



Global Crisis—Impact, Outlook, and Policy Options for Cambodia

Presentation by Mr. John Nelmes
IMF Resident Representative in Cambodia
at the
2009 Cambodia Outlook Conference
March 12, 2009

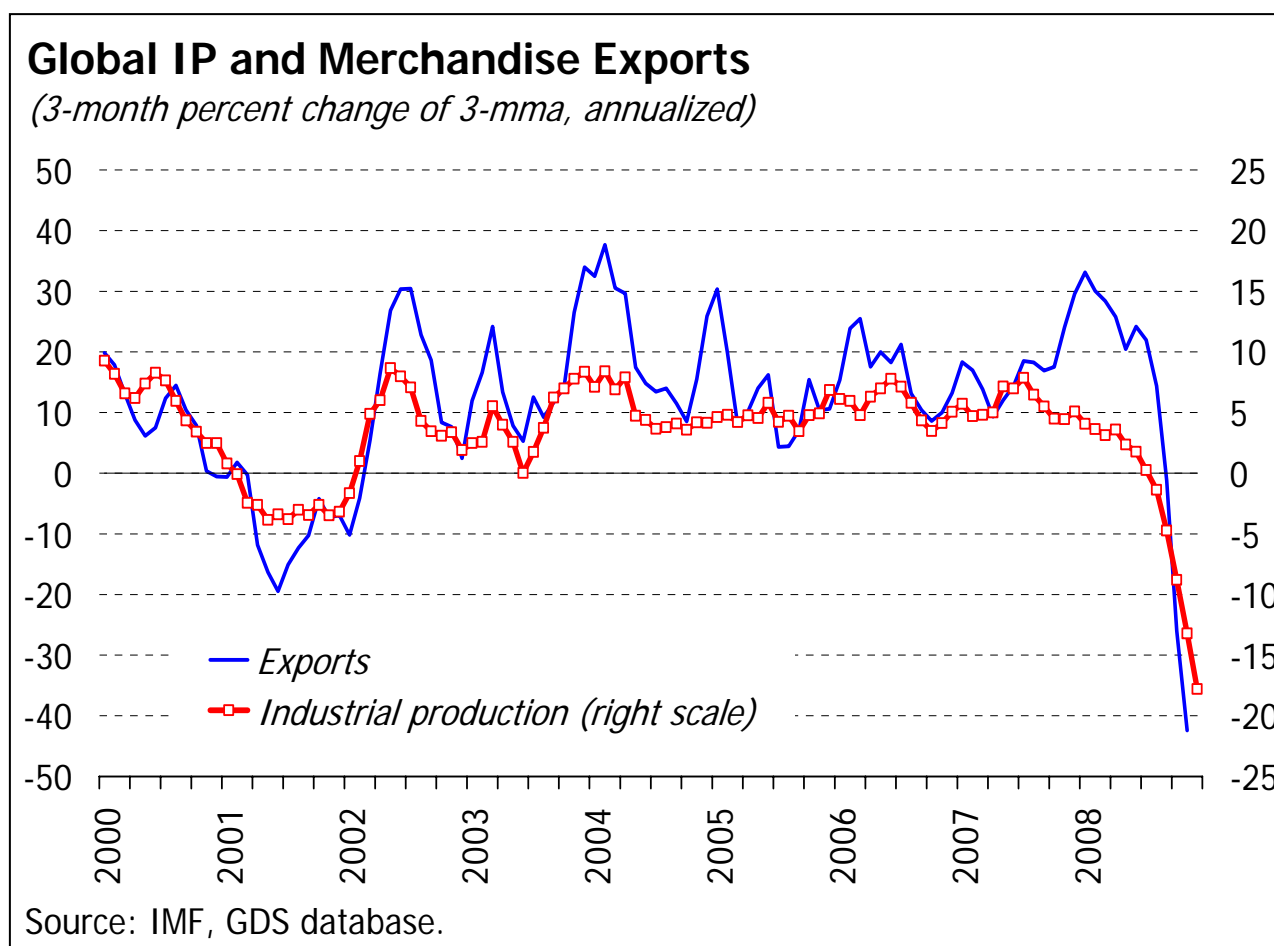


Outline

- Recent global developments and outlook
- Impact on Cambodia and the near-term outlook
- Policy options

Recent Global Developments

- Global growth fell dramatically in 2008Q4, with recent data worse than expected

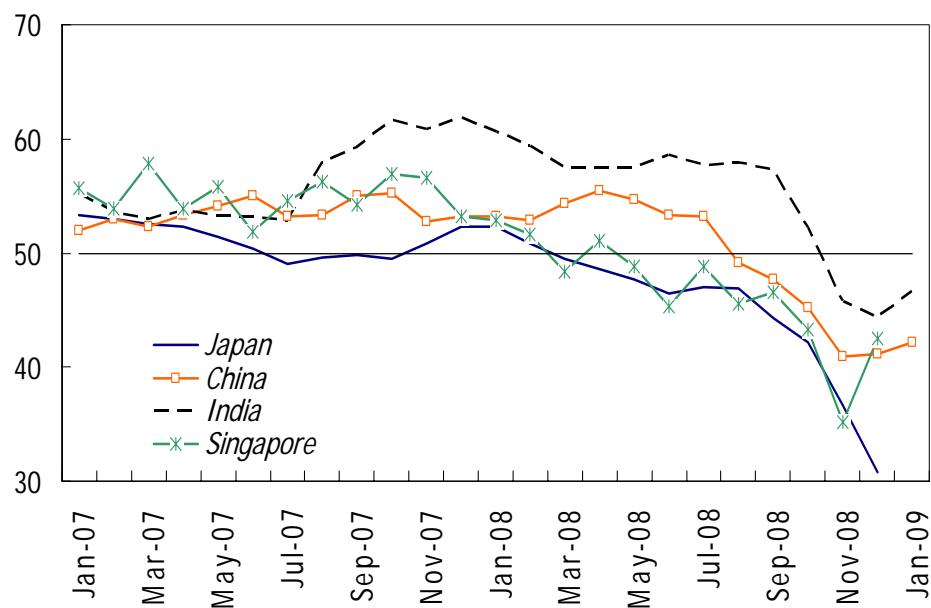


Recent Global Developments

- The impact on manufacturing and exports across Asia is significant...

