Kingdom of Cambodia

Nation Religion King

CAMBODIA MACROECONOMIC MONITOR

MID-YEAR ASSESSMENT 2016

Ministry of Economy and Finance

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Executive Summary

Cambodia's economic outlook remains robust, with GDP forecast to grow by around 7.0 percent in 2016 and 2017. With the economy on a 7-percent growth trajectory, the country is on course to achieve the medium-term growth target set under the RGC's Rectangular Strategy Phase III (RS III) and the National Strategic Development Plan 2014-2018. Despite severe drought conditions that adversely affected agriculture, a faster growth in non-agricultural sectors enabled the country to avoid a major slowdown in 2015**.** Trends in the first half of this year indicate that both industrial and service sectors are slowing marginally, while improved weather conditions should help a mild recovery in agriculture. GDP growth for the full year 2016 is thus likely to come in at around 7 percent. A similar growth rate is expected in 2017.

The external environment facing Cambodia is somewhat mixed, with favorable export prospect co-existing with subdued outlook for tourism and foreign direct investment (FDI). With garment export growth remaining strong in the first six months of this year, export growth for the full year is likely to be slightly higher than last year. The outlook for both tourism and FDI is less buoyant. With the emergence of Myanmar as a competitor for Cambodia's tourism sector, prospect for tourist arrivals to the country remains subdued. Moreover, the slowdown in China and subpar economic growth in many other countries in East Asia are likely to keep a lid on FDI inflows to Cambodia.

A mild industrial slowdown is foreseen for this year - from 11.7 percent last year to 11.4 percent - with a faster growth in manufacturing more than offset by a slowdown in construction activities. On the one hand, buoyant garment exports should lead to a faster growth in the country's manufacturing sector. On the other, construction activity is likely to continue its much needed slowdown from the exceptionally high growth of 21.4 percent posted in 2014. On balance, therefore, industrial output growth should slow down somewhat this year.

On the back of slowing tourist arrivals - service sector growth is expected to grow at 6.7 percent this year, down from the last year's 7.1 percent. Part of the slowdown in tourist arrivals could be due to the heightened competition from Myanmar. That is also accentuated by the pressure on domestic tourism-related infrastructure and other support services. The underinvestment in the country's tourism-related infrastructure, including in the development of skilled personnel for the hotels and hospitality industry, is now putting pressure on tourism facilities in the country.

Annual inflation, after trending down to 1.2 percent in 2015, is likely to edge up to 2.8 percent in 2016 and 3.7 percent in 2017, on the back of an expected turnaround in international oil prices from its last year's unusually low levels. As a net oil importer, Cambodia enjoyed a very low inflation in 2015, thanks largely to the historically low international oil prices. Oil prices are already edging up, and this trend is likely to continue through 2016 and well up to 2017. The upward adjustment of international oil prices is expected to push up domestic inflation both this year and the next.

Cambodia's overall balance of payments remains stable, with continued compression of trade and current account deficits foreseen for 2016 and 2017. Despite the expected rise in the oil import bill, buoyant exports are likely to compress the country's trade and current account deficits. The latter, which had already fallen from 9.8 percent of GDP in 2014 to 9.6 percent in 2015, is likely to slide further to 9.1 percent and 8.5 percent in 2016 and 2017 respectively. Coupled with stable sources of funding – such as long term concessional loans and FDI inflows - reduction in the current account deficit should render the country's overall balance of payments more sustainable.

With strong revenue collections and reasonable expenditure containment, the country's fiscal consolidation is on track. The fiscal deficit remains modest, as revenues post strong growth and expenditure growth is contained. In 2015, as a proportion of GDP, government revenues and public expenditures constituted about 18.0 percent and 20.9 percent, respectively, yielding a modest deficit of about 3 percent. The 2016 Budget Law anticipates revenues and expenditures to be 17.9 percent and 22.8 percent of GDP, respectively, yielding a fiscal deficit of 4.9 percent. Going forward, continued growth in revenues and modest increases in public expenditures should contain the fiscal deficit to below RGC's targeted threshold of 5 percent of GDP.

Monetary and credit conditions, that have remained excessively buoyant in the last few years, are normalizing more recently. Due to the several policy measures taken by the National Bank of Cambodia (NBC), credit growth, that had slowed from 34 percent in 2014 to 30 percent in 2015, is slowing further this year. In the first half of this year, credit growth has hovered around 22 percent – much lower than the 36 percent figure for the corresponding period of last year. Both the components of credit – bank credit and microfinance institutions (MFI) credit – are slowing. While these are welcome trends, policy makers need to be vigilant in closely monitoring the country's real estate market as well as the nexus among real estate developers, banks, and MFIs.

The robust economic outlook for this year and the next could be derailed if China's economy slows down drastically or if international financial market volatility that has been lingering on after the 'Brexit' suddenly exacerbates. Cambodia's economy has strong economic links to China's economy through official development assistance, FDI flows and tourist arrivals. A sudden and sharp slowdown in China's economy could constrict resource flows to Cambodia through these channels. Similarly, although international financial markets seem to be calming down after the sudden volatility following UK's referendum results on 'Brexit' in June, it is possible that any more negative news from UK could reignite renewed financial markets volatility. Cambodia, being a highly open economy, would feel the negative repercussions of such eventuality.

Even as Cambodia's policy makers remain vigilant on the risks to the economic outlook, there is much merit in them expeditiously addressing the medium term policy priorities. Ensuring financial stability by continued restraint on credit growth, expanding the fiscal space for financing the country's development needs, improving economic competitiveness (among others, by effectively implementing the Industrial Development Policy: 2015 – 2025), and revitalizing agriculture are some of the priority areas that deserve special attention.

1. Introduction

Cambodia's annual GDP growth during 2014-2015 came in line with the RGC's medium-term target of 7 percent as stated in the Rectangular Strategy – Phase III and National Strategic Development Plan 2014-2018. The overall economic performance of the country in the first two years of the plan period has been laudable, despite the weather-driven slump in agriculture sector. In the last two years, the annual average agricultural growth experienced a dramatic slowdown – far below the RGC's 4 percent target. Faster growth in industry and services has, however, offset the decline in agricultural performance**,** thus enabling the economy to grow more or less in line with the medium-term target. This is a creditable achievement, especially amid the recent years' rising global economic uncertainty.

As one of the most open economies in Asia, Cambodia's economic growth is strongly tied to global and Asia's growth. This is evidenced by the 2008-09 global financial crisis when Cambodia's growth plummeted much more than its Asian peers. On the positive side of that equation, Cambodia's economy was also one of the first few in the region to recover quickly as the global economy began recovering although the continued unfavorable weather conditions have held back the country's agricultural growth and transformation in the last couple of years.

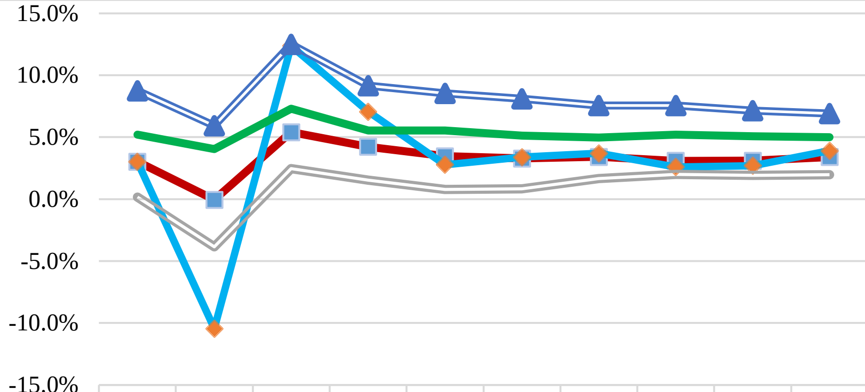
This inaugural issue of the Cambodia Macroeconomic Monitor (CMM) analyzes the country's recent macroeconomic performance, provides the economic outlook for 2016-17, points out the major risks to the outlook, and highlights the policy priorities that the government should address expeditiously. This Report provides an overview of the emerging external environment for Cambodia (Section 2), traces the trends in growth and inflation (Section 3), examines fiscal, trade and balance of payments and monetary (Sections 4, 5 and 6, respectively). Section 7 points out the major risks to the outlook and the policy options for the government. An annex gives some additional data and information.

2. External Economic Outlook

Global growth is likely to remain at around 3.1 percent this year, before picking up to about 3.4 percent next year. Unlike in 2015 when a slowdown in emerging market economies pulled down global growth, in 2016 a pickup in emerging market economies is likely to prevent a global slowdown (Table A2). By next year, global economy is projected to regain its 2014 growth pace, largely due to a further strengthening of growth in emerging market and developing economies. Growth in global trade is seen to follow the trends in global growth, with a significant pick up in 2017. In the meantime, international oil prices are likely to edge up both this year and the next, after hitting a nadir last year.

In addition to overall trends in global growth, economic conditions in specific countries and regions weigh heavily in shaping Cambodia's external environment. Cambodia's external exposures thus vary quite a bit across the rest of the world – while a major share of its manufacturing exports is shipped to the developed countries in Europe and North America, its tourism arrivals and FDI inflows largely originate from neighboring Asian countries. This Report, therefore, looks at trends in aggregate global growth and trade trends as indicators of the state of external environment for Cambodia. At the same time, the Report uses three additional external prospect indices for Cambodia - an export prospect index, a tourism prospect index and an FDI prospect index. These external prospect indices are constructed as weighted average GDP growth rates of the major partner countries relevant for the variable under consideration[1] (Figure 1).

Figure 1: Cambodia's Exposure to External Economic Environment



	2008	2009	2010	2011	2012	2013	2014	2015e	2016p	2017p
Global Economic Growth	3.0%	-0.1%	5.4%	4.2%	3.5%	3.3%	3.4%	3.1%	3.1%	3.4%
Global Trade Growth	3.0%	-10.5%	12.4%	7.1%	2.8%	3.4%	3.7%	2.6%	2.7%	3.9%
CAM's Export Prospects Index	0.2%	-3.9%	2.5%	1.5%	0.8%	0.8%	1.7%	2.0%	1.9%	2.0%
CAM's Tourism Prospects Index	5.2%	4.0%	7.3%	5.5%	5.5%	5.1%	5.0%	5.2%	5.1%	5.0%
CAM's FDI Prospects Index	8.8%	5.9%	12.5%	9.2%	8.5%	8.1%	7.6%	7.6%	7.1%	6.9%

Source: Prospect Indices: MEF Team's Calculation
WEO April 2016 for 2008-2013 growth; WEO July for 2016 2014-2017 growth

Cambodia should be able to maintain robust export growth in 2016 and 2017. The country's export exposure index is forecast to maintain an annual growth rate of 2 percent – more or less the same pace as in 2015. This year, growth in some of Cambodia's major garment importing countries such as the U.K, the US, Japan, is slowing whereas growth in the other major garment importers is strengthening, resulting in about 2 percent growth in Cambodia's export prospect index. A similar growth in Cambodia's export prospect index is foreseen for next year.

