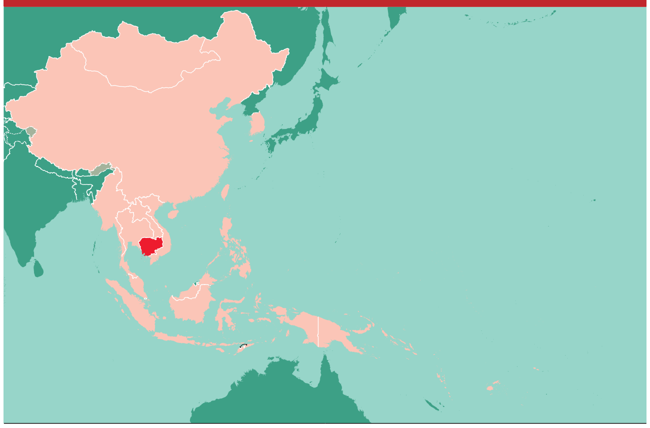
CAMBODIA



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 remains robust amidst a challenging global economic environment, and prospects for meeting the growth projection of 7 percent in 2013 appear favorable. Overall macroeconomic outlook remains positive, having sustained agricultural growth with favorable weather conditions, continued strong performance of the tourism sector, and a resilient garment sector. The economic outlook, however, faces some risks. It is unclear how big an impact the political uncertainty postelections is having on foreign direct investment (FDI) and growth, even with some improvements on the external front with initial signs of improvements in the U.S. and European Union (EU) economies.

Recent Economic Developments

The Cambodian economy remains robust amidst the challenging global economic environment. Real GDP growth was 7.3 percent in 2012, and is projected to reach around 7 percent in 2013. GDP growth has been driven by a sustained strong agricultural sector growth, resilient exports, rebounding construction activity, and a robust tourism sector.

Adaptation to changes in destination markets for garments, expanded cultivated area, and a diversification in sources of tourism have helped Cambodia's three key engines of GDP growth sustain their momentum. The garment export industry has adapted to export market conditions, focusing on lower-end garment products for the U.S. market and higher-end products for the European market. In the agricultural sector, rice production has continued its high growth. Rising cultivated areas of rice crops (both area expansion and irrigation) account for up to 80 percent of annual rice production increase during the last four years. Successful diversification of tourism markets, attracting arrivals from Eastern Europe, East Asia, and the Pacific regions, has resulted in a continued high growth in the tourism sector. During the first six months of 2013, garment exports accelerated further, growing at 18 percent year-on-year (yoy), while the tourism sector continues its high-growth trajectory, with a tourist arrival growth rate of 19 percent yoy.

As a result of the rapid pace and pattern of growth that enables benefits to be shared by a larger number of people, Cambodian poverty has fallen sharply. Economic growth broadened over the last years thanks in large part due to the sustained growth in the agricultural sector favored by increases in rice prices in the global markets. The percentage of poor people was more than halved within seven years to around 20 percent in 2011. Despite this large poverty reduction, the vast majority of the families who were lifted out of poverty were so only by a small margin, implying that those families moved from being poor to being just near poor.

The current account deficit (excluding official transfers) widened to 10.1 percent of GDP in 2012 from 7.9 percent of GDP in 2011. Compared to 2011, higher imports in 2012 were driven mainly by rising petroleum, motor vehicle, and construction materials imports. The large current account deficit (as a percentage of GDP) that Cambodia runs is helping address the importing needs of investment.

The capital account surplus substantially increased, thanks to the increasingly large FDI, which peaked at US$1.4 billion in 2012. FDI continued to grow over the first half of 2013, and investor interest appeared to continue during the election period, unlike in past elections.

As a result of the capital account surplus, the overall balance of payments remains positive, increasing international reserves. Gross international reserves rose to US$3.5 billion or 3.7 months of imports in 2012, compared to US$3.0 billion or 3.4 months of imports in 2011. By June 2013, the gross international reserves reached US$3.6 billion.

The Consumer Price Index (CPI) has eased, dropping to 2.5 percent by the end of 2012, compared to 4.9 percent in 2011. This is due to the stabilization of the main product categories, in particular food prices, which represent 43 percent of the consumer basket. In June 2013, yoy inflation picked up marginally, reaching 2.9 percent due to slightly elevated foods prices. Inflation is projected to remain in low single-digit figures during the short term.

The nominal exchange rate has remained stable, while financial deepening continues. The Cambodian riel (CR) is pegged to the U.S. dollar, and has been hovering at around CR 4,000 per dollar. The exchange rate slightly depreciated and reached CR 4,062 per dollar in June 2013.[1] The financial deepening continues and a growing number of banks are entering the Cambodian market. Competition among banks has contributed to narrowing the U.S. dollar interest rate spread, and driving some efficiency into the market; however, there are also significant risks to having a large number of banks due to supervision capacity challenges. The recent credit growth of about 30 percent yoy has benefited the agricultural sector, which received US$570 million or 10 percent of the total credits by end-2012, compared to only US$100 million or 5 percent of the total credits by end-2008.

