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Government Response to Inflation Crisis *and* Global Financial Crisis

HAY Sovuthea

Working Paper Series No. 73

April 2013

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Mr Hay Sovuthea is a researcher for the Social Policy Division of the Supreme National Economic Council. The views expressed in this report are those of the author and do not necessarily represent the views of any organisation that the author is affiliated with.

CDRI
☞ 56, Street 315, Tuol Kork, Phnom Penh, Cambodia
✉ PO Box 622, Phnom Penh, Cambodia
☏ (855 23) 881 384/881 701/881 916/883 603
🖶 (855 23) 880 734
E-mail: cdri@cdri.org.kh
Website: www.cdri.org.kh

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List of Acronyms

ADB	Asia Development Bank
CDRI	Cambodia Development Resource Institute
CPI	Consumer Price Index
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDRC	International Development Research Centre
NBC	National Bank of Cambodia
SNEC	Supreme National Bank of Cambodia
USD	US Dollar

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ABSTRACT

This paper takes stock of the domestic macroeconomic policy deployed in mitigating the highest inflation and lowest growth Cambodia had experienced since 1994. Fiscal and monetary policies were well coordinated alongside a package of administrative measures to tackle soaring inflation resultant of the oil and food price hikes in 2007 and slowdown during the global economic crisis in 2008-09.

Albeit Cambodia was well on the way to recovery by 2010, the crises exposed the limited effectiveness of fiscal and monetary policies to weather external shocks. Nevertheless, the export-oriented private sector-led growth strategy Cambodia is presently embarked upon remains valid. Both macroeconomic policy arms clearly need strengthening. Fiscal tightening will replenish government deposits, and stronger budget institutions, the targeted outcome of the Public Financial Reform Programme, will improve revenue administration and expenditure efficiency. Monetary policy will be more autonomous and more options available through gradual de-dollarisation and the establishment and development of an active money market. Moreover, sectoral policy such as the Policy Paper on the Promotion of Paddy Production and Rice Export, the National Social Protection Strategy, the Tourism Strategic Development Plan 2012-20 and the policy and financing mix to promote industrial development will lay comprehensive foundations for better macroeconomic intervention in the future.

1

INTRODUCTION

Cambodia's economic growth story over the last decade is impressive, if not the best in the region. Its transition to an open market economy was remarkably successful, undergoing massive structural transformation with gradual decline in agriculture and expansion of industry's share of GDP. Under economic liberalisation and trade openness, sustained economic growth grounded in strong macroeconomic management has attracted greater foreign direct investment (FDI) inflows and boosted exports. Robust high growth has generated employment and income, and poverty has declined by 1 percent a year on average.

The economy continues to rely on its traditional narrow growth base of four sectors: agriculture, garments, construction and tourism. Lack of diversification and dependence on external markets and foreign investment render Cambodia vulnerable to external economic shocks. Despite significant changes in Cambodia's political and economic landscape, dollarisation remains pervasive. The country's overall economy, therefore, was not immune to the effects of the food and oil price hikes and the adverse impacts of the global financial crisis.

The two sequential global crises tested the resilience, strengths and weaknesses of the Cambodian economy as the country weathered the highest inflation and lowest growth experienced since the early 1990s. This report attempts to assess the effectiveness of measures deployed by the government to rein in inflationary pressures and stave off recession, and to understand the interactions between fiscal, monetary and sectoral policies. Section 2 overviews the food and oil prices hike. Section 3 considers the impact of the global financial crisis and the government's policy response. Section 4 concludes and draws policy recommendations for improved coordination of policy instruments.