Prospect for tourism arrivals to Cambodia remains somewhat subdued both this year and the next. The country's tourism prospect index, after maintaining a growth momentum of 5.2 percent in 2015, is likely to trend down somewhat. Among the top five nations – Vietnam, China, Korea, Thailand and the US – that together accounted for 56 percent of annual tourists to Cambodia, Vietnam accounted for the largest share of total international tourist arrivals, followed by China, Korea, Thailand, and the US. The subdued external prospect for tourism is also compounded by domestic constraints, especially the limited expansion of tourism-related infrastructure and other support services in recent years.

FDI inflows to Cambodia is likely to slow down somewhat, yet remain robust this year and the next. The country's FDI prospect index, after maintaining a growth momentum of 7.6 percent during 2014-15, is expected to trend down marginally to 7.1 percent in 2016 and 6.9 percent in 2017. A lot would, of course, depend on what happens to FDI from China that accounts for about one-third of FDI inflows to Cambodia. There is a growing concern that China's economic adjustment may make China's investors to pull back from foreign investment. However, since the growth moderation in China is led by a moderation in domestic investment, it is also possible that there would be an increase in China's FDI to smaller neighbors like Cambodia, as Chinese

[1] As an example, Cambodia's export prospect index is computed as a weighted average growth rates of three major garment export destination economies – European Union/Euro Zone, U.S., and Japan (their GDP growth was extracted from IMF WEO, July 2016), the weights being Cambodia's 2015 garment exports share to these economies that account for more than three-fourth of Cambodia's garment exports. Instead of fixed base weights, chain-weighted indices are also computed. Both these indices however did not differ from each other, so in this Report only the 2015 fixed weights indices are presented.

investors look for more opportunities in faster growing neighboring countries.

3. Growth and Inflation

Despite the weather-induced slowdown in agriculture, Cambodia continues to post a robust annual growth of around 7 percent. In 2015, the slowdown in agriculture was more than offset by the higher growth in industry and services, thus enabling the country to continue to turn in a GDP growth of 7 percent. Current indications are that rainfall this year is likely to be below normal but slightly better than last year. This should help a mild recovery in agriculture. At the same time, although the garment sector should continue to grow strongly, the construction sector is likely to continue its much needed adjustment to a lower and more sustainable growth trajectory – leading to a mild slowdown in the industry sector as a whole. With the prospect for tourism arrivals remaining subdued, the services sector is also expected to slow down slightly. GDP growth this year is thus likely to come in at around 7 percent in 2016. With minor differences in sectorial growth rates, GDP growth next year is also likely to be in the ballpark of 7 percent.

Table 1: GDP and Sectoral Growth (in percent)

Sector	2011	2012	2013	2014	2015	2016e	2017p
GDP	**7.1**	**7.3**	**7.4**	**7.1**	**7.0**	**7.0**	**7.0**
Agriculture	3.1	4.3	1.6	0.3	0.2	0.5	0.8
Crops	*4.3*	*4.9*	*0.6*	*0.5*	*0.3*	*1.0*	*1.7*
Industry	14.5	9.3	10.7	10.1	11.7	11.4	10.5
Garment	*19.9*	*6.5*	*10.7*	*6.6*	*9.8*	*10.3*	*9.7*
Construction	*7.9*	*18.2*	*13.7*	*21.4*	*19.2*	*15.9*	*13.4*
Service	5.0	8.1	8.7	8.7	7.1	6.7	6.8
Hotel and Restaurant	*6.6*	*12.5*	*13.8*	*6.1*	*2.4*	*2.2*	*3.0*

Source: National Institute of Statistics, Ministry of Planning, 2016
Note: MEF team's projection for 2016 and 2017

3.1. Agriculture

Although the subpar growth in agriculture that began in 2013 due largely to unfavorable weather conditions continues, a mild pick up is foreseen for this year and the next. Sharp drop in fishery production, slower growth of subsidiary and industrial crop production as well as drop in agricultural commodity prices have dragged down growth last year (Table 2). A combination of a more favorable weather conditions, better crop production, and expected gradual increase in agricultural commodity prices is expected to ease the constraints on agriculture, thus enabling a mild pickup in the sector.

Within the agriculture sector, crop production and livestock output are expected to post higher growth this year, while fisheries and forestry output are likely to continue their recent years' slowdown. Due largely to the worsening weather conditions in 2015 agriculture output nearly stagnated. Despite a strong performance of rubber and improved paddy production in 2015, crop production grew by 0.3 percent, worse than even the 2014 figure of 0.5 percent. Even worse, growth of fishery sector plummeted from 2.3 percent in 2014 to lower than a percent in 2015. Delayed rains, on top of an already below-normal river water level caused a sharp contraction in inland fishery production. Crop production – both food and commercial - that accounts for nearly two-thirds of the agricultural sector is expected to recover somewhat this year and the next. More investment in small-scale irrigation and better operations and maintenance is improving the prospect for rice production. A pickup in livestock and poultry production is expected, while fisheries production is likely to continue its downward slide, driven by a further decline in inland fisheries.

Table 2: Growth in Agriculture and its Subsectors

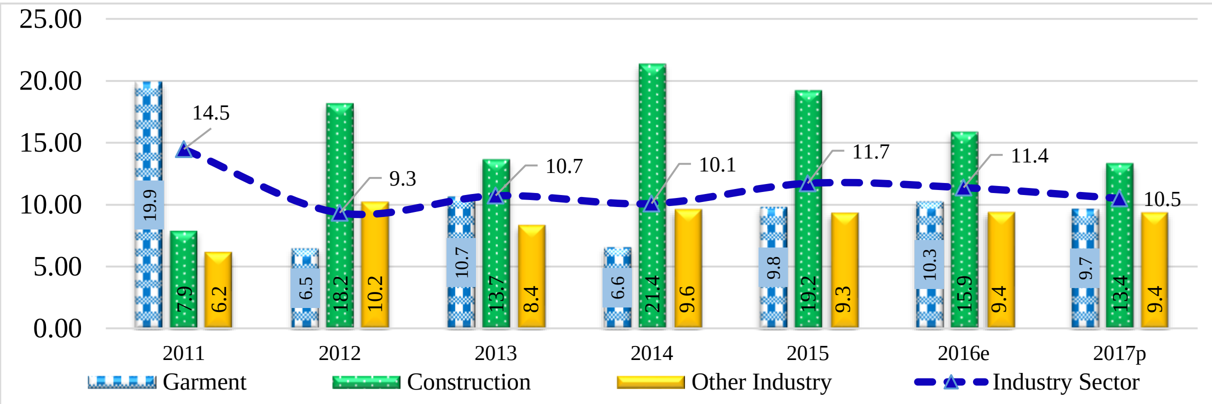
Sector	2011	2012	2013	2014	2015	2016e	2017p
Agriculture	**3.1**	**4.3**	**1.6**	**0.3**	**0.2**	**0.5**	**0.8**
Crops	*4.3*	*4.9*	*0.6*	*0.5*	*0.3*	*1.0*	*1.7*
Livestock & Poultry	*0.2*	*0.8*	*0.1*	*0.2*	*0.0*	*0.8*	*0.3*
Fisheries	*3.1*	*6.7*	*5.4*	*0.1*	*0.3*	*-0.1*	*-0.5*
Forestry & Logging	*-0.1*	*-2.5*	*-2.9*	*-1.2*	*-0.8*	*-1.6*	*-1.6*

Source: National Institute of Statistics, Ministry of Planning, 2016
Note: MEF team's projection for 2016 and 2017

3.2. Industry

Recent years' strong performance of the industrial sector is likely to continue, although at a slightly slower pace as the construction sector soft-lands to a lower and more sustainable growth trajectory. With a growth of nearly 10 percent, garment sector continued its impressive performance last year (Figure 2). With a continuation of robust prospect for garment exports, annual growth in garment production is likely to be around 10 percent both this year and the next. Although garment exports in the first half of this year grew by roughly the same rate as in the corresponding months of last year, it is expected to improve in the second half as growth in the major export destinations firms up. Food and beverages should also continue its recent years' strong performance, with the continuation of robust economic activity. Construction sector that grew by 21.4 percent in 2014 slowed down slightly last year and is likely to continue its much-needed transition to a lower and more sustainable growth path.

Figure 2: Growth of Industry Sector and Its Sub Sectors (in percent)



Source: National Institute of Statistics, Ministry of Planning, 2016
Note: MEF team's estimation and projection for 2016 and 2017

Within the garment sector – the lynchpin of the country's industrial sector – tentative signs of a gradual process of moving away from low value-added to higher value-added segments are increasingly visible. This structural change is reflected in the contrasting trends between the value and volume of garment exports. For example, growth in the value garment exports strengthened from 10.7 percent in 2014 to 14.5 percent in 2015, even as the growth in the volume of garment exports decelerated between these years from 15.5 percent to 13.1 percent. Similarly, in the first half of 2016, growth in the volume of garment exports declined substantially from the corresponding period of last year (from 15.2 percent to 9.3 percent), while growth in the value hardly budged (Table A5). Consultations with Cambodia's Garment Manufacturer's Association also confirmed that companies are indeed moving up the value-chain, so as to avoid getting stuck in the lower end of the global value chain.

Food, beverage, and the tobacco sector, a newly emerging sector in the economy, has grown substantially on the back of continued robust economic performance and strong domestic consumption. This sector has significant linkage with the rest of the economy and also thrives on strong demand from domestic consumers and the approximately 5 million international tourists arriving in Cambodia annually. Noticeable increase in domestic demand can be reflected in the increase in the number of registered enterprises manufacturing food, beverage and tobacco by 40 percent between 2012 and 2015, and tax revenues soared by 59 percent from 642 billion Riel to 1,023 billion Riel, respectively. It has been explained by a surge in number of SMEs manufacturing food, beverage and tobacco from 29,987 in 2009 to 33,344 till June 2016. Simultaneously, the number of food, beverage and tobacco factories gradually increased from 98 to 124 factories between 2014 and June 2016. In addition, increasing domestic manufacturing activities and greater import substitution have been also affirmed by the slowdown in the growth of food, beverage and cigarette imports to Cambodia - from nearly 27 percent in the first half of last year to 21 percent in the corresponding period of this year.

The construction sector is transiting from its abnormally high growth in 2014 to a lower and more sustainable growth path, and this transition is likely to continue in both this year and the next. After growing at 21.4 percent in 2014, growth in the sector moderated to 19.2 percent last year. The softening of the property market is likely to lead to further downward adjustment in the construction sector – to about 15.9 percent this year and 13.4 percent next year. This continued slowdown in the construction sector is also reflected in the decline in the import volume of construction materials and also credit to construction sector. In the first half of 2016, the volume of construction equipment imports increase by 22.0 percent – sharply lower than the 38.7 percent figure in the corresponding months of last year. Similarly, in the first half of this year, credit to construction sector rose by 15.7 percent – much lower than the 41.9 percent figure for the same period last year. The slower growth of construction activity is closely tied to the property market in the country, and as such is a welcome sign indicating that the property market is cooling (Box).

