Euler Hermes Economic Research

Country Risk Analysis

Cambodia

Robust growth but weak economic structure

General Information

GDP	USD14.1 billion (World ranking 119, World Bank 2012)
Population	14.87 million (World ranking 67, World Bank 2012)
Form of state	Multiparty Democracy under a Constitutional Monarchy
Head of government	HUN SEN
Next elections	2018, legislative (Senate and National Assembly)

Strengths

- Large growth potential
- Strong foreign direct investment inflows since 2011
- Manageable public and external debt burden

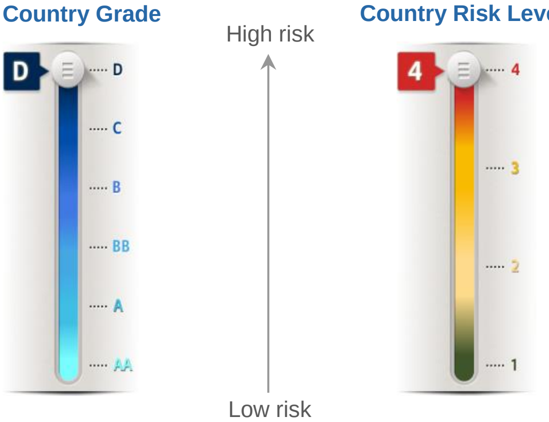
Weaknesses

- Social unrest in recent years
- Difficult relations with neighbouring Thailand
- One of the poorest countries in Asia
- Weak economic structure
- Rapid credit growth threatens price stability and banking sector stability
- Large fiscal deficits
- High current account deficits
- Weak business environment

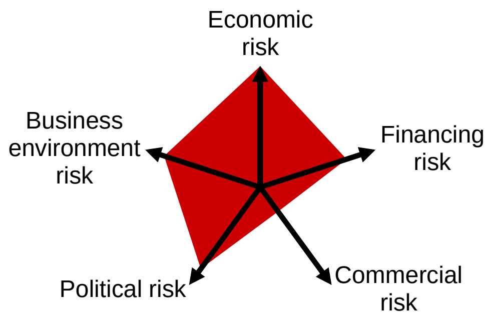
Country Rating

D4

Country Grade **Country Risk Level**



Risk Dimensions



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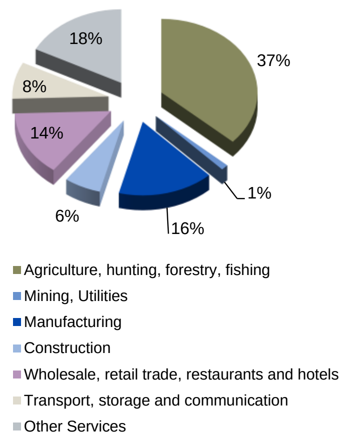
Economic Structure

GDP breakdown (2011)



Sources: UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

Exports		Rank		Imports
United States	39%	1	25%	Thailand
Germany	8%	2	21%	Viet Nam
Canada	8%	3	20%	China
United Kingdom	8%	4	8%	Singapore
Viet Nam	6%	5	6%	China, Hong Kong SAR

Exports (% of total)		Rank		Imports (% of total)
Articles of apparel & clothing accessories	72%	1	24%	Textile yarn and related products
Footwear	8%	2	15%	Petroleum, petroleum products and related materials
Crude rubber (including synthetic and reclaimed)	4%	3	5%	Road vehicles
Road vehicles	2%	4	4%	Iron and steel
Miscellaneous manufactured articles, n.e.s.	2%	5	4%	Gold, non-monetary (excluding gold ores and concentrates)

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	0.1	6.0	7.1	7.2	6.8	7.0
Inflation (%, end-year)	5.3	3.1	4.9	2.5	4.5	4.2
Fiscal balance (% of GDP)	-8.6	-8.1	-7.5	-5.2	-5.1	-5.0
Public debt (% of GDP)	28.9	29.1	28.5	28.5	28.1	28.3
Current account (% of GDP)	-10.3	-10.4	-8.8	-11.6	-11.2	-10.3
External debt (% of GDP)	33.9	34.1	33.8	34.2	34.5	35.0

Sources: IHS Global Insight, ADB, IMF, Euler Hermes

Economic Overview

Economic structure is underdeveloped

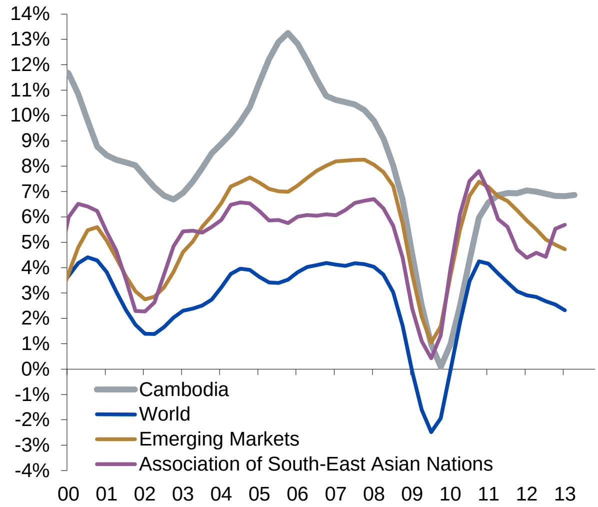
Estimated per capita GNI of USD880 in 2012 was one of the lowest in Asia. Subsistence agriculture accounts for more than 30% of GDP and 60% of employment. Manufacturing contributes just 16% to GDP and is highly concentrated in the clothing sector which accounts for 72% of exports. Almost 40% of exports are shipped to the US.

GDP growth remains robust

After stagnating in 2009, the economy has recovered quickly and real GDP growth reached +7.2% in 2012, driven by robust consumption (+9.5%) and soaring fixed investment (+30%). The latter were a result of a surge in foreign direct investment (FDI), largely related to power-generation projects. However, the projects also boosted imports, which expanded much faster than exports, such that net trade made a negative contribution to growth in 2012.

GDP growth is forecast to ease to +6.8% in 2013, as the investment boom will moderate somewhat due to base effects, and to pick up to +7% in 2014 as external demand from the EU should gain some momentum.

GDP growth (% y/y, 4 qtrs cumulated)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Inflation has moderated but rapid credit growth poses upside risk

Headline inflation is somewhat volatile, depending on food prices, as food comprises 43% of the consumer price index. It fell from 4.9% at end-2011 to 2.5% at end-2012 and just 1% in April 2013, before picking up to 2.8% in May. EH expects average annual inflation of 3% in 2013 and 4.3% in 2014. Upside risks to this forecast are given by private sector credit growth which soared to 49% y/y at end-2012 before it moderated to a still comparatively high 30% y/y in March 2013. Rapid credit growth is also a risk to the underdeveloped banking sector.

Fiscal deficit to remain large

The fiscal deficit, excluding grants, increased sharply in 2009, to 8.6% of GDP. It has narrowed gradually to 5.2% in 2012 and is forecast at around 5% of GDP in 2013-2014. Around 60% of the annual deficits is likely to be funded by external grants, such that gross public debt should remain relatively low at just below 30% of GDP.

Current account deficit remains high ...

The annual current account deficit, excluding official transfers, widened from 8.8% of GDP in 2011 to 11.6% in 2012 and is projected to remain above 10% in 2013-2014.

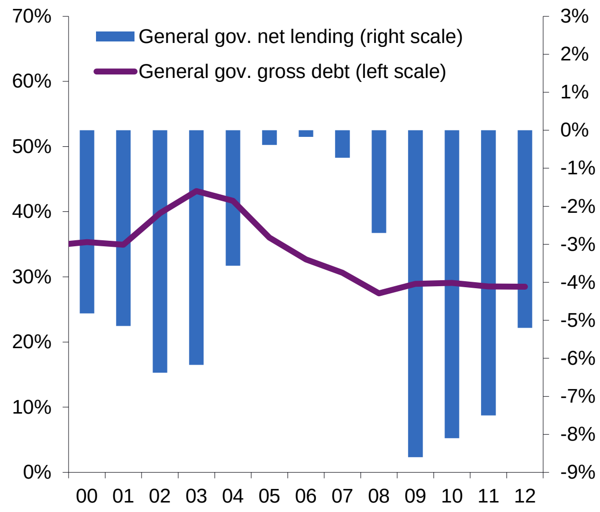
... but FDI inflows mitigate the associated risks in the near term

However, since 2011 the external deficits have been fully financed by net FDI inflows – largely related to power sector projects – and this is likely to continue in the next years. FDI inflows have also boosted official foreign exchange reserves to about USD4.5bn, which is almost five months import cover and nine times estimated external debt falling due in 2014.

External debt burden is manageable

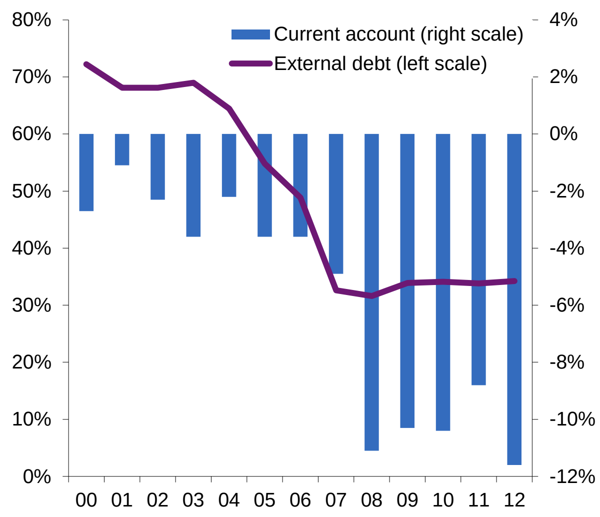
External debt is relatively high as a proportion of GDP (34%), but moderate in relation to export earnings (60%). And as most of the debt is on concessional terms, external debt-servicing is very low.

Fiscal balance and public debt (% of GDP)



Sources: ADB, IMF, IHS Global Insight, Euler Hermes

Current account and external debt (% of GDP)



Sources: ADB, IHS Global Insight, Euler Hermes

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