



Media Release

RAM Ratings reaffirms Cambodia's $gB_{1(pi)}$ rating

RAM Ratings has reaffirmed Cambodia's respective $gB_{1(pi)}$ /stable and $seaBB_{3(pi)}$ /stable sovereign ratings on the global and ASEAN scales. The reaffirmations of the ratings are based on strong capital inflows in the form of FDI and multilateral and bilateral aid, as well as the country's robust economic performance. The latter is observed in Cambodia's 7.0% economic expansion in 2015 despite challenges in the agriculture sector. Growth is expected to remain sturdy in 2016 and 2017, backed by strong exports and increased government spending. These positives mitigate the susceptibility of households to shocks, global uncertainties which may weigh on trade, and brewing political instability.

Cambodia's favorable growth (2000-2015 average: 7.8%) is driven primarily by the thriving garment manufacturing industry and a burgeoning tourism sector. The World Bank lifted Cambodia's status from that of a low-income nation to a lower-middle-income nation last year as the country clocked-in its Gross National Income at US\$1070.0, although barely surpassing the World Bank's threshold of between US\$1,026 and US\$4,035. That said, as the economy progresses, the benefits accorded to Cambodia as a low-income country will gradually taper. These include tariff-free exports to the EU under the Generalised System of Preferences, substantial grants and aid as well as multilateral and bilateral loans.

Elsewhere, the revenue mobilisation scheme (RMS), which targets a 0.5% of GDP increase in revenue annually, has helped strengthen government finances and contain the fiscal deficit. That said, RAM forecasts a wider fiscal balance of -2.6% of GDP in 2016 (2015: -1.6% of GDP) on the back of rising expenditure and as gains from the RMS will be realised at a slower pace. Meanwhile, potential contingent liabilities stem from the banking sector in view of weak regulations and rapid credit growth. The buildup of a bubble in the real estate and micro-finance institution (MFI) sectors also draws concern amid the fast-pace increase in loans growth, an oversupply in the property market, and the interconnectedness between MFIs and the banking sector.

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