3.3. Services

Annual growth in the services, after peaking at 8.7 percent in 2014, has been on a downward path, and this trend is likely to continue in 2016. In 2015, growth in the service sector fell from 8.7 percent in 2014 to 7.1 percent in 2015. The slowdown was almost across all the subsectors, except transport and communications (Table 3). The across-the-board deceleration in the service sector largely reflects a continued slowdown in tourism and softer performance of real estate, finance and public administration subsectors. Service sector growth is expected to further slowdown to 6.7 percent this year and stabilize at that rate for next year.

Within the service sector, hotels and restaurants saw a drastic slowdown last year and is expected to stabilize at that subdued level this year and the next. This subsector has strong links to the country's tourism sector, as Cambodia has a very high tourists-to-population (number of tourists in a year to the total population of the country) ratio. In 2015, tourist arrivals increased by 6.1 percent compared to the 7.0 percent in the previous year (Table A10). In absolute terms, about 4.8 million tourists arrived in Cambodia last year. Growth in tourists arrived by flights – who tend to stay longer and spend more – slowed from 12.7 percent in 2014 to 8.9 percent in 2015.

Table 3: Growth in Services and its Subsectors (in percent)

Sector	2011	2012	2013	2014	2015	2016e	2017p
Service	**5.0**	**8.1**	**8.7**	**8.7**	**7.1**	**6.7**	**6.8**
Hotel and Restaurant	*6.6*	*12.5*	*13.8*	*6.1*	*2.4*	*2.2*	*3.0*
Other Service	*4.8*	*7.5*	*7.9*	*9.2*	*7.8*	*7.4*	*7.4*

Source: National Institute of Statistics, Ministry of Planning, 2016
Note: MEF team's projection for 2016 and 2017

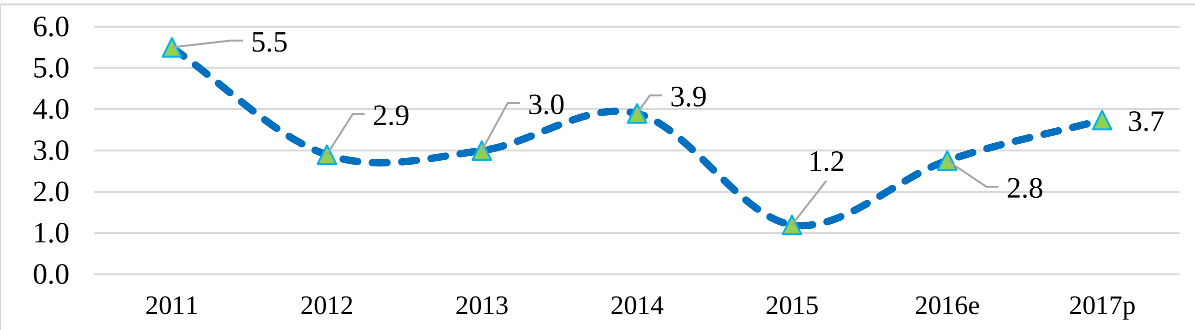
The tourism sector is likely to continue its subdued growth, as indicated by Cambodia's tourism prospect index as well as the rising share of short-staying and low-spending tourists. Current assessment is that growth of tourist arrivals in 2016 is likely to be slower than that of 2015. Growth of number of international tourist arrivals further slowed down to 2.6 percent in the first half of 2016, compared to 4.6 percent in the same period of 2015. In addition, tourist earnings could possibly be lower given the expected decrease in high spending tourists from Europe and Russia. However, China's structural shift from manufacturing to service is likely to boost demand for inbound and outbound tourism, which in return could have positive spillover for Cambodia. To take advantage of this opportunity, Cambodia's Ministry of Tourism has recently launched the "China Ready" policy that targets to attract about 2 million tourists from China by 2020. In addition, multiple-entry business and tourist visas lasting as long as three years are going to be launched soon in an effort to promote tourism growth.

'Other service' subsectors, including trade, transport and communications, real estate, finance, and public administration, are also showing signs of a continued but mild slowdown. These subsectors put together posted a slower growth of 7.8 percent in 2015 and are likely post more subdued growth of around 7.4 percent this year and the next. Part of this slowdown reflects the much-needed soft-landing of the country's real estate sector that would enable the country to avoid the build-up of an asset bubble.

3.4. Inflation

With the turnaround in international oil prices from their last year's unusually low levels, inflation is seen to edge up both this year and the next. The sharp decline in international oil prices led to a sharp reduction in annual inflation from 3.9 percent in 2014 to 1.2 percent last year. As international oil prices are rising from their abnormally low levels in 2015, so will Cambodia's inflation rate. Current assessment is that inflation is likely to rise to about 2.8 percent this year and head back to its 2014 level by next year (Figure 3).

Figure 3: Inflation Rate (percentage increase, year average)



Source: National Institute of Statistics, Ministry of Planning, 2016
Note: MEF team's projection for 2016 and 2017

Box: Real Estate Market – Cooling Down?

In recent years, the configuration of a sharp rise in Cambodia's urban property prices and the rapid growth in credit to the private sector has been raising concerns that the country may be running the risk of building up a real estate bubble that could ultimately bust. After bottoming out in 2011, urban land prices doubled by the end of 2015. Similarly, the average condominium price in Phnom Penh increased by 70 percent between 2011 and 2015, even as the supply of condominiums tripled in the same period. In the commercial segment of the property market too, the supply of office space rose by 70 percent between 2011 and 2015, while occupancy rate is trending down. On balance, there was a growing concern that Cambodia's urban property market, after being in the 'expansionary' phase since 2011, was transiting to the 'oversupply' phase.

At the same time, financial institutions' credit to private sector, including to real estate business, had marched hand-in-hand with the buoyant property market. Other measures like the ratio of house prices to per capita income and ratio of rents to per capita income also indicated the buildup of a real estate bubble. From the financial sector perspective too, in addition to rapid growth in credit, prudential indicators such as loan-to-deposit ratio of financial institutions indicated growing risk. There was a growing concern that 'something was not right' in the configuration of real estate boom and the buoyancy in credit.

Many of these concerns are still lingering, although more recent developments and consultations with real estate developers suggest that the real estate market may be making a gradual adjustment - a kind of 'soft-landing'. The risks of the market suddenly busting appears to be diminishing. Concomitantly, growth in both bank credit and MFI credit to private sector is slowly but steadily decelerating. Since the beginning of this year, demand for real estate has also been cooling down somewhat. According to a recent survey[2], in the first half of 2016, sales of condominiums dropped by 30-50 percent while that of 'boreys' declined by 20-30 percent. On the supply side of the market, real estate developers are also adjusting to the excess supply situation by either postponing some of the planned real estate construction projects or by outright cancelling some of those projects. Interviews with real estate developers suggest that from now on and until 2018, they would rather focus on completing the ongoing projects, especially those targeted at low-to-middle-income buyers, rather than begin new projects. Financial institutions' credit to private sector is also softening slowly in more recent months (details in Section 6).

Moreover, real estate developers also highlight that unlike the 2008 busting of the real estate bubble – when many inexperienced speculators bought houses and land - buyers now seem to buy for their own living and not for speculative purposes. They also pointed out that the buyers today are more informed and experienced - drawn mostly from the professional community such as managers and supervisors from various industries earning relatively high and stable income. These buyers are also younger than those in the 2008 phase of the real estate cycle – mostly in the 30-year group from the 1980s baby-boom generation who have recently married and are settling down. The demand from this new generation buyers is more stable and hence could act as a shock absorber in case speculative buyers suddenly withdraw.

Recent developments and the perceptions of the real estate developers thus seem to suggest that the probability of an abrupt collapse of the real estate market is receding. That said,

[2] This real estate survey was conducted by the Macroeconomic and Fiscal Policy Department of the Ministry of Economy and Finance in July 2016. Top 7 real estate developers were selected for interview.

historical experience around the world suggests that the typical 'this time is different' kind of perceptions and explanations of the configuration of real estate booms and buoyant credit conditions often turn out to be misleading. Drawing upon historical experience, it is critical that policymakers continue to remain vigilant on the country's real estate sector and credit conditions.

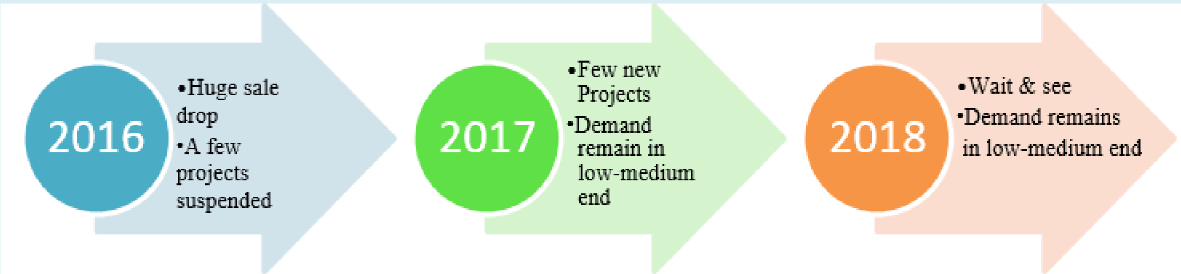
Indeed, developments in the real estate sector still needs be continuously monitored. That then underscores the need for gathering more accurate data/information. It is crucial to collect more accurate data/information on a regular basis about property market trends and the sector's interconnectedness with the financial sector and credit growth. That should help in continued strengthening of the regulation and supervision of the nexus between the real estate sector and the financial system. Given the growing systemic relevance of large MFIs and to prevent them from regulatory arbitrage, prudential regulations on them should be upgraded/tightened to at least match those applicable to banks. Real estate developers, often providing supplier's credit and increasingly funded by foreign flows, should be brought under the regulatory and supervisory framework. Overall, the objective of future measures should be to develop an integrated monitoring, regulatory, and supervisory framework that would minimize 'systemic risks' arising from the interconnectedness among real estate developers, banks, and MFIs as well as their funding sources.

