



Number.....

Macroeconomic and Banking Sector Developments in 2019 and Outlook for 2020

Prepared by the National Bank of Cambodia

January 02, 2020

In 2019, global economy faced a number of challenges, decelerating growth in both developed countries and emerging economies. Amongst all, the main challenge is the US-China trade tension, which caused the contraction of international trade and investment¹. Meanwhile, climate change has threatened agriculture and significantly impacted on the economy. Moreover, protests in a number of countries² have led to political and economic uncertainties, while Brexit has yet to reach a withdrawal deal. In addition, technological advances have created both opportunities and challenges, especially in production chains, labour market, and connectivities. These challenges have resulted in economic uncertainties for many countries globally. In response, many central banks have implemented expansionary monetary policy by lowering policy rates or injecting liquidities to stimulate the economy.

Cambodia's economy continued to grow at a robust rate of 7.1% in 2019, supported by: i/- the growth of exports, especially garments, footwear, and travel goods; ii/- the growth of construction sector reflected by a rise in the import of construction equipments and materials; and iii/- the growth of tourism driven by an increase in the number of foreign tourist arrivals, especially in coastal areas and for business purposes. Furthermore, Cambodia's economy remained attractive to foreign direct investment, particularly in financial, manufacturing, construction, real estate, and housing sectors. It should be noted that growth in the agricultural sector was sluggish and low but still contributed significantly to the overall economy.

¹ But this trade tension has also caused diversion of investments to a number of countries in Asia, including Vietnam, Cambodia, and so on.

² Including France, Hong Kong, India, Latin America, Iraq, and so on.

Inflation of 1.9% in 2019 with a stable exchange rate of 4,055 riel per USD contributed to the macroeconomic stability. The international reserves continued to accumulate and reached USD 18 billion³, which is adequate for covering about seven months of prospective imports of goods and services, well above the minimum level (three months of prospective imports) which developing countries should have. Macroeconomic stability and policy implementation to promote the use of riel have significantly increased the riel in circulation, but dollarisation remained high, requiring participation from all stakeholders in promoting the use of riel.

The banking sector is healthy and has actively contributed to financial inclusion, supported economic growth, and reduced poverty in time of peace and political stability. The share of adult population using formal financial services accounted for 71% of the total adult population, with 25% growth in deposits and 26% in loans. Credit growth has accelerated after slowing down over the past three years but has yet to reach the level during the period of 2010-2015 (30%). The rebound was mainly driven by an increase in credit to construction and real estate sectors, consumption, and trade. Due to the surge in incomes, demand, and the availability of various financial services, credit for consumption, especially for purchasing goods and mortgage, has increased in recent years. These credits have stimulated consumption, which yields positive effects on economic growth. However, if consumers do not spend wisely, rising consumption credit could also pose a risk. Moreover, the payment system has been modernized to support the continuous growth of the economy and integration into the region. Currently, around 5 million people are using convenient, fast, secure and affordable payment services. The National Bank of Cambodia is developing the QR Code standard for banking transactions while the pilot Bakong operated based on blockchain technology for facilitating the interbank and cross-border transactions was recently launched.

The IMF predicted that global economic growth in 2020 could pick up given the positive sign of the talks between the US and China regarding the global trade tension, and the possible emergence of the solutions for Brexit. Nevertheless, uncertainties remain and the world economy may face other challenges, including: i/- monetary policy of major central banks aiming at keeping interest rates low for a long period of time could lead to debt accumulation in private sector and high risk for

³ Based on the IMF's new methodology

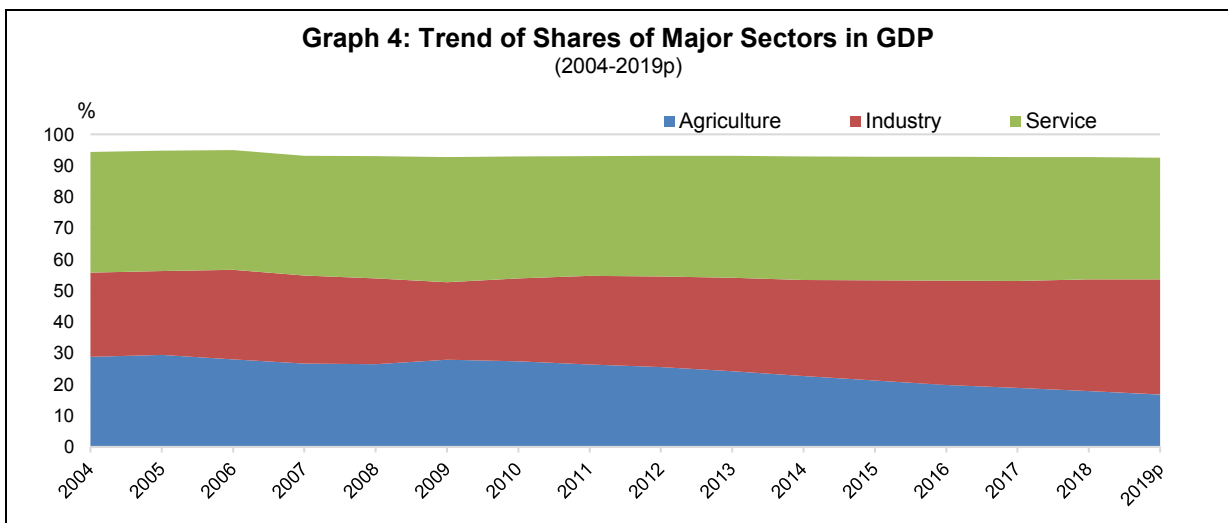
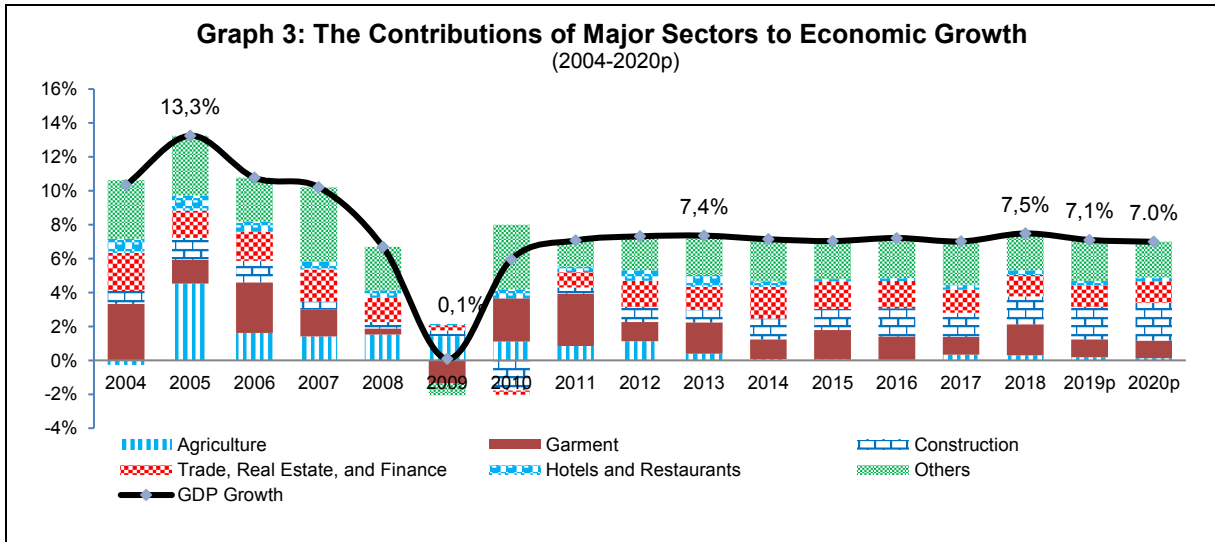
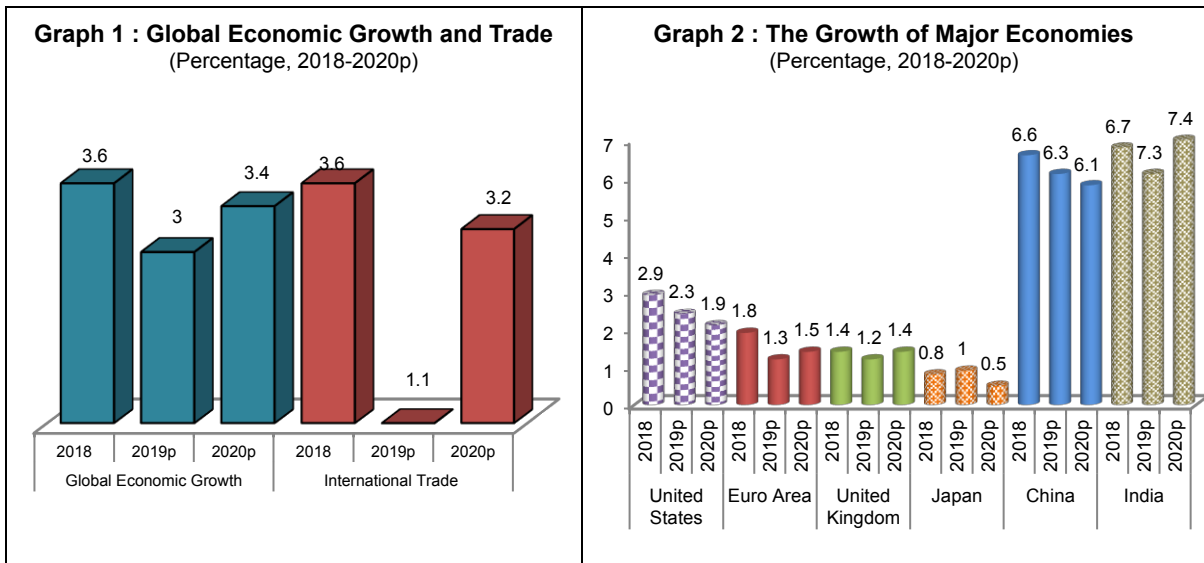
reverse capital flows from emerging economies; ii/- climate change remains a challenge affecting the economy and society; and iii/- geopolitical problems and the on-going protests in some countries continue to be a concerning issue for growth in the regions.