Selected Asia: Manufacturing PMI

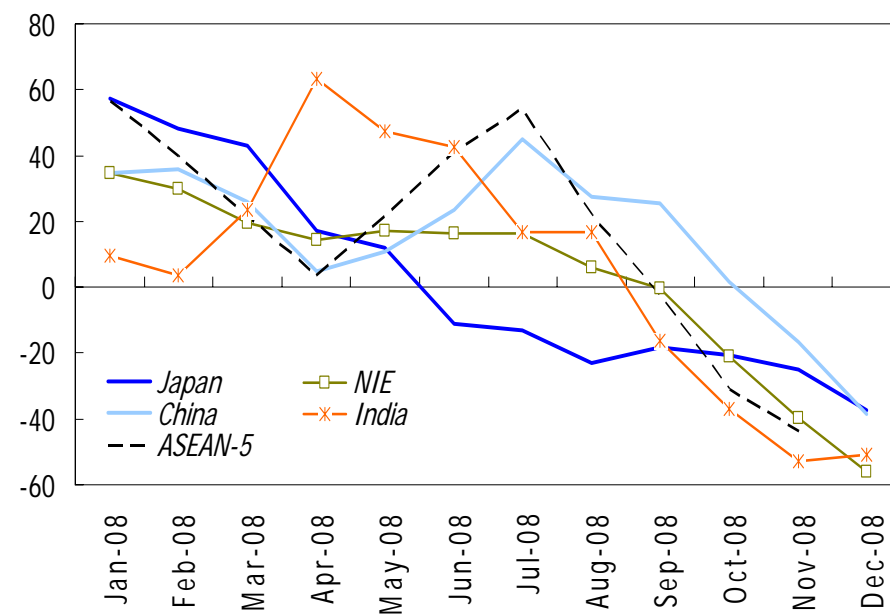
Seasonally adjusted



Source: Haver Analytics

Selected Asia: Export Performance

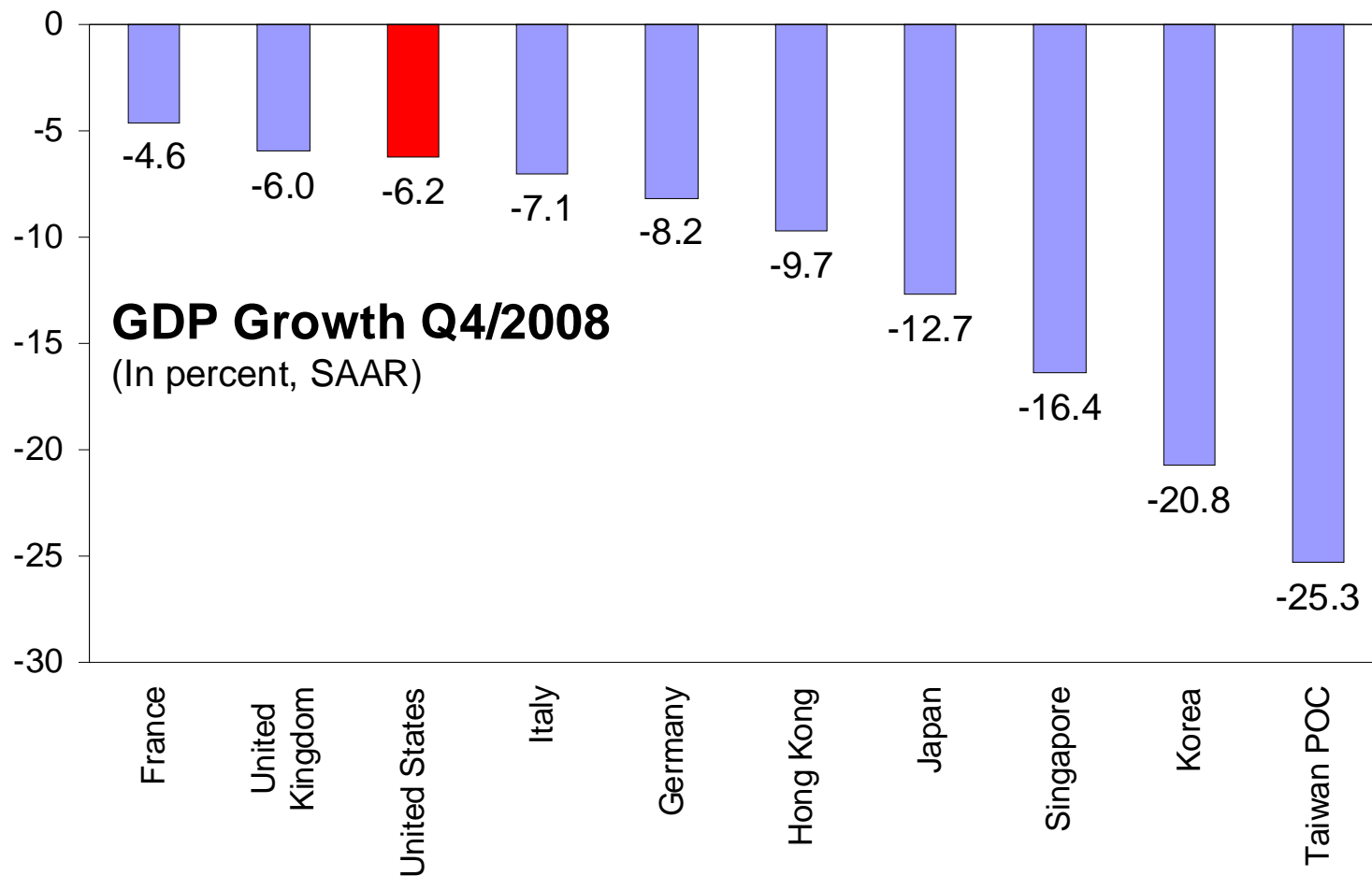
3-month percent change of 3mma, SAAR, U.S. dollar basis



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Recent Global Developments

- ...resulting in severe declines in activity.



