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Minutes of Executive Board Meeting 19/97-2

10:40 a.m., December 6, 2019

2. Cambodia—2019 Article IV Consultation

Documents: SM/19/263 and Correction 1; and Supplement 1; and Supplement 1, Correction 1; and Supplement 2

Staff: Turunen, APD; Goodman, SPR

Length: 35 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	I. Mannathoko (AE)
	M. Bangrim Kibassim (AF), Temporary
	E. Rojas Ulo (AG), Temporary
	C. White (AP)
	A. Maciá (BR), Temporary
Z. Jin (CC)	
	E. Cartagena Guardado (CE), Temporary
L. Levonian (CO)	
	S. Benk (EC)
	P. Rozan (FF)
R. von Kleist (GR)	
	P. Dhillon (IN), Temporary
	M. Psalidopoulos (IT)
T. Tanaka (JA)	
	M. El Qorchi (MD)
	P. Al-Riffai (MI), Temporary
	L. Voinea (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
	R. Alkhareif (SA)
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
	A. Clark (UK), Temporary
M. Rosen (US)	

C. McDonald, Acting Secretary
J. Morco, Summing Up Officer
D. Jiang, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: M. Brussevich, D. Corvino, E. Dabla, K. Kang, E. Kvintradze, J. Turunen, Y. Zhang. European Department: A. Scott. Fiscal Affairs Department: A. Zdzienicka. Legal Department: I. Luca. Strategy, Policy, and Review Department: M. Goodman. Statistics Department: P. Austin. World Bank Group: C. Pittalis. Alternate Executive Director: K.Tan (ST). Senior Advisors to Executive Directors: L. Marek (EC).

Advisors to Executive Directors: S. Belhaj (MD), A. Biriukv (RU), S. Buetzer (GR), L. Cerami (IT), S. Chea (ST), D. Crane (US), B. Jappah (AE), K. Kuretani (JA), U. Latu (ST), E. Ondo Bile (AF), R. Pandit (ST), D. Susiandri (ST), M. Sylvester (CO), N. Vaikla (NO), S. Yoe (ST), K. Lok (CC), E. Comolet (FF).

2. CAMBODIA—2019 ARTICLE IV CONSULTATION

Ms. Mahasandana and Mr. Chea submitted the following statement:

On behalf of the Cambodian authorities, we would like to thank the IMF mission team for the comprehensive and constructive policy discussions during the 2019 Article IV consultation. The authorities are encouraged by staff's positive assessment on Cambodia's recent macroeconomic development, and broadly share staff's view on near-term risks and medium-term challenges. The authorities are in broad agreement with staff's recommendations and will carefully take them into consideration when formulating future policies.

Recent Economic Development Outlook and Risks

Cambodia is among the fastest growing developing economies in Asia with a remarkable average growth rate of more than 7 percent over the last two decades, driven by strong exports of goods and services as well as the domestic demand from both consumption and investment. Coupled with ongoing structural reforms, the continued strong growth has supported Cambodia's significant progress towards improved income distribution and poverty reduction. For 2019, Cambodia's economy continues to remain strong with growth at 7 percent, underpinned by strong tourism and garment exports as well as robust real estate and construction activities. While the economy is expected to experience a slowdown to 6.8 percent in 2020, near-term growth momentum remains robust.

Economic stability is supported by internal stability and well-contained inflation. Headline inflation will continue to remain low and stable at around 2 percent over the medium-term. Despite the expected widening of the current account deficit on the back of higher imports of construction materials, machineries and petroleum products, the projected FDI inflows and increasing ST inflows is expected to fuel an increase in official reserves to USD17 billion at the end of 2019 covering around 7 months of prospective imports. Over the medium-term, the authorities are committed to prioritizing public investment to complement ongoing structural reforms, enhance the business environment and competitiveness to promote economic diversification, foster a more sustainable inclusive growth and support external stability.

The authorities welcome staff's assessment that the growth outlook is broadly positive and agree on the downside risks arising from the potential withdrawal of the European Union's Everything-But-Arms (EBA) scheme and rising trade protectionism. On the domestic front, the authorities also share the view on the risks to the financial sector stemming from rapid credit growth in the real estate and construction sectors. They are mindful of the downside risks and are committed to undertake measures and pursue structural reforms to safeguard macro-financial stability and maintain sustainable growth.

Fiscal Policy

The authorities broadly share staff's view and underscore the important role of fiscal policy in promoting economic growth and development. Fiscal deficit excluding grant is expected to remain low at -1.4 percent of GDP in 2019 due to significant increase in domestic revenue amid higher capital spending and increases in public sector wages. Tax revenue is projected to reach close to 19 percent of GDP in 2019 and will remain strong over the medium term. This is supported by the authorities' robust administrative reforms and ongoing implementation of the Revenue Mobilization Strategy (RMS).

The authorities are determined to further strengthen revenue mobilization, governance and expenditure prioritization towards infrastructure and social spending. The authorities highly appreciated the Fund's technical assistance in developing the Medium-Term Fiscal Framework (MTFF) and the Revenue Mobilization Strategy 2019-2023 (RMS II), which will be crucial in ensuring fiscal sustainability. They remain strongly committed to strengthening the implementation of the new RMS II and recognize the need to enhance the efficiency of the tax system and rationalize investment incentive to support growth and diversification. On expenditures, they underscore the importance of the MTFF to improve social protection and expenditure prioritization in the most needed sectors such as education, health and infrastructure, in line with the Sustainable Development Goals (SDG).

While public debt level is projected to slightly increase over the medium term, staff's Debt Sustainability Analysis indicated that Cambodia's risk of debt distress remains low, and well below staff's proposed debt ceiling of 40 percent of GDP. The authorities are committed to maintaining a sustainable debt-to-GDP ratio level to preserve debt sustainability with the guidance of the Public Debt Management Strategy 2019-2023, while enhancing the debt management framework and operations. They share staff's views on the fiscal risks from contingent liabilities and are committed to strengthening the risk-management framework and limit public guarantees related to Public – Private Partnerships (PPP) projects.

Going forward, the authorities remain firmly committed to modernizing the tax system and custom administration through strengthened fiscal governance, enhancing spending efficiency and undertake procurement reforms. In preparation of the possible EBA suspension, the authorities have also prepared a fiscal stimulus package of around USD 3 billion to mitigate the near-term impact.

Monetary Policy

The authorities are committed to promoting the use of local currency (Khmer Riel) in the economy and underscore the importance of maintaining exchange rate stability as a nominal anchor to help keep inflation manageable. They are aware that a high degree of dollarization continues to limit the National Bank of Cambodia’s (NBC) ability to implement monetary policy effectively. The Negotiable Certificate of Deposit (NCD) and Liquidity-Providing Collateralized Operation (LPCO), which were established by the NBC to help develop the interbank market continue to facilitate banks’ liquidity management both in local currency and USD. Nonetheless, the authorities share staff’s view on the hysteresis of dollarization and remains fully committed to implementing policies to promote greater use of the Khmer Riel.

Financial Sector

Cambodia’s financial sector remains sound and resilient with adequate capital buffers and low NPL ratio. The authorities welcome staff’s assessment and remain mindful of the risks stemming from the rapid credit growth. While authorities recognize the growing exposure to the real estate and construction sectors, they also emphasize the broader importance of the growth in bank credit in supporting economic activities, particularly in promoting financial inclusion and access to housing.

To mitigate risks and promote financial stability, the NBC has adopted various macroprudential policies, including the capital conservation buffer to be implemented in phases, a liquidity management framework, and improvements in banks’ loan classification and provisioning among others. The authorities share staff’s view and recognize the need to closely monitor developments in the real estate sector and remain strongly committed to improving financial sector oversight. The authorities are also expediting data collection and analysis of the real estate sector as part of their efforts to better manage credit risk in this sector. Moving forward, the authorities will continue to closely monitor developments on this front and stand ready to take necessary prudential actions to curb any excessive credit growth and mitigate rising financing vulnerabilities. Ongoing efforts on targeted prudential measures to safeguard financial stability are also being enforced, through the introduction of a crisis management framework and continued upgrading in regulation and supervision.

The authorities remain committed to making all efforts to comply with the Financial Action Task Force (FATF) international standards and action plan to address strategic deficiencies identified in the 2017 Mutual Evaluation Report (MER). The Financial Intelligence Unit (FIU) has intensified the implementation of the national Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) action plan through improving inter-ministerial and related public institutions cooperation, to narrow the gaps of the AML/CFT regime. This includes enhancing capacity building of the FIU and relevant competent authorities by working closely with technical assistance teams from the IMF, World Bank and UNODC notably.

Continuing the Reform Agenda

The authorities recognize the need to pursue comprehensive structural reforms to ensure sustainable and inclusive economic growth. In addressing structural bottleneck, the authorities are committed to prioritizing public investment to strengthen economic resilience. Several laws have also been drafted to improve the business climate and promote diversification. This is aimed at boosting private sector competitiveness by reducing trade costs and regulatory burden and strengthening the rule of law and anti-corruption efforts.

The authorities have incorporated the SDG framework into the National Strategic Development Plan (NSDP) 2019–2023 and remain fully committed to investing more in infrastructure development, education and health to make further progress in achieving the SDGs. The authorities welcome staff’s SDG costing assessment and recommendations and express interest in constructing a financing strategy to support the implementation. In line with this, the authorities will also continue to focus on infrastructure projects including roads and irrigation, that will play a vital role in addressing structural bottlenecks and further promoting rural development.

The authorities underscore the importance of improving data quality and transparency and concur with the need to enhance the quality of macroeconomic statistics collection and compilation. They welcome the mission's findings and are committed to continuing to leverage from the Fund's expertise in addressing capacity gaps and further improving data harmonization and consistency.

Conclusion

Overall, the Cambodian authorities are committed to preserving macroeconomic and financial stability, promoting sustainable and inclusive growth, and stand ready to implement any measures deemed appropriate. They are highly appreciative of the Fund's continued support in providing high-quality policy advice and technical assistance, particularly in fiscal, monetary and financial sector policies. Going forward, the authorities are fully committed and determined towards steadfast implementation of necessary structural reforms and policies that will continue to strengthen economic resilience.

Mr. Benk and Mr. Marek submitted the following statement:

We thank staff for the informative report and Ms. Mahasandana and Mr. Chea for their helpful buff statement. Cambodia is a fast-growing economy supported in particular by strong external demand and considerable progress in diversifying its economy. At the same time, the authorities successfully maintain a low level of public debt. However, Cambodia has been facing external risks related to the potential withdrawal from the Everything-But-Arms (EBA) scheme, which would result in a loss of preferential trade access to the EU markets. In addition, rising domestic vulnerabilities in the financial sector as well as structural weaknesses in the real economy require the authorities to step up their reform efforts. We broadly agree with staff's appraisal as well as respective policy recommendations and emphasize the following points.

While public debt has been broadly sustainable, risks related to contingent liabilities should be addressed and further steps to improve revenue mobilization are needed. Cambodia's sound fiscal position contributes to a broadly positive assessment under the Debt Sustainability Analysis (DSA). However, we are concerned that the public budget is overburdened by significant contingent liabilities including from the Public-Private-Partnerships (PPPs). Implementing a Public Debt Management Strategy will be essential to preserve a low level of debt distress including from the PPPs-related contingent liabilities and we encourage the authorities to establish a PPPs database for better risk assessment. While fiscal performance was better than expected, in part due to exceptional revenue mobilization, further measures are needed, including steps to prevent the erosion of the tax base and introduction of a comprehensive income tax regime. We also see merit in developing government bond markets to improve access for domestic financing.

Modernization of the regulatory framework is of critical importance to contain rising vulnerabilities in the financial sector. We note that the banking sector indicates good profitability, low NPL ratios and sizable capital buffers. However, we are concerned by the rapid credit expansion to the real estate sector financed by the banking industry as well as the expansion in lending by Minority Depository Institutions (MDIs) and Micro Finance Institutions (MFIs). We concur with staff that containing real estate credit growth should have high priority and support the view that shadow banking activities by real estate developers should be brought within the scope of financial market regulation. In addition, prudential requirements for banks need to be stepped up, including LTV limits and stronger capital buffers by increasing risk weights on real estate lending. We take positive note of the recently established National Financial Stability Committee, which should strengthen the institutional framework for macroprudential policy decisions.

