

Cambodia Economic Update  
November 2023

 **THE WORLD BANK**  
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East Asia & Pacific



# FROM RECOVERY TO REFORM

**SPECIAL FOCUS**

Accelerating structural reforms  
to boost productivity and competitiveness

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AND COMPETITIVENESS

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## ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CEU	Cambodia Economic Update
COVID-19	coronavirus disease 2019
CPI	Consumer Price Index
CSES	Cambodia Socio-economic Survey
EAP	East Asia and Pacific region
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GTF	garment, travel goods, and footwear
HDI	Human Development Index
ICT	information and communication technologies
MEF	Ministry of Economy and Finance
NBC	National Bank of Cambodia
QIP	qualified investment project
SCD	Systematic Country Diagnostic
SMEs	small and medium-sized enterprises
TFP	total factor productivity
UN	United Nations
U.S.	United States
US\$	United States dollar
VAT	value-added tax
y/y	year on year



**PART 1.**  
**RECENT ECONOMIC  
DEVELOPMENTS  
AND OUTLOOK**

# EXECUTIVE SUMMARY

## *Recent developments*

**This year's economic activity has been slower than previously anticipated due to emerging structural bottlenecks and continued external headwinds.** This has prompted a sense of urgency to address the rising economic challenges to sustain growth in the short to medium term. While Cambodia's structural slowdown started well before the pandemic, it had been masked for several years by rapid capital inflows, mainly from China, fueling a construction boom until COVID-19 hit. The structural challenges are now exposed, hurting economic activity, which is also being impacted by global headwinds. Despite a rapid expansion of public investment in physical infrastructure, shortcomings in Cambodia's transportation network and logistics performance remain, and the country continues to face high costs and low reliability of energy supply. The country is ranked low among East Asian countries in terms of ease of doing business, investment climate, and competitiveness, due in part to its difficulties in promoting good governance.

**The slowdown was broad-based.** Despite a relatively strong rebound in international arrivals, tourism activity and receipts have proven to be sluggish. Construction and real estate activity also remained subdued, as reflected in weak imports of basic construction materials used in property development as the housing market correction continued, due to a significant increase in supply and persistent macroeconomic headwinds. However, as an initial signs of renewed investor appetite, the value of approved property development permits increased sharply, almost doubling from a year ago. In contrast, the value of approved investment (outside special economic zones) under the qualified investment project (QIP) scheme, which receives fiscal incentives for investing in the tradable sectors, remained subdued, reaching US\$1.16 billion or a 7.3 percent y/y decline as the negative impacts of the external demand slowdown continued.

**Cambodia's merchandise exports have weakened.** During the first eight months of 2023, goods exports shrank by 2.0 percent. Merchandise imports have also moderated as gold imports plummeted, narrowing the current account deficit, despite weaker exports. This helped ease pressure on the exchange rate, which remained broadly stable, hovering at 4,100

Cambodian riel per U.S. dollar. As food and oil prices inched up, inflation marginally increased, reaching 3.2 percent y/y in August 2023, up from 2.8 percent at end-2022. Gross international reserves improved to US\$18.5 billion in August 2023, up from US\$17.7 billion at the end of 2022, covering about seven months of imports.

**Credit growth declined to 7.7 percent y/y in August 2023 – a 20-year low, and a pronounced slowing from 22.7 percent during the same period in 2022 – further constraining domestic consumption.** Since the economy is highly dollarized, Cambodia "imports" U.S. monetary policy. Global financial conditions have become restrictive as a consequence of the fastest global monetary policy tightening cycle since the 1980s. Consequently, the central bank has also started to tighten its monetary policy by raising the reserve requirement, one of a few monetary policy instruments available to influence the money supply, given the economy is highly dollarized. The reserve requirement ratio for foreign currency of banks and financial institutions was raised to 9 percent in January 2023, up from 7 percent, reportedly to maintain the resilience of the banking and financial sector. Broad money eased, growing at 11.0 percent in August 2023, down from 12.0 percent during the same period in 2022, as foreign currency deposit growth slowed. Private sector deposit growth also decelerated, growing at 11.1 percent, down from 14.2 percent during the same period in 2022. According to the midyear 2023 report of the National Bank of Cambodia, the reported nonperforming loan ratios for the banking and microfinance sectors were 4.0 percent and 3.1 percent, respectively, by mid-2023, up from 3.2 percent and 2.6 percent, respectively, by the end of 2022.

**After a strong recovery in 2022, government revenue collection has slowed this year.** As gains from revenue administration improvements may have already peaked and cyclical slowdown amid slower economic activity continued, direct revenue collection moderated. Similarly, taxes on goods and services, especially excises and duties on imports, declined as goods imports and consumption shrank. Taxes on international trade also eased amid weakening trade. During the first eight months of 2023, central government domestic revenue plateaued, growing at 0.4 percent y/y, down from 23.8 percent during the same period in 2022. Central government expenditure growth, however, accelerated to 12.7 percent y/y, due mainly to rising operating expenses

that include an across-the-board public sector wage increase, an increase in goods and services expenses, general election-related spending, and the hosting of the Southeast Asian Games and the Association of Southeast Asian Nations (ASEAN) Para Games, as well as a capital spending boost. Government deposits (fiscal reserves) marginally declined to 21.3 trillion riel (US\$5.1 billion) or 16.0 percent of GDP in August 2023, down from 21.9 billion riel (US\$5.3 billion) or 17.8 percent of GDP in 2022.

**The labor market has been affected by subdued goods exports.** As a result, jobs in the (formal) manufacturing sector, an important source of paid employment, accounting for 18 percent of nonfarm payroll, shrank from 1.05 million in July 2022 to 1.0 million in May 2023, before partly recovering to 1.02 million in August 2023. This represents a 5 percent decline in manufacturing sector jobs, prompting the authorities to provide financial support to laid-off workers. Similar financial support in the form of a “wage subsidy”, one of several assistance measures, was provided during the time of COVID-19. Among all social assistance programs, the COVID-19 cash transfer program has been the largest. Since its launch in June 2020, the program has disbursed US\$1.2 billion as of September 2023. Moreover, the government has doubled its conditional cash transfer program to approximately US\$380 for each pregnant woman bearing one child up to the age of two with IDPoor cards from August 2023. This assistance program has also expanded its coverage to include female workers who are members of the National Social Security Fund, female civil servants, and intern and contract government officials. The increase in cash aid and their coverage expansion serves to further alleviate the negative impacts experienced by poor and vulnerable households.

## Outlook

**Cambodia’s real GDP growth is projected to reach 5.4 percent in 2023, marginally lower than 5.5 percent projected in May 2023 (see table ES1) as domestic demand eased and the external demand slowdown continued.** This year’s fiscal deficit is expected to widen to 6.9 percent of GDP, up from 4.8 percent of GDP in 2022.

**In the short term, the overlapping negative shocks of the pandemic, Russia’s invasion of Ukraine, and the sharp tightening of monetary policy in major economies to contain high**

**inflation are expected to continue to affect the economy.** In this context, the economy is projected to continue to grow at a slower pace than earlier projected, expanding at 5.8 percent and 6.1 percent in 2024 and 2025, respectively. Despite this year’s improvement in approved property development permit value, prospects of the real estate sector continue to remain uncertain, given high debt and tighter financing conditions. Although economic growth is forecast to be lower than previously expected, the pace of poverty reduction is projected to accelerate, but it is highly unlikely to reach the pre-pandemic level.

**In the medium to longer term, real growth is expected to trend back to potential, reaching 6 to 7 percent,** driven by stronger exports and FDI inflows facilitated by the newly ratified free trade agreements, a substantial increase in private and public investment in key physical infrastructure, and structural reforms.

**Table ES1. Macro outlook**

*(percent of GDP unless otherwise indicated)*

	Projections			Change from May 2023		
	2023	2024	2025	2023	2024	2025
<b>Real growth (percent)</b>	5.4	5.8	6.1	-0.1	-0.3	-0.2
<b>CPI (period average, percent)</b>	3.0	2.8	2.7	0.5	0.3	0.7
<b>Current accounts</b>	-13.4	-11.5	-9.6	5.9	4.6	3.6
<b>Overall fiscal deficit</b>	-6.9	-4.8	-3.2	-0.5	0.1	1.0
<b>Public external debt</b>	36.9	36.3	35.6	1.8	0.7	-0.3

## Challenges and risks

**The outlook is, however, subject to substantial downside risks.** Major downside risks pertain to weaker-than-expected global demand further constraining the country’s goods exports, tighter global financial conditions affecting the highly leveraged financial sector, and renewed oil and food price shocks negatively impacting domestic consumption. Domestically, rising household debt and the continued concentration of domestic

credit in the real estate sector remain key risks to financial stability. In addition, fiscal-monetary policy coordination in Cambodia remains a challenge. While countercyclical fiscal policy continued, tightening monetary policy has already begun. A growth shock originating in the region's largest trading partners, China, and the U.S. would impact economic performance in the East-Asia and Pacific (EAP) countries including Cambodia through bilateral trade and financial flows, including foreign direct investment (FDI).

**Further tightening of global financial conditions, especially surging global interest rates, could worsen investment in the tradable sectors and severely affect the highly leveraged banking system.** Global growth, especially global trade, could be even weaker than anticipated, worsening manufacturing exports, currently providing about 1 million jobs (18 percent of nonfarm employment) in the event of widespread financial sector stress or if more persistent inflation pressures prompt tighter-than-expected monetary policy. Worsening geopolitical tensions, conflict and social unrest, and natural disasters stemming from climate change, continue to present downside risks in many emerging and developing economies, including Cambodia.

### *Policy options*

**An acceleration of the key structural reforms envisaged under the 2023–28 Pentagonal Strategy is needed to ensure sustainable growth over time.** As discussed in the Special Focus section, Cambodia's strong economic growth over the past decade was largely driven by factor accumulation, with limited contributions from productivity. Structural transformation has slowed since 2016, and recent years have seen only modest improvements in the economy's international competitiveness. To avoid a future slowdown in economic growth and poverty reduction, Cambodia needs to transition to a more sustainable pattern of growth through further structural reform. In particular, lifting the contributions to growth from productivity and human capital will require reforms to the business environment and larger, higher quality investments in infrastructure and in education and skills.

**Further improvements to the business environment are critical for boosting the productivity and competitiveness of Cambodian firms.** The cost of doing business remains relatively high in Cambodia,

reducing international competitiveness and inhibiting innovation and shifts into higher value-added activities. To help support increased private sector investment, Cambodia needs to strengthen the predictability of the regulatory environment and expand SME access to finance. Further efforts to streamline complex and restrictive business entry requirements, together with improvements to the functioning of the insolvency framework, would help reduce costs of firm entry and exit. Simplifying and digitalizing business services, especially the issuance of licenses and permits, would reduce the associated costs. More competition would foster cost reductions and innovation and promote productivity growth by shifting market share toward more efficient producers and incentivizing firms to become more efficient. To support the tourism sector, a reduction of costs and fees (visa, accommodation, food, transport, and entrance fees) – including elimination of unofficial fees – would help attract international arrivals.

**Upgrading Cambodia's infrastructure is also an important foundation for productivity and international competitiveness.** Cambodia continues to have a large infrastructure financing gap, resulting in inadequate infrastructure services that are struggling to keep up with rapidly growing demand. Large investments are needed in the energy sector to address the dual challenge of meeting rapid growth in electricity demand while meeting the country's climate change commitments. Investments are also needed to upgrade basic urban services such as piped water, sanitation, solid waste management, telecommunications, and transport, in conjunction with strengthened urban planning.

**Moreover, gaps in regional connectivity impact the efficiency and cost of cross-border trade and need to be addressed.** Investments are needed to address specific infrastructure gaps in domestic and regional transport connectivity: to improve the East-West corridor across Thailand, Cambodia, and Vietnam (and the only road corridor connecting Cambodia with Lao PDR); to improve the inland waterway connection with Vietnam; and to improve the existing railway operations and infrastructure links with Thailand. It is also important to improve trade facilitation and logistics performance. Further efforts must be made to reduce transport and logistics costs by monitoring the efficiency of main trade gateways such as ports and border checkpoints.

**Raising learning outcomes is crucial to address skills shortages, develop a “future-ready” workforce, and drive Cambodia’s future productivity growth.** Firms are reporting growing skills shortages, and labor productivity growth has declined sharply over the past five years. Few young Cambodian children are being enrolled in early childhood education, which is undermining early development and hindering mothers from returning to work. Primary schools are experiencing a decline in learning outcomes despite improved access. Few students are progressing to secondary school and those that do are often inadequately prepared and experience high dropout rates. Options for post-secondary learning are limited and are of low quality. Finally, the dynamism of the labor market is limited by insufficient supply and demand information.

**In addition to these structural reforms to promote sustainable growth, maintaining macro-fiscal stability continues to be a priority.** Further effort is needed to restore fiscal space, including through reforms to curb tax holidays and exemptions, and to broaden the corporate income tax base and strengthen compliance. Tax and customs administration systems can be modernized to make it easier to pay taxes and duties.

**It is also critical to safeguard financial stability, given Cambodia’s highly leveraged banking sector.** To safeguard financial stability, the immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country’s insolvency regime. Efforts to prepare legislation on deposit insurance and bank resolution must continue.

**Finally, improving public sector performance is necessary to create an institutional environment which strengthens service delivery and supports rather than hinders the development of the private sector.** Key public administration reforms include: (i) strengthening the quality and effectiveness of public service delivery, including the development of organizational performance indicators and a system for regular high-level reporting and monitoring of performance; (ii) optimizing organizational structures and reforming back-office and support functions across government; and (iii) strengthening the meritocratic approach to civil service employment, and reforming pay and compensation, including by linking worker performance with pay increases.

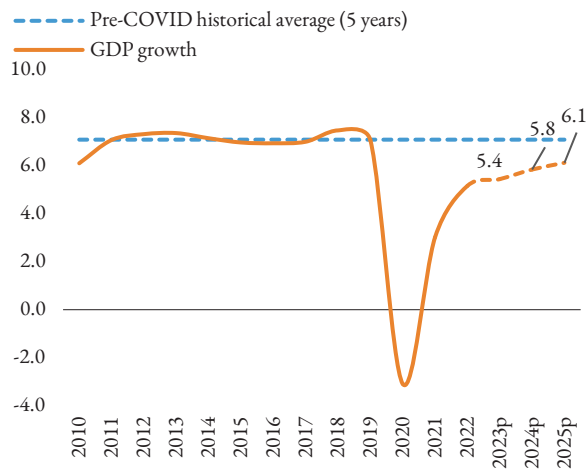


Photo: Silver Ringvee @unsplash

**FIGURE ES.1. CAMBODIA'S RECENT DEVELOPMENTS AT A GLANCE**

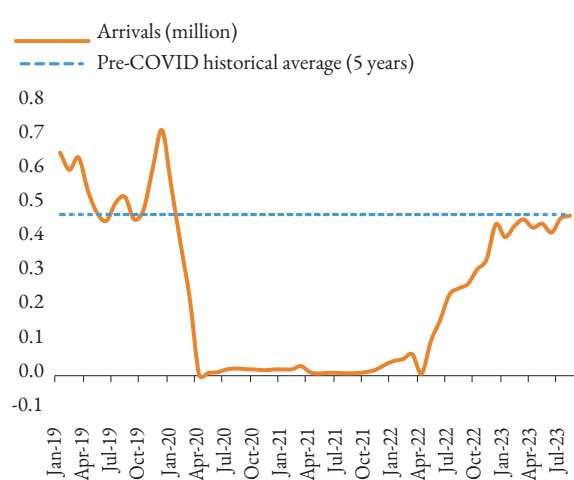
**Economic growth was slower than anticipated...**

*Real growth (percent)*



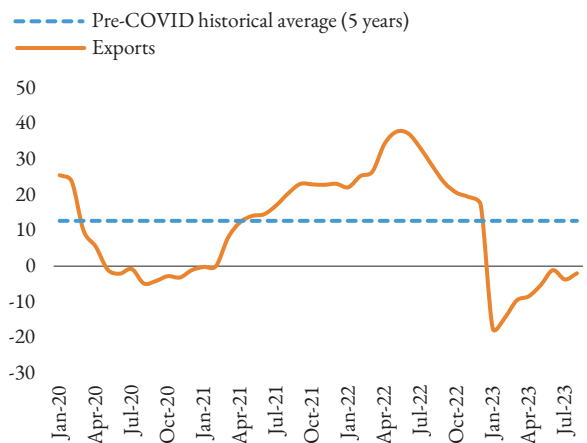
**...Supported by recovery of services...**

*International arrivals (million)*



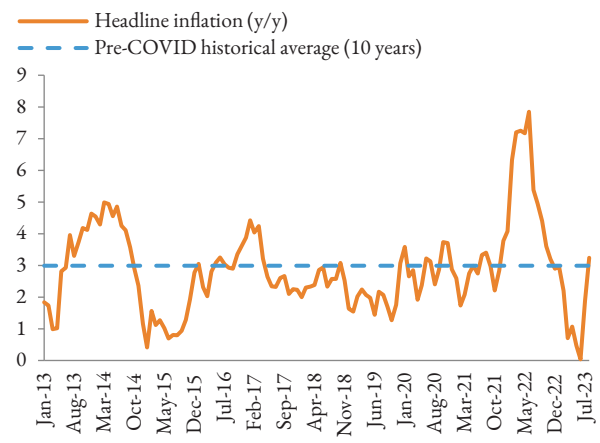
**...Despite continued decline in goods exports ...**

*Goods exports (year to date, y/y percent change)*



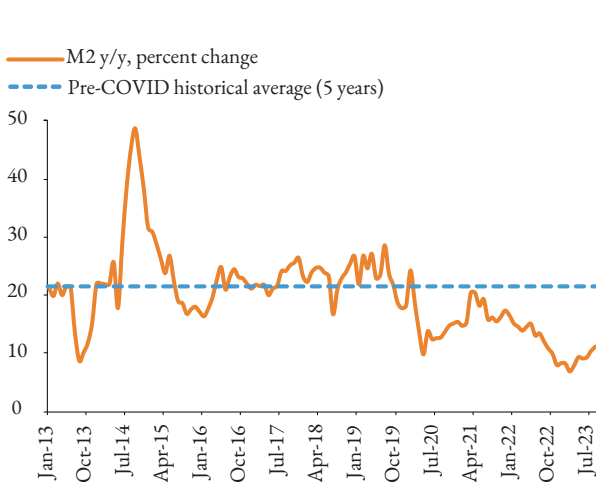
**...Inflation edged up...**

*(y/y percent change)*



**...Broad money (M2) growth decelerated...**

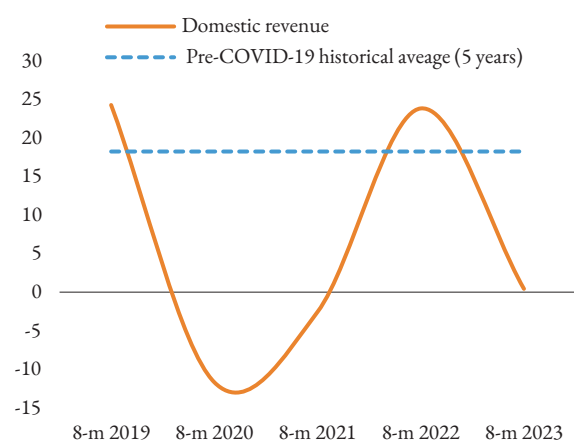
*Broad money liabilities (y/y percent change)*



**...Domestic revenue slowed**

**Central government domestic revenue**

*(y/y percent change)*



Sources: Cambodian authorities; World Bank staff projections.

Note: p = projection; y/y = year on year.

# RECENT DEVELOPMENTS ECONOMIC ACTIVITY IS SLOWER THAN PREVIOUSLY ANTICIPATED

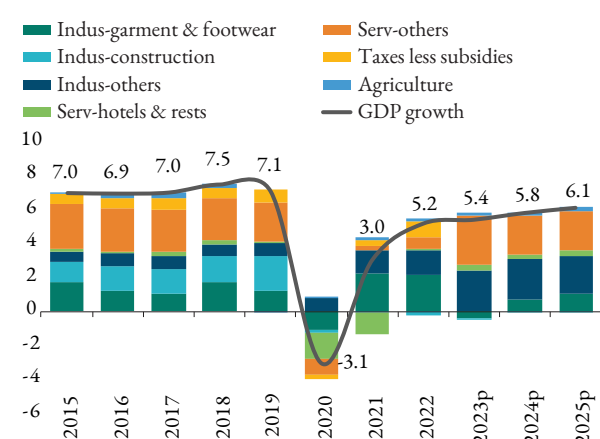
The global economy remains in a precarious state amid the protracted effects of the overlapping negative shocks of the pandemic, Russia’s invasion of Ukraine, and the sharp tightening of monetary policy to contain high inflation.<sup>1</sup> Global growth is projected to slow significantly in the second half of this year, with weakness continuing in 2024. Inflation pressures persist, and tight monetary policy is expected to weigh substantially on activity. Recent banking sector stress in advanced economies will also likely dampen activity through more restrictive credit conditions (see box 1 on global economic developments and outlook).