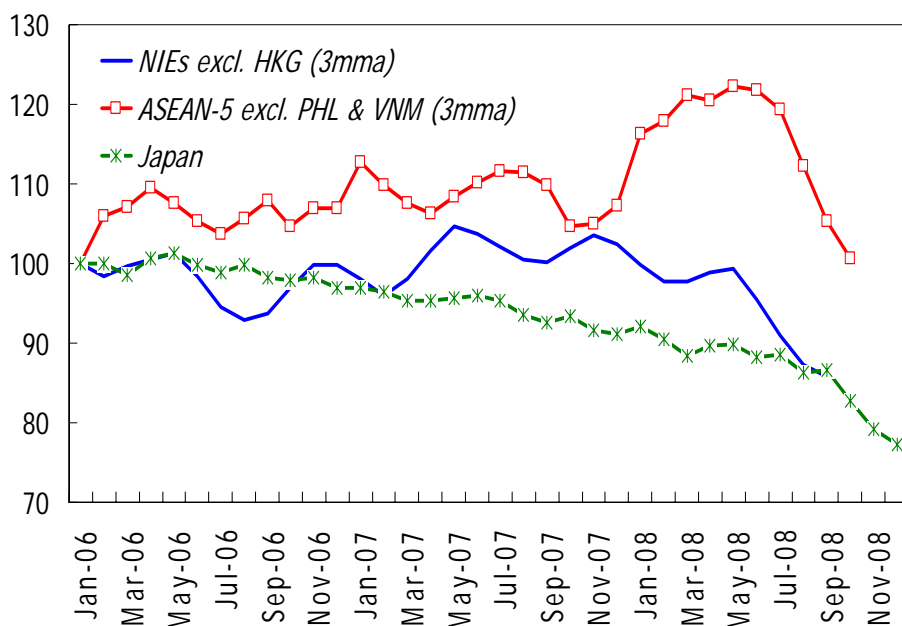
Source: Haver Analytics.

Recent Global Developments

- Business and consumer confidence continues to decline, prompting increased worries about conditions ahead

Selected Asia: Business Confidence

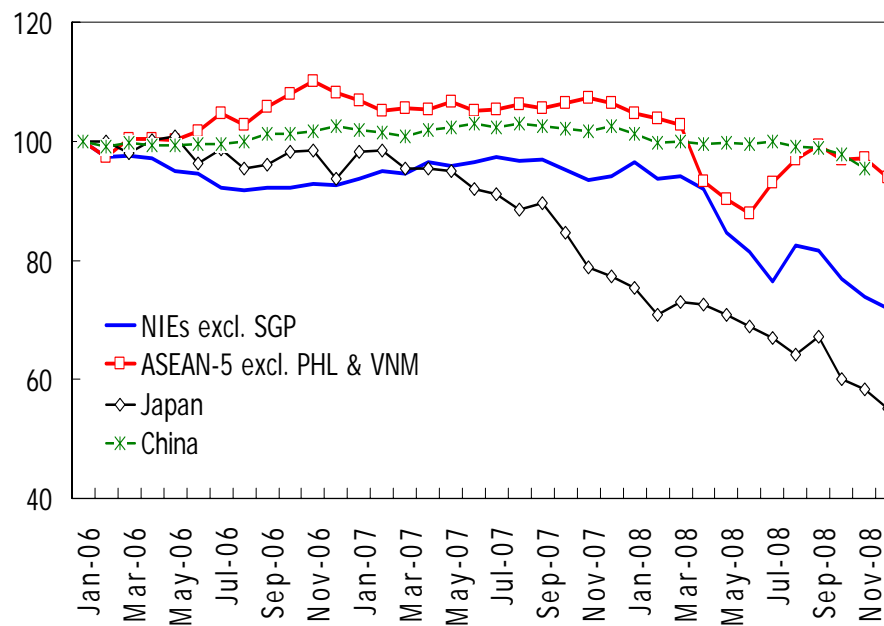
January 2006=100



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Selected Asia: Consumer Confidence

January 2006=100



Sources: CEIC Data Company Ltd; and IMF staff calculations.

Global Outlook

- Further downward revisions likely as the crisis deepens and exports fall. Prospects for 2010 are weak.

	Real GDP Growth		Revisions to 2009 projections
	2008	2009	
World output	3.4	0.5	-1.7
United States	1.1	-1.6	-0.9
Euro area	1.0	-2.0	-1.5
Japan	-0.3	-2.6	-2.4
United Kingdom	0.7	-2.8	-1.5
NIEs	2.1	-3.9	-6.0
China	9.0	6.7	-1.8
ASEAN-5	5.4	2.7	-1.5

Source: IMF World Economic Outlook Update, January 2009.

