

# Cambodia Economics

## Bright Spots in 3Q, But Real Estate Slump Poses Risks to Growth

### Exports Rebounded in Aug and Sep; Current Account Surplus in 2Q For First Time Since 2020

External trade improved in September. Total goods exports in USD terms rose +17.2% from a year ago (vs. +15.2% in Aug), the fastest growth since July 2022. Imports (+4.1%) rebounded after five straight months in contraction. The merchandise trade balance posted a small deficit of US\$74.1mn in September after 3 months of surplus.

Electrical machinery, equipment & parts were the key growth driver of exports, surging +65.0% from same period last year. Total electrical machinery, equipment & parts grew +71.3% in 3Q23 (vs. +115.1% in 2Q).

Garment & footwear exports saw a significantly narrower contraction in Sep across both knitted apparel (-1.1% vs. -8.2% in Aug) and non-knitted apparel (-6.0% vs. -11.7% in Aug). Footwear shipments (-28.7%) remained in a double-digit decline. Leather, travel goods & handbags exports (+14.1%) rose for a second consecutive month.

Agriculture exports remained robust in September. Exports of cereals expanded by +63.3% in Sep (vs. +100.8% in Aug), mainly driven by the surge in rice exports. In the first 9 months, Cambodia exported more than 400k tons of milled rice, mainly to China. Rice exports will likely remain resilient given the slew of export deals signed with other ASEAN countries. Cambodia exported rice to Philippines for the first time in July and will export 250k tons per year to Indonesia from September. Vegetable & fruits exports remained solid at +111.7% and +25.6% respectively in September.

By country, exports to China rose by +31.2% in Sep, a three-month high. Cambodia mainly exported aquaculture products like milled rice, bananas, mangos, cassava, fishery products and apparel to China. Shipments to Vietnam soared +104.5% in Sep (vs. +77.5% in Aug). Exports to US grew 25.6% in Sep (vs. +28.8% in Aug), mainly led by garments, footwear and travel goods, electrical & electronic components and bicycles.

Goods imports (+4.1%) were buoyed by last year's low base. The primary driver was knitted fabrics, which rebounded +27.3% in September (vs. -8.9% in Aug). This offset the slump in mineral fuels & oils (-20.8% vs. -16.8% in Aug) and electrical machinery & equipment (-7.0% vs. -4.4% in Aug).

Current account balance (US\$0.4bn in 2Q23) registered its first surplus since 3Q2020. This was driven by a surplus in services trade (US\$0.4bn) and secondary income (US\$0.8bn), coupled with a narrower deficit in goods (-US\$0.5bn) and primary income (-US\$0.2bn). Current account is expected to remain surplus in 3Q, given that merchandise trade balance has turned positive.

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We expect exports to recover further in coming months on a low base and rundown of US retailer inventories. Growth in US retailer inventories cooled to +4.3% YoY in July, much lower than the average +22% growth over May to Oct 2022. In particular, clothing inventories have flatlined in recent months. Growth was just +1.3% in July, compared to a peak of +32% in June 2022. In addition, the government's new Sub-Decree No 122 (implemented from 1 July) may boost trade given lower import and export duties<sup>1</sup>.

## FDI Continued to Recover With China Inflows

Council for the Development of Cambodia (CDC) data revealed that 9M 2023 fixed asset investment approvals reached US\$3.76bn, an +8.6% increase from last year. Total number of approved projects increased by 27% to 191 (vs. 150 in 9M22)<sup>2</sup>. China remained the largest investor through the Belt and Road Initiative with over US\$2.8bn of investments, accounting for 76% of the total<sup>3</sup>. Other leading investors included Malaysia, Singapore, Vietnam and the British Virgin Islands.

We think FDI should remain robust over the coming year, given an improving investment environment. Authorities take a liberal approach towards FDI allowing 100% foreign ownership of many investment projects, unlike many other countries that require a local partner. Recently-signed FTAs and the new Law on Investment will also be positive for FDI. EuroCham's Business Confidence Survey reveals that 62% of businesses intend to invest more into Cambodia in the next 12 months.

## Recovery of Foreign Visitors Have Plateaued Since May as Safety Concerns Keep China Tourists Away

Visitor arrivals stood at 89% of pre-pandemic levels (464k) in August, among the fastest recoveries in the region. Nonetheless, visitor levels seem to have plateaued since May, which had already hit 93% of pre-pandemic levels (i.e. same month in 2019).