Economic activity in much of developing East Asia and Pacific (EAP), other than several Pacific Island countries, has recovered from the succession of shocks since 2020 but is now slowing (figure 1).<sup>2</sup> While output has surpassed pre-pandemic levels in most of the larger EAP economies, recovery has been uneven across the region. Output in China and Vietnam already exceeded pre-pandemic

levels in 2020 and is now about 20 percent higher. The recovery has also been uneven across sectors. Information and communication technology and finance have experienced relatively strong growth. Regionally, the service sector started to recover after the economic reopening in several of the region’s economies, benefitting from the release of pent-up demand. However, output in the transportation, accommodation, and catering sectors in the Philippines and Thailand, and construction and real estate in Malaysia, the Philippines, and Thailand, are still well below pre-pandemic levels. Other emerging market and developing economies have seen even weaker recoveries, especially low-income countries. Higher interest rates and depreciated currencies have exacerbated the difficulties of low-income countries, placing them at high risk of distress or already in distress.<sup>3</sup>

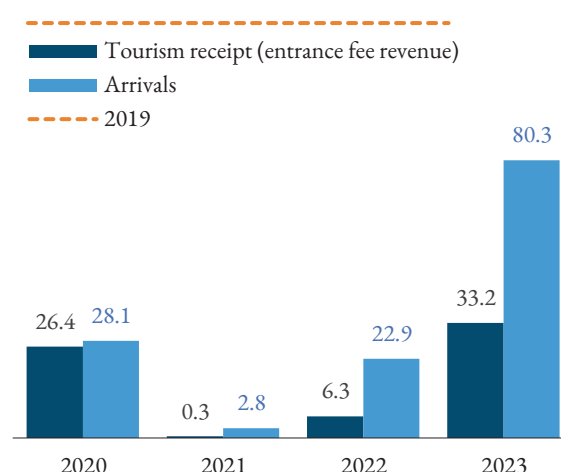
**Signs of weakening economic activity continued across the EAP region.** In most major EAP economies, private consumption, which bounced back from COVID-19 and inflation-induced austerity, sustained growth in the first half of 2023, but is running out of steam unexpectedly early in China. Meanwhile, exports of both manufactured goods and commodities have contracted. Public and private investment also remains low in much of the region. Fiscal policy is now less expansionary in most countries. The key external factors are slowing global

**Figure 1. Economic recovery continued Contribution to real GDP growth (percent)**



Sources: Cambodian authorities and World Bank staff projections.  
Note: p = projections.

**Figure 2. Eight-month arrival and tourism receipts (percent, 2019 = 100)**



Source: Cambodian authorities.

1 World Bank. 2023c.  
2 World Bank. 2023a.  
3 IMF 2023a.

growth, still tight financial conditions, and an increase in trade protection, combined with industrial policies. Among the domestic factors in EAP economies, the most important are the COVID-19 legacy of amplified public and private debt and the policy stance, especially fiscal and monetary.

**The Chinese economy has also slowed,<sup>4</sup> and this does not bode well for Cambodia, given that China is one of Cambodia’s major trading partners, especially for imports of intermediate goods used in the production of garments, travel goods, and footwear products for export.** China is also the main source of foreign direct investment (FDI), accounting for about half of FDI inflows in Cambodia. During the pre-pandemic period, Chinese tourists ranked top, accounting for more than a third of total international arrivals. China’s growth has slowed substantially since April 2023. Domestic demand has weakened, reflecting subdued consumer and business confidence, an incomplete labor market recovery, and persistent property market turmoil. While travel has broadly recovered, spending has not. The Chinese economy has been impacted by slowing global growth, which has tempered external demand.

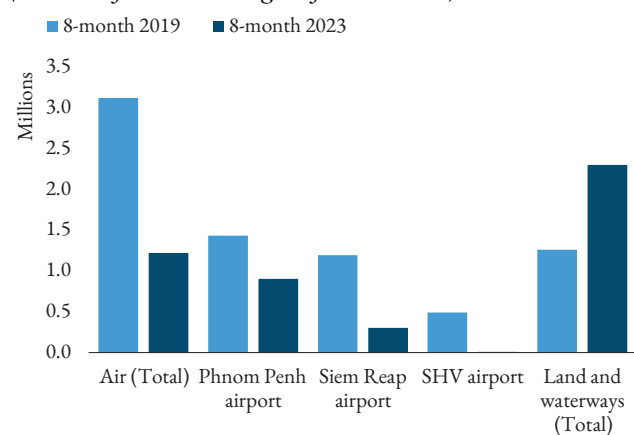
**Like many countries in the region, economic activity in Cambodia is slower than previously anticipated.** The newly elected Government of Cambodia understands the need to address structural challenges, which are weighing on growth. In this regard, the 2023–28 Pentagonal Strategy (box 2) was introduced in August 2023, aimed at boosting growth,

creating jobs, ensuring equity, increasing efficiency, and maintaining sustainability. The Pentagonal Strategy is designed to improve the country’s competitiveness by addressing Cambodia’s high transport and logistics costs and poor performance on ease of doing business and the investment climate, among others. In this regard, the first post-pandemic high-level public-private sector forum was organized in November 2023.

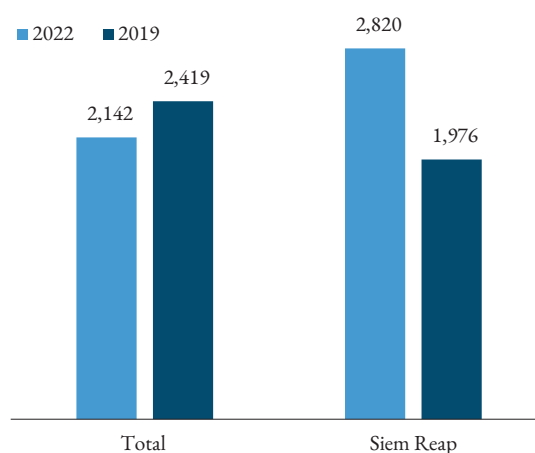
## INTERNATIONAL ARRIVAL NUMBERS ACCELERATED

**During the first eight months of 2023, international arrivals reached 3.5 million, up from 1 million during the same period in 2022.** Indicating a relatively rapid recovery of international arrivals, during the first eight months of 2023, tourist arrivals have recovered to about 80 percent of the arrival number recorded during the same period in 2019 (figure 2), compared to 67.1 percent and 60.5 percent for Thailand and Vietnam, respectively. However, the structure and composition of arrivals have changed, indicating a slow recovery of tourism receipts. During the pre-pandemic period, air arrivals, which are often associated with relatively high tourist expenditure, accounted for two-thirds and land arrivals for one-third. The opposite has been true in the post-COVID-19 period. During the first eight months of 2023, international arrivals by land accounted for 2.3 million, while air arrivals accounted

**Figure 3. Air arrivals remained relatively subdued**  
Arrivals by mode of transport  
(millions of visitors during the first 8 months)



**Figure 4. Accommodation supply**  
(number of rooms of guesthouses and hotels)



<sup>4</sup> World Bank 2023b.

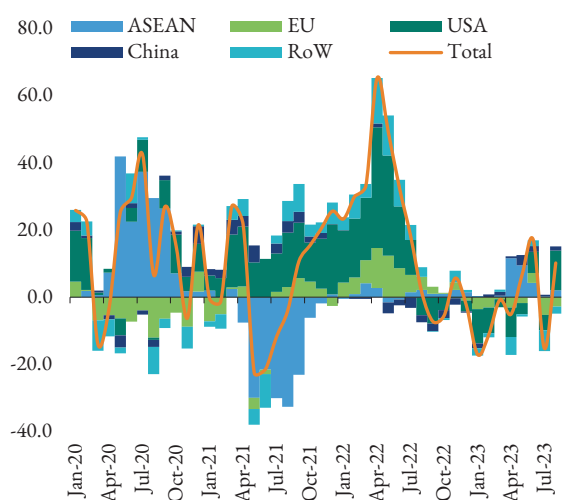
for 1.2 million (figure 3). In addition, while the share of Chinese tourists was the largest, accounting for almost 40 percent of total arrivals during the pre-pandemic period, it accounted for only 10.5 percent in 2023. The share of Thai tourists is now the largest, accounting for 34 percent of the total, up from 5.2 percent in 2019. Rising land arrivals and Thai tourists reflect increased foreign tourists with relatively short length of stays and low daily expenditures, mainly Thai, crossing from Aranyaprathet (Thailand) to visit mostly Poi Pet (Cambodia), where there are casinos catering to foreign tourists.

**While the share of total international arrivals reached 80 percent of the number recorded during the same period in 2019, the share of arrivals to Siem Reap reached only one-tenth of the pre-pandemic level.** During the first eight months of 2023, international arrivals to Siem Reap reached 0.38 million, accounting for 11.0 percent of the total, compared to 1.3 million or 38.4 percent of the total during the same period in 2019. As Siem Reap is the largest tourist attraction site in the country, the revival of the tourism sector is not being felt by many travel, tourism, and hospitality industries there. With the pre-COVID-19 construction boom boosting the supply of guesthouse and hotel rooms (figure 4), Siem Reap is increasingly experiencing a mismatch between tourism supply and tourism demand, amplifying the negative impact of slow tourism receipts. The arrival number to Kong

Keng International Airport at Sihanoukville, a Chinese investment hotspot (receiving the approved property development permit value of US\$4.3 billion in 2019) during the pre-pandemic period has been worse, declining to 10,000 (0.3 percent of total) during the first eight months of 2023, down from 0.5 million (11.2 percent of the total) during the same period in 2019.

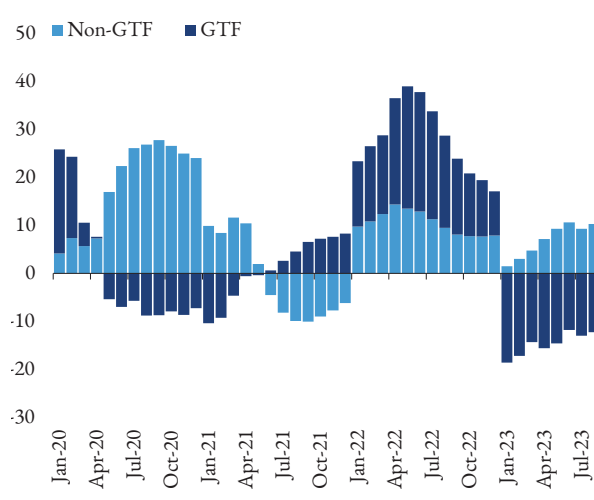
**Similarly, revenue collection from Angkor temple entrance fees was relatively weak, reaching only US\$20.3 million or a third of what was collected during the same period in 2019.** Although international arrival numbers quickly recovered, tourism receipts collected from international arrivals by land are likely to be lower than those from air arrivals. In this regard, tourism receipts collected during the post-pandemic period remained relatively slow. In 2022, Cambodia's tourism receipts were estimated by the Cambodian authorities to have reached only 28 percent (US\$1.4 billion) of what was collected in 2019 (US\$4.9 billion).<sup>5</sup> This indicates that the recent increase in international arrivals may be driven by short-stay border-crossing tourists arriving by land to Cambodia's border town of Poi Pet, Bantey Meanchey province, mainly from Thailand, with relatively low spending per tourist. In addition, the number of domestic tourists, which surged, reaching 13 million, due mainly to the Khmer New Year celebration during the first half of 2023, boosted by one-off pent-up demand after the country

**Figure 5. Contribution to export growth by market (percentage point)**



Source: Cambodian authorities.  
Note: RoW = rest of the world.

**Figure 6. Contribution to export growth by products (percentage point)**



Source: Cambodian authorities.  
Note: GTF = garment, travel goods, and footwear.

5 Ministry of Tourism 2023.

completely relaxed mobility restrictions, may have also eased.

**Cambodia’s neighbors, especially Thailand and Vietnam, have been more successful in attracting Chinese tourists.** By August 2023, Chinese tourists accounted for 12.3 percent and 14.2 percent for Thailand and Vietnam, respectively, compared to 10.5 percent for Cambodia.

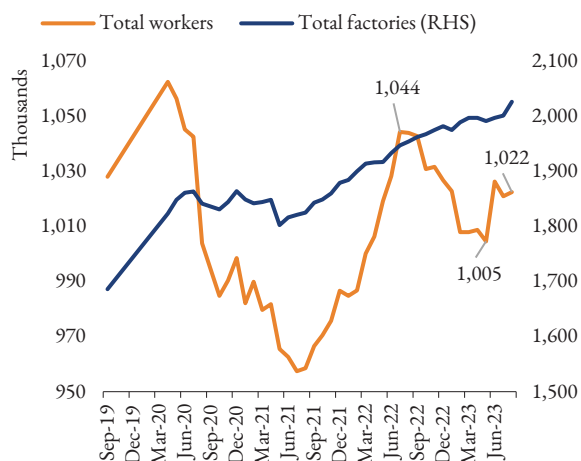
## GOODS EXPORTS WEAKENED AS GARMENT, TRAVEL GOODS, AND FOOTWEAR EXPORTS EASED

**Cambodia’s merchandise exports weakened, due to the continued negative impact of the slowdown in external demand.** During the first eight months of 2023, goods exports (including gold) shrank by 2.0 percent, reaching US\$13.9 billion. Nevertheless, year on year (y/y) data indicate that goods exports appear to have gradually stabilized (figure 5). The deterioration of garment, travel goods,

and footwear (GTF) exports remained pronounced (figure 6), indicating a relatively elastic demand for GTF products with respect to incomes of Cambodia’s main export markets, especially the United States and European Union. However, exports of non-GTF products accelerated.<sup>6</sup>

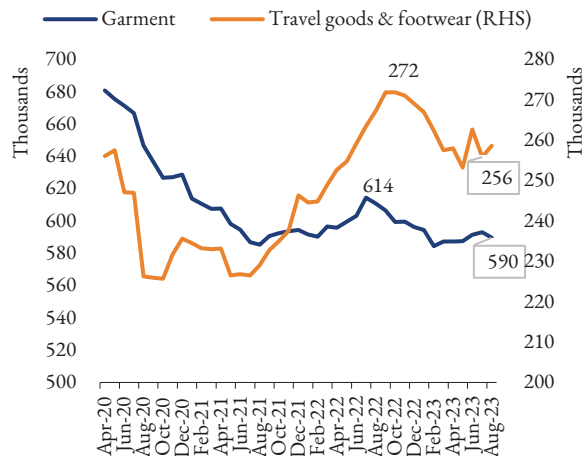
**Goods exports to the United States, Cambodia’s largest export market, accounting for 43.7 percent of total exports, reached US\$6.4 billion, or a 4.8 percent y/y decline during the first eight months of 2023.** However, reflecting moderation of the decline, exports expanded by 28.8 percent y/y in August 2023, after contracting by 10.1 percent in July 2023. The increase in goods exports to the U.S. market in August 2023 was driven by “other products,” electrical parts, and vehicle parts, contributing 131 percentage points, 121.4 percentage points, and 42.3 percentage points, respectively. Similarly, goods exports to the EU, Cambodia’s second-largest export market, accounting for 17.7 percent of total exports, also shrank, contracting at 11.2 percent during the first eight months of 2023. The ASEAN, China, Japan, United Kingdom, and rest of the world markets accounted for 10 percent, 6.7 percent, 5.5 percent, 3.8 percent, and 12.5 percent of total exports, respectively.

**Figure 7. Manufacturing sector’s jobs and factories**



Source: Cambodian authorities.  
Note: RHS = right-hand scale.

**Figure 8. Garment, travel goods, and footwear jobs**



Source: Cambodian authorities.  
Note: RHS = right-hand scale.

6 Unfortunately, further analysis cannot be conducted, as a large part of non-GTF exports is classified as “others” exports under Cambodia’s goods export data.

## THE NUMBER OF MANUFACTURING JOBS SHRANK AS GARMENT, TRAVEL GOODS, AND FOOTWEAR EMPLOYMENT DECLINED

Consistent with subdued goods exports, employment in the manufacturing sector also declined. Manufacturing jobs declined by 44,000, to 1 million in May 2023, as goods exports were hit hardest by the decline in external demand, from its post-COVID-19 peak in July 2022. However, employment has since recovered, reaching 1.022 million in August 2023 (figure 7). The relatively sharp decline in net employment during July 2022 to May 2023, largely reflected the impacts of the global demand slowdown on Cambodia's main manufacturing sector, which includes the garment, travel goods, footwear, and textile industries. These industries provide as much as 83 percent of total employment in the manufacturing sector. As a result, during the 10 months covering July 2022–May 2023, net employment in these industries declined by 5

percent or 40,000, to 0.84 million, down from 0.88 million. This decline accounted for 90 percent of the total employment decline during the period (figure 8). Given that these formal industries are receiving the minimum wage of about US\$200 a month, the economic effect created by the loss of 40,000 employed people could be estimated to reach at least US\$100 million in wages and allowances alone.

**Despite the decline in net employment, the number of factories in the manufacturing sector continued to grow, reflecting some gains in industrial diversification, likely to be less labor-intensive and possibly higher value-added manufacturing sectors.** Factory statistics showed a relatively large net gain in 200 factories during 2020–23, reaching a total 2,026 factories by August 2023. Of the increase in the number of factories, the metal, paper, furniture, plastic, and chemical industries accounted for about two-thirds. However, these industries combined are responsible for only 10 percent of total employment in the manufacturing sector. The expansion of Cambodia's food, beverage, and tobacco industry, which has been known as a relatively large employment generation manufacturing sector, may have already peaked, with relatively unchanged factory and employment numbers of 165,000 and 27,000, respectively, since 2022.

### Box 1. Global economic developments and outlook

**Despite some pockets of resilience, particularly in the United States, global activity continues to moderate, with recent Purchasing Managers' Indexes (PMIs) suggesting weakness in manufacturing is broadening to the services sector (figure B1.1).** The U.S. economy continued to expand steadily in the first three quarters of the year, as near record-low levels of unemployment bolstered consumption. However, in the euro area, growth was largely stagnant early in the year and turned negative in the third quarter, while inflation remains stubbornly high and above the European Central Bank target. In Japan, while services activity remains solid, leading indicators of manufacturing activity have been weak, while inflation has been high by historical standards.

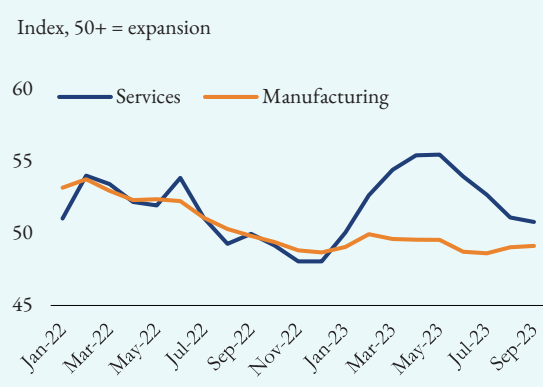
**Global goods trade continued to contract into the second half of 2023, while global industrial production growth has been soft.** Leading indicators point to further global trade weakness, with PMIs for new export orders recently in contractionary territory. In addition, while a recovery in global tourism has helped lift services trade, there are signs the recovery is fading. The latest conflict in the Middle East has raised geopolitical risks for commodity markets, though so far its impact on prices has been small. Nevertheless, even before the conflict, commodity prices were relatively high, about 45 percent above the 2015–19 average in nominal terms.<sup>1</sup> Global financial conditions have also tightened substantially recently, with advanced-economy government bond yields increasing sharply, particularly in the United States, while the U.S. dollar has strengthened, and equity volatility has increased.

**With overall activity expected to continue softening toward the end of the year, global growth is projected to fall in 2023 to 2.1 percent, from 3.1 percent last year.<sup>2</sup> Next year, growth is expected to pick up only moderately, to 2.4 percent (figure B1.2).** The weak outlook reflects the lagged effects of substantial monetary policy tightening in both advanced economies and emerging market and developing economies in response to high inflation. Since the start of the U.S. monetary policy tightening cycle in early 2022, the Federal Reserve has raised policy interest rates by around 5 percentage points, one of the largest increases in the past four decades. In addition, growth in China is expected to slow next year, amid continued strains in the local property market, weak external demand, and subdued sentiment.

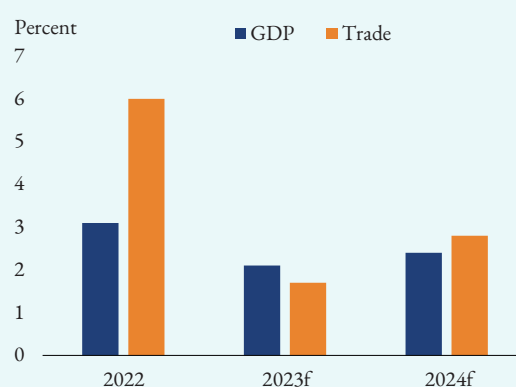
**Global trade growth is forecast to slow to 1.7 percent in 2023.** As global consumption returns to its pre-pandemic mix between goods and services, trade is expected to recover modestly, to 2.8 percent in 2024, only slightly stronger than GDP growth. Moreover, longer-term global growth prospects remain lackluster, with world potential growth expected to slow over the remainder of the decade, reflecting both a weaker demographic outlook and weaker productivity growth.

**Risks to the global outlook remain tilted to the downside, and stem from intensified geopolitical tensions, trade fragmentation, weaker-than-expected growth in China, and tighter-than-expected global financial conditions.** Geopolitical risks have risen markedly in the wake of the conflict in the Middle East, with potentially significant implications for commodity markets if the conflict escalates. History suggests that depending on the duration and scale of an escalation of a conflict, substantial oil supply disruptions could lead to soaring energy prices.<sup>3</sup> This could have significant knock-on effects for inflation around the world, and potentially require central banks to tighten monetary policy, which would weigh on growth.

**Figure B.1.1. Purchasing Managers' Indexes**



**Figure B.1.2. Global growth and trade**



Sources: 1. World Bank 2023d. 2. World Bank 2023c. 3. World Bank 2023d.  
Note: This box was prepared by Samuel Christopher Hill, DECPG.

## APPROVED FDI SLOWED

**Approved FDI project value classified as a qualified investment project (QIP) eligible to receive investment incentives under the Investment Law, reached US\$908 million, a contraction of 7.3 percent y/y during the first eight months of 2023 (figure 9)<sup>7</sup>.** This is well below the approved FDI-financed project value during the same period in 2019, which was US\$1.5 billion. Of the total US\$908 million, the non-garment industry is the largest, accounting for US\$471 million or 52 percent of total. The largest share of non-garment projects includes cement processing (US\$141.8 million), footwear (US\$80 million), and travel goods (US\$60 million). Despite the decline in garment exports, foreign investor appetite to finance the garment industry continued, accounting for the second-largest investment of US\$274.9 million or

30 percent of the total (figure 10). The share of FDI-financed agriculture and agroprocessing also increased, reaching 16 percent or US\$147 million, indicating a renewed appetite for investing in the sector. Targeting QIP investment projects, the Cambodian authorities issued in June 2023 the sub-decree to implement the new Investment Law, which was adopted in late 2021 (see box 3).

