CAMBODIA

January 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR CAMBODIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 10, 2025, consideration of the staff report that concluded the Article IV consultation with Cambodia.

- **The Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 10, 2025, following discussions that ended on September 30, 2024, with the officials of Cambodia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 22, 2024.

- An **Informational Annex** prepared by the IMF staff.

- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

- A **Statement by the Executive Director** for Cambodia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund
Washington, D.C.**

IMF Executive Board Concludes 2024 Article IV Consultation with Cambodia

FOR IMMEDIATE RELEASE

Washington, DC – January 27, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Cambodia.

Cambodia's economy has continued to recover, albeit at a modest pace. We project real GDP to grow from 5.5 percent in 2024 to 5.8 percent in 2025 and inflation to pick up from 0.5 percent in 2024 to 2 percent in 2025 and remain contained. However, risks to the outlook are tilted to the downside from both external factors and domestic vulnerabilities, including from policy changes by major trading partners, geoeconomic fragmentation, and continued weakness in the construction and real estate sectors.

The recovery remains uneven. Real GDP growth is driven mainly by external demand, with a strong rebound in garment exports and high growth in agricultural exports. Tourism has experienced a structural shift in its composition, resulting in a lagged recovery in tourism receipts. Growth in non-tradable sectors remains weak. After a sustained credit expansion that lifted the credit-to-GDP ratio from 24 percent in 2010 to 135 percent in 2023, credit growth has come to a near halt. The construction and real estate sectors are undergoing a correction, with rising non-performing loans and emerging signs of private-sector debt overhang.

We project the fiscal deficit at 2.4 percent of GDP in 2025, down from 3 percent in 2024, with a gradual fiscal consolidation envisaged in the medium-term fiscal framework. Public debt remains well-contained, staying below 30 percent of GDP over the next decade. The current account balance is projected to swing back to a deficit of 1.8 percent of GDP in 2024 as strong demand for imports outpaces the recovery in exports and tourism. The deficit is projected to increase somewhat in 2025, reaching 2.5 percent of GDP, with export growth expected to moderate.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors welcomed the continuing recovery of the Cambodian economy, driven by strong growth in garment and agricultural exports, and improving tourism activity. Nonetheless, the recovery has been uneven, and while growth is expected to continue, risks to the outlook are tilted to the downside. Directors underscored the importance of policies to safeguard macro financial stability, ensure a durable and inclusive recovery, and achieve the authorities' development goals over the medium term.

Directors supported a neutral fiscal stance in the near term and highlighted the importance of gradual and high-quality consolidation over the medium term underpinned by sound fiscal frameworks to maintain debt sustainability and strengthen economic resilience. They welcomed the recent publication of a medium-term fiscal framework but recommended strengthening it with more conservative and transparent fiscal rules. Directors stressed the need to further mobilize revenues through rationalizing tax exemptions and implementing tax policy reforms, while enhancing spending efficiency and strengthening public investment management, in order to help rebuild fiscal buffers and safeguard priority social and capital spending. Directors welcomed efforts to foster the development of the domestic government bond market as Cambodia's access to concessional foreign financing will be reduced when it graduates from Least Developed Country status. They also stressed the need for sound management of fiscal risks from state-owned enterprises and public-private partnerships.

Directors supported the measured pace of monetary policy normalization while maintaining adequate financial system liquidity. They encouraged continuing efforts to modernize the monetary policy framework to enhance policy transmission and support de-dollarization. Noting the ongoing corrections in the construction and real estate sectors, declining FDI inflows, and rising nonperforming loans, Directors encouraged phasing out forbearance measures and developing a comprehensive plan to safeguard financial stability. They recommended strengthening risk-based supervision, improving macroprudential policy, enhancing coordination among financial sector supervisory agencies, and intensifying oversight of the real estate sector.

Directors highlighted the importance of structural reforms to promote economic diversification and improve competitiveness. They encouraged the authorities' efforts to enhance human capital, invest in infrastructure, strengthen the business environment, address climate vulnerabilities, and promote renewable energy to attract more diversified FDI. They also underscored the importance of strengthening governance and institutions, improving transparency, enhancing the AML/CFT framework, and addressing data limitations through capacity development.

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Cambodia: Selected Economic Indicators, 2021 – 29 1/

Per capita GDP (2022, US$): 1,546 Life expectancy (2019, years): 75.5
Population (2022, million): 16.7 Literacy rate (2019, percent): 87.7

	2021	2022	2023 Est.	2024	2025	2026	2027	2028	2029
						Proj.			
Output and prices (annual percent change)									
GDP at constant prices	3.1	5.1	5.0	5.5	5.8	6.2	6.0	6.0	6.0
Inflation (end-year)	3.7	2.9	2.7	1.5	2.1	3.2	3.0	3.0	3.0
(Annual average)	2.9	5.3	2.1	0.4	2.1	3.2	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)									
Gross national saving	0.8	15.6	33.6	30.7	30.0	29.2	29.2	29.2	29.3
Government saving	0.3	3.1	4.1	5.1	6.1	7.1	8.1	9.1	10.1
Private saving	0.5	12.5	29.5	25.6	23.9	22.1	21.1	20.1	19.2
Gross fixed investment	30.4	34.6	32.3	32.5	32.5	32.5	32.5	32.5	32.5
Government investment	6.6	5.6	5.8	5.2	4.5	4.3	4.2	3.9	3.8
Private investment	23.8	29.0	26.5	27.4	28.0	28.2	28.4	28.6	28.7
Money and credit (annual percent change, unless otherwise indicated)									
Broad money	16.4	8.2	12.5	8.5	7.9	10.5	11.3	9.1	9.0
Private sector credit	23.6	18.5	3.5	4.0	7.0	10.0	10.0	10.0	10.0
Velocity of money 2/	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Public finance (in percent of GDP)									
Revenue	15.8	18.1	15.9	14.9	14.9	14.9	15.0	15.1	15.2
Domestic revenue	14.7	16.4	14.7	13.7	13.7	13.8	14.0	14.1	14.4
Of which: Tax revenue	13.2	14.7	13.0	12.1	12.1	12.2	12.3	12.5	12.7
Grants	1.1	1.7	1.2	1.2	1.1	1.1	1.0	0.9	0.8
Expenditure	21.0	18.4	18.7	17.9	17.3	17.1	17.1	17.2	17.1
Expense	14.4	12.8	12.9	12.7	12.8	12.8	13.0	13.3	13.4
Net acquisition of nonfinancial assets	6.6	5.6	5.8	5.2	4.5	4.3	4.2	3.9	3.8
Net lending (+)/borrowing(-)	-5.2	-0.3	-2.8	-3.0	-2.4	-2.2	-2.1	-2.1	-2.0
Net lending (+)/borrowing(-) excluding grants	-6.3	-2.0	-4.0	-4.2	-3.6	-3.3	-3.2	-3.0	-2.8
Net acquisition of financial assets	-3.6	1.4	-0.3	-0.2	0.5	0.3	0.2	0.3	0.4
Net incurrence of liabilities 3/	1.6	1.7	2.5	2.8	2.9	2.5	2.4	2.4	2.4
Total public debt (In percent of GDP)	25.9	25.0	25.7	26.8	27.8	27.8	27.8	27.7	27.7
Balance of payments (in millions of dollars, unless otherwise indicated)									
Exports, f.o.b.	19,527	23,175	23,569	26,745	28,595	30,942	33,449	36,307	39,457
(Annual percent change)	5.7	18.7	1.7	13.5	6.9	8.2	8.1	8.5	8.7
Imports, f.o.b.	-30,726	-31,995	-26,553	-31,055	-33,244	-35,626	-38,605	-41,871	-45,434
(Annual percent change)	46.4	4.1	-17.0	17.0	7.0	7.2	8.4	8.5	8.5
Current account (including official transfers)	-10,886	-7,572	555	-847	-1,269	-1,794	-1,993	-2,175	-2,283
(In percent of GDP)	-29.6	-19.0	1.3	-1.8	-2.5	-3.3	-3.3	-3.4	-3.2
Gross official reserves 4/	20,265	17,805	19,998	20,753	23,064	26,887	30,951	35,422	40,351
(In months of prospective imports)	7.0	7.3	6.9	6.6	6.9	7.4	7.9	8.3	8.7
Total public debt (in millions of dollars)	9,505	9,971	11,187	12,473	13,932	15,218	16,508	17,912	19,453
(In percent of GDP)	25.9	25.0	25.7	26.8	27.8	27.8	27.8	27.7	27.7
External debt (in millions of dollars, unless otherwise indicated)									
Public external debt	9,505	9,971	11,187	12,387	13,726	14,939	16,178	17,548	18,978
(In percent of GDP)	25.9	25.0	25.7	26.6	27.4	27.3	27.2	27.1	27.0
Public debt service	397	427	449	418	439	458	482	506	533
(In percent of exports of goods and services)	2.0	1.7	1.6	1.3	1.3	1.2	1.2	1.2	1.1
Nominal effective exchange rate (index, trade partners by CPI)	113.3	122.4	123.3	...	...	...	...	...	...
Real effective exchange rate (index, based on CPI)	125.3	134.0	132.4	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in billions of Riels)	150,793	164,059	177,719	190,603	205,946	225,291	245,726	267,845	292,066
(In millions of U.S. dollars)	36,797	39,838	43,304	46,568	50,180	54,745	59,548	64,733	70,395

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Based on the rebased GDP.
2/ Ratio of nominal GDP to the average stock of broad money.
3/ Includes statistical discrepancy.
4/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia.

INTERNATIONAL MONETARY FUND

November 22, 2024

CAMBODIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

KEY ISSUES

Context: Cambodia's economy is at a crossroads. While the economic recovery continues, its pace remains uneven. The sharp slowdown in credit growth has exposed the economy to increased financial sector vulnerabilities. Policy formulation must ensure a durable and inclusive recovery in the near term and achieving development goals over the medium term. The path forward will require a refocus on more resilient and diversified growth drivers, with the graduation from Least Developed Country (LDC) status expected by 2030.

Outlook and Risks: Real GDP growth is projected at 5¾ percent in 2025, up from 5½ percent in 2024, supported by the continued recovery in exports and tourism. However, the construction and real estate sectors are undergoing a correction, with rising NPLs and declining FDI inflows. Inflation is projected to pick up from 0.5 percent in 2024 to 2 percent in 2025 and remain contained. Cambodia's export-led economy faces strong headwinds going forward, subject to rising downside risks in the global economy.

Policy Recommendations:

- **Fiscal policy:** The neutral stance is appropriate in the near term, while a gradual and high-quality consolidation to build buffers is critical over the medium term. Mobilizing revenue, with efforts to roll back broad-based tax exemptions, gaining spending efficiency, and strengthening public investment management remain key to promoting inclusive economic development, building resilience, and ensuring debt sustainability.

- **Monetary and financial sector policies:** Monetary policy needs to resume normalization at a calibrated pace, with a focus on ensuring financial stability and supporting de-dollarization. Phasing out forbearance measures is needed to limit potential risks of debt overhang. Strengthening coordination across supervisory agencies and enhancing oversight of the real estate sector, supported by stronger data collection, are key to safeguarding financial stability.

- **Structural policies:** Structural reforms need to focus on diversifying growth drivers. Enhancing human capital, strengthening the business environment, and addressing climate vulnerabilities can attract FDI to higher-value-added industries. Strengthening governance frameworks to improve transparency and enhancing the institutional capacity to address data limitations will lend support to structural transformation.

Approved by **Rupa Duttagupta (APD) and Peter Dohlman (SPR)**	Discussions took place in Phnom Penh, Cambodia, during September 17–30, 2024. The staff team comprised Kenichiro Kashiwase (head), Natasha Che, Enrique Flores Curiel, Jochen Schmittmann (IMF resident representative), Tatjana Schulze (all APD), and Camilo Enciso (LEG, joined virtually). Rupa Duttagupta (APD) joined the closing policy discussions. Yati Kurniati and Vi Thi Tra Nguyen (both OEDST) joined various meetings. Leapho Leng, Chenda Pich, Pholla Phork, and Varith Proeung supported the mission from the IMF's office in Phnom Penh. Chao Wang and Mariam Souleyman assisted from IMF HQ.

CONTENTS

CONTEXT

A. Shifts in the Economy's Landscape – Challenges and Opportunities Ahead

1. **Cambodia's economy is at a crossroads.** The country has made remarkable strides in growth and poverty reduction in the decades prior to the pandemic.[1] However, the pandemic exposed vulnerabilities of the economy which crucially depends on external demand. While the economic recovery continues, its pace remains uneven with real GDP well below the level suggested by the pre-pandemic trend. Tourism has witnessed a structural shift in its composition, with a lagging recovery in tourism receipts. The extended credit boom—which lifted the credit-to-GDP ratio from 24.2 percent in 2010 to 134.5 percent in 2023—has come to a near halt, with declines in FDI inflows to real estate. The economy is grappling with rising non-performing loans (NPLs) and emerging signs of private-sector debt overhang.

2. **Looking ahead, the country faces significant challenges and opportunities**. Cambodia's economy is vulnerable to global macroeconomic conditions, policy changes by major trading partners, and geoeconomic fragmentation that could disrupt trade and FDI flows. The country's impending graduation from Least Developed Country (LDC) status in 2027-2030 will result in a loss of preferential treatment for exports. Navigating these complex economic dynamics to foster a durable and inclusive recovery in the near term while promoting high-quality growth over the medium term will be crucial for Cambodia's continued development and its ambitious goal to reach upper-middle-income status by 2030.

The Economy Confronts Emerging Vulnerabilities

Tourist Arrivals from China
(Indexed, 2019M1-M12=100, 3ma)

Credit-to-GDP and Credit Growth
(In percent)

Sources: Haver, Cambodia authorities, and IMF staff calculations.
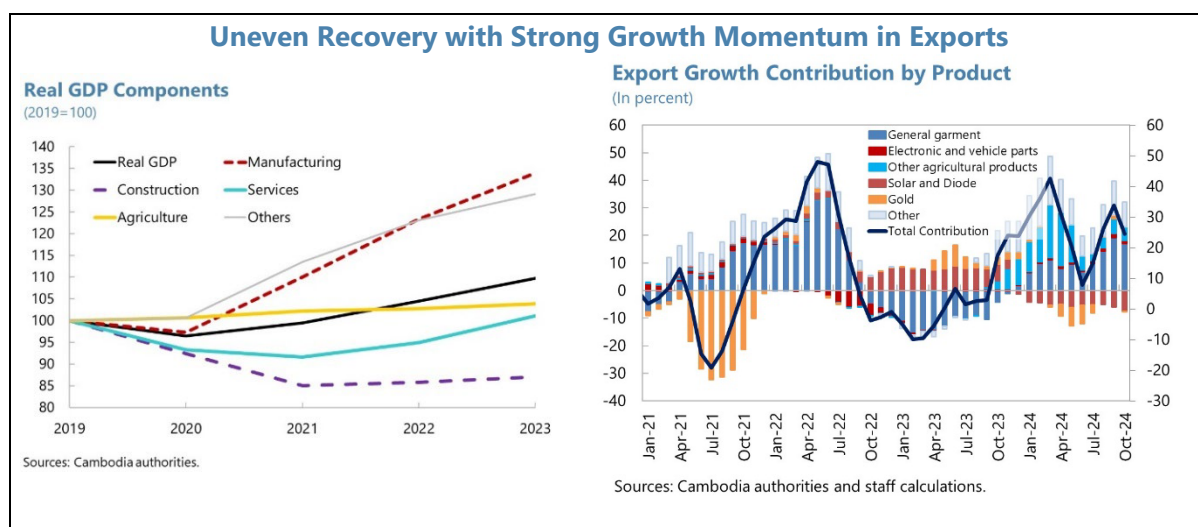
Sources: Cambodia authorities.

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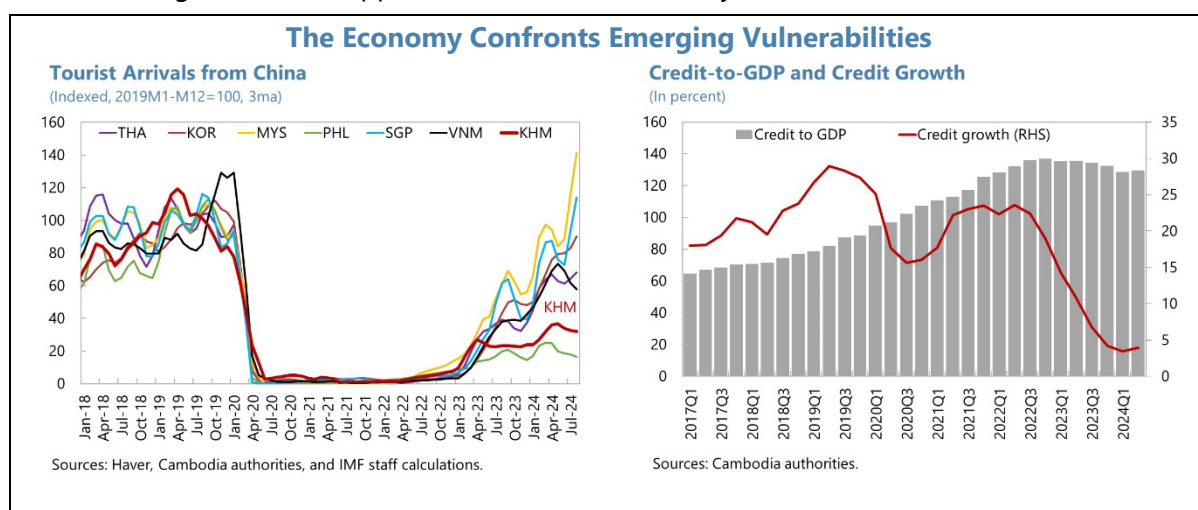
[1] GDP growth averaged 8.3 percent annually from 2000 to 2019, and poverty rates declined from 30.1 percent in 2007 to 17.8 percent in 2019, according to the World Bank and the Asian Development Bank.

RECENT DEVELOPMENTS

A. Uneven Recovery with Increased Financial Sector Vulnerabilities

3.   Economic growth has strengthened since 2023, but the recovery remains uneven.
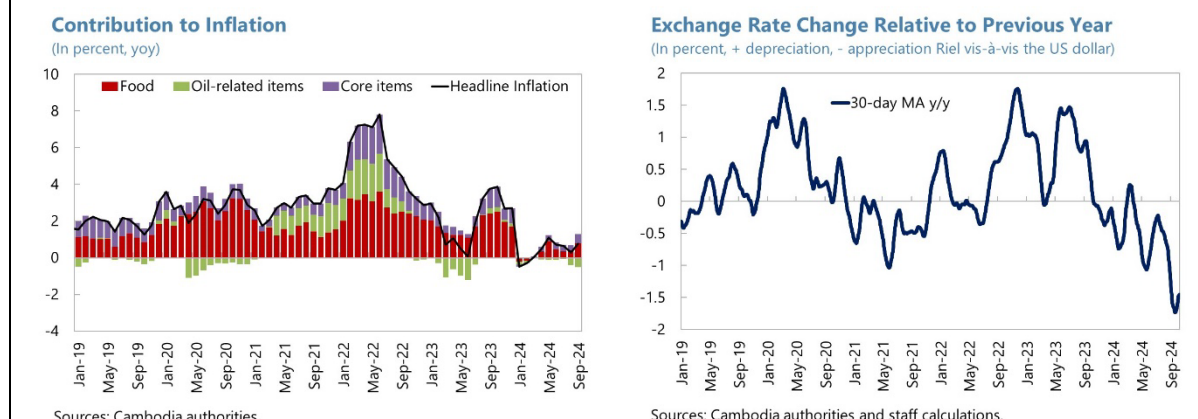Real GDP growth is estimated at around 5 percent in 2023 (based on the rebased GDP), driven
mainly by the manufacturing sector (**Annex I**). The recovery in tourism also contributed, with
activities picking up in its related sectors, including hospitality, transport, and wholesale and
retail trade. In 2024, a strong rebound in the garment sector, growth in agricultural exports, as
well as the ongoing recovery in tourism contributed to further acceleration of economic growth.
Staff's nowcast exercise estimated growth to be around 5¾ percent in 2024H1. However,
activities in construction and real estate are going through a correction, following marked
exuberance in prior years, with declining credit quality and FDI inflows.

Uneven Recovery with Strong Growth Momentum in Exports

Real GDP Components (2019=100)

Export Growth Contribution by Product (In percent)

Sources: Cambodia authorities.

Sources: Cambodia authorities and staff calculations.

**4.   Inflation has continued to moderate, reflecting global trends and domestic
economic conditions**. Headline CPI inflation decelerated from 5.3 percent in 2022 to 2.1 percent
in 2023. The downward trend persisted into 2024, with inflation averaging 0.3 percent (y/y) in
2024H1. Global commodity price developments, coupled with a stable exchange rate,
contributed to disinflation. Domestic demand pressures remained contained, with core inflation
also subdued, declining from 2 percent on average in 2023 to 0.6 percent 2024H1. [2]

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[2] Cambodia's CPI is based on 2006, with weights on food, oil-related items, and core CPI accounting for 45, 16,
and 39 percent, respectively. Oil-related items include fuels with prices administratively determined. Services in
the core CPI account for nearly three quarters. Disinflation in China, where nearly 50 percent of total goods in
2024 are imported from, may have some impact.

Contained Headline Inflation and Stable Exchange Rate

Contribution to Inflation
(In percent, yoy)

Exchange Rate Change Relative to Previous Year
(In percent, + depreciation, - appreciation Riel vis-à-vis the US dollar)

Sources: Cambodia authorities.

Sources: Cambodia authorities and staff calculations.

5.   The current account (CA) balance swung to a surplus in 2023, amid an extended period of volatility in gold trade. The CA shifted from a deficit of 19 percent of GDP in 2022 to a surplus of 1.3 percent of GDP in 2023, reflecting mainly gold trade vo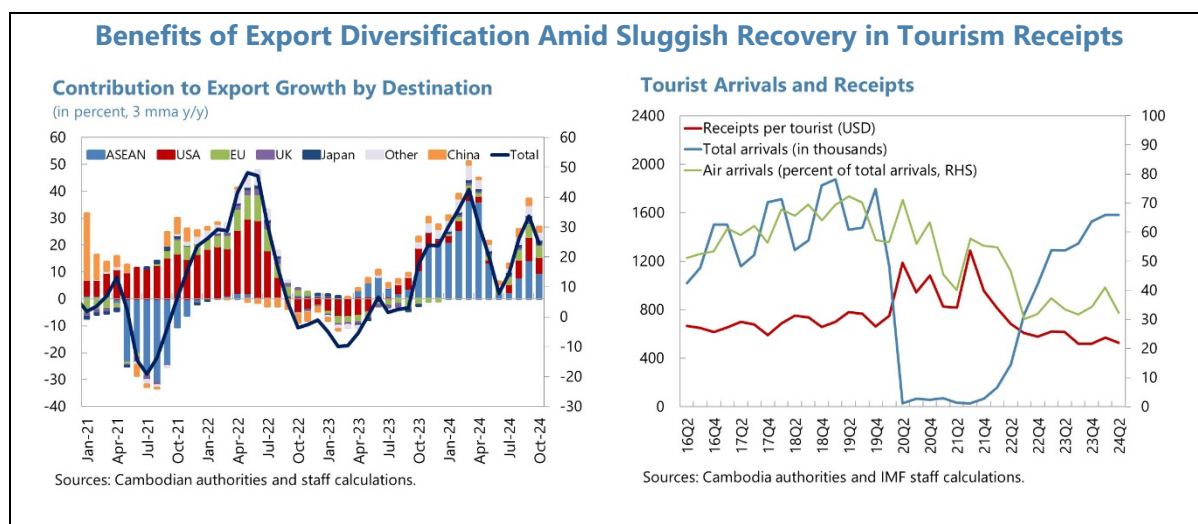latility, import compression, and the recovery in the tourism sector. Following an import ban on gold during 2022Q4-2023Q1, gold imports contracted sharply in 2023 from 11 to 0.5 percent of GDP but did not recover subsequently.[3] Likewise, other imports saw a broad-based contraction, as external demand faltered and firms, particularly in the garment sector, drew down inventories. Services receipts from tourism picked up and contributed to the CA surplus. The financial account recorded short-term capital outflows as banks moved deposits abroad and repaid external debt amid high global interest rates. The Khmer Riel (KHR) remained broadly stable against the U.S. dollar. International reserves increased in 2023 and remained adequate, with around 7 months of prospective import coverage. The external position turned moderately stronger than the level implied by medium-term fundamentals and desirable policies (**Annex II**).

Merchandise Trade (Excl. Gold)
(LHS: in percent y/y 3 mma, RHS: in USD billion)

Sources: Cambodia authorities and staff calculations.
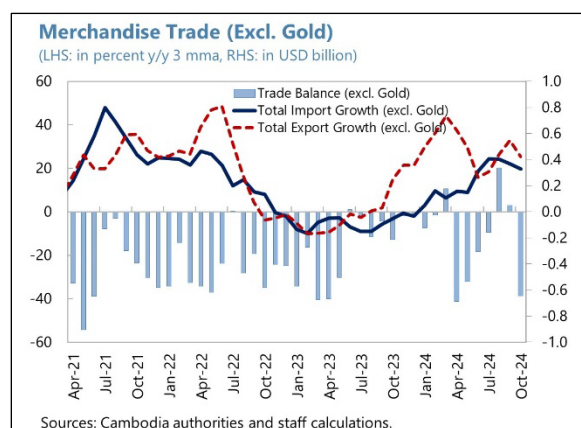
6.   Exports have strongly rebounded since late-2023 while tourism receipts have lagged despite the continued recovery in tourist arrivals. Strong growth in garment and agricultural exports has been driven by the rebound in global demand (including from regional trade partners) and trade diversion of garment from Bangladesh and Myanmar, amid social

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[3] Cambodia does not produce significant amounts of gold, and demand for gold imports may reflect various factors. Determining temporary or permanent factors that might have contributed to heightened gold imports during 2020-2022 is challenging. See the IMF Cambodia Article IV staff reports in 2022 (no. 22/371) and 2023 (no. 24/36) for further discussions.

unrest and conflict, respectively. The recovery in garment exports has led to a similar rebound in imports of raw materials since late-2023. Meanwhile, solar-related exports have fallen sharply since 2023Q4, following the ruling on anti-dumping duties by the U.S. on China-originating solar products exported by select firms that found to circumvent tariffs through Cambodia and other countries in the region.[4] FDI inflows in 2024H1 have declined as increasing inflows in the manufacturing sector were more than offset by declining inflows into the financial and the real estate sectors. The recovery in tourism receipts remains sluggish and disconnected from tourist arrivals, which stand at 2019 levels in mid-2024, amid compositional shifts. Inbound tourism comprises more tourists from ASEAN neighbors with much fewer air arrivals, substituting those from China in the high-spending segment that remain far below the pre-COVID levels.

Benefits of Export Diversification Amid Sluggish Recovery in Tourism Receipts

Contribution to Export Growth by Destination
(in percent, 3 mma y/y)

Sources: Cambodian authorities and staff calculations.

Tourist Arrivals and Receipts

Sources: Cambodia authorities and IMF staff calculations.

7.   The fiscal stance was expansionary in 2023. The deficit increased from 0.3 percent of GDP in 2022 to around 2.8 percent in 2023. Growing tax exemptions and weaker-than-expected economic growth compressed revenue outturns. Tax revenues declined by about 4 percent (y/y), largely driven by lower VAT, excises, and customs revenues. Declines in fuel imports, in part due to energy transition[5], also contributed to the weak tax collection. Total expenditure rose by around 10 percent (y/y), partly driven by higher wage

Tax Revenue
(as percent of GDP)

Sources: Cambodia authorities and IMF staff calculations.
1/ Annualized using 2023 monthly trend.

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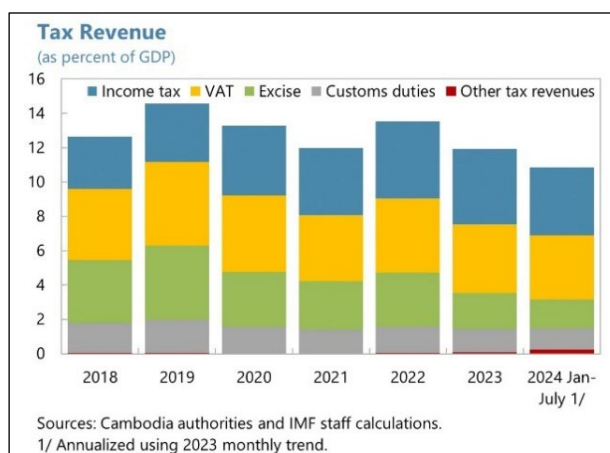
[4] Further US investigations into additional solar-exporting firms in Cambodia and in other countries in the region are ongoing. See the International Trade Administration, U.S. Department of Commerce (link).

[5] Cambodia continues to increase installed electricity capacity, generated mainly from hydro and solar (IRENA (2024), Energy Profile in Cambodia) and is ranked among the highest in the region in terms of the share of renewables in final energy consumption, according to the International Energy Agency (link).

costs and one-off spending items (e.g., SEA Games and the general election), despite some postponement in infrastructure execution that led to lower-than-planned capital expenditure by about 20 percent.

8.   Credit growth decelerated sharply despite some policy easing measures. Credit growth reached a decade low in 2023 after a prolonged period of rapid credit expansion (**Box 1**). More recently, select sectors have shown some signs of credit recovery, but overall credit growth remains low in 2024, which prompted the recent extension of forbearance measures (see below). Leverage, measured by the loan-to-deposit ratio, declined by 15 percentage points (pts), though it remains above pre-pandemic levels. The National Bank of Cambodia (NBC) lowered the USD reserve requirement rate (RRR) on deposits and non-resident borrowing for banks in 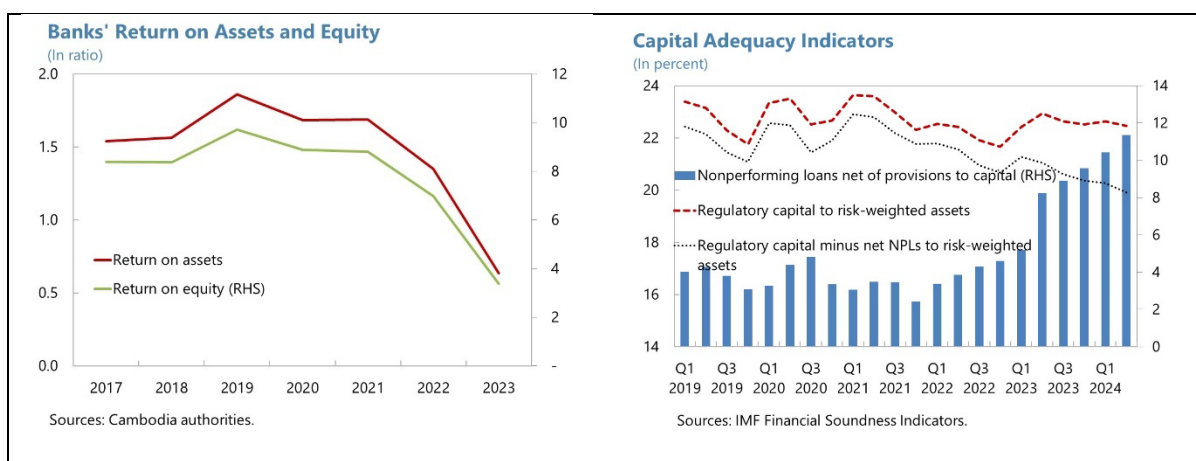2023Q4 back to the pandemic-support level of 7 percent to support credit activity, after an initial tightening in 2023Q1. Rates on negotiable certificate deposits (NCDs), used by the NBC to absorb short-term liquidity, were lowered in early 2023 from 3.4 and 1.3 percent for USD and KHR, respectively, and have since remained broadly unchanged at average rates of 0.7 and 0.9 percent, respectively, in 2024H1.

9.   Banks' asset quality has deteriorated, and profitability declined sharply. Following the expiration of most pandemic-related regulatory forbearance measures in late 2022, NPL ratios climbed to above 6.5 percent in 2024Q2, from 2.9 percent in 2022, rising particularly fast for the retail and wholesale trade, construction, real estate, and agriculture sectors. Banks' profitability has declined sharply with increased costs of provisioning and a reduction in the interest rate margin,[6] following higher global USD interest rates.

Heightened Vulnerabilities in the Financial Sector

Non-Performing Loans and Provisioning
(In percent)

Sources: IMF Financial Soundness Indicators.

NPLs and Bank Credit Growth by Sector
(In KHR billions)

Sources: Cambodia authorities and IMF staff calculations.

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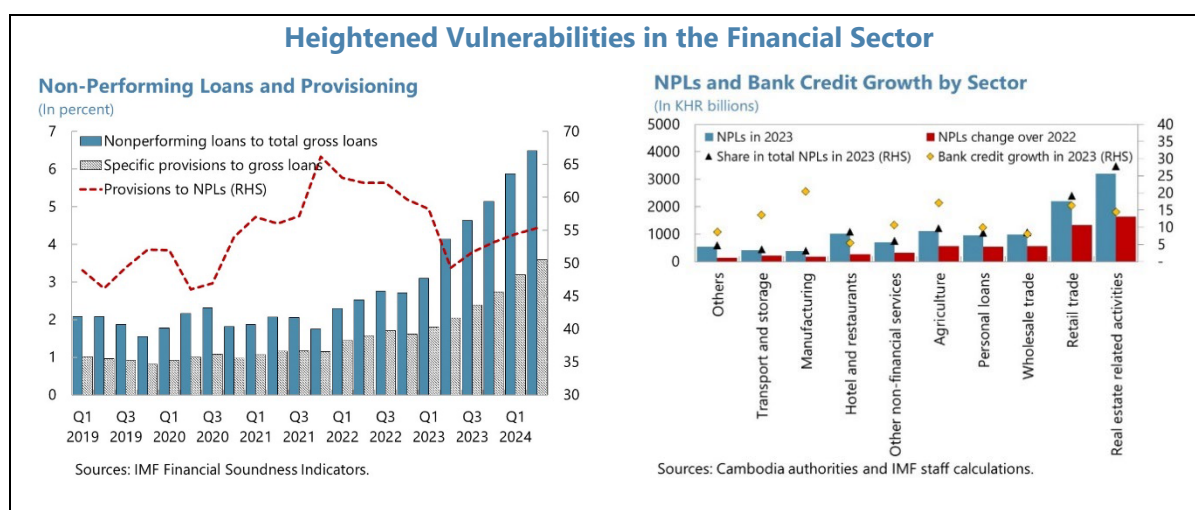
[6] In Cambodia, deposits tend to reprice faster than loans which are mostly fixed rate.

Banks' Return on Assets and Equity
(In ratio)

Sources: Cambodia authorities.

Capital Adequacy Indicators
(In percent)

Sources: IMF Financial Soundness Indicators.

Authorities' Views

10.   The authorities concurred with the assessment of recent developments. The authorities underscored that growth remains broadly in line with their expectation but noted that the recovery has been uneven. Garment exports have shown stronger growth due to the rebound in external demand and temporary shifts in production away from Bangladesh to Cambodia. Non-garment exports have slowed, led by drastic declines of purchasing orders in solar and diode from the US. But exports of other non-garment products, such as furniture, tires, and other electrical parts, have remained robust. Tourism continues to recover, albeit at a moderate pace. A sharp slowdown in credit growth would, to some extent, yield potential implications on growth, and the growth model underpinned by a strong increase in the real-estate sector, prior to the pandemic was not sustainable.

OUTLOOK AND RISKS

A. Stronger Headwinds to the Economic Outlook

11.   The economic recovery is expected to continue, though at a slower pace than projected earlier. Growth is projected at around 5½ percent for 2024 and 5¾ percent for 2025 (compared to 6 and 6.1 percent respectively in the April 2024 WEO), with the output gap expected to close by end-2025. Near-term growth is expected to be sustained by the continued export and tourism recovery, while growth in non-tradable sectors is expected to remain weak, amid subdued domestic demand. Over the medium term, growth will be supported by exports and a more broad-based recovery in the non-tradable sectors, reaching potential growth of around 6 percent as in staff's forecast model (**Annex III**). Inflation is projected to reach around 1.5 percent by end-2024 and converge towards the long-term trend of 3 percent thereafter.

12.   The fiscal deficit in 2024 is projected to be similar to that of 2023 and decline gradually over the medium term. The deficit is projected at around 3 percent in 2024, somewhat higher than budgeted, and to decline gradually over the medium term to around 2

percent. The deficit in 2024 is mainly driven by the tax revenue shortfall, projected to be 10-15 percent lower than the budget forecast, despite measures to rationalize current expenditures (e.g., hiring freeze to contain wage growth) and defer capital spending. The tax-revenue-to-GDP ratio is projected at around 12 percent for 2024, nearly 4 pts lower than before the pandemic, 3 pts lower than the EMDE average of 15 percent, and much below Cambodia's potential tax-to-GDP ratio of 21 percent .[7] Implementation of the new Revenue Mobilization Strategy (RMS-III) is expected to raise revenues modestly over the medium term.

13.   The public debt to GDP ratio is projected to increase moderately, and the risk of debt distress remains low. The total public and publicly guaranteed (PPG) debt-to-GDP ratio was around 26 percent as of end-2023 and is projected to increase by around 4 pts of GDP during the next decade. This ratio is projected to remain stable under several stress scenarios, underpinning a low risk of debt distress.[8] However, the analysis shows that Cambodia's external debt remains vulnerable to shocks in contingent liabilities (**DSA**).

14.   The current account balance is projected to swing back to a deficit in 2024. As external demand is gaining ground on the back of the garment sector, stronger import demand to replenish inventories is expected to outpace the recovery in exports and tourism. Solar-related exports are not expected to rebound in the near-term amid ongoing anti-dumping investigations. Dividend payments from direct investment to investors abroad are expected to remain muted as in 2023, thus narrowing the income deficit. The CA is expected to return to a deficit of around 1¾ percent of GDP, closer to its historical average. International reserves are projected to increase and remain stable at about 7 months of prospective imports.

