh, August 24, 1993

Memorandum on Economic and Financial Policies

I. Developments in the First Half of 1993

1. Market-oriented reforms have been underway in Cambodia for several years, but they have not yet yielded their full benefits because of political uncertainty, a dilapidated economic infrastructure, the lack of external financing, and macroeconomic instability stemming primarily from excessive bank financing of the budget. A package of policy measures was agreed with the Fund staff in January this year to address the problem of macroeconomic stability. The aim was to bring down inflation by revenue and expenditure measures that would reduce sharply the Government's recourse to central bank financing; a significant expansion in external financial and commodity assistance was also expected. All key new policy measures included in the package were implemented. Additional revenue measures included a more realistic basis for the valuation of customs duties, increases in the duties on petroleum products, and a higher airport departure tax, while efforts were made to curtail current expenditures. Commercial banks began to offer deposits in riels at a positive real rate of interest, and the National Bank of Cambodia followed a broadly market-linked exchange rate policy by periodically adjusting the official exchange rate in line with movements in the parallel market rate.

2. Notwithstanding these measures, the macroeconomic objectives for the first half of 1993 were not achieved. Uncertainties prevailing prior to the May elections severely disrupted economic activity and domestic finances; moreover, Cambodia received only limited external financing during this period. Despite the new revenue measures, the National Provisional Government's receipts dropped, largely because of low imports during the period of uncertainty as well as widespread difficulties in effectively enforcing tax collection. To offset the revenue shortfall, the Government severely compressed its current expenditures in real terms, primarily by postponing a general wage increase but also through cutbacks in indirect subsidies to the state enterprise sector. Consequently, the size of the overall budget deficit was broadly as planned but, in the absence of external budget support, it had to be financed almost exclusively from domestic sources. The expansion in central bank credit to the government was held to about 0.5 percent of GDP, but the Government was also forced to resort to short-term borrowing (by over 0.5 percent of GDP) from other domestic sources. Since bank credit to government was restricted and external reserves fell, broad money supply grew by only 6 percent in the first half of the year. Nevertheless, consumer prices, which had remained

broadly stable during October 1992-February 1993, surged by 85 percent in March alone, as the pre-election uncertainty reduced the demand for riel-denominated assets and the public resorted to panic-driven hoarding of rice and other necessities. The value of the riel on the parallel foreign exchange market also declined substantially. Both commodity and exchange markets subsequently began to stabilize, and there are signs that confidence has begun to return with the formation in early July of the National Provisional Government. However, during January-June 1993, the rate of inflation was an estimated 93 percent, compared to the original target of 30 percent for the year as a whole.

3. In the external sector, there were shortfalls in both exports and imports, reflecting an overall slowdown in trade. With limited external financing, however, the current account deficit was financed partly by a drawdown of reserves. Gross external reserves (defined as the foreign assets of the National Bank of Cambodia and the Foreign Trade Bank of Cambodia) dropped from about US$30 million at end-December 1992 to about US$25 million by June 1993, by which time they provided only 1 1/2 months of coverage of retained imports.

II. Policies for 1993-94

4. The immediate goal of the National Provisional Government is to return the economy to a path of macroeconomic stabilization while undertaking the most urgent tasks of economic and social rehabilitation. The policies to be implemented in the remainder of 1993 and in 1994 will aim to substantially lower inflation on a sustained basis, strengthen the external position while moving toward a normalization of relations with international creditors, and build the foundations for strong, sustainable economic growth. The specific objectives, which take account of the disruptions that occurred in the first half of 1993, are as follows: (i) real GDP growth of about 5 1/2 percent in 1993, accelerating to 7-8 percent in 1994 as private sector activity responds to a more stable environment and the rehabilitation of core public sector infrastructure is undertaken; (ii) a reduction in consumer price inflation to an average of no more than one percent a month in the second half of 1993 and to an annual rate of under 10 percent (measured on an end-period basis) in 1994--a sharper reduction in inflation may be possible if the return of confidence causes a significant early switch back into riel-denominated financial assets; and (iii) an increase in gross external reserves by $9 million in 1993, with a further significant increase in 1994.