**This year's decline follows a significant increase in approved FDI-financed QIP project value last year.** Total investment reached US\$1.15 billion in 2022, or a 75.4 percent increase. In 2022, approved FDI projects were diversified well beyond garments, covering the logistics, energy, and hospitality sectors, which received US\$1.3 billion, US\$389 million, and US\$129 million, respectively. During the past decade, most of the approved FDI-financed projects in

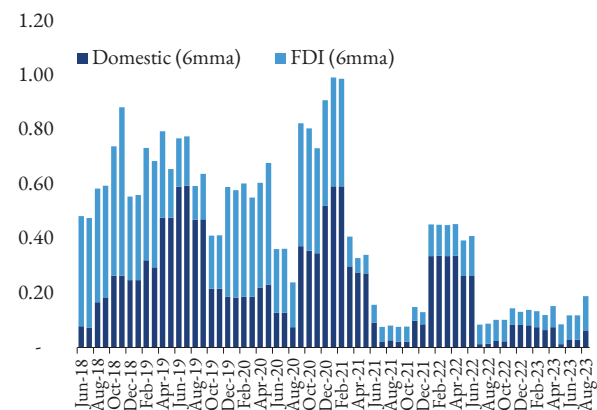
<sup>7</sup> The data covers only newly approved qualified investment projects located outside special economic zones. A comprehensive data from the Council for the Development of Cambodia showed that approved QIP value reached US\$4.0 billion or 14.1 percent increase during the first 10 months. However, they are at the aggregate level and can't be broken down.

Cambodia came from China (including Hong Kong SAR, China). The share of approved Chinese FDI-financed projects rose to 90 percent in 2023, up from 55 percent in 2014.

**There are notable shifts in the composition of FDI projects, compared to the pre-COVID period, with a rising share of non-Garment manufacturing and a decline in real estate investments.** During the pre-COVID-19 period, the largest share of approved QIP (domestic and FDI-financed) project value went to the construction and real estate sector. The share of project investment value going to the construction and real estate sector in total QIP investment rose to 90 percent in 2019, up from 35 percent in 2014. When the pandemic

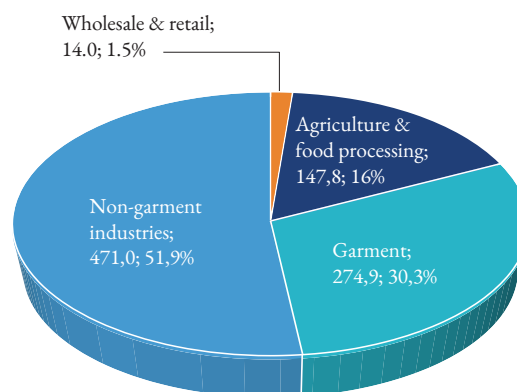
hit the economy in 2020, construction and real estate activity stalled, and the share of approved QIP investment project value investing in the construction and real estate sector plummeted, declining to 14.9 percent in 2022. During the pandemic, while the share of QIPs investing in the construction and real estate sector shrank, investment in the non-garment sector expanded, rising from 6.7 percent of total approved QIP value in 2019 to 70.7 percent in 2022, as diversification continued. The non-garment manufacturing sector included the metal, paper, furniture, plastic, and chemical industries, as well as the logistics, energy, and hospitality industries. If these newly emerging manufacturing industries are properly nurtured, product diversification will follow.

**Figure 9. Tradable sector investment projects Approved QIP value**  
(US\$ billion, 6-month moving average, fixed asset)



Source: Cambodian authorities.  
Note: QIP = qualified investment project; 6 mma = 6-month moving average.

**Figure 10. Approved FDI-financed project by sector**  
(US\$ billion, 8-month 2023)



Source: Cambodian authorities.

**Box 2. The Pentagonal Strategy Phase 1**

The new 2023–28 Pentagonal Strategy Phase 1 was introduced to boost growth, create jobs, ensure equity, increase efficiency, and maintain sustainability. It is designed to strengthen and expand the achievements from the previous mandates, institutional and governance reform, developing human capital, and enhancing economic diversification and competitiveness. Its mission is to safeguard peace and strengthen the foundations needed to accelerate national development, in order to achieve the milestone of becoming an upper middle-income country by 2030 and a high-income country by 2050, under Cambodia’s 2050 vision.

To this end, the Pentagonal Strategy introduces five strategic objectives: (i) ensuring crisis-resilient annual economic growth of around 7 percent on average, creating more jobs; (ii) achieving the poverty reduction target of below 10 percent; (iii) strengthening governance capacity and improving the quality of public institutions; (iv) ensuring sustainable socioeconomic development; and (v) building resilience to climate change. The five sides of the Pentagonal Strategy are Pentagon 1: human capital development; Pentagon 2: economic diversification and competitiveness enhancement; Pentagon 3: developing the private sector and employment; Pentagon 4: adopting a resilient, sustainable, and inclusive development approach to socioeconomic transformation, while optimizing demographic dividends, among others; and Pentagon 5: developing a digital economy and society.

*Six priority programs* will be implemented, which include healthcare services toward universal health coverage; providing vocational and technical training for youths from poor and vulnerable households; institutionalizing the national social assistance programs; formulating and accelerating the implementation of the Informal Economy Development Strategy to enable the informal sector to participate in the formal economy; and introducing coordinating mechanisms and financing programs that enhance agricultural production, market access, and price stability, while deploying agricultural technical officers to all communes that have agricultural activities across the nation and forming farmers associations in the rural areas.

*Strengthening the capabilities* of public administration, improving the quality of education, enhancing health services, and strengthening the quality and efficiency of the justice system to address challenges.

*Pentagon 2* targets economic diversification and competitiveness enhancement. *Side 1* of Pentagon 2 aims at developing key sectors and new sources of growth, implementing an Automotive and Electronics Sectors Development Roadmap, and a 2020–27 Garment, Footwear and Travel Goods Sector Development Strategy, while accelerating Sihanoukville development as a multipurpose special economic zone. *Side 2* targets the connectivity, transport, logistics, energy, and digital sectors by enhancing connectivity and efficiency in the transport and logistics sectors aiming at (i) implementing the Interim Masterplan on Intermodal Transport Connectivity and Logistics System 2021–30 and the Comprehensive Masterplan on Cambodia Intermodal Transport and Logistics System 2023–30; (ii) increasing capital investment to develop key infrastructure projects, which include the Poipet-Siem Reap-Phnom Penh new railway network; and (iii) carrying out a study on roads and amending the law on roads to adjust the maximum weight level, and preparation of laws on land transport, water transport, seaports, and railways.

*Side 3* of Pentagon 2 improves the business and investment environment, including the introduction and amendment of laws on commercial regulation and commercial registration; the law on commercial enterprises, bankruptcy law, and the finalization of trade secrets to ensure sound management of intellectual property. It also aims at accelerating the enactment of the framework agreement on cross-border paperless trade, and targets establishing monitoring and evaluation mechanisms and improving business based on the assessment of the ease of doing business and investment.

Effective implementation of the Pentagonal Strategy is underpinned by coordination, monitoring, and evaluation mechanisms led by the Council of Ministers (CoM). The CoM is delegated to formulate regulations that outline in detail the methodologies and procedures to coordinate, monitor, and evaluate implementation of the Pentagonal Strategy.

Source: The Pentagonal Strategy Phase 1, the Royal Government of Cambodia; <https://mfaic.gov.kh/files/uploads/1XK1LW4MCTK9/EN%20PENTAGONAL%20STRATEGY%20-%20PHASE%20I.pdf>.

## APPROVED PROPERTY DEVELOPMENT PERMIT VALUE CONTINUED TO EXPAND

**Approved permit value for real estate development projects continued to expand during the first eight months of 2023.** While it is too early to draw conclusions as to why, this possibly reflects renewed investor appetite<sup>8</sup> to invest in the real estate sector, especially the housing market, after the sector was hit by the pandemic in 2020. Approved permit value for all types of property developments, which include residential, industrial, commercial,

and touristic buildings, rose to US\$1.5 billion, or a 186 percent y/y increase during the first eight months of 2023 (figure 11). Of this, approved property development permits for projects in Sihanoukville province, which experienced the most rapid construction boom during the pre-pandemic period, accounted for US\$656.5 million, or a 152 percent y/y increase. The number of approved square meters of property development permits also rose significantly, reaching 11.5 million, or a 183.6 percent y/y increase.

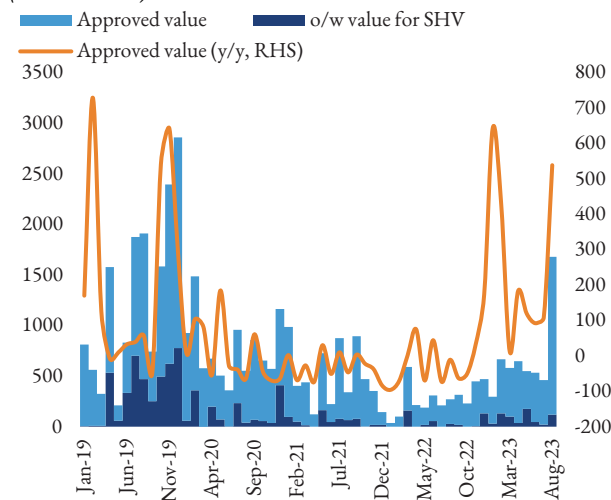
**Approved residential property area continues to be the largest segment, accounting for more than half of the total.** Approved industrial building area, which was the smallest segment, accounting for 0.7 million square meters (7.9 percent of the total)

8 The approved construction permit data do not indicate investor nationalities.

during the first eight months of 2018, is the second largest, accounting for 2.8 million square meters (25.0 percent of the total) (figure 12) during the first eight months of 2023. In contrast, during the same period, approved tourism and commercial building areas declined, accounting for 0.2 million square meters (2.1 percent of the total) and 1.8 million square meters (15.3 percent of the total), down from 2.5 million square meters (27.5 percent of the total) and 2.2 million square meters (24.6 percent of the total),

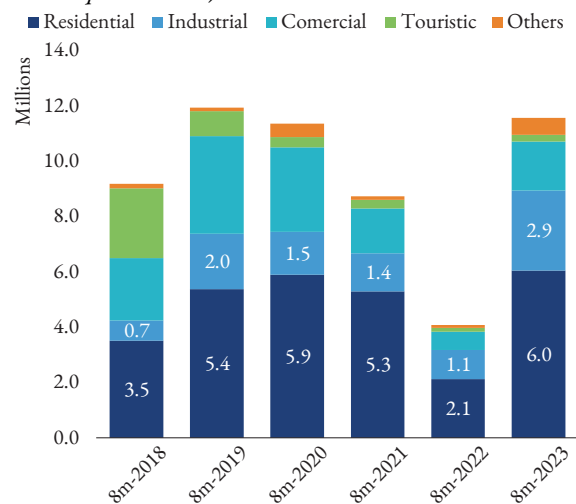
respectively. The surge in the approved industrial building area at the expense of that of tourism may reflect a shift in investor appetite to production and manufacturing activity from tourism activity, as tourism supply in the form of accommodations may have already outstripped tourism demand in Cambodia’s major urban centers such as the capital city of Phnom Penh, the tourist attraction site of Siem Reap, the seaside town of Sihanoukville, and the border towns of Poi Pet and Bavet.

**Figure 11. Approved property project permits (US\$ million)**



Source: Cambodian authorities.  
Note: RHS = right-hand scale; SHV = Sihanoukville province.

**Figure 12. Approved permit area by property type (million square meters)**



Source: Cambodian authorities.

**Box 3. Summary of Incentives in Implementing the Sub-decree of the 2021 Investment Law**

The Cambodian authorities adopted Sub-Decree No. 139 on the Implementation of 2021 Investment Law dated 26 June 2023. Incentives listed in the sub-decree are provided to qualified investment projects (QIPs). To obtain QIP status, investors need to register their investment projects (which are not on the negative list) with the Council for the Development of Cambodia for investment capital of US\$5 million or more, and with the Provincial/Municipal Investment Subcommittee for investment capital of less than US\$5 million.

**Basic tax incentives.** A QIP registered under the (2021) Investment Law is eligible for basic tax incentives consisting of two options. Option 1: QIPs are eligible for a corporate income tax exemption period of 3 to 9 years. After the expiration of the CIT exemption period, QIPs shall be eligible to pay a progressive CIT proportion relative to the total amount of CIT payable as follows: (a) 25 percent for the first 2 years; (b) 50 percent for the next 2 years; and (c) 75 percent for the last 2 years. Option 2: QIP is eligible to (i) deduct capital expenditure through special depreciation, and (ii) up to 200 percent deductible on other specific expenses for 3 to 9 years. Under both options 1 and 2, QIPs are eligible for exemption of prepayment of corporate income tax for 3 to 9 years.

**Additional incentives include:**

- A zero value-added tax (VAT) rate on locally produced production inputs to implement the QIP.

- Permission to deduct 150 percent of the following expenses: (i) research and development (R&D) and innovation costs; (ii) human resource development costs for vocational training to Cambodian workers; (iii) construction costs for accommodation, canteens, food courts, nurseries, and other facilities for workers; (iv) costs to modernize production line machinery; (v) welfare support (transportation, food court, and nursery) costs for Cambodian workers; and (vi) investment in all kinds of waste treatment.
- Exemption from customs duty, special taxes, and VAT on imports of construction materials and equipment for construction of accommodation, nurseries, emergency rooms, and food courts where food is provided free of charge or sold at a reasonable price exclusively for workers of the QIP projects.

**Specific incentives eligible for vehicle assembly firms:** QIPs assembling new vehicles are eligible to receive a 50 percent to 90 percent tax reduction on customs duties, excises, and the VAT. To be eligible to receive a 50 percent tax reduction on the customs duties, excises, and VAT, QIP vehicle assembly firms must assemble vehicles with at least 3 percent local content and meet 2 of the 3 following criteria: (1) use 400 or more spare parts pieces for a vehicle, (2) have capital investment of US\$5 million or more, and (3) employ 150 workers or more. To be eligible to receive a 90 percent tax reduction on customs duties, excises, and the VAT, QIP vehicle assembly firms must assemble vehicles using spare parts not yet pressed, bent, welded, and painted with at least 40 percent local content, and meet 2 of the 3 following criteria: (1) use 700 or more spare parts pieces in a vehicle, (2) have a capital investment of US\$45 million or above, and (3) employ 600 workers or more. Separate criteria for eligibility to receive above a 50 percent and below a 90 percent tax reduction on customs duties, excises, and the VAT are also specifically provided.

**Additional customs duty incentives.** QIPs are entitled to the following exemptions on import duties and taxes as applicable:

- Exemption from customs duties, specific taxes, and the VAT on imports of construction materials, construction equipment, and production equipment for use in their production line
- Exemption from customs duties, specific taxes, and the VAT on imports of production inputs for export QIPs and supporting industry QIPs to serve their production line
- Exemption from customs duties, specific taxes, and the VAT on imports of production inputs for specific domestic QIPs to serve their production line.

**Investment expansion** by QIPs to increase existing production, downstream diversification, and technology upgrades that improve productivity and protect the environment, will receive a corporate income tax exemption of from 3 to 9 years.

**The investment incentives introduced will likely increase the tax system's complexity and curtail the tax base, resulting in increased tax expenditures.** Incentives would ideally be granted only when not redundant. To identify these cases, an omniscient and incorruptible tax administration would be needed. In practice, it is therefore preferable to have clear criteria for granting tax incentives. For transparency, it is also advised to keep all incentives in the tax law.<sup>1</sup>

*Source:* Council for the Development of Cambodia; <https://cdc.gov.kh/laws-and-regulations/>.

<sup>1</sup>/IMF Working Paper "Tax Incentives in Cambodia". 2018. See <https://www.imf.org/-/media/Files/Publications/WP/2018/wp1871.ashx>

**Performance of imports of basic construction materials mainly steel, cement, and construction equipment, remained subdued.** During the first eight months of 2023, imports of steel used mainly for property development projects and other construction industries recovered, growing at 4 percent in value terms. In volume terms, steel imports rose 15.4 percent. However, imports of construction equipment and cement contracted at 4.2 percent and 38.8 percent, respectively, in value terms. In volume terms, while imports of cement grew at 6.7 percent, imports of construction equipment contracted by 25.9 percent. Therefore, it is too early to conclude

that the real estate and property market has started to recover. The housing market boom during the pre-pandemic period already created excess supply, given the country's relatively small domestic market.

## CROP PRODUCTION ACCELERATED

**Despite less favorable weather conditions with erratic rainfall, as of mid-July 2023, rice crop cultivation improved, reaching 2.1 million**

hectares or an 18.0 percent y/y increase.<sup>9</sup> Cultivation of horticulture and industrial crops reached 0.7 million hectares, a contraction of 0.9 percent y/y.<sup>10</sup> In 2023, dry season rice production reached 2.7 million metric tons or a 4.5 percent y/y decline. However, this year's dry season rice yield improved, rising to 4.6 metric tons per hectare or a 2.5 percent increase. Rubber production reached 60,000 metric tons or a 21 percent y/y increase during the first two months of 2023.

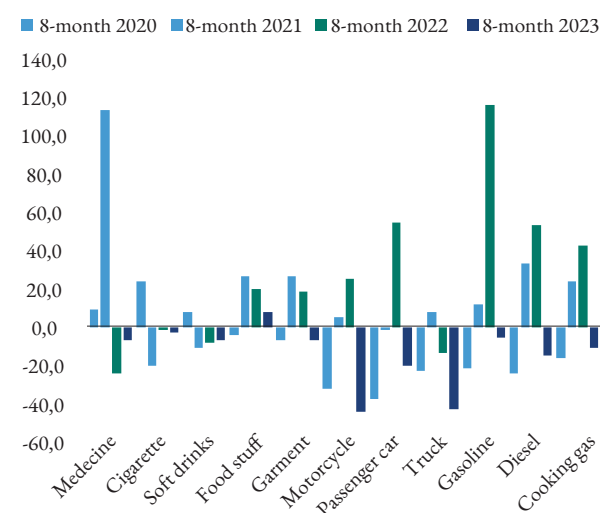
According to the 2020 Cambodia Agriculture Survey, 2.04 million household agricultural holdings or 57 percent of all households in Cambodia, are involved in agricultural production.<sup>11</sup> This indicates that despite efforts to move toward export-oriented commercial agriculture, the country's agriculture sector remains subsistence. More than half of Cambodian households continued to depend on subsistence agriculture for their livelihoods. Home consumption was reported as the main agricultural product destination by 61 percent of the household holdings in Cambodia, while the other 39 percent mentioned that agricultural production was mostly for sale. The survey estimated that approximately 94 percent of the 2,038,000 household agricultural holdings were growing crops,

mainly non-aromatic paddy, mango, banana, and coconut. The agriculture sector therefore continues to play a strategic role in maintaining the availability of food and achieving food security, although the share of agriculture in GDP declined to 22 percent in 2022, down from 33.5 percent a decade ago, due to the country's structural transformation.

## AGRICULTURAL EXPORT PERFORMANCE IS MIXED

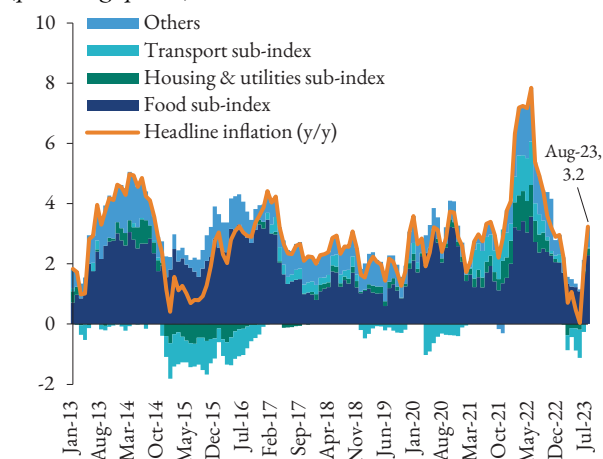
Cambodia's milled rice exports reached US\$278 million or an 11.7 percent y/y increase during the first eight months of 2023. Rubber exports amounted to US\$232.7 million or a 5.1 percent decline, while banana exports reached US\$122.4 million or a 12.6 percent decline. According to the Cambodia Rice Federation, during the first seven months of 2023, estimated earnings from agricultural product exports were US\$2,629 million or 22.3 percent of total goods (excluding gold) exports, of which (paddy and milled) rice exports and non-rice exports accounted for US\$817 million and US\$1,811 million, respectively.<sup>12</sup> In August 2023, domestic prices of paddy and milled

**Figure 13. Imports of consumer and durable goods (year to date, y/y percent change)**



Source: Cambodian authorities.  
Note: y/y = year on year.

**Figure 14. Inflation edged up Contribution to 12-month inflation (percentage points)**



Source: Cambodian authorities.  
Note: y/y = year on year.

9 July 2023 Agriculture Production, the Agricultural Marketing Office, Department of Planning and Statistics, the Ministry of Agriculture, Forestry & Fisheries; <https://amis.maff.gov.kh/en/article/171> and <https://elibrary.maff.gov.kh/book/64546bc5126ad>.

10 Ministry of Agriculture, Forestry and Fisheries 2023a.

11 National Institute of Statistics, Ministry of Planning 2020.

12 Cambodia Rice Confederation 2023.

rice surged, rising at 30 percent and 10 percent, respectively as global rice prices skyrocketed to 12-year highs. The price of Thai rice 5 percent broken reached US\$635 per metric ton, a 12-year high since the last global oil and food price shock, when the price peaked at US\$907 per metric ton in April 2008.<sup>13</sup> The price of fragrant rice and soft white rice was US\$780 and US\$520 per metric ton, respectively.