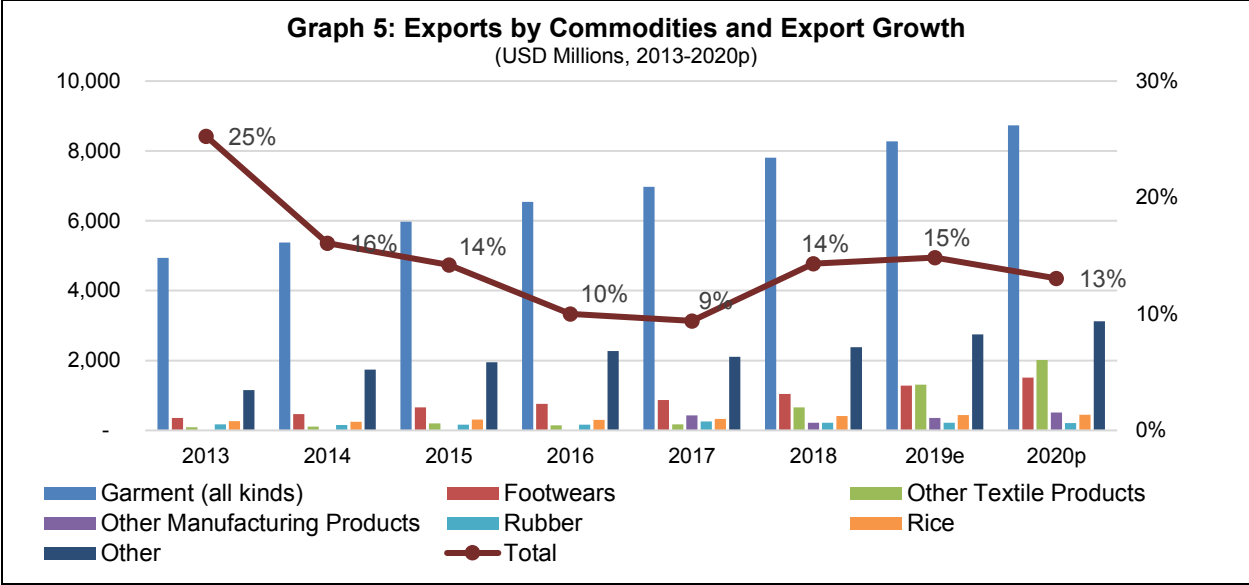
The Cambodian economy could also face some risks. External risks include: i/- a faster-than-expected slowdown of Chinese economy that may have an impact on Cambodian economy given the close connection between the two and ii/- the adoption of protectionist policy could also affect exports. Internal risks include: i/- the potential loss of the "Everything But Arms (EBA)" which could directly impact the garment industry and other sectors indirectly benefiting from this sector; ii/- the high level of credit growth to construction sector which could pose an increasing risk when real estate supply surges above demand, and iii/- active mortgage financing by property developers which has yet to be firmly regulated.

However, economic growth for 2020 is expected to reach around 7% with inflation at around 2.3%. This expectation is based on the forecasted global economic recovery that will provide a favorable condition for exports, foreign investment, and tourism while the economy increasingly gains from diversification and in-depth reforms to support sustainable economic development. Exports are expected to continue growing at a high rate, especially for exports of travel goods and other manufacturing products although the growth of garment exports may be decelerating. It should be highlighted that in the case that the EU decides to withdraw the EBA from Cambodia by February 2020, Cambodia's garment exports are expected to continue growing because: i/- the mechanism for full EBA withdrawal would not be implemented until the next six months after the final decision is made; ii/- Cambodia still can export goods to the EU, even if the EBA is withdrawn because the loss of EBA would only increase the cost of exporting goods to the EU due to the imposition of tariffs ranging from 0.1% to 12.5% depending on the types of goods, but if the EU's demand for Cambodian goods continues to grow, Cambodia's exports to the EU will also increase. The demand, especially after the Brexit, will remain constant since Cambodia's exports to the UK already accounted for 20% of its exports to the EU; iii/- the increase in minimum wage has yet to affect Cambodia's competitiveness as it is implemented gradually in line with the rise of productivity; and iv/- the government has introduced a number of measures to reduce production costs, to develop small and medium

