

COUNTRY PAGES AND KEY INDICATORS



Population	14.7 million
Population growth	1.7 percent
Surface area	181,040 sq. km.
Capital	Phnom Penh

Source: World Development Indicators.

Driven by exports, the Cambodian economy achieved a stronger than expected recovery in 2010, with estimated GDP growth at 6.7 percent. The strength of this recovery is driven by three factors. First, agriculture growth (5.3 percent growth in 2010) benefitted from a particularly good harvest. Second, two of Cambodia's traditional growth drivers rebounded faster than expected. Garment exports registered a 24 percent growth in 2010 after shrinking 20 percent during the 2009 crisis. Similarly, footwear export industry also saw a nearly 60 percent expansion over the same period. As a result, some 55,300 new jobs have been created by both industries in 2010, recovering most of the jobs lost during the 2009 economic downturn. Tourism also rebounded strongly, with a 16 percent increase in tourist arrival (to 2.5 million tourists) and a 14 percent increase in tourism receipts (to \$1.8 billion). The stronger than expected rebounded resulted from (i) strong growth in Asia, the source of 72 percent of tourist arrivals; (ii) depreciation of the dollar, driving competitiveness gains; and (iii) structural improvements (such as the prospect of more favorable rules of origin for garment exports to the EU; and gradual improvement in industrial relations). Third, Cambodia initiated some diversification of its production and export base, with the volume of milled rice exported almost tripling in 2010. This diversification was in particular supported

by a recovery in foreign investment with a 16 percent growth in registered investment capital. It is noted that the other traditional source of growth, construction and real estate, recovered much more mildly, with only a 10 percent growth in approved construction applications in 2010.

Growth is expected to remain strong in 2011, at 6.5 percent. Cambodia's exports are expected to remain strong partly as a result of the relaxed rule of origin of the European Union on preferential tariffs for least-developed countries export to the EU markets which became effective on January 1, 2011. That said, overall export growth may be constrained by the profile of the global recovery. Consumption would pick up as the recovery takes hold, while investment would benefit from a continued rebound in FDI and credit to the private sector.

The current account widened in 2010 and is expected to be reduced in 2011. The widening of the current account deficit in 2010 (-13.4 percent of GDP) was largely driven by the trade deficit, as both imports and exports recovered strongly. As export and tourism growth continues to firm up, the current account balance would be reduced 13.1 percent of GDP in 2011.

Net capital inflows also increased in 2010, financing the external shortfall and resulting in a further increase in foreign exchange reserves. During the first nine months of 2010, net capital inflows rose by about \$0.3 billion from a year earlier, reflecting a pickup in inflows of foreign direct investment and larger loans from foreign banks. It is expected that FDI would reach 5.4 percent of GDP in 2010 and 6.0 percent in 2011. Foreign exchange reserves continued to increase, to \$2.7 billion at the end of 2010, equivalent to approximately 4 months of imports. Reserves amounted to 56 percent relative to the stock of broad money and 74 percent relative to gross external debt.

Despite price hikes in other countries in the region and a rapid domestic recovery, Cambodia consumer price inflation dwindled to 3.1 percent in 2010 (from 5.3 percent in 2009). Core inflation fell from 4.5 percent

to 1.0 percent over this period. The exchange rate remained relatively stable, appreciating about 3 percent against the U.S. dollar, in the year ending 2010.

The financial sector started to recover with growth of credit to private sector gradually gaining momentum in 2010. Bank liquidity surged, as deposits—including those financed from remittances—rose to a high of \$4.3 billion by the year ending 2010. The loan-to-deposits-ratio increased very slightly to 74 percent (up from 73 percent in Dec 2009) as lending opportunities remained limited. Most lending over the past 12 months was directed to low risk sectors, mainly retail/wholesale trades, tourism related activities (hotel/restaurants) and some manufacturing. Fourteen percent growth of net foreign assets and a nearly 30 percent expansion of credit to private sector were recorded in 2010 with a more robust prospect anticipated for 2011. Despite the tripling of capital requirements (effective January 1, 2011), the number of banks in Cambodia rose to 35 by the end of 2010 with total assets of \$6.4 billion (with 8 larger banks accounting for 75 percent these assets), reflecting markets' views on Cambodia's growth potential.

