CAMBODIA

Macroeconomic and Private Sector Developments

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Outline

1. Ensuring High Economic Growth
2. Financing Economic Development
3. Private Sector Development

I.Ensuring High Economic Growth

(Bhrama)

Ensuring High Economic Growth

- Political stability;
- Macroeconomic stability;
- Poverty Reduction;
- Employment creation;
- Strengthened competitiveness;
- Productivity;

Robust economic growth

- Growth has been slowing because of impacts from global financial crisis, with growth in 2009 was 0.1%.

Inflation has subsided

- Inflation hit record high of 35.6% y-o-y in May 2008, reduced to 5.3% end December 2009. Then it went up to 7.3% in February, but dropped to 5.3% in April 2010.

International Reserves is High

- International reserves increased to US$2.3 billion by end of 2009

External Trade, 2001-2009

Garment export (US$ million)

Balance of payments is in good shape

Balance of Payments

- The current account deficit is estimated to narrow in 2009 by 16.6% US$1 billion (10½ % of GDP);
- Exports dropped 21% from US$4.7 billion in 2008 to US$3.9 billion in 2009;
- Garment exports declined by 31% from US$3 billion to US$2.2 billion;
- Imports also decreased by 19% from US$6.5 billion in 2008 to US$5.2 billion in 2009. The value of petroleum imports declined only by 9% to US$1.7 billion;
- Overall balance reduced from US$345 million in 2008 to US$70 million

II. Financing Economic Development

Financing Economic Development

- I-Public Financial Reform Program (*Government budget – $1.8 billion*);
- II-Financial Sector Development (*Bank credit to the private sector - $2.5 billion*);
- III-Foreign Direct Investment (*$866 million in 2007; $515 million in 2009*);
- IV-Official Development Assistance (*$700 million*);
- V-Capital Market Development (*The fifth pillar, which will improve the quality of private sector*);

I-Fiscal Policy

- Fiscal policy was expansionary in 2009 with budget deficit widened to 5 of GDP (up from 2 ¾ percent in 2008);
- Domestic financing (a drawdown in government deposits) is projected at 1 ¼ percent of GDP;
- Expenditure levels have risen sharply, with large increases in wage and locally-financed capital spending.

I-State Budget (US$ million)

	2008	%GDP	2009	%GDP	Change
Domestic revenue	1,371.2	13.26%	1,224.7	11.79%	-10.68%
Current revenue	1,351.7	13.08%	1,217.7	11.73%	-9.91%
-Tax revenue	1,154.9	11.17%	1,045.0	10.06%	-9.51%
• Tax Dept.	352.4	3.41%	362.2	3.49%	2.76%
• Customs Dept.	738.6	7.15%	640.2	6.16%	-13.33%
-Non tax revenue	196.8	1.90%	172.6	1.66%	-12.27%
Capital revenue	19.5	0.19%	7.1	0.07%	-63.82%
Total expenditure	1,645.5	15.92%	1,804.3	17.37%	9.65%
-Current expenditure	973.6	9.42%	1,108.2	10.67%	13.82%
-Capital expenditure	671.9	6.50%	696.1	6.70%	3.60%

I-Revenue collection, Billion Riels

I-Government expenditure, Billion Riels

2010 Budget Revenue (Billion Riels)

	Outturn 2009			Budget Law 2010	
	Billion Riels	% BL	%GDP	Billion Riels	%GDP
Total Revenue	7,225.9	96.8%	16.77%	8,320.0	17.55%
Domestic Revenue	5,096.8	93.9%	11.83%	5,956.0	12.57%
Current Revenue	5,067.6	94.2%	11.76%	5,908.0	12.46%
Tax Revenue	4,347.4	95.6%	10.09%	5,034.3	10.62%
Custom/Excise	2,427.5	101.1%	5.63%	2,600.0	5.49%
Tax	1,543.3	90.8%	3.58%	2,080.0	4.39%
Non-Tax Revenue	720.1	86.8%	1.67%	873.7	1.84%
Capital Revenue	2,157.8	103.6%	5.01%	2,412.0	5.09%
Domestic	29.2	61.0%	0.07%	48.0	0.10%
External	2,128.6	104.6%	4.94%	2,364.0	4.99%

