



**Economic Outlook: Regional and Cambodian
Perspectives
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Plan of the Presentation

Global Setting

Tail risks are receding

Asia: Outlook and Risks

- Resilience and growth pick-up;
- ASEAN generally strong;
- Risks of financial imbalances growing;
Manage capital flows; rebuild policy space

Cambodia: Developments and Policy Challenges

- Growth has held up...
- But buffers are small
- How to enable a virtuous cycle of economic diversification and greater policy buffers?



Global Setting

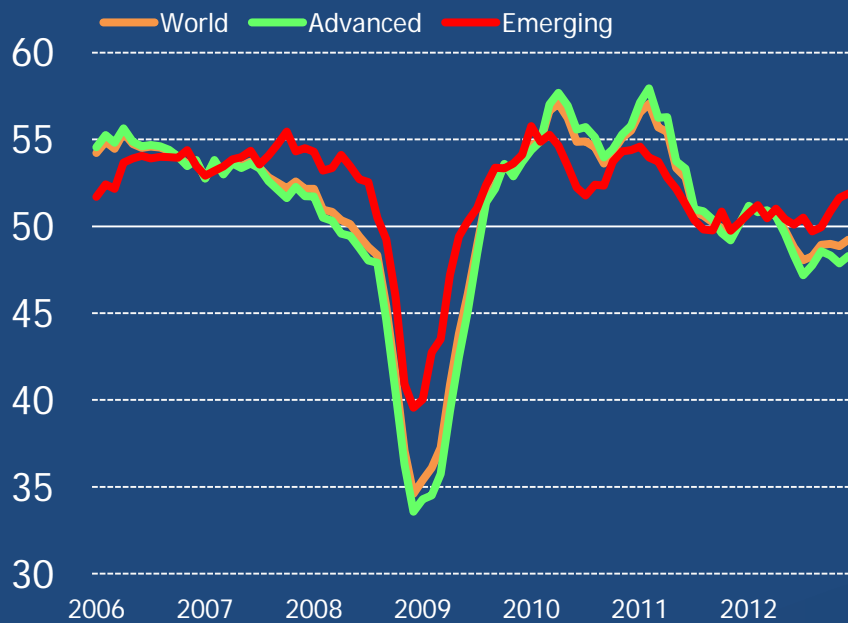


The global recovery: Tail risks receding as financial conditions are improving...

Advanced Economies Manufacturing PMI

(Index; >50 = expansion; sa)

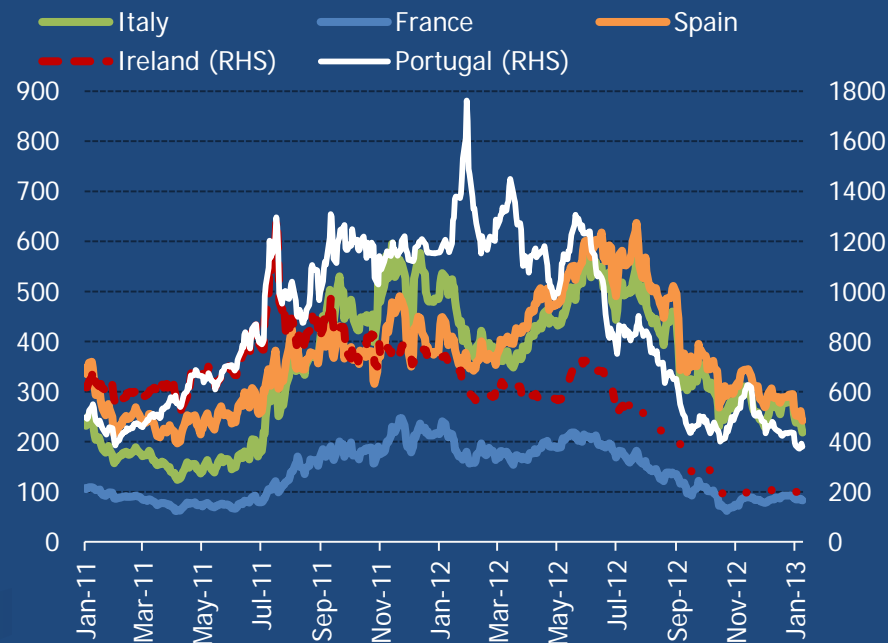
Global Manufacturing PMI (Index; >50 = expansion; SA)



Source: IMF, Global Data Source.

Advanced Economies : Financial Market Stress

Selected Europe: Sovereign CDS Spreads



Sources: Thomson Reuters Datastream; and Haver Analytics.

Global outlook remains subdued

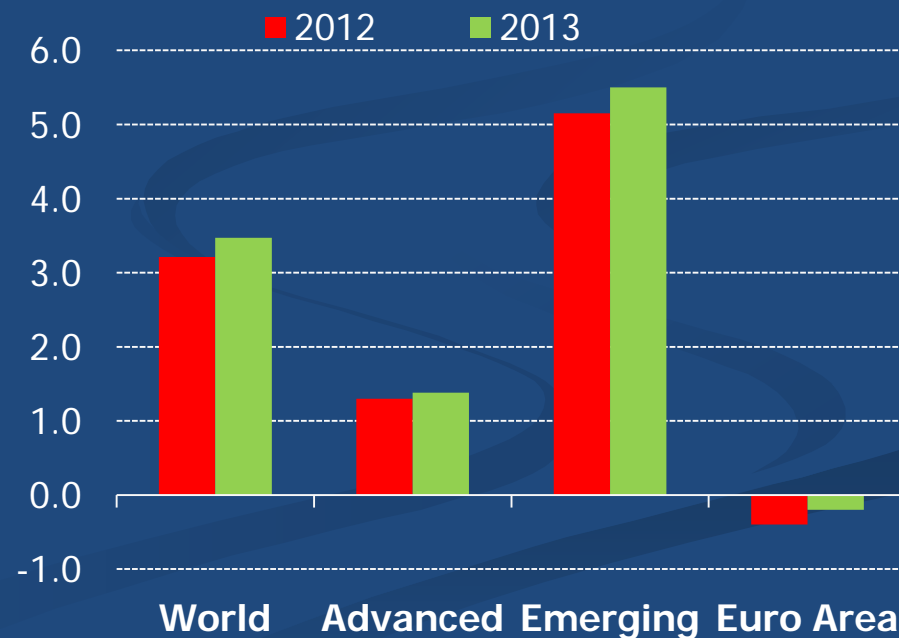
World GDP Growth *(Year-over-year; in percent)*

