



Cambodia: Macroeconomic Prospects and Policies

Presentation by Mr. John Nelmes
IMF Resident Representative in Cambodia
to the
Australian Business Association of Cambodia
October 2, 2009

The views expressed in this presentation are those of the author, and not necessarily those of the IMF, its Executive Board or Management.

Outline

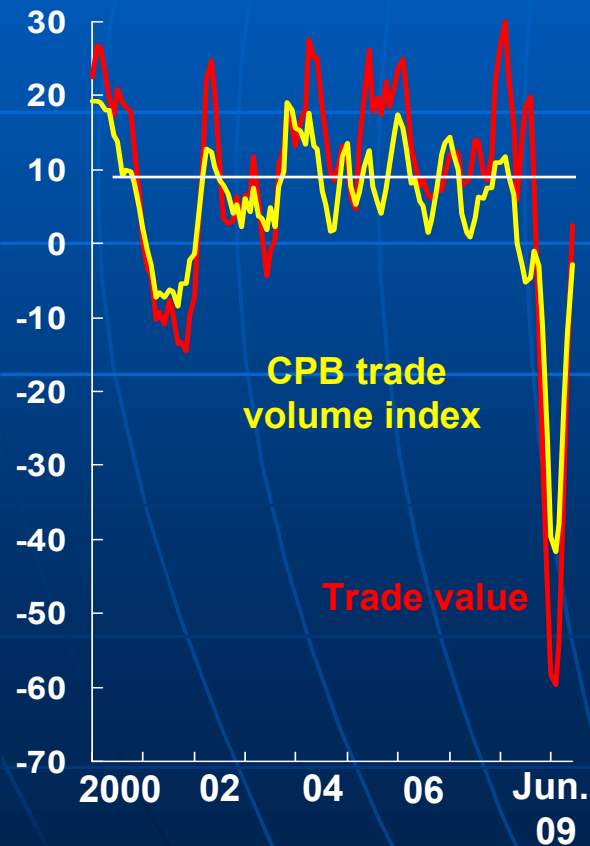
- The World Economic Outlook
- Regional Developments
- Cambodia: Impact, Outlook and Risks
- Macroeconomic Policy Options

World Economic Outlook

Following a deep plunge, a recovery is in the works but consumer confidence remains low, amid rising unemployment.

World Trade

(annualized percent change of 3mma over previous 3mma)



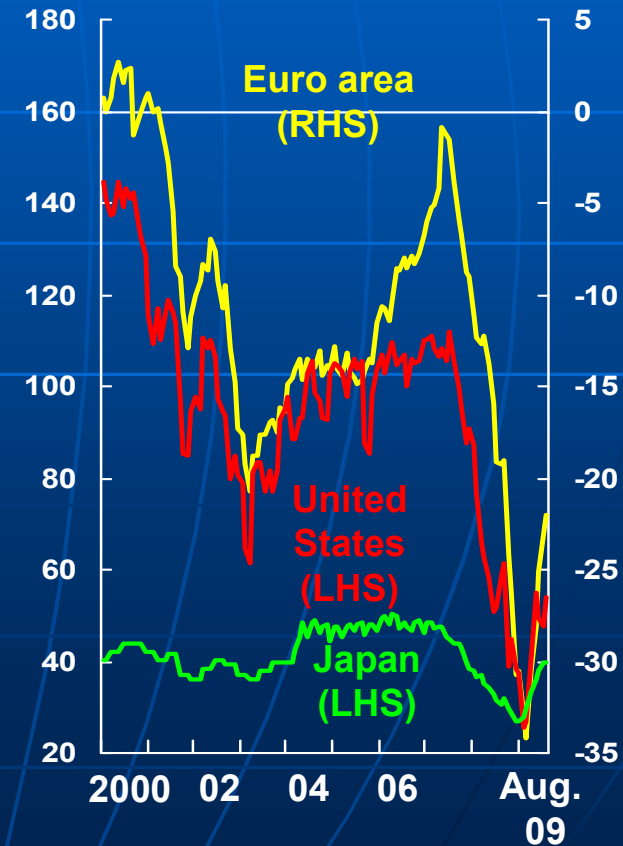
PMI Index

(index)



Consumer Confidence

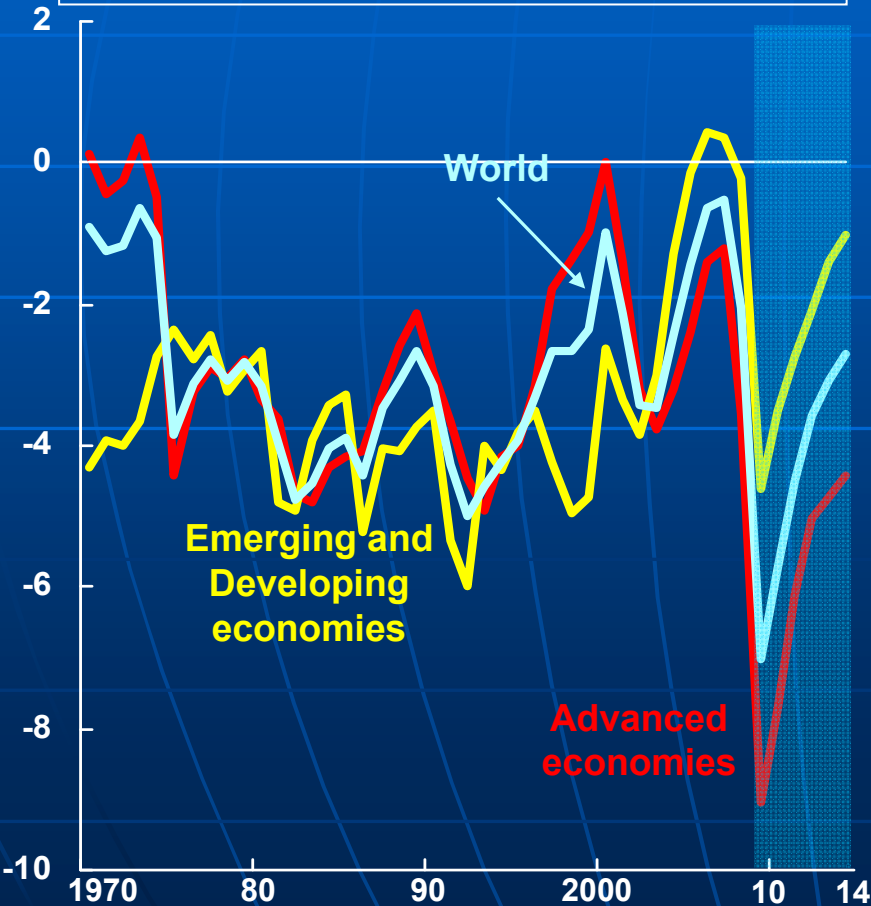
(index)



World Economic Outlook

Fiscal policy has played a major role, considering that conventional monetary policy has been constrained and less effective than usual, but fiscal support will diminish.

Fiscal Balance
(percent of GDP)



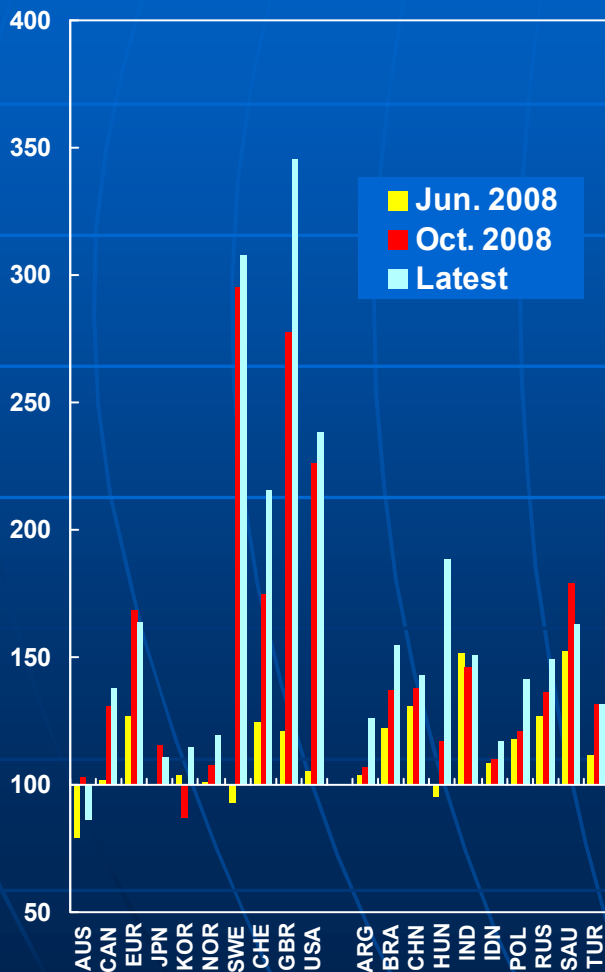
Public Debt
(percent of GDP)



