INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/387

CAMBODIA

December 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMBODIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 6, 2019 consideration of the staff report that concluded the Article IV consultation with Cambodia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 6, 2019, following discussions that ended on October 11, 2019, with the officials of Cambodia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 20, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Cambodia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 19/490
FOR IMMEDIATE RELEASE
December 26, 2019

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

IMF Executive Board Concludes 2019 Article IV Consultation with Cambodia

On December 6, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia.

Growth accelerated to 7½ percent in 2018. Economic activity remains robust this year with real GDP growth expected at around 7 percent, owing to continued export growth and strong construction activity, while inflation remains stable at around 2.5 percent.

The current account deficit widened to about 12 percent of GDP in 2018 and is expected to widen further this year. Robust Foreign Direct Investment inflows, as well as an increase in other short-term inflows, have nevertheless contributed to an accumulation of gross international reserves to about 7 months of prospective imports in August 2019.

Financial conditions have been accommodative. Private sector credit, increasingly concentrated in the real-estate and construction sectors, has accelerated and is expected to grow around 28 percent in 2019.

Robust revenue performance continues, and, thanks to strong administrative efforts, the 2018 fiscal balance (following the Government Finance Statistics Manual 2014 format) shows a surplus close to 1 percent of GDP in 2018. The fiscal position is projected to remain in surplus also this year.

Deterioration of external conditions is expected to lead to a slowdown in growth to below 7 percent in 2020. Cambodia’s economic outlook is subject to significant downside risks. The on-going Everything but Arms (EBA) review by the EU—Cambodia’s primary export partner—could lead to a suspension of preferential trade access later next year, which could have a large negative impact on economic activity.

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

Executive Board Assessment[2]

Executive Directors 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,

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

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.

Cambodia: Selected Economic Indicators, 2015–20

	2015	2016	2017	2018	2019	2020
				Est.	Proj.	
Output and prices (annual percent change)						
GDP in constant prices	7.0	6.9	7.0	7.5	7.0	6.8
Inflation (end-year)	2.8	3.9	2.2	1.6	2.7	2.8
(Annual average)	1.2	3.0	2.9	2.4	2.4	2.6
Saving and investment balance (in percent of GDP)						
Gross national saving	13.6	14.1	14.9	11.5	10.4	10.2
Government saving	5.2	4.8	4.8	6.3	6.8	6.3
Private saving	8.4	9.2	10.1	5.2	3.7	3.9
Gross fixed investment	22.5	22.7	23.0	23.7	23.9	23.8
Government investment	7.8	7.6	7.5	7.7	8.2	9.4
Private investment	14.7	15.1	15.5	16.0	15.7	14.4
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	14.7	18.0	23.8	24.0	25.2	18.0
Private sector credit	27.1	22.5	18.5	23.2	28.0	25.0
Velocity of money 1/	1.6	1.5	1.4	1.2	1.0	0.9
Public finance (in percent of GDP)						
Revenue	19.6	20.8	21.6	23.9	24.4	23.6
Domestic revenue	17.7	18.3	19.7	21.7	22.4	22.2
Of which: Tax revenue	15.6	15.8	16.9	18.8	19.2	19.3
Grants	1.9	2.5	1.9	2.2	2.0	1.4
Expenditure	20.3	21.1	22.4	23.1	23.9	25.3
Expense	12.5	13.5	14.9	15.4	15.7	15.9
Net acquisition of nonfinancial assets	7.8	7.6	7.5	7.7	8.2	9.4
Net lending (+)/borrowing(-)	-0.6	-0.3	-0.8	0.7	0.5	-1.7
Net lending (+)/borrowing(-) excluding grants	-2.6	-2.8	-2.7	-1.4	-1.4	-3.1
Net acquisition of financial assets	2.3	2.3	3.1	2.2	2.6	0.3
Net incurrence of liabilities 2/	3.0	2.6	3.9	1.5	2.1	2.0
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	9,339	10,278	11,229	12,963	14,765	16,727
(Annual percent change)	14.3	10.1	9.3	15.4	13.9	13.3
Imports, f.o.b.	-13,286	-14,121	-15,504	-18,806	-21,950	-24,725
(Annual percent change)	10.5	6.3	9.8	21.3	16.7	12.6
Current account (including official transfers)	-1,598	-1,732	-1,797	-2,993	-3,600	-3,918
(In percent of GDP)	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6
Gross official reserves 3/	6,798	9,093	12,169	14,598	16,929	18,753
(In months of prospective imports)	4.9	6.0	6.7	7.0	7.2	7.1
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	5,648	5,861	6,669	7,021	7,544	8,112
(In percent of GDP)	31.2	29.1	30.0	28.6	28.5	28.3
Public debt service	137	186	211	266	342	402
(In percent of exports of goods and services)	1.0	1.3	1.3	1.4	1.6	1.7
Memorandum items:						
Nominal GDP (in billions of Riels)	73,423	81,242	89,754	98,919	108,550	118,982
(In millions of U.S. dollars)	18,083	20,043	22,189	24,444	26,688	28,850
Exchange rate (Riels per dollar; period average)	4,060	4,053	4,045	4,047	…	…

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

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

2/ Includes statistical discrepancy.

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

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

November 20, 2019

KEY ISSUES

Context. Stable macroeconomic environment, strong growth and ongoing structural reforms have contributed to significant progress towards Sustainable Development Goals (SDGs). At the same time, uncertainties, including from slower global growth and potential suspension of preferential market access under the Everything but Arms (EBA) scheme, highlight the importance of maintaining macroeconomic stability while meeting still large development needs, addressing elevated financial sector vulnerabilities and accelerating structural reforms.

Policy priorities:

- **Safeguarding fiscal sustainability and promoting inclusion.** Continued strong revenue mobilization efforts and a prudent fiscal stance supported by restraining non-development current spending will allow additional spending to address development needs. Expenditures should be oriented towards supporting inclusive growth through priority infrastructure investment, as well as health and education spending. Fiscal governance should be further strengthened through reforms aimed at improving revenue administration, public financial management and spending efficiency. Managing fiscal risks from contingent liabilities calls for strengthening the PPP framework.

- **Addressing macro-financial risks.** Prompt actions are needed to address elevated financial sector vulnerabilities and to improve the external position through moderating credit growth and implementing targeted macroprudential policies. This includes a prompt, broad-based policy response to address risks associated with the real-estate sector. Enhancing regulation and supervision, promptly introducing a comprehensive crisis management framework and improving financial sector oversight, including through closing gaps in the AML/CFT regime, would help build financial resilience. Policies should continue to encourage local currency use and further financial development.

- **Supporting progress towards SDGs.** Policies should be geared towards addressing sizeable spending needs to reach SDG targets in health, education and infrastructure, with support from the private sector and international donors. Accelerated implementation of structural reforms is needed to remove structural constraints to growth, correct external imbalances, address governance and corruption weaknesses and promote sustainable and inclusive development. While steady progress has been made, additional efforts are needed to address data gaps, and improve data quality and transparency.

Approved By
Anne-Marie Gulde-Wolf and Yan Sun

Discussions took place September 30–October 11, 2019. The mission team comprised Jarkko Turunen (head), Eteri Kvintradze, David Corvino, and Mariya Brussevich (all APD), Paul Austin (STA), Aleksandra Zdzienicka (FAD), Matanee Satraphai (CDOT), Lisa Uemae (OAP), and Yasuhisa Ojima (Resident Representative). Alisara Mahasandana and Suasdey Chea (both OED) participated in some meetings. Hibah Khan and Ross Rattanasena assisted in the preparation of this report.

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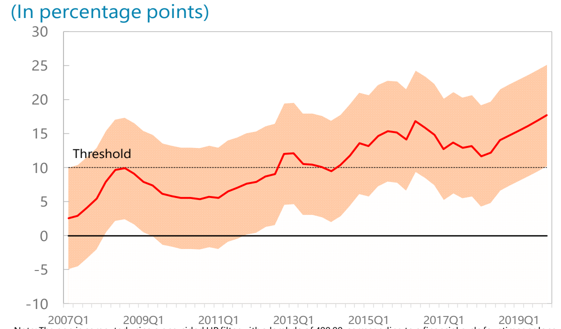
APPENDICES

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **Context.** Stable macroeconomic environment, strong growth and ongoing structural reforms have contributed to significant progress towards SDGs. Following general elections last year, the government's economic strategy is focused on improving governance. At the same time, citing concerns over human and labor rights, the EU—Cambodia's primary export partner—has initiated a review of its Everything But Arms (EBA) scheme which could lead to a suspension of preferential trade next year.

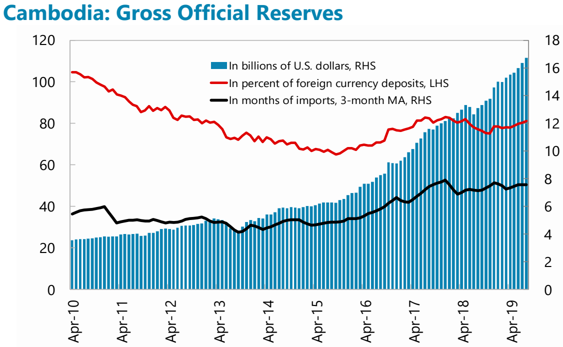
2. **Recent developments.** Growth accelerated to 7½ percent in 2018, led by garment-related exports and construction activity, and supported by strong external demand and credit growth. The current account deficit widened to about 12 percent of GDP in 2018. Robust Foreign Direct Investment (FDI) inflows, mostly into real-estate and banking sectors, as well as an increase in other short-term inflows, have helped the accumulation of gross international reserves, which reached about 7 months of prospective imports in August 2019.[1] Inflation remains contained at just above 2 percent in August 2019. Financial conditions have been accommodative and credit has accelerated, leading to a widening of the bank credit-to-GDP gap, estimated at 17 percent —well above the BIS threshold of 10 percent.

Cambodia: Credit to GDP Gap
(In percentage points)



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

Cambodia: Gross Official Reserves



Sources: Cambodian authorities; and IMF staff calculations.

3. **External Sector Assessment.** Reflecting higher current account deficits, the external position is assessed to be substantially weaker than implied by fundamentals and desirable policies. To improve the external position, policies should focus on moderating credit growth, as well as on pursuing prudent fiscal policy and accelerating structural reforms to improve diversification and strengthen competitiveness. While reserves appear adequate when measured against traditional metrics, some further accumulation is encouraged given managed exchange rate regime, high dollarization, and elevated financial sector vulnerabilities.

4. **Outlook.** Deterioration of external conditions is expected to slow down growth in the baseline to 7 percent in 2019 and 6.8 percent in 2020. Export growth is expected to moderate, contributing to a further widening of the current account deficit to 13.5 percent of GDP this year.

[1] In line with the BPM6 definition, international reserves include foreign currency assets from banks' unrestricted deposits with the central bank, which amount to about USD 4.8 billion (about 2 months of prospective imports).

Over the medium term, growth is projected to converge to its potential as the real-estate and credit cycles mature. Suspension of trade preferences represents a significant downside risk to the baseline outlook and could have a large negative impact on near-term economic activity (Box 1).

Box 1. EBA Withdrawal Scenario[1]

The review of EBA could lead to a suspension of Cambodia's trade preferences by mid-2020. Staff estimates that a full withdrawal could cause a large decline in exports and GDP growth, reduction in employment and increase in poverty. However, these estimates are subject to significant uncertainty. Risks stemming from elevated domestic financial vulnerabilities could exacerbate the impact further, while a partial withdrawal would reduce the impact.

Trade preferences have played an important role in supporting exports, growth and poverty reduction. Cambodia has benefited from EBA, which has eliminated duties on almost all exports to the EU, since 2001. Since then, the EU has become a major trade partner, accounting for 40 percent of total exports in 2018. Exports are concentrated in garment products, footwear, travel goods, rice and bicycles, with garments accounting for three-fourths of exports to the EU. This has contributed to the rapid expansion of Cambodia's textile industry, which has become a pillar of its economy, and helped elevate a large share of its population out of poverty. The textile industry employs about 750,000 workers, 80 percent of which are women, and is estimated to indirectly support about 3 million Cambodians.

EBA suspension could have a large negative impact on exports and growth in the short-run. The direct impact of the tariff increase on Cambodia exports is estimated using a partial equilibrium approach. In the event of a full EBA suspension, tariffs would rise on average from 0.1 percent to 12.5 percent. Using product-specific price elasticities drawn from the literature, this increase is estimated to cause a decline of exports to the EU of about 13 percent (equal to a 5 percent decline of total exports). The impact of this export shock on consumption, investment and imports, determined using a panel regression approach, is estimated to lead to a 3 percentage point decline in GDP growth in the first year. A caveat is that this approach does not account for indirect effects, such as trade diversion, the reallocation of labor and capital over time and risks stemming from financial sector vulnerabilities.

Suspension would lead to a permanent decline in garment sector output and employment in the long-run. In order to quantify the long-run impact, a Computable General Equilibrium model is employed.[2] The model is calibrated to 165 countries and features cross-border trade in intermediate inputs across 17 sectors. This approach allows to estimate second-order effects to tariffs changes linked to exporting sectors domestically and abroad and to predict potential trade diversion effects. The model estimates a permanent level decline of about 10 percent for textile exports, 7 percent for textile industry output and 6 percent for textile employment.

[1] David Corvino and Mariya Brussevich.

[2] Caceres, Cerdeiro, and Mano (2019). "Trade Wars and Trade Deals: Estimated Effects using a Multi-Sector Model." IMF Working Paper WP/19/143.

5. Downside Risks.

- **Domestic.** Suspension of EBA preferences could have a large negative impact. Concerns about credit quality, increasing concentration in the real-estate sector and consumer lending, reliance on external funding, and growing importance of microfinance institutions (MFI) continue to pose risks to financial and macroeconomic stability. Fiscal spending pressures and potential slowdown in revenue growth risk eroding policy space over the medium-term.

- **External.** Significant downside risks include spillovers from rise in protectionism, which could hamper exports and dent investors' confidence. Weaker than expected growth in China would have significant negative spillovers through FDI, banking, and tourism channels, while a further growth slowdown in advanced economies could significantly reduce exports. Extreme weather events could reduce agricultural production.

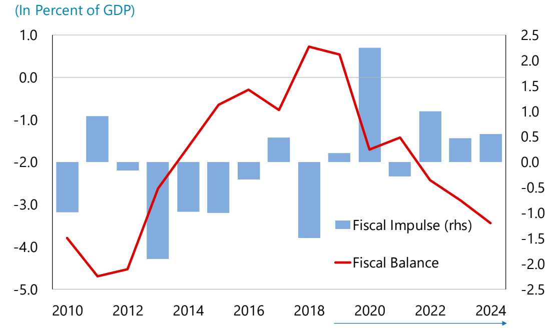
Authorities' Views.

6. There was broad agreement on the macroeconomic outlook and risks. The authorities are cognizant of growing downside risks and agreed that a suspension of EBA and weaker than expected growth in major trade partners could have a large negative impact. The authorities are proactively preparing fiscal stimulus to mitigate near-term impact and structural reforms to improve private sector competitiveness, strengthen economic resilience and promote economic diversification.

SAFEGUARDING FISCAL SUSTAINABILITY AND PROMOTING INCLUSION

7. Fiscal developments. Revenue performance in 2018 was much better than anticipated, resulting in a general government fiscal surplus close to one percent of GDP compared to 4 percent deficit in the budget law.[2] Thanks, in part, to strong administrative efforts, tax revenues reached 18.7 percent of GDP. Strong revenue performance has continued and government deposits increased further this year, reaching 16 percent in August 2019. The fiscal position is therefore projected to remain in surplus (at 0.5 percent of GDP) also this year.

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



Sources: National authorities; and IMF staff calculations.

8. 2020 budget. The preliminary budget envisages continued revenue growth and, to mitigate near-term negative impact on growth from potential EBA withdrawal, a significant increase in government spending. This includes about 2.5 percent of GDP in additional spending to support job creation and human capital development, through a cash-for-work

[2] Revisions to historical data reflect authorities' transition to GFSM 2014 format with support from IMF TA.

program and vocational training, as well as a significant scale-up in infrastructure investment, to be financed in part by a drawdown in government deposits. Staff baseline, which does not include EBA suspension, assumes that only a part of the additional spending (consistent with identified projects) is implemented next year and the rest only if risks materialize.

- **Near-term fiscal policies.** Without EBA withdrawal, continued strong revenue mobilization efforts will allow some additional spending to address development needs. However, in staff's view a more gradual increase in spending is desirable. Prudent fiscal stance needs to be supported by restraining non-development current spending and gains in spending efficiency. In order not to crowd out space for development spending, further public wage increases should be carefully targeted to priority functions and good performers and supported by on-going public administration reforms.

- **Addressing downside risks.** Should EBA withdrawal risks materialize, to mitigate negative near-term impact, modest additional spending (about 1.5 percent of GDP in the first year) should aim at improving infrastructure, human capital development, health outcomes, as well as providing temporary support to laid-off workers. Accelerating reforms to strengthen the public investment management framework and spreading additional spending over several years will support efficient investment.

9. Debt remains sustainable. Public debt is low at 28.6 percent of GDP in 2018, is expected to increase only gradually over the medium term, and to remain well below the 40 percent of GDP debt ceiling proposed by staff.[3] The Debt Sustainability Framework shows that Cambodia remains at low risk of debt distress, despite an increase in both debt disbursements and Public-Private Partnerships (PPP) to finance needed infrastructure investment. Short-term risks to public debt stem from the materialization of contingent liabilities, including from PPPs, and export and growth shocks.

10. Policy recommendations (Text Table 1).

- **Fiscal policies to support SDGs.** Additional spending is needed to meet selected SDGs (Box 2). Orienting spending towards improving access to and quality of education, health, and infrastructure will support progress towards SDGs, in line with national strategic priorities. As the next step, finalizing detailed sectoral strategies will require coordination, improving investment planning, and further developing financing strategies. While keeping public debt well below the proposed debt ceiling, a part of the priority spending needs could be financed by drawing down government deposits, additional concessional borrowing and involvement from the private sector and international donors.

[3] See Box 2. "Debt-Based Fiscal Anchor" in IMF (2018): Cambodia – Staff Report for the 2018 Article IV Consultation.

Box 2. SDG Costing[1]

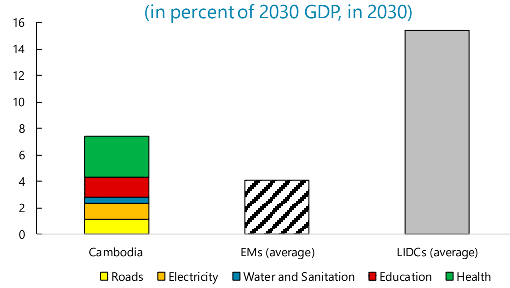
Cambodia made substantial progress in human development and economic infrastructure, but important challenges persist. Additional spending for selected SDGs is estimated at least 7½ percent of GDP in 2030, with the largest needs in education and health.[2] Further public spending based on detailed sectoral strategies, as well as the involvement of development partners and the private sector, are key to progress towards SDG.

Cambodia continues to progress towards SDGs. Public investment and private sector involvement have significantly increased access to physical infrastructure. Public spending on health and education and measures to improve their quality have also been amplified in recent years. As a result, the enrollment rate in primary education reached almost 100 percent, and teachers and medical staff coverage has improved.

Important challenges persist, and additional spending for SDGs is required. The quality and quantity of social services and physical infrastructure should continue to be improved. The estimates indicate that total additional spending for SDGs needs amount to about 7½ percent of GDP in 2030. Education and health account for about two thirds. Spending needs to reach universal basic and safely managed access to water and sanitation seem manageable. Universal access to electricity and road would require an additional annual spending of about 2½ percent of 2030 GDP but could be larger due to rehabilitation and maintenance costs.

Cambodia has included SDGs into its national development plans. Cambodia mapped all SDGs and one additional goal related to de-mining into national priorities and undertook a Voluntary National Review in June 2019. The Cambodia SDGs framework was fitted into the Government 'Rectangular Strategy' and is the basis for the National Strategic Development Plan (NSDP) for 2019–23. The NSDP in turn, adopted by line ministries, includes general policy orientations, relevant national targets, and broad estimates of spending needs and their financing sources.

Cambodia: Additional spending needs for SDGs
(in percent of 2030 GDP, in 2030)



Source: IMF staff estimates using Sachs and others (2019); Sustainable Development Reports (2019); SDSN.

[1]Aleksandra Zdzienicka.

[2] IMF staff estimates based on Gaspar and others (2019): "Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs". For water and sanitation, electricity, and roads, the estimates show additional annual spending needed to reach targets by 2030. For health and education, they indicate additional spending required to achieve the targeted outcomes by 2030. 'Total' refers to public and private spending.

- **Fiscal governance reforms.** While progress has been made in revenue administration and PFM, in line with Fund TA recommendations, fiscal governance should be further strengthened to improve revenue collection, increase spending efficiency and reduce opportunities for corruption.[4] Authorities should continue to improve public investment management by addressing weaknesses, especially in the implementation and monitoring of domestically funded projects, as identified in the Public Investment Management Assessment (PIMA) (Box 3).

[4] For more detailed policy recommendations to strengthen fiscal governance, see IMF (2018): Cambodia – Staff Report for the 2018 Article IV Consultation.

Box 3. Improving Public Investment Management[1]

Despite a significant effort to increase public investment over the past few decades, Cambodia still faces important infrastructure needs. Public investment has been steadily on the increase since the early 1990s, gradually catching up with other Asian countries and converging at 8 percent of GDP. Cambodia has also relied on public-private partnership (PPP) arrangements to develop economic infrastructure. As a result, access to electricity, education or clean water have registered substantial progress. Yet, Cambodia still has one of the lowest public capital stocks per capita in the region. Extra investment in infrastructure will be necessary to fully reach SDGs by 2030. Graduation to lower middle-income status, which is expected to trigger a decrease in the share of concessional externally-financed projects (still two thirds of total public investment), will call for greater reliance on the national budget and on private sector participation to develop infrastructure.

Cambodia could get more infrastructure "bang for its buck" through stronger public investment management practices. In an environment with constrained resources, spending better is just as important as spending more on infrastructure. According to Fund staff calculations,[2] the impact of Cambodia's public investment in terms of economic benefits (access and quality of infrastructure) is on average well below that of other countries in the region. This impact could be doubled through enhanced efficiency which can be achieved by strengthening infrastructure governance.

The main shortcomings in infrastructure governance are mostly found downstream in the management cycle for domestically-funded projects. Overall, while institutions to support infrastructure governance processes are in place, their effectiveness is hampered by fragmentation and limited coordination. The preparation of the capital budget is not based on individual projects. Rather, the capital budget is appropriated as lump sums and allocation to individual projects only occurs after the overall budget is approved, preventing coordination with the recurrent budget. Budget documents do not provide a comprehensive picture of all public investment projects. There is a need to improve capacity to appraise and select projects through the development of in-house project quality assurance processes, to effectively measure project delays and cost overruns across the investment portfolio and improve in-year monitoring of individual projects at the level of line ministries.

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[1] Fabien Gonguet (FAD) based on findings of a recent PIMA mission.

[2] For more information on the methodology, see IMF (2015): "*Making Public Investment More Efficient*".

- **Medium-term fiscal framework (MTFF).** Finalizing and publishing the MTFF will move it from pilot to more permanent implementation phase. To preserve debt sustainability, fully integrating the debt ceiling, at 40 percent of GDP as proposed by staff, would help better align spending needs with the budget. Further efforts are needed to improve medium-term budget planning in line with Fund TA recommendations.