World Growth Projections

Real GDP Growth *(Year-on-year change, in percent)*

Growth projections *(year-over-year percent change)*

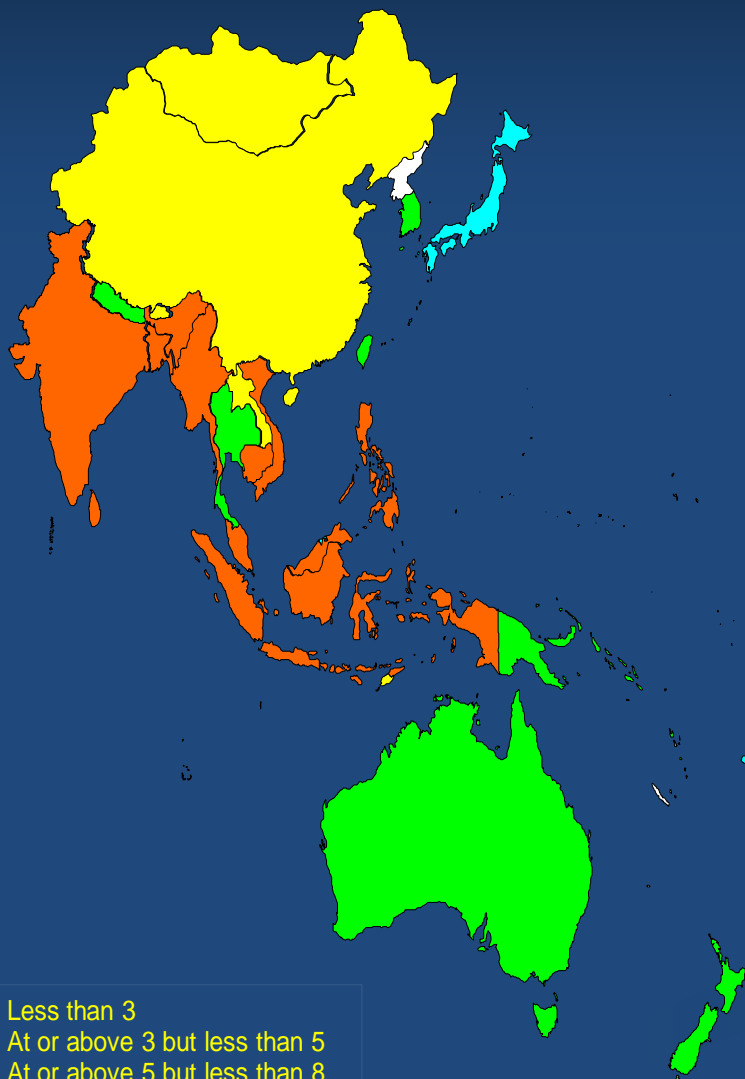
	2012	2013
World	3.2	3.5
Advanced economies	1.3	1.4
Emerging markets	5.1	5.5
Euro Area	-0.4	-0.2





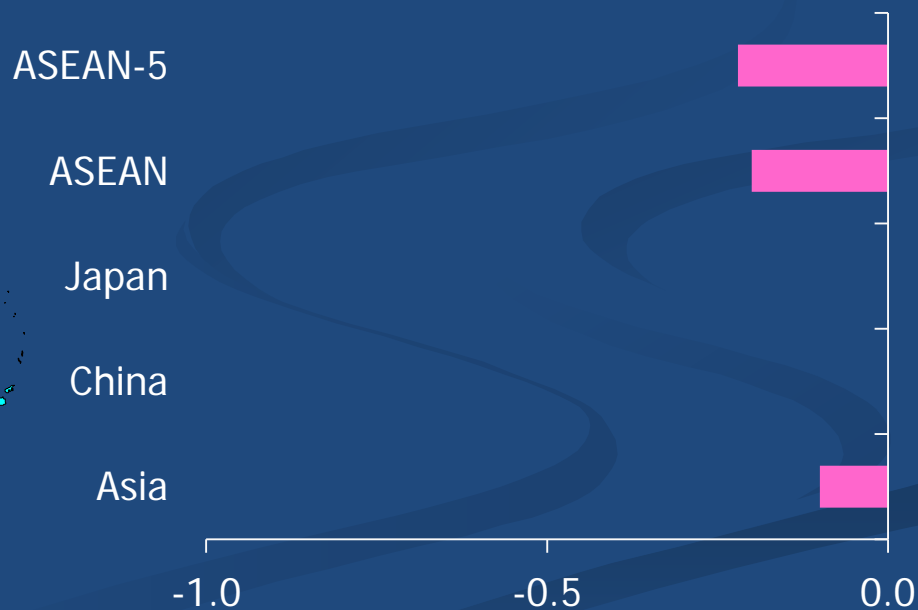
Asia: Outlook and Risks

Asia remains global growth leader, but some downward revisions to forecasts.



Asia: Exports by Economies
(Year-over-year percentage change)

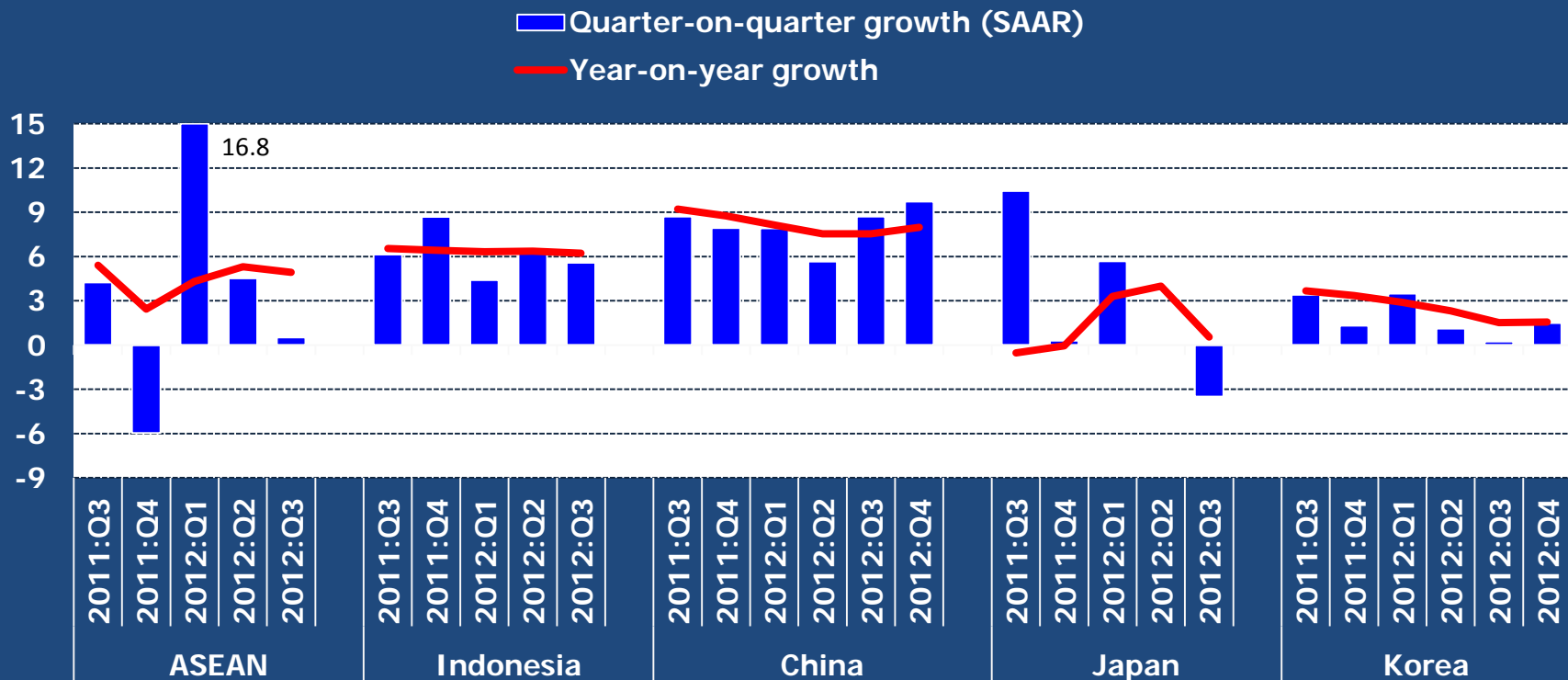
Asia: Change in 2013 Growth Forecast
(In percentage points)



