EXECUTIVE BOARD MEETING

SM/18/264

November 8, 2018

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Cambodia—Staff Report for the 2018 Article IV Consultation**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, November 28, 2018**
Publication:	Not yet decided*
Questions:	Mr. Turunen, APD (ext. 36662)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Friday, November 16, 2018—WTO After Board Consideration—Asian Development Bank, Asian Infrastructure Investment Bank

***At the time of circulation of this paper to the Board, the authorities have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent.**

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

November 6, 2018

KEY ISSUES

Context. Cambodia has made significant progress towards the Sustainable Development Goals (SDGs) due to years of impressive economic growth and reforms. Income growth has outpaced peers, poverty has declined, and the economy has begun to gradually diversify. At the same time, elevated financial sector vulnerabilities, development spending needs, and governance weaknesses pose challenges for further advancing sustainable growth and development.

Policy Priorities.

- **Safeguarding fiscal sustainability.** Spending pressures should be contained and priority given to growth-enhancing infrastructure and development spending. Sustaining revenues will require modernizing revenue administration and policies to improve efficiency and equity. Managing risks from contingent liabilities calls for limiting public guarantees and strengthening the institutional framework for Public-Private Partnerships (PPPs).

- **Managing macro-financial risks.** Building on progress made, further measures are needed to address elevated financial sector vulnerabilities, especially in the real estate sector. This includes effective implementation of past measures, further targeted prudential measures, such as raising risk weights for real-estate lending, introducing a crisis management framework with a deposit insurance scheme, and continued upgrading of regulation and supervision. Promoting further financial market development and encouraging local currency use would increase resilience.

- **Supporting inclusive growth.** Continued structural reforms are needed to increase competitiveness, encourage diversification and expand financial inclusion. There is also room for fiscal policies to better support inclusion, through shifting taxes towards progressive revenue sources and re-orienting expenditure towards priority infrastructure, and health and education spending.

- **Addressing governance vulnerabilities and corruption.** Fiscal governance should be further strengthened through reforms to revenue administration, public financial management and procurement focused on increasing spending efficiency, improving transparency and reducing opportunities for corruption. Additional efforts are also needed to improve the regulatory environment, strengthen the rule of law and push ahead with anti-corruption agenda.

Approved By
Markus Rodlauer and Yan Sun

Discussions took place September 19–October 2, 2018. The mission team comprised Jarkko Turunen (head), Sohrab Rafiq, David Corvino and Niels-Jakob Hansen (all APD), Alice French and Kathleen Kao (LEG), Yong Sarah Zhou (Resident Representative), Matanee Satraphai (CDOT) and Lisa Uemae (OAP). Markus Rodlauer (APD) participated in the opening meetings. Juda Agung and Phong Pham (both OED) participated in some meetings. Albe Gjonbalaj and Ross Rattanasena assisted in the preparation of this report.

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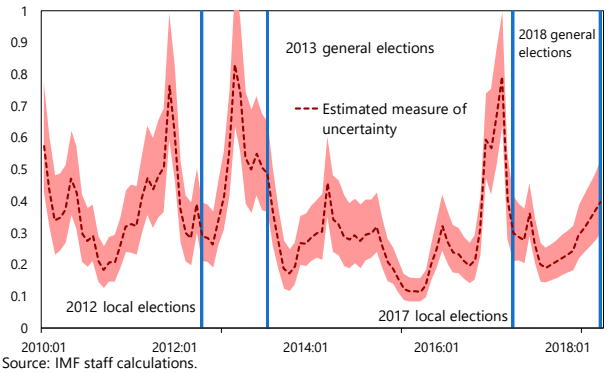
APPENDICES

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. Economic developments. Real GDP is projected to grow at 7¼ percent in 2018 due to strong external demand and expansionary fiscal policies while inflation is expected to remain at around 2½ percent. Strong economic performance is broad-based, with garment exports, tourism and the construction sectors growing at robust rates. Higher imports, including imports of construction materials, are expected to contribute to a widening of the current account deficit to around 10 percent of GDP in 2018. Gross international reserves are expected to increase to around US$9.6 billion (5 months of prospective imports) at end-2018. Bank credit is expected to grow by around 20 percent in 2018, with micro-finance institution (MFI) credit expanding at an even higher rate, resulting in a credit-to-GDP gap that is conservatively estimated at close to 10 percentage points.

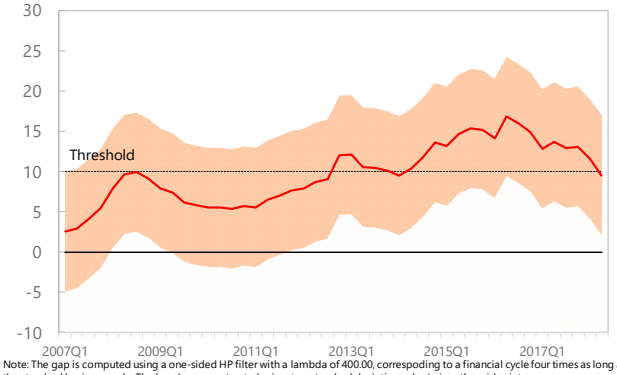
Cambodia: Economic Uncertainty Index
(Index)



Source: IMF staff calculations.
Note: Uncertainty is estimated by measuring the shared volatlity from a common component of real and financial sector variables, and is theoretically linked to firms' inability to form predictions on the economy

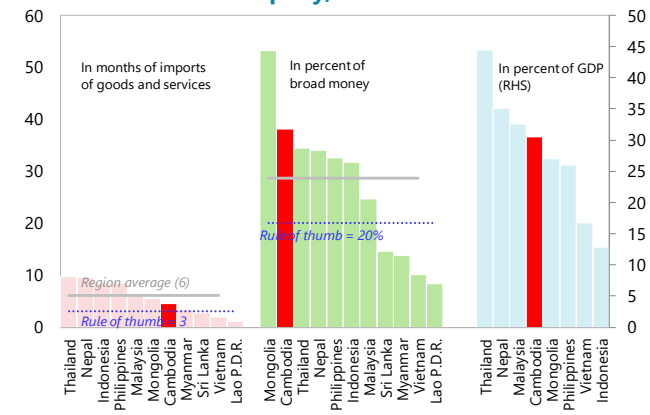
2. Fiscal developments. Fiscal performance in 2017 was considerably stronger than anticipated with a deficit of 1.1 percent of GDP compared to 3.9 percent in the budget law. Tax revenues grew 26 percent in nominal terms, with revenue overperformance partly due to one-off factors. Wage spending grew to more than 7 percent of GDP as the government fulfilled its election promise of raising public wages. The fiscal stance turned expansionary in 2018. Both current and capital expenditure are expected to increase, while tax revenue is expected to grow by only 0.1 percent of GDP, reflecting VAT exemptions and import tariff reductions for fuel and basic foods. As a result, the deficit is expected to widen to 2.2 percent of GDP, resulting in lower government deposits.

Cambodia: Credit to GDP Gap
(In percentage points)



Note: The gap is computed using a one-sided HP filter with a lambda of 400.00, correspoding to a financial cycle four times as long as the standard business cycle. The bands are constructed using two standard deviations plus/minus the midpoint.
Source: IMF Staff calculation.

3. External sector assessment. The external position is assessed to be moderately weaker than implied by fundamentals and desirable policies. This calls for policies to consolidate the fiscal position, diversify export markets and improve productivity and competitiveness. The Assessing Reserve Adequacy tool for credit constrained economies suggests a level of reserves of about 3½ months of prospective imports, below the current level. While reserves appear adequate when measured against traditional metrics, further reserve accumulation is welcome given the managed exchange rate regime, high dollarization, and elevated financial vulnerabilities.



Sources: IFS; WEO; National authorities; and IMF staff calculations.

4. Outlook. Growth is expected to remain around 7 percent over the next few years and inflation to remain subdued. Growth is then projected to moderate towards potential, estimated at around 6 percent, due in part to moderating domestic credit and real-estate cycles in the context of tighter global financial conditions. Economic activity is expected to become driven more by exports and tourism, narrowing the current account deficit. Strong near-term economic performance provides a window of opportunity for necessary structural and governance reforms that would help sustain medium term growth closer to the government's target of 7 percent (Box 1).

5. Downside Risks.

- **Domestic.** Credit growth remains strong, and increasing concentration in the real estate sector and unregulated lending by real estate developers, as well as concerns about credit quality, external funding, and growing systemic importance of MFIs, pose risks to financial and macroeconomic stability. Fiscal spending pressures and the materialization of contingent liabilities risk eroding policy space to respond to unexpected events over the medium-term. Large minimum wage increases could further erode competitiveness.

- **External.** Significant downside risks include spillovers from global rise in protectionism or trade sanctions stemming from international concerns about political developments, which could hamper exports and foreign direct investment, and dent confidence. The negative impact of higher U.S. trade tariffs on China could be mitigated by trade diversion which could see further garment-related FDI inflows. Weaker than expected growth in China would have significant negative spillovers through FDI, banking, and tourism channels. A growth slowdown in advanced economies or stronger-than-expected U.S. dollar could reduce garments exports and tourism.

Sharper than expected global financial tightening and disruptions in correspondent banking could heighten liquidity risks.

Authorities' Views.

6. There was broad agreement on the macroeconomic outlook and risks. The authorities aim to sustain growth at 7 percent. While agreeing on the need for structural reforms to achieve that goal, authorities argued that large infrastructure projects in the pipeline would boost growth. They emphasized efforts to mitigate the buildup of financial vulnerabilities and remain cognizant of growing risks from a tightening in global financial conditions, weaker than expected global growth and a further deterioration in China-U.S. trade relations.

SAFEGUARDING FISCAL SUSTAINABILITY

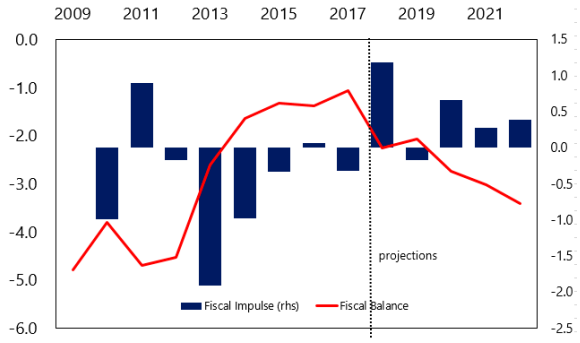
7. **Preliminary 2019 budget.** Following expansionary policies this year, the authorities' preliminary budget is geared towards welcome current spending restraint. The government plans to target a budget deficit of 3.3 percent of GDP, which is around 1.5 percentage points lower than the 2018 budget law. The preliminary budget envisages an increase in tax revenues compared to the 2018 budget law, partly driven by higher property tax revenues as property prices are reassessed for

Cambodia: Policy Recommendations to Safeguard Fiscal Sustainability

Priority	Policy Objective	Short-term	Medium-term
High	*Tax policy modernization*	Reforming property taxes, tax incentives, and excise taxes Initiate preparations for PIT reform	
	Improving Governance	Modernize revenue administration Reform governance of tax incentives Reform public procurement regime Continuing PFM reforms	
	Manage contingent liabilities	Finalize medium-term debt strategy	Strengthen the institutional and legal framework for managing PPPs
	Develop medium-term fiscal objectives	Develop a fiscal policy anchor based on a debt ceiling	Integrate current and capital budgets Introduce ministerial budget ceilings
Medium	*Promote growth and inclusion*	Accelerate implementation of IDP Increase capital, health and education spending	Increase the share of direct taxes in total tax revenues

tax purposes, although it does not fully account for expected revenue overperformance this year. The preliminary budget also shows a small decline in current spending, with public wages expected to grow in line with nominal GDP, and a reallocation of spending towards health and education sectors, while capital spending is expected to remain constant as a share of GDP.

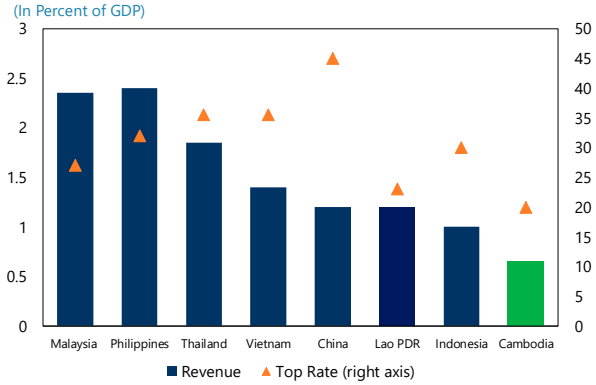
Cambodia: Budget Balance and Fiscsal Impulse
(In Percent of GDP)



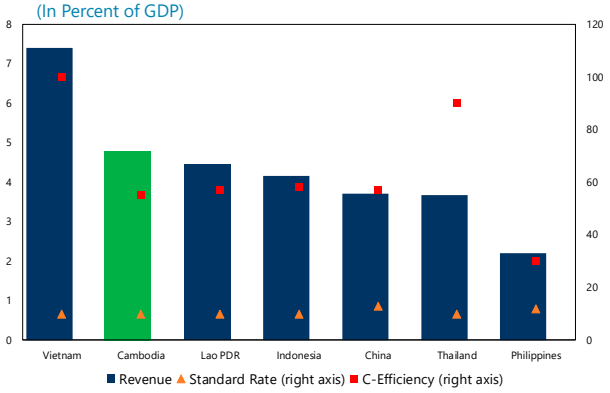
Source: IMF staff estimates and authorities' data.

Cambodia: Room to Improve Tax Revenue Performance

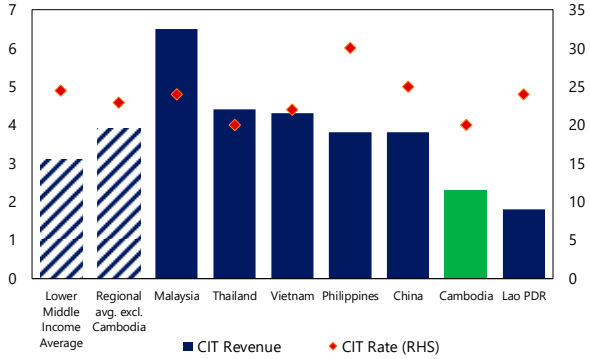
PIT Revenues and Top Rates
(In Percent of GDP)



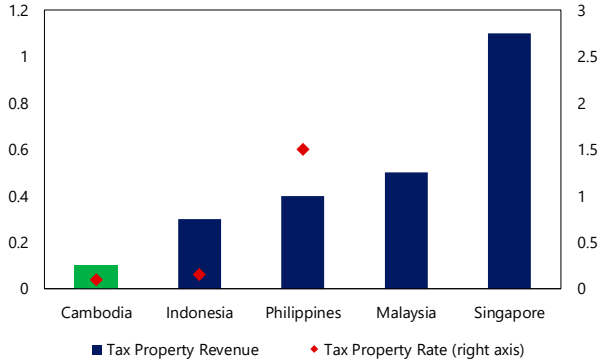
VAT Rates, Revenues and C-Efficiencies
(In Percent of GDP)



Corporate Income Tax Revenues
(In Percent of GDP)



Cambodia: Recurrent Property Tax Revenues
(In Percent of GDP)



Sources: Authorities data; OECD and IMF Staff estimates.

8. Medium-term fiscal pressures. Although risks to fiscal sustainability remain contained in the short-term, they are expected to grow over the medium-term. Absent tax policy reforms, revenue growth is expected to slow as past revenue mobilization reforms mature. International trade taxes are projected to decline as import tariffs are reduced and grants are to fall as the middle-income status is solidified. To help support growth and sustainable development, in line with the authorities National Social Protection Policy Framework (SPPF), the composition of public spending should be re-orientated towards infrastructure and development spending. These developments will place a greater burden on domestic financing, with government deposits projected to decline to around 7 percent of GDP – close to the estimated floor at 6.5 percent.

9. Policy Recommendations.

- **Restraining current spending.** Further wage increases should be contingent on maintaining adequate fiscal buffers and supported by on-going public administration reforms. Balancing the goals of fiscal sustainability and civil service salaries will require careful targeting of pay increases to priority functions and good performers.
- **Raising revenues, while making taxes more efficient and progressive.** The authorities are formulating a new Revenue Mobilization Strategy (RMS), which should aim to sustain revenue growth by reforming tax policies to improve their efficiency and equity and modernizing revenue administration, in line with Fund TA recommendations.[1]
    - ***Real-estate taxes.*** Gradually raise the (inherently progressive) recurrent property tax rate from current 0.1 percent, a low level by regional standards; re-assess property values for tax purposes; and introduce regulations for valuations to be reassessed at least every 5 years. Reforms should also widen the base and enhance transparency and compliance.
    - ***Corporate and personal income taxes.*** Abolish the corporate income tax holiday for new investments while maintaining the statutory corporate tax rate at 20 percent; reduce the withholding tax rate for repatriated dividends to 10 percent; abolish or reduce customs tariffs on intermediate goods; and ensure timely VAT refunds. Eliminate the patent tax, remove notches in the business tax scale between small and medium-sized enterprises, and implement a simplified tax on micro firms. Initiate preparations for introducing a comprehensive personal income tax regime over the medium term.
    - ***Other tax policies.*** Replace ad valorem by specific excises for tobacco, fuels and beer and adjust them with inflation; abolish the lighting tax; and consider introducing/raising excises on luxury goods. Assess tax implications of e-commerce activity and prepare a reform plan for the adoption of VAT on e-commerce.
- ***Introducing a medium-term fiscal framework (MTFF).*** The authorities are making progress towards introducing a MTFF, which should include a debt-based medium-term fiscal ceiling at about 40 percent of GDP (Box 2). The authorities should integrate the MTFF into the budget

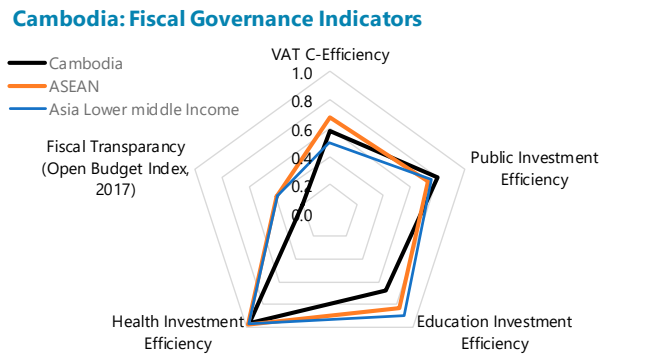
[1] For tax administration, see IMF Fiscal Affairs Department (2018), 'Cambodia: Tax Administration Modernization Priorities 2019–23'.

process and develop a medium-term budgetary framework that uses macro-fiscal forecasts as a guide, sets ministerial ceilings and eradicates dual budgeting.