- **Debt management.** The Public Debt Management Strategy 2019–2023 is expected to focus on preserving low risk of debt distress. Making use of concessional financing, strengthening the risk-management framework for contingent liabilities related to PPPs, including continuing to limit public guarantees, and developing domestic government bond markets are central for implementation. The PPP framework should continue to be strengthened with the new PPP law and through completing a PPP database to inform risk assessments.

Text Table 1. Cambodia: Policy Recommendations to Strengthen Fiscal Sustainability

	Policy Objective	Short-term	Medium-term
High	*Improve fiscal governance*	Automating tax administration Estimating tax expenditures Implementing MTFF and FMIS	Simplifying and modernizing tax policy Developing rule-based tax incentives Automating procurement systems
Priority	*Manage contingent liabilities*	Modernize the institutional and legal framework for managing PPPs	Develop risk assessment framework for PPPs
Medium	*Develop medium-term fiscal objectives*	Develop a fiscal policy anchor based on a debt ceiling	Integrate current and capital budgets Introduce ministerial budget ceilings
	Promote growth and inclusion	Accelerate implementation of IDP Increase capital, health and education spending	Introduce a state pension scheme Increase the share of direct taxes in total tax revenues

11. Revenue mobilization. Addressing large spending needs for SDGs requires continued revenue mobilization efforts through implementation of the new Revenue Mobilization Strategy (RMS) 2019–2023.

- **Property taxes.** Authorities have recently updated real-estate valuations for tax purposes. Efforts should continue in using updated real-estate valuations to calculate recurrent property taxes, gradually increasing the rate for recurrent property taxes, and further expanding the tax base.

- **Excises.** Priorities include developing comprehensive excise tax legislation, reviewing excise base and rates and moving toward specific system of taxation for certain products in line with Fund TA recommendations.

- **Tax incentives.** Efficiency of the tax system can be improved by reviewing all tax incentives and exemptions with a view to limiting erosion of the tax base, estimating the costs of tax incentives, and reporting those regularly as part of the annual budget process to inform policy decisions. Using tax policy to support certain sectors or activities could be achieved through incentives related directly to the amount of investment, including accelerated depreciation and investment allowances.

- **Income taxes.** There is room for the tax system to better support inclusion, including through preparations for introducing a comprehensive personal income tax regime, including a capital gains tax, over the medium term.

- **Automation.** Automation provides an opportunity to re-engineer business processes and strengthen institutional structures. Integrated IT systems and tax databases would help improve efficiency supported by risk-based audits. Simplifying regulatory procedures and staff training, supported by Fund TA, is an integral part of the modernization process.

Authorities' Views

12. The authorities agreed with staff's assessment of overall fiscal performance. While they saw scope for a larger increase in spending should risks materialize, the authorities shared staff view that fiscal stimulus needs to be targeted on activities with high social and growth impact and implemented in an efficient manner. The authorities agreed with policy direction of maintaining strong revenue performance, containing re-current spending, and increasing development spending, in particular towards education, health, and infrastructure. They stressed that the implementation of the new RMS 2019–2023 will focus on increasing efficiency of the tax system, while maintaining a role for investment incentives to support growth and diversification. Other planned reforms focused on procurement, public investment management, debt management and PPPs are expected to improve governance, spending efficiency and management of fiscal risks.

ADDRESSING MACRO-FINANCIAL RISKS

13. **Recent developments**. Monetary policy has been effective at maintaining low inflation and keeping the Cambodian Riel (KHR) broadly stable against the U.S. dollar. Progress on increasing KHR use has been slow despite the National Bank of Cambodia's (NBC) efforts, including improvements in market operations such as increased use of the liquidity-providing collateralized operations. Publication of the first Financial Stability Review earlier this year is a welcome step to promote the effectiveness and transparency of macroprudential policy decisions. The NBC continues to implement regulations aimed at increasing liquidity and solvency positions and improving loan classification and provisioning.

Cambodia: Evolution of Selected Banking Regulations, 2017–20
(In percent)

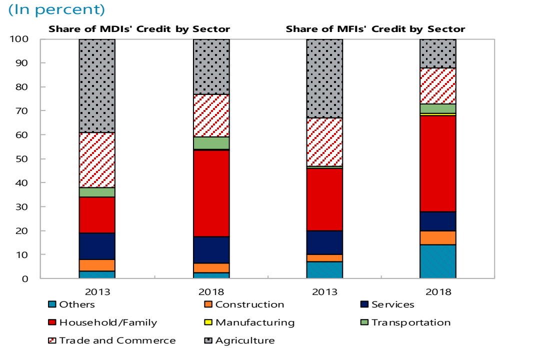
	2017	2018	2019	2020
Capital Buffers				
Required Share of Minimum Registered Capital 1/	50 (March)	100 (March)		
Required Share of Capital Conservation Buffer 2/			50 (January)	100 (January)
Countercyclical Capital Buffer Ratio 3/		0 (March)		
Minimum Liquidity Coverage Ratio 4/	70 (September)	80 (September)	90 (June)	100 (January)

Source: National Bank of Cambodia.

Notes: 1/ Minimum capital requirements are set at: (i) KHR 200bn for commercial banks incorporated as foreign branch whose parent bank is rated investment grade; (ii) KHR 300bn for commerical banks locally incorporated as local company or foreign subsidiary; (iii) KHR 60bn for specialized banks locally incorporated; (iv) KHR 120bn for microfinance deposit-taking institutions; (v) KHR 6bn for non-deposit-taking microfinance institutions. 2/ Capital conservation buffer must equal 2.5% of the Risk Weighted Assets, unless determined otherwise by the NBC. 3/ The NBC may set the countercyclical buffer requirement between 0 and 2.5 percent of the Risk Weighted Assets. 4/ LCR requirement is being phased in from 2016 to 2020.

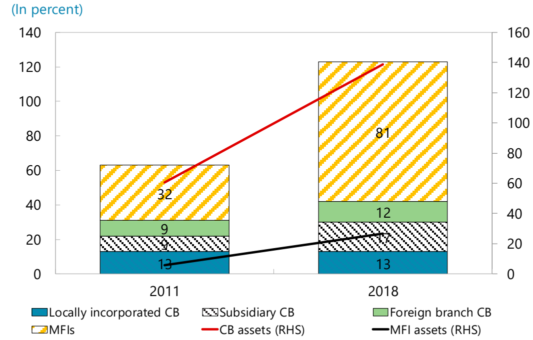
14. Elevated financial sector vulnerabilities. The banking system is dominated by commercial banks, most of which are foreign branches or subsidiaries. The number and total assets of financial institutions have grown. While the banking system remains profitable, with sizeable capital buffers and low NPL ratio, vulnerabilities remain elevated. Credit risks could be understated, given high credit concentration, related party lending risks, lack of consolidated cross-border supervision and gaps in implementation of risk-based supervision. Additionally, personal lending, including by MFIs, and mortgage lending have recently picked up. Liquidity risks remain elevated, with financial institutions continuing to draw on funding from abroad, including from parent banks (to banks) and from financial institutions with development purposes (to MFIs). The aggregate loan-to-deposit ratio has remained broadly stable at around 100 percent, while some institutions including deposit-taking MFIs, with higher ratios, are more exposed to liquidity risks.

Cambodia: Shares of MDIs and MFIs' Credit by Sector
(In percent)



Sources: National Bank of Cambodia

Cambodia: Number of Institutions and Assets to GDP
(In percent)



Sources: National Bank of Cambodia, Annual Supervision Report 2011-2018; and IMF staff calculations.

Cambodia: Selected Financial Soundness Indicators (FSIs), 2012–2019Q2
(In Percent)

	2012	2013	2014	2015	2016	2017	2018	2019Q2
Capital Adequacy								
Regulatory capital to risk-weighted assets	24.2	24.2	20.4	20.3	20.9	21.9	22.2	23.1
Capital to assets (leverage ratio)	16.2	16.8	14.4	14.2	14.3	14.0	13.9	14.9
Asset Quality								
Nonperforming loans to total gross loans	2.2	2.3	1.6	1.6	2.1	2.1	2.0	2.1
Earnings and Profitability								
Return on equity 1/	11.8	12.1	15.5	16.3	14.5	8.7	9.0	10.9
Return on assets 1/	2.3	2.4	2.9	2.9	2.5	1.5	1.6	1.9
Interest margin to gross income	66.5	68.6	72.9	63.1	65.3	61.0	56.3	57.3
Liquidity								
Liquid assets to total assets	15.3	17.9	16.2	16.6	15.8	15.8	16.5	13.9
Liquid assets to short-term liabilities	20.3	24.2	23.1	25.4	24.3	24.9	25.7	21.7
Customer deposits to total non-interbank loans	117.3	104.9	96.2	89.3	93.3	96.1	100.3	97.5
Sensitivity to Market Risk								
Net open position in foreign exchange to capital	2.7	9.4	4.1	3.6	2.6	2.5	4.0	3.6

Source: National Bank of Cambodia.
1/ Annualized.

15. Real-estate related risks. Rapid credit expansion over the last few years has been fueled by a surge of real-estate related credit. As a result, the credit-to-GDP gap currently stands at 17 percent—well above the BIS threshold of 10 percent. Lending by real-estate developers remains largely unmonitored and unregulated and official data on real-estate prices are absent. Anecdotal evidence suggests that while high-end condominium prices remain relatively stable, land prices continue to rise supported by strong demand for affordable housing and commercial-use properties. Cash transactions remain prominent, increasing vulnerability to money laundering risks.

16. AML/CFT regime. The Financial Action Task Force (FATF) has placed Cambodia on the list of jurisdictions with strategic anti-money laundering/countering the financing of terrorism (AML/CFT) deficiencies (the "grey list"). While progress has been made, including through a publication of a national AML/CFT strategy and improvements in risk-based AML/CFT supervision of banks, prompt policy action is needed to address remaining shortcomings.

17. Policy recommendations (Text Table 2).

- **Moderating credit growth.** Prompt actions are needed to moderate credit growth. Urgent consideration should be given to additional measures such as gradually raising reserve requirements on foreign currency liabilities. Despite progress, significant data gaps that impair effective implementation of macroprudential policies should be promptly addressed.

- **Addressing real-estate sector risks**. The authorities should promptly implement broad-based policies to address risks associated with the real-estate sector. Introduction of targeted measures such as higher risk weights and provisioning requirements for real-estate lending as well as a prudent aggregate loan-to-value limit should be prioritized. Lending by real-estate developers should be monitored and regulated in line with other non-bank credit providers and bank exposures contained. While the authorities are making progress in developing a property price index, with support from Fund TA, data collection and sharing across agencies should be accelerated. AML/CFT supervision of the sector should be strengthened to mitigate risks.

- **Enhancing regulation and supervision.** In line with Fund TA recommendations, priority should be given to implementing a comprehensive risk-based supervision program, including amending regulations on related party lending and large exposures to align them more closely with international practice, as well as improving supervision of non-banks. With support from Fund TA, the authorities have developed a roadmap to strengthen risk-based supervision, including planned improvements in supervisory reporting and data analysis. The interest rate ceiling on MFIs should be phased out, and regulations between banks and deposit taking MFIs should be fully aligned. A framework for conducting consolidated and cross-border supervision should be established.

- **Comprehensive crisis management framework.** A special resolution regime for deposit-taking institutions and deposit protection system should be developed to allow timely intervention and resolution.

- **Financial sector oversight.** Further progress is needed in the areas of AML/CFT supervision and implementation of preventive measures, the use of financial intelligence, and ML/TF investigations and prosecutions. The NBC should closely monitor developments in correspondent banking relationships, in line with Fund TA recommendations. The recently established National Financial Stability Committee should improve coordination and promote accountability for macroprudential policy decisions, while safeguarding NBC's operational independence.

- **Increasing KHR use.** The NBC should continue to support financial institutions' plans to reach the KHR-loan requirement and monitor unhedged exchange rate risk exposures. A gradual increase in KHR use would allow the NBC to move towards a more robust monetary policy framework, with more exchange rate volatility, thus helping to increase resilience to shocks.

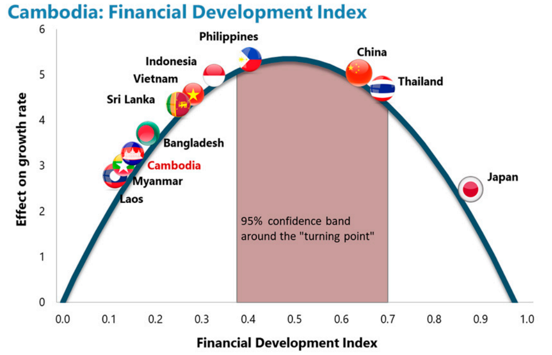
Text Table 2. Cambodia: Policy Recommendations to Manage Macro-Financial Risks

Priority	Policy Objective	Short-term	Medium-term
High	*Contain real estate sector growth*	Collect real estate data	
		Higher risk weights on real estate lending	
		Introduce LTV limits	
		Regulate shadow banking activities by real estate developers	
	Moderate credit cycle	Gradually raise RR for foreign currency liabilities	
	Develop crisis management	Develop deposit protection scheme and bank resolution framework	
	Upgrade bank regulations	Revise existing legislation on related party lending and large exposures	Design framework for consolidated and cross-border supervision
		Monitor CBRs	
Medium	*Upgrade non-bank regulations*	Abolish interest rate cap	Develop risk-focused supervisory program for MFIs and RCIs
		Align regulation on MDIs to commercial banks	Introduce policy framework for the fintech sector

* Measures: Macro-prudential measures

18. Financial development. Securities trading continues to expand and the first KHR-denominated corporate bonds were successfully issued. However, the level of financial development remains relatively low. Policies should focus on further equity and bond market development, which could also encourage the use of local currency. Proliferation of fintech startups could help accelerate financial development and inclusion, but also poses risks as these technologies operate outside the purview of financial regulation and supervision. Financial inclusion has improved mainly through access to MFI credit and mobile services. The National Financial Inclusion Strategy should be launched expeditiously to support efforts to improve inclusion and financial literacy.

Cambodia: Financial Development Index



Sources: Financial Development Index; Rethinking Financial Deepening: Stability and Growth in Emerging Markets; and IMF Staff calculations.

Authorities' Views

19. The authorities agreed with the need to closely monitor developments in personal and real estate lending, in line with staff recommendations. They emphasized the importance of credit growth in driving economic growth as well as promoting financial inclusion and access to housing. The NBC favors targeted macro-prudential measures addressing risks stemming from sectoral concentration. The authorities agreed on the need for close cooperation across agencies to address risks stemming from credit growth in the real estate sector. They continue to promote the use of local currency through enforcement of the 10 percent KHR loan requirement and further development of the liquidity-providing monetary operations. The authorities are implementing their AML/CFT action plan to address shortcomings, including strengthening capacity of the Financial Intelligence Unit.

SUPPORTING PROGRESS TOWARDS SDGs

20. Addressing structural constraints to growth. Authorities have announced a wide-ranging structural reform plan aimed at improving competitiveness and diversification, including through measures aimed at facilitating trade, lowering the cost of doing business and improving governance, as well as promoting priority sectors (including agriculture and SMEs). Looking forward, trade tensions call for accelerating structural reforms to address long-standing structural constraints, including through diversifying growth drivers, ensuring reliable energy supply, and strengthening anti-corruption efforts.

- **Diversification.** Garment production and tourism sectors have driven economic diversification over the past decades. Special Economic Zones, mostly focused on low-wage manufacturing for exports, have helped distribute social gains from export diversification across local economies (Box 4). However, with few exceptions, progress in trade diversification has been slow. Policy priorities include diversifying exports products and destinations, investing in human development, skills and innovation, and enabling growth of SMEs. Improving the regulatory environment and strengthening rule of law would help improve the business environment.

- **Energy supply.** With strong economic growth, continuing population growth and fast-paced urbanization, demand for energy could more than double by 2030. While increasing power generation capacity, including from renewable sources, is expected to meet demand, transitional challenges need to be managed carefully to ensure reliable and affordable access to electricity. This could include further expansion of the national grid network to reduce disparities across regions and expanding cross-border linkages.

- **Anti-corruption.** Governance and corruption vulnerabilities pose challenges for growth and sustainable development. Reducing corruption is a strategic government priority and steps have been taken to strengthen anti-corruption efforts. However, further advances are needed to improve anti-corruption institutions, strengthen the anti-corruption framework and address shortcomings in the AML/CFT regime.[5] The AML/CFT regime could also be leveraged to support

[5] For more detailed policy recommendations to improve the regulatory environment and rule of law, and to strengthen anti-corruption efforts, see IMF (2018): Cambodia – Staff Report for the 2018 Article IV Consultation.

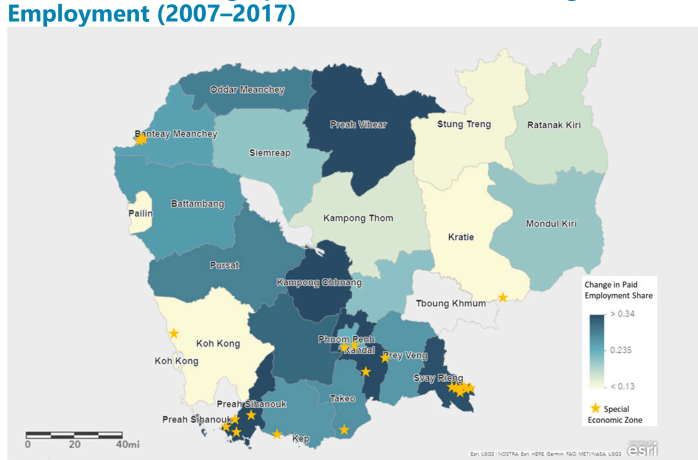
anti-corruption efforts. Strengthening economic governance through capacity development, modernization of government services and improving data transparency will help narrow the space for corruption.

Box 4. The Role of Special Economic Zones [1]

SEZ program is aimed at promoting diversification and generating socio-economic spillovers in local communities. Investment in infrastructure and human capital will help spread the benefits of SEZs across a broader geographic area.

The Special Economic Zones (SEZs) program is a key component of the government's diversification strategy. The legal framework for the SEZ scheme was established in 2005. The motivation behind the program is to attract investment in the industrial sector, promote export diversification, and establish economic linkages between urban and rural areas. Currently, there are 23 operating SEZs and 7 have been authorized to begin operation. SEZs are concentrated along western and southern borders of Cambodia with convenient access to trade partners and infrastructure.

Cambodia: SEZ Geographic Distribution and Change in Paid Employment (2007–2017)



Source: IMF staff calculations; CSES; CDC.

SEZs are associated with socio-economic spillovers in local communities but bear fiscal costs in terms of forgone tax revenue. Preliminary regression analysis, based on variation in SEZs' location and timing of entry into Cambodian districts, shows that SEZs' entry is associated with higher formal employment and wages in host districts, mainly driven by expansion of the manufacturing sector.[2] Nevertheless, most activity in SEZs is focused on low-skilled labor-intensive production, with limited impact on skill development and educational attainment in local economies. At the same time, SEZs have fiscal costs associated with tax incentives provided to the firms operating in SEZs.

Investment in human capital and infrastructure, improvements in domestic firms' productivity, and changes to tax incentives would help enhance the socio-economic gains. Positive spillovers from SEZs are concentrated in border, coastal, and capital regions of Cambodia. Limited infrastructure and lack of skilled labor remain the key obstacles to SEZ growth.[3] Improving access to electricity, roads, water and sanitation would help spread the benefits of SEZs. Retainment of youth in the educational system, improving the quality of and access to vocational training will allow SEZs to attract firms in more technologically sophisticated industries.

[1] Mariya Brussevich. See "The Role of Special Economic Zones in Promoting Inclusive Growth" (forthcoming).
[2] Follow-up work addresses confounding factors leading to SEZs' location choices in more advantageous districts.
[3] WB and ADB (2015). "The Investment Climate Assessment, 2014. Creating Opportunities for Firms in Cambodia." World Bank.

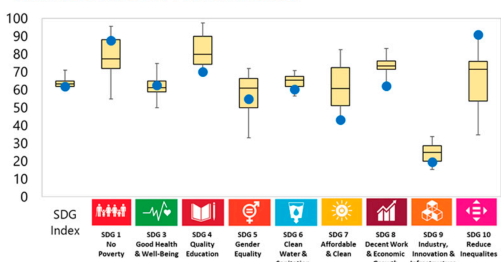
Box 4. The Role of Special Economic Zones (Concluded)

Facilitating the regulatory and business environment to increase local firms' productivity will support stronger supply-chain linkages between FDI and domestic economy. Establishing a rules-based approval system for Qualified Investment Projects within SEZs would improve transparency and operation of SEZs. Finally, moving away from tax holidays towards incentives linked to the level of investment could help attract investment from higher value-added industries.[4]

[4] Ghazanchyan, Klemm, and Zhou (2018). "Tax Incentives in Cambodia." IMF Working Paper WP/18/71.

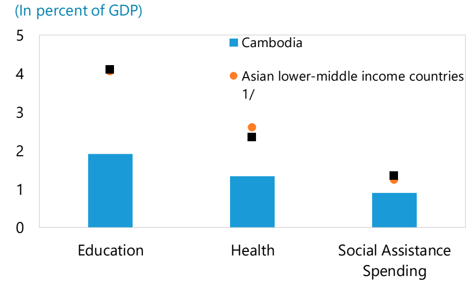
19. Reforms to promote sustainable development. Cambodia has made substantial progress in advancing income growth and reducing poverty. However, meeting the SDGs by 2030 remains a significant challenge and will require further policy efforts in many fronts. For example, while outcomes have improved, Cambodia still lags its regional peers in terms of access to and quality of education, health, and infrastructure. Additional policy challenges relate to improving environmental sustainability and responding to vulnerabilities stemming from natural disasters and climate change. Cambodia is particularly vulnerable to climate change, given the importance of climate-sensitive sectors, especially agriculture and tourism, as well as weak adaptation capacity. The Cambodian Sustainable Development Goals (CSDGs) provide a framework for implementing policies to achieve further progress towards SDGs. Sustained efforts to support implementation, including integration of CSDGs into planning and policy-making processes and continued monitoring, are needed to sustain progress and achieve gains in economic welfare (Box 5).

Cambodia: SDG Performance[1]



Source: Sustainable Development Report 2019
1/ Compared to Asian lower-middle income countries (Bangladesh, Bhutan, India, Indonesia, Lao PDR, Mongolia, Myanmar, Philippines, and Vietnam). The box and vertical lines represent the interquartile range, minimum and maximum; and the blue dots are Cambodian data.

Cambodia: Development Expenditures
(In percent of GDP)



Source: IMF staff estimates, World Bank.
1/ Asian lower middle income countries are Bangladesh, Bhutan, India, Indonesia, Lao PDR, Mongolia, Myanmar, Philippines and Vietnam.

Box 5. Achieving Gains in Economic Welfare[1]

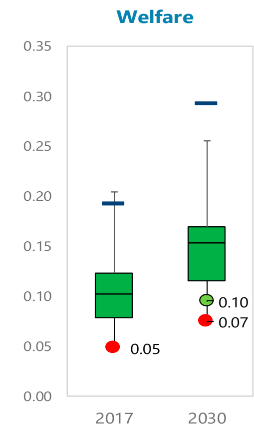
Despite significant progress, further efforts are needed to meet SDGs and achieve gains in economic welfare. An illustrative calculation shows that economic welfare remains relatively low and is projected to improve only gradually. However, reforms can help accelerate welfare gains.

Despite significant progress, further efforts are needed to achieve gains in economic welfare. Cambodia has made significant progress in terms of income growth and poverty reduction over the past few decades. However, meeting the SDGs by 2030 and achieving further gains in economic welfare will require policy efforts in many fronts. For example, there is significant room to improve health outcomes, including life expectancy at birth, which is low relative to peers. Benefits of progress can be illustrated using a

[1] Jarkko Turunen, Lisa Uemae, Albe Gjonbalaj and Hibah Khan.

Box 5. Achieving Gains in Economic Welfare (Concluded)

summary indicator that captures several dimensions of economic welfare, including consumption, income inequality, life expectancy, leisure and environmental factors (through the cost of greenhouse gas emissions).[2] Despite strong GDP growth over the past decade, per capita income, a key component of economic welfare, remains relatively low. Economic welfare is also weighed down by lower life expectancy, less leisure and higher costs of greenhouse gas emissions. As a result, estimated economic welfare is below the lower-middle income Asian country median.



Source: IMF staff estimates.
Note: The box and vertical lines represent the interquartile range, minimum, median and maximum of Asian lower middle-income countries; the blue bars medians of Asian upper middle-income countries; and the red (passive scenario) and green (active scenario) dots represent Cambodia.

Economic welfare is projected to improve only gradually, but reforms can help accelerate gains. Projecting past trends forward suggests progress in economic welfare. However, in part owing to significant population growth, per capita income is expected to catch up only gradually and policy efforts that go beyond strong GDP growth are needed to increase economic welfare. An active scenario shows that closing gaps in underlying indicators through reforms could close to double relative welfare.[3] Additional challenges to economic welfare relate to ensuring environmental sustainability, such as safeguarding natural resources, and addressing risks related to climate change.

[2] Bannister and Mourmouras (2017): "Welfare vs. Income Convergence and Environmental Externalities", IMF Working Paper WP 17/271.

[3] Active scenario assumes that potential growth increases to seven percent, Cambodia meets its Paris commitments for reductions in greenhouse gas emissions, and other indicators, such as life expectancy and shares of consumption in income, catch up with top performers among Asian upper middle-income countries.

20. **Addressing data gaps and improving data quality**. Building on the thrust towards greater data dissemination generated by e-GDDS participation, renewed efforts are needed to address data gaps (Box 6). Progress has been made. With support from Fund TA, the Ministry of Economy and Finance (MEF) has implemented a GFSM 2014-based classification for central and local governments, but there is scope for a better presentational alignment between actuals and projections. Similarly, the NBC has adopted the latest methodological standards for external sector statistics, and initiated work on a residential property price index. Better harmonization of statistical concepts and collections within and across agencies would improve consistency. Looking ahead, key priorities to address data gaps include rebasing GDP, strengthening national accounts statistics, enhancing coverage of non-bank financial corporations in monetary and financial statistics, sourcing and publishing data on private sector debt and the stock of PPPs, as well as improving coherence of datasets on direct investment and tourism. Addressing data gaps also requires new and updated datasets, better interagency sharing of source data, improved timeliness, and a stronger institutional base—including ensuring adequate resources and skills for production and dissemination of statistics.

Box 6. Aligning Macroeconomic Statistics to Emerging Needs[1]

While Cambodia is making steady progress in adopting international standards for key macroeconomic statistics, capacity and resources constraints continue to limit statistical development. Further efforts are needed to address data gaps and improve data quality in areas of key policy relevance. Fund capacity development programs are playing a role, but a stronger institutional base is required to strengthen interagency efforts in streamlining data collections and assuring data consistency.

National statistical system faces challenges in addressing expanding demand for data and statistics. This demand is driven by the quest for informed policy-making, greater emphasis on transparency and accountability, and heightened user needs including for monitoring implementation of NSDP and CSDGs.

With the support of Fund TA, Cambodia has adopted the latest methodological standards for government finance and external sector statistics and is working—with the support of other development partners—to adopt the System of National Accounts 2008 (SNA 2008). Cambodia's participation in the e-GDDS is a key step towards greater data dissemination and should be leveraged to advance data quality in the key areas of coverage, frequency and timeliness. Migrating to the Fund's Special Data Dissemination Standard (SDDS) in the medium-term would help enhance data availability.

Statistical priorities should be aligned to key policy areas. The growth of the real estate sector and the paucity of related indicators to assess its wider impact underlines the need for addressing the data gaps. The NBC is implementing a work program to compile a residential property price index, but broader gaps exist—including in volume measures (for GDP), credit extended to households by real estate developers (for MFS), and related cross-border flows (balance of payments statistics). With the increase in private external debt and PPP, wider statistical coverage of external liabilities would be essential for improving the scope of balance of payments and international investment position statistics. To this end, templates for external debt statistics, public sector debt statistics (PSDS) and the international reserves and foreign currency liquidity also provide relevant statistical frameworks. Prompt completion of the GDP rebasing is pivotal to improving the accuracy of leading economic performance indicators, and to reinforcing work on tracking progress on the SDGs.

Strengthening the institutional setting is key to further progress. Capacity and resources constraints, particularly at the National Institute of Statistics, is impacting progress. Given the myriad statistical collections and databases that exist across agencies and line ministries, a comprehensive inventory of statistical sources is urgently needed to reduce data fragmentation and tap new source data. Better harmonization of statistical concepts across institutions that comprise the national statistical system would also improve data consistency. Interagency coordinative mechanisms—such as the Statistics Coordination Committee mandated by the Statistical Act—also need to be utilized to take full advantage of the growing number of databases and statistical collections.

[1] Paul Austin.

Authorities' Views

The authorities emphasized efforts to improve the business environment through measures aimed at reducing trade costs and regulatory burden and strengthening anti-corruption efforts. The e-commerce law was recently enacted and several laws are being drafted—such as the investment law, SEZ law, law on competition—with a view of further improving the business environment, supporting the private sector and enhancing governance and regulatory frameworks. The authorities noted that the Voluntary National Review of progress towards the CSDGs, completed this summer, concluded that progress has been promising, and to address remaining challenges, are incorporating goals into their National Strategic Development Plan (NSDP) 2019–2023. The authorities broadly concurred with the SGD costing assessment and recommendations and expressed interest in constructing a financing strategy. The authorities agreed with the need to address data gaps and advance the quality of macroeconomic statistics and underscored the importance of continued capacity development support to address staff capacity, data harmonization and consistency.

STAFF APPRAISAL

21. Economic outlook and risks. Following strong growth last year, near-term economic activity is projected to moderate due to a less favorable external environment, despite sustained rapid expansion of the construction sector and domestic consumption. The current account deficit is widening and the external position is assessed to be substantially weaker than the level consistent with fundamentals and desirable policies. The outlook is subject to important downside risks, including a suspension of EBA trade preferences and weaker-than-expected global growth.

22. Fiscal policies. Thanks to strong revenue performance, public debt has remained low and government deposits have reached high levels. Plans to scale up priority social and infrastructure spending are welcome given the large needs to meet the SDG targets by 2030. However, fiscal sustainability needs to be supported by restraining non-development current spending, containing the overall wage bill and continued efforts to strengthen revenue mobilization. Fiscal governance should be further improved to enhance revenue collection, 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.

23. Macro-financial policies. Credit has accelerated and is increasingly concentrated in real-estate sector and consumer lending. Prompt actions are needed to moderate credit growth. This includes additional macroprudential measures such as raising reserve requirements on foreign currency liabilities. Addressing risks stemming from the real-estate sector calls for a prompt, broad-based policy response, including targeted macroprudential measures and strengthening monitoring and regulation of the real-estate sector. Lower credit growth, coupled with prudent fiscal policy and structural reforms, would help reduce external imbalances. Further progress is needed to strengthen financial sector oversight, including AML/CFT supervision. Data collection, particularly in the real estate sector, should be accelerated. Finally, promoting further financial market development and local currency use would allow the NBC to move towards a more robust and flexible monetary framework.

24. Structural reforms. Cambodia has made significant progress towards the Sustainable Development Goals owing to strong economic growth and structural reforms. The authorities have announced a structural reform plan aimed at improving competitiveness and diversification, including through trade facilitation, lowering cost of doing business and improving governance. However, meeting the SDGs 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 reliable energy supply, strengthening anti-corruption efforts and enhancing the regulatory environment. Renewed efforts are needed to address data gaps and improve data quality.

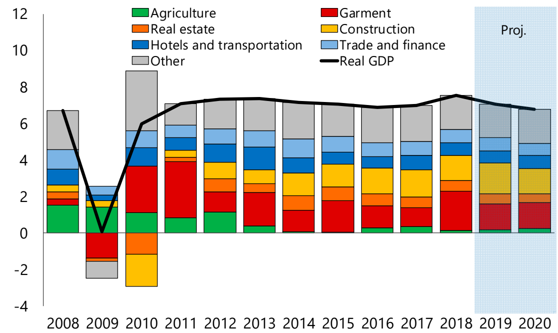
25. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Cambodia: Robust Growth and Low Inflation

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

Contribution to Real GDP Growth

(In Percent)

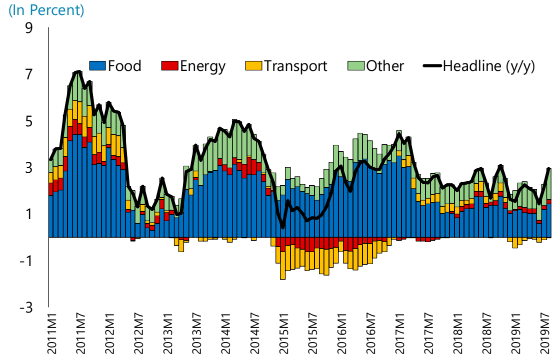


Sources: National authorities; and IMF staff estimates and calculations.

Inflation remains at low levels due to subdued food prices.

CPI Inflation: Contribution to Change

(In Percent)

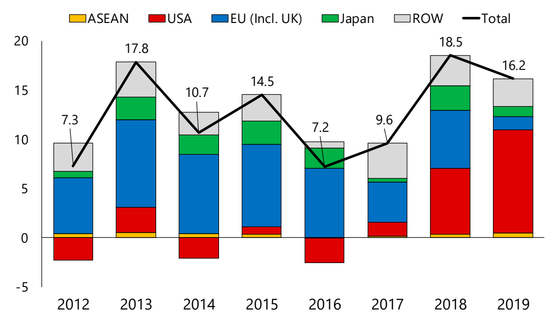


Sources: Cambodian authorities; and IMF staff calculations.

Garment exports have picked up with the US becoming Cambodia's largest market.

Contribution to Garment Exports Growth by Region 1/

(In Percent)



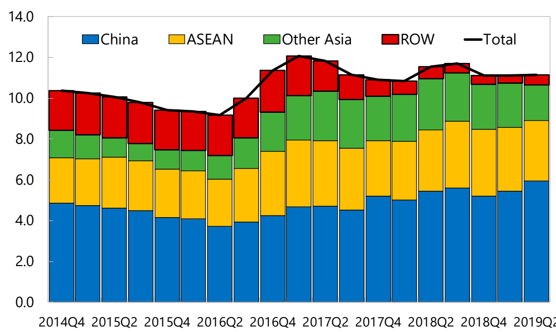
Sources: GDCE; and IMF staff calculations; 2019 includes data for the first 8 months.

1/ Garment includes clothing, shoes and other textile.

FDI inflows remain robust, with an increasing share originating from China …

FDI Inflow by Country

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

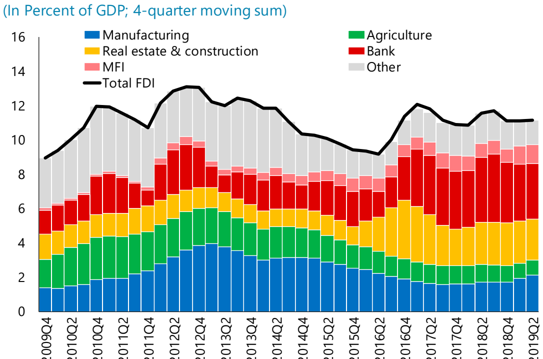


Sources: Cambodian authorities; and IMF staff calculations.

…and foreign investment concentrated primarily in the banking sector.

FDI Inflow by Sector

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

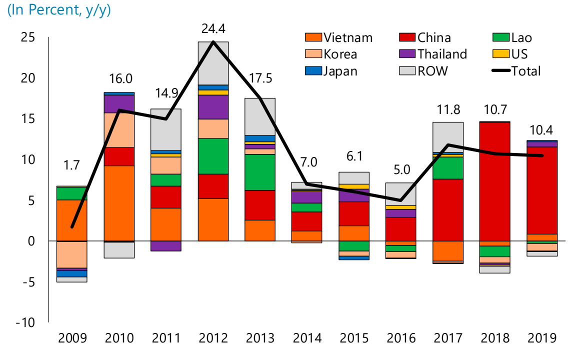


Sources: Cambodian authorities; and IMF staff calculations.

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

Contribution to Tourism Growth

(In Percent, y/y)



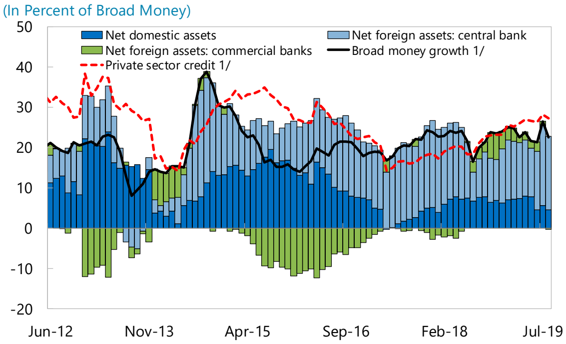
Sources: Cambodian authorities; and IMF staff calculations; 2019 includes data for first 8 months.

Figure 2. Cambodia: Elevated Financial Vulnerabilities

Broad money growth remained stable while the NFA in the banking sector improved…

Monetary Developments

(In Percent of Broad Money)



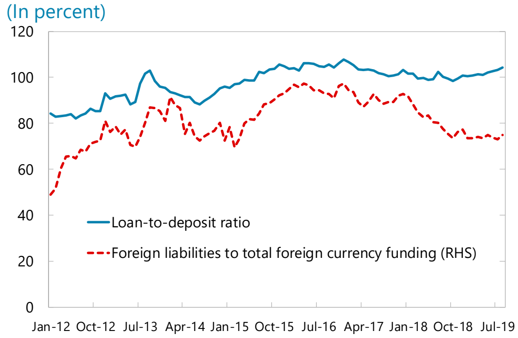
Sources: Cambodian authorities; and IMF staff calculations.

1/ Year-on-year percent change.

….as reliance on external financing declined slightly.

Foreign Liabilities to Total Foreign Funding

(In percent)

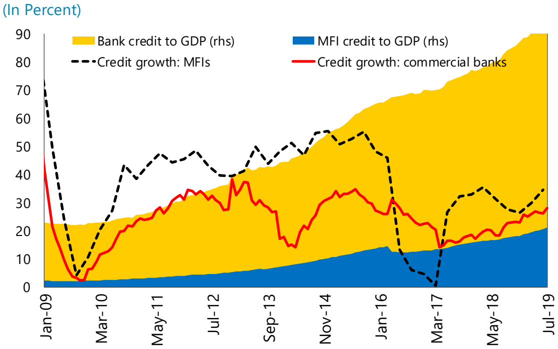


Sources: Cambodian authorities; and IMF staff calculations.

Credit-to-GDP ratio continues to rise …

Private Sector Credit: MFIs and Commercial Banks

(In Percent)

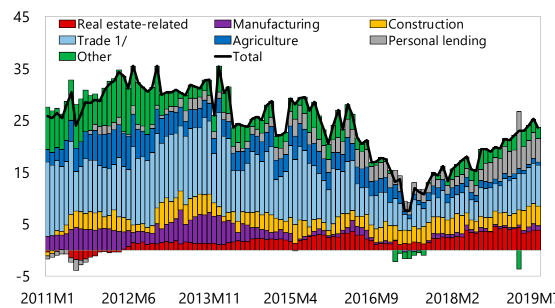


Sources: National Bank of Cambodia; and IMF staff calculations.

…driven by an increase in real estate, construction and personal lending.

Contribution to Credit Growth by Sector

(In Percent, Year-on-Year)



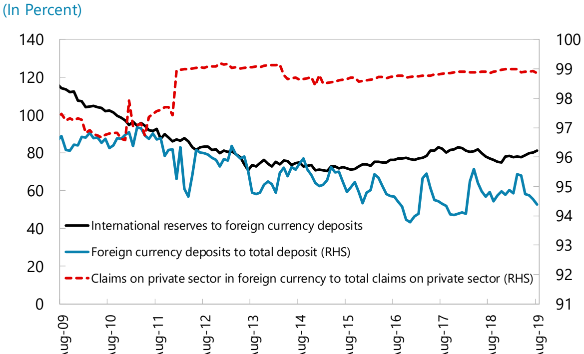
Sources: National Bank of Cambodia.

1/Trade credit growth includes wholesale and retail trade.

Cambodia's dollarization level remains high…

Dollarization

(In Percent)

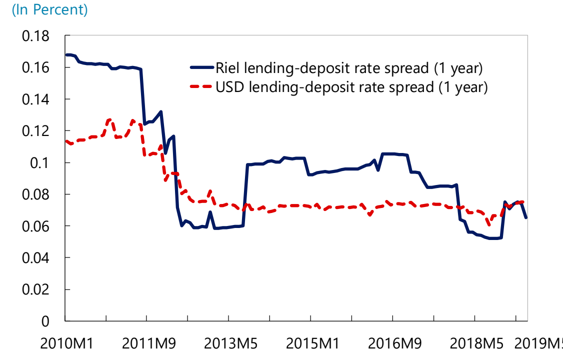


Sources: Cambodian authorities; and IMF staff calculations.

…while Riel borrowing costs have fallen.

Lending-deposit Rate Spread

(In Percent)

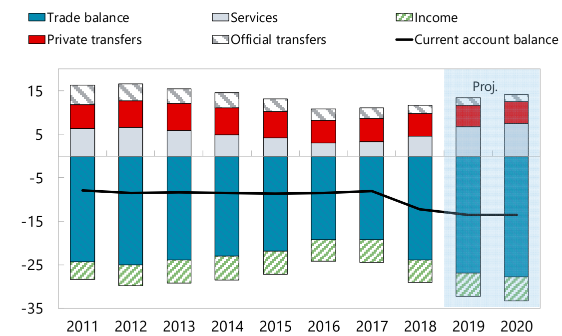


Sources: National Authorities

Figure 3. Cambodia: Worsening External Position

The current account deficit widened owing to higher imports…

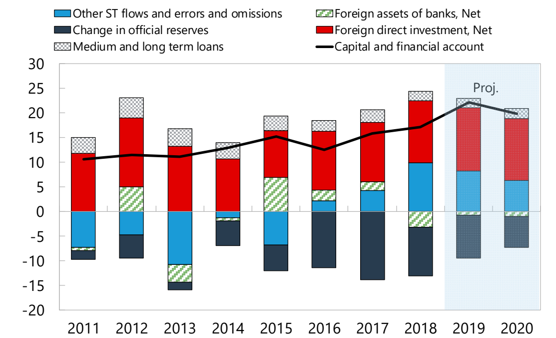
Current Account
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

…and was financed by FDI inflows and increasing ST inflows.

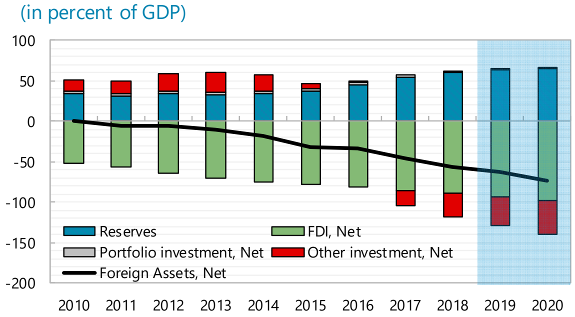
Current Account Financing
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

NFA are primarily composed of FDI liabilities but other investments are on the rise.

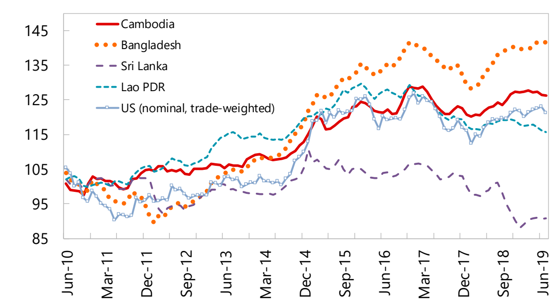
Cambodia: Net Foreign Assets
(in percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

The real effective exchange rate remained stable.

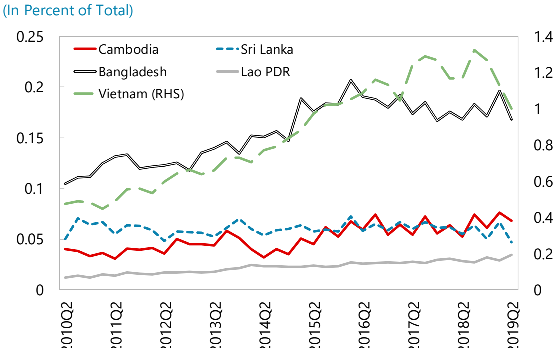
Real Effective Exchange Rate
(Index, 2010=100)



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

Cambodia's share of world exports continues to grow…

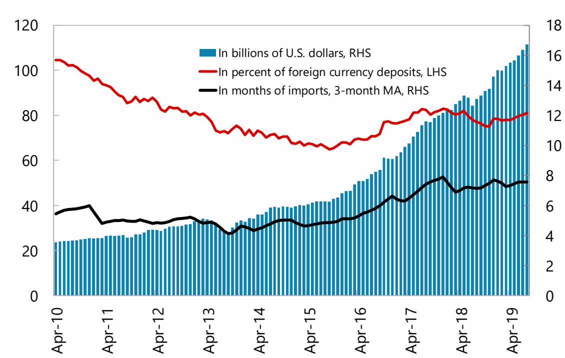
Selected Economies: Share of World Exports
(In Percent of Total)



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

… and reserve accumulation has continued.

Gross Official Reserves

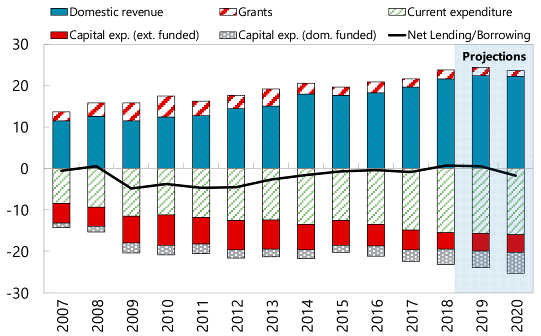


Sources: Cambodian authorities; and IMF staff calculations.

Figure 4. Cambodia: Robust Revenue Performance Amid Spending Pressures

Fiscal performance remains strong…

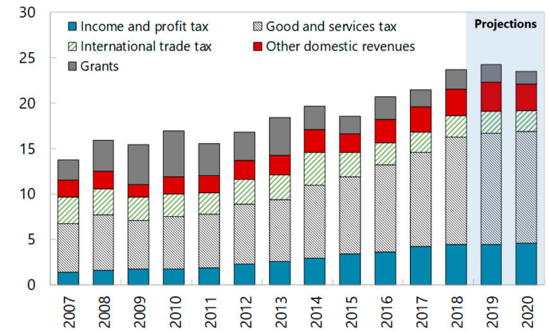
Fiscal Balance
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

…and revenues continue to increase, supported by strong administrative efforts.

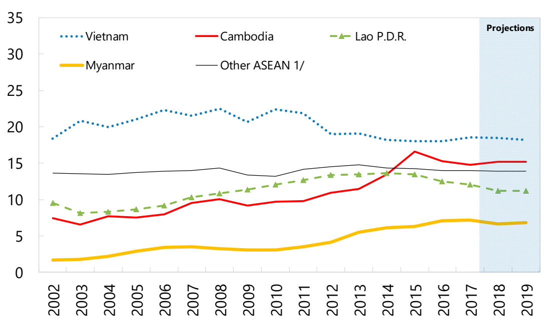
Fiscal Revenues
(In Percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

Revenue performance surpasses regional average.

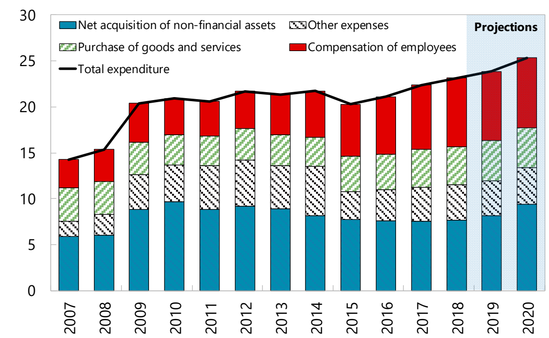
Tax Collection in Asian LICs
(In percent of GDP)



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

The wage bill continues to rise…

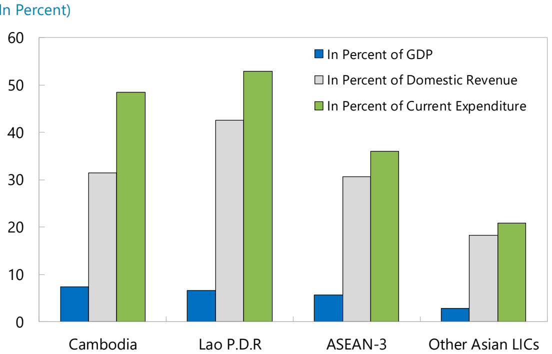
Goverment Spending
(In percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

…resulting in higher public wages than most other Asian LICs.

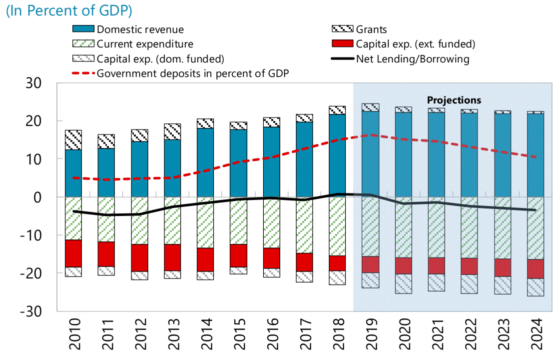
Wage Spending, 2018
(In Percent)



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

Efforts are needed to better use the fiscal space for social and development spending.

Medium-term Fiscal Outlook
(In Percent of GDP)

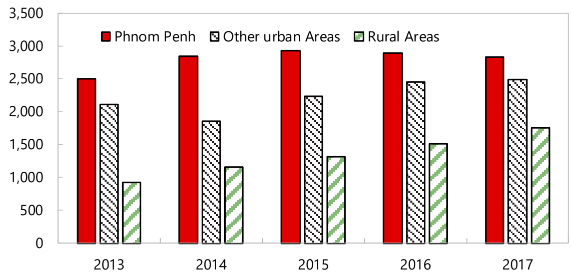


Sources: Cambodian authorities; and IMF staff calculations.

Figure 5. Cambodia: Moving to More Inclusive and Sustainable Growth

Income inequality between rural and urban areas has declined…

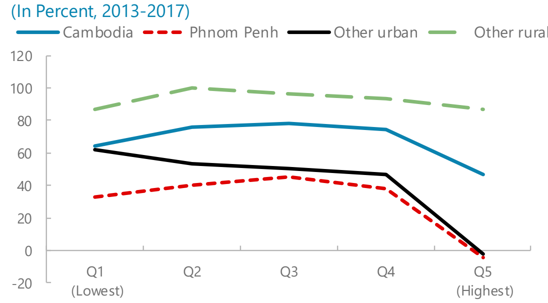
Average Monthly Household Income
(In thousand Riels)



Source: Cambodia Socio-Economic Survey 2017, Ministry of Planning.

…and income in all the quantiles, except the highest (Q5) in Phnom Penh and urban areas, has increased.

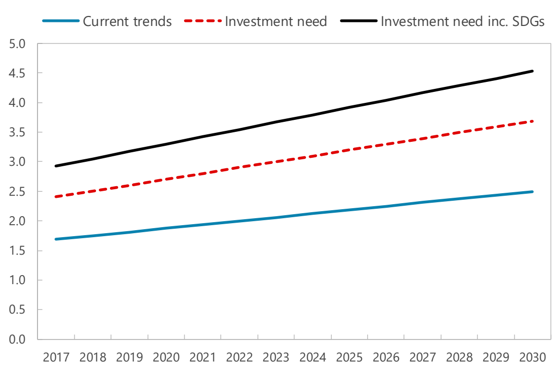
Change in Income Distribution by Quantile
(In Percent, 2013-2017)



Source: Cambodia Socio-Economic Survey 2017, Ministry of Planning.

The infrastructure investment gap is significant and widens towards 2030.

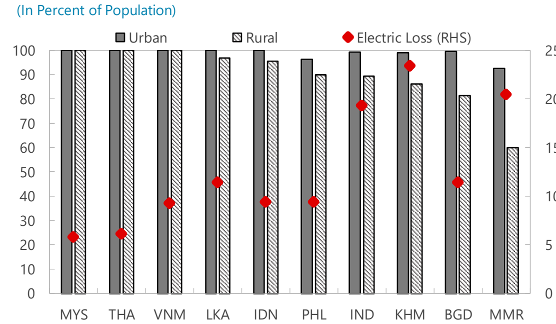
Infrastructure Investment Gap
(In billions of US dollars)



Source: Global Infrastructure Hub, Infrastructure outlook (2017).

Close to universal access to electricity, but quality should be further improved.

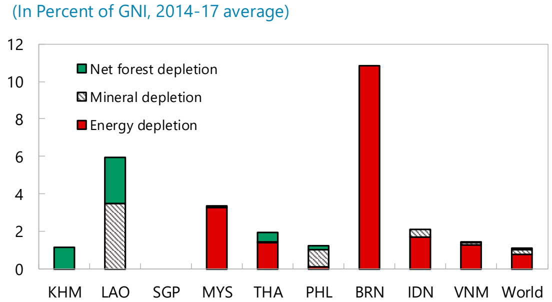
Infrastructure Quality: Access to Electricity [1]
(In Percent of Population)



Source: WDI
[1] Figures for access to electricity are as of 2017 while those for the electric power transmission and distribution losses are as of 2014. Electric loss is in percent of output.

Deforestation contributes to a reduction in natural wealth.

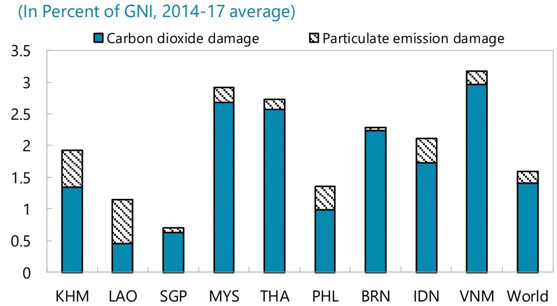
Natural Resource Depletion
(In Percent of GNI, 2014-17 average)



Source: World Bank, World Development Indicators; and IMF staff calculations.

Damage from CO2 and particulate emissions is higher than global average and some peer countries.

CO2 and PM Damage
(In Percent of GNI, 2014-17 average)



Source: World Bank, World Development Indicators; and IMF staff calculations.

Table 1. Cambodia: Selected Economic Indicators, 2015–20

Per capita GDP (2018, US$) : 1,504
Population (2018, million) : 16.3
Poverty rate (2012, percent) : 17.7

Life expectancy (2017, years) : 69.3
Literacy rate (2015, percent) : 80.5
Gini (2012) : 29

	2015	2016	2017	2018	2019	2020
				Est.	Proj.	
Output and prices (annual percent change)						
GDP in constant prices	7.0	6.9	7.0	7.5	7.0	6.8
Inflation (end-year)	2.8	3.9	2.2	1.6	2.7	2.8
(Annual average)	1.2	3.0	2.9	2.4	2.4	2.6
Saving and investment balance (in percent of GDP)						
Gross national saving	13.6	14.1	14.9	11.5	10.4	10.2
Government saving	5.2	4.8	4.8	6.3	6.8	6.3
Private saving	8.4	9.2	10.1	5.2	3.7	3.9
Gross fixed investment	22.5	22.7	23.0	23.7	23.9	23.8
Government investment	7.8	7.6	7.5	7.7	8.2	9.4
Private investment	14.7	15.1	15.5	16.0	15.7	14.4
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	14.7	18.0	23.8	24.0	25.2	18.0
Private sector credit	27.1	22.5	18.5	23.2	28.0	25.0
Velocity of money 1/	1.6	1.5	1.4	1.2	1.0	0.9
Public finance (in percent of GDP)						
Revenue	19.6	20.8	21.6	23.9	24.4	23.6
Domestic revenue	17.7	18.3	19.7	21.7	22.4	22.2
Of which : Tax revenue	15.6	15.8	16.9	18.8	19.2	19.3
Grants	1.9	2.5	1.9	2.2	2.0	1.4
Expenditure	20.3	21.1	22.4	23.1	23.9	25.3
Expense	12.5	13.5	14.9	15.4	15.7	15.9
Net acquisition of nonfinancial assets	7.8	7.6	7.5	7.7	8.2	9.4
Net lending (+)/borrowing(-)	-0.6	-0.3	-0.8	0.7	0.5	-1.7
Net lending (+)/borrowing(-) excluding grants	-2.6	-2.8	-2.7	-1.4	-1.4	-3.1
Net acquisition of financial assets	2.3	2.3	3.1	2.2	2.6	0.3
Net incurrence of liabilities 2/	3.0	2.6	3.9	1.5	2.1	2.0
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	9,339	10,278	11,229	12,963	14,765	16,727
(Annual percent change)	14.3	10.1	9.3	15.4	13.9	13.3
Imports, f.o.b.	-13,286	-14,121	-15,504	-18,806	-21,950	-24,725
(Annual percent change)	10.5	6.3	9.8	21.3	16.7	12.6
Current account (including official transfers)	-1,598	-1,732	-1,797	-2,993	-3,600	-3,918
(In percent of GDP)	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6
Gross official reserves 3/	6,798	9,093	12,169	14,598	16,929	18,753
(In months of prospective imports)	4.9	6.0	6.7	7.0	7.2	7.1
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	5,648	5,861	6,669	7,021	7,544	8,112
(In percent of GDP)	31.2	29.1	30.0	28.6	28.5	28.3
Public debt service	137	186	211	266	342	402
(In percent of exports of goods and services)	1.0	1.3	1.3	1.4	1.6	1.7
Memorandum items:						
Nominal GDP (in billions of Riels)	73,423	81,242	89,754	98,919	108,550	118,982
(In millions of U.S. dollars)	18,083	20,043	22,189	24,444	26,688	28,850
Exchange rate (Riels per dollar; period average)	4,060	4,053	4,045	4,047	…	…

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

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

2/ Includes statistical discrepancy.

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

Table 2. Cambodia: Medium-Term Macroeconomic Framework, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Est.			Proj.			
Output and prices (percent change)										
GDP at constant prices	7.0	6.9	7.0	7.5	7.0	6.8	6.7	6.6	6.6	6.5
GDP deflator	1.7	3.5	3.3	2.5	2.5	2.7	2.7	2.9	3.0	3.0
Consumer prices (end-year)	2.8	3.9	2.2	1.6	2.7	2.8	2.8	3.0	3.0	3.0
Consumer prices (average)	1.2	3.0	2.9	2.4	2.4	2.6	2.8	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)										
Gross national saving	13.6	14.1	14.9	11.5	10.4	10.2	10.2	11.0	12.3	13.5
Government saving	5.2	4.8	4.8	6.3	6.8	6.3	6.2	5.8	5.5	5.4
Private saving	8.4	9.2	10.1	5.2	3.7	3.9	4.0	5.2	6.8	8.1
Gross fixed investment	22.5	22.7	23.0	23.7	23.9	23.8	23.6	23.4	23.2	23.0
Government investment	7.8	7.6	7.5	7.7	8.2	9.4	8.8	9.2	9.2	9.5
Private investment 1/	14.7	15.1	15.5	16.0	15.7	14.4	14.8	14.2	14.0	13.5
Private credit growth (percent change)	27.1	22.5	18.5	23.2	28.0	25.0	22.0	18.0	15.0	14.0
Public finance (in percent of GDP)										
Revenue	19.6	20.8	21.6	23.9	24.4	23.6	23.4	22.9	22.6	22.5
Of which: Tax revenue	15.6	15.8	16.9	18.8	19.2	19.3	19.3	19.0	18.9	19.0
Grants	1.9	2.5	1.9	2.2	2.0	1.4	1.2	1.0	0.8	0.7
Total expenditure	20.3	21.1	22.4	23.1	23.9	25.3	24.8	25.4	25.5	26.0
Expense	12.5	13.5	14.9	15.4	15.7	15.9	16.0	16.2	16.3	16.5
Net acquisition of nonfinancial assets	7.8	7.6	7.5	7.7	8.2	9.4	8.8	9.2	9.2	9.5
Net lending (+)/borrowing(-)	-0.6	-0.3	-0.8	0.7	0.5	-1.7	-1.4	-2.4	-2.9	-3.4
Net lending (+)/borrowing(-) excluding grants	-2.6	-2.8	-2.7	-1.4	-1.4	-3.1	-2.6	-3.4	-3.7	-4.1
Net acquisition of financial assets	2.3	2.3	3.1	2.2	2.6	0.3	0.8	-0.2	-0.2	-0.3
Net incurrence of liabilities	3.0	2.6	3.9	1.5	2.1	2.0	2.2	2.2	2.7	3.2
Government deposits	9.1	10.4	12.6	15.0	16.2	15.2	14.6	13.1	11.8	10.4
Balance of payments (in percent of GDP, unless otherwise indicated)										
Exports (percent change) 2/	14.3	10.1	9.3	15.4	13.9	13.3	12.8	12.1	11.8	11.5
Imports (percent change) 3/	10.5	6.3	9.8	21.3	16.7	12.6	12.0	10.2	9.1	9.2
Current account balance (including transfers)	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6	-13.4	-12.4	-10.9	-9.5
(Excluding transfers)	-11.7	-11.2	-10.6	-14.1	-15.2	-15.2	-15.0	-14.0	-12.4	-10.9
Foreign direct investment	9.6	12.0	12.1	12.6	12.8	12.7	12.6	12.5	12.4	12.3
Other flows	4.5	8.1	9.9	9.5	9.4	7.2	6.4	5.6	4.1	2.9
Overall balance	5.2	11.4	13.8	9.9	8.7	6.3	5.5	5.6	5.6	5.6
Gross official reserves (in millions of U.S. dollars) 4/	6,798	9,093	12,169	14,598	16,929	18,753	20,488	22,404	24,468	26,730
(In months of next year's imports)	4.9	6.0	6.7	7.0	7.2	7.1	7.1	7.1	7.1	7.1
Public external debt (in millions of U.S. dollars)	5,648	5,861	6,669	7,021	7,544	8,112	8,771	9,505	10,482	11,733
(In percent of GDP)	31.2	29.1	30.0	28.6	28.5	28.3	28.2	28.2	28.6	29.5
Public external debt service (in millions of U.S. dollars)	137	186	211	266	342	402	433	475	493	514
(In percent of exports of goods and services)	1.0	1.3	1.3	1.4	1.6	1.7	1.6	1.6	1.5	1.4

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

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.

2/ Excludes re-exported goods.

3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.

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

Table 3a. Cambodia: Balance of Payments, 2015–24 (BPM5)

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
							Proj.			
Current account (including official transfers)	-1,598	-1,732	-1,797	-2,993	-3,600	-3,918	-4,192	-4,220	-4,008	-3,798
(Excluding official transfers)	-2,124	-2,237	-2,346	-3,444	-4,050	-4,389	-4,687	-4,740	-4,554	-4,372
Trade balance	-3,947	-3,843	-4,275	-5,844	-7,185	-7,998	-8,828	-9,359	-9,656	-9,999
Exports, f.o.b.	9,339	10,278	11,229	12,963	14,765	16,727	18,870	21,161	23,650	26,371
Of which: Garments	6,830	7,453	8,025	9,507	10,880	12,349	13,916	15,487	17,096	18,912
Imports, f.o.b. 1/	-13,286	-14,121	-15,504	-18,806	-21,950	-24,725	-27,698	-30,520	-33,307	-36,371
Of which: Garments-related	-3,154	-3,484	-3,505	-4,224	-4,834	-5,425	-6,044	-6,649	-7,255	-7,931
Petroleum	-1,263	-1,318	-1,409	-1,725	-1,960	-1,938	-1,949	-2,026	-2,138	-2,272
Services and income (net)	713	550	723	1,130	1,801	2,152	2,546	2,888	3,222	3,588
Services (net)	1,711	1,600	1,861	2,407	3,225	3,755	4,345	4,892	5,449	6,064
Of which: Tourism (credit)	3,136	3,211	3,638	4,362	5,065	5,764	6,537	7,259	7,987	8,788
Income (net)	-998	-1,050	-1,138	-1,277	-1,424	-1,604	-1,798	-2,005	-2,226	-2,475
Private transfers (net)	1,110	1,056	1,206	1,270	1,334	1,457	1,595	1,731	1,879	2,040
Official transfers (net)	526	506	549	451	449	471	495	520	547	573
Capital and financial account	2,750	2,512	3,521	4,185	5,919	5,729	5,913	6,122	6,058	6,045
Medium- and long-term loans (net)	514	429	582	457	520	564	656	731	974	1,248
Disbursements	595	543	722	646	778	874	987	1,097	1,354	1,633
Amortization	-108	-171	-153	-189	-223	-275	-297	-331	-344	-350
Foreign direct investment 2/	1,735	2,398	2,675	3,088	3,403	3,650	3,925	4,225	4,551	4,899
Net foreign assets of deposit money banks	1,243	433	405	-788	-203	-286	-302	-317	-317	-317
Other short-term flows	-1,007	-1,032	-419	1,135	1,921	1,537	1,383	1,245	622	0
Errors and omissions	-206	1,503	1,340	1,225	0	0	0	0	0	0
Overall balance	947	2,283	3,064	2,417	2,318	1,811	1,721	1,902	2,050	2,247
Financing	-947	-2,283	-3,064	-2,417	-2,318	-1,811	-1,721	-1,902	-2,050	-2,247
Change in gross official reserves 3/	-959	-2,295	-3,076	-2,429	-2,331	-1,824	-1,735	-1,916	-2,064	-2,262
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-11.7	-11.2	-10.6	-14.1	-15.2	-15.2	-15.0	-14.0	-12.4	-10.9
Including official transfers	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6	-13.4	-12.4	-10.9	-9.5
Trade balance (in percent of GDP)	-21.8	-19.2	-19.3	-23.9	-26.9	-27.7	-28.2	-27.6	-26.2	-25.0
Gross official reserves 4/	6,798	9,093	12,169	14,598	16,929	18,753	20,488	22,404	24,468	26,730
(In months of next year's imports)	4.9	6.0	6.7	7.0	7.2	7.1	7.1	7.1	7.1	7.1

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

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

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

3/ Includes changes in unrestricted FCDs held as reserves at the NBC, and excludes changes in gold holdings and valuation.

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

Table 3b. Cambodia: Balance of Payments, 2015–24 (BPM5)

(In percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					Proj.					
Current account (including official transfers)	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6	-13.4	-12.4	-10.9	-9.5
(Excluding official transfers)	-11.7	-11.2	-10.6	-14.1	-15.2	-15.2	-15.0	-14.0	-12.4	-10.9
Trade balance	-21.8	-19.2	-19.3	-23.9	-26.9	-27.7	-28.2	-27.6	-26.2	-25.0
Exports, f.o.b.	51.6	51.3	50.6	53.0	55.3	58.0	60.3	62.4	64.2	65.9
Of which: Garments	37.8	37.2	36.2	38.9	40.8	42.8	44.5	45.6	46.4	47.3
Imports, f.o.b. 1/	-73.5	-70.5	-69.9	-76.9	-82.2	-85.7	-88.6	-89.9	-90.4	-90.9
Of which: Garments-related	-17.4	-17.4	-15.8	-17.3	-18.1	-18.8	-19.3	-19.6	-19.7	-19.8
Petroleum	-7.0	-6.6	-6.3	-7.1	-7.3	-6.7	-6.2	-6.0	-5.8	-5.7
Services and income (net)	3.9	2.7	3.3	4.6	6.7	7.5	8.1	8.5	8.7	9.0
Services (net)	9.5	8.0	8.4	9.8	12.1	13.0	13.9	14.4	14.8	15.2
Of which: Tourism (credit)	17.3	16.0	16.4	17.8	19.0	20.0	20.9	21.4	21.7	22.0
Income (net)	-5.5	-5.2	-5.1	-5.2	-5.3	-5.6	-5.8	-5.9	-6.0	-6.2
Private transfers (net)	6.1	5.3	5.4	5.2	5.0	5.1	5.1	5.1	5.1	5.1
Official transfers (net)	2.9	2.5	2.5	1.8	1.7	1.6	1.6	1.5	1.5	1.4
Capital and financial account	15.2	12.5	15.9	17.1	22.2	19.9	18.9	18.0	16.4	15.1
Medium- and long-term loans (net)	2.8	2.1	2.6	1.9	1.9	2.0	2.1	2.2	2.6	3.1
Disbursements	3.3	2.7	3.3	2.6	2.9	3.0	3.2	3.2	3.7	4.1
Amortization	-0.6	-0.9	-0.7	-0.8	-0.8	-1.0	-0.9	-1.0	-0.9	-0.9
Foreign direct investment 2/	9.6	12.0	12.1	12.6	12.8	12.7	12.6	12.5	12.4	12.3
Net foreign assets of deposit money banks	6.9	2.2	1.8	-3.2	-0.8	-1.0	-1.0	-0.9	-0.9	-0.8
Other short-term flows	-5.6	-5.1	-1.9	4.6	7.2	5.3	4.4	3.7	1.7	0.0
Errors and omissions	-1.1	7.5	6.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.2	11.4	13.8	9.9	8.7	6.3	5.5	5.6	5.6	5.6
Financing	-5.2	-11.4	-13.8	-9.9	-8.7	-6.3	-5.5	-5.6	-5.6	-5.6
Change in gross official reserves 3/	-5.3	-11.5	-13.9	-9.9	-8.7	-6.3	-5.5	-5.6	-5.6	-5.7
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-11.7	-11.2	-10.6	-14.1	-15.2	-15.2	-15.0	-14.0	-12.4	-10.9
Including official transfers	-8.8	-8.6	-8.1	-12.2	-13.5	-13.6	-13.4	-12.4	-10.9	-9.5
Trade balance (in percent of GDP)	-21.8	-19.2	-19.3	-23.9	-26.9	-27.7	-28.2	-27.6	-26.2	-25.0
Gross official reserves 4/	37.6	45.4	54.8	59.7	63.4	65.0	65.5	66.0	66.4	66.8
(In months of next year's imports)	4.9	6.0	6.7	7.0	7.2	7.1	7.1	7.1	7.1	7.1

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

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

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

3/ Includes changes in unrestricted FCDs held as reserves at the NBC, and excludes changes in gold holdings and valuation.

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

Table 4. Cambodia: General Government Operations, 2015–24 (GFSM 2014)

	2015	2016	2017	2018		2019		2020		2021	2022	2023	2024
				Budget	Est.	Budget	Proj.	Budget Prel	Proj.				
Revenue	14,410	16,913	19,387	18,026	23,593	22,044	26,502	27,251	28,118	30,502	32,796	35,517	38,855
Of which: Nongrant	12,982	14,903	17,680	17,310	21,458	20,852	24,367	26,001	26,410	28,965	31,412	34,272	37,734
Tax	11,469	12,800	15,193	14,815	18,552	17,978	20,860	23,030	22,950	25,170	27,244	29,692	32,709
Income, profits, and capital gains	2,472	2,953	3,798	3,899	4,367	4,654	4,793	…	5,463	6,227	6,831	7,500	8,393
Good and services	6,905	7,761	9,312	8,786	11,686	10,805	13,337	…	14,618	16,020	17,575	19,295	21,170
International trade and transactions	1,989	1,988	1,966	2,121	2,355	2,398	2,584	…	2,719	2,771	2,827	2,887	3,135
Grants	1,428	2,010	1,707	716	2,136	1,192	2,136	1,250	1,708	1,538	1,384	1,245	1,121
Other revenues	1,514	2,103	2,487	2,495	2,905	2,875	3,507	2,972	3,460	3,795	4,168	4,580	5,025
Total expenditure	14,884	17,157	20,082	21,997	22,884	24,613	25,915	30,611	30,146	32,360	36,269	40,069	44,791
Expense	9,183	10,983	13,335	14,210	15,260	15,739	17,038	17,418	18,951	20,867	23,114	25,622	28,389
Compensation of employees	4,149	5,125	6,297	7,003	7,413	8,202	8,202	9,077	9,080	10,050	11,247	12,594	14,095
Purchase of goods and services	2,841	3,120	3,650	3,122	4,087	3,783	4,710	…	5,162	5,657	6,206	6,814	7,476
Interest	223	291	288	387	342	525	376	…	412	451	495	543	596
Expense not elsewhere classified	1,970	2,447	3,099	3,697	3,418	3,228	3,751	…	4,296	4,708	5,165	5,671	6,222
Net acquisition of nonfinancial assets	5,701	6,174	6,747	7,788	7,624	8,875	8,877	13,193	11,196	11,493	13,155	14,446	16,403
Of which: Externally financed	4,394	4,252	4,245	…	4,005	5,323	4,624	…	5,065	5,578	6,160	7,303	8,568
Net lending (+)/borrowing(-)	-474	-243	-696	-3,971	709	-2,569	587	-3,360	-2,028	-1,858	-3,473	-4,551	-5,936
Net acquisition of financial assets	1,720	1,834	2,801	…	2,226	…	2,831	…	410	991	-279	-296	-469
Net incurrence of liabilities	2,194	2,077	3,497	3,971	1,516	2,569	2,244	3,360	2,438	2,848	3,194	4,255	5,467
Of which: External	2,138	1,755	2,356	3,971	1,877	2,569	4,380	3,360	4,146	4,386	4,578	5,500	6,588
Revenue	19.6	20.8	21.6	18.2	23.9	20.3	24.4	22.9	23.6	23.4	22.9	22.6	22.5
Nongrant	17.7	18.3	19.7	17.5	21.7	19.2	22.4	21.9	22.2	22.2	22.0	21.8	21.9
Tax	15.6	15.8	16.9	15.0	18.8	16.6	19.2	19.4	19.3	19.3	19.0	18.9	19.0
Income, profits, and capital gains tax	3.4	3.6	4.2	3.9	4.4	4.3	4.4	…	4.6	4.8	4.8	4.8	4.9
Good and services tax	9.4	9.6	10.4	8.9	11.8	10.0	12.3	…	12.3	12.3	12.3	12.3	12.3
International trade and transactions tax	2.7	2.4	2.2	2.1	2.4	2.2	2.4	…	2.3	2.1	2.0	1.8	1.8
Grants	1.9	2.5	1.9	0.7	2.2	1.1	2.0	1.1	1.4	1.2	1.0	0.8	0.7
Other revenues	2.1	2.6	2.8	2.5	2.9	2.6	3.2	2.5	2.9	2.9	2.9	2.9	2.9
Total expenditure	20.3	21.1	22.4	22.2	23.1	22.7	23.9	25.7	25.3	24.8	25.4	25.5	26.0
Expense	12.5	13.5	14.9	14.4	15.4	14.5	15.7	14.6	15.9	16.0	16.2	16.3	16.5
Compensation of employees	5.7	6.3	7.0	7.1	7.5	7.6	7.6	7.6	7.6	7.7	7.9	8.0	8.2
Purchase of goods and services	3.9	3.8	4.1	3.2	4.1	3.5	4.3	…	4.3	4.3	4.3	4.3	4.3
Interest	0.3	0.4	0.3	0.4	0.3	0.5	0.3	…	0.3	0.3	0.3	0.3	0.3
Expense not elsewhere classified	2.7	3.0	3.5	3.7	3.5	3.0	3.5	…	3.6	3.6	3.6	3.6	3.6
Net acquisition of nonfinancial assets	7.8	7.6	7.5	7.9	7.7	8.2	8.2	11.1	9.4	8.8	9.2	9.2	9.5
Of which: Externally-financed	6.0	5.2	4.7	…	4.0	…	4.3	…	4.3	4.3	4.3	4.6	5.0
Net lending (+)/borrowing(-)	-0.6	-0.3	-0.8	-4.0	0.7	-2.4	0.5	-2.8	-1.7	-1.4	-2.4	-2.9	-3.4
Net acquisition of financial assets	2.3	2.3	3.1	…	2.2	…	2.6	…	0.3	0.8	-0.2	-0.2	-0.3
Net incurrence of liabilities	3.0	2.6	3.9	4.0	1.5	2.4	2.1	2.8	2.0	2.2	2.2	2.7	3.2
Of which: External	2.9	2.2	2.6	4.0	1.9	2.4	4.0	2.8	3.5	3.4	3.2	3.5	3.8
Memorandum items:													
Net lending (+)/borrowing(-) excluding grant	-1.7	-2.6	-2.7	-4.7	-1.4	-3.5	-1.4	-3.9	-3.1	-2.6	-3.4	-3.7	-4.1
Government deposits	9.1	10.4	12.6	…	15.0	…	16.2	…	15.2	14.6	13.1	11.8	10.4
GDP (in billions of riels)	73,423	81,242	89,754	98,919	98,919	108,550	108,550	118,800	118,982	130,388	143,050	157,048	172,309

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

Table 5. Cambodia: Monetary Survey, 2015–20

	2015	2016	2017	2018	2019	2020
					Proj.	
			(In billions of Riels)			
Net foreign assets	26,707	31,814	42,575	55,214	66,777	76,268
National Bank of Cambodia	29,490	36,336	48,732	58,185	68,966	77,293
Foreign assets	29,875	36,707	49,125	58,654	69,436	77,763
Foreign liabilities	385	371	393	469	470	470
Deposit money banks	-2,782	-4,522	-6,157	-2,971	-2,189	-1,025
Foreign assets	9,481	10,875	11,769	14,995	17,986	21,138
Foreign liabilities	12,263	15,397	17,925	17,966	20,175	22,163
Net domestic assets	22,116	25,802	28,744	33,229	43,937	54,415
Domestic credit	39,642	48,310	55,856	67,616	85,217	111,120
Government (net)	-6,429	-8,148	-11,067	-14,804	-20,280	-20,752
Private sector	46,071	56,459	66,923	82,419	105,497	131,871
Other items (net)	-17,526	-22,508	-27,113	-34,387	-41,280	-56,705
Broad money	48,823	57,617	71,319	88,443	110,714	130,683
Narrow money	6,741	7,273	9,428	10,227	12,801	15,109
Currency in circulation	5,897	6,473	8,302	9,255	11,586	13,676
Demand deposits	845	800	1,127	972	1,215	1,433
Quasi-money	42,082	50,344	61,890	78,216	97,913	115,574
Time deposits	1,550	2,386	2,615	3,209	4,017	4,741
Foreign currency deposits	40,532	47,957	59,275	75,008	93,896	110,833
			(12-month percentage change)			
Net foreign assets	-0.1	19.1	33.8	29.7	20.9	14.2
Private sector credit	27.1	22.5	18.5	23.2	28.0	25.0
Broad money	14.7	18.0	23.8	24.0	25.2	18.0
Of which: Currency in circulation	5.4	9.8	28.2	11.5	25.2	18.0
Foreign currency deposits	15.3	18.3	23.6	26.5	25.2	18.0
	(Contribution to year-on-year growth of broad money, in percentage points)					
Net foreign assets	-0.1	10.5	18.7	17.7	13.1	8.6
Net domestic assets	14.8	7.6	5.1	6.3	12.1	9.5
Domestic credit 1/	18.2	17.8	13.1	16.5	19.9	23.4
Government (net)	-4.9	-3.5	-5.1	-5.2	-6.2	-0.4
Private sector	23.1	21.3	18.2	21.7	26.1	23.8
Other items (net)	-3.4	-10.2	-8.0	-10.2	-7.8	-13.9
Memorandum items:						
Foreign currency deposits (in millions of U.S. dollars)	10,008	11,879	14,683	18,599	22,893	26,728
(In percent of broad money)	83.0	83.2	83.1	84.8	84.8	84.8
Riel component of broad money	8,291	9,659	12,044	13,435	16,818	19,850
(In percent of broad money)	17.0	16.8	16.9	15.2	15.2	15.2
Credit to the private sector (in millions of U.S. dollars)	11,376	13,985	16,577	20,436	25,721	31,802
(In percent of GDP)	62.7	69.5	74.6	83.3	97.2	110.8
Foreign currency loans-to-total loans (in percent)	98.6	98.7	98.9	99.0	97.0	97.0
Loan-to-deposit ratio (in percent) 2/	112.1	116.2	111.7	108.8	109.0	115.4
Velocity 3/	1.6	1.5	1.4	1.2	1.0	0.9
Money multiplier (broad money/reserve money)	2.2	2.0	1.9	2.0	2.1	2.2
Reserve money (12-month percent change)	21.7	25.0	30.5	20.3	18.9	13.8

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

1/ Excludes banks' credits to nonresident.

2/ Foreign currency loans and deposits only.

3/ The ratio of nominal GDP to the year-to-date average stock of broad money.

Appendix I. Cambodia: Risk Assessment Matrix[1]

Event	Risk Horizon	Up/ Down-side	Prob.	Impact	Transmission	Policy Recommendations
Domestic Risks						
Revenue shortfall	Medium-term	↓	Medium	Medium	Fiscal position deteriorates - fiscal deficits widen and government deposits deplete sharply.	Steadfast implementation of RMS, while rationalizing non-developmental current expenditure.
A large correction in real estate prices.	Short-term	↓	Medium	High	Turning of the credit cycle and fallout from excess household and corporate leverage (incl. in FX) as investors withdraw FX deposits, generating disorderly deleveraging.	Increase reserve requirements to slow down credit growth, implement macro prudential measures, strengthen micro-prudential regulation and supervision, ensure adequate emergency liquidity, strengthen supervision and regulation for MFIs. Preemptively strengthen the crisis management framework.
EBA withdrawal	Short-term	↓	Medium	High	Weaker exports and FDI inflows, lower GDP growth and employment.	Expedite structural reforms to accelerate diversification, by expanding the narrow range of export products, while finding new export markets for existing products. Temporarily increase quality spending on priority sectors to support near-term growth and protect those that are most vulnerable.
Extreme weather	Short-term	↓	Medium	Medium	Weaker agricultural production and exports, weaker tourism, and wider income inequality.	Expedite structural reforms to accelerate diversification, improve infrastructure, and increase transfers to the rural poor after creating fiscal space.
External Risks						
Rising protectionism and retreat from multilateralism	Short-term	↓	High	High	Weaker garments export growth.	Expedite structural reforms to accelerate diversification, by expanding the narrow range of export products, while finding new export markets for existing products.
Weaker-than-expected global growth (US, EU, China)	Short-term	↓	Medium/ High	Medium/ High	Lower exports coupled with weaker FDI and banking sector flows.	Expedite structural reforms to accelerate diversification. Ensure adequate emergency liquidity.

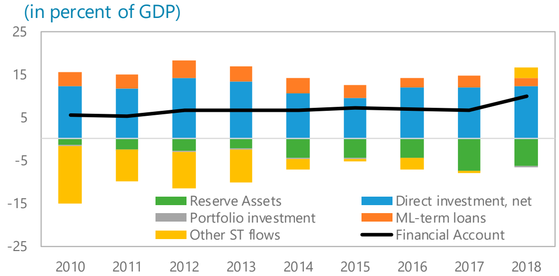
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability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

Appendix II. External Sector Assessment[1]

The external position of Cambodia in 2018 was substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. Policies to moderate the credit cycle, diversify exports and enhance productivity and competitiveness would improve the external balance position. There is room to build reserves given high dollarization and elevated financial vulnerabilities.

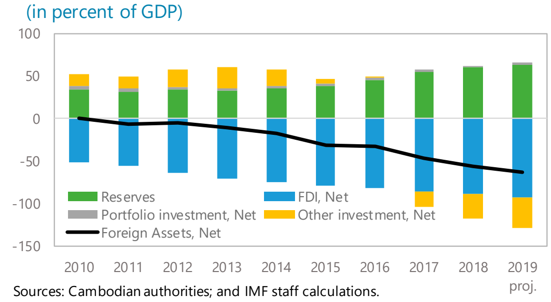
1. Financial account and foreign position. The financial account has remained in large surplus in 2018, owing to continued robust FDI inflows and an increasing share of short-term inflows. The Net Foreign Asset (NFA) position, mainly composed of FDI liabilities, declined from -46 percent of GDP at end-2017 to -56 percent of GDP by end-2018. The NFA position is projected to further decline over the medium term, in line with continuing FDI inflows. The revised External Sustainability (ES) model suggests that a REER depreciation of 17 percent is required to stabilize Cambodia net international investment position at its 2018 level.[2]

Cambodia: Financial Account
(in percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

Cambodia: Net Foreign Assets
(in percent of GDP)



Sources: Cambodian authorities; and IMF staff calculations.

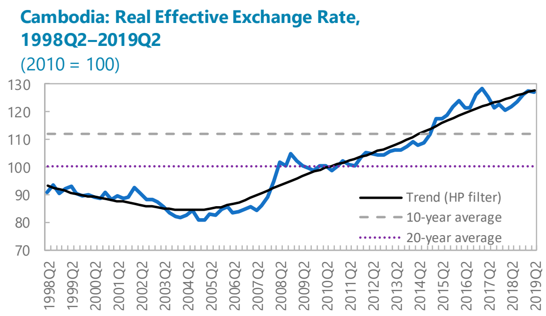
2. Capital flows. Cambodia continues to attract sizable capital inflows, with FDI inflows (12.6 percent of GDP in 2018) more than financing the CA deficit and contributing to the reserves buildup. FDI inflows are a relatively stable source of financing, thus reducing risks of capital flow reversals. More than half of FDI inflows are directed to the banking, construction and real estate sectors. Most inflows originate from Asia, with about 40 percent originating from China. However, other (unidentified) inflows, a potentially less stable source of financing, have also increased recently, thus increasing risks. Overall, capital inflows are expected to remain broadly stable over the medium term, but could decline should downside risks materialize.

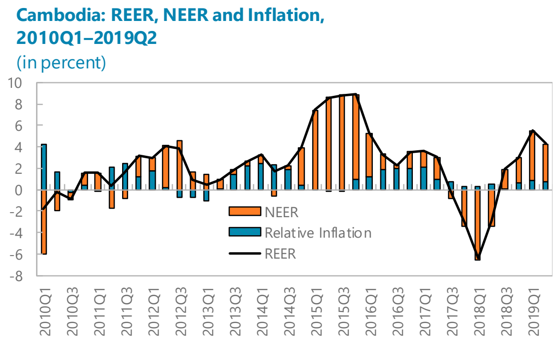
3. Real effective exchange rate (REER). The REER has appreciated by 4 percent on average annually during the last 10 years, reflecting U.S. dollar appreciation, buoyant economic growth, and capital inflows. The REER temporarily depreciated in late 2017 on the back of a weakening U.S. dollar, but this trend was reversed in mid-2018 and the REER appreciated by 4.4 percent between June 2018 and June 2019. Due to the closely managed exchange rate regime, the Riel has depreciated slightly

[1] David Corvino.

[2] The EBA-lite methodology has been recently revised to better capture the external balance of EBA-Lite countries (see "The Revised EBA-Lite Methodology", IMF Policy Paper No. 19/026).

vis-à-vis the U.S. dollar, by 1 percent since early 2018. The revised EBA-lite REER model suggests a REER overvaluation of 7.2 percent.





Sources: Cambodian authorities; and IMF staff calculations.

4. Current account (CA). The CA deficit widened to 12.2 percent of GDP in 2018, due to a pickup in imports of construction goods and vehicles. The 2018 CA model estimates a CA gap of -5.5 percent, translating to a REER overvaluation of 9.2 percent.[3] Part of this gap reflects the fact that CA model does not fully account for the very young population in Cambodia, thereby overstating saving needs. While Cambodia old age dependency ratio is lower than the world's average, Cambodia total dependency ratio is higher, arguing for lower savings and CA norm than calculated by the model. All three models point to a substantial overvaluation of the REER.

External Balance Assessment Results

	CA model	REER model	ES model
Actual CA	-12.2		
CA norm	-7.3		
CA gap	-5.5		
REER gap [1]	**9.2**	**7.2**	**17.0**

Source: IMF staff estimates.
[1] Implied over(+)/under(-) valuation.

5. Recommended policies. To improve the external balance position, 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.

6. FX intervention and reserve adequacy. The current exchange rate regime is based on keeping the Riel broadly stable against the U.S. dollar and is consistent with the high level of dollarization and a concentration in U.S. dollar-invoiced exports. Going forward, however, greater exchange rate flexibility would support the use of local currency. International reserves have increased in the last years to reach 14.6 billion U.S. dollars in end-2018.[4] Traditional metrics and

[3] The desirable level of private credit-to-GDP ratio is set at 73 percent, consistent with a credit gap below 10 percent in 2018 and in line with staff recommendations.

[4] The definition of international reserves has been modified to include unrestricted deposits held by commercial banks at the central bank, in line with the BP6 manual. These deposits amounted about US$4.5 billion in 2018.

regional comparisons indicate that the level of international reserves appear adequate.[5] As of end 2018, reserves were equivalent to 7 months of prospective imports of goods and services and 73 percent of broad money. Applying the Assessing Reserve Adequacy (ARA) tool for Credit-Constrained Economies with fixed exchange rate regime to Cambodia suggests an optimal level of reserves of 2.9 months of current imports of goods and services, which is below the current reserve level.[6] However, the coverage of foreign currency deposits has stagnated in recent year. This severely limits the central bank's lender of last resort capacity and is below regional comparators. Continued financial deepening in the context of near full dollarization suggests that foreign currency deposits are likely to continue to grow. Further accumulation of reserves beyond the level indicated by traditional reserve adequacy metrics, along with measures encouraging use of the Riel, are therefore necessary to enhance resilience against financial sector vulnerabilities and rapid capital flow reversals.

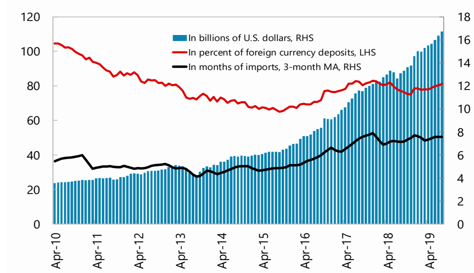
Regional Comparison of Reserve Indicators, 2018

	Months of Imports of G&S[1]	Percent of Exports of G&S	Percent of Broad Money	Percent of GDP
Indonesia	6	59	30	12
Malaysia	6	43	24	30
Philippines	7	92	32	25
Singapore	7	46	45	81
Thailand	9	65	35	43
Sri Lanka	4	42	22	10
Myanmar	4	39	16	8
Mongolia	5	48	46	28
Lao P.D.R.	2	20	13	7
Nepal	7	324	30	29
Vietnam	2	21	14	23
Average	*5*	*73*	*32*	*30*
Cambodia	**7**	**79**	**73**	**60**

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

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

Gross Official Reserves



Sources: Cambodian authorities; and IMF staff calculations.

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

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

Appendix III. Implementation of Past Fund Advice

Safeguarding Fiscal Sustainability
Policies have been broadly in line with past Fund advice. Authorities have increased spending on infrastructure, and health and education, in line with past Fund advice. Wage spending has also increased. However, owing to significant revenue growth, authorities achieved a fiscal surplus in 2018. Progress has been made in modernizing revenue administration and sustaining revenues, while further reforms are needed to improve efficiency and equity of the tax system, as recommended. Authorities continue to gradually strengthen the framework for PPPs in line with Fund advice.
Mobilizing Tax Revenues
Revenue Mobilization Strategy (RMS): The authorities have implemented RMS 2014–18 with significant revenue gains mostly through improved tax administration (additional 3 percent of GDP revenue gain in three years). RMS 2019–2023 was officially launched in 2019, with a view of continuing modernization and automation efforts, reviewing tax incentives and establishing Key Performance Indicators (KPIs) to monitor performances.
Improving Public Financial Management
Sub-National Budget System Reform 2019–2025: The strategy was adopted to align with “Budget System Reform Strategy 2018–2025”, aiming to set up principle for preparation of sub-national strategic plan, budget management, and report system. PIMA assessment planned in 2019 will also help to inform reform implementation.
Managing Fiscal Risks from PPPs: The Law on Public-Private Partnerships is being drafted and undergoing public consultations and is expected to be adopted by early 2020.
Public Procurement System Reform Strategy 2019–2025: Adopted in 2019, strategy aims to prepare annual procurement plan, increase transparency, accountability, and competitiveness through e-procurement systems and aligning with FMIS.
Medium-Term Fiscal Framework (MTFF): MTFF is developed but not yet finalized. MTFF will be fully integrated into 2021 budget process by determining expenditure ceiling of the four broad sectors.
Public Debt Management Strategy (PDMS) 2019–2023 aims to align debt management with MTFF priorities, including assessing and managing risks from PPPs.

Managing Macro-financial Risks
Authorities continue to implement policies to address financial sector vulnerabilities in line with past Fund advice. However, limited progress has been made in addressing real estate sector related risks, including through targeted macroprudential measures, as recommended. Authorities have been promoting financial market development and encouraging the use of local currency in line with the past Fund recommendations. In addition, authorities continue to gradually strengthen the crisis management framework including the resolution regime and depositor protection in line with Fund advice.
National Financial Stability Committee: The Royal Decree on the Formation of the Cambodia's National Financial Stability Committee was issued on August 07, 2019. Chaired by the Prime Minister, the objective of this national committee is to ensure the stability of the Cambodian financial system against internal and external shocks.
Implementation of Regulation on Liquidity Coverage Ratio (LCR): The NBC has continued to implement the LCR regulation issued in December 2015, requiring banks and MFIs to gradually move to maintaining the minimum liquidity at 100 percent of their projected 30-day net cash outflows by January 1, 2020.
Implementation of Regulation on Credit Risk Grading and Impairment Provisioning: The NBC has issued a circular on February 16, 2018 requiring banks and financial institutions to implement the regulation which was introduced in December 2017.
Implementation of Regulation on Capital Buffer in Banking and Financial Institutions: This regulation, issued by the NBC in February 2018, aimed to raise resilience of banking and financial institutions. On March 7, 2018, the NBC issued a Circular to set the countercyclical capital buffer (CCyB) to 0 percent.
Financial Stability Review: This first report, issued by NBC in April 2019, is intended to promote greater understanding among stakeholders and general public on issues and developments pertaining to financial stability and relevant policies. It also serves as a communication and knowledge-sharing tool to enhance transparency.
Promoting the Use of Local Currency
Continued Implementation of Regulation on Provision of Credit in National Currency of Banking and Financial Institutions: This regulation, introduced in December 2016, requires banks and financial institutions to have at least 10 percent of their total loan portfolio in national currency, to be fully implemented by December 31, 2019.
Addressing Shortcomings in the AML/CFT Regime

National Strategy for Combating Money Laundering and Financing of Terrorism 2019–2023: This strategy was released by the CAFIU in March 2019 and aims at addressing money laundering and terrorism financing risks and to guide policies and operation of all stakeholders in Cambodia's AML/CFT programs for the next 5 years.
Supporting Inclusive Growth and Addressing Governance Vulnerabilities
Progress has been made in advancing structural reforms to increase competitiveness, expand financial inclusion and strengthen fiscal governance, broadly in line with past Fund advice. However, while development spending has increased, more efforts would be warranted for fiscal policies to support inclusive growth through shifting taxes towards more progressive revenue sources, as recommended. On the remaining reform agenda to address governance vulnerabilities and corruption, progress on addressing Fund recommendations has been gradual. Authorities have strengthened anti-corruption efforts and the land registration process has been accelerated, while there was limited progress on related past Fund advice, including a law on the protection of whistleblowers.
Improving Competitiveness and Regulation
Improving competitiveness: The authorities continue to lower the transportation cost and improve trade facilitation by dissolving the Kampuchea Shipping Agency & Brokers (KAMSAB) and the Cambodia Import-Export Inspection and Fraud Repression Directorate General (CAMCONTROL) from border crossings and other measures.
Promoting Growth and Inclusiveness: To achieve the objectives set in the Industrial Development Policy 2015–2025 (IDP), the authorities recently introduced several measures, including to establish an SME bank to support domestic manufacturing firms, provided tax incentives to SMEs in priority sectors, established a Skill Development Fund, and an Entrepreneurship Promotion Fund to support SMEs and narrow skill mismatches.
Enhancing Financial Inclusion
National Financial Inclusion Strategy 2019–2025: The Cambodia's National Financial inclusion strategy 2019–2025 has been endorsed on July 12, 2019 during the plenary session of the Council of ministers meeting with approval of the Prime Minister. The strategy will be used to provide direction for the Royal Government, development partners, and private sector to work together, focusing on the urgent practical measures.
Reducing Opportunity for Corruption
Provision of Public Services of the General Department of Customs and Excise: The government issued Prakas No. 1608 MoEF Br.K dated 21 December 2018 to abolish some expenses previously considered informal payments to customs officers.
Governance and regulatory reforms

ACU: Anti-Corruption Unit (ACU) is working on drafting of a law on the protection of whistleblowers and witnesses to better align national laws with the UN Convention Against Corruption.

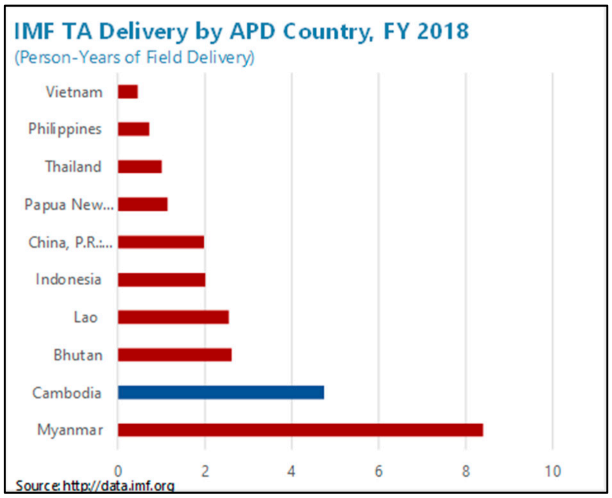
Land registration: The land registration process accelerated with about 70 percent of unofficial deeds being registered. The government's plan is to legalize all registered deeds by 2021.

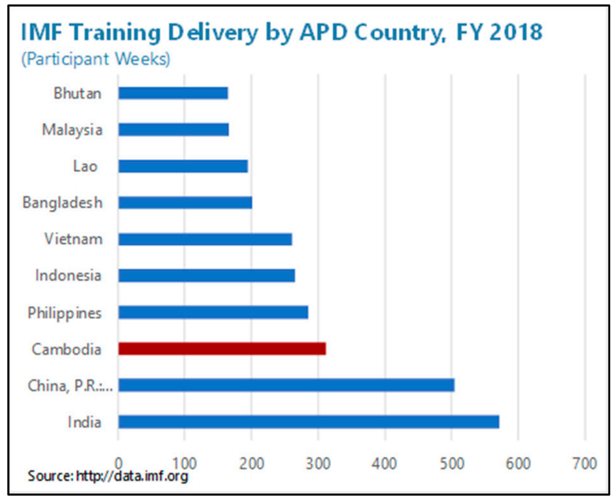
Rule of law: Work on developing legislation for a commercial court is on-going, however the National Commercial Arbitration Center (NCAC) is playing an active role in resolving commercial cases.

Regulatory environment: Authorities have announced plans to simplify the process for setting up a business.

Appendix IV. A Strategy for Capacity Development[1]

1. **Cambodia is an extensive user of Fund capacity development (CD).** Cambodia is among the top 10 Fund-wide and, within the Asia Pacific region, the second largest recipient of TA resources, and the third largest user of IMF training, reflecting the enormous need to build institutions and skills to support the economic transition.[2,3] Cambodian authorities are highly appreciative of Fund CD activities and view them as invaluable in building economic institutions and their capacity to design and implement sound macroeconomic policies.[4]





2. **Despite impressive economic performance over the past two decades, significant challenges remain.** Ranked as one of the world's fastest-growing economies over the past two decades, Cambodia has also made important progress towards SDGs. Cambodia, however, continues to face many challenges in maintaining macroeconomic stability and further advancing sustainable and inclusive growth. For example, the financial sector has grown rapidly over the past decade and vulnerabilities have become elevated; large infrastructure gaps and mounting development spending needs pose challenges for fiscal management; and structural constraints to sustained strong and inclusive growth include a narrow economic base, low level of competitiveness, weak business climate, and governance vulnerabilities.

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[1] Prepared by Yong Sarah Zhou and Yasuhisa Ojima.

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

[3] *'In Cambodia, the IMF worked with the government to create key central bank functions after the country's civil war. These multi-year efforts on banking regulation and supervision paved the way for commercial bank lending that has supported growth and employment'*. By Christine Lagarde, IMF and BIS—Working Together to Boost Financial Stability, BIS-IMF Symposium, Basel, February 8, 2018.

[4] BUFF/ED/18/145.

A. Recent CD Activities

3. **The large volume of CD has been integrated well with Fund surveillance.** High-quality CD remains central in strengthening the effective implementation of Fund policy advice and bolstering our engagement with the authorities**.** Reflecting key economic challenges, the main surveillance priorities identified in the surveillance process include: managing macro-financial risks; safeguarding fiscal sustainability; supporting inclusive growth; and addressing governance vulnerabilities and corruption. CD is then focused on strengthening institutions, policy frameworks, and technical skills to address these issues.

4. **Recent CD activities are consistent with several recent surveillance priorities.** The priorities include: (1) managing macro-financial risks; and (2) safeguarding fiscal sustainability.

- **Managing macro-financial risks (Table 1).** Supporting efforts to address elevated macro-financial risks and following-up on the pilot exercise for enhanced macro-financial surveillance, TA has focused on strengthening banking supervision and regulation, including through the presence of a long-standing resident advisor in banking supervision and regulation. Other TA has included financial stability analysis (with a new resident advisor from July 2018); liquidity forecasting and interbank market development (with regular support from the regional advisor from Capacity Development Office in Thailand (CDOT) on monetary policy and foreign exchange operations since 2017); stress testing; development of strategy to encourage the use of the local currency; and establishing a bank resolution framework and a deposit protection system, as well as overall capacity development at the NBC.

- **Safeguarding fiscal sustainability (Table 2).** Reflecting the need to increase revenues and in preparation for the next phase of the authorities' revenue mobilization strategy (RMS), authorities have received TA on strengthening tax and customs administrations and tax policy. TA on debt management and addressing fiscal risks has supported infrastructure investment (recommended in the context of the infrastructure pilot exercise) financed through PPPs. Regular TA on public financial management (PFM) and treasury management coordinated through CDOT regional advisors has helped improve spending efficiency, and fiscal reporting and governance. The MEF has also been supported by a resident macroeconomic advisor (until January 2019).

- **Statistics.** Recent TA on statistics has focused on improving data quality and availability in external, government, and monetary and financial sector statistics. Consistent with the need for broad improvements in data provision for surveillance, TA on statistics helps compile and disseminate data to support policy analysis, formulation, and detect economic risks and vulnerabilities. TA to support Cambodia's participation in the e-GDDS and the launch of a National Summary Data page (NSDP) have improved data transparency.

- **Training.** Standard ICD training program (both face-to-face and online) has supported general macroeconomic capacity development needs of Cambodian officials. CDOT/STI conducted a very first in country Macroeconomic Diagnostics (MDS) course in December 2018. Under the JSA-supported Project on External Sector Statistics (ESS) executed through CDOT, Cambodia has benefitted from several regional and country-specific training aimed at enhancing the quality of ESS to support decision making, including hosting a regional workshop on BOP and IIP concepts and compilation frameworks in July 2019. Cambodia has also benefitted from JSA funded training in government financial statistics. Most TA and several surveillance missions included a training element, for example, the PFM engagement has been complemented by training provided through the MEF's Economic and Finance Institute (EFI), ranging from budget analysis to IPSAS accounting standards. An inter-agency core group initiated and supported by CDOT performed a key role in strengthening macroeconomic analysis and forecasting with developing Cambodia's macro-framework.

B. Forward Looking CD Priorities

5. Looking ahead, Fund CD can play a pivotal role in Cambodia's transitions to the next phase of its development. Fund CD can contribute to enhancing institutional capacity to effectively design, implement, and monitor policies in securing macroeconomic stability and sustaining strong and inclusive growth. Forward looking CD priorities are informed by an evolving multi-year surveillance strategy and CD matrix (Table 3). The multi-year strategy covers traditional macroeconomic issues, enhanced focus on macro-financial issues, topics that fall under Fund key commitments to support countries in achieving their Sustainable Development Goals (SDGs) as well as emerging Fund issues.

6. CD priorities:

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

- **Safeguarding fiscal sustainability.** Spending pressures should be contained, and priority given to growth-enhancing infrastructure and development spending. Sustaining revenues will require modernizing revenue administration and policies to improve efficiency and equity. Debt management will face new challenges with the increase in potential contingent liabilities from Public Private Partnerships (PPPs) and introduction of a domestic debt market. Introduction of a medium term fiscal and budget framework will help safeguard fiscal sustainability via improved budget planning and fiscal risk management. Improvements in multiple fronts are needed to strengthen fiscal governance. Against this backdrop, activities should focus on supporting revenue mobilization and debt management, improving fiscal governance and strengthening capacity.

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

- **Statistics.** While activities should continue to support broad-based improvements in data availability, quality, frequency, and transparency, management of macro financial risks, safeguarding fiscal sustainability and inclusive growth also requires expanded coverage of existing datasets as well as new datasets to address emerging needs. Data provision is broadly adequate for surveillance, but shortcomings in terms of coverage, accuracy and timeliness hamper analysis. For example, budget formulation and reporting are still based on the TOFE system (based on GFS 1986) as opposed to the GFS 2014 standard; national accounts statistics suffer from several weaknesses (including outdated base year, poor quality estimates of the GDP expenditure components, and lack of quarterly national accounts data); gaps in real estate statistics prohibit more informed assessment of risks in the sector and to undertake respective policy options; and slow implementation of the national statistics strategy lead to segmented, unreliable, and inconsistent macroeconomic statistics that are not keeping pace with a fast growing economy.

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

C. CD Strategy

7. **Going forward, there could be several caveats to make CD more effective.** With further strengthening forward-looking integration of CD and surveillance as described above, enhancing TA design to instill a broad-based reform agenda, strong commitment from the authorities, overarching HR management to build lasting capacity, and flexibility of CD delivery are crucial for the success of CD:

- **Tailoring**. TA design needs to take full consideration of authorities starting point, absorption capacity and time required to instill a broad-based reform agenda. CD needs to recognize capacity constraints including often limited absorptive capacity, scarcity of resources, and possible political concerns. This should include a better tailoring of CD, based on careful prioritization and sequencing, proposing incremental reforms to ensure sustainability, and offering more hands-on and on-the-ground advice.

- **Ownership**. Strengthening country ownership at all stages of CD interventions (scoping, initiation, execution, and implementation) would further enhance traction. Country authorities play a leading role throughout the CD process, with due consideration to institutional and capacity constraints. Close, ongoing dialogue between Cambodia authorities and the Fund strengthens the scoping of CD needs in line with country priorities, tailors the technical and policy advice to local conditions and institutional capacity, allows for mid-course corrections where needed, and ultimately results in improved traction and impact.

- **Human resource management**. Overarching human resource management in the counterparts are needed to build lasting capacity. It is important to modernize authorities' HR strategy to conduct (and update regularly) a mapping of all key functions and significant business processes in each agency, build staffing and identify most needed resources and urgent gaps in skills based on these outcomes, and to enhance the efficiency of staff allocation and associated CD management.

- **Flexibility of delivery.** While the areas of CD focus will largely not change, it is crucial to pay attention to flexible delivery of CD including training modules, targeted follow-up TA and workshops as part of TA delivery; and assess more systematically the extent of training needed to allow the effective implementation of TA recommendations. Capacity challenges make it essential that training is an integral part of TA missions, including to explain major findings and recommendations. In addition to formal TA and training, peer learning and outreach, including by resident representatives, has proven to be effective modes of CD delivery.

Table 1. Cambodia: Recent Surveillance and TA Integration in the Monetary and Financial Sector

Surveillance Focus: Managing Macro-Financial Risks and Building Resilience		
Surveillance Recommendations	**Recent TA Focus**	**Key Results**
Upgrade regulation and supervision; strengthening non-bank regulation; build liquidity and capital buffers	Upgrading regulation framework of the banking sector	Upgraded regulations and supervisory processes for credit risk and reporting requirements; minimum capital requirement; capital buffer; a new framework for PCA; liquidity coverage ratio (LCR) and liquidity management framework.
Promote development of the interbank and FX markets	Liquidity forecasting and monetary operations	Improved liquidity management and forecasting; interbank market development, introduced local currency instruments including NCD and LPCO, and established online trading platform.
Promote local currency use	Strategy for promoting the use of local currency	A market based, gradual strategy for promoting the use of local currency is prepared.
Systematic financial stability analysis	Strengthening systemic financial stability analysis at the NBC	Established a fully dedicated division to systemic financial stability analysis; and published the first-ever Financial Stability Report.

Table 2. Cambodia: Recent Surveillance and TA Integration in the Fiscal Sector		
Surveillance Focus: Safeguarding Fiscal Sustainability		
Surveillance Recommendations	**Recent TA Focus**	**Results**
Ensure sustained revenue improvement	Tax administration key functions for RMS (2014–18) Customs administration key functions for RMS (2014–18) Tax administration diagnostic for RMS (2019–-23) Tax policy review	RMS (2014–18) has helped to produce large revenue gains, mostly through improved tax administration; Supported GDCE in developing enforcement strategy, the ICT strategy, and strategic and operational planning functions; Priority areas identified in the tax policy review and tax administration diagnostic are included in the new RMS (2019–23).
Improve expenditure efficiency	PFM (FMIS, COFOG, IPSAS, and treasury management); Medium Term Fiscal Framework	Supported rolling out Phase II of the FMIS; Improved fiscal reporting, fiscal management and budgeting, treasury, and accounting issues.
Managing PPPs	PPPs fiscal risk analysis	Strengthening fiscal framework for PPPs.
Debt management	Medium term debt strategy	Supported to prepare the Public Debt Management Strategy (PDMS) for 2019–2023, including on assessing and managing risks from PPPs.
Macro-fiscal Capacity	Capacity building in macro-fiscal areas	Improved MEF's macroeconomic and revenue models, developed tools to monitor and update macro projections in-year and a MTFF.

Table 3. Cambodia: Multi-Year Strategic Surveillance and CD Matrix

	Macro-Critical	Traction	2019	2020	2021	CD
Traditional macroeconomic issues	HIGH	HIGH	✓	✓	✓	✓
Issues for Further Integration						
1. Macro-financial Issues, 1/						
Capital Inflows and Spillovers	HIGH	HIGH	✓	→		✓
Financial Stability, Deepening and Inclusion	MEDIUM	MEDIUM	✓	→		✓
Financial Cycle and Macro-implications	HIGH	HIGH	✓	→		✓
Balance Sheet Analysis	N/A	N/A			✓	
Macroprudential Policy	HIGH	MEDIUM	✓	→		✓
Financial Supervision and Regulation	HIGH	HIGH	✓	→		✓
Macroeconomic Shocks and Financial Stress	HIGH	HIGH	✓	→		✓
2. SDGs/FfD Commitments						
Domestic Revenue Mobilization	HIGH	HIGH	→	✓	→	
Infrastructure Investment 2/	HIGH	HIGH	✓	→		✓
Building Policy Space/Economic Resilience	MEDIUM-HIGH	MEDIUM		✓	→	✓
Environmental Sustainability, Equity/inclusion	MEDIUM	MEDIUM	✓	→		
Fragile and Conflict-Affected States	N/A	N/A				
Domestic Financial Market Promotion	HIGH	HIGH	✓	→		✓
Data enhancement	HIGH	MEDIUM	✓	→		✓
3. Emerging Issues						
Gender	LOW	LOW				
Income Inequality, 3/	MEDIUM-HIGH	MEDIUM	✓	→		
Climate Change	MEDIUM	LOW			✓	
Governance	HIGH	MEDIUM	✓	→	→	✓
Social Spending	MEDIUM	MEDIUM		✓	→	

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

Notes:

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

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

3/ Pilot for inequality (2018).

INTERNATIONAL MONETARY FUND

CAMBODIA

November 20, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of September 30, 2019)

Membership Status

Joined December 31, 1969; accepted the obligations under Article VIII, Sections 2, 3, and 4 on January 1, 2002.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	175.00	100.0
Fund holdings of currency (Holdings Rate)	153.13	87.50
Reserve Tranche Position	21.88	12.50

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	83.92	100.00
Holdings	88.77	105.78

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Oct. 22, 1999	Feb. 28, 2003	58.50	58.50
ECF [1/]	May 06, 1994	Aug. 31, 1997	84.00	42.00

[1/] Formerly PRGF.

Overdue Obligations and Projected Payments to the Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Multilateral Debt Relief Initiative

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006, approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia's outstanding debt to the IMF, a total of SDR 56.8 million (about US$82 million). The authorities intend to spend the resources over a number of years, initially on rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

Safeguards Assessment

A voluntary safeguards assessment of the NBC was completed in January 2010 at the request of the authorities, which updated the previous March 2004 voluntary assessment. The update assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework; however, important recommendations proposed in 2004 were still outstanding, and some new risks had emerged in the area of external audit.

Exchange Rate Arrangement and Payments System

Cambodia's de facto exchange regime is classified as *other-managed arrangement*. The *de jure* regime is a *managed float*. The official exchange rate, which is expressed in Riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises, and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 1, 2002. Cambodia maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation

Cambodia is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Phnom Penh during September 19 – October 2, 2018. The Executive Board concluded the Article IV consultation (IMF Country Report 18/369) on November 28, 2018.

Financial Sector Assessment Program (FSAP)

The joint IMF-World Bank FSAP mission took place in March 2010 and the assessment was completed in October 2010.

Resident Representative

Mr. Yasuhisa Ojima has been the IMF Resident Representative for Cambodia since September 2019.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/cambodia

Asian Development Bank: https://www.adb.org/countries/cambodia/main

MAIN WEBSITES OF DATA

National Bank of Cambodia (www.nbc.org.kh)

Exchange rates
Balance of payments

Ministry of Economy and Finance (www.mef.gov.kh)

Government budget
Fiscal revenue, expenditure, and financing
Public Debt Bulletin

National Institute of Statistics (www.nis.gov.kh)

Consumer Price Index
National accounts
Population census
Labor force survey
Socioeconomic survey
Household survey

National Summary Data Page
(https://www.nbc.org.kh/english/economic_research/NSDP.html)

STATISTICAL ISSUES

(September 2019)

I. Assessment of Data Adequacy for Surveillance
General. Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the Fund, United Nations Development Program, Asian Development Bank (ADB), and World Bank, as well as by bilateral partners, leading to substantial capacity improvements. Despite the progress made in improving data and statistics, several shortcomings in macroeconomic data still hamper timely and comprehensive analysis.
National accounts. The reliability of the national accounts is impacted by an outdated base year (2000). The Cambodian economy has rapidly evolved, as has its informal sector which is using technology to increase value-added (such as in the transportation sector). Sectors such as agriculture and construction lack adequate volume measures, and more broadly the absence of relevant price deflators underscore the need for upgrading statistical techniques and data sources used for compiling GDP by output. For GDP by expenditure, data source constraints impact in particular, the measurement of gross capital formation. The NIS is currently revising the sources and methods for compiling national accounts, assisted by SIDA and UNESCAP; and is urged to complete and disseminate the rebased GDP. Implementing practices to assure the integrity of the rebased national accounts, such as by publicly announcing in advance a planned release date and/or advance notice of the impending methodological changes would promote transparency. The availability of high frequency indicators such as quarterly GDP and a production index would support more agile monitoring of economic developments.
Price statistics. With recent technical assistance from the Fund (August 2019), the NBC is implementing a work program to compile a residential property price index (RPPI) to facilitate the monitoring of price developments in the real estate market. A prototype RPPI for internal review is expected in early 2021.The compilation of the consumer price index (CPI) suffers from outdated weights—drawn from the 2004 Cambodia Socio-Economic Survey-based household expenditure data—and insufficient geographic coverage, as well as delays in data dissemination. The NIS is planning to update the CPI series, using 2014 household expenditures to update the basket and weights. A producer price index (PPI) is under development as part of broader efforts to strengthen price measures for the national accounts.
Government finance statistics (GFS). The Ministry of Economy and Finance (MEF) is making steady progress on improving government finance (GFS) and public sector debt statistics (PSDS). As an outcome of Fund TA, annual GFS for budgetary central and local governments are compiled following the *Government Finance Statistics Manual 2014 (GFSM 2014)*. A consolidated general government series is not yet available as the MEF is working on the source data for extrabudgetary units (public administrative establishments). A prototype financial balance sheet for the budgetary central government has also been compiled. To facilitate policy dialog, promoting the use of GFS would improve budget planning and enhance data transparency. To this end, streamlining the budget table with the GFSM2014 framework would enhance comparative analysis of actuals and projections. The authorities are also encouraged to report quarterly PSDS to the Joint World Bank-IMF database; and to actively monitor public private partnerships (PPPs) with a view to covering any emerging (and/or contingent) liabilities.