ASEAN tourists have been the primary visitor source this year. Thailand (159k) was the largest source of foreign tourists in August, while Vietnam visitors rose +83% from a year ago to become the second largest source.

In contrast, Chinese tourists have fallen to just 46k in Aug, compared to 54k when China resumed outbound tours to the Kingdom. This is equivalent to 23% of their pre-pandemic level, lagging far behind other ASEAN countries. Safety concerns related to online scam gangs and labor trafficking could be keeping the Chinese away<sup>4</sup>, amplified by Chinese blockbusters like "No More Bets".

Tourists from South Korea (13.6k) shrank 7.5% MoM in Aug, while US visitors dropped -35.3% MoM to only 8.9k, the lowest this year.

The government's forecast of 5mn arrivals this year remains achievable, based on the year-to-date figure of 3.5mn. Nonetheless, we do not expect a return of monthly arrivals to pre-pandemic levels until sometime in 2024, given the absence of Chinese tourists.

## Inflation Picked Up in 3Q Amid Higher Global Food & Oil Prices

Headline inflation jumped to 3.2% in August, accelerating from 1.9% in July & 0.1% in June, marking the highest level since October 2022. This was primarily driven by the higher costs of food & non-alcoholic beverage and transportation.

Food & non-alcoholic beverage costs picked up by 4.2% in Aug (vs. +3.1% in Jul & 2.0% in June).

<sup>1</sup> Sub-decree No 122 cuts custom duty rates for imported products like textile products, batteries, electrical equipment, vehicle parts & certain furniture to 15% from previous 35%. It cut import tariff rate for electronic discs & smart cards and solar lamp to 7% from 15%. It also reduced the export tariff rates for certain active chemicals for pharmaceuticals to 0% from 50%.

<sup>2</sup> Xinhua, "Cambodia attracts 3.76 bln USD investment in first 9 months, up 8.6 pct", 7 Oct 2023.

<sup>3</sup> Khmer Times, "China remains largest investor in Cambodia", 9 Oct 2023.

<sup>4</sup> Phnom Penh Post, "Are reports of scamming affecting Cambodia's tourism revival?", 6 Feb 2023.

Main contributors were rice (+1.7%), meat (+3.1%) and fish & seafood (+4.7%). Transportation costs rose +0.2% in Aug after five consecutive months in deflation, as higher global oil prices led to a pick up in fuel & lubricant costs (+0.3% in Aug vs. -8.5% in Jul).

We expect inflation to remain on an upward trend in coming months, on the back of higher food and energy costs. We forecast inflation rising to +3.0% in 2024 (vs. 2.5% in 2023), on the back of a stronger economy. In addition, minimum wage of workers in garment, footwear and travel goods sectors will be hiked by 2% to \$204 per month from Jan 2024.

The exchange rate has remained stable despite US dollar turbulence, with the official rate depreciating by about -0.2% against USD in the year to date. The National Bank of Cambodia (NBC) manages the riel on a tight managed float regime. NBC sold US\$50mn in foreign reserves to lean against US dollar strength. Foreign reserves rose to US\$18.4bn in June (vs. US\$17.8bn in Dec 2022) on the back of a current account surplus. Reserves are equivalent to 7 months of imports, higher than the 3-month adequacy threshold.

## Policy Unlikely to Deviate Under New PM Hun Manet, as Hun Sen Looms Large Behind the Scenes

Following the ruling Cambodian People's Party (CPP)'s near-absolute win at the July national elections, Hun Sen handed over the premiership to his eldest son, four-star general Hun Manet, after 38 years serving as Prime Minister. Hun Manet had been long groomed for the role, although succession plans were fast-tracked possibly due to concerns about Hun Sen's health.

A new cabinet was also unveiled, which included Hun Sen's youngest son and nephew, as well as many children of CPP elites. Hun Sen had been working over the past few months to guarantee positions of prestige and influence to the children of his ministers and other CPP elites, as part of a patronage system to facilitate Manet's succession.

Over the near term, policy is unlikely to deviate significantly from the previous government. Hun Sen likely retains substantial control behind the scenes, given that he has remained as CPP president, chairman of the Supreme Privy Council to the King, head of the Royal Advisory Council and the Senate President. Recent plans by the new government to raise a variety of taxes were dropped after public uproar and a call from Hun Sen.

