




Outline

- **Part I. Macroeconomic Development**
- **Part II. Policy Options and Response Measures**



Part I. Macroeconomic Development (Bhrama)

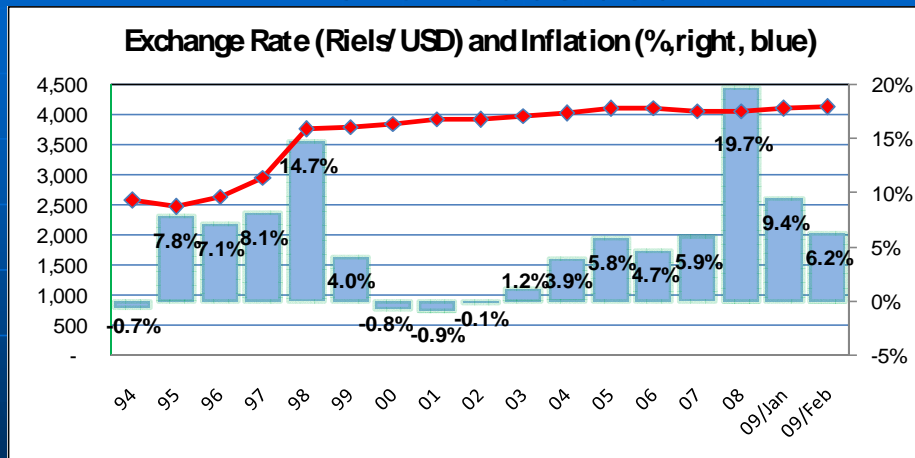
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Economic Conditions in 2009

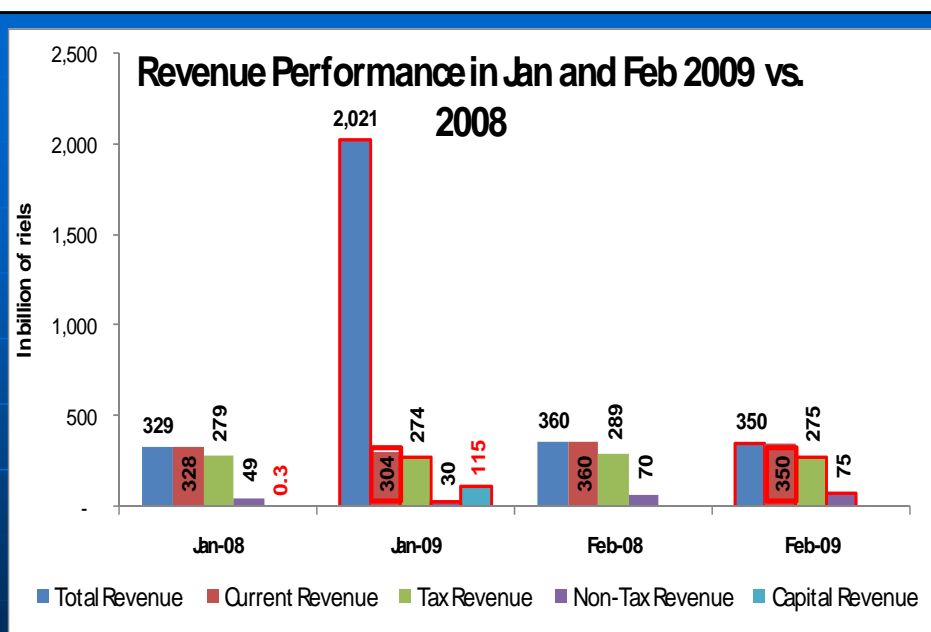
- G7 Finance Ministers and Central bankers said that economic activity should begin to recover later this year;
- IMF predicts slow recovery, no growth in 2010;
- Growth projection for Cambodia ranged from 6% to -1%;
- Inflation has reduced further in 2009 and recorded at 9.4% in Jan and 6.2% in Feb, y-o-y.
- The RGC is committed to maintain 2009 budget and protect social spending, health and education.

