

CAMBODIA: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

JUNE 2021 CAMBODIA ECONOMIC UPDATE

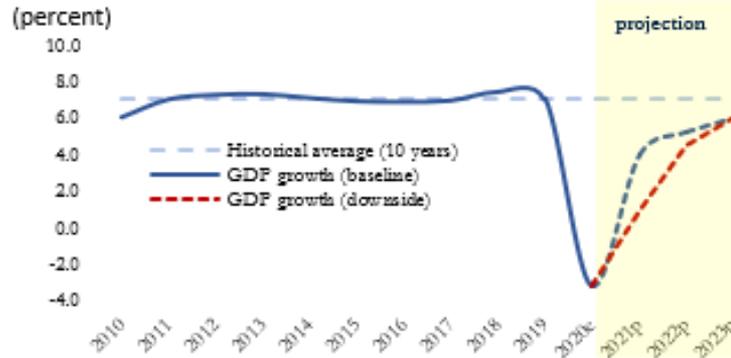
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Macroeconomics, Trade & Investment

Despite infection flare-ups, the economy is projected to slowly recover this year...

Real growth (baseline and downside)



Source: Cambodian authorities and World Bank staff projections.
Note: e = estimates; p = projections.

□ **June 2021 WB projections:** Cambodia's real growth for 2021: 4.0% under the baseline scenario and 1.0% under the downside scenario

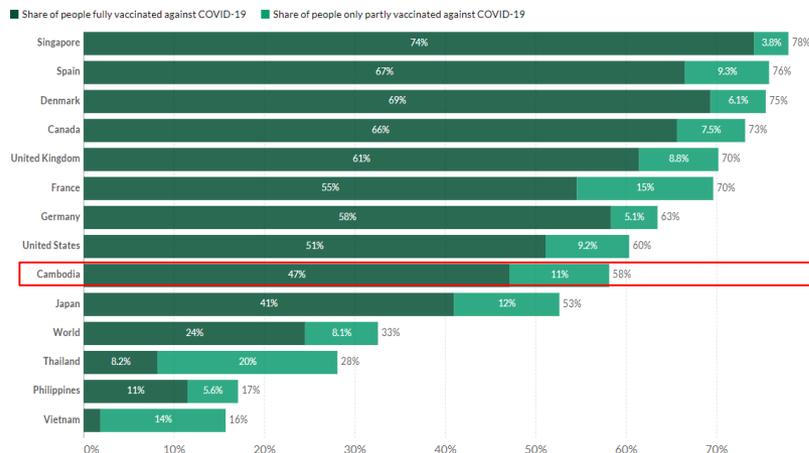
□ **Vaccination accelerated.**

□ **Agriculture remains resilient.** Manufacturing has adapted to changing external demand. Wholesale/retail managed to slowly pick up. Accommodation, restaurants and transport, however, continue to be hit.

□ **External imbalances likely worsen in 2021,** but resilient FDI inflows continued.

□ **Downside risks:** repeated reintroduction of lockdowns, delays in vaccine deployment (and distribution), and increased stress of the financial sector.

Share of people vaccinated against COVID-19, Aug 22, 2021

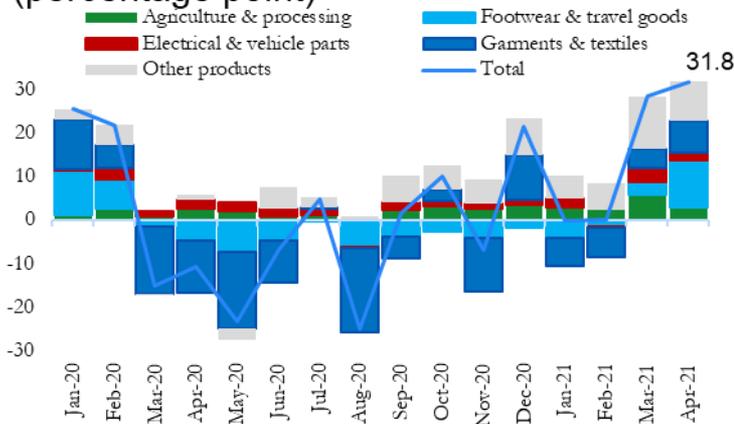


Source: Official data collated by Our World In Data. This data is only available for countries which report the breakdown of doses administered by first and second doses in absolute numbers.