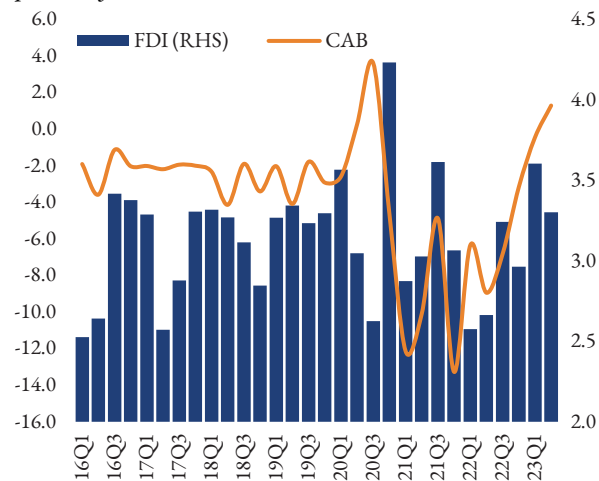
## PRIVATE CONSUMPTION EASED AS PENT-UP DOMESTIC DEMAND IS RUNNING OUT OF STEAM

**Private consumption, which surged in 2022, driven by one-off pent-up demand after a complete removal of COVID-19-related mobility restrictions, is running out of steam.** As discussed, the country’s manufacturing exports weakened during the fourth quarter of 2022 to the second quarter of 2023, impacting wages and earnings. The manufacturing sector alone shed a net 40,000 jobs or 5 percent of total manufacturing employment. This does not bode well for consumer spending. In addition, market liquidity continues to be constrained by interest rate hikes (see more discussion under the monetary section below), while the services exports,

especially tourism receipts, remained relatively weak, despite the revival of international arrivals. Given that domestic consumption accounts for about two-thirds of GDP, its moderation produced noticeable negative impacts. The easing of private consumption has already resulted in a marked slowdown in retail and wholesale activities as reflected by the decline in consumer and durable goods imports.

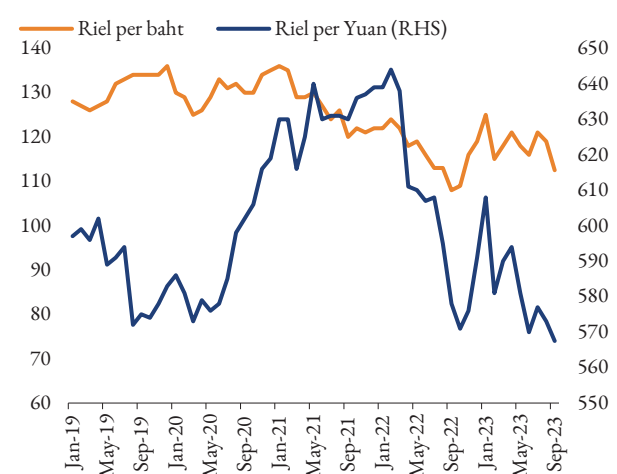
**Imports of consumer and durable goods slowed.** During the first eight months of 2023, imports of main consumer goods such as soft drinks, medicine, gasoline, and diesel contracted by 7.5 percent, 6.6 percent, 5.2 percent, and 14.3 percent y/y, respectively (figure 13). Similarly, imports of durable goods such as passenger cars, motorcycles, and trucks contracted by 20.4 percent, 43.7 percent, and 43.0 percent, respectively. Households face slow wage growth, with only a 3 percent increase in the minimum wage of the formal sector and slack growth in the labor market, cutting back on consumption, which has partly been squeezed by higher borrowing costs and prices. Although high-frequency import data can serve as a proxy for private consumption on durable and nondurable goods, an in-depth analysis cannot be conducted due to the nonavailability of actual private consumption expenditure data, especially retail sales data, to gauge consumer demand for finished goods.

**Figure 15. The current account improved (percent of GDP)**



Sources: Cambodian authorities and World Bank staff estimates.  
 Note: CAB = current accounts balance; FDI = foreign direct investment; Q = quarter; RHS = right-hand scale.

**Figure 16. The riel appreciated against regional currencies**



Source: Cambodian authorities.  
 Note: RHS = right-hand scale.

13 World Bank Pink Sheet (commodity price data); <https://www.worldbank.org/en/research/commodity-markets>.

## INFLATION EDGED UP, DUE TO THE RECENT UPTICK IN OIL AND FOOD PRICES

As food prices edged up, Cambodia’s Consumer Price Index (CPI) accelerated to 3.2 percent y/y in August 2023 (figure 14), up from its trough of 0.7 percent y/y in March during the post-pandemic period. Inflation peaked at 7.8 percent, a 13-year high in June 2022, caused largely by rapidly rising prices of food and petroleum products resulting from the global food and oil price shock. The recent upticks in food prices, particularly of meat, fish, fresh fruits, and vegetables, pushed up inflation, given the fact that the food component (subindex) captures a 43 percent weight of the inflation basket.

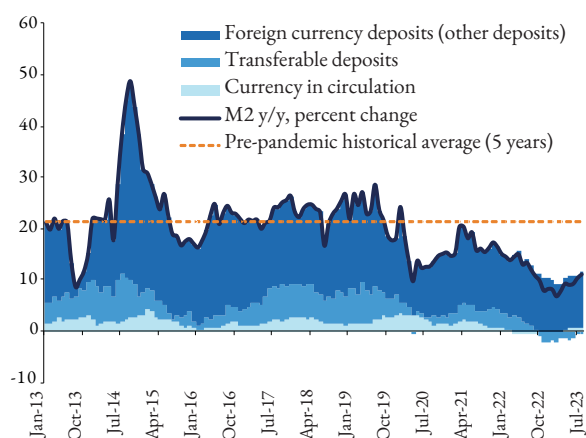
The contribution of the food subindex to inflation rose to 2.3 percentage points in August 2023, up from 2.1 percentage points in December 2022. During the same period, the contribution of the housing and utilities subindex rose to 0.2 percentage points, up from 0.1 percentage points, thanks to rising costs of maintenance and repairs of dwellings. The contribution of the transport subindex shrank to zero, down from 0.1 percentage points. Cambodia’s CPI, excluding food, remained largely unchanged at 2.0 percent y/y during the period. Although global rice prices have recently inched up, domestic

rice prices remained stable as Cambodia is a net rice exporter. Similarly, global oil prices recently picked up, but retail prices of gasoline and diesel remained relatively stable. This helps contain inflation.

Subdued inflation in Cambodia’s main import partners, Thailand, Vietnam, and China, which reached 0.8 percent, 2.9 percent, and 0.1 percent y/y in August 2023, helped contain domestic price pressures. Among other ASEAN members, only Lao PDR experienced high inflation of 25.9 percent in August 2023. Inflation rates in Malaysia and Singapore were 2.0 percent and 4.0 percent y/y, respectively, in August 2023. In addition, the relatively stable Cambodian riel compared to the U.S. dollar exchange rate closely maintained by the central bank helps promote overall price stability. This protects the value and purchasing power of riel-denominated assets (those who earn income in riel) – one of the main objectives of pegging the riel to the dollar. The economy is highly dollarized. So, devaluation of local currency, which often causes inflation to rise, is not feasible in any circumstances in Cambodia as it will drive the economy to full dollarization.

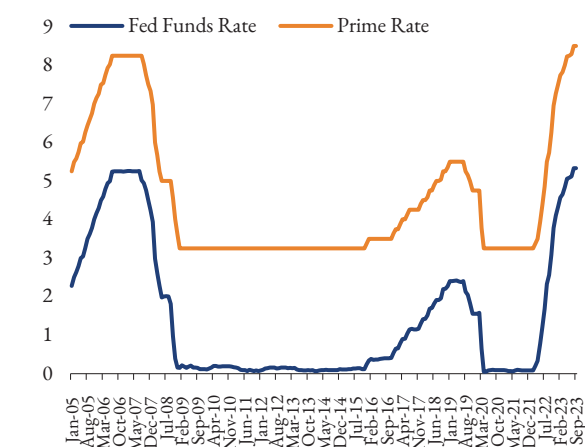
Although the global economy is in a much better position than it was in the 1970s to cope with a major oil-price shock, an escalation of the latest conflict in the Middle East—which comes on top of disruptions caused by the Russian invasion of Ukraine—could push global commodity markets into uncharted waters, according to the World

**Figure 17. Broad money growth eased**  
Contribution to broad money growth  
(percentage points)



Source: Cambodian authorities.

**Figure 18. U.S. interest rates increased**  
(percent per year)



Source: United States Federal Reserve.

**Bank's latest Commodity Markets Outlook.**<sup>14</sup> A major oil-price shock could quickly drive inflationary pressures in Cambodia, while complicating efforts by the U.S. Federal Reserve and other central banks to tame inflation. Last year, Cambodia's CPI surged, led by rising food and oil prices triggered by the Russia-Ukraine war. In June 2022, headline inflation rose to 7.8 percent, a 13-year high, caused largely by rapidly rising prices of food and petroleum products. The spillover effects of the food and oil price shock caused rising costs of other goods, labor, and fees.

## THE CURRENT ACCOUNT BALANCE IMPROVED AS IMPORTS MODERATED

**Despite weakening goods export performance, the current account balance improved, thanks largely to moderate import growth.** Based on the central bank's quarterly balance of payments data,<sup>15</sup> the current account recorded a surplus of 1.3 percent of GDP (US\$0.4 billion) in the second quarter of 2023, compared to a deficit of 8.9 percent of GDP (US\$2.7 billion) during the same period in 2022 (figure 15). The quarterly current account surplus of 1.3 percent of GDP occurred for the first time since the second quarter of 2022, when the current account surplus was 0.3 percent of GDP (US\$0.1 billion), which indicates an improvement of Cambodia's external sector performance after the current account deficit is estimated to have hit rock bottom at 42.6 percent of GDP in 2021. The current account surplus recorded in the second quarter of 2023 is due largely to a reduction in the deficit of the balance on goods. The trade deficit narrowed to US\$0.48 billion in the second quarter of 2023, down from US\$0.51 billion during the same period in 2022. In addition, the services account also registered a surplus of US\$0.37 billion, up from a deficit of US\$0.24 billion during the same period, thanks mainly to accelerated growth in services exports, especially tourism receipts, as the pandemic is now behind us.

**As a result, Cambodia's balance of payments showed a surplus of 1.4 percent of GDP (US\$0.5 billion) from a deficit of 8.8 percent of GDP (US\$2.6 billion) during the same period.** Net FDI is estimated to have risen to 3.3 percent of GDP (US\$1.07 billion) in the second quarter of 2023, up from 2.7 percent of GDP (US\$0.8 billion) during the same period in 2022. During the first half of 2023, net FDI accounted for 6.9 percent of GDP (US\$2.24 billion), up from 5.2 percent of GDP (US\$1.57 billion) during the same period in 2022. Continued FDI inflows and concessional financing largely cover external financing needs (see more discussion on concessional financing-debt disbursement under the fiscal section, below).

## THE EXCHANGE RATE REMAINED UNDER PRESSURE

**The riel-U.S. dollar exchange rate** was under increased pressure as exports eased and foreign currency deposits slowed. The current account balance deteriorated in the third quarter of 2023, following a current account surplus recorded in the second quarter. However, the exchange rate continued to be broadly stable, reaching 4,122 riel per U.S. dollar in September 2023, thanks to intervention by the central bank under its open market operation.<sup>16</sup> During September–October 2023, through its open market operation, the central bank injected US\$70 million into the market to maintain the riel-U.S. dollar exchange rate at 4,000 riel per U.S. dollar within the targeted range of  $\pm 2$  percent.<sup>17</sup> Since the start of the U.S. Federal Reserve's interest rate hikes to keep rapid inflation from becoming entrenched (see the monetary section, below, for more discussion on rising interest rates), the riel-U.S. dollar exchange rate has been under increased pressure. Given that the economy is highly dollarized, maintaining exchange rate stability helps maintain the purchasing power of those who earn income in riel, while preventing full dollarization.

<sup>14</sup> Press Release October 30, 2023 Conflict in Middle East Could Bring 'Dual Shock' to Global Commodity Markets. See <https://www.worldbank.org/en/news/press-release/2023/10/26/commodity-markets-outlook-october-2023-press-release>

<sup>15</sup> National Bank of Cambodia 2023a.

<sup>16</sup> National Bank of Cambodia 2023b.

<sup>17</sup> Announcement dated September 18, 2023. See [https://www.nbc.gov.kh/download\\_files/news\\_and\\_events/announ\\_kh/Announcement\\_ExchangeRate180923.pdf](https://www.nbc.gov.kh/download_files/news_and_events/announ_kh/Announcement_ExchangeRate180923.pdf)

However, pegging the riel to the strong dollar resulted in the appreciation of the local currency against many regional country currencies, especially the Chinese yuan, the Thai baht, and the Vietnamese dong. In August 2023, the riel-yuan and riel-baht exchange rates appreciated to 568 riel per Chinese yuan and 112.5 riel per Thai baht, up from 608 riel per Chinese yuan and 125 riel per Thai baht (figure 16), respectively, at the end of 2022. Similarly, the riel-dong exchange appreciated to 0.17 riel per Vietnamese dong, up from 0.175 riel per Vietnamese dong. The riel-Canadian dollar, riel-euro, and riel-pound exchange rates also appreciated, reaching 3,068 riel per Canadian dollar, 4,358 riel per euro, and 5,040 riel per British pound, respectively, in September 2023, up from 3,077 riel per Canadian dollar, 4,468 riel per euro, and 5,083 riel per British pound, respectively, at the end of 2022. This does not bode well for Cambodia’s external competitiveness for both goods and services exports, especially tourism.

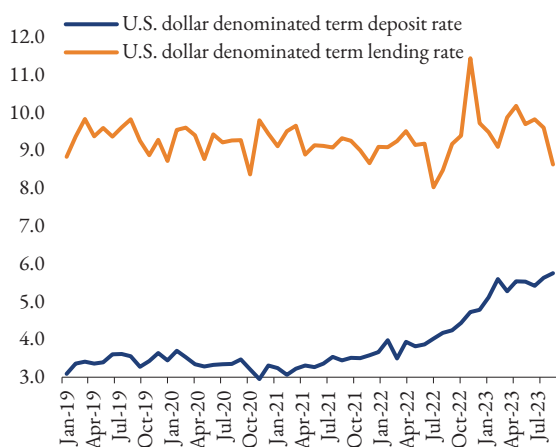
## BROAD MONEY GROWTH CONTINUED TO DECELERATE

Broad money growth slowed, likely reflecting global financial tightening possibly together with the central bank’s reserve requirement hike. Amid the sharp tightening of global financial

conditions driven largely by the U.S. Federal Reserve’s interest rate hike to a 22-year high to rein in high inflation, broad money (M2) growth slowed. Although Cambodia’s highly dollarized economy limits the ability of the country’s central bank, the National Bank of Cambodia, to influence money aggregate, the recent increase in the reserve requirement ratio, one of a few monetary policy instruments available to influence the money supply, may partially affect market liquidity. The reserve requirement ratio for foreign currency of banks and financial institutions was raised to 9 percent in January 2023, from 7 percent, reportedly to maintain resilience of the banking and financial sector, although the 2022 Financial Stability Review indicated that the banking system remained sound and resilient.

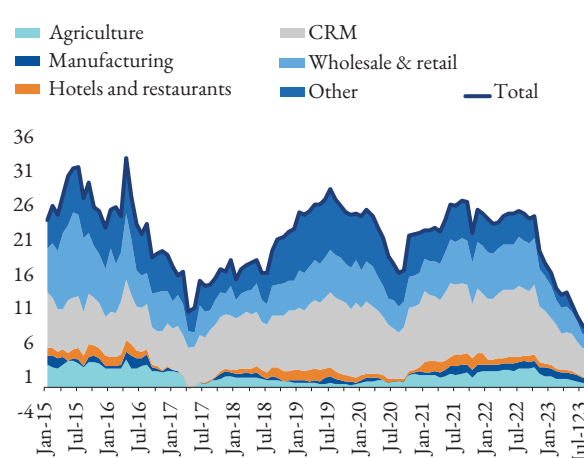
**Broad money growth expanded at 11.0 percent in August 2023, down from 12.0 percent during the same period in 2022, as foreign currency deposit growth slowed (figure 17).** The contributions of foreign currency deposits (and other deposits), transferrable deposits, and currency in circulation accounted for 10.8 percentage points, negative 0.5 percentage points, and 0.8 percentage points, respectively, in August 2023, down from 11.6 percentage points, 1.1 percentage points, and negative 0.8 percentage points, respectively, during the same period in 2022. The positive growth rate of currency in circulation reflected injection of local currency by the central bank to the market during the first half of 2023.

**Figure 19.** Domestic interest rates were under increased pressure (percent)



Source: Cambodian authorities.

**Figure 20.** Concentration of credit in real estate Contribution to domestic credit growth (percentage points)



Source: Cambodian authorities.

Note: CRM = construction, real estate, and mortgage.

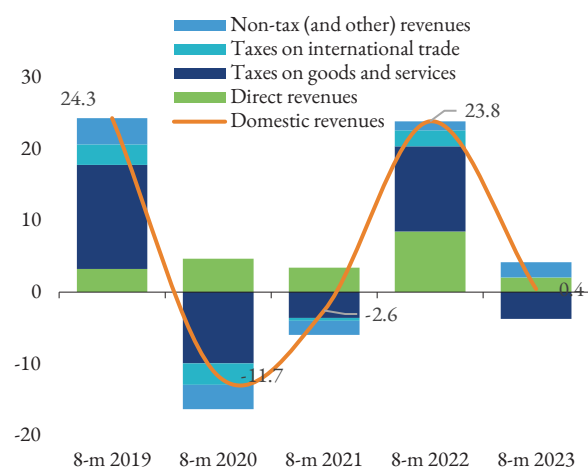
## PRESSURE ON DOMESTIC INTEREST RATES INTENSIFIED

Upward pressure on domestic interest rates continued, due to tightening global financial conditions. Cambodia's interest rates increase further as the country imports the U.S. monetary policy tightening, due to the Federal Reserve's aggressive action to tame inflation. There have been rising funding costs for banks and microfinance institutions in Cambodia, as they need to increase interest rates on deposits to attract depositors. This has pushed up their operating costs, squeezing their profit margins. In August 2023, the weighted average interest rates of U.S. dollar-denominated term deposits almost doubled, rising to 5.71 percent per year, up from 3.0 percent per year in January 2021 (figure 19). High interest rates reduce the overall level of domestic demand, while encouraging domestic saving as consumers can receive higher returns on their savings. The negative impact on economic activity of the current monetary policy tightening cycle has started to materialize. Investment and consumer spending are being harmed by the current monetary policy tightening cycle.

## CREDIT GROWTH SHARPLY EASED, BUT CONCENTRATION OF CREDIT IN REAL ESTATE CONTINUED

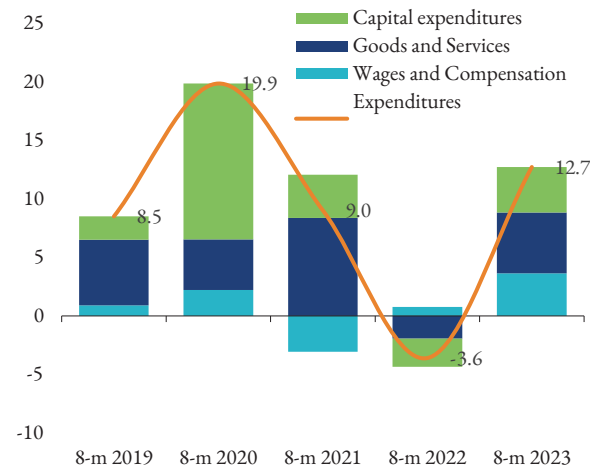
Despite a significant slowdown in credit growth, concentration of credit in real estate remained. Credit growth sharply decelerated to 7.7 percent y/y, a 13-year low in August 2023, down from 22.7 percent during the same period in 2022. The domestic credit growth rate is now broadly in line with nominal GDP growth. However, the share of domestic credit financing the construction, real estate, and mortgage sector combined in total outstanding domestic credit remained the largest and continued to increase, accounting for 35.2 percent of total outstanding domestic credit, which stood at US\$47.0 billion by August 2023, up from 33.8 percent during the same period in 2022, according to the data on credit granted by deposit money banks classified by industry. This contributed 4.4 percentage points to the 8.5 percent of the total domestic credit increase in August 2023 (figure 20). In 2023, possibly pointing to an increase in real estate speculation activity, rising and concentrating domestic credit in the construction and real estate sector continued, despite rising borrowing costs and the easing of construction activity after the construction boom stalled amid the pandemic.

**Figure 21. Central government domestic revenue Contribution to growth (percentage point)**



Source: Cambodian authorities.

**Figure 22. Central government expenditure Contribution to growth (percentage point)**



Source: Cambodian authorities.

**Credit growth is increasingly constrained as banks face rising borrowing costs, due to sharp rises in global interest rates.** The risk of financial stress in emerging market and developing economies is intensifying amid elevated global interest rates, according to the World Bank’s June 2023 Global Economic Prospects report.<sup>18</sup> The credit-to-GDP ratio marginally declined to 174.0 percent in August 2023, down from 183.7 percent in December 2022. The credit-to-GDP ratio was as low as 37.0 percent a decade ago. However, a rapid expansion of domestic credit, growing at an average rate of about 30 percent a year that Cambodia experienced for almost a decade during the pre-COVID-19 period boosted the credit-to-GDP ratio to 116.7 percent in December 2019. Despite negative impacts of COVID-19, the credit-to-GDP ratio increased further during the pandemic, to 183.7 percent in 2022. According to the midyear 2023 report of the National Bank of Cambodia, the reported nonperforming loan ratios for the banking and microfinance sectors were 4.0 percent and 3.1 percent, respectively, by mid-2023, up from 3.2 percent and 2.6 percent, respectively, by the end of 2022.<sup>19</sup>

**In addition, Cambodia’s high private debt may become a drag on the economy if borrowers struggle to meet repayments.** This is due to the discontinuation of the loan rescheduling. Private sector deposit growth also decelerated to 9.3 percent, down from 15.1 percent during the same period. This likely indicates that the ability of households and businesses to save and place their funds with banks has declined, despite rising deposit interest rates. The slowdown in both credit and deposit growth helped maintain the loan-to-deposit ratio, which stood at 135.0 percent in August 2023, down from 139.3 percent during the same period in 2022.