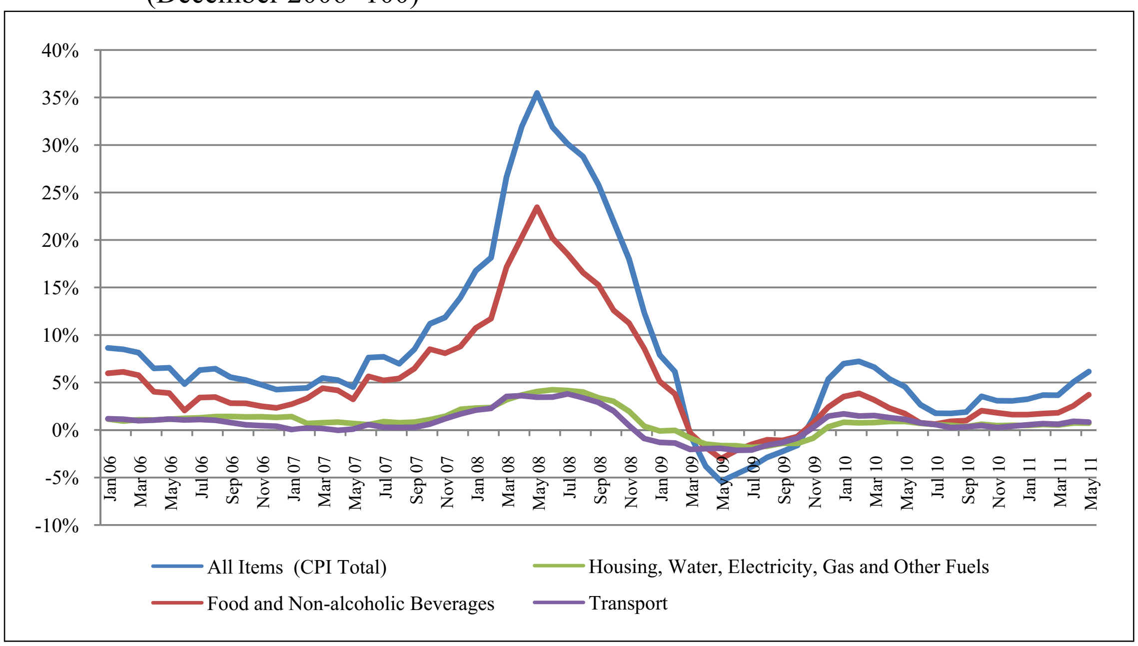
2

INFLATION CRISIS

Asia, despite strong economic growth among its emerging economies, has not decoupled from Western economies, as the 2007 food and energy spikes and slowdown resultant of the 2008 global financial crisis prove. Likewise, Cambodia was not impervious to these external shocks. Before the 2007 surge in commodity prices, Cambodia had contained inflation at rates below 5 percent for at least a decade – a remarkable feat given that high inflation typically accompanies high economic growth. However, the overall price index rose dramatically following global price volatility at the onset of the food and oil price hikes.

Food prices started to escalate in July 2007 when year-on-year inflation reached 7.6 percent, of which 5.2 percent came from food (Table 1 and Figure 1). Just six months later, the impact of the spike in global oil prices spilled over into Cambodia in early January 2008. The simultaneous surge in both food and oil prices took year-on-year inflation to 26.6 percent in March 2008. With prices in chaos around the globe, inflation reached a record peak of 35.4 percent in May 2008 before subsiding to 17.9 percent in November 2008. Despite global economic recession, the downward trend continued until March 2009 when inflation for the first time ever posted negative growth of -0.54 percent. During this period of extreme price volatility, headline inflation was pushed up mainly by global food and energy prices.

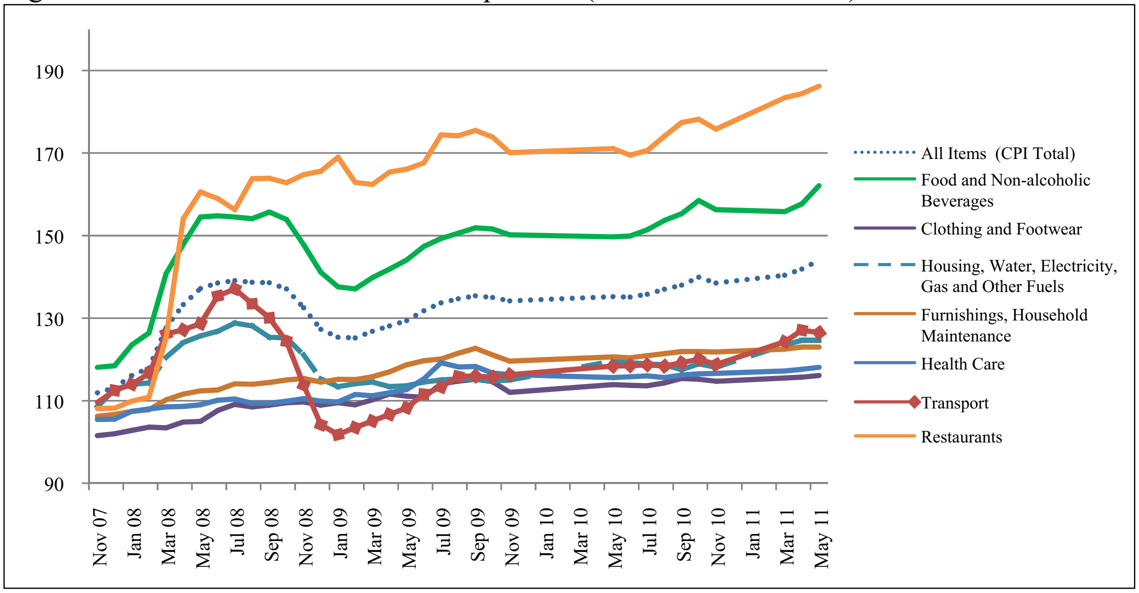
Figure 1: Contribution to Inflation (year-on-year January 2006 to April 2011) (December 2006=100)



Source: National Bank of Cambodia

By April 2011, the economy had regained stability and year-on-year inflation had subsided to around 7.0 percent. However, price levels as measured by the Consumer Price Index (CPI), in particular food prices, remained elevated (Figure 2). Extreme price volatility and inflationary pressures pose huge challenges to the government's efforts to promote economic and social welfare. Understanding inflation and its root causes is crucial to designing policy measures to contain inflation. Price dynamics during the inflation crisis can be explained by both push factors (higher costs) and pull factors (higher demand) aggressively driving up prices in general.

Figure 2: Price Movements in CPI Components (December 2006=100)

