

Country Pages and Key Indicators

CAMBODIA



Population	14.9 million
Population growth	1.8 percent
GDP (PPP, int'l US\$)	37.1 billion
GDP per capita (PPP, int'l US\$)	2,494
Surface area	181,040 sq. km.
Capital	Phnom Penh

Source: World Development Indicators.

Summary

The Cambodian economy has managed to withstand strong domestic pressures and to maintain high economic growth. Growth is holding up reasonably well despite the adverse effects of political uncertainty and labor unrest since the second half of 2013, while inflation has picked up only marginally. Real economic growth is estimated to reach 7.4 percent in 2013, driven mainly by the garment and tourism sectors. With the expectation of renewed confidence and the return of political stability, bolstered by a strengthening global economy, Cambodia's real economic growth rate for 2014 is projected to reach 7.2 percent. The banking sector is expanding, and financial sector deepening is continuing to occur. Fiscal performance remains sustainable, although domestic revenue performance has recently slowed. However, potential further labor unrest and adverse impacts of "tapering" by the U.S. Federal Reserve pose downside risks.

Recent Economic Developments

Cambodia's economy currently must withstand political and social domestic pressures, while at the same time protecting its high economic growth rate. Economic growth performed better than expected in 2013, despite the adverse effects posed by political uncertainty and labor unrest. Fortunately, the 2013 floods inflicted only limited damage on rice production. With an acceleration of garment exports, and continued growth in the tourism sector, real growth is expected to hit 7.4 percent in 2013. The prospects for sustaining high growth appear favorable, and real growth for 2014 is projected to reach 7.2 percent, given expectations of renewed confidence and stability, and underpinned by the strengthening of slow economic recovery in developed economies. Downside risks, however, include potential continuing labor unrest and adverse impacts from tapering by the U.S. Federal Reserve. Initial impacts of tapering have resulted in most emerging markets suffering significant currency depreciations, rendering their exports more competitive. However, this works against Cambodia's exports, because of the country's highly U.S. dollarized economy.

Cambodia's current account deficit has improved amidst moderated FDI inflows. Caused mainly by dampened domestic demand, import growth slowed while export growth advanced. This contributed to a narrowing of the current account deficit to around 9.4 percent of GDP in 2013, compared with 10.1 percent of GDP in 2012. Inflows of FDI have continued, but given the political uncertainty, we estimate 2013 inflows to be well below the 2012 peak. Gross international reserves, therefore, increased marginally, reaching US\$3.6 billion or 3.8 months of imports, in 2013 compared with US\$3.5 billion in 2012.

Inflation is picking up marginally. While prices of staple food items remain broadly stable, inflationary pressure is steadily rising due to the recent pickup of prices from some food and beverage items. Inflation rose to 4.7 percent year-on-year at the end of 2013, up from 2.5 percent at the end of 2012. Inflation is projected to remain in single digits over the short term.

Private deposit growth has slowed while credit growth has remained elevated. The adverse impact of political uncertainty on confidence caused private sector deposit growth to slow considerably, decelerating to 14.2 percent year-on-year by December 2013, from 25.2 percent by end-2012. In contrast, credit growth remained strong, expanding at 26.6 percent year-on-year in 2013, only slightly below the 2012 growth rate of 28.0 percent. This raises the risk of Cambodia experiencing a squeeze on bank liquidity. Broad money supply growth also slowed as foreign currency deposits modestly expanded, reaching US\$6.7 billion, or a 14.6 percent year-on-year increase in 2013, compared with US\$5.9 billion, or 20.9 percent, in 2012.

Fiscal space has expanded despite domestic revenue growth moderating. After a sharp increase in 2012, domestic revenue growth moderated, expanding 8 percent year-on-year in 2013, compared with 27 percent in 2012, due largely to lower import tax and nontax revenue collection. The 2013 revenue is estimated to reach 14.8 percent of GDP, below the 2012 peak of 15.3 percent. The outlays were contained at around 21.3 percent of GDP in 2013, broadly similar to the 2012 level. The 2013 overall fiscal deficit including grants is estimated to reach 3.9 percent of GDP, slightly higher than the 2012 deficit of 3.3 percent, and continues to be overfinanced by external funding. Government reserves rose to US\$760 million in 2013, up from US\$690 million in 2012.