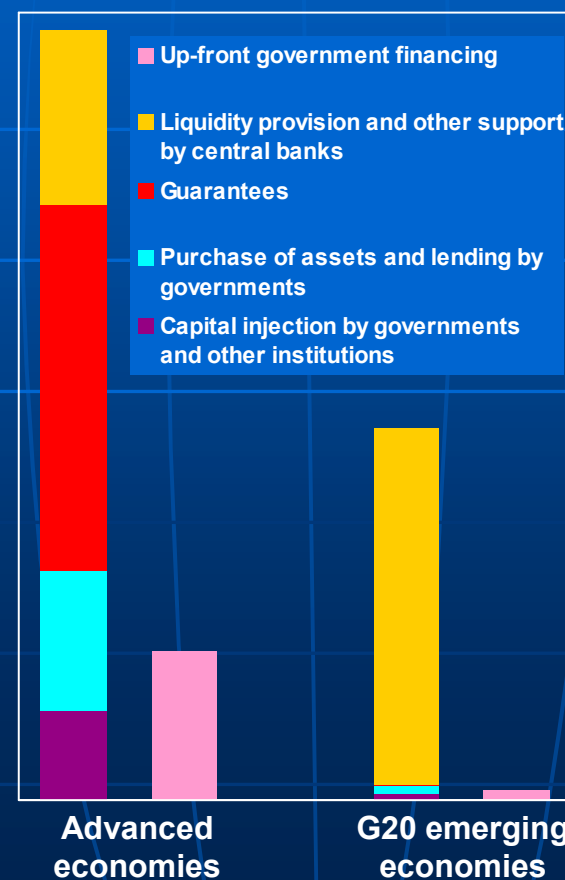
World Economic Outlook

Public support to ease financial stress has been critical, but at a cost.

Evolution of Central Bank Balance Sheets
(index, June 2007 = 100)



Support for Financial and Other Sectors and Up-Front Financing Need
(as of June 2009, in percent of 2008 GDP)

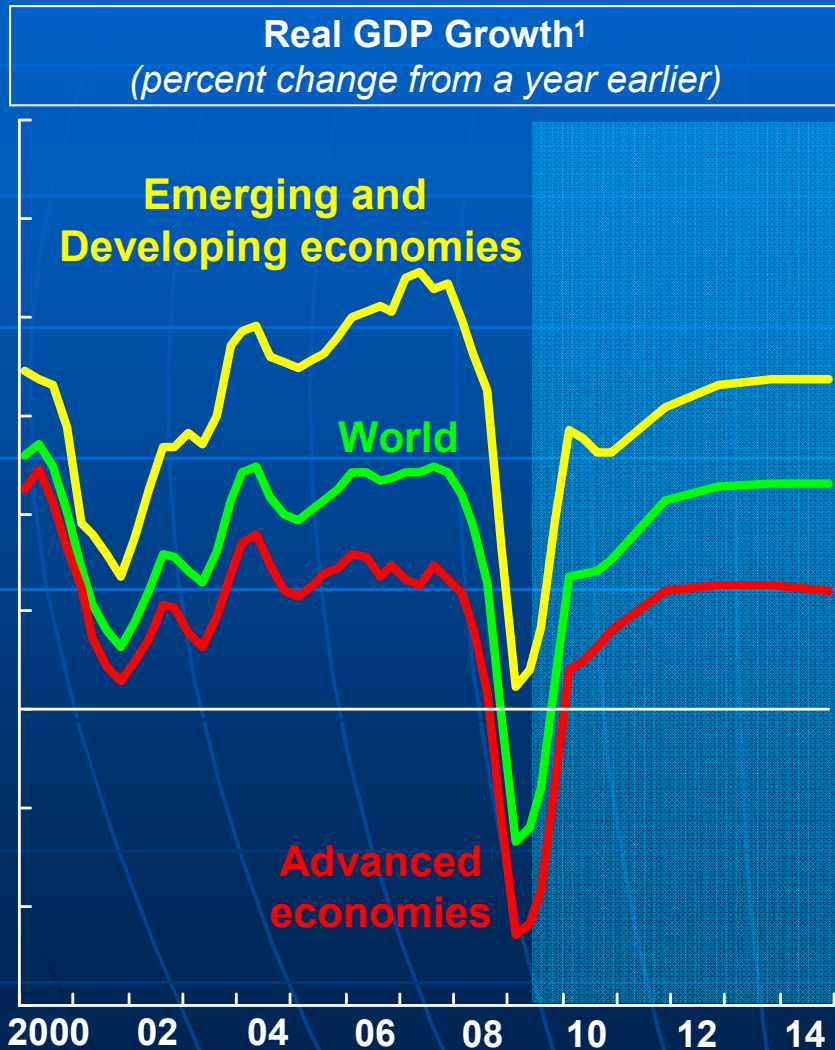


Sovereign CDS Spread
(basis points)



World Economic Outlook

Global growth is projected to pick up in 2010, but the recovery will be sluggish by past standards, with weak import growth in advanced economies



IMF World Economic Outlook

(annual percent change)

	2008	Projection	
		2009	2010
World output	3.0	-1.1	3.1
Advanced economies	0.6	-3.4	1.3
United States	0.4	-2.7	1.5
Euro area	0.7	-4.2	0.3
Japan	-0.7	-5.4	1.7
Australia	2.4	0.7	2.0
Newly industrialized Asian economies (1)	1.5	-2.4	3.6
Emerging and developing economies			
China	9.0	8.5	9.0
India	7.3	5.4	6.4
Asean-5 (2)	4.8	0.7	4.0
World trade volume	3.0	-11.9	2.5
Imports			
Advanced economies	0.5	-13.7	1.2
Emerging and developing economies	9.4	-9.5	4.6
Commodity prices			
Oil	36.4	-36.6	24.3
Non-fuel	7.5	-20.3	2.4

(1) Hong Kong SAR, Korea, Singapore, Taiwan Province of China.

(2) Indonesia, Malaysia, Philippines, Thailand and Vietnam

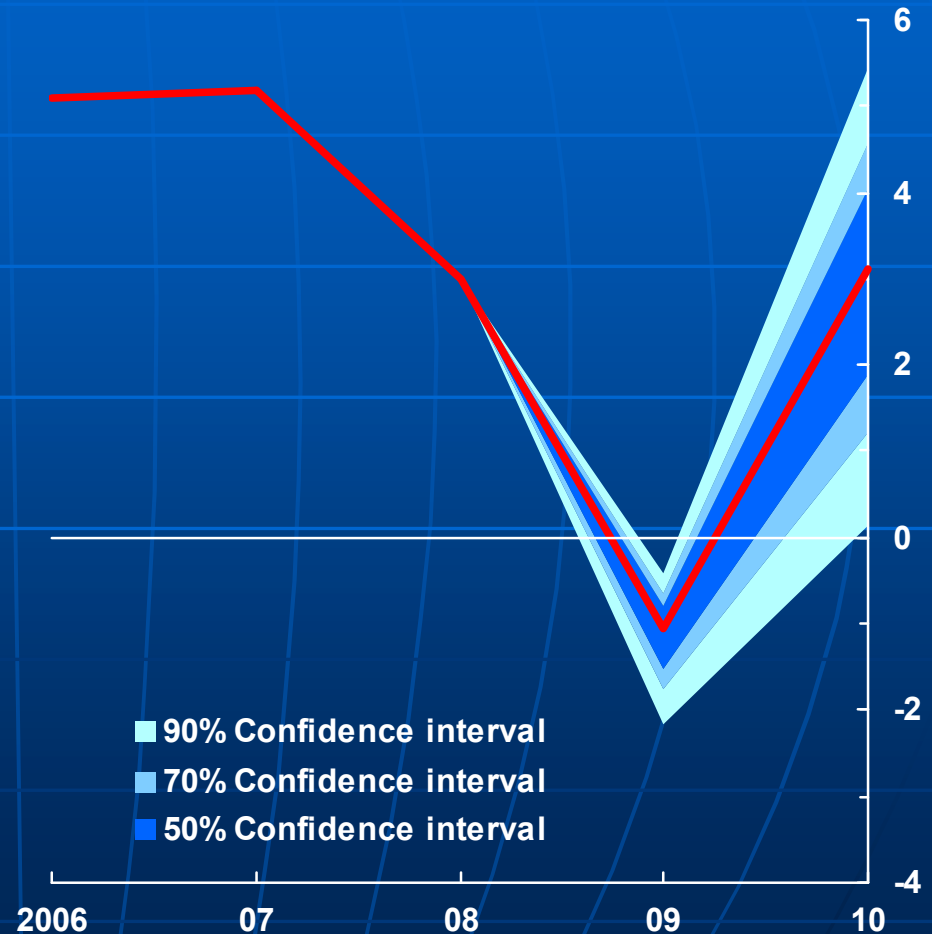
¹ Quarterly data through 2010 and annual data afterwards.

