



	2018
Population, million	16.3
GDP, current US\$ billion	24.1
GDP per capita, current US\$	1,477
School enrolment rate, primary (% gross) ^a	110.2
Life expectancy at birth, years ^a	69.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes: a. Most recent WDI value (2016).

Growth achieved a four-year high of 7.5 percent in 2018, compared to 7.0 percent in 2017. Driven primarily by garment and footwear exports that responded to strengthening demand in the US, the economy performed better than expected. Given solid export growth in low-skilled manufacturing products, continued poverty reduction is expected. However, risks have intensified due to heightened uncertainty over preferential access by Cambodia to EU markets under the EBA scheme and a potential sharp slowdown in the Chinese economy.

Recent Developments

Economic growth accelerated last year, driven primarily by rapid increase in exports, while imports also expanded. Exports burgeoned as external demand rose, in particular, in the US market. Garment and footwear exports, which account for more than two-thirds of total merchandise exports, recorded a four-year high, growing by 17.6 percent in 2018, up from 8.3 percent in 2017 (figure 2). Upbeat market confidence has been met by a surge in imports.

Motor vehicles and steel imports rose by 50 percent and 48 percent, respectively, in 2018.

The current account deficit is estimated to have widened to 10.4 percent of GDP in 2018, from 9.7 percent of GDP in 2017, but remains fully financed by foreign direct investment. Burgeoning exports have been accompanied by strong FDI inflows, estimated to have peaked at 13.4 percent of GDP in 2018. Both have contributed to further accumulation of gross international reserves, which in 2018 reached US\$10.1 billion or about 6 months of prospective imports. More than half of the inflows originated from China, and are directed towards construction (infrastructure, commercial and residential real estate), tourism and, to a lesser extent, to manufacturing and agriculture. The seaside provincial town of Sihanoukville continues to be the hot spot of the current construction boom, financed largely by FDI from China.

Improved confidence in the banking system has resulted in rising foreign currency deposits, which grew at 26.5 percent in 2018, up from 23.6 percent in 2017. Bank credit to the private sector once again edged up, growing at 24.2 percent in 2018, compared to 19.6 percent in 2017. Bank lending to the construction, real estate and mortgage sectors continues to drive domestic credit expansion, contributing about a third of credit growth. This is followed by the wholesale and retail sector, which captured a 19 percent of credit.

Inflation, meanwhile, has moderated. The easing of petroleum prices since the fourth quarter of 2018 more than offset the increase in food prices. As a result, inflation declined to 1.6 percent as of December 2018, from 2.2 percent in 2017. The Cambodian riel (CR) which is pegged to the US dollar due to high dollarization, has remained stable, at CR 4,018 per US dollar at the end of 2018, compared to CR 4,037 in 2017.

Although good revenue performance continued, rapidly rising public payroll exerted pressures on the fiscal position. In 2018, the rising wage bill, together with an

initial boost in domestically financed capital spending, resulted in the widening of the fiscal deficit. The overall deficit (including grants) is estimated to have reached 3.4 percent of GDP in 2018, compared with 1.6 percent of GDP in 2017. Nonetheless, according to the 2018 World Bank/IMF Debt Sustainability Analysis, Cambodia's debt distress level remains low, given the concessional profile of the debt.

Outlook

After experiencing accelerated growth of 7.5 percent in 2018, the economy is expected to return to its long-term potential. As exports moderate in line with deceleration in global demand, real growth is projected to ease to 7 percent in 2019, while remaining near 7 percent in the short term. The robust economic growth is expected to result in continued poverty reduction. The longer-term outlook, however, depends on the country's ability to absorb rising FDI inflows, while promoting domestic investment. In this regard, cheaper energy and logistics costs, availability of skilled workforce, and improved supply chain linkages will be essential to remain competitive.