## Cut 2023 GDP Growth to 5.4% But Upgrade 2024 GDP Forecast to +5.9%

We cut our 2023 GDP growth forecast to 5.4% (from 5.7%), primarily due to real estate weakness. The tourism recovery remains on track while exports have rebounded earlier than anticipated. However, the real estate sector has been grappling with a slow rebound in Chinese demand, an oversupply of projects and rising borrowing costs amid tighter global financial conditions. New landed property launches amounted to just 4 in 1Q 2023 (vs. 20 to 30 new launches typically), the slowest quarter in the past 5 years. According to CBRE, non-performing loans in the sector are approaching 4%, putting significant pressure on banks and developers<sup>5</sup>.

The real estate and construction sectors account for about 10% of GDP, while mortgages (14%), real estate activities (10%) and construction (9%) account for a combined 34% of total outstanding credit by deposit money banks as of June 2023. The real estate sector remains subject to downside risks given tightening global interest rates, and could weigh on overall economic growth and the financial system. So far, aggregate credit growth (to non-financial institutions) has slowed to +11% in June, the weakest since May 2017. Real estate credit has cooled from its peak growth of +42% in June 2022 but remains relatively firm at +16%.

We raise our 2024 GDP forecast to +5.9% (from +5.7%). Growth next year will likely be supported by a recovery in the key garment export segment, robust FDI and moderate tailwinds in tourism.

<sup>5</sup> Cambodia Investment Review, "CBRE Cambodia: Phnom Penh Real Estate Market Undergoes Profound Shift in 2023, Investors Urged to Seek Accurate Data-Driven Valuations", 24 Aug 2023. October 17, 2023

Nonetheless, downside risks to growth include a renewed surge in energy and food prices stoked by geopolitical conflict, poorer than expected growth of major trading partners like China, US and the EU. In addition, a protracted tightening of global financial conditions due to higher-for-longer US rates may exacerbate the real estate slump. Accompanying US dollar strength may also hurt export competitiveness, given that Cambodia is a dollarized economy.

The EU threatened further suspension of Cambodia's Everything But Arms privileges in March 2023, as Cambodia's elections were not seen as "free or fair" (see [Cambodia Economics - Tourism Recovers But Exports Dip; Forecast 5.7% GDP Growth](#), 11 Apr 2023). So far, there have been no new sanctions, as the EU takes a "wait and see" approach to see whether the new government can improve ties. An EU diplomatic source reportedly said that new sanctions were unlikely given likely opposition from several member states like France, which have improved ties with Phnom Penh since late 2022<sup>6</sup>.

We expect the NBC to maintain its one-year LPCO interest rate at 2.0% through 2024. The central bank will use exchange rate management as its main tool to anchor price stability.

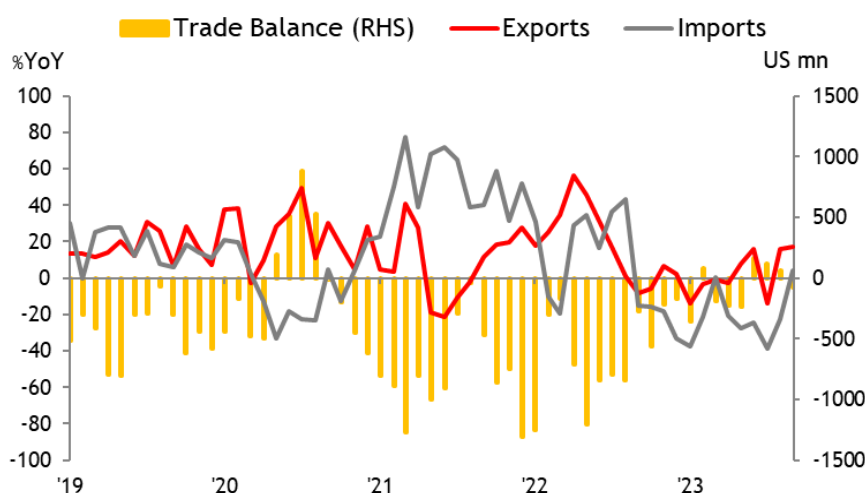
**Table 1: Cambodia - Key Macroeconomic Indicators**