World Economic Outlook

Risks are mainly on the downside

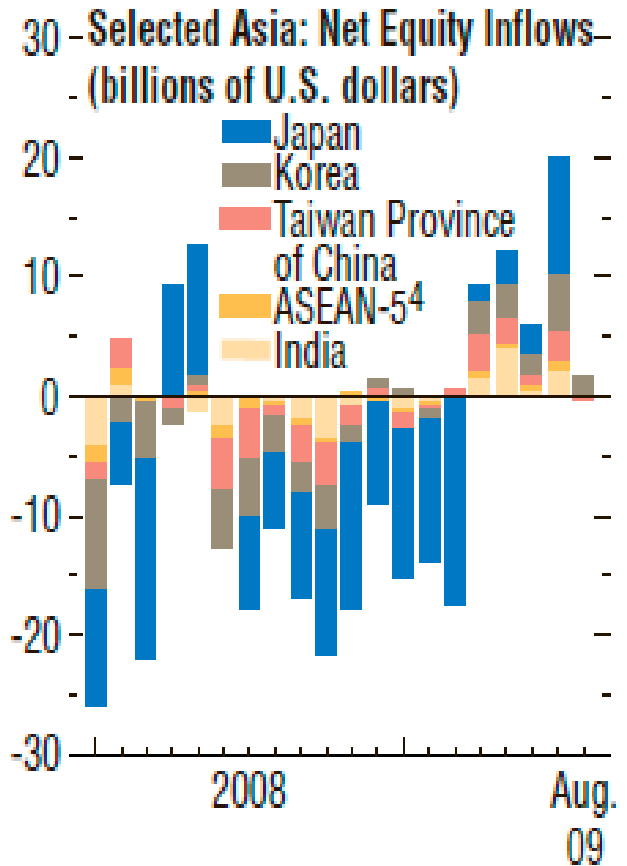
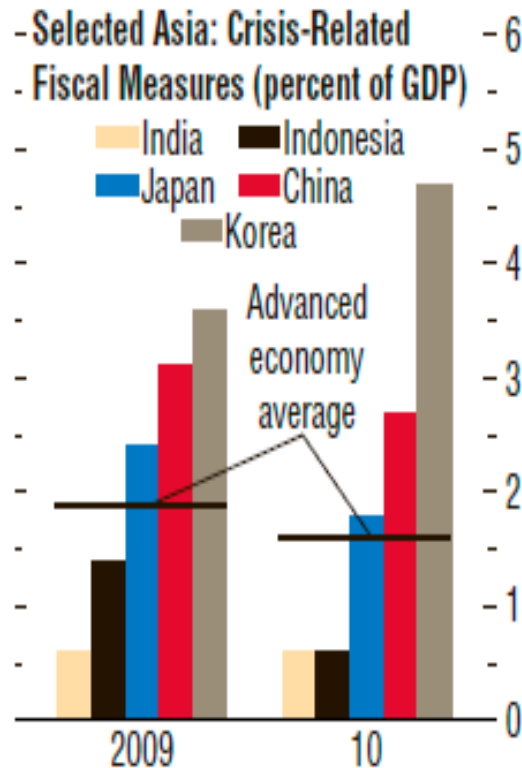
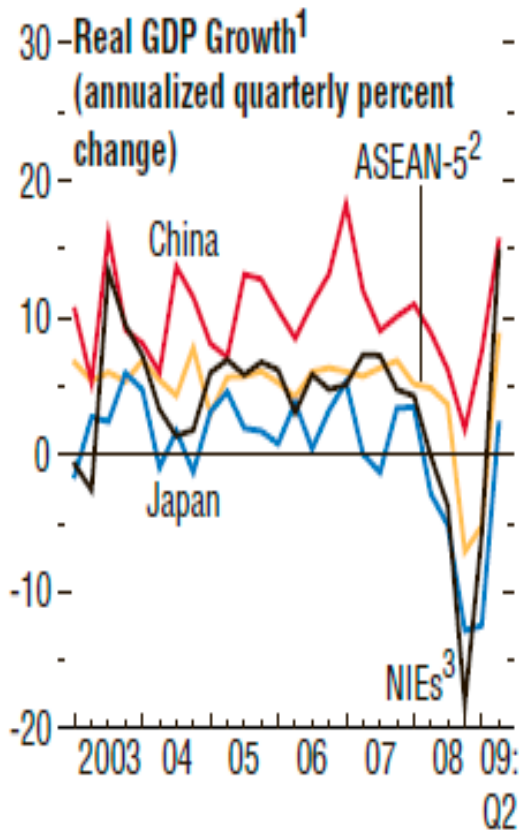
- Premature withdrawal of public support, because recovery seemingly self-sustaining.
- New financial disaster, oil price surge, swine flu: economy's capacity to absorb new shock is very low.
- Fiscal credibility loss or questions about continued independence of central banks.
- Upside: we may underestimate effects of reduced uncertainty/greater confidence.

Prospects for World GDP Growth (percent change)



Regional Developments

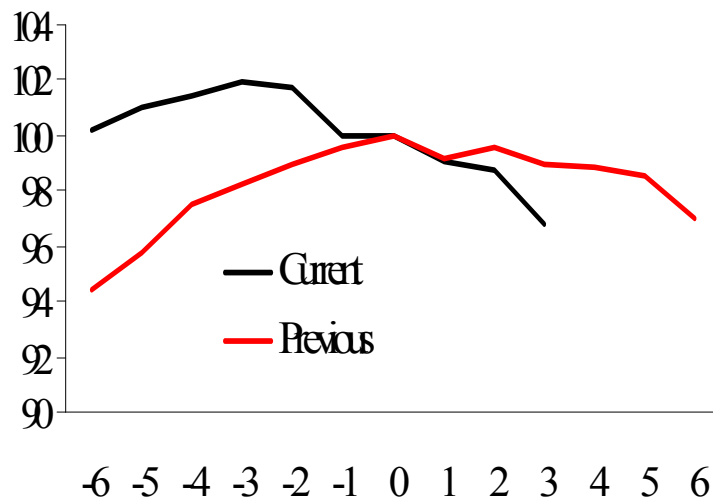
Asia's recent performance has been better than expected, due to front-loaded fiscal stimulus, capital inflows and inventory rebuilding.



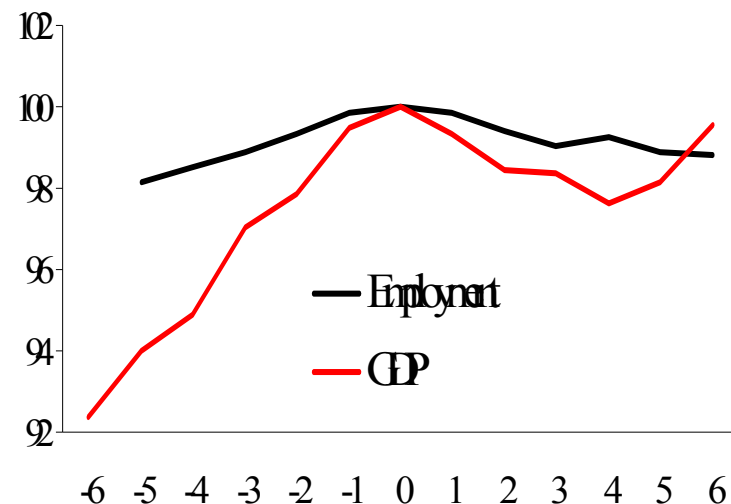
Regional Developments

However, caution on growth is warranted over the near term, as labor market weakness may hold back private consumption

Real wages around selected Asian business
cycle episodes
(median, 100 at peak)



GDP and Employment around selected Asian
business cycle episodes
(median, 100 at peak)



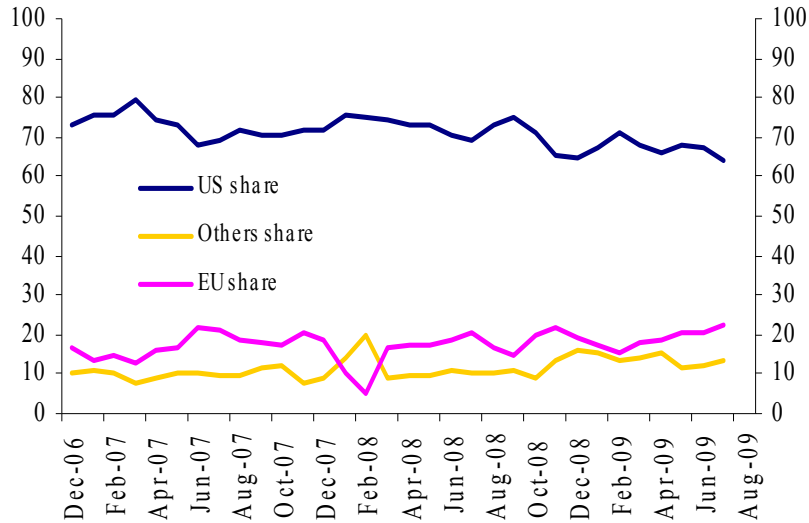
Impact on Cambodia

- Narrow growth sources hit hard by global crisis
- Agriculture a bright spot, new investment in roads and irrigation should raise productivity and reduce operating costs
- Aftermath of falling property prices
- Slow bank lending constraining domestic demand

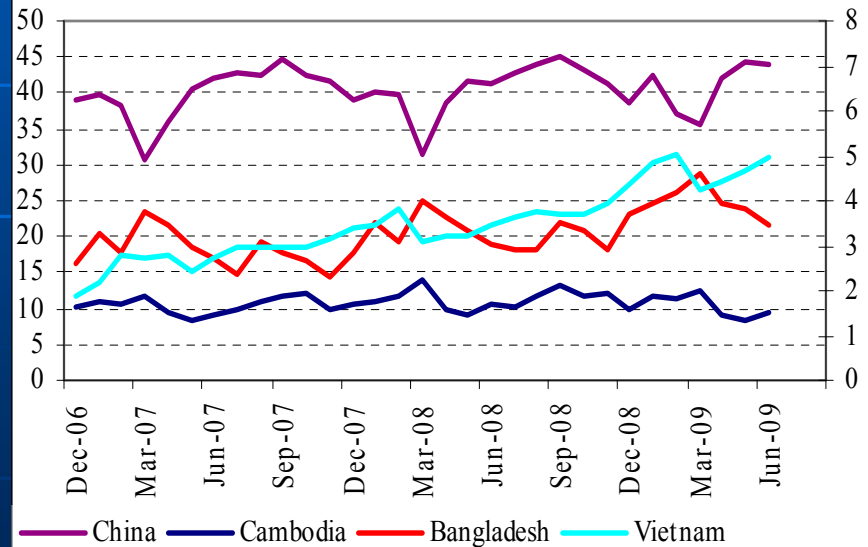
Impact on Cambodia

The U.S. remains the largest garment export market, but Cambodia has been unable to raise market share like other regional producers.