15.   Risks to the outlook have shifted to the downside (Annex IV). The export-oriented Cambodian economy is highly exposed to external shocks, including slower-than expected global growth, which could pose greater strains on select corporate sectors with elevated leverage and increase stress for the financial sector. While geoeconomic fragmentation and international garment sector relocation could result in some near-term support through trade diversion, a proliferation and intensification of economic fragmentation would hurt the economy through lower global growth and FDI. On the other hand, further loosening of global financial conditions in the highly dollarized economy would support the recovery. Domestically, near-term growth could be lower if the non-tradable sectors remain sluggish. Moreover, continued weakness in construction and real estate sectors could result in corporate defaults or domestic financial instability through macro-financial linkages, potentially leading to protracted private-sector debt overhang and slower growth. Climate change, with associated risks of agricultural losses,

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[7] According to the IMF Technical Assistance Report on Medium-Term Tax Policy Reforms in Cambodia (October 2023), Cambodia's tax capacity is estimated at around 21 percent of GDP with a tax effort at 72 percent in 2022.

[8] By law, state and local governments and the central bank do not engage in borrowing, and SOEs do not contract non-guaranteed loans. Currently, there are no extra-budgetary funds, and the National Social Security Fund is funded by deposits and does not constitute a liability for the general government. The capital stock of PPPs is estimated at around 40 percent of GDP at end of 2023, corresponding to a contingent liability of 14 percent of GDP.

infrastructure damage, and increased natural disasters, poses a long-term threat to economic stability.

Authorities' Views

16.   The authorities broadly agreed with staff assessment of the economic outlook and risks and underscored the need to support the ongoing economic recovery. The authorities project growth of 6 percent in 2024 and 6.3 percent in 2025, driven by strength in garment exports and agriculture. While international tourist arrivals continue to trend upward, growth in tourism earnings is expected to remain moderate. The weakness in the construction and real estate sectors would weigh on growth, but a gradual recovery is anticipated over the medium term. The recently announced policy measures of tax exemptions and forbearance are expected to support the recovery. On risks, the authorities recognize potential impacts of slower global growth, geoeconomic fragmentation, and climate change. They noted that a prolonged tight monetary stance in major economies has implications on domestic financial conditions as it keeps borrowing costs higher for a longer period.

POLICY ISSUES

A.   Building Policy Coordination to Support a Durable Recovery

17.   The broadly neutral macroeconomic-policy stance remains appropriate in the near term under the baseline scenario. The output gap is expected to close by end-2025. However, the authorities need to be vigilant of downside risks, given the slow recovery in some non-tradable sectors and recent increase in NPLs. Fiscal policy needs to accommodate a durable and inclusive recovery in the near term, while rebuilding the buffers drawn down during the pandemic. Over the medium term, the authorities need to reinforce fiscal sustainability during the economic transition that leads to reduced access to concessional financing with the anticipated graduation from

Cyclically Adjusted Fiscal Balance
(In percent of GDP)

Legend:
- Change in cyclically adjusted expenditure
- Change in cyclically adjusted revenue
- Cyclically adjusted fiscal balance
- Change in cyclically adjusted fiscal balance

Sources: Cambodia authorities and IMF staff calculations.

LDC status. Improving fiscal rules, based on more conservative and easily measurable metrics, can ensure transparency and stronger fiscal accountability. Notwithstanding weak transmission, monetary policy needs to ensure adequate liquidity in the system to support the recovery. Also, the new round of forbearance measures (see Text Table 2) is likely to increase risks of credit misallocation, while yielding limited benefits to growth. As such, prioritizing financial stability is critical. To this end, the NBC needs to operationalize emergency liquidity assistance (ELA) and make it effective and credible to be better prepared for adverse shocks. Over time, the NBC needs to restore policy settings to pre-COVID conditions at an appropriate pace. Establishing a crisis resolution framework with a sound insolvency regime and a deposit insurance scheme will
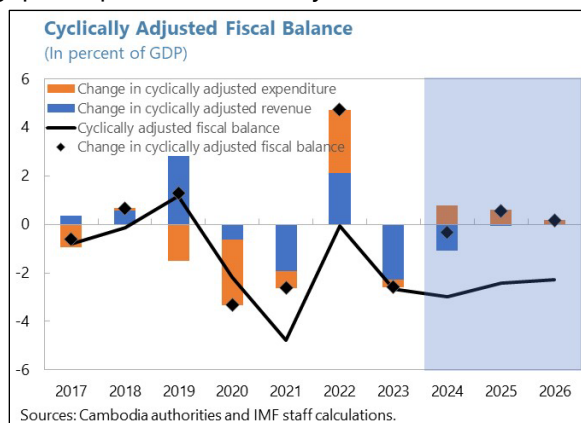
pave the way to mitigate vulnerabilities of disorderly adjustments from adverse macro-financial shocks and contain risks of debt overhang.

18.   **Under adverse shocks, fiscal policy should be the first line of defense, given limited monetary policy transmission**. Fiscal policy should focus on priority spending measures aligned with development goals, with targeted social protection for the vulnerable. Monetary and prudential policies can embark on ELA to manage bank liquidity conditions and ensure that banks can promptly use all high-quality liquid assets included in the liquidity coverage ratio—including reserve requirements. Engaging in effective communication to maintain public confidence in the financial system is also critical for safeguarding macroeconomic and financial stability.

B.   Fiscal Policy to Entrench the Recovery and Attain Development Goals

19.   **The fiscal framework needs to be upgraded to support economic resilience and stability.** The recently published Medium Term Fiscal Framework (MTFF 2025-27) outlines a multi-year fiscal consolidation plan and is an important step to rebuild the buffers back to pre-pandemic levels. The 2025 national budget, pending parliamentary approval by end-2024, is broadly aligned with MTFF goals and staff projections. It aims to maintain expenditure control, while addressing strategic development priorities, such as infrastructure and human capital. However, the fiscal framework can be further strengthened by adopting an improved set of fiscal rules[9], including (i) a medium-term debt anchor of 40 percent of GDP to ensure debt sustainability under adverse shocks; (ii) an overall deficit ceiling of 3.5 percent of GDP to maintain consistency with the debt anchor; and (iii) a fiscal buffer rule requiring contributions of 2-4 percent of previous year revenue to the Financial Reserve Fund. These proposed new rules, designed to reinforce fiscal sustainability during economic transition, are more conservative and easily measurable than the current rules.

Text Table 1. Cambodia's Current Fiscal Rules According to the MTFF 2025-27	
Indicator	**Value**
Present Value of Total Public and Publicly Guaranteed (PPG) Debt to GDP	55%
Present Value of PPG External Debt to GDP	40%
Present Value of PPG External Debt to Exports	180%
PPG External Debt Service to Exports	15%
PPG External Debt Service to Revenue	18%
Total budget deficit ceiling to GDP	-5%

20.   **Improving the quality of fiscal consolidation is key to supporting long-term development objectives.** Revenue collection has underperformed in recent periods, with the outturns falling short of budget projections for both 2023 and 2024 (through July). As a result, fiscal adjustments to contain the deficit have been disproportionately borne by expenditure rationalization, primarily through the deferment of capital expenditure projects, which may

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[9] The recommendations follow the IMF Fiscal Affairs Department technical assistance (TA) mission in July 2024.

negatively impact long-term growth prospects. A more balanced approach for gradual fiscal consolidation is needed, with a focus on mobilizing revenue and safeguarding priority spending, to support Cambodia's sustainable and inclusive economic development.

21.   Revenue mobilization needs to adopt a multi-pronged approach, integrating both tax policy reforms and improved revenue administration. Following the past recommendations of technical assistance (TA) on tax policy reforms[10], the VAT system must be further strengthened with broadening of its base[11], alongside personal income tax reforms to enhance progressivity and redistribution. In the corporate sector, current generous income tax holidays should be replaced with better-targeted, cost-based investment incentives, accompanied by limitations on interest deductibility and strengthened transfer-pricing rules. Revenue administration efforts can focus on enhancing data integration and information sharing through digital platforms to improve tax compliance and efficiency. Tax collection can be strengthened in key areas, such as real estate and e-commerce, supported by digital solutions for tracking transactions and tax payments. Adopting a full VAT liability regime for digital platforms is essential, coupled by reviewing low-value import thresholds for equal treatment between domestic and imported supplies. Customs need to continue streamlining procedures and improving enforcement, underpinned by efforts to promote digital documents and signatures and expand the National Single Window System. Additionally, non-tax revenue collection can be strengthened by implementing the Non-tax Revenue Management Information System (NRMIS) and E-Payment systems, along with improved monitoring of royalties and leases.

22.   The authorities should carefully analyze the costs and benefits of granting tax exemptions. The authorities have recently issued a series of tax incentives to support economic recovery, such as stamp-duty and registration-tax exemptions, capital-gains-tax postponement for the real estate sector, exemptions of VAT and income tax for the tourism sector in Siem Reap, and suspension of prepayment of tax on income for the garment sector. While aimed at attracting investments and supporting more inclusive recovery, these measures exacerbate the already limited tax revenue. Moreover, extensive tax incentives may contribute to increased complexity in tax administration[12] and greater tax distortions, while potentially exacerbating governance weaknesses and engendering tax disputes. Foregone revenues should be carefully assessed against the stated objectives of tax exemptions for economic benefits, and investment incentives should focus on cost-based measures (e.g., accelerated depreciation).[13] To enhance transparency, the authorities should consider reporting tax expenditure statements that delineate

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[10] See IMF (2023), "Cambodia: Medium Term Tax Policy Reforms," Fiscal Affairs Department, IMF.

[11] Cambodia's VAT system is recognized as highly effective, with C-efficiency ratio of 72 percent, in the region. However, it is masked by unusually low levels of VAT refunds and various design weaknesses.

[12] Also see Paragraph 33.

[13] The implementation of the Global Minimum Tax (GMT) under Pillar 2 by a multi-national enterprise's (MNE) home country will impact Cambodia, even if Cambodia doesn't adopt the GMT. Tax incentives offered by Cambodia may effectively shift its tax base to the MNE's home country, undermining the incentive's value.

the estimated value of benefits to taxpayers. Staff welcomes the authorities' actions already taken to establish a Tax Expenditure Working Group and develop reporting on tax incentives and cost-benefit analyses for monitoring, and an integrated information system between tax and customs departments.

23.   The budget should aim to improve spending composition to align with the government's long-term development strategy. Expenditure on health, education, and social protection should be prioritized to support human capital development and inclusive growth. Staff recommends minimizing gaps in education outcomes and access to quality healthcare between urban and rural areas. Addressing low teacher-student ratios in rural areas and improving health infrastructure and financing with affordable care for vulnerable households are among the TA recommendations to be integrated into the budget process for gaining expenditure efficiency.[14] Continued efforts are needed to improve the targeting and effectiveness of social assistance programs, with the use of digital technology as appropriate. Even though the use of public-private partnerships (PPPs) can help address gaps in declining budget financing of infrastructure projects, contingent liabilities arising from PPPs must be well managed and monitored (see below). Overall, public investment management should be strengthened to ensure that infrastructure projects are well-planned, efficiently executed, and aligned with national development priorities. Strengthening infrastructure governance, with the explicit accounting of maintenance costs in the budget, can extend the lifespan of infrastructure services and make public spending more conducive to growth.

Sources: IMF FAD Expenditure Assessment Tool (EAT).
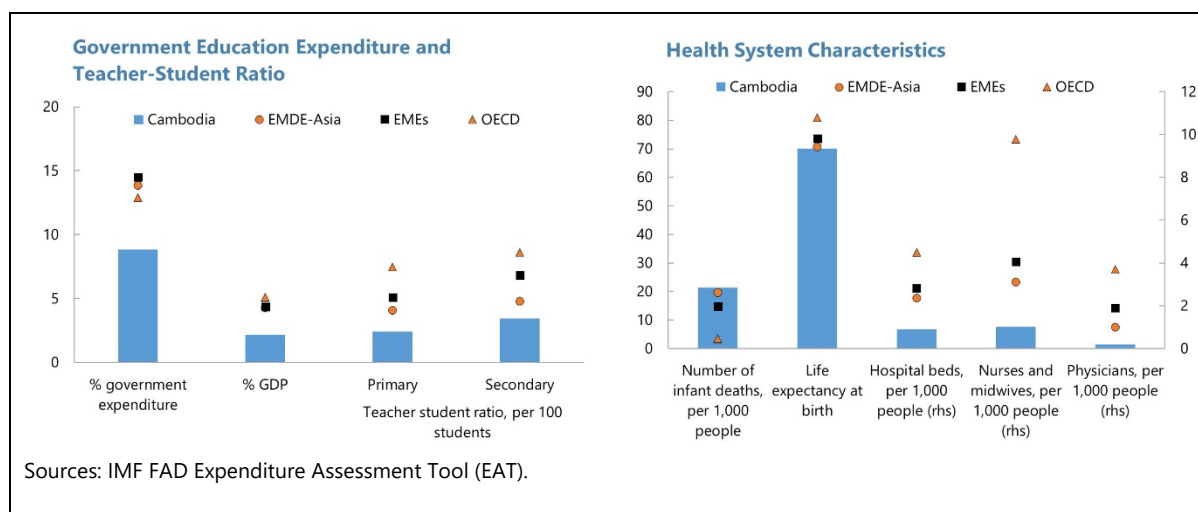
24.   Efforts to further develop the domestic government bond market should be elevated in priority, while carefully managing risks to fiscal sustainability. In anticipation of the reduced access to concessional external loans as Cambodia graduates from LDC status, the government must mobilize more domestic resources. Developing the sovereign bond market

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[14] The Spending Review Framework was designed with the support from the IMF's spending review CD mission in 2023.

alongside reliable credit ratings can provide an important avenue to support the country's development strategy and the de-dollarization (see below)[15]. At the same time, the government must carefully assess how various financing options may impact contingent liabilities and financial performance of the public sector, including state-owned enterprises (SOEs). The authorities should continue to monitor and assess the financial performance of SOEs and the contingent liabilities arising from PPPs. Developing a robust framework to evaluate and manage fiscal risks when implementing PPPs is paramount, with transparent disclosure and appropriate risk-sharing arrangements between the government and private sector partners.[16] Enhancing public financial management practices, along with improving fiscal transparency and governance, is essential for attracting investor participation in public borrowing and diversifying financing sources.

Authorities' Views

25.   The authorities reaffirmed their commitment to fiscal sustainability and gradual consolidation. They underscored that the recently implemented tax exemptions may be more effective than targeted spending measures to support the ongoing economic recovery. However, the authorities shared concerns that the measures will create challenges for revenue projections. Meanwhile, they are finalizing the RMS-III which, among others, includes plans to implement a personal income tax starting in 2026 and reform excise taxes. They plan to conduct a rigorous study on tax expenditure to inform potential rationalization of existing incentives. The authorities continue to explore ways to diversify financing sources, with efforts to develop the domestic government bond market and expand the investor base. In this context, the Ministry of Economy and Finance is collaborating with the NBC and the Securities and Exchange Regulator to enhance regulatory frameworks and market infrastructure.

C.   Improving Monetary Transmission and Fortifying Financial Sector

26.   Monetary policy normalization should resume at a pace calibrated to the economic recovery and banking sector liquidity conditions. Renormalizing the policy stance by raising the USD RRR to pre-pandemic levels would allow rebuilding policy space, while ensuring that its timing and pace do not inadvertently lead to liquidity risks in the financial sector. Transmission of changes in the RRR remains weak in Cambodia (**Annex V**). Staff commends the progress made in modernizing monetary policy and FX operations and recommends further efforts to enhance policy transmission and support de-dollarization. This includes promoting an active KHR

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[15] The authorities made efforts to expand bond maturities (from 1 year in 2022 to 2, 3 and 5 years in 2023) that have contributed to the construction of a yield curve (see DSA). Moving forward, the Government needs to increase bond issuance at a measured pace, allowing for the discovery of the fair market price to generate stable investor demand. Liquidity in the market for such debt securities will improve as banks will trade them and use them as collateral in operations with the NBC.

[16] The government unveiled a ten-year master plan in early 2024 to revamp the transit and logistics system, projecting a total financial cost of US$ 37 billion.

interbank market, improving operational efficiency of monetary policy, including recalibrating the use of instruments, and rendering the interest rate corridor fully symmetric. Enhancing the liquidity forecasting framework, further strengthening market determination of exchange rates, and publishing the reference rate are also key. Gradually increasing the role of the KHR in the economy would help increase resilience to external shocks, given the high share of foreign currency liabilities of the non-tradeable and banking sectors.

Reserve Requirement Ratio and Interest Rates
(In percent)

Sources: Cambodia authorities.
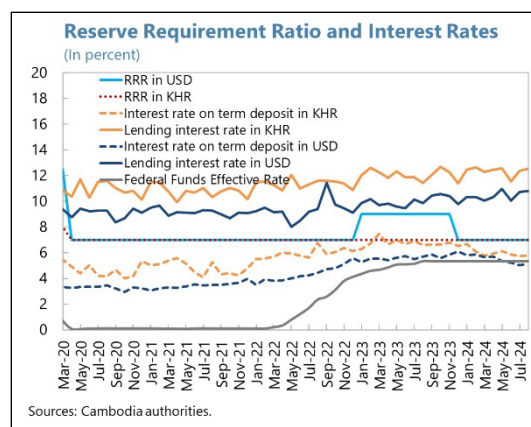
27.   The forbearance measures should be phased out to alleviate risks of capital misallocation, while ensuring financial stability. The authorities announced a new round of forbearance measures, raising risks of delaying the needed recognition of loan losses and resolution of insolvent firms, as well as credit overhang and potential misallocation of credit (**Box 2**). The authorities should explore policy options to gradually exit from prolonged forbearance measures while ensuring financial stability. While forbearance measures are in place, the authorities should ensure proper reporting of loans subject to forbearance, adequate provisioning, and the preservation of banks' liquidity and capital buffers. At a minimum, weak banks should not be allowed to distribute dividends and should be encouraged to raise capital, including from existing shareholders.

Business Registration and Liquidation
(3mma)

Sources: Cambodia authorities.
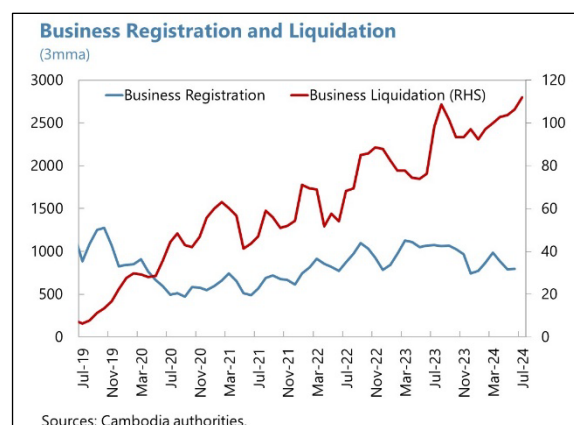
Text Table 2. List of Recent Measures
• Delay the introduction of Basel III related capital reforms until 2025.
• Delay the accumulation of capital conservation buffers (CCBs) to 2.5 percent until end-2025. 1/
• Faster upgrade on loan classification for borrowers that restart making payments.
• Allow banks to restructure loans twice without any change in classification until end-2025, with restructuring flagged in the Credit Bureau. 2/
1/ The CCB was reintroduced in 2023, initially requiring banks to accumulate CCB to 1.25 percent by June 2023 and to 2.5 percent by December 2023. While the CCB is yet to reach Basel III standards, the minimum CAR in Cambodia is 15 percent, well above Basel's 8 percent requirement.   2/ The measure from late 2023 was more targeted, allowing loan restructuring only until end-2024 and only for the tourism sector in the Siem Reap province.

28.   Intensified supervision and coordinated monitoring, coupled with efforts to develop policy tools, can fortify the financial sector. The authorities need to strengthen the oversight and functioning of NBC's Financial Stability Committee (FSC) and its coordination with the National FCS. Staff recommends continuing to move forward on risk-based supervision and

implementing Basel III, including completing the new capital adequacy and solvency framework and reviewing the Prompt Corrective Action framework. Further, the NBC should pave the way forward to expand the macroprudential toolkit, including through the introduction of borrower-based and other necessary measures when the conditions permit (**Annex VI**).

29.   Staff urges the authorities to implement past policy advice to strengthen the monitoring of the corporate sector (Annex VII). In the near term, developing action plans to establish crisis resolution frameworks and deposit insurance schemes is of paramount importance. Improving data collection and sharing across relevant agencies will help better understand activity by nonfinancial corporates with large exposure to construction and real estate, strengthen inter-agency coordination on supervision and assessment of financial stability risks, and make timely decisions and communications to the public for safeguarding financial stability. Provision of credit by real estate developers to homebuyers should be subject to stringent prudential requirements and monitored closely to avoid regulatory arbitrage. Further strengthening the AML/CFT framework is crucial for maintaining financial integrity, including enforcing reporting requirements for gold imports and exports.

Authorities' Views
30.   The authorities stressed the need to calibrate the pace of monetary policy normalization to the economic recovery. Given low inflation and the negative output gap, the authorities emphasized the continued need to maintain the low USD RRR to strengthen credit supply and bolster market confidence to stabilize NPL ratios. They underscored that monetary policy should be normalized if credit conditions are improving.Accordingly, the NBC has taken further actions to modernize liquidity operations to support de-dollarization. The authorities noted that further steps were needed to narrow the interest rate corridor and deepen the interbank market to improve monetary transmission. They also highlighted the recently received IMF TA on ELA and the de-dollarization strategy as important pillars for further progress.

31.   The authorities see increased risks in the financial sector and the need to address data gaps and improve coordination across agencies to safeguard financial stability. They concur with staff that the coordination between the NBC and National FCS is paramount for maintaining financial stability. Data limitations hamper the effective monitoring of financial intermediation by non-bank financial institutions. However, the authorities had a more sanguine view about the forbearance measures. They highlighted that the financial institutions have ample capital and liquidity buffers, and they argued that provisioning requirements—based on delinquency—are more stringent than in peer countries. In addition, they stressed that financial institutions had already tightened their origination standards and that they would not approve dividend distributions by weak banks. Moreover, the authorities stressed that loan restructurings—while not requiring additional provisions—are nonetheless flagged in the credit bureau. Therefore, they consider the risks of credit misallocation to be minimal, while the measures increase private sector confidence that financial institutions will continue to provide new financing for credit-worthy clients.

STRUCTURAL REFORMS

A. Transforming the Economy to Seize the Opportunities Ahead

32.   Comprehensive structural reforms are needed to diversify growth drivers and improve productivity for an inclusive economic transformation. Achieving continued growth requires upgrading and expanding the country's export base and global positioning in supply chains. It requires upgrading the country's capability to manufacture and export increasingly complex items and services. Promoting investment in higher-value-added industries, production networks and logistics, and low-cost renewable energy generation, among other critical infrastructures will improve competitiveness. Integrating productivity gains in agriculture is also indispensable to the macroeconomic transformation, requiring promotion of agro-processing industries for growth in value-added production. Strengthening human capital by improving education outcomes and access to quality, as well as affordable healthcare in an equitable way is essential to reap the demographic dividend and foster technology adoption. Active labor market policies that enhance digital literacy and skills through vocational training programs are imperative to diversify growth drivers. Staff welcomes the establishment of a Skills Development Fund to promote demand-driven skills acquisition, with the planned provision of vocational training to 1.5 million youths from poor households.

Needs for Upgrading the Economy and Improving Human Capital

Economic Complexity v.s. GDP per capita

Sources: Harvard Growth Lab Economic Complexity Rankings, PennWorld Table, National authorities, and IMF staff calculations.

PISA Performace
(Percentage of students scoring at Level 2 or above)

Source: PISA 2022 Database.

Shifting FDI Inflows and Competition with Regional Peers

Inward FDI from World[1]
(in percentage points of total World FDI stock)

Foreign Direct Investment Inflows By Sector
(in USD billion)

Sources: IMF Coordinated Investment Survey (CDIS), IMF staff calculations.
1/ Data refers to inward FDI reported by each country from World. Data for Vietnam is derived from World outward FDI.

Sources: Cambodia Authorities.

33.   To attract more diversified foreign investment sources, Cambodia should prioritize addressing key obstacles of doing business.[17] The high cost of electricity is often cited by foreign investors as one of the most significant obstacles of doing business, with Cambodia's rates nearly double those of neighboring Vietnam. Developing a comprehensive energy strategy to reduce costs and improve reliability is essential for boosting competitiveness. In addition, uncertainty regarding enforcement and interpretation of laws and governance-related issues are also concerns often reported by foreign businesses.

Cost of Electricity by Country
(Mar 2024, USD per KWh)

Sources: World Population Review.

Financial Inclusion, 2021
(Percent that have an account at a financial institution or use mobile money service)

Sources: World Bank Global Financial Inclusion.
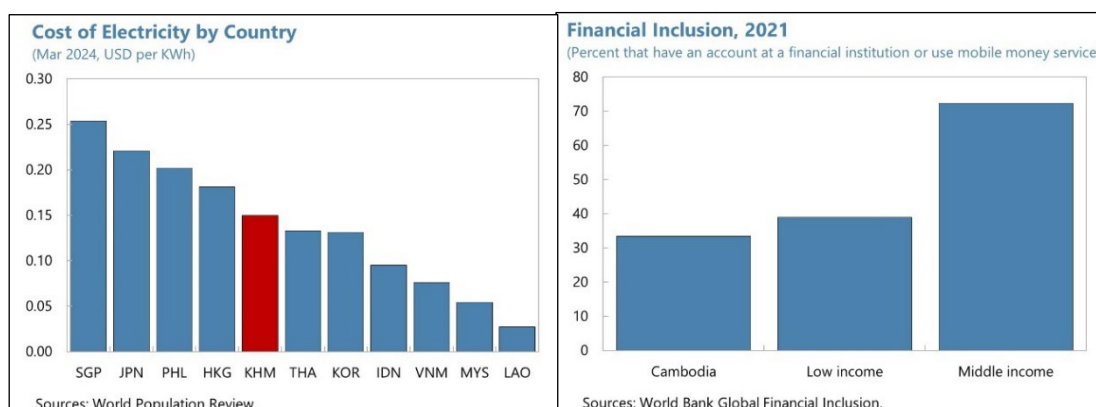
34.   Enhancing financial inclusion and digital connectivity and addressing climate change vulnerabilities are crucial for sustainable and inclusive growth. Staff recommends promoting digitization to improve access to banking and digital payment services, particularly for SMEs and marginalized groups. Addressing climate change vulnerabilities[18] and promoting renewable energy adoption should be prioritized. This includes investments in adaptation measures—which could reduce risks associated with asset losses from floods, lower labor
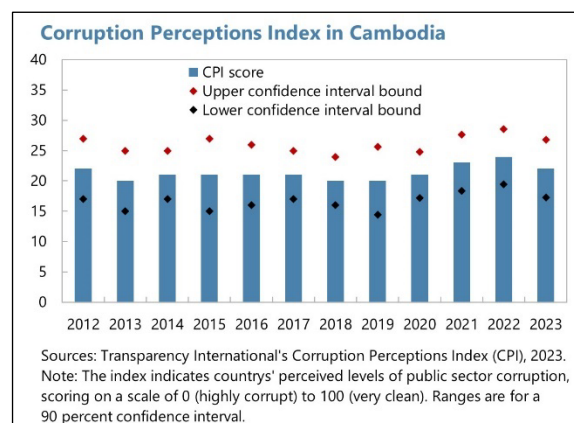
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[17] See, for example, The World Bank (2023), "Cambodia 2023 Country Profile," Enterprise Surveys, and Enerdate (2024), "Cambodia," Country Energy Report, March.

[18] Climate change could lower GDP by some 3-9 percent by 2050. See the World Bank (2023), "Cambodia Country Climate and Development Report."

productivity and lower crops yields—and promoting renewable energy sources to reduce dependence on imported fossil fuels.[19] The authorities are taking stock of the implementation of the Nationally Determined Strategy (NDC 2.0) and working to update the national framework with the Climate Change Strategic Plan 2024-33.[20]

35.   Tackling corruption and strengthening governance remain critically important.

Corruption vulnerabilities discussed in the 2022 staff report regarding the rule of law, regulatory quality, anticorruption legal frameworks and effectiveness of anticorruption enforcement largely remain. The authorities should expedite the approval of essential norms to enhance anti-corruption efforts, including on Whistleblower Protection and a law on Transparency and Access to Information. Reforms should also be adopted to improve the asset declaration regime and fully operationalize a digital platform for managing asset declarations and ensuring public access to such information of high-level officials. In addition, the roles of the agencies involved in enacting laws should be clearly defined for better accountability. Improvements should be made to strengthen the independence and resources of the National Audit Authority and enhance its ability to conduct audits over high-risk agencies. Further, the capabilities of the judiciary should be strengthened, including by allocating adequate resources and taking additional steps to create specialized commercial courts. Additionally, reinforcing inter-agency cooperation, particularly in detecting and enforcing offenses arising from public procurement, is crucial. These targeted reforms would significantly enhance governance frameworks, improve transparency, and bolster investor confidence.

Corruption Perceptions Index in Cambodia

Sources: Transparency International's Corruption Perceptions Index (CPI), 2023.
Note: The index indicates countrys' perceived levels of public sector corruption, scoring on a scale of 0 (highly corrupt) to 100 (very clean). Ranges are for a 90 percent confidence interval.

36.   Addressing data limitations will support evidence-based policymaking, which can be enhanced by integration of capacity development (CD) efforts with surveillance. Staff welcomes the recent completion of the rebasing of National Accounts data with 2014 as the new base year (**Annex I**) and recommends continued efforts to strengthen institutional capacity to address data gaps, such as in real estate activities, non-financial corporate debt, and non-bank financial institutions. Improving the timeliness and the frequency of releasing critical macroeconomic data, such as quarterly national accounts and fiscal outturns based on the Government Financial Statistics (GFS), will enable policy makers to timely assess the economy. Data discrepancies in the Balance of Payment statistics must be addressed, including discrepancies between trade data reported by the authorities and reciprocal counterparty data from trade partners, to improve the assessment of the country's external positions. More broadly, the authorities need to enhance data sharing across relevant agencies in a timely manner, with a

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[19] Please refer to Annex VII of the 2022 Article IV staff report (IMF Country Report No. 22/371).

[20] The October 2023 FAD TA recommended the introduction of carbon pricing, starting at a low level and gradually increasing to around $25 per ton of CO2-equivalent by 2030, in coordination with ASEAN peers.

system that ensures secure data transmission, as recommended by the recent TA in statistics (see Informational Annex). Overall, empowering the capacity of the National Institute of Statistics (NIS) plays the critical role.

Authorities' Views

37.   The authorities actively look for ways to diversify growth drivers and improve productivity for sustainable and inclusive economic development. They noted structural impediments to growth, including high costs of doing business, limitations in trade facilitation and the business climate, as well as gaps in education outcomes, the health system, and labor force skills. The authorities continue with reform efforts and highlight recent improvements in the business environment, including the "Single Portal" online registration system and streamlined customs processes. To support digital transformation, they are implementing the Digital Economy and Society Policy Framework 2021-2035. They also noted the progress made towards the National Financial Inclusion Strategy 2019-2025, including through promoting Bakong digital payments. Despite rising usage of formal financial services, the digital divide persists with low financial literacy and gaps in access to internet posing challenges to promoting inclusive growth.

38.   The new government has been committed to legal reforms to ensure peaceful and sustainable economic development. The authorities underscored their commitment to pursue judicial reforms and improve the rule of law. They have undertaken steps to draft the norms on Whistleblower Protection, which might be included as part of the reforms being drafted for the Criminal Code and the Criminal Procedural Code. A draft law on Transparency and Access to Information would also be considered and fall within the responsibility of the Ministry of Posts and Telecommunications. However, the authorities noted that it typically takes time to enact the laws. They stressed the importance of protecting property and investor rights and have been engaging with working groups to establish labor and commercial courts, which can alleviate the number of cases to be dealt by the Supreme Court.

STAFF APPRAISAL

39.   Cambodia's economy is expected to strengthen further in the near term, but growth remains uneven. The economic recovery has continued in 2024, with growth projected at 5½ percent and up from 5 percent in 2023. Strong rebounds in garment and growth in agricultural exports, coupled with a recovery in tourism, will continue to support growth in the near term. However, growth in non-tradable sectors is expected to remain sluggish, amid subdued domestic demand, with a rapid slowdown in credit growth. In particular, the construction and real estate sectors are going through a correction, with declining FDI inflows and increasing NPLs.

40.   Risks to the outlook are skewed to the downside. Slower global growth, particularly among major trading partners, could dampen Cambodia's export growth, pose greater strains on

select corporate sectors with elevated leverage, and increase stress for the financial sector. Continued weakness in construction and real estate sectors could lead to private-sector debt overhang and slower growth. Geoeconomic fragmentation could disrupt trade and FDI flows, and climate change persists as a growing threat to economic stability for years ahead.

41.   **High-quality fiscal consolidation, underpinned by sound medium-term fiscal frameworks, is needed to maintain debt sustainability, and strengthen economic resilience**. Rationalizing tax exemptions based on the cost-benefit analysis, coupled with tax policy reforms to mobilize revenues, can help build fiscal buffers and safeguard priority spending on health, education, and social protection. Improving expenditure efficiency in an equitable approach, with more conservative and transparent fiscal rules, can ensure debt sustainability while meeting economic development objectives. Fostering the development of the domestic government bond market will reduce high reliance on concessional foreign financing as Cambodia graduates from LDC status. Maintaining robust fiscal frameworks also requires sound management of fiscal risks from SOEs and PPPs.

42.   **Monetary policy normalization should continue at a measured pace**. Restoring policy to pre-pandemic settings is necessary while maintaining adequate liquidity in the financial system. The phasing out of pandemic-era monetary measures, along with modernizing the monetary policy framework, will help support monetary transmission and strengthen de-dollarization efforts.

43.   **Financial sector policies need to facilitate a timely exit from forbearance measures and develop a comprehensive action plan to safeguard financial stability.** Rising NPLs and vulnerabilities in high-leverage sectors require immediate attention and stronger coordination among agencies in charge of financial stability. Implementing Basel III, strengthening risk-based supervision, and developing crisis resolution frameworks, in addition to improving the macroprudential policy, will be vital to ensuring long-term financial stability and mitigating systemic risks. Intensified supervision efforts are necessary, accompanied by stringent prudential requirements for financial intermediation by real estate developers to avoid regulatory arbitrage.

44.   **To foster inclusive and sustainable growth, structural reforms must focus on strengthening governance and institutions, promoting economic diversification, improving competitiveness, and addressing data limitations.** Key priorities include enhancing human capital and skill development, reducing energy cost, upgrading infrastructure, and implementing governance reforms to attract more diversified FDI. Strengthening anti-corruption measures and improving public sector transparency will be vital for fostering a more resilient and competitive economy. Addressing data limitations by strengthening the capacity of the NIS and promoting timely data sharing across agencies can foster evidence-based policy formulation, which can be supported by CD efforts with the international community.

45.   **It is proposed that the next Article IV consultation with Cambodia be held on the standard 12-month cycle.**

Box 1. Credit-to-GDP Gap Estimates[1]

Cross-country experience indicates that periods of rapid credit expansion are often associated with the build-up of systemic risks. Credit gap measures, which refer to the deviation of credit to the private sector from its trend or level explained by economic fundamentals, have been shown to be useful leading indicators of risks to financial stability. [2]

A widely used Hodrick-Prescott (HP) filter has some pros and cons. The Basel Committee on Banking Supervision (BCBS) puts forward a credit gap indicator—defined as the deviation of the credit-to-GDP ratio from its long-term trend estimated with a one-sided HP filter on quarterly data—as a core reference variable to implement the Countercyclical Capital Buffers. Despite the use of estimation, the BCBS credit gap has some shortcomings, including an outsized impact of end-of-sample observations, the choice of the smoothing parameter, and the need for long time series of quarterly data.[3]

Credit gap estimates vary across different filters applied to measure the respective trends, although some broadly similar assessment can be reached. Besides the HP filter, there are three alternative methods, including a Hamilton (Ham) filter, a Christiano-Fitzgerald (CF) filter, and the moving average (MA). Credit gaps were contained until 2017 as credit growth decelerated from a peak in 2011. In the wake of a rapid acceleration of credit growth starting in 2018, gap measures signaled increasing risks to financial stability. Gaps across measures were widest in late 2022 when the credit-to-GDP ratio peaked at close to 140 percent of GDP. With the recent deceleration in credit growth, credit gap measures have fallen. Nonetheless, the CF filter, which is less sensitive to end-point bias, continues to show a sizable positive gap.

Credit-to-GDP Gap Estimates
(Percent of nominal GDP; percentage deviation from trend)

Sources: IMF staff estimates.

_____
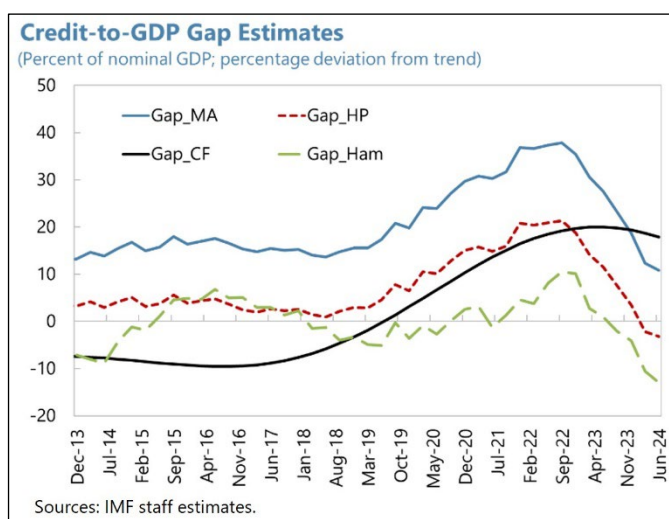
[1] This box was prepared by Jochen Schmittmann.

[2] See Drehmann, M., Borio, C., Gambacorta, L., Jimenez, G., and Trucharte, C., 2010, "Countercyclical capital buffers: exploring options," Bank for International Settlements Working Paper No. 317; and International Monetary Fund, 2014, "Staff Guidance Note on Macroprudential Policy," December 2014.