	2019	2020	2021	2022	2023E	2024E
Real GDP (%)	7.1	(3.1)	3.0	5.2	5.4	5.9
Private Consumption (%)	6.1	(4.3)	(5.3)	16.7	5.0	6.0
Government Consumption (%)	6.8	13.0	22.7	(41.6)	6.0	5.8
Gross Fixed Capital Formation (%)	14.3	(2.7)	6.8	20.0	5.4	7.0
Exports of Goods & Services (in USD terms, %)	13.3	(11.3)	13.5	20.7	0.9	8.5
Imports of Goods & Services (in USD terms, %)	11.1	(8.9)	23.1	22.3	1.3	7.5
Current Account Balance (% of GDP)	(10.9)	(3.4)	(40.7)	(23.0)	(5.0)	(4.0)
Fiscal Balance (% of GDP)	2.3	(4.0)	(6.4)	(0.2)	(3.0)	(3.2)
Inflation Rate (%)	1.9	2.9	2.9	5.3	2.5	3.0
Unemployment Rate (%)	0.1	0.3	0.3	0.5	0.5	0.5
Exchange Rate (per USD, end-period)	4,070	4,046	4,074	4,070	4,100	4,080
*Benchmark Interest Rate (% p.a., end-period)	2.3	2.0	2.0	2.0	2.00	2.00

\* Refers to one-year interest rate applied under Liquidity-Providing Collateralized Operation (LPCO) mechanism.

Source: CEIC, Maybank IBG Research

**Fig 1: Exports Growth (+15.2%) Picked Up at Fastest Pace since Jul 2022, Imports (+4.1%) Rebounded After 5 Straight Months in Contraction**



Source: General Department of Customs and Excise, CEIC

<sup>6</sup> DW, "Will Cambodia's new government improve EU ties?", 22 Aug 2023.

**Table 2: Exports by Major Selected Products, %YoY**

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
<b>Exports</b>	<b>-0.7</b>	<b>-2.5</b>	<b>7.9</b>	<b>16.0</b>	<b>-13.8</b>	<b>15.7</b>	<b>17.2</b>
Apparel and clothing accessories (knitted or crocheted)	-19.1	-31.8	-17.8	-3.7	-28.0	-8.2	-1.1
Apparel and clothing accessories (not knitted or crocheted)	-8.8	-34.7	-12.0	7.4	-22.7	-11.7	-6.0
Furniture, bedding, mattresses	-26.2	-27.9	-40.0	-23.9	-16.4	100.6	36.9
Footwear	-14.9	-24.2	-7.4	-1.7	-45.7	-40.3	-28.7
Leather, travel goods & handbags	-9.3	-26.2	-27.9	11.3	-19.7	7.0	14.1
Electrical machinery, equipment & parts	107.5	74.6	102.4	176.0	63.7	86.4	65.0
Cereals	22.0	49.9	47.1	84.2	46.3	100.8	63.3
Vegetables	21.1	-33.4	-16.4	-34.5	17.2	130.9	117.1
Fruits & nuts	0.6	20.9	62.8	-20.2	-20.1	32.1	25.6

Note: Provisional data, product names are according to HS classification (names have been shortened for brevity)

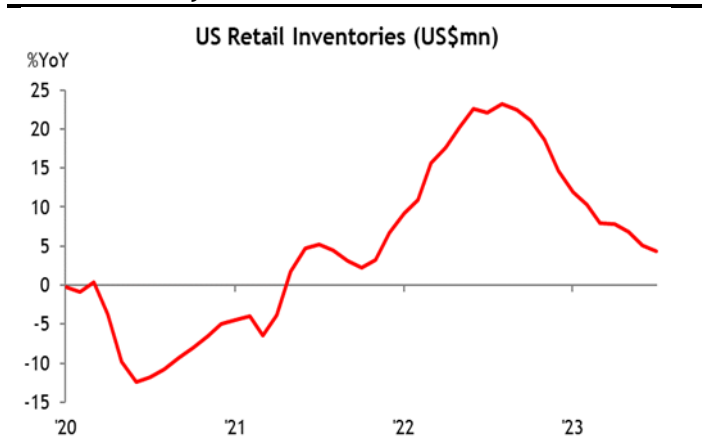
Source: General Department of Customs and Excise