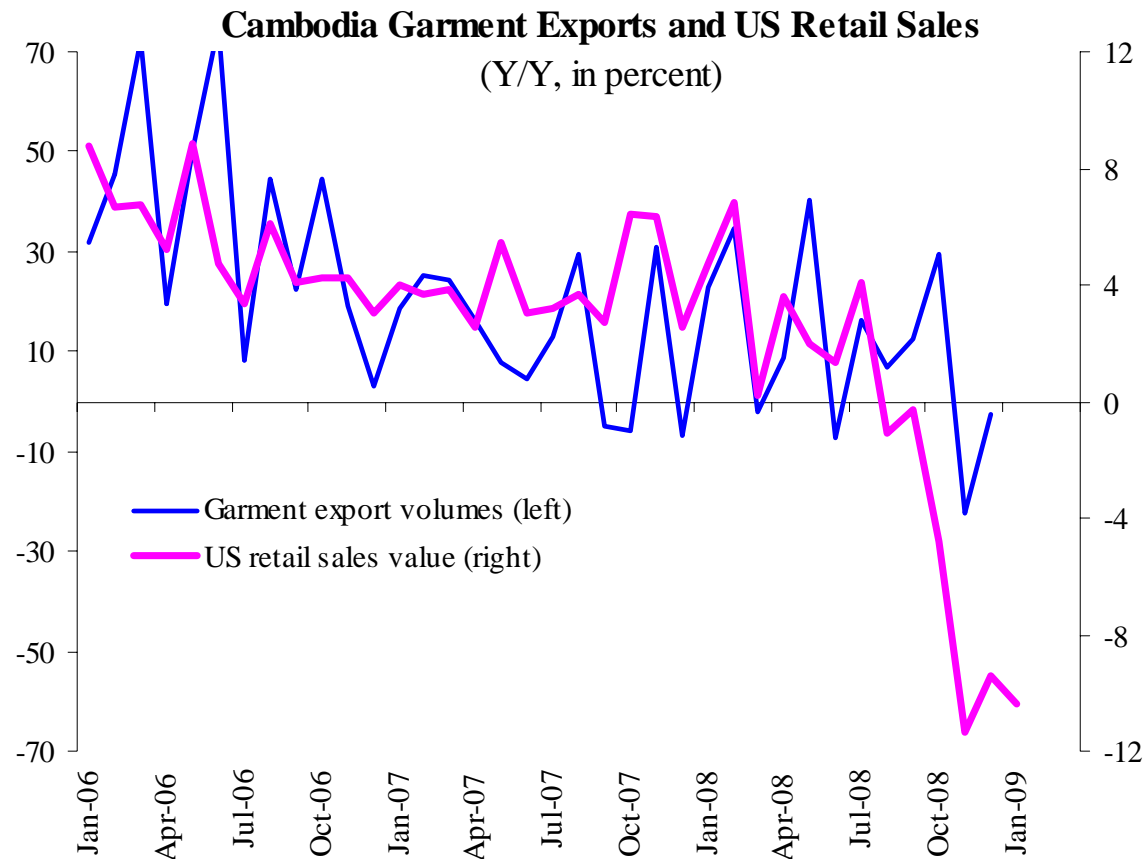


Impact on Cambodia

- Falling garment exports and tourist arrivals, slowing domestic demand
- Slowing FDI inflows, key to the construction sector
- Tightening liquidity conditions
- Lower commodity prices—mixed impact
- Loss in competitiveness

Garment Exports Are Falling

- The garment sector is highly exposed to collapsing U.S. retail sales.

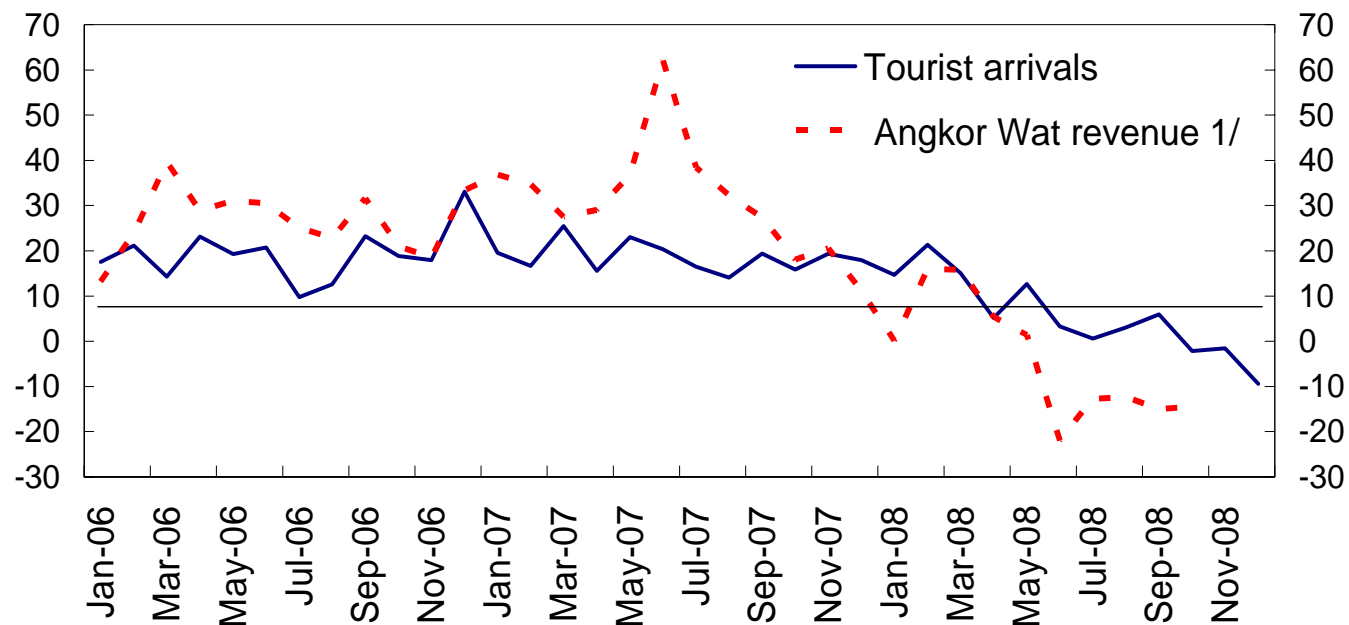


Tourist Arrivals Are Declining

- Global recession; high 2008 inflation and a now stronger currency make Cambodia a higher cost destination.