[3] See Baba, C., Dell'Erba, S., Detragiache, E., Harrison, O., Mineshima, A., Musayev, A., and Shahmoradi, A., 2020, "How Should Credit Gaps Be Measured? An Application to European Countries," Working Paper 20-6, International Monetary Fund; and Drehmann, M. and Yetman, J., 2021, "Which Credit Gap is Better at Predicting Financial Crises? A Comparison of Univariate Filters," International Journal of Central Banking, 17(4).

Box 2. Forbearance Measures - Masking the Deterioration in Loan Quality[1]

The pandemic had a significant impact on loans performance. Despite exuberant credit growth for a prolonged period, bank's non-performing loans (NPLs) remained about 2 percent of gross loans before the pandemic, underpinned by a decade of strong economic performance. The pandemic created an unprecedented adverse shock, prompted the NBC to embark on regulatory forbearance which allowed banks to restructurewhile maintaining the same loan classification without additional provisioning .. The NBC also waived provisioning.

Impacts of the pandemic and subsequent forbearance have been heterogenous across banks. While the NPL ratio has increased across large banks, the pandemic impact has not been uniform. Banks with high exposure to the sectors (e.g., hotels, real estate, and construction) had a larger impact than those concentrated in more resilient sectors (e.g., manufacturing). The heterogeneity among smaller banks is even larger, with steeper increases in NPL ratio, while others have shown declines in NPLs.

Non-Performing Loans: Selected Large Banks
(In percent of gross loans)
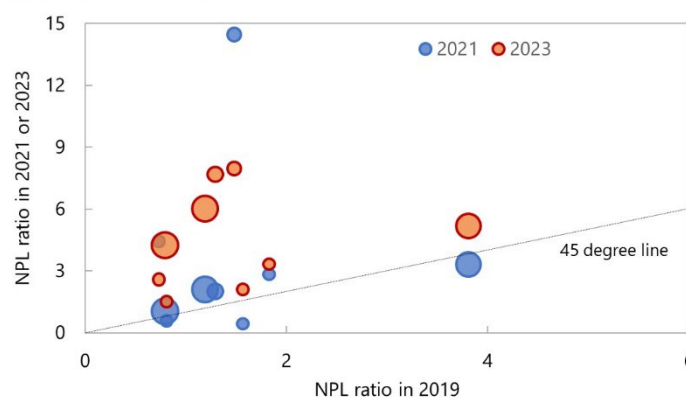
Sources: Cambodia authorities.
Note: The size of the bubbles indicates the size of gross loans in 2021.

Forbearance masked the deterioration in asset quality. Restructured loans peaked in mid-2021, amounting to about 10½ percent of the loan portfolio. While forbearance provided some respite to banks and customers during the crisis, it was phased out as the economic recovery gained speed. The phase-out of the measures allowed a more transparent portrait of credit conditions, with NPLs showing a clear and gradual deterioration since 2022. Forbearance not only masked the overall increase in NPLs and delayed the build-up of provisions, but also hid the large heterogeneity across banks.

Bank's Non-Performing Loans Ratio
(Weighted by gross loans, in percent)

Sources: Cambodia authorities.

New forbearance could delay addressing the deteriorated asset quality. With the economy growing at a stronger pace, the rationale for the new measures (see Text Table 2) is not evident, unless the lagging sectors face longer-term challenges, instead of a cyclical downturn. Clearly flagging restructured loans for strong monitoring by the credit bureau and NBC will be key to ameliorating risks.

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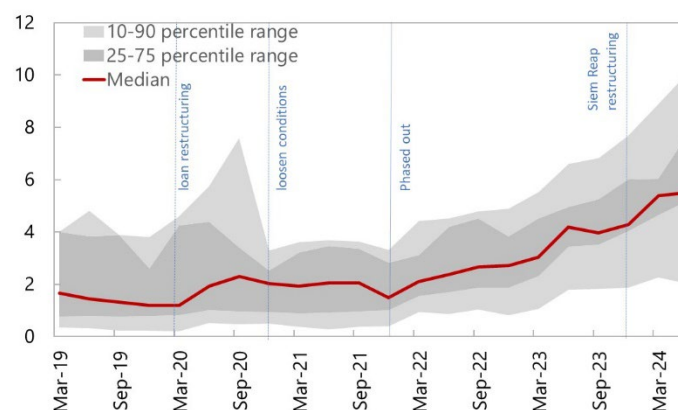
[1] This box was prepared by Enrique Flores Curiel.

Figure 1. Cambodia: Continued Recovery of the Cambodian Economy

The economy has continued to recover, but real GDP remains well below the level suggested by the pre-pandemic trend.

Real GDP
(2019=100)
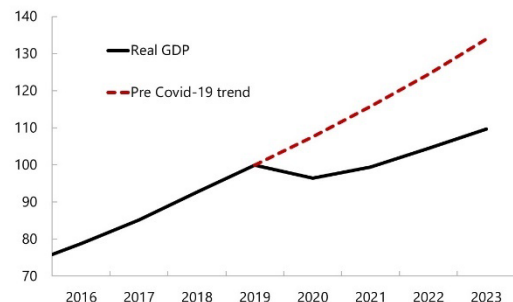
Sources: Cambodia authorities and IMF staff calculations.

Manufacturing has been driving the recovery, while other sectors are lagging and performed unevenly.

Real GDP Components
(2019=100)
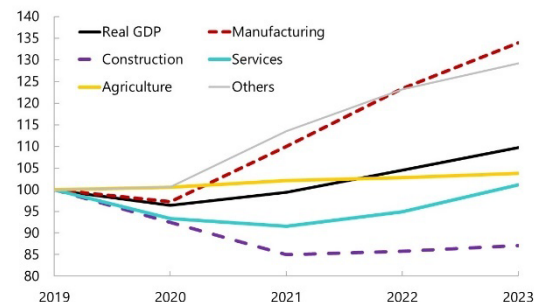
Sources: Cambodia authorities.

Garment exports, a backbone of the manufacturing activity, have seen a strong recovery since late 2023...

Contribution to Export Growth
(In percent, y/y)
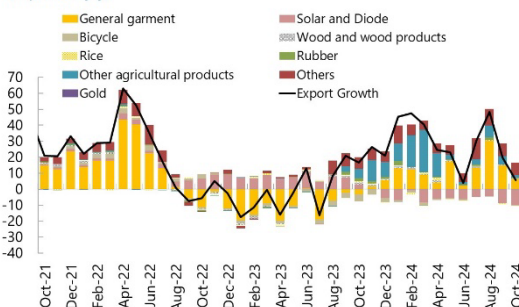
Sources: Cambodia authorities.

... a strong pickup in imports shows a further recovery in economic activity.

Contribution to Import Growth
(In percent, y/y)
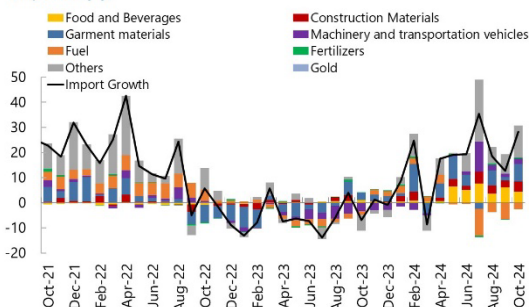
Sources: Cambodia authorities.

While tourist arrivals continue to recover, tourism receipts are lagging, with a shift in the composition of arrivals ...

International Tourist Arrival
(In thousands)
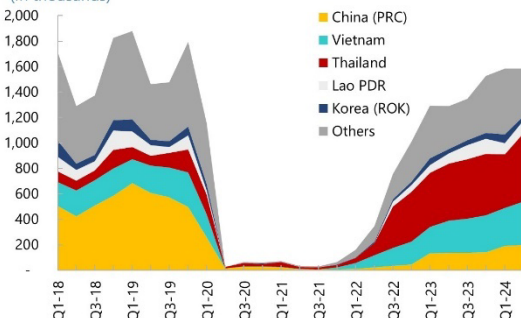
Sources: Cambodia authorities.

... construction activity remains slow despite some recent pickup in approved construction projects.

Approved Construction Projects by Area
(In thousands square meter)
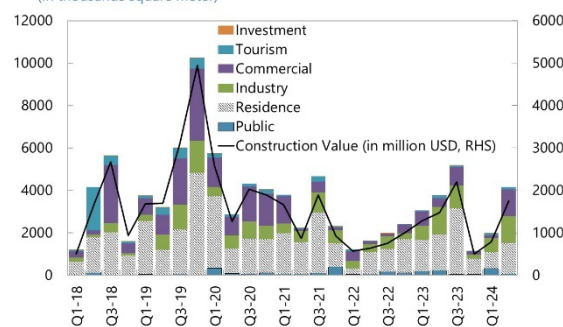
Sources: Cambodia authorities.

Figure 2. Cambodia: The Public Finances

Fiscal balance is projected to improve modestly from the 2023 level.

Fiscal Balance
(In Percent of GDP)

Legend: Domestic revenue, Grants, Current expenditure, Capital exp. (ext. funded), Capital exp. (dom. funded), Net Lending/Borrowing
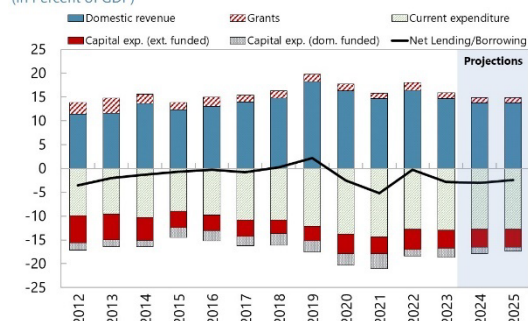
Sources: Cambodian authorities and IMF staff calculations.

Revenue growth in major tax categories has been slow since 2023 despite solid GDP growth...

Tax Revenue Growth
(In percent, y/y)

Legend: 2022, 2023, 2024-7M

Categories: Payroll tax, Profit tax, VAT, Excise, Indirect tax others, Other tax revenue
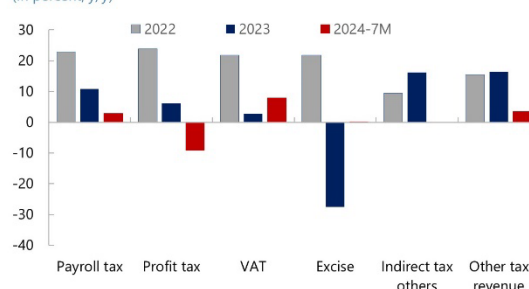
Sources: Cambodia authorities and IMF staff calculations.

...and import duties have not recovered at the pace commensurate with import growth.

Import Duties vis-a-vis Imports
(In percent)

Legend: Import growth (weighted average), Import duties growth

Years: 2021, 2022, 2023, 2024M7
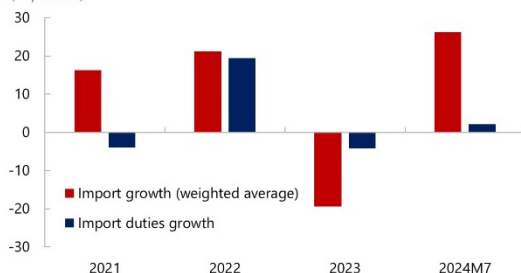
Sources: Cambodia authorities; and IMF staff calculations.
Note: Import growth is the weighted average import of vehicles, fuel, food and construction materials using 2019 import duties revenue weights of vehicles, fuel, food and construction materials as proxy weights.

Expenditure increased in 2023 due to one-off items and is projected to stabilize over the medium term.

Government Spending
(In percent of GDP)

Legend: Net acquisition of non-financial assets, Other expenses, Purchase of goods and services, Compensation of employees, Total expenditure

Years: 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029
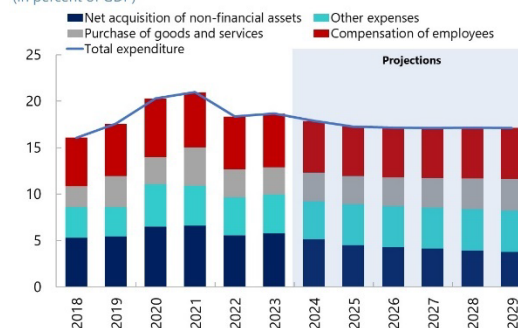
Sources: Cambodia authorities and IMF staff calculations.

Covid-related spending needs have fallen, but regular cash transfer programs have been strengthened.

Covid-19 Public Health and Social Intervention
(In millions of USD)

Legend: Health spending, Wage subsidy and skill training, Cash for work, Cash Transfer

Years: 2020, 2021, 2022, 2023

Sources: Cambodia authorities.

Gradual fiscal consolidation over the medium term is expected.
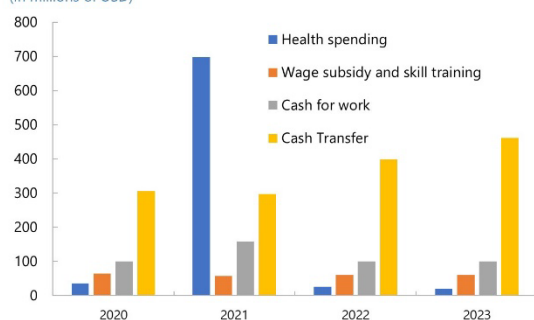
Medium-Term Fiscal Outlook
(In Percent of GDP)

Legend: Domestic revenue, Grants, Current expenditure, Capital exp. (ext. funded), Capital exp. (dom. funded), Net Lending/Borrowing, Government deposits in percent of GDP

Years: 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029
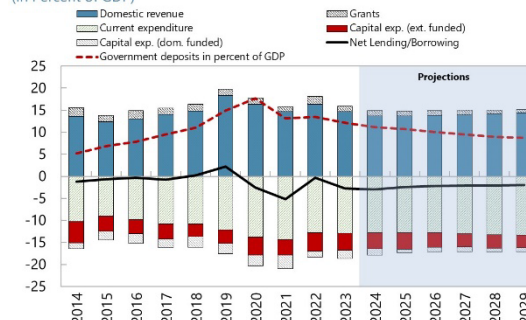
Sources: Cambodian authorities; and IMF staff calculations.

Figure 3. Cambodia: External Balances

Merchandise exports in 2024H1 made a broad-based recovery with a pickup in external demand ...

Export Growth
(In percent, 3 mma y/y)
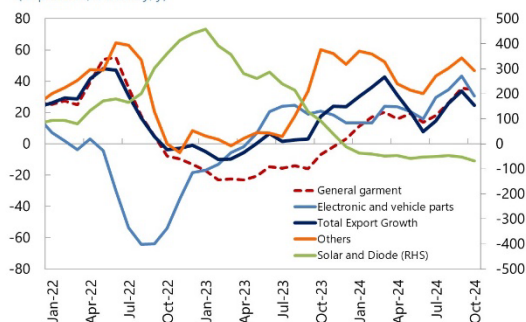
Sources: Cambodia authorities.

... in tandem with the recovery in imports as firms replenished inventories and tourism accelerated.

Import Growth
(In percent, 3 mma y/y)
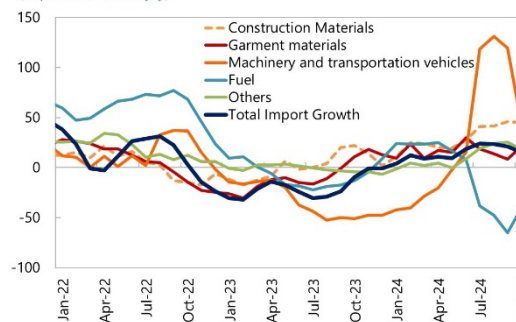
Sources: Cambodia authorities.

The current account balance shifted to a surplus amid import compression and subsequent export recovery ...

Current Account Balance
(In percent of GDP)
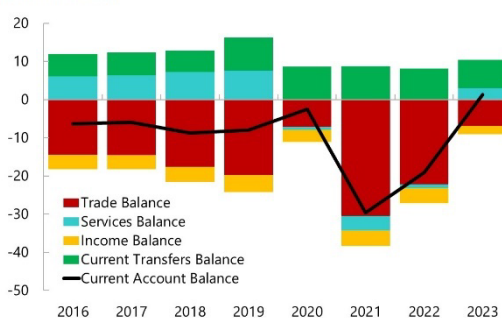
Sources: Cambodia authorities.

... while short-term capital outflows weighed on net financing amid large errors and omissions ...

Current Account Financing
(In percent of GDP)
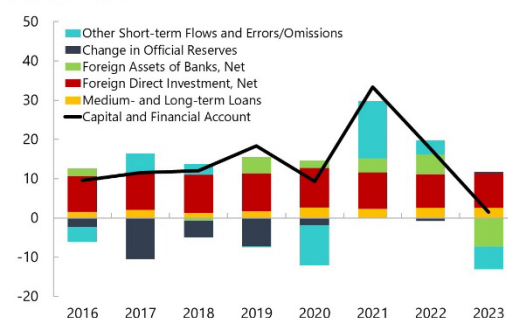
Sources: Cambodian authorities.

... despite increased FDI inflows, particularly in the manufacturing sector.

FDI Inflows by Sector
(LHS: in million USD, RHS: in percent, annual growth)
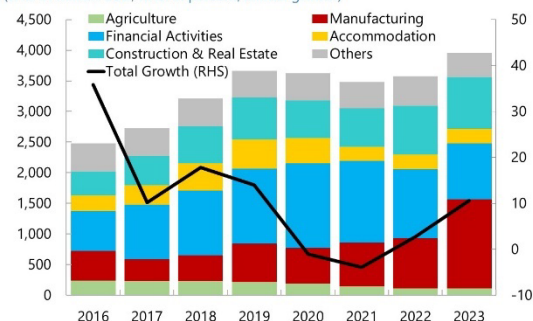
Sources: Cambodia authorities.

International reserves recovered in 2023, in line with the import compression and broad USD depreciation.

International Reserves
(LHS: in billion USD, RHS: in percent of GDP)
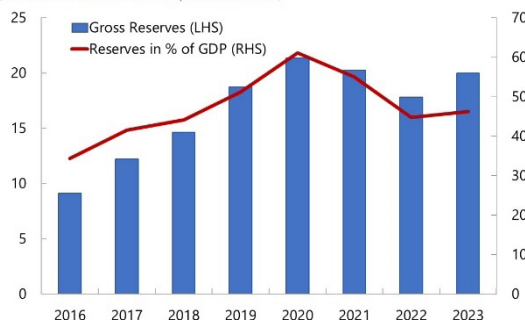
Sources: Cambodia authorities.

Figure 4. Cambodia: Monetary and Financial Development

The buildup of private sector debt has been rapid though it has started slowing in recent months...

Credit by Banks and Microfinance Institutions
(In percent)

Banks credit to GDP
Banks and MFIs credit to GDP
Banks credit growth (y/y, RHS)
Banks and MFI credit growth (y/y, RHS)

Sources: Cambodia authorities.

...the moderation in credit growth among banks appears broad-based across all sectors.

Contribution to Bank Credit Growth
(In percent)

Real-estate related   Financial institutions   Trade
Agriculture   Manufacturing   Other
Personal Lending   Total credit growth

Sources: Cambodia authorities

Real estate has been a significant contributor to high credit growth.

Real Estate Related Credit Growth
(In percent)

Real estate   Construction
Mortgage   Weighted average

Sources: Cambodia authorities.

As banks' loan growth started moderating, the loan-to-deposit ratio started coming down ...

LTD and Deposit Growth: Depository Corporations
(In percent)

Private loan-deposit ratio
Deposit growth (y/y, RHS)
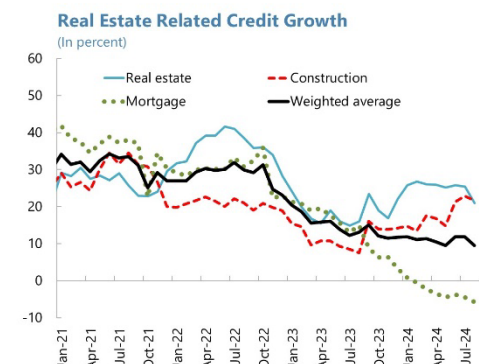
Sources: Cambodia authorities, and IMF staff calculations.

...and lending rates have only increased modestly despite global financial tightening.

Interest Rate
(In percent)

Lending rate in KHR   Lending rate in USD
Deposit rate in KHR   Deposit rate in USD
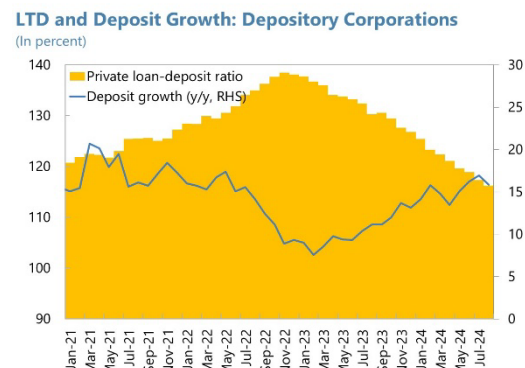
Sources: Cambodia authorities.

Dollarization has declined modestly but remains persistently high.

Dollarization
(In percent)

International reserves to foreign currency deposits
Foreign currency deposits to total deposit (RHS)
Claims on private sector in foreign currency to total claims on private sector (RHS)
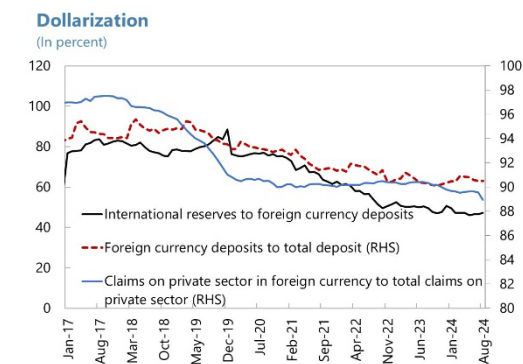
Sources: Cambodia authorities and IMF staff culculations.

Figure 5. Cambodia: Banking Sector Exposure to Real Estate Related Activities

Growth in bank credit to real-estate related activities has declined …

Bank credit growth
(12-month average, yoy)
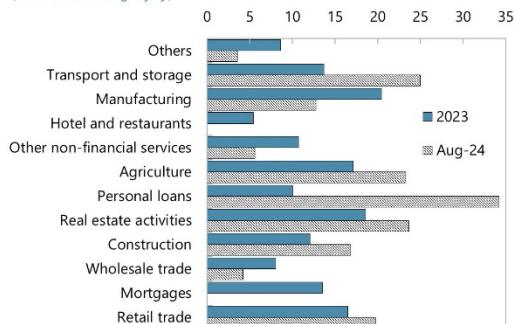
Sources: Haver and IMF staff calculations.

… but banking sector' exposure remains elevated.

Banks' Overall Real Estate Related Exposure, 2017-24
(In percent)
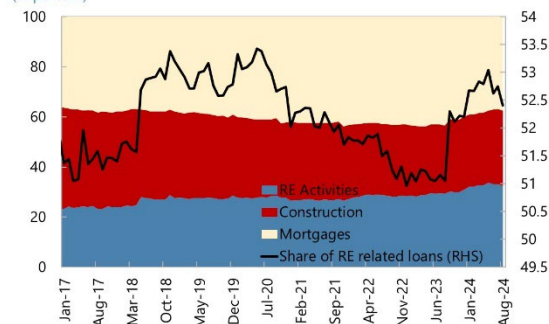
Sources: Haver.

NPL ratios in real-estate related sectors have increased, but less than in hotels and restaurants …

Gross Non-Performing Loan Ratio by Sector
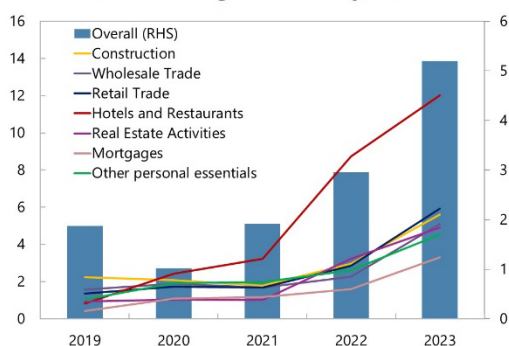
Sources: Cambodia authorities, Haver, and IMF staff calculations.

… and residential property prices have come down but remain high relative to the pre-COVID levels.

Residential Property Price Index
(Index, 2020=100)
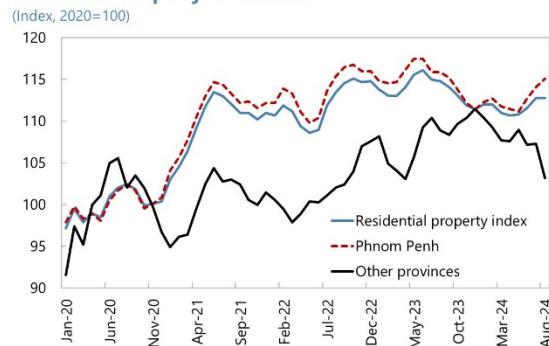
Sources: Haver.

Residential construction activity is expected to pick up albeit at a slower pace than last year…

Approved Construction Projects by Area
(In thousands square meter)
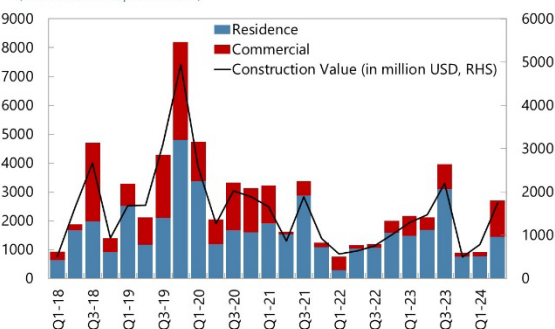
Sources: Cambodia authorities.

… and credit growth in real estate is picking up in 2024.

Real Estate Related Credit Growth
(In percent, yoy)
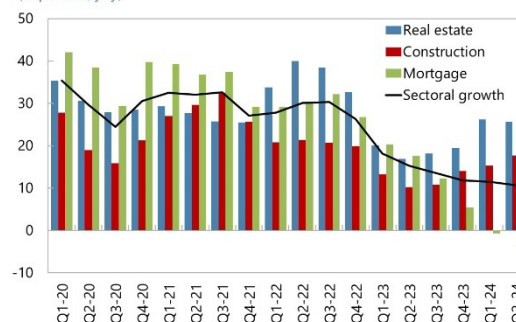
Sources: Cambodia authorities and IMF staff calculations.

Table 1. Cambodia: Selected Economic Indicators, 2020 – 25 1/

Per capita GDP (2022, US$): 1,986   Life expectancy (2019, years): 75.5
Population (2022, million): 16.8   Literacy rate (2019, percent): 87.7

	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.
Output and prices (annual percent change)						
GDP in constant prices	-3.6	3.1	5.1	5.0	5.5	5.8
Inflation (end-year)	2.9	3.7	2.9	2.7	1.5	2.1
(Annual average)	2.9	2.9	5.3	2.1	0.4	2.1
Saving and investment balance (in percent of GDP)						
Gross national saving	28.9	0.8	15.6	33.6	30.7	30.0
Government saving	2.6	0.3	3.1	4.1	5.1	6.1
Private saving	26.3	0.5	12.5	29.5	25.6	23.9
Gross fixed investment	31.4	30.4	34.6	32.3	32.5	32.5
Government investment	6.5	6.6	5.6	5.8	5.2	4.5
Private investment	24.8	23.8	29.0	26.5	27.4	28.0
Money and credit (annual percent change, unless otherwise indicated)						
Broad money	15.3	16.4	8.2	12.5	8.5	7.9
Private sector credit	17.2	23.6	18.5	3.5	4.0	7.0
Velocity of money 2/	1.0	1.1	1.0	1.0	1.0	1.0
Public finance (in percent of GDP)						
Revenue	17.8	15.8	18.1	15.9	14.9	14.9
Domestic revenue	16.3	14.7	16.4	14.7	13.7	13.7
Of which: Tax revenue	14.7	13.2	14.7	13.0	12.1	12.1
Grants	1.4	1.1	1.7	1.2	1.2	1.1
Expenditure	20.3	21.0	18.4	18.7	17.9	17.3
Expense	13.8	14.4	12.8	12.9	12.7	12.8
Net acquisition of nonfinancial assets	6.5	6.6	5.6	5.8	5.2	4.5
Net lending (+)/borrowing(-)	-2.5	-5.2	-0.3	-2.8	-3.0	-2.4
Net lending (+)/borrowing(-) excluding grants	-4.0	-6.3	-2.0	-4.0	-4.2	-3.6
Net acquisition of financial assets	2.1	-3.6	1.4	-0.3	-0.2	0.5
Net incurrence of liabilities 3/	4.7	1.6	1.7	2.5	2.8	2.9
Total public debt (In percent of GDP)	25.2	25.9	25.0	25.7	26.8	27.8
Balance of payments (in millions of dollars, unless otherwise indicated)						
Exports, f.o.b.	18,470	19,527	23,175	23,569	26,745	28,595
(Annual percent change)	23.2	5.7	18.7	1.7	13.5	6.9
Imports, f.o.b.	-20,993	-30,726	-31,995	-26,553	-31,055	-33,244
(Annual percent change)	-5.7	46.4	4.1	-17.0	17.0	7.0
Current account (including official transfers)	-870	-10,886	-7,572	555	-847	-1,269
(In percent of GDP)	-2.5	-29.6	-19.0	1.3	-1.8	-2.5
Gross official reserves 4/	21,334	20,265	17,805	19,998	20,753	23,064
(In months of prospective imports)	7.8	7.0	7.3	6.9	6.6	6.9
Total public debt (in millions of dollars)	8,810	9,505	9,971	11,187	12,473	13,932
(In percent of GDP)	25.2	25.9	25.0	25.7	26.8	27.8
External debt (in millions of dollars, unless otherwise indicated)						
Public external debt	8,810	9,505	9,971	11,187	12,387	13,726
(In percent of GDP)	25.2	25.9	25.0	25.7	26.6	27.4
Public debt service	365	397	427	449	418	439
(In percent of exports of goods and services)	1.8	2.0	1.7	1.6	1.3	1.3
Nominal effective exchange rate (index, trade partners by CPI)	116.4	113.3	122.4	123.3	...	...
Real effective exchange rate (index, based on CPI)	128.2	125.3	134.0	132.4	...	...
Memorandum items:						
Nominal GDP (in billions of Riels)	142,503	150,793	164,059	177,719	190,603	205,946
(In millions of U.S. dollars)	34,898	36,797	39,838	43,304	46,568	50,180

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Based on the rebased GDP.

2/ Ratio of nominal GDP to the average stock of broad money.

3/ Includes statistical discrepancy.

4/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia.

Table 2. Cambodia: Medium-Term Macroeconomics Framework, 2020–29

	2020	2021	2022	2023 Est.	2024	2025	2026 Proj.	2027	2028	2029
Output and prices (percent change)										
GDP at constant prices	-3.6	3.1	5.1	5.0	5.5	5.8	6.2	6.0	6.0	6.0
GDP deflator	-0.8	2.6	3.5	3.2	1.7	2.1	3.0	2.9	2.9	2.8
Consumer prices (end-year)	2.9	3.7	2.9	2.7	1.5	2.1	3.2	3.0	3.0	3.0
Consumer prices (average)	2.9	2.9	5.3	2.1	0.4	2.1	3.2	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)										
Gross national saving	28.9	0.8	15.6	24.5	21.2	21.5	21.7	22.7	23.6	24.8
Government saving	2.6	0.3	3.6	1.7	1.0	1.0	1.0	1.0	0.9	1.0
Private saving	26.3	0.5	12.0	22.7	20.2	20.5	20.7	21.7	22.8	23.7
Gross fixed investment	31.4	30.4	34.6	23.2	23.0	24.0	25.0	26.0	27.0	28.0
Government investment	6.5	6.6	5.6	5.8	5.2	4.5	4.3	4.2	3.9	3.8
Private investment 1/	24.8	23.8	29.0	17.4	17.8	19.5	20.7	21.8	23.1	24.2
Private credit growth (percent change)	17.2	23.6	18.5	3.5	4.0	7.0	10.0	10.0	10.0	10.0
Public finance (in percent of GDP)										
Revenue	17.8	15.8	18.1	15.9	14.9	14.9	14.9	15.0	15.1	15.2
Of which: Tax revenue	14.7	13.2	14.7	13.0	12.1	12.1	12.2	12.3	12.5	12.7
Grants	1.4	1.1	1.7	1.2	1.2	1.1	1.1	1.0	0.9	0.8
Total expenditure	20.3	21.0	18.4	18.7	17.9	17.3	17.1	17.1	17.2	17.1
Expense	13.8	14.4	12.8	12.9	12.7	12.8	12.8	13.0	13.3	13.4
Net acquisition of nonfinancial assets	6.5	6.6	5.6	5.8	5.2	4.5	4.3	4.2	3.9	3.8
Net lending (+)/borrowing(-)	-2.5	-5.2	-0.3	-2.8	-3.0	-2.4	-2.2	-2.1	-2.1	-2.0
Net lending (+)/borrowing(-) excluding grants	-4.0	-6.3	-2.0	-4.0	-4.2	-3.6	-3.3	-3.2	-3.0	-2.8
Net acquisition of financial assets	2.1	-3.6	1.4	-0.3	-0.2	0.5	0.3	0.2	0.3	0.4
Net incurrence of liabilities	4.7	1.6	1.7	2.5	2.8	2.9	2.5	2.4	2.4	2.4
Government deposits	17.7	13.1	13.5	12.2	11.1	10.8	10.1	9.5	9.0	8.7
Balance of payments (in percent of GDP, unless otherwise indicated)										
Exports (percent change) 2/	23.2	5.7	18.7	1.7	13.5	6.9	8.2	8.1	8.5	8.7
Imports (percent change) 3/	-5.7	46.4	4.1	-17.0	17.0	7.0	7.2	8.4	8.5	8.5
Current account balance (including transfers)	-2.5	-29.6	-19.0	1.3	-1.8	-2.5	-3.3	-3.3	-3.4	-3.2
(Excluding transfers)	-3.8	-31.0	-20.2	0.1	-2.8	-3.4	-4.1	-4.2	-4.1	-4.0
Foreign direct investment	10.0	9.2	8.6	8.8	7.5	7.7	7.8	7.8	7.9	8.0
Other flows	-5.7	20.6	11.3	-10.4	-4.1	-0.6	2.5	2.3	2.3	2.2
Overall balance	1.8	0.2	0.9	-0.4	1.6	4.6	7.0	6.8	6.9	7.0
Gross official reserves (in millions of U.S. dollars) 4/	21,334	20,265	17,805	19,998	20,753	23,064	26,887	30,951	35,422	40,351
(In months of next year's imports)	7.8	7.0	7.3	6.9	6.6	6.9	7.4	7.9	8.3	8.7
Total public debt (in millions of U.S. dollars)	8,810	9,505	9,971	11,187	12,473	13,932	15,218	16,508	17,912	19,453
(In percent of GDP)	25.2	25.9	25.0	25.7	26.8	27.8	27.8	27.8	27.7	27.7
Public external debt (in millions of U.S. dollars)	8,810	9,505	9,971	11,187	12,387	13,726	14,939	16,178	17,548	18,978
(In percent of GDP)	25.2	25.9	25.0	25.7	26.6	27.4	27.3	27.2	27.1	27.0
Public external debt service (in millions of U.S. dollars)	365	397	427	449	418	439	458	482	506	533
(In percent of exports of goods and services)	1.8	2.0	1.7	1.6	1.3	1.3	1.2	1.2	1.2	1.1
Nominal effective exchange rate (index, trade partners by CPI)	116.4	113.3	122.4	123.3	...	...	...	...	...	...
Real effective exchange rate (index, based on CPI)	128.2	125.3	134.0	132.4	...	...	...	...	...	...

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.
4/ Includes unrestricted foreign currency deposits held at the National Bank of Cambodia.