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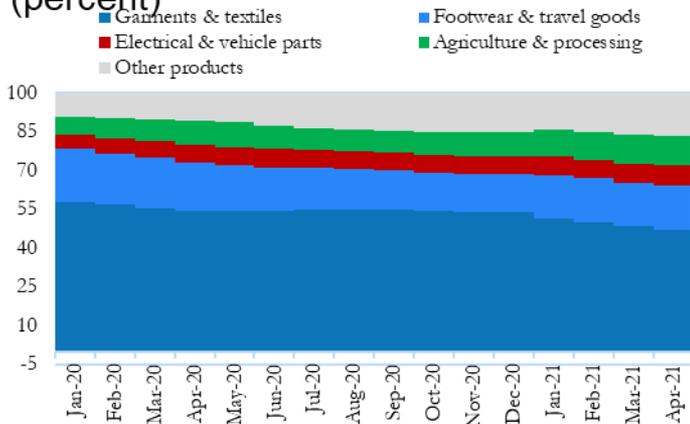
...as exports have adjusted and expanded, thanks to improved external demand...

Contribution to goods export growth¹
(percentage point)



Source: Cambodian authorities.
Note: 1/excluding gold.

Garment in total goods exports¹
(percent)



Source: Haver Analytics.
Note: 1/ excluding gold.

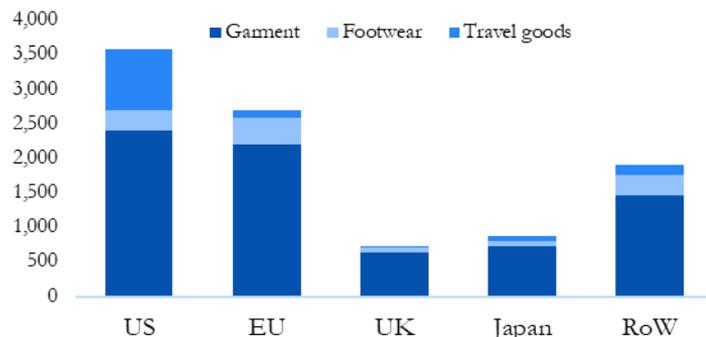
☐ **Goods exports** adapted, growing at 12.2% y/y during Jan-Apr 2021, as external demand improved. Contraction in exports of garment, footwear and travel (GFT) goods was partly offset by rising electrical/vehicle parts & bicycles, agricultural, and other exports, boosted in part by CCFTA.

☐ **The share of garment exports in total goods (excl gold) exports declined to 45.6 percent in the first 4 months of 2021**, down from 52.2% in 2020 and 57.6% in 2019.

☐ **Rising exports of agricultural commodities**, newly emerging electrical/vehicle parts, bicycles, and the rest. If gold exports included, goods exports grew at 16.7% in 2020. Exports of electrical parts, wire and accessories, and vehicle parts (3.2% share), reached US\$456 mln (18.1% y/y). Exports of bicycles rose to US\$527 mln (27.7% y/y).

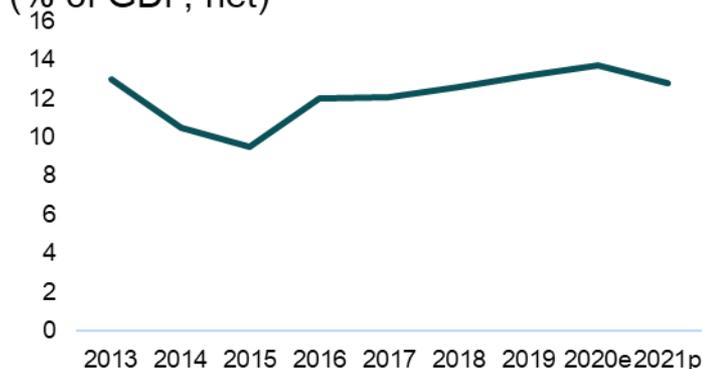
...boosted by exports to the U.S., while FDI remains strong.

U.S. is largest GFT exports market (US\$ million, 2020)



Source: Cambodian authorities.
Note: GFT= garment, footwear and travel goods.

FDI (% of GDP, net)



Source: Cambodian authorities.
Note: e = estimate, p = projection.

□ In 2020, the U.S. is the largest exports market, accounting for US\$3.5 bln (36.7% of the total GFT exports, up from 31.9% in 2019), growing at 3.6%. In contrast, GFT exports to the E.U. market contracted by 35 percent y/y, reaching only US\$2.6 billion in 2020.