5. In order to achieve these objectives, our strategy will emphasize (1) a quick return to the stabilization path by resuming fiscal consolidation; (2) a strengthening of the central institutions of macroeconomic management (i.e., the tax system, budgetary and treasury operations, and central banking functions) through specific structural measures and timely technical assistance; and (3) the formulation, by the end of 1993, of concrete proposals for broader structural reforms that will build upon the considerable progress that has already been made toward a market economy. The intention is to begin implementation of a more comprehensive program of adjustment and economic reform as early as possible in 1994. Attainment of our macroeco-

nomic objectives will depend upon the implementation of the policy measures described below, but also upon the provision of adequate financial support and timely technical assistance from the international community. A program of action to address the most pressing rehabilitation needs is being drawn up with the assistance of the AsDB, UNDP, UNTAC and the World Bank and will be submitted soon to potential donors. Beyond this, a more comprehensive, medium-term public investment program will be prepared by mid-1994. The estimated external assistance requirements in 1993-94 and the proposed strategy for regularization of relations with external creditors are set out in Section III.

Budgetary policies and systemic reforms in the fiscal area

6. Control over inflation will require an early phasing out of the monetization of the fiscal deficit. After taking account of developments in the first half of 1993, the principal budgetary target will be to contain bank financing of the deficit to no more than 0.1 percent of GDP in the second half of 1993, with a similar amount in the first half of 1994. Thereafter, the aim will be to eliminate bank financing of the budget, apart from temporary advances to accommodate seasonal mismatches between receipts and expenditures. Three elements will be crucial to the achievement of these targets: (1) a substantial expansion of tax revenues through an effective enforcement of current tax laws combined with the first phase of a major tax reform initiative; (2) continued restraint on current expenditures as well as a tailoring of the investment program to the availability of external project financing; and (3) the provision of exceptional external budgetary support through cash and commodity assistance. This support will be especially crucial during the next few months, while action is taken to restore a sufficient tax base to support the essential functions of government.

7. Action has already been taken to enforce existing tax laws, and revenues have already begun to pick up in July. To improve the accuracy of assessment of turnovers, a survey of larger taxpayers has been conducted by the Ministry of Finance with the assistance of UNTAC. An anti-smuggling task force has also been established recently to enhance customs duty collection. Major additional measures will be implemented in August-September 1993. First, a major customs reform will consist of: (i) a switch to a uniform ad valorem rate (4 percent) for the consumption tax on imports, which will henceforth be collected by the Customs Department rather than the Tax Department; (ii) adoption of an invoice-based system for valuation of import duty; (iii) rationalization of the tariff structure (including the elimination of the tariff differential for "friendly" countries); (iv) an increase of the duty rate on petroleum products from 8-10 percent to 20 percent; and (v) preparation of a system of duty stickers for high duty products. In the area of domestic taxation, new measures include: (i) extension of the 10 percent hotel room tax to cover other services such as restaurants; (ii) beginning the implementation of a progressive tax on wages over $200 per month (with rates from 10 to 40 percent); in the first instance, the focus will be on collecting the tax (through withholding at source) on employees of a core group of large- and

medium-size companies; (iii) extension of the rental tax to include properties leased by Cambodian nationals and a switch to withholding at source; and (iv) a tax on construction permits. Moreover, once the appropriate administrative arrangements can be made, the following measures will also be introduced: (i) a simple accounting system for assessing the turnover tax on all companies above a minimum size; and (ii) revisions of vehicle registration fees (plus introduction of a tax disc system) to raise the rates by 3-5 times. We expect all these measures to be in place by the beginning of 1994. The revenue impact of the entire package is estimated at 0.4 percent of GDP in 1993 and 1-1 1/4 percent of GDP on a full-year basis.

8. To limit current expenditures, increases in civil service wages, beyond a small initial increase that will only partially restore the real erosion in the first half of 1993, will be linked to progress in reducing the considerable overstaffing in the government sector. We expect to shrink the size of the civil service (currently estimated at about 150,000 persons) considerably in the next 1-2 years, in conjunction with proposals for a revamping of the administrative structure (to be supported by technical assistance from the UNDP). We expect many civil and defense personnel will voluntarily find alternative employment in the many projects envisaged under the rehabilitation program as well as in a revitalized private sector. Total military and national security outlays in the budget will be limited to under 4 percent of GDP in 1993, compared with 4.7 percent in 1992. Provided the security situation continues to improve, a further significant reduction should be possible in 1994. Finally, total current transfers (including indirect support through government purchase and resale of imported goods) will be reduced by 0.9 percentage points to about 1 percent of GDP in 1993, with a further reduction in 1994 in line with the preparation of a program for the further downsizing of the state enterprise sector (see paragraph 16).