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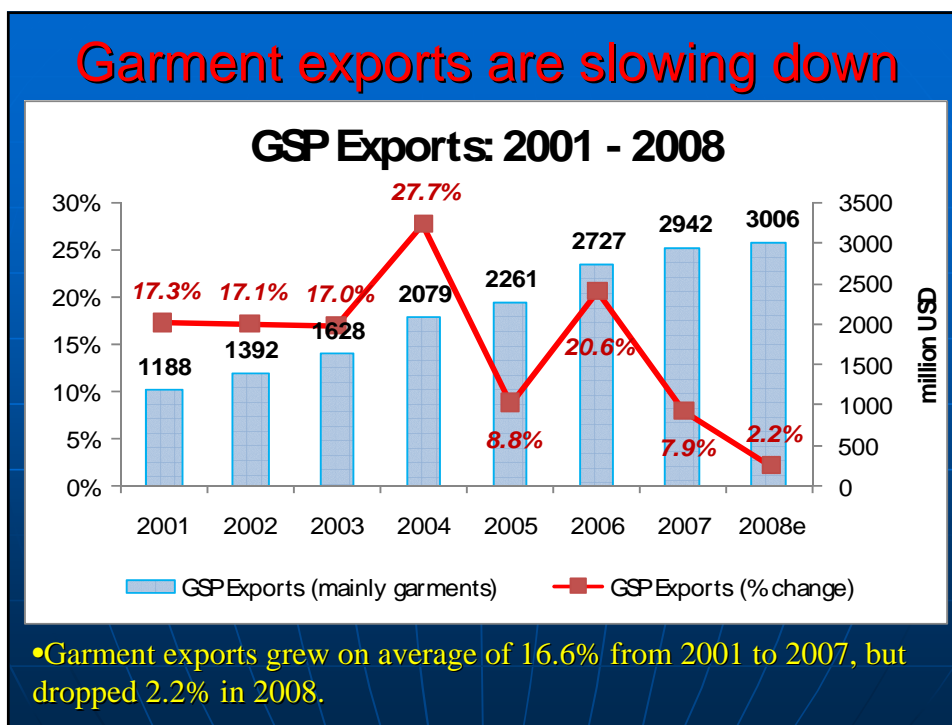
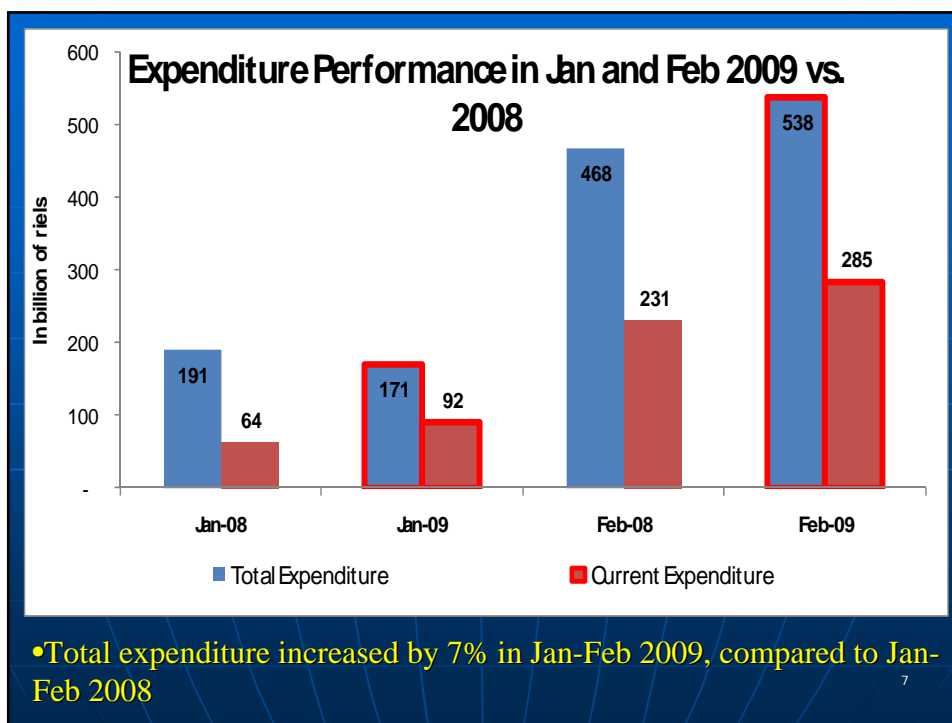
Exchange rate is stable while inflation subsided



