



PRESS STATEMENT: IMF CONCLUDES MISSION TO CAMBODIA

Phnom Penh, September 18, 2007

An IMF mission from Washington, D.C. visited Cambodia during September 12-18, 2007 to hold discussions with senior officials of the Royal Government of Cambodia on recent macroeconomic developments, fiscal and financial sector policies. The mission also met representatives from the business community and development partners.

Macroeconomic performance in 2007 remains very strong. Real GDP is expected to grow by around 9½ percent, underpinned by continued agriculture expansion and further rapid growth of tourism, finance and construction. Garment exports continue to grow robustly, though the pace has moderated owing to increased regional competition and some softening of demand in key export markets. These factors are likely to persist in 2008, but real GDP growth is projected to remain strong at 7¾ percent.

Inflation has increased to 6½ percent, mainly reflecting rising food prices in line with regional trends. While such external factors have largely explained the rise in inflation to date, the mission and the authorities agreed that vigilance is needed in monitoring underlying inflation pressures stemming from rapidly rising domestic demand.

Government revenue has increased strongly, reflecting robust economic activity and significant gains in strengthening revenue administration. As a consequence, the tax revenue-to-GDP ratio is expected to rise to around 9½ percent in 2007. Expenditures have been contained, particularly capital spending, and the overall government deficit is projected to fall to 1½ percent of GDP.

Looking forward, the mission welcomed the Government's intention to continue pursuing prudent budgetary policy next year. It noted that with further administration efforts, revenues would continue to improve, making room for higher spending on needed infrastructure and key areas for poverty reduction in line with the National Strategic Development Plan (NSDP). Public financial management reforms are proceeding well, and the mission welcomed ongoing efforts to amend the Law on Taxation to strengthen petroleum sector taxation.

The banking sector continues to grow very rapidly, with the increase in deposits and loans indicating growing confidence in Cambodia's banking system. The authorities have been strengthening financial sector supervision, and agreed with the mission that further efforts would enhance confidence, and is needed to safeguard the soundness of the financial system.