



ក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ

MINISTRY OF ECONOMY AND FINANCE

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ជាតិ សាសនា ព្រះមហាក្សត្រ

KINGDOM OF CAMBODIA

Nation Religion King



Address

By

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At

The Public Forum on

"Global Financial Crisis: The Requirement for Policy Response"

Cambodia-Japan Cooperation Center

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Excellencies, Ladies and Gentlemen!

First of all, I would like to thank the Cambodian Economic Association and the NGO Forum on Cambodia for their joint effort in organizing this public forum on **"Global Financial Crisis: The Requirement for Policy Response"**. The context of our discussion today stems from the global financial crisis and economic downturn that have negatively impacted Cambodia's economy, especially on the real sector of the economy. I, thus, hope that my intervention will be contributing to the forum's objectives, that is to get common understanding on the requirements for policy response and to explore options for Cambodia's national strategy.

The global economy has been in recession as a result of the global financial crisis, and the prospect of recovery remains unclear in spite of improved performance of the global financial markets over recent weeks. The real sector will take longer time to regain growth,

however, leading economists including the World Bank's have warned of the risk of hyper-inflation that will follow the crisis, especially due to the huge demand for financing the rescue packages. Cambodia, a small and open economy, has been severely affected by the crisis. In this situation, the Royal Government's top priority is to ensure macro-economic and financial stability. Five years prior to the global financial crisis, Cambodia had been moving very fast, with average annual growth rate of 10% and personal income has been increased by 75%. The key pillars of growth include agriculture, construction, tourism, manufacturing and service sectors.

The effect of the global financial crisis lowered Cambodia's growth to 6.7% in 2008, and the figure is estimated to continue to fall to 2.1% in 2009. This will pose more challenges to Cambodia such as in terms of the FDI plunge, drop in the government revenue, escalation of government debts, rising poverty rate and so forth. With regard to external sectors, export growth was only 8.5% while import growth reached 22.8% in 2008.

The garment sector has also been heavily affected by the crisis as 90% of investment capital comes from overseas, and producers rely almost entirely on the currently unstable foreign markets, such as the US and Europe. The export of garment products grew by 2% in 2008 due to the plunge in purchasing demand, and the export in 2009 is predicted to decline further by 5%.

The tourism sector saw very little progress in 2008 as the country received only 2.1 million inbound tourists in the year, equivalent to 6% increase compared to the previous year and 2.3% below the target set by the Royal Government. In the face of global financial stress, the number of visiting tourists will be below our expectation in 2009. The hotel and guesthouse industry also declined by 30% to 40% compared to the previous year.

Also, the real estate sector, which shares around 8.5% of GDP, is expected to suffer from the crisis. The decline in this sector poses risk to either local or foreign investment. The price of the real estate has declined continuously since the end of 2008 until early 2009.

The construction sector, which shares 7% of the GDP, has also been badly affected by the global financial crisis. The Foreign Direct Investment declined sharply in 2008 and continued to decline in 2009. A number of construction projects have seen their investment reduced and some other projects have been suspended. Two factors, which pose difficulties in housing lending, are the declining personal income and investment in real estate sector.

Agricultural sector, which shares approximately 30% of the GDP, is still growing due to the increase in local investments. However, the global economic downturn has reduced the demand for raw materials in agriculture, affecting the production and price of the agricultural products in Cambodia.

Excellencies, Ladies and Gentlemen!

In Cambodia, economic crisis has had an impact on our poverty reduction effort, especially in achieving the Millennium Development Goals (MDG), through the loss of jobs and family income as well as the scarcity of financings for health, education, and social safety nets. In this context, the RGC has approached the crisis in two ways, addressing the vulnerabilities in the finance and banking systems while reducing the social impact such as on employment and income at the same time. We have been working very hard to improve monetary and fiscal policies in order to promote economic growth and maintain stability. At the same time, we have also used the existing and newly established social safety nets to inject funds to stimulate consumption while supporting the poor and the victims of the crisis. Agriculture is our strength, which can offset the decline in other sectors, and could serve as a safety net during the crisis time providing job opportunities and absorbing more labor from the affected garment and construction sectors. The policy package to respond to the crisis, which has been introduced and implemented, includes:

- Continue to implement flexible monetary policy to maintain low inflation rate and ensure financial stability, especially the strengthening the supervision of commercial banks.
- Implement fiscal policy to promote economic growth by increasing budget expenditure to offset the decline in private investment, to mitigate the impact and promote economic activities. The RGC has given priority to the public investment in infrastructure and social welfare. It has intensified efforts to mobilize external funding from development partners who had committed more than USD 1 billion for the year 2009 in the cooperation to fight the global financial crisis.
- Intervention into key affected sectors, especially the garment, which is key to increasing revenue and employment, while seeking opportunities to improve business environment and reduce obstacles in doing business such as high informal cost on production and transportation, as well as to reach understanding between employers and employees. In the context of this global financial crisis, the RGC had provided enough budget and scholarship for professional training including the provision of short-term training to the workers, who are now unemployed. As for the tourism sector, the RGC has focused on strengthening the environment for short-, medium- and long- terms development by ensuring peace, political stability, social order and tourist safety. The RGC has been trying to improve infrastructure, legal framework, human resource development and the expansion of tourism market. For agriculture sector, the Royal Government has continued the zero-tariff policy on importing agriculture materials/inputs as well as increasing capital to the rural development bank to implement the pilot project on plantation. The **"Agriculture Support and Development Fund"** has been created to support private sector, especially the small and medium enterprises, by providing short term credit with low interest rate to farmers in order to increase agricultural productivity and food security.