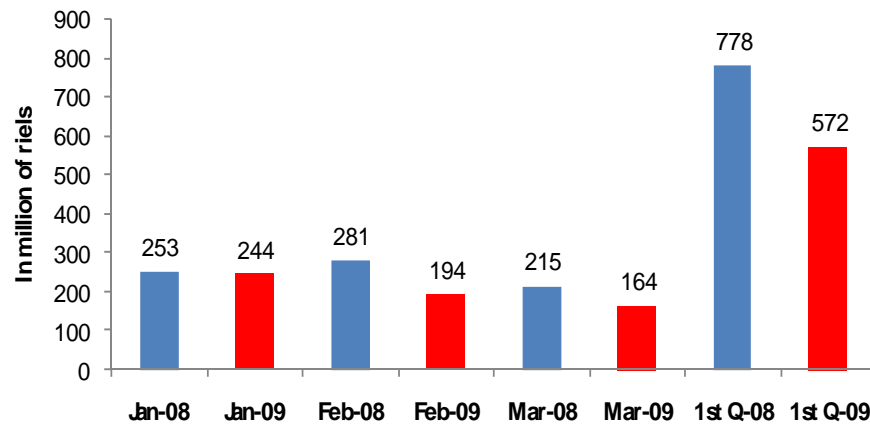
- In 2008 inflation hit highest since 1994 due to soaring food price and oil price and depreciation of dollar against currencies of Cambodia's trading partners, however USD/Riels exchange rate remains stable.



- Total revenue in Jan-Feb 2009 increased by 3.4 times, compared to 2008 due to high capital revenue; current revenue dropped by 5%.



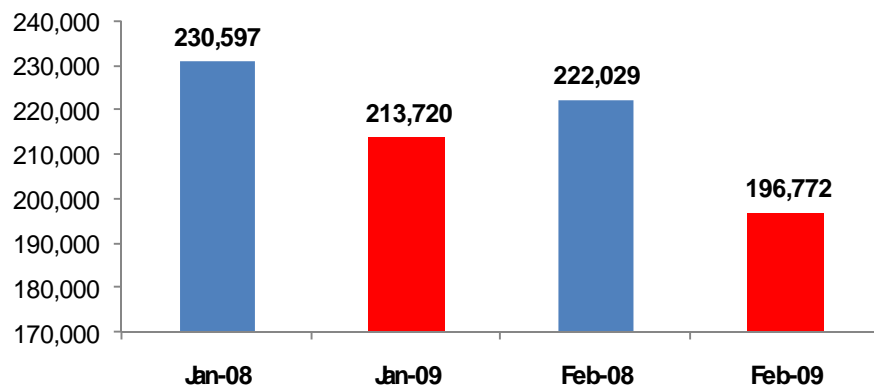
Garment Export in 1st Quarter of 2009 vs. 2008



•Total garment exports dropped by 36% in first quarter 2009, compared to first quarter 2008