## DOMESTIC REVENUE COLLECTION SLOWED

**After a rapid recovery in 2022, in part reflecting gains from revenue administration improvements, growth in government revenue collection has slowed.** An across-the-board improvement in domestic revenue collection during the post-pandemic period proved to be short-lived as domestic economic activity decelerates

this year, mainly due to the slowdown in domestic consumption. During the first eight months of 2023, central government domestic revenue plateaued, growing at 0.4 percent y/y, down from 23.8 percent during the same period in 2022 (figure 21). Taxes on goods and services hit hardest as domestic consumption eased. Excises and duties on imports declined with softening imports. International trade taxes also eased. While continuing to perform, the contribution of profit tax collection to central government revenue growth shrank. Thanks to a recovery of the service sector, in particular tourism activity, non-tax revenues marginally improved.

## BUDGET EXPENDITURES CONTINUED TO INCREASE

**Budget expenditures increased.** Central government expenditure accelerated, rising at 12.7 percent y/y during the first eight months of 2023 (figure 22), driven by civil servant wage increases, election-related spending, and a continued capital spending boost. A temporary public spending boost financing the social sector, especially the health sector, has been withdrawn as COVID-19-related health expenditures have been phased out. The increase in budgeted current spending reflects the reintroduction of the across-the-board public sector wage increase. The public sector wage increase was frozen during 2021–22 to save budgetary resources to finance rising spending demand to mitigate impacts of COVID-19. In addition, the government has increased social security benefits for former civil servants and veterans. The increases have been introduced for former civil servants who received lower salaries when they were working than current civil servants. The increase in current expenditure is also needed to finance the hosting of the 32nd Southeast Asian Games and general election-related spending.

## CASH TRANSFER PROGRAMS CONTINUED

**The authorities continued to provide cash transfers for poor and vulnerable households.** In this regard, Cambodian authorities have extended the COVID-19 cash transfer program, with an

<sup>18</sup> World Bank 2023c.

<sup>19</sup> National Bank of Cambodia 2023c.

additional budget of roughly US\$400 million. The program has benefited nearly 2.8 million people (16 percent of the population) or 701,452 households. Of these, 110,000 are children under five years of age; 387,000 are people over age 60; 60,000 are people with disabilities, and 2,000 are people living with HIV/AIDS. As of September 2023, the COVID-19 cash transfer program, which emerged as the largest component of the government’s fiscal intervention, has disbursed US\$1.2 billion since its launch in June 2020. In December 2022, the government also launched a new cash transfer program for households at risk due to inflationary pressure and severe flooding. The cash transfer program under the inflationary pressure scheme was completed by July 2023 with the disbursement of US\$44 million and benefited 1.8 million people or 495,307 households.

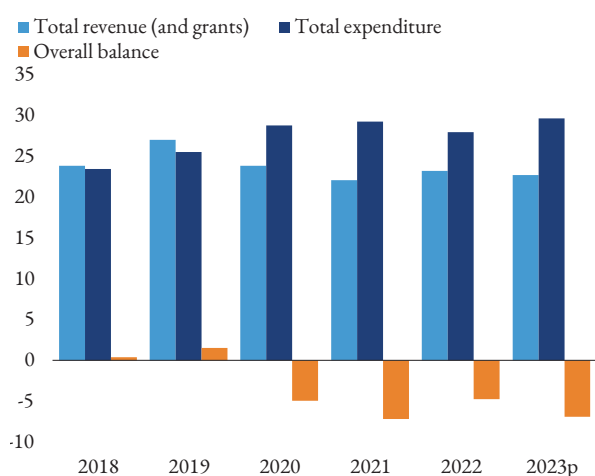
**Moreover, the government has doubled its conditional cash transfer program to approximately US\$380 for each pregnant woman bearing one child up to age two with IDPoor cards from August 2023.** This assistance program has also expanded its coverage to include female workers who are members of the National Social Security Fund, female civil servants, and intern and contract government officials. In October 2023, the government announced the expansion of the health equity fund, which was originally restricted to households with an equity card to households at risk, with access to free health services. The increase in cash aid and coverage expansion of programs serves

to further alleviate the negative impacts experienced by poor households and households at risk. The incidence of poverty under the national poverty line was 17.8 percent in 2019/20, but poverty is expected to have worsened in 2021 due to the economic impacts of the pandemic and associated lockdowns. Furthermore, the energy and food price hikes in 2022 due to the Russia-Ukraine conflict could exacerbate the poverty level. However, poverty is anticipated to decline because of the projected economic recovery and a decrease in inflation in 2023.

## THE OVERALL FISCAL DEFICIT HAS WIDENED

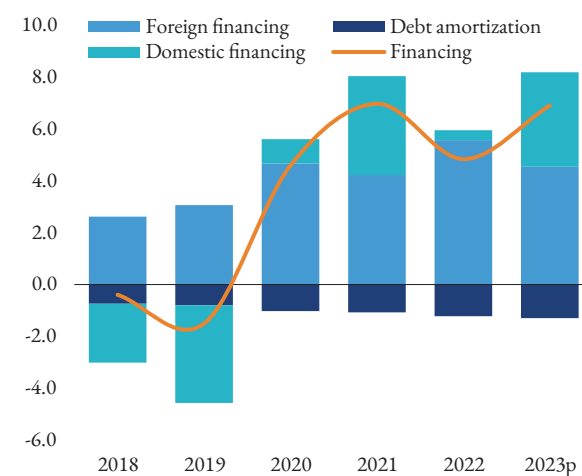
**Thanks to the easing of domestic revenue and rising expenditure, the fiscal deficit has widened.** During the first eight months of 2023, the gap between total revenues (including grants) and expenditures under the general government operations is estimated to have reached 4.0 percent of GDP, compared to 3.2 percent during the same period in 2022. Revenue including grants is estimated to have amounted to 15.0 percent of GDP, down from 15.5 percent collected during the same period in 2022, while expenditures rose to 19.0 percent of GDP, up from 18.5 percent of GDP. Government deposits (fiscal reserves), which stood at 16.0 percent of GDP (riel 21.3 trillion) by August 2023, down from 17.8 percent at the end of 2022.

**Figure 23. General government operations (percent of GDP)**



Sources: Budget Settlement Laws; World Bank staff projections.  
Note: p = projections.

**Figure 24. General government surplus/deficit and financing (percent of GDP)**



Sources: Budget Settlement Laws; World Bank staff projections.  
Note: p = projections.

## PUBLIC DEBT STOCK REACHED 33.1 PERCENT OF GDP

**By mid-2023, Cambodia's public debt-to-GDP ratio reached 33.1 percent or US\$10.7 billion in outstanding debt, of which 99.5 percent or US\$10.6 billion is public external debt, while public domestic debt accounted for the remaining 0.5 percent or US\$46.5 million.**<sup>20</sup> Of the total US\$10.6 billion public external debt, 64.3 percent and 35.6 percent is owed to bilateral creditors and multilateral creditors, respectively, compared to 67.5 percent and 32.4 percent, respectively in 2022. Triggered by the pandemic, Cambodia's debt accumulation picked up amid slow revenue collection and rising demand for health and social assistance spending, resulting in a widening financing gap. To finance the gap, the country's public debt, which consists almost solely of external debt, rose by 5 percent of GDP, to 33.1 percent of GDP by mid-2023, up from 28.2 percent of GDP in 2019. External borrowing remained highly concessional, with a weighted grant element of 44.7 percent in 2023. The weighted average interest rate of contracted loans was 0.42 percent per year in the first half of 2023, down from 1.18 percent during the same period in 2022, while weighted average maturity was 21.22 years, down from 22.55 years.

**China continued to be Cambodia's largest official creditor.** Total debt owed to China reached US\$4.01 billion. As a share of total outstanding public external debt, Chinese outstanding debt declined to 37.5 percent in mid-2023, down from 40.1 percent in 2022, due to rising multilateral debt. Cambodia's second-largest creditor is the Asian Development Bank, to which it owed US\$2.2 billion, or 20.8 percent of total public external debt.

**The World Bank has now become Cambodia's third-largest creditor, overtaking Japan, due to accelerated disbursements, which quickly rose from US\$15.8 million a year in 2017 to US\$268.9 million in 2022 (and US\$338 million during the first half of 2023) to meet rising demand for financing priority sectors.** A wide-ranging area

of the priority sectors financed by the World Bank include policy development financing, general and higher education, social and economic land allocation, agricultural diversification, health equity and quality improvement, road connectivity, livelihood enhancement, water supply, disaster management, and more.<sup>21</sup> As of June 2023, total outstanding debt owed to the World Bank accounted for US\$1.3 billion or 11.9 percent of total. Cambodia's fourth- and fifth-largest creditors are Japan and the Republic of Korea, accounting for 10.6 percent and 4.9 percent of total outstanding debt, respectively. Old debt accounted for 5.9 percent of the total.

**Since the pandemic hit in 2020, the authorities have been filling the pandemic-induced widening financing gap primarily with rising proceeds from loan disbursements, supplemented by drawdowns of government deposits (fiscal reserves).** Loan disbursements rose from US\$829 million (2019) to US\$1,213 million (2020), US\$1,168 million (2021), and US\$1,345 million (2022). Of the total disbursement of US\$913.7 million in the first half of 2023, 53.0 percent financed the country's public infrastructure sector (transport, irrigation, energy, water supply and others) and 47.0 percent financed non-infrastructure priority sectors (health, education, agriculture, and others), compared to 64.1 percent and 35.9 percent, respectively, in 2022. U.S. dollar-denominated outstanding debt remained the largest, rising to 46.0 percent of total debt stock in mid-2023, up from 44.0 percent in 2022, followed by Special Drawing Rights (SDR)-denominated debt, at 20.0 percent. Although China is Cambodia's top creditor, the country's public external debt denominated in Chinese yuan accounted for only 12.0 percent of total debt stock. Public external debt denominated in Japanese yen, euro, and other currencies, accounted for 10 percent, 7 percent, and 5 percent, respectively.

**The joint World Bank/International Monetary Fund Debt Sustainability Analysis conducted in 2022 indicated that Cambodia remained at low risk of external and overall debt distress under the Low-Income Countries Debt Sustainability Framework.**<sup>22</sup> The total public and publicly guaranteed debt-to-GDP ratio is projected to rise by around 4 percentage points during the next decade. The present value of the external debt-to-GDP ratio

<sup>20</sup> Ministry of Economy and Finance 2023a.

<sup>21</sup> For detailed sectors and projects, see [https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&countrycode\\_exact=KH&os=0](https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&countrycode_exact=KH&os=0).

<sup>22</sup> International Monetary Fund 2022a.

breaches its threshold in the exports stress test, which would imply a moderate risk rating. However, the breaches are small, short-lived, and driven by the exceptional volatility of exports in 2020 that has increased the sample volatility for the standardized shock. Moreover, other debt burden indicators are projected to remain well below their thresholds under the baseline and the shock scenarios.

## Outlook

**Cambodia's real GDP growth is projected to reach 5.4 percent in 2023, marginally lower than 5.5 percent projected in May 2023 (see table 2) as domestic demand eased and external demand slowdown continued.** This year's fiscal deficit is expected to widen to 6.9 percent of GDP, up from 4.8 percent of GDP in 2022 (figure 23). To finance the 6.9 percent of GDP overall fiscal deficit, external financing, which includes project and budget support (loan disbursement), is expected to account for 3.6 percent of GDP (or one-third) (figure 24), while the remaining two-thirds is to be financed by a drawdown of government deposits (fiscal reserves).

**In the short term, the overlapping negative shocks of the pandemic, Russia's invasion of Ukraine, and the sharp tightening of monetary policy in major economies to contain high inflation are expected to continue to affect the economy.** In this context, the economy is expected to continue to grow at a slower pace than earlier projected, expanding at 5.8 percent and 6.1 percent in 2024 and 2025, respectively. Despite this year's improvement in approved property development permit value, prospects of the real estate sector continue to remain uncertain, given high debt and tighter financing conditions. Although economic growth is forecast to be lower than previously expected, the pace of poverty reduction is projected to accelerate, but it is highly unlikely to reach the pre-pandemic level.

**In the medium to longer term, real growth is expected to trend back to potential, reaching 6 to 7 percent, driven** by stronger exports and FDI inflows facilitated by the newly ratified free trade agreements, a substantial increase in private and public investment in key physical infrastructure, and structural reforms.

## Challenges and risks

**The outlook is, however, subject to substantial downside risks.** Major downside risks pertain to weaker-than-expected global demand further constraining the country's goods exports, tighter global financial conditions affecting the highly leveraged financial sector, and renewed oil and food price shocks negatively impacting domestic consumption. Domestically, rising household debt and the continued concentration of domestic credit in the real estate sector remain key risks to financial stability. Cambodia's gross external debt position rose to 76.1 percent of GDP in 2022, up from 41.3 percent of GDP a decade ago, as the total external debt that Cambodia owes to foreign creditors rose. In addition, fiscal-monetary policy coordination in Cambodia remains a challenge. While countercyclical fiscal policy continued, tightening monetary policy has already begun. A growth shock originating in the region's largest trading partners, China, and the U.S. would impact economic performance in the EAP countries including Cambodia through bilateral trade and financial flows, including FDI.

**Further tightening of global financial conditions, especially surging global interest rates, could worsen investment in the tradable sectors and severely affect the highly leveraged banking system.** Global growth, especially global trade, could be even weaker than anticipated, worsening manufacturing exports, currently providing about 1 million jobs (18 percent of nonfarm employment) in the event of widespread financial sector stress or if more persistent inflation pressures prompt tighter-than-expected monetary policy. Worsening geopolitical tensions, conflict and social unrest, and natural disasters stemming from climate change, continue to present downside risks in many emerging and developing economies, including Cambodia.

**Table 2. The macro outlook indicates continued economic recovery**

	2018	2019	2020	2021	2022	2023p	2024p	2025p
<b>National Accounts and Prices</b>								
GDP at constant market prices (% change)	7.5	7.1	-3.1	3.0	5.2	5.4	5.8	6.1
Agriculture	1.1	-0.5	0.6	1.2	0.7	1.4	1.4	1.4
Industry	11.6	11.3	-1.4	9.4	8.3	4.8	7.4	7.7
Services	6.8	6.2	-6.3	-2.7	3.5	8.0	6.1	6.3
Consumer Price Index	2.5	1.9	2.9	2.8	5.5	3.0	2.8	2.7
<b>General Government (% of GDP)</b>								
Revenue and grants	23.8	27.0	23.8	22.0	23.2	21.4	22.7	22.9
Expenditure and net lending	23.4	25.5	28.8	29.2	28.0	28.3	27.5	26.1
Overall balance (including grants)	0.4	1.5	-4.9	-7.2	-4.8	-6.9	-4.8	-3.2
Foreign financing	3.9	4.2	5.5	4.7	5.1	3.4	3.9	3.0
Net domestic financing (from current savings)	-3.6	-4.9	0.5	3.5	0.9	4.8	2.2	1.7
Amortization	-0.7	-0.8	-1.0	-1.1	-1.2	-1.3	-1.4	-1.4
<b>Money and Credit</b>								
Broad money (% change)	26.6	18.2	15.3	20.0	8.2	10.7	13.0	15.1
Credit to the private sector (% change)	27.4	27.0	17.7	23.2	18.9	9.8	12.6	15.8
<b>External Sector (US\$m unless otherwise)</b>								
Exports (goods and services)	15,076	16,351	16,692	18,565.9	24,494.7	29,149.5	35,679.0	45,186.1
Imports (goods and services)	15,494	18,198	19,243	28,120.6	38,177.8	34,971.4	38,856.1	46,761.5
Foreign Direct Investment, net inflows	3,089	3,561	3,498	3,391	3,737	3,689	4,316	4,871
Gross official reserves (months of imports)	14,598	18,733	16,237	17,675.3	17,764.8	16,006.7	16,295.0	18,123.8
Current account (percent of GDP)	-8.9	-15.2	-12.4	-42.6	-24.4	-13.4	-11.5	-9.6
Exchange rate (riel per US\$ average)	4,067.0	4,070	4,077	4,100.0	4,150.0	4,110.0	4,100.0	4,090.0
<b>Total public debt (% of GDP)</b>	<b>28.3</b>	<b>28.1</b>	<b>36.1</b>	<b>36.3</b>	<b>36.7</b>	<b>36.8</b>	<b>36.5</b>	<b>36.4</b>
<i>Memorandum items:</i>								
Nominal GDP, USD million	24,476	27,030	25,970	26,953	29,602	32,413	35,321	38,589

Sources: Cambodian authorities; World Bank staff estimates and projections.

Note: p = projections.

## *Policy options*

**An acceleration of key structural reforms envisaged under the 2023–28 Pentagonal Strategy is needed to boost economic activity.** As discussed in the Special Focus section, Cambodia’s strong economic growth over the past decade was largely driven by factor accumulation, with limited contributions from productivity. Structural transformation has slowed since 2016, and recent years have seen only modest improvements in the economy’s international competitiveness. To avoid a future slowdown in economic growth and poverty reduction, Cambodia needs to transition to a more sustainable pattern of growth through further structural reform. In particular, lifting the contributions to growth from productivity and human capital will require reforms to the business environment and larger, higher quality investments in infrastructure and in education and skills.

**Further improvements to the business environment are critical for boosting the productivity and competitiveness of Cambodian firms.** The cost of doing business remains relatively high in Cambodia, reducing international competitiveness and inhibiting innovation and shifts into higher value-added activities. To help support increased private sector investment, Cambodia needs to strengthen the predictability of the regulatory environment and expand SME access to finance. Further efforts to streamline complex and restrictive business entry requirements (including minimum capital requirements), together with improvements to the functioning of the insolvency framework, would help reduce costs of firm entry and exit. Simplifying and digitalizing business services, especially the issuance of licenses and permits, would reduce the associated costs. An important starting point is to establish a complete inventory of operating licenses and permits, and then to implement full automation, transparency, and a risk-based approach to licensing. More competition would foster cost reductions and innovation and promote productivity growth by shifting market share toward more efficient producers and incentivizing firms to become more efficient. To support the tourism sector, a reduction of costs and fees (visa, accommodation, food, transport, and entrance fees) – including elimination of unofficial fees – would help attract international arrivals.

Regular consultations through the government-private sector working groups and public-private sector forums will help on all these fronts.

**Upgrading Cambodia’s infrastructure is also an important foundation for productivity and international competitiveness.** Cambodia continues to have a large infrastructure financing gap, resulting in inadequate infrastructure services that are struggling to keep up with rapidly growing demand. Large investments are needed in the energy sector to address the dual challenge of meeting rapid growth in electricity demand while meeting the country’s climate change commitments. Investments are also needed in upgrading basic urban services such as piped water, sanitation, solid waste management, telecommunications, and transport, as well as strengthened urban planning to ensure its cities develop in an inclusive, efficient, and environmentally sustainable manner.

**Moreover, gaps in domestic and regional transport connectivity impact the efficiency and resilience of supply chains and raise the cost of trade.** Investments are needed to address specific infrastructure gaps in regional connectivity: to improve the East-West corridor across Thailand, Cambodia, and Vietnam (and the only road corridor connecting Cambodia with Lao PDR); to improve the inland waterway connection with Vietnam; and to improve the existing railway operations and infrastructure links with Thailand. It is also important to improve trade facilitation and logistics performance. Further efforts must be made to reduce transport and logistics costs by monitoring the efficiency of main trade gateways such as ports and border checkpoints. In many countries with high logistics costs, such as Cambodia, the unreliability of the supply chain is the most important contributor to those costs. Studies have found that it takes three times as many days, nearly twice as many documents, and six times as many signatures to import goods in developing countries than it does in developed countries.<sup>23</sup> The risk of corruption may be mitigated by promoting full automation and transparency in customs clearance and smart logistics (applying artificial intelligence, automation, the industrial internet of things technologies), while regularly collecting reports on irregularities from traders and logistics service providers.<sup>24</sup>

<sup>23</sup> World Bank 2011.

<sup>24</sup> See World Bank (2022) for more details.

**Raising learning outcomes is crucial to address skills shortages, develop a “future-ready” workforce, and drive Cambodia’s future productivity growth.**

Firms are reporting growing skills shortages, and labor productivity growth has declined sharply over the past five years. Few young Cambodian children are being enrolled in early childhood education, which is undermining early development and hindering mothers from returning to work. Primary schools are experiencing a decline in learning outcomes despite improved access. Few students are progressing to secondary school and those that do are often inadequately prepared and experience high dropout rates. Options for post-secondary learning are limited and are of low quality. Finally, the dynamism of the labor market is limited by insufficient supply and demand information.

**In addition to these structural reforms to promote sustainable growth, maintaining macro-fiscal stability continues to be a priority.**

It is critically important to ensure coordination of fiscal and monetary policies. More efforts are needed to restore fiscal space, including through tax reform:

- Increasingly generous tax holidays and exemptions, which often fail to attract investment, increase the tax system’s complexity, and curtail the tax base, should be reviewed. While indirect taxes such as the value-added tax and excises continue to provide a big chunk of domestic revenue, reforming the corporate income tax to broaden the tax base and strengthen compliance is a must. The introduction of a progressive personal income tax should be a longer-term objective.
- Reform is also needed to simplify and reduce the costs of tax administration. Tax and customs administration systems can be modernized, while improving system interoperability. The main goal is to make it easier to pay taxes and duties by fully implementing measures such as electronic tax filing and customs clearance systems: technology can both improve efficiency and reduce opportunities for corruption.