1/ Change since October 2012. ASEAN-5 includes Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

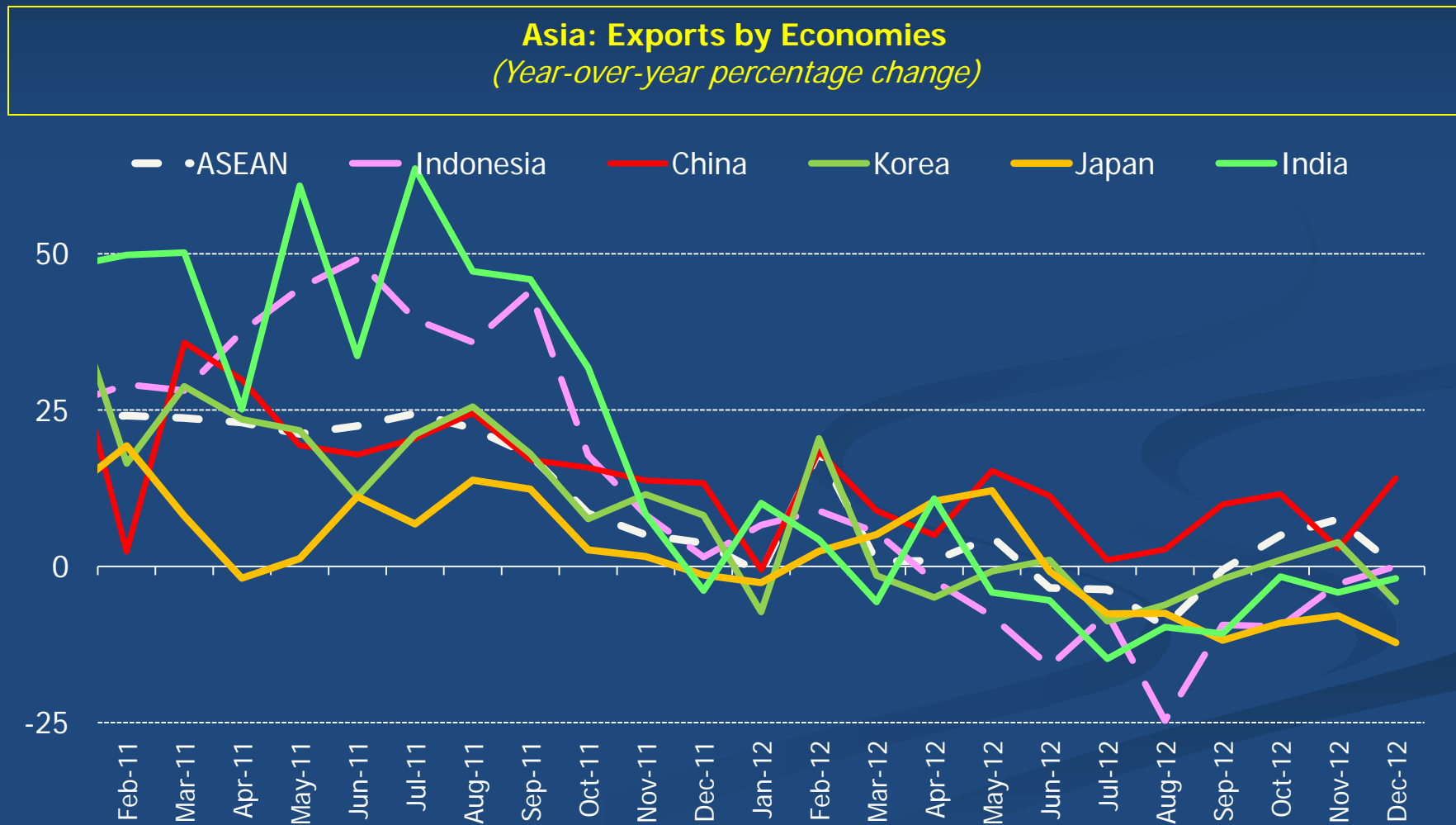
Growth has stabilized across the region... Except in Japan

Asia: Changes in Real GDP at Market Prices
(Percent change)

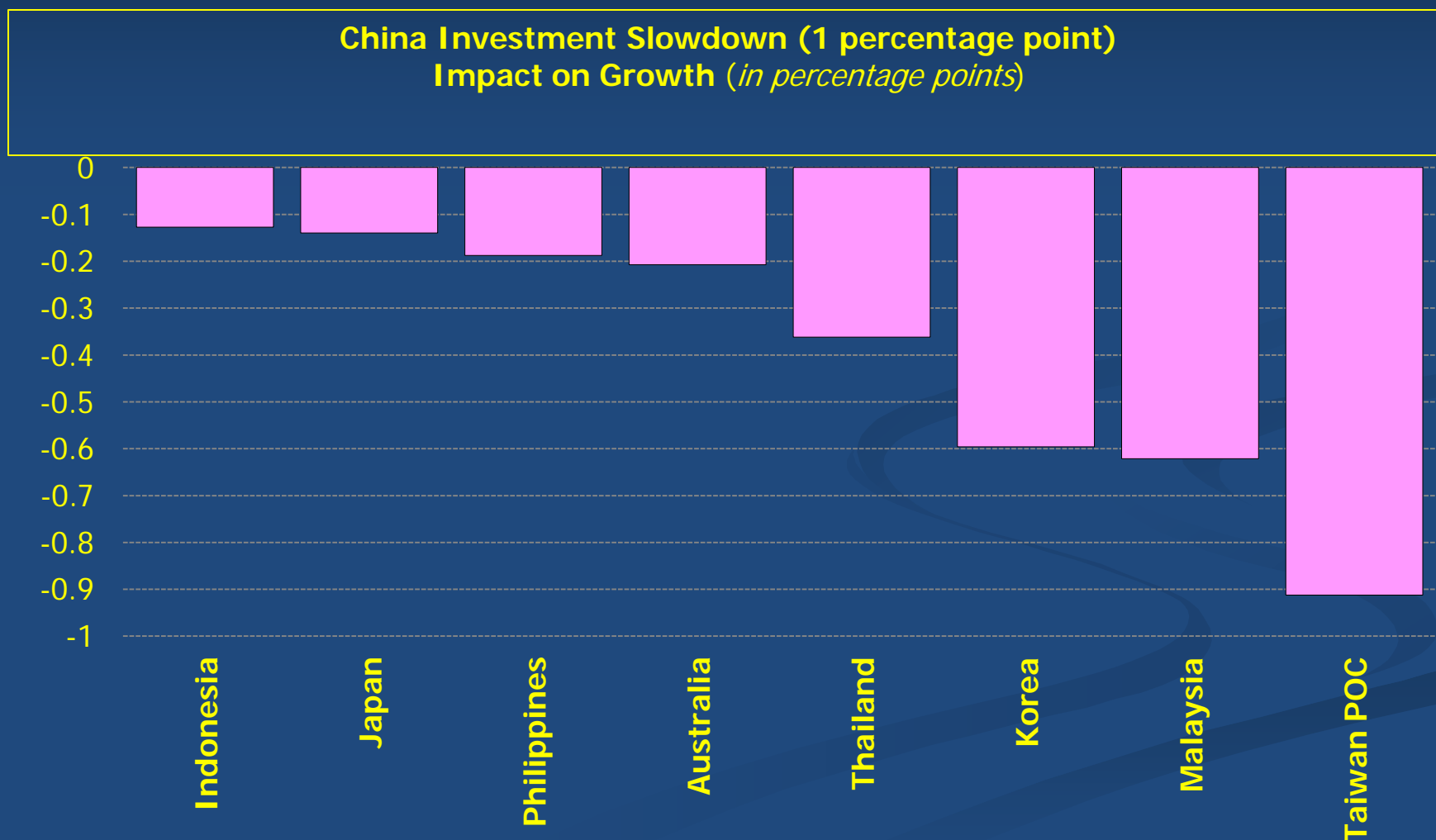


Sources: CEIC Data Co. Ltd; Haver Analytics; and IMF staff estimates.