Policies promoting financial market development need to be complemented by a strong AML/CFT framework. We also note that policies promoting equity and bond market development could create more favorable conditions for domestic financing needs, while accelerating the operation of fintech start-ups is the right step towards greater diversification of financial services. However, these changes call for strengthened financial market regulatory framework in order to ensure transparency, high consumer protection standards and financial market integrity. Accordingly, more effort is needed to address the shortcomings in the implementation and enforcement of the AML/CFT rules. Could staff elaborate on the policies for the proliferation of fintech start-ups, i.e. if amendments to the regulatory and supervisory framework, facilitating e.g. the licensing process, are recommended or do staff suggest other forms of facilitation (e.g. financial support)?

Economic diversification is critical for skills development and building buffers against external shocks. We note that Special Economic Zones are important for economic diversification in the manufacturing sector and strengthening export growth. However, there is room for better distribution of socio-economic gains across the regions and skills development, including educational attainment. We stress the need to reinforce the quality of the education system to attract firms in more technologically intensive industries.

We encourage the authorities to implement the announced structural reform plan to improve competitiveness and diversification, including institutional capacities for education, healthcare and public infrastructure.

Mr. Inderbinen and Mr. Imashov submitted the following statement:

We thank staff for the helpful papers and Ms. Mahasandana and Mr. Chea for their informative buff statement. We welcome Cambodia's solid performance on growth, poverty reduction and macro-stability. While noting the important downside risks, we encourage the authorities to take good advantage of rapid growth to undertake structural reforms, improve the business environment, and strengthen governance. We note the broad agreement between the authorities and staff on the outlook and policy challenges, as well as the authorities' high appreciation of Fund advice and assistance.

The fiscal framework should be further improved. We welcome the new Revenue Mobilization Strategy. Consistent implementation of the strategy will be important to further improve revenue outcomes, as well as the equity of the tax system. It is also encouraging that the authorities are making progress toward introducing a medium-term fiscal framework. Here too, implementation will be key, and publication of the MTFF would be helpful. We take good note of the authorities' commitment to safeguard debt sustainability as emphasized in the BUFF, for which the establishment of a fiscal anchor will be critical. Against the authorities' intention to launch a stimulus package in the event of a suspension of the EBA scheme, could staff elaborate on the administrative capacity for ensuring well-targeted spending? Also, given the large potential to improve capital spending as laid out in Box 3, could staff comment on the status of implementation of the PIMA recommendations; will additional TA be provided in this area?

Implementation of policy measures to address financial sector vulnerabilities is vital.

FDI inflows may be masking financial sector vulnerability after years of rapid lending growth. With capital continuing to flow into the construction sector, real estate sector risks should be addressed. We thus welcome the macro-prudential measures taken by authorities, as outlined in the BUFF statement. Staff's comments on the implementation of regulations on related-party lending would be welcome. Also, given the authorities' ambition to increase the use of the Khmer Riel, could staff elaborate on the authorities' strategy to this end, and on how the Fund could support these efforts?

The longer-term outlook depends the ability to absorb FDI, maintain competitiveness and build human capital. Cheaper energy and logistics and a skilled workforce will be essential for Cambodia to remain competitive. Also, investment in human capital will be critical to reach middle-income status by 2030. We welcome the inclusion of the SDGs into the national development plans. As staff state, detailed sectoral strategies will need to be developed as a next step. Accountable and responsive public institutions will also be critical to meeting the evolving needs of citizens and the private sector. We thus welcome the priority that the authorities give to improving governance. We underline the importance of further efforts to strengthen the AML/CFT framework.

Ms. Mannathoko and Mr. Jappah submitted the following statement:

Cambodia is one of the fastest-growing economies in the world, averaging above 7 percent growth per annum over the past two decades. However, despite corresponding declines in poverty, on the back of marked progress towards the Sustainable Development Goals (SDGs), and the transition to lower middle-income status, much remains to be done as development needs are still significant and millions of Cambodians are still poor or living on the margins of poverty. Furthermore, the economy now faces new challenges, including uncertainties due to slower global growth and potential suspension of preferential access to the EU market under the Everything but Arms (EBA) initiative. Timely reforms will be needed to sustain pro-poor growth and foster competitiveness and long-term growth potential; as well as to maintain macroeconomic stability and safeguard financial sector stability.

Sustaining preferential access to EU market: The loss of preferential access to the EU market will be a sizable economic shock, should it materialize. Therefore, we encourage the authorities to explore measures to avert this. For almost two decades, a significant part of the growth recorded in Cambodia has been enabled by EU preferential access. The country’s exports to the EU grew exponentially following the global financial crisis, and now comprise 40 percent of its total exports. As noted by staff, loss of preferential access to this market would have sizable costs, with significant negative impacts on exports, output and employment; and some impacts being potentially permanent. We encourage the authorities to communicate actively and engage collaboratively with the EU over the next month in order to find mutually acceptable solutions before the final EU decision is made. Staff views are welcome on how IMF might facilitate a positive outcome.

Contingency planning in fiscal policy: We support the fiscal stimulus proposed by the authorities, should risks to external demand and export market access materialize. However, like staff, we caution against any stimulus spending that translates into further increases in the government wage bill. We also agree with staff that expenditure prioritization will become increasingly important to ensure productive spending of limited resources. Will staff be able to assist authorities with measures that inform project prioritization? Could staff also elaborate on discussions with the authorities on planned measures to improve spending efficiency and public investment management, especially with respect to addressing shortcomings in infrastructure governance?

On the revenue front, we applaud the authorities' commitment to revenue mobilization. The strong performance shown in this area will help to provide resources needed to finance spending plans, including softening the negative impacts of EBA suspension. In view of the expected adverse impact of the above external shocks on the private sector job market, could staff elaborate on whether they see a need for labor market measures beyond temporary support to laid-off workers, such as re-skilling the unemployed, public works programs, or similar transitional measures?

Monetary and financial sector policies: We encourage the authorities to focus on addressing currently elevated financial sector vulnerabilities before they are exacerbated by adverse developments. We note the measures already being taken, as outlined in the buff statement, and encourage the authorities to prioritize the operationalization of outstanding reforms. This includes full implementation of the TA recommendation for a comprehensive risk-based supervision program, and close monitoring of risks in the real estate sector. Could staff elaborate on their discussions with authorities on credit risks, housing and financial inclusion?

Competitiveness and structural reforms: The slow pace of trade diversification may be indicative of the country's dependence on preferential access to the EU market. As Cambodia continues to rank low on international competitiveness and corruption indices, these two factors point to the urgent need to accelerate structural reforms, including reducing regulatory burdens faced by producers, re-skilling and enhancing capacities in the labor force that would help to make workers more globally competitive, and developing government systems that allow for the effective implementation of anti-corruption efforts and enforce the rule of law. We encourage the authorities to give urgent attention to implementing these reforms now, before economic conditions become more difficult.

We also note that the authorities' expressed interest in constructing an SDG financing strategy as a follow-up to staff's SDG costing assessment. Could staff comment on any plans to follow through with this support?

With these comments, we wish the Cambodian authorities success.

Mr. Guerra and Mr. Cartagena Guardado submitted the following statement:

We thank staff for its report and Ms. Mahasandana and Mr. Chea for their candid buff statement.

Cambodia has enjoyed a strong and sustained growth over the past two decades and its medium-term prospects remain similarly strong despite external and domestic risks, like the rise in protectionism and the potential withdrawal of the Everything but Arms treaty (EBA) with the European Union (EU). The reforms already implemented by the authorities, the strength of garment exports, construction activity, as well as strong external demand and credit activity have boosted growth, however, risks remain. Cambodia has made significant progress in terms of income growth and poverty reduction, while income inequality between rural and urban areas has declined.

Fiscal sustainability is an important achievement. Five years of fiscal surplus in the general government, a low risk of distress in public debt, and the significant increase of revenues have provided the country fiscal space in a challenging international context. We concur with the Staff on the importance to use fiscal space for social and development spending to make progress towards the Sustainable Development Goals (SDG), considering the country's achievements and the good economic prospects. We also welcome the authorities' package of fiscal stimulus to reduce the impact of the potential suspension of the EBA and to make the country more resilient to this shock. The preferential trade deal granted by the EU for almost two decades has boosted Cambodia's exports growth. But uncertainty of its continuity rises risks and potential impacts on labor markets, poverty and economic growth. Can staff make further comments on the scope of the fiscal stimulus to mitigate the risks of EBA withdrawal and its likelihood?

Sound financial system but with increasing risks. We welcome the policy measures that Cambodia's authorities have implemented from IMF's past recommendations to address financial risks through strengthening banking regulation, creating further capital buffers and liquidity cushions. The banking system remains sound, profitable and with low NPLs. We agree with the staff view regarding the risks of high and sustained credit growth, especially in the context of high concentration in the real state sector and consumer lending, and related party lending in largest debtors. Nevertheless, we concur with the authorities' point of taking into consideration the role of credit in supporting economic activity, further increasing financial inclusion and access to housing. Further efforts to upgrade regulation and supervision of the financial sector are needed, as well as to develop the comprehensive crisis management framework, mainly considering Cambodia's high dollarization of the economy.

We welcome the authorities' commitment to focus its economic strategy on improving governance and to continue implementing reforms. Building on the strong growth already achieved, Cambodia can move decisively to upgrading human capital and promoting a stronger rule of law to ensure sustainable and inclusive economic growth. We also welcome the authorities' commitment to strengthen the economic statistics and international standards. Cambodia's sizable use of Technical Assistance and training provided by the IMF will help build institutions and skills to support the economic transition. In addition, the authorities' commitment to closing gaps in international standards, including addressing shortcomings in Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) will build financial resilience and help mitigate risks.

Mr. Beblawi and Ms. Al-Riffai submitted the following statement:

Cambodia has made significant strides towards achieving its SDGs, benefiting from an average growth rate of 7 percent over two decades, as highlighted in the informative buff statement of Ms. Mahasandana and Mr. Chea. Nevertheless, its development needs are still sizable. Growth remained high in 2018 on the back of robust exports in the garment sector, increased construction activity and strong external demand and credit growth. Cambodia currently benefits from the "Everything but Arms" (EBA) preferential trade regime with the EU. However, the EU's current review and possible withdrawal of the preferences under the EBA, may have adverse effects on near term economic activity. We broadly agree with staff's appraisal and focus on the issues below.

The authorities' prudent fiscal stance and continued strong revenue mobilization efforts have greatly contributed to safeguarding fiscal sustainability. Cambodia's public debt is low and sustainable and is expected to increase only gradually over the medium term. However, possible materialization of contingent liabilities, including from PPPs, as well as from export and growth shocks pose short term risks to the public debt profile. We welcome the Public Debt Management Strategy's (PDMS) focus on preserving Cambodia's low risk of debt distress and see merit in making use of concessional financing, strengthening the risk management framework for contingent liabilities related to PPPs, as well as developing the domestic government bond market for the success of the PDMS' implementation. We encourage the authorities to proceed with improving public investment management by addressing the weaknesses in the implementation and monitoring of domestically-funded projects, as identified in the Public Investment Management Assessment. To that end, we look forward to the imminent adoption of the Law on PPPs and the completion of a PPP database to inform risk assessments.

Monetary policy has been effective in maintaining low inflation and keeping the Cambodian Riel (KHR) broadly stable against the US dollar, but progress on increasing KHR use has been slow. Since part of the success of the National Bank of Cambodia (NBC) in maintaining a low level of inflation may be attributed to the high level of dollar-denominated transactions and a limited circulation/demand of the KHR, we agree with staff that a gradual increase in KHR would allow the NBC to move steadily towards a more robust monetary policy framework with more exchange rate flexibility to increase resilience to shocks.

The banking system is profitable, capital buffers are sizeable, and NPLs are low. Nonetheless, some vulnerabilities are elevated. Credit growth and concentration is high for the household and real estate sectors, consolidated cross-border supervision is lacking, and there are gaps in the implementation of risk-based supervision. The surge in real-estate related credit, the unmonitored and unregulated lending by real-estate developers, and the absence of official data on real-estate prices intensify the risks associated with the real-estate sector. Does staff have an estimate of how much of the surge in demand for housing and associated credit is driven by foreign demand? We see merit in introducing targeted measures, such as higher risk weights and provisioning requirements for real-estate lending, as well as a prudent aggregate loan-to-value limit. Furthermore, lending by real-estate developers should be monitored and regulated, bank exposures contained, AML/CFT supervision of the sector strengthened, and the NBC should closely monitor developments in CBRs, in line with Fund TA recommendations. To that end, we welcome the recent establishment of the National Financial

Stability Committee, the publication of a national AML/CFT strategy, and the improvements in risk-based AML/CFT supervision.

