

CAMBODIA

Cambodia continues to grow rapidly. GDP grew an estimated 9.6 percent in 2007, easing somewhat from the double-digit growth of the preceding 3 years but in line with the 2000–06 average of 9.5 percent. Garment exports rose almost 8 percent in 2007; tourist arrivals jumped nearly 20 percent; and construction activity doubled.¹ With exports decelerating somewhat, the 2007 GDP growth was driven by consumption and investment. Foreign direct investment (FDI) inflows reached US\$600 million (7 percent of GDP), slightly more than the country received in official aid. Domestic investment, driven largely by the private sector, accounted for 23.4 percent of GDP. Approximately 2,860 new businesses registered for operation in 2007, a 71 percent increase over 2006.

Although risks have increased, **economic prospects for 2008 remain strong.** The projected 7.5 percent growth rate for 2008 reflects a mix of growth in services (mainly tourism) and construction combined with a slowdown in garment exports. Export growth, especially to the US, began to slow in late 2007 accompanied by stiffer competition from Vietnam and emerging risks (slowdown in the US economy and lifting of safeguards on China's exports). Although exports of cash crops have grown fast in recent years, developments in the garment industry have a major impact on Cambodia's export performance. On the other hand, Cambodia's exporters might benefit from the depreciation of the dollar. Another risk is uncertainties in the construction sector. However, although the boom driven by real estate could slow, other sources of demand—tourism and infrastructure—could enable continued growth in construction.

Slower exports and the rapid growth of domestic demand have enlarged the trade deficit. The current account deficit is expected to widen from 6.8 percent in 2007 to 7.3 percent of GDP in 2008. Even so, large amounts of external assistance and FDI have enabled Cambodia to continue to accumulate international reserves, with a 47 percent increase in 2007 to US\$1.6 billion. Projected international reserves of nearly US\$2 billion by end 2008 would equal 2.8 months of imports of goods and services.

Inflation has picked up in recent months, adding to the government's policy challenges. By end 2007, the year-on-year inflation rate reached 10.8 percent, hitting a 9-year record high. This jump was driven by food (20 percent) and fuel (12 percent). Part of the inflation was imported through the depreciating dollar (the economy is largely dollarized). High food prices alone are unlikely to pose a serious threat to Cambodian growth. However, in a country of mainly net food consumers, the poor—who spend approximately 70 percent of their total household consumption on food—will be adversely affected.² High oil prices, too, are affecting the cost of doing business.

Monetary growth has been rapid. Broad money (32.5 percent of GDP) rose by 63 percent in 2007, while credit to the private sector expanded by 76 percent. More than 90 percent of liquidity growth came from the surge in net foreign assets. The remainder stemmed from the increase in net domestic assets supporting rapid growth in private investment. The number of commercial banks increased to 23 by the end of 2007 with a return on equity (ROE) of approximately 14 percent. Banks' end-of-period deposit portfolio is projected to reach US\$1.8 billion, while lending is estimated to be US\$1.1 billion. In addition, some 17 registered

¹ Housing is more vibrant than industrial construction.

² Cambodia Socio-Economic Survey, 2003-04. National Institute of Statistics of Cambodia.

microfinance entities provided approximately US\$50 million annually to micro, small, and medium enterprises. Non-performing loans (NPLs) remain relatively low, accounting for approximately 10 percent of the total portfolio. Nevertheless, the rapid development of the financial sector and sharp growth in credit (including to real estate) are being closely monitored by the authorities.

[The government's fiscal stance remains prudent.](#) Substantial progress has been made in mobilizing revenues, with the revenue-to-GDP ratio rising from 11.5 percent in 2006 to 12.3 percent in 2007. With expenditures limited to 12.6 percent of GDP, the overall fiscal deficit (before grants) declined from 2.8 percent in 2006 to 0.4 percent of GDP in 2007. Under the public financial management (PFM) reform program, fiscal performance has been improving on a number of fronts. These include revenue mobilization, budget operational system, a new chart of accounts, internal audit department, and national treasury.

[The government is also making progress on structural reforms.](#) Customs reform has advanced since the implementation in January 2008 of a Single Administrative Document (SAD). This will become an electronic system in May 2008 with the implementation of ASYCUDA at the Sihanoukville seaport, the country's largest trade gateway. In addition, a number of important new laws and related regulations were introduced last year, including a Law on Anti-Money Laundering and Combating Terrorist Financing (April 2007), Law on Publishing (Issuance) and Trading Non-government Securities (September 2007), Law on Concessions (October 2007), Law on Customs (October 2007), and Law on Bankruptcy (October 2007).

Finally, [Cambodia has made remarkable strides in social development in recent years.](#) They include increasing primary school enrollment and reducing HIV prevalence and infant and child mortality. The government has embarked on its mid-term review of the country's five-year National Strategic Development Plan (NSDP 2006–2010). The review will assess progress over the past two years, identify performance shortfalls, introduce corrective policies, and address emerging issues.