...as external demand shows signs of bottoming out a domestic demand remain robust.



Major downside risks: Escalation of Euro area crisis and renewed China slowdown...

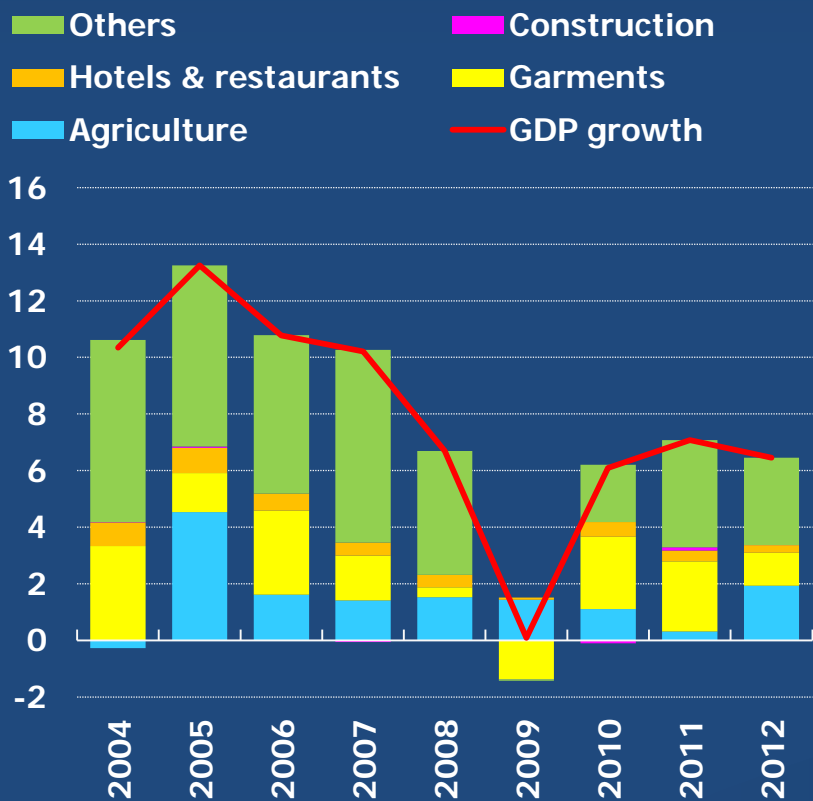




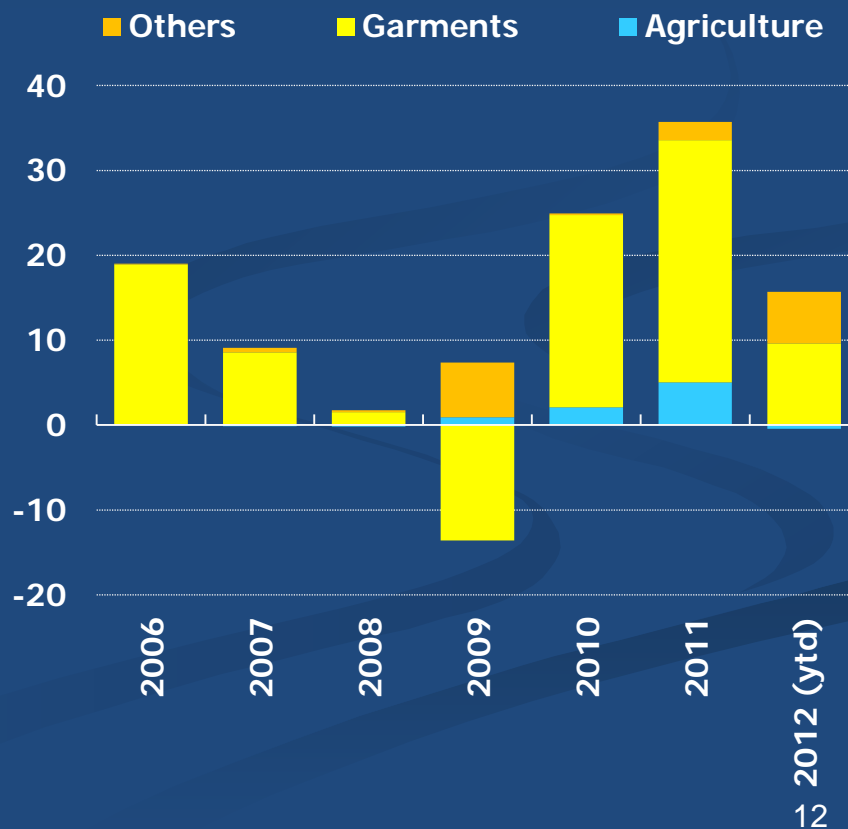
Cambodia: Economic Developments and Policy Challenges

Growth held up despite a moderation in exports

Contribution to Growth, 2004-12
(In percent)