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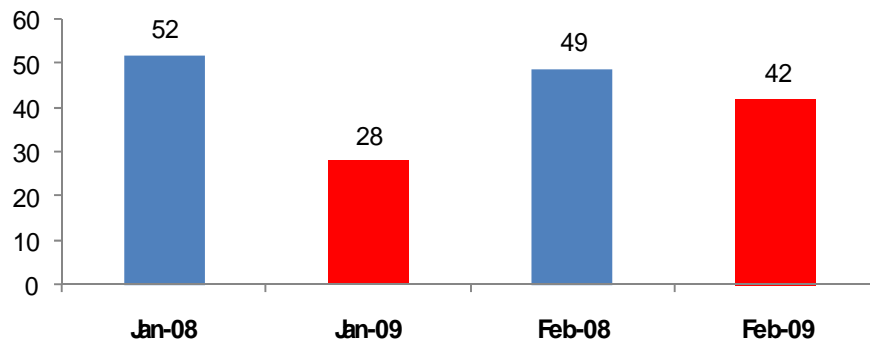
Tourist Arrivals in Jan and Feb 2009 vs 2008



•Tourist arrivals declined by 10% in Jan-Feb 2009, compared to Jan-Feb 2008.

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Approved Construction Projects in Phnom Penh in Jan and Feb 2009 vs 2008

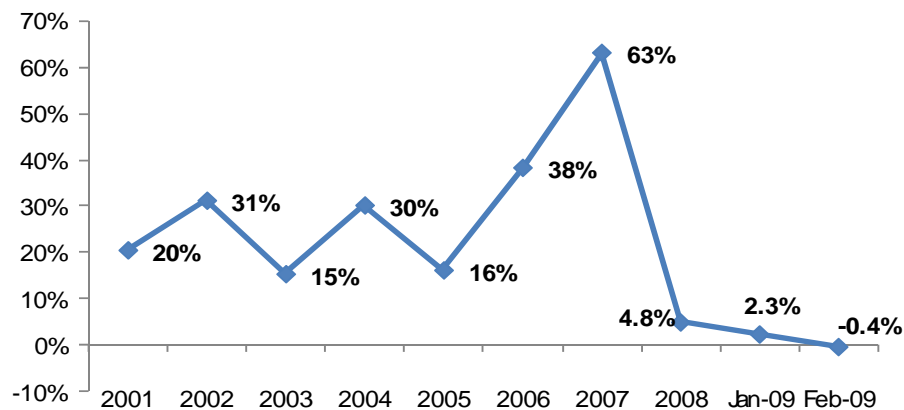


• Construction approval, in number of projects, dropped by 44% in Jan-Feb 2009, compared to Jan-Feb 2008

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Decline in the growth of M2

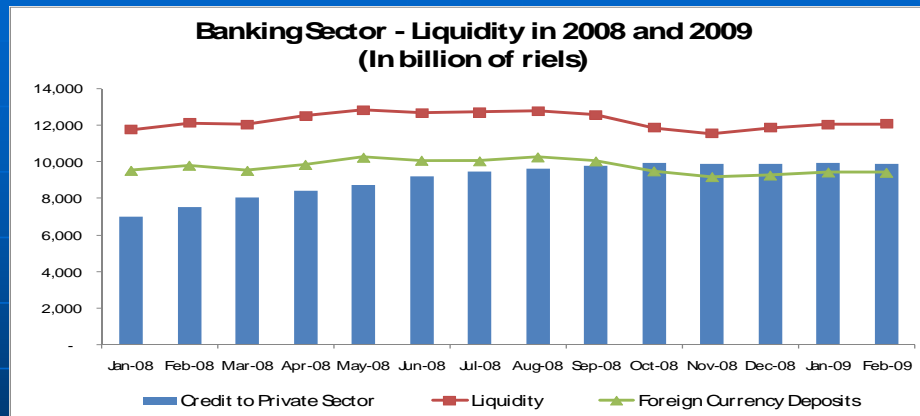
Broad Money (% change)



• M2 growth slowed down considerably to 4.8% in 2008 after having accelerated to 63% in 2007 and this trend continues in 2009.