9. Capital expenditures are expected to rise from less than 1 percent of GDP in 1992 to 2.1 percent of GDP in 1993; and further to over 5 percent of GDP in 1994 as the major programs to rehabilitate physical and social infrastructure get underway. The extent to which the increase can be realized will depend, however, on the pace of disbursements of project aid as well as on domestic absorptive capacity.

10. Attainment of the targeted reduction in bank financing of the deficit will depend not only on the revenue and expenditure measures outlined above, but also on the level and phasing of commodity aid. From our discussions with donors, it is expected that about $38 million of commodity aid will be disbursed in the second half of 1993 and $47 million in 1994, with the bulk of disbursements concentrated in the first half of the year.

11. With regard to systemic reforms in the fiscal area, revisions to the accounting and budget classification and control procedures will be undertaken in the last quarter of 1993. Measures to strengthen the Treasury's control on cash spending and debt management will also be undertaken by the end of 1993. In both these reforms, technical assistance is being provided by the Asian Development Bank, World Bank, and other

international institutions. A ministry-by-ministry survey of domestic payments arrears will be completed by December 1993 and all such arrears will be cleared by June 1994.

Monetary policy and systemic reforms in the financial sector

12. The monetary program for the second half of 1993 will aim to limit liquidity growth to 24 percent, so that growth for the year as a whole will be 32 percent, compared with 209 percent in 1992. While a tightened fiscal policy is critical for the attainment of this target, the National Bank of Cambodia will closely monitor commercial bank lending and implement measures to contain net domestic assets within the benchmarks set out in Table 1. During the present transitional phase, this will probably require the use of the available, direct policy instruments, including interest rate directives and bank-specific credit guidelines, but the aim is to develop as quickly as possible indirect instruments that are better suited for conducting monetary policy in a market-oriented environment. Within the overall monetary framework, Cambodia's already shrunk state-owned enterprise sector will not be allowed any additional credit on a net basis, which will leave sufficient room for meeting the needs of the dynamic private sector. It is expected that growth in private sector credit in the second half of 1993 would be 17 percent (measured in U.S. dollar terms). The monetary program for the first half of 1994 targets liquidity growth at 9 percent, in line with the inflation and real GDP objectives, and will continue to emphasize the curtailment of credit to the public sector and the provision of adequate credit for the private sector. However, these targets will be reviewed toward the end of 1993, in light of the progress in restoring confidence in the domestic currency and in the banking system generally, and the consequent evolution of money demand.

13. The National Bank will ensure that the interest rate offered on the riel deposit scheme, which was reduced to 2 1/2 percent per month in August 1993, is not reduced further until there is clear evidence that inflation is firmly under control. In any event, the Bank will ensure that the rate remains positive in real terms.

14. Systemic reforms in the financial sector during the next 12 months will focus on developing the National Bank into an independent central bank with exclusive responsibility for the conduct of monetary and exchange rate policies as well as for the licensing and supervision of financial institutions. With this objective in mind, we plan to take the following actions. First, the Government will introduce an amended central bank law by end-June 1994 to restore the independence of the National Bank, including more stringent limits on the use of its credit to finance the budget and steps to create an independent board of directors. As part of this process, the Governor of the National Bank of Cambodia is now appointed directly by the Head of State. Second, to strengthen its capacity for monetary control, the National Bank will introduce by end-December 1993 reserve requirements for commercial bank liabilities and ensure that all commercial banks comply with the reporting requirements. Third, the Government will transfer, by June 1994, its foreign assets and liabilities from the Foreign Trade Bank to

the National Bank, which will establish a centralized system of reserves management and assume responsibility for conducting Cambodia's official foreign exchange transactions with the rest of the world. In addition, the National Bank intends to put in place, with technical assistance financed under the AsDB/UNDP/IMF project, an effective system of bank supervision, through a combination of professional inspectors with training in supervisory methods and the use of qualified outside accounting firms. In order to safeguard its own integrity as a supervisory authority, the National Bank also intends to begin divesting its interests in commercial banks. The Government recognizes the potential risks inherent in the present, loosely supervised, financial sector and, in view of the recent proliferation of banks, plans to strictly limit the issuance of additional licenses to banks of international status and to rescind approvals of licenses for banks that have not commenced operations, on a case-by-case basis, until an effective system of supervision and more stringent criteria for licensing are in place.