Table B1: Survey Results of Top 7 Real Estate Developers (July-2016)

	2016 1st Half Performance	Remarks
Sales of Condominium	Drop by 30% - 50%	**Lower foreign demand, while domestic demand remains small**
Sales of Borey	Drop by 20% - 30%	**Drop in high-end Borey, but most developers expect solid demand from low-medium income group**
Price	Stable /slightly increase	**Demand cannot catch up with hyper-supply**
Investor confidence	Low	**Due to 2017 and 2018 elections, investors will hold their investment, some focus on completion of their on- going projects but will not expand their investment**
Payment stability	**Stable**	**No sign of late payment, only very few**

Source: Ministry of Economy and Finance, 2016

Figure B1: Supply and Demand Prospect of the Real Estate Market

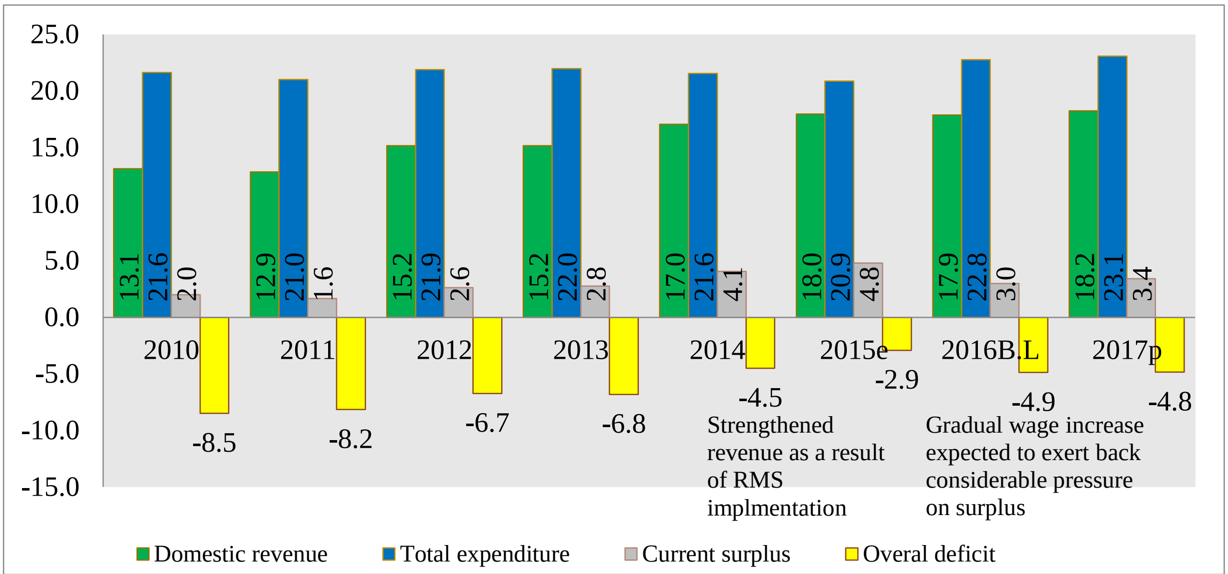


4. Fiscal Development

4.1. Fiscal Revenues

Helped by the implementation of RGC's Revenue Mobilization Strategy 2014-2018 (RMS), government revenues remain buoyant – increasing from 15.2 percent of GDP in 2013 to 18.0 percent last year. Strengthening revenue administration, raising taxpayers' awareness, and providing more incentives to tax collection officials are some of the key measures that have been implemented in recent years. Due largely to these policy measures, domestic revenues as a ratio of GDP rose from around 15.2 percent in 2013 to 17.0 percent in 2014 and 18.0 percent last year (Figure 4). Current assessment indicates that last year's revenue-GDP ratio would be more or less maintained this year and the next. The recent years' increase in the revenue-GDP ratio is an encouraging sign that the country is making progress in correcting one of its long-standing structural fiscal imbalance.

Figure 4: Cambodia Budget Overview (Percent of GDP)



Source: Ministry of Economy and Finance, 2016

In 2015, revenue collections by the General Department of Taxation (GDT) posted an impressive growth of 22.1 percent. Tax collection by the GDT – mostly through profit tax, domestic excise, and domestic VAT - had risen by a sturdy 18.4 percent in 2014. The impressive tax collections by the GDT, with the result of revenue collections went up by an additional 22.1 percent last year. Much better tax-auditing and collections of arrears from previous years' tax liabilities enabled the GDT to turn in close to an annual average growth of 21.9 percent in revenue collections for the last four years since 2012 (Table 4).

Table 4: Revenue and Expenditure (Annual Percentage Change)

Growth in Percent	2011	2012	2013	2014	2015e	2016BL/ 2015BL	2016BL/ 2015e	2017p
Domestic revenue	**8.3**	**28.4**	**8.2**	**24.2**	**14.2**	**21.6**	***8.9***	***13.0***
Total current revenue	***11.0***	***23.1***	***10.7***	***23.1***	***15.0***	***21.8***	***8.9***	***13.0***
GDCE	13.9	16.9	8.0	37.1	12.4	22.0	9.1	9.9
GDT	13.0	26.9	20.4	18.4	22.1	26.1	9.2	20.1
Others	1.5	31.0	-0.9	0.1	5.6	8.3	7.1	2.7

Total expenditure	**7.5**	**13.4**	**8.6**	**8.3**	**5.0**	**16.5**	***19.3***	***12.4***
Current expenditure	***14.6***	***15.8***	***9.9%***	***14.3***	***10.8***	***20.7***	***19.3***	10.4
Wage	7.1	16.2	17.6	26.1	21.2	24.2	23.9	16.2
Non-wage	19.9	15.5	5.1	5.9	1.4	17.2	24.6	4.5
Capital expenditure	***0.2***	***10.5***	***7.0***	***0.8***	***-4.4***	***9.6***	***12.9***	***16.1***
Current surplus	***-8.8***	***73.8***	***14.0***	***62.3***	***28.0***	***28.4***	***-31.9***	***26.2***
Overall deficit	***6.4***	***-10.3***	***9.6***	***-27.0***	***-29.9***	***1.0***	***85.7***	***9.9***

Source: Ministry of Economy and Finance, 2016

On the back of an exceptional revenue collections in 2014, last year's tax increase by the General Department of Customs and Excise (GDCE) has been somewhat modest. In 2014, GDCE tax collections had grown by a whopping 37 percent. A concerted effort at combating smuggling through RGC's '60-day operational measure' has been a key factor in better customs and excise revenues by GDCE since 2013. In addition, an increase in the customs duties on certain imported items such as the adjustment of custom valuation, especially on luxury cars, has contributed to better tax collections. Growth moderated last year to about 12.4 percent.

Collection of other revenues including non-tax revenues, after peaking at 3.0 percent of GDP in 2012, has generally slowed to about 2.4 percent (Table A11). There is substantial scope for improvement in non-tax revenue collections, especially from service fees on telecommunications, civil aviation, visa and passport fees. Effective implementation of the RMS recommendations should help in tapping the full revenue potential from non-tax sources.

Trends in the first six months of the year show that the revenue targets of the 2016 Budget Law are likely to be achieved. In the first six months of the year, actual current revenue collections were 53.4 percent of the amount planned for the full year or a 22.0 percent increase compared to the corresponding months of 2015**.** The first six months' collections by the GDT accounted for about 58.1 percent of the budgeted figure for the full year, while collections by the GDCE formed about 53.4 percent of the full year target, or 27.3 percent growth over the same months of last year. Revenue from income and profit tax has grown by around 25.0 percent in the first half of this year, while revenue from VAT and Excise grew by 19.7 percent and 19.8 percent, respectively.

Looking ahead, transportation, telecommunication and banking still remain to be tapped better for revenue collection by GDT. The recent reform efforts by the GDT including strengthening of tax administration, better coordination between the GDT and the GDCE, and improved computerization of tax payments have the potential to sustain robust revenue growth in the immediate future.

4.2. Public Expenditures

In 2015, total public expenditures increased by 5.0 percent – lower than in 2014, resulting in a moderation of the public expenditure-GDP ratio to 20.8 percent. The slower pace of total public expenditure occurred despite an acceleration in current expenditure (Table 5). The acceleration of current expenditure was mostly due to an increase in the government wage bill that grew by about 21.2 percent, a part of larger program of public administration reform. The non-wage expenditure posted a slower growth due to increase in efficiency of government's budget. The 2016 Budget Law envisages about 23.8 percent increase in the government wage bill over the 2015. In 2017, total public expenditure is projected to reach around 23.1 percent of GDP, with wage spending at around 7.7 percent of GDP.

Table 5: Public Expenditures

Expenditure	2014		2015		2016 B.L		2017p	
	Growth (%)	% of GDP	Growth (%)	% of GDP	Growth (%)	% of GDP	Growth (%)	% of GDP
Total Expenditure	**8.3**	**21.6**	**5.0**	**20.8**	**19.3**	**22.8**	**12.4**	**23.1**
Current	**14.3**	**12.7**	**10.8**	**13.0**	**23.9**	**14.7**	**10.4**	**14.7**
Wage	*26.1*	*5.8*	*21.2*	*6.5*	*23.8*	*7.4*	*16.2*	*7.7*
Non-Wage	*5.9*	*6.9*	*1.4*	*6.5*	*24.6*	*7.4*	*4.5*	*6.9*
Capital	**0.8**	**8.8**	**-4.4**	**7.8**	**12.9**	**8.0**	**16.1**	**8.4**

Source: Ministry of Economy and Finance, 2016

With the total public expenditure remaining more or less stable in recent years, the increase in the government's wage bill has been accompanied by a deceleration in the government's capital expenditures. Capital expenditure as a share of GDP has gradually declined from around 8.8 percent in 2014 to about 7.8 percent last year (Table 5). A similar figure is likely to be maintained in 2016.

A key feature of the government's expenditure policy in recent years has been a consistently larger allocation for priority sectors for the county's socioeconomic development – education and skill development, in particular. As a result, the share of government's current expenditure allocated for education and skill development has gradually increased from about 8 percent in 2012 to nearly 11 percent last year (Table 6). The 2016 Budget Law gives a further impetus to education expenditure, and at the same time, allocations for health – another priority sector – has been maintained at around 6 percent of current expenditures for quite some time now. The allocation for transportation has also been raised in recent years.

Table 6: Current Expenditure by Sector (Share of Total Current Expenditure in percent)

Sectors	2011	2012	2013	2014	2015e	2016BL
Education	7.9	8.0	8.6	9.5	10.8	12.0
Health	6.1	6.3	6.3	5.7	6.5	6.1
Defense	7.5	7.4	7.5	8.0	8.5	8.5
Transport	1.1	1.1	1.2	1.2	2.9	2.8
Others	31.4	32.4	32.3	34.7	33.8	35.3

Source: Ministry of Economy and Finance, 2016

The budget execution in 2015 faced many challenges, causing delays in spending in the earlier months of the year, as the RGC began implementing the Full Program Budgeting implementation for ten ministries. Late disbursement in 2015 was pointed out to be a concern. As a result, some budget entities received allocated budget very late. In addition, the new procedures of program budgeting also led to slower disbursements and spending process in the first half of 2015 although the Ministry of Economy and Finance tried to simplify the process of disbursement, procurement and spending. Learning from last years' experience, spending procedures have been simplified and streamlined, and this is already helping a better execution of this year's budget.

4.3. Fiscal Consolidation and Public Finance Management

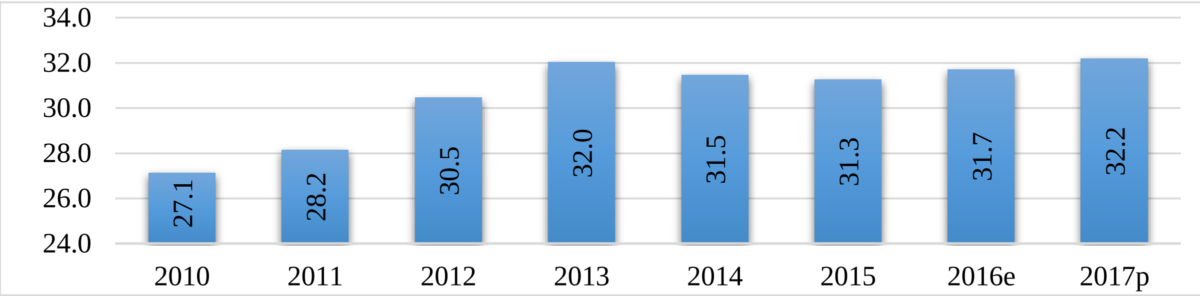
With strong revenue collections and reasonable expenditure containment, the country's fiscal consolidation is on track for now, as fiscal deficit has declined to about 3 percent last year (Figure 4). As a proportion of GDP, the fiscal deficit was as high as 8.5 percent in 2010 in the aftermath of the global financial crisis. It has been reduced more than half to 2.9

percent by last year, in line with the RGC's objective of keeping it under 5 percent of GDP. The overall deficit for 2016 and 2017 are expected to increase but are foreseen to be still below the 5 percent threshold.