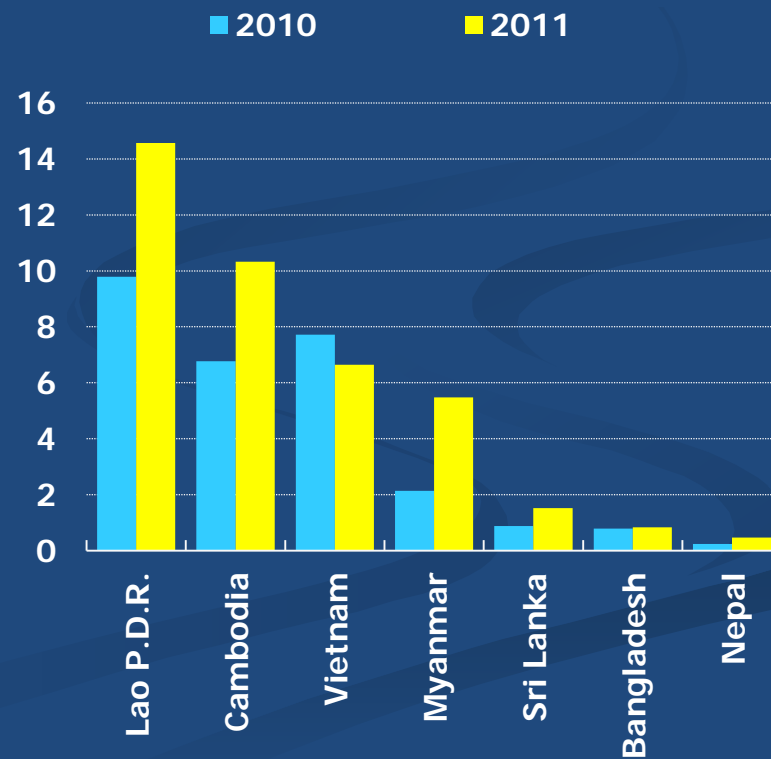
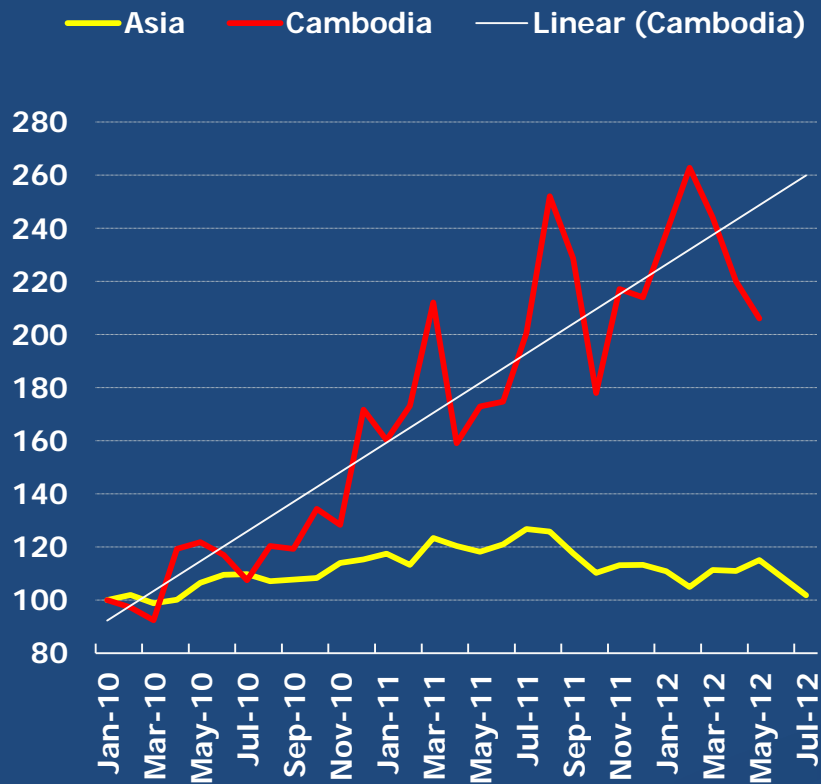
Contribution to Export Growth
(In percent)



Privileged access to the EU and more diversified foreign direct investment are playing a role

Exports of Goods to EU
(January 2010 = 100)

Foreign Direct Investment
(In percent of GDP)

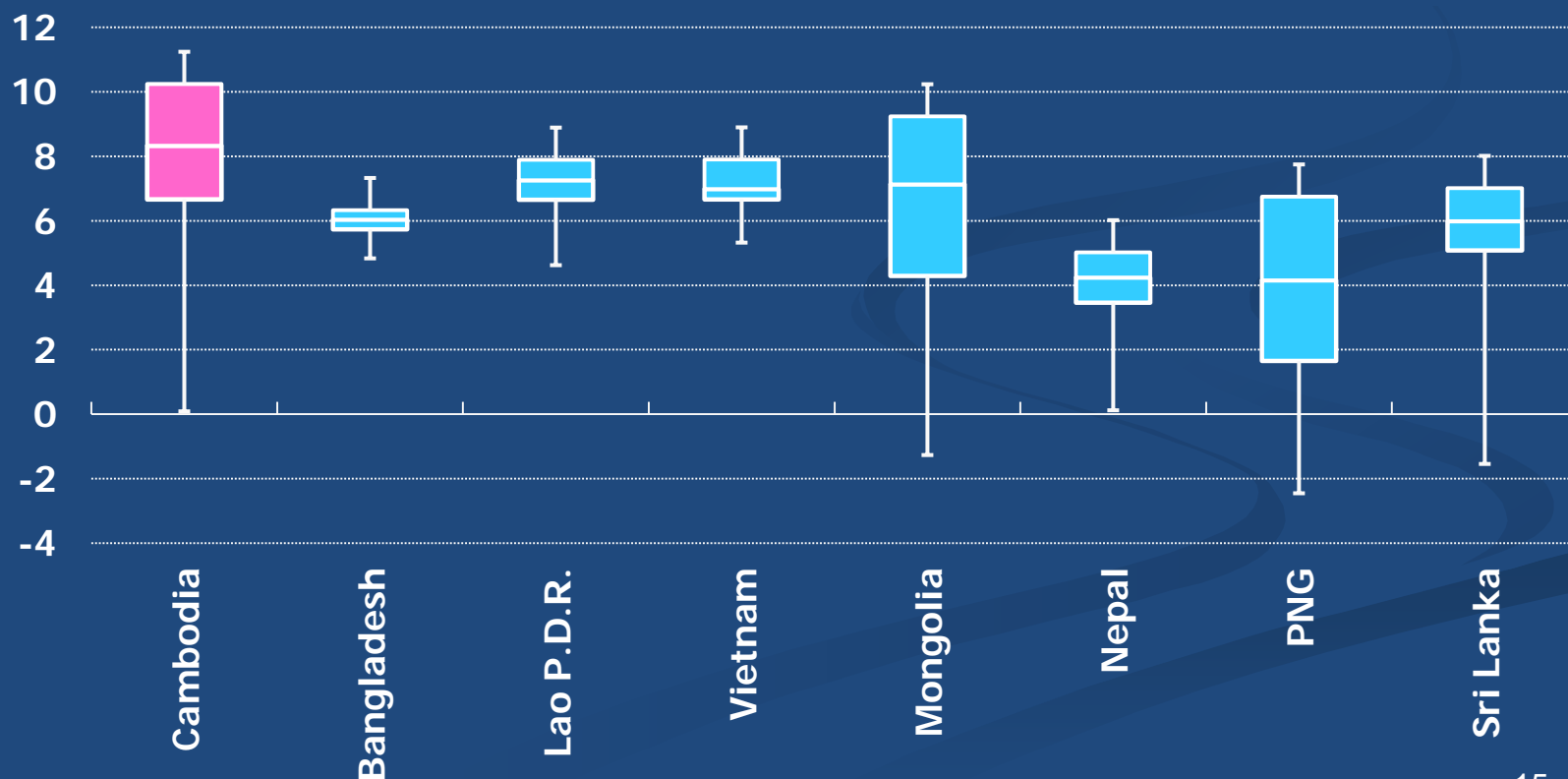


**What is Cambodia's potential growth
over the medium term?**

7-8 percent

Cambodia's resilience to shocks remains a challenge amid downside risks

Volatility of GDP Growth, 2000-11 (In percent)





What are the current policy challenges?