**Table 3: Exports by Major Partners, %YoY**

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
<b>Exports</b>	<b>-0.7</b>	<b>-2.5</b>	<b>7.9</b>	<b>16.0</b>	<b>-13.8</b>	<b>15.7</b>	<b>17.2</b>
US	-5.5	-19.0	-7.2	13.0	-10.1	28.8	25.6
Vietnam	5.2	24.4	40.0	10.2	12.1	77.5	104.5
Thailand	-5.9	-6.6	52.1	-16.5	-25.1	30.5	15.2
China	16.4	8.8	55.3	35.7	13.2	21.0	31.2
Japan	-0.6	-24.5	-3.8	30.1	-12.7	-4.9	6.2
Germany	-2.3	-28.7	-20.5	-3.6	-42.4	-50.1	-31.1
France	4.2	-21.6	-16.8	1.8	-31.6	-25.5	-26.3
Italy	-9.5	-18.3	-16.8	5.1	-49.2	-14.1	9.0

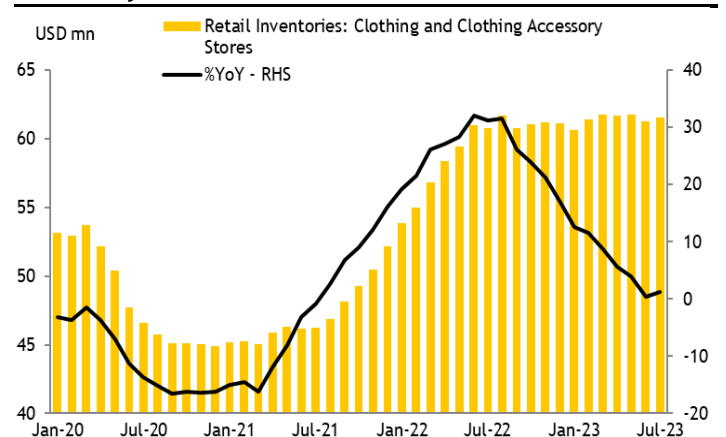
Note: Provisional data

Source: General Department of Customs and Excise

**Fig 2: Growth in US Retail Inventories Has Cooled Substantially, Rose 4.3% in July**

Note: Using monthly seasonally adjusted data

Source: Federal Reserve Bank of St. Louis

**Fig 3: Clothing Inventories Have Flatlined, Inched Up +1.3% YoY in July**

Note: Using monthly seasonally adjusted data

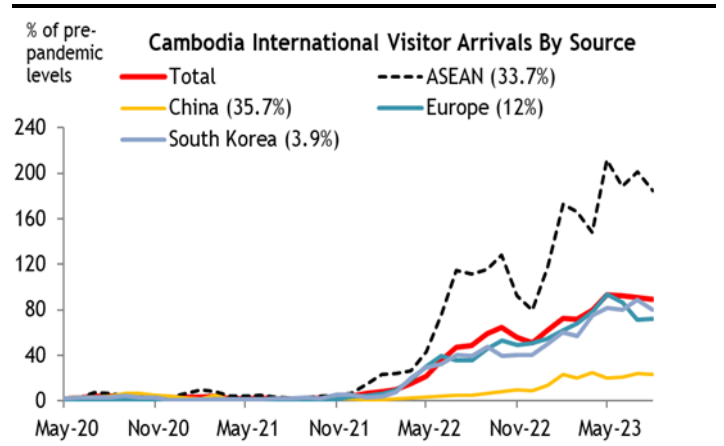
Source: Federal Reserve Bank of St. Louis

**Table 4: Cambodia Tourism Has Recovered More Rapidly than Other ASEAN-6 Countries**

	Person th	As of	% of pre-pandemic levels
<b>Cambodia</b>	<b>464.6</b>	<b>Aug</b>	<b>89.4%</b>
Thailand	2,468	Aug	71.2%
Malaysia	1,551	May	73.9%
Indonesia	1,133	Aug	74.0%
Vietnam	1,054	Sep	67.5%
Singapore	1,131	Sep	77.3%
Philippines	356.3	Sep	58.9%