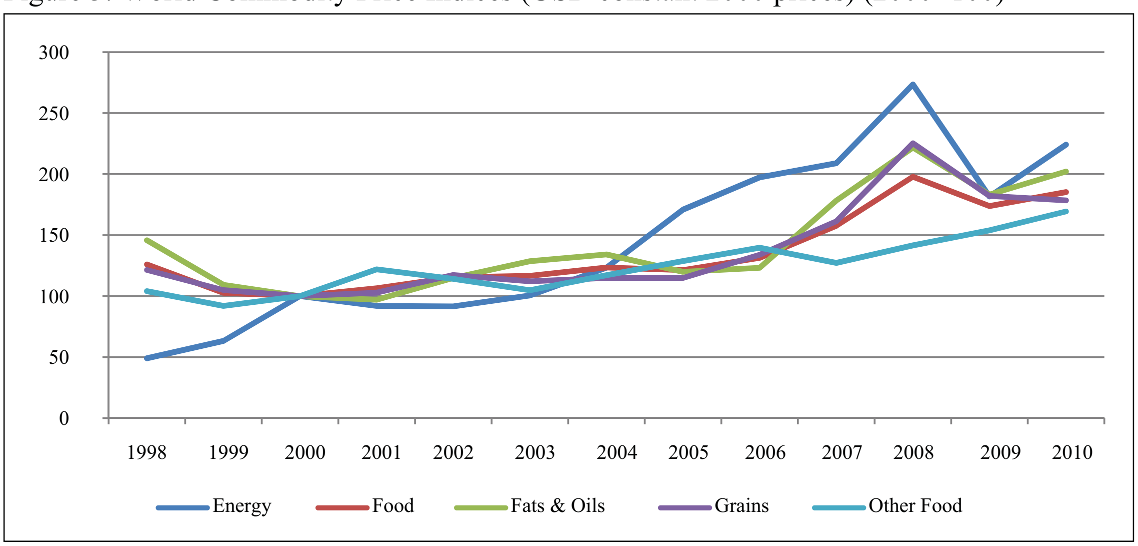


Source: National Bank of Cambodia

2.1. Cost-push Inflation

As Figure 3 shows, energy and food prices first started rising in 2004, and then picked up pace as commodity prices began to boom at the end of 2006 to early 2007.

Figure 3: World Commodity Price Indices (USD constant 2000 prices) (2000=100)



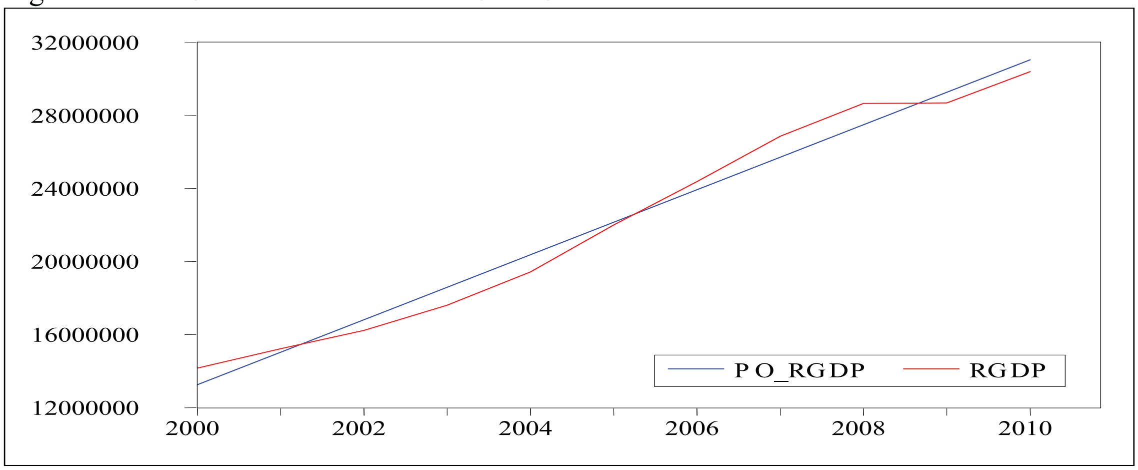
Source: World Bank, Commodity Price Data (Pink Sheet)

Energy, food prices first started rising in 2004 and then picked up pace as commodity prices began to boom at the end of 2006-early 2007(Figure 3). These drastic increases in world food and oil commodity prices quickly passed through to Cambodia's local markets as due to its limited production base, most of basic consumer products including food, raw materials and oil, is imported. Ginting and Bird's (2009) empirical study found that because of integrated product markets, Cambodia's headline and food inflation follow and converge with food inflation in Thailand and Vietnam in about two to three months. Like its direct impact on food, escalating global oil prices (Cambodia imports 100 percent of its oil needs) affect retail energy and fuel prices and raise transportation costs leading to price surge in all related products

2.2. Demand-pull Inflation

Multiple determinants explain inflation dynamics, but one prominent factor is overconsumption. Excess demand, illustrated by the output gap depicted in Figure 4, indicates that Cambodia's economy was already overheating in 2006. Deviation from potential growth path was mainly spurred by private spending compounded by accelerated money velocity, and the property market bubble supported by excessive global liquidity and FDI in the construction sector. The situation was exacerbated by fast credit growth to accommodate rapid growth of other sectors.

Figure 4: Real GDP vs. Potential Real GDP Growth



Data Source: National Institute of Statistics, National Account,

Note: Potential Real GDP is estimated by Hodrick–Prescott filter with Lambda = 1600

2.3. Impact of Inflation

Soaring food and oil prices have grave consequences for Cambodia's development efforts, particularly poverty reduction and welfare. The adverse impact on welfare is even more serious in that about 30 percent of the population live below the poverty line, the poorest 40 percent spend about 70 percent of their income on food consumption, and around 1.7 million people dwelling in the Tonle Sap Plain are food-insecure. Higher food prices, theoretically at least, are an opportunity for farmers to improve their income. But as Chan (2008) reported, despite the surge in commodity prices, not all farmers could benefit given that 21 percent of rural households were landless and 45 percent were land poor (less than 1 hectare of farmland). Hence, only net food producers have been better off since the hike in food prices.

2.4. Policy Response

The government was quick to take steps to safeguard against high inflation and bolster macroeconomic stability to mitigate potential negative impacts on livelihoods. The Price Monitoring Group was established under the Committee for Economic and Financial Policies to regularly monitor inflation and provide timely measures. Prudent fiscal policy with deposit build-up during the high-growth period exempted sensitive products from import tariffs, provided subsidies and kept public expenditure under check. This policy behaviour by the government is consistent with the finding that government spending raised inflation in the next two quarters (Chea &Ung 2011). Therefore, it would appear that careful fiscal consolidation restrained aggregate demand and contained inflation to a certain extent during the crisis.