- ***Supporting inclusive growth.*** Re-orient expenditures toward priority infrastructure investment, as well as health and education, while ensuring gains in spending efficiency. Financing additional infrastructure spending needed to address gaps through a higher real estate tax would boost growth while reducing income inequality (Box 3).

10. Managing public debt and contingent liabilities. Public debt is currently low at just over 30 percent of GDP. While external loans and the share of PPPs in public investment are expected to increase, Cambodia remains at low risk of debt distress. Risks stem from the materialization of contingent liabilities as well as export and growth shocks. The authorities are developing a public debt management strategy (PDMS) which should call for prioritizing access to concessional and semi-concessional financing and rely on borrowing from international markets on commercial terms only if confronted with shocks that exceed available buffers. Better managing contingent liabilities calls for developing a risk management framework that limits the present value of guaranteed payments, strengthens the institutional framework for PPPs by introducing a formal gateway process and ensuring that PPPs are subject to the same planning process as other public investment projects and ensures that the Ministry of Economy and Finance (MEF) and the National Bank of Cambodia (NBC) work jointly to monitor contingent liabilities from PPPs and the financial system.

11. Fiscal governance. Progress has been made in revenue administration and public financial management (PFM), including through increased use of automation. Development of the new financial management information system should improve coverage, quality, integrity and timeliness of fiscal reporting. However, there is room to further improve collection performance, increase spending efficiency and reduce opportunities for corruption. Fiscal transparency has improved but remains below regional peers.



Sources: International Budget Partnership and; IMF staff calculations.

12. Policy Recommendations. Fiscal governance should be further improved, in line with Fund TA recommendations.

- **Tax administration.** Governance could be strengthened through review of the staff incentive scheme for tax collections, further development of the internal audit capacity, review of the dispute resolution system to ensure independence, and publication of outcomes, while maintaining taxpayer confidentiality, and institutional improvements, including planning, performance and HR management, and IT systems.

- **Customs administration.** Rigorous implementation of the planned Customs Integrity Program, with supporting institutional improvements in line with the new strategy and advancing automation of the declaration processing system, including through the national single window, would improve compliance, transparency and governance.

- **Tax incentives.** Introducing a tax expenditure budget, unifying all aspects of granting and administering tax incentives, consolidating the legal basis for all tax incentives in the tax law, and the MEF coordinating policy would improve monitoring and transparency.

- **PFM.** Ensure adequate monitoring, transparency, and audit in public procurement management to strengthen procurement processes. Transparency can be enhanced by publishing timely procurement information and a comprehensive report on government procurements. Strengthening expenditure controls can help reduce payment arrears and spending inefficiencies. Improving fiscal reporting via strong accounting standards and processes and completing coverage (to include expenditures funded by official development assistance and through extra-budgetary funds) would enhance transparency. The automation process provides an opportunity to re-engineer business processes.

Authorities' Views.

13. The authorities broadly agreed with staff's assessment and recommendations. Following fiscal expansion this year, the 2019 budget law is geared towards consolidating by restraining current spending. To meet future spending needs while safeguarding fiscal buffers the authorities aim to raise revenues from direct taxes, including from property taxes and place greater emphasis in the new RMS (2019–2023) on reforming tax policies. The authorities are preparing a three-year spending plan that will form the basis of a Medium-Term Budget Framework that will enhance expenditure control. The new PDMS (2019–2023) is expected to remain conservative in external borrowing and help contain contingent liabilities. The authorities are also working to enhance fiscal governance including reforming the tax tribunal to sharpen the appeals process, increasing tax auditing capacity and strengthening e-filing and cross-checking for tax returns, and finalizing procurement reform plans.

MANAGING MACRO-FINANCIAL RISKS

14. **Elevated financial sector vulnerabilities.** The bank credit-to-GDP gap is expected to remain close to the BIS threshold of 10 percentage points. While banks' capital adequacy has increased, vulnerabilities remain. Financial institutions continue to draw on external funding, suggesting liquidity risks as global financial conditions tighten, with the average loan-to-deposit ratio at around 100 percent in June 2018. Bank profitability has declined as interest margins have fallen and non-performing loans edged up. The true level of non-performing loans may still be understated. Risks to the banking system have also grown from increasing household and corporate leverage. Despite the interest rate cap, which has increased the average loan size and may have pushed some borrowers to

the informal sector (Box 4), MFI credit growth remains high at above 30 percent, adding to easy credit conditions.

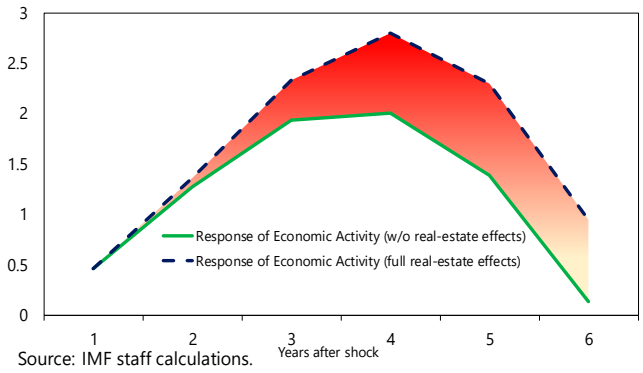
Cambodia: Selected Financial Soundness Indicators (FSIs), 2011–18
(In Percent)

	2011	2012	2013	2014	2015	2016	2017	2018 June
Capital Adequacy								
Regulatory capital to risk-weighted assets	25.2	24.2	23.4	20.4	20.3	20.9	21.9	22.5
Tier 1 capital to total assets	16.4	15.4	17.4	13.8	13.8	13.7	14.0	15.3
Asset Quality								
Nonperforming loans to total gross loans	2.3	2.2	2.3	1.6	1.6	2.1	2.1	2.4
Earnings and Profitability								
Return on equity 1/	11.4	11.8	12.1	15.5	16.3	14.5	8.7	5.8
Return on assets 1/	2.4	2.3	2.4	2.9	2.9	2.5	1.5	1.0
Interest margin to gross income	63.8	66.5	68.6	72.9	63.1	65.3	61.0	58.2
Liquidity								
Liquid assets to total assets	16.1	15.3	17.9	16.2	16.6	15.8	15.8	16.4
Liquid assets to short-term liabilities	21.7	20.3	24.2	23.1	25.4	24.3	24.9	25.7
Customer deposits to total (Non-interbank) loans	122.5	117.3	104.9	96.2	89.3	93.3	96.1	100.7
Sensitivity to Market Risk								
Net open position in foreign exchange to capital	3.6	2.7	8.5	4.1	3.6	2.6	2.5	2.9

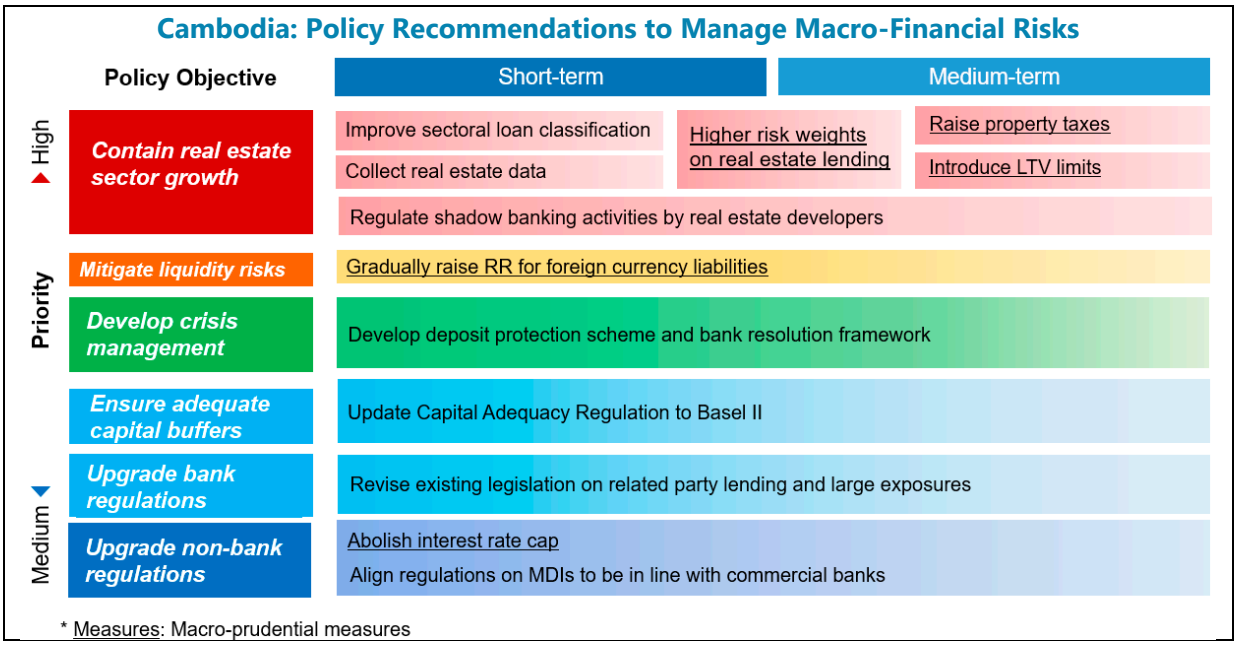
Source: IMF Financial Soundness Indicators.
1/ Annualized.

15. Real-estate sector risks. Capital continues to flow into the construction sector driven by regional investors and strong demand for residential and retail space. Significant data gaps, including on property prices, complicate the assessment of risks. There is anecdotal evidence that growing oversupply is dampening prices of high-end apartments, while, given the segmented nature of the market, property prices for retail and residential properties remain robust. As a result, affordability of residential housing is being eroded. Credit growth to the real-estate sector, a key transmission channel linking credit and economic growth, has averaged around 35 percent since 2016, driven by few banks. Further heightening risks, real-estate developers are reportedly offering mortgages with looser lending conditions, an activity that remains unmonitored and unregulated.

Cambodia: Response of Economic Activity to Credit Shock: With and Without Real-Estate Effects
(In Percent)



Source: IMF staff calculations.



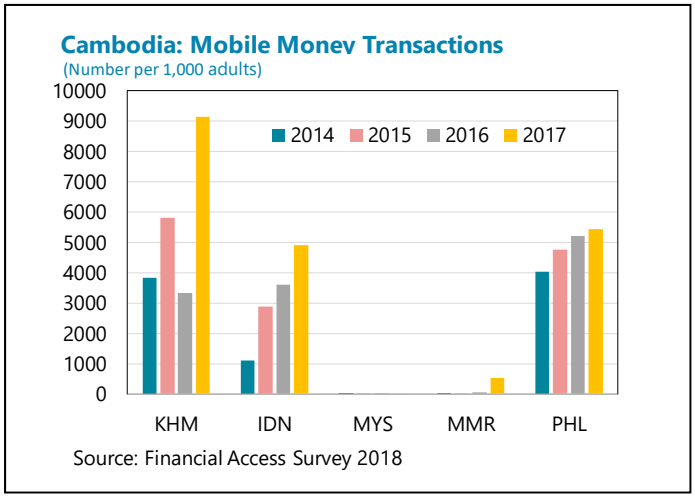
16. Policy Recommendations. The authorities are taking welcome steps to safeguard financial stability. These include phased implementation of a capital conservation buffer, introduction of a liquidity risk management framework, improvements in banks' loan classification and revisions to provisioning rules, to be implemented by 2019, when all banks should comply with International Financial Reporting Standards. Nevertheless, given the still elevated risks, additional prompt macroprudential action is needed.

- ***Moderating the credit cycle.*** Priority should be given to targeted measures, such as raising risk weights for real-estate related lending commensurate with the banks' risk profiles. Raising reserve requirements (RR) on foreign exchange liabilities, including for MFIs', would increase the liquidity cushion and help promote local currency use.
- ***Policies to address real-estate sector risks***. Better monitoring of real-estate sector developments requires strengthening reporting requirements for construction activity and sales. Lending by real-estate developers should be monitored and regulated in line with other non-bank credit providers and bank exposure contained. Authorities should also consider tightening new construction project licenses, apply stricter monitoring of official bank guarantees and raise the minimum capital to be deposited in a local bank by developers. Introducing and enforcing an aggregate loan-to-value limit would help ensure prudent mortgage lending standards. The authorities should develop guidelines that result in an industry-wide standardization of real-estate valuations and finalize and publish a real-estate price index. Property tax reform, including a phased increase in recurrent property tax rate, could help stabilize real estate prices over the cycle and improve transparency and governance of real-estate markets. Finally, the framework for household and corporate debt restructuring should be reviewed to improve loan recovery rates and thus minimize balance-sheet disruptions should real-estate sector risks materialize.

- ***Enhancing regulation and supervision.*** Supervisory capacity remains stretched and the NBC should consider limiting new banking licenses until capacity is sufficiently scaled up. The authorities should finalize and implement regulations on related-party lending and large exposures to align them with international best practice and conduct regular validation exercises to ensure accurate reporting. Capital adequacy regulations for risk weight calculations need to be upgraded to ensure adequate capital buffers. The MFI interest rate cap should be phased out, and MFI sectoral loan classification aligned with that for banks. Unhedged exchange rate risk exposures should be closely monitored.
- ***Introducing a comprehensive crisis management framework***. To better coordinate policies across government agencies and improve information sharing, the authorities need to finalize the establishment of the national Financial Stability Committee. To help mitigate liquidity risks and bolster confidence, progress on introducing a deposit insurance scheme and a bank resolution framework should be expedited.

17. Addressing shortcomings in the AML/CFT regime. Financial risks also stem from shortcomings in the AML/CFT regime. These were highlighted by the 2017 assessment by the Asia Pacific Group on Money Laundering (APG), including relating to AML/CFT supervision and implementation of preventative measures by reporting entities. While the Financial Intelligence Unit (FIU) has recently commenced risk-based AML/CFT supervision of banks and is building capacity, supervision of the real estate sector for money laundering risk has not yet taken place. Policies need to address shortcomings identified by the APG and demonstrate progress, in line with Fund TA recommendations, to avoid public Financial Action Task Force (FATF) listing. Authorities should also take steps to address the possible impact of public listing on correspondent banking relationships, which could constrain private transfers.

18. Exchange rate policy and financial development. The exchange rate regime is appropriate given the still high level of financial dollarization. To increase Riel use, in line with past Fund advice, the authorities should gradually increase the reserve requirement on foreign exchange liabilities, require all future government payment transactions to be based in Riel, and adopt market-based measures to encourage de-dollarization. Progress has been made in introducing capital markets, including for corporate bonds, and the authorities should continue to develop equity markets and introduce government bond markets. The use of financial technology has grown rapidly and is centered around mobile payments driven by demand for low-cost payment services, particularly in rural areas (Box 5). The NBC is also exploring use of Distributed Ledger Technology for interbank settlements. The rapid growth of financial technology



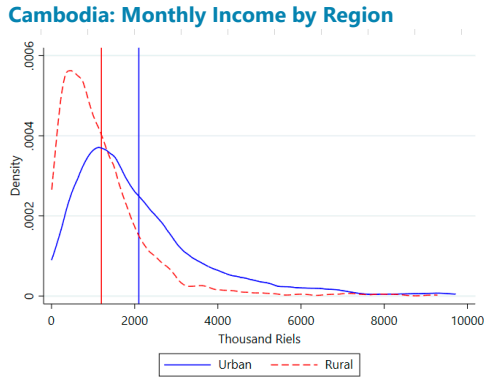
requires close monitoring to ensure that regulation keeps up with evolving best international practice.

Authorities' Views.

19. The authorities broadly agreed with staff recommendations, including the need to better monitor real estate sector risks. They aim to encourage first-time home buyers and stated that bank lending standards remained prudent, but were aware of the risks posed by growing mortgage lending and lending by real-estate developers. The authorities are preparing legislation to improve monitoring and regulation of real-estate sector activity. External funding consists mainly of longer-term funding from parent banks (to banks) and from financial institutions with development purposes (to MFIs), thus mitigating liquidity risks. The authorities emphasized their efforts to comply with the international standard, including by building FIU capacity and improving AML/CFT supervision of banks to address risks from potential FATF listing. The NBC has made significant efforts to promote local currency use and financial literacy and will continue to monitor the impact of the interest rate cap on MFIs.

REFORMS TO SUPPORT SUSTAINABLE DEVELOPMENT

20. Strong income growth and poverty reduction. Real GDP per capita growth has outpaced the ASEAN average over the last two decades. Shift towards garments manufacturing and improvements in labor productivity have led to higher wages and income. Cambodia is close to eradicating absolute poverty, with absolute poverty declining to only 2 percent, although a significant share of the population still lives just above the poverty line. Health and education outcomes have also improved. Despite impressive poverty reduction and gains in human development, inequalities remain. For example, households in rural areas (close to 80 percent of the population), on average, have 40 percent less disposable income than households in urban areas.