We see merit in furthering the efforts to strengthen economic resilience and promote economic diversification to safeguard and expand upon the authorities' substantial progress in advancing income growth and poverty reduction. Forty percent of Cambodia's exports are to the EU, of which three quarters are exports of the country's garment sector. We are concerned about the welfare implications of an EBA suspension which staff state would result in a permanent fall in the output, exports, and employment of the garment sector (Box 1). We take note of the authorities' plan to mitigate the short-term negative impacts through increased spending and structural reforms. Can staff comment on the adequacy of Cambodia's social safety net in addressing the expected impact of the EBA withdrawal on poverty? We welcome staff's SDG costing exercise in Box 2 that puts in perspective needed spending resources.

Mr. von Kleist, Mr. Psalidopoulos, Mr. Rashkovan, Mr. Voinea, Mr. Buetzer and Ms. Cerami submitted the following joint statement:

We thank staff for the well-drafted report and Ms. Mahasandana and Mr. Chea for their informative buff statement. Cambodia has made remarkable progress towards macroeconomic stability and the Sustainable Development Goals (SDGs). Sound policies supported by constructive engagement with the Fund through surveillance and capacity development have helped spur economic development. We appreciated staff's efforts to provide actionable policy advice also by clearly mapping their recommendations according to their priority level and time horizon (text tables 1-2). We also found very helpful the appendix on the strategy for capacity development and, in line with the preliminary findings of the Comprehensive Surveillance Review, we encourage staff to continue exploiting the synergies between surveillance and CD to further improve traction.

We broadly agree with the thrust of the staff's appraisal and focus on the following points for emphasis.

We strongly support staff's recommendations to improve governance and strengthen institutional frameworks. In particular, improving the rule of law in the area of labor rights and Economic Land Concessions would be key to prevent the potential withdrawal of preferential access to the European market under the Everything but Arms (EBA), in addition to contribute to more favorable social outcomes and business climate. These benefits should also be accounted for along with the positive impact that trade preferences have had so far on exports, growth and employment, as shown in Box 1.

We strongly support staff's recommendation to increase public spending in priority infrastructure, health, and education, while preserving fiscal sustainability by further improving tax administration and policy and implementing the medium-term fiscal framework with a debt ceiling. At the same time, we encourage the authorities to improve public investment management and remedy the shortcomings underscored by the recent Public Investment Management Assessment, which reduce the potential gains from increased public spending.

We urge the authorities to strengthen the Public-Private Partnership framework, especially the risk management of contingent liabilities, and to develop the domestic government bond market, in preparation for the prospective graduation to lower middle-income status and the consequent reduction of concessional financing. We take positive note that these areas are listed among the next CD priorities.

We would have liked to see a discussion on the merits of a more progressive tax system, given the persistent large income inequalities, especially between rural and urban areas (Fig. 5). Staff comments are welcome.

The low and improved risk of debt distress assessed using the Debt Sustainability Framework for Low Income Countries is welcome. However, there remain vulnerabilities to export shocks and contingent liabilities from PPPs, exacerbated by the growing current account deficit, the high reliance on funding from abroad reflecting very low private and public savings, the concentration of FDI inflows in the banking, construction and real estate sectors, and the lack of data to properly assess financial risks in these sectors. Introducing macroprudential measures to prevent a further foreign currency denominated credit boom, such as higher reserve requirements on foreign currency liabilities, and in the real-estate market, and improving data collection in the real estate and non-bank lenders sectors, as well as strengthening the regulatory and supervisory framework, including the AML/CFT regime, would help build financial resilience.

Lastly, structural reforms to diversify the economy and the export base should be undertaken in order to help improve the external position and safeguard debt sustainability.

Mr. Lopetegui and Mr. Vogel submitted the following statement:

We thank the staff for the report and Ms. Mahasandana and Mr. Chea for their helpful buff statement.

As noted in the buff statement, Cambodia is among the fastest growing developing economies in Asia with a remarkable average growth of more than 7 percent over the last two decades. The staff report projects the continuation of the robust growth rates in the coming years. Meanwhile, this has been accompanied by low inflation rates and public debt-to-GDP ratios. Nonetheless, much remains to be done to reduce the significant risks that are clearly illustrated in the staff report and reflected in some indicators, like a widening current account deficit, currently at 13.5 percent of GDP, and the bank credit-to-GDP gap.

The report rightly warns on the review of the EU's Everything but Arms (EBA) that could lead to a suspension of preferential trade next year. We would like to have a further elaboration on the details of this review, reasons of the possible EBA suspension, and the likelihood that this risk could materialize. Box 1 of the staff report estimates that a full withdrawal could cause a large decline in exports and GDP growth, reduction in employment and increased poverty, aggravating, for instance, the already noticeable external imbalance. Regarding poverty, we observe that the last figure (17.7 percent) is from 2012 and we would like to know if there is a more updated figure or an estimation of the current poverty rate.

We agree with the staff's assessment that debt remains sustainable and welcome the progress made by Cambodia in terms of its tax revenues due to critical administrative reforms. We share the staff's policy recommendations in the fiscal area, related to fiscal governance reforms, debt management, revenue mobilization, and particularly those associated with the necessity of additional spending for Sustainable Development Goals (SDGs).

While we understand the authorities' emphasis on the importance of credit growth in driving economic growth, as well as promoting financial inclusion and access to housing, it is necessary to take into account that acceleration of credit could entail a significant risk for the whole economy. Therefore, policy recommendations aimed at moderating credit growth, enhancing regulatory and supervisory frameworks, and improving supervision of non-banks are timely. We are encouraged by the authorities' commitment to make progress in terms of AML/CFT.

We welcome the authorities' intention to promote the use of local currency. We understand their intention to maintain exchange rate stability as a nominal anchor to help keep inflation manageable. This said, in the assessment of the pros and cons of these kinds of policies, it is necessary to consider that the external sector assessment leads to the conclusion that the external position is substantially weaker than implied by fundamentals and desirable policies. Therefore, the overall policy mix would need to be mindful of the risk of deepening exchange rate real appreciation. Staff's comments are welcome.

With these comments, we wish Cambodia and its people every success in their future endeavors.

Mr. Jin and Ms. Lok submitted the following statement:

We thank staff for the informative report and Ms. Mahasandana and Mr. Chea for the useful buff statement. Over the years, Cambodia has maintained robust economic performance and made notable progress towards the Sustainable Development Goals (SDGs). Looking ahead, in the face of weaker external conditions and various uncertainties, it is important for the authorities to strike a balance between maintaining macroeconomic stability and fulfilling development needs through prudent policies and structural reforms. We broadly share the main thrust of staff's appraisal and would confine our comments to the following.

We welcome the strong revenue performance in 2018, which was due in part to the authorities' strong administrative efforts. We look forward to continued revenue mobilization together with prudent spending that is focused primarily on addressing development needs. In case downside risks materialize, modest additional spending would be appropriate to mitigate adverse impact in the near-term. In the longer-term, well-targeted spending on education, health, and infrastructure would help achieve the SDGs. This should be support by efforts to strengthen public financial and investment management to ensure resources are allocated in an efficient manner that maximizes developmental gains. We take positive note that Cambodia currently faces a low risk of debt distress. To maintain this, we encourage the authorities to further enhance the PPP framework to better manage any potential contingent liabilities.

We take positive note that the current monetary policy has been effective in keeping inflation low and maintaining the Cambodian Riel (KHR) broadly stable against the US dollar. We welcome the authorities' strong commitment to promoting the use of KHR and encourage staff to provide additional technical assistance where appropriate. We take comfort from the fact that Cambodia's financial sector remains profitable with sizeable capital buffers and low NPL ratio, and that the National Bank of Cambodia is taking active efforts to safeguard financial stability. That said, further actions are needed to tackle vulnerabilities, including risks related to the real-estate sector. We recall from last year's Board discussion that legislation is being prepared to improve monitoring and regulation of real-estate sector activities. Could staff provide an update on the latest progress? Also, could staff share on how non-bank credit providers are regulated at present, and how this could be applied to property developers? Meanwhile, we encourage the authorities to continue to work on strengthening the AML/CFT regime.

Building on the progress achieved so far, the authorities should continue to press ahead with comprehensive structural reforms to address bottlenecks and constraints to sustainable and inclusive growth. Ongoing trade tensions and uncertainties in the external environment call for prompt actions to diversify sources of growth, with the support of investment in human capital and infrastructure. We welcome the authorities' commitment in this regard. To support the authorities' policy efforts, measures to fill data gaps are needed, and we encourage staff to work closely with the authorities to improve data collection and quality.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Tanaka, Mr. White, Mr. Chikada, Mr. Shin and Mr. Kuretani submitted the following joint statement:

We thank staff for their comprehensive reports and Ms. Mahasandana and Mr. Chea for their informative buff statement. The Cambodian economy has performed well over recent years with robust economic growth, significant poverty reduction, and low inflation. While moderating somewhat, the medium-term outlook also looks favorable. Going forward, vulnerabilities in the external and financial sectors, and weak governance pose challenges to economic development and sustainability. We agree with the thrust of the staff appraisal and add the following comments for emphasis.

Focus needs to be placed on ensuring spending efficiency, while maintaining longer term fiscal sustainability. We note that the 2020 preliminary budget envisages a significant increase in government spending

(2.5 percent of GDP) to mitigate the negative impact on growth from potential EBA (Everything But Arms scheme) withdrawal. Could staff provide more information on what it would take to avoid suspension and, if this is unlikely, what changes would be required for reinstatement?

Despite the low risk of debt distress (as assessed by the DSA) and recent strong revenue performance, we are of the view that a prudent increase in expenditure that ensures spending efficiency is desirable, focusing on more targeted support to laid-off workers and a prioritized scale-up in infrastructure projects. We concur with staff that the authorities should continue to improve public invest management by addressing weakness as identified in the PIMA and implementing follow-up TA. To reduce risks from contingent liabilities, we encourage the authorities to continue to strengthen the PPP framework including through completing the PPP database with Fund support. More efforts also need to be made for further revenue mobilization by raising the efficiency of the tax system, particularly in the tax expenditure area.

External sector vulnerabilities warrant closer monitoring and policy responses. EBA withdrawal, even partial, could add significant pressure to the external position, given Cambodia's already large current account deficits (13.5 percent of GDP this year). Although these deficits are currently being financed mainly by relatively stable FDI flows, recent increases in short-term capital flows suggest further widening of deficits could trigger a sudden stop or reversal of capital. We note that most inflows originate from Asia, with about 40 percent originating from China. It would be much appreciated if staff could elaborate on how the global slowdown, especially in the Asian economy, affects the Cambodian economy.

While the recommended de-dollarization process will lead to greater exchange rate flexibility, it could also bring excessive volatility unless it goes in tandem with deeper FX market and financial market development. We encourage the authorities and staff to closely monitor capital flows and prepare a well-crafted contingency plan to maintain market stability if necessary. Longer-term policy efforts to improve diversification and strengthen competitiveness would also be crucial. We welcome further TA from the Fund to address strategic deficiencies in AML/CFT.

Addressing macro-financial risks stemming from the financial sector should be prioritized. Rapid credit growth in the real estate sector, leading to a widening of the bank credit-to-GDP gap, remains a concern. Given the absence of real estate related data and lack of consolidated cross-border supervision, we see scope for broader policy responses including establishing a monitoring system on major macroeconomic indicators, narrowing the data gap, and strengthening the macroprudential policy framework. Can staff comment on the extent to which capital inflows are feeding into domestic credit growth and the real estate boom?

Further structural reforms are essential for stronger competitiveness, diversification, and inclusive growth. Strong near-term economic performance provides a window of opportunity to implement necessary structural reforms. Significant population growth could lead to a demographic dividend if these reforms improve economic competitiveness and diversify its growth engine. Sustained policy efforts are required to enhance education and infrastructure as well as the challenging transition to a more private sector driven economy which can create quality jobs to absorb new labor. Addressing governance and corruption weaknesses will not only contribute to inclusive growth but also help improve human and labor rights, which are issues of concern with the EBA scheme.

Mr. Rosen, Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the paper and Ms. Mahasandana and Mr. Chea for the helpful buff statement. We welcome the authorities' steady macroeconomic management that has contributed to solid growth in recent decades. In the period ahead, we encourage the authorities to increase fiscal and financial transparency, continue gradual de-dollarization efforts, and address financial sector risks stemming from the real estate sector. We concur with the thrust of the staff appraisal and would like to highlight several points.