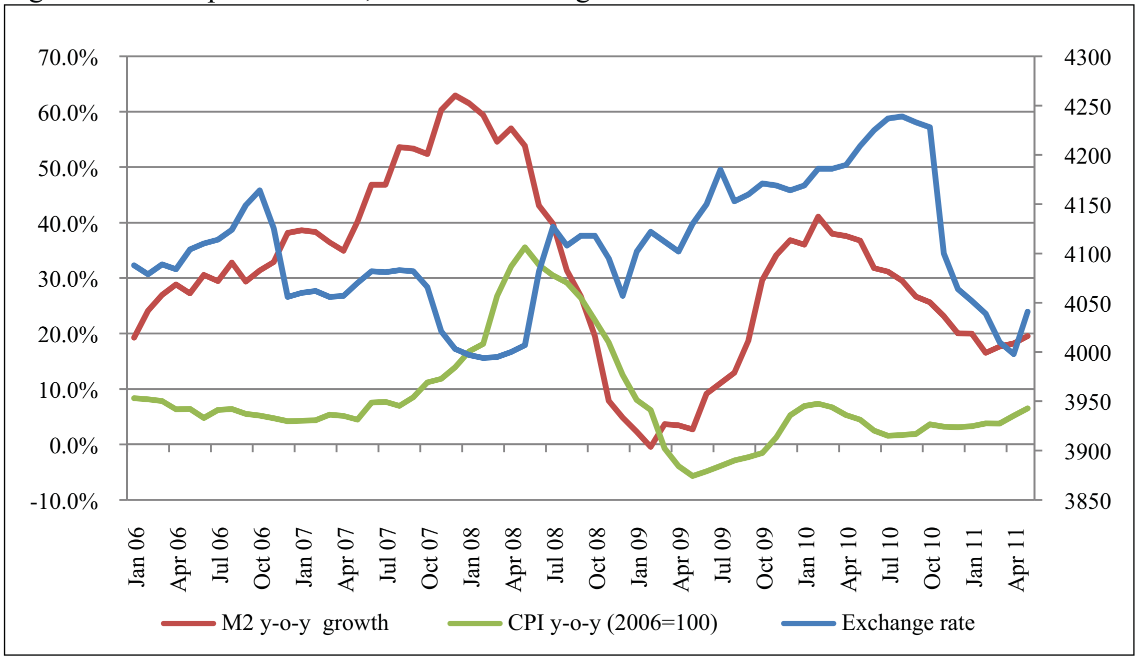
As part of a package of administrative measures, the government moved to control rice price speculation and rice export. Actions included releasing 300 tonnes of rice to local markets at 1800 riels per kg, well below the market price of 2500 riels per kg, imposing a temporary ban on rice export to ensure food security, and providing USD12 million of credit to the Rural Development Bank to purchase rice. Other measures were the distribution of high yielding seed to selected farmers, selling seeds and fertiliser to selected farmers at subsidised prices, and zero import tariffs on agricultural inputs.

In the face of escalating oil prices, once again the policy option was to mitigate impacts and prevent speculative behaviour in the industry. Measures involved fixing the reference price of tax, maintaining the electricity tariff with government subsidy, and monitoring fuel distributors to prevent speculative practices. Further steps included lifting the ban on pork imports, reducing duties on food imports to zero, and suspending some business taxes so that salaries could increase.

In the wake of skyrocketing food and oil prices, aggressive monetary policy was employed to stem and contain expected second round effects. Increasing prices of imported oil and food led to higher demand for dollars for international settlement. Without intervention in the exchange rate market by the National Central Bank, the value of the riel would have depreciated. As a result, inflation would have risen even more steeply due to the combined effects of inflation pass-through and riel depreciation. Plata and Herrero (2008) confirm this phenomenon, that depreciation of the riel causes inflation. Nevertheless, even with the injection of dollars into the economy at the expense of shrinking international reserves in response to the higher demand for dollars to ensure exchange rate stability, inflation from external prices passed through to Cambodia. Further appreciation above the initial level in an attempt to counter inflation has negative consequences for trade competitiveness. Regardless of central bank intervention, Cambodia can do little to manage externally generated inflation.

In line with the above argument, Ginting and Bird (2009) found that the exchange rate has no impact on inflation. Instead, as Chea and Ung (2011) emphasise in their findings, the exchange rate tends to follow inflation movement. Institutionally, the central bank's mandate is to ensure price stability through influencing monetary aggregates and adopting exchange rate policy as a nominal anchor for monetary policy. However, some argue that in a dollarised economy, exchange rate policy acts more like monetary policy. Following this reasoning and taking into account the seasonality of exchange rate fluctuation in that the riel usually appreciates against the dollar between October and March, it seems that exchange rate policy was deliberately used to control inflation between September 2007 and May 2008 only (Figure 5). During other periods, however, inflation movement seems to have been independent of the exchange rate.

