

CAMBODIA

Table 1 **2023**

Population, million	16.9
GDP, current US\$ billion	31.8
GDP per capita, current US\$	1876.0
School enrollment, primary (% gross) ^a	110.0
Life expectancy at birth, years ^a	69.6
Total GHG emissions (mtCO ₂ e)	77.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2022); Life expectancy (2021).

Despite continued external headwinds, Cambodia's economic recovery and poverty reduction continue. This year's economic growth is projected to marginally improve to 5.8 percent, driven mainly by a revival of services and goods exports. This is expected to partially reverse the pandemic-related increase in poverty. Downside risks include weaker-than-expected global demand, global financial stress amid elevated debt and high borrowing costs, and a slower-than-anticipated recovery in China. Domestically, a faster-than-expected increase in non-performing loans could affect macro-financial stability as the housing market correction continues.

Key conditions and challenges

Despite external headwinds, Cambodia's economic recovery continues, although growth remains at a slower pace than during the pre-COVID-19 period. The recovery is largely underpinned by a revival of services and goods exports, which are contributing to a partial reversal of the pandemic-related increase in poverty. In 2023, services exports improved with international tourist arrivals increasing at 140 percent year-on-year (y/y), while goods exports also expanded, rising by 5 percent y/y. Goods imports, however, shrank, contracting by 18.5 percent y/y in 2023, caused by subdued domestic demand with stalled construction activity. The decline in the trade deficit, together with rising remittances and tourism receipts, helped to improve the current account balance, which is estimated to have reached an unprecedented surplus of 2.4 percent of GDP in 2023. This helped ease pressures on the exchange rate, while inflation remained contained as food and oil prices moderated. High global interest rates and decelerating credit growth continue to affect Cambodia's financial sector, which is showing signs of deleveraging.

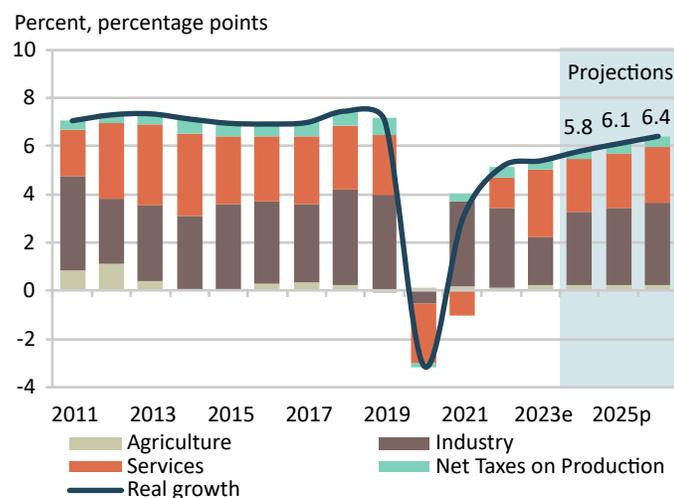
Recent developments

The recovery of the service sector and the resilience of the agriculture sector

underpinned an estimated real growth rate of 5.4 percent in 2023. In 2023, international tourist arrivals quickly rebounded, reaching 5.5 million, representing 82.5 percent of 2019's level. The agriculture sector, especially crop production, continued to be resilient, rising to 36.8 million metric tons or 6 percent y/y in 2023. Within the industry sector, the garment, travel goods, and footwear (GTF) manufacturing industries' performance was subdued, caused by the slowdown in global demand. However, the non-GTF industries, which include vehicle, electronic, and electrical component manufacturing, expanded. Compared to pre-pandemic levels, in 2023, merchandise exports reached 160 percent of 2019's level or US\$23.6 billion, boosted by non-GTF product exports. Merchandise imports also expanded, but at a slower pace, reaching 120 percent of 2019's level or US\$24.4 billion caused mainly by subdued imports of durable goods and construction materials as private consumption eased and construction activity stalled. This helped to improve the trade balance. Better external sector performance helped maintain the exchange rate, which hovered around riel 4,100 per U.S. dollar while boosting gross international reserves to reach US\$19.9 billion - an 11.7 percent y/y increase in 2023 and equivalent to about 7 months of imports. The economic recovery supported job creation, while subdued inflation which was contained at 2.7 percent y/y in December 2023 maintained household purchasing power.

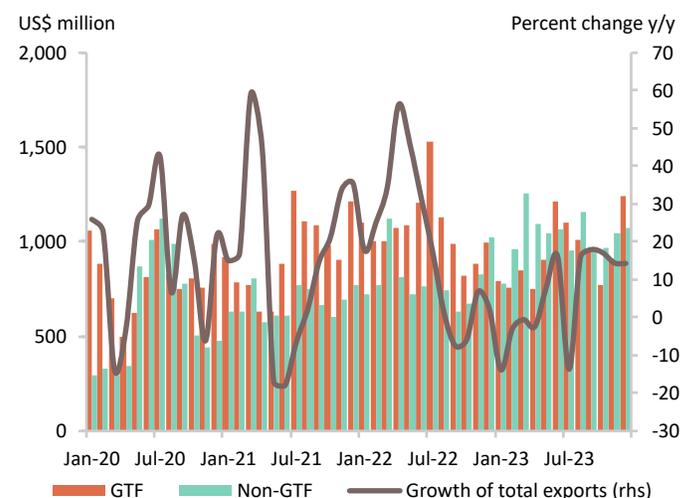
To spur economic growth, the central bank cut the foreign currency reserve requirement ratio by 2 percent, the largest