Fiscal Governance and Debt Transparency. We welcome Cambodia's progress in strengthening fiscal governance and encourage further efforts in line with the short and medium-term policy recommendations outlined by staff. We appreciate that the DSA appears to have broad coverage of all public and publicly guaranteed external debt, as staff explains that state and local government do not borrow externally and there are no extrabudgetary funds. We suggest that some type of notation such as "not applicable" or a footnote might provide a more helpful representation in the first table in the DSA, to distinguish Cambodia's coverage from a country where there is incomplete data. A key fiscal transparency weakness is the continued lack of an estimate of the PPP stock, and we urge the authorities to address this deficiency. We welcome that IMF and MDB technical assistance is focused on helping strengthen the management of fiscal risks related to PPPs.

External Sector. We note that the current account deficit has further widened (reaching 13.5 percent of GDP in 2019), the real effective exchange rate continues to be overvalued, and the exchange rate has been held stable against the dollar. We are not convinced, however, that the overvaluation derived from the EBA CA model may be too high because the model does not account for the large share of youth in the population. We would expect this would be picked up both by the population growth variable and the prime age savers variable. Staff comments would be welcome.

We echo staff's recommendation to permit greater exchange rate flexibility, which would reduce the overvaluation and support gradual de-dollarization. The External Sector Assessment references an increase in other (unidentified) short-term capital inflows as a potentially less stable source of financing. Could staff elaborate on the likely causes and implications of this trend and the potential of capital flow reversal if a correction in real estate prices or other shock were to occur?

Financial Sector. We encourage the authorities to closely monitor and proactively address risks associated with rapid credit growth, particularly in the real estate sector. Improving real estate sector data represents a necessary first step toward stronger management of this macro-financial risk. We encourage the authorities to follow up with introduction of loan-to-value limits and higher risk weights for real estate lending, as suggested by staff. We also urge strong efforts to address AML/CFT deficiencies identified by FATF, and welcome IMF technical assistance to support such efforts.

Mr. Ronicle and Mr. Clark submitted the following statement:

We thank staff for the clear set of papers, and Ms. Mahasandana and Mr. Chea for their comprehensive buff statement.

We welcome Cambodia's continued strong growth performance over the last two decades. Fiscal performance continues to be good, driven by strong revenue efforts leading to a positive overall fiscal position. This has been underpinned by sustainable debt levels, which are projected to remain below the proposed debt ceiling, and the containment of inflation.

We note and welcome the projection of continued revenue growth, which should be used to address development needs, especially those required to reach the Sustainable Development Goals. This should include orientating spending more towards improving access to quality education, health and infrastructure, whilst restraining non-development recurrent spending.

Therefore, we welcome the authorities' commitment to maintain sustainable debt levels and to further strengthen revenue mobilization, governance and expenditure prioritization towards infrastructure and social spending.

We however note a number of risks to the projected outlook which will require continued vigilance and prompt actions to address the elevated risks. A suspension of trade preferences under "Everything but Arms" would have a marked impact on exports, in the context of an already widening current account deficit. The elevated financial sector vulnerabilities also suggest a focus on moderating credit growth, especially in real-estate and consumer lending. This should include greater oversight as well as well as close monitoring and regulation of these sectors and prioritizing policy measures that address the risks associated with real estate lending.

Further progress will also be required in addressing the gaps in the AML/CFT regime identified by the Financial Action Task Force (FATF). The publication of a national AML/CFT strategy and improvements in risk-based supervision of banks are a good step forward but action is required to close the gaps in the AML/CFT regime. Specifically, this should focus on comprehensive risk-based supervision, a greater focus on preventative measures, including investigations and prosecutions, and closer monitoring of correspondent bank relationships.

Given the downside risks and need to accelerate progress towards the SDGs, the authorities should pursue comprehensive structural reforms. We welcome the announcement of structural reform plans aimed at improving competitiveness and diversification. These should focus on implementing reforms that will improve the regulatory environment, strengthen the rule of law and foster competition. In addition, it will require a focus on a more reliable energy supply, especially from renewable sources, as well as strengthening anti-corruption efforts, including anti-corruption institutions and strengthening the anti-corruption framework.

Mr. El Qorchi and Mr. Belhaj submitted the following statement:

We thank staff for the informative report and Ms. Mahasandana and Mr. Chea for their insightful buff statement. We broadly agree with staff's assessment and would like to make the following comments.

Downside risks to growth in Cambodia have increased, calling for proactive measures to mitigate the negative impact. Textile and garment exports have been an important driver of the robust growth in Cambodia.

However, declining global demand, and the risk of suspension of the EU's Everything but Arms (EBA) program and a possible review of Cambodia's trade privileges with the US, would put pressure on the garment, textile, and footwear industries, threatening jobs and putting thousands of people at risk of poverty.

Although mitigated by robust foreign investments and by the flourishing construction sector, this worst-case scenario calls for vigilance given the huge social impact it may create. We encourage the authorities to improve the competitiveness of the textile and other labor-intensive sectors, which was affected notably by the wage bill increase. Most importantly, we encourage authorities to engage in rethinking the economic model of the country towards more diversification in favor of less vulnerable and higher value adding industries. In this regard, the contribution of the Special Economic Zones to improved connectivity and human capital development, to high-skill production, and to the shift towards more sophisticated industries should be enhanced.

With this bearish outlook, the temptation of fiscal stimulus is high. Authorities will face the challenge of striking the right balance between the much-needed expenditure and undesirable budget slippages. Cambodia recorded fiscal surpluses since 2014, which culminated in 2018 but decreased steadily since then, and will most likely turn into deficit in 2021 under falling revenue growth and increased government expenditure. The fiscal space available to the authorities is limited and calls for a calibrated and carefully oriented expenditure policies consistent with the national development plan. As mentioned by staff, responses should promote quality, development-oriented projects, and avoid ineffective spending that would weigh more heavily on economic competitiveness and fiscal sustainability. On the revenue side, we commend the authorities' converging views with staff and their commitment to a 4-year strategy to improve revenue mobilization and the efficiency of tax system, and we stress the need for effective implementation.

We share staff's concerns on the vulnerabilities of the financial sector, and call for heightened vigilance and swift policy actions to alleviate risks. Improving data quality and availability is a prerequisite for an accurate assessment of the financial sector, given the still existing data gaps, especially on the growing non-bank loans to the real estate sector and to consumers. We support staff's recommendations for a comprehensive risk-based supervision program and urge the authorities (i) to accelerate raising the regulatory environment to international standards, (ii) to set up the appropriate institutional environment, and (iii) to build up the necessary human capital to meet the challenges of ensuring financial sector stability. We encourage continued Fund support for capacity building in these structural areas.

In the same vein, the economy would also benefit from addressing the governance and transparency challenges and addressing the gaps in the AML/CFT regime, which would help improve the business environment and promote the contribution of the private sector to economic growth.

We commend the progress made by the authorities in advancing income growth and reducing poverty and for making SDGs part of the country's development plan. We agree with staff however that more efforts are needed to meet the 2030 goals and we underscore the necessity of improving equal access to education and health, and adopting proactive strategies to increase the country's resilience to climate change.

With these comments, we wish Cambodia every success.

Mr. Sigurgeirsson and Mr. Vaikla submitted the following statement:

We thank staff for the reports and Ms. Mahasandana and Mr. Chea for their helpful buff statement. We welcome Cambodia's robust economic growth, solid fiscal position, and the government´s economic strategy and efforts to improve governance. Going forward, it will be important to safeguard recent progress that has been achieved and focus on mitigating risks that could arise from potential EBA withdrawal, the vulnerable financial sector or the external environment. We encourage the authorities to prioritize safeguarding fiscal sustainability and containing macro-financial risks through moderating credit growth and strengthening financial sector oversight. As we broadly agree with the thrust of the staff's appraisal, we will make a few comments for emphasis.

Fiscal policies should focus on enhancing fiscal governance, strengthening revenue mobilization and containing non-development spending. Cambodia has a solid fiscal position characterized by strong tax revenue growth, low public debt, and a budget surplus. While robust economic growth is expected to support revenue performance also next year, further enhanced revenue mobilization would be helpful to support meeting the SDG targets by 2030. Given Cambodia´s rapid economic development additional spending should be targeted towards improving the quality of education, health, and infrastructure. We agree with staff that going forward, the fiscal stance needs to be supported by restraining non-development spending and containing public wage growth. In that regard, we note that the government wage bill continues to rise resulting in higher public wages than in comparable peer economies.

Raising macro-financial risks requires strong policy action. Cambodia´s banking system is profitable and adequately capitalized, while strong credit growth over the last few years may have created pockets of vulnerabilities. We are particularly concerned about the surge in real-estate related credit, which could present significant credit risks to banks. We encourage the authorities to take steps to contain rapid credit growth. We agree with the staff´s view, that moderating credit, through macro prudential policies, in particular aimed at real estate-related and consumer lending, would help to decrease external imbalances. The authorities should urgently consider raising reserve requirements on foreign currency liabilities, impose higher risk weights to real-estate lending, introduce LTV limits, regulate lending by real-estate developers, and improve real-estate data collection, as recommended by staff.

Effective implementation of the AML/CFT strategy is needed. We note the progress made in addressing AML/CFT supervision shortcomings, particularly though improved domestic cooperation and plans for enhancing capacity in the FIU. We encourage the authorities to undertake further efforts to comply with FATF international standards, mitigate the risks of correspondent banking relationship withdrawals, and thereby increase overall confidence in the financial system.

Ms. Levonian and Mr. Sylvester submitted the following statement:

We thank staff for their concise and well-written report and Ms. Mahasandana and Mr. Chea for their informative buff statement. We commend the Cambodian authorities for the significant progress made towards reaching the Sustainable Development Goals (SDGs). Looking ahead, the economic outlook is clouded by significant downside risks and challenges. Continued implementation of sound macroeconomic policies and structural reforms will be critical in achieving further progress. We therefore take positive note that staff and the authorities are broadly aligned on the key policies and reforms going forward. As we too share staff’s appraisal and recommendations, we offer the following additional comments for emphasis.

We welcome the authorities’ demonstrated commitment to safeguarding fiscal sustainability and promoting inclusion. Strong fiscal performances have contributed to a low and sustainable debt position and significant government deposits. Notwithstanding, the authorities have committed to further strengthen domestic revenue mobilization. We find this very noteworthy as are their planned reforms focusing on procurement, public investment management, debt management, and PPPs to support improving governance, spending efficiency, and management of fiscal risks. Like staff, we support a proactive approach to mitigating the potential fallout from the withdrawal by the EU of the Everything But Arms (EBA) arrangement through increasing spending in targeted areas with high social and growth impact, such as in health, education, and priority infrastructure, without compromising efficiency. On EBA withdrawal, while we support the policy recommendation of expediting structural reforms as highlighted in the RAM, we wondered whether any efforts are being taken to address the underlying reasons for the withdrawal. Staff comments are welcome.

We urge the authorities to quickly address the buildup of macro-financial vulnerabilities to bolster financial sector stability and resilience. We note that while the banking system remains profitable, with sizeable buffers and low NPL ratio, credit and liquidity risks remain elevated. There are also risks emanating from rapid credit expansion in the real estate sector, including through a form of shadow banking by real estate developers. The high volume of cash transactions in the sector lends itself to money laundering risks, which could further exacerbate existing shortcomings in the AML/CFT framework. Accordingly, prompt actions are needed to address financial sector risks and vulnerabilities. We thus welcome the authorities' commitment to do so in line with staff's recommendations.

We stress the importance of steadfast implementation of structural reforms. To sustain progress towards reaching the SDGs, addressing structural constraints to growth and promoting inclusive development are of paramount importance. We therefore welcome the authorities' wide-ranging structural reform plan aimed at improving competitiveness and diversification. More specifically, we welcome structural reforms that will seek to improve the business climate, promote entrepreneurship, and build resilience to natural disasters and climate change. Additionally, structural reforms that will focus on addressing governance and corruption weaknesses will be important. We support integrating the SDGs into Cambodia's planning and policy making process and continuous monitoring of progress, which should support steadfast implementation. That aside, we would be interested in hearing from staff how gender employment and income gaps have evolved in Cambodia and whether there is scope for labor market reforms to further promote inclusive growth.

Finally, we welcome efforts to integrate surveillance and capacity development (CD) in Cambodia. We commend staff for the very useful Annex IV, which not only shows that Cambodia is an extensive user of Fund CD, but also emphasizes staff's efforts to align CD with the country's strategic needs. Importantly, we welcome efforts to make CD more effective, including through tailoring and flexibility of delivery.