**Cambodia: Garment Export Volumes
Market Share
(in percent)**



**US Textile and Apparel Import Volumes
Market Share (in percent)
China (left), Cam, BLD, & VN (right)**

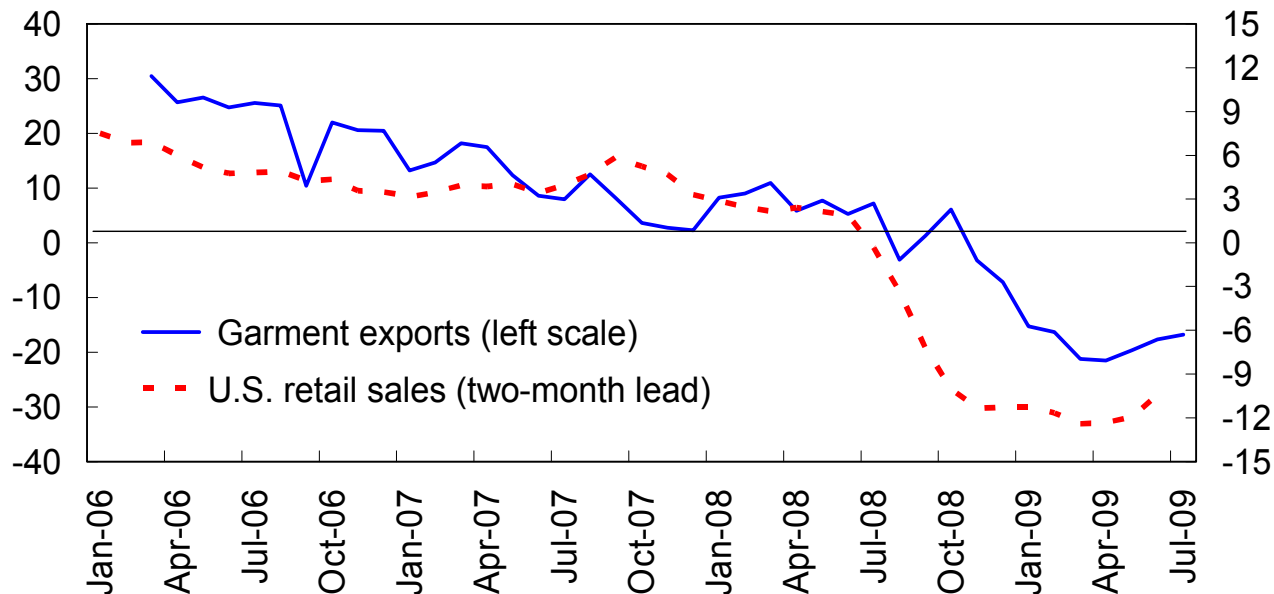


Impact on Cambodia

The sharp drop in U.S. retail sales has dragged down Cambodia's garment exports...

Cambodia: Garment Exports and U.S. Retail Sales Growth, 2006–09

(Seasonally adjusted, 3-month moving average)



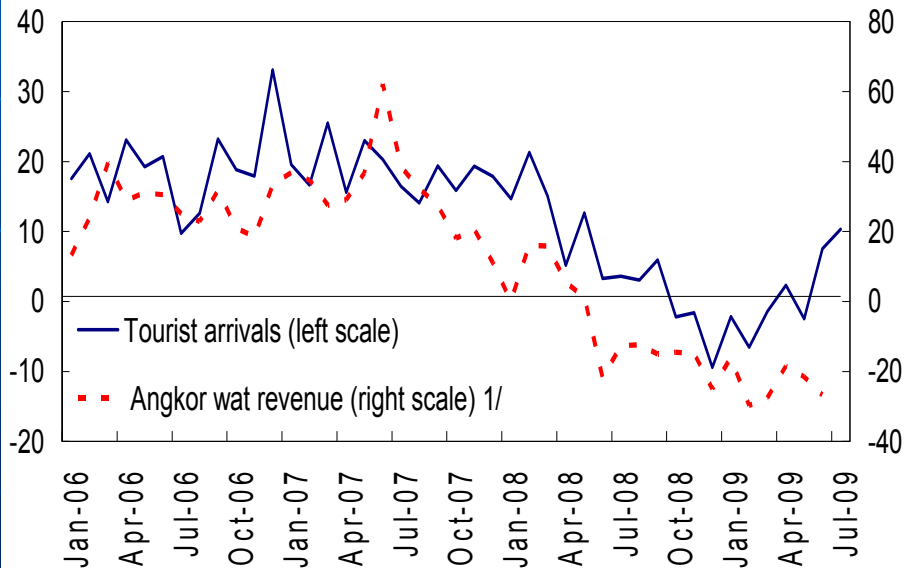
Sources: Data provided by the Cambodian authorities; U.S. Federal Reserve Bank; and IMF staff estimates.

Impact on Cambodia

- High value-added tourism is down with air arrivals, more than offsetting the boost from land arrivals.
- Angkor Wat revenues are lower than last year.

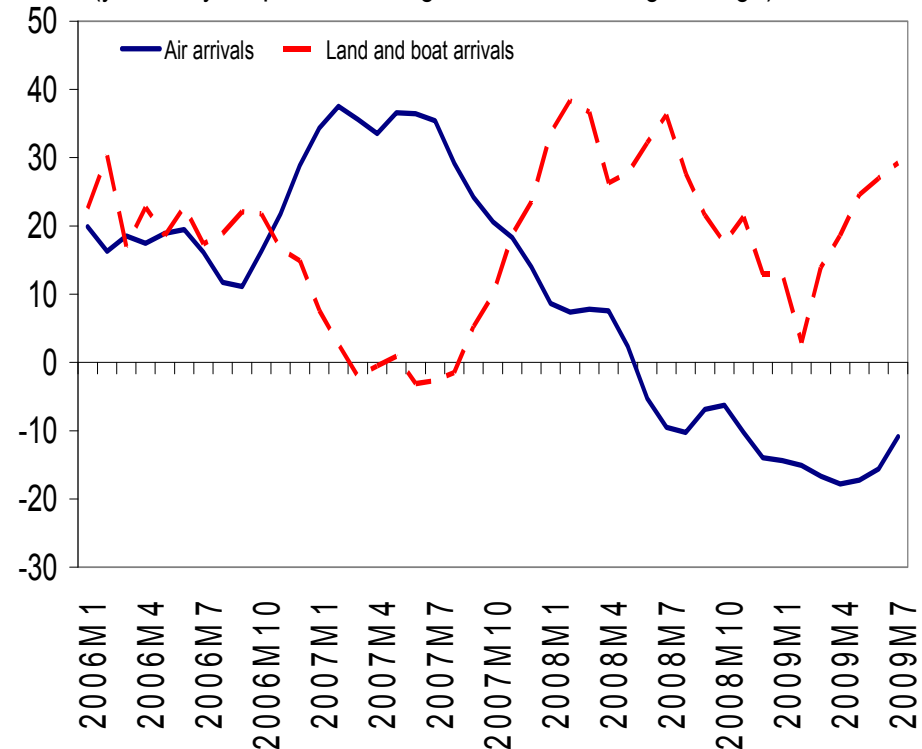
Cambodia: Total Tourist Arrivals and Angkor Wat Revenue, 2006–09

(Year-on-year growth, in percent)



Sources: Data provided by the Cambodian authorities; and IMF staff estimates.
1/ Revenue from ticket sales.

