

CAMBODIA

Table 1	2021
Population, million	16.9
GDP, current US\$ billion	28.5
GDP per capita, current US\$	1686.4
School enrollment, primary (% gross) ^a	105.4
Life expectancy at birth, years ^a	69.8
Total GHG Emissions (mtCO ₂ e)	69.7

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Under the baseline scenario, the growth projection for 2022 remains at 4.5 percent, as a stronger domestic recovery supported by the rollback of mobility restrictions is offset by worsening global demand and rising commodity prices. The recovery is expected to remain underpinned by domestic economic activity and agricultural commodity exports, while Cambodia's export-oriented manufacturing is expected to face headwinds. Inflationary pressures are projected to increase, led by rising food and oil prices triggered by the war in Ukraine. Risks to baseline forecast are broadly balanced and Cambodia maintains policy space that it could deploy should these risks materialize.

Key conditions and challenges

COVID-19 infections have resurged since February 2022, caused primarily by the Omicron variant. About 83 percent of the population have received two doses of coronavirus vaccine. Cambodia has shifted to a strategy for "living with COVID-19" enabling a broad-based economic recovery to take shape. While strong domestic economic momentum continues, a general slowdown in global demand is looming. Financial market tightening in the United States, changes in the growth and composition of economic activity, especially in China, and the war in Ukraine, will negatively affect the external environment. In addition, an unmanageable resurgence of Omicron or new variants could disrupt economic recovery. Rising energy and food prices could dampen consumer confidence and worsen people's welfare, negatively impacting poverty reduction. In addition, high credit growth and concentration of domestic credit in the construction and real estate sector remain a key risk to Cambodia's financial stability.

Recent developments

The economic recovery has held up but remains uneven. Traditional growth drivers, especially the garment, travel goods, footwear, and bicycle manufacturing in-

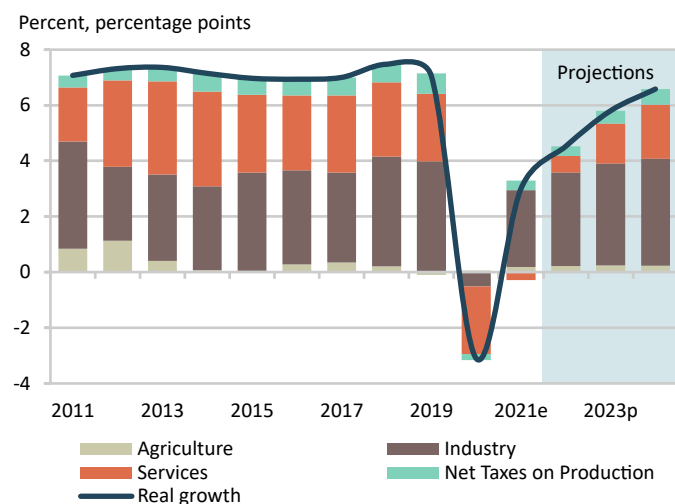
dustries, as well as agriculture, have fully recovered. In contrast, the important travel and tourism sector - one of Cambodia's main growth drivers, accounting for about 2 million jobs and a quarter of GDP during the pre-pandemic period - remained subdued. Labor market pressures have been magnified by an increased number of migrant workers who have returned home from abroad.

Cambodia's total goods (excluding gold) exports accelerated to 22.8 percent in 2021, driven mainly by surging goods exports to the United States which expanded 42.4 percent (figure 2). The trade (and current account) deficit, however, significantly widened, largely caused by rising imports of a few major items, especially gold used as a hedge against volatility.

Inflation has edged up further, reaching 4.1 percent in January 2022. Supported by central bank open market operations, the nominal exchange rate continued to be broadly stable, hovering at riel 4,100 per U.S. dollar. Gross international reserves, however, declined marginally, reaching US\$ 19.7 billion (9 months of imports) in December 2021, down from US\$21.2 billion at the end of 2020.

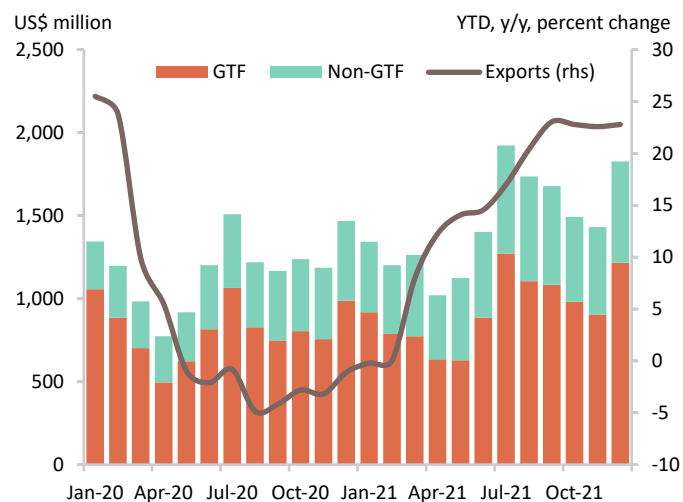
Monetary conditions continued to be accommodative. Broad money growth accelerated to 16.3 percent in 2021, compared to 15.3 percent in 2020. Thanks to improved confidence in the banking system and continued capital inflows, deposit growth outpaced its pre-pandemic growth rate, increasing at 17.2 percent, while domestic credit grew 24.1 percent in December 2021. The annual budget for 2022 is characterized by continued (countercyclical) fiscal

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



Source: Cambodian authorities and World Bank staff projections. Notes: e = estimate; p = projection.