During the first five months of 2013, domestic revenue continued to improve but at a slower pace, rising only at 9.6 percent yoy, compared to 24.7 percent in 2012.[2] Public expenditure performance, however, appears slow. The budget deficit (excluding grants) should remain as budgeted at around 5.4 percent of GDP. Fiscal management remains appropriate and supportive of macroeconomic stability, but there is significant room for domestic revenues to be further improved and for greater efficiency in spending. In 2012, Cambodia restored its fiscal space, thanks to a high growth of revenue, estimated to reach 14.4 percent of GDP in 2012, compared to 13.1 percent in 2011. The government, however, continues to depend heavily on donors, whose funds account for almost 80 percent of the total public investments or 34 percent of the total public outlays.

Outlook and Emerging Challenges

The overall macroeconomic outlook remains positive, due to sustained agricultural growth with favorable weather conditions, continued strong performance of the tourism sector, and a resilient garment sector. The economic outlook, however, faces some risks. It is unclear how big an impact the political uncertainty postelections is having on FDI and growth, even in light of some improvements on the external front. GDP growth in 2013 is projected at around 7 percent and in 2014 could be close to 7 percent.

The overall debt sustainability outlook remains favorable. The 2012 joint Word Bank/IMF Debt Sustainability Analysis shows that Cambodia's debt distress rating remains low. The government's policy of avoiding nonconcessional borrowing has been a key factor in sustainable debt management. Cambodia's external public debt and publicly guaranteed debt stock is estimated to reach 30.1 percent of GDP in nominal terms by the end of 2012.

1 Official midpoint exchange rate, the National Bank of Cambodia.

2 Preliminary fiscal data for 2013

Cambodia: Key Indicators

	2011	2012	2013f	2014f	2015f
	Year	Year	Year	Year	Year
Output, Employment, and Prices					
Real GDP (% change yoy)	7.1	7.3	7.0	7.0	7.0
Domestic demand (% change yoy)	1.0	11.9	9.0	8.3	8.7
Industrial Production Index (2000=100)	300.8	315.9	341.1	363.3	388.7
(% change yoy)	14.5	5.0	8.0	7.0	7.0
Consumer Price Index (% change yoy)	4.9	2.5	5.0	6.0	5.0
Public Sector					
Government revenues (% GDP)	13.2	14.4	14.2	14.5	14.8
Government expenditures (% GDP)	22.8	19.7	19.6	20.0	19.0
Government balance (% GDP)	-9.6	-5.3	-5.4	-5.5	-4.2
Foreign Trade, BOP, and External Debt					
Trade balance (millions US$)	-1,490	-1,949.2	-2,082.3	-2,636.8	-2,956.1
Exports of goods (millions US$)	5,220	6,015.7	6,918.1	7,713.6	9,102.1
(% change yoy)	34.4	11.4	15.0	11.5	18.0
Key export (% change yoy) 1/	31.7	7.0	18.0	15.5	20.0
Imports of goods (millions US$)	6,710	7,964.9	9,000.3	10,350.4	12,058.2
(% change yoy)	22.7	18.7	13.0	15.0	16.5
Current account balance (millions US$) 2/	-1,015	-1,436.6	-1,499.2	-2,065.7	-2,217.1
(% GDP)	-7.9	-10.1	-9.6	-12.0	-11.8
Foreign direct investment (millions US$) 3/	785	1,410.2	1,452.5	1,626.8	1,748.8
External debt (millions US$)	3,611	4,281.0	4,726.0	5,229.5	5,634.1
(% GDP)	28.1	30.2	30.2	30.4	29.9
Short-term debt (millions US$)	66.8	67.0	66.9	66.7	66.5
Debt service ratio (% exports of g&s)	1.2	1.2	1.3	1.5	1.5
Foreign exchange reserves, gross (millions US$)	3,032	3,463.0	3,843.9	4,151.4	4,525.1
(months of imports of g&s)	3.4	3.3	3.2	3.1	3.0
Financial Markets					
Domestic credit (% change yoy)	37.7	34.0	28.0	25.0	25.0
Short-term interest rate (% p.a.)	15.0	13.7	13.0	13.5	13.5
Exchange rate (CR/US$, eop)	4,039.0	3,995.0	4,000.0	4,063.6	4,076.0
Real effective exchange rate (2000=100)	124.8	128.6			
(% change yoy)	1.9	3.0			
Memo: Nominal GDP (millions US$)	12,828	14,195.6	15,649.0	17,213.9	18,844.5

Sources: National data sources; IMF; and World Bank staff estimates.
e = estimate.
f = forecast.
p = projection.
1/ Garments.
2/ Excluding official transfers.
3/ From 2011, includes FDI related to public-private power sector projects.