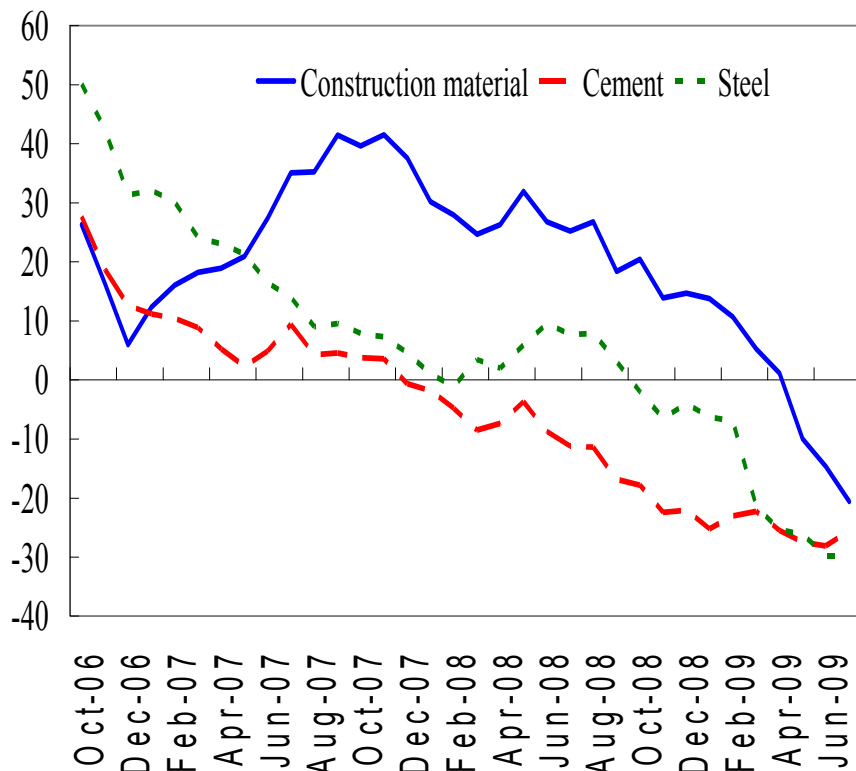
Cambodia Tourist Arrivals (year-on-year percent change, 3-month moving average)



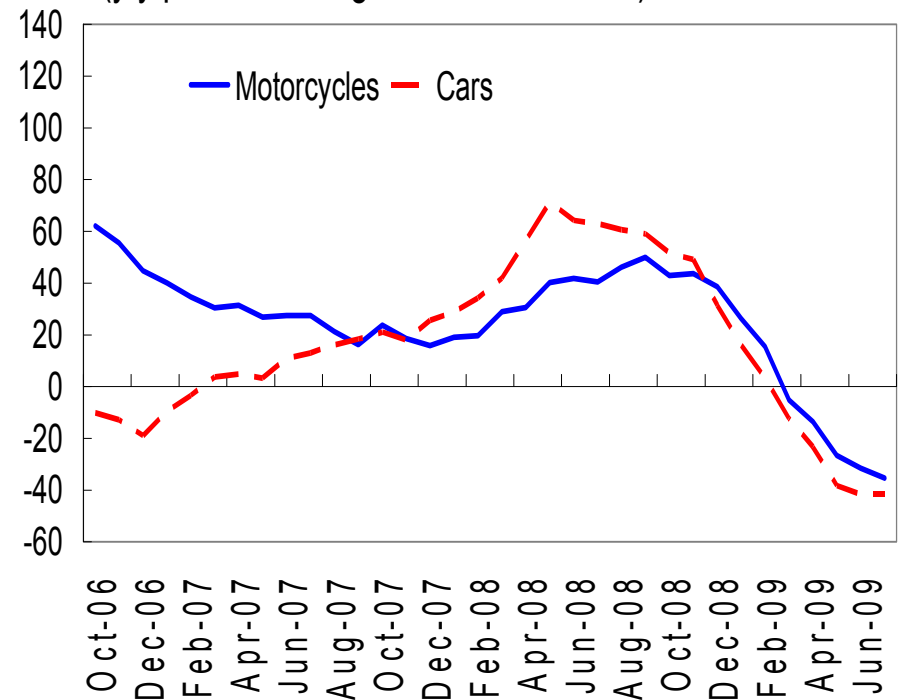
Impact on Cambodia

- Construction and retail activity are extremely weak, as evidenced by sharply falling imports.

Cambodia Imports
(y/y percent change in 12 month total)



Cambodia Imports
(y/y percent change in 12 month total)

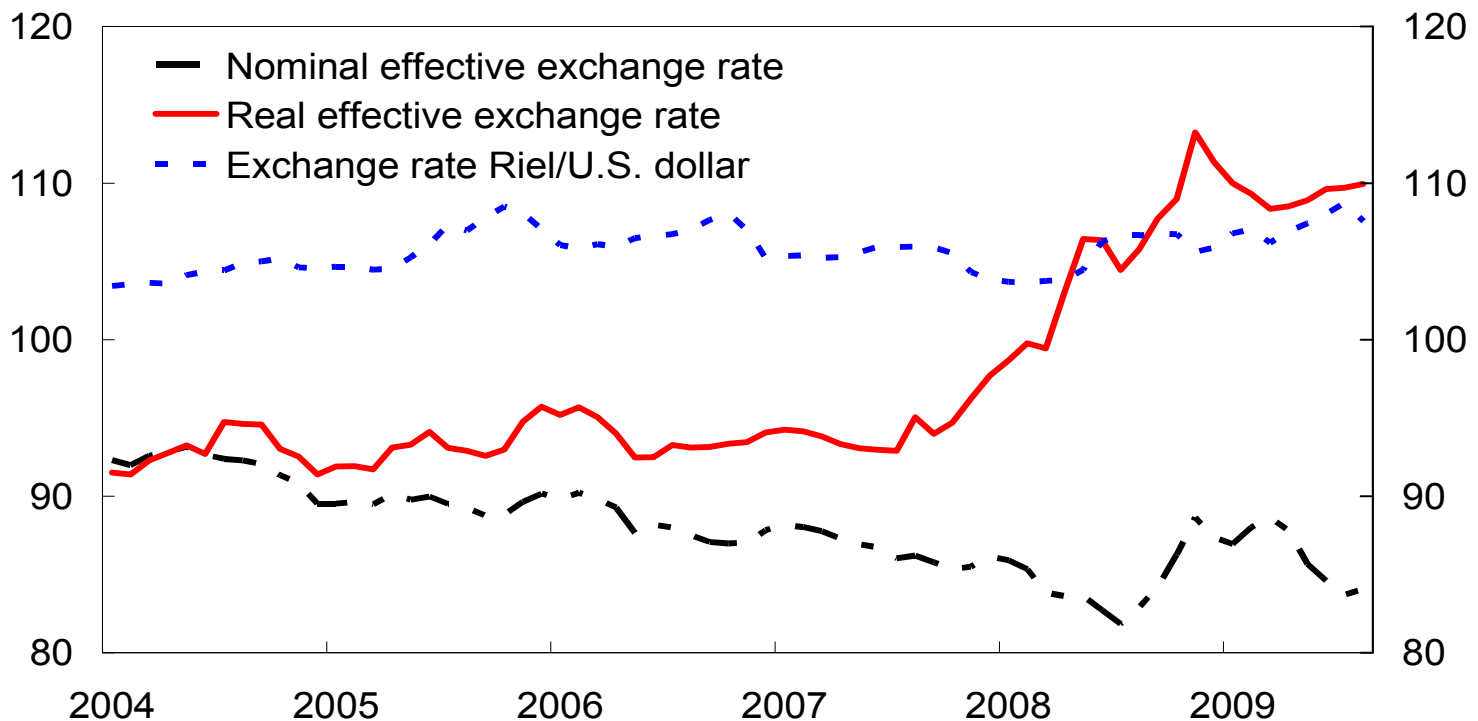


Impact on Cambodia

- The real effective exchange rate has appreciated, possibly undermining competitiveness.

Cambodia: Effective Exchange Rates, 2004–09

(Index 2000=100)

