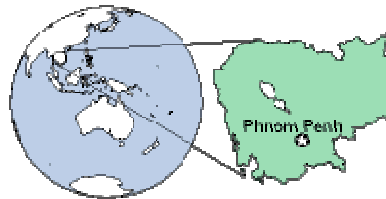


COUNTRY REVIEW

Cambodia



20 August 2009

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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Phnom Penh
GDP:	USD 11.2 bn (2008e)
Population:	13.7 mn (2008e)
GDP per capita:	USD 818 (2008e)
Currency:	Riels (KHR)
Form of state:	Constitutional monarchy
Head of government:	Prime Minister Hun Sen
Next elections:	2013

In 1993 UN-sponsored elections ushered in a multi-party constitutional monarchy. This followed years of civil war after an invasion by Vietnam in 1978 that ended the disastrous social experiments of Khmer Rouge rule—including the abolition of banking and money. The democratic framework is holding—elections were held in 1998, 2003 and 2008—though it remains fragile under the Cambodian People's Party (CPP) dominance. As the system is a constitutional monarchy, executive power rests with PM and leader of the Cambodian People's Party (CPP) Hun Sen, who has been in charge since 1985. He and the CPP further consolidated their positions in the 2008 general elections, as the CPP won 90 of the 123 seats in the National Assembly.

Estimated per capita GDP of just over USD818 is one of the lowest in East Asia. Agriculture still accounts for more than 30% of GDP and employs 60% of the labour force. Industry accounts for just 27% of GDP, though this share has risen from less than 15% in 1995. After annual average growth of 10.6% in 2003-07, real GDP increased by only 6.5% in 2008 and may contract in 2009 before returning to growth of 3-4% in 2010. Garment production, which accounts for more than 70% of exports, has been hit by recession in the US, tourism is also down and construction has weakened. Restoring/maintaining growth has taken over from inflation as government priority. Inflation accelerated in 2008, peaking at over 25%, under pressure from food and energy and rapid domestic credit growth, but as all these have receded annual average inflation is set to be in low single digits in 2009-10 and prices could fall for a period.

The fiscal deficit narrowed to 2.1% of GDP in 2008 from 2.9% in 2008 (ADB estimates), but will almost certainly widen considerably in 2009 as revenues weaken and expenditure is planned to increase. Public debt was around 28% of GDP towards the end of 2008, most of which is external and mostly on concessional terms. Monetary policy has been loosened as inflation has fallen and domestic demand weakened. However, the economy is highly dollarized.

The external current account deficit is around 10% of GDP and is likely to remain of this order in 2009 and 2010. In 2009 garments exports have fallen sharply, as have receipts from tourism and remittances, but imports have also fallen steeply, as have profits and dividends remittances. Aid inflows should increase as donor pledges were raised at the latest conference last November. FX reserves have increased to USD2.6bn, which is five months import cover and more than ten times external debt due in 2009.

External debt is relatively high as a proportion of GDP at 40% of GDP, but moderate as a proportion of exports of goods and services and as most of the debt is on concessional terms debt servicing is very low.

The structural business environment is weak. Cambodia is ranked 174 out of 210 in our assessment.

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