Exchange rate policies

15. The Government regards the establishment of a market-based, unified exchange rate arrangement, supported by restrained financial policies, as a key step in its transition to a market economy. The goal will be to unify the official and parallel market rates by mid-1994. To this end, the National Bank of Cambodia intends to take measures to develop further the foreign exchange market, first by sound financial policies that reverse the widespread dollarization of the economy; second, by encouraging greater commercial bank participation in the exchange market; and third, through the progressive dismantling of restrictive foreign exchange regulations, based on the introduction of a modern, liberal foreign exchange law. The Government intends to request technical assistance from the Fund with the further development of the foreign exchange market. In the interim, the National Bank of Cambodia will limit the spread between the official and parallel market rates to no more than 5 percent (when averaged over a two-week period) during 1993 and 3 percent thereafter.

Other structural policies

16. Considerable progress toward a market economy has already been made in recent years. Most prices have been decontrolled; individual property rights in agriculture have been restored; many state enterprises have been leased or sold to the private sector, and those remaining in the public sector have been given somewhat greater managerial autonomy. 1/ However, the restructuring of the state enterprise sector is far from complete, and the difficult process of laying off excess workers has not yet begun in many enterprises, including many of the leased units. A detailed program for the further downsizing and restructuring of state enterprises, covering all of the major units, will be prepared by December 1993. In preparing this

---

1/ State enterprises still dominate the provision of utilities, marine transportation, as well as rubber plantations.

program, special attention will be given to the proper valuation of assets and the supervision of lease contracts. For industrial units, preference will be given whenever possible to outright sale. The program will allow greater flexibility for enterprises to lay off excess employees, while providing for social safety net arrangements such as compensation and retraining for those affected. In the interim, the hardening of budget constraints on state-owned enterprises--i.e., no new net bank credit and tight limits on budget support--will continue along with greater efforts to make enterprises financially autonomous. Development of a comprehensive legal framework for private sector activity will be crucial to the promotion of an efficient market economy. As part of this process, a draft code of commerce, including provisions for bankruptcy and use of negotiable instruments, will be prepared for legislative approval in the first half of 1994.

17. In agriculture, the Government's aim is to ensure adequate and timely supplies of inputs and the efficient marketing of output by encouraging private sector involvement. In addition, the remaining public sector subsidies, including for fertilizer, will be phased out by the end of 1993. Public sector foodgrain procurement will be increasingly transacted at market prices and will continue to decline in importance. Priority will be given to the development of rural financial institutions to extend credit to farmers and to help mobilize rural savings.

18. The Government intends to liberalize further the exchange and trade system. Procedures for the licensing of imports and exports will be reviewed with the intention of eliminating all licensing restrictions by the end of 1993, with the exception of a few sensitive products and restrictions imposed for environmental or security reasons. The ban on rice and log exports and the quota for sawn timber exports will be reviewed by the end of the year. It is envisaged that the ban on rice exports would be eliminated by the end of 1994 as the trade situation improves and domestic output stabilizes. The Government will not impose or intensify restrictions, introduce or modify any multiple currency practices, conclude bilateral payments agreements that are inconsistent with the Fund's Articles of Agreement, nor impose or intensify any import restrictions for balance of payments purposes.

III. Balance of Payments Prospects and Proposed Debt Strategy

19. After taking account of developments in the first half of the year, the current account deficit for 1993 is projected at about 7 percent of GDP; a further widening to over 9 percent of GDP is anticipated in 1994, largely as a result of the expansion in public infrastructure investment and a pick-up in private investment activity. On the basis of current projections, and allowing for a moderate build-up in external reserves, Cambodia's financial requirements for the second half of 1993 are estimated at about US$67 million; these amounts exclude the support that will be needed in connection with the clearance of Cambodia's overdue obligations to the Fund. Preliminary estimates for 1994 indicate a financing need of about US$180 million, although this will need to be reviewed once the scope and timing of the

broader rehabilitation and investment program are specified in greater detail. In view of the amounts expected to be disbursed by the United Nations, Asian Development Bank, and the World Bank as well as indications provided by bilateral donors, prospects at this time are favorable that the required level of assistance would be realized.

20. The Government intends to regularize its relations with external creditors by negotiating debt relief with official creditors. As a first step, efforts are under way, with the assistance of donors, to document the debt outstanding to OECD creditors. As concerns the portion of Cambodia's debt contracted with the former Soviet Union, negotiations are underway concerning the appropriate valuation and treatment of this debt.