□ In 2021, FDI inflows are projected to remain strong at 12.8 percent of GDP, compared to 13.6% of GDP in 2020. However, CAD has widened significantly. GIR remained broadly stable at US\$20.7 billion (about 9 months of imports) in May 2021. Chinese FDI continued to account for about half of total FDI.

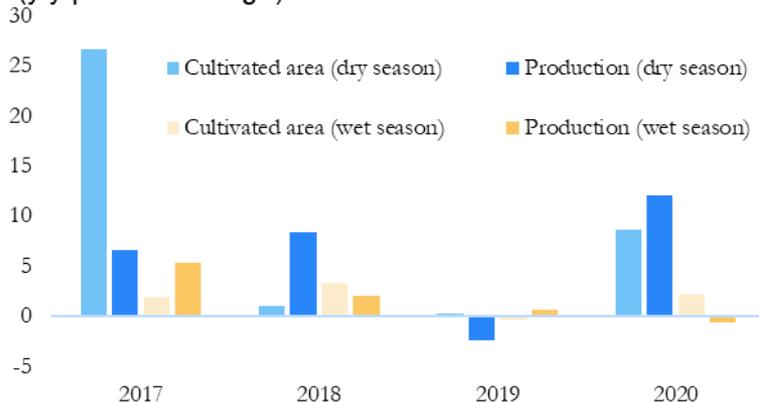
□ Approved FDI projects grew at 4.3% in 2020. [Tourism (\$1.75 bln), energy (\$588 mln), healthcare (\$358 mln), garment (\$220 mln), telecom (\$102 mln), agriculture/agroprocessing (\$110 mln), and electronics (\$50 mln)].



Agriculture remained resilient; however, construction (and tourism) continued to be sluggish...

Rice production

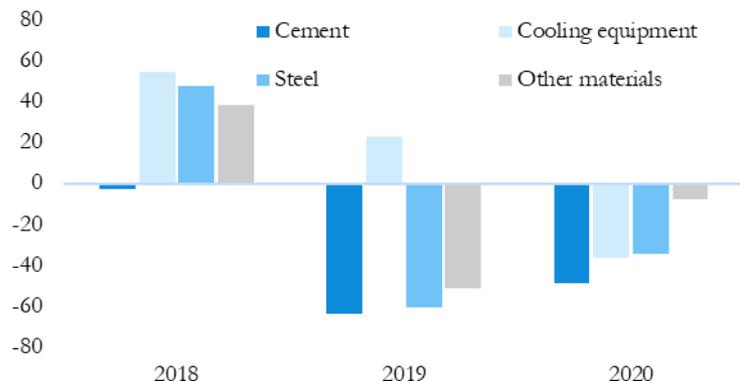
(y/y percent change)



Source: Cambodian authorities.

Basic construction material imports

(y/y percent change)



Source: Cambodian authorities.

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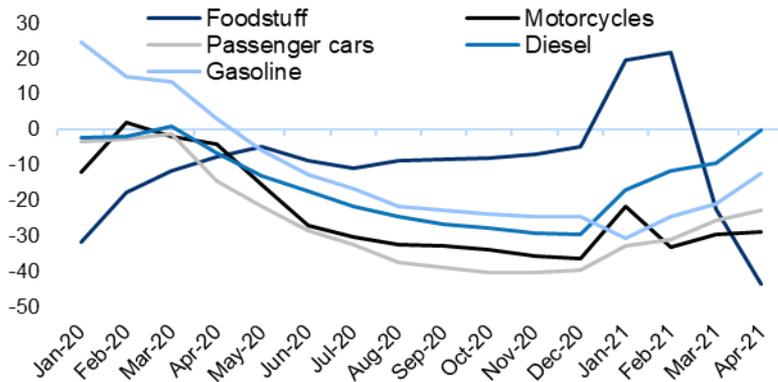
▣ **Agriculture has been resilient**, propelled by rising external demand and CCFTA. Rice production rose by 2.4% in 2020, thanks to a 12.1% increase in dry season. In 2021, exports of non-rice agricultural commodities: cassava, cashew nut, bananas and mangos accelerated.

▣ **Construction, however, remained sluggish.** Values of FDI projects investing in construction, construction permit, and construction material imports contracted in 2020 and the first four months of 2021. Cyclical slowdown in real estate continued.