Cambodia: Total Tourist Arrivals and Angkor Wat Revenue, 2006–08

(Year-on-year growth, in percent)

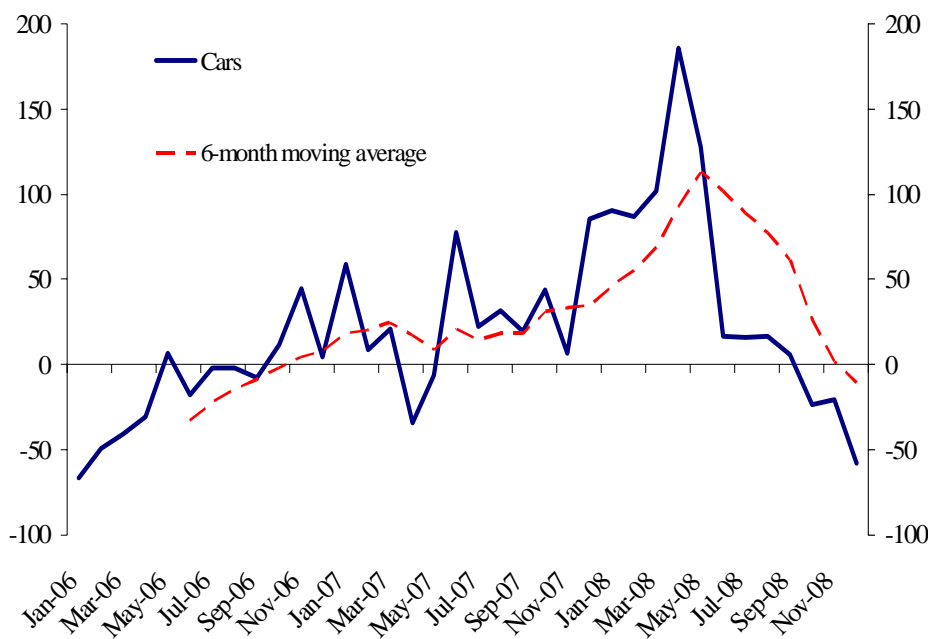


Sources: Data provided by the Cambodian authorities; and IMF staff estimates.
1/ Revenue from ticket sales.

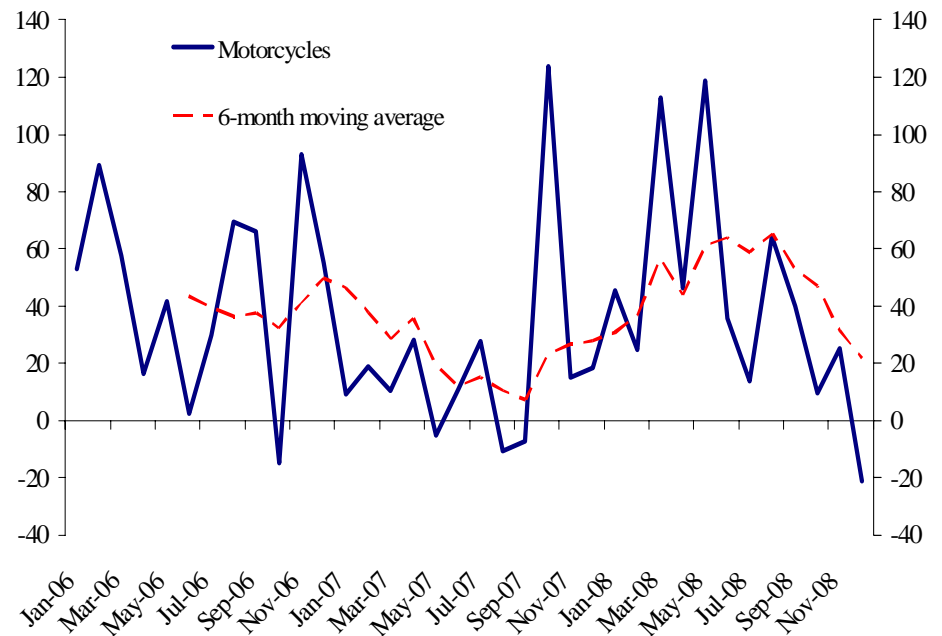
Imports Have Weakened Markedly

- A likely precursor to weak growth in wholesale and retail trade.

Car Import Volumes



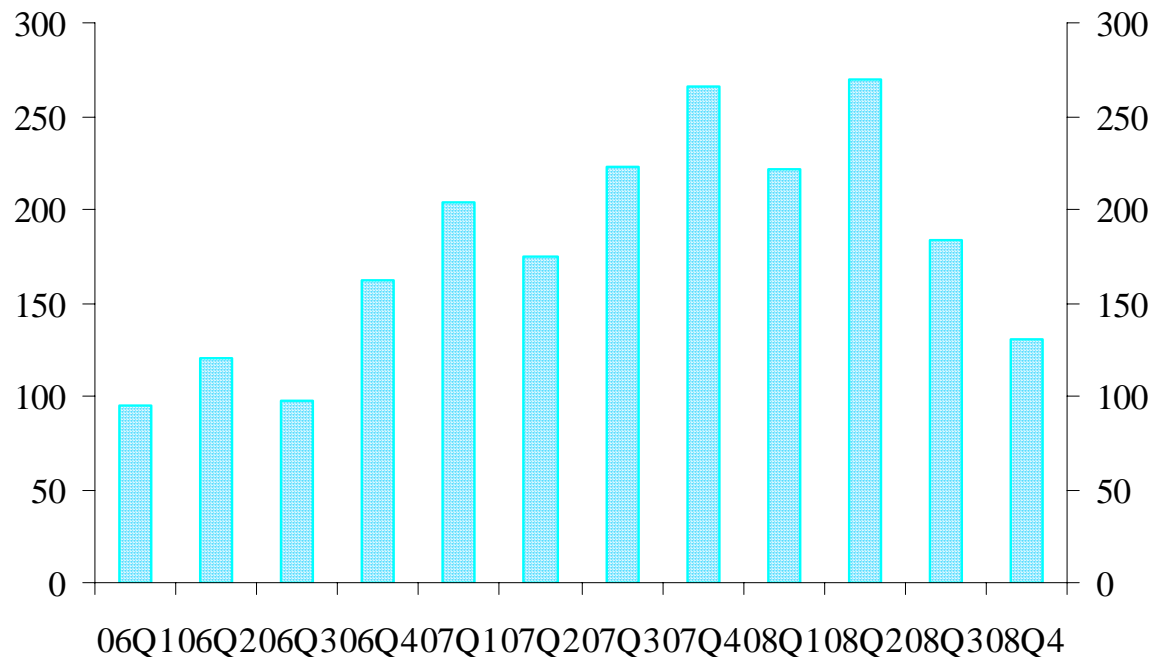
Motorcycle Import Volumes



FDI & Construction Are Slowing

- Global investors are cutting back while financing conditions have tightened.

