

# CAMBODIA

## Key conditions and challenges

**Table 1** 2020

Population, million	16.7
GDP, current US\$ billion	25.5
GDP per capita, current US\$	1526.9
School enrollment, primary (% gross) <sup>a</sup>	106.5
Life expectancy at birth, years <sup>a</sup>	69.8
Total GHG Emissions (mtCO <sub>2</sub> e)	68.8

Source: WDI, Macro Poverty Outlook, and official data.  
(a) Most recent WDI value (2019).

*Cambodia is experiencing a resurgence of COVID-19 cases which has slowed the recovery, especially of the service, construction, and real estate sectors. The growth projection for 2021 is now revised down to 2.2 percent, despite strong export performance supported by improved external demand conditions. Cambodia's outlook remains highly uncertain and risks are tilted to the downside. Despite accelerated vaccination progress, risks of a protracted outbreak and further disruption remain high, given continued high numbers of infections and deaths.*

Cambodia is experiencing a resurgence of COVID-19 cases, caused by the more transmissible Delta variant. Infections and deaths have risen quickly. The outbreak which has lingered since the second quarter of 2021 has slowed the recovery, especially of the service, construction, and real estate sectors. The important travel and tourism sector, which was estimated to have provided about 2 million jobs and contributed a quarter of GDP during the pre-pandemic period has virtually collapsed. Job losses have been magnified by an increased number of migrant workers who have returned home from abroad.

According to a High Frequency Phone Survey of Households, employment and income had not recovered to their pre-pandemic levels even before the recent COVID-19 resurgence. About 69 percent of households' main earners were employed in March 2021, 13 percentage points lower than the level before the pandemic. About 45 percent of households continued to experience income losses in March 2021. Disruptions to economic activities due to stringent measures to curb the outbreak have led to job losses or decreased working hours, in turn reducing household incomes. School closures have disrupted education since late March 2021, especially for poor students who have limited access to digital technologies.

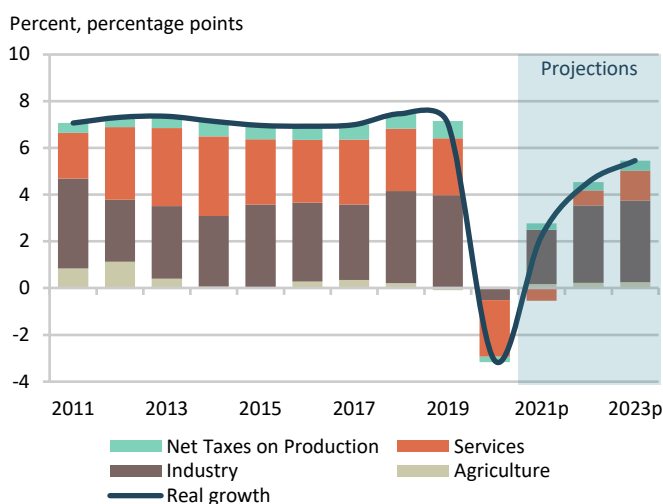
Risks are tilted to the downside and Cambodia's outlook remains highly uncertain. Despite accelerated vaccination progress, risks of further disruptions remain high, given continued high numbers of infections and deaths. In addition, high credit growth and concentration of domestic credit in the construction and real estate sector remains a key risk to Cambodia's financial stability.

## Recent developments

Thanks to improved external demand conditions, merchandise (excluding gold) exports have strengthened further, expanding at 17 percent y/y during the first seven months of 2021 (figure 2), driven partly by a recovery of garment, footwear, and travel goods (GFT) exports which account for 63.1 percent of total exports. The United States remains the largest exports market, capturing 42.3 percent of Cambodia's total GFT exports. The trade deficit has widened, largely caused by rising imports of a few major items (fabric used as inputs for garment production and exports, gold used as a hedge against volatility, and petroleum products), resulting in a widening of the current account deficit (table 2), which was partly affected by a decline in services (travel and tourism) exports.

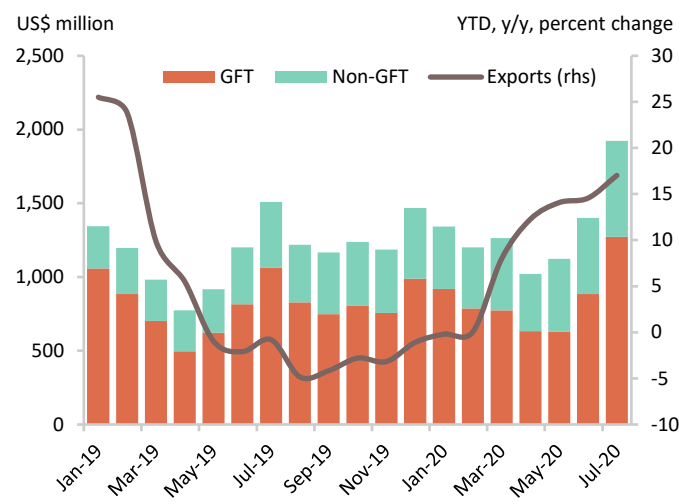
While remaining subdued, inflation has edged up, reaching 3.3 percent y/y in July 2021, compared to 3.1 percent at the end of 2019. Nominal exchange rate was broadly stable, hovering around riel 4,100

**FIGURE 1 Cambodia / Real GDP growth and contributions to sectoral growth**



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

**FIGURE 2 Cambodia / Cambodia's merchandise (excluding gold) exports**



Source: Cambodian authorities.  
Notes: GFT = garment, footwear, and travel goods; and rhs = right-hand scale.

per U.S. dollar during the first half of 2021. Gross international reserves declined marginally to US\$20.7 billion (9 months of imports) in May 2021, down from US\$21.2 billion at the end of 2020.