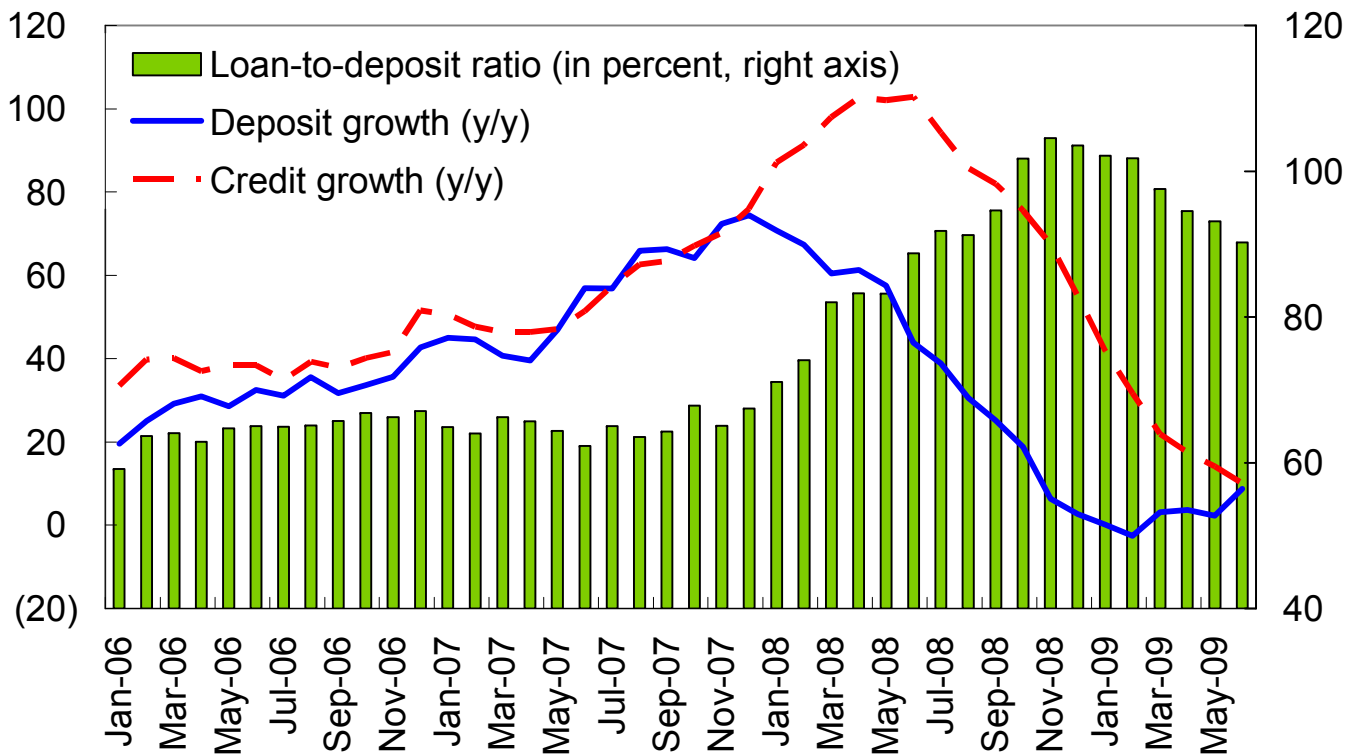


Sources: National Bank of Cambodia; and IMF, *Information Notice System*.

Impact on Cambodia

- Credit has become less supportive of growth.

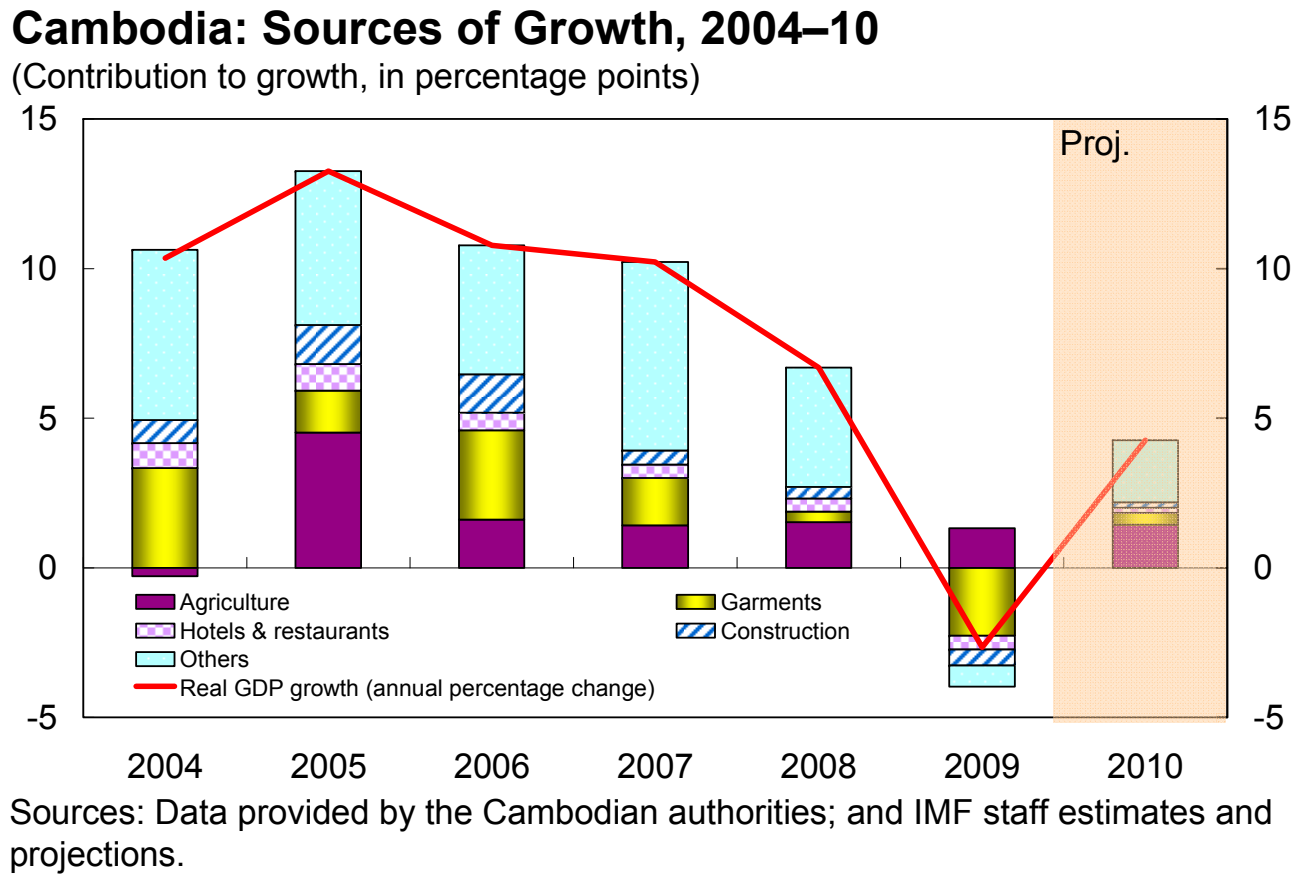
Cambodia: Deposit and Credit Growth, 2006–09



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

Cambodia Outlook

- Real GDP growth is projected to be negative 2¾ percent in 2009, with a modest recovery to 4¼ percent in 2010.

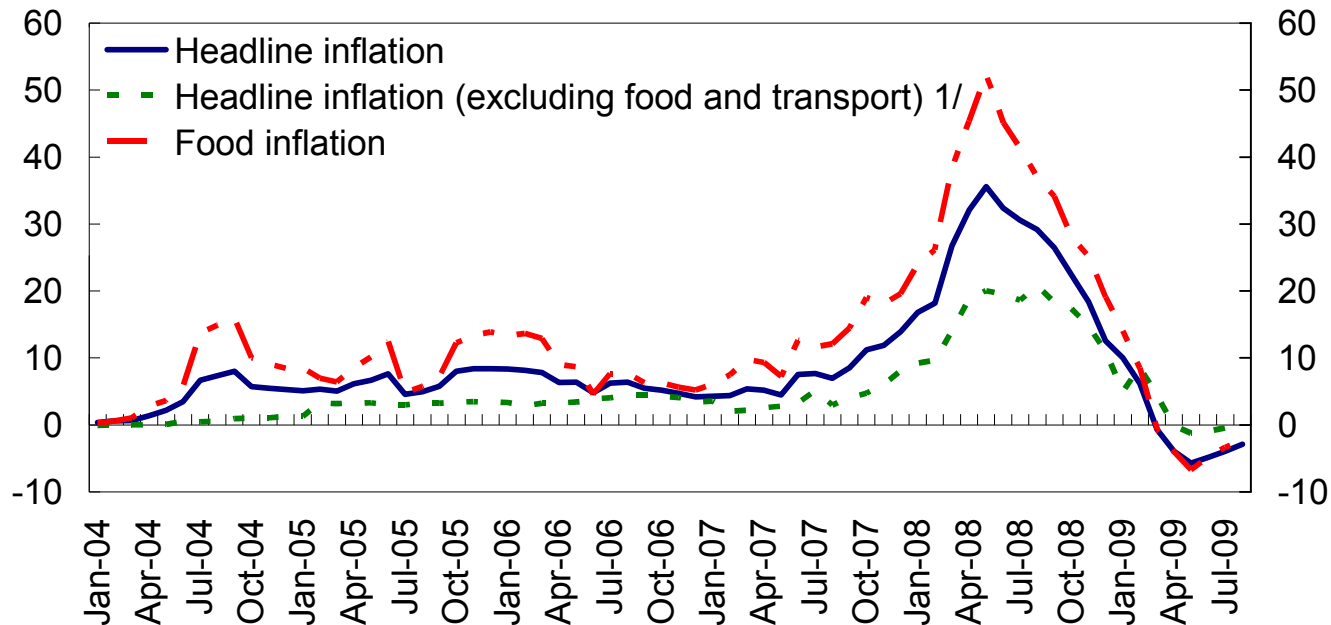


Cambodia Outlook

- Inflation has fallen sharply. However, prospects for higher oil prices and a highly expansionary fiscal stance pose upside risks.