Foreign Direct Investment, Net
(In million of USD)



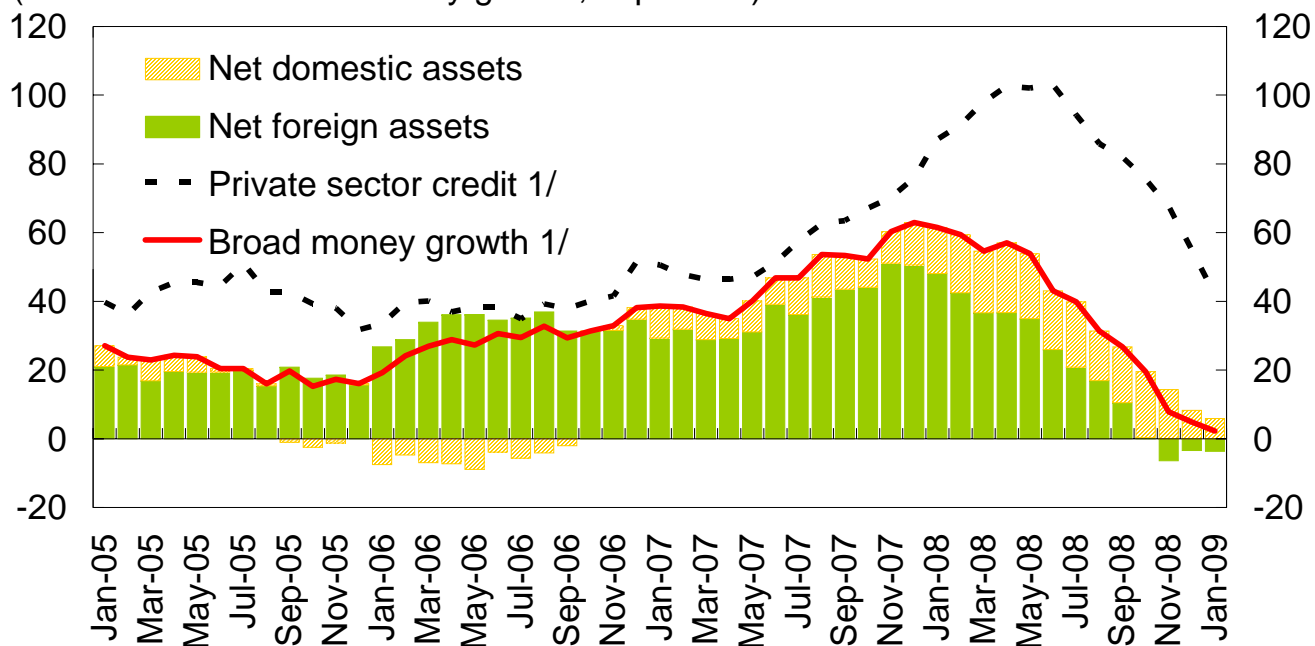
Source: NBC's quarterly BoP

Tightened Liquidity Conditions

- Broad money, driven by foreign currency deposits, is now approaching zero growth, with private sector credit growth also slowing sharply.

Cambodia: Monetary Developments, 2005–January 2009

(Contribution to broad money growth, in percent)



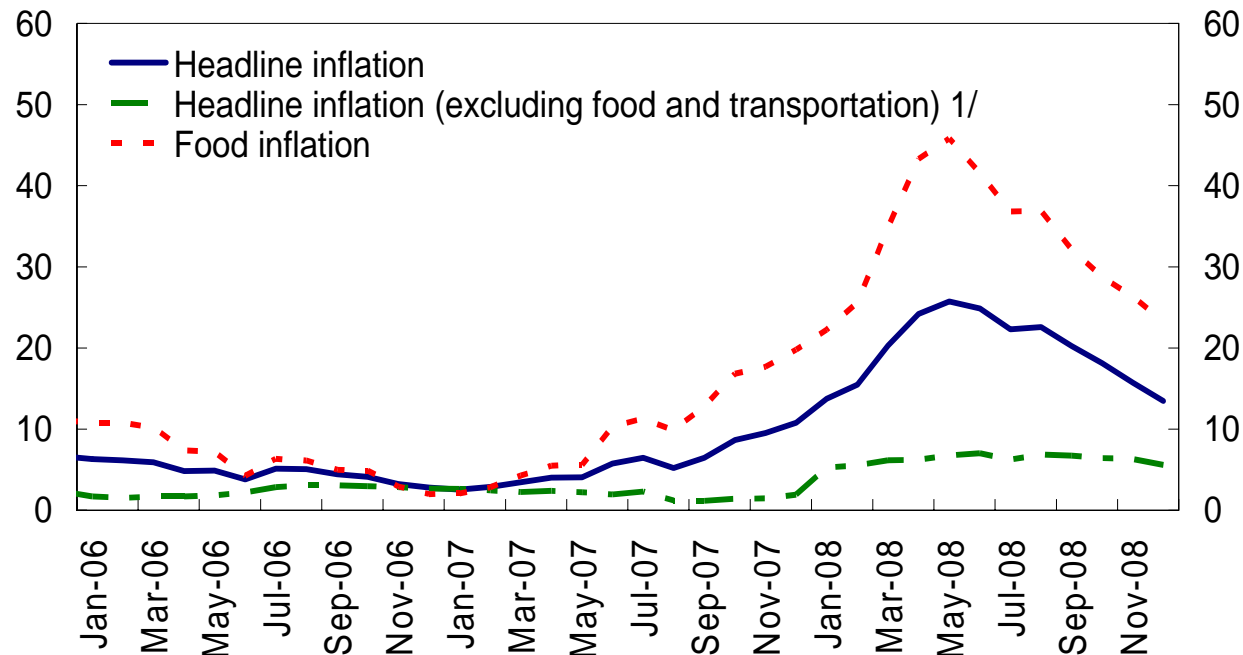
Source: Data provided by Cambodian authorities; and IMF staff estimates
1/ Year-on-year percent change.