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



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

FIGURE 2 Cambodia / Merchandise exports, levels and growth rate



Source: Cambodian authorities.
Notes: GTF = garment, travel goods, and footwear (and other textile products); y/y = year-on-year; and rhs = right-hand scale.

cut during the post-pandemic period, to 7 percent in December 2023. Indicating improvements in capital inflows, broad money once again expanded, growing at 12.5 percent in 2023, up from 8.2 percent in 2022 as foreign currency deposit growth picked up. Meanwhile, the value of approved FDI-financed investment (outside special economic zones) under the qualified investment project scheme grew at a staggering 130.6 percent y/y in 2023. However, stalled construction activity reduced demand for domestic credit, which decelerated to a 4.1 percent y/y increase in 2023, a 20-year low, down from an 18.9 percent y/y increase in 2022. High global interest rates squeezed the returns on assets of the banking and microfinance (MFI) sectors, which declined to 3.8 percent and 6.0 percent in 2023, respectively, down from 7.0 percent and 17.6 percent in 2022, respectively. In parallel, the non-performing loan ratios rose to 5.4 percent and 6.7 percent in 2023, for Banks and MFIs, respectively, up from 2.2 percent and 2.6 percent in 2022, respectively. Government revenue, which was buoyed by a short-lived, post-COVID consumer spending boom in 2022, significantly eased and is estimated to have reached only 20.3 percent of GDP in 2023. Taxes

on goods and services, especially value-added taxes, excises, and duties on imports, declined with softening imports. In contrast, government expenditure remained elevated, rising to 27.9 percent in 2023, driven by civil servant wage increases and election-related spending. As a result, the fiscal deficit (including grants) is estimated to have widened to 6.4 percent of GDP in 2023. However, government deposits (fiscal reserves) remained healthy at 16.4 percent of GDP in 2023 and public debt is low at 35 percent of GDP.

Household income and consumption fell between 2019/20 and 2021, with the decline in income per capita (5 percent) outpacing consumption per capita decline (20 percent) over this period. The wide gap between income and consumption likely reflects two factors: travel restrictions and lockdown imposed during the pandemic reduced household spending opportunities, and uncertainty regarding future incomes due to the pandemic led to increased savings. In addition, jobs in the manufacturing sector rose, boosted by the increase in jobs in the non-GTF manufacturing industries. Jobs in the formal manufacturing sector increased to 1.04 million in 2023, up from 1.02 million in 2022.

Outlook

This year's economic growth is projected to marginally improve to 5.8 percent, driven mainly by a continued revival of services and goods exports. The recovery, in conjunction with continued social assistance programs, should translate into a decline in poverty, reversing part of the likely increase in poverty in 2020 and 2021.

Real growth is projected to reach 6.1 percent and 6.4 percent in 2025 and 2026, respectively. The tourism and hospitality industries are likely to accelerate further, with a projected increase in international arrivals, reaching and surpassing the pre-pandemic levels in the coming years, while goods exports and FDI inflows are expected to be further strengthened by the newly ratified free trade agreements and a substantial increase in private and public investment in key physical infrastructure.

Downside risks include weaker-than-expected global demand, global financial stress amid elevated debt and high borrowing costs, and slower-than-anticipated recovery in China. Domestically, a faster-than-expected increase in non-performing loans could affect macro-financial stability as the housing market correction continues.

TABLE 2 Cambodia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.0	5.2	5.4	5.8	6.1	6.4
Private consumption	-0.7	33.0	-16.1	2.2	7.3	7.3
Government consumption	-28.3	23.3	10.5	10.7	0.7	1.1
Gross fixed capital investment	66.3	33.3	-24.8	-10.5	-20.9	-15.8
Exports, goods and services	13.5	20.7	6.9	10.3	14.3	16.9
Imports, goods and services	23.1	40.3	-12.4	3.8	7.6	12.7
Real GDP growth, at constant factor prices	2.9	5.1	5.4	5.9	6.1	6.4
Agriculture	1.2	0.7	1.4	1.4	1.4	1.5
Industry	9.4	8.3	4.8	7.4	7.7	8.1
Services	-2.7	3.5	8.0	6.1	6.3	6.4
Inflation (consumer price index)	2.8	5.5	3.0	2.8	2.7	3.0
Current account balance (% of GDP)	-39.7	-25.5	2.4	3.4	3.4	3.6
Net foreign direct investment inflow (% of GDP)	12.6	11.7	11.4	10.4	10.2	9.4
Fiscal balance (% of GDP)	-7.2	-4.5	-6.5	-5.9	-4.3	-3.8
Revenues (% of GDP)	22.0	23.7	21.4	22.0	22.6	22.8
Debt (% of GDP)	36.3	37.0	34.8	35.8	35.3	35.1
Primary balance (% of GDP)	-6.5	-4.0	-5.9	-5.3	-3.8	-3.3
GHG emissions growth (mtCO₂e)	0.6	1.1	1.2	1.3	1.3	1.3
Energy related GHG emissions (% of total)	19.4	20.0	20.5	21.1	21.7	22.2

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