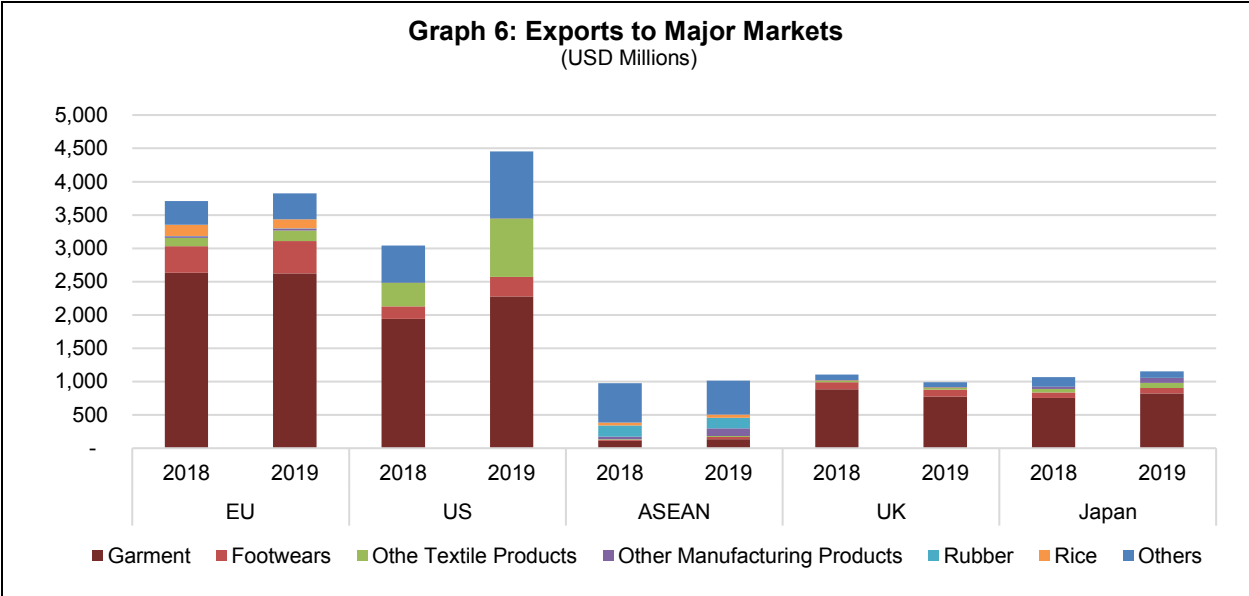
enterprises, to facilitate trade, and to carry out necessary reforms to create a more favorable environment to attract investment, stimulate domestic production, promote diversification of exports and markets, and so on. Cambodia's economic growth will also be supported by a surge in foreign direct investment, which is expected to remain robust with the increase in investment in the region given the potential of Cambodian economy and diversion of investment to Asia as well as Cambodia. The construction and real estate sectors will further expand, reflected by the growing trend of the imports of construction materials and approved construction projects. The number of foreign tourists will further increase, especially those travelling to the coastal areas and for business purposes. At the same time, domestic demand and investment will continue to rise robustly, contributed by the increasing income, the implementation of expansionary fiscal policy, and the credit growth of the banking and financial sectors. Recently, construction project of the International Trade Center has been approved and is being carried out, indicating a positive outlook on the consumption of Cambodians, especially the rapidly growing middle-class population.