Inflation is Declining

- Lower demand pressures and commodity prices, and a now stronger U.S. dollar and riel

Cambodia: Inflation Developments, 2004–08

(Year-on-year percent change)



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

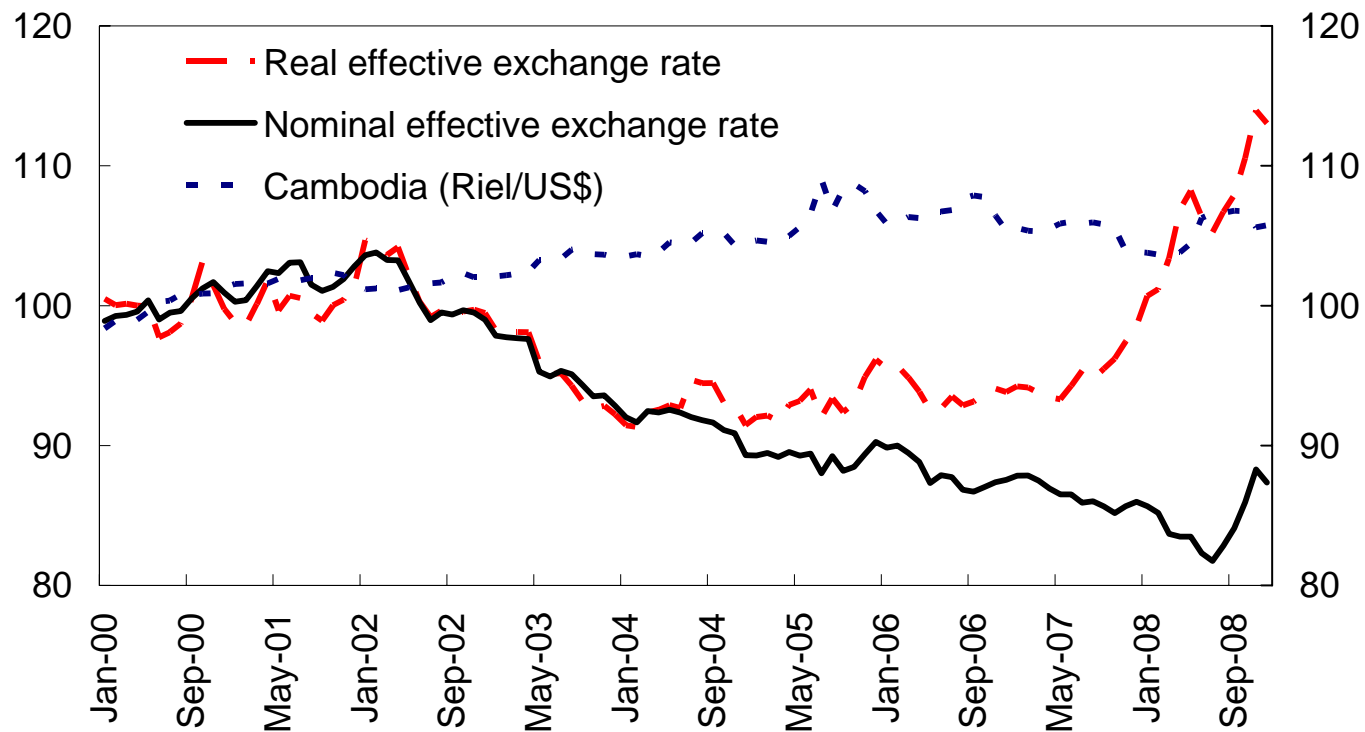
1/ Excludes food, beverages and tobacco, and transportation and communication components of the consumer price index (Phnom Penh, old series).

Competitiveness Under Pressure

- Reflecting high inflation in 2008 and a now stronger U.S. dollar and riel.