Figure 5: Development of M2, CPI and Exchange Rate



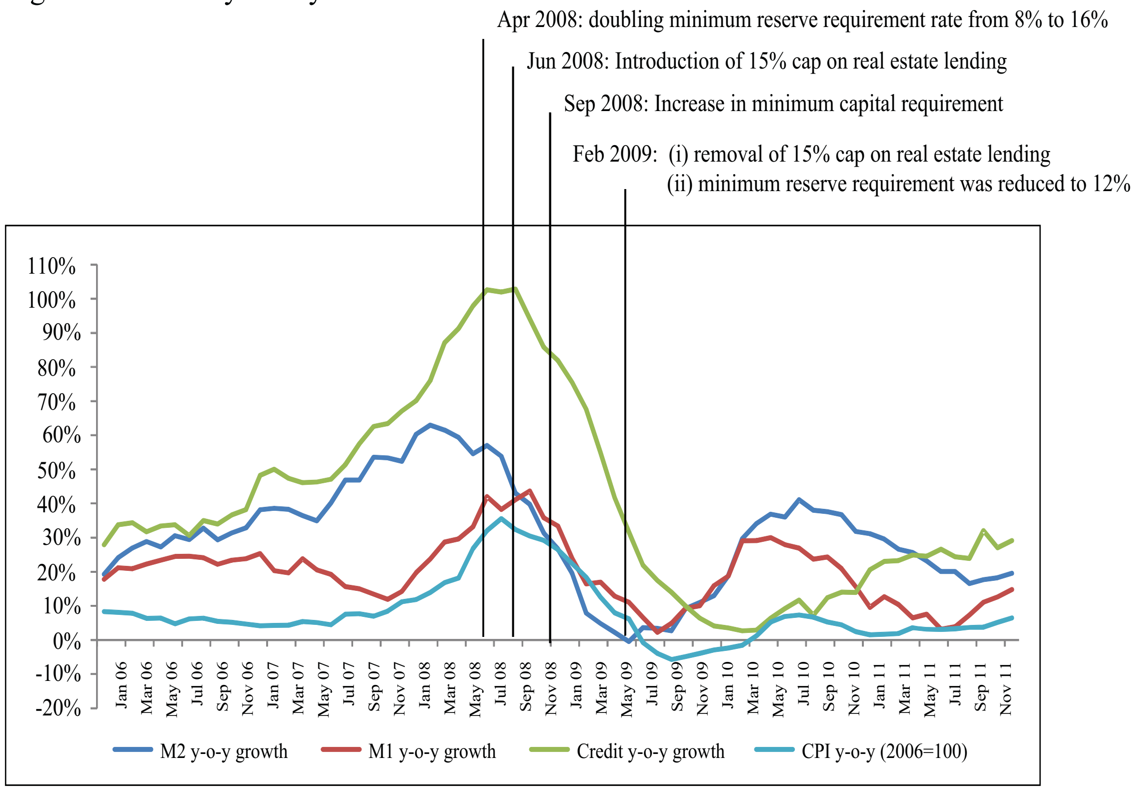
Data Source: National Bank of Cambodia

2.5. Monetary Policy Assessment

Foreign direct investment (FDI) plays a crucial role in private sector development and employment generation in Cambodia. Capital inflows result in expansion of the monetary base (M2), which in turn puts upward pressure on inflation. With respect to exchange rate management, the central bank intervenes to stem the risk of such US dollar inflows destabilising the exchange rate by injecting Khmer riels to purchase excess dollars, thus accumulating international reserves. For the same reason, M1 (cash and current account deposits) also grew very fast. Excess M1 growth is a concern because it puts upward pressure on the prices of non-tradable goods. In other words, the increase in core inflation revealed inflationary effect on supply-related price shock in the economy, explained as one cause of inflation dynamics since 2006. Briefly, in addition to FDI, rapid M2 growth—initially induced by capital inflows in the form of FDI, especially into the property sector—had raised aggregate demand and consequently inflation. This economic overheating or boom coupled with the real estate bubble generated demand for extra credit and raised consumption that was spurred by accelerated money velocity.

To cool down the economy in response to tremendous economic heating, the central bank adopted monetary policy measures to restrain credit and curb money supply growth. Measures included an increase in reserve requirements and a credit ceiling, particularly the 15 percent credit cap on real estate (Figure 6), Ginting and Bird (2009) argue that monetary policy to control M1 on food prices coupled with fiscal policy to reduce domestic demand is appropriate for containing core inflation in Cambodia.

Figure 6: Monetary Policy Measures



Data source: National Bank of Cambodia, Economic and Monetary Statistics

In brief, government macroeconomic policy cannot manage externally generated inflation, but it can mitigate the adverse impacts. While exchange rate policy was broadly ineffective in cushioning welfare, monetary policy in the form of reserve requirements and credit ceiling measures to restrain credit growth were appropriate and necessary to cool down the overheated economy. Deposit build-up during the high-growth period due to people's higher propensity to save allowed fiscal flexibility, while consolidated fiscal policy was effective in controlling aggregate demand. The government maintained credible commitment to fiscal prudence, with expenditure focused on priority sectors – education, health, infrastructure and rural development. Although in some countries the central bank's independence makes it the key institution for coordinating macroeconomic management, during the crisis Cambodia's fiscal and monetary policies were well coordinated through the Committee for Economic and Financial Policies. Furthermore, administrative measures deployed to cope with emerging issues were decisive and timely.

3

LOWEST GROWTH EXPERIENCE

Despite restoration of full peace in 1998 and robust high economic growth averaging 10 percent between 2002 and 2008, Cambodia is in no way detached from global economic storms. Economic growth of 0.1 percent in 2009 was the lowest experienced since 1994, though at that time many countries around the world recorded negative growth. Albeit the economy soon rebounded to 5.9 percent growth in 2010, recovery remains fragile. Cambodia continues to rely on a narrow base, particularly agriculture and the external trade and capital-dependent garment, tourism and construction sectors.