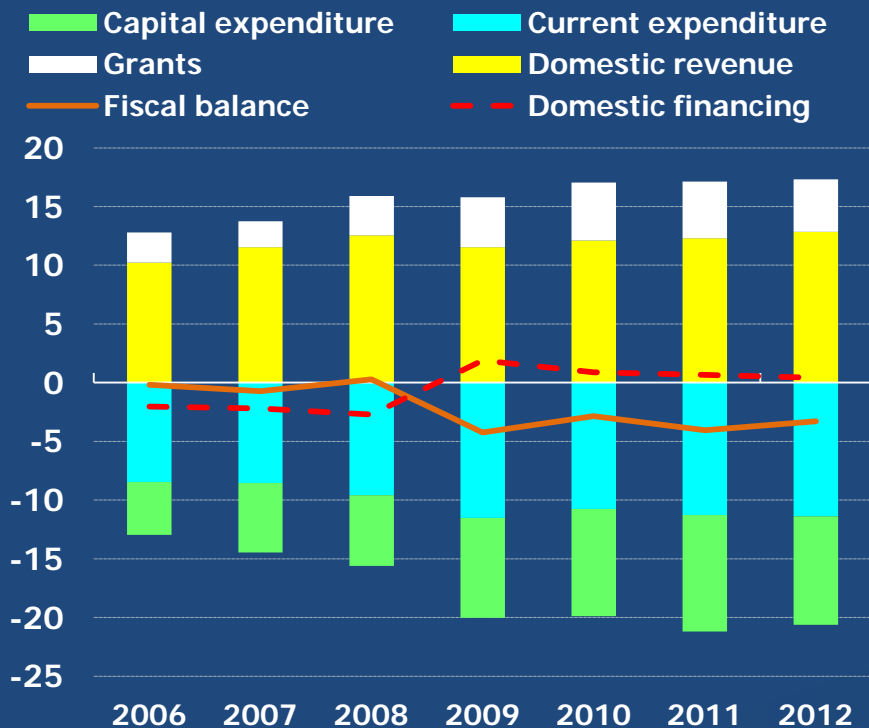
- ❑ #1 Greater Revenue Mobilization
- ❑ #2 Monetary Policy Effectiveness and Financial Stability
- ❑ #3 A Virtuous Cycle of More Self-Sustaining and Inclusive Growth

Need for a revenue mobilization strategy

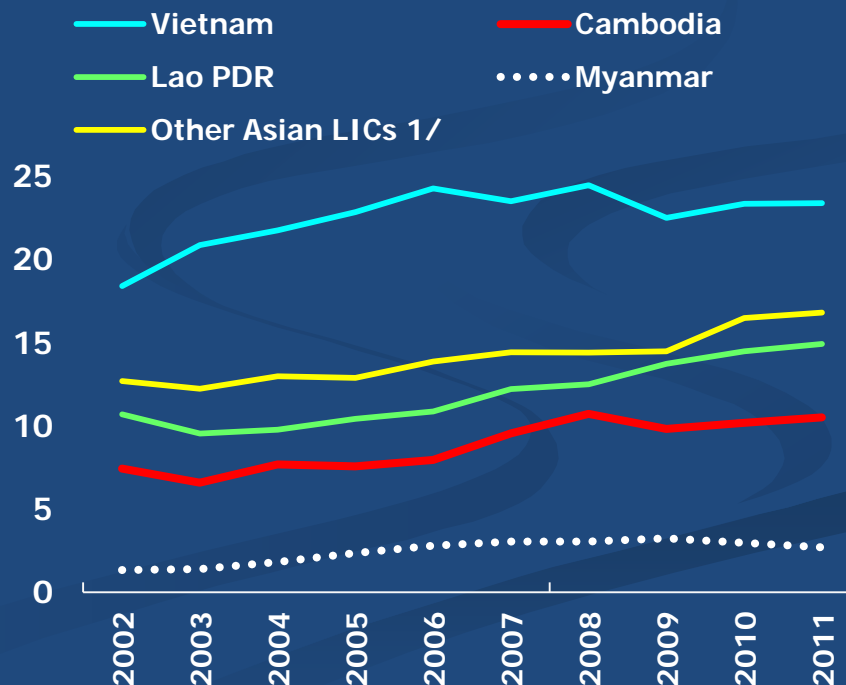
The fiscal position has improved since 2009, but progress in fiscal consolidation need to be expedited

Tax collection improved in 2012 but more room to grow compared to regional peers ...

Fiscal Balance
(Percent of GDP)

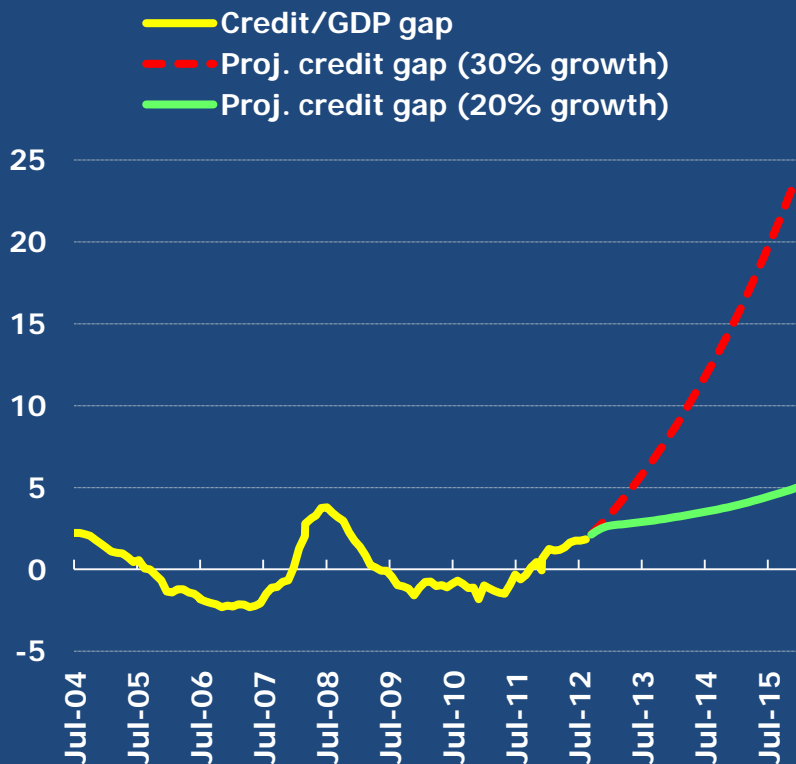


Tax Collections in Asian LICs
(Percent of GDP)

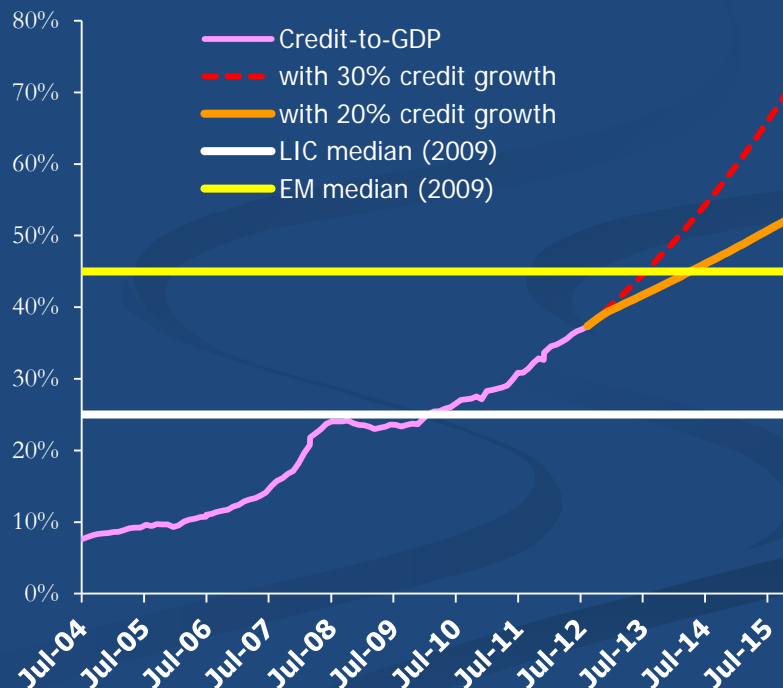


RR increase in 2012 – a welcome a first step to guard against potential excessive credit growth

Private Sector Credit-to-GDP
(In percent)



Relative Size of the Banking Sector
(In percent)





What should complement fiscal and financial policies to make growth more self-sustaining and inclusive?

