

CAMBODIA

Table 1 **2020**

Population, million	16.7
GDP, current US\$ billion	25.4
GDP per capita, current US\$	1519.0
School enrollment, primary (% gross) ^a	106.5
Life expectancy at birth, years ^a	69.6

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

Notes:

(a) WDI for School enrollment (2019); Life expectancy (2018).

Cambodia's economy is expected to start recovering this year, growing at 4 percent after being hit hard in 2020 by COVID-19-induced global demand shocks. Despite government's unprecedented assistance program, poverty is likely to have increased. While newly signed free trade agreements including the Cambodia-China Free Trade Agreement and RCEP have potential to attract investment and expand trade, realizing the potential requires urgent efforts to boost external competitiveness and diversify the economy.

Key conditions and challenges

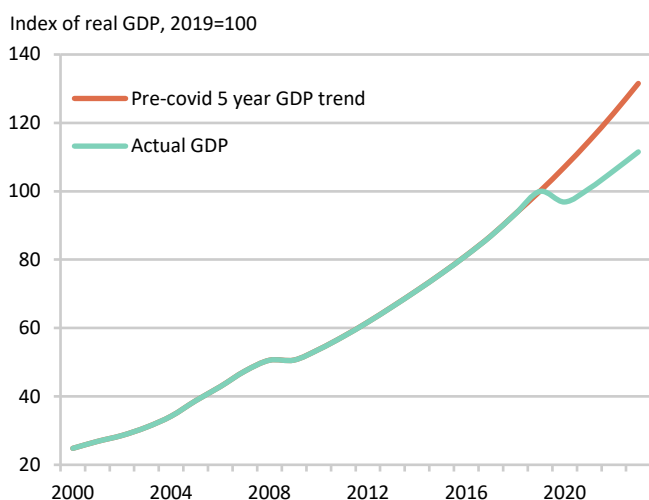
Cambodia's growth model—characterized by a narrow export base with a high degree of concentration of products and markets—exhibited weaknesses years before the pandemic hit. While the country has a well-established, labor-intensive and export-oriented garment industry, the manufacturing sector has remained largely engaged in the “cut-make-trim” process, the lowest value-added section of the entire value chain, for decades. The vulnerabilities, however, were masked by a surge in capital inflows in the pre-COVID-19 period. With the collapse of the tourism sector and stalled construction boom, the pandemic has exposed Cambodia's structural weaknesses. The country's external competitiveness has gradually eroded, partly caused by rapidly rising wages—made worse by a dollarized economy—and exacerbated by challenges in doing business and investment climate reforms. Along with domestic weaknesses, an uncertain global outlook remains a key challenge to Cambodia's recovery. Delays in global vaccine distribution could lead to persistence of the pandemic, while recurrence of community outbreaks will trigger more lockdowns. In this regard, risks include decline in tourist arrivals, slowdown in foreign investments and remittances, and a public health crisis. Cambodia's merchandise exports will likely be further impacted by partial withdrawal of

the “Everything But Arms” (EBA) arrangement and temporary expiration of the Generalized System of Preferences (GSP), despite emergence of new non-garment manufacturing and agricultural commodity exports. High credit growth in the banking sector remains a key risk to Cambodia's financial stability. More than half of households continued to experience income losses in December 2020 due to the COVID-19 pandemic though there are signs of recovery. In addition, the proportion of households negatively affected by the COVID-19 outbreak are much higher than those currently supported by the government's assistance program.

Recent developments

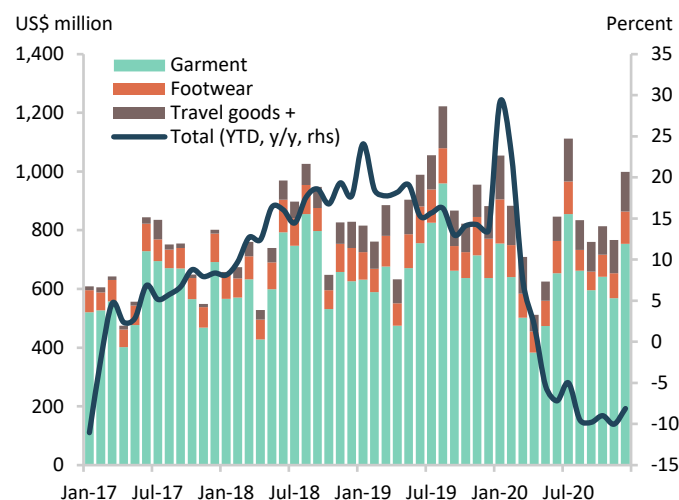
Efforts to contain the impacts of the pandemic continue with emergence of new local outbreak. The COVID-19 vaccination program has also begun. The economy is now adjusting to cope with impacts of the pandemic. The value of approved FDI projects in real sector has been gradually recovering, growing at 3.3 percent y/y in 2020. While key manufacturing exports, which include garment, footwear and travel goods, contracted by 8.1 percent y/y in December 2020 (figure 1), non-garment manufacturing exports have expanded. In the meantime, shipping container shortage has caused shipping costs to rise. Exports of bicycles grew by 27.4 percent in 2020, compared to 5.8 percent growth in 2019. Combined vehicle, electrical, and electronic parts exports surged, increasing by 37.4

FIGURE 1 Cambodia / Real GDP levels: Actual vs pre-covid trend



Sources: World Bank; Macro Poverty Outlook.