**It is also critical to safeguard financial stability, given Cambodia’s highly leveraged banking sector.** The recent credit boom has resulted in relatively high levels of private sector debt which is concentrated in real-estate related exposures. To safeguard financial stability:

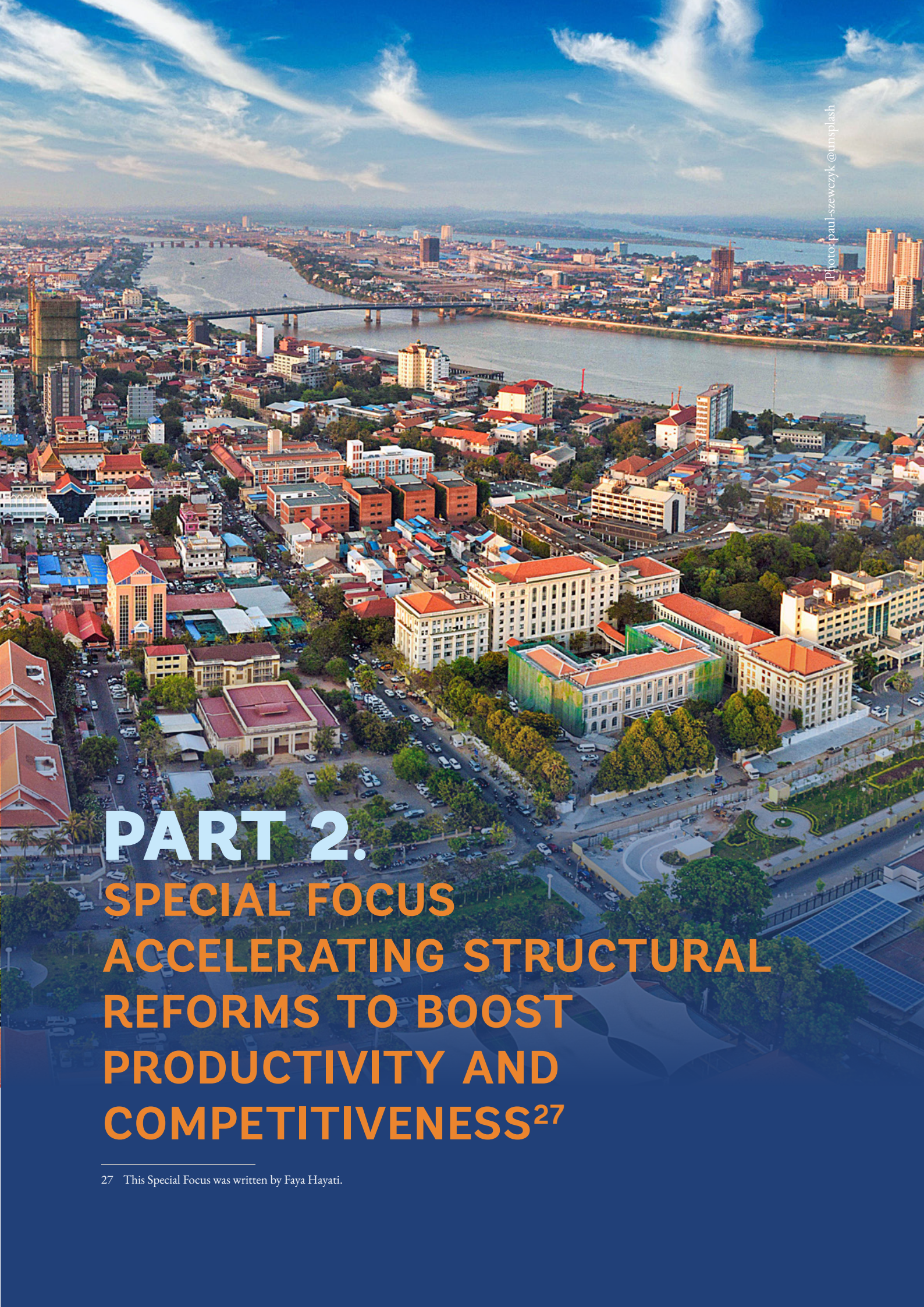
- The immediate focus should be on intensified bank supervision: stress testing of individual institutions, systematic onsite inspections, further alignment of the regulatory framework with international standards, and thorough assessments of the quality of loan portfolios, among others. To prepare for increasing levels of nonperforming loans, it is crucial to ensure that resolution options are now ready to be deployed as needed, and to strengthen the country’s insolvency regime.
- In the short term, efforts to prepare legislation on deposit insurance and bank resolution must continue. Given concerns around shadow banking activities, such as credit issued by construction or real estate developers to buyers of residential real estate, it will be of critical importance to collect the data necessary to monitor and assess the legality of these activities.
- In the longer term, it is important to regain the country’s monetary policy by gradually promoting the use of local currency – with an introduction of a clear and reliable roadmap for de-dollarization.<sup>25</sup>

**Finally, improving public sector performance is necessary to create an institutional environment which supports rather than hinders the development of the private sector.**

The authorities recognize the link between the quality of governing institutions and economic growth, and place reform and modernization of public institutions at the core of the Pentagonal Strategy. Key public administration reforms include: (i) strengthening the quality and effectiveness of public service delivery, including the development of organizational performance indicators and a system for regular high-level reporting and monitoring of performance; (ii) optimizing organizational structures and reforming back-office and support functions across government; and (iii) strengthening the meritocratic approach to civil service employment, and reforming pay and compensation, including by linking worker performance with pay increases. Determining public sector wage policy must be an integral part of overall civil service reform and should be done within a consistent medium term fiscal framework to ensure affordability.<sup>26</sup>

<sup>25</sup> International Monetary Fund 2022c.

<sup>26</sup> World Bank 2020.

An aerial photograph of a city, likely in Southeast Asia, showing a wide river with a bridge crossing it. The city is densely packed with buildings, many with red-tiled roofs. The sky is blue with scattered white clouds. The text is overlaid on the bottom half of the image.

# **PART 2.**

## **SPECIAL FOCUS**

### **ACCELERATING STRUCTURAL**

#### **REFORMS TO BOOST**

##### **PRODUCTIVITY AND**

###### **COMPETITIVENESS<sup>27</sup>**

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27 This Special Focus was written by Faya Hayati.

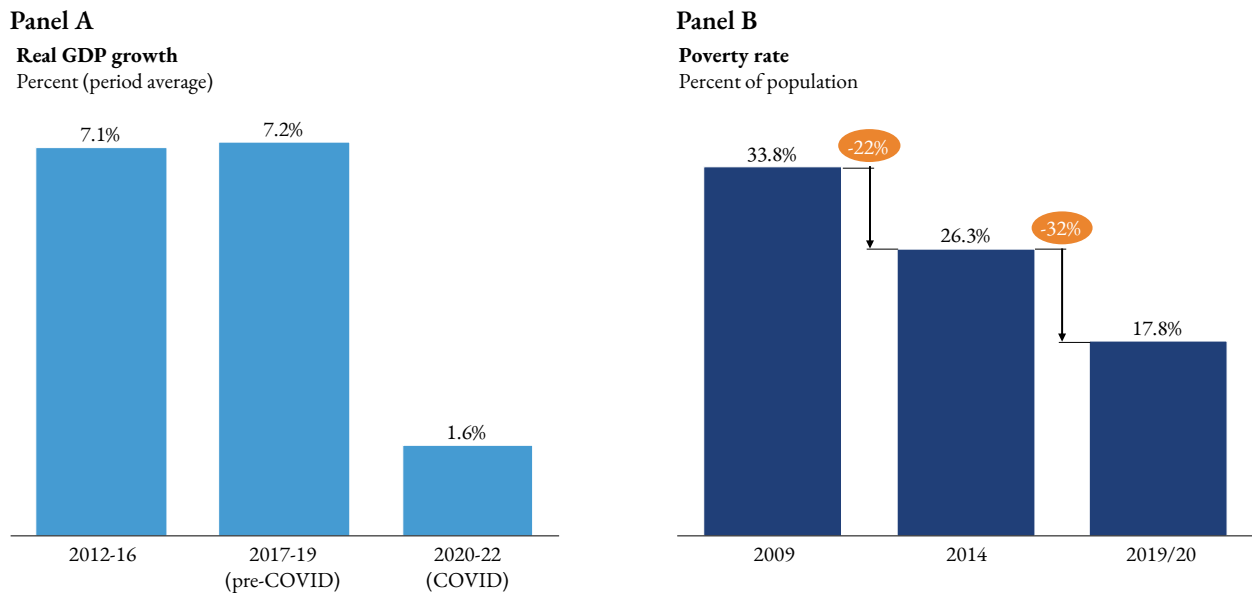
# INTRODUCTION

This special focus section of the Cambodia Economic Update reflects on the country’s development over the past decade and explores the structural reforms needed to boost productivity and competitiveness over the next five years. It is based on recent work by the World Bank conducted as part of its forthcoming report, Cambodia Systemic Country Diagnostic Update.

**Cambodia’s economic growth was impressive over the past decade and supported rapid poverty reduction.** Prior to the onset of the COVID-19 pandemic, Cambodia’s economic growth averaged around 7 percent over much of the past ten years (figure S.1, panel A), ranking its growth rate as the 11th fastest in the world and the fifth among middle-income countries during that period. Moreover, Cambodia’s growth model continued to deliver sustained and broad-based progress toward ending extreme poverty, with the poverty rate falling by about half from 33.8 percent in 2009 to 17.8 percent in 2019/20. The COVID-19 pandemic triggered the first economic contraction in 25 years and a rise in poverty in 2020 (figure S.1., panel B), however, the economy has since rebounded and is forecast to return to robust growth over the next five years.

However, Cambodia’s strong economic growth was largely driven by factor accumulation, with limited contributions from productivity, which is not sustainable over the long term. Recent growth was largely driven by high levels of investment (capital accumulation) and growing numbers of Cambodians entering the workforce (labor accumulation). There were, however, limited contributions to growth from labor productivity (labor quality) and total factor productivity (TFP). There were also modest improvements in the economy’s international competitiveness. To avoid a future slowdown in economic growth and poverty reduction, Cambodia needs to transition to a more sustainable pattern of growth. This transition will require further structural reform over the next five years to better enable productivity growth and competitiveness. Lifting the contributions to growth from TFP and human capital will require reforms to the business environment and larger, quality investments in infrastructure as well as education and skills.

**Figure S.1. Overview of economic growth and poverty reduction over the past decade**



Sources: World Bank 2023e and Cambodia Socio-Economic Surveys 2009, 2014 and 2019/20.

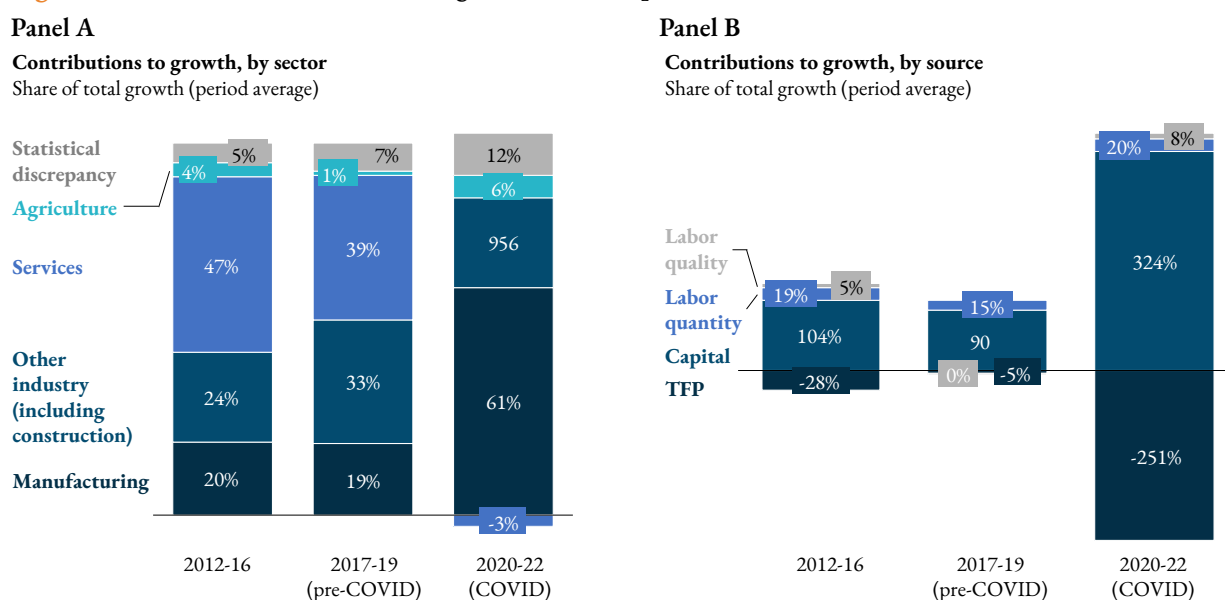
## THERE HAVE BEEN LIMITED CONTRIBUTIONS TO ECONOMIC GROWTH FROM PRODUCTIVITY AND ONLY MODEST IMPROVEMENTS IN INTERNATIONAL COMPETITIVENESS

There have been limited contributions to economic growth from productivity over the past decade, which increases the risk of a future slowdown in growth. Over the past ten years, Cambodia’s growth model has largely depended on factor (especially capital) accumulation (Figure S.2, panel A), with low contributions from labor quality and total factor productivity.<sup>28</sup> Previous analysis has traced this poor productivity performance to: (1) low human capital; (2) resource misallocation stemming from a lack of competition and market signals; and (3) low within-firm productivity growth stemming from a disabling business environment. This growth model was showing some signs of improvement between 2017 and 2019, with the negative contribution from

TFP declining. However, this progress was derailed by the onset of the COVID-19 pandemic, with growth becoming even more dependent on physical capital accumulation. TFP again became a major drag on growth, despite Cambodia’s high inflows of foreign direct investment (FDI), which has traditionally supported technology transfer. Low TFP is in part due to most investment going into low-productivity sectors such as real estate and construction. In addition, there continued to be small and declining contributions from human capital accumulation (labor quality) both pre- and post-pandemic (figure S.2, panel B), which is linked to limited progress on building human capital and skills.

Moreover, Cambodia’s broad structural shift from employment in agriculture to industry and services stalled in the second half of the past decade, also increasing risks to future growth. Between 2012-2016, a major shift of workers from lower-productivity agriculture to higher-productivity industry and services was a big driver of economic and productivity growth in Cambodia. Agriculture’s share of employment dropped by 20 percentage points from 56 percent in 2011 to 36 percent in 2016 (figure S.3, panel A). This large intersectoral reallocation of labor also helped compensate for sub-optimal productivity growth within the manufacturing and service sectors.<sup>29</sup> Between 2017-19, growth remained

**Figure S.2. Contributions to economic growth over the past decade**



Sources: World Bank staff calculations using data from and Total Economy Database (TED); The Conference Board (2022); and World Development Indicators (WDI) 2021.

<sup>28</sup> World Bank 2021.

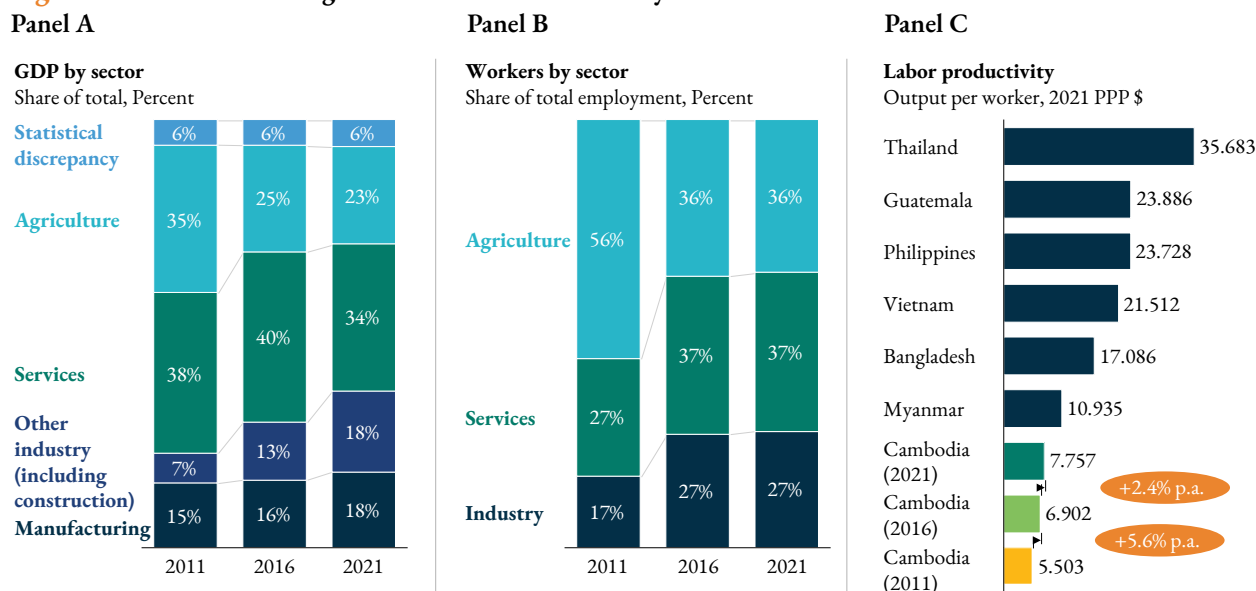
<sup>29</sup> Resilient Development: A Strategy to Diversify Cambodia’s Growth Model; Cambodia Country Economic Memorandum (World Bank, 2021).

strong despite little evidence of further structural transformation at the sectoral level. The agriculture sector, for example, shed almost no labor after 2016, a trend that is largely consistent both pre- and post-pandemic. The lack of labor shedding in agriculture, combined with the growth of the construction sector, means fewer workers shifting into higher-productivity sectors such as manufacturing and services (figure S.3, panel B). These trends – combined with ongoing sub-optimal productivity growth within manufacturing and services – led to a sharp slowdown in aggregate labor productivity growth over the past five years from an average of 5.5 percent per year between 2011 and 2016 to 2.4 percent between 2016 and 2021. Cambodia’s aggregate labor productivity level remains the lowest among its structural peers, well behind Myanmar and Bangladesh and about a third of Vietnam’s, with limited convergence (figure S.3, panel C). Between 2020-22, the sharp slowdown in growth was associated with a collapse in services and especially tourism due to COVID-19 related shutdowns. This slowdown was partly offset, however, by the resilience of the export-orientated manufacturing sector. In 2023, services has come back with the recovery of tourism, but sustainable medium- and long-term growth will require a resumption of the structural transformation out of agriculture (supported by improved human capital

outcomes), a shift to higher value added activities in manufacturing (requires better human capital, improved business environment), and perhaps a cooling of private construction activity which carries risks (coupled with a shift toward public infrastructure).

**Cambodia also made only modest progress on improving its international economic competitiveness over the past decade, and off a low base.** Cambodia improved its global ranking on the global competitiveness index by four positions since 2009 (figure S.4, panel A). The modest improvement in competitiveness reflects mixed progress at the sub-index level, with big relative improvements on macroeconomic and technological indicators, but big relative declines business and product market dynamism as well as on institutions. Overall, Cambodia’s competitiveness ranking of 106th in the world remains very low, especially compared to its neighbors Thailand (40th), the Philippines (64th) and Vietnam (67th). Cambodia’s competitiveness is being held back particularly by a lack of business dynamism (127th in the world), the quality of institutions (123rd), a lack of skills (120th), product market competitiveness (113th) and poor infrastructure (106th).

**Figure S.3. Structural changes in the Cambodian economy**

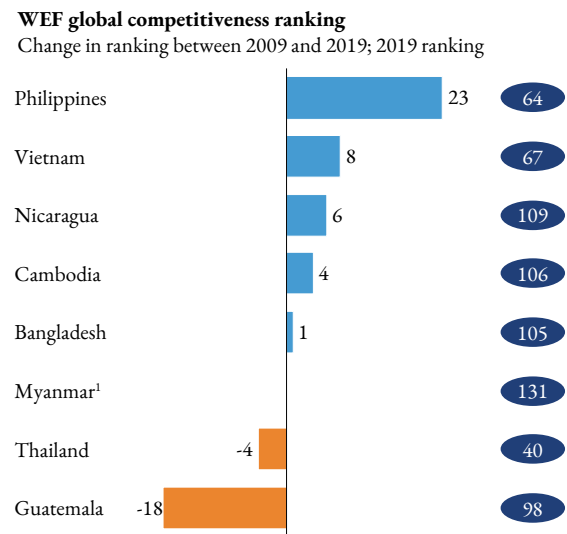


Sources: World Development Indicators (WDI); Cambodia Socio-Economic Survey (CSES) 2021; Total Economy Database (TED); and The Conference Board (2022).

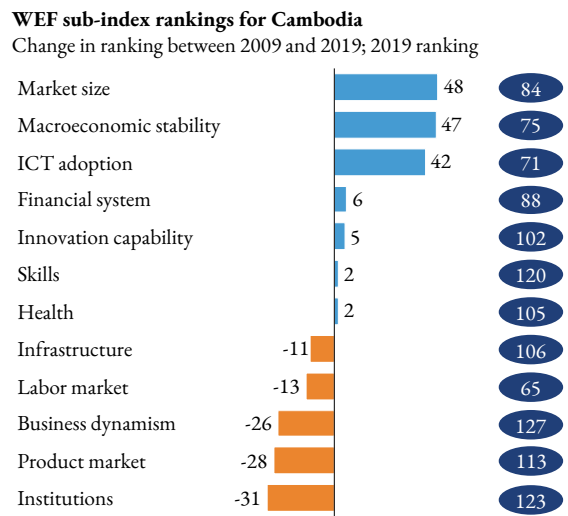
Note: p.a. = per annum.