Moving from fiscal consolidation to public finance management, effective implementation of the RMS and a number of fiscal reforms introduced in the 2015 Budget should be a priority in gradually moving towards a modern, efficient, equitable and transparent public finance system. Key reforms in the 2015 Budget included expanding the process of appropriating government spending – financed by both domestic revenues and external financings - for all the ministries, addressing the longstanding problem of cash advances, and identifying future priorities for further reforms. Effective implementation of the RMS focusing on strengthening of tax administration, a better coordination between the GDT and the GDCE, improved computerization of tax payments by the GDT and combating tax evasion and avoidance are some of the policy priorities for the immediate future.

Cambodia's debt distress rating, as assessed by the latest available World Bank/IMF debt sustainability analysis, remains low. Public debt to GDP ratio is modest at about 31.3 percent by the end of 2015 (total debt stock including the arrears from Russia and the US). Moreover, the use of debt is mainly for public investment in infrastructure development, which plays an extremely important role in supporting growth. The RGC has updated the Debt Management Strategy 2015-2018 to effectively and efficiently manage Cambodia's debt, and with that, the future external debt is to be capped around 700 to 800 million SDR annually.

Figure 5: Debt to GDP Ratio (in percent)



Source: Ministry of Economy and Finance, 2016

5. Trade and Balance of Payment

5.1. Exports

Despite the strong growth of garment exports in 2015, Cambodia's total merchandize exports posted a somewhat softer growth last year – 14.2 percent compared to 16.1 percent in 2014. Garment exports, accounting for nearly three fourth of the country's merchandize exports, grew by an impressive 14.5 percent in 2015 as compared to a 10.7 percent growth in 2014. Garment exports to the US market recovered from a negative growth of -5.4 percent in 2014 to a positive 2.3 percent in 2015, while export growth to EU was a sturdy 20.8 percent, only marginally lower than the 22.0 percent figure of 2014 (Table 7). Among the other major categories of exports, only rice and rubber turned the corner with a much faster growth in 2015. Growth in the remaining exports consisting of agricultural products, fisheries, cigarette, etc. plummeted from 50.4 percent in 2014 to 11.9 percent in 2015[3].

With robust growth outlook for Cambodia's major export destinations, prospect for

[3] That said, the falling commodity prices in the international markets meant that export earnings, especially from rubber, are not keeping pace with the volume of rubber exports - the former grew by only 6.7 percent in 2015, despite the latter growing by a whopping 30 percent.

Cambodia's exports remains favorable in 2016. In the first six months of the year, garment export growth remained strong at 10.8 percent. Partly due to the subdued commodity prices in the international markets, agricultural exports posted a negative growth. Current indications are that in 2017, export growth may slow marginally given the expectation that growth would be softer in many European countries (including the UK) which accounts for more than one-quarter of Cambodia's garment exports.

Encouragingly, Cambodia's exports have slowly but steadily diversified in recent years — from garment products to other products and from the US market to other markets. The share of garments in the country's exports has been shrinking from 86 percent in 2011 to nearly 74 percent in 2015, while the share of other products (electronic components, bikes, etc.) has been rising from only 7.4 percent in 2011 to 21.1 percent in 2015. Data for the first half of this year 2016 also shows the same trend. Likewise, Cambodia's garment export destinations are also undergoing a gradual change, with the share of the US shrinking overtime, while that of EU and Japan increasing. The EU has become Cambodia's main trading partner in garment exports, thanks to the "Everything But Arms" initiative. Moreover, export management fee[4] to EU is also lower than that to the US. Recent years have also seen strong growth of garment export to Japan (Tables 7 and A6).

Table 7: Value of Exports – Composition and Destinations

Commodity Groups Export (Growth in percent)	2011	2012	2013	2014	2015	6M-2015	6M-2016
Garment	32.1	7.3	17.8	10.7	14.5	10.8	10.8
Rubber	121.8	-16.8	6.5	-11.6	6.7	15.2	-30.5
Rice	206.7	27.6	92.9	-5.3	26.9	46.2	-8.9
Others	29.3	92.0	64.9	50.4	11.9	18.1	16.9
Total Export	35.8	13.1	25.3	16.1	14.2	13.4	10.0
Commodity Groups Export (Share in percent)	**2011**	**2012**	**2013**	**2014**	**2015**	**6M-2015**	**6M-2016**
Garment	86.4	82.0	77.1	73.5	73.7	72.4	73.0
Rubber	4.0	3.0	2.5	1.9	1.8	1.9	1.2
Rice	2.2	2.4	3.8	3.1	3.4	3.7	3.1
Others	7.4	12.6	16.6	21.5	21.1	22.0	23.4
Export Share by Destinations (in percent)	**2011**	**2012**	**2013**	**2014**	**2015**	**6M-2015**	**6M-2016**
EU	30.0	32.1	33.4	34.1	37.9	36.6	38.9
US	42.6	36.7	31.4	26.7	23.9	24.9	20.8
Japan	3.1	3.5	4.8	5.7	6.8	6.0	7.9
ASEAN	6.2	7.2	9.3	11.7	11.1	12.6	11.0
Others	18.1	20.5	21.1	21.8	20.2	19.9	21.4

Source: Ministry of Economy and Finance, 2016

5.2. Imports

Last year's mild export slowdown has also been accompanied by a slower growth in the country's imports, although with significant variations across the major import categories. Aggregate import bill grew by about 13.4 percent in 2015, lower than the 18.1

[4] Generally, according to the Ministry of Commerce, the companies that apply for Certificate of Origin need to pay for Export Management Fee (EMF), Public Service and Administrative Fee. Based on interview with garment factories, export management fee to the US costs $0.4556/dozen while that to EU costs $0.0729/dozen for the same type of products.

percent figure for 2014 (Table 8). While import value of construction materials, food and beverages and miscellaneous categories grew at a slower pace in 2015, imports of textiles and fabrics, petroleum products and vehicle grew faster – the latter reflecting the strong performance of the garment industry and robust consumer spending. On the other hand, the slowdown in construction materials imports reflects the moderation in domestic construction activities, just as the softening of food and beverages imports indicates the moderation of business activities of domestic hotels and restaurants as also substitution of imports by domestic production.

Data for the first half of 2016 indicates that the import bill continues to slow, and this trend is likely to persist for the second half of the year and perhaps into next year as well. In the first six months of this year, imports grew by only 8 percent, sharply down from 22 percent growth in the corresponding period of last year (Table 8). Import slowdown has been across almost all the major product categories, with the sole exception of petroleum products. In a few cases such as cement, food and beverages, and electronics, the slower import growth seems to be structural as the country is now producing these products domestically thereby substituting imports by local production. Cement is an interesting case in point. Until recently, cement was almost wholly imported but with the establishment of a few cement factories in the country part of the cement consumption is now met by domestic production. As a result, volume of cement imports drastically declined by 29 percent in the first six months of this year, on top of a 3.5 percent decline last year. More cement factories are to be built in the coming years and this should further reduce imports. Similar structural changes are taking place in the case of food and beverages, with many small and medium enterprises in the country beginning to produce many of these items which were wholly imported just about a few years ago.

Table 8: Value of Imports and its Composition (Annual Percentage Change)

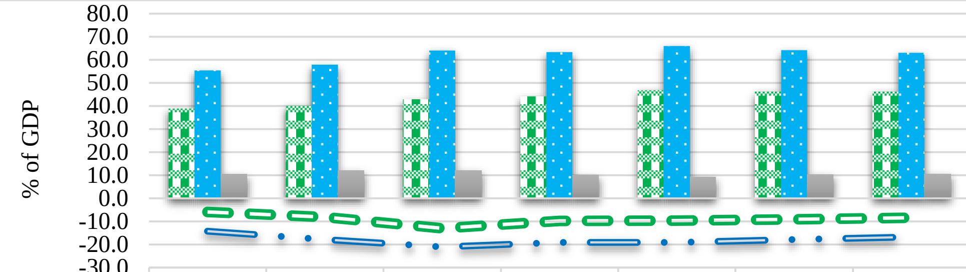
Commodity Group Import	2011	2012	2013	2014	2015	6M-2015	6M-2016
Consumption Goods	-4.6	21.8	10.7	32.3	25.6	24.8	16.5
Steel, Cement and Construction Equipment	-7.5	35.4	15.3	36.1	22.9	17.5	13.6
Garment products and Fabric	37.2	16.5	21.9	19.8	7.6	21.3	6.9
o.w: Garment products and fabric (tax exemption)	16.3	22.0	17.6	8.3	17.8	22.2	6.9
Vehicles	20.9	36.1	2.1	24.5	33.2	33.8	21.7
Petroleum products	103.7	12.6	5.7	5.9	10.7	10.0	15.5
Others	6.5	11.8	24.5	24.4	6.1	21.3	2.4
Total	16.5	17.7	17.8	18.1	13.4	21.1	8.0

Source: Ministry of Economy and Finance, 2016

5.3. Trade and Current Account Balance

Partly due to the import compression, Cambodia's trade and current account deficits as a share of GDP are likely to improve both this year and the next. Exports as a ratio of GDP are likely to stabilize at 46.2 percent, while imports are seen to decline from about 66.0 percent this year to 63.0 percent by next year. With stable official development assistance, the compression in the trade deficit is also accompanied by an improvement in the current account deficit. The latter is likely to decline from 9.6 percent of GDP last year to 8.5 percent by next year (Figure 6).

Figure 6: Balance of Payment



	2011	2012	2013	2014	2015	2016e	2017p
Export	38.9	40.1	42.9	44.1	46.8	46.2	46.2
Import	55.4	57.9	64.0	63.2	66.0	64.1	63.0
FDI	10.4	12.1	12.0	10.0	9.1	10.3	10.5
Trade Balance	-14.3	-17.8	-21.1	-19.1	-19.2	-17.9	-16.8
Current Account Balance (including official transfer)	-5.9	-8.2	-13.0	-9.8	-9.6	-9.1	-8.5

Source: National Bank of Cambodia, 2016
Note: 2016 and 2017: MEF team's projection

Coupled with improvements in the current account deficit, stable FDI flows should render the country's balance of payments to be sustainable. FDI flows in the first six months of this year were USD 969 million, up from USD 898 million in the corresponding months of last year[5]. About one-fourth of these FDI inflows went to the banking sector, indicating that a high proportion of these flows went into productive sectors.

