

CAMBODIA

Recent developments

Table 1 2019

Population, million	16.6
GDP, current US\$ billion	27.0
GDP per capita, current US\$	1633.3
School enrollment, primary (% gross) ^a	107.4
Life expectancy at birth, years ^a	69.6

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent WDI value (2018).

Cambodia's economy and its key growth drivers—namely construction, tourism, and merchandise exports—continue to be severely affected by the global crisis unleashed by the Covid-19 pandemic. The economy is projected to register negative growth of -2.0 percent in 2020, the sharpest decline in Cambodia's recent history, with adverse impacts on household welfare and increased poverty likely. Government fiscal intervention is unprecedented, amounting to 5 percent of GDP, alongside accommodative monetary policy. It is crucial that the authorities prepare an effective post-Covid-19 economic recovery.

Cambodia was enjoying robust economic growth prior to the global crisis unleashed by the Covid-19 pandemic, reaching 7.1 percent real growth in 2019 (figure 1). In 2020, the pandemic has severely hit Cambodia's key growth drivers, namely the construction, tourism, and merchandise export sectors, which contributed more than 70 percent of growth and 39 percent of total paid employment in 2019. Covid-19 has effectively stalled the construction and real estate boom that relies heavily on foreign investment. Steel and cement imports in the first six months of 2020 contracted by 45.1 percent and 8.2 percent y/y, respectively, as some large development projects were put on hold. The pandemic has similarly led to contractions in Cambodia's key export sectors. Due to travel restrictions and lockdowns, Cambodia's tourism and hospitality sector has collapsed. International arrivals fell by 64.6 percent in the first six months of 2020. The global demand shock has significantly weakened Cambodia's manufacturing export sector. Exports of garment, travel goods, and footwear products fell by 7.2 percent during the first six months of 2020 (figure 2), while imported inputs of fabric sank 85.4 percent.

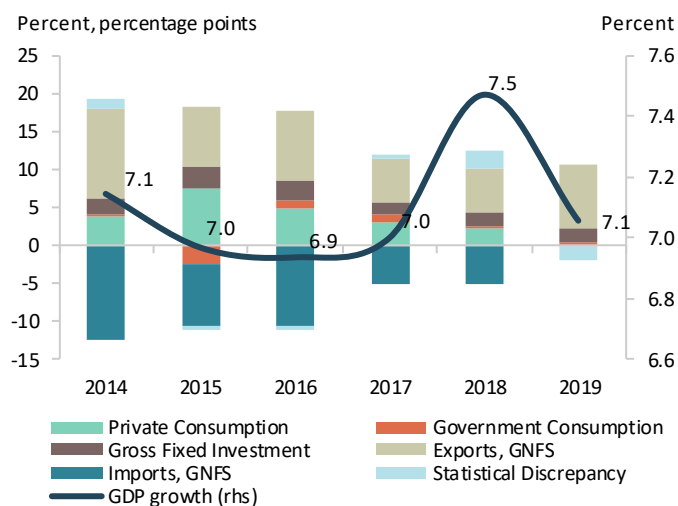
Rising food prices in recent months pushed up inflation, reaching 3.1 percent y/y in July 2020. Imports eased significantly, reflecting shrinking domestic demand. Passenger vehicles and motorcycles, Cambodia's key durable imports, contracted

by 21.8 percent and 30.9 percent, respectively. As the decline in exports more than offset that of imports, the current account deficit widened, and is projected to reach 12.8 percent of GDP in 2020, up from 10 percent of GDP in 2019, expected to be financed by FDI inflows. Gross international reserves are projected to remain at US\$19 billion in 2020 or about 7 months of imports.

Broad money growth eased, growing 12.3 percent y/y in June 2020, compared to 18.2 percent in 2019. Implementing monetary policy easing, the central bank reduced the reserve requirement ratio for six months starting in April 2020. Growth of foreign currency deposits fell to 9.2 percent in June 2020, down from 16.0 percent at the end of 2019, reflecting easing of capital inflows. As demand for credit weakened, growth of depository corporation credit to the private sector eased to 18.9 percent y/y in June 2020, down from 27.0 percent in 2019.

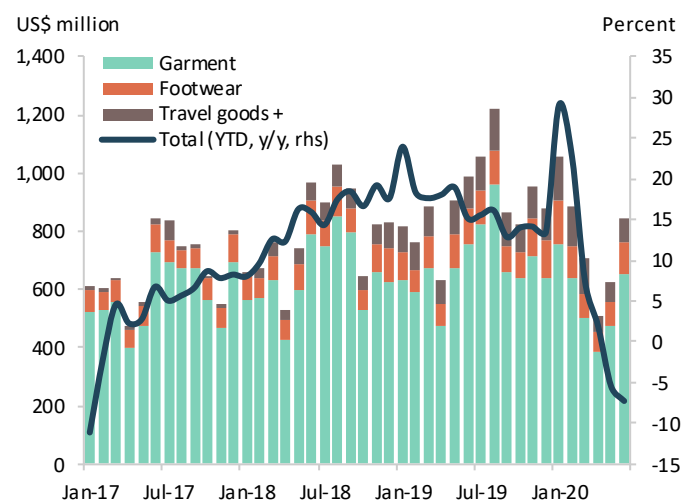
The economic and social costs of the pandemic are being felt widely. A May 2020 survey revealed that 12 percent of the 700 household respondents had stopped working and 82 percent of non-farming family businesses experienced income reductions due to Covid-19—much higher than that of wage employment. As a result, six in 10 households reported reductions in food and nonfood consumption. Firms are also facing economic hardship. A June 2020 survey found that 18 percent of the 537 firm respondents had either temporarily or permanently closed because of Covid-19. This has resulted in adverse impacts on welfare, especially the

FIGURE 1 Cambodia / Real GDP growth and contributions to real GDP growth



Sources: Cambodian authorities and World Bank staff estimates.