Mr. de Villeroché, Mr. Rozan and Mr. Sode submitted the following statement:

We thank staff for the quality of their documents and Ms. Mahasandana and Mr. Chea for their insightful buff statement. The macroeconomic performance of Cambodia has been impressive though medium-term challenges are still to be addressed to fully reach the sustainable development goals. As we broadly agree with staff's assessment and recommendations, we would like to underline the following points for emphasis:

On the growth outlook, we share the staff analysis that Cambodia's growth is strong but pending short term risks should be carefully monitored:

We share concerns regarding the fast-growing real estate credit sector, especially considering the lack of reliable data and the fragile regulatory framework. To limit potential risks authorities should identify and implement policies to moderate credit growth and act to improve data collection processes.

We commend the work done by staff on assessing the impact of a potential suspension of the EU Everything But Arms (EBA) scheme. Improving the rule of law in the area of labor rights and Economic Land Concessions would be key to prevent the potential withdrawal of preferential access to the European market, in addition to contribute to more favorable social outcomes and business climate.

While the escalation of US-China trade tensions had a neutral impact on growth so far, risks remain tilted to the downside. As foreign direct investment and tourism inflows are dependent on the state of the Chinese economy, any slowdown could have a strong impact on Cambodia. Could staff elaborate on the potential impact that the slowdown of the Chinese economy could have on Cambodia's growth?

The current account deficit widened to 12 percent of GDP in 2018 and is projected to increase further, which is an additional risk factor. We notably note that the current account was increasingly financed by short term debt inflows. Could staff elaborate on associated risks and mitigation measures discussed with the authorities?

On fiscal policy, we would like to underscore the efforts made by the Cambodian authorities regarding budget consolidation. However, anecdotal evidence suggest that the increase of tax revenues has been achieved through intensified fiscal pressure on the formal sector (including foreign firms), and not through expanding the tax base, which could discourage future FDIs and disincentivize formalization. Staff comments on this issue would be welcome. As capital investment still largely relies on foreign investment, we recommend focusing public expenditure allocation towards investment priorities such as infrastructures, health and education. Building human capital will be key to sustain the growth and doing so with an inclusion focus will ensure that the benefits of growth are shared among the population. The budget process has benefitted from technical assistance, which should be continued, especially as improving public investment management could largely benefit to the implementation of infrastructure projects.

On monetary policy, we understand that the use of the Khmer riel is still limited. The measures taken by the Central bank have yet not reached the defined goals and trust in the national currency is still limited. Could staff elaborate on the challenges related to increasing the use of riel, especially at the commercial banks level which face difficulties to reach lending goals in national currency?

On structural reforms, we share the recommendations of the staff, especially the ones on economic diversification. The commitment of the authorities to prioritize public investment is much appreciated. As well is the commitment to improve the legal framework for better business climate. Important issues still constraint economic diversification such as expensive electric power and logistic and the lack of human capital.

Mr. Bhalla and Ms. Dhillon submitted the following statement:

We thank staff for the excellent reports and Ms. Mahasandana and Mr. Chea for their informative buff statement.

With rapid and durable economic growth, Cambodia remains one of the fastest-growing economies in the world backed by garment exports, tourism and construction. Strong performance on revenue, FDI inflow and foreign reserves have added to stability. However, challenges remain, including from reliance on external funding, and the ongoing Everything but Arms (EBA) review by the EU, with potential of a suspension of preferential trade access. We do see Staff has discussed the withdrawal scenario in Box 1, but would like more details on the elements of the EBA review and the effect of the authorities' fiscal stimulus package of around USD 3 billion to mitigate the near-term impact? Externally, weaker growth in the advanced economies and China and protectionism pose risks. Therefore, the authorities must remain steadfast in addressing of these challenges including through increasing economic diversification and competitiveness. We agree with the thrust of the staff report and would like to offer the following comments for emphasis.

We join staff in underscoring fiscal sustainability. The efforts of the authorities to further strengthen revenue mobilization, governance, and expenditure prioritization and social spending are reassuring. This should be sustained with continued improvements in revenue administration, modernizing tax policy and spending efficiency. Separately, on Private Partnerships and the related risks from contingent liabilities, we do note that staff has mentioned that the PPP framework should continue to be strengthened. Could Staff elaborate on the PPP framework and the current play of PPPs in the economy?

Cambodia's banking system remains profitable, with sizeable capital buffers and low NPL ratio. But the authorities must remain vigilant to financial sector vulnerabilities, particularly on rapid credit growth, health of the real-estate sector and improving overall oversight. The Financial Action Task Force has placed Cambodia on the list of jurisdictions with strategic deficiencies or the "grey list". In this context, we note the efforts of the authorities for AML/CFT Strategy and would recommend prioritized action for addressing remaining shortcomings. Could staff advise on the status of the technical assistance from the Fund for AML/CFT?

Structural reforms remain crucial for Cambodia to strengthen SDGs, to close infrastructure gaps and to improve governance. The efforts of the authorities in this direction for diversification, reducing corruption and investing in human capital development are positively noted. As with the previous report, we note that the staff have mentioned addressing the climate change risks. We would like to hear more details on the incremental steps taken by the authorities to meet this objective since the last report. We invite staff comments.

Finally, we fully support the need to address data gaps and advance the quality of macroeconomic statistics.

With these remarks, we wish the authorities the very best in their endeavors.

Mr. Mozhin and Mr. Biriukov submitted the following statement:

We thank staff for the insightful Article IV report and Ms. Mahasandana and Mr. Chea for their comprehensive buff statement. The Cambodian authorities managed to safeguard stable macroeconomic environment, sustain strong growth, and maintain momentum on structural reforms. The economy is steadily moving towards the Sustainable Development Goals (SDG).

Cambodia has been one of the Asian growth champions. GDP growth rate averaged around 7 percent over the last five years, led by garment-related exports and construction activity. Staff anticipate moderate growth slowdown to the 6.5-6.8 percent range in 2020-24, i.e. convergence to the potential. However, this generally positive outlook is subject to downside risks, as probable suspension of trade preferences could have a large negative impact on growth. Staff presented a very informative box on the EU EBA withdrawal scenario. Is there a similar analysis of the risks related to the ongoing revision of Cambodia’s trade privileges under the Generalized System of Preferences (GSP) by the U.S.? We would appreciate staff comments on the U.S. GSP withdrawal scenario.

Weakening competitiveness of the garment sector is another downside risk to growth. Wages in this sector are already much higher than in Bangladesh, the country’s main competitor in low-cost garment manufacturing. Nevertheless, the authorities are planning to increase the minimum monthly wage for the garment industry further in 2020. Staff comments are welcome.

The overall fiscal position remains sound. The decision to provide additional spending to mitigate negative impact on growth from potential EBA withdrawal seems adequate. At the same time, it would be useful to contain non-development current spending, restrain the overall wage bill and further strengthen revenue mobilization.

Vulnerabilities in the financial sector remain elevated. We would encourage the authorities to take prompt action to moderate credit growth amid high credit concentration, related party lending and gaps in implementation of risk-based supervision. The real-estate related risks deserve special attention. We agree that lending by real-estate developers should be monitored and regulated in line with other non-bank credit providers. Priority should also be given to implementation of a comprehensive risk-based supervision program and further progress in AML/CFT.

Monetary policy framework needs further improvements. The NBC should continue to encourage the use of the Cambodian riel use in the economy, with more exchange rate flexibility, in order to strengthen the policy transmission mechanism and to enhance resilience to shocks. At the current juncture, dollarization limits the effectiveness of traditional monetary policy. It calls for a greater focus on macroprudential measures as a foundation of financial stability.

We encourage the authorities to approve publication of the Article IV report.

The Acting Chair (Mr. Furusawa) made the following statement:

As you know, Cambodia is one of the fastest growing developing economies in Asia. Its sustained economic growth, together with a stable macroeconomic environment and the pursuit of structural reforms, has allowed the country to make significant progress toward the Sustainable Development Goals (SDGs). However, slower global growth and the potential suspension of the preferential market access under the Everything but Arms (EBA) scheme with the European Union pose risks to the outlook. Directors noted in their gray statements that this highlights the need to safeguard macroeconomic stability while continuing to support the SDGs, address financial sector vulnerabilities, and accelerate structural reforms.

Mr. Jin made the following statement:

Although I issued a gray statement, I still want to thank staff for the detailed report and Ms. Mahasandana and Mr. Chea for the helpful buff statement.

I would like to commend the impressive progress that Cambodia has achieved toward macroeconomic stability under the SDGs over the years. We are encouraged to see that some of the Fund’s policies and constructive engagement have contributed to solid economic developments in Cambodia. Even amid a deterioration of external conditions, growth is still expected to remain at an impressive rate of 7 percent this year and 6.8 percent in 2020, and the growth momentum is expected to remain robust.

With significant external uncertainties surrounding Cambodia's outlook, we welcome the authorities' continued commitment to maintain macroeconomic stability, while prioritizing public investment to complement the ongoing structural reforms. We look forward to further progress in tackling pockets of vulnerability in the financial sector and addressing structural impediments to boost the economy's competitiveness. Further Fund engagement would be conducive to the authorities' efforts in this regard. In particular, we see merit in further enhancing the integration between surveillance and capacity development to maximize impact and traction.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Tanaka made the following statement:

I thank staff for the informative paper and the consultation effort. I really thank you, Ms. Mahasandana, for the buff statement.

We take note that, following the strong growth last year, the near-term prospects for growth is moderate due to a less favorable external environment.

As for the fiscal policies, I urge the authorities to maintain overall fiscal discipline with public debt remaining low and with fiscal space for further development expenditure.

On the other hand, fiscal governance could be further strengthened through various efforts, including revenue resource mobilization and spending efficiency for producing further fiscal space for flexibility.

It is also recognized that monetary policy has been effective at maintaining low inflation and keeping the Cambodian Riel (KHR) broadly stable against U.S. dollar under the managed float. On the other hand, the credit expansion into the construction sector, based on demand for the housing market, attracts some concerns.

At the same time, financial sector vulnerability is being elevated through liquidity due to financial institutions continuing to draw on funding from abroad. Further progress is needed to strengthen financial sector oversight, especially Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) supervision for its implementation.

Together with higher current account deficits and the elevated financial sector vulnerability, the external position should be monitored and motivated into implementing prudent fiscal policy and accelerating structural reforms to improve the diversification of industries and competitiveness.

In order to achieve more stable economic conditions, technical assistance has been extended and will extend to help fiscal governance enhancements, including a Public Investment Management Assessment (PIMA) and by implementing comprehensive risk-based supervision for financial institutions. I echo Mr. Jin's comment on the integration of capacity development in these surveillance matters.

We wish the Government of Cambodia and the National Bank of Cambodia all success.

Mr. Alkhareif made the following statement:

I would like to join others in thanking staff for the excellent work and Ms. Mahasandana and Mr. Chea for their informative buff statement.

We have not issued a gray statement, but we broadly agree with the thrust of the staff appraisal. We would like to take this opportunity to welcome Cambodia's strong economic performance and the progress made so far toward the SDGs.

Indeed, the structural reforms to improve economic diversification are a step in the right direction. We are also encouraged by the authorities' continued focus on safeguarding fiscal sustainability. We take note that both expenditure and revenue measures will take place to ensure sound fiscal policies. Here, I take positive note of the mention in the buff statement that the authorities remain fully committed to modernize the tax system and to enhance the customs administration.

Finally, reducing financial sector vulnerabilities is warranted. We encourage the authorities to step up their efforts in addressing the AML/CFT issues.

With these remarks, we wish the authorities continued success.

Mr. von Kleist made the following statement:

We issued a gray statement. I just have two points. One is we, unfortunately, had a mistake in our gray statement. We think Cambodia still needed to graduate to lower middle-income status, but they actually have achieved it. So that is good. I just wanted to correct that.

Secondly, I am happy if I can intervene on a country which is doing good work. I want to congratulate the authorities for what they are doing. I hope they continue on this path.

Ms. Mannathoko made the following statement:

I would like to thank Ms. Mahasandana and Mr. Chea for their buff statement and staff for the very clear responses to the questions we circulated.

Like others, we commend the Cambodian authorities on the country’s strong growth performance. I will keep my comments brief, as we have issued a gray statement.

In our gray statement, we encouraged the Cambodian authorities to undertake measures that will preserve fiscal sustainability and contain emerging financial sector and real estate credit risks. We also suggested they move urgently on the structural reforms needed to build competitiveness, mainly because it is essential to sustain growth in the longer term, since they have been under a preferential production framework.

Today, the points I really wanted to make relate to the potential suspension of preferential trade access and its implications for the economy. However, I just wanted to extend the discussion to the more general issue of the economic effects of measures like withdrawing market access or, in some cases, the use of sanctions in response to governance concerns.