6. Money and Credit

6.1. Broad Money

Money supply growth, after peaking in 2014 at around 30 percent, is moving to a more normal growth trajectory. In 2015, broad money (M2) growth was halved – from 29.9 percent in 2014 to 14.7 percent. Foreign currency deposits (FCD) that accounted for 83.0 percent of money supply, after posting a 30.5 percent growth in 2014, grew by 15.3 percent last year (Table 9). The first half of this year witnessed a continuation of the normalizing process – with money supply growing by 18.0 percent, down from 20.6 percent figure in the same period of last year. Growth in FCDs in the first six months of this year and the last more or less mirror the trend in money supply.

Table 9: Monetary Aggregates

	2011	2012	2013	2014	2015	2015 - June	2016 - June
Liquidity (M2) growth (%)	21.4	20.9	14.6	29.9	14.7	20.6	18.0
Money	22.8	2.3	20.6	29.3	6.9	20.3	8.2
Quasi - money	21.1	24.7	13.6	30.0	16.1	20.7	19.6
Foreign Currency Deposit	*20.7*	*24.3*	*13.4*	*30.5*	*15.3*	*20.7*	*18.5*

Source: Monetary Survey (data in stock), National Bank of Cambodia, 2016
*Annual Supervision Report, National Bank of Cambodia, 2016

6.2. Credit

In the first six months of this year, credit growth was moderating much faster than money supply, as the effects of a series of policy tightening measures taken by the National Bank of Cambodia (NBC) were slowly realized. Credit to private sector had grown at an average

[5] Balance of Payment, National Bank of Cambodia, August 2016

annual rate of 30 percent during 2010-2014, peaking in 2014 at around 34 percent. Thanks largely to some of the policy measures taken by the NBC, the pace had started slowing somewhat in 2015. In 2015, it moderated to around 30 percent (Table 10). The extent of slowdown in the first half of this year is much larger – from about 36 percent in the first half of last year to 22 percent this year. In March 2015, NBC imposed reserve requirement of 12.5 percent on banks' foreign borrowing to reduce reliance on foreign borrowing and therefore calming down the credit growth. Following up on that, in December 2015, the NBC required financial institutions to gradually phase in a higher Liquidity Coverage Ratio (LCR), besides setting fresh criteria for calculating the LCR. The overall objective has been to promote short-term resilience of each institution's liquidity risk profile, and ensure that each institution has an adequate stock of unencumbered liquid assets that can be converted into cash at no or little loss of market value.

Despite the encouraging moderation in credit growth, the loan-deposit ratio of the financial system still remains very high, pointing towards the need for effective monitoring and supervision of financial institutions. Despite the moderation, the 22 percent growth in credit in the first six months of this year constitutes at a sturdy pace. The loan-deposit ratios (LTD) of both the banking system and the MFIs, although moderating is still very high. In the first six months of this year, average LTD of the financial system stood at 96 percent, only marginally lower than its December 2015 level. Cambodia's financial institutions, especially MFIs, are still relying on external funding for financing their loans; this makes them vulnerable to any sudden stops to these sources of funding that could create a sudden credit-crunch for the financial system and subsequently result in some financial institutions going bankrupt. Such an eventuality has the potential to bring down the entire financial system.

Cambodia is also experiencing the rapid expansion of microfinance institutions (MFIs), which are becoming more interconnected with the rest of the financial sector, underscoring the need for a stricter monitoring and supervision of this growing segment of the financial system. MFIs - more than 40 of them now **-** are playing a systemic role. They are also becoming more interconnected with the rest of the financial sector than just about a few years ago. Credit stock and flows from MFIs at 20 percent and 28.6 percent respectively are of those in the banking system. On average, 8 deposit-taking MFIs exhibit LTD ratios of 204 percent in 2015. Credit from MFIs after growing on average by more than 50 percent annually during 2013 and 2014, grew at a slightly lower, yet unsustainable pace of 49 percent last year. Most MFIs are predominantly funded through foreign borrowings. The current pace of growth of MFIs may indeed be encouraging them to make increasingly riskier loans. Regulatory and supervisory oversight over MFIs is believed to be even weaker than that of the banking system. IMF has recently cautioned that some of the MFIs are now larger than mid-sized commercial banks and compete with the latter while being subject to looser regulation. Such regulatory and supervisory arbitrage exposes the financial sector to hidden systemic risks.

Although the recent years' pace of credit expansion might have been driven by an economy that is undergoing rapid financial deepening and broadening, it is important that policy makers focus on reigning in the credit flows to speculative real estate investments. Financial deepening and broadening, in turn, are inextricably linked to the rapid economic growth, solid industrialization, and steady urbanization. Even in recent years, many parts of the country and a high proportion of the population is basically cash-based and under-banked. The simple process of expanding financial inclusion requires rapid credit growth. Available information indicates that the recent growth in bank credit went mainly to finance agriculture, manufacturing, and transportation, wholesale and retail trade, and hotels and restaurants. These productive sectors accounted for 60 percent of the bank credit. The share of credit to construction and real estate sector in 2015 constituted around 11 percent of the total credit provided by banks and MFIs. That said, money is fungible, and hence the actual use of the credit could be vastly different from the purpose stated in the books of the financial institutions. Diverting funds to finance speculative investments, say, in real estate sector, runs the risk of building up asset bubbles, which could subsequently burst plunging the financial system and the economy into crisis.

Table 10: Credit and Deposit

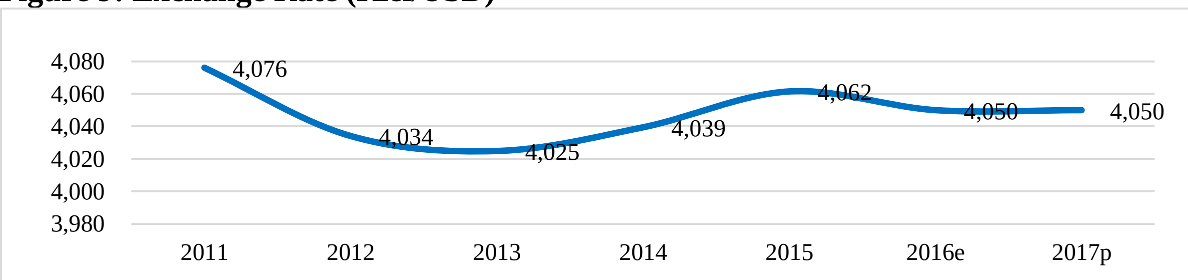
	2011	2012	2013	2014	2015	2015 - June	2016 - June
Total Credit growth (percent)	**35.6**	**34.7**	**28.6**	**34.1**	**29.9**	**35.8**	**22.0**
Bank Credit	*33.7*	*34.4*	*25.6*	*30.2*	*25.8*	*32.3*	*24.2*
MFI Credit	*50.2*	*36.6*	*48.7*	*56.2*	*49.0*	*53.2*	*12.3*
Total Deposit growth (percent)	**26.5**	**30.9**	**17.8**	**36.9**	**18.8**	**28.0**	**19.2**
Bank Deposit	*25.1*	*28.8*	*16.3*	*33.4*	*16.9*	*25.1*	*19.7*
MFI Deposit	*180.8*	*138.2*	*60.3*	*107.2*	*43.9*	*75.1*	*13.6*
Loan to deposit ratio (percent)	**83.0**	**85.4**	**93.2**	**91.2**	**99.7**	**94.1**	**96.3**
Bank	*73.8*	*77.0*	*83.1*	*81.1*	*87.3*	83.2	86.3
MFI	*556.5*	*319.1*	*295.9*	*223.0*	*231.0*	220.2	217.7
Total Deposit as percent of GDP	**46.9**	**56.4**	**61.4**	**76.5**	**83.5**	**77.9**	**84.8**
Total Credit as percent of GDP	**38.9**	**48.2**	**57.2**	**69.8**	**83.2**	**73.3**	**81.7**

Source: Supervision Report, National Bank of Cambodia, 2016

6.3. Exchange Rate

As Cambodia is a highly dollarized economy, the exchange rate between Riel and US dollar continues to remain stable, thus removing an additional source of economic instability – sudden swings in the exchange rate. Exchange rate (Riel/USD) depreciated to 4,062 Riel/USD in 2015 and is expected to remain hovering around 4050 in 2016 and 2017. Fluctuations of monthly exchange rate between Riel and dollar in the first half of this year was relatively low in between -0.5 percent to 0.3 percent.

Figure 9: Exchange Rate (Riel/USD)



Source: National Bank of Cambodia, 2016
Note: MEF team's projection for 2016 and 2017

7. Risks and Policy Options

The robust economic outlook for this year and the next could be derailed if China's economy slows down drastically or if international financial market volatility, which has been lingering on after the 'Brexit', suddenly exacerbates. Cambodia's economy has strong economic links to China's economy through official development assistance, FDI flows and tourist arrivals. A sudden and sharp slowdown in China's economy could constrict resource flows to Cambodia through all these channels. Similarly, although international financial markets seem to be calming down after the sudden volatility following UK's referendum results on 'Brexit' in June, it is possible that any more negative news from UK could reignite renewed financial markets volatility. Cambodia, being a highly open economy, would feel the negative repercussions of such eventuality.

A much sharper slowdown in China has the potential to drag down Cambodia's immediate growth prospect. At present, the consensus around the world is that China's economy is likely to experience a moderation in growth. Yet, if China's economy actually slows much more sharply than is currently foreseen, Cambodia's economic performance would turn out to be much worse than is currently forecast. First, a sharper slowdown in China will significantly worsen tourism arrivals and FDI flows to Cambodia. Second, a bigger cut in China's growth will have wide-ranging repercussions not only on the Asian countries that have strong trade and commercial links with China but also on some of the Western developed countries, especially the US and some of the European Union countries; that could have major second round effects on Cambodia's export and growth prospect. Finally, a big drop in China's growth could even soften china's development assistance to the rest of the world, and it is possible that Cambodia may not escape from such belt-tightening by China.

Although financial markets around the world are returning to normalcy after feeling 'Brexit' jitters in June this year, renewed volatility cannot be ruled out in the months ahead. The immediate effect of the Brexit was in the financial markets depreciating the pound by about 10 percent. The Pound has clawed back some of the initial losses and so did the stock markets around the world. That said, there still is the uncertainty as to whether the UK will indeed exit from the EU or what kind of arrangements will be put in place if and when UK decides to actually exit the EU. Prolonged uncertainty is thus expected to prevail around these issues, in addition to the UK economy experiencing significantly lower growth next year. In the interregnum, a string of bad news that would cause sudden jitters in the financial markets coming out of UK in fits and starts cannot be ruled out. For one thing, such events would cause sharp swings in the foreign exchange and stock markets, and the associated currency realignments, including pushing the US dollar up against other currencies. Since Cambodia is a dollarized economy, such appreciation of the dollar would constrain Cambodia's exports. In addition, a huge slowdown in the UK will also harm Cambodia's garment exports significantly, since about 12 percent of Cambodia's garment exports now go to the UK.

Even as Cambodia's policy makers remain vigilant on the risks to the economic outlook, there is much merit in them expeditiously addressing the medium term policy priorities. Ensuring financial stability by continued restraint on credit growth, expanding the fiscal space for financing the country's development needs, improving economic competitiveness (among others, by effectively implementing the Industrial Development Policy: 2015 – 2025), and revitalizing agriculture are some of the priority areas that deserve special attention.

