

	2014
Population, mn	15.1
GDP, US\$ bn	16.1
GDP per Capita, US\$ (2013)	1,006.8
GDP per Capita, US\$ PPP (2013)	3,041.1
Gini index (WB estimate) (2012)	28.8
National poverty rate (2012) ^{1/}	17.7
US\$1.25 (PPP) a day poverty rate (2012) (%) ^{2/}	6.0
Life expectancy at birth, total (yrs) (2012)	71
School enrolment rate, primary (% , net) (2012)	98

Source: World Development Indicators, and Bank staff estimates.

^{1/}2012 with national poverty lines: Riel 5,326 for Phnom Penh, Riel 4,273 for other urban areas and Riel 3,914 for rural households.

^{2/}The US\$1.25 (PPP) a day in 2012 is approximately 3,605 Riels (nominal).

Cambodia continues to enjoy robust growth, albeit at a slightly slower pace. Real growth for 2014 is estimated to have reached 7 percent (Figure 1), but there are signs of weaknesses in garment and agricultural production that are slightly slowing growth.

Poverty continues to fall in Cambodia. As of 2012, the poverty headcount rate (according to the national poverty line) was 17.7 percent, almost 3 percentage points lower than in 2011. Moreover, recent economic growth has been particularly favorable for the less well off.

Recent developments

Garment exports eased to a year-on-year growth rate of 9.2 percent (value) in 2014, compared to 17.6 percent in 2013. This was largely due to the enduring impact of past labor unrest, appreciation

of the US dollar, and emergence of other low wage regional competitors.

The construction sector remains resilient, propped up by the return of confidence.

Tourist arrivals decelerated with a year-on-year rate of only 6.9 percent in 2014, versus 17.5 percent in 2013 due to an underperforming regional tourism.

Agriculture sector growth remains sluggish due primarily to slow yield improvements coupled with depressed agriculture commodity prices.

The external position remains stable, supported by healthy foreign direct investment. Due to decelerated exports, the current account deficit (excluding official transfers), however, slightly widened to an estimated 11.2 percent of GDP in 2014. Gross international reserves rose, reaching US\$ 4.6 billion, or about 4 months of imports, by the end of 2014.

Exchange rate targeting supports price stability, but erodes competitiveness of exports to the EU market. The riel hovered at around 4,000 per US dollar but appreciated against the euro by 17 percent since July 2014.

Inflation eased significantly, dropping to 1.2 percent year on year at the end of 2014, compared to 4.6 at the end of 2013 with depressed food and oil prices.

Financial deepening continues. Private sector deposits growth reached 30.6 percent year-on-year, by end-2014, more than double the 14.2 percent year-on-year increase, at the end of 2013. Credit growth has once again picked up reaching 31.3 year-on-year at the end of 2014.

Fiscal consolidation continues. Collection improved, reaching an estimated 16.1 percent of GDP in 2014, compared to 15.1 percent in 2013. Expenditure remains contained at 20.5 percent of GDP. However, the overall fiscal deficit (including grants) only improved slightly to 2.5 percent of GDP because of a dwindling grants component. Cambodia's debt

distress rating in the WB/IMF Debt Sustainability Analysis (2013) remained low.

Overall, growth has been pro-poor. Resulting mainly from a dynamic agricultural sector, consumption for the bottom 40 percent of the consumption distribution grew at an average annual rate of 7 percent during 2007–2012, compared to 3.6 percent for the total population. Consistently, inequality improved: the Gini coefficient declined from 32 in 2008 to 28 in 2012. Nonetheless, progress in equality has slowed down in the last years.

Between 2004 and 2012, poverty incidence declined significantly from 50.2 percent to 17.7 percent, according to the national poverty line. Most of the poverty reduction occurred between 2007 and 2009 (more than twenty percentage points), mostly explained by the remarkable increase in the price of rice, the main agricultural product of the country. Rural poverty remained more prevalent than urban poverty as of 2012: the headcount rate was 21 percent in urban areas versus 8.6 percent in urban areas (in Phnom Penh only 3.8 percent of the population is poor).