Appendix

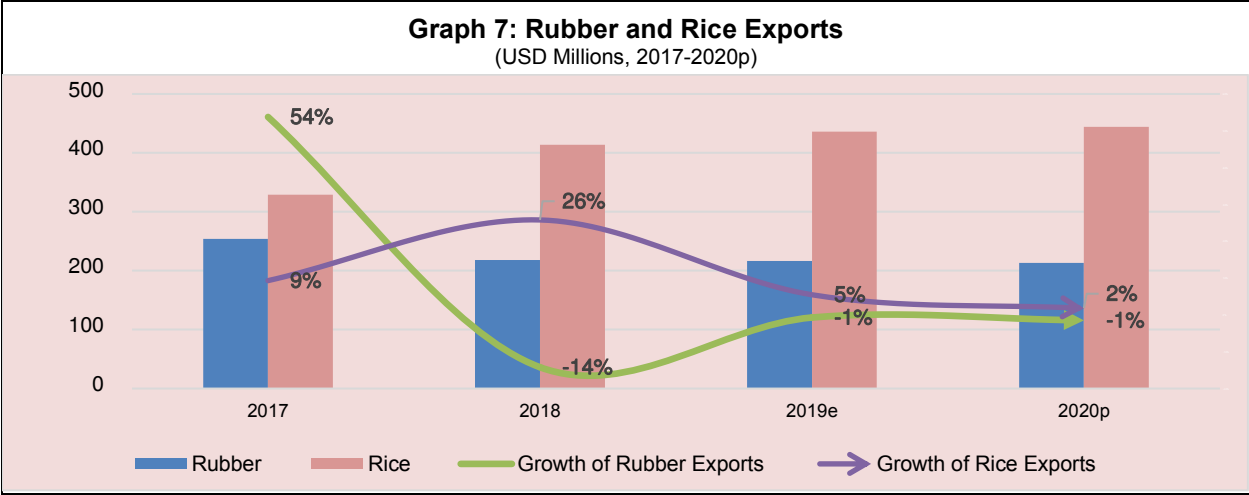




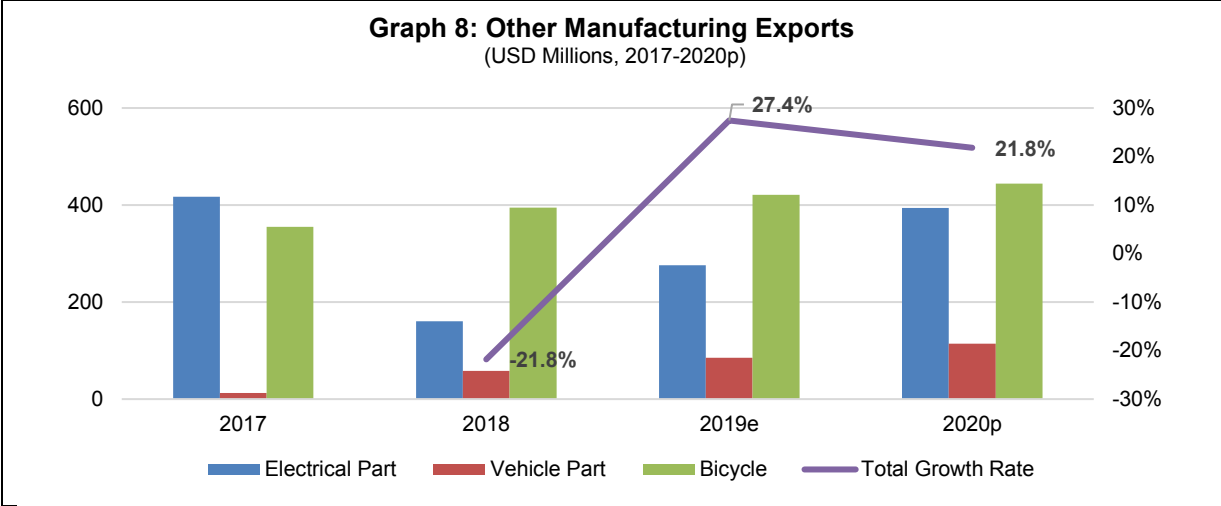
Source: NBC



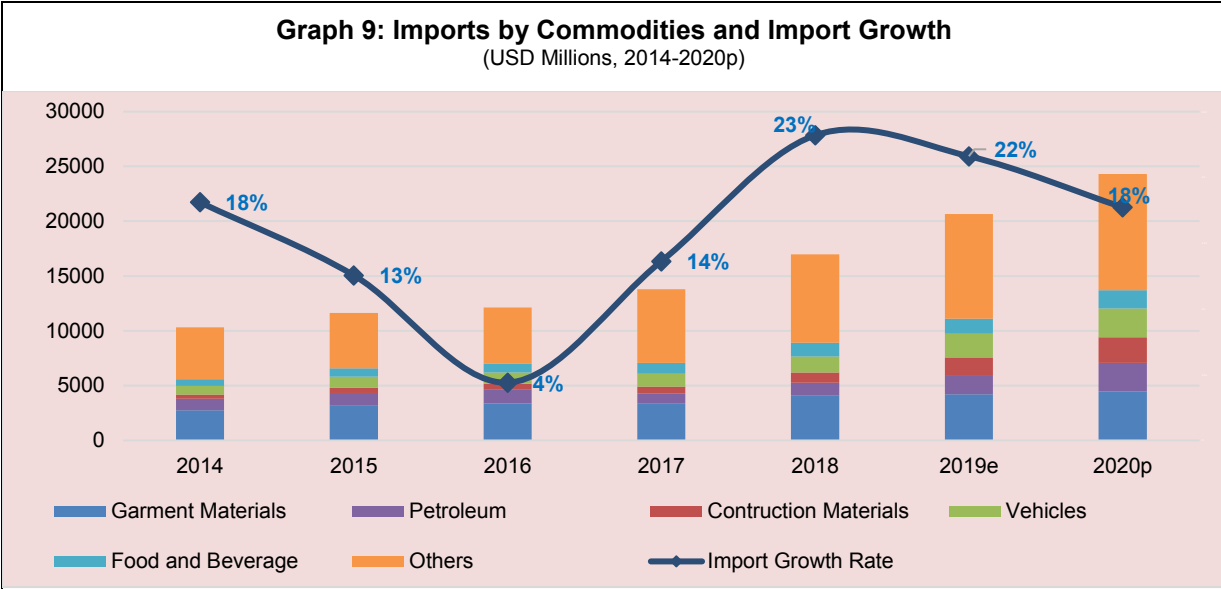
Source: General Department of Custom and Excise of Cambodia and NBC Staff's Calculation



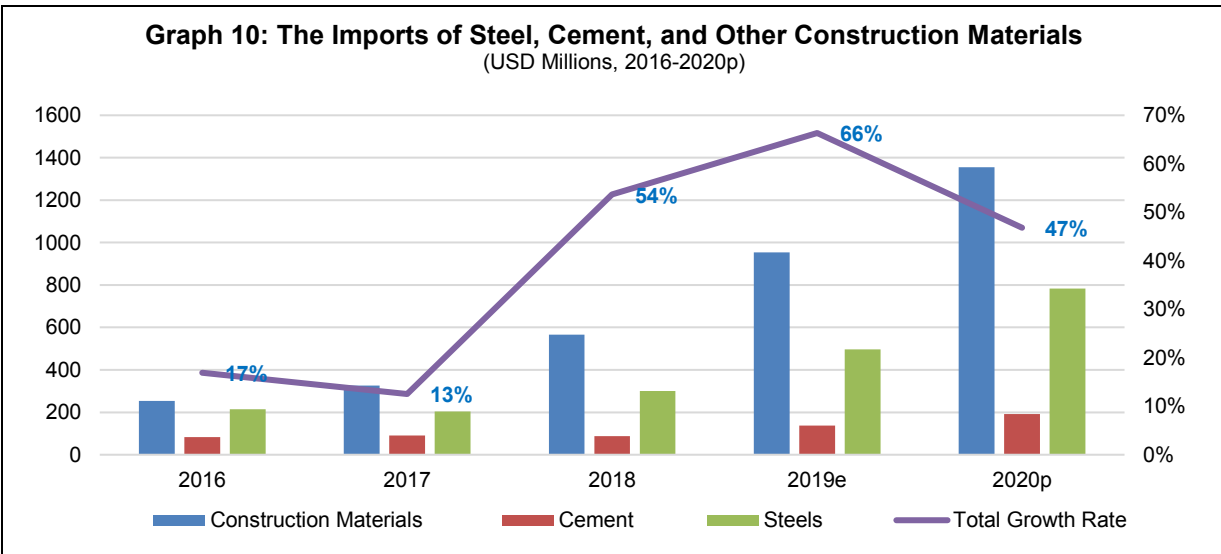
Source: General Department of Custom and Excise of Cambodia and NBC Staff's Estimation



Source: General Department of Custom and Excise of Cambodia and NBC Staff's Estimation



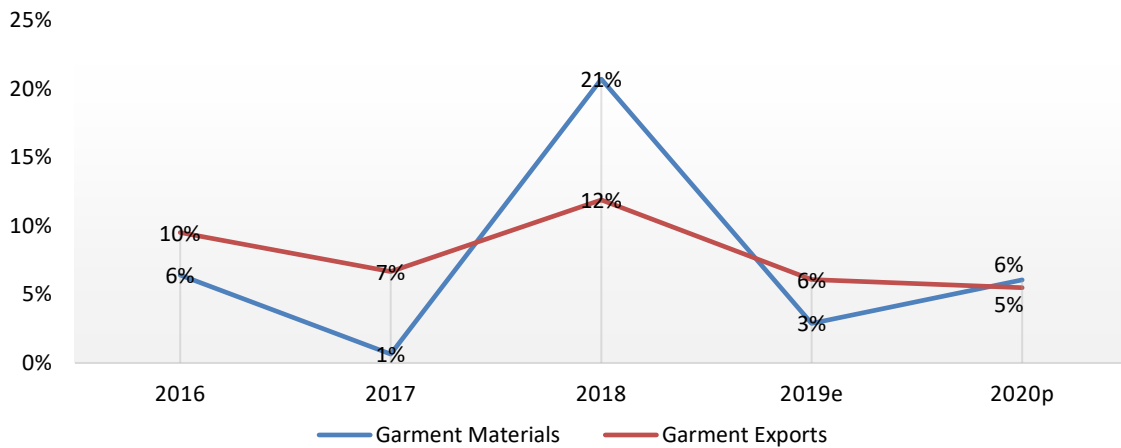
Source: General Department of Custom and Excise of Cambodia and NBC Staff's Estimation



Source: General Department of Custom and Excise of Cambodia and NBC Staff's Estimation