7.1. Ensuring Financial Stability

Building on the recent months' moderation of credit growth, there is an urgent need to stabilize credit growth at a sustainable pace to facilitate the soft-landing of the country's real estate market. At this juncture, the NBC is faced with one of the most challenging tasks of minimizing the risks inherent in the still rapid credit growth and at the same time ensuring that the financial system caters to the genuine needs of industry and trade. Cambodia's financial system is rapidly evolving and getting evermore interconnected. The MFIs almost resemble the typical shadow banking system, even as they offer an alternate source of financing for industry and commerce, especially for the small and micro enterprises. These emerging developments do create new challenges. At this juncture of the country's financial development, a robust framework for financial sector oversight and supervision is a prerequisite to ensure resilience of the system to unexpected shocks. Balancing the somewhat conflicting objectives of financial development and financial stability is never an easy task at this stage of Cambodia's development. The increasing interconnectedness among the financial intermediaries inevitably increases the possibility as well as impact of idiosyncratic risks.

Development of a full-fledged crisis management framework encompassing all financial supervisors should be given top priority. Encouragingly, the NBC has taken a stricter stance on bank licensing, restructured its banking supervision, and addressed credit risks by introducing a new credit reporting system coinciding with the launching of a credit information bureau and also by increasing reserve requirements. Building on these measures, policy coordination among all the financial supervisory agencies should be furthered strengthened in a timely manner. Policy coordination has become even more critical since the launch of the Cambodia Securities Exchange (CSX) in April 2012. Some of the recent IMF recommendations on this issue is highly worth pursuing: an explicit financial stability mandate for the NBC; a framework for assessing and supervising systemic institutions; crisis management manuals and handbooks; contingency and communication plans; and periodic crisis simulation exercises.

7.2. Expanding the Fiscal Space

Despite the recent success in accelerating revenue collections, there is not much room for complacency, as maintenance of a comfortable fiscal space over the medium term cannot be taken for granted. As Section 4 of this Report highlighted, there is still some significant scope to raise revenues by both the GDT and GDCE. Those potentials should be tapped over the next few years. That should be complemented by continued containment of public expenditures. This is a challenging task, especially with the planned increase in the salaries for the civil service, increasing need for spending on agriculture and rural development, urban infrastructure, public utilities such as water and sanitation, health, and education – priority sectors for the country. Maintaining fiscal sustainability over the long haul would need continued adherence to fiscal discipline year after year. Moreover, until now fiscal deficits are almost fully financed by external funds, and most of these are concessional long term financing. Over the longer term, however, concessional external funding gradually dries up. Given these emerging fiscal challenges, the government needs to step up its efforts in exploring new sources of domestic revenue on top of its continued efforts in revenue mobilization. Moreover, adoption of a new tax system in the medium term to further strengthen revenue collection as well as promote equity and socio-economic development is one of the priorities that deserves special attention.

Expanding the fiscal space and maintaining fiscal sustainability is more than a matter of raising more revenues and containing expenditures; it also calls for raising the efficiency of public expenditures – both current and capital. It is increasingly being realized that inefficient current expenditures, poor budget planning and execution, and misalignment between the country's overall development strategy and the policy framework are some of the key factors that lower the efficiency of government's current expenditures. In a similar vein, inadequate project preparation, unsatisfactory project implementation and lack of emphasis on maintaining infrastructure once built have plagued most public investment programs and projects. There is ample scope for improvements in almost all the above dimensions of public investment efficiency. To address these issues of public expenditure efficiency, there is merit in developing a well-functioning public expenditure management frameworks both for current and capital expenditures.

Another key challenge in expanding the fiscal space is to use the country's fiscal incentive scheme more efficiently and better align the scheme with the recently adopted Industrial Development Policy. First of all, the current fiscal incentives scheme is too broad. Second, it is project-based and not firm-based, letting investors to 'gaming the system' by artificially apportioning most of the firm's profits into that due to QIPs. Third, fiscal incentives now rely largely on tax holidays and tax exemptions - mostly customs and excise exemptions on imports for exports and corporate income tax holidays and exemptions – than on accelerated depreciation, investment allowance, or investment tax credits that are far better at promoting new investment in the country. Finally, unlike the global best practice of including it in the tax code, it is currently in the investment law. A comprehensive review and redesign of the country's fiscal incentive scheme that provides effective incentives to investment in 'targeted' sectors as stated in the adopted Industrial Development Policy is urgently required.

7.3. Improving Economic Competitiveness

Building on the Industrial Development Policy (IDP), concerted efforts are needed on a continuous basis to maintain the country's external competitiveness. Since early 2014, the RGC has initiated, among other things, a new wave of reforms for improving the business environment and investment climate. Focus of these reforms has been on: simplification and automation of companies (intended to allow applicants to register a new company online in significantly less time, ultimately diminishing face-to-face contact with the government agencies); automation of the Certificate of Origin (CO) (so that companies can apply for the certificate electronically); and elimination of informal payments (17 large companies have signed an MOU with the Anti-Corruption Unit, 9 of which are located in the Phnom Penh Special Economic Zone (PPSEZ)). There is a huge merit in speeding up the process of implementation of the IDP that has not kept pace with the original plans.

Although the garment sector has held up well so far, it is likely to face many competitive challenges. To avoid losing Cambodia's competitiveness to its regional competitors such as Vietnam and Bangladesh, it is necessary to strengthen labor productivity to reflect the rise of minimum wage. In addition, Vietnam's FTA with EU and the eventual implementation of the Trans-Pacific Partnership – both would add to Vietnam's comparative advantage. Then there is the emergence of Myanmar that has the potential to give tough competition to Cambodia in attracting foreign investment in the coming years. Quick and greater efforts are needed to strengthen the skills of the country's workforce so as to enable the garment sector (and other sectors as well) to improve productivity and move up the skill ladder. Such measures could attract more foreign direct investment or factory relocation from China in the medium and high end garment manufacturing. Simultaneously, trade facilitation, reduction of business costs as well as investment in hard and soft infrastructure can also help strengthen Cambodia's competitiveness in this sector.

The service sector is not exempt from competitive pressures, once again with emergence of other tourism destinations in Cambodia's neighborhood like Myanmar. Take for example, the country's much acclaimed tourism sector, its growth is gradually moving on an uphill path, especially with Myanmar providing a cheaper next-door alternative to the country. As recently as 2012, only about 1 million tourists visited Myanmar, far lower than the 3.6 million tourists Cambodia received. But by last year, Myanmar's tourist arrivals rose nearly five-fold to 4.7 million - very close to Cambodia's figure of 4.8 million. Although difficult to be definitive, it is possible that some of the large increase in tourist arrivals to Myanmar must have come at the cost of fewer numbers for Cambodia, as some tourists might have chosen

Myanmar rather than Cambodia. Building on the recent visa-related measures taken by the Ministry of Tourism, it is time for Cambodia to take a fresh look at how to galvanize its tourism sector, including the required policy measures to improve the tourism-related infrastructure and support services as Vietnam has done earlier this year.

7.4. Reviving Agriculture

There is much merit in addressing recent years' agricultural slowdown which is likely to persist for a longer time. The country's agricultural transformation that, among other things, involves transferring the surplus labor from agriculture to industry and subsequently to services is highly incomplete at this stage. The sector has a long way to go in completing the transformation. Although there may be some scope for expansion of cultivated area, growth in crop production in the future will have to come increasingly from higher yields and a more efficient management of the agricultural sector. About 60 percent of the exceptionally high agricultural growth in the years before the recent slowdown began came from an expansion of the area, with increased yield contributing the remaining 40 percent. With limited scope for area expansion, the key challenge is one of raising the productivity and profitability of smallholder farmers. Productivity and indeed total production of vegetables in the country is another much neglected subsector, thus making the country to depend on imports to meet a significant portion of domestic consumption of vegetables. Aquaculture is another subsector that has significant scope for expansion.

Slow adoption of quality seeds, inadequate agricultural extension services, scant irrigation facilities, low fertilizer intensity, and above all lack of effective coordination among the ministries involved in agriculture, water resources, and rural development are the key constraints that need to be addressed to put agriculture back on a higher growth path. Some of the policy recommendations that could perhaps yield notable impacts in the short-to-medium term are: reducing the regulatory costs of importation of fertilizers, promoting the safe use of agricultural chemicals, upgrading and rehabilitating existing irrigation systems, participatory management of irrigation infrastructure and improving the farmers' access to affordable and quality seeds.

Annex

I. Summary of Macroeconomic Indicators

Table A1: Summary of Macroeconomic Indicators

	2013	2014	2015	2016e	2017p
Real GDP Growth %	7.4	7.1	7.0	7.0	7.0
Nominal GDP in Million USD	15,229	16,796	18,078	19,843	21,983
GDP Per Capita (USD)	1,042	1,138	1,215	1,300	1,422
Inflation rate (year average) (%)	3.0	3.9	1.2	2.8	3.7
Exchange rate (Riel/USD)	4,025	4,039	4,062	4,050	4,050
Export (% of GDP)	42.9	44.1	46.8	46.2	46.2
Import (% of GDP)	64.0	63.2	66.0	64.1	63.0
Trade Balance (% of GDP)	-21.1	-19.1	-19.2	-17.9	-16.8
Current Account Balance (including official transfer) (% of GDP)	-13.0	-9.8	-9.6	-9.1	-8.5
Gross international reserve (Month of Import)	3.9	4.3	4.5	4.5	4.5

Source: Ministry of Economy and Finance, 2016

II. Global Economic Outlook

Table A2: World Economic Performance and Prospect, 2011-2017

Real GDP Growth Rate in Percent	2011	2012	2013	2014*	2015*	2016p*	2017p*
World	4.2	3.5	3.3	3.4	3.1	3.1	3.4
Emerging Market and Developing Economies	6.3	5.3	4.9	4.6	4.0	4.1	4.6
Advanced Economies	1.7	1.2	1.2	1.8	1.9	1.9	2.0
USA	1.6	2.2	1.5	2.4	2.4	2.2	2.5
Euro Area	1.6	-0.9	-0.3	0.9	1.7	1.6	1.4
Germany	3.7	0.6	0.4	1.6	1.5	1.6	1.2
France	2.1	0.2	0.7	0.6	1.3	1.5	1.2
Italy	0.6	-2.8	-1.7	-0.3	0.8	0.9	1.0
Spain	-1.0	-2.6	-1.7	1.4	3.2	2.6	2.1
United Kingdom	2.0	1.2	2.2	3.1	2.2	1.7	1.3
Japan	-0.5	1.7	1.4	-0.03	0.5	0.3	0.1
ASEAN-5	4.7	6.2	5.1	4.6	4.8	4.8	5.1
China	9.5	7.7	7.7	7.3	6.9	6.6	6.2
Percentage Change in World Trade Volume (Goods and Services)	7.1	2.8	3.4	3.7	2.6	2.7	3.9
Percentage Change in Price of Commodities							
Oil	31.6	1.0	-0.9	-7.5	-47.2	-15.5	16.4
Non-oil commodities	18.0	-10.0	-1.4	-4.0	-17.5	-3.8	-0.6