Cambodia: Inflation Developments, 2004–09

(Year-on-year percent change)



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

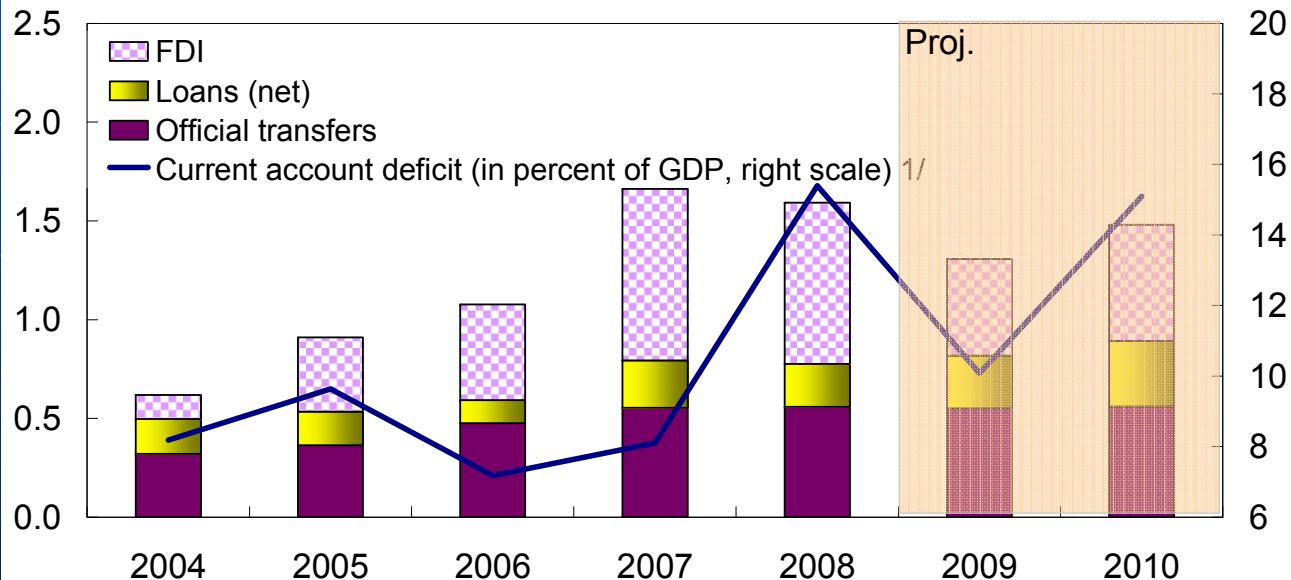
1/ Excludes food, beverages, and tobacco; and transportation and communication components of the consumer price index.

Cambodia Outlook

The current account deficit will shrink in 2009, driven by lower oil prices and reduced import demand (more than offsetting falling exports), before widening in 2010 as a recovery begins to take hold.

Cambodia: Current Account Balance and Financing Flows, 2004–10

(In billions of U.S. dollars)



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

1/ Current account balance excluding official transfers.

Near-Term Risks

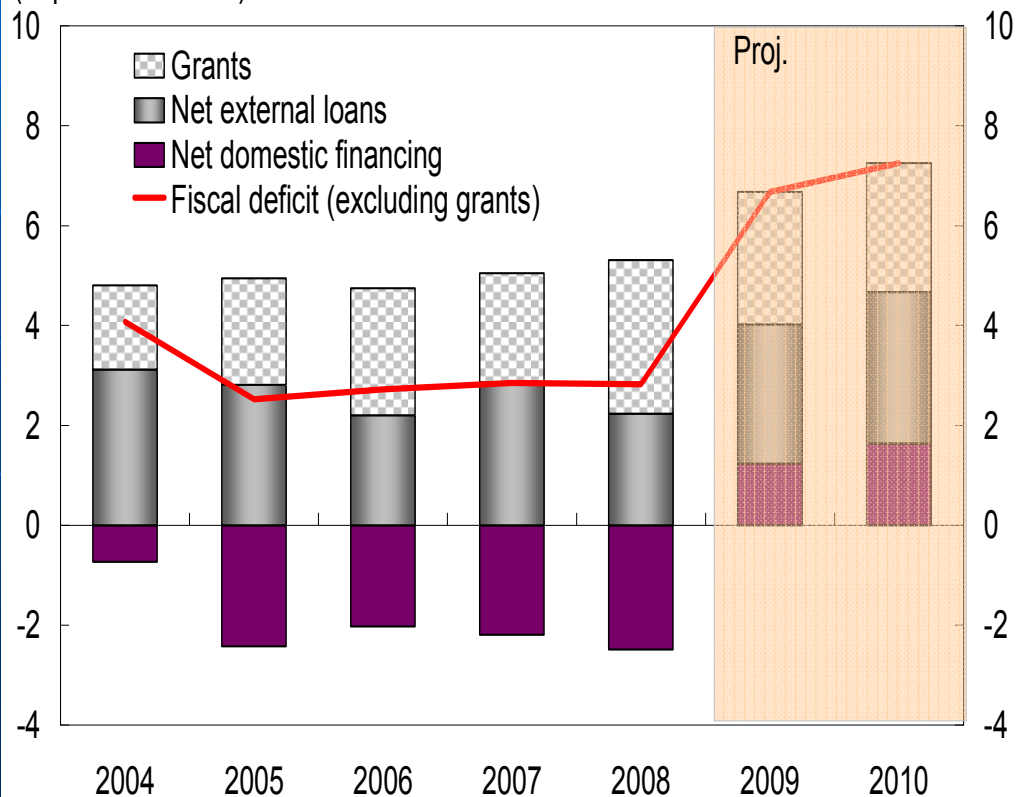
- A weaker-than-expected recovery in the U.S. and/or loss in market share for garment exports
- Delay in the global recovery and global fears about H1N1, affecting tourism
- Excessively loose fiscal stance, possibly leading to exchange rate pressure and inflation

Policy Options: Fiscal

- The overall fiscal deficit is expected to widen significantly in 2009, and further in 2010 absent adjustment measures.
- The size and composition of recurrent spending are a concern.
- The rise in domestic financing could undermine macroeconomic stability.
- A modest reduction in 2010 is recommended to help start path towards fiscal consolidation.

Cambodia: Fiscal Deficit and Financing, 2004–10

(In percent of GDP)



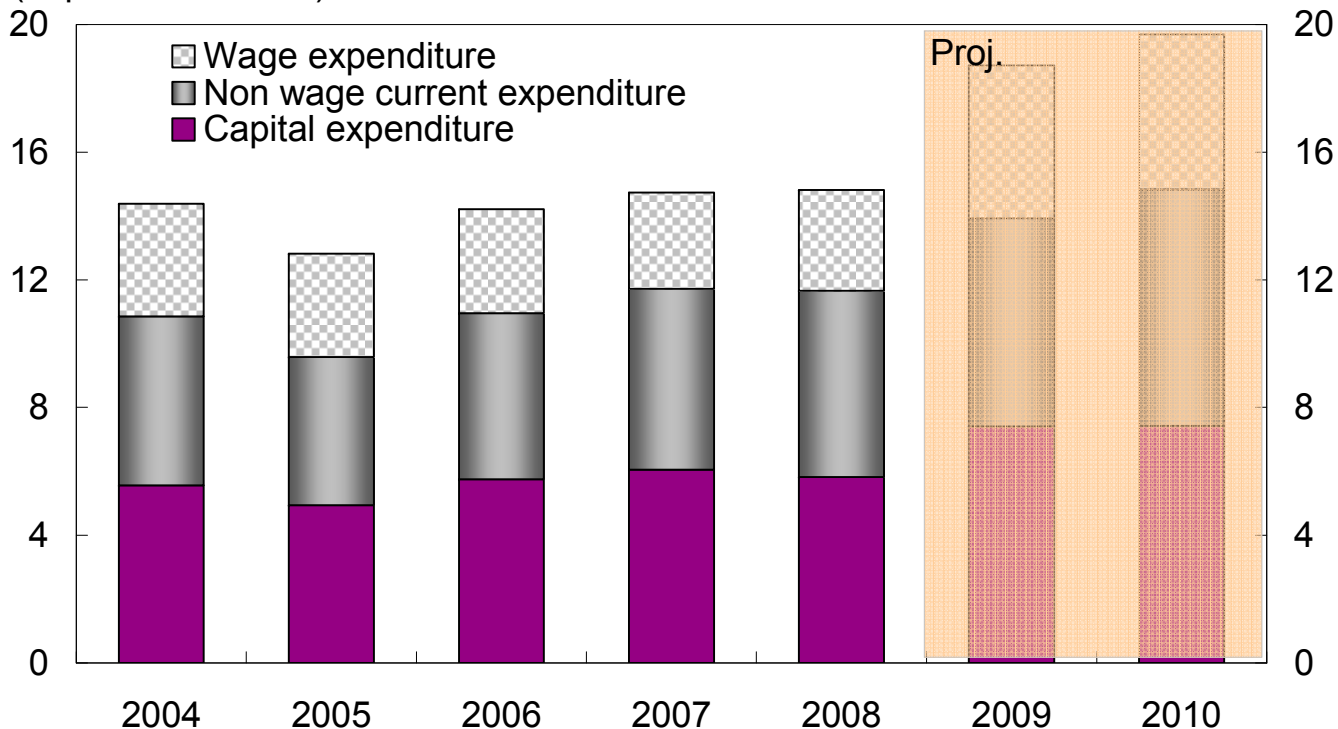
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

Policy Options: Fiscal

- Spending growth should be contained, especially in the 2010 budget.

