

**EXECUTIVE
BOARD
MEETING**

SM/18/264
Correction 1

November 27, 2018

To: Members of the Executive Board

From: The Secretary

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

Board Action:

The attached correction to SM/18/264 (11/8/18) has been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

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Questions:

Mr. Turunen, APD (ext. 36662)

Appendix I. Risk Assessment Matrix¹

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.
FATF listing	Short-term	↓	High	Medium	<u>Loss of CBRs and deterioration of investors' confidence, affecting financial sector stability and growth.</u>	<u>Expediently implement the recommendations issued by the Asia Pacific Group on Money Laundering and take measures to mitigate the risks arising from loss of CBRs.</u>
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	<u>Loss of CBRs and deterioration of investors' confidence, affecting financial sector stability and growth.</u>	<u>Expediently implement the recommendations issued by the Asia-Pacific Group on Money Laundering and take measures to mitigate the risks arising from loss of CBRs.</u>

¹The 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.