



Causes & Impacts of Current Inflation on Cambodia's Economy

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Contents

- What is inflation?
- What causes inflation?
- Cause of current inflation
- Impacts on Cambodia's economy
- Policy recommendations

“Price Stability is a Precondition for Sustainable Growth and Development”

What is inflation?

- Inflation is a rise in the general level of prices, not a rise in a single good or service
- Main indicator is the consumer price index (CPI)
- CPI is an index that measures the cost of a basket of goods and services

What Causes Inflation?

■ Supply-Shock (“Cost Push”)

- Caused by a rise in input prices e.g. as raw materials
- Import-Price Cost Push: Caused by higher prices in foreign countries, entering domestic economy via imports

■ Demand-Pull

- Caused by excessive demand beyond production capacity.
- Public Deficit: Heavy spending by the govt increases the quantity of money, leading to inflation

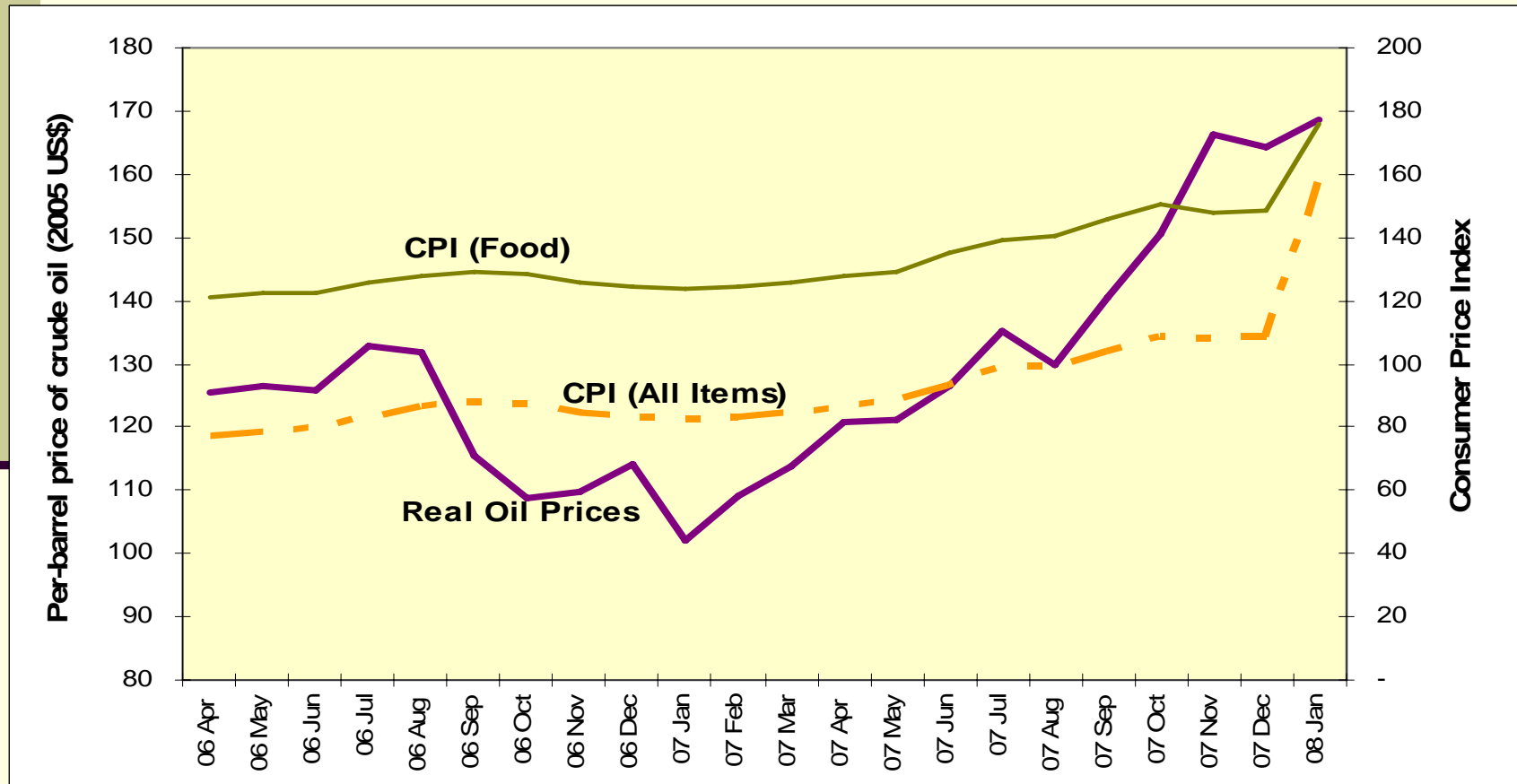
■ Monetary Inflation

- Excessive money growth faster than real output (GDP), resulting in more money chasing the same amount of goods and services.

Cause of Current Inflation in Cambodia

Supply-Shock:

↓ Global Oil production → ↑ price of oil → ↑ production costs across sectors → ↑ in general price level







Structural Factors

Structural factors exacerbating inflation:

- **Low supply elasticity** – supply is not responsive to changes in price because:
 - Infrastructure limited
 - Shortage of skilled labour and entrepreneurial skills
 - Diseconomies of small-scale production
 - Fragmented economy

Impacts on Cambodia's Economy

(1) Inflation Destabilizes the Economy

-  inflation →  demand →  output →  employment

(2) Inflation is Reinforcing:

- Wage-Cost Cycle:  Inflation →  cost of living →  wages →  production costs →  prices

(3) Inflation Impacts Development

- Speculation: Long-term productive investment is discouraged in favor of more speculative uses e.g. hoarding inventories, and building apartments and shops for higher income groups

Policy Recommendations

■ Short Run – Aim: Ease Inflation

- Trade policies: Facilitate surplus supply to areas with shortages
- Tax policies: Lower taxes on key goods, Raise taxes on luxury goods

■ Long Run - Aim: Increase Domestic Supply Elasticity

- Structural policies to:
 - Broaden economic base
 - Guide investment into priority sectors
 - Land Tax policies to encourage productive utilization of land
 - Institutional reforms to encourage productive investment
 - Infrastructure development
- Promotion of Regional Common Markets to enlarge market



Thank You