In our constituency, what we have learned from the experience of several countries which face this type of situation, which in the end becomes a significant external shock and sometimes is a permanent shock, is that it can lead to an economic deterioration over time. That places a heavy burden usually on the poorer populations which had no role in the governance issue or in the political actions taken by leaders. Sometimes the economic deterioration fuels instability and results in regression, with the economies coming back to the Fund and to donors in a weaker state than before. So there are costs for the poor in the countries concerned, but there is also a cost to the international community if the countries regress and have to come back.

Because the IMF has been looking at how to address political economy-type issues, I was just wondering, Chairman, whether the IMF's work right now, maybe in its discussions with other international financial institutions, whether one could consider including an analysis to look at the issue of how best the international community might motivate governance reforms in difficult contexts without resorting to these blanket measures that have an adverse impact on broader economic developments and the poor. That was just a thought I wanted to raise.

Mr. Benk made the following statement:

I have just a few points, besides our gray statement.

On the potential exclusion from the EBA scheme, we know the staff suggested some fiscal measures, but we think that the authorities should explore ways on how to avoid such a scenario and address the underlying reasons leading to a potential EBA withdrawal. In particular, improving the rule of law in the area of labor rights and land rights is needed.

Second, we underscore that economic diversification, supported by more technologically intensive industries, is important to build resilience against external shocks. Innovations and skills development would also contribute to a more even distribution of socioeconomic gains across the population.

Finally, we encourage the authorities to improve public investment management and to address the shortcomings underscored by the recent Public Investment Management Assessment.

Mr. Cartagena made the following statement:

We want to thank staff for the well-written report and Ms. Mahasandana and Mr. Chea for their candid buff statement.

We commend Cambodia's strong and sustained growth over the past two decades. Its medium-term prospects remain similarly strong, despite the external and domestic risk. We also commend Cambodia's progress in terms of income growth and poverty reduction.

We welcome the authorities' commitment to fiscal discipline and sustainability. The authorities' commitment to keep a low public debt that is at a low risk of distress, as the staff report noted, is an important achievement. We concur with the staff on the importance of making progress toward the Sustainable Development Goals, building on its strong macroeconomic performance.

We welcome the measures that the authorities have already implemented to address financial risks. We acknowledge that the high-risk credit growth imposes risks to the financial sector, but we also concur with the authorities' point of taking into consideration the role of credit in supporting economic activity.

Further efforts to upgrade the regulation and supervision of the financial sector are needed, as well as efforts to put in place the comprehensive crisis management framework.

We welcome the authorities' commitment to focus the economic strategy on improving governance and to continue implementing reforms. Building on the strong growth already achieved, Cambodia can move decisively to upgrade human capital and promote a stronger rule of law to ensure sustainable and inclusive economic growth.

Mr. Inderbinen made the following statement:

We issued a gray statement in which we acknowledge the solid performance of Cambodia's growth and poverty reduction and also in maintaining macroeconomic stability. We thank staff for the documentation and Ms. Mahasandana and Mr. Chea for the helpful buff statement they put out.

Like others, and like Mr. Tanaka before me, we underline the importance of further strengthening the fiscal framework. We acknowledge the efforts underway, both on the revenue side and in terms of the medium-term fiscal strategy that the authorities are working on. We also encouraged a further implementation of the PIMA recommendations that Mr. Benk also mentioned this morning.

We had a question on the capacity for well-targeted spending, more in the discretionary sense, if the suspension or the abolishment of the EBA scheme of the European Union were to come to bear. The question we have is whether the capacity of the authorities is sufficient, in staff's view, to ensure that the quality of spending will be high on education and infrastructure, against the backgrounds of the findings of the PIMA and the deficiencies that staff mention in the document on infrastructure spending and the efforts that are underway there. My question is whether there is a cross-country comparison that you could make. Is this the best way the authorities should respond to the challenges related to this?

Listening to Ms. Mannathoko's intervention, I also had the feeling that this would be a long-term structural issue that would require an adjustment in the economy. My question is whether the short-term discretionary fiscal expansion will be the best answer to this under the current circumstances.

The staff representative from the Asia and Pacific Department (Mr. Turunen), in response to questions and comments from Executive Directors, made the following statement[1]:

Let me first start by thanking Ms. Mahasandana and Mr. Chea for their buff statement and the Cambodian authorities for their hospitality and productive discussions. I would also like to thank the Executive Directors for their gray statements and their questions.

I have two points. Let me first address the question on the quality of spending.

First, we also recommend that the authorities implement structural reforms to address the challenges in terms of strong growth. These are reforms that will support diversification and expanding the growth base of the economy. We definitely think that that is an important part of the reform package that would be addressing the risks stemming from the potential EBA suspension. So let me stress that first.

Second, on the issue of spending efficiency, let me just first note that the authorities have implemented large fiscal stimulus packages in the past. This was the case, for example, in 2008 and 2009. We do have concerns. And the PIMA has identified weaknesses in the spending efficiency, in particular, on the domestically financed investment part, which would be an important component of the fiscal stimulus package. We do worry about spending efficiency. This is the key reason that we recommend that the fiscal stimulus package would be smaller, that it would be gradual, and that it is spaced over

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

a number of years, in order to effectively focus on the quality of growth, rather than just pushing growth up in the first year.

The second comment was on the issue of EBA suspension and the broader issues. Let me just reiterate, from our perspective, that the work of the Cambodia team has been focused on assisting Cambodia in terms of providing a good assessment of the risks, as well as a good and strong assessment of the impact, and then providing policy recommendations on how to address them. Let me stop here.

The staff representative from the Strategy, Policy, and Review Department (Ms. Goodman), in response to questions and comments from Executive Directors, made the following statement:

Maybe just to respond to the more general question about the Fund's role. In the context of the expectation under bilateral surveillance, that the Fund should analyze the external sector outlook for members both in the baseline and the risk factors. We clearly acknowledge that these can include changes in market access, either due to the removal of specialized preferences or to other changes in the conditions to which members are subject. Obviously, the impact of the existence of these preferences in the baseline and then the potential for their removal--in this case, in the risk scenario--is a function of the difference between the access level of tariffs that is enjoyed under that system of preference and the most favored nation (MFN) access levels.

For any given member, the impact of a change will depend on the difference between the environment in the baseline and in the risk scenario, which is a function of that different level of MFN tariffs, versus this preferential access. Where the differences are smaller, obviously, the impact on the beneficiary country is less, if those were to be removed.

In the context that staff's advice needs to be aligned to the country-specific circumstances, it is difficult to imagine that a blanket approach that could encompass all of these different circumstances that members take would be able to be designed. Against that background, from our perspective, what the team has done here in terms of the work that they have done in the staff report, the way that they have analyzed the risks in the Risk Assessment Matrix (RAM), and then as they have outlined in the response to technical questions, the team has really sought to take into account the country-specific risks and to provide their advice in a way that is targeted at and aligned to those underlined risks.

Ms. Mannathoko made the following statement:

I appreciate the response from the Strategy, Policy, and Review Department. Maybe also just to clarify that my basic comment was not so much about a standardized approach by the Fund but more about the Fund's analysis that could add to the global discussions on how to deal with governance challenges. So maybe it is not so much a country-specific issue, as it is a broader issue.

Because the Fund is going to start looking at political economy issues at the country level, we could also consider the way they play into decisions, such as at the broader regional or global level, and just have an analysis in forming that discussion. That was really my intervention.

Ms. Mahasandana made the following concluding statement:

On behalf of my Cambodian authorities, I would like to thank Directors for the constructive comments and policy advice expressed in the gray statements and in today's meeting. I will convey these comments to the authorities.

Cambodia has achieved strong economic growth over the last two decades, accompanied by improved income distribution and poverty reduction. Near-term growth momentum is projected to remain robust, with inflation contained at about 2 percent.

The authorities are mindful of the downside risks arising from a potential withdrawal of EBA and rising trade protectionism. They remain steadfast in their implementation of policies to safeguard macro-financial stability and preserve fiscal sustainability.

Over the medium term, the authorities are committed to prioritizing public investments to complement the ongoing structural reforms and enhance the business environment and competitiveness to promote economic diversification.

On fiscal policy, the authorities are determined to further strengthen revenue mobilization, governance, and expenditure prioritization toward infrastructure, health, and education. In ensuring fiscal sustainability, the authorities are fully committed to strengthening the implementation of the new Revenue Mobilization Strategy 2019-2023 (RMS II) and taking further efforts to improve fiscal governance and transparency. They share the Directors and staff's concern on a possible withdrawal of the EBA and stand ready to launch a stimulus package targeted at the most affected sectors to mitigate near-term risks and lessen the social impact, as well as ensuring steadfast progress with structural reforms to enhance productivity and economic diversification.

Moving forward, the authorities remain firmly committed to modernizing the tax system and customs administration to strengthen fiscal governance, enhance spending efficiencies, and undertake procurement reform.

On exchange rate and monetary policy, the authorities firmly believe that the current exchange rate policy of stabilizing the KHR against the U.S. dollar is appropriate, as it serves as an important nominal anchor due to the high level of dollarization. Nonetheless, they remain committed to implementing policies to promote the greater use of KHR, including by strengthening the central bank, monetary policy, and operations, and further developing financial markets.

Turning to the financial sector, the authorities are aware of the risks posed to high credit growth in the real estate and construction sectors. While the core financial soundness indicators remain healthy and credit quality remains sound, the authorities continue to be vigilant and determined to preserve financial stability.

The authorities have adopted various macroprudential policies to improve financial sector oversight that closely monitors the outcome of this policy. They also commit to continuing their work to improve monitoring tools, including improvements of data quality and coverage, as well as construct the indicator of the real estate price to enhance its capabilities in monitoring the developments in the real estate and construction sectors. They highly value staff's recommendation, as illustrated in the staff report, and stand ready to implement further policies to stabilize credit growth and maintain a sound financial system, should the situation deem necessary.

Moreover, they remain fully committed to make all efforts to narrow the gap of the AML/CFT regime by working closely with the technical assistance team of the Fund and other development partners.

The authorities recognize the need to pursue comprehensive structural reforms to ensure sustainable and inclusive economic growth. Several structural initiatives have been undertaken to promote productivity, the diversity of the economy, and improve the business climate. These reforms include measures to reduce trade costs and the regulatory burden, as well as strengthening the rule of law and anticorruption efforts.

Going forward, the authorities remain committed to the National Strategic Development Plan 2019-2023 and will continue to focus on improving fiscal infrastructure and lifting the quality of education and healthcare to make further progress in achieving the SDGs' objectives.

The authorities also underscore the importance of improving data quality and transparency. They are committed to continuing to leverage from the Fund's expertise to further improve the data's harmonization and consistency.

Finally, let me conclude by expressing that the Cambodian authorities appreciate the Fund for the constructive engagement, policy advice, and technical assistance over the past year. The Fund's surveillance, policy advice, and tailored technical assistance have been valuable in supporting Cambodia's efforts to achieve sustainable and inclusive economic developments.

I would also like to thank the mission chief, Mr. Turunen, and the mission team for the productive engagement during the Article IV mission. This is Mr. Turunen's last mission for Cambodia. On behalf of my Cambodian authorities, I would like to wish him the best of luck in his next assignment.

To end, my authorities look forward to building on this longstanding cooperation and partnership with the Fund.

The Acting Chair (Mr. Furusawa) made the following statement:

Thank you very much, Ms. Mahasandana. We commend Cambodia's strong economic growth and would encourage the authorities to continue their reform efforts.

Cambodia is an Article VIII member, and no decision is proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended Cambodia's strong and sustained economic growth over the past years and significant progress in reducing poverty. Directors noted, however, that near-term economic activity is likely to moderate and the outlook is subject to notable downside risks, including from a potential suspension of trade preferences under the EU's Everything But Arms scheme and weaker-than-expected global growth. Directors encouraged the authorities to implement policies to safeguard fiscal sustainability, address macro-financial risks, and support continued progress toward the Sustainable Development Goals (SDGs).

Directors commended the authorities for strong revenue performance, which has helped keep public debt low and allowed government deposits to reach high levels. They welcomed the authorities' plans to scale up priority social and infrastructure spending given the large needs to meet the SDG targets by 2030. Directors stressed, however, the need to support fiscal sustainability by restraining non-development current spending, including the wage bill, and by continuing to strengthen revenue mobilization and enhance tax efficiency. Directors considered that fiscal governance should be further improved to raise revenue collection, manage fiscal risks from public-private partnerships, increase spending efficiency, including by strengthening public investment management, and reduce opportunities for corruption. Publishing the medium-term fiscal framework and implementing a debt-based fiscal anchor would help safeguard fiscal sustainability over the medium term.