Cambodia: Effective Exchange Rates, 2000–08 1/

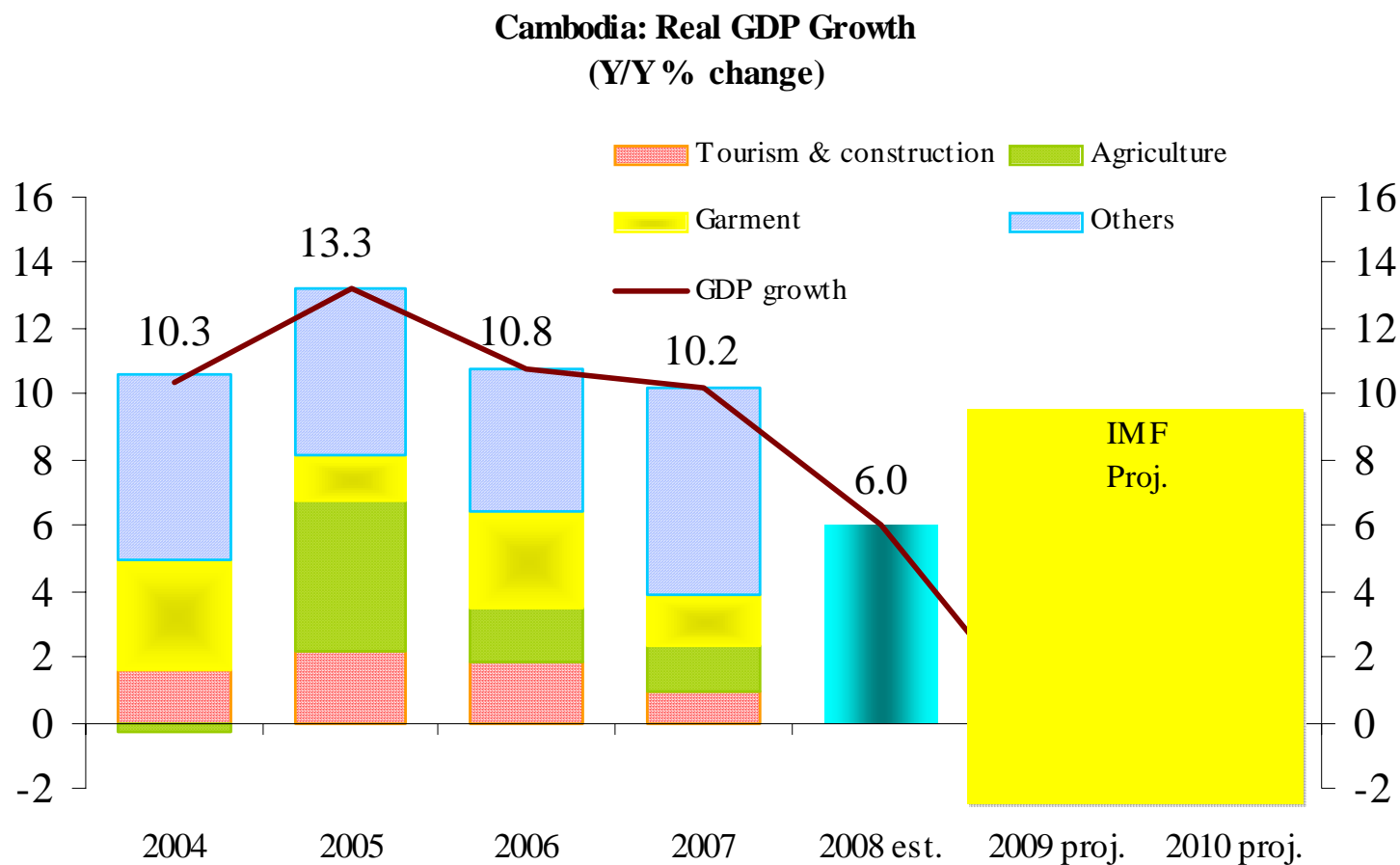
(2000 = 100)



Source: IMF; Information Notice System; and IMF staff estimates.

Cambodia's Growth Outlook

- Conditions point to a recession this year and a slow recovery in 2010. Risks are on the downside.

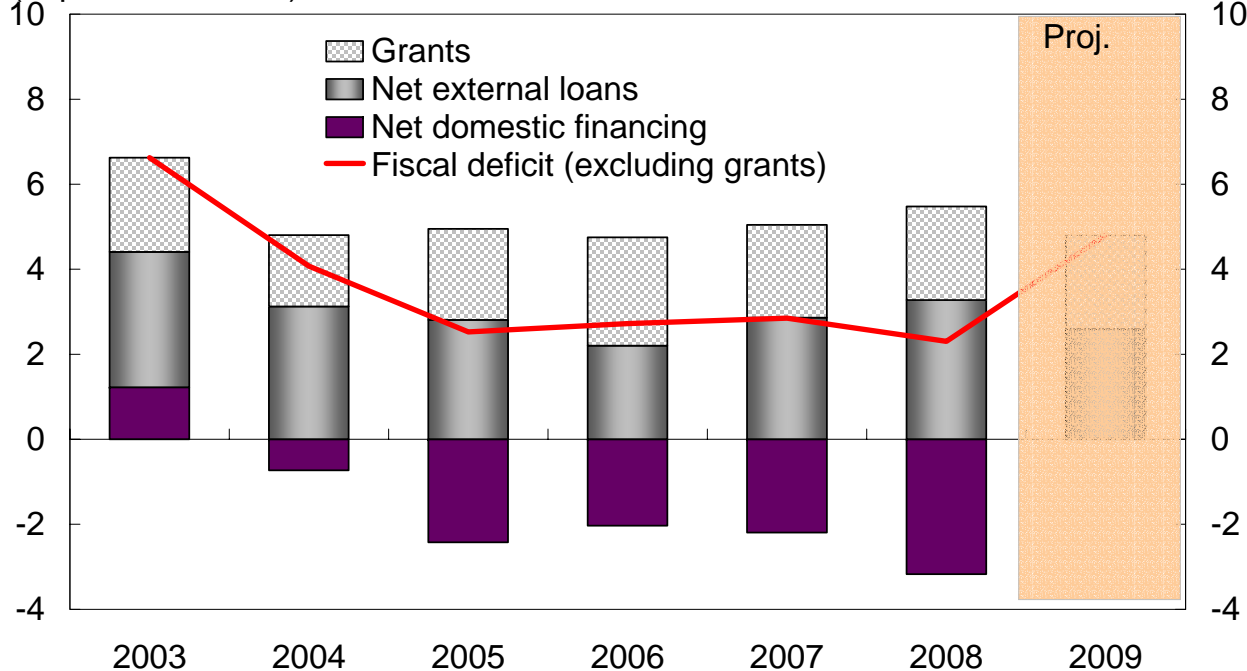


Policy Options


- Fiscal easing—a 2009 deficit of 4¾ percent of GDP. Prioritize social safety nets, infrastructure spending; maintain hard won revenue administration gains.

Cambodia: Fiscal Deficit and Financing, 2003–09

(In percent of GDP)



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



Policy Options

- Further monetary easing may be warranted, but scope is limited.
- The new reserve requirement system will release some liquidity. Development of monetary instruments would facilitate interbank activity.
- Continue strengthening banking supervision and oversight. Recent actions are commendable.
- Address structural impediments to broader-based growth and improved competitiveness.



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.