▣ **Accommodation, restaurants and transport remained hit hard.** International arrivals contracted by 80.2% in 2020 (not recover to its pre-crisis level until 2023). Revenue from Angkor entrance contracted by 81.2%, to US\$18.6 mln, from US\$99 mln in 2019.

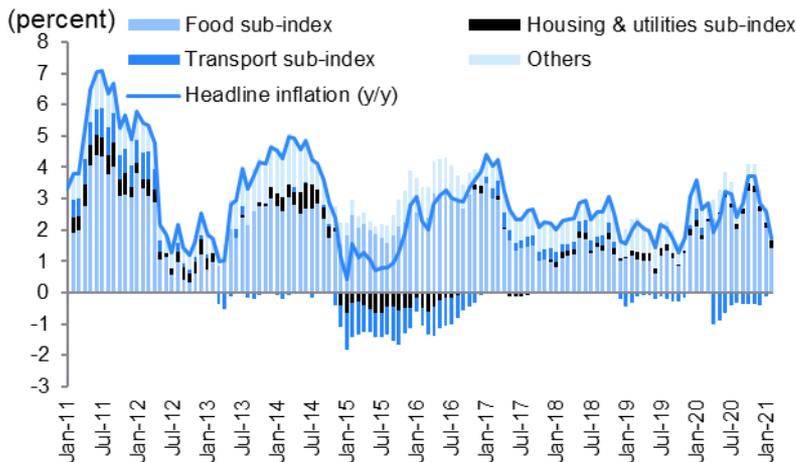
...domestic demand is gradually recovering as imports of consumer goods slowly improved...

Consumer and durable goods imports gradually picked up (YTD, y/y percent change)



Source: Cambodian authorities.

Contributions to 12-month inflation (percent)

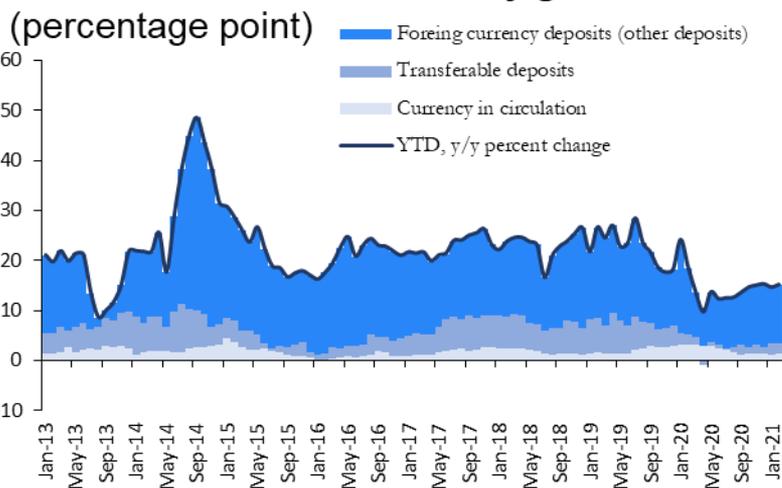


Source: Cambodian authorities

- ❑ Wholesale and retail businesses managed to slowly recover, supported by a gradual revival in domestic consumption. This helps as consumption expenditure accounts for more than two thirds of GDP.
- ❑ Contraction in imports of consumer and durable goods, except foodstuff, moderated in the first four months of 2021 as market confidence improved.
- ❑ Exchange rate remained broadly stable, despite the collapse of the tourism sector, a major foreign exchange earning sector.
- ❑ Inflation continued to be contained, declining to 1.7 percent in Feb 2021 from 2.9 percent in Dec 2019 as food prices eased. Weak domestic consumption and a stable exchange rate helped anchor domestic prices (denominated in local currency).

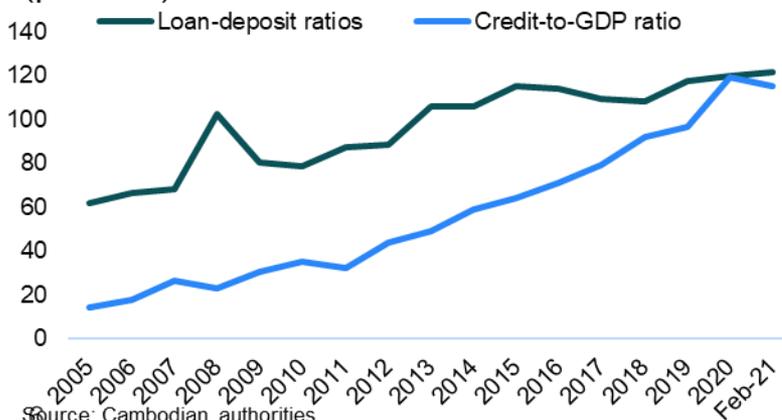
...underpinned by accommodative monetary policy...