Monetary conditions remained accommodative. Broad money growth recovered, reaching its pre-pandemic growth rate of 18.1 percent y/y in May 2021, up from 15.3 percent in December 2020. Thanks to improved confidence in the banking system and continued capital inflows, deposit growth outpaced its pre-pandemic growth rate, increasing at 18 percent y/y in May 2021. Domestic credit grew at 19.1 percent y/y in May 2021, compared to 27.0 percent in December 2019.

The outbreak has hit Cambodia's fiscal revenues which primarily rely on construction and tourism. Slower revenue collection, along with the increased response program has resulted in a widening fiscal financing gap. The fiscal deficit is projected to widen to 6.5 percent of GDP in 2021. The government has adopted additional fiscal support, projected to increase to 5.4 percent of GDP in 2021, up from 3.3 percent of GDP in 2020, driven mainly by spending on COVID-19 prevention and treatment which accounts for 2.9 percent of GDP in 2021. Government deposits (fiscal reserves) eased, declining to 21.3 percent of GDP in May

2021, down from 24.1 percent of GDP at the end of 2020.

The authorities have extended the COVID-19 cash transfer program to September 2021 and introduced additional assistance, but the coverage may not fully mitigate negative impacts. The COVID-19 relief cash transfer program has thus far mitigated some of the negative impacts for the poor and vulnerable households, but its coverage remains relatively narrow, reaching only approximately 18 percent of households. In addition, the government has launched the one-off social assistance cash transfer for post-lockdown to support non-IDPoor households that had member(s) die from or infected with COVID-19 and having livelihood difficulties. As of August 2021, about 121,397 eligible non-IDPoor households countrywide had received government support.

While relying on social distancing measures to quell the current outbreak, the government has also stepped up its vaccination effort. As of end-August 2021, 8.5 million population aged 18 and above (representing 85 percent of Cambodian population in this age group) received two doses. Cambodia has begun vaccinating the population aged between 12 and 17, while administering third doses of COVID-19 vaccine.

## Outlook

Economic growth is now expected to be 2.2 percent this year, a downward revision from the April 2021 Macroeconomic Poverty Outlook projection of 4.0 percent. While agriculture remains resilient and goods exports have recovered, supported by improved external demand conditions, other major growth drivers, namely tourism, construction and real estate continue to be hit hard by the pandemic. Investment, however, remains resilient. The slower economic recovery and the adoption of food consumption reduction as the main risk coping strategy will undermine the ability to recover from the pandemic which could reverse several years of progress against poverty reduction in Cambodia.

To accelerate the economic recovery and boost job creation, it is crucial that Cambodia takes necessary steps to strengthen external competitiveness to spur production and exports, taking advantage of the new investment law and Cambodia-China Free Trade Agreement. Specifically, addressing supply side bottlenecks by reducing costs of doing business, logistic, and energy, while eliminating rigidities in major employment-related regulations that prevent a robust recovery of the job market.

**TABLE 2 Cambodia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
<b>Real GDP growth, at constant market prices</b>	7.5	7.1	-3.1	2.2	4.5	5.5
Private Consumption	3.0	7.0	-0.8	1.3	1.4	1.8
Government Consumption	5.1	10.0	12.5	-29.4	13.4	4.9
Gross Fixed Capital Investment	6.1	6.9	11.2	10.5	13.7	10.4
Exports, Goods and Services	5.3	7.8	1.1	14.9	13.5	13.2
Imports, Goods and Services	4.1	6.0	7.3	21.7	12.0	10.7
<b>Real GDP growth, at constant factor prices</b>	7.4	6.8	-3.1	2.1	4.5	5.4
Agriculture	1.1	-0.5	0.4	1.0	1.3	1.5
Industry	11.6	11.3	-1.4	6.2	8.5	8.7
Services	6.8	6.2	-6.2	-1.5	1.8	3.6
<b>Inflation (Consumer Price Index)</b>	3.1	3.2	2.9	3.2	3.5	3.7
<b>Current Account Balance (% of GDP)</b>	-8.9	-9.7	-9.9	-18.1	-12.6	-11.6
<b>Net Foreign Direct Investment (% of GDP)</b>	12.6	13.2	13.7	12.8	13.4	12.4
<b>Fiscal Balance (% of GDP)</b>	0.4	1.5	-4.7	-6.5	-4.9	-3.8
<b>Debt (% of GDP)</b>	28.3	28.1	36.4	36.4	35.2	34.1
<b>Primary Balance (% of GDP)</b>	0.8	1.9	-4.1	-6.0	-4.4	-3.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-2.3	-0.9	0.4	0.8	1.5	2.1
<b>Energy related GHG emissions (% of total)</b>	20.5	20.6	21.7	23.5	24.9	26.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast.