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CAMBODIA

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

February 4, 2003

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I. Economic Growth and Sectoral Developments[1]

1. **Cambodia has undergone dramatic political, economic and social changes since 1993**, the year of the first post conflict national elections leading to a first coalition government. The single-party state has since then been replaced by a democratic system, with two national elections held, the first-ever communal elections completed in early 2002, and the next national elections slated for July 2003. Meanwhile, Cambodia has joined various international and regional organizations and is expected to become a member of the World Trade Organization (WTO) in the near future, thus fostering its integration in the world economy. Crucial institutional and economic reforms have also been undertaken.

2. **Reconstruction efforts were stalled temporarily in 1997 as a result of civil strife, but resumed at a faster pace in 1999**, in the wake of the formation of a second coalition government and the launching of a wide-ranging economic reform program supported by the international community. Although political and macroeconomic stability have been achieved and key structural reforms have been initiated, Cambodia's economy remains vulnerable and faces daunting challenges to alleviate pervasive poverty, especially in rural areas, where the poor predominantly live. Economic growth remains narrowly-based on the garment industry, and is threatened by lower productivity in agriculture and manufacturing than in neighboring countries. External shocks stemming from lower global growth and the accelerated recurrence of flooding and droughts in recent years also pose major challenges to Cambodia's development.

3. **This chapter highlights the main developments in the real sector since the mid-1990s.** Section A describes the path of overall GDP growth since 1994. Section B discusses key sectoral developments and constraints that hamper further expansion of rice output and exports as well as private sector development. Section C reviews inflation and labor market developments since 1998. Section D concludes.

A. GDP Growth during 1994-2002

4. **Economic growth has generally been robust, averaging about 6 percent during 1994-2001.** Cambodia experienced a steep downturn in 1998, with GDP growth bottoming at 2.1 percent, as a result of political violence in mid-1997. Economic growth, however, has recovered markedly since 1999, with annual GDP growth averaging 7 percent during 1999-2001. Output growth, however, is expected to have slowed to 4½ percent in 2002, owing to the impact on agriculture of a severe drought combined with flooding. Economic recovery since 1999 has been primarily led by the rapid development of the garment industry, mostly benefiting urban areas. Agriculture, the most predominant sector as a share of GDP and the labor force, has expanded by about 3½ percent annually in real terms during 1994-2001, compared with total population growth of 2½ percent, experiencing large year-to-year fluctuations, especially in the last three years, owing to adverse weather conditions. The impressive growth performance in the manufacturing sector (about 20 percent annually during 1994-2001) primarily mirrors buoyant

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[1] Prepared by Philippe Marciniak (ext. 36732).

garment output since 1997. Services grew by only about 1½ percent annually during 1994-1998, but increased to more than 5 percent during 1999-2001, reflecting soaring tourist arrivals.

Cambodia: Real GDP Growth, 1994-2001 1/
(Annual growth rates; in percent)

	1994	1995	1996	1997	1998	1999	2000	2001	Average	
									94/98	99/01
Real GDP growth	7.7	5.9	4.6	4.3	2.1	6.9	7.7	6.3	4.9	7.0
Agriculture	10.4	4.4	2.3	5.5	3.0	0.0	-0.3	3.9	5.1	1.2
Industry	6.0	20.9	9.9	21.3	7.3	13.2	34.6	15.5	13.1	21.1
Services	-0.5	5.7	3.6	-2.6	0.7	7.1	5.8	2.7	1.4	5.2
Real GDP growth										
Excluding:	5.3	7.3	6.6	3.3	1.4	12.9	13.9	7.9	4.8	11.6
Agriculture	5.3	5.7	3.8	2.1	0.4	4.9	2.1	3.5	3.6	3.5
Textile 2/										
Textile and agriculture	5.8	7.0	5.2	-0.8	-2.0	9.7	4.3	3.2	3.0	5.7

1/ National account statistics are based on estimates prepared by the National Institute of Statistics, with support from the AsDB. See *"National Accounts of Cambodia, 1993-2001,"* Bulletin No. 6, April 2002. While weaknesses in the data remain, substantial improvements have been made in recent years, including with support of technical assistance from the Fund under the TCAP program.
2/ Including textile, wearing apparels, and footwear. The garment industry accounts for about 90 percent of the sub-sector's value-added.

5. **On the expenditure side, domestic demand as a share of GDP has been broadly stable since 1994**, with excess demand equivalent to about 10-15 percent of GDP financed from foreign savings. The share of overall consumption has been broadly stable at about 94-98 percent of GDP since 1997. Government consumption has been contained at below 6 percent of GDP since 1995, owing to cuts in nonwage current expenditure. Domestic investment in relation to GDP ranged from 11 percent to 18 percent of GDP in 1994 and 2001, respectively. The national saving rate rose gradually during 1994-2001 to reach about 13 percent of GDP in 2001.

Cambodia: Aggregate Demand and Savings at Current Prices, 1994-2001
(In percent of nominal GDP)

	1994	1995	1996	1997	1998	1999	2000	2001
Domestic demand 1/	110.7	115.6	115.0	107.8	109.0	108.7	111.9	112.0
Consumption 1/	99.7	102.2	101.4	93.5	97.7	92.9	98.4	94.1
Private 1/	92.5	97.1	95.4	87.9	92.8	87.6	92.7	88.1
Government	7.2	5.1	6.0	5.7	5.0	5.3	5.7	6.0
Investment	11.0	13.4	13.6	14.3	11.3	15.9	13.5	17.9
Foreign balance (net)	-10.7	-15.6	-15.0	-7.8	-9.0	-8.7	-11.9	-12.0
Gross domestic savings	...	2.6	1.4	3.8	3.3	5.8	8.9	10.6
Gross national savings	...	8.3	7.9	13.2	9.1	13.6	9.2	12.6

1/ Including statistical discrepancy.

B. Sectoral Developments

Agriculture, Forestry and Fisheries

6. **Cambodia's economy remains largely based on agriculture, which accounted for about 37 percent of GDP in 2001 and employed about 80 percent of the labor force.** About 80 percent of the poor live in rural areas, but monthly rural household income have remained very low. Agricultural growth has on average lagged behind population growth since 1999, and experienced large year-on-year fluctuations, reflecting insufficient investment in the sector, over-exploitation of natural resources, and poor weather conditions. Productivity in this sector is weak in comparison with neighboring countries with comparable soil and weather conditions. The predominance of rainfed agriculture subjects production to high weather vulnerability. Rainfed rice is the main crop, covering about 90 percent of cultivated areas. Official exports are limited to rubber and fish but large amounts of paddy rice are exported illegally.[2]

7. **The main factors restraining agricultural sector growth are as follows.** First, most land holdings are small (0.75-1.0 hectare) and the lack of secured access and ownership to land reduces farmers' incentive to invest. Second, productivity is lower than in neighboring countries with similar soil and weather conditions owing to inadequate access to fertilizers and seeds, under-developed irrigation facilities which entail excessive reliance on rainfed crops, and high transportation costs stemming from the poor condition of rural roads. Third, the lack of rural financial services raises production and distribution costs whereas exporters have to pay unofficial fees to avoid delays in obtaining export authorizations. Fourth, large areas remain covered with landmines and unexploded ordnances, preventing effective land use.

8. ***Rice*** is the main agricultural output, the staple of the Cambodian diet as well as a major source of income and subsistence for Cambodian farmers. About 2.3 million hectares (i.e., 90 percent of the total cropped area of 2.5 million hectares) is planted with rice. Rice is cultivated primarily through traditional farming practices by over 80 percent of Cambodian farmers, 60 percent of whom produce for subsistence needs. Rice production is predominantly rainfed. Rice output accounted for about 46 percent of agricultural output in 2001 and 17 percent of GDP. Significant productivity gains have been achieved since the 1960s when rice productivity was only 1.1 to 1.3 tons/ha, although productivity (currently 2 tons/ha) still remains lower than in Vietnam and Thailand (3-4 tons/ha). Cambodia has reached rice self-sufficiency since 1995 (producing about 3½ million metric tons); however, some areas are occasionally faced with shortages as a result of deficiencies in rice marketing arrangements. Official rice exports are minimal but unofficial paddy (unmilled) rice exports from border regions are estimated at 300,000 tons (about 10 percent of yearly production). Rice output could be increased further through the use of high-yield varieties of seeds and fertilizer, development of irrigation facilities in some areas, and improvements in marketing arrangements. The main constraints to rice production and

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[2] While there is no tax on rice exports, exporting is expensive because of the unofficial fees exporters have to pay to avoid delays in obtaining necessary export permits.

marketing are magnified in Box 1. The number of intermediaries between farmers and consumers is excessive, resulting in upward pressure on rice prices paid by consumers.

Box. 1 Cambodia: Main Constraints to Rice Production and Marketing 1/

Producers

Land Tenure. Only 10 percent of farmers hold legal land titles. The resulting insecurity in tenure discourages investment (e.g., irrigation infrastructure) needed for improving productivity.

Fertilizer and Pesticide. The access to fertilizers and pesticides is constrained by poor infrastructure and oligopolistic practices of official suppliers.

Irrigation Facilities. The poor design and performance as well as deficient maintenance of existing irrigation schemes, and the lack of investment in new irrigation systems are significant impediments.

Access to Financing. The lack of affordable credit implies that farmers need to sell their crop shortly after the harvest when the prices are lowest.

Collectors

Collectors are small private enterprises operating on small margins. Collector constraints include inadequate price and information and lack of access to credit and capital financing.

Millers

Custom mills are constrained by the lack of continuity in the flow of paddy supply and are facing increased competition from commercial mills. In contrast, commercial mills face limited access to working capital, uneven quality of paddy, and outdated second-hand equipment from Vietnam and China.

Traders

Domestic market sales and exports are hampered by high transportation costs resulting from poor infrastructure and unofficial fees. Unofficial costs in the transport and clearance of rice for exports account for about 50 percent of export costs, thus drastically reducing the competitiveness of Cambodian rice.

Retailers

Poor infrastructure and a distribution system concentrated among a small group of traders and wholesalers are major impediments for retailers. Significant competition among retailers results in low retail margins.

1/ Based on the findings in "Rice Value Chain Study: Cambodia. Executive Summary Prepared for the World Bank" Agrifood Consulting International, September 2002.

9. ***Rubber*** is currently the second most important export for Cambodia following the sharp reduction in forestry exports. Rubber trees are grown in three types of rubber plantations: (i) large state-owned estates; (ii) smallholdings; and (iii) one large private plantation. The seven large state-owned rubber plantations were established in the 1920s during colonial times and nationalized upon the country's independence from France. Up to 1995, all the state-owned rubber plantations were directly managed by the General Directorate of Rubber Plantations. The government, however, started divesting from rubber plantation management in the mid-1990s. As a result, the seven state-owned rubber plantations now operate as autonomous State-Owned Enterprises (SOEs), and have been slated for privatization. State-owned rubber plantations cover about 45,000 ha yielding about 45,000 tons of rubber annually, with the two biggest plantations

covering 30,000 ha. The bulk of rubber trees, however, was planted in the 1950s. Rubber trees need to be replaced every 20 years, but replanting was only initiated in 1995, which was expected to have a positive impact on rubber output after 5-6 years. Smallholdings rubber plantations are being developed with World Bank and French government support. However, no information on smallholdings' rubber output is available.

10. Rubber is profitable, especially for smallholders, owing to low operating costs. In addition, smallholders can derive continued income stream during the year, as rubber collection is not affected by seasonal patterns. Smallholders' output, however, is mainly constrained by rubber marketing regulations whereby they are required to sell their output at a low price to the state-owned rubber plantations. As a result, smallholders generally prefer to sell their production to private intermediaries who in turn smuggle Cambodian rubber to neighboring countries. Rubber production is also adversely affected by the lack of official rubber quality certification arrangements in line with international standards, resulting in 15-20 percent discounts below international prices. Efforts are underway to validate the good quality of Cambodia's rubber, through the international certification from the International Rubber Association in Malaysia. The government would need to mandate the use of international quality certification as a benchmark for rubber trading.

11. ***Other crops*** include maize, soybean, vegetables and fruit. Domestic production is limited, despite Cambodia's potential in that area, partly because vegetables are not traditionally part of the national diet. As a result, the bulk of vegetables consumed in Cambodia is imported from Vietnam. Efforts to increase vegetable production and consumption are underway, supported by UNICEF, with a view to raising the nutritional content of the national diet. Vegetable cultivation is labor intensive and more income-generating than rice cultivation. Cambodia has also a still untapped potential for fruit production, as most fruit is also imported from Vietnam.

12. ***Livestock and poultry*** output accounted for about 6 percent of GDP in 2001; production is mostly carried out in small-scale traditional farms. The sub-sector has grown by about 3 percent annually since 1994. Livestock production during 1999-2001 was affected by droughts and flooding. Cambodian farmers generally consider raising livestock as an opportunity to earn additional, rather than as a main source of, income. Cambodia has also a low potential for meat agro-processing because livestock raising is generally limited to buffaloes used for rice farming.

13. ***Forestry*** contribution to GDP declined gradually from 7.7 percent in 1994 to 5.4 percent in 1998 and to about 2 percent in 2001. This rapid contraction stems from overexploitation in the mid-1990s, stepped-up enforcement of the ban on illegal logging since 1999, and low world prices. Although valuable forests have declined extensively, Cambodian forests, still cover about 10 million hectares (57 percent of the country's total area), of which about 50 percent are privately managed under long-term concession contracts. Anticipated slow recovery in world prices and continued forestry reform are expected to constrain forestry output growth in the medium term. Timber royalties were increased in 1999, from $14 to $54 per cubic meter. Collections of royalties, however, have been short of expectations, and corrective actions have been initiated following a comprehensive review in mid-2002. Revision of royalty collection procedures and the royalty system is underway with World Bank support.

14. Forestry has been a politically difficult area since the early 1990s. In response to widespread illegal logging and over-exploitation in the mid-90s, the government has sharply curtailed the scope of logging activity, canceling several forestry concessions, and banning logging and log transportation as of end-December 2001 and May 2002, respectively. The logging and transportation bans are expected to last until concession restructuring plans are approved by the government within a transparent process involving full disclosure of the plans. The new Forestry Law adopted in mid-2002 established the legal ground for sustained management of forestry resources but key regulations are still pending. Despite continued sporadic illegal logging, the scale of illegal forestry activities has been reduced compared to the situation that prevailed during 1996-98. However, the government's fundamental reform objective to establish a forestry concession system based on sustainable practice has not yet been achieved. Thirteen forestry concessions have submitted sustainable management plans to the Department of Forestry in October 2002, including social impact assessments.

15. The Forest Crime Monitoring Unit (FCMU) established in 1999 was initially expected to be crucial for strengthening governance in forestry management, especially in view of the assistance provided by an independent NGO (Global Witness). The FCMU, however, has not been able to effectively address the underlying causes for forestry crimes, including: (i) corruption; (ii) active border markets for Cambodian forest products and ; (iii) the involvement of armed groups in illegal logging and ; (iv) limited capacity in regulatory agencies. The efficiency of the FCMU was also undermined by continued bickering between Department of Forestry officials and foreign experts assigned to the FCMU. Donor support to the FCMU was suspended in late 2002, pending an external review of FCMU operations. The government announced in December 2002 the termination of Global Witness as the independent monitor. The selection of a new independent monitor is still pending.

16. ***Fisheries*** is the fourth largest sub-sector, accounting for about 12 percent of GDP in 2001, and is an important source of income and employment. Fisheries output has grown by about 50 percent since 1994, although officially-recorded annual catches are believed to be significantly underreported (300,000 tons vs. 400,000 tons under recent unofficial estimates). Until late 2000, the bulk of fishing areas covering about one million hectares was allocated to private concessions involved in large-scale fishing on exclusive fishing lots in the Tonle Sap Lake. Access to fishing areas by local communities, however, was expanded in 2001 and has given rise to a rapid increase in medium-and small-scale fishing. Overexploitation of some fish species has emerged in recent years, owing to mismanagement of fishing lots and rapid increase in medium- and small scale fishing. A new Fisheries Law and a Fisheries Master Plan are under preparation to ensure adequate management of fisheries resources in the future.

17. ***Land management*** is crucial for strengthening agricultural output and alleviating poverty, especially in rural areas. Insecure land ownership stemming from an inadequate legal and regulatory framework and from outdated information on land titling, has been a major impediment to rural development and the use of land as collateral in financial transactions. A new Land Law was prepared under a participatory process and promulgated in July 2001, thus paving the way for improvements in this area. Several accompanying regulations, however, are still under preparation and are expected to be completed by 2003. Nevertheless, noticeable progress has been made in land mapping and registration since the adoption of the Land Law.

Industry

18. **Industrial activity accelerated rapidly during 1994-2001, averaging 13 and 25 percent annually during 1994-98 and 1999-01, respectively.** Industrial output accounted for 22 percent of GDP in 2001 as against 12 percent in 1994. Industrial output was largely driven by textile and wood processing activities up to 1997. Thereafter, the garment industry became the main engine of industrial growth, as wood processing activities collapsed in the aftermath of forestry reform.

19. The ***garment industry*** has been the fastest growing sector since 1994 and a major source of foreign exchange earnings, and employment creation, and the main recipient of foreign direct investment. Growth of the garment industry accelerated after 1997, largely as a result of the signing of the Normalized Trade Relationship (NTR) with the European Union (EU) and the United States, in 1996 and 1997, respectively (See Chapter V). Further development of the garment industry is constrained by higher wages than in main competitor countries, high unofficial fees, and the prospects of phasing out the quota in 2005, in connection with WTO arrangements on textile and apparels.

Cambodia: Garment Market, 1994-2002
(In millions of U.S. dollars)

Years	Exports					
	United States			European Union	Other Markets	Total
	Total	Quota	Non-Quota			
1994	0	...	...	4	--	4
1995	1	...	...	27	--	28
1996	2	...	...	75	--	77
1997	99	...	...	112	--	211
1998	360	...	...	76	--	436
1999	516	433	83	138	7	661
2000	751	524	227	221	14	986
2001	829	502	327	309	18	1,156
2002	961	627	334	361	28	1,350

Services

20. The ***services sector*** has experienced uneven and modest growth since 1994, averaging about 2.8 percent annually. The share of the services sector in GDP has remained broadly stable since 1994 at around 35 percent of GDP, ranking slightly behind agriculture in recent years. Trade is the predominant subsector (10 percent of GDP) followed by transport and communications (7 percent). The contribution of tourism to GDP remains low (4 percent) despite high growth since 1999, implying that thus far the domestic value added in the sector has been limited.

21. ***Tourism*** expanded rapidly in the early 1990s, when Cambodia reopened its borders after more than two decades of war and civil strife. Tourism expansion was particularly impressive until 1996, with annual growth rates of tourist arrivals ranging from 30 to 40 percent. The inflow

of tourists, however, slowed drastically in 1997 in the wake of political turmoil, and did not resume until after the national elections held in late 1998. The subsequent formation of a stable coalition government and the 1997 "open skies" policy whereby international airlines were allowed to fly to Siem Reap, were instrumental in renewing tourist arrivals. Tourist arrivals by air totaled 408,000 in 2001, compared with 118,000 tourists in 1993, and 260,000 in 1996, and reached an all-time high of 790,000 in 2002. Although about 70 percent of tourists arrive in Cambodia by air, an increasing number of foreign tourists visit the country by road from neighboring countries or by ship. About 60 percent of foreign tourists coming by air are from the Asia and Pacific region, with the largest share (12 percent) from Japan, while Europeans and North and South Americans account for about 25 and 15 percent of air arrivals, respectively. While tourism receipts have increased dramatically, the average spending per tourist and length of stay are much lower than in Thailand and Malaysia. Hotel accommodation seems adequate in the short term. There is significant potential for further development of tourism in Cambodia, as many temples are still inaccessible, and the infrastructure for ecotourism is underdeveloped. Domestic tourism would also likely develop rapidly if roads were rehabilitated.

Cambodia: Main Indicators of Tourism, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Total visitor arrivals								
(In thousands)	...	..	...	...	...	367.7	466.4	604.9
Of which:								
By air	176.6	219.7	260.5	218.8	186.3	262.9	351.7	408.4
(Percent change)	...	(24.4)	(18.6)	(-16.0)	(-14.9)	(41.1)	(33.8)	(16.1)
Other	...	...	...	...	...	104.8	114.7	196.5
Share by regional origin								
(In percent) 1/	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Asia and Pacific	64.6	71.5	68.4	68.7	61.1	58.5	58.7	59.3
Europe	20.7	17.3	20.6	19.8	26.2	25.6	24.8	24.1
Americas	13.6	9.8	10.7	11.2	12.4	15.5	15.9	16.0
Other	1.1	1.4	0.3	0.3	0.3	0.4	0.6	0.6
Tourism receipts								
In million US dollars	...	53	82	68	66	133	199	235
In percent of GDP	...	1.7	2.6	2.2	2.2	4.0	5.9	6.9
Average receipt per tourist (In US$)	...	327	422	417	465	666	950	701

1/ Based on arrivals at Phnom Penh airport only.

Private sector development

22. Private sector development is crucial for promoting sustained growth. The main difficulties faced by businesses in Cambodia, based on a recent World Bank assessment, are as follows.

- **High risk.** ***The legal system*** is underdeveloped and lacks public trust. The wide perception of corruption in the judiciary reflects the absence of rule of law needed to protect property rights. ***Land titles*** are not widespread and often lack clarity, making it difficult to securitize land for credit. ***Regulatory frameworks*** for road transportation are underdeveloped, resulting in deterioration of road infrastructure. ***The financial sector*** is weak and credit is costly. Interest rate spreads are about 13 percent, with loans typically rolled over every 3-6 months. ***Secured property rights*** are lacking. As a result, capital- and knowledge-intensive businesses with long payback periods are penalized in favor of trading, retail and garment businesses, and tourism, which incur low capital costs, enjoy high margins, or benefit from unique cultural assets.

- **High operating costs.** Margins are eroded by high official and unofficial administrative costs, inefficient financial intermediation, high cost of inland transport, ports, utilities, and service delays. There is duplication in the roles of various government entities.

- **Lack of basic infrastructure.** The poor quality of the roads raises significantly transportation costs. The lack of basic infrastructure and financial services in rural areas add to the difficulties faced by rural businesses, raising costs further and limiting market opportunities. Cambodia's road network, and access to electricity and piped water is lagging compared to neighboring Lao P.D.R. with similar GDP per capita. Government funding of public investment is low and large shares of infrastructure investment are unfunded.

- **Foreign direct investment (FDI).** FDI has generally been related to trade arrangements on garment exports. FDI declined in recent years to around 4 percent of GDP owing to a slowdown in key export markets, competition from Vietnam and China for FDI, and the uncompetitive costs of doing business in Cambodia. Factors which have affected Cambodia's competitiveness include infrastructure, costly labor and material inputs, unofficial costs at the ports and in overland transportation. Wages in the garment sector are also higher than in competitor countries.

- **Export diversification.** The increasing free-trade environment could entail a loss of market share for garment and footwear products. Ongoing trade liberalization and improvements in regional transportation linkages are expected to provide new opportunities for: (i) exportable products based on local resources (e.g., agrobusiness); and (ii) integration in regional supply chains in products for which Cambodia maintains a cost advantage.

Infrastructure

23. ***Transportation infrastructure*** has been severely damaged as a result of almost two decades of war. The major national roads and some secondary roads have been rebuilt or rehabilitated with foreign support during 1992-96. However, the quality of the rural road network remains poor. The lack of maintenance due to budgetary constraints and excessive truck loads have contributed to the deterioration of the strategic roads. The international airports of Phnom Penh and Siem Reap operated by foreign concessions are crucial for promoting tourism and economic development. The recently upgraded Phnom Penh airport has now a one million annual passenger capacity. Cambodia's railway system is outdated and in need of extensive rehabilitation. The amount of financing required for that purpose, however, far exceeds the

country's budgetary capacity. Cambodia is endowed with two major port facilities which have been upgraded with substantial donor support. However, these ports may face increasing competition from Vietnam in the period ahead, after completion of the expressway linking Vietnam and Thailand. Progress has been made with donor support in improving water and electricity supply in urban areas, but much remains to be done in rural areas.

C. Prices, Income, and Labor Market

24. *Inflation* has been gradually stabilized as a result of the government reform programs, after experiencing triple digit inflation in several years during 1989-93. Cambodia, however,

Cambodia: Inflation Indicators, 1998-2002
(Percent change 1/; unless otherwise indicated)

Items	Weights		1998	1999	2000	2001	2002
	(in percent of total) 1/	(change in weights) 2/					
Overall CPI 1/	100.0	0.0					
Period average							
In US$ terms			-10.4	2.9	-4.2	-0.1	3.3
In riel terms			14.8	4.0	-0.8	0.2	3.3
End-period							
In US$ terms			3.5	-0.4	-4.2	1.0	2.4
In riel terms, *of which:*			13.3	-0.5	-0.8	0.7	3.7
Food, beverages and tobacco	42.7	-7.1	20.6	-0.2	-3.7	-2.3	3.5
Clothing and footwear	2.2	-1.5	6.3	-2.5	12.0	-8.1	-4.7
Housing and utilities	33.3	9.4	5.6	0.1	2.8	4.0	6.8
House furnishing and household operations	0.7	-1.3	18.5	14.4	-1.1	-2.6	-1.4
Medical care	4.0	-1.7	8.6	-12.1	0.8	6.1	-1.3
Transport and communications	8.7	-0.3	4.4	3.2	4.8	-6.5	3.9
Recreation and education	6.2	3.0	7.6	-6.3	-0.7	12.1	-3.3
Personal care and effects	2.2	-0.4	7.6	-1.7	1.4	3.4	-0.3
Exchange rate (riel/US$; percent change)							
Period average			28.1	1.1	1.2	1.7	0.0
End-period			9.5	-0.1	3.6	-0.3	1.3

1/ Refers to the new CPI for Phnom Penh (July-December 2000 = 100).
2/ Changes in the weights between the new CPI for Phnom Penh (July-December 2000 = 100) and the previous CPI (July-September 1994).

experienced an increase in inflation during the 1997-98 political crisis, reflecting a temporary relaxation of fiscal discipline. Cambodia's successful performance in controlling inflation since 1999 mirrors renewed fiscal restraint, as no bank financing of the budget was used during that period. This has been instrumental in maintaining the riel broadly stable, both against the US dollar and in real effective terms. During 1994-2002, the riel-denominated annual average inflation rate, as measured by the CPI in Phnom Penh was about 6 percent, while the dollar-denominated inflation rate was about 1 percent. The riel-denominated inflation rate has been brought down further to 3 percent during 1999-2002, reflecting continued fiscal restraint under the government's reform program. Underlying inflation in the medium term is expected to remain below 5 percent annually, provided that sound macroeconomic management remains in place.

25. The National Institute of Statistics (NIS) has published ***new monthly CPI*** series for Phnom Penh (July-December 2000 = 100) since January 2002, replacing the old CPI series (July-September 1994 = 100). The new CPI reflects changes in item expenditure weights, additional items, and product substitution. The CPI weights were derived from the 1999 Cambodian Socio-Economic Survey. The new CPI shows the largest increases in the weights for "Housing and Utilities" and "Recreation and Education", 9.4 and 3.0 percent, respectively. The weight allocated to the rental value of owner-occupied housing within "Housing and Utilities" has been increased significantly, from 18.5 to 27.0 percent. The total weight of all the other groups has decreased, with significant downward revisions for "Food, Beverages and Tobacco." (-7.1 percent). The new CPI basket for Phnom Penh has also been expanded with the addition of 21 new items. The overall impact of the various changes noted above is a 0.66 percent increase in the 2000 CPI between December 2000 and December 2001, compared to a corresponding 0.62 percent decrease in the 1994 CPI. The NIS has also recently released a new quarterly "Urban CPI," based on a basket of expenditure items for Phnom Penh and five provincial cities. Preliminary results for June 2001-June 2002 show higher inflation in Phnom Penh than in the provincial centers.

26. Information on ***Income*** is very scanty as earnings data are sporadically available only for selected categories of wage earners. Cambodia's GDP per capita (US$ 241 in 1999) is among the lowest among low income and East Asian countries, ranking 186th among 206 countries, according to the 2001 World Development Report. Household incomes are very low, especially in rural areas (about $40 monthly per rural household). Private sector minimum wages in 2001 were highest in the manufacturing sector ($45 and $73 monthly in the garment and tobacco industry, respectively), representing about 2 to 4 times average public sector wages (about $20 per month in 2001). The 35 percent increase in civil service wages granted in 2002 raised the average monthly civil service wage to $28 but did not significantly reduce the gap with private sector minimum wages.

27. Cambodia's ***labor force*** is growing rapidly, primarily mirroring a fast growing population (on average 2.9 percent annually in the last two decades), insufficient economic growth in rural areas, and low skills and literacy. The labor force was estimated at 6.4 million (49 percent of total population) under the second nationwide Labor Force Survey (LFS) conducted in November 2001. While about 150,000 to 175,000 people have joined the labor force annually in recent years, the annual pace is projected to reach about 200,000 by 2010. Moreover, Cambodia's population is relatively young, with more than half of it under 20 years of age. The challenge will be to translate this significant labor force growth into high economic growth that leads to job creation in rural areas, where poverty is predominant. Cambodia's labor market is dominated by agriculture, with the sector accounting for 67 percent of employment at the time of the 2001 LFS. Employment in the formal sector remains limited to a few foreign-owned industries (i.e., garments, foodstuffs and tobacco) hotels and restaurants, and public administration. Informal sector employment is predominantly in agriculture, the retail and wholesale industry, and

transport. Unemployment data are not relevant in Cambodia, as evidenced by the low unemployment rates measured either through the 1998 Census or the 2001 LFS (overall unemployment rate of 5 and 1.8 percent, respectively). On the other hand, underemployment is high (38 percent under the 2001 LFS), especially in the agricultural sector. Inward and outward labor migration have increasingly affected labor market developments, reflecting lack of work opportunities and high poverty levels in rural areas.

28. The ***Labor Law*** provides for a generally adequate legal framework for ensuring smooth labor relations. However, weak labor arbitration arrangements and corruption in the arbitration process have given rise to protracted disputes, especially in the garment industry, between factory owners and trade unions. Labor relations in the garment industry have been monitored closely by the International Labor Office (ILO), especially since 1999 when the US government made the allocation of a 14 percent additional quota contingent upon the garment industry complying with internationally recognized core labor standards. Core labor standards refer to conventions on: (i) freedom of association; (ii) freedom from discrimination; (iii) freedom from forced labor; and (iv) a prohibition on child labor. The core issue in labor relations in Cambodia is freedom of association and particularly the extent to which workers are able to join trade unions or participate in their activities.

D. Conclusion

29. **Economic growth during the mid-1990s was high and largely based on agriculture, including forestry overexploitation.** Cambodia's economic recovery accelerated in the aftermath of renewed political stability in late 1998, owing to fiscal and monetary discipline and the gradual implementation of a broad reform agenda supported by the international community. The country's growth pattern, however, has been deeply altered with the rapid development of the garment industry since 1997 and the deterioration of agricultural sector performance in recent years, resulting from recurring flooding and droughts as well as efforts to restrain illegal logging to preserve a valuable long-term source of growth. Although economic growth since 1999 has been generally robust, it has not yet significantly reduced poverty. In the period ahead, Cambodia remains faced with the challenge of setting the ground for inclusive growth, especially through improved education and health care services, while maintaining economic growth rates exceeding 6 percent annually. Low productivity in agriculture and competitiveness concerns in the garment industry call for the need for further sustained reforms aimed at broadening the resource base, especially in view of the phasing out of the garment quota in 2005. Maintaining political and social stability will also be crucial for keeping the confidence of foreign investors.

II. Fiscal Reform: Achievements and Remaining Agenda[3]

30. **Since the restoration of political and economic stability in late 1998, fiscal reform has been the cornerstone of Cambodia's macroeconomic program.** Fiscal revenue improved,

[3] Prepared by Alejandro López-Mejía (ext. 34334).

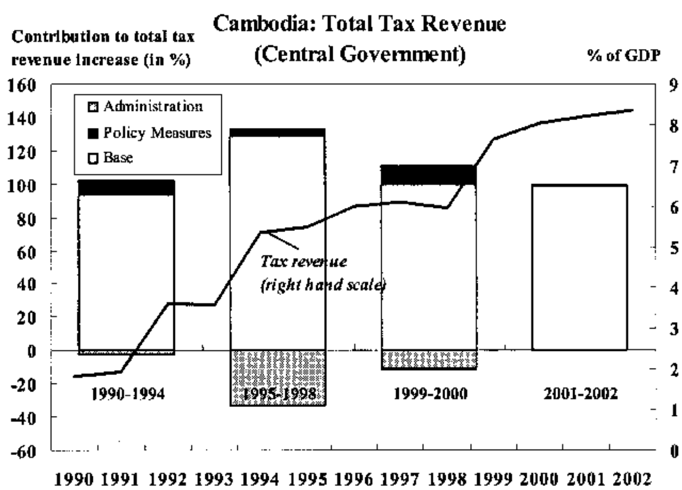
substantial increase in social spending was achieved, and domestic financing of the budget was avoided. Despite this progress, Cambodia's revenue and social spending still lag behind the average of countries at a similar development stage. This chapter provides a fresh look at fiscal developments in Cambodia since the early 1990s. Section A discusses fiscal reforms in the 1990s. Section B describes the main achievements during the last 4 years. Section C summarizes the reform agenda. Section D concludes.

A. Fiscal Reform in the 1990s[4]

Fiscal developments during 1990-1994

31. **The revenue efforts undertaken in the early 1990s were initiated from extremely low levels of revenue collection.** After all, a modern taxation regime did not exist under the socialist regime in the 1980s. Under these circumstances, during 1990-93, total revenues represented only 4-6 percent of GDP and were 4-5 percent of GDP lower than expenditures. Moreover, with limited external financing, central bank financing averaged 3-4 percent of GDP annually, contributing to hyperinflation of over 100 percent.

32. **The first steps toward revenue reform were made during 1992-94.** In 1992, a major fiscal reform was initiated with assistance from foreign experts, followed by a significant revenue effort by the new government formed after the UN-sponsored free election in 1993. Revenues increased to about 9½ percent of GDP in 1994, and, together with substantial concessional lending, eliminated reliance on central bank financing.



33. **The reform program covered all aspects of Cambodia's revenue system in tax policy and tax and customs administration.** The increase in revenue was attributed to growth in the tax base and policy measures. The contribution from administrative improvements, nevertheless was negative despite several efforts made in this area.[5] The most

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[4] For a broader discussion of reforms in the 1990s, see: IMF Staff Country Report No.00/135.

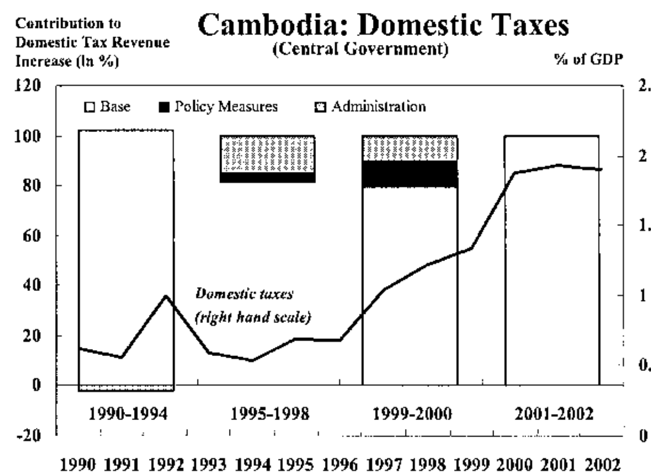
[5] Revenue from tax administration measures (TA) in time t is derived as: $TR_t - e*TR_{t-1}\Delta B - PM$; where TR is total revenue collected (actual); e measures the buoyancy of taxes and is assumed to be equal to 1; ΔB is the change in the proxy of the tax base (i.e., GDP for domestic taxes and retained imports, excluding those related to the garment sector, for customs); and PM is the impact of policy measures, as reported in various staff reports. The results presented in this chapter should be taken as illustrative. For example, the impact of improvements in tax

(continued…)

effective policy measures related to revenue from international taxes, which increased from almost nil in 1991 to about 5 percent in 1995. The main measures were: (i) a consumption tax on imports, which was introduced in 1993, and generated about 1 percent of GDP in 1994; (ii) a higher ad valorem duty rate on petroleum products, which increased gradually from 3-5 percent in 1992 to about 50 percent in 1994, and generated duty collections of about 1 percent of GDP in 1994 — compared to virtually zero in 1991.

Fiscal developments during 1995-1998

34. **During 1995-1998 further attempts were made to deepen fiscal reform.** New taxes were introduced in 1995-96, such as a tax on personal income, a 20 percent excise tax on gasoline, a higher duty on petroleum products, and an increase in the turnover tax. To improve tax policy and tax administration, a new Law on Taxation (LOT) was adopted in 1997.[6] Government's efforts also focused on broadening the tax base, especially in the area of domestic taxes where improvements in tax administration were significant.[7] Efforts included the establishment of a Large Enterprise Bureau in the Tax Department and a computerized database of large tax payers.



35. **Despite these efforts, during 1995-1998 total tax revenue stagnated at about 6 percent of GDP, mainly due to a deterioration in customs administration, while non-tax revenue decreased to 2 percent of GDP.** Fiscal policy was undermined by political and military

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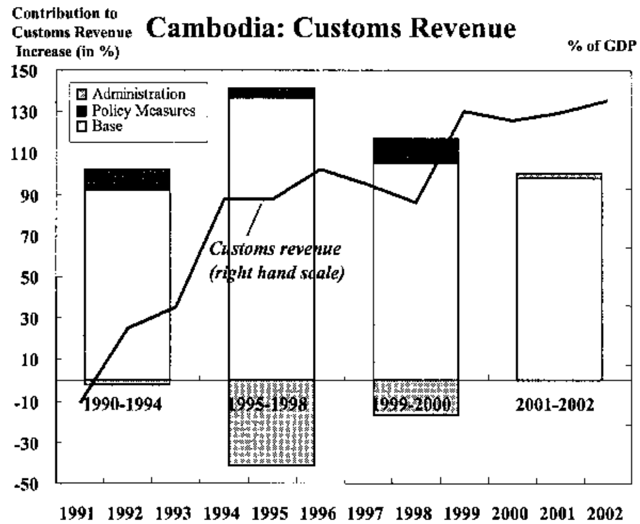
administration could have been larger if buoyancy was assumed to be less than 1, which could be the case in growing economic sectors with widespread exemptions (e.g., the garment sector).

[6] However, the main measures in the LOT, including the VAT, only began to be implemented in 1999. The LOT divided the Cambodian tax system into a real and estimated regimes. The real regime, which defines the base of VAT taxpayers, covers incorporated businesses regardless of size of turnover, but excludes unincorporated businesses, many of which may be large enterprises.

[7] However, improvements in tax administration over this period should be viewed relative to the poor state in the base year. Even with these notable improvements, IMF staff reported that by 1999 there were serious non-compliance and tax arrears problems under the "real regime" and highly discretionary tax assessments under the "estimated regime" (see, IMF Staff Country Report No. 00/135).

intervention, resulting in a weakening of the authority of the Ministry of Economy and Finance (MEF) to collect revenue, widespread ad-hoc exemptions of tax customs duties, smuggling, accumulation of arrears on tax and non-tax revenue, and significant loss in forestry revenue. Indeed, reflecting the overall deterioration in governance, forestry revenue over 1995-98 amounted to 0.4 percent of GDP per annum, while proper resource pricing and monitoring of Cambodia's forest resources should have yielded revenue of about 3-4 percent of GDP per annum.[8] Under these circumstances, coupled with difficulties in restraining military and security spending, in 1998 the government used central bank financing of the budget for the first time since 1994.



B. Fiscal Reform during 1999-2002

36. **Fiscal performance improved considerably in 1999.** With regained economic vitality, total revenue strengthened from 8⅓ percent of GDP in 1998 to 10½ percent in 1999. Expenditure was restrained, and government's net debt with the central bank was reduced by 0.6 percent of GDP. The reform to the tax system which began to be implemented in January 1999 also contributed to the revenue increase. The reform of the tax system aimed at moving away from direct taxation on trade and income to indirect taxation, relying on a 10 percent value added tax (VAT) that replaced the turnover tax and consumption tax on imports. The VAT enhanced revenue and improved the efficiency of the tax system by simplifying the tax structure, widening the coverage, and reducing cascading.

37. **The fiscal reform momentum that started in early 1999 was strengthened during 2000-02 under the PRGF arrangement.** The critical elements of the strategy were to increase revenue further to meet expenditure needs and redirect defense and security spending to priority social sectors. As a result, revenue increased to 11¾ percent of GDP in 2001, and is estimated to have reached about 12 percent in 2002. Tax policy aimed at strengthening the revenue structure and overall administration. Hence, except for increases in 2002 in petroleum taxes and excises on cigarettes and beer to offset a reduction in customs duties relating to tariff restructuring as part of a comprehensive trade liberalization program, revenue was not increased through changes in tax rates since 1999.

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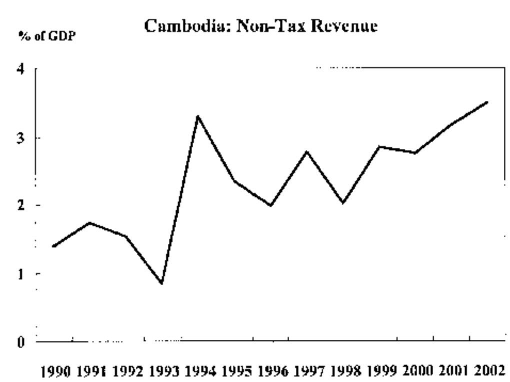
[8] Proper resource management would have yielded much lower revenue since logging took place at highly unsustainable rates.

38. **Although most of the growth in revenue since 1999 is attributed to the expansion of the tax base, recent efforts to enhance tax and customs administration should not be underestimated** (see Annex 2 in the Staff Report). The assistance being provided through the Technical Cooperation Action Program (TCAP), adopted in May 2001, has been instrumental in improving administration, including the expansion of VAT coverage to increase the number of tax payers.[9] Indeed, during 2001-02 improvements in customs administration contributed for the first time in a decade to an increase in revenue. Efforts focused on ensuring a more efficient use of preshipment inspection services, and increased transparency to reduce hidden costs in customs procedures. Moreover, anti-smuggling operations have been recently strengthened through enhanced inter-agency cooperation and the establishment of anti-smuggling units in key border provinces.[10] Improvements in tax administration during 2001-02 include an initial exchange of information between government departments and strengthening tax auditing strategies and capabilities. As a result of these initial steps, tax arrears have started to be collected. If effective, all of these reforms should set the stage for positive contribution from tax and customs administration in the period ahead.

39. **However, much remains to be done to broaden the revenue base.** In particular, revenue from international taxes would have been much larger in the absence of large tax and customs duties exemptions. Indeed, during 1998-2001, about 50 percent of all imports were exempted from customs duty, mostly under the 1994 Law on Investment (Box 1). In addition, while a recent clearing of the backlog of applications for tax exemptions helped to improve transparency, it seriously undermined the domestic tax base, more than halving the projected profit tax in 2003.

40. **Regarding nontax revenue, several measures were implemented over the last 4 years, but actual collections have been below expectations.** Indeed, nontax revenue only increased from 2.8 percent of GDP in 1999 to about 3.4 percent in 2002. The main policy measures introduced in 1999 included: (i) transparent collection of garment quotas through regular auctions; (ii) introduction of a quota management fee and a garment export license fee on garment factories, and (iii) increasing the



[9] The coverage of the VAT is much wider than the turnover and consumption tax, exempting only: (i) public postal services; (ii) hospital and medical services; (iii) public transportation; (iv) insurance and financial services; (v) imports for personal use; (vi) nonprofit activities in the public interest, and (viii) imports of goods by diplomatic missions and international organizations.

[10] However, anti-smuggling efforts led to a reduction of the taxable base: as of end-October 2002, actual volumes of beer, gasoline and diesel declined by 40, 12 and 5 percent, respectively, compared to 2001.

timber royalty to an average of US$54/m^3, helping to maintain forestry revenue at the 1998 level despite a sharp reduction in the volume of logging—in 2002, however, forestry revenue declined as all logging activity was suspended pending the establishment of a forestry concession system based on a sustainable practice. Main policy measures since 1999 comprised the revision of the contract terms of the entrance tickets at the Angkor temple complex in 2000 and 2002, the introduction of visa stickers in December 2001; in addition, in 2002, royalty fees from casinos were increased and the share of garment quotas to be auctioned was raised. Despite these measures, there are still significant arrears from telecommunications, civil aviation and state-owned enterprises and immobile assets leased to the private sector. Moreover, the signing of contracts with private firms (to provide certain government services) has undermined the transfers to the treasury, particularly in the telecommunication and civil aviation sectors.

Box 1. The Law on Investment

The 1994 Law on Investment (LOI) has given rise to a serious tax erosion problem. Revenue from customs duties—which currently represents 75 percent of total tax revenue—would have been even greater had there not been an erosion in the scope of dutiable goods. Indeed, total import duties paid were almost the same as exempted import duties. The law provides very generous tax incentives to investors compared to other countries. In particular: (i) tax holidays are permitted up to 8 years; (ii) profits are taxed at a reduced rate of 9 percent (instead of the normal rate of 20 percent) after the end of the holiday period, (iii) reinvestment of profit is tax free, and (iv) repatriation of earnings and other income is tax free.

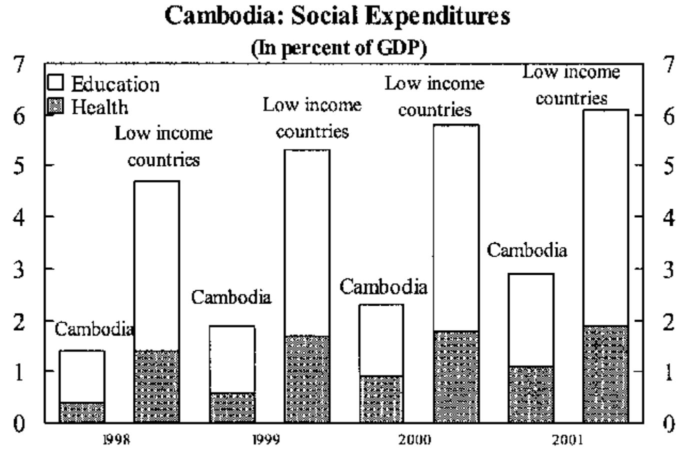
Exempted Import Duties by Exemption Regime
(In percent of GDP)

	1998	1999	2000	2001
Total Exempted Import Duties 1/	4.7	5.2	6.3	7.3
Diplomatic missions and international organizations	0.1	0.1	0.1	0.1
Investment Law provisions	3.6	3.9	4.9	5.8
International aid	0.6	0.3	0.3	0.3
NGOs	0.1	0.2	0.1	0.1
Other	0.4	0.8	0.8	0.9
Memorandum item				
Total Import Duties 1/	4.1	6.2	6.0	6.2

Source: Data provided by the Cambodian authorities; and Fund staff estimates.

1/ Includes all tax exemptions on imports (i.e. customs duties, excises and value added tax).

Amendments to the LOI were recently submitted to the National Assembly—and were supported by revisions to the Law on Taxation under which investors can choose to be subject to a special depreciation schedule rather than to the tax holidays provisions under the LOI. The amendments to the LOI eliminate the cumbersome matrix determining the length of the tax holiday, the reduced tax rate on profits of investment companies (except for those already entitled to the 9 percent rate), exemptions on dividends, and increases transparency by defining clear procedures for granting exemptions. However, the amendments continue to provide extensive tax and customs duty exemptions, including projects located in Export Promotion Zones, differential tax holidays by economic sector that could complicate tax administration, and go beyond the maximum 3-year tax holiday advised by the Fund staff. The gains on revenue collection of replacing the 9 percent tax rate on profits with a 20 percent tax rate will likely be offset by a reduction in the number of taxpayers resulting from the streamlined procedures for granting exemptions.



41. **Over the last four years, the level of current expenditure was consistent with a current budget surplus of 1-1½ percent of GDP,** ensuring sufficient funding for local development projects and helping to avoid any domestic financing of the budget. The full demobilization program initiated in late 2001 has been instrumental in reorienting expenditure to priority areas (agriculture, rural development, health, and education) and is expected to be completed in 2003. As a result, military and security spending was reduced from 4 percent of GDP in 1998 to 3 percent in 2001, while priority social spending was raised from 1½ percent of GDP to almost 3 percent. Still, despite these improvements, education and health expenditures still lag behind the average of countries at a similar development stage. Regarding the overall wage bill, it has been contained to below 40 percent of current expenditure to ensure adequate funding for operating expenditure, under a civil service reform strategy aimed at improving remuneration incentives and delivery of public services. However, even after the 35 percent wage bill increase in 2002, the average wage of civil servants is only US$28 a month—a third of the averageof the garment sector and a little more than half the wages paid to low-skilled garment workers.

42. **Shortcomings in public expenditure management have been difficult to resolve.** The use of the banking system for government transactions is still very limited, several offsetting arrangements exist with suppliers whereby overdue taxes are offsetting government obligations, and the practice of separating US dollar and national currency revenues and expenditures persists. As a consequence, the cash management system is fragmented leading to poor budget execution, marked differences between the budget plan and actual spending, and a significant bunching of disbursements towards the end of the year. As discussed in the Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) currently being prepared by the World Bank, these weaknesses have led to misuse of funds, underdeclaration of revenues by agencies collecting fees, and the accumulation of arrears despite the existence of a current budget surplus.

43. **Because the bunching of expenditure is partly due to extensive pre-auditing by the MEF, an attempt to resolve this problem was made through the introduction of the Priority Action Program (PAP) in 2000.** The PAP was intended to ensure that the health and education sectors could gain access to their full budget allocation by, among others, obtaining 25 percent of the budget allocation automatically on a quarterly basis, replacing pre-audits by post-audits, and reducing details in the budget plan for PAP allocations. However, despite some initial success in increasing the disbursement ratios, the old pre-audit arrangements have not been successfully replaced, the PAP budget plan has not been fully disbursed, and funds have been available only very late in the year.

44. **Recent assistance through the TCAP has focused on broad based reforms in the areas of cash management, budget and treasury.** In 2002, efforts have focused on improving cash management, as this was regarded as the root of the shortcomings in the budget execution. As a result, revenue accounts held by line ministries were integrated with the National Treasury single account and the operation of the Cash Management Committee (CMC) was improved by implementing a specific format for cash management procedures and enhancing the coordination between the National Treasury (NT) and the Foreign Currency Unit (FCU) of the MEF.[11] Full information is now provided to the NT by the FCU on the accounts it manages, including direct access by the NT to information held at the National Bank of Cambodia. On the treasury area, the Working Group at the NT finalized a report containing recommendations on standardized accounting procedures and methodology for the public sector. This report is expected to improve the monitoring and execution of the budget. Moreover, with the assistance from the AsDB, a medium-term expenditure framework (MTEF) is being developed. In most countries the MTEF plays an important role in bringing spending within the overall resource envelope. In Cambodia, however, the main contribution of the MTEF should be to improve resource allocation and the efficiency of the budget process.

C. Remaining Agenda

45. **Despite significant progress, further improvements in fiscal performance are required over the medium term.** Cambodia's fiscal revenue ratios— especially tax revenue—remain very low compared to other countries at similar stages of development. Increasing fiscal revenue to about 14 ½ percent of GDP by 2007 is considered to be a realistic target and will be necessary to meet the expenditure needs underlying the government's development strategy, while allowing for increased debt service payments arising from the expected completion of external debt rescheduling agreements

Cambodia: Comparison of Tax Revenue Structure with Other Selected Countries

	Fiscal revenue 1/						
		Tax revenue					
		Total	of which:				
	Total revenue		Direct taxes	Indirect taxes	Trade taxes	Other revenue 2/	Per capita GDP (U.S. dollar)
	(In percent of GDP; unless otherwise noted)						
PRGF Asian countries	16.2	12.8	3.1	7.3	2.3	3.8	427
Bangladesh	8.6	7.1	1.2	5.8	2.0	1.5	370
Lao P.D.R.	11.4	9.2	2.0	3.8	1.0	4.6	310
Nepal	11.2	9.2	2.1	4.1	3.0	2.0	240
Sri Lanka	17.0	14.7	2.4	10.2	2.1	2.3	830
Vietnam	20.6	15.6	5.5	6.3	3.4	5.0	410
Mongolia 3/	28.5	20.8	5.3	13.4	2.1	7.7	400
PRGF Sub-Suharan African Countries	17.6	13.7	3.9	5.5	4.6	2.0	323
of which: selected agriculture-based countries	14.4	11.4	1.8	3.8	3.3	2.1	277
Cameroon	17.8	12.2	3.3	6.5	2.5	0.7	570
Guinea Bissau	19.5	10.8	0.0	0.0	0.0	8.7	160
Mali	14.7	14.0	2.6	5.0	5.4	0.7	210
Niger	8.9	8.3	1.5	1.9	4.4	0.6	170
Tanzania	11.8	10.6	2.7	6.7	1.2	1.2	280
Togo	13.8	12.3	0.4	2.8	6.1	0.8	270
Cambodia (In 2001)	11.7	8.4	1.0	4.6	2.8	3.3	259

Source: IMF staff country reports.

1/ Data refer to average of 1999-2001.
2/ Includes nontax and capital revenue.
3/ Other revenue inludes only nontax.

[11] The FCU carries out treasury functions for those parts of the budget denominated in foreign currency.

with the United States and the Russian Federation.[12] In this context, fiscal policy should continue to aim at maintaining a current budget surplus of about 1 to 1½ percent of GDP, with an overall deficit (excluding grants) declining over time fully financed by external concessional resources.

46. **The required cumulative increase of 2 percentage points of GDP in fiscal revenue over the medium term should be achievable through containing further erosion of the revenue base and strengthening customs and tax administration.** To achieve lasting improvements, broadening the revenue base should focus on continuing to avoid ad-hoc exemptions and reducing the scope of existing tax and duty exemptions. In this regard, a simple and transparent investment regime with lower tax rates could be more attractive to potential investors than a system that provides for large exemptions, especially when lack of capacity makes enforcement problematic. Moreover, to improve tax and customs administration it will be important to focus on addressing staff integrity, enhancing procedures and the information system, and strengthening collection enforcement. To address staff integrity, the government has committed to expand the role of the audit units to cover internal audit functions. On customs administration, the future automation of customs procedures is expected to improve the capacity of the Customs Department and to reduce hidden costs. In addition, the audit unit should investigate the causes for the discrepancy between the amounts stated in the PSI reports and the customs declaration form. The success of anti-smuggling operations will depend on an efficient operation of the recently established anti-smuggling units in key border provinces.

Cambodia: Medium-Term Fiscal Framework, 1999–2007

(In percent of GDP)

	1999	2000	2001	2002	2003	2004	2005	2006	2007
				Projections					
Fiscal sector									
Revenue	10.6	11.2	11.7	12.1	12.7	13.4	13.9	14.3	14.5
Tax revenue	7.7	8.2	8.4	8.5	8.5	8.7	8.8	8.8	8.6
Of which: Domestic Taxes	1.1	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8
International Taxes	6.3	6.2	6.3	6.5	6.6	6.8	6.8	6.8	6.7
Nontax revenue	2.8	2.8	3.2	3.5	3.6	3.6	3.4	3.5	3.6
Of which: quota auctions	0.7	0.2	0.3	0.4	0.5	0.5	0.0	0.0	0.0
Capital Revenue	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Revenue Measures	...	...	...	...	0.4	0.8	1.4	1.7	2.0
Expenditure (cash basis)	14.7	16.4	17.7	18.9	19.0	19.1	19.4	19.7	20.2
Current	8.9	9.5	10.4	11.1	11.4	11.9	12.2	12.6	13.1
Wages	4.2	4.0	3.7	3.9	4.0	4.1	4.3	4.4	4.6
Civil administration	1.5	1.6	1.6	2.0	2.1	2.5	2.7	2.9	3.0
Defense and security	2.6	2.3	2.1	1.9	1.8	1.6	1.6	1.5	1.5
Interest payments	0.1	0.1	0.2	0.2	0.5	0.7	0.7	0.7	0.7
Other	4.6	5.4	6.6	7.0	7.0	7.1	7.2	7.5	7.8
Memo item: Social spending 1/	2.0	2.3	2.9	3.6	3.8	4.3	4.4	4.5	4.5
Capital	5.8	6.9	7.3	7.8	7.3	7.2	7.1	7.1	7.1
Current balance	1.6	1.5	1.2	0.9	1.1	1.3	1.3	1.3	1.2
Overall balance	-4.0	-5.2	-6.0	-6.8	-6.3	-5.7	-5.5	-5.5	-5.6
Overall balance (including grants)	-1.3	-2.3	-3.1	-3.3	-3.4	-2.9	-2.7	-2.6	-2.8
Domestic financing	-0.3	-0.1	0.1	-0.3	-0.2	0.0	0.0	0.0	0.0
External financing 2/	4.4	5.3	5.9	7.1	6.5	5.7	5.5	5.5	5.5
Disbursements	4.4	5.3	6.0	7.2	6.8	6.0	6.0	6.0	6.0
Amortizations	0.0	0.0	0.0	0.1	0.3	0.3	0.5	0.5	0.5

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

1/ Includes components of wages paid in the social sectors.
2/ Includes disbursements for the financing gap in 2003.

[12] Figures in this chapter assume concessional rescheduling in mid-2003 under Naples terms with a 40-year maturity (16 year grace period) and the original interest rate of 3 percent for the U.S. debt, and a DSR option with a flow operation under Naples terms on pre-cut off date Russian debt and a nonconcessional deferral with a 15 year maturity (5 year grace period) for the post-cut off Russian debt. For a discussion of other possible rescheduling scenarios, see EBS/02/13.

47. **Improvements in tax administration should lead to stepped-up collection of tax arrears.** As part of the enforcement measures, it is expected that bank accounts will start to be frozen, exportation/importation goods will be held at the customs department until outstanding amounts are paid, and licenses will be cancelled. Strengthening the tax department will also involve its computerization, clarifying its roles and responsibilities, and the introduction of an operational management information system, including further staff training, and completion of audit and collection manuals. Among others, these efforts should lead to a reduction in tax avoidance, additional expansion of VAT coverage through increases in the number of tax payers, and enhanced compliance through the acceleration of VAT refund procedures.

48. **Greater transparency over the terms governing the use of state assets will also be key to transfer the appropriate amount of revenue to the budget.** In particular, efforts should be made to: (i) ensure that procurement procedures are based on competitive biding, and applied to all public acquisitions and contracts; (ii) respect the government's commitment to have all contracts reviewed by MEF and approved by the Minister of Finance; (iii) publicly disclose the terms of all (past and future) contracts, subject them to audit by the National Audit Authority, and carry out periodic external audits of some contracts, disclosing the results. Besides improving transparency, these measures could help offsetting future declines in some nontax revenue items. Indeed, revenue from the auction of garment quotas would end if the quota system is phased out after 2004, as scheduled; and export licensing requirements could eventually be eliminated. Strengthening broad-based reforms in the areas of cash management, budget and treasury could also have an indirect positive effect on non-tax revenue. Indeed, by reducing back loading of disbursements over the year, these reforms could diminish the incentive of the agencies to under-estimate revenue collected at the budget planning stage and to subsequently keep the overrun.

49. **Achieving the government's revenue target will be key to maintaining fiscal sustainability.** Even if the revenue target is achieved, Cambodia's fiscal position appears to be only marginally sustainable over the medium term due to the implications of an eventual rescheduling of external debt agreements. Indeed, to retain public debt sustainability, the primary deficit would need to be reduced from 3 percent of GDP in 2002 to below 2¼ percent of GDP over the medium term. Since debt service would increase by about 1 percent of GDP, about 70 percent of the increase in revenue will be needed just to meet additional debt service obligations and to facilitate the reduction of the primary deficit. Accordingly, given that the ratio

Cambodia: Indicators of Debt Sustainability
(Percent of GDP; unless otherwise indicated)

		Projections					
	2001	2002	2003	2004	2005	2006	2007
Public-debt stabilizing primary deficit 1/	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Primary deficit							
including grants	2.8	3.1	2.9	2.2	2.0	1.9	2.1
excluding grants	5.8	6.6	5.9	5.0	4.8	4.8	4.9
Public external debt outstanding	66.2	65.6	35.2	36.0	37.0	38.3	39.4
Public external debt service (cash basis)							
in percent of revenue	1.8	2.0	5.7	7.5	8.6	8.4	8.4
in percent of exports of goods and services	1.1	1.1	2.1	2.6	2.4	2.2	2.3
Memorandum item:							
Public external debt service (accrual basis)							
in percent of exports of goods and services	3.3	3.0	2.6	2.6	2.4	2.2	2.3

Source: Cambodian authorities; and IMF staff estimates.
1/ Assumes 2.5 percent interest rate and 6.5 percent annual GDP growth.

of debt service to government revenue would average 7¾ percent of GDP over 2003-07, a fundamental adjustment in expenditure priorities would be required.

50. **Therefore, maintaining a sustainable fiscal framework will also require a restructuring of public expenditures.** The government's current civil service reform plan focuses on increasing the remuneration of all civil servants to a level equivalent to the minimum wage paid in the private sector, while maintaining the overall size of civil servants. However, in view of the projected revenue increase and the impact of the expected completion of external debt rescheduling agreements with the United States and the Russian Federation, this plan appears inconsistent with increasing social spending while providing sufficient non-interest operational expenditures. Indeed, even if the annual wage bill is limited to 5 percent of GDP, non-interest operational expenditures on non-priority sectors will probably have to be reduced as percent of GDP if social spending over the medium term is to achieve the target set in the National Poverty Reduction Strategy (NPRS).

51. **Improvements in public expenditure management will crucially depend on solving the current cash management problems to ensure effective budget execution.** In the short term, it is expected that commitments will flow from very close to the beginning of 2003 as monthly revenue flow estimates and ministries' spending plans should have been finalized by the Budget and Financial Affairs Department (BFAD) and ministries notified before January 1. Moreover, through the CMC, consultation among the BFAD, NT and the revenue departments should be continuous. In addition, the BFAD and the Investment and Cooperation Department are expected to start collaborating on the preparation of a monthly domestic expenditure plan based on known and likely commitments. In this regard, the staff has suggested that a rule could be adopted whereby any domestic capital commitment in excess of that planned for the month would have low payment priority.

52. **Over the medium term, improving the cash management process should include:** (i) phasing out the use of offsetting arrangements; (ii) eliminating the practice of separating US dollar and national currency revenues and expenditures; and (iii) increasing the use of the banking system for receiving revenues and making payments. Moreover, as discussed in the IFAPER, a broad based budget reform is expected to be based on improving the operations of the CMC, enhancing revenue forecasting, upgrading the financial management information systems, and reducing ad hoc spending decisions that are not included in the budget plan. In addition, capacity building in spending ministries should be enhanced to ensure adequate financial management skills and the development of performance indicators, which are key to gradually introduce accountability for the results. Further development of the MTEF will also be required to ensure predictability of medium term resources and facilitate the integration of the recurrent and capital budgets.

D. Conclusion

53. **Despite progress made during the last four years, reform efforts need to be continued and strengthened in several areas.** Fiscal reform should continue to be the cornerstone of the macroeconomic program. A sustained increase in revenue is expected to be achieved by containing further the erosion of the tax base, enhancing tax and customs

administration, and improving performance of nontax revenue. Maintaining a sustainable fiscal framework will also depend on deepening public expenditure reform, including civil service and completion of military demobilization, as well as broad-based measures in the areas of cash management, budget and treasury. Technical assistance has been key in setting the foundation for improvements in all these areas, and further support is likely to be needed.

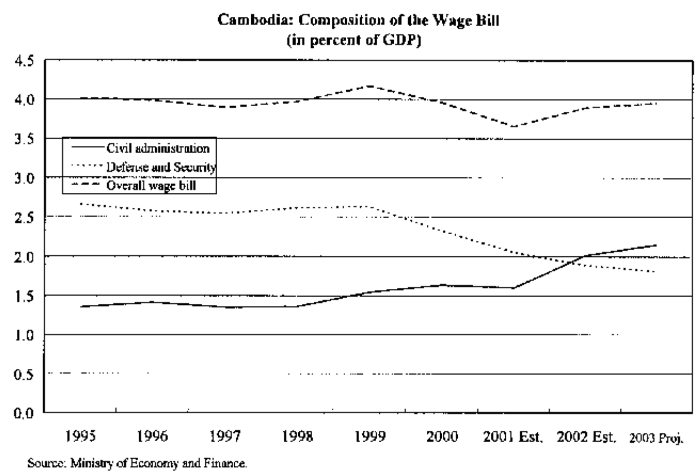
III. Civil Service Reform: Progress and Prospects[13]

54. **Civil service reform is critical to Cambodia's development.** Progress was slow during most of the decade, but initial and concrete steps have been taken during the past three years. Furthermore, the Royal Government of Cambodia (RGC) is formulating a medium-term reform strategy that it believes will improve administrative performance and make civil administration an effective development partner of the private sector.

55. **This chapter reviews progress in reforming civil administration[14] and military demobilization** as downsizing of the defense and security sector is part of the broader public service reform agenda. The chapter then turns to prospects for improving public sector pay, regarded by the government and its external partners as a matter of urgency for improving public service. However, raising average pay without endangering macroeconomic stability—to which the government is openly committed—will be a major challenge for the authorities.

A. Public Sector Employment and Wages in Cambodia

56. **Cambodia's public sector largely reflects the consequences of the country's recent history.** Several decades of internal military confrontation swelled the defense and security ranks. For example, both the Paris Peace Accord of 1991 and the surrender of remaining Khmer Rouge soldiers in 1998 provided for the integration of large numbers of soldiers from the various factions in the Royal Cambodia Armed Forces. Although downsizing is underway, the defense and security establishments remain



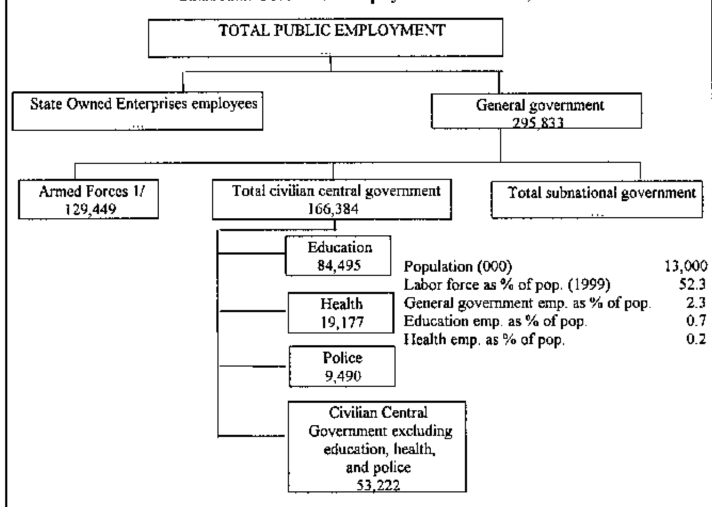
[13] This chapter was prepared by Robert P. Hagemann and Sopanha Sa.

[14] A more thorough assessment of civil service reform is being undertaken in the context of the World Bank's IFAPER.

large employers, with a payroll covering 129,000 persons (at end-2001) and amounting to about 2 percent of GDP.[15] The civil administration payroll covered 163,500 persons at end-2002, also amounting to about 2 percent of GDP in 2002.

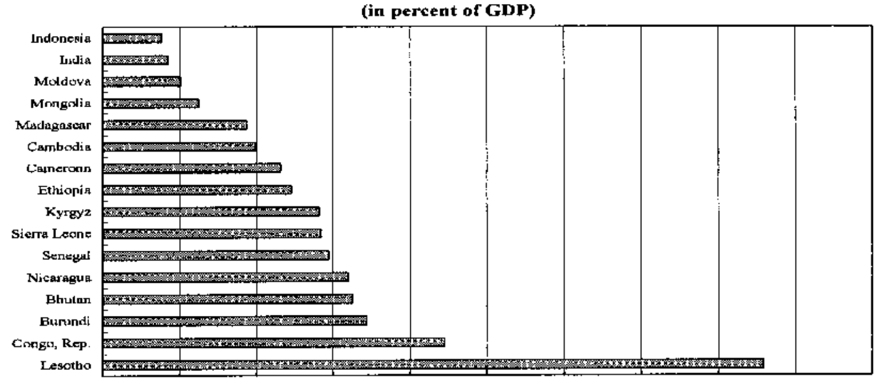
57. **At first glance, overall public sector employment (defense and security plus civil administration) in Cambodia is well within international norms.** With 2.3 percent of the population employed in the public sector, Cambodia's public sector employment is in the middle range for a large number of developing countries for which data are available.[16] At about 1.3 percent of the population, the civil administration workforce is about half the unweighted average for Asian countries, and lower than most developing countries. Similarly, the overall wage bill remains low as a percent of GDP, and compares favorably against an average of 5½ percent among a sample of developing countries and 4.5 percent among developed countries.

Cambodia: Government Employment in Cambodia, 2002.



Sources: Ministry of Defense, and Ministry of Economy and Finance.
1/ In 2001.

Cambodia: Low income economies: public sector wage bill, 1998.
(in percent of GDP)



Source: Government Finance Statistics

[15] The number of personnel in the military is not available for end-2002, and this figure therefore does not reflect demobilization.

[16] Schiavo-Campo, Salvatore et al., "An International Statistical Survey of Government Employment and Wages", *Policy Research Working Paper* 1806, World Bank, August 1997.

58. **At the same time, the exceedingly low level of official public sector wages—currently averaging $28 per month—is a serious impediment to development.** Public sector wages that are totally out of line with pay for comparable work in the private sector create perverse incentives, reduce morale, induce widespread absenteeism, result in poor service delivery, prevent the recruitment and retention of qualified personnel and, in general, weaken governance.[17] The government's medium-term strategy comprises a two–pronged approach to improving public sector pay without endangering macroeconomic stability. The adequacy of these plans is assessed in a later section of this chapter.

B. Track Record since the Mid-1990s

Difficult initial conditions

59. **Progress in reforming the civil service was relatively slow during the 1995-1999 period.** The civil service and defense and security establishments were overstaffed and underpaid as the reconstruction and rehabilitation of Cambodia got underway in the early 1990s after the Paris Peace Accord of 1991. During the early part of the first PRGF (approved in May 1994), some progress was achieved: the automatic recruitment of high school graduates was ended; a probationary period was introduced for new graduates taken into the civil service; and new rules for entry into public employment were established and institutionalized.

60. **In early 1995, the government committed to maintain the number of civil servants at the level determined by a preliminary census.** According to a full census completed in 1995, there were about 153,000 on the civil service payroll, plus another 21,000 employed in the provincial and communal administrations. At that time, the average monthly wage was estimated to be around $20. The payroll for defense and security in late 1996 was estimated to cover roughly 250,000 persons, earning comparable pay. Under the program supported by the first PRGF, the government had committed to reduce the number of civil servants by 10 percent per year in 1996 and 1997. However, large scale hiring for political reasons during the mid-1990s put these targets for net reductions out of reach.

61. **Several factors contributed to the inertia in reforming the civil service at that time.** First, economic uncertainties, the absence of any formal social safety net, and slow private sector job creation meant that recycling dismissed civil servants and demobilized soldiers was not assured. Second, hiring for political reasons clearly complicated significantly the task of rationalizing the civil service. Third, more technical support and external financing were needed to help design and implement a socially acceptable retrenchment program.

62. **Only limited progress was achieved in reforming the military.** The number of generals was reduced from 1,876 to 147, and the number of colonels from 5,000 to 304, while the number

[17] Low public sector pay, especially when it is exceedingly low, is known to contribute to poor governance and corruption. See *World Development Report 1997*, (World Bank).

of divisions was reduced from 28 to 12. Sizable cuts in the number of paid soldiers would not be achievable until later, however, when external financial assistance was secured.

An acceleration of reform since 1999

63. **Reforms were inevitably stalled during the political instability that followed internal military confrontation in 1997.** The government was successful in avoiding expansions in civil service employment levels, however, and the pace of reform picked up with the restoration of peace since 1998. At the Tokyo Consultative Group (CG) meeting in 1999, the Royal Government of Cambodia (RGC) presented a draft pilot project for military demobilization and a three-stage medium-term National Program for Administrative Reform (NPAR).

Military demobilization

64. **The military demobilization program agreed at the Tokyo CG consists of four stages:** registration of soldiers; discharge and disarmament; re-insertion; and re-integration. The identification and registration process to establish the size of the army was completed in October 1999, following which 15,551 nonexistent (ghost) soldiers and 163,346 nonexistent children (claimed as dependents of soldiers) were removed from the payroll.

65. **Physical demobilization would be carried out in two phases**: a pilot followed by a broader and bolder dismissal of soldiers. Under the pilot program, 1,500 soldiers in 4 provinces were discharged during May-July 2000. Demobilization and re-integration of an additional 30,000 soldiers was estimated to cost US$42 million, to be financed by the government (US$8 million), and substantial external assistance, including: a credit of US$18.4 million from the World Bank, and grants from Japan (US$10 million), Sweden (US$2.4 million), the Netherlands (US$2 million), and the World Food Program (US$2 million).

66. **The discharge of the first 15,000 soldiers in 10 provincial centers was completed in December 2001.** All of the demobilized soldiers received a cash payment of US$ 240, and food assistance was provided by the World Food Program in mid-2002. The distribution of reintegration packages (including the choice of a motorcycle, water pump, generator or sewing machine) is underway and expected to be completed by February 2003.

67. **Demobilization of the next 15,000 soldiers is underway.** The computerized database of military personnel created in 1999 is being updated in consultation with stakeholders to verify those eligible for discharge. The next wave of demobilization should be completed in late 2003. Further reforms to defense and security employment and pay are currently being considered in the context of broader reforms to military service under the direction of the Ministry of Defense.

Civil administration reform: institutional changes

68. **The NPAR is the RGC's medium-term strategy consisting of three stages:** (i) consolidation of public services; (ii) restructuring and redeployment; and (iii) rationalization

and capacity building.[18] The first stage of the NPAR was largely completed by end-2001, with the exception of a functional analysis, now planned for the first half of 2003. The principal objectives of this stage were to: (i) document and control the composition and distribution of the workforce; (ii) develop essential instruments to manage and motivate personnel; (iii) assess the needs of ministries relating to corporate services; (iv) complete preparatory work to move the administration closer to citizens; and strengthen the capacity to plan and (v) manage the reform. Achievements thus far under the first phase include:

- Completion of a database and identification of 9,000 ghost employees;
- Automation of the payroll;
- Introduction of a new employee classification system and salary grid;
- Design of *Priority Mission Groups* (PMG) and adoption of an implementing legal framework;
- Development and introduction of a Human Resource Management Information System;
- Launch of the Economic and Public Service Capacity Building Project;
- Initiation of a variety of initiatives to improve service delivery (e.g., studies on approaches to de-concentration, reviews of "back-office" processes, establishment of working relations with donor working group).

69. **Many of these measures have begun to bear fruit or should begin to do so in the near future.** Improved information on the size and composition of the civil service has made possible improvements in management of the civil service workforce. The authorities report that, together with savings from the removal of ghost workers from the payroll, better management of the overall civil service has generated savings that enabled the government to begin to raise salaries in 2002.[19]

Civil administration: pay reform

70. **Pay reform has only recently begun to be implemented.** Wages in the civil service consist of both base salary and allowances, the former accounting for about three fifths of the average wage. There are several types of allowances: functional, pedagogical, family and risk, the first three of which are the most important. Civil service wages remained virtually unchanged

[18] See "Strategy to Rationalize the Civil Service," Council of Ministers Discussion Paper, October 2002.

[19] Even though the government has indicated that approximately 9,000 ghost workers were removed from the payroll, this change has not been fully reconciled between the Council for Administrative Reform and the Ministry of Economy and Finance.

during the second half of the 1990s. Beginning in 2002, average civil service pay was increased by roughly 38 percent in January from levels in October 2001, raising average monthly pay to $27. This was followed by a further increase to $28 per month, bringing the total increase to 44 percent (representing an increase of 35 percent of the total wage bill).

71. **Pay increases during 2002 represent the first phase and one element of a two-pronged approach to pay reform.** The first consists of gradually raising civil service pay while also decompressing the wage structure. Pay increases for civil servants are to be kept in line with increases in the means available to the government. The strategy calls for members of top management positions to receive special allowances of $200 a month. The strategy for the remaining civil servants consists of ensuring that their pay is adequate to meet living costs. Currently, the government's medium-term wage projection—which assumes a restructured (in favor of education) civil service of the same size as at present[20]—targets increases in the average civil service pay to $52 per month in 2006.[21] The authorities recognize that these levels of pay alone are not likely to be competitive with the private sector, notably in urban centers. In order to make more informed decisions regarding competitive pay levels, the government will undertake a labor market study during the first half of 2003, with World Bank assistance. Implementing this program, however, will pose major macroeconomic challenges to the government as it is dependent on meeting ambitious targets for fiscal revenue (see Chapter II), and may need to be adjusted in view of major uncertainties regarding pending reforms in the pay structure for defense and security services as well as significant future debt service obligations to bilateral creditors that will arise from the completion of outstanding rescheduling agreements.

72. **Priority Mission Groups (PMGs), to be launched in February 2003, comprise the other, parallel, prong of the reform strategy.** PMGs are similar to existing donor-financed pay supplements that are widespread throughout the government. PMGs will consist of small groups of civil servants tasked to selected high priority "missions" of limited duration (generally 12-18 months). Staff selected for PMGs are to receive monthly pay supplements ranging initially between CR 190,000 and CR 520,000 ($48 and $130 at an exchange rate of CR 3,925/US$). These "agents of change" are seen by the RGC as a key axis of the overall reform agenda, and are expected to promote higher productivity and initiative, transparency and accountability in public administration.[22] The initial plan is to have 1,000 PMG members by the end of 2003, increasing

[20] With education accounting for close to half of the civil service, there will have to be substantial reductions elsewhere.

[21] The Council for Administrative Reform has developed its own medium-term wage framework (MTWF) on which the wage targets reported earlier are based. The existing MTWF was developed prior to the government's Medium-Term Expenditure Framework (MTEF) or the macro framework of the National Poverty Reduction Strategy (NPRS). The targets implied by the MTWF still need to be transparently integrated into both the MTEF and the NPRS.

[22] *The PMG Programme—Progress, Strategy and the Next Steps*, Discussion Paper, Council for Administrative Reform, 2002.

by 500 in each year to reach a targeted 2,500 (1½ percent of the projected civil administration workforce) by end 2006. The 2003 budget has allocated adequate funds to pay performance allowances for the first 1,000 PMGs, and the government is working with donors to mobilize external resources to complement the government's own funds. The annual costs of PMGs are projected in the MTWF to grow from US$2.0 million in 2003 to US$3.4 million by 2006 for a total cost of US$12.8 million.

73. **PMGs are designed to address service delivery bottlenecks that arise due to inadequate pay incentives.** Indeed, for high priority "missions" to be successful, appropriate incentives need to be provided to secure the dedication and commitment of civil servants assigned to those missions. At the same time, a few weaknesses of the concept need to be kept in mind. First, as short-term (18-month) assignments, PMGs do not resolve the most fundamental problem plaguing the Cambodian civil service: widespread inadequate pay for essential personnel. Second, it will be a challenge to ensure that the process of selecting members of PMGs is transparent. Third, and related to the short-term nature of the assignments, there is a risk that the extremely small group of civil servants participating in the initial wave of PMGs will become entrenched "elite", moving from one "mission" to another. Questions about the transparency and fairness of the system may in turn become prevalent. It is therefore urgent that a strategy be devised for PMGs and the broader reform program to converge over the medium term.

C. Addressing the Inadequacy of Pay over the Medium Term

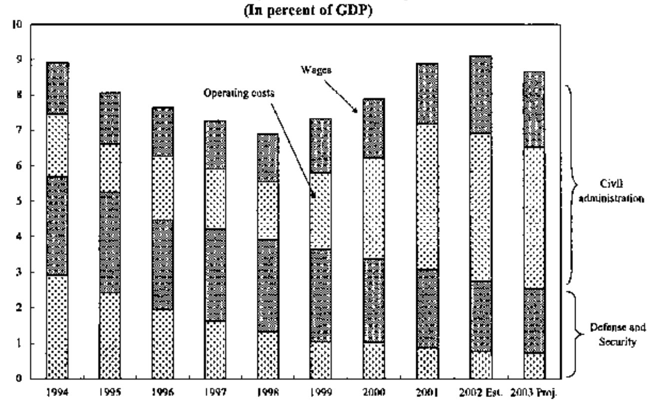
74. **Improving public sector pay is clearly an urgent priority.** At the same time, improving remuneration takes time, and requires a clear strategy for financing the increases. This section considers several options for improving public sector pay that are consistent with the medium-term macroeconomic framework that underpins the *NPRS*. Most of the options for improving public sector pay hinge on accelerating and deepening reforms needed in the critical areas of budgetary and cash management, public procurement, tax administration, and revenue performance in general.

75. **Consistent with the government's own commitments to pursue only *sustainable* improvements in public sector pay, the simulations reported here are grounded in the medium-term macroeconomic framework, reflected in the *NPRS*.** In this scenario, GDP growth is projected to accelerate to reach 6½ percent by 2006. The scenario assumes that macroeconomic policies are calibrated to keep inflation below 4 percent. Fiscal policy is to remain cautious, with substantial effort focused on boosting revenue from 12.1 percent of GDP in 2002 to 14.3 percent in 2006. Current expenditure would grow more slowly than revenue, and be increasingly tilted toward social spending, interest payments, and civil administration wages. Under this "baseline" scenario, the average monthly wage in the civil administration would rise to US$50 in 2006, assuming an unchanged civil administration workforce of 163,500, consistent with the authorities' MTWF.

76. **An alternative scenario consists of asking the following question:** if the government wanted to raise the share of overall wages by about one percentage points of GDP to 5 percent of GDP during 2004-06, how could such an increase be financed without undermining macroeconomic stability? In answering this question, we assume that the "additional" resources

(i.e., about one percentage point of GDP) are equally applied to civil administration and defense and security, allowing for urban/rural wage differentials.[23]

Cambodia: Composition of Current Expenditure
(In percent of GDP)



Source: MEF

77. **In order to avoid undermining macroeconomic stability, this increase would have to be financed from either expenditure reductions and/or revenue improvements.** If savings can be achieved without reducing real non-wage spending, such savings could of course be allocated to the public sector wage bill. Recent years have witnessed substantial increases in nonwage operating outlays in civil administration. These increases in large part reflect a conscious effort—including through the Priority Action Program—to improve delivery of appropriated expenditure, notably in the priority sectors (education, health, rural development and agriculture). At the same time, there remain substantial improvements to be made in budgetary execution (e.g., deconcentration of expenditure management, intensified and expanded application of procurement guidelines to reduce costs), from which reductions in spending inefficiencies could be achieved. In this regard, it is worth noting that combined outlays on operating expenditures and special programmes rose by 68 percent between 1999 and 2002, while nominal GDP grew by 14 percent. Hence, if budgetary reforms could yield a cumulative savings of 20 percent in operating outlays by 2006, average wages could be increased to reach a level equivalent to 5 percent of GDP during 2004-06.

78. **An alternative measure would be to acknowledge that given the government's low revenue mobilization when compared to other low-income countries, there might be a need to scale back the size of the civil service.**[24] Reducing the number of civil servants by 500 (0.31 percent of civil service workforce), distributed between urban and rural staffs in proportion to the relative size of each area, beginning in 2004 could achieve roughly the same results as the previous simulation.

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[23] One official from the CAR suggested that a 4 to 1 wage differential between urban and rural areas might be reasonable in present day circumstances, with a monthly income of about $150 per month being an average needed in Phnom Penh to meet daily subsistence needs.

[24] Politically, this perspective might understandably be difficult to accept. This may account for the official government view, as expressed in the *NPRS*: "Current simulations show that to increase the minimum wage in the civil service to levels in the garment industry, for instance, Cambodia's GDP would need to increase considerably if the increase was to be financed through government revenues alone."

79. **Naturally, the most promising option for sustainably raising civil servants' salaries is to improve revenue performance, including through both policy measures and administrative reforms.** Although revenue performance has improved substantially since 1999, the revenue base continues to be eroded by tax policies that have dubious impacts on private sector employment but obvious implications for government's spending options, including on wages. For instance, it is estimated that half of potential revenue from profit tax in 2002 was lost to enterprises qualifying for new licenses granted under the *Law on Investment*. This amounts to close to ½ percent of GDP, enough to finance half the increase in the wage bill to 5 percent of GDP. In addition, a recent government study of the budgetary impact of tax policy affecting the motorcycle assembly sector found that the various tax advantages granted in favor of motorcycle parts cost the National Treasury another 0.2 percent of GDP.

80. **Civil service reform of course consists of more than simply raising pay, and the government is rightly also concentrating on systemic reforms to civil service.** Together with pay reform, there is a need to instill an "esprit de corps" among civil servants, in part by providing clear career paths traveled via performance-based promotions. Pay reform alone will have little impact on the quantity and quality of public services without managerial improvements to ensure the full-time presence of civil servants. Pay reform would also have to be buttressed by appropriate legal reforms and/or codes of behavior aimed at preventing corrupt behavior.

D. Conclusion

81. The RGC has made progress in setting the stage for improving the civil service over the coming years. It has been rightly cautious until needed information was available. During the first half of 2003, the government will, in collaboration with the World Bank and other partners, undertake a number of key studies for taking the reforms forward. These include targeted operational and functional reviews, labor market analysis, pay and employment analysis, and departure policy analysis. Ultimately, however, the RGC will have to redouble its efforts in a wide range of reforms presently underway—on budget execution and deconcentration, decentralization, improving cash management, reducing revenue leakages from weak enforcement and broadening the revenue base through administrative and policy measures, and generally improving the efficiency of spending through better procurement policies. The challenges are indeed daunting; but the possibilities are promising.

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IV. Banking Sector Reform and Financial Intermediation[25]

82. **The size of the banking system in Cambodia, in terms of deposit base, grew from 4 percent of GDP in the early 1990s to 12 percent by the end of the decade.** But, financial intermediation by banks played only a limited role in facilitating economic development. The recent bank restructuring process, whereby the number of banks was reduced from 31 to 17 and capital positions strengthened, improved public confidence in the banking sector. Nevertheless, lending activities of banks continue to stagnate. This chapter first discusses the historical background and developments of the banking sector during the 1990s. Section B reviews the progress under the current PRGF program. In section C, the remaining agenda for improving financial intermediation in Cambodia is discussed, followed by a conclusion in section D.

A. Developments in the Banking Sector in the 1990s

Banking sector before the 1990s

83. **The weak public confidence in the banking sector and its limited role as a financial intermediary are the legacy of political turmoil and civil strife of the past three decades.** After gaining independence in 1953, Cambodia's economy performed relatively well for about a decade until interventionist policies gained influence and banking, along with foreign trade, were nationalized in 1963. Increasing strife in the region also led to internal political turmoil, and hopes for economic revival were quashed as the civil war escalated in the early 1970s and Khmer Rouge eventually took over the country. The Khmer Rouge (1975-79), with a view to creating an agrarian moneyless society, launched a radical economic experiment, whereby private property was denied and money, banks and markets were abolished.

84. **In the 1980s, a banking system was reintroduced by the successor government.** After the fall of the Khmer Rouge, the new regime established the National Bank of Cambodia (NBC) in 1980, a state-owned monobank whose role included central, commercial, and development banking activities, according to the socialist economic model. In 1989, however, as a part of an effort to restructure the economy along a market-based system, several reforms were initiated through government decrees, whereby the commercial bank functions were separated from the NBC, and establishment of private commercial banks were allowed as limited liability companies. The banking sector was opened up to competition from foreign banks, which were encouraged to establish their presence in Cambodia, frequently in joint venture arrangements with the National Bank.

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[25] Prepared by Toshinori Doi (ext. 39701).

Developments in the 1990s

85. **After the first private commercial bank was established as a joint venture between NBC and a foreign bank in 1991, the number of banks increased rapidly reaching 30 by the end of 1994.** This development arose in part due to the relaxation of requirements for obtaining a license, which was limited essentially to meeting a low minimum capital requirement condition. The proliferation of banks put heavy strain on NBC's regulatory and supervisory capacity, and the authorities imposed a moratorium on new licenses in 1994 despite continued strong demand by a wide range of investors. The National Bank resumed granting licenses only in June of 1996, following some strengthening of prudential regulations, which included more stringent reporting requirements, and conducting on-site inspections using international audit firms. In 1996, a new central bank law was promulgated, establishing NBC as the central bank. The NBC gradually divested its interest in all commercial banks except the Foreign Trade Bank (FTB).

86. **The proliferation of banks during this period left Cambodia with an excessively large number of banks relative to its size and development.** Not enough business opportunities were available, leaving many banks with marginal, and sometime questionable, banking activities. These problems first became evident when one of the smaller banks was found to have lost most of its capital through speculation in the overseas commodity market, and another bank closed voluntarily due to lack of business, in the mid-1990s. In addition, the Asian crisis caused difficulties for some of the foreign-owned banks to meet the minimum capital requirements which were increased somewhat in 1997, as these banks were under financial pressure in their respective home countries. In light of a serious lack of lending opportunities, reflecting unstable economic conditions and high credit risk of the potential borrowers, the NBC opened dollar-denominated accounts for commercial banks in 1998, remunerated at seven-eights of SIBOR. Due to the weak business and regulatory environment, public confidence in the banking system, as well as mutual confidence among banks, remained very low, and financial intermediation by the banking sector continued to be marginal.

B. Progress under the PRGF

87. **The policies under the PRGF-supported program aimed at rebuilding the banking sector so that only viable banks with sound banking activities would operate under a strengthened regulatory environment.** Accordingly, the banking sector policy consisted of three pillars: (i) re-licensing of commercial banks under the newly promulgated Banking and Financial Institutions Law; (ii) strengthening bank supervision; and (iii) reforming and eventually privatizing the state-owned FTB to further reduce direct involvement by the state in the financial sector.

Bank Restructuring under the new Banking and Financial Institutions Law

88. **The Banking and Financial Institutions Law was promulgated in November 1999, three years after its submission to the National Assembly.** The new law provided a fundamental framework for banks' operations and the NBC's supervisory functions, which included: (i) the definition of banks and the scope of banking operations; (ii) the supervisory and regulatory power of the NBC, including the NBC's ability to impose disciplinary sanctions and

penalties against noncompliant banks; (iii) requirements for the integrity of bank management; and (iv) bank liquidation procedures.

89. **Under the new law, all private commercial banks were required to be re-licensed by the NBC.** At end-1999, the Cambodian banking system consisted of 31 banks, comprising two state-owned banks, seven foreign bank branches, and 22 privately-owned commercial banks. The NBC used this opportunity to scrutinize the viability of existing commercial banks, and classified them into three categories: (i) viable and fully capitalized banks without need for restructuring; (ii) potentially viable banks requiring some corrective measures; and (iii) nonviable banks. Banks falling into the second category were asked to submit a memorandum of understanding to the NBC describing the details of their restructuring plan, including the timetable for capital increase to meet the new minimum capital requirement set at US$13 million. Banks falling into the third category were liquidated.

90. **The re-licensing process was completed in April, 2002.** During the process, the NBC closed 15 banks that were either insolvent or not in compliance with the law. Fourteen banks were awarded full banking licenses, and four banks were granted licenses to operate as specialized banks with restrictions on the scope of their banking operations. In addition, two international banks with world-wide operations recently closed their branches in Cambodia as a result of a global strategic review of their operations by their respective headquarters. At the same time, a new local bank was granted a banking license and started operations in November, 2002. As a consequence, Cambodia's banking system currently consists of 17 banks, comprising one state-owned bank, three foreign bank branches, nine locally incorporated commercial banks and four specialized banks.

91. **The liquidation of nonviable banks is well under way, with 10 banks already completed.** For the remaining five insolvent banks, four banks are under the liquidation process by the court, and one is being liquidated outside the court.

Strengthening bank supervision

92. **Bank supervision is being strengthened on two fronts:** (i) improving various prudential regulations; and (ii) strengthening bank supervision capacity of the NBC. The Central Bank Law of 1996 and the Banking and Financial Institutions Law of 1999 provided an adequate legal framework for bank supervision. These laws were supplemented by a series of regulations issued in early 2000, setting out in greater detail prudential requirements such as capital adequacy requirements, minimum capital, liquidity requirements, limit on large exposures, loan classification and provisioning. Subsequently, these regulations were expanded to cover additional issues such as restrictions on related party lending and acquisition of fixed assets. In February 2002, the prudential regulations were extended to micro-financing institutions (MFIs), and those institutions with operations exceeding certain amounts were required to obtain a license or register at the NBC, and were made subject to liquidity requirements and reserve requirements. More recently, regulations on prompt corrective action, spelling out procedures and disciplinary actions by the NBC against undercapitalized banks have been issued, along with a regulation on standardized procedures for off-site surveillance and on-site inspections, supplemented by detailed manuals for these operations.

93. **The supervision capacity at the Bank Supervision Department (BSD) of the NBC is gradually improving.** The number of staff has been increased from about 40 to 60 in the last two years. In the past, the BSD had relied on international audit firms for conducting on-site inspections of banks to compensate for their limited experience and capacity. With technical assistance from the Asian Development Bank, the NBC is in the process of developing the capacity for off-site and on-site surveillance activities, and has already started to conduct on-site inspections on a limited scale. With the completion of the bank re-licensing process, the NBC is now shifting its emphasis and resources to enhancing supervisory activities.

Restructuring of the Foreign Trade Bank

94. **The FTB was a remnant of the monobank system in the 1980.** It had operated commercial banking functions as a department of the NBC without a banking license and without an independent capital base. To establish a banking system operating on modern principles of good practice, the separation of the FTB from the NBC and the restructuring of the FTB as a fully independent state-owned financial institution operating on commercial basis were seen as essential. The reform of FTB's operation was also critical for its eventual privatization, to complete the transition toward eliminating state involvement in the banking sector.

95. **The FTB was legally separated from the NBC in August 2000, and a Board of Directors was established to provide operational independence.** It completed an external audit (which was substantially qualified given the poor state of the accounts), and received its banking license in December 2000. However, during the transition period, the FTB was still under the NBC ownership who also provided physical assets to satisfy the initial minimum capital requirement of CR10 billion. In June 2001, the NBC issued a central bank note for a full recapitalization of FTB to CR50 billion (US$13 million). To complete the separation of the regulatory function of the NBC and the commercial bank function of the FTB, the Ministry of Economy and Finance issued a recapitalization bond (CR40 billion) to replace the capital provided by the NBC and became the majority shareholder in April 2002. In January 2003, the FTB publicly announced its intention to privatize and to seek out strategic investors with international banking experience willing to run the operation of the FTB in a manner consistent with the broader objectives of financial market development in Cambodia.

96. **Meanwhile, in an effort to introduce a market-oriented business culture, the first outside director with commercial banking experience was appointed to the FTB Executive Board in June 2001.** At the same time, the FTB worked closely with its external auditors to eliminate long-standing problems in their accounts by reconciling outstanding discrepancies and provisioning against unrecoverable bad loans. Although the external audit of their end-2001 accounts remained qualified due to technical reasons, it received an unqualified opinion on a special audit of their financial position at end-March, 2002. With technical assistance being provided by Australia, progress is also under way to modernize the FTB's operations by improving the management information system, developing procedure manuals for key areas such as credit processes and internal audit, computerizing operations, and establishing various training programs for the staff.

Other developments

97. **Progress has also been made in the area of payments system reform.** A clearinghouse for checks denominated in riels has been in operation since 1995. However, there were no such facilities for US dollars, raising concern among banks about the safety of the settlement of their dollar transactions, and posing a serious threat to the development of a sound financial system under the highly dollarized economy.[26] In response, the NBC established a second clearinghouse for checks denominated in US dollars in January 2001, which soon exceeded the first clearinghouse in terms of volume. Both clearing houses operate under strict solvency rules, and the NBC does not assume any risk associated with their operations.

98. **The Law on Negotiable Instruments and Payments Transactions was drafted based on technical assistance provided by the IMF.** The draft law covers all types of payment transactions, and is intended to eliminate legal uncertainties to reduce payment system risk, thereby providing a firm foundation for a modern payment system in Cambodia. The draft law was submitted to the Council of Ministers in June 2002, and is expected to be sent to the National Assembly in 2003.

99. **Cambodia did not have a uniform chart of bank accounts.** As a result, commercial banks were using different accounting standards, hampering effective bank supervision and enforcement of prudential regulations. A draft uniform chart of accounts, compatible with International Accounting Standards, was prepared by the NBC with technical assistance funded by the Asian Development Bank. Commercial banks were asked to provide their comments, and it is now finalized, for a full implementation by July 2003.

C. Remaining Agenda

100. **The bank re-licensing program has been successful in terms of improving the financial soundness of the banking sector.** In this process, nonviable banks were closed, and the size of the banking system was downsized to a level more in line with the size of the Cambodian economy and the supervisory capacity of the NBC. In response, public confidence in the banking system appears to be gradually improving, as reflected in the 22 percent increase in the deposit base during the first 10 months of the year. The lending activities, however, continue to stagnate. Growth in private sector credit has been virtually non-existent in the past two years, showing serious signs that improving the financial health of the banking sector by itself will not be enough to promote increased financial intermediation.

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[26] The banking system continues to be highly dollarized, with 94 percent of the deposits and 96 percent of the loans denominated in the US dollars. Only a few banks take riel deposits, and the FTB dominates the market with a share of 84 percent. The high degree of dollarization poses a significant challenge for bank supervision, as the lender-of-last-resort function of the NBC will be severely impaired.

Current state of the banking system

101. **The Cambodian Banking System is well capitalized and highly liquid.** Due to the increased minimum capital requirement (US$13 million), banks are well capitalized with average capital adequacy ratios reaching 50 percent. Banks are also very liquid as they carry large amounts of vault cash and keep huge excess reserves at the NBC. The liquid asset ratio (liquid assets to total assets) is close to 60 percent. However, due to the fact that a large proportion of bank assets is held in low-yielding liquid assets, the profitability of the banking sector is low. The return on assets and return on equity are about one percent and three percent, respectively, at end-2001. Although the asset quality of banks' loan portfolio is generally poor, the volume of nonperforming loans stands at a manageable level with the rate of nonperforming loans to total loans declining from around 18 percent in the first quarter of 2000 to 12 percent in September 2002.

Selected Financial Indicators
(In percent)

	2002 Dec.	2001 Dec.	2002 Sep. 3/
Capital adequacy ratio 1/	48.6	59.7	53.4
Liquid asset ratio 2/	57.1	58.9	59.6
Return on assets	0.9	1.0	1.5
Return on equity	2.8	3.2	4.4

Source: Data provided by the National Bank of Cambodia.

1/ Capital (net worth) / risk weighted assets.
2/ Liquid assets / total assets.
3/ Data based on banks' monthly report to the NBC.

102. **Lending activities of the banking sector are quite limited relative to the size of the economy, as well as the size of their deposit base.** Credit to the private sector is 7 percent of GDP, significantly lower than other Asian countries at a comparable stage of development. The size of the loan portfolio is less than a third of their total assets and less than half of their deposit base. The remaining assets consist primarily of cash balances, deposits at overseas banks and placements at the NBC. Loans are mostly short-term, mainly providing import/export financing and working capital to the trade (wholesale, retail) and the service sectors (tourism, hotels). The interest rates charged on these loans are usually very high, with an average spread of 13 to 14 percentage points over the interest rates paid on deposits.

Cambodia: Interest Rates, 1997-2002 1/

(Percent per annum)

	1997	1998	1999	2000	2001				2002		
		Dec.			Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Deposit rates											
Riel savings deposits	7.4	7.5	7.3	5.9	5.1	5.1	3.3	2.6	2.9	2.4	2.3
Foreign currency savings deposits	2.4	2.5	2.2	2.3	2.3	2.2	2.0	1.6	1.5	1.6	1.5
Foreign currency term deposits	3.8	3.9	3.5	3.7	3.9	3.7	3.3	2.7	2.6	2.9	2.9
Lending rates 2/											
Foreign currency loans: rates charged to private enterprises	18.4	17.7	17.3	17.4	17.1	17.0	15.5	15.0	15.0	16.2	17.1

Source: Data provided by the National Bank of Cambodia.

1/ Simple averages of rates reported by the ten commercial banks with the largest deposits.

2/ Virtually all loans to the private sector in Cambodia are denominated in foreign currencies. The recent rise reflects the closing of some banks offering lower lending rates.

103. **Demand for credit by high quality borrowers, such as multinational corporations, is limited, owing to their limited presence in Cambodia and their reliance on internal funds.** This has caused some prominent foreign banks to pull out of Cambodia in response to higher minimum capital requirement. On the other hand, demand in the lower segment, consisting mainly of local small- and medium-sized enterprises (SMEs), seems to be relatively strong.

104. **Most banks are foreign-owned and many of them have limited interest in meeting local financial needs.** Their focus are on providing financial services to their home country customers in Cambodia. Banks are concentrated in the urban areas, and only a few banks have branch offices outside the major cities, leaving most of the rural population with no access to financial services provided by banks.

Improving financial intermediation

105. There are various issues that the authorities have to address in the coming years to improve financial intermediation. These include:

- **Strengthening legal infrastructure to support the enforceability of financial contracts.** Cambodia still lacks key legislation pertaining to commercial activities that are indispensable to providing stability in financial transactions. Commercial Contract Law, Secured Transactions Law, and Commercial Arbitration Law are still in their drafting stage, and are expected to be approved by the Council of Ministers by early 2003. The absence of legal basis for secured transactions makes the present collateral registration system unreliable, thus making it difficult for banks to provide collateral-based lending. Lack of a proper collateral valuation system and cumbersome registration procedures are also inhibiting factors. The weak and inefficient judicial system also raises significant concerns about the fair enforcement of financial contracts and regulations. Banks usually chose not to go to court when they have disputes with borrowers, as it is likely to be more time-consuming, costly and unpredictable. The government must move forcefully with judiciary reform as an integral part of the Governance Action Plan.

- **Improving availability of reliable borrower information and enhancing cost effectiveness.** Few firms produce financial statements, and no common accounting standards are in place, making cash-flow based lending difficult. Some of the local banks assist their clients in keeping records and producing financial statements before making loans. This practice, although beneficial to both parties, increases the administrative cost substantially, and together with the small size of loans, lead to high spreads, which not many small businesses can afford. Recently, the government made substantial progress by passing the Law on Accounting. Although the law is yet to be fully implemented, it requires all firms above a certain size to file a full set of accounts based on the new Cambodian Accounting Standards that are consistent with a subset of International Accounting Standards. It also provides for the establishment of National Accounting Council to be responsible for the oversight of accounting in Cambodia. These promising developments, however, must be accompanied by an effort to substantially increase the number of trained accountants that are so scarce currently.

- **Improving availability of financial services in the rural area.** The rudimentary banking system cannot address the nature of demand from the rural poor mostly engaged in agriculture. To fill the gap, various NGOs, many supported by foreign donors, are operating as MFIs delivering credit and mobilizing savings in the rural area. As of June 2002, the aggregate outstanding microcredit was close to US$42 million (1.2 percent of GDP), and savings mobilized were US$5.6 million. However, the government estimates the total need for microcredit at around US$125 million, indicating that there are still large potential financial needs. The Rural Development Bank (RDB) was established in 1998, with foreign assistance, as a wholesale bank mobilizing funds from the international donor community to be channeled to the MFIs. RDB has a capital base of US$5 million, and negotiated several special financing arrangements with international donors amounting to more than US$20 million. Disbursements, however, are slow, and the total amount of loans outstanding is only US$2.5 million, reflecting the weak capacity of both the RDB and the MFIs. Thus, strengthening the capacity of these institutions is imperative to the promotion of financial development in the rural area. Non-licensed MFIs should be encouraged to convert to licensed MFIs, enabling them to expand their scope of activities and gain access to additional donor funds. Although capacity building through gaining experience in the field will inevitably take time, the RDB, with the financial and technical support from the donor community, can assist the MFIs by providing training facilities or assistance with computerization and record keeping, which are the areas where many MFIs are weak. To complement the limited donor funds, the MFIs should strengthen their deposit taking activities to mobilize savings in rural areas. This, in turn, will require further strengthening of prudential supervision of the MFIs, posing a major challenge for the NBC.

- **Streamlining prudential regulations.** Some of the quantitative prudential regulations such as capital adequacy requirements (20 percent) are set at a high level compared to international standards, constraining, to a varying degree, the lending activities of some of the active banks. Therefore, there is scope to somewhat relax these regulations once supervisory capacity of the NBC is sufficiently upgraded and more effective and targeted supervision is put in place by strengthening off-site and on-site surveillance activities.

Reform of the FTB

106. **The FTB has the potential to become a major player in the Cambodian financial market due to its size and its uniqueness in providing financial services in local currency.** Given the limited interest by the majority of the foreign banks in providing financial services in local currency, the business plan to be formulated by the FTB during its reform process as well as its eventual privatization could have a significant implication to the future development of the banking sector. Identifying a competent manager who is willing to run the FTB in a way conducive to the financial development of Cambodia will be a major challenge.

Strengthening banking supervision

107. **Strengthening the NBC's supervision capacity will become increasingly important as private credit picks up.** Detecting imprudent lending activities and preventing deterioration of the quality of banks' assets will be all the more important given the NBC's limited capacity to serve as a lender-of-last-resort due to the high degree of dollarization in the banking sector. Early introduction and full implementation of the standard chart of accounts by the banks will contribute to increased transparency of banks' operation and should be one of the top priorities. Emphasis should be given to strengthening on-site inspection and enough resources should be allocated to that end. Quality of off-site surveillance activities should be strengthened by improving the analysis of various reports received from the banks, and both the on-site and the off-site team should exchange their information systematically to improve the effectiveness of the supervisory activities.

Other issues

108. **The NBC should start designing the appropriate structure of deposit insurance system (DIS) for possible introduction in the future.** Although it is not a matter of immediate concern, the lack of a deposit insurance system could potentially force banks to hold large amounts of vault cash to prepare for a possible bank run, hindering effective allocation of funds. A well designed and sufficiently funded DIS will promote the use of the banking system and encourage the monetization of the economy. It can also contribute to gradual de-dollarization by introducing different modalities of insurance coverage between domestic and foreign currency deposits.

109. **Providing effective means for banks to manage their liquidity is also one of the issues that should be addressed in the medium term.** The lack of an interbank market, together with the inability of the NBC to provide liquidity to banks to meet temporary liquidity shortages, results in banks maintaining an unusually high level of liquidity. Increasing transparency of banks' operations will contribute to building up mutual confidence among banks and should help establish an interbank market. Although the Central Bank Law provides the legal basis for the NBC to provide rediscount facilities, it cannot do so due to lack of eligible negotiable instruments such as bills of exchange and promissory notes. The Law on Payment Transactions, expected to

be adopted in 2003, will provide the legal basis for the development of such financial instruments. This, in turn, could lead to the establishment of an interbank repo market.

D. Conclusion

110. **The restructuring of the banking system under the PRGF program was broadly successful.** The financial health of the banks has improved, and public confidence in the banking system is recovering. Lending activities, however, continue to stagnate. Improving financial intermediation by creating an environment conducive to the promotion of financial transactions should be the focus of bank regulators in the coming years. Legal infrastructure needs to be strengthened to improve enforceability of financial contracts. Availability of accurate borrower information must be improved by strengthening various accounting regulations; access to financial services in the rural area has to be improved to promote nation-wide economic development, improving the livelihood of the poor. The regulatory and supervisory capacity of the NBC should continue to be strengthened in line with the increasing activities of the banks to ensure sound development of the financial sector. All these will inevitably take time to fully implement, but they are essential to achieving a sustainable economic growth led by the private sector.

V. The External Sector: Recent Performance and Prospects[27]

111. **The rapid expansion of garment exports and tourism receipts since the mid-1990s has contributed greatly to the integration of Cambodia's economy with the region and the rest of the world.** Foreign direct investment played an important role in this development, although the contribution in terms of value added was less notable owing to the high import content of garment exports. Given the low capital stock and skill level, foreign direct investment is expected to continue to play an important role in the future. Accordingly, improving the investment climate, including the rebuilding of the infrastructure severely damaged by the civil war, would be key in ensuring sustainable economic development.

112. **This Chapter reviews external sector developments, mainly focusing on the 1999-2002 period,** during which the Fund provided support under a PRGF arrangement. Section A will discuss actual performance compared to policy targets, while section B will focus on developments of leading industries, in particular the garment sector. Section C will discuss the challenges that Cambodia's external sector is facing. Section D will touch upon the expected role of foreign direct investment and section E will conclude.

A. External Sector Developments

Developments during the 1990s

113. **Prior to the mid-1990s, the export base was very small, with forestry products accounting for about 85 percent of total domestic exports.**[28] Re-exports were larger than

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[27] Prepared by Sumio Ishikawa (ext. 38312).

domestic exports until the expansion of the garment sector that was driven by foreign investors attracted by the U.S. granting Normal Trade Relations (NTR) status to Cambodia. Service receipts also improved considerably as the emergence of the tourism industry since the mid 1990s was made possible by improved stability, safety, and security in the country. Imports, on the other hand, rose dramatically reflecting developments in official aid flows (about US$300 million annually during 1994-96), foreign direct investment (about US$200 million annually during 1995-97) and garment exports. The current account deficit increased from 9 percent of GDP in 1993 to 17 percent of GDP in 1995, reflecting a surge in imports tied to aid inflows, but gradually declined to 7 percent of GDP in 1998 with the increase of garment exports. Gross international reserve rose from 1½ month of imports in 1994-95 to about 3½ months of imports in 1998.

114. **In 1995, Cambodia agreed with Paris Club creditors to reschedule the maturities of its external debt falling due from January 1995 to June 1997 on Naples terms.** In addition, the government was cautious regarding contracting external non-concessional borrowing. New debt during this period was largely limited to international financial institutions, including the IMF (PRGF: about US$40 million, approved in May 1994), the World Bank (e.g., Economic Rehabilitation Credit: US$40 million committed in September 1995), and the Asian Development Bank (e.g., Agricultural Sector Program Loan: US$30 million in July 1996).

Developments during 1999-2002

115. **During the 1999-2002 period, the authorities' reform efforts were supported by a PRGF arrangement.** The government committed to continue an outward-oriented growth strategy, recognizing that such a strategy would best allow Cambodia to realize its development potential, a policy which the government had already committed to in the earlier Policy Framework Paper, 1995-97.

116. **Cambodia joined the Association of Southeast Asian Nations (ASEAN) in April 1999, to accelerate its integration into the regional and world economy.** Under the attendant ASEAN Free Trade Agreement (AFTA), Cambodia has committed to reducing tariff rates on imported goods from other ASEAN members to 0-5 percent by 2010. The government has also made strides toward membership in the World Trade Organization (WTO) since the establishment of the WTO Accession Working Party on Cambodia in December 1994. Key steps in the WTO accession process were: (i) the submission of a Memorandum on Cambodia' s Foreign Trade Regime in June 1999; (ii) the release in January 2001 of the replies to WTO members' questions on the Memorandum and ; (iii) the holding of Working Party meetings in May 2001, February 2002, and November 14, 2002, which advanced decisively the accession process. As a result, the WTO Secretariat is scheduled to prepare the Working Party's report for the Spring 2003 meeting, which is expected to pave the way for Cambodia's membership by September 2003.

117. **Significant steps have also been taken to further liberalize the trade and exchange rate regimes.** To that end, the government took the following steps to reform the tariff regime. In

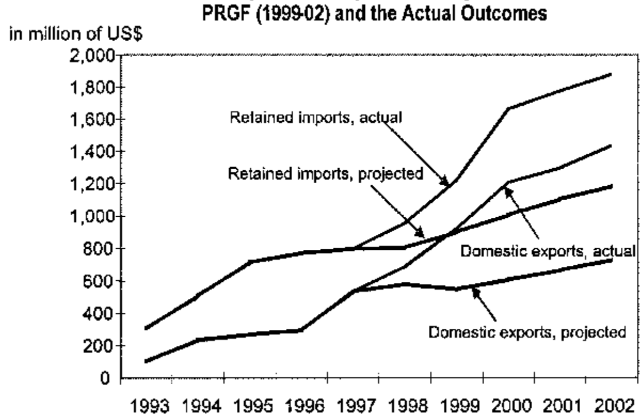
[28] Export, excluding re-exports.

July 2001: (i) the maximum tariff rate was reduced to 35 percent; (ii) the number of tariff rates was reduced to four; and (iii) the unweighted average tariff rate was lowered to about 16.5 percent. The second phase of tariff restructuring involving the reduction of the unweighted average tariff rate to below 15 percent is now expected to take place in mid-2003. In addition, the conversion of the tariff classification to the new eight-digit ASEAN harmonized tariff nomenclature (AHTN) is underway, as a requirement under AFTA, which would in turn affect the unweighted average tariff rate. The government has also confirmed the liberalized nature of their exchange and payments system through the acceptance of the obligations of the Fund's Article VIII, Section 2,3, and 4 in January 2002.

118. **The initial growth projections of domestic exports under the PRGF-supported program in 1999 provided for a slowdown of domestic exports** to about 6 percent on average during 1998-02, while the projected growth of retained imports[29] was expected to be about 10 percent. Accordingly, the current account deficit (excluding official transfers) was expected to widen from 9 to 12-13 percent of GDP during 1999-2002. Export growth was expected to slow down as a result of garment quota restrictions imposed by the United States in early 1999, while exports of log and sawn timber was also expected to decline, reflecting the government's strong commitment to forestry reform.

119. **Balance of payments outcomes during 1999-2002, however, were more favorable than envisaged under the program.** This performance largely stemmed from a higher-than-anticipated growth of exports and larger tourism receipts. Exports increased by 20 percent per annum on average. In particular, the share of garment exports to total domestic exports increased from 70 percent to 87 percent during 1999-2002. Tourism receipts have accelerated markedly, with the 2002 outcome expected to be three times larger than initial program projections. Although imports rose more rapidly than programmed, the current account deficit (excluding official transfers) was about 9 percent of GDP on average during 1999-02, much less than envisaged under the program.

Cambodia: Exports and Imports-the Projections under the PRGF (1999-02) and the Actual Outcomes



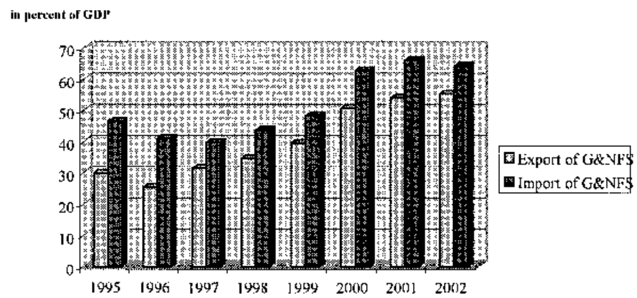
Sources: The Cambodian authorities; and staff estimates

120. **The role of trade in the economy expanded significantly during 1999-2002.** Exports of goods and services increased to 55 percent of GDP in 2002 from 40 percent in 1999, and retained imports rose to 64 percent of GDP in 2002 from 48 percent in 1999. The garment and tourism industries contributed about 3 percent and ½ percent, respectively, to the average GDP growth of

[29] Imports excluding imports for re-exports.

about 6 percent during 1999-02. The importance of these two industries in pulling the economic recovery has increased markedly compared to the 1994-98 period, when average GDP growth was 5 percent, while the contribution from the garment and tourism industry was 1 percent and about ⅓ percent, respectively.

Cambodia: The Role of Trade in the Economy



Source: The Cambodian authorities and staff estimates

121. **Significant changes in the direction of trade for both exports and imports have taken place since 1998.** The share of exports to the U.S. has increased significantly, from 31 percent of total exports in 1998 to 64 percent in 2001. This expansion reflects soaring garment exports to the U.S. In contrast, exports to ASEAN countries decreased from 42 percent of total exports in 1998 to 6 percent in 2001. However, imports from the ASEAN region have increased dramatically from 26 percent in 1998 to 72 percent in 2001. This development may reflect the predominance of foreign direct investments from other ASEAN countries.

Cambodia: Directions of Trade, 1998 and 2001
(in percent of total)

	1998	2001		1998	2001
Total Exports	**100**	**100**	**Total Imports**	**100**	**100**
Industrial countries	**47**	**91**	**Industrial countries**	**29**	**5**
o/w United States	31	64	o/w United States	3	1
United Kingdom	3	10	Japan	6	1
ASEAN	**42**	**6**	**ASEAN**	**26**	**72**
o/w Singapore	**14**	**2**	o/w Singapore	0	27
Thailand	8	1	Thailand	15	35
Vietnam	19	2	Vietnam	8	8
Other	**11**	**3**	**Other**	**45**	**24**
o/w China	5	1	o/w China	8	6
Hong Kong SAR	3	0	Hong Kong SAR	12	8

Source: Direction of Trade, IMF.

122. **Despite lower current account deficits during 1999-2002, the increase in gross official reserves was broadly in line with program projections**, partly reflecting lower than anticipated inflows in foreign direct investment since 2001. Given the limited capacity of the government to service its debt obligations, the government has prohibited the contracting or guaranteeing of any nonconcessional borrowing. Concessional borrowing was closely monitored and disbursements of medium- and long-term loans were broadly in line with the expectations. The bulk of disbursements during 1998-2001 was provided on a concessional basis by multilateral financial institutions (IMF, World Bank, and Asian Development Bank). While finalization of outstanding debt rescheduling agreements with the Russian Federation and the U.S. has still not been completed, progress has been made toward resolving outstanding issues.

B. Industries that led the External Sector

123. **Cambodia's external sector is led by the garment industry, followed by the tourism industry.** Garment exports have increased by 35 percent on average from 1998 to 2002, while total domestic exports rose by 17 percent. As a result, the share of garment exports in total domestic exports reached about 85 percent in 2002. Tourism receipts increased more rapidly than garment exports during the same period, but are still only about ¼ of the value of garment exports. Accordingly, at least over the short term, the sustainability of Cambodia's growth and balance of payment viability depends critically on these two industries.

124. **Although garment exports started in 1994, mainly to the EU market, exports to the U.S. have increased substantially since 1997, exceeding exports to the EU in 1998.**[30] This expansion directly stemmed from the change of the U.S. trade policy toward Cambodia, with the granting of the Normal Trade Relations (NTR) status to Cambodia in 1996. As a result, foreign investors were attracted to Cambodia to benefit from a reduced tariff, and without quota restrictions. The improved US trade policy toward Cambodia also facilitated foreign direct investment inflows to Cambodia, especially in the garment sector in 1997 and 1998, leading to a 70 percent average increase in garment exports during 1997-1999.

125. **Faced with the rapid increase in Cambodia's garment exports, the U.S. imposed quota restrictions on 12 categories of garment products under the US-Cambodia Textile Agreement of 1999-2001.** These increased restrictions, however, have led to an increase in non quota exports of Cambodia's garment products to the U.S. The quota agreement provided for an automatic 6 percent increase, plus an additional increase of up to 14 percent linked to a review of labor conditions in Cambodia; additional quota increases of 9 percent were granted in both 2001 and 2002. While the growth of garment exports subject to quota stabilized at about 15 percent per annum during 1999-2001, non-quota exports expanded at an average annual rate of 100 percent, during the same period. The U.S.-Cambodia Textile Agreement has been extended for the period 2002 to 2004 under a 6 percent automatic increase and an additional increase up to 18 percent.

126. **The growth of non-quota garment exports, however, declined substantially in 2002.** Cambodia's non-quota garment exports to the U.S. remained at the 2001 level during the first three quarters of 2002, while quota garment exports increased by 11 percent. In volume terms, non-quota exports to the U.S. increased only by 17 percent during the first three quarters of 2002, far below the 92 percent increase in 2001. This downward trend was evident across the product range (e.g., dresses, skirts, dressing gowns, nightwears, and other apparel including overalls, coveralls, and swimwear). This lower growth reflects loss of market share for all non-quota products, except nightwear. Regarding the other products, other countries have increased their market shares at the expense of Cambodia.[31] Vietnam has also been able to rapidly expand its

[30] The EU allows duty free access if the rule of origin requirement is observed.

[31] India and Pakistan are large exporters to the U.S. for dresses, Mexico and India for skirts, Mexico and China for overalls and coveralls, and Mexico, the Dominican Republic, and Canada for swimwear.

production in this area--although its market shares in most of these products are still relatively small--owing to the 2000 Bilateral Trade Agreement between the U.S. and Vietnam, which paved the way for Vietnamese garment producers to export to the U.S. market at NTR tariff rates and without quota restrictions.

Cambodia: Garment Export to the United States

(Percent change; unless otherwise indicated)

	2000	2001	Market Share 1/	2002 Q1-Q3	Market Share 1/
Export growth, in value	28.4	26.8		6.2	
Quota products	19.8	7.7		10.7	
Non-quota products	175.9	71.4		-0.2	
Export growth, in volume					
Quota products		46.6		21.3	
Non-quota products		91.6		16.9	
336/636 Dresses		51.4	4.5	-41.2	2.8
342/642 Skirts		49.0	6.8	-6.4	5.7
350/650 Dressing Gowns		260.4	5.0	6.6	4.2
351/651 Clotton and MMF Night		142.3	12.6	56.4	18.1
359/659 Other apparels, (including overalls, coveralls, and swimwear)		26.4	4.1	-19.3	2.8

Sources: The Office of Textiles and Apparel, U.S. Department of Commerce; and staff estimates.
1/ Cambodia's shares in U.S. imports for each product.

C. Challenges for the External Sector

127. **Improving competitiveness is an immediate challenge for Cambodia's garment industry.** Under the WTO Agreement on Clothing and Textiles, quota restrictions for textiles and apparels among WTO members will be phased out in 2005. Future market shares will be contingent on the competitiveness of individual exporting countries. For example, China, as a member of the WTO, has considerable potential to expand its garment exports to the U.S. after 2005, thus potentially affecting Cambodia's market share. Garment industry representatives indicated that Cambodia's costs would need to be reduced by about 15-20 percent to meet this challenge. Some investors have already relocated their garment factories outside Cambodia, possibly out of the competitiveness concern, as evidenced by the decline in the number of garment factories from a peak of 190 in 2000 to 186 in October 2002.

128. **Further efforts are therefore required to strengthen the cost competitiveness of Cambodia's garment industry.** The role of the exchange rate policy is limited, however, due to the highly dollarized economy. Cambodia's garment wages (minimum of US$45 a month and average of US$61 a month) are higher than those in many of its neighboring countries. Moreover, average wages in the non-garment formal sector are reported to be higher, around $80 a month. In addition, Cambodia has generous labor benefits, such as 100 percent supplementary pay for overtime, long annual leave, and about 26 official paid holidays per year. Cambodia's electricity tariff is regarded as relatively high, although an international comparison is difficult. Cambodia's electricity tariff for commercial and industrial consumers ranges from Riel 480/kWh (US$0.12) to

Riel 650/kWh (US$0.16), while electricity tariffs for other ASEAN countries, such as Thailand, Malaysia, the Lao P.D.R., and Vietnam, range from US$0.04/kWh to US$0.08/kWh.

129. **The lack of adequate infrastructure is also emphasized by the business community as a major obstacle toward investment.** As for telecommunications, Cambodia has only 2 telephone mainlines per 1000 people, as against 112 in China, 8 in the Lao P.D.R., 92 in Thailand, and 32 in Vietnam. Paved roads account for only 16 percent of the total road network in Cambodia, compared with 22 percent for China (with a huge land mass), 98 percent for Thailand, and 25 percent for Vietnam.

130. **A discretionary and unpredictable investment regime is regarded as another obstacle toward investment.** The discretionary nature of the existing regime has given rise to hidden bureaucratic costs, and facilitation fees, which, together with the low quality of public services, are significant investment disincentives.

131. **Cambodia's garment and tourism industries rely extensively on imports. Imported materials account for about 55-65 percent of the garment industry's exports.** In the tourism sector, up to 75 percent of each tourist dollar is estimated to be returned to Thailand and Vietnam to import fresh vegetables, fruit, flowers, handicrafts, paper products, and furniture. The authorities recognize that to reduce this high dependence on imports further efforts are needed to develop supporting industries, which would in turn create new employment opportunities, generate additional income to the economy, and help reducing poverty.

132. **Reversing the declining trend in non-garment exports through export diversification will be a challenge over the long term.** Even excluding exports of logs and timber (which have declined sharply since 1999, due to the forestry reform program), domestic non-garment exports increased only marginally (by 3 percent), highlighting a serious competitiveness problem and/or difficulties in accessing global markets.

D. The Role of Foreign Financing

133. **Foreign direct investment has declined to US$95 million in 2001 from about US$150 million annually during 1997-99.** However, reversing this decline and attracting continued inflows of foreign direct investment in the garment and tourism industry are critical to Cambodia's development. These industries are likely to remain the engine of economic growth for the foreseeable future. Achieving a broader growth base would also require foreign direct investment into other industries, including supporting industries for garment and tourism.

134. **Reducing tariff rates under AFTA will encourage foreign direct investment from other ASEAN countries.** Cambodia's continuing Generalized System of Preference (GSP) status could be an incentive for foreign investors to come to Cambodia. There are indications that new industries are emerging, (e.g., shoes, fabric). In this vein, further effort to foster an attractive investment environment, such as passing the Investment Law, moving more forcefully to reduce facilitation fees, improving infrastructure, facilitating trade through improved customs administration, and improving markets access by joining the WTO, will be very important in the period ahead.

135. **External financing has been limited to grants, foreign direct investment, and loans from multilateral financial institutions.** Bilateral creditors, however, have also started providing concessional loans to Cambodia. As the economic integration within the region and the world is intensified, bilateral creditors are likely to increase lending to Cambodia. However, it will be crucial for Cambodia to maintain a sustainable debt dynamic over the medium and long term. An early resolution of debt restructuring both with the Russian Federation and the United States will be critical in this regard.

E. Conclusion

136. **Overall, Cambodia's external sector developments since the mid 1990s have been broadly favorable.** The country's outward-oriented growth strategy has started to bear fruit. The volume of external trade has substantially increased over the past decade, and to a certain extent, Cambodia's integration into the regional and world economy has been intensified. The government succeeded in joining the ASEAN in 1994, and aims to join the WTO in 2003. Progress in liberalizing the trade regime has also been made.

137. **External sector developments, however, have been narrowly based on the garment and tourism industries.** The garment industry is expected to encounter a major change in external competition in 2005, as a result of the phasing out of the quota policy under the WTO Agreement on Clothing and Textiles. Therefore, further improvements in cost competitiveness are needed to ensure that Cambodia's garment industry can withstand this change. Also, efforts to diversify export industries and to develop supporting industries for garment and tourism will be crucial for fostering external sector sustainability. These efforts in turn will also contribute toward creating job opportunities and reducing poverty.

138. **Foreign financing, including foreign direct investments and foreign loans, will be essential in accomplishing the above objectives.** Foreign direct investment would be attracted more widely and rapidly to Cambodia if cost competitiveness was strengthened and the infrastructure and investment regimes were improved. An early resolution of outstanding external debt issues with the U.S. and the Russian Federation would also help to pave the way for additional foreign lending.

Cambodia: Basic Data, 1996–2002

	1996	1997	1998	1999	2000	2001	2002 Est.
Population							
Total population (mid-year)	11.0	11.6	12.2	12.5	12.8	13.1	13.4
Population growth rate (annual percentage change)	5.4	5.5	4.7	2.6	2.6	2.5	2.0
Income							
Gross domestic product (GDP; at current prices)							
(in billions of riels)	8,886	9,778	11,364	12,587	12,932	13,357	14,377
(in millions of U.S. dollars)	3,386	3,319	3,011	3,300	3,351	3,404	3,663
(in U.S. dollars; per capita)	307	285	247	264	261	259	273
			(Annual percentage change)				
Real GDP, *of which:*	4.6	4.3	2.1	6.9	7.7	6.3	4.5
Agriculture, fisheries, and forestry	2.3	5.5	3.0	0.0	-0.3	3.9	-1.7
Industry	9.9	21.3	7.3	13.2	34.6	15.5	9.3
Services	3.6	-2.6	0.7	7.1	5.8	2.7	3.4
			(In percent of GDP)				
Saving-investment balance							
Gross national saving	7.9	13.2	9.1	13.6	9.2	12.7	13.7
Government	-1.2	0.6	-0.3	1.6	1.5	1.2	0.9
Nongovernment	9.1	12.5	9.4	12.0	7.7	11.5	12.8
Gross investment	13.6	14.3	11.3	15.9	13.5	17.9	16.6
Government	6.6	4.5	5.3	5.7	6.7	7.2	7.7
Nongovernment	7.0	9.8	6.1	10.2	6.8	10.7	8.9
			(Annual percentage change)				
Inflation							
Period average	7.1	8.0	14.8	4.0	-0.8	0.2	3.2
End of period	10.0	9.2	13.3	-0.5	-0.8	0.7	3.7
GDP deflator	4.7	5.5	13.8	3.7	-4.6	-2.9	3.0
			(In percent of GDP)				
General Government budget							
Total revenue, *of which:*	8.4	9.0	8.3	10.6	11.2	11.7	12.1
Tax revenue	6.0	6.1	6.0	7.7	8.2	8.4	8.5
Nontax revenue	2.0	2.8	2.0	2.8	2.8	3.2	3.5
Total expenditure, *of which:*	16.2	12.9	13.8	14.7	16.4	17.7	18.9
Current expenditure	9.1	8.3	8.3	8.9	9.5	10.4	11.1
Capital expenditure	7.1	4.6	5.5	5.8	6.9	7.3	7.8
Overall fiscal balance (including grants)	-1.8	-0.4	-2.5	-1.3	-2.3	-3.1	-3.3
			(Annual percentage change)				
Money and credit							
Broad money, *of which:*	40.5	16.6	15.7	17.3	26.9	20.4	26.8
Riel in circulation 1/	7.6	6.1	14.4	-1.5	0.3	4.5	7.5
Foreign currency deposits 1/	32.2	9.9	0.1	17.3	25.4	16.0	17.3
Credit to the economy 1/	18.6	14.2	13.4	3.0	2.0	-2.0	0.4
Of which: credit to government (net) 1/	-3.1	-8.1	11.7	-6.1	-6.9	-4.3	-0.9
			(In percent; end of period)				
Interest rates							
Riel savings deposits	8.8	7.4	7.5	7.3	5.9	2.6	2.3
Foreign currency loans	18.6	18.4	17.6	17.3	17.4	15.0	17.1
			(In percent of GDP)				
Balance of payments							
Current account balance (excluding official transfers)	-14.5	-7.4	-8.7	-8.9	-12.3	-13.4	-10.7
Current account balance (including official transfers)	-5.7	-1.1	-2.2	-2.3	-4.3	-5.3	-2.9
Exports of goods 2/	8.7	16.1	22.7	27.9	36.0	38.1	39.1
Imports of goods 2/	22.8	24.0	31.7	36.9	49.7	52.2	51.3
			(In millions of U.S. dollars; unless otherwise indicated)				
Foreign exchange reserves							
Gross official reserves 3/	234	262	390	422	485	550	642
(in months of imports of goods and services)	2.1	2.5	3.6	3.2	2.8	2.9	3.3
Net international reserves 3/	164	197	323	349	411	470	549
External debt							
Outstanding debt (in percent of GDP) 4/	18.2	61.8	67.9	68.7	67.6	66.2	65.6
Debt service (in millions of U.S. dollars)	138.0	124.0	124.0	125.5	129.3	54.4	56.2
(in percent of exports of goods and services)	28.0	23.0	14.2	11.1	8.5	3.3	3.0
			(In millions of SDRs)				
Fund quota	65.0	65.0	65.0	87.5	87.5	87.5	87.5
			(In riels per U.S. dollar)				
Exchange rate							
Period average	2,624	2,946	3,774	3,813	3,859	3,924	3,925
End of period	2,713	3,452	3,780	3,775	3,910	3,900	3,935

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

1/ As a percent of beginning broad money stock. Represents contributions to 12-month changes of broad money.
2/ Excluding re-exports.
3/ Including gold holdings.
4/ Starting in 1997, includes $1,346 million owed to countries of the former *Council of Mutual Economic Assistance*. This amount is indicative and subject to negotiations and rescheduling.

Table 1. Cambodia: Gross Domestic Product by Sector at Current Prices, 1997-2001

	1997	1998	1999	2000	2001
	(In billions of riels; at current prices)				
Agriculture	4,502	5,204	5,385	4,935	4,930
Crops	2,079	2,416	2,495	2,340	2,286
Of which: Paddy rice	1,269	1,505	1,553	1,312	1,295
Livestock and poultry	561	677	824	737	799
Fisheries	1,229	1,492	1,610	1,561	1,564
Forestry and logging	633	619	456	297	281
Industry	1,483	1,832	2,152	2,690	2,924
Mining	14	15	17	19	24
Manufacturing	993	1,344	1,485	1,996	2,101
Food, beverages, and tobacco	330	390	420	399	383
Textile, wearing apparel, and footwear	305	507	717	1,251	1,427
Wood, paper, and publishing	148	224	93	88	28
Rubber manufacturing	37	33	32	32	28
Other manufacturing	174	191	224	226	235
Electricity, gas, and water	41	47	43	43	57
Construction	435	425	606	631	743
Services	3,380	3,859	4,343	4,591	4,711
Trade	1,182	1,305	1,406	1,343	1,333
Hotels and restaurants	279	314	393	469	534
Transport and communications	570	638	779	875	941
Finance	98	100	129	175	138
Public administration	305	333	389	377	369
Real estate and business	601	732	764	826	852
Other services	346	436	484	526	543
Taxes on products less subsidies	537	594	865	870	920
Less: imputed bank charges	123	124	157	155	128
Gross domestic product (GDP)	9,778	11,364	12,587	12,932	13,357
	(In percent of GDP)				
Agriculture	46.0	45.8	42.8	38.2	36.9
Crops	21.3	21.3	19.8	18.1	17.1
Of which: Paddy rice	13.0	13.2	12.3	10.1	9.7
Livestock and poultry	5.7	6.0	6.5	5.7	6.0
Fisheries	12.6	13.1	12.8	12.1	11.7
Forestry and logging	6.5	5.4	3.6	2.3	2.1
Industry	15.2	16.1	17.1	20.8	21.9
Mining	0.1	0.1	0.1	0.1	0.2
Manufacturing	10.2	11.8	11.8	15.4	15.7
Food, beverages, and tobacco	3.4	3.4	3.3	3.1	2.9
Textile, wearing apparel, and footwear	3.1	4.5	5.7	9.7	10.7
Wood, paper, and publishing	1.5	2.0	0.7	0.7	0.2
Rubber manufacturing	0.4	0.3	0.3	0.2	0.2
Other manufacturing	1.8	1.7	1.8	1.8	1.8
Electricity, gas, and water	0.4	0.4	0.3	0.3	0.4
Construction	4.4	3.7	4.8	4.9	5.6
Services	34.6	34.0	34.5	35.5	35.3
Trade	12.1	11.5	11.2	10.4	10.0
Hotels and restaurants	2.9	2.8	3.1	3.6	4.0
Transport and communications	5.8	5.6	6.2	6.8	7.0
Finance	1.0	0.9	1.0	1.4	1.0
Public administration	3.1	2.9	3.1	2.9	2.8
Real estate and business	6.1	6.4	6.1	6.4	6.4
Other services	3.5	3.8	3.8	4.1	4.1
Taxes on products less subsidies	5.5	5.2	6.9	6.7	6.9
Less: imputed bank charges	1.3	1.1	1.3	1.2	1.0
Gross domestic product (GDP)	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Ministry of Planning, National Institute of Statistics (NIS).

Table 2. Cambodia: Gross Domestic Product by Sector at Constant Prices, 1997-2001

	1997	1998	1999	2000	2001
	(In billions of riels; at constant 1993 prices)				
Agriculture	3,774.1	3,887.8	3,888.3	3,876.1	4,025.7
Crops	1,331.4	1,354.1	1,533.1	1,589.1	1,592.3
Of which: Paddy rice	773.4	794.9	915.1	911.8	928.3
Livestock and poultry	554.7	588.3	583.4	539.1	590.9
Fisheries	1,410.4	1,467.9	1,446.3	1,528.7	1,632.1
Forestry and logging	477.7	477.4	325.6	219.3	210.3
Industry	1,291.7	1,385.9	1,569.1	2,111.6	2,439.3
Mining	11.6	11.8	12.7	13.6	14.9
Manufacturing	915.6	1,056.4	1,151.5	1,665.5	1,954.0
Food, beverages, and tobacco	249.4	253.0	262.6	273.6	279.6
Textile, wearing apparel, and footwear	309.0	452.6	636.6	1,141.0	1,446.7
Wood, paper, and publishing	192.1	178.2	70.4	55.9	16.8
Rubber manufacturing	31.7	35.9	36.2	37.0	33.6
Other manufacturing	133.4	136.7	145.8	157.9	177.3
Electricity, gas, and water	36.4	37.8	39.2	40.7	41.8
Construction	328.1	279.9	365.7	391.8	428.6
Services	2,733.4	2,751.5	2,946.0	3,115.7	3,200.2
Trade	921.3	891.5	909.2	900.7	906.8
Hotels and restaurants	266.7	263.8	315.3	357.1	391.1
Transport and communications	401.9	398.7	456.8	494.3	535.5
Finance	76.2	69.0	82.6	117.2	96.2
Public administration	260.7	278.1	274.8	272.6	273.5
Real estate and business	510.6	530.7	550.6	573.4	591.2
Other services	296.0	319.7	356.6	400.5	406.0
Taxes on products less subsidies	433.1	376.5	587.5	570.0	593.1
Less: imputed bank charges	89.0	83.3	101.8	103.8	87.1
Gross domestic product (GDP)	8,143.3	8,318.3	8,889.1	9,569.7	10,171.2
	(Annual percent change)				
Agriculture	5.5	3.0	0.0	-0.3	3.9
Crops	-2.0	1.7	13.2	3.6	0.2
Of which: Paddy rice	-1.2	2.8	15.1	-0.4	1.8
Livestock and poultry	-0.1	6.1	-0.8	-7.6	9.6
Fisheries	5.7	4.1	-1.5	5.7	6.8
Forestry and logging	44.3	-0.1	-31.8	-32.7	-4.1
Industry	21.3	7.3	13.2	34.6	15.5
Mining	0.1	1.4	8.0	7.1	9.4
Manufacturing	36.3	15.4	9.0	44.6	17.3
Food, beverages, and tobacco	1.7	1.4	3.8	4.2	2.2
Textile, wearing apparel, and footwear	128.0	46.5	40.6	79.2	26.8
Wood, paper, and publishing	61.6	-7.2	-60.5	-20.6	-69.9
Rubber manufacturing	3.7	13.2	0.7	2.4	-9.4
Other manufacturing	-5.7	2.5	6.6	8.3	12.3
Electricity, gas, and water	1.6	3.7	3.8	4.0	2.5
Construction	-5.2	-14.7	30.6	7.1	9.4
Services	-2.6	0.7	7.1	5.8	2.7
Trade	-1.5	-3.2	2.0	-0.9	0.7
Hotels and restaurants	5.0	-1.1	19.5	13.3	9.5
Transport and communications	-12.6	-0.8	14.6	8.2	8.3
Finance	3.6	-9.5	19.7	41.9	-18.0
Public administration	3.5	6.7	-1.2	-0.8	0.3
Real estate and business	2.7	3.9	3.7	4.1	3.1
Other services	-11.2	8.0	11.5	12.3	1.4
Taxes on products less subsidies	5.0	-13.1	56.1	-3.0	4.0
Less: imputed bank charges	65.6	-6.4	22.2	1.9	-16.1
Gross domestic product (GDP)	4.3	2.1	6.9	7.7	6.3
(Excluding garment)	2.1	0.4	4.9	2.1	3.5
(Excluding garment and agriculture)	-0.8	-2.0	9.7	4.3	3.2
(Excluding garment and tourism)	2.0	0.5	4.4	1.7	3.2

Source: Ministry of Planning, National Institute of Statistics (NIS).

Table 3. Cambodia: Aggregate Demand at Current Prices, 1997-2001

	1997	1998	1999	2000	2001
			(In billions of riels; at current prices)		
Consumption	9,288	10,876	11,744	11,662	11,837
Private	8,735	10,312	11,083	10,925	11,033
Government	553	563	661	737	804
Gross Investment	1,395	1,286	1,996	1,743	2,391
Gross fixed capital formation	1,274	1,384	1,814	1,957	2,126
Changes in inventories	122	-98	181	-214	265
Domestic demand	10,683	12,162	13,740	13,406	14,228
Foreign balance (net)	-764	-1,028	-1,100	-1,542	-1,607
Exports of goods and services 1/	2,881	3,933	4,989	6,563	7,212
Imports of goods and services 1/	3,645	4,961	6,089	8,105	8,819
Statistical discrepancy	-141	230	-52	1,068	745
Gross domestic product (GDP)	9,778	11,364	12,587	12,932	13,365
Income from abroad (net) 1/	-138	-180	-294	-318	-467
Gross national income (GNI) 1/ 2/	9,640	11,183	12,293	12,614	12,898
Current transfers (net) 1/	794	959	1,107	1,305	1,362
Gross national disposable income (GNDI) 1/	10,435	12,142	13,400	13,918	14,260
			(In percent of GDP)		
Memoranda items:					
Domestic demand 3/	107.8	109.0	108.7	111.9	112.0
Consumption 3/	93.5	97.7	92.9	98.4	94.1
Private 3/	87.9	92.8	87.6	92.7	88.1
Government	5.7	5.0	5.3	5.7	6.0
Gross Investment	14.3	11.3	15.9	13.5	17.9
Foreign balance (net)	-7.8	-9.0	-8.7	-11.9	-12.0
Current account balance (including official transfers)	-1.1	-2.2	-2.3	-4.3	-5.3
Gross domestic savings 4/	3.8	3.3	5.8	8.9	10.6
Gross national savings 5/	13.2	9.1	13.6	9.2	12.7

Source: Ministry of Planning, National Institute of Statistics (NIS).

1/ IMF staff estimates based on latest balance of payments estimates.

2/ Gross national income under the 1997 System of National Accounts (SNA) corresponds to the former Gross national product (GNP) aggregate.

3/ Including statistical discrepancy.

4/ Defined as GDP net of final consumption.

5/ Defined as GNDI net of final consumption. Includes net income and transfers from abroad.

Table 4. Cambodia: Gross Domestic Product by Expenditure at Constant Prices, 1997-2001 1/

	1997	1998	1999	2000	2001
			(In billions of riels; at constant 1993 prices)		
Consumption	7,542	7,684	7,944	8,178	8,409
Private	7,111	7,307	7,546	7,718	7,889
Government	431	377	398	460	520
Gross Investment	1,230	1,031	1,419	1,267	1,590
Gross fixed capital formation	1,115	1,121	1,299	1,401	1,393
Changes in inventories	115	-90	120	-133	197
Domestic demand	8,772	8,715	9,363	9,446	10,000
Foreign balance (net) 1/	-402	-292	-432	233	365
Exports of goods and services 1/	3,015	3,382	3,889	5,310	6,085
Merchandise, f.o.b.	2,551	2,975	3,380	4,609	5,286
Services	463	406	508	701	799
Imports of goods and services 1/	3,416	3,674	4,320	5,077	5,719
Merchandise, c.i.f.	2,949	3,231	3,812	4,424	4,990
Services	468	443	508	654	729
Statistical discrepancy	-227	-105	-42	-109	-189
Gross domestic product (GDP)	8,143	8,318	8,889	9,569	10,176
			(In percent of GDP)		
Consumption 1/	89.8	91.1	88.9	84.3	80.8
Private 1/	84.5	86.6	84.4	79.5	75.7
Government	5.3	4.5	4.5	4.8	5.1
Gross Investment	15.1	12.4	16.0	13.2	15.6
Gross fixed capital formation	13.7	13.5	14.6	14.6	13.7
Changes in inventories	1.4	-1.1	1.3	-1.4	1.9
Domestic demand 1/	104.9	103.5	104.9	97.6	96.4
Foreign balance (net)	-4.9	-3.5	-4.9	2.4	3.6
Exports of goods and services	37.0	40.7	43.7	55.5	59.8
Imports of goods and services	42.0	44.2	48.6	53.1	56.2
Gross domestic product (GDP)	100.0	100.0	100.0	100.0	100.0
			(Annual percentage change)		
Consumption 1/	-5.1	3.6	4.3	2.1	1.9
Private 1/	-5.2	4.6	4.2	1.4	1.2
Government	-4.2	-12.6	5.6	15.5	13.1
Gross Investment	17.8	-16.2	37.6	-10.7	25.5
Gross fixed capital formation	23.7	0.6	15.9	7.8	-0.6
Changes in inventories	-19.7	-177.7	-233.2	-211.6	-248.0
Domestic demand 1/	-2.4	0.8	8.3	0.2	5.1
Foreign balance (net)	-57.6	-27.4	47.9	-153.9	57.1
Gross domestic product (GDP)	4.3	2.1	6.9	7.7	6.3

Source: Ministry of Planning, National Institute of Statistics (NIS).

1/ Including statistical discrepancy.

Table 5. Cambodia: GDP Deflators, 1997-2001

	1997	1998	1999	2000	2001
	(Annual percentage changes)				
Agriculture	4.3	12.2	3.5	-8.1	-3.8
Crops	7.9	14.2	-8.8	-9.5	-2.5
Livestock and poultry	1.8	13.8	22.8	-3.2	-1.1
Fisheries	-1.1	16.6	9.5	-8.3	-6.2
Forestry and logging	9.7	-2.1	8.1	-3.2	-1.4
Industry	0.2	15.1	3.8	-7.1	-5.9
Mining	7.0	9.1	3.7	0.9	17.2
Manufacturing	-2.7	17.3	1.3	-7.1	-10.3
Food, beverages, and tobacco	8.5	16.6	3.7	-8.7	-6.2
Textile, wearing apparel, and footwear	1.0	13.6	0.5	-2.7	-10.0
Wood, paper, and publishing	-18.9	63.3	5.1	19.7	3.6
Rubber manufacturing	-10.4	-21.8	-3.3	-3.3	-3.3
Other manufacturing	11.8	7.0	9.8	-6.5	-7.4
Electricity, gas, and water	-0.3	10.4	-10.0	-4.2	27.8
Construction	9.5	14.6	9.1	-2.8	7.5
Services	10.0	13.4	5.1	0.0	-0.1
Trade	9.1	14.1	5.6	-3.5	-1.4
Hotels and restaurants	8.4	13.9	4.6	5.5	3.9
Transport and communications	22.3	12.8	6.6	3.9	-0.8
Finance	9.1	13.3	7.7	-4.8	-3.5
Public administration	-0.5	2.4	18.0	-2.3	-2.2
Real estate and business	8.9	17.3	0.5	3.9	0.1
Other services	9.7	16.6	-0.5	-3.2	1.8
Taxes on products	5.8	27.3	-6.7	3.7	1.6
Less: imputed bank charges	17.6	8.0	3.5	-3.5	-1.4
Gross domestic product (GDP)	5.5	13.8	3.7	-4.6	-2.8

Source: Ministry of Planning, National Institute of Statistics (NIS).

Table 6. Cambodia: Gross Value Added of Agriculture, Fisheries, and Forestry at Constant Prices, 1997-2001

	1997	1998	1999	2000	2001
	(In billions of riels; at constant 1993 prices)				
Total	3,774	3,888	3,888	3,876	4,026
Agricultural Crops	1,331	1,354	1,533	1,589	1,592
Paddy	773	795	915	912	928
Corn	18	21	40	78	74
Cassava	28	24	39	52	47
Sweet potatoes	10	11	12	12	09
Mung beans	20	12	21	20	27
Soybean	49	24	31	25	33
Groundnuts	11	10	14	11	12
Sesame	07	06	08	11	10
Vegetables	129	158	156	156	149
Sugarcane	22	16	19	25	19
Black pepper	...	...	...	...	...
Tobacco	19	19	12	11	14
Cotton	...	...	...	...	...
Jute	01	01	0	0	0
Rubber	69	78	79	81	73
Other crops	174	180	187	195	197
Livestock and poultry	555	588	583	539	591
Fisheries	1,410	1,468	1,446	1,529	1,632
Forestry and logging	478	477	326	219	210
	(In percent of total production)				
Total	100.0	100.0	100.0	100.0	100.0
Agricultural Crops	35.3	34.8	39.4	41.0	39.6
Paddy	20.5	20.4	23.5	23.5	23.1
Other crops	14.8	14.4	15.9	17.5	16.5
Livestock and poultry	14.7	15.1	15.0	13.9	14.7
Fisheries	37.4	37.8	37.2	39.4	40.5
Forestry and logging	12.7	12.3	8.4	5.7	5.2
	(Annual percentage change)				
Total	5.5	3.0	0.0	-0.3	3.9
Agricultural Crops	-2.0	1.7	13.2	3.6	0.2
Paddy	-1.2	2.8	15.1	-0.4	1.8
Other crops	-3.0	0.2	10.5	9.6	-2.0
Livestock and poultry	-0.1	6.1	-0.8	-7.6	9.6
Fisheries	5.7	4.1	-1.5	5.7	6.8
Forestry and logging	44.3	-0.1	-31.8	-32.7	-4.1

Source: Ministry of Planning, National Institute of Statistics (NIS).

Table 7. Cambodia: Agriculture, Livestock, and Fishery Production, 1997–2001

	Unit ('000)	1997	1998	1999	2000	2001
Agriculture 1/						
Rice	Tons	3,415	3,510	4,040	4,026	4,099
Maize	Tons	42	49	95	183	186
Cassava	Tons	77	67	228	145	142
Sweet potato	Tons	29	30	32	35	26
Vegetables	Tons	250	217	182	166	185
Mungbean	Tons	15	9	16	15	17
Peanut	Tons	7	7	9	7	7
Soybean	Tons	56	28	35	28	28
Sesame	Tons	7	5	7	10	10
Sugar cane	Tons	188	133	160	213	169
Tobacco	Tons	10	10	6	6	5
Jute	Tons	2	1	...	...	...
Rubber	Tons	32	34	45	42	38
Livestock						
Cows	Heads	2,872	2,680	2,826	3,490 2/	3,495
Buffalos	Heads	766	694	654	...	626
Pigs	Heads	2,237	2,339	2,189	1,979	2,114
Poultry	Heads	11,982	13,167	13,417	15,028	15,248
Fisheries						
Fresh fish and shrimp	Tons	115	122	124	86	191
Crocodiles	Heads	17	41	25	26	36

Source: Data provided by the Ministry of Planning, National Institute of Statistics (NIS).

1/ Harvest year for crops; tons are metric tons.
2/ Including buffalos.

Table 8. Cambodia: Visitor Arrivals and Tourism, 1997-2001

	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
						(In percent of total)				
Total visitor arrivals by air 1/	218,843	186,333	262,907	351,661	408,377					
Visitor arrivals by country of residence 2/	218,843	175,910	234,382	264,649	274,689	100.0	100.0	100.0	100.0	100.0
Asian and Pacific	150,205	107,421	137,054	155,350	163,098	68.6	61.1	58.5	58.7	59.4
Australia and New Zealand	8,758	10,866	11,287	13,237	15,266	4.0	6.2	4.8	5.0	5.6
China	17,282	18,035	26,805	30,586	32,002	7.9	10.3	11.4	11.6	11.7
Japan	25,362	13,386	17,885	19,906	17,952	11.6	7.6	7.6	7.5	6.5
Malaysia	18,381	11,019	12,541	14,701	15,994	8.4	6.3	5.4	5.6	5.8
Singapore	13,536	9,123	10,634	10,734	10,982	6.2	5.2	4.5	4.1	4.0
South Korea	8,469	4,467	6,377	7,536	9,579	3.9	2.5	2.7	2.8	3.5
Taiwan	28,116	18,239	20,607	21,626	23,098	12.8	10.4	8.8	8.2	8.4
Thailand	16,056	10,983	15,272	16,550	17,496	7.3	6.2	6.5	6.3	6.4
Vietnam	2,838	3,044	5,217	8,333	7,828	1.3	1.7	2.2	3.1	2.8
Other	11,407	8,259	10,429	12,141	12,901	5.2	4.7	4.4	4.6	4.7
Europe	43,331	46,165	60,031	65,657	66,088	19.8	26.2	25.6	24.8	24.1
Germany	4,604	4,199	6,490	7,298	6,861	2.1	2.4	2.8	2.8	2.5
France	17,538	18,616	23,754	24,883	23,328	8.0	10.6	10.1	9.4	8.5
United Kingdom	9,193	11,156	13,789	15,912	17,686	4.2	6.3	5.9	6.0	6.4
Other	11,996	12,194	15,998	17,564	18,213	5.5	6.9	6.8	6.6	6.6
North, South, and Central America	24,561	21,773	36,233	42,156	43,905	11.2	12.4	15.5	15.9	16.0
Canada	3,716	3,298	5,415	5,646	6,191	1.7	1.9	2.3	2.1	2.3
United States	20,291	17,946	30,301	35,814	37,033	9.3	10.2	12.9	13.5	13.5
Other	554	529	517	696	681	0.3	0.3	0.2	0.3	0.2
Africa and Middle East	746	551	1,064	1,486	1,598	0.3	0.3	0.5	0.6	0.6
Visitor arrivals by mode of transportation										
Total visitors	...	...	367,743	466,365	604,919	...	...	100.0	100.0	100.0
Arrivals by airplane	218,843	186,333	262,907	351,661	408,377	...	...	71.5	75.4	67.5
Phnom Penh	218,843	175,910	234,382	264,649	274,689	...	...	63.7	56.7	45.4
Siem Reap		10,423	28,525	87,012	133,688	...	...	7.8	18.7	22.1
Other types of arrivals 3/	...	...	104,836	114,704	196,542	...	...	28.5	24.6	32.5
Visitor arrivals by purpose of visit 1/	218,843	186,333	262,907	351,661	408,377	100.0	100.0	100.0	100.0	100.0
Tourism	163,005	141,926	199,644	209,581	335,375	74.5	76.2	75.9	59.6	82.1
Other 4/	55,838	44,407	63,263	142,080	73,002	25.5	23.8	24.1	40.4	17.9
Memoranda items:										
Total visitor arrivals by air (Annual percentage changes)	-16.0	-14.9	41.1	33.8	16.1					
Of which: Asia and Pacific 2/	-15.6	-28.5	27.6	13.3	5.0					
Europe 2/	-19.4	6.5	30.0	9.4	0.7					
Americas 2/	-11.7	-11.4	66.4	16.3	4.1					
Tourism receipts 4/										
In millions US dollars	68	66	133	199	235					
Annual percentage changes	-17	-3	102	50	18					
Average receipt per tourist	417	465	666	950	701					
In percent of GDP	2.2	2.2	4.0	5.9	6.9					

Source: Data provided by the Ministry of Tourism.

1/ Arrivals at Pochentong (Phnom Penh) and Siem Reap airports.
2/ Arrivals at Pochentong (Phnom Penh) airport only.
3/ Arrivals by land and boat.
4/ Including business and other purposes.

Table 9. Consumer Price Index, 1998-2002 1/

	Overall Consumer Price Index (July-Dec. 2000) =100	Overall Consumer Price Index	Food, Beverages and Tobacco	Clothing and Footwear	Housing and Utilities	House Furnishings and Household Operations	Medical Care	Transportation and Communication	Recreation and Education	Personal Care and Effects
	(Annual average and 12 month percent changes)									
1998 December	101.4	13.3	20.6	6.3	5.6	18.5	8.6	4.4	7.6	7.6
Average	97.0	14.8	14.0	13.0	15.0	17.5	24.1	15.1	7.7	11.0
1999 December	100.8	-0.5	-0.2	-2.5	0.1	14.4	-12.1	3.2	-6.3	-1.7
Average	100.9	4.0	7.6	1.7	0.2	15.0	-7.1	3.5	-0.9	0.3
2000 December	100.0	-0.8	-3.7	12.0	2.8	-1.1	0.8	4.8	-0.7	1.4
Average	100.1	-0.8	-3.4	-2.7	2.7	2.1	-3.4	6.6	-5.2	0.8
2001 December	100.7	0.7	-2.3	-8.1	4.0	-2.6	6.1	-6.5	12.1	3.4
Average	100.3	0.2	-2.5	-7.0	3.4	-0.5	4.7	-4.2	7.4	1.7
2002 December	104.4	3.7	3.5	-4.7	6.8	-1.4	-1.3	3.9	-3.3	-0.3
Average	103.6	3.2	-0.1	-0.9	0.9	-0.3	0.5	0.0	0.8	0.2

			Food	Nonfood						
		Overall Consumer Price Index	Food, Beverages and Tobacco	Clothing and Footwear	Housing and Utilities	House Furnishings and Household Operations	Medical Care	Transportation and Communication	Recreation and Education	Personal Care and Effects
Weights (in percent)		100.0	42.7	2.2	33.3	0.7	4.0	8.7	6.2	2.2
		(12 month percentage changes)								
2000 January	99.7	0.4	-0.3	-3.4	3.1	4.4	-6.3	4.5	-6.1	-2.0
February	99.4	-0.3	-2.5	-4.1	3.1	5.3	-5.1	7.8	-6.1	-1.9
March	99.6	0.2	-2.0	-3.2	3.1	7.6	-8.2	10.3	-8.1	-2.4
April	99.1	-0.9	-2.8	0.3	2.6	7.0	-5.9	3.7	-7.3	0.4
May	98.6	-2.7	-6.1	0.6	3.1	6.4	-6.1	2.3	-7.3	-0.6
June	98.5	-3.3	-7.6	-4.7	2.7	6.2	-5.3	4.8	-5.4	1.7
July	99.3	-2.7	-6.8	-3.3	2.1	-1.5	-2.5	6.8	-5.8	2.1
August	99.7	-1.8	-5.3	-3.4	1.9	-1.8	-2.3	8.7	-5.9	3.0
September	102.0	0.2	-3.1	-3.2	3.0	-2.0	2.8	10.8	-2.8	2.5
October	104.0	2.4	1.9	-3.4	2.7	-1.7	-1.4	10.3	-2.8	2.4
November	101.5	-0.1	-2.1	-2.5	2.8	-1.2	-0.8	5.0	-2.8	2.7
December	100.0	-0.8	-3.7	-1.8	2.8	-1.1	0.8	4.8	-0.7	1.4
2001 January	99.4	-0.2	-1.2	-1.0	0.4	2.4	-0.6	0.0	1.2	1.6
February	99.1	-0.3	-1.7	-5.3	0.6	0.5	1.5	0.7	1.2	2.5
March	100.0	0.3	-1.9	-5.5	4.4	-0.1	3.4	-6.6	3.9	-1.2
April	100.9	1.8	0.7	-6.8	4.3	1.1	2.8	-3.0	3.1	-2.3
May	98.9	0.3	-3.1	-8.3	3.9	1.1	2.9	-0.8	3.1	-2.0
June	99.7	1.2	-3.1	-8.6	4.5	2.0	6.6	-0.6	10.2	4.2
July	99.9	0.7	-3.9	-9.7	3.6	-1.6	13.7	-1.7	10.7	6.0
August	100.7	1.0	-1.2	-8.8	4.1	-1.5	8.8	-7.9	10.8	1.5
September	101.3	-0.6	-3.0	-8.6	3.5	-2.5	2.9	-8.9	11.0	0.6
October	102.2	-1.8	-5.6	-6.0	3.8	-2.0	4.4	-8.0	11.0	3.2
November	101.3	-0.2	-3.5	-6.9	3.7	-2.1	4.1	-5.3	11.0	2.4
December	100.7	0.7	-2.3	-8.1	4.0	-2.6	6.1	-6.5	12.1	3.4
2002 January	103.1	3.6	-1.7	-10.6	10.7	-4.0	6.8	0.4	10.3	3.0
February	102.7	3.7	-0.4	-10.0	10.3	-2.9	3.8	-2.8	10.3	1.9
March	102.8	2.9	0.3	-14.7	3.7	-3.3	-5.0	1.0	6.3	6.3
April	103.8	2.8	0.3	0.3	6.3	-4.1	4.5	0.8	6.3	6.4
May	102.8	3.9	3.2	-10.3	6.3	-4.9	3.3	-0.7	6.3	8.2
June	102.9	3.2	3.5	-4.5	6.2	-5.3	2.5	-2.7	-1.9	-1.9
July	103.7	3.7	4.5	-3.7	6.7	-2.5	-3.9	-0.7	-1.2	-1.7
August	104.2	3.5	3.0	-4.2	6.7	-2.4	0.2	1.1	-1.2	-0.3
September	104.5	3.2	2.5	-4.1	6.8	-1.5	0.1	0.5	-2.3	0.5
October	104.5	2.3	0.5	-6.9	6.8	-1.6	1.0	0.5	-2.3	-0.7
November	104.5	3.1	2.1	-5.1	6.8	-1.6	0.0	2.4	-2.3	0.3
December	104.4	3.7	3.5	-4.7	6.8	-1.4	-1.3	3.9	-3.3	-0.3

Source: Ministry of Planning, National Institute of Statistics (NIS).

1/ As measured by the consumer price index for Phnom Penh (Jul.-Dec. 2000=100).

Table 10. Cambodia: Central Government Operations, 1998–2001 1/

	1998	1999	2000	2001	1998	1999	2000	2001
	Actual				Actual			
	(In billions of riels)				(In percent of GDP)			
Total revenue	943	1,316	1,409	1,520	8.3	10.5	10.9	11.4
Tax revenue	679	948	1,026	1,087	6.0	7.5	7.9	8.1
Direct taxes	56	83	136	140	0.5	0.7	1.0	1.0
Indirect taxes, *of which:*	248	432	500	571	2.2	3.4	3.9	4.3
Excise taxes (incl. on imports)	76	92	113	155	0.7	0.7	0.9	1.2
Domestic	16	16	19	20	0.1	0.1	0.1	0.1
Import	60	76	94	135	0.5	0.6	0.7	1.0
VAT (incl. on imports)	...	315	371	403	...	2.5	2.9	3.0
Domestic	...	43	73	85	...	0.3	0.6	0.6
Import	...	286	313	327	...	2.3	2.4	2.4
Refund (-)	...	14	14	9	...	0.1	0.1	0.1
Trade taxes	376	433	391	376	3.3	3.4	3.0	2.8
Nontax revenue, *of which:*	230	355	353	424	2.0	2.8	2.7	3.2
Timber royalties	23	36	41	29	0.2	0.3	0.3	0.2
Enterprises and immobile leases	27	20	27	28	0.2	0.2	0.2	0.2
Civil aviation	18	19	25	38	0.2	0.2	0.2	0.3
Tourism income	1	1	6	14	0.0	0.0	0.0	0.1
Royalties (mining, etc.)	4	2	0	2	0.0	0.0	0.0	0.0
Royalties (casino)	...	0	12	22	...	0.0	0.1	0.2
Post and telecommunications (PTT)	87	109	92	122	0.8	0.9	0.7	0.9
Passports and visa	7	13	20	36	0.1	0.1	0.2	0.3
NBC profit	...	10	13	15	...	0.1	0.1	0.1
Quota Auction	...	87	22	32	...	0.7	0.2	0.2
Garment licenses	...	21	43	39	...	0.2	0.3	0.3
Others	42	27	29	47	0.4	0.2	0.2	0.4
Capital revenue	33	14	29	9	0.3	0.1	0.2	0.1
Total expenditure 2/	1,571	1,825	2,085	2,329	13.8	14.5	16.1	17.4
Current expenditure	941	1,097	1,189	1,354	8.3	8.7	9.2	10.1
Wages	451	525	512	488	4.0	4.2	4.0	3.7
Civil administration	154	194	211	214	1.4	1.5	1.6	1.6
Defense and security	297	331	301	274	2.6	2.6	2.3	2.1
Nonwage	490	572	677	866	4.3	4.5	5.2	6.5
Operating expenditure	372	410	497	602	3.3	3.3	3.8	4.5
Civil administration	220	276	365	489	1.9	2.2	2.8	3.7
Defense and security	152	134	132	113	1.3	1.1	1.0	0.8
Economic transfers	14	12	31	30	0.1	0.1	0.2	0.2
Social transfers	71	104	104	109	0.6	0.8	0.8	0.8
Civil administration	63	95	90	97	0.6	0.8	0.7	0.7
Defense and security	8	9	14	12	0.1	0.1	0.1	0.1
Interest	15	22	21	22	0.1	0.2	0.2	0.2
Other nonwage	18	21	11	38	0.2	0.2	0.1	0.3
Reserve funds	0	0	13	63	0.0	0.0	0.1	0.5
Capital expenditure	630	728	896	975	5.5	5.8	6.9	7.3
Locally financed	120	224	303	283	1.1	1.8	2.3	2.1
Externally financed	510	504	593	692	4.5	4.0	4.6	5.2
Current balance	-32	205	190	157	-0.3	1.6	1.5	1.2
Overall balance	-628	-509	-676	-809	-5.5	-4.0	-5.2	-6.0
Overall balance (incl. grants)	-286	-167	-293	-413	-2.5	-1.3	-2.3	-3.1
Financing	628	509	676	809	5.5	4.0	5.2	6.0
Foreign financing (net)	505	515	708	763	4.4	4.1	5.5	5.7
Of which: Project aid	504	511	594	692	4.4	4.1	4.6	5.2
Budget support	2	4	113	54	0.0	0.0	0.9	0.4
Domestic financing	116	-44	-12	14	1.0	-0.4	-0.1	0.1
Of which: Bank financing	125	-76	-100	-78	1.1	-0.6	-0.8	-0.6
Nonbank financing	-4	26	103	73	0.0	0.2	0.8	0.5
Outstanding operations 3/	6	38	-20	32	0.1	0.3	-0.2	0.2
Memoranda items:								
Defense and security outlays	457	477	447	399	4.0	3.8	3.5	3.0
Revenue from forestry	25	49	41	29	0.2	0.4	0.3	0.2
Total revenue (excl. garment quotas)	943	1,229	1,366	1,481	8.3	9.8	10.6	11.1
Health, Education, Rural dev. (commitment)	149	232	299	382	1.3	1.8	2.3	2.9
Customs department revenue	527	796	797	838	4.6	6.3	6.2	6.3

Sources: Data provided by the Ministry of Economy and Finance, and Fund staff estimates.

1/ Excludes provincial revenue and expenditure data.
2/ Current expenditure is based on cash basis, while capital expenditure is based on accrual basis.
3/ Includes expenditure committed but not yet allocated to the accounts of the government agencies that execute the budget.

Table 11. Cambodia: Structure of Central Government Revenue, 1997–2001
(in billions of riels)

	1997	1998	1999	2000	2001
Total revenue	881.0	942.7	1,316.3	1,408.5	1,520.3
Tax revenue	597.4	679.4	947.7	1,026.0	1,087.4
Direct taxes	43.6	55.5	82.7	135.6	140.5
Wage tax	5.7	8.5	10.6	13.2	19.0
Profit tax	35.0	42.1	63.8	100.9	112.8
Property tax	2.6	4.7	5.7	7.1	8.3
Tax on unutilized land	0.3	0.2	0.0	0.0	0.0
Other income taxes	0.0	0.0	2.6	14.4	0.3
Indirect taxes	206.5	247.5	431.6	500.0	571.2
Turnover tax	46.6	65.9	21.8	12.6	9.9
Consumption tax	75.2	90.1	...	...	...
VAT	...	...	313.6	371.6	402.8
Domestic	...	...	41.5	72.8	84.9
Import	...	...	285.8	312.8	327.1
VAT refunds (-)	...	...	13.7	14.0	9.3
Excise taxes	74.1	76.1	91.8	112.6	154.8
Domestic	11.1	15.9	15.5	19.0	20.1
Import	63.0	60.2	76.3	93.7	134.7
Others	10.6	15.4	4.3	3.2	3.7
Taxes on international trade	347.3	376.3	433.4	390.4	375.7
Taxes and duties on imports	335.5	372.5	415.3	372.8	364.1
Taxes on exports	9.9	2.7	16.5	15.8	10.0
Penalties	2.0	1.1	1.6	1.8	1.7
Nontax revenue	271.3	230.1	354.8	353.3	423.8
Receipts on public property	134.1	120.4	89.4	135.9	155.4
Fisheries	7.4	8.2	9.2	9.9	5.8
Forests	37.4	22.8	36.3	41.0	29.1
Receipts from public enterprises	36.4	55.5	30.5	51.4	74.5
Of which : Factory leases	8.4	8.7	8.8	5.2	6.6
Civil aviation	17.1	17.7	19.2	24.8	40.5
Tourism receipts	1.0	0.7	0.8	5.9	14.4
Royalties and concessions	33.2	3.5	1.8	11.8	22.6
User fees	6.6	10.9	0.1	0.0	0.0
Building leases	12.6	18.8	11.5	21.8	22.9
Other	0.6	0.8	0.0	0.0	0.5
Other nontax revenue	137.2	109.7	265.5	217.4	268.4
Post and telecommunication	83.0	87.2	108.9	91.9	122.3
Ratio-TV (advertisement)	0.0	0.0	0.0	0.0	0.1
Public services	46.0	17.5	141.9	101.4	119.6
Of which : Visa fees	23.8	7.2	17.2	20.2	27.9
Quota auction and export licenses	...	...	108.1	65.4	71.6
Interest	0.0	3.4	0.0	0.0	0.0
Nontax revenue of provinces	0.1	0.1	0.1	0.1	0.2
Banking profit	...	...	10.0	12.8	15.7
Other nontax revenue	8.1	1.6	4.6	11.2	10.5
Capital revenue	12.3	33.2	13.7	29.3	9.1
Of which: Privatization receipts	10.5	32.2	13.2	22.9	8.2

Source: Data provided by the Ministry of Economy and Finance.

Table 12. Cambodia: Central Government Budgetary Expenditure by Economic Classification, 1997–2001

	1997	1998	1999	2000	2001
			(In billions of riels)		
Total expenditure	1,259.7	1,571.2	1,825.0	2,085.5	2,329.9
Current expenditure	807.8	941.2	1,097.2	1,189.6	1,354.7
Salaries	381.9	451.1	525.4	512.3	488.4
Civil administration	132.2	154.3	194.1	211.5	213.9
Defense and security	249.7	296.8	331.3	300.8	274.5
Operating costs	321.9	371.7	410.1	497.1	602.2
Civil administration	163.7	219.6	276.0	365.4	488.9
Defense and security	158.3	152.2	134.1	131.7	113.3
Economic transfers	6.6	14.3	12.0	30.9	30.5
Social transfers	68.0	70.9	103.8	103.9	109.2
Civil administration	60.8	62.8	94.6	90.1	96.8
Defense and security	7.1	8.0	9.2	13.8	12.4
Interest	9.5	14.7	22.4	21.1	21.6
Other current expenditure	19.9	18.4	23.5	24.3	102.8
Of which:					
Subsidy to provinces	16.7	16.3	16.0	19.8	29.6
Contribution to international organizations	1.1	2.1	4.9	6.0	3.7
Capital expenditure	451.9	630.0	727.8	895.9	975.2
Locally financed	110.3	120.4	223.6	303.4	283.0
Externally financed	341.6	509.5	504.2	592.5	692.2
			(In percent of total expenditure)		
Total	100.0	100.0	100.0	100.0	100.0
Current expenditure	64.1	59.9	60.1	57.0	58.1
Salaries	30.3	28.7	28.8	24.6	21.0
Civil administration	10.5	9.8	10.6	10.1	9.2
Defense and security	19.8	18.9	18.2	14.4	11.8
Operating costs	25.6	23.7	22.5	23.8	25.8
Civil administration	13.0	14.0	15.1	17.5	21.0
Defense and security	12.6	9.7	7.3	6.3	4.9
Economic transfers	0.5	0.9	0.7	1.5	1.3
Social transfers	5.4	4.5	5.7	5.0	4.7
Civil administration	4.8	4.0	5.2	4.3	4.2
Defense and security	0.6	0.5	0.5	0.7	0.5
Interest	0.8	0.9	1.2	1.0	0.9
Other current expenditure	1.6	1.2	1.3	1.2	4.4
Of which:					
Subsidy to provinces	1.3	1.0	0.9	0.9	1.3
Contribution to international organizations	0.1	0.1	0.3	0.3	0.2
Capital expenditure	35.9	40.1	39.9	43.0	41.9
Locally financed	8.8	7.7	12.3	14.5	12.1
Externally financed	27.1	32.4	27.6	28.4	29.7

Source: Data provided by the Ministry of Economy and Finance.

Table 13. Cambodia: Budgetary Expenditure by Ministry, 1998–2001 1/

Ministry	1998					1999					2000					2001				
	Total	Salaries	Operating Costs	Other Current	Capital 2/	Total	Salaries	Operating Costs	Other Current	Capital 2/	Total	Salaries	Operating Costs	Other Current	Capital 2/	Total	Salaries	Operating Costs	Other Current	Capital 2/
	(In billions of riels)																			
Total	**1,058**	**448**	**369**	**121**	**120**	**1,326**	**518**	**404**	**179**	**224**	**1,545**	**517**	**481**	**230**	**303**	**1,698**	**589**	**628**	**278**	**283**
Royal Palace	13	4	3	7	0	20	6	3	11	0	20	7	4	9	0	19	8	5	6	0
National Assembly	12	9	3	0	0	13	8	5	0	0	21	10	9	2	0	32	12	18	2	0
Senate	...	...	...	...	...	6	3	3	0	0	10	5	5	1	0	14	5	7	2	0
Constitutional Council	...	...	...	...	...	2	1	1	0	0	2	1	1	0	0	3	1	2	0	0
Council of Ministers	57	7	40	7	3	54	4	33	12	6	85	5	65	15	0	101	6	79	15	0
Foreign Affairs	26	11	13	2	0	37	13	22	2	1	36	14	22	0	0	41	14	27	1	0
National Defense	312	213	93	7	0	336	236	92	8	0	309	206	90	13	0	277	198	70	9	0
Interior	173	87	66	21	0	147	91	46	7	2	142	97	43	1	0	140	88	48	4	0
National Assembly Relations and Inspection	...	...	...	...	...	0	0	0	0	0	1	0	1	0	0	1	0	1	0	0
Economy and Finance	109	3	18	27	62	134	3	22	69	40	96	3	29	64	0	19	3	16	0	0
Information	16	1	3	0	11	8	1	3	0	4	9	2	7	0	0	8	2	7	0	0
Public Works and Transport	13	4	1	1	7	29	4	3	2	20	20	4	4	12	0	21	4	6	11	0
Agriculture, Forestry and Fisheries	18	7	8	1	3	21	7	11	3	0	23	7	13	3	0	30	6	15	10	0
Justice	2	1	1	0	0	5	1	3	0	0	6	2	4	0	0	6	1	5	0	0
Education, Youth and Sport	102	80	20	2	0	156	112	35	3	6	166	121	38	7	0	209	129	48	32	0
Commerce	2	1	1	0	0	4	1	3	0	0	6	2	4	1	0	12	1	7	4	0
Industry, Mines and Energy	3	1	1	1	0	4	1	2	1	0	5	1	3	1	0	6	1	3	1	0
Planning	2	1	1	0	0	2	1	1	0	0	3	1	2	0	0	4	1	2	0	0
Health	44	11	33	1	0	126	12	62	1	50	102	14	79	9	0	130	13	74	42	0
Tourism	2	1	1	0	0	5	1	4	0	0	6	1	5	0	0	9	1	7	1	0
Public Worship and Religion	1	1	0	0	0	1	1	1	0	0	2	1	1	0	0	2	1	1	0	0
Post and Telecommunication	54	2	28	0	24	114	2	36	0	76	29	2	27	0	0	41	4	37	0	0
Culture and Fine Arts	3	2	1	0	0	5	3	2	0	0	7	3	4	0	0	8	3	5	0	0
Social Affairs, Labor and Vocational Training	48	1	1	45	1	19	1	2	16	0	26	2	3	22	0	28	0	4	24	0
Environment	1	1	1	0	0	2	1	1	0	0	4	1	3	0	0	5	1	3	0	0
Rural Development	6	1	1	0	4	16	1	2	0	12	8	1	6	0	0	12	1	9	2	0
Woman Affairs and Veteran	1	0	0	0	0	44	1	1	41	1	53	1	1	51	0	59	0	4	55	0
Urbanization and Constitution	1	0	0	0	0	2	1	1	0	0	4	2	3	0	0	5	2	3	0	0
Water Resources and Metrology	...	...	...	...	...	3	0	3	0	0	6	1	5	0	0	9	1	7	1	0
National Election Committee	32	0	32	0	0	...	...	...	...	...	2	1	2	0	0	24	1	23	0	0
National Audit Authority	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other	4	0	0	0	4	9	0	0	3	6	335	0	0	18	303	422	0	84	55	283
	(In percent of total budgetary expenditure)																			
Memoranda items :																				
National Defense	30	48	25	6	0	25	46	23	5	0	20	40	19	6	0	16	39	11	3	0
Interior	16	19	18	17	0	11	18	11	4	1	9	19	9	1	0	8	17	8	1	0
Economy and Finance	10	1	5	22	52	10	1	6	38	18	6	1	6	28	0	1	1	3	0	0
Public Works	1	1	0	1	6	2	1	1	1	9	1	1	1	5	0	1	1	1	4	0
Agriculture	2	1	2	1	3	2	1	3	2	0	2	1	3	1	0	2	1	2	4	0
Education	10	18	5	2	0	12	22	9	2	3	11	23	8	3	0	12	25	8	12	0
Industry	0	0	0	1	0	0	0	0	1	0	0	0	1	1	0	0	0	1	0	0
Health	4	2	9	0	0	9	2	15	0	22	7	3	16	4	0	8	3	12	15	0

Source: Data provided by the Ministry of Economy and Finance.

1/ Commitment basis.

2/ Excludes externally financed capital expenditure.

Table 14. Cambodia: Official External Assistance to the Budget, 1997–2001
(in billions of riels)

	1997	1998	1999	2000	2001
Total official external financing	445.9	505.4	515.4	707.5	763.2
Budget support	96.0	1.5	4.4	113.2	54.2
Grants	46.2	1.5	4.4	23.8	36.2
Loans	49.8	0.0	0.0	89.4	18.0
World Bank	7.2	0.0	0.0	36.9	18.0
Asian Development Bank	42.5	0.0	0.0	52.5	0.0
Project aid	350.8	503.9	511.0	594.4	713.3
Grants	244.6	340.7	337.4	360.0	360.0
Loans	97.0	168.9	166.8	232.5	332.2
World Bank	66.4	56.3	69.8	97.8	141.8
Asian Development Bank	30.6	112.6	96.9	134.7	190.4
Pending	9.2	-5.7	6.8	1.9	21.1
Amortization	-0.9	0.0	0.0	0.0	-4.3

Source: Data provided by the Ministry of Economy and Finance.

Table 15. Cambodia: Profile of the Commercial Bank System
(As of end-December 2002)

Name of Banks (Number of banks)	Number of Branches	Authorized Capital (000U.S.$)	Date of beginning of Operation	Majority Shareholder
State-owned banks (1)				
Foreign Trade Bank	0	50 billion riels	Oct. 10, 1979	State-owned
Foreign bank branches (3)				
Krung Thai Bank Public Co. Ltd.	0	13,000	Sep. 25, 1992	Thai
May Bank	0	13,000	Dec. 28, 1993	Malaysian
First Commercial Bank	0	13,000	Sep. 23, 1998	Taiwan POC
Private banks (9)				
Cambodia Commercial Bank	2	13,000	Jul. 1, 1991	Thai
Canadia Bank Ltd.	9	13,000	Nov. 11, 1991	Cambodian/Canadian
Cambodia Public Bank	0	15,000	May. 25, 1992	Malaysian
Cambodia Asia Bank	0	13,000	Feb. 23, 1993	Malaysian
Singapore Banking Corp.	0	13,000	Oct. 27, 1993	Singaporean
Union Commercial Bank	3	13,000	Apr. 20, 1994	Hong Kong
Cambodia Mekong Bank	3	13,000	Jun. 4, 1994	Cambodian
Advanced Bank of Asia Ltd.	0	13,000	Oct. 25, 1996	Korean
Vattanac Bank	0	13,000	Nov. 8, 2002	Cambodian
Specialized banks (4)				
Rural Development Bank	0	4,960	Jun. 22, 1998	State-owned
ACLEDA Bank	14	4,000	Oct. 6, 2000	Cambodian
Peng Heng SME Bank	0	3,500	Mar. 20, 2001	Cambodian/Canadian
Cambodia Agriculture Industrial Specialized Bank	0	3,000	Mar. 19, 2002	Cambodian/Japanese
Closed banks (17) 1/				
Bangkok Bank Public Co. Ltd.		...	Sep. 26, 1992	Thai bank branch
Thai Farmers Bank Public Co. Ltd.		...	Aug. 21, 1992	Thai bank branch
Agricultural and Commercial Bank of Cambodia		...	Jul. 9, 1992	Thai
Angkor Bank		...	Feb. 4, 1998	Cambodian
Cambodia International Bank		...	Jun. 30, 1994	Singaporean
Cambodia Farmers Bank		...	Apr. 5, 1992	Thai
Chansavangwonk Bank		...	May. 19, 1993	Thai
Global Commercial Bank		...	Apr. 26, 1994	Thai
Great International Bank		...	May 30,1994	Australian
Pacific Commercial Bank		...	May 28,1994	Cambodian
Phnom Penh City Bank		...	Sep. 15, 1993	Thai
Rich Nation Bank		...	Jan. 25, 1994	Hong Kong
Singapore Commercial Bank		...	Dec. 25, 1993	Singaporean
First Oversea Bank		...	May 30,1994	Malaysian
Emperor International Bank		...	May 31,1994	Hong Kong
Standard Chartered Bank		...	Feb. 25, 1999	British
Credit Agricole Indosuez		...	Dec. 28, 1993	French

Source: Data provided by the National Bank of Cambodia.

1/ Banks closed between November 1999 and November 2002.

Table 16. Cambodia: Monetary Survey, 1997-2002
(in billions of riels; unless otherwise indicated)

	1997	1998	1999	2000	2001				2002			
	Dec.				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Oct.
Net foreign assets	1,172	1,728	2,019	2,588	2,733	2,807	2,951	3,081	3,366	3,614	3,693	3,642
National Bank	808	1,425	1,649	2,102	2,198	2,257	2,313	2,429	2,680	2,964	3,117	3,067
Assets	1,033	1,675	1,924	2,389	2,503	2,549	2,645	2,740	3,016	3,315	3,497	3,443
Liabilities	225	251	275	286	305	292	332	311	335	350	380	376
Deposit money banks	363	304	370	486	535	550	638	651	686	649	577	575
Assets	564	528	585	659	729	757	867	847	885	839	785	779
Liabilities	200	224	214	173	194	208	229	196	199	189	208	204
Net domestic assets	-109	-498	-576	-758	-834	-821	-827	-877	-959	-965	-956	-948
Net domestic credit	697	839	876	904	837	866	927	868	829	767	854	852
Government (net)	54	179	103	3	-69	-82	-73	-75	-152	-165	-106	-129
National Bank	58	182	107	4	-69	-82	-73	-75	-152	-165	-147	-169
Deposit Money Banks	-4	-4	-4	0	0	0	0	0	0	0	41	41
Public enterprises	6	6	10	3	1	1	8	7	5	4	3	3
Private sector	637	655	763	898	905	947	992	936	976	928	958	978
Other items (net)	-805	-1,337	-1,453	-1,662	-1,672	-1,687	-1,754	-1,744	-1,788	-1,732	-1,810	-1,800
Capital and reserves	-875	-1,387	-1,451	-1,541	-1,510	-1,604	-1,671	-1,694	-1,513	-1,389	-1,395	-1,393
Other	70	50	-2	-121	-162	-84	-83	-50	-275	-343	-416	-407
Broad money	1,063	1,230	1,443	1,831	1,899	1,985	2,124	2,204	2,408	2,648	2,737	2,694
Narrow money	385	543	532	540	548	544	569	610	676	748	771	757
Currency in circulation	356	509	490	495	511	510	535	578	641	711	727	713
Demand deposits	29	34	42	45	37	35	34	32	35	37	44	44
Quasi-money	678	687	911	1,291	1,351	1,441	1,555	1,594	1,731	1,901	1,966	1,938
Time deposits	13	20	32	46	48	52	58	56	62	69	75	73
Foreign currency deposits	665	667	879	1,245	1,303	1,390	1,496	1,539	1,670	1,831	1,891	1,864
Memoranda items:												
Net foreign assets (in millions of dollars)	339	457	535	662	698	716	748	790	863	922	935	924
Deposit money banks	105	80	98	124	137	140	162	167	176	166	146	146
National Bank	234	377	437	538	562	576	586	623	687	756	789	778
Gross assets	299	443	510	611	639	650	671	703	773	846	885	874
Gross liabilities	65	66	73	73	78	74	84	80	86	89	96	95
Foreign currency deposits (in millions of U.S. dollars)	193	176	233	318	333	354	379	395	428	467	479	473
Credit to private sector (in millions of U.S. dollars)	184	173	202	230	231	242	251	240	250	237	242	248
Nominal GDP (in billions of riel)	9,778	11,364	12,587	12,932	13,037	13,143	13,249	13,357	13,605	13,858	14,115	14,202
Velocity 1/	10.4	10.3	9.3	7.3	7.1	7.0	6.8	6.6	6.3	6.0	5.7	5.7

Source: Data provided by the National Bank of Cambodia.

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

Table 17. Cambodia: Reserve Money, 1997-2002

(In billions of riels, unless otherwise indicated)

	1997	1998	1999	2000	2001				2002			
	Dec.				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Oct.
Reserve money	545	803	930	1,161	1,176	1,204	1,229	1,360	1,500	1,752	1,899	1,857
Currency outside banks	356	509	490	495	511	510	535	578	641	711	727	713
Currency in banks	10	8	20	34	30	42	38	36	34	45	37	38
Bank deposits	179	285	420	633	635	653	656	746	824	996	1,134	1,106
Required reserves	44	63	83	109	119	117	123	132	145	158	158	159
Other 1/	136	222	337	524	516	536	533	614	680	837	976	947
Net foreign assets	808	1,425	1,649	2,102	2,198	2,257	2,313	2,429	2,680	2,964	3,117	3,067
Foreign assets	1,033	1,675	1,924	2,389	2,503	2,549	2,645	2,740	3,016	3,315	3,497	3,443
Gold	0	434	439	427	406	424	458	432	472	499	507	497
Bank accounts	658	490	471	740	625	883	768	873	1,085	841	777	838
Foreign exchange	25	41	37	18	49	47	54	93	104	39	73	35
SDR holdings	41	37	20	1	4	5	13	2	12	2	14	11
IMF Reserve Position	0	0	0	0	0	0	0	0	0	0	0	0
Other 2/	309	673	956	1,202	1,419	1,190	1,352	1,340	1,341	1,933	2,126	2,061
Foreign liabilities	225	251	275	286	305	292	332	311	335	350	380	376
IMF	225	251	275	286	305	292	332	311	335	350	380	376
Net Domestic Assets	-263	-622	-719	-941	-1,022	-1,053	-1,085	-1,070	-1,180	-1,213	-1,218	-1,210
Net Credit to Government	58	182	107	4	-69	-82	-73	-75	-152	-165	-147	-169
Net claims	58	182	107	4	-69	-82	-73	-75	-152	-165	-147	-169
Claims	211	289	283	272	272	272	272	271	269	269	269	269
Deposits	153	106	176	268	341	354	345	346	421	434	416	439
Net claims on banks	-51	-67	-77	-69	-81	-69	-76	-85	-82	-86	-94	-78
Claims on banks	6	8	5	16	16	56	53	53	53	53	13	13
Restricted deposits	43	69	76	84	97	85	89	98	95	98	107	91
Loans from deposit money banks	14	6	6	0	0	40	40	40	40	41	0	0
Other items (net)	-270	-738	-749	-877	-873	-902	-935	-910	-947	-962	-977	-962
Assets	121	102	121	124	116	120	127	126	168	181	186	190
Liabilities	392	840	870	1,000	988	1,022	1,062	1,035	1,115	1,143	1,163	1,152

Source: Data provided by the National Bank of Cambodia.

1/ Effective May 1994, deposits required of new commercial banks prior to their commencing operations.

2/ Consists mainly of holdings of short-term securities issued by foreign governments.

Table 18. Cambodia: Consolidated Balance Sheet of Deposit Money Banks, 1997-2002
(In billions of riels)

	1997	1998	1999	2000	2001				2002			
	Dec.				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Oct.
Net foreign assets	363	304	370	486	535	550	638	651	686	649	577	575
Foreign assets	564	528	585	659	729	757	867	847	885	839	785	779
Foreign liabilities	200	224	214	173	194	208	229	196	199	189	208	204
Net domestic assets	144	71	79	113	134	169	180	108	148	233	234	243
Net claims on government	-4	-4	-4	0	0	0	0	0	0	0	41	41
Net claims	-4	-4	-4	0	0	0	0	0	0	0	41	41
Claims	0	0	0	0	0	0	0	0	0	0	41	41
Deposits	4	4	4	1	1	0	0	0	0	0	0	0
Claims on public enterprises	6	6	10	3	1	1	8	7	5	4	3	3
Claims on private sector 1/	637	655	763	898	905	947	992	936	976	928	958	978
Net claims on National Bank	14	14	11	8	5	43	45	43	43	45	1	-2
Claims	21	20	19	14	13	53	53	51	52	52	10	10
Liabilities	7	6	8	6	8	9	8	8	9	7	9	12
Other assets (net)	-509	-599	-702	-796	-777	-822	-866	-878	-875	-743	-769	-776
Assets	229	248	251	207	180	172	187	222	228	266	259	275
Fixed assets	110	120	109	101	100	96	100	126	110	112	106	105
Interbank claims	32	55	57	49	15	16	20	15	31	30	24	13
Other assets	88	73	86	57	65	60	68	82	86	123	129	156
Liabilities	738	847	953	1,003	957	994	1,053	1,100	1,103	1,009	1,028	1,051
Capital	603	690	767	791	792	828	878	924	904	791	803	809
Restricted deposits	4	4	4	2	2	2	2	1	1	4	2	2
Interbank liabilities	26	29	49	45	10	10	14	14	19	17	21	18
Other	105	125	132	164	153	154	158	161	179	197	202	222
Reserves	200	346	504	737	719	758	771	867	931	1,055	1,200	1,163
Cash	10	8	20	34	30	42	38	36	34	45	37	38
Deposits at National Bank	190	338	484	703	689	716	733	831	897	1,010	1,163	1,124
Other credits to National Bank	0	0	0	0	0	0	0	0	0	0	0	0
Deposits	707	721	953	1,336	1,388	1,476	1,589	1,626	1,766	1,937	2,010	1,981
Demand deposits	29	34	42	45	37	35	34	32	35	37	44	44
Time and savings deposits	13	20	32	46	48	52	58	56	62	69	75	73
Foreign currency deposits	665	667	879	1,245	1,303	1,390	1,496	1,539	1,670	1,831	1,891	1,864

Sources: Data provided by the Cambodian authorities.

1/ Predominantly in foreign currency.

Table 19. Cambodia: Interest Rates, 1997-2002 1/

(Percent per annum)

	1997	1998	1999	2000	2001				2002		
	Dec.				Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Deposit rates											
Riel savings deposits	7.4	7.5	7.3	5.9	5.1	5.1	3.3	2.6	2.9	2.4	2.3
Foreign currency savings deposits	2.4	2.5	2.2	2.3	2.3	2.2	2.0	1.6	1.5	1.6	1.5
Foreign currency term deposits	3.8	3.9	3.5	3.7	3.9	3.7	3.3	2.7	2.6	2.9	2.9
Lending rates 2/											
Foreign currency loans: rates charged to private enterprises	18.4	17.7	17.3	17.4	17.1	17.0	15.5	15.0	15.0	16.2	17.1

Source: Data provided by the National Bank of Cambodia.

1/ Simple averages of rates reported by the ten commercial banks with the largest deposits.
2/ Virtually all loans to the private sector in Cambodia are denominated in foreign currencies.

Table 20. Cambodia: Prudential Regulations
(As of November 2002)

Regulations	Main Features	Date of Relevant Regulations 1/
Large exposure	Banks are not allowed to grant credit to an individual customer exceeding 20 percent of their net worth.	Dec. 29, 1997 Feb. 17, 2000
Licensing	All entities that conduct banking activities must be licensed by the NBC. Microfinance institutions (MFIs) that meet certain criteria must be licenced by or registered with the NBC.	Oct. 25, 1996 Feb. 25, 2002
Liquidity	Banks and MFIs must at all times have a liquidity ratio of at least 80 percent.	Feb. 9, 2000 Feb. 25, 2002
Loan/deposit ratio	The total amount of domestic deposits must be greater than or equal to the sum of domestic loans, deposits with other local banks and the NBC, and vault cash.	Aug. 28,1998
Reserve requirement	Reserve requirements of 8 percent (5 percent for licensed MFIs) are levied on deposits in both foreign and domestic currency. Penalties for noncompliance are imposed by charging 1/10 of the latest refinancing rate per day on the deficiency.	Dec. 30,1993 Jan. 1, 1998 Feb. 25, 2002
Minimum capital	Locally incorporated banks and foreign bank branches must have paid up minimum capital equal to at least CR 50 billion. In addition, each bank must maintain 10 percent of authorized capital in a special capital account at the NBC, as a form of security. Deposits in US dollars are remunerated at 3/8 of six-month SIBOR.	Jan. 1, 1994 Jan. 1, 1998 Feb. 9, 2000
Monitoring banks open foreign exchange positions	Banks are required to observe a limit on the long or short position in each currency not exceeding 5 percent of the net worth, and a limit on the aggregate short position not exceeding 15 percent of the net worth.	Jan. 16, 1995
Provisions for non-performing assets	Banks are required to classify their assets and off-balance sheet commitments into the four classifications (standard, substandard, doubtful, and lost), and the specific provisioning shall be recorded depending on the classification in the account and charged to the profit and loss account in the month identified.	Dec. 31, 1994 Feb. 17, 2000 Jun. 7, 2002
Solvency ratio (capital adequacy)	Banks must maintain solvency ratio (net worth divided by the aggregate of assets and off-balance sheet commitments) at the minimum level of 20 percent.	May 22,1995 Feb. 16, 2000
Fixed assets	The total amount of fixed assets must not exceed 30 percent of net worth. Banks are not allowed to acquire fixed assets except for operating purposes.	Dec. 29, 1997 Nov. 8, 2001
Other operational regulations for banks and financial institutions	Banks must maintain their net worth at least equal to their paid-up capital. Banks are not allowed to grant credit to their own shareholders, members of board of directors, managers, individuals or legal entities who participate in their establishments. Banks are not allowed to use demand deposits to grant long-term credit.	Dec. 29, 1997

Source: Data provided by the National Bank of Cambodia.

1/ Includes regulations, prakas (announcements), and circulars.

Table 21. Cambodia: Balance of Payments, 1997-2001
(In millions of U.S. dollars; unless otherwise indicated)

	1997	1998	1999	2000	2001 Est.
Current account (excluding official transfers)	-252	-261	-296	-412	-456
Current account (including official transfers)	-43	-67	-75	-144	-180
Trade balance	-263	-264	-292	-452	-476
Exports	786	868	1,100	1394	1475
Domestic exports 1/	534	685	921	1206	1295
Re-exports	252	183	178	188	180
Imports, f.o.b.	-1,050	-1,131	-1,392	-1,846	-1,951
Of which: retained imports, f.o.b.	-798	-954	-1,219	-1,664	-1,777
Services and income (net)	-43	-57	-73	-30	-53
Receipts	205	190	226	336	379
Of which: tourism	68	66	133	199	235
Payments	-248	-247	-300	-366	-432
Of which: interest	-17	-18	-12	-12	-12
Private transfers	60	60	70	70	71
Official transfers	210	194	220	268	276
Capital and financial account	-44	-38	-18	86	200
Medium- and long-term loans	-77	-69	-57	-23	79
Disbursements	38	46	57	91	113
Amortization	-115	-115	-114	-114	-35
Foreign direct investment	168	121	146	135	95
Short-term flows and errors and omissions 2/	-135	-90	-106	-26	26
Overall balance	-90	-105	-93	-58	20
Financing	90	105	93	58	-20
Change in gross official reserves	-28	-11	-32	-63	-65
Debt rescheduling	0	0	0	0	16
Change in arrears (- reduction)	118	117	117	117	20
Use of Fund credit	0	-1	8	4	9
Purchases/disbursements	0	0	11	11	21
Repurchases/repayments	0	1	3	7	12
Memoranda items:					
Current account balance					
Excluding official transfers (in percent of GDP)	-8.1	-8.7	-9.0	-12.3	-13.4
Including official transfers (in percent of GDP)	-1.4	-2.2	-2.3	-4.3	-5.3
Gross official reserves 3/	262	390	422	485	550
In months of imports of goods and services	2.4	3.6	3.2	2.8	2.9
Net international reserves	197	323	349	411	470
External debt (in percent of GDP) 4/	61	68	69	68	66

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

1/ Includes estimates for unrecorded forestry exports.

2/ Believed to be primarily short-term capital and unrecorded imports.

3/ Includes $117 million associated with the return of Cambodian gold holdings by the BIS in 1998.

4/ Includes $1,346 million owed to countries of the former *Council of Mutual Economic Assistance*. This amount is indicative and subject to negotiations and rescheduling.

Table 22. Cambodia: Merchandise Exports, 1997-2001

(In millions of U.S. dollars)

	Unit	1997	1998	1999	2000	2001 Est.
Total exports		786	868	1,100	1,394	1,475
Domestic exports		534	685	921	1,206	1,295
General System of Preference (incl. garment)		279	392	679	1,013	1,147
Logs and sawn timber 1/		224	167	111	59	33
Rubber 1/		23	55	56	63	50
Volume	('000 MT)	28	110	113	116	105
Unit price	($/MT)	799	496	492	548	477
Fish		3	3	3	5	4
Volume	('000 MT)	2	1	4	4	2
Unit price	($/MT)	1,611	1,925	865	1,049	2,256
Agricultural products (incl. rice)		1	1	2	2	2
Others		4	3	1	4	6
Re-exports		252	183	178	188	180

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Includes estimates for illegal exports.

Table 23. Cambodia: Merchandise Imports, 1997-2001
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001 Est.
Total imports, f.o.b. 1/	1,050	1,131	1,392	1,846	1,951
Total imports, c.i.f.	1,141	1,230	1,513	2,007	2,121
Freight & insurance on imports	91	98	121	161	170
Taxable imports	*740*	*528*	*695*	*758*	*696*
Cigarettes	188	143	119	70	70
Motorcycles	17	44	36	30	21
Beer	5	3	2	3	2
VCRs	1	2	1	2	2
TV sets	6	5	6	6	5
Audio cassettes	2	2	3	3	3
Gold	136	3	28	34	12
Vehicles	26	15	27	23	26
Construction materials	19	8	13	13	14
Clothing	18	22	33	46	36
Cloth	4	4	4	3	3
Petroleum products	91	111	131	176	160
Sugar	15	14	22	10	25
Cement	16	13	20	27	31
Steel	1	1	19	21	18
Other	176	140	232	292	268

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

1/ Includes imports for re-exports.

Table 24. Cambodia: Investment Approvals by Sector, 1997-2001
(Total fixed assets approved; in millions of US dollars)

	1997	1998	1999	2000	2001 Est.
Total	745	850	448	220	198
Agriculture	61	50	42	4	0
Industries	517	650	183	67	86
Agro-Industry	4	2	22	6	0
Building material	9	1	0	7	0
Cement	205	54	6	0	0
Energy	80	17	0	0	50
Food processing	6	9	2	0	2
Garment	97	124	67	37	20
Paper	6	13	6	1	2
Petroleum	32	1	1	1	0
Plastic	4	1	1	2	2
Shoes	15	8	11	0	0
Textile	0	0	58	4	0
Tobacco	2	7	0	0	4
Wood processing	47	179	0	0	1
Others	10	233	9	9	5
Services	125	39	51	69	38
Construction	1	3	18	0	0
Education	0	2	0	0	0
Infrastructure	21	10	0	0	22
Telecommunication	53	0	19	0	0
Transporation	0	11	5	0	0
Other	50	14	8	69	16
Tourism	42	112	172	80	74
Hotel	40	106	25	71	71
Tourism Centre	1	6	147	9	3
Other	0	0	0	0	0

Source: Cambodian Institute for Cooperation and Peace.

Table 25. Cambodia: Investment Approvals by Investor Country of Origin, 1997-2001
(Total fixed assets approved, in millions of US dollars)

	1997	1998	1999	2000	2001 Est.
Total	744	850	448	218	197
Cambodia	166	296	252	58	58
Foreign	578	554	196	160	138
America	97	11	20	13	6
United States	86	5	20	12	6
Canada	11	6	0	1	0
Argentina	0	0	0	0	0
Asia	460	533	171	126	130
Australia	22	1	0	2	0
Thailand	27	33	21	26	15
Malaysia	66	125	14	2	51
Philippines	0	0	0	0	1
Singapore	15	21	1	8	0
Indonesia	1	6	1	15	0
Vietnam	0	0	1	0	0
Taiwan	44	144	55	19	56
China	36	105	46	28	5
Hong Kong	70	91	30	5	1
Korea	178	5	0	19	2
Japan	0	1	2	0	0
Europe	8	8	4	22	2
United Kingdom	6	0	2	17	2
France	1	1	1	5	0
Switzerland	0	5	1	0	0
Portugal	1	1	0	0	0
Others	13	3	1	0	0

Source: Cambodian Institute for Cooperation and Peace.

Table 26. Cambodia: Foreign Debt, 1997-2001
(In millions of U.S. dollars)

	1997	1998	1999	2000	2001 Est.
Total external debt outstanding 1/	2,050	2,110	2,269	2,265	2,254
Multilateral	287	348	604	597	585
World Bank	126	156	251	251	251
AsDB	95	128	244	244	244
IMF	66	64	103	96	84
Bilateral	1,763	1,762	1,665	1,668	1,669
New debt	n.a.	1	16	16	15
Rescheduled debt	n.a.	28	28	29	29
Nonrescheduled debt	n.a.	1,620	1,621	1,623	1,625
Total disbursements	49	57	68	113	135
Multilateral	44	56	66	106	134
World Bank	23	15	29	37	39
AsDB	10	30	26	48	69
IMF	11	11	11	22	21
Bilateral	6	1	2	6	0
Total amortization	115	116	118	121	47
Multilateral	0	1	3	7	12
World Bank	0	0	0	0	0
AsDB	0	0	0	0	0
IMF	0	1	3	7	12
Bilateral	115	115	114	114	35
New debt	1	1	0	0	1
Rescheduled debt	0	0	0	0	0
Nonrescheduled debt	6	6	114	114	33
Total interest	8	8	8	8	8
Multilateral	3	3	3	4	4
World Bank	1	1	1	2	2
AsDB	1	1	2	2	2
IMF	1	1	1	1	1
Bilateral	5	5	4	4	4
New debt	1	1	0	0	0
Rescheduled debt	1	1	1	1	1
Nonrescheduled debt	3	3	3	3	3

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

1/ Includes $1,346 million owed to countries of the former *Council of Mutual Economic Assistance.* This amount is indicative and subject to negotiations and rescheduling.

Table 27. Cambodia: Previously State-Owned Enterprises and Assets Sold to the Private Sector

(As of October 2002)

Business	Ministry	Country of buyer	Date of sale	Sale price (US$)
Total				34,627,590
Flour Factory	Industry	...	July 24, 1991	450,000
Soap Factory	Industry	Cambodia	October 25, 1991	85,800
Mechanical Factory #2	Industry	...	November 14, 1991	360,000
Mechanical Factory #4	Industry	Cambodia	November 14, 1991	225,000
Battery Shop	Industry	...	November 14, 1991	156,000
Tire Shop	Industry	Cambodia	November 14, 1991	40,000
Mechanical Factory #3	Industry	...	November 15, 1991	440,000
Mechanical Factory #9	Industry	...	November 15, 1991	420,000
Mechanical Factory #7	Industry	...	November 29, 1991	155,000
KM 6 Store	Industry	Cambodia	July 30, 1992	56,000
Rubber Warehouse	Industry	Cambodia	July 30, 1992	25,000
Bata Shoe Factory	Industry	...	August 24, 1992	140,000
Soap Factory	Industry	Cambodia	August 24, 1992	72,000
Kbal Thnal Store	Industry	Cambodia	December 8, 1992	170,000
Print Shop	Culture	Cambodia	June 15, 1993	...
Agriculture Material Manufacturer	Industry	Cambodia	June 17, 1994	...
Print Shop	Culture	Cambodia	June 17, 1995	...
CKC	Commerce	Cambodia	March 11, 1996	10,680,000
Battery Manufacturer	Industry	...	November 14, 1996	80,000
SOKLAIT (Warehouse and plant)	Industry	Cambodia	October 21, 1996	1,250,000
Tobacco Manufacturer	Industry	Cambodia	January 26, 1996	3,400,000
CKC	Commerce	Cambodia	1997	10,680
Zeam Conte Garages 2	Commerce	Cambodia	January 27, 1997	200,000
Vacant Land near the Cigarette Factory	Industry	Cambodia	1997	132,000
Bran Oil Factory	Industry	Cambodia	December 4, 1997	1,020,000
Zeam Conte Garages 1	Planning	Cambodia	October 24, 1997	200,000
Gas Station in Seam Reap Province	Finance	Cambodia	October 8, 1997	40,000
Taprum Hotel	Finance	Cambodia	March 13, 1997	70,000
Warehouse of Crop Company Group	Commerce	Cambodia	1998	63,600
Warehouse in Posat Province	Commerce	Cambodia	April 2, 1998	21,980
Pailin Hotel in Batambang Province	Commerce	Cambodia	February 18, 1998	45,666
Vacant Land behind Council of Ministers	Council of Ministers	Cambodia	1998	800,000
Focker Airplane	Council of Ministers	Cambodia	November-98	663,970
Peace Hotel	Finance	Cambodia	July 30, 1998	40,000
Chinese Hospital	Health	Cambodia	1998	2,345,324
Beng Trabek Garage	Industry	Cambodia	January 26, 1998	1,185,000
Beverage Factory	Industry	Cambodia	July 20, 1998	630,000
Phnom Kamchay Hotel	Interior	Cambodia	June 15, 1998	155,516
Vacant Land in Kampong Speu Province	Interior	Cambodia	April 30, 1998	71,160
Warehouse of Acid Water	Public Works	Cambodia	July 21, 1998	352,000
KAMTRANSHIP	Public Works	Cambodia	May 18, 1998	543,000
Driving School Department	Public Works	Cambodia	December 5, 1999	250,000
Goods Transport Company	Public Works	Cambodia	December 22, 2000	1,189,878
Vacant Land in Phnom Penh Health Department	Phnom Penh Municipality	Cambodia	April 18, 2000	41,198
Youth Club	Phnom Penh Municipality	U.S. Govt.	September 26, 2000	5,839,000
Warehouse in Construction Company	Commerce	Cambodia	June 29, 2001	377,355
Second Cotton Warehouse in Kampexin	Commerce	Cambodia	June 21, 2001	135,462

Source: Data provided by the Ministry of Economy and Finance.

Table 28. Cambodia: State-Owned Enterprises Leased to the Private Sector

(As of October 2002)

	Number of Leases	Duration of Lease			
		1-14 years	15 - 20 years	>20 years	
By Type of Asset					
Beverage companies	1	0	1	0	
Brick, ceramics, stone manufacturers	7	0	1	6	
Car repair, ship repair	5	1	0	4	
Chemical plants	4	0	3	1	
Garages, gas stations	16	0	8	8	
Land, buildings	54	8	14	32	
Leather, textile manufacturers	19	0	10	9	
Mechanical plants	4	0	3	1	
Miscellaneous manufacturing	27	1	6	20	
Restaurants, guest house	22	1	6	15	
Sawmills	9	0	7	2	
Shops, offices	26	11	0	15	
Tire factories	6	0	4	2	
Warehouses	22	0	10	12	
Total	222	22	73	127	
By Government Agency					
Agriculture	22	1	10	11	1/
Commerce	14	0	2	12	1/
Council of Ministers	3	0	0	3	
Culture	7	1	2	4	1/
Defense	14	2	4	8	1/
Education	4	2	0	2	
Foreign Affairs	8	5	2	1	
Health	1	0	0	1	1/
Industry	51	0	30	21	1/
Information	4	1	1	2	
Interior	2	0	1	1	1/
Public works and transport	15	1	5	9	1/
Post and telecommunications	2	1	1	0	
State secretariat of civil aviation	11	11	0	0	
Tourism	6	0	2	4	1/
Urbanization	5	0	2	3	1/
Phnom Penh Municipality	53	3	15	35	1/
Total	222	...	...	...	

Source: Data provided by the Ministry of Economy and Finance.

1/ Includes leases to the private sector with unknown duration.

Table 29. Cambodia: Government's Privatization Plan

(As of October 2002)

Type of Enterprise	Total Number of Enterprises	Decisions		
		To be Liquidated	To be Privatized	To be Retained
Total	16	8	6	2
Chemical industry	1			1
Construction	4	3	1	
Fisheries	4	4		
Printing, video	2		1	1
Service industries	4	1	2	1
Utilities, post, and telecommunications	2		2	

Source: Data provided by the Ministry of Economy and Finance.

Table 30. Cambodia: Joint Ventures by the State

(As of October 2002)

Company	Business	Ministry	Share Retained by the State (In Percent)	Private Interest	
				Nationality	Share in Percent
CASOTIM	Wood processing	Agriculture	20	Russia	80
COLEXIM	Wood processing	Agriculture	51	Japan	49
Royal Air Cambodge	Airline	Council of Ministers	60	Malaysia	40
Cambodia Samart Communication	Telecommunications	Post & Telecommunications	30	Thailand	70
Cambodia Shinawatra Co.	Telecommunications	Post & Telecommunications	30	Thailand	70
CAMTEL	Telecommunications	Post & Telecommunications	30	Thailand	70
SOCITEL	Telecommunications	Post & Telecommunications	30	Thailand	70
Telstra International Ltd.	Telecommunications	Post & Telecommunications	40	Australia	60
CAMINTEL	Telecommunications	Post & Telecommunications	51	Indonesia	49
Cambodia Pharmaceutical Enterprise	Medicine Processing	Health	48	China	52

Source: Data provided by the Ministry of Economy and Finance.

Table. 31 Cambodia: General Education, 1997/98-2001/02

	1997/98	1998/99	1999/00	2000/01	2001/02
Number of students 1/	2,314,823	2,402,167	2,553,229	2,796,873	3,170,492
Primary education 2/	2,011,772	2,094,000	2,211,738	2,408,109	2,705,453
Secondary education	303,051	308,167	341,491	388,764	465,039
Junior High school 3/	229,102	226,057	233,278	283,678	357,635
Senior high school 4/	73,949	82,110	108,213	105,086	113,404
Number of schools	5,501	5,643	5,777	6,130	6,283
Primary education 1/	5,026	5,156	5,274	5,468	5,741
Secondary education	475	487	503	662	542
Junior High school 2/	350	355	363	511	379
Senior high school 3/	125	132	140	151	163
Number of teachers	69,684	71,543	73,304	76,120	79,403
Primary education 1/	48,460	49,400	50,188	52,168	54,519
Secondary education	21,224	22,143	23,116	23,952	24,884
Junior High school 2/	17,388	17,570	18,020	18,952	19,650
Senior high school 3/	3,836	4,573	5,096	5,000	5,234
Memoranda items:					
Students per teacher	33	34	35	37	40
Primary education 1/	42	42	44	46	50
Secondary education	14	14	15	16	19
Junior High school 2/	13	13	13	15	18
Senior high school 3/	19	18	21	21	22

Sources: Ministry of Education, Youth and Sports.

1/ Excluding technical and vocational education and higher education.
2/ First to sixth grade.
3/ Seventh to ninth grade.
4/ Tenth to twelth grade.

Table 32. Cambodia: Health Sector, 1997-2001

	1997	1998	1999	2000	2001
Number of health personnel	18,377	19,075	18,594	17,960	17,799
Doctors	1,406	1,680	1,764	1,878	2,047
Pharmacists	325	391	381	362	383
Dentists	58	70	69	85	91
Nurses	8,461	8,801	8,312	8,160	8,085
Other 1/	8,127	8,133	8,068	7,475	7,193
Number of health establishments	1,260	1,329	1,296	1,185	1,442
Phnom Penh	8	8	8	8	8
Other	1,252	1,321	1,288	1,177	1,177
Number of medical beds	11,100	11,000	11,000	10,900	10,900
Phnom Penh	1,900	1,900	1,900	1,900	1,900
Other	9,200	9,100	9,100	9,000	9,000
Memoranda items					
Population	10.4	11.4	11.6	12.0	12.0
Number of inhabitants per doctor	7,374	6,808	6,575	6,390	5,862

Source: Ministry of Public Health; and IMF staff estimates.

1/ Including assistant doctors and pharmacists, midwifes, and other health workers.

Table 33. Cambodia: Employment by Sector of Activity, 1997-2001

	1997 1/	1998 2/	1999 3/	2000 4/	2001 5/	1997 1/	1998 2/	1999 3/	2000 4/	2001 5/
	(In thousands)					(In percent of total)				
Total employment	4,430	4,909	5,519	5,275	6,243	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry, and fisheries	3,492	3,771	4,214	3,889	4,384	78.8	76.8	76.3	73.7	70.2
Industry	210	216	353	444	640	4.7	4.4	6.4	8.4	10.2
Services	728	922	953	942	1,219	16.4	18.8	17.3	17.9	19.5
Agriculture, forestry, and fisheries	3,492	3,771	4,214	3,889	4,384	78.8	76.8	76.3	73.7	70.2
Agriculture and forestry	3,413	3,698	4,109	3,742	4,123	77.0	75.3	74.5	70.9	66.0
Fisheries	79	73	105	147	261	1.8	1.5	1.9	2.8	4.2
Industry	210	216	353	444	640	4.7	4.4	6.4	8.4	10.2
Mining and quarrying	8	6	6	3	4	0.2	0.1	0.1	0.1	0.1
Manufacturing	144	159	259	367	549	3.3	3.2	4.7	7.0	8.8
Utilities	4	3	6	4	4	0.1	0.1	0.1	0.1	0.1
Construction	54	48	83	70	84	1.2	1.0	1.5	1.3	1.3
Services	728	922	953	942	1,219	16.4	18.8	17.3	17.9	19.5
Trade	349	341	402	436	644	7.9	7.0	7.3	8.3	10.3
Hotels and restaurants	6	15	28	19	10	0.1	0.3	0.5	0.4	0.2
Transport and communications	81	118	121	120	167	1.8	2.4	2.2	2.3	2.7
Financial intermediation	11	1	6	8	6	0.2	0.0	0.1	0.2	0.1
Real estate, renting	6	3	11	8	4	0.1	0.1	0.2	0.2	0.1
Public administration and defense	138	222	187	147	149	3.1	4.5	3.4	2.8	2.4
Education	56	81	88	87	88	1.3	1.7	1.6	1.7	1.4
Health and social work	18	26	28	30	25	0.4	0.5	0.5	0.6	0.4
Other social services	20	68	39	40	52	0.5	1.4	0.7	0.8	0.8
Other	42	45	44	46	72	1.0	0.9	0.8	0.9	1.2

Source: Data provided by the National Institute of Statistics (NIS).

1/ Based on the results of the Socioeconomic Survey of Cambodia (SESC 1997).
2/ Based on the results of the 1998 Population Census.
3/ Based on the results of the Socioeconomic Survey of Cambodia (SESC 1999).
4/ Based on the results of the Labor Force Survey of Phnom Penh.
5/ Based on the results of the Labor Force Survey of Cambodia (LFS 2001)

Summary of the Cambodian Tax System
(As of November 2002)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on income, profits, and capital gains • Tax on salaries	A monthly tax on income from salaries (including remuneration, bonuses, overtime compensations), withheld at the source. The tax applies to all salaries received in Cambodia if the employer is a Cambodian resident and to salaries received abroad by Cambodian nationals.	Exempted from the tax on salaries are: (i) salaries of diplomatic and other foreign officials, such as international organization representatives, (ii) real refunds on professional expenses, (iii) indemnity for the layoff provided under the Labor Law, (iv) additional remuneration with social characteristics provided under the Labor Law, (v) uniform and professional equipment provided by employers, and (vi) travel expense allowance. Deductions of CR 75,000 from the tax base per month are allowed for each minor dependent child and a spouse without occupation.	Progressive rates applied to monthly income are as follows: (i) CR 0-500,000, 0 percent; (ii) CR 500,001-1,250,000, 5 percent; (iii) CR 1,250,001-8,500,000, 10 percent; (iv) CR 8,500,001-12,500,000, 15 percent; and (v) CR 12,500,000 and over, 20 percent.
• Fringe Benefits	A monthly tax on fringe benefits withheld at source.	Value of fringe benefits is the fair market value inclusive of all taxes.	20 percent.
• Tax on property rental	A tax on receipts from rents on land and buildings and certain equipment. The tax is withheld and paid by the payor if the owner is part of the Estimated Regime. The withholding provision does not apply to income of a legal person enterprise registered under the Real Regime.	Property owners whose monthly income from rent is below CR 500,000 are exempted.	10 percent.
• Tax on profits	A monthly tax on the profits of businesses, including interest, rent and royalty received, and capital gains from the sale of assets. An enterprise under the real regime system is subject to accounts-based profit taxes, and an enterprise under the estimated regime system is subject to a proxy profits tax based on estimated turnover.	Exemption from tax on profits provided under the Law on Taxation are: (i) the income of the Royal Government and institutions of the Royal Government, (ii) the income of religious, charitable, scientific, literary or educational organization, (iii) the income of labor organizations, chamber of commerce, industry or agriculture, and (iv) the profit from the sale of agricultural produce. In addition, under the Law on Investment, exemptions can be granted by the Council for the Development of Cambodia (CDC) to investing enterprises for up to 8 years, commencing the year the investment project first becomes profitable. Deductions allowed from tax on profits are: (i) interest expenses, (ii) depreciation of tangible, and intangible property, and natural resources resources, and (iii) charitable contributions. Carry forward of losses is also allowed.	For corporations, the tax rates applied to annual profits are as follows: (i) an investment enterprise during the period of tax exemption, 0 percent; (ii) and investment enterprise after the period of tax exemption, 9 percent; (iii) enterprises engage in production or exploitation of oil, gas, natural resources including timber, ore, gold, and precious stones, 30 percent; (iv) other legal person, 20 percent. For noncorporation, progressive rates applied to annual profits are as follows: (i) CR 0-6,000,000, 0 percent; (ii) CR 6,000,001-15,000,000, 5 percent; (iii) CR 15,000,001-102,000,000, 10 percent; (iv) CR 102,000,001-150,000,000, 15 percent; and (v) 150,000,000 and higher, 20 percent.

Summary of the Cambodian Tax System

(As of November 2002)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2. Patent tax	An annual registration or license fee levied on all businesses, industries, and services. The base is the previous year's turnover, or estimated turnover. New businesses are taxed on the basis of a provisional estimate.	Farmers are not subject to the tax.	For business and industries, the patent is levied according to annual turnover as follows: (i) CR 0-7,500,000 = CR 15,000; (ii) CR 7,500,001-12,500,000 = CR 21,000; (iii) CR 12,500,001-25,000,000 =CR 27,000; (iv) CR 25,000,001-30,000,000 = CR 40,000,000; (v) CR 30,000,001-37,500,000 =CR 60,000,000; (vi) CR 37,500,001-50,000,000 = CR 90,000,000; (vii) CR 50,000,001-62,000,000 = CR 140,000; (viii) CR 62,000,001-75,000,000 = CR 180,000; (ix) CR 75,000,001-1 million = CR 240,000, (x) CR 100,000,001-1 billion (max.) = 0.1 percent of turnover. For services, the patent is levied according to annual turnover as follows: (i) CR 0-3,000,000 = CR 15,000; (ii) CR 3,000,001-5,000,000 = CR 21,000; (iii) CR 5,000,001-10,000,000 = CR 27,000; (iv) CR 10,000,001-12,000,000 = CR 40,000,000; (v) CR 12,000,001-15,500,000 = CR 60,000,000; (vi) CR 15,000,001-20,000,000 = CR 90,000,000; (vii) CR 20,000,001-24,800,000 = CR 140,000; (viii) CR 24,800,001-30,000,000 = CR 180,000; (ix) CR 30,000,001-40,000,000 = CR 240,000, (x) CR 40,000,001-400,000,000 (max.) = 0.25 percent of turnover.
3. Taxes on domestic goods and services • VAT	Value-added tax, applied to any person subject to the Real Regime system. It covers both goods and services, extending through all stages of importation, production and distribution.	Exempted from the VAT are: (i) public postal service, (ii) hospitals, clinics, medical and dental services, and the sale of medical and dental goods, (iii) public transportation services, (iv) insurance services, (v) primary financial services, (vi) the import of goods for personal use exempted from customs duties, (vii) nonprofit activities in the public interest, (viii) the import of goods for or by foreign diplomats and consular missions, international organization and agencies of technical cooperation of other governments for use in the exercise of their official function. The calculation of tax payable in a tax period, a credit is allowed to the taxable person for the tax payable in respect of: (i) all taxable supplies made to that person during the tax period, (ii) all imports of goods by that person during the tax period. The credit is only allowed if the supply or import is for use for taxable supplies of the taxable person. Shall not be allowed input tax credit for any tax paid on: (i) purchases or imports of automobiles, unless the taxable person is in the business of dealing in, or hiring such automobiles, (ii) entertainment, amusement and recreation expenses, unless the taxable person is in the business of providing entertainment, amusement and recreation, (iii) purchases of petroleum products for use as road fuel, unless the taxable person is in the business of supplying petroleum products.	Uniform rate of 10 percent.

Summary of the Cambodian Tax System
(As of November 2002)

Tax	Nature of Tax	Exemptions and Deductions	Rates
• Turnover tax	A monthly tax on business turnover, applied to any person subject to the estimated regime system.	Agricultural products sold by primary producers (but not sold by traders); and mobile traders and small permanent establishments, as determined by the Minister of Economy and Finance. Enterprises operating under the Law on Investment are not automatically exempted from the turnover tax.	Uniform rate of 2 percent.
• Minimum tax	The Minimum Tax is applied as a percentage of the annual taxpayer's turnover. It is due irrespective of the taxpayer's profit or loss position	An exemption has been provided to those taxpayers that have been granted the status of Qualified Investment Project under the Law on Investment on profits under the Qualified Investment Project.	1 percent of the taxpayer's annual turnover.
• Excise tax	A tax levied on select products, both locally produced and imported.	None.	Airline tickets and telecommunication services: 2 percent Motor vehicles ((smaller than 2000 cc): 45 percent Automobiles (2000 cc and larger): 80-110 percent Spare parts for motor vehicles (125 cc and larger): 15 percent Spare parts for motor vehicles (2000 cc and larger): 25 percent Cigarettes: 33.33 percent Alcoholic products (spirits and wine) 33.33 percent Beer: 20 percent Gasoline: 33.33 percent Diesel: 4.35 percent Lubricating oil: 25 percent
• Stamp tax	Tax payable in the form of stamps affixed to some documents.	None.	Specific small amounts depending on the type of document, ranging from CR 100 for school registration to CR 2,000 for investment authorizations.
4. Slaughter tax	Tax levied on slaughterhouses based on the value of the livestock that is slaughtered.	Exempted from slaughter tax are livestock (i) slaughtered for celebrating national tradition, (ii) slaughtered for research uses, and (iii) killed in accident.	Uniform rate of 3 percent of the set price for each animal.
5. Registration tax (Taxes on property transfer)	Tax levied on the transfer of land, buildings, motor vehicles, motorcycles, and ships.	Transfers of property ordered by the State are exempted, as are government transfers, public utilities, and charitable organizations. The sale of motor vehicles is also exempted if the seller is subject to the turnover tax or the profits tax.	Tax is paid by purchaser at 3 percent of presumptive values.

Summary of the Cambodian Tax System
(As of November 2002)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. Taxes on international trade			
Taxes on imports - Import duties	Effective January 2000, a general tariff (based on the Harmonized System classification) has been levied on all imports. All rates are ad valorem and duties are levied on c.i.f. basis, except for a number of products including automobiles, petroleum products, steel, cigarette, and chemical fertilizers. For these products, values for duty purposes are fixed by the Minister of Economy and Finance.	Exempted from import duties are: (i) imports for projects and investments approved by the CDC, on approval at the time of import; (ii) fuel for Royal Air Cambodge, up to a ceiling of 2,000 tons of aviation fuel; (iii) insecticides, pesticides, and agricultural machinery (excluding tractors); and (iv) imports of embassies, international organizations providing humanitarian aid, and projects financed through bilateral grants and aid.	There are essentially four rate categories: (i) 0 percent for essential goods and basic raw materials; (ii) 7 percent for intermediate goods seed and others; (iii) 15 percent for machinery and equipment; and (iv) 35 for luxury goods including automobiles. Petroleum products: (i) Gasoline: 35 percent of the prescribed value of $320 per ton. (ii) Diesel: 15 percent of the prescribed value of $275 per ton.
- Additional Tax	Levied on selected products.	None.	(i) Gasoline: 2 cents per liter. (ii) Diesel: 4 cents per liter.
Export taxes			
Tax on timber	Ad valorem tax levied on the value of processed woods at export. Exports of woods are limited to those cut on government-agreed concessions. An export ban on all logs was introduced on December 31, 1996.	None.	0, 5, and 10 percent.
Tax on rubber	Ad valorem tax levied on rubber.	None.	7 percent.
Other products	Ad valorem tax levied on livestock and precious stones.	None.	0, 5, 10 and 50 percent.
7. Other taxes and fees			
• Motor vehicle tax	Annual levy automobiles and boats.	None.	Trucks: CR 160,000 Motor car: up to 9 horsepower CR 37,500 & 50,000 9-12 horsepower CR 50,000 & 75,000 over 12 horsepower CR 87,500 & 125,000 Motorcycles CR 3,000-7,500 Small power boat CR 5,000 Cargo ship (over 2,000 tons) CR 1,200,000 Sea-going fishing boat (over 500 horsepower) CR 300,000

Summary of the Cambodian Tax System
(As of November 2002)

Tax	Nature of Tax	Exemptions and Deductions	Rates
• Tax on unused land	Tax levied on land in specified cities and areas where there is no construction or with construction but not in use.	None.	Tax is paid by purchaser at 2 percent of presumptive values. The tax is calculated at 25 of the market value of the land per sq. m as determined by the "Commission for Evaluation of Unused Land" as at 30 June each year. The first 1,200 sq. m of land is free of tax. The owner of the land is required to pay the tax by 30 September each year.
• Tax for public lighting	The tax is levied on the distribution in Cambodia of alcoholic and cigarette products.	None.	3 percent of the sale value.

Source: Data provided by the Cambodian authorities.