Cambodia's debt-distress rating remains low. Joint World Bank/International Monetary Fund debt-sustainability analysis conducted in 2013 shows that Cambodia's debt-distress rating remains low, with all debt burden indicators projected to be below their respective thresholds. Similar to last year's assessment, the results indicate that debt sustainability remains vulnerable to growth, exports, and fiscal shocks, indicating the need for continued structural reforms to diversify growth and improve revenue collection. The stock of Cambodia's external debt (including arrears) was US\$4.5 billion, or 32 percent of GDP, at end-2012.

Outlook and Emerging Challenges

Appropriately managing domestic pressures, while coping with adverse impacts of U.S. Fed tapering, help to safeguard macroeconomic stability. Addressing labor unrest by successfully negotiating wage issues would serve the interest of both workers and firms. Likewise, improving banking supervision would further strengthen the financial sector. Enhancing regional integration will enable Cambodia to benefit more from growth dynamics throughout the ASEAN region.

Cambodia: Key Indicators

	2011	2012	2013e	2014p	2015f
	Year	Year	Year	Year	Year
Output, Employment, and Prices					
Real GDP (% change yoy)	7.1	7.3	7.4	7.2	7.0
Domestic demand (% change yoy)	1.0	11.9	8.5	9.7	10.2
Industrial production index (2000=100)	300.8	315.9	341.1	368.4	396.1
(% change yoy)	14.5	5.0	8.0	8.0	7.5
Consumer price index (% change yoy)	4.9	2.5	4.7	5.0	5.5
Public Sector					
Government revenues (% GDP)	13.2	15.3	14.8	15.0	15.0
Government expenditures (% GDP)	22.8	21.0	21.3	20.3	20.0
Government balance (% GDP) 1/	-9.6	-5.7	-6.5	-5.3	-5.0
Foreign Trade, BOP, and External Debt					
Trade balance (million US\$)	-1,490.0	-1,949.2	-1,983.9	-2,096.2	-2,508.9
Exports of goods (million US\$)	5,219.5	6,015.7	6,777.5	7,979.4	9,229.2
(% change yoy)	34.4	15.3	12.7	17.7	15.7
Key export (% change yoy) 2/	31.7	7.0	17.6	17.5	15.5
Imports of goods (million US\$)	6,709.5	7,964.9	8,761.4	10,075.6	11,738.1
(% change yoy)	22.7	18.7	10.0	15.0	16.5
Current account balance (million US\$) 3/	-1,014.9	-1,436.6	-1,450.9	-1,620.1	-1,824.9
(% GDP)	-7.9	-10.1	-9.4	-9.7	-10.0
Foreign direct investment (million US\$)	785.4	1,410.2	1,200.0	1,450.0	1,710.0
External debt (million US\$)	3,840.8	4,486.0	5,052.0	5,559.4	5,948.7
(% GDP)	29.9	31.6	32.6	33.2	32.5
Short-term debt (million US\$)	-	-	-	-	-
Debt-service ratio (% exports of goods & services)	1.2	1.2	1.3	1.5	1.5
Foreign exchange reserves, gross (million US\$)	3,031.6	3,463.0	3,642.5	3,879.3	4,267.2
(months of imports of goods & services)	3.4	3.1	3.8	3.5	3.4
Financial Markets					
Domestic credit (% change yoy)	37.3	29.6	28.5	26.0	25.2
Short-term interest rate (% p.a.)	15.0	13.7	13.0	13.0	12.8
Exchange rate (riel/US\$, eop)	4,039	3,995	4,000	4,065	4,076
Real effective exchange rate (2005=100)	124.8	128.6	131.0
(% change yoy)	1.9	3.0	1.8
Memo: Nominal GDP (million US\$)			15,491	16,722	18,291

Sources: National data sources, International Monetary Fund, and World Bank staff estimates.

e = estimate.

f = forecast.

p = projection.

1/ Excluding grants.

2/ Garments.

3/ Excluding official transfers.