Directors noted positively that the Cambodian financial system is profitable, has sizeable capital buffers, and has low nonperforming loan ratios. They noted, however, that credit has accelerated and is increasingly concentrated in the real estate sector and consumer lending. They called for prompt actions to moderate credit growth, including through additional macroprudential measures and a broad-based policy response to address risks stemming from the real estate sector. Directors considered that lower credit growth, coupled with prudent fiscal policy and structural reforms, would also help reduce external imbalances. Directors called for further progress to strengthen financial sector oversight, including AML/CFT supervision. They noted that promoting further financial market development and local currency use would allow the central bank to move toward a more robust and flexible monetary policy framework.

Directors commended Cambodia's significant progress toward the SDGs owing to strong economic growth and structural reforms. They welcomed the authorities' structural reform plan aimed at improving competitiveness and diversification, including through trade facilitation, lowering the cost of doing business, and improving governance. They emphasized that meeting the SDG targets by 2030 will require sustained policy efforts, particularly in improving education and health outcomes and investing in infrastructure. To improve economic resilience, structural constraints should be addressed, including through diversifying growth drivers, ensuring a reliable energy supply, strengthening anti-corruption efforts, and enhancing the regulatory environment. Directors also underscored the importance of renewed efforts to address data gaps and improve data quality.

It is expected that the next Article IV consultation with Cambodia will be held on the standard 12-month cycle.

APPROVAL: October 6, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

EBA Withdrawal

1. ***Can staff make further comments on the scope of the fiscal stimulus to mitigate the risks of EBA withdrawal and its likelihood?***

2. ***We would like to have a further elaboration on the details of this review, reasons of the possible EBA suspension, and the likelihood that this risk could materialize.***

3. ***Could staff provide more information on what it would take to avoid suspension and, if this is unlikely, what changes would be required for reinstatement?***

4. ***On EBA withdrawal, while we support the policy recommendation of expediting structural reforms as highlighted in the RAM, we wondered whether any efforts are being taken to address the underlying reasons for the withdrawal. Staff comments are welcome.***

5. ***We do see Staff has discussed the withdrawal scenario in Box 1, but would like more details on the elements of the EBA review and the effect of the authorities' fiscal stimulus package of around USD 3 billion to mitigate the near-term impact?***

- In February 2019, the European Union (EU) launched the procedure to suspend Cambodia's EBA trade privilege. A six-month monitoring and evaluation process, which included a fact-finding mission and high-level meetings with government officials, ended in August 2019. On November 12, the conclusions of the review were sent to the Cambodian authorities, which will have one month to reply. The EU will formally conclude the procedure with a final decision on whether or not to withdraw tariffs preferences and provide details on the scope and duration of the withdrawal by February 2020. Any withdrawal would come into effect after a six-month period following the decision, after which Cambodia exports will be subject to the Most-Favored-Nation (MFN) duty rates in the EU.
- The following articles published by the EU describe the areas of concerns identified where progress is warranted to avoid EBA suspension, as well as the EU's view on recent political developments: EU triggers procedure to temporarily suspend trade preferences for Cambodia: https://ec.europa.eu/commission/presscorner/detail/en/MEMO_19_988Statement by the Spokesperson on the latest developments in Cambodia

(November 2019):https://eeas.europa.eu/headquarters/headquarters-homepage/70204/statement-spokesperson-latest-developments-cambodia_en

- Discussions between the EU and the authorities are bilateral and confidential and, at this stage, staff does not have a clear view on whether or not the Cambodia authorities and the EU will reach agreement before the end of the review to avoid EBA withdrawal.
- If the suspension becomes effective, the EBA can be reinstated by the European Commission, once progress has been made on the areas of concern, and if Cambodia remains an eligible country.
- The fiscal stimulus designed by the authorities follows two objectives: (i) protect the workers impacted by the EBA withdrawal through cash-for-work program and vocational training; and (ii) boost aggregate demand and long-term potential growth through a significant scale-up in infrastructure spending. Prudent fiscal stance in recent years has created enough fiscal space to allow increased spending without threatening public debt sustainability. Authorities expect that the fiscal stimulus package, together with structural reform measures, is sufficient to maintain growth at close to seven percent of GDP. In staff's view, the additional spending should be modest (about 1.5 percent of GDP in the first year), gradual and accompanied by measures to improve spending efficiency along the lines of PIMA recommendations.

6. ***Staff views are welcome on how IMF might facilitate a positive outcome (EBA Withdrawal).***

- The IMF is assisting Cambodia by providing an assessment of the risks and the impact of the potential withdrawal on the economy, as well as recommended policies to mitigate the impact.

Outlook/Risks

7. ***It would be much appreciated if staff could elaborate on how the global slowdown, especially in the Asian economy, affects the Cambodian economy.***

8. ***Could staff elaborate on the potential impact that the slowdown of the Chinese economy could have on Cambodia's growth?***

- Cambodia is a very open economy with a relatively narrow growth base. A reduction in foreign demand would reduce textile exports and tourism receipts. A slowdown of the main exports partners (US, EU) would have an adverse impact on garment exports and growth. The textile industry employs about 750 thousand workers and is estimated to support indirectly about 3 million Cambodians. Hard-won gains in poverty reduction could be quickly eroded following a negative shock to the labor-intensive manufacturing industries and challenge progress towards reaching SDGs.

- While goods trade with China are growing, other transmission channels are likely to be more important. For example, a large share of FDI to Cambodia stems from China and Chinese investors play an important role in both the financial and real estate sector. Therefore, a slowdown of China would lead to a decline of FDI and other banking sector flows, putting additional pressure on the external sector, as well as financial and real estate sectors. Additionally, it would also have an important impact on the tourism sector—Chinese tourists accounted for a third of total international arrivals in 2018—further weighing on growth. Given the elevated financial sector vulnerabilities, the contraction in growth could lead to a rise in non-performing loans and a substantial slowdown in lending, exacerbating the growth impact.

9. ***Is there a similar analysis of the risks related to the ongoing revision of Cambodia's trade privileges under the Generalized System of Preferences (GSP) by the U.S.? We would appreciate staff comments on the U.S. GSP withdrawal scenario.***

- As of 2019, the U.S. account for about a third of total exports. Exports to the U.S. under GSP more than doubled recently, after travel goods were added the list of GSP beneficiary products, and their share grew to 20 percent of Cambodian exports to the U.S. A revision of the GSP by the U.S. would therefore undoubtably have severe consequences for the Cambodia economy, in particularly if it is synchronized with the suspension of EBA.
- No formal review of the GSP trade privileges have been publicly announced to date.

Fiscal Policy

10. ***Will staff be able to assist authorities with measures that inform project prioritization? Could staff also elaborate on discussions with the authorities on planned measures to improve spending efficiency and public investment management, especially with respect to addressing shortcomings in infrastructure governance?***

- Staff recommends focusing project selection on high growth and social impact projects. To this end, implementing measures recommended in the recent PIMA assessment provides an opportunity to strengthen processes for project selection and prioritization. The PIMA report contains six detailed recommendations as well as an action plan (33 actions) on how to strengthen public investment management. The key shortcomings in Cambodia lie in budget preparation and in the implementation of projects, and recommendations mostly focus on strengthening these two stages. Since the PIMA mission, the authorities have adopted a comprehensive Public Investment Management System Reform Strategy 2019-2025 in October.

- One critical dimension dealt with in the PIMA recommendations is how to improve the prioritization of projects. Developing a capacity to prepare and review projects is critical in that respect: line ministries should develop the necessary institutional framework and skills to conduct quality project development; and they should also strengthen their ability to centrally review project appraisal results for quality assurance. This entails developing guidelines and templates for the preparation and review of projects (examples of templates were provided in the PIMA report) and ensuring sufficient funding for the development of projects. The Fiscal Affairs Department stands ready to further assist Cambodia on this topic if the authorities request it.

11. ***In view of the expected adverse impact of the above external shocks on the private sector job market, could staff elaborate on whether they see a need for labor market measures beyond temporary support to laid-off workers, such as re-skilling the unemployed, public works programs, or similar transitional measures?***

- While scale up in public works programs will provide temporary and immediate support for laid-off workers, these could be further extended by targeted skills training programs to facilitate absorption of labor in new economic activities. These targeted programs need to be implemented in the broader context of policy priorities focused on job-rich growth (such as diversifying exports products and destinations, investing in human capital development, skills and innovation, enabling growth of SMEs and improving governance).

12. ***Against the authorities' intention to launch a stimulus package in the event of a suspension of the EBA scheme, could staff elaborate on the administrative capacity for ensuring well-targeted spending? Also, given the large potential to improve capital spending as laid out in Box 3, could staff comment on the status of implementation of the PIMA recommendations; will additional TA be provided in this area?***

- Since the PIMA mission, the authorities have moved forward and adopted their comprehensive Public Investment Management System Reform Strategy 2019-2025 in October. Additional TA will be provided by the Fiscal Affairs Department to further assist Cambodia in strengthening infrastructure governance - the authorities have already requested support on medium-term budgeting processes. The Fiscal Affairs Department stands ready to deliver follow-up assistance on other PIMA recommendations if the authorities request it, in close coordination with other development partners that were involved in the PIMA exercise (World Bank, Asian Development Bank).

13. ***We would have liked to see a discussion on the merits of a more progressive tax system, given the persistent large income inequalities, especially between rural and urban areas (Fig. 5). Staff comments are welcome.***

- A number of tax policy recommendations are oriented towards making the overall tax system more progressive. This includes in particular property taxes based on updated real-estate valuations and expanded tax base, developing comprehensive excise tax legislation, and introducing a comprehensive personal income tax regime, including a capital gains tax, over the medium term. See Box 3, in Article IV 2018 report for additional analysis.

14. ***However, anecdotal evidence suggest that the increase of tax revenues has been achieved through intensified fiscal pressure on the formal sector (including foreign firms), and not through expanding the tax base, which could discourage future FDIs and disincentivize formalization. Staff comments on this issue would be welcome.***

- On-going automation of tax payment business processes are expected to ease compliance and regulatory burden on formal business and encourage compliance from informal ones. FDI projects are benefiting from various tax incentives and holidays which presumably ease the tax burden. Making tax incentives related directly to the amount of investment, including accelerated depreciation and investment allowances could give further confidence to investors.

15. ***Could Staff elaborate on the PPP framework and the current play of PPPs in the economy?***

- PPP capital stock is estimated at about 25 percent of GDP. These projects are mainly in energy generation, transmission, and airports. DSA assumes contingent liability shock from PPPs at 8.8 percent of GDP, in line with a standard DSA template. Staff recommends maintaining a comprehensive PPP database and developing a risk assessment framework. The authorities have established a roadmap to have a full set of PPP mechanisms by 2020, including the legal framework and system for risk assessment. Technical assistance provided by the IMF, the World Bank and ADB has focused on developing capacity to analyze fiscal risks from PPPs, integrating PPP risks in the assessment of fiscal sustainability and strengthening the legal, regulatory and institutional framework of PPP management. A central PPP unit has been established under the Ministry and the authorities adopted an annual ceiling. A new PPP law is being drafted and is expected to be submitted to the National Assembly in 2020.

Monetary and Financial Sector Policies

16. ***Could staff elaborate on their discussions with authorities on credit risks, housing and financial inclusion?***

- Staff has emphasized the need to implement broad-based macroprudential policies, including raising reserve requirement for foreign currency liabilities, as well as policies targeting the real-estate sector lending, to address risks stemming from the rapid credit growth. The authorities view a targeted approach to implementing macro-prudential measures as currently more appropriate, given the role of credit expansion in overall economic growth, financial inclusion and access to housing. In addition, the authorities are reluctant to pre-emptively curb credit expansion, in view of risks to growth due to global economic slowdown and potential EBA withdrawal. Staff continues to point to potential risks associated with largely unregulated lending by real-estate developers and underscores the need for stronger monitoring and regulation. The authorities agree that closer monitoring of the real-estate developers' lending activities and data collection are a priority. While staff agrees that credit expansion, especially in the real estate sector, has contributed to economic growth and increased access to finance and housing, failure to implement pre-emptive macro-prudential policies in a timely manner could result in disorderly economic adjustment should the risks materialize.