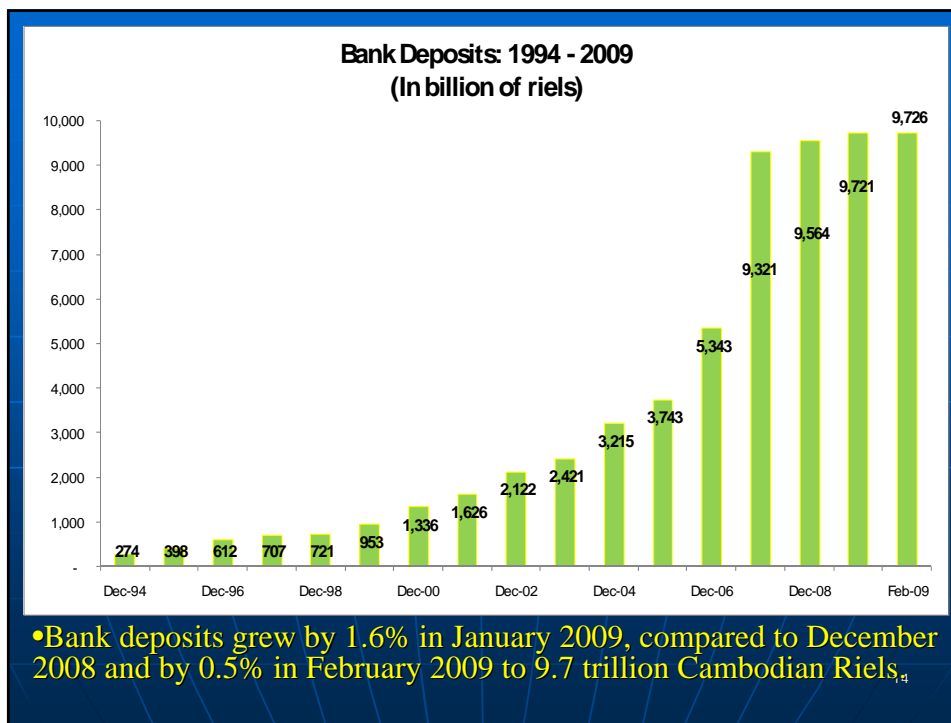
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Banking Sector—Liquidity



• Liquidity dropped by -1.6% in Sept and -5.4% in October, -2.7% in Nov, but increased by 2.5% in Dec; foreign currency deposits dropped by -2.2 in Sept, -5.4% in Oct, -3.3% in Nov, but increased by 1% in Dec, while credit to the private sector continues to grow by 1.6% in Sept and 1.7% in Oct, but declined by -0.6% in Nov. In December 2008, credit to the private sector increased by 0.1%.

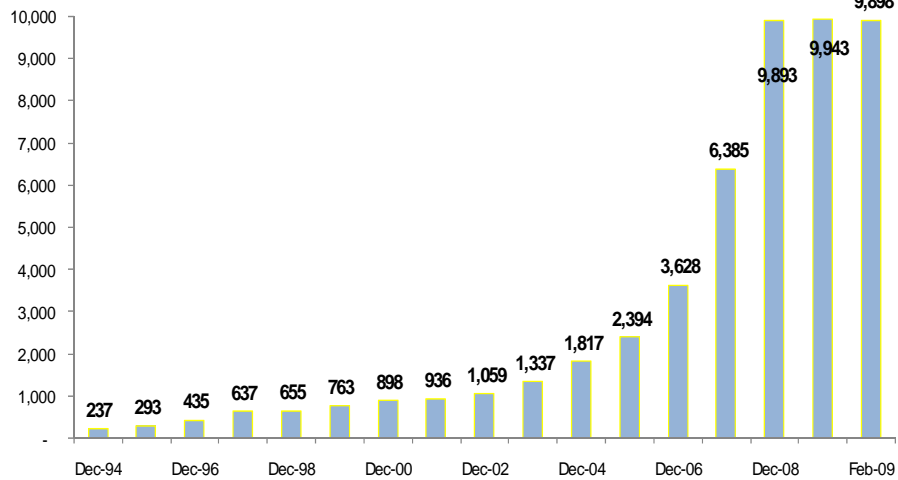
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• Bank deposits grew by 1.6% in January 2009, compared to December 2008 and by 0.5% in February 2009 to 9.7 trillion Cambodian Riels.