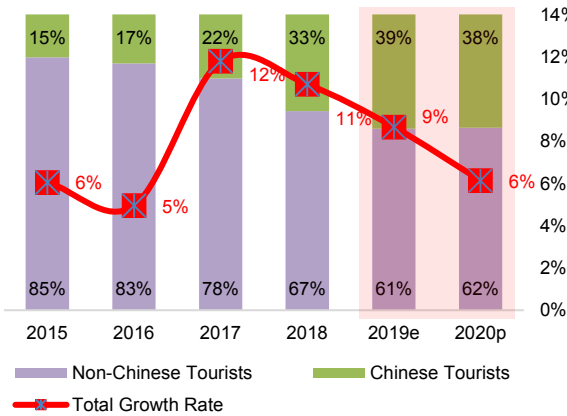
Graph 11: The Growth of Raw Material Imports for Garment Sector and Garment Exports

(2016-2020p)

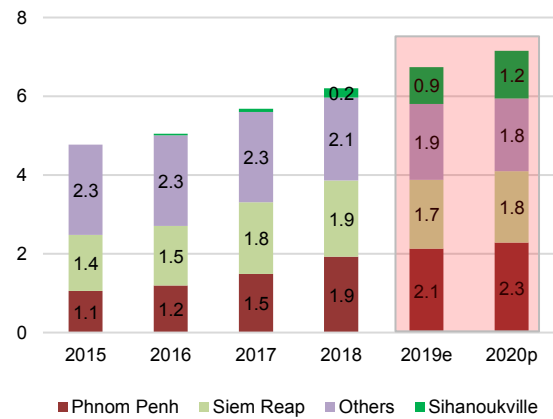


Source: General Department of Custom and Excise of Cambodia and NBC Staff's Calculation

Graph 12: Traveler Arrivals in Cambodia
(Percentage, 2015-2020p)

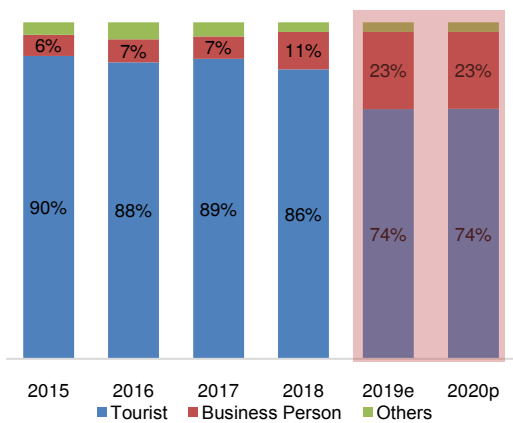


Graph 13: Number of Traveler Arrivals in Cambodia by Main Entrances
(Millions, 2015-2020p)



Source: Ministry of Tourism and NBC Staff's calculation

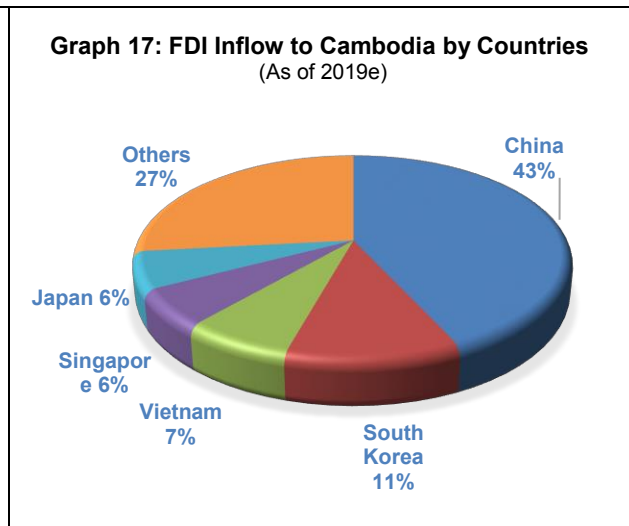
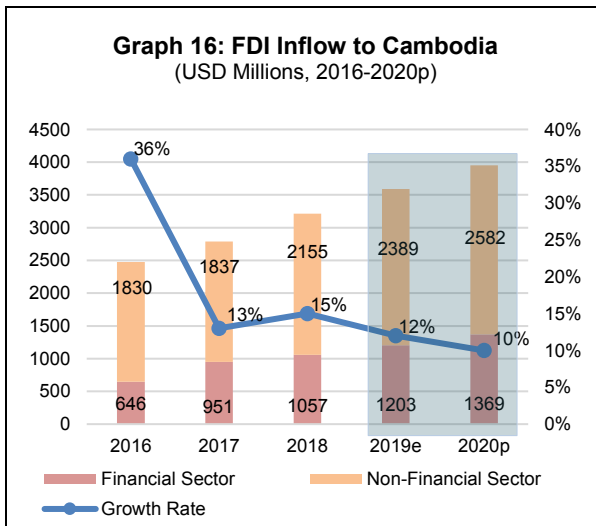
Graph 14: Types of Traveler Arrivals in Cambodia
(Percentage, 2015-2020p)



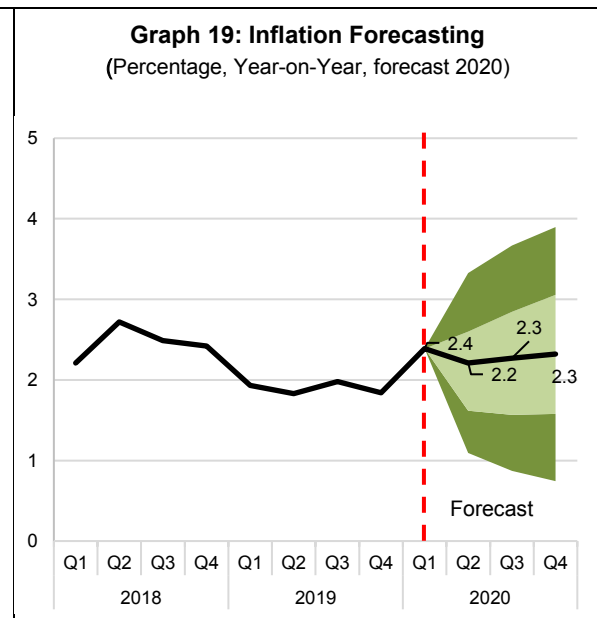
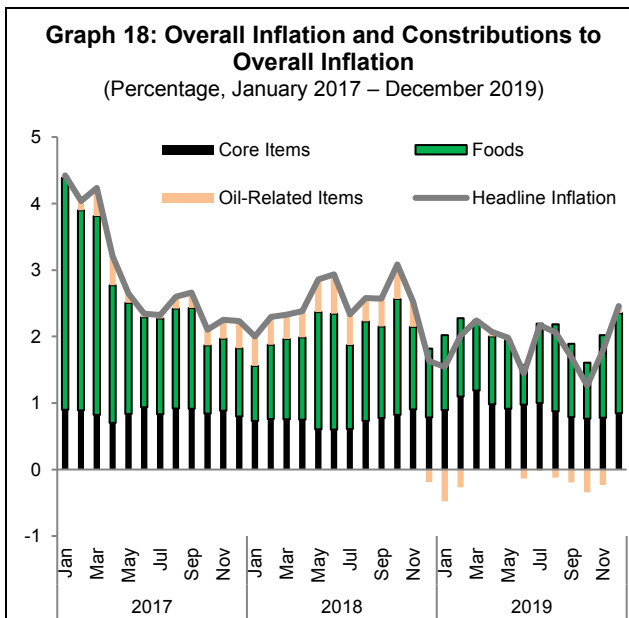
Graph 15: Traveler Arrivals by Countries