Table 3a. Cambodia: Balance of Payments, 2020–29 (BPM5)

(In millions of U.S. dollars, unless otherwise indicated)

	2020	2021	2022	2023 Est.	2024	2025	2026 Proj.	2027	2028	2029
Current account (including official transfers)	-870	-10,886	-7,572	555	-847	-1,269	-1,794	-1,993	-2,175	-2,283
(Excluding official transfers)	-1,317	-11,396	-8,051	60	-1,294	-1,725	-2,237	-2,476	-2,634	-2,783
Trade balance	-2,522	-11,199	-8,820	-2,984	-4,310	-4,649	-4,684	-5,156	-5,564	-5,977
Exports, f.o.b.	18,470	19,527	23,175	23,569	26,745	28,595	30,942	33,449	36,307	39,457
Of which: Garments	8,527	9,415	10,770	9,238	11,339	12,591	13,932	15,403	17,061	18,915
Imports, f.o.b. 1/	-20,993	-30,726	-31,995	-26,553	-31,055	-33,244	-35,626	-38,605	-41,871	-45,434
Of which: Garments-related	-4,020	-5,049	-5,058	-4,737	-5,808	-6,576	-6,440	-7,120	-7,886	-8,743
Petroleum	-2,057	-2,930	-4,497	-4,260	-4,944	-5,145	-5,546	-6,038	-6,633	-7,334
Nonmonetary gold	-985	-5,930	-4,466	-223	-536	-579	-625	-675	-729	-787
Services and income (net)	-1,367	-2,922	-1,983	365	312	119	-492	-399	-296	-185
Services (net)	-261	-1,432	-433	1,317	1,151	1,115	1,295	1,468	1,665	1,885
Of which: Tourism (credit)	1,015	184	1,418	3,083	3,391	3,731	4,104	4,514	4,965	5,462
Income (net)	-1,106	-1,490	-1,550	-952	-838	-997	-1,787	-1,867	-1,961	-2,071
Private transfers (net)	2,572	2,725	2,752	2,679	2,704	2,805	2,939	3,079	3,225	3,380
Official transfers (net)	447	510	479	494	447	457	443	482	460	500
Capital and financial account	3,257	12,257	7,005	650	1,586	3,563	5,600	6,040	6,628	7,193
Capital transfers (net)	258	204	209	140	133	119	107	97	87	78
Medium- and long-term loans (net)	939	867	1,004	1,119	1,197	1,337	1,210	1,236	1,367	1,426
Disbursements	1,213	1,163	1,343	1,475	1,547	1,692	1,568	1,601	1,736	1,803
Amortization	-275	-297	-339	-356	-350	-356	-359	-365	-369	-376
Foreign direct investment 2/	3,485	3,392	3,429	3,806	3,507	3,858	4,243	4,668	5,134	5,648
Net foreign assets of deposit money banks	652	1,325	2,025	-3,204	-3,250	-1,750	40	40	40	40
Other short-term flows	-2,077	6,469	338	-1,210	0	0	0	0	0	0
Errors and omissions	-1,752	-1,289	907	-1,366	0	0	0	0	0	0
Overall balance	635	82	340	-161	739	2,295	3,806	4,047	4,454	4,909
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-3.8	-31.0	-20.2	0.1	-2.8	-3.4	-4.1	-4.2	-4.1	-4.0
Including official transfers	-2.5	-29.6	-19.0	1.3	-1.8	-2.5	-3.3	-3.3	-3.4	-3.2
Trade balance (in percent of GDP)	-7.2	-30.4	-22.1	-6.9	-9.3	-9.3	-8.6	-8.7	-8.6	-8.5
Gross official reserves 3/	21,334	20,265	17,805	19,998	20,753	23,064	26,887	30,951	35,422	40,351
(In months of next year's imports)	7.8	7.0	7.3	6.9	6.6	6.9	7.4	7.9	8.3	8.7

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.

2/ From 2011, includes FDI related to public-private power sector projects.

3/ Includes unrestricted FCDs held at the NBC.

Table 3b. Cambodia: Balance of Payments, 2020–29 (BPM5)

(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023 Est.	2024	2025	2026	2027	2028	2029
							Proj.			
Current account (including official transfers)	-2.5	-29.6	-19.0	1.3	-1.8	-2.5	-3.3	-3.3	-3.4	-3.2
(Excluding official transfers)	-3.8	-31.0	-20.2	0.1	-2.8	-3.4	-4.1	-4.2	-4.1	-4.0
Trade balance	-7.2	-30.4	-22.1	-6.9	-9.3	-9.3	-8.6	-8.7	-8.6	-8.5
Exports, f.o.b.	52.9	53.1	58.2	54.4	57.4	57.0	56.5	56.2	56.1	56.1
Of which: Garments	24.4	25.6	27.0	21.3	24.3	25.1	25.4	25.9	26.4	26.9
Imports, f.o.b. 1/	-60.2	-83.5	-80.3	-61.3	-66.7	-66.3	-65.1	-64.8	-64.7	-64.5
Of which: Garments-related	-11.5	-13.7	-12.7	-10.9	-12.5	-13.1	-11.8	-12.0	-12.2	-12.4
Petroleum	-5.9	-8.0	-11.3	-9.8	-10.6	-10.3	-10.1	-10.1	-10.2	-10.4
Nonmonetary gold	-2.8	-16.1	-11.2	-0.5	-1.2	-1.2	-1.1	-1.1	-1.1	-1.1
Services and income (net)	-3.9	-7.9	-5.0	0.8	0.7	0.2	-0.9	-0.7	-0.5	-0.3
Services (net)	-0.7	-3.9	-1.1	3.0	2.5	2.2	2.4	2.5	2.6	2.7
Of which: Tourism (credit)	2.9	0.5	3.6	7.1	7.3	7.4	7.5	7.6	7.7	7.8
Income (net)	-3.2	-4.0	-3.9	-2.2	-1.8	-2.0	-3.3	-3.1	-3.0	-2.9
Private transfers (net)	7.4	7.4	6.9	6.2	5.8	5.6	5.4	5.2	5.0	4.8
Official transfers (net)	1.3	1.4	1.2	1.1	1.0	0.9	0.8	0.8	0.7	0.7
Capital and financial account	9.3	33.3	17.6	1.5	3.4	7.1	10.2	10.1	10.2	10.2
Capital transfers (net)	0.7	0.6	0.6	0.3	0.3	0.2	0.2	0.1	0.1	0.0
Medium- and long-term loans (net)	2.7	2.4	2.5	2.6	2.6	2.7	2.2	2.1	2.1	2.0
Disbursements	3.5	3.2	3.4	3.4	3.3	3.4	2.9	2.7	2.7	2.6
Amortization	-0.8	-0.8	-0.9	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5
Foreign direct investment 2/	10.0	9.2	8.6	8.8	7.5	7.7	7.8	7.8	7.9	8.0
Net foreign assets of deposit money banks	1.9	3.6	5.1	-7.4	-7.0	-3.5	0.1	0.1	0.1	0.1
Other short-term flows	-6.0	17.6	0.8	-2.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-5.0	-3.5	2.3	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.8	0.2	0.9	-0.4	1.6	4.6	7.0	6.8	6.9	7.0
Memorandum items:										
Current account balance (in percent of GDP)										
Excluding official transfers	-3.8	-31.0	-20.2	0.1	-2.8	-3.4	-4.1	-4.2	-4.1	-4.0
Including official transfers	-2.5	-29.6	-19.0	1.3	-1.8	-2.5	-3.3	-3.3	-3.4	-3.2
Trade balance (in percent of GDP)	-7.2	-30.4	-22.1	-6.9	-9.3	-9.3	-8.6	-8.7	-8.6	-8.5
Gross official reserves 3/	61.1	55.1	44.7	46.2	44.6	46.0	49.1	52.0	54.7	57.3
(In months of next year's imports)	7.8	7.0	7.3	6.9	6.6	6.9	7.4	7.9	8.3	8.7

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.

2/ From 2011, includes FDI related to public-private power sector projects.

3/ Includes unrestricted FCDs held at the NBC.

Table 4. Cambodia: General Government Operations, 2020 – 2029 (GFSM 2014)

	2020	2021	2022 Est.	2023 Budget	2023 Est.	2024 Budget	2024 Proj.	2025	2026	2027 Proj.	2028	2029
Revenue	25,334	23,842	29,664	28,715	28,264	31,725	28,377	30,592	33,610	36,809	40,396	44,292
Of which: Nongrant	23,290	22,112	26,877	27,802	26,047	31,015	26,160	28,264	31,188	34,315	37,852	42,002
Tax	20,882	19,875	24,187	25,272	23,118	27,591	23,019	24,870	27,476	30,266	33,439	37,190
Income, profits, and capital gains	6,110	6,219	7,653	7,608	8,194	9,352	8,437	9,116	10,072	11,095	12,336	13,721
Good and services	12,399	11,343	13,780	14,952	12,175	15,471	12,536	13,545	14,965	16,486	18,150	20,187
International trade and transactions	2,198	2,131	2,549	2,517	2,517	2,537	2,025	2,188	2,417	2,663	2,932	3,261
Grants	2,044	1,730	2,786	913	2,218	711	2,218	2,328	2,422	2,494	2,544	2,290
Other revenues	2,408	2,237	2,690	2,530	2,928	3,424	3,140	3,393	3,712	4,049	4,413	4,812
Total expenditure	28,937	31,649	30,136	35,363	33,186	36,436	34,117	35,611	38,626	42,057	46,004	50,063
Expense	19,637	21,680	20,967	20,657	22,946	24,589	24,287	26,272	28,914	31,859	35,500	39,034
Compensation of employees	8,992	8,967	9,311	10,552	10,254	9,276	10,667	10,949	11,978	13,195	14,742	16,075
Purchase of goods and services	4,198	6,266	4,996	5,283	5,200	4,938	5,856	6,327	7,060	7,855	8,818	9,904
Interest	381	403	439	769	473	700	562	342	410	485	566	653
Expense not elsewhere classified	6,066	6,044	6,220	4,053	7,020	9,674	7,202	8,653	9,466	10,324	11,374	12,402
Net acquisition of nonfinancial assets	9,300	9,969	9,170	14,706	10,240	11,848	9,830	9,339	9,712	10,198	10,504	11,029
Of which: Externally financed	5,835	5,230	6,900	...	6,824	...	7,130	7,799	7,386	7,581	8,184	8,192
Net lending (+)/borrowing(-)	-3,603	-7,807	-473	-6,649	-4,922	-4,711	-5,740	-5,019	-5,016	-5,248	-5,608	-5,771
Net acquisition of financial assets	3,059	-5,439	2,379	-1,062	-533	-109	-476	944	607	541	836	1,299
Net incurrence of liabilities	6,662	2,368	2,851	5,586	4,389	4,601	5,264	5,963	5,623	5,788	6,443	7,071
Of which: External borrowing	5,835	3,500	4,114	4,773	4,607	4,161	4,912	5,471	4,964	5,087	5,640	5,902
Of which: Bond issuance	...	...	72	...	239	440	352	493	658	702	804	1,168
Revenue	17.8	15.8	18.1	16.2	15.9	16.6	14.9	14.9	14.9	15.0	15.1	15.2
Nongrant	16.3	14.7	16.4	15.6	14.7	16.3	13.7	13.7	13.8	14.0	14.1	14.4
Tax	14.7	13.2	14.7	14.2	13.0	14.5	12.1	12.1	12.2	12.3	12.5	12.7
Income, profits, and capital gains tax	4.3	4.1	4.7	4.3	4.6	4.9	4.4	4.4	4.5	4.5	4.6	4.7
Good and services tax	8.7	7.5	8.4	8.4	6.9	8.1	6.6	6.6	6.6	6.7	6.8	6.9
International trade and transactions tax	1.5	1.4	1.6	1.4	1.4	1.3	1.1	1.1	1.1	1.1	1.1	1.1
Grants	1.4	1.1	1.7	0.5	1.2	0.4	1.2	1.1	1.1	1.0	0.9	0.8
Other revenues	1.7	1.5	1.6	1.4	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.6
Total expenditure	20.3	21.0	18.4	19.9	18.7	19.1	17.9	17.3	17.1	17.1	17.2	17.1
Expense	13.8	14.4	12.8	11.6	12.9	12.9	12.7	12.8	12.8	13.0	13.3	13.4
Compensation of employees	6.3	5.9	5.7	5.9	5.8	4.9	5.6	5.3	5.3	5.4	5.5	5.5
Purchase of goods and services	2.9	4.2	3.0	3.0	2.9	2.6	3.1	3.1	3.1	3.2	3.3	3.4
Interest	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.2
Expense not elsewhere classified	4.3	4.0	3.8	2.3	3.9	5.1	3.8	4.2	4.2	4.2	4.2	4.2
Net acquisition of nonfinancial assets	6.5	6.6	5.6	8.3	5.8	6.2	5.2	4.5	4.3	4.2	3.9	3.8
Of which: Externally-financed	4.1	3.5	4.2	...	3.8	...	3.7	3.8	3.3	3.1	3.1	2.8
Net lending (+)/borrowing(-)	-2.5	-5.2	-0.3	-3.7	-2.8	-2.5	-3.0	-2.4	-2.2	-2.1	-2.1	-2.0
Net acquisition of financial assets	2.1	-3.6	1.4	-0.6	-0.3	-0.1	-0.2	0.5	0.3	0.2	0.3	0.4
Net incurrence of liabilities	4.7	1.6	1.7	3.1	2.5	2.4	2.8	2.9	2.5	2.4	2.4	2.4
Of which: External borrowing	4.1	2.3	2.5	2.7	2.6	2.2	2.6	2.7	2.2	2.1	2.1	2.0
Of which: Bond issurance	...	...	0.0	...	0.1	...	0.2	0.2	0.3	0.3	0.3	0.4
Memorandum items:												
Net lending (+)/borrowing(-) excluding grant	-4.0	-6.3	-2.0	-4.3	-4.0	-2.8	-4.2	-3.6	-3.3	-3.2	-3.0	-2.8
Government deposits	17.7	13.1	13.5	...	12.2	...	11.1	10.8	10.1	9.5	9.0	8.7
GDP (in billions of riels)	142,503	150,793	164,059	...	177,719	...	190,603	205,946	225,291	245,726	267,845	292,066

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

Table 5. Cambodia: Monetary Survey, 2020–29

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.			
(In billions of Riels)										
Net foreign assets	67,364	57,063	39,490	61,234	88,098	109,256	123,057	124,189	125,388	126,658
National Bank of Cambodia	85,802	81,117	71,915	80,304	93,822	107,803	121,765	123,059	124,421	125,854
Foreign assets	86,292	82,553	73,297	81,686	95,204	109,185	123,147	124,441	125,802	127,236
Foreign liabilities	-490	-1,436	-1,381	-1,382	-1,382	-1,382	-1,382	-1,382	-1,382	-1,382
Deposit money banks	-18,439	-24,054	-32,425	-19,069	-5,724	1,453	1,292	1,130	967	804
Foreign assets	16,662	17,569	17,276	26,264	33,623	38,104	37,616	37,021	36,554	35,952
Foreign liabilities	-35,100	-41,622	-49,701	-45,333	-39,347	-36,652	-36,325	-35,891	-35,586	-35,148
Net domestic assets	69,178	101,876	132,472	132,296	121,938	117,318	127,417	154,488	178,533	204,672
Domestic credit	127,353	168,742	201,173	209,455	219,460	236,914	263,131	291,823	323,267	357,763
Government (net)	-24,995	-19,556	-21,934	-21,401	-20,597	-19,945	-19,410	-18,970	-18,601	-18,289
Private sector	152,347	188,297	223,106	230,825	240,026	256,828	282,510	310,761	341,838	376,021
Other items (net)	-58,175	-66,866	-68,701	-77,159	-97,521	-119,596	-135,715	-137,335	-144,734	-153,091
Broad money	136,542	158,939	171,962	193,530	210,037	226,574	250,474	278,677	303,921	331,331
Narrow money	15,091	16,921	16,553	17,329	17,780	20,861	23,062	27,918	30,447	33,193
Currency in circulation	13,474	14,575	14,138	14,975	15,455	18,374	20,313	24,887	27,141	29,589
Demand deposits	1,617	2,346	2,415	2,355	2,324	2,487	2,749	3,031	3,306	3,604
Quasi-money	121,451	142,018	155,409	176,201	192,257	205,713	227,412	250,759	273,474	298,138
Time deposits	6,902	10,146	12,714	14,902	14,693	15,721	17,379	19,163	20,899	22,784
Foreign currency deposits	114,549	131,872	142,695	161,299	177,564	189,992	210,033	231,595	252,575	275,354
(12-month percentage change)										
Net foreign assets	11.9	-15.3	-30.8	55.1	43.9	24.0	12.6	0.9	1.0	1.0
Private sector credit	17.2	23.6	18.5	3.5	4.0	7.0	10.0	10.0	10.0	10.0
Broad money	15.3	16.4	8.2	12.5	8.5	7.9	10.5	11.3	9.1	9.0
Of which: Currency in circulation	13.2	8.2	-3.0	5.9	3.2	18.9	10.5	22.5	9.1	9.0
Foreign currency deposits	15.0	15.1	8.2	13.0	10.1	7.0	10.5	10.3	9.1	9.0
(Contribution to year-on-year growth of broad money, in percentage points)										
Net foreign assets	6.1	-7.5	-11.1	12.6	13.9	22.9	27.3	25.1	23.0	21.5
Net domestic assets	9.2	23.9	19.3	-0.1	-5.4	-7.1	-2.2	8.9	16.6	23.8
Domestic credit 1/	17.9	30.3	20.4	4.8	5.2	13.1	23.7	32.9	40.8	48.8
Government (net)	-0.9	4.0	-1.5	0.3	0.4	0.7	0.9	1.0	1.0	1.0
Private sector	18.9	26.3	21.9	4.5	4.8	12.4	22.8	31.9	39.8	47.8
Other items (net)	-8.7	-6.4	-1.2	-4.9	-10.5	-20.2	-25.8	-24.0	-24.2	-25.0
Memorandum items:										
Foreign currency deposits (in millions of U.S. dollars)	28,074	32,041	34,631	39,461	43,323	46,230	50,968	56,048	60,960	66,277
(In percent of broad money)	83.9	83.0	83.0	83.3	84.5	83.9	83.9	83.1	83.1	83.1
Riel component of broad money	21,993	27,067	29,267	32,232	32,472	36,582	40,441	47,081	51,346	55,977
(In percent of broad money)	16.1	17.0	17.0	16.7	15.5	16.1	16.1	16.9	16.9	16.9
Credit to the private sector (in millions of U.S. dollars)	37,338	45,750	54,145	56,471	58,563	62,492	68,555	75,207	82,503	90,508
(In percent of GDP)	106.9	124.9	136.0	129.6	125.9	124.7	125.4	126.5	127.6	128.7
Foreign currency loans-to-total loans (in percent)	87.4	87.8	87.2	84.5	88.1	88.1	88.1	88.1	88.1	88.1
Loan-to-deposit ratio (in percent) 2/	116.2	125.4	136.3	120.9	119.1	119.1	118.5	118.2	119.3	120.3
Velocity 3/	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Money multiplier (broad money/reserve money)	3.2	3.3	3.8	3.3	3.2	3.2	3.2	3.3	3.3	3.3
Reserve money (12-month percent change)	0.0	0.1	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1

Sources: Cambodian authorities; and IMF staff estimates and projections.
1/ Excludes banks' credits to nonresident.
2/ Foreign currency loans and deposits only.
3/ The ratio of nominal GDP to the year-to-date average stock of broad money.

Table 6. Cambodia: Financial Soundness Indicators, 2018-2023
(In percent)

	2018	2019	2020	2021	2022	2023
Regulatory Capital to Risk-Weighted Assets	22.2	21.8	22.7	22.3	21.7	22.5
Tier 1 Capital to Risk-Weighted Assets	19.9	18.8	19.6	19.3	18.8	19.7
Non-performing Loans to Total Gross Loans	2.0	1.6	1.8	1.7	2.7	5.1
Return on Assets	1.6	1.7	1.7	2.0	2.4	1.0
Return on Equity	6.1	6.6	6.6	7.9	9.9	3.2
Interest Margin to Gross Income	56.3	54.9	38.6	41.8	32.3	32.4
Non-interest Expenses to Gross Income	71.8	74.6	77.6	73.8	79.2	81.2
Liquid Assets to Total Assets	16.6	16.0	16.7	15.3	11.7	14.7

Sources: International Monetary Fund.

Annex I. Implications of Rebased GDP[1]

1.   Cambodia revamped calculations of GDP using 2014 as the new base year which shows a thirty-percent increase in GDP per capita.[2] The rebasing of the national accounts from the previous 2000 base year better reflects the current structure of the economy and entails a more realistic assessment of economic activity. The revised GDP has identified eleven additional sectors, covering detailed breakdowns of twenty-seven sectors.[3] The revision shows much stronger growth by industry and services during the decade leading up to the pandemic, while the post-pandemic recovery has been somewhat faster, compared to the old GDP. As a result, the rebased GDP shows that GDP per capita reaches $2,345 in 2022, overtaking Lao PDR. With emerging sectors of the economy, the new GDP helps navigate the government for effective policy planning, reflecting years of structural transformation achieved by the government with support provided by development partners.

Nominal GDP
(In Billion Riels)

Sources: National authorities.

The Rebased GDP Shows Stronger Growth and A Higher Per-capita GDP

Real GDP per capita growth
(in percent)

Source: National authorities, and IMF staff calculation.

GDP per capita, 2022
(in US dollars)

Sources: World Bank, and national authorities.
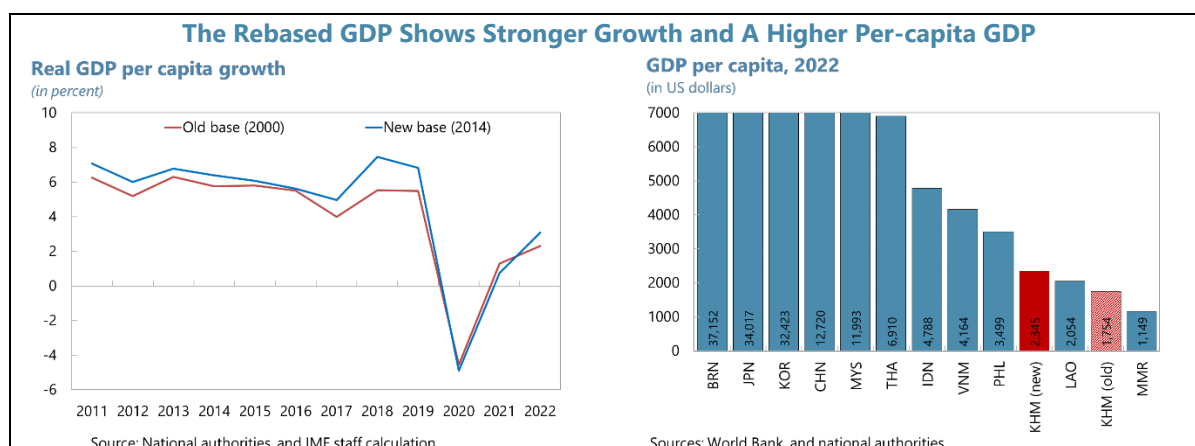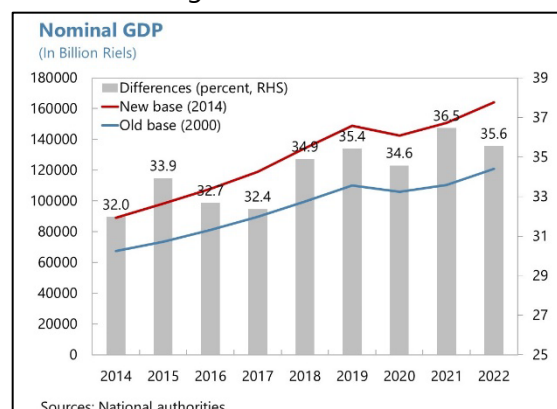
2.   The rebased GDP underscores a faster progress in industrialization over the past two decades. The structural transformation in Cambodia's economy was more pronounced in the rebased GDP, with substantial declines in the share of agriculture, down to 17 percent in 2020-22 in the new GDP from 33 percent two decades ago in the previous GDP. Growth in industry and services was previously underestimated, and the new GDP shows that both sectors

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[1] Prepared by Chao Wang and Natasha Che.

[2] The rebasing of GDP was successfully completed in collaboration with development partners, including the IMF, UNESCAP, the Asian Development Bank, and the World Bank.

[3] Eleven sectors include: food products; beverages and tobacco; furniture and other goods; repair of motor vehicles and motorcycles; transportation and storage; information and communication; professional, scientific, and technical activities; administrative and support service activities; education; human health and social work activities; arts, entertainment, and recreation.

have become the primary drivers of economic growth. Industry and services account for larger shares of GDP over 2020-22, reaching 39.5 percent and 37.3 percent of GDP, respectively. Textile manufacturing has been consistently the largest growth driver, explaining 21 percent of GDP growth on average over 2010-2019 period. Construction's contribution to GDP increased significantly in the pre-pandemic decade, to an average of 17 percent of overall growth, but has been slow to recover from the COVID shock. Tourism related services, a traditional export sector in Cambodia, has seen its growth contribution slowly decline over time but remains an important growth driver.

The Rebased GDP Shows Stronger Growth and A Higher Per-Capita GDP

Sources: National authorities, and IMF staff calculations.

Sources: National authorities, and IMF staff calculation.
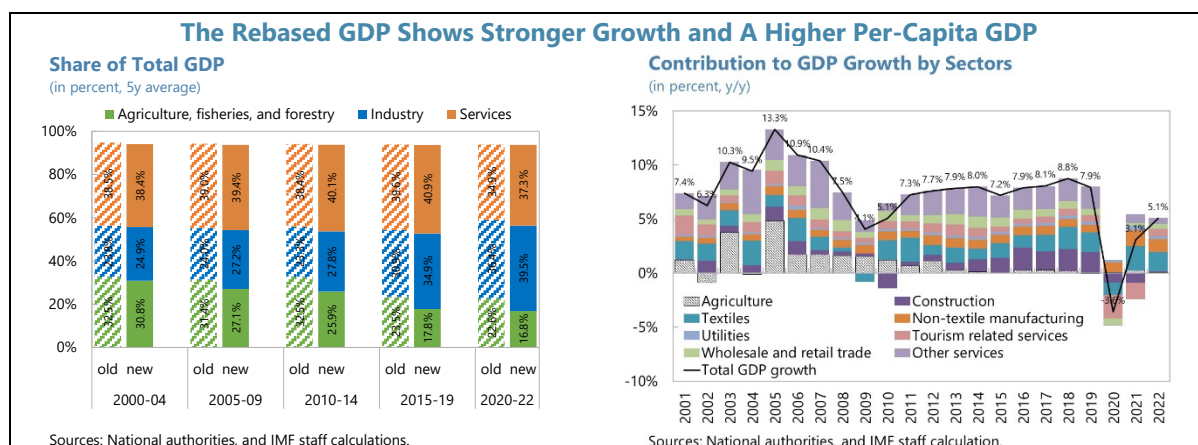
3.   The rebased GDP shows that the textile industry has been a stable and reliable growth driver to the Cambodian economy. Cambodia has experienced rapid growth over the past decades, bolstered by robust activity in industry. Manufacturing industries on average have exhibited higher volatility-adjusted growth, compared to other sources of growth drivers, including construction and services. Growth in the manufacturing industries has been led by external demand and less affected by domestic demand conditions. The textile industry has taken advantage of the global supply chains and has offered stable and robust growth to the Cambodia economy for many years.

The Rebased GDP Shows Stronger Growth and A Higher Per-Capita GDP

Sources: National authorities and IMF staff calculation.
Note: The bubble size indicates the share of GDP for each sectors. Blue bubbles indicate industry sectors. Red bubbles indicate service sectors.

Sources: National authorities and IMF staff calculation.
Note: Growth volatility is calculated as the average sector growth rate devided by standard deviation from 2010-2022. The correlation is the regression coefficient of regressing growth rate of individual sectors on growth rate of rest of economy from 2010-2019. Red marker indicates a P-value <0.05.

4.   Construction and hospitality have faced a higher volatility in growth, with the latter employing a large share of the Cambodia's labor force. While average growth in construction is comparable to that in textiles, the growth volatility is significantly higher in construction. In contrast, the tourism-driven hospitality sector has displayed a combination of low growth and high volatility. According to the 2019 Cambodia Economic Activity and Employment Census, the tourism industry along with the retail sector is responsible for a large share of employment, accounting for 17 percent of the total workforce and 63 percent of total workers in the tertiary sector. Construction activity mirrors the overall economic growth, and real estate similarly exhibits high procyclicality through macro-financial linkages, with relatively high financial leverage. High volatility in these key industries influence the domestic demand in a multifaceted way by impacting on personal income, private consumption, and firms' investment decisions.

5.   Policies for sustainable growth should focus on supporting the sectors that contribute to higher productivity and economic resilience. Data shows that export-oriented manufacturing sectors such as textiles continue to be the primary driver of Cambodia's growth. In addition, these sectors display lower volatility and small-to-negative correlation with the overall economy, making them essential for achieving a stable growth path. To support the expansion of existing and the emergence of new tradable goods sectors, policies should focus on improving the business environment and institutional quality, as well as strengthening accumulation of quality physical and human capital to attract investments to these sectors. In contrast, construction and tradable services such as tourism tend to exhibit slow productivity growth while contributing to higher volatility of the economy. Macro-prudential policies should monitor leverage-fueled expansions of these sectors driven by domestic banks and foreign inflows, with the goal to modulate excessive boom-bust cycles and encourage productivity-enhancing investments.

Annex II. External Sector Assessment

Cambodia's external position in 2023 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies after adjusting for temporary and statistical factors, including persistently volatile gold trade, the solar-related export surge, and a surge in agricultural exports. Other factors contributed to reversing the current account from a deficit to a surplus in 2023, including the volatile external environment which compressed imports and subsequently boosted exports, as well as increasing services receipts thanks to the recovery in tourism. International reserves increased in 2023 and coverage remains broadly adequate.
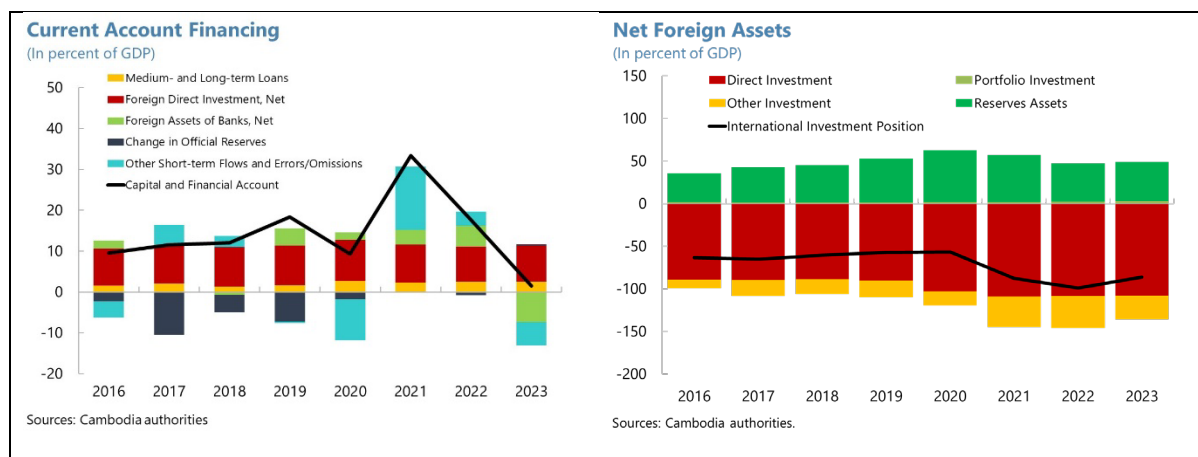
1.   The current account recorded a surplus of 1.3 percent of GDP in 2023, following the contraction in gold and merchandise imports and a rebound in goods and services exports. The current account swung to a surplus of 1.3 percent of GDP in 2023 from a deficit of 19 percent in 2022 on the back of a volatile external environment and temporary statistical factors. Imports, in particular of garment materials, machinery, and vehicles, contracted (by more than exports) in 2023H1 amid the broad-based downturn in global demand starting in late 2022, which induced importers to run down inventories. Exports subsequently picked up in 2023H2 with a recovery in external demand (i.e., garment). Agricultural exports also recorded large gains of 2 percentage points (pts) of GDP. By contrast, solar-related export growth accelerated despite the global downturn, but significantly reversed in 2023Q4 with the US ruling of anti-dumping and countervailing duties on Cambodian photovoltaic exports. In addition, gold imports, after a surge in 2021, declined to near zero levels in 2023 as the National Bank of Cambodia imposed an import ban from 2022Q4 to 2023Q1. The combined effects boosted the goods trade balance by 15 pts of GDP relative to 2022. The services balance improved by 4 pts of GDP relative to 2022 as the tourism recovery accelerated. The primary income deficit improved as income payments to foreign investors declined.

Current Account Balance
(In percent of GDP)

Legend: Trade Balance, Services Balance, Income Balance, Current Transfers Balance, Current Account Balance
Sources: Cambodia authorities

Trade Balance and Main Items
(In percent of GDP, exports (+), imports (-))

Legend: Gold, Petroleum, Garment Exports, Garment Imports, Other Exports, Other Imports, Total
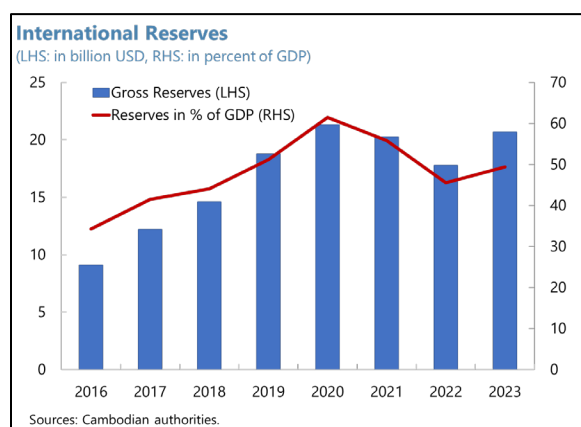Sources: Cambodia authorities

2.   The capital and financial account balance declined to 1.5 percent of GDP in 2023, driven by a reversal in short-term capital flows and an increase in banks' net foreign assets (NFA). While FDI and medium-to-long-term debt inflows remained broadly stable, the financial account recorded large short-term capital outflows of 3 percent of GDP. Banks built their asset

positions abroad while repaying liabilities amid the global high interest rate environment, boosting their NFA by 13 pts of GDP relative to 2022. Errors and omissions also climbed to over 3 percent of GDP (in absolute terms). The aggregate NFA position improved in 2023, reflecting a decline in other investments and a marginal increase in reserve assets.

Current Account Financing
(In percent of GDP)

Legend:
- Medium- and Long-term Loans
- Foreign Direct Investment, Net
- Foreign Assets of Banks, Net
- Change in Official Reserves
- Other Short-term Flows and Errors/Omissions
- Capital and Financial Account

Sources: Cambodia authorities

Net Foreign Assets
(In percent of GDP)

Legend:
- Direct Investment
- Other Investment
- International Investment Position
- Portfolio Investment
- Reserves Assets

Sources: Cambodia authorities.

3.   International reserves increased in 2023 and remain broadly adequate. Gross international reserves (GIR) increased by 12 percent (USD 2.2 billion), partly owing to the current account surplus, the increase in the reserve requirement, and some valuation effects in bond holdings. FX intervention by the National Bank of Cambodia (NBC) was limited, amounting to sales of USD 140 million in 2023Q3 after a one-year hiatus. This brought the total GIR balance to 46 percent of GDP or 7 months of prospective imports at end-2023. Reserves in 2024H1 remain broadly stable at USD 20 billion. The GIR balance in 2023 thus

International Reserves
(LHS: in billion USD, RHS: in percent of GDP)

Legend:
- Gross Reserves (LHS)
- Reserves in % of GDP (RHS)

Sources: Cambodian authorities.

exceeds the optimal level of 4 month of imports as implied by the ARA metric for credit-constrained economies. Nevertheless, a high level of international reserves remains advisable for Cambodia's highly export-dependent economy with a managed float exchange rate regime and a high degree of dollarization. The *de facto* exchange rate arrangement is crawl-like.

4.   Cambodia's external position in 2023 is assessed to be moderately stronger than the level implied by fundamentals and desirable policies. The current account gap is estimated at 0.5 percent of GDP based on the current account model after accounting for cyclical adjustments and multilateral adjustments for natural disasters, as well as temporary and statistical factors of two kinds.

- Gold trade has been a large and volatile component of the current account since the pandemic. Gold exports climbed in 2020 followed by a surge in gold imports in 2021. Since then, both imports and exports of gold have gradually come down on the back of tighter regulation starting in 2021. From 2022Q4 to 2023Q1, the authorities imposed an import ban, leading to a drop in imports from 12 percent of GDP in 2022 to 0.5 percent in 2023. Nonetheless, gold exports still amounted to 2 percent of GDP, likely reflecting gold imports accumulated prior to the ban. Cambodia does not produce gold and any precautionary savings behavior should have waned with the dissipation of the pandemic impacts. The current account balance is therefore adjusted by 1.5 percent of GDP to reflect the temporary gap of gold net exports relative to their pre-pandemic level.

Cambodia: EBA-lite Model Results, 2023	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	1.3	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/	5.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-3.8**	
CA Norm (from model) 3/	**-5.4**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-5.4**	
CA Gap	**1.6**	**-13.7**
o/w Relative policy gap	2.6	
Elasticity	-0.4	
REER Gap (in percent)	**-3.6**	**30.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of gold trade (1.5 percent of GDP) and solar-related exports (2.8 percent of GDP), as well as agricultural exports (0.9 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Gold Exports and Imports (In USD billion, LHS, in percent of GDP, RHS). Sources: Cambodia authorities.

Solar and Diode Exports (In USD billion). Sources: Cambodian authorities and staff calculations.
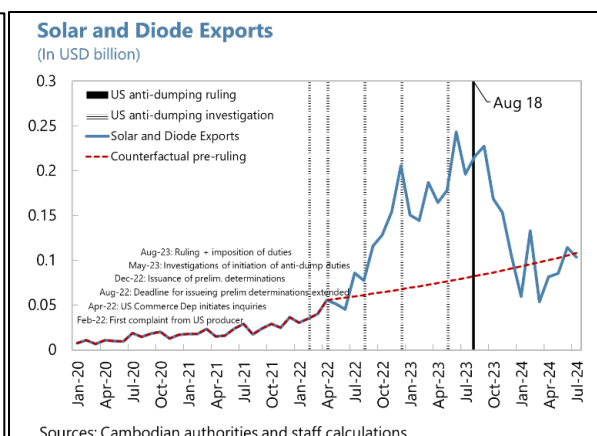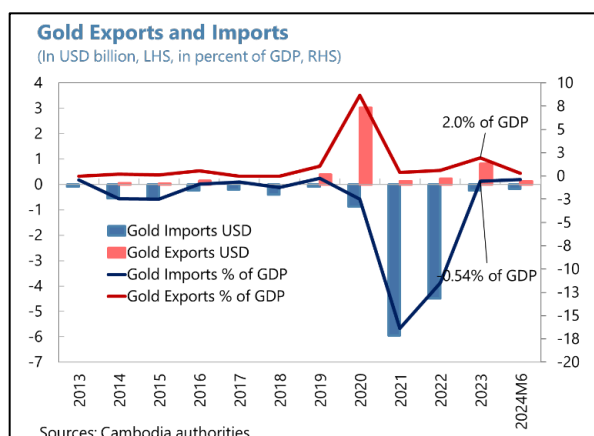
- Solar-related export growth accelerated to triple-digit rates in 2022 with the advent of investigations by the US Commerce Department into dumping practices by Cambodian firms, alleged to repackage Chinese inputs. Exports dropped sharply in 2023Q4 with the US's imposition of anti-dumping and countervailing duties against identified solar products. The initial export surge likely reflected pre-emptive sales behavior ahead of the US ruling at a time when global demand markedly slowed. A counterfactual export path with growth following the pre-investigation and post-ruling trend seems to better reflect the underlying productive capacity of Cambodia's solar industry. The current account balance is adjusted by 2.8 percent of GDP as the gap between the observed solar-related exports in 2023 and the counterfactual.