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Domestic Credit to Private Sector: 1994 - 2009
(In billion of riels)



•Credit to the private sector grew by 0.5% in January 2009, compared to December 2008, but dropped -0.5% in February 2009 to 9.8 trillion Cambodian Riels.

Part II. Policy Options And Response Measures

Impacts 1/

A major slowdown of growth, with an accelerator effect on investment (already weak and dependent on foreign inflows), export, tourism. This was caused by external (e.g. a deeper global recession), and could have feed-back loop on banking sector.

Policy Responses

Create fiscal space

- ❑ Revenue mobilization by further strengthen tax administration: strict measures to recover arrears;
- ❑ The Ministry of Economy and Finance and all relevant Ministries continue to mobilize all kinds of revenues in order to meet the objectives set in the 2009 Budget Law; and
- ❑ Rationalizing expenditure: transfer savings from current budget to increase investment in high priority areas, including social safety nets and productivity, transport, irrigation;
- ❑ Increase domestic financing, using government bank deposits and non-bank financing;
- ❑ Increase ODA disbursements;

Impacts 1/

A major slowdown of growth, with an accelerator effect on investment (already weak and dependent on foreign inflows), export, tourism. This was caused by external (e.g. a deeper global recession), and could have feed-back loop on banking sector.

Policy Responses 2/

Improve monitoring

- ❑ Institutional monitoring: using existing mechanism at Ministries and agencies to monitor socio-economic consequences of the crisis;
- ❑ Monitoring of disbursement: for ADB and WB projects, the MEF will focus on a monthly report on disbursement;
- ❑ Monitoring of disbursement: for other projects, quarterly report would be appreciated; this could improve the quarterly GDP forecast;
- ❑ For fiscal issues: TOFE;
- ❑ For monetary issues: Monetary Survey of NBC;

Impacts 1/

A major slowdown of growth, with an accelerator effect on investment (already weak and dependent on foreign inflows), export, tourism. This was caused by external (e.g. a deeper global recession), and could have feed-back loop on banking sector.

Policy Responses

Relax monetary policies

- ☐ Decreased the reserve requirement to 12%;
- ☐ Remove credit ceiling on commercial bank credit to the real estate sector;
- ☐ Enhancing capital base though the increase in minimum capital requirement; and
- ☐ Create overdraft facility to support commercial bank;
- ☐ Further loosening monetary policy should conditions warrant;

Impacts 2/

Domestic financial sector vulnerability, from a simple loss of trust in the financial sector or from a rapid deterioration of asset quality (either because current risks were underestimated or misreported, or through a slow-down of the economy or a fall in property prices).

Policy Responses

Strengthen banking regulations/supervision (with specific actions as follows)

- ☐ Improving classification of banks assets and provisioning;
- ☐ Improving the valuation of collateral used for bank lending;
- ☐ Further strengthen the banking system through rigorous implementation of on-site and off-site inspections and supervision;
- ☐ Strengthen credit information sharing system;
- ☐ Strengthen the system for implementing reserve requirements;
- ☐ Improve banks internal and external auditing;
- ☐ Strengthening bank liquidity management; and
- ☐ Strengthen corporate governance of banks and financial institutions.

Impacts 3/

A sudden stop or reversal of capital inflows, with a magnified impact in a dollarized economy. This could also trigger difficulties in financing the current account deficit.

Policy Responses

Adjust policy mix (depending on risk of slower growth), mainly through fiscal policy (accelerate revenue growth while containing spending), with support from monetary policy, especially exchange rate flexibility. (with specific actions as follows)

- ☐ Improve the investment climate (to mitigate the risk of a drastic slowdown in trade and FDI);
- ☐ Flexibility of the exchange rate;
- ☐ Encourage domestic savings; and
- ☐ Continue mobilization of external assistance.