Source: World Economic Outlook, April and July 2016
Note: 2011-2013 growth is from WEO April 2016 while 2014-2017 growth is from WEO July

III. Growth and Inflation

1. Agriculture Sector

Table A3: Six Month Production and Cultivated Area and Growth in Percent

Sub-Sector	Indicator	Unit	Jun-14	Jun-15	Jun-16
Crops	Cultivated Area_Paddy Rice	ha	800,528	868,177	1,040,726
		%	18.8	8.4	19.9
	Cultivated Area_Subsidiary and Industrial Crops	ha	604,522	566,550	698,526
		%	14.3	-6.3	23.3
	Production_Rubber Growth	ha	37,186	53,489	55,320
		%	131.2	43.8	3.4
Fishery	Total Fishery Production	ton	361,000	338,740	286,950
		%	28.2	-6.2	-15.3
	Inland fishery	ton	259,000	223,690	162,550
		%	37.4	-13.6	-27.3
	Marine fishery	ton	53,000	51,500	55,350
		%	3.9	-2.8	7.5
	Aquaculture	ton	49,000	63,550	69,050
		%	16.7	29.7	8.6

Source: Ministry of Agriculture, Fisheries and Forestry, 2016

Table A4: Annual Production and Growth of Crops Sub-sectors

Sub Sector	unit	2014	2015	2016e	2017p
Paddy Rice	Million Tons	9.32	9.33	9.36	9.38
	%	-0.7	0.12	0.25	0.27
Subsidiary & Industrial Crops	Million Tons	14.73	15.06	15.89	16.99
	%	39.8	2.3	5.5	6.89
Rubber	Million Tons	0.097	0.13	0.14	0.16
	%	13.9	30.7	10	13
Fishery	Million Tons	0.74	0.75	0.74	0.74
	%	2.4	0.8	-0.96	-0.9
Livestock and Poultry					

Pig	Million Heads	2.73	2.77	2.78	2.79
	%	12.3	1.5	0.2	0.25
Poultry	Million Heads	31.58	34.52	34.97	35.49
	%	15.6	9.3	1.3	1.5
Cow	Million Heads	3.06	2.92	2.89	2.86
	%	-10.8	-4.7	-0.75	-1.2
Buffalo	Million Heads	0.54	0.50	0.46	0.42
	%	-12.5	-6.6	-8	-9

Source: Ministry of Agriculture, Fisheries and Forestry, 2016
Note: MEF's estimate and projection for 2016 and 2017

2. Industry Sector

2.1. Garment

Table A5: Garment Export in Quantity and Value

Garment Export	2011	2012	2013	2014	2015	6M-2015	6M-2016
Total Quantity (Million Pair & Doz)	**162.6**	**176.8**	**202.5**	**233.8**	**264.3**	**130.7**	**142.9**
Clothing	106.6	119.5	134.6	149.0	160.7	78.3	87.7
Footwear	48.4	50.6	59.4	74.7	91.1	45.8	49.1
Other textile products	7.6	6.7	8.5	10.1	12.5	6.5	6.1
Total Value (Million USD)	**4,256**	**4,571**	**5,387**	**5,960**	**6,827**	**3,151**	**3,491**
Clothing	3,937	4,212	4,940	5,376	5,970	2,740	3,053
Footwear	265	297	360	471	660	317	359
Other textile products	57	62	86	113	197	94	79
Quantity Growth (in percent)	**17.4**	**8.7**	**14.5**	**15.5**	**13.1**	**15.2**	**9.3**
Clothing	10.2	12.1	12.7	10.7	7.9	5.6	12.0
Footwear	35.9	4.5	17.3	25.8	22.0	31.6	7.0
Other textile	23.8	-12.1	26.3	19.2	23.9	46.9	-6.7
Value Growth (in percent)	**32.1**	**7.3**	**17.8**	**10.7**	**14.5**	**10.8**	**10.8**
Clothing	31.0	7.0	17.0	9.0	11.0	6.2	11.4
Footwear	52.0	12.0	21.0	31.0	40.0	48.2	13.4
Other textile products	60.0	10.0	39.0	31.0	74.	94.6	-15.7

Source: Ministry of Economy and Finance, 2016

Table A6: Garment Export Share and Growth by Countries (In terms of Value)

Garment Export Value by Destinations (Share in percent)	2011	2012	2013	2014	2015	6M-2015	6M - 2016
EU	31.0	34.2	36.6	40.3	42.5	41.4	45.0
US	48.3	42.8	38.5	32.9	29.4	31.3	24.9
Japan	3.5	3.8	5.2	6.4	7.7	6.8	8.6
ASEAN	0.4	0.8	1.1	1.4	1.5	1.6	1.5
Others	16.8	18.4	18.6	18.9	18.8	19.0	20.0
Garment Export Growth by Destinations (in percent)	**2011**	**2012**	**2013**	**2014**	**2015**	**6M-2015**	**6M - 2016**
EU	63.3	18.3	26.0	22.0	20.8	19.4	20.5
US	10.9	-4.7	6.0	-5.4	2.3	0.2	-11.7
Japan	70.0	19.0	59.3	37.5	36.8	21.9	39.8
ASEAN	77.9	100.3	70.6	38.3	24.1	20.2	3.9
Others	54.8	17.0	19.5	12.4	14.2	8.5	17.1

Source: Ministry of Economy and Finance, 2016

2.2. Construction

Table A7: Import Quantity Growth of Construction Materials (In Percent)

Growth (%)	2011	2012	2013	2014	2015	6M-2015	6M - 2016
Construction equipment	-5.4	27.5	20.4	38.2	40.1	38.7	22.0
Cement	1.1	45.3	8.0	38.2	-7.8	-3.5	-28.7
Steel	-0.08	104.3	-42.6	35.6	35.8	15.3	35.2

Source: Ministry of Economy and Finance, 2016

2.3. Food, Beverage and Tobacco

Table A8: Growth of Import Value of Food, Beverages and Cigarette

Growth (%)	2011	2012	2013	2014	2015	6M-2015	6M - 2016
Food	6.9	21.0	15.1	37.8	24.1	7.8	29.0
Beverages	23.7	16.1	65.0	95.3	94.9	120.0	18.5
Cigarette	-18.3	33.0	3.6	23.7	1.8	6.9	15.2
Total	**-6.6**	**26.6**	**13.7**	**38.8**	**28.2**	**26.6**	**21.0**

Source: Ministry of Economy and Finance, 2016

Table A9: Number of Food, Beverages and Cigarette Factories

Number of Factories	2014	2015	New Factories (as of June 2016)	Total
Food	60	15	4	79
Beverage	20	3	3	26
Cigarette	18	1		19
Total	**98**	**19**	**7**	**124**

Source: Ministry of Industry and Handicraft, 2016

3. Service Sector

Table A10: Cambodia's Top 10 Tourist Arrivals in 2016

Number of Tourists (Million)	2011	2012	2013	2014	2015	6M-2015	6M-2016
Total	**2.88**	**3.58**	**4.21**	**4.50**	**4.78**	**2.30**	**2.36**
Vietnam	0.61	0.76	0.85	0.91	0.99	0.48	0.46
China	0.25	0.33	0.46	0.56	0.69	0.34	0.38
Korea	0.34	0.41	0.44	0.42	0.40	0.23	0.19
Thailand	0.12	0.20	0.22	0.28	0.35	0.14	0.17
USA	0.15	0.17	0.18	0.19	0.22	0.11	0.13
Lao	0.13	0.25	0.41	0.46	0.41	0.17	0.12
Japan	0.16	0.18	0.21	0.22	0.19	0.09	0.09
UK	0.10	0.11	0.12	0.13	0.15	0.08	0.08
France	0.12	0.12	0.13	0.14	0.15	0.07	0.07
Australia	0.11	0.12	0.13	0.13	0.13	0.06	0.07
Share (%)							
Vietnam	21.3	21.3	20.3	20.1	20.7	21.0	19.6
China	8.6	9.3	11.0	12.4	14.5	14.6	16.0
Korea	11.9	11.5	10.3	9.4	8.3	9.9	8.2
Thailand	4.1	5.6	5.3	6.2	7.3	6.0	7.1
USA	5.3	4.8	4.4	4.2	4.6	4.9	5.3
Lao	4.5	7.1	9.8	10.2	8.5	7.3	5.2
Japan	5.6	5.0	4.9	4.8	4.0	3.9	3.8
UK	3.6	3.1	2.9	3.0	3.2	3.5	3.5
France	4.1	3.4	3.1	3.1	3.1	3.1	3.2
Australia	3.6	3.3	3.1	3.0	2.8	2.7	3.0
Growth (%)							
Total	**14.9**	**24.4**	**17.5**	**7.0**	**6.1**	**4.6**	**2.6**
Vietnam	19.4	24.3	11.9	6.1	9.1	14.5	-4.5
China	39.2	35.1	38.7	21.0	24.0	21.8	13.0
Korea	18.3	20.0	5.7	-2.4	-6.9	-5.8	-15.3
Thailand	-21.7	72.5	9.8	26.3	25.2	30.8	20.8
USA	5.4	12.4	6.9	3.5	13.7	12.1	11.4
Lao	39.3	97.6	63.2	11.0	-11.9	-10.1	-27.0
Japan	6.6	10.8	15.4	4.3	-10.4	-15.7	0.3
UK	1.0	5.9	12.5	7.6	15.7	14.3	3.7
France	3.6	3.2	8.5	7.3	3.3	-1.3	4.0
Australia	12.2	12.1	12.1	1.6	0.4	-2.5	14.6

Source: Ministry of Tourism, 2016

IV. Fiscal Sector

Table A11: Revenue and Expenditure as a Share of GDP

	2011	2012	2013	2014	2015e	2016 B.L	2017p

Domestic revenue	**12.9**	**15.2**	**15.2**	**17.0**	**18.0**	**17.9**	**18.2**
Total current revenue	***13.0***	***14.7***	***15.1***	***16.8***	***17.8***	***17.7***	***18.1***
GDCE	6.0	6.5	6.4	8.0	8.3	8.3	8.3
GDT	4.5	5.3	5.9	6.3	7.1	7.1	7.7
Others	2.5	3.0	2.7	2.5	2.4	2.4	2.2
Total expenditure	**21.0**	**21.9**	**22.0**	**21.6**	**20.9**	**22.8**	**23.1**
Current expenditure	***11.4***	***12.1***	***12.3***	***12.7***	***13.0***	***14.7***	***14.8***
Wage	5.1	4.7	5.1	5.8	6.5	7.4	7.8
Non-wage	8.1	7.4	7.2	6.9	6.5	7.3	7.0
Capital expenditure	***9.6***	***9.8***	***9.7***	***8.8***	***7.8***	***8.0***	***8.4***
Current surplus	**1.6**	**2.6**	**2.8**	**4.1**	**4.8**	**3.0**	**3.4**
Overall deficit	***-8.2***	***-6.7***	***-6.8***	***-4.5***	***-2.9***	***-4.9***	***-4.8***

Source: Ministry of Economy and Finance, 2016