Contribution to broad money growth



Source: Cambodian authorities.

Loan-deposit and credit-to-GDP ratios



Source: Cambodian authorities.

❑ Monetary conditions continued to be **accommodative**, thanks to the central bank's monetary policy easing. Broad money grew at 15.3% y/y in Dec 2020, compared to 18.2% in Dec 2019.

❑ Credit and deposit growth has held up, resulting in a broadly stable loan-to-deposit ratio (100%-120% during 2013-20), despite rapidly rising credit-to-GDP ratio (rising to 119% in 2020 from 49% in 2013), thanks to relatively strong capital inflows, especially FDI, during the period. Interest rates remained unchanged.

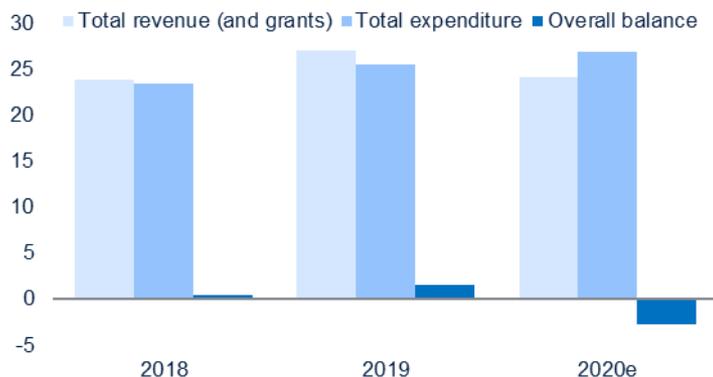
❑ With rapid financial deepening, intermediary role of the banking and microfinance sector quickly expanded.

❑ However, the central bank's monetary policy instrument remains constrained by Cambodia's highly dollarized economy.

...and counter-cyclical fiscal measures with prudent macro-fiscal policy...

General government operations

(Percent of GDP)

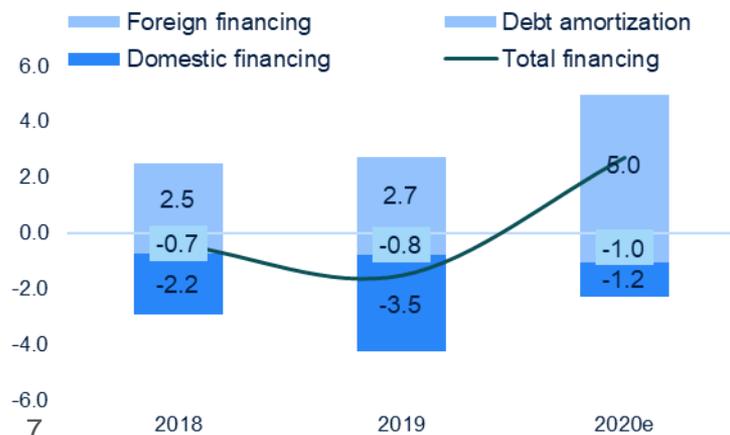


Source: Budget settlement laws and World Bank staff estimates and projections.

- In 2020, despite gov't intervention (3.2% of GDP or US\$823 mln), **fiscal deficit is estimated to have been modest at 2.7% of GDP in 2020** (up from 1.5% of GDP surplus in 2019), thanks to expenditure rationalization and buoyed tax collection.
- In 2021, deficit is projected to rise further caused by weak revenue collection and rising gov't intervention (5.4% of GDP or US\$1,454 mln), and public investment boost, despite a substantial reduction in (non-priority) spending on goods & services.
- The overall deficit continues to be financed by government's current saving/fiscal reserves (16.2% of GDP in May 2021, compared to 24.1% of GDP in 2020) and concessional borrowing.