FIGURE 2 Cambodia / Merchandise (excluding gold) exports



Source: Cambodian authorities. Note: GFT = garment, travel goods, and footwear (and other textile products).

support with the fiscal deficit expected to widen to 6.0 percent of GDP. Expenditure is budgeted to reach 26.7 percent of GDP, driven by continued fiscal support to mitigate the impacts of the pandemic and expansion of public investment. External borrowing is expected to finance about 60 percent of the deficit, while the rest is to be financed by a drawdown of government deposits (fiscal reserves) which stood at 17.4 percent of GDP in December 2021, down from 23.7 percent of GDP at the end of 2020.

The cash transfer program has been the largest component of the government's support package. As of February 2022, it covered 690,000 households (2.7 million individuals) or approximately 19 percent of households. The program has disbursed US\$ 593 million since the launch in June 2020, thus far mitigating some of the negative impacts for the poor and vulnerable households.

The official poverty rate measured at the national poverty line declined by 1.6 percentage points per year over the period 2009-2019/20, driven substantially by rising labor (especially wage) earnings.

Outlook

Despite a general slowdown in global demand, growth is projected to hold up at 4.5 percent this year under the baseline scenario, thanks to the rollback of mobility restrictions made possible by Cambodia's high vaccination rate. The recovery is expected to remain underpinned by domestic economic activity and agricultural commodity exports. Under the downside scenario, growth is projected to reach only 3.8 percent in 2022. The downside scenario assumes a deterioration in domestic economic conditions caused by rising inflation, while external conditions worsen caused by a marked slowdown in external demand. Cambodia's export-oriented manufacturing is expected to face headwinds in the coming months, with a less favorable external environment which is being reshaped by cyclical slowdown in the U.S and structural slowdown in China. In addition, the energy and food prices hike due to the economic consequences of the war in Ukraine is expected to slow

down the pace of poverty reduction as it weighs on household budgets.

Over the medium term, the economy is expected to trend back to potential, growing at around 6 percent. The new Law on Investment, the Cambodia-China and Cambodia-Republic of Korea free trade agreements and the Regional Comprehensive Economic Partnership are expected to help boost investment and trade in the coming years. On the upside, a less persistent global shock could improve the outlook for Cambodia.

However, the negative impacts of the coronavirus on jobs and welfare are expected to continue as the services sector, especially the travel, tourism, and hospitality industries, are facing persistent headwinds. It is crucial to implement structural reforms embedded in the economic recovery plan to improve Cambodia's external competitiveness. Addressing supply side bottlenecks by reducing costs of doing business, logistic, and energy, while eliminating rigidities in major labor market regulations that prevent a robust recovery of the job market remains key to a sustained economic recovery and job creation.

TABLE 2 Cambodia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.1	-3.1	3.0	4.5	5.8	6.6
Private Consumption	7.0	-0.8	1.3	1.3	1.4	1.5
Government Consumption	10.0	12.5	-28.3	7.2	14.2	16.6
Gross Fixed Capital Investment	6.9	11.2	-11.8	4.0	9.6	9.0
Exports, Goods and Services	7.8	1.1	14.9	16.5	17.2	18.5
Imports, Goods and Services	6.0	7.3	21.7	12.0	13.5	14.8
Real GDP growth, at constant factor prices	6.8	-3.1	2.8	4.5	5.8	6.5
Agriculture	-0.5	0.4	1.1	1.3	1.5	1.5
Industry	11.3	-1.4	7.4	8.6	9.1	9.2
Services	6.2	-6.2	-1.0	1.6	4.1	5.6
Inflation (Consumer Price Index)	3.2	2.9	3.5	6.5	4.5	4.0
Current Account Balance (% of GDP)	-15.2	-12.0	-28.5	-15.8	-13.6	-13.2
Net Foreign Direct Investment (% of GDP)	13.2	13.0	12.7	12.9	13.9	15.0
Fiscal Balance (% of GDP)	1.5	-4.3	-5.7	-6.0	-4.9	-3.7
Debt (% of GDP)	28.2	34.4	34.8	35.6	35.8	36.7
Primary Balance (% of GDP)	1.9	-3.7	-5.2	-5.5	-4.3	-3.1
GHG emissions growth (mtCO2e)	2.6	-1.5	-0.4	1.5	2.5	2.5
Energy related GHG emissions (% of total)	23.0	22.2	22.1	23.3	25.0	26.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.