3.1. Economic Slowdown and Rebound

The slowdown to 0.1 percent growth in 2009 was mainly attributed to -9.5 percent deceleration in industrial outputs, notably the -15.5 percent drop in garment sector outputs and just 2.3 percent growth in the service sector. However, strong agricultural growth of 5.4 percent due to good yields that year resulting from favourable weather buffered the economy and underpinned growth (Table 1).

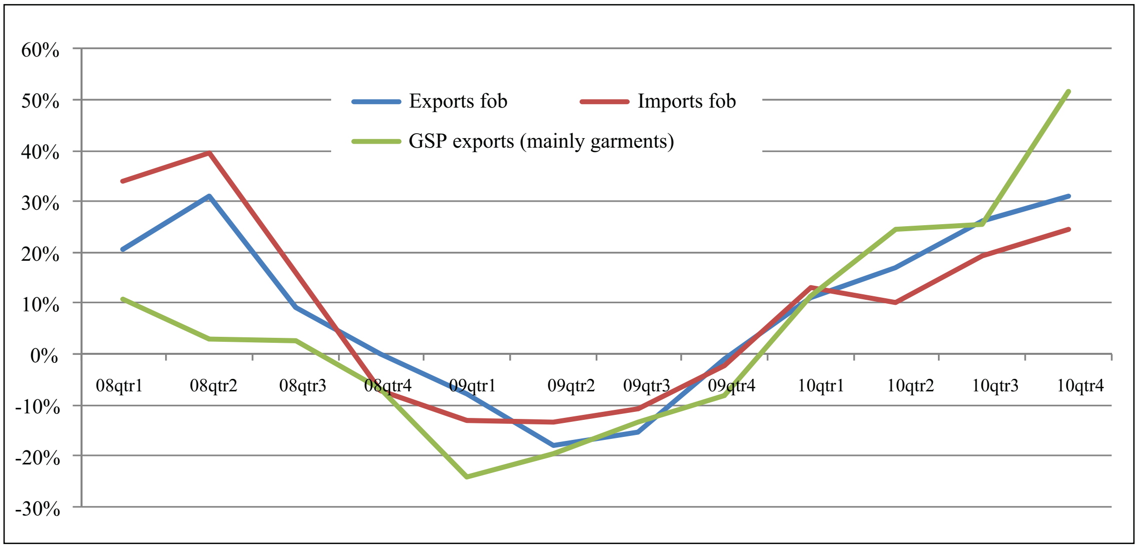
Table 1: Real GDP Growth by Sector

	2007	2008	2009	2010
Gross Domestic Product (GDP)	10.21%	6.69%	0.09%	5.88%
Agriculture, Fisheries & Forestry	5.0%	5.7%	5.4%	4.0%
Crops	8.2%	6.6%	5.8%	5.7%
Livestock & Poultry	3.7%	3.8%	5.0%	5.6%
Fisheries	0.8%	6.5%	6.0%	0.4%
Forestry & Logging	1.1%	0.9%	1.1%	0.2%
Industry	8.4%	4.0%	-9.5%	13.5%
Mining	7.7%	15.8%	20.0%	28.0%
Manufacturing	8.9%	3.1%	-15.5%	29.5%
Food, Beverages & Tobacco	3.1%	5.9%	6.0%	7.5%
Textile, Wearing Apparel & Footwear	10.0%	2.2%	-0.9%	18.5%
Construction	6.7%	5.8%	5.0%	-25.5%
Services	10.1%	9.0%	2.3%	3.1%
Trade	9.5%	9.4%	4.2%	7.1%
Hotel & Restaurants	10.2%	9.8%	1.8%	11.2%
Transport & Communications	7.2%	7.1%	3.9%	8.0%
Finance	22.2%	19.2%	8.0%	12.7%
Public Administration	0.1%	4.5%	1.0%	11.5%
Real Estate & Business	10.7%	5.0%	-2.5%	-15.8%
Other services	12.1%	12.0%	2.9%	3.9%

Data source: National Institute of Statistics, National Account of Cambodia

Cambodia experienced a classic V shaped rally. Posting growth of 5.9 percent, the country had navigated its way out of the storm of global economic crisis by the end of 2010 (Figure 7). Recovery centred on greater-than-expected 29.5 percent growth in manufacturing, while garment sector growth jumped to 18.5 percent from -9.0 percent in 2009. Despite the service sector's weak growth of only 3.1 percent in 2010, the hotel and restaurant sub-sector made strong headway reaching 11.2 percent from just 1.8 percent the year before. It is worth noting that construction, a key growth pillar, sharply contracted in 2010 when construction shrank by 25.5 percent and real estate business plummeted by 15.8 percent (Table 2).

Figure 7: Export Performance



Data source: National Bank of Cambodia

Table 2: Investment Project Approvals by Country and Sector (USD million)

	2007	2008	2009	2010
Total	2655.9	10889.0	5859.4	2690.8
Growth		*310%*	*-46%*	*-54%*
Cambodia	1322.7	3932.5	3753.4	391.2
China	180.3	4,371.3	892.7	694.2
Korea	148.1	1,238.0	120.6	1026.6
Thailand	107.7	73.9	178.1	2.0
Vietnam	139.1	20.9	210.0	114.7
By Sector				
Agriculture	371.1 (9)	94.7 (5)	589.9 (19)	554.4 (23)
Industries	337.5 (93)	725.7 (66)	958.1 (65)	945.5 (74)
Services	652.7 (13)	1292.2 (9)	410.2 (4)	1059.1 (2)
Tourism	1294.5 (14)	8776.3 (20)	3901.2 (12)	131.8 (3)