- Agricultural exports exhibited a first marked jump in 2020 when the authorities started to systematically enhance trade data with estimates of informal trade. More recently, an additional surge in agricultural exports occurred in 2023Q4 amid several contributing developments, including a rise in agricultural export prices, greater demand from regional trade partners, and enhancements to the recording of formal and informal trade. Accounting for trend growth in agricultural exports, there remains an estimated 1.8 pts of GDP which may be cyclical and/or related to statistical factors. An adjustor of half of that (0.9 pts of GDP) is therefore added to the current account to account for the export surge.

5.   The real effective exchange rate (REER) stabilized in 2023, following a decade of secular appreciation prior to the pandemic. The real exchange rate had appreciated by 4 percent annually over the decade before the pandemic which had temporarily disrupted and slowed the REER appreciation. Since 2021, the appreciation has remained moderate of about 2 percent annually. The tightening of global interest rates (started in mid-2022) and the strengthening of the US dollar introduced some volatility in the REER, with an initial depreciation (through mid-2023) followed by an appreciation in 2023H2. The volatility was relatively contained, mirroring fluctuations of the Khmer riel vis-à-vis the US dollar within its 2 percent stabilized exchange-rate band. The EBA-CA model implies a REER gap—the REER adjustment required to close the CA gap—with an undervaluation of -2.3 percent (applying an elasticity of -0.4) while the REER model implies an overvaluation of 30.6 percent based on an estimated CA gap of -13.7 percent of GDP. The results suggest considerable uncertainty around the exchange rate assessment.

Real Effective Exchange Rate, 2000Q1—2024Q2 (2010=100)

Trend (HP filter)

Sources: INS and IMF staff calculations.
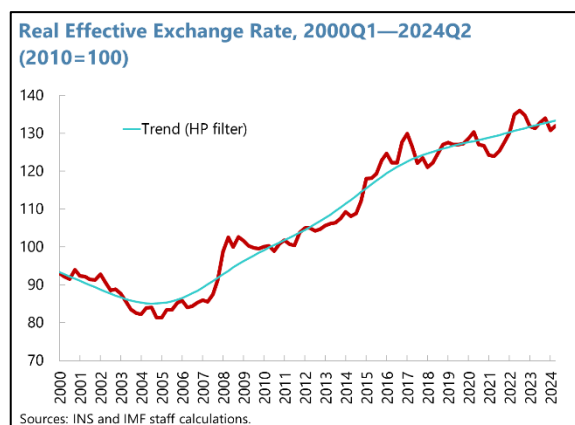
6.   Notwithstanding substantial uncertainty around the assessment, more balanced macroeconomic policies, supported by improved statistics, are needed to address the gap. Historically a net importer of gold, Cambodia has witnessed unprecedented volatility in gold trade since the pandemic in 2020 with periods of net importing and net exporting. This complicates assessing the transitory or permanent nature of gold imports. In addition, the CA gap partly reflects the underlying data gaps in the BOP statistics, including the sizable errors and omissions in 2023. Hence, the estimated CA gap and implied REER valuation are subject to large uncertainty. In addition, the CA gap also partly reflects structural factors not captured by the model, including informality. Policies must address the data limitations and macroeconomic imbalances. Economic growth needs to be more inclusive and broad-based, supported by domestic demand, with structural reforms that strengthen social safety nets, promote consumption, and enhance productivity with investment to diversity growth drivers.

Annex III. Medium Term Growth Forecast for Cambodia Using Dynamic Time Warping[1]

This annex presents a novel approach to forecasting medium-term economic growth for Cambodia by leveraging the historical growth trajectories of peer countries with similar economic conditions. The methodology employs dynamic time warping, a machine learning technique that identifies historical periods in other countries whose economic indicators closely mirror the target country's current state. Subsequent observed growth from these similar historical episodes is then used to project potential growth path for the target country. Applying this approach to Cambodia yields a potential growth forecast of 5.8 to 6.3 percent by 2030.

A. Motivation and Methodology

1.   Historical growth paths of other economies around the world can provide useful insights for forecasting the medium-term growth of Cambodia. Projecting medium-term growth often poses challenges in the context of developing countries. The limited availability of historical data and large uncertainty of the growth trajectory make traditional forecasting approaches, such as multivariate regression analysis, difficult to execute. However, by leveraging the historical growth paths of other countries with similar economic conditions, we can gain valuable insights on a country's future growth trajectory.

2.   Dynamic Time Warping (DTW) offers a novel approach to forecast a target country's future growth from the historical growth paths of its peers. This approach provides a data-driven and non-parametric way to anticipate potential growth trajectories based on similar historical experiences. It employs a machine-learning technique that compares multi-variable sequences of economic data between Cambodia and other countries. This technique makes it possible to identify historical periods in other countries that closely mirror Cambodia's current economic conditions. The observed growth paths of these historical episodes are then used as a basis for forecasting a future growth trajectory of Cambodia's economy. The DTW method is particularly useful because it can adapt to differences in the speed or the timing of changes in underlining variables, allowing for more flexible and nuanced comparisons. A detailed explanation of the methodology, including the specific steps and calculations involved, is provided under the methodology section in the appendix.

B. Data

3.   Variables used in identifying similar countries and periods are sourced from the Penn World Table (PWT) database. The variables (i.e., features) that the model uses include real GDP growth, GDP per capita, capital-output ratio, consumption-output ratio, labor productivity, and population growth. The PWT 10.1 dataset consists of annual national account data and other related variables for more than 180 countries globally from 1950 to 2019,

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[1] Prepared by Natasha Che.

allowing for identifying similar historical episodes globally. To forecast medium-term growth for Cambodia, the DTW uses data from the latest five-year period with available data in the PWT dataset, 2015-19, as the target period, and compare it with historical five-year episodes across countries in the dataset.

C. Results

4.   The DTW method may improve the forecasting efficacy of medium-term growth compared to certain traditional forecasts. The forecasting quality of the DTW method can be examined by first conducting a back-testing exercise. Table 1 presents a comparison of forecast errors and hit rates[2] for the DTW algorithm against historical forecasts for the same period from the World Economic Outlook (WEO) and the consensus forecasts from the Economist Intelligence Unit (EIU) for the period of 2011-2019, for 26 Asia-Pacific economies across various forecast horizons.[3] The reported metrics include median absolute error (MAE), root mean square error (RMSE), average error (AE), and hit rate metrics. Notably, the DTW algorithm maintains a relatively stable MAE over time, whereas the WEO and EIU forecasts show a trend of increasing error with longer forecast horizons. This trend is also evident in the RMSE and AE metrics, where both WEO and EIU errors increase over time, indicating diminishing accuracy in medium-term forecasts. In contrast, DTW's RMSE decreases slightly over longer horizons, from 1.49 in year 1 to 1.00 in year 9, demonstrating stability of forecast quality over extended periods. Additionally, while WEO and EIU's hit rates decline over time, DTW maintains a consistent hit rate of around 62 to 65 percent.

Table 1. Cambodia: Forecast Error and Hit Rate Comparison for Asia-Pacific Countries: 2011-2019 (Percentage point or indicated otherwise)										
		Forecast horizon (in year)								
		1	2	3	4	5	6	7	8	9
Median absolute error (MAE)	WEO	0.64	0.86	0.97	1.03	1.12				
	EIU	0.56	0.58	0.68	0.76	0.76	0.69	0.63	0.62	0.57
	DTW	0.82	0.81	0.81	0.78	0.79	0.69	0.74	0.78	0.72
Root mean square error (RMSE)	WEO	1.41	1.75	2.03	2.06	1.88				
	EIU	0.80	0.91	1.22	1.38	1.39	1.15	1.20	1.21	1.08
	DTW	1.49	1.37	1.29	1.27	1.25	1.17	1.10	1.03	1.00

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[2] The forecast is classified as a "hit" if the forecasted growth rate is within a 25 percent band from the actual growth outturn.

[3] The reported error and hit rates compare trend growth forecasts of real GDP with the HP-filtered realized trend growth. Comparing growth forecasts with the unfiltered growth outturns yields qualitatively similar results, though the magnitudes of errors in the latter are larger across all forecast methods (i.e., WEO, EIU, and DTW). For the DTW method, the table applies the median forecasts from the algorithm for calculations of the errors.

**Table 1. Cambodia: Forecast Error and Hit Rate Comparison for Asia-Pacific Countries: 2011-2019 (Concluded)**

Average error (AE)	WEO	0.30	0.44	0.58	0.65	0.69				
	EIU	0.11	0.27	0.40	0.63	0.51	0.35	0.23	0.18	0.17
		-	-	-	-	-	-	-	-	-
	DTW	0.33	0.32	0.32	0.30	0.31	0.33	0.31	0.33	0.36
(Percent)										
Hit rate	WEO	68	59	55	50	41				
	EIU	79	71	68	59	63	61	63	59	56
	DTW	65	64	64	63	62	65	65	65	65

5. **For Cambodia, the DTW method foresees continued strong growth over the medium term**. Given the high level of economic growth in Cambodia during recent years, the top 2 percent of the global sample best match the experience of Cambodia's growth path in the 2015-19 target period. This amounts to 156 instances of similar episodes, identifying both countries and relevant periods ("country-periods") as indicated in Table 2. Unsurprisingly, many of these episodes—resembling the Cambodia's experience in 2015-19—took place in East and Southeast Asia for countries at varying time periods over different development stages. Figure 1 plots the forecasted medium term growth trajectory by aggregating the subsequent growth rates across these similar country-periods using median, average, and weighted average aggregation. Aggregating these historical episodes yields a forecast for Cambodia's potential growth for 2030, ranging from 5.8 percent (average forecast) to 6.3 percent (median forecast).

Table 2. Cambodia: Examples of Top Similar Country-Periods to Cambodia 2015-2019

| Country	Start Year	End Year
India	2001	2005
Indonesia	2002	2006
Laos	2008	2012
Sri Lanka	1983	1987
Japan	1951	1955
Bangladesh	2004	2008
Korea	1973	1977
Poland	1973	1977
Philippines	2004	2008
Bolivia	2005	2009
Djibouti	2011	2015
China	1986	1990
Vietnam	2010	2014
Peru	1990	1994
Morocco	2002	2006
Thailand	1985	1989
Uzbekistan	2001	2005

Figure 1. Medium Term Growth Forecast for Cambodia Using Top 2 Percent Most Similar Country-Periods
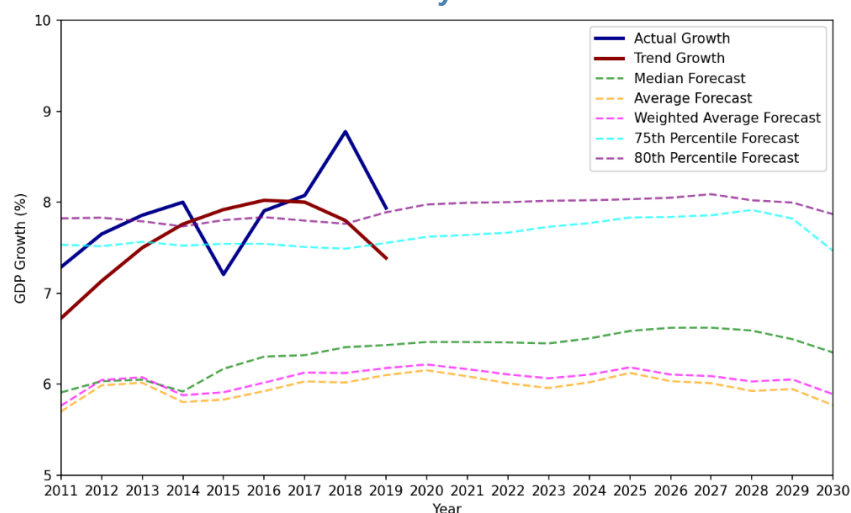
6. **Cambodia's economy shows an upside potential although growth often gravitates towards the mean among its peers over the long term.** The episodes, resembling Cambodia's economy in 2015-19, provide a useful distributional analysis. It shows that the recent trend growth in Cambodia falls within the 75-80 percentile of the sample episodes (Figure 1). If Cambodia's economy continues to outperform in this range over the medium term, forecasts based on the percentile ranking point to a potential growth of 7.5 to 7.9 percent for 2030. However, cross-country data typically exhibits a pattern of mean reversion. Countries with high growth ("outperformers") in a certain period tend to face slower growth in subsequent periods (Figure 2).[4] The result shows that countries are statistically unlikely to maintain the same performance ranking over extended time.[5]

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[4] The sample includes non-overlapping 10-year data on 183 countries from 1959 to 2019. The results presented in Figure 2 include country fixed effects.

[5] If run without the country fixed effects, the regression coefficient for the current growth ranking is estimated at around 0.16, with the coefficient for the constant term at 0.42. This implies that a country that is currently ranked at 75th – 80th percentile among peers is expected to see its ranking drop to 54th to 55th percentile in 10 years.

Figure 2. Real GDP Growth Ranking vs Growth Ranking in 10 Years (1950-2019)[1]
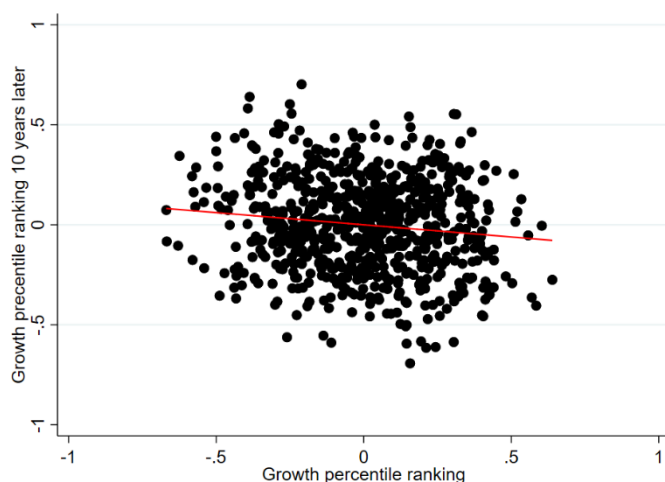
[1] Partial regression plot regressing countries future growth ranking in 10 years against their current growth ranking.

7.   Cambodia's peers have confronted challenges in maintaining high economic growth for an extended period. Figure 3 displays the subsequent growth for countries that are similar to Cambodia's target period (i.e. 2015-2019) during their base period, while having growth performance also similar, i.e. their growth rate in the base period is in the 75th to 80th percentile range among all the country-periods that have a DTW similarity score to Cambodia within the top 2 percent. There are seven countries in the sample that fit these criteria. These identified country-periods show the average and median growth rates declined to 6.4 percent and 5.9 percent respectively in 10 years after the base period.[6] Notably, in all except one instance (China 1996-2000) among the seven, growth performance has dropped out of the 75th-80th percentile range after a decade. This reversion to the mean in growth rate is not unique to these 7 instances. Among all the similar countries that ranked equal to or higher than Cambodia in terms of growth performance during their base period (i.e. their growth rate during base period is in the 75th to 100th percentile range of all similar countries to Cambodia), which include 40 country-period instances, the average and median growth rates a decade after their base period are 5.8 percent and 6.4 percent respectively. That is, even though this sub-group demonstrated very strong growth during their specific period of comparison with Cambodia 2015-2019, their economic performance over the medium term is indistinguishable from the sample mean.

Figure 3. Subsequent Growth for Similar Country-Periods That Are in the Same Growth Performance Range (75th-80th Percentile) as Cambodia 2015-2019
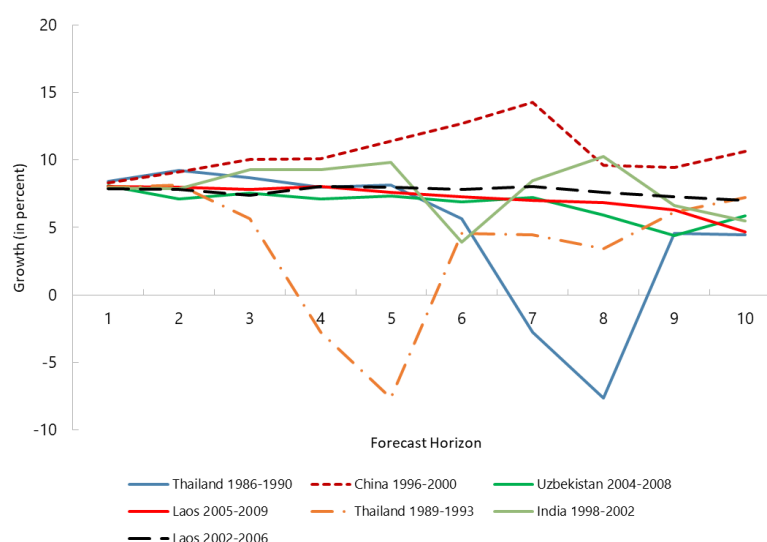
8.   High investments in human capital distinguishes the "outliers" among Cambodia's peers that managed to sustain high growth for an extended period. A small group of outliers among Cambodia's most similar peer countries, including Japan (1956-1967), South Korea (1971-1986), and China (1996-2002), have exhibited sustained high growth, bucking the mean-reversion norm among peers. The growth literature identified some commonalities among these economies. The role of export-oriented industrialization policies and strategic integration into global value chains are key drivers of rapid and sustained growth (Rodrik, 2018; Wade, 1990; Stiglitz, 1996). Additionally, high investments in human capital through education and health infrastructure have been cited as critical factors that allow these countries to continuously step up into higher tiers of global value chain (World Bank, 1993; Birdsall et al., 1995). Institutional reforms that improved governance, protected property rights, and fostered an enabling environment for private sector development have also been identified as important enablers of

Human Capital Index

Sources: PennWroldTable, and IMF staff calculation.

sustained growth (Acemoglu and Robinson, 2012; Hausmann et al., 2005). Data shows that, compared to these outlier economies during their base periods, Cambodia is lagging in terms of human capital accumulation and labor productivity.
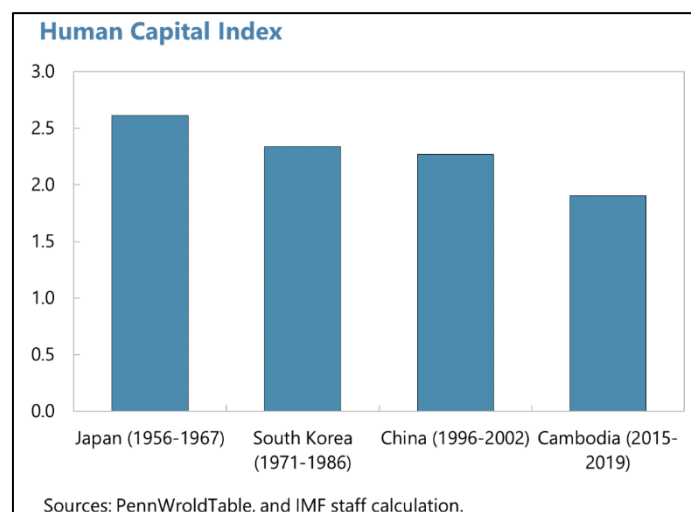
9.   In conclusion, DTW modeling projects Cambodia's baseline growth at around 6 percent by 2030 and achieving higher outlier growth rates would require specific policy interventions seen in exceptional peer cases. The baseline forecast using the median and average aggregations across the top 2 percent most similar country-periods points to potential growth for Cambodia in the range of 5.8 to 6.3 percent by 2030. While the 75th to 80th percentile forecasts indicate even higher growth possibilities, historical evidence suggests that such sustained outperformance is statistically less likely due to mean reversion in countries' growth rankings over time. The median and average forecasts of 5.8 to 6.3 percent is thus preferred as the baseline, as they are sourced from the majority of realized growth outcomes achieved by Cambodia's most similar peer group. Nonetheless, the analysis highlights that a small subset of countries have managed to buck the mean reversion trend. The growth literature identified various factors for these outlier countries' substantial performance, including policies aimed at boosting exports, integrating into global value chains, investing in human capital, and implementing institutional reforms - strategies that could potentially increase the likelihood for Cambodia to become a sustained high-growth outlier.

Methodology Appendix

Dynamic Time Warping (DTW) is a method for measuring the distance between two temporal sequences which may vary in speed. For instance, similarities between economic indicators over time can be compared, even if they do not have the same volatility pattern or length. The essence of DTW lies in its ability to stretch or compress the time dimension of the sequences to achieve a minimal distance alignment. The algorithm was originally introduced in the context of speech recognition by Sakoe & Chiba (1978), who proposed the DTW approach to find the optimal alignment between two time series by minimizing the cumulative distance, which significantly improved the accuracy of speech recognition systems. Berndt and Clifford (1994) extended the application of DTW to time series clustering and classification in data mining. Their work demonstrated that DTW could effectively capture similarities between time series with varying lengths and phases, outperforming traditional Euclidean distance measures. Bagnall et al (2017) performed 100 resampling experiments on 85 datasets to evaluate the performance of various time series classification algorithms and found that DTW compared favorably against some newer and more computationally intensive methods.

The implementation of the methodology starts with identifying historical country-periods most similar to Cambodia. Similar country-periods are chosen based on the DTW distance. The country-periods with the shortest DTW distance are ranked as the top ones, indicating the strongest similarity with Cambodia during 2015-19. For each of these similar country-period, its economic growth trajectory over the subsequent years would serve as an input for computing the likely growth trajectories for Cambodia. These historical growth rates from similar country-periods are aggregated using median, average, weighted average (where the weights are proportional to the inverse of the DTW distances), and various percentile calculations, with each aggregation providing a possible medium-term growth trajectory. Specifically, the forecast is conducted in the following steps:

- Define a "target period" $[t - k + 1, t]$, for our target country, Cambodia. k is the window size for comparison (we used k = 5 years and t = 2019 in the implementation), i.e., our target period is 2015-2019.

- Use DTW algorithm to calculate the similarity, i.e., DTW distance, between the variable values of Cambodia's target period and those of other countries in their respective historical periods.

- Identify the country-periods with the shortest DTW distances to Cambodia's target period. Select the top x percent of those country-periods with the shortest distances as projection candidates. In our baseline projection for Cambodia, x is set to 2.

- For each selected projection candidate, identify its growth trajectory for the subsequent y years, where y is the forecast horizon of interest, e.g., 10 years.

- Aggregate the subsequent growth rates of the projection candidates for each of the y years, using average, medium, weighted average, and percentile calculations.

A key step in implementing the forecast algorithm is to calculate the DTW distance between country-period pairs. The calculation of the DTW distance between two time series sequences involves a few steps:

- **Step 1: Initialize the cost matrix.** Given two time series $X = \{x_1, x_2, \ldots, x_n\}$ and $Y = \{y_1, y_2, \ldots, y_m\}$, initialize a cost matrix a matrix D of size n $\times$ m. In our application, we set $n = m = 5$, with X and Y being the multivariate annual data for 2 different countries at different time. Initialize $D[0][0]$ to zero and set the first row and column to infinity to handle edge cases in the recursion.

- **Step 2: Calculate the pair-wise distance.** For each element x_i from sequence X and y_j from sequence Y, calculate a distance $D[i][j]$. The sequences X and Y can consist of single variables (univariate data) or vectors of variables (multivariate data). For multivariate data, distances are computed vector-wise and the variables in the sequence are normalized to minimize the impact of variable scaling in distance calculation. Different types of distance metrics can be used based on the nature of the data. In the current application, we used the Euclidean distance:

$$D[i][j] = \sqrt{\sum_{p=1}^{q} (x_{ip} - y_{jp})^2}$$

Where q is the number of features in the multivariate time series.

- **Step 3: Calculate the cumulative Distance recursively**. Construct a cumulative cost matrix C where the first row and column of C are initialized as follows:

$$C[1][1] = D[1][1]$$

$$C[i][1] = C[i-1][1] + D[i][1], \text{ for } i = 2, \ldots, n$$

$$C[1][j] = C[1][j-1] + D[1][j], \text{ for } j = 2, \ldots, m$$

Fill in the rest of the cumulative cost matrix C by updating each cell $C[i][j]$ based on the pair-wise distance, $D[i][j]$, and the minimum of the cumulative distances from the three adjacent cells: directly above, directly to the left, and diagonally above-left. This ensures that the cumulative distance captures the least costly path to align the sequences up to that point:

$$C[i][j] = D[i][j] + min(C[i-1][j], C[i][j-1], C[i-1][j-1])$$

Repeat the step to calculate the cumulative distance for each cell until the entire matrix C is filled. The DTW distance between X and Y is represented by the value in the final cell of the cost matrix, $C[n][m]$. This value reflects the minimum cumulative distance needed to align the entire sequences X and Y optimally according to the DTW criteria.

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Annex IV. Risk Assessment Matrix[1]

Nature/source of the shock	Likelihood	Impact	Policies to minimize impact
Global risks			
• **Intensification of regional conflicts**	**High**	Reduced tourism; disrupted supply chains; higher shipping costs; slower economic growth; reduced FDI and financial flows.	Diversify export markets and tourism source countries; strengthen regional economic ties; and promote domestic investment to produce critical goods.
• **Global growth slowdown**	**Medium**	Reduced exports; lower FDI; slower economic growth; increased unemployment.	Implement countercyclical fiscal policy to support economic activity, while providing targeted support to the vulnerable; prioritize implementing active labor market policies for job creation and skills training initiatives.
• **Commodity price volatility**	**High**	Increased food and energy costs; pressure on household budgets; potential social instability risks.	Implement targeted transfers (in cash or kind) to the vulnerable; develop strategic fuel and food reserves; promote renewable energy sources to reduce dependence on imported fossil fuels; and support agriculture to boost domestic food production.
• **Deepening geo-economic fragmentation**	**High**	An increase in geoeconomic tensions and trade barriers could disrupt trade and FDI; rising commodity and input prices could lead to higher inflation and lower growth.	Continue to promote export market and product diversification, strengthen multilateral economic ties, and safeguard financial stability.
• **Climate change**	**Medium**	Agricultural losses; infrastructure damage; threats to water security; increased natural disasters; impact on tourism.	Develop and implement a comprehensive national climate adaptation strategy; invest in climate-resilient infrastructure; promote sustainable agricultural practices; strengthen disaster preparedness and response capabilities; diversify the economy to reduce reliance on climate-sensitive sectors.
Domestic risks			
Systemic financial instability	**Medium**	Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts could trigger insolvencies and market dislocations, especially given domestic banking sector vulnerabilities.	Continue to enhance the central bank's liquidity provision framework; strengthen bank supervision; develop macro-prudential toolkit and its operational frameworks; and establish a deposit insurance scheme and a sound crisis management framework with an effective communication strategy.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex V. Monetary Policy Transmission in Cambodia's Banking Sector[1]

The National Bank of Cambodia uses the required reserve ratio (RRR) on domestic and foreign currency liabilities to control credit growth and manage banking sector liquidity, thus serving as a key monetary policy instrument absent a full-fledged interest rate corridor. Granular bank-level analysis however shows that policy transmission to bank lending to the real economy remains weak. There is no clear evidence of a significant effect on credit growth and lending terms around recent changes to the RRR. The results highlight the need for modern monetary policy operations and macroprudential policies to help effectively translate liquidity into credit growth.

A.   Background

1.   The required reserve ratio (RRR) serves as a key monetary policy instrument in Cambodia. The National Bank of Cambodia (NBC) maintains RRRs for local currency (KHR) and foreign currency (USD[2]).[3] The RRRs are differentiated only by currency and currently remunerated at zero.[4] Lower rates applied to KHR deposits were originally designed to promote the local-currency use, unlike the pandemic-induced easing of RRRs (see below). RRRs are used primarily in emerging and low-income countries for micro- and macroprudential purposes to ensure that banks hold sufficient liquid funds to meet short-term liabilities. With limited policy tools available, as in Cambodia, the RRRs are used as a monetary policy tool to control the supply of credit to the economy.

Required Reserve Ratios[1]
(In percent of bank deposits)

Sources: Cambodia authorities and staff estimates.
1/ Forward guidance on RRR in FC refers to the future level of the RRR in 2024 and 2025 that was announced by NBC as part of the decision on RRRs in Jan-2023 and Sep-2024, respectively.
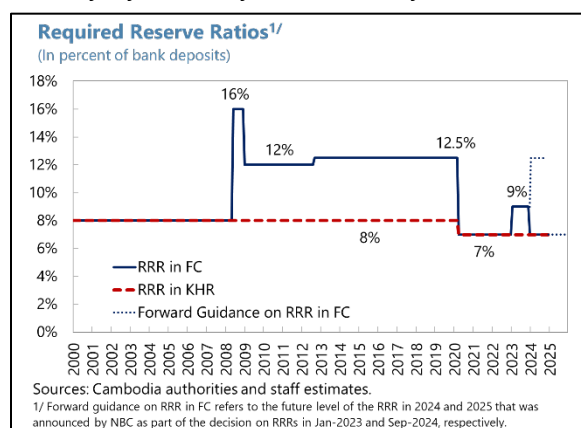
2.   Decelerating credit growth and recent changes in the RRR have brought the question of monetary policy transmission to the forefront. At the aggregate level, credit growth has been on a downward trajectory since mid-2019. Despite the large cut in RRRs at the onset of Covid-19, credit growth declined sharply in 2020Q2 before recovering in 2020Q4 and declining again in 2022Q4. Aggregate data may mask the potential impact of the subsequent

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[1] Prepared by Tatjana Schulze.

[2] References to foreign currency are henceforth denoted as "USD" due to the high degree of dollarization.

[3] RRRs require banking institutions to hold a fraction of their deposits/liabilities as a liquid reserve at the central bank. RRRs apply to customer deposits, non-resident bank deposit, and non-resident borrowing. Foreign currency reserves are mostly denominated in US dollars (USD).

[4] Prior to August 2018, NBC offered interest on 4.5% of the RR in foreign currency, leaving the remaining 8% unremunerated.

increase and cut in the RRR on bank lending. This Annex uses quarterly bank-level data to shed further light on RRR transmission.[5]

Figure 1. Aggregate Credit Growth And Interest Rates Around RRR Changes

Sources: Cambodia authorities and IMF staff calculations.
1/ The red dashed line interpolates the trend credit growth before and after the MFI-bank merger to construct counterfactual credit growth path absent the artificial jump due to the merger.

Sources: Cambodia authorities.
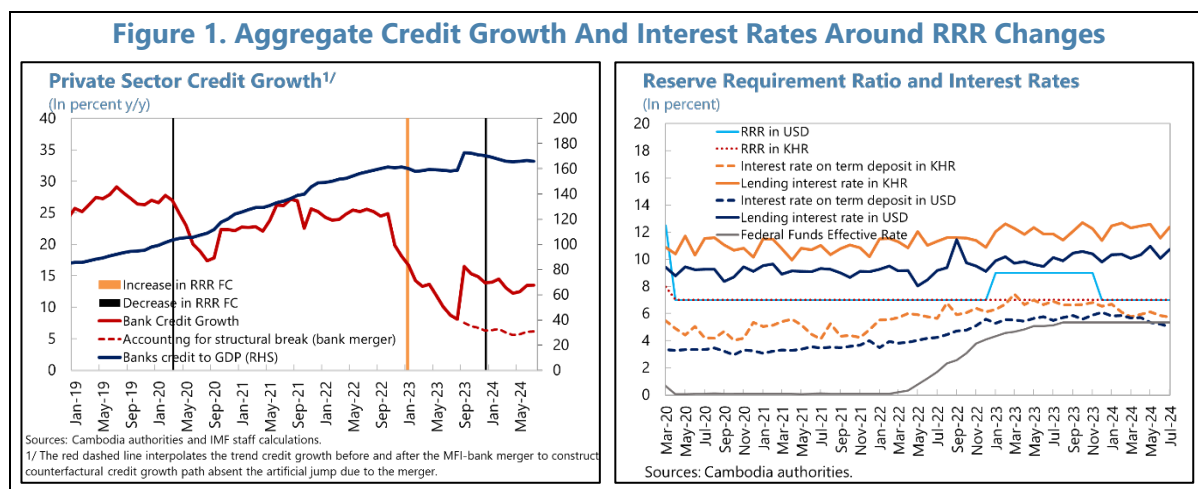
3.   The literature has highlighted two main channels for the effect of RRR changes:

- *Cost channel:* RRRs act as a tax on banks if renumerated below market rates (Fama, 1980). Whether the cost of RRRs is absorbed by banks or passed on to their lending and borrowing counterparts depends on the structure of the financial system and the degree of financial development. Weak policy transmission could be visible in a change in bank profitability without a concomitant change in lending.

- *Liquidity channel:* RRRs can influence bank lending behavior by freeing or restricting available liquidity (Alper et al. 2014). Empirical evidence from cross-country studies finds a short-term impact of RRR changes on deposit and lending rates, as well as credit (Lim et al. 2011, Reinhart and Reinhart 1999). Evidence from micro data suggests that more liquid banks are less affected by RRR changes (Camors et al. 2016, Barroso et al. 2017). However, the impact of RR changes depends crucially on the structure of the financial and monetary system.

4.   The high degree of dollarization, limited tools, and weak transmission constrain monetary policy. Despite the progress over the past decade, dollarization remains high with about 90 percent of loans and deposits in USD. The monetary policy framework is centered on price stability with the exchange rate serving as the quasi-nominal anchor, giving limited room for independent cyclical policies. The NBC maintains liquidity providing and absorbing instruments at various maturities as well as a reference rate, *de facto* a policy rate established recently to navigate these instruments. With the policy rate, a well-defined corridor system, and
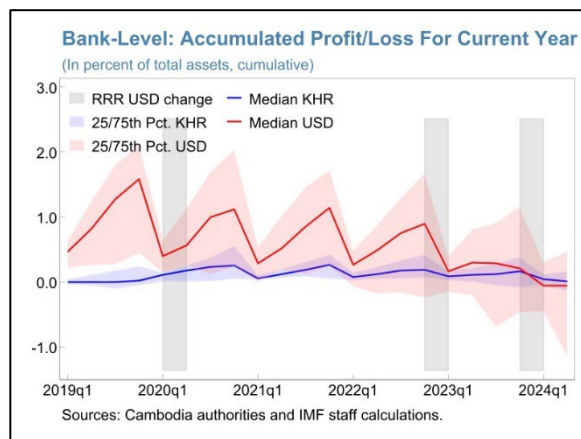
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[5] The dataset in this analysis includes bank balance sheets, lending and borrowing rates, and credit. The sample covers 65 banks over the period 2019Q1 to 2024Q2, implying 18 time periods for the analysis of credit growth (y/y) with only one quarter preceding the first RRR change and two quarters succeeding the latest RRR change. The bank-quarter panel is highly unbalanced.

central bank communication on interest rate policy still at their infancy, there is a role for alternative credit management tools, especially RRRs.

5.   **Short-term liquidity imbalances can contribute to weak transmission of RRR changes.** Banks fund their loan books through local deposits and wholesale funding from abroad. Regulation requires banks to make at least 10 percent of loans in local currency, and all domestic funds in USD can only be invested in Cambodia, contributing to a structural liquidity surplus in USD and deficit in KHR at longer maturities. However, there is vast excess KHR liquidity for short-term maturities, which banks hold as excess reserves in KHR at zero interest rates in their current accounts. Hence, the impact of adjustments to the KHR RRR is likely limited: a higher KHR RRR would simply shift liquidity from current accounts to required reserves (both earning zero interest), leaving the structural deficit at longer maturities unchanged. Changes in USD RRR could impact banks through both a cost channel and a liquidity channel, and the latter may become a binding constraint for banks with limited USD liquidity.

B.   Bank-Level Analysis

6.   **Bank profitability has been steadily deteriorating, unimpeded by RRR changes**. A cut in the RRR should act as a tax reduction and help boost profits through the cost channel. In reality, banks saw their profits gradually declining at the aggregate level despite the cuts in RRRs in 2020Q1 and 2023Q4. Profitability, however, varied widely across banks. Since 2022, many banks have marked increasing losses on their balance sheets, with increasing dispersion around the median. Regardless of RRR changes, the trend decline in profitability likely reflects broader developments in the credit cycle, including rising costs of provisioning for NPLs after the 2022 expiry of forbearance measures, narrowing of the net interest margin with U.S. monetary policy tightening, and limited profitable opportunities due to sluggish growth in non-tradable sectors.

Bank-Level: Accumulated Profit/Loss For Current Year
(In percent of total assets, cumulative)

Legend: RRR USD change; Median KHR; 25/75th Pct. KHR; Median USD; 25/75th Pct. USD

Sources: Cambodia authorities and IMF staff calculations.

7.   **A tightening or easing of RRRs does not systematically relate to changes in banks' short-term liquidity.** Notwithstanding the liquidity channel, following the first cut in RRRs in 2020Q1, excess reserves held at the NBC and overall cash balances in both KHR and USD increased for three consecutive quarters. The increase in the USD RRR in 2023Q1 briefly brought down excess reserves in the same quarter before they started rising again. Evidence for the latest RRR cut in 2023Q4 is mixed. Notably, banks' decisions on the level of excess reserve holdings became more unified during 2023Q1-2023Q4, as seen by a lower dispersion. Even the most liquid banks significantly reduced their excess liquidity in their current account, possibly reflecting the rapid broad-based growth in non-performing loans and associated risk aversion after forbearance measures were removed in 2022.