**Figure S.4. Progress on global competitiveness over the past decade**

**Panel A**



**Panel B**



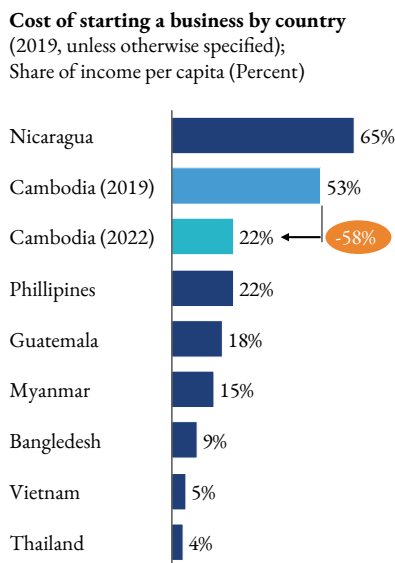
Source: World Bank staff calculations using data from a series of the World Economic Forum’s Global Competitiveness Index reports

## DESPITE RECENT PROGRESS, THE BUSINESS ENVIRONMENT FOR FIRMS IN CAMBODIA REMAINS CHALLENGING

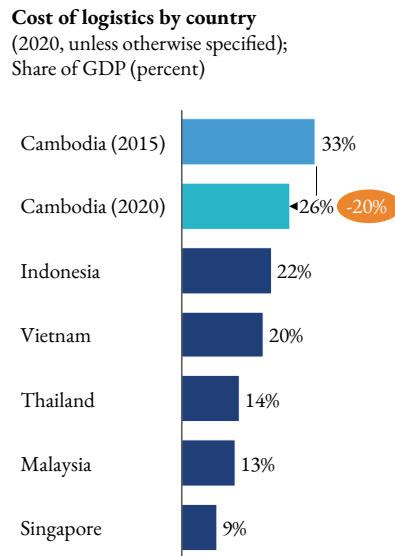
The recent pandemic helped accelerate some important structural reforms that led to reductions in firm costs, but costs remain high compared to structural peers and other countries in East Asia. The COVID-19 pandemic increased the urgency of supporting businesses and digitalizing government-to-business procedures, which helped accelerate efforts to reduce the cost of

**Figure S.5. Progress on reducing firm costs**

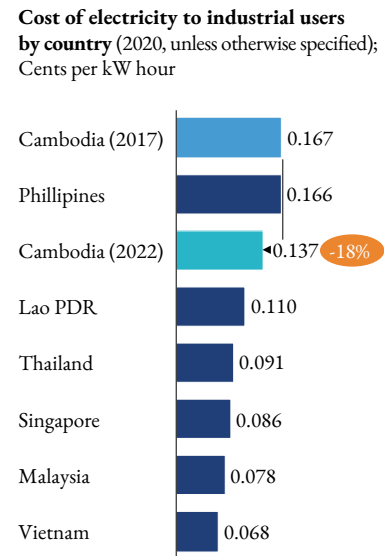
**Panel A**



**Panel B**

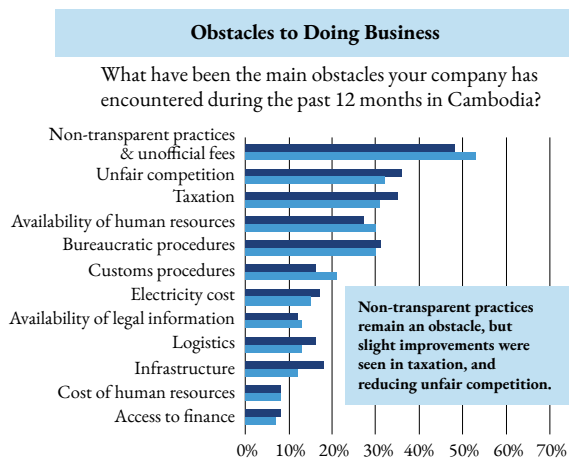


**Panel C**



Sources: Doing Business 2020. For the Cambodia 2022 measure, staff calculations based on government-reported fees. Ly and Rastogi 2022, NESDC 2021; and Banomyong and Varadejsatitwong, forthcoming.  
Note: kW = Kilowatt.

**Figure S.6. Private sector perceptions**  
(percent of all firms surveyed)

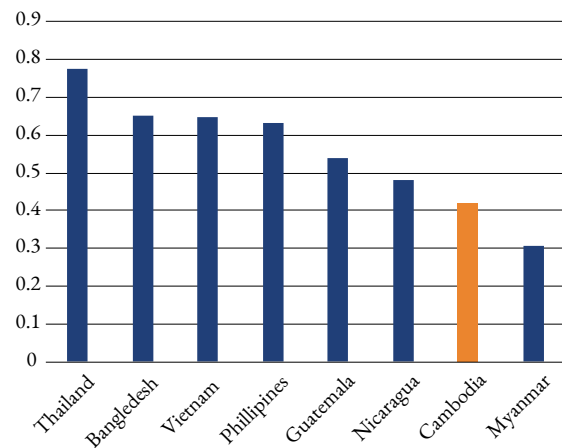


Source: EuroCham Cambodia Business Confidence Survey 2021.

firm establishment and operation (figure S.5, panel A). For example, Cambodia’s business registration process was significantly simplified and almost fully digitalized in 2020 through a single, integrated online portal, enhanced in speed (down to eight days) and costs (reduced by nearly 60 percent). In addition, logistics costs fell by 20 percent between 2015 and 2020 (figure S.5, panel B), supported by the establishment of a National Single Window and National Logistics Council, and by the abolishment of several state agencies that had regulated (and increased the complexity of) cross-border trade (for example, the Cambodia Import-Export Inspection and Fraud Repression Directorate-General (Camcontrol) and the Cambodian Shipping Agency [Kamsab]). Finally, electricity prices for industrial users fell by 18 percent between 2017 and 2022 following the implementation of tariff reforms.

**Despite these improvements, many firm costs remain relatively high compared to peers, suggesting room for further improvement.** The cost of starting a business remains the highest among all structural peers except Nicaragua, and more than four times higher than in neighboring Vietnam and Thailand (figure S.5, panel A). Transport and logistics constraints are increasing the costs of domestic and cross-border trade, creating inefficiencies in supply chains, and reducing Cambodia’s international competitiveness. National logistics costs in Cambodia are estimated at 26 percent of GDP (2020) which is higher than most ASEAN countries

**Figure S.7. Provision of government online services**  
(index)



Source: UN E-Government Development Index 2022.

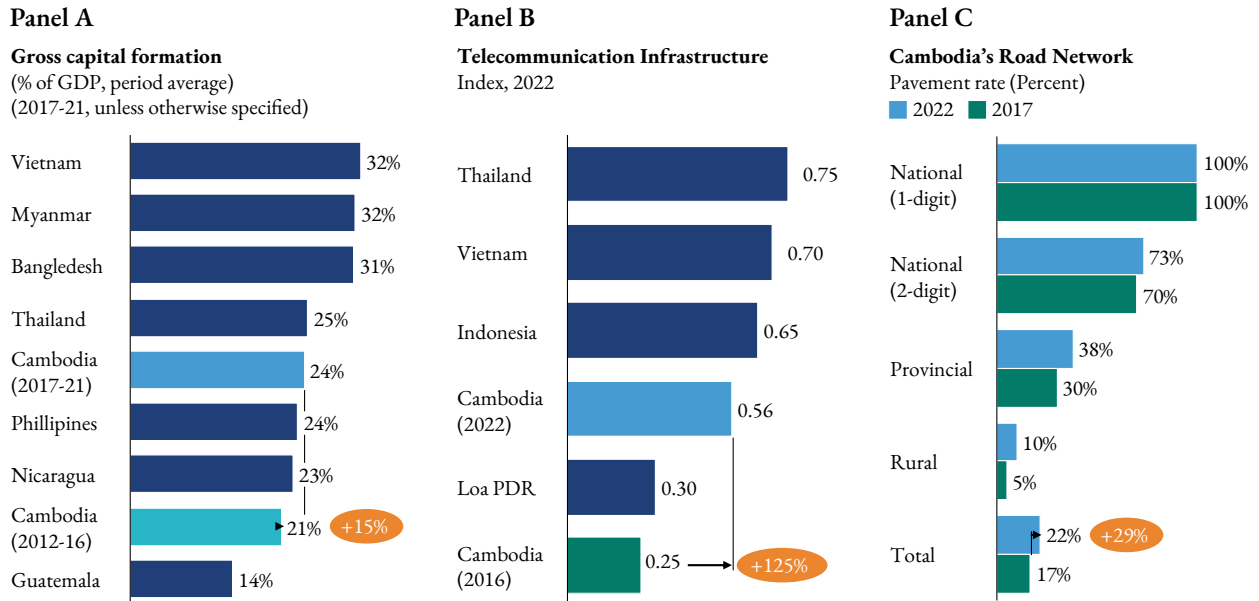
including Thailand (14 percent) and Vietnam (20 percent). Transportation costs are particularly high, representing more than 40 percent of total logistics costs (alongside warehousing), pointing to significant inefficiencies in the transport sector. Finally, Cambodia still has one of the highest electricity tariffs in the region for industrial users.

**Compliance with licensing requirements also remains a significant burden for businesses, made more difficult by a lack of digitalization.** According to the private sector, Cambodian businesses face an unusually large amount of red tape from business licensing regulations and there is a perception that regulation has increased after the pandemic (figure S.6). Although the government has attempted to make licensing requirements more transparent,<sup>30</sup> there is no complete inventory of licenses and permits and no unified approach toward risk-based regulations. Digital government-to-business services (including license issuance) are sporadic and lack interoperability. Cambodia ranks 127th in the world on the 2022 United Nations E-Government Development Index, well below regional and world averages. The “provision of online services” score is the lowest of the areas measured by the index (figure S.7).

**The broader enabling environment in Cambodia is also not conducive to firm productivity and competitiveness.** First, corruption and challenges to the rule of law increase the costs and uncertainties of doing business. Cambodia ranks 150th out of

30 An informational website [www.business.gov.kh](http://www.business.gov.kh) lists licensing requirement for more than 400 business activities mainly related to the Ministry of Industry, Science, Technology and Innovation, Ministry of Tourism and Ministry of Posts and Telecommunication.

**Figure S.8. Progress on boosting investment in, and provision of, infrastructure**



Sources: World Bank staff estimates based on data from WDI (2021); MPWT and MRD (2023); and UN DESA (2022).

180 countries on perceptions of corruption,<sup>31</sup> and the judicial system is relatively weak and enforcing commercial contracts takes a long time and is costly.<sup>32</sup> Second, the private sector is characterized by a high degree of informality, which is a problem as the informal economy tends to employ lower-skilled and less productive workers, and the average informal firm in emerging market and developing economies is only one-quarter as productive as the average formal firm.<sup>33</sup> Third, anticompetitive practices have the potential to distort the allocation of resources and raise domestic prices above efficient levels. The last Global Competitiveness Report published ranked Cambodia 107th out of 141 countries for national competition (including 100 out of 141 on domestic competition and 118th on competition in services, which is significantly lower than ASEAN peers such as Thailand and Vietnam.<sup>34</sup> Fourth, the Insolvency Law provides a solid foundation in Cambodia but the regulatory framework remains incomplete, and there is a lack of stakeholder awareness, preventing the full benefits of the insolvency regime from being realized in practice. In the last 15 years, only a handful of high-profile insolvency cases have been handled by Cambodian municipal courts, and all cases processed have led to a low recovery rate for creditors (14.6

cents on the dollar in Cambodia, compared to 35.5 in the East Asia Pacific region on average, and 70.2 in Organisation for Economic Co-operation and Development [OECD] countries).

## SIMILARLY, DESPITE RECENT PROGRESS, MAJOR INFRASTRUCTURE GAPS PERSIST

**There were some positive developments on increasing investment in, and provision of, infrastructure over the past five years.** The government made significant progress on modernizing laws aimed at boosting public and private investment in infrastructure over the past five years, including, for example, approving a new Public-Private Partnership (PPP Law in 2021) and taking steps to develop Cambodia's capital markets. These reforms contributed to increased investment levels, with gross fixed capital formation rising from around 21 to 24 percent of GDP (figure S.8, panel A)

31 Corruption Perception Index 2022, Transparency International; <https://www.transparency.org/en/cpi/2022/index/khm>

32 In the last Doing Business 2020 report, Cambodia ranked 182nd out of 190 countries in enforcing contracts.

33 This is only in part explained by informal characteristics such as their younger age, less experience, and smaller size. Moreover, firms in the formal sector that face informal competition are, on average, only three-quarters as productive as those that do not (see Yu and Ohnsorge (2019)).

34 World Economic Forum 2019; [https://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)

and helped fund more investment in infrastructure (figure S.8, panel B). For example, progress has been made in improving the country's main national road corridors. Cambodia also made significant progress in improving its telecommunications infrastructure between 2016 and 2022 (but still lags most ASEAN peers). In addition, electrification rates have increased rapidly and Electricite du Cambodge (EDC) has continued to improve the reliability and efficiency of electricity services. Finally, there has been improvements in access to water supply and sanitation with, for example, access to piped water in cities increasing from 69 percent to 80 percent between 2015 and 2020.

**However, the infrastructure investment gap in Cambodia remains large.** Public investment in infrastructure accounted for only 3.2 percent of GDP during 2019-22, while estimated annual investment needs are about 10 percent of GDP. The transport sector accounts for a substantial portion of these investment needs. About 85 percent of national roads (including one- and two-digit road classifications) are paved, but only 38 percent of provincial roads and 10 percent of rural roads are paved (figure S.8, panel C) indicating a major gap on resilient last-mile domestic connectivity. Maintenance spending is also inadequate, and because of this, the current value of road assets is estimated to be more than a third below their potential maximum net present value.

**Cambodia's persistent high transportation and logistics costs are among major bottlenecks to its economic competitiveness and diversification.** National logistics costs in Cambodia are estimated at 26 percent of GDP (2020) which is higher than most ASEAN countries including Thailand (14 percent) and Vietnam (20 percent). The World Bank's Logistics Performance Index 2023 (LPI) also points to significant logistics challenges in Cambodia, as the country ranked 115th out of 138 countries. First, border clearance is slow and costly due to poorly synchronized procedures and inadequate cross-border facilities. Second, there are bottlenecks along regional road corridors (for example, the section running from Siem Reap to the Oyadav check-point at the Cambodia-Vietnam border which connects Cambodia with Vietnam, Thailand, and Lao PDR, and is part of the Master Plan on ASEAN Connectivity).<sup>35</sup> Third, waterway connectivity between Cambodia and Vietnam is a vital asset for

transit of Cambodia exports to US and East Asia but is underutilized due to capacity constraints. Fourth, the full potential of railways in facilitating trade with Thailand has not been realized, with less than 1 percent of total modal share.

**In addition, Cambodia's energy sector faces a dual challenge of meeting rapid growth in electricity demand in an affordable manner while meeting its climate change commitments.** Domestic coal-fired generation accounted for around a quarter of total electricity supply in 2022, while hydropower generation and power imports accounted for around a third each. At the same time, electricity demand is growing fast, which will result in a shortfall in supply in the absence of additional investment. From 2003 to 2022, electricity demand in Cambodia increased at an average of 17.8 percent per year, in line with the experience in other countries where per capita consumption of electricity is growing from a low base. Rapid economic development is expected to see demand for electricity in Cambodia increase around fourfold between 2023 and 2040. The Bank team estimates that more than US\$ 20 billion of investment will be needed to expand Cambodia's generation capacity and power grid over this period. In the absence of adequate investments to meet this growing demand, supply shortfalls may be expected. In addition, continued industrial growth is likely to see energy intensity remain high compared with the countries in the region, putting ongoing pressure on the energy supply.

**Finally, there are large gaps in urban infrastructure, which are hindering the development of livable, efficient, and environmentally sustainable cities.** Reflecting inadequate infrastructure, only 29 percent Cambodians have access to a safely managed water supply, and 37 percent have access to safely managed sanitation. Inadequate investment in wastewater infrastructure and insufficient attention to operation and maintenance have negative impacts on the environment and the livability of urban areas. To date, only a few secondary cities have developed sewerage systems and wastewater treatment plants, financed through aid or the national budget. Phnom Penh does not have an adequate sewerage system or wastewater treatment plant, and wastewater is discharged untreated into the rivers and water bodies. Only a limited amount of solid waste is

35 MPAC 2025; <https://asean.org/wp-content/uploads/2018/01/47.-December-2017-MPAC2025-2nd-Reprint-.pdf>.

collected.<sup>36</sup> Moreover, the combination of rapid urbanization, limited resources, inadequate urban management and planning systems, and the fact that Cambodia’s cities are “growing out, not up,” are rendering urbanization less inclusive (inequity is higher than in rural areas), less efficient (congestion is growing as is the cost of expanding urban services across growing urban sprawl), and a growing source of carbon emissions (37 percent).

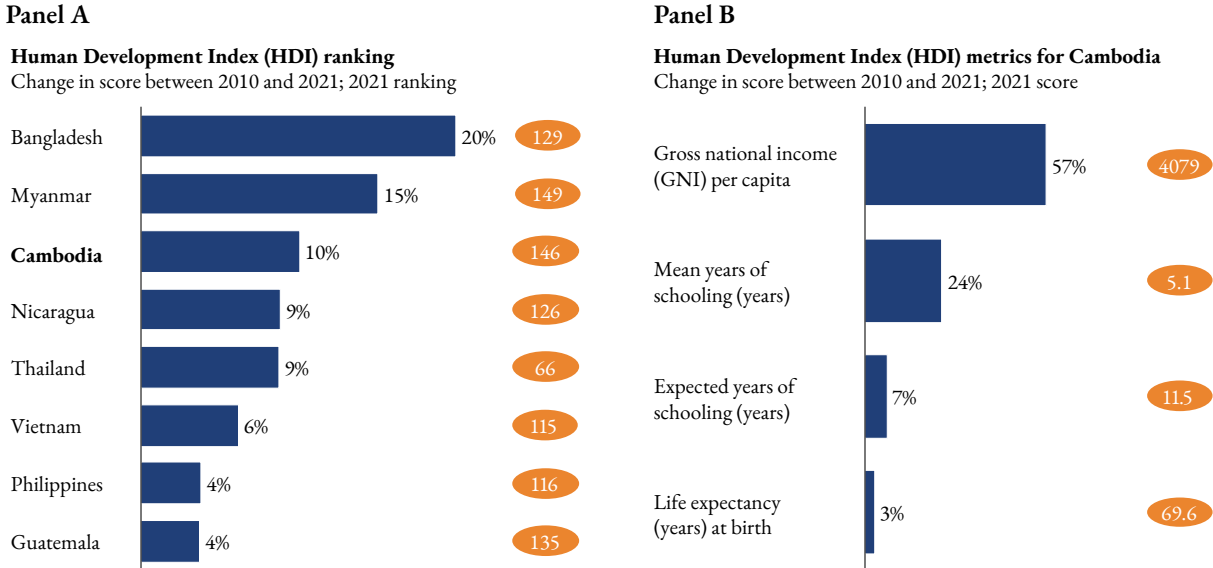
## FINALLY, PROGRESS ON BUILDING HUMAN ASSETS HAS BEEN MODEST AND MIXED, WITH SIGNIFICANTLY MORE REFORM NEEDED TO MOVE THE NEEDLE

**Cambodia made moderate progress on improving human capital over the past decade.** Cambodia improved its Human Development Index (HDI) score by 10 percent between 2010 and 2021 (figure S.9, panel A). This improvement reflects strong progress on raising per capita income, but more

modest progress on education and, especially, health metrics (figure S.9, panel B). However, Cambodia’s progress was less impressive than Bangladesh (up 20 percent) and Myanmar (up 15 percent). Moreover, Cambodia continues to rank lowly on most measures of human assets. For example, Cambodia is ranked 146th in the world on the HDI overall, the lowest score among its structural peers after Myanmar, and significantly behind more prosperous neighbors Thailand (ranked 66th) and Vietnam (ranked 115th). Progress in recent years was made more challenging by the COVID-19 pandemic, which put massive strains on Cambodia’s health system and resulted in the closure of schools for 280 days (and partially for 253 days) between February 2020 and February 2022.

**The moderate progress on education and skills reflects mixed progress, with strong improvements in access to education offset by declining learning outcomes.** There have been encouraging improvements in lifting enrolment rates at all levels of schooling over the past decade (between 2009 and 2019/20), especially in secondary schools (figure S.10, panel A). In addition, enrollment in public technical and vocational schools more than doubled – albeit off a low base - driven by the opening of 14 new Ministry of Education schools (raising the total to 18). Despite this progress, primary enrollment and secondary completion rates

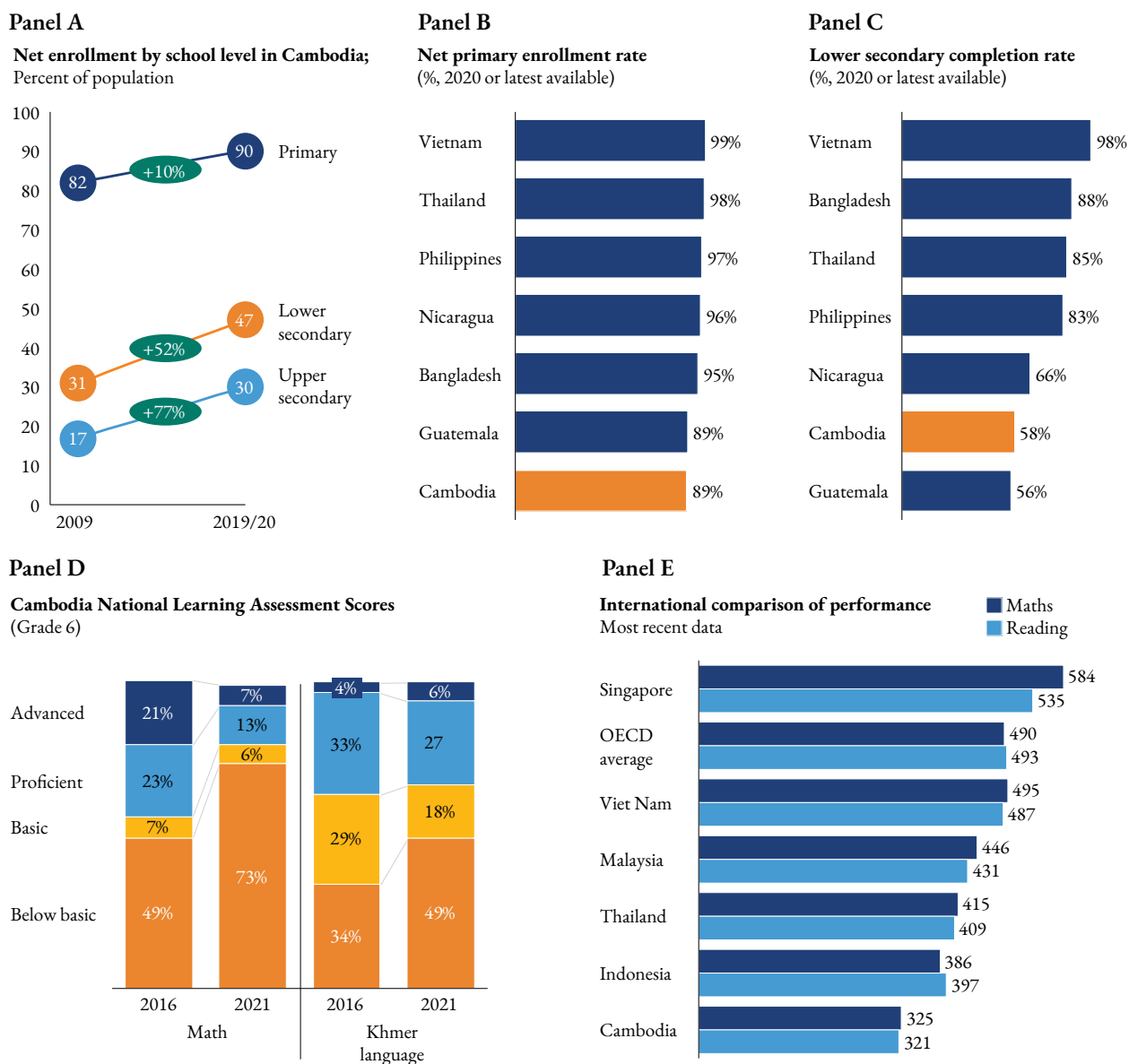
**Figure S.9. Progress on building human capital over the past decade**



Source: Human Development Report 2021/22, United Nations Development Program (UNDP).