Data Source: National Bank of Cambodia

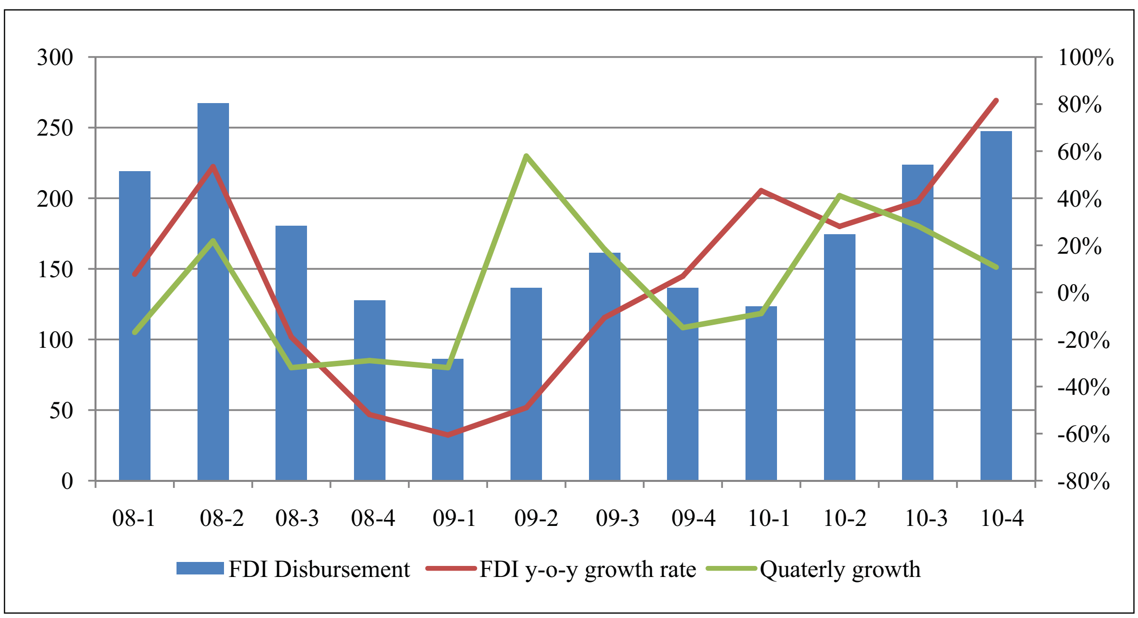
Note: Figures in parentheses are the number of projects

As the main source of development finance, FDI plays a crucial role in private sector development, investments, and job creation. As a result of pitfalls in the early stages of decision-making on mega projects in 2008, gloomy global prospects and a dim domestic outlook, investment in Cambodia plunged with project approvals contracting by 46.2 percent in 2009 and 54.1 percent in 2010 (Table 3). Domestic investors, who used to account for more than half of investment approvals, made up a mere 14.5 percent of the total in 2010. The second runners, China and Korea, continued to invest in big projects. In the meantime, Vietnam gradually took the place of Thailand, a traditional player that used to make sizable investments prior to tension over border dispute between the two countries.

In terms of the number of projects, agricultural projects rose sharply from just 5 in 2008 to 23 in 2010, partly owing to the launch of the "Policy Paper on Promotion of Paddy Production and Rice Export", and the government's commitment to promote private sector investment in agro-industry. Industrial projects do not vary much in terms of the number of projects and amount of investment, while huge investments in tourism projects in 2007 to 2009 restrained new applications in 2010.

Against the backdrop of global financial turmoil causing capital shortage around the world, FDI inflow suddenly contracted in the second quarter of 2008, then bottomed at minus 60.6 percent in the first quarter of 2009 (Figure 8). Year-on-year FDI growth continued on a negative trend until the fourth quarter of 2009. Even though FDI growth turned positive in the first quarter of 2010, it was mainly because of the very low growth in the first quarter of 2009. As the world economic situation began to stabilise from the first quarter of 2010 onwards, FDI inflow quickly resumed an upward trend, leading to disbursements in the fourth quarter of 2010 that were almost equal to those during the peak in the second quarter of 2008. Even though prospects for new investment project applications remained gloomy, the disbursement rate indicated an optimistic economic outlook.

Figure 8: Changes in FDI Disbursement, 2008 – 2010 (USD Million)



Data source: National Bank of Cambodia

3.2. Policy Responses

The global financial crisis coming hot on the heels of major shocks from soaring food and fuel prices left the government striving to maintain economic stability in the face of ever more daunting challenges. In concerted efforts to promote food security, the government injected an additional USD18 million into the Rural Development Bank. In an attempt to resist further economic deceleration as well as to protect the welfare of laid-off workers, a Special Training Fund worth USD6.5 million provided training and a daily living allowance to the unemployed. This fund helped people stay in touch with the labour market and averted the risk of long-term unemployment becoming entrenched. In addition, USD1 million was earmarked to support self-employment. To encourage the private sector to retain workers during the crisis and to ease the burden for garment companies, the government also subsidised employers' occupational risk premium payments.

In the face of economic slowdown, monetary policy aimed to bolster and stimulate economic growth. The central bank removed the cap on credit to the real estate sector and reduced minimum reserve requirements from 16 percent to 12 percent to reignite credit flow. In effect, credit to the private sector started growing (Figure 6).

Amid global financial meltdown, distrust in the financial system led many countries to resort to fiscal expansion as a device to promote economic growth. To navigate the storm, like most countries around the globe, Cambodia adopted expansionary fiscal policy. Whereas monetary policy in developed countries was hampered by poorly functioning financial systems, the effectiveness of monetary policy in Cambodia was hobbled by pervasive dollarization.