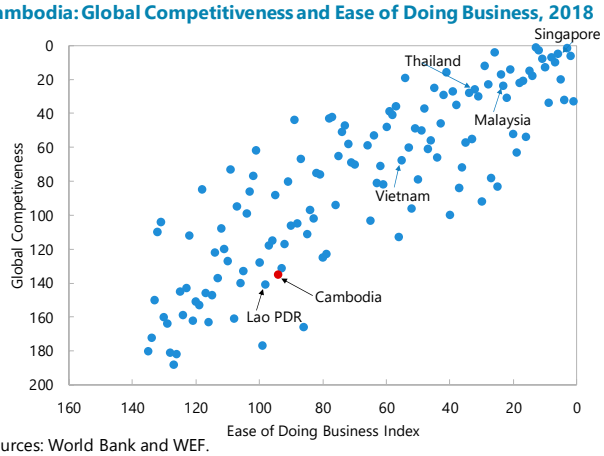
Source: Cambodian Household Survey 2015; IMF staff calculations.
Note: Average household income is 1200 (rural) and 2100 (urban) thousand Riels.

21. Structural constraints. Despite this success, structural constraints to potential growth remain, including a narrow economic base, weak business climate, and underdeveloped financial markets. Despite some diversification, the export base continues to be narrow and relies on low-value added garments. Total factor productivity (TFP) growth has fallen over recent years. Firms face a challenging regulatory environment, particularly in starting a business and contract enforcement, resulting in an inefficient allocation of production factors and widespread informality.

22. Policy Recommendations.

- **Reforms to promote inclusive growth.** Structural reforms are needed to increase competitiveness and encourage diversification. Priorities include reducing energy costs and improving reliability, enhancing transportation links, and addressing skills gaps via improving the quality of education and promoting technical and vocational training. There is also room for fiscal policies to better support inclusion, through shifting tax policies toward more progressive revenue sources and increasing spending on infrastructure, while improving spending efficiency.

Cambodia: Global Competitiveness and Ease of Doing Business, 2018

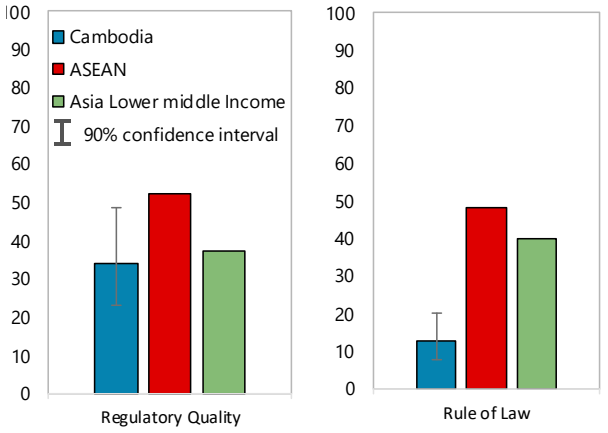


Sources: World Bank and WEF.

- **Making further progress towards SDGs.** Policies should focus on expanding economic opportunities and sustainable development by improving economic and social infrastructure, particularly in rural areas; improving health and education outcomes and social protection in line with the NSPPF and promoting higher productivity in the agricultural sector. Increased use of financial technology, further developing financial infrastructure and improving financial literacy can help expand inclusion.

Cambodia: Selected Governance Indicators, 2016 [1]

(Rank, from 0 to 100)



Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2017.

[1] Use of these indicators should be considered carefully, as they are derived from perceptions-based data. Ranges are for a 90 percent confidence interval. Confidence intervals for peer group averages are negligible.

- **Improving the regulatory environment and rule of law.** Reducing the cost of setting up and operating businesses would support job creation and small and medium-sized enterprise (SME) growth. Timely VAT refunds could help relieve SME financing constraints. Finalizing a competition law could help protect the economy from harmful anti-competitive practices, improve private sector efficiency and boost the establishment of new businesses. Policies should also focus on strengthening the rule of law, including completion of systematic land registration and introducing a commercial court.

23. Strengthening anti-corruption efforts. While there are data gaps, available evidence, based in part on perceptions-based indicators, points to significant governance and corruption vulnerabilities. The government has taken steps to strengthen anti-corruption efforts, but further advances are required. The Anti-Corruption Unit is focused on raising awareness, prevention and investigating corruption cases. Further efforts could aim to improve the effectiveness, transparency, and operational independence of anti-corruption institutions and strengthen the anti-corruption framework, including by better protecting whistleblowers. Policies also need to address shortcomings in the AML/CFT regime, including by introducing due diligence measures for domestic politically exposed persons.

Authorities' Views.

24. The authorities emphasized efforts to improve the business environment, including lowering energy costs through greater power generation capacity and reduced tariffs on energy imports, and lowering logistic costs by investment to help close infrastructure bottlenecks. The authorities plan to set up an SME bank and entrepreneurship fund to promote SMEs. They are also raising spending on health and education to meet their goals in the SPPF. To foster a level playing field for firms and reduce informality, the authorities are working on simplifying the tax system and developing a competition law. They emphasized that reducing corruption is a strategic priority for the new government and noted progress that has been made in prevention and improving public service delivery. They noted that they are committed to strengthening property rights, including by continuing with the systematic land registration process.

STAFF APPRAISAL

25. Economic outlook and risks. Economic activity is projected to remain robust, supported by stronger manufacturing exports, construction and tourism activity. Growth is expected to decline somewhat over the medium term owing to moderation in credit and real estate cycles and challenges in improving economic diversification and competitiveness. The external position is assessed to be moderately weaker than the level consistent with fundamentals and desirable policies. The outlook is subject to downside risks, including those stemming from elevated financial sector vulnerabilities, as well as external risks related to tighter global financial conditions, international trade sanctions, and spillovers from global rise in protectionism.

26. Fiscal policies. Following expansionary policies this year, the authorities' plans for current spending restraint in 2019 are welcome. Policies could nevertheless do more to safeguard fiscal sustainability and support inclusion, including through shifting the tax burden to more progressive direct revenue sources and re-orientating expenditures towards priority infrastructure investment, and health and education spending. The new Revenue Mobilization Strategy should focus on modernizing revenue administration and policies to improve the efficiency and equity of the tax system. Public wage increases should better balance pay incentives and fiscal sustainability, while institutionalizing a Medium Term Fiscal Framework would help safeguard infrastructure and

development spending over the medium-term. The authorities are also encouraged to strengthen the PPP framework to better manage fiscal costs and risks.

27. Macro-financial policies. Credit growth remains strong and is increasingly concentrated in the construction and real estate sectors. Further policy measures are needed to address elevated financial sector vulnerabilities. This includes effective implementation of past measures, further targeted prudential measures, such as raising risk weights for real-estate lending, introducing a crisis management framework with a deposit insurance scheme, and continued upgrading of regulation and supervision. Addressing risks stemming from the real-estate sector calls for a broad policy response, including strengthening monitoring and regulation and phased increases in property taxes. Policies also need to address gaps in the AML/CFT regime, along with pre-emptive steps to address any impact on correspondent banking relationships from possible FATF public listing. Promoting further financial market development and encouraging local currency use would increase resilience. The increasing use of financial technology requires regulation and supervision to carefully balance financial innovation and financial stability.

28. Structural reforms. Cambodia has made significant progress towards the Sustainable Development Goals due to years of impressive economic growth and reforms. Income growth has outpaced peers, poverty has declined, and the economy has begun to gradually diversify. To entrench these gains and enhance productivity growth, the authorities should accelerate implementation of structural reforms aimed at supporting inclusive growth. Priorities include reducing energy costs and improving reliability, enhancing transportation links, addressing skills gaps via improving the quality of education and promoting technical and vocational training and enhancing social protection policies. Using direct tax revenue gains, including from property taxation, to boost infrastructure spending would support growth and help reduce inequality. Finally, enhancing the regulatory environment would improve the business climate, encourage investment and reduce informality.

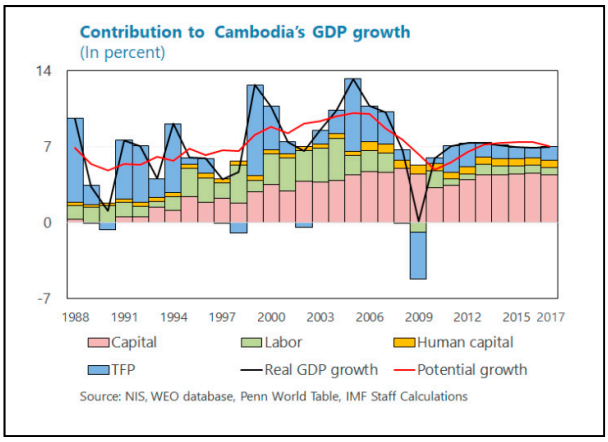
29. Governance and corruption. The authorities have made progress in addressing governance vulnerabilities, including improving fiscal governance through revenue administration and Public Financial Management reforms. Fiscal governance should be further strengthened through modernizing revenue administration, as well as public financial management and procurement reforms focused on increasing spending efficiency, improving transparency and reducing opportunities for corruption. Governance weaknesses also pose challenges for further advancing sustainable development. Improving the regulatory environment and strengthening the rule of law and property rights would improve private sector efficiency through higher investment, reduced informality and support job creation by boosting the establishment of new businesses. The government has taken steps to strengthen anti-corruption efforts, but further advances are needed to improve the anti-corruption framework and institutions and strengthen AML/CFT compliance.

30. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

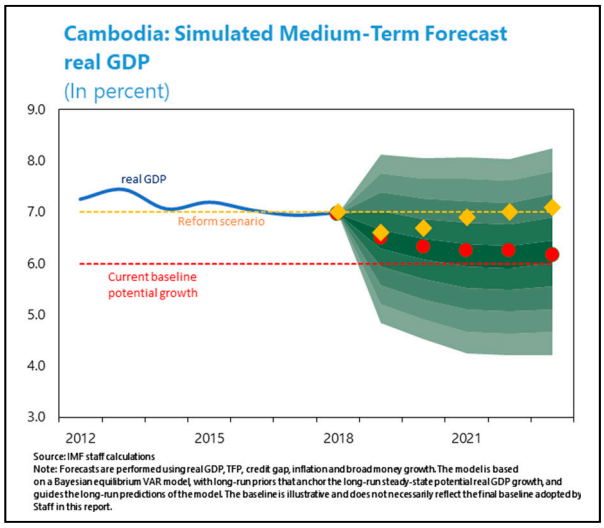
Box 1. Growth Drivers[1]

Growth accounting shows that recent impressive growth has been increasingly driven by capital and the contribution of total factor productivity has declined. Looking forward, absent structural reforms, growth is expected to moderate to around 6 percent over the medium-term.

Growth has become more capital-intensive. A growth accounting exercise shows that economic activity in the 1990s was driven mainly by increasing labor inputs and strong productivity growth, reflecting rapid growth in the labor-intensive garment industry. Since then there has been a transition to more capital-intensive growth, driven by FDI inflows and private and public investment coupled with a gradual decline in working-age population growth. At the same time, TFP growth, a leading indicator of private sector wage growth, has declined, reflecting ongoing challenges in improving competitiveness and diversification. Projecting these trends forward, and assuming credit and real-estate cycles moderate, will lead potential and real GDP growth to moderate to about 6 percent over the medium term.



Supply side reforms are required to sustain stronger growth. Policies should focus on reducing informality, ensuring minimum wage adjustments do not exceed productivity growth and improving the business climate. An alternative growth reform scenario which assumes higher TFP growth, driven by supply side reforms, could sustain real GDP growth closer to the authorities target of 7 percent.



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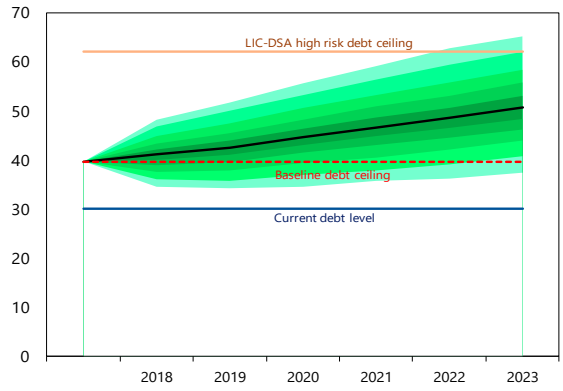
[1] Prepared by David Corvino, Sohrab Rafiq and Matanee Satraphai.

Box 2. Debt-Based Fiscal Anchor[1]

Introducing a fiscal anchor based on a medium-term debt ceiling would strengthen policy credibility and help guide near-term fiscal policy decisions. Simulations suggest a debt ceiling at around 40 percent of GDP.

A debt-based fiscal anchor can help guide policy. Establishing a MTFF will require introducing a formal fiscal anchor. Widening fiscal deficits and public debt in the medium-term and growing contingent liabilities mean that the authorities should consider moving to a debt-based anchor to guide fiscal policy. Thus far, the level of government deposits has provided an informal anchor for fiscal policy. Based on the typical financing shock and the level of current spending, the floor for government deposits is estimated at 6.5 percent of GDP. However, usefulness of the floor for government deposits as the anchor is limited by the fact that changes in government deposits do not fully reflect current fiscal developments. Many countries have instead included a debt ceiling as a fiscal anchor. A fiscal anchor based on a debt ceiling has several advantages: it provides a direct stabilizing component to fiscal policy, as there is a stable operational policy tool (fiscal deficit) that links to the debt ceiling objective (debt), and is more transparent and can be easily communicated.

Cambodia: Debt Anchor and Fiscal Risks
(In percent of GDP)



Source: IMF Staff estimates.

Simulations suggest a debt ceiling around 40 percent of GDP. The fiscal anchor is defined as the maximum prudent level of government debt, including both contractual liabilities and explicit future liabilities. A debt ceiling should also have a sufficient buffer so it can withstand unexpected shocks to the economy. Risks to public debt are calculated via a stochastic approach, and incorporates three sources of risk: fiscal policy shocks, reflecting expenditure slippages or revenue shortfalls; budget's sensitivity to macroeconomic and financial developments; and direct impact of macroeconomic shocks on debt dynamics.[2] The model estimates the maximum level of public debt that would keep debt, given estimated dynamics, below the high-risk debt distress threshold in the LIC-DSA in the event that tail-risk shocks materialize. The simulations also show that growing contingent liabilities or macro instability reduce available policy space to respond to macroeconomic events while preserving fiscal sustainability. Finally, operationalizing the fiscal anchor will require an appropriate operational target based on the fiscal deficit or spending rule, and should be supported by developing local capital markets and institutionalizing the MTFF.

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[1] Prepared by Sohrab Rafiq.

[2] Celasun, Debrun and Ostry, 2007, "Primary Surplus Behavior and Risks to Fiscal Sustainability in Emerging Market Countries: A Fan-Chart Approach", IMF Staff Papers, 53(3), 401.

Box 3. Advancing Inclusive Growth through Fiscal Reforms[1]

Model simulations suggest that an increase in public investment financed by higher taxes can boost output and reduce income inequality. GDP is increased most when the financing comes from a higher real estate tax, and inequality is reduced most when financed by higher real estate or wage taxation.

Higher infrastructure investments can help advance inclusive growth. Infrastructure gaps remain.[2] Closing these could help raise income especially in poorer rural areas by improving market access and factor mobility. We evaluate three options for financing a permanent increase in quality infrastructure by 0.5 percent of GDP.

- A general increase in the **real estate tax** from 0.1 to around 0.6 percent. A revaluation of property prices and improvements in revenue administration could reduce the necessary rate increase.
- An increase in the effective **VAT** rate of around 0.4 percentage point (e.g. by reducing exemptions).
- Raising revenue from **wage taxation** from its current low level of 1.0 percent of GDP to 1.5 percent.

Reforms can increase real GDP, while reducing income inequality. Reforms are evaluated using a calibrated general equilibrium model. The model features an urban and a rural sector, an uneven distribution of income, and a government sector.[3] The parameters are calibrated to match the Cambodian economy. The reforms could raise the level of GDP by up to 2.7 percent and reduce the Gini coefficient by up to 0.1 Gini points.[4] Output is boosted as better infrastructure raises productivity across all sectors. This impact is dented, however, through distortions introduced by higher taxation. The impact on growth is largest when investment is financed using the property tax, and smallest when financed through the wage tax. The improvement in income equality is driven by the financing choice and largest when financing is done via the property tax. The improvement in income inequality is also larger when investment is focused on in the poorer rural areas (as opposed to wealthier urban areas).

Reform Impact: The GDP Equality Trade-Off

Source: IMF Staff estimates.

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[1] Prepared by Albe Gjonbalaj and Niels-Jakob Hansen. See "Advancing Inclusive Growth in Cambodia", IMF working paper, (forthcoming).

[2] For example, the share of paved roads was only 10.5 percent in 2015 (World Development Indicators), which is low compared to neighboring countries.

[3] See "The Macroeconomic and Distributional Implications of Fiscal Consolidations in Low-income Countries" IMF Working Paper 18/146.

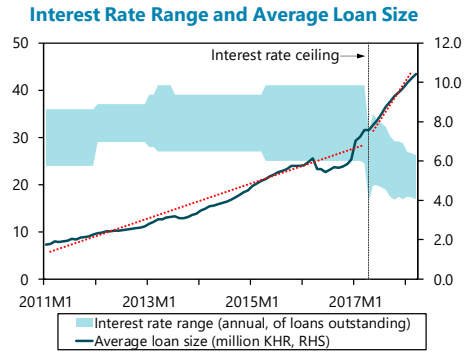
[4] The latest available Gini coefficient (2012), based on household consumption data, was 29 (Figure 5).