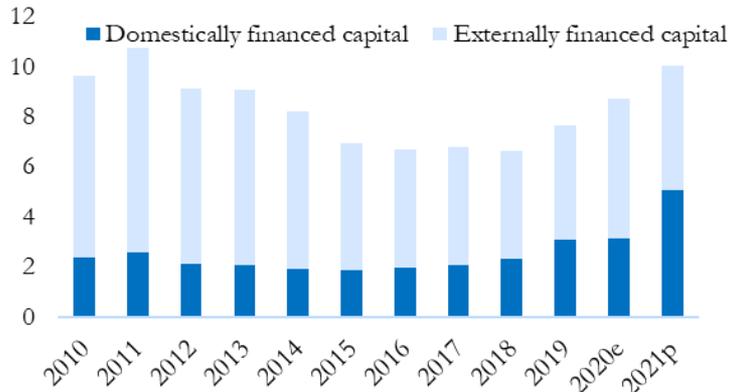
General government surplus/deficit and financing

(Percent of GDP)



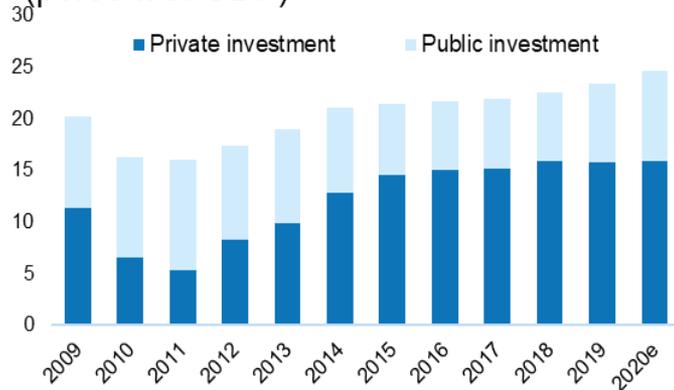
...resulting in rising public and private investment supporting economic recovery...

Public investment (% of GDP)



Source: Cambodian authorities and World Bank staff estimates and projections.
Note: e = estimate, p = projection.

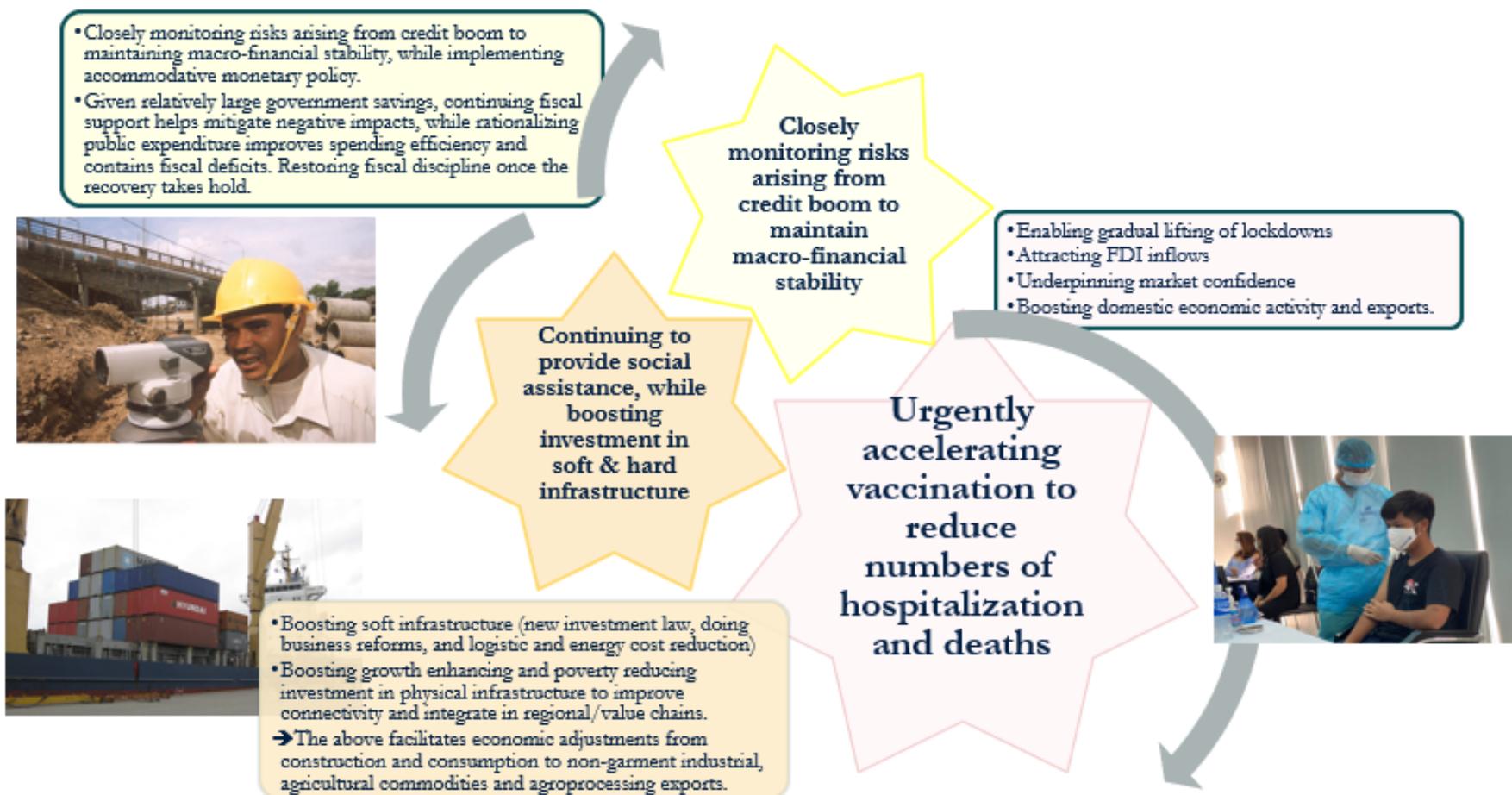
Gross fixed investment rose (percent of GDP)