- Economic diversification:
 - Reducing infrastructure and skills bottlenecks
 - Promoting rural development
 - Improving the investment climate

- Public Financial Management Reform Program (PFMRP)
 - Critical for better public service delivery
 - Need for better coordination by all stakeholders

- Data sharing and dissemination

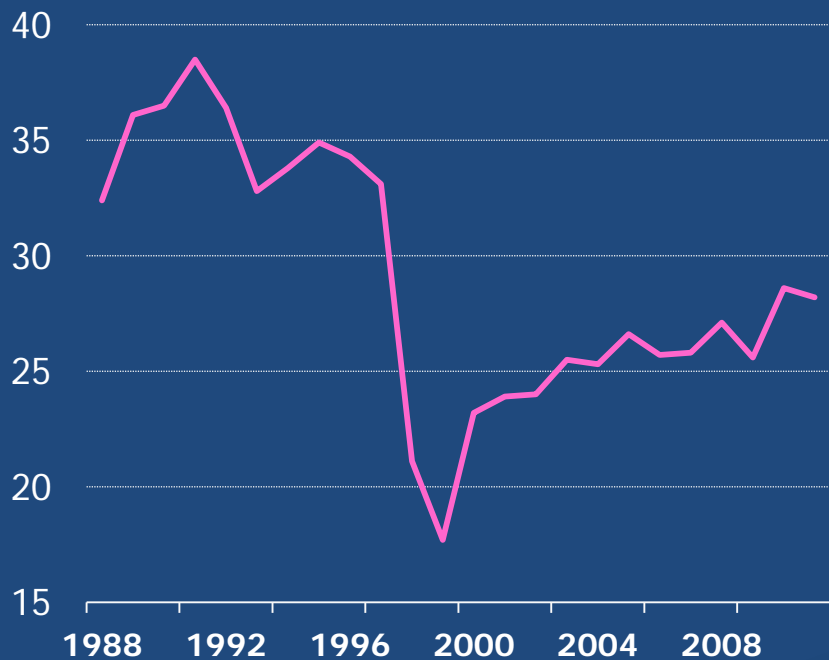
What are the medium-term challenges?

Let's look at the neighbors

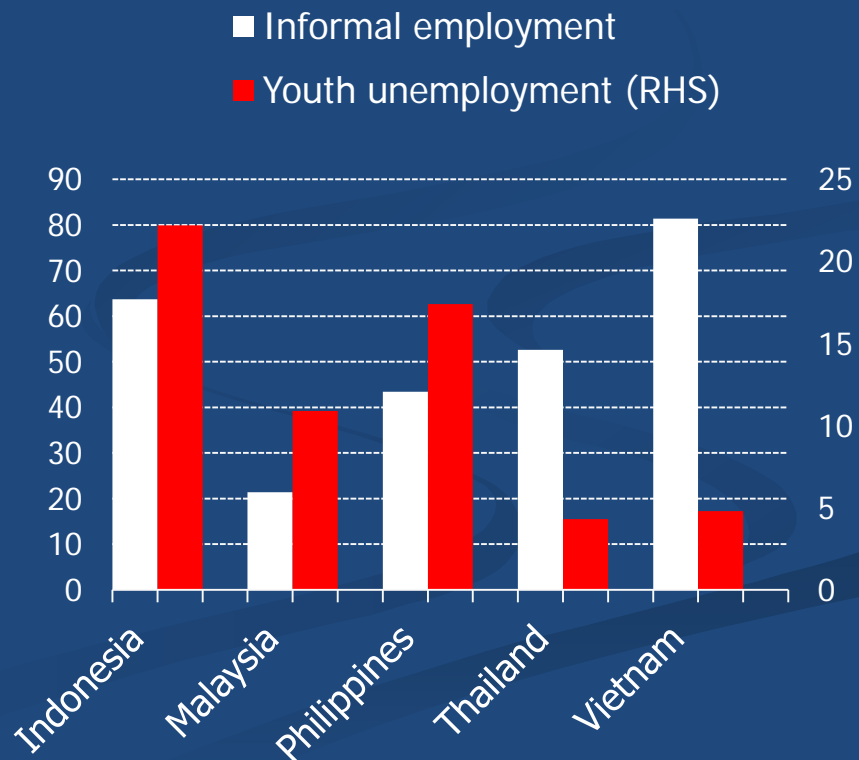


Boosting investment and formal employment

Selected ASEAN: Investment
(In percent of GDP)



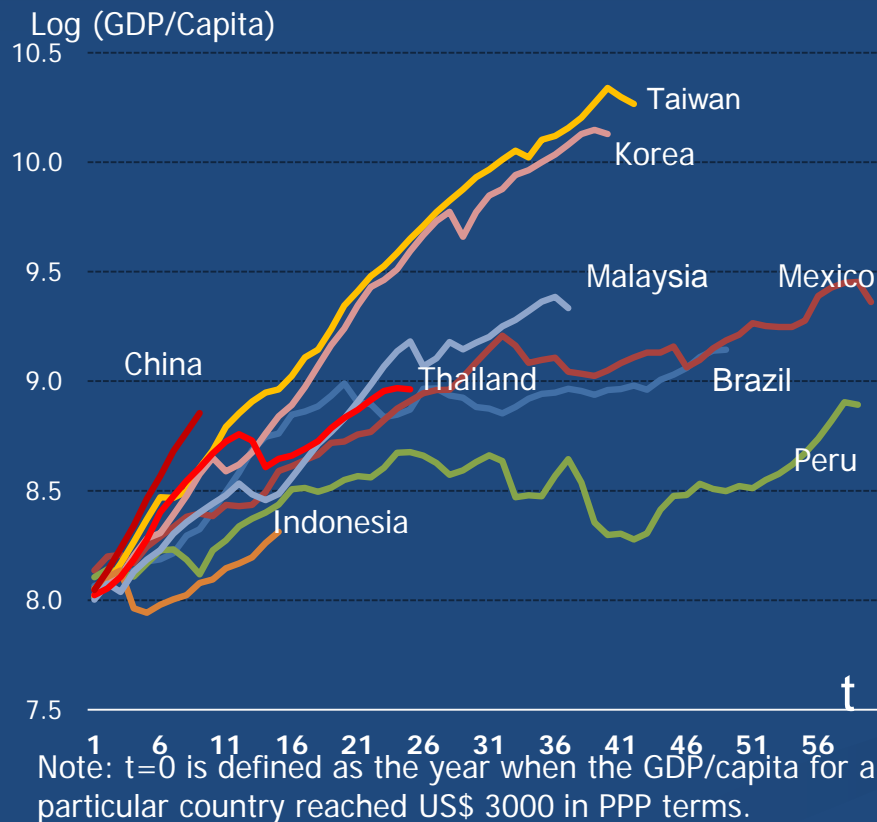
Selected ASEAN: Employment
(In percent)