Traveler Arrivals	Number of Travelers (Millions)		Proportion (%)		Growth (Year-On-Year)	
	2018	2019e	2018	2019e	2018	2019e
China 🇨🇳	2.0	2.6	32.6%	38.6%	67.2%	28.5%
Vietnam 🇻🇳	0.8	0.9	12.9%	13.3%	-4.2%	12.3%
Thailand 🇹🇭	0.4	0.4	6.9%	6.1%	-15.1%	-4.0%
Laos 🇱🇦	0.4	0.3	6.2%	5.1%	-3.2%	-9.6%
South Korea 🇰🇷	0.3	0.3	4.9%	3.9%	-12.6%	-13.6%
US 🇺🇸	0.3	0.2	4.0%	3.7%	-2.2%	-1.0%
Japan 🇯🇵	0.2	0.2	3.4%	3.1%	3.5%	-0.7%
Malaysia 🇲🇾	0.2	0.2	3.2%	2.9%	12.2%	-3.5%
France 🇫🇷	0.2	0.2	2.8%	2.5%	-0.2%	-2.4%
UK 🇬🇧	0.2	0.2	2.6%	2.4%	-2.4%	1.2%
Others	1.3	1.2	20.5%	18.4%	-5.0%	-2.3%
Total	6.2	6.7	100.0%	100.0%	10.7%	8.7%
Non-Chinese Travelers	4.2	4.1	67.4%	61.4%	-4.9%	-0.9%

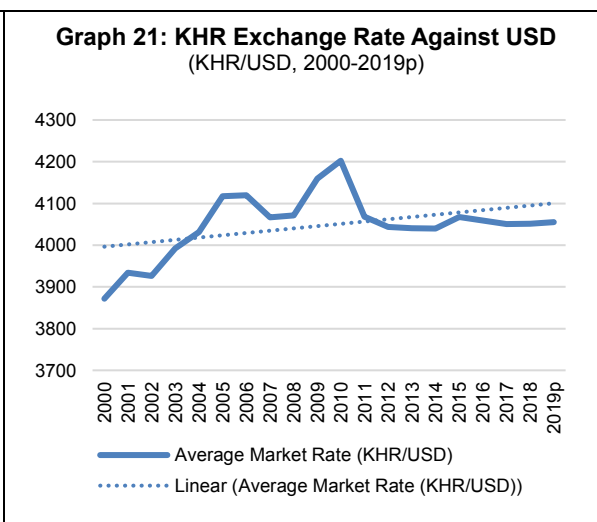
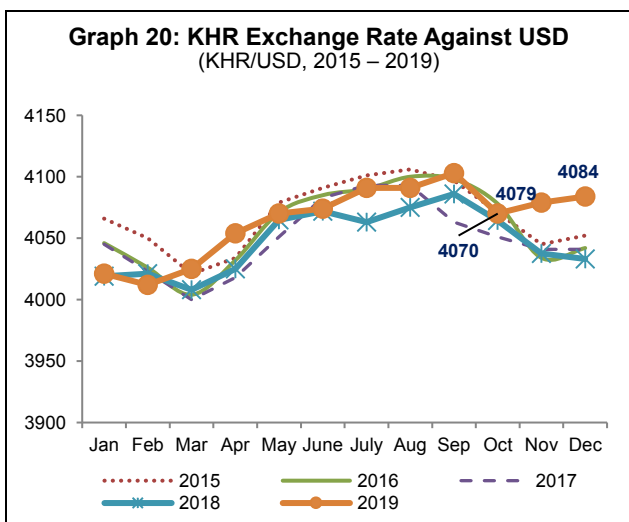
Source: Ministry of Tourism and NBC Staff's Calculation



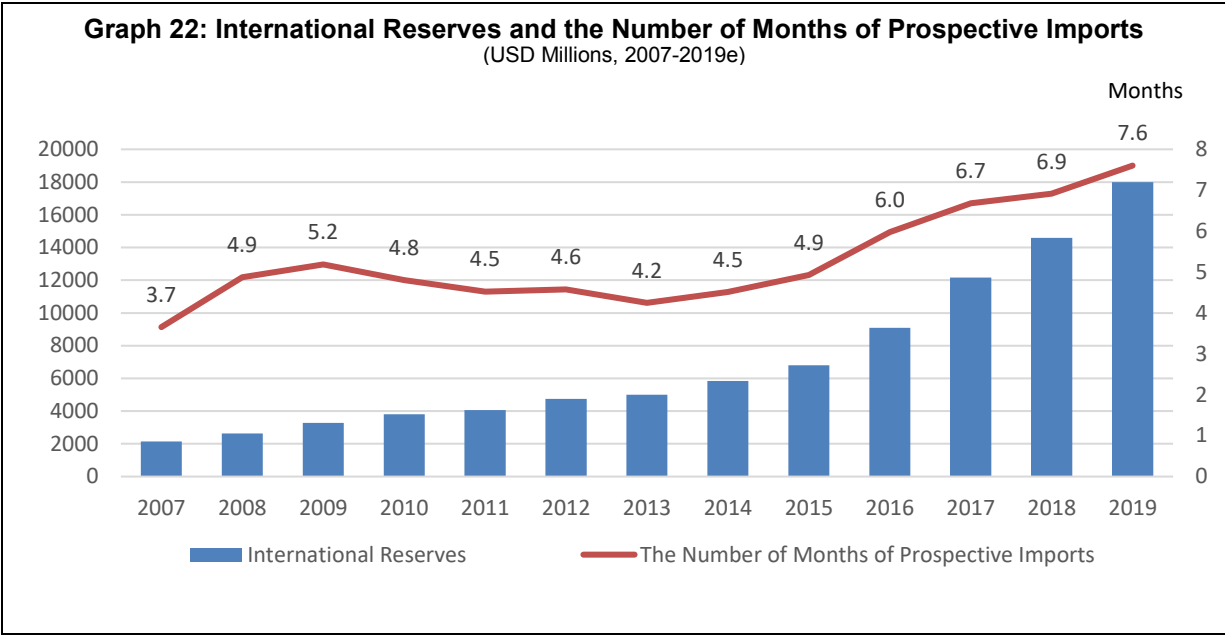
Source: Council for the Development of Cambodia and NBC Staff's Calculation