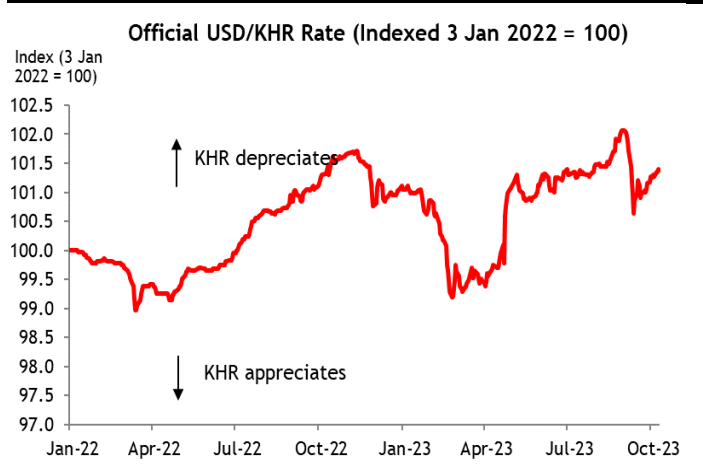
Source: CEIC

**Fig 4: Total Visitor Arrivals at 364k in Aug, Equivalent to 89% of Pre-Pandemic Level**



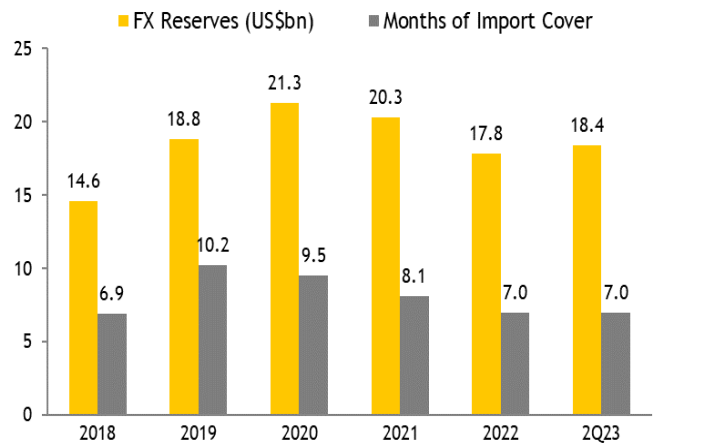
Source: CEIC

**Fig 5: KHR/USD (-0.2% YTD Depreciation) Broadly Stable**



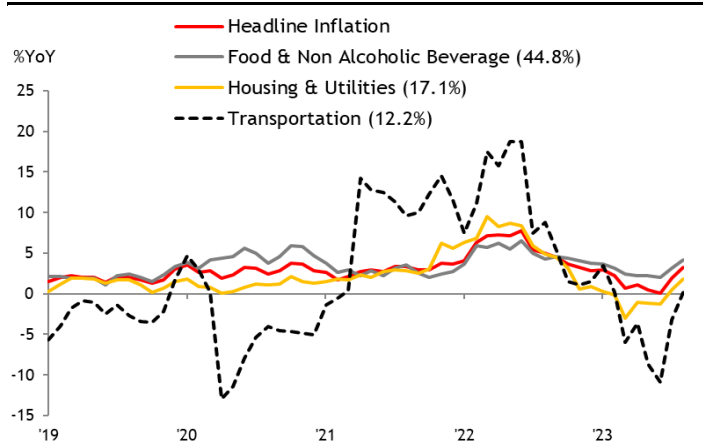
Source: National Bank of Cambodia

**Fig 6: Foreign Reserves at \$18.4bn as of 2Q 2023 (vs. \$17.8bn as of end-2022), Equal to 7 Months of Import Cover**



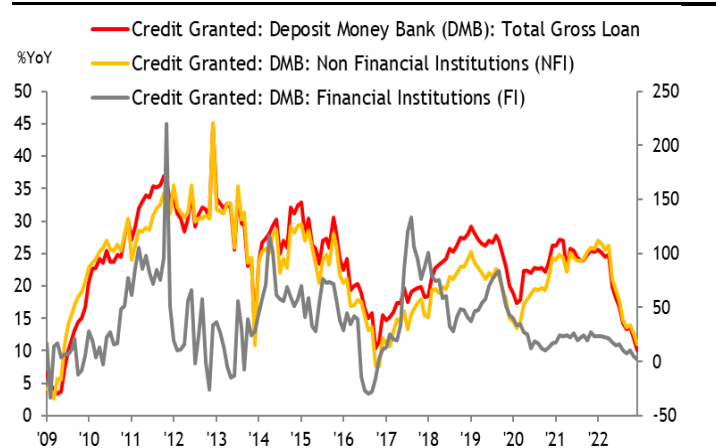
Source: National Bank of Cambodia

**Fig 7: Headline Inflation Rose to 3.2% in Aug on Higher Food & Non Alcoholic Beverage and Transportation Costs**



Source: Cambodia Institute of Statistics, CEIC

**Fig 8: Credit Growth Has Been Slowing to Multi-Year Lows**



Source: CEIC

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