



Media Release

RAM Ratings reaffirms Cambodia's $_gB_1(pi)$ rating

RAM Ratings has reaffirmed Cambodia's respective $_gB_1(pi)/stable/_gNP(pi)$ and $_{sea}BB_3(pi)/stable/_{sea}NP(pi)$ sovereign ratings on the global and ASEAN scales. The rating reflects the country's lack of development, susceptibility to shocks and poor business environment and institutional quality. Rising political challenges and the gradual phasing out of grants and aid in line with Cambodia's economic progression also depicts some of the medium-term challenges. However, robust economic performance and strong capital inflows in the form of FDI and official aid continues to benefit the nation. GDP growth is supported by robust exports – mainly garment exports – as well as tourism-related industries.

Cambodia faces increasing external political challenges amid the dissolution of the country's main opposition party and the imposition of a 5-year political ban on 118 of its members. Cambodia may, as a result, have to contend with US and EU trade sanctions, an asset freeze and travel bans on certain Cambodian officials. "If trade sanctions are imposed, this will severely affect trade, investor sentiment and the overall economy, given the country's dependence on these two export destinations," notes Esther Lai, RAM's Head of Sovereign Ratings. Amid uncertainties in the lead-up to a general election this year, proposed foreign direct investments had contracted by 30% in 1H 2017. Additionally, excessive powers accorded to the ruling party could possibly disrupt check and balances in the National Assembly.

Elsewhere, Cambodia's GDP growth clocked in at a robust 6.9% in 2016 and is expected to remain steady in 2017 and 2018, thanks to a thriving garment manufacturing industry and a burgeoning tourism sector. That said, we recognise that as the economy progresses, preferential treatment accorded to Cambodia will gradually taper. These include tariff-free exports to the EU under the Generalised System of Preferences, and substantial grants and official loans extended by multilateral and bilateral creditors. As such, the government has grown its revenue over the years (2012: 16.9% of GDP; 2016: 20.0% of GDP) to reduce its reliance on grants and aid. However,

Cambodia's fiscal deficit widened to 2.8% of GDP in 2016 as a result of higher expenditure, mainly stemming from salaries and wages. Cambodia's non-development spending has trended upwards while capital expenditure continues to slide. Given the country's infrastructure needs and development lag, capital expenditure is in our view vital to improving and promoting a better business environment.

Meanwhile, potential contingent liabilities stem from the banking sector, owing to a less-established regulatory environment, and rapid growth of credit to the real estate segment amid a fast-paced increase in property prices and the risk of an oversupply. Additionally, the expanding microfinance (MFI) sector poses a systemic risk due to rapid loans growth, and the interconnectedness of banks and the MFI sector, coupled with weak oversight.

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