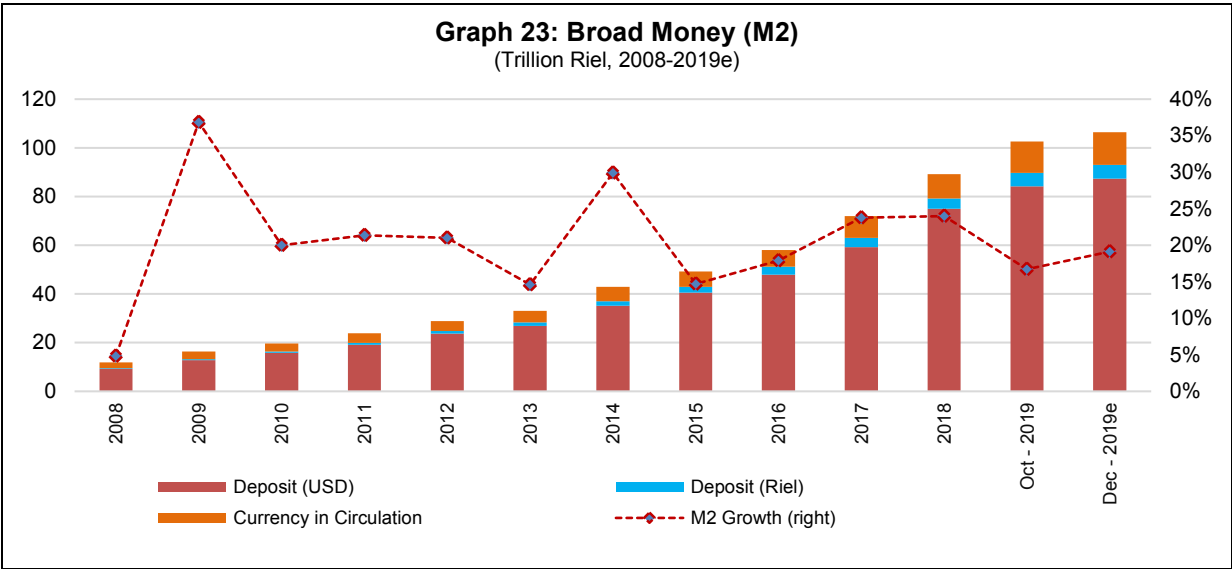
Source: NIS and NBC Staff's Calculation



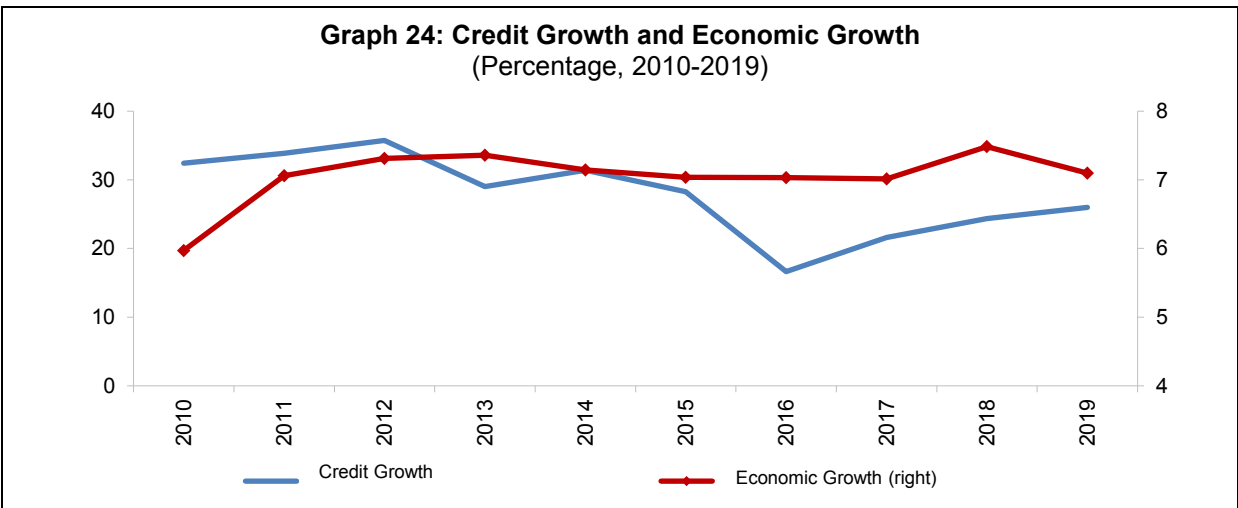
Source: NBC



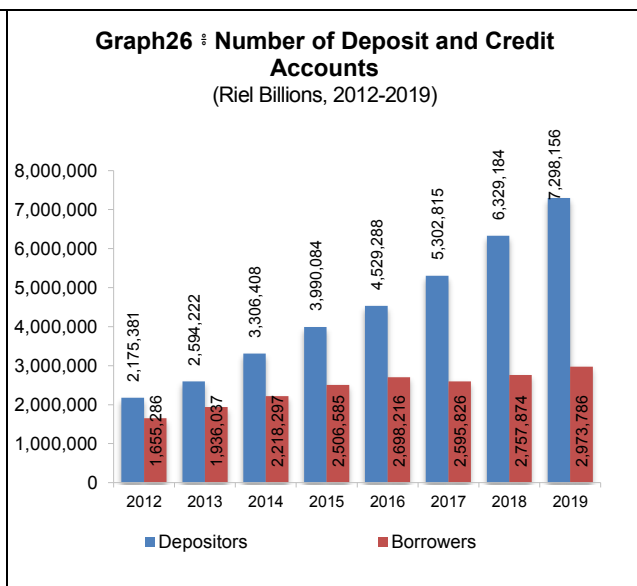
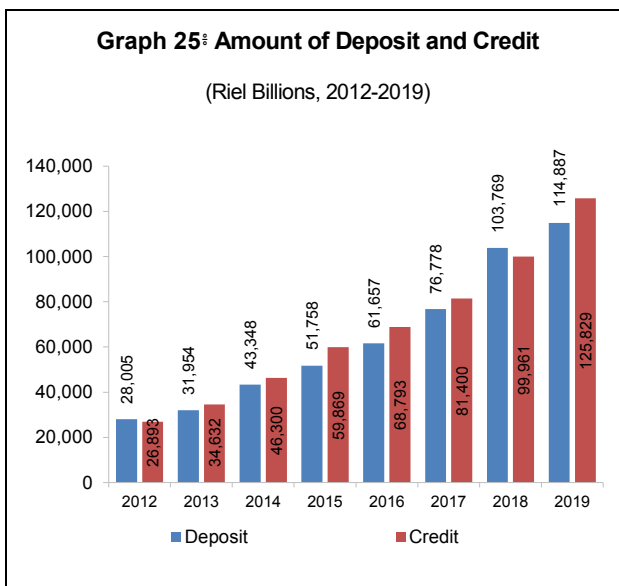
Source: NBC