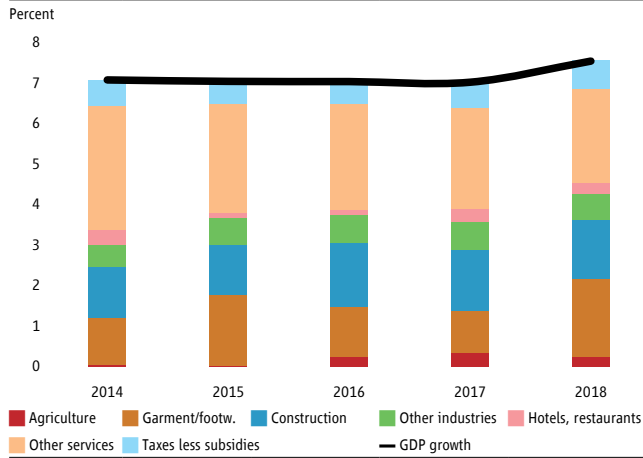
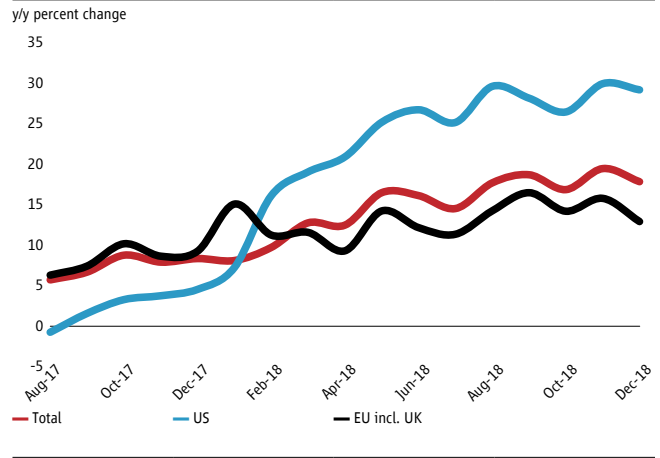
Risks and Challenges

In February, the European Union started the process that could lead to the potential suspension of Cambodia's preferential access under the Everything But Arms (EBA) scheme. The EU market currently accounts for more than a third of Cambodia's key exports (including garments, footwear and bicycles). Therefore, losing EBA preferences, which currently provide Cambodia duty-free and quota-free access to the EU, would likely result in slower export growth. In addition, given Cambodia's heavy reliance on capital inflows from China, a sharp slowdown in the Chinese economy could dampen growth prospects. Finally, the surge in capital inflows and credit, which has financed the construction and real estate boom, has also overextended the financial sector.

Against the backdrop of increasing uncertainty, it is important to minimize macroeconomic vulnerabilities. Needed measures include containing the increase in the public payroll, strengthening oversight capacity and crisis preparedness in the financial sector and considering further macroprudential measures such as limiting bank exposure to construction and real estate.

It is also crucial for Cambodia to improve external competitiveness. Foreign investors confirm that low labor costs, high tax incentives and preferential access to key export markets are the reasons for their investment in Cambodia. With rapidly rising wages and risks of losing EBA trade preferences, it is critical that the country embarks on structural reforms, especially those that can help improve investment climate, and reduce cost of doing business, including introducing competitive energy prices and lowering logistic costs.

The current cost of doing business also discourages domestic investment and entrepreneurship. Cambodia ranks 183rd out of 190 economies globally on ease of starting a business. Firms face cumbersome registration procedures and, in most cases, multiple licensing requirements from different agencies. Thus, many of them opt to remain informal, which constraints firms' ability to link to global supply chains. Given Cambodia's large FDI stock, it will be essential to improve productivity and capture knowledge spillovers, thus facilitating backward linkages with local firms.

Figure 1. Real GDP growth, contribution to real growth**Figure 2. Garment and footwear exports**

CAMBODIA Selected Indicators	2016	2017	2018e	2019f	2020f	2021f
Real GDP growth, at constant market prices	7.0	7.0	7.5	7.0	6.9	6.8
Private Consumption	6.9	4.4	6.5	4.7	4.5	4.5
Government Consumption	5.7	6.5	1.1	7.4	6.4	6.3
Gross Fixed Capital Investment	10.1	5.9	1.7	9.1	8.4	8.4
Exports, Goods and Services	8.6	5.3	5.3	9.0	8.6	8.1
Imports, Goods and Services	8.6	4.0	4.1	7.6	7.1	6.8
Real GDP growth, at constant factor prices	6.9	6.9	7.6	7.0	6.9	6.8
Agriculture	1.3	1.7	1.4	0.7	0.8	0.9
Industry	10.9	9.8	11.7	10.5	9.3	8.8
Services	6.8	7.0	7.1	6.6	7.3	7.4
Inflation (Consumer Price Index)	3.5	3.1	3.2	3.3	3.0	3.1
Current Account Balance (% of GDP)	-10.2	-9.7	-10.4	-9.4	-9.0	-9.1
Net Foreign Direct Investment (% of GDP)	10.8	10.8	13.4	10.4	9.3	9.2
Fiscal Balance (% of GDP)	-1.4	-1.6	-3.4	-3.8	-3.2	-2.7
Debt (% of GDP)	29.1	30.3	30.6	30.0	30.1	31.1
Primary Balance (% of GDP)	-1.0	-1.2	-3.0	-3.3	-2.7	-2.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.