Box 4. Formal and Informal Finance[1]

While formal credit has supported poverty alleviation, informal credit can complicate exit from poverty given high borrowing costs and lack of consumer protection. The MFI interest rate ceiling can further encourage informal lending.

Formal and informal finance have different welfare impacts. While financial inclusion has improved, mainly driven by MFI credit, about 20 percent of the poor population continues to use informal credit (provided by private money lenders) (Global Findex 2014). Informal finance is often associated with higher costs and vulnerability to local shocks given its limited economies of scale and constrained resources. Cross-country analysis suggests that formal finance is associated with lower poverty, while the opposite holds for informal finance. In Cambodia's case, formal credit supports improved productivity, especially in the agricultural sector, and investment in human capital, thus contributing to poverty alleviation in rural areas. Informal credit can provide funding to those still excluded from formal markets and consumption smoothing in emergencies, but at higher interest rates and with less consumer protection.

The interest rate ceiling can push some borrowers to the informal sector. The interest rate ceiling at 18 percent on MFI lending, introduced in April 2017, was aimed at increasing access to low-cost financing and limiting household indebtedness. While the policy is expected to result in consolidation and improved efficiency in some MFIs, it can also lead to reduction in financial access, encourage informal borrowing and reduce transparency. Contraction in access to credit can be particularly salient in small-size loans, given their relatively high operational costs. Broadening access to low-cost credit warrants policies to reduce funding and operational costs, including through development of inter-bank markets and promoting the use of financial technology, and to improve financial literacy and consumer protection.



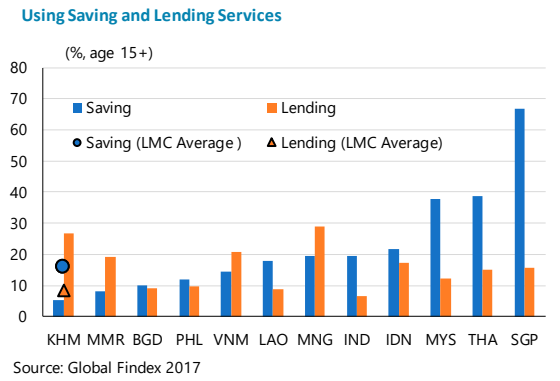
Source: National Bank of Cambodia; and IMF Staff calculations.
Note: Credit provided by NGO data is excluded since January 2017.

[1] Prepared by Tadaaki Ikoma and Jarkko Turunen. See: "Formal and Informal Finance: Impact on Poverty", IMF working paper, (forthcoming).

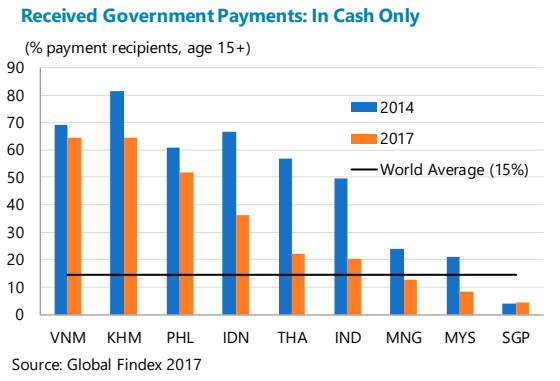
Box 5. Fintech and Financial Inclusion[1]

Fintech has encouraged financial inclusion by making financial services more accessible, primarily through an expansion of mobile payment services. Regulations need to balance innovation against mitigating new risks.

FinTech in Cambodia is centered around mobile payments. Mobile financial services have enabled domestic migrant workers to remit money to rural areas, replacing more costly and insecure informal channels. This acts to smooth rural consumption, with remittances acting as a form of insurance against shocks, and encourages greater local currency use.



Financial inclusion remains uneven with limited saving services, but very large credit saturation. Regionally, Cambodia has one of the highest rates of borrowing (around 27 percent of the adult population) despite few individuals having access to a formal savings account (around 5 percent). Expanding mobile money services beyond payments to savings and other financial services (including insurance) would further enhance financial inclusion. Digitalization of government payments could also lead to better targeting, reduction in leakages, and improvements in spending efficiency.



Regulations need to balance innovation and financial stability. The rapid growth of Fintech introduces new risks. Strong regulation of mobile banking is needed to ensure the nascent industry follows best international practice. The authorities oversight framework need consider clarity of the legal and regulatory regime, safeguarding funds, AML/CFT measures, and operational resilience. The authorities have developed regulations governing the licensing of mobile payment services providers and should continue to strengthen the legal framework, and fully adopt e-KYC and e-commerce consumer protection policies.

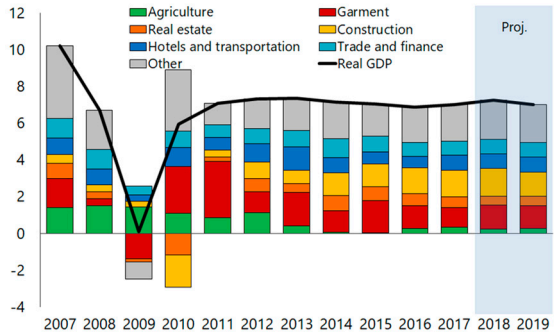
1/ Prepared by Lisa Uemae and Yong Sarah Zhou.

Figure 1. Cambodia: Robust Growth and Low Inflation

Economic growth remains strong supported by construction, garment, and trade and finance.

Contribution to Real GDP Growth

(In Percent)

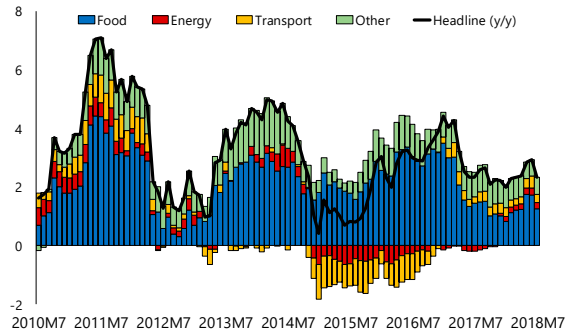


Sources: Cambodian authorities; and IMF staff estimates and calculations.

Inflation remains at low levels due to subdued food prices.

CPI Inflation: Contribution to Change

(In Percent)

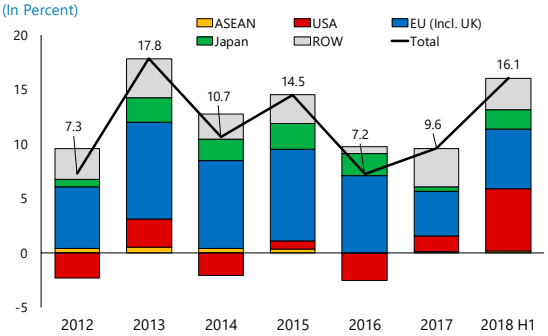


Sources: Cambodian authorities; and IMF staff calculations.

Garment exports have picked up with the EU and US remaining Cambodia's largest market.

Contribution to Garment Exports Growth by Region 1/

(In Percent)

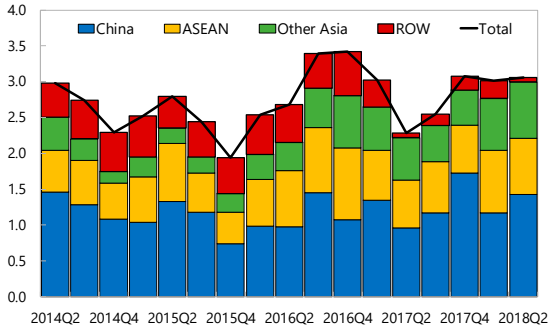


Sources: GDCE; and IMF staff calculations; H1 includes data for the first 6 months.
1/ Garment includes clothing, shoes and other textile.

China remains the largest investor in Cambodia….

FDI Inflow by Country

(In Percent of GDP; 4-quarter moving sum)

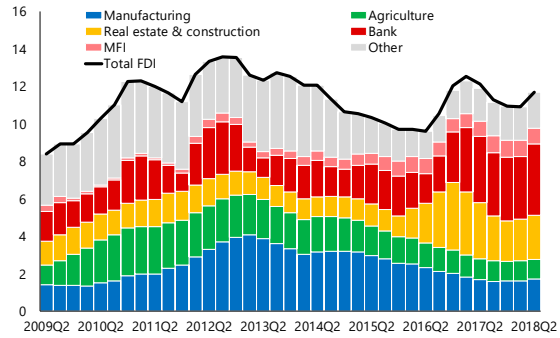


Sources: Cambodian authorities; and IMF staff calculations.

…with foreign investment concentrated primarily in the banking sector.

FDI Inflow by Sector

(In Percent of GDP; 4-quarter moving sum)

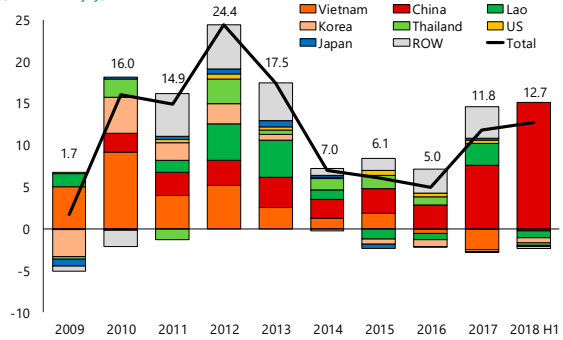


Sources: Cambodian authorities; and IMF staff calculations.

Higher tourist arrivals from China has provided support to tourism growth.

Contribution to Tourism Growth

(In Percent, y/y)

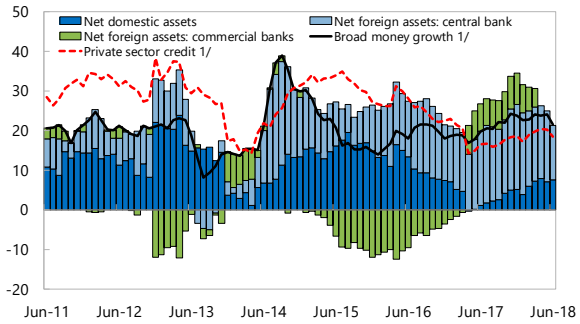


Sources: Cambodian authorities; and IMF staff calculations. H1 includes data for the first 6 months.

Figure 2. Cambodia: Elevated Financial Vulnerabilities

Broad money growth remained stable while Net Foreign Assets (NFA) in the banking sector improved…

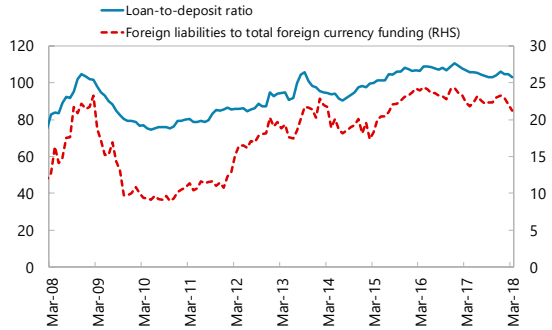
Monetary Developments
(In Percent of Broad Money)



Sources: Cambodian authorities; and IMF staff calculations.
1/ Year-on-year percent change.

….as reliance on external financing declined slightly.

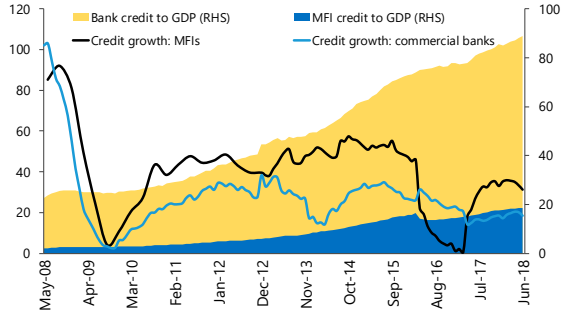
Foreign Liabilities to Total Foreign Funding
(In percent)



Sources: Cambodian authorities; and IMF staff calculations.

Credit-to-GDP ratio continues to rise…

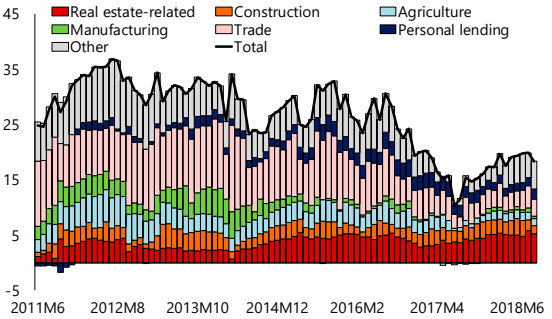
Private Sector Credit: MFIs and Commercial Banks
(In Percent)



Sources: NBC; and IMF staff calculations.

…and credit is concentrated in the real-estate sector.

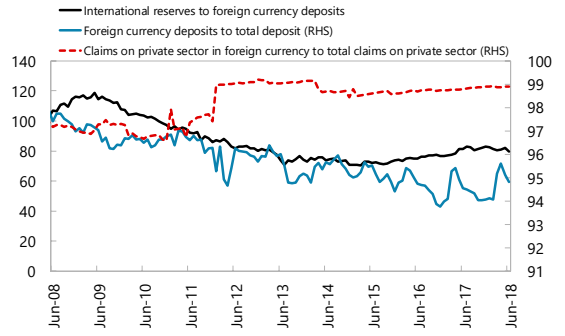
Contribution to Credit Growth
(In Percent, y/y)



Sources: NBC; and IMF staff calculations.

Cambodia's dollarization level remains high…

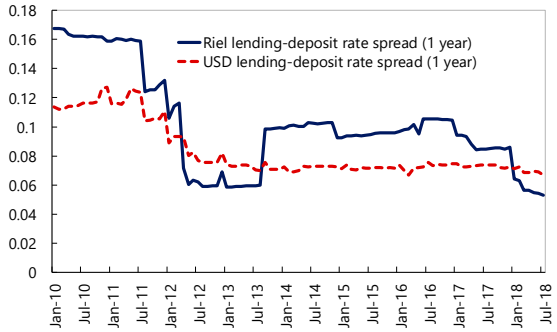
Dollarization
(In Percent)



Sources: Cambodian authorities; and IMF staff calculations.

…while Riel borrowing costs have fallen.

Lending-deposit Rate Spread
(In Percent)

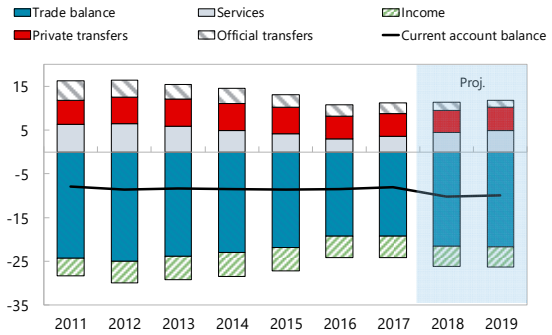


Sources: National Authorities

Figure 3. Cambodia: Stable External Position

The current account deficit widened slightly owing to higher imports...

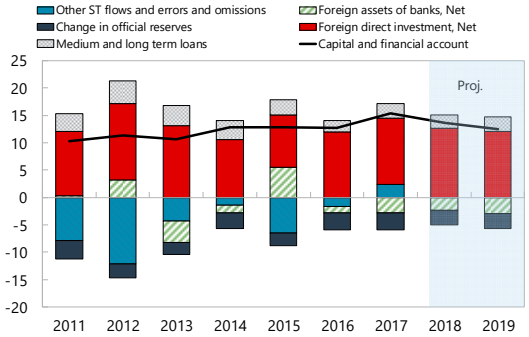
Current Account
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

...and was financed primarily with FDI inflows.

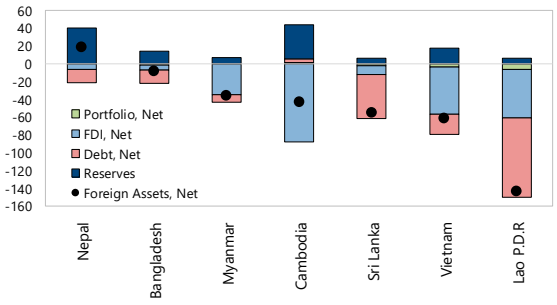
Current Account Financing
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

NFA are in line with peers and primarily composed of FDI liabilities.

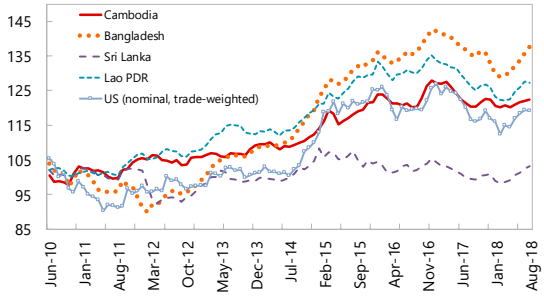
Selected Economies: Net Foreign Assets [1]
(In Percent of GDP)



Sources: Cambodian authorities; External Wealth of Nations; and IMF staff calculations.
[1] End-2017 for Cambodia and end-2016 for the other countries.

The real effective exchange rate remained stable.

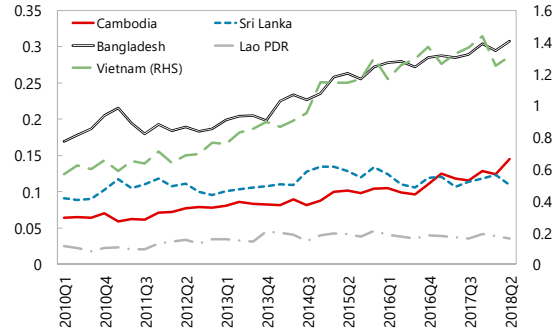
Real Effective Exchange Rate
(Index, 2010=100)



Sources: Cambodian authorities; Bloomberg L.P.; and IMF staff calculations.