FIGURE 2 Cambodia / Cambodia garment, footwear and travel good exports



Sources: Cambodian authorities; note: Travel goods + denotes travel goods and other textile products. RHS = right-hand scale. YTD = year to date. y/y = year on year.

poor and vulnerable who have fewer mechanisms to cope with shocks.

Government intervention is unprecedented, amounting up to 5 percent of GDP. A broad package of support includes health related spending and income assistance, equity injections and guarantees on loans, and development spending and tax relief. The government's large fiscal support program is expected to turn the budget from a surplus into a deficit. In 2019, revenue (including grants) peaked, estimated to have reached 26.3 percent of GDP, driven mainly by rising revenue from taxes on goods and services (including imports) and direct taxes. Government outlays also peaked, reaching 25.5 percent of GDP in 2019, driven mainly by a rising wage bill. Overall the fiscal balance is estimated to have been in a surplus of 0.8 percent of GDP in 2019. During the first half of 2020, central government domestic revenue dipped by 2.9 percent (y/y) while central government expenditures expanded quickly to 16.8 percent (y/y). This year's overall fiscal deficit is projected to reach a record high of 10.5 percent of GDP, half of which is expected to be financed by government savings that stood at 20.2 percent of GDP in 2019. The unprecedented expansion of social assistance will substantially (though not fully) mitigate the pandemic's impact on the poor and near-poor.

Outlook

As global economic crisis caused by Covid-19 continues, the economy in 2020 is projected to contract by 2.0 percent (table 2), the sharpest decline in Cambodia's recent history. The partial withdrawal of the EU's "Everything But Arms" (EBA) trade preferential treatment has also become effective since August 12, 2020, affecting approximately 20 percent of Cambodia's exports to the EU.

With easing of social distancing measures, Cambodia's domestic economic activity has been gradually returning to normalcy. Domestic demand including domestic travel and tourism is picking up. Cambodia and China announced the conclusion of negotiations of the Cambodia-China Free Trade Agreement (CCFTA) that will likely enter into force in 2021. During the first half of 2020, total approved FDI project value rose by 40 percent, compared to the same period last year.

Risks and challenges

Cambodia's unfavorable growth outlook alongside disruptions to jobs, lower household income and higher food prices

is likely to increase poverty. Reduced human capital accumulation is also a risk as school closures lowered access to educational activities and worsened learning outcomes.

Significant uncertainty remains in Cambodia's growth outlook. Downside risks include a local covid-19 outbreak, deeper and prolonged decline in tourist arrivals linked to a prolonged global outbreak and the speed with which a vaccine becomes widely available, as well as increased global trade tensions and protectionism. An extension of the social assistance scheme beyond the currently planned timeframe would put significant pressure on the budget. It is crucial that the authorities are well prepared for post-COVID-19 economic recovery. Close attention may now focus on potential regional investment and trade expansion arising from the CCFTA. There is an urgent need to further accommodate domestic and foreign investment, boosting domestic value addition, and generating more jobs. Strengthening domestic demand, protecting the local consumer purchasing power amid external shocks of public health and/or natural disasters are the way to move forward. It is imperative to continue to closely monitor vulnerabilities arising from a prolonged construction and property boom and the increase of credit provided to the construction/real estate sector.

TABLE 2 Cambodia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.0	7.5	7.1	-2.0	4.3	5.2
Private Consumption	3.7	3.0	7.0	-1.4	3.4	4.7
Government Consumption	23.5	5.1	10.0	6.7	8.6	5.8
Gross Fixed Capital Investment	6.1	6.1	6.9	6.3	7.3	7.1
Exports, Goods and Services	5.3	5.3	7.8	-12.6	5.4	5.4
Imports, Goods and Services	4.1	4.1	6.0	-8.9	5.5	5.4
Real GDP growth, at constant factor prices	6.8	7.4	6.8	-2.0	4.3	5.2
Agriculture	1.7	1.1	-0.5	1.5	0.9	1.0
Industry	9.7	11.6	11.3	-1.2	6.9	7.1
Services	7.0	6.8	6.2	-4.3	3.4	5.1
Inflation (Consumer Price Index)	3.3	3.1	3.2	3.0	2.5	2.5
Current Account Balance (% of GDP)	-9.7	-8.9	-10.0	-12.8	-13.1	-12.4
Net Foreign Direct Investment (% of GDP)	12.1	12.6	13.2	7.7	10.4	9.5
Fiscal Balance (% of GDP)	-0.8	0.4	0.8	-10.5	-10.3	-4.1
Debt (% of GDP)	30.3	30.0	30.0	30.3	32.0	30.1
Primary Balance (% of GDP)	-0.4	0.8	1.2	-10.1	-9.8	-3.6

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