21. Mechanisms for external debt management are being improved. An inter-ministerial agency in the Office of the Council of Ministers, the National Committee for Rehabilitation and Development of Cambodia (NCRD), was recently established under the co-chairmanship of the Vice Presidents of the Government to coordinate all program and project activity related to the receipt of foreign aid. Responsibility for monitoring outstanding credits has been assigned to the Ministry of Finance, under the authority of the NCRD. The Ministry of Finance will also establish, before the end of 1993, a mechanism to monitor disbursements and the collection of counterpart funds, and will provide the government with quarterly forecasts of the prospective debt burden implied by future credits, in consultation with the National Bank and the Ministry of Planning.

IV. Program Review and Monitoring

22. Proposed quarterly quantitative benchmarks are described in Table 1. We also propose a number of structural benchmarks to gauge our progress in implementing the systemic reforms. These are shown in Table 2.

23. The implementation of the measures contained in this Memorandum will necessitate an intensive program of technical assistance that the Government hopes will be offered by the international financial institutions and other donors. The technical assistance program will also be coordinated by the NCRD to ensure that priorities in this area are compatible with the Government's overall economic policies and to coordinate with the agencies providing the assistance.

24. The Cambodian Government will provide the staff of the International Monetary Fund with the information necessary to monitor compliance with the economic program to be supported by the use of Fund resources. In this connection, and in cooperation with the Fund staff, we will develop a system of short-term indicators of financial and external developments.

Table 1. Cambodia: Quantitative Benchmarks, July 1993-June 1994

	Stock at the end of June 1993 (Prov. actual)	1993 Sept.	1993 Dec.	1994 March	1994 June
		(Maximum cumulative change from end-June 1993)			
Net domestic assets of the banking system 1/, 2/, 3/ (riels bn.)	294.4	15.5	34.1	54.3	76.4
Net bank credit to finance budget (riels bn.) 2/, 3/	199.2	4.8	12.2	15.7	19.2
Contracting of nonconcessional public sector or public sector-guaranteed external debt 4/ (US$ mn.)	...	5.0	5.0	5.0	5.0
		(Minimum cumulative change from end-June 1993			
Gross official foreign reserves 2/, 5/ (US$ mn.)	25.3	--	13.6	25.6	26.6

1/ Net domestic assets are defined as total domestic liquidity minus net foreign assets of the banking system, excluding valuation adjustments associated with exchange rate changes. Changes in net domestic assets arising out of the revaluation of the IMF accounts with the National Bank of Cambodia and the full or partial clearance of arrears to the Fund are excluded.

2/ Benchmarks on net domestic assets and net bank credit to finance budget will be adjusted upward while the benchmark on gross official foreign reserves will be adjusted downward by 50 percent of any cumulative shortfall in external budget support from the program estimates of US$15.7 million for July-September 1993, US$32.8 million for July-December 1993, US$51.2 million for July 1993-March 1994, and US$68.6 million for July 1993-June 1994, up to a maximum of US$10.0 million. Should there be any cumulative excess in external budget support from the program estimates, benchmarks on net domestic assets and net bank credit to finance budget will be adjusted downward, while the benchmark on gross official foreign reserves will be adjusted upward by the full amount of such an excess.

3/ Benchmarks on net domestic assets and net bank credit to finance the budget will be adjusted downward by the full amount of any cumulative buildup in the domestic arrears of the Government.

4/ External debt is defined as nonconcessional debt contracted or guaranteed by the public sector with maturities of 15 years or less, excluding short-term trade credits.

5/ Gross external assets of the National Bank of Cambodia, including IMF reserve tranche if any, and the Foreign Trade Bank of Cambodia.

Table 2. Cambodia: Structural Benchmarks Under the 1993/94 Program

Policy Measure	Timing for Implementation
1. Introduce new budget nomenclature and accounting procedures. 1/	By end-December 1993.
2. Introduce reserve requirements for commercial bank deposits.	By end-December 1993.
3. Centralize the management of official foreign reserves at the National Bank of Cambodia.	By end-June 1994.
4. Maintain the interest rate provided under the three-month riel deposit scheme positive in real terms. 2/	Through June 1994.
5. Maintain the spread between the official and parallel market exchange rates, averaged over any two-week period, within the margin of 5 percent through December 1993 and within 3 percent through June 1994.	Through June 1994.

1/ The new budget nomenclature and accounting procedures are being prepared with the assistance of the IMF and the World Bank.

2/ The real interest rate is defined as the monthly interest rate deflated by the average level of monthly inflation rates, based on the Consumer Price Index over the preceding three-month period.