Cambodia's share of world exports continued to grow...

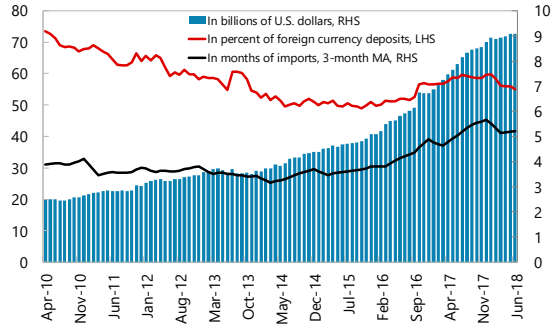
Selected Economies: Share of World Exports
(In Percent of Total)



Sources: IMF, *Directions Of Trade Statistics* (DOTS), and IMF staff calculations.

... and while reserve accumulation has continued, in terms of FX deposits and import coverage has declined slightly.

Gross Official Reserves
(In percent of foreign currency deposits, LHS; in billions of US dollars, RHS)

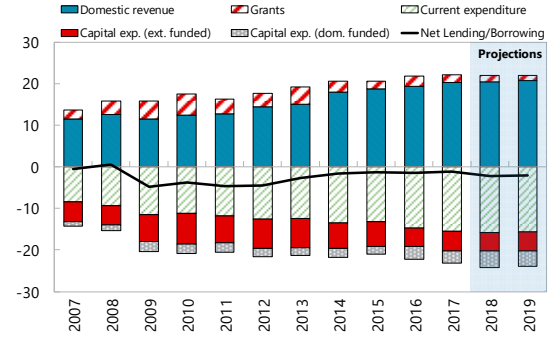


Sources: Cambodian authorities; and IMF staff calculations.

Figure 4. Cambodia: Robust Revenue Performance Amid Spending Pressures

Fiscal performance is still strong owing to robust revenue growth but the spending mix is deteriorating.

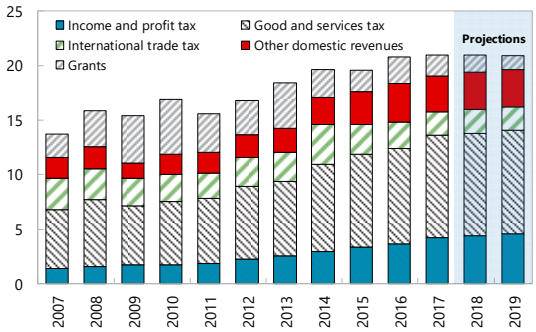
Fiscal Balance
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

Revenue performance continues to be enhanced by strong collection efforts.

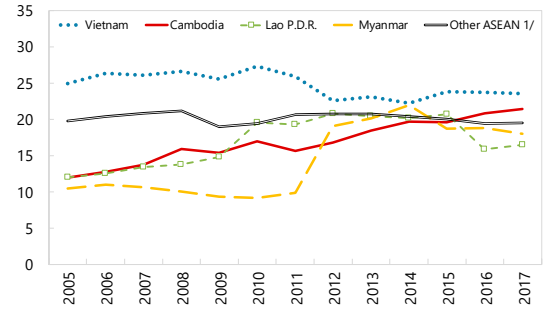
Fiscal Revenues
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

Revenue efforts has seen Cambodia surpass the regional average…

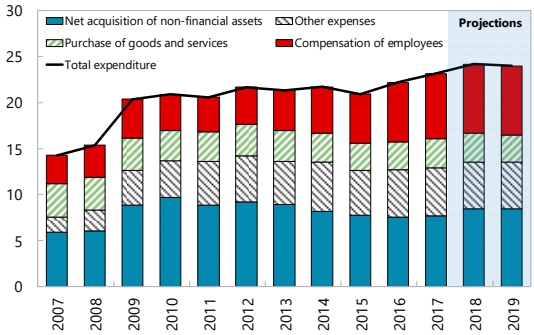
Total Revenue in Asian LICs
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.
1/ Average of Indonesia, Malaysia, Singapore, Philippines, and Thailand.

…yet, the wage bill has been rising, squeezing other expenditures…

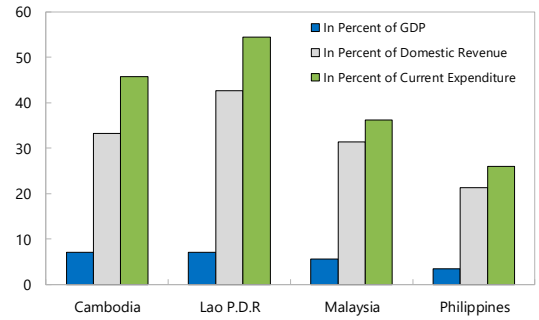
Goverment Spending
(In percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

…resulting in higher public wages than regional peers.

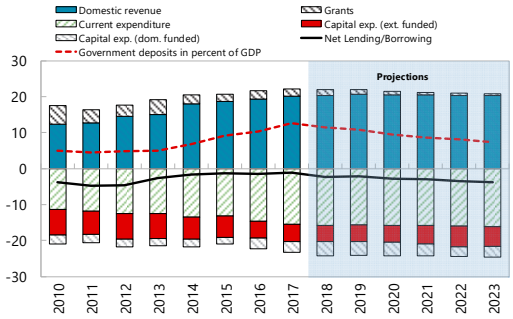
Wage Spending, 2017
(In Percent)



Sources: Cambodian authorities; WEO; and IMF staff calculations.

Efforts are needed to maintain the level of government deposits and make space for development spending.

Medium-term Fiscal Outlook
(In Percent of GDP)

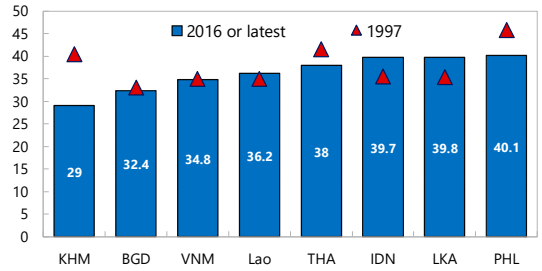


Sources: Cambodian authorities; and IMF staff calculations.

Figure 5. Cambodia: Moving to More Inclusive Growth

Income Inequality in Cambodia has declined since 1997…

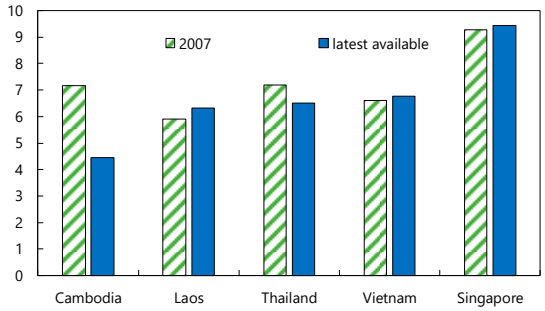
Gini Coefficient
(In Percent)



Source: SWIID 6.1.
Note: Gini computed using consumption. Due to data unavailability, data points closest to 1997 and 2016 were used. Latest data point available for KHM, THA, VNM and PHL is based on 2012, 2013, 2014 and 2015. Data point closest to 1997 for THA and VNM (1998) for IDN and BNG (1996) and LKA (1995).

…and is lower compared to its peers.

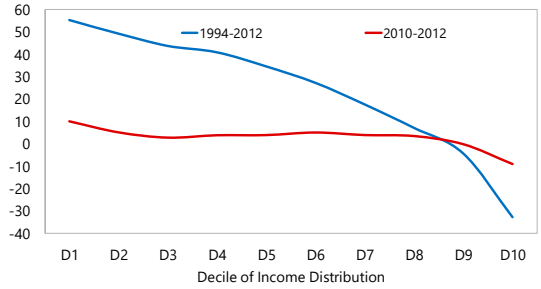
Evolution of Inequality: Peer Comparison
(Income of Top Quantile/Bottom Quantile)



Sources: WIID; and IMF staff calculations.
Latest available for Cambodia (2012), Laos (2012), Thailand (2013), Vietnam(2014), and Singapore (2012).

Income share of the bottom decile increased recently.

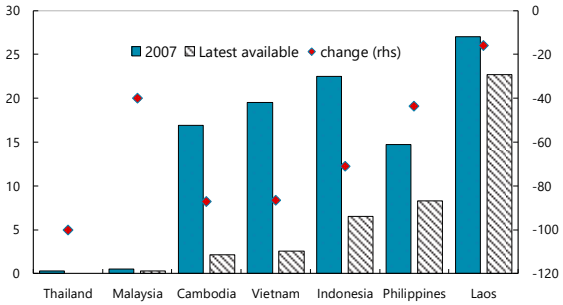
Cambodia: Change in Income Distribution by Decile1/
(In Percent)



Sources: WIID 3.0; and IMF staff calculations.
1/ Growth rate of total income share of every decile of income distribution.

Absolute poverty has declined…

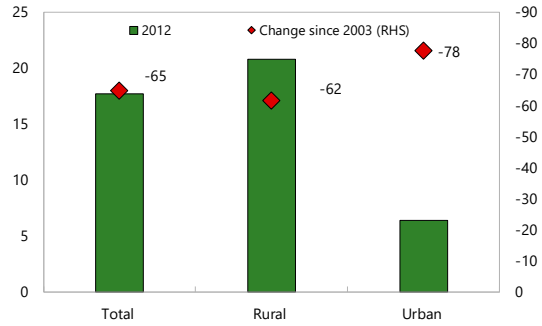
Poverty Headcount Ratio at $1.90 a Day: 2011 PPP
(In Percent of Population)



Source: CEIC; World Bank - World Development Indicators.
Note: Latest available for Thailand (2015), Malaysia (2009), Cambodia (2012), Vietnam (2014), Indonesia (2016), Philippines (2015), Laos (2012).

….and poverty at the national poverty line has also fallen significantly both in rural and urban areas.

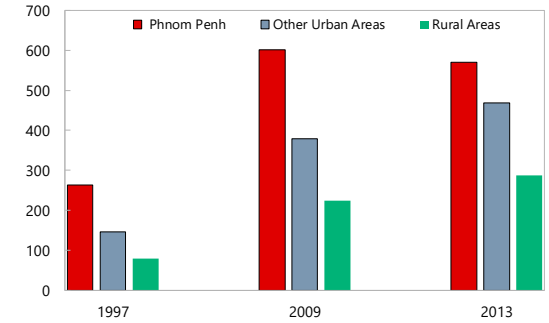
Cambodia: Headcount Poverty Rate at National Poverty Line
(Percentage of Population)



Source: World Bank, WDI.

But inequality in household consumption between rural and urban areas remains.

Cambodia: Average Monthly Household Expenditure
(In USD)



Source: CEIC.

Table 1. Cambodia: Selected Economic Indicators, 2013–19

	2013	2014	2015	2016	2017 Est.	2018 Proj.	2019 Proj.
Output and prices (annual percent change)							
GDP in constant prices	7.4	7.1	7.0	6.9	7.0	7.3	7.0
(Excluding agriculture)	9.3	9.3	9.0	8.4	8.3	8.7	8.3
Inflation (end-year)	4.7	1.0	2.8	3.9	2.2	2.6	2.8
(Annual average)	3.0	3.9	1.2	3.0	2.9	2.5	2.7
Saving and investment balance (in percent of GDP)							
Gross national saving	15.1	14.7	13.7	14.5	14.2	13.0	13.1
Government saving	2.1	4.0	4.5	3.7	4.7	4.6	5.1
Private saving	13.0	10.8	9.2	10.8	9.4	8.3	8.0
Gross fixed investment	23.5	23.2	22.4	22.9	22.2	23.1	23.0
Government investment	8.9	8.2	7.7	7.6	7.7	8.4	8.4
Private investment	14.6	15.0	14.7	15.3	14.5	14.7	14.6
Money and credit (annual percent change, unless otherwise indicated)							
Broad money	14.6	29.9	14.7	18.0	23.8	16.3	14.8
Private sector credit	17.3	31.3	27.1	22.5	18.5	19.0	16.0
Velocity of money 1/	2.0	1.8	1.6	1.6	1.3	1.2	1.2
Public finance (in percent of GDP)							
Revenue	18.7	20.1	19.6	20.8	22.1	22.0	21.9
Domestic revenue	14.6	17.5	17.7	18.4	20.2	20.4	20.7
Of which: Tax revenue	12.9	15.5	15.6	15.8	16.9	17.0	17.2
Grants	4.1	2.6	1.9	2.5	1.9	1.5	1.3
Expenditure	21.4	21.7	20.9	22.2	23.2	24.2	24.0
Expense	12.5	13.5	13.2	14.6	15.5	15.8	15.6
Net acquisition of nonfinancial assets	8.9	8.2	7.7	7.6	7.7	8.4	8.4
Net lending (+)/borrowing(-)	-2.6	-1.6	-1.3	-1.4	-1.1	-2.2	-2.1
Net lending (+)/borrowing(-) excluding grants	-6.8	-4.2	-3.3	-3.9	-3.0	-3.8	-3.3
Net acquisition of financial assets	0.2	2.3	2.2	1.9	2.3	0.0	0.4
Net incurrence of liabilities 2/	2.8	4.0	3.5	3.3	3.3	2.3	2.5
Of which: Domestic financing	0.0	-1.3	-1.4	-0.6	-1.7	-0.6	-0.7
Balance of payments (in millions of dollars, unless otherwise indicated)							
Exports, f.o.b.	7,044	8,170	9,336	10,273	11,224	12,710	14,234
(Annual percent change)	23.7	16.0	14.3	10.0	9.3	13.2	12.0
Imports, f.o.b.	-10,680	-12,022	-13,285	-14,119	-15,502	-17,920	-19,962
(Annual percent change)	15.9	12.6	10.5	6.3	9.8	15.6	11.4
Current account (including official transfers)	-1,274	-1,414	-1,567	-1,687	-1,782	-2,452	-2,617
(In percent of GDP)	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9
Gross official reserves 3/	3,642	4,391	5,093	6,731	8,758	9,605	10,294
(In months of prospective imports)	3.1	3.4	3.7	4.4	5.1	5.0	4.9
External debt (in millions of dollars, unless otherwise indicated)							
Public external debt	4,871	5,279	5,648	5,861	6,669	7,246	7,932
(In percent of GDP)	31.7	31.9	31.2	29.1	30.3	30.1	30.3
Public debt service	112	134	137	186	211	260	301
(In percent of exports of goods and services)	1.1	1.1	1.0	1.3	1.3	1.4	1.5
Memorandum items:							
Nominal GDP (in billions of Riels)	61,327	67,437	73,423	81,242	89,900	99,194	109,220
(In millions of U.S. dollars)	15,228	16,702	18,083	20,043	22,147	24,171	26,324
Exchange rate (Riels per dollar; period average)	4,027	4,038	4,060	4,053	4,030	…	…

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Ratio of nominal GDP to the average stock of broad money.

2/ Includes statistical discrepancy.

3/ Excludes unrestricted foreign currency deposits (FCDs) held at the National Bank of Cambodia; starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 2. Cambodia: Medium-Term Macroeconomic Framework, 2013–23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Est.			Proj.			
Output and prices (percent change)											
GDP at constant prices	7.4	7.1	7.0	6.9	7.0	7.3	7.0	6.7	6.5	6.2	6.0
GDP deflator	0.8	2.6	1.7	3.5	3.4	2.9	2.9	2.9	3.0	3.0	3.0
Consumer prices (end-year)	4.7	1.0	2.8	3.9	2.2	2.6	2.8	2.9	3.0	3.0	3.0
Consumer prices (average)	3.0	3.9	1.2	3.0	2.9	2.5	2.7	2.9	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)											
Gross national saving	15.1	14.7	13.7	14.5	14.2	13.0	13.1	12.4	13.2	13.5	14.2
Government saving	2.1	4.0	4.5	3.7	4.7	4.6	5.1	4.7	4.6	4.4	4.2
Private saving	13.0	10.8	9.2	10.8	9.4	8.3	8.0	7.6	8.6	9.1	9.9
Gross fixed investment	23.5	23.2	22.4	22.9	22.2	23.1	23.0	21.8	21.7	21.6	21.5
Government investment	8.9	8.2	7.7	7.6	7.7	8.4	8.4	8.4	8.4	8.4	8.4
Private investment 1/	14.6	15.0	14.7	15.3	14.5	14.7	14.6	13.4	13.3	13.2	13.1
Private credit growth (percent change)	17.3	31.3	27.1	22.5	18.5	19.0	16.0	13.8	13.6	13.4	13.2
Public finance (in percent of GDP)											
Revenue	18.7	20.1	19.6	20.8	22.1	22.0	21.9	21.5	21.2	21.0	20.8
Of which: Tax revenue	12.9	15.5	15.6	15.8	16.9	17.0	17.2	17.1	17.0	17.0	16.9
Grants	4.1	2.6	1.9	2.5	1.9	1.5	1.3	0.9	0.8	0.6	0.5
Total expenditure	21.4	21.7	20.9	22.2	23.2	24.2	24.0	24.2	24.2	24.4	24.5
Expense	12.5	13.5	13.2	14.6	15.5	15.8	15.6	15.8	15.9	16.0	16.1
Net acquisition of nonfinancial assets	8.9	8.2	7.7	7.6	7.7	8.4	8.4	8.4	8.4	8.4	8.4
Of which: Domestically-financed	1.9	2.0	1.8	3.0	2.9	3.9	3.7	3.8	3.3	2.7	2.9
Net lending (+)/borrowing(-)	-2.6	-1.6	-1.3	-1.4	-1.1	-2.2	-2.1	-2.7	-3.0	-3.4	-3.7
Net lending (+)/borrowing(-) excluding grants	-6.8	-4.2	-3.3	-3.9	-3.0	-3.8	-3.3	-3.7	-3.8	-4.0	-4.2
Net acquisition of financial assets	0.2	2.3	2.2	1.9	2.3	0.0	0.4	-0.4	0.0	0.2	-0.1
Net incurrence of liabilities	2.8	4.0	3.5	3.3	3.3	2.3	2.5	2.4	3.0	3.6	3.6
Domestic financing, net	0.0	-1.3	-1.4	-0.6	-1.7	-0.6	-0.7	0.6	0.4	0.3	0.7
Government deposits	5.0	6.9	9.1	10.4	12.6	11.5	10.9	9.5	8.6	8.1	7.3
Balance of payments (in percent of GDP, unless otherwise indicated)											
Exports (percent change) 2/	23.7	16.0	14.3	10.0	9.3	13.2	12.0	10.3	8.9	8.7	8.4
Imports (percent change) 3/	15.9	12.6	10.5	6.3	9.8	15.6	11.4	9.4	8.0	8.3	7.6
Current account balance (including transfers)	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9	-9.4	-8.5	-8.1	-7.3
(Excluding transfers)	-11.8	-12.0	-11.6	-10.9	-10.5	-12.0	-11.5	-10.6	-9.5	-9.1	-8.4
Foreign direct investment	13.2	10.6	9.6	12.0	12.1	12.7	12.1	11.1	10.5	9.9	9.3
Other flows 4/	-2.5	2.3	3.3	0.8	3.3	0.9	0.4	0.6	1.2	1.7	2.1
Overall balance	2.3	4.4	4.2	4.3	7.3	3.5	2.6	2.3	3.2	3.5	4.0
Gross official reserves (in millions of U.S. dollars) 5/	3,642	4,391	5,093	6,731	8,758	9,605	10,294	10,970	11,977	13,165	14,649
(In months of next year's imports)	3.1	3.4	3.7	4.4	5.1	5.0	4.9	4.9	4.9	5.1	5.3
Public external debt (in millions of U.S. dollars)	4,871	5,279	5,648	5,861	6,669	7,246	7,932	8,640	9,593	10,825	12,308
(In percent of GDP)	31.7	31.9	31.2	29.1	30.3	30.1	30.3	30.4	31.1	32.4	34.1
Public external debt service (in millions of U.S. dollars)	112	134	137	186	211	260	301	361	393	438	461
(In percent of exports of goods and services)	1.1	1.1	1.0	1.3	1.3	1.4	1.5	1.6	1.6	1.7	1.6