36 A pre-feasibility study on solid waste management conducted in municipalities in Siem Reap, Kandal and Kampong Speu provinces in 2022 suggested a solid waste collection rate for households of 45 percent.

**Figure S.10. Progress on access to education and learning outcomes**



Source: World Bank staff estimates based on CSES 2009 and 2019/20; Sustainable Development Report 2022 (United Nations); Ministry of Education Youth and Sports; and PISA International Data Explorer, most recent data.

remain below peer countries (figure S.10, panels B and C). Moreover, increasing enrollment rates have coincided with declining learning outcomes (figure S.10, panel D). National tests reveal a 15-percentage point increase (to 49 percent) in the proportion of grade 6 students who cannot read (from 34 to 49 percent) and a 24-percentage increase (to 73 percent) in the proportion of students who lack basic math skills between 2016 and 2021 (figure S.10, panel E). International tests indicate that Cambodian students are significantly behind their structural peers, and that they fall further behind as

they progress from primary to secondary school.

**The poor and declining quality of basic education is driven by a range of factors, and the lack of a solid educational foundation is having knock-on effects at higher levels of education.** Poor learning outcomes in primary school can largely be attributed to a shortage of effective teachers, a challenge compounded by an uneven distribution of teachers across the country. In addition, teachers in Cambodia are inadequately prepared to do their job well, with only a small proportion of teachers

holding bachelor's degrees or higher qualifications. Crowded and poorly maintained schools are another issue, with many schools operating in double shifts and lacking basic infrastructure such as electricity and bathrooms. Finally, weak governance of the school system exacerbates these problems. The lack of solid educational foundations is having negative knock-on effects, impacting enrollment, and learning outcomes at higher levels of education and in adult training. Progression to secondary school remains low, and dropout rates remain high due to past poor performance and financial and gender barriers.

**The net result is that the current and emerging Cambodian workforce remains largely low-skilled, representing a growing risk to Cambodia's future development and prosperity.**

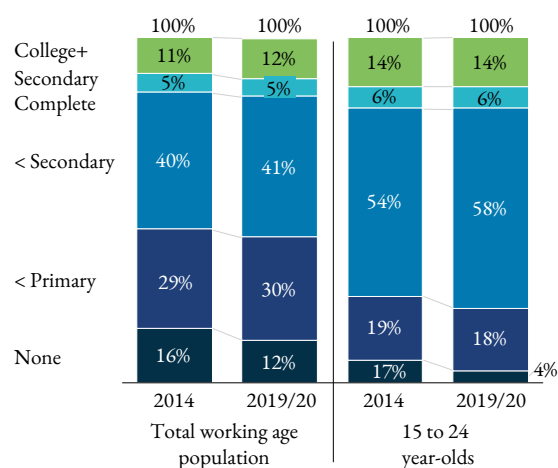
There has been little progress on overall upskilling over the past five years, with the share of the workforce that has completed secondary education and/or been admitted to college standing at only 17 percent in 2019/20, which is essentially unchanged from 2014 (figure S.11, panel A). More concerning is that the emerging future workforce does not look

very different. While 15- to 24-year-old Cambodians are more likely than the total workforce to have enrolled in secondary school (58 percent compared to 41 percent, respectively), the vast majority drop out before completing secondary school. As a result, only 20 percent of 15- to 24-year-olds had completed secondary school and/or been admitted to college in 2019/20, a rate that is both largely unchanged over the last five years and only marginally better than the total workforce. Low school completion in turn is highly correlated with the low-skill jobs that most Cambodians take: 90 percent of Cambodian workers are in elementary or low-skilled occupations (figure S.11, panel B). A lack of upskilling constrains economic upgrading, with firms reporting skills as the third major obstacle to their operations and 50 percent reporting challenges in hiring<sup>37</sup> and filling vacancies in medium-skilled occupations such as “technical and associated professionals”.<sup>38</sup> In recent consultations, Cambodian public and private sector stakeholders cited a lack of education and skills as the single biggest constraint to the country's future economic development.

**Figure S.11. Overall progress on upskilling Cambodia's workforce**

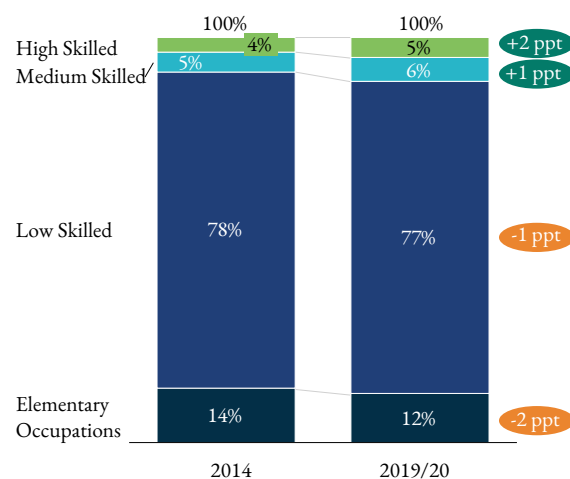
**Panel A**

**Highest level of education of the workforce by age**  
Share of total (%)



**Panel B**

**Classification of Cambodian jobs by skill level**  
Share of total (%)



Source: Cambodia Socio-Economic Survey (CSES) 2014 and 2019/2020.

Note: Elementary occupations include elementary occupations workers; low-skilled occupations include skilled agricultural, and forestry and fishery workers, service and sales workers, craft and related workers, and plant and machine operators and assemblers; medium-skilled occupations include technicians and associate professionals and clerical support workers; high-skilled occupations include managers and professionals; ppt = percentage point.

37 World Bank 2016.

38 National Employment Agency 2018.

## RECOMMENDATIONS

**To mitigate the risks of a future slowdown in economic growth and poverty reduction, Cambodia needs to transition to a more sustainable, productivity-led, pattern of growth.**

This transition will require further structural reform over the next five years to better enable productivity growth and competitiveness. Higher labor productivity growth is essential for sustainable wage growth, poverty reduction, and shared prosperity. Lifting the contributions to growth from total factor productivity and human capital will require more and better-quality investment in infrastructure, machinery, education and skills, health, and social protection. Action on these critical priorities can help ensure that Cambodia's growth can remain sustainable and inclusive over the long term.

**Further improvements to the business environment are critical for boosting the productivity and competitiveness of Cambodian firms.**

Weaknesses in the business environment inhibit the productivity of labor and thereby constrain national income. Cambodia needs to streamline its complex business entry requirements and restrictive entry regulations and reduce the time and financial costs associated with issuing licenses and permits and starting a business. Cambodia also needs to strengthen the predictability of the regulatory environment to help support increased private sector investment. More competition would foster cost reductions and innovation and promote productivity growth by shifting market share toward more efficient producers and incentivizing firms to become more efficient. Finally, a well-functioning insolvency framework would enhance resource efficiency and productivity growth.

**Upgrading Cambodia's infrastructure is also an important foundation for productivity and international competitiveness.**

Cambodia continues to have a large infrastructure financing gap, resulting in inadequate infrastructure services that are struggling to keep up with rapidly growing demand. Cambodia needs to address gaps in domestic and regional transport connectivity, which is impacting the efficiency and resilience of supply chains and the cost of trade. In addition, large investments are needed in the energy sector to address the dual challenge of meeting rapid growth in electricity demand while meeting the country's climate change commitments. Further, Cambodia needs to invest in upgrading basic urban services such as piped water, sanitation, solid waste management, telecommunications, and transport, as well as strengthening urban planning to ensure its cities develop in an inclusive, efficient, and environmentally sustainable manner.

**Finally, raising learning outcomes is crucial to address skills shortages, develop a "future-ready" workforce, and drive Cambodia's future productivity growth.**

Firms are reporting growing skills shortages, and labor productivity growth has declined sharply over the past five years. Few young Cambodian children are being enrolled in early childhood education, which is undermining early development and hindering mothers from returning to work. Primary schools are experiencing a decline in learning outcomes despite improved access. Few students are progressing to secondary school and those that do experience high dropout rates. Options for post-secondary learning are limited and are of low quality. Finally, the dynamism of the labor market is limited by insufficient supply and demand information. Table S.1 summarizes the challenges and recommendations.

**Table S.1. Summary of the challenges and recommendations**

Area	Challenges	Recommendations for the next 5 years
<b>Improve the business environment for firms</b>	The high cost of establishing and operating a business (i.e., high start-up, logistics, and electricity costs) as well as a poor overarching business-enabling environment (i.e., high perceptions of corruption, declining rule of law, lack of competition in domestic product markets).	<ul style="list-style-type: none"> <li>• Further lower electricity prices by institutionalizing competitive processes for power procurement.</li> <li>• Fully digitize the business registration portal and continue to expand the list of institutions connected.</li> <li>• Establish a complete inventory of licenses and permits, introduce and implement risk-based approaches to licensing, and streamline sectoral licenses.</li> <li>• Support the implementation of an effective competition policy framework.</li> <li>• Improve the enforcement of commercial contracts through the introduction of specialized commercial courts and increased court transparency and digitalization.</li> <li>• Strengthen the insolvency framework, including by adopting the Regulations of Insolvency Administrators and Code of Conduct.</li> <li>• Strengthen the public-private dialogue forum by holding annual or semi-annual high-level meetings and increase the transparency of the dialogue.</li> </ul>
<b>Boost public and private investment in infrastructure</b>	The infrastructure gap remains large which is increasing the cost of basic infrastructure services (transport, energy, urban, water) and constraining trade and regional connectivity.	<ul style="list-style-type: none"> <li>• Maximize the impact of public infrastructure investment by strengthening prioritization and selection of infrastructure projects.</li> <li>• De-risk and ensure successful implementation of more public-private partnership (PPP) projects, including by operationalizing the new PPP law and building capacity of executing agencies, and by ensuring that competitive bidding is the primary method of procurement.</li> <li>• Make investments to address specific infrastructure gaps in regional connectivity: improve the East-West corridor among Thailand, Cambodia, and Vietnam (and the only road corridor connecting Cambodia with Lao PDR); improve the inland waterway connection with Vietnam; and improve the existing railway operations and infrastructure links with Thailand.</li> <li>• Accelerate the growth of electricity supply in an affordable and sustainable manner by: introducing least-cost planning and competitive procurement; enhancing the grid and develop cross-border transmission links; accelerating renewable energy development; and encouraging private sector participation and mobilization of green funds.</li> <li>• Moderate the growth in electricity demand by promoting and enforcing higher energy efficiency standards as well as clean cooking.</li> <li>• Enhance access to water and sanitation infrastructure by modernizing the operation of public water utilities (PWOs) and help them become creditworthy; providing more support to PWOs to allow them to expand their service; setting up a clear institutional mandate for operation and maintenance of wastewater at the municipality level; and establishing a tariff framework for urban sanitation.</li> </ul>

**Upgrade the skills of the existing and future workforce**

Low enrollment in early childhood education and unsatisfactory and deteriorating learning outcomes in primary schools are leading to a lack of basic foundations in reading and numeracy. This has knock-on effects, contributing to low secondary school enrollment and high dropout rates. It has also contributed to major skills shortages across the economy, which is hindering economic upgrading and labor productivity.

- Prepare young children to learn by: boosting enrolment in early childhood education, including by expanding quality provision of public and private preschools while adopting measures to stimulate demand; and including education interventions in existing health, nutrition, and social protection services.
- Improve equitable access to primary school, including by: constructing more schools and rehabilitating schools with poor infrastructure; measuring learning regularly, especially when it is early enough to make changes, such as grades 2 and 3; and better targeting financial and other forms of support to students at high risk of dropping out.
- Enable and motivate schoolteachers, including by: making pre-service teacher education programs more selective and practical; improving professional development by providing teachers the right training and the right tools; ensuring that training programs are clear, doable and rewarding; and incentivizing teacher effort through fair redeployments, promotions, salary and accountability measures.
- Improve school governance, including by strengthening data systems for better decision-making, improving school leadership, and strengthening school-based management.
- Increase secondary school completion rates by alleviating: the lack of foundational skills via remediation programs; gender barriers; economic and financial pressures; and high opportunity costs driving high dropout rates.
- Upgrade the quality of technical and vocational education and training education, including by enhancing the autonomy of institutions and strengthening partnerships with industry.
- Enhance labor mobility and matching by strengthening labor market demand and supply information.

# ANNEX. CAMBODIA – SELECTED INDICATORS

SELECTED INDICATORS*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E
<b>INCOME AND ECONOMIC GROWTH</b>														
GDP growth (annual %)	6,0	7,1	7,3	7,4	7,1	7,0	6,9	7,0	7,5	7,1	-3,1	3,0	5,2	5,4
GDP per capita growth (annual %, real)	4,4	5,5	5,8	5,8	5,7	5,5	5,5	5,6	6,2	5,8	-4,2	1,8	4,0	4,3
GDP per capita (US\$, nominal)	810,0	889,6	949,4	1.030,1	1.105,1	1.183,2	1.281,3	1.397,0	1.527,3	1.667,8	1.583,9	1.624,7	1.765,4	1.912,9
Private Consumption growth (annual %)	8,8	10,4	4,6	5,8	4,5	9,4	5,8	3,7	6,8	5,9	-4,0	-0,7	33,0	24,3
Gross Investment (% of nominal GDP)	16,2	16,0	17,4	18,7	20,9	21,4	21,7	21,9	22,6	23,4	24,0	25,8	39,4	24,4
Gross Investment - Public (% of nominal GDP) <sup>2</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..
<b>MONEY AND PRICES</b>														
Inflation, consumer prices (annual %, EOP or MRV) <sup>1</sup>	2,9	4,6	2,3	4,5	0,9	2,8	3,8	2,2	1,6	3,1	2,9	3,8	3,0	3,0
Inflation, consumer prices (annual %, period average)	2,6	5,5	3,0	2,9	3,9	1,2	3,0	2,9	2,5	1,9	2,9	2,8	5,5	3,0
Broad Money (% of GDP)	41,6	39,1	50,1	55,5	67,1	72,4	79,2	88,2	100,7	116,3	137,2	152,6	103,9	131,1
Domestic Credit to the Private Sector (% of GDP) <sup>2</sup>	27,6	28,3	38,7	52,0	62,7	74,3	81,7	86,7	99,6	114,2	139,6	166,3	177,3	..
10 year interest rate (annual average) <sup>1</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Nominal Exchange Rate (local currency per USD)	4.044,0	4.016,0	4.033,0	4.027,0	4.030,0	4.025,0	4.058,0	4.062,0	4.067,0	4.070,0	4.077,4	4.100,0	4.150,0	4.110,0
Real Exchange Rate Index (2015=100)	97,8	95,0	93,6	92,7	94,9	100,0	101,8	101,7	98,5	99,1	99,0	92,4	65,5	72,8
<b>FISCAL</b>														
Revenue (% of GDP)	17,7	17,6	17,7	18,2	20,0	19,7	20,9	21,9	23,8	27,0	24,0	22,0	23,2	21,4
Expenditure (% of GDP)	21,0	23,0	21,9	21,4	21,9	20,2	21,1	22,7	23,4	25,5	28,6	29,0	27,9	28,3
Interest Payments (% of GDP)	0,3	0,3	0,5	0,7	0,7	0,3	0,4	0,4	0,4	0,4	0,5	0,5	0,5	0,5
Non-Interest Expenditure (% of GDP)	20,7	22,7	21,4	20,7	21,2	19,9	20,7	22,3	23,0	25,1	28,2	28,6	27,4	27,8
Overall Fiscal Balance (% of GDP)	-3,3	-5,4	-4,2	-3,2	-1,9	-0,5	-0,2	-0,8	0,4	1,5	-4,6	-7,0	-4,7	-6,9
Primary Fiscal Balance (% of GDP)	-3,0	-5,1	-3,7	-2,5	-1,2	-0,2	0,2	-0,4	0,8	1,9	-4,1	-6,5	-4,2	-6,3
General Government Debt (% of GDP)	28,7	29,7	31,6	31,3	31,8	31,2	29,1	30,3	28,3	28,1	36,1	36,3	36,7	36,8
External Public Debt (% of GDP) <sup>1</sup>	27,2	27,0	30,5	31,6	31,5	31,2	29,1	29,7	28,5	27,9	33,9	35,1	..	..
<b>EXTERNAL ACCOUNTS</b>														
Export growth, G&S (nominal US\$, annual %)	22,9	11,4	16,0	16,8	10,3	7,5	9,0	9,4	12,3	8,5	2,1	11,2	31,9	19,0
Import growth, G&S (nominal US\$, annual %)	19,1	11,4	14,2	16,9	8,8	7,6	9,0	7,8	9,3	17,4	5,7	46,1	35,8	-8,4

SELECTED INDICATORS*	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 E
Merchandise exports (% of GDP)	38,3	38,8	41,6	44,6	45,4	45,4	45,5	45,2	46,0	46,0	51,8	62,8	70,3	72,0
Merchandise imports (% of GDP)	50,4	50,5	53,7	57,5	57,5	57,3	56,9	55,6	55,1	54,6	65,7	92,4	91,6	70,6
Services, net (% of GDP)	6,8	6,3	7,3	7,8	7,7	7,5	7,0	7,0	7,4	1,8	4,1	-5,8	-25,0	-19,4
Current account balance (current US\$ millions)	-1.165,3	-1.309,3	-1.390,7	-1.489,3	-1.899,7	-1.680,6	-1.756,6	-2.140,5	-2.180,1	-4.107,7	-3.221,0	-11.492,8	-7.214,3	-4.345,6
Current account balance (% of GDP)	-10,0	-10,1	-9,9	-9,6	-11,3	-9,2	-8,8	-9,7	-8,9	-15,2	-12,4	-42,6	-24,4	-13,4
Foreign Direct Investment, net inflows (% of GDP)	11,8	11,8	14,0	13,0	10,6	9,5	12,0	12,1	12,6	13,2	13,5	12,6	12,6	11,4
Multilateral debt (% of total external debt) <sup>2</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..
<b>POPULATION, EMPLOYMENT AND POVERTY</b>														
Population, total (millions)	14,4	14,6	14,8	15,0	15,2	15,4	15,6	15,8	16,0	16,2	16,4	16,6	16,8	16,9
Population Growth (annual %)	1,5	1,5	1,5	1,4	1,4	1,4	1,3	1,3	1,2	1,1	1,2	1,2	1,1	1,1
Unemployment Rate <sup>3</sup>	0,8	0,6	0,5	0,4	0,7	0,4	0,7	0,1	0,1	0,1	0,3	0,3	0,4	..
Inequality - Gini Coefficient <sup>2</sup>	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Life Expectancy <sup>2</sup>	67,7	68,4	68,9	69,3	69,7	69,9	70,2	70,5	70,6	70,7	70,4	69,6	..	..
<b>OTHER</b>														
GDP (current LCU, billions)	47.048	52.069	56.617	62.220	67.740	73.423	81.242	89.831	99.544	110.014	105.892	110.506	122.847	133.219
GDP (current US\$, millions)	11.634	12.965	14.038	15.451	16.809	18.242	20.020	22.115	24.476	27.030	25.970	26.953	29.602	32.413
GDP per capita LCU (real, thousands)	2.103	2.219	2.347	2.484	2.625	2.770	2.922	3.086	3.277	3.468	3.322	3.383	3.520	3.671
Human Development Index Ranking <sup>1</sup>	147	148	147	147	146	148	148	147	148	147	148	146	..	..
CPIA (overall rating) <sup>2</sup>	3,4	3,4	3,5	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,4	3,5	3,6	..
Economic Management <sup>2</sup>	4,0	3,8	3,8	3,8	3,8	4,0	4,0	4,0	4,2	4,2	4,2	4,2	4,2	..
Structural Policies <sup>2</sup>	3,3	3,5	3,7	3,7	3,7	3,5	3,5	3,3	3,3	3,3	3,3	3,5	3,5	..
Policies for Social Inclusion and Equity <sup>2</sup>	3,4	3,5	3,5	3,4	3,4	3,4	3,4	3,4	3,4	3,5	3,5	3,6	3,8	..
Public Sector Management and Institutions <sup>2</sup>	2,7	2,8	2,8	2,8	2,8	2,7	2,7	2,7	2,6	2,6	2,7	2,8	2,8	..

Notes: “..” indicates not available. E = estimate, F = forecast. Data from MFMOD unless otherwise noted.

1/ World Bank GEM database; MRV = Most recent value.

2/ World Development Indicators Database and World Bank Staff Estimates.

3/ The HDI ranking in 2001 is in relation to 175 countries and in 2010 in relation to 169 countries. Methodological enhancements in HDI calculations have resulted in notable improvements in the countries' rankings.

Sources: MFMOD Database, World Bank WDI and GEM databases, IMF.

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