EITI Disclosure of O & G revenue

	2009 (December) Petro VN	2010 (January) Total	2010 (May) Petro VN
Signature bonus	$300,000 AC-1679	$20,000,000 AC-1680	
Social Fund	$500,000 AC-1681	$6,000,000 AC-1678	$1,500,000 AC-1681
Total	$800,000	$26,000,000	$1,500,000
Earmarked accounts		**Transferred to budget account on 31st March 2010**	**Transferred to budget account on 11st May 2010**

Policy measures for 2010 Revenue

- Improve customs and tax administration and policy through PFM Reform Program:
  - Restructuring tax collection offices in Phnom Penh;
  - Training of tax officials;
- To meet the increased expenditure of sub-national administration :
  - Increase 100% motor vehicle tax on luxurious vehicles over 12 horse power;
  - Introduce new tax on all land assets either with building or non-building, except land for agriculture

2010 Budget Expenditure (Billion Riels)

	Outtun 2009			Budget Law 2010	
	Billion Riels	% BL	%GDP	Billion Riels	%GDP
Total Expenditure	7,350.3	97.3%	17.06%	8,515.0	17.96%
Current Expenditure	4,360.7	96.0%	10.12%	5,166.3	10.90%
Salary	1,906.3	108.3%	4.43%	2,146.4	4.53%
Non-Salary	2,454.4	88.2%	5.70%	3,019.7	6.37%
Capital Expenditure	2,986.6	99.3%	6.94%	3,348.7	7.06%
Domestic	1,176.1	89.8%	2.73%	1,348.7	2.85%
External	1,813.5	106.7%	4.21%	2,000.0	4.22%

Policy measures for 2010 Expenditure

- Review of salary policies (3.48% GDP in 2008; 4.43% of GDP in 2009 and 4.56% of GDP in 2010):
  - Revised functional allowances for police, military personnel and salary policy for civil servants, (basic salary increased 20%);
  - Termination of PMG & MBPI;
  - Postponed all kind of promotion and recruitment, except teachers and health personnel;
  - Enforce strict measures on retirement and civil service census to reduce wage bills;
- Tightened expenditure on goods & services of all LMs;
- Priority remains given to Education, Health;
- Investments on roads, bridges and irrigation- the main contribution to growth.

II-Growth of Broad Money, % Change

- Money supply (M2) increased by 36.8% in 2009 to 14,364 billion riels (US$3.45 billion) in December 2009, due mainly to the increase in foreign currency deposits (21.4%) and money in circulation (17%);

II-Bank Deposit (Million US$)

II-Credit to Private Sector (Million US$)

Credit to the private sector increased only by 5%, as commercial banks are reluctant to extend loans;

III-Foreign Direct Investments Disbursement (Million US$)

III- Private sector development

Strategies to promote private sector development

- I. Government policies;
- II. Agriculture Development;
- III. Tourism (from cultural to beach tourism);
- IV. Soft and Hard Infrastructure;
- V. Emerging Industries;
- VI. Processing Industries;
- VII. Financial Sector Development.

Government policies

- Zero tariff for import of agricultural inputs;
- Agriculture Support and Development Fund;
- Policy to promote rice export and processing;
- Legal framework: Trade marks for geographical identity; Trouble-Shooting Committee outside of SEZs; National Arbitration Center and Commission for Selection of Arbitrators; Amendment to Export Management Fees; Fair Competition in Telecom;

II-Cambodia is endowed with arable land

Cambodia to become a major regional exporter of rubber and rice

II. Agriculture Strategy

- Increase agricultural productivity by:
  - Investment in irrigation facilities and rural infrastructures;
  - Increased use of fertilizers vs. organic farming;
  - Increase research and extension;
  - Improve access to credit;
- Continue to implement Fund for Agricultural Development (US$18 million) to support rice millers;
- Continued policy on tariff exemption for fertilizers and import of agricultural machinery;
- Policies to increase rice and rubber exports.