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.
4/ Net official disbursements, exceptional financing, and official transfers.
5/ Excludes unrestricted foreign currency depostis (FCDs) held at the National Bank of Cambodia (NBC); starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 3a. Cambodia: Balance of Payments, 2013–23, BPM5

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Est.	Proj.					
Current account (including official transfers)	-1,274	-1,414	-1,567	-1,687	-1,782	-2,452	-2,617	-2,697	-2,626	-2,719	-2,665
(Excluding official transfers)	-1,795	-2,003	-2,093	-2,193	-2,323	-2,896	-3,029	-3,046	-2,954	-3,063	-3,033
Trade balance	-3,636	-3,852	-3,949	-3,846	-4,278	-5,210	-5,727	-6,132	-6,487	-6,951	-7,328
Exports, f.o.b.	7,044	8,170	9,336	10,273	11,224	12,710	14,234	15,707	17,110	18,598	20,153
Of which: Garments	5,026	5,489	6,167	6,686	7,147	8,027	8,886	9,610	10,187	10,762	11,333
Imports, f.o.b. 1/	-10,680	-12,022	-13,285	-14,119	-15,502	-17,920	-19,962	-21,839	-23,597	-25,549	-27,481
Of which: Garments-related	-2,483	-2,572	-2,950	-3,226	-3,573	-4,014	-4,443	-4,805	-5,093	-5,381	-5,666
Petroleum	-1,123	-1,145	-1,300	-1,465	-1,752	-2,262	-2,366	-2,356	-2,364	-2,395	-2,446
Services and income (net)	899	825	745	598	794	1,070	1,291	1,528	1,780	1,958	2,174
Services (net)	1,703	1,727	1,712	1,602	1,878	2,193	2,490	2,857	3,239	3,544	3,882
Of which: Tourism (credit)	2,660	2,953	3,136	3,212	3,639	4,254	4,710	5,128	5,591	6,066	6,582
Income (net)	-804	-902	-967	-1,005	-1,085	-1,123	-1,199	-1,329	-1,459	-1,586	-1,708
Private transfers (net)	942	1,024	1,110	1,056	1,162	1,244	1,407	1,558	1,752	1,930	2,121
Official transfers (net)	520	589	526	506	540	445	412	349	328	343	367
Capital and financial account	1,621	2,152	2,331	2,548	3,401	3,287	3,293	3,359	3,620	3,894	4,134
Medium- and long-term loans (net)	551	571	514	429	582	574	683	704	950	1,229	1,479
Disbursements	611	648	595	543	722	748	891	964	1,232	1,545	1,808
Amortization	-63	-83	-108	-171	-153	-189	-223	-275	-297	-331	-344
Foreign direct investment 2/	2,006	1,771	1,735	2,397	2,674	3,070	3,185	3,176	3,259	3,326	3,374
Net foreign assets of deposit money banks 3/	-600	-213	986	-224	-631	-570	-768	-693	-746	-801	-845
Other short-term flows and errors and omissions	-651	-246	-1,170	-337	539	0	0	0	0	0	0
Overall balance	347	738	763	861	1,619	836	675	663	994	1,174	1,469
Financing	-347	-738	-763	-861	-1,619	-836	-675	-663	-994	-1,174	-1,469
Change in gross official reserves 4/	-363	-755	-775	-873	-1,631	-848	-688	-676	-1,007	-1,188	-1,484
Memorandum items:											
Current account balance (in percent of GDP)											
Excluding official transfers	-11.8	-12.0	-11.6	-10.9	-10.5	-12.0	-11.5	-10.6	-9.5	-9.1	-8.4
Including official transfers	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9	-9.4	-8.5	-8.1	-7.3
Trade balance (in percent of GDP)	-23.9	-23.1	-21.8	-19.2	-19.3	-21.6	-21.8	-21.4	-20.9	-20.7	-20.2
Gross official reserves 5/	3,642	4,391	5,093	6,731	8,758	9,605	10,294	10,970	11,977	13,165	14,649
(In months of next year's imports)	3.1	3.4	3.7	4.4	5.1	5.0	4.9	4.9	4.9	5.1	5.3

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.
2/ From 2011, includes FDI related to public-private power sector projects.
3/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).
4/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.
5/ Excludes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 3b. Cambodia: Balance of Payments, 2013–23, BPM5

(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Est.			Proj.			
Current account (including official transfers)	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9	-9.4	-8.5	-8.1	-7.3
(Excluding official transfers)	-11.8	-12.0	-11.6	-10.9	-10.5	-12.0	-11.5	-10.6	-9.5	-9.1	-8.4
Trade balance	-23.9	-23.1	-21.8	-19.2	-19.3	-21.6	-21.8	-21.4	-20.9	-20.7	-20.2
Exports, f.o.b.	46.3	48.9	51.6	51.3	50.7	52.6	54.1	54.9	55.1	55.4	55.5
Of which: Garments	33.0	32.9	34.1	33.4	32.3	33.2	33.8	33.6	32.8	32.0	31.2
Imports, f.o.b. 1/	-70.1	-72.0	-73.5	-70.4	-70.0	-74.1	-75.8	-76.3	-76.0	-76.1	-75.7
Of which: Garments-related	-16.3	-15.4	-16.3	-16.1	-16.1	-16.6	-16.9	-16.8	-16.4	-16.0	-15.6
Petroleum	-7.4	-6.9	-7.2	-7.3	-7.9	-9.4	-9.0	-8.2	-7.6	-7.1	-6.7
Services and income (net)	5.9	4.9	4.1	3.0	3.6	4.4	4.9	5.3	5.7	5.8	6.0
Services (net)	11.2	10.3	9.5	8.0	8.5	9.1	9.5	10.0	10.4	10.6	10.7
Of which: Tourism (credit)	17.5	17.7	17.3	16.0	16.4	17.6	17.9	17.9	18.0	18.1	18.1
Income (net)	-5.3	-5.4	-5.3	-5.0	-4.9	-4.6	-4.6	-4.6	-4.7	-4.7	-4.7
Private transfers (net)	6.2	6.1	6.1	5.3	5.2	5.1	5.3	5.4	5.6	5.7	5.8
Official transfers (net)	3.4	3.5	2.9	2.5	2.4	1.8	1.6	1.2	1.1	1.0	1.0
Capital and financial account	10.6	12.9	12.9	12.7	15.4	13.6	12.5	11.7	11.7	11.6	11.4
Medium- and long-term loans (net)	3.6	3.4	2.8	2.1	2.6	2.4	2.6	2.5	3.1	3.7	4.1
Disbursements	4.0	3.9	3.3	2.7	3.3	3.1	3.4	3.4	4.0	4.6	5.0
Amortization	-0.4	-0.5	-0.6	-0.9	-0.7	-0.8	-0.8	-1.0	-1.0	-1.0	-0.9
Foreign direct investment 2/	13.2	10.6	9.6	12.0	12.1	12.7	12.1	11.1	10.5	9.9	9.3
Net foreign assets of deposit money banks 3/	-3.9	-1.3	5.5	-1.1	-2.8	-2.4	-2.9	-2.4	-2.4	-2.4	-2.3
Other short-term flows and errors and omissions	-4.3	-1.5	-6.5	-1.7	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.3	4.4	4.2	4.3	7.3	3.5	2.6	2.3	3.2	3.5	4.0
Financing	-2.3	-4.4	-4.2	-4.3	-7.3	-3.5	-2.6	-2.3	-3.2	-3.5	-4.0
Change in gross official reserves 4/	-2.4	-4.5	-4.3	-4.4	-7.4	-3.5	-2.6	-2.4	-3.2	-3.5	-4.1
Memorandum items:											
Current account balance (in percent of GDP)											
Excluding official transfers	-11.8	-12.0	-11.6	-10.9	-10.5	-12.0	-11.5	-10.6	-9.5	-9.1	-8.4
Including official transfers	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9	-9.4	-8.5	-8.1	-7.3
Trade balance (in percent of GDP)	-23.9	-23.1	-21.8	-19.2	-19.3	-21.6	-21.8	-21.4	-20.9	-20.7	-20.2
Gross official reserves 5/	23.9	26.3	28.2	33.6	39.5	39.7	39.1	38.3	38.6	39.2	40.4
(In months of next year's imports)	3.1	3.4	3.7	4.4	5.1	5.0	4.9	4.9	4.9	5.1	5.3

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.

2/ From 2011, includes FDI related to public-private power sector projects.

3/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).

4/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.

5/ Excludes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million; starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.

Table 4. Cambodia: General Government Operations, 2013–23 (GFSM 2001)

	2013	2014	2015	2016	2017		2018		2019		2020	2021	2022	2023
	Actual	Actual	Actual	Actual	Budget	Est.	Budget	Proj.	Prelim. Budget	Proj.	Proj.	Proj.	Proj.	Proj.
							(In billions of Riels)							
Revenue	11,499	13,538	14,410	16,927	17,093	19,878.9	19,026	21,794	22,538	23,942	25,752	27,925	30,265	32,790
Of which: Nongrant	8,955	11,810	12,987	14,918	15,438	18,174	18,310	20,259	21,222	22,561	24,648	26,930	29,370	31,985
Tax	7,909	10,457	11,469	12,800	13,018	15,192	15,065	16,864	18,285	18,823	20,536	22,416	24,426	26,580
Income, profits, and capital gains	1,561	1,965	2,472	2,953	3,277	3,798	3,899	4,328	4,388	4,956	5,446	5,973	6,536	7,137
Good and services	4,174	5,426	6,238	7,098	7,579	8,410	8,786	9,335	11,702	10,381	11,406	12,637	13,964	15,402
International trade and transactions	1,667	2,466	1,989	1,988	2,162	1,966	2,121	2,182	2,194	2,403	2,534	2,585	2,631	2,672
Grants	2,543	1,728	1,423	2,009	688	1,705	716	1,535	1,316	1,381	1,105	994	895	805
Other revenues 1/	1,339	1,670	2,253	2,861	2,420	2,982	3,245	3,395	2,937	3,738	4,111	4,514	4,944	5,405
Total expenditure	13,103	14,646	15,376	18,051	20,611	20,835	24,088	24,022	26,180	26,211	29,043	31,895	35,165	38,595
Expense	7,643	9,123	9,690	11,902	13,612	13,941	15,660	15,660	16,933	17,003	18,952	20,888	23,075	25,322
Compensation of employees	2,698	3,403	3,930	5,283	6,391	6,386	7,453	7,453	8,200	8,206	9,106	10,089	11259.1	12,418
Purchase of goods and services	2,075	2,119	2,156	2,424	2,847	2,847	3,122	3,122	3,373	3,250	3,571	3,917	4,286	4,680
Interest	204	228	223	291	342	289	387	387	410	427	469	514	563	614
Expense not elsewhere classified	2,666	3,373	3,381	3,903	4,032	4,420	4,697	4,697	4,950	5,121	5,806	6,368	6,968	7,609
Net acquisition of nonfinancial assets	5,460	5,523	5,686	6,149	6,999	6,894	8,428	8,363	9,247	9,208	10,091	11,007	12,090	13,273
Of which: Externally financed	4,306	4,147	4,395	3,719	...	4,290	...	4,460	...	5,159	5,503	6,686	8,159	8,660
Net lending (+)/borrowing(-)	-1,605	-1,108	-966	-1,124	-3,518	-956	-5,061	-2,229	-3,642	-2,269	-3,290	-3,970	-4,900	-5,805
Net acquisition of financial assets	113	1,568	1,612	1,574	...	2,039	...	40	...	476	-429	-44	260	-208
Net incurrence of liabilities 2/	1,717	2,676	2,578	2,698	3,518	2,995	5,061	2,268	3,642	2,745	2,862	3,926	5,160	5,597
Of which: External	1,922	2,306	2,138	1,755	3,518	2,650	5,061	3,027	3,642	3,203	2,818	3,665	4,646	4,935
							(In percent of GDP)							
Revenue	18.7	20.1	19.6	20.8	19.0	22.1	19.2	22.0	20.6	21.9	21.5	21.2	21.0	20.8
Nongrant	14.6	17.5	17.7	18.4	17.2	20.2	18.5	20.4	19.4	20.7	20.5	20.5	20.4	20.3
Tax	12.9	15.5	15.6	15.8	14.5	16.9	15.2	17.0	16.7	17.2	17.1	17.0	17.0	16.9
Income, profits, and capital gains tax	2.5	2.9	3.4	3.6	3.6	4.2	3.9	4.4	4.0	4.5	4.5	4.5	4.5	4.5
Good and services tax	6.8	8.0	8.5	8.7	8.4	9.4	8.9	9.4	10.7	9.5	9.5	9.6	9.7	9.8
International trade and transactions tax	2.7	3.7	2.7	2.4	2.4	2.2	2.1	2.2	2.0	2.2	2.1	2.0	1.8	1.7
Grants	4.1	2.6	1.9	2.5	0.8	1.9	0.7	1.5	1.2	1.3	0.9	0.8	0.6	0.5
Other revenues	2.2	2.5	3.1	3.5	2.7	3.3	3.3	3.4	2.7	3.4	3.4	3.4	3.4	3.4
Total expenditure	21.4	21.7	20.9	22.2	22.9	23.2	24.3	24.2	24.0	24.0	24.2	24.2	24.4	24.5
Expense	12.5	13.5	13.2	14.6	15.1	15.5	15.8	15.8	15.5	15.6	15.8	15.9	16.0	16.1
Compensation of employees	4.4	5.0	5.4	6.5	7.1	7.1	7.5	7.5	7.5	7.5	7.6	7.7	7.8	7.9
Purchase of goods and services	3.4	3.1	2.9	3.0	3.2	3.2	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Interest	0.3	0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expense not elsewhere classified	4.3	5.0	4.6	4.8	4.5	4.9	4.7	4.7	4.5	4.7	4.8	4.8	4.8	4.8
Net acquisition of nonfinancial assets	8.9	8.2	7.7	7.6	7.8	7.7	8.5	8.4	8.5	8.4	8.4	8.4	8.4	8.4
Of which: Externally-financed	7.0	6.2	6.0	4.6	...	4.8	...	4.5	...	4.7	4.6	5.1	5.7	5.5
Net lending (+)/borrowing(-)	-2.6	-1.6	-1.3	-1.4	-3.9	-1.1	-5.1	-2.2	-3.3	-2.1	-2.7	-3.0	-3.4	-3.7
Net acquisition of financial assets	0.2	2.3	2.2	1.9	...	2.3	...	0.0	...	0.4	-0.4	0.0	0.2	-0.1
Net incurrence of liabilities	2.8	4.0	3.5	3.3	3.9	3.3	5.1	2.3	3.3	2.5	2.4	3.0	3.6	3.6
Of which: External	3.1	3.4	2.9	2.2	3.9	2.9	5.1	3.1	3.3	2.9	2.3	2.8	3.2	3.1
Memorandum items:														
Net lending (+)/borrowing(-) excluding grant	-6.8	-4.2	-2.4	-3.7	-4.5	-3.0	-5.8	-3.8	-4.5	-3.3	-3.7	-3.8	-4.0	-4.2
Domestic financing	0.0	-1.3	-1.4	-0.6	-0.6	-1.7	-1.7	-0.6	...	-0.7	0.6	0.4	0.3	0.7
Government deposits	5.0	6.9	9.1	10.4	...	12.6	...	11.5	...	10.9	9.5	8.6	8.1	7.3
GDP (in billions of riels)	61,327	67,437	73,423	81,242	89,900	89,900	99,194	99,194	109,220	109,220	120,004	131,633	144,021	157,279

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

1/ Includes provincial tax and nontax revenue.