Monetary and financial statistics (MFS). The NBC reports monthly monetary data using STA's standardized reporting forms for the central bank and other depository corporations. As a result of a TA mission conducted in 2017, the NBC also started reporting monetary data for other financial corporations (OFCs). However, the reported data for OFCs cover only the specialized banks which constitutes around one percent of the financial sector. OFC data needs to be improved to include all OFCs (e.g. insurance companies, non-deposit taking microfinance institutions and leasing companies). Further, there is little information to gauge the exact size of the shadow banking sector which includes institutions such as real estate developers, pawn shops and payment service providers. A recent MCM diagnostic review of the NBC's IT needs for regulatory reporting—which provides source data for MFS—has proposed a roadmap to support NBC's efforts to fully automate regulatory reporting. Future work on streamlining data collections by simplifying and harmonizing reporting requirements and templates. should take full account of MFS and FSI compilation requirements.
Financial sector surveillance/financial access. The NBC reports to the Fund all core and eleven encouraged FSIs on a monthly frequency and with one quarter timeliness. The quality of FSIs could be further improved including through enhancements in sectoral allocation of assets and liabilities. Several series and indicators of the Financial Access Survey (FAS), including the two indicators—commercial bank branches per 100,000 adults and ATMs per 100,000 adults—used to monitor Target 8.10.1 of the SDGs are disseminated.
External sector statistics. Cambodia's quarterly balance of payments and international investment position (IIP) are compiled by the NBC according to the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*. There are gaps in coverage, resulting from source data limitations; and some components are compiled on the basis of estimation methods. There is scope for improving the data on inward foreign direct investment (FDI)— a key component of Cambodia's external transactions and positions, as estimation draws heavily on FDI approvals. Other areas of the financial account also have gaps, including for other investment of nonfinancial corporations (trade credits and other debt liabilities). External debt statistics do not cover borrowing by resident nonfinancial corporations. The General Department of Customs and Excise (GDCE) produces monthly and quarterly external trade data; the monthly data are regularly provided to NBC for estimate goods in the balance of payments. Technical assistance is ongoing under the Project on Improvement of External Sector Statistics which is funded by the government of Japan and executed through the IMF Capacity Development Office in Thailand (CDOT). In March 2018, TA from IMF CDOT assisted in improving coverage and estimation methods for the current account, particularly for travel, compensation of employees and workers' remittances. More recently, TA has focused on streamlining the compilation for inward FDI of banks, microfinance institutions, and nonfinancial corporations; and on the coverage of gross reserve assets.

II. Data Standards and Quality	
Cambodia participates in the IMF's General Data Dissemination System (e-GDDS). Its National Summary Data Page (NSDP) was launched on May 30, 2018. **(https://www.nbc.org.kh/english/economic_research/NSDP.html)**	No data ROSC are available.

Cambodia: Table of Common Indicators Required for Surveillance (As of October 21, 2019)					
	Date of Latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	10/20/2019	10/21/2019	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	8/2019	10/2019	M	M, 2 month lag	M
Reserve/Base Money	8/2019	10/2019	M	M, 2 month lag	M
Broad Money	8/2019	10/2019	M	M, 2 month lag	M
Central Bank Balance Sheet	8/2019	10/2019	M	M, 2 month lag	M
Consolidated Balance Sheet of the Banking System	8/2019	10/2019	M	M, 2 month lag	M
Interest Rates[3] (Loan and Deposit rates)	6/2019	10/2019	M	M, 2 month lag	M
Consumer Price Index	8/2019	10/2019	M	M, 1-2 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General	8/2019	10/2019	M	M, 1-2 month lag	M
Revenue, Expenditure, Balance and Composition of Financing—Central	8/2019	10/2019	M	M, 1-2 month lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/2019	9/2019	S	S, 3 month lag	S
External Current Account Balance	Q2/2019	Q3/2019	Q	Q, 3-5 month lag	Q
Exports and Imports of Goods and Services	9/2019	10/2019	M	M, 2 month lag	M
GDP/GNP	2018	6/2019	A	A, 6 month lag	A
Gross External Debt	3/2019	9/2019	Q	Q, 3 month lag	Q
International Investment Position	Q2/2019	10/2019	Q	Q, 4 month lag	Q

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annual (S), Annually (A), Irregular (I), and Not Available (N/A).

[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[3] Deposit and loan rates.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

November 20, 2019

Approved By
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Prepared by Staff of the International Monetary Fund and the International Development Association

Cambodia Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Low*
Overall risk of debt distress	*Low*
Granularity in the risk rating	*Not Applicable*
Application of judgment	*No*

The Debt Sustainability Analysis (DSA) using the joint IMF/WB Debt Sustainability Framework for Low Income Countries (LIC-DSF) shows that Cambodia remains at low risk of external debt distress. All debt burden indicators are projected to remain under their indicative thresholds under the baseline and the shock scenarios.[1]The overall risk of debt distress is low, but the analysis indicates that debt sustainability is vulnerable to export and growth shocks, and the materialization of contingent liabilities. The public and publicly guaranteed (PPG) debt-to-GDP ratio is projected to rise by 6½ percentage points during the next decade due to projected larger fiscal deficits in the medium term. These findings reinforce the importance of implementing reforms to increase the economy's resilience to external shocks and encourage diversification. Further efforts to mobilize fiscal revenue, increase efficiency of public expenditure, strengthen fiscal governance and enhance monitoring of risks related to contingent liabilities are necessary to ensure debt sustainability in the medium term.

[1] Cambodia's Composite Indicator (CI) index, which has been calculated based on the October 2019 and April 2019 WEO update and the World Bank's 2018 CPIA indicates that the county's debt-carrying capacity is strong. This classification is improved compared to the 2018 DSA. For the PV of PPG external debt, thresholds are increased from 40 to 55% (GDP) and from 180 to 240% (exports); external debt service-to exports and to revenue from 15% to 21% and 18% to 23%, respectively.

PUBLIC DEBT COVERAGE

1. **The DSA covers central government debt as well as debt to state-owned enterprises (SOEs) guaranteed by the central government.** By law, state and local governments and the central bank do not engage in external borrowing, and SOEs do not contract non-guaranteed external loans. There are no extra budgetary funds and the National Social Security Fund is funded by deposits and does not constitute a liability for the general government. External debt is defined on a "currency basis".

Subsectors of the public sector	Sub-sectors covered
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	X

The contingent liability stress test includes contingent liabilities stemming from PPPs (8.8 percent of GDP) and financial market (5 percent of GDP). [2]

The country's coverage of public debt	The central government, government-guaranteed debt			
	Default		Used for the analysis	Reasons for deviations from the default settings
Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	Not allowed by law
PPP	35	percent of PPP stock	8.8	Staff estimates
Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)			13.8	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

2. **Cambodia's external public debt, including arrears, amounted to US$7.0 billion (28.6 percent of GDP) at end-2018.** The external debt-to-GDP ratio declined by 1.4 percentage point since end-2017. The composition of the debt stock is about 70 percent bilateral debt, with the remaining 30 percent multilateral debt. About half of the outstanding public debt is owed to China. External debt has been accrued on mostly concessional terms, and the average grant element of public external debt is 28 percent in end-2018. The debt stock includes legacy arrears to the Russian

Cambodia: External Public Debt, 2018

	In million of U.S. dollars	In percent of GDP	In percent of external debt
Total	7021.5	28.6	100
Multilateral	1981.0	8.1	28.2
Bilateral	5,040.5	20.6	71.8
of which: China	3,418.9	14.0	48.7

Sources: Cambodia authorities; and IMF estimates.

[2] The PPP stock is estimated using IMF's Investment and Capital Stock Dataset and information provided by the authorities.

Federation and the United States of about 3 percent of GDP.[3] The status of negotiations of these arrears remains unchanged compared to the last DSA and this analysis continues to assume no debt restructuring.

3. Public domestic debt is currently negligible. The stock as of end-2018 was US$2.8 million. To support financial market development, the government is preparing to issue, for the first time, local-currency government bonds over the next few years. Further strengthening of debt management practices is required, including improving the quality of the debt management strategy and the annual borrowing plan, as well as medium-term domestic market development activities plan.

4. The PPP framework continues to be strengthened while the stock of PPP has increased. With expected diminished access to concessional financing and slow progress in developing domestic debt markets, PPPs have been identified as a way to finance necessary investment projects. The PPP stock grew more than twofold between 2010 and 2015, when it was estimated at 17 percent of GDP. There is no recent estimation of the Cambodian PPP stock. 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.

5. Private external debt. The stock of private external debt in Cambodia is not published by the authorities and is excluded from this analysis.[4] Staff estimates private external debt at about 25 percent of GDP, up from 19.5 percent last year. Risks emerging from excessive external borrowing by the private sector could increase the government's exposure.

BACKGROUND ON MACRO FORECASTS

6. Growth and inflation. Economic activity is expected to moderate slightly in 2019 and 2020, due to the deterioration of external conditions. Real GDP growth is projected at 7 percent in 2019 and expected to decline towards its potential of 6.5 percent over the medium term. Inflation was low at 2.4 percent in 2018 and is expected to remain at the same level in 2019.

7. External sector. The current account deficit was 12.2 percent of GDP in 2018. On the back of strong FDI inflows and robust remittances, foreign reserves reached US$14.6 billion (7 months of

[3] Based on Cambodia Public Debt Statistical Bulletin (see Table 13 "Old Debt Under Negotiation"). Data reflects principal amounts, i.e. excluding any accumulated interest. The arrears relate to borrowing prior to 1993.

[4] According to CEIC data, sourced from the NBC, Cambodia's total external debt amounted to US$13.1 billion in 2018. Although the database does not publish the public/private breakdown, private debt can be estimated at about US$6.1 billion (25.4 percent of GDP) by deducting PPG external debt.

imports).[5] Exports growth was robust in 2018 but is projected to moderate due to the deterioration of the external environment. The current account deficit is expected to widen further in 2019 due to sustained import growth of construction materials and consumption goods, and to narrow over the medium term as the real estate and credit cycles mature. External debt disbursements are expected to increase gradually between 2019–24, in line with wider fiscal deficits, and to reduce gradually in the long term, as access to ODA declines as Cambodia reaches a higher level of development and domestic financing increases. Nevertheless, external borrowing is projected to remain largely concessional over the next decade and external debt is projected to reach 29.5 percent of GDP by 2024 and to stabilize at 32.3 percent of GDP in 2029.

8. Fiscal. The fiscal balance was in surplus of 0.7 percent of GDP in 2018, compared to 4.0 percent deficit in the budget law, due to significant tax revenue overperformance.[6] Consequently, the level of government deposits rose to 15 percent of GDP by end-2018. The fiscal balance is projected to narrow to about 0.5 percent of GDP in 2019 and to post a deficit in 2020, -1.7 percent of GDP, due to a scale up in capital expenditure. The fiscal deficit is projected to widen further over the medium-term, as revenue growth moderates—absent tax policy reforms—while capital and other development spending to address still large development needs are expected to increase.

9. Domestic debt. As Cambodia's financial sector continues to develop and access to concessional financing declines, the government is expected to start issuing domestic government bonds that will provide additional fiscal financing. Hence, this analysis assumes that the government will issue long-term domestic bonds starting in 2022. The annual issuance of domestic bonds of medium-term maturity is projected to increase gradually, from 0.4 percent of GDP in 2022 to 1 percent in 2039. Domestic PPG debt is therefore expected to increase from 0 to 4.1 percent of GDP by 2039.

10. Realism of the baseline (Figure 4). Cross-country experience suggests that the baseline fiscal adjustment is feasible. The maximum adjustment over the next 3-year period is a 2.1 percentage point increase in the primary deficit-to-GDP ratio. The projected slowdown in near-term growth is mainly driven by external factors, and the growth path projection is lower than suggested by fiscal multipliers. Finally, the contribution of public capital to GDP growth in the baseline scenario is in line with historical values. The main difference in assumptions with respect to last year are a smaller primary fiscal deficit, a higher current account deficit, and higher FDI inflows.

Cambodia: Key Macroeconomic Assumptions, 2018-24 (average)

	Baseline	Previous DSA
Real GDP growth (in percent)	6.8	6.5
GDP deflator (change, in percent)	1.8	1.8
Primary fiscal balance (in percent of GDP)	-1.2	-2.6
Current account (in percent of GDP)	-12.2	-8.7
FDI (in percent of GDP)	12.5	10.6

[5] The definition of international reserves has been modified to include foreign currency reserve assets from commercial bank's unrestricted deposits with the central bank, in line with BPM6. These deposits amounted to about US$4.5 billion in 2018.

[6] Revisions reflect authorities' transition to Government Finance Statistics Manual 2014 (GFSM 2014) reporting format with support from IMF TA.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

11. Country classification. The revised LIC-DSF determines the debt sustainability thresholds by calculating a *composite indicator* (CI). The CI captures the impact of the different factors through a weighted average of the country's real GDP growth, remittances, international reserves, world growth and the CPIA score.[7] The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projections. For Cambodia, the CI score based on the 2019 October WEO data and the World Bank's 2018 CPIA, corresponds to a *strong* rating. Because the previous rating was also *strong* (using the 2019 April WEO data), the final classification is changed to *strong*.[8] The corresponding thresholds are noted in the table below. PV of debt-to-exports threshold is set at 240 percent. Debt service-to-exports and to-revenue thresholds are set respectively to 21 percent and 23 percent.

Cambodia: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity		
Final	Classification based on current vintage	Classification based on the previous vintage
Strong	Strong 3.08	Strong 3.08

Applicable thresholds	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

12. Tailored stress test. Cambodia is highly vulnerable to climate change and is likely to experience an increase in temperatures, as well as longer and more intense droughts and flooding. The cost of natural disasters is estimated at USD 235 million per year (World Bank, 2018).[9] In addition to the six standardized stress tests, the analysis includes a large natural disaster scenario, calibrated using the template's default settings, including a significant mitigation cost of 10 percent of GDP (USD 24 billion) and lowering growth and exports using an interaction coefficient of 1.5 and 3.5, respectively.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

13. The external DSA shows that Cambodia's risk of debt distress is low. Under the baseline scenario, the PV of public external debt ratios never breach their respective thresholds and are projected to remain flat over the projection period. Moreover, the debt service-to-exports and debt

[7] The details on the methodology can be found in the LIC-DSF guidance note:

https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

[8] The CI rating for the 2018 Article IV consultation Debt Sustainability Analysis was *medium*. Country classification are revised if two consecutive signals suggest an upgrade or downgrade.

[9] Cambodia; Sustaining Strong Growth for the Benefit of All. World Bank, 2018.

service-to-revenue ratios remain well below the thresholds throughout the projection period, partly due to the concessional nature of most debt (Figure 1).

14. Stress tests suggest vulnerability to export shocks.[10] For all four indicators, the export shock is identified as the most extreme one, leading to a rise of the ratios larger than for shocks to real growth, fiscal primary balance, exchange rate depreciation and external flows. Under the export scenario, the PV of public external debt-to-GDP ratio would increase quickly from 22.3 percent in 2019 to 39.9 in 2020, but would remain well under the 55 percent threshold.

15. The overall risk of public debt distress is low. Under the baseline, total PPG debt is projected to rise from 28.6 percent of GDP in 2018 to 32 percent in 2039 (Table 2). The PV of total debt-to-GDP ratio is expected to increase to 25.4 percent in 2029, as the share of concessional external debt to total debt decreases, but to remain well below the 70 percent benchmark (Figure 2). Debt-to-revenue and debt service-to-revenue ratios are also expected to increase over the next decade.

16. PPG debt is vulnerable to growth and contingent liabilities shocks. A growth shock (calibrated at 1 standard deviation of historical performance) would lead to a rise of the PV of total debt-to-GDP ratio to 39 percent in 2029. The realization of contingent liabilities related to PPPs and financial stress could increase the debt service-to-revenue ratio from 5 percent in 2019 to 16 in 2022.

CONCLUSION

17. Cambodia remains at low risk of debt distress. PPG debt-to-GDP ratio is expected to rise by 6½ percentage points during the next decade due to projected scale-up in infrastructure investment. To preserve public debt sustainability in the medium-term, the government should establish a fiscal anchor by introducing a debt ceiling and fully developing a medium-term budget framework. The baseline projections and the standard stress tests show increasing risks. Stress tests indicate that Cambodia's debt sustainability remains vulnerable to shocks to exports, economic growth and contingent liabilities. This reinforces the importance of preserving macroeconomic stability and diversifying the economy and exports to increase resilience to external shocks, improving spending efficiency and the successful implementation of the revenue mobilization strategy. Further efforts to implement sound public investment management and PPP frameworks and strengthen analysis of PPP risks are needed. Finally, the authorities should focus on closing data gaps, in particular regarding data on external private debt and the PPP stock.

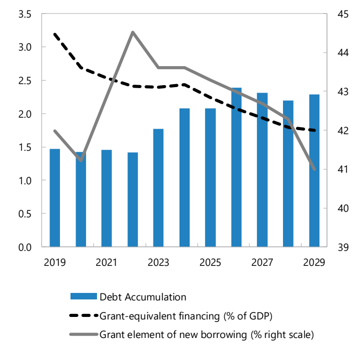
[10] The standardized export shock assumes an export growth at baseline value minus 1 standard deviation and lower GDP growth in 2020-21. This translates into export growth at 2½ percent and GDP growth at 0 percent.

Table 1. Cambodia: Debt Sustainability Framework, Baseline Scenario, 2016–2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	29.1	30.0	28.6	28.5	28.3	28.2	28.2	28.6	29.5	32.3	32.0	30.1	29.9
of which: public and publicly guaranteed (PPG)	29.1	30.0	28.6	28.5	28.3	28.2	28.2	28.6	29.5	32.3	32.0	30.1	29.9
Change in external debt	-2.0	0.9	-1.4	-0.1	-0.2	-0.1	0.0	0.4	0.9	0.4	-0.4		
Identified net debt-creating flows	-6.4	-6.8	-3.2	-1.1	-0.9	-0.9	-1.7	-3.2	-4.5	-2.3	-3.0	-5.1	-2.3
Non-interest current account deficit	8.3	7.8	12.1	13.2	13.3	13.1	12.1	10.6	9.2	9.2	4.0	8.7	10.9
Deficit in balance of goods and services	11.2	10.9	14.1	14.8	14.7	14.3	13.2	11.4	9.8	9.3	5.7	12.7	11.6
Exports	71.4	71.4	75.3	79.5	83.4	86.8	89.4	91.7	93.8	94.8	94.4		
Imports	82.6	82.2	89.4	94.4	98.1	101.1	102.6	103.1	103.7	104.1	100.0		
Net current transfers (negative = inflow)	-7.8	-7.9	-7.0	-6.7	-6.7	-6.7	-6.6	-6.6	-6.5	-6.3	-6.1	-8.6	-6.5
of which: official	-2.5	-2.5	-1.8	-1.7	-1.6	-1.6	-1.5	-1.5	-1.4	-1.2	-1.0		
Other current account flows (negative = net inflow)	4.9	4.8	5.1	5.0	5.2	5.4	5.6	5.7	5.9	6.3	4.4	4.6	5.8
Net FDI (negative = inflow)	-12.0	-12.1	-12.6	-12.8	-12.7	-12.6	-12.5	-12.4	-12.3	-10.0	-5.5	-11.7	-11.8
Endogenous debt dynamics 2/	-2.7	-2.5	-2.6	-1.5	-1.5	-1.4	-1.4	-1.4	-1.4	-1.5	-1.5		
Contribution from nominal interest rate	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5		
Contribution from real GDP growth	-1.9	-1.8	-2.1	-1.8	-1.8	-1.8	-1.7	-1.7	-1.7	-1.9	-1.9		
Contribution from price and exchange rate changes	-1.1	-1.0	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	4.3	7.6	1.8	1.0	0.6	0.8	1.7	3.6	5.4	2.7	2.6	5.3	2.6
of which: exceptional financing	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	22.9	22.3	21.9	21.6	21.2	21.1	21.4	22.7	22.9		
PV of PPG external debt-to-exports ratio	...	...	30.4	28.0	26.3	24.9	23.7	23.1	22.8	24.0	24.2		
Total external debt service-to-exports ratio	...	...	105.4	99.3	98.8	97.1	96.5	96.9	97.7	100.9	98.6		
PPG debt service-to-exports ratio	1.3	1.3	1.4	1.6	1.7	1.6	1.6	1.5	1.4	1.1	1.5		
PPG debt service-to-revenue ratio	5.1	4.8	5.0	5.7	6.3	6.2	6.4	6.1	5.9	4.7	6.1		
Gross external financing need (Million of U.S. dollars)	-552.2	-738.3	128.4	455.7	578.2	599.3	361.6	-163.8	-715.8	169.8	-135.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	7.0	7.5	7.0	6.8	6.7	6.6	6.6	6.5	6.5	6.5	6.3	6.6
GDP deflator in US dollar terms (change in percent)	3.7	3.5	2.4	2.0	1.2	1.6	1.8	1.9	1.9	2.4	3.0	2.5	2.0
Effective interest rate (percent) 4/	1.3	1.2	0.6	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.5	1.0	1.2
Growth of exports of G&S (US dollar terms, in percent)	7.6	10.7	16.3	15.3	13.3	12.9	11.8	11.3	11.1	9.4	9.3	14.3	11.0
Growth of imports of G&S (US dollar terms, in percent)	6.6	10.3	19.7	15.3	12.3	11.8	10.1	9.1	9.2	9.0	9.0	14.0	10.2
Grant element of new public sector borrowing (in percent)	...	...	...	42.0	41.2	42.9	44.5	43.6	43.6	41.0	35.6	...	42.7
Government revenues (excluding grants, in percent of GDP)	18.3	19.7	21.7	22.4	22.2	22.2	22.0	21.8	21.9	22.5	23.2	15.9	22.2
Aid flows (in Million of US dollars) 5/	496.0	421.9	527.7	865.3	753.1	816.4	908.7	933.4	1033.4	940.6	838.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.2	2.7	2.5	2.4	2.4	2.4	1.7	1.3	...	2.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	65.4	60.1	58.4	57.3	53.6	51.4	44.6	36.2	...	53.1
Nominal GDP (Million of US dollars)	20,043	22,189	24,444	26,688	28,850	31,272	33,935	36,851	39,992	61,287	151,350		
Nominal dollar GDP growth	10.8	10.7	10.2	9.2	8.1	8.4	8.5	8.6	8.5	9.1	9.7	9.0	8.7
Memorandum items:													
PV of external debt 7/	...	...	22.9	22.3	21.9	21.6	21.2	21.1	21.4	22.7	22.9		
In percent of exports	...	...	30.4	28.0	26.3	24.9	23.7	23.1	22.8	24.0	24.2		
Total external debt service-to-exports ratio	1.3	1.3	1.4	1.6	1.7	1.6	1.6	1.5	1.4	1.1	1.5		
PV of PPG external debt (in Million of US dollars)			5588.8	5948.4	6328.9	6747.4	7189.3	7789.8	8556.2	13934.0	34614.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.5	1.4	1.5	1.4	1.8	2.1	2.3	2.0		
Non-interest current account deficit that stabilizes debt ratio	10.3	6.9	13.4	13.3	13.5	13.2	12.2	10.1	8.3	8.9	4.4		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**



Sources: Country authorities; and staff estimates and projections.