Cambodia: Government Expenditure, 2003–09

(In percent of GDP)



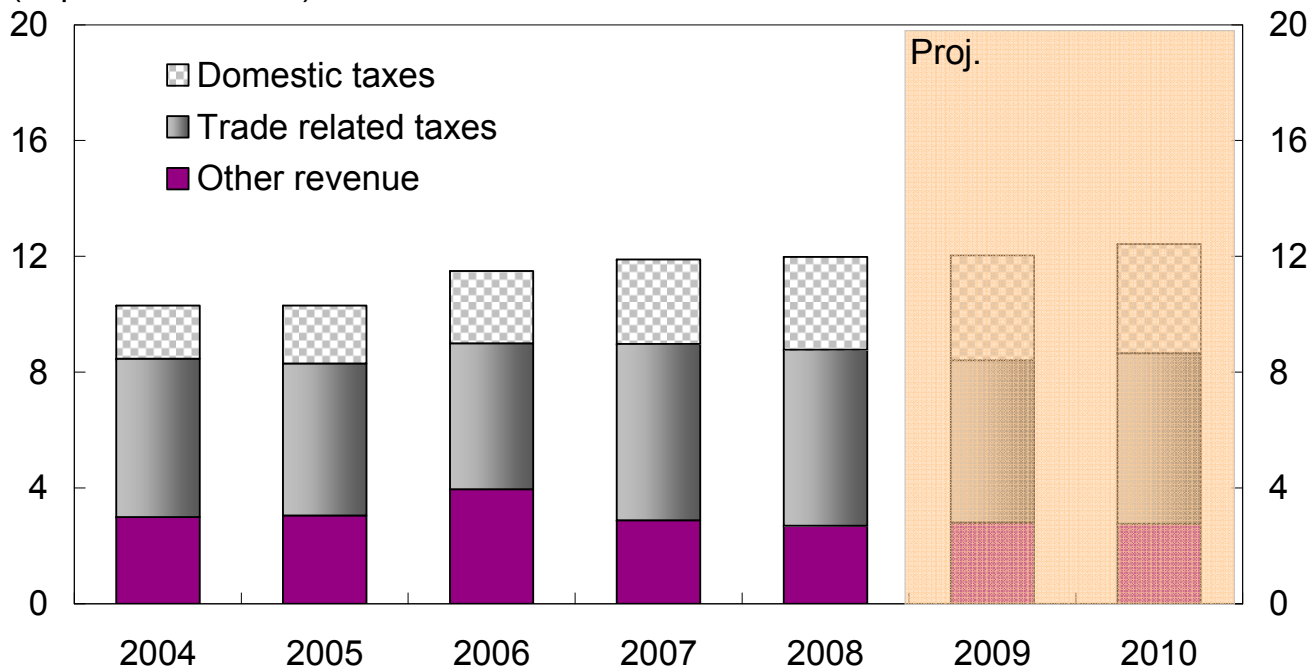
Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

Policy Options: Fiscal

- Commendable revenue performance in 2009 also needs to be maintained in 2010.

Cambodia: Government Revenue, 2003–09 1/

(In percent of GDP)



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

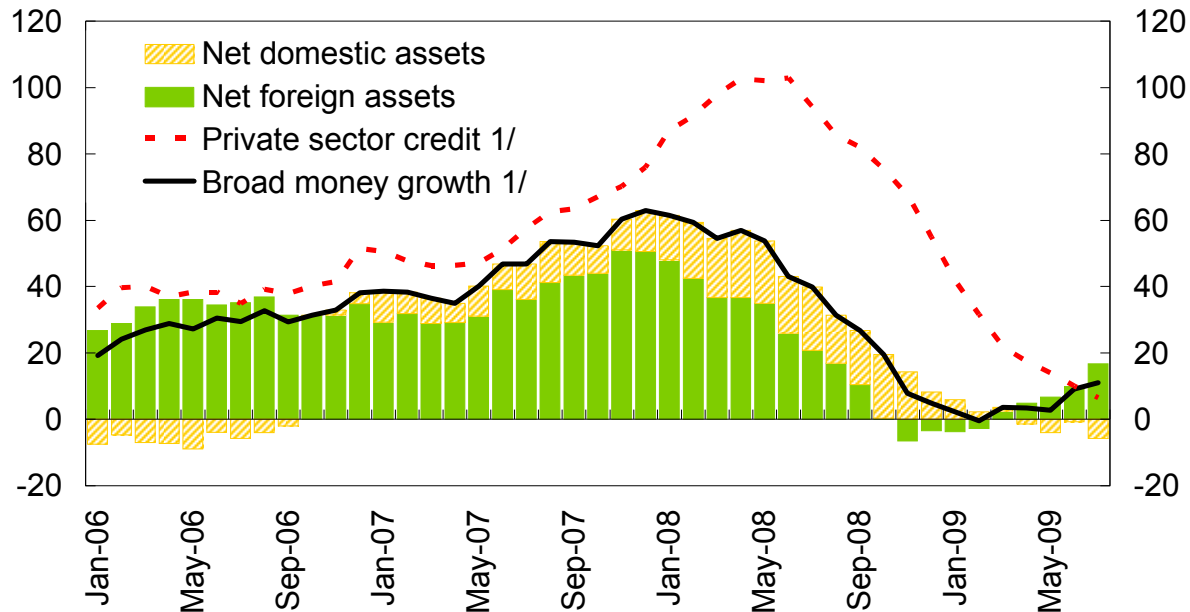
Policy Options: Monetary

With monetary conditions having eased, policies should focus on:

- Maintaining the reserve requirement at the current level.
- Develop the inter-bank market.
- Ensuring foreign exchange market intervention is geared toward smoothing short-term volatility

Cambodia: Monetary Developments, 2006–09

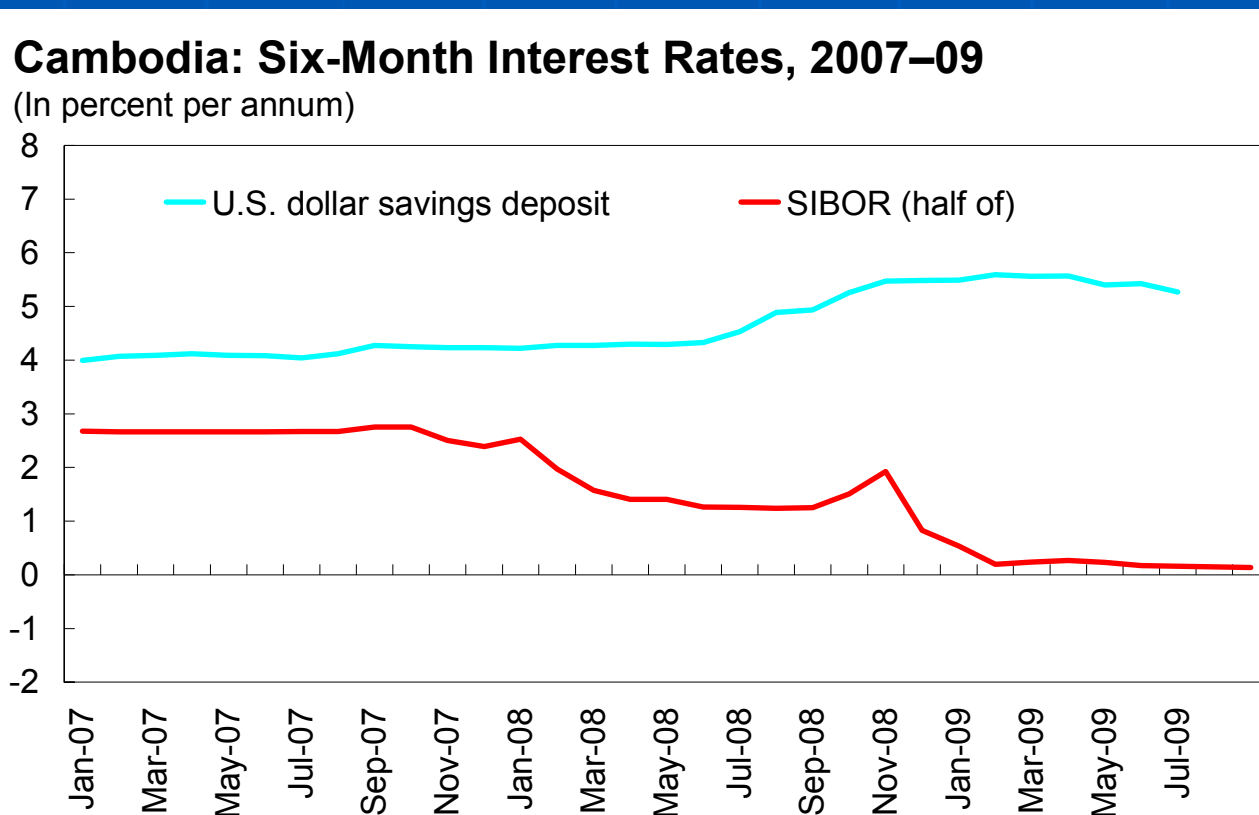
(Contribution to broad money growth, in percent)



Source: Data provided by Cambodian authorities; and IMF staff estimates.
1/ Year-on-year percent change.

Policy Options: Banking

- Banking system liquidity has improved, but high interest rates likely having adverse consequences on profitability.
- Strong supervision and enforcement of asset classification and provisioning required.



Source: Data provided by the Cambodian authorities.



Thank you for your attention!

John Nelmes
IMF Resident Representative in Cambodia

The views expressed in this presentation are those of the author, and not necessarily those of the IMF, its Executive Board or Management.