2/ Includes statistical discrepancy.

Table 5. Cambodia: Monetary Survey, 2013–19

	2013	2014	2015	2016	2017	2018 Proj.	2019 Proj.
	(In billions of Riels)						
Net foreign assets	21,285	26,742	26,707	31,814	42,575	49,327	55,939
National Bank of Cambodia	19,535	24,476	29,490	36,336	48,732	56,125	61,706
Foreign assets	19,957	24,880	29,875	36,707	49,125	56,510	62,101
Foreign liabilities	421	404	385	371	393	385	395
Deposit money banks	1,750	2,266	-2,782	-4,522	-6,157	-6,798	-5,767
Foreign assets	8,589	10,048	9,481	10,875	11,769	12,608	15,037
Foreign liabilities	6,839	7,782	12,263	15,397	17,925	19,406	20,804
Net domestic assets	11,483	15,817	22,116	25,802	28,744	33,639	39,327
Domestic credit	24,827	31,885	39,642	48,310	55,856	68,532	80,799
Government (net)	-2,795	-4,359	-6,429	-8,148	-11,067	-11,106	-11,582
Private sector	27,609	36,245	46,071	56,459	66,923	79,638	92,380
Other items (net)	-13,344	-16,068	-17,526	-22,508	-27,113	-34,893	-41,472
Broad money	32,768	42,560	48,823	57,617	71,319	82,966	95,266
Narrow money	4,878	6,308	6,741	7,273	9,428	11,374	13,531
Currency in circulation	4,454	5,593	5,897	6,473	8,302	9,968	11,921
Demand deposits	424	715	845	800	1,127	1,405	1,610
Quasi-money	27,890	36,251	42,082	50,344	61,890	71,592	81,734
Time deposits	945	1,090	1,550	2,386	2,615	3,011	3,439
Foreign currency deposits	26,945	35,161	40,532	47,957	59,275	68,581	78,296
	(12-month percentage change)						
Net foreign assets	17.1	25.6	-0.1	19.1	33.8	15.9	13.4
Private sector credit	17.3	31.3	27.1	22.5	18.5	19.0	16.0
Broad money	14.6	29.9	14.7	18.0	23.8	16.3	14.8
Of which: Currency in circulation	18.6	25.6	5.4	9.8	28.2	20.1	19.6
Foreign currency deposits	13.4	30.5	15.3	18.3	23.6	15.7	14.2
	(Contribution to year-on-year growth of broad money, in percentage points)						
Net foreign assets	10.9	16.7	-0.1	10.5	18.7	9.5	8.0
Net domestic assets	3.7	13.2	14.8	7.6	5.1	6.9	6.9
Domestic credit 1/	13.2	21.5	18.2	17.8	13.1	17.8	14.8
Government (net)	-1.1	-4.8	-4.9	-3.5	-5.1	-0.1	-0.6
Private sector	14.2	26.4	23.1	21.3	18.2	17.8	15.4
Other items (net)	-9.5	-8.3	-3.4	-10.2	-8.0	-10.9	-7.9
Memorandum items:							
Foreign currency deposits (in millions of U.S. dollars)	6,745	8,628	10,008	11,879	14,523	16,620	18,768
(In percent of broad money)	82.2	82.6	83.0	83.2	83.1	82.7	82.2
Riel component of broad money	5,823	7,399	8,291	9,659	12,044	14,385	16,970
(In percent of broad money)	17.8	17.4	17.0	16.8	16.9	17.3	17.8
Credit to the private sector (in millions of U.S. dollars)	6,911	8,894	11,376	13,985	16,397	19,300	22,144
(In percent of GDP)	45.0	53.7	62.7	69.5	74.4	80.3	84.6
Foreign currency loans-to-total loans (in percent)	99.1	98.4	98.6	98.7	98.9	96.9	94.9
Loan-to-deposit ratio (in percent) 2/	101.6	101.5	112.1	116.2	111.7	112.5	112.0
Velocity 3/	2.0	1.8	1.6	1.6	1.3	1.2	1.2
Money multiplier (broad money/reserve money)	2.2	2.3	2.2	2.0	1.9	1.9	1.9
Reserve money (12-month percent change)	13.0	24.6	21.7	25.0	30.5	18.3	14.3

Sources: Cambodian authorities; and IMF staff estimates and projections.
1/ Excludes banks' credits to nonresident.
2/ Foreign currency loans and deposits only.
3/ The ratio of nominal GDP to the year-to-date average stock of broad money.

Table 6. Cambodia: Sustainable Development Goals

	Cambodia			ASEAN 1/
Goals	2005	2010	2015	2015
Poverty				
Proportion of population living below the international poverty line	19	5	2	7
Proportion of population living below the national poverty line	45	22	18	13
Proportion of population covered by social assistance programs	n.a.	1.3	0.4	29
Prevalence of undernourishment	21	17	14	12
Proportion of urban population living in slums or inadequate housing	n.a.	n.a	29	34
Health and Education				
Maternal mortality rate per 100,000 live births	315	202	161	111
Proportion of births attended by skilled health personnel	44	71	89	79
Under-five mortality rate	65	43	29	30
Number of HIV infections per 1,000 uninfected population	0.3	0.1	0.1	0.2
Proportion of population using safely managed drinking water	19	22	24	n.a.
Proportion of population using at least basic sanitation services	24	37	49	80
Pupil-teacher ratio, primary	53	48	46	24
Secondary enrollment*	32	38	n.a.	66
Inclusion				
Proportion of seats held by women in national parliaments	10	21	20	17
Proportion of women in managerial positions	n.a.	18	n.a.	29
Proportion of population with access to electricity	21	31	56	84
Proportion of adults (15 years and older) with an account at a bank	n.a.	6	15	45
Annual growth rate of real GDP per capita	11	4	5	5
Climate				
CO2 emission per unit of GDP PPP	1.6	1.8	1.9	4.2
Memorandum item:				
De-mining, UXO and assistance				
Annual numbers of civilian casualties recorded	797	286	240	
Percentage of suspected contaminated areas cleared	50	59	56	

Source: UN SDG Indicators Global Database; World Bank, World Development Indicators; ClimateWatch (GCA Model).
*Ratio of children of official school age who are enrolled in school to the population of the corresponding official school age.
1/ ASEAN excluding Brunei and Singapore.
Note: Where data are not available, data for the closest year is used.
For example, for poverty below the international poverty line, data used refer to 2004, 2010 and 2012 (latest available data point).

Appendix I. Risk Assessment Matrix[1]

Event	Risk Horizon	Up/ Down-side	Prob.	Impact	Transmission	Policy Recommendations
Domestic Risks						
Revenue shortfall	Medium-term	↓	High	Medium	Fiscal position deteriorates -fiscal deficits widen and government deposits deplete sharply.	Steadfast implementation of RMS, while rationalizing non-developmental current expenditure.
A large correction in real estate prices.	Short-term	↓	Medium	High	Turning of the credit cycle and fallout from excess household and corporate leverage (incl. in FX) as investors withdraw FX deposits, generating disorderly deleveraging.	Increase reserve requirements to slow down credit growth, implement macro prudential measures, strengthen micro-prudential regulation and supervision, ensure adequate emergency liquidity, strengthen supervision and regulation for MFIs. Preemptively strengthen the crisis management framework.
Extreme weather	Short-term	↓	Medium	Medium	Weaker agricultural production and exports, weaker tourism, and wider income inequality.	Expedite structural reforms to accelerate diversification, improve infrastructure, and increase transfers to the rural poor after creating fiscal space.
External Risks						
Rising protectionism and retreat from multilateralism	Short-term	↓	High	High	Weaker garments export growth.	Expedite structural reforms to accelerate diversification, by expanding the narrow range of export products, while finding new export markets for existing products.
Weaker-than-expected global growth (US, EU, China)	Short-term	↓	Medium	Medium/ High	Lower exports coupled with weaker FDI and banking sector flows.	Expedite structural reforms to accelerate diversification. Ensure adequate emergency liquidity.
International trade sanctions	Medium-term	↓	Medium	High	Loss of preferential access to key export markets, leading to a decline of exports and FDI.	Expedite structural reforms to accelerate diversification. Ensure adequate emergency liquidity.
Sharp tightening of global financial conditions and strengthening of the US dollar	Short-term	↓	High	High	Higher rates would lead to FX deposit outflows, foreign reserves fall.	Build up foreign reserve buffers against external shocks; where appropriate release limited short-term liquidity to troubled banks; expedite work on a crisis management framework; increasing reserve requirements on foreign deposits substantially would create a buffer that could be liberated when foreign deposits flow out in response to external shocks.
				Medium	Stronger US dollar would lead to weaker exports, tourism receipts, FDI, and bank lending from other partner countries.	Maintain macroeconomic stability and develop interbank and foreign exchange markets to enhance monetary policy effectiveness and to reduce dollarization. Expedite structural reforms to boost non-price competitiveness.
FATF listing	Short-term	↓	High	Medium	Loss of CBRs and deterioration of investors' confidence, affecting financial sector stability and growth.	Expeditiously implement the recommendations issued by the Asia Pacific Group on Money Laundering and take measures to mitigate the risks arising from loss of CBRs.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Appendix II. Past Fund Advice

Financial Sector Reforms
Safeguarding financial stability
Regulation on Liquidity Management for Banks and Financial Institution: This regulation aims at strengthening the liquidity management of financial institutions.
Implementation of Regulation on Liquidity Coverage Ratios (LCR): NBC has continued to implement the LCR regulation issued in December 2015, requiring banks and microfinance institutions (MFIs) to raise their LCR to 100 per cent of their projected 30-day net cash outflows by 2020.
Regulation on credit risk grading and impairment provisioning: The regulation, introduced by the NBC in December 2017 aims to increase credit risk grading by financial institutions.
Strengthening banking supervision
Online Payment Protection: All payment service providers (PSPs) must apply for an operating license from the NBC.
Regulation on Customers Complaints Procedure for Banks and Financial Institutions: This regulation aims to improve consumer protection.
Enhancing financial inclusion
Promoting financial literacy: NBC and the Ministry of Education, Youth and Sport officially launched the "Let's Talk Money" comic book in March 2017.
Fiscal Policy Reforms
Mobilizing tax revenues
Revenue Mobilization Strategy (RMS): The authorities have implemented over 90 percent of the reforms under the RMS 2014–2018 and are working on a new RMS 2019–2023.
Strengthening management of contingent liabilities
Managing fiscal risks from PPPs: Central PPP Unit (CPU) has been established under the MEF to support the implementation of a PPP program under the forthcoming new PPP law. The responsibility for assessing and reporting fiscal risks from PPPs remains with the RMU at the Department of Debt Management.
Improving Public Financial Management
Medium Term Fiscal Framework (MTFF): The government has developed a Budget System Reform Strategy 2018–2025, which contains a plan to develop the strategic framework for Medium Term Budget Framework and MTFF (MEF is currently preparing the MTFF).
Others: The government continues implementing the National Program for Public Administrative Reform 2015–2018 and priority programs under the National Social Protection

Policy Framework 2016–2025; making efforts to enhance spending efficiency and transparency at prioritized sectors; and holding public forum on annual Cambodia budget preparation.

Reforms to Promote Growth and Inclusion

Promoting inclusion

Upgrading human capital (skills): Education and health remain as priority sectors in the government annual budget. The authorities are opening new vocational schools to narrow skill gaps.

Improving competitiveness

Improving the investment and business climate and inclusiveness: Authorities continue to implement the Industrial Development Plan (IDP) to boost investor confidence. MEF has developed an Entrepreneurship Promotion Fund (EPF) to support SMEs and local entrepreneurs.

Lower energy costs and better infrastructure: The government has been expanding the role of PPPs for infrastructure and energy. The government has also been developing programs for the reduction of electricity tariffs for all users nationwide for 2019 and 2020.

Logistics: The government has created an inter-ministerial National Logistics Council.

Safeguarding growth

Climate change: Authorities have included the impact from climate change in agriculture sector into the macroeconomic framework.

Appendix III. Capacity Development

A. Background

Recent capacity development (CD) activities have been well integrated with surveillance priorities. Cambodia is a heavy user of Fund CD. For example, based on available data on staff resources, Cambodia is the second most intensive user of technical assistance (TA) in the Asia and Pacific Region[1] Cambodia also benefits from several training resources.[2] Recent CD activity has focused on managing macro-financial risks, safeguarding fiscal sustainability, improving statistics and training.

- **Managing macro-financial risks.** Supporting efforts to address elevated macro-financial risks and following-up on the pilot exercise for enhanced macro-financial surveillance, NBC has received support from resident advisors on banking supervision (since late 1990s) and financial stability (since July 2018), Capacity Development Office of Thailand (CDOT) regional advisor on monetary policy and foreign exchange operations and several expert missions (on financial stability analysis, de-dollarization and credit risks). An on-going project assists strengthening the AML/CFT framework.

- **Safeguarding fiscal sustainability.** Reflecting the need to increase revenues and in preparation for the next phase of the authorities' revenue mobilization strategy (RMS), authorities have received TA on strengthening tax and customs administrations and tax policy. TA on debt management and addressing fiscal risks has supported infrastructure investment (recommended in the context of the infrastructure pilot exercise) financed through PPPs. Regular TA on public financial management (PFM) coordinated through a CDOT regional advisor has helped improve spending efficiency and fiscal governance. The MEF is also supported by a resident macroeconomic advisor.

- **Improving statistics.** Consistent with the need for broad improvements in data provision for surveillance, TA has focused on improving external, government, and monetary and financial sector statistics. TA to support the implementation of the enhanced General Data Dissemination System (e-GDDS) will promote data transparency and help create synergies between data dissemination and surveillance.

- **Training.** CDOT training to the core group on the macroeconomic framework has strengthened macroeconomic analysis and forecasting in support of policy formulation and monitoring. Interactions within the group have also encouraged inter-agency cooperation. Several TA and surveillance missions included a training element, for example, through a

[1] Cambodia has received about 165 TA missions over the period FY 2013–17.

[2] Training occurs primarily through three channels: (i) Training at the Singapore Training Institute (STI); (ii) Training through customized courses jointly with CDOT, either in Cambodia or other CLMV countries with participation of Cambodian officials; (iii) Training via workshops or peer-to-peer learning events – in collaboration with CDOT or APD -- in which Cambodian officials participate. Other training occurs in the context of TA and through participation in online courses.

recent workshop on macro-financial surveillance tools following the March 2018 staff visit.

B. Forward Looking Priorities

Forward looking priorities are informed by an evolving multi-year surveillance strategy and CD matrix. The multi-year strategy covers traditional macroeconomic issues, enhanced focus on macro-financial issues, topics that fall under Fund key commitments to support countries in achieving their Sustainable Development Goals (SDGs), as well as emerging Fund issues (see Table 1).[3]

Table 1. Multi-Year Strategic Surveillance and CD Matrix

	Macro-Critical	Traction	Past	2018	2019	2020	Ongoing and Planned CD
Traditional macroeconomic issues	HIGH	HIGH	✓	✓	✓	✓	✓
Issues for Further Integration							
1. Macro-financial Issues							
Capital Inflows and Spillovers	HIGH	HIGH	✓	→	✓	→	✓
Financial Stability, Deepening and Inclusion	MEDIUM	MEDIUM	✓	✓	✓	→	✓
Financial Cycle and Macro-implications	HIGH	HIGH	✓	→	✓	→	✓
Balance Sheet Analysis	N/A	N/A					
Macroprudential Policy	HIGH	MEDIUM	✓	→	✓	→	✓
Financial Supervision and Regulation	HIGH	HIGH	✓	→	✓	→	✓
Macroeconomic Shocks and Financial Stress	HIGH	HIGH	✓	→	✓	→	✓
2. SDGs/FfD Commitments							
Domestic Revenue mobilization	HIGH	HIGH		✓	→	✓	✓
Infrastructure Investment	HIGH	HIGH	✓	→		✓	
Building Policy space/economic resilience	MEDIUM-HIGH	MEDIUM		✓	→		✓
Environmental sustainability, equity/inclusion	MEDIUM	MEDIUM		✓	→		
Fragile and Conflict-Affected States need	N/A	N/A					
Domestic financial market promotion	HIGH	HIGH	✓	→	✓	→	✓
Data enhancement	HIGH	MEDIUM				✓	✓
3. Emerging Themes							
Gender	LOW	LOW					
Income Inequality	MEDIUM-HIGH	MEDIUM		✓	→		
Climate Change	MEDIUM	LOW	✓	→			
Governance	HIGH	MEDIUM		✓	✓	→	✓

Key: ✓= focus; → = follow up on previous year(s)

Notes:

1/ Pilot for enhanced macro-financial surveillance (2016) and mainstreaming macro-financial surveillance (2017).

2/ Pilot for infrastructure investment (2016, 2017).

3/ Pilot for inequality (2018)

C. Managing Macro-Financial Risks

Activities should focus on supporting implementation of priority prudential policies identified in surveillance and hands-on support to strengthen capacity. Financial sector

[3] These priorities have benefited from functional department inputs and discussion with the authorities (most recently during the March 2018 staff visit).

vulnerabilities remain elevated and high credit growth is increasingly driven by the real-estate sector. Recently introduced regulations on credit risk, liquidity management, and capital requirements are welcome, effective implementations of these, as well as further steps (as outline in the 2018 Article IV staff report), are needed to build financial sector resilience. This calls for continued support on multiple fronts, including close interactions through resident advisors. For example, the main objective of the banking supervision project -- implementing risk-based supervision -- has not yet been completed due to capacity constraints and further efforts are needed to strengthen financial stability analysis and reporting.