1/ Includes public sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

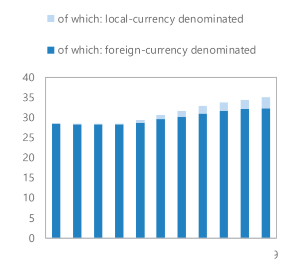
Table 2. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

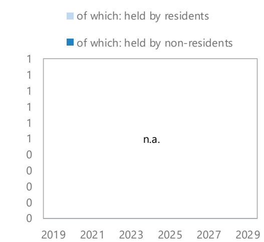
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**29.1**	**30.0**	**28.6**	**28.5**	**28.3**	**28.2**	**28.5**	**29.3**	**30.6**	**34.9**	**36.1**	**30.1**	**31.0**
of which: external debt	**29.1**	**30.0**	**28.6**	**28.5**	**28.3**	**28.2**	**28.2**	**28.6**	**29.5**	**32.3**	**32.0**	**30.1**	**29.9**
Change in public sector debt	-2.0	0.9	-1.4	-0.1	-0.2	-0.1	0.3	0.8	1.3	0.5	-0.2		
Identified debt-creating flows	**-2.8**	**-2.0**	**-3.7**	**-3.0**	**-0.7**	**-0.9**	**0.1**	**0.6**	**1.1**	**0.6**	**0.1**	**-0.2**	**0.1**
Primary deficit	**-0.1**	**0.5**	**-1.1**	**-0.9**	**1.4**	**1.1**	**2.1**	**2.6**	**3.1**	**2.9**	**2.4**	**2.0**	**2.2**
Revenue and grants	20.8	21.6	23.9	24.4	23.6	23.4	22.9	22.6	22.5	22.8	23.2	**19.1**	**23.0**
of which: grants	2.5	1.9	2.2	2.0	1.4	1.2	1.0	0.8	0.7	0.2	0.0		
Primary (noninterest) expenditure	20.8	22.1	22.8	23.5	25.0	24.5	25.0	25.2	25.6	25.6	25.6	**21.1**	**25.2**
Automatic debt dynamics	**-2.7**	**-2.4**	**-2.6**	**-2.1**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.3**	**-2.3**		
Contribution from interest rate/growth differential	-1.9	-2.1	-2.6	-2.1	-2.1	-2.0	-2.0	-2.0	-2.0	-2.3	-2.3		
of which: contribution from average real interest rate	0.1	-0.2	-0.5	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1		
of which: contribution from real GDP growth	-2.0	-1.9	-2.1	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-2.1	-2.2		
Contribution from real exchange rate depreciation	-0.8	-0.4	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.8**	**2.9**	**2.3**	**2.8**	**0.5**	**0.8**	**0.2**	**0.2**	**0.1**	**-0.1**	**-0.3**	**0.4**	**0.4**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**22.8**	**22.5**	**22.1**	**21.7**	**21.6**	**22.0**	**22.6**	**25.4**	**27.1**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**95.6**	**92.1**	**93.4**	**92.8**	**94.3**	**97.1**	**100.1**	**111.6**	**116.5**		
PV of public debt-to-revenue ratio	**...**	**...**	**105.1**	**100.2**	**99.4**	**97.7**	**98.5**	**100.6**	**103.1**	**112.7**	**116.7**		
Debt service-to-revenue and grants ratio 3/	**4.5**	**4.4**	**4.6**	**5.3**	**5.9**	**5.9**	**6.1**	**6.0**	**5.8**	**5.8**	**8.2**		
Debt service-to-revenue ratio 3/	**5.1**	**4.8**	**5.0**	**5.7**	**6.3**	**6.2**	**6.4**	**6.2**	**6.0**	**5.9**	**8.2**		
Gross financing need 4/	0.9	1.4	0.0	0.4	2.8	2.5	3.5	3.9	4.4	4.2	4.3		
in billions of U.S. dollars	174.2	311.3	5.7	105.5	793.8	770.5	1181.7	1438.8	1766.2	2583.2	6550.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	7.0	7.5	7.0	6.8	6.7	6.6	6.6	6.5	6.5	6.5	**6.3**	**6.6**
Average nominal interest rate on external debt (in percent)	1.3	1.2	0.6	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.5	**1.0**	**1.3**
Average real interest rate on domestic debt (in percent)	-2.2	-2.0	-1.8	-2.5	-2.6	-2.6	-2.8	1.8	1.9	1.4	0.8	**-1.4**	**0.1**
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.7	-1.3	-0.2	...	...	...	...	...	...	...	...	**-1.0**	**...**
Inflation rate (GDP deflator, in percent)	3.5	3.3	2.5	2.5	2.7	2.7	2.9	3.0	3.0	3.5	4.2	**2.5**	**3.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	11.1	13.7	11.1	10.5	13.4	4.5	9.0	7.2	8.6	6.5	6.5	**14.9**	**7.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.0	-0.4	0.3	-0.8	1.6	1.2	1.8	1.7	1.8	2.4	2.6	**0.6**	**1.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

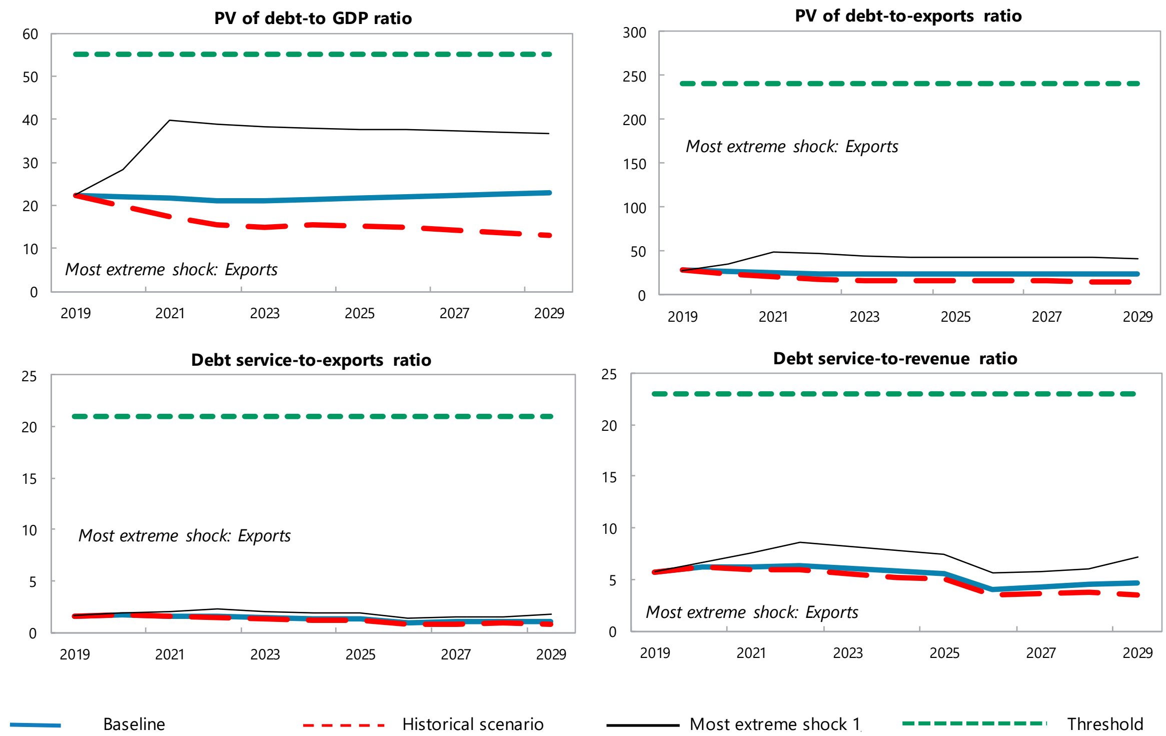
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019–2029 1/



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

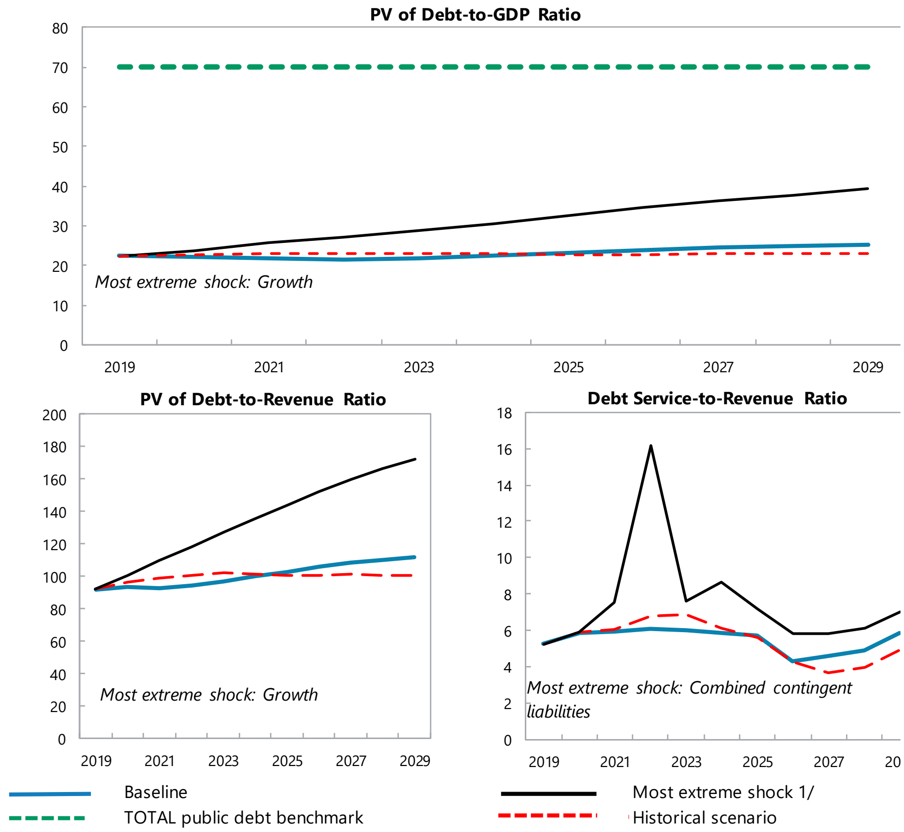
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	8	8

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2019–2029 1/



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	92%	83%
Domestic medium and long-term	8%	17%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	2.7%
Avg. maturity (incl. grace period)	25	20
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.8%	2.0%
Avg. maturity (incl. grace period)	7	3
Avg. grace period	6	1
Domestic short-term debt		
Avg. real interest rate	0.0%	3.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Cambodia Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	22	22	22	21	21	21	22	22	22	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	22	20	17	15	15	15	15	15	14	14	13
B. Bound Tests											
B1. Real GDP growth	22	23	23	23	23	23	23	24	24	24	25
B2. Primary balance	22	24	25	25	25	25	25	26	26	26	26
B3. Exports	22	28	40	39	38	38	38	37	37	37	37
B4. Other flows 3/	22	24	26	26	25	25	25	26	26	26	26
B5. Depreciation	22	28	23	23	23	24	24	25	25	26	26
B6. Combination of B1-B5	22	28	29	28	28	28	28	28	29	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	22	31	30	31	30	30	30	30	30	30	30
C2. Natural disaster	22	29	28	29	29	29	29	30	30	30	30
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	28	26	25	24	23	23	23	23	24	24	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	28	24	20	17	16	16	16	16	15	14	14
B. Bound Tests											
B1. Real GDP growth	28	26	25	24	23	23	23	23	24	24	24
B2. Primary balance	28	28	29	28	27	27	27	27	27	27	27
B3. Exports	28	35	49	46	44	43	43	43	42	42	41
B4. Other flows 3/	28	29	30	29	28	27	27	27	27	27	27
B5. Depreciation	28	26	21	20	20	20	20	21	21	21	22
B6. Combination of B1-B5	28	33	30	32	31	30	30	30	31	30	30
C. Tailored Tests											
C1. Combined contingent liabilities	28	37	35	34	33	32	32	32	32	32	32
C2. Natural disaster	28	35	33	33	32	32	32	32	32	32	32
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	2	2	2	2	1	1	1	1	1	1	1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	2	2	2	1	1	1	1	1	1	1	1
B. Bound Tests											
B1. Real GDP growth	2	2	2	2	1	1	1	1	1	1	1
B2. Primary balance	2	2	2	2	2	1	1	1	1	1	1
B3. Exports	2	2	2	2	2	2	2	1	1	2	2
B4. Other flows 3/	2	2	2	2	2	1	1	1	1	1	1
B5. Depreciation	2	2	2	2	1	1	1	1	1	1	1
B6. Combination of B1-B5	2	2	2	2	2	2	2	1	1	1	2
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	2	2	2	2	2	1	1	1	1
C2. Natural disaster	2	2	2	2	2	2	2	1	1	1	1
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	6	6	6	6	6	6	6	4	4	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	6	6	6	6	6	5	5	4	4	4	3
B. Bound Tests											
B1. Real GDP growth	6	7	7	7	7	6	6	4	5	5	5
B2. Primary balance	6	6	6	7	7	6	6	5	5	5	5
B3. Exports	6	7	8	9	8	8	7	6	6	6	7
B4. Other flows 3/	6	6	6	7	6	6	6	4	5	5	5
B5. Depreciation	6	8	8	8	7	7	7	5	5	5	6
B6. Combination of B1-B5	6	7	7	7	7	7	7	5	5	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	8	8	7	7	7	5	5	6	6
C2. Natural disaster	6	6	7	7	7	7	7	5	5	5	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Cambodia Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	22	22	22	22	22	23	23	24	25	25	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	22	23	23	23	23	23	23	23	23	23	23
B. Bound Tests											
B1. Real GDP growth	22	24	26	27	29	31	32	34	36	38	39
B2. Primary balance	22	24	26	26	26	26	27	27	28	28	28
B3. Exports	22	27	35	35	34	34	34	35	35	35	35
B4. Other flows 3/	22	24	26	26	26	27	27	28	28	28	29
B5. Depreciation	22	27	24	22	21	19	18	17	16	15	14
B6. Combination of B1-B5	22	23	23	21	22	22	22	23	24	24	25
C. Tailored Tests											
C1. Combined contingent liabilities	22	33	32	31	31	32	32	32	32	33	33
C2. Natural disaster	22	31	30	30	30	31	31	32	32	33	33
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	92	93	93	94	97	100	102	106	108	110	112
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	92	96	99	101	102	101	101	101	101	101	100
B. Bound Tests											
B1. Real GDP growth	92	100	110	118	127	136	144	152	160	167	172
B2. Primary balance	92	103	112	113	115	117	119	121	123	125	125
B3. Exports	92	113	150	151	152	153	153	154	155	154	153
B4. Other flows 3/	92	103	112	114	116	118	120	122	124	125	125
B5. Depreciation	92	114	104	97	92	86	80	76	72	68	64
B6. Combination of B1-B5	92	98	100	93	96	97	100	103	106	107	109
C. Tailored Tests											
C1. Combined contingent liabilities	92	140	138	137	139	140	141	142	143	144	143
C2. Natural disaster	92	130	129	130	133	136	138	141	143	144	145
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	5	6	6	6	6	6	6	4	5	5	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	6	6	7	7	6	6	4	4	4	5
B. Bound Tests											
B1. Real GDP growth	5	6	7	8	8	8	8	7	8	8	10
B2. Primary balance	5	6	6	9	9	7	7	5	5	5	7
B3. Exports	5	6	6	7	7	7	7	5	5	6	7
B4. Other flows 3/	5	6	6	6	6	6	6	5	5	5	7
B5. Depreciation	5	7	7	8	6	7	6	4	5	5	5
B6. Combination of B1-B5	5	6	6	6	7	6	6	4	5	5	6
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	8	16	8	9	7	6	6	6	7
C2. Natural disaster	5	6	7	14	8	8	7	6	6	6	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

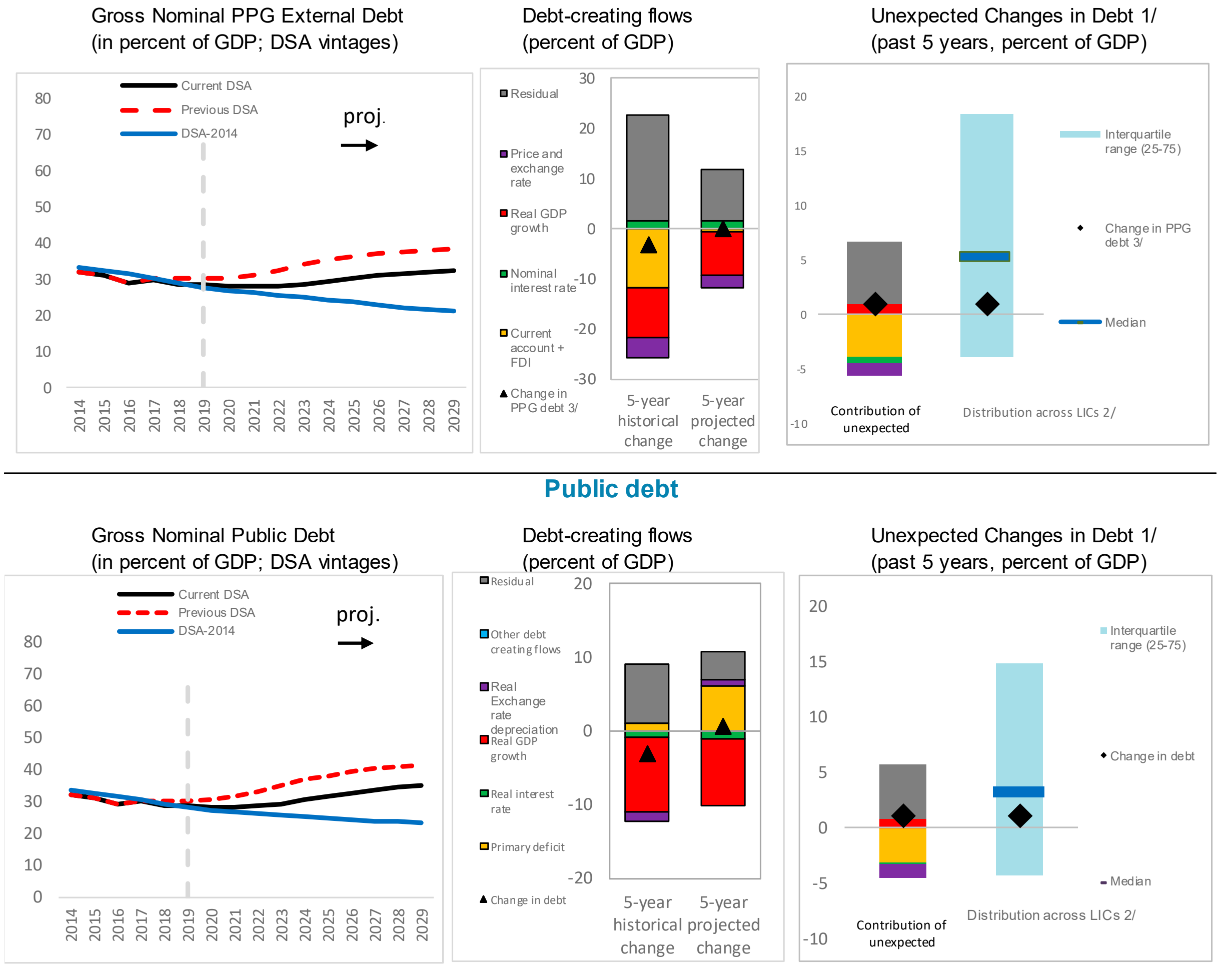
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Cambodia: Drivers of Debt Dynamics – Baseline Scenario External Debt

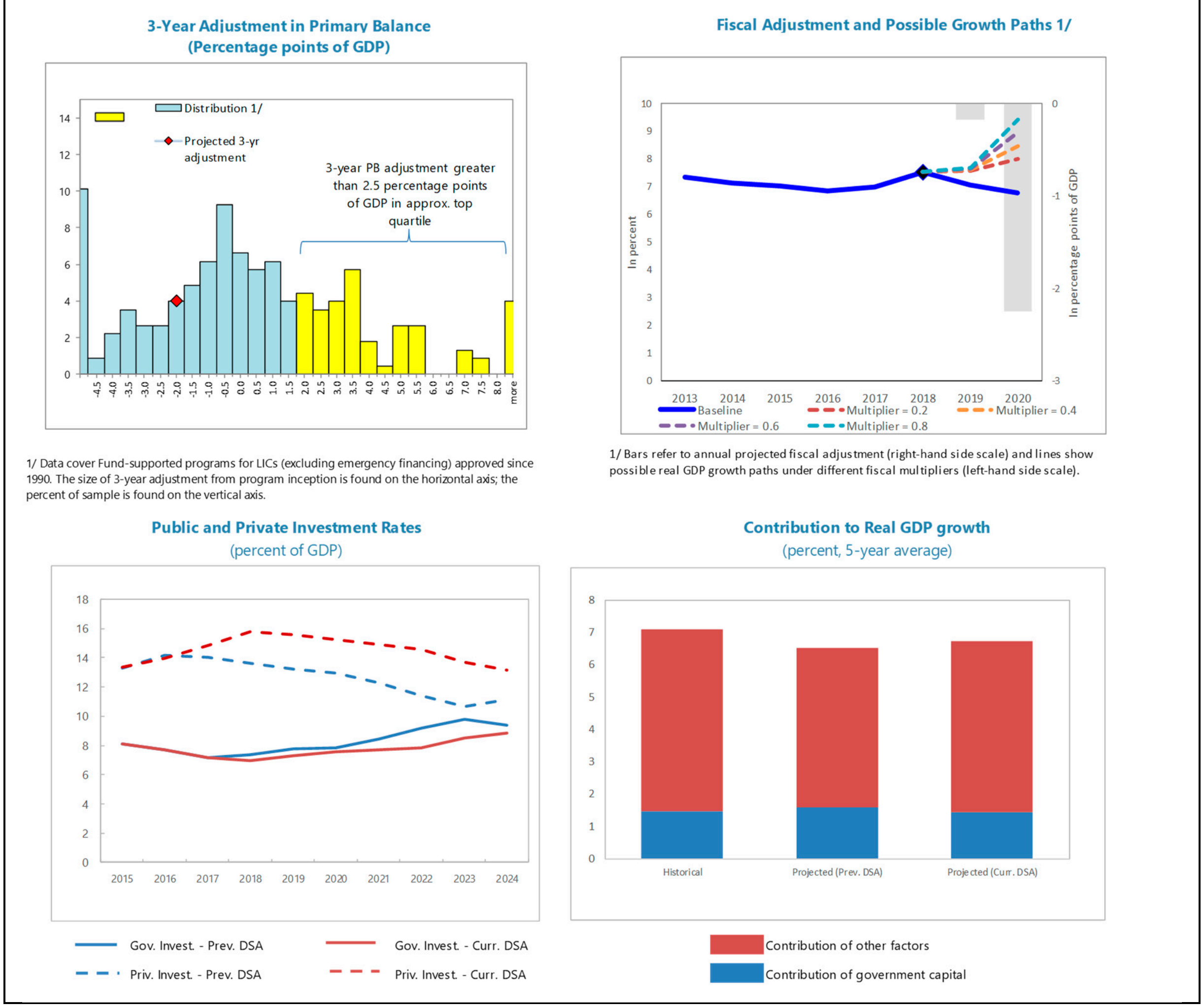


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Cambodia: Realism Tools



Statement by Alisara Mahasandana, Executive Director for Cambodia and Suasdey Chea, Advisor to the Executive Director
December 6, 2019

1. 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

2. 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.

3. 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.

4. 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

5. The authorities broadly share staff's view and underscore the important role of fiscal policy in promoting economic growth and development. Fiscal deficit is expected to widen to 1.3

percent of GDP in 2019 from 0.8 percent in 2018 due to 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).

6. 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).

7. 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.

8. Going forward, the authorities remain firmly committed to modernizing the tax system and custom administration through strengthen 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

9. 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

10. 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.

11. 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.

12. 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

13. 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.

14. 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.

15. 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

16. 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.