Figure 2. Excess Reserves and Cash Holdings Around RRR Changes

Sources: Cambodia authorities and IMF staff calculations.
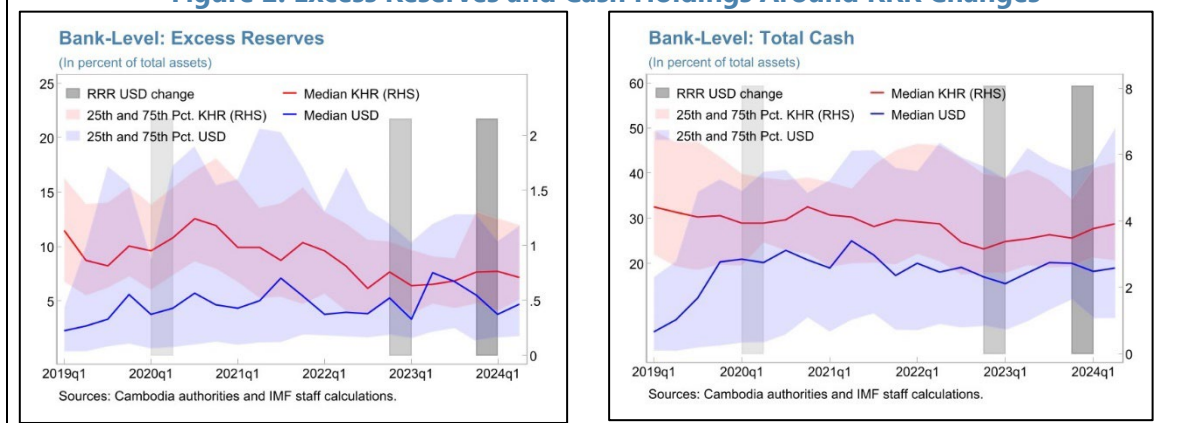
8.   There is no clear association between RRR changes and credit growth. Quarter-on-quarter growth rates in bank credit reveal that credit growth picked up in the quarter following the cut in USD RRR, albeit not in the same quarter. However, year-on-year growth rates that account for seasonal factors show a decline in credit growth amid the RRR cut. At the same time, the increase in USD RRR in 2023Q1 was both preceded and succeeded by a trend decline in credit growth. Notably, similar to developments in excess reserves, the dispersion of credit growth rates across banks narrowed following the RRR increase. This could point to an asymmetric effect of a tightening of liquidity conditions on banks' portfolio rebalancing. Even banks with higher liquidity are more sensitive to RRR increases than to cuts.

Figure 3. Credit Growth Across the Distribution of Banks

Sources: Cambodia authorities and IMF staff calculations.
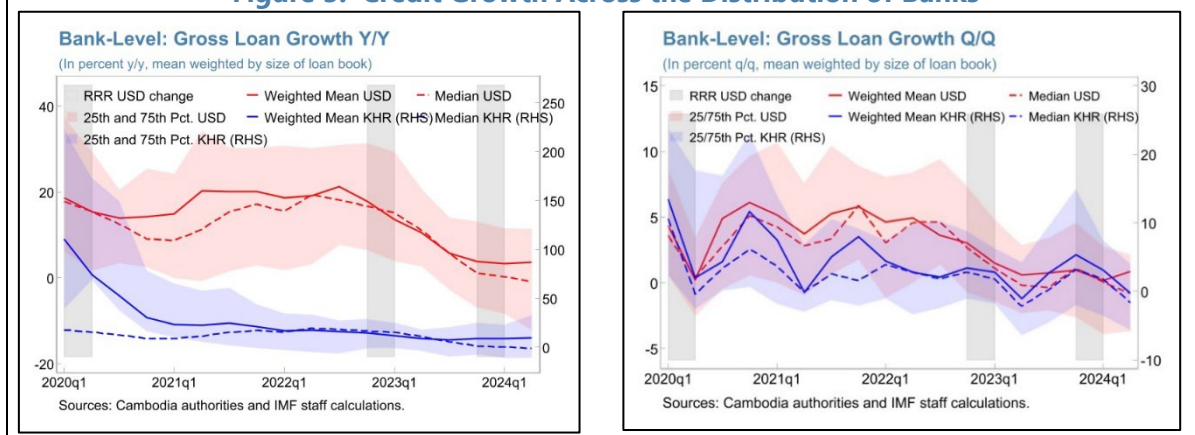
9.   A liquidity injection does not systematically induce liquidity-constrained banks to extend additional credit. According to the liquidity channel, banks that are more liquidity constrained should exhibit higher credit growth following an RRR cut than banks with ample liquidity. However, there is no clear evidence of higher RRR-sensitivity of more liquidity constrained banks.[6] In fact, the correlation between changes in excess liquidity and credit growth

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[6] If RRR changes transmitted to bank lending only gradually with a lag, one may observe credit growth only picking up in the quarter following the rise in excess liquidity. However, similar results obtain when considering banks by excess liquidity in the same quarter or in the previous quarter.

in the same month or the following month is very limited. While credit growth trends are on average similar across more and less liquid banks, the variability in credit growth rates is much larger for more liquid banks. It narrowed intermittently after the RRR increase in 2023Q1, providing further evidence that more liquid banks may be relatively more sensitive to a tightening of RRRs.[7]

Figure 4. Bank Excess Liquidity, Profitability, and Credit Growth
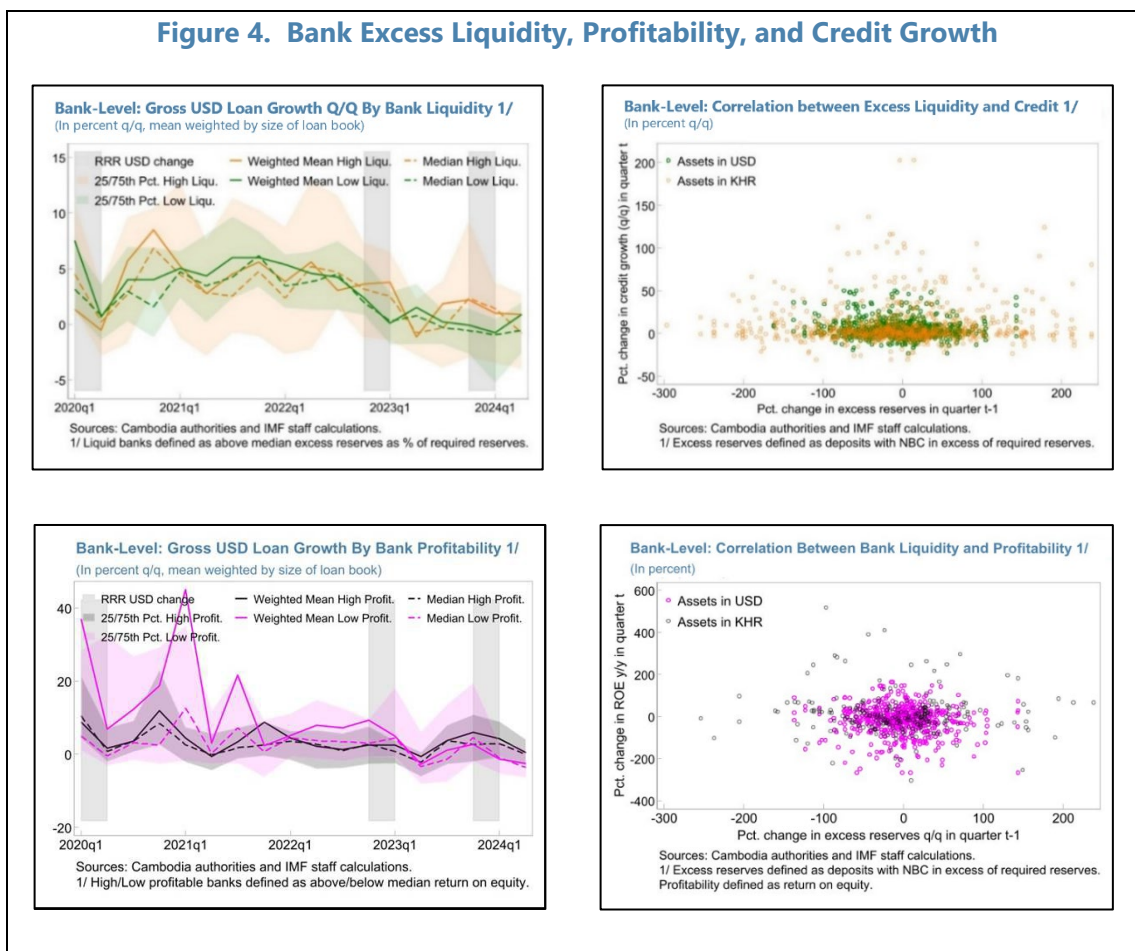
10. **RRR cuts do not systematically boost lending capacity of less profitable banks.** Less profitable banks that could benefit from reduced costs of unremunerated reserves appeared to boost credit more strongly than profitable banks, following the first cut in RRRs in 2020Q1. Less profitable banks also saw a steeper decline in credit growth in the quarter following the RRR increase in 2023Q1. Notwithstanding the cost channel, credit growth of less profitable banks declined below credit growth of more profitable banks despite the final RRR cut. In addition, bank profitability in a given quarter does not relate to the level of excess liquidity available in the same quarter or in the previous quarter, as suggested by the low correlation.

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[7] The results are qualitatively similar whether banks are pooled by excess liquidity in USD alone or in both USD and KHR. In fact, banks that are highly liquid in both USD and KHR appear more sensitive to RRR changes. This counterintuitive result could however be driven by individual banks given the small sample size.

11. **Lending and deposit rates tend to be sticky, with mixed movements in lending rates around RRR changes.** Short- and longer-term deposit rates tend to reprice infrequently. Their overall trend followed the US monetary policy tightening cycle since 2022, although deposit rates tended to decline already after the RRR increase in 2023Q1 among banks with larger market share, as suggested by the widening gap between the weighted mean and median lending rate. [8] Similarly on the lending side, lending rates in both USD and KHR broadly followed external trends. While the evidence for lending rates around RRR changes is mixed, banks appear to increase interest rates on USD loans amid RRR cuts but lower them amid RRR increases, led by banks with greater relative market share. Interest rates on KHR-denominated debt tend to be more volatile than equivalent USD rates at both shorter and longer maturities, which could speak to the large dispersion of KHR excess liquidity across banks. Moreover, there is greater heterogeneity across banks in the rates charged on debt than the rates offered on savings. This structural feature could reflect the nature of banking competition in Cambodia but also weak policy transmission that increases the variability of liquidity in the banking system.

12. **While the evidence is indicative, further work is needed to quantify the impact of RRR changes on banks' lending decisions and real outcomes.** The quarterly frequency of the bank-level data, limited time coverage, and small sample size complicate accounting for other confounding effects, including macroeconomic developments that occur at higher frequency. The decision to change RRRs itself is determined by developments in credit demand and supply and may be anticipated by banks. RRR changes may also coincide with other policy support measures. These factors make it difficult to isolate the effect of the RRR change alone onto bank lending. Studying RRR transmission at monthly frequency over a longer time period, subject to better recording and fewer data gaps, could help shed further light on the transmission channels.

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[8] The average lending and deposit rates are weighted by the size of banks' loan book relative to total lending in the economy. They are therefore tilted towards the lending terms of banks with greater market share, relative to the median interest rate.

Figure 5. Interest Rates Across the Distribution of Banks

Bank-Level Interest Rates: Consumer Loan (secured, >5 year)
(In percent)
Sources: Cambodia authorities and IMF staff calculations.

Bank-Level Interest Rates: Term Deposits (>9m-1 year)
(In percent)
Sources: Cambodia authorities and IMF staff calculations.

Bank-Level Interest Rates: Business Loan (secured, >1-5 year)
(In percent)
Sources: Cambodia authorities and IMF staff calculations.
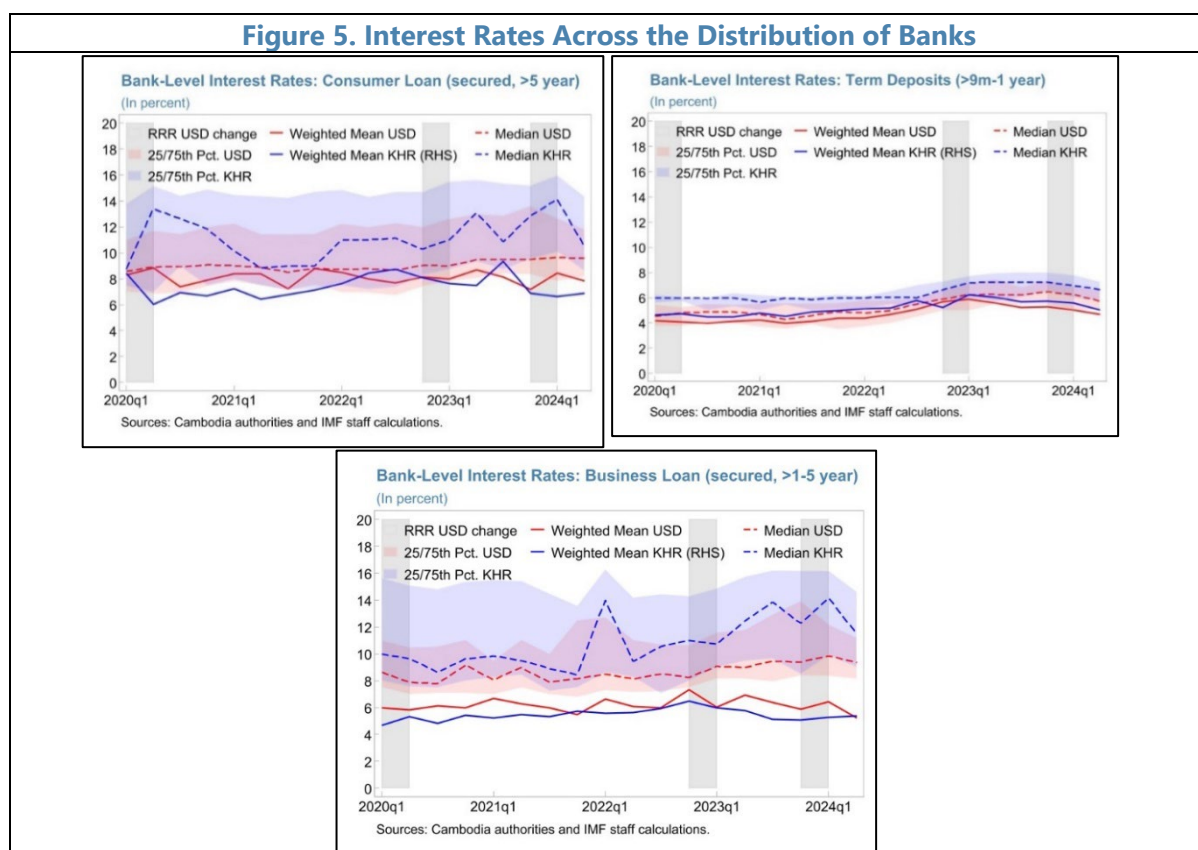
C. Conclusion

13.   There is no clear evidence of effective monetary policy transmission through RRRs in Cambodia. Overall, the results suggest that banks hold on to their additional dollars on their current account when RRRs are relaxed instead of lending them out, with minor changes in their behavior when RRRs are tightened. Lending and deposit rates, especially in USD, remain sticky around RRR changes except for larger repricing of KHR loan rates, confounded by the impact of interest rates abroad. Hence, the effectiveness of RRRs as a monetary policy tool is limited. However, the results are masked by data limitations which render it difficult to overcome anticipation effects, RRR changes that are driven by the credit cycle itself, and other policy and macroeconomic developments.

14.   Both credit supply and demand factors, coupled with the high degree of dollarization, render reductions in RRRs ill-equipped in stimulating credit growth. On the demand side, higher uncertainty incentivized more savings amid record high deposit rates while cash flow constraints exacerbated private sector indebtedness over the past years. Limited attractiveness of the KHR worsened banks' short-term KHR liquidity surplus, thus limiting the effect of changes to the KHR RRR. On the supply side, forbearance measures followed by rising NPLs worsened the adverse selection of risky borrowers, which banks became more hesitant to lend to. Alternative policy measures, including macroprudential policies and a well-functioning interest rate corridor, may be better equipped at unclogging the credit supply pipes.

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Annex VI. Expanding the Macroprudential Toolkit in Cambodia[1]

Macroprudential policy can play a significant role in Cambodia to limit systemic risks and preserve financial stability. However, the current toolkit is limited, and the existing policy measures are not fully activated. The authorities need to put together an action plan to activate them and introduce new borrower-based measures. Addressing gaps in prudential regulations and data can ensure the effectiveness of macroprudential policy by minimizing risks of regulatory arbitrage and policy leakage.

A. Motivation – The Need for Macroprudential Policy

1.   Macroprudential policy has a crucial role to play in Cambodia where policy tools to safeguard financial stability are limited. Cambodia faces a high degree of dollarization.[2] The National Bank of Cambodia (NBC) continues to develop its tools to manage liquidity in the banking system. However, monetary policy is constrained with a managed exchange rate regime. The effective use of macroprudential policy can help mitigate risks to financial stability by taming the buildup of financial cycles and accumulating buffers which, in times of stress, can be used to alleviate credit crunch.

Credit-to-GDP in East Asia

Sources: The World Bank.
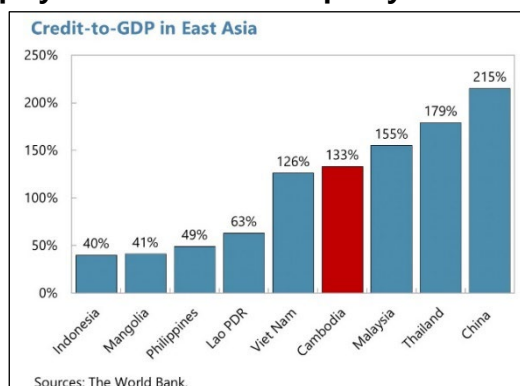
2.   Absent key borrower-based measures, years of exuberant credit growth has led to a high level of private debt by a regional comparison. Credit-to-GDP ratio for Cambodia reached 133 percent at end-2023, well above its regional peers.[3] The high credit-to-GDP ratio could be attributed to years of robust credit growth, averaging over 22 percent from 2010 to 2021, including the pandemic period. It was the first time over decades that Cambodia experienced a rapid deceleration in credit growth in 2023, amid lackluster demand and cautions bank lending.

B. Existing Macroprudential Tools

3.   The existing macroprudential toolkit has only a few available measures which remain loose, limiting the policy space to respond to a potential crisis. These measures are capital and liquidity-based tools. Capital conservation buffer (CCoB) is the key capital measure

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[1] Prepared by Nizamuddin Arshad and Kenichiro Kashiwase.

[2] Financial dollarization, as measured by foreign currency deposits (FCD) to broad money (M2), is over 80 percent. FCD to total banking system deposits has also stayed around 90 percent. Banks asset side is equally dollarized, notwithstanding some progress in recent years.

[3] The credit-to-GDP ratio reached almost 189 percent in 2022, sharply receding to 133 percent in 2023 amid a rebasing of GDP and decline in credit growth.

currently set at 1.25 percent till December 2025 after the scheduled increase to 2.5 percent had

been postponed twice (initially in 2023 and then 2024). The counter-cyclical capital buffer (CCyB) is set at zero, with no enabling regulation. Given the current credit cycle, the CCyB is projected to remain at zero for some time, with no buffer to release, when needed. The capital surcharge is set at 1 percent for systemically important domestic financial institutions (D-SIB). On the liquidity side, the minimum liquidity coverage ratio (LCR) and the minimum reserve requirements (RR) in domestic and foreign currency (in USD) have been in place. RR ratios (RRRs) are currently set at 7 percent, which is already at historically lows.

Key Prudential Measures
(Percent)

Sources: NBC and IMF staff calculation.
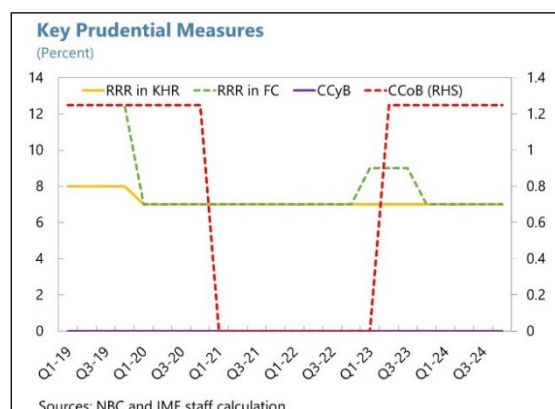
C. Activating and Expanding Macroprudential Measures

4.   The authorities need to activate the existing macroprudential policy measures at an appropriate time and further develop the toolkit over time to address systemic risks. Some of the broad-based measures already exist, and the authorities need to develop borrower-based measures, targeting households and corporates. For households, tools such as loan-to-value (LTV) and debt services to income (DSTI) offer useful policy measures in the future. For corporates, using appropriate risks weights, credit caps, and/or a systemic risk buffer should be considered. Given the high level of dollarization, measures that address specific FX and liquidity risks will need to be added to the toolkit in the future to safeguard financial stability.

5.   Broad-based measures can contain the buildup of risks and help accumulate buffers during the upswings of a financial cycle, which can be released during the downturn. The authorities need to make the optimal use of existing key tools and expand them further, including:

Macroprudential Policy Toolkit

- **CCoB** offers a useable buffer which the NBC can allow banks to tap into if conditions warrant. However, the useability of buffer could be affected by restrictions on capital distribution[4], concerns about regulatory reaction or market stigma. Cross-country experiences during the pandemic confirm that banks could be reluctant to draw down on CCoB (Berrospide et al. 2021 and Couaillier et al. 2022), necessitating the availability of releasable buffers.

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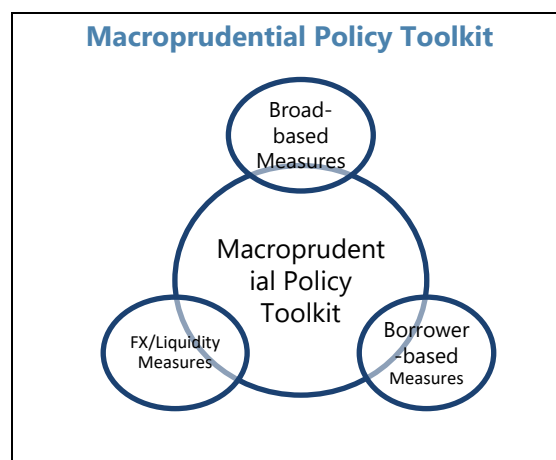
[4]Automatic restrictions under Basel III would limit the size of capital distribution that a bank can make (i.e. dividends, coupon payments for Additional Tier 1 capital, and variable remuneration to employees) once its capital ratio falls within its regulatory buffers.

- **CCyB** has never been activated since its introduction in 2019, leaving no releasable buffers for banks to absorb losses and maintain provision of credit for supporting lending activity during cyclical downturns.

- **Positive neutral CCyB** can be built (e.g., at 1 percent initially) once the underlying macroeconomic conditions are normalized and released more flexibly, including when the economy faces shocks unrelated to financial cycles; banks hesitate to draw down on CCoB; or the NBC find difficulties in timely identifying cyclical risks and building a commensurate level of regular CCyB.

6.   Corporate sector is the largest recipient of bank credit, followed by households. Lending by commercial banks accounts for over 90 percent of total credit by the banking system, and corporates are the largest recipients of bank credit (over three quarters of the total) in 2023. In Cambodia, the government relies on externally financed concessional loans and hardly borrow in the domestic market. The government established the sovereign debt market in 2022 and started borrowing from domestic banks. However, the issuance has been very limited thus far.

Loan to Deposit Ratio, 2023

Sources: The World Bank.
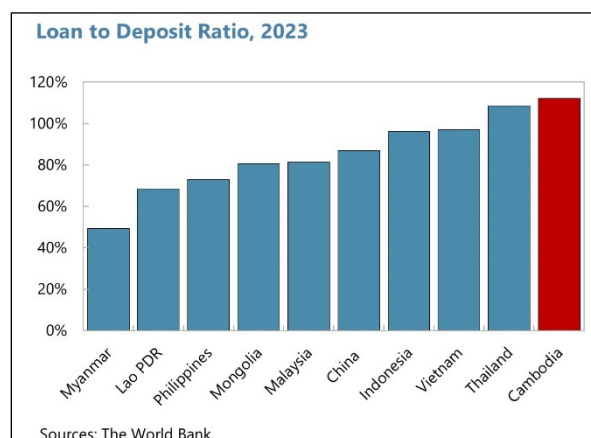
7.   Well-targeted macroprudential tools are needed to contain potential risks in the corporate sector. Retail and wholesale sector is the largest recipient of bank credit, accounting for over 27 percent in 2023, compared to 20 percent for real estate and construction related activities. A sizeable chunk of the construction activity has been financed by FDIs and conglomerates with financing arms, which are not intermediated through the banking channel, and severe data limitations exist to monitor their activities. Nevertheless, tools are available to address the risks in the corporate sector, including:

- **Different risk weights or higher capital charges** can be applied to the sectors deemed riskier. Building the systemic risk buffer (SyRB), for example, can offer an additional capital-based measure to contain bank exposure to the riskier sectors.

- **Credit caps** can be applied to some specific sectors that appear excessive in leverage. However, such quantitative measures could be distortive as the caps could restrict supply of credit but may not necessarily improve lending standards[5], making the price-based measures, such as risk weights or provisioning requirements, more desirable.

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[5] Banks could select riskier borrowers to maintain profits while remaining in compliance with credit caps.

Bank Lending by Sector

Lending by Banks
(In KHR trillion)

Bank Credit to the Private Sector

Sources: NBC and IMF staff calculations.
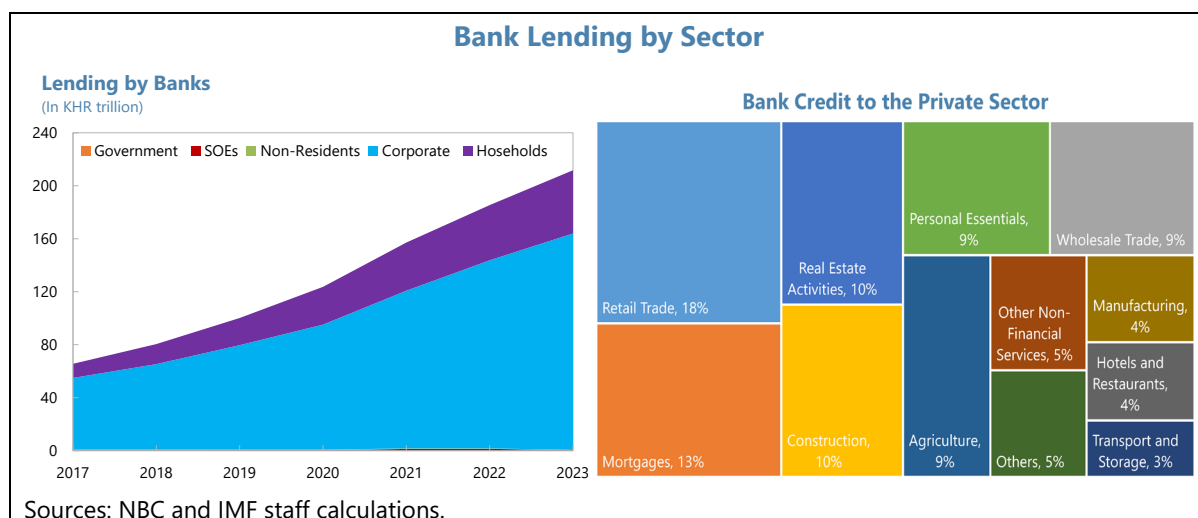
8.   Outstanding loans for households amount to around 38 percent of GDP and remain high compared to other EMDEs in Asia.

- Total household loans stood at USD 16.7 billion in 2023, 70 percent of which has been provided by banks. While micro depository institutions (MDIs) and micro-finance institutions (MFIs) account for the remaining 30 percent, their exposures to households remain significantly higher than banks.

Household Debt and Share of Mortgages
(Percent; as of Q1 2022 or latest available)

Sources: Deb et al., 2022.

- Mortgage loans are 60 percent of the household total bank loans. The remaining 40 percent is personal and credit card loans (NBC, 2024). A similar breakdown for MDIs and MFIs is not available.
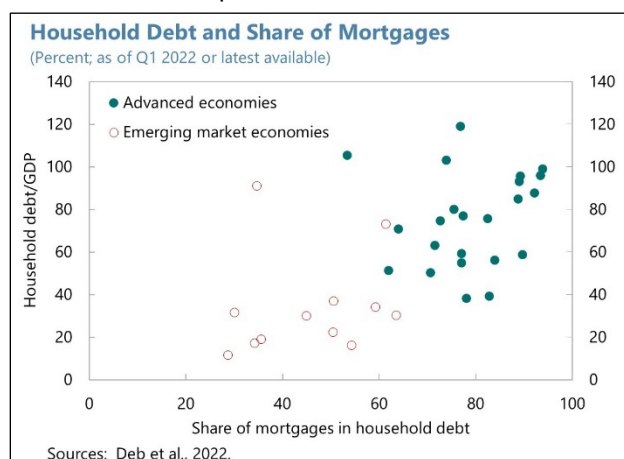
- Households also borrow from the non-bank financial sector (e.g., real estate developers and pawn shops). However, such data is not available. Lending by real estate developers could potentially be sizeable, given the size of the residential real estate market in Cambodia.

9.   The introduction of borrower-based measures (BBMs) targeting households would help safeguard financial stability and promote consumer protection. Banks' mortgage loans to households represent the second largest component of banks' overall loan portfolio, accounting for almost 15 percent in December 2023 and only behind retail trade in terms of share. Given the size of bank lending to residential property market, it is critical to introduce BBMs, which can also ensure consumer protection and promote responsible finance. In the absence of income-based measures (e.g., DSTI ratio) and collateral-based measures (e.g., LTV ratio limits), borrowers with limited financial literacy and understanding of financial risks may take up excessive loans from banks. They could face serious difficulties in servicing debt, when confronted by increases in interest rate, currency depreciation, and/or income shocks. Even if

banks can recover their losses through foreclosures or have sufficient capital to withstand delinquencies, households must bear considerable hardships, which in turn could dampen consumption and economic growth.

10.   The timing to activate the measures must be well-calibrated to the prevailing economic and financial conditions. The economy continues to recover, albeit at a moderate pace than previously envisaged, but the banking sector is going through a challenging time with the spike in NPLs, the sharp deceleration in credit growth, and low profitability among banks. This heightened risk environment led to the introduction of various forbearance measures by the NBC in August 2024. The NBC should suitably time the activation of existing macroprudential measures (CCyB) and the introduction of new possible measures (e.g., DSTI ratio and LTV limits) when the financial conditions warrant—and announce them ahead to provide enough time for preparations. For instance, once the conditions return to normal, positive neutral CCyB could be considered, followed by a regular CCyB in line with the build-up of systemic risks. In addition, such buffers can be released when the economy faces shocks unrelated to financial cycle or banks hesitate to draw down on CCoB to avoid market stigma.

D. Key Challenges

11.   Steps need to be taken to minimize leakages and possible regulatory arbitrage when BBMs are introduced. Introduction of DSTI ratio and LTV limits might push a part of household lending to non-bank financial institutions (e.g., real estate developers) who are not subject to stringent monitoring at present. This would necessitate closer cooperation with non-banking financial services authority (NBFSA) to ensure that all types of lenders should be subject to the same macroprudential regulations.[6]

12.   The authorities must address data limitations and promote data sharing for informed policy decisions. Designing suitable macroprudential measures for the corporate sector, such as an appropriate risk weight or systemic risk buffers (SyRB), would require examining the financial health, scale of indebtedness, and debt servicing capacity of each sector. However, such data is unavailable, or is of poor quality even when the data exists. Going forward, it would be critical to fill the multiple data gaps related to banks' corporate sector exposures. The NBC needs to coordinate with relevant agencies to start collecting financial soundness indicators as recommended by the IMF for 'Non-Financial Corporations', such as total debt to equity, external debt to equity, foreign currency debt to equity, total debt to GDP, return on equity, earnings to interest and principal expenses, and earnings to interest expenses, among other indicators. For the households, data coverage needs to be expanded beyond banks' mortgage loans to at least cover personal loans from banks and household loans from MDIs and MFIs. The data quality must be improved to calibrate appropriate thresholds for both income and collateral-based measures.

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[6] The use of appropriate taxation policy (e.g., stamp duties) could be considered, if FDI inflows raise risks to financial stability (see the IMF's (2012) Institutional View).

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Annex VII. Implementation of Past Advice

Policies	2023 Article IV Recommendations	Actions since 2023 Article IV Consultations (As of July 12, 2024)
Fiscal Policy	Strengthening the fiscal framework to foster resilience and bolster medium-term economic prospects.	• The Ministry of Economy and Finance (MEF) has adopted the first Medium Term Fiscal Framework, i.e., MTFF (2024-2027) in 2024. The General Department of International Cooperation and Debt Management (GDICDM) of MEF is in the process of finalizing the Medium-Term Debt Strategy (MTDS) 2024-2028.
	Fiscal position should be allowed to improve in 2024 as the economy continues to improve.	• Fiscal interventions introduced during COVID-19 phased out at the end of 2023, with fiscal consolidation stance started from 2024 onward. • Government phased out the pandemic fiscal stimulus package and included the program in the regular social protection scheme. • The cash transfer program for the poor and vulnerable households is wound down in in March 2024. Benefactors continue to receive support through another social protection scheme, the Family package. The authorities also introduced cash transfer program for at-risk households affected by rising fuel and food prices in December 2022. The program concluded with the last round of cash transfer in July 2023. • MEF is consolidating the revenue mobilizing strategy (RMS-III) which is expected to be finalized within Q3 of 2024.
	Further develop the domestic government bond market	• In 2023, the government issued sovereign bonds in local currency, amounting to USD 58 million. The maturity profile has ranged from 1 year to 2-5 years. In 2024, the bond issuance is expected to reach KHR 440 billion, equivalent of about USD 108 million.
Monetary and Exchange Rate Policy	Monetary policy measures implemented during the pandemic should continue to be fully normalized.	• After increasing from 7 to 9 percent in the beginning of 2023, the reserve requirement rate in USD was reduced back to 7 percent in November 2023 to support banking liquidity and economic activity amid the slowdown of credit growth.
	Modernizing monetary and exchange policy frameworks and operations to enhance monetary transmission and support de-dollarization. •Establish an effective interest rate corridor. •Refine operational instruments for monetary policy. • Develop an accurate liquidity forecasting framework. • Strengthen the market determination of exchange	• With the IMF TA, the NBC is streamlining and modernizing its monetary and foreign exchange policy tools and frameworks to manage short-term liquidity. • The NBC has already introduced the Marginal Lending Facility (MLF), and recently the 7-day Liquidity Providing Collateralized Operation (LPCO), with the "T+0" settlement. • The MLF rate was increased from 4 to 6 percent, and the 5-day limitation on rollover was abolished to serve as the ceiling rate for the Interest Rate Corridor (IRC). • The rate on 7-day negotiable certificate of deposit (NCD) in KHR currently serves as the floor rate for the IRC. The NBC is currently reviewing operational issues as a pre-step to introduce an overnight marginal deposit facility.

Policies	2023 Article IV Recommendations	Actions since 2023 Article IV Consultations (As of July 12, 2024)
	rates and improve operation of FX intervention procedures. • Expand interbank market transactions and monitoring.	• The NBC has introduced the policy rate and linked that to the IRC and the 7-day LPCO. The policy rate is currently only announced to financial institutions. • The NBC decided to add USD deposits at the NBC as an eligible collateral for 7-day LPCOs, which will further support attractiveness of the instrument. • The NBC decided to increase the partial averaging limit from 20 to 50 percent in March 2024, applied to reserve requirements maintained at the settlement account for over a 14-day maintenance period on average. • The NBC is working to establish and refine model-based approaches to forecast short-term changes in liquidity autonomous factors, namely in currency in circulation and government deposits to guide liquidity operations, mainly the short-term operations (7day LPCO and NCD). • The NBC's shift to a market-based official exchange rate calculation mechanism in August 2022 was welcome by the IMF, while the work to move FX auctions to the NBC system platform was also done. • The NBC is considering to further finetune through the collection of bank customer transactions data as advised by the IMF. • The NBC has started collecting daily information on interbank money market transactions from the largest 16 banks since July 2022. • The NBC is working on improving its platform to include interbank market transactions (interbank lending and deposit), both in KHR and USD, to support the development of the interbank market and to improve data collection. • The NBC moved FX auctions to the NBC platform in September 2023, which has been already used for monetary operations.
Financial System Policy	•Closely monitor the recent deteriorations in asset quality and the high levels of private sector debt. Adequately provision for NPLs. Supervisors could also consider collecting and centralizing financial information on the largest borrowers, to facilitating debt restructuring policies and avoid uncoordinated evergreening practices. •Strengthen the supervisory framework, emphasizing risk-based supervision and the implementation of Basel III.	• The NBC has been working on the legal framework to reduce supervisory gaps and strengthen the financial safety net. • The NBC has completed the draft on new capital adequacy and solvency framework (CAR) in line with Basel III, considering local banking conditions. The framework consists of five Prakas, including on Regulatory Capital, the Capital Adequacy Ratio (CAR), Credit Risk for CAR Purposes, Market Risk for CAR Purposes, and Operational Risk for CAR Purposes. The NBC is collecting comments on the drafts from banks, financial institutions, and the Association of Banks in Cambodia and Cambodia Microfinance Association. • Once the new CAR framework is completed, the NBC will review the Prompt Corrective Action (PCA) framework. • On June 23, 2023, the NBC has released the 2 Prakas on Regulatory Capital and Credit Risk for CAR framework, which has been implemented since January 1, 2024.