Immediately the crisis hit in mid-2008, the government initiated a concerted fiscal expansion strategy to save garments and related sectors in the form of tax exemption equivalent to revenue foregone of about USD539 million. Further fiscal expansion was adopted in the 2009 annual budget, but in the form of increased public spending. Current expenditure increased to about USD219 million (27 percent), though much of this was swallowed by the national defence budget. In tandem with current expenditure, capital expenditure rose by about USD154 million (31 percent). With signs of economic recovery in 2010, the government started to wind down fiscal expansion by letting current expenditure grow only USD159 million (15 percent) and capital expenditure rise USD86 million (13 percent) (Table 3).

3.3. Fiscal Policy Assessment

Fiscal expansion measures deployed around the world vary in design and effectiveness. SNEC (2011) found that fiscal stimulus in Cambodia boosted domestic demand only slightly, while government revenue responded little to increased government consumption. There are several reasons for this. Specifically, the stimulus package was small–around 4.5 percent of GDP in 2009 and 2.8 percent of GDP in 2010. As Jalilian and Reyes (2010) point out, this limited executable budget deficit is less than the desired level, let alone enough, to stimulate economic activities. Another important aspect is that the underdeveloped social security system, job losses and threat of income uncertainty made people's propensity to save higher, hindering the multiplier effect of public spending. One major disadvantage was that because of the country's rudimentary manufacturing base, increased public spending leaked out of the economy in payment for imported goods. To a minimal extent, weak budget institutions could also cause expenditure to deviate from desired performance targets. In this regard, Jalilian and Reyes (2010) highlight concern about the appropriateness and effectiveness of the government's strategy and its capacity to implement a rescue package within this limited role of the stimulus.

In summary, in the face of daunting fiscal challenges posed by the global financial storm, immediate measures taken by the government to promote food security and maintain productivity of workers were laudable. Moreover, adoption of fiscal expansion was necessary to prevent negative growth and job losses. Despite its limited effectiveness, monetary policy complemented fiscal policy well.

Table 3: Fiscal Stimulus Package (in USD Million)

Revenue Foregone				Increase in Public Spending			
Item	2008	2009	2010	2008	2009	2010	Purpose
Subsidy on oil import[1]	300				218	158	Increase in current expenditure[2]
Exemption of tax and excise import[3]	490				154	86	Increase in capital expenditure
Withholding tax[4]		11	11				
Income Tax exemption[5]	18	18	18	12	18		Fund to Rural Development Bank
0% VAT for 40 supporting industries	13	13	26	17			Agriculture Development Fund
monthly profit tax 1%[6]	13	13	13		2	2	Occupational Risk Contribution by the government[7]
reduced tariff for SME development	5	5	5		6.5		Fund for laid-off and unemployed workers
0% tariff rate for agriculture[8]	8	8	8		1		Fund for self-created employment
Total	847	68.428	81.999	29.349	400	247.687	

1 To maintain tax base unchanged since 2004

2 Calculation from annual budget laws

3 Tax and excise on imports for supporting investment in both manufacture and infrastructure

4 Withholding tax on profits for garment and footwear factories till end of 2012, although this caused the state to lose cash on average of 4 billion Riels per month in 2009, and the losses will over 4 billion Riels in 2010. (4 billion Riels per month is approximately equivalent to US$11428571 at exchange rate USD1= 4200 Cambodian Riels)

5 Government-conceded financing about US$18-29 million through 2 years of continued income tax exemption for investment in garment for export since 2005.

6 Assolution to cash flow management of garment sector

7 In 2009 revenue for National Social Security Fund was about 4,000,000, so they government contributed about 2,400,00 (4000000*0.003/0.005)

8 Exemption of value added tax on raw materials and agricultural production equipment, an amount of import and excise tax equivalent to about US$ 8million

4

CONCLUSION: GOING BEYOND CRISIS

Implementation of the “Win-Win Policy” adopted by the government has ensured social peace and political stability, which are the prerequisites for socioeconomic development. Embracing political stability, adhering to philosophy of economic liberalisation and principle of market economy, Cambodia has been making her way out of chronic civil strife, promoting economic development through creating export-oriented garment manufacturing, banishing poverty at an average annual rate of 1 percent, maintaining macroeconomic stability, and keeping inflation under control below 5 percent.

Nevertheless, the two crises revealed the limited effectiveness of both fiscal and monetary policy to weather future external economic shocks. However, being a small country with limited capital, an export-oriented private sector-led growth strategy remains valid for Cambodia. Looking beyond the crises, therefore, it is imperative to strengthen both macroeconomic policy arms.

For fiscal policy, government deposits need building back up through fiscal tightening when the economy bounces back. Low revenue collection, though improved over time and now around 13 percent of GDP, needs further strengthening. Correspondingly, expenditure efficiency also requires huge improvement through bolstering budget institutions. Staying on track, these essential institutional reforms are being implemented under the Public Financial Reform Programme embarked upon at the end of 2004.

While fiscal policy reform is making great strides, monetary policy reform seems to be lagging. Given that the Cambodian Stock exchange is denominated in Cambodian riels, gradual de-dollarization should be considered to ensure policy coherence and to enrich monetary policy options in addition to the possibility of establishing an active money market.

The effectiveness and linkage of macroeconomic policies could be further enhanced by sectoral policies. The launch of the “Policy Paper on Promotion of Paddy Production and Rice Export” and the recently implemented National Social Protection Strategy are additional milestones. Moreover, the Tourism Strategic Development Plan 2010-20 and future policy and financing mix to advance industrial development will lay comprehensive foundations for better macroeconomic intervention with respect to boosting economic growth, maintaining economic stability during crisis, and protecting the welfare of the people.

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