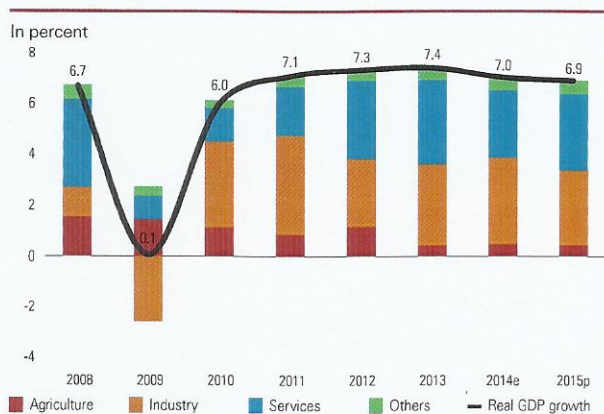
Outlook

Growth is projected to slightly moderate to 6.9 percent in 2015. Reduced competitiveness due to increased costs, dollar appreciation, and new competitors will continue to affect garment export growth while the return to a double-digit tourist arrival growth rate is yet uncertain. Agricultural growth will likely continue to be modest affected by dampened agricultural commodity prices and slow crop yield improvements.

The expected positive effects of the recent oil price decline are significant on growth (0.5 percentage points in GDP growth this year) but very moderate on poverty. The 20 percent fall in local prices will at most translate into a 1.5 percent consumption gain for the average household, and smaller for poor households whose budgets have lesser share of fuel consumption.

Downside risks include potential renewed labor unrest, a delay in economic recovery in Europe, and the further dampening of rice prices with the reentry of Thailand and Myanmar.

Figure 1. Contributions to real GDP growth



Source: Authorities, and Bank staff estimate and projection.
Notes: e = estimate; p = projection

Figure 2. GDP per capita growth and poverty headcount rate



Source: Authorities and World Bank staff estimates using CSSES data.
Notes: f = forecast

Challenges

Revitalizing the drivers of growth—garments, tourism and rice—is key. Addressing high energy costs, automating business processes, and improving the investment climate will improve competitiveness and diversification. Improved road transportation and central-local coordination will help diversify tourist destinations. Increased yield and quality, and reduced milling and logistics costs would raise the competitiveness of Cambodian rice.

Safeguarding stability in the rapidly expanding financial sector will require enhanced banking supervision, which helps prevent a construction bubble.

Further investments in health, education, and social protection will help increase productivity and welfare. Malnutrition and low education attainment remain more prevalent among the poor population.

Further strengthening tax administration and efficiency of spending is crucial. Linking pay increase with improved human resource management will improve service delivery while closely monitoring the rising wage bill will help ensure its affordability.

Box. Poverty trend measured under the international US\$ 1.25/day Purchasing Power Parity (PPP)

Poverty in Cambodia under the US\$ 1.25 PPP a day measure (which allows for international comparisons) was 6.0 percent in 2012 (Figure 2), compared to 28.8 percent in Lao PDR, 15.4 percent in the Philippines, and 10.9 percent in Indonesia; all countries with a GDP per capita at least 1.5 times that of Cambodia. While the US\$1.25 PPP poverty declined at an impressive annual average of 5.8 percentage points between 2007 and 2009, it slowed down to 1.36 percentage points between 2010 and 2012. Poverty has fallen steadily to 4.2 percent in 2014. The slower pace of poverty reduction in the recent years stems largely from a decelerating agricultural sector, on which the poor are dependent.

Cambodia / Selected Economic and Social Indicators

	2012	2013	2014e	2015p	2016f	2017f
Real GDP (% change yoy)	7.3	7.4	7.0	6.9	6.9	6.8
GDP, at market prices (% change yoy)	8.9	8.3	7.5	7.9	8.2	8.6
Agriculture	5.6	2.0	2.2	2.3	2.8	3.3
Industry	13.0	13.8	13.0	11.6	10.8	9.7
Services	9.6	10.2	8.0	9.7	10.2	11.2
Inflation (eop, % change)	2.5	4.6	1.2	1.5	2.0	2.5
Fiscal balance including grants (% of GDP)	-3.3	-2.7	-2.5	-3.8	-4.9	-4.7
Exports, goods & services (% change yoy)	13.7	17.6	8.9	10.6	13.0	12.7
Imports, goods & services (% change yoy)	16.6	16.9	11.6	11.2	11.8	11.8
Current account balance excluding official transfers (% of GDP)	-9.6	-10.7	-11.2	-11.7	-11.6	-10.9
Foreign direct investment, mln of US\$	1,697.9	1,826.1	1,717.4	1,660	1,620	1,590
Poverty rate (national poverty line)	17.7					
Poverty rate (\$1.25 PPP a day)	6.0					
Poverty rate (\$2.00 PPP a day)	36.2					

Source: Authorities and World Bank staff (and EAP Poverty) estimates and projections.
Notes: e = estimate, p = projection, f=forecast