

# INTERNATIONAL MONETARY FUND

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The International Monetary Fund has terminated the limitation of Cambodia's use of the institution's general resources and the suspension of its right to use SDRs. The IMF has also approved a drawing totaling SDR 6.25 million (about US\$9 million) under the Systemic Transformation Facility (STF) 1/ to support the Government's 1993-94 economic and financial program. This action follows a payment of SDR 36.9 million (about US\$52 million) on October 1, 1993, which fully settled Cambodia's overdue financial obligations to the IMF. Cambodia's quota 2/ in the IMF is SDR 25 million (about US\$35 million).

The Cambodian economy continues to suffer from 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 of the previously close links with the former Soviet-Union. Market-oriented reforms began in 1985-1986 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. Since October 1992, the authorities have been implementing a package of stabilization policies under an informal monitoring arrangement with the IMF. The macroeconomic situation remained highly unstable in the first half of 1993, as economic and financial conditions were severely disrupted by events surrounding the elections and political uncertainties delayed the disbursement of external assistance. With the improvement of the political situation and the adoption of substantial economic measures, recent developments have been favorable, reflecting renewed confidence.

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1/ The Systemic Transformation Facility (STF) is a temporary IMF lending window that provides financial assistance to member countries facing balance of payments difficulties arising from severe disruptions of their trade and payments arrangements due to a shift from significant reliance on trading at non-market prices--such as prevailed among members of the Council on Mutual Economic Assistance (CMEA) and among states of the former Soviet Union--to multilateral, market-based trade.

2/ A member's quota in the IMF determines, in particular, its subscription, its voting power, its access to IMF financing, and its allocation of SDRs.

Cambodia's economic program for 1993-94 is designed as a transitional one, laying the foundation for a more comprehensive medium-term program to be adopted in the course of 1994. The program's key macroeconomic objectives are to sustain economic growth at 5 1/2 percent in 1993 and accelerate it to 7-8 percent in 1994, and to reduce inflation from 177 percent recorded in 1992 to under 10 percent in 1994. 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.

To achieve these objectives, fiscal policy will be geared toward eliminating the excessive monetization of the deficit that was the root cause of Cambodia's high inflation, through improvements in tax enforcement and containment of current expenditures. Monetary policy is designed to reduce inflationary pressures, targeting a liquidity growth of about 32 percent for 1993 and 20 percent for 1994. The program envisages unification of the official and parallel market exchange rates by mid-1994 and progressive dismantling of most foreign exchange restrictions; most licensing restrictions on foreign trade have already been eliminated. The tighter financial policies are already yielding results; inflation has been halted during the last several months and the exchange rate has stabilized.

Structural reforms will be pursued on several fronts. Agriculture was decollectivized several years ago and individual property rights have been restored. Most prices have been freed of controls and many state-owned enterprises sold to the private sector or closed. The Government will formulate a detailed program for the restructuring and downsizing of the remaining state enterprise sector by the end of 1993. The Government has also defined a detailed timetable of systemic reforms to strengthen the central institutions of macroeconomic management, particularly in the field of fiscal policy and expenditure control, implementation of a tax reform, development of the National Bank of Cambodia into a more independent central bank, introduction of new instruments of monetary management and strengthened bank supervision.

The clearance of Cambodia's arrears to the IMF was facilitated through the provision of grants by members of a Support Group co-chaired by France and Japan. Moreover, Cambodia's program of reconstruction and economic reform is being supported by a broad range of bilateral and multilateral donors, under the auspices of the International Committee for the Reconstruction of Cambodia (ICORC).