FIGURE 2 Cambodia / Garment, footwear and travel good exports



Source: Cambodian authorities.

Note: Travel goods and denotes travel goods and other textile products.

percent in 2020. The external sector remained sustainable as the current account deficit is fully financed by FDI inflows (and gross foreign reserves have increased to US\$21.5 billion in 2020 or more than 10 months of prospective imports). Inflation continued to be contained, reaching 2.9 percent at the end of 2020, partly underpinned by a broadly stable exchange rate of riel 4,042 per U.S. dollar at the end of 2020, down from 4,075 in 2019.

Monetary conditions remained accommodative. Broad money grew at 15.0 percent (y/y) in November 2020, down from 18.2 percent in 2019. Thanks to unprecedented government intervention, estimated at 4 percent of GDP in 2020, the overall fiscal deficit is expected to have widened to 6.5 percent of GDP in 2020 from a surplus of 1.5 percent in 2019.

Household demand for the new cash transfer scheme to support poor and vulnerable households increased as suggested by the number of households benefiting from program. As of January 2021, more than 710,000 households, or 19.5 percent of all households, have received the cash transfer. Employment activity is showing signs of recovery. According to the survey of households, the percentage of respondents who were employed in

December 2020, returned to the level recorded in May and August 2020, but remained below its pre-pandemic level.

Outlook

The economy is projected to recover and grow modestly, expanding at 4 percent in 2021, after contracting by 3.1 percent in 2020 (table 2). The authorities are taking steps to attract further investment and promote trade by planning to introduce a new investment law in the second half of 2021, boosted by the recently signed Cambodia-China FTA and RCEP. Under Cambodia's economic recovery plan, efforts are underway to boost competitiveness through investment climate reforms and leveraging of digital technologies. Efforts have also been made to support small and medium-sized enterprises through the newly established SME Bank of Cambodia, and to support innovative businesses through the Entrepreneurship Development Fund. The authorities continue to pursue countercyclical fiscal policy including expanding the social protection program, while boosting public investment financed in large part by government savings.

Bank credit financing to the construction, real estate and mortgage sector shows sign of pick up. While the recovery of construction and real estate activity is a good sign, it is imperative to continue to closely monitor vulnerabilities arising from the prolonged increase of credit provided to the sector.

Cambodia's fiscal position is expected to remain stable due to relatively large government savings. But further extension of the social assistance scheme beyond the currently planned timeframe would put significant pressure on the budget. Yet adverse impacts on the welfare of the population, especially the poor and vulnerable, would likely worsen once government intervention ceases.

Prior to the pandemic, Cambodia was a world leader in economic growth. But in the post-pandemic world, our baseline projection shows that the economy will likely follow a new trajectory (a new normal), expanding only moderately at around 4-5 percent per year in the medium-term (figure 2). This growth slowdown is largely due to a slower-than-expected recovery of exports of goods and services—particularly tourism—and modest expansion of the agriculture sector.

TABLE 2 Cambodia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.5	7.1	-3.1	4.0	5.2	5.2
Private Consumption	3.0	7.0	-0.8	2.6	4.5	4.5
Government Consumption	5.1	10.0	1.3	7.9	9.3	11.6
Gross Fixed Capital Investment	6.1	6.9	13.5	0.9	6.6	6.0
Exports, Goods and Services	5.3	7.8	1.1	2.7	5.4	5.5
Imports, Goods and Services	4.1	6.0	7.3	1.3	5.3	5.4
Real GDP growth, at constant factor prices	7.4	6.8	-3.1	4.0	5.2	5.2
Agriculture	1.1	-0.5	0.4	1.1	1.0	1.0
Industry	11.6	11.3	-1.4	6.7	7.4	7.9
Services	6.8	6.2	-6.2	2.6	4.8	4.2
Inflation (Consumer Price Index)	3.1	3.2	2.9	3.0	3.0	3.0
Current Account Balance (% of GDP)	-8.9	-9.7	-9.9	-9.8	-10.2	-9.8
Net Foreign Direct Investment (% of GDP)	12.6	13.2	12.5	10.6	10.0	10.5
Fiscal Balance (% of GDP)	0.4	1.5	-6.5	-9.3	-6.8	-5.3
Debt (% of GDP)	28.3	28.1	30.2	32.2	34.7	36.9
Primary Balance (% of GDP)	0.8	1.9	-5.9	-8.8	-6.3	-4.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.