Source: Cambodian authorities.
Note: e = estimates.

- While countercyclical public investment is important to economic recovery, private investment is also key for the revival of the private sector. Rising gross fixed investment helps underpin economic recovery.
- Gross fixed investment rose quickly to 24.6 percent of GDP in 2020, up from 16.2 percent of GDP in 2010, as economic growth accelerated after the 2008/09 Global Financial Crisis. The share of private investment in total investment increased to 64.6 percent in 2020, up from 32.8 percent in 2011, reflecting upbeat investor confidence.
- The 2020 law on gov't securities is paving the way for introduction of government securities which will promote domestic savings, while support dedollarization, if they are denominated in riels.

...policy options thus call for conducive domestic conditions to take advantage of improved external demand



THANK YOU

See the following publications

[June 2021 Cambodia Economic Update.](#)

[Uneven Recovery: East Asia and Pacific Economic Update, April 2021](#)

Annex 1: Cambodia’s assumption matrix under the baseline and downside scenarios

Assumption matrix under the baseline and downside scenarios				
Assumptions	Baseline		Downside	
Length, duration, and intensity of the lockdowns	Lockdowns are few, brief, localized and only confined to Q2 of 2021 for pockets of urban areas.		Lockdowns are frequent, prolonged, nationwide, and may extend to Q3 of 2021	
Pace of vaccination	Already going well, with 13.6% vaccinated, the second highest in ASEAN after Singapore (as of end-April 2021).		Vaccination drive is met with public health human resource constraints. Consequently, the country will not reach herd immunity until 2022 and beyond.	
Government’s response	Strong counter-cyclical policies		Same as baseline	
Speed of global recovery and return of international tourism	Speedy recovery in the United States, Europe, and China-- Cambodia’s three major trading partners.		Same as baseline	
Economic conditions	Vaccines are successfully administered as targeted, leading to a restoration of market confidence, while FDI inflows continue, attracted by the new investment law and CCFTA (and RCEP) and a relocation of factories as political tensions in Myanmar persist. There are moderate adverse effects affecting corporates as goods exports (including agricultural exports) recover, thanks to improvements in external demand conditions. Efforts under the economic recovery plan are currently underway to boost competitiveness through investment climate reforms and leveraging of digital technologies. Although public debt and budget pressures have risen, the authorities will be able to restore fiscal discipline once the recovery takes hold in the short term.		Market confidence is subdued, leading to a marked slowdown in FDI inflows, while the main manufacturing sectors such as garment, footwear and travel goods for exports are disrupted by lockdowns and impacted by the partial withdrawal of the “Everything But Arms” arrangement and temporary expiration of the Generalized System of Preferences, regardless of improvements in external demand conditions. Consequently, significant adverse effects resulting in liquidity problems become solvency problems affecting corporates. The fiscal deficit is expected to double as spending pressures rise and domestic revenue declines caused by prolonged sluggish economic activity. Rising public debt and budget pressures persist, requiring more external borrowing and drawdown of the government’s current savings.	
Macro projections	2021	2022	2021	2022
Real growth (percent)	4.0	5.2	1.0	4.5