



UNDER EMBARGO UNTIL 07.00 GMT, WEDNESDAY, 6 AUGUST 2014

CAMBODIA

Country briefing notes

The economy sustains high growth

- Cambodia has enjoyed high economic growth of about 7% in recent years. Although recent growth is lower than that before the global financial crisis, there are signs that growth drivers are becoming more diversified.
- Exports of garments and footwear continued to drive growth in 2013. Shipments to the European Union have been rising rapidly under the special market access scheme. The United States is another major export destination.
- However, strikes for higher wages by garment workers disrupted production, and also highlighted the need to improve the way minimum wages are set and to ensure decent working conditions.
- Along with tourism and construction, exports of milled rice also drove economic growth. The Government has been raising its support to small-scale farmers under a scheme to promote milled rice as a key export commodity.
- On the supply side, services contributed as much as industry to GDP growth in both 2012 and 2013. In line with buoyant domestic demand, wholesale and retail trading has seen rapid growth.
- The real estate sector also recorded rapid growth, fuelled by credit extended to the sector. However, this could potentially pose financial instability. To ensure sustainable and broad-based growth, adequate credit should be channelled to long-term investments, and not just to consumption and real estate.

Inflation picked up

- Although the overall inflation rate in 2013 was modest at 2.9%, prices trended upwards through the year and reached 4.7% by December. Food prices edged up following floods, while import prices also increased due to tighter customs duty collection.

Exports and FDI inflows were strong

- Merchandise exports increased by 16% in 2013, led by garments, footwear and milled rice. But with strong imports, the current account deficit remained wide, at 8.6% of GDP. The shortfall was comparable to the previous years and financed mainly by FDI and official loans.
- FDI inflows were particularly large in 2012 and 2013, at about \$1.4 billion in both years, compared with less than \$1 billion in the previous years. While the recent political unrest and wage disputes have raised concerns, strong inflows are expected to continue, not least due to factories relocating from China and Viet Nam to Cambodia.

Policy developments and challenges

- Strong domestic demand and improved customs and tax collection have led to more favourable government revenues in recent years. The budget deficit has narrowed steadily from 7.5% of GDP in 2011 to 5% of GDP in 2013.
- Taking into account Cambodia's economic structure, ESCAP analysis suggests that tax revenue could be raised by about 30%. This is consistent with the Government's own target of raising domestic revenues to at least 18% of GDP by 2018, from around 15% in 2013. While goods and services tax revenue accounts for around half of the total revenue, income and profit tax collections have gone up recently.
- With greater fiscal space, the Government could increase development expenditures, including in education and vocational training. As highlighted in *Survey 2013*, Cambodia lags behind advanced ASEAN members in terms of literacy rate, years of schooling, and public spending on education. Employer surveys also cite the shortages of skilled labour as a major business constraint.
- Creating an enabling environment for the private sector, including micro, small and medium-sized enterprises, is another priority, as highlighted in the national development strategy. This could help create better jobs and make the economy become more diversified and better integrated into regional and global value chains.
- On the social front, the development strategy for 2014-2018 seeks to lower the poverty rate by at least 1 percentage point annually and ensure that populations in the lowest 20% expenditure bracket consume at least 10% of the total consumption on a sustained basis. Well designed and implemented policies will determine its success.

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