17. ***Staff's comments on the implementation of regulations on related-party lending would be welcome. Also, given the authorities' ambition to increase the use of the Khmer Riel, could staff elaborate on the authorities' strategy to this end, and on how the Fund could support these efforts?***

- The most recent regulation on exposures to related parties was issued in 2001 and large shortcomings were identified by the 2010 FSAP but are yet to be addressed. In line with Fund TA recommendations on addressing credit risks, regulations on exposures to related parties should be amended to expand the coverage of exposures and comply with the Basel Committee on Banking Supervision guidelines.
- In 2016, the NBC has introduced a 10 percent KHR-denominated loan share requirement (to be achieved by December 2019) in an effort to address high levels of dollarization. The NBC has been relying on tools including Negotiable Certificate of Deposit (NCD) and Liquidity-Providing Collateralized Operation (LPCO) to support banks' liquidity management and implementation of the 10 percent KHR loan share requirement. In line with the Fund TA recommendations, the authorities have recently reduced remuneration of the reserve requirement on USD deposits to zero. The Fund's has provided extensive TA covering the monetary operations framework, including liquidity monitoring and forecasting as well as financial markets developments. In 2017, MCM TA has proposed a strategy for increasing local currency use, emphasizing the need to enhance the reserve requirement framework,

develop a KHR sovereign debt issuance strategy, and allow for greater exchange rate volatility. IMF TA experts, including a resident expert at the central bank and a regional advisor at the CDOT, continue to support and monitor implementation of the past recommendations and the authorities' efforts to promote greater use of KHR.

18. ***Could staff elaborate on the policies for the proliferation of fintech start-ups, i.e. if amendments to the regulatory and supervisory framework, facilitating e.g. the licensing process, are recommended or do staff suggest other forms of facilitation (e.g. financial support)?***

- Rapid proliferation of Fintech introduces new risks. While there is strong interest in fintech in Cambodia, there are currently no policies or regulations for the licensing or formalization of fintech companies beyond existing regulations for payment service providers. The authorities have developed regulations governing the licensing of mobile payment service providers in 2017 and recently introduced a new e-commerce law outlining more sound consumer protection policies. The authorities should continue developing and strengthening the legal and regulatory framework for fintech companies to follow the best international practices. The oversight framework needs to consider clarity of the legal and regulatory regime, safeguarding funds, AML/CFT measures, and operational resilience.

19. ***Does staff have an estimate of how much of the surge in demand for housing and associated credit is driven by foreign demand?***

- Staff does not have data on real-estate purchases and associated credit disaggregated by the country of origin. FDI data suggests, that a significant share—about 8 percent—of total FDI is directed towards construction and real-estate sector activities. Anecdotal evidence suggests that demand for real-estate properties, especially in the high-end market, as well as funding of real-estate developers are predominantly driven by foreign investment.

20. ***We recall from last year's Board discussion that legislation is being prepared to improve monitoring and regulation of real-estate sector activities. Could staff provide an update on the latest progress? Also, could staff share on how non-bank credit providers are regulated at present, and how this could be applied to property developers?***

- No real-estate sector-specific regulations have been issued since the 2018 Article IV. MEF is currently drafting a law on real estate activities. The authorities have commenced collection of data for construction of the real-estate sector price index, with help from the IMF TA, and continue monitoring the real-estate sector lending.

- Supervision and regulation of non-bank credit providers, excluding real-estate developers, are under purview of the NBC. MFIs have some prudential requirements, such as liquidity risk management, solvency, and prompt corrective action. MFIs also are required to have regular onsite examinations by NBC every two years and have some of the same reporting requirements as banks and MDIs. Rural Credit Institutions (RCI) do not have prudential requirements but do have onsite examinations every three years and submit quarterly returns. However, staff continues to emphasize the need to close gaps between bank and non-bank supervisory and regulatory frameworks, including sectoral loan classification standards and reserve requirements, which could lead to regulatory arbitrage. In addition, risk-based supervision for the systemically important MFIs, MDIs, and RCIs needs to be established. The NBC's supervisory and regulatory frameworks do not encompass lending by the real-estate developers who are currently under purview of the MEF. Staff recommends aligning licensing and macroprudential regulations of real-estate developers' lending with other non-bank credit providers. International experience suggests that universal application of macroprudential policies on all mortgage lenders prevents leakages and strengthens the effectiveness of measures.

21. ***Can staff comment on the extent to which capital inflows are feeding into domestic credit growth and the real estate boom?***

- Foreign investment has contributed substantially to the domestic credit growth and real estate sector boom. FDI to the banking and MFI sectors in 2018 and 2019Q2 accounted for about 22.5 percent relative to the total FDI inflows while FDI to construction and real estate sectors accounted for about 8 percent. As Staff Reports indicates, financial institutions heavily rely on external funding sources, including from parent banks and other financial institutions. Data on funding sources of real-estate developers are not available. However, anecdotal evidence and FDI data suggest that significant share of funding originates from abroad.

22. ***Could staff elaborate on the challenges related to increasing the use of riel, especially at the commercial banks level which face difficulties to reach lending goals in national currency?***

- The 10 percent KHR loan share requirement poses a challenge for liquidity control. In order to achieve the requirement, a significant amount of KHR liquidity must be provided by the NBC's FX intervention and LPCO. Demand for KHR liquidity in 2019 associated with commercial banks' efforts to comply with the 10 percent KHR loan requirement has led to steady KHR appreciation against USD in the first two quarters of 2019 followed by repeated NBC's FX interventions. In addition, some, mostly foreign banks, target predominantly large corporate customers who prefer FX-denominated loans to local currency loans. In view of these challenges, it is important for the NBC to continue their NCD issuance and improving the LPCO efficiency. The NBC, with support from TA from MCM resident advisor and CDOT expert, are working on improving the liquidity forecasting and management frameworks and developing interbank markets.

23. ***Could staff advise on the status of the technical assistance from the Fund for AML/CFT?***

- LEG currently has a TA project on AML/CFT in Cambodia that is funded by the AML/CFT Thematic Fund. The project has three components: (i) legal drafting – to assist with drafting amendments to the AML/CFT Law and AML/CFT Regulations and Prakas; (ii) financial intelligence – to help with strengthening the Cambodian Financial Intelligence Unit’s operational and strategic analysis; and (iii) risk-based supervision – to assist Cambodia in developing a risk-based approach to AML/CFT supervision for its banking sector.

External

24. ***Therefore, the overall policy mix would need to be mindful of the risk of deepening exchange rate real appreciation. Staff’s comments are welcome.***

- Staff recommends that policies should focus on diversifying export markets, and improving productivity and competitiveness including through ensuring that minimum wage growth is in line with productivity improvements. Moderating credit, in particular real estate-related and consumer lending, would help lower import growth and reduce the CA gap. Finally, policies to improve health and education outcomes and support those that are most vulnerable are needed to meet SDGs and improve productivity.

25. ***Could staff elaborate on the likely causes and implications of this trend and the potential of capital flow reversal if a correction in real estate prices or other shock were to occur?***

26. ***Could staff elaborate on associated risks and mitigation measures discussed with the authorities?***

- While there is uncertainty regarding the sources of these flows, authorities and staff view is that they are mainly short-term liabilities associated with the real estate sector, occurring outside the banking sector. While these flows could reverse as a result of an idiosyncratic shock, they still account for a relatively small share of inflows, compared to more stable capital flows such as FDI and medium-term external borrowing, thus limiting Cambodia’s exposure to external sustainability risks.

- Expected maturing of the real estate and credit cycles (also reflecting staff recommendations for additional macroprudential policy measures) and improvements in the AML/CFT framework and its implementation should help moderate the share of short-term capital inflows over the medium-term.

27. ***We are not convinced, however, that the overvaluation derived from the EBA CA model may be too high because the model does not account for the large share of youth in the population. We would expect this would be picked up both by the population growth variable and the prime age savers variable. Staff comments would be welcome.***

- Staff view is that the EBA CA model does not sufficiently pick up the demographic characteristics of Cambodia, specifically the relatively younger population and high overall dependency rate. The overall contribution of the demographic variables (the prime saving share, life expectancy, population growth and the old-age dependency ratio) to the CA norm is -0.4 percent of GDP. These variables partly explain Cambodia's low level of gross savings. Cambodia's old age dependency ratio (0.13) is lower than the world average (0.32) whereas the total dependency ratio (0.56) is higher than the world average (0.51). Therefore, the old age dependency ratio (relative to the rest of the world) variable contributes positively to the CA norm, while using a broader dependency ratio variable which includes younger population, would have reduced the CA norm. Please note that the unadjusted model results are presented in the table in the Staff Report and all three models point to a substantial overvaluation of the REER. Staff's overall assessment was also informed by the External Sustainability approach.

Structural

28. ***Can staff comment on the adequacy of Cambodia's social safety net in addressing the expected impact of the EBA withdrawal on poverty?***

- While large numbers have exited the ranks of the poor, the proportion of the population just above the poverty line (or near poor) remains high. This implies that the impact of an income shock could be sizeable, resulting in an increase in poverty. The authorities have recognized this issue within the National Social Protection Policy Framework 2016 - 2025, with proposals to expand social safety net programs. Cambodia spends about one percent of GDP on various social safety net programs which is slightly below the regional mean (1.1 percent of GDP) and the global mean (1.5 percent of GDP. Source: The State of Social Safety Nets 2018, The World Bank

29. ***Regarding poverty, we observe that the last figure (17.7 percent) is from 2012 and we would like to know if there is a more updated figure or an estimation of the current poverty rate.***

- The latest observed poverty rate measured by "National Poverty Headcount Ratio" is 13.5 percent in 2014 as reported by Cambodian Sustainable Development Goals (CSDGs) Framework (2016-2030). The authorities have been working on the update of the poverty rate based on their household survey, while CSDGs set the targets of the poverty rate as 11.5 percent in 2019, 8.5 percent in 2025, and 6.0 percent in 2030.

30. ***That aside, we would be interested in hearing from staff how gender employment and income gaps have evolved in Cambodia and whether there is scope for labor market reforms to further promote inclusive growth.***

- Cambodia's labor force participation rates remain high and unemployment low in part due to its flexible labor market and the dominance of labor-intensive production. At the same time, some gender gaps remain as shown from the data of the labor force participation rates (men 88.5 percent, women 77.2 percent in 2016, net wage gap in the formal sector of around 20 percent in 2018). The authorities have taken several measures aimed at: i) promoting favorable conditions for increasing women's access to skills training, employment, productive resources, social protection, voice and decision-making in the economic sector; ii) increasing women's and girls' access to education and vocational training by promoting participation, awareness and favorable conditions; and iii) promoting the participation of women in decision-making at all levels through increasing the number of female civil servants and elected leaders, as well as strengthen their capacity and opportunities for promotion.

31. ***Nevertheless, the authorities are planning to increase the minimum monthly wage for the garment industry further in 2020. Staff comments are welcome.***

- Large increases in the minimum wage, already high compared to regional peers, could further erode competitiveness. The authorities have taken several measures aiming at improving private sector productivity, including through reducing trade costs and increasing working days, which should help mitigate the increase of labor cost in the garment industry. The magnitude of wage increases, while still significant, moderated in 2019 compared to the past several years.

32. ***As with the previous report, we note that the staff have mentioned addressing the climate change risks. We would like to hear more details on the incremental steps taken by the authorities to meet this objective since the last report. We invite staff comments.***

- Cambodia ratified the 2015 Paris Agreement and made important commitments in its Nationally Determined Contributions (NDC) including a reduction of greenhouse gas emissions and increased forest cover by 2030. Currently, Cambodia's Climate Change Technical Working Group is preparing to submit an updated NDC by 2020, aiming to increase transparency and visibility of the climate finance projects. Cambodia is in implementation stages of the following national strategies: "National Strategic Plan on Green Growth 2013-2030," "Cambodia Climate Change Strategic Plan 2014-2023," and "National Environmental Strategy and Action Plan 2016-2023." In addition, Cambodia is currently working on an energy master plan with a focus on renewable energy sources in its power generation mix. To that end, in December 2018, ADB prepared a report on Cambodia's "Energy Sector Assessment, Strategy, and Road Map."

SDG Costing

33. ***Could staff comment on any plans to follow through with this support?***

- Staff will continue to engage with the authorities and development partners on developing SDG financing strategy in line with the current policy recommendations anchored in the IMF-World Bank Debt Sustainability Analysis. In particular, Staff will support the authorities through:
- Preserving debt sustainability. In Staff's view, within the debt limit, priority spending could be financed by drawing down government deposits, additional concessional borrowing, and involvement from the private sector and international donors. Staff stands ready to assist the authorities in calibrating and implementing their medium-term fiscal framework (including a debt-based anchor) to preserve debt sustainability.
- Mobilizing domestic revenue. Staff stands prepared to support the authorities' efforts to further increase domestic revenue through continuous tax policy and revenue administration reforms.
- Improving spending efficiency and public finance management practices. Staff continues to support the authorities in generating savings for priority spending through PFM reforms, including through enhancing public investment process.