III. Tourism diversification

- Tourism industry revenue: US$1.5 billion;
- Diversify destinations: Sihanoukville a priority; from cultural tourism to beach resorts;
- Potentials in eco-tourism, community-based tourism untapped and poverty reduction through tourism;
- Improve quality of services, products, safety, infrastructure, open sky (Siem Reap-Bangkok) to increase length of stay, Facilitate travel (entry/exit, flights);
- Lower costs, promotion, target high, middle, low end;
- Hospitality training: culinary school, hotel school;
- Preserve natural, cultural resources, urban develop.

IV-Hard Infrastructure

- Rehabilitation of road infrastructures:
  - 550 km during 1993-97;
  - 2,350 km during 1998-2003;
  - 600 km during 2004-2007.
- Telecommunications, especially mobile phones (9 mobile operators) and Internet access increased by 50% a year;
  - 6.3 million mobile subscribers (penetration 46%) (99% of total number of telephone services);
  - 100,887 fixed-line services;

IV. Hard Infrastructures

- Continue to renovate and rebuild transport networks (roads, waterways, railways and airports) ;
- Water and irrigation management;
- Electricity network extension and establishment of the National Grid; and
- Diversify power sources to reduce electricity costs (hydro, coal-fired and diesel plants);
- Electricity supply increases 20-25% a year.

IV. Energy Generation by Category in National Grid and in Phnom Penh System

Source : EDC

IV. Estimated Capital Investment for National Grid

	Up to 2008			2009 - 2013		
	Single. km	Double. km	**Invest Mi. US$**	Single. km	Double. km	**Invest Mi. US$**
115 kV	284	56	52	63	364	70
230 kV					1.200	500
Total			**52**			**570**
Cumulative 115 kV	**284**	**56**	**52**	**324 ***	**443 ***	**122**
Cumulative 230 kV					**1200**	**500**

Investment in National Grid will be financed through BOT and foreign banks

Source : Ministry of Mines and Energy/EDC

IV-Power Sector in 2021

IV-Soft Infrastructure

- Protection of property rights (incl. indigenous people);
- Systematic land registration;
- Eliminate the major obstacles:
  - One window service, shortening the approval period and reduction in transaction cost;
  - Improving business climate through various governance reforms.
- Trade facilitation;
- Cross-border transportation and insurance.

V-Emerging Industries

- Diversification of industries from garment and accessories to the development of new industries is very crucial;
- The RGC gives priority to other labor-intensive industries, such as toy, shoes, electronic material assembly and information technology (ICT).
- Assembly industry:
  - It is a high labor-intensive industry;
  - This requires inexpensive labor force, but with the quality for minimum (or semi-minimum) production;
  - The possible area for assembly industry is electric equipments, vehicles, automobile cables, etc.

VI-Processing Industries

- The win-back of domestic market through local resource transformation to substitute the importations: fish, transformed meats, fruits, canned/smoked vegetables;
- Promotion of agribusiness;
- Promote the food processing industry for export and import substitution industry focusing on cassava, palm oil, frozen food, rubber, tropical fruits and agricultural organic products;
- Vocational training.

VII. Financial Sector Development

- Improve banking supervision to ensure better risk management;
- Ensure bank's compliance with the requirement to increase the minimum capital requirement of all banks by the end of 2010;
- Enforce a new regulation on corporate governance to strengthen the oversight responsibilities of the board of directors; prudential regulations on asset classification and loan loss provisions; and the regulation on controlling bank's large exposures;

VIII-Special Economic Zones (SEZ)

- Fiscal Incentives: tax on profit, import duties: identical to QIP located outside SEZ
- VAT: suspension for all export oriented activities
- Non fiscal incentives: One Stop Service by SEZ Administration:
- Provision of infrastructure by the zone Developer: electrical, water, road, telecoms, waste management etc;
- Trade Facilitation: Administrative procedures at the Zone; Administrative procedures at the Borders;
- Skill Labor Force – Vocational Training

VIII- Special Economic Zones (SEZ)

VIII- Mekong-India Economic Corridor (MIEC)

Map 2: Location of Growth Poles and Growth Nodes in MIEC

VIII- MIEC – Cambodia's Projects

Map 8: Proposed Initiatives for MIEC (Cambodia)

Thank You

(Churning of the Ocean of Milk)