Policies	2023 Article IV Recommendations	Actions since 2023 Article IV Consultations (As of July 12, 2024)
	•Develop a comprehensive macroprudential policy strategy, including borrower-based measures. •Improve legal and operational frameworks for bank resolution. The authorities should complete the bank restructuring and the deposit insurance legal frameworks and enabling regulations	• On April 12, 2024, the NBC released Prakas on Market Risk and the guideline on the implementation of Prakas on Market. However, the NBC delayed the implementation of tighter financial regulations: • On November 23, 2023, the NBC has announced the Circular on (a) Restructured Loan for Tourism Sector in Siem Reap Province, and (b) Delay of Exit Strategy (Capital Conservation Buffer, Reserve Requirement and Restructured Loan on Impact Sector).
	Strengthening the AML/CFT framework and its implementation including tackling gold smuggling.	• Following the Cambodian authorities' implementation of the action plan agreed upon with the Financial Action Task Force (FATF) to strengthen the country's AML/CFT framework, Cambodia was removed from the list of jurisdictions under increased monitoring by the FATF (known as the "grey list") in February 2024.

Structural Policies	Formulate a comprehensive development strategy towards upper-middle-income status, focusing on developing new growth drivers.	• The Royal Government of Cambodia (RGC) has made significant progress in implementing its Pentagonal Strategy-Phase I, a comprehensive plan to transform Cambodia into an upper-middle-income economy by 2030 and a high-income economy by 2050. Examples include:
		
		   • Commenced developing key socio-economic policy agendas and transitioning from rectangular to pentagon strategies for implementation in its seventh legislature of the National Assembly.
		   • Launched six priority programs in 2024 to provide vocational and technical training for youths from poor and at-risk households.
		   • Efforts are underway to institutionalize national social assistance programs for impoverished households.

	Diversify trade and investment partners to enhance economic resilience and improve trade competitiveness.	• ASEAN has overtaken the European Union to become Cambodia's second-largest export market. In the first quarter of 2024, exports to ASEAN countries accounted for 28% of Cambodia's total exports, up from 24.7% in the same period in 2023. This growth is attributed to a 33.1% year-on-year increase in exports to these nations. • In addition, Cambodia has actively engaged in signing and ratifying free trade agreements (FTAs), including the Regional Comprehensive Economic Partnership (RCEP) and bilateral agreements with China and South Korea. These agreements are designed to facilitate trade and attract foreign investment, further diversifying Cambodia's economic interactions on the global stage. • The Cambodian government has committed to its Power Development Plan, which aims to increase the share of renewable energy in the national grid significantly. The plan outlines a goal to double the

Policies	2023 Article IV Recommendations	Actions since 2023 Article IV Consultations (As of July 12, 2024)
	Prioritize investment in renewable energy infrastructure and industries, capitalizing on global decarbonization trends.	amount of solar power to be installed by 2030, targeting an additional two gigawatts (GW) of solar capacity. As part of its commitment to renewable energy, Cambodia has announced that there will be no new investments in coal power plants after 2024. This marks a significant shift towards cleaner energy sources, with a focus on solar, wind, and hydroelectric power. • The Cambodian government has approved USD 2.5 billion for ongoing renewable energy projects from 2022 to 2025, with a total investment of USD 9 billion needed to expand domestic generation capacity. This includes investments in solar PV plants, hydro dams, and natural gas facilities. The Asian Development Bank (ADB) is supporting Cambodia's energy transition through a sector development program that includes investments in new technologies, such as the country's first grid-connected battery energy storage system. This system will enhance the stability of the electricity grid and facilitate the integration of more renewable sources.
	To keep growth momentum over the long haul, it is important to continuously identify and invest in new growth drivers	• In 2023, non-garment manufacturing sector surpassed the size of the garment manufacturing sector by 1.5 ppt at 14 percent of GDP, which signals a further progress in the economy's diversification to other manufacturing sectors, including (i) electrical parts (car wire, light, and other electrical parts), (ii) furniture (e.g. sofa, table, and chair for exporting to the US and EU market), (iii) tires product (exported to the US market), (iv) car assembly (domestic market), and (v) food processing (both for domestic and external market).
Improve Data Quality and Coverage	Data quality in national account and external statistics should be improved.	• The rebased GDP was officially disseminated and introduced to the public in July 2024. The quarterly GDP is expected to be disseminated in 2024H2. • The NBC has revised the model on remittances, following the TA mission in 2020 and updated the data for the balance of payments, trade credit, and other debt liabilities. • For non-bank FDI, the NBC is in the process of requesting data from tax authorities. • The National Institute of Statistics (NIS) is holding the "Data for Development" subgroup meeting every three months to bring awareness to development partners and relevant agencies on the progress made for consensuses and surveys (especially the adaptation of digital technology).
Anti-corruption Legal Framework	Enhancements to anticorruption legal frameworks and institutions have been limited, necessitating government attention (e.g., adoption of the law on witness whistleblowers and witnesses coming forward to help detect and prosecute corruption cases, law on transparency and access to information)	According to the Ministry of Justice (MOJ), the draft law on Whistleblower Protection and the draft law on Transparency are currently under review by the Anti-Corruption Unit. Meanwhile, the draft law on Access to Information is under review by the Ministry of Information.

Annex VIII. Data Issues

Table 1. Cambodia: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	C	B	B	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	C	C	B	C		
Granularity 3/	C		C	C	B		
			C		B		
Consistency			C	C		B	
Frequency and Timeliness	D	A	C	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Overall, there are some shortcomings in the data that somewhat hamper surveillance, including on the national accounts, government finance statistics, and external sector statistics. On the national accounts, the fequency and timeliness significantly hamper surveillance, with higher frequency indicators available only for a few sectors--mainly goods exports. The government accounts have coverage and granularity limitations, and significant lags for debt. The conversion from TOFE to GFS presentation has been slow and classification of data is questionable in items such as acquisition of non-fiancnail assets, grants, and subsidies. On the external sector statistics, errors and omissions are large (3.3 percent of GDP in 2023). Direct investment, the international investment position (IIP), and travel services data have some shortcomings in terms of quality and granularity. Risks associated with credit provided by real estate companies is not properly captured.

Changes since the last Article IV consultation. Rebased GDP series using 2014 as the new base year was published in Q2 2024.

Corrective actions and capacity development priorities. With the support of the Fund, there is work in progress to update the CPI weights, to develop high frequency indicators of economic activity, to update the input-output and supply-use tables for national accounts, and to improve FSI (e.g., classification of instruments to align with 2019 FSI guide). In addition, there is ongoing technical assistance to enhance the compilation and validation of external sector statistics, including the goods component of the BOP, the IIP, direct investment, external debt statistics, and travel services. Moreover, upcoming missions by the IMF's Statistics Department will review the institutional development plan to strengthen the capacity of the National Institute of Statistics and conduct the Report on the Observance of Standards and Codes.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Estimates from a nowcasting model developed by ICD technical assistance are used to guide the quarterly assessment of economy activity.

Other data gaps. Activities in the large informal economy are not adequately tracked. Information on the corporate sector is limited, including on financing provided for real-estate related activities by non-financial corporates.

Table 2. Cambodia: Data Standards Initiatives
Cambodia participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since May 2018.

Table 3. Cambodia: Table of Common Indicators Required for Surveillance

As of November 7, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Cambodia[8]	Expected Timeliness[6,7]	Cambodia[8]
Exchange Rates	11/6/2024	11/7/2024	D	D	D	30	...	35
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	8/2024	10/2024	M	M. 2 month lag	M	30	1M	60
Reserve/Base Money	8/2024	10/2024	M	M. 1 month lag	M	30	2M	60
Broad Money	8/2024	10/2024	M	M. 2 month lag	M	30	1Q	60
Central Bank Balance Sheet	8/2024	10/2024	M	M. 2 month lag	M	30	2M	60
Consolidated Balance Sheet of the Banking System	8/2024	10/2024	M	M. 2 month lag	M	30	1Q	60
Interest Rates[2]	9/2024	10/2024	M	M. 2 month lag	M	30	...	60
Consumer Price Index	9/2024	11/2024	M	M. 1-2 month lag	M	30	2M	15
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	7/2024	9/2024	M	M. 1-2 month lag	A	30	3Q	30
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	7/2024	9/2024	M	M. 1-2 month lag	Q	30	1Q	40
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/2024	9/2024	S	S, 3 month lag	Q	365	2Q	270
External Current Account Balance	Q1/2024	7/2024	Q	Q, 3 month lag	Q	90	1Q	90
Exports and Imports of Goods and Services	Q1/2024	7/2024	Q	Q, 3 month lag	M	30	12W	60
GDP/GNP	2022	3/2024	A	A, 6 month lag	Q	365	1Q	180
Gross External Debt	Q1/2024	7/2024	Q	Q, 3 month lag	Q	90	2Q	90
International Investment Position	Q1/2024	7/2024	Q	Q, 3 month lag	A	90	3Q	90

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 22, 2024

Prepared By	Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 7, 2024)

Membership Status:
Joined December 31, 1969; accepted the obligations under Article VIII, Sections 2, 3, and 4 on January 1, 2002.

General Resources Account:	SDR Million	Percent Quota
Quota	175.00	100.00
Fund holdings of currency (Holdings Rate)	153.13	87.50
Reserve Tranche Position	21.88	12.50

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	251.65	100.00
Holdings	258.26	102.63

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1]	Oct. 22, 1999	Feb. 28, 2003	58.50	58.50
ECF [1]	May 06, 1994	Aug. 31, 1997	84.00	42.00

[1] Formerly PRGF.

Overdue Obligations and Projected Payments to the Fund [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Multilateral Debt Relief Initiative

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006, approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia's outstanding debt to the IMF, a total of SDR 56.8 million (about US$82 million). The authorities intend to spend the resources over a number of years, initially on

rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

Safeguards Assessment

A voluntary safeguards assessment of the NBC was completed in January 2010 at the request of the authorities, which updated the previous March 2004 voluntary assessment. The update assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework; however, important recommendations proposed in 2004 were still outstanding, and some new risks had emerged in the area of external audit.

Exchange Rate Arrangement

The currency of Cambodia is the Cambodian riel. Cambodia's de facto exchange rate arrangement is classified as *crawl-like*. The *de jure* exchange rate arrangement is a *managed float*. The exchange rate regime comprises two rates: the official rate and the market rate. The official exchange rate, which is expressed in Riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises, and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. Cambodia maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation

Cambodia is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation discussions were held during October 18-31, 2023. The Executive Board concluded the Article IV consultation (IMF Country Report 24/36) on January 31, 2024.

Financial Sector Assessment Program (FSAP)

The joint IMF-World Bank FSAP mission took place in March 2010 and the assessment was completed in October 2010.

Resident Representative

Mr. Jochen Schmittmann is the regional IMF Resident Representative for Cambodia, based in Vietnam.

Technical Assistance

Cambodia is among the largest recipients of capacity development (CD) in the Fund. In FY2024, the Fund has allocated around US$3.6 million to deliver CD, led by Fiscal Affairs Department (FAD), followed by Monetary and Capital Markets Department (MCM), Statistics Department (STA), and Institute for Capacity Development (ICD). Nearly a half of the spending was allocated for technical

assistance (TA) provided by long-term experts (LTXs) based in the Capacity Development Office in Thailand (CDOT) and resident experts in Phnom Penh. Headquarters-based IMF staff provided TA also, accounting for about one third of the total, followed by short-term experts (STXs). The resource use closely follows the CD strategy[1] and was concentrated on the workstreams of public financial management (PFM), financial supervision and regulation, central bank operations, and monetary and macroprudential policy, accounting for nearly three quarters of the total expense.

Cambodia: CD Delivery by Department and Workstream

Spending by Key Department: FY2022-24 (U.S. dollar in million)

Spending by Workstream, FY2024 (Share of total)

1/ Includes APD, ITD, and SPR.

2/ Include capital account policy.

Source: IMF, CD Hub (2024).
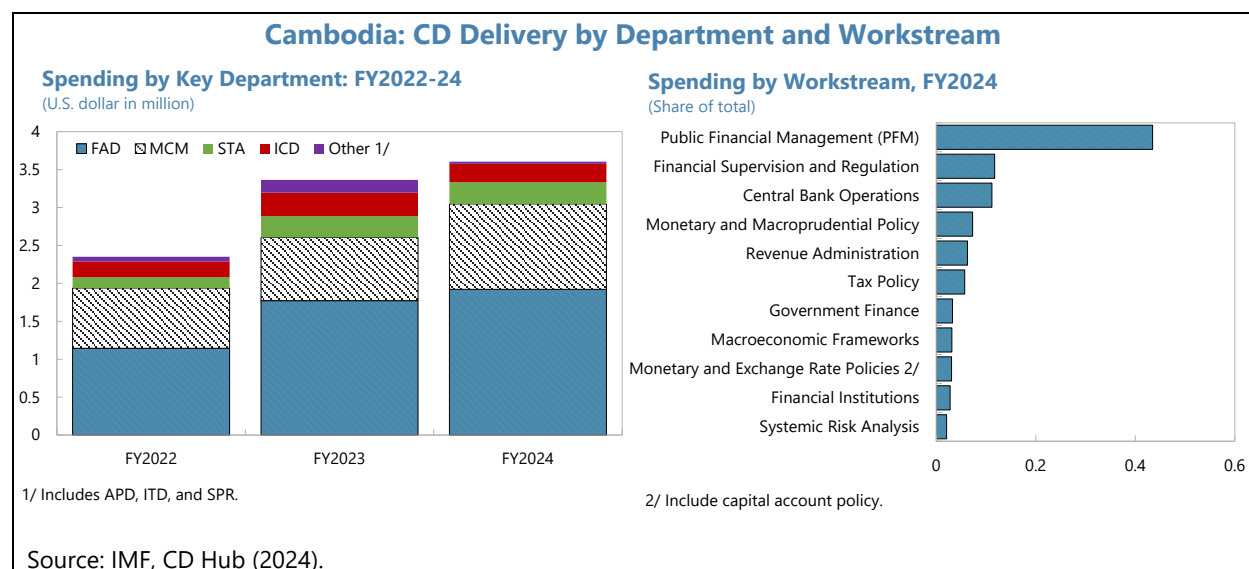
More specifically, the following list of TA has been delivered for the last three years.

2022	Department	Technical Assistance - Topic	Mission Dates
1	FAD	Improving Revenue Forecasting	April 19-May 3, 2023
2	CDOT	Government Finance Statistics	May 9–June 30, 2022
3	FAD	Assistance in Drafting New Law on Customs	May 31-September 16, 2022
4	FAD	Towards A Stronger Fiscal Framework	June 6-21, 2022
5	CDOT	External Sector Statistics	July 25-29, 2022
6	FAD	Development of a Customs Investigations Program	October 11-21, 2022
7	CDOT/FAD	Improving Financial Reporting	October 28-November 4, 2022
8	FAD	Strengthening the Gender Budgeting Framework	November 10-22, 2022
9	FAD	Public Investment Management Assessment (PIMA) Update 2022 and Climate PIMA	November 22-December 9, 2022
2023	Department	Technical Assistance - Topic	Mission Dates
1	CDOT/ITD/MCM	Liquidity Forecasting Framework	January 17-26, 2023
2	CDOT	Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS)	January 17–27, 2023
3	FAD	TA Technical Review on Draft Customs Law	January 23-February 10, 2023
4	FAD	Customs Administration (follow-up)	February 20-March 3, 2023
5	FAD	Business Process Reengineering	February 27-March 17, 2023
6	FAD	Customs Special Economic Zone (SEZ) Management	March 27-April 7, 2023
7	CDOT	Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS)	April 10–21, 2023
8	CDOT	External Sector Statistics	April 24-28, 2023
9	STA	CPI Prices Statistics	April 24-May 5, 2023
10	CDOT	Treasury Management on accrual accounting	May 22–June 2, 2023

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[1] See Annex IV. Capacity Development Strategy in the 2022 Staff Report (IMF Country Report No. 22/371).

11	STA	GDP Rebasing Virtual Meeting	June 26, July 3, 2023
12	CDOT	Remote TA Official Exchange Rate Determination	September 5–14, 2023
13	CDOT	Treasury Management on Internal Audit	September 11–29, 2023
14	FAD	Tax Policy	September 14-19 and September 28-October 6, 2023
15	MCM	Solvency Stress Testing (FSSR Follow-Up)	September 25-October 6, 2023
16	MCM	Interim Project Assessment (FSSR Follow-Up TA)	October 2-5, 2023
17	FAD	PFM Budget Preparation	November 6-21, 2023
18	CDOT	Monetary and Foreign Exchange (FX) Operations	November 21-24, 2023
19	CDOT	Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS)	December 6–19, 2023
20	STA	GDP-Improve data and methods for GDP by Expenditure and Production	December 17-21, 2023
2024	**Department**	**Technical Assistance - Topic**	**Mission Dates**
1	FAD	FMIS Strategy (Hybrid)	January 14-25, 2024
2	STA	Residential Property Price Index (RPPI)	January 14-18, 2024
3	FAD	Public Investment Management (PIM)	January 28-February 8, 2024
4	CDOT	Macroeconomic Frameworks	February 28-March 6, 2024
5	CDOT	Forecasting and Policy Analysis System (FPAS)	February 29-March 7, 2024
6	CDOT	Accounting	March 13-28, 2024
7	FAD	SEZ and QIP Management	March 17-28, 2024
8	CDOT	Monetary Operations	March 19-28, 2024
9	CDOT	External Sector Statistics	April 1–5, 2024
10	CDOT	Public Financial Management (PFM)	April 8–12, 2024
11	CDOT	GFS and Public Sector Debt Statistics	April 22 – 26, 2024
12	FAD	Revenue Forecasting	May 15-24, 2024
13	CDOT	GFS and PSDS	June 10–14, 2024
14	CDOT	Monetary Operations	June 18-20, 2024
15	FAD	Fiscal Rules	July 8-12, 2024
16	CDOT/MCM	ELA TA mission (hybrid)	July 10-August 23, 2024
17	CDOT/ST	Dedollarization	September 8-21, 2024
18	STA	Review of the Cambodian Statistical System and the preparation of a Report on the Observance of Standards and Codes (Data ROSC) for Cambodia	September 9-17, 2024
19	FAD	Revenue Administration	September 18-20, 2024
20	FAD	PFM Accounting and Cash Management	October 14-18, 2024
21	CDOT/STA	External Sector Statistics	October 21-November 1, 2024

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/cambodia

Asian Development Bank: https://www.adb.org/countries/cambodia/main

CAMBODIA

November 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By	Prepared by Staff of the International Monetary Fund and the International Development Association
Rupa Duttagupta and Peter Dohlman (IMF), and Manuela Francisco and Lalita Moorty (IDA).	

Cambodia: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Low*
Overall risk of debt distress	*Low*
Granularity in the risk rating	*Not applicable*
Application of judgment	*No*

Cambodia remains at low risk of external and overall debt distress under the Low-Income Countries Debt Sustainability Framework (LIC-DSF).[1] The current debt-carrying capacity remains consistent with a medium classification. [2] The baseline scenario assumes a continued economic recovery, largely driven by a rebound in manufacturing goods and agricultural exports and tourism. The total public and publicly guaranteed (PPG) debt-to-GDP ratio is projected to rise by around 4 percentage points of GDP during the next decade, but its level is expected to remain stable. The debt burden indicators are projected to remain well below their thresholds under the baseline and the shock scenarios. The stress tests shows that debt sustainability is most vulnerable to shocks in contingent liabilities.

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[1] This DSA follows the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries (imf.org), February 2018 (GN).

[2] Cambodia's Composite Indicator (CI) index, based on data submitted to the October 2024 WEO and the World Bank's 2023 CPIA, is 3.02, indicating a medium debt-carrying capacity. This is a slight reduction from the index in the 2023 DSA, which was 3.06.

PUBLIC DEBT COVERAGE

1.   **The debt sustainability analysis (DSA) covers central government debt and debt guaranteed by the central government to state-owned enterprises (SOEs).** By law, state and local governments and the central bank do not engage in borrowing, and SOEs do not contract non-guaranteed loans. Currently, there are no extra-budgetary funds, and the National Social Security Fund is funded by deposits and does not constitute a liability for the general government (text table 1). Consistent with the previous DSA, external debt is defined on a currency basis.

Text Table 1. Public Sector Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

2.   **The DSA includes contingent liability stress tests for public-private partnerships (PPPs) and a financial market shock** (text table 2).

- The shock scenario for the SOE debt is set to 0 percent of GDP because, by law, SOEs do not engage in non-guaranteed external borrowing, and guarantees to SOEs are included in public debt. According to the updated information provided by the authorities, the capital stock of PPPs is estimated at around 40.2 percent of GDP as of end 2023, corresponding to a contingent liability of 14.1 percent of GDP, assuming a shock size of 35 percent of the total PPP stock.

- The standard financial market shock is intensified in this DSA. Specifically, the financial market shock assumes contingent liabilities from financial markets to be 10 percent of GDP, twice the default value of 5 percent of GDP.[3] This change is included to account for the risks emerging from private sector debt that has continued to grow in the context of rising NPL ratio and the absence of comprehensive bank resolution framework and deposit insurance regime.

Text Table 2. Design of Contingent Liability Stress Test

The country's coverage of public debt	The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	SOEs are not allowed to contract external debt.
PPP	35 percent of PPP stock	14.1	PPP stock estimated using the authorities' data
Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	10.0	Giving risks emerging from private external borrowing
Total (2+3+4+5) (in percent of GDP)		24.1	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

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[3] Banking sector deposit is around 107 percent of GDP as of end 2023.

BACKGROUND ON DEBT

3.   Cambodia's external public debt amounted to around US$ 11.2 billion (26 percent of GDP) by end-2023, using the newly rebased GDP. The external debt-to-GDP ratio increased slightly in 2023, by 0.7 percentage points, as growth in debt (12 percent) outpaced nominal GDP (text figure 1).[4] Bilateral debt continues to account for the majority of total external debt, around 64 percent, with more than a half owed to China (text table 3), though the share has declined somewhat compared to the past years.[5] External debt has been accrued on concessional terms, with a present value of around 15 percent of GDP at end-2023.

Text Figure 1. External Public Debt
(in percent of GDP)

Sources: Cambodia authorities and IMF staff estimates.
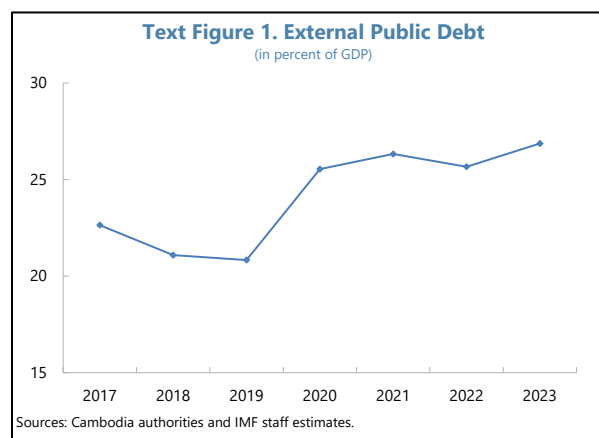
4.   Public domestic debt remains negligible. To support financial market development, the authorities started to issue local-currency government bonds in September 2022.[6] The total domestic debt stock as of 2023 was US$ 52.4 million (0.14 percent of GDP). For 2023, total issuance amounted to US$ 58.3 million,[7] against planned issuance of US$ 200

Text Table 3. External Public Debt (2023)

	In million of U.S. dollars	In percent of GDP	In percent of external debt
Total	11,186	26.7	100.0
Multilateral	3,997	9.6	35.7
Bilateral	7,188	17.2	64.3
of which: China	4,114	9.8	36.8

Sources: Cambodia authorities and IMF estimates

million, potentially reflecting a lack of appetite for local-currency government bonds due to high rates for non-government borrowing (including local-currency banks' deposit rates). Nonetheless, the amount of bond issuance more than doubled in 2023, with the authorities' efforts to expand the bond maturities (from 1 year in 2022 to 2, 3 and 5 years in 2023) that have contributed to the construction of a yield curve. To facilitate domestic bond demand, the authorities have lowered the

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[4] The debt stock includes legacy arrears to the Russian Federation and the United States of about 1.5 percent of GDP. As the status of negotiations of these arrears remains unchanged compared to the previous DSA, this analysis assumes no debt restructuring. According to Cambodia Public Debt Statistical Bulletin, "Old Debt Under Negotiation" in Table 3 "Debt Stock." The data reflect principal amounts, i.e. excluding any accumulated interest. The arrears relate to obligations made by the then-government in the early 1970s, which have been refuted by subsequent governments. There has been no progress at resolving this issue during Paris Club negotiations. In addition, as the arrears reflect diplomatic disagreements, they do not trigger an "in debt distress" rating.

[5] According to Cambodia Public Debt Statistical Bulletin, (see Table 3 "Debt Stock"), the multilateral debt in the text table 3, as of end 2023, is owed to the Asian Development Bank at US$ 2,361 million, to the World Bank at US$ 1,320 million, and to others (Cambodia does not have loan liabilities to the IMF).

[6] The authorities drafted the preliminary "Policy Framework of Development on the Government Securities" in September 2021, which aimed at (i) the first securities issuance in 2022, (ii) setting principles for the usage of fund from government securities, and (iii) appointing the NBC as a fiscal agent and arranging the issuance operations. Since September to December in 2022, there were five auctions to issue the bonds.

[7] The issuance in 2022 had 1-year maturity and had been repaid in 2023.

withholding tax on the interest earned from holding and trading the bonds by 50 percent, and exempted tax on capital gains from purchasing and trading the bonds for three years. For 2024, the authorities plan to issue around US$ 100 million of local-currency government bonds, of which US$ 62 million have been already issued in the first six months, with one to three year maturities.

5.   PPPs are considered the primary vehicle to finance investment projects. The authorities anticipate that access to concessional financing will diminish as the country graduates from the LDC status. With weak revenue mobilization, the government faces constraints with slow progress in developing domestic debt markets. The authorities assessed the total PPP stock which stood at US$16.8 billion (around 40 percent of GDP) as of end 2023, significantly higher than staff's previous estimate. The authorities have been taking welcome steps to strengthen the PPP framework in line with the past Fund recommendations, including by establishing a system for risk assessment and the necessary legal, regulatory, and institutional arrangement for better PPP management.[8]

6.   Private external debts in Cambodia are excluded from this analysis. Staff estimates private external debt at about 27 percent of GDP in 2023.[9] Excessive external borrowing by the private sector could increase its insolvency risk and the possibility of government interventions either in the form of assumption of private liabilities or in the form of fiscal support (such as tax-relief measures to affected sectors). In addition, the insolvency of the private sector would increase financial vulnerabilities—this is modeled in the stress test as a financial sector related shock of 10 percent of GDP.

BACKGROUND ON MACRO FORECASTS

7.   Cambodia's economy has further strengthened since 2023, but the recovery remains uneven. A strong rebound in garment exports and high growth in agricultural exports, along with an ongoing recovery in tourism, continued to support economic activity. Despite a pickup in tradable sectors, the recovery in the non-tradable sectors remains slow. Construction and real estate are going through a market correction, with a built-up excess supply of real estate and weak demand. Credit quality at banks has deteriorated, and FDI inflows in the sectors have declined.

Text Figure 2. Real GDP Components
(2019=100)

Sources: Cambodia authorities.
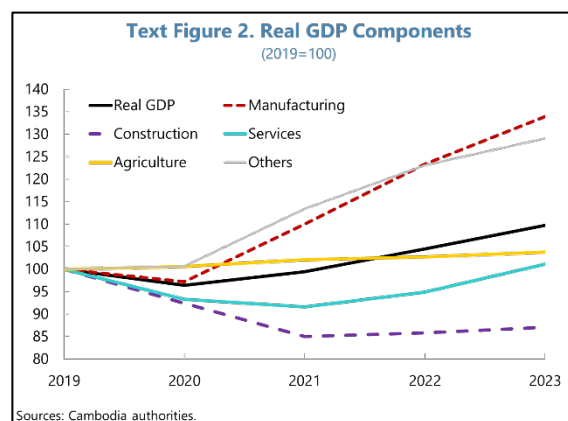
8.   Headline CPI inflation has further moderated. Deceleration in inflation continued, with headline inflation averaging around 1.5 percent (y/y) in 2024H1, down from 2.1 percent in 2023.

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[8] For example, a central PPP unit had been established under the Ministry of Economy and Finance, and a new law on PPP was enacted in November 2021.

[9] According to CEIC data, the total external debt amounted to US$ 22.6 billion in 2023, and private debt can be estimated at about US$ 11.5 billion after deducting PPG external debt.

Following global commodity market developments, import prices of food and fuel further moderated. Core CPI inflation also fell, with stability of the Khmer Riel (KHR) maintained against the U.S. dollar.

9.   The fiscal deficit in 2023 widened to 2.8 percent of GDP. Growing tax exemptions and weak growth in domestic non-tradable sectors compressed revenue outturns. Tax revenues declined by about 4 percent (y/y), largely driven by lower VAT, excises, and customs revenues. Total expenditure rose by around 10 percent (y/y), partly driven by higher wage costs and one-off spending items, while capital expenditure was lower than planned by about 20 percent resulting from postponement in infrastructure execution.

10.   Credit growth decelerated sharply despite some policy easing measures. Credit growth has reached a decade low with signs of a credit crunch, and leverage (measured by loan-to-deposit ratio) declined significantly although it remains above pre-pandemic levels. The National Bank of Cambodia (NBC) lowered the USD reserve requirement rates (RRRs) on deposits and non-resident borrowing for banks in December 2023 back to the pandemic-support level of 7 percent, after an initial increase in 2023Q1. Rates on negotiable certificate deposits (NCDs), used by the NBC to absorb short-term liquidity, were lowered in early 2023 from 3.4 and 1.3 percent for USD and KHR, respectively to 0.6 and 1 percent in June 2024.

11.   The current account (CA) balance remains volatile and shifted to a surplus in 2023. Exports growth contracted in 2023, with pronounced declines in garment exports offsetting a strong pickup in solar-related exports. The contraction in exports was more than offset by import demand compression in garment materials and vehicles. The CA balance reached a surplus of 1.3 percent of GDP from a deficit of 11 percent in 2022. A sizable shift in net exports of gold, reaching a surplus of 1.4 percent of GDP from a deficit of 11 percent in 2022, also contributed to the CA volatility. Absent foreign-exchange (FX) interventions since September 2023, the exchange rate has remained broadly stable. FX reserves accumulated in 2023 and remain adequate with 7¼ months of prospective import coverage. The external position in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.

12.   The recovery is assumed to continue in the baseline projections. The outlook in 2024-25 and the medium-term projection are broadly similar to the previous DSA (text table 4). Medium-term growth is projected at around 6 percent, though subject to large uncertainty. While this rate of growth is comparable with that experienced in neighboring countries at a similar stage of economic development, its achievement will crucially depend on the implementation of envisaged reforms.

Text Table 4. Baseline Macroeconomic Assumptions (2023-2031)

	Previous DSA (2023)				Current DSA (2024)			
	2023	2024	2025	2026-2031	2023	2024	2025	2026-2031
Real GDP (%, YOY)	5.3	6.0	6.4	6.4	5.0	5.5	5.8	6.0
Inflation (%, YOY)	2.3	3.0	0.7	2.9	2.1	0.4	2.1	3.0
Primary Deficit (% of GDP)	3.4	1.7	1.8	1.7	2.5	2.7	2.3	2.0
Current Account Deficit (% of GDP)	2.1	5.9	3.6	4.3	-1.3	1.8	2.5	4.1

Sources: IMF staff estimates and projections

- ***Growth and Inflation.*** Growth is projected at around 5½ percent for 2024 and 5¾ percent for 2025, up from 5 percent in 2023. Near-term growth is supported by sustained growth in exports, along with a continued recovery in tourism. Fiscal consolidation will be gradual and provide limited support to growth under the baseline. The output gap is expected to close by 2025/26, while inflation is expected to remain low in 2024 before converging towards the long-term trend of 3 percent in following years. Import prices, especially food and fuel prices, are expected to remain the main driver of inflation, with high dollarization and the managed exchange rate regime. While the recovery continues, domestic demand growth is projected to remain contained and generate limited impacts on inflation dynamics.

- ***External sector***. The CA balance is projected to swing back to a deficit of around 1¾ percent of GDP in 2024, driven by material imports for the export sector and imports of investment goods. Current account volatility driven by gold imports adds uncertainty to this outlook.

- ***Fiscal sector***. The fiscal deficit is projected at around 3 percent of GDP in 2024 and to decline modestly over the medium term. Revenue collection remains well below pre-pandemic levels and is projected to fall short of the budget expectation in 2024 due to extensive tax incentives to attract investment and other ad-hoc factors. Revenue underperformance has been compensated primarily by delayed execution of capital spending to contain fiscal deficits. The authorities are preparing a Revenue Mobilization Strategy (2025-2028), which is expected to lay out the government's plan to promote revenue growth including through tax policy and revenue administration reforms.

13.   Uncertainty around the outlook is high, with risks tilted to the downside. The most pressing risks are:

- **A sharper-than-expected slowdown in major economies,** particularly in the United States, China, and the Eurozone, could adversely impact Cambodia's export-driven growth.[10]

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[10] The US and EU are key export markets, with approximately 40 percent of Cambodia's exports going to the US and around 30 percent to the EU, primarily in garments and textiles. China is Cambodia's largest trading partner, accounting for over 30 percent of its total imports, mainly raw materials and machinery. Furthermore, China is the dominant source of foreign direct investment (FDI) in Cambodia, contributing to around 50 percent of total FDI,

(continued)

- **Increased uncertainty of trade policy,** including potential further losses of preferential treatment from the US and EU, could disrupt export performance.

- **Geopolitical tensions** (Ukraine, Middle East, Red Sea) could weigh on global demand and increase shipping costs and commodity prices.

- **Higher for longer global interest rates** could heighten risks of debt overhang, with elevated borrowing costs for banks in the highly dollarized economy, raising vulnerability to financial stability.

- **Disorderly deleveraging** from the last credit boom may jeopardize domestic financial stability, especially in the absence of effective liquidity provisioning and bank resolution frameworks.

- **Vulnerability to climate change** with increased frequency and severity of natural disasters pose risks to agriculture and manufacturing industries, disproportionately affect the vulnerable, and raise poverty and inequality.

- **On the upside**, implementation of structural reforms, such as those aimed at improving the business environment and strengthening economic diversification, could boost Cambodia's growth potential. Additional trade agreements with key partners, such as the Regional Comprehensive Economic Partnership (RCEP), could support export and FDI growth and enhance diversification.

14.   Financing assumptions reflect growing domestic debt issuance, while external debt remains the dominant source. The level of external borrowing is set at around 3-3.5 percent of GDP per annum over the medium term, before declining to 2.6 percent of GDP by 2030 as the fiscal deficit narrows and domestic financing increases.[11] For the purposes of this DSA, new external debt is expected to remain largely concessional, with an average maturity of 27 years and a nominal interest rate of less than 2 percent on average. The analysis assumes that the annual amount of net domestic bonds issued increases gradually, from less than 0.1 percent of GDP in 2022 to about 2 percent of GDP in 2044. Demand for domestic securities is projected to grow over time, with the authorities efforts to develop the domestic capital market and attract non-bank institutional investors such as insurance and pension funds, supported by the private sector development.[12] Outstanding domestic PPG debt is therefore estimated to reach around 8 percent of GDP by 2044, accounting for about 30 percent of the total outstanding PPG debt.

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especially in infrastructure, real estate, and manufacturing. This heavy reliance makes Cambodia vulnerable to external shocks from economic slowdowns, geopolitical tensions, and trade policy changes in these major economies, adding to the uncertainty about its current account deficit outlook.

[11] Borrowing assumptions are within the limit set by the authorities' Strategy on Public Debt Management 2024-2028, which stipulates an upper limit of annual external borrowing of 2 billion SDR, and an upper limit for the annual issuance of domestic government bond of 1 trillion riels.

[12] Should demand for domestic sovereign securities be less than expected, the government would need to cut back spending to contain deficits or could tap into buffers by drawing down deposits held at the central bank.

15.   The realism tools suggest that macroeconomic and fiscal assumptions are broadly reasonable (Figure 4). The projected growth path is close to what is suggested by standard fiscal multipliers. The contribution of public capital to GDP growth in the baseline scenario is somewhat lower than historical values as the private sector's role in driving investments is assumed to increase with the further development of the economy. The primary deficit-to-GDP ratio is assumed to be feasible over the next three years in the baseline projection as this adjustment is not in the top quartile of the distribution for LICs.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

16.   Cambodia's debt-carrying capacity is classified as medium, same as that in the previous DSA. Cambodia's Composite Indicator (CI) index, based on data submitted to the October 2024 WEO and the World Bank's 2023 CPIA, is 3.02.[13] The current debt-carrying capacity remains "medium" (text tables 5 and 6).

Text Table 5. Cambodia's CI Index

Debt Carrying Capacity	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium	Strong	Medium
	3.02	3.06	2.94

Text Table 6. Debt Burden Thresholds

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23
TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

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[13] The revised LIC-DSF determines the debt sustainability thresholds by calculating a Composite Indicator. The CI is a function of the World Bank's Country Policy and Institutional Assessment (CPIA) score, international reserves, remittances, individual country and global economic growth. The calculation is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection.

17.   Stress analysis include tailored stress test. Cambodia is highly vulnerable to climate change and is likely to experience an increase in temperatures, as well as longer and more intense droughts and flooding. Hence, in addition to the six standardized stress tests, the analysis includes a natural disaster scenario, calibrated assuming a significant mitigation cost of 10 percent of GDP (around US$ 4.5 billion) and a fall in GDP growth and exports using interaction coefficients of 1.5 and 3.5, respectively. The contingent liability stress test is based on the quantification of potential risks stemming from PPPs (14.1 percent of GDP) and financial markets (10 percent of GDP).