The Royal Government of Cambodia started to unwind the expansionary policy that was introduced in 2009 to mitigate the negative impacts of the global financial crisis. The revenue effort, while low by international standards, rebounded in 2010 after a downturn in 2009 and is estimated to have reached 12.9 percent of GDP, nearly a percentage point above the budget plan. The growing revenue in 2010 was led by VAT, excise and import duties collections. The tax base is being broadened through a doubling of the road tax on vehicles, the introduction of a tax on property, and the shift to ad-valorem tax for import duty on some petroleum products. Anti-smuggling efforts have also been stepped up in recent months especially in log/timber smuggling. In the meantime, customs reform is ongoing with plans to roll out its ASYCUDA customs automated system from the current 5 functional sites to another 17 sites in the coming years. Expenditure at the same time is estimated at 18.6 percent of GDP with a fiscal deficit of 5.7 percent of GDP (down from

8.1 percent of GDP in 2009). This resulted from tighter control of wage bill expenditures (e.g. freezing new recruitment and promotion of civil service except in the education and health sectors) and cuts in non-essential recurrent expenditures (e.g. overseas trips, carrying out civil census to remove phantom civil servants from payroll).

The Government plans to keep the fiscal deficit at around 5.7 percent of GDP in 2011. Greater domestic revenue mobilization and continued high concessional borrowing would enable a continued high level of capital expenditure spending. It will also enable the implementation of elements of the "paddy production and rice export policy", approved in 2010, including a Credit Guarantee scheme worth \$37 million (to provide guarantee to companies or agencies that access credit from commercial banks for rice purchase particularly during the harvest season), an increase by \$7.3 million of the capital of the Rural Development Bank, and an increase of \$18 million for the Agriculture Support and Development Fund (which supports short-term credits to farmers and medium-term credits to rice millers). An important objective—which will require fiscal consolidation beyond the adopted 2011 budget—will be to rebuild the cash deposits that were used in response to the 2009 global crisis. This will require continued efforts to increase the fiscal space, in particular through domestic revenue mobilization.

Cambodia Key Economic Indicators

	2007	2008	2009	2010e	2011f	2012f
	Year	Year	Year	Year	Year	Year
Output, Employment and Prices						
Real GDP (% change y-y)	10.2	6.7	-2.0	6.7	6.5	6.5
Domestic demand (% change y-y)	7.6	6.5	1.8	4.0	5.0	5.0
Industrial production index (2000=100)	246	256	249	263	277	295
(% change y-y)	8.4	4.1	-2.5	5.7	5.1	6.5
Consumer price index (% change y-y)	14.0	12.5	5.3	3.1	5.0	5.0
Public Sector						
Government revenues (% GDP)	11.9	12.0	11.5	12.9	13.2	13.6
Government expenditures (% GDP)	14.8	14.8	19.6	18.6	18.9	19.2
Government balance (% GDP)	-2.9	-2.9	-8.1	-5.7	-5.7	-5.6
Foreign Trade, BOP and External Debt						
Trade balance (millions US\$)	-1,343	-1,801	-1,574	-1,600	-1,740	-1,966
Exports of goods (millions US\$)	4,089	4,708	4,302	5,200	5,876	6,640
(% change y-y)	10.7	15.2	-8.6	20.9	13.0	13.0
Key export (% change y-y) 1/	8.1	3.3	-19.0	24.0	8.0	8.0
Imports of goods (millions US\$)	5,432	6,509	5,876	6,800	7,616	8,606
(% change y-y)	13.8	19.8	-9.7	15.7	12.0	13.0
Current account balance (millions US\$) 2/	-705	-1,280	-1,203	-1,570	-1,660	-1,700
(% GDP)	-8.1	-12.4	-11.6	-13.4	-13.1	-12.2
Foreign direct investment (millions US\$)	866	795	511	622	777	971
External debt (millions US\$) 3/	2,555	2,808	3,054	3,514	3,839	4,220
(% GDP)	29.2	27.3	29.5	30.0	30.2	30.3
Short-term debt (millions US\$)	218	218	218	218	218	218
Debt service ratio (% exports of g&s)	1.0	1.0	1.2	1.0	1.0	1.0
Foreign exchange reserves, gross (millions US\$)	1,616	2,164	2,367	2,653	2,860	3,003
(months of imports of g&s)	3.0	3.4	4.0	3.9	3.8	3.6
Financial Markets						
Domestic credit (% change y-y)	70.7	51.1	19.9	35.3	30.0	30.0
Short-term interest rate (% p.a.) 4/	16.0	15.8	15.0	15.0
Exchange rate (Riel/US\$, eop)	4,003	4,081	4,169	4,053
Real effective exchange rate (2000=100)	95.1	111.7	111.3	108.0
(% change y-y)	3.0	17.4	-0.4	-2.9
Memo: Nominal GDP (millions US\$)	8,754	10,286	10,361	11,713	12,701	13,932

Sources: National data sources, IMF, and World Bank staff estimates.

e = estimate

p = projection

1/ Garments

2/ Excludes official transfers

3/ IMF figures for 2010 onward

4/ One-year US\$ loans