Impacts 4/

Growth slowdown in light of drop in commodity prices including the price of rice and paddy; and the decline in both domestic and external demand in key sectors.

Policy Responses 1/

Agriculture intervention (with specific actions as follows)

- ☐ Create Agriculture Support and Development Fund of US\$18 million;
- ☐ Zero tariff on importing agriculture materials such as seeds, fertilizers, pesticide and agricultural equipments etc.; and
- ☐ Streamlining procedures and 3 years tax holiday for agricultural investment projects.
- ☐ Planned further incentives for investment in processing facilities, rice milling for exports and investment in irrigation;
- ☐ Streamlined procedures to promote rice exports;
- ☐ Promoting farmer organization by setting up cooperatives;
- ☐ **Seeds, fertilizers, agricultural extension, marketing;**

Impacts 4/ (cont...)

Growth slowdown in light of the lack of external demand for Cambodian garment products

Policy Responses 2/

Garment sector intervention (with specific actions as follows)

- ❑Fiscal measure: suspension of 1% pre-payment of tax on profit;
- ❑Special fund for training program;
- ❑trade financing/credit (yet to put in place);
- ❑Promotion of supporting industries (product clusters);
- ❑Improvement in labor standard, dispute resolution and better relation between employers and employees with collaboration from trade unions; and
- ❑Diversifying the markets for our garments and other manufactured goods.

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Impacts 4/ (cont...)

Growth slowdown in light of the GFC and reduction in tourists visiting Cambodia.

Policy Responses 3/

Tourism sector intervention (with specific actions as follows)

- ❑Ensuring peace, security, political stability, social order and tourist safety;
- ❑Building more tourism infrastructures;
- ❑Improving legal framework and institutional capacity;
- ❑Developing human resources; and
- ❑Diversifying tourist market/destinations and attractive tour packages;
- ❑Visa fee waiver could be promoted if this can help;

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Impacts 4/ (cont...)

Growth slowdown in light of the GFC and slowdown in investment.

Policy Responses 4/

Structural Reforms (with specific actions as follows)

- ❑ Improve trade facilitation through customs computerization ASYCUDA;
- ❑ Streamlining procedures to reduce formal and informal costs;
- ❑ Acceleration of adoption of laws and legislation and their enforcement in various sectors as part of wider institutional reforms: support from the National Assembly and Senate is required;
- ❑ Relaxed procedures are needed at the Council of Ministers to speed up approval of legal framework by removing the bottlenecks (although quality benchmarks should be maintained);
- ❑ Frequent meetings of the Committee on Economic and Financial Policies to discuss with the private sectors and related parties on policy responses.

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Impacts 5/ (cont...)

Growth slowdown leading to increase in unemployment.

Policy Responses 5/

Competitiveness and training

- ❑ Provide funds of **US\$6.5 million** for short-term scholarship programs to train some 40,000 workers in agriculture, industry, handicraft and services;
- ❑ Earmark US\$1 million to establish "**Fund for Self-Employment**" to be managed by the **National Employment Agency** to provide micro-finance to help trained workers to set up their small businesses;
- ❑ **Medium to long-term reform would be required to increase competitiveness:** electricity, transport, port handling, customs clearance, reduced inspection, but improved risk management etc.

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Impacts 5/	
Poor and vulnerable groups affected by the crisis.	
Policy Responses	
Social safety net	The rural sector acts as an informal social safety net in Cambodia
<ul style="list-style-type: none"> ❑ Health Equity Fund; ❑ Food Emergency Program; ❑ Food for work (WFP) and Mother and Child Health program (WFP); ❑ School feeding programs; ❑ Targeted scholarship programs for secondary education students; ❑ Operationalize the National Social Security Fund; and ❑ Pre-paid health insurance scheme. 	<ul style="list-style-type: none"> ❑ Emergency Food Assistance Project; and ❑ Tonle Sap Poverty Reduction and Smallholder Development Project.

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