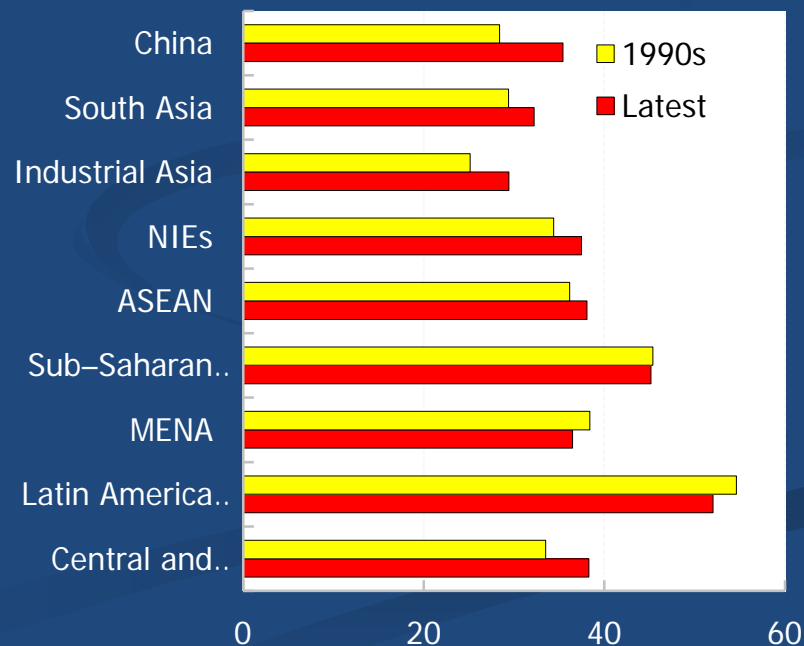


Broader challenges: Avoiding middle-income trap, and achieving inclusive growth.

Growth Trajectories

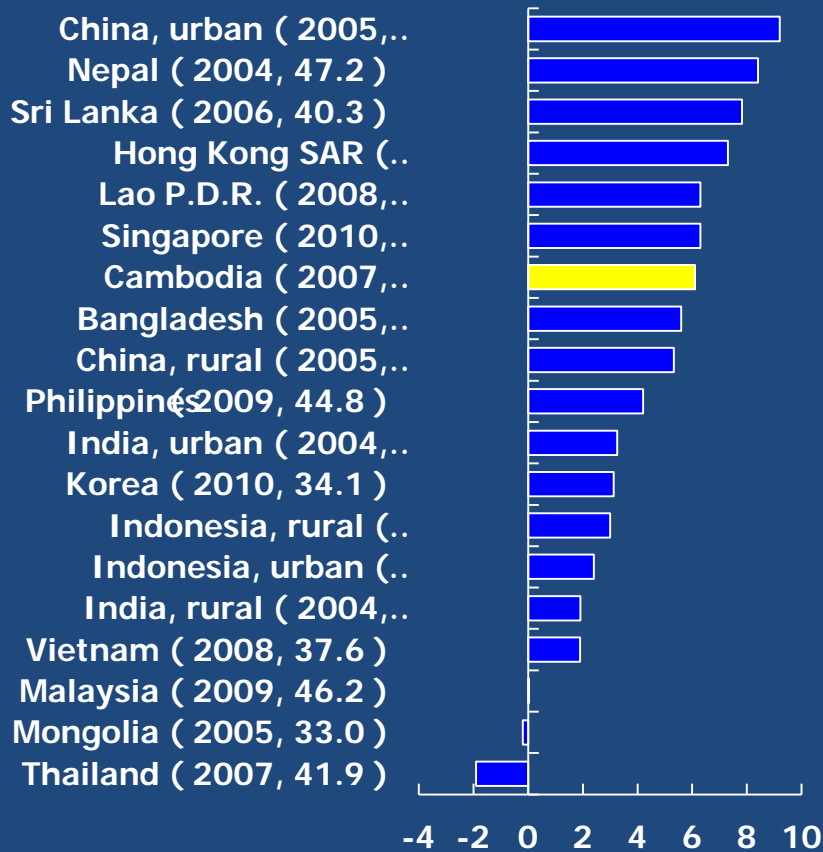


Inequality: Gini Index

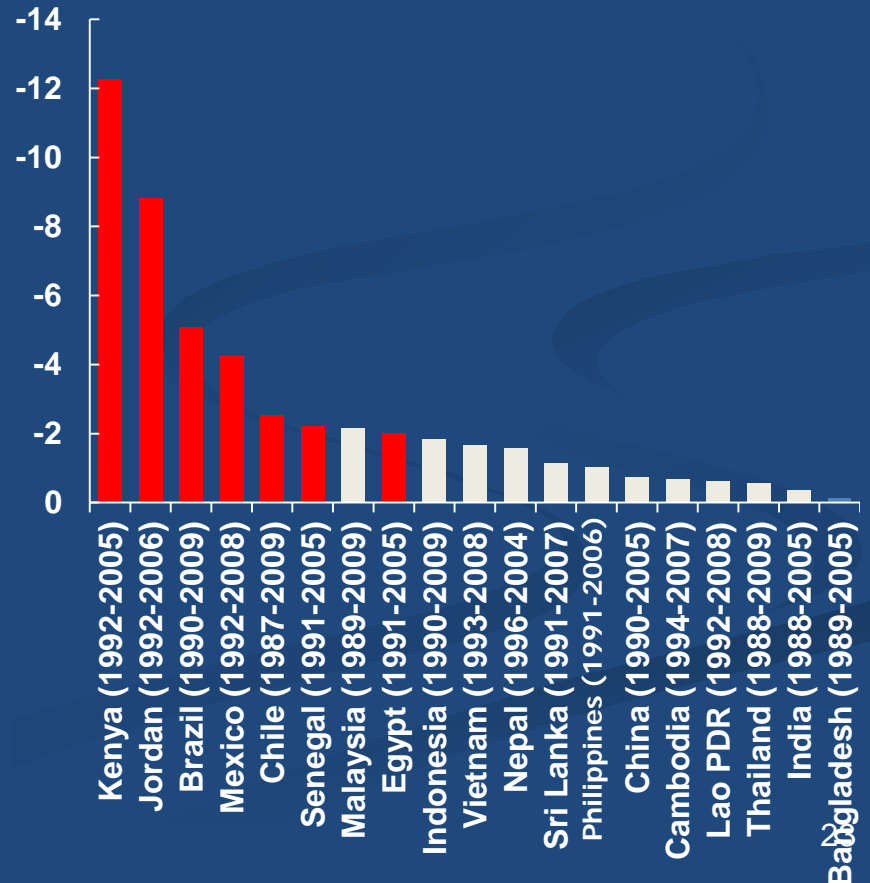


Inequality: Regional performance

Selected Asia: Change in Gini Index
(In Gini points, since 1990)



Emerging Economies: Partial Elasticities of Poverty Reduction
(w.r.t. 1 percent GDP growth)





THANK YOU.

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