Priorities include:

- Regular activities, including through resident and regional advisors, should focus on the introduction of tools to ensure effective implementation and on improving staff capacity through hands-on training.
- Planned FSSR (with mission expected in March 2019) will provide an updated assessment of the financial sector and associated CD needs.[4]
- Planned bank resolution and deposit insurance TA will provide guidance on the main components of resolution and deposit insurance schemes, thus enhancing the crisis management framework. Further support may be needed to bring the regulation on related party lending and large exposures in line with international standards.
- Regular visits from the CDOT monetary and foreign exchange operations advisor will support liquidity management. There is a need to further enhance hands-on support to the NBC on concrete steps towards a more robust monetary policy strategy over the medium-term.
- On-going TA on the AML/CFT framework includes advice on risk-based approach to AML/CFT supervision, reforms to achieve compliance with international standards; development of core financial intelligence functions and capacity and drafting a new AML/CFT national strategy.
- Other priorities could include: i) authorities have been collecting data on the real estate sector and could benefit from support in designing appropriate real-estate sector specific prudential policies; ii) to facilitate surveillance focus on governance, further support may be needed to evaluate and strengthen financial sector oversight, as well as central bank governance and operations.

D. Safeguarding Fiscal Sustainability

Activities should focus on supporting revenue mobilization and debt management, improving fiscal governance and strengthening capacity. Fiscal pressures are increasing. A successor RMS for the period 2019–2023 is expected to focus on improving the efficiency and equity of existing tax policies, and strengthening transparency and accountability of tax administration. Debt management will face new challenges with the increase in potential contingent liabilities from PPPs and introduction of a domestic debt market. Introduction of a

[4] FSAP was completed in 2010.

medium term fiscal and budget framework will help safeguard fiscal sustainability via improved budget planning and fiscal risk management. Improvements in multiple fronts are needed to strengthen fiscal governance.

Priorities include:

- Regular activities, including through the resident advisor, should focus on targeted policy advice, support for implementation of policy efforts (including introduction of the medium term fiscal and budget frameworks) and improving staff capacity through hands-on training.
- Planned TA on customs and PFM will continue to support improvements in revenue administration, spending efficiency and fiscal governance.
- As the authorities move towards implementing their new RMS, additional TA may be needed to improve tax administration and enhance equity in the design and implementation of tax policies (including through reforms in VAT and personal income taxes and higher property taxes).
- Support in debt management should focus on follow-up to past recommendations to address fiscal risks and development of the domestic debt market.
- Other priorities could include: i) to support surveillance focus on governance, further targeted TA may be needed to improve fiscal governance and transparency; ii) over the medium-term, as tax administration improvements are implemented, a formal diagnostic (such as tax administration diagnostic assessment tool (TADAT)) could help solidify gains in revenue mobilization, and lead to further improvements in governance and transparency; iii) authorities plans towards increasing diversification and ensuring an enabling environment for SME growth may call for support in reviewing the structure of tax incentives.

E. Statistics

Activities should continue to support broad-based improvements in data availability, quality and transparency. While data provision is broadly adequate for surveillance, and progress has been made, shortcomings in terms of coverage, accuracy and timeliness hamper analysis. For example, budget formulation and reporting are still based on the Tableau des opérations financières de l'État (TOFE) system (based on GFS 1986) as opposed to the GFS 2014 standard and national accounts statistics suffer from several weaknesses (including outdated base year, poor quality estimates of the GDP expenditure components, and lack of quarterly national accounts data).

Priorities include:

- Regular activities should focus on improving staff capacity in compiling and disseminating quality data to support policy analysis.
- Planned TA on external sector statistics, through CDOT regional advisor, will help improve the quality of data on trade in services and workers' remittances.

- Planned TA on national account statistics will review new sources and methods for the compilation of national accounts estimates and results of the comprehensive revision. Further activity should focus on supporting compiling and disseminating quality data on expenditure components of GDP and quarterly national accounts estimates.
- Planned TA on government financial statistics should expedite the shift towards compiling and reporting government data consistent with the GFS 2014 standard.
- Other priorities include: (i) given significant FDI inflows and increasing private external debt, improvements in data quality and availability are needed; (ii) balance sheet data, including for households is needed to analyze, inter alia, implications of strong credit growth on household indebtedness.

F. Training

Training needs are broad and there is room to better integrate surveillance and training activities. Demand for training, especially on macro-financial topics, is increasing. There may be room to meet increasing demand through regional and country specific training courses (e.g. the planned December 2018 Macroeconomic Diagnostics course and training on monetary policy frameworks) and through on-line learning. As capacity improves, the core group on the macroeconomic framework can shift further towards more support to policy formulation and scenario analysis, including interactions in the context of regular surveillance activities. Technical presentations, seminars and workshops during surveillance missions (such as the seminar on diversification in the context of the 2018 Article IV mission) will continue to include a capacity development focus.

Appendix IV. External Sector Assessment [1]

The external position of Cambodia in 2017 was moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. Policies to maintain adequate fiscal buffers, diversify export markets, and improve productivity and competitiveness would improve the external balance position. There is room to build reserves given high dollarization and elevated financial vulnerabilities.

Foreign asset and liability position. Cambodia's Net Foreign Asset (NFA) position was -43 percent of GDP by end-2017, placing it in the mid-range of its peers. It is almost entirely composed of FDI liabilities and as such does not pose a major concern for external sustainability at the moment. The NFA position is projected to increase over the medium term, in line with continuing FDI inflows. Based on the External Sustainability (ES) model, a current account (CA) norm that stabilizes the NFA at its end-2017 level implies 7.8 percent REER overvaluation, using EBA-lite elasticities.[2] Allowing NFA to reach 60 percent over the medium term would imply a smaller overvaluation of 5.1 percent.

Current account. The CA deficit reached 8 percent of GDP in 2017. The 2017 CA is assessed to be moderately weaker than the CA norm of 5.2 percent, which is the CA level suggested by fundamentals and desirable policy settings using the CA model. The resulting CA gap of -2.9 percent of GDP translates into an REER overvaluation of 5.2 percent. Part of this gap reflects the fact that the CA model does not fully take into account the very young population in Cambodia, which implies a fundamentally lower level of savings and a higher CA deficit. If the model were to use total instead of old-age dependency ratio, the CA norm would be expected to show a larger deficit, resulting in a smaller CA gap.

External Balance Assessment Results

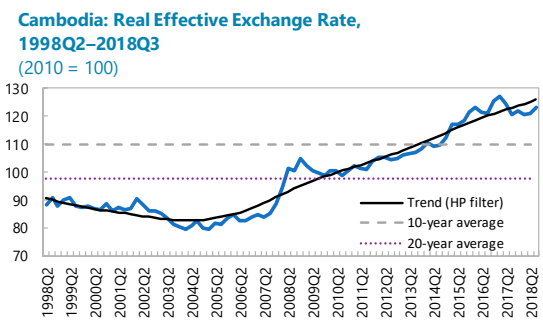
	CA model	REER model	ES model [1]
Actual CA	-8.0		-7.3
CA norm	-5.2		-3.4
CA gap	-2.9		-3.9
REER gap [2]	**5.2**	**18.3**	**7.8**

Source: IMF staff estimates.

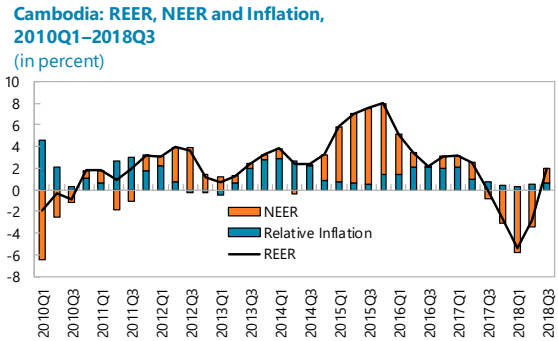
[1] Actual CA is the 2023 CA projection and CA norm is the CA that stabilizes NFA at its 2017 level of 42.9% of GDP.

[2] Implied over(+)/under(-) valuation.

Real effective exchange rate. The REER has appreciated 4 percent on average every year during the last 10 years, reflecting U.S. dollar appreciation, buoyant economic growth, and capital inflows. In 2017, however, a weaker U.S. dollar and low relative inflation resulted in a slower rate of REER appreciation, while in the first nine months of 2018 the REER depreciated by



Sources: Cambodian authorities; and IMF staff calculations.



[1] Prepared by David Corvino.

[2] See "Methodological Note on EBA-Lite" (2016).

2 percent on average. Looking forward, the projected strengthening of the U.S. dollar and inflation differential are likely to contribute to resuming REER appreciation. The REER model of EBA-lite suggests a significantly higher level of overvaluation compared to the other two methods. However, these results need to be taken with caution as the REER model results are sensitive to the time period used and does not fit well countries that have experienced rapid structural change, such as Cambodia.

Recommended policies. To improve the external balance position, policies should focus on maintaining adequate fiscal buffers, diversifying export markets, and improving productivity and competitiveness including through ensuring that minimum wage growth is in line with productivity improvements and improving infrastructure and education.

Capital flows. Cambodia continues to attract sizable capital inflows, with FDI inflows (12.1 percent of GDP in 2017) more than financing the CA deficit and contributing to the reserves buildup. About 35 percent of the FDI inflows are directed to the banking sector and about 35 percent are Chinese investments. There is a risk that FDI inflows are helping fuel rapid real-estate and banking sector growth and that Cambodia may experience smaller inflows as global financial conditions tighten.

FX intervention and reserve adequacy. The current exchange rate regime is based on keeping the Riel broadly stable against the U.S. dollar and is appropriate for Cambodia given high dollarization and a concentration in U.S. dollar-invoiced exports. International reserves have increased in the last years to reach 8.8 billion U.S. dollars in end-2017 and 9.1 billion in June 2018. Traditional metrics and regional comparisons indicate that Cambodia's level of international reserves appear adequate.[3] As of end-2017, reserves were equivalent to about 5 months of prospective imports of goods and services and 55 percent of broad money. Applying the Assessing Reserve Adequacy (ARA) tool for Credit-Constrained Economies with fixed exchange rate regime to Cambodia suggests an optimal level of reserves of about 3 ½ months of current imports of goods and services, which is below the current reserve level.[4] However, gross official reserves covered only 60 percent of foreign currency deposits, which severely limits the central bank's lender of last resort capacity and is below regional comparators. Continued financial deepening in the context of near full dollarization suggests that foreign currency deposits are likely to continue to grow. This suggests that further accumulation of reserves beyond the level indicated by traditional reserve adequacy metrics, along with measures encouraging use of the Riel, are necessary to enhance resilience against financial sector vulnerabilities and rapid capital flow reversals.

Regional Comparison of Reserve Indicators, 2017

	Months of Imports of G&S[1]	Percent of Exports of G&S	Percent of Broad Money	Percent o GDP
Indonesia	8	67	32	13
Malaysia	6	46	25	33
Philippines	8	97	33	26
Singapore	6	50	44	86
Thailand	9	65	37	44
Sri Lanka	3	39	18	8
Myanmar	7	77	33	18
Mongolia	5	44	53	27
Lao P.D.R.	1	17	10	6
Nepal	9	383	35	35
Vietnam	2	22	14	22
Average	6	82	30	29
Cambodia	**5**	**54**	**55**	**40**

Sources: Cambodian authorities; IMF, *WEO*; and staff estimates.

[1] In months of prospective imports of G&S.

[3] See "Guidance Note on Assessing Reserve Adequacy and Related Considerations" (2016).

[4] Cambodia is assessed to be "credit constrained" for the purposes of this exercise given that it does not regularly borrow from international capital markets – defined as at least one issuance of bonds per year in the last five years – and is not rated to be "investment grade."

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Appendix V. Draft Press Release

Press Release No. 18/x
FOR IMMEDIATE RELEASE
November XX, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Cambodia

On November [28], 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia.

Real GDP is projected to grow at 7¼ percent in 2018 due to strong external demand and expansionary fiscal policies, while inflation is expected to remain low. Strong economic performance is broad-based, with garment exports, tourism and the construction sectors growing at robust rates.

Higher imports are expected to contribute to a widening of the current account deficit to around 10 percent of GDP in 2018. Gross international reserves are expected to increase to around US$9.6 billion (around 5 months of prospective imports) at end-2018.

Bank credit is expected to grow by around 20 percent in 2018, with MFI credit expanding at an even higher rate, resulting in a credit-to-GDP gap that is conservatively estimated at close to 10 percentage points.

Fiscal performance in 2017 was considerably stronger than anticipated with tax revenues growing 26 percent in nominal terms, partly due to one-off factors. The fiscal stance has turned expansionary this year. Both current and capital expenditure are expected to increase, while tax revenue is expected to remain broadly stable as a share of GDP, in part reflecting VAT exemptions and import tariff reductions for fuel and basic foods. As a result, the deficit is expected to widen to 2.2 percent of GDP, resulting in lower government deposits.

Executive Board Assessment[2]

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Cambodia: Selected Economic Indicators 2013–2019

	2013	2014	2015	2016	2017 Est.	2018 Proj.	2019 Proj.
Output and prices (annual percent change)							
GDP in constant prices	7.4	7.1	7.0	6.9	7.0	7.3	7.0
(Excluding agriculture)	9.3	9.3	9.0	8.4	8.3	8.7	8.3
Inflation (end-year)	4.7	1.0	2.8	3.9	2.2	2.6	2.8
(Annual average)	3.0	3.9	1.2	3.0	2.9	2.5	2.7
Saving and investment balance (in percent of GDP)							
Gross national saving	15.1	14.7	13.7	14.5	14.2	13.0	13.1
Government saving	2.1	4.0	4.5	3.7	4.7	4.6	5.1
Private saving	13.0	10.8	9.2	10.8	9.4	8.3	8.0
Gross fixed investment	23.5	23.2	22.4	22.9	22.2	23.1	23.0
Government investment	8.9	8.2	7.7	7.6	7.7	8.4	8.4
Private investment	14.6	15.0	14.7	15.3	14.5	14.7	14.6
Money and credit (annual percent change, unless otherwise indicated)							
Broad money	14.6	29.9	14.7	18.0	23.8	16.3	14.8
Private sector credit	17.3	31.3	27.1	22.5	18.5	19.0	16.0
Velocity of money 1/	2.0	1.8	1.6	1.6	1.3	1.2	1.2
Public finance (in percent of GDP)							
Revenue	18.7	20.1	19.6	20.8	22.1	22.0	21.9
Domestic revenue	14.6	17.5	17.7	18.4	20.2	20.4	20.7
Of which: Tax revenue	12.9	15.5	15.6	15.8	16.9	17.0	17.2
Grants	4.1	2.6	1.9	2.5	1.9	1.5	1.3
Expenditure	21.4	21.7	20.9	22.2	23.2	24.2	24.0
Expense	12.5	13.5	13.2	14.6	15.5	15.8	15.6
Net acquisition of nonfinancial assets	8.9	8.2	7.7	7.6	7.7	8.4	8.4
Net lending (+)/borrowing(-)	-2.6	-1.6	-1.3	-1.4	-1.1	-2.2	-2.1
Net lending (+)/borrowing(-) excluding grants	-6.8	-4.2	-3.3	-3.9	-3.0	-3.8	-3.3
Net acquisition of financial assets	0.2	2.3	2.2	1.9	2.3	0.0	0.4
Net incurrence of liabilities 2/	2.8	4.0	3.5	3.3	3.3	2.3	2.5
Of which: Domestic financing	0.0	-1.3	-1.4	-0.6	-1.7	-0.6	-0.7
Balance of payments (in millions of dollars, unless otherwise indicated)							
Exports, f.o.b.	7,044	8,170	9,336	10,273	11,224	12,710	14,234
(Annual percent change)	23.7	16.0	14.3	10.0	9.3	13.2	12.0
	-	-	-	-	-	-	
Imports, f.o.b.	10,680	12,022	13,285	14,119	15,502	17,920	-19,962
(Annual percent change)	15.9	12.6	10.5	6.3	9.8	15.6	11.4
Current account (including official transfers)	-1,274	-1,414	-1,567	-1,687	-1,782	-2,452	-2,617
(In percent of GDP)	-8.4	-8.5	-8.7	-8.4	-8.0	-10.1	-9.9
Gross official reserves 3/	3,642	4,391	5,093	6,731	8,758	9,605	10,294
(In months of prospective imports)	3.1	3.4	3.7	4.4	5.1	5.0	4.9
External debt (in millions of dollars, unless otherwise indicated)							
Public external debt	4,871	5,279	5,648	5,861	6,669	7,246	7,932
(In percent of GDP)	31.7	31.9	31.2	29.1	30.3	30.1	30.3
Public debt service	112	134	137	186	211	260	301
(In percent of exports of goods and services)	1.1	1.1	1.0	1.3	1.3	1.4	1.5
Memorandum items:							
Nominal GDP (in billions of Riels)	61,327	67,437	73,423	81,242	89,900	99,194	109,220
(In millions of U.S. dollars)	15,228	16,702	18,083	20,043	22,147	24,171	26,324
Exchange rate (Riels per dollar; period average)	4,027	4,038	4,060	4,053	4,030	...	...

Sources: Cambodian authorities; and IMF staff estimates and projections.
1/ Ratio of nominal GDP to the average stock of broad money.
2/ Includes statistical discrepancy.
3/ Excludes unrestricted foreign currency deposits (FCDs) held at the National Bank of Cambodia;
starting in 2009, includes the new Special Drawing Right (SDR) allocations made by the IMF of SDR 68.4 million;
starting 2016, renminbi holdings are considered part of reserves following inclusion of renminbi in the SDR basket.