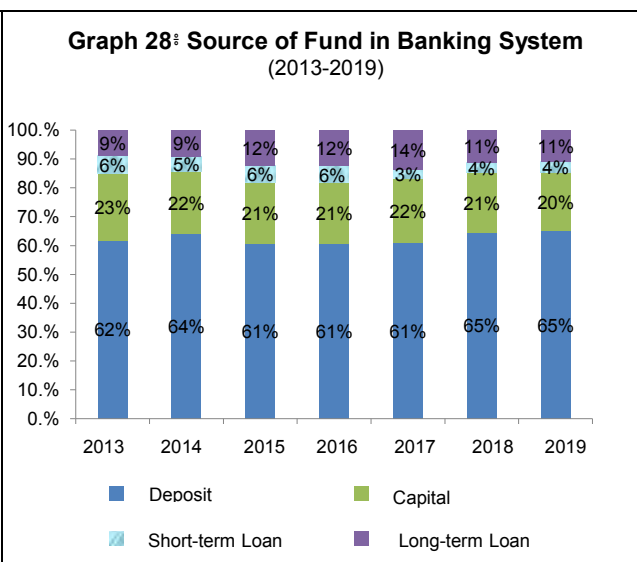
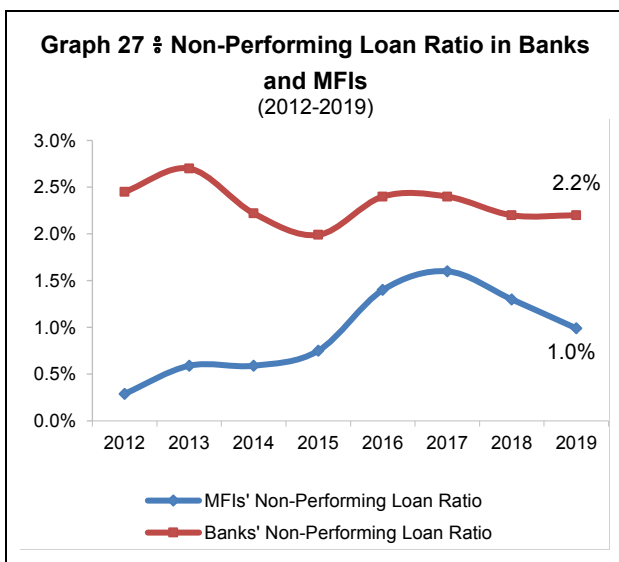
Source: NBC



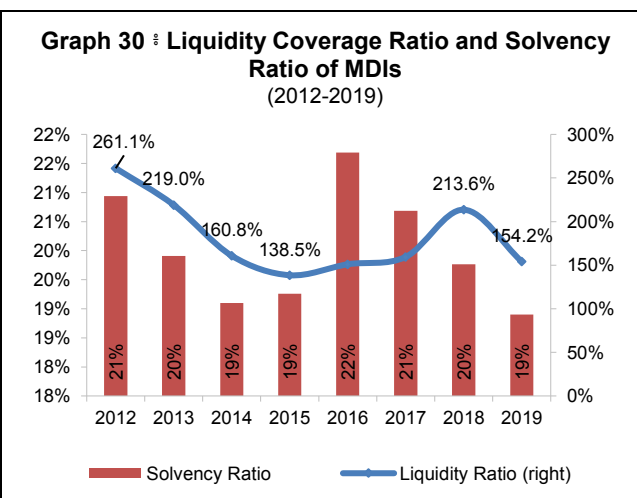
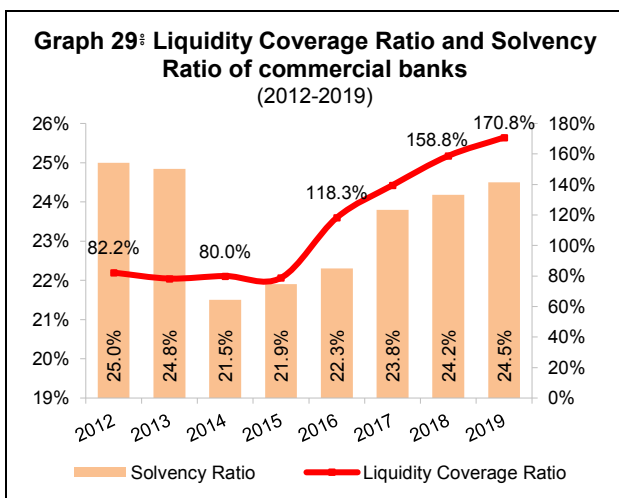
Source: NBC



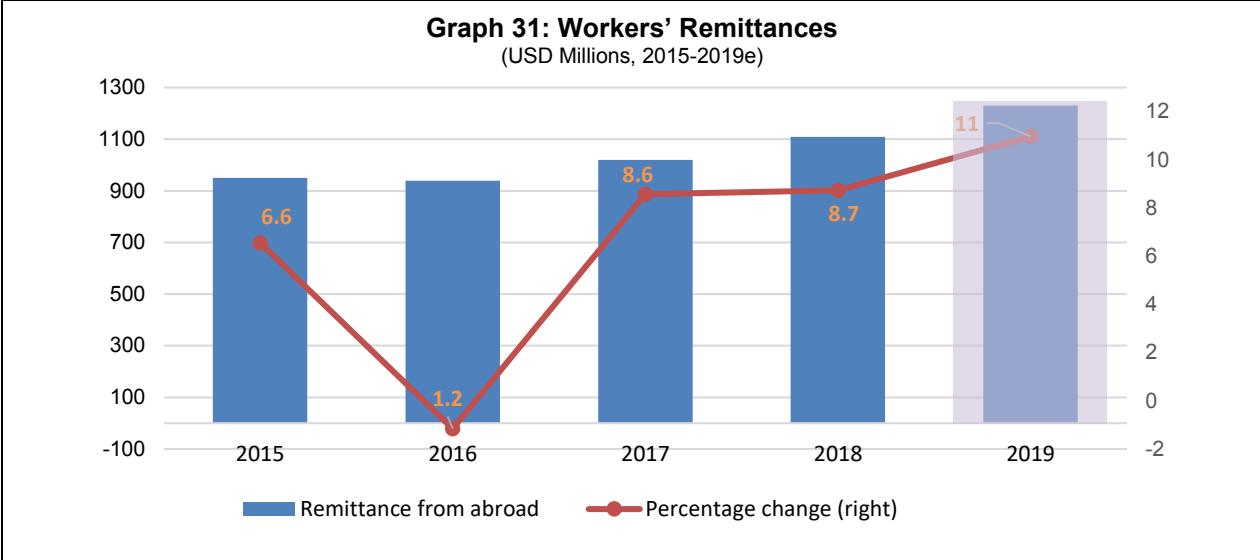
Source: NBC



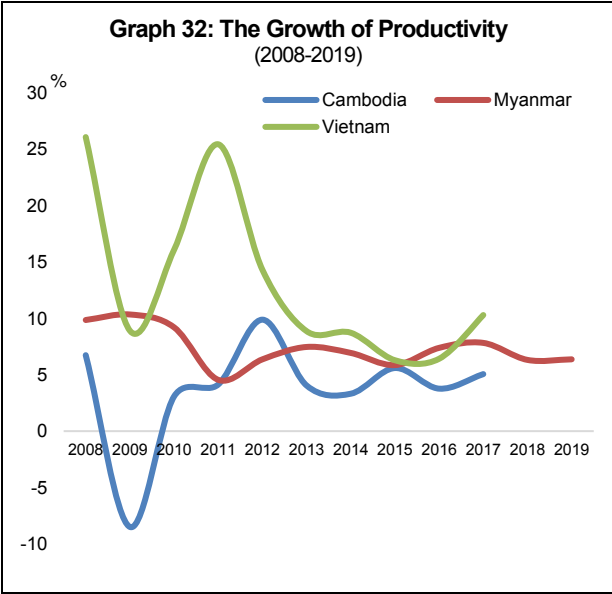
Source: NBC



Source: NBC



Source: Ministry of Labour and Vocational Training



Source: CEIC Data