- The RGC has set a number of measures with the establishment of "**Samdech Prime Minister's Special Fund**" to provide short-term vocational training to workers who lost their jobs. Those measures include:
- The Ministry of Works and Vocational Training has been implementing short-term vocational training for 40140 workers, who lost their jobs and unemployed, in which 30720 workers, equal to 76.5% have been trained in agriculture and 9420, equal to 23.5% have been trained in industry and mechanic. The Ministry of Works and Vocational Training recruited workers in April 2009 to participate in the vocational training, held in May 2009. The total spending on vocational training is 27.2 billion Riels, equal to 6.5 million USD, in which 17.3 billion Riels, equal to the 4.2 million USD has been spent on the training conducted by the Ministry of Works and Vocational Training. As for the amount of 9.6 billion Riels, equal to 2.3 million USD has been spent on the training by the National Fund for Poverty Reduction. The training expenditure includes the payment for each participant of 4,000 Riels per day for food and 40,000 Riels per month for accommodation.
- In order to ensure effective and efficient training, the Ministry of Works and Vocational Training is obliged to provide short course training on entrepreneurship to those workers. Moreover, the Ministry of Works and Vocational Training will continue monitoring the training works after they have completed their training and facilitated them for employment.
- The Ministry of Works and Vocational Training will encourage those, who have been trained already, to set up teams and facilitate them to receive micro-credit services through "**Fund for Direct Consumption**", that is newly created with the budget of more than USD 1 million, under the management of the National Training Council.

- Ministry of Economy and Finance will provide the budget of 4 billion Riels (equal to 01 million USD) for **"Fund for Direct Consumption"** in order to increase the micro-credit services as well as strengthening efficiency and standard of this service.

In addition, The Ministry of Economy and Finance will continue the dialogue with development partners, aiming to mobilize other sources of aids to facilitate the livelihood of the poor and vulnerables:

1. Emergency Food Project with financing from ADB approximately 35 million USD, in which the grant is 17.5 million USD, soft loan is 17.5 million USD, and Government's counterpart fund is 5.08 million USD. The project has been implemented from 2008-2011 in 200 communes and 7 provinces such Kampong Chnang, Pusat, Battambang, Banteaymeanchey, Uddor Meanchey, Siem Reap and Kampong Thom on three main components, related to social safety protection: (a) Free distribution of food to the poor and the vulnerable through supplying rice for free and food program/labor fund; (b) subsidize seeds and fertilizers by giving 50% discount; and (c) capacity building and responding system to food crisis. Amongst the tree components, free distribution of rice to the poor of 342,000 people in 200 communes of 7 provinces was completed in November, 2008, which was a capital, aiming to ease the lives of many poor people. At the same time, we have been introducing labor-for-fund program to restore and rehabilitate rural paths, small scale irrigations in the target communes through the Ministry and Department of Rural Development, the Ministry and Department of water Resources and Meteorology and scholarship program for poor students at the level of primary and secondary schools. Regarding the 2nd section, which is related to subsidy of seeds and fertilizers, we have successfully carried out first pilot project in 11 communes of Kampong Chnang and 20 communes of Kampong Thom, by discounting seeds and fertilizers to poor citizen of 16,000 families, who possess land less than 1 hectare; the 2nd and 3rd steps are being

under way. Concerning the preparation of the responding system to food crisis, we have cooperated with ADB to recruit experts, and I understand that concerned Ministries/Institutions will cooperate to contribute inputs to prepare this system to be more comprehensive and responding to the actual demand. Therefore, this project has been successfully and continuously implemented.

2. The Royal Government of Cambodia will receive financing from WB to finance various programs, which may be relevant to social safety protection and WB has provided fund of approximately 13 million USD, including Grant of 8 million USD from AusAids and Soft Loan of 5 million USD from the WB. The agreement was already negotiated on May 26, 2009 and is expected to be implemented soon.

3. The Royal Government has been making the utmost effort to achieve Tonle Sap Poverty Reduction and Small-holder Development Project in cooperation with ADB and IFAD with the budget of 55.71 million USD, in which (a) ADB loan is 6.8 million USD, (b) ADB Grant is 17.5 million USD, (c) IFAD Loan is 6.69 million USD, (d) Government of Finland Grant is 5 million USD, (e) Governmental Counterpart Fund is 12 million USD and beneficiary fund is 1.03 million USD. The main objective of the project is to improve the economic condition of small farmers and reduce poverty of the people around Tonle Sap Lake in 4 provinces including: Banteay Meanchey, Kampong Cham, Kampong Thom and Siem Reap for 156 communes.

4. There are new and urgent measures, which have been achieved and newly set out by the Royal Government to ensure the benefit, protect Cambodia's social safety net protection, aiming to ensure sustainability of socio-economic development, poverty reduction and upgrade the standard of living.

Excellencies, Ladies and Gentlemen!

Although the Royal Government has tried and paid greater attention to many challenges which need to be addressed in order to promote economic growth, especially helps the Royal Government to speed up reforms which have long-term benefit by improving economic efficiency, but would have high political and social implication in the short term, by effectively providing compensations to those who are negatively impacted by the reforms.

Thank you!