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

18.   The external debt indicators show that Cambodia's risk of debt distress remains low. External debt is projected to reach 27 percent of GDP by 2025, before moderating to 24 percent by 2044 (table 1). In present value terms, the external debt-to-GDP ratio is projected to hover around 15 percent. The large share of concessional loans means the debt service-to-exports and debt service-to-revenue ratios remain far below their indicative benchmarks throughout the forecast horizon.

19.   Stress tests suggests that Cambodia's external debt is most vulnerable to shocks to contingent liabilities. Compared to shocks to real growth, the fiscal balance, exchange rate depreciation, exports and external flows, the impact of a contingent liability shock is the most severe—the present value of the external debt-to-GDP ratio increases sharply, from less than 15 percent of GDP in 2024 to around 30 percent of GDP, and gradually falls back to about 28 percent over the medium term (figure 1).

20.   Total public debt grows more than the external debt as domestic borrowing is projected to increase in importance over time. Under the baseline, the total PPG debt level increases from 26 percent of GDP in 2023 to 30 percent of GDP in 2034, with an increased domestic financing mix (Table 2). The present value of the total debt-to-GDP ratio is estimated to increase gradually to 24 percent throughout the projection horizon but remains well below the 55 percent benchmark. The debt service-to-revenue ratio is estimated to pick up over the long term, along with a rising share of domestic debt. The stress tests indicate that PPG debt is most vulnerable to shocks to contingent liabilities: under this shock scenario, the present value of the total debt-to-GDP ratio rises to over 30 percent by 2034 but does not breach the indicative threshold of 55 percent. The contingent liability stress test is also the most extreme shock for the debt service-to-revenue ratio, which results in a noticeable spike in 2027 (figure 2), as the stress from PPP and financial sector contingent liabilities (24 percent of GDP combined) results in temporary borrowing needs, increasing debt servicing. Regarding debt dynamics, current account has been the largest external debt creating factor in the recent past (Figure 3), largely due to the adverse shock to the trade balance during the pandemic (e.g. increase in health expenditure related import needs and reduction in tourism receipts during the pandemic). The current account contribution is expected to normalize to previous historical trend going forward. And debt creation will be primarily driven by government deficit, to support the growing economy and various development needs.

21.   Domestic debt issuance and stock are projected to remain small (Figure 5). Domestic public debt issuance only began 2 years ago and the domestic debt market is expected to take some time to develop. The domestic debt to GDP ratio is expected to stay well below 10 percent through 2034, significantly lower than the median for low-income countries (LICs). Similarly, the domestic debt service as a percentage of revenues remains below 5 percent for much of the forecast period. These projections suggest that Cambodia's domestic public debt dynamics is aligned with maintaining macroeconomic and financial stability. However, due to the emergent nature of domestic borrowing and market development, the projections are subject to high uncertainty.

RISK RATING AND VULNERABILITIES

22.   Cambodia remains at low risk of both external and overall debt distress. Public debt is projected to rise by around 4 percentage points of GDP during the next decade, and its level is projected to stabilize. Moreover, the debt burden indicators are projected to remain well below their thresholds under the baseline and all the shock scenarios. Therefore, the external risk of debt distress is assessed to remain low. However, the analysis shows that debt sustainability is vulnerable to shocks in contingent liabilities and growth.

23.   Potential vulnerabilities to growth and contingent liability shocks highlight the importance of maintaining fiscal discipline and public debt management, while promoting long-term growth, and strengthening PPP risk evaluation and macroprudential regulations. The current assessment relies on the assumptions of a relatively high and sustained GDP growth path and stable fiscal balance to GDP ratio. For these assumptions to remain realistic, it is crucial to diversify the economy and exports to increase resilience to external shocks and improve spending efficiency. The successful implementation of a revenue mobilization strategy to improve the revenue to GDP ratio is also key. Further efforts to implement sound public investment management and PPP frameworks and strengthen analysis of PPP risks are needed. Finally, the authorities should focus on closing data gaps, especially in developing the data on external private debt and in monitoring the PPP stock and potential risks.

24.   Climate change can also affect debt sustainability. The World Bank's climate impact models project that climate change could lower Cambodia's GDP by 3.0 to 9.4 percent,[14] which would imply an increase in the debt-to-GDP ratio from 30 percent to 33 percent in 2024. However, it should be noted that this projection does not take into account the potential benefits of climate adaptation and mitigation policies in boosting growth.

Authorities' Views

25.   The authorities expressed their strong commitment to debt sustainability. They highlighted the recently published Public Debt Management Strategy 2024-2028, which aims to maintain debt sustainability through measures such as prioritizing concessional financing,

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[14] Cambodia: Country Climate and Development Report, World Bank 2023.

implementing a centralized debt management principle, and strengthening the monitoring of debt-related risks. On diversifying financing sources, the authorities are actively developing the domestic government bond market through the implementation of Policy Framework on the Development of Government Securities 2023-2028. Efforts are underway to expand the investor base, including allowing non-bank financial institutions to participate in primary and secondary markets. The Ministry of Economy and Finance is collaborating with the National Bank of Cambodia and the Securities and Exchange Regulator to enhance regulatory frameworks and market infrastructure. They aim to establish a yield curve by 2026 with technical advice from development partners. The authorities are also exploring innovative financing options such as blended finance, impact investment schemes, and green financing to complement traditional sources. Regarding contingent liabilities from public-private partnerships (PPPs), the authorities consider the associated risks to be low. They noted that most PPP projects after the 2021 PPP Law do not allow government guarantees, and projects are carefully evaluated to ensure financial viability before approval. The authorities emphasized their commitment to diversifying PPP partners and implementing robust project assessment procedures to mitigate potential risks.

Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–2034

PV of Debt-to-GDP Ratio

Most extreme shock: Combined contingent liabilities

PV of Debt-to-Exports Ratio

Most extreme shock: Combined contingent liabilities

Debt Service-to-Exports Ratio

Most extreme shock: Combined contingent liabilities

Debt Service-to-Revenue Ratio

Most extreme shock: Combined contingent liabilities

Baseline	Historical scenario	Most extreme shock 1/	Threshold

Customization of Default Settings		
Tailored Stress	**Size**	**Interactions**
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	9	9

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2024-2034
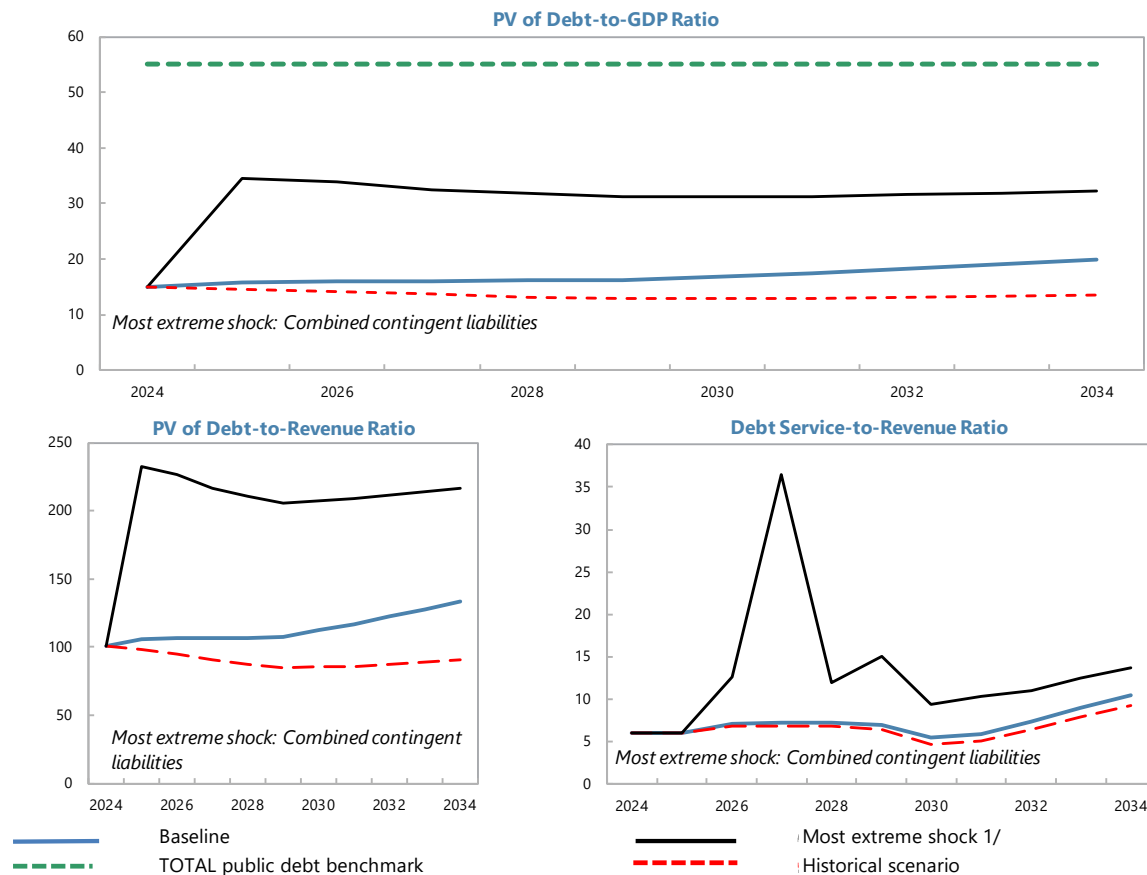
PV of Debt-to-GDP Ratio

Most extreme shock: Combined contingent liabilities

PV of Debt-to-Revenue Ratio

Most extreme shock: Combined contingent liabilities

Debt Service-to-Revenue Ratio

Most extreme shock: Combined contingent liabilities

———— Baseline

– – – – TOTAL public debt benchmark

———— Most extreme shock 1/

– – – – Historical scenario

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	81%	81%
Domestic medium and long-term	18%	18%
Domestic short-term	1%	1%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	2.7%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	8.3%	2.0%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	1
Domestic short-term debt		
Avg. real interest rate	-2.4%	3.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Cambodia: Drivers of Debt Dynamics - Baseline Scenario

External Debt

Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

Public Debt

Gross Nominal Public Debt
(in percent of GDP; DSA vintages)

Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Cambodia: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)

Distribution 1/

Projected 3-yr adjustment

3-year PB adjustment greater than 2.5 percentage points of GDP in approx. top quartile

Fiscal Adjustment and Possible Growth Paths 1/

Baseline — Multiplier = 0.2 — Multiplier = 0.4
Multiplier = 0.6 — Multiplier = 0.8
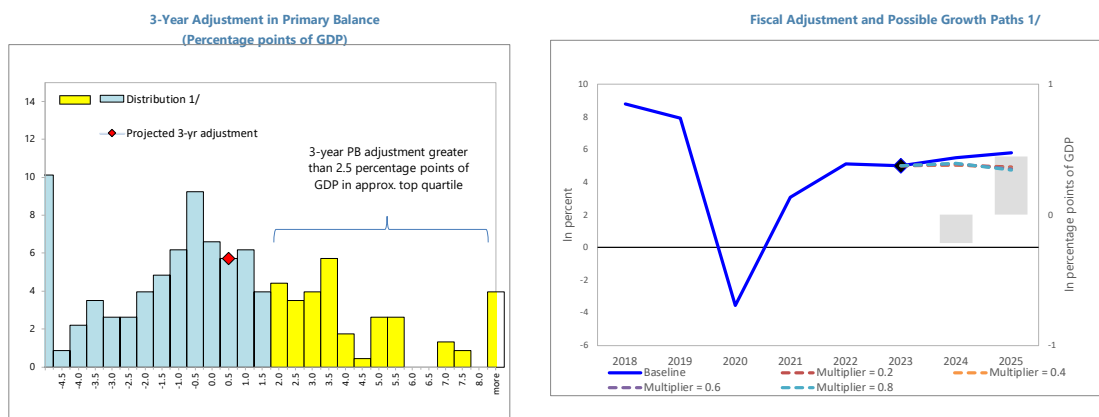
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

Gov. Invest. - Prev. DSA
Priv. Invest. - Prev. DSA
Gov. Invest. - Curr. DSA
Priv. Invest. - Curr. DSA

Contribution to Real GDP growth
(percent, 5-year average)

Historical   Projected (Prev. DSA)   Projected (Curr. DSA)

Contribution of other factors
Contribution of government capital

Figure 5. Cambodia: Indicators of Public Domestic Debt
(In percent)

Domestic Debt to GDP Ratio

Domestic Debt Service to Revenues incl. Grants

Net Domestic Debt Issuance 1/

Historical realizations

Median of average projected values over the first five years of the forecast period across countries using the LIC DSF with non-zero domestic debt, end-2023

As a ratio to GDP (LHS)

As a ratio to domestic debt stock in prev. year (RHS)
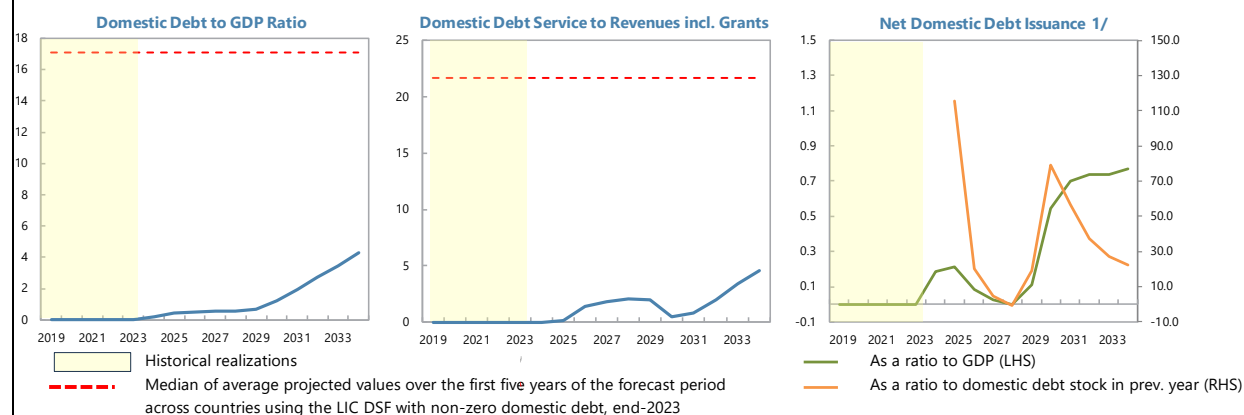
Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance in shock scenarios	
Medium and long-term	97%
Short-term	3%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	2.0%
Avg. maturity (incl. grace period)	3
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	3.0%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Table 1. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2021-2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**25.9**	**25.0**	**25.7**	**26.6**	**27.4**	**27.3**	**27.2**	**27.1**	**27.0**	**25.8**	**24.3**	**23.6**	**26.7**
of which: public and publicly guaranteed (PPG)	25.9	25.0	25.7	26.6	27.4	27.3	27.2	27.1	27.0	25.8	24.3	23.6	26.7
Change in external debt	0.7	-0.9	0.7	0.9	0.8	-0.1	-0.1	-0.1	-0.1	-0.2	-0.7		
Identified net debt-creating flows	**19.1**	**8.4**	**-12.1**	**-7.0**	**-6.6**	**-6.0**	**-6.0**	**-6.1**	**-6.3**	**-5.2**	**-6.0**	**-1.5**	**-5.8**
Non-interest current account deficit	**29.3**	**18.8**	**-1.5**	**1.7**	**2.4**	**3.1**	**3.2**	**3.1**	**3.0**	**4.7**	**5.8**	**8.9**	**3.5**
Deficit in balance of goods and services	34.3	23.2	3.8	6.8	7.0	6.2	6.2	6.0	5.8	5.8	5.8	12.7	6.1
Exports	54.9	64.0	64.1	67.6	67.8	67.4	67.1	67.0	67.0	69.2	75.7		
Imports	89.2	87.2	67.9	74.4	74.9	73.6	73.3	73.1	72.9	75.0	81.5		
Net current transfers (negative = inflow)	-8.8	-8.1	-7.3	-6.8	-6.5	-6.2	-6.0	-5.7	-5.5	-4.7	-3.5	-7.3	-5.6
of which: official	-1.4	-1.2	-1.1	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7	-0.6	-0.5		
Other current account flows (negative = net inflow)	3.8	3.7	2.0	1.7	1.8	3.1	2.9	2.8	2.7	3.7	3.5	3.5	3.1
Net FDI (negative = inflow)	**-9.2**	**-8.6**	**-8.8**	**-7.5**	**-7.7**	**-7.8**	**-7.8**	**-7.9**	**-8.0**	**-8.8**	**-10.9**	**-8.9**	**-8.1**
Endogenous debt dynamics 2/	**-1.1**	**-1.8**	**-1.8**	**-1.2**	**-1.3**	**-1.4**	**-1.3**	**-1.3**	**-1.3**	**-1.1**	**-0.9**		
Contribution from nominal interest rate	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3		
Contribution from real GDP growth	-0.7	-1.2	-1.2	-1.3	-1.4	-1.5	-1.5	-1.5	-1.5	-1.4	-1.2		
Contribution from price and exchange rate changes	-0.6	-0.8	-0.9	...	...	...	...	...	...	...	...		
Residual 3/	**-18.3**	**-9.3**	**12.8**	**7.9**	**7.4**	**6.0**	**5.9**	**6.0**	**6.1**	**5.1**	**5.4**	**1.6**	**5.8**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	14.3	14.8	15.3	15.4	15.4	15.5	15.6	15.6	16.1		
PV of PPG external debt-to-exports ratio	...	...	22.3	21.9	22.5	22.8	23.0	23.2	23.2	22.6	21.3		
PPG debt service-to-exports ratio	2.0	1.7	1.6	1.3	1.3	1.2	1.2	1.2	1.1	1.3	1.2		
PPG debt service-to-revenue ratio	7.4	6.5	7.1	6.5	6.4	6.0	5.8	5.5	5.3	5.9	6.0		
Gross external financing need (Million of U.S. dollars)	7800.4	4482.5	-4004.4	-2310.3	-2233.3	-2090.8	-2309.2	-2590.5	-2988.5	-3313.4	-9193.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.1	5.1	5.0	5.5	5.8	6.2	6.0	6.0	6.0	5.9	5.2	**5.8**	**5.9**
GDP deflator in US dollar terms (change in percent)	2.3	3.0	3.5	1.9	1.8	2.8	2.6	2.6	2.6	1.9	2.2	**2.3**	**2.1**
Effective interest rate (percent) 4/	1.0	0.9	0.9	0.6	0.7	0.7	0.8	0.8	0.9	1.1	1.3	**1.1**	**0.9**
Growth of exports of G&S (US dollar terms, in percent)	-0.2	26.3	8.9	13.4	8.1	8.4	8.3	8.7	8.8	8.6	8.6	**10.5**	**9.0**
Growth of imports of G&S (US dollar terms, in percent)	42.6	5.9	-15.3	17.7	8.5	7.2	8.3	8.4	8.5	8.6	8.5	**10.0**	**9.2**
Grant element of new public sector borrowing (in percent)	...	...	...	45.8	47.0	46.6	45.3	46.0	46.0	41.6	37.1	**...**	**45.2**
Government revenues (excluding grants, in percent of GDP)	14.7	16.4	14.7	13.7	13.7	13.8	14.0	14.1	14.4	14.6	14.7	**14.8**	**14.2**
Aid flows (in Million of US dollars) 5/	422.1	676.6	540.3	1580.1	1675.6	1508.9	1485.7	1615.3	1590.7	1325.5	1129.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	2.7	2.4	2.2	2.2	2.0	1.3	0.8	**...**	**2.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	59.9	60.3	61.2	60.3	60.1	58.6	48.5	38.7	**...**	**57.1**
Nominal GDP (Million of US dollars)	36,797	39,838	43,304	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	5.4	8.3	8.7	7.5	7.8	9.1	8.8	8.7	8.7	7.9	7.5	**8.2**	**8.2**
Memorandum items:													
PV of external debt 7/	...	...	14.3	14.8	15.3	15.4	15.4	15.5	15.6	15.6	16.1		
In percent of exports	...	...	22.3	21.9	22.5	22.8	23.0	23.2	23.2	22.6	21.3		
Total external debt service-to-exports ratio	2.0	1.7	1.6	1.3	1.3	1.2	1.2	1.2	1.1	1.3	1.2		
PV of PPG external debt (in Million of US dollars)			6198.4	6899.8	7674.6	8409.0	9193.9	10056.1	10969.4	16109.9	34778.5		
(PVt-PVt-1)/GDPt-1 (in percent)				1.6	1.7	1.5	1.4	1.4	1.4	1.3	0.8		
Non-interest current account deficit that stabilizes debt ratio	28.6	19.7	-2.2	0.8	1.6	3.2	3.3	3.2	3.2	4.9	6.4		

Definition of external/domestic debt — Currency-based

Is there a material difference between the two criteria? — No

Debt Accumulation

- Debt Accumulation
- Grant-equivalent financing (% of GDP)
- Grant element of new borrowing (% right scale)

External debt (nominal) 1/
▪ of which: Private

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
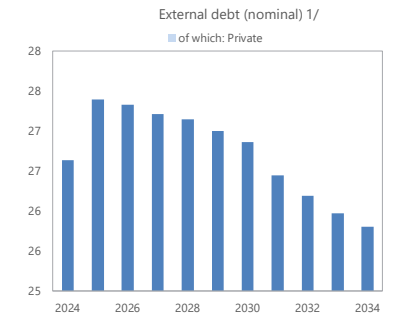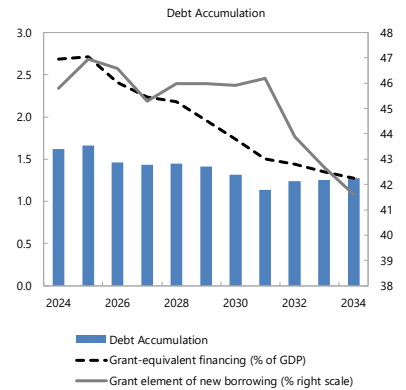
Table 2. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021-2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections																	Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	Historical	Projections
Public sector debt 1/	25.9	25.0	25.7	26.8	27.8	27.8	27.8	27.7	27.7	30.0	30.7	31.3	32.0	32.6	33.1	33.4	33.4	33.2	32.9	32.2	23.6	28.2
of which: external debt	25.9	25.0	25.7	26.6	27.4	27.3	27.2	27.1	27.0	25.8	25.7	25.5	25.4	25.5	25.5	25.6	25.5	25.3	25.0	24.3	23.6	26.7
Change in public sector debt	0.7	-0.9	0.7	1.1	1.0	0.0	-0.1	-0.1	0.0	0.6	0.6	0.7	0.7	0.6	0.5	0.2	0.1	-0.2	-0.3	-0.6		
Identified debt-creating flows	4.0	-1.8	0.6	0.9	0.4	0.0	0.0	0.0	-0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.7	-0.6	0.1
Primary deficit	4.9	0.0	2.5	2.7	2.3	2.0	1.9	1.9	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	0.9	2.0
Revenue and grants	15.8	18.1	15.9	14.9	14.9	14.9	15.0	15.1	15.2	14.9	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.7	16.3	15.0
of which: grants	1.1	1.7	1.2	1.2	1.1	1.1	1.0	0.9	0.8	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Primary (noninterest) expenditure	20.7	18.1	18.4	17.6	17.1	17.0	16.9	17.0	16.9	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	17.2	17.0
Automatic debt dynamics	-0.9	-1.9	-1.9	-1.8	-1.9	-2.0	-1.9	-1.9	-1.9	-1.7	-1.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5	-1.4	-1.4	-1.4		
Contribution from interest rate/growth differential	-1.6	-2.7	-1.8	-1.8	-1.9	-2.0	-1.9	-1.9	-1.9	-1.7	-1.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5	-1.4	-1.4	-1.4		
of which: contribution from average real interest rate	-0.8	-1.4	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.2		
of which: contribution from real GDP growth	-0.8	-1.3	-1.2	-1.3	-1.5	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.6		
Contribution from real exchange rate depreciation	0.7	0.8	-0.1	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-3.3	0.9	0.1	0.2	0.6	0.0	-0.1	0.0	0.1	0.4	0.4	0.3	0.3	0.2	0.0	-0.3	-0.5	-0.8	-1.0	-1.3	0.8	0.3
Sustainability indicators																						
PV of public debt-to-GDP ratio 2/	...	...	14.3	15.0	15.7	15.9	16.0	16.1	16.3	19.8	20.7	21.5	22.4	23.2	23.8	24.3	24.5	24.5	24.4	24.0		
PV of public debt-to-revenue and grants ratio	...	...	89.6	100.9	105.9	106.5	106.9	106.9	107.3	133.5	139.3	145.2	151.1	156.7	161.3	163.9	165.6	165.8	165.2	163.0		
Debt service-to-revenue and grants ratio 3/	6.8	5.9	6.5	6.0	6.1	7.0	7.2	7.2	6.9	10.1	11.7	13.2	14.6	16.1	17.2	18.6	20.1	20.9	21.2	20.2		
Gross financing need 4/	6.0	1.1	3.5	3.6	3.2	3.1	3.0	3.0	2.8	3.4	3.7	3.9	4.1	4.4	4.6	4.8	5.0	5.1	5.2	5.0		
Key macroeconomic and fiscal assumptions																						
Real GDP growth (in percent)	3.1	5.1	5.0	5.5	5.8	6.2	6.0	6.0	6.0	5.9	5.8	5.7	5.7	5.6	5.5	5.5	5.4	5.3	5.2	5.2	5.8	5.9
Average nominal interest rate on external debt (in percent)	1.0	0.9	0.9	0.6	0.7	0.8	0.8	0.8	0.9	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.3	1.1	0.9
Average real interest rate on domestic debt (in percent)	-1.6	-2.5	-2.2	-1.0	12.6	11.0	10.2	8.8	7.4	6.7	6.7	6.6	6.6	6.6	6.5	6.5	6.5	6.4	6.4	6.4	-1.3	7.6
Real exchange rate depreciation (in percent, + indicates depreciation)	2.8	3.5	-0.3	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	0.3	...
Inflation rate (GDP deflator, in percent)	2.6	3.5	3.2	1.7	2.1	3.0	2.9	2.9	2.8	2.1	2.2	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.5	2.5	2.5	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	6.6	-8.2	6.8	0.9	2.9	5.2	5.7	6.3	5.7	5.9	5.8	5.7	5.7	5.6	5.5	5.5	5.4	5.3	5.2	5.2	7.4	5.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.2	0.9	1.8	1.6	1.3	2.0	2.0	1.9	1.8	1.3	1.3	1.3	1.3	1.4	1.5	1.8	2.0	2.2	2.4	2.7	2.3	1.6
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
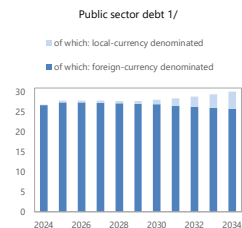
Table 3. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2034

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	15	15	15	15	16	16	16	16	16	16	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	15	18	21	23	26	28	30	32	33	35	36
B. Bound Tests											
B1. Real GDP growth	15	16	17	17	18	18	18	18	18	18	18
B2. Primary balance	15	16	19	19	19	19	19	19	19	19	19
B3. Exports	15	18	24	24	23	23	23	22	22	22	22
B4. Other flows 3/	15	16	18	18	18	18	18	17	17	17	17
B5. Depreciation	15	19	17	17	17	17	18	17	18	18	18
B6. Combination of B1-B5	15	19	20	20	20	20	20	20	20	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	15	30	29	31	30	30	30	29	29	28	28
C2. Natural disaster	15	22	22	22	22	22	22	22	22	22	22
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	15	15	15	15	16	16	16	16	16	16	16
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	22	23	23	23	23	23	23	23	23	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	22	27	31	35	39	42	45	47	49	51	53
B. Bound Tests											
B1. Real GDP growth	22	23	23	23	23	23	23	23	23	23	23
B2. Primary balance	22	24	28	29	29	29	28	28	28	27	27
B3. Exports	22	29	42	41	41	40	40	39	38	38	37
B4. Other flows 3/	22	24	26	26	26	26	26	26	25	25	25
B5. Depreciation	22	23	20	20	20	21	21	20	20	20	20
B6. Combination of B1-B5	22	27	27	29	29	29	29	28	28	28	27
C. Tailored Tests											
C1. Combined contingent liabilities	22	44	43	46	45	45	44	43	42	41	40
C2. Natural disaster	22	32	33	34	34	34	34	33	33	33	33
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	22	23	23	23	23	23	23	23	23	23	23
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	1	1	1	1	1	1	1	1	1	1	1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	1	1	1	1	1	1	1	2	2	2	2
B. Bound Tests											
B1. Real GDP growth	1	1	1	1	1	1	1	1	1	1	1
B2. Primary balance	1	1	1	1	1	1	1	1	1	1	1
B3. Exports	1	1	2	2	2	2	2	2	2	2	2
B4. Other flows 3/	1	1	1	1	1	1	1	1	1	1	1
B5. Depreciation	1	1	1	1	1	1	1	1	1	1	1
B6. Combination of B1-B5	1	1	1	1	1	1	1	1	1	1	1
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	2	2	2	2	2	2	2	2	2
C2. Natural disaster	1	1	2	2	2	1	1	1	2	2	2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	1	1	1	1	1	1	1	1	1	1	1
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	7	6	6	6	6	5	5	5	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	7	6	6	7	7	7	7	7	8	8	8
B. Bound Tests											
B1. Real GDP growth	7	7	7	7	6	6	6	6	6	7	7
B2. Primary balance	7	6	7	7	7	7	6	6	7	7	7
B3. Exports	7	6	6	7	7	6	6	6	6	7	7
B4. Other flows 3/	7	6	6	6	6	6	5	6	6	6	6
B5. Depreciation	7	8	8	7	7	6	6	6	7	7	7
B6. Combination of B1-B5	7	7	7	7	7	6	6	6	6	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	7	6	10	9	9	9	8	8	8	9	9
C2. Natural disaster	7	6	8	7	7	7	7	7	7	7	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	7	6	6	6	6	5	5	5	6	6	6
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt, 2024–2034

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
					Projections 1/						
PV of Debt-to-GDP Ratio											
Baseline	15	16	16	16	16	16	17	17	18	19	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	15	15	14	14	13	13	13	13	13	13	13
B. Bound Tests											
B1. Real GDP growth	15	17	20	22	23	24	26	28	30	32	34
B2. Primary balance	15	17	20	20	20	20	21	21	22	22	23
B3. Exports	15	19	24	24	24	24	24	24	25	25	26
B4. Other flows 3/	15	17	18	18	18	18	19	19	20	21	21
B5. Depreciation	15	19	17	16	15	14	14	13	13	13	13
B6. Combination of B1-B5	15	16	18	18	18	18	18	19	20	21	21
C. Tailored Tests											
C1. Combined contingent liabilities	15	35	34	32	32	31	31	31	31	32	32
C2. Natural disaster	15	24	24	23	23	23	24	24	25	26	27
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	15	16	16	16	16	16	17	17	18	19	20
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	101	106	107	107	107	107	112	117	122	128	133
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	101	99	95	91	87	85	85	86	87	89	90
B. Bound Tests											
B1. Real GDP growth	101	116	133	142	150	159	172	186	199	213	227
B2. Primary balance	101	116	137	135	133	132	136	140	145	149	154
B3. Exports	101	126	163	161	158	156	160	163	167	171	175
B4. Other flows 3/	101	114	122	121	120	120	125	129	134	139	145
B5. Depreciation	101	127	117	108	100	93	90	88	87	85	85
B6. Combination of B1-B5	101	109	117	118	118	118	123	127	133	138	144
C. Tailored Tests											
C1. Combined contingent liabilities	101	233	227	216	211	205	207	208	211	213	216
C2. Natural disaster	101	161	160	157	155	154	159	163	168	173	179
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	101	106	107	107	107	107	112	117	122	128	133
Debt Service-to-Revenue Ratio											
Baseline	6	6	7	7	7	7	5	6	7	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	6	7	7	7	6	5	5	6	8	9
B. Bound Tests											
B1. Real GDP growth	6	6	8	9	11	11	10	11	13	15	16
B2. Primary balance	6	6	8	11	11	9	7	7	9	10	11
B3. Exports	6	6	7	8	8	8	6	7	8	10	11
B4. Other flows 3/	6	6	7	7	7	7	6	6	7	9	10
B5. Depreciation	6	7	8	8	7	8	6	6	7	9	10
B6. Combination of B1-B5	6	6	8	9	10	8	7	7	8	10	11
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	12	37	12	15	9	10	11	12	13
C2. Natural disaster	6	6	9	20	9	11	7	8	9	11	12
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	6	6	7	7	7	7	5	6	7	9	10

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Ms. Yati Kurniati, Mr. Kaweevudh Sumawong,
Ms. Thi Tra Vi Nguyen, and Mr. Sotthal Sum (OEDST)
on Cambodia Executive Board Meeting
January 10, 2025

The Cambodian authorities would like to thank the IMF mission team for their constructive and candid policy discussions, which centered on policies for fostering more resilient and diversified growth. The authorities value the staff's recognition of the strengthening of Cambodia's economic recovery and largely concur with staff's assessment of the short and medium-term structural challenges. The authorities broadly agree with staff recommendations and will give them careful consideration in formulating future policies.

Recent Economic Developments and Outlook

Cambodia's economy has demonstrated remarkable resilience amidst global challenges, with growth projections of 6.0% in 2024 and rising to 6.3% in 2025. This positive outlook of growth is bolstered by robust rebounds in garment exports, agriculture, and tourism. However, the recovery remains uneven due to subdued domestic demand. The construction and real estate sectors continue to face significant challenges and are experiencing a period of adjustment. Inflationary pressures have eased in 2024. Credit growth has slowed amid subdued demand and tighter financial conditions. The authorities are mindful of the potential impact of a prolonged tight monetary stance on domestic financial conditions and will continue to monitor these effects closely. The external position has also improved, with the current account deficit expected to narrow, underpinned by a recovery in tourism and resilient export performance. International reserves continue to increase, covering almost seven months' worth of imports of goods and services by the end of 2023.

While the economic outlook is positive, the authorities acknowledge that risks remain tilted to the downside, particularly due to external factors. Slower global growth, especially among key trading partners, and rising geo-economic fragmentation could pose challenges. In this context, the authorities reaffirm their commitment to supporting the ongoing economic recovery and enhancing resilience through sound policy measures.

Fiscal Policy

The authorities remain firmly committed to fiscal sustainability. The recently introduced Medium Term Fiscal Framework (MTFF) reaffirms the authorities' plan for gradual consolidation over the term. Fiscal deficits are expected to persist in 2024 to support the economic growth of 6% in 2024 and 6.3% in 2025. However, the authorities aim to reduce the deficit to a capped level of 3.5%, reflecting a moderation in government spending. Despite a moderate increase, public debt will remain below 40% of GDP, underscoring the authorities' prudent fiscal management.

The authorities continue to focus on rationalizing tax exemptions. Most tax incentives are scheduled to conclude by June 2025**,** except for those retained for Siem Reap province, recognizing its significance as a key hub for the tourism sector. They also plan to accelerate tax reforms starting

in 2026, emphasizing improving tax compliance among businesses and individuals to enhance revenue collection and reduce dependency on stimulus measures.

Efforts to enhance the efficiency of public spending continue, with a focus on safeguarding priority sectors such as health, education, and social protection. Concurrently, the government is revising the Budget Law to better align public spending with medium-term growth targets. As part of the strategy to reduce reliance on concessional foreign financing, the authorities are actively exploring the development of the domestic government bond market.

Monetary and Financial Sector Policies

The National Bank of Cambodia (NBC) has started normalizing monetary policy in line with the ongoing economic recovery. The authorities emphasize that maintaining a low USD reserve requirement ratio (RRR) is essential to support credit supply, stabilize non-performing loan (NPL) ratios, and bolster market confidence. As part of broader reforms, the authorities are committed to modernizing monetary operations, including narrowing the interest rate corridor and deepening the interbank market to improve liquidity management and monetary transmission. The authorities continue to prioritize exchange rate stability as a nominal anchor to manage inflation effectively. They are committed to promoting the use of the local currency, the Khmer Riel, as part of their de-dollarization strategy. Acknowledging the challenges posed by extensive dollarization, the authorities plan to advance liquidity operations and modernize exchange rate management to strengthen financial sector resilience and ensure long-term macroeconomic stability.

The authorities remain vigilant regarding the prevailing risks to financial stability, particularly rising NPLs and vulnerabilities in specific sectors. However, they express confidence in the resilience of financial institutions, highlighting their strong capital and liquidity buffers to absorb potential shocks. They note that the provisioning requirements for restructured loans are more stringent than regional peers, reducing the risk of credit misallocation and ensuring that banks are better prepared for potential defaults.

Structural Policies

The authorities are committed to advancing structural reforms to enhance Cambodia's economic diversification, competitiveness, and governance framework. They recognize key obstacles to growth, including high electricity costs, trade facilitation constraints, and skill gaps within the labor force. Recent reforms such as the "Single Portal" online registration system and streamlined customs processes have been introduced to address these challenges and improve the business environment. Additionally, the authorities continue to prioritize digital transformation through the Digital Economy and Society Policy Framework 2021-2035, alongside efforts to strengthen education and healthcare systems to foster inclusive growth and human capital development.

The authorities reaffirm their strong commitment to governance and anti-corruption efforts, focusing on judicial reforms and strengthening the rule of law. Draft laws on Whistleblower Protection and Transparency and Access to Information are under development to strengthen the legal framework further. Additionally, plans to establish commercial and labor

courts are underway, which will help alleviate caseload pressure on higher courts and enhance investor and property rights while strengthening anti-corruption enforcement to foster a more transparent and accountable environment.

The authorities recognize the importance of data-driven policymaking and have taken steps to address gaps in data collection, particularly in areas such as real estate, corporate debt, and non-bank financial institutions. Efforts to improve the timeliness and frequency of macroeconomic data releases, including fiscal and national accounts data, are ongoing. Initiatives are underway to resolve trade data discrepancies and enhance inter-agency data sharing, with a particular focus on building the capacity of the National Institute of Statistics (NIS) to support more effective policymaking.