

Macroeconomic fragilities hamper the outlook



General Information

GDP	USD20.0bn (World ranking 106, World Bank 2016)
Population	15.8mn (World ranking 70, World Bank 2016)
Form of State	Multiparty democracy under a constitutional monarchy
Head of Government	Hun SEN (Prime Minister)
Next Elections	2018, general elections



Strengths

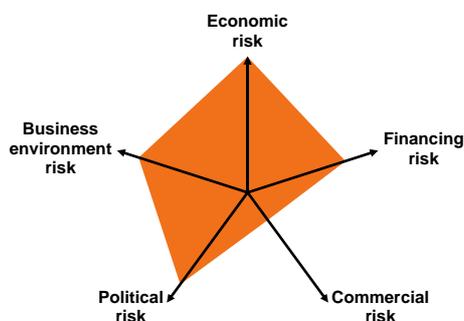
- Large growth potential
- Relatively young population
- Competitive low-value manufacturing
- Strong and steady FDI inflows since 2011
- High degree of regional integration (ASEAN)
- Benefits from *Everything But Arms (EBA)* scheme with the European Union (i.e. duty free access)

Weaknesses

- Important infrastructure shortcomings in various areas (energy, transportation, health, education e.g.)
- High dollarization of the Cambodian economy, limiting an independent exchange rate and monetary policy
- (Still) dependent on concessional financial assistance
- High level of perceived corruption and bureaucracy
- Institutional and regulatory weakness

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	18% 1	28% China
Germany	8% 2	24% Thailand
United Kingdom	8% 3	15% Vietnam
Japan	7% 4	5% Hong Kong
Singapore	6% 5	5% Singapore

By product (% of total)

Exports	Rank	Imports
Articles of Apparel	62% 1	26% Textile Yarn
Footwear	9% 2	7% Road Vehicles
Vegetables and Fruits	3% 3	5% Petroleum Products
Road Vehicles	3% 4	4% Machinery
Crude Fertilizers	2% 5	4% Manufacturing Articles

Source: UNCTAD (2016)

Economic Overview

Robust Economic Growth

The Cambodian economy is set to expand by +6.9% in 2017, following a robust growth trajectory. The main drivers of growth are strong private consumption and exports.

A slowdown in private investment is partly offset by higher public spending, strong construction momentum, and a pick up in the tourism sector. There has been a healthy rise in FDI inflows, notably to the real estate, construction, and banking sectors. Inflows to the textile sector (over 75% of exports) remain high. Yet, rising labor cost and competition from Bangladesh and Myanmar may undermine Cambodia's advantage.

While strong regional integration has helped attract investment inflows, infrastructure shortcomings and regulatory weakness could stunt FDI growth in new sectors. Besides, the economy remains dollarized to a high degree. An appreciation of the USD would impinge on export competitiveness (in textiles).

Inflationary pressures have mounted since 2016 due to higher food and fuel prices. These should persist in the medium term due to higher public spending and rising wages.

Fragile public finances and elevated financial risks require close monitoring

Public debt is at acceptable level around 38% GDP. The fiscal deficit is set to widen in the medium-term owing to higher public wages and more spending for social programs and public infrastructure. Despite progress in tax collection, further tax reform will be a key to counter-balance the strong rise in expenditures. Fiscal discipline is all the more crucial since 80% of the public debt is external.

Financial risks remain elevated. Private credit growth has cooled off in response to macro-prudential measures (higher minimum capital requirement for banks, e.g.). Yet, a high concentration of credit in the real estate sector (+33% y/y growth in June 2017), a poor loan quality and a strong dependence on external funding weigh on the outlook.

External position is weak but improving

External debt is high but is on a declining trend (45.8% of GDP in 2017). Similarly, the current account deficit is sizeable but is reducing. It has narrowed markedly from -12.9% of GDP in 2013 to -8.6% in 2017. The trade balance should improve due to greater product diversification amid stronger ties with ASEAN countries. Combined with steady FDI inflows, foreign exchange reserves will continue to grow (from USD10.6bn in September 2017). This should support policy buffers.

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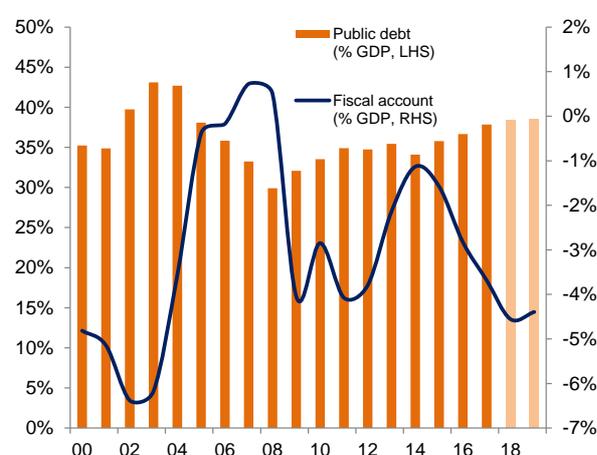
Key Economic Forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	7.0	6.9	6.9	7.0
Inflation (% , yearly average)	3.0	3.7	3.6	3.7
Fiscal balance (% of GDP)*	-2.8	-3.7	-4.7	-4.5
Public debt (% of GDP)*	36.7	37.9	38.5	38.7
Current account (% of GDP)	-8.8	-8.6	-8.7	-8.6
External debt (% of GDP)	48.6	45.8	43.5	42.5

*The perimeter includes Central Government and Local Government

Sources: National Statistics, IMF WEO, Euler Hermes

Fiscal Balance